



Weekly Sector Specialist Note (February 1st – February 5th, 2021)

****Sales Commentary – Not a Product of UBS Equity Research – For Institutional Investors Only****

Highlights and Updates from the Week

<p>FINANCIALS Tickers: SCHW, PYPL, AFRM, APO, CG, CB, HIG, ALL, EVR, ICE, GPN, FISV, FIS (Go to Section)</p>	<p>Highlights: Relief/Regross. Reopen. Rates. Recovery. Add in stim progress and another round of Fed speak backpedaling on taper timing – also more good news on vaccine/efficacy, eco data, one week closer to easier comps, earnings risk catalysts out the way.....and the market fully embraced this new tour of risk-on. Feedback in-line with the tape directionally – with last week fears to differing degrees (most in the camp of at least a little spooked). Now – focus (**and debate**) on how to play for this next leg of the trade? Banks in focus – but the discussion around a) where to lean within the group/who to avoid and b) skepticism as to the true level of PPNR upside. The conversation not as black and white anymore – less simple than to just be long the group (Money-Centers vs Brokers vs Regionals vs Trusts and even within respective sub-sectors). <u>Insurance</u> surprise – we expected good results.</p>
<p>TELCO, MEDIA & INTERNET Tickers: GOOG, AMZN, SPOT, EBAY, MTCH, PINS, SNAP, ATVI (Go to Section)</p>	<p>Highlights: This week was a bit calmer and there was a move away from the “unwind” scenario toward the reopening trade with some earnings sprinkled in. Investors were happy to see stocks moving “the right way” after earnings prints. GOOG and ATVI continue their reign as two of the most cons long names after solid/dependable results. Digital adv, cloud and ecomm trends remain strong. But some of the higher flying names like PTON, SNAP and SPOT took a breather after results were just “not enough” to justify the moves. Investors feel like this market is fragile and are wary of getting too big too fast, so books remain tightly run.</p>
<p>TECHNOLOGY Tickers: NXPI, CHKP, DT, QRVO, QCOM, FTNT, ZEN, CSCO, CYBR, HUBS (Go to Section)</p>	<p>Highlights: There is more unease in Semis than any other sector are questioning where we are in the smartphone cycle and how to think about auto/industrial exposed names given demand, supply, and orders. There is certainly a lot of debate, but my sense is we may be at the beginning of a rotation potentially back into datacenter exposed names, especially as we hear more about digestion easing. Semis are momentum stocks... look at the T6M performance for these names... NVDA -22%, AMD -3.3%, and INTC -20%. MU is up of course in that timeframe but has lagged a bit recently.</p>
<p>HEALTHCARE Tickers: OMER, BTAI, MTEM, IONS, CI, UNH, JAZZ, IQV, LH, DVA (Go to Section)</p>	<p>Highlights: The reopening theme was evident as sectors levered to procedures such as MedTech and Hospitals outperformed recent winners and hiding places such as Tools / Dx / Pharma. UNH announced a surprising CEO change. In Biopharma, JAZZ finally pulled the trigger on a large deal (GWPH), while IMVT, a name with a ton of sell and buy side support, suffered a big setback. Next week's DVA print will be very interesting given this week's negative update from Fresenius.</p>
<p>INDUSTRIALS Tickers: KMT, UPS, ETN, EMR, LII, GWW, TT, F, TDG, CARR, MTW, DOW, GM, HII, GE (Go to Section)</p>	<p>Highlights: The re-opening trade outperformed handily this week which meant strong performance for Airlines & Aero complex. There have been increasing signs of investors adding back exposure the longer the tape has calmed down. On the long side, we have mostly seen investors returning to the same core, high quality longs like OTIS, CARR, RTX, GPK, TDG, APTV, UNP, GE, TT, GM... On the flip side, conversations with HFs have highlight how tough shorts are right now, with investors fearful of being short the same consensus/crowded/low dollar/illiquid/etc names that could potentially rip higher on any given day.</p>
<p>ENERGY/UTILITIES Tickers: XOM, COP, MPLX, MPC, EPD, PCG, FE, NEE, DUK (Go to Section)</p>	<p>Highlights: Energy outperformed the broader markets this week amid WTI and Brent poised to finish up ~10% and ~7%, respectively, and Brent nearing a \$60 handle. Despite the recent volatility, the overall narrative remains intact. Thus, I think the risk is to the upside in Energy from here assuming no major changes in messaging from companies who have yet to report over the course of the next few weeks. For utilities, convos this week have been very narrow in scope in terms of questions on stock-specific names. ESG LO inquiries as of late indicate a clear bias with most interest in NEE & AES, as well as EIX.</p>
<p>CONSUMER Tickers: WSM, FIZZ, LB, DASH, AMC, ANGI, CNK (Go to Section)</p>	<p>Highlights: Things calmed down a bit this week and the focus returned toward earnings and back to fundamentals. It was interesting, though – most companies seemed to trade the direction of "sentiment" or of the go forward view (more positive/negative) than necessarily with how the reported results for the qtrs. trended.</p>
<p>SPECIAL SITUATIONS Tickers: JAZZ, GWPH, HZNP, VIE, ALXN, AZN, CVX, NBLX, DD, IFF, VRNT, CGNT, ZBH, LB, SPACs (Go to Section)</p>	<p>Highlights: In mergers, we saw JAZZ acquire GWPH, and HZNP acquired VIE (which helped smooth the antitrust process in the ALXN-AZN LN deal (as AZN LN is divesting their interest in VIE). CVX is proposing a minority buyout of NBLX. DD-IFF saw a big surprise in the exchange offer results, catching many arbs offside. We estimate that the surprise outcome in the DD tender appears to be the result of unexpected tendering by (i) passive indexers, (ii) index arb and others who wanted to come out long IFF and short DD by tendering the long positions underlying non-economic DD hedges, and (iii) retail. The SPAC mkt continues at a pace that keeps most barely able to take a breath, with 27 IPOs raising \$9.3bn along with 11 de-SPACs representing \$32bn in TEV.</p>

WEEKLY TRADING COLOR

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SUMMARY

And we are back. Back to the grind higher. HF de-risking appears mostly done, ending the week better to buy here on the desk. Our LO flow was also skewed to the buy side. Positioning now more supportive overall. De-grossing last week had very limited contagion effect. HF flow turns more constructive, evidence of risk on, short books grew but single stock short activity remains subdued - ETFs (and customized baskets) perhaps becoming more of a vehicle again. Market volumes started to normalize again over the past 3 sessions –still skewed though considering the crazy volumes in a handful of retail driven situations (GME, AMC etc). The SPAC world remains hot – ton of deals this week.

Path of least resistance for Equities is higher. Economic conditions should continue to slowly improve as the Vaccine roll out accelerates. UBS Evidence Lab survey of 450 US firms (survey completed January 8th) shows CEOs and CFOs expect next 12mo sales growth and margins to improve significantly. Systematic selling has subsided with Risk Control, CTA and Risk Parity exposures relatively in-line with longer-term averages. Corporate bid will return and Active managers also still have room to add. No other place to put the money to work. Rally this week was fairly broad led by the Reopen trade. Smidcap growth also acted well as folks moved out the risk curve again. I would expect a further pick-up in dispersion below the surface again – similar to what we saw this week with the Reopen trade clearly seeing most of the fresh money. Yellen pushing stimulus. USD strength something to watch but I continue to think the biggest risk for markets right now away from any Vaccine issues is a substantial mover higher in rates. Break evens continue to climb. FED...too early to talk tapering, more risk in March/ April. One thing to note – for all the Technical fans out there, Jason Perl recommends not to chase but to wait for a pullback. His near term Technical signals near turned more cautious.

HOW BOUT OUR FLOWS

UBS High-touch Single Stock Desk: Flow on the HT desk for the week was slightly skewed to the buy side. Both LOs and HFs were skewed to the buy side – something we haven't seen this year yet. Single stock Short sale activity remains below last year's average – I think folks looking at ETFs for now to hedge books and get short exposure. Desk was net better to buy in Tech (Software) and HC while Buying Staples and Industrials. Within tech we were better seller Software while buying Hardware. We saw money flow back into Autos and Payment names. Overall activity remained elevated but things did turn a bit calmer compared to last week.

