

EYE ON THE WORLD

Financials value trap

Wednesday, May 13

Markets weak on reopening and second-wave infection fears, after recent rally. **HOT TOPICS** looks at **Financials value trap**. Whilst under-performed, optically cheap, and in better shape than in GFC, sector still screens poorly on our allocation framework, with EPS expectations still vulnerable, dividend and Fed futures headwind, and profitability structurally low. EU banks is a contrarian exception.

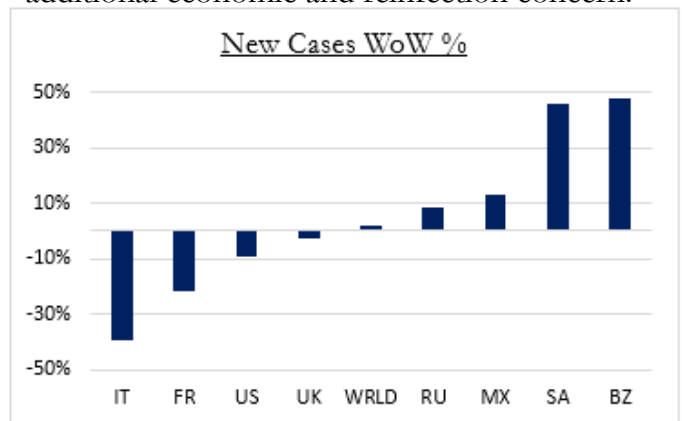
S&P500 fell 2.1% as second-wave infection and economic impact fears continued to grow. VIX rose 20% and US 10-yr bond yields fell to 0.7%. Asia and Europe markets fell. US futures mixed.

Coronavirus fears. Dr Anthony Fauci, director of US National Institute of Allergy and Infectious Diseases, warned of dangers of reopening too soon, whilst Los Angeles county said likely to extend stay-at-home order 3-mths. Meanwhile International Monetary Fund (IMF) head said 'very likely' to cut global GDP growth forecasts further from -3% 2020 and +5.8% 2021 set out in March.

Key Markets Performance Table

Index	Level	1D	1W	YTD
S&P500	2930.3	-2.1%	0.1%	-11.2%
ACWI xUS	40.2	-1.2%	1.2%	-19.1%
DXY USD	99.9	-0.3%	0.2%	3.7%
US 10Y YLD	0.69	-6.5%	3.3%	-64.5%
Brent Spot	25.1	7.2%	20.3%	-63.6%
Gold Spot	1702.1	0.4%	-0.2%	12.2%

Whilst new COVID cases in many countries are falling (Europe) or flat (USA, UK), and overall World cases are flat, they are rising sharply in much of EM (see chart below), causing additional economic and reinfection concern.



Source: WHO, THR

HIGHLIGHTS FROM REST OF DOC

- **Hot Topics** on [Financials value trap](#). Sector screens poorly on our allocation framework, with EPS vulnerable, dividend and Fed futures headwind, profitability structurally low. EU exception.
- **What to watch:** Fed chair Powell 9am ET speech on rates and fiscal. US April producer prices.
- **Country and Sector 'Eye':** We favor US and select EM's, and US Consumer and IT sectors
- **Data pages:** Performance, valuation, earnings, macro forecasts. See [Library](#) for prior dailies

*Sources if not stated are Refinitiv, THR

US & Sector Performance

Index	Level	1D	1W	YTD
S&P500	2930.3	-2.1%	0.1%	-11.2%
NASDAQ	9112.4	-2.1%	2.2%	0.3%
Russell 2000	1275.5	-3.5%	0.2%	-23.6%
US IT	353.8	-2.1%	2.6%	3.0%
US Healthcare	356.7	-1.6%	0.3%	-1.0%
US Financials	142.6	-3.4%	-3.3%	-31.2%

Treatments progress. WHO sees 'potentially positive data' in upto five COVID treatments. US Food and Drug Administration (FDA) gave fast-track review to Moderna (MRNA) vaccine candidate. Pfizer (PFE) testing four vaccine variations and started US trials of one last week.

China bashing. Republican Senator Graham introduced bill authorizing President to impose sanctions on China if does not cooperate with COVID outbreak investigation. Also reports administration pressuring federal Thrift Savings Plan pension fund to halt inclusion of Chinese stocks in US\$40bn international fund. At same time, China announced new list of 79 US products eligible for waivers from retaliatory tariffs. Phase 1 deal calls for China to increase US purchases by US\$200n over two years.

Fed speech watch. Fed chair Powell to speak today. Market will be watching for potential comments against a negative Fed funds rate, as futures markets begin to price that possibility, and call for further fiscal efforts to support the economy, a day after US House Democrats

FX, Fixed Income, Commodities

Index	Level	1D	1W	YTD
DXY USD Index	99.9	-0.3%	0.2%	3.7%
EUR/USD	1.08	0.4%	0.1%	-3.2%
US 10Y YLD	0.69	-6.5%	3.3%	-64.5%
US 10-2 BOND	0.52	-2.1%	10.3%	24.5%
CBOE VIX Index	27.6	19.8%	-2%	140%
CRB Index	2275.9	-1.5%	-0.6%	-26.2%

Events to Watch

Indicator	Period	Forecast	Last
GDP YY, UK	Q1	-2.58	1.10
Industrial Output YY, UK	Mar	-8.94	-2.80
PPI YY, US	Apr	-0.32	0.70
M2 Supply YY, China	Apr	10.15	10.10

unveiled a US\$3trn 'Phase 4' fiscal stimulus plan that has been rejected by Senate Republicans.

Sector View

Real estate (-4.2%) and industrials (-2.8%) lagged the US market yesterday, while defensives staples (-0.9%) and utilities (-0.9%) outperformed. Large caps outperformed small caps by 1.4%.

