

## Barron's Summary

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- Cover:
  - Emerging markets have outpaced an aging bull market in the U.S. over the last 12 months, but potentially volatile developments in countries like China and India mean that investors will now need to pick their investments carefully. India is now expensive and faces near-term challenges as it pushes through economic reforms. Chinese internet stocks like **Tencent Holdings (700.HK)** could face the risk of government intervention. Barron's gathers four EM stock fund managers to identify the best investments and the most important risks to monitor. Top picks as follows: **Alibaba (BABA)**, **Kroton Educacional (KROT3.BZ)**, **Hangzhou Robam Appliances (002508.CH)**, **JD.com (JD)**, **Baozun (BZUN)**, **Indus Motor (INDU.PK)**, **Shenzhen International Group Holdings (2313.HK)**, **China Lodging Group (HTHT)**, **PC Jeweller (534809.IN)**, **Titan (500114.IN)**, **Samsung Electronics (005930.KS)**, **China Shenhua Energy (1088.HK)**, **Sberbank of Russia (SBER.RU)**, **Bank Central Asia (BBCA.IJ)**, **Qualicorp (QUAL3.BZ)**, and **Interglobe Aviation (539448.IN)**. ([link](#))
- Features:
  - **Verizon (VZ)**: Barron's is positive on Verizon, suggesting shares could return 20%, including a dividend yield of 5%, over the next year. A long price war in wireless that hurt shares is now easing, and Verizon is on track to bring in about as much revenue this year as last year. In 2018, it could even return to modest growth. That leaves shares looking like a bargain, while its rival **AT&T (T)** is ensnared in a battle over its \$85B deal for **Time Warner (TWX)**. Verizon lags behind AT&T in television, but that might be for the best in the long run, as cable has been struggling to keep subscribers. ([link](#))
  - The Trump administration is expected to announce a plan early next year that would combine \$200B in federal funding over the next decade with incentives for local governments and private investors to inject hundreds of billions more. Congress would then need to take the next step and pass legislation. The White House wants to increase the role of public-private partnerships (P3s), but Democrats in Congress might be reluctant to pass legislation that seems overly reliant on the efforts of profit-seeking companies. Companies that could get meaningful boosts from legislation include **Vulcan Materials (VMC)**, **Fluor (FLR)**, **Marin Marietta Materials (MLM)**, **Aecom (ACM)**, **Jacobs Engineering (JEC)**, **Granite Construction (GVA)**, **Eagle Materials (EXP)**, **U.S. Concrete (USCR)**, and **Caterpillar (CAT)**. ([link](#))
  - **Mondelez International (MDLZ)**: Barron's is positive on snack-food giant Mondelez, suggesting that rising sales could lift shares to \$50. At \$42, shares trade at a lower multiple of earnings than those of rivals. The doubt stems from weak sales performance as U.S. consumers have moved away from snack foods, but there's reason to hope that growth is returning. CEO Dirk Van de Put aims to increase sales and profit margins. Sales picked up this quarter, especially in developing markets. As earnings rise, the multiple should expand. ([link](#))
  - Barron's profiles Daniel Chace, who co-manages the \$322M Wasatch Micro Cap fund. The fund targets companies with a market value of \$100M to \$1.5B, and focuses on 80 they think have the most promising growth potential. Top 10 holdings are as follows: **Superior Uniform Group (SGC)**, **LGI Homes (LGIH)**, **HealthEquity (HQY)**, **Installed Building Products (IBP)**, **V-Mart Retail (534976.IN)**, **Freshpet (FRPT)**, **Ensign Group (ENSG)**, **Envestnet (ENV)**, **Trex (TREX)**, and **Exact Sciences (EXAS)**. ([link](#))
- Columns
  - *The Trader*: Last week saw another new high for the major market indexes: the S&P 500 climbed 0.9% to a record 2602.42, while the Nasdaq gained 1.6% to a record 6889.16. The Dow rose 0.9% to 23,557.99, just 32.84 points shy of its all-time high. However, with the market expecting earnings growth of 11.7% -- well above the long-term average of 7% -- some analysts believe the market is overvalued. As long as yields remain low, investors will continue to buy stocks. But a deficit-boosting tax reform package could lift bond yields, which could hurt stocks as investors recalibrate. Still, the U.S. economy remains robust, and long-term investors may be better off riding out the corrections.
    - *Trader Extra*: The Golden Age of buybacks is over, with companies in the S&P 500 on pace to repurchase just \$500B in shares this year, the lowest amount since 2012. While

some interpret the decline as a sign of trouble ahead, there's reason to believe that buybacks haven't been as important to post-crisis gains as some believe. Now is a particularly good time for buybacks to slow, as stocks are highly valued and the end of QE means rising borrowing costs. Companies will instead need to spend on capital improvements and R&D to boost productivity and growth.

