

EYE ON THE WORLD

Don't overlook the write-offs

Friday, August 07

US-China tensions ratcheted up and US fiscal brinkmanship continued, with tech-led markets higher. **HOT TOPICS** analyses wave of oft-overlooked goodwill impairments and write-offs. US companies took cUS\$200bn charges in 2008, and 25% of EuroStoxx co's in eurozone crisis. Will be more now on recession depth and M&A boom. Energy leading, but sector impacts widespread. Can surprise investors, impact covenants, earnings, dividends. **Half the earnings fall last recession was non-cash.**

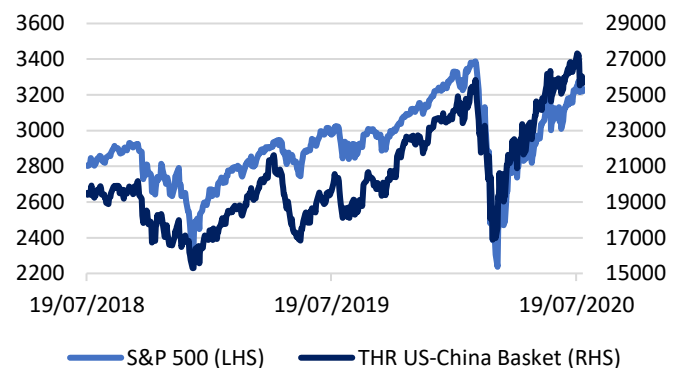
Equity markets ground higher led by tech, with NASDAQ over 11k for first time. US fiscal stimulus talks to miss today 'deadline', with administration **threatening limited executive orders** on evictions, enhanced unemployment benefits and payroll tax suspension. Chinese tensions also ratcheted higher (see below) but is likely contained. More positively, US weekly jobless claims showed some improvement ahead of today's employment report; US new daily virus cases were 57k, down 16% vs two weeks ago; and 424 S&P 500 firms now

Key Markets Performance Table

Index	Level	1D	1W	YTD
S&P500	3327.8	0.6%	3.2%	3.7%
ACWI xUS	46.3	0.2%	1.4%	-5.6%
DXY USD	92.8	-0.1%	-0.3%	-3.7%
US 10Y YLD	0.54	-1.3%	-0.9%	-71.9%
Brent Spot	45.7	-1.1%	5.9%	-33.8%
Gold Spot	2063.2	1.2%	5.3%	36.0%

reported earnings with average 22% beat. Asia markets fell on escalating US-China tensions, with Europe lower despite stronger German industrial output and exports. US futures lower.

US-China Stock Basket vs S&P 500



Source: Refinitiv, THR

HIGHLIGHTS FROM REST OF DOC

- **Hot Topics on [Write Offs](#).** Were dramatic in US 2008 and Eurozone 2011 crises, and likely to be higher now. 25% US co's more goodwill than equity. Half 2008 earnings fall was non-cash.
- **[What to watch](#):** US July US non-farm payrolls est. 1.58m and unemployment down to 10.5%
- **[Country and Sector 'Eye'](#):** We favor US and select EM's, and US Consumer and IT sectors
- **[Data pages](#):** Performance, valuation, earnings, macro forecasts. See [Library](#) for prior dailies

*Sources if not stated are Refinitiv, THR

US & Sector Performance

Index	Level	1D	1W	YTD
S&P500	3327.8	0.6%	3.2%	3.7%
NASDAQ	11267.1	1.0%	4.9%	23.8%
Russell 2000	1544.6	-0.1%	3.3%	-7.4%
US IT	421.0	1.6%	6.4%	27.2%
US Healthcare	379.0	-0.5%	0.1%	6.3%
US Financials	158.7	-0.1%	0.9%	-20.8%

More China escalation. US administration signed executive orders banning TikTok (ByteDance) and WeChat (Tencent) in 45 days, as escalate efforts to purge 'untrusted' Chinese apps. State media called it 'madness'. Separately, US preparing measures to delist Chinese co's in US that do not meet audit requirements by Jan. 2022. We see **some retaliation risk against US companies in China (see front chart)**, from Qualcomm to Corning, and high-flying China ADR's could see weakness, but expect escalation to stop-short of collapsing key January trade deal. See August 4th, *TikTok risks in perspective*.

Exports shows world rebound. Surprising 7.2% yoy rebound in China exports, fastest since Dec, with strength across electronics, handsets, autos, plus German exports +14.9% mom in July, both show global demand resilience. But Chinese imports fell, missing expectations. **Industrial raw materials imports were strong** though, with records for iron ore and copper, and oil jump, as took advantage of low prices.

Sector View

S&P500 led higher by tech, with communications

FX, Fixed Income, Commodities

Index	Level	1D	1W	YTD
DXY USD Index	92.8	-0.1%	-0.3%	-3.7%
EUR/USD	1.19	0.1%	0.2%	5.9%
US 10Y YLD	0.54	-1.3%	-0.9%	-71.9%
US 10-2 BOND	0.42	-1.3%	2.4%	20.6%
CBOE VIX Index	22.7	-1.5%	-9%	64%
CRB Index	2675.7	-0.3%	3.3%	-13.3%

Events to Watch

Indicator	Period	Forecast	Last
Industrial Output MM, Ger	June	7.86	7.80
Average Earnings MM, US	July	-0.55	-1.20
Unemployment Rate, US	July	10.53	11.10

(+2.4%) and IT (+1.5%), while energy (-0.7%) and health care (-0.6%) lagged. Small cap Russell 2000 (-0.1%) underperformed. Facebook (+6.5%) and Apple (+3.5%) amongst key gainers.

Stocks to Watch

Weekly **jobless claims better-than-feared** yesterday, falling 249k to 1.18m, and first fall in three weeks – but still well above 695k weekly peak during GFC, and with 31m receiving benefits. Continuing claims fell 844k to 16.1m, but outplacement firm Challenger showed US announced **job cuts surged 54%** to 262k in July.

US Democratic senators introduced 'Make Billionaires Pay Act,' proposing one-time 60% tax on pandemic wealth gains by billionaires, in move that may refocus **attention on Biden tax plans** as near election, and set to announce key VP pick next week. See July 2nd *US election risks in focus*.

European industrial output rose better than expected, with July figures +12.7% mom in France and +8.9% mom in Germany, led by V-shaped rebounds in capital goods and autos.

July US **non-farm payrolls** data today forecast to show increase of 1.58m jobs, down from June' 4.8m, and leaving payrolls 13m below pre-pandemic levels. Unemployment rate seen easing to 10.5% vs 11.1% in June and April record 14.7%. A poor number would increase congress fiscal stimulus deal pressure.

HOT TOPICS

DON'T OVERLOOK WRITE OFFS

Recession is driving wave of overlooked goodwill impairments and write-offs. US saw 500+ and cUS\$200bn in 2008, 25% of EuroStoxx in 2011. Will be more now given recession size and M&A boom. Discretionary and IT most impacted in GFC. Energy leading but impacts widespread. Impairments can surprise investors, impact covenants, earnings, dividends. Half of the earnings fall last recession was non-cash. 25% of S&P 500 more goodwill than equity.

The importance of impairment charges

In the last two recessions half fall in US profits was from non-cash charges, mainly goodwill impairments. Earnings fell average 27pp more than cash flow. The current recession is a trigger event, forcing co's to examine the potential for asset impairment and write offs. An estimated 25% of S&P 500 co's have goodwill higher than equity. Write offs hit the value of balance sheet assets, lowers earnings on income statement, can impact dividends and surprise investors.

