

# EYE ON THE WORLD

## More from Financials

Thursday, February 25

Markets boosted by dovish Fed, and vaccine and fiscal progress. Focus on bond market sell-off, with yields up again and curve steepest since 2016. We see a cyclicals catch-up, not deep tech-rotation, more muted steepening ahead, and markets well-supported. **HOT TOPICS** upgrades financials again, funded by another bond-proxy healthcare cut. Sector one of few in our buy quadrant and see more gains as US GDP surprise and bond yields propel EPS, alongside regulatory loosening and US' cheapest valuations.

Markets up as Fed Chair Powell continued dovish Congress testimony and calmed tapering concerns. NASDAQ saw first rise in six days. Further vaccine and fiscal momentum as FDA cleared way for J&J 'game-changing' single-dose vaccine approval next week, and House to pass US\$1.9trn stimulus Friday and send to Senate Focus on bond market sell-off, with yields up again and curve steepest since Trump 2016 election surprise. See catch-up, not deep tech-rotation, lesser steepening, and mkts supported. Asia rallied, with Europe and US futures up this morning.

### Key Markets Performance Table

Index	Level	1D	1W	YTD
S&P500	3881.4	1.2%	-0.1%	4.6%
ACWI xUS	56.1	0.2%	-1.1%	6.0%
DXY USD	90.2	0.0%	-0.9%	0.3%
US 10Y YLD	1.36	0.4%	5.4%	50.1%
Brent Spot	65.8	2.5%	3.3%	32.6%
Gold Spot	1805.1	-0.1%	1.5%	-4.9%

**Retail sales boom.** [National Retail Federation](#) issued bullish forecasts for acceleration in US retail sales growth, as vaccine rollout and economic re-opening picks up. See up to 8.2% growth this year to US\$4.4trn, up from 6.7% last year, itself a big



Source: NRF, US Census Bureau, THR

### HIGHLIGHTS FROM REST OF DOC

- Hot Topics on [Financials upgrade](#). Sector one of few in our buy quadrant and see more gains as US GDP surprise and bond yields propel EPS, alongside reg. loosening and cheapest valuations.
- [What to watch](#): US wkly. new jobless claims, Q4 GDP revision, House stimulus vote outlook
- [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	3881.4	1.2%	-0.1%	4.6%
NASDAQ	13194.7	1.0%	-2.6%	5.5%
Russell 2000	2231.3	2.4%	1.2%	15.7%
US IT	501.7	1.0%	-2.1%	4.7%
US Healthcare	420.8	0.8%	-2.1%	2.5%
US Financials	225.5	2.1%	4.8%	15.5%

jump from 2019 level (see front chart). Online sales continue to lead, accelerating from 22% growth last year, to est. 23% this year. **We are overweight consumer durables and apparel** sector, in the momentum quadrant of our allocation framework, with still cheap valuations.

**Financial transaction taxes.** HK sudden stamp duty increase on stock trading to 0.13% from 0.1% focused attention on similar regimes. Came as HK equity volume soared 60% last year, and duty accounts for c10% of gov. revenues. **Could see new focus as countries consider how to rebuild fiscal positions.** At least [20 countries globally](#) have form of financial transactions tax (FTT). China, UK, Switzerland have stamp duties like HK. France, Italy introduced FTT's after earlier broad EU plan failed. US had one until 1966.

**What to expect from OPEC+ next week.** Brent crude has spiked over US\$60/bbl on improved growth outlook and continued supply discipline, focusing attention on March 4<sup>th</sup> OPEC+ meeting. Consensus for a modest 0.5mbpd supply boost from April. Group cut supply record 9.7mbpd (c10% global supply) last year and is still holding back 7.1mbpd. Uncertainty also focused on status

## FX, Fixed Income, Commodities

Index	Level	1D	1W	YTD
DXY USD Index	90.2	0.0%	-0.9%	0.3%
EUR/USD	1.21	0.1%	1.1%	-0.4%
US 10Y YLD	1.36	0.4%	5.4%	50.1%
US 10-2 BOND	1.24	-2.1%	-7.2%	46.8%
CBOE VIX Index	23.1	-7.5%	-1%	-6%
CRB Index	3564.2	1.4%	4.2%	16.7%

## Events to Watch

Indicator	Period	Forecast	Last
Consumer Confidence, DE	Mar	-14.27	-15.60
Economic Sentiment, EU	Feb	92.07	91.50
Consumer Confidence, EU	Feb	-14.94	-14.80
GDP YY, US	Q4	4.17	4.00
Initial Jobless Claims, US	20/02 w/e	835k	861k
Retail Sales YY, JP	Jan	-2.67	-0.30

of Saudi voluntary 1mbpd March-April cut. **We are neutral the energy sector, focused on dividend-paying majors.** See [Page 6](#).

## Sector Views

S&P 500 led up by value value-focused energy (+3.6%) and financials (+2.0%) while bond-proxy utilities (-1.1%) and staples (-0.03%) underperformed. **Alt. protein growth.** Swedish plant-based milk maker Oatly said had confidentially filed for US IPO eyeing valuation as high as US\$10 billion in a New York listing as alternative protein boom continues. US administration to announce **US\$37bn plan to boost US semiconductor chip capacity** and launch supply chain review for semis, batteries, rare earth minerals, and pharma inputs. **Reddit traders return.** GameStop and AMC up sharply again in potential re-run of earlier month frenzy. Platforms, exchanges, regulators better prepared this time, and see less impact.

## What to Watch

**EU economic sentiment indicator (ESI) increased** from 91.3 to 93.1 in Feb., an 11-mth high, with increases in both manufacturing and lagging services, supporting expectations for a Q2 activity recovery. See today **US weekly new jobless claims** est. to fall to 838k vs negative surprise rise to 861k prior week. Remains well-above the GFC peak 665k though, a full year after crisis started. Also see an update on 4.2% annualized yoy **Q4 US GDP** that will likely see a small upward revision.

# HOT TOPICS

## MORE FROM FINANCIALS

We upgrade financials again, funded by another bond-proxy healthcare cut. Sector one of few in our framework' buy quadrant – out of favor with market but strong fundamentals. Financials have started outperforming and we see further go with a building US GDP surprise and higher bond yields propelling earnings, regulatory loosening on buybacks and dividends, whilst valuations remain deeply discounted, and sentiment only part rebounded.

