ALPINEMACRO
A Unique Mind On The Markets

EQUITY STRATEGY MONTHLY

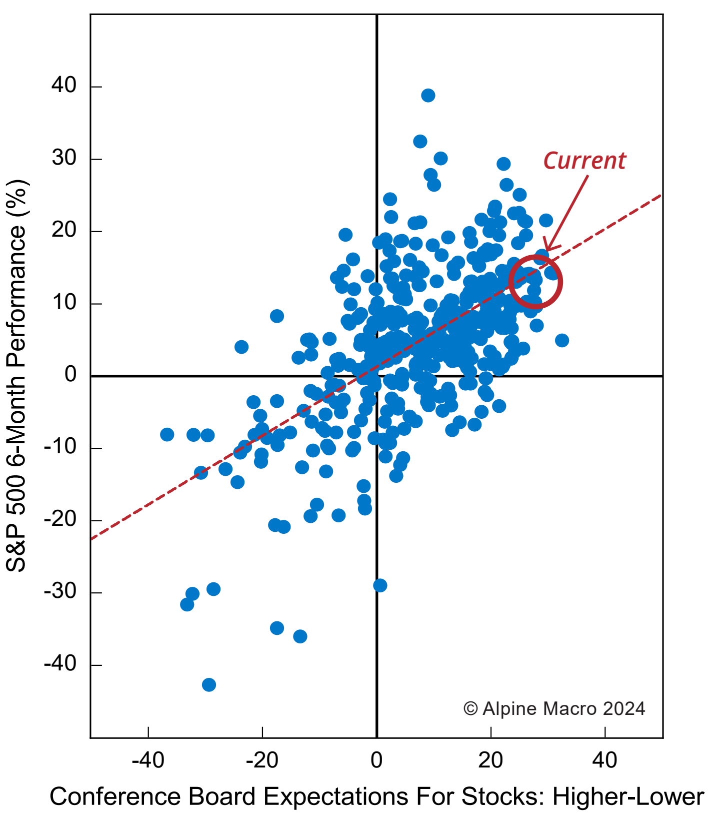
November 2024

Taking Stock Of Technicals

Equities have worked through a churning consolidation in recent weeks which has allowed for the technical backdrop to settle towards a more neutral position after brushing up against overextended levels. Sentiment is in line with strong past performance, positioning is extended but not extreme, and price trends exhibit solid participation with a bullish cyclical tilt.

As the calendar advances past U.S. elections, we expect volatility to settle, supportive seasonality, and a view towards earnings growth to promote a bias higher for equities. In the following we provide an overview of technical markers and synthesize the messages they're sending.

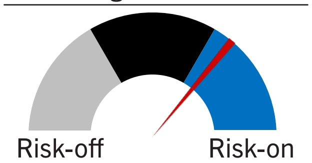
Chart 1 Stock Belief Follows Performance



Note: Monthly data since 1989

In This Report

Alpine Macro
Risk Regime Indicator



U.S. Equity Views*	--	-	N	+	++
Large Cap			■		
Small Cap				■	
Growth				■	
Value		■			
Communication Services					■
Consumer Discretionary			■		
Consumer Staples	■				
Energy			■		
Financials			■		
Health Care			■		
Industrials				■	
Information Technology				■	
Materials		■			
Real Estate		□ →	■		
Utilities				■	

* ■ Denotes positioning

12-Month Change in Forward EPS Growth (%)

	Growth	Core	Value
Large Cap	23.1	7.2	2.7
Mid Cap	-1.7	1.8	4.0
Small Cap	5.9	-4.4	-3.5

12-Month Change in Forward P/E Ratio (%)

	Growth	Core	Value
Large Cap	29.0	26.9	0.0
Mid Cap	19.1	18.3	1.1
Small Cap	3.7	24.1	3.9

Note: **Blue** = Favorable, **Red** = Unfavorable, White = Neutral

Chart 2 Equity Allocation Is Elevated But Inline With Performance Trends

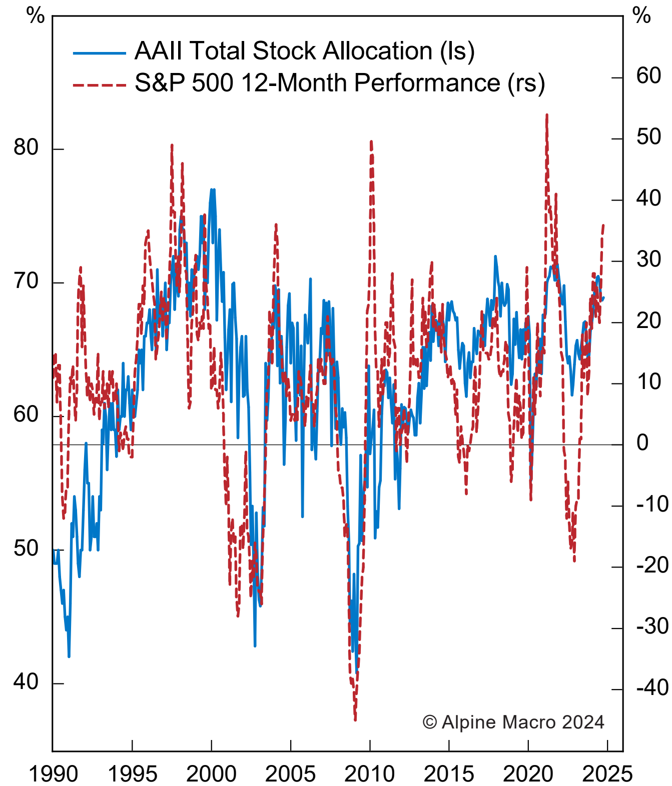
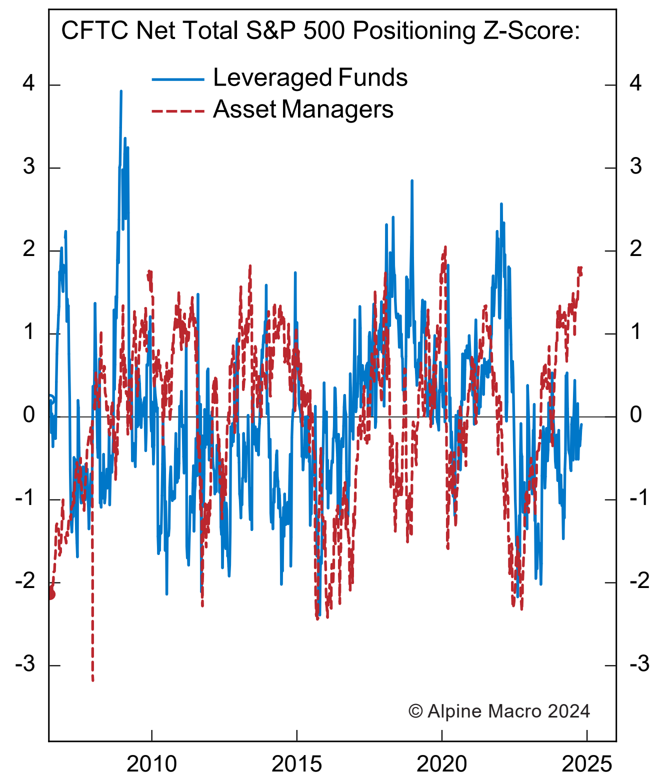


Chart 3 Leveraged Positioning Still Neutral



Source: Bloomberg Finance L.P.

Sentiment Warm But Not Too Hot

The overarching themes pertaining to sentiment are that:

1) Investors are bullish but to a degree commensurate with recent performance, not signaling "animal spirits"

2) Retail and long-only money managers have more extended positioning

3) Sentiment has pulled back since summer and reflects a subtle shift away from the risk-on rotational trade

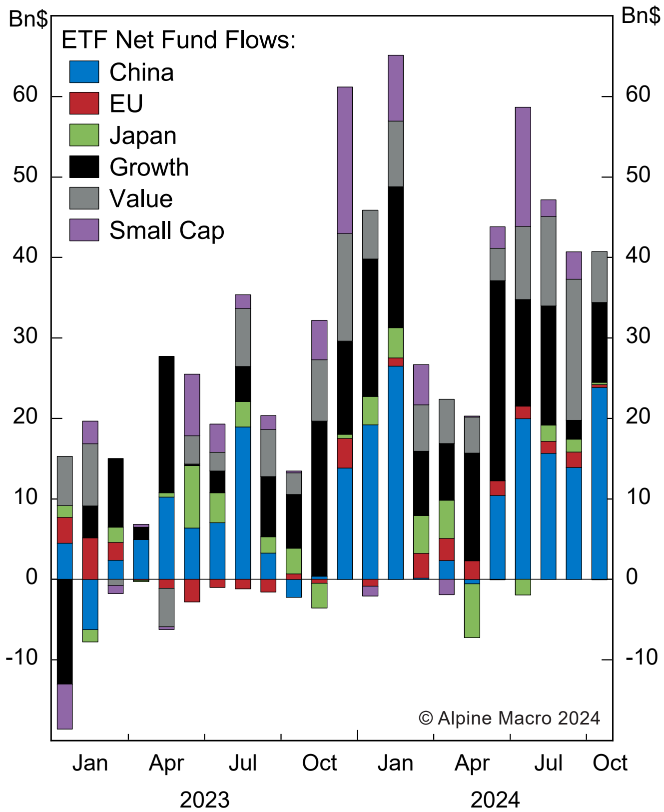
In our view, sentiment is best evaluated within the context of past performance, a concept that is often lost on many market participants. Given the strong run-up of equity returns in recent months its fully natural for most investor segments to be bullish, as momentum runs and sentiment lags. In **Chart 1** we illustrate that current stock market enthusiasm amongst consumers is congruent with trailing performance.

Historically, approximately 30-50% of sentiment is explained by past performance, and the strong gains accrued this year could auger for more bullishness than present survey data suggests. Since 1990, the average number of bullish respondents to the American Association of Individual Investors (AAII) survey has outpaced Bearish respondents by 14% following periods during which the S&P 500 gained +10% on a trailing 6M basis. That figure dropped from 26% in September to 9% in October, highlighting its neutralization.

Positioning Following Performance

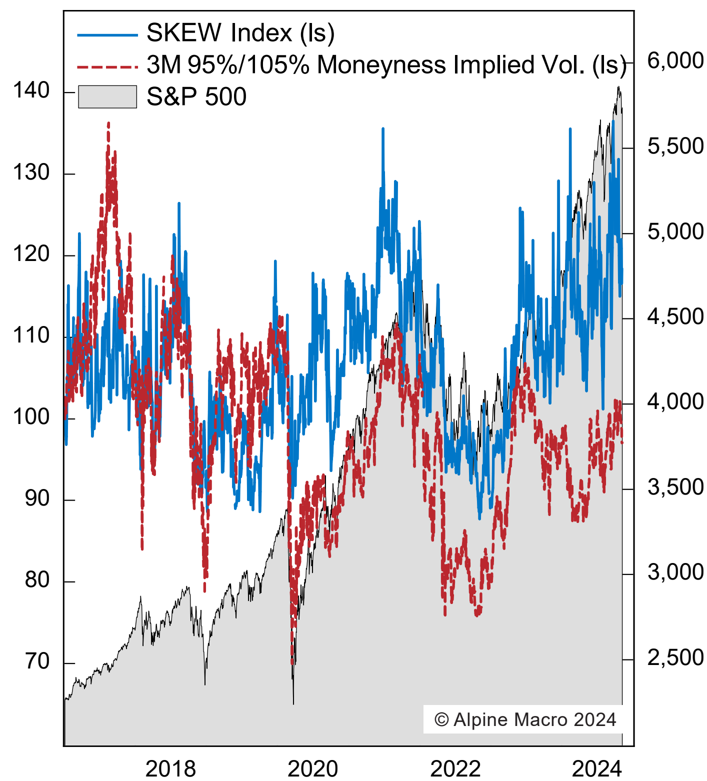
Equity positioning has shifted higher alongside performance across various investor segments but is more extended within the retail and long-only money manager channels as investors seek upside participation in an upward trending market. **Chart 2** shows that retail allocation to equities is high in absolute terms but within normal range considering performance trends.