We previously looked at corporate scandals, amid a decline in earnings quality in recessions, rising non-GAAP measures, spiking earnings quality ratio (EQR), and high non-cash charges See 12 March, *Beware recession earnings quality*.

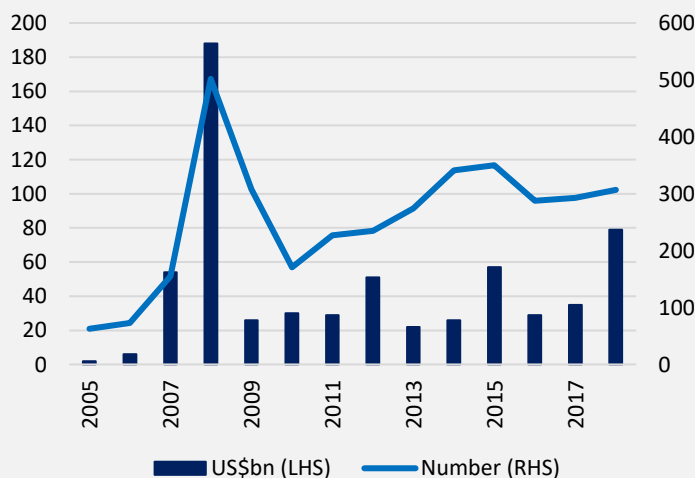
2008 example. 10% took charges in US

In the 2008 global financial crisis US goodwill impairments spiked to over 500, with US\$188bn of charges, over three times the year prior, according to Duff & Phelps.

10% of US companies took goodwill impairment charges then (chart below), led by the consumer discretionary sector, with 14.8% of companies, or US\$49bn across 97 companies. This was followed by IT, with 14.5% of companies taking charges, focused on the media and semiconductors segments.

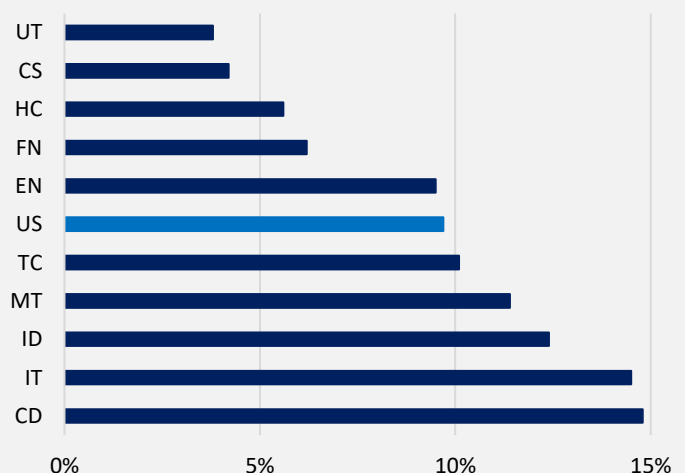
By contrast, the US sectors with the least amount of impairments back then was led by utilities (3.8%) and staples (4.2%).

US Goodwill Impairments



Source: Duff & Phelps, THR

% US Sector co's Impairments (2008)



Source: Duff & Phelps, THR

Over 25% EU companies in Eurozone crisis

A similar trend could be seen in Europe, where the EuroStoxx 600 constituents saw a recent 2011 impairment peak, during the Eurozone sovereign debt crisis, of EUR77bn, with over a quarter of constituents taking goodwill write-downs (see chart below).

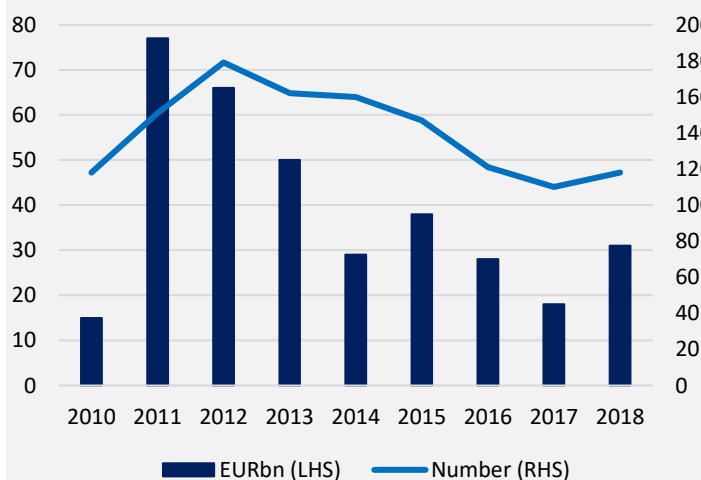
This time around likely to be bigger

The current pandemic may be worse for impairment impacts on 1) larger economic shock and GDP decline, 2) a significant decade of M&A at generally higher valuation levels, and 3) higher levels of corporate debt. See 17 July *All-time high corporate debt*.

The pandemic is a triggering event for an impairment test. Some co's took charges in Q1, but we are seeing many more in Q2, and these may repeat if see slower-than-forecast recovery or a second infections wave.. Occidental has taken charges for three quarters in a row.

The fact accounting standards do not permit a reversal of a goodwill impairment often weighs on decisions made. Whilst a conclusion no triggering event has occurred needs to be fully supported. US GAAP and IFRS treatment is

EuroStoxx 600 Goodwill Impairments



Source: Duff & Phelps, THR

Select US charge offs YTD

Company	Ticker	Date	USD bn
Baker Hughes	BKR	13-Apr	15.0
Concho Resources	CXO	30-Apr	12.6
Occidental	OXY	25-Jun	9.0
Disney	DIS	04-Aug	4.9
Delta	DAL	14-Jul	2.1
Halliburton	HAL	20-Jul	2.1
Chevron	CVX	02-Aug	1.8
Norwegian Cruise	NCL	14-May	1.6

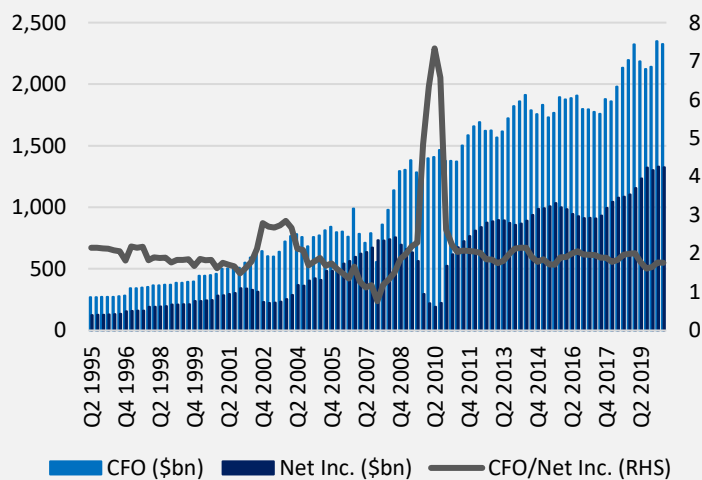
Source: Refinitiv, THR, .

conceptually similar, with much discretion in allocating goodwill and determining its value.

Energy leads, but is widespread

The largest US charge-offs so far have been from the energy industry, on lower oil price assumptions, but have been widespread across cyclicals, including retail (TJX, L Brands), transport (Uber, Greyhound), other commodities (Mosaic), and media (Fox). Lower reported earnings can hurt a company's valuation, reduce retained earnings and dividend payments. Whilst also setting up for a strong headline earnings recovery off a depressed comparison base. A lower asset value could also trigger debt covenant breaches for companies with asset-backed lines of credit.

