

EYE ON THE WORLD

Japan for uncertain times

Wednesday, November 04

US election race tight, promising continued uncertainty and likely divided government. Removes best-case scenario but we remain focused on outlook for post-election 2021 growth rotation. **HOT TOPICS** highlights Japanese equity safer haven, with cheap valuations, strong corporate balance sheets, and robust Yen. But **PMI, GDP, earnings expectations all lagging, strong Yen a headwind, policy flexibility limited, and the market now not as out-of-favor as seen.**

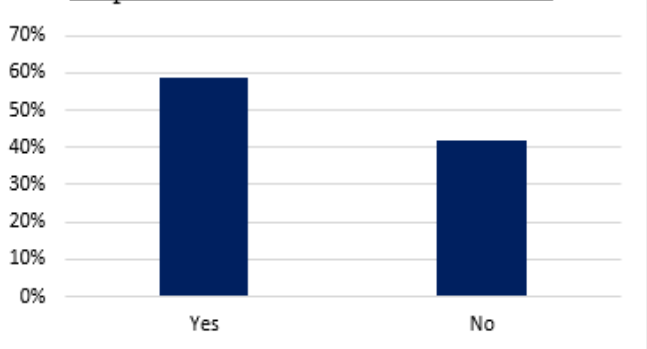
Markets rallied yesterday on hopes of expected election clarity and potential Democrat blue-wave. Reality today is a tighter-than-expected race, with a delayed and potentially contested result extending uncertainty, with continued split/gridlocked government the most likely outcome. **Means less fiscal stimulus or likelihood of tax increases, and boosts USD, lowers treasury yields, supports quality growth tech equities, and is headwind to international/EM equities.** For background, see Nov. 03, *Election day scenarios*. We stay focused on post-election clarity, outlook for further fiscal stimulus and

Key Markets Performance Table

Index	Level	1D	1W	YTD
S&P500	3310.2	1.8%	-0.6%	4.3%
ACWI xUS	46.5	1.9%	0.2%	-5.4%
DXY USD	93.6	-0.6%	0.7%	-2.9%
US 10Y YLD	0.88	3.9%	13.2%	-53.9%
Brent Spot	37.5	4.8%	-3.9%	-45.6%
Gold Spot	1908.4	0.7%	0.1%	25.8%

a virus vaccine, and cautious investors re-allocating into 2021 recovery outlook. Means balanced portfolio with cyclicals slant. Asia rose overnight, whilst Europe and US futures flat despite higher election uncertainty.

Prop. 22 results*: Drivers as contractors?



Source: Associated Press, THR. *70% votes counted

HIGHLIGHTS FROM REST OF DOC

- **Hot Topics on [Japan haven](#).** With cheap valuations, strong balance sheets, strong Yen. But PMI, GDP, earnings expectations lagging, Yen EPS headwind, and policy flexibility limited.
- **[What to watch](#):** Potential for contested US election results. Also US Svcs PMI and FOMC.
- **[Country and Sector 'Eye'](#):** We favor US and select EM's, and US cyclical and IT sector barbell.
- **[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	3310.2	1.8%	-0.6%	4.3%
NASDAQ	11279.9	1.9%	-2.4%	24.4%
Russell 2000	1614.3	2.9%	1.5%	-3.2%
US IT	416.8	1.7%	-2.5%	26.1%
US Healthcare	371.4	1.6%	-1.1%	6.4%
US Financials	161.8	2.4%	3.2%	-17.3%

Gig-economy reprieve. California's Proposition 22 to regulate ride-hail drivers as employees not contractors, on course to be defeated (see front chart). Is significant victory for Uber, Lyft, DoorDash, Instacart, Postmates etc, with **implications for biggest US market, and gig economy business model globally.** California represents c9% Uber sales and 16% Lyft rides. Other votes saw 4 more states legalise marijuana for recreational or medical use (New Jersey, Arizona, South Dakota, Mississippi).

Ant Group IPO shocker. China suspended Ant Group cUS\$37bn IPO yesterday in last-minute surprise regulatory scrutiny ahead of Thursday's planned HK and Shanghai listing. News saw EM's largest stock Alibaba and 1/3 Ant shareholder fall 9%, derailed what potentially world's largest IPO, and **cast shadow over China' capital markets development and liberalisation process.** Chinese markets have seen 45% of global IPO activity YTD. See Oct. 28, *China tech spotlight*.

EU earnings relief. EU earnings half over and 71% beaten expectations by average 22%. Overall earnings down 27% yoy and revenues -11%.

FX, Fixed Income, Commodities

Index	Level	1D	1W	YTD
DXY USD Index	93.6	-0.6%	0.7%	-2.9%
EUR/USD	1.17	0.6%	-0.7%	4.5%
US 10Y YLD	0.88	3.9%	13.2%	-53.9%
US 10-2 BOND	0.71	-2.4%	0.5%	35.4%
CBOE VIX Index	35.6	-4.3%	7%	158%
CRB Index	2578.1	0.8%	0.7%	-16.4%

Events to Watch

Indicator	Period	Forecast	Last
Markit Svs PMI, Germany	Oct	48.81	48.90
Producer Prices MM, Euro	Sept	0.28	0.10
ISM Non-mfg PMI, US	Oct	57.67	57.80

Cyclicals energy, financials, discretionary led, whilst real estate only sector to have missed. Not as good as US earnings, but much better than -40% yoy expectations as recently as Sept, and **should support expectations, despite renewed lockdowns.** We are neutral European equities, with a contrarian overweight of financials.

Sector View

S&P 500 up, led by cyclicals industrials (+2.9%) and financials (+2.2%), while energy (-0.57%) and communications (+1.49%) underperformed. Large caps again lagged small caps, with S&P 500 (+1.8%) vs. Russell 2000 (+2.9%).

What to Watch

US October ISM non-manufacturing PMI expected to ease to still-expansionary 57 vs prior 57.8 and after Monday' ISM manufacturing PMI surprise surge to 59.3, on strong US recovery. US Fed two-day **FOMC meeting starts.** Forecast for unchanged policy, with dovish stance, and focus on fiscal outlook. Private sector October Caixin **China Services PMI** surprisingly rose to 56.8 vs prior 54.8 with hiring picking up to highest in a year, even as overseas demand slipped. Followed Monday report of manufacturing PMI acceleration to 53.6, as China' recovery continues to broaden, boosting gap with rest of world. **Brexit impasse continues** with EU-UK differences over fisheries, fair competition, and dispute resolution as Nov. 15 'deadline' approaches. We are underweight UK equities.

