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FLASH

Part Deux "Stocks are the new bonds": 87% prior list outperformed
50 stocks (23 "additions" to the list)

Despite an overall better tone in markets since the start of the year, our clients views remain split—tie breaker data has not emerged to simply convince investors to embrace risky assets. Last November, when markets were facing a similar crossroads, we created the "stocks are the new bonds" portfolio. A list of 30 stocks, single-A rated, with a dividend yield exceeding the company's own bond yield. We argued then, this could be viewed as a market agnostic strategy, as the risk/reward in these names was driven by the cheapness of the stock (high dividend yield) against its own credit (7-10 year bond yield). Of that list of 30 stocks, 87% outperformed the S&P 500 (price only, total return even better) and by 630bp in 5 months (1,510bp annualized). We are updating this strategy with new names and analysis:

- **November list, ex-Energy/Financials, relative performance was 1,060bp (slide 4).** The November list was heavily Industrials (6) and Utilities (8) with 6 of 6 Industrials outperforming (**CAT, CMI, EMR, DE, GE**). It was light on Technology (2) but each outperformed **IBM (+1,000bp)** and **CSCO (+300bp)**. The best performing names were **ED (+2,200bp)** and **PM (+1,900bp)** and **TGT (+1,800bp)**.
- **Part Deux list larger, 50 vs 30 stocks: Bulk of additions are Financials (+7), Staples (+5) and Technology (+5) (slide x).** This strategy does not heavily favor Utilities. In fact, of the 50 stocks, 8 are Utilities—the same as Industrials on the list. The average dividend yield of this 50 stock portfolio is 3.6%, compared to a weighted cost of LT corporate debt (for these cos) of 2.6%. ***Think about this, one is getting paid 100bp pre-tax (higher after-tax) to own the equity versus the co's bond.***
- **Overall, there are 117 large-cap issuers where the dividend yield > bond yield (slide 7).** These are represented across the spectrum of investment grade ratings (only a handful are HY issuers) and the largest sector represented is Financials. One could argue this is a bullish call for Financials as it highlights the equities have underperformed the bonds by a large margin (as measured the 132bp higher dividend yield at 4.9% compared to a bond yield of 3.6%. That is an astounding yield, if one thinks about it—after all, the US 10Y yield is a paltry 1.7%.
- **4 Reasons "Stocks are new bonds" will keep outperforming (slide 9 to slide 12).** Aside from the "capital structure" argument above, we see these factors as supporting this strategy: (i) since 2006, \$2.4T has flowed into bonds and \$2.0T sold out of equities (slide 9) and should mean revert; (ii) S&P 500 dividend yield is 40bp above the US 10Y, essentially the highest since 1958 (slide 10); (iii) the US 10Y yield is 2.8 standard deviations (z-score) above LT average while S&P 500 PE is 0.66 (slide 11); (iv) household net sales of equities was 19% of savings flow, the largest liquidation of stocks in history and dwarfing the 10% into 1989 (slide 12)—recall, 1989 was followed by a historic decade of inflows into US equities.
- **What could go wrong? Japan Yen strength and European bank weakness are adding to "global macro tail event" risk.** Equity markets have been under pressure in the past few days by the continued strengthening of the Yen and by the renewed weakness in European banks. While both weigh on risk appetite, we believe the upcoming 1Q16 earnings season will renew investor confidence in fundamentals. Hence, we would be buyers of the dip.

BOTTOM LINE: Stocks are the new bonds—50 stocks. Our key message remains that we believe investors can generate relative performance by focusing on styles with attractive risk/reward (slide 2) (weak USD trades, easing credit trades, etc). With this update on "stocks are the new bonds" we see attractive risk/reward in capital structure relative value. The criteria for our "part deux" list is as follows: (i) credit rating of A- or better, (ii) market cap above \$10B, and (iii) div yield is above the co's own 7-10 year bond yield. The tickers are: **CSCO, IBM, QCOM, TXN, INTC, XLNX, ADP, TGT, EMR, CAT, BA, GE, UPS, MMM, CMI, PX, HSBC, CME, BBT, USB, BLK, WFC, JPM, AMP, PRU, CVX, XOM, OXY, NOV, PFE, ABBV, MRK, JNJ, LLY, PM, HSY, KO, PG, MO, PEP, KMB, CL, SO, PPL, DUK, WEC, ES, XEL, D,** and **ED.**

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Performance	4Q15	1Q16	2Q16	YTD
S&P 500	6.5%	0.8%	-0.9%	-0.1%
Cycl (Mat,IT,Disc,Ind)	6.1%	0.8%	-1.3%	-0.6%
Near Cycl (Ener,Fin)	3.6%	-2.5%	-2.5%	-5.0%
Def (Stpl,HC,Tel,Util)	7.1%	1.3%	0.8%	2.2%
Value	5.3%	1.5%	-1.5%	-0.0%
Growth	7.4%	0.1%	-0.3%	-0.2%

Valuation	2016E	2017E	Target
S&P 500 price	2042	→	2325
Fundstrat EPS Est	\$127	\$142	—
P/E (Y+1)	16.1x	14.4x →	16.4x

Cyclicals		Near Cyclicals		Defensives	
Technology	**OW**	**Financials**	**OW**	Telecom	OW
Industrials	**OW**	Energy	OW	Healthcare	N
Materials	OW			*Staples*	*UW*
Discretionary	N			*Utilities*	*UW*

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#1: FS STRATEGY 2Q16 RECOMMENDATIONS

As we noted consistently since early December, we see 2016 where styles and sector-neutral strategies will be more effective than sector tilt.

- We are updating our "Stocks are the new bonds" strategy which we first published on 11/20/15. Then, we highlighted 30 stocks with single-A bond ratings where the dividend yield exceeded the bond yield. **87% of those stocks outperformed the S&P 500 since then.**
- **The revised list is now 50 stocks—yes, there are more stocks today than in 11/20/15.**

Figure: Fundstrat Portfolio Strategy Recommendations for 2Q16

	Fundstrat Theme		Execution of Strategy	Representative Tickers
1.	**Laggards become Leaders**	*Buy multi-yr laggards.*	***Long:*** Leisure products, Trucking, Healthcare Services, Life Science Tools	**Leisure Products**: BC **Trucking**: UHAL **Healthcare Services**: DGX, ESRX, LH, MD
		Sell multi-yr leaders.	***Avoid:*** Gold stocks, Utilities	**Life Science Tools**: BIO, PKI, Q, TECH, VWR
2.	**Quality spread rally (BB vs CCC)**	*Small-caps most levered*	Buy Small-caps (over Large)	Russell 2000 over S&P 500 (IWM over SPY) EM stocks over DM stocks
3.	**USD outright weakens**	*A "weak USD" portfolio. Clients OW "strong USD"*	Buy stocks inverse correlation to USD ***Styles:*** Value ***Sectors***: Energy, Materials, Telecoms	FOSL, LVS, VIAB, FLR, VMI, CAT, CMI, EMR, DOV, KMT, KEX, FLIR, TRMB, IBM, EMN, PX, ALB, RS, XOM, DO, NE, RDC, FTI, OII, SLB, WDR, AXP, L, NFG, MDU
4.	**Credit-conditions easing (on oil bottom)**	*Buy "inverse correlation" to HY spreads*	Buy Value and Low-quality	WDC, XRX, FSLR, F, BBY, PHM, AN, TXT, JEC, MOS, BBT, FITB, L, RF, KEY, CMA, LUK, ZION, VLO, MRO, CAH, POM
5.	**FANG ends with a "dang"**	*Leaders rarely lead following year*	Buy Value over Momentum	IBM, TXN, MCD, GE, MMM, UNP, DD, LYB, PX, WY, HST, IRM, PFE, LLY, PEP, CL, KMB, GIS, HSY, VZ
6.	**Stocks are the "new bonds"**	*Div yields > co's bond yield*	Cyclicals:	CSCO, IBM, EMR, CAT, GE, UPS, TGT, CMI, QCOM, TXN, PX, BA, INTC, XLNX, MMM, ADP
			Near-Cyclicals (Energy/Financials):	HSBC, CVX, XOM, OXY, NOV, PRU, AMP, JPM, WFC, BLK, USB, CME, BBT
			Defensives:	SO, PM, DUK, KO, PFE, PG, WEC, MRK, ED, ES, XEL, JNJ, D, PPL, HSY, ABBV, MO, PEP, KMB, CL, LLY

Source: Fundstrat, Bloomberg.

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#2: 87% of the original "Stocks are the new bonds" outperformed, by *600bp on avg*

On November 20, 2015, we highlighted 30 stocks we saw as "stocks are new bonds" because the dividend yield exceeded the bond yield.

- **26 of these stocks outperformed. Those stocks where bond yields rose *generally underperformed*.**

Figure: Spread of div yield less bond yield is wider today vs. November 2015 for over half of our original list

Original "Stocks are the New Bonds" screen, first published in our 11/20/2015 report titled "Equities are the new bonds in 2016"