PNC Financial said to sell 22% stake in world's largest asset manager Blackrock, to potentially fund acquisitions. News reports Uber has approached online deliver company Grubhub with a takeover approach. Whilst Moeller-Maersk, world's largest container carrier, warned **global volumes could be down 25% in Q2.**

What to Watch

US consumer prices (CPI) dropped 0.8% in April, raising the spectre of deflation as lower oil prices and consumer shutdown weighed on prices. Core CPI, excluding food and energy, fell 0.4%. Though the report also **evidenced some activity recovery** in the most impacted segments, such as air traffic and hotel occupancy.

April US producer prices (PPI) are due today, with forecasts for a 0.3% yoy decline (+0.7% last month, and lowest since September 2016), with core PPI rising 0.8% (+1.5% last month).

Elsewhere, Eurozone March industrial production -12.9% yoy, in line with expectations.

HOT TOPICS

FINANCIALS VALUE TRAP

Financials continue to underperform, optically cheap, with large capital buffers, unlimited liquidity support, and would benefit from GDP recovery. Remain in unattractive quadrants of our allocation framework. NIM's and provisions are under pressure, with dividend and fed futures headwinds, and profitability structurally low. EU banks is our contrarian exception. Cyclical recovery plays are small cap, real estate, and we upped energy to neutral.

US Financials still poorly positioned

We have updated our country and sector allocation framework. See [Page 5](#) and [Page 6](#) for results, and for the methodology, [Page 13](#).

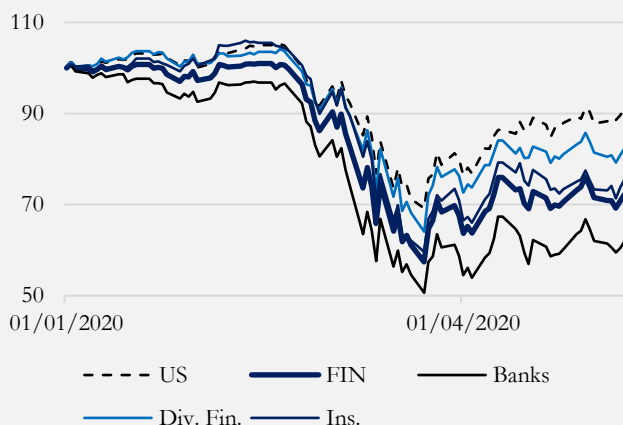
US Financials sector is now only the c5th largest US sector (10% wt in MSCI USA), after, lagging the index over 20pp YTD, and with the Banks sub-index underperforming by 30pp. Only select broker-dealers and exchanges have been more resilient, benefitting from increased volumes. The sector remains unattractively positioned on our allocation methodology. The largest diversified financials (Berkshire, S&P, CME etc) and banks (JP Morgan, BofA, Wells, Citi) are still relatively in favor with investors but seeing poor relative fundamentals. Insurance (Progressive, Allstate) is least-worst positioned, and most out-of-favor – a positive.

This contrasts with the worst-performer Energy, which we recently upgraded (see *Less bearish Energy*) to neutral, on the better oil outlook, earnings adjusted, and with sector in our top-right 'momentum' quadrant.

Better supported this time....

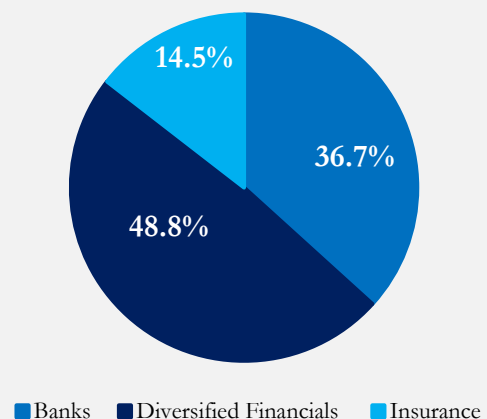
Large US banks came into the crisis with 12% tier 1 capital/RWA vs a 7% 'well-capitalised' regulatory minimum, equivalent to US\$450bn of capital buffer. They are seeing significant direct liquidity support (Fed window etc). The household and corporate sectors are seeing unprecedented help (unlimited QE and c14%/GDP fiscal stimulus), and the recession is likely short, and GDP to recover next year (+3.8% vs 2020 -4.1%). This relative health has supported a sharp recent increase in lending, mainly through standing credit lines.

Financials Price Performance YTD



Source: Refinitiv, THR

US Financials Sector Breakdown



Source: Refinitiv, THR

...but double-hit on margins and losses

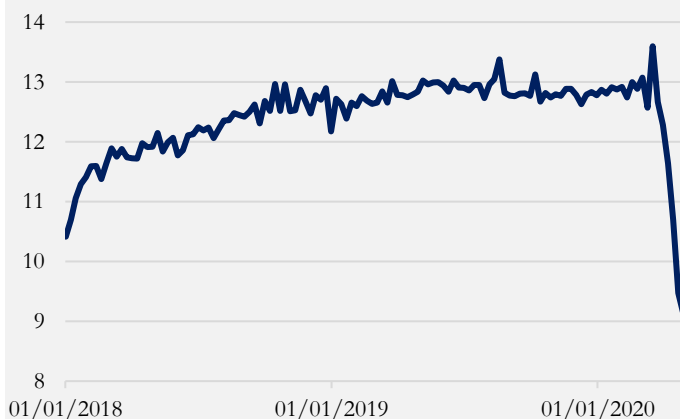
The sector is facing a double hit of thinner net interest margins, and higher loan losses. 2020 earnings expectations have been slashed 40pp, from Jan. 1 +5% to current -36%, the 4th biggest decline of all sectors, and may have further to go after a disappointing Q1, with interest rate expectations still easing, and GDP growth recovery falling. Financials was the major disappointment in Q1, missing estimates by near 17pp as Banks aggressively built loan-loss provisions. JP Morgan, for example, added US\$8.3bn of provisions vs US\$1.5bn yoy.