HOT TOPICS

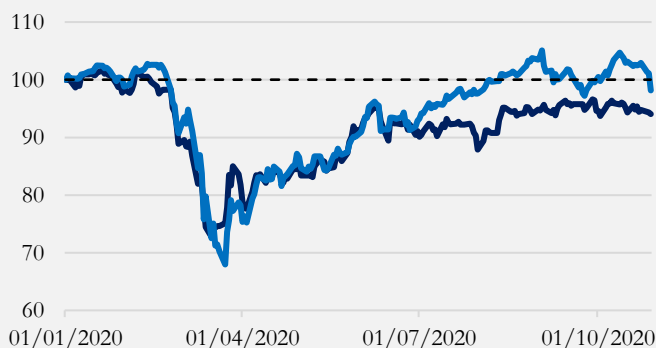
JAPAN FOR UNCERTAIN TIMES

Japanese equities are often overlooked, despite being world's no2 equity market. It is a safer haven, with derated valuations, strong corporate balance sheets, strong Yen, and world-leading fiscal support. We believe it remains bottom-up focused market though, as we look for leverage to global cyclical recovery. PMI, GDP, earnings expectations are lagging, strong Yen a EPS headwind, policy flexibility limited, and market now not as out-of-favor as seen.

Japan shows strong recent resistance

Japan, world's 2nd market (6.9% ACWI) been resilient to recent global volatility, after lagging YTD, and position improved on our allocation framework. Low margins, depressed earnings and valuation, and large industrials (21% mkt, 2x ACWI average) and auto sector and China exposure, give some attractive cyclical recovery outlook, whilst high corporate cash, low debt, and 'quality' style focus, provide downside protection. However, we see it as an attractive bottom-up stock pickers market only, with limited growth recovery, policy flexibility, or ESG momentum, and earnings headwind of JPY strength. We are underweight, even with country moving into our allocation framework 'momentum'. quadrant - in favor with investors but above average fundamentals. See updated country ([Page 5](#)) and sector allocations ([Page 6](#)) and framework methodology ([Page 13](#)).

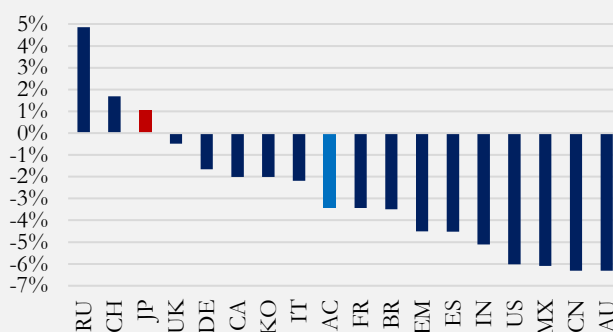
Performance YTD



Source: Refinitiv, THR,

Japan AC

Major Economies 1M Performance

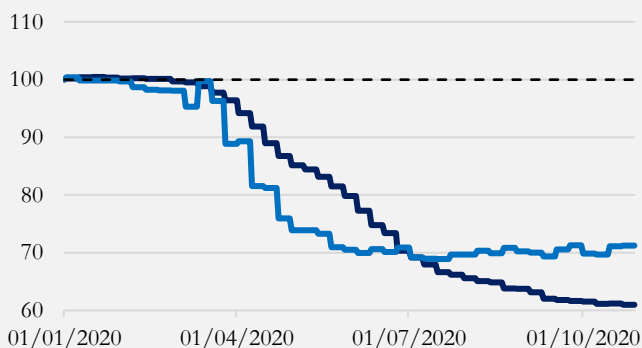


Source: Refinitiv, THR.

Limited rebound outlook

Despite well-contained COVID crisis and world's most dramatic fiscal response, global recession and structural domestic headwinds have combined to see GDP forecast at -5.2% vs DM average -5.8%, and a lagging rebound seen in 2021 (See [Page 11](#)) whilst composite Oct. PMI lags peers at still-contractionary 46.7, Tankan business confidence survey heavily negative, and unemployment at a 3-yr high.

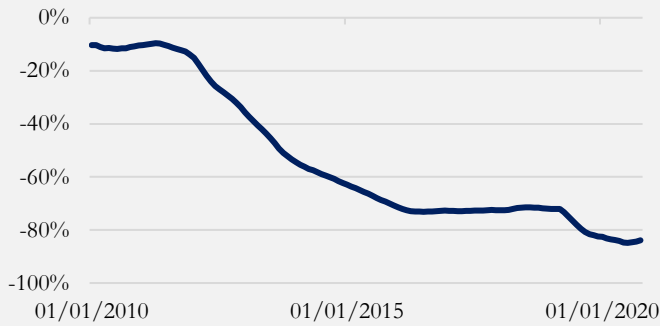
2020 EPS Forecast Index



Source: Refinitiv, THR.

Japan AC

Yen 10-yr Correlation with EPS fwd.



Source: Refinitiv, THR,

New prime minister Suga focus

New continuity PM Yoshihide Suga expected to announce further fiscal stimulus, and renewed Abenomics refocus on lagging ‘third arrow’ of structural reform, on digital transformation, telecoms, and the labor market. Fiscal policy is the focus with BoJ balance sheet at 140% GDP, with QE since 2013, and 0% 10-yr bond yield (YCC) target since 2016. Deflationary forces significant and CPI only forecast recovering to 0.3% next year, well below the 2% target.

JPY sensitivity been increasing

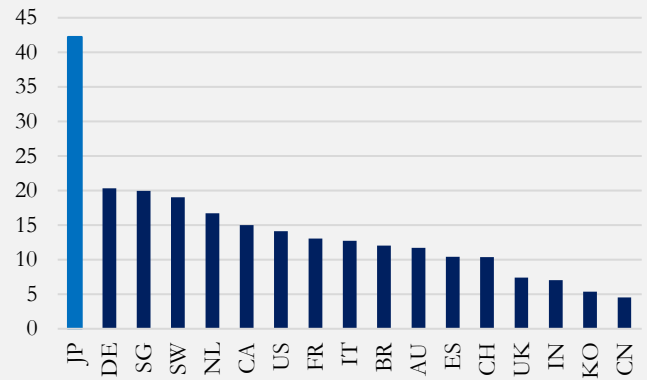
The historic negative correlation between the Yen and equities has increased (see chart) and is likely to remain a headwind if USD continues to modestly weaken, as forecast, and Yen continues to see bouts of safer-haven demand. Correlation driven by combination of low corporate profitability (3% net margin) and growing 35% of overseas index revenues.

USD/JPY Exchange Rate



Source: Refinitiv, THR,

Fiscal Stimulus Index



Source: Refinitiv, THR,

Earnings expectations still falling

Japan EPS forecast been cut 40pp this year, 10pp more than ACWI average and are only just stabilizing (see chart), as GDP outlook continued to fall, and JPY strengthened. Japan EPS seen falling 10% vs ACWI -18%.

