

2020 **Strategy Outlook**

Reviving Animal Spirits

Key to 2019:
Don't fight the Fed
PE matters more than 'E'
+30%

Key to 2020:
Don't fight Central Banks
EPS upside on PMI rise
+10%

fundstrat

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- **CLIFF NOTES: 'E' matters more than 'PE'**

- 2020 “rising animal spirits”
- Millennials driving US de-coupling
- Inflation revives in late-2020
- Granny Shots
- Thematic Strategies for 2020
- Tactical Strategies for 2020

OVERVIEW: 5 Guiding principles for 2020

**Stocks “junior piece”
capital structure**

2019 – case in point. HY said 2019 = 2009

Stocks follow other markets – leading indicators are bonds, credit, derivatives and futures markets.

**History is a useful
framework**

There is nothing new under the sun. Investor psychology and behavior remains “textbook”

Demographics are destiny

Demographics and generational factors are the least appreciated factor in markets. Yet, these explain a lot of market dynamics.

Consensus too reactive

Consensus looks 1-3 months ahead, and often over-reacts to incoming data. **Sometimes you “have to back up the truck”**

Don’t fight the Fed

Fed remains the single most powerful influence on markets in the World.

2020 in a nutshell – “E” matters more than “P/E” → +10%-plus return

		Impact on
		P/E
		E
PMI recovery	Global PMIs > 50. Easing trade tensions leads to order growth. Plus China appears to be in a broadening recovery.	↑↑
Inventory cycle	Multi-year low in inventories and inventory build “boosts” growth	↑
Fiscal stimulus	Japan + Europe possible fiscal Plus: White House payroll tax holiday?	↑
GDP boost easing FCI	Easing financial conditions sufficient, per Goldman Sachs add +0.5% GDP/ quarter	↑
Investor economic confidence recovery	BofA Merrill survey sees big jump in % managers seeing ‘Global Growth ahead’	↑
Central banks easing	Coordinated easing by US Fed, ECB and BoJ	↑



Inflation

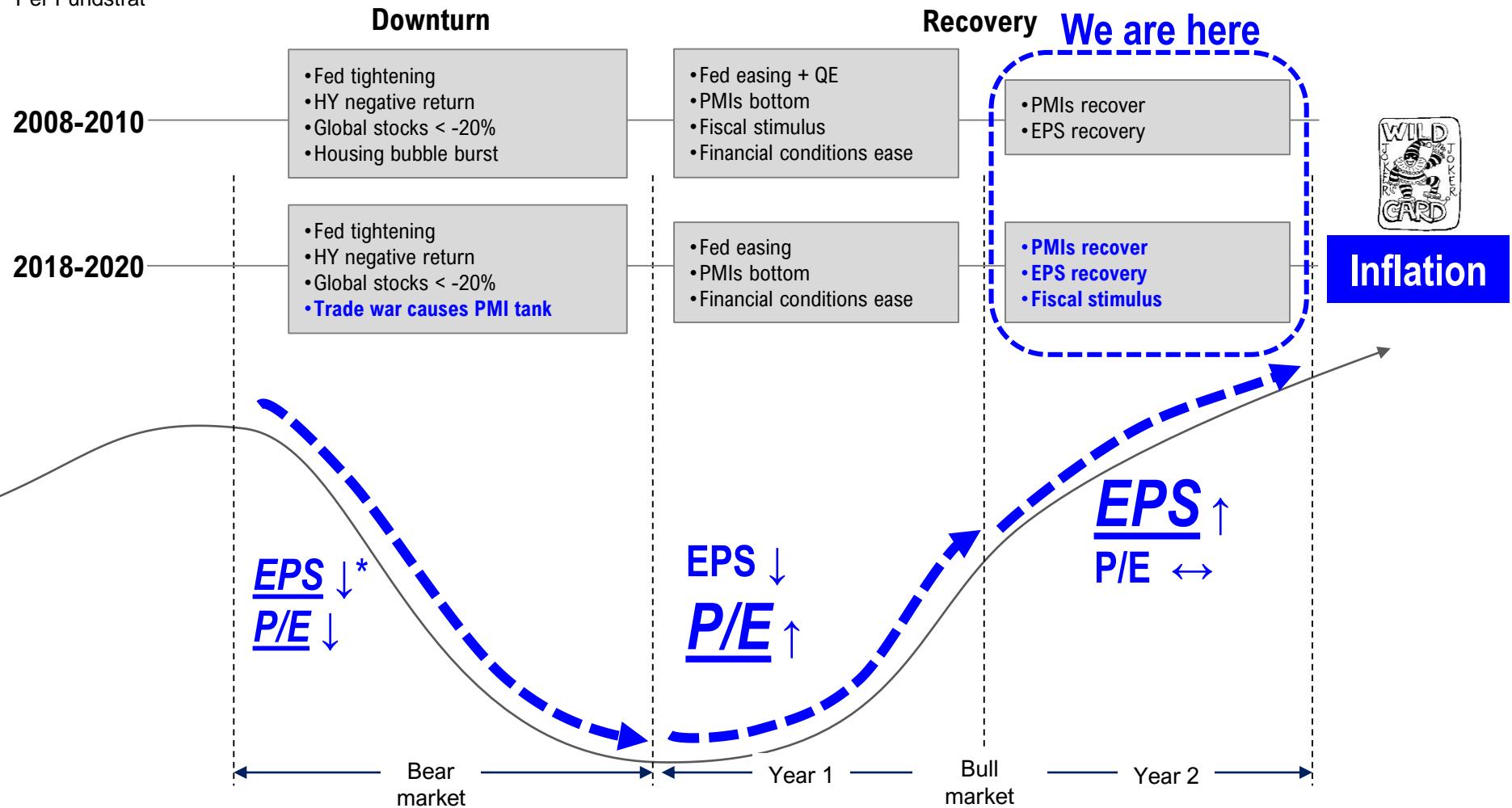
2020: “Animal spirits” as PMIs bottom + easy Fed + Fiscal = EPS upside

We realize this is mere a “crude comparison” but in our view, 2018 was a proper bear market and a reset of economic and fundamental expectations.

- 2020 is year 2 of a bull market, analogous to 2010. 2010 was ultimately a strong year, but weak 1H.

Figure: Comparison of 2008-2010 to 2018-2020

Per Fundstrat



Source: Fundstrat, Bloomberg, Factset

* Due to the tax cuts, the CY2018 EPS was up overall. But since 4Q18 when the trade tension was escalated, and the Fed decided to rise the target rate, the EPS had been largely down, similar to 2008.

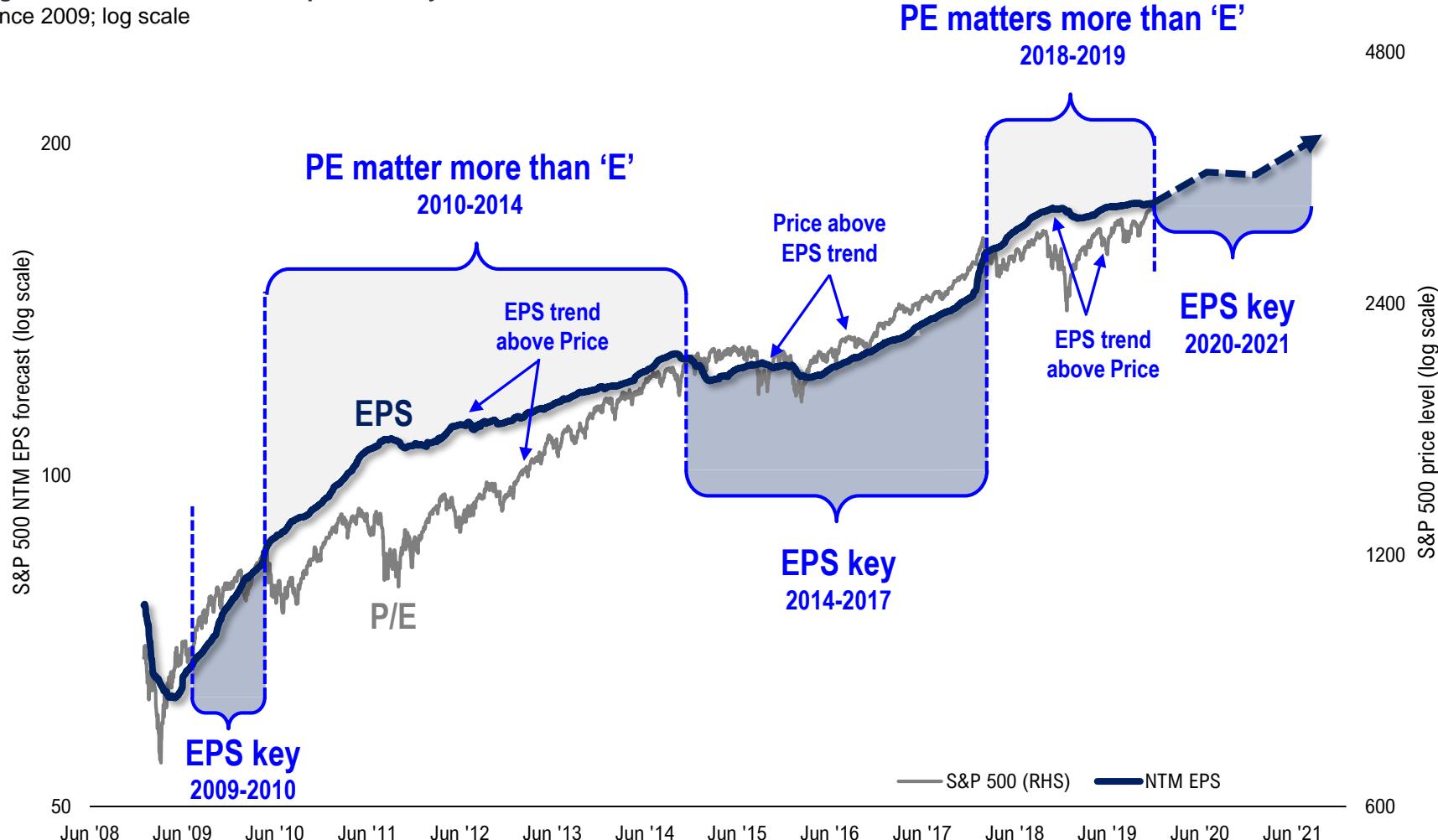
BIG PICTURE: EPS matters more in 2020, flipping regime of 2018-2019

S&P 500 EPS and price have roughly tracked each other since 2009 (below) but as shown below, there are times where P/E led, and times where EPS led.

- The last 2 years have been about P/E (de-rate in 2018, re-rate in 2019) but in 2020, we see EPS being the key.

Figure: S&P 500 NTM EPS and price history

Since 2009; log scale



Source: Fundstrat, Bloomberg, Factset

2020 TARGET: 3,450 based on 10% EPS growth, FLAT P/E (17.88X)

Our 2020 S&P 500 EPS is \$178 (inline with Street bottoms-up consensus) and we see P/E roughly flat.

- The acceleration of growth is due to the anticipated recovery in PMIs both US and globally.

Figure: Sensitivity analysis for EPS in 2020

Per Fundstrat

	Rating	Consensus EPS % growth		Fundstrat 2020 EPS % growth		
		2019	2020	Downside	Base	Upside
Cyclicals		0.7%	12.2%	3.3%	12.4%	17.7%
Consumer Discretionary	Neutral	1.4%	13.1%	3.0%	12.0%	15.0%
Industrials	Overweight	-2.5%	16.5%	5.0%	17.0%	20.0%
Information Technology	Overweight	2.0%	9.5%	3.0%	10.5%	18.0%
Materials	Overweight	-12.7%	13.6%	1.0%	14.0%	14.0%
Communication Services	Overweight	5.0%	12.5%	3.0%	12.0%	18.0%
Near-Cyclicals		-2.0%	7.3%	1.0%	7.4%	10.8%
Energy	Overweight	-28.6%	19.9%	-5.0%	15.0%	18.0%
Financials	Overweight	5.5%	4.8%	2.0%	6.0%	10.0%
Real Estate	Neutral	4.6%	5.6%	3.0%	6.0%	6.0%
Defensives		6.0%	7.4%	4.6%	6.9%	8.4%
Consumer Staples	Neutral	0.8%	6.0%	5.0%	5.0%	6.0%
Healthcare	Neutral	8.0%	8.6%	5.0%	8.0%	10.0%
Utilities	Underweight	9.3%	4.8%	2.0%	6.0%	6.0%
S&P 500		1.3%	9.7%	3.1%	9.7%	13.6%
EPS Level 2020			\$178	\$167	\$178	\$184
EPS Level 2021			\$197	\$181	\$193	\$200
YE 2020 P/E ('21E EPS)				17.00x	17.88x	18.00x
YE 2020 Fair Value				3,081	3,450	3,594

Source: Fundstrat

Cyclical EPS +100bp upside in China and bounce post-trade

-\$11 EPS

Best case

Base case

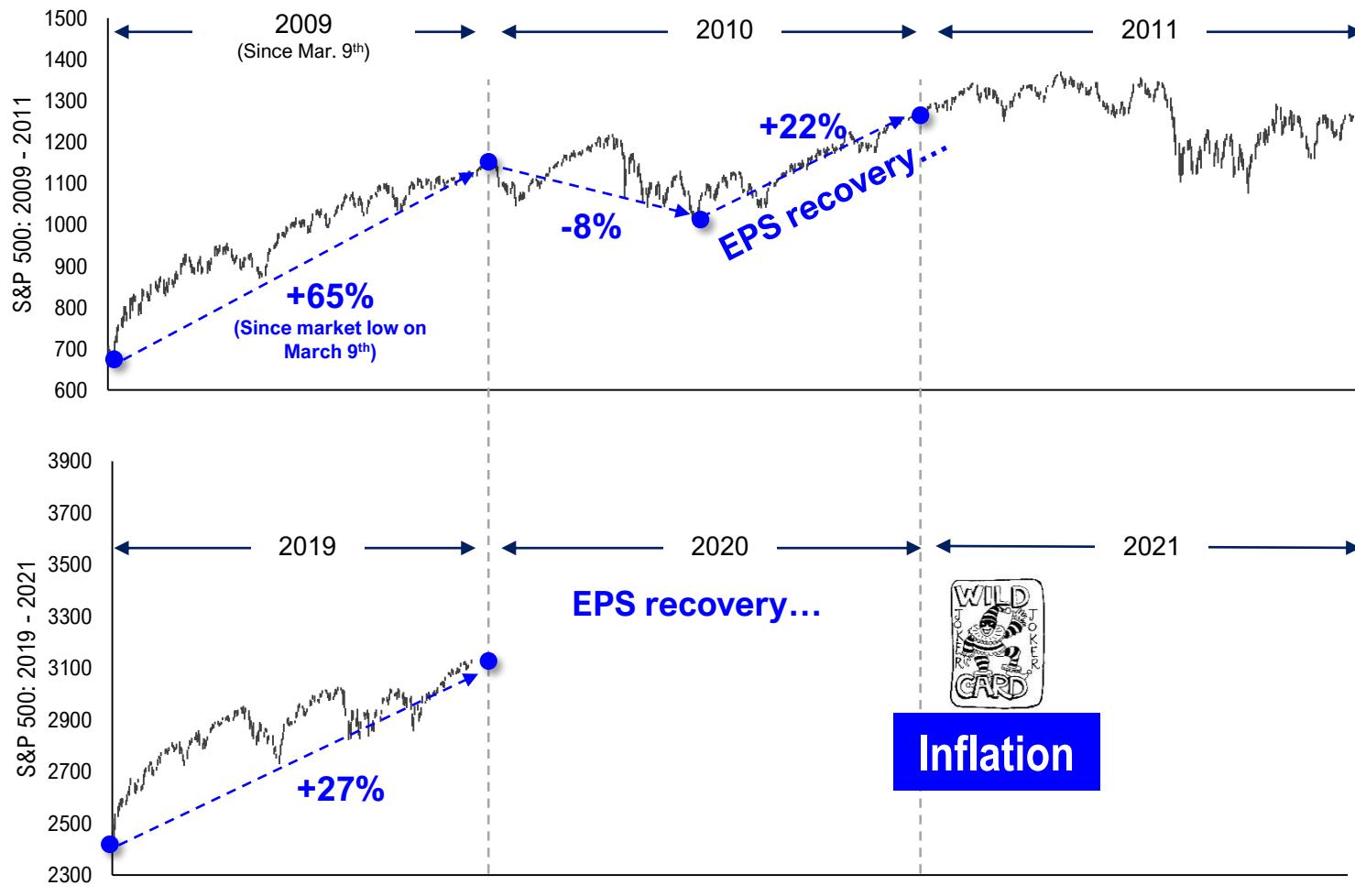
2020 ROADMAP: If 2009 → 2019, then 2010 → 2020

We stated, at the start of 2019, that “2009 was the best analog for 2019” and we believe this remains correct.

- Thus, we see 2020 mirroring 2010, and as shown below, sees 1H headwinds.

Figure: 3-year market comparison: 2019 – 2021 vs. 2009 - 2011

Per Fundstrat



Source: Fundstrat, Bloomberg, Factset

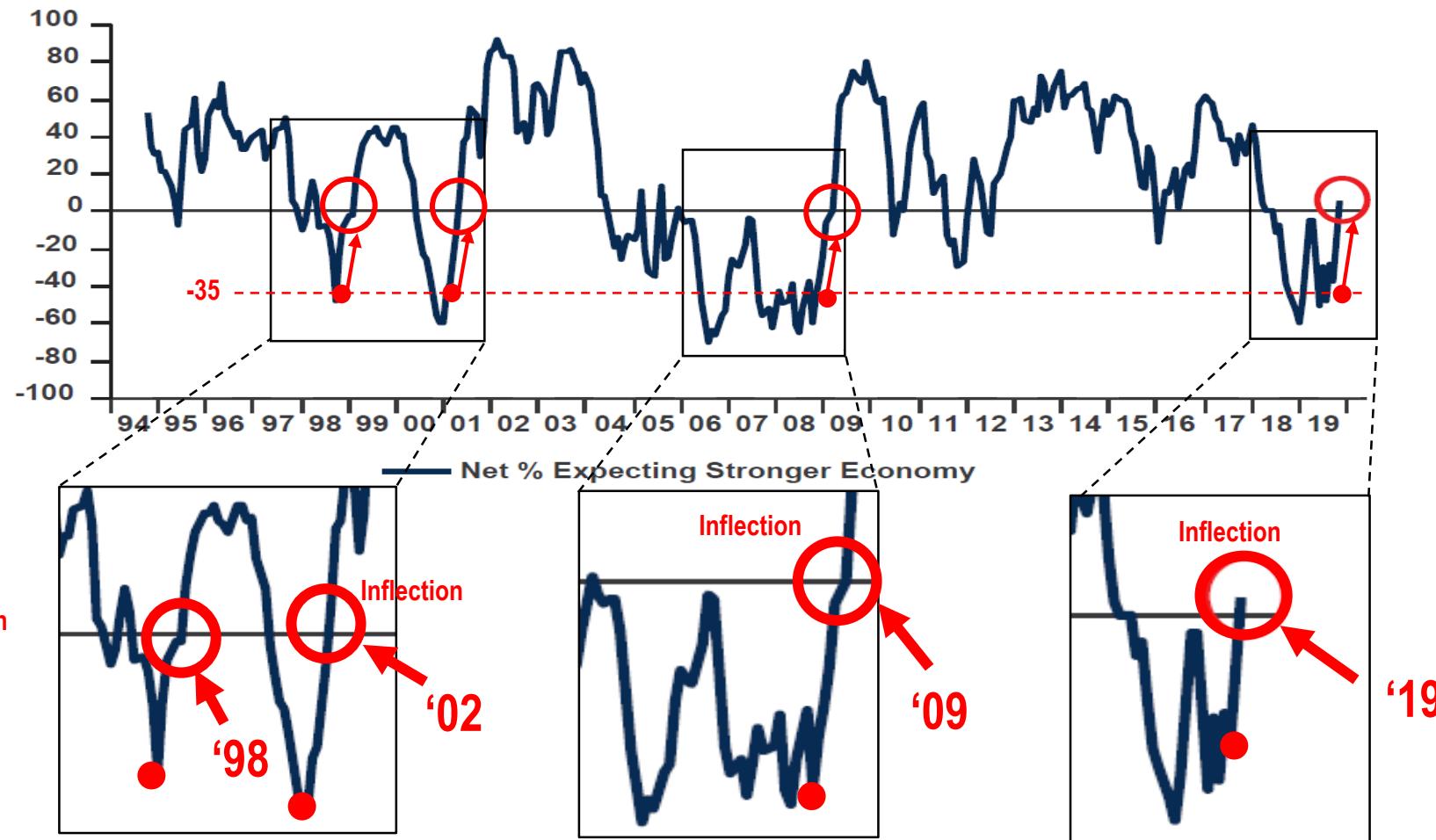
ANIMAL SPIRITS: Already here per BofA Merrill Survey

The most BofA Merrill Fund Manager Survey shows a pronounced flip in fund manager expectations about the economy to a net 6% vs -37% a month ago. This flip is quite unusual, particularly after extended negative readings.

- The flip to positive from -40 or worse has only been seen at inflection points (to positive) in equity markets. This is 1998, 2002 and 2009. In each case, this was a sustained risk-on signal. Sustained!!

Figure: BofA Merrill Survey: How do you think the global real economy will develop over the next 12 months?

Since 1994



Source: Bank of America Fund Manager Survey

2020 'Wildcards'



Inflation



Carnage in Privates (Private Equity + VC)

Asset Heavy stocks
+
DQM 1

Moving 'to inflation in late-2020:

- Tightening US labor
- Global depletion labor
- Millennial dynamics

**Asset Heavy “hedge”
against Wildcards...**

Slowing inflows + de-rating of VC+PE:

- Focus unit economics (post-WeWork)
- Rising rates = distress
- VC → late-cycle “network effects”

Equity Strategy

OW Asset ‘Heavy’

UW Asset ‘Light’

UW Subscription models

OW Consumer Discretionary
OW Asset ‘Heavy’

UW Asset ‘Light’

UW Subscription biz

BKNG, EBAY, CSCO, PYPL, DLB, KLAC, XLNX, MSFT, ORCL, AAPL, RGLD, PSX, AMP, AXP, LPLA, AMTD, BF/B, PM, AMGN, ENTA, NKTR, GOOGL, EIX, EXC, BKH, D

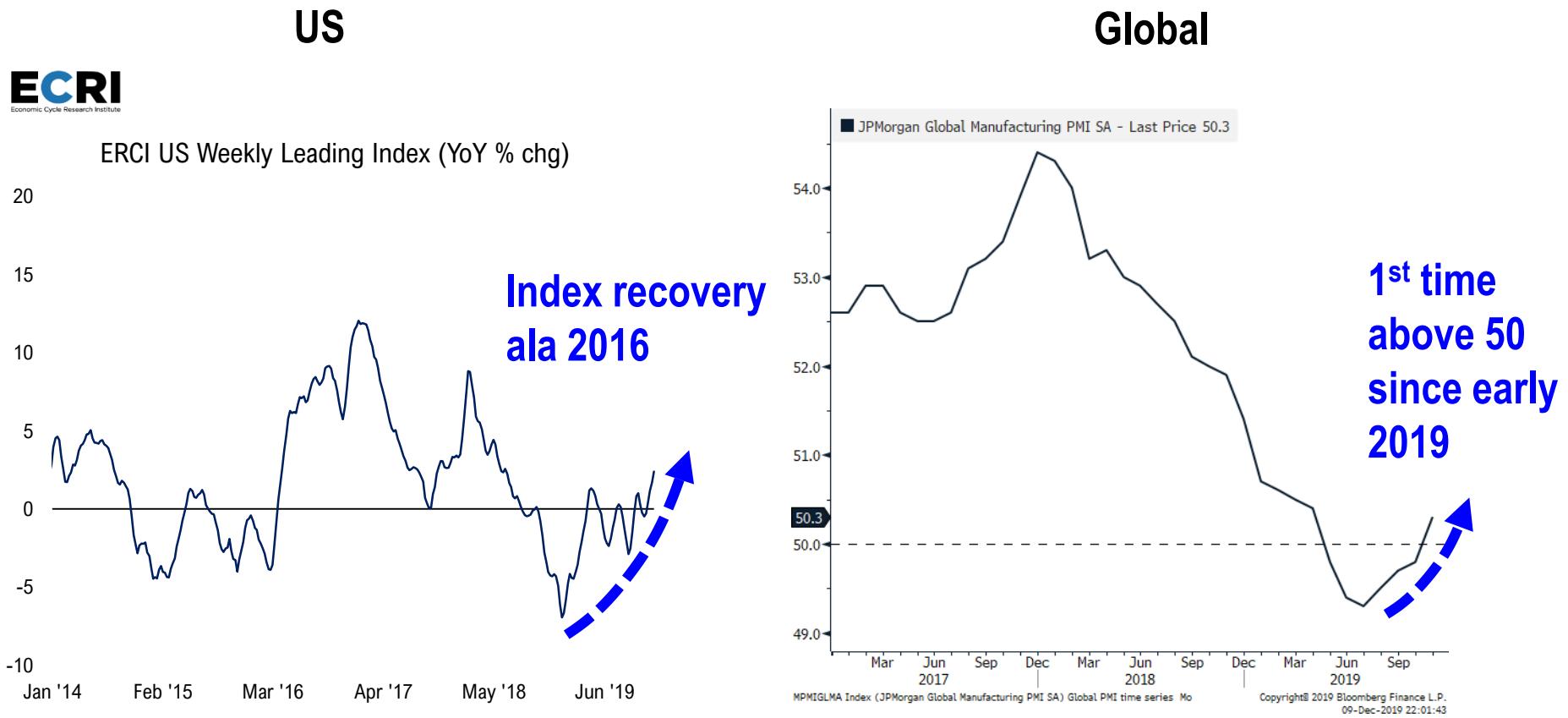
PMI BOTTOM: 2020 Economy > 2019 Economy

Leading indicators (ECRI US Weekly Leading Index) and Global PMIs are all pointing to the same general picture.

- The persistent weakness from mid-2018 to 2019 is ending and setting the stage for an improved growth outlook in 2020.

Figure: Improving indicators both in the US and Global PMIs

Per Fundstrat



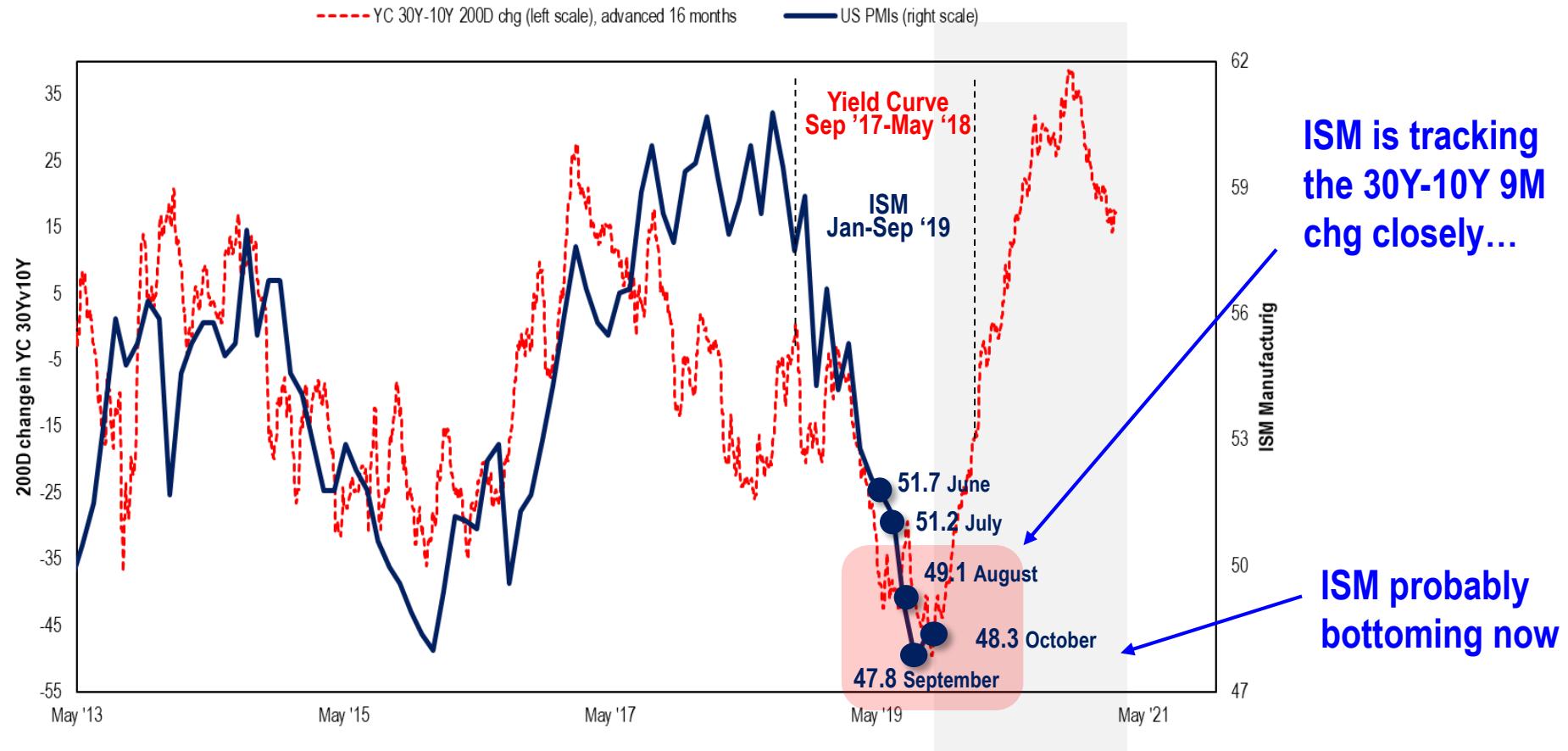
Yield Curve “smarter” than Economists: 30Y-10Y predicted ISM turns

The long-term yield curve (10M change of 30Y-10Y yield spread) signaled 16M ago a downturn in ISM PMI was coming.

- Since our April 2017 study, the long-term yield curve seems to be doing a pretty good job of predicting ISM.
- The continued weakness was predicted 16 months ago and if the pattern holds, the ISM should be bottoming now with an upturn expected as we move into year-end.