US Cash Flow vs Net Income

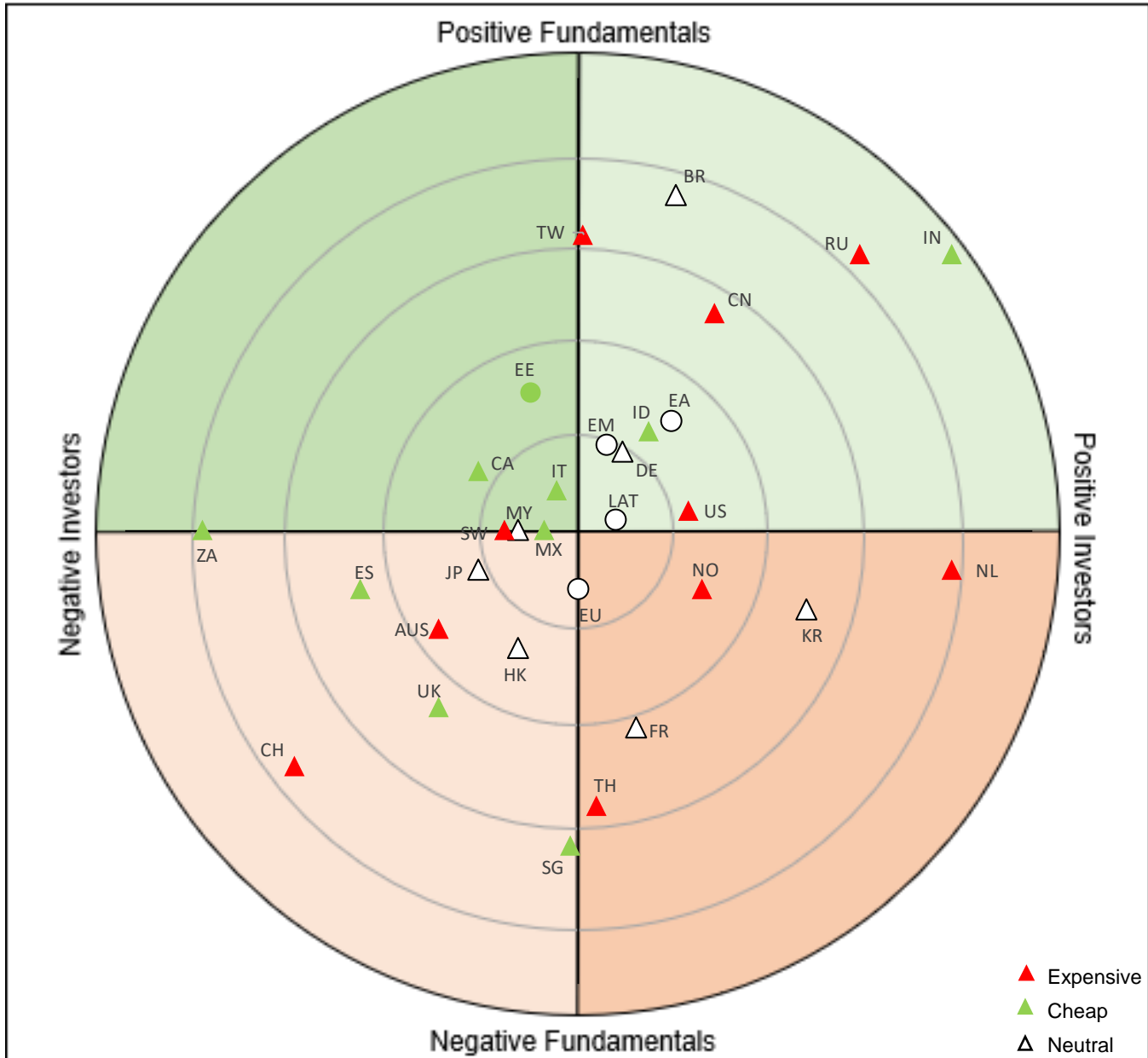


Source: Refinitiv, THR, .

COUNTRY 'EYE' & ALLOCATIONS

Country Allocation Views

Market	Main Index	THR View	Market	Main Index	THR View
US	S&P 500	Overweight	UK	FTSE 100	Underweight
EM	MSCI EM	Neutral	Canada	S&P/TSX	Overweight
Eurozone	EUROSTOXX	Neutral	Switzerland	SMI	Overweight
Japan	TOPIX	Underweight	Australia	S&P/ASX	Neutral



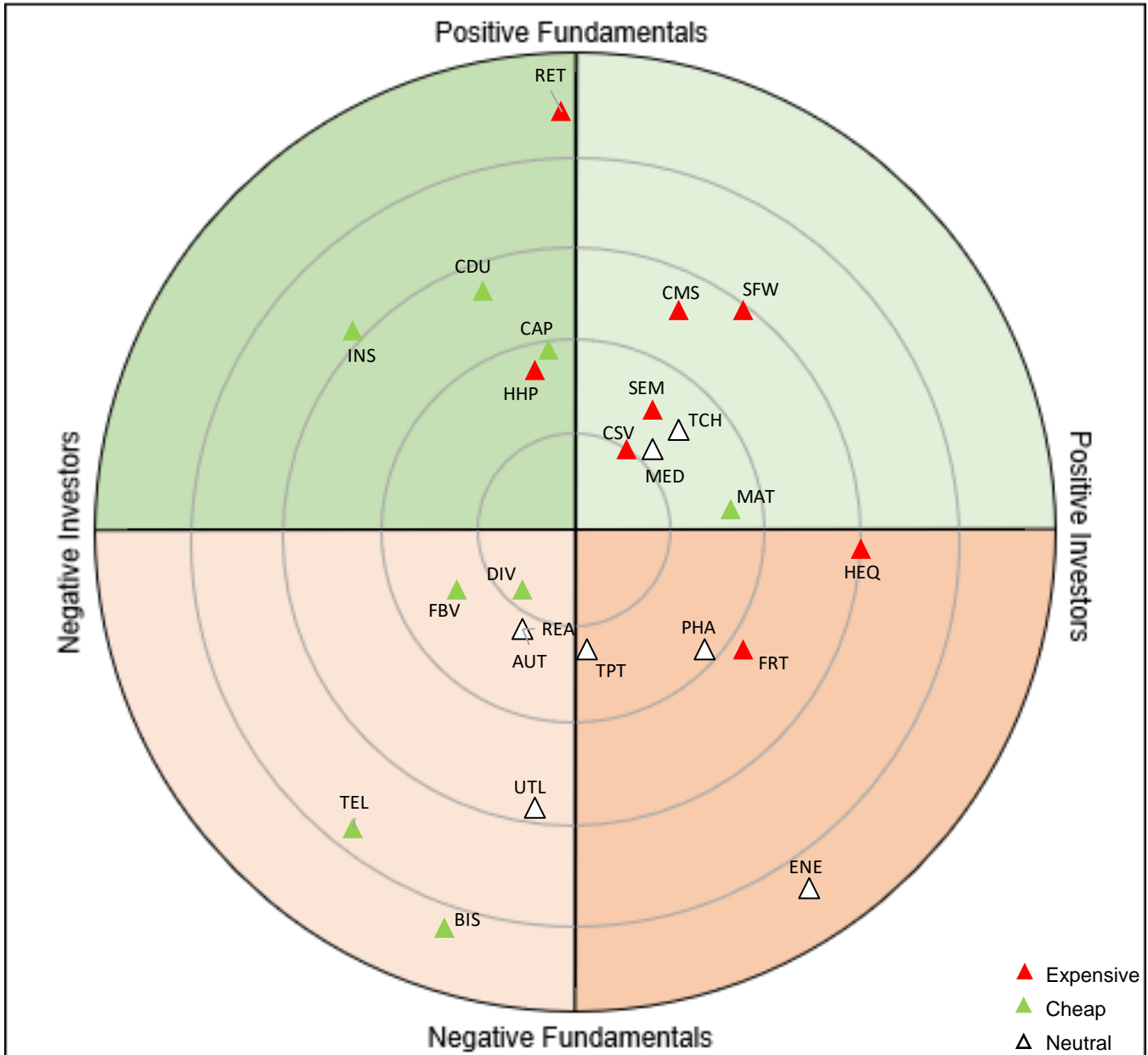
Source: Refinitiv, THR. SEE PAGE 13 FOR FULL METHODOLOGY

