EQUITY STRATEGY MONTHLY

September 2024

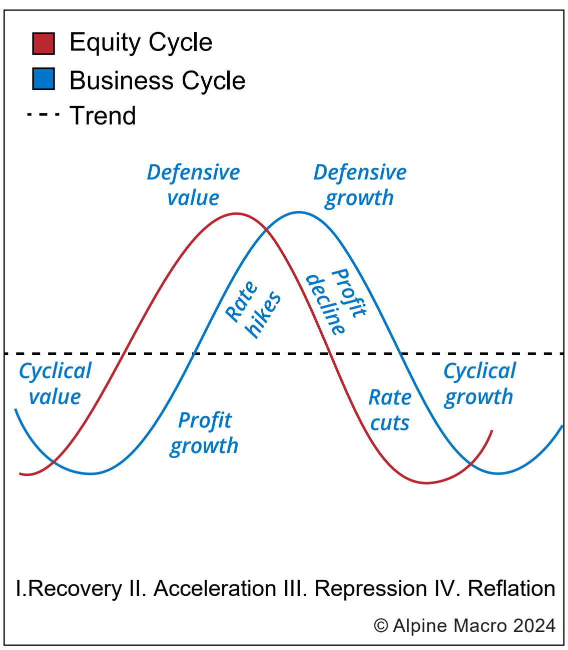
A Framework For Equity Strategy

Investors can optimize their opportunity for favorable outcomes by applying a dynamic but flexible framework to equity strategy. Our framework considers a variety of qualitative and quantitative inputs to synthesize positioning across size, styles, sectors, and factors.

As a starting point, our framework leverages the expertise of the Alpine Macro team in distilling baseline macro views into equity-specific implications. We're particularly cognizant of the outlook for policy and for profits, both of which feed through to the business cycle and affect equities.

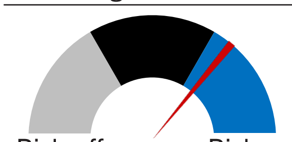
On top of cyclical process, we pay particular attentions to three set of variables when making a sector call. Valuation, business fundamentals and technicals.

Chart 1 The Theoretical Business/Equity Cycle



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	-18.7	13.3	20.1
Mid Cap	-1.7	2.1	4.0
Small Cap	5.9	1.4	-3.5

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

	Growth	Core	Value
Large Cap	49.7	6.2	-3.2
Mid Cap	19.1	7.0	1.1
Small Cap	3.7	7.0	3.9

Note: **Blue** (**Red**) = **Better** (**Worse**); source: Bloomberg Finance L.P.

Business Cycles Versus Equities

Chart 1 illustrates a stylized four-stage business cycle that impacts historical trends in equity performance, specifically:

- 1. Recovery (Profit Strength, Accommodative Policy): Corporate fundamentals are at the cusp of inflecting higher following a downturn, while accommodative policy signals runway for expansion. Equities start to rally in anticipation of a profit rebound

- 2. Acceleration (Profit Strength, Restrictive Policy): Earning growth is abundant and "animal spirits" build, however policymakers begin to pivot to tightening policy to avoid risk of overheating. Acceleration regimes capture the middle-to-late stages of the cycle and have strong, consistent returns.

- 3. Repression (Profit Weakness, Restrictive Policy): Policy pressure weigh on rate-sensitive sectors, engineering a downturn in the profit cycle. Historically, this regime was considered anathema to equity investing, however the rise of Mega Tech has flipped the script for modern times.

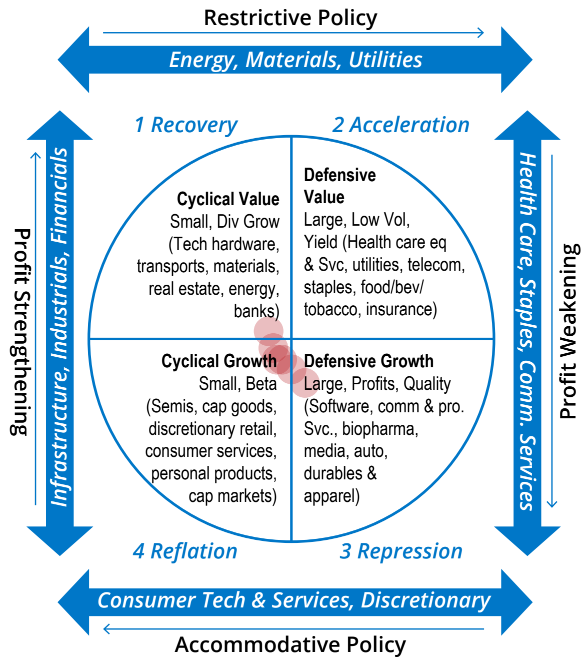
- 4. Reflation (Profit Weakness, Accommodative Policy): With growth risks skewed to the downside, policymakers signal an accommodative stance, setting the stage for a profit inflection higher. This regime often comes in response to crisis periods, biasing averages lower, with returns outside of crisis noticeably stronger.

Tuning Up an Old (Investment) Clock

The traditional Investment Strategy Clock has served a multi-asset roadmap for investing across regimes but it's been shattered by tectonic shifts across the equity landscape and is in critical need of repair. Our framework exhumes the clock and retrofits it with modern cross-sectional equity parameters, as shown in **Chart 2**.

We calibrate our clock by analyzing the coincidental and forward-looking return data for U.S. equity sectors, industries, size, styles, and factors across more than two-dozen regimes since 1991. Part of what makes our process unique is that we define our regimes through quantifiable

Chart 2 Alpine Macro Equity Cycle Strategy Clock



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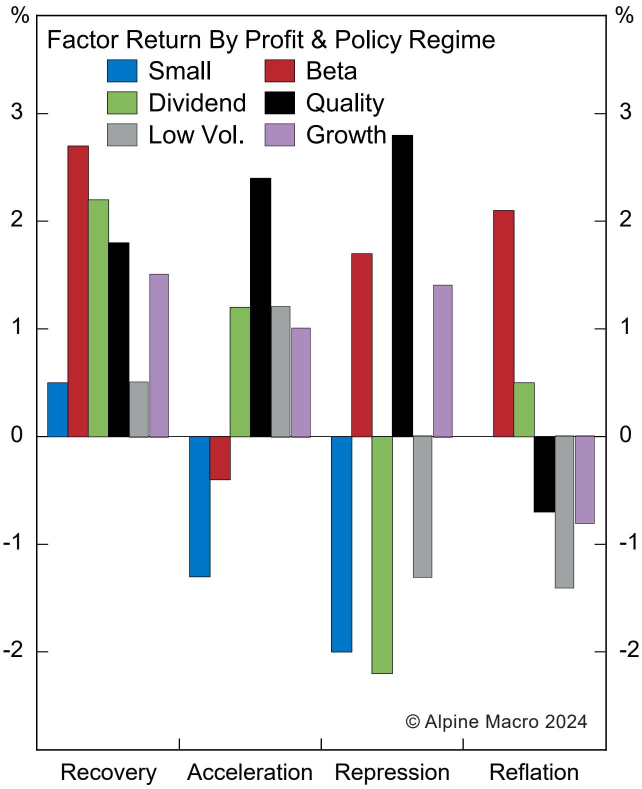
policy and profit impulses, as opposed to nebulous inflation and growth equilibriums.

An application of our parameters reveals significant evolution from the traditional playbook. Differences of note:

- In general, the classic clock followed the business cycle as opposed to the equity cycle, making it more reactionary and prone to abrupt timing shifts. For example, Energy performs admirably during (2) Acceleration periods however its six-month forward returns are the worst of any industry since 2010, meaning that timing their exit is imperative. Our framework accounts for this and advises an entry point during the (1) Recovery period which boasts stronger current and forward returns for more maneuverability.

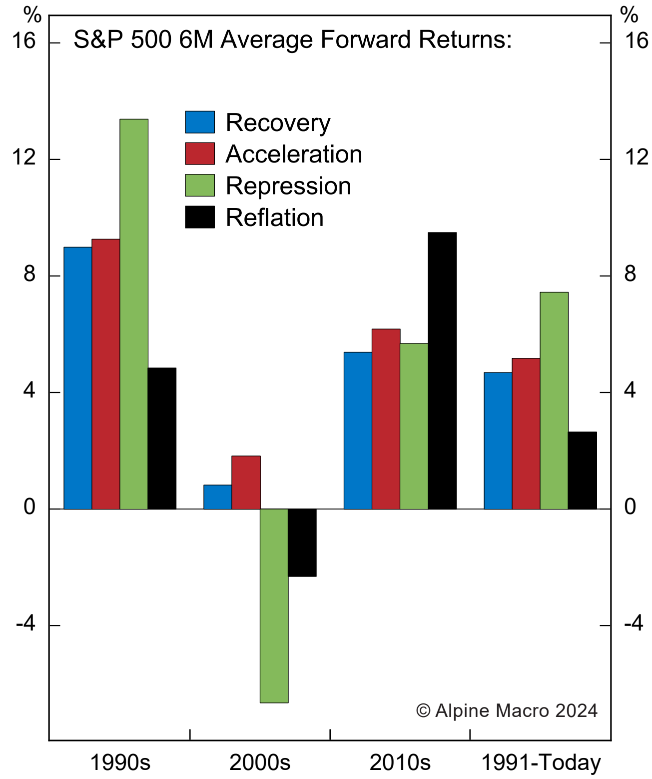
- The legacy clock prescribes cash and Defensive Value (Utilities) during periods of (3) Repression ("Stagflation"), urging investors to minimize equity risk with inflation rising and profits falling. In practice, though, equities have performed well through (3) Repression as Technology-adjacent industries surged throughout swaths of the 1990s, 2010s, and 2023.

Chart 3 Factor Returns Differ Across Regimes



Note: All series' are Alpine Macro proprietary indicators

Chart 4 Returns By Profit & Policy Regime



Note: All series' are Alpine Macro proprietary calculations

- Financials were identified as the standout sector during (3) Reflation, however they're among the worst performers through crisis periods which often run concurrently with efforts to reflate the economy. Financials faltered through the DotCom burst, the Financial Crisis, and the initial stages of COVID.

- The Value premium has been in secular decline while Growth has outperformed in recent decades. Value tends to take its cue from the profit impulse, generating most consistent outperformance when earnings are abundant. Alternatively, the policy setup has more of an influence on the dispersion between Cyclicals and Defensives, with accommodation supporting beta risk.

Unsurprisingly, Quality enjoys the strongest spells of outperformance during (2) Accelerations and (3) Repressions as these stages represent the fulcrum point for a downturn (Chart 3).

Table 1 Returns Across Different Regimes

S&P 500 Returns (1991-2024):		1 Month				6-Month Forward			
Regime	Months	Average	Median	St. Dev	Pos. %	Average	Median	St. Dev	Pos. %
1. Recovery	103	1.1%	1.8%	3.8%	64%	4.7%	5.8%	10.6%	72%
2. Acceleration	137	1.0%	1.3%	3.2%	72%	5.2%	5.1%	7.1%	78%
3. Repression	56	0.9%	1.7%	4.8%	63%	7.4%	8.7%	9.9%	80%
4. Reflation	107	0.1%	0.8%	5.3%	58%	2.6%	3.5%	13.4%	69%

Empirical Evidence

In **Table 1** and **Chart 4** we detail equity performance during each regime and highlight notable differences across time periods.

- The most consistently positive regimes occur during expansions of the profit cycle, during Recoveries and Accelerations, while equity performance with profits in decline is more scattershot.

