ALPINEMACRO
A Unique Mind On The Markets

EQUITY STRATEGY MONTHLY

October 2024

Fast Five From The Road

In This Report

We've spent a large amount of time over the past two weeks speaking with clients at our New York Macro Conference and on the road across the United States. We find it useful to share some of the frequently asked questions and comments that we've received, which also might help investors gauge the zeitgeist of the investment community.

1. S&P 500 Equal Or Cap Weighted?

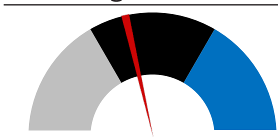
Given our view that the U.S. is moving from Repression into a Recovery phase characterized by more accommodative policy and a positive profit impulse we expect the next leg for equities to be driven primarily by a broadening "melt-up" of cyclical segments as opposed to a "melt-down" of mega tech leadership. This view supports a preference for the equal-weighted large cap index (ETF: RSP US) which provides an attractive blend of yield, value, and potential growth.

The equal-weighted index provides substantial shifts in factor and sector composition with significantly less exposure to Technology, Momentum, Quality, and Growth. Alternatively, it provides a bump in exposures to every sector other than Technology and Communications, in addition to greater Value and Dividend Yield. **Charts 1** and **2** illustrate these differences.

The evolution of the business cycle supports a broadening of exposure away from sources of defensive growth such as Technology and its adjacent factor tilts, which do better when profit growth is scarce, and the policy impulse is more restrictive. The onset of Fed rate cuts and broadening of profit growth represents an inflection point, however.

The new transitionary phase of the cycle supported by our base case for a "soft landing" historically corresponds with favorable performance in more cyclically oriented segments. This would include the smaller Size and Value factors in

Alpine Macro
Risk Regime Indicator



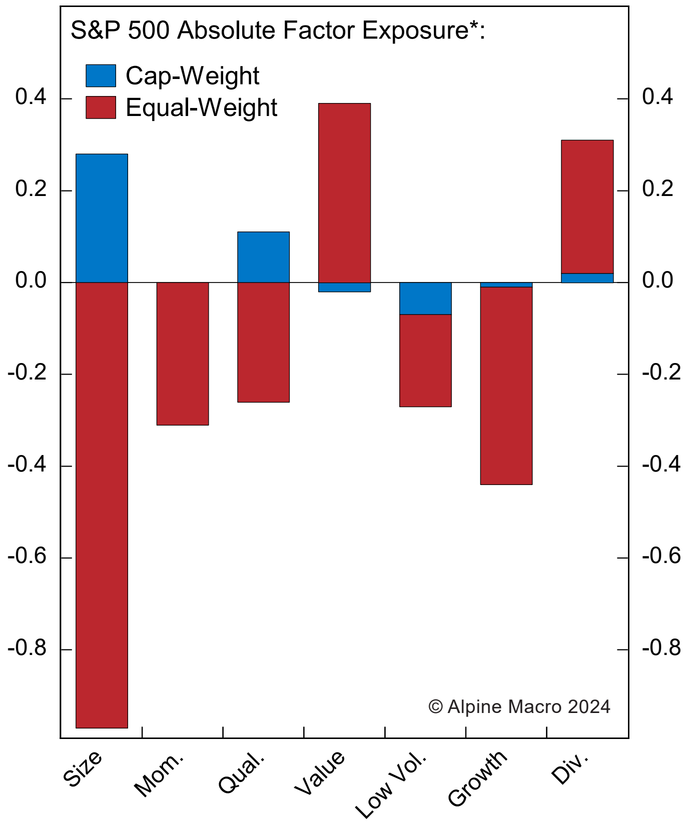
U.S. Equity Views*	--	-	N	+	++
Large Cap			■		
Small Cap				■	
Growth				■	
Value		■			
Communication Services					■
Consumer Discretionary			■		
Consumer Staples	■				
Energy			■		
Financials			■		
Health Care			■		
Industrials				■	
Information Technology				■	
Materials		■			
Real Estate		■			
Utilities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

* ■ Denotes positioning

	Growth	Core	Value
12-Month Change in Forward EPS Growth (%)			
Large Cap	-0.3	12.2	18.1
Mid Cap	-1.7	1.1	4.0
Small Cap	5.9	-2.4	-3.5
12-Month Change in Forward P/E Ratio (%)			
Large Cap	39.7	11.7	8.2
Mid Cap	19.1	23.3	1.1
Small Cap	3.7	26.2	3.9

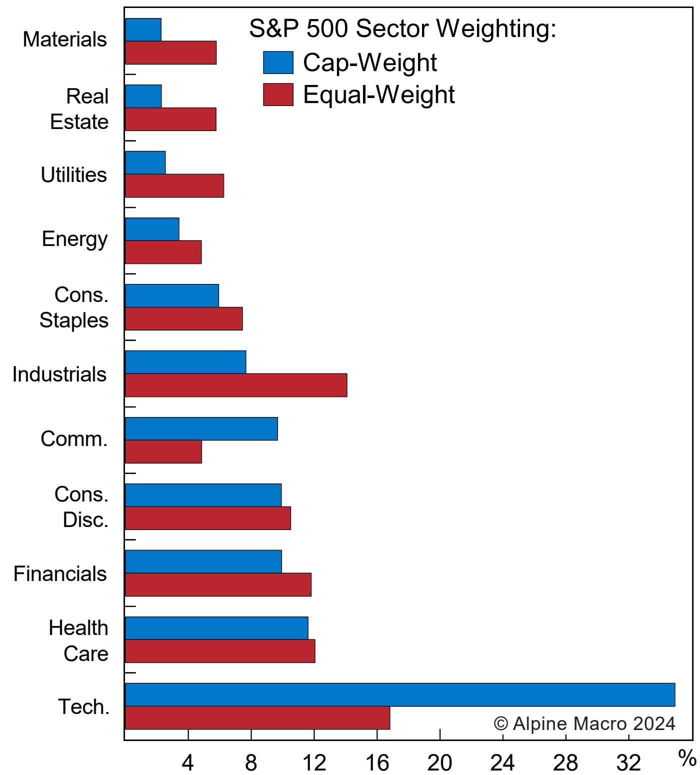
Note: **Blue** = Favorable, **Red** = Unfavorable, White = Neutral

Chart 1 More Cyclical Factor Exposure On Equal Weighted Basis...



*Shown as std. deviations from mean; source: Bloomberg Finance L.P.

Chart 2 ...Similarily With Sector Exposure



addition to classic cyclical sectors. **Chart 3** highlights these trends. Given the relative discount that these segments offer to the higher momentum cap-weighted index the potential "catch-up" upside may be extraordinary.

In practice, we find optimal balance in combining elements of both defensive growth with cyclicality and would advise a "barbell" blended approach to minimize downside risks should the macro backdrop deviate from our base case. However, in a vacuum we would expect the equal-weight index to outperform.

2. What Does U.S. Gridlock Mean For Equities?

Two of the main, less appreciated, points that we have been discussing with clients is that: 1) international corporate tax components of the Tax Cuts and Jobs Act (TCJA) are scheduled to sunset following 2025, and 2) different configurations of political "gridlock" likely have different impacts on policy and equities.

As it relates to international corporate taxes, the TCJA enacted a trio of new measures in addition to a one-time repatriation holiday while moving from a worldwide to a territorial tax system. In addition, the Act allowed for the full expensing of certain capital investment.

In **Table 1**, we detail these tax measures and highlight how they are scheduled to expire and raise the effective rate barring legislative action, which we expect to be a critical policy flash point next year. We find these risks to be unappreciated in conversations with clients, given the attention cast on the permanence of the domestic U.S. tax rate (21%).

As it relates to the implications of split government, we make the case that the risks inherent with a Trump presidency and congressional gridlock are different than those given a Harris presidency and congressional gridlock.

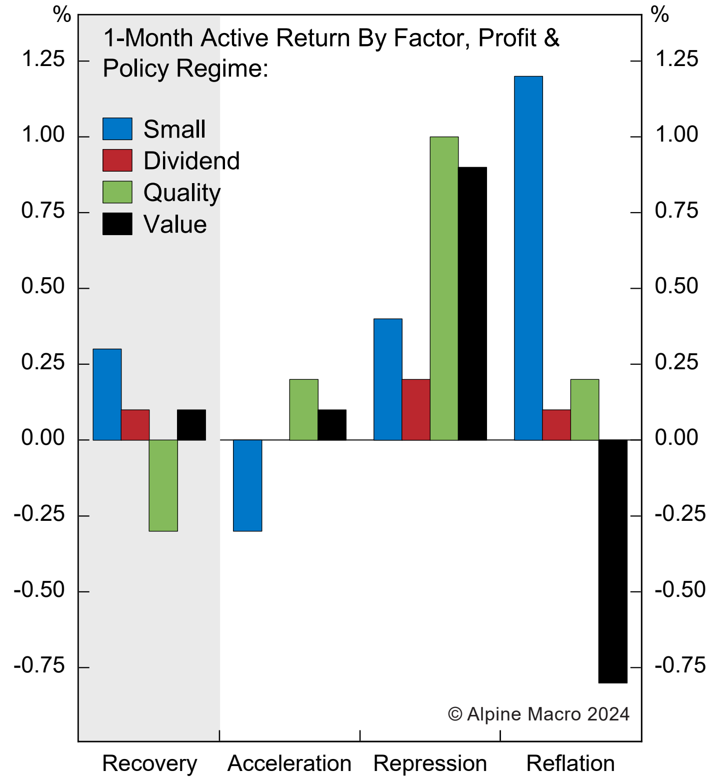
Trump is a known commodity as a dealmaker with less by way of ideological dogma. He's more likely to cut deals if he senses they benefit his cause (i.e. stock market), even if they benefit those of Democrats and/or deviate from traditional Republican platforms. His unwavering policy objectives would incorporate security and an extension of his signature tax legislation.

Harris and Walz are less tested as dealmakers, making the composition of their cabinet more critical. As a Senator, Harris exhibited more ideological tendencies although she's walked back some positions as Presidential candidate. A mainstay of her rhetoric, however, has been advocacy for higher taxes on corporations and the "wealthy" in exchange for lower income and family funding.

Ultimately, gridlock under a Trump Presidency likely incorporates a "1+1=2" deal framework supporting tax cuts and border funding in exchange for fiscal spending prioritized towards families, seniors, and low income. We'd view this as positive for equities, especially those with a domestic and capital investment bias.

Gridlock under a Harris Presidency may involve more episodes of brinksmanship as they relate to shutdowns and the debt ceiling with ideological congressional Republicans reluctant to cut deals. As such, legislation may involve more concessions from each side producing less fiscal thrust. This would introduce bouts of episodic volatility for equities.