UBS RMM Client Flow: Overall retail flows have been on the buy side throughout the week ending with over \$1.5B in inflows. Volumes have remained elevated this week, but below the peak levels we saw Wednesday/Thursday last week. Silver and Gold related symbols both saw increased retail volumes to start the week, but within a couple days interest in that trade has already faded. GME and AMC have remained topical, but retail flow has been close to neutral – indicating retail was likely not the main driver for the sell off. Retail volume in our high short interest basket has reverted back to the levels we saw pre last week's frenzy. Elsewhere small cap biotech flows have begun to pick up. Other notable single stock flows. PYPL retail bought aggressively ahead of earnings – the largest inflows since early November. GM – 17 day inflow streak came to an end. XPEV has seen 5 consecutive days of inflows with retail buying the pullback. QCOM saw its largest retail inflows in 8 years during yesterday's post earnings sell off.

ETF flows: Four straight days in the green has investors feeling good about large cap ETFs. \$17B was added across VOO, IVV, SPY and QQQ yesterday. This is a massive swing from what we've seen through the first month of the year. For context, the large cap ETF space still has \$3.5B of net outflows YTD. With everything going on in single stock land, it makes sense that investors would be turning to these safer macro bets. Among the sectors, Tech saw the most significant inflows of just over \$4B on the week. XRT holders have had a wild last two weeks, but can breathe a little bit easier for the time being with GME down to 3.6% of the holdings as of this morning after getting as high as 20% last week.

SECTOR BREAKDOWN

Consumer Discretionary +6.3%, Energy +5.9%, and Financials +5.3% at the top of performance while the biggest laggards included traditional Defensives like Staples +80bp, Utes +2% and REITs +2%. The normalization of the retail-driven short squeeze is evident in our macro/thematic baskets with our High Short Interest basket having underperformed our Hedge Fund Holdings names -7.3%.

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WHATS AHEAD?

Looking ahead: Still some earnings left with about 10% of S&P and Russell market cap reporting next week. Stimulus negotiations will remain a focus. Powell speaking on Wednesday. CPI data also Wednesday. Watch rates.

QUANT INSIGHTS

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TOP 10 OVERWEIGHT/UNDERWEIGHT GLOBALLY

Overweight		Investor Weight	Active Weight	Wow Chg	Underweight		Investor Weight	Active Weight	Wow Chg
Prosus N.V. Class N	PRX NA	0.47%	0.37%	↑	Apple Inc.	AAPL UW	2.58%	-1.28%	↑
Tencent Holdings Ltd.	700 HK	1.21%	0.35%	↑	Taiwan Semiconductor Manufacturing Co	2330 TT	0.39%	0.50%	↑
Tata Consultancy Services Limited	TCS IS	0.40%	0.34%	↓	Amazon.com, Inc.	AMZN UW	1.95%	-0.38%	↓
Walmart Inc.	WMT UN	0.64%	0.30%	↓	Nestle S.A.	NESN SE	0.23%	-0.32%	↓
LVMH Moët Hennessy Louis Vuitton SI MC FP		0.52%	0.24%	↑	Tesla Inc	TSLA UW	0.72%	-0.30%	↑
T-Mobile US, Inc.	TMUS UW	0.35%	0.23%	↑	Microsoft Corporation	MSFT UW	2.59%	-0.26%	↓
Reliance Industries Limited	RIL IS	0.35%	0.23%	↓	Roche Holding Ltd	ROG SE	0.20%	-0.22%	↑
Charter Communications, Inc. Class A	CHTR UW	0.34%	0.19%	↓	Novartis AG	NOVN SE	0.17%	-0.18%	↑
Foshan Haitian Flavouring & Food Co., 603288 C1		0.19%	0.18%	↑	Meituan Class B	3690 HK	0.11%	-0.18%	↑
Visa Inc. Class A	V UN	0.71%	0.16%	↓	ASML Holding NV	ASML NA	0.22%	-0.17%	↑

Note: The calculation is based on MSCI AC World index universe. Data as of 29 January 2021 close.

Source: FactSet, MSCI, UBS Quantitative Research

You can find the full report [here](#)

EVIDENCE LAB'S LATEST

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SUMMARY

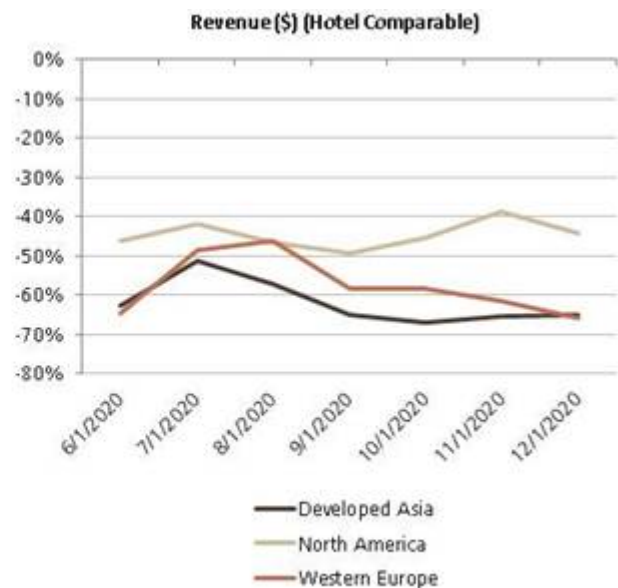
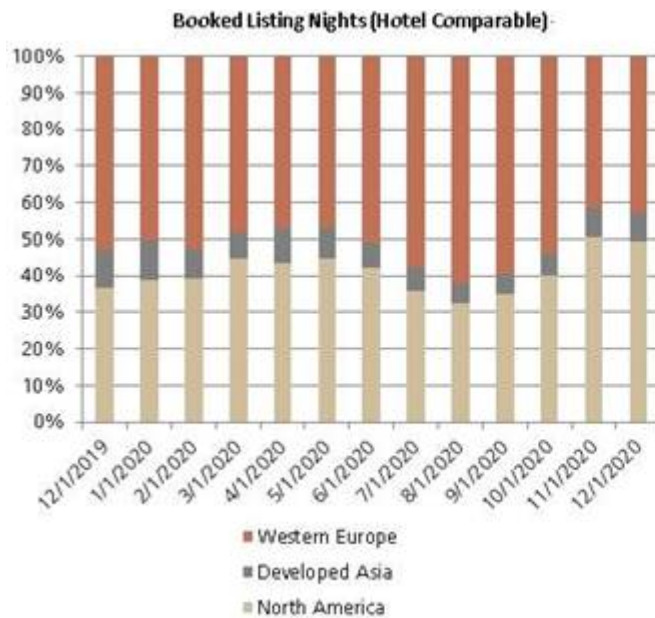
UBS Evidence Lab's [Shared Accommodation Monitor](#) tracks the growth of Airbnb & HomeAway in 25 markets in the US and 150+ additional global markets.

During the 4th quarter, data shows a [recovery in shared accommodation demand](#) across ABNB's largest markets, coinciding with [download demand](#) for VRBO's app (Expedia company) reaching a relative seven year high.

So is this sustainable? Our [weekly survey shows](#) an **inflection of consumer willingness to pull forward travel plans**, occurring directly after the first COVID vaccines were approved last month.

Here are some insights and visual representation from this dataset:

- Airbnb's overall revenue growth (y/y) has stabilized since the initial COVID quarantine of 2Q2020, according to our [global inventory monitor](#), with rather consistent activity levels across its four largest markets globally.
- Through year-end, [Airbnb's mix of booked listings](#) in North America, the largest market by revenue, recovered back to pre-COVID levels (left chart). Over that same time period, revenue growth in the North American region also showed signs of recovery (right chart).
- For those considering travel during the next 6 months, the data shows **approval of the first COVID vaccines pulled-forward those travel plans**; [still half of respondents](#) remains less interested in travel for at least 6 months or more.