= yield increase since Nov 2015 or div yield less bond yield turned negative

			Perf since 11/19/2015		YTD 2016 perf		Dividend yield			Bond yield			Div yield less bond yield		
	Ticker	Company name	Absolute	Relative	Absolute	Relative	November 2015	Current	Delta	November 2015	Current	Delta	November 2015	Current	Delta
Technology	IBM	Intl Business Machines Corp	8%	10%	8%	8%	3.8%	3.6%	-25 bp	3.2%	2.4%	-80 bp	67 bp	123 bp	55 bp
	CSCO	Cisco Systems Inc	1%	3%	2%	2%	3.1%	3.6%	49 bp	2.8%	2.0%	-79 bp	26 bp	155 bp	128 bp
Discretionary	TGT	Target Corp	16%	18%	12%	12%	3.2%	2.8%	-35 bp	2.8%	2.7%	-18 bp	37 bp	20 bp	-17 bp
Industrials	CAT	Caterpillar Inc	6%	8%	9%	9%	4.5%	4.2%	-31 bp	3.0%	3.3%	25 bp	144 bp	88 bp	-56 bp
	CMI	Cummins Inc	7%	9%	19%	20%	4.0%	3.8%	-22 bp	3.1%	3.7%	68 bp	92 bp	1 bp	-90 bp
	EMR	Emerson Electric Co	5%	7%	11%	11%	3.8%	3.6%	-17 bp	3.0%	2.7%	-36 bp	77 bp	96 bp	19 bp
	DE	Deere & Co	2%	4%	-0%	-0%	3.2%	3.2%	-7 bp	2.8%	3.2%	41 bp	42 bp	-6 bp	-48 bp
	GE	General Electric Co	1%	3%	-2%	-2%	3.0%	3.0%	0 bp	2.8%	2.5%	-32 bp	24 bp	56 bp	32 bp
	UPS	United Parcel Service-Cl B	-0%	2%	8%	8%	2.8%	3.0%	16 bp	2.6%	2.4%	-20 bp	17 bp	54 bp	36 bp
Financials	HSBC	Hsbc Holdings Plc-Spons Adr	-27%	-25%	-26%	-26%	5.0%	8.3%	329 bp	3.4%	4.2%	78 bp	162 bp	412 bp	250 bp
Energy	COP	Conocophillips	-25%	-23%	-14%	-14%	5.5%	2.5%	-298 bp	3.3%	4.4%	107 bp	216 bp	-190 bp	-406 bp
	CVX	Chevron Corp	4%	6%	5%	5%	4.7%	4.6%	-8 bp	2.9%	2.0%	-90 bp	179 bp	262 bp	83 bp
	NOV	National Oilwell Varco Inc	-24%	-22%	-15%	-15%	4.8%	6.4%	164 bp	4.0%	5.2%	128 bp	84 bp	120 bp	36 bp
	XOM	Exxon Mobil Corp	3%	4%	6%	6%	3.6%	3.6%	2 bp	2.8%	2.0%	-80 bp	80 bp	162 bp	82 bp
	OXY	Occidental Petroleum Corp	-8%	-6%	3%	3%	4.0%	4.5%	49 bp	3.2%	3.0%	-14 bp	78 bp	141 bp	64 bp
Healthcare	PFE	Pfizer Inc	1%	3%	1%	2%	3.4%	3.6%	16 bp	3.0%	2.5%	-56 bp	41 bp	113 bp	72 bp
	JNJ	Johnson & Johnson	7%	9%	6%	6%	2.9%	2.8%	-12 bp	2.5%	2.4%	-7 bp	41 bp	36 bp	-5 bp
	MRK	Merck & Co. Inc.	2%	4%	5%	5%	3.3%	3.3%	1 bp	2.9%	2.6%	-29 bp	40 bp	71 bp	31 bp
Staples	PM	Philip Morris International	17%	19%	14%	15%	4.8%	4.1%	-65 bp	3.0%	2.6%	-49 bp	174 bp	158 bp	-16 bp
	PG	Procter & Gamble Co/The	9%	11%	5%	5%	3.5%	3.3%	-14 bp	2.3%	2.4%	14 bp	123 bp	95 bp	-29 bp
	WMT	Wal-Mart Stores Inc	12%	14%	11%	11%	3.2%	2.9%	-29 bp	2.9%	2.9%	3 bp	31 bp	-1 bp	-31 bp
	KO	Coca-Cola Co/The	8%	9%	8%	8%	3.1%	3.0%	-17 bp	2.9%	1.7%	-113 bp	26 bp	122 bp	96 bp
Utilities	SO	Southern Co/The	12%	14%	8%	8%	4.9%	4.4%	-50 bp	3.1%	2.2%	-91 bp	178 bp	219 bp	41 bp
	DUK	Duke Energy Corp	16%	18%	11%	11%	4.9%	4.3%	-62 bp	3.1%	2.9%	-22 bp	177 bp	137 bp	-40 bp
	PPL	Ppl Corp	10%	11%	9%	10%	4.5%	4.1%	-42 bp	3.3%	3.9%	59 bp	118 bp	17 bp	-102 bp
	ED	Consolidated Edison Inc	20%	22%	18%	18%	4.1%	3.5%	-67 bp	3.2%	3.0%	-18 bp	96 bp	48 bp	-48 bp
	XEL	Xcel Energy Inc	14%	16%	14%	14%	3.6%	3.3%	-26 bp	3.0%	2.9%	-10 bp	57 bp	41 bp	-16 bp
	D	Dominion Resources Inc/Va	6%	8%	8%	8%	3.8%	3.8%	1 bp	3.4%	3.5%	18 bp	42 bp	26 bp	-16 bp
	WEC	Wec Energy Group Inc	17%	19%	15%	15%	3.7%	3.3%	-33 bp	3.3%	2.6%	-79 bp	31 bp	78 bp	46 bp
	ES	Eversource Energy	11%	13%	11%	11%	3.3%	3.2%	-13 bp	3.1%	2.7%	-41 bp	16 bp	44 bp	27 bp
	Average		4%	6%	6%	6%	3.9%	3.8%	-8 bp	3.0%	2.9%	-14 bp	84 bp	90 bp	6 bp
	% of stocks positive		83%	87%	83%	83%									

Source: Fundstrat, Bloomberg, FactSet.
Note: Bond yield is the weighted average YTM of all the company's outstanding bonds.

Bonds rallied more than equities...

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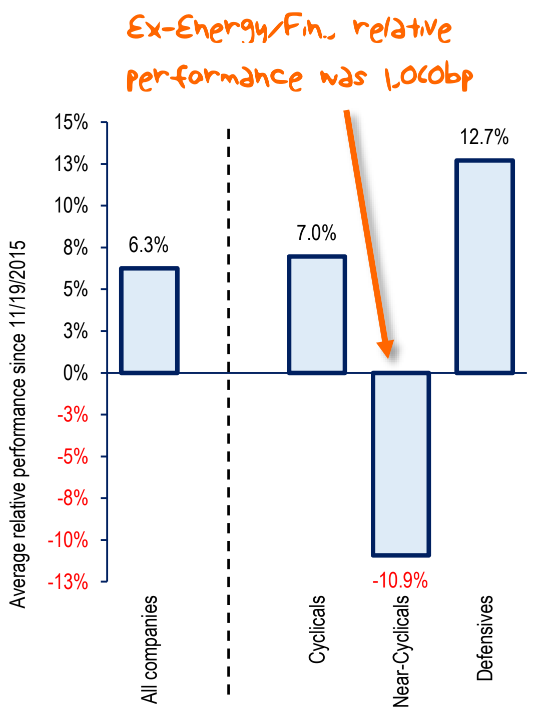
#2b: Performance of November list was better outside of Energy/Financials…

We have tabulated the relative performance of the "stocks are the new bonds" portfolio since November. As shown below, the relative performance of 630bp overall would have been stronger outside of Energy/Financials.

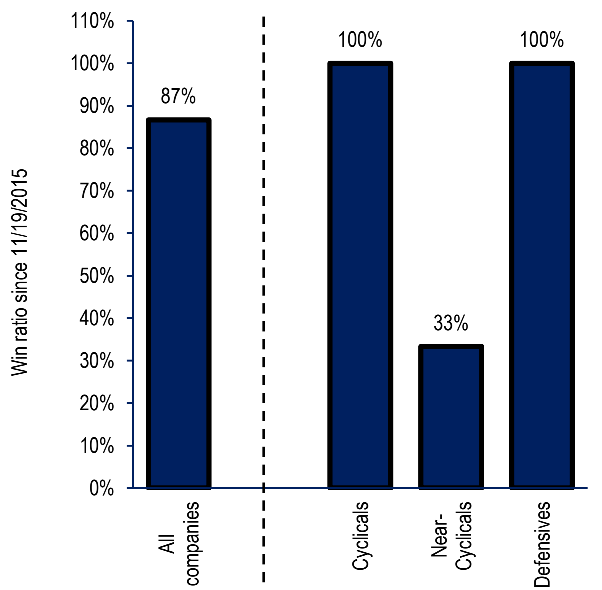
- **As shown below, in Defensives, this group outperformed by 1,270bp and 700bp in Cyclicals.**
- **The relative performance of Cyclicals is surprising, considering how poorly Cyclicals have performed since November 2015. Again, we believe buying "stocks are the new bonds" is a compelling sector-neutral strategy.**
- **The rationale, as we noted in our original report (see "Equities are the new bonds in 2016" dated 11/20/2015) is that US companies should not have a higher dividend yield than their equivalent bond yield—after all, the default risk is the same.**

Figure: Relative Performance since Nov
Since 11/19/2015



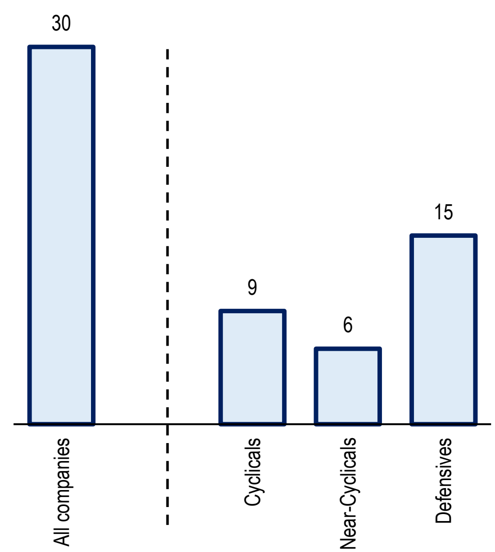
Source: Fundstrat, Bloomberg, FactSet.

Figure: Win ratio since November
Since 11/19/2015



Source: Fundstrat, Bloomberg, FactSet.

Figure: Nov list: # cos in each sub-group
As of 11/19/2015



Source: Fundstrat, Bloomberg, FactSet.
Note: Bond yield is the weighted average YTM of all the company's outstanding bonds.

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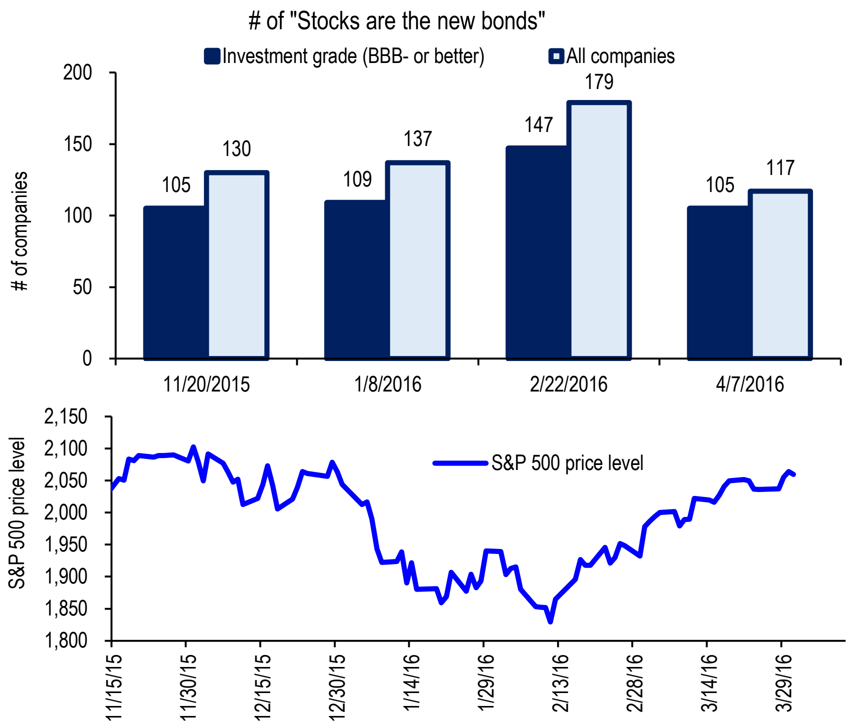
#3: Today, there are still about the same number of "stocks are the new bonds"

As shown below, there are still 117 major US companies with a dividend yield exceeding their bond yield. This is down slightly from the 130 on November 2015 but still a significant number of companies. And also a breakdown of companies on the bottom right chart.

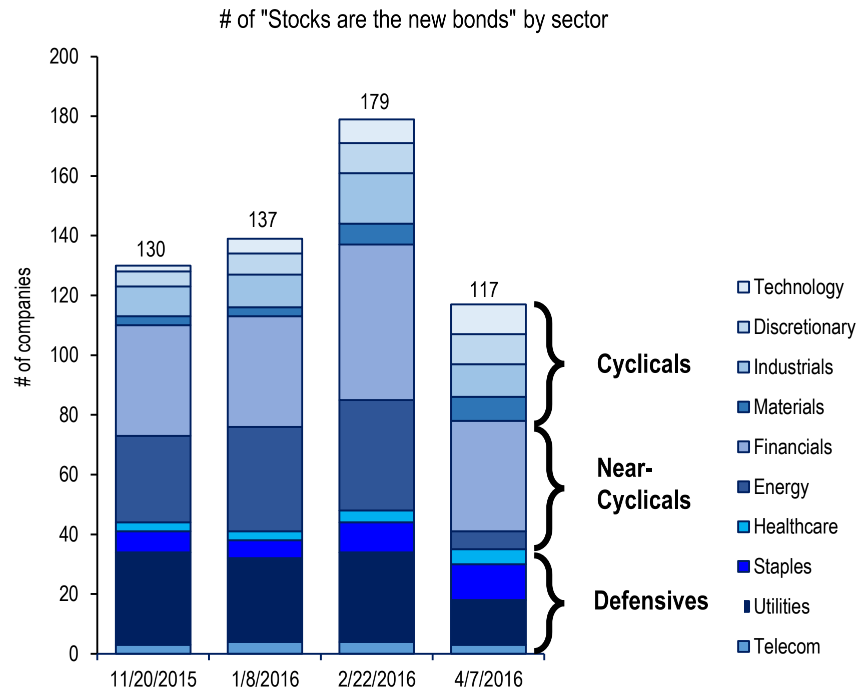
- **The number of "stocks are the new bonds" rose to 179 in February (with the market rout) but the list is still a sizable number today.**
- **As shown on the bottom right chart, the decrease in stocks is attributable to a contraction of Utility and Energy companies.**

Figure: # of "Stocks are the new bonds" fell from 179 to 117 recently
Stocks with dividend yield greater than their own bond yield



Source: Fundstrat, Bloomberg, FactSet.