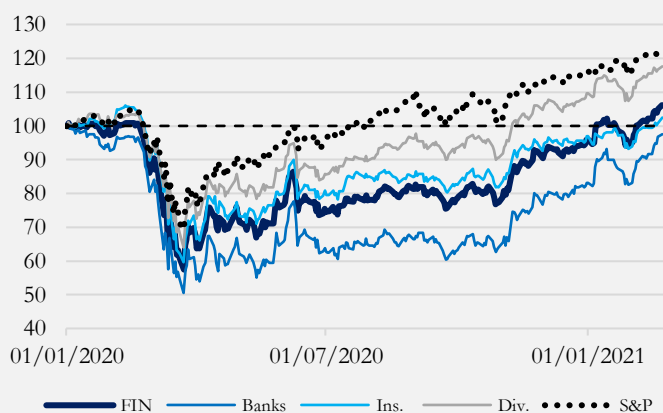
### Financials more to go

We upped financials Nov. 19, *Adding to financials*, and go overweight now, funded by further downgrade of bond-proxy healthcare, in 'sell' quadrant of our framework. Financials well positioned, with Banks, insurance both 'buy', diversified in 'momentum'. Has earnings upside from GDP surprise and higher yields, with reg. loosening boosting distributions, and still v. cheap valuations. See our updated US sector allocations ([Page 6](#)) and framework methodology ([Slide 13](#)).

### Financials strong reflation catch-up

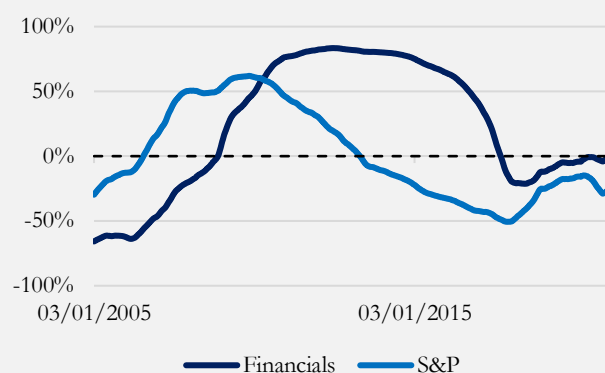
Financials has fallen to be 5th largest US sector (c10% weight), but still largest Value component (18% weight.). Sector underperformed in both Q1 crash and 2020 rebound, but been stronger YTD, +11.6% YTD vs S&P 500 +3.4%, behind only

US Financials Performance



Source: Refinitiv, THR

10-year Correlation with Bond Yield



Source: Refinitiv, THR

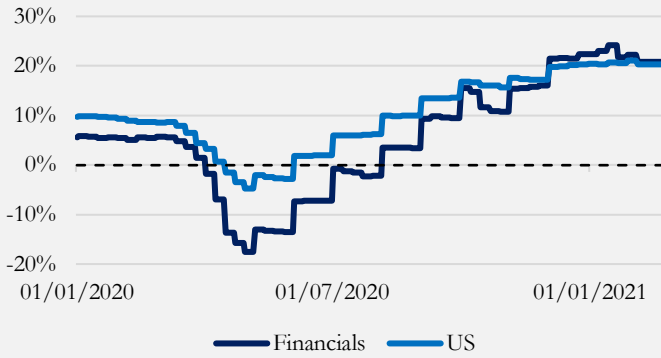
energy, as reflation trade has grown, yield curve steepened, Fed capital restrictions loosened, select M&A consolidation All three segments have outperformed, led by banks (35% weight) and +19.1%, followed by diversified (45% weight) +7.2% and then insurance (20% weight) +6.1%.

### Performance to extend further

We see three reasons for financials outperformance to continue:

**1. Bond yields.** US 10-yr yields have risen, and curve steepened significantly, as growth and inflation expectations have risen. Sector correlations have fallen but are above market, led by Banks. We also expect a significant US growth surprise this year supporting loan growth, and higher yields a

12m Forward EPS Growth



Source: Refinitiv, THR

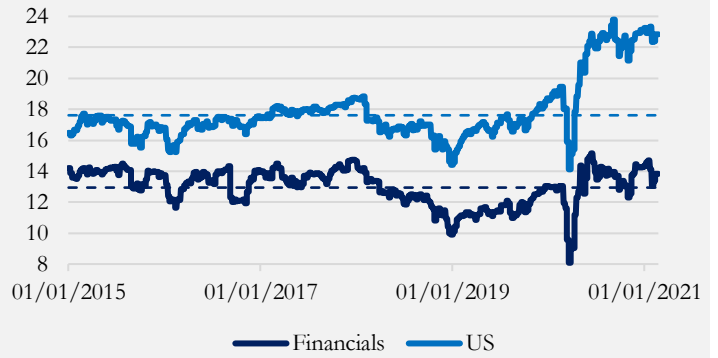
tailwind to net interest margins. The sector has already healthily provisioned.

**2. Improved regulatory outlook.**

The Fed has started loosening the dividend and buyback restrictions on major US banks (as have many international peers). This is set to continue in 2021 as banks remain well capitalised and likely to do well in less strict upcoming stress tests. Supports RoE recovery.

**3. Earnings Recovery.** Financials saw earnings fall 19% in 2020 vs just 10% for US market, with banks leading with a 32% fall. However, earnings forecasts have been sharply recovering. 12m fwd EPS growth is now inline with US average (+20%). Again, banks lead with +26% estimate with diversified (+19%) and insurance (+15%) both below US average. This is likely to continue to improve after Q4 'beats', stimulus

12 month forward P/E



Source: Refinitiv, THR

driven GDP upside, and recent yield curve steepening. 1M revisions ratio is 80%, well above markets 67%.

