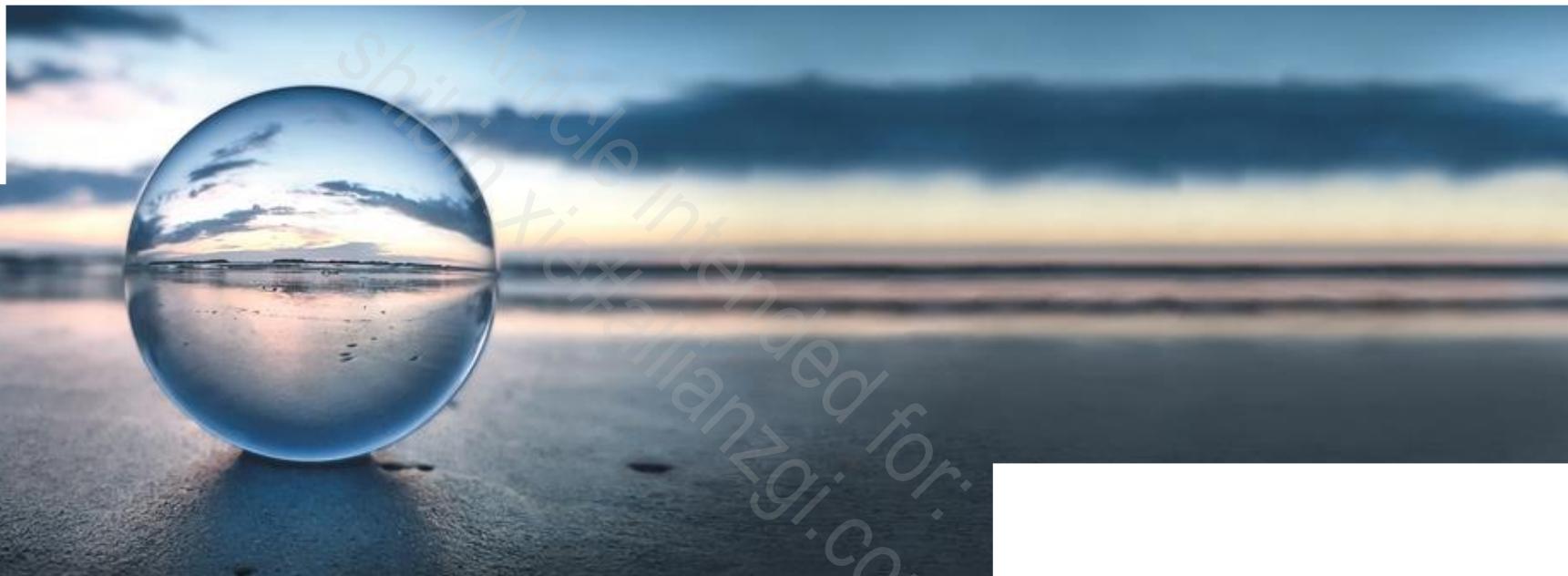


HOLT[®] US Market Overview – June 2021

Quality and Growth have decoupled in the U.S. Investors should stick with Quality.



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HOLT US Market Overview: June 2021

Market

- Median implied yields remain near historically low levels and the near-record level of dispersion in implied yields within the U.S. market persists.
- The data suggest continuing to position in favor of further convergence in implied yields by owning cheaper segments and avoiding the most expensive.

Quality vs. Growth

- Investors are increasingly forced to distinguish between ideas with above-average Quality or Growth characteristics as the portion of the U.S. universe offering both above-average Quality and Growth is at an all-time low.
- When weighing Quality against Growth, investors should defer to Quality as the attribute is cheaper and now has stronger fundamentals. Hyper Growth stocks should continue to be avoided.

Value

- Within the Value segment, firm values and normalized profitability remain more decoupled than usual, leaving a more attractive inventory of deep value opportunities than most of the last decade.

Recent HOLT Investment Strategy documents:

[Quality's Time to Shine Following a Year that Favored the Tails of Growth and Value](#)

[Investors Have No Appetite for U.S. Defensive Stocks](#)

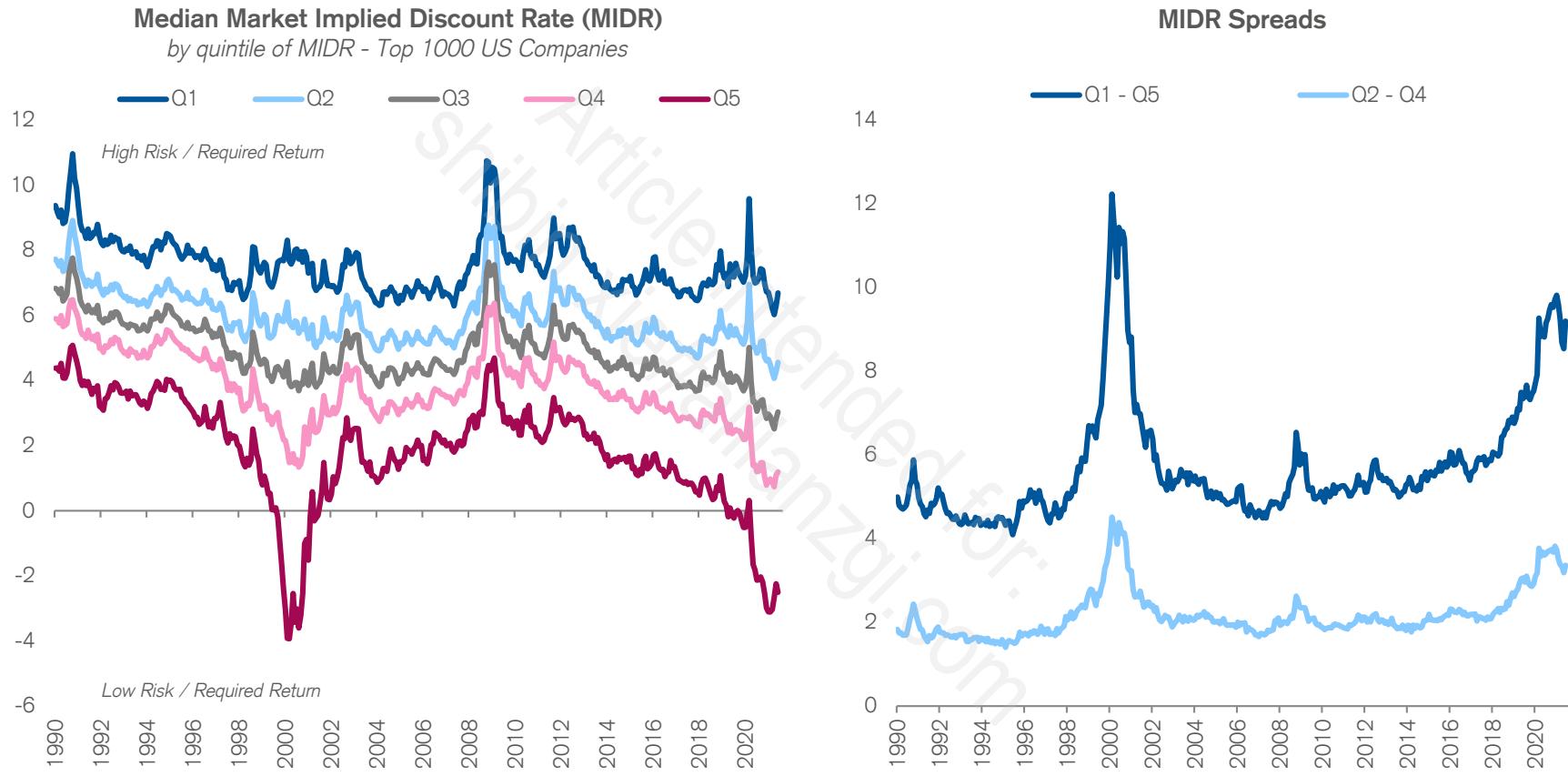
[U.S. Valuations Still Reflect 2020's Concentrated Successes, Not 2021's Broad Recovery – Position for Convergence / Video Replay](#)

[Global Investors Can Still Find Relative Value in FAAMG Stocks](#)

[Hyper Growth – Broadening of Growth may Derail the Hype Train](#)

References: [Scorecard and Factor Library Primer](#) , [HOLT Growth Score Primer](#) , [Overview of the HOLT Quality Factor](#),
[Factor Percentile & Peer Rank: Construction and Usage](#) , [Market Implied Discount Rate Factor Primer](#)

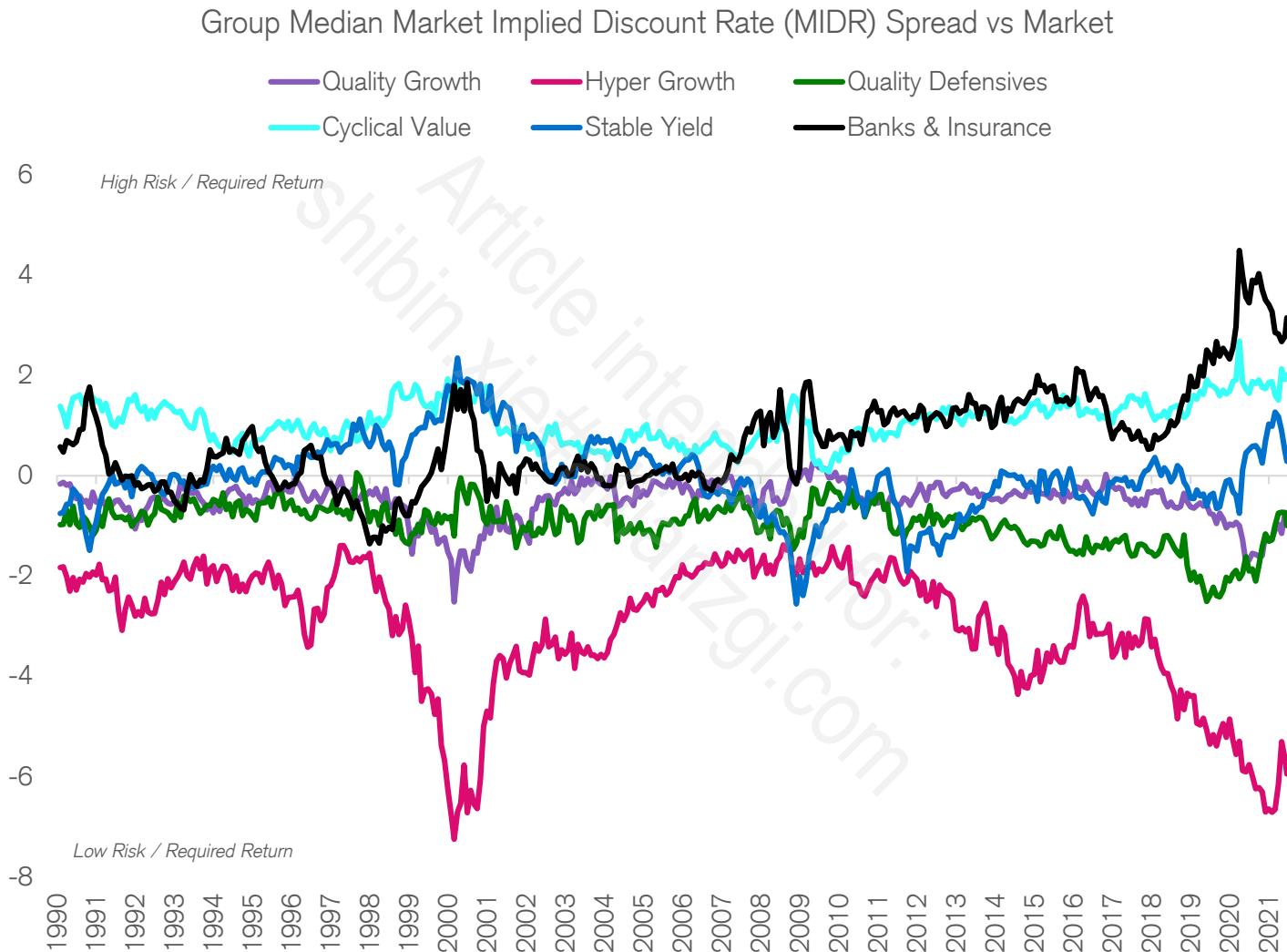
An extraordinarily wide range of Implied Discount Rates prevails across the market, reflecting a very wide range of perceived risk and expected return.



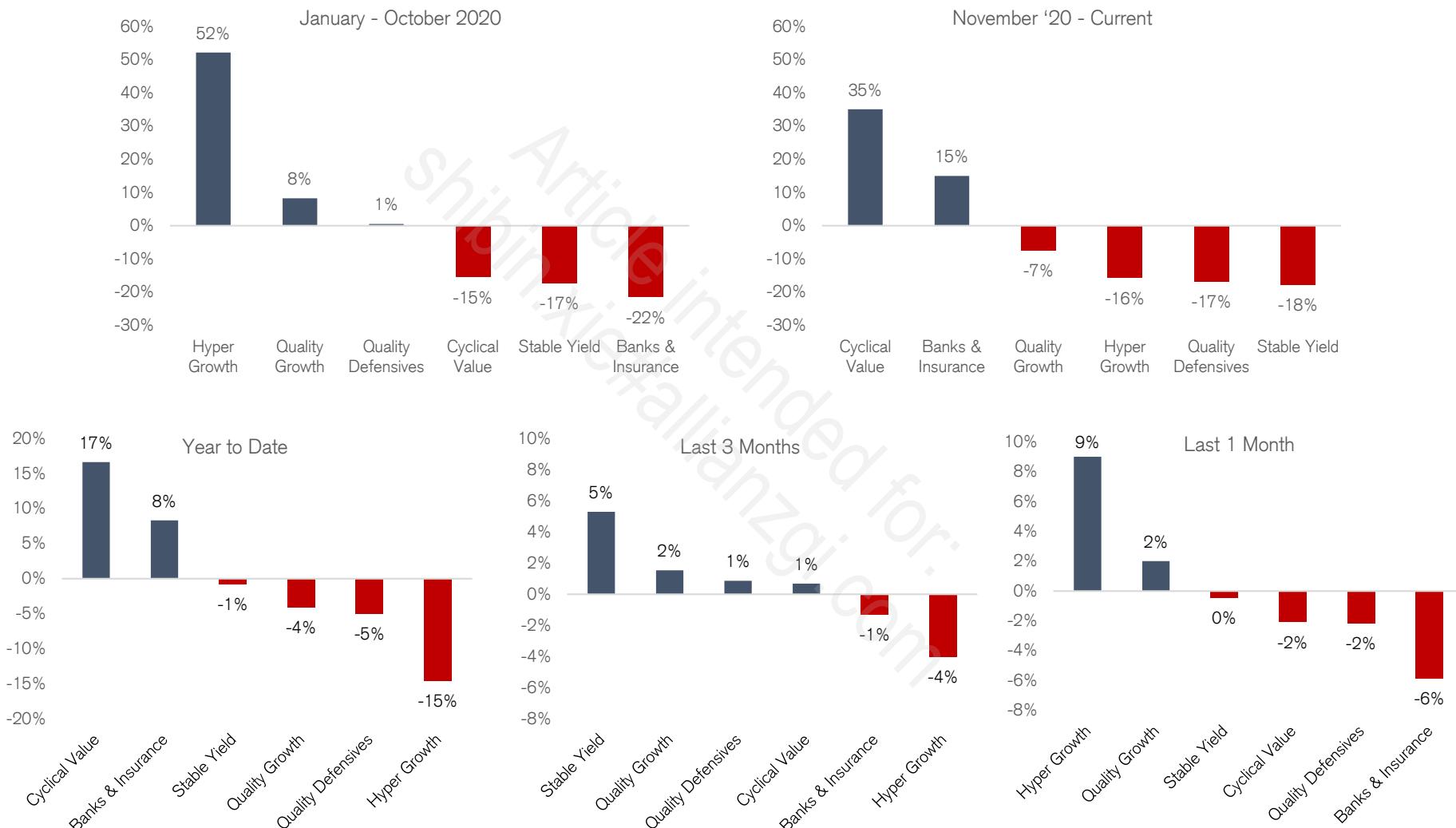
Universe: Largest 1000 US companies by TTM market cap, Source: Credit Suisse HOLT

Date range: January 1990 – June 2021, Market Implied Discount Rate values are trimmed by 150bps for CFROE Financials (Banks & Insurance) for comparability purposes.

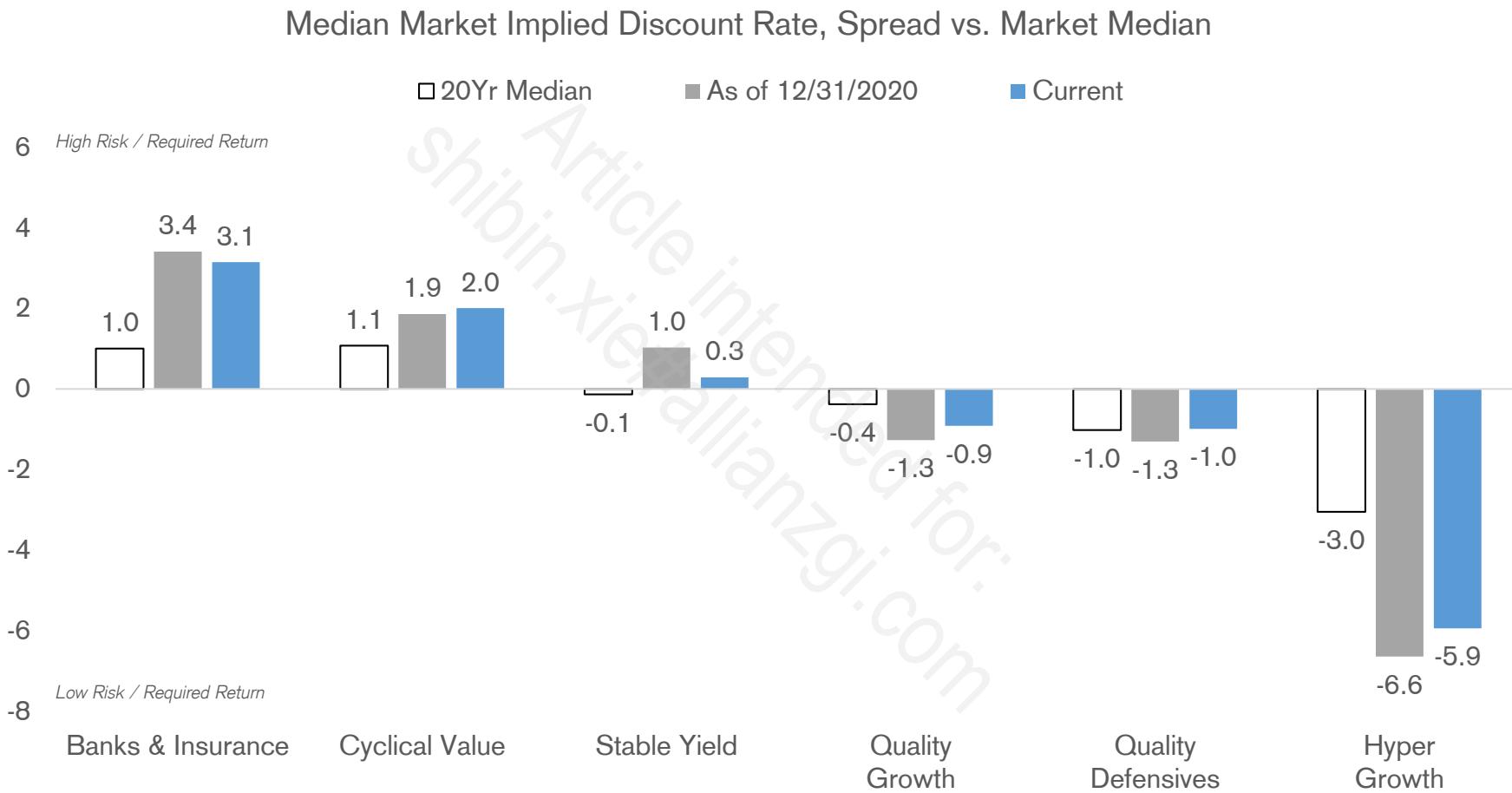
Segmenting the market by fundamental profiles illustrates what is being priced different relative to history.



The year-to-date outperformance of Cyclical Value and Banks & Insurance is consistent with a mean-reversion in implied yields, though the last month has offered a partial reversal of this trend.



The implied trade-offs amongst groups have only narrowed marginally.