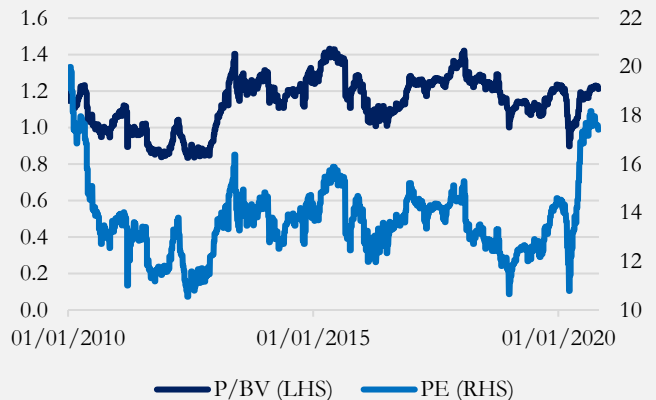
Valuation discount near 10-yr highs

12m fwd 17.5x P/E is at a discount to ACWI 19x, after both soared on depressed earnings and markets rebound. Underlying P/BV is similar though, with Japan at 2.2x, it's largest discount to global average 2.3x in over 10 years, and with c40% index trading <1.0x BV.

Market now less out-of-favor

Japan' sell-side recommendation consensus score (RCS) is 5th worst of major markets, but it has seen fund inflows (1.6% AUM), and a relative valuation rerating off lows.

Japan 12m fwd valuations

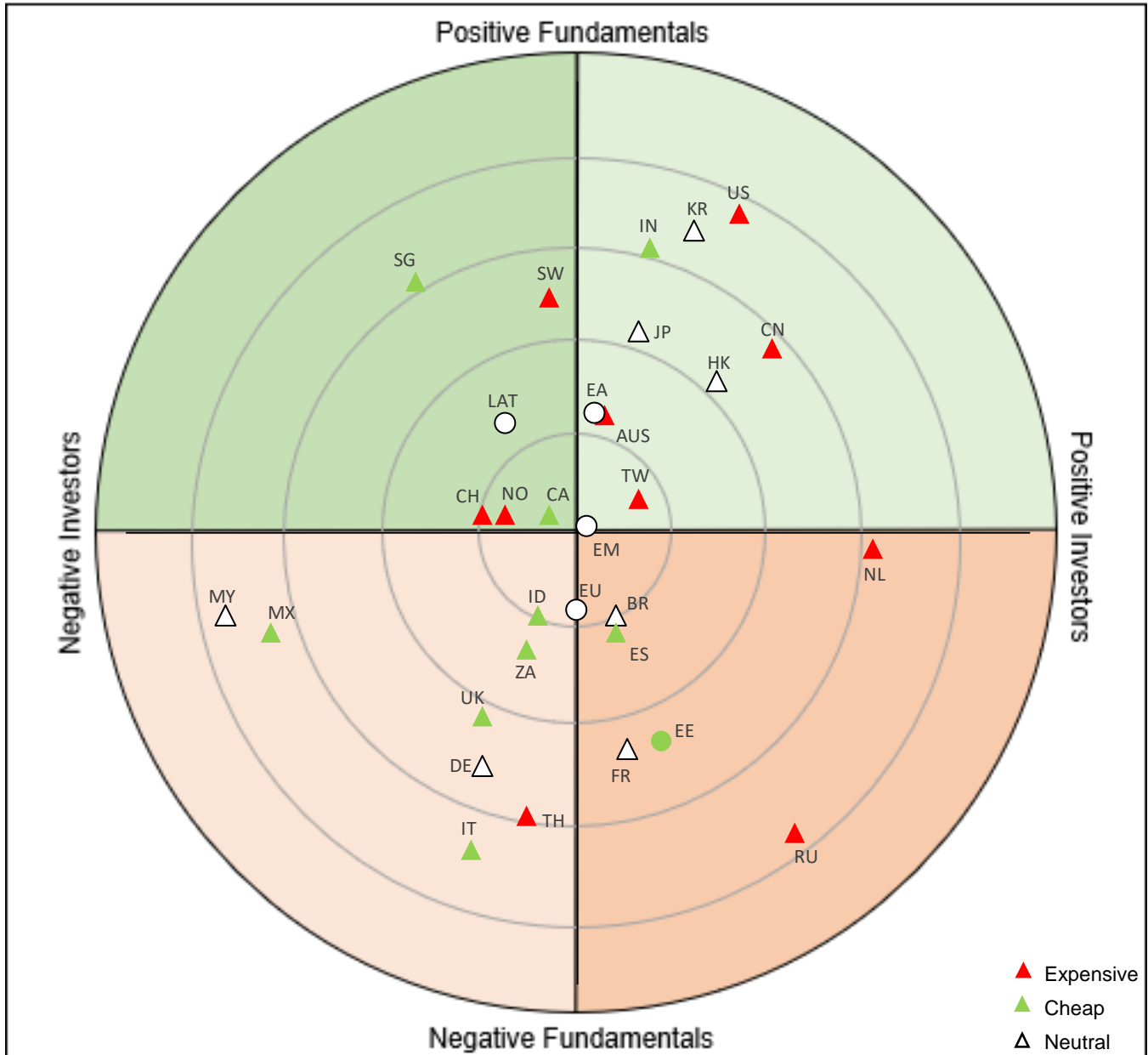


Source: Refinitiv, THR,

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



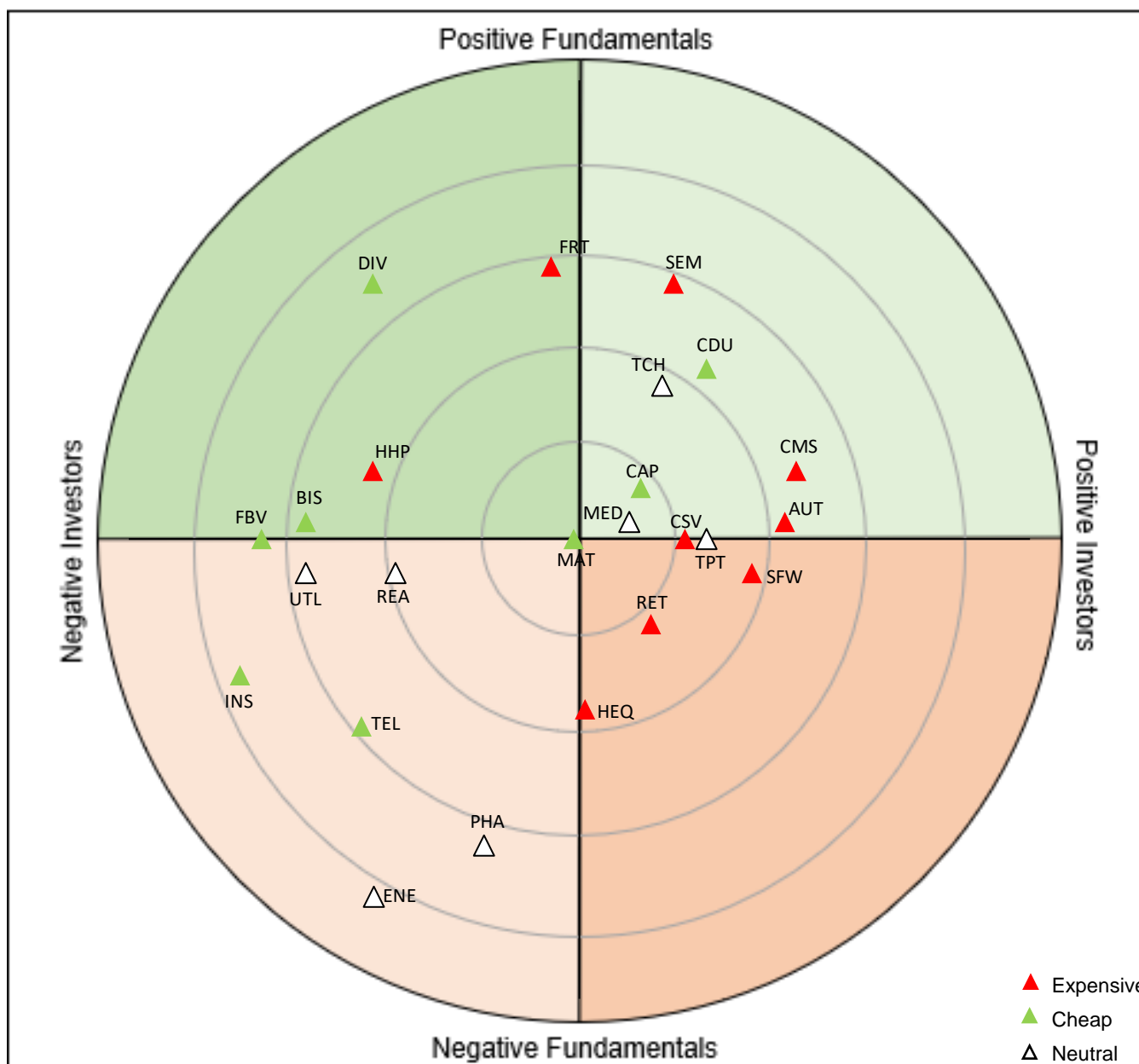
Source: Refinitiv, THR. SEE PAGE 13 FOR FULL METHODOLOGY

