

EYE ON THE WORLD

Europe' earnings leverage

Thursday, January 21

Markets saw a Biden-bounce yesterday, on inauguration and initial executive action roll-out, and a reminder of impact of strong FAANGM performance, after recent sector rotation, and as Q4 earnings likely continue to positively surprise. **HOT TOPICS** focus on European earnings as transition to world-leading 2021 cyclicals-led growth rebound, after -50% trough-fall last year, and still below 2008. We are focused on domestic cyclicals and highlight 8 things to watch.

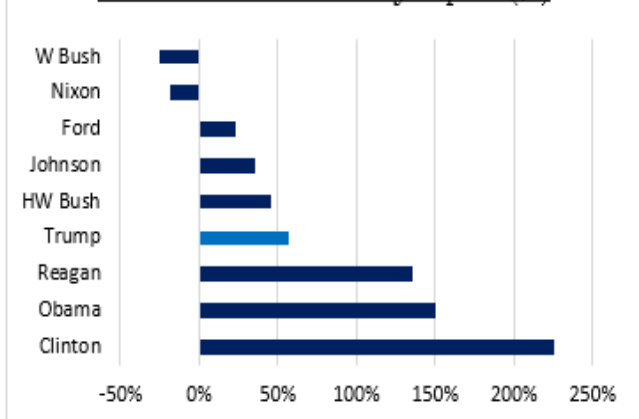
President Biden took office in US, signed 15 executive orders, saw Senate confirmation of first cabinet member, and called for 'national unity', whilst markets look to US\$1.9trn stimulus plan progress. **Trump administration saw 56% DJIA return** (see chart), near double 4-yr Presidential term avg. since 1990. Market also supported by strong FAANGM rebound, after recent underperformance and strong Netflix results, with group still c23% S&P 500. **Remain focused on cyclical and international opportunities, with markets well-supported.** Asia markets rose, with Europe and US futures also higher.

Key Markets Performance Table

Index	Level	1D	1W	YTD
S&P500	3798.9	1.4%	1.1%	2.6%
ACWI xUS	55.7	1.1%	1.4%	5.0%
DXY USD	90.5	0.0%	0.1%	0.6%
US 10Y YLD	1.09	-0.2%	0.2%	19.5%
Brent Spot	56.1	1.1%	0.8%	10.3%
Gold Spot	1870.9	1.7%	1.5%	-1.3%

Biden Day One Plan. President signed 15 Executive orders with clear focus on ESG, incl. re-joining Paris Agreement, and cancelling US\$8bn Keystone XL oil pipeline

Last 10 US Presidents: DJIA perf. (%)



Source: Dow Jones, THR

HIGHLIGHTS FROM REST OF DOC

- **Hot Topics on [European earnings](#).** Transition to world-leading 2021 cyclicals-led growth rebound, after -50% trough-fall last year. We focus on domestic cyclicals. 8 things to watch.
- **[What to watch](#):** ECB meeting open to further stimulus. US weekly jobless claims remain v high
- **[Country and Sector 'Eye'](#):** Favor US and EM, and cyclicals/value 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	3798.9	1.4%	1.1%	2.6%
NASDAQ	13296.5	2.0%	2.5%	4.4%
Russell 2000	2160.6	0.4%	2.3%	9.4%
US IT	483.5	2.4%	2.5%	2.3%
US Healthcare	433.7	0.5%	1.6%	5.3%
US Financials	212.3	-0.5%	-1.2%	5.9%

from Canada, as no2 global GHG emitter aims for net zero emissions by 2050. Also extended moratorium on evictions until end Q1, and student loan payments until Q3. Saw focus on immigration and virus response, incl. re-joining WHO. Little immediate market impact, but **sign of policy focus, as look to near-term US\$1.9trn stimulus outlook catalyst.**

Case for FAANGM's. Segment surged yesterday, after Netflix results surprise, and recent underperformance as source of funds for cyclicals/value rotation, and tech IPO's and Tesla S&P 500 inclusion. Remain structural growth stocks, with large c23% S&P 500 index wt., with double-digit top-line growth, huge financial flexibility, ex-cash P/E multiples <20x 2022e, and capacity to surprise. **We are overweight IT and Comms.,** both in momentum allocation quadrant: relatively in-favor but above-average fundamentals. See Sept. 24, *FAANGM after the sell-off.*

Global trade rate spike. Early year look at global trade shows more strength. Korea Jan 1-20 exports accelerated to 10.6% yoy led by chips and cars, and geographically by +19% to China and US. Global volume rebounded quickly, reaching pre-pandemic

FX, Fixed Income, Commodities

Index	Level	1D	1W	YTD
DXY USD Index	90.5	0.0%	0.1%	0.6%
EUR/USD	1.21	-0.2%	-0.4%	-0.9%
US 10Y YLD	1.09	-0.2%	0.2%	19.5%
US 10-2 BOND	0.96	-0.2%	11.1%	11.3%
CBOE VIX Index	21.6	-7.1%	-3%	-5%
CRB Index	3387.3	0.7%	0.5%	9.4%

Events to Watch

Indicator	Period	Forecast	Last
Housing Starts Number, US	Dec	1.56m	1.55m
Initial Jobless Claims, US	16/01 w/e	922k	965k
Philly Fed Business Index, US	Jan	11.47	9.10
Consumer Confidence, EU	Jan	-14.73	-13.90
CPI Core YY, JP	Dec	-1.10	-0.90

levels by Q3, more than twice as fast as GFC. **Capacity constraints driving spiking freight rates** – benchmark Shanghai container freight index (SCFI) doubled in 3-mths – and supports freight equities. We are overweight Industrials. Sept. 3rd, *Insights from the trade rebound.*