Chart 4 Equity Fund Flows Reflect Benign Risk-Taking



Source: Bloomberg Finance L.P.

Chart 5 Option Pricing Cautious But Natural Through Bull Markets



Source: Bloomberg Finance L.P.

Exposure remains well-balanced within the hedge fund and systematic channels that employ leverage and risk-management techniques. The fact that the market has churned higher without indiscriminating participation from these investment vehicles is a testament to its strength. Chart 3 illustrates that S&P 500 futures positioning is average for leveraged funds and extended for long-only managers, to a similar degree as retail.

Given that pockets of the investment community remain partially sidelined there's potential upside should "animal spirits" build and/or certain conditions fall into place. For example, certain risk-targeting strategies use measures of volatility in modifying the allocation to underlying equities relative to cash or bonds. As volatility settles lower — our base case — these should be systematic buyers of equities.

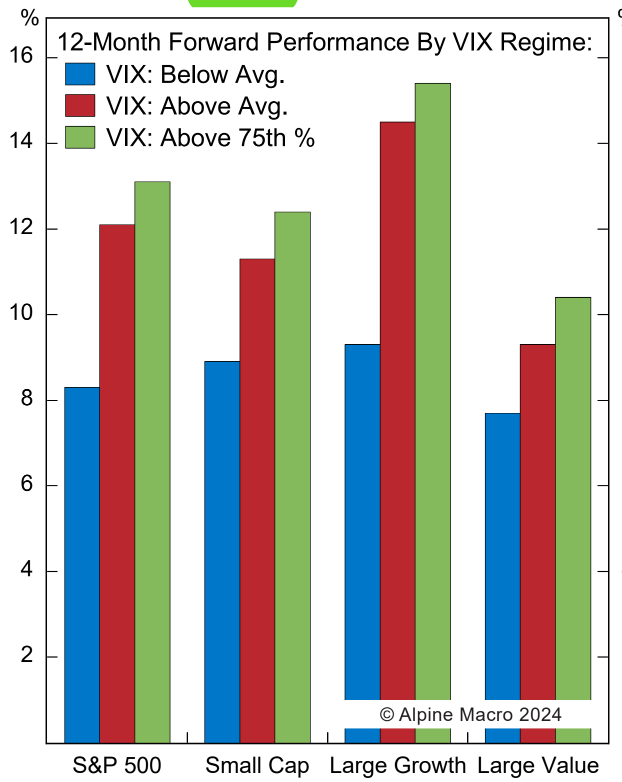
Risk-Taking Well Contained

Equity fund flows reflect benign risk-taking for the most part with exposure to riskier segments such as Small Cap and Emerging Slightly declining in recent weeks following renewed interest over the summer. Chart 4 shows these trends. Flows into high yield bonds and precious metals, display a similar narrative in that investor focus has slightly shifted from a "no landing" risk-on approach to cautious reflation.

The options market provides another lens into investor sentiment and is suggesting an overarching trend of increased caution, or protection against downside tail risks, with a slight degree of relaxation since September. The CBOE SKEW Index, which attempts to measure the likelihood of near-term extreme events, has been rising since 2023. Similarly, the cost for downside protection has trended higher than for upward movement. Barring a spike, these are healthy observations and not unusual during major bull markets (Chart 5).

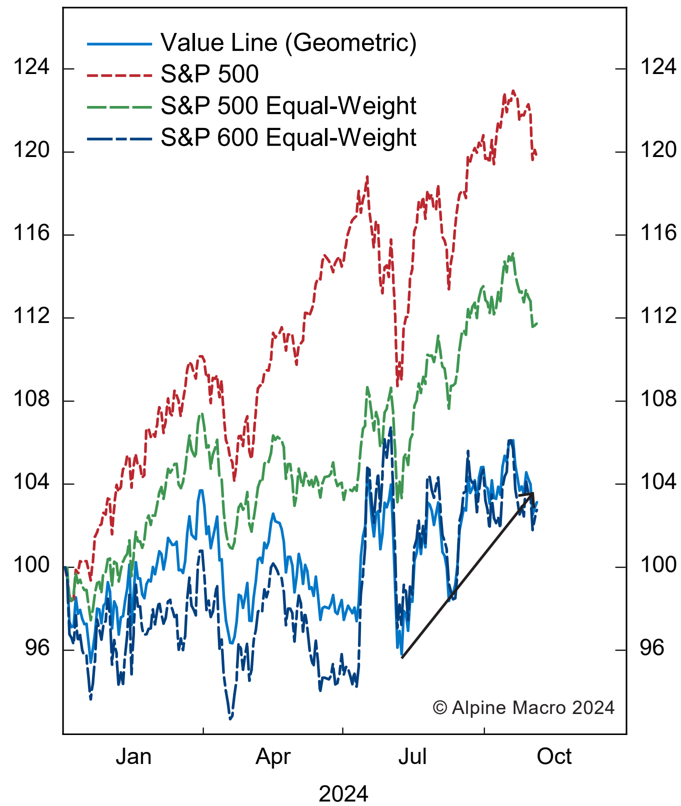
Finally, implied volatility as measured by the CBOE Market Volatility Index (VIX) has been trending higher since August, but we view this as a positive development given that: A)

Chart 6 Higher VIX --> Better Average Returns



Note: Weekly data since 1990; source: Bloomberg Finance L.P.

Chart 7 Participation Broadening Through Equal-Weight



Note: All series rebased to Jan 2024=100; source: Bloomberg Finance L.P.

the sources are traceable to corporate reporting season and U.S. elections, and B) equities perform well in periods following volatility spikes, which we expect to abate. In Chart 6, we show the S&P 500 has added nearly 5ppts per annum after the VIX hits elevated levels relative to when volatility is below average.

Breadth And Chart Trends Encouraging

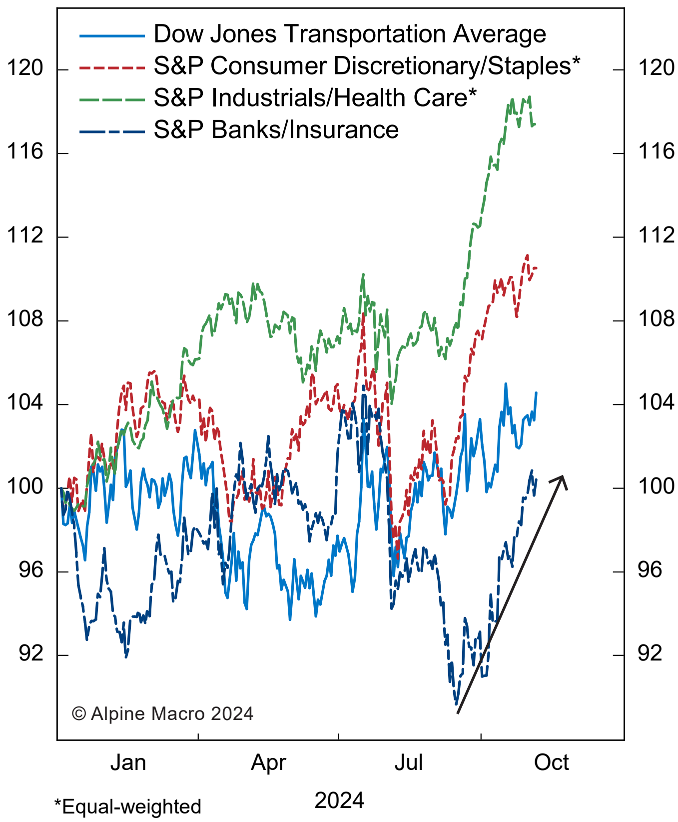
A flip through the charts suggests two conclusions: 1) breadth and participation are strong, and 2) trends show support for a cyclical bias that could intensify if saunter lower or China meaningfully stimulates demand.

Breadth is a keynote of market strength, and it's improved significantly following concentrated surges earlier this year. The percentage of S&P 500 constituents trading above their 200-day trend has averaged above 70% for 54 weeks which tends to precede periods of solid performance. Mega Cap dominance has slowed, as well. From 2023 through August the S&P 500 outperformed the equal-weighted variety by nearly 2.5% each month, however this has slowed to just 60bps since.

In Chart 7 we illustrate that the equal-weighted S&P 500, S&P 600, and Value Line Index have trended higher since August after treading water in the months prior. Throughout this period the advance-to-decline accumulation has been solid for nearly all segments including large cap, value, and growth with small cap showing bumpy improvement.

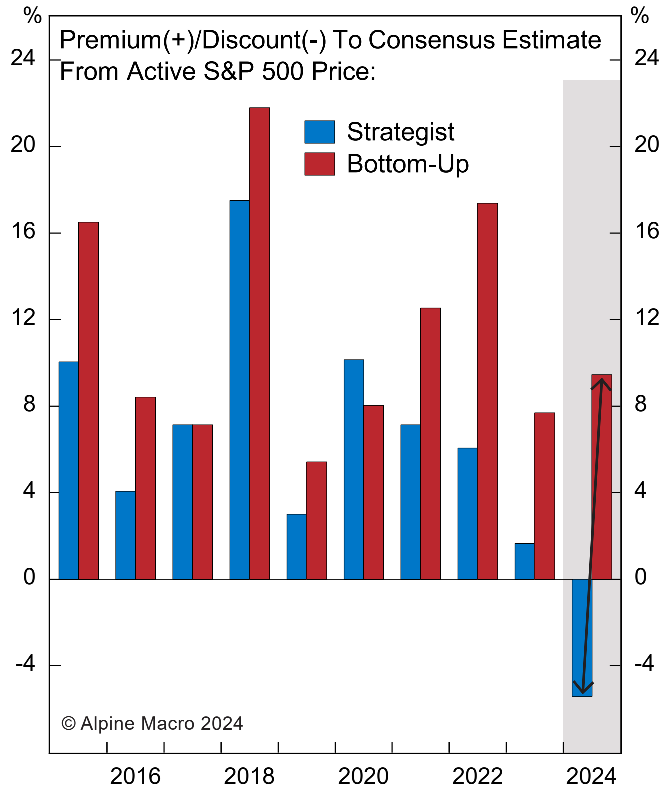
Underneath the surface there are subtle signals that the cyclical revival trade remains in play. We view relative outperformance of Banks vs Insurance, Discretionary vs Staples, Industrials vs Health Care, Semis vs Software and the absolute performance of Transports as clear indicators of a building cyclical impulse. Within sectors, factor exposure tilts cyclical as well with leverage, beta, and variability leading quality, and low volatility. Cyclicality could accelerate given certain catalysts. Home Builders and Real Estate were surging until higher yields weighed

Chart 8 Cyclical Technical Undertones



*Equal-weighted
Note: Series are rebased to Jan 2024=100; source: Bloomberg Finance L.P.

Chart 9 Wide Strategist And Analyst Dispersion



Note: Data reflects year-end targets; source: Bloomberg Finance L.P.

them down. Meaningful stimulus from Beijing could further boost global cyclicals such as Materials. **Chart 8** shows the nascent cyclical revival.

Sell-Side Split

In our July Monthly Equity Strategy Report[1], we noted that Wall Street strategist targets for the S&P 500 were the furthest below price levels in recent history and they've made just incremental progress since in right-sizing these estimates. The median year-end 2024 target is 2.6% below current levels, and this is after half of respondents updated their targets since September (**Chart 9**).