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	Underweight
Communications	XLC/VOX	Overweight	Real Estate	XLRE/VNQ	Overweight
Discretionary	XLY/VCR	Neutral	Materials	XLB/VAW	Underweight
Industrials	XLI/VIS	Overweight			



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

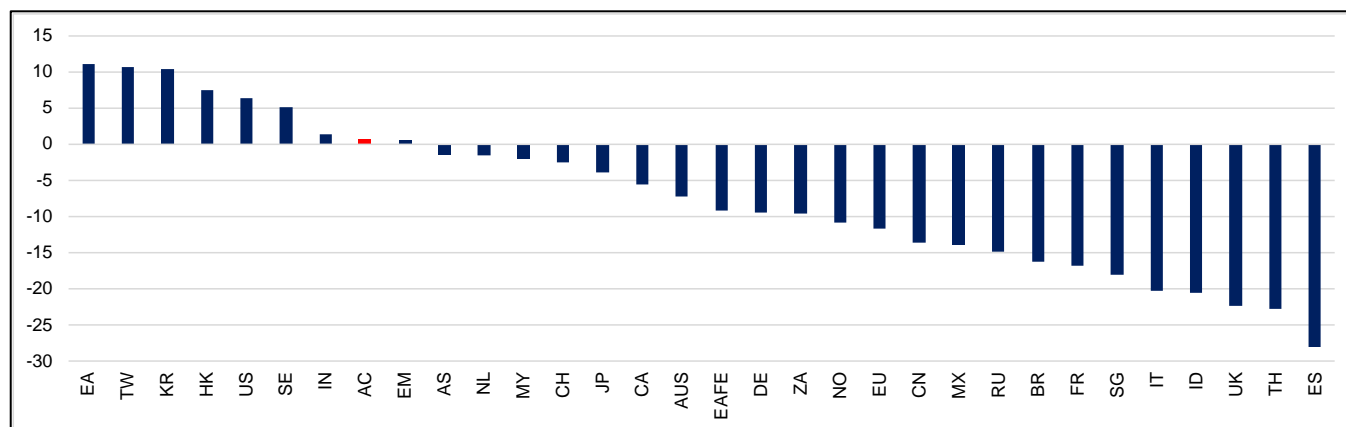
'EYE' ALLOCATION BREAKDOWN

Country/ Region	Rationale	P/E (x)		EPS Gr. (%)	
		2020e	2021e	2020e	2021e
	United States (Overweight): Remains global equity 'safer haven' despite centre COVID outbreak and upcoming election. Has relatively closed economy and stock market, trend GDP growth into crisis, 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 'momentum' Eye quadrant, with some of world's strongest relative fundamentals, but also some of most optimistic investors.	27.2	22.2	-14.8	22.4
	Emerging Markets (Neutral): Economic growth vulnerable even before COVID outbreak. USD strength and low oil prices headwinds part reversed. Some of valuation discount structural (governance and cost-of-capital) but rising China and tech weights have boosted structural growth and fair-value. LatAm/CEEMEA now focus of virus, after north Asia (65% EM) control, and have cyclical upside to commodities, PMI, weaker USD. Favor China, EM's largest market, on policy flexibility, resilient GDP/EPS, FIFO on virus, 14x 2021e P/E.	18.5	13.9	-9.0	32.8
	Eurozone (Neutral): Led global GDP and EPS decline, whilst much of valuation discount vs US is just sector composition. Recession triggered a broader fiscal policy response, whilst ECB help extended. COVID easing and countries reopening, will see large cyclical economic and market upturn. Focus on cheap domestic cyclicals, such as Financials. Risk is impact of stronger EUR on region's globalised and low margin companies.	22.5	16.1	-33.4	39.8
	Japan (Underweight): 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 to stronger JPY. Domestic stocks underperformed global-exposed peers.	22.3	15.5	-9.7	43.8
	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.	18.2	13.2	-39.3	38.5
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.	32.6	28.5	3.9	14.2
	Healthcare (Overweight): Both Healthcare Equipment and Pharma have been slipping on our framework. Remain liked by the market (with multiple rerating and sell-side conviction), and we see quality growth attractive at this stage, with defensive cash flows, less EPS cyclical and a domestic revenue focus. Seeing Federal support to combat COVID. Similar to Tech, set to come out of crisis more dominant.	18.8	16.4	5.5	15.0
	Financials (Underweight): Diversified and Insurance segments have been improving on allocation framework, whilst Banks remains in value trap quadrant. All are 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, regulatory buyback and dividend restrictions which likely combine to see lagging other Cyclicals in a recovery. Insurance offers the best value in our view, though none of the sector is optically expensive.	15.6	12.7	-27.7	22.5
	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..	27.5	22.8	-11.9	20.8
	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.	58.5	35.6	-33.7	64.1