- Performance varies widely across time-periods and highlights the need for dynamic assessment. The 90s were defined by lucrative volleys between Repression and Reflation, while the 2000s were a struggle to Reflate, Recover, and Accelerate through two crisis periods. The years since have been characterized by rolling periods of growth through Recovery and Acceleration.

- The success of the Technology complex has blown up the conventional wisdom that equities don't perform well during periods of Repression, given their lower correlation to the macro environment. Meanwhile, the 2000s demonstrated that equity commodities can be bludgeoned during Reflationary periods.

- Each regime offers ample opportunity for investors to make money, however, equities trend in different and distinct manners across periods, making proper allocation critical (**Table 2 & Chart 5**).

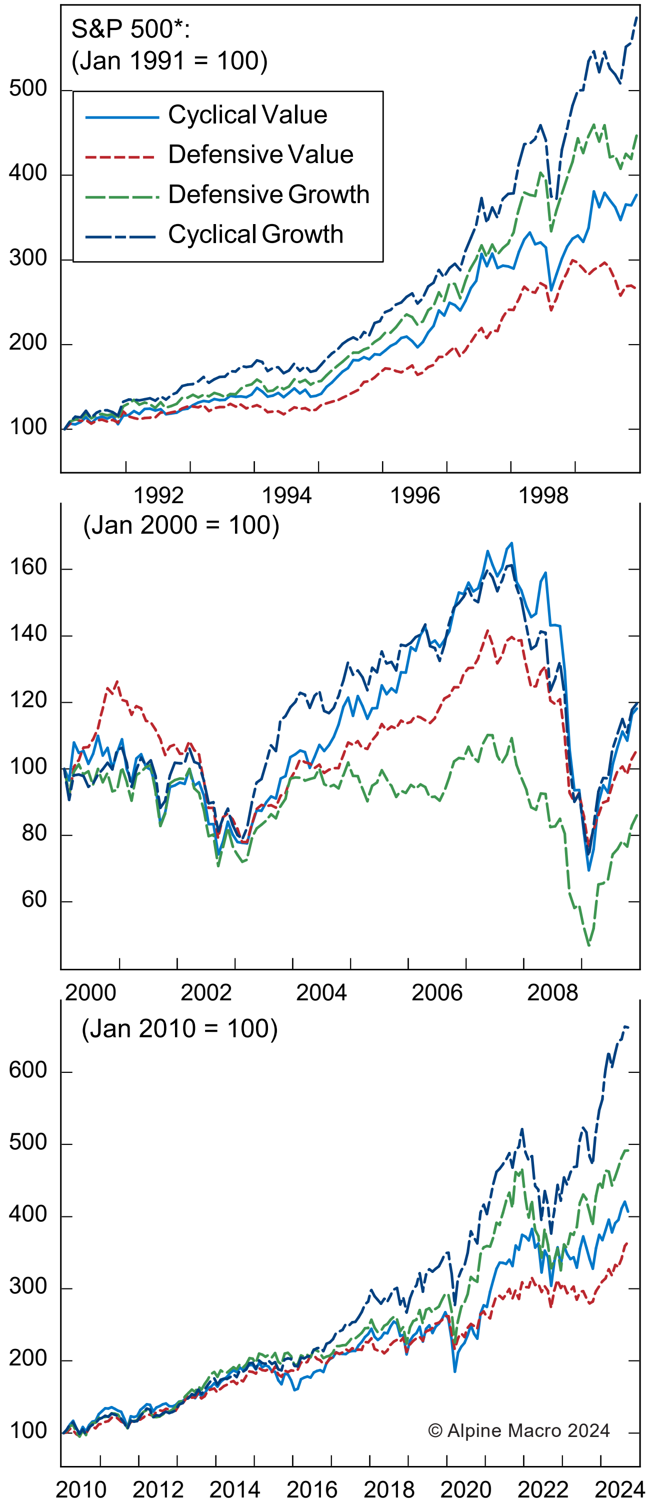
Equity Strategy Today: Cyclical Transition

On paper the clock is shifting backwards from (2) Acceleration as the Fed prepares to cut rates, but in practice we view it more as a diagonal move from (3) Repression

Table 2 "Styles Make Fights"

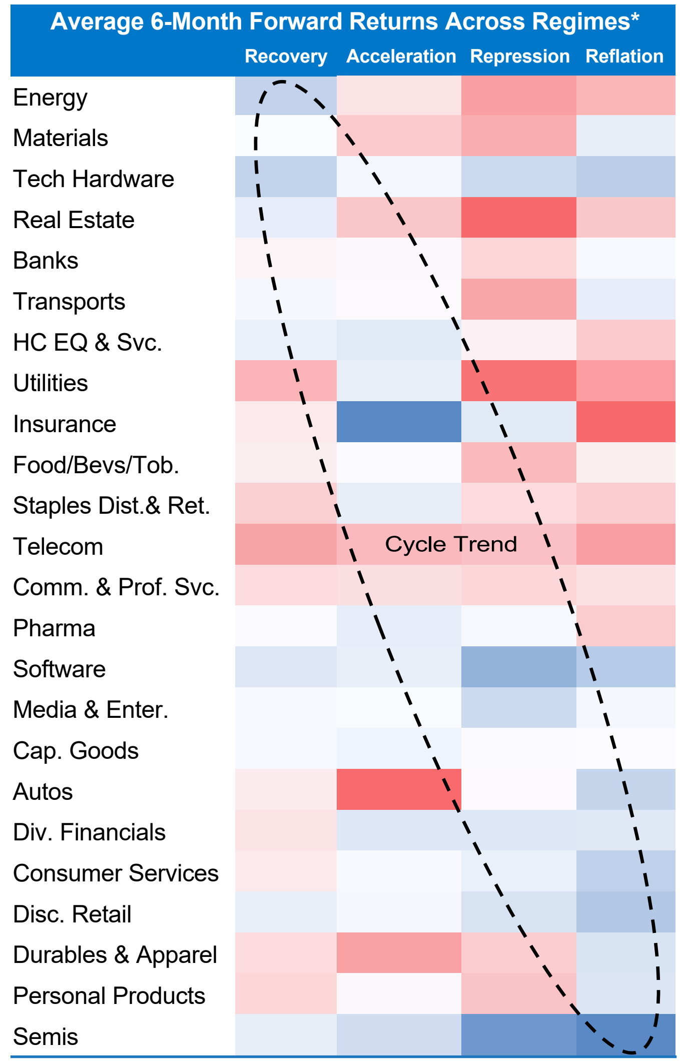
Regime	Notables		S&P 500		Cyclical Value	Defensive Value	Defensive Growth	Cyclical Growth
	Begin	End	Total	Ann.				
1. Recovery	Jul-20	Jul-22	26%	14%	50%	23%	31%	24%
1. Recovery	Aug-09	May-11	32%	18%	30%	23%	30%	27%
1. Recovery	May-03	Jul-04	14%	11%	20%	12%	16%	22%
Average Return All Episodes			**10%**	**7%**	**31%**	**18%**	**23%**	**22%**
2. Acceleration	Apr-23	Jul-24	32%	24%	22%	19%	31%	42%
2. Acceleration	May-05	Oct-07	30%	12%	32%	27%	7%	19%
2. Acceleration	Nov-99	Aug-00	9%	11%	2%	15%	-4%	-4%
Average Return All Episodes			**15%**	**12%**	**13%**	**15%**	**10%**	**17%**
3. Repression	Dec-18	Feb-19	11%	44%	14%	9%	15%	14%
3. Repression	Dec-14	Apr-16	0%	0%	-8%	7%	3%	5%
3. Repression	Jan-95	Mar-96	31%	25%	47%	30%	46%	42%
Average Return All Episodes			**5%**	**7%**	**9%**	**10%**	**12%**	**14%**
4. Reflation	Nov-07	Jul-09	-33%	-19%	-32%	-28%	-25%	-29%
4. Reflation	Oct-98	May-99	18%	28%	26%	9%	22%	27%
4. Reflation	Jan-91	Nov-93	34%	12%	41%	26%	53%	74%
Average Return All Episodes			**3%**	**4%**	**6%**	**-1%**	**10%**	**15%**

Chart 5 Cycle Regime Historical Profile



*Alpine Macro proprietary indicators

Table 3 Industry Group Performance Heatmap

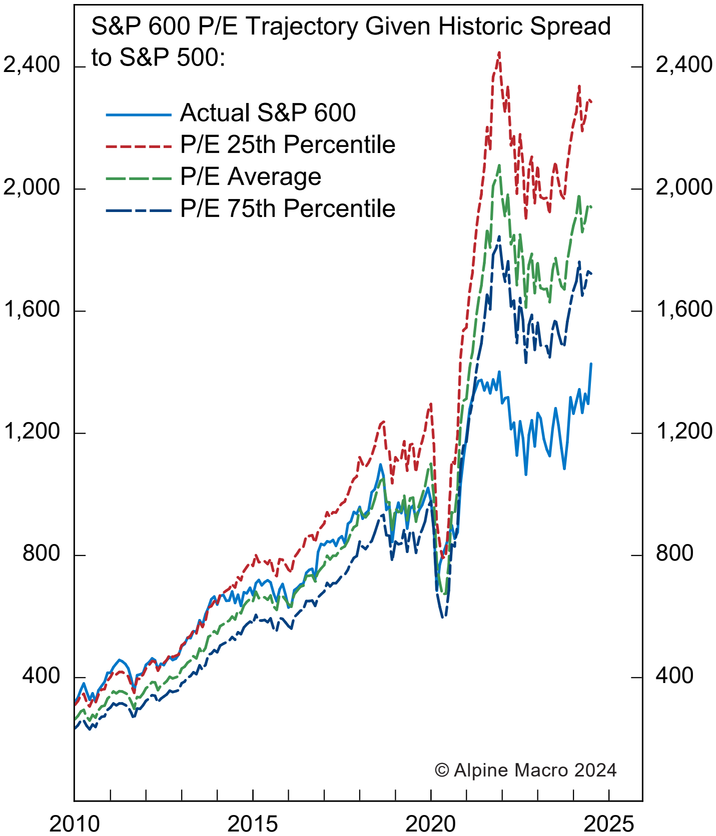


*Data since 1991 Blue (Red): Outperforms (Underperforms) S&P 500

towards (1) Recovery as profit growth broadens beyond the Mega Tech segment. This highlights the value-add of prudent qualitative assessment to go along with our quantitative toolkit (Table 3).

The underlying economy and equity market are in a cyclical transition: tight money has begun to slow down the economy, but the Fed is also on the cusp of potentially aggressive monetary easing. The business cycle seems to be in a repression stage but with monetary easing, the economy will likely transition to renewed expansion at some point in 2025.

Chart 6 Small Caps Are Still Cheap



Note: All series use NTM P/E; source: Bloomberg Finance L.P.

Current conditions, characterized by a broadening profit outlook and impending rate cuts, suggest a rotation of leadership from Defensive Growth towards more cyclical exposures and potentially an introduction to Value. This outlook in coordination with our valuation, fundamental, and technical work confirmed our late-June upgrade to Small Caps[1] and August upgrade of Banks[2].

Chart 6 illustrates how cheap Small Caps remain relative to their historical range to Large Caps, representing a very attractive mean-reversion opportunity when fundamentals inflect higher.

Sector Direct Indicator

Our Sector Direct Indicator ranks the relative strength of sectors on valuation, fundamentals, and technicals, and supports some of our overweight sector positions even as the Cycle Clock rotates (**Table 4**).

Table 4 Alpine Macro Sector Direct Indicator

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

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

There are a few points worth noticing:

- Utilities continues to exhibit attractive valuation and fundamentals, although technicals flag concern as positioning is nearing contrarian stretched levels. Communication Services is clean, exhibiting strong fundamentals and technicals with fair valuation (**Chart 7**).

