



MILL STREET
RESEARCH

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Weekly Roundup

**Best & Worst Ranked
US Stocks**
**PLUS Our Short-Term
Equity Risk Model and
Macro Commentary**

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Please see important disclosures on Page 6.

Additional information about Mill Street's models and indicators is available in the [Explanation Guide](#).

Mill Street also offers a full line of institutional research, covering over 6,000 global stocks along with asset allocation and sector/country allocation products.

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Current Market Outlook

Short-Term Risk Model: Bullish

The current model reading of 64% on the 0-100% scale was up +1% from the prior week. **The model is above the 60% threshold that marks the most bullish zone.**

The table (right) shows the eight indicators in our Short-Term Risk Model.

The strongest supports for equities right now are:

Global Credit Risk -- yields on corporate debt relative to benchmark government yields have been falling relative to recent history, a cross-asset sign of improving investor risk appetite.

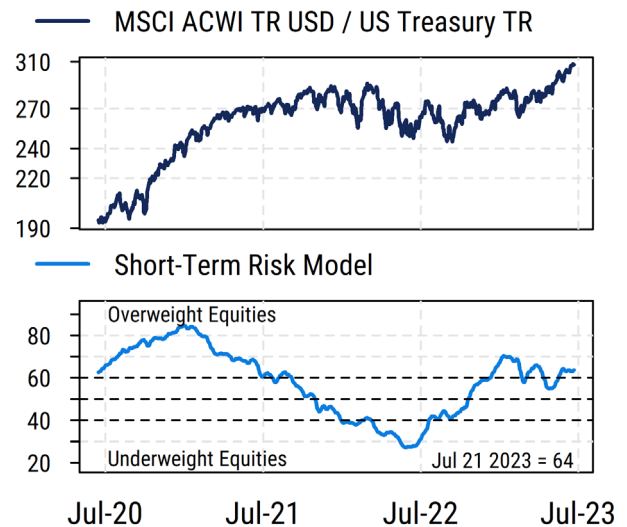
Global Equity Volatility -- equity market volatility has been falling and is near the low end of its recent range. Volatility is known to be persistent in the near-term and so declining volatility remains a favorable backdrop for equities.

The least favorable indicators for equities right now are:

Global VIX Divergence -- Our indicator compares the US VIX and European VSTOXX indices of implied equity market volatility with recent realized volatility as a measure of shorter-term investor sentiment. They have been relatively low recently, a worrisome contrarian sign of investor complacency.

Global Metals -- Industrial metals prices (reflecting demand for physical goods) have been lagging precious metals (capturing investor risk appetite and inflation/currency concerns) in recent months, a cautious indication for global growth in our work.

Short-Term Risk Model



MSCI ACWI TR = MSCI All-Country World Index Total Return Index
 US Treasury TR = Merrill Lynch/BofA US Treasury Total Return Index

Short-Term Risk Model Indicators 21 Jul 2023

Indicator	Current	1-month Change
Global Equity Volatility	90%	0%
Global Risk Appetite	81%	6%
Global Momentum	86%	8%
Global VIX Divergence	6%	-9%
Global Credit Risk	97%	12%
Fed Expectations	75%	-12%
Global Real Yield	57%	-6%
Global Metals	20%	2%
Short-Term Risk Model	64%	0%

More information about the Short-Term Risk Model is available in the [Explanation Guide](#)

Macro View

The slowdown in US inflation in becoming more obvious

We have been highlighting the slowdown in US inflation pressures since November, and now the data is making it even more obvious: reported US inflation outside of the lagged shelter data is already at or below the Fed's target, and reported shelter costs are now rolling over.