It's early but the median outlook for 2025 isn't much more ambitious with a median year-end target of 6,000, or approximately 4% higher. It's worth mentioning that these

1 Alpine Macro *Equity Strategy* "The Most Misunderstood Bull Market" (July 7, 2024)

Alpine Macro Sector Framework

Sector	Valuation	Fundamentals	Technicals
Comm. Services	8	6	1
Cons. Discretionary	6	9	4
Cons. Staples	5	10	11
Energy	2	5	9
Financials	11	7	7
Health Care	3	4	2
Industrials	10	1	3
Info. Tech.	9	2	10
Materials	7	8	5
Real Estate	1	11	8
Utilities	4	4	6

Note: **Blue** = Favorable, **Red** = Unfavorable, White = Neutral projections largely reflect solid expected earnings growth (10% average) weighed down by multiple compression.

Alternatively, sell-side sector analysts provide a much more optimistic outlook. Based upon aggregated estimates of individual stock price targets, the S&P 500 could rise by 11% to 6,400 next year.

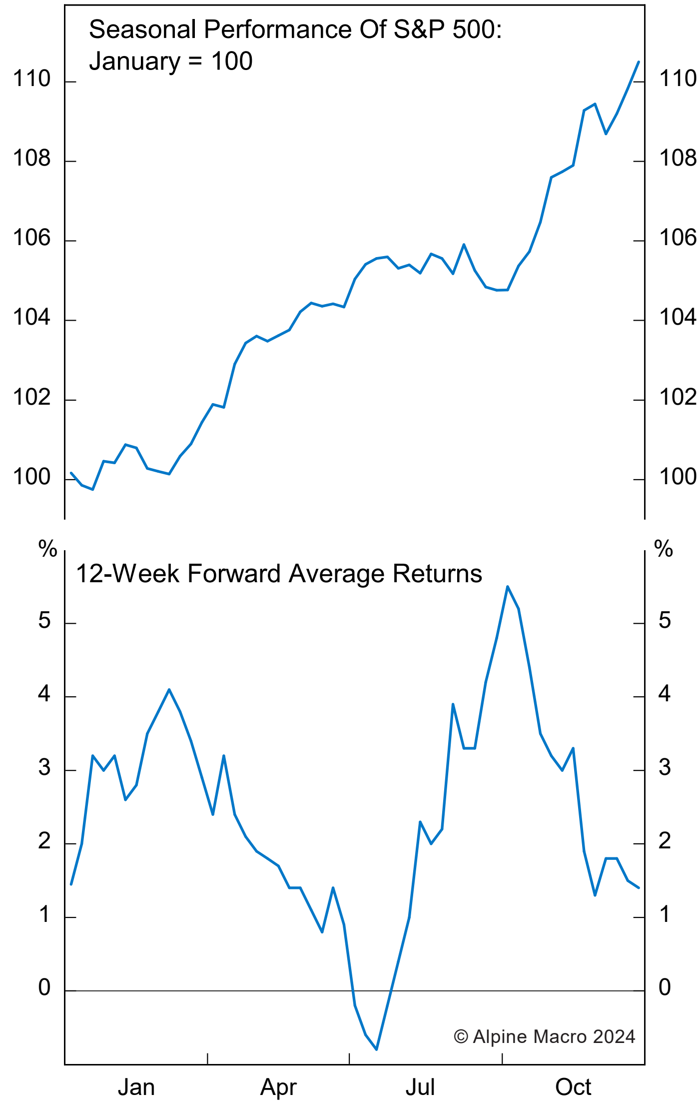
The bottom line is that both strategists and sector analysts do a solid job projecting earnings. However, valuation multiples are more difficult to project and carry greater leverage. While sector analysts have strong insights into company fundamentals, they may not adjust valuations to the macro backdrop with foresight. The current application of conservative multiples suggests that the market is not yet at risk of irrational exuberance.

Conclusion

We view the technical backdrop as neutral with signs of extended positioning and sentiment but that of which aligns with past performance. Meanwhile as volatility settles past earnings season and U.S. elections, as we expect, this should provide a tailwind for risk segments (**Chart 10**). Finally, we view underlying price trends of broad participation with a cyclical undertone as a positive.

Nick Giorgi
Chief Equity Strategist

Chart 10 Seasonality Turning From Foil To Friend



Note: Data since 1995; source: Bloomberg Finance L.P.

STRATEGY SPOTLIGHT

	U.S. Equity Views*	--	-	N	+	++	Rationale Of View
Style & Size	Large Cap			X			Large Cap is more defensive, offering a greater blend of quality, profitability, and yield plus more globally diversified revenue streams. Valuation is high, reflecting the premium associated with the highly visible faster growth of Mega Tech. The segment likely lags if real yields fall and/or growth re-accelerates.
Style & Size	Small Cap				X		The risk/reward skew remains attractive for Small Caps even after a brief bout of mean-reversion. Small Caps stand to benefit from a soft landing as funding costs moderate and margin expansion broadens profit growth. A stronger dollar favors Small Caps relative to Large. We favor Small Value to Growth.
Style & Size	Growth				X		We favor Large Growth over Value from a risk-management perspective, preferring exposure to durable sources of revenue and profit growth given the uncertain macro backdrop. Down market cap, we'd prioritize profitable growth as opposed to speculative.
Style & Size	Value		X				The path of outperformance for Value is a thread-needling exercise likely involving a broadening of growth to boost cyclicals along with higher-for-longer yields to benefit Financials. We find the risk/reward skew to express our soft-landing view more attractive in Small Cap relative to Value.
S&P 500 Sectors	Communication Services					X	Comm. Services rebounded after summer, showing broad gains beyond Mega Tech and leading in earnings surprises. The sector offers a balanced mix of tech, entertainment, and telecom, with attractive value and yield. Lower yields and a cyclical recovery may boost it, though regulatory risks remain.
S&P 500 Sectors	Consumer Discretionary			X			Consumer Discretionary is pausing after a strong summer, with Q3 earnings up but flat sales. Travel and Leisure are strong, while Retail, EV-part makers, and Homebuilders face pressure. Remain neutral, expecting further shakeout in goods retail, with mean-reversion in services. Mega Tech exposure is key
S&P 500 Sectors	Consumer Staples	X					Staples face headwinds from high comps, weak pricing power/volume growth. Currency effects add pressure, with demand down from Covid highs. Consumers are trading down, reversing pricing power gains. Remain underweight but note potential for a technical rebound as oversold levels approach.
S&P 500 Sectors	Energy			X			Energy equities lag due to oversupply and weak demand, especially from China. Value remains high, but low momentum pressures the sector. We're neutral, watching for a downgrade, though geopolitical or stimulus-driven catalysts could spark a rebound. U.S. election impacts on energy policy also bear watching.
S&P 500 Sectors	Financials			X			Banks show strong momentum and should benefit from stable credit, a NIM trough, and better loan growth post-election. Regional Banks look best positioned, though CMBS Office exposure warrants caution. Insurance's peak is past as rate pressure moderates.
S&P 500 Sectors	Health Care			X			Health Care is nearing a contrarian entry after recent underperformance. Biopharma gains have faded, and insurers face membership declines and cost mismatches. Lower rates may boost M&A, and potential China stimulus could support growth. Favor Equipment & Supplies, with U.S. election risks on watch.
S&P 500 Sectors	Industrials				X		Industrials have rallied, most sectors up since August. We're overweight, anticipating a rebound from a soft landing and rate cuts, driven by infrastructure and housing demand. Technicals suggest consolidation, but outlook remains bullish on Building Products, Construction, and Defense.
S&P 500 Sectors	Information Technology				X		Technology is rising with increasing AI monetization and earnings expectations. Semiconductors, Software, and Hardware show mixed performance, but Q3 will clarify guidance. We expect A.I. "earners" to outperform "spenders." We favor Info. Tech. for its strong growth and profitability, though valuations are extended.
S&P 500 Sectors	Materials		X				Materials have retreated after a strong late summer, hindered by unclear Chinese stimulus and modest global growth. Chemicals and Miners are especially affected. We remain underweight, with regional indicators showing no recovery and flat Q3 results amid stretched valuations.
S&P 500 Sectors	Real Estate		→	X			Real Estate may benefit from the Recovery phase post-Fed rate cuts, though recent yield increases have impacted performance. Higher-risk segments like Retail and Office have outperformed. We favor Data Centers for their tailwinds and Senior Housing for occupancy trends.
S&P 500 Sectors	Utilities				X		Utes are benefiting from slowing growth and inflation, but rising rates present a challenge. Our bullish thesis is based on high negotiated rates and increased CapEx demand. While Utes aren't a long-term hold, we see short-term outperformance opportunities, especially in the Southeast and Midwest.

*Colored cells denotes sector positioning

Communication Services has it's mojo back after a rough end to summer with the sector performing well through reporting season. Importantly, the improvement has been broader based and not isolated to their mega tech constituents. For the quarter, Comm. Services has posted the best degree of upside surprise to sales and earnings estimates.

We continue to favor the sector and position it as a dynamic blend of mega tech exposure coupled with legacy entertainment and telecom, providing for an attractive dose of value, yield, and defensive growth.

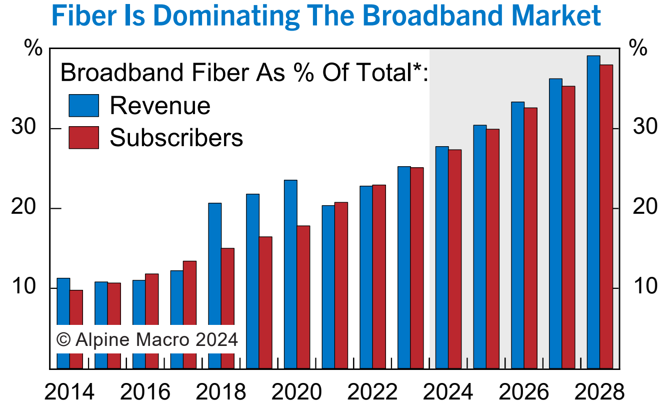
Moving forward we'd expect the sector to benefit from yields settling lower along with gradual cyclical improvement in the U.S. macro backdrop. We're on watch for potential gyrations given political crosswinds which could introduce regulatory risks. Valuation is slightly extended

Industry Spotlight: Broadband

Fiber broadband is rapidly gaining ground, approaching 50% of total revenue and subscriber share in the communication services sector. This shift highlights how consumer preferences are moving toward faster, more reliable internet connections, creating substantial opportunities for companies already focused on fiber. These early movers can capitalize on the trend, building on their lead to attract customers who value speed and stability.