Chart 3 Small Should Shine In Recovery



Note: All series are Alpine Macro calculations, shaded area denotes current regime

Table 1 Impending Tax Policy "Maturity Wall"

Tax Policy	Purpose	Implementation	TCJA Rate	Sunset Rate
Global Intangible Low-Income Tax (GILTI)	Global minimum tax Territorial system	Minimum "top-up" tax on foreign earnings of U.S.-controlled operations derived from intangible assets across average of jurisdictions	10.5%	13.1%
Foreign-Derived Intangible Income (FDII)	Keep intangible assets in U.S.	Lower tax rate on foreign income derived on intangible U.S. assets to incentivize companies to keep assets in U.S.	13.1%	16.4%
Base Erosion and Anti-Abuse Tax (BEAT)	Reduce profit shifting	Minimum tax paid if deductions from royalties or interest payments to foreign corporations create lower tax liability than through BEAT calculation	5%	12.6%
Full Expensing of Short-Lived Capital Assets	Incentivize capital investment	Immediately or accelerated deduction of the cost of investment in short-lived assets such as buildings and equipment, maximizing "tax shield"	~2022: 100% 2023: 80% 2024: 60%	2025: 40% 2026: 20% 2027: pre-TCJA

Source: What's the Deal with Tax Cuts and Jobs Act Expiration in 2025? - Foundation - National Taxpayers Union (ntu.org)

Finally, we highlight the importance that the Executive Branch has in shaping regulatory and trade policy. We downplay risks of meaningful tariffs – a major headwind for equities – given Trump's reluctance to stoke inflation. Alternatively, a Harris administration likely pushes the envelope further on regulatory action.

3. Will Small Cap Fundamentals Outpace Large Caps?

Small Caps trade well below their historical discount relative to Large Caps, with a mean reversion back to average levels providing a large upside potential. To unlock the significant valuation discount of Small Caps to Large Caps an inflection of the fundamental outlook must occur, in our view.

It's become "put up or shut up" time for Small Caps to execute as analysts now expect earnings growth for the Russell 2000 to outpace the S&P 500 by 15% in Q4 and nearly 30% next year.

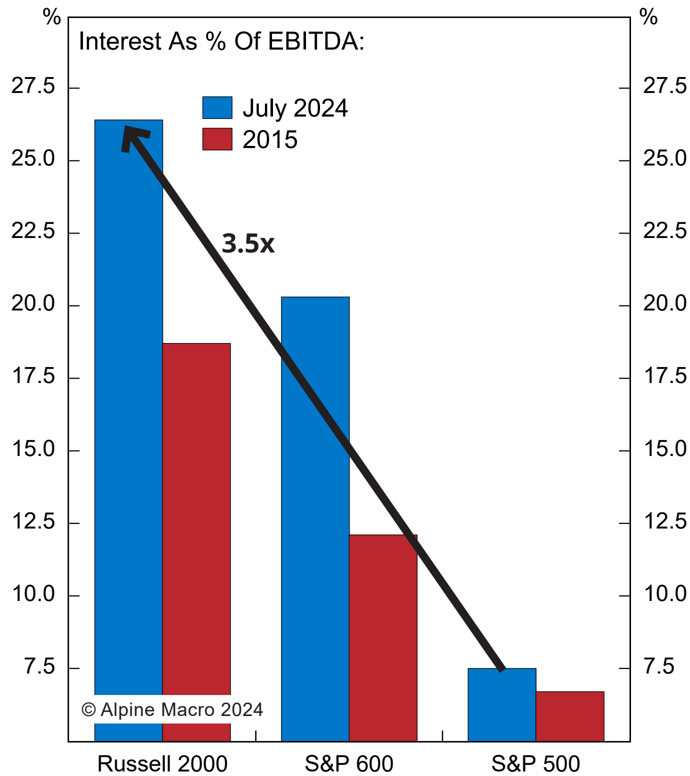
We think that the group can deliver and point to 1) rate cuts, 2) U.S. exceptionalism, and 3) an eventual cyclical upturn as catalysts to signal that the fundamental outlook for Small Caps is indeed brighter than that of Large Caps.

The impacts of a Fed easing cycle signify immediate tangible improvements that will benefit Small Caps relative to Large. As shown in Chart 4, the interest burden shouldered by Small Caps is ~4x that of Large Caps. In addition, Small Cap debt tends to be of shorter duration meaning interest costs are much more reactive to policy rates as opposed to longer maturities.

Lower rates should also stimulate the M&A cycle, benefiting the large share of technology (13%) and biopharma (18%) companies, while improving the top-line and credit profile of regional banks which we have recommended in prior publications and comprise 9% of the Russell 2000.

Ultimately, Small Caps represent a purer play on the U.S. business cycle and as our view of a soft-landing matures into a growth recovery they stand to benefit most as economic activity accelerates. Investors, of course, will begin to price in that evolution before it occurs. There's evidence that this has begun as Small Caps have outperformed by 5% since August.

Chart 4 Lower Rates: Small > Large Caps



Source: Bloomberg Finance L.P.

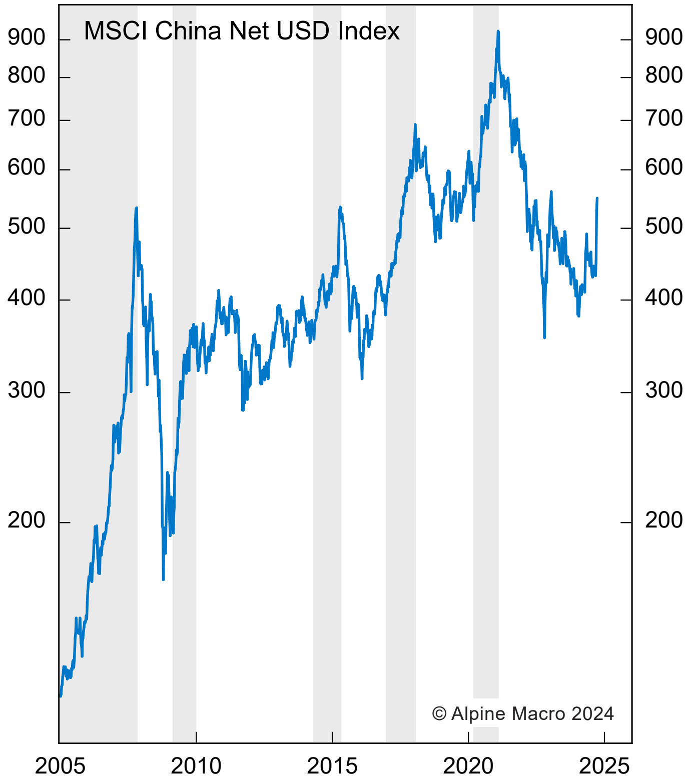
Finally, we note that the bifurcated trajectory of the global macro backdrop characterized by U.S. resilience paired with international weakness favors the more domestically oriented Small Cap market. However, we continue to monitor the stimulative efforts from Beijing which could blunt these effects and boost multinationals.

4. How Does China Stimulus Change The Game?

The stimulative measures from China, ratified by an explosion of regional equities, signals that the policy straitjacket has been shed and authorities are willing to backstop growth measures which should broaden the cyclical trade from U.S. centric to becoming more global.

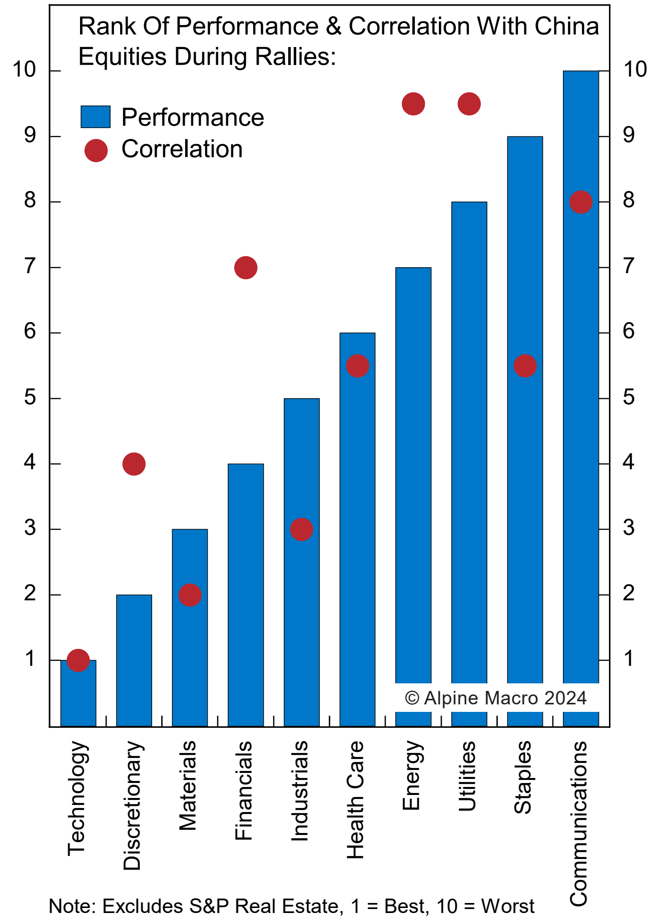
This thaws some implications of last month's shift in our Equity Strategy Clock to the Recovery phase of the cycle, which we felt benefited domestically insulated sources of cyclicality given the dual-track outlook for resilient U.S.

Chart 5 The Five Major China Bulls



Note: Shaded area denotes surging bull markets

Chart 6 Ranking What Works Best During China Bulls



Note: Excludes S&P Real Estate, 1 = Best, 10 = Worst

growth relative to the rest of the world. That included Real Estate, Banks, and Small Caps.

A meaningful commitment to stimulating domestic demand within China would go a long way to jumpstarting the global manufacturing recovery and should boost sectors and industries with global goods exposure including many pockets of Materials (Chemicals), Discretionary, Industrials (Machinery), and Technology.

In **Charts 5 & 6** we illustrate five past episodes of explosive Chinese equity performance and highlight the sectors that performed best during these periods, on average, and had the strongest correlation to the MSCI China Index during those periods.

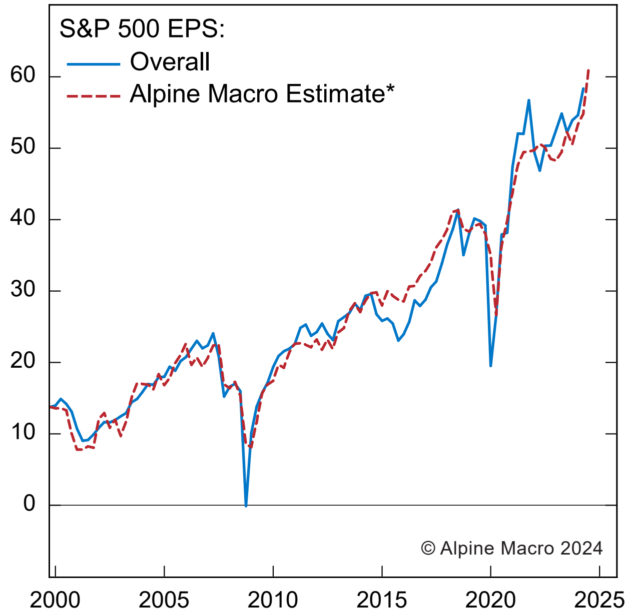
5. What Should We Expect From Q3 Reporting Season?