COVID TRACKING

[Covid-19 Catalogue](#)
[Fact Pack: City Flight](#)
[Fact Pack: Mobility](#)
[Product Overview](#)
[Healthcare](#)
[Global Traffic Congestion Monitor](#) - weekly
[Global Public Transit Network Traffic Monitor](#) - daily
[Global Covid-19 Foot Traffic Monitor](#) - daily
[China Migration Network Traffic Model](#) - daily
[Global Unemployment Search Monitor \[Google \]](#) - daily
[Global Signal Strain Monitor](#) - weekly
[US Consumer Receipt Transaction Monitor](#) - weekly

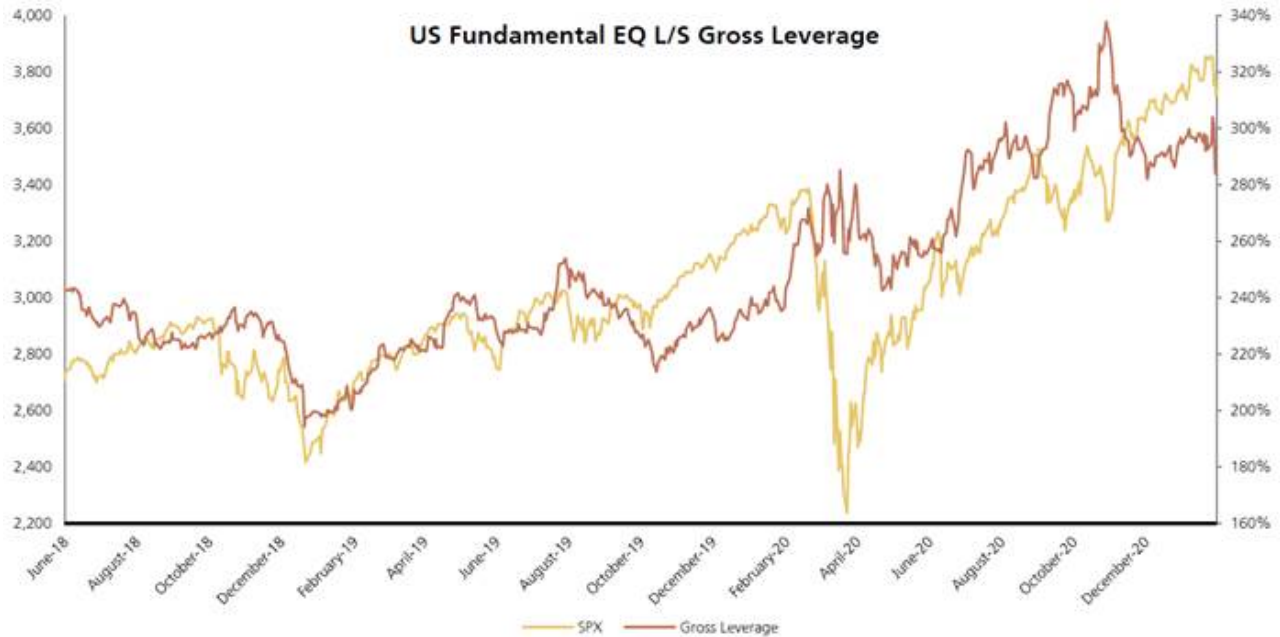
MOST DOWNLOADED

1. [Global Travel Restriction Monitor](#)
2. [Global Covid-19 Vaccine Adoption Monitor](#)
3. [Global Brand Tracker \[Instagram \]](#)
4. [Global Cargo Vessel Shipping Monitor](#)
5. [China Property Management Contracts Awarded](#)
6. [Global Traffic Congestion Monitor](#)
7. [DoorDash US Portal Level](#)
8. [Best Sellers \[Amazon \]](#)
9. [Global Cloud Computing Bundle Price Monitor](#)
10. [US Reopening Consumer Survey](#)

SUMMARY

***US Fundamental L/S Equity Hedge Funds**

- Gross leverage decreased 0.09x to 2.83x week over week
 - Long leverage decreased 0.07x while short leverage down 0.02x
 - Leverage change was driven by decrease in exposure on long side and short side
- Major sector themes last week
 - Clients decreased long exposure to Consumer Discretionary and IT
 - Clients closed down shorts in Health Care
- Net leverage currently sits at 0.85x; down 0.04x since last week



CROWDED LONGS

Region	Common Name	#	#1W	%1W	%YTD
Americas	Amazon.com Inc	1	1	-2.61%	-1.56%
Americas	Microsoft Corp	2	2	2.66%	4.29%
Americas	Facebook Inc	3	3	-5.89%	-5.43%
Americas	Alphabet Inc A	4	4	-3.45%	4.26%
APAC	Kweichow Moutai Co Ltd	5	5	1.74%	5.91%
Americas	Apple Inc	6	8	-5.11%	-0.55%
Americas	Walt Disney Co	7	6	-2.67%	-7.18%
Americas	Wells Fargo & Co	8	10	-6.33%	-0.99%
Americas	Mastercard Inc	9	12	-3.86%	-11.28%
Americas	Micron Technology Inc	10	11	-4.87%	4.11%
Europe	Entain PLC	11	7	-3.05%	9.48%
Americas	Visa Inc	12	9	-4.34%	-11.65%
Americas	Uber Technologies Inc	13	13	-6.22%	-0.14%
Europe	Linde PLC	14	23	-2.42%	-6.87%
Europe	Just Eat Takeaway.com NV	15	14	-1.40%	2.36%

CROWDED SHORTS

Region	Common Name	#	#1W	%1W	%YTD
Americas	Salesforce.Com Inc	1	1	-0.09%	1.36%
Europe	J Sainsbury PLC	2	2	-0.65%	8.38%
Americas	Apple Inc	3	3	-5.11%	-0.55%
Americas	ViacomCBS Inc	4	11	6.41%	30.17%
APAC	Afterpay Ltd	5	10	-4.41%	14.49%
Americas	Advanced Micro Devices Inc	6	4	-7.71%	-6.62%
Europe	Deutsche Lufthansa AG	7	8	6.83%	-1.57%
Americas	AT&T Inc	8	5	-1.04%	1.33%
APAC	Woodside Petroleum Ltd	9	16	-7.87%	7.61%
Americas	Discovery Inc	10	-	10.48%	37.65%
Europe	Pearson PLC	11	23	13.65%	19.43%
Americas	S&P Global Inc	12	7	0.59%	-3.57%
Americas	Microsoft Corp	13	15	2.66%	4.29%
Americas	Intel Corp	14	12	-2.03%	11.42%
Europe	National Grid PLC	15	17	-2.95%	-1.73%

CONFERENCE CALLS

COMING UP

	Date	Sector	Time (EDT)	Company/Topic	UBS Host	Link to RSVP	Dial-In	Replay	Replay Code
NEW	8-Feb	Utilities	8:30 AM	Green Finance w/ The Natural Resources Defense Council	Dan Ford	PLEASE REGISTER HERE			
	8-Feb	Healthcare	10:00 AM	UBS Expert Event: Prominent COVID Epidemiologist and Health Economist Call	Matt Taylor, Dan Brennan, Kevin Caliendo, Whit Mayo	PLEASE REGISTER HERE		US: 1 888 286.8010 Int'l: +1 617 801.6888	91941289
	8-Feb	Consumer	11:00 AM	An Expert's Take on the Path Forward for Bed Bath & Beyond and Home Furnishings	Michael Lasser	PLEASE REGISTER HERE			
	8-Feb	Energy	12:00 PM	UBS Midstream Call: Fireside Chat with East Daley on 2021 Outlook for Midstream	Shneur Gershuni, Lloyd Byrne, Agnieszka Zmigrodzka, Michelle Kenel	PLEASE REGISTER HERE		US: 1 888 286.8010 Int'l: +1 617 801.6888	58663104
	9-Feb	ESG & Energy	11:30 AM	ESG & Energy Expert Series: Natural Gas Policy & Regulatory Risks with US Chamber of Commerce - Global Energy Institute	Aniket Shah, Lloyd Byrne, Dan Ford, Will Atcheson	PLEASE REGISTER HERE			
NEW	10-Feb	Renewables	11:00 AM	Wireless EV Charging w/ Momentum Dynamics	Jon Windham	PLEASE REGISTER HERE			
	11-Feb	Financials	10:00 AM	Expert call: In turbulent times, how is the policy landscape towards financials changing?	Saul Martinez, Brennan Hawken	PLEASE REGISTER HERE		US: 1 888 286.8010 Int'l: +1 617 801.6888	62912281
	12-Feb	Renewables	11:00 AM	Fast EV Charging w/ Evgo	Jon Windham	PLEASE REGISTER HERE			
	22-Feb	Utilities	10:00 AM	Hydrogen Developments w/ Pillsbury	Dan Ford	PLEASE REGISTER HERE			
	23-Feb	Renewables	11:00 AM	Lithium ion Battery Innovation & Trends w/ Nano One	Jon Windham	PLEASE REGISTER HERE			
	24-Feb	Renewables	11:00 AM	Zero Emission Aviation w/ ZeroAvia	Jon Windham	PLEASE REGISTER HERE			
	25-Feb	Renewables	11:00 AM	Green Hydrogen w/ Fusion Fuel	Jon Windham	PLEASE REGISTER HERE			
	26-Feb	Renewables	11:00 AM	100% Electric Boating w/ Vision Marine	Jon Windham	PLEASE REGISTER HERE			