Sector Views

S&P 500 rally led by communications (+3.6%) and discretionary (+2.2%), while financials (-0.47%) and staples (+0.25%) lagged. **Retail brokerage momentum** continues as UK' IG plans to buy US retail trading platform tastytrade for US\$1bn, following rise of Robinhood, and Morgan Stanley purchase of E-trade. See Sept. 9th, *Don't blame the little guy.*

What to Watch

Bank of Japan (BOJ) **upped FY GDP growth forecast to 3.9%** from 3.6%, saying economy 'picking up', as kept rate targets unchanged, with yield curve control (YCC) at -0.1% for short-term rates and 0% for 10-yr yields. **European Central Bank (ECB) meeting** to keep benchmark deposit rate at -0.5% and PEPP bond purchase total at EUR1.85trn total, even as open to further stimulus. Press-conference may focus on recent EUR/USD strength, even as weaker on trade-weighted basis since last meeting. **US weekly initial jobless claims** seen dropping to 910k after last wk surprise spike to 965k, and well-above GFC peak and pressure for fiscal stimulus passage.

HOT TOPICS

EUROPE' EARNINGS LEVERAGE

Focus on European earnings as Q4 reporting starts. Expect to see accelerating cyclicals-led rebound from dramatic Q2 trough as move into 2021. Q4 expectations have been lowered given recent lockdown increases. Positive earnings season important support to continued outperformance of international equities, alongside discounted valuations and still lukewarm investor sentiment. We are focused on domestic cyclicals. Highlight 8 things to watch.

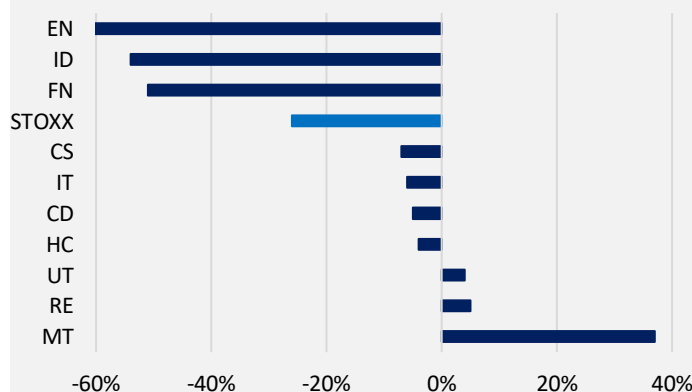
Setting up for 2021 surge

Q4 European earnings season is starting to pick up and is important validation for sharp market-rally seen, decade-high earnings revisions ratio, and our view for global c10% 2021 earnings upgrades. European equities currently trading at 17x 2021e P/E with consensus 37% EPS growth. Estimates seem undemanding, at similar yoy levels than Q3, downward revisions coming into quarter, and after two of largest earnings season beats ever in Q2 (+30% vs forecasts) and Q3. We are neutral European equities, focused on domestic cyclicals. European earnings are particularly depressed and exposed to the sharp European GDP recovery outlook, with heavy-cyclicals index composition, relatively low profit margins, and above average debt levels. See Jan. 6th, *The international opportunities*.

1) Q4 greener pastures ahead

Q4 consensus for a 10% revenue fall yoy, and

Eurostoxx 600 Q4 EPS YoY



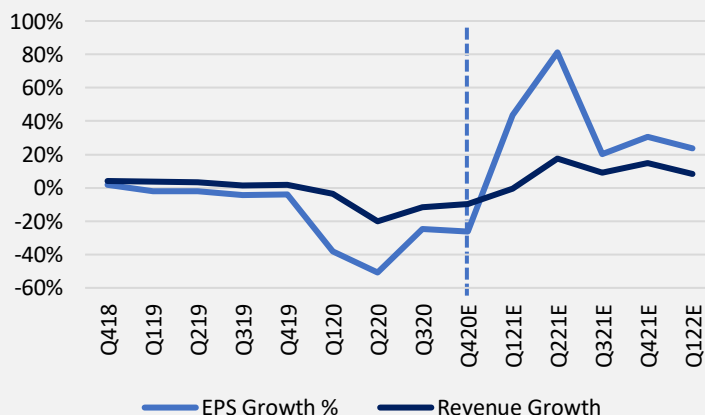
Source: Refinitiv, THR.

-26% EPS. Will be dramatically better (see chart) than the Q2 earnings 'trough', which saw EPS fall 51% yoy, but like last quarter, when revenues fell 12% and earnings 25%. Is set to be the last Eurostoxx 600 decline before multi-quarter run of strong earnings from the 2020 trough, with EPS growth to peak in Q221e at +81% yoy.

2) Expectations bar been lowered

Analysts have lowered expectations 3% into the quarter, with the current 26% EPS decline comparing to -23% expectations three months ago (see chart). This is the opposite of what we have seen in the US and arguably lowers the risk of expectations misses. Materials and real estate have seen the strongest increases into the quarter, and staples and energy the largest reductions. European earnings have beaten expectations by 4.5% average long term.

Eurostoxx 600 YoY Revenue & EPS



Source: Refinitiv, THR.

3) Huge earnings divergence continues

We see large EPS divergence, with three sectors – materials, real estate, and utilities – forecast to see rising earnings. These are small sectors though, making up a sum of <15% of European equities. At other extreme, energy, industrials, and financials are forecast to see over 50% yoy declines. However, they comprise c35% of European large caps, and significantly depress aggregates. This sector divergence is reversed in the US, with resilient ‘tech’ dramatically larger than depressed cyclicals.

4) Four sectors have seen recent EPS cuts

Q4 index earnings have been cut into quarter, primarily reflecting new surge in virus cases and tightened regional lockdowns. Seven sectors have seen continued cuts, led by consumer staples, and followed by energy. By contrast the biggest earnings upgrades have been seen in materials (+26pp), and real estate (+7pp).