- The Indicator is flagging concern with Information Technology, which is expensive and falling behind the pack with regards to earnings momentum. Further deterioration in these measures could warrant reallocation to sectors including as Real Estate, which benefits from a turn towards cyclical (1) Recovery and enjoys attractive valuation with strong momentum.

- Not all traditional beneficiaries of the cyclical (1) Recovery phase are ready for prime time including Materials, which we detailed in July[3]. Given the exceptionalism in U.S. economic resilience relative to global peers,

1 Alpine Macro *Equity Strategy* "How To Make Money In Small Caps" (June 26, 2024).

2 Alpine Macro *Equity Strategy* "Expect Big Things From Small Banks" (August 21, 2024).

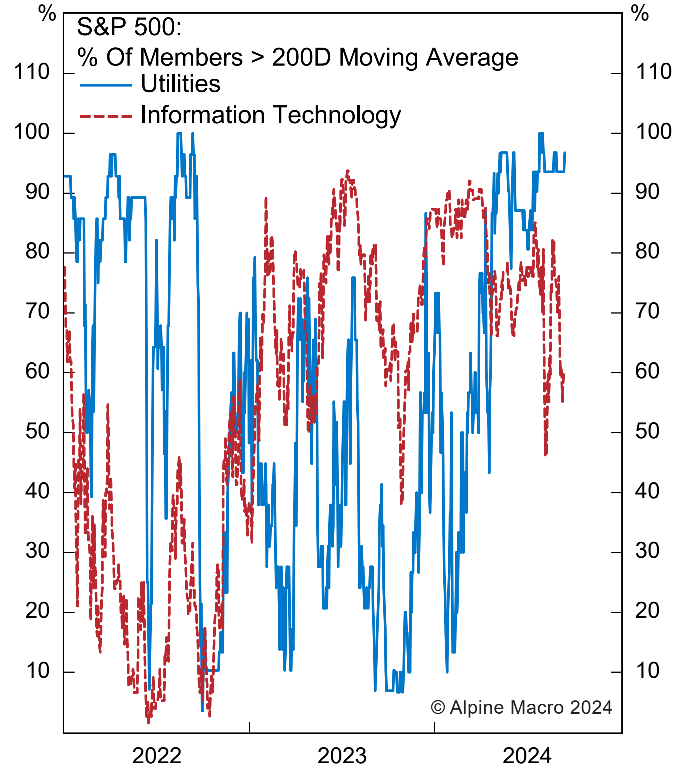
3 Alpine Macro *Equity Strategy* "Not Yet A Materials World" (July 24, 2024).

segments with large international exposures may remain under pressure barring a turnaround in those end markets.

Followers of our work can view monthly updates of our Alpine Macro Sector Direct Indicator and application of our framework across each sector in our Equities Monthly report series.

Nick Giorgi
Chief Equity Strategist

Chart 7 Utilities & Information Technology Technical Profile



STRATEGY SPOTLIGHT

	U.S. Equity Views*	--	-	N	+	++	Rationale Of View
Style & Size	Large Cap			■			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				■		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				■		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		■				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					■	Comm. Services offers an attractive blend of the dynamism and growth of Mega Tech coupled with greater value and yield. Valuation appears extended but ex-Mega Tech is relatively cheap. Momentum has weakened.
S&P 500 Sectors	Consumer Discretionary			■			We expect the sector to be pressured as the consumer takes a more discerning approach to spending, though pricing appears washed out for some of the larger constituents within the sector. Earnings season led to major dispersion across companies and industries. Valuation is fair.
S&P 500 Sectors	Consumer Staples	■					Staples operate low-margin, high-volume models, yet volume appears flat while consumers increasingly move down the value chain. Margins have shown resiliency. Favor Merchandise Retail but otherwise underweight. Valuation is reasonable and a positive. Technicals are breaking down.
S&P 500 Sectors	Energy			■			Commodity outlook neutral given supply/demand dynamics. EV transition is a risk, although commercial petrol demand (shipping, plastics) remains robust. Valuation is positive along with Technicals. Geopolitics and U.S. election are wildcards.
S&P 500 Sectors	Financials		→	■			Upgrading Banks to neutral as they will benefit from lower yields with benign credit backdrop but path will be bumpy. Best of NIM (and Insurance) in rear-view. Prefer I-Banking and Payments. Valuation is rich, Technicals improving with rates. On watch for upgrade.
S&P 500 Sectors	Health Care			■			Strong earnings overshadowed by disappointing trends. Biopharma M&A upcycle if yields decline, Life Sciences grapple with weak China demand. Valuation neutral and Technicals strong. Biopharma to benefit with Republican odds in DC, Managed Care given Democratic setup.
S&P 500 Sectors	Industrials				■		Positive risk/reward skew given secular tailwinds paired with cyclical upside if/when global manufacturing cycle reaccelerates. Short-cycle end markets mixed. Valuation stretched while Technicals moderate. It remains to be seen when China activity will turn from headwind to tailwind.
S&P 500 Sectors	Information Technology				■		Ultimate "make or break" sector "broke" in early-August. We'd fade the dip and prefer slight overweight exposure to capture cyclical and secular tailwinds. Prefer logic Semis over analog and memory, and Software leaders to Hardware. Valuation expensive while earnings and Technical momentum are strong.
S&P 500 Sectors	Materials		■				Large industry weights within the sector face short-cycle challenges like slower industrial construction build. Expectations for growth inflection higher are delayed but cost discipline has insulated margins. Valuation fair and Technicals have turned positive, moving bouncing from near over-sold conditions.
S&P 500 Sectors	Real Estate		■				Favored contrarian sector. By this point, the valuation narrative is known, and the discount has contracted. The growth outlook remains weak. Valuation is attractive but Technicals are weak. Lower bond yields with benign credit backdrop would be a positive.
S&P 500 Sectors	Utilities				■		We make the case that Utes are a traditional defensive but with newfound growth tailwinds. Lower yields in a soft-landing scenario coupled with the secular increase in power demand is an attractive setup for Utes. Valuation is attractive and Technicals are neutral.

*Colored cell denotes sector positioning

Communication Services is a balanced source of value, yield, and profitability with defensive growth characteristics.

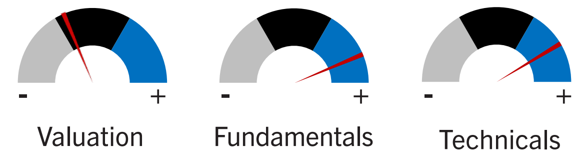
Performance has lagged in recent weeks, anchored by Mega Tech components, while Telecom has benefited from a move lower in rates. Regulation remains a risk for the sector with antitrust and M&A uncertainty.

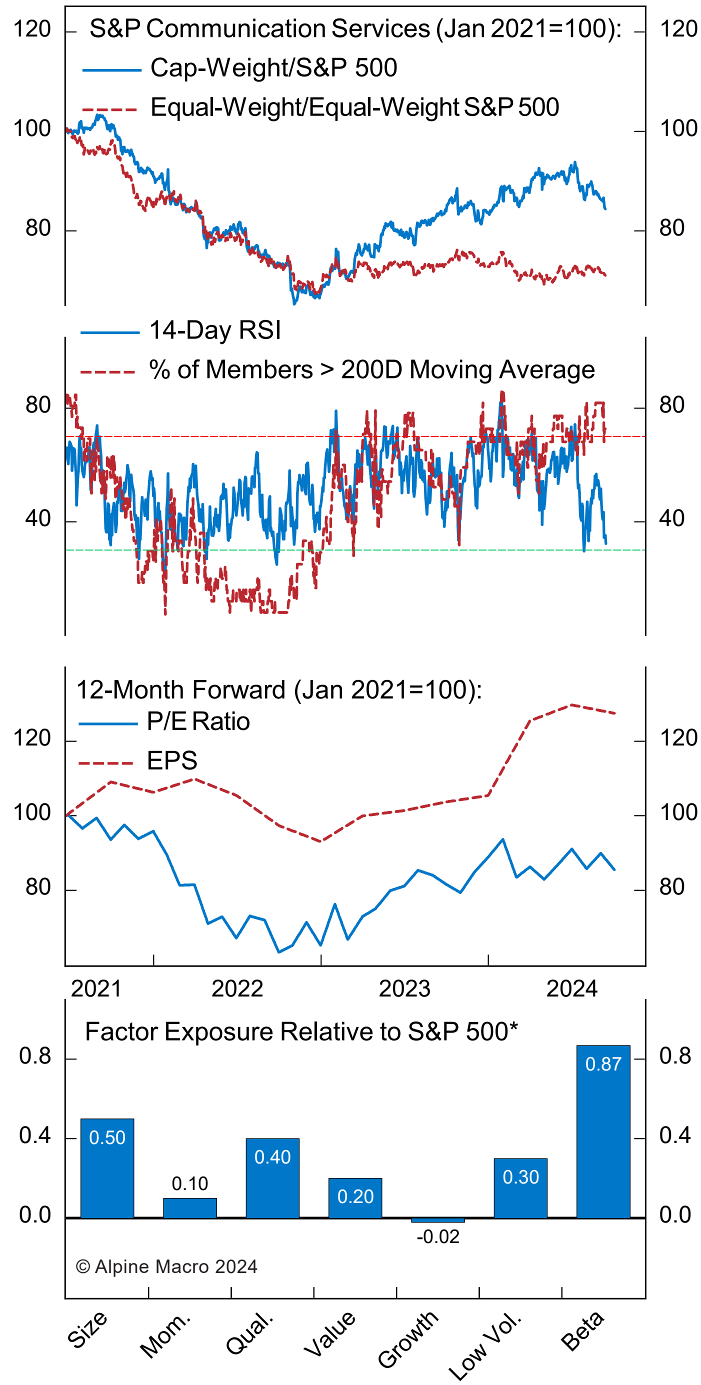
Earnings momentum remains robust in Interactive Media, Entertainment, and Telecom while the outlook is more mixed for Media. Technicals have improved following the recent sell-off.

Industry Spotlight: Telecom Carriers

Telecom carriers' plan of shifting focus away from CapEx towards boosting free cash flow will begin to pay dividends in coming periods. The major carriers have finished their spending binge on 5G upgrades, allowing them to reduce outlays going forward. With organic revenue growth harder to come by, a shift towards free cash flow generation should be positive for shareholders while the rest of the industry consolidates.