Source: Refinitiv, THR

REGION/COUNTRY PERFORMANCE & VALUATION

Total Return YTD

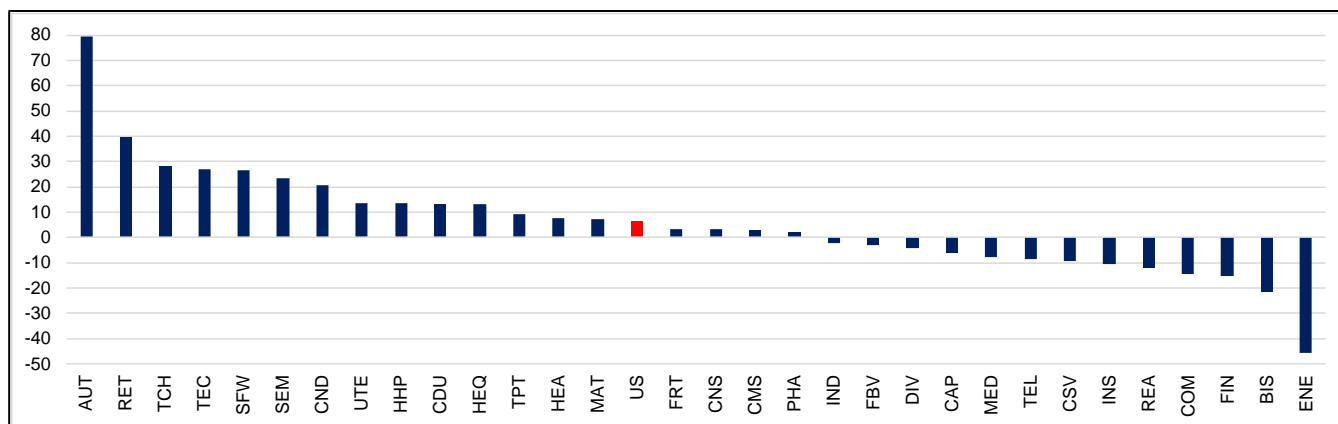


Index	Abbreviation	Price Performance				PE			EPS Growth	
		1D (%)	1W (%)	3M(%)	YTD (%)	2019A	2020E	2021E	2020E	2021E
World	AC	1.9	1.8	0.9	0.7	19.7	24.2	18.7	-18.7%	29.2%
EAFE	EAFE	2.4	3.3	-0.7	-9.2	16.1	22.4	16.1	-27.9%	39.0%
Europe	EU	3.1	4.8	-2.7	-11.7	15.0	22.5	16.1	-33.4%	39.8%
Asia	AS	0.9	0.5	3.4	-1.5	18.8	19.9	15.1	-5.5%	32.0%
Emerging Global Markets	EM	0.5	0.1	1.3	0.6	16.8	18.5	13.9	-9.0%	32.8%
Emerging Asia	EA	0.2	-0.5	3.1	11.1	18.8	18.5	14.8	1.4%	24.9%
Australia	AUS	1.9	0.0	2.3	-7.2	20.1	19.8	17.4	1.8%	13.2%
Brazil	BR	2.0	-3.8	-3.7	-16.2	13.2	31.5	11.4	-58.0%	176.8%
Canada	CA	1.5	-0.3	-2.0	-5.6	14.7	20.8	15.6	-29.2%	33.2%
China	CN	1.6	1.1	-3.2	-13.6	17.5	17.6	14.7	-0.2%	19.7%
France	FR	2.3	4.6	-2.4	-16.8	14.4	27.1	16.2	-46.8%	67.3%
Germany	DE	2.4	3.1	-5.1	-9.5	16.5	23.5	15.4	-29.9%	52.2%
Hong Kong	HK	1.1	-1.0	1.5	7.5	15.2	21.2	15.6	-27.9%	35.5%
India	IN	1.0	1.0	8.1	1.4	25.8	28.4	19.9	-9.1%	42.3%
Indonesia	ID	0.8	-1.1	-2.4	-20.6	14.1	19.5	14.6	-27.7%	33.2%
Italy	IT	3.0	4.9	-6.2	-20.3	10.6	20.8	13.1	-49.3%	58.9%
Japan	JP	0.0	0.9	5.4	-3.9	20.1	22.3	15.5	-9.7%	43.8%
Korea	KR	1.9	0.7	1.4	10.4	19.7	16.2	11.6	21.6%	40.1%
Malaysia	MY	0.0	-1.9	-5.4	-2.0	17.9	22.4	15.2	-20.1%	47.4%
Mexico	MX	1.1	-1.5	0.1	-13.9	15.0	20.9	12.9	-28.6%	62.2%
Netherlands	NL	1.8	2.4	0.9	-1.6	22.1	24.2	20.8	-8.7%	16.4%
Norway	NO	0.8	4.4	-2.8	-10.9	14.0	19.9	14.9	-29.5%	33.2%
Russia	RU	2.1	3.9	-7.6	-14.9	5.6	11.6	7.1	-51.4%	62.8%
Singapore	SG	2.1	1.1	-0.5	-18.1	11.4	17.8	13.1	-35.6%	35.4%
South Africa	ZA	1.7	2.2	-4.6	-9.7	15.2	15.4	10.3	-1.5%	49.2%
Spain	ES	2.4	2.8	-5.2	-28.0	10.2	28.0	13.3	-63.5%	110.3%
Sweden	SE	1.5	3.3	2.9	5.2	17.3	21.3	17.9	-18.9%	19.3%
Switzerland	CH	2.1	4.7	0.3	-2.6	19.9	22.1	18.8	-9.8%	17.2%
Taiwan	TW	1.1	0.5	0.7	10.7	21.5	19.0	16.7	12.7%	13.9%
Thailand	TH	1.6	1.1	-8.5	-22.7	13.5	21.9	16.4	-38.4%	33.7%
United Kingdom	UK	2.3	3.1	-4.7	-22.3	11.1	18.2	13.2	-39.3%	38.5%
United States	US	1.9	-0.6	2.9	6.4	23.1	27.2	22.2	-14.8%	22.4%