The reaction to third-quarter reporting season should be more positive after the tone during the second quarter was that of slight dissatisfaction given a smaller magnitude of earnings beats (4%) and concern regarding the monetization of artificial intelligence (AI).

Expectations for Q3 results have trended lower in recent weeks, with S&P 500 consensus earnings inching down by -3% since July. Each sector has seen negative revisions, on average, with some of the largest cap-weighted declines in Health Care and commodity-related industries. The silver lining is that this creates a solid opportunity for actual results to come in well above expectations, as we expect.

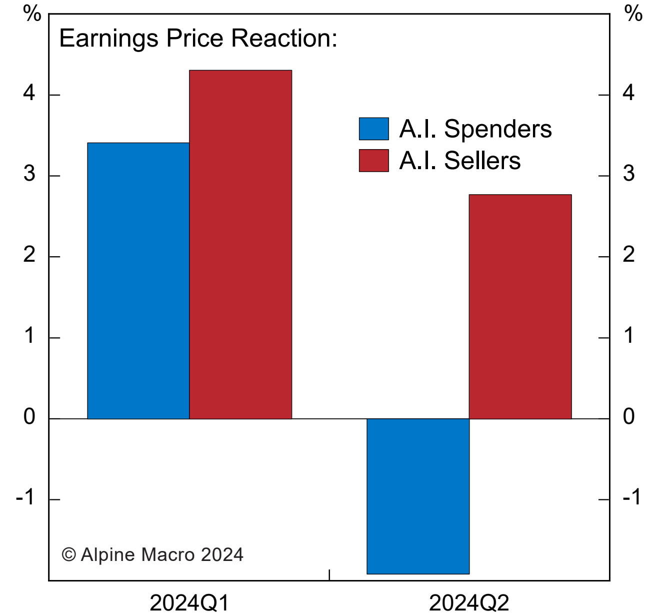
On a top-down level, our model suggests that earnings per share should grow 5-6% on a year-over-year basis (2.5% quarterly) towards $62 per share, or slightly above consensus. As shown in **Chart 7**, this estimate accounts for

Chart 7 Alpine Macro EPS Model



*Inputs include inflation, growth & margins

Chart 8 Market Favored A.I. Sellers To A.I. Spenders



Source: Bloomberg Finance L.P.

the firm nominal growth backdrop and a subtle expansion of profit margins.

Importantly, this should represent an inflection point for the profitability of smaller market cap segments which have trailed that of Mega Tech. The S&P 500 excluding the Magnificent 6 should generate their highest profit margin since 2021 during the quarter, rising from 9% to 11%. A similar outcome is expected for Small Caps.

As it relates to the market reaction to the capex spend cycle towards AI and other thematics, we anticipate that management teams learned a lesson and will be keen to outline specific ways in which technologies will boost revenues and profitability. We continue to favor "A.I. Sellers" relative to "A.I. Spenders" as shown in Chart 8.

Nick Giorgi

Chief Equity Strategist

These guys are too bullish on cyclicals imo. But tbf, they are also OW growth over value to make up for it.

Alpine Macro Sector Framework

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

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

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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. Price trends have been brutal but valuation positive and fund flows signal washout. Geopolitics, U.S. election, and China stimulus 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			■			Q3 reporting season to provide catalyst. 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. Room to run if China stimulus promotes global manufacturing upturn.
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		■				From contrarian to early-cyclical beneficiary? By this point, the valuation narrative is known, and the discount has contracted. Analyst expected growth outlook is weak but should benefit given rate cuts, benign credit backdrop, and Recovery phase of the cycle. On watch for upgrade.
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 shaking off Summer doldrums after nearing oversold territory earlier in September. The sector now exhibits some of the lower momentum but highest value and quality exposure it's had in recent years, as price declines corresponded with solid earnings trends.

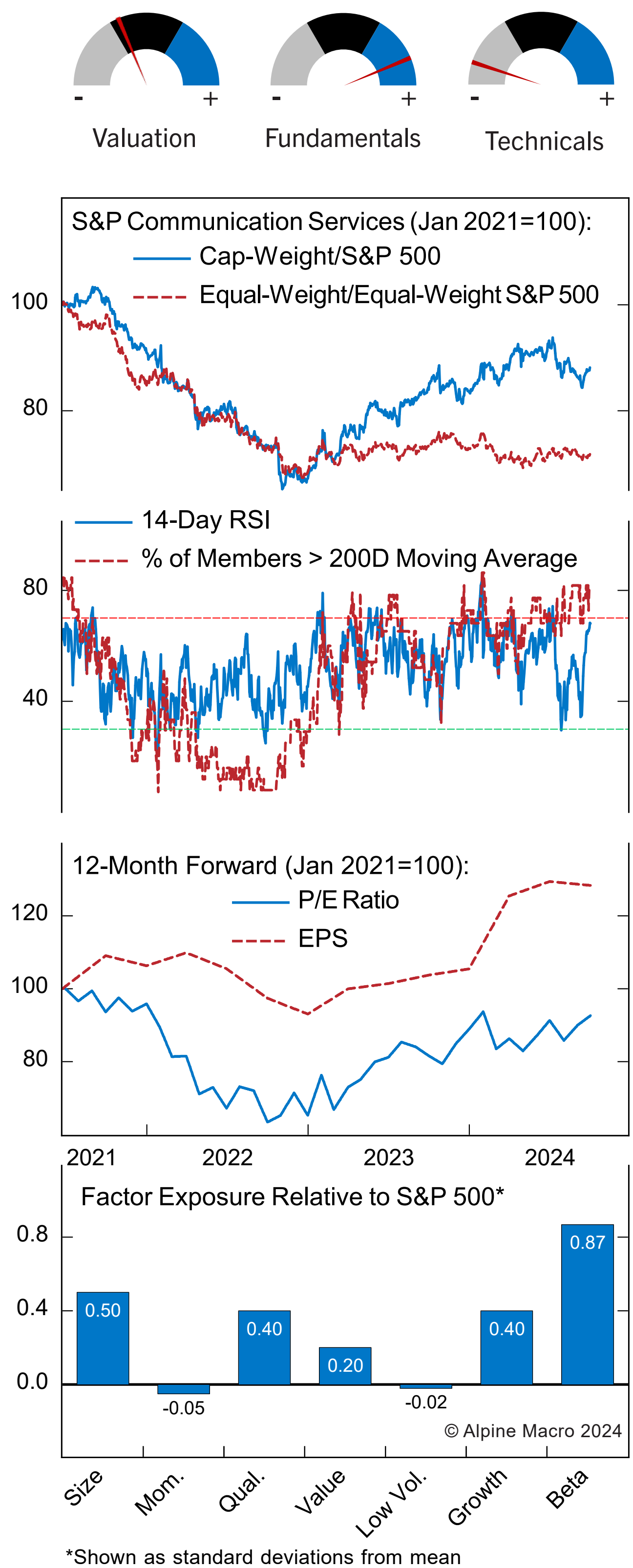
Overall we find Comm. Services to be a balanced source of value, quality, and Mega Tech defensive growth which remains attractive in a transition towards the Recovery phase of the cycle. We're overweight.

Interactive Media & Services and Entertainment are preferred industries within the sector.

Industry Spotlight: Media & Entertainment

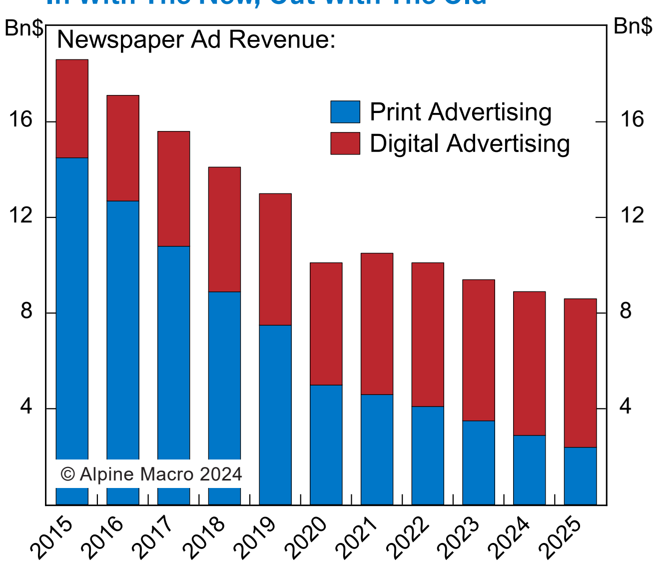
The transition of media publishing companies from print to digital delivery is largely complete. However, despite the shift, revenues from digital subscriptions have not fully compensated for the steep decline in traditional print revenues. Digital content has been commoditized, with consumers expecting lower prices and often free access, which has left publishers struggling to generate sufficient income. This revenue gap will likely persist, leading to consolidation within the industry. Smaller players will find it harder to survive, while larger companies may endure through cost-cutting and scaling, slowly reducing competition as the market becomes more concentrated.

Alpine Macro Sector Dashboard



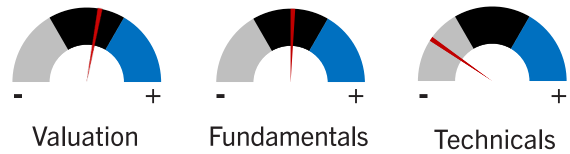
*Shown as standard deviations from mean
Source: Bloomberg Finance L.P.