Figure: Long-term yield curve 10M change (advanced 16-months) and ISM Manufacturing

Past 6 years



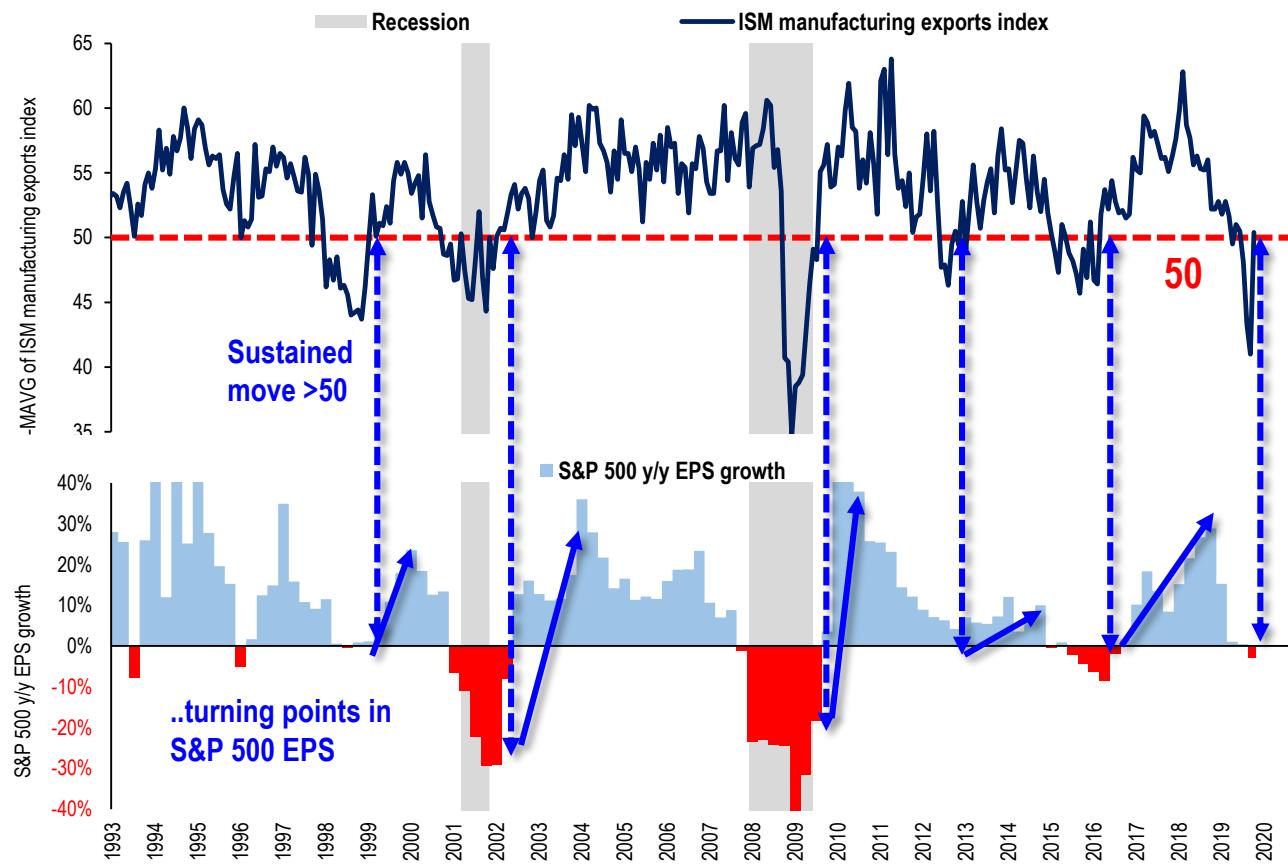
EPS BOTTOMING: ISM exports >50 in October... 2020 EPS accelerates

The Oct ISM Exports posted a 50.4, a sharp rebound from September's 41.0, lowest since the Great Recession.

- As shown on bottom right table, each 1 point increase in ISM Exports adds 0.6% to S&P 500 EPS growth. The recent ISM reading of 50.4 is 9.4 points higher than September. History suggests S&P 500 EPS growth should rise by 545bp.
- We believe this recovery reflects abating of oil shock, weakening USD and generally improving conditions.

Figure: ISM manufacturing exports index and S&P 500 y/y EPS growth

Since 1993



	ISM exports index	3-MAVG of ISM exports	S&P 500 1Y fwd growth (y/y)
Date			Sales EPS
3/31/1999	50.1	51.1	13.3% 18.4%
3/31/2002	50.6	50.5	6.7% 11.2%
8/31/2009	55.1	50.8	4.0% 37.9%
2/28/2013	52.5	51.5	2.1% 12.1%
9/30/2016	52.1	52.3	6.6% 8.5%
Average	52.1	51.2	6.6% 17.6%
Median	52.1	51.1	6.6% 12.1%
% of times positive			100% 100%
Current			
10/31/2019	50.4	44.9	- -

$$\text{Regression: } Y = -21\% + 0.58\% * X$$

X = ISM export orders
Y = S&P 500 EPS growth

Since 1990, each 1-point increase in ISM exports adds 0.58% to EPS growth.

In other words, the rise in ISM exports in October implies EPS growth rates accelerated 545bp or so in next 12 months

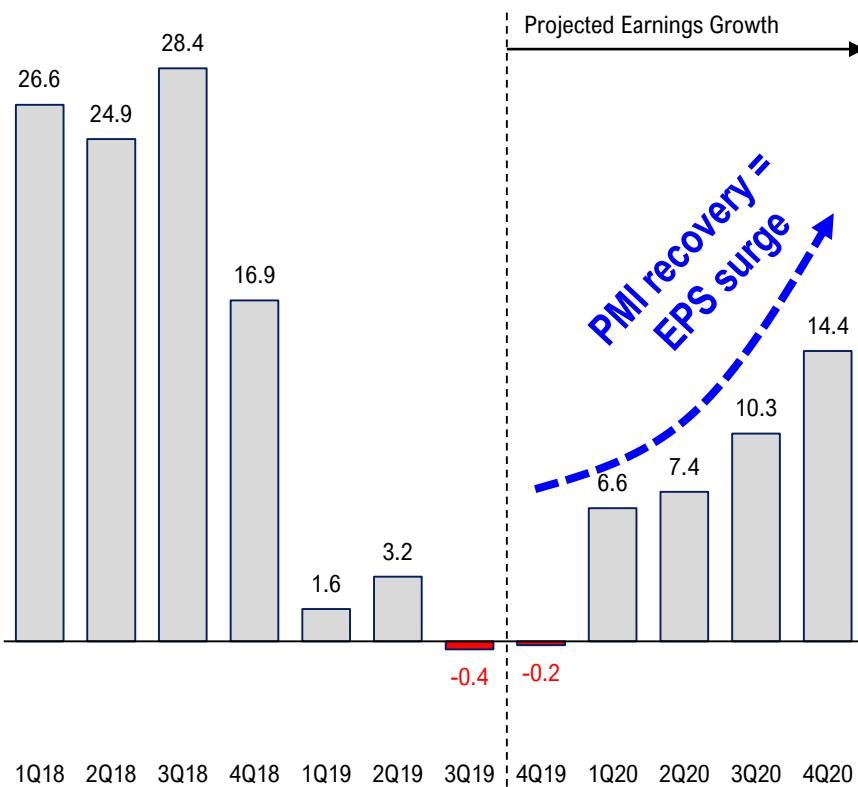
Source: Fundstrat, Bloomberg, ISM.

EPS RECOVERY: Deeper Cyclical forecast >45% EPS growth (~35% EPS)

The base case for our “EPS is key” outlook is a recovery in 2020 EPS growth towards double-digits (see below).

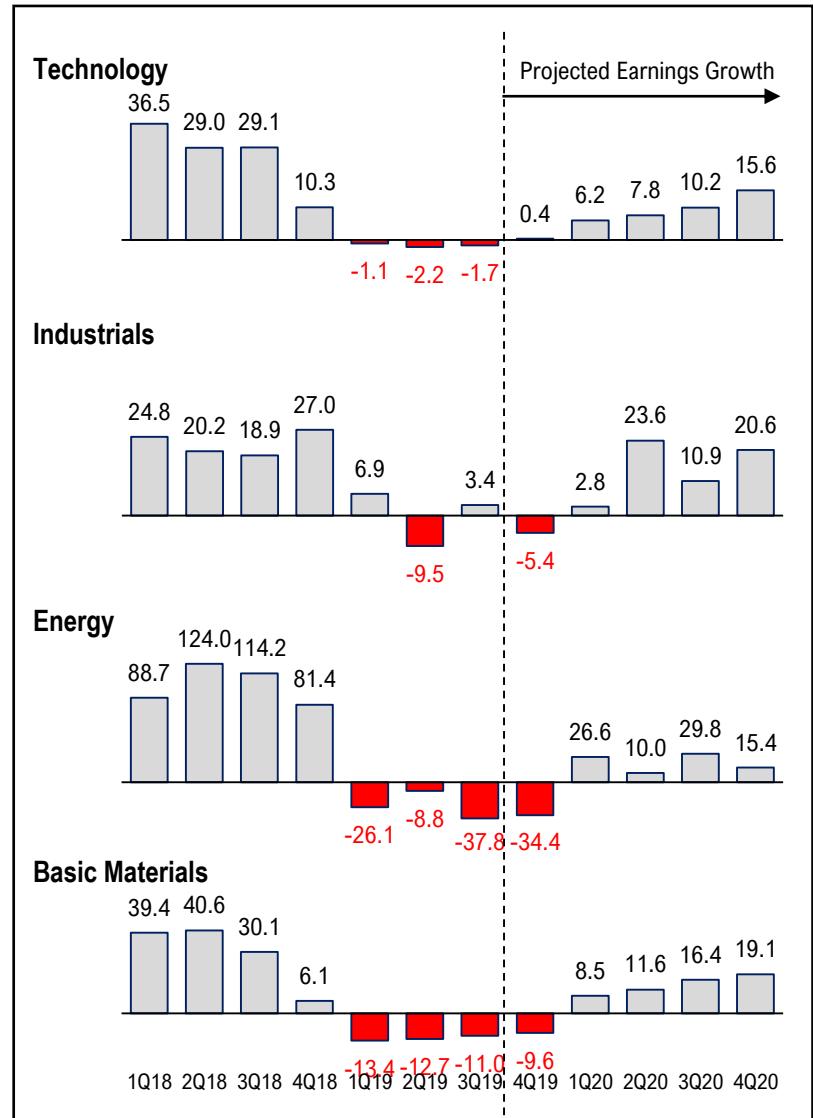
- Deeper Cyclical sectors are driving this recovery led by Technology, Industrials, Energy and Basic Materials. Collectively, this is forecast to be >45% of EPS gains in 2020.

S&P 500 EPS YoY Growth (%)



Source: Fundstrat, Refinitiv

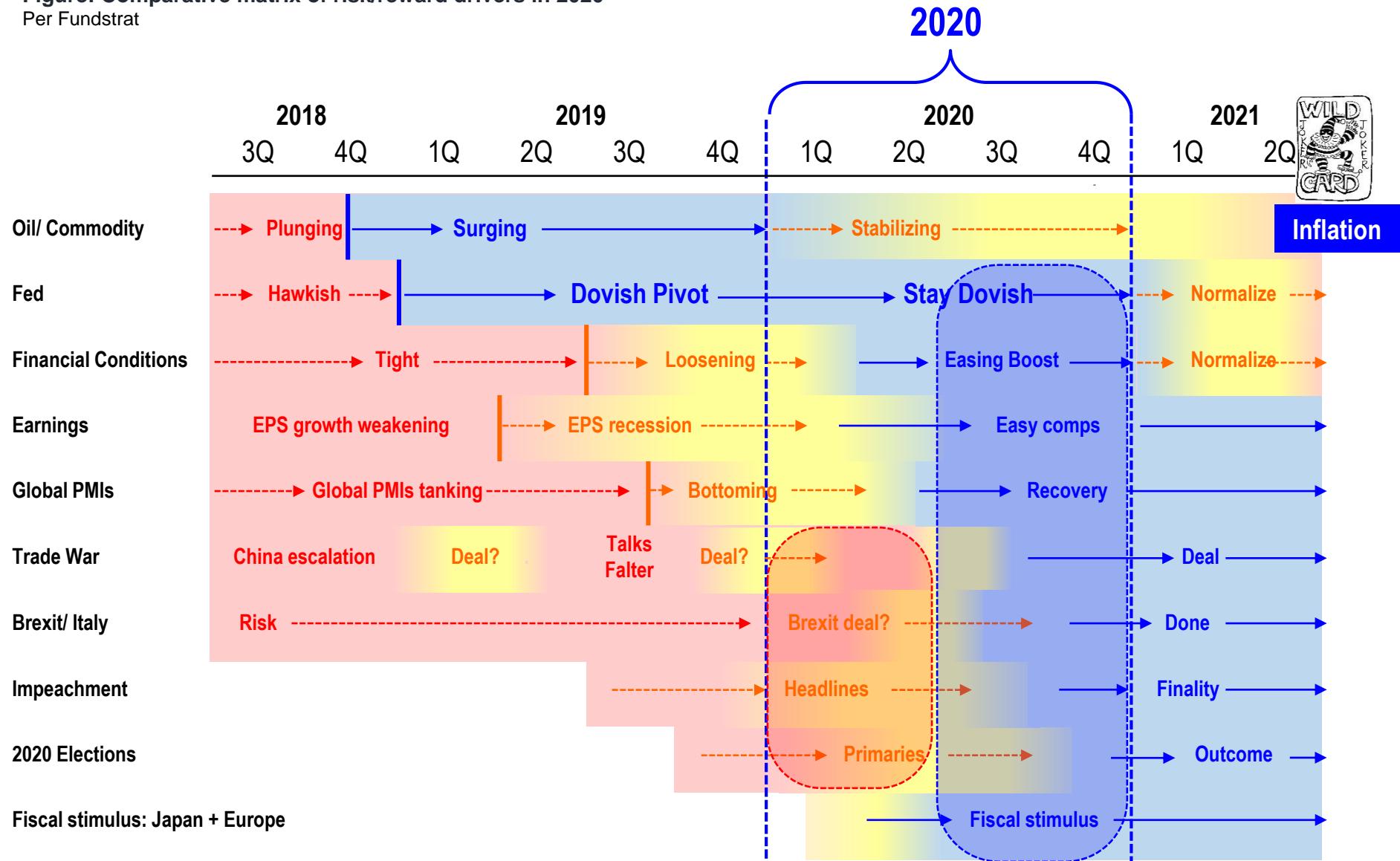
PMI recovery =
EPS surge



2020 ROADMAP: 1H 'headwinds' and 2H more 'tailwinds'

Figure: Comparative matrix of risk/reward drivers in 2020

Per Fundstrat



Source: Fundstrat

MARKET NOWHERE: 'Market has gone nowhere since 2018' say bears...

The S&P 500 has not managed significant gains in the past 20 months, despite a pretty nice gain since start of 2019.

- The flatness of markets is highlighted below: 20-month gain <5%; 12-month <2% but still hovering near all-time highs and with a positive slope.

Figure: S&P 500 price

Since 2015



Source: Fundstrat, Bloomberg, Factset

How flat has S&P 500?

Flat markets...

- (a) 20-month return = **4.8%**
- (b) 12-month return = **2.3%**
- (c) Distance to 5Y high = **1.2%**

Flat slope 200D avg...

- (d) 200D mov avg: 4-mo % chg = **2.9%**

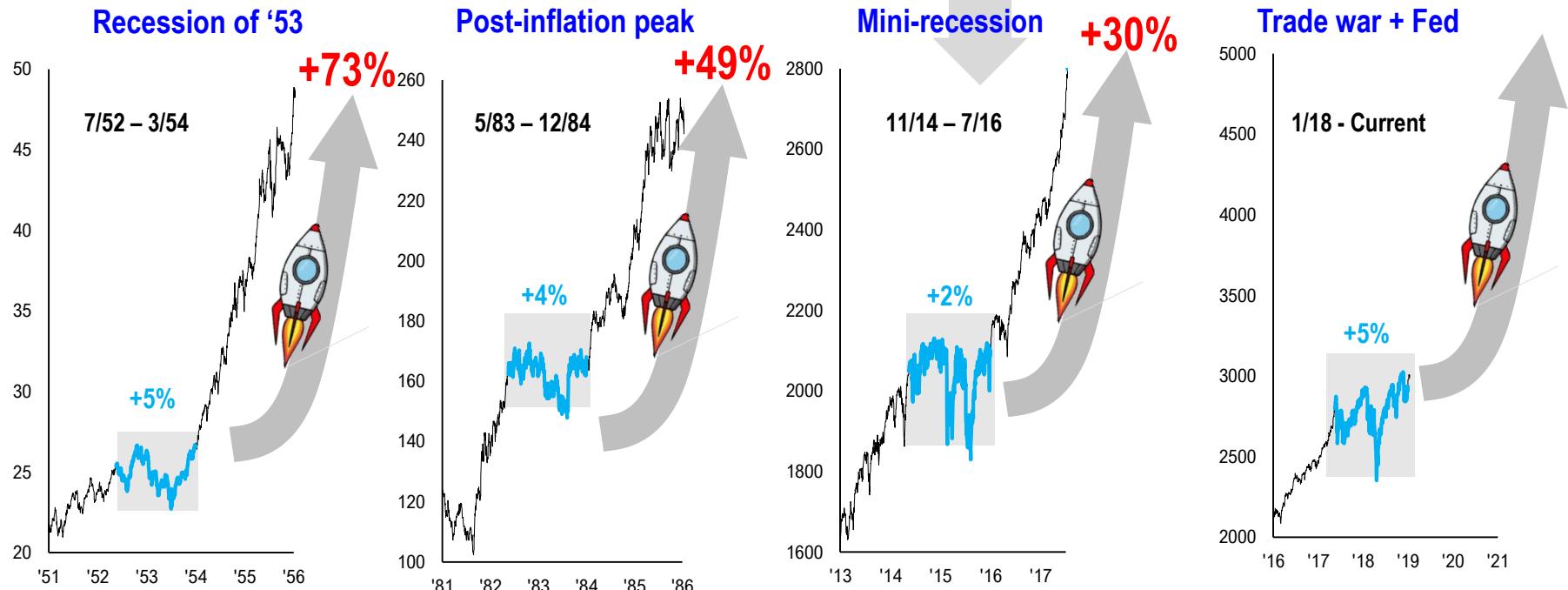
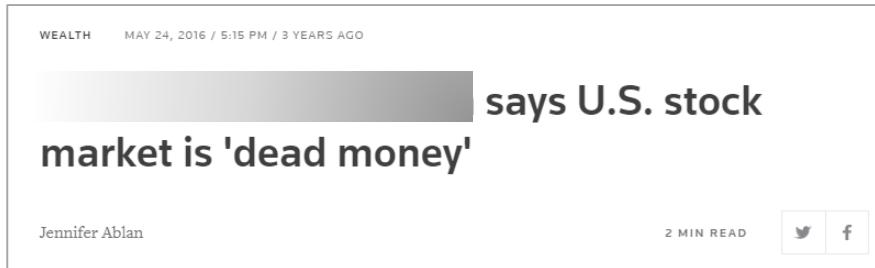
MARKET NOWHERE: markets blast off after a period of “flat markets”

The periods that saw similar flat markets were 1952-1954, 1983-1984 and 2014-2016.

- As shown below, in each of the cases, equity markets “blasted” off after the consolidation ended

Figure: current 20m flat (<5%) market and similar instances vs. major S&P 500 tops

Per Fundstrat, 20-month period where stocks met 4 criteria (from other page)



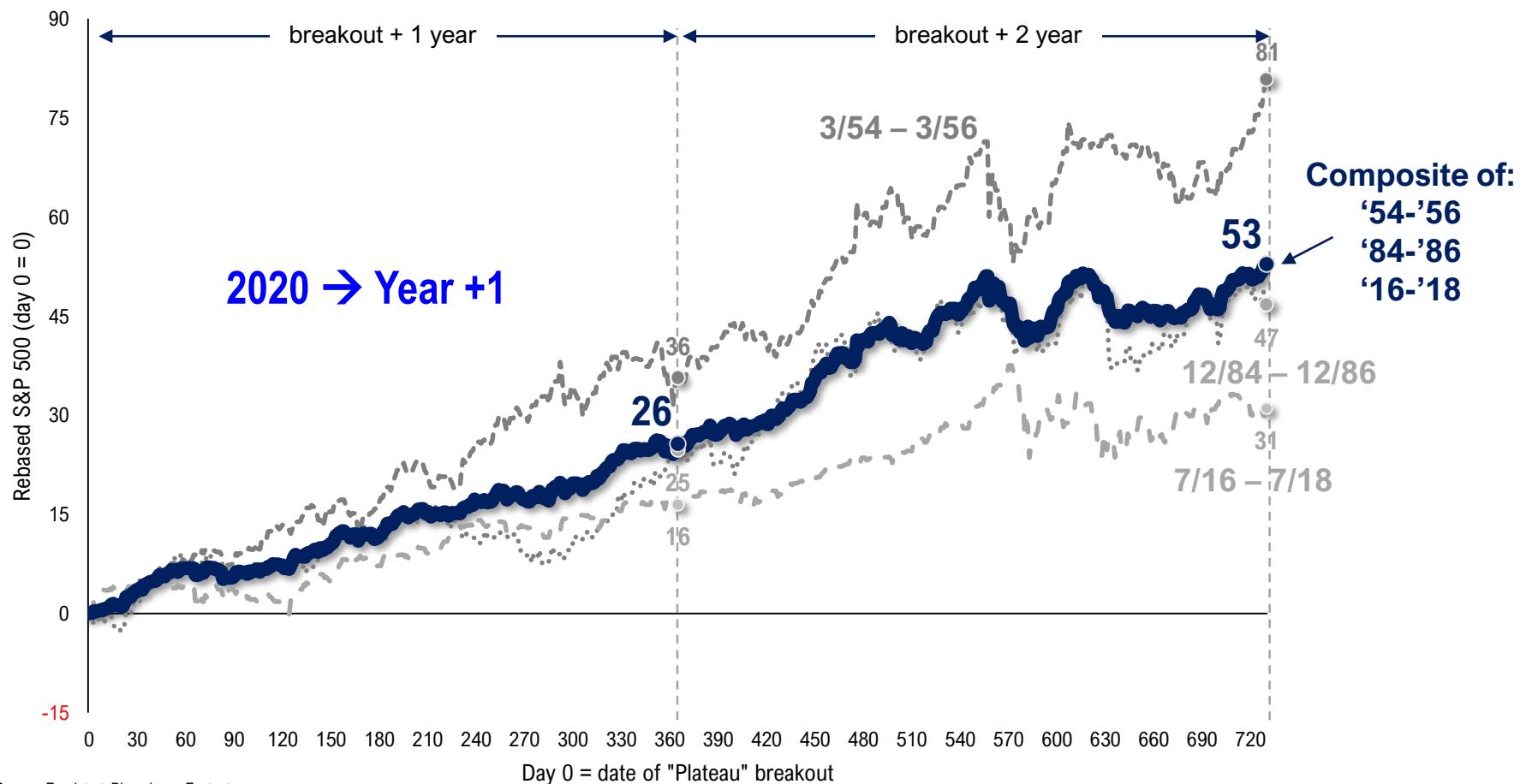
MARKET NOWHERE: Implies 2020 could see +25% gains...

We mapped the composite performance of equity markets following a period of "markets going nowhere" and as shown below, the return profile is fairly "linear"

- This implies 2020 price gains could be better than the 10% that is our base case.

Figure: S&P 500 performance following the "plateau" breakouts

Forward 2 years performance; Day 0 rebased to 100



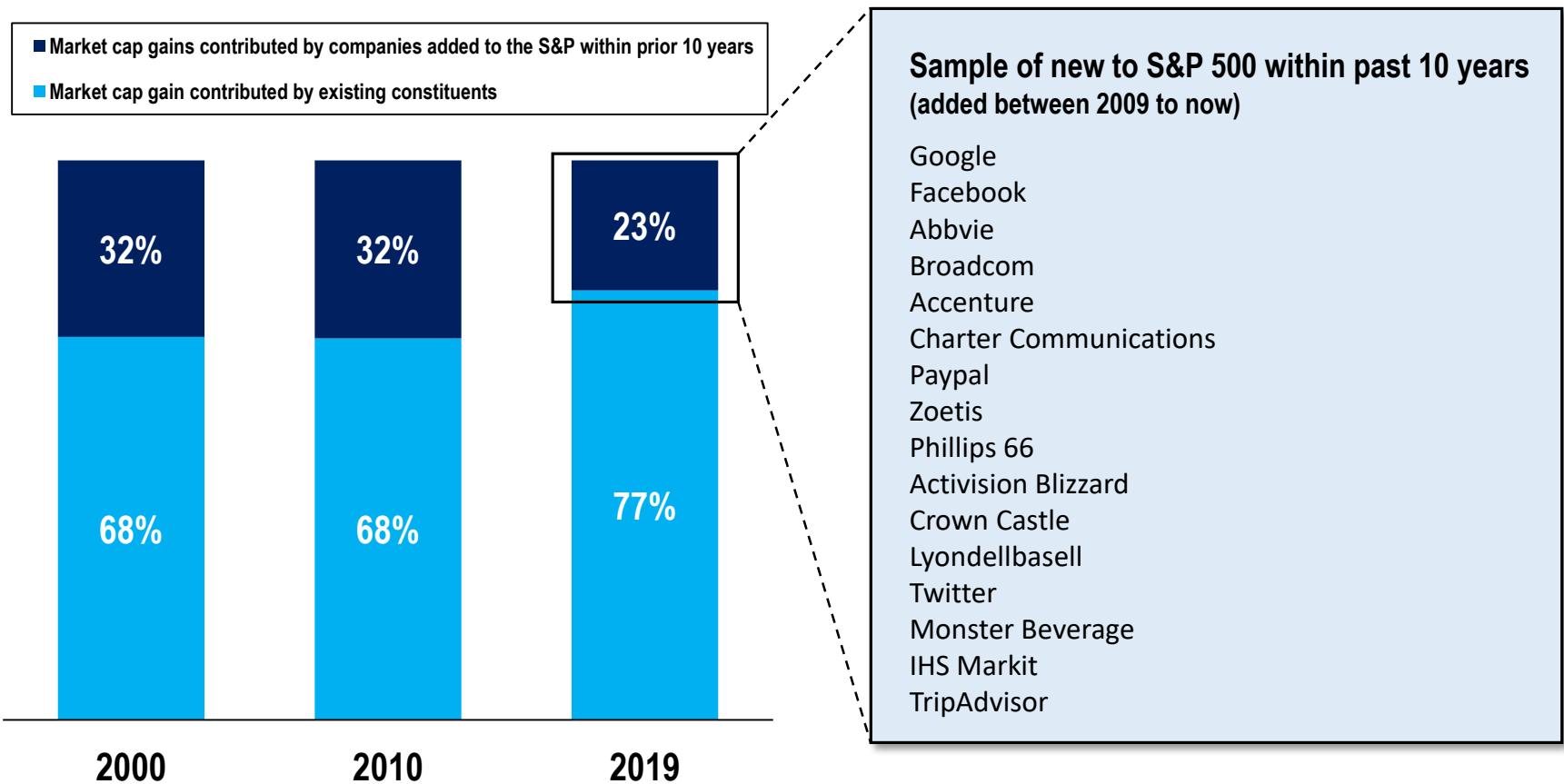
LEGS TO BULL: Newly-added companies will drive 23% of gains in S&P 500

Notably, our confidence in the future gains in the S&P 500 are driven by the realization that new companies will drive a meaningful share of gains.

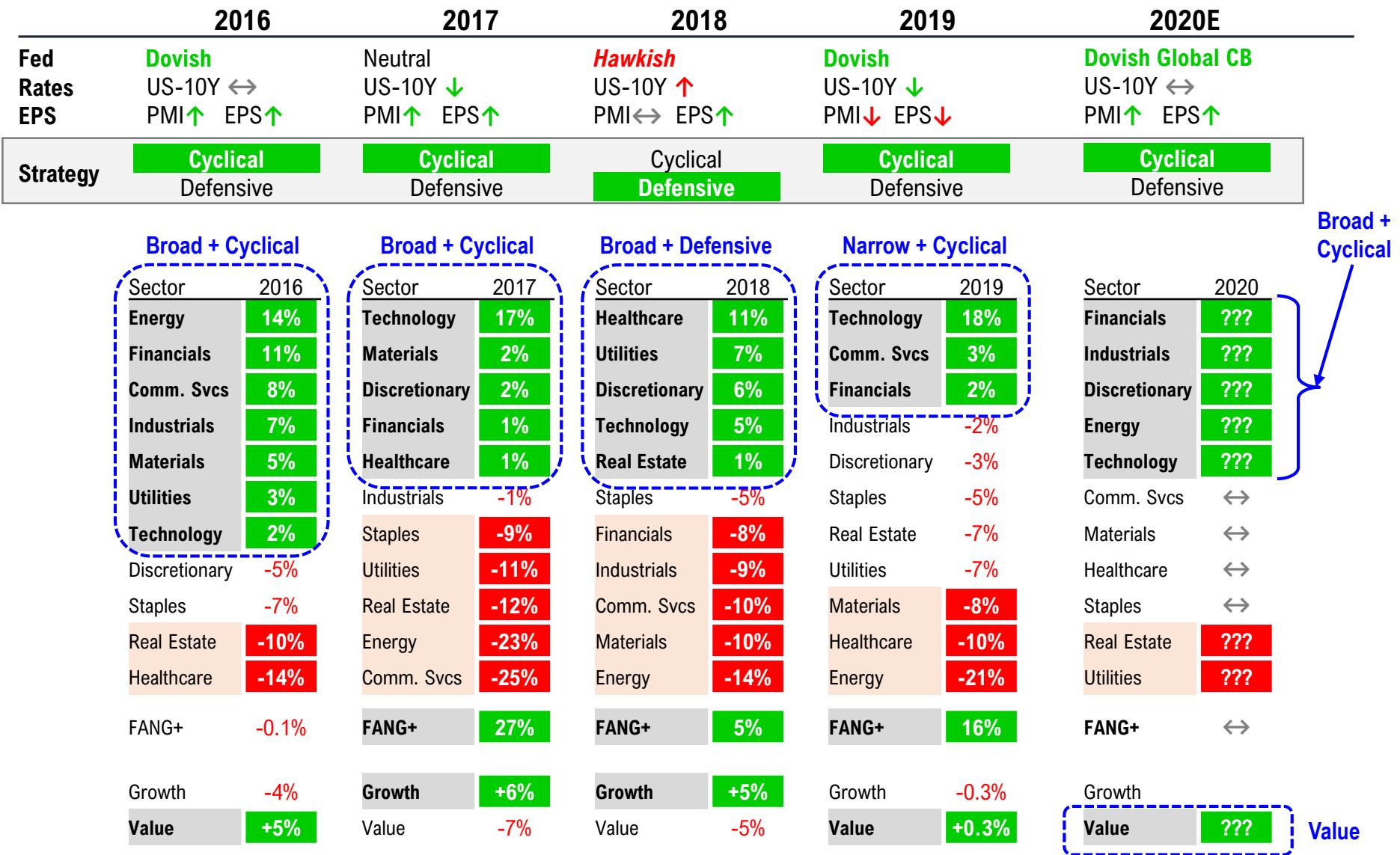
- As highlighted below, more than 23% of the return of the S&P 500 within any 10-year period is driven by companies added within the prior 10-year period.

Figure: Share of overall market gains driven by companies new to S&P 500 within prior 10 years

Three periods highlighted. 2000, 2010 and 2019—corresponding prior period is 1990, 2000 and 2009



STRATEGY: Sector outlook → Cyclical OW



PMI RECOVERY: Since 1949, PMI > 50 = Cyclical & Value

Below we show the sector and style relative performance against the S&P 500 when the PMI recovered back above 50.

- Since 1949, Cyclical outperform. But more interestingly, in the last 25 years, 3 groups consistently outperform—Technology, Energy and Value.