Source: MSCI, Refinitiv, THR

US SECTOR PERFORMANCE & VALUATION

Total Return YTD

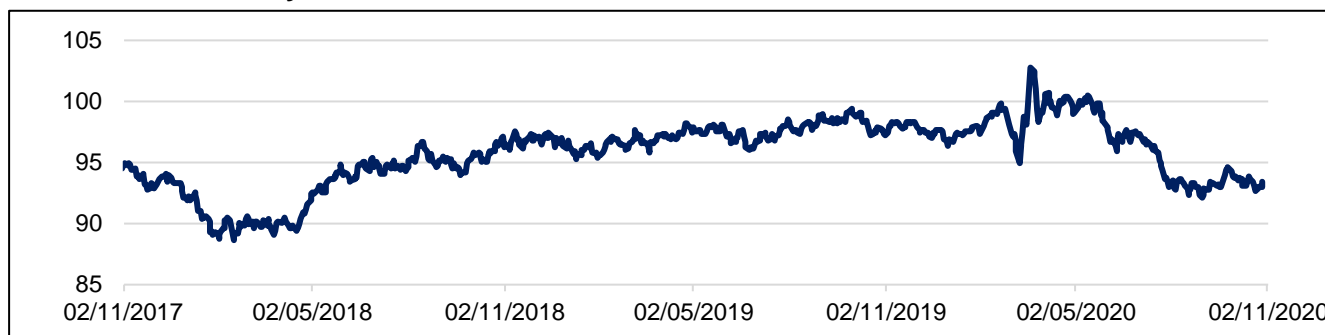


Index	Abbreviation	Price Performance				PE			EPS Growth	
		1D (%)	1W (%)	3M(%)	YTD (%)	2019A	2020E	2021E	2020E	2021E
United States	US	1.9	-0.6	2.9	6.4	23.1	27.2	22.2	-14.8%	22.4%
Communications	COM	2.7	0.6	-15.8	-14.6	24.2	27.5	22.8	-11.9%	20.8%
Media & Entertainment	MED	2.6	-0.2	1.7	-7.9	31.5	37.1	28.1	-15.2%	32.1%
Telecommunication Svcs	TEL	0.0	0.0	-0.7	-8.6	11.0	11.7	11.4	-6.1%	2.5%
Consumer Discretionary	CND	2.4	-2.2	6.3	20.6	38.8	58.5	35.6	-33.7%	64.1%
Autos & Components	AUT	4.7	0.8	30.5	79.4	32.0	135.9	32.0	-76.5%	325.2%
Consumer Durables & App	CDU	1.8	-0.5	12.5	13.2	29.9	29.4	23.1	1.6%	27.1%
Consumer Svcs	CSV	2.6	-0.8	5.3	-9.2	23.4	NA	45.9	-107.8%	758.7%
Retailing	RET	2.0	-3.8	2.0	39.6	48.8	49.5	37.9	-1.3%	30.5%
Consumer Staples	CNS	1.8	0.7	2.6	3.2	22.7	22.5	21.1	0.9%	6.4%
Food & Staples Retailing	FRT	2.7	1.3	4.1	3.4	24.7	24.7	24.3	-0.1%	1.6%
Food, Bev & Tobacco	FBV	1.2	-0.5	0.3	-2.8	19.1	19.4	17.9	-1.8%	8.3%
Household Products	HHP	1.8	0.0	4.0	13.6	30.4	27.1	25.8	12.1%	5.1%
Energy	ENE	-0.9	1.5	-16.5	-45.9	11.3	NA	25.3	-106.2%	819.8%
Financials	FIN	2.4	3.3	6.3	-15.2	11.3	15.6	12.7	-27.7%	22.5%
Banks	BIS	2.6	3.6	6.5	-21.6	8.0	13.7	11.1	-41.6%	24.0%
Diversified Financials	DIV	2.3	0.5	3.8	-4.1	15.6	19.0	15.6	-17.8%	21.8%
Insurance	INS	1.5	2.4	4.9	-10.4	11.7	13.2	10.9	-11.4%	21.1%
Health Care	HEA	1.6	-1.1	0.4	7.8	19.9	18.8	16.4	5.5%	15.0%
Health Care Equipment	HEQ	2.3	-1.1	4.8	13.0	33.9	37.6	28.2	-9.6%	33.2%
Pharmaceuticals	PHA	0.8	-1.1	-4.1	2.2	16.0	15.3	13.5	4.8%	13.0%
Industrials	IND	2.8	2.6	8.3	-2.1	21.8	29.9	22.0	-27.3%	36.1%
Capital Goods	CAP	3.0	3.8	9.0	-6.1	18.3	27.5	20.4	-33.3%	34.9%
Commercial & Prof Svcs	CMS	2.5	1.7	1.7	3.1	33.7	34.7	30.9	-2.9%	12.3%
Transportation	TPT	2.8	1.2	14.7	9.0	32.5	36.5	23.7	-10.8%	53.7%
Information Technology	TEC	1.7	-2.5	1.3	27.0	33.8	32.6	28.5	3.9%	14.2%
Semiconductors	SEM	1.9	-1.3	5.6	23.3	23.9	24.0	20.9	-0.2%	14.5%
Software & Svcs	SFW	1.7	-2.7	1.8	26.7	42.4	39.5	34.7	7.4%	13.8%
Technology Hardware	TCH	1.9	-2.7	1.1	28.3	30.0	29.3	25.6	2.3%	14.6%
Materials	MAT	1.7	4.0	9.4	7.1	22.1	25.7	19.9	-14.2%	28.8%
Real Estate	REA	2.0	2.6	-0.4	-12.2	34.6	48.8	46.9	-29.1%	4.1%
Utilities	UTE	1.5	0.1	20.4	13.6	18.5	19.3	18.5	-4.0%	4.0%