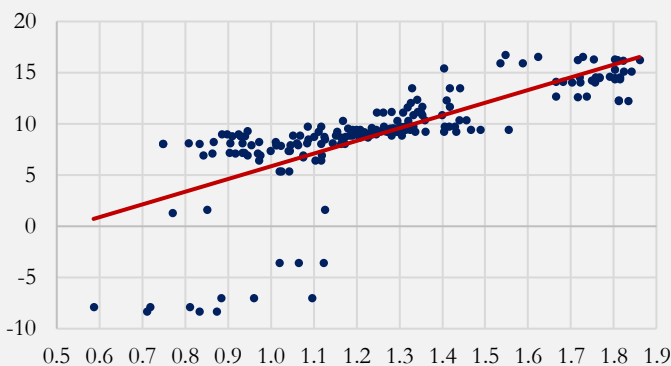
**Huge valuation discount to market**

Financials remains by far cheapest of all sectors, trading at 12m fwd P/E of 14x, close to own 5-year average, but near 40% discount to market (23x). Also, cheapest sector by P/BV with 1.4x compared with US 4.0x. Poor profitability has depressed valuations but is turning up and been a key driver (see chart).

**Coming back into favor**

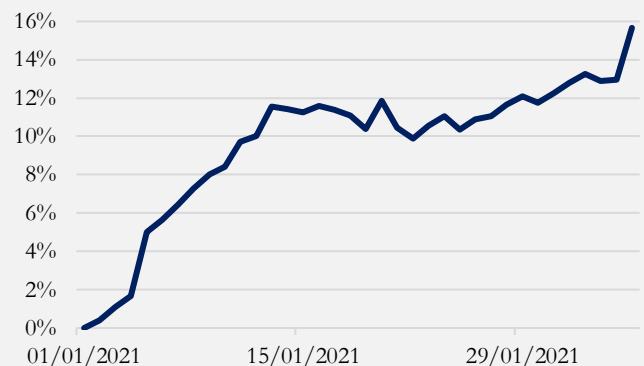
Financials is still only the 7<sup>th</sup> most favoured US sector by sell-side RCS score, but has seen the 3<sup>rd</sup> biggest sentiment movement over last three month (behind energy and materials). Financials also seen almost 16% of AUM fund inflows this year, equating to US\$9bn.