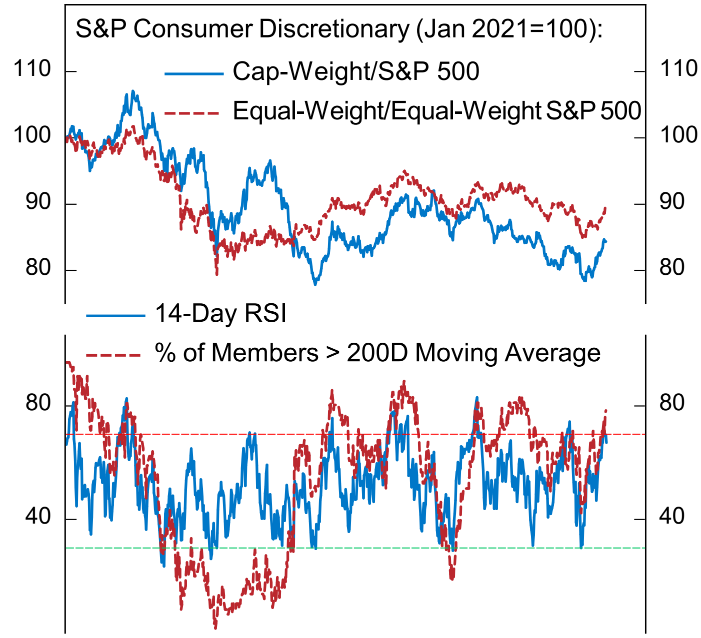
In With The New, Out With The Old

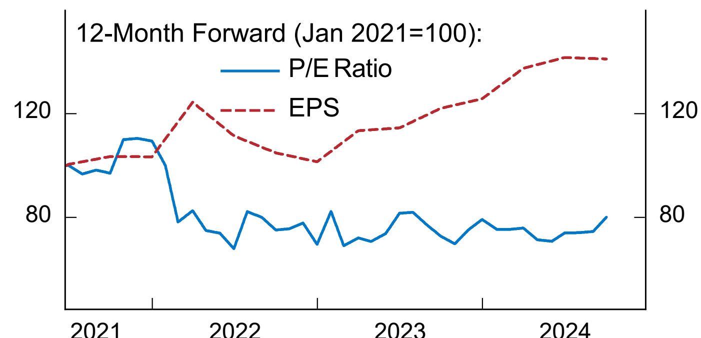


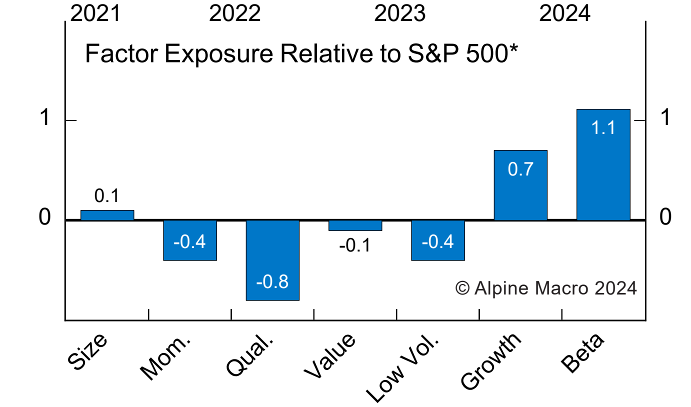
Source: Bloomberg Finance L.P., Magna Global

Alpine Macro Sector Dashboard









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

Consumer Discretionary has exposure to a variety of verticals across the consumer life-cycle while housing two Mega Tech behemoths making it heterogeneous, high in growth, and higher beta.

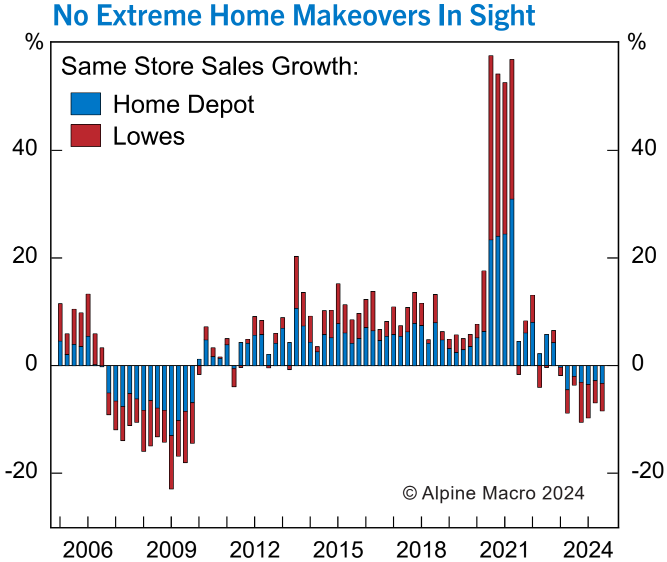
The sector has been on a heater since mid-August as an inflection lower in policy rates prompted a rotation into cyclical beneficiaries. Hotels, Leisure, Apparel, Housing and a standout in Autos powered much of the advance.

Going forward, the sector is positioned to benefit from an eventual U.S. cyclical upturn and would be boosted by meaningful China stimulus, adding potential for eventual upgrade.

Industry Spotlight: Home Improvement

Same-store sales growth for both Home Depot and Lowe's has been sluggish in recent quarters, largely due to a weakening consumer and the impact of high interest rates. As inflationary pressures and rising borrowing costs squeezed household budgets, discretionary spending on home improvement projects slowed. However, with the Federal Reserve now beginning to cut interest rates, there may be some relief in the sector. Lower rates could revive housing activity and encourage more renovations. Still, the overall consumer remains weak, with persistent economic uncertainty, meaning any rebound may be gradual and modest at best.

No Extreme Home Makeovers In Sight



Source: Bloomberg Finance L.P.

Staples remain challenged by three headwinds: 1) relatively high comps, 2) deteriorating pricing power, and 3) stalled volume growth. We expect Q3 reporting season to confirm these trends, once again.

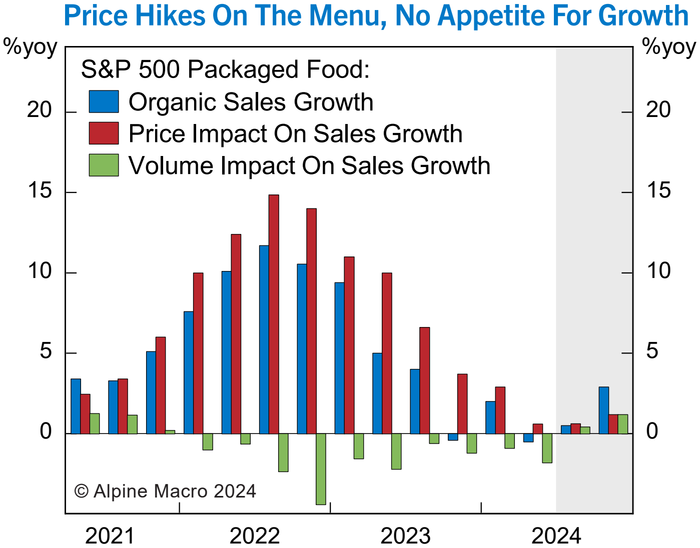
It's an unorthodox period for Staples as their traditional defensive characteristics were undercut by a normalization of post-COVID "pantry stocking" and a spike in inflation made consumers resistant to premium brands.

The sector is now vulnerable to investors positioning for the Recovery phase of the cycle, and prices have treaded water in recent weeks while earnings momentum is uninspiring. We remain underweight.

Industry Spotlight: Packaged Food

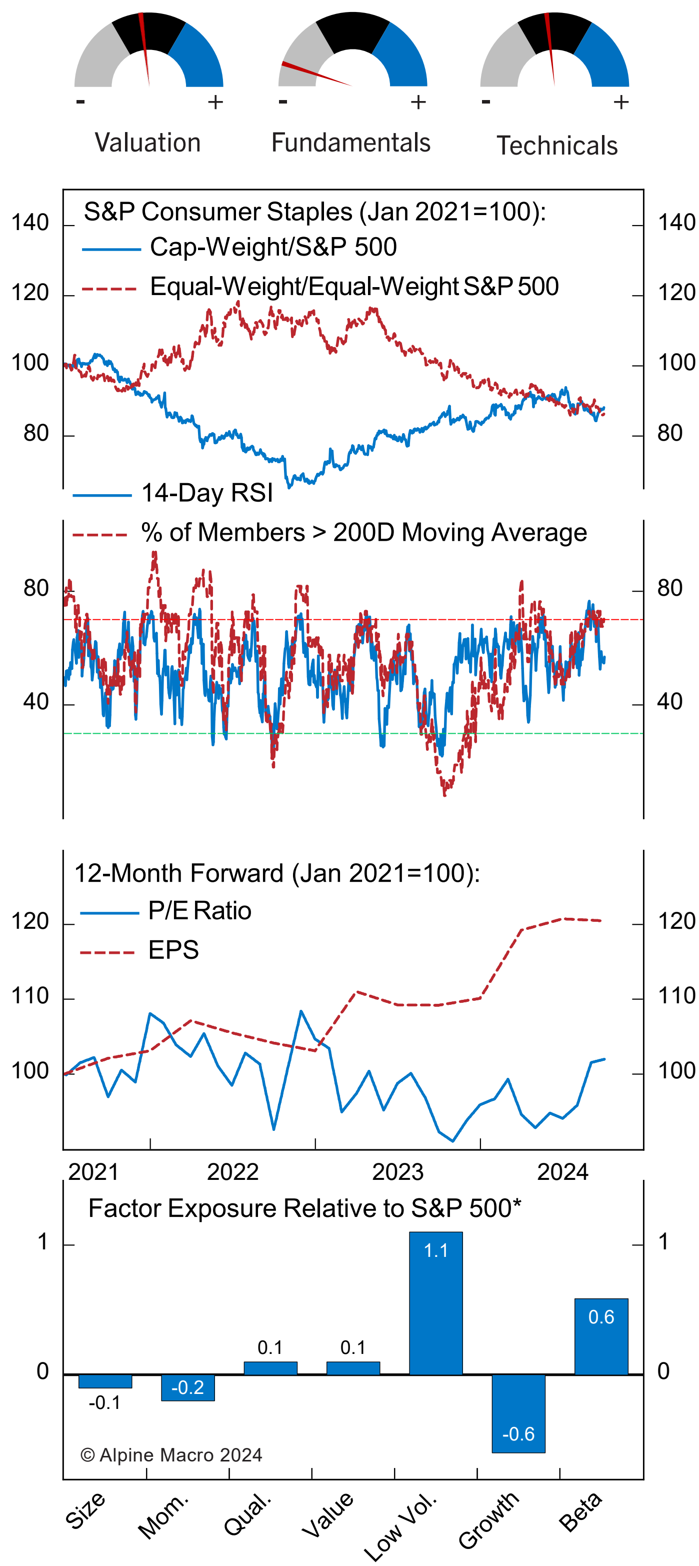
The packaged food industry has seen negative organic sales growth for several consecutive quarters, and future estimates suggest sales growth will remain flat. While there was a temporary surge in growth following the pandemic, this was primarily driven by inflationary pressures. Companies passed price increases on to consumers, masking the lack of actual demand growth. During this period, sales volumes remained flat or even declined, as higher prices discouraged consumption. Now, with inflation cooling and consumer budgets tightening, the industry's growth prospects look stagnant, as it struggles to find new momentum without the boost of price hikes.

Price Hikes On The Menu, No Appetite For Growth



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

Alpine Macro Sector Dashboard



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

It's been a very difficult period for Energy equities and positioning continues to wash out. 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 limited and/or reluctant ability to curtail supply. U.S. crude production is slightly below all-time highs.

There are, however, potential catalysts to jolt the trajectory of commodity costs higher. Notably, if China's recent stimulus measures materialize in greater activity it should boost demand. Meanwhile, ever-increasing tensions within the Middle East loom.