5) Energy weak despite Brent rally

Energy been best performing sector in recent months, and Brent crude prices recovered to over US\$50/bbl. But sector set to see weakest earnings growth, and expectations been falling. Culprits are a 25% lower average Brent price for Q420 yoy, still large yoy declines in exploration drilling activity, and concerns for

continued major non-cash asset write-downs. Excl. the sector European earnings and revenue would be set to fall 4pp and 5.5% respectively. See Aug. 7th, *Don't overlook the write offs.*

6) Country dispersion also dramatic

Europe is forecast to see large country earnings growth dispersion. Small European equity constituents Portugal, Poland, and Belgium are forecast to see c40% yoy EPS growth on the one hand, whilst at the other extreme, much larger markets such as Spain, UK (22% total wt.), and Italy are all forecast with EPS -50%+ yoy.

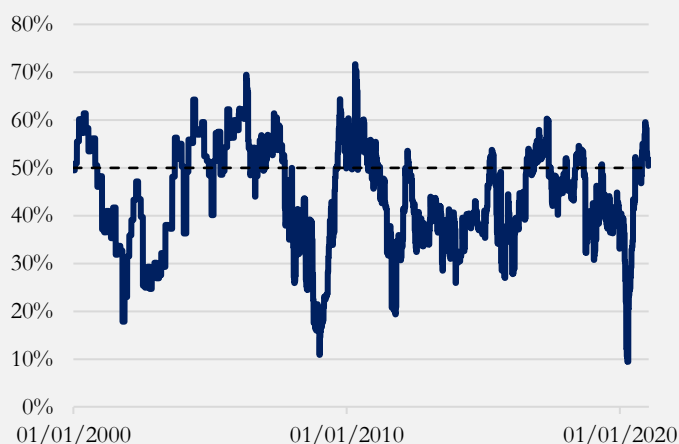
7) European expectations lower than in US

Europe Q4 -26% yoy EPS forecast is significantly worse than -c10% forecast for S&P 500. Similarly, US expectations have been raised c5% into the quarter, compared to estimate cuts in Europe. See Jan. 11th *What to expect from Q4 earnings.*

8) Europe's earnings leverage ingredients

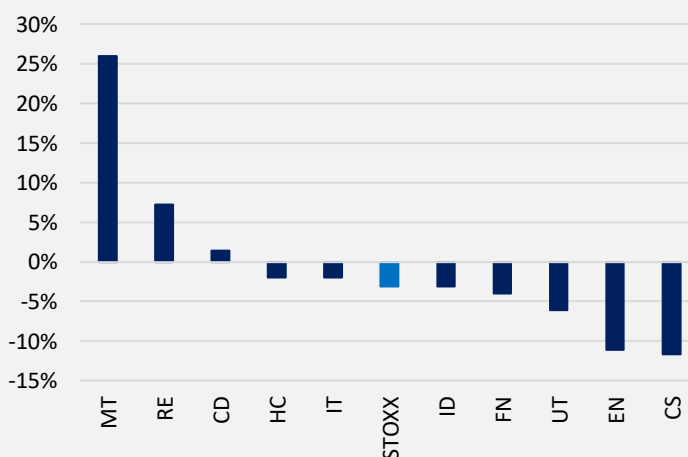
Earnings leverage is much lower in US than Europe, with a higher ‘tech’ index weight, higher margins (c10% net profit), and lower corporate debt. By contrast Financials is largest European sector, and index earnings lower than 2008 levels. Only c50% European revenues from region though vs 70% in US, a headwind with recent EUR strength and driver of our overall neutral view.