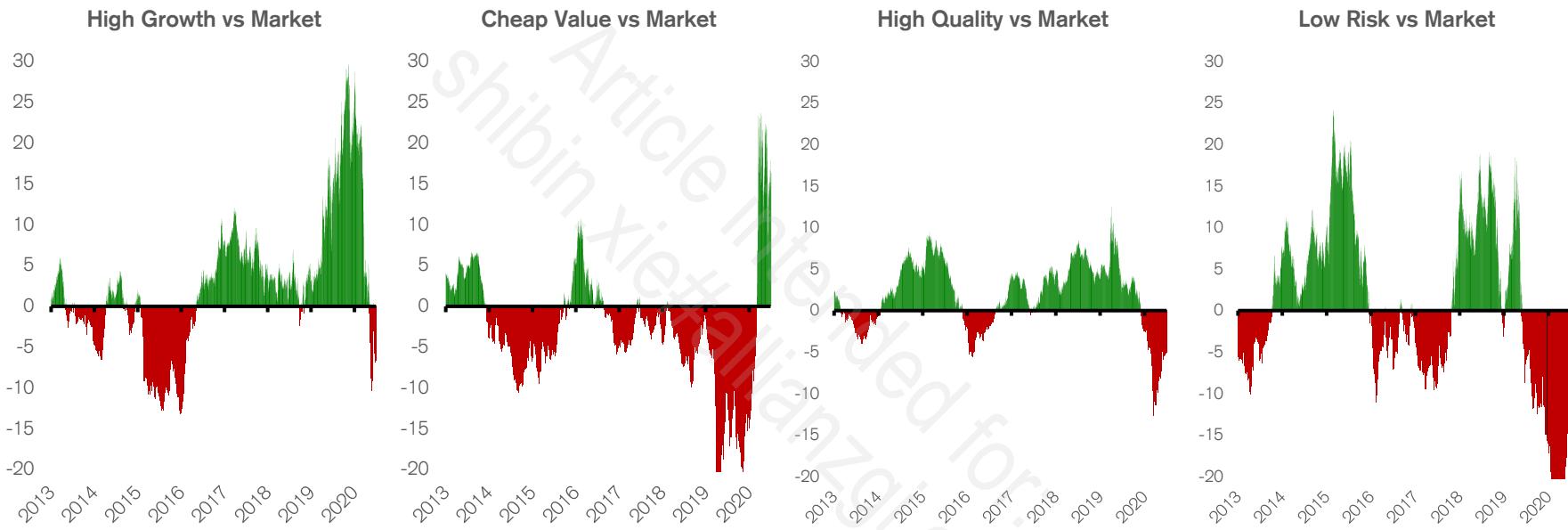


Quality vs. Growth

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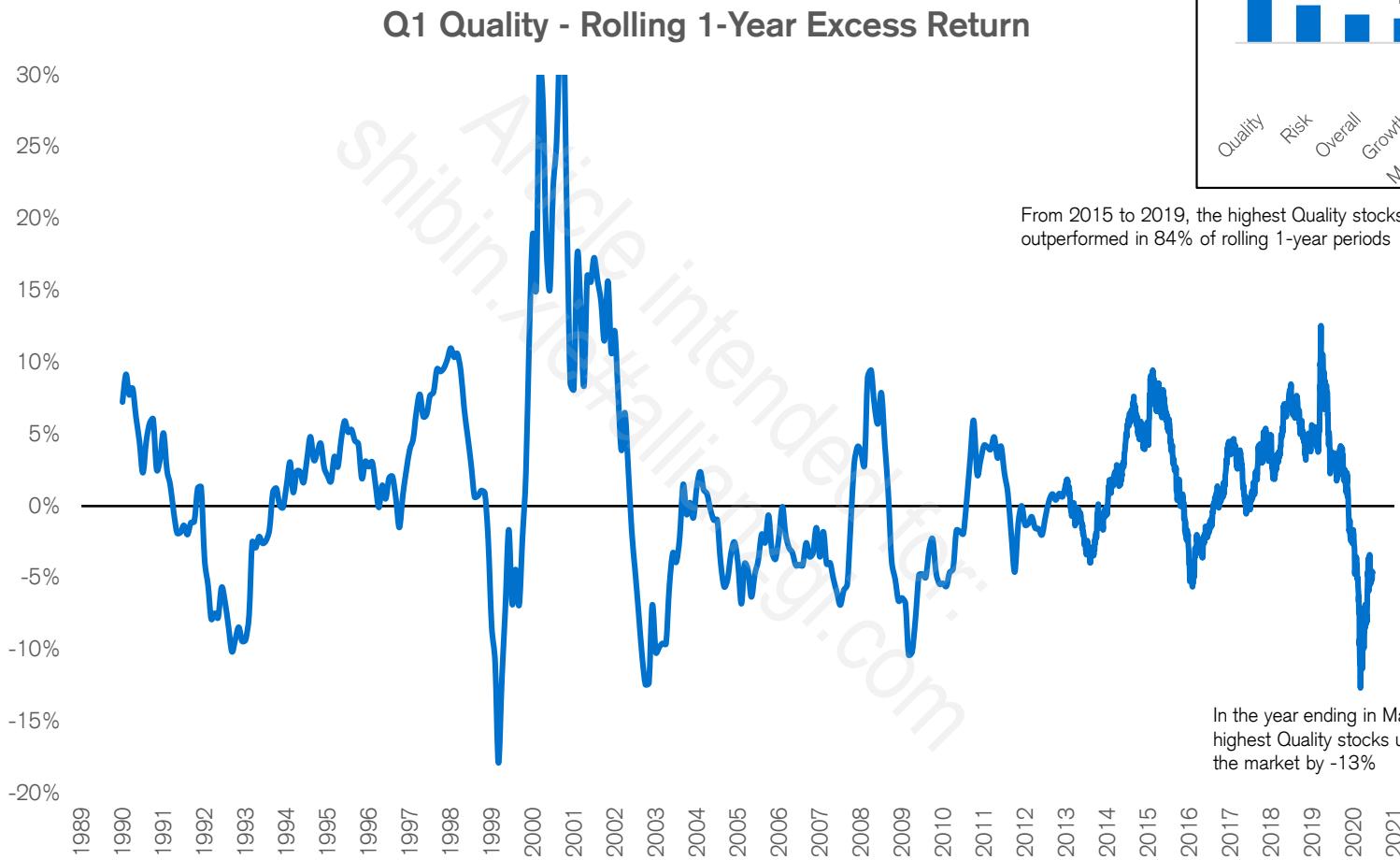
Quality has remained out of favor over the past 18 months as Growth dominated returns in the first ten months of 2020, followed by Value since November.

Rolling 1-Year Excess Returns vs US Top 1000 Universe



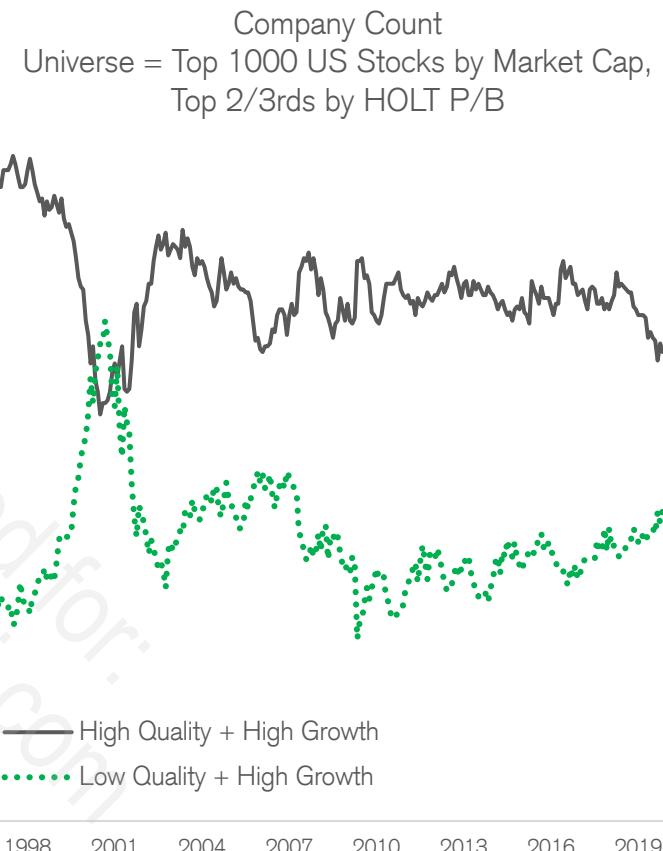
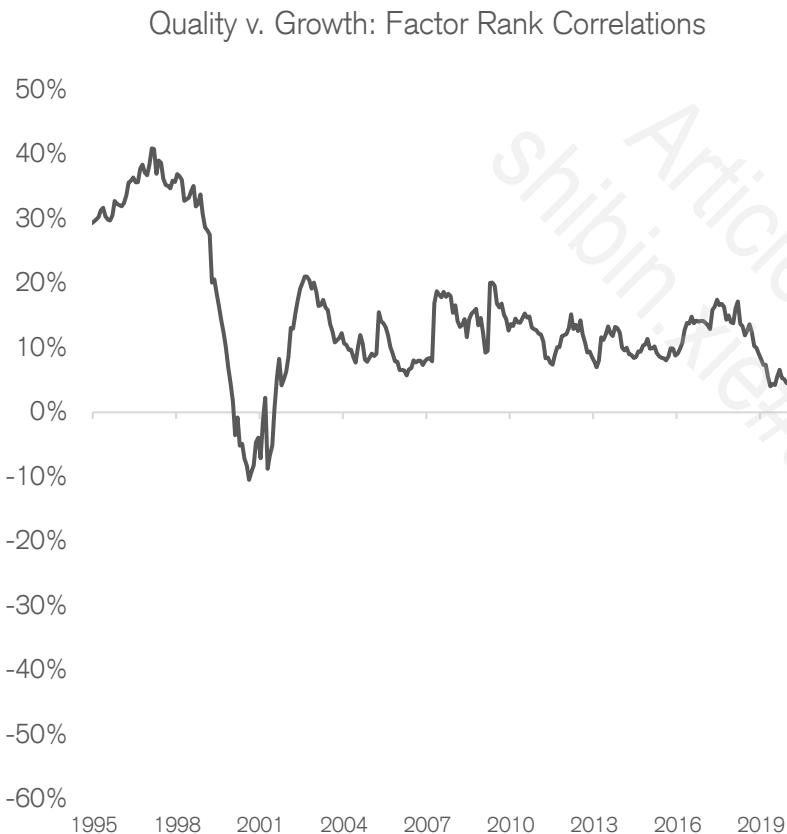
Universe: Largest 1000 US companies by TTM market cap, Source: Credit Suisse HOLT, the BLOOMBERG PROFESSIONAL™ service, as of 6/21/2021
Cheap Value in this case defined as the top quintile on HOLT Market Implied Discount Rate

The recent underperformance of Quality stocks is notable by historical standards.

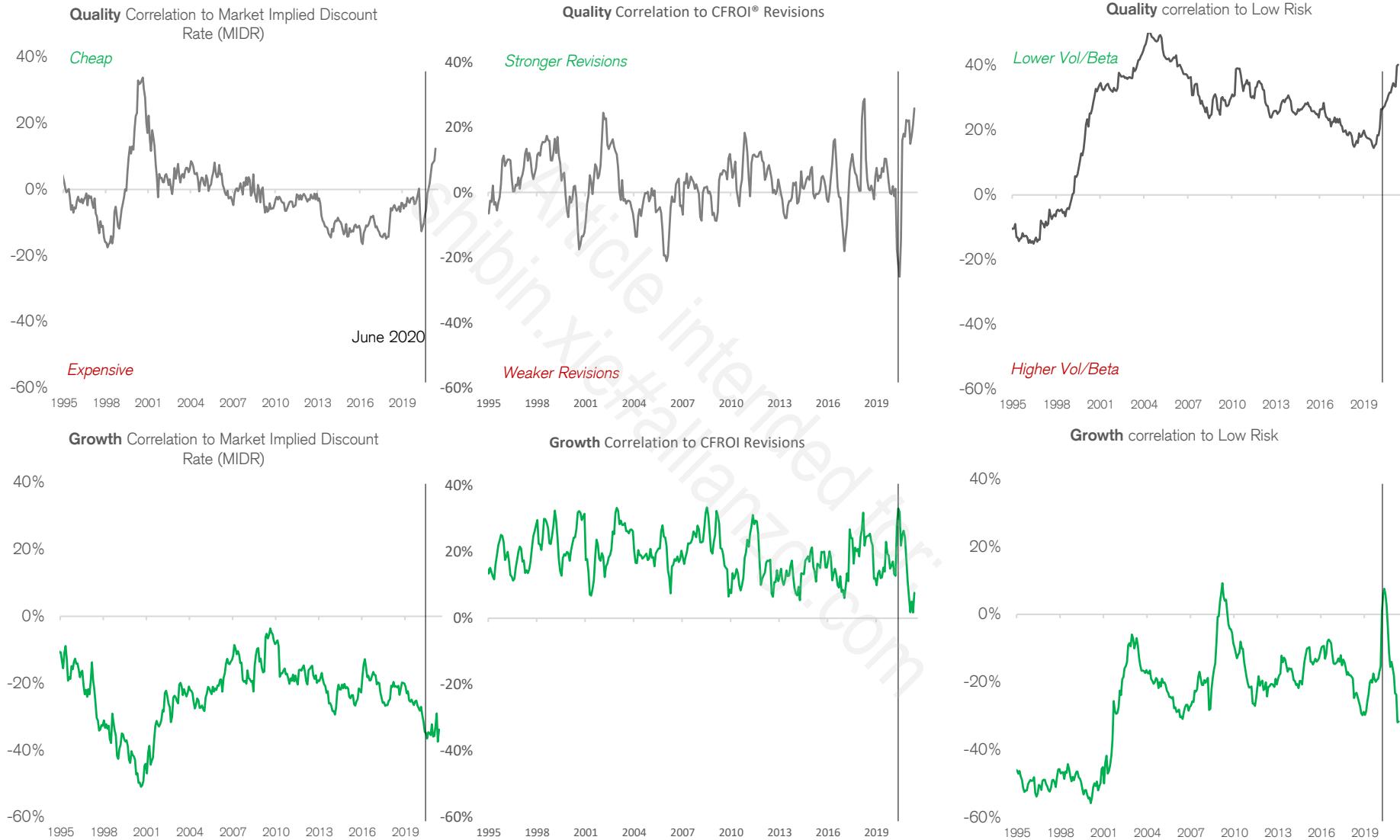


Universe: Largest 1000 US companies by TTM market cap, Source: Credit Suisse HOLT, the BLOOMBERG PROFESSIONAL™ service, as of 6/21/2021

Investors are increasingly forced to consider stocks with either high Quality or high Growth attributes as the population of firms offering the combination of Quality and Growth is historically small.



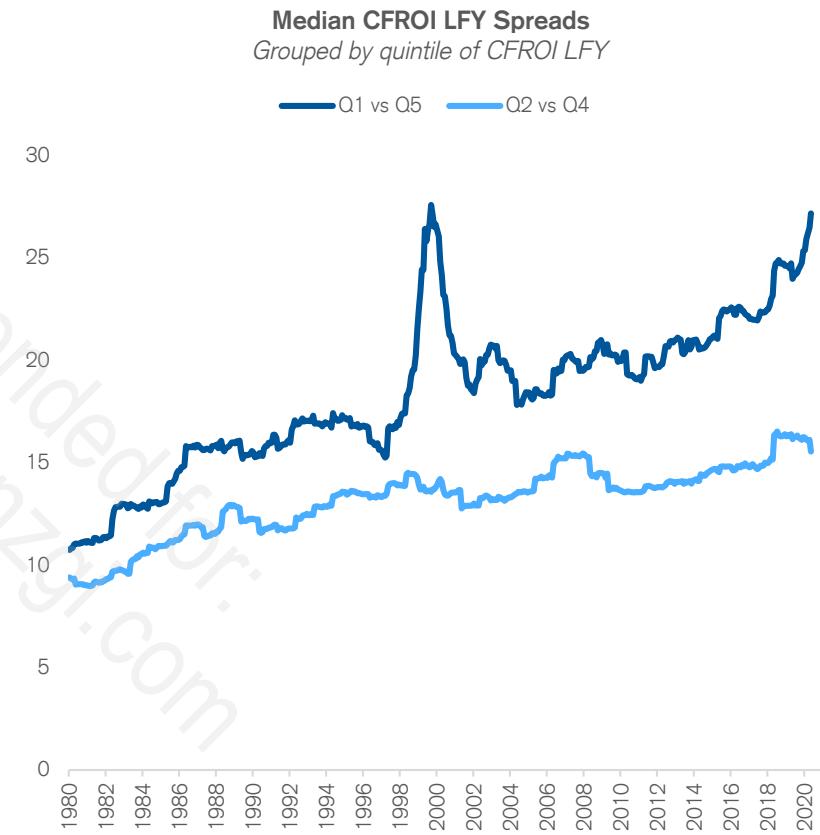
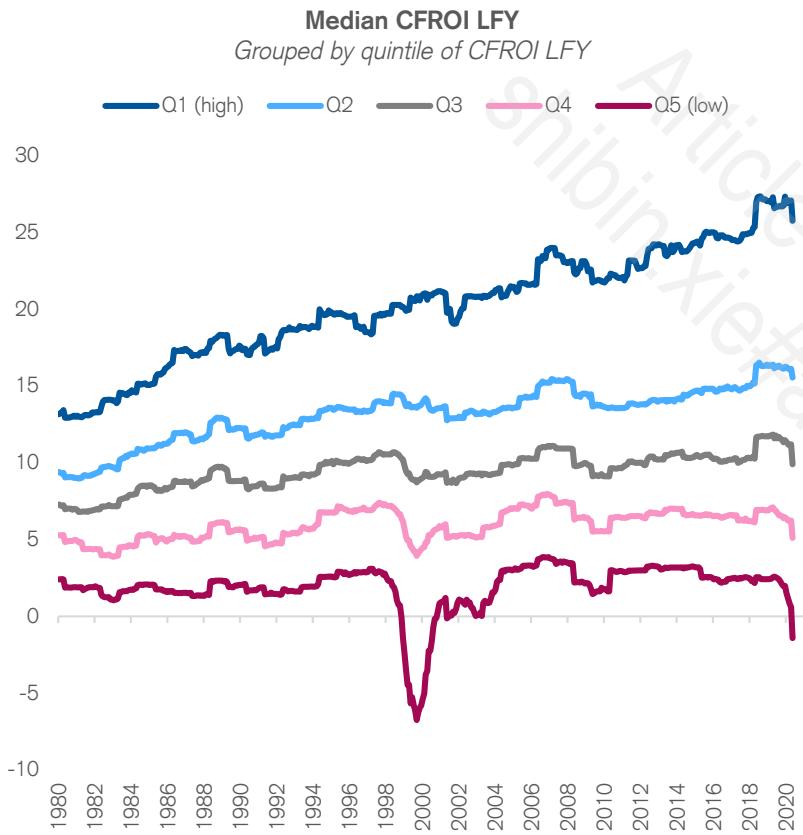
Implied Yields, Revisions, and Risk (Low Vol/Beta) now favor Quality.



Quality

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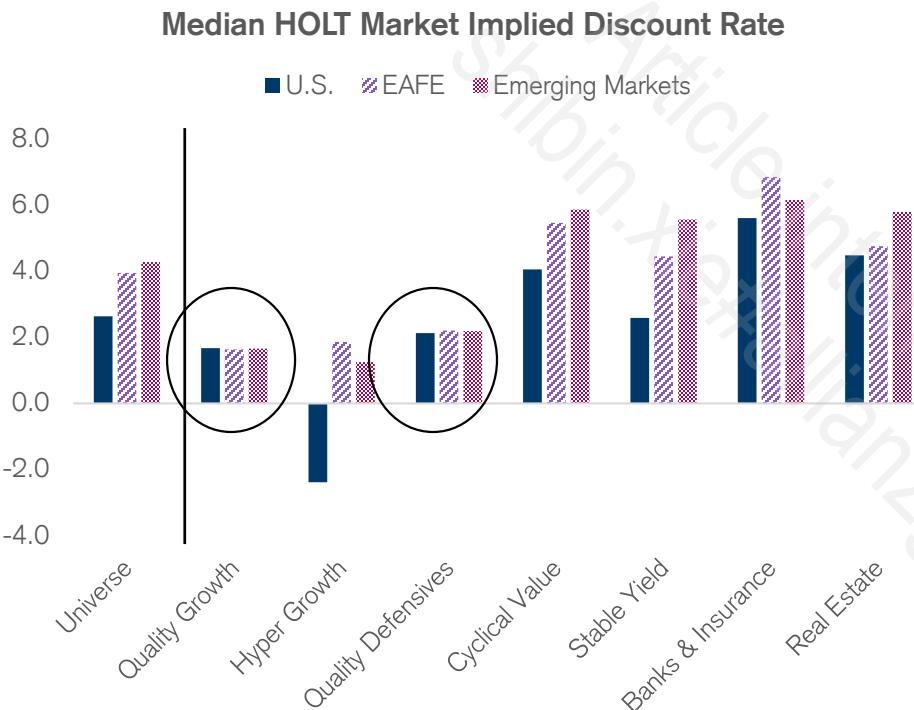
The highest Quality U.S. firms have continued to expand their profitability advantage relative to the overall universe.



Universe: Largest 1000 US companies by TTM market cap, Source: Credit Suisse HOLT

Date range: January 1980 – April 2021, CFROI LFY values are trimmed by 150bps for CFROE Financials (Banks & Insurance) for comparability purposes.

Investors are paying a much higher premium for Quality in International Markets than in the U.S.