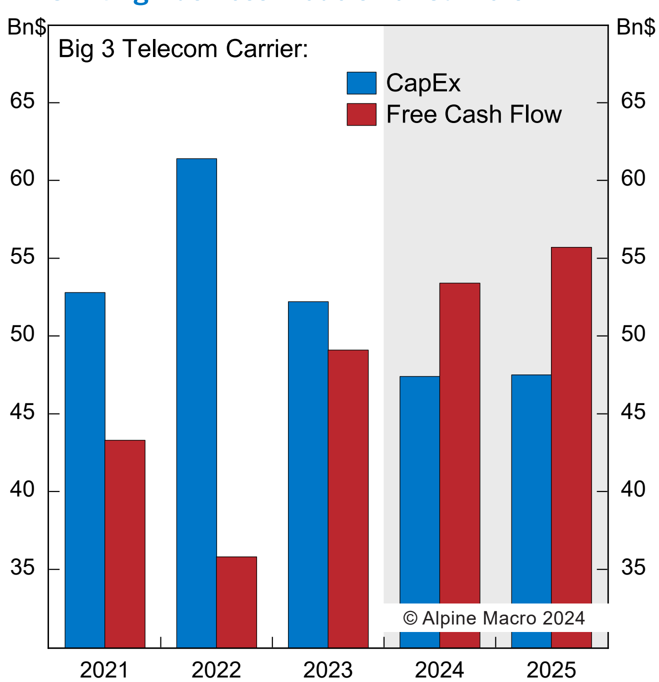
Alpine Macro Sector Dashboard





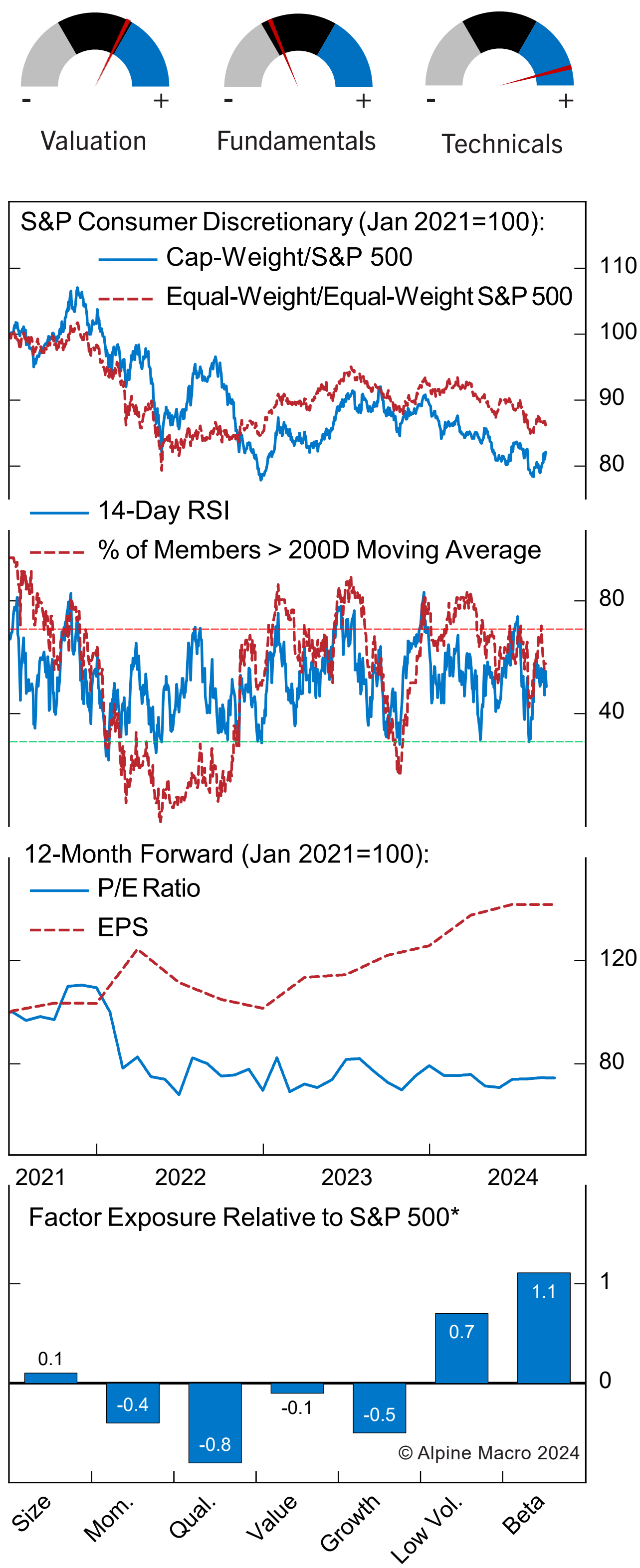
*Shown as standard deviations from mean
Source: Bloomberg Finance L.P.

Shifting Business Models For Carriers



Note: All series' are sum of AT&T, Verizon & T-Mobile, 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.

Consumer Discretionary is a heterogeneous sector with exposure to various verticals of the consumer lifecycle including autos, housing, leisure, and retail.

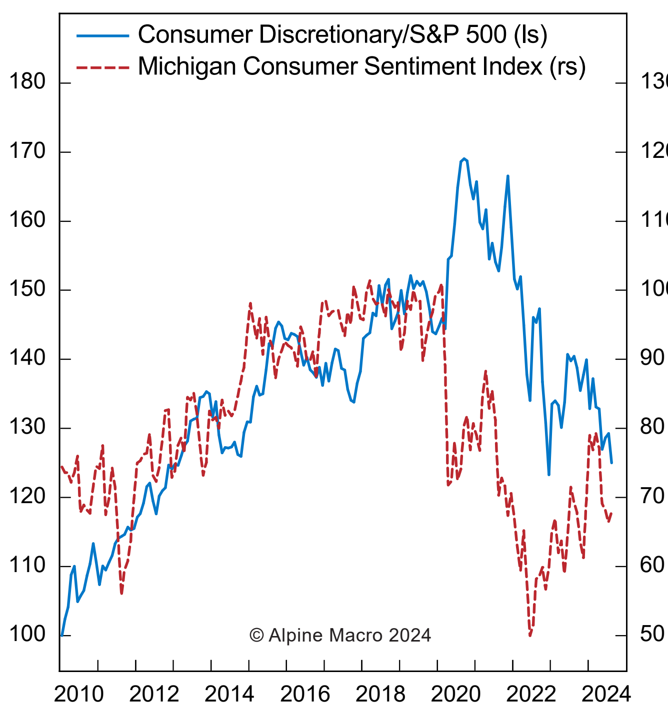
The sector has surged in recent weeks with gains in Leisure, Broadline Retail, Autos, and Luxury Goods. This performance belies recent concerns regarding the resilience of the consumer and trade-down impulses.

Fundamentals are mixed with strength concentrated in the Hotels, Restaurants, and Leisure industry. The technical backdrop is strong.

Consumer Sentiment Shows Some Reprieve

The University of Michigan Consumer Sentiment Index has ticked higher for the first time in five months, which could suggest green shoots for the Discretionary sector and may be sniffed out by investors given recent outperformance. While this uptick is encouraging, we remain neutral on the sector, as it sits at the fulcrum point for potential weakness in the labor market. Services and sources of cloud revenue within Broadline Retail appear more steady.

Consumer Sentiment Poised For Reversal?



Staples remain challenged by three headwinds: 1) relatively high comps, 2) deteriorating pricing power, and 3) stalled volume growth. The sector is vulnerable as opposed to defensive.

A slowdown of the U.S. consumer continues alongside the burn off of the post-COVID overhang of goods versus services. Consumers trade down the value spectrum as reflected by the outperformance of discount retailers vs. their higher end counter parties. Secular tailwinds from GLP-1 pharmaceuticals are materializing.

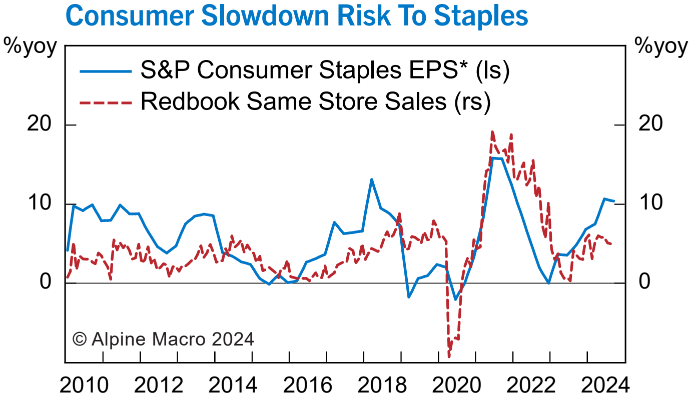
Valuation has improved and is fair however earnings momentum is unappealing at a time when the sector appeared overbought. Lower rates will provide a slight tailwind but the sector is still not a viable bond proxy. Expanding margins are a silver lining to manage top-line weakness.

We're underweight the sector as we feel its defensive benefits are compromised given post-COVID trends while upside is limited. The upside for Staples is in its larger leaders' "technification" and pivot toward advertising and media.

Same Store Sales Weakness Is A Red Flag For Earnings

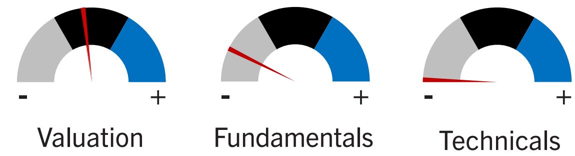
Weakening sales growth poses a challenge for the Staples, as slower demand impacts revenue. Even if interest rates decline, the consumer's recovery will likely take time due to lingering economic uncertainties and cautious spending habits. The sector faces prolonged pressure as buyers remain hesitant to spend.

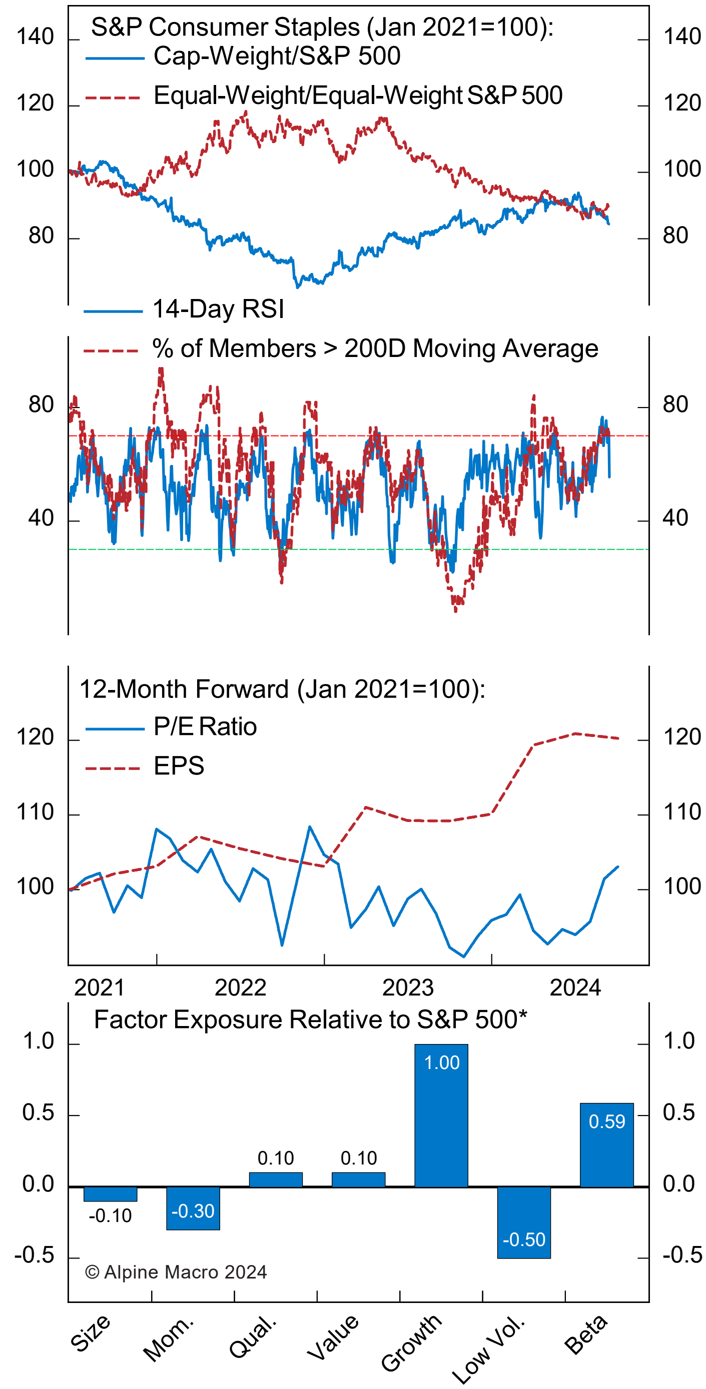
Consumer Slowdown Risk To Staples



*Source: Bloomberg Finance L.P.