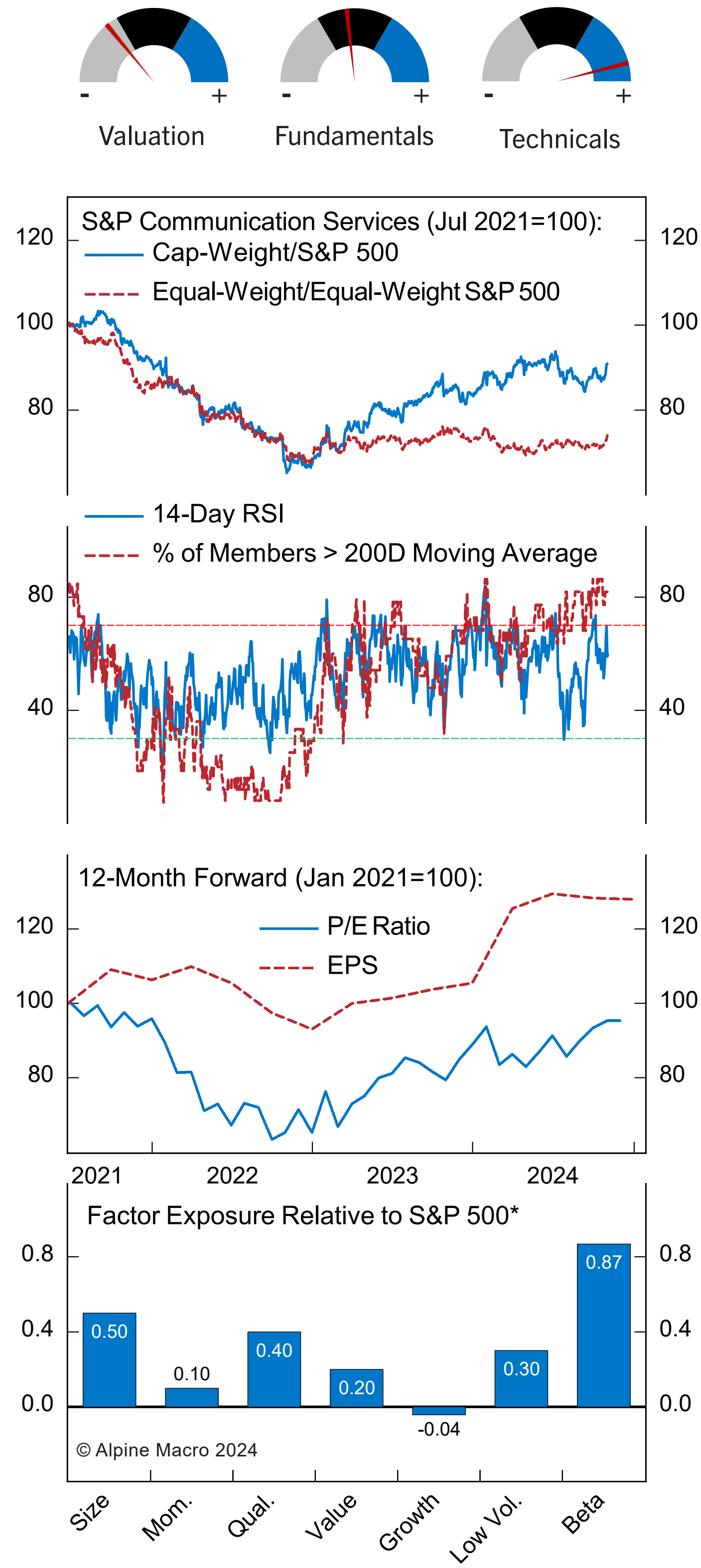
Overall, fiber's rapid growth is setting new expectations across the industry, making it increasingly essential for all players to evolve their offerings if they want to remain competitive in a changing landscape.

Fiber Is Dominating The Broadband Market



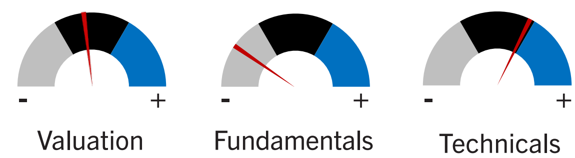
*Shaded area denotes estimate period; source: Bloomberg Finance L.P.

Alpine Macro Sector Dashboard



*Shown as standard deviations from mean
Source: Bloomberg Finance L.P.

Alpine Macro Sector Dashboard



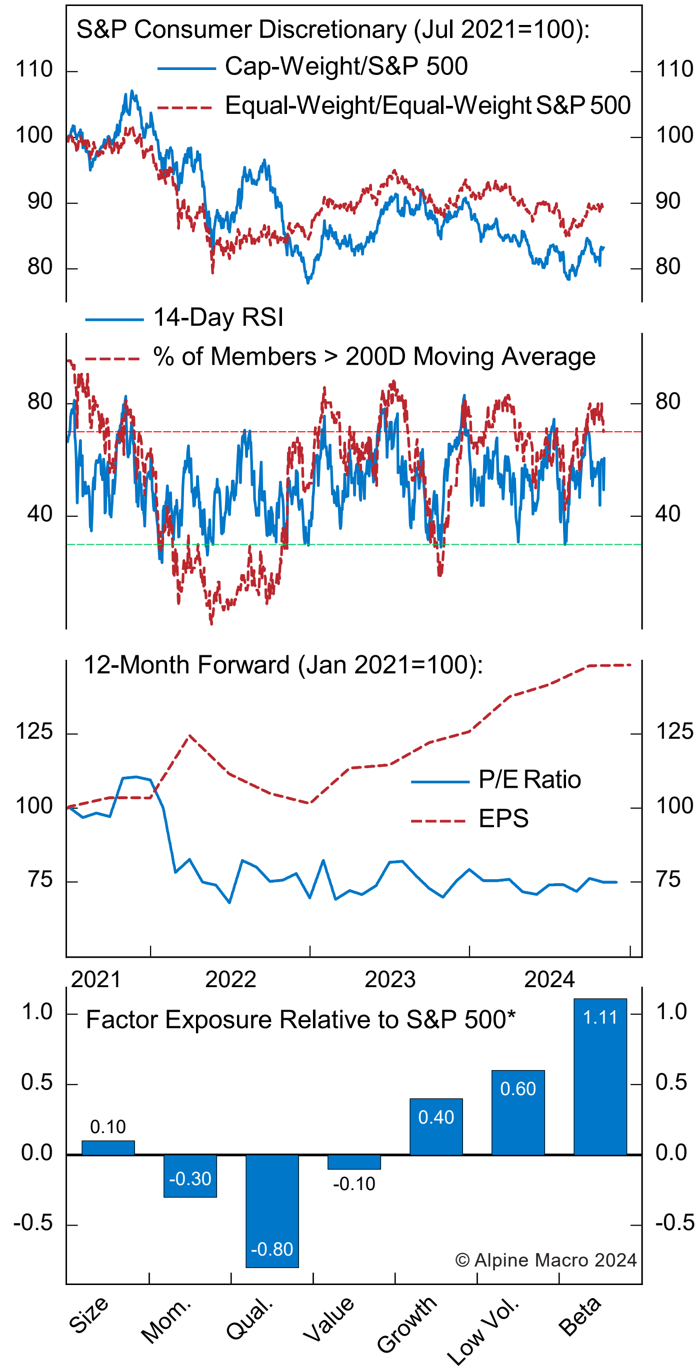
Consumer Discretionary is taking a technical pause after enjoying a ferocious run-up in the Summer as the sector strongly benefited from the realization that a soft or "no-landing" scenario was the base case outcome. Results so far have shown upside to Q3 earnings estimates but flattish on sales.

There's a continued surge in Travel and Leisure associated segments, especially cruise liners, while legacy Retail has sank alongside EV-part makers. Homebuilders have been hit hard by a push higher in interest rates contributing to weaker transactional demand.

We continue to take a Neutral approach on the sector as we expect more shakeout to occur within goods retailers while the service segment remains strong but seems conspicuously overextended. A potential mean-reversion is possible. As always, we're mindful of the mega tech exposure.

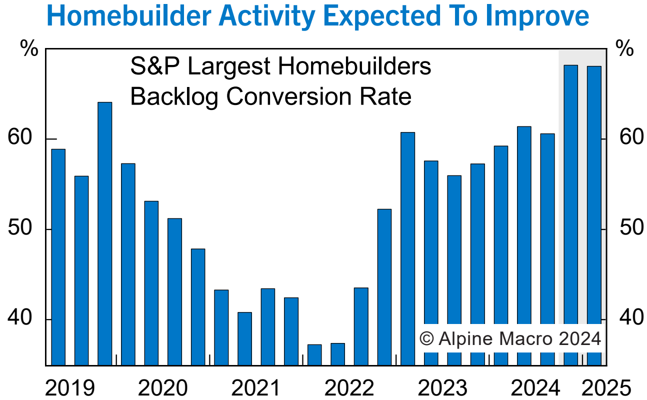
Industry Spotlight: Homebuilders

Backlog conversion rates for homebuilder stocks have seen a remarkable improvement since 2022, with further acceleration expected in the coming quarters. This shift points to a favorable landscape for homebuilders, spurred by falling interest rates that are encouraging more buyers to follow through on pending orders. With lower borrowing costs, the affordability of homes improves, which is especially supportive of homebuilders who can now clear backlogs at a quicker pace.



*Shown as standard deviations from mean
Source: Bloomberg Finance L.P.

Homebuilder Activity Expected To Improve



Note: Shaded area denotes estimate period;
source: Bloomberg Finance L.P.

Staples shouldn't be expected to outperform during recovery regimes and they continue to be challenged by: 1) relatively high comps, 2) deteriorating pricing power, and 3) stalled volume growth. Currency translation is an additional short-term headwind as earnings trends are well off their COVID highs.

As written in our October report, the countercyclical conditions that propelled Staples during COVID are turning from friend to foe as consumers don't have the same demand growth after stocking up on goods, while they're also trading down in value in a pricing power reversal.

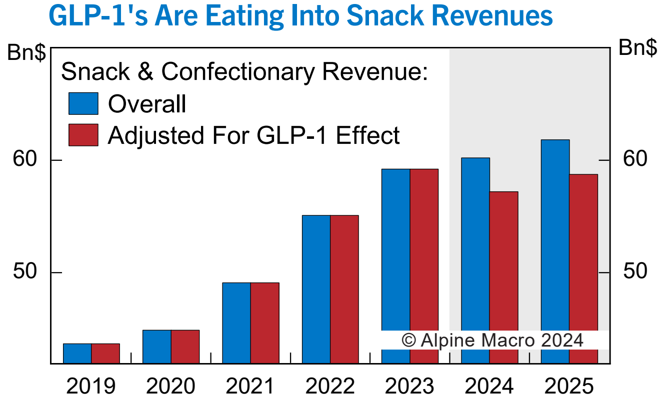
We continue to maintain our underweight position however there is the potential for a slight technical rebound as the sector approaches oversold levels.

Industry Spotlight: Snacks & Confectionery

The increasing adoption of GLP-1 drugs is likely to have direct implications for earnings and margins in the snack and confectionery industry. As these drugs reduce appetite and caloric intake, demand for snack foods may soften, potentially slowing revenue growth for companies in this space. This dip in demand could weigh on top-line performance, especially as brands contend with reduced purchase frequency from a growing segment of their consumer base.

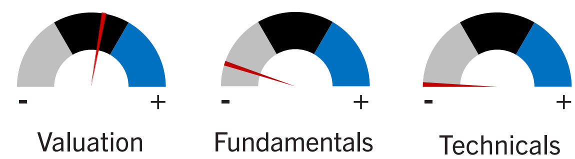
Some companies may choose to shift focus to healthier, low-calorie products, which could entail additional R&D and marketing expenses, putting pressure on margins. As GLP-1 drugs reshape consumer habits, snack companies may need to innovate rapidly to protect earnings.