Europe 12m Fwd EPS Revisions



Source: MSCI, Refinitiv, THR. * Earnings upgrades/total

Q4 EPS Gr. Up/Down L3Mths

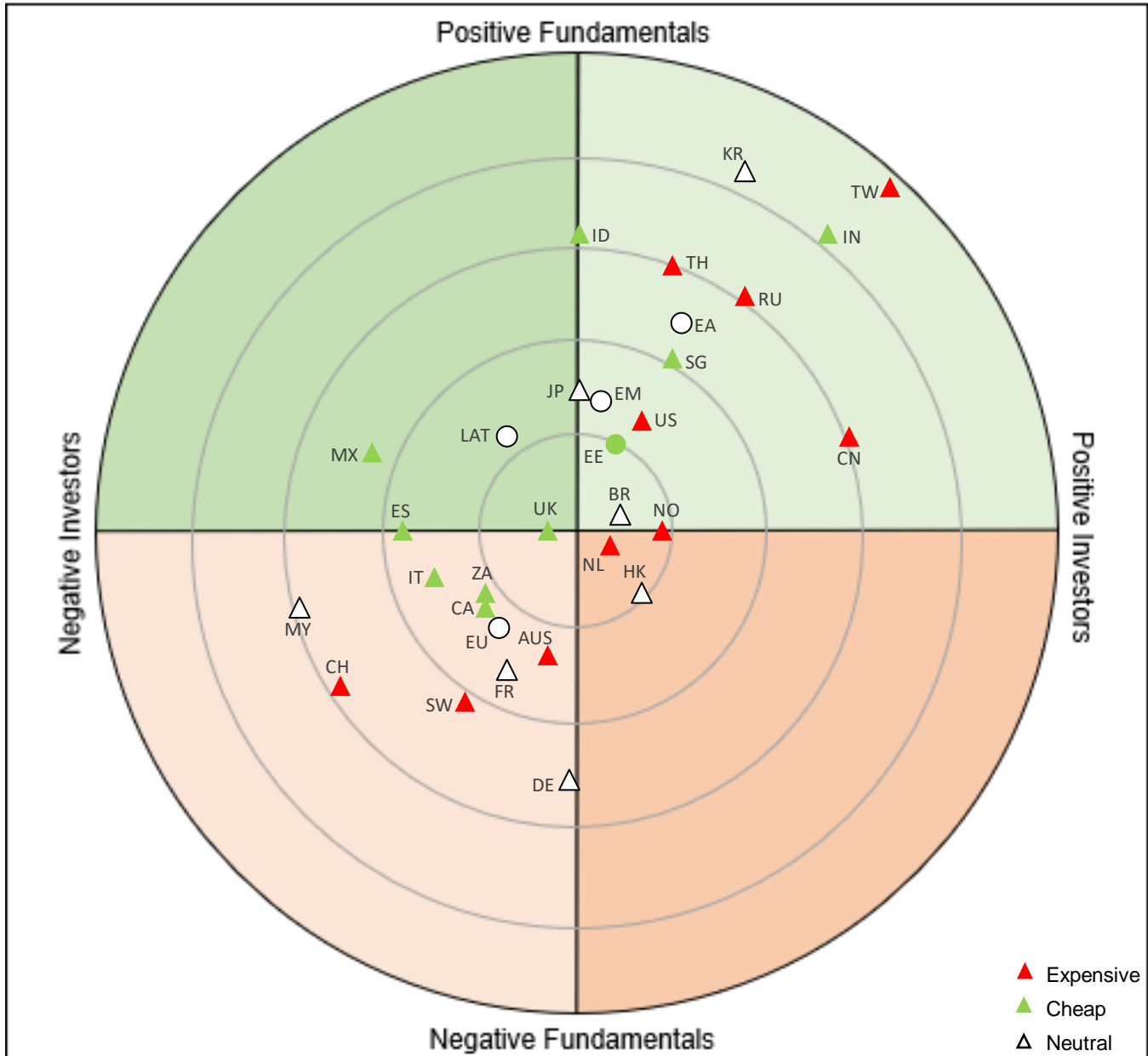


Source: Refinitiv, THR

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	Overweight	Canada	S&P/TSX	Overweight
Eurozone	EUROSTOXX	Neutral	Switzerland	SMI	Neutral
Japan	TOPIX	Underweight	Australia	S&P/ASX	Neutral



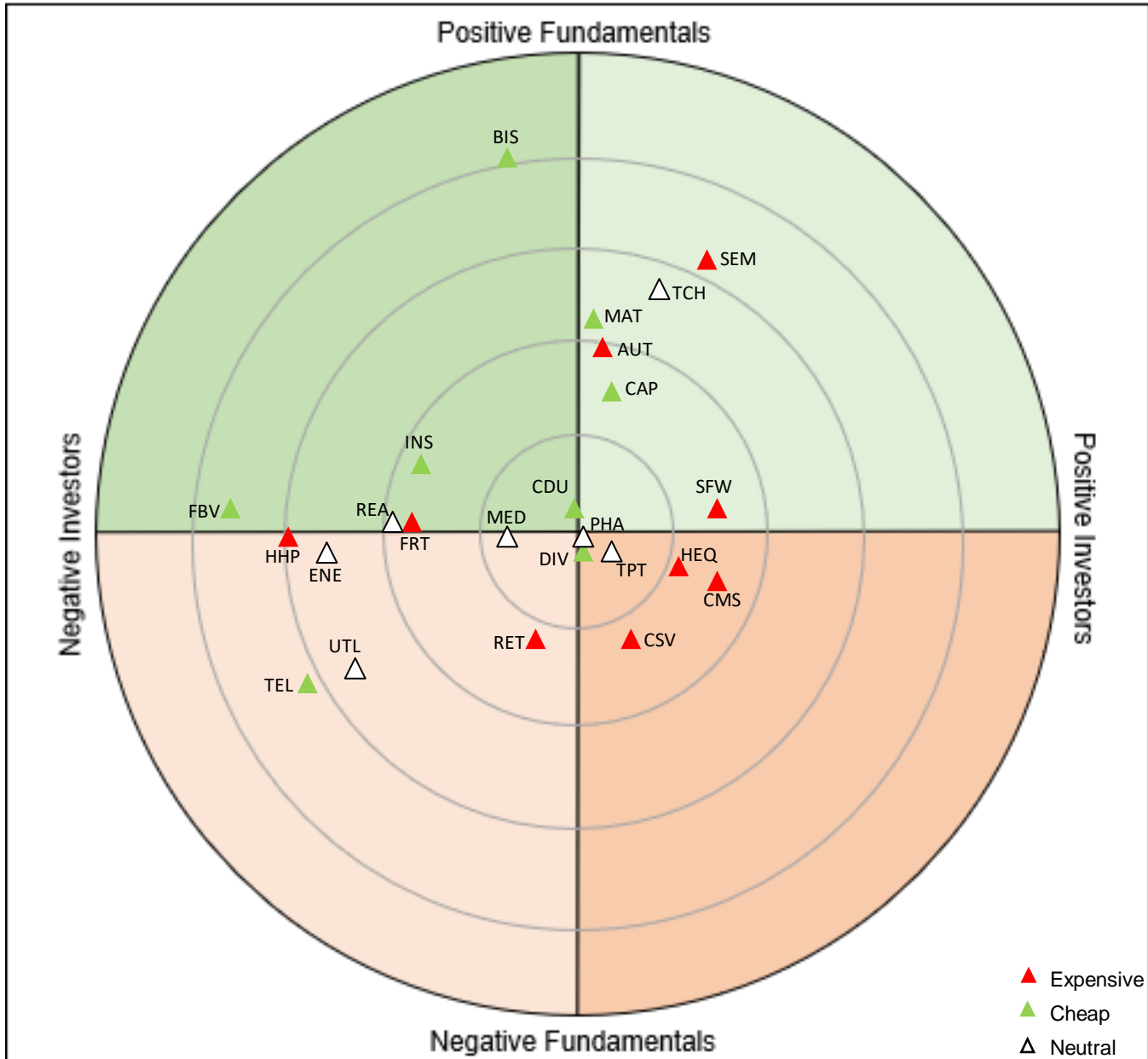
Source: Refinitiv, THR. SEE PAGE 13 FOR FULL METHODOLOGY