AUS=Australia, BR=Brazil, CA=Canada, CN=China, FR=France, DE=Germany, HK=Hong Kong, IN=India, ID=Indonesia, IT=Italy, JP=Japan, KR=Korea, MY=Malaysia, MX=Mexico, NL=Netherlands, NO=Norway, RU=Russia, SG=Singapore, ZA=South Africa, ES=Spain, SE=Sweden, CH=Switzerland, TW=Taiwan, TH=Thailand, UK=United Kingdom, US=United States, EU=Europe, LAT=Latin America, EM=Emerging Markets, EE=Emerging Europe, EA=Emerging Asia.

US SECTOR 'EYE' & ALLOCATION

US Sector Allocation Views






Market	Main ETFs	THR View	Market	Main ETFs	THR View
IT	XLK/VGT	Overweight	Staples	XLP/VDC	Overweight
Healthcare	XLV/VHT	Overweight	Energy	XLE/VDE	Neutral
Financials	XLF/VFH	Underweight	Utilities	XLU/VPU	Overweight
Communications	XLC/VOX	Overweight	Real Estate	XLRE/VNQ	Overweight
Discretionary	XLY/VCR	Neutral	Materials	XLB/VAW	Underweight
Industrials	XLI/VIS	Neutral			








Source: Refinitiv, THR. SEE PAGE 13 FOR FULL METHODOLOGY

AUT=Auto & Auto parts, BIS=Banking & Investment, CAP=Capital Goods, CMS=Commercial & Prof Svcs, CDU=Consumer Durables & Apparel, CSV=Consumer Svcs, DIV=Diversified Financials, ENE=Energy, FRT=Food Staples & Retail, FBV=Food, Bev. & Tobacco, HEQ=Healthcare Equipt. & Svcs, HHP=Household & Personal Products, INS=Insurance, MAT=Materials, MED=Media & Entertainment, PHA=Pharma, Bio & Life Svcs, REA=Real Estate, RET=Retailing, SEM=Semiconductors & Equipt, SFW=Software and Svcs, TCH=Technology Hardware & Equipt, TEL=Telecoms TPT=Transport, UTL=Utilities

'EYE' ALLOCATION BREAKDOWN

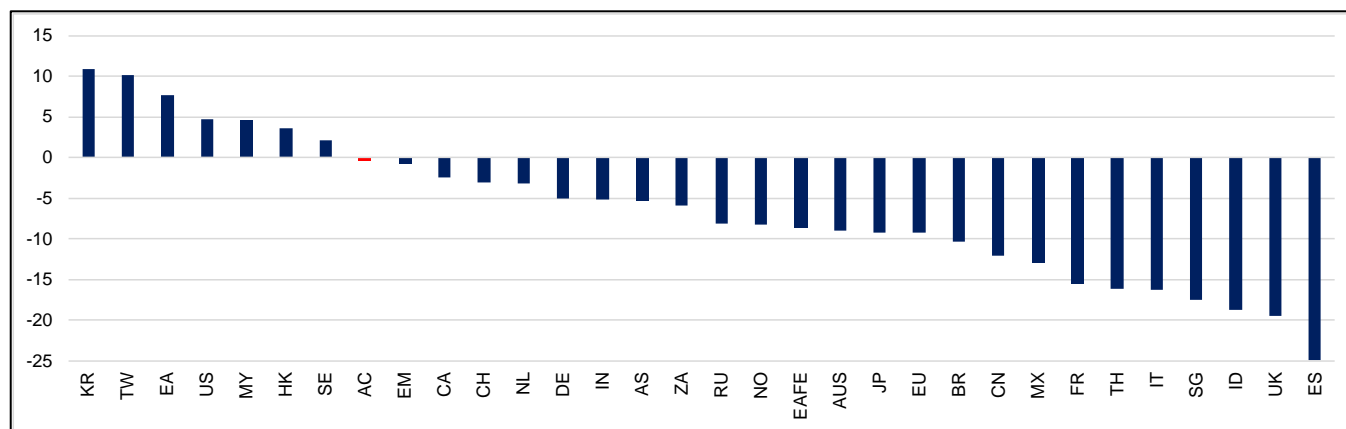
Country/ Region	Rationale	P/E (x)		EPS Gr. (%)	
		2020e	2021e	2020e	2021e
	United States (Overweight): Remains a global equity 'safer haven' despite currently centre of COVID outbreak. Has relatively closed economy and stock market, trend GDP growth into crisis, and seen unprecedented policy response, with unlimited QE and initial 14%/GDP fiscal stimulus. Valuations fundamentally supported by tech, tax, and UST. Earnings expectations very quickly adjusted. Is in the 'momentum' Eye quadrant, with some of world's strongest relative fundamentals, but also some of the most optimistic investors.	26.1	20.5	-20.0	27.6
	Emerging Markets (Neutral): Economic growth vulnerable even before COVID outbreak. USD strength and low oil prices have been additional broad headwinds for many. Much of the valuation discount structural and overstated. LatAm and CEEMEA now centre of virus outbreak, after north Asia (60% EM) control. Favor China, EM's largest market, on policy flexibility, resilient GDP/EPS, FIFO on COVID cases, 12x P/E. Underweight rest of EM.	17.2	13.3	-8.0	29.3
	Eurozone (Neutral): To lead global GDP and EPS decline, whilst most of valuation discount vs US is just sector composition. Recession has triggered a broader fiscal policy response, whilst ECB help extended, and weak EUR been support for Europe's globalised corporates. As COVID cases ease and countries reopen, set to be the key beneficiary of cyclical economic and market upturn. Focus on cheap domestic cyclicals, such as Financials.	21.0	15.7	-29.5	33.6
	Japan (Underweight): Has been moving out of the value-trap 'Eye' quadrant, but has significant fundamental headwinds on growth, trade, policy flexibility, and longer-term structural issues (demographics, debt). Valuation is attractive vs history, but EPS outlook overstated and vulnerable. Domestic stocks underperformed global-exposed peers.	19.3	14.5	0.3	32.8
	UK (Underweight): In value-trap framework quadrant. Exposed to twin-headwinds of above-average COVID impact (with high infections and relatively low fiscal response) and rising Brexit hard-exit risks (into Dec. 31 cliff edge), and market valuations at long-term average. Risk that lags our preferred recovery cyclicals (Canada, EU Financials, US small caps) despite 50%+ cyclical equity index composition and 60% overseas revenue exposure.	17.7	13.4	-35.7	32.1