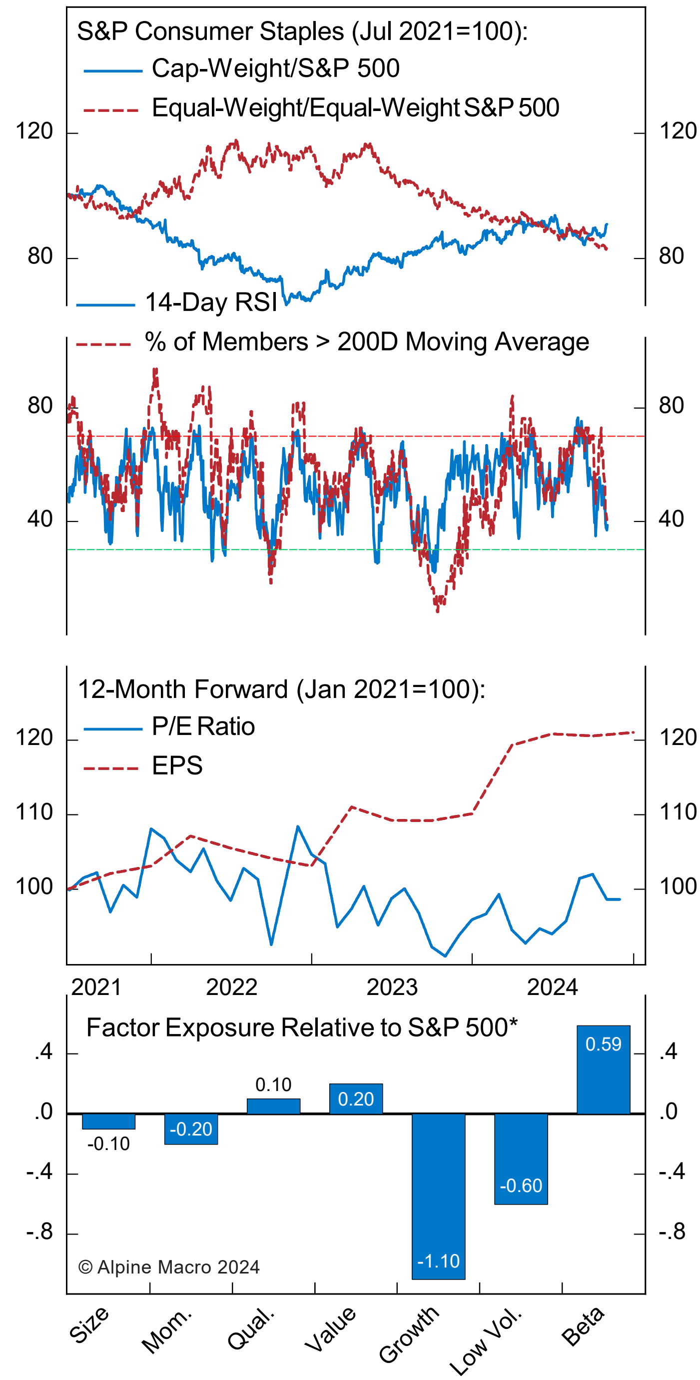
GLP-1's Are Eating Into Snack Revenues



Note: Shaded area denotes estimate period based on GLP-1 usage & effect data. Data includes HSY, MDLZ, NESN, PEP & GIS

Alpine Macro Sector Dashboard





*Shown as standard deviations from mean
Source: Bloomberg Finance L.P.

Energy equities are floundering as geopolitical tensions are not enough to dislodge what appears to be a glut of supply relative to subdued demand for crude oil. Factor exposure to momentum and quality are near multi-year lows while value and yield are near their highs. Lower crude demand from China, even considering U.S. resiliency, has been a headwind along with a fragmented cartel with reluctant ability to curtail supply. U.S. production is back to all-time highs after a slight decline earlier this year.

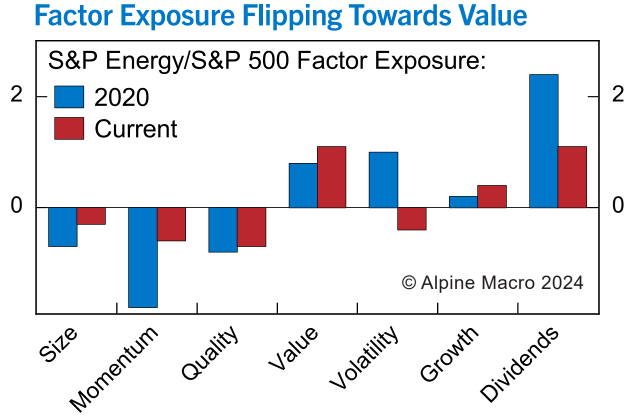
Although the bias appears to be lower energy commodity prices from here, potential upside catalysts include more severe geopolitical flareups or more growth-supportive stimulus from China. We're neutral on the sector and are on-watch to downgrade on additional price weakness. Washed out positioning and sentiment could provide for a coiled bounce if any positive catalyst prevails.

Finally, the U.S. election may provide a head-fake for investors, given the interplay of deregulation, supply, and the effects on energy prices.

Energy's factor exposure has undergone a notable shift, moving from a strong emphasis on dividends and momentum to a more balanced positioning between value and dividends. This change highlights evolving investor priorities, with greater focus on the underlying value and long-term stability of energy companies rather than just high-yield or momentum plays.

Investors now seeking value will prioritize companies with solid fundamentals and sustainable cash flows over those purely focused on high dividend yields. Firms that emphasize operational efficiency and cost discipline could see stronger demand for their stocks, supporting share prices.

Factor Exposure Flipping Towards Value



Note: Data shown as standard deviations from mean;
source: Bloomberg Finance L.P.

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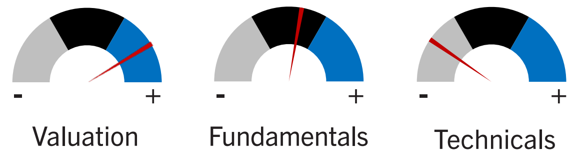
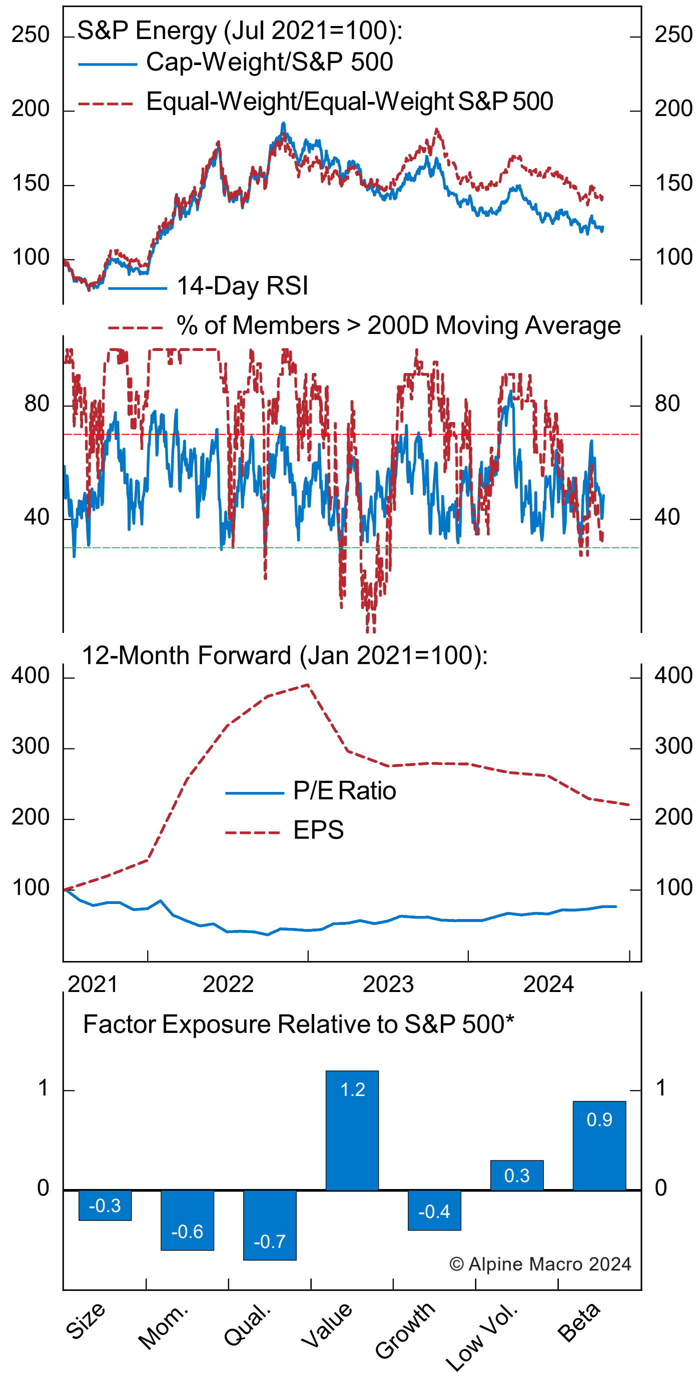




*Shown as standard deviations from mean
Source: Bloomberg Finance L.P.

Financials have fared well during reporting season and have established strong momentum, especially when compared to the broader index on an equal-weighted basis.

We continue to favor Banks and expect them to benefit from a troika of: 1) a trough in net interest margins (NIM), 2) better loan growth demand following the U.S. election and rate cuts, and 3) a benign credit environment.

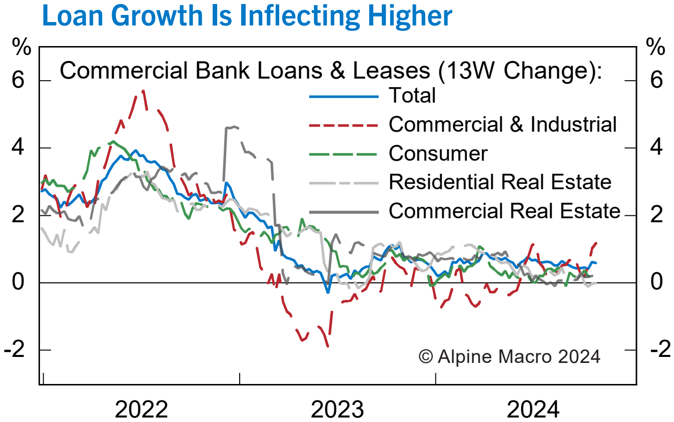
Regional Banks are best positioned to benefit from under appreciated cyclical tailwinds, however vulnerable CMBS Office exposure promotes a nuanced approach. Alternatively, the boom days for Insurance- which is a more defensive industry- are in the rear-view as the inflationary impulse for rates faces push back. Valuation is stretched.

Industry Spotlight: Banks

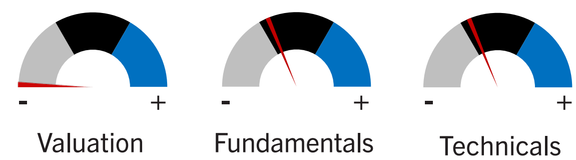
After a period of stagnation, commercial bank loan growth is finally beginning to pick up, supported by a falling interest rate environment and government-led spending initiatives. Lower rates are making borrowing more attractive, encouraging businesses to take on new loans to finance expansion and investment.

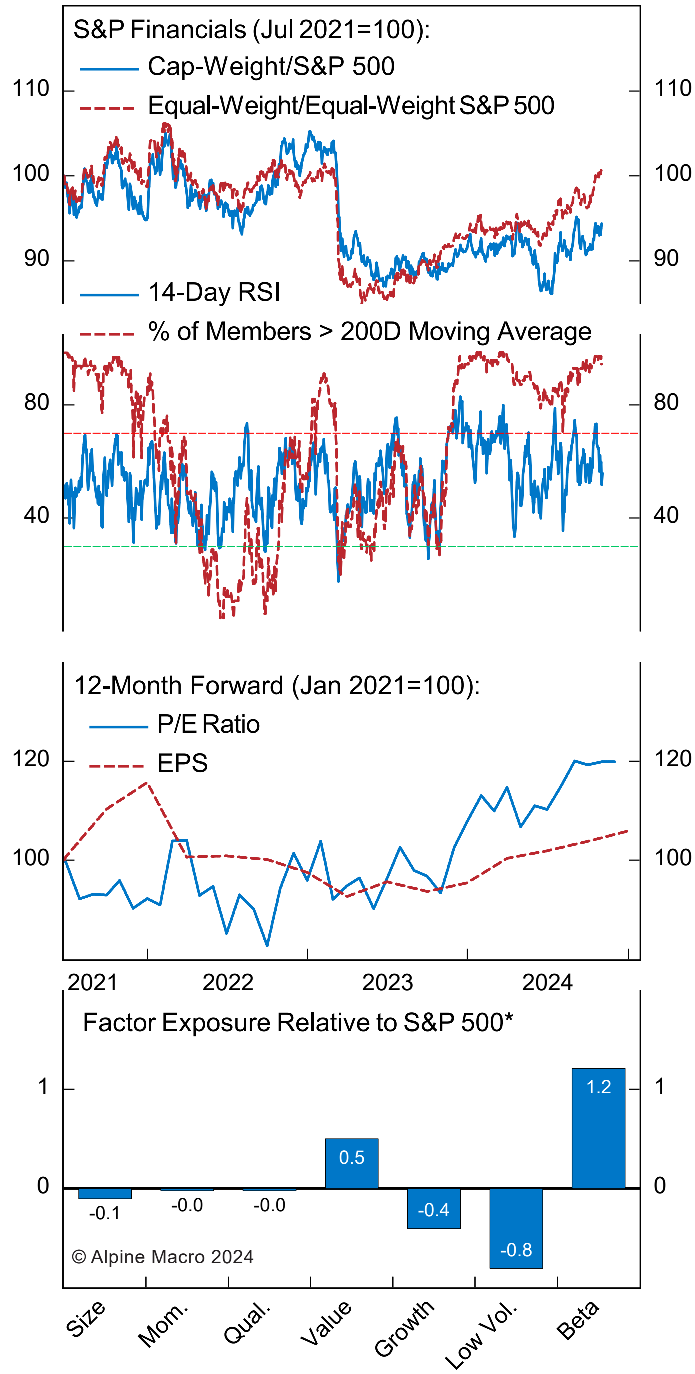
Government spending initiatives targeting infrastructure and other strategic projects are also expected to drive loan demand over the coming years. As funding flows into large-scale projects, businesses in related sectors may increase their borrowing to capitalize on new opportunities. This upward trend in loan growth is a positive signal for banks, as it can boost net interest income and support earnings, especially as lending activity aligns with broader economic stimulus efforts.

