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## For Immediate Release to Tartan Student Fund

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### Portfolio Updates

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**Carnegie Mellon University, – November 21, 2016 – \$FITB, Healthcare & Macro Themes**

**1. Fifth Thirds Bank**

We will be taking an average sized position in \$FITB. RRS thought this was one of the strongest pitches this semester. We are very interested to see how political catalysts will effect this industry. We saw a strong price appreciation after the election results. While RRS does not hold political views, we are focused on Trump's proposed deregulation of the banking industries and a hawkish Fed stance. We were also impressed with the balance sheet composition and believe that this bank is well positioned in its space.

**2. Healthcare**

As reported in our last summary, the healthcare group has been our lagging portfolio group this year. Many of our companies in this portfolio had implicit risks we did not understand when taking a position: pipeline and regulatory being the largest. We will be considering underweight the healthcare group (vs the S&P 500 weighting) as the semester comes to a close. Closer monitoring of our positions, including qualitative business changes, will be monitored more carefully in the future.

**3. Theme-in-a-Chart**

Again, we want to reiterate our lack of political bias in our analysis. However, new political catalysts could pose an interesting thematic change in equity markets. Months before the election, we saw an interesting pattern: rising growth without higher bond yields. We have seen equity valuations move higher with steady growers AND bond proxies (safe strong dividends) outperforming. However, post election, we have seen a trend pointing to a reflation scenario. In this new regime, we can rising growth (a relatively novel idea in the past 3 years) but with higher bond yields moving up; this is supported by the Fed as well. In this theme, equities should move higher (all time highs in sight) BUT ONLY as earnings improve. However, we see a countering effect: as yields rise, we will see an increase in the borrowing costs of businesses, limiting valuations. This will put more emphasis on earnings and earnings growth. As we have seen already post-election, cyclicals and financials should outperform.

As we can see by this chart, the market has begun to anticipate a rise in inflation; this chart uses 10 year and 5 year TIPS (Treasury Inflation Protected Securities) to back out an inflation expectation.



Following the first two bullet points, we think this theme of high inflation could be a beneficial environment for Fifth Thirds Bank as well as the rest of the financials group. Healthcare tends to perform better in this environment, however this has yet to be seen. We will now be rotating our focus to the TMT group as higher inflation causes costs to rise and reduces the spending power of consumers, which could be worrisome for the technology sector.

We are looking forward to the concluding meeting including the discussions about our allocations including a plan during the winter dead period.

Lastly, I hope you all have a wonderful Thanksgiving.

Thank you,

Research, Risk and Strategy

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