US Sector	Rationale	P/E (x)		EPS Gr. (%)	
		2020e	2021e	2020e	2021e
	Information Technology (Overweight): Software in attractive top-right 'momentum' quadrant of the Eye. Are quality growth and attractive at this stage of cycle, reflected in defensiveness vs previous corrections. Valuations average but supported by net-cash and high RoE, giving buyback and M&A flexibility. Tech Hardware (Neutral) less well positioned, with weaker fundamentals, but beneficiary of easing growth concerns.	29.4	25.3	0.0	16.3
	Healthcare (Overweight): Both Healthcare Equipment and Pharma are close to the top-right 'momentum' quadrant, liked by the market (with multiple rerating and sell-side conviction), but with good fundamental momentum as quality growth attractive at this stage, with defensive cash flows, less EPS cyclicality and a domestic revenue focus. Seeing Federal support to combat COVID. Similar to Tech, set to come out of crisis more dominant.	18.5	16.0	-0.2	18.1
	Financials (Underweight): All three sector components (Banks, Diversified, Insurance) in the negative bottom left 'value trap' quadrant of the 'Eye'. Out of favour with market, with strong fund outflows and valuation derating, but fundamentals remain under pressure from low US bond yields, flat yield curve, and GDP growth collapse, despite stronger capital buffers. Insurance offers the best value, though none of the sector is optically expensive.	16.7	12.1	-36.7	38.8
	Communications (Overweight): Telecoms (AT&T largest sector weight) in most-attractive top-left quadrant, and Media (Facebook, Alphabet largest) in attractive top-right. Both seeing above average fundamentals, with Media led by EPS revisions, and Telecoms by price momentum. Telecoms has average valuation vs history, has derated, and sell-side sentiment especially poor. Media better liked by the market..	26.8	21.4	-15.9	25.1
	Consumer Discretionary (Neutral): Consumer Services and Retail (Amazon largest stock) best placed of Discretionary sectors, both in top-right quadrant. Services defensive to cycle and seeing positive EPS revisions. Autos poorest placed, in bottom-left quadrant. Whilst the least-in-favour, has some of worst fundamentals and more expensive than perceived. Leisure discretionary industries very COVID exposed.	64.4	32.7	-49.1	97.1

Source: Refinitiv, THR

REGION/COUNTRY PERFORMANCE & VALUATION

Total Return YTD

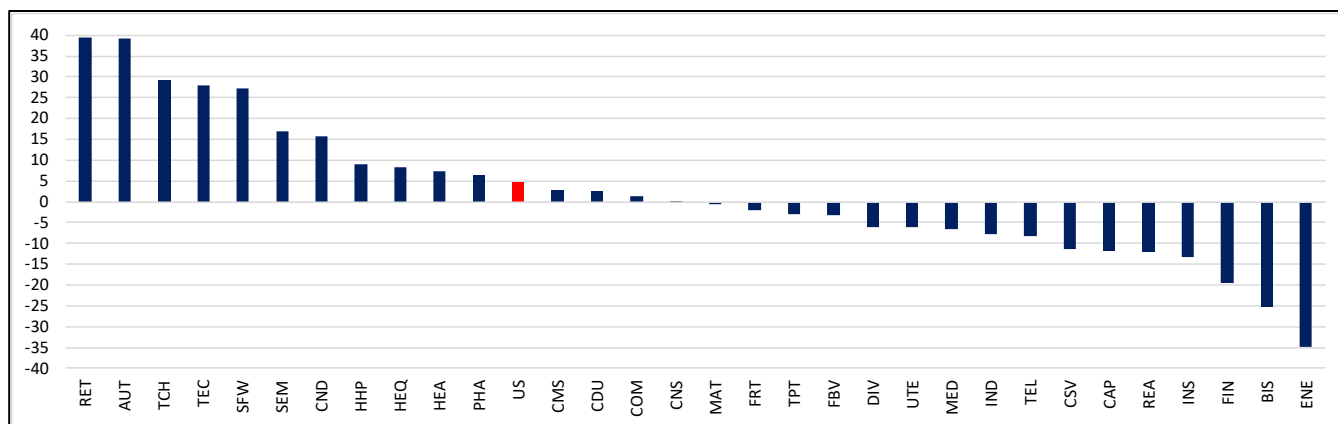


Index	Abbreviation	Price Performance				PE			EPS Growth	
		1D (%)	1W (%)	3M(%)	YTD (%)	2019A	2020E	2021E	2020E	2021E
World	AC	0.3	1.6	15.7	-0.4	17.8	21.7	17.0	-18.1%	27.8%
EAFE	EAFE	-0.7	1.2	13.3	-8.6	15.5	19.0	14.9	-18.4%	27.2%
Europe	EU	-1.1	0.5	15.8	-9.2	14.4	19.9	15.1	-27.7%	31.6%
Asia	AS	0.3	2.3	12.2	-5.2	16.9	16.3	13.2	4.0%	23.4%
Emerging Global Markets	EM	0.3	2.7	20.8	-0.7	14.5	15.3	12.1	-5.4%	26.9%
Emerging Asia	EA	0.5	3.1	21.4	7.7	16.0	15.7	12.7	1.6%	24.0%
Australia	AUS	0.8	1.5	12.2	-9.0	15.5	18.5	19.0	-16.0%	-2.6%
Brazil	BR	1.4	-0.9	33.3	-10.4	12.0	20.8	11.6	-42.2%	78.7%
Canada	CA	0.5	1.8	12.7	-2.5	13.9	21.3	15.4	-34.9%	39.0%
China	CN	-0.3	0.6	2.3	-12.1	14.8	14.7	12.2	1.1%	19.9%
France	FR	-0.8	0.9	10.0	-15.5	14.0	20.5	14.8	-31.8%	38.9%
Germany	DE	-0.4	1.8	15.5	-5.0	15.4	20.3	14.1	-24.3%	43.9%
Hong Kong	HK	-0.3	1.2	13.7	3.7	13.9	16.6	13.2	-16.5%	26.0%
India	IN	0.9	1.9	22.4	-5.1	20.8	21.6	16.3	-3.3%	32.0%
Indonesia	ID	1.2	-0.4	17.1	-18.7	13.6	15.7	13.2	-13.1%	19.3%
Italy	IT	-1.3	1.4	15.2	-16.2	10.4	19.2	13.0	-46.0%	47.5%
Japan	JP	-0.3	3.5	6.3	-9.2	19.4	17.0	13.9	14.1%	22.5%
Korea	KR	1.4	4.8	22.6	10.9	16.8	14.3	10.0	18.1%	42.6%
Malaysia	MY	1.2	0.4	20.9	4.6	17.0	20.5	17.3	-16.8%	18.1%
Mexico	MX	0.3	2.7	5.4	-12.9	14.8	16.1	12.4	-8.5%	29.5%
Netherlands	NL	-0.7	1.6	13.3	-3.2	19.8	21.7	18.4	-8.9%	18.0%
Norway	NO	0.1	4.4	13.9	-8.2	13.0	21.6	14.5	-39.6%	48.7%
Russia	RU	-0.3	2.9	11.8	-8.2	5.7	9.1	6.7	-36.7%	35.6%
Singapore	SG	0.8	0.9	1.8	-17.4	11.7	15.1	12.8	-22.9%	18.3%
South Africa	ZA	-0.6	0.4	13.5	-5.9	14.2	12.9	10.3	9.5%	25.4%
Spain	ES	-1.1	-0.5	4.8	-24.9	10.9	16.4	12.8	-33.7%	28.2%
Sweden	SE	-0.1	2.1	16.6	2.1	15.6	22.1	16.8	-29.4%	32.0%
Switzerland	CH	-0.2	-0.3	4.1	-3.1	18.9	20.4	17.6	-7.7%	15.7%
Taiwan	TW	1.0	1.5	21.2	10.2	17.4	16.9	14.7	2.6%	15.5%
Thailand	TH	-0.4	-0.2	5.4	-16.2	15.5	20.5	16.6	-24.5%	23.6%
United Kingdom	UK	-1.1	1.0	2.3	-19.4	11.5	17.8	13.4	-35.6%	32.7%
United States	US	0.6	3.2	17.9	4.8	20.4	25.7	20.1	-20.3%	27.8%