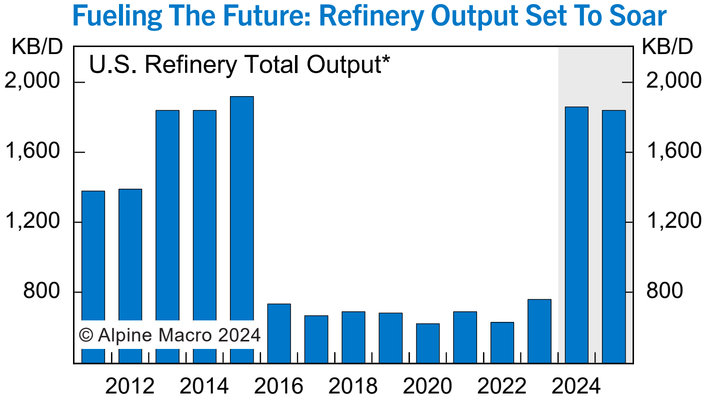
We're neutral on the sector as sentiment appears too dour barring a more severe global slowdown, rather we view the upside for the global growth outlook as improving given rate cuts and Beijing's measures. Storage and Transportation may be an attractive outlet for investment.

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

Industry Spotlight: Refineries

The refinery segment of the S&P 500 energy sector is set for significant growth, with output expected to more than double in the coming years. This expansion, driven by rising demand and increased refining capacity, presents a strong earnings opportunity for companies like Valero, Marathon Petroleum, and Phillips 66. Higher output could boost revenues, but earnings will still depend on refining margins, which are subject to market conditions.

Fueling The Future: Refinery Output Set To Soar



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

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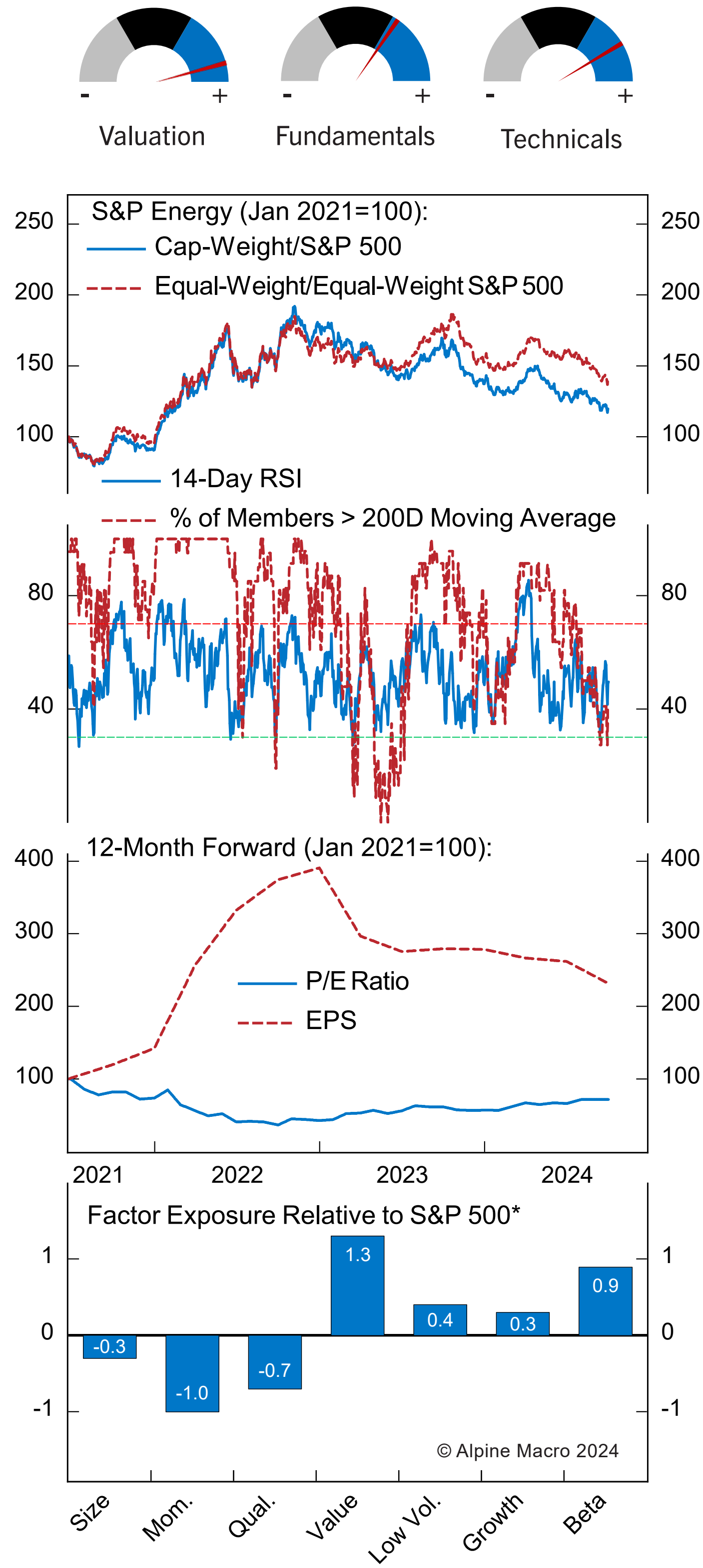


*Shown as standard deviations from mean
Source: Bloomberg Finance L.P.

Financials have settled following a whirlwind Summer and tepid commentary during investor conference season. We continue to favor Banks to Insurance and Payments and recommend adding tactical exposure, especially to Regionals.

Banks have underperformed in recent weeks as Money Centers warned that the backdrop for NIM is evolving as rates drop and credit risks mount. We view this as an effort to reset expectations lower.

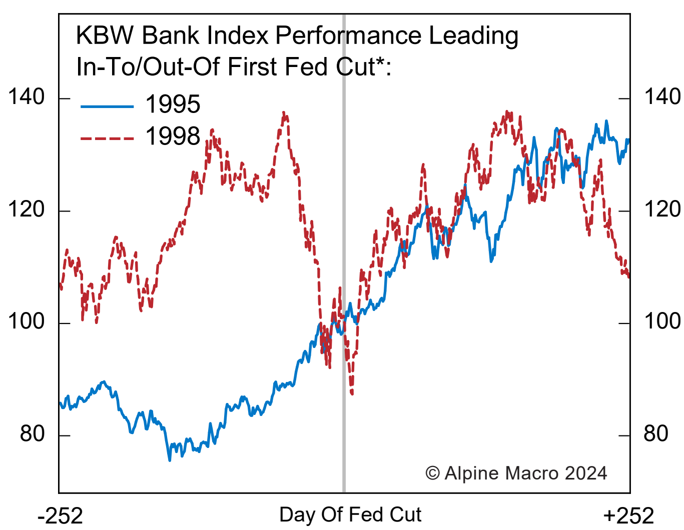
Regionals are a purer play on our view that NIM will trough, loan growth will accelerate, and credit will remain benign. Capital Markets and Wealth Management stand to benefit from higher deal activity and asset values. Meanwhile, the booster days for Insurance are past.

Valuation is moderate as earnings momentum continues.

Industry Spotlight: Regional Banks

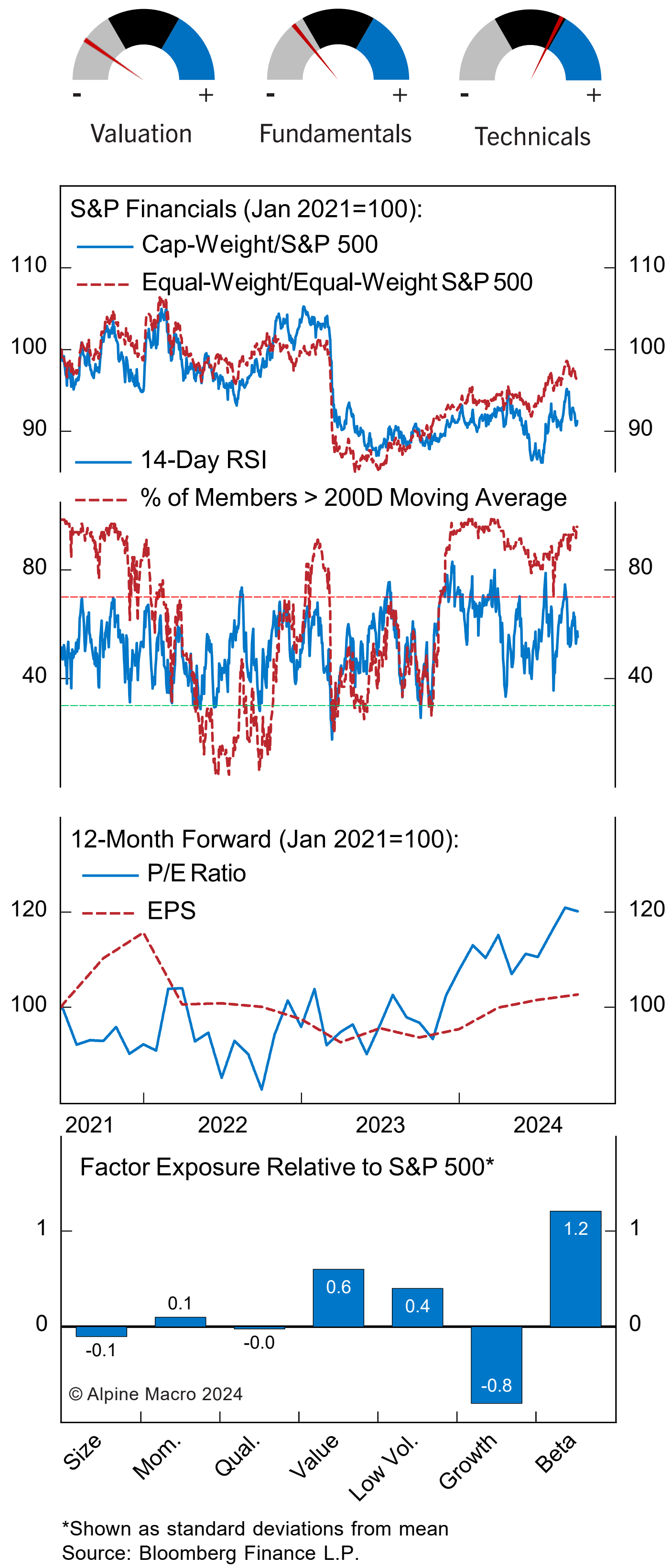
Regional banks have historically seen significant outperformance following the first Fed rate cut, particularly during rate cut cycles that aren't accompanied by a recession. Lower interest rates reduce borrowing costs, boosting loan demand and increasing profitability for these banks. In non-recessionary cycles, economic activity tends to remain stable or improve, further benefiting regional banks through higher credit growth and fewer loan defaults.

Regional Banks' Resilience: Outperformance Post Fed Rate Cuts



*Performance 252 days before and after Fed Rate cut

Alpine Macro Sector Dashboard



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

Segments within Health Care could be primed to benefit from lower rates and the potential for China stimulus to promote an acceleration of growth in international pockets. However, headline risk is likely to remain given potential implications from U.S. elections. We rate the sector as neutral.

The sector enjoyed a promising bounce higher in July and August following months of relative underperformance, but has since dipped once again. This is largely attributable to certain large constituents in the index giving back gains accrued earlier in the year.