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	Neutral	Energy	XLE/VDE	Neutral
Financials	XLF/VFH	Neutral	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 Equip. & Svcs, HHP=Household & Personal Products, INS=Insurance, MAT=Materials, MED=Media & Entertainment, PHA=Pharma, Bio & Life Svcs, REA=Real Estate, RET=Retailing, SEM=Semiconductors & Equip, SFW=Software and Svcs, TCH=Technology Hardware & Equip, TEL=Telecoms TPT=Transport, UTL=Utilities

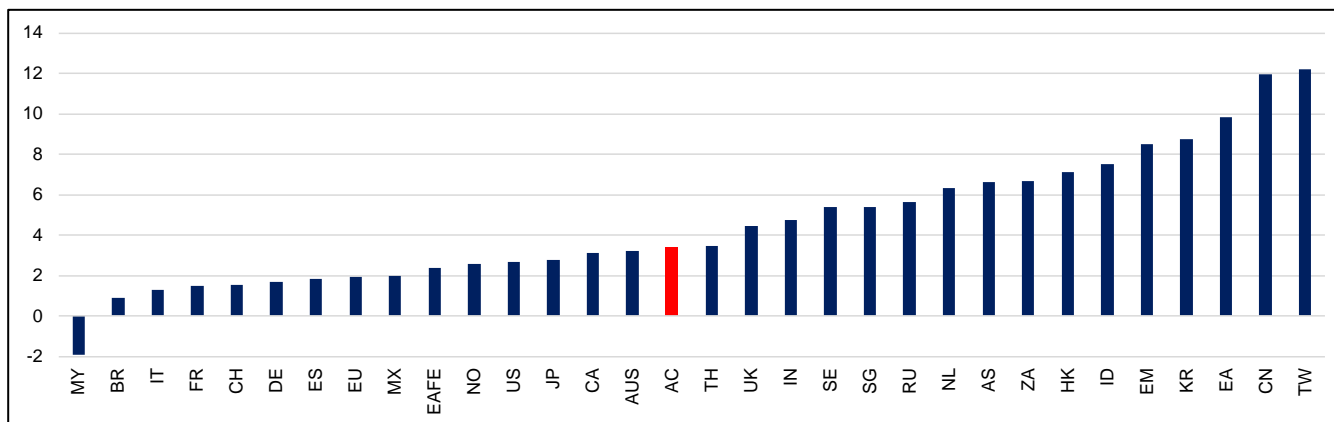
'EYE' ALLOCATION BREAKDOWN

Country/ Region	Rationale	P/E (x)		EPS Gr. (%)	
		2020e	2021e	2020e	2021e
	United States (Overweight): Remains global equity 'safer haven' despite centre COVID outbreak. Has relatively closed economy and stock market, growth and 'tech'-focused equity market, unprecedented policy response with unlimited QE and initial 15%/GDP fiscal stimulus. Valuations fundamentally supported by tech, tax, and UST. Earnings expectations well-supported. Is in 'momentum' Eye quadrant, with some of world's strongest relative fundamentals, but also some of most optimistic investors.	28.0	23.2	-11.0	20.5
	Emerging Markets (Overweight): We are focused on cyclical components, such as LatAm/CEEMEA, alongside more 'structural' north Asia overweight. Recent outperformance has a lot further to go after decade of under-performance, with GDP, earnings, valuations, currencies, and ownership all depressed, with room for a sharp 2021 recovery as gain vaccine-led growth visibility. Frontier and EM proxies (such as Canada/Spain) also attractive. Key is accelerating earnings turn-around, which is currently weak.	19.8	14.8	-4.5	34.0
	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.	23.3	16.9	-31.2	37.7
	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.	23.0	16.7	-5.0	37.5
	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 Brexit impacts (after 'lite' goods-focused Brexit deal), 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.	20.0	14.0	-38.2	42.6
US Sector	Rationale	P/E (x)		EPS Gr. (%)	
		2020e	2021e	2020e	2021e
	Information Technology (Overweight): See resilient to cyclicals catch up (not rotation) given still strong long-term growth and financial flexibility and still relatively well positioned on allocation framework. Software in attractive 'momentum' quadrant. Valuations average but supported by net-cash and high RoE, giving buyback and M&A flexibility. Tech Hardware (Neutral) less well positioned, but beneficiary of easing growth concerns.	33.4	29.7	5.2	15.8
	Healthcare (Neutral): Both Healthcare Equipment and Pharma have been slipping on our framework, and sector remain liked by the market (with multiple rerating and sell-side conviction). We see quality growth vulnerable at this stage, with market less rewarding of defensive cash flows, less EPS cyclical and domestic revenue focus. Seeing Federal support to combat COVID. Similar to Tech, seeing accelerated adoption drivers.	19.1	16.9	8.7	13.0
	Financials (Neutral): All segments been improving on allocation framework, and remain out of favour with market, with strong fund outflows and valuation derating. Fundamental outlook improving with higher bond yields, GDP recovery, and less regulatory capital restrictions. However, likely 'caps' on how high bond yields can go and less EPS operating leverage than cyclicals are constraints.. Insurance offers the best value in our view, though none of the sector is optically expensive.	17.5	14.3	-24.1	22.3
	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..	27.9	24.6	-4.3	13.5
	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.	54.7	36.2	-24.4	51.0