Value evident, but we think is a trap

Financials is cheapest US sector, on 16x fwd P/E, a 30% discount to market, but 10% above own 5-yr average. The 1.1x P/BV compares to US average 3.1x and is below 1.3x 5-yr sector average. However, trailing RoE is only 8.5%, vs 7-8% cost of capital. Sector has above average 3% dividend yield, and unlike European peers, regulators have not forced to cut payouts to preserve capital yet - stress test results due June.

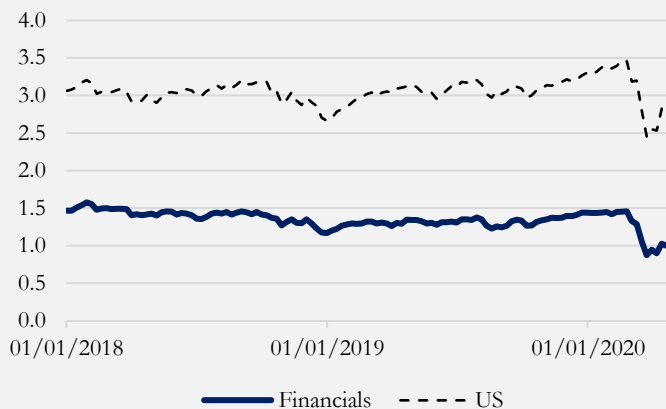
We see this as a value trap though, with longer term profitability constrained by low potential GDP growth, and lower-for-longer bond yields. Whilst short term pressures come from dividend doubts, potential delay of economic recovery, rising negative Fed policy rate fear.

12M Forward EPS: Financials Sector



Source: Refinitiv, THR

12M Forward P/BV



Source: Refinitiv, THR

Sentiment not that bad

Sector is not as out-of-favor as perceived, with sell-side ratings only modestly below average, and financial fund flows equal to 12% of AUM last 3 months, only the 3rd worst of US sectors.

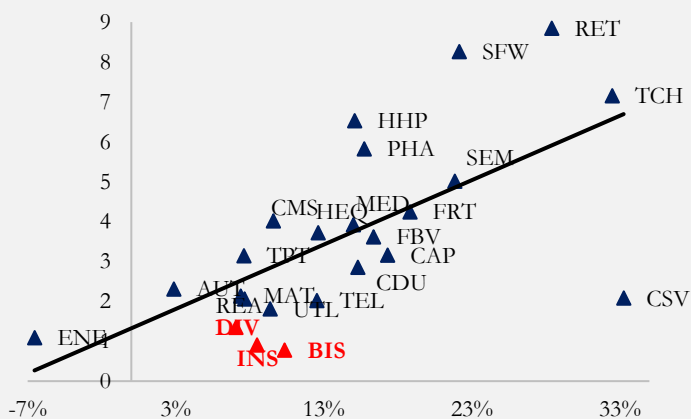
Better ways to play growth recovery

Sector has high correlation with GDP growth, and negative (though easing) correlation with bond yields. We see more attractive recovery risk/reward in small cap and real estate though.

European Banks the contrarian exception

We are contrarian positive EU banks, amidst sector caution. See *European Opportunity*. Europe is ahead of the US in a sustainable economic re-opening, it's banks at a 25% P/E discount to US peers, and more out-of-favor. Dividend ban has happened, and given extra capital flexibility.