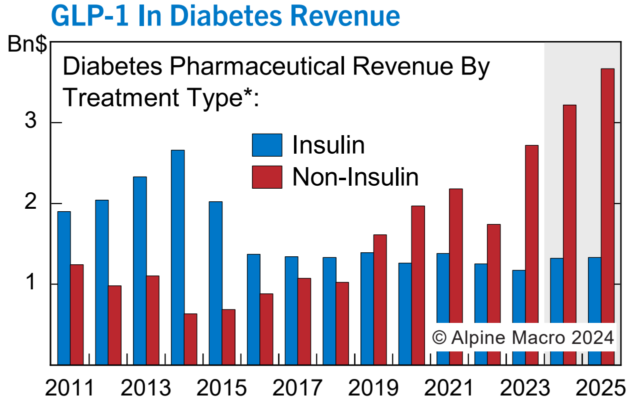
Earnings estimates are moving higher signaling more attractive valuation which Q3 reporting season could help unlock. Biotech and Pharma are preferred within the sector.

Finally, we note that a Democratic skew in Washington may favor Managed Care while a Republican-leaning outcome favors Biopharma on lower taxes and price controls.

Industry Spotlight: Pharmaceuticals

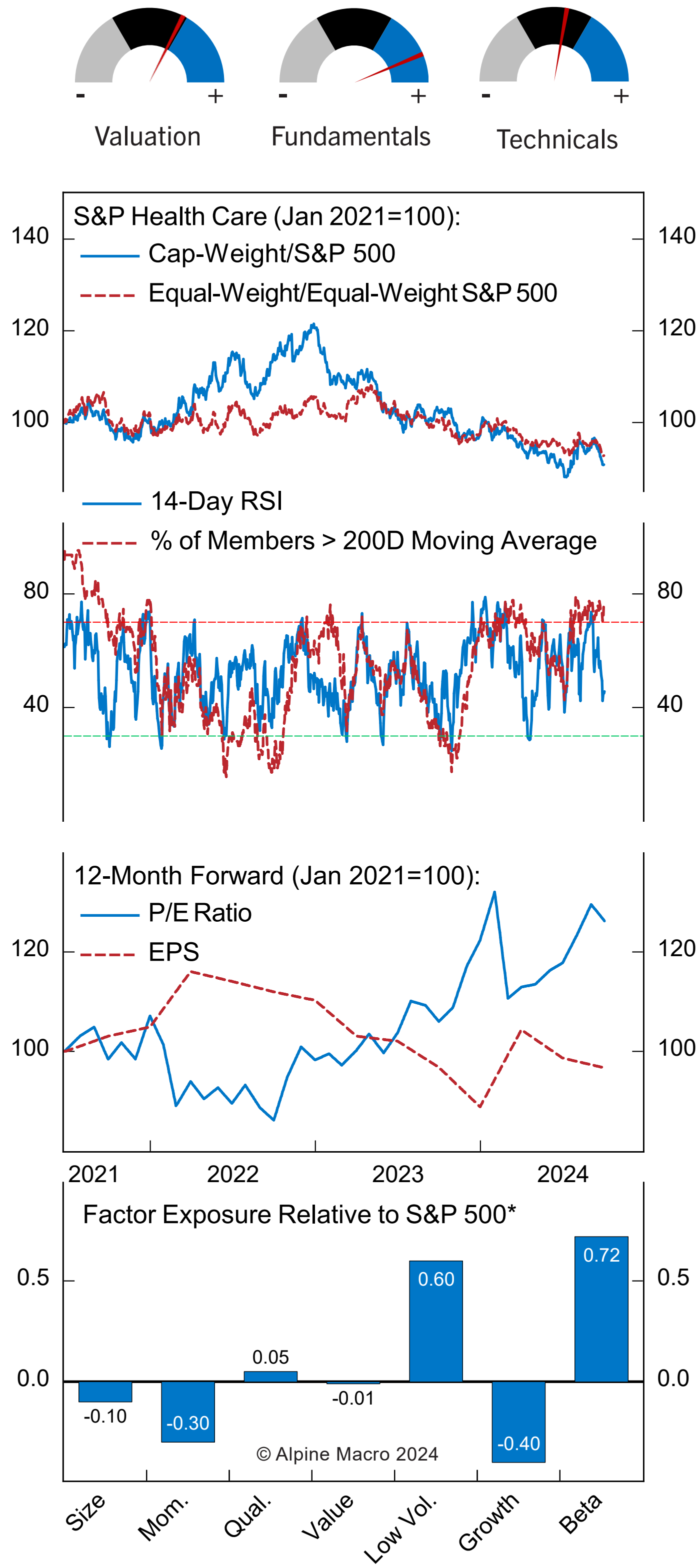
Pharmaceutical companies have undergone a radical shift in revenue structure, moving from a reliance on insulin-related products to a dominance of non-insulin therapies, particularly GLP-1 receptor agonists for their diabetes treatments. The widespread adoption of these newer treatments, known for their benefits in weight management and glycemic control, has transformed the market. As healthcare providers increasingly favor GLP-1 products, companies are adapting their strategies to focus on these innovative therapies, leading to enhanced profitability and new growth opportunities in diabetes management.

Shifting Gears: Transitioning From Insulin To GLP-1 In Diabetes Revenue



*Sum of Novo Nordisk, Eli Lily & Merck, 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 broken out with nearly all industry groups accelerating led by Machinery, Building Products, Electrical Equipment, and Aerospace & Defense.

Central to our bullish Industrials thesis had been that a soft or perfect 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 were secular bonuses.

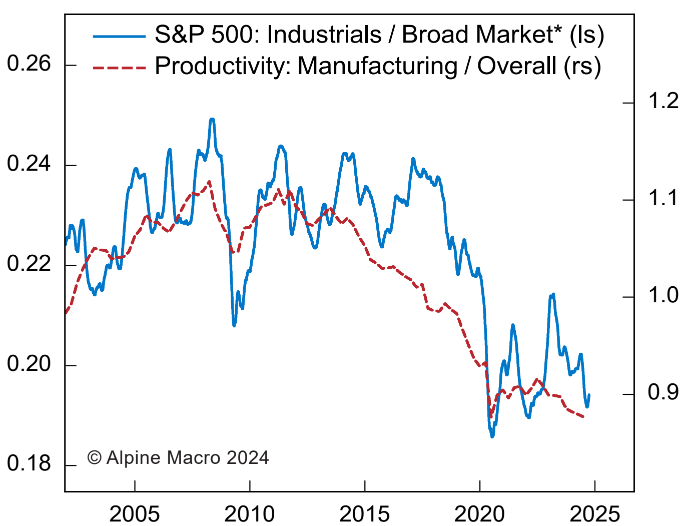
Recent developments regarding China stimulus throws more fuel on the fire and has led to many of the more globally-exposed segments to outperform.

Technicals have pulled back after nearing overbought levels, however we remain bullish over the intermediate-term. We favor Building Products, Construction & Engineering, and Defense.

Productivity Improvements Could Spark A Rally

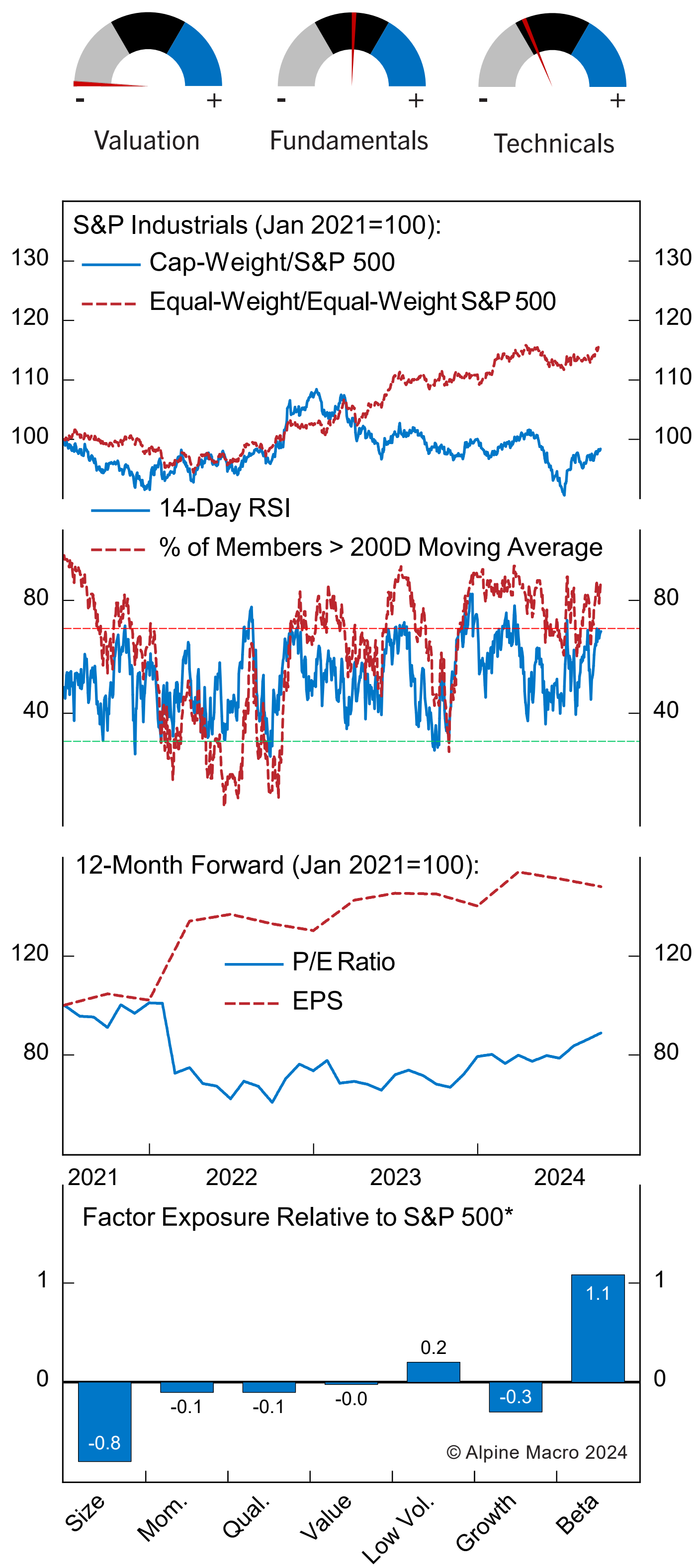
Industrials seem to have reached a bottom relative to the broader index, indicating a potential turnaround. With the upcoming election and both candidates advocating for infrastructure spending, along with the ongoing shift toward AI prompting substantial investment, there's optimism for increased manufacturing productivity. This combination could drive positive growth in the sector, leading us to expect the recent bottom in industrials to hold and pave the way for a rally as market sentiment improves

Industrials: Poised For Growth With Infrastructure And Ai



*Shown as 3-month moving average

Alpine Macro Sector Dashboard



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

Technology has largely treaded water since August following a push-pull shakeout during reporting season regarding the efficacy of artificial intelligence and the spend cycle associated with its build-out.