Figure: Between Feb-April, Energy saw a big decrease
Sector composition of "Stocks are the new bonds" since 11/20/2015



Source: Fundstrat, Bloomberg, FactSet.

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#3b: By ratings tier, the majority are investment-grade issuers…

As shown below, there are 117 companies whose dividend yield is above their own long-term bond yield. These are just surprising to us—after all, it highlights the value within the equity.

- **As shown on the lower left table, most of these are BBB- to A-rated. The lower end of investment grade. But still solid credits and as shown, the dividend yield premium is 50-370bp.**
- **By sector, these issuers are primarily in Financials, Utilities, Staples, Technology, and Industrials.**
- **Last November, there were more Industrial and Energy companies—but many Energy companies cut dividends and their cost of debt has since risen.**

Figure: 117 companies with div yield > bond yield
Based on spread of dividend yield less bond yield

			a	b	c = (a-b)
	S&P credit rating	# of cos	Avg div yield	Avg bond yield	**Div yield less bond yield**
	All cos	117	4.3%	3.3%	**100 bp**
Investment Grade	AAA	2	3.2%	2.2%	**99 bp**
	AA+	1	3.0%	2.5%	**56 bp**
	AA	3	3.1%	2.4%	**64 bp**
	AA-	10	3.5%	2.3%	**121 bp**
	A+	6	3.0%	2.4%	**63 bp**
	A	17	3.3%	2.7%	**66 bp**
	A-	12	3.8%	2.8%	**102 bp**
	BBB+	19	3.8%	3.2%	**62 bp**
	BBB	22	4.0%	3.5%	**52 bp**
	BBB-	13	6.3%	4.0%	**227 bp**
High Yield	BB+	7	6.3%	4.8%	**145 bp**
	BB	2	11.4%	7.7%	**369 bp**
	BB-	1	5.1%	4.2%	**94 bp**
	B+	2	5.0%	4.2%	**85 bp**

Source: Fundstrat, Bloomberg.
(1) Bond yield is a weighted-average yield to maturity of bonds maturing 7-10 years from today.
(2) We are adjusting for "split ratings" between S&P and Moody's by taking the higher of the two, and expressing it in S&P rating scale terms.

Figure: 91 cos in S&P 500 with div yield > bond yield
Based on spread of dividend yield less bond yield

			a	b	c = (a-b)
Sector	# of cos	# of cos in S&P 500	Avg div yield	Avg bond yield	**Div yield less bond yield**
All companies	117	91	4.3%	3.3%	**100 bp**
Financials	37	20	4.9%	3.6%	**132 bp**
Utilities	15	13	3.7%	2.7%	**98 bp**
Staples	12	10	3.3%	2.7%	**68 bp**
Technology	10	9	4.0%	2.7%	**129 bp**
Industrials	11	10	3.2%	2.7%	**54 bp**
Discretionary	10	9	4.0%	3.6%	**38 bp**
Energy	6	6	7.3%	4.8%	**244 bp**
Materials	8	6	4.0%	3.7%	**25 bp**
Healthcare	5	5	3.3%	2.6%	**66 bp**
Telecom	3	3	5.4%	4.6%	**79 bp**

Source: Fundstrat, Bloomberg.

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PORTFOLIO STRATEGY: *23 additions* to "Stocks are the new bonds"

The criteria for our "Stocks are the new bonds" list is discussed on the following page. We have updated our "Stocks are the new bonds" portfolio. 3 stocks were deleted with 2 due to significant equity appreciation (DE and WMT).

- **And 23 stocks have been added (column 2), which did not meet our list in November.**

Figure: Evolution of Fundstrat's "Stocks are the new bonds" portfolio since November 2015
We have added 23 stocks, and removed 3 stocks

1 + 2 − 3 = 4

1 — Original list on 11/20/2015

Ticker	Company name
IBM	Intl Business Machines Corp
CSCO	Cisco Systems Inc
TGT	Target Corp
CAT	Caterpillar Inc
CMI	Cummins Inc
EMR	Emerson Electric Co
DE	Deere & Co
GE	General Electric Co
UPS	United Parcel Service-Cl B
HSBC	Hsbc Holdings Plc-Spons Adr
COP	Conocophillips
CVX	Chevron Corp
NOV	National Oilwell Varco Inc
XOM	Exxon Mobil Corp
OXY	Occidental Petroleum Corp
PFE	Pfizer Inc
JNJ	Johnson & Johnson
MRK	Merck & Co. Inc.
PM	Philip Morris International
PG	Procter & Gamble Co/The
WMT	Wal-Mart Stores Inc
KO	Coca-Cola Co/The
SO	Southern Co/The
DUK	Duke Energy Corp
PPL	Ppl Corp
ED	Consolidated Edison Inc
XEL	Xcel Energy Inc
D	Dominion Resources Inc/Va
WEC	Wec Energy Group Inc
ES	Eversource Energy

2 — *Additions* (stocks incrementally meeting criteria)

Ticker	Company name
CME	CME Group Inc. Class A
BBT	BB&T Corporation
HSY	Hershey Company
QCOM	QUALCOMM Incorporated
ABBV	AbbVie, Inc.
TXN	Texas Instruments Incorporated
PX	Praxair, Inc.
BA	Boeing Company
INTC	Intel Corporation
USB	U.S. Bancorp
BLK	BlackRock, Inc.
MO	Altria Group, Inc.
PEP	PepsiCo, Inc.
WFC	Wells Fargo & Company
JPM	JPMorgan Chase & Co.
MMM	3M Company
XLNX	Xilinx, Inc.
AMP	Ameriprise Financial, Inc.
KMB	Kimberly-Clark Corporation
PRU	Prudential Financial, Inc.
CL	Colgate-Palmolive Company
LLY	Eli Lilly and Company
ADP	Automatic Data Processing, Inc.

23 New names...

3 — *Subtractions* (div yield lower than bond yield)

Ticker	Company name
WMT	Wal-Mart Stores Inc
DE	Deere & Co
COP	Conocophillips

4 — New list of "Stocks are the New Bonds"

Ticker	Company name	Ticker	Company name
		New additions	
HSBA	HSBC Holdings	CME	CME Group Inc. Class A
CVX	Chevron Corp	BBT	BB&T Corporation
SO	Southern Co/The	HSY	Hershey Company
XOM	Exxon Mobil Corp	QCOM	QUALCOMM Incorporated
PM	Philip Morris International	ABBV	AbbVie, Inc.
CSCO	Cisco Systems Inc	TXN	Texas Instruments Incorpor
OXY	Occidental Petroleum Corp	PX	Praxair, Inc.
DUK	Duke Energy Corp	BA	Boeing Company
NOV	National Oilwell Varco Inc	INTC	Intel Corporation
KO	Coca-Cola Co/The	USB	U.S. Bancorp
IBM	Intl Business Machines Corp	BLK	BlackRock, Inc.
PFE	Pfizer Inc	MO	Altria Group, Inc.
EMR	Emerson Electric Co	PEP	PepsiCo, Inc.
PG	Procter & Gamble Co/The	WFC	Wells Fargo & Company
CAT	Caterpillar Inc	JPM	JPMorgan Chase & Co.
WEC	Wec Energy Group Inc	MMM	3M Company
MRK	Merck & Co. Inc.	XLNX	Xilinx, Inc.
GE	General Electric Co	AMP	Ameriprise Financial, Inc.
UPS	United Parcel Service-Cl B	KMB	Kimberly-Clark Corporation
ED	Consolidated Edison Inc	PRU	Prudential Financial, Inc.
ES	Eversource Energy	CL	Colgate-Palmolive Compan
XEL	Xcel Energy Inc	LLY	Eli Lilly and Company
JNJ	Johnson & Johnson	ADP	Automatic Data Processing,
D	Dominion Resources Inc/Va		
TGT	Target Corp		
PPL	Ppl Corp		
CMI	Cummins Inc		

Source: Fundstrat, Bloomberg, FactSet.
Note: Bond yield is the weighted average YTM of all the company's outstanding bonds.

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PORTFOLIO STRATEGY: 50 “Stocks are the new bonds”

Below is Part duex of our “stocks are the new bonds” list. The criteria is as follows:

- **(i) Div yield is greater than the co’s own long-term bond yield (7-10Y maturity), (ii) market cap is above $10B, and (iii) S&P credit rating is A- or better.**

Figure: 50 “Stocks are the new bonds”

Priced as of 4/7/2016

	50 "Stocks are the new bonds"				Screen Metrics				
	Name	Ticker	Market Cap ($mm)	YTD relative perf	Dividend yield [1]	Bond yield [2]	Div yield less bond yield	S&P credit rating [3]	New on 4/8/15
Technology	Cisco Systems Inc	CSCO	$138,887	2%	3.6%	2.0%	**155 bp**	AA-	
	Intl Business Machines C	IBM	$142,451	8%	3.6%	2.4%	**122 bp**	AA-	
	Qualcomm Inc	QCOM	$74,789	0%	4.0%	3.0%	**103 bp**	A+	x
	Texas Instruments Inc	TXN	$57,450	4%	2.7%	1.8%	**95 bp**	A+	x
	Intel Corporation	INTC	$148,834	-8%	3.3%	2.7%	**66 bp**	A+	x
	Xilinx, Inc.	XLNX	$11,791	-2%	2.7%	2.3%	**41 bp**	A-	x
	Automatic Data Processir	ADP	$41,079	6%	2.3%	2.3%	**9 bp**	AA	x
Discretionary	Target Corp	TGT	$48,941	12%	2.8%	2.7%	**20 bp**	A	
Industrials	Emerson Electric Co	EMR	$34,002	11%	3.6%	2.7%	**96 bp**	A	
	Caterpillar Inc	CAT	$43,191	9%	4.2%	3.3%	**88 bp**	A	
	Boeing Company	BA	$82,684	-12%	3.4%	2.8%	**66 bp**	A	x
	General Electric Co	GE	$284,404	-2%	3.0%	2.5%	**56 bp**	AA+	
	United Parcel Service-Cl	UPS	$91,896	8%	3.0%	2.4%	**54 bp**	A+	
	3M Company	MMM	$101,267	11%	2.7%	2.2%	**42 bp**	AA-	x
	Cummins Inc	CMI	$17,902	20%	3.7%	3.7%	**1 bp**	A+	
Materials	Praxair Inc	PX	$31,856	9%	3.2%	2.4%	**87 bp**	A	x
Financials	Hsbc Holdings Plc-Spons	HSBC	$115,560	-26%	8.6%	1.0%	**758 bp**	A	
	Cme Group Inc	CME	$31,209	2%	6.6%	3.3%	**324 bp**	AA-	x
	Bb&T Corp	BBT	$26,343	-14%	3.5%	2.0%	**145 bp**	A-	x
	U.S. Bancorp	USB	$67,874	-8%	2.8%	2.2%	**59 bp**	A+	x
	BlackRock, Inc.	BLK	$54,337	-3%	2.8%	2.2%	**57 bp**	AA-	x
	Wells Fargo & Company	WFC	$237,337	-14%	3.3%	2.9%	**44 bp**	A	x
	JPMorgan Chase & Co.	JPM	$209,895	-13%	3.3%	2.8%	**43 bp**	A-	x
	Ameriprise Financial, Inc.	AMP	$15,323	-14%	3.2%	2.9%	**35 bp**	A	x
	Prudential Financial, Inc.	PRU	$31,104	-14%	4.1%	3.8%	**27 bp**	A	x
Energy	Chevron Corp	CVX	$178,651	5%	4.6%	2.0%	**263 bp**	AA-	
	Exxon Mobil Corp	XOM	$342,063	6%	3.7%	2.0%	**163 bp**	AAA	
	Occidental Petroleum Co	OXY	$52,988	3%	4.5%	3.0%	**143 bp**	A	
	National Oilwell Varco In	NOV	$10,737	-15%	6.5%	5.2%	**125 bp**	A-	