ROE vs P/BV: US Sectors

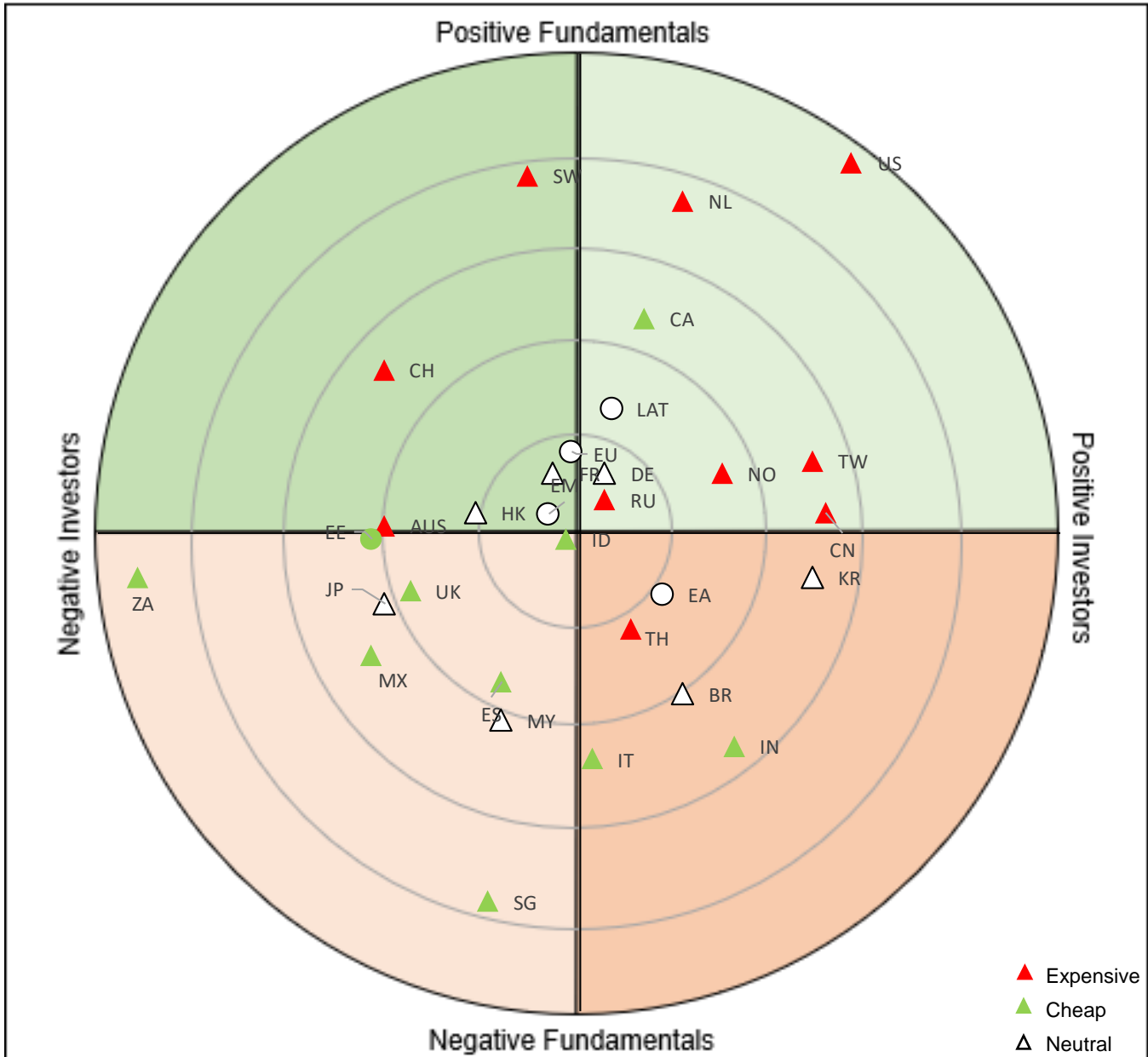


Source: Refinitiv, THR

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



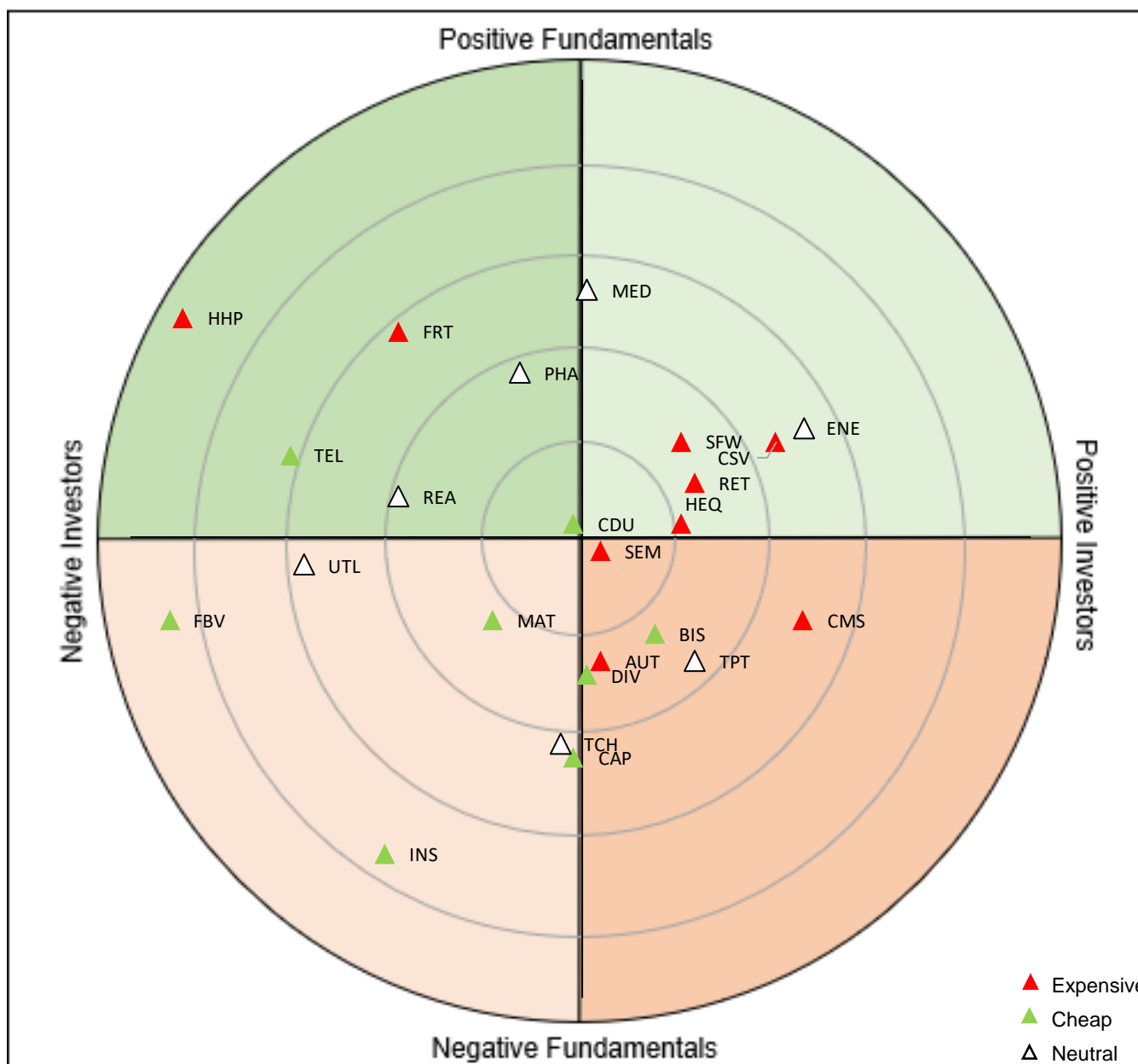
Source: Refinitiv, THR. SEE PAGE 12 FOR FULL METHODOLOGY

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

US SECTOR 'EYE' & ALLOCATION

US Sector Allocation Views






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








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

AUT=Auto & Auto parts, BIS=Banking & Investment, CAP=Capital Goods, CMS=Commercial & Prof Svcs, CDU=Consumer Durables & Apparel, CSV=Consumer Svcs, DIV=Diversified Financials, ENE=Energy, FRT=Food Staples & Retail, FBV=Food, Bev. & Tobacco, HEQ=Healthcare 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