Loan Growth Is Inflecting Higher



Alpine Macro Sector Dashboard





*Shown as standard deviations from mean
Source: Bloomberg Finance L.P.

It's been a difficult autumn for Health Care which has experienced the worst two-month performance of any large cap sector and is trending close towards a contrarian technical entry point. We're neutral on the sector.

Headwinds have come as certain biopharma companies have given back strong gains from earlier in the year while insurance companies have struggled through declining membership and a mismatch in care costs relative to premiums.

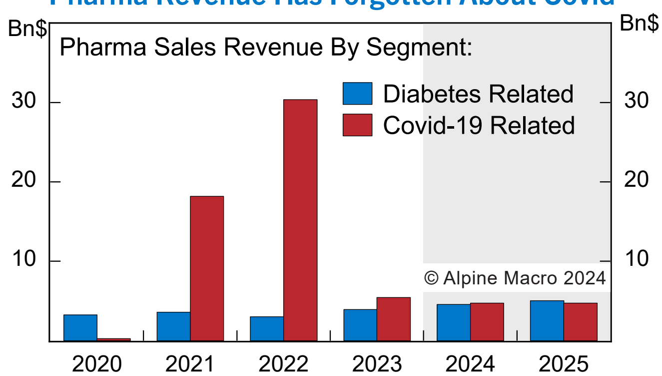
Going forward certain segments could be primed to benefit from lower rates, which could stimulate M&A activity, and the potential for China stimulus to promote an acceleration of growth in international pockets. We favor the Equipment & Supplies industry and expect headline risk to continue given potential implications from U.S. elections.

Industry Spotlight: Pharmaceuticals

Pharmaceutical company revenue has shifted away from its previous concentration on COVID-related treatments, expanding now into a broader array of therapeutic areas, with diabetes treatments—especially GLP-1 drugs—taking center stage. This diversification marks a new revenue dynamic as demand for COVID treatments wanes and GLP-1 drugs see rapid adoption, driven by their effectiveness in managing both diabetes and weight loss.

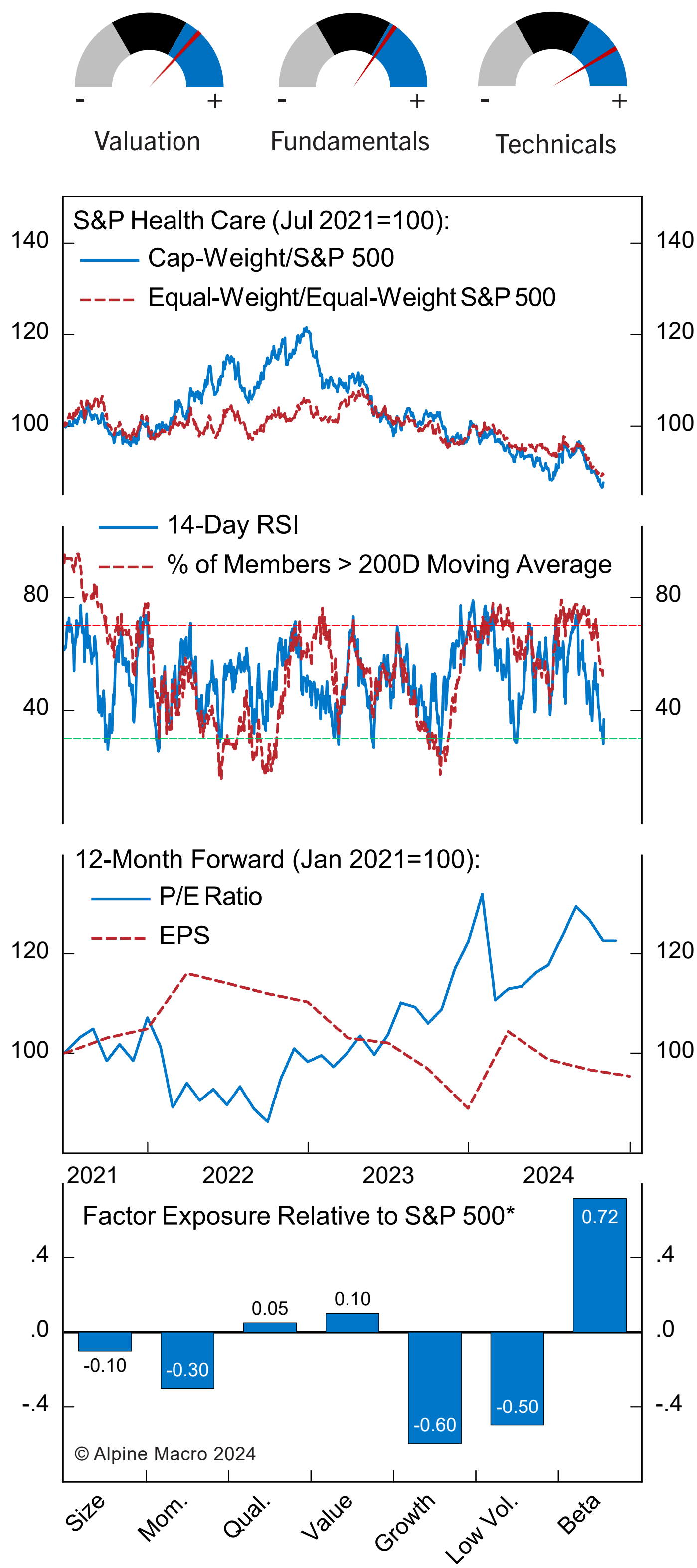
This pivot is likely to support stronger, more stable earnings growth, with less dependence on pandemic-related volatility. Companies focusing on these therapies may also see higher margins as the market for these innovative treatments expands, reshaping the pharma landscape and boosting the sector's growth potential in new, high-impact areas.

Pharma Revenue Has Forgotten About Covid



Note: Shaded area denotes estimate period; source: Bloomberg Finance L.P.

Alpine Macro Sector Dashboard



*Shown as standard deviations from mean
Source: Bloomberg Finance L.P.

Industrials have enjoyed a broad break out in recent months with all but one of its twelve industries averaging positive returns since August. We remain overweight the sector.

Central to our bullish Industrials thesis had been that a soft landing within the U.S., accompanied by rate cuts, should provide the kindling to fuel a cyclical rebound after the sector struggled into the early-Summer. Tailwinds in the form of power, infrastructure, and housing demand, which we view as secure regardless of the skew in D.C., are bonuses.

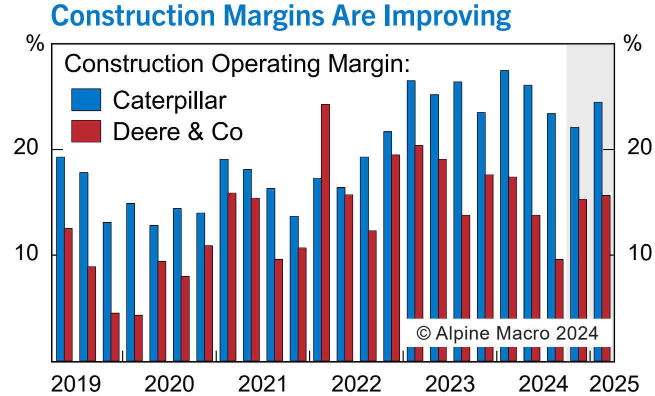
There remains uncertainty pertaining to the extent of China's stimulus measures but meaningful impact would add another supportive element to more globally-exposed segments of the sector. Technicals are nearing overbought levels, so a short-term consolidation is possible, however we remain bullish over the intermediate-term. Favor Building Products, Construction, and Defense.

Industry Spotlight: Construction

Operating margins for leading construction companies are forecasted to see improvement in the coming quarters. As the economy moves into a recovery phase, declining interest rates are creating a favorable environment for construction activity by reducing financing costs for large-scale projects.

The presidential election and anticipated government spending programs on infrastructure are expected to be pivotal. Increased public spending on infrastructure initiatives will provide a steady pipeline of projects for construction companies, supporting both revenue growth and margin expansion.

Construction Margins Are Improving



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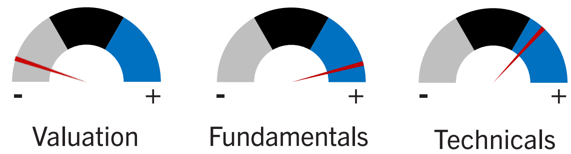

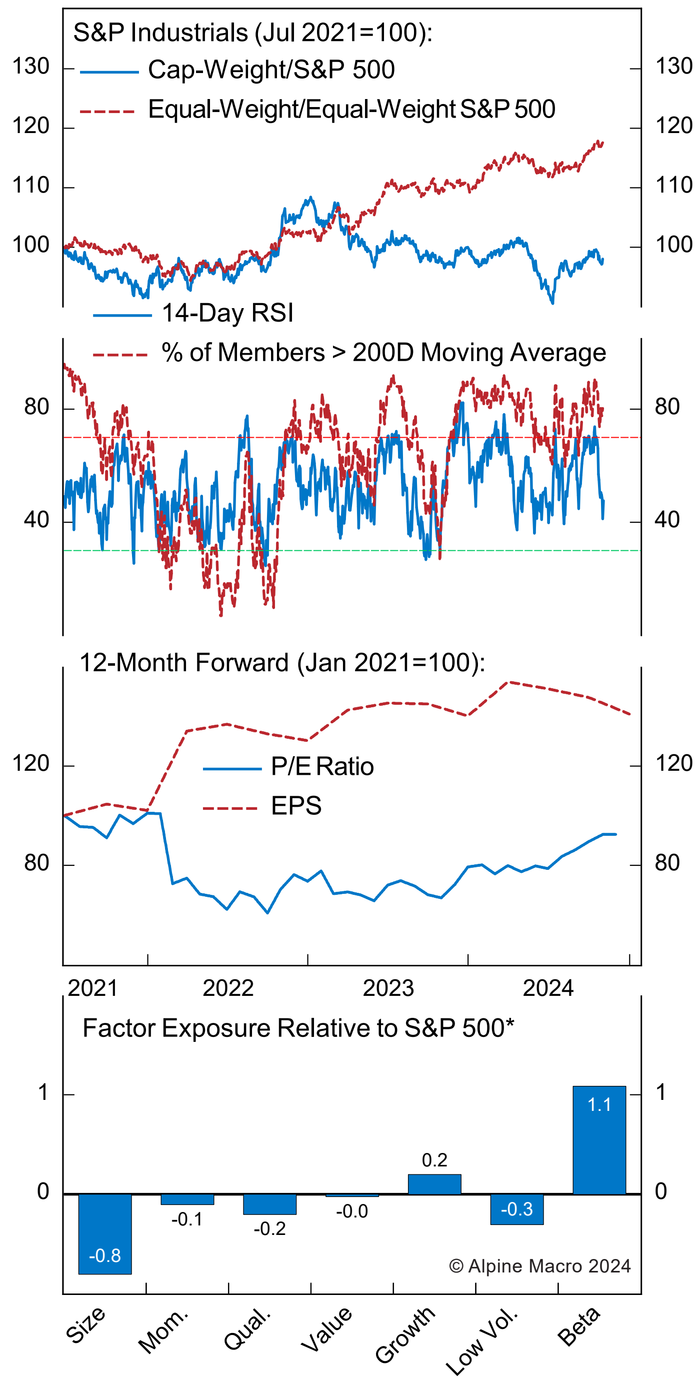

*Shown as standard deviations from mean
Source: Bloomberg Finance L.P.