Figure: Sector relative forward performance (%) when PMI recovers above 50

Per Fundstrat;

6-Month Forward Return		Health care										Consumer			Value less Growth
		Technology	Financials	Industrials	Materials		Discret.	Staples	Energy	Utilities	Telecom	Value	Growth		
Sep'49		12.2	1.9	3.4	2.7	8.7	-4.4	-4.6	-9.3	0.5	-2.0	3.4	2.1	1.3	
Jul'52		0.9	5.4	0.0	-4.5	-13.5	-2.0	-0.5	-11.6	2.6	-0.8	0.9	-3.2	4.1	
May'54		6.3	4.1	7.3	2.3	-0.9	3.6	-8.5	-3.9	-9.8	-9.8	11.0	-0.7	11.6	
Jun'58		14.0	-6.5	3.0	-2.8	15.3	7.9	-2.9	-14.1	-6.9	2.9	11.7	-0.9	12.7	
Mar'61		-1.4	7.0	1.1	-5.0	-5.4	-1.9	12.2	-5.6	8.9	-2.6	-0.1	3.9	-4.0	
Aug'67		-1.8	4.0	-6.0	-1.3	-7.1	4.2	-2.1	1.5	-2.6	-3.8	-7.5	-6.1	-1.4	
Feb'71		2.4	6.0	-0.2	-0.8	3.4	3.3	4.5	-3.1	-7.9	-9.2	3.1	9.5	-6.4	
Aug'75		10.1	-4.1	-0.2	2.4	-15.9	3.6	-9.2	-21.2	-5.6	3.6	26.1	2.9	23.2	
Sep'80		-11.0	3.5	3.4	7.0	4.9	3.6	3.3	-7.7	-5.6	-6.1	-2.0	-1.9	-0.1	
Feb'83		4.8	-1.4	-10.2	2.9	-7.1	-0.6	-6.8	17.3	-5.9	-8.6	3.3	-5.8	9.0	
Oct'85		-4.0	2.4	1.5	6.4	9.1	6.5	4.6	-38.6	-10.0	-1.2	-2.5	5.4	-8.0	
Jun'91		-9.8	4.8	-5.5	-10.2	16.0	-1.4	11.4	-11.3	5.8	-5.2	-4.6	7.1	-11.7	
Last 25 years	Jun'96	13.9	10.9	-0.3	-3.4	0.2	-11.3	-1.5	1.4	-10.4	-9.9	0.4	-0.4	0.8	
	Jan'99	2.2	-1.1	6.3	18.0	-11.7	-1.5	-11.1	24.8	-1.8	1.1	3.5	-3.0	6.4	
	Jul'03	8.2	-0.6	2.8	0.0	-7.3	-1.2	-5.1	5.3	0.8	-2.7	1.4	-1.4	2.8	
	Aug'09	1.7	-8.2	7.1	-1.6	1.8	8.5	0.9	-1.3	-8.4	-10.8	-1.4	1.2	-2.5	
	Mar'16	3.5	0.4	-0.9	1.1	1.1	-4.1	-4.7	7.3	-6.5	-6.4	0.3	-0.3	0.7	
Sorted by	5 of 5					4 of 5					4 of 5				
	Average	3.1	1.7	0.7	0.8	-0.5	0.8	-1.2	-4.1	-3.7	-4.2	2.8	0.5	2.3	
	Median	2.4	2.4	1.1	0.0	0.2	-0.6	-2.1	-3.9	-5.6	-3.8	0.9	-0.4	0.8	
	Win Ratio	71%	65%	59%	53%	53%	47%	35%	35%	29%	18%	65%	41%	59%	
	St. Dev.	7.4	5.0	4.7	6.2	9.5	5.1	6.7	14.4	5.7	4.6	7.7	4.3	8.5	
	Sharpe Rat	42%	34%	16%	13%	-5%	15%	-18%	-29%	-64%	-92%	36%	12%	27%	

Cyclical > Defensives

Source: Fundstrat, Bloomberg, Factset

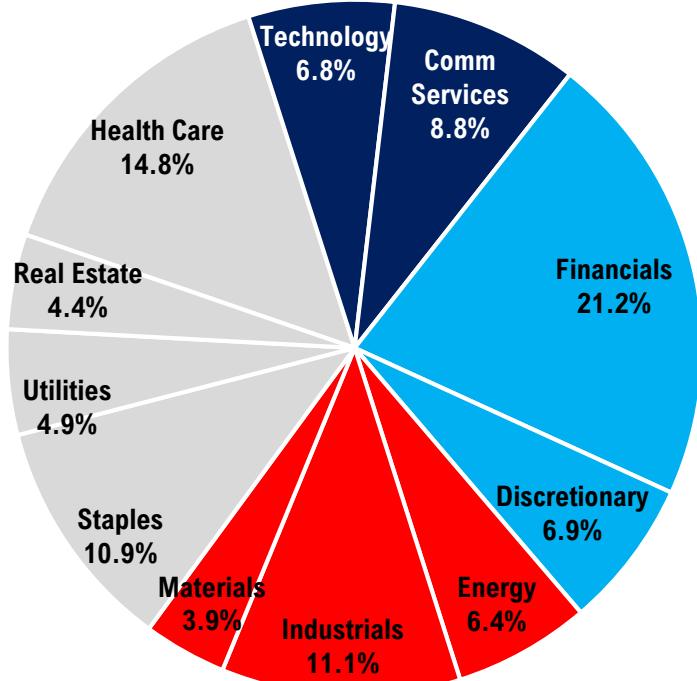
OW VALUE: Composition of Russell 1000 Value Index

Why does Value tend to outperform when the PMI recovers above 50? The composition of the Value index as shown below could explain.

- The “deep cyclical” sectors which are most sensitive to change in economic condition – Industrials, Materials and Energy – represent 21% of the Value index. Additionally, Technology (including Communication Services) and Financials represent more than one third of Value index. They are the best performing sectors ([Slide 14](#)).

Figure: Russell 1000 Value Index Sector Weight

As of 12/12/2019

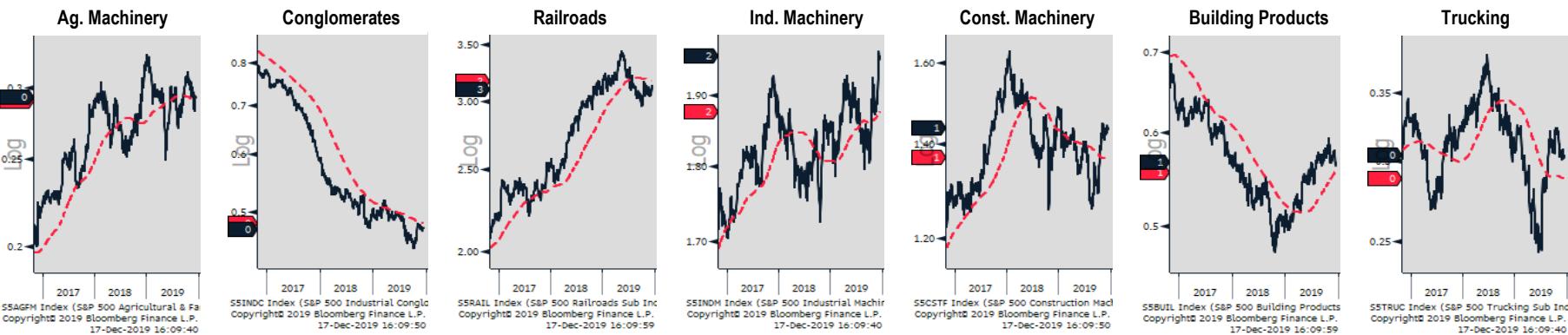


Source: Fundstrat, Bloomberg, Factset

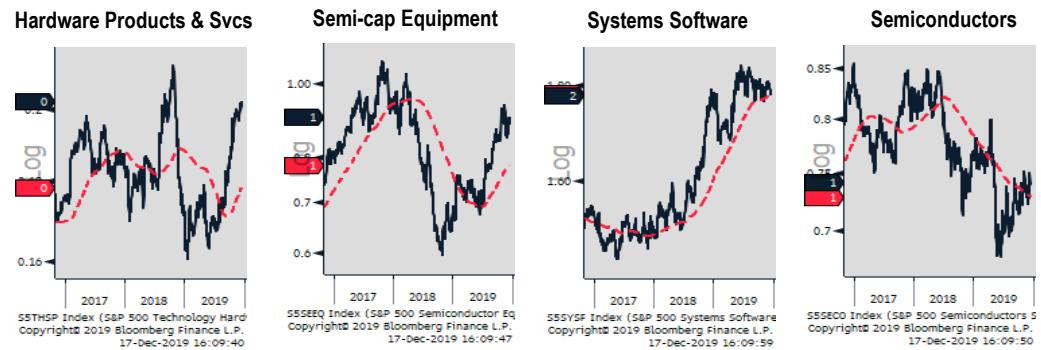
	Company information		Fundamentals & Valuation				
	Ticker	Company name	Mkt cap (\$ mm)	'20E		'20E	
				Div.	sales %chg	EPS %chg	
Technology	1 CIEN	Ciena Corp	\$6,391	--	6%	23%	15.9x
	2 VRSN	Verisign Inc	\$22,469	--	5%	6%	34.0x
	3 INTC	Intel Corp	\$251,909	2.3%	2%	1%	12.4x
	4 MXIM	Maxim Integrated Prc	\$16,146	3.1%	-4%	-8%	26.8x
	5 NVDA	Nvidia Corp	\$137,541	0.3%	20%	31%	30.8x
	6 AAPL	Apple Inc	\$1,221,765	1.1%	6%	9%	21.2x
Comm. Svcs.	7 FB	Facebook Inc-Class A	\$553,353	--	22%	43%	21.2x
	8 GOOGL	Alphabet Inc-C1 A	\$931,081	0.0%	18%	17%	24.7x
Financials	9 AMP	Ameriprise Financial I	\$21,185	2.4%	3%	11%	9.3x
	10 STT	State Street Corp	\$28,835	2.7%	1%	10%	12.4x
	11 CFG	Citizens Financial Gr	\$17,443	3.7%	1%	2%	10.4x
	12 MTB	M & T Bank Corp	\$22,416	2.7%	-2%	-0%	12.5x
	13 SIVB	Svb Financial Group	\$12,882	0.0%	-0%	-10%	13.0x
Industrials	14 DE	Deere & Co	\$54,322	1.8%	-7%	-6%	18.4x
	15 CAT	Caterpillar Inc	\$80,417	2.9%	-5%	-2%	13.6x
	16 CMI	Cummins Inc	\$27,895	2.5%	-8%	-13%	14.1x
	17 EMR	Emerson Electric Co	\$46,186	2.7%	1%	-1%	20.8x
Energy	18 KSU	Kansas City Southerr	\$15,010	1.1%	6%	15%	18.9x
	19 HP	Helmerich & Payne	\$4,568	6.7%	-12%	-74%	93.0x
	20 CVX	Chevron Corp	\$223,331	4.2%	1%	8%	17.1x
	21 MUR	Murphy Oil Corp	\$3,921	4.0%	5%	-30%	34.9x
	22 COP	Conocophillips	\$68,656	2.7%	-14%	-9%	18.9x
Average			\$171,260	2.5%	2%	1%	22.5x
Median			\$28,365	2.7%	1%	2%	18.6x
% of stocks positive				64%	55%		

OW CYCLICALS: Technology + Industrials + Financials

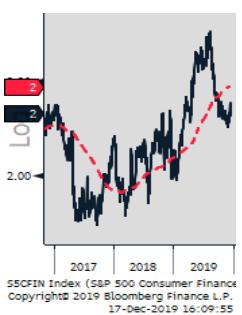
Industrials



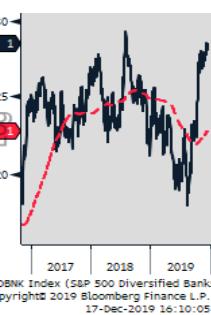
Technology



Consumer Finance



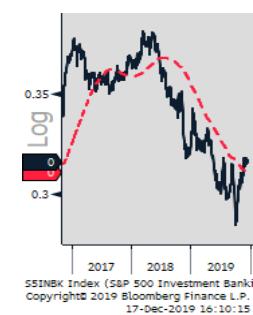
Diversified Banks



Asset Management



Investment Banking & Brokerage

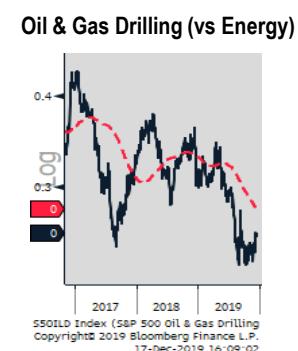
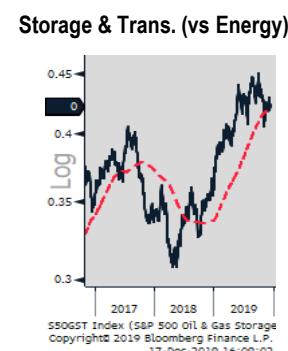
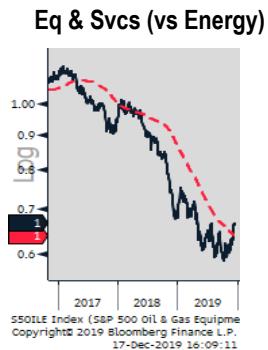
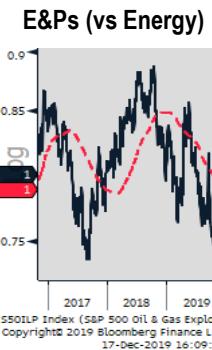
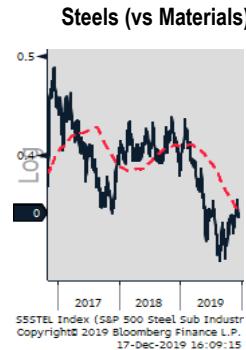
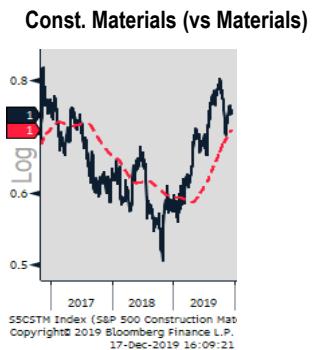
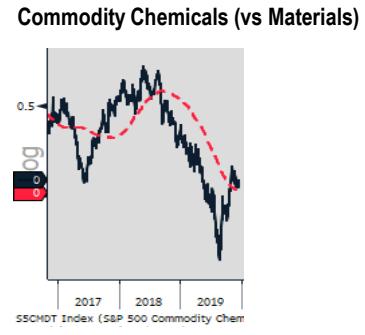
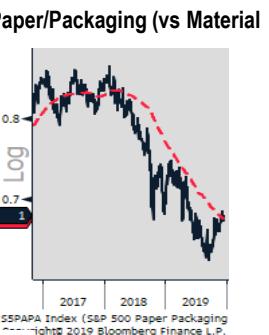
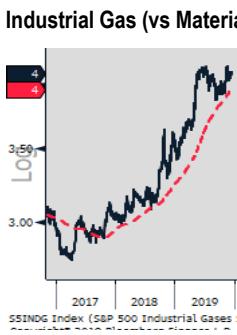


Financials

LOW CYCLICAL RESOURCES: Materials + Energy



Basic Materials

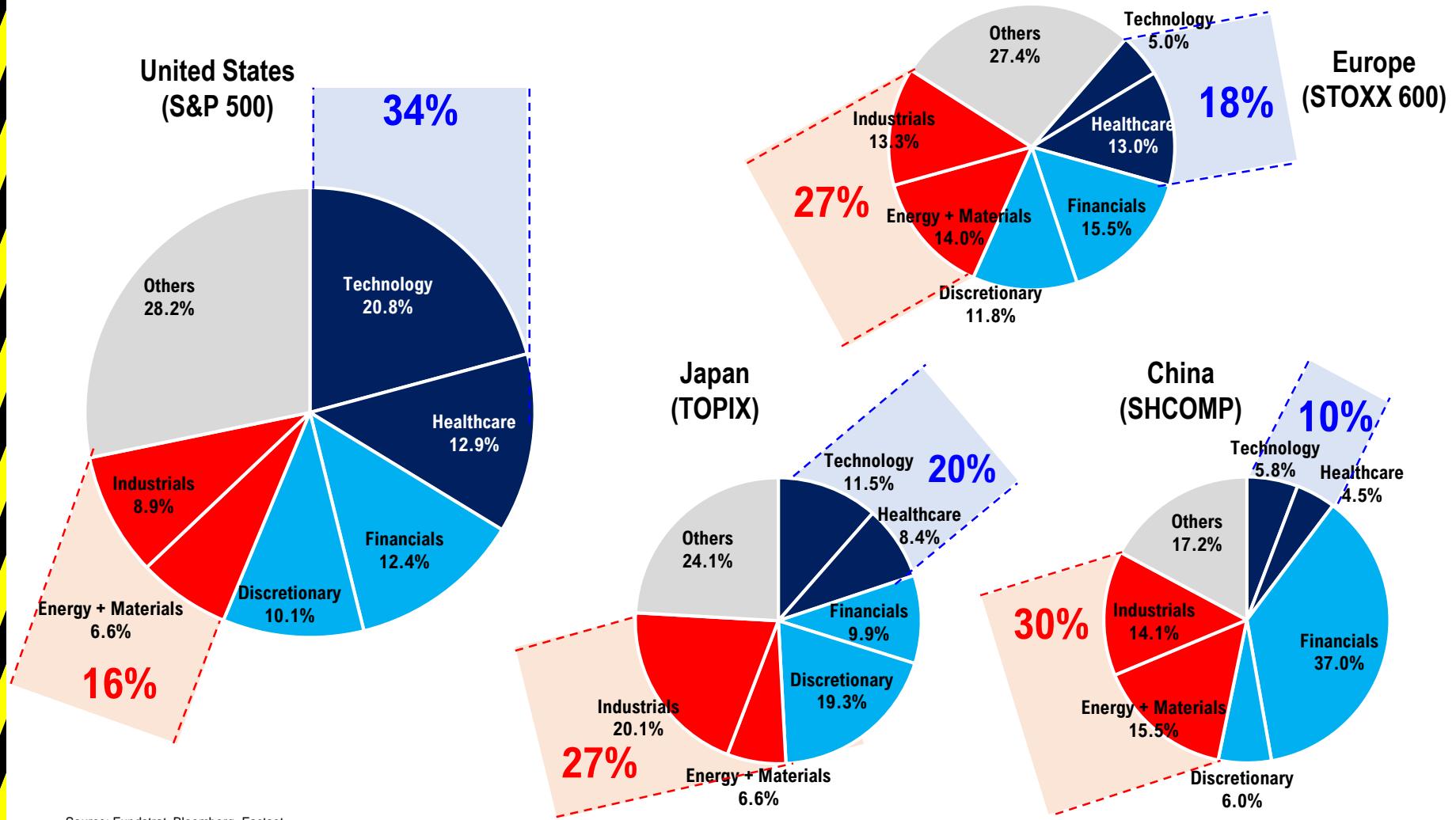


Energy

VALUE: US highest Value-capture, Europe + China high Value style

- The S&P 500 has a higher mix of ‘high-margined’ or “high-value” sectors such as Technology and Healthcare. And has the lowest share of “Deep cyclicals” like Industrials, Energy and Basic Materials.

Figure: Global Equity Indices Sector Weight
As of 9/3/19



Source: Fundstrat, Bloomberg, Factset

STRATEGY: Themes for 2020

1. Overweight US

US de-couples from RoW

2. Overweight Technology

Technology/ Industrials supply “non-human” labor

3. Overweight Asset Heavy

Reflation hurts “subscription” boosts “asset heavy”

4. Overweight Millennial

Millennials primary driver of credit expansion

5. Overweight Value vs Growth

Value beats Growth in a rising rate world

Thematic — 3-5 years

Execution of Strategy

Millennials prime years

Millennials driving >50% GDP growth.

- OW Millennial transformation.
- OW Millennial accelerates growth.

COLM, TPR, BWA, TSLA, ORLY, NKE, ULTA, PYPL, SQ, AXP, JPM, ALL, TAP, BF/B, PM, GOOG, FB, DIS, TMUS, GRMN, TOL, WM, PG, GIS, EL, AAPL, MNST, ED

Labor shortage—Automation

World is short 78 million workers.

- OW Automation/ AI suppliers.
- OW beneficiaries of Automation/ AI

APTV, GNTX, SRI, GRMN, CW, MOG/A, TDY, DE, AME, EMR, RBC, ROK, ROP, LECO, PH, ADSK, SNPS, CSCO, FLIR, ZBRA, MKSI, AVGO, NVDA, QCOM, XLNX, IMMR, ISRG, VAR, GOOG, CPRI, TSLA, AAP, AAPL, KSS, GPC, DG, TGT, BSET, ETH, LOW, AMZN, DENN, TSCO, POWL, CSL, DOV, HURN, COST

Higher inflation—Assets vs OpEx

Inflation trending higher long term.

- OW Assets over OpEx.

BKNG, EBAY, CSCO, PYPL, DLB, KLAC, XLNX, MSFT, ORCL, AAPL, RGLD, PSX, AMP, AXP, LPLA, AMTD, BF/B, PM, AMGN, ENTA, NKTR, GOOGL, EIX, EXC, BKH, D

STRATEGY: Themes for 2020

	Tactical — 6-12M	Execution of Strategy	Thematic — 3-5 years	Execution of Strategy
Style Tilt	<p>Market re-discovered valuation risk.</p> <ul style="list-style-type: none"> • OW Growth - Cyclical • OW Growth - Quality 	<p>AMP, SCHW, MNST, BIIB, REGN, JNJ, PYPL, VRSN, NVDA, QCOM, KSU, NSC, GWW, EXPE, HAS, CF, CSCO, V, MXIM, TXN, XLNX, MSFT, FB, TTWO, GOOG, ROK, NVR</p>	Millennials prime years	<p>Millennials driving >50% GDP growth.</p> <ul style="list-style-type: none"> • OW Millennial transformation. • OW Millennial accelerates growth.
Seasonality	<p>Overweight groups with good seasonals.</p> <ul style="list-style-type: none"> • OW CURRENT: Real Estate Svcs, Oil & Gas Eqpt & Svcs & Refining & Mktg, Semis Eqpt, Mg. Healthcare, Ind. Mach., Online Retail, Home Entertainment. 	<p>AMAT, LRCX, ATVI, TTWO, DOV, FLS, IEX, PNR, PSX, VLO, BKNG, EBAY, EXPE, CBRE, ANTM, HUM, WCG</p>	Labor shortage—Automation	<p>World is short 78 million workers.</p> <ul style="list-style-type: none"> • OW Automation/ AI suppliers. • OW beneficiaries of Automation/ AI
PMI recovery	<p>Cyclicals and Value lead when PMI recovers above 50.</p> <ul style="list-style-type: none"> • OW Technology, Comm. Services, Financials, Industrials, Energy, Value 	<p>CIEN, VRSN, INTC, MXIM, NVDA, AAPL, FB, GOOGL, AMP, STT, CFG, MTB, SIVB, DE, CAT, CMI, EMR, KSU, HP, CVX, MUR, COP</p>	Higher inflation—Assets vs OpEx	<p>Inflation trending higher long term.</p> <ul style="list-style-type: none"> • OW Assets over OpEx.

Source: Fundstrat, Bloomberg.

Rebalanced

STRATEGY: Granny Shots represents the “best of the best” from Thematics

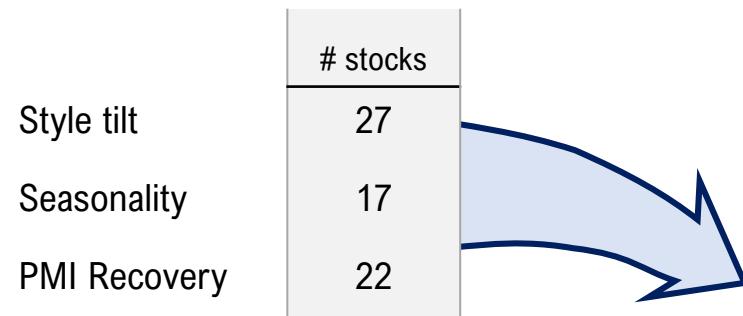
The granny shots represent the best of the best from the thematic portfolios.

- This is derived from looking at stocks which appear in multiple themes. As listed on the following pages, no stock appears in 6 of 6 thematics, but several appear in 4 or 5 out of 6.

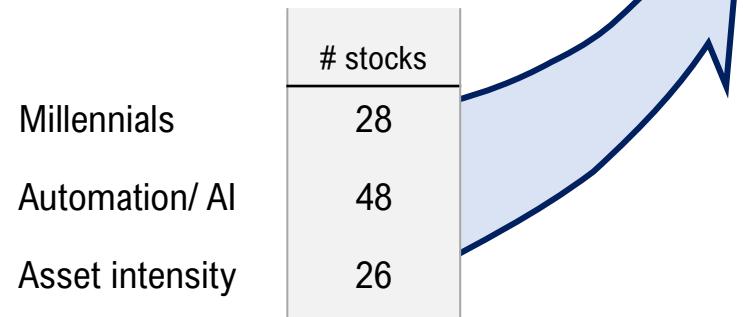
Figure: Granny Shots are the “best of the best”

Stocks which appear in multiple themes.

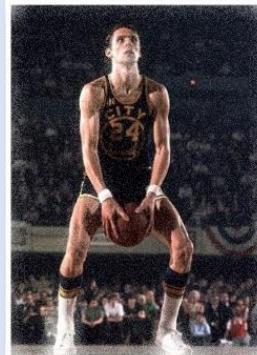
Tactical (6M-12M)



Thematic (3Y-5Y)



Granny Shots



Rick Barry career free throw percentage was eye-popping 90%, incredible considering Shaquille O’Neal’s only 52%.

His secret? The unorthodox style of underhanded throws, which is considered “not macho” enough for most players.

# overlaps “layups”	Tickers
5	GOOG
4	AAPL
3	AMP, CSCO, FB
	NVDA, PYPL, XLNX
2	AXP, BF/B, BKNG
	DE, DOV, EBAY
	EMR, EXPE, GRMN
	KSU, MNST, MSFT
	MXIM, PM, PSX
	QCOM, ROK, TSLA
	TTWO, VRSN

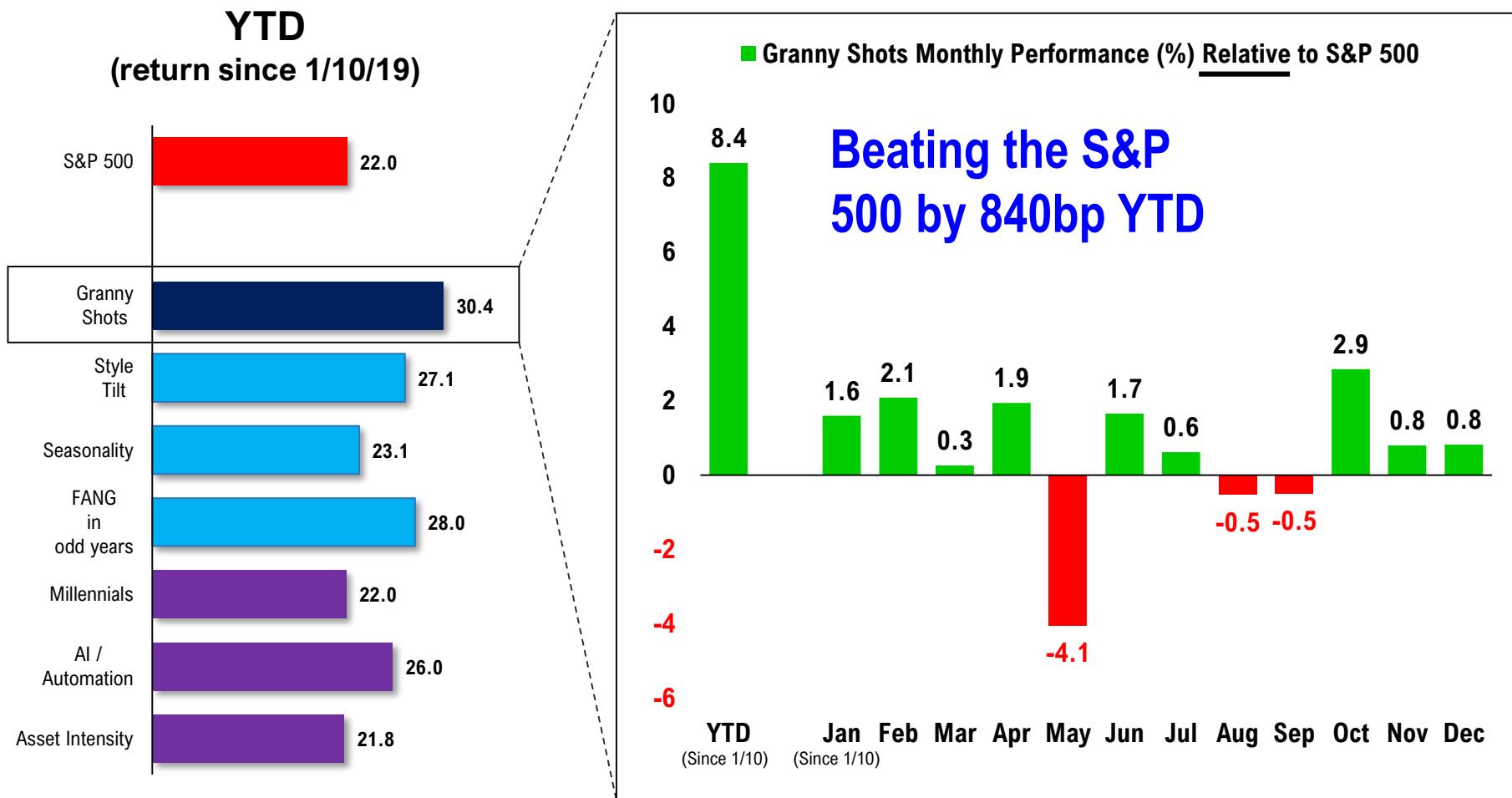
GRANNY SHOTS: Beat S&P 500 9 out of the 12 months since inception...

The relative performance of Granny Shots is below and as highlighted, has beaten the S&P 500 by 840bp since inception.

- Granny Shots, which are the “best of the best” for our thematic portfolios (and rebalanced every quarter) has beaten the S&P 500 by 840bp YTD. May was tough month, but since has bounced.

Figure: Granny Shots Portfolio Performance

Monthly; As of 12/13/19



Source: Fundstrat, Bloomberg, Factset

RISKS: 8 factors create headwind to 2020

Among the risk factors for equity markets, we highlight the 6 primary risk factors to equity markets.

- We see 8 risks to stocks in 2020, with the primary risks being the business cycle and to a lesser extent, 2020 election. We actually list Trade war since adverse consequences from trade would show up as an inversion in the yield curve.

Figure: Risk factors to S&P 500 achieving double-digit gains in 2020

Per Fundstrat

Factor	Significance	Impact on equities	Probability
1. Fed makes policy error	MASSIVE	-20%	LOW
2. Yield curve inversion of 10/2 or 30/10	MASSIVE	-20%	LOW
3. PMIs weaken further on lingering weakness + oil drop	HIGH	P/E de-rate	LOW
4. Phase II Trade War with China turns into 'Armageddon'	HIGH	-20%	LOW
5. EPS growth fails to improve as business recovery weak	HIGH	P/E de-rate	LOW
6. Senate majority control changes 2020	HIGH	-5%	LOW
7. Elizabeth Warren or Bernie Sanders Dem nominee	MEDIUM	-5%	LOW
8. Trump is impeached and removed from office	MEDIUM	Mixed	LOW

Source: Fundstrat, Bloomberg

- **CLIFF NOTES: 'E' matters more than 'PE'**

- **2020 “rising animal spirits”**

- **Millennials driving US de-coupling**
- **Inflation revives in late-2020**
- **Granny Shots**
- **Thematic Strategies for 2020**
- **Tactical Strategies for 2020**

ANIMAL SPIRITS: 2019 discredited the “Armageddonists”

Markets ignored...