REPLAYS

	Date	Sector	Time (EDT)	Company/Topic	UBS Host	Replay	Replay Code
NEW	3-Feb	Energy	11:00 AM	Expert Call: Biden Administration Energy Policy Present and Future with Center for Strategic and International Studies (CSIS)	Lloyd Byrne, Jon Rigby, Shneur Gershuni, Will Atcheson	US: 1 888 286.8010 Int'l: +1 617 801.6888	61893158
NEW	3-Feb	Materials	8:00 AM	UBS Research Analyst Call Series - A Deep Dive Into The Global Paper Sector Dynamics	Wenzhuo Du, Mikael Doepel, Andreas Bokkenheuser, Cleve Rueckert, Cadu Schmidt, Piyanan Panichkul	1 877 482 6144	36103204
NEW	2-Feb	Aerospace & Defense	10:00 AM	Expert Call: Powering the Future of Green Aviation	Myles Walton, Celine Fornaro, Markus Mittermaier	Click to Request Replay	
	1-Feb	Industrials	10:30 AM	UBS US Reshoring Policy Call with former White House Trade Representative to China	Chris Snyder	US: 1 888 286.8010 Int'l: +1 617 801.6888	17457390
	29-Jan	Consumer	10:00 AM	UBS Consumer Discretionary: Sentiment / Positioning Call w/ Focus on PB Data	Nick Smith, Dennis Geiger, Jay Sole, Michael Lasser, Mark Paski	US: 1 888 286.8010 Int'l: +1 617 801.6888	33349970
	29-Jan	Consumer	12:00 PM	Expert Call: Apparel 2021 Product Cost Outlook	Jay Sole	Click to Request Replay	
	28-Jan	TMT	8:00 AM	NOW EPS Recap Call	Karl Keirstead, Andrew Rocha	US: 1 888 286.8010 Int'l: +1 617 801.6888	97481885
	28-Jan	TMT	10:00 AM	LRCX EPS Recap Call	Tim Arcuri, Andrew Rocha	US: 1 888 286.8010 Int'l: +1 617 801.6888	89469534
	28-Jan	Energy	10:30 AM	UBS Midstream Call: 4Q20 Earnings Preview Call	Shneur Gershuni	US: 1 888 286.8010	46330114
	27-Jan	TMT	8:00 AM	MSFT EPS Recap Call	Karl Keirstead, Andrew Rocha	US: 1 888 286.8010 Int'l: +1 617 801.6888	15384209
	27-Jan	TMT	8:30 AM	AMD EPS Recap Call	Tim Arcuri, Andrew Rocha	US: 1 888 286.8010 Int'l: +1 617 801.6888	75048338
	27-Jan	Consumer	10:00 AM	Expert Event: Macau Concessions and Regulatory Environment Conf. Call with Macau Legal Expert	Robin Farley	Click to Request Replay	
	27-Jan	Consumer	12:00 PM	What's Happening in Sporting Goods Retail?	Michael Lasser, Jay Sole	Click to Request Replay	
	26-Jan	Consumer	3:00 PM	Off-Price: Holiday Trends and 2021 Outlook	Jay Sole	Click to Request Replay	
	25-Jan	TMT	1:00 PM	UBS Expert Call: Future of Wireless Networking	Batya Levi, John Hodulik	Click to Request Replay	

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FINANCIALS

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Sentiment: Relief/Regross. Reopen. Rates. Recovery. Add in stim progress and another round of Fed speak backpedaling on taper timing – also more good news on vaccine/efficacy, eco data, one week closer to easier comps, earnings risk catalysts out the way.....and the market fully embraced this new tour of risk-on. Feedback in-line with the tape directionally – with last week fears to differing degrees (most in the camp of at least a little spooked).

WHAT HAPPENED THIS WEEK	NEXT WEEK'S CATALYSTS
<ul style="list-style-type: none"> • Retail mania calmed, the case curve flattened, eco data largely improved (ISM, Services PMI, claims), the Fed held supportive, vaccine headlines sounded a more positive tone; rates rallied ~10 bps from nearing the 1% threshold to closer to breakout mode • SCHW – Winter update call offered limited drama so far as recent retail trading events – though the media/DC picked up on the idea of PFOF risk. Investor sentiment mixed/more sanguine. As for guidance – both NIM and expense guidance a bit disappointing. • PYPL – 4Q results solid, overhang removed/relief with FY21 revenue guidance, and then excitement picked up with the BNPL discussion ('the fastest pick-up to any launch CEO Schulman has ever seen') • APO/CG – Solid results – strong reactions, though for partly different reasons; APO excitement around carry tailwinds and potential index inclusion. Fundraise guidance offered some relief. • EVR/LAZ – monster results, EVR in particular, with an incredible result (Advisory 2x consensus, sub 55% comp ration). EVR narrative shifting to \$12+ of eps for FY22, though the stock failed to hold gains (suddenly a source of funds into yesterday reopening momentum). LAZ more mixed outlook tone • CB/HIG/ALL – CB crushed results, 100+ bps core margin expansion – and exciting follow-through the rest of the week (+11%!). Bulls talking \$14+ FY22 eps potential (I've heard even higher...). HIG results more mixed – core strength vs covid confusion within benefits guidance. Less confident tone around '21 WC inflection. • ICE/CBOE/TW – Stocks sold off pretty hard despite solid results at ICE/TW. CBOE under pressure on expense guide – but in general, the group more simply a source of funds for the reopen trade (just lack of positive leverage to eco, stim, rates, less volatility) • Top 5 Performers – ADS, IBKR, LPLA, PYPL, CG • Bottom 5 Performers – BEN, CBOE, AIZ, NYCB, VIRT 	<ul style="list-style-type: none"> • GPN/FIS/FISV Earnings (Monday/Tuesday) – stock reactions in focus, with the expectation that the bar is low enough for results and guidance will be reiterated (GPN, FISV). Reopen winners that have lagged tremendously heading into easing comps.... • SPGI/MCO (Tuesday/Friday) – SPGI bar not so low...I think investors are looking for affirmation that synergy guidance is overly conservative and that balance sheet strength is still a source of upside. MCO bar admittedly low....consensus looks like -2.5% ratings revs decline and not much margin expansion at all... • PYPL Investor Day – with FY21 revenue guidance out of the way, the next step expectation is that we get a new medium-term guidance...with a hoped for 20%+ type level (timing expectation a bit mixed). Also look for incremental color/data per product rollout ramp – trend-wise and also informational
COLOR FROM THE UBS DESKS	
Derivatives	Most Read Articles of the Week
<ul style="list-style-type: none"> • From The Desk – Buying skewed more toward reopen than rates (payments as opposed to banks)....less aggressive than the market moves would have implied • Derivs – Directionally very much in-line with the market; near-term upside, out of the money exposure being bought – fits the broader reopen narrative <p>(Back to Top)</p>	<ol style="list-style-type: none"> 1. EM Sector Keys: Banks: Cyclical recovery on track despite second-wave uncertainties – Philip Finch, Alexey Ostapchuk, Bhanu Baweja 2. European Banks "Bank Merger Model" – Jason Napier, Daniele Brupbacher, Ignacio Cerezo 3. MSCI Inc.: Upgrade to Buy: Best-in-Class Growth No Longer Fully Priced In – Alex Kramm, Arsh Tandon, Maura Cyr

TELCO, MEDIA & INTERNET

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Sentiment: This week was a bit calmer than last week and **there was a move away from the “unwind” scenario** toward the reopening trade with some earnings sprinkled in. Investors were happy to see stocks moving “the right way” after earnings prints. **GOOG and ATVI continue their reign as two of the most cons long** names after solid/dependable results while investors were mixed over AMZN’s print (many waiting for 2Q rev guide).