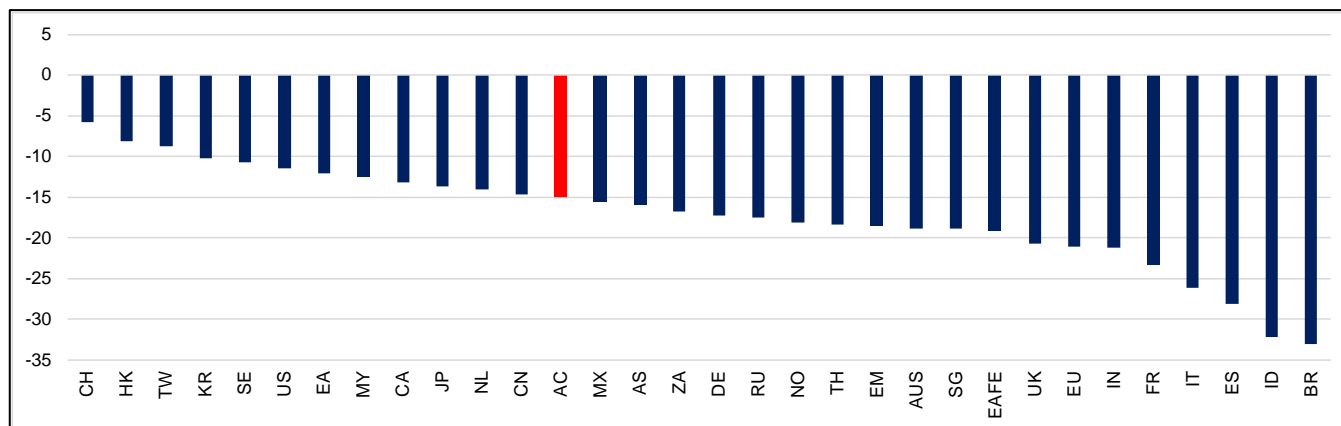
Country/ Region	Rationale	P/E (x)		EPS Gr. (%)	
		2020e	2021e	2020e	2021e
	United States (Overweight): Remains a global equity 'safer haven' despite currently centre of COVID outbreak. Has relatively closed economy and stock market, trend GDP growth into crisis, and seen unprecedented policy response, with unlimited QE and initial 14%/GDP fiscal stimulus. Valuations fundamentally supported by tech, tax, and UST. Earnings 'recession' was easing pre COVID-19. Is in the 'momentum' Eye quadrant, with some of world's strongest relative fundamentals, but also some of the most optimistic investors.	23.0	18.3	-18.5	26.0
	Emerging Markets (Neutral): Economic growth recovery vulnerable even before COVID outbreak. USD strength and plunging oil prices are additional broad headwinds for many. Much of the valuation discount structural. However, lower oil welcomed by many, and have some growth support, with +2% EM EPS growth. Favor China, EM's largest market, on combination of policy flexibility, FIFO on COVID cases, <10x P/E. Underweight rest of EM.	13.2	10.9	1.6	21.6
	Eurozone (Neutral): To lead global GDP decline, whilst most of valuation discount vs US is just sector composition. Recession has triggered a broader fiscal policy response, whilst ECB help extended, and weak EUR is important support for Europe's globalised corporates. As COVID cases peak and countries look to restart economies is set to be the key beneficiary of cyclical economic and market upturn. Focus domestic cyclicals (Financials)	17.1	13.5	-21.9	26.6
	Japan (Underweight): Has been moving out of the value-trap 'Eye' quadrant, but has significant fundamental headwinds on growth, trade, policy flexibility, and longer-term structural issues (demographics, debt). Valuation is attractive vs history, but EPS outlook poorest globally. Domestic stocks significantly underperformed global-exposed peers.	15.1	14.1	-18.3	7.1
	UK (Underweight): One of the poorest positioned of all major countries/regions on the 'Eye'. Relatively in-favour with investors, but with relatively weak fundamentals. Market more expensive than generally perceived (on P/E), and has above average cyclical equity exposure, making it vulnerable to a broader economic downturn (or lower oil prices). Weak GBP has been a key support to large caps, with c60% index revenues ex UK.	15.3	12.0	-28.8	27.3

US Sector	Rationale	P/E (x)		EPS Gr. (%)	
		2020e	2021e	2020e	2021e
	Information Technology (Overweight): Software and Semiconductors 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.	22.5	19.3	1.9	16.7
	Healthcare (Overweight): Both Healthcare Equipment and Pharma are in the top-right 'momentum' quadrant, well liked by the market (with multiple rerating and sell-side conviction), but with good fundamental momentum as quality growth attractive at this stage, with defensive cash flows, less EPS cyclical and a domestic revenue focus. US election risks easing as Biden rises in primary polls and seeing Federal support to combat COVID.	16.9	14.8	2.2	14.3
	Financials (Underweight): All three sector components (Banks, Diversified, Insurance) in the negative bottom quadrants of the 'Eye'. Modestly out of favour with market, with strong fund outflows and valuation derating, whilst fundamentals remain under pressure from ever lower US bond yields, flat yield curve, and GDP growth collapse, despite stronger capital buffers. Insurance offers the best value, though none of the sector is optically expensive.	13.5	10.5	-28.8	28.9
	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..	19.7	16.8	-3.6	17.7
	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.	31.0	21.9	-22.6	41.6