US Financials P/BV vs ROE (%), LHS



Source: Refinitiv, THR

Cumm. Fund Flows YTD, %AUM

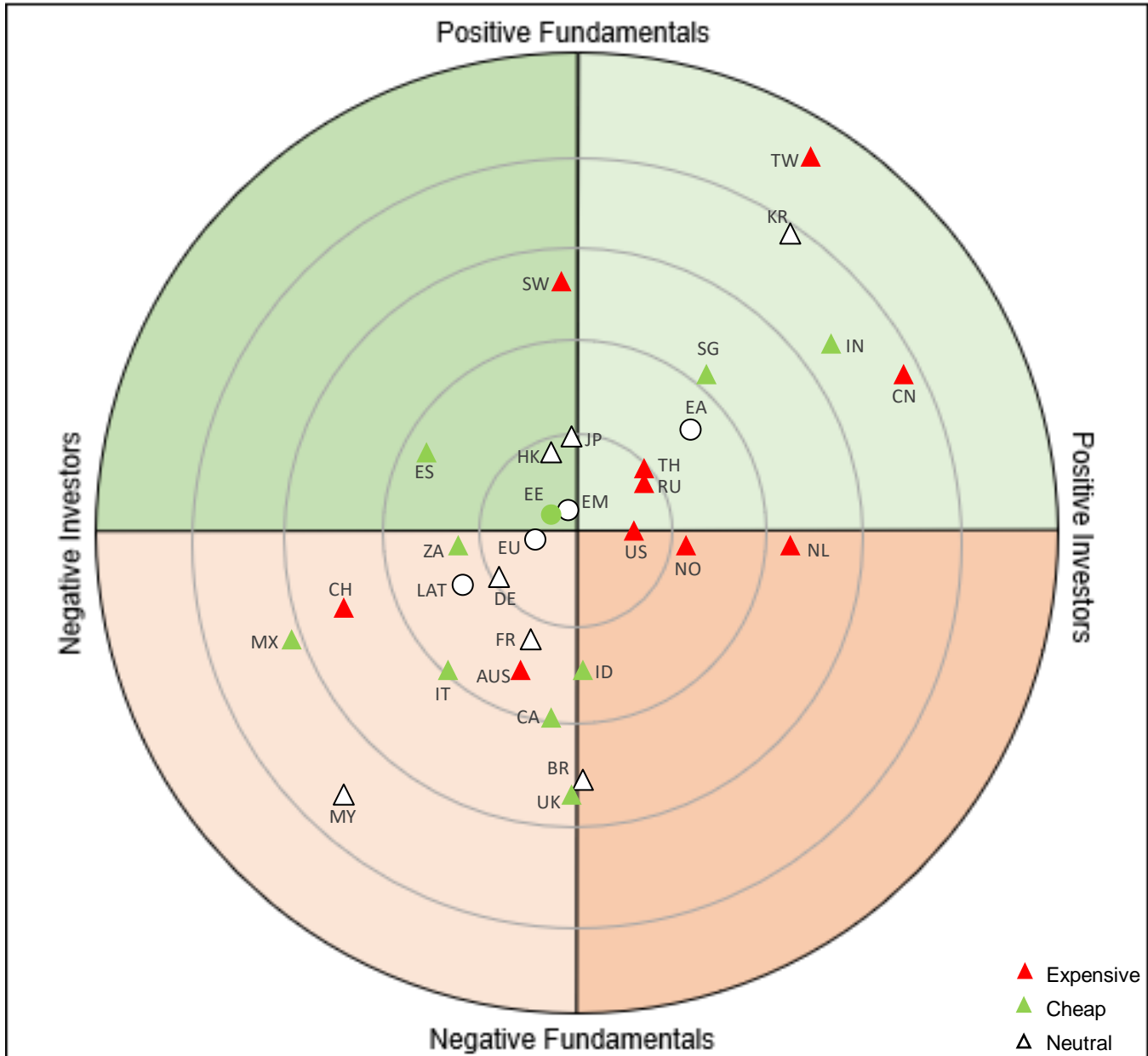


Source: Refinitiv, THR

# 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



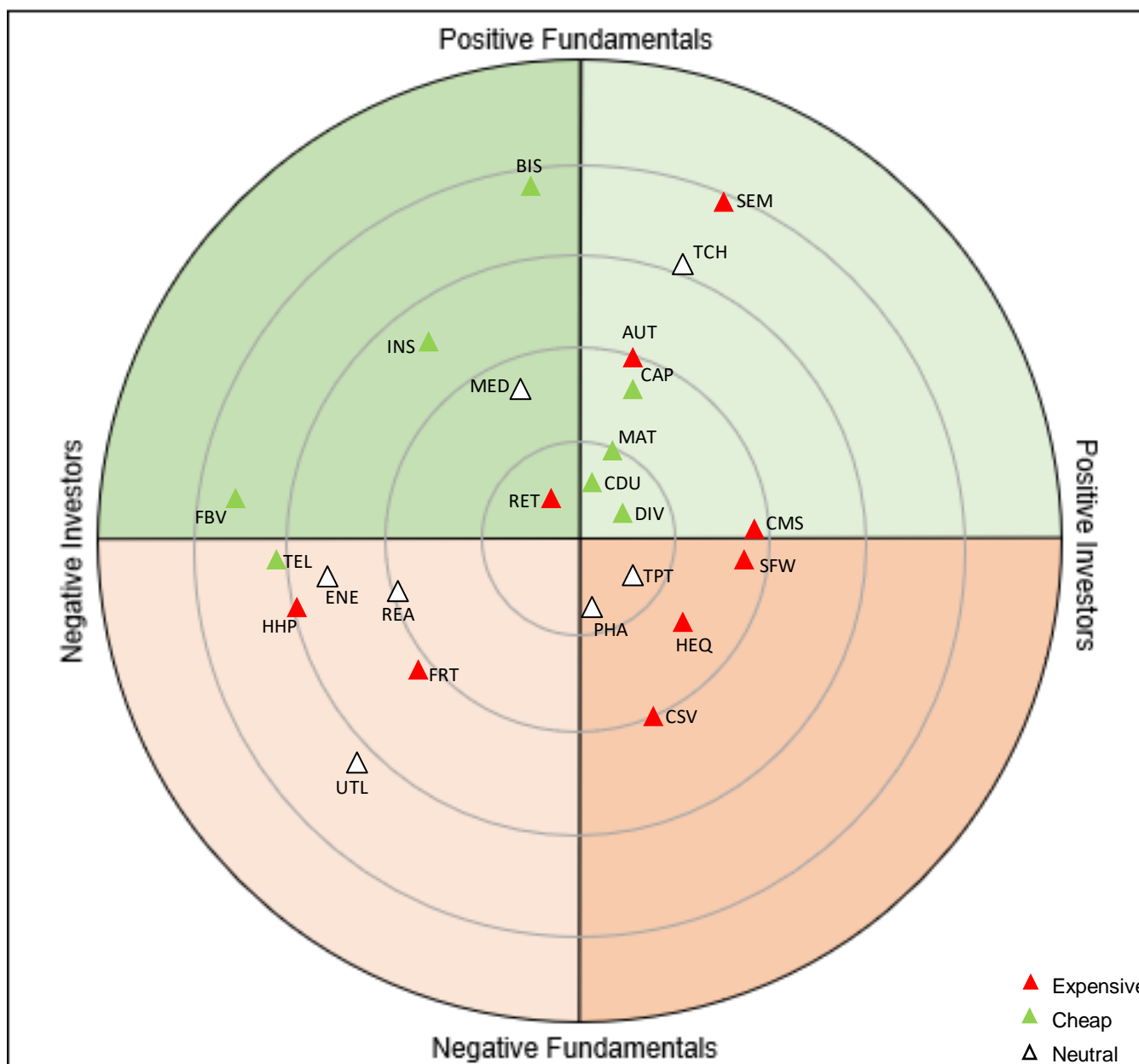
Source: Refinitiv, THR. SEE PAGE 13 FOR FULL METHODOLOGY

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, SW=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	Underweight	Energy	XLE/VDE	Neutral
Financials	XLF/VFH	Overweight	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

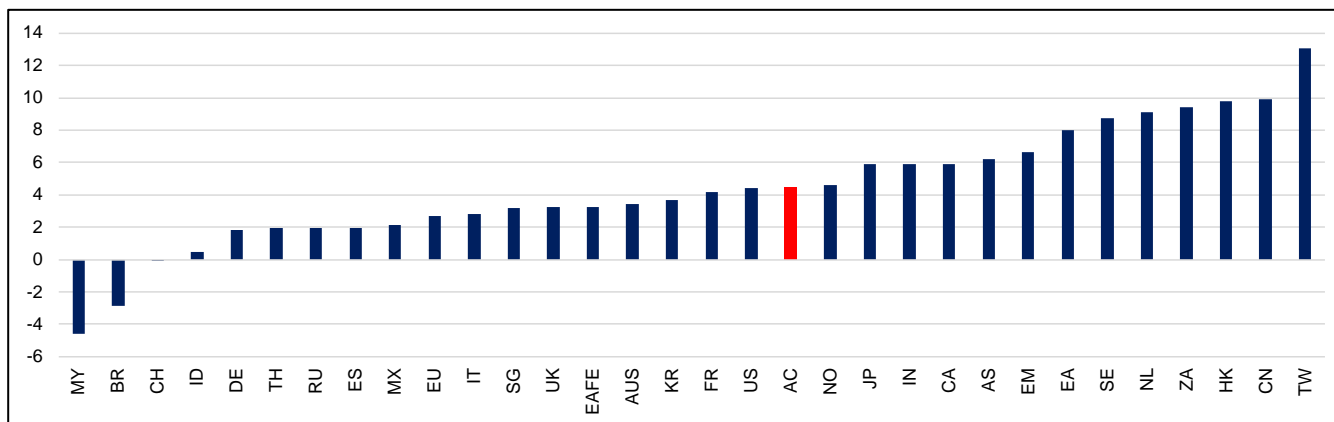
## 'EYE' ALLOCATION BREAKDOWN

Country/ Region	Rationale	P/E (x)		EPS Gr. (%)	
		2020e	2021e	2020e	2021e
	<b>United States (Overweight):</b> 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.	27.9	22.8	-9.7	22.5
	<b>Emerging Markets (Overweight):</b> 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.	21.9	16.2	-6.0	35.2
	<b>Eurozone (Neutral):</b> 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.	23.7	17.2	-30.1	37.7
	<b>Japan (Underweight):</b> 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.	23.9	17.5	-3.7	36.8
	<b>UK (Underweight):</b> 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.	20.9	14.1	-38.2	48.0
US Sector	Rationale	P/E (x)		EPS Gr. (%)	
		2020e	2021e	2020e	2021e
	<b>Information Technology (Overweight):</b> 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.	34.7	29.1	6.2	19.5
	<b>Healthcare (Neutral):</b> 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.	19.5	17.0	9.2	14.5
	<b>Financials (Neutral):</b> 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.	16.2	13.2	-18.5	23.3
	<b>Communications (Overweight):</b> 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..	27.6	24.4	-2.4	12.9
	<b>Consumer Discretionary (Neutral):</b> 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.	56.7	37.3	-24.0	51.9