- *Trader Extra:* Some investors are worried about a "melt-up" in the U.S. stock market. A melt-up is a slow and steady climb with few pullbacks along the way, low volatility, and new highs that are incrementally higher than the previous mark.
- *International Trader (Europe):* Positive on **Hapag-Lloyd (HLAG.GR)**, as the container shipping industry appears to be enjoying its best conditions in nearly a decade. Global trade volume is up 4.3% this year, even as protectionism re-emerges as a threat. The 2016 bankruptcy filing of Hanjin Shipping took vessels off the market and sparked more consolidation and alliances. Hapag-Lloyd's relatively low valuation and strong fleet make it a promising way to play the revival.
- *International Trader (Asia):* Positive on **Tencent Holdings (700.HK)**, whose shares have climbed 125% this year to become the world's fifth-largest listed company. Shares could continue to surge as long as the company can continue to deliver on earnings and widen its moat, with its growing financial-technology business leading the way. Morningstar analyst Chelsey Tam has a current price target of \$62.99, or 18% upside after Friday's comeback.
- *Current Yield:* Emerging market bonds have had an impressive recovery after selling off after the U.S. presidential election. The selloff was driven by fears of inflation, rising rates, and a more isolationist trade policy. Markets have shrugged off these concerns, and the trend could continue into 2018, helped by improving global growth, benign inflation, and central banks that continue to suppress interest rates.
- *The Striking Price:* Shares of **Cboe Global Markets (CBOE)** and **CME Group (CME)** set 52-week highs last week, likely reflecting expectations that the launch of Bitcoin futures will be lucrative for the exchanges. Barron's is concerned over the decision to pursue Bitcoin futures, as it may not be in the interest of the derivatives market. Until it is known if Bitcoin futures will be segregated at clearing firms to protect the stability of the markets, Barron's doesn't recommend Cboe or CME as anything but momentum trades.
- *Commodities Corner:* A cold spell in December could lift winter wheat prices higher than \$5 a bushel, up more than a dollar from recent prices. A rally would aid the ailing farm economy, which has been hurt by steadily falling wheat prices since 2012. Fertilizer makers **Mosaic (MOS)** and **Agrium (AGU)** are two ways to wager such a move.
- *Insider Transactions:* A list of recent purchases and sales of U.S. companies made by insiders.
- *Up And Down Wall Street:* Janet Yellen last week expressed concern that inflation might continue to fall short of the Fed's 2% target. But a new leading indicator of inflation shows prices rising at nearly a 3% yearly pace, which raises the question: is Yellen concerned about prices that consumers pay, or does she fear a slide in inflated asset prices resulting from the Fed's tightening policy? The Fed faces a conundrum, as it must weigh rising inflation pressures against the risk posed by high -- and arguably inflated -- asset prices.
- *Streetwise:* Last week, **+UBER** said it had suffered a data breach resulting in the theft of information of about 57 million customers; worse yet, the company sat on the information for a year, and paid a \$100k ransom for the hackers to hide the breach. Uber has a history of playing by its own set of private rules, free from the onus of public company disclosures. If a private company as large as Uber is serious about transparency and honesty, it should choose to report like a public company.
- *Technology Trader:* Cloud technology is rapidly evolving in a way that could either cement or erode the oligarchy of **Amazon (AMZN)**, **Microsoft (MSFT)**, and **Alphabet (GOOGL)**. A new way of writing software called "serverless software" makes it easier for programmers to use cloud computing generally, which is good for these companies; but it can also weaken a programmer's loyalty to any one cloud, which could weaken the grip of the oligarchs. The three leaders are trailed by **IBM (IBM)** and **Oracle (ORCL)**.
- *Speaking of Dividends:* Tax inversions enable a U.S. corporation to acquire a foreign company and then reincorporate overseas. A recent bill that made it out of the Senate Finance Committee would tax the dividends of inverted companies at a much higher rate than currently. Among U.S. companies that have done inversions are **Medtronic (MDT)**, **Eaton (ETN)**, **Allergan (AGN)**, **Johnson Controls International (JCI)**, **Mylan (MYL)**, and **Endo International (ENDP)**.

◦ *Follow-Up:*

- HP has trailed the S&P 500 over Meg Whitman's five-year stint as CEO, but **HP Inc. (HPQ)** and **Hewlett Packard Enterprise (HPE)** have outperformed since the company split in 2015. Still, for all the restructuring, growth eludes both companies. Challenges loom large at HPE, as cloud-computing leaders buy less HPE gear because they are building their own. HP has somewhat more promise with its foray into 3-D printing, but both companies must redefine themselves in the changed IT landscape.

**Industries:** Unspecified, Chemical Manufacturing, Other Consumer Specialties, Constr. & Agric. Machinery, Construction - Raw Materials, Construction Services, Misc. Capital Goods, Apparel/Accessories, Auto & Truck Manufacturers, Food Processing, Fabricated Plastic & Rubber, Coal, Consumer Financial Services, Insurance (Miscellaneous), Investment Services, Misc. Financial Services, Regional Banks, Biotechnology & Drugs, Healthcare Services & Facilities, Major Drugs, Medical Equipment & Supplies, Broadcasting & Cable TV, Communications Services, Hotels & Motels, Retail (Internet & Catalog), Retail (Specialty), Computer Hardware, Computer Peripherals, Computer & Internet Services, Electronic Instruments & Controls, Misc. Fabricated Products, Semiconductors, Software & Programming, Water Transportation

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