					Screen Metrics				
	Name	Ticker	Market Cap ($mm)	YTD relative perf	Dividend yield [1]	Bond yield [2]	Div yield less bond yield	S&P credit rating [3]	New on 4/8/15
Healthcare	Pfizer Inc	PFE	$202,592	2%	3.6%	2.5%	**114 bp**	AA	
	Abbvie Inc	ABBV	$95,932	0%	3.9%	2.9%	**97 bp**	A	x
	Merck & Co. Inc.	MRK	$153,805	5%	3.3%	2.6%	**72 bp**	AA	
	Johnson & Johnson	JNJ	$301,404	6%	2.8%	2.4%	**36 bp**	AAA	
	Eli Lilly and Company	LLY	$82,384	-11%	2.7%	2.6%	**14 bp**	AA-	x
Staples	Philip Morris Internationa	PM	$156,024	15%	4.1%	2.6%	**159 bp**	A	
	Hershey Co/The	HSY	$19,571	2%	3.4%	2.1%	**126 bp**	A	x
	Coca-Cola Co/The	KO	$200,681	8%	3.0%	1.7%	**123 bp**	AA-	
	Procter & Gamble Co/Th	PG	$225,128	5%	3.4%	2.4%	**95 bp**	AA-	
	Altria Group, Inc.	MO	$124,086	9%	3.7%	3.2%	**56 bp**	A-	x
	PepsiCo, Inc.	PEP	$151,389	4%	2.9%	2.3%	**55 bp**	A	x
	Kimberly-Clark Corpora	KMB	$49,286	7%	2.7%	2.4%	**34 bp**	A	x
	Colgate-Palmolive Com	CL	$63,019	6%	2.2%	2.0%	**25 bp**	AA-	x
Utilities	Southern Co/The	SO	$46,293	8%	4.4%	2.2%	**219 bp**	A-	
	Ppl Corp	PPL	$25,247	10%	4.1%	2.2%	**183 bp**	A-	
	Duke Energy Corp	DUK	$54,614	11%	4.3%	2.9%	**137 bp**	A-	
	Wec Energy Group Inc	WEC	$18,595	15%	3.3%	2.6%	**78 bp**	A-	
	Eversource Energy	ES	$18,017	11%	3.2%	2.7%	**44 bp**	A	
	Xcel Energy Inc	XEL	$20,719	14%	3.3%	2.9%	**42 bp**	A-	
	Dominion Resources Inc	D	$44,963	8%	3.8%	3.5%	**26 bp**	AAA-	
	Consolidated Edison Inc	ED	$22,326	18%	3.5%	3.3%	**17 bp**	A-	
	Median		$60,235	5%	3.4%	2.5%	**69 bp**		
	Average		$96,018	2%	3.6%	2.6%	**101 bp**		
	% of stocks positive			72%					

Source: Fundstrat, Bloomberg.
(1) 12 months forward estimated dividend yield.
(2) Weighted avg YTM of the co’s long-term bonds (7-10Y maturity).
(3) We are using the higher rating in the event of a split rating between S&P and Moody’s.

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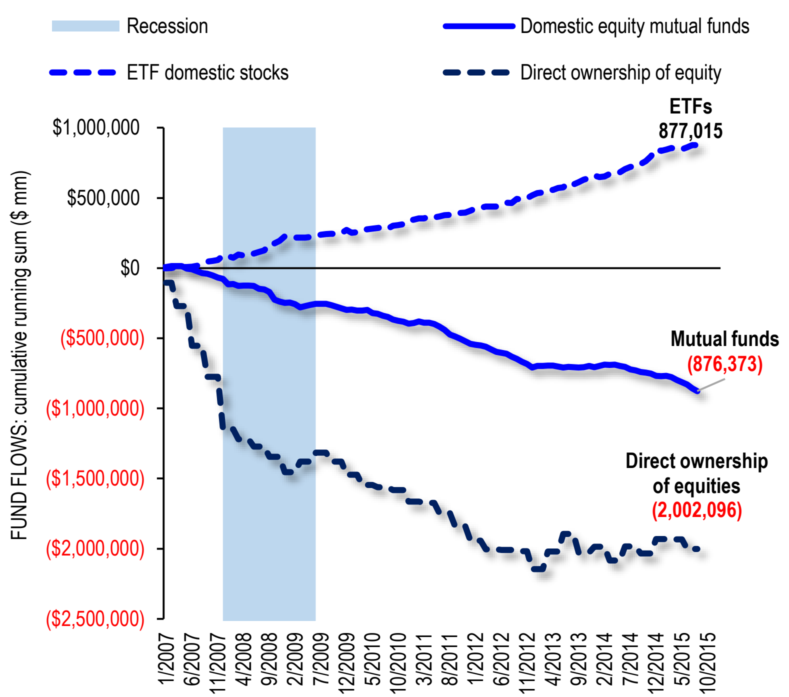
RATIONALE #1: Households have ***only bought bonds*** since 2007…

Households have not been buying equities generally since 2007. This is evident on the chart on the left below. As shown, there has been a substantial liquidation of equity ownership, most notably in direct ownership of stocks.

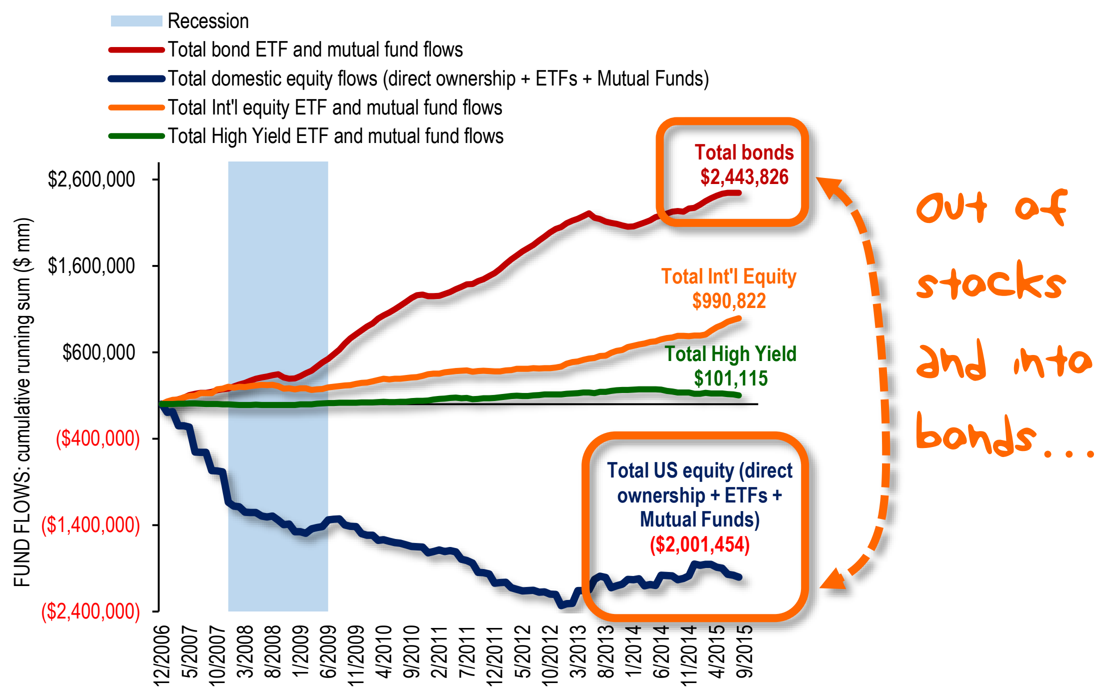
- The largest decline has been direct ownership of stocks (down $2T) and this reflects the buyback programs of US corporates. Essentially, they have been buying equity holdings from households (institutional ownership of stocks is essentially the same). The only area of purchases has been domestic equity ETFs.
- **Instead of equities, households have diverted $2.4T into bonds, $1T into international equities and $100b into high-yield.**

Figure: Households liquidated equities holdings since '07
Cumulative U.S. equity flows since 2007 ($ mm)



Source: Fundstrat, ICI, Bloomberg. Federal Reserve Flow of Funds.

Figure: $2T in U.S. equity *OUTFLOWS* since 2007
Domestic / Int'l equity, bond, and high yield ETF and mutual fund flows since 2007 ($ mm)



Source: Fundstrat, ICI, Bloomberg.

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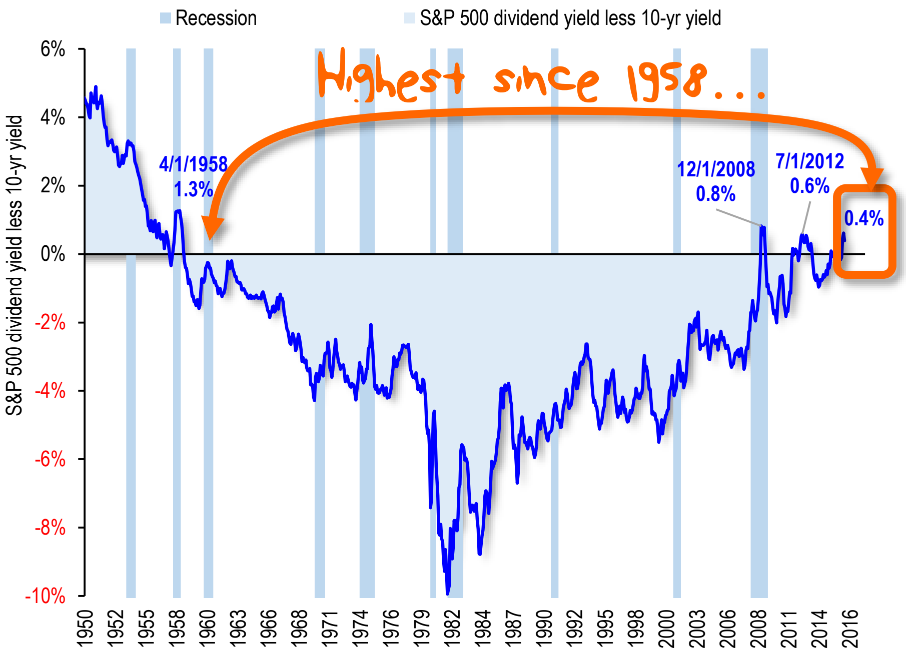
RATIONALE #2: Stocks are the new "bonds" paying more than 10-year…

Equity valuations are also finding support from dividends. The drop in equity prices has pushed dividend yields to over 2.1%, and given the current 10Y yield of 1.71%, means equities are now yielding more than 10Y bonds. ***In fact, this yield is even greater when taking into account the differences in taxation.***

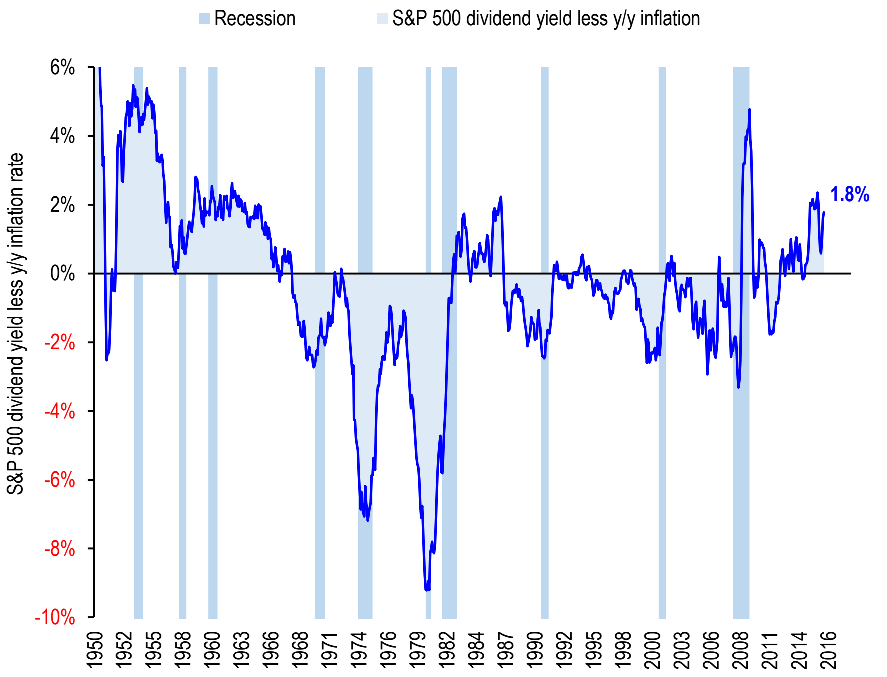
- **The differential in dividend yield and bond yield is shown on the bottom left figure. And as shown, this parity in yields is something we have not seen for 50-years—really since the late 50s. There was a short period in the 2011/2012 period where this also existed. And we know stocks did very well subsequently.**
- With inflation and interest rates potentially rising in 2016, we again see this valuation argument for equities as compelling. After all, dividend yields for equities rise over time while interest coupons are fixed.