Technology has trended higher in a sawtooth manner as investors continue to digest the potential monetization opportunities of artificial intelligence and the spend cycle associated with its build-out. Earnings expectations continue to climb.

The performance of Semiconductors, Software, and Hardware has been mixed but Q3 reporting season represents an opportunity for companies to guide expectations pertaining to a variety of end-market segments. We continue to expect A.I. "earners" to be better positioned relative to A.I. "spenders," and expect related technologies to eat up an increasing share of CapEx and/or tech budgets as opposed to increasing the pie.

We continue to favor the Information Technology sector as it exhibits the fastest long-term growth, highest quality, and profitability across sectors. Technicals have down but could approach oversold levels.

Valuations in the sector currently sit over one standard deviation above historical averages, suggesting an overvalued market. However, when removing the weight of tech giants Microsoft and Apple, sector valuations are closer to neutral, offering a more balanced picture. This contrast highlights the ever-present top heaviness of the sector, which may mask bargains elsewhere.

An active approach to Tech is warranted, especially during periods of market weakness, as industries and the sector often first trade as a monolith before stock pickers sort through the nuance, allowing for solid alpha opportunity.

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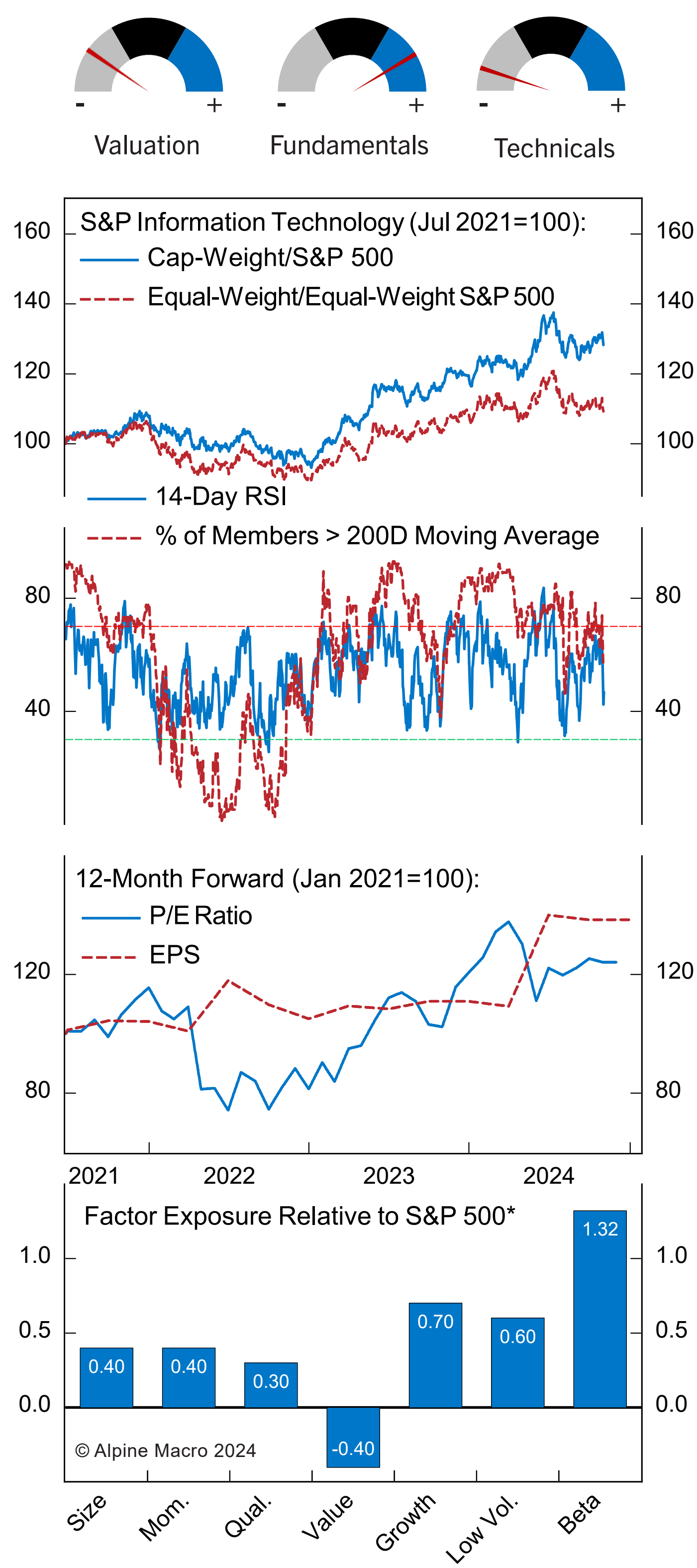

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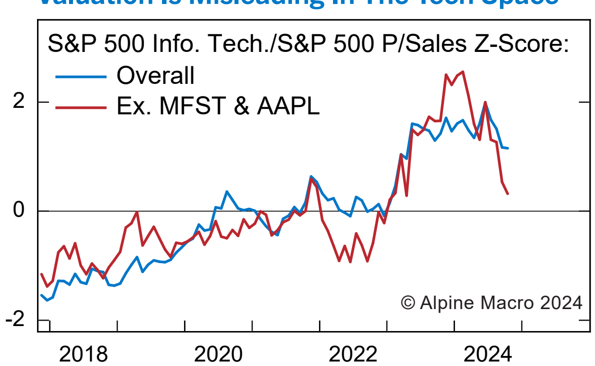
Source: Bloomberg Finance L.P.

Valuation Is Misleading In The Tech Space



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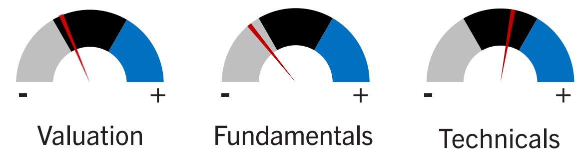
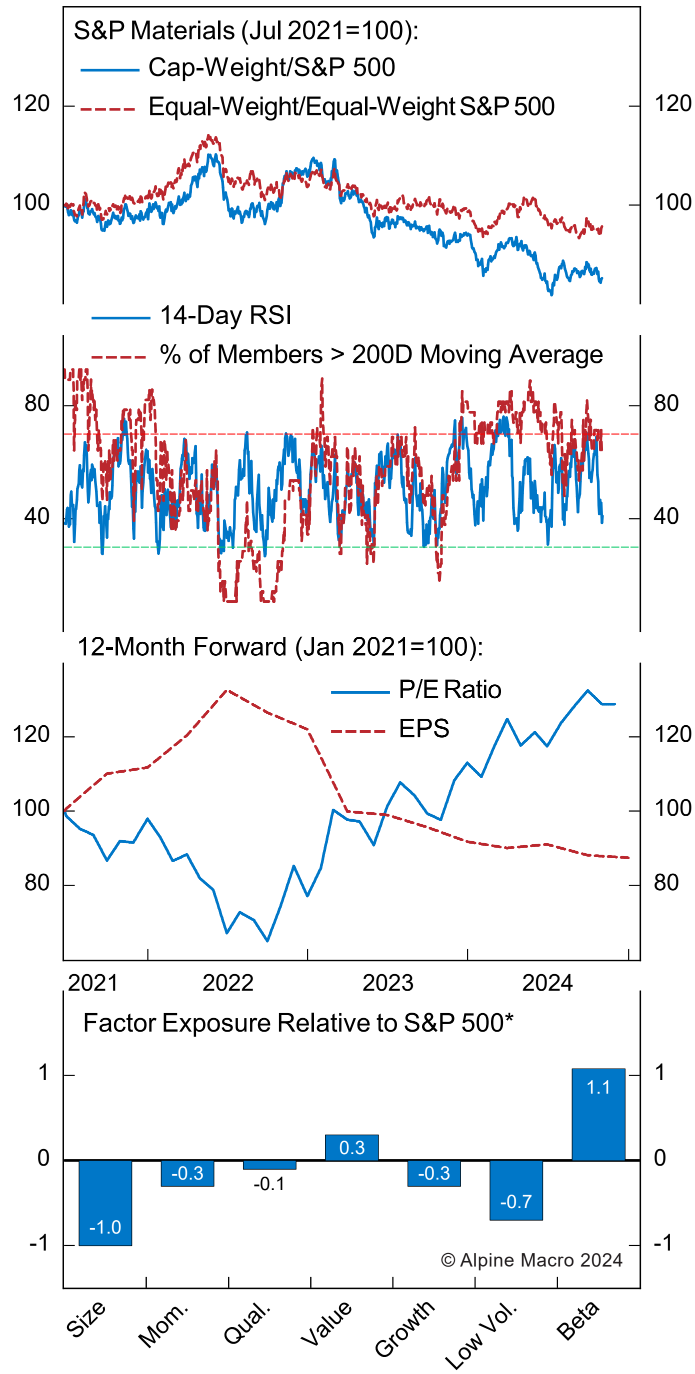




*Shown as standard deviations from mean
Source: Bloomberg Finance L.P.

Materials have taken a step back after a promising late-summer as the effects of Chinese stimulus remains murky and the ex-U.S. growth backdrop is modest at best. Chemicals and Miners have been particularly hit hard in recent weeks.

A potential catalyst remains should China's stimulative efforts boost global industrial production and/or Fed rate cuts set off a new round of domestic manufacturing expansion. We're taking a "wait-and-see" approach and remain underweight.

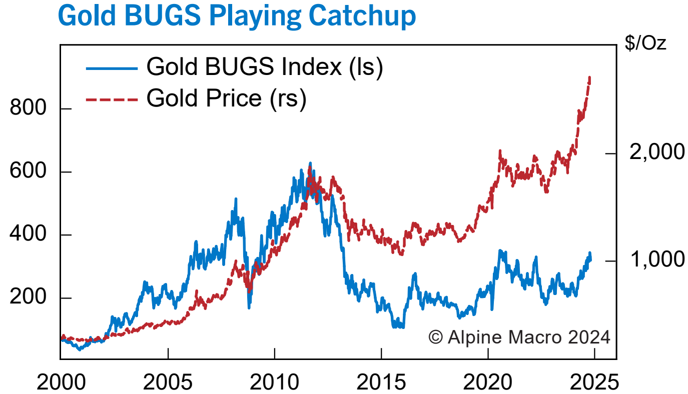
It's too soon to embrace the bullish narrative, as regional manufacturing indicators have yet to flag recovery. Given the short-cycle tendencies for most of it industries, any shift could occur rapidly.

Q3 reporting season has been underwhelming thus far, with sales flat to expectations and earnings coming in slightly below consensus. Valuation appears slightly stretched.

Industry Spotlight: Gold Miners

Gold prices have skyrocketed while miners have not kept pace, creating a notable divergence from their historically strong correlation. Much of this weakness is attributable to idiosyncratic business risk. The drivers powering the yellow metal remain largely in play. As higher prices sustain, we'd expect more investors to overlook business risk and focus on improved earnings, margins, and the conversion of CapEx to production.