RECESSION-MANIA:
Plurality rooting for a “recession”



Source: Fundstrat, Bloomberg, Factset

ARMAGEDDONISTS:
Those chronically calling “doom”

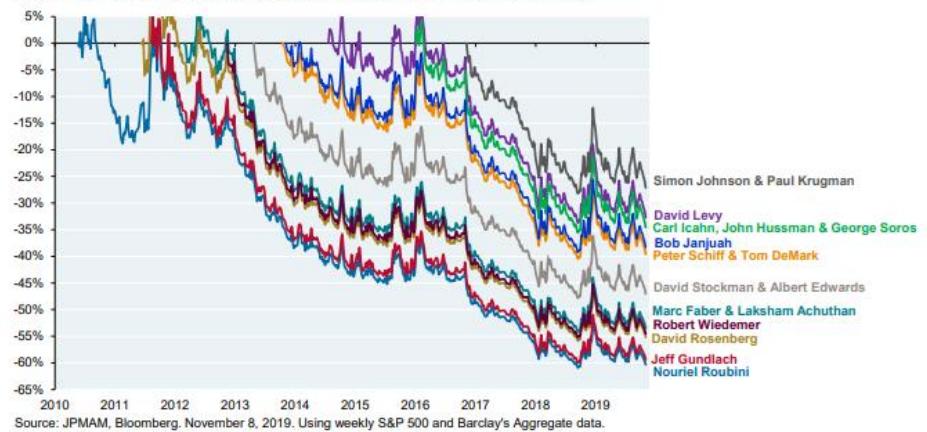
EYE ON THE MARKET • MICHAEL CEMBALEST • J.P. MORGAN | November 12, 2019

Topic: The Armageddonists

While recessions and bear markets are a fact of life, something peculiar happened after the Global Financial Crisis: the rise of the Armageddonists, which refers to the market-watchers, forecasters and money managers whose apocalyptic comments spread like wildfire in print and online financial news. I understand why: by 2010, investors had experienced two consecutive bear markets, each with equity declines of over 40%. It took several years for equity markets to recover each time, unlike the shallower, faster-recovering bear markets of the 1960's and 1980's. The dismal performance of consecutive 2001/2008 bear markets

The consequences of listening to the Armageddonists, 2010-2019

Performance impact of shifting \$1 from the S&P 500 to the Barclay's Aggregate Bond Index, measured from the week of the Armageddonist comment in Table 1 to November 8, 2019



<https://www.jpmorgan.com/jpmpdf/1320747886822.pdf>

ANIMAL SPIRITS: Best “Macro” since 2016...

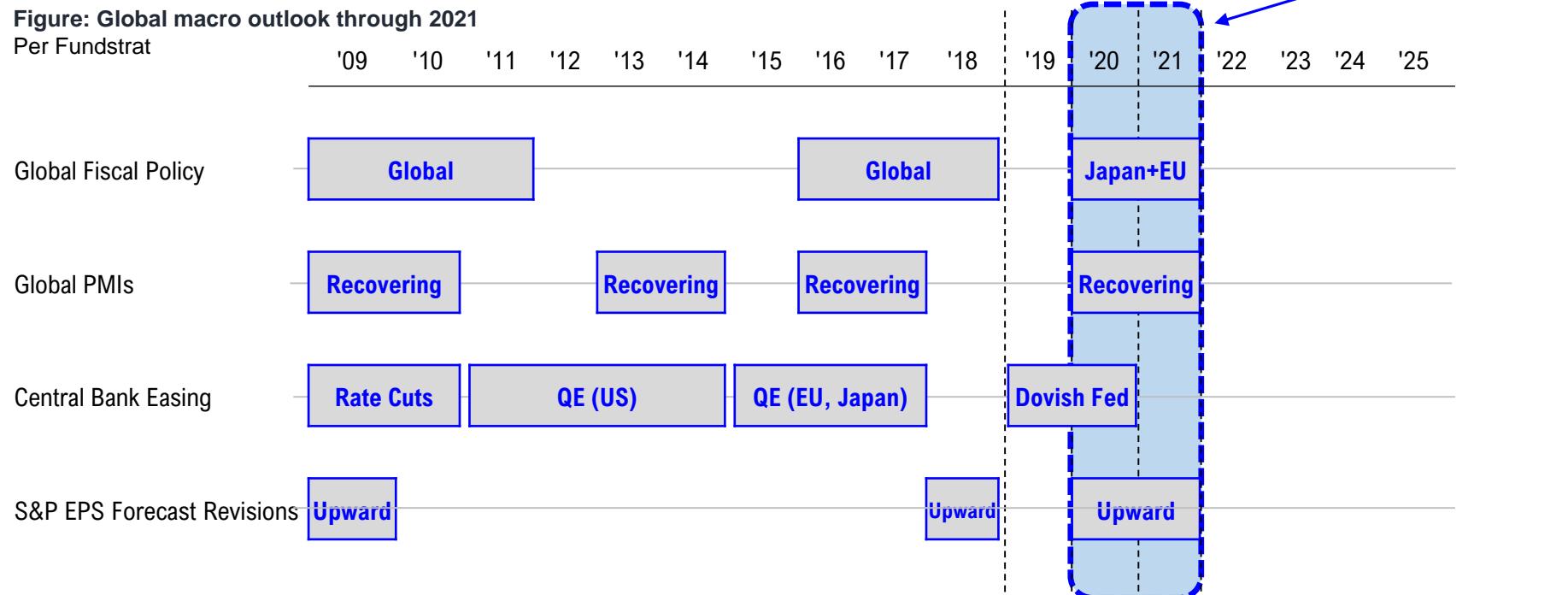
Expansionary fiscal and accommodative monetary policy are expected to support growth through 2020.

- Global PMIs > 50 for the first time since early 2019, setting the stage for improved growth in 2020.
- Given improving global economic outlook, EPS forecasts are expected to be revised upward.

Best since 2016

Figure: Global macro outlook through 2021

Per Fundstrat



- **Global Fiscal Policy:** Fiscal stimulus expected in 2020-2021 given low rate environment and weak growth outlook in Europe. Japan announced a \$120Bn stimulus package in Dec 19.
- **Global PMIs:** JPM Global PMI was 50.3 in Nov 19 which is the first time PMI > 50.0 since early 2019. This signals an end to the persistent PMI weakness from mid-2018 through 2019.
- **Central Bank Easing:** The Fed cut rates 3 times in 2019, thus unwinding the bulk of 2018 tightening. No rate hikes signaled through 2020 at Dec 19 Fed meeting.
- **S&P EPS Estimate Revisions:** EPS forecasts were revised up in 2018 due to tax cuts and are expected to be revised up again in 2020 and 2021 given improved global economic outlook.

Source: Fundstrat, Bloomberg, Factset, [Japan Fiscal Stimulus Plan](#).

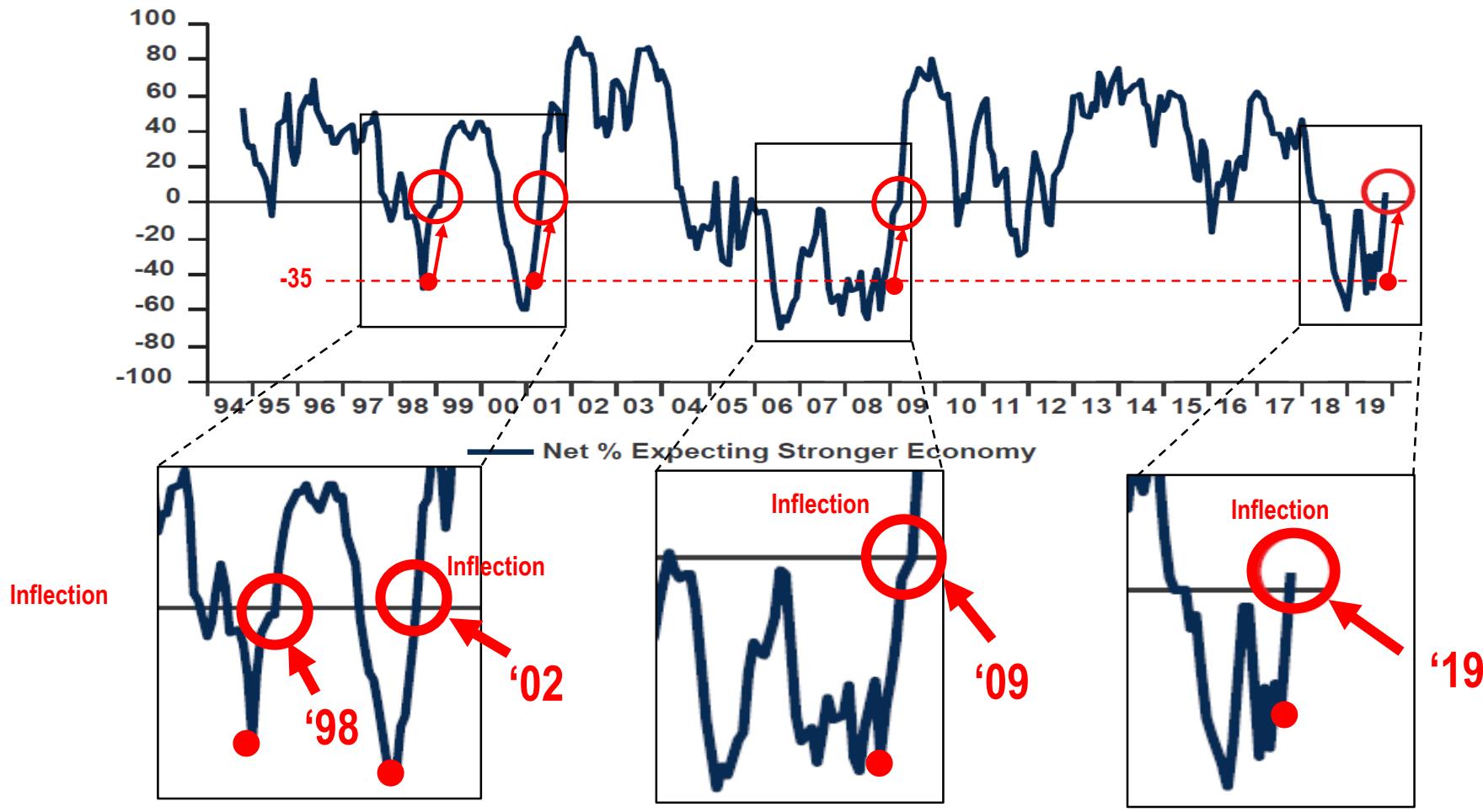
ANIMAL SPIRITS: BofA Merrill Survey, Fund manager “flip” to >0 is signal...

The most BofA Merrill Fund Manager Survey shows a pronounced flip in fund manager expectations about the economy to a net 6% vs -37% a month ago. This flip is quite unusual, particularly after extended negative readings.

- The flip to positive from -40 or worse has only been seen a inflection points (to positive) in equity markets. This is 1998, 2002 and 2009. In each case, this was a sustained risk-on signal. Sustained!!

Figure: BofA Merrill Survey: How do you think the global real economy will develop over the next 12 months?

Since 1994



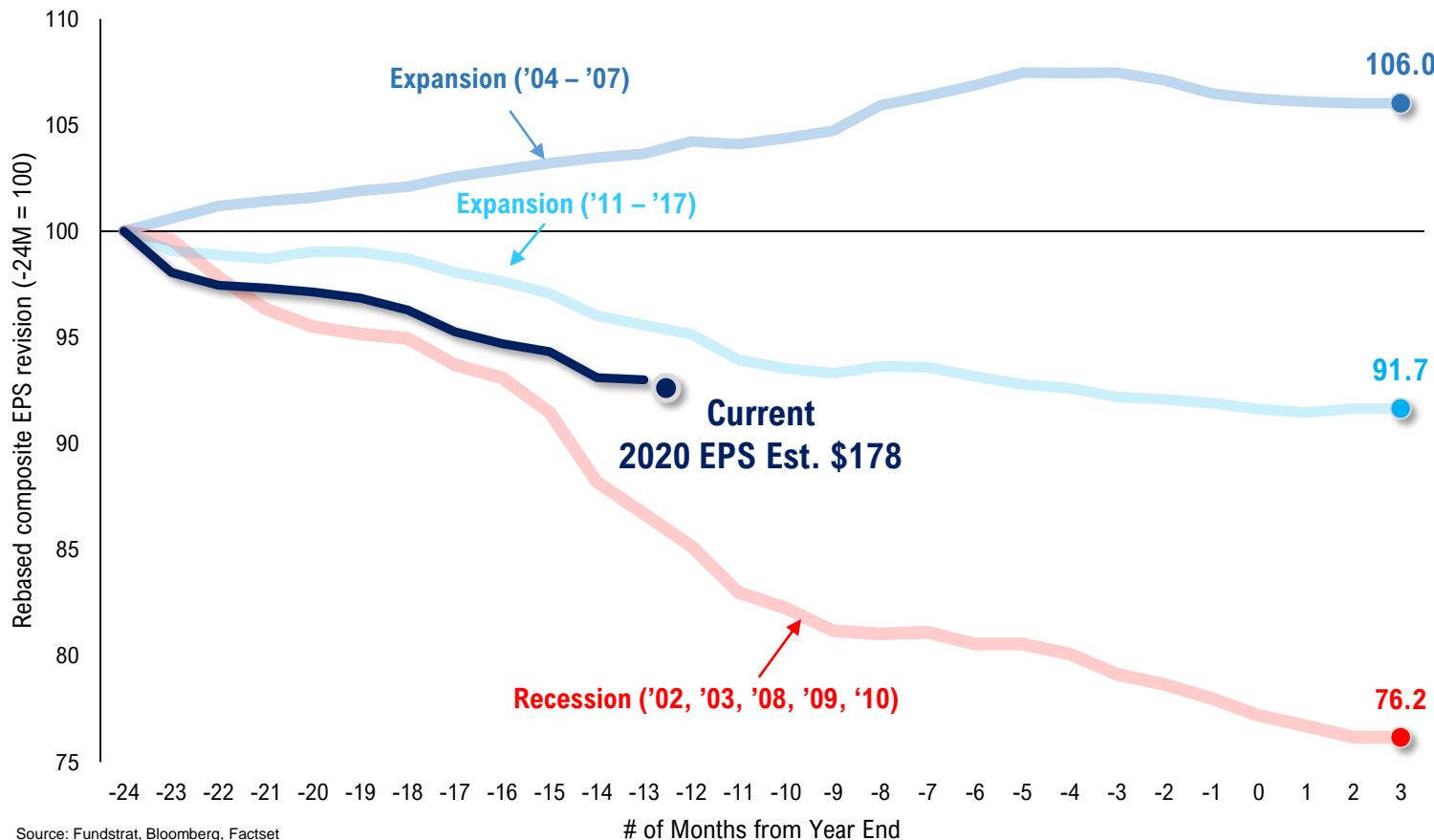
EPS REVISION: EPS revisions always revise down... not a sign of cycle top

Too many “armageddonists” think downward EPS revisions are a sign of cycle top. That is not the case.

- Besides 2004-2007, EPS revisions have been chronically negative, as the Street analysts tend to be too optimistic of EPS at the start of any year.

Figure: composite EPS revision and EPS revision forecast

Per Fundstrat



Source: Fundstrat, Bloomberg, Factset

of Months from Year End

INVENTORY CYCLE: Extra “oomph” to PMI recovery

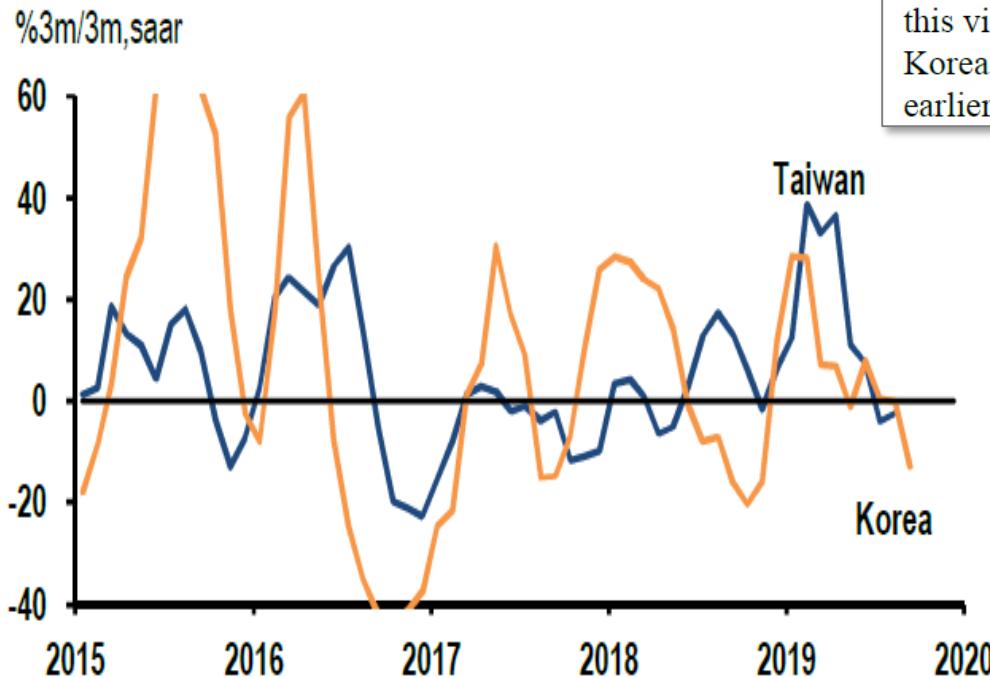
Another factor supporting the bottoming of the industrial cycle (and hence, upside to 2020 growth) is the de-stocking of inventory.

- Korea and Taiwan inventory is contracting, and while not bottoming yet, is signs we are further into cycle low.

Figure: Korean and Taiwan Electronics inventory bottoming

Since 2015. From JPMorgan

Figure 3: Korea and Taiwan electronics inventory



Source: Ministry of Economic Affairs and Statistics Korea

Some signs of leaner inventories

As noted above, a turn in the global stock-building cycle will be an important element in the broader growth rebound we look for next year. Some support for this turn is evident in the October rise in the global PMI new orders/inventory ratio. Sector-level data in Asia and the US also provide evidence for this view. In Asia, tech-related inventories in the bellwethers Korea and Taiwan are now contracting after building rapidly earlier this year (Figure 3).

Bruce Kasman
JPMorgan Chase Bank NA

Financial conditions easing: Best financial conditions since March 2018

Another positive factor supporting stronger growth in 2020 is the improvement in financial conditions. Goldman Sachs Financial Conditions index shows that financial conditions have eased in the past few weeks (falling is easing).

- It has been 20 months since financial conditions have been this easy—one has to go back to March 2018.

Figure: GS Financial Conditions Index

Past 12 months.



Source: Fundstrat, Bloomberg, Factset

Improved financial conditions boosting real GDP by 0.5% / quarter in 2020

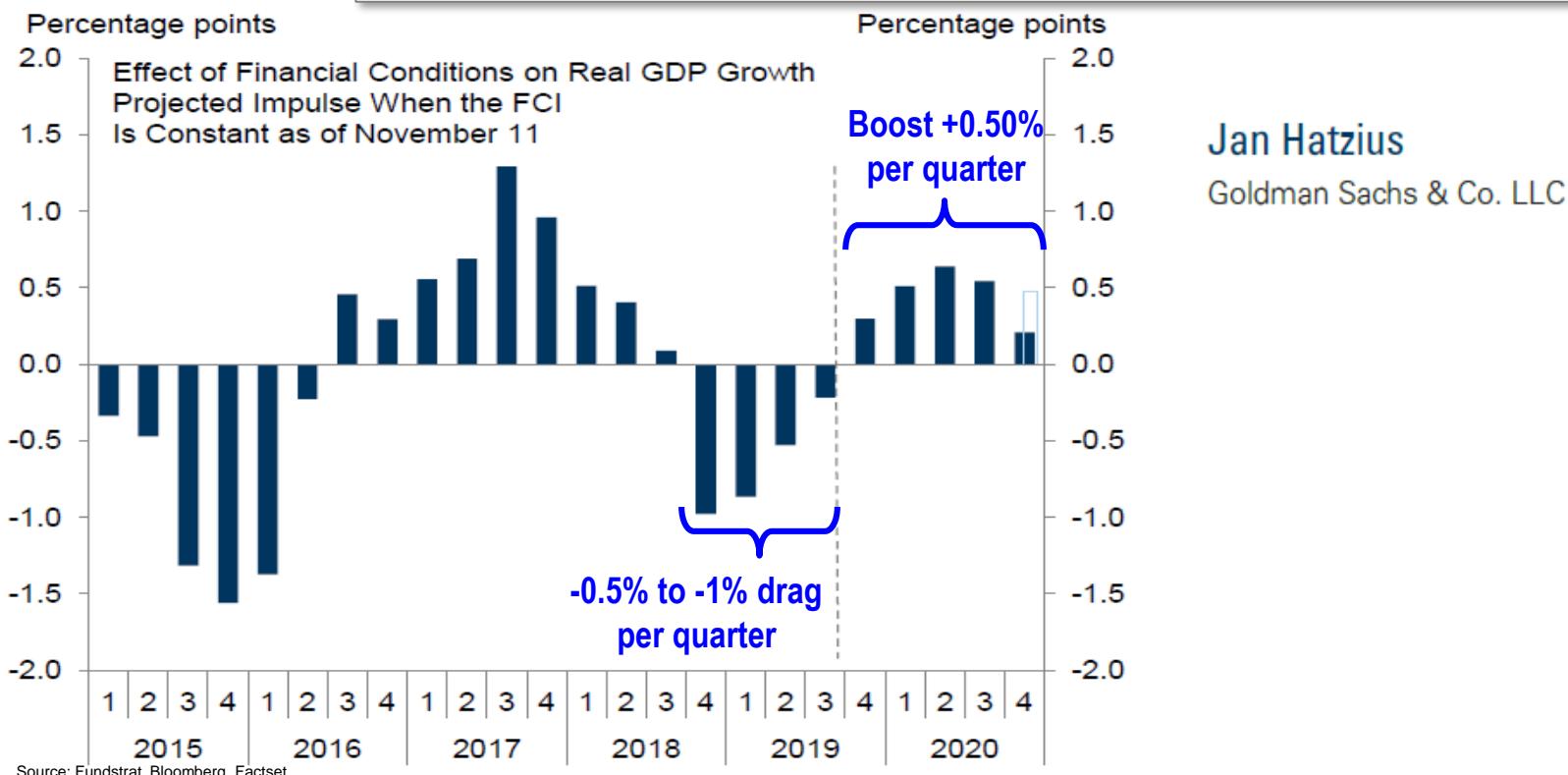
Goldman Sachs economic team (David Choi) notes easing financial conditions creating "positive impulse" to 2020 GDP.

- Their model shows boost to real GDP by roughly 0.50% per quarter in 2020. In 2019, tightening financial conditions represented a -0.5% to -1% drag per quarter.

Figure: Goldman Sachs FCI Impulse has turned positive

Since 2015. From Goldman Sachs Economics US Daily dated Nov 12, 2019

- While Fed officials and economists have mostly focused on downside risks to growth, our findings suggest that the easing in financial conditions provides one reason why growth could surprise to the upside as well in 2020.





ELECTION: The 13 Questions by Lichtman that decide Presidential Elections

[Professor Allan Lichtman](#) of American University has correctly predicted all 9 presidential elections since 1984 (including 2016) by using a system of 13 true/false statements as shown below.

- The incumbent party candidate is favored if 8 or more statements are true.

Figure: 13 Questions for the Incumbent Party to Win the Presidential Election

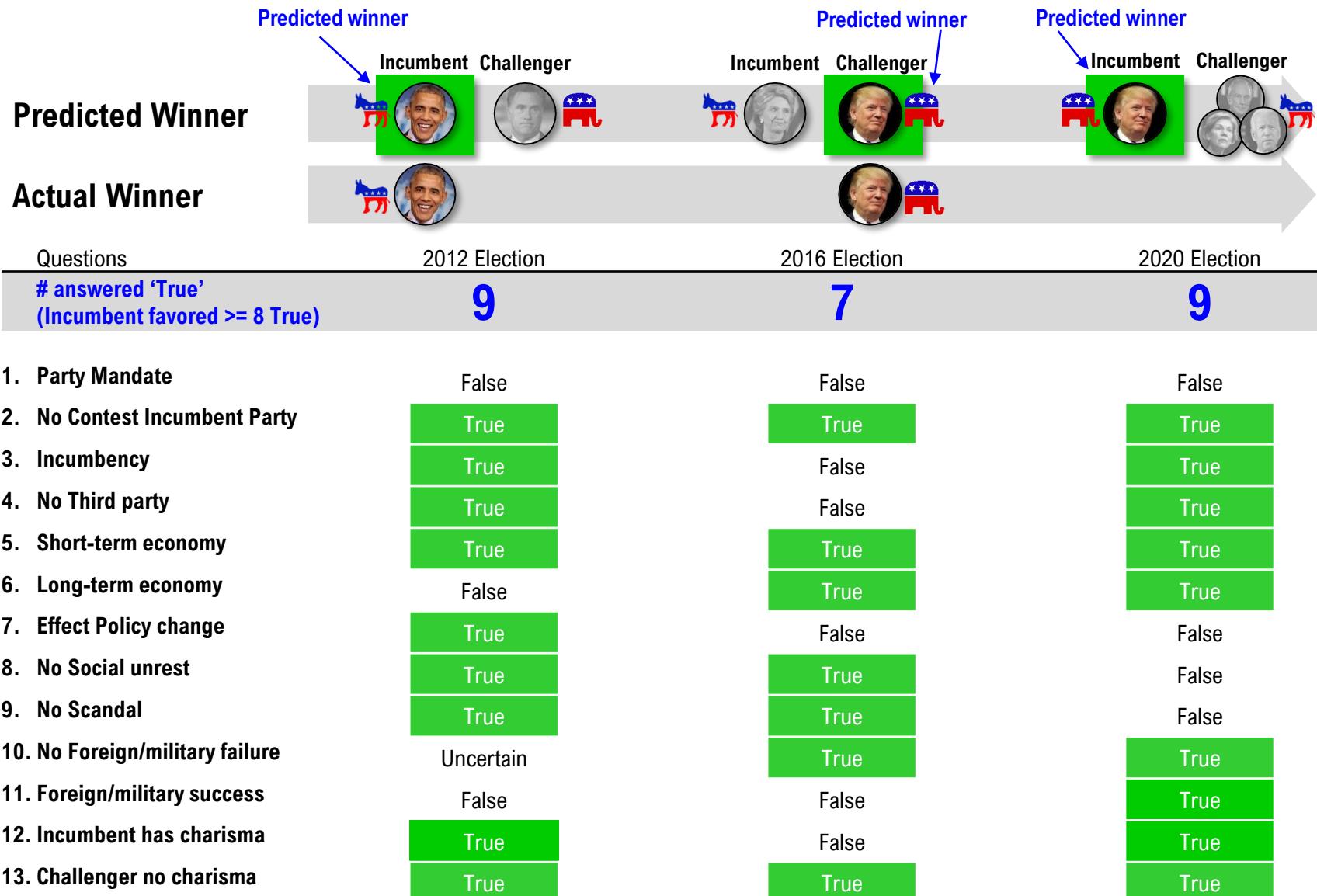
By Professor Allan Lichtman of American University

Question	Explanation
1. Party Mandate	After the midterm elections, the incumbent party holds more seats in the U.S. House of Representatives than after the previous midterm elections.
2. No Contest for incumbent	There is no serious contest for the incumbent party nomination.
3. Inc incumbency	The incumbent party candidate is the sitting president.
4. No Third party	There is no significant third party or independent campaign.
5. Short-term economy	The economy is not in recession during the election campaign
6. Long-term economy	Real per capita economic growth during the term equals or exceeds mean growth during the previous two terms.
7. Effect Policy change	The incumbent administration effects major changes in national policy.
8. No Social unrest	There is no sustained social unrest during the term.
9. No Scandal	The incumbent administration is untainted by major scandal.
10. No Foreign/military failure	The incumbent administration suffers no major failure in foreign or military affairs.
11. Foreign/military success	The incumbent administration achieves a major success in foreign or military affairs.
12. Incumbent has charisma	The incumbent party candidate is charismatic or a national hero
13. Challenger no charisma	The challenging party candidate is not charismatic or a national hero

Incumbent party wins if:
• “True” >8

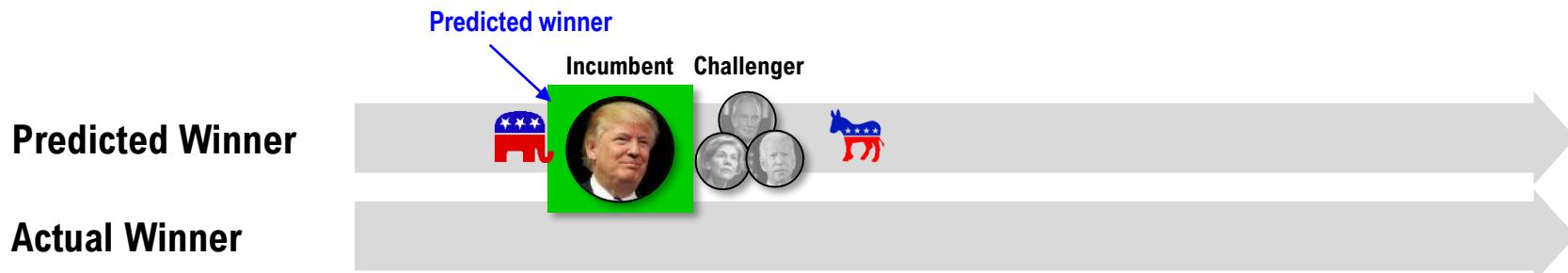
Source: Professor Allan Lichtman, Fundstrat

ELECTION: Professor Lichtman nailed 2012 and 2016 contested elections



Source: Professor Allan Lichtman, Fundstrat, [2012 Election Prediction](#), [2016 Election Prediction](#), [2020 Election Prediction](#)

ELECTION: The “9” True for Trump is similar to Obama in 2012



Questions	2020 Election		Fundstrat Commentary
# answered 'True' (Incumbent favored >= 8 True)	9		
1. Party Mandate	False		No mandate, except “fake news”
2. No Contest Incumbent Party	True		Unchallenged
3. Inc incumbency	True		Yes, re-election
4. No Third party	True		None
5. Short-term economy	True		Strong
6. Long-term economy	True		Been strong
7. Effect Policy change	False		No major policy change achieved
8. No Social unrest	False		Significant social unrest, between age groups and geographically
9. No Scandal	False		Multiple scandals: Impeachment and Russian interference
10. No Foreign/military failure	True		No failures
11. Foreign/military success	True		Yes, China-US trade deal + USMCA (new NAFTA) + North Korea
12. Incumbent has charisma	True		Fanatical base
13. Challenger no charisma	True		Depends but most are not as media savvy as Trump

Source: Professor Allan Lichtman, Fundstrat, [2012 Election Prediction](#), [2016 Election Prediction](#), [2020 Election Prediction](#)

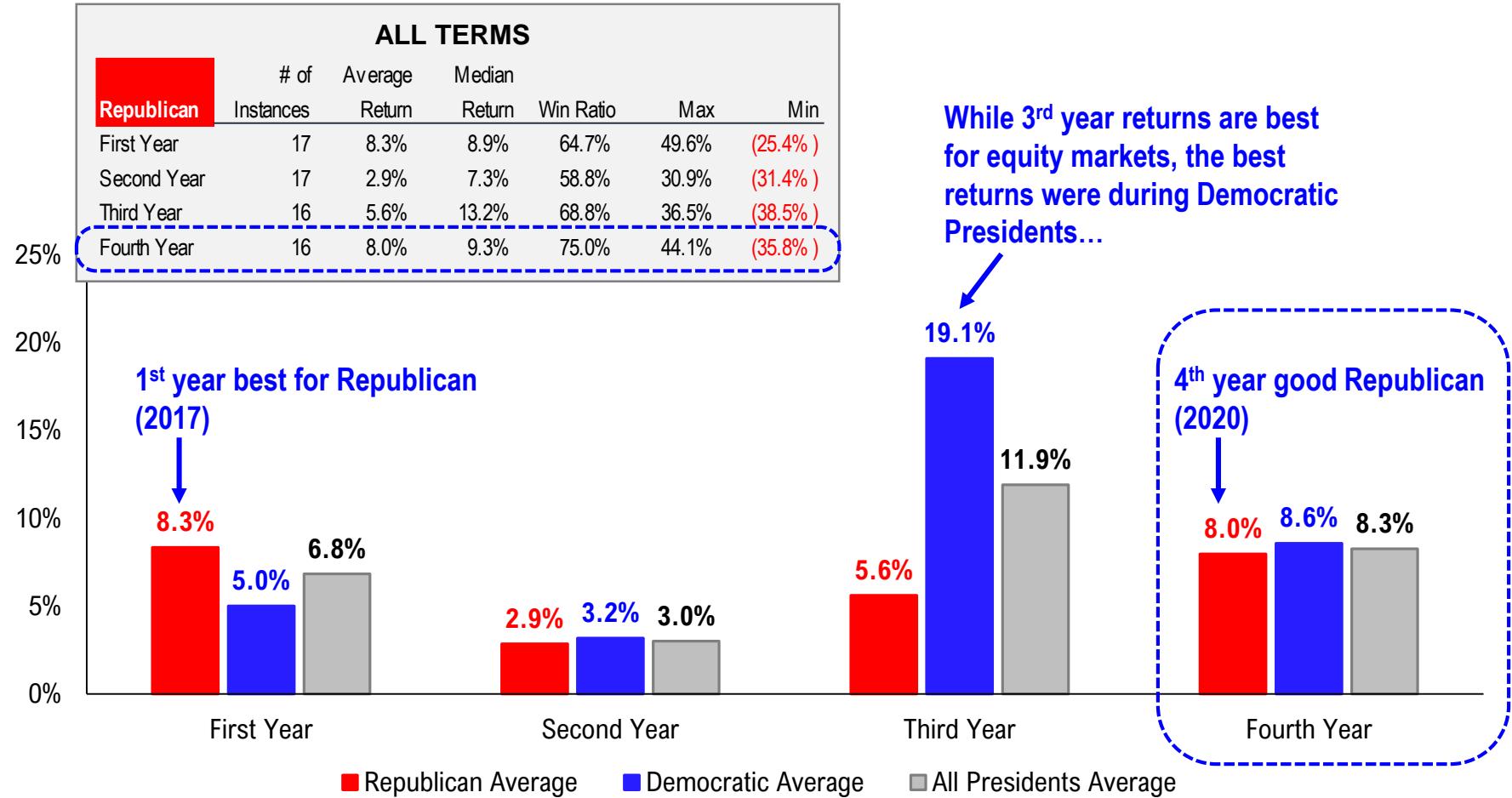
ELECTIONS: 4th year of a Republican President historically strong market

Equity markets generally do well in the 4th year of a Presidential term, these best returns are seen with Democrats.