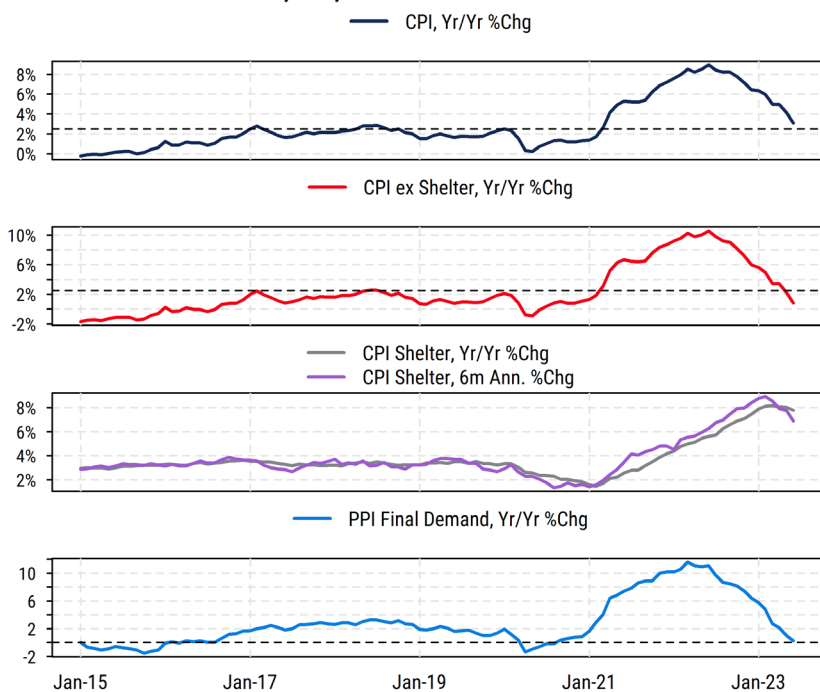
As the extreme inflation readings in early 2022 drop out of the standard 12-month inflation calculations, it is increasingly clear that inflation has been slowing rapidly for much of the last 10-12 months. Indeed, by some measures inflation is already at or below the Fed's notional 2% (or 2.5% on the CPI) target.

The headline CPI through June was reported to have fallen to just 3% (top section of chart below), while the **headline PPI showed 12-month inflation of essentially zero** (0.1%, bottom section of chart). Since we know that the CPI's shelter (mostly housing, or "owner's equivalent rent") component is lagged due to its construction, the CPI ex Shelter has arguably been a better metric for forward-looking purposes recently. **The CPI ex Shelter is now up just 0.8% from a year ago (second section of chart), and thus already below the Fed's target.**

What about shelter costs? They are the primary component holding up the core CPI readings, and they have now clearly started to turn down (third section of chart below), consistent with more timely data on rents and home prices. Given what we know about rents, it is extremely likely that CPI shelter costs will continue to slow as the year goes on.

With commodity prices muted, business inflation (PPI) already at zero, CPI ex Shelter very close to zero, and the trends in the data having been moving persistently in the downward direction for months, it is clear that inflation pressures have eased dramatically and no longer require aggressive policy responses. Stock market investors have noted this and responded favorably this year. **The question is now whether Fed officials will abandon the old Phillips Curve arguments and recognize that they have "won" by having inflation decline *without* (so far) a sharp increase in unemployment.**

CPI, PPI, and Shelter Influence



Even with lagged shelter costs included, CPI inflation is now 3%, within measurement error of the Fed's 2.5% target (2.5% CPI ~ 2% on PCE)

CPI ex Shelter is now just 0.8% yr/yr, below the Fed's target and well within the pre-COVID normal range

Shelter costs in the CPI are lagged vs current market prices by construction, but even they have now peaked and turned lower.

Wholesale prices (PPI), which do not include consumer housing and tend to lead CPI, have already hit zero inflation.

Buy ideas from the Russell 1000

Based on our cornerstone MAER stock selection model, below is a list of the 20 most attractive buy ideas for short- to intermediate-term time frames, drawn from the Russell 1000 stock universe (those with at least six analysts covering the stock), and the changes in the list from the previous week. **The list below is based on quantitative analysis that may not incorporate all relevant factors, and additional research should always be done before trading.**

Note: MAER charts for each stock on the Buy and Avoid Ideas lists can be found in the [Chart Appendix](#).

Russell 1000 Buy Ideas 22 Jul 2023

Rank	Ticker	Name	Market Cap (\$Mil)	Sector
1	DAL	Delta Air Lines, Inc.	31,238	Industrials
2	UAL	United Airlines Holdings, Inc.	18,895	Industrials
3	JPM	JPMorgan Chase & Co.	452,809	Financials
4	OC	Owens Corning	11,743	Industrials
5	UNM	Unum Group	9,599	Financials
6	TOL	Toll Brothers, Inc.	8,607	Cons. Discretionary
7	PHM	PulteGroup, Inc.	17,432	Cons. Discretionary
8	DHI	D.R. Horton, Inc.	43,514	Cons. Discretionary
9	SNA	Snap-on Incorporated	14,581	Industrials
10	LEN	Lennar Corporation Class A	35,984	Cons. Discretionary
11	TAP	Molson Coors Beverage Company Clas	14,199	Cons. Staples
12	F	Ford Motor Company	54,744	Cons. Discretionary
13	META	Meta Platforms Inc. Class A	650,948	Comm. Services
14	NVDA	NVIDIA Corporation	1,094,432	Technology
15	SWAV	Shockwave Medical, Inc.	10,108	Health Care
16	PNW	Pinnacle West Capital Corporation	9,674	Utilities
17	MDB	MongoDB, Inc. Class A	28,923	Technology
18	BLDR	Builders FirstSource, Inc.	17,781	Industrials
19	ZBH	Zimmer Biomet Holdings, Inc.	29,696	Health Care
20	AAL	American Airlines Group Inc.	11,382	Industrials