Figure: Dividend yield less 10-year yield nearing 50-year high…
S&P 500 dividend yield less 10-year yield since 1950



Source: Fundstrat, Bloomberg.

Figure: Real dividend yield highest since 2008 crash…
S&P 500 dividend yield less y/y change in CPI Index



Source: Fundstrat, Bloomberg.

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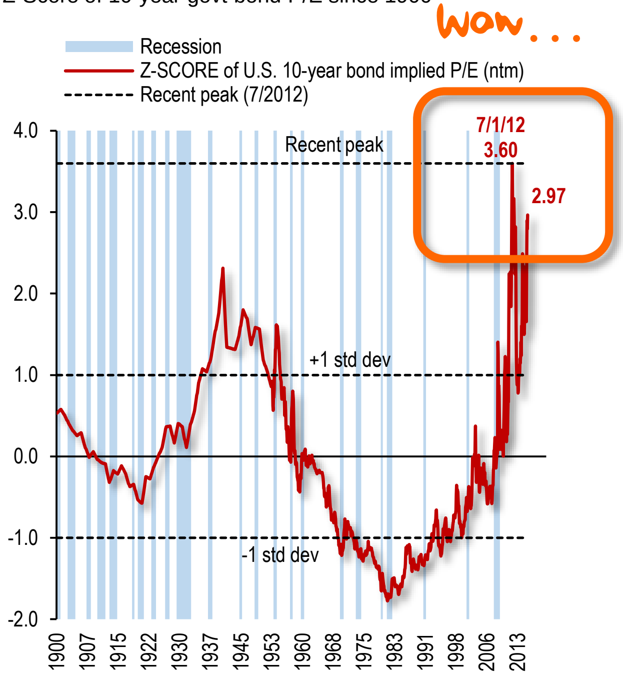
RATIONALE #3: Fixed income 3.0 std dev. expensive… equities de-rated

We realize investors have called equities expensive, but this is really not the case when one looks at long-term history. We "normalized" valuation between asset classes by doing two things: (i) we calculated # standard deviations from long-term trend (z-score) and (ii) we proxied PE for bonds by inverting their yield to worst.

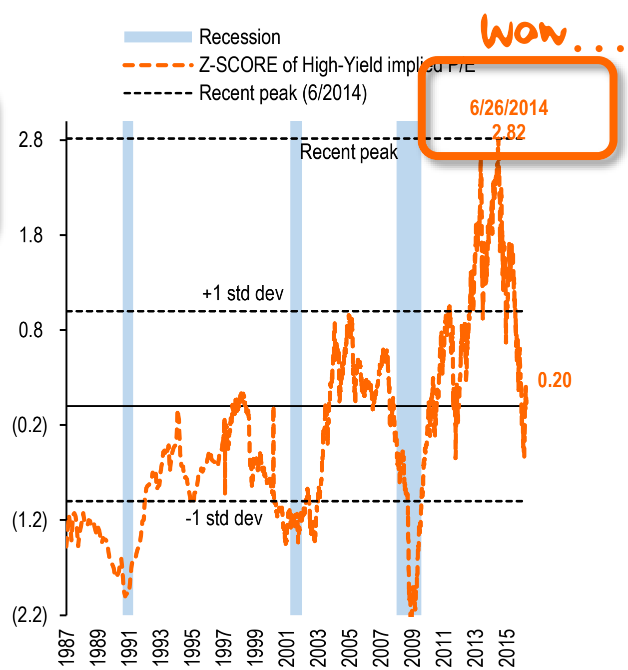
- As shown below, 10-yr bonds have become unusually expensive (post-bubble burst) while equities have remained relatively inexpensive.
- **In fact, when one thinks about rising rates and higher inflation, doesn't it make sense bonds cheapen even faster?**

Figure: Comparative Valuation of 10-yr US Bonds, High-yield Bonds and Equities
Z-Score of 10-year govt bond P/E, implied P/E of HY bonds and equity PE

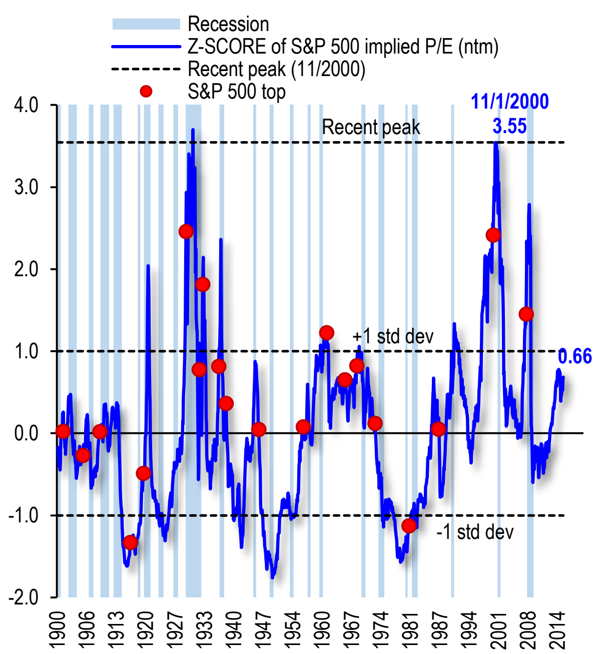
US 10-year expensive…
Z-Score of 10-year govt bond P/E since 1900



High yield de-rated significantly…
Z-Score of HY bonds spread to worst (STW) since 1987



Equities best deal…
Z-Score of S&P 500 P/E since 1900



Source: Fundstrat, Bloomberg, St. Louis Fed.

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RATIONALE #4: Historical liquidation of stocks will reverse…

To appreciate the magnitude of liquidation of equities, take a look at the chart on the bottom left. We calculate what percentage of annual household savings is allocated to equities. As shown, householders have been "net sellers" since 2007.

- This is the largest liquidation in history and surpasses the 10% liquidation during the decade from 1979 to 1989—that was the precedent decade before the massive inflows into equities in the 1990s.
- **We believe this "net selling" is a factor behind the more pronounced cyclicality of equities in the past few years. Intuitively, this makes sense—after all, without natural buyers, equities would be more volatile.**
- **Given the attractive relative value of stocks and the tendency of mean reversion, we believe we will see equity flows reverse and turn positive in the new few years.**

Figure: Annual HH allocation to equity as % of fin assets acq
Since 1956. Equity flows include mutual funds, ETFs, and HH direct ownership of stocks

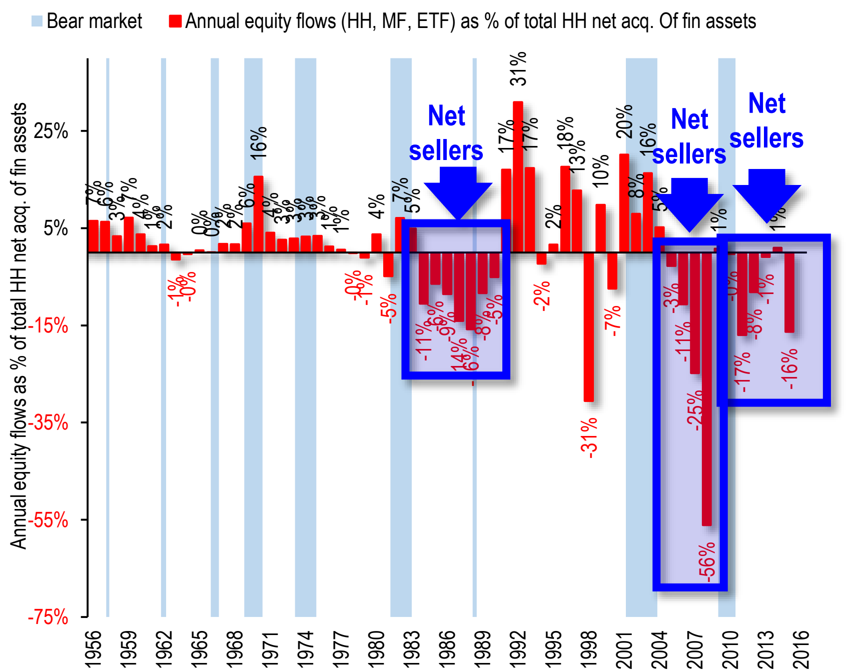
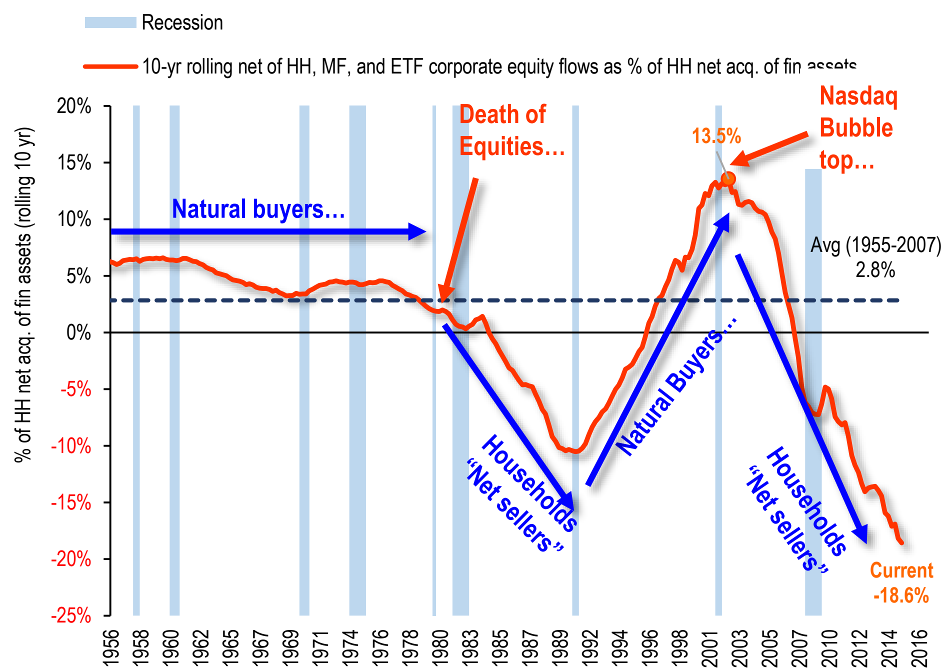


Figure: Households have been massive net-sellers of equities
Since 1956



Source: Fundstrat, Bloomberg, Federal Reserve.