Alpine Macro Sector Dashboard





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

Energy equities have been hit hard in recent weeks as commodity prices have taken a hit, largely due to concerns regarding supply and demand imbalances. The U.S. election represents another overhang, with headline risk if Democrats prevail in November. Capex remains contained.

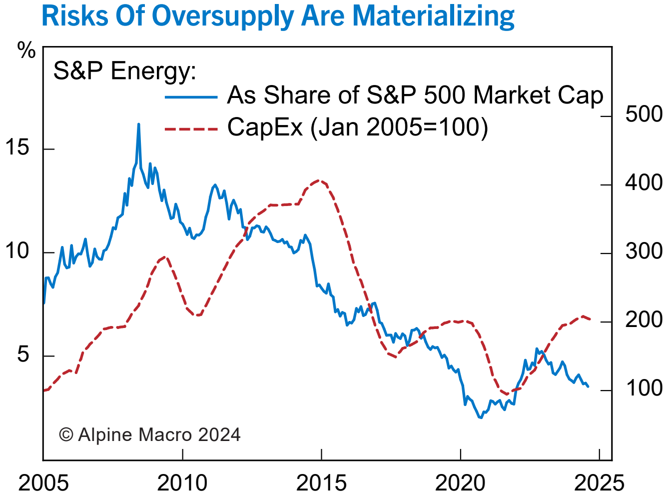
Energy generally requires a meaningful move higher in associated commodities to generate outperformance as was the case in 2021-2022. However, the sector continues to undershoot commodity costs, meaning there is still some value yet to be unlocked.

As it stands, China likely unpins the trajectory for demand as the marginal global energy user. With their economy sluggish, expectations are low and policymakers have shown reluctance to jolt activity higher. On the supply front, U.S. crude production is near all-time highs but its approximately flat this year along with that of OPEC.

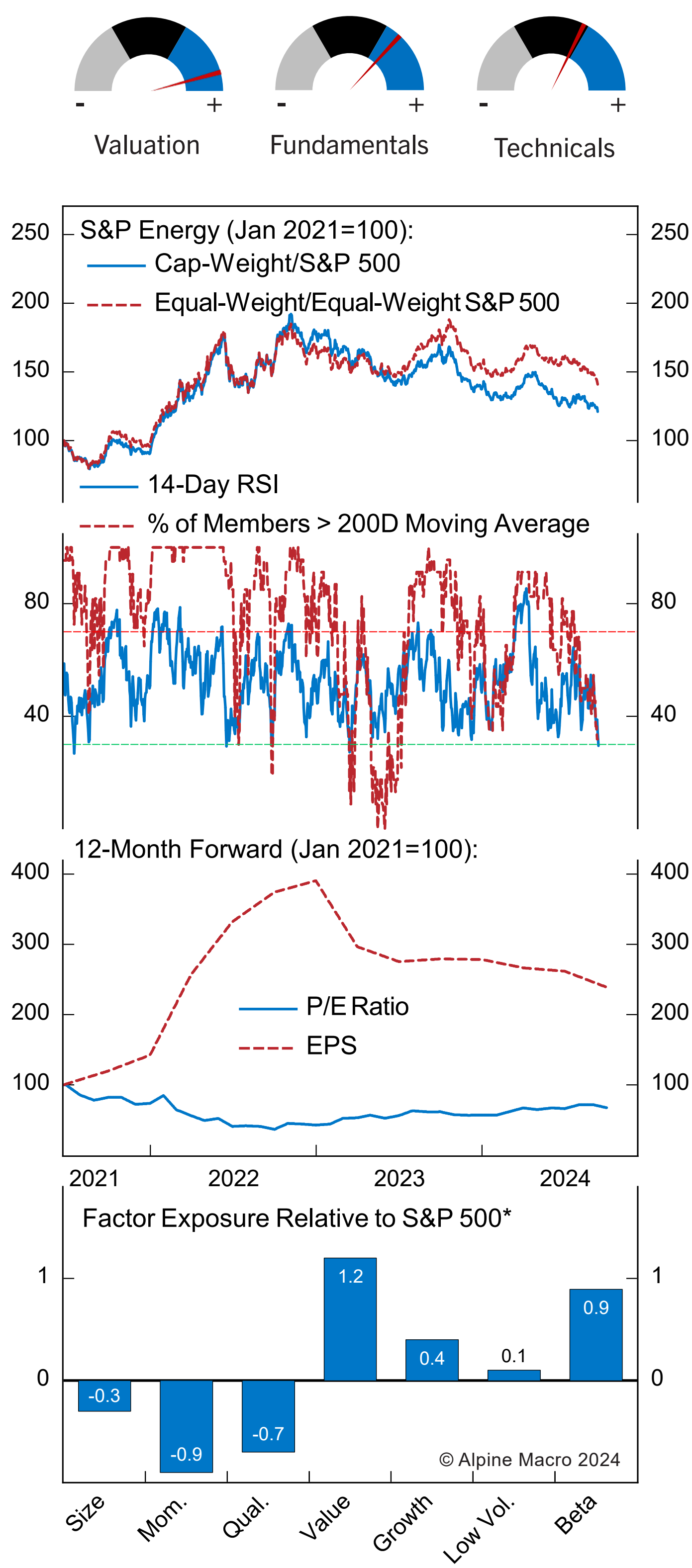
Valuation has improved remarkably, and fundamentals are positive. We're neutral on the sector but view it a stable source of shareholder yield for portfolios. Poor price action is close to triggering contrarian entry signals.

Interestingly, energy prices have trended lower despite geopolitical tensions in the Middle East. As noted, the U.S. election represents a potential catalyst with Republicans appearing more advantageous for Energy. However, while deregulation would be a tailwind, more drilling and supply could ultimately be a headwind.

Risks Of Oversupply Are Materializing



Alpine Macro Sector Dashboard



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

Financials weathered a whirlwind reporting period and enjoyed a strong August rally before being tempered by tepid commentary during investor conference season. We favor Banks to Insurance and Payments and recommend adding tactical exposure, especially to Regionals.

Money Center banks warns that the backdrop for NIM is evolving as rates drop and credit risks mount. We view this as an effort to reset expectations which the industry will ultimately outperform.

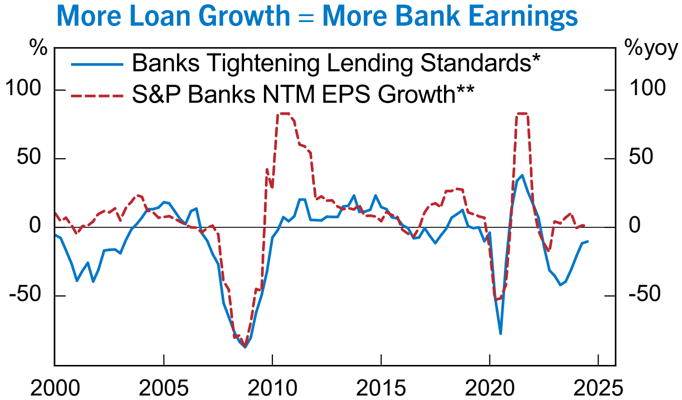
Regionals are a purer play on our view that NIM will trough, loan growth will accelerate, and credit will remain benign. Money Centers may benefit from strong capital market activity as rates downshift, and Wealth Management can benefit from higher asset values. Alternatively, Payments are more at-risk of weaker consumer trends and the booster days for Insurance are in the rear-view.

The recent rally has begun to stretch valuation but fundamentals remain solid. Technicals have moved off from overbaught conditions but remain extended.

Industry Spotlight: Banks

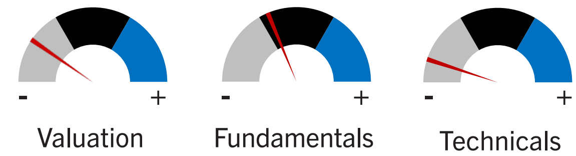
Our bullish bank thesis calls for a stronger-than-expected revenue growth runway, driven by loan growth and NIM expansion, ultimately becoming too appealing... too appealing for investors to ignore, especially as risks of a severe recession abate- our base case. We expect the group to grind higher over the short-term before Fed cuts accumulate and management commentary confers better-than-expected guidance, which should provide an "all clear" signal for general investors.

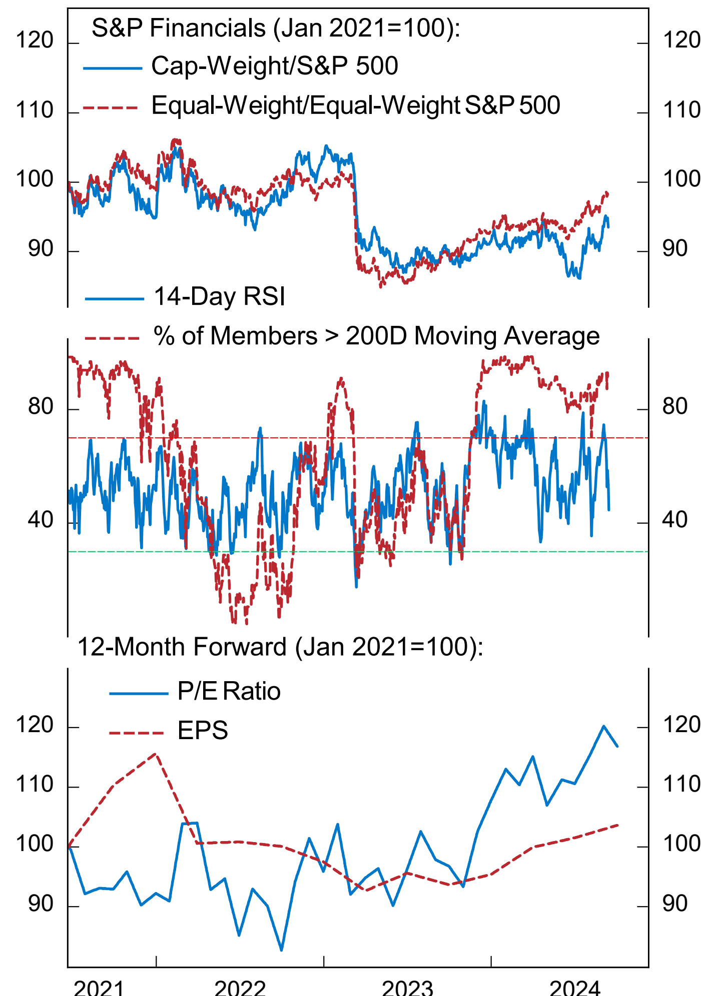
More Loan Growth = More Bank Earnings

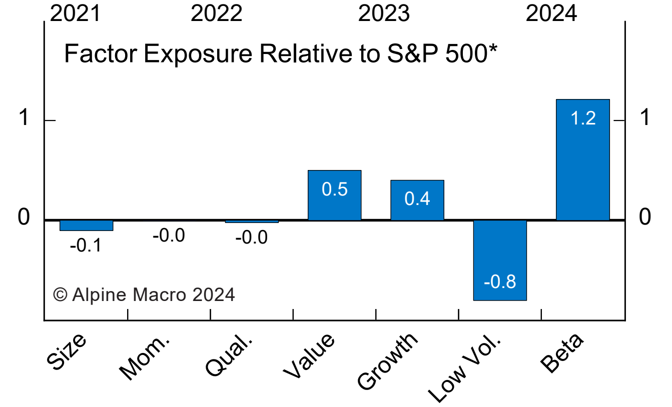


*Shown inverted; source: SLOOS
**Truncated to 83; source: Bloomberg Finance L.P.