Source: Refinitiv, THR

# REGION/COUNTRY PERFORMANCE & VALUATION

## Total Return YTD



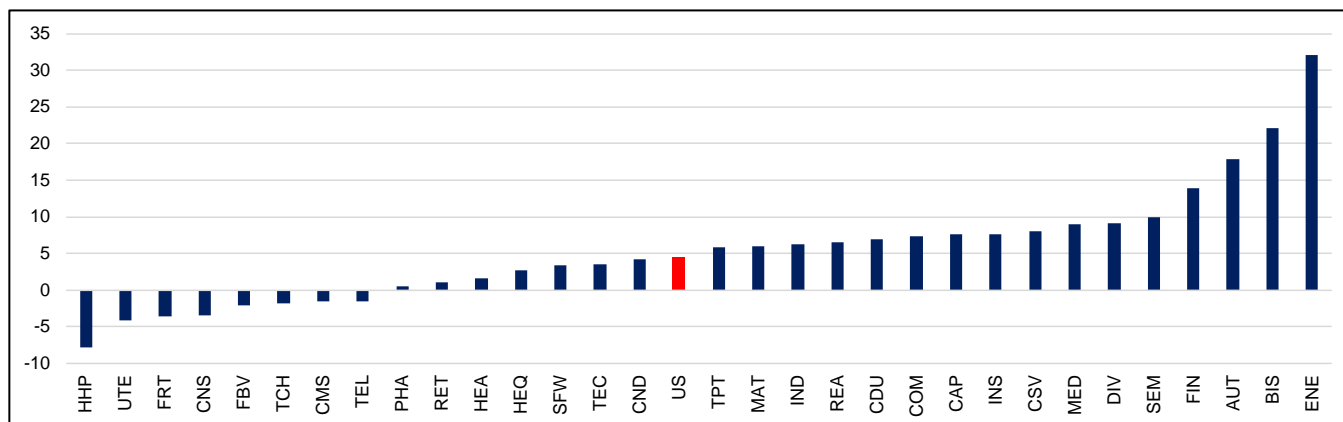
Index	Abbreviation	Price Performance				PE			EPS Growth	
		1D (%)	1W (%)	3M(%)	YTD (%)	2019A	2020E	2021E	2020E	2021E
<b>World</b>	<b>AC</b>	<b>0.2</b>	<b>-1.1</b>	<b>8.8</b>	<b>4.5</b>	<b>21.9</b>	<b>25.6</b>	<b>19.8</b>	<b>-14.6%</b>	<b>28.9%</b>
<b>EAFE</b>	<b>EAFE</b>	<b>-0.7</b>	<b>-0.7</b>	<b>7.7</b>	<b>3.3</b>	<b>18.0</b>	<b>24.0</b>	<b>17.5</b>	<b>-24.7%</b>	<b>37.0%</b>
<b>Europe</b>	<b>EU</b>	<b>0.1</b>	<b>0.1</b>	<b>7.3</b>	<b>2.7</b>	<b>16.6</b>	<b>23.7</b>	<b>17.2</b>	<b>-30.1%</b>	<b>37.7%</b>
<b>Asia</b>	<b>AS</b>	<b>-2.0</b>	<b>-3.8</b>	<b>10.9</b>	<b>6.2</b>	<b>22.5</b>	<b>22.8</b>	<b>17.6</b>	<b>-1.2%</b>	<b>30.0%</b>
<b>Emerging Global Markets</b>	<b>EM</b>	<b>-1.5</b>	<b>-4.7</b>	<b>12.3</b>	<b>6.6</b>	<b>20.6</b>	<b>21.9</b>	<b>16.2</b>	<b>-6.0%</b>	<b>35.2%</b>
<b>Emerging Asia</b>	<b>EA</b>	<b>-1.8</b>	<b>-5.4</b>	<b>13.2</b>	<b>8.0</b>	<b>23.3</b>	<b>22.1</b>	<b>17.7</b>	<b>5.3%</b>	<b>25.3%</b>
Australia	AUS	-1.0	-1.4	2.5	3.4	23.9	21.3	18.8	12.4%	13.0%
Brazil	BR	0.3	-4.0	5.1	-2.9	16.2	36.8	11.4	-56.0%	222.9%
Canada	CA	0.8	0.7	6.8	5.9	15.8	20.8	16.1	-24.1%	28.7%
China	CN	-2.7	-8.0	9.8	9.9	21.0	20.6	17.4	1.8%	18.4%
France	FR	0.3	0.3	3.9	4.2	16.3	29.4	17.9	-44.7%	64.0%
Germany	DE	0.6	-0.5	5.9	1.8	17.7	22.9	16.3	-22.8%	40.5%
Hong Kong	HK	-2.8	-0.9	12.6	9.8	17.3	23.5	17.9	-26.4%	31.6%
India	IN	1.2	-1.7	14.3	5.9	30.4	30.2	22.3	0.6%	35.9%
Indonesia	ID	-0.9	0.2	1.7	0.5	17.3	23.0	17.4	-24.9%	32.1%
Italy	IT	0.7	-0.4	3.5	2.8	11.5	21.0	13.6	-45.4%	55.1%
Japan	JP	-1.9	-3.0	8.9	5.9	23.0	23.9	17.5	-3.7%	36.8%
Korea	KR	-2.0	-4.1	16.3	3.7	27.8	22.2	15.1	25.6%	46.3%
Malaysia	MY	-0.6	-2.5	-2.7	-4.6	18.0	22.5	13.5	-19.9%	66.4%
Mexico	MX	-0.3	0.0	5.1	2.1	18.0	25.8	15.0	-30.3%	72.5%
Netherlands	NL	-0.2	-3.0	14.1	9.1	27.1	29.8	24.9	-9.2%	19.9%
Norway	NO	0.0	2.9	5.5	4.6	15.9	21.6	15.8	-26.1%	36.8%
Russia	RU	-1.0	-1.6	8.4	1.9	6.9	12.9	8.1	-46.4%	59.0%
Singapore	SG	1.1	0.0	1.5	3.2	13.2	21.3	14.6	-38.2%	46.6%
South Africa	ZA	-0.2	-2.8	12.0	9.4	17.5	17.2	11.2	1.8%	52.8%
Spain	ES	0.2	1.2	1.7	2.0	12.0	21.4	15.6	-44.1%	37.0%
Sweden	SE	1.0	0.9	7.0	8.7	19.0	24.2	19.3	-21.2%	25.3%
Switzerland	CH	1.0	-0.8	2.3	-0.1	20.9	22.5	19.5	-7.1%	15.1%
Taiwan	TW	-1.7	-2.6	21.1	13.1	27.2	22.2	19.4	22.7%	14.6%
Thailand	TH	-0.6	-1.4	3.2	1.9	16.5	26.7	20.1	-38.2%	32.7%
United Kingdom	UK	0.4	-0.7	3.3	3.3	12.9	20.9	14.1	-38.2%	48.0%
United States	US	1.0	-0.5	8.5	4.4	25.2	27.9	22.8	-9.7%	22.5%