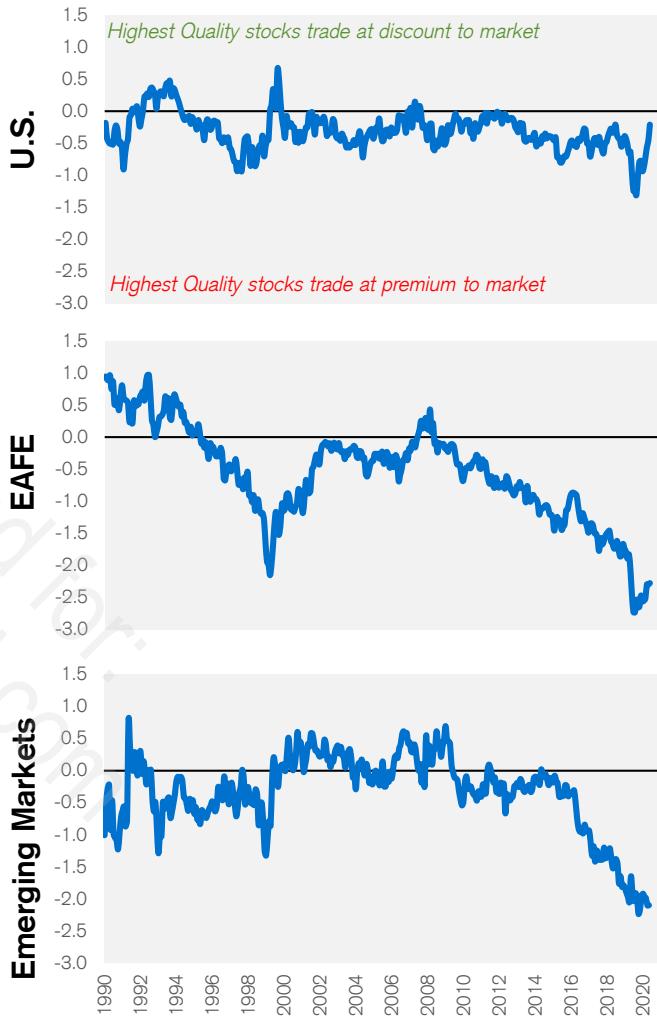
Source: Credit Suisse HOLT, Data Date: 4/30/2021

Region relative scorecard preferences

Each universe represents the 1000 largest stocks by ttm market cap in that region

See: [Quality's Time to Shine Following a Year that Favored the Tails of Growth and Value](#)

**High Quality (Q1) vs Market
HOLT Market Implied Discount Rate Spread**



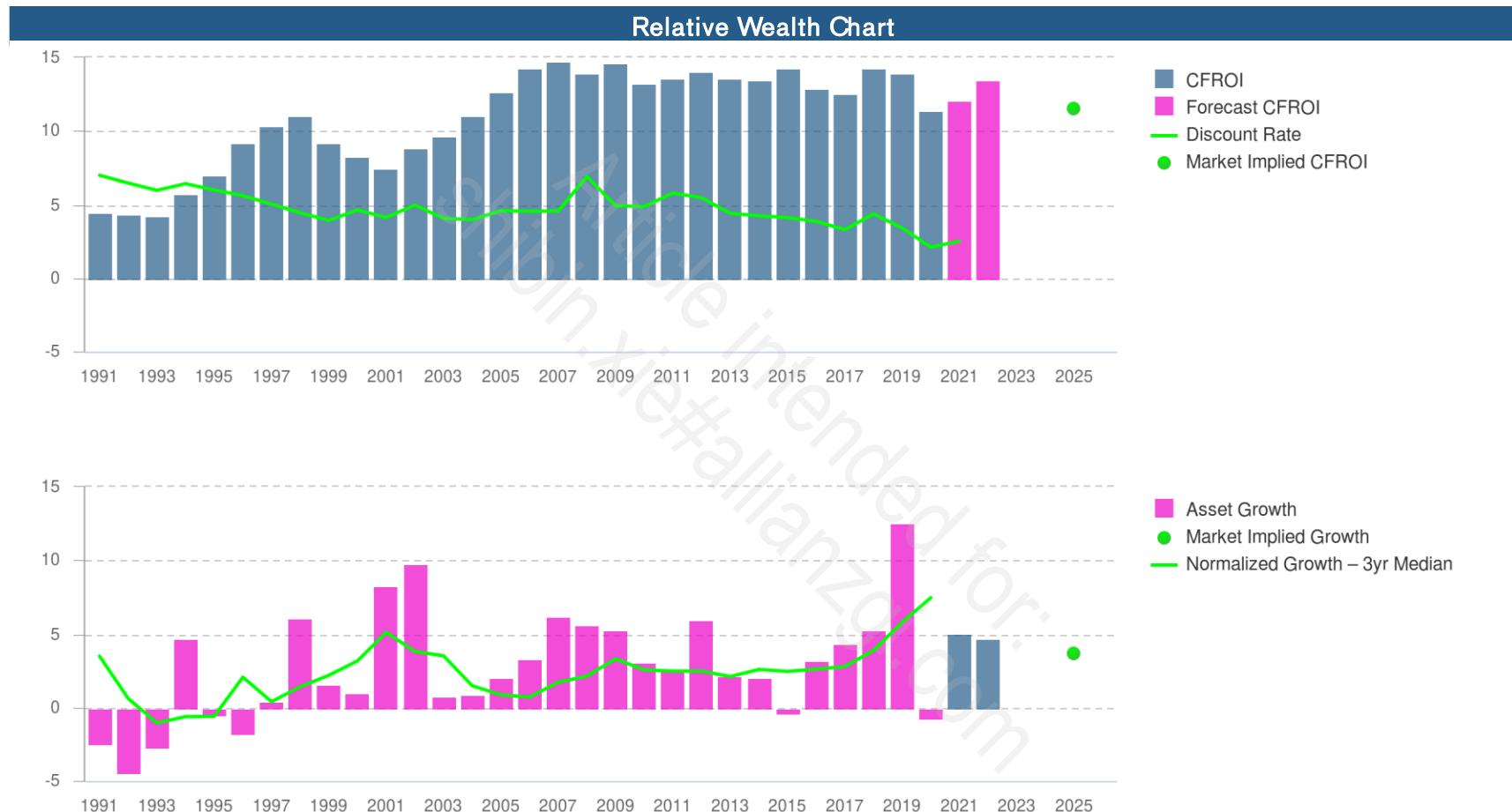
Screening for above average Quality and Low Risk profiles at reasonable valuations.

See [screen in HOLT Lens](#)

Name	Ticker	Name	Ticker	Name	Ticker	Name	Ticker
ACTIVISION BLIZZ	ATVI	JPMORGAN CHASE	JPM	THERMO FISHER	TMO	EXPEDITORS INTL	EXPD
ELECTRONIC ARTS	EA	COMMERCE BCSHS	CBSH	JOHNSON&JOHNSON	JNJ	CH ROBINSON	CHRW
ALPHABET INC	GOOGL	RAYMOND JAMES	RJF	PFIZER INC	PFE	UNION PAC CORP	UNP
OMNICOM GROUP	OMC	BLACKROCK INC	BLK	MERCK & CO	MRK	OLD DOMINION FRT	ODFL
INTERPUBLIC GRP	IPG	T ROWE PRICE GRP	TROW	BRISTOL-MYER SQB	BMY	HUNT (JB) TRANS	JBHT
COMCAST CORP	CMCSA	INTERCONTINENTAL	ICE	LOCKHEED MARTIN	LMT	LANDSTAR SYSTEM	LSTR
GENTEX CORP	GNTX	FACTSET RESEARCH	FDS	GENERAL DYNAMICS	GD	BROADCOM INC	AVGO
GARMIN LTD	GRMN	CBOE GLOBAL MARK	CBOE	HUNTINGTON INGAL	HII	TEXAS INSTRUMENT	TXN
HASBRO INC	HAS	MARSH & MCLENNAN	MMC	AMETEK INC	AME	FIDELITY NATIONA	FIS
SERVICE CORP INT	SCI	BROWN & BROWN	BRO	HUBBELL INC	HUBB	FISERV INC	FISV
MCDONALDS CORP	MCD	ASSURANT INC	AIZ	3M CO	MMM	GLOBAL PAYMENTS	GPN
POOL CORP	POOL	PROGRESSIVE CORP	PGR	CARLISLE COS INC	CSL	WESTERN UNION	WU
TARGET CORP	TGT	ABBOTT LABS	ABT	TORO CO	TTC	AKAMAI TECHNOLOG	AKAM
DOLLAR GENERAL	DG	DANAHER CORP	DHR	FORTIVE CORP	FTV	GODADDY INC	GDDY
O'REILLY AUTOMOT	ORLY	STRYKER CORP	SYK	DOVER CORP	DOV	AMDOCS LTD	DOX
AUTOZONE INC	AZO	BOSTON SCIENTIFIC	BSX	NORDSON CORP	NDSN	MICROSOFT CORP	MSFT
HOME DEPOT INC	HD	RESMED INC	RMD	GRACO INC	GGG	ORACLE CORP	ORCL
TRACTOR SUPPLY	TSCO	STERIS PLC	STE	DONALDSON CO INC	DCI	MOTOROLA SOLUTIO	MSI
WALMART INC	WMT	HILL-ROM HOLDING	HRC	LINCOLN ELECTRIC	LECO	AMPHENOL CORP	APH
CONSTELLATION	STZ	CVS HEALTH CORP	CVS	WW GRAINGER INC	GWG	KEYSIGHT TEC	KEYS
MONSTER BEVERAGE	MNST	LABORATORY CP	LH	COPART INC	CPRT	CDW CORP/DE	CDW
COCA-COLA EUROPA	CCEP	QUEST DIAGNOSTIC	DGX	WASTE MANAGEMENT	WM	FMC CORP	FMC
CONAGRA BRANDS I	CAG	CHEMED CORP	CHE	REPUBLIC SVCS	RSG	SHERWIN-WILLIAMS	SHW
JM SMUCKER CO	SJM	AMERISOURCEBERGE	ABC	JACOBS ENGIN GRP	J	PPG INDs INC	PPG
CAMPBELL SOUP CO	CPB	HENRY SCHEIN INC	HSIC	LEIDOS HOLDINGS	LDOS	INTL FLVR & FRAG	IFF
LAMB WESTON	LW	ENCOMPASS HEALTH	EHC	BOOZ ALLEN HAMIL	BAH	RPM INTL INC	RPM
POST HOLDINGS IN	POST	ANTHEM INC	ANTM	CACI INTL	CACI	BALL CORP	BLL
PHILIP MORRIS IN	PM	HUMANA INC	HUM			AVERY DENNISON	AVY
ALTRIA GROUP INC	MO	CENTENE CORP	CNC			IRON MOUNTAIN	IRM
KIMBERLY-CLARK	KMB	ABBVIE INC	ABBV				

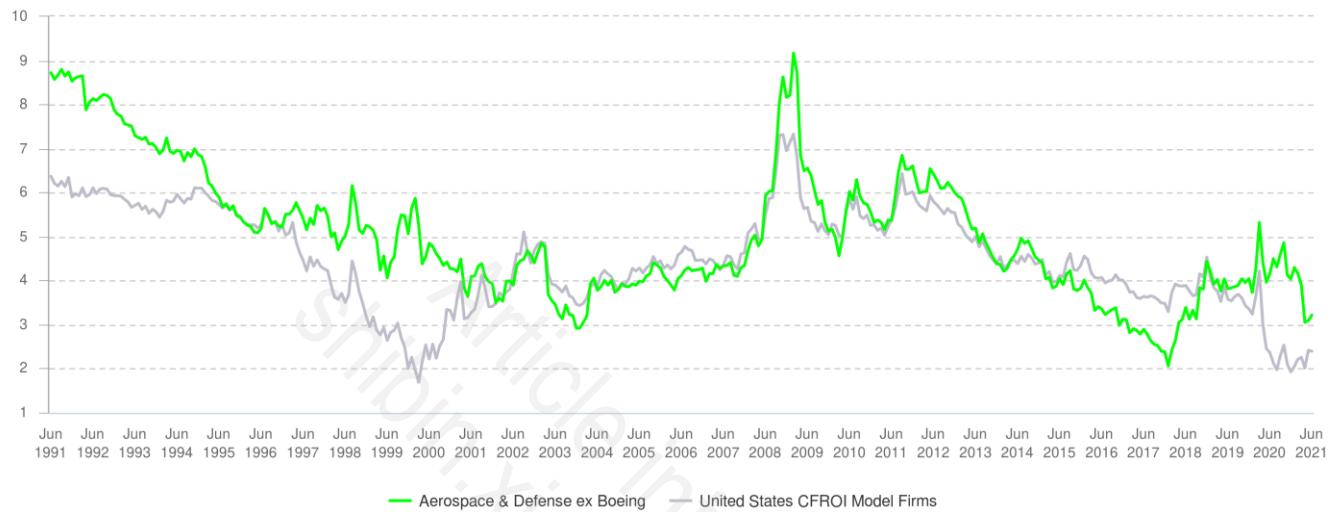
Highlighted groups discussed in aggregate in following slides. USA Top 1000 stocks by Market Cap in highest 2/3rds of HOLT P/B. High Quality (Top 50%), Low Risk (Lowest Risk 40%), Implied Discount Rate not in lowest 1/3rd or lowest 20th %ile relative to 5-year history. See [full screen in HOLT Lens](#). 6/21/2021