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VALUATIONS: Utilities, Staples outperforming, but expensive

We continue to favor Cyclical stocks for various reasons, one of which is the relative value against Defensive groups. We have highlighted the P/E multiples of the 10 sectors below, and as shown, **Utilities** and **Staples** (more so the latter) trade at premium valuation to the broader S&P 500. These groups have also outperformed by a fairly wide margin YTD (12% and 5% respectively), hence, we would avoid them in favor of cheaper (and early cycle) Cyclical sectors.

- We would also highlight the relative value of **Value** vs. **Growth**: the former trades at a 4X P/E discount to the latter, and has a 110bp higher dividend yield.

Figure: Valuation and performance of sectors and styles
As of 4/7/2016

	Name		BBG ticker	YTD performance: Absolute	YTD performance: Relative	P/E multiple: '16E	P/E multiple: '17E	Div yield
Broad Market Indices	S&P 500		SPX	-0.1%	**0.0%**	17.3x	15.2x	2.2%
	Russell 2000		RTY	-3.8%	**-3.7%**	24.5x	19.7x	1.6%
	Value		SVX	-0.0%	**0.1%**	15.6x	13.6x	2.8%
	Growth		SGX	-0.2%	**-0.1%**	19.4x	17.1x	1.7%
	Dow Jones Industrial Avg		INDU	0.7%	**0.8%**	16.2x	14.4x	2.6%
	Dow Transports		TRAN	1.9%	**2.0%**	12.8x	11.9x	1.5%
Cyclicals	Technology	OW	S5INFT	1.0%	**1.1%**	16.9x	15.1x	1.6%
	Discretionary	N	S5COND	-0.2%	**-0.1%**	18.2x	16.2x	1.6%
	Industrials	OW	S5INDU	2.4%	**2.5%**	16.1x	14.8x	2.3%
	Materials	OW	S5MATR	1.6%	**1.7%**	17.8x	15.0x	2.3%
Near Cyclicals	Financials	OW	S5FINL	-8.0%	**-7.9%**	13.3x	11.9x	2.5%
	Energy	OW	S5ENRS	1.9%	**2.0%**	74.8x	26.2x	3.6%
Defensives	Healthcare	N	S5HLTH	-3.5%	**-3.4%**	15.7x	14.1x	1.7%
	Staples	UW	S5CONS	5.1%	**5.2%**	21.7x	19.7x	2.5%
	Utilities	UW	S5UTIL	12.2%	**12.3%**	17.5x	16.9x	3.4%
	Telecom	OW	S5TELS	12.1%	**12.2%**	13.8x	13.3x	4.6%

Relative value favors Value (over Growth)

Expensive…

Source: Fundstrat, FactSet, Bloomberg.

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GLOBAL PMIs: Significantly fewer countries seeing m/m PMI contraction…

The table below tabulates the Composite PMI readings of most major global economies. We have flagged instances of weak (below 50) PMI readings, and as expected, Commodity Producers have suffered significantly over the past 18 months.

- **Encouragingly, the "diffusion" of countries seeing m/m declines has improved significantly: in March, just 15% of countries saw weakening PMI, compared to 67% in February. The biggest improvement in this ratio came from Emerging Markets: every single country in this group saw its PMI strengthen in March.**

Figure: Global Composite PMIs

Since March 2014

= PMI between 47 to 50
= PMI below 47

	Composite PMI	Source	3/14	4/14	5/14	6/14	7/14	8/14	9/14	10/14	11/14	12/14	1/15	2/15	3/15	4/15	5/15	6/15	7/15	8/15	9/15	10/15	11/15	12/15	1/16	2/16	3/16
	Global	Markit	53.4	52.7	54.2	55.4	55.5	55.2	54.8	53.5	53.1	52.4	52.9	53.9	54.8	54.2	53.5	53.1	53.6	53.8	52.7	53.1	53.6	52.7	52.6	50.8	51.3
	Developed Markets	Markit	54.5	53.6	55.3	56.4	56.7	56.1	55.6	54.2	53.8	52.7	53.6	54.6	55.9	55.1	54.4	54.2	54.7	55.1	53.9	54.1	54.6	53.6	53.3	51.4	51.8
	Emerging Markets	Markit	50.1	50.3	50.7	52.3	51.6	52.5	52.3	51.4	51.3	51.7	51.3	51.9	51.6	51.2	50.6	49.6	50.0	49.4	48.8	49.7	50.1	49.5	50.2	49.1	50.6
Developed	USA	ISM	54.0	55.2	56.2	56.5	57.1	58.0	57.7	56.4	59.1	56.7	56.5	56.6	56.4	56.8	55.6	55.8	58.7	57.4	55.9	57.3	55.7	54.9	52.9	53.0	54.2
	Canada*	Markit	53.6	54.1	54.7	56.1	53.8	55.8	54.0	56.4	54.8	51.7	45.2	46.2	48.7	49.9	52.2	54.0	50.2	50.0	49.6	48.4	48.0	45.8	46.5	47.7	51.7
	Eurozone	Markit	53.1	54.0	53.5	52.8	53.8	52.5	52.0	52.1	51.1	51.4	52.6	53.3	54.0	53.9	53.6	54.2	53.9	54.3	53.6	53.9	54.2	54.3	53.6	53.0	53.1
	Germany	Markit	54.3	56.1	55.6	54.0	55.7	53.7	54.1	53.9	51.7	52.0	53.5	53.8	55.4	54.1	52.6	53.7	53.7	55.0	54.1	54.2	55.2	55.5	54.5	54.1	54.0
	France	Markit	51.8	50.6	49.3	48.1	49.4	49.5	48.4	48.2	47.9	49.7	49.3	52.2	51.5	50.6	52.0	53.3	51.5	50.2	51.9	52.6	51.0	50.1	50.2	49.3	50.0
	Italy	Markit	51.1	52.6	52.7	54.2	53.1	49.9	49.5	50.4	51.2	49.4	51.2	51.0	52.4	53.9	53.7	54.0	53.5	55.0	53.4	53.9	54.3	56.0	53.8	53.7	52.4
	Spain	Markit	54.2	56.3	55.6	55.2	55.7	56.9	55.3	55.5	53.8	54.3	56.9	56.0	56.9	59.1	58.3	55.8	58.3	58.8	54.6	55.0	56.2	55.2	55.3	54.5	55.1
	UK	Markit	57.5	59.1	58.9	57.9	58.6	59.5	57.5	55.8	57.6	55.4	56.7	56.6	58.5	58.4	55.8	57.4	56.7	55.3	53.3	55.3	55.7	55.2	56.2	52.7	53.6
	Japan	Markit	54.2	56.3	55.6	55.2	55.7	56.9	55.3	55.5	53.8	54.3	56.9	56.0	56.9	59.1	58.3	55.8	58.3	58.8	54.6	55.0	56.2	55.2	55.3	54.5	55.1
	Australia*	Australian Ind. Group	47.9	44.8	49.2	48.9	50.7	47.3	46.5	49.4	50.1	46.9	49.0	45.4	46.3	48.0	52.3	44.2	50.4	51.7	52.1	50.2	52.5	51.9	51.5	53.5	58.1
	Singapore	Markit	53.2	54.2	54.4	55.6	53.8	53.6	52.1	51.6	53.6	52.9	53.4	52.9	51.2	49.9	49.5	51.1	51.3	50.8	51.4	50.2	52.2	52.1	52.5	51.6	52.0
	Hong Kong	Markit	49.9	49.7	49.1	50.1	50.4	49.6	49.8	47.7	48.8	50.3	49.4	50.7	49.6	48.6	47.6	49.2	48.2	44.4	45.7	46.6	46.6	46.4	46.1	46.4	45.5
Emerging	Mexico*	Markit	51.7	51.8	51.9	51.8	51.5	52.1	52.6	53.3	54.3	55.3	56.6	54.4	53.8	53.8	53.3	52.0	52.9	52.4	52.1	53.0	53.0	52.4	52.2	53.1	53.2
	China	Markit	49.3	49.5	50.2	52.4	51.6	52.8	52.3	51.7	51.1	51.4	51.0	51.8	51.8	51.3	51.2	50.6	50.2	48.8	48.0	49.9	50.5	49.4	50.1	49.4	51.3
	Taiwan*	Markit	52.7	52.3	52.4	54.0	55.8	56.1	53.3	52.0	51.4	50.0	51.7	52.1	51.0	49.2	49.3	46.3	47.1	46.1	46.9	47.8	49.5	51.7	50.6	49.4	51.1
	South Korea*	Markit	50.4	50.2	49.5	48.4	49.3	50.3	48.8	48.7	49.0	49.9	51.1	51.1	49.2	48.8	47.8	46.1	47.6	47.9	49.2	49.1	49.1	50.7	49.5	48.7	49.5
	Vietnam*	Markit	51.3	53.1	52.5	52.3	51.7	50.3	51.7	51.0	52.1	52.7	51.5	51.7	50.7	53.5	54.8	52.2	52.6	51.3	49.5	50.1	49.4	51.3	51.5	50.3	50.7
	Poland*	Markit	54.0	52.0	50.8	50.3	49.4	49.0	49.5	51.2	53.2	52.8	55.2	55.1	54.8	54.0	52.4	54.3	54.5	51.1	50.9	52.2	52.1	52.1	50.9	52.8	53.8
	India	Markit	48.9	49.5	50.7	53.8	53.0	51.6	51.8	51.0	53.6	52.9	53.3	53.5	53.2	52.5	51.2	49.2	52.0	52.6	51.5	52.6	50.2	51.6	53.3	51.2	54.3
Commodity producers	Brazil	Markit	51.0	49.9	49.8	49.9	49.3	49.6	50.6	48.4	48.1	49.2	49.2	51.3	47.0	44.2	42.9	41.0	40.8	44.8	42.7	42.7	44.5	43.9	45.1	39.0	40.8
	Nigeria	Markit	55.9	57.3	55.5	55.5	54.7	54.6	54.9	55.8	57.0	57.8	54.3	52.0	52.5	50.5	52.7	55.3	54.8	52.8	54.4	52.1	53.9	54.5	51.3	47.9	49.6
	South Africa	Markit	50.2	49.4	49.7	49.5	46.4	51.1	52.6	52.7	50.5	50.2	49.8	50.0	51.6	51.5	50.1	49.2	48.9	49.3	47.9	47.5	49.6	49.1	49.6	49.1	47.0
	Indonesia*	Markit	50.1	51.1	52.4	52.7	52.7	49.5	50.7	49.2	48.0	47.6	48.5	47.5	46.4	46.7	47.1	47.8	47.3	48.4	47.4	47.8	46.9	47.8	48.9	48.7	50.6
	Russia	Markit	47.8	47.6	47.1	50.1	51.3	51.1	50.9	49.1	47.6	47.2	45.6	44.7	46.8	50.8	51.6	49.5	50.9	49.3	50.9	49.0	50.5	47.8	48.4	50.6	50.8
	Malaysia*	Markit	52.5	52.7	50.9	50.6	50.0	49.4	51.0	51.5	51.3	51.0	49.1	51.1	50.5	48.8	49.5	47.6	47.7	47.2	48.3	48.1	47.0	48.0	48.6	47.8	48.4
	UAE	Markit	57.7	58.3	57.3	58.2	58.0	58.4	57.6	61.2	58.3	58.4	59.3	58.1	56.3	56.8	56.4	54.7	55.8	57.1	56.0	54.0	54.5	53.3	52.7	53.1	54.5
	Saudi Arabia	Markit	57.0	58.5	57.0	59.2	60.1	60.7	61.8	59.1	57.6	57.9	57.8	58.5	60.1	58.3	57.0	56.1	57.7	58.7	56.5	55.7	56.3	54.4	53.9	54.4	54.5

Several still below 50, but ALL improved in March…

Source: Fundstrat, Bloomberg.
Note: * represents manufacturing.