WHAT HAPPENED THIS WEEK	NEXT WEEK'S CATALYSTS
<ul style="list-style-type: none"> • GOOG: Solid 4Q w/big beats from Search & Other at +17.4% and YT at +46%. Cloud rev inline +46%, big FY20 EBIT loss of -\$5.6b. Brand spend better and strong DR. Expect easy comps in 1H21/tough comps in 2H21. (link) • AMZN: Solid 4Q print (driven by strength across the board and better 1Q guide. AWS growth of 28% decel’d 100bps q/q (though accelerated w/adjustments). Other rev (adv) and paid units both accelerated q/q. Debates around CEO stepping down, AWS growth, and tough comps. (link) • SPOT: In-line to better 4Q but ’21 guide is weaker with lower GM/OI margin due to continued podcast investments and lower sub guide b/c of pull forward. • EBAY: Solid 4Q, better 1Q guide (GMV in low 20s) and increased capital return. No FY21 guide/tuff comps. (link) • MTCH: Mixed 4Q results, weaker Tinder net adds (+90k q/q vs UBSe 400k) and muted FY21 guide. Bulls think guide is conservative and this is a recovery play. (link) • PINS: Solid report from PINS with 4Q ad rev growth 76% and 1Q ad rev guide of “low 70s.” (link) • SNAP: 4Q ad rev 62% a bit below bogey, 1Q ad rev growth guide of 56%-60% but brand pause and IDFA risk. (link) • ATVI: Strong 4Q revenue driven by CoD/WoW/Candy Crush outperformance, 1Q/FY21 guide was better, capital return positive, engagement remains elevated, and bullish 2022 talk. Bjuyside at \$5+/sh 22 EPS (link) • TMUS: A nice 4Q from TMUS but 2021 guidance was mixed cash EBITDA guide of \$23b coming in a bit below cons tho could be conservative. Analyst Day. (link) • PTON: Strong F2Q but F3Q gm/EBITDA pressure due to incremental logistics/S&M costs. Comes to supply/demand demand for products post COVID. Reiterate Sell. (link) 	<ul style="list-style-type: none"> • FOXA 2/9 @8:30AM: Improved core cable affiliate growth given better sub performance and CMCSA renewal (UBSe 3.9%), strong retrans growth (UBSe 20%+) and improved growth in cable adv of 27% vs 18% last qtr (FOX News/improved sports spend/record political). Any update on NFL renewal (dropping TNF?), buybacks (UBSe \$250m in F2Q), and sports better upside. Expect macro env and ratings pressures to weigh on core National TV advertising (UBSe down HSD), a step-up in expenses (after ~\$280M shift/benefit last qtr). • TWTR 2/9 @6:00PM: Bogey for 4Q FXN ad rev growth of low to mid 20% y/y vs cons +18% and cons looking for +26% in 1Q/+50% in 2Q (they don’t tend to guide). Expect 4Q DAU net adds in HDS range vs cons ~7m...though there are some expectations that mgmt will comment on post Trump ban impact on user growth/engagement. Other topics of interest will be IDFA impact/MAP DR program commentary (timing??) and any color on the narrative around the upcoming investor day (Feb 2/25). TWTR positioned mixed. • ATUS 2/10@4:30PM: Solid momentum in BB (UBSe 13K) with continuation of LSD revenue growth and ~5% EBITDA growth. Commentary on continued growth (UBSe low-MSD rev and EBITDA growth) and buybacks in 2021 (UBSe \$1.5B). • DIS 2/11 @4:30PM: Expect solid DIS+ sub growth (UBSe 20m in F1Q vs 16m in F4Q) though likely de-risked given strong LT sub guide. ESPN adv growth (partly offset by lower ratings) and a likely bottom in Parks – should see improved attendance and profitability as the vaccine becomes more widely distributed.

COLOR FROM THE UBS DESKS

Derivatives	Most Read Articles of the Week
<ul style="list-style-type: none"> • Bullish flow in large cap tech on the desk though trades don't show much conviction. Flow dominated by EPS, with protection and leverage to upside. Vol sellers across the board on high short interest names (VIAC/AMCX/AMC). (Back to Top) 	<ol style="list-style-type: none"> 1. Q-Series: The next two billion in India and ASEAN are going digital: Who wins? – Navin Killa, Eric J. Sheridan, Jerry Liu

TECHNOLOGY

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Sentiment: There is **more unease in Semis than any other sector** are questioning **where we are in the smartphone cycle** and **how to think about auto/industrial** exposed names given demand, supply, and orders. There is certainly a lot of debate, but my sense is we **may be at the beginning of a rotation** potentially **back into datacenter** exposed names, especially as we hear more about digestion easing. Semis are momentum stocks... look at the T6M performance for these names... **NVDA** -22%, **AMD** -3.3%, and **INTC** -20%. **MU** is up of course in that timeframe but has lagged a bit recently.

WHAT HAPPENED THIS WEEK

- **NXPI EPS:** NXPI printed a beat/raise. Q4 Revs beat \$2.51B vs \$2.46B and were up +11% qq. Autos also beat \$1.19B vs \$1.16B and were up +24% qq.
- **UiPath/Databricks:** UiPath closed a \$750M Series F valuing the company at \$35B, up from the \$10.2B valuation.
- **CHKP EPS:** Billings beat the Street by 6% and reaccel'd 230bps to 8% yy growth driven primarily by the 7% yy growth in Total DR. Revs beat the street by 1.6% and held growth flat vs LastQ at 3.7% yy.
- **DT EPS:** ARR growth decel'd -100bps to 32% yy cc and cleared the 30-31% Bogey. Growth decel'd by 200bps /500bps in reported/cc terms, but cleared the high-end of the ranges. For the guide, Revs were taken up to 26-28% (23-24% cc) vs the Street's 17.7%.
- **Cloud:** AWS Revs grew 28% yy to \$12.7B vs 29% LastQ while Backlog accel'd 68% yy to \$50B vs 63.5% LastQ. GCP Revs accel'd 150bps to 46.5% yy to \$3.8B.
- **QRVO EPS:** Revs missed the Bogey on the print \$1.1B vs \$1.2B and the guide \$1.04B vs \$1.1B. At minimum investors were looking for an expects beat. The setup was tricky following the SWKS print last week that blew it out of the water with the 42% beat vs the Street.
- **QCOM EPS:** Revs missed the Street \$8.226B vs \$8.23B in addition to the high bogey of \$9B. Miss was driven by weakness in QTL at \$1.66B vs \$1.7B. Margins were strong in both segments and came in ahead.
- **FTNT EPS:** Revs beat the Street 21% vs 16.9% and beat the expects for 19-20% growth and accel'd vs LastQ's 18.8% growth. Billings slightly accel'd to 20% vs LastQ's 19.7% and also beat expects of 18%. Q1 was guided to 17.2% yy.
- **ZEN EPS:** Billings/Revs/cRPO all came in above and cRPO beat the Bogey 36% vs Bogey 35%. For the guide, C21 Revs were guided above 25.5% vs Street 24.8% which investors were saying needed to happen for the stock to work.