Source: Refinitiv, THR

REGION/COUNTRY PERFORMANCE & VALUATION

Total Return YTD

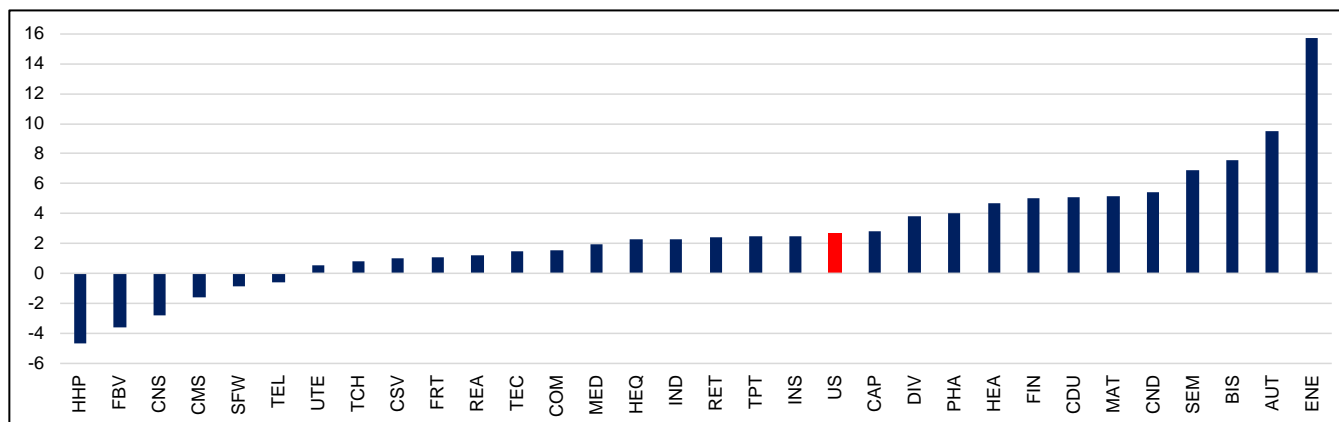


Index	Abbreviation	Price Performance				PE			EPS Growth	
		1D (%)	1W (%)	3M(%)	YTD (%)	2019A	2020E	2021E	2020E	2021E
World	AC	1.1	1.1	15.2	3.4	21.2	25.1	19.6	-15.3%	27.6%
EAFE	EAFE	0.3	0.1	16.4	2.4	17.3	23.3	17.0	-25.7%	37.0%
Europe	EU	0.5	-0.1	15.1	1.9	16.0	23.3	16.9	-31.2%	37.7%
Asia	AS	0.9	1.9	21.4	6.6	20.8	20.8	16.1	-0.1%	29.7%
Emerging Global Markets	EM	1.4	2.7	23.5	8.5	18.9	19.8	14.8	-4.5%	34.0%
Emerging Asia	EA	1.7	3.3	23.8	9.8	21.1	19.5	15.7	8.3%	24.6%
Australia	AUS	0.4	1.2	10.7	3.2	22.8	20.8	18.4	10.0%	12.9%
Brazil	BR	-0.9	-1.9	19.3	0.9	16.5	39.4	12.4	-58.0%	216.3%
Canada	CA	0.3	0.3	10.6	3.1	16.0	20.8	16.5	-23.2%	26.6%
China	CN	2.7	7.2	16.8	12.0	18.1	17.8	15.0	1.8%	18.4%
France	FR	0.5	-0.4	13.8	1.5	15.9	29.1	17.8	-45.4%	63.8%
Germany	DE	0.9	0.2	8.4	1.7	17.1	22.5	16.0	-23.9%	40.5%
Hong Kong	HK	-1.0	2.9	21.5	7.1	15.7	21.5	16.3	-26.9%	31.7%
India	IN	1.0	0.2	20.1	4.8	51.7	29.7	21.5	74.3%	37.8%
Indonesia	ID	2.1	0.9	25.6	7.5	16.8	23.0	17.4	-27.0%	32.7%
Italy	IT	0.8	-0.6	16.6	1.3	12.3	23.0	14.5	-46.3%	58.9%
Japan	JP	-0.4	-0.6	15.5	2.8	21.9	23.0	16.7	-5.0%	37.5%
Korea	KR	0.6	-1.8	35.8	8.8	23.5	18.6	13.1	25.8%	42.4%
Malaysia	MY	0.0	-2.4	2.3	-1.9	18.6	23.4	14.2	-20.4%	64.8%
Mexico	MX	-0.9	-1.7	17.4	2.0	17.0	26.2	14.4	-35.2%	82.7%
Netherlands	NL	1.7	3.4	16.3	6.3	25.1	28.0	22.9	-10.3%	22.0%
Norway	NO	0.0	1.8	10.0	2.6	15.3	20.5	15.6	-25.3%	31.3%
Russia	RU	0.8	-0.6	25.3	5.7	6.6	12.6	8.0	-47.8%	58.5%
Singapore	SG	0.0	0.6	17.4	5.4	12.7	20.9	14.1	-39.1%	48.6%
South Africa	ZA	0.3	2.6	11.7	6.7	16.1	16.1	10.7	0.5%	50.2%
Spain	ES	0.0	-2.3	20.2	1.8	11.9	28.2	15.7	-57.9%	79.5%
Sweden	SE	1.0	0.7	9.0	5.4	17.7	21.8	18.0	-18.4%	20.9%
Switzerland	CH	0.6	0.7	6.0	1.5	20.0	21.8	18.7	-8.0%	16.2%
Taiwan	TW	0.6	2.2	30.0	12.2	23.7	19.9	17.6	19.2%	13.3%
Thailand	TH	-0.4	-2.7	25.5	3.5	15.7	26.3	19.3	-40.2%	36.2%
United Kingdom	UK	0.4	0.0	14.8	4.5	12.3	20.0	14.0	-38.2%	42.6%
United States	US	1.4	1.1	12.8	2.7	24.9	28.0	23.2	-11.0%	20.5%