United States Aerospace & Defense ex Boeing, Weighted

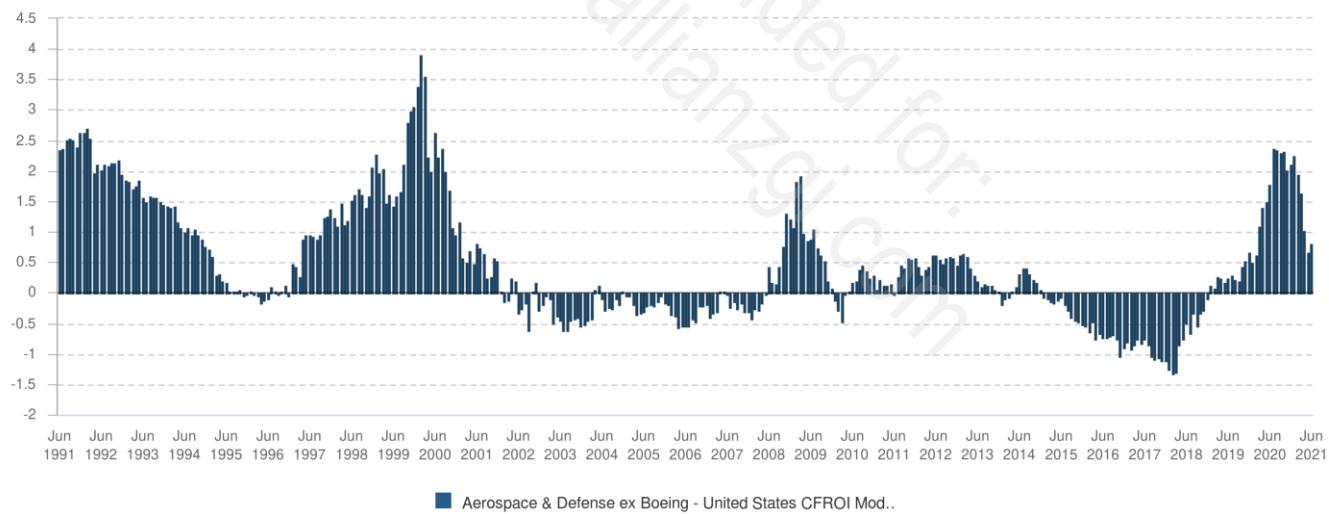


United States Aerospace & Defense ex Boeing, Weighted

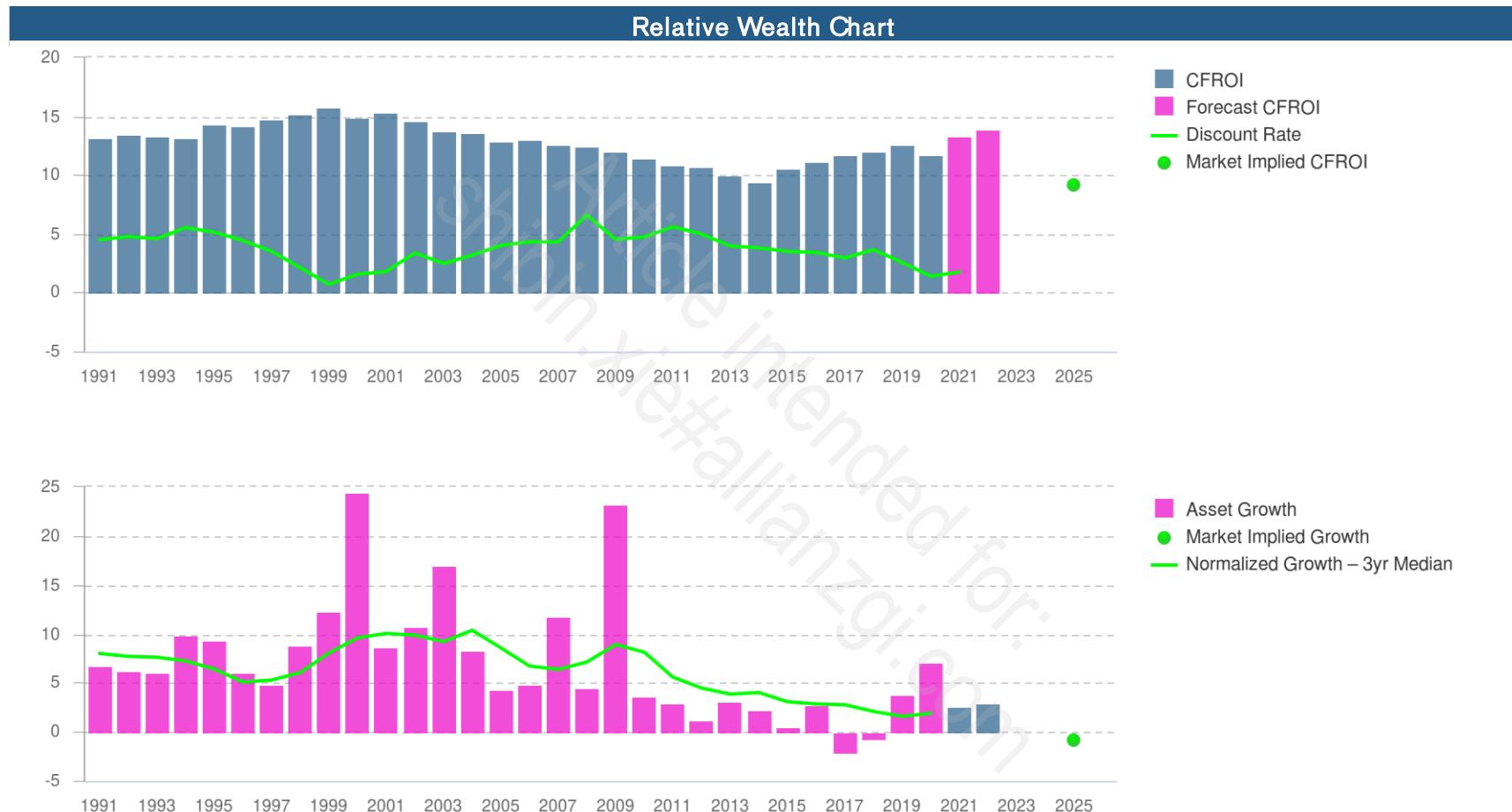
Market Implied Discount Rate



Relative Market Implied Discount Rate

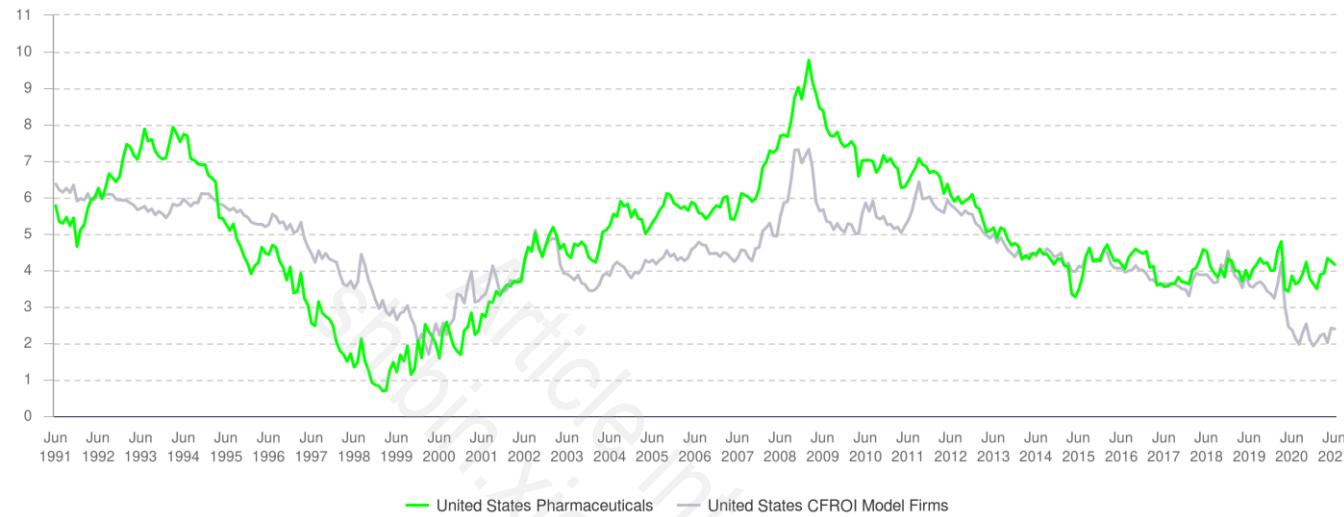


United States Pharmaceuticals, Weighted

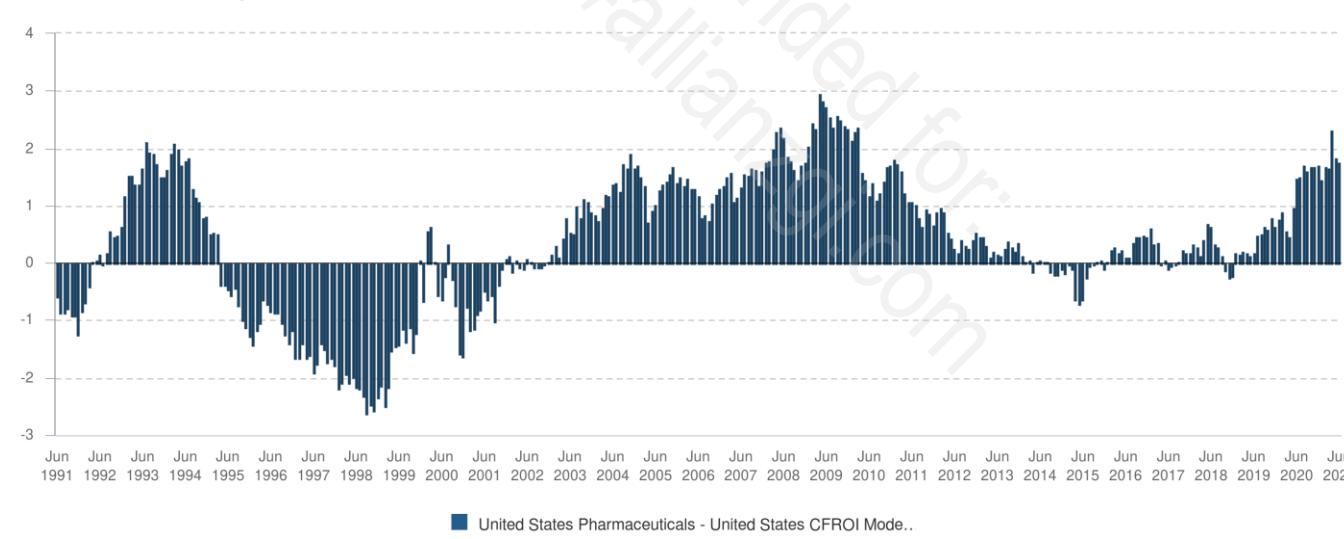


United States Pharmaceuticals, Weighted

Market Implied Discount Rate



Relative Market Implied Discount Rate

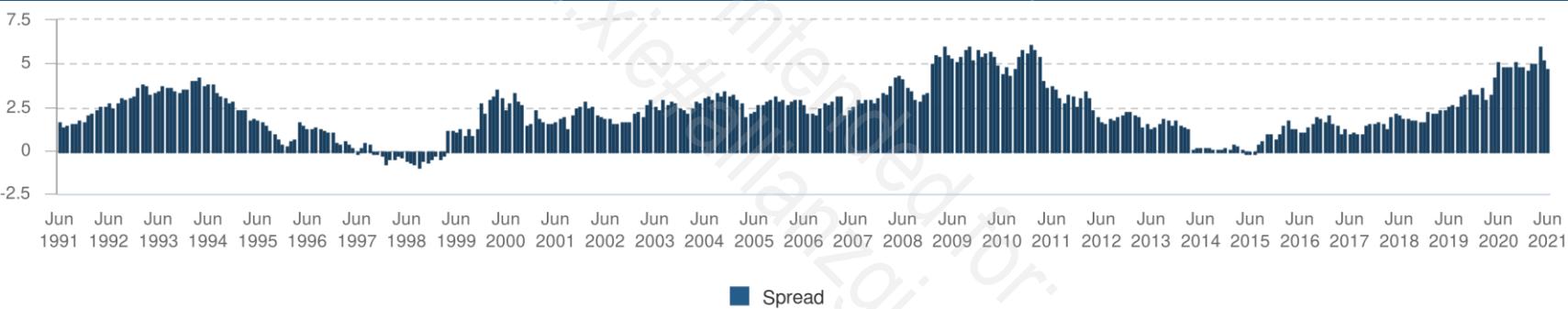


United States Pharmaceuticals, Weighted

Historical Expectations



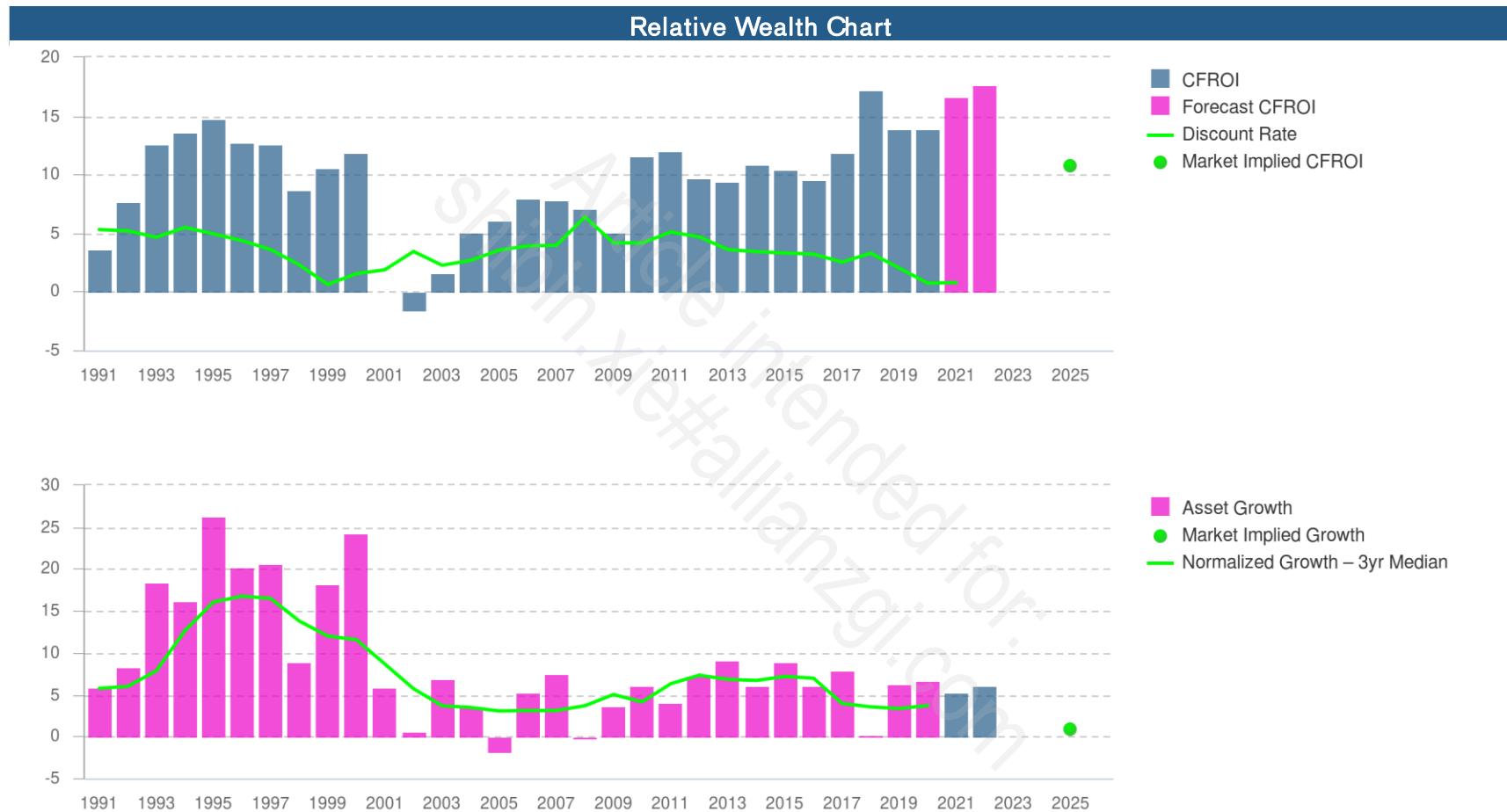
CFROI Spread (CFROI Forecast vs. Market Implied)



12 Month Forward Return



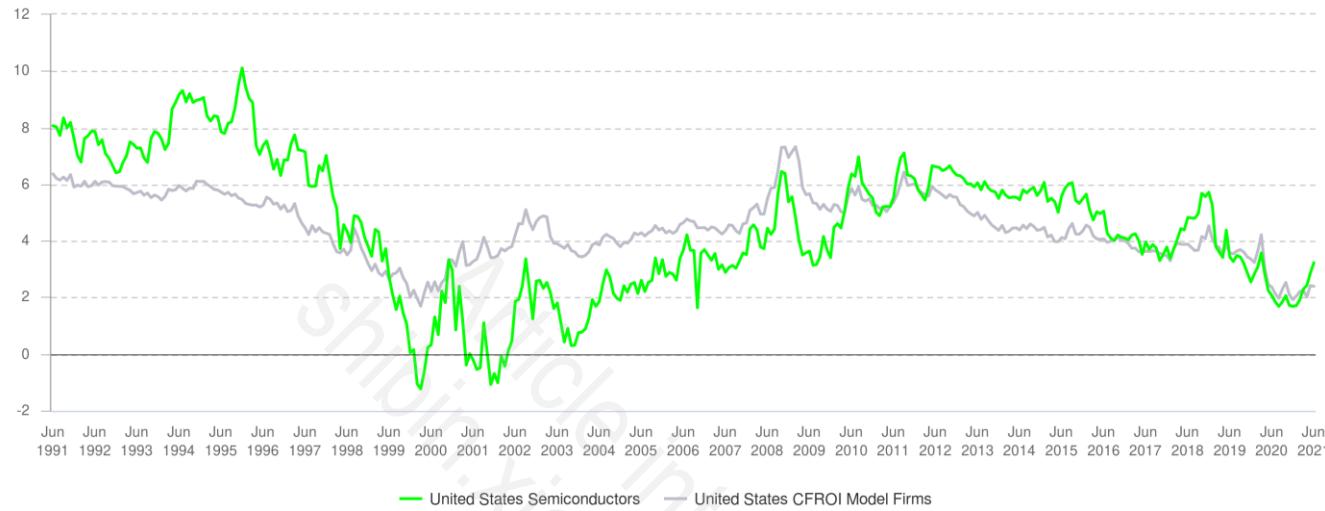
United States Semiconductors, Weighted



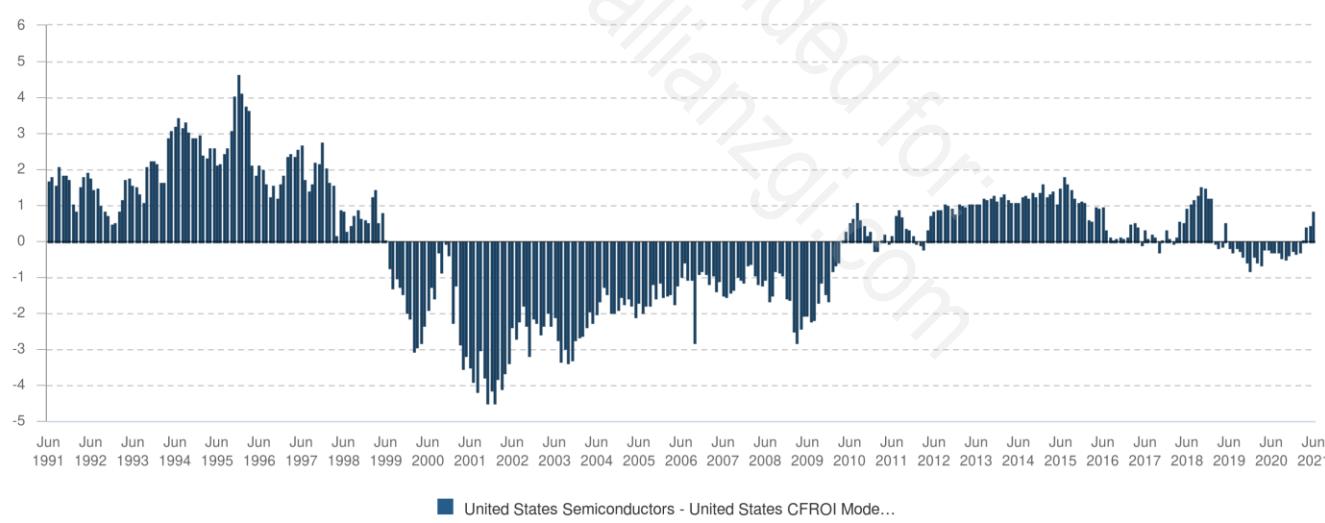
See Related Content: [Semiconductors in HOLT: New Era of Profitability Remains Underappreciated](#), John Talbott, March 16 2021

United States Semiconductors, Weighted

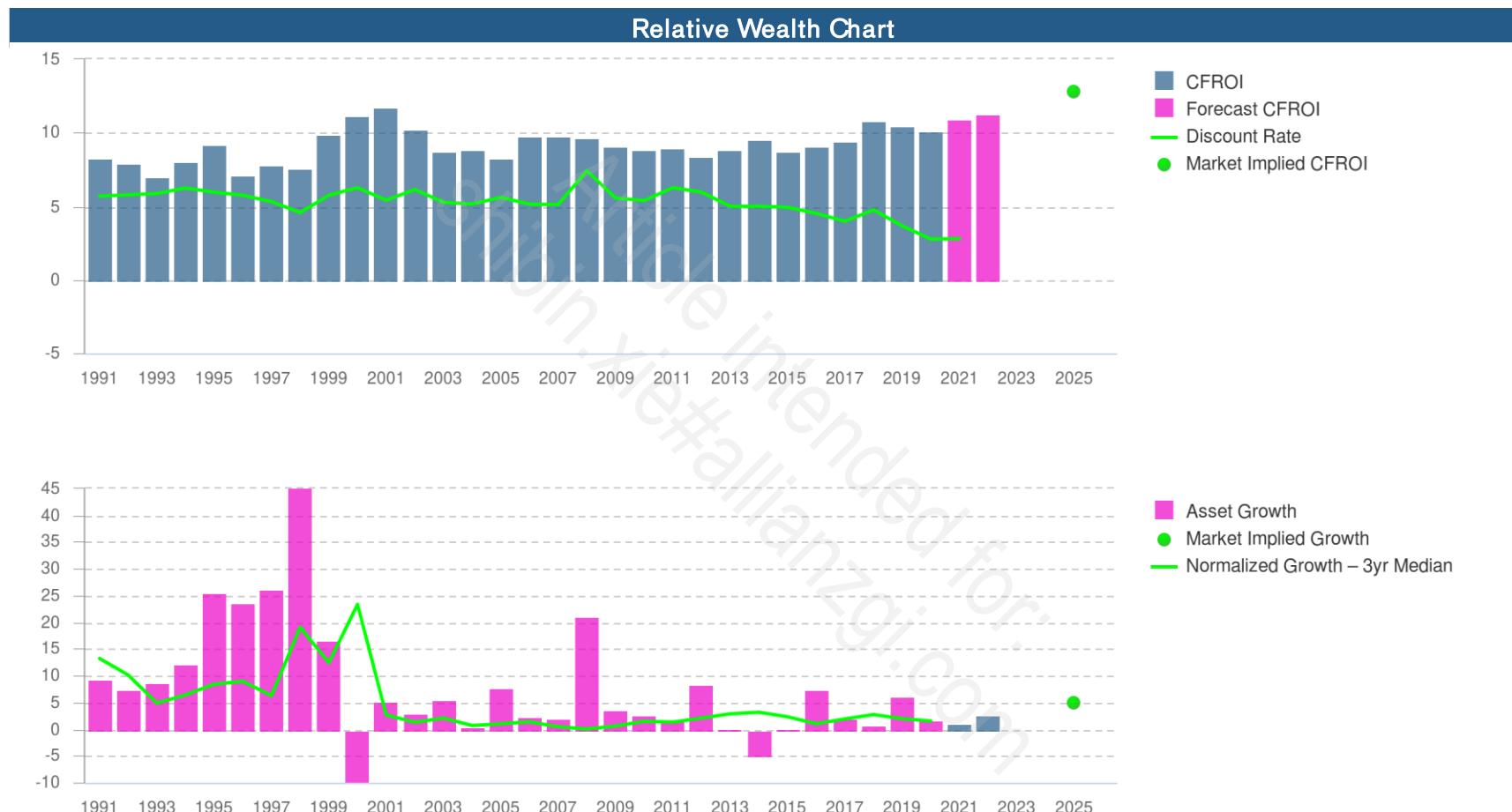
Market Implied Discount Rate



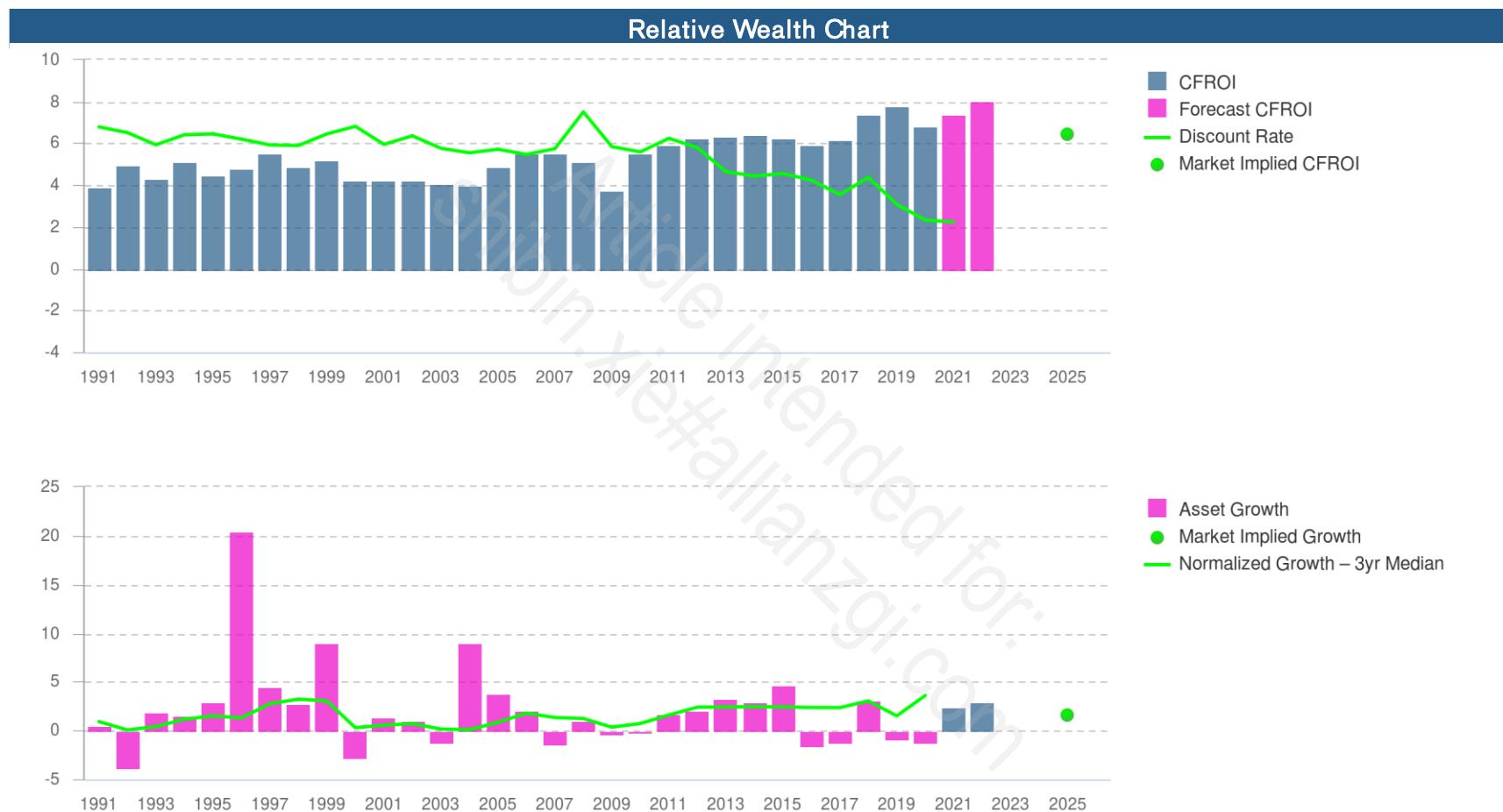
Relative Market Implied Discount Rate



United States Environmental & Facilities Services, Weighted

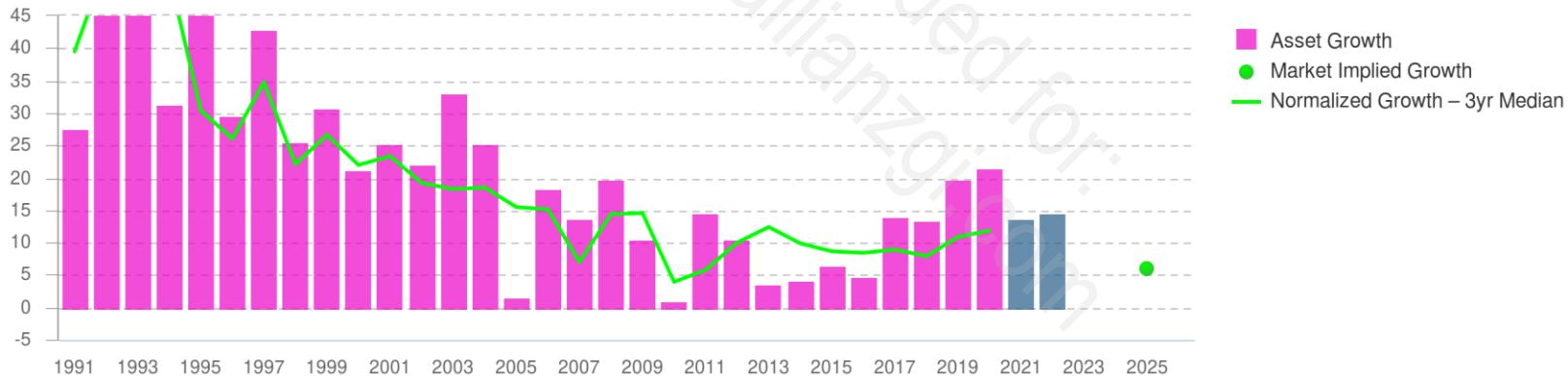


Road & Rail (Ex Ride Share & Car Rentals), Weighted



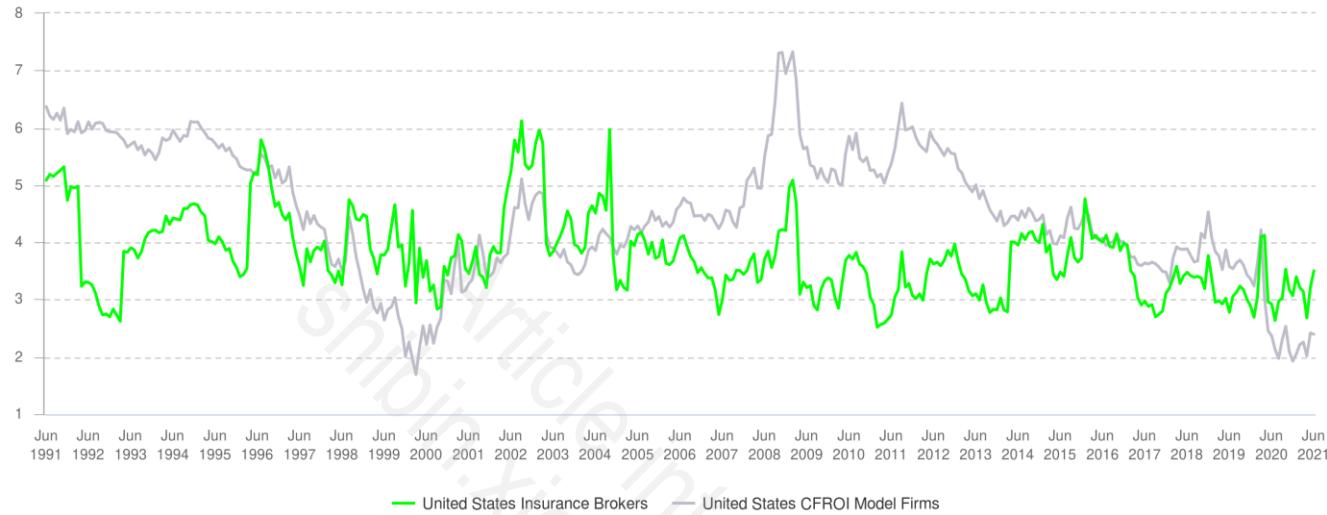
United States Interactive Home Entertainment, Weighted