Source: Refinitiv, THR

REGION/COUNTRY PERFORMANCE & VALUATION

Total Return YTD

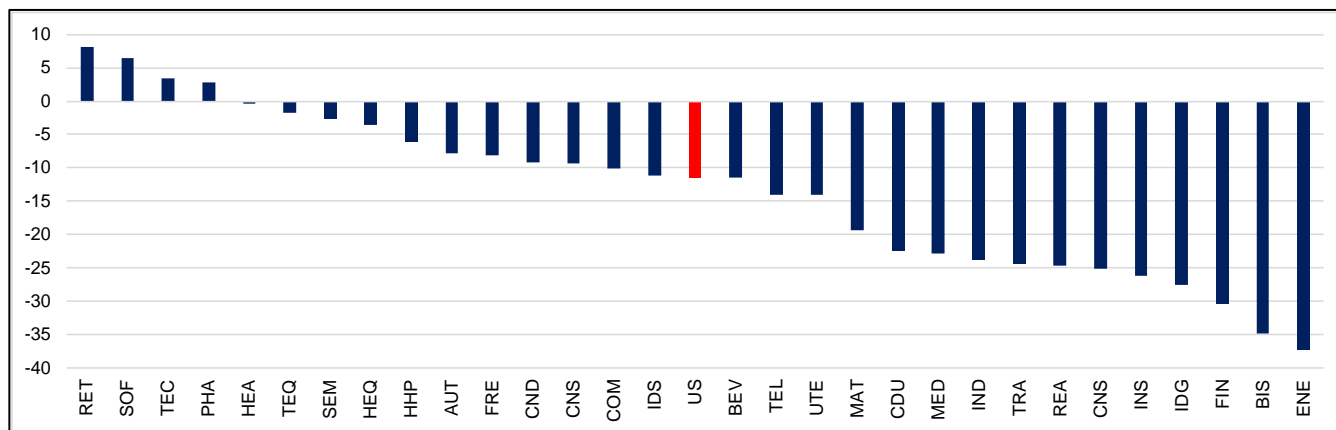


Index	Abbreviation	Price Performance				PE			EPS Growth	
		1D (%)	1W (%)	3M (%)	YTD (%)	2019A	2020E	2021E	2020E	2021E
World	AC	-1.3	0.4	-16.9	-15.0	15.9	19.0	15.1	-16.2%	25.5%
EAFE	EAFE	0.3	1.9	-18.9	-19.1	13.7	16.2	13.1	-15.9%	23.8%
Europe	EU	0.7	1.7	-21.0	-21.1	13.1	17.3	13.4	-24.2%	28.8%
Asia	AS	-0.6	2.1	-15.2	-15.8	14.6	14.0	11.7	4.4%	20.1%
Emerging Global Markets	EM	-0.7	1.4	-17.8	-18.4	13.3	13.3	10.8	-0.2%	22.8%
Emerging Asia	EA	-1.0	1.3	-12.5	-12.1	14.5	13.8	11.4	5.0%	21.9%
Australia	AUS	-1.1	0.3	-23.4	-18.8	13.7	16.4	16.9	-16.0%	-3.1%
Brazil	BR	-1.8	-2.5	-32.9	-33.0	10.7	14.3	10.2	-25.1%	41.1%
Canada	CA	-1.5	0.3	-16.5	-13.2	13.1	18.0	13.8	-27.0%	30.7%
China	CN	-1.5	-0.3	-11.2	-14.7	13.2	12.9	10.9	2.7%	18.1%
France	FR	-0.3	0.3	-24.8	-23.3	12.8	17.7	13.1	-27.7%	34.6%
Germany	DE	0.0	1.5	-19.3	-17.3	13.5	17.3	12.1	-22.1%	42.9%
Hong Kong	HK	-1.0	1.9	-7.9	-8.1	13.9	15.9	12.9	-12.8%	23.4%
India	IN	-0.5	1.4	-23.0	-21.2	19.2	17.8	14.1	7.8%	26.1%
Indonesia	ID	-1.8	-2.5	-28.2	-32.1	12.2	12.8	11.2	-4.0%	13.4%
Italy	IT	0.7	0.7	-29.2	-26.1	9.1	13.6	10.6	-33.3%	28.1%
Japan	JP	-0.3	3.1	-13.6	-13.6	15.1	14.0	11.9	7.9%	17.5%
Korea	KR	-0.7	0.4	-12.9	-10.1	15.4	12.6	8.9	22.6%	40.5%
Malaysia	MY	-0.2	1.8	-9.9	-12.4	15.6	17.0	14.9	-8.4%	14.3%
Mexico	MX	-0.2	2.5	-18.1	-15.6	13.9	14.4	11.7	-3.7%	23.8%
Netherlands	NL	0.3	2.1	-17.6	-14.0	17.4	19.4	16.2	-10.1%	19.6%
Norway	NO	0.7	1.5	-17.4	-18.2	12.2	19.5	13.0	-37.6%	50.6%
Russia	RU	0.2	-0.6	-17.0	-17.5	5.3	7.5	6.0	-29.8%	25.2%
Singapore	SG	-0.3	0.2	-19.2	-18.9	11.0	12.9	11.4	-15.0%	13.3%
South Africa	ZA	0.0	1.1	-14.9	-16.7	13.0	11.4	9.4	14.3%	21.2%
Spain	ES	1.1	-0.2	-30.5	-28.1	9.8	13.2	10.9	-25.9%	21.0%
Sweden	SE	0.7	2.6	-16.0	-10.7	13.6	19.3	14.7	-29.5%	31.7%
Switzerland	CH	0.4	2.5	-9.7	-5.8	17.7	19.1	16.6	-7.3%	15.2%
Taiwan	TW	-1.2	1.6	-7.2	-8.7	16.8	16.1	14.0	4.1%	14.6%
Thailand	TH	0.9	1.6	-15.9	-18.3	14.8	17.7	14.6	-16.4%	21.1%
United Kingdom	UK	0.7	2.2	-20.1	-20.7	10.7	15.5	12.0	-30.9%	29.4%
United States	US	-2.2	0.3	-14.9	-11.4	18.2	22.8	17.9	-20.1%	27.2%