- With Republicans, the best years tend to be first year (2017) and fourth year (2020).

Figure: Returns of equity markets by Presidential term

Since 1900



Source: Fundstrat

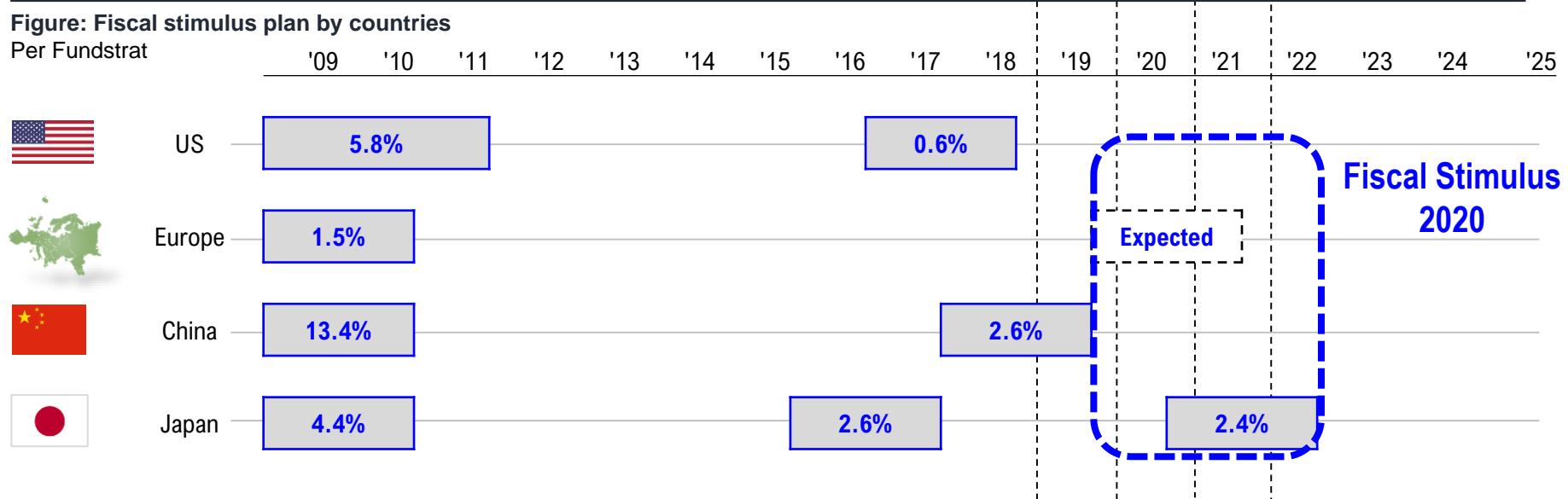
FISCAL STIMULUS: fiscal expansion in Japan & Europe -> tailwinds for 2020

Expansionary fiscal policies in Japan and Europe are expected to drive growth in 2020 and into 2021.

- Japan announced a \$120Bn stimulus package in Dec 2019. European fiscal expansion is likely in 2020 and 2021 given low interest rates and a weak growth outlook.

Figure: Fiscal stimulus plan by countries

Per Fundstrat



Note: Percentages represent fiscal stimulus as a % of GDP.

- US:** American Recovery and Reinvestment Act (Feb '09) outlined an \$830Bn fiscal expansion plan. Tax Cuts and Jobs Act (Dec '17) providing some stimulus in '18-'19.
- Europe:** European Economic Recovery Plan (Nov '08) outlined a €200Bn (\$290Bn) fiscal expansion. Fiscal stimulus expected in '20 and '21 given low interest rate environment and weak growth outlook.
- China:** Chinese Economic Stimulus Plan (Nov '08) outlined a 4Tn RMB (\$590Bn) fiscal expansion. Tax cuts driving the bulk of '18-'19 Chinese fiscal expansion.
- Japan:** Japan announces fiscal stimulus totaling ¥12Tn (\$230Bn) in '09. Subsequent round of fiscal expansion announced in '16 and most recently in Dec-'19.

Source: Fundstrat, Bloomberg, [tax cut estimates by S&P Global](#), [China Fiscal Stimulus](#), [Europe Economic Recovery Plan](#), [Japan Fiscal Stimulus Plan](#), [Estimated Impact of the American Recovery and Reinvestment Act by CBO](#)

- **CLIFF NOTES: 'E' matters more than 'PE'**
- **2020 “rising animal spirits”**

- **Millennials driving US de-coupling**

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- **Tactical Strategies for 2020**

GDP SIMPLIFIED: Population growth + Productivity

A simplified view of economic growth comes from 2 components: Population growth + productivity.

- In our view, the productivity advantage of a country stems from “technology” investment (especially vs workforce growth) and also, if this is not proprietary, other countries can similarly acquire this productivity.

Figure: Simplified explanation of GDP growth

Per Fundstrat



Source: Fundstrat

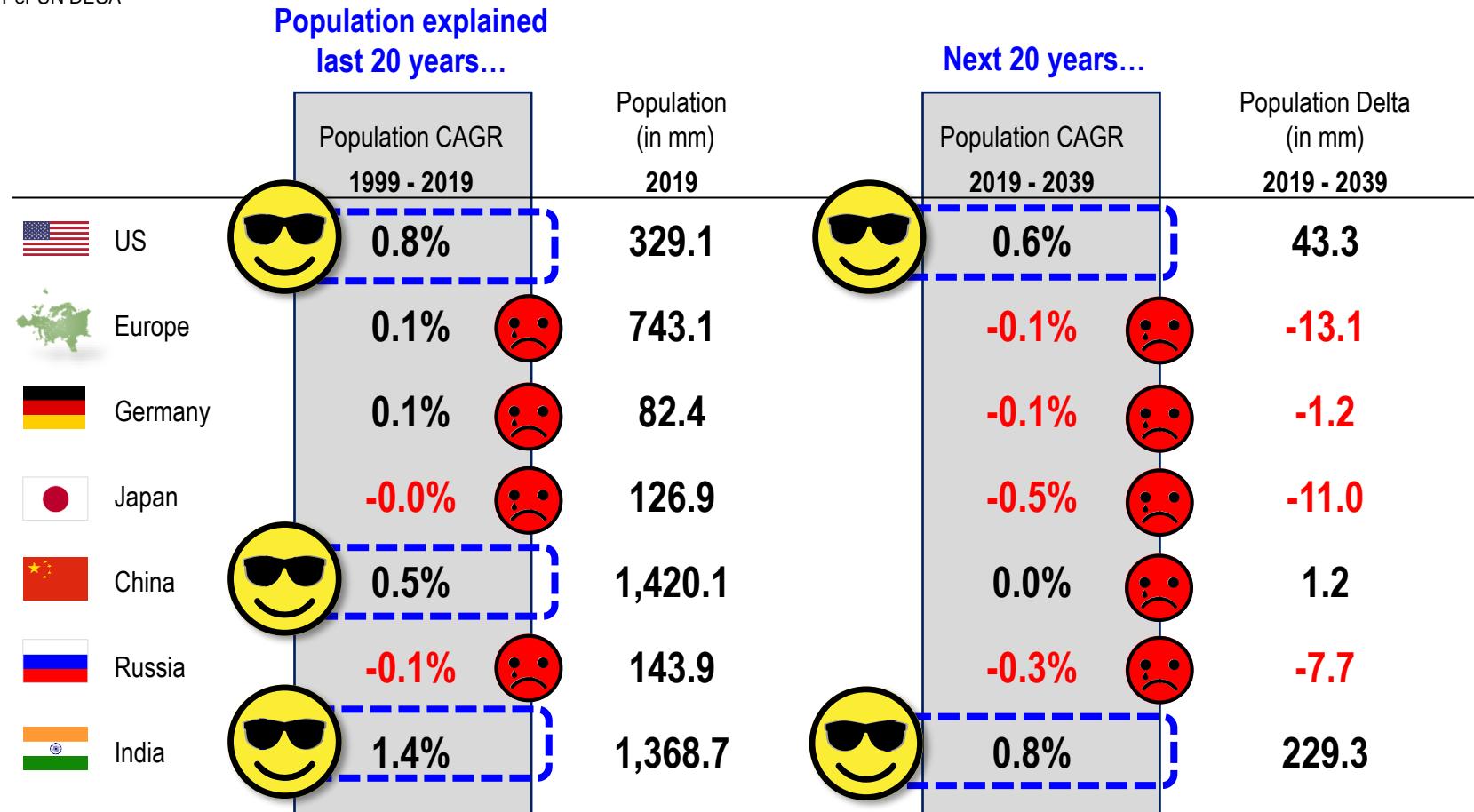
Demographics explain why US is pulling away....

US is pulling away from the rest of the World in terms of population growth.

- Over the next 20 years, the US population will have grown by 43 million, while other G7 and other countries have shrunk or stagnated (at best).

Figure: Total Population Growth — 2019 to 2039

Per UN DESA



Source: Fundstrat, Bloomberg, Factset

LABOR SUPPLY: Prime US adults age 30-48 inflecting up and surging

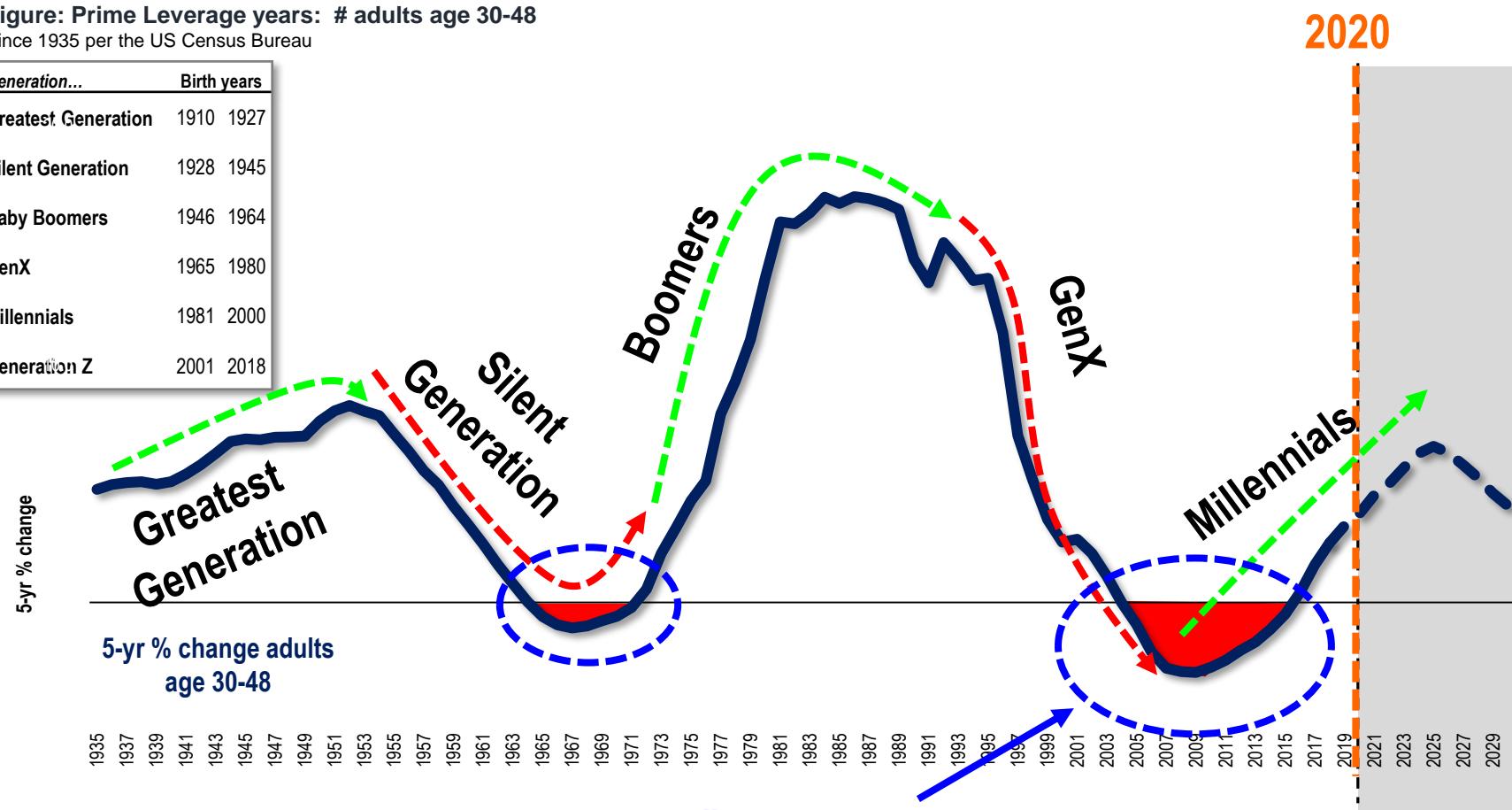
The number of adults in “prime leverage age” (age 30-48) is below, based on data from the US Census Bureau.

- This figure fell from 2001-2008 (is GFC not a surprise?) and as shown below, set to accelerate 2018 to 2026.

Figure: Prime Leverage years: # adults age 30-48

Since 1935 per the US Census Bureau

Generation...	Birth years
Greatest Generation	1910 1927
Silent Generation	1928 1945
Baby Boomers	1946 1964
GenX	1965 1980
Millennials	1981 2000
Generation Z	2001 2018



From 2004-2016, the # prime age adults contracted → 12 years of contraction

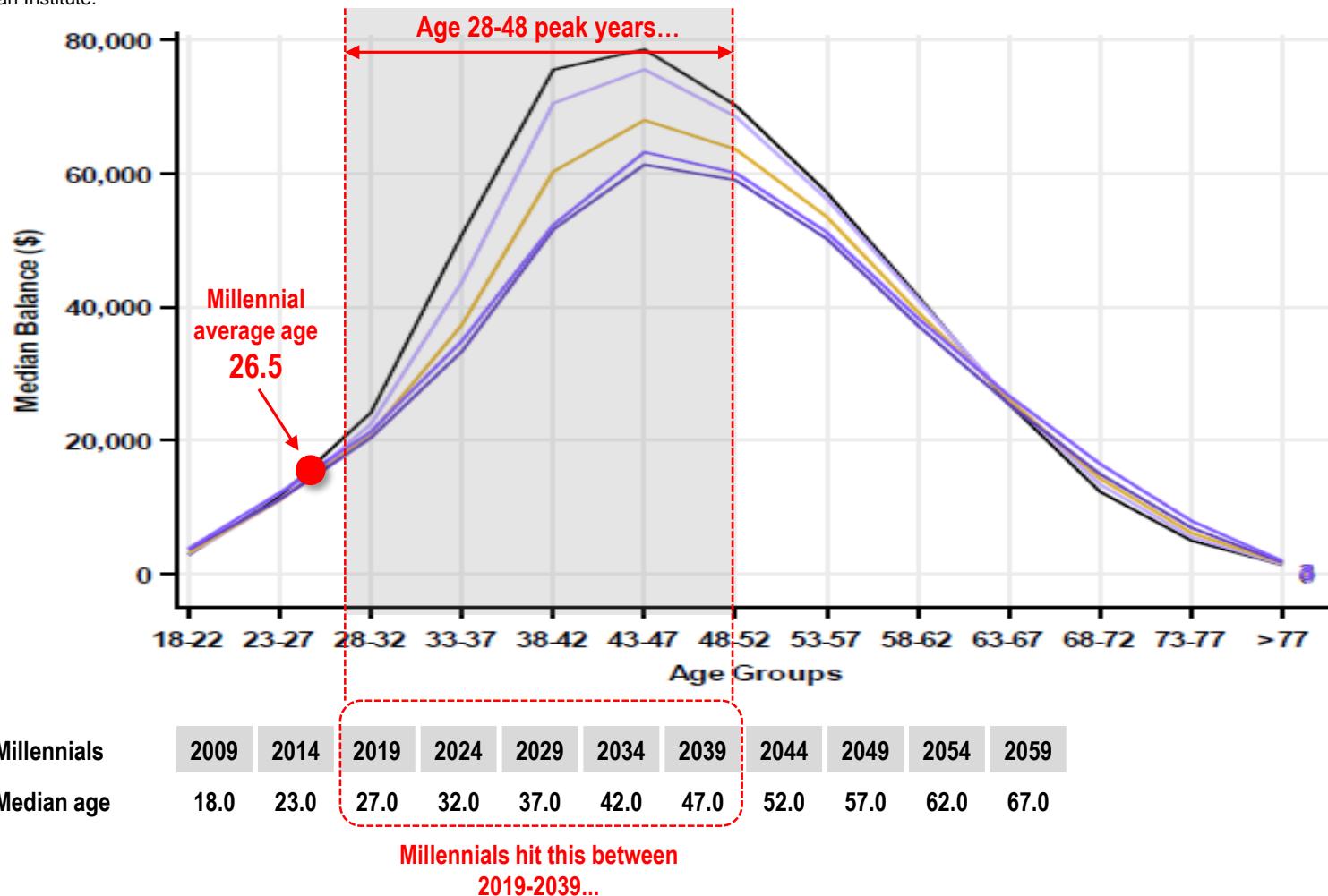
Source: Fundstrat, Bloomberg, BEA, National Association of Realtors, US Census Bureau

LEVERAGE: Household debt *peaks* between ages 28-53, or 2019 to 2039...

- Millennials are about to become prime consumers of leverage. The Urban institute shows that leverage peaks between age 28-53. For Millennials, this is between 2019-2039.

Figure: Median debt balance by Age Group

US data. From Urban Institute.



Source: Fundstrat, Bloomberg. <https://www.urban.org>

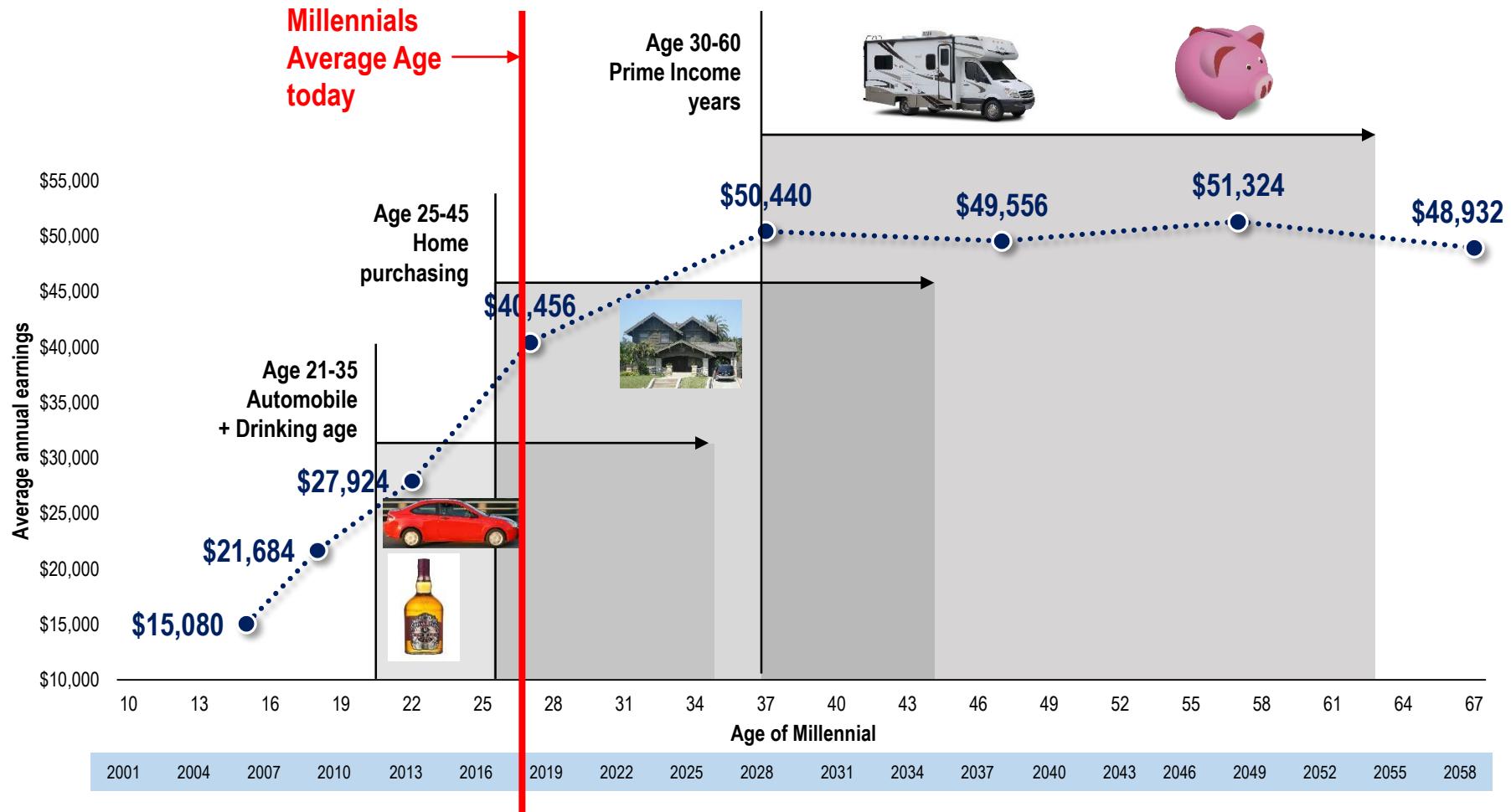
Millennials average age is 28.5... still early in life cycle

The oldest millennials are 38 but the average age is 28.5. As shown below, this means the peak of millennials are driving the automobile market but just beginning to impact the housing market. And early in the investing market.

- As the following slides show, millennials are now the most important cohort to follow for several key segments.

Figure: Life cycle of Millennial spending and income

Survey of Consumer Finance for 2017 "real income" levels (born between 1981-2000)



Source: Fundstrat, Bloomberg, Census Bureau

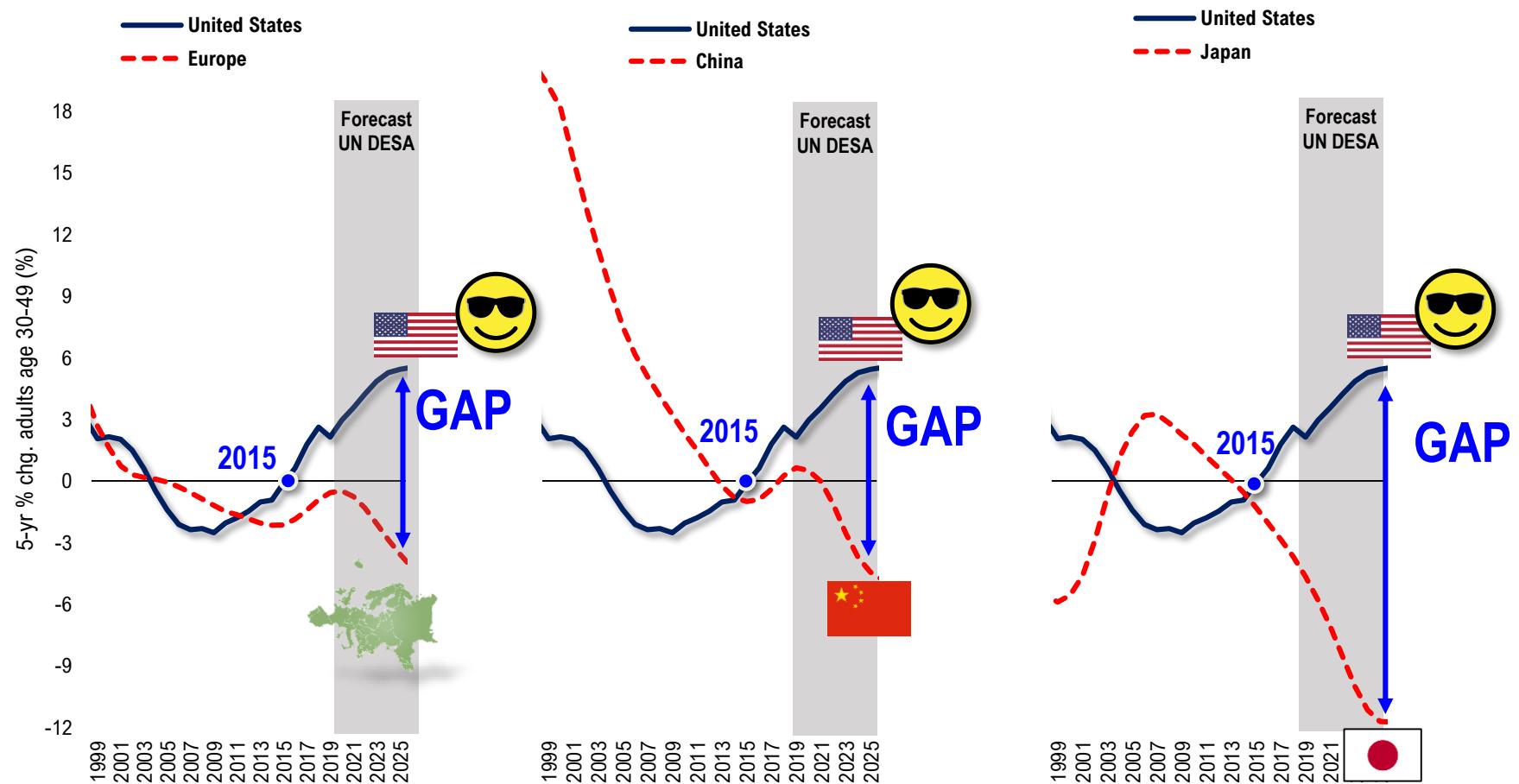
POPULATION: US prime income population (age 30-49) outpacing RoW

The adults in prime income age are the main driver of an economy with the highest productivity, purchasing power, and debt leverage. Below, we see that the size of prime income populations in Europe, China, and Japan all are contracting.

- The population of prime income adults in the US had been declining from 2005 – 2014 (worst was in 2009, coinciding with the Great Recession). Since 2015, size of prime income adults turned expansionary and this expansion is forecast to persist throughout 2025.

Figure: Prime Income Population (Age 30-49) - US against other major countries/region

1999 – 2025; US data projected by the Census Bureau; Others projected by United Nations DESA



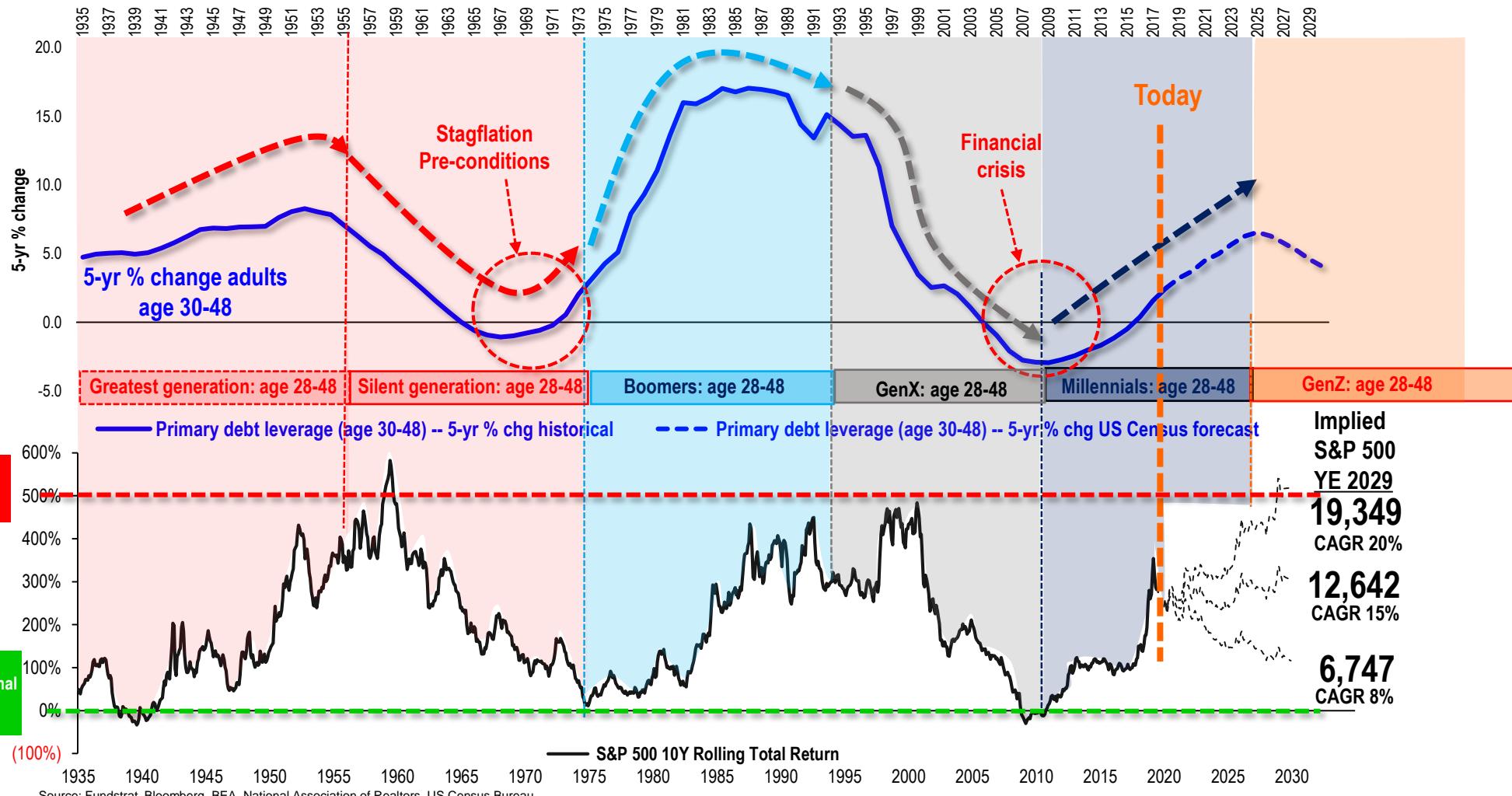
Source: Fundstrat, US Census, United Nations DESA

STOCK: Like housing, equity markets also follow moves in adults age 28-48

We overlay the # of adults in "prime leverage age" (age 30-48) against the 10-year rolling total return of S&P 500 below.