Source: MSCI, Refinitiv, THR

US SECTOR PERFORMANCE & VALUATION

Total Return YTD

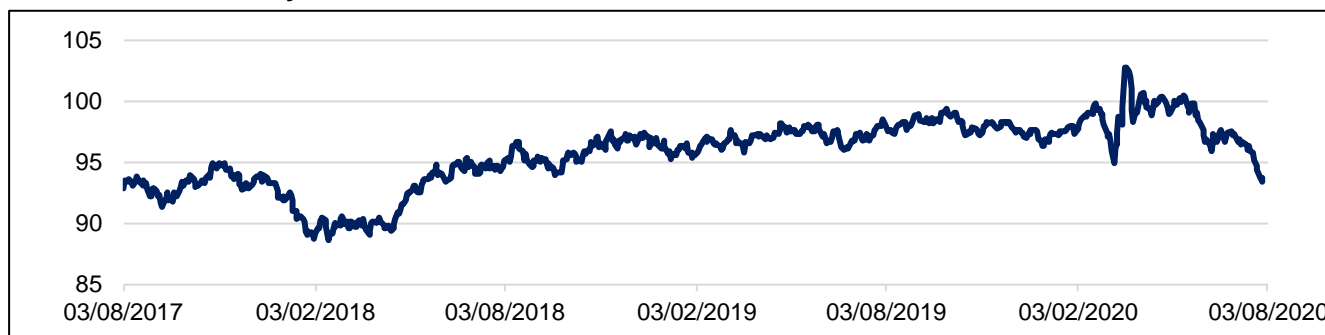


Index	Abbreviation	Price Performance				PE			EPS Growth	
		1D (%)	1W (%)	3M(%)	YTD (%)	2019A	2020E	2021E	2020E	2021E
United States	US	0.6	3.2	17.9	4.8	20.9	26.1	20.5	-20.0%	27.6%
Communications	COM	0.7	3.2	16.0	1.3	22.5	26.8	21.4	-15.9%	25.1%
Media & Entertainment	MED	1.4	5.0	19.7	-6.7	28.7	36.3	26.2	-21.0%	38.7%
Telecommunication Svcs	TEL	0.2	1.4	6.5	-8.2	11.1	11.9	11.4	-6.4%	3.8%
Consumer Discretionary	CND	0.7	3.8	26.8	15.7	32.8	64.4	32.7	-49.1%	97.1%
Autos & Components	AUT	0.0	1.5	53.7	39.2	20.8	NA	26.4	-112.8%	712.6%
Consumer Durables & App	CDU	-0.8	2.4	31.1	2.4	23.8	26.4	20.9	-9.8%	26.6%
Consumer Svcs	CSV	1.7	4.0	16.4	-11.3	19.9	351.1	30.3	-94.3%	1058.5%
Retailing	RET	0.5	4.3	29.0	39.4	43.2	56.1	37.1	-23.0%	51.5%
Consumer Staples	CNS	-0.2	0.3	11.8	0.2	20.4	20.8	19.2	-2.1%	8.4%
Food & Staples Retailing	FRT	-0.4	0.3	7.3	-2.0	21.5	22.1	20.7	-2.6%	6.8%
Food, Bev & Tobacco	FBV	-0.1	-0.3	10.5	-3.3	17.6	18.6	16.9	-5.0%	10.0%
Household Products	HHP	-0.2	1.6	17.3	8.9	26.8	24.7	23.5	8.4%	4.9%
Energy	ENE	-0.8	3.3	5.0	-34.8	13.3	NA	31.5	-101.7%	2638.9%
Financials	FIN	-0.1	1.0	12.4	-19.4	10.6	16.7	12.1	-36.7%	38.8%
Banks	BIS	-0.2	1.0	10.4	-25.3	7.7	17.3	10.4	-55.2%	66.7%
Diversified Financials	DIV	-0.5	2.2	16.0	-6.2	14.4	19.1	15.0	-24.9%	27.8%
Insurance	INS	-0.2	2.2	16.4	-13.3	10.9	12.6	10.4	-13.1%	20.7%
Health Care	HEA	-0.5	0.1	8.9	7.3	18.9	18.9	16.0	-0.2%	18.1%
Health Care Equipment	HEQ	-0.7	0.1	12.2	8.2	29.6	35.4	25.8	-16.5%	37.1%
Pharmaceuticals	PHA	-0.3	0.1	5.6	6.3	15.5	15.3	13.3	1.2%	14.9%
Industrials	IND	0.3	2.3	19.0	-7.7	18.5	26.2	19.2	-29.1%	35.9%
Capital Goods	CAP	-0.3	2.3	19.7	-12.0	16.1	23.7	18.0	-32.3%	32.0%
Commercial & Prof Svcs	CMS	0.9	1.5	15.1	2.9	29.7	33.0	28.4	-10.1%	16.2%
Transportation	TPT	1.0	3.6	27.5	-2.9	25.1	32.9	20.0	-23.8%	65.0%
Information Technology	TEC	1.6	6.4	23.8	27.9	29.4	29.4	25.3	0.0%	16.3%
Semiconductors	SEM	0.2	3.8	19.9	16.8	20.3	21.6	18.2	-6.0%	18.8%
Software & Svcs	SFW	1.6	4.4	18.7	27.1	38.3	36.4	31.9	5.0%	14.3%
Technology Hardware	TCH	1.7	10.2	33.5	29.2	24.7	25.2	21.4	-2.0%	17.4%
Materials	MAT	-0.1	2.6	22.6	-0.6	19.2	24.3	18.8	-21.1%	29.3%
Real Estate	REA	0.1	-0.4	12.5	-12.0	33.4	46.5	41.8	-28.0%	11.0%
Utilities	UTE	0.6	-0.6	9.7	-6.2	18.2	18.1	17.1	0.1%	6.1%