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CREDIT: Global spreads see biggest monthly contraction since May 2013…

Global CDS spreads peaked on February 11th, and we are nearing the point of "lapping" this comparison. Thus, the month-over-month delta in CDS spreads is currently quite impressive, as global spreads are showing their best m/m tightening since May 2013.

- **Notably, every single European index we track is showing improvement in March, particularly Energy (tightened by nearly 60bp).**

Figure: Global CDS Spreads
Since March 2014

= spreads narrowing m/m

	5-yr CDS spread (bp)	3/14	4/14	5/14	6/14	7/14	8/14	9/14	10/14	11/14	12/14	1/15	2/15	3/15	4/15	5/15	6/15	7/15	8/15	9/15	10/15	11/15	12/15	1/16	2/16	3/16
	Global	69	64	62	59	64	57	64	64	60	66	71	61	64	63	64	70	71	82	94	79	84	88	102	107	79
North America	Markit iTraxx North America IG CDS	69	64	62	59	64	57	64	64	60	66	71	61	64	63	64	70	71	82	94	79	84	88	102	107	79
North America	Bloomberg America Energy IG 5Y CDS	76	65	63	58	63	65	85	96	110	165	185	144	140	118	117	130	151	174	209	196	226	316	424	478	285
North America	Bloomberg America Sr. Financials IG 5Y CDS	76	72	68	68	73	67	79	74	73	78	82	77	75	75	74	86	79	83	83	75	77	71	83	105	102
North America	Bloomberg America Subordinated Financials IG 5Y CDS	89	85	89	89	104	91	103	81	80	90	96	86	86	84	86	96	94	108	119	100	100	94	109	110	111
North America	Markit iTraxx North America HY CDS	107	107	108	109	107	108	106	107	107	106	106	108	107	107	107	106	106	104	100	103	102	101	100	99	103
North America	Bloomberg America Energy HY 5Y CDS	295	287	266	264	285	271	354	427	445	641	765	651	1047	1078	1116	1133	1582	1869	1101	1129	1339	1674	1900	2448	1457
Europe	Markit iTraxx Europe 5Y CDS	76	70	66	62	65	60	63	65	58	63	60	50	56	61	66	76	62	71	91	71	70	77	92	99	73
Europe	Blomberg Europe Energy IG 5Y CDS	61	55	53	49	56	54	57	65	67	87	82	67	73	68	67	75	74	93	110	90	95	111	173	182	125
Europe	Bloomberg Europe Sr. Financials IG 5Y CDS	91	82	76	74	77	69	74	73	67	72	72	62	70	73	78	91	80	85	94	75	73	74	90	111	99
Europe	Bloomberg Europe Subordinated Financials IG 5Y CDS	158	140	129	124	130	115	185	193	173	186	181	153	174	175	189	212	192	199	217	174	166	168	215	255	235
Europe	Markit iTraxx Europe HY 5Y CDS	285	273	254	242	263	242	257	355	319	345	325	262	262	273	287	329	284	323	373	297	289	314	368	408	304
Europe	Bloomberg Europe Sr. Financials HY 5Y CDS	225	201	194	214	260	198	262	219	200	206	202	166	180	180	189	205	191	217	277	261	266	293	397	434	381
Europe	Bloomberg Europe Subordinated Financials HY 5Y CDS	291	224	217	251	358	231	422	423	419	412	413	347	339	298	322	355	341	361	465	430	426	481	674	768	653
Asia	Markit iTraxx Japan 5Y CDS	83	86	78	67	64	62	62	64	62	67	65	60	58	50	55	61	58	62	82	67	76	74	84	100	86
Asia	Markit iTraxx Asia ex-Japan 5Y CDS	126	127	107	104	106	97	98	109	101	106	111	99	110	106	107	114	111	133	165	131	131	138	152	157	146
Asia	Markit iTraxx Australia 5Y CDS	101	98	86	84	88	82	86	94	90	94	97	84	91	88	90	98	97	108	136	117	126	128	140	157	137
Asia	Markit iTraxx Emerging Markets 5Y CDS	109	109	112	112	110	109	109	94	92	90	87	88	90	91	91	91	91	90	87	90	90	89	88	89	91

Source: Fundstrat, Bloomberg.

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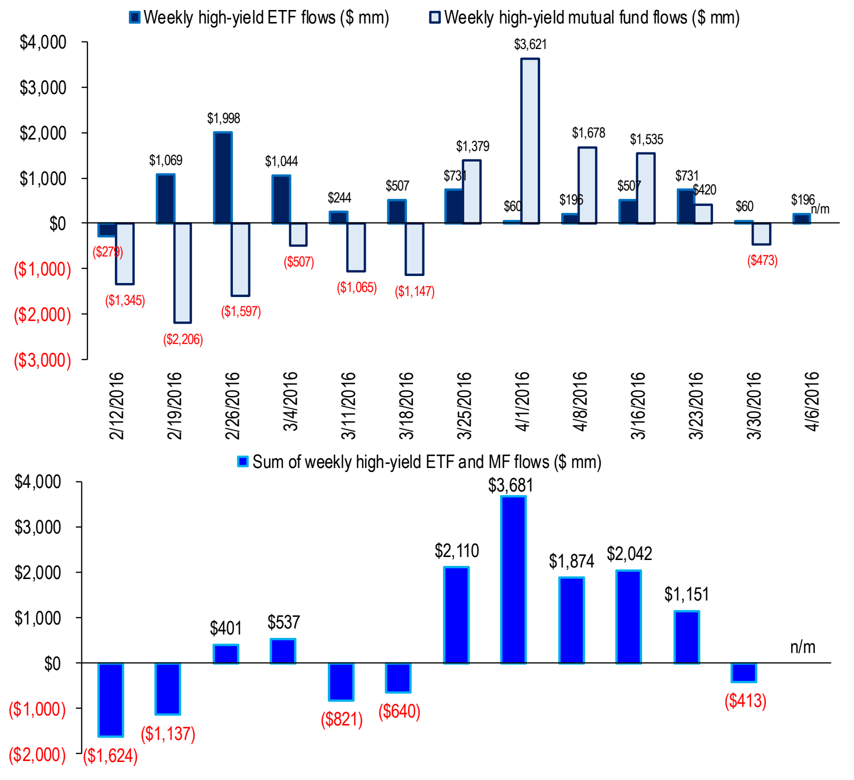
FUND FLOWS: Equity flows take a step back, but still solidly positive

After turning positive for the first time in 2016 in early March, equity fund flows were a net outflow of nearly $5B in the week of March 30th. This week, however, ETFs are seeing a nice rebound, with positive inflows of $3.3B.

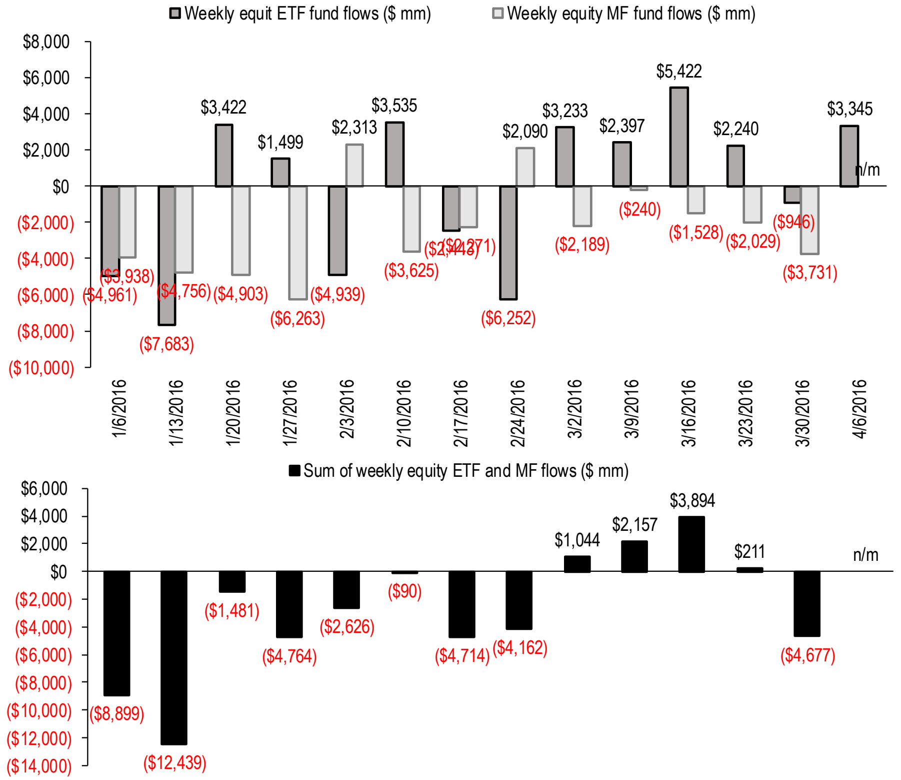
- High-Yield flows also turned negative in the week of March 30th, but this week, ETFs are seeing modest inflows of $195B.

Figure: High-Yield inflows remained strong this month…
Weekly high-yield ETF and MF fund flows since January 2016



Source: Fundstrat, ICI, Bloomberg. Note: ETF flows are HYG and JNK ETF fund flows.

Figure: Equity flows take a step back after 4 weeks of improvement
Weekly equity ETF and MF fund flows since January 2016



Source: Fundstrat, ICI, Bloomberg. Note: ETF flows are for the 25 largest equity ETFs.

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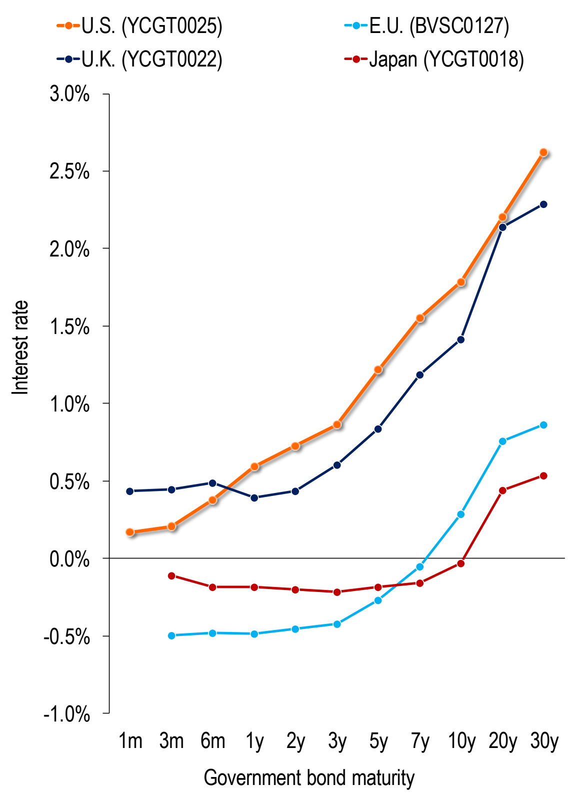
YIELD CURVES: Japan 10Y less 2Y nears inversion

Japan's 10Y less 2Y yield curve, while still positive at 16bp, has continued to trend lower over the past year and now sits at its lowest level in the last 12 months.