Figure: Prime Leverage years: # adults age 30-48

Since 1935 per the US Census Bureau



THE CHART: This chart made 8 most important decisions in market history

This chart is simply 10-year rolling total return for equities and marked with lines at 0% and 500%.

Figure: 10-year rolling returns of the US equities

Since 1881



This simple chart would have made the 7 most critical allocation decisions of past 125 years...

...and kept you out of the 3 worst ever bear markets

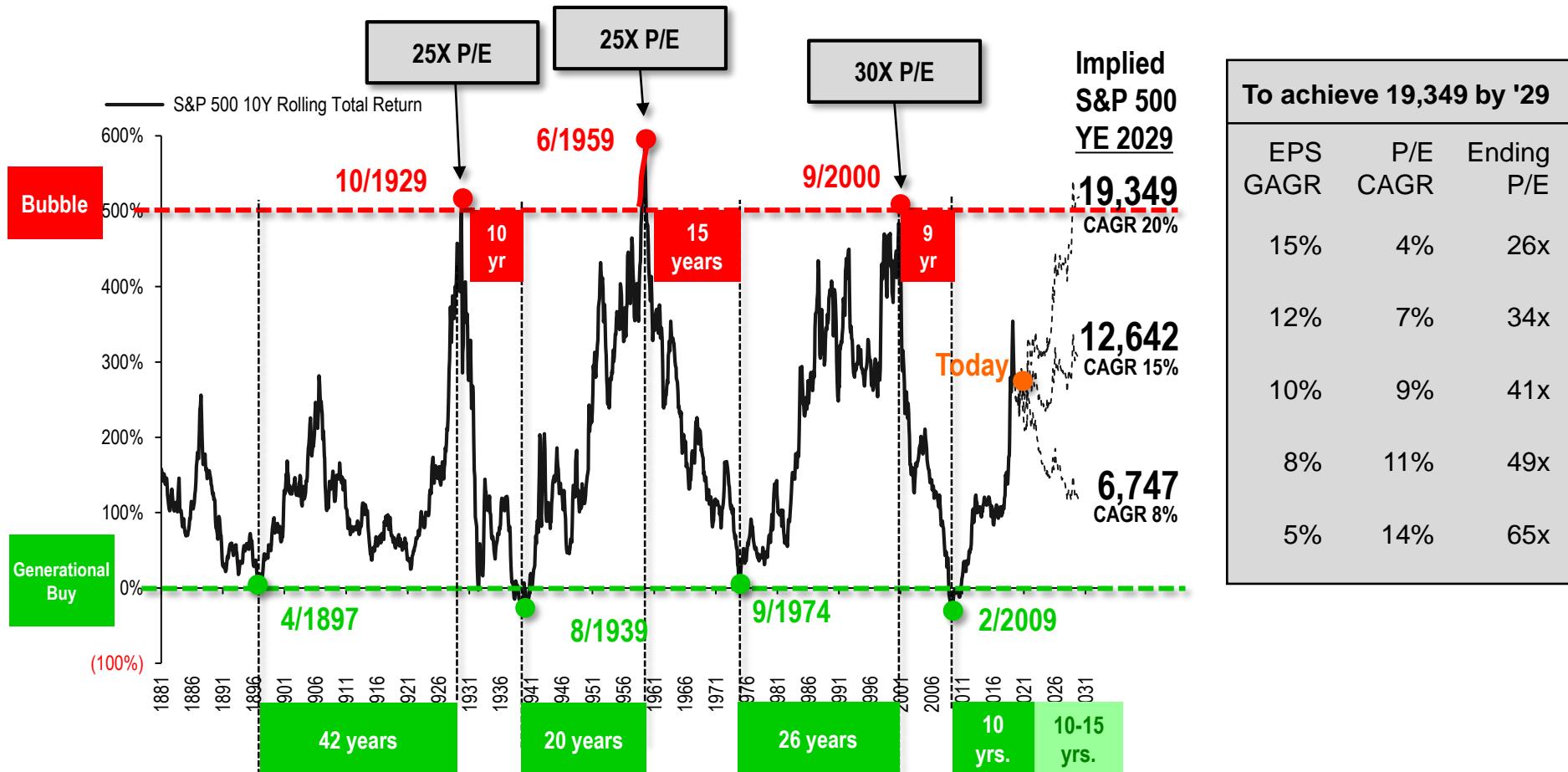
Long-term bull markets see peak acceleration to 500% 10-yr returns

Long-term bull markets last 20-42 years and peak returns accelerate to cumulative gain 500%...

- *The current bull market has risen for 10 years and if the history plays out, S&P 500 could reach 19,000 YE 2029 vs. 3,000 now.*

Figure: 10-year rolling returns of the US equities

Since 1881



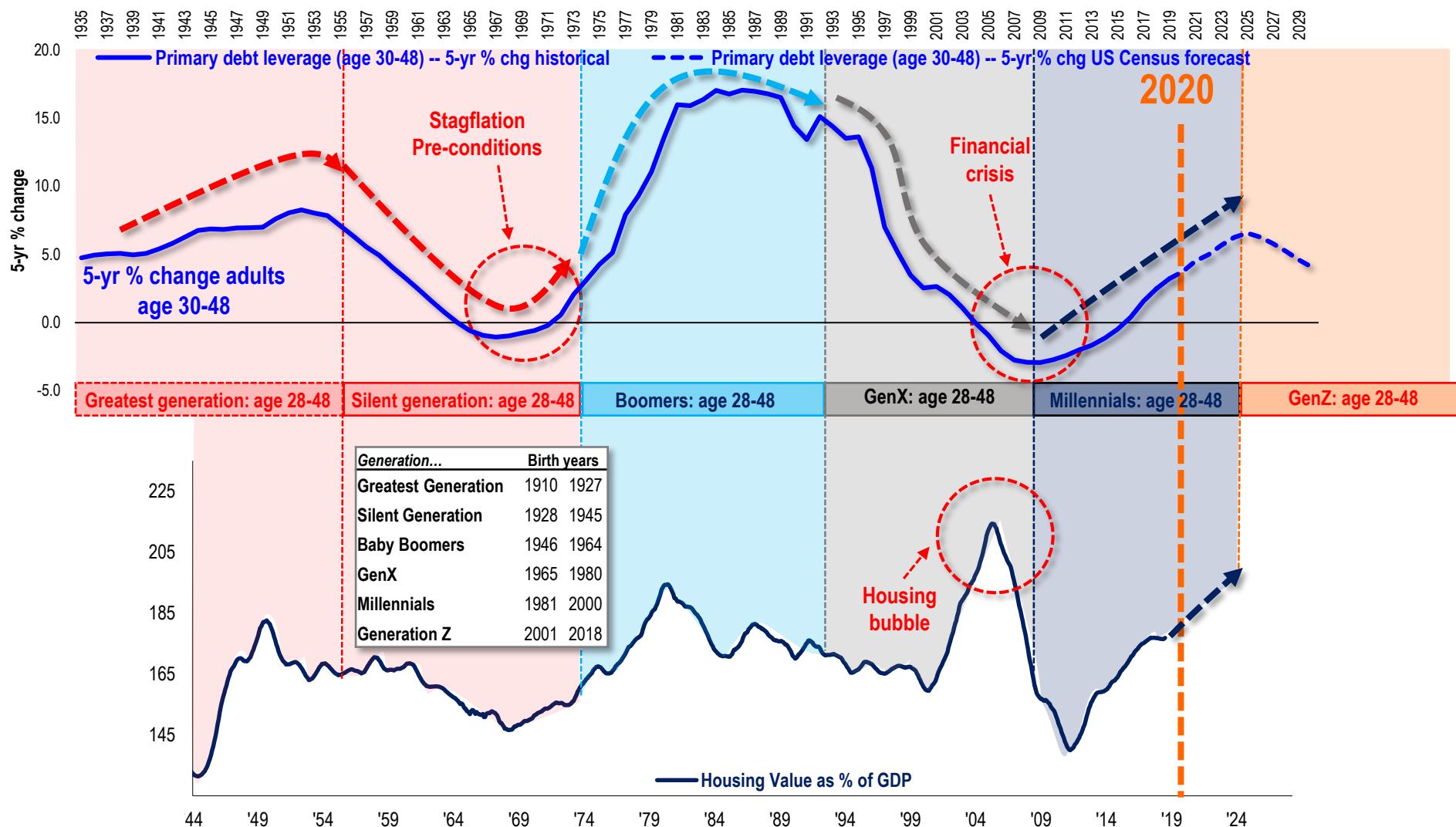
Source: Fundstrat, Bloomberg.

HOUSING: Home values follow moves in adults age 28-48

We overlay the # of adults in "prime leverage age" (age 30-48) against the historical housing value as % of GDP below.

Figure: Prime Leverage years: # adults age 30-48

Since 1935 per the US Census Bureau



GLOBAL WEALTH: US + China + Japan > 60% of Global HH Wealth

To appreciate why the US de-coupling is a big deal, take a look at the aggregate wealth (per Credit Suisse Global Wealth Report) and see how the aggregate wealth of US, China and Japan dwarf all other countries.

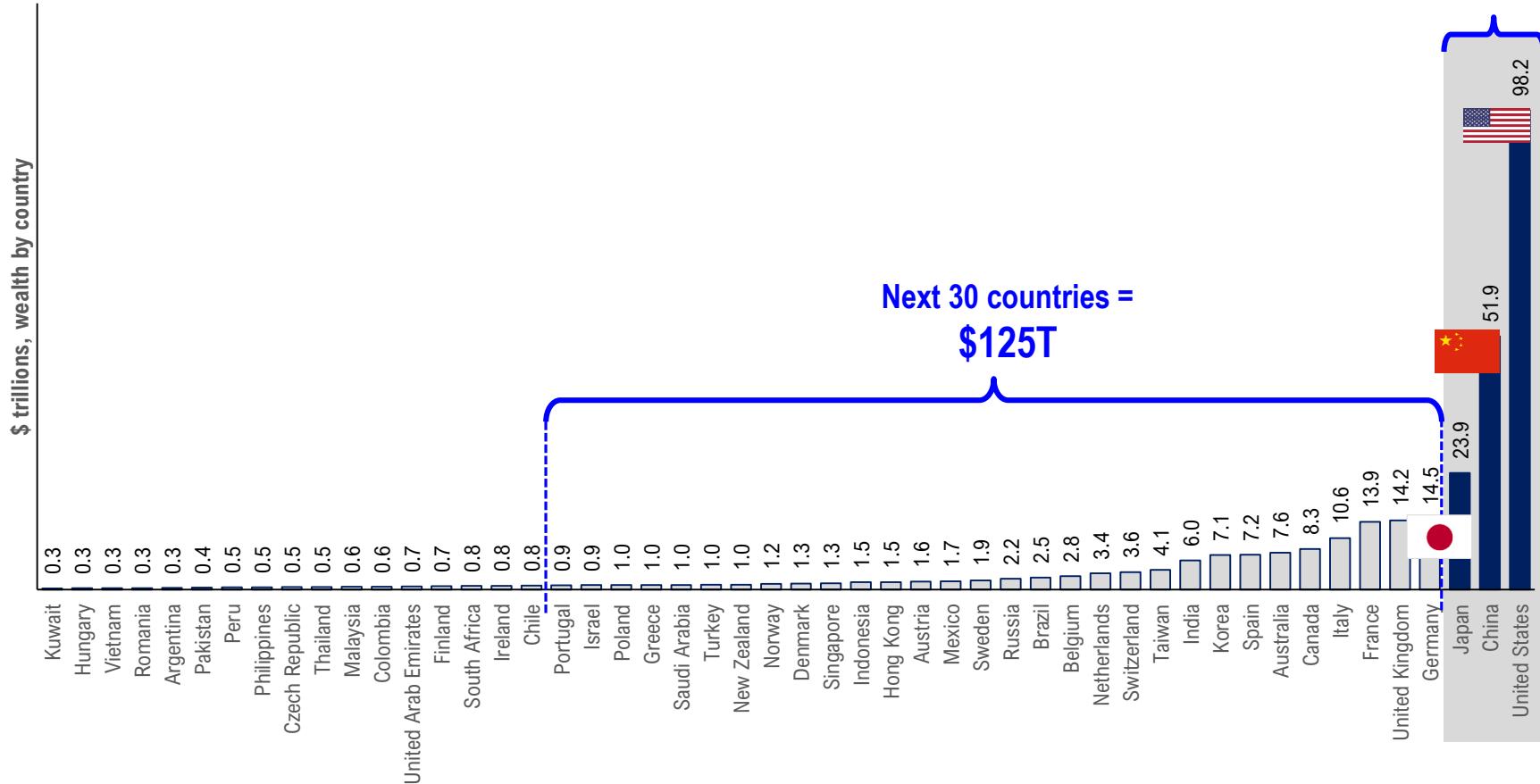
- Roughly 60% of Global Wealth is controlled by the US, China and Japan today

Figure: Aggregate wealth by country

Credit Suisse Global Wealth Report. 2018

□ Aggregate Wealth, \$ trillions

US + China + Japan =
\$175T (~60%)



Source: Fundstrat, Bloomberg, Credit Suisse.

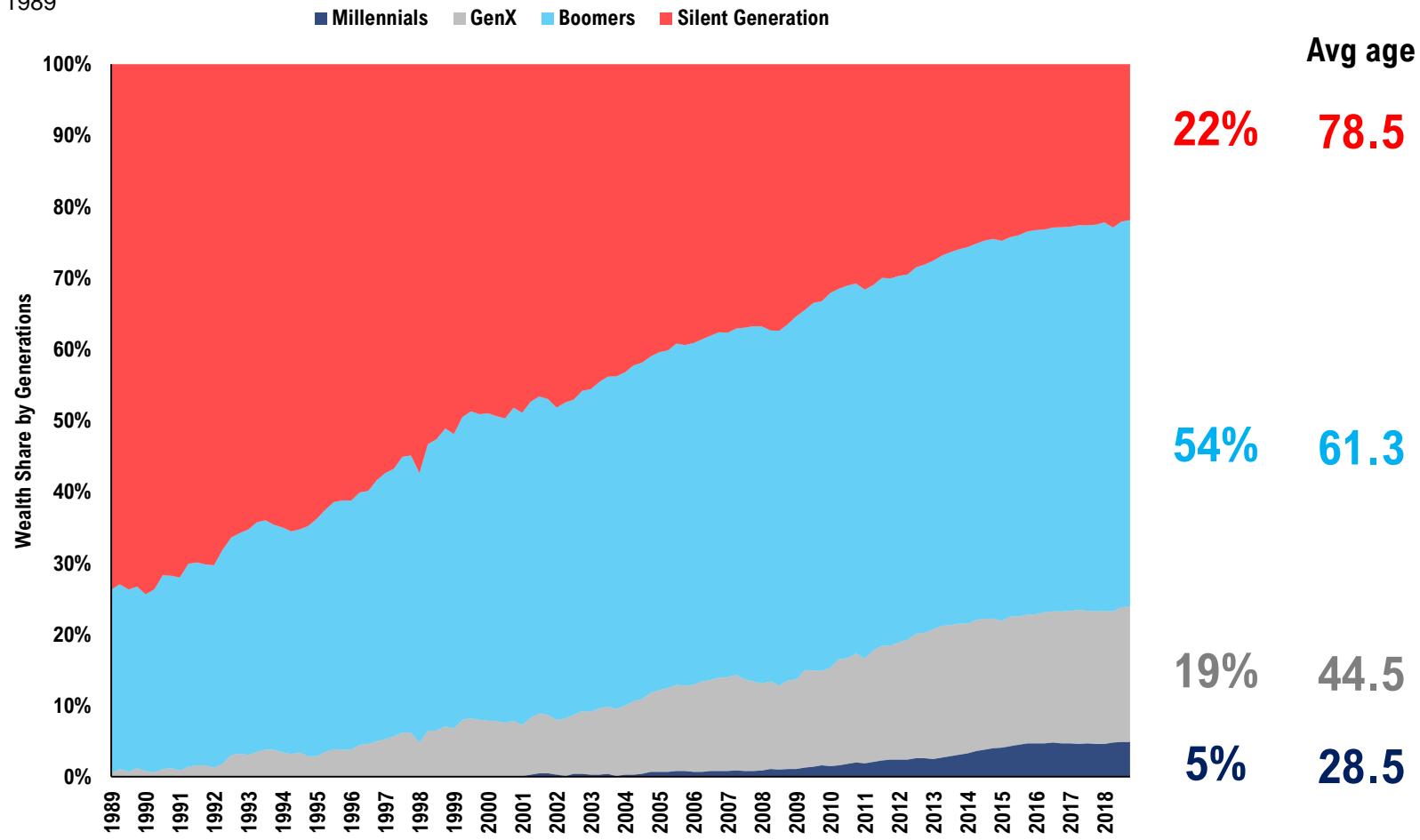
WEALTH TRANSFER: Millennials set to inherit \$68 trillion in next 20 years

A study by Coldwell Banker ([Coldwell Banker report here](#)) shows Millennials are expected to inherit \$68T over the next 20 years.

- The latest Federal Reserve Survey of Consumer Finances shows that Boomers and Silent Generation control about 77% of the wealth. The Silent Generation controls \$22 trillion today and is an average age of 78.5 (oldest is 88.5)

Figure: Wealth share by generations

Since 1989



Source: Fundstrat, Federal Reserve DFA

- **CLIFF NOTES: 'E' matters more than 'PE'**
- **2020 “rising animal spirits”**
- **Millennials driving US de-coupling**
 - **Inflation revives in late-2020**
- **Granny Shots**
- **Thematic Strategies for 2020**
- **Tactical Strategies for 2020**

INFLATION: Inflation expectations remain muted but we see upside

In our recent meetings, investor expectations around inflation have collapsed – some sell-side strategists are even saying “Fed will never raise rates”.

- But if we squint, market-based measures of inflation might be hooking up.

FINANCE & TAX

Kudlow: Fed may not hike interest rates 'in my lifetime'



Figure: Two measures of market-based measures of inflation

Fed's 5-yr inflation breakevens and NY Fed UIG



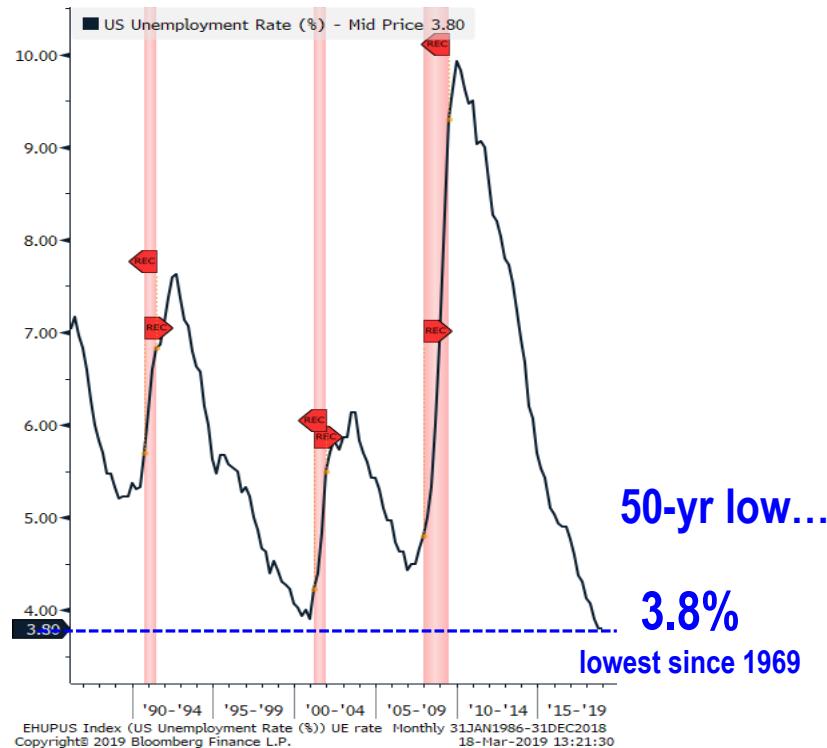
LABOR: Capacity utilization (“Employed ratio”) explains labor market...

There is a peculiar divergence—unemployment is at 50-yr low but the employed ratio is still at levels consistent with a 7% UE rate. Participation rate explains this, but also, perhaps, there is a flaw in the methodology for calculating UE.

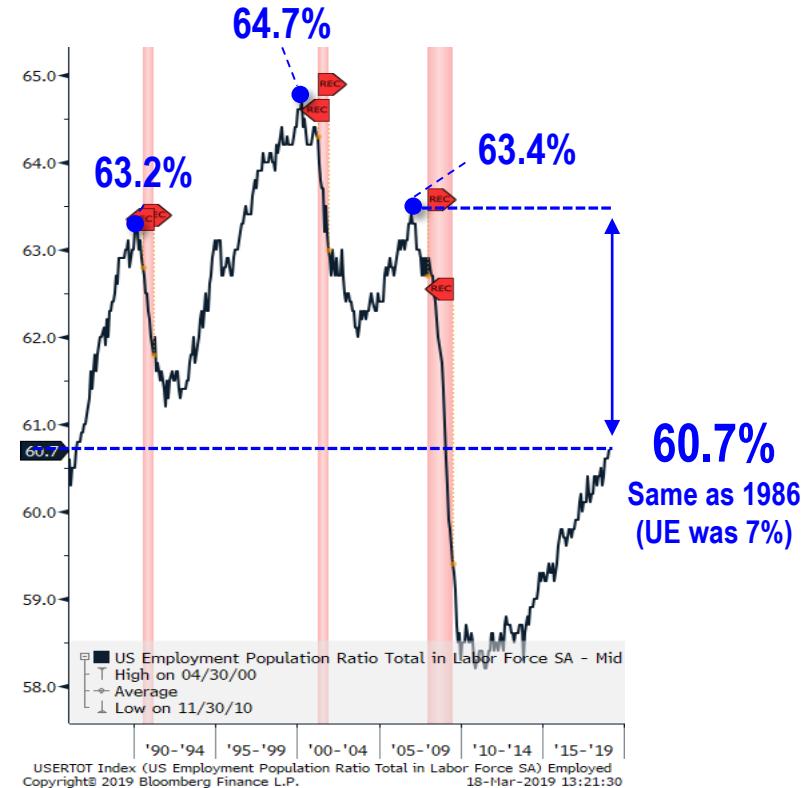
- As shown on the right, the employed ratio seems to better describe peak employment in the past few cycles.

Figure: Comparison of Unemployment rate and “Employed” ratio (employment/ total labor force)
Since 1986

Low unemployment rate suggests
“Peak employment”...



But low employed ratio screams
“mid-cycle”



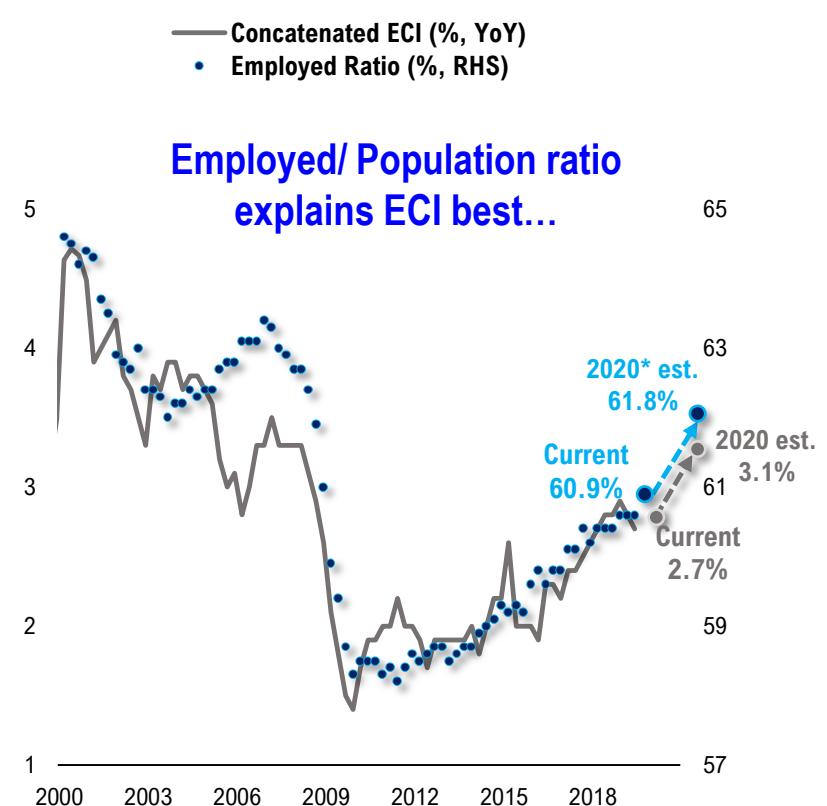
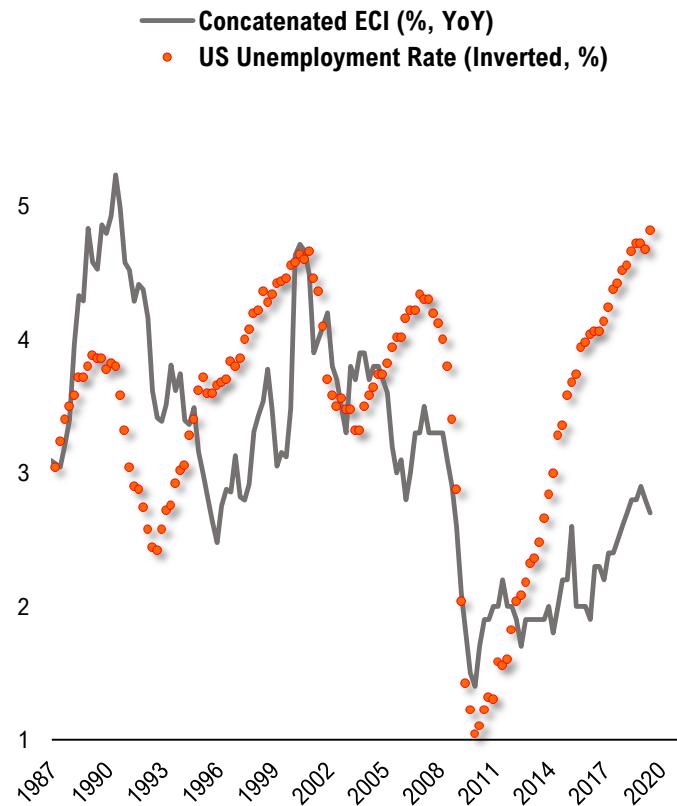
Source: Fundstrat, Bloomberg, Factset

LABOR CAPACITY UTILIZATION: Employed ratio explains ECI best since 2000

The Fed's preferred measure of wage inflation is the ECI (employment cost index) and we have plotted the ECI and measures of employment below. The comparison charts below make apparent how labor inflation is better measured by the "capacity utilization" proxy, or employed ratio.

- It is pretty obvious below that the employed ratio has better explained the ECI than unemployment rate. And the reason is somewhat intuitive, the employed/ population ratio is a measure of capacity utilization.

Figure: Comparison of Unemployment rate and "Employed" ratio (employment/ total labor force)
Since 1986



Source: Fundstrat, Bloomberg, Factset
* Assume 2.4mm jobs added in next 12 months

LABOR INFLATION: 2020 should see a pickup in wage inflation...

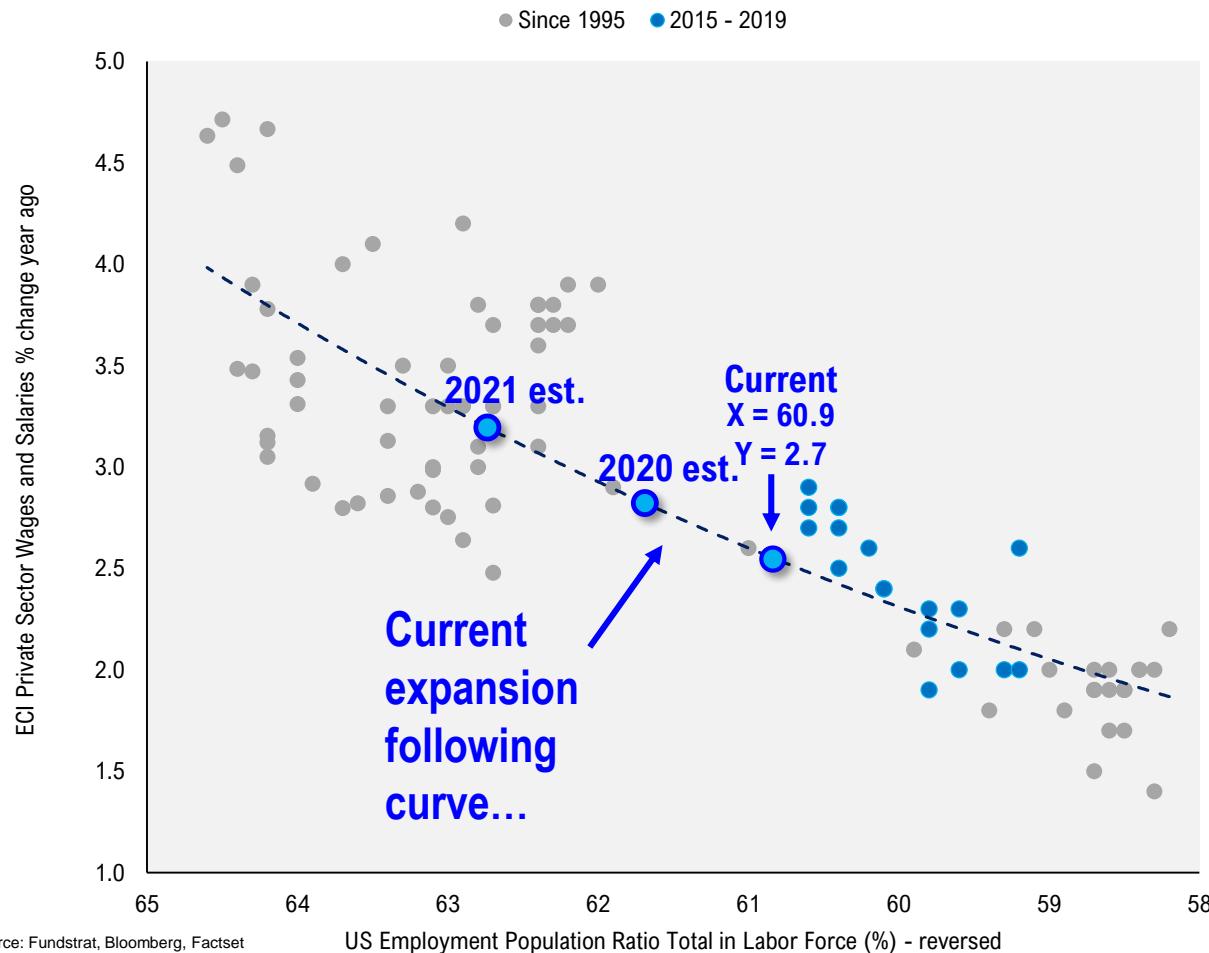
The Phillips curve is designed to measure the trade-off between employment rate and wage inflation.