NEXT WEEK'S CATALYSTS

- **U IPO Lock-Up Expiration**
- **Analyst Marketing (2/8-9, 11):** Tim Arcuri (US Semis)
- **Analyst Marketing (2/8-10):** Thompson Wu and Jimmy Yu (APAC Semis/HW)
- **TSMC January Monthly Sales (2/9)**
- **GS Tech and Internet Conference (2/10-11)**
- **UBS Tech CYBR EPS Recap Call (2/11)** – Registration (<https://bit.ly/3cFuzlb>).
- **Analyst Days (2/12):** AZPN, JNPR and NET
- **CSCO EPS (2/9):** Sentiment continues to be bearish given the lack of growth in the model. Negative enterprise trends re: Covid have also hurt CSCO relative to other areas of Tech. YTD the stock is marginally o/p NDQ and greatly o/p SPX. Investors are focused on whether CSCO can post growth and maintain the levels of margin. [Link](#)
- **CYBR EPS (2/11):** Sentiment is mixed on CYBR following the ~50%rise post-SWI. UBS recently u/g to Buy which received mixed feedback largely on timing in front of earnings as they think any SWI benefit will take more time to show up in numbers.
- **HUBS EPS (2/11):** Sentiment is skewing more bullish following the positive results from digital transformation exposed names and companies tied to customer engagement. HUBS checks both boxes and UBS previewed checks that point to sustained strong demand for products throughout Q4, with favorable commentary on Sales Hub generally.
- **Rounding out EPS Next Week:** VRNS, IIVI, AKAM, RPD, AIX, QLYS, FROG, DDOG, and NET.

COLOR FROM THE UBS DESKS

Derivatives

- Bullish flow in LC Tech on the desk – but mainly in the 1 month and in bucket – so not as much conviction. Otherwise, flow has been dominated in earnings names – protection and leverage to upside. AAPL rev/cons have been extremely active in the market – converter. [\(Back to Top\)](#)

Most Read Articles of the Week

1. [Microsoft Corp.: Azure Accelerates \(and Everything Else Went Right\)](#) – Karl Keirstead, Taylor McGinnis

HEALTHCARE

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Sentiment: Overwhelmed. Drowned in earnings, throw on top a few big surprises like IMVT pausing their trials, a JAZZ acquisition, a HZNP acquisition, a UNH CEO departure, and then sprinkle more ECM deals on top of that. Having said that, I think vs last week's Retail craziness, this week the moves made more sense. The reopening theme was evident as all things levered to procedures were working mid-week while the incremental laggards / source of funds were from the recent winners / crowded long sub-sectors. Hiding places like Tools / Dx, Pharma and Animal Health were sources of funds, while BSX had 4 consecutive days in the green despite an ugly print / guide. Hospitals outperformed MCOs.

WHAT HAPPENED THIS WEEK	NEXT WEEK'S CATALYSTS
<ul style="list-style-type: none"> • 3 biotech launches: <ul style="list-style-type: none"> ○ OMER (+) Omeros. Narsoplimab is potential game-changer. Buy. \$25 PT. ○ BTAI (+) BioXcel. Current valuation gives no credit for large & de-risked dementia oppy. Buy. \$99 PT. ○ MTEM (=) Molecular Templates. Promising novel oncology platform- FDA hold keeps us on sidelines. Neutral. \$13 PT. • IONS Esther with a deep dive on Huntington's, the risks for the phase 3, a scenario analysis for the OLE / NHS readouts that points to 21% upside / 52% downside, and what is baked in to the stock. • CI / UNH Cigna missed MLR by 100bp Clearly MCOs are paying for a lot of COVID testing, but I think most investors still think lower "normal" utilization should more than offset those pressures. Making matters worse on Thursday, UNH surprisingly announced a CEO transition- Wichmann stepping aside and Andrew Witty to replace him. • JAZZ coming back today, but initial selloff on the news that they will acquire GW Pharma. Esther Rajavelu likes the deal as it provides JAZZ an immediate opportunity to drive steeper topline growth and diversification along with potential earnings accretion. Esther said some concerns have been raised on IP, though the main pushback we get on our buy thesis is the oxybate generic risk mitigation in 2023-2025. 	<ul style="list-style-type: none"> • IQV (2/10) Remains Danny Brennan's top pick given extensive positive survey results supporting share gains/growth plus reasonable valuation • LH (2/11) Caliendo sees risk/reward attractive for the Labs. On 2022E (which we consider a normalized year, albeit with a continued, smaller COVID tail), DGX and LH are trading in line with their 5-year historical average FY1 P/E's, though at a sharper discount relative to the S&P (-25%/-31% vs. the S&P on 2022E P/E vs. -11%/-17% historical discount, with both Labs trading below historical relative premiums even stripping out 2022E COVID contribution). Plus the delay/reduction in 2022E PAMA cuts would serve as another source of upside. • DVA Fresenius said 2/3rds of its guidance cut is due to higher mortality from COVID with the other 1/3rd from higher COVID costs. What's that mean for DVA? Hard to think DVA isn't immune, but many investors are scratching their heads at the mix- 2/3rds many think is too high. • DXCM Preannounced @ JPM. 4Q sales growth of 23% beat cons but was below buy-side expectations and evoked concerns about US momentum deceleration. DXCM had guided to this given its shift to the pharmacy and Medicare mix increasing is having an impact on seasonality. DXCM also guided to 15-20% YoY growth in 2021, sales of \$2.21-\$2.31B (+15-20% y/y), vs. cons. \$2.32B.

COLOR FROM THE UBS DESKS

Derivatives	Most Read Articles of the Week
<ul style="list-style-type: none"> • PFE Mar 40 call sold 24k • TEVA Feb 13 calls look sold 4k times @ \$0.44 • DVAX March 11 calls, customer here sold 5k to open @ \$1.25 • CNC March 65 - 70 call spread, customer in the mkt paid \$1.05 for 2k. • AVTR Aug 27.5-35 stngl sold 4.50 1300x <p>(Back to Top)</p>	<ol style="list-style-type: none"> 1. China Testing & Diagnosis Sector: ICLs in early growth stages; key driver of new testing technology and cost efficiency – Stella Xing, Kevin Caliendo 2. Life Sciences & Diagnostic Tools: UBS Evidence Lab Survey: Employer & University COVID Testing Trends & Outlook – Dan Brennan, Matthew Taylor, Kevin Caliendo

INDUSTRIALS

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Sentiment: It wasn't all risk on behavior this week within cyclicals, with price-action Thursday afternoon perhaps the most unwindy we've seen in the last week. Despite pullbacks into prints, we are still seeing signs of good results getting sold. PH action on Thursday was most telling. Rails (UNP, CSX) also rolled from the highs, APTV +400bps to down on day, CMI down on earnings. Names like OTIS, CARR, IR, EMR, FTV, CCK, BLL, SWK continue to lag.