Source: MSCI, Refinitiv, THR

US SECTOR PERFORMANCE & VALUATION

Total Return YTD

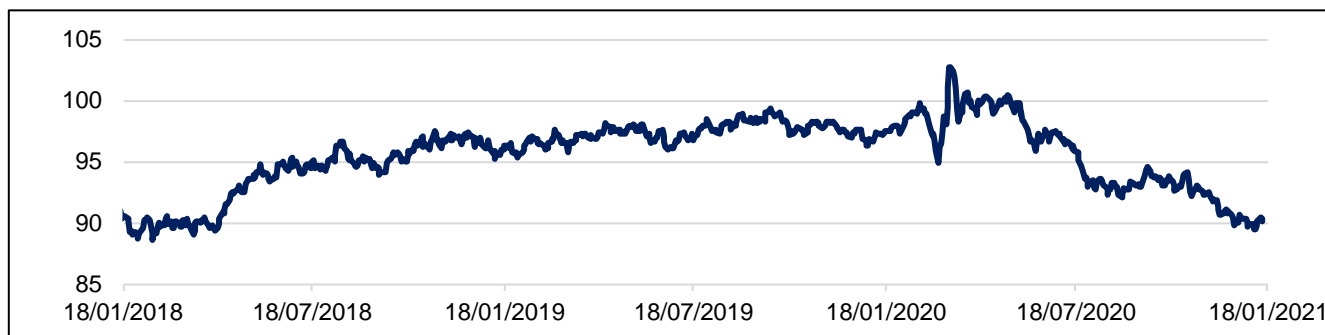


Index	Abbreviation	Price Performance				PE			EPS Growth	
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United States	US	1.4	1.1	12.8	2.7	24.9	28.0	23.2	-11.0%	20.5%
Communications	COM	3.6	4.8	13.9	1.6	26.7	27.9	24.6	-4.3%	13.5%
Media & Entertainment	MED	4.2	5.5	15.5	2.0	35.1	36.5	30.6	-4.0%	19.3%
Telecommunication Svcs	TEL	0.4	1.2	6.1	-0.6	11.4	12.0	11.7	-5.0%	3.2%
Consumer Discretionary	CND	2.2	1.4	11.4	5.4	41.4	54.7	36.2	-24.4%	51.0%
Autos & Components	AUT	2.2	0.4	33.8	9.5	43.8	69.1	35.7	-36.7%	93.6%
Consumer Durables & App	CDU	2.5	1.7	14.1	5.1	32.2	28.1	22.4	14.8%	25.5%
Consumer Svcs	CSV	1.6	1.7	14.3	1.0	25.5	NA	61.8	-114.5%	NA
Retailing	RET	2.6	1.3	5.0	2.4	49.2	46.5	36.8	5.7%	26.3%
Consumer Staples	CNS	0.3	-1.0	1.1	-2.8	22.9	22.1	20.9	3.5%	5.9%
Food & Staples Retailing	FRT	1.5	-0.7	3.0	1.1	24.5	24.0	23.6	2.3%	1.4%
Food, Bev & Tobacco	FBV	0.2	-0.3	3.1	-3.6	19.8	19.5	18.3	1.6%	6.6%
Household Products	HHP	-1.0	-2.9	-6.4	-4.7	28.9	25.7	23.9	12.4%	7.5%
Energy	ENE	0.2	1.1	46.4	15.7	14.2	NA	30.3	-105.9%	NA
Financials	FIN	-0.4	-1.1	25.1	5.0	13.3	17.5	14.3	-24.1%	22.3%
Banks	BIS	-1.2	-2.6	37.2	7.6	10.2	16.8	13.4	-39.1%	25.5%
Diversified Financials	DIV	0.0	-0.6	18.9	3.8	17.5	20.0	16.6	-12.7%	20.1%
Insurance	INS	0.4	1.2	16.8	2.5	13.1	14.4	11.9	-9.3%	21.2%
Health Care	HEA	0.6	1.4	12.5	4.7	20.7	19.1	16.9	8.7%	13.0%
Health Care Equipment	HEQ	1.0	0.0	7.8	2.3	35.6	36.7	28.4	-2.8%	29.3%
Pharmaceuticals	PHA	-0.2	2.1	11.5	4.0	16.0	15.0	13.8	6.4%	9.1%
Industrials	IND	0.7	0.3	12.9	2.3	23.9	30.7	23.6	-22.2%	30.1%
Capital Goods	CAP	0.3	0.3	15.6	2.8	20.5	28.6	22.4	-28.5%	27.6%
Commercial & Prof Svcs	CMS	1.3	-0.1	8.6	-1.6	37.2	36.5	32.8	1.9%	11.3%
Transportation	TPT	1.6	0.4	6.9	2.5	34.3	35.5	23.9	-3.5%	48.8%
Information Technology	TEC	2.0	1.4	11.6	1.5	36.2	34.4	29.7	5.2%	15.8%
Semiconductors	SEM	0.5	1.3	15.8	6.9	26.0	25.2	21.7	3.0%	16.4%
Software & Svcs	SFW	2.4	1.5	6.0	-0.9	44.7	41.7	36.2	7.2%	15.3%
Technology Hardware	TCH	2.6	0.9	15.1	0.8	32.8	31.4	27.1	4.4%	15.9%
Materials	MAT	0.3	-1.0	17.2	5.2	23.8	26.4	20.4	-9.9%	29.5%
Real Estate	REA	1.9	3.5	7.3	1.2	35.6	50.1	49.3	-28.9%	1.6%
Utilities	UTE	0.5	0.7	-0.3	0.6	17.4	18.2	17.8	-4.3%	2.5%