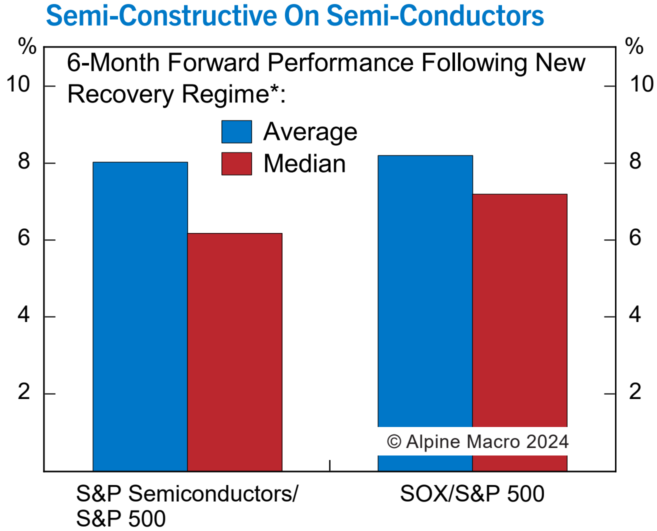
The performance of Semiconductors, Software, and Hardware has been uninspiring since that point but Q3 earnings offer an opportunity to reset expectations higher and communicate tangible benefits of new technologies.

We still favor the sector as it exhibits the fastest long-term growth, highest quality, and profitability across sectors. Valuation has improved given muted price action but positive earnings momentum.

Industry Spotlight: Semiconductors

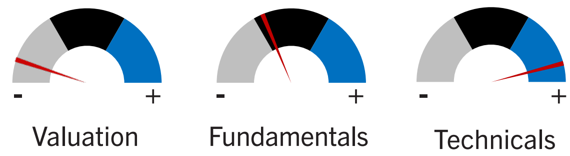
Semiconductors, as early cyclical stocks, typically outperform when a new recovery regime begins. Their performance is closely tied to economic cycles, as increasing demand for technology and consumer electronics often signals a broader economic rebound. As businesses ramp up production and consumers boost spending, semiconductor companies benefit from heightened demand for chips used in various applications, from smartphones to automotive technology. This early recovery momentum positions the semiconductor sector as a key player in driving market growth and investor interest in the initial stages of an economic upturn.

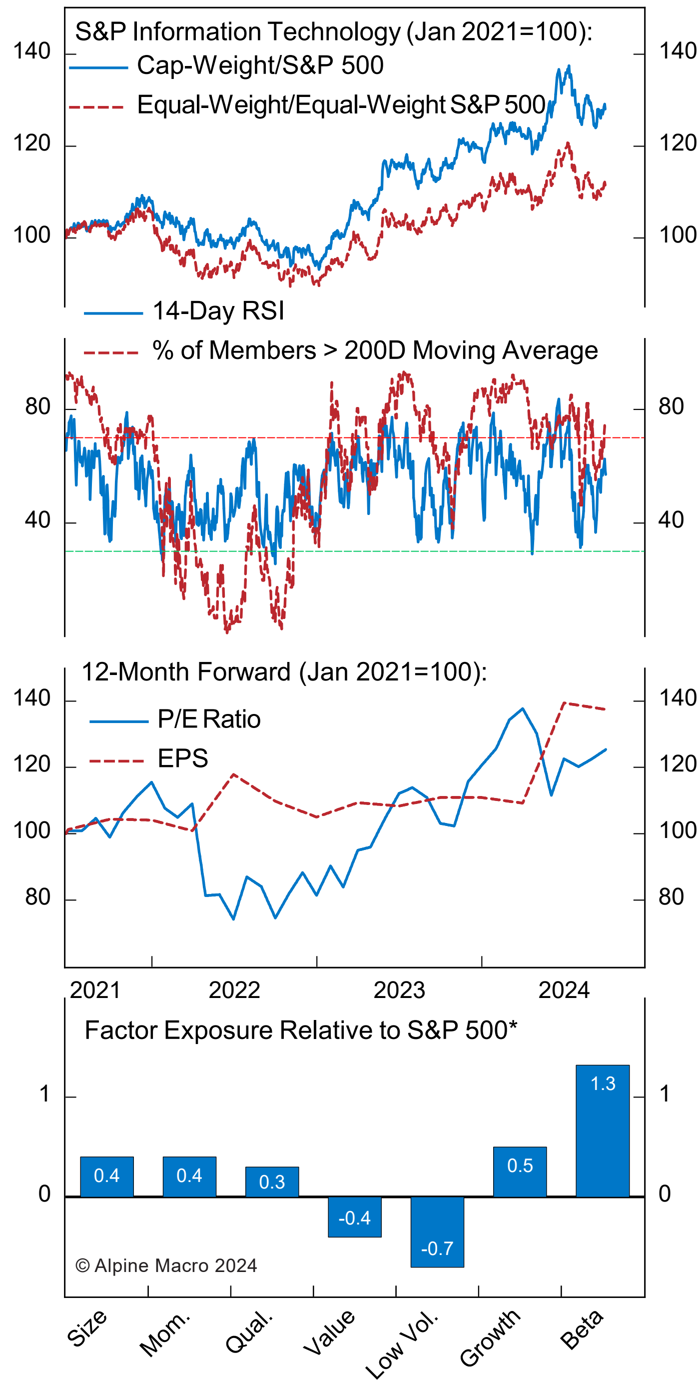
Semi-Constructive On Semi-Conductors



*Alpine macro policy framework defined as a period of profit strengthening

Alpine Macro Sector Dashboard





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

Materials are likely a prime beneficiary 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 but on-watch for upgrade.

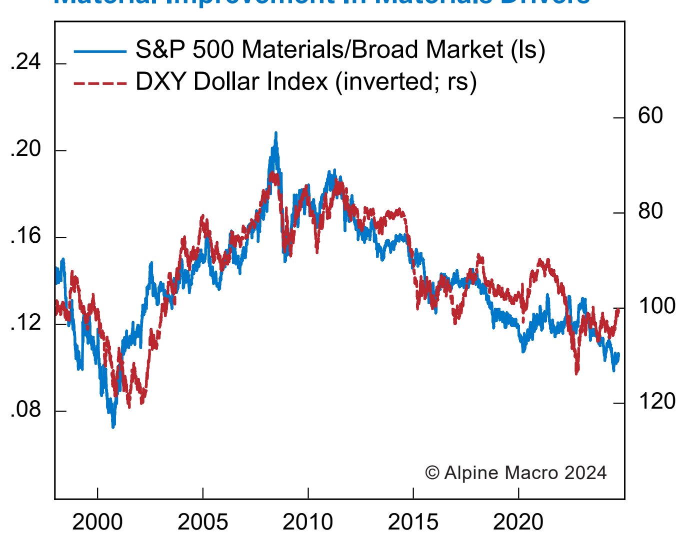
It's too soon to fully embrace the bullish narrative, as regional manufacturing indicators have yet to flag recovery, but investors appeared cautiously willing to inch into the sector in recent weeks. Given the short-cycle tendencies for most of it industries, the broader sector could rapidly outperform low expectations if the global manufacturing upturn unfolds.

For Q3, consensus expects each industry with the exception of Construction Materials to post earnings declines for the quarter. Given weak earnings expectations and the recent price run-up, valuation appears stretched.

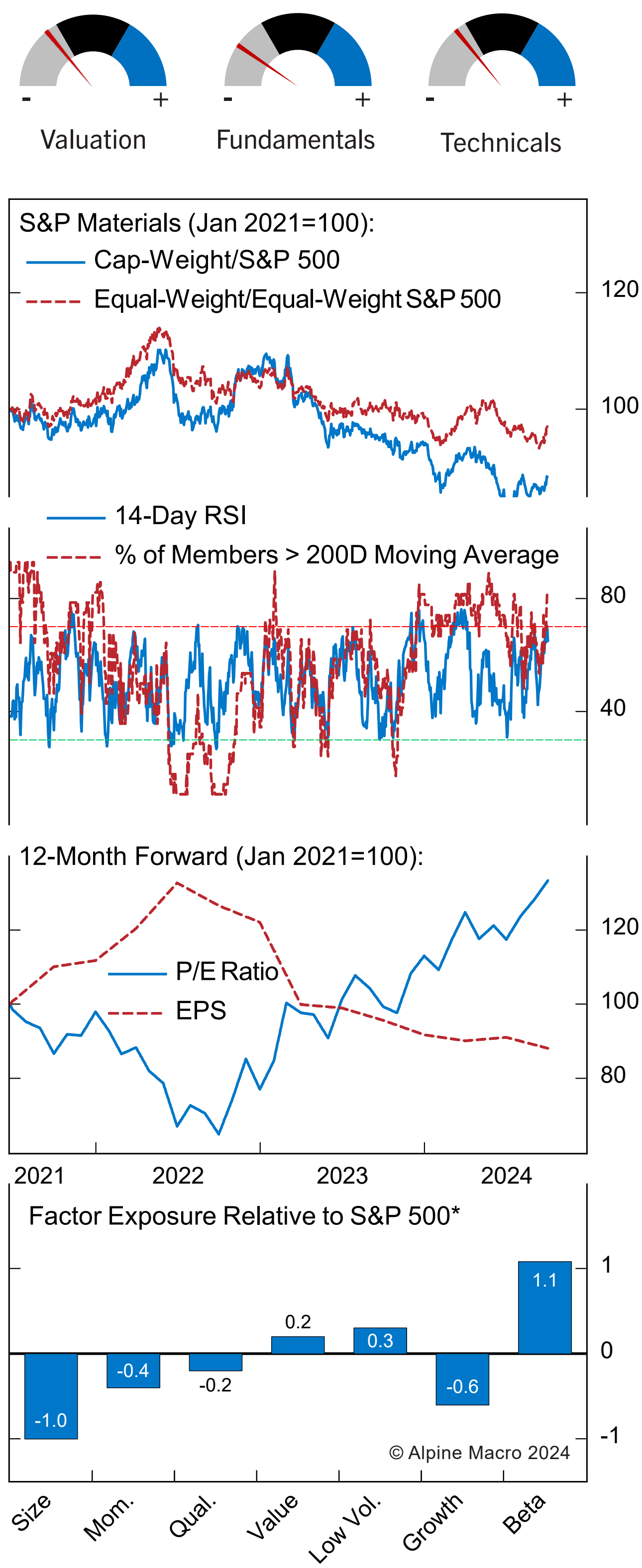
Soft Dollar & China Growth Are Positive

With a Federal Reserve cut cycle underway, we anticipate a period of dollar weakness, which historically benefits the materials sector. This dollar decline, coupled with China's recent launch of a fiscal and monetary "bazooka," creates a highly bullish environment for materials. As the dollar weakens, commodities priced in dollars become more attractive to global buyers, potentially driving up demand and prices. This combination of favorable currency dynamics and robust stimulus measures from China positions the materials sector for potential growth in the coming months.

Material Improvement In Materials Drivers



Alpine Macro Sector Dashboard



*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.