- For the current expansion, while the Phillips curve is broken for UE rate, the “employed” ratio is explaining wage pressure more properly. Hence, employed ratio is a better for understanding labor markets.

Figure: Modified Phillips Curve using Employed ratio

Since 1995

Modified Phillips curve (Employment Cost vs US Employment Population Ratio Total in Labor Force)



Drop in participation rates structurally due to 3 factors... not cyclical

We have compiled some comparative statistics of the US population today versus 2000 (when participation rates hit historic highs).

- As shown below, we believe 3 structural factors (and possibly a fourth guess) are behind the fall in participation rates. The first is the surge in those Americans receiving long-term disability (10.5mm today). Next is the rise in those adults with a felony conviction. And third is the retiring of boomers.
- Contrary to “consensus arguments,” retiring boomers is less a factor than the other two. Moreover, we believe rise of opioid use is another factor.

Figure: Comparison of US population Today versus 2000 (Participation rate peak)

Today vs 2000

	Dec '00 (000s)		July '17 (000s)		Today vs Dec 2000 Delta
	%	total	%	total	
Civilian non-institutional population	210,743	100.0	255,151	100.0	—
Labor force	141,489	67.1	160,494	62.9	-4.2
Total not in labor force	69,254	32.9	94,657	37.1	4.2
On Social Security Long-term Disability Insurance	5,970	2.8	10,500	4.1	1.3
Former felon (not in prison currently)	5,250	2.5	9,500	3.7	1.2
> Age 65 and retired	30,511	14.5	40,100	15.7	1.2
Other reason, not in labor force	27,524	13.1	34,557	13.5	0.5

1. Jump in long-term disability

2. Rise in population with “felony convictions”

3. Retiring of baby boomers

4. “opioids” and pain

Source: Fundstrat, Bloomberg

LABOR: Global excess supply of labor is gone, first time since 1973

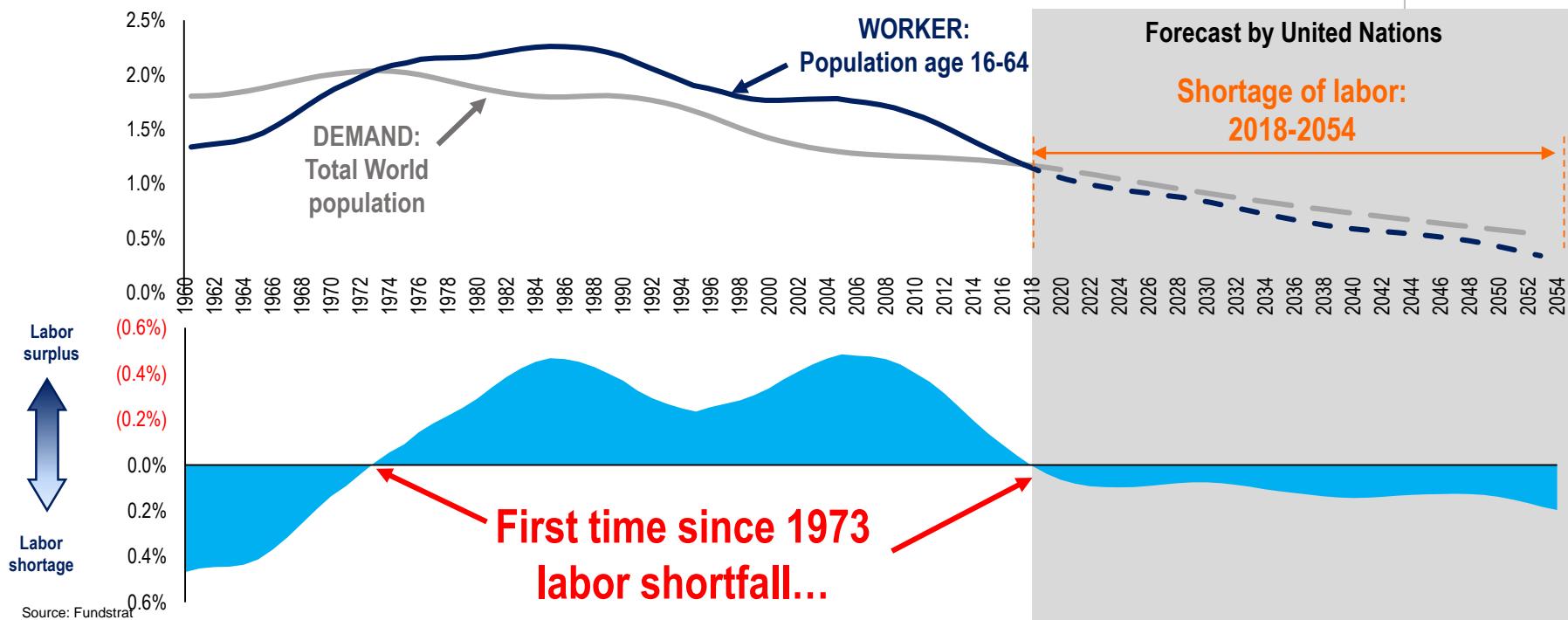
Global labor supply is falling into a deficit. This is shown below and is most acute in high income countries (4.9% labor)

- The decline in labor is widespread (except Africa and India, basically) and total shortfall is 43 million workers.

Figure: Spread between total population growth and workforce growth (age 16-64)

Per UN DESA

	2018		2028		Delta	CAGR		% current	
	Workforce		Workforce			Workforce	Total		
	Total	(16-64)	Total	(16-64)		Total	(16-64)		
World	7,632,819	4,983,447	8,407,900	5,446,592	775,081	463,145	1.0%	0.9%	
World ex-Africa	6,344,899	4,264,461	6,778,314	4,501,749	433,416	237,288	0.7%	0.5%	
High-income countries	1,197,191	783,527	1,242,592	775,187	45,401	(8,340)	0.4%	(0.1%)	
Mid/Low-income countries	6,435,628	4,199,919	7,165,308	4,671,404	729,680	471,485	1.1%	1.1%	



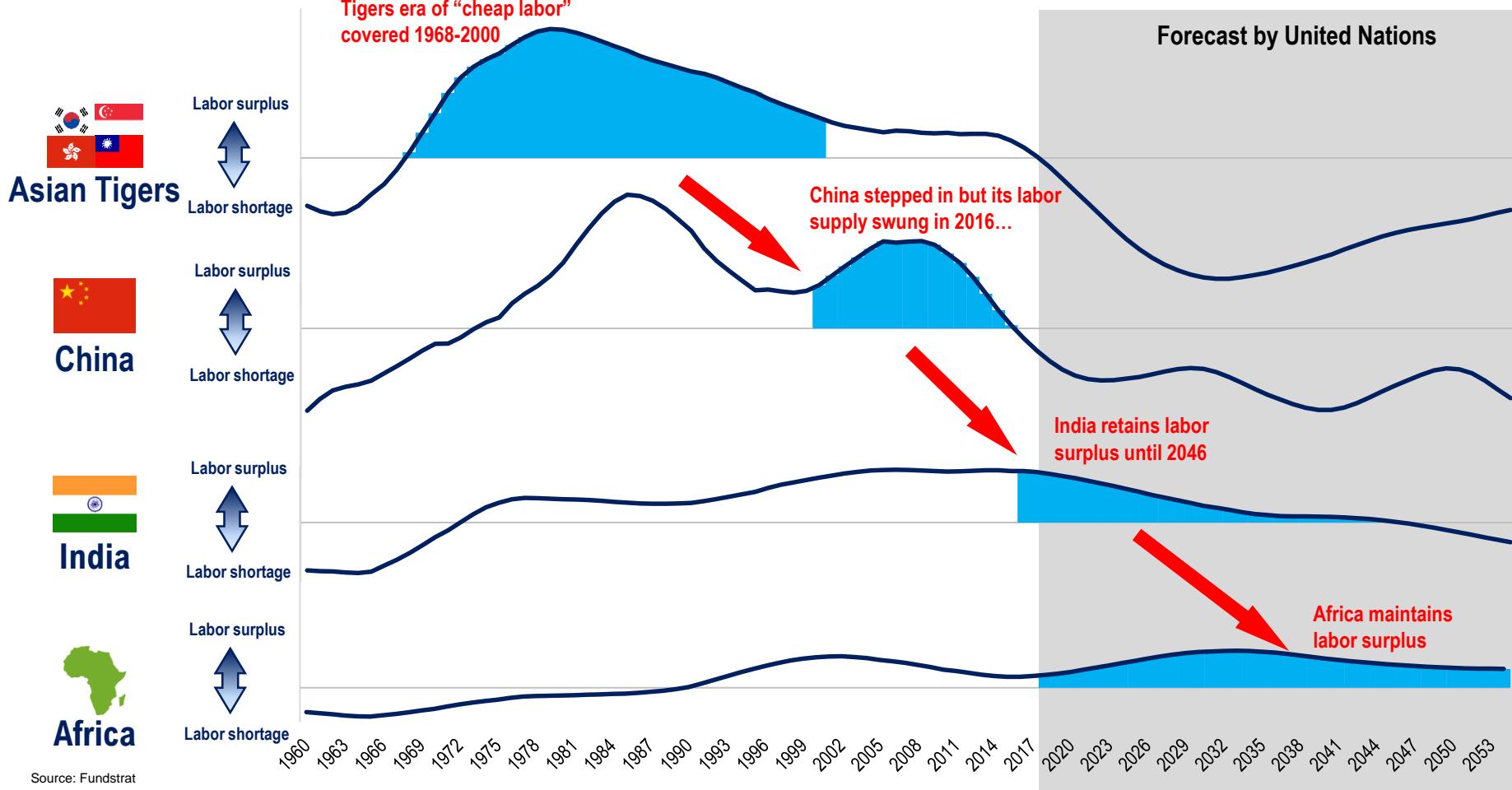
LABOR: From Tigers to China to India (until 2046) and Africa

China and the Four Asian Tigers (Hong Kong, Korea, Singapore and Taiwan) entered labor shortage recently.

- In the chronology below is the progress of labor supply. The Tigers were the first, followed by China joining in the 2000s, and now we're seeing a shift in India. India's labor surplus will start to diminish in 2019, but won't enter labor shortage until 2046. Africa will maintain its labor surplus through the forecasted period.

Figure: Spread between total population growth and workforce growth (age 16-64)

Per UN DESA



AUTOMATION: Labor Shortage drives demand for ‘automation’

‘Demand for automation drive by necessity’

When there was
“surplus labor”

Suppliers:

China 

Asia 

India 

Africa 

When there is
“labor shortage”

Suppliers:

USA 

Japan 

China 

Germany 

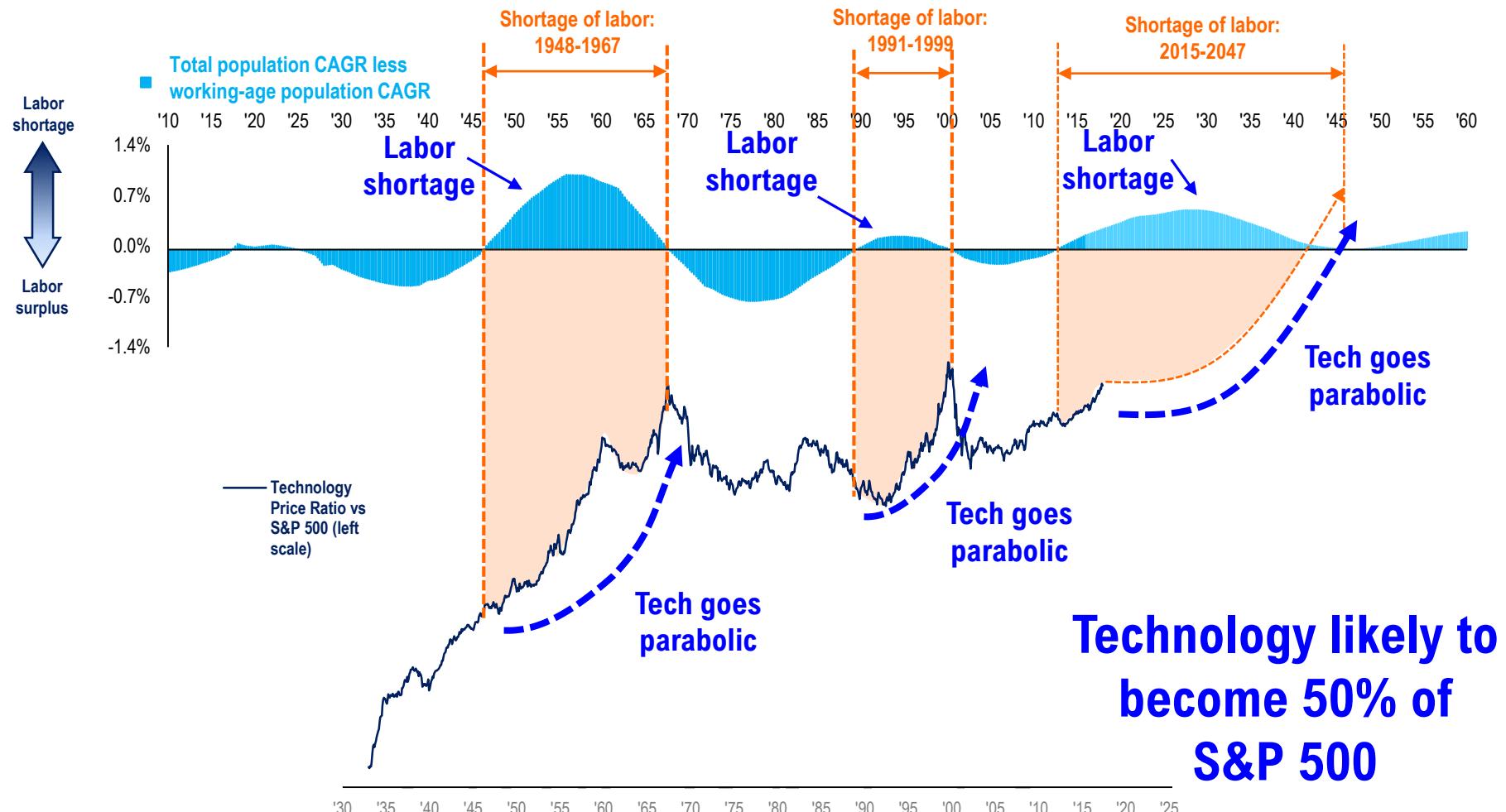
AUTOMATION: Technology becomes 50% of S&P 500 weight

We have compared the performance of US Technology stocks (vs S&P 500) and indicated periods of labor shortage.

- The outperformance of Technology during periods of labor shortage is substantial—and we believe the forecasted 2015-2047 to benefit Technology stocks.

Figure: Comparative relative performance of US Technology stocks during periods of US labor shortage

Since 1930-now



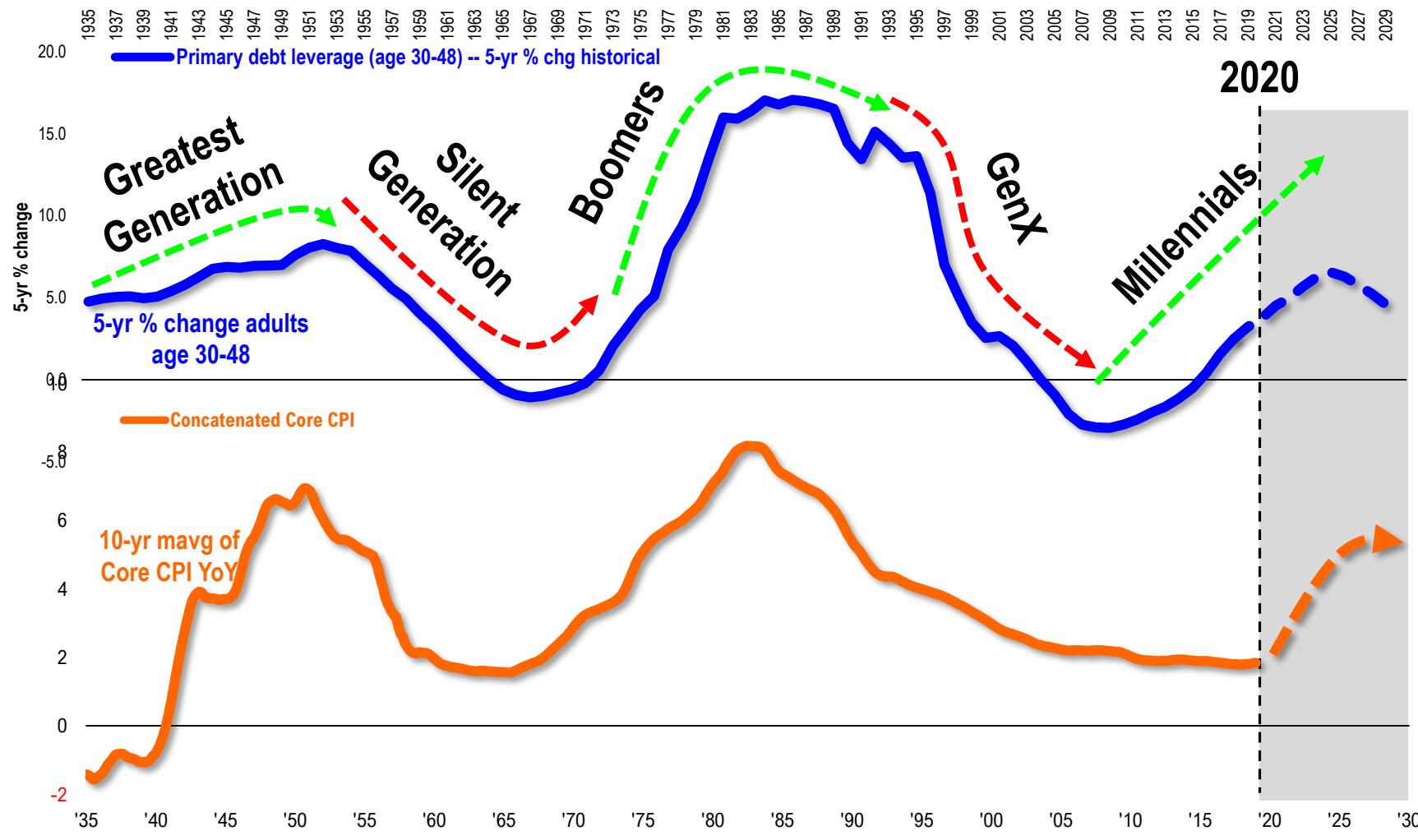
INFLATION: pricing levels follow the population in prime leverage age...

We overlay the # of adults in "prime leverage age" (age 30-48) against the 10-year moving average of US Core CPI growth.

- As millennials enter their prime income/leverage age, the increasing demand could cause inflation to climb up.

Figure: Prime Leverage years: # adults age 30-48

Since 1935 per the US Census Bureau



Source: Fundstrat, Bloomberg, BEA, National Association of Realtors, US Census Bureau

- **CLIFF NOTES: 'E' matters more than 'PE'**
- **2020 “rising animal spirits”**
- **Millennials driving US de-coupling**
- **Inflation revives in late-2020**
- **Granny Shots**
- **Thematic Strategies for 2020**
- **Tactical Strategies for 2020**

STRATEGY: Themes for 2020

1. Overweight US

US de-couples from RoW

2. Overweight Technology

Technology/ Industrials supply
“non-human” labor

3. Overweight Asset Heavy

Reflation hurts “subscription”
boosts “asset heavy”

4. Overweight Millennial

Millennials primary driver of credit
expansion

5. Overweight Value vs Growth

Value beats Growth in a rising rate
world

Thematic — 3-5 years

Execution of Strategy

Millennials prime years

Millennials driving >50% GDP growth.

- OW Millennial transformation.
- OW Millennial accelerates growth.

COLM, TPR, BWA, TSLA, ORLY, NKE, ULTA, PYPL, SQ, AXP, JPM, ALL, TAP, BF/B, PM, GOOG, FB, DIS, TMUS, GRMN, TOL, WM, PG, GIS, EL, AAPL, MNST, ED

Labor shortage—Automation

World is short 78 million workers.

- OW Automation/ AI suppliers.
- OW beneficiaries of Automation/ AI

APTV, GNTX, SRI, GRMN, CW, MOG/A, TDY, DE, AME, EMR, RBC, ROK, ROP, LECO, PH, ADSK, SNPS, CSCO, FLIR, ZBRA, MKSI, AVGO, NVDA, QCOM, XLNX, IMMR, ISRG, VAR, GOOG, CPRI, TSLA, AAP, AAPL, KSS, GPC, DG, TGT, BSET, ETH, LOW, AMZN, DENN, TSCO, POWL, CSL, DOV, HURN, COST

Higher inflation—Assets vs OpEx

Inflation trending higher long term.

- OW Assets over OpEx.

BKNG, EBAY, CSCO, PYPL, DLB, KLAC, XLNX, MSFT, ORCL, AAPL, RGLD, PSX, AMP, AXP, LPLA, AMTD, BF/B, PM, AMGN, ENTA, NKTR, GOOGL, EIX, EXC, BKH, D

STRATEGY: Increase “win-rate” of stock picks...

Shaquille:
(career success)

52%



Rick Barry:
(career success)

90%



STRATEGY: Granny Shots represents the “best of the best” from Thematics

Rebalanced

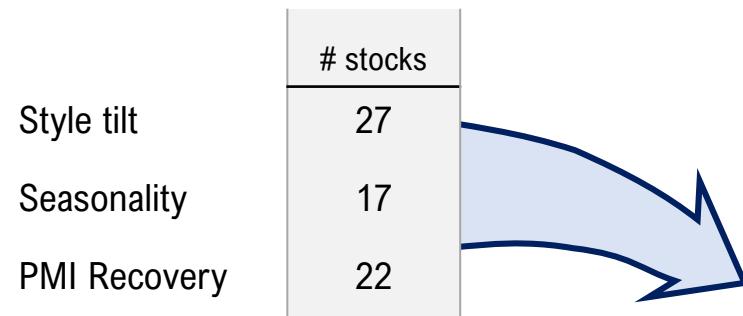
The granny shots represent the best of the best from the thematic portfolios.

- This is derived from looking at stocks which appear in multiple themes. As listed on the following pages, no stock appears in 6 of 6 thematics, but several appear in 4 or 5 out of 6.

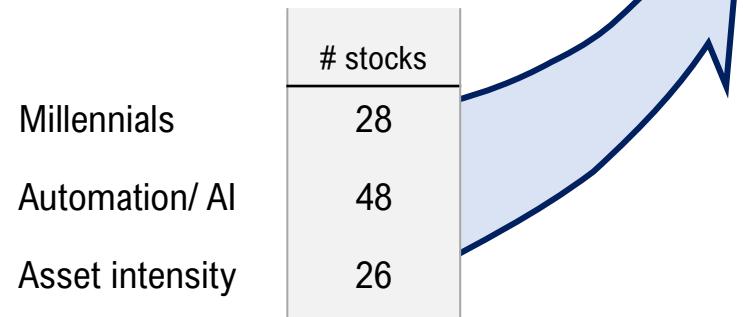
Figure: Granny Shots are the “best of the best”

Stocks which appear in multiple themes.

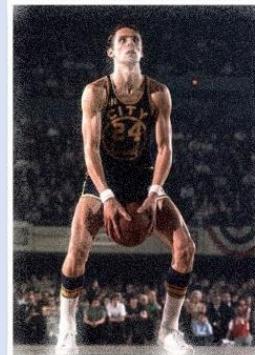
Tactical (6M-12M)



Thematic (3Y-5Y)



Granny Shots



Rick Barry career free throw percentage was eye-popping 90%, incredible considering Shaquille O’Neal’s only 52%.

His secret? The unorthodox style of underhanded throws, which is considered “not macho” enough for most players.

# overlaps “layups”	Tickers
5	GOOG
4	AAPL
3	AMP, CSCO, FB
	NVDA, PYPL, XLNX
2	AXP, BF/B, BKNG
	DE, DOV, EBAY
	EMR, EXPE, GRMN
	KSU, MNST, MSFT
	MXIM, PM, PSX
	QCOM, ROK, TSLA
	TTWO, VRSN

Rick Barry career free throw percentage was eye-popping 90%, incredible considering Shaquille O'Neal's only 52%.



His secret? The unorthodox style of underhanded throws, which is considered "not cool" enough for most players.

GRANNY SHOTS: Best bets in 2020

We recommend investors our granny shots, comprised of 28 stocks.

- These stocks are recommended across at least two of our investment strategies for 2020, which makes them likely to benefit from multiple themes and secular tailwinds.

Figure: Granny shots – recommended across at least two investment strategies for 2020

Per Fundstrat

Ticker	Company name	3m avg daily liquidity				YTD perf (relative to S&P 500)	Analyst Ratings						Fundamentals & Valuation				Theme Membership						
		Current	Mkt cap (\$ mm)	liquidity	S&P 500		FC Mean	Mean implied upside ⁽²⁾	Dividend	Issuer	Short interest % of float	2020E				Value / Growth Tilt	Seasonality	P/M Recovery	Millennials	AI / Automation	Inflation	Strategy Count	
							1=Sell) ⁽¹⁾	upside ⁽²⁾				sales growth ⁽³⁾	2020E EPS growth ⁽³⁾	P/E ('20E)	ROE								
1	GOOG	Alphabet Inc-C1 C	\$1,361.17	\$938,630	\$1,639.1	4.1%	4.88	9%	0.0%	AA+	1.0%	18%	17%	25.0x	18%	•	•	•	•	•	5		
2	AAPL	Apple Inc	\$279.86	\$1,243,492	\$6,231.6	50.1%	3.88	-6%	1.1%	AA+	1.6%	6%	9%	21.6x	56%	•	•	•	•	•	4		
3	AMP	Ameriprise Financial Inc	\$167.44	\$21,214	\$134.6	33.1%	4.38	6%	2.4%	A	1.7%	3%	11%	9.3x	34%	•	•	•	•	•	3		
4	CSCO	Cisco Systems Inc	\$45.98	\$195,059	\$927.2	-21.2%	3.97	11%	3.0%	AA-	0.8%	-2%	5%	14.2x	28%	•	•	•	•	•	3		
5	FB	Facebook Inc-Class A	\$197.92	\$564,418	\$2,587.2	23.7%	4.59	18%	—	—	1.2%	22%	43%	21.6x	21%	•	•	•	•	•	3		
6	NVDA	Nvidia Corp	\$225.15	\$137,792	\$1,653.0	41.3%	4.28	2%	0.3%	A-u	1.5%	20%	31%	30.8x	23%	•	•	•	•	•	3		
7	PYPL	Paypal Holdings Inc	\$109.57	\$128,656	\$714.9	3.0%	4.57	16%	—	BBB+	1.3%	17%	14%	31.4x	16%	•	•	•	•	•	3		
8	XLNX	Xilinx Inc	\$96.38	\$24,236	\$313.2	-14.1%	3.70	12%	1.5%	NR	1.9%	10%	10%	26.7x	37%	•	•	•	•	•	3		
9	AXP	American Express Co	\$123.68	\$101,204	\$352.7	2.4%	3.77	6%	1.4%	BBB+	1.2%	7%	12%	13.9x	31%	•	•	•	•	•	2		
10	BF/B	Brown-Forman Corp-Class B	\$64.24	\$29,970	\$84.9	7.7%	2.68	-9%	1.1%	A-	4.4%	5%	6%	33.3x	50%	•	•	•	•	•	2		
11	BKNG	Booking Holdings Inc	\$1,995.02	\$83,503	\$629.7	-11.5%	3.89	6%	—	A-	2.5%	7%	13%	17.5x	55%	•	•	•	•	•	2		
12	EBAY	Ebay Inc	\$35.40	\$28,799	\$271.2	-1.2%	3.37	13%	1.6%	BBB+	2.9%	2%	5%	12.2x	39%	•	•	•	•	•	2		
13	GRMN	Garmin Ltd	\$97.79	\$18,590	\$87.3	27.1%	2.60	-15%	2.4%	—	2.4%	4%	3%	22.5x	19%	•	•	•	•	•	2		
14	MNST	Monster Beverage Corp	\$62.49	\$33,600	\$161.2	-0.3%	3.82	7%	—	—	3.0%	9%	11%	27.7x	27%	•	•	•	•	•	2		
15	PM	Philip Morris International	\$86.25	\$134,194	\$436.6	1.9%	4.16	7%	5.5%	A	0.6%	5%	7%	15.5x	—	•	•	•	•	•	2		
16	ROK	Rockwell Automation Inc	\$204.41	\$23,619	\$168.4	8.5%	2.92	-6%	2.0%	A	1.6%	3%	3%	22.9x	69%	•	•	•	•	•	2		
17	TSLA	Tesla Inc	\$381.50	\$68,763	\$2,589.2	-12.7%	2.78	-24%	—	B-	20.2%	21%	800%	64.1x	-16%	•	•	•	•	•	2		
18	DE	Deere & Co	\$172.85	\$54,426	\$327.3	-11.4%	3.92	4%	1.8%	A	1.9%	-7%	-6%	18.4x	29%	•	•	•	•	•	2		
19	DOV	Dover Corp	\$113.13	\$16,434	\$92.0	32.1%	3.71	-1%	1.8%	BBB+	3.3%	2%	8%	18.0x	23%	•	•	•	•	•	2		
20	EMR	Emerson Electric Co	\$76.16	\$46,393	\$204.5	0.2%	3.78	-1%	2.6%	A	1.2%	1%	-1%	20.9x	27%	•	•	•	•	•	2		
21	EXPE	Expedia Group Inc	\$114.23	\$16,550	\$325.6	-25.9%	4.03	15%	1.2%	BBB*-	5.2%	8%	14%	16.5x	12%	•	•	•	•	•	2		
22	KSU	Kansas City Southern	\$152.99	\$15,164	\$137.5	33.0%	4.20	3%	1.1%	BBB	5.9%	6%	15%	19.1x	12%	•	•	•	•	•	2		
23	MSFT	Microsoft Corp	\$155.53	\$1,186,508	\$3,199.7	25.8%	4.84	4%	1.3%	AAA	0.8%	12%	13%	28.9x	43%	•	•	•	•	•	2		
24	MXIM	Maxim Integrated Products	\$60.47	\$16,364	\$101.7	-8.4%	3.22	5%	3.0%	BBB+	1.9%	-4%	-8%	27.2x	42%	•	•	•	•	•	2		
25	PSX	Phillips 66	\$114.14	\$50,719	\$278.2	5.2%	4.33	13%	3.3%	BBB+	1.2%	15%	20%	10.6x	19%	•	•	•	•	•	2		
26	QCOM	Qualcomm Inc	\$88.43	\$100,973	\$689.2	28.1%	4.03	10%	3.0%	A-	1.4%	13%	18%	21.2x	153%	•	•	•	•	•	2		
27	TWTO	Take-Two Interactive Software	\$122.71	\$13,909	\$153.4	-8.1%	4.36	10%	—	—	2.3%	-1%	2%	24.8x	17%	•	•	•	•	•	2		
28	VRSN	Verisign Inc	\$192.66	\$22,620	\$117.3	2.6%	3.00	10%	—	BBB-	1.1%	5%	6%	34.3x	—	•	•	•	•	•	2		
Average			\$189,850	\$878.9	7.7%		3.84	5%	2.0%		2.7%	7%	39%	23.2x	34%								
Median			\$48,556	\$319.4	2.8%		3.90	6%	1.8%		1.7%	6%	11%	21.6x	28%								
% of stocks positive					64%			75%				86%	89%	96%									

Source: Fundstrat, Bloomberg, Factset

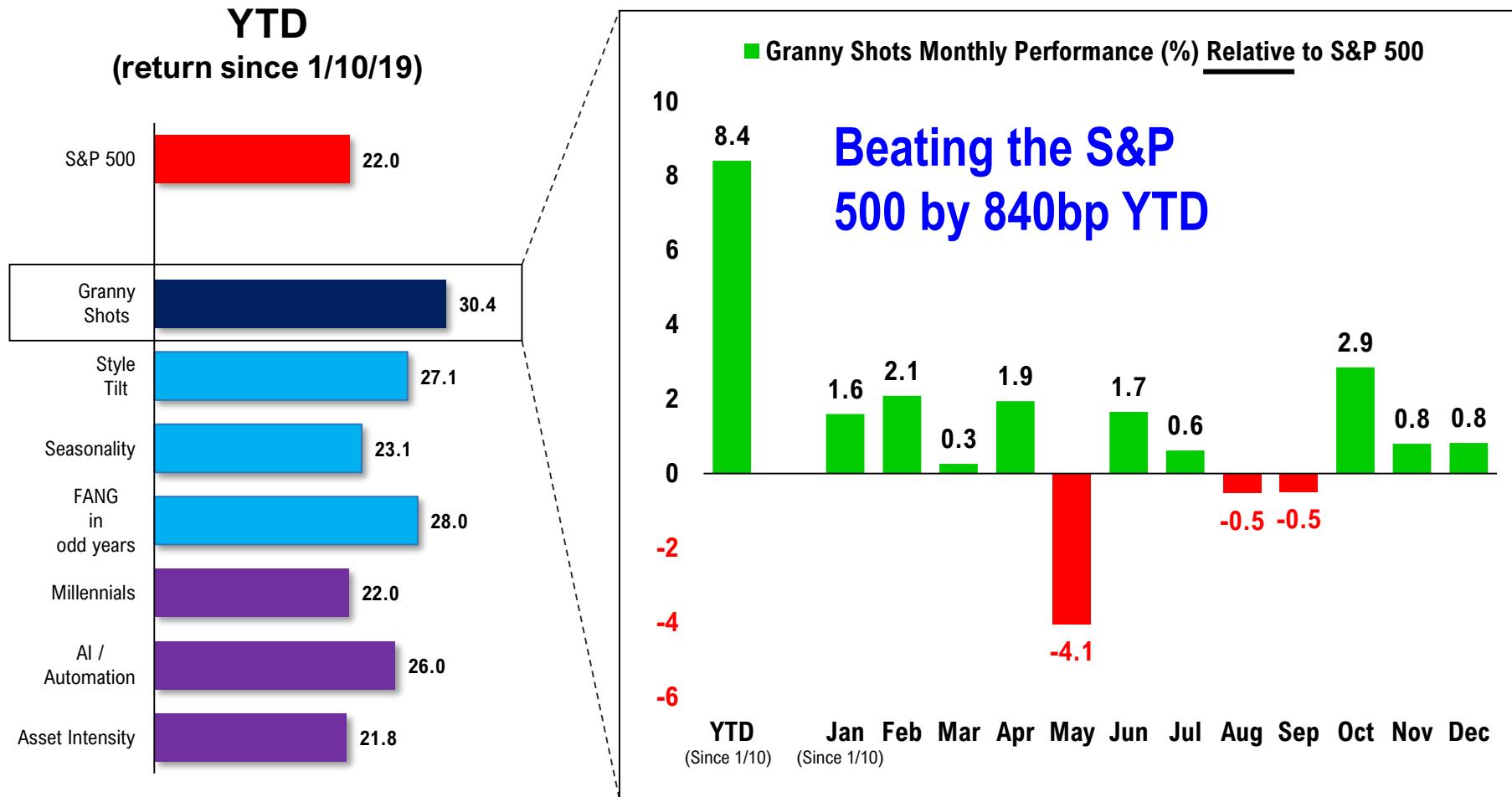
GRANNY SHOTS: Beat S&P 500 9 out of the 12 months since inception...