Gold BUGS Playing Catchup



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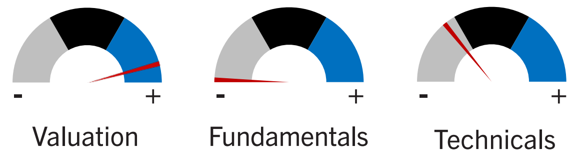
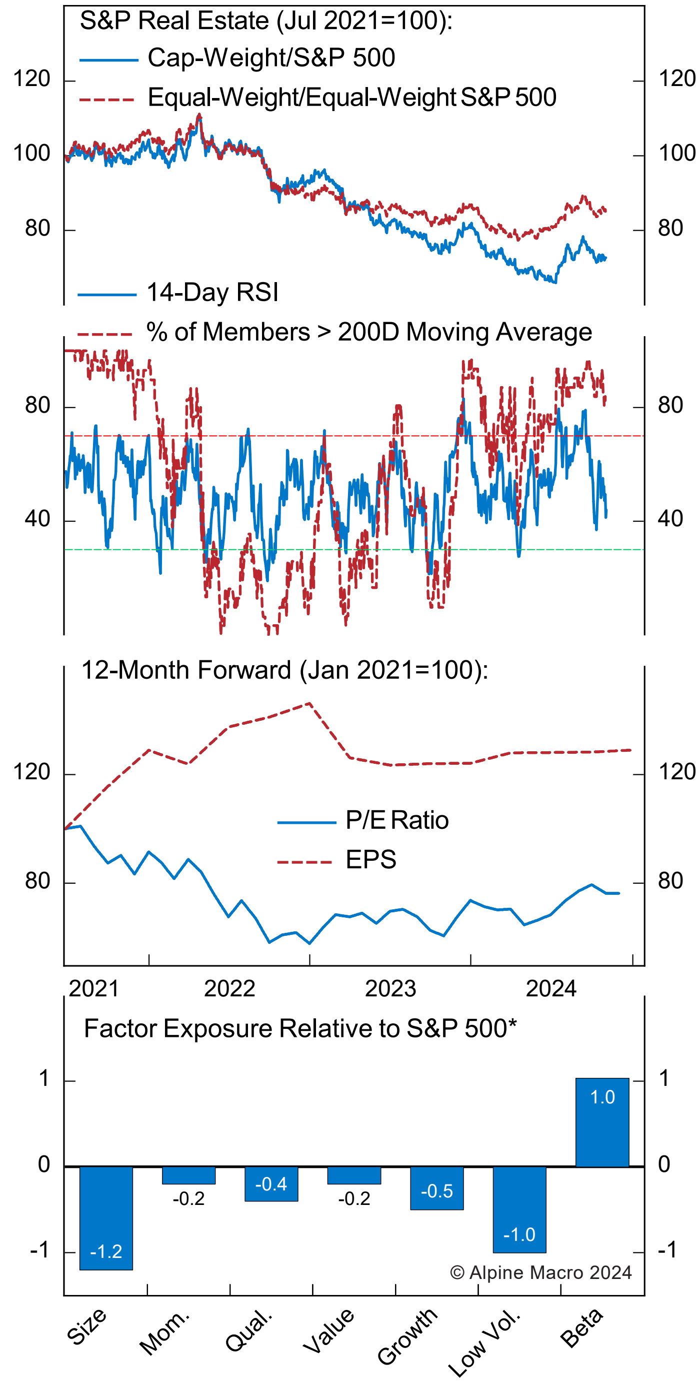




*Shown as standard deviations from mean
Source: Bloomberg Finance L.P.

Real Estate should benefit from the march towards the Recovery stage of the cycle following the first salvo of Fed rate cuts and broadening profit growth. Historically, the sector performs well through this phase, exhibiting early cyclical tendencies although a recent pickup in yields has weighed on near-term performance.

Real Estate experienced a slight stall after surging to overbought levels - its still near the high of its momentum range- but may be ripe for upgrade in coming periods, especially if yields move durably lower. Trends across industry groups are mixed and demonstrate a degree of mean-reversion with some perceived higher-risk segments such as Retail and Office storming back to outpace Residential and Data Centers in recent months. In this regard, some of the valuation discount has been earned back.

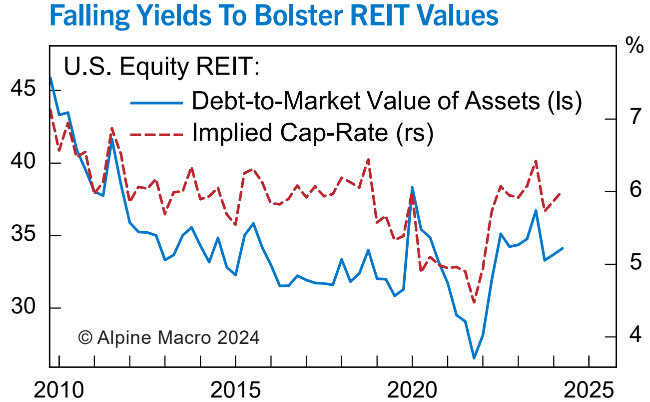
We favor Data Centers, given secular tailwinds, and Senior Housing exposure given trends in occupancy, REVPOR, and expense management. Valuation is attractive.

Industry Spotlight: REITs

The transition from a period of zero interest rates (ZIRP) and quantitative easing to a sharp hiking cycle paired with balance sheet tightening was a perfect storm for Real Estate equities over the last two years, and that's before considering well-publicized commercial real estate dislocations.

Falling yields are acting as a catalyst to unlock value, making REITs more attractive as lower borrowing costs improve their profitability and operational flexibility. In light of these favorable conditions, we upgraded the sector to neutral last month, recognizing the potential for REITs to capitalize on the current environment.

Falling Yields To Bolster REIT Values



Source: Bloomberg Finance L.P.

The current backdrop, characterized by slowing, disinflationary growth has proven supportive for Utilities which were enjoying their most sustained bout of outperformance in years although a back up in rates is a near-term challenge. Headline risk related to the U.S. election weighs on clean energy related Utilities while a recent regulatory ruling pressures nuclear stocks.

Our bull thesis for Utilities remains and has been twofold: 1) negotiated rates are likely to be highest as the spike in inflation abates, and 2) the secular thirst for power will demand increased levels of negotiated CapEx. These elements boost rates and the rate base, enhancing earnings. Falling bond yields and associated costs of capital are an added bonus.

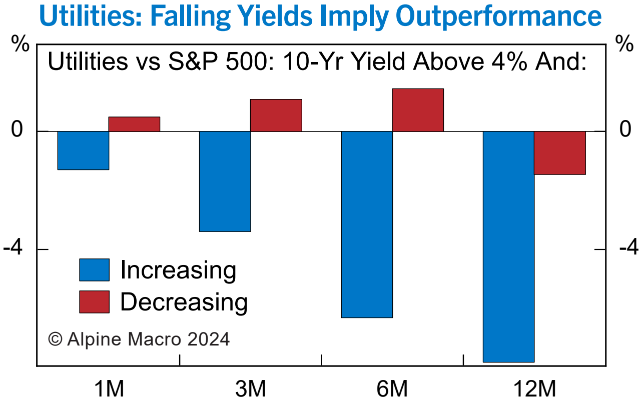
Utilities are generally not a sector to own over the long-run however we feel that a unique opportunity presents a window of outperformance based on cyclical and secular tailwinds.

We favor Utilities that offer gas or electricity product in regions with favorable regulatory regimes and/or attractive locations for data centers. This tends to include the Southeast, Mid-Atlantic, and Mid-West. Valuation is tame.

Still Bullish On Utes

Utilities typically outperform the broad market when yields are high and falling. With the recent backup in yields driven by uncertainty surrounding the election, we remain constructive on the utes. Despite the short-term volatility, the Federal Reserve has not altered its plans for rate cuts, which supports the bull case. Structural tailwinds such as the energy transition and the AI boom continue to bolster the sector, positioning it for sustained growth. As investors navigate through yield fluctuations, utilities remain a solid choice, likely benefiting from their defensive nature and the ongoing demand for cleaner, greener solutions.

Utilities: Falling Yields Imply Outperformance



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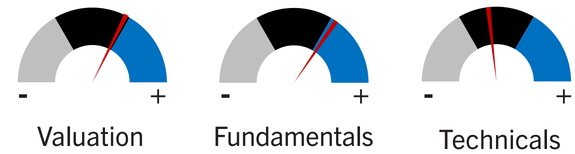

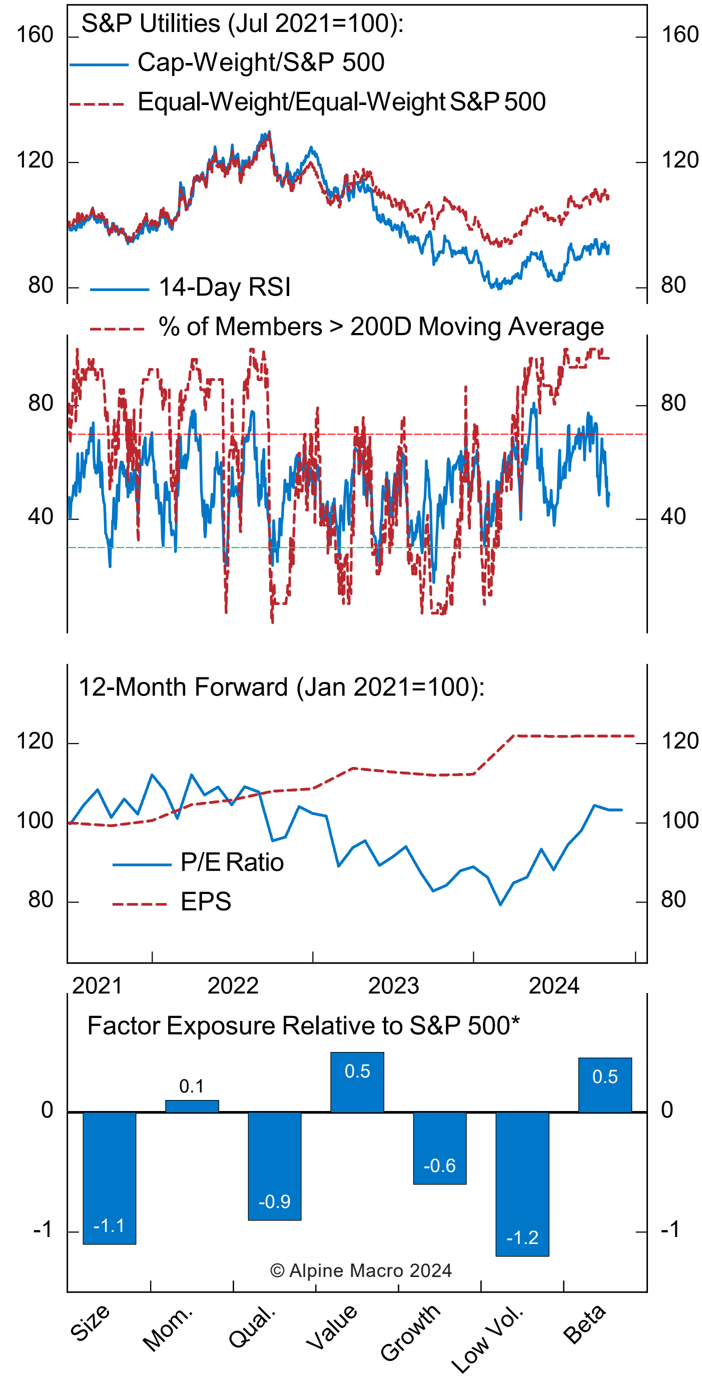

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A Unique Mind On The Markets