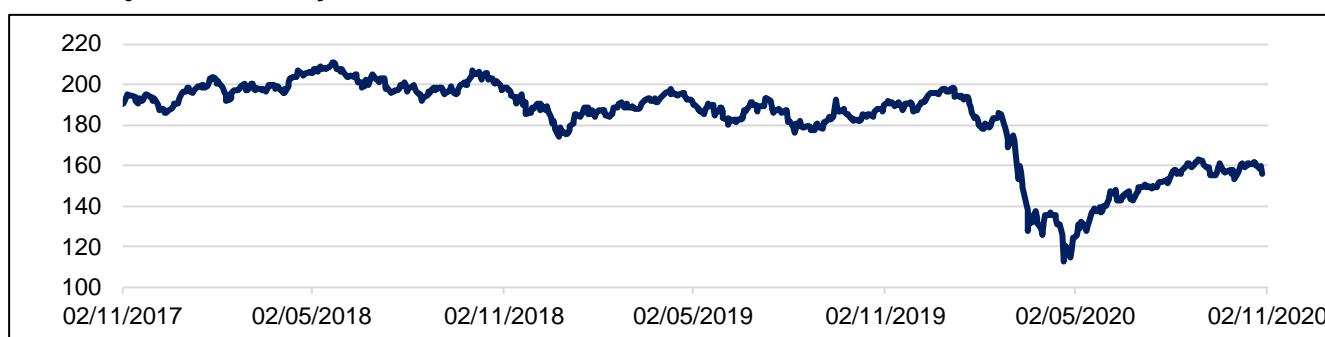
Source: MSCI, Refinitiv, THR

GLOBAL FX, BONDS AND COMMODITIES

DXY USD Index - 3 years



CRB Major Commodity Index* - 3 Years

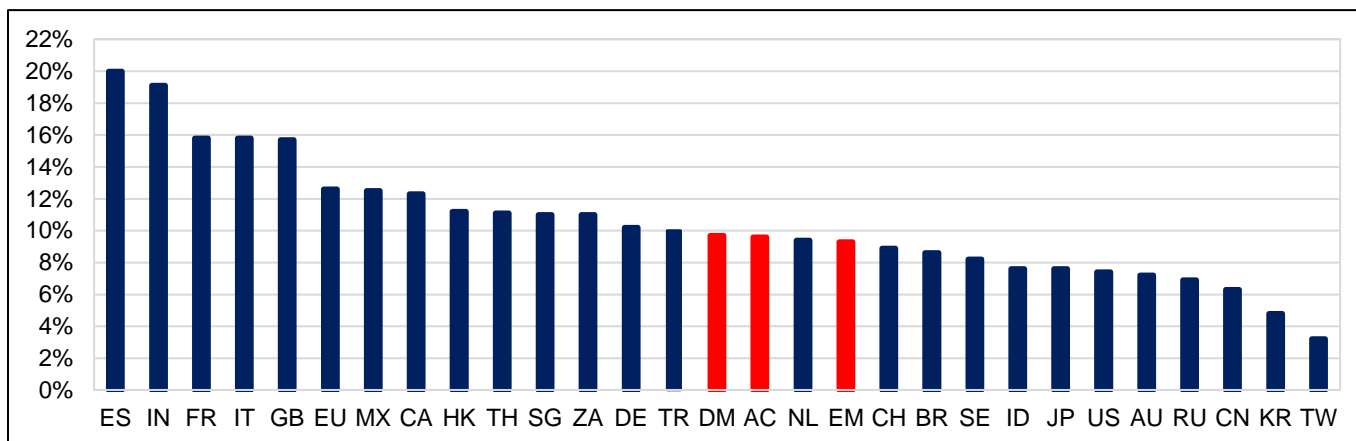


Name	Currency	Close Price	1 Day	1 Week	1 Month	3 Months	1 Year	MTD	QTD	YTD
Commodities										
CRB Commodity Index	USD	2578.10	0.8%	0.7%	1.5%	-0.3%	-13.0%	3.1%	0.8%	-16.4%
Gold Spot	USD	1908.36	0.7%	0.1%	0.5%	-3.5%	26.1%	1.6%	1.2%	25.8%
Copper Spot	USD	3.09	0.4%	-0.1%	3.6%	6.2%	16.4%	1.4%	1.9%	10.5%
Brent Crude Spot	USD	37.52	4.8%	-3.9%	-2.5%	-15.6%	-37.8%	4.9%	-6.6%	-45.6%
CRB Agricultural Index	USD	5282.08	-0.4%	-0.4%	0.7%	5.6%	-4.9%	1.7%	0.6%	-7.9%
Currencies										
DXY USD Index	USD	93.55	-0.6%	0.7%	-0.3%	0.0%	-3.8%	-0.5%	-0.4%	-2.9%
EUR/USD	USD	1.17	0.6%	-0.7%	0.0%	-0.4%	4.9%	0.5%	-0.1%	4.5%
USD/JPY	JPY	104.46	-0.2%	0.1%	-0.8%	-1.4%	-3.4%	-0.2%	-0.9%	-3.8%
GBP/USD	USD	1.31	1.1%	0.1%	1.0%	-0.1%	1.0%	0.9%	1.1%	-1.5%
USD/CNY	CNY	6.68	-0.2%	-0.4%	-1.7%	-4.4%	-5.1%	-0.2%	-1.7%	-4.1%
Bond Yields										
DE 10Y BUND	EUR	-0.62	-2.8%	2.1%	15.5%	18.8%	64.5%	-0.6%	19.2%	231.6%
GB 10Y GILT	GBP	0.27	24.1%	16.7%	11.0%	173.0%	-58.9%	3.8%	18.2%	-66.9%
JP 10Y JGB	JPY	0.04	0.0%	50.0%	136.8%	80.0%	-125.0%	9.8%	181.3%	-304.5%
US 10Y BILL	USD	0.88	3.9%	13.2%	26.9%	56.5%	-49.0%	2.6%	30.1%	-53.9%
US 30Y BOND	USD	1.65	1.9%	5.3%	11.8%	33.0%	-25.2%	1.1%	13.9%	-30.4%
US 10-2 BOND	-	0.71	-2.4%	0.5%	0.6%	10.4%	40.2%	-8.0%	-4.3%	35.4%
Volatility										
CBOE VIX Index	USD	35.55	-0.04	0.07	0.29	0.46	1.89	-0.06	0.35	1.58

Source: Refinitiv, THR

MACRO INDICATORS: HISTORIC AND FORECASTS

Forecast Real GDP Growth 'Delta' (2021E % Growth – 2020E)



Codes	Nominal GDP 2019 US\$trn	Real GDP (%)			Inflation (%)			Fiscal Balance (% GDP)			Gov Debt (% GDP)		
		2019	2020E	2021E	2019	2020E	2021E	2019	2020E	2021E	2019	2020E	
Americas													
US	21.4	2.2	-4.3	3.1	1.8	1.5	2.8	-6.3	-18.7	-8.7	109	131	
Canada	1.7	1.7	-7.1	5.2	1.9	0.6	1.3	-0.3	-19.9	-8.7	89	115	
Brazil	1.9	1.1	-5.8	2.8	3.7	2.7	2.9	-6.0	-16.8	-6.5	90	101	
Mexico	1.3	-0.3	-9.0	3.5	3.6	3.4	3.3	-2.3	-5.8	-3.4	54	66	
Europe													
Eurozone	18.3	1.7	-7.6	5.0	1.4	0.8	1.2	-0.6	-9.7	-4.8	79	95	
Germany	3.9	0.6	-6.0	4.2	1.3	0.5	1.1	1.5	-8.2	-3.2	60	73	
UK	2.7	1.5	-9.8	5.9	1.8	0.8	1.2	-2.2	-16.5	-9.2	85	108	
France	2.7	1.5	-9.8	6.0	1.3	0.5	0.6	-3.0	-10.8	-6.5	98	119	
Italy	2.0	0.3	-10.6	5.2	0.6	0.1	0.6	-1.6	-13.0	-6.2	135	162	
Spain	1.4	2.0	-12.8	7.2	0.7	-0.2	0.8	-2.8	-14.1	-7.5	96	123	
Netherlands	0.9	1.7	-5.4	4.0	2.7	1.2	1.5	1.7	-8.8	-4.9	48	59	
Switzerland	0.7	1.2	-5.3	3.6	0.4	-0.8	0.0	1.5	-4.2	-1.4	42	49	
Sweden	0.5	1.3	-4.7	3.5	1.6	0.8	1.4	0.4	-5.9	-2.0	35	42	
Russia	1.6	1.3	-4.1	2.8	4.5	3.2	3.2	1.9	-5.3	-2.6	14	19	
Turkey	0.7	0.9	-5.0	5.0	15.2	11.9	11.9	-5.6	-7.9	-7.9	33	42	
Asia													
China	14.1	6.1	1.9	8.2	2.9	2.9	2.7	-6.3	-11.9	-11.8	53	62	
Hong Kong	0.4	-1.2	-7.5	3.7	2.9	0.3	2.4	-1.5	-11.8	-6.6	0	0	
Japan	5.2	0.7	-5.3	2.3	0.5	-0.1	0.3	-3.3	-14.2	-6.4	238	266	
India	2.9	4.2	-10.3	8.8	4.8	4.9	3.7	-8.2	-13.1	-10.9	72	89	
Korea	1.6	2.0	-1.9	2.9	0.4	0.5	0.9	0.4	-3.2	-2.3	42	48	
Australia	1.4	1.8	-4.2	3.0	1.6	0.7	1.3	-3.9	-10.1	-10.5	46	60	
Indonesia	1.1	5.0	-1.5	6.1	2.8	2.1	1.6	-2.2	-6.3	-5.5	31	39	
Taiwan	0.6	2.7	0.0	3.2	0.5	-0.1	1.0	-1.8	-4.7	-3.2	33	36	
Thailand	0.5	2.4	-7.1	4.0	0.7	-0.4	1.8	-0.8	-5.2	-4.9	41	50	
Singapore	0.4	0.7	-6.0	5.0	0.6	-0.4	0.3	3.8	-10.8	1.2	130	131	
Other													
South Africa	0.4	0.2	-8.0	3.0	4.1	3.3	3.9	-6.3	-14.0	-11.1	62	79	
World													
Developed Markets	DM	51.7	1.7	-5.8	3.9	1.4	0.8	1.6	-3.3	-14.2	-6.8	104	124
Emerging Markets	EM	34.9	3.7	-3.3	6.0	5.1	5.0	4.7	-4.8	-10.4	-8.8	52	61
World	AC	86.6	2.8	-4.4	5.2	3.5	3.2	3.4					