Source: MSCI, Refinitiv, THR

US SECTOR PERFORMANCE & VALUATION

Total Return YTD

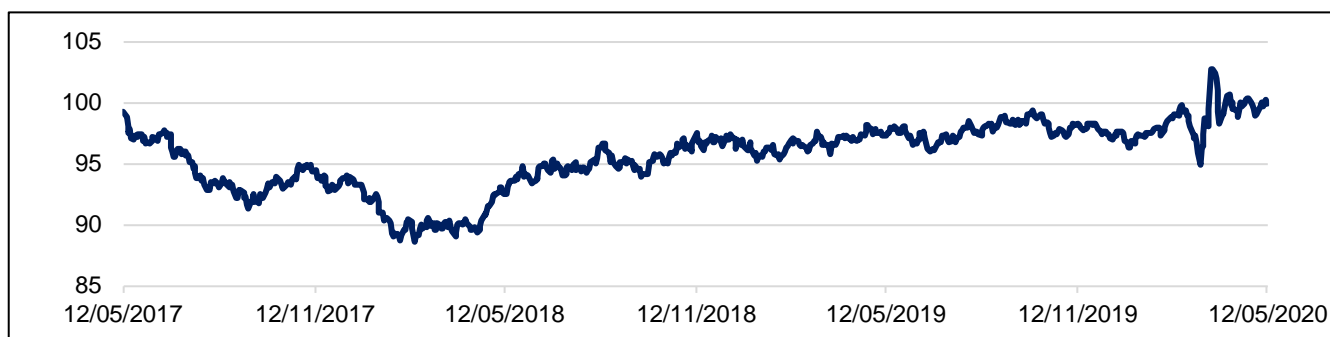


Index	Abbreviation	Price Performance				PE			EPS Growth	
		1D (%)	1W (%)	3M(%)	YTD (%)	2019A	2020E	2021E	2020E	2021E
United States	US	-2.2	0.3	-14.9	-11.4	18.2	22.8	17.9	-20.1%	27.2%
Communications	COM	-0.8	2.9	-13.4	-10.1	19.9	23.0	18.7	-13.2%	22.6%
Media and Entertainment	MED	-2.4	0.4	-22.8	-22.8	25.6	30.7	22.7	-16.5%	34.9%
Telecommunication Svcs	TEL	-1.8	-1.7	-14.0	-14.0	9.9	10.7	10.4	-7.3%	3.2%
Consumer Discretionary	CND	-2.4	1.1	-13.3	-9.2	25.2	46.1	25.3	-45.4%	82.0%
Autos & Components	AUT	-2.0	3.3	-16.8	-7.8	12.9	NA	16.4	-111.8%	767.2%
Consumer Svcs	CNS	-2.5	0.3	-25.3	-25.1	18.0	79.8	23.9	-77.5%	233.9%
Consumer Durables & App	CDU	-3.4	0.2	-23.2	-22.4	16.2	21.1	16.3	-23.2%	29.1%
Retailing	RET	-2.1	1.6	-0.6	8.1	34.1	43.3	29.7	-21.4%	45.9%
Consumer Staples	CNS	-1.0	-0.1	-11.2	-9.4	19.5	19.8	18.3	-1.9%	8.2%
Food & Staples Retailing	FRE	-1.4	-0.4	-5.8	-8.1	21.2	21.4	20.2	-1.3%	6.2%
Food, Bev & Tobacco	BEV	-0.9	0.3	-14.2	-11.4	17.0	17.9	16.3	-4.9%	9.8%
Household Products	HHP	-0.8	-0.8	-8.1	-6.1	24.9	23.4	22.1	6.2%	5.8%
Energy	ENE	-1.9	0.5	-30.3	-37.3	13.5	NA	36.5	-108.9%	514.6%
Financials	FIN	-3.4	-3.2	-31.8	-30.5	9.5	15.0	10.8	-36.5%	38.7%
Banks	BIS	-3.5	-3.6	-34.6	-34.8	7.4	16.6	9.6	-55.6%	73.3%
Insurance	INS	-1.9	-1.4	-29.0	-26.2	9.6	10.2	9.1	-6.5%	12.8%
Health Care	HEA	-1.6	0.4	-2.7	-0.4	17.8	17.9	15.3	-0.4%	16.6%
Health Care Equipment	HEQ	-1.9	0.0	-5.7	-3.6	28.0	31.7	24.3	-11.8%	30.6%
Pharmaceuticals	PHA	-1.2	0.7	0.3	2.8	16.6	16.3	14.3	1.7%	13.8%
Industrial	IND	-2.8	-1.7	-26.2	-23.7	15.6	22.7	16.5	-31.2%	37.7%
Capital Goods	IDG	-2.9	-1.8	-29.9	-27.6	14.3	20.7	15.7	-31.1%	31.9%
Commercial & Prof Svcs	IDS	-2.2	-0.7	-16.3	-11.2	25.7	29.3	25.1	-12.3%	16.7%
Transport	TRA	-2.6	-0.9	-25.2	-24.4	16.6	27.7	15.7	-39.9%	76.3%
Information Technology	TEC	-2.1	2.7	-5.7	3.4	24.3	24.4	20.9	-0.4%	16.8%
Software & Svcs	SOF	-2.1	2.3	-4.4	6.4	31.4	30.1	26.2	4.4%	14.7%
Technology Hardware	TEQ	-1.9	3.4	-8.0	-1.8	20.0	20.5	17.4	-2.3%	18.1%
Semiconductors	SEM	-3.0	1.8	-8.7	-2.7	17.3	18.5	15.5	-6.5%	19.0%
Materials	MAT	-1.9	-0.4	-17.3	-19.4	16.8	20.8	16.3	-19.2%	27.5%
Real Estate	REA	-4.6	-4.1	-28.3	-24.7	30.2	40.9	35.6	-26.2%	14.9%
Utilities	UTE	-1.1	-2.4	-19.5	-14.0	17.3	16.9	16.0	2.4%	5.9%