Real Estate has 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.

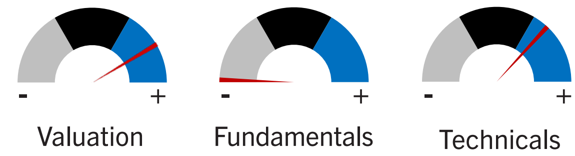
Trends across industry groups are mixed and demonstrate a degree of mean-reversion with some perceived higher-risk segments such as Retail and Office storming back to outpace Residential and Data Centers in recent months. In this regard, some of the valuation discount has been earned back.

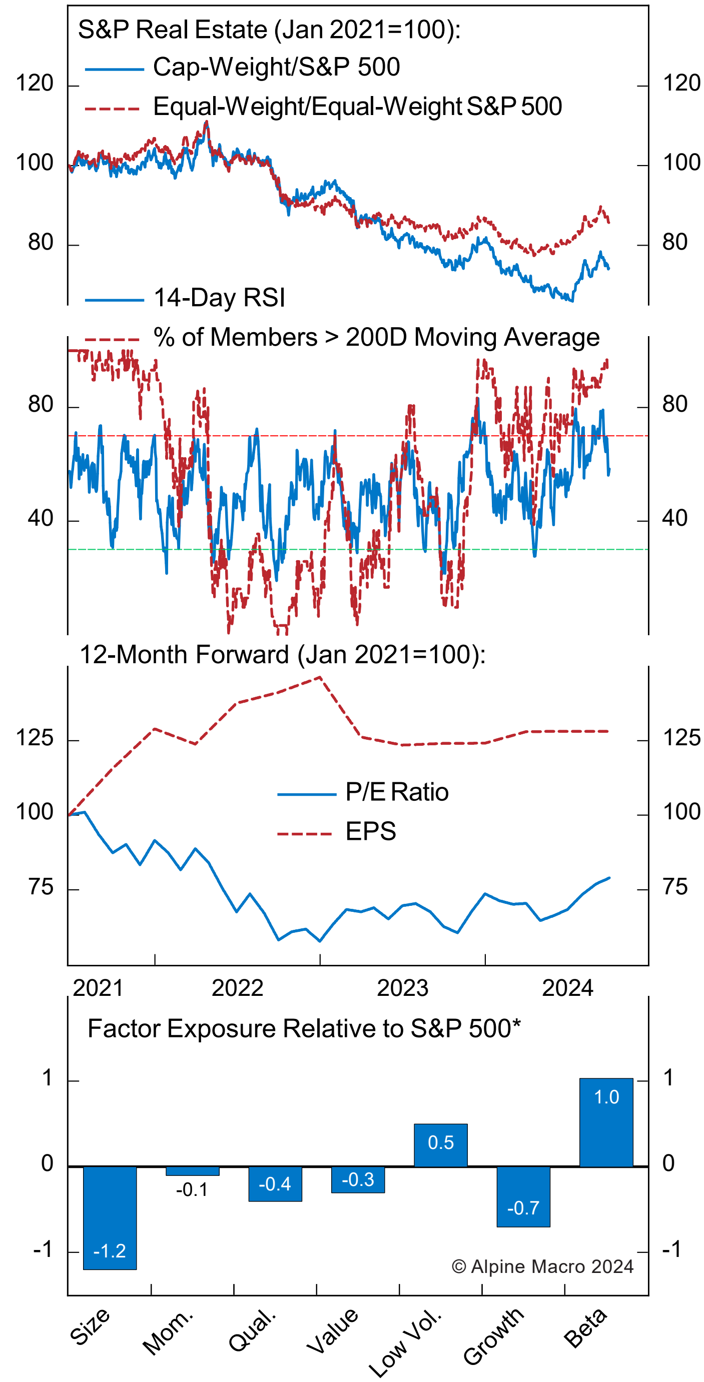
We favor Data Centers, given secular tailwinds, and Senior Housing exposure given trends in occupancy, REVPOR, and expense management. Industrial REITs may be at-risk during Q3 reporting season as their core business faces slower warehouse demand from weaker goods consumption and impaired rental rates.

Industry Spotlight: Apartment REITs

Apartment real estate has historically excelled, often outpacing other segments in the 12 months following a recovery regime. With the Fed recently cutting rates, a favorable environment could manifest for the real estate sector, particularly in apartments. Lower borrowing costs are expected to drive demand, boosting rental activity and positioning REITs for growth as the economy improves.

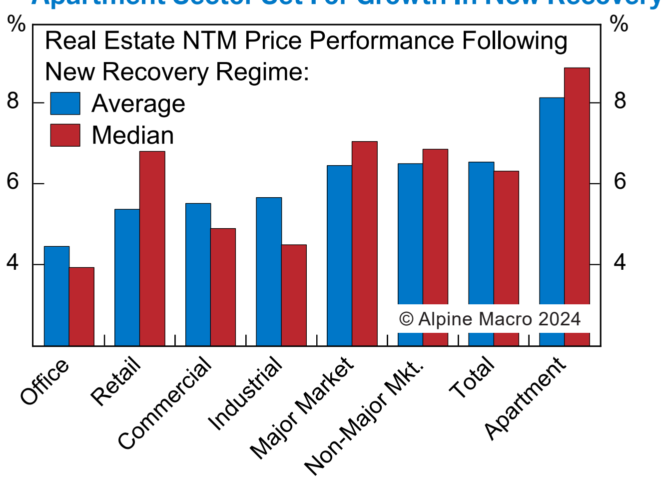
Alpine Macro Sector Dashboard





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

Apartment Sector Set For Growth In New Recovery



Source: MSCI RCS CPPI

The current backdrop, characterized by slowing, disinflationary growth has proven very supportive for Utilities which are enjoying their best and most sustained bout of outperformance since late-2021.

Every member of the sector has advanced on a trailing 1m & 3m basis, however the U.S. election could present a risk. Republican control of D.C. would be viewed as a headwind for clean energy providers.

Our bull thesis for Utilities 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.

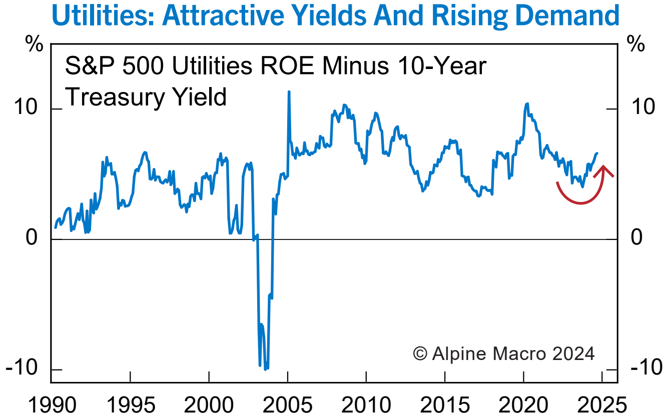
Utilities are generally not a sector to own over the long-run however we feel that a unique opportunity presents a window of outperformance based on cyclical and secular tailwinds.

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 South-east, Mid-Atlantic, and Mid-West.

Utility Demand Still Strong And ROE To Improve

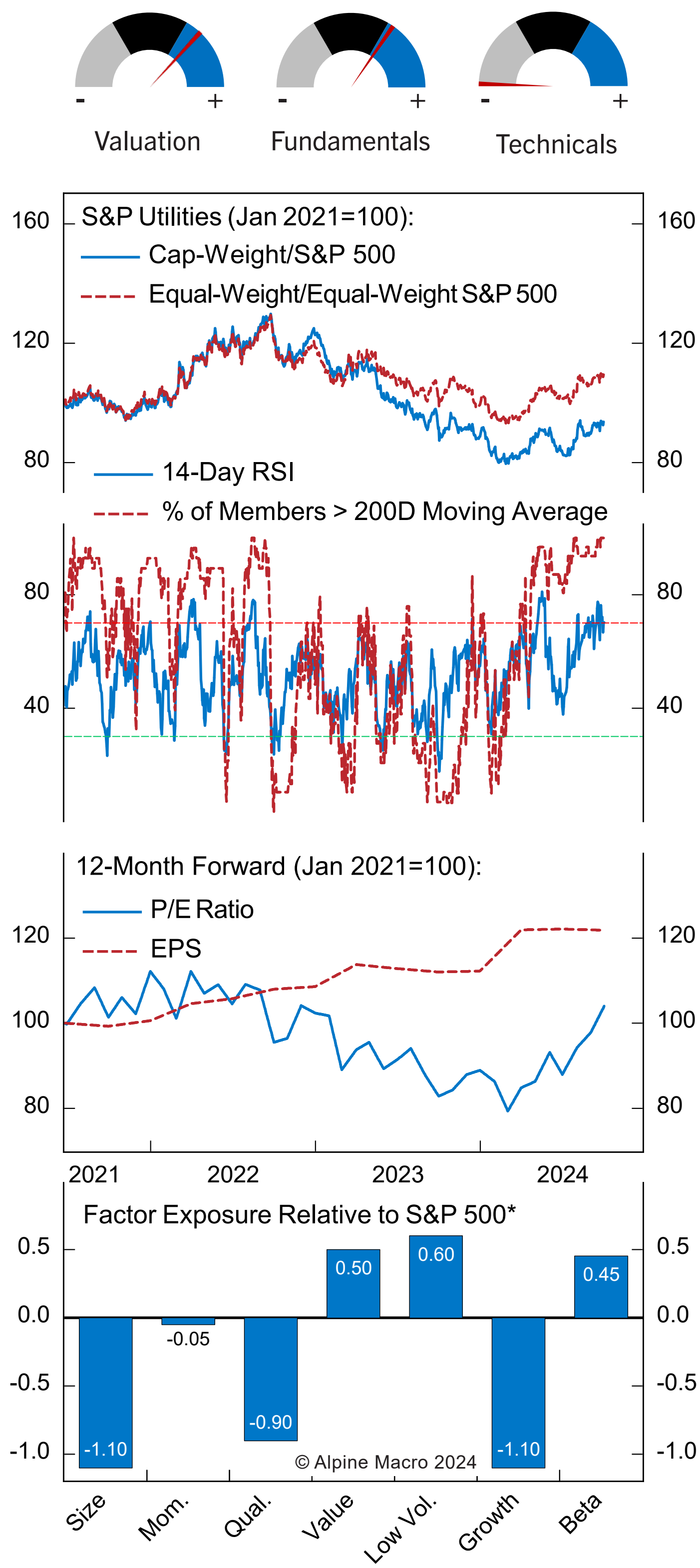
Utilities are often seen as a yield proxy, and with yields expected to continue falling, the sector's attractiveness is likely to improve. This trend is supported by another structural tailwind driven by the transition to electrification and a significant push towards AI investment. As industries and consumers increasingly rely on electricity, the demand for electric utilities will remain robust.

Utilities: Attractive Yields And Rising Demand



Source: Bloomberg Finance L.P.

Alpine Macro Sector Dashboard



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

A Unique Mind On The Markets