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



LIBRARY

RECENT 'EYE ON THE WORLD' DAILIES

These reports available to **DAILY subscribers-only** through our website Library

Please let us know if you need help accessing

[NOVEMBER 03: ELECTION DAYS SCENARIOS](#)

[NOVEMBER 02: ELECTION NOT THE ONLY FOCUS](#)

[OCTOBER 29: STOCKMARKET VS ECONOMY](#)

[OCTOBER 28: THE CHINA TECH SPOTLIGHT](#)

[OCTOBER 27: CRUCIAL CAPEX RESILIENCE](#)

[OCTOBER 26: RISING GROWTH RISKS](#)

[OCTOBER 22: RISE OF INTANGIBLES](#)

[OCTOBER 22: SWISS FUNDING SOURCE](#)

[OCTOBER 21: WHAT ETFS ARE TELLING US](#)

[OCTOBER 20: BENEFITS OF UNCERTAINTY](#)

[OCTOBER 19: FOCUS ON ECONOMIC RESILIENCE](#)

[OCTOBER 16: BIGGEST RERATINGS AND DERATINGS](#)

[OCTOBER 15: DONT GIVE UP ON REAL ESTATE](#)

[OCTOBER 14: GLOBAL EARNINGS TO LAG US](#)

[OCTOBER 13: POOR CRISIS FOR ACTIVE MANAGERS](#)

Subscriptions can be made, and example Daily issues seen, at www.towerhudson.com



ABOUT US

‘EYE ON THE WORLD’ DAILY

One idea or insight a year, or a client relationship gained or maintained, or an hour of your time saved daily. These can individually be worth many times the subscription price

US and Global investment trends and actionable views in your inbox at 7 am ET daily

Each day we include:

- Multi-asset market recap
- What to watch for outlook
- Hot topic analysis and view
- 31 Countries & Regions allocation model
- 24 US sector industries allocation model
- Our key country and sector investment views
- Data on market performance, earnings, valuation, and macro-economics

Subscription also includes:

- **Weekly** conference call and Q&A, as well as audio replay
- **Quarterly** market recap and performance data, for client reporting
- **Open line** email and Q&A for us to answer your key questions
- **Access** to back catalogue of hot topic reports and weekly call audio

Subscriptions can be made, and example Daily issues seen, at www.towerhudson.com

TOWER HUDSON RESEARCH

Tower Hudson Research Ltd is an UK FCA registered firm providing investment strategy research globally. Our multi-disciplinary team of financial and investment strategy analysts provides an in-depth and global perspective and capability.

Visit us at www.towerhudson.com or contact us at directly ben@towerhudson.com or on (US) +1 917 539 0541 or (UK +44 (0) 7444 392506, with any questions.



Important Disclosure Statement from Tower Hudson Research Ltd

This document is issued by Tower Hudson Research Ltd solely for its clients. It **may not be reproduced, redistributed or passed to any other person** in whole or in part without written consent of Tower Hudson Research Ltd. This material is not directed at you if Tower Hudson is prohibited or restricted by any legislation in any jurisdiction from making it available to you.

This document is **provided for information purposes only** and should not be regarded as an offer, solicitation, invitation, inducement or recommendation relating to any security or other financial instrument. This document does not constitute, and should not be interpreted as, investment advice. You should seek independent advice from a suitably qualified professional advisor before taking any decisions in relation to the investments detailed herein. All expressions of opinions and estimates constitute a judgement and are those of the author and Tower Hudson Research Ltd only and are subject to change without notice. Tower Hudson is under no obligation to update information contained. Whilst we have taken all reasonable care to ensure information is not untrue or misleading at the time of publication, we cannot guarantee its accuracy or completeness.

This document is **not guaranteed to be a complete statement** or summary of any securities, markets, or developments referred to herein. No representation or warranty is made, nor responsibility of any kind is accepted, by Tower Hudson Research Ltd either as to the accuracy or completeness of any information contained in this document. No liability whatsoever is accepted by Tower Hudson Research Ltd for any loss, whether direct or consequential, arising whether directly or indirectly as a result of the recipient acting on the content of this document, including, without limitation, lost profits arising from the use of this document or any of its contents.

This document is provided with the understanding that Tower Hudson Research Ltd is **not acting in a fiduciary capacity** and it is not a personal recommendation to you. Investing in securities entails risks. The value of and the income produced by products may fluctuate, so that an investor may get back less than he invested. Investments referred to are not suitable for all investors and this document should not be relied upon in substitution for the exercise of independent judgment. The stated price of any securities mentioned herein will generally be the closing price at the end of any of the three business days immediately prior to the publication date on this document.

Tower Hudson Research Ltd and respective analysts are remunerated for providing investment research to professional investors, corporations, other research institutions and consultancy houses. **Our analysts are not censored in any way** and are free to express their personal opinions. We may have issued other documents inconsistent with conclusions from the information contained here. Those reflect different assumptions, views and analytical methods of authors at the time.

Tower Hudson Research Ltd is an **appointed representative of Messels Ltd., authorised and regulated by the Financial Conduct Authority** for the provision of investment advice. Residents of the UK should seek specific professional financial and investment advice from a professional adviser authorised pursuant to the Financial Services and Markets Act 2000. This report is intended only for investors who are 'professional clients' as defined by the FCA, and may not, therefore, be redistributed to other classes of investors.

Analysts' Certification

The analysts involved in the production of this document certify that the views expressed accurately reflect their personal views about the securities mentioned. The analysts may buy, sell or already have taken positions in the securities, and related financial instruments, mentioned.