Source: MSCI, Refinitiv, THR



# US SECTOR PERFORMANCE & VALUATION

## Total Return YTD

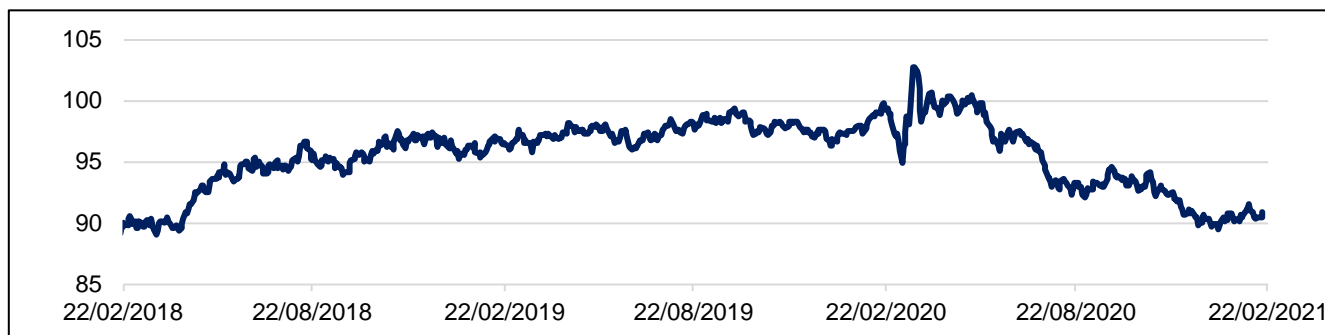


Index	Abbreviation	Price Performance				PE			EPS Growth	
		1D (%)	1W (%)	3M(%)	YTD (%)	2019A	2020E	2021E	2020E	2021E
<b>United States</b>	<b>US</b>	<b>1.0</b>	<b>-0.5</b>	<b>8.5</b>	<b>4.4</b>	<b>25.2</b>	<b>27.9</b>	<b>22.8</b>	<b>-9.7%</b>	<b>22.5%</b>
<b>Communications</b>	<b>COM</b>	<b>0.5</b>	<b>-0.6</b>	<b>10.3</b>	<b>7.4</b>	<b>26.9</b>	<b>27.6</b>	<b>24.4</b>	<b>-2.4%</b>	<b>12.9%</b>
Media & Entertainment	MED	0.5	-0.7	13.0	9.1	35.6	36.1	30.4	-1.5%	18.9%
Telecommunication Svcs	TEL	0.4	-0.5	-2.9	-1.5	11.2	11.7	11.4	-4.1%	2.0%
<b>Consumer Discretionary</b>	<b>CND</b>	<b>0.9</b>	<b>-1.9</b>	<b>7.0</b>	<b>4.3</b>	<b>43.1</b>	<b>56.7</b>	<b>37.3</b>	<b>-24.0%</b>	<b>51.9%</b>
Autos & Components	AUT	2.0	3.0	22.4	17.9	56.1	88.6	44.6	-36.7%	98.4%
Consumer Durables & App	CDU	1.0	-0.5	9.0	6.9	31.4	26.9	21.0	16.5%	28.4%
Consumer Svcs	CSV	2.3	5.3	11.2	8.0	24.3	NA	60.3	-114.6%	NA
Retailing	RET	-0.7	-3.2	4.1	1.1	49.7	46.7	37.0	6.5%	26.1%
<b>Consumer Staples</b>	<b>CNS</b>	<b>0.1</b>	<b>-1.3</b>	<b>-2.2</b>	<b>-3.4</b>	<b>22.4</b>	<b>21.5</b>	<b>20.3</b>	<b>4.0%</b>	<b>6.1%</b>
Food & Staples Retailing	FRT	-0.5	-5.3	-5.3	-3.6	25.2	24.6	24.3	2.3%	1.3%
Food, Bev & Tobacco	FBV	0.4	0.1	0.5	-2.1	19.2	18.8	17.7	2.3%	6.4%
Household Products	HHP	-0.3	-1.1	-7.4	-7.8	27.7	24.6	22.6	12.6%	9.0%
<b>Energy</b>	<b>ENE</b>	<b>3.8</b>	<b>8.0</b>	<b>26.1</b>	<b>32.1</b>	<b>14.8</b>	<b>NA</b>	<b>25.8</b>	<b>-108.6%</b>	<b>NA</b>
<b>Financials</b>	<b>FIN</b>	<b>2.1</b>	<b>4.3</b>	<b>17.3</b>	<b>13.9</b>	<b>13.2</b>	<b>16.2</b>	<b>13.2</b>	<b>-18.5%</b>	<b>23.3%</b>
Banks	BIS	2.5	6.5	26.5	22.0	10.3	15.2	11.8	-32.3%	28.9%
Diversified Financials	DIV	1.9	2.5	13.0	9.2	17.5	18.6	15.6	-5.7%	19.2%
Insurance	INS	1.4	3.6	8.3	7.6	12.8	14.0	11.5	-8.5%	21.2%
<b>Health Care</b>	<b>HEA</b>	<b>0.8</b>	<b>-1.6</b>	<b>6.5</b>	<b>1.6</b>	<b>21.3</b>	<b>19.5</b>	<b>17.0</b>	<b>9.2%</b>	<b>14.5%</b>
Health Care Equipment	HEQ	0.7	-1.9	8.0	2.7	35.7	36.2	27.5	-1.4%	31.4%
Pharmaceuticals	PHA	1.0	-1.8	6.0	0.5	16.8	15.8	14.1	6.4%	12.1%
<b>Industrials</b>	<b>IND</b>	<b>1.9</b>	<b>3.5</b>	<b>5.8</b>	<b>6.3</b>	<b>23.2</b>	<b>30.2</b>	<b>23.1</b>	<b>-23.3%</b>	<b>31.0%</b>
Capital Goods	CAP	2.2	4.2	7.2	7.6	20.1	28.8	22.2	-30.2%	29.6%
Commercial & Prof Svcs	CMS	-0.1	-0.7	0.6	-1.5	35.1	34.3	31.0	2.5%	10.6%
Transportation	TPT	1.8	3.3	3.8	5.9	32.4	33.1	22.7	-1.9%	45.7%
<b>Information Technology</b>	<b>TEC</b>	<b>1.6</b>	<b>-1.6</b>	<b>11.2</b>	<b>3.5</b>	<b>36.9</b>	<b>34.7</b>	<b>29.1</b>	<b>6.2%</b>	<b>19.5%</b>
Semiconductors	SEM	2.9	-0.4	16.6	9.9	27.1	25.5	21.8	6.3%	17.0%
Software & Svcs	SFW	1.6	-1.4	8.3	3.4	43.8	40.7	34.5	7.5%	17.9%
Technology Hardware	TCH	0.2	-3.0	10.7	-1.9	35.3	33.8	27.3	4.4%	23.6%
<b>Materials</b>	<b>MAT</b>	<b>1.1</b>	<b>2.8</b>	<b>7.3</b>	<b>6.0</b>	<b>23.7</b>	<b>25.8</b>	<b>19.9</b>	<b>-8.2%</b>	<b>29.3%</b>
<b>Real Estate</b>	<b>REA</b>	<b>0.8</b>	<b>2.2</b>	<b>6.6</b>	<b>6.5</b>	<b>35.7</b>	<b>50.7</b>	<b>49.3</b>	<b>-29.7%</b>	<b>2.9%</b>
<b>Utilities</b>	<b>UTE</b>	<b>-1.1</b>	<b>-3.0</b>	<b>-6.1</b>	<b>-4.2</b>	<b>17.7</b>	<b>18.5</b>	<b>18.0</b>	<b>-4.4%</b>	<b>2.8%</b>