Alpine Macro Sector Dashboard







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

HEALTH CARE (NEUTRAL)

Health Care showed signs of life in recent months as fundamentals have steadily improved to go along with enticing thematic drivers, even thought a sustained breakout has yet to fully materialize.

Biopharma has enjoyed recent improvement in earnings revisions and Health Care Equipment has been a leader in price trends. The former should benefit from lower yields as it can jump start the M&A cyle, while the latter would benefit from a recovery in international end markets.

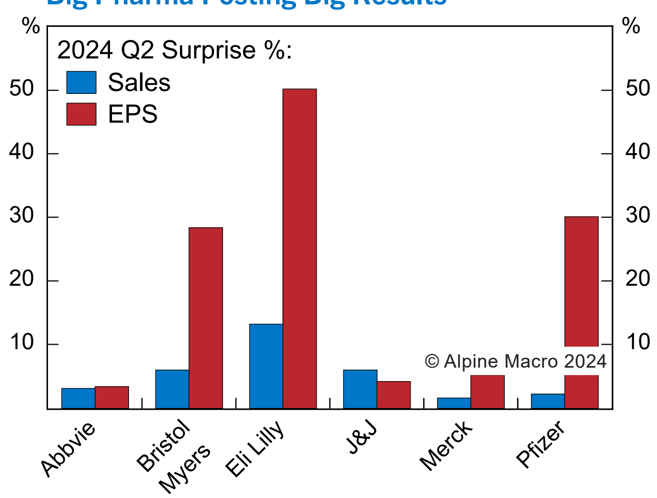
The sector remains fair-to-attractively valued but technicals are uninspiring.

Rate cuts, third quarter reporting season, and the U.S. election should provide catalysts.. A Republican skew in D.C. likely favors Biopharma on lower risk for price controls, taxes, and R&D whereas Managed Care could see a boost from Democratic control and increased support for medicare and the ACA.

Industry Spotlight: Pharmaceuticals

Companies in the pharma industry are beefing up their bottom-lines by selling out of weight-loss drugs. Guidance has picked up but likely remains too conservative given trends, as major players have noted their inability to match demand for their star drugs with enough supply, prompting a boost in capex. Companies without a seat at the GLP-1 table are accelerating efforts to join.

Big Pharma Posting Big Results



Source: Bloomberg Finance L.P.

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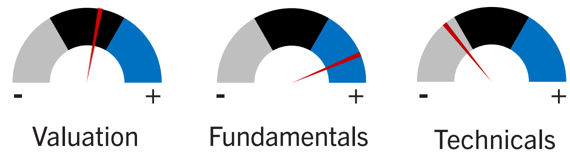
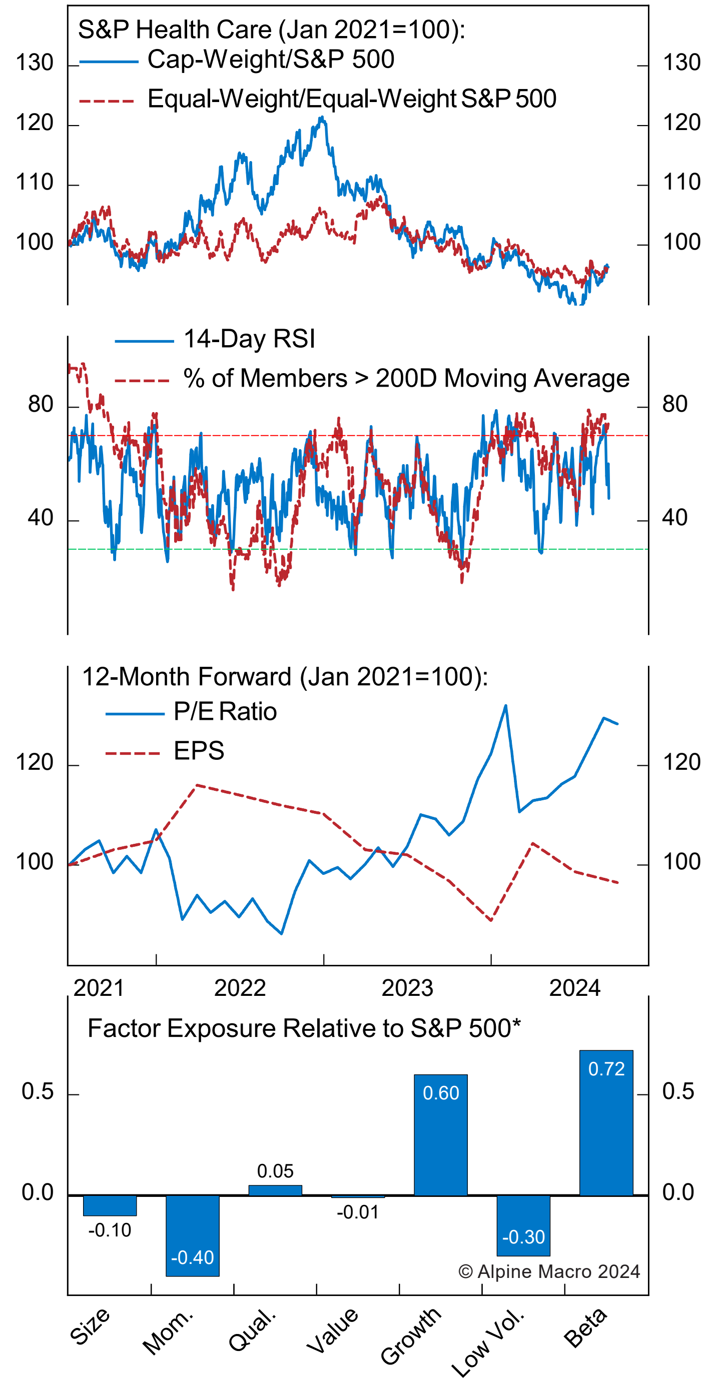




*Shown as standard deviations from mean
Source: Bloomberg Finance L.P.

Industrials have been a beneficiary of recent leadership broadening with Building Products and Airlines enjoying particular momentum. We remain slightly overweight the sector given attractive risk/rewards skew to cyclical drivers paired with secular growth opportunities.

Domestic demand in certain industrial markets has surprised to the upside and buoyed some cyclical pockets although international weakness continues to weigh on the sector, overall. Any improvement overseas would represent an unanticipated tailwind.

Secular demand for power, infrastructure, and housing continues to provide a steady and visible element of growth.

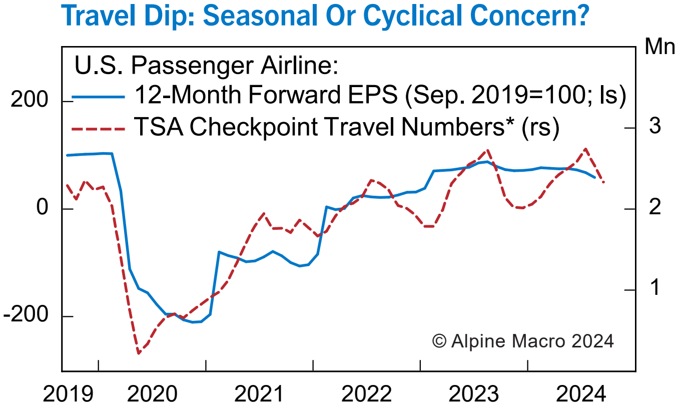
Fundamentals are strong with earnings revisions positive for all industries, and the technical backdrop is attractive. Valuation has become extended.

We remain positive on the sector, and anticipate upside to a relatively low-bar of expectations. We favor Building Products, Construction & Engineering, and Defense. The latter should enjoy increased funding and a post-election bounce regardless of outcome.

Industry Spotlight: Passenger Airlines

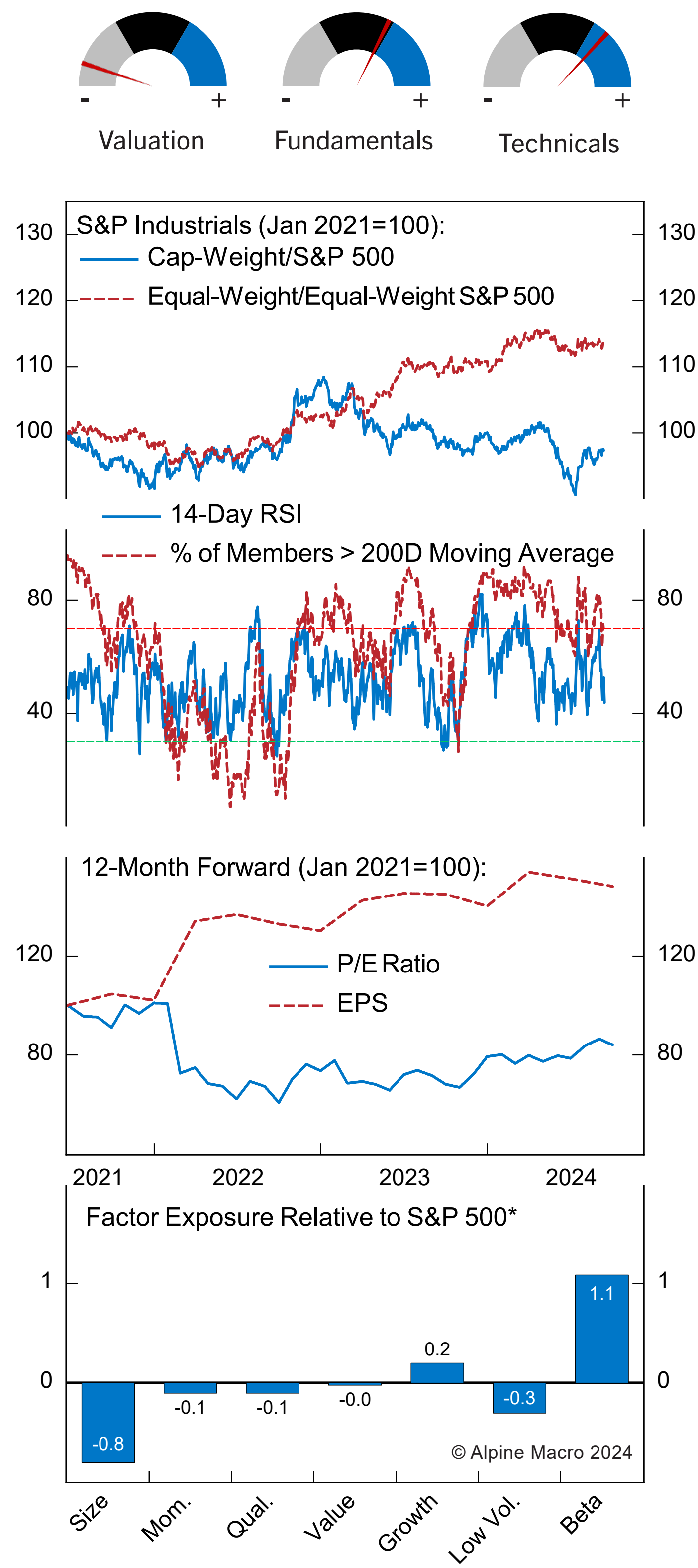
Daily air passenger travel is hitting a post-summer lull, however concerns are mounting that the dip may become more severe as the consumer becomes more discerning. To stem potential decline, airlines are increasingly focusing on business and group travel to offset leisure. Airline trading has been whipsawed in recent months with disappointing sales prompting a major decline in late-July but a technical bounceback since mid-August.