Source: MSCI, Refinitiv, THR

GLOBAL FX, BONDS AND COMMODITIES

DXY USD Index - 3 years



CRB Major Commodity Index* - 3 Years

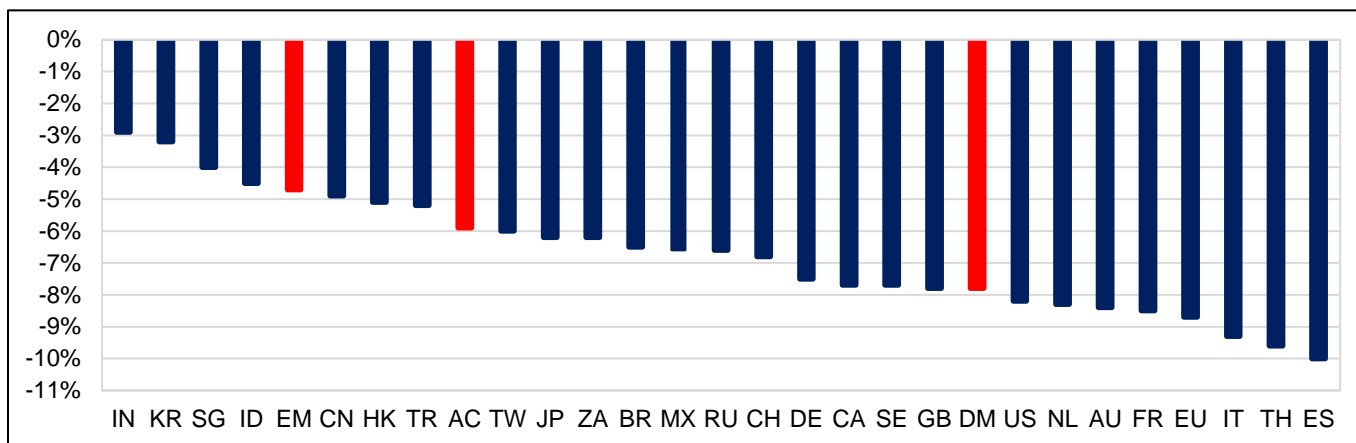


Name	Currency	Close Price	1 Day	1 Week	1 Month	3 Months	1 Year	MTD	QTD	YTD
Commodities										
CRB Commodity Index	USD	2275.88	0.1%	1.2%	1.5%	-21.7%	-19.8%	-2.5%	9.7%	-26.1%
Gold Spot	USD	1702.14	0.1%	1.1%	-0.6%	8.1%	31.1%	1.4%	8.4%	12.3%
Copper Spot	USD	2.36	-0.5%	-0.1%	1.2%	-10.3%	-13.9%	-0.2%	4.9%	-15.9%
Brent Crude Spot	USD	25.11	0.0%	24.9%	34.1%	-55.9%	-65.7%	69.3%	61.9%	-63.6%
CRB Agricultural Index	USD	4296.39	0.4%	0.9%	-0.6%	-21.1%	-18.7%	-3.3%	3.7%	-24.8%
Currencies										
DXY USD Index	USD	99.93	0.0%	-0.2%	0.6%	0.9%	2.7%	0.9%	0.9%	3.7%
EUR/USD	USD	1.08	0.1%	0.5%	-0.5%	0.1%	-3.3%	-0.9%	-1.6%	-3.2%
USD/JPY	JPY	107.13	0.0%	0.9%	-0.6%	-2.4%	-2.0%	0.0%	-0.4%	-1.4%
GBP/USD	USD	1.23	0.3%	-0.4%	-1.7%	-5.8%	-5.1%	-2.4%	-1.0%	-7.3%
USD/CNY	CNY	7.08	0.1%	-0.2%	0.5%	1.6%	3.1%	0.4%	0.1%	1.8%
Bond Yields										
DE 10Y BUND	EUR	-0.51	2.8%	3.8%	52.3%	34.3%	604.1%	-11.1%	14.0%	178.6%
GB 10Y GILT	GBP	0.25	-0.8%	6.9%	-19.0%	-62.2%	-77.6%	6.9%	-30.4%	-70.1%
JP 10Y JGB	JPY	0.00	-66.7%	-96.2%	-114.3%	-97.1%	-97.9%	-97.4%	-105.9%	-95.5%
US 10Y BILL	USD	0.69	-1.8%	-6.4%	-10.9%	-58.7%	-72.3%	6.7%	-4.6%	-65.1%
US 30Y BOND	USD	1.38	-2.4%	-4.5%	-2.9%	-34.9%	-52.5%	6.2%	-0.4%	-43.2%
US 10-2 BOND	-	0.52	4.1%	4.1%	22.0%	30.0%	20.3%	20.1%	24.0%	24.5%
Volatility										
CBOE VIX Index	USD	33.04	0.00	-0.03	-0.20	1.33	0.61	-0.03	-0.38	1.40

Source: Refinitiv, THR

MACRO INDICATORS: HISTORIC AND FORECASTS

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



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

Source: IMF, THR

GLOBAL MACRO & FORECAST TABLES

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

United States	Historic										Forecasts	
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E
Production												
Real GDP, Growth	2.6	1.6	2.2	1.8	2.5	2.9	1.6	2.4	2.9	2.3	-4.1	3.8
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	9.5	7.0
Average Earnings, Growth	1.9	2.0	1.9	2.1	2.1	2.2	2.6	2.6	3.0	3.3	2.6	2.5
Prices												
CPI	1.6	3.2	2.1	1.5	1.6	0.1	1.3	2.1	2.4	1.8	1.0	1.8
PCE, excluding energy	1.4	1.6	1.9	1.5	1.6	1.2	1.6	1.6	1.9	1.6	1.4	1.5
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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