Relative Wealth Chart

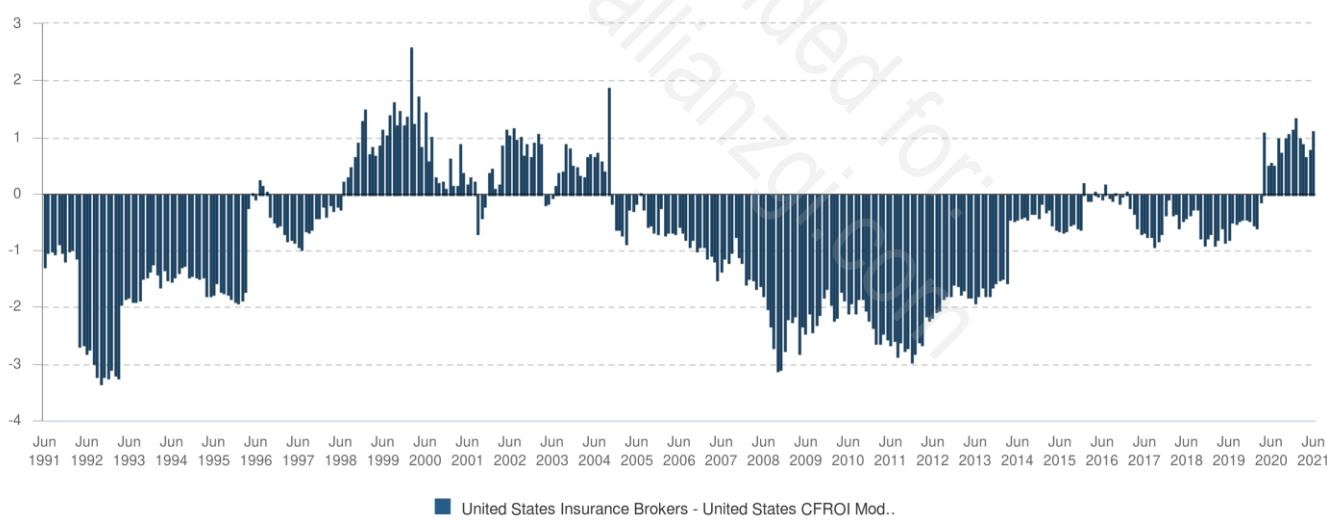


United States Insurance Brokers, Weighted

Market Implied Discount Rate



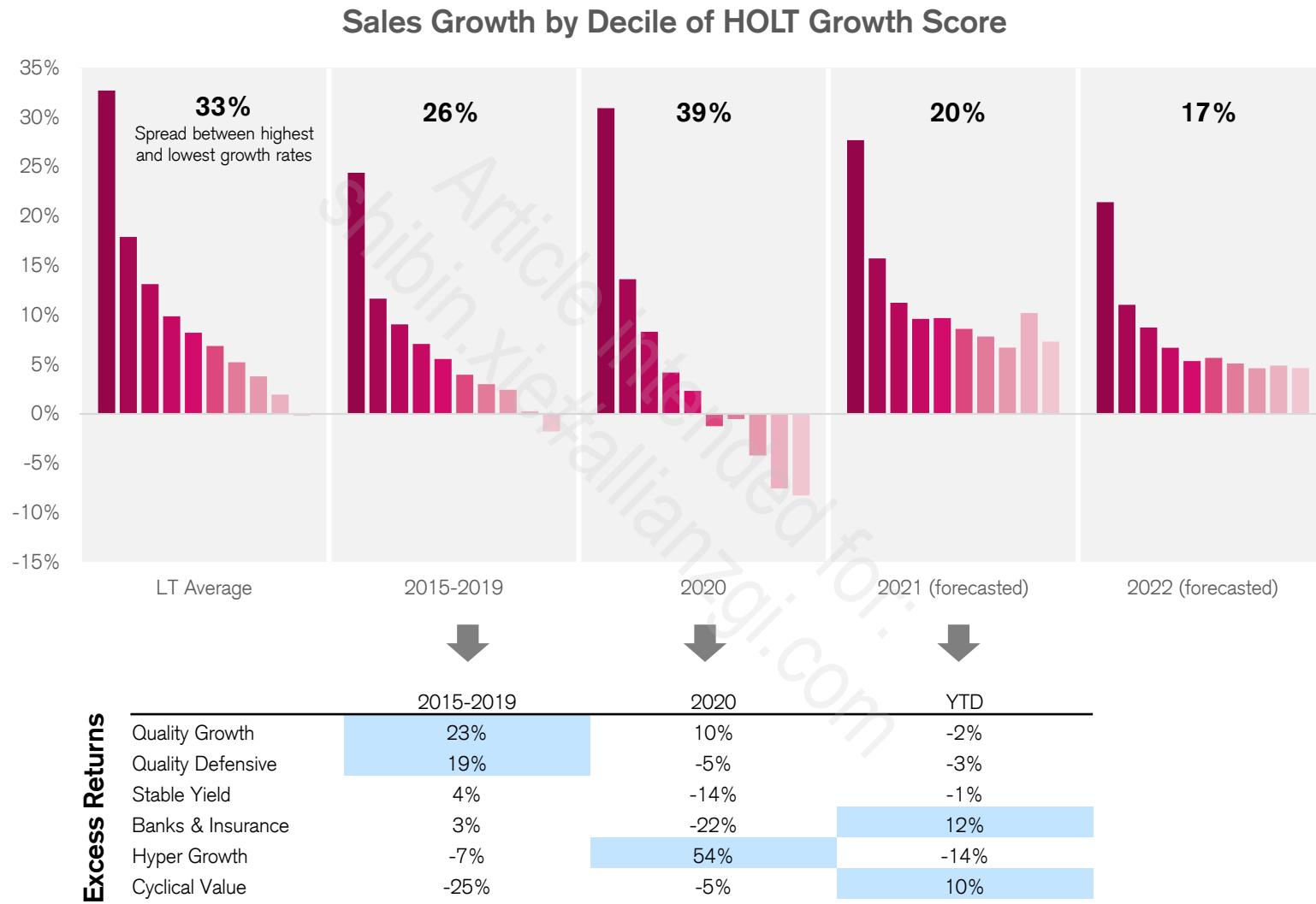
Relative Market Implied Discount Rate



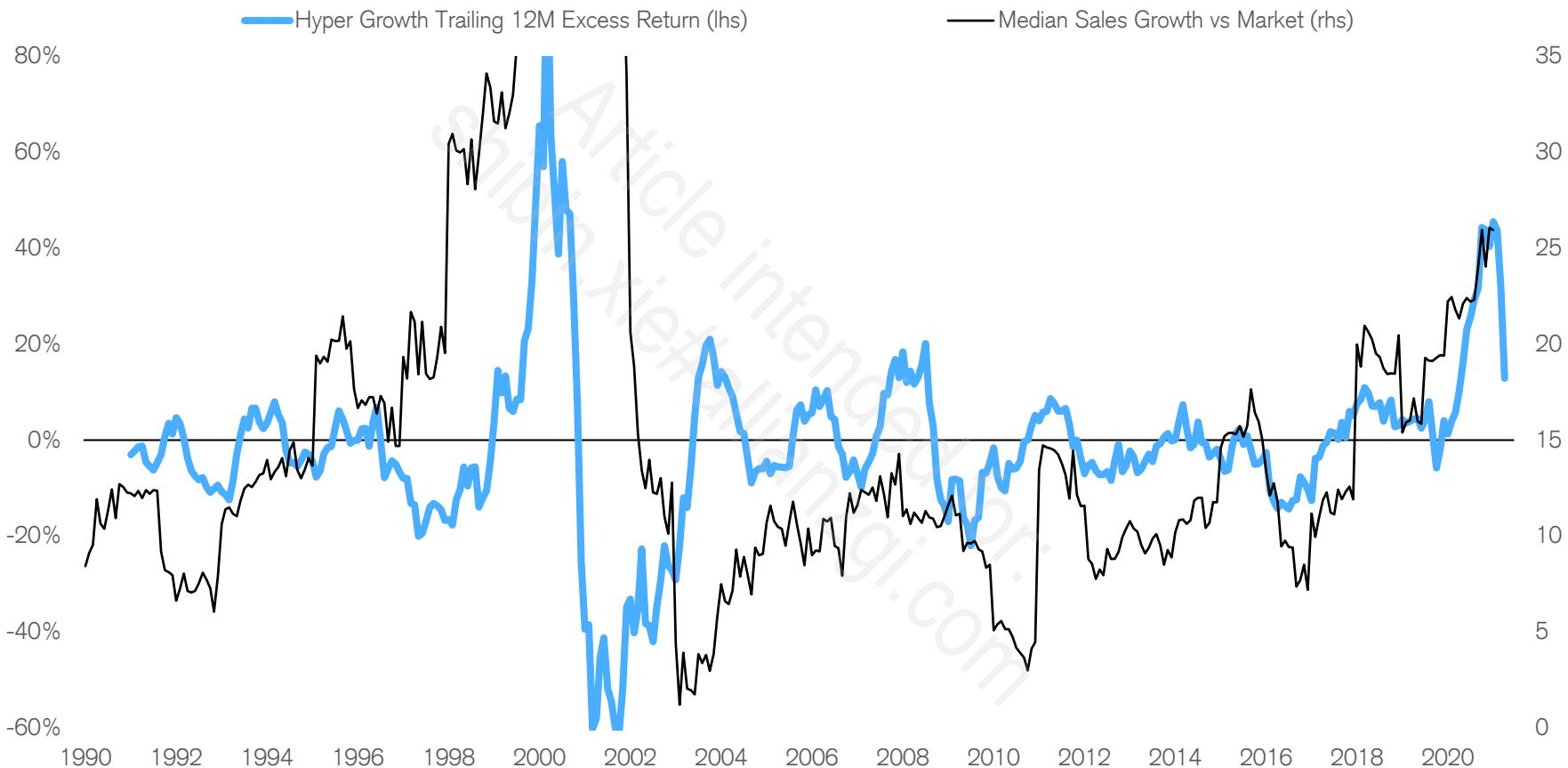
Growth

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Growth was scarce and highly concentrated in the tail in 2020. This is no longer the case.

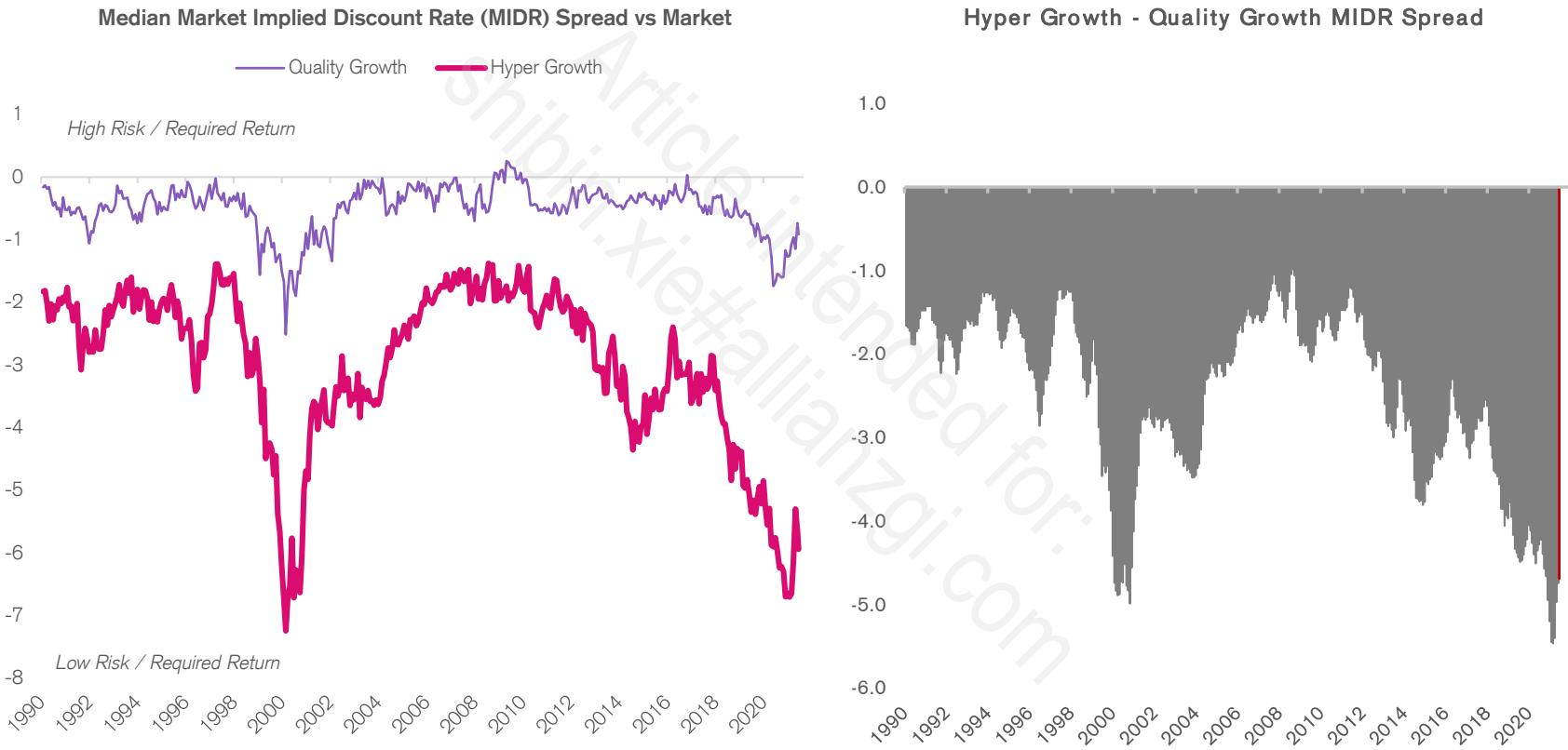


Hyper Growth significantly outperformed as its growth advantage widened in 2020. This growth advantage appears set to wane in 2021 as the economy recovers.



Universe: Largest 1000 US companies by TTM market cap, Source: Credit Suisse HOLT, the BLOOMBERG PROFESSIONAL™ service, as of 4/30/2021

U.S. Growth trades at a premium to the market, but Hyper Growth remains very expensive relative to Quality Growth.

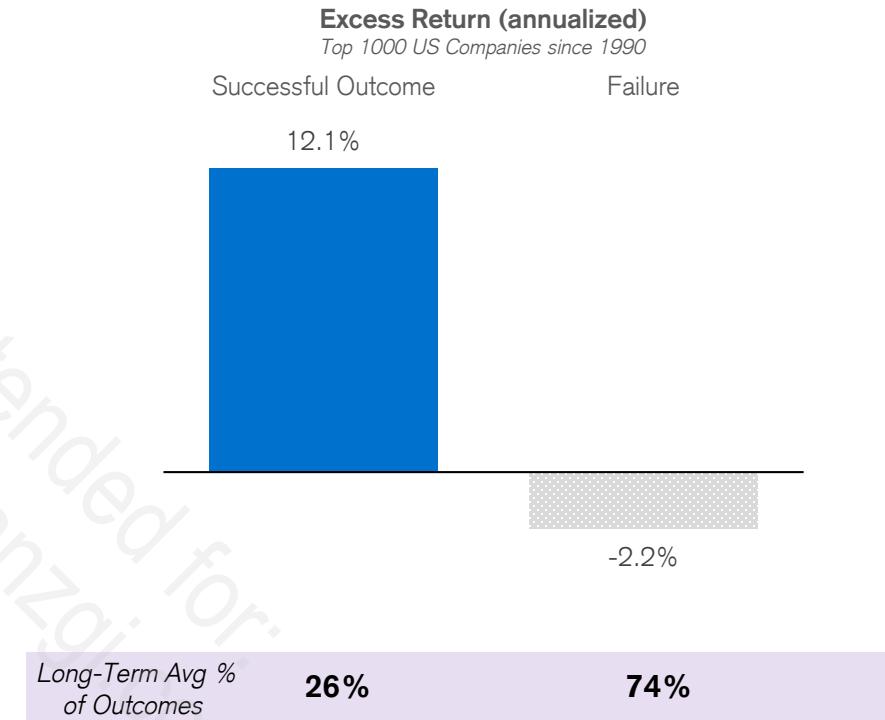
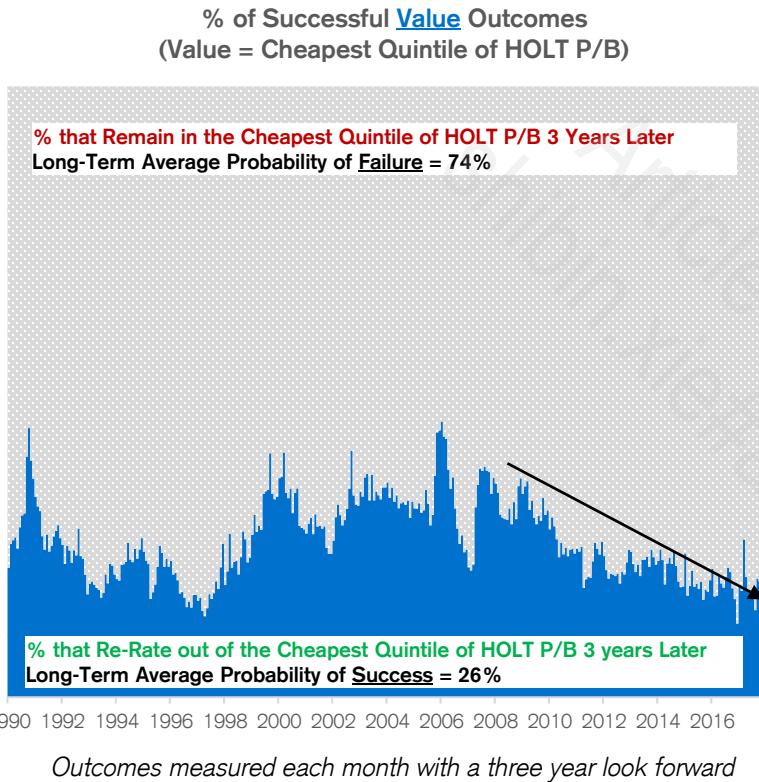


Source: Credit Suisse HOLT, Data Date: 6/18/2021.
Universe: Top 1000 US Companies by ttm market cap
For more: [Market Implied Discount Rate Factor Primer](#)

Value

Article intended for:
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Value offers low hit-rates but high returns over the long-term.



Source: Credit Suisse HOLT, as of 11/30/2020
Value = top quintile of HOLT Price to Book

Over the long-term, successful value ideas *earn* relative outperformance through improved profitability.