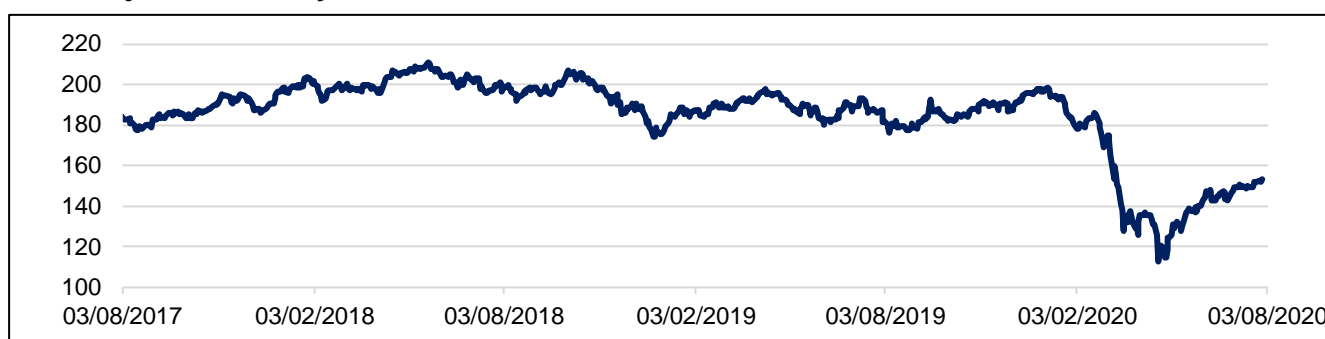
Source: MSCI, Refinitiv, THR

GLOBAL FX, BONDS AND COMMODITIES

DXY USD Index - 3 years



CRB Major Commodity Index* - 3 Years

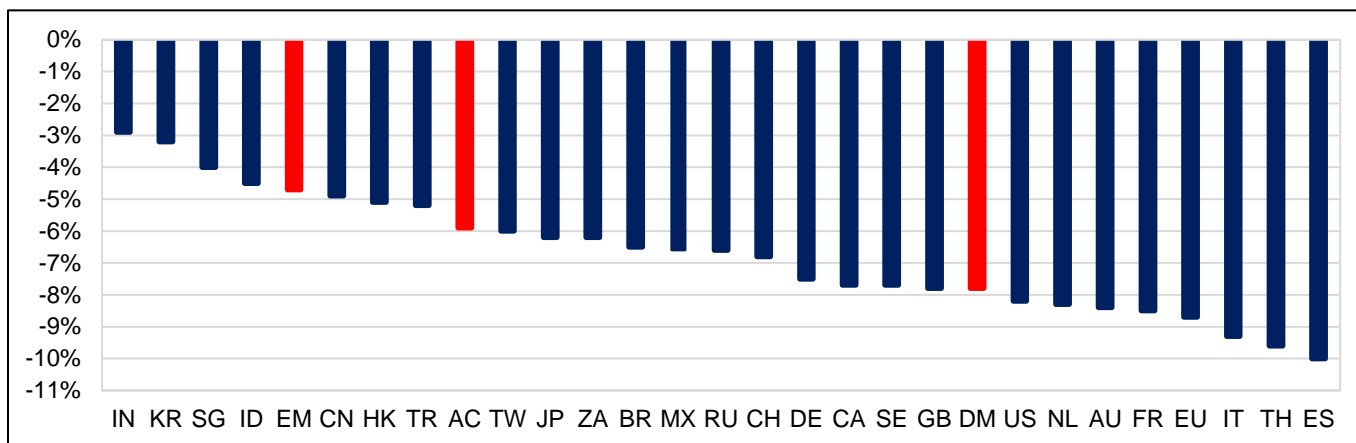


Name	Currency	Close Price	1 Day	1 Week	1 Month	3 Months	1 Year	MTD	QTD	YTD
Commodities										
CRB Commodity Index	USD	2675.74	-0.3%	3.3%	7.3%	18.8%	-5.4%	4.3%	8.8%	-13.3%
Gold Spot	USD	2063.19	1.2%	5.3%	15.7%	22.4%	40.0%	4.5%	15.9%	36.0%
Copper Spot	USD	2.91	-0.2%	0.0%	5.0%	23.5%	13.9%	1.6%	7.1%	4.0%
Brent Crude Spot	USD	45.69	-1.1%	5.9%	4.1%	127.2%	-20.9%	4.3%	7.5%	-33.8%
CRB Agricultural Index	USD	5164.62	0.0%	3.1%	8.3%	20.8%	-3.3%	4.3%	10.8%	-9.9%
Currencies										
DXY USD Index	USD	92.79	-0.1%	-0.3%	-4.1%	-7.3%	-5.0%	-0.6%	-4.7%	-3.7%
EUR/USD	USD	1.19	0.1%	0.2%	5.0%	10.0%	6.0%	0.9%	5.7%	5.9%
USD/JPY	JPY	105.54	0.0%	0.8%	-1.7%	-0.6%	-0.9%	-0.3%	-2.2%	-2.8%
GBP/USD	USD	1.31	0.3%	0.4%	5.2%	6.5%	8.1%	0.4%	6.0%	-0.9%
USD/CNY	CNY	6.95	0.2%	-0.8%	-0.9%	-2.1%	-1.0%	-0.3%	-1.6%	-0.1%
Bond Yields										
DE 10Y BUND	EUR	-0.53	4.8%	-3.3%	22.2%	5.4%	-1.5%	-0.8%	15.0%	182.9%
GB 10Y GILT	GBP	0.11	-16.8%	21.1%	-46.0%	-52.8%	-78.8%	2.8%	-36.6%	-86.8%
JP 10Y JGB	JPY	0.01	45.5%	-23.8%	-61.0%	-161.5%	-108.9%	0.0%	-40.7%	-172.7%
US 10Y BILL	USD	0.54	-1.3%	-0.9%	-21.6%	-24.8%	-69.2%	0.0%	-17.9%	-71.9%
US 30Y BOND	USD	1.20	-1.5%	0.3%	-16.7%	-15.0%	-47.1%	0.3%	-14.9%	-49.5%
US 10-2 BOND	-	0.42	-1.3%	2.4%	5.7%	10.9%	23.6%	-5.4%	6.1%	20.6%
Volatility										
CBOE VIX Index	USD	22.65	-0.01	-0.09	-0.19	-0.34	0.12	-0.07	-0.26	0.64

Source: Refinitiv, THR

MACRO INDICATORS: HISTORIC AND FORECASTS

Forecast Real GDP Growth 'Delta' (2020E % Growth – 2019)