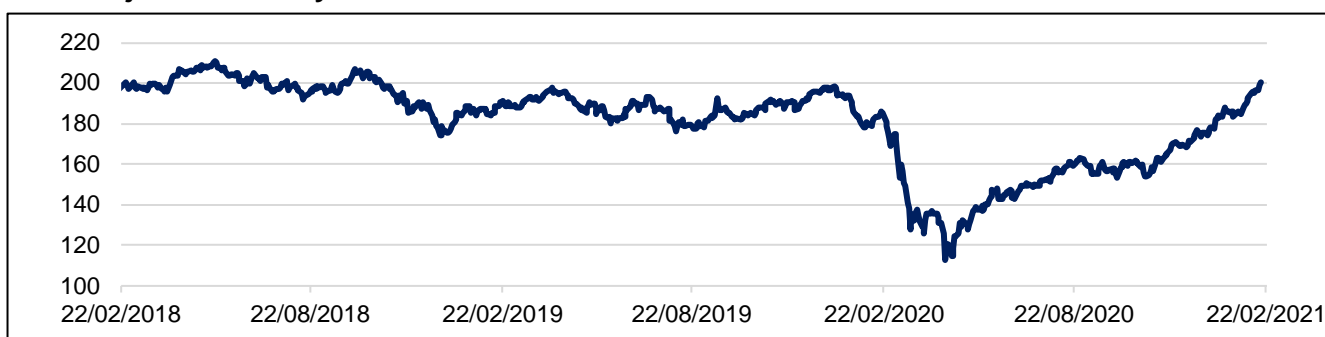
Source: MSCI, Refinitiv, THR

# GLOBAL FX, BONDS AND COMMODITIES

## DXY USD Index - 3 years



## CRB Major Commodity Index\* - 3 Years

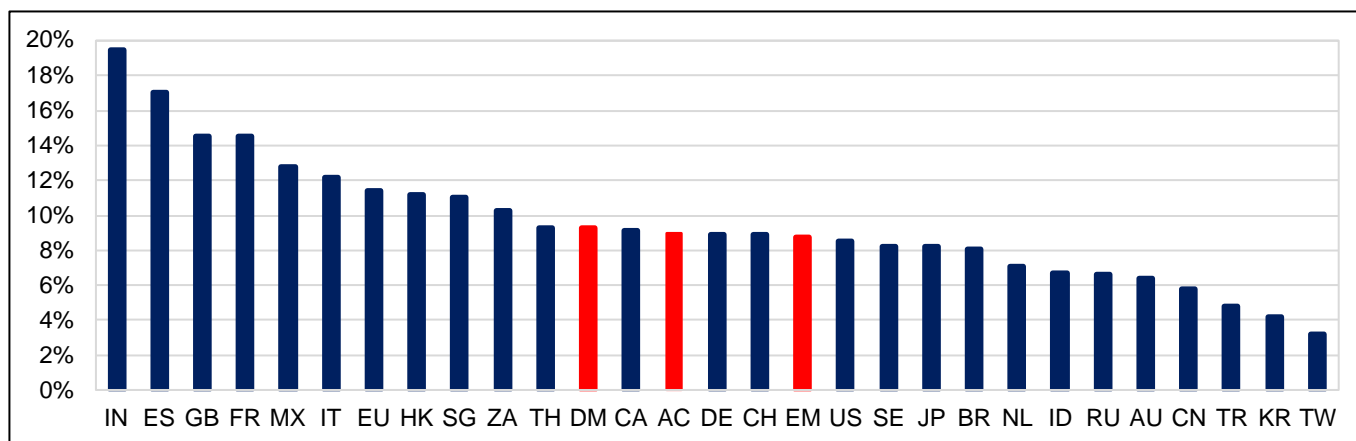


Name	Currency	Close Price	1 Day	1 Week	1 Month	3 Months	1 Year	MTD	QTD	YTD
<b>Commodities</b>		-								
CRB Commodity Index	USD	3564.16	1.3%	4.2%	8.3%	19.4%	28.6%	14.5%	16.6%	16.6%
Gold Spot	USD	1805.06	-0.1%	1.5%	-2.7%	-0.2%	8.6%	-2.3%	-4.9%	-4.9%
Copper Spot	USD	4.19	2.7%	12.1%	18.3%	30.3%	65.9%	20.4%	22.4%	22.4%
Brent Crude Spot	USD	65.83	2.5%	3.3%	22.2%	46.5%	18.3%	21.7%	32.6%	32.6%
CRB Agricultural Index	USD	7094.31	1.0%	2.4%	6.2%	17.8%	36.3%	11.5%	15.2%	15.2%
<b>Currencies</b>		-								
DXY USD Index	USD	90.17	0.0%	-0.9%	-0.1%	-2.2%	-9.2%	-0.5%	0.3%	0.3%
EUR/USD	USD	1.21	0.2%	1.1%	0.0%	2.4%	12.1%	0.3%	-0.4%	-0.4%
USD/JPY	JPY	105.24	0.6%	0.0%	2.0%	1.4%	-4.4%	1.1%	2.5%	2.5%
GBP/USD	USD	1.41	0.2%	2.1%	3.3%	5.9%	9.4%	3.2%	3.4%	3.4%
USD/CNY	CNY	6.46	-0.1%	0.0%	-0.4%	-2.0%	-8.2%	0.5%	-1.1%	-1.1%
<b>Bond Yields</b>		-								
DE 10Y BUND	EUR	-0.30	-4.7%	-16.3%	-40.7%	-46.2%	-36.7%	-41.5%	-47.1%	-47.1%
GB 10Y GILT	GBP	0.73	1.9%	27.9%	137.2%	120.8%	35.7%	124.2%	274.0%	274.0%
JP 10Y JGB	JPY	0.12	3.4%	20.0%	192.7%	471.4%	-287.5%	135.3%	471.4%	471.4%
US 10Y BILL	USD	1.36	0.6%	5.6%	25.8%	55.6%	-0.3%	25.4%	50.5%	50.5%
US 30Y BOND	USD	2.20	1.1%	7.5%	19.8%	38.7%	21.1%	19.7%	35.4%	35.4%
US 10-2 BOND	-	1.24	-3.5%	-8.8%	24.2%	78.1%	89.6%	16.9%	45.5%	45.5%
<b>Volatility</b>		-								
CBOE VIX Index	USD	23.11	-0.07	0.00	-0.02	-0.01	-0.14	-0.35	-0.06	-0.06

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
<b>Americas</b>												
US	21.4	2.2	-3.4	5.1	1.8	1.5	2.8	-6.3	-18.7	-8.7	109	131
Canada	1.7	1.7	-5.5	3.6	1.9	0.6	1.3	-0.3	-19.9	-8.7	89	115
Brazil	1.9	1.1	-4.5	3.6	3.7	2.7	2.9	-6.0	-16.8	-6.5	90	101
Mexico	1.3	-0.3	-8.5	4.3	3.6	3.4	3.3	-2.3	-5.8	-3.4	54	66
<b>Europe</b>												
Eurozone	18.3	1.7	-7.2	4.2	1.4	0.8	1.2	-0.6	-9.7	-4.8	79	95
Germany	3.9	0.6	-5.4	3.5	1.3	0.5	1.1	1.5	-8.2	-3.2	60	73
UK	2.7	1.5	-10.0	4.5	1.8	0.8	1.2	-2.2	-16.5	-9.2	85	108
France	2.7	1.5	-9.0	5.5	1.3	0.5	0.6	-3.0	-10.8	-6.5	98	119
Italy	2.0	0.3	-9.2	3.0	0.6	0.1	0.6	-1.6	-13.0	-6.2	135	162
Spain	1.4	2.0	-11.1	5.9	0.7	-0.2	0.8	-2.8	-14.1	-7.5	96	123
Netherlands	0.9	1.7	-4.1	3.0	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	-3.6	3.0	4.5	3.2	3.2	1.9	-5.3	-2.6	14	19
Turkey	0.7	0.9	1.2	6.0	15.2	11.9	11.9	-5.6	-7.9	-7.9	33	42
<b>Asia</b>												
China	14.1	6.1	2.3	8.1	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	-5.1	3.1	0.5	-0.1	0.3	-3.3	-14.2	-6.4	238	266
India	2.9	4.2	-8.0	11.5	4.8	4.9	3.7	-8.2	-13.1	-10.9	72	89
Korea	1.6	2.0	-1.1	3.1	0.4	0.5	0.9	0.4	-3.2	-2.3	42	48
Australia	1.4	1.8	-2.9	3.5	1.6	0.7	1.3	-3.9	-10.1	-10.5	46	60
Indonesia	1.1	5.0	-1.9	4.8	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	-6.6	2.7	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
<b>Other</b>												
South Africa	0.4	0.2	-7.5	2.8	4.1	3.3	3.9	-6.3	-14.0	-11.1	62	79
<b>World</b>												
Developed Markets	51.7	1.7	-4.9	4.3	1.4	0.8	1.6	-3.3	-14.2	-6.8	104	124
Emerging Markets	34.9	3.7	-2.4	6.3	5.1	5.0	4.7	-4.8	-10.4	-8.8	52	61
World	86.6	2.8	-3.5	5.5	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
<b>Production</b>												
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
<b>Labour Markets and Income</b>												
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
<b>Prices</b>												
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
<b>Government</b>												
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
<b>Production</b>												
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
<b>Labour Markets and Income</b>												
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
<b>Prices</b>												
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
<b>Government</b>												
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
<b>Production</b>												
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
<b>Prices</b>												
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
<b>Government</b>												
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 2<sup>nd</sup> 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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