WHAT HAPPENED THIS WEEK	NEXT WEEK'S CATALYSTS
<ul style="list-style-type: none"> • KMT: Stock has clearly benefitted from short squeeze and better PMI, but aside from the unwind, it seems investors are still more in favor of PH than KMT. Co calling out temporary cost control actions that will be sequential \$10M headwinds in Q3 and \$40-\$45M in Q4...That said, for Q2, overall organic growth was -14% vs UBSe -20.5% with decremental of -1.9% vs UBSe -13.1%. • UPS: I sense that investors have gotten to a neutral stance in the name, as many covered existing short positions given 1) FDX results and 2) unwind/de-gross from last week. Stock is +3.35% as I type, though market backdrop looks like it would favor the name in a risk on backdrop. Q4 looked really solid for the co, though no 2021 guide (can't blame them but also, investors wanted some bit of guide for the look ahead) and no buyback...co gave us capex guidance ~\$4B, tax rate 23.5%. • ETN: Given the portfolio changes/acquisitions the co has made, investors were definitely interested to see how this print looked...most asked question in regards to ETN yday was "what can they still buy with dry powder they have left..." Not that the dry powder is much...unless they decide to lever up. • EMR: Farr going out on a high?? Say it ain't so...EMR remains debated given some caution on upstream O&G, but the longer cycle nature of the co and catalyst path with EPS, Investor Day & CEO change has gotten some investors onboard. • LII: Stock remains the short in the HVAC group. 2021 guide is the same as what the co provided in mid-December, so no surprises there. • GWW: Pretty big miss on Safety acceleration & surge freight costs, with GM miss driving EBIT and EPS miss. Co saw good growth and resegmentation supports the outlook. • TT: Strong results this morning as the co beat on top line +3% higher than expected at \$3.18B vs cons \$3.08B and really showed a strong performance on margin +160bps vs cons +120bps. • F: Q4 beat (somewhat expected) and new guidance is beneath expectations. 	<p>Earnings Prints: GTES, ACM, J, CARR, GRA< SEE, MLM, DD, TDG, FMC, MTW, GM, XPO, IFF, HII, SON, BBD, TEX, CC, SPXC, HUN, CF</p> <ul style="list-style-type: none"> • TDG (2/9): Stock remains an investor favorite as euphoria around aftermarket rebound and prospects to get to \$700 continue to keep investors excited. Commercial AM will continue to show large y/y declines, but we should see some sequential improvement. • CARR (2/9): CARR remains a HF favorite, and despite weakness witnessed last night, remains a name that both HFs and LO have added to since. • MTW (2/9): Investors have not viewed MTW favorably by any means, though given the short squeeze performance so far this month, the stock has been helped out a bit. Keys to the quarter will be adjusted EBITDA, adj. EBITDA margin, orders and potentially adj. EBITDA guidance. • Fireside Chat w/ DOW (2/10@9-10AM): John Roberts is hosting Colleen Kay, Vice President, Investor Relations; Damien Polansky, Senior Investor Relations Director and Richard Thompson, Investor Relations Director REGISTER HERE • GM (2/10): Stock's insane run has continued to baffle investors, though many were long or forced to be given the magnitude of the move. With very strong demand & pricing for the high-mix new SUVs and pick-ups, Q4 should come in at the upper end of the company guidance last updated with Q3 results. • HII (2/11): With milestones weighted in 4Q, sequential improvement in shipbuilding margins is expected (UBSe 8.6%) which provides a path to mgmt's reiterated 7-8% shipbuilding margin outlook for '21(could end up on higher side depending on timing of milestones and possible additions of maintenance work).
COLOR FROM THE UBS DESKS	
Derivatives	Most Read Articles of the Week
<ul style="list-style-type: none"> • GE Jan 10 calls sold 15k; AAL Jun 14 put sold 7k (Back to Top) 	<ol style="list-style-type: none"> 1. US Reshoring: UBS Evidence Lab: Reshoring announcements up 5x in '20, Supports Covid catalyst – Chris Snyder

ENERGY/UTILITIES

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Sentiment: Energy outperformed the broader markets this week amid WTI and Brent poised to finish up ~10% and ~7%, respectively, and Brent nearing a \$60 handle. Despite the recent volatility, the overall narrative remains intact. On the one hand, crude back at pre-pandemic levels with demand story continuing to improve (DOEs today represented the 7th draw in the last 8 weeks), E&P messaging making it pretty clear on flat production this year/capital discipline, vaccination rates improving... On flip side, Biden administration adding to overall uncertainty / ESG / climate theme, the never ending terminal value question... Overall, I think a lot of folks are currently sitting on their hands as it's been a quieter 1-2 wks in Energy land from a trading standpoint on our desk since the broader market degrossing. We've seen some pairs moving around (and this **CVX > XOM** movement continuing) generally seems longer-term investors are still in the same few names. **With that all said, now that the broader market focus is shifting back to earnings and the macro drivers (such as Reopen and Stimulus) and crude in high 50's, I think the risk is to the upside in Energy from here** assuming no major changes in messaging from companies who have yet to report over the course of the next few weeks. **For utilities**, convos this week have been very narrow in scope in terms of questions on stock-specific names.

WHAT HAPPENED THIS WEEK	NEXT WEEK'S CATALYSTS
<ul style="list-style-type: none"> • BIDEN ENERGY POLICY EXPERT CALL: we hosted Ben Cahill, Senior Fellow of CSIS earlier this week. Key big picture takeaway = more nuanced, with Biden expected to stay aggressive. (link) • XOM: while 4Q results reflect the same challenging macro conditions seen elsewhere in the sector, investors responded +ve to the continued focus on capital discipline and reassuring capex/div covered at \$50/b. The announcement of new low carbon biz focus was a surprise, and though less ambitious than the energy transition plans announced by the EU integrated names, is a step in the right direction. (link) • COP: qtr muted; outlook positive. Addressed fed land concerns on the call. Stock u/p as it remains well owned. (link) • MPC: o/p on qtr beat; Speedway to close end of 1Q. (link) • EPD: u/p despite beat as capex remains key area of pushback. We think buyback messaging key for stock performance with FCFaD generation expected in '21 – LOs have embraced the buyback thesis, which Shneur continues to push. (link) • MPLX: strong 4Q & +FCFaD goal for '21. Stock u/p as lower than expected capex guide still came in above buy-side. (link) • PCG: in focus this wk amid the back and forth on securitization from intervenors. (link) • FE: o/p post agreement with Ohio AG to set the decoupling rider to 0. Overall, a step in the right direction in Ohio. (link) • MIDSTREAM: 4Q earnings read-throughs thus far:: (link) • UBS FRACTIONATOR: Ethane exports take center stage...(link) 	<p>4Q'20 EARNINGS:</p> <ul style="list-style-type: none"> • PAA (2/9, AMC): expect mgmt to maintain '21 guide flat, but look for an update on activity it is seeing around its system. That said, guidance was presented pre-vaccine so there could be an upwards bias. Post Biden's executive orders, we listen for additional color on its Federal Lands exposure, better than ~20% in the Permian (current expectation) likely a positive. • DCP (2/10, AMC): focus will be on costs reductions (expected to be sequentially higher but down YoY), NatGas/NGL price exposure specifically on propane, and ESG initiatives. • DUK (2/11, BMO): most asked name by HFs as of late as overall sentiment on the name continues to improve. DUK still trades at a slight discount to D despite the slew of positive news announcements since the beginning of the year has derisked the overall story. Setup from here is the legislature. • D (2/12, BMO): will update and extend its capital spending plan, issue EPS guidance for '21 and refresh its earnings. • ENB (2/12, BMO): received positive Line 3 news this week which should be a +ve, and we look for an update on Mainline re-contracting and any implications on it from the KXL cancellation.

COLOR FROM THE UBS DESKS

Derivatives	Most Read Articles of the Week
<ul style="list-style-type: none"> • Crude is now trading at higher levels than a year ago but the equities are still much lower. Not seeing options activity chase with calls but hedging activity is non-existent. The view from options seem to be a slow grind higher. <p>(Back to Top)</p>	<ol style="list-style-type: none"> 1. China Solar Industry: Supply tightness for polysilicon: déjà vu? – Yishu Yan 25-Jan 2. Global Oil Fundamentals: Answers to the Most Frequently Asked Questions – Jon Rigby, Lloyd Byrne, Henri Patricot

CONSUMER

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Sentiment: Things calmed down a bit this week and the focus returned toward earnings and back to fundamentals. It was interesting, though – most companies seemed to trade the direction of "sentiment" or of the go forward view (more positive/negative) than necessarily with how the reported results for the qtrs. trended. Said differently, **it still feels like this is a "story" market where investors are fixated on recovery/reopening and what's to come**, and much less interested in current trends and certainly 4Q results. From a flow perspective this week: looking beyond the recent de-risk, and subsequent re-risk trade (we highlighted some of the residual laggards) - the clear trend the last 2 days has been explicitly focused on getting longer the re-opening trade. We remain net better buyers of cyclical/reflation, and sellers of COVID beneficiaries. Conversely, the **conversation volume around "what can I short?" has only increased** the last; perhaps more so in the consumer space than in any other sector. The general take seems to point towards more ETF-like, larger-cap stocks - with a clear avoidance of SMID-caps, and 'struggling' businesses. While none of these are challenged businesses, it would seem there will be some looking for placeholder shorts - so they can go alpha-hunting on the long side.