Value Investing

*Buy a stock in the cheapest quintile of HOLT Price to Book and hold for 3 years
(data below is presentation of median outcome of all observations since 1990)*

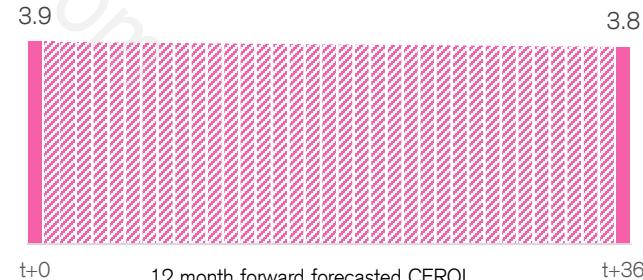
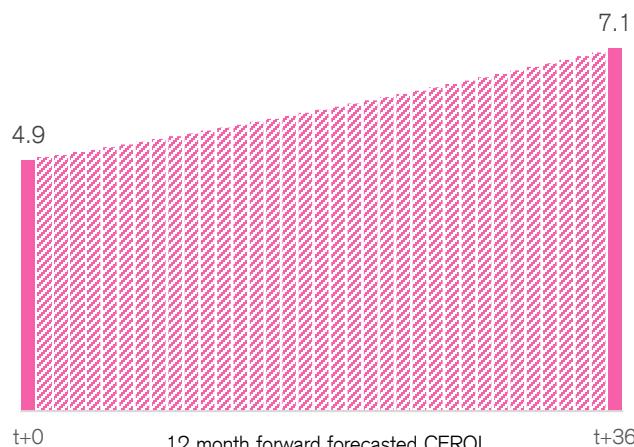
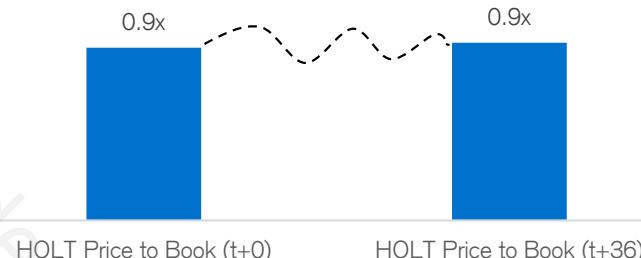
Success

Stock no longer in Cheapest Quintile



Failure

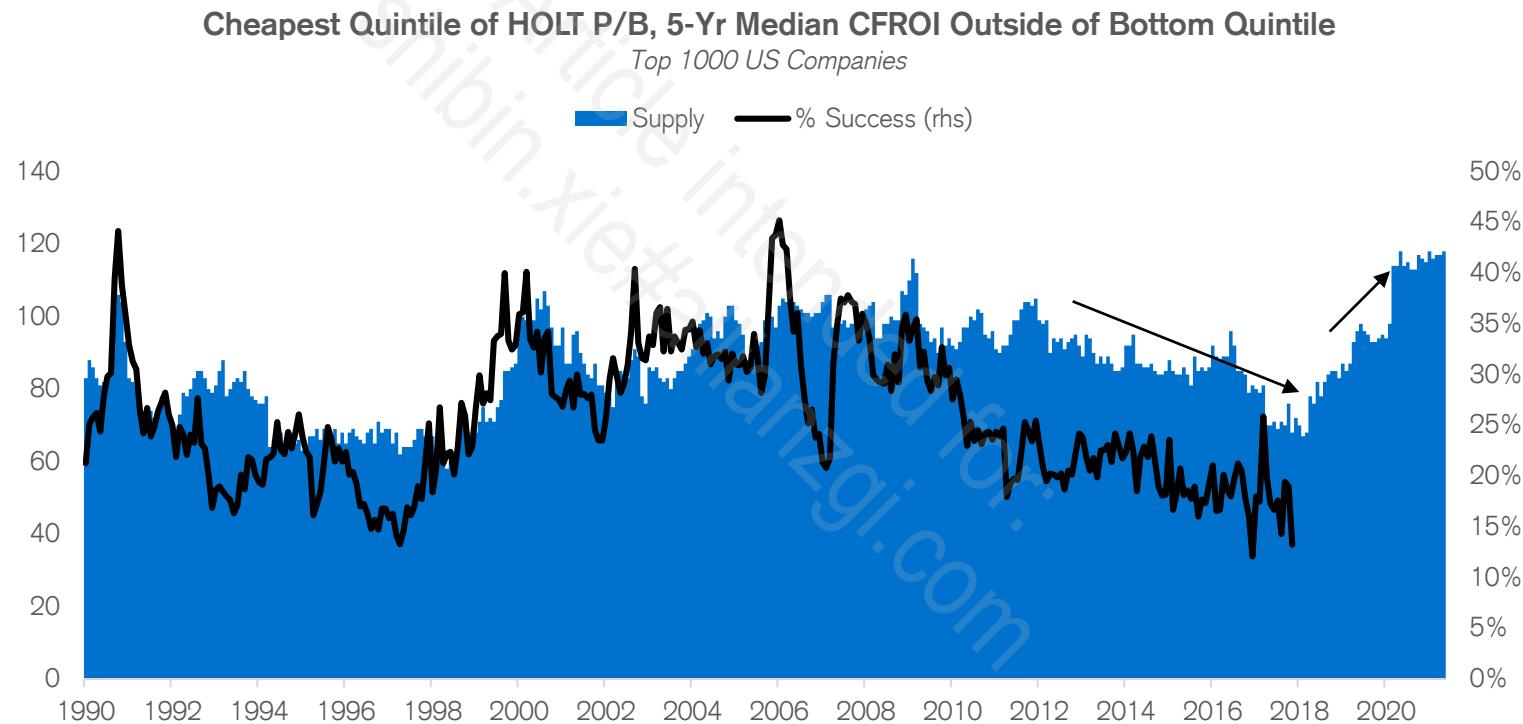
Stock remains in Cheapest Quintile



Evaluating the current inventory of Value stocks

Value investors have struggled over the last decade as the cheapest assets have delivered reliably weak profitability.

However, the proportion of the cheapest quintile HOLT P/B stocks that are not in the lowest quintile of 5-year median CFROI has substantially increased.



Source: Credit Suisse HOLT, Data Date: 5/31/2021.

Screening for cheap stocks with reasonable normalized profitability.

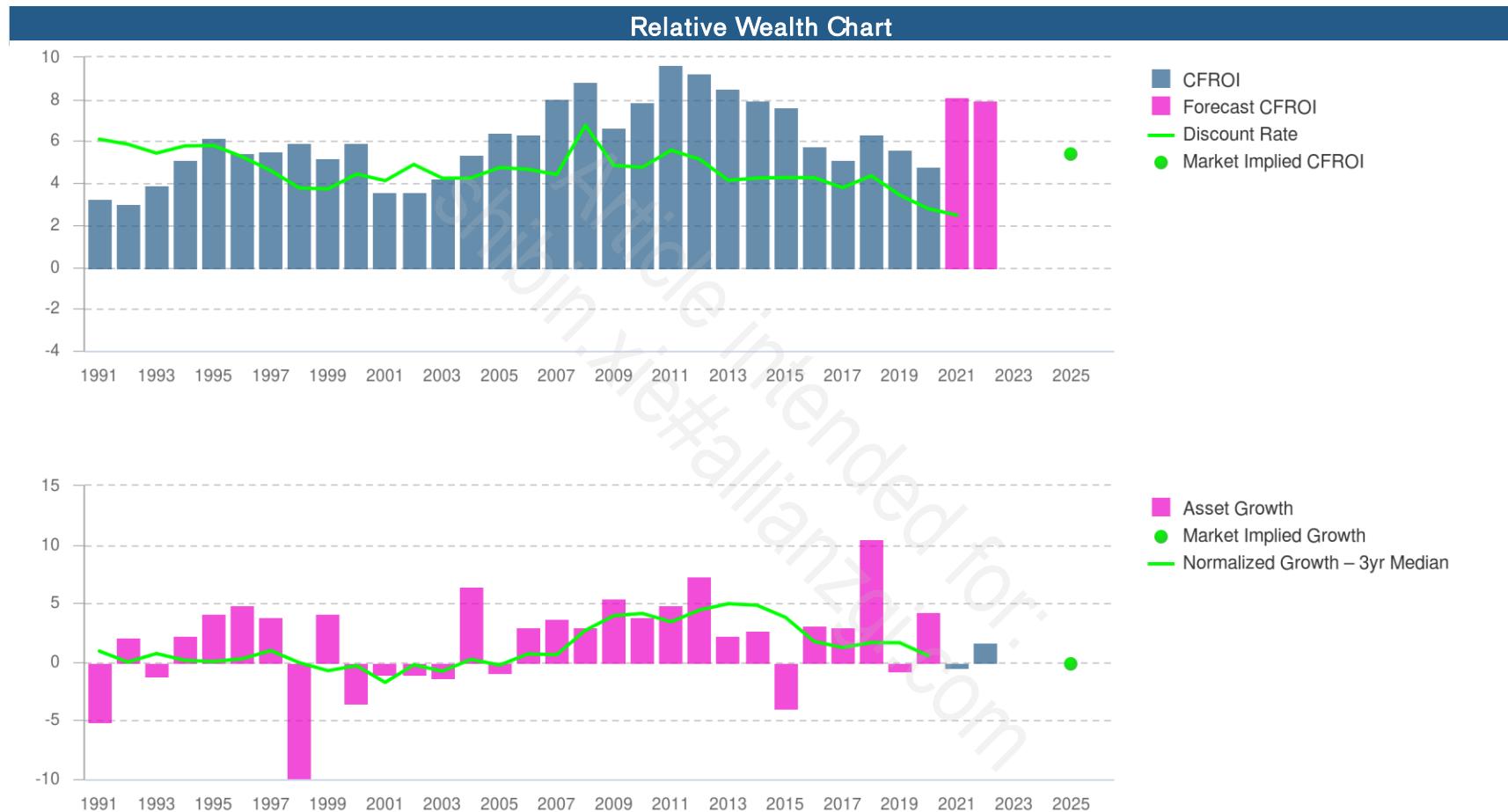
Cheapest Quintile HOLT P/B, Not in Lowest Quintile 5-Yr Median CFROI

See [screen in HOLT Lens](#)

Name	Ticker	Name	Ticker	Name	Ticker
VIACOMCBS INC-B	VIAC	KEYCORP	KEY	VIATRIS INC	VTRS
LIBERTY GLOBAL-A	LBTYA	CITIZENS FINANCI	CFG	PERRIGO CO PLC	PRGO
LUMEN TECHNOLOGI	LUMN	HUNTINGTON BANC	HBAN	AERCAP HOLDINGS	AER
VERIZON COMMUNIC	VZ	FIRST HORIZON CO	FHN	FEDEX CORP	FDX
T-MOBILE US INC	TMUS	ZIONS BANCORP NA	ZION	SOUTHWEST AIR	LUV
GENERAL MOTORS C	GM	PEOPLE'S UNITED	PBCT	UNITED AIRLINES	UAL
FORD MOTOR CO	F	SYNOVUS FINL	SNV	AMERICAN AIRLINE	AAL
TOLL BROTHERS	TOL	POPULAR INC	BPOP	ALASKA AIR GROUP	ALK
PENN NATL GAMING	PENN	BOK FINL CORP	BOKF	MICRON TECH	MU
CARNIVAL CORP	CCL	ARES CAPITAL COR	ARCC	DXC TECHNOLOGY C	DXC
ROYAL CARIBBEAN	RCL	GOLDMAN SACHS GP	GS	CORNING INC	GLW
NORWEGIAN CRUISE	NCLH	ALLY FINANCIAL I	ALLY	FLEX LTD	FLEX
KOHLS CORP	KSS	BERKSHIRE HATH-B	BRK/B	WESTERN DIGITAL	WDC
GAP INC/THE	GPS	EQUITABLE HOLDIN	EQH	DOW INC	DOW
DICK'S SPORTING	DKS	VOYA FINANCIAL I	VOYA	WESTLAKE CHEMICA	WLK
KROGER CO	KR	METLIFE INC	MET	HUNTSMAN CORP	HUN
ALBERTSONS COS-A	ACI	PRUDENTL FINL	PRU	INTL PAPER CO	IP
ARCHER-DANIELS	ADM	AFLAC INC	AFL	WESTROCK CO	WRK
BUNGE LTD	BG	PRINCIPAL FINL	PFG	PPL CORP	PPL
INGREDION INC	INGR	ATHENE HOLDING-A	ATH	EDISON INTL	EIX
HALLIBURTON CO	HAL	LINCOLN NATL CRP	LNC	ALLIANT ENERGY	LNT
CABOT OIL & GAS	COG	GLOBE LIFE INC	GL	ATMOS ENERGY	ATO
MARATHON PETROLE	MPC	HARTFORD FINL SV	HIG	VISTRA CORP	VST
VALERO ENERGY	VLO	CHUBB LTD	CB	DOMINION ENERGY	D
KINDER MORGAN IN	KMI	TRAVELERS COS IN	TRV	PUB SERV ENTERP	PEG
CHENIERE ENERGY	LNG	ARCH CAPITAL GRP	ACGL	DTE ENERGY CO	DTE
PLAINS ALL AMER	PAA	OLD REPUB INTL	ORI	CENTERPOINT ENER	CNP
WELLS FARGO & CO	WFC	REINSURANCE GROU	RGA	MDU RES GROUP	MDU
CITIGROUP INC	C	UNITED THERAPEUT	UTHR		

Highlighted groups discussed in aggregate in following slides. USA Top 1000 stocks by Market Cap in cheapest 20% of HOLT P/B, with 5-Year Median CFROI rank not in the bottom 20%. REITs excluded. Data as of 6/21/2021 from HOLT Lens.

Commodity & Diversified Chemicals, Weighted



Commodity & Diversified Chemicals, Weighted

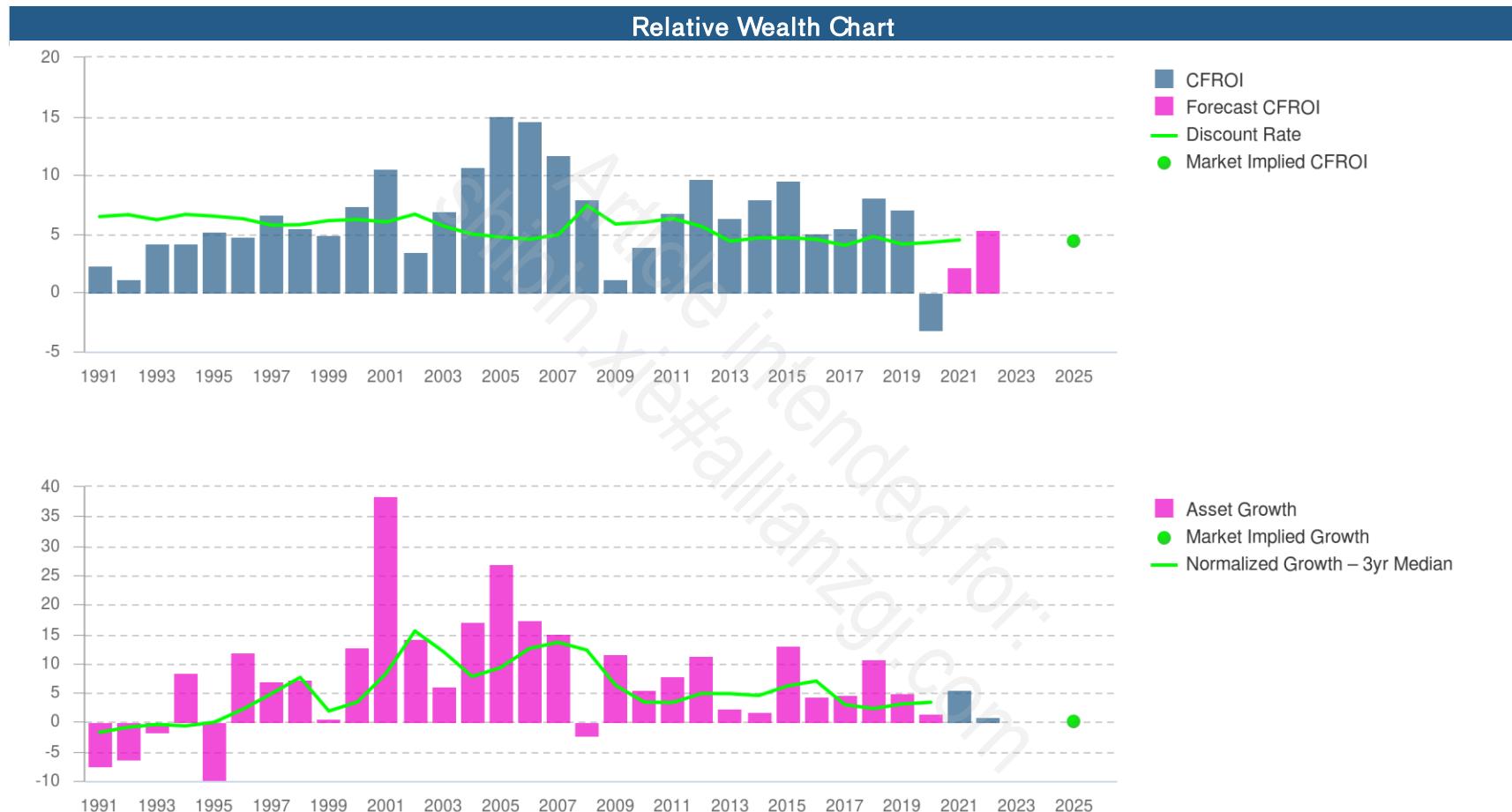
HOLT Price to Book (Value Cost Ratio)



Relative HOLT Price to Book (Value Cost Ratio)

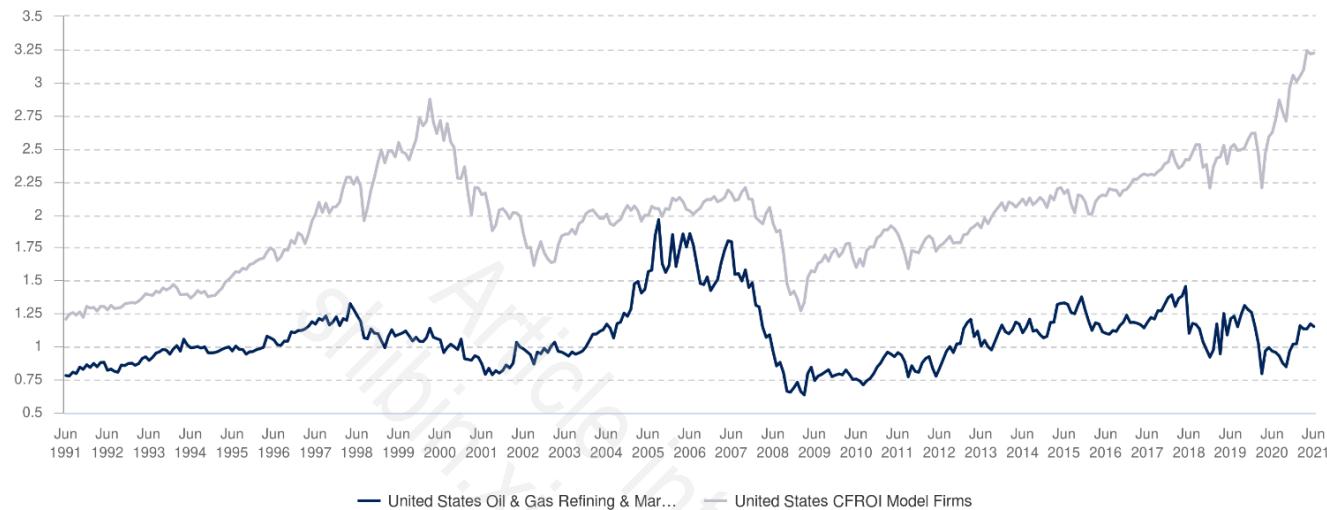


United States Oil & Gas Refining & Marketing, Weighted



United States Oil & Gas Refining & Marketing, Weighted

HOLT Price to Book (Value Cost Ratio)