Codes	Nominal GDP 2019 US\$trn	Real GDP (%)			Inflation (%)			Current Account (% GDP)			Gov Debt (% GDP)		
		2018	2019	2020E	2018	2019	2020E	2018	2019	2020E	2019	2020E	
Americas													
US	21.4	2.9	2.3	-5.9	2.4	1.8	0.6	-2.4	-2.5	-2.6	106	110	
Canada	1.7	1.9	1.5	-6.2	2.2	2.0	0.6	-2.6	-1.9	-3.7	88	83	
Brazil	1.9	1.1	1.2	-5.3	3.7	3.8	3.6	-0.8	-1.2	-1.8	92	95	
Mexico	1.3	2.0	0.0	-6.6	4.9	3.8	2.7	-1.8	-1.2	-0.3	54	55	
Europe													
Eurozone	18.3	2.2	1.2	-7.5	1.9	1.5	2.0	2.0	2.0	1.6	80	78	
Germany	3.9	1.5	0.5	-7.0	1.9	1.5	0.3	7.3	7.0	6.6	59	53	
UK	2.7	1.4	1.3	-6.5	2.5	1.8	1.2	-3.9	-3.5	-4.4	86	85	
France	2.7	1.7	1.3	-7.2	2.1	1.2	0.3	-0.6	-0.5	10.4	99	99	
Italy	2.0	0.9	0.2	-9.1	1.2	0.7	0.2	2.5	2.9	3.2	133	134	
Spain	1.4	2.6	2.0	-8.0	1.7	0.7	-0.3	0.9	0.9	2.2	96	94	
Netherlands	0.9	2.6	1.8	-6.5	1.6	2.5	0.5	10.9	9.8	9.0	49	46	
Switzerland	0.7	2.8	0.8	-6.0	0.9	0.6	-0.4	10.2	9.6	7.2	39	36	
Sweden	0.5	2.3	0.9	-6.8	2.0	1.7	0.5	1.7	2.9	2.2	37	34	
Russia	1.6	2.3	1.1	-5.5	2.9	4.7	3.1	6.8	5.7	0.7	17	18	
Turkey	0.7	2.8	0.2	-5.0	16.3	15.7	12.0	-3.5	-0.6	0.4	30	32	
Asia													
China	14.1	6.6	6.1	1.2	2.1	2.3	3.0	0.4	1.0	0.5	56	65	
Hong Kong	0.4	3.0	0.3	-4.8	2.4	3.0	2.0	4.3	5.5	6.0	0	0	
Japan	5.2	0.8	1.0	-5.2	1.0	1.0	0.2	3.5	3.3	1.7	238	238	
India	2.9	6.8	4.8	1.9	3.4	3.4	3.3	-2.1	-2.0	-0.6	69	68	
Korea	1.6	2.7	2.0	-1.2	1.5	0.5	0.3	4.4	3.2	4.9	40	46	
Australia	1.4	2.7	1.7	-6.7	2.0	1.6	1.4	-2.1	-0.3	-0.6	42	41	
Indonesia	1.1	5.2	5.0	0.5	3.2	3.2	2.9	-3.0	-2.9	-3.2	30	30	
Taiwan	0.6	2.6	2.0	-4.0	1.5	0.8	0.5	12.2	11.4	8.2	34	31	
Thailand	0.5	4.1	2.9	-6.7	1.1	0.9	-1.1	6.4	6.0	5.2	42	44	
Singapore	0.4	3.1	0.5	-3.5	0.4	0.7	-0.2	17.9	16.5	14.8	114	115	
Other													
South Africa	0.4	0.8	0.4	-5.8	4.6	4.4	2.4	-3.5	-3.1	0.2	60	68	
World													
Developed Markets	51.7	2.3	1.7	-6.1	2.0	1.5	0.5	0.7	0.6	0.1	103	104	
Emerging Markets	34.9	4.5	3.7	-1.0	4.8	4.7	4.6	0.0	0.0	-0.9	53	58	
World	86.6	3.6	2.9	-3.0	3.6	3.4	3.0						

Source: IMF, THR

GLOBAL MACRO & FORECAST TABLES

Provides historic data, and consensus forecasts, for key macro-economic indicators in the major economies of US, Germany, and China. Forecasts highlighted in green and red indicate whether the latest change in the consensus forecast was an increase or decrease.

United States	Historic										Forecasts	
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E
Production												
Real GDP, Growth	2.6	1.6	2.2	1.8	2.5	2.9	1.6	2.4	2.9	2.3	-5.7	4.0
Industrial Production, Growth	5.5	3.1	3.0	2.0	3.1	-1.0	-1.9	2.3	3.9	0.8	-9.1	2.6
Labour Markets and Income												
Unemployment Rate	9.6	8.9	8.1	7.4	6.2	5.3	4.9	4.3	3.9	3.7	10.5	8.0
Average Earnings, Growth	1.9	2.0	1.9	2.1	2.1	2.2	2.6	2.6	3.0	3.3	2.8	2.4
Prices												
CPI	1.6	3.2	2.1	1.5	1.6	0.1	1.3	2.1	2.4	1.8	1.6	1.6
PCE, excluding energy	1.4	1.6	1.9	1.5	1.6	1.2	1.6	1.6	1.9	1.6	1.3	1.4
Government												
Budget Balance, Growth	-0.2	-0.2	0.0	-0.9	-0.2	0.0	0.2	0.1	0.2	0.1	0.6	-0.4
Current Account, % of GDP	-2.9	-2.9	-2.6	-2.1	-2.1	-2.2	-2.3	-2.3	-2.4	-2.5	-2.2	-2.4

Germany	Historic										Forecasts	
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E
Production												
Real GDP, Growth	4.2	3.9	0.4	0.4	2.2	1.7	2.2	2.5	1.5	0.6	-5.3	4.4
Industrial Production, Growth	11.6	8.8	-0.6	0.3	1.9	0.4	1.4	3.6	1.2	-4.5	-7.0	5.9
Labour Markets and Income												
Unemployment Rate	7.6	7.1	6.8	6.9	6.7	6.4	6.1	5.7	5.2	5.0	5.4	5.2
Prices												
CPI	1.1	2.1	2.0	1.5	1.0	0.2	0.4	1.7	2.0	1.4	0.8	1.4
Government												
Current Account, % of GDP	5.7	6.2	7.1	6.6	7.2	8.6	8.5	8.1	7.3	7.0	6.5	6.4

China	Historic										Forecasts	
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E
Production												
Real GDP, Growth	9.9	8.8	8.1	7.7	7.3	6.9	6.9	6.8	6.5	6.0	1.8	8.2
Prices												
CPI	3.5	5.5	2.6	2.7	2.0	1.4	2.0	1.5	2.1	2.8	3.3	2.3
Government												
Current Account, % of GDP	3.9	1.8	2.5	1.5	2.2	2.7	1.8	1.6	0.4	1.0	0.5	0.8

Source: Refinitiv, THR

TOWER HUDSON ‘EYE’: HOW IT WORKS

The ‘eye’ methodology helps identify relative buy and sell signals for countries, regions and US sectors, by comparing market sentiment vs fundamentals, with a valuation overlay. The more out-of-favor, with better relative fundamentals the better.

We compare: 1) **sentiment**: to understand whether markets are optimistic or pessimistic, and 2) **fundamentals**: focusing on earnings and business cycle fundamentals and price momentum. The output is also color-coded with a valuation overlay. This combines to give a relative allocation view

How to read the quadrants

Top left – Pessimistic sentiment/Positive fundamentals: The best place to be. Market expectations are low, but fundamentals are relatively good. As sentiment catches up to the better fundamentals, assets may outperform.

Top right – Optimistic sentiment/Positive fundamentals: The 2nd best place to be. The fundamentals are good, but so is market sentiment. This is a momentum quadrant that may deliver outperformance, but investors must be sensitive to relative fundamentals easing.

Bottom right – Optimistic sentiment/Negative fundamentals: Worst place to be. Fundamentals are poor but sentiment still positive. As sentiment catches up, assets may underperform.

Bottom left – Negative sentiment/Negative fundamentals: The second worst place to be. Can be a ‘value trap’. Fundamentals are weak but sentiment is equally subdued. Investors need to be sensitive to any improvement in relative fundamentals, that can lead to a move up and rerating.

Sentiment	Indicator
Buy-side	Net ETF and Mutual Fund Flows vs average
Sell-side	Sell-side recommendation consensus score (RCS)
Re-rating/De-rating	Trailing P/E ratio vs average

Fundamentals	
Earnings revisions	Rolling earnings revisions ratio
Price momentum	Change in trailing P/E ratio
Business cycle	Correlation to this business cycle stage (rising, neutral, falling)

Overlay	
Valuation	Average of P/E, P/BV, and P/CF vs history



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