WHAT HAPPENED THIS WEEK

- **WSM (Sell, PT \$110) - Overcooked – Downgrade to Sell:** Our call is rooted in 3 factors: its recent performance has overstated its earnings, overinflating '21 cons. ests.; the risks should be apparent as the sector returns to normalcy; & its current valuation (17x NTM P/E vs. 5-yr avg of 14x) does not capture these risks. As WSM closes stores, we believe its marketing costs will likely increase as stores are one of the most productive marketing vehicles. We believe the industry will decline in 2H'21.
- **U.S. Hardlines & Grocery Retail - 2021 Grocery Outlook – A Bit of a Jam?:** As conditions normalize, we expect that pent up demand will drive a sharp reversal in grocery sales. We estimate that grocery sales will decline ~5% in CY'21. Recent increases in commodity prices (e.g. corn & soybeans) could mean upside risk for food inflation in '21. Historically, stocks have performed w/ high inflation
- **U.S. Hardlines Retail - Expert Call Recap An Expert's Take on the Retail Real Estate Market:** In 2021, the expert expects more store closures versus prior years (~6k and ~10k stores were closed in 2018 and 2019, respectively), and limited store openings. Notably, much of the rent relief that retailers were granted when their stores were closed in 2020 will be added on to their liability in 2021.
- **FIZZ (Sell, PT \$92 from \$88) - The Fizzle After the Pop - Downgrade to Sell:** We downgrade to Sell ahead of difficult compares, mounting competition, and rising input & logistics costs at stretched valuation. We believe LaCroix's velocities will eventually decelerate on lower at-home consumption, but we remain more concerned with LaCroix's limited distribution growth.

NEXT WEEK'S CATALYSTS

LAST CALL this coming week to register for our UBS Consumer Conference.

UBS: Global Consumer and Retail Virtual Conference

Tuesday, March 9th - Wednesday, March 10th

A Full list of Confirmed Company Attendees can be found [here](#)

Click [here](#) to view the Preliminary Agenda (*subject to change*)

REMINDER - 1x1 Requests are due one week from today, Thursday, February 11th, EOD - Investor schedules will be distributed by Friday, February 19th

We, of course, still have upcoming calls and expect more:

NEW: 02/08 @ 11:00:00 - An Expert's Take on the Path Forward for Bed Bath & Beyond and Home Furnishings
Hosted by Michael Lasser [Please Register Here](#)

COLOR FROM THE UBS DESKS

Derivatives

- **LB** March 50/60 call spread looks bought 10k for \$2.35
- **DASH...** 19k Feb 130 puts sold in the market down to 0.55, opening
- **AMC** June 3-1 put spread, our customer here paid up to 71c for 10k.
- **ANGI..** our customer sold 5k May 10 puts to fund 2500x Feb 15 puts. Paid 12c as a 1x2.

[\(Back to Top\)](#)

Most Read Articles of the Week

1. [Diageo: Casa-beat-gos; reiterate Buy rating post strong H1 and encouraging outlook](#) – Nik Oliver, Robert Rampton, Robert Krankowski
2. [LVMH Moet Hennessy Louis Vuitton SA: FY20 results confirm LVMH's continued outperformance](#) – Zuzanna Pusz, Susy Tibald

SPECIAL SITUATIONS

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Sentiment: In mergers, we saw **JAZZ** acquire **GWPH**, and **HZNP** acquired **VIE** (which helped smooth the antitrust process in the **ALXN-AZN LN** deal (as **AZN LN** is divesting their interest in **VIE**). **CVX** is proposing a minority buyout of **NBLX**. **DD-IFF** saw a big surprise in the exchange offer results, catching many arbs offside. We estimate that the surprise outcome in the **DD** tender appears to be the result of unexpected tendering by (i) passive indexers, (ii) index arb and others who wanted to come out long **IFF** and short **DD** by tendering the long positions underlying non-economic **DD** hedges, and (iii) retail. **VRNT** completed their spin of **CGNT** – we thought it would be volatile and day one optically saw very large moves but the moves off of a very low quality reference level as the pieces didn't trade during when-issued. Nonetheless, holders of **VRNT** pre-spin saw **SOTP** upside realized on day 1 (and through the end of the week if they held – although **CGNT** continues its volatility as of this writing). **ZBH** announced a spin (spine and dental) to distribute mid 2022, while **LB** is evaluating options for **Victoria Secret** (spin or sale) with a goal of executing by August – the market took **LB** favorable while **ZBH** saw minor impact thus far (also announced earnings and didn't provide guide – nonetheless there was an analyst comment that suggested minimal **SOTP** upside based on comps on the call). The **SPAC** mkt continues at a pace that keeps most barely able to take a breath, with 27 IPOs raising \$9.3bn along with 11 de-SPACs representing \$32bn in **TEV**.

CLIENT CONVERSATIONS

- **DD-IFF Exchange Offer:** The results were a big surprise. We estimate that the surprise outcome in the **DD** tender appears to be the result of unexpected tendering by (i) passive indexers, (ii) index arb and others who wanted to come out long **IFF** and short **DD** by tendering the long positions underlying non-economic **DD** hedges, and (iii) retail. We thought there the tender breakdown went as follows: 215 million from arbs, 50-75+ million from index arb (or others looking to come out long **IFF**, short **DD**), 35-40 million from passive indexers, 30 million from fundamental holders, and 10-15 million retail
- **VRNT / CGNT:** The initial trading post separation unlocked some of the **SOTP** upside but has seen volatility. The day one moves in isolation were off of a very low quality reference level from when-issued as the pieces didn't trade during when-issued outside of a symbolic ~15k shares in **CGNT** – thus **CGNT** didn't really have a true reference price and new **VRNT** – whose starting value was derived off the last \$38 **CGNT** print and the wholeCo trading level, didn't either). Recent spin out of **FTV (VNT)** that distributed on 10/9/20 had similar dynamics (in terms of **SpinCo** not trading much in when-issued and thus a large optical selloff day one).
- **GWPH-JAZZ:** We are starting with a April 30, 2021 closing date. There is a collar. For reference, we estimate a collar of value of negative \$0.30 and delta of 0.074 using a **JAZZ** price of \$151.21, 40% vol, and April 30 closing date (averaging period of April 6-26). Comparable deals (UK target, Scheme) tend to close in two to three months but there could be slippage to May due to the issuance of stock. The spread is relatively wide (although it tightened somewhat relative to initial levels), likely reflecting the fact that **JAZZ** is taking on leverage to pursue a large deal and any significant adverse event with respect to **Epidiolex** could result in a reevaluation of deal rationale
- **IAC:** Noted in the letter that **Vimeo** is expected to have \$300m in cash, no debt, with **IAC** having \$2.9bn in cash, net of debt. Suggested ~1.6 shares of **Vimeo** for each **IAC** share and at a post money valuation based on raises (~\$6bn), implies ~\$35/sh. Spin set for early Q2 – vote expected at the end of March or early April. Separately, post earnings. We see the stub sitting at a ~13% discount to our updated stub **NAV** (post today's move in shares of +4.8% at the time of this writing)
- **VIE-HZNP:** We are starting with March 12, 2021 for tender offer expiration based on a simple tender offer timeline. We did not come across any catalysts expected to arise during the pendency of the deal. The 54% support agreement (including from **AstraZeneca**) declines to ~24% upon a recommendation change by **VIE**.
- **NBLX-CVX:** An assumption of a final ratio of ~0.15 could make sense based on precedents, with any definitive deal likely closing around the end of July 2021. Considering the initial premium is zero, a higher exchange ratio than 0.15 is also possible so as to align more closely with historical premiums of 11%-12% (perhaps between 0.15 and 0.155). Takeaways: (i) we do not expect a majority of minority condition to be introduced, (ii) our base case is that distributions would continue after the signing of an agreement, and that there could be two **NBLX** distributions and two **CVX** dividends between now and our July 31, 2021 closing date (more adverse alignment also possible), (iii) the median / average time to a definitive merger agreement are ~69 / ~80 days, (iv) historical frequency of reaching a definitive deal is 95%, (v) conditioned on reaching a definitive deal, the bump frequency is 100%, (vi) the median / average bump size is ~6% / 7.5%, (vii) the offer valuation seems light relative to precedents, in line with the average of **WES** and **DCP**, and at a modest discount to the average of a broader peer set

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