Travel Dip: Seasonal Or Cyclical Concern?



*Shown as 3-month moving average

Alpine Macro Sector Dashboard



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

Information Technology has been under pressure since July, on both a market cap and equal-weighted basis. However, we remain supportive as its quality and growth elements provide a strong compliment to cyclical components in forming our barbelled approach to asset allocation.

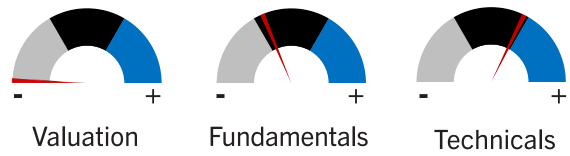
Tech continues to exhibit the fastest expected long-term growth, highest quality, and profitability across the S&P 500. The sector is top-heavy but split evenly across Hardware & Equipment, Software, and Semiconductors. The latter two produce the highest margins of any industry.

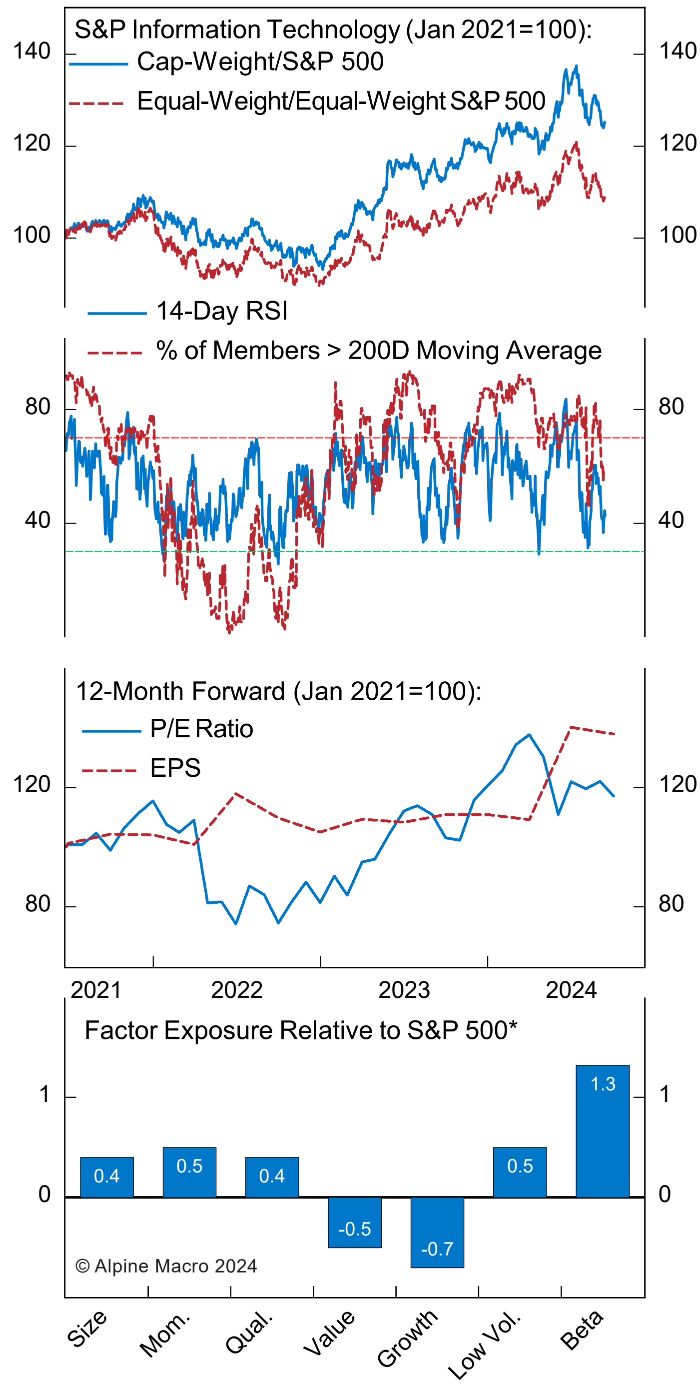
Valuation is stretched but it largely due to structural step-ups in recent years given the ubiquity of Mega Tech leaders. Fundamentals remain reasonably attractive relative to valuation, and technicals have moved from a contrarian headwind towards a tailwind. We favor logic Semis and Software over Hardware.

Industry Spotlight: Hardware

Robust AI-server uptake could boost the global server market by 44% to $182 billion this year, with AI-server sales growing 128% to $91 billion. Hyperscale and cloud customers are rapidly deploying AI systems, driven by Nvidia's higher-priced GPUs. A recovery in traditional servers and stronger demand in 2H may further support growth, benefiting companies than have slightly lagged like Super Micro and Dell. However, idiosyncratic headline risks remain in addition to pricing pressures.

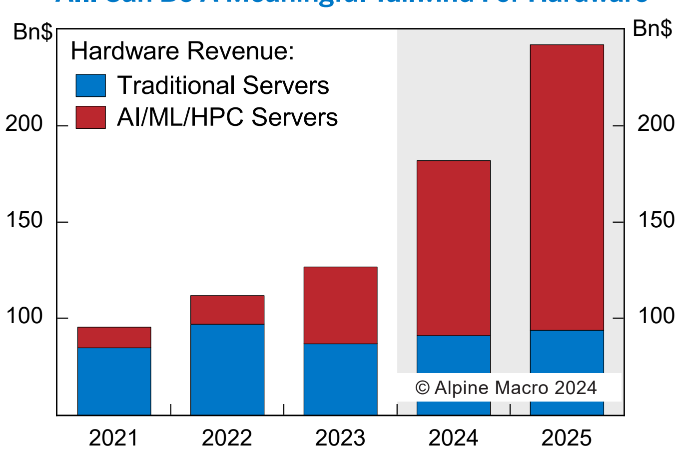
Alpine Macro Sector Dashboard





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

A.I. Can Be A Meaningful Tailwind For Hardware



Note: Shaded area denotes estimate period; source: IDC, 650 Group

The level and direction of global industrial production continues to hamper the performance of Materials. Regional manufacturing indicators have yet to recover but a Fed pivot should kickstart that process domestically, however weak international end markets are a hindrance.

Materials is a short-cycle sector that has been delayed in its breakout as global industrial activity remains weak in key markets. For Chemicals, the stakes are high, as they are churning their way out of a long earnings recession but have expectations for double-digit growth in forthcoming periods.

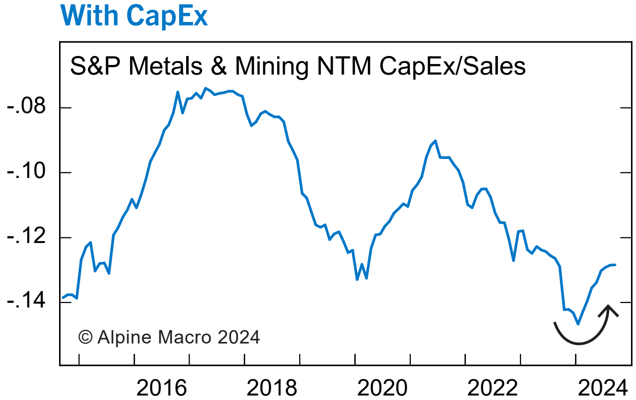
Valuation remains unattractive and technical have stalled.

Within the sector we continue to prefer copper exposure given structural supply & demand dynamics, and we are keen on U.S. petrochemical producers relative to international given supportive feedstock price differentials. We remain neutral on the sector as the global industrial cycle remains uneven and favor U.S.-tilted exposure relative to international. The industrial output and demand components of our Peak-Valley earnings indicator is stuck in a contractionary phase though momentum is improving.

Industry Spotlight: Metals & Mining

A secular increase in infrastructure and industrialization support higher Materials investment as illustrated by CapEx/Sales. U.S. election outcomes are likely favorable for various segments of the sector given bipartisan support for infrastructure and reindustrialization although Democratic control likely benefits Copper to a larger extent. Tariffs are a wildcard consideration.

Mining Potential Growth Opportunities With CapEx



Source: Bloomberg Finance L.P.

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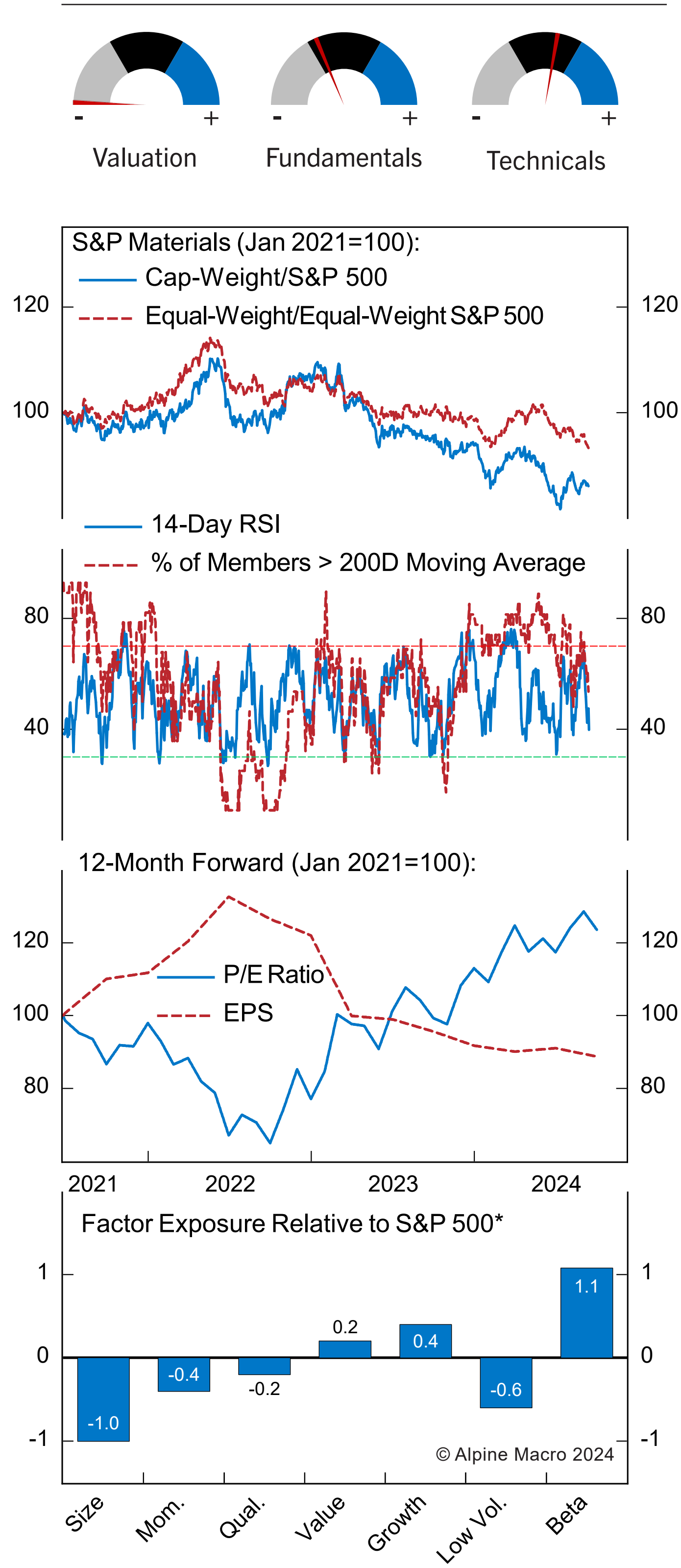


*Shown as standard deviations from mean
Source: Bloomberg Finance L.P.