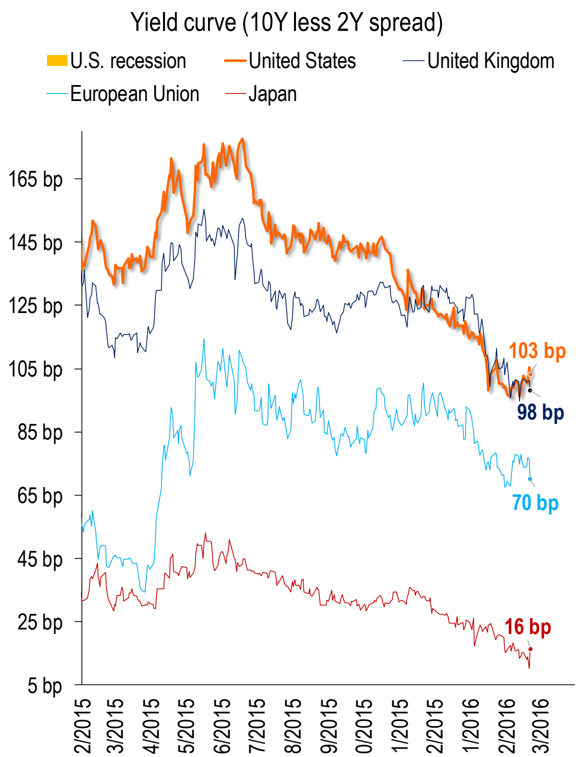
- Encouragingly, both the U.S. 10Y/2Y and 30Y/10Y curves remain relatively steep. The long-term curve has actually steepened by roughly 20bp in the last 12 months.

Figure: Term structure of interest rates
Govt bond yields (1m – 30Y)



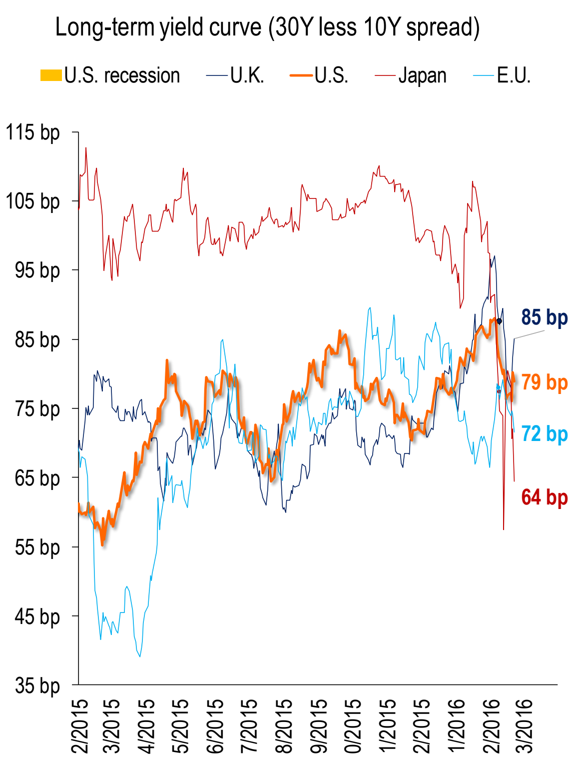
Source: Fundstrat, Bloomberg.

Figure: 10Y less 2Y for major economies
Since February 2015



Source: Fundstrat, Bloomberg.

Figure: 30Y less 10Y for major economies
Since February 2015



Source: Fundstrat, Bloomberg.

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STYLES: A difficult week unless tilted towards Large-Cap and/or Growth…

12 of the 15 styles we track underperformed the S&P 500 this week, led by Contrarian (-200bp), Buybacks (-100bp), and Div Yield (-90bp). Styles with larger size bias and Growth were the only outperforming styles this week.

Figure: Trailing 1-week absolute performance of styles
Since February 2016

2/4/2016	2/11/2016	2/18/2016	2/25/2016	3/3/2016	3/10/2016	3/17/2016	3/24/2016	3/31/2016	4/7/2016
High Beta 2.8%	Risk L/S (Citi) 2.6%	High Beta 8.4%	Momentum (D.J.) 3.3%	High Beta 9.6%	Dividend Yield 1.7%	High Beta 4.7%	Risk L/S (Citi) 0.5%	Russell 2000 3.2%	Growth 0.9%
Dividend Yield 2.7%	Size L/S (Citi) 0.8%	Contrarian 6.8%	Russell 2000 2.7%	Contrarian 5.6%	Risk L/S (Citi) 1.4%	Contrarian 3.6%	Mega-Cap 0.2%	Contrarian 2.3%	Mega-Cap 0.8%
S&P 400 Midcap 2.4%	Dividend Yield -2.0%	Buybacks 6.7%	Contrarian 2.4%	Russell 2000 4.3%	Low Volatility 0.4%	Equal Weight 3.1%	Size L/S (Citi) 0.2%	S&P 400 Midcap 2.2%	Size L/S (Citi) 0.7%
Buybacks 2.3%	Low Volatility -2.3%	Equal Weight 5.8%	Capex efficiency 2.4%	S&P 400 Midcap 4.2%	Size L/S (Citi) 0.2%	Buybacks 3.0%	Growth 0.1%	Momentum (D.J.) 1.9%	S&P 500 0.3%
Contrarian 2.3%	Mega-Cap -3.7%	S&P 400 Midcap 5.4%	Buybacks 2.4%	Buybacks 3.6%	Value 0.1%	S&P 400 Midcap 2.9%	S&P 500 -0.2%	Dividend Yield 1.7%	Momentum (D.J.) 0.3%
Equal Weight 2.1%	Value -4.5%	Capex efficiency 5.4%	S&P 400 Midcap 2.2%	Equal Weight 3.3%	Equal Weight -0.1%	Growth 2.6%	Low Volatility -0.3%	Growth 1.5%	Low Volatility 0.1%
Capex efficiency 2.0%	S&P 500 -4.5%	Russell 2000 5.3%	Growth 2.2%	Capex efficiency 3.1%	Buybacks -0.1%	Capex efficiency 2.6%	Momentum (D.J.) -0.4%	Equal Weight 1.4%	Value -0.3%
Value 1.8%	Growth -4.5%	Value 5.2%	Low Volatility 2.0%	Value 2.7%	Mega-Cap -0.2%	S&P 500 2.6%	S&P 400 Midcap -0.5%	Low Volatility 1.4%	Capex efficiency -0.3%
Low Volatility 1.6%	S&P 400 Midcap -5.2%	S&P 500 4.9%	Equal Weight 2.0%	S&P 500 2.1%	S&P 500 -0.2%	Russell 2000 2.6%	Value -0.6%	Buybacks 1.3%	Equal Weight -0.3%
S&P 500 1.2%	Buybacks -5.3%	Growth 4.5%	S&P 500 1.8%	Momentum (D.J.) 1.8%	Capex efficiency -0.3%	Value 2.5%	Equal Weight -0.8%	Capex efficiency 1.2%	Russell 2000 -0.5%
Russell 2000 1.1%	Equal Weight -5.5%	Momentum (D.J.) 4.4%	High Beta 1.6%	Mega-Cap 1.6%	Contrarian -0.4%	Low Volatility 2.5%	Capex efficiency -0.8%	S&P 500 1.2%	Risk L/S (Citi) -0.5%
Mega-Cap 0.6%	Momentum (D.J.) -5.5%	Mega-Cap 4.1%	Dividend Yield 1.6%	Growth 1.6%	Growth -0.5%	Dividend Yield 2.3%	Buybacks -1.0%	High Beta 1.2%	S&P 400 Midcap -0.6%
Growth 0.5%	Contrarian -5.5%	Dividend Yield 4.0%	Mega-Cap 1.4%	Dividend Yield 1.5%	High Beta -0.5%	Mega-Cap 2.1%	Dividend Yield -1.1%	Mega-Cap 1.0%	High Beta -0.9%
Momentum (D.J.) 0.5%	Russell 2000 -6.0%	Low Volatility 3.6%	Value 1.3%	Low Volatility 0.3%	S&P 400 Midcap -0.6%	Momentum (D.J.) 2.1%	Russell 2000 -1.1%	Value 0.8%	Dividend Yield -0.9%
Risk L/S (Citi) 0.4%	Capex efficiency -6.1%	Size L/S (Citi) -0.9%	Risk L/S (Citi) -0.2%	Risk L/S (Citi) -1.5%	Momentum (D.J.) -0.6%	Size L/S (Citi) -0.2%	Contrarian -1.7%	Risk L/S (Citi) -0.1%	Buybacks -1.0%
Size L/S (Citi) -0.4%	High Beta -9.3%	Risk L/S (Citi) -1.0%	Size L/S (Citi) -0.5%	Size L/S (Citi) -1.8%	Russell 2000 -1.1%	Risk L/S (Citi) -0.3%	High Beta -2.2%	Size L/S (Citi) -0.6%	Contrarian -2.0%

Source: Fundstrat, Bloomberg.

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SECTORS: Resources beginning to fade as commodities weaken…

Resource sectors (Materials and Energy) are beginning to fade, after outperforming for most of the year. The recent underperformance of these sectors coincides with weakening oil prices, which recently moved down from roughly $40 to an interim low of $35.

- **Defensives** regained some last ground over the last month, but **Cyclicals** continue to maintain leadership (Discretionary and Tech are much larger weights within the S&P 500 and thus, have a disproportionate impact on supergroup performance).

Figure: Trailing 1-month relative performance of sectors
Since May 2015

	5/7/15	6/7/15	7/7/15	8/7/15	9/7/15	10/7/15	11/7/15	12/7/15	1/7/16	2/7/16	3/7/16	4/7/16
S&P 500 (Abs.)	**0.6%**	**0.2%**	**-0.5%**	**-0.2%**	**-7.5%**	**3.9%**	**5.2%**	**-1.1%**	**-6.5%**	**-3.2%**	**6.5%**	**2.0%**
Cyclicals	**0.1%**	**0.3%**	**-1.0%**	**-0.4%**	**1.2%**	**1.6%**	**1.0%**	**-0.2%**	**-2.2%**	**-1.0%**	**0.5%**	**1.1%**
Materials	2.3%	-2.0%	-3.3%	-5.5%	0.3%	0.1%	-1.1%	0.1%	-3.2%	3.8%	1.2%	-1.3%
Industrials	-0.2%	-0.6%	-1.7%	-1.3%	1.1%	1.3%	-0.4%	0.0%	-0.5%	2.6%	0.7%	-0.4%
Discretionary	-0.4%	0.6%	2.3%	0.9%	1.7%	0.3%	0.9%	0.2%	-1.3%	-2.5%	2.2%	0.3%
Technology	1.1%	1.2%	-2.6%	1.5%	0.5%	1.6%	3.2%	0.8%	-2.9%	-0.7%	0.5%	2.9%
Near Cyclicals	**0.4%**	**-0.5%**	**-0.6%**	**-2.0%**	**-1.3%**	**0.6%**	**-0.6%**	**-2.5%**	**-1.2%**	**-1.4%**	**0.9%**	**-3.8%**
Energy	1.0%	-4.1%	-3.3%	-9.7%	2.2%	3.9%	-2.4%	-10.2%	-0.8%	2.5%	4.0%	-3.6%
Financials	0.5%	1.2%	0.0%	2.4%	-2.6%	-0.9%	1.0%	0.2%	-1.9%	-3.5%	-0.4%	-3.1%
Defensives	**-1.3%**	**-0.1%**	**3.1%**	**1.2%**	**-0.8%**	**-2.0%**	**-2.9%**	**2.2%**	**4.7%**	**1.7%**	**-2.5%**	**0.7%**
Staples	-1.9%	-2.8%	4.1%	2.0%	0.1%	1.4%	-4.5%	3.5%	4.6%	3.6%	-2.5%	0.9%
HealthCare	-0.6%	2.5%	1.8%	0.3%	-1.4%	-4.8%	0.5%	0.4%	3.4%	-3.6%	-1.1%	0.6%
Telecom	-0.2%	-1.8%	1.6%	-3.1%	3.4%	-4.1%	-2.6%	2.9%	4.1%	13.7%	-2.6%	-1.7%
Utilities	-2.8%	-3.2%	2.9%	2.3%	-0.8%	3.0%	-8.2%	1.5%	8.4%	11.2%	-5.3%	1.1%

Source: Fundstrat, Bloomberg, FactSet.

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