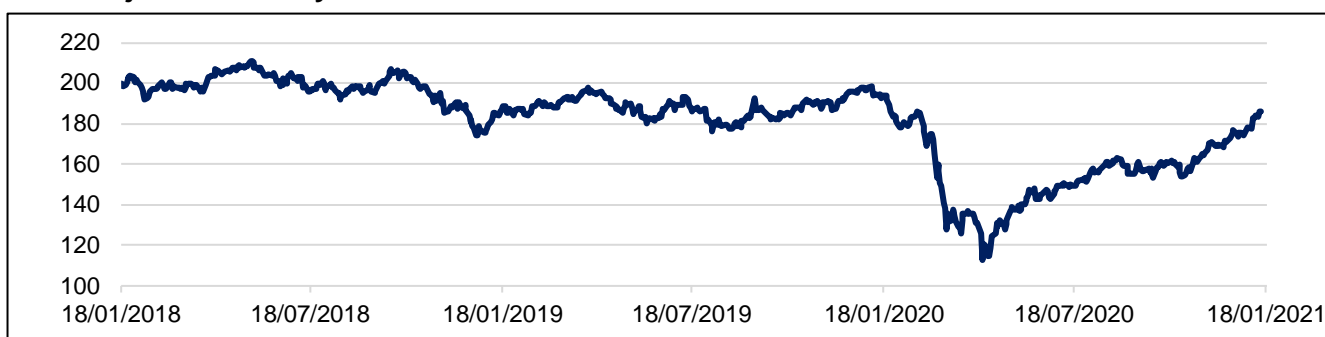
Source: MSCI, Refinitiv, THR

GLOBAL FX, BONDS AND COMMODITIES

DXY USD Index - 3 years



CRB Major Commodity Index* - 3 Years

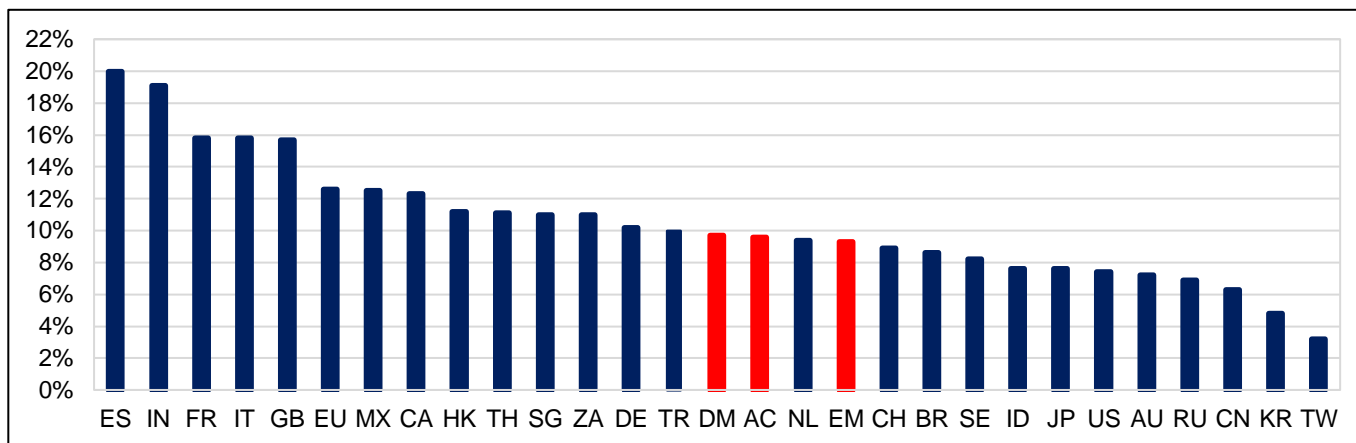


Name	Currency	Close Price	1 Day	1 Week	1 Month	3 Months	1 Year	MTD	QTD	YTD
Commodities		-								
CRB Commodity Index	USD	3387.25	0.7%	0.5%	8.6%	29.2%	10.0%	9.4%	9.4%	9.4%
Gold Spot	USD	1870.91	1.7%	1.5%	-0.5%	-1.9%	19.8%	-1.3%	-1.3%	-1.3%
Copper Spot	USD	3.65	0.3%	0.8%	0.5%	16.0%	28.0%	3.8%	3.8%	3.8%
Brent Crude Spot	USD	56.13	1.1%	0.8%	6.8%	38.1%	-13.6%	10.3%	10.3%	10.3%
CRB Agricultural Index	USD	6776.01	0.5%	1.0%	9.7%	25.1%	18.8%	8.9%	8.9%	8.9%
Currencies		-								
DXY USD Index	USD	90.48	0.0%	0.1%	0.5%	-2.8%	-7.3%	0.6%	0.6%	0.6%
EUR/USD	USD	1.21	-0.2%	-0.4%	-1.2%	2.4%	9.1%	-0.9%	-0.9%	-0.9%
USD/JPY	JPY	103.52	-0.4%	-0.3%	0.2%	-1.9%	-6.0%	0.3%	0.3%	0.3%
GBP/USD	USD	1.37	0.2%	0.1%	1.0%	5.5%	5.0%	-0.1%	-0.1%	-0.1%
USD/CNY	CNY	6.47	-0.2%	0.0%	-1.1%	-3.2%	-5.8%	-0.9%	-0.9%	-0.9%
Bond Yields		-								
DE 10Y BUND	EUR	-0.53	0.4%	1.0%	-7.5%	-12.3%	142.7%	-8.0%	-8.0%	-8.0%
GB 10Y GILT	GBP	0.30	3.8%	-3.2%	20.4%	60.1%	-53.7%	53.6%	53.6%	53.6%
JP 10Y JGB	JPY	0.03	-15.9%	23.3%	270.0%	48.0%	516.7%	76.2%	76.2%	76.2%
US 10Y BILL	USD	1.09	-0.2%	0.2%	15.0%	36.8%	-40.6%	19.5%	19.5%	19.5%
US 30Y BOND	USD	1.84	0.2%	1.3%	8.4%	14.9%	-19.8%	12.2%	12.2%	12.2%
US 10-2 BOND	-	0.96	-0.2%	11.1%	8.5%	47.6%	51.1%	11.3%	11.3%	11.3%
Volatility		-								
CBOE VIX Index	USD	21.58	-0.07	-0.03	0.00	-0.26	0.78	-0.05	-0.05	-0.05

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



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