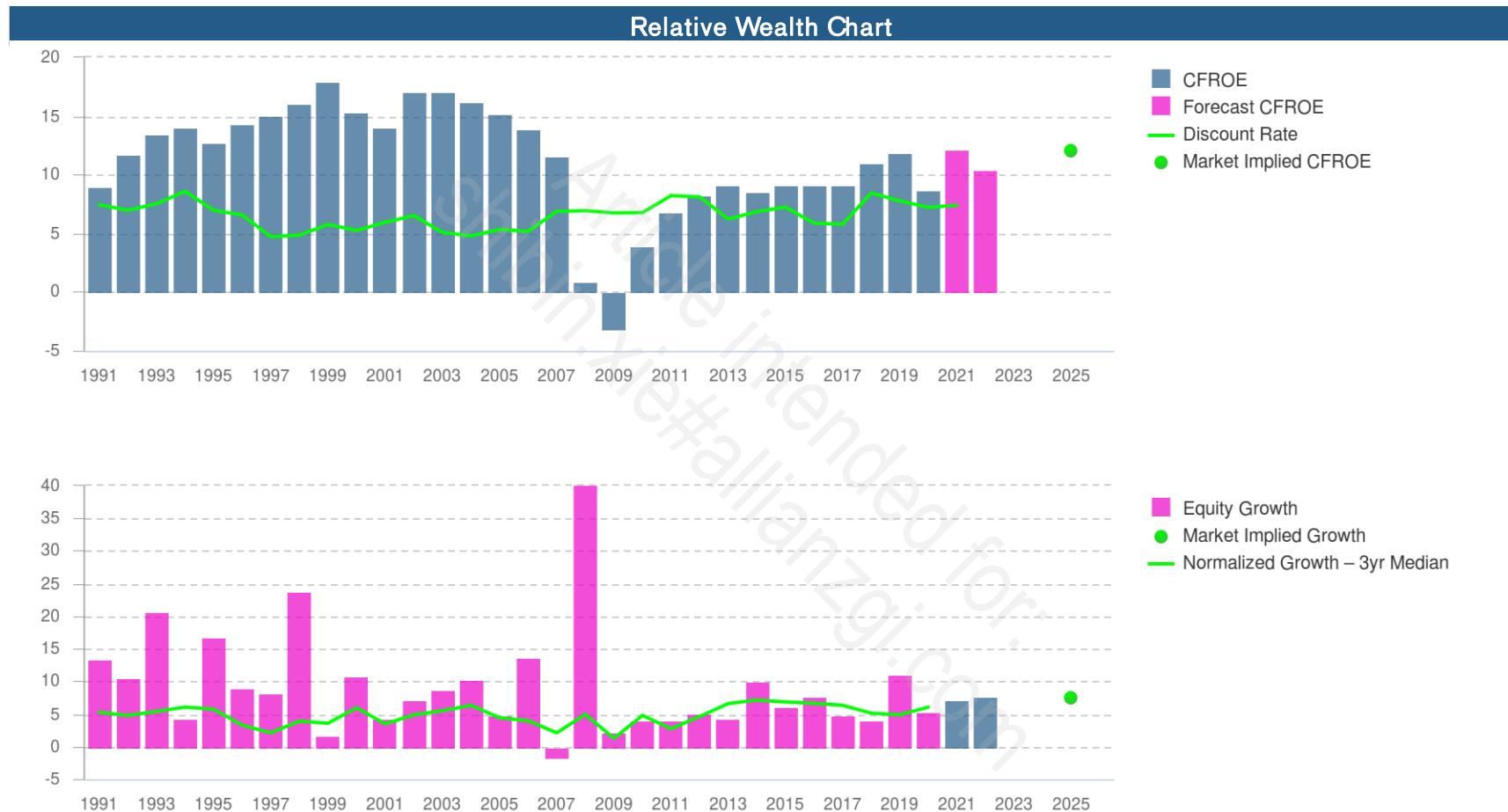


Relative HOLT Price to Book (Value Cost Ratio)



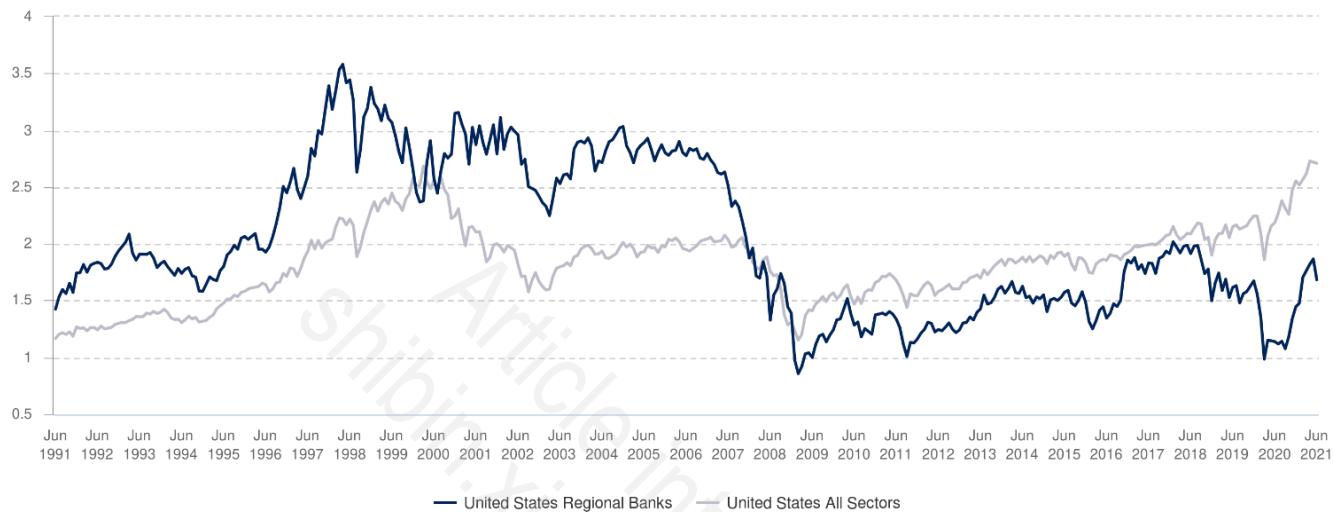
Source: Credit Suisse HOLT Lens

United States Regional Banks, Weighted



United States Regional Banks, Weighted

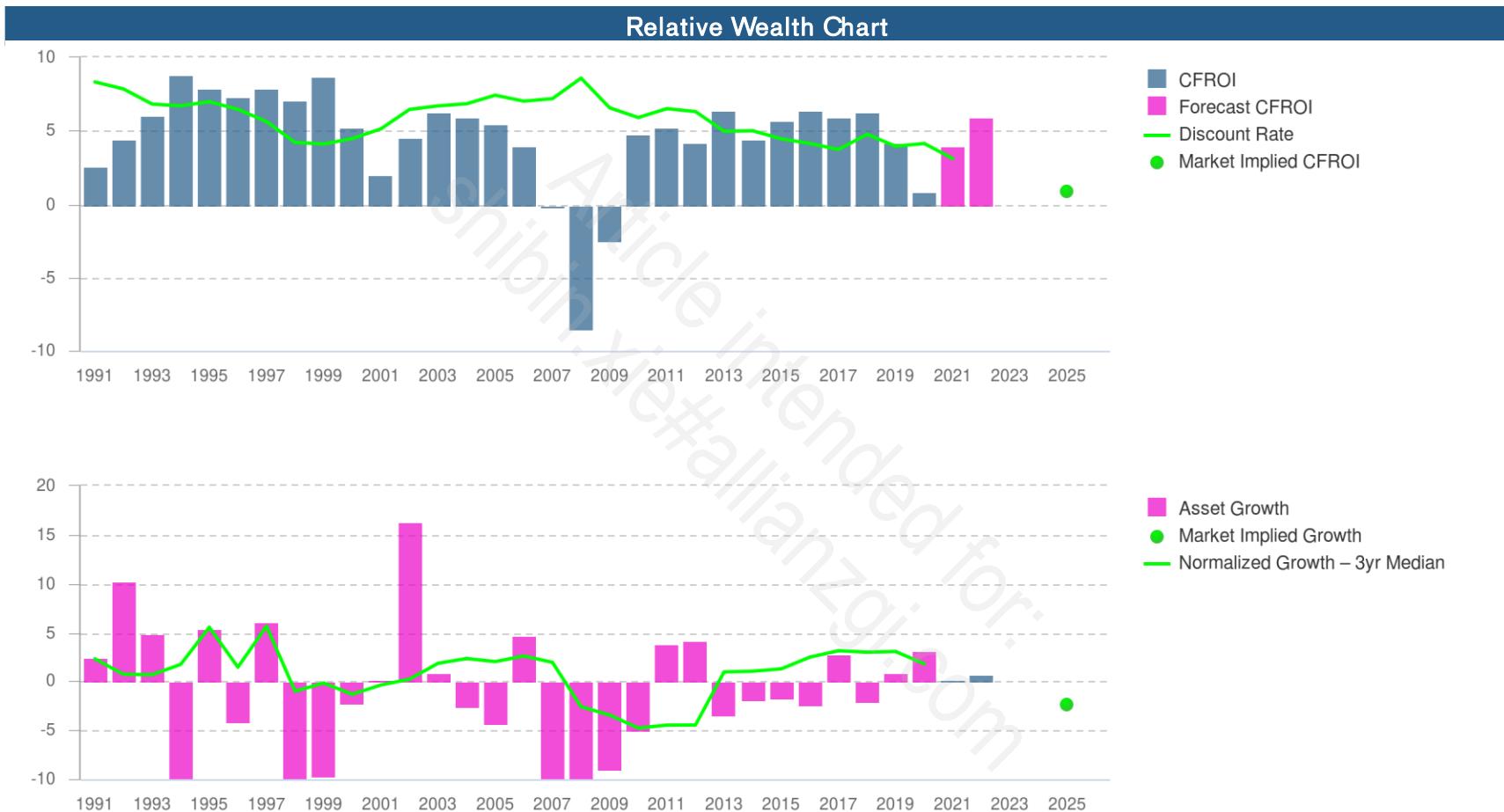
HOLT Price to Book (Value Cost Ratio)



Relative HOLT Price to Book (Value Cost Ratio)



United States Auto OEMs (ex TSLA), Weighted



United States Auto OEMs (ex TSLA), Weighted

HOLT Price to Book (Value Cost Ratio)



Relative HOLT Price to Book (Value Cost Ratio)

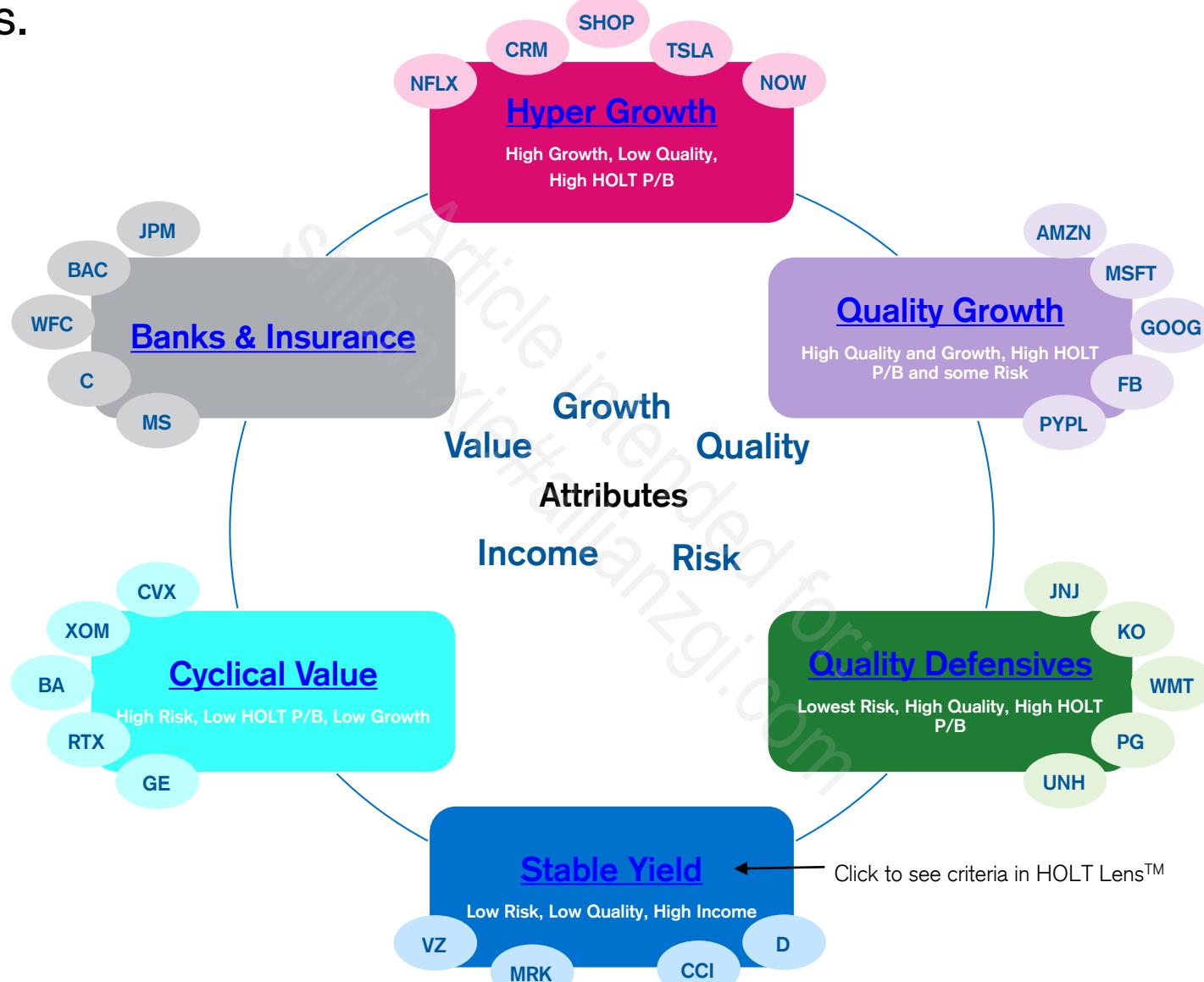


Quality Growth is now Quality or Growth. Stick with Quality.

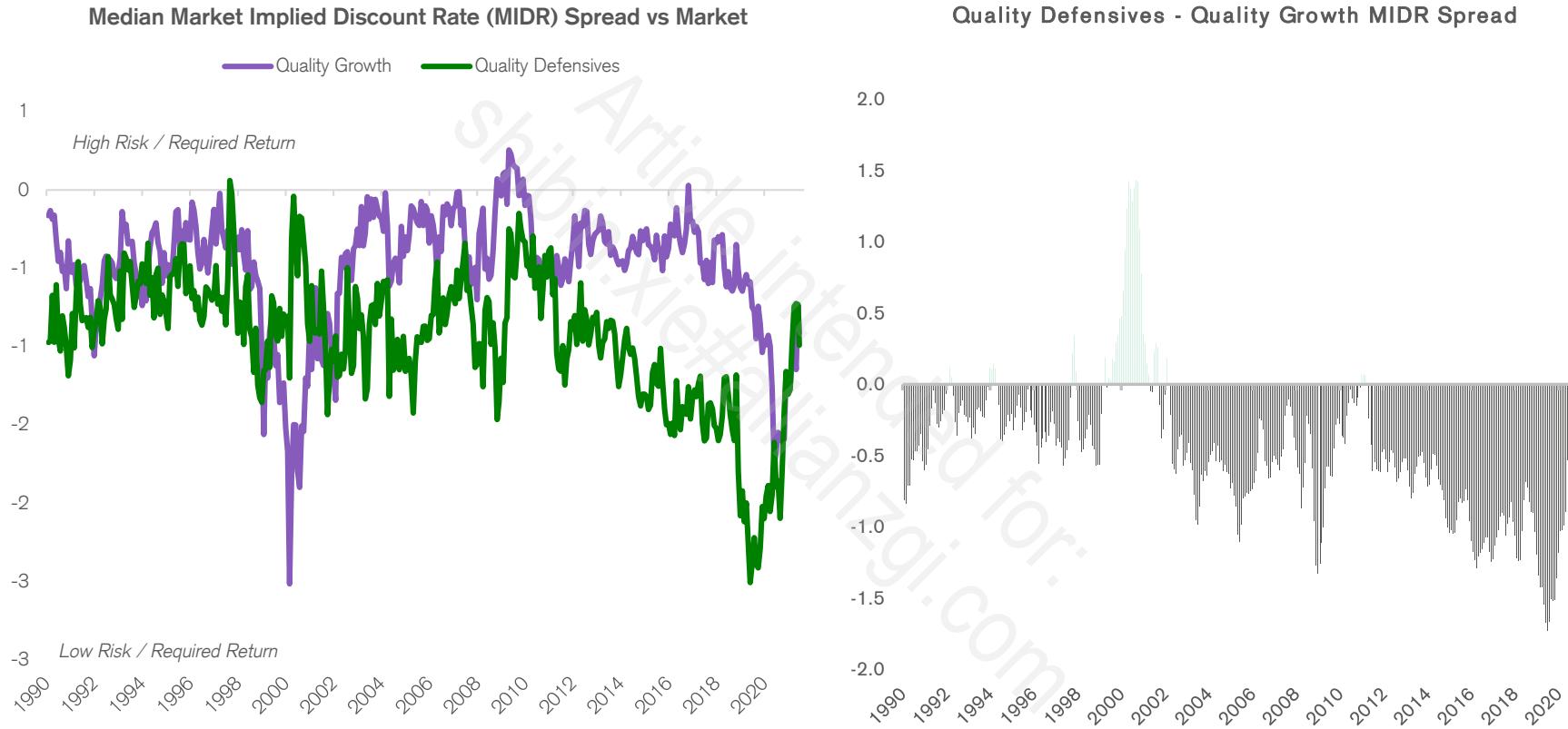
- An improved economic backdrop paired with near-record level of dispersion in implied yields makes positioning for convergence, such as favoring Banks & Insurance and Cyclical Value over Hyper Growth, appealing.
- The portion of the U.S. universe offering both above average Quality and Growth is at an all-time low, posing a challenge to investors that prefer to anchor their portfolios with “quality compounders”.
- The data suggest favoring Quality over Growth as, over the last year, Quality’s relative appeal on valuation, revisions, and risk characteristics has substantially improved.
- For Value investors, currently many firms with the cheapest valuations have histories of earning reasonable CFROI®, providing a much more attractive inventory of deep value ideas than typically observed. Historical data suggest this could be a tailwind for Value going forward.

APPENDIX: Additional Charts

In 2020 we introduced a new way to classify stocks based on common combinations of fundamental attributes to better understand risk and returns.

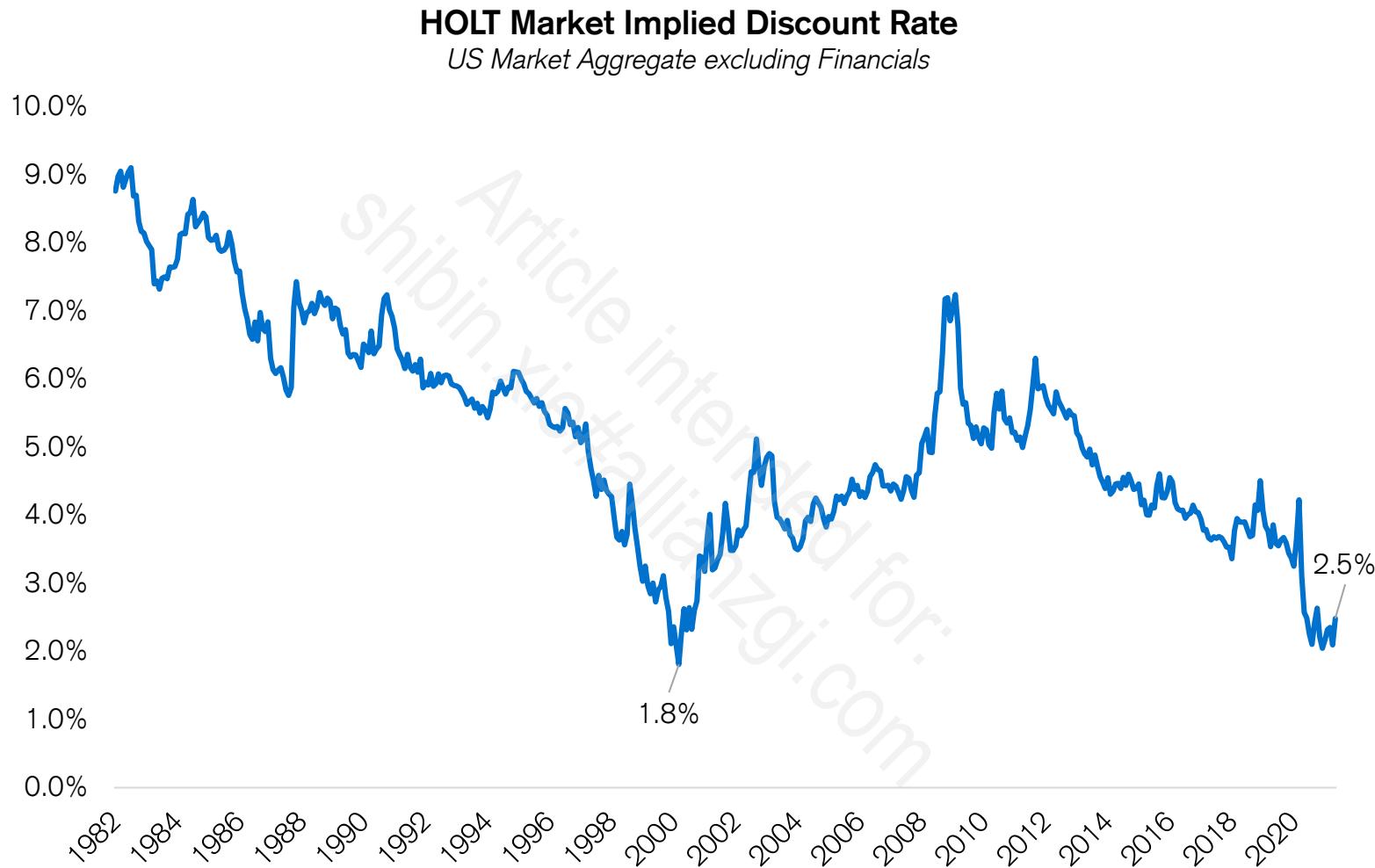


The premium investors must pay to own Quality Defensives is the lowest since 2012.



Source: Credit Suisse HOLT, Data Date: 6/18/2021.
Universe: Top 1000 US Companies by ttm market cap
For more: [Market Implied Discount Rate Factor Primer](#)

The US Market Implied Discount Rate (MIDR) is very low in absolute terms and relative to history.