New Additions To Buy Ideas 22 Jul 2023

Ticker	Name
UNM	Unum Group
TOL	Toll Brothers, Inc.
PHM	PulteGroup, Inc.
DHI	D.R. Horton, Inc.
SNA	Snap-on Incorporated
META	Meta Platforms Inc. Class A
BLDR	Builders FirstSource, Inc.
AAL	American Airlines Group Inc.

Removals From Buy Ideas 22 Jul 2023

Ticker	Name
ALK	Alaska Air Group, Inc.
PK	Park Hotels & Resorts, Inc.
PANW	Palo Alto Networks, Inc.
RCL	Royal Caribbean Group
BYD	Boyd Gaming Corporation
XP	XP Inc. Class A
PCAR	PACCAR Inc
ALSN	Allison Transmission Holdings, Inc.

Avoid list from the Russell 1000

Based on our cornerstone MAER stock selection model, below is a list of the 20 *least attractive* stocks in our ranking drawn from the Russell 1000 universe, which our research indicates tend to underperform and have higher risk on average. Readers who own or are considering buying these stocks may want to avoid or sell them in favor of the more attractively ranked stocks. Note that these are not necessarily meant as recommendations for shorting and are likely to be volatile.

The list below is based on quantitative analysis that may not incorporate all relevant factors, and additional research should always be done before trading.

Russell 1000 Avoid Ideas 22 Jul 2023

Rank	Ticker	Name	Market Cap (\$Mil)	Sector
1	WOLF	Wolfspeed Inc	7,862	Technology
2	RGEN	Repligen Corporation	9,763	Health Care
3	FYBR	Frontier Communications Parent, In	4,115	Comm. Services
4	JBHT	J.B. Hunt Transport Services, Inc.	20,272	Industrials
5	TSN	Tyson Foods, Inc. Class A	15,040	Cons. Staples
6	LAZ	Lazard Ltd Class A	4,033	Financials
7	CTLT	Catalent Inc	8,579	Health Care
8	RVTY	Revvity, Inc.	16,416	Health Care
9	SEE	Sealed Air Corporation	6,633	Materials
10	IP	International Paper Company	11,054	Materials
11	AA	Alcoa Corporation	5,955	Materials
12	WRK	WestRock Company	7,776	Materials
13	DHR	Danaher Corporation	188,814	Health Care
14	KNX	Knight-Swift Transportation Holdin	9,069	Industrials
15	MU	Micron Technology, Inc.	71,907	Technology
16	ODFL	Old Dominion Freight Line, Inc.	43,256	Industrials
17	MP	MP Materials Corp Class A	4,211	Materials
18	ASH	Ashland Inc.	4,789	Materials
19	KEY	KeyCorp	10,690	Financials
20	HUN	Huntsman Corporation	5,156	Materials

New Additions To Avoid Ideas 22 Jul 2023

Ticker	Name
JBHT	J.B. Hunt Transport Services, Inc.
IP	International Paper Company
WRK	WestRock Company
DHR	Danaher Corporation
ASH	Ashland Inc.
KEY	KeyCorp

Removals From Avoid Ideas 22 Jul 2023

Ticker	Name
EL	Estee Lauder Companies Inc. Class A
ZBRA	Zebra Technologies Corporation Clas
DLTR	Dollar Tree, Inc.
ZION	Zions Bancorporation, N.A.
RUN	Sunrun Inc.
MRVI	Maravai Lifesciences Holdings, Inc. C

More information about the MAER stock selection model is available in the [Explanation Guide](https://www.millstreetresearch.com/research/Ref/Mill%20Street%20Research%20Explanation%20Guide.pdf).

<https://www.millstreetresearch.com/research/Ref/Mill Street Research Explanation Guide.pdf>

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