Real Estate has enjoyed a surge higher as the path towards rate cuts has gained increasing inevitability, turning the once-floundering sector into a leader. Recent performance has been so strong and broad that technicals have reached contrarian overbought levels. We're underweight the sector but on-watch for upgrade following what could be a technical shakeout.

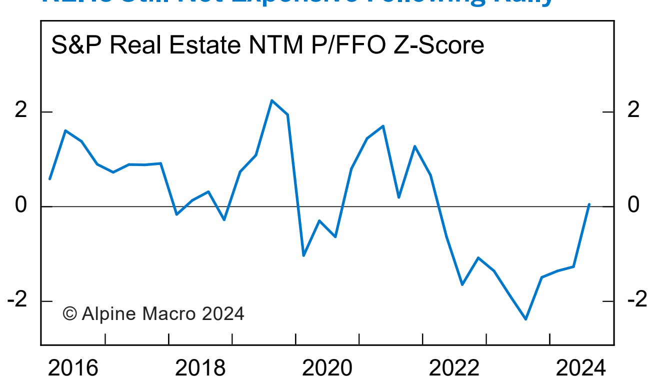
Sector fundamentals appear weak but poor momentum masks the positive impact that rate cuts should provide in relief to lower funding costs and relative attractiveness to yield-sensitive assets. We do expect REITs to benefit from increased acquisitions and expansion into 2025. In addition, some REITs will benefit as longer-term leases expire and roll into higher rental rates.

We continue to favor Senior Housing exposure given trends in occupancy, an aging U.S. demographic, REVPOR, and expense management. Industrial REITs are challenged with core business facing slower warehouse demand from weaker goods consumption and impaired rental rates.

Sector fundamentals have been crushed. Much of Real Estate's discount has reverted with the bulk of declines earned back since the regional banking crisis. Growth upside is limited and risks remain. We're underweight. Valuation is strong but the valuation gap that the sector had enjoyed is narrowing; technicals have begun weakening.

The bulk of mean-reversion has been earned back while the largest components of the sector continue to grapple with slower demand and weak Net Operating Income growth. Our underweight position is at risk if bond yields fall substantially lower with credit spreads remaining tight, which we find a narrow needle to thread.

REITs Still Not Expensive Following Rally



Source: Bloomberg Finance L.P.

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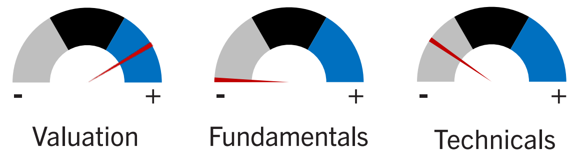
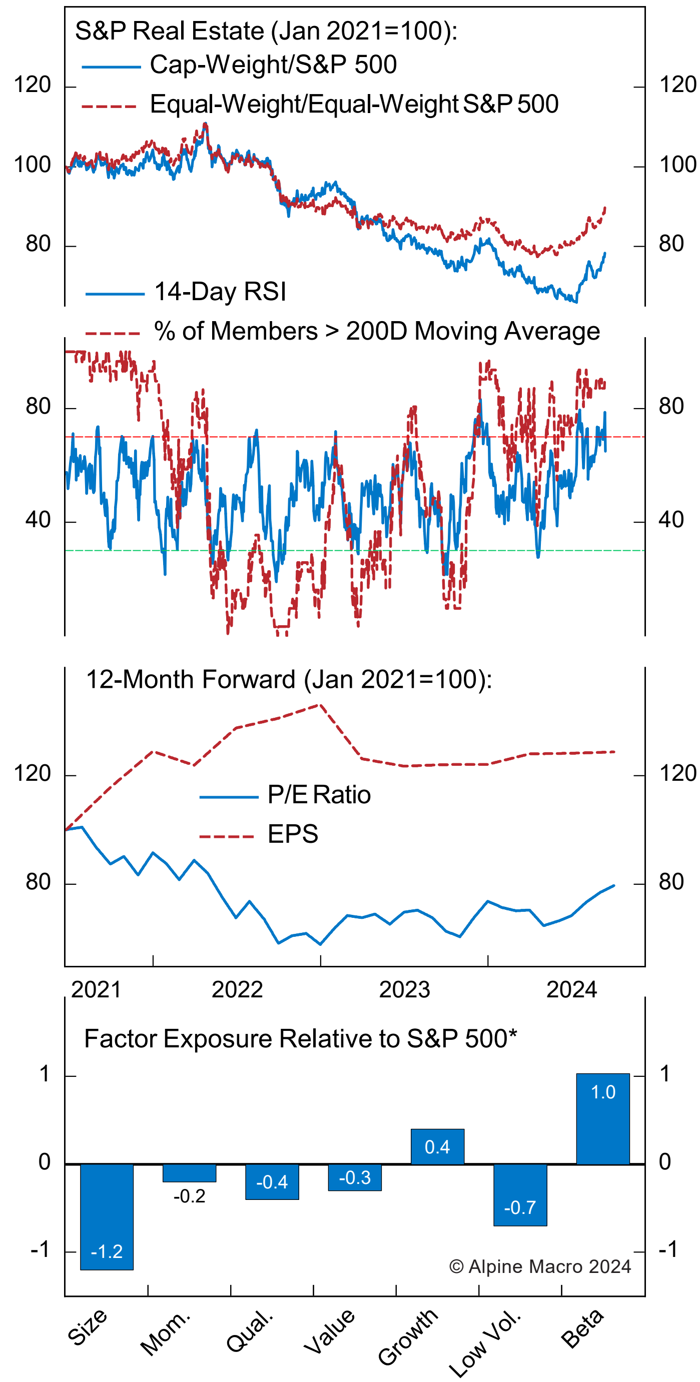




*Shown as standard deviations from mean
Source: Bloomberg Finance L.P.

UTILITIES (OVERWEIGHT)

A disinflationary, slowing growth environment is positive positive for Utilities, which benefit from lower yields and reliable revenue sources. The sector has enjoyed bouts of outperformance given strong fundamentals but the U.S. election represents a potential risk given exposure to the energy transition.

The sector is unusual in some regards, including the negotiated return parameters for equity investment of regulated Utilities. These parameters incentivize CapEx and allow for substantial upside when capital costs move lower, which will be prompted by lower rates.

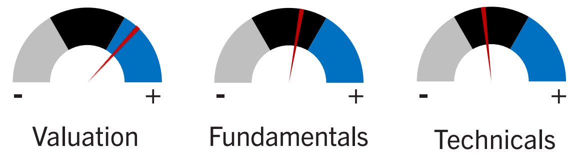
Fundamentals are strong and the sector remains primed to be a growth leader this year. Technicals have recovered and Valuation is favorable.

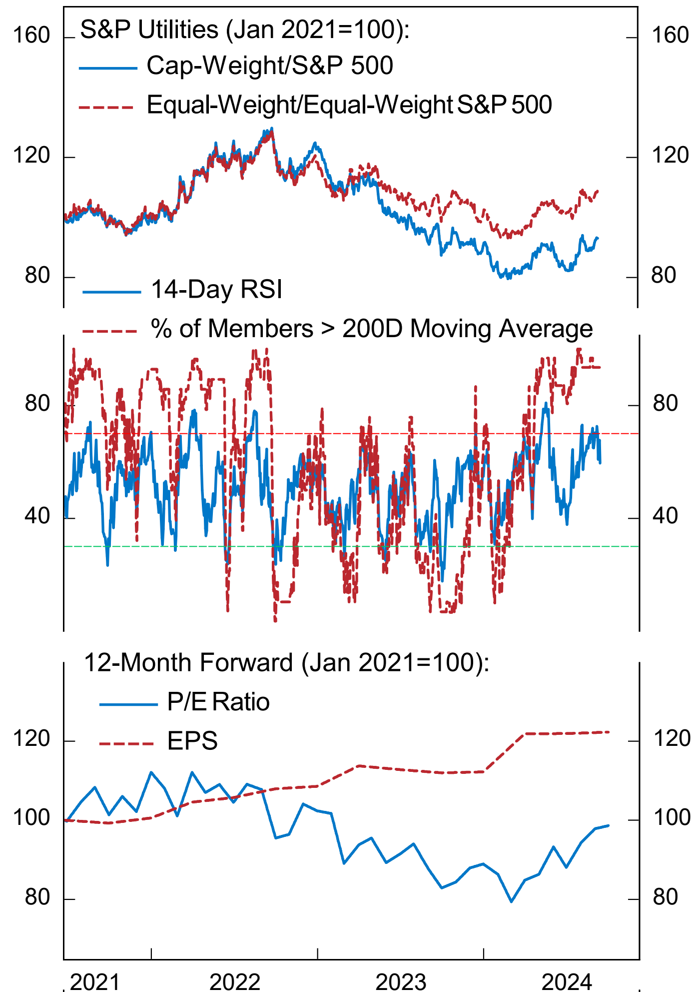
Utilities are generally not a sector to own over the long-run however we feel that a unique opportunity has presented a window of outperformance based on both cyclical and secular drivers. We continue to advise adding exposure on weakness.

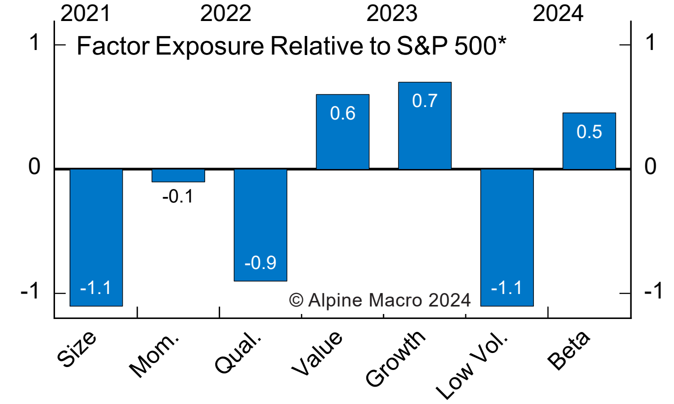
We favor Utilities that offer gas or electricity product in regions with favorable regulatory regimes and/or attractive locations for data centers. This tends to include the Southeast, Mid-Atlantic, and Mid-West.

Unsurprisingly, Republican control of D.C. would likely be a headwind for independent and clean energy producers whereas Democratic control would be a tailwind.

Alpine Macro Sector Dashboard

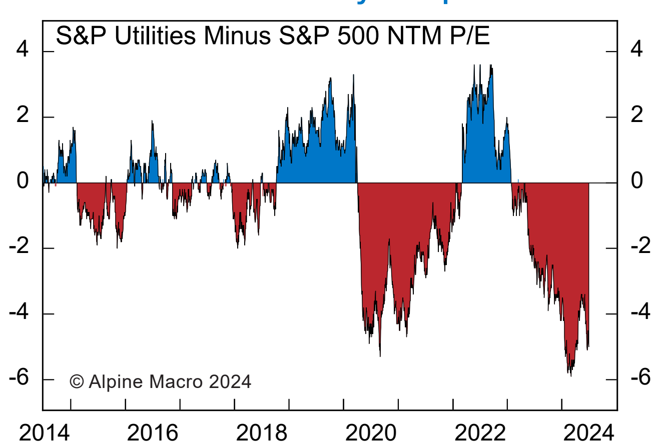






*Shown as standard deviations from mean
Source: Bloomberg Finance L.P.

Utilities Remain Relatively Cheap



Source: Bloomberg Finance L.P.

A Unique Mind On The Markets