Deriving a Cost of Equity and Equity Risk Premium

Model Inputs and Assumptions

Market Implied Discount Rate (WACC)	2.49%	Corporate Yield	2.34%
Leverage	20.6%	Government Yield (10Yr)	1.61%
Credit Spread	0.72%	Long Term Inflation Expectations	1.57%

Calculation Details

$$\text{WACC} = \boxed{\text{W\% Equity}} * \boxed{\text{Real Cost of Equity}} + \boxed{\text{W\% Debt}} * \boxed{\text{Real Cost of Debt}}$$
$$2.49\% = \boxed{79.4\%} * \boxed{\text{Solve}} \quad \boxed{20.6\%} * \boxed{\text{Real Risk Free + Credit Spread}}$$
$$2.49\% = \boxed{79.4\%} * \boxed{\text{Solve}} \quad \boxed{20.6\%} * \boxed{0.04\% + 0.72\%}$$
$$2.49\% = \boxed{79.4\%} * \boxed{\text{Solve}} \quad \boxed{20.6\%} * \boxed{0.76\%}$$
$$2.49\% = \boxed{79.4\%} * \boxed{2.93\%} \quad \boxed{20.6\%} * \boxed{0.76\%}$$

Market Cost of Equity (Blend with Financials)

3.27%

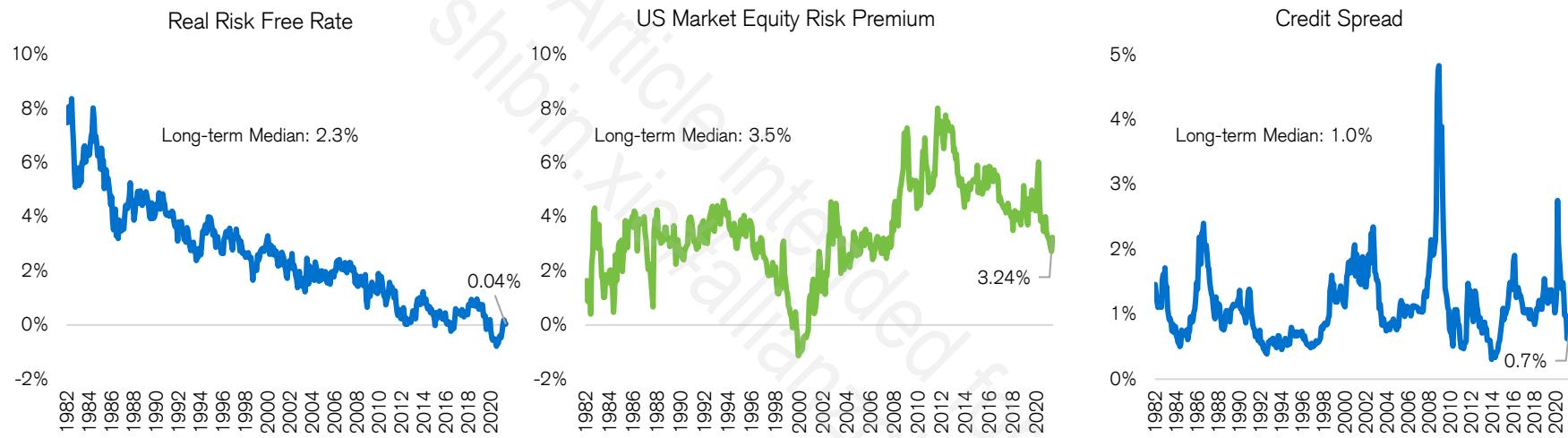
Market Equity Risk Premium (COE - Risk Free)

3.24%

Nominal Cost of Equity (COE + Inflation)

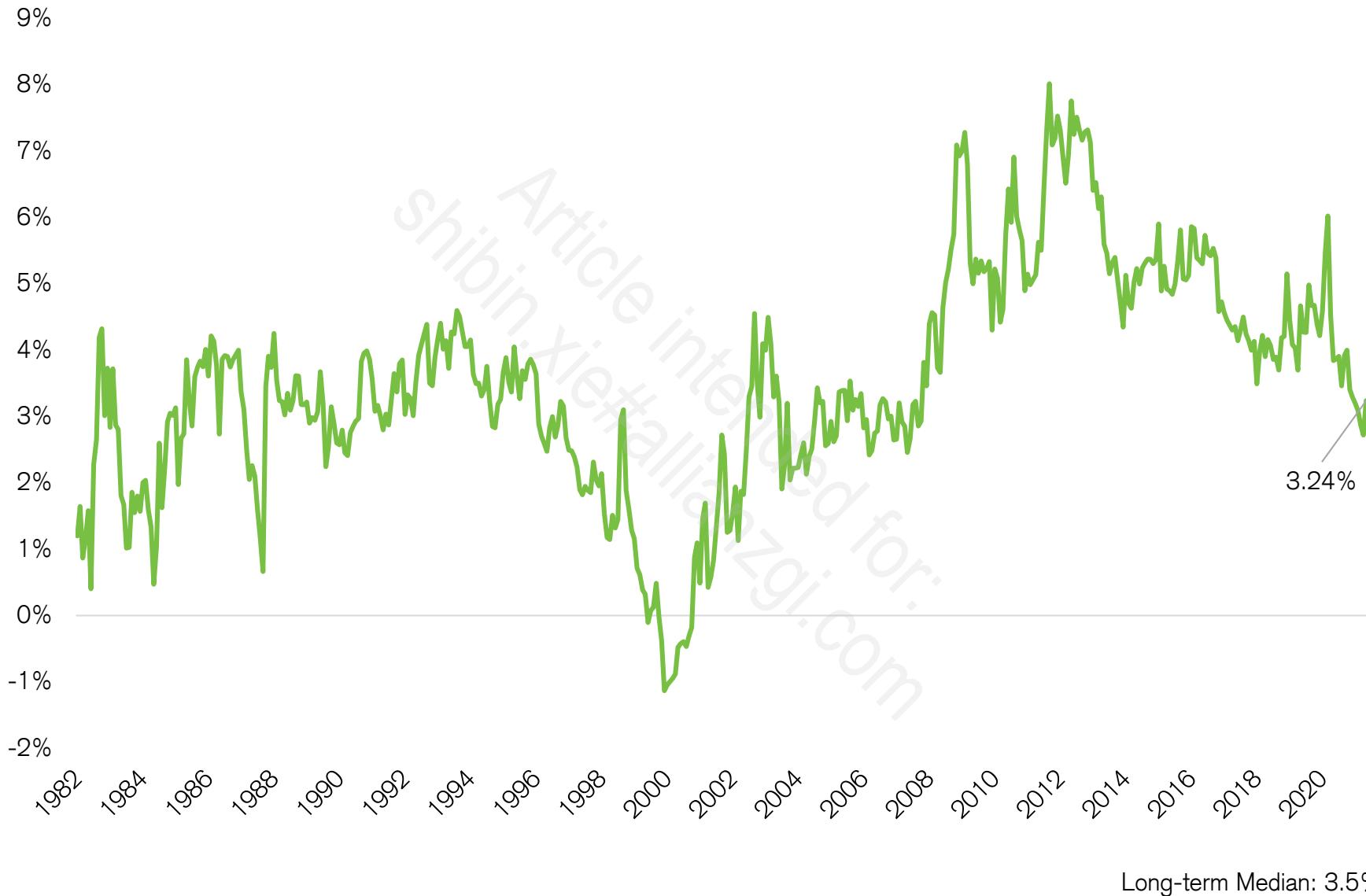
4.85%

The decline in the discount rate has primarily been driven by ultra-low risk free rates. Risk Premiums are near long-term averages.

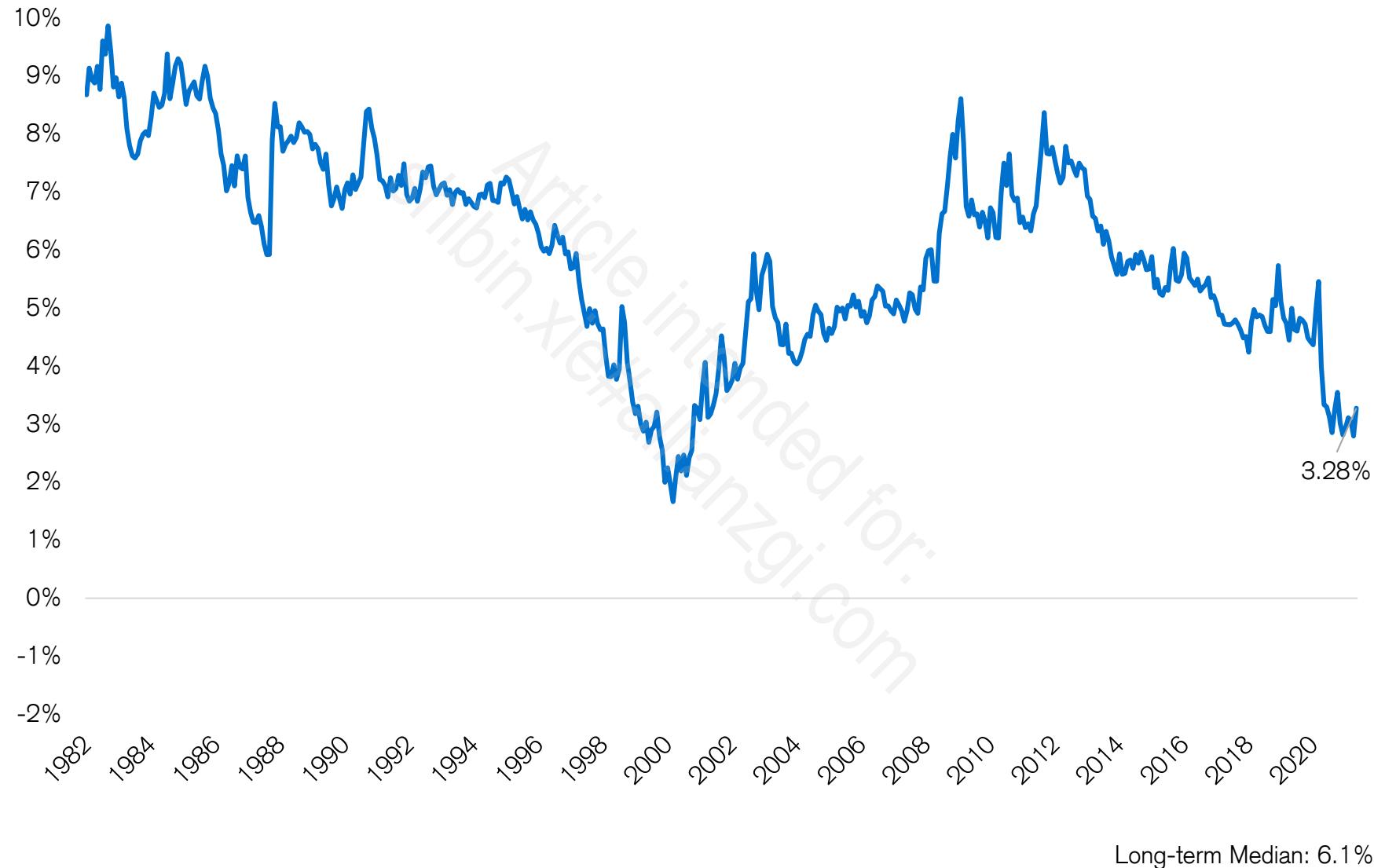


The Equity Risk Premium, at 3.24% versus a long-term median of 3.5%, remains reasonable and is a sharp contrast to the negative ERP observed in the early 2000's.

US Aggregate Market Implied Equity Risk Premium

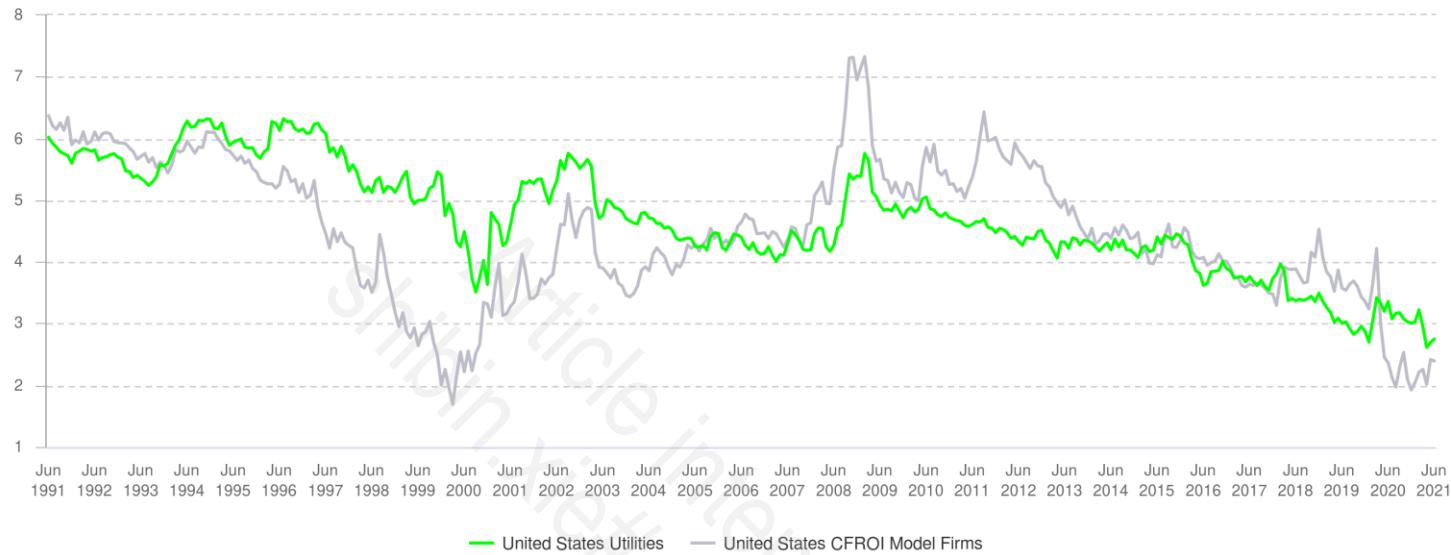


US Aggregate Real Cost of Equity

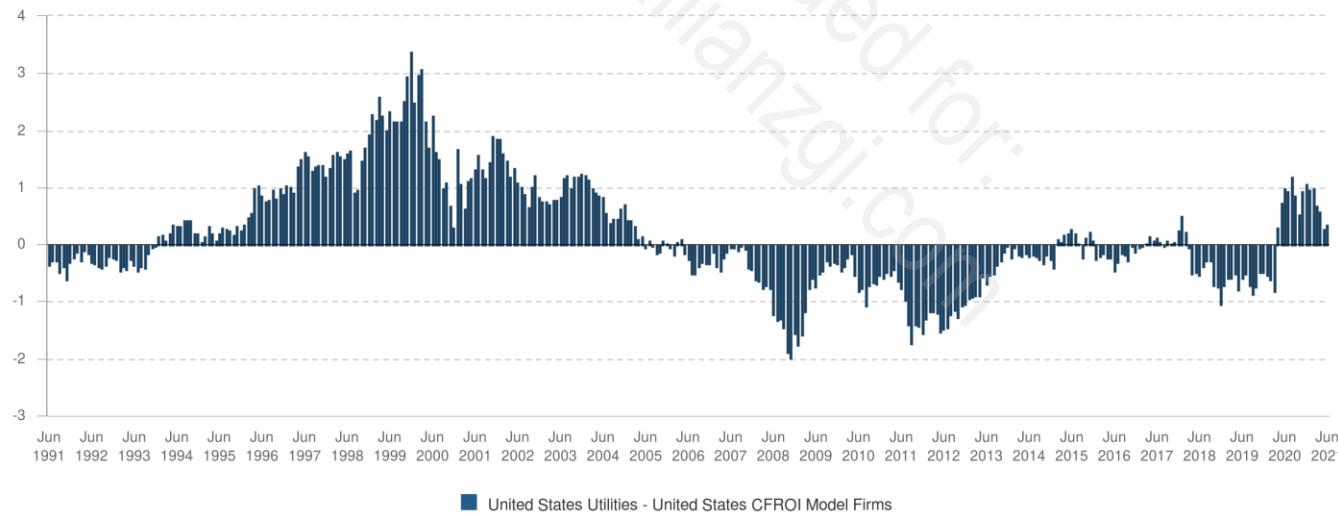


Utilities

Market Implied Discount Rate



Relative Market Implied Discount Rate

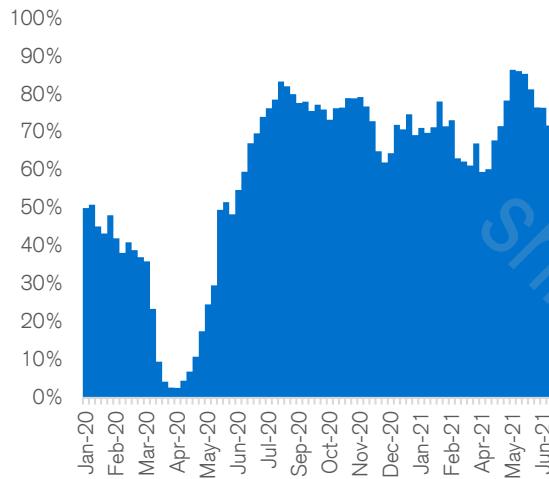


Source: Credit Suisse HOLT Lens

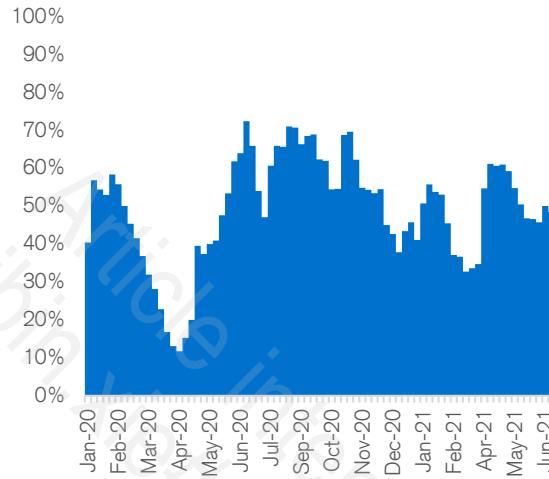
CFROI Revisions

CFROI Revisions Breadth (% Positive)

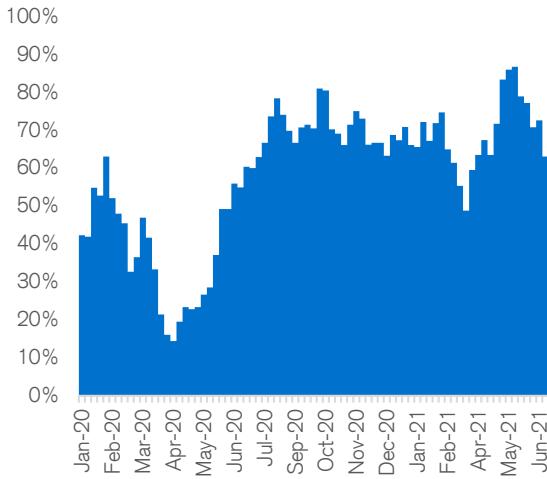
Quality Growth



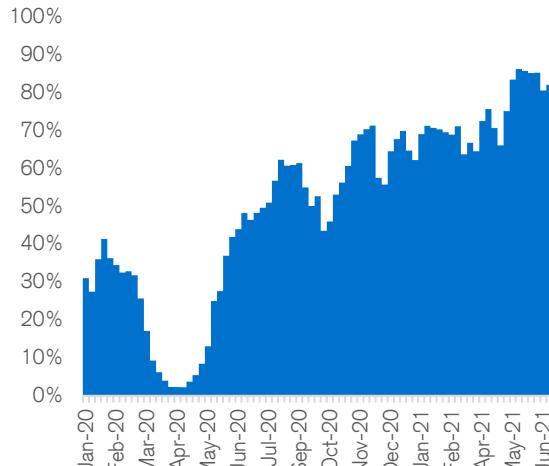
Hyper Growth



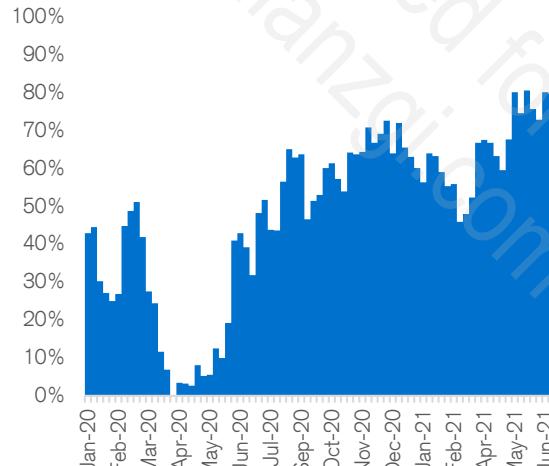
Quality Defensive



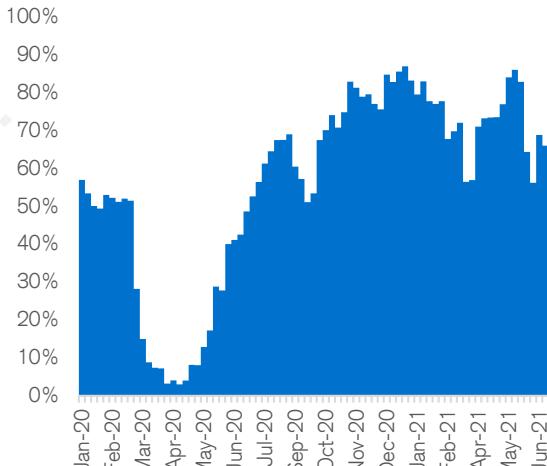
Cyclical Value



Stable Yield



Banks & Insurance



Disclosure Appendix

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This research report is authored by:

Credit Suisse Securities (USA) LLC HOLT Specialist: David Rones ; HOLT Specialist: Richard Curry ; HOLT Specialist: Sean Burns ; Joseph Pecora ; HOLT Specialist: Vishal Bondre

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