The relative performance of Granny Shots is below and as highlighted, has beaten the S&P 500 by 840bp since inception.

- **Granny Shots**, which are the “best of the best” for our thematic portfolios (and rebalanced every quarter) has beaten the S&P 500 by 840bp YTD. May was tough month, but since has bounced.

Figure: Granny Shots Portfolio Performance

Monthly; As of 12/13/19



Source: Fundstrat, Bloomberg, Factset

STRATEGY: Granny Shots represents the “best of the best” from Thematics

The granny shots represent the best of the best from the thematic portfolios.

- We have performed four reconstitutions and rebalances since we launched it on January 10th, 2019. Below we show the details of constituent changes during these rebalances.

Figure: Granny Shots constituents before and after rebalance

Additions highlighted in Blue; Deletions highlighted in Red:

Granny Shots Portfolio As of inception on 1/10		Apr '19 Rebalance (Effective on 3/10)	Jul '19 Rebalance (Effective on 7/12)	Oct '19 Rebalance (Effective on 10/11)	Dec '19 Rebalance (Effective on 12/13)	Current Granny Shots Portfolio
		Additions	Additions	Additions	Additions	
		Deletions	Deletions	Deletions	Deletions	
GOOG	DE					GOOG MSFT
KLAC	DIS					AAPL TTWO
MNST	FB	QCOM	ADP PG	CMI	VRSN TTWO	AMP ROK
NKE	GRMN	VAR	CLX V	EBAY	QCOM DOV	PYPL DOV
TSLA	LOW	EBAY	MA		KSU PSX	NVDA PSX
AAPL	MKSI	MO			EXPE DE	CSCO BKNG
AMGN	NVDA				MXIM EMR	XLNX EBAY
AMP	PM				MSFT	FB DE
AMZN	PSX					MNST EMR
AXP	PYPL	DE	LOW PSX	ADP PG	NKE	VRSN TSLA
B.F.B	ROK	MKSI	EBAY MO	CLX V	CMI	QCOM AXP
BKNG	XLNX		KLAC VAR	MA	AMGN	KSU BF.B
CSCO			QCOM DIS		AMZN	EXPE PM
						MXIM GRMN

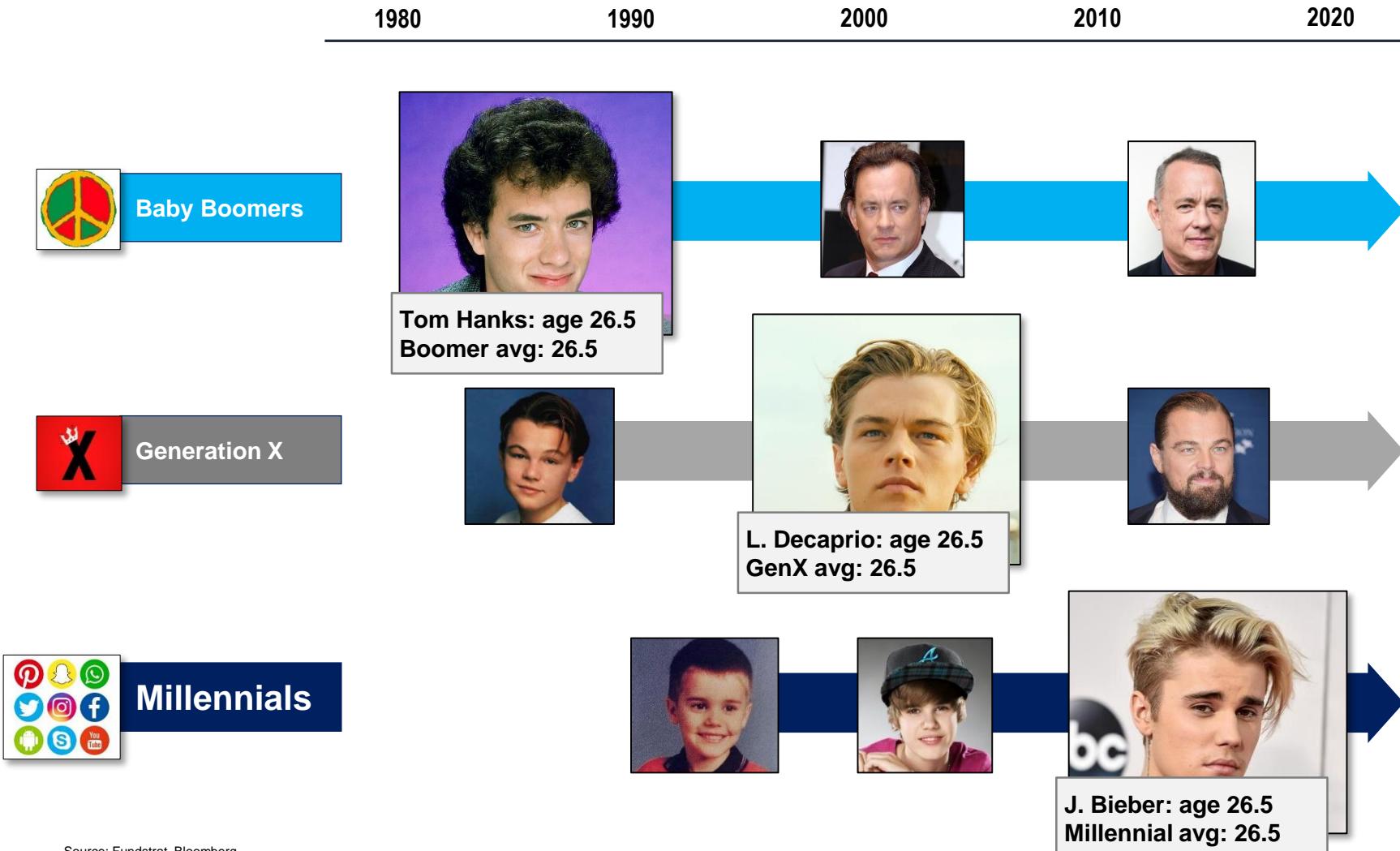
Source: Fundstrat

- **CLIFF NOTES: 'E' matters more than 'PE'**
- **2020 “rising animal spirits”**
- **Millennials driving US de-coupling**
- **Inflation revives in late-2020**
- **Granny Shots**
- **Thematic Strategies for 2020**
- **Tactical Strategies for 2020**

DEMOGRAPHICS: Looking at the world through the eyes of a millennial...

Figure: What did each generation look like in their 20s

Fundstrat and public information



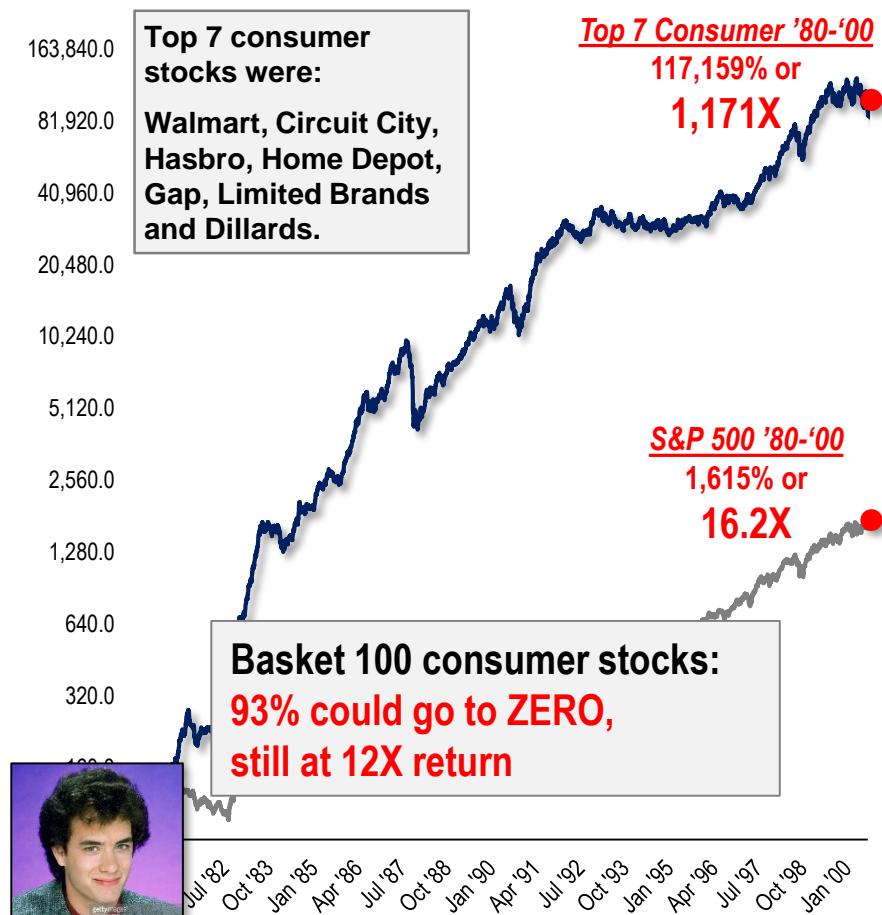
Source: Fundstrat, Bloomberg

“Generational” Bets paid off for Boomers and for GenX



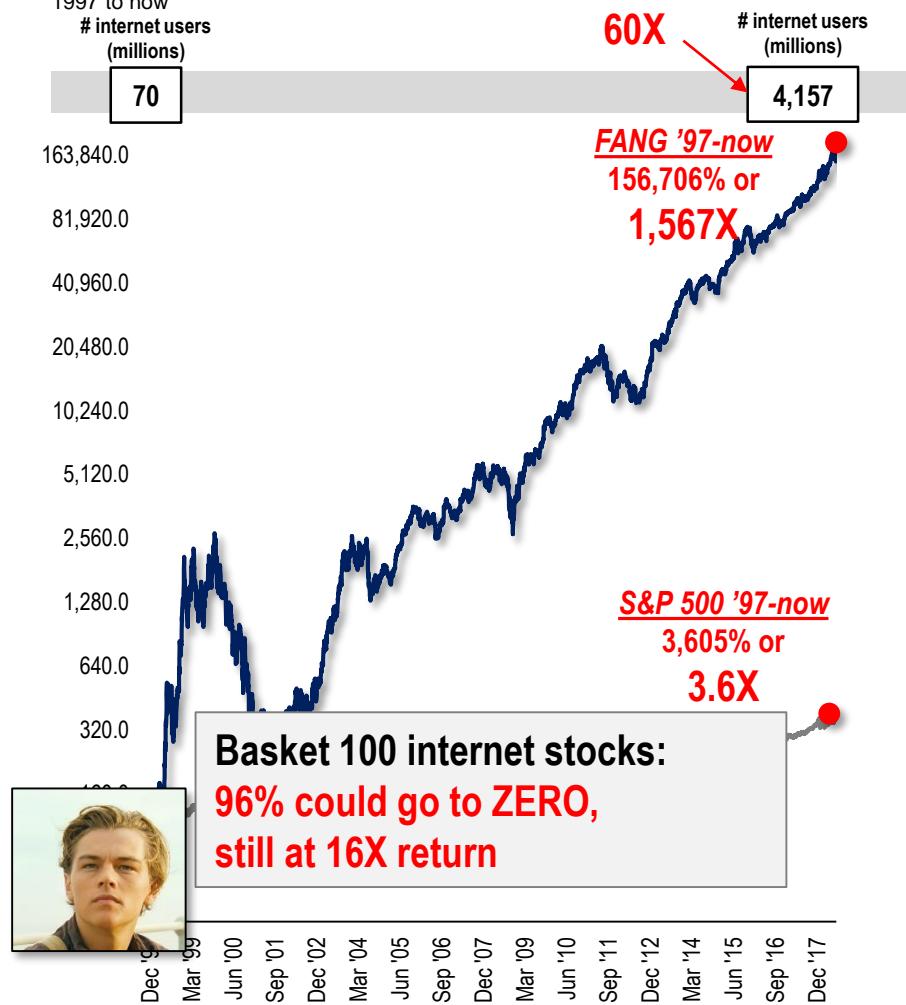
BOOMER SPEND VS PARENTS: Consumer Stocks was right vector

Figure: Comparative performance of Top 7 Consumer stocks
1980 to 2000



GenX FANG: Internet

Figure: Comparative performance of FANG
1997 to now



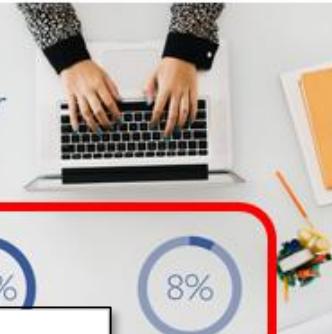
Millennials don't trust banks....

Moreover, as shown below, a Facebook survey done in 2016 shows that Millennials simply do not trust existing financial systems. This is no doubt shaped by the 2008 Financial Crisis.

92 Percent of Millennials Don't Trust Banks

Source: Fundstrat, Facebook IQ

Millennials need a new kind of financial partner



45%

44%

8%

Earlier in 2016, [Facebook IQ](#), a team of researchers, scientists and analysts funded and supported by Facebook Inc., published a white paper entitled "[Millennials + money: The unfiltered journey](#)" to evaluate the beliefs and thoughts of



A First Data White Paper

There's no slowing down millennials Capitalizing on a growing and influential generation

How are twenty-somethings using banking services?

21% would consider a branch digital bank

27% would consider a branch digital bank

48% are interested in real-time and instant banking spending analysis

48% are interested in real-time and instant banking spending analysis

45% twenty-somethings prefer to interact with a bank than face-to-face or even talking by phone

45% twenty-somethings prefer to interact with a bank than face-to-face or even talking by phone

30% of adult millennials have never used a bank

30% of adult millennials have never used a bank

By comparison, only 20% of adult Gen Xers have never used a bank

30% of adult Gen Xers have never used a bank

30% of adult millennials have never used a bank

30% of adult Gen Xers have never used a bank

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30% of adult millennials have never used a bank

30% of adult Gen Xers have never used a bank

71% of millennials would rather go to the dentist than listen to what banks say and 33% believe that in five years they won't need a bank.¹³

Source: Fundstrat, First Data

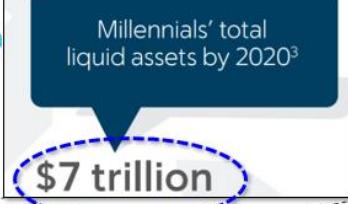
fundstrat

June 7, 2019 Slide 7

Source: Fundstrat, Facebook IQ, First Data

fundstrat

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**10% in crypto:
~ \$700 billion**

Source: Fundstrat, First Data

fundstrat

June 7, 2019 Slide 8

December 19, 2019 Slide 78

MILLENNIALS: Identify where transform vs accelerate growth...

- The screening criteria for our Millennial stock list is shown below.

Figure: Criteria for Millennial stock list

Per Fundstrat

Millennial Stock List

Macro: Millennials transform industry or accelerate growth

Category	CAGR 2016-2026 Millennials	Millennial % growth
Mortgage interest and charges	163.4%	93%
Kids Apparel	110.9%	87%
Other apparel products and services	155.4%	86%
Footwear	148.2%	85%
Apparel and services	130.7%	77%
Vehicle finance charges	106.3%	68%
Other entertainment supplies, equipment, and services	124.6%	67%
Furniture	116.4%	67%
Toys, hobbies, and playground equipment	98.6%	66%
Cellular phone service	105.2%	63%
Gasoline and motor oil	107.6%	59%
Household furnishings and equipment	126.9%	59%
Tobacco products and smoking supplies	102.1%	58%
Vehicle purchases (net outlay)	95.4%	56%
Vehicle rental, leases, licenses, and other charges	102.5%	55%
Maintenance and repairs	115.5%	55%
Pets	125.4%	54%
Alcoholic beverages	98.6%	52%
Vehicle insurance	118.7%	51%
Small appliances, miscellaneous housewares	101.3%	50%

Category	CAGR 2016-2026 Millennials	Millennial % growth
Personal services	90.1%	68%
Other household expenses	129.0%	49%
Water and other public services	131.3%	52%
Other household products	121.1%	48%
Electricity	115.3%	50%
Laundry and cleaning supplies	122.7%	53%
Cereals and bakery products	122.2%	57%
Shelter	105.4%	54%
Major appliances	141.3%	57%
Personal care products and services	119.4%	55%
Food at home	120.0%	57%
Miscellaneous household equipment	133.3%	57%

Qualitative: Company higher exposure to Millennials

Quantitative Stock Selection: DQM quintile 1

MILLENNIALS: Stocks levered to transformation and/or growth

We identified 28 stock ideas from our Quant Model (DQM) that will benefit from the growth of Millennials' spending.

- 20 ideas are from the industries where spending by Millennials will outpace the spending of Boomers. 8 ideas are from the industries where Millennials' spending will accelerate expenditure growth.**

Figure: 28 ideas

Per Fundstrat

	Company information										Fundamentals & Valuation						
	Ticker	Company name	Current Price	Mkt cap (\$ mm)	3m avg daily liquidity (\$ mm)	YTD perf (relative to S&P 500)	Analyst Ratings						2020E sales growth (3)	2020E EPS growth (3)	P/E ('20E)	ROE	
							FC Mean (5=Buy 1=Sell) ⁽¹⁾	Mean implied upside ⁽²⁾	Dividend Yield	Issuer Rating	Short interest % of float						
Industries that will be <u>transformed</u> by Millennials																	
Apparel, Accessories & Luxury	1 COLM	Columbia Sportswear Co	\$94.26	\$6,365	\$31.7	-15.2%	4.23	21%	1.1%	—	4.8%	7%	7%	18.5x	19%		
	2 TPR	Tapestry Inc	\$25.48	\$7,031	\$119.9	-51.8%	3.71	16%	5.4%	BBB-	3.8%	1%	-2%	10.1x	17%		
Auto Parts & Equipment	3 BWA	Borgwarner Inc	\$44.14	\$9,115	\$61.1	-0.3%	4.00	9%	1.6%	BBB+	2.8%	3%	5%	10.7x	18%		
Automobile Manufacturers	4 TSLA *	Tesla Inc	\$381.50	\$68,763	\$2,589.2	-12.7%	2.78	-24%	—	B-	20.2%	21%	800%	64.1x	-16%		
Automotive Retail	5 ORLY	O'Reilly Automotive Inc	\$440.52	\$3,329	\$194.6	0.6%	3.78	3%	—	BBB	1.3%	6%	11%	22.1x	411%		
Footwear	6 NKE	Nike Inc -CI B	\$98.81	\$154,248	\$591.0	6.0%	4.29	5%	0.9%	AA-	0.6%	8%	16%	28.6x	47%		
Specialty Stores	7 ULTA	Ulta Beauty Inc	\$249.10	\$14,239	\$384.2	-25.6%	4.11	12%	—	—	7.6%	9%	9%	19.0x	38%		
Technology Hardware, Storage & Data Processing & Outsourced S	8 AAPL	Apple Inc	\$279.86	\$1,243,492	\$6,231.6	50.1%	3.88	-6%	1.1%	AA+	1.6%	6%	9%	21.6x	56%		
	9 PYPL	Paypal Holdings Inc	\$109.57	\$128,656	\$714.9	3.0%	4.57	16%	—	BBB+	1.3%	17%	14%	31.4x	16%		
	10 SQ *	Square Inc - A	\$66.53	\$28,587	\$479.2	-8.7%	3.63	8%	—	—	10.0%	28%	23%	69.5x	-4%		
Consumer Finance	11 AXP	American Express Co	\$123.68	\$101,204	\$352.7	2.4%	3.77	6%	1.4%	BBB+	1.2%	7%	12%	13.9x	31%		
Diversified Banks	12 JPM	Jpmorgan Chase & Co	\$137.34	\$430,765	\$1,324.6	13.4%	3.52	-8%	2.7%	A-	1.0%	1%	2%	12.9x	14%		
Property & Casualty Insurance	13 ALL	Allstate Corp	\$109.62	\$35,512	\$174.2	5.4%	3.64	5%	1.8%	A-	1.6%	8%	2%	10.7x	12%		
Brewers	14 TAP	Molson Coors Brewing Co-B	\$51.98	\$11,364	\$89.1	-34.8%	3.19	8%	4.5%	BBB	6.0%	-1%	-7%	13.0x	1%		
Diversified Chemicals	15 BF/B	Brown-Forman Corp-Class B	\$64.24	\$29,970	\$84.9	7.7%	2.68	-9%	1.1%	A-	4.4%	5%	6%	33.3x	50%		
Tobacco	16 PM	Philip Morris International	\$86.25	\$134,194	\$436.6	1.9%	4.16	7%	5.5%	A	0.6%	5%	7%	15.5x	—		
Interactive Media & Services	17 GOOG	Alphabet Inc-CI C	\$1,361.17	\$938,630	\$1,639.1	4.1%	4.88	9%	0.0%	AA+	1.0%	18%	17%	25.0x	18%		
	18 FB	Facebook Inc-Class A	\$197.92	\$564,418	\$2,587.2	23.7%	4.59	18%	—	—	1.2%	22%	43%	21.6x	21%		
Movies & Entertainment	19 DIS	Walt Disney Co/The	\$148.46	\$267,584	\$1,420.9	8.1%	4.37	6%	0.6%	A	1.0%	17%	-6%	27.2x	16%		
Wireless Telecommunication Ser	20 TMUS	T-Mobile Us Inc	\$75.47	\$64,570	\$221.3	-8.7%	4.48	21%	—	BBB+ *	3.3%	5%	24%	15.3x	13%		
Industries where their consumer spending will be <u>accelerated</u> by Millennials																	
Consumer Electronics	1 GRMN	Garmin Ltd	\$97.79	\$18,590	\$87.3	27.1%	2.60	-15%	2.4%	—	2.4%	4%	3%	22.5x	19%		
Homebuilding	2 TOL	Toll Brothers Inc	\$39.50	\$5,547	\$68.4	-7.4%	3.00	3%	0.7%	BB+	5.1%	1%	-3%	10.1x	12%		
Environmental & Facilities Ser	3 WM	Waste Management Inc	\$112.03	\$47,528	\$212.4	-1.4%	3.86	6%	1.9%	A-	1.1%	7%	9%	23.7x	27%		
Household Products	4 PG	Procter & Gamble Co/The	\$125.56	\$313,123	\$804.9	9.3%	3.69	0%	2.4%	AA-	0.9%	4%	9%	25.5x	8%		
Packaged Foods & Meats	5 GIS	General Mills Inc	\$52.38	\$31,658	\$169.3	7.2%	3.32	7%	3.8%	BBB	2.8%	-0%	2%	15.3x	28%		
Personal Products	6 EL	Estee Lauder Companies-Cl A	\$204.03	\$73,413	\$293.1	29.5%	4.12	2%	0.9%	A+	2.3%	8%	9%	34.2x	42%		
Soft Drinks	7 MNST	Monster Beverage Corp	\$62.49	\$33,600	\$161.2	-0.3%	3.82	7%	—	—	3.0%	9%	11%	27.7x	27%		
Multi-Utilities	8 ED	Consolidated Edison Inc	\$88.23	\$29,330	\$136.6	-11.9%	2.44	2%	3.4%	A-	2.0%	3%	5%	19.5x	8%		
	Average				\$172,315	\$773.6	0.7%	3.75	5%	2.2%	3.4%	8%	37%	23.6x	35%		
	Median				\$41,520	\$257.2	2.2%	3.80	6%	1.7%	2.1%	6%	9%	21.6x	18%		
	% of stocks positive				57%			82%			93%	86%	93%				

Source: Fundstrat, FactSet, Bloomberg,

* stocks are not ranked in DQM quintile 1, but we believe they are highly exposed to growth of millennial population

AUTOMATION/ AI: Identifying suppliers and beneficiaries

We have established criteria to identify both suppliers of AI/automation and companies leveraged by adoption of AI and/or automation technology.

- The screening criteria is shown below and does rely heavily on qualitative factors.

Figure: Automation/ AI stock list criteria

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Factor type	Criteria	Rationale
Suppliers		
AI	High exposure to AI and AI-related products Provides components needed to implement AI	
Automation	Producer of autonomous or robotic equipment Supplier of components for autonomous or robotics	
Beneficiaries		
Qualitative	Current business will leverage AI/ Automation Labor skills required are more likely to be automated Labor demographics more easily substituted by AI/ automation	
Leverage labor efficiency	Market cap per employee lower than 3-yrs ago Employee hiring outpaced Sales + EPS growth	
Operating leverage	EBIT margins declining compared to 3-years ago	
Quantitative	DQM Quantitative Model	Ranked Quintile 1

Source: Fundstrat, Bloomberg, FactSet

* Cash to Net Income ratio is calculated by using the sum of Cash, Cash Equivalents, LT Investment (unrestricted) divided by Net Income

AUTOMATION PART I: The suppliers

We identified 48 stock ideas from our quant model that are related to the adoption of AI and/or automation technology

- The 31 stocks listed below are the producers or the suppliers of AI and/or automation products which have high exposure to the adoption of AI and/or automation technology.**

Figure: AI/ Automation Stock list

Per Fundstrat

	Suppliers Company information										Fundamentals & Valuation						
	Ticker	Company name	Current Price	Mkt cap (\$ mm)	3m avg daily liquidity (\$ mm)	YTD perf (relative to S&P 500)	Analyst Ratings						2020E sales growth ⁽³⁾	2020E EPS growth ⁽³⁾	P/E ('20E)	ROE	
							FC Mean (5=Buy 1=Sell) ⁽¹⁾	Mean implied upside ⁽²⁾	Dividend Yield	Issuer Rating	Short interest % of float						
Auto Parts & Equipment	1	APTV Aptiv Plc	\$94.96	\$24,242	\$109.4	26.9%	4.25	4%	0.9%	BBB	1.6%	6%	18%	17.3x	28%		
	2	GNTX Gentex Corp	\$28.59	\$7,232	\$40.9	14.2%	2.80	-12%	—	—	2.6%	4%	6%	16.4x	23%		
	3	SRI Stoneridge Inc	\$31.01	\$850	\$5.7	-1.5%	4.60	14%	—	BB	3.6%	0%	11%	18.3x	25%		
Automobile Manufacturers	4	TSLA Tesla Inc	\$381.50	\$68,763	\$2,589.2	-12.7%	2.78	-24%	—	B-	20.2%	21%	800%	64.1x	-16%		
Consumer Electronics	5	GRMN Garmin Ltd	\$97.79	\$18,590	\$87.3	27.1%	2.60	-15%	2.4%	—	2.4%	4%	3%	22.5x	19%		
Aerospace & Defense	6	CW Curtiss-Wright Corp	\$142.79	\$6,096	\$25.0	12.5%	4.33	2%	0.5%	—	1.1%	4%	6%	18.6x	18%		
	7	MOG/A Moog Inc-Class A	\$88.78	\$3,078	\$11.1	-12.7%	4.00	12%	—	BB+	1.2%	4%	9%	16.0x	14%		
Agricultural & Farm Machinery	8	TDY Teledyne Technologies Inc	\$347.21	\$12,663	\$94.9	40.4%	4.20	4%	—	—	2.0%	6%	7%	31.1x	16%		
	9	DE Deere & Co	\$172.85	\$54,426	\$327.3	-11.4%	3.92	4%	1.8%	A	1.9%	-7%	-6%	18.4x	29%		
	10	AME Ametek Inc	\$99.26	\$22,690	\$103.0	19.3%	4.67	5%	0.6%	BBB+	1.0%	5%	7%	22.4x	18%		
Electrical Components & Equipm	11	EMR Emerson Electric Co	\$76.16	\$46,393	\$204.5	0.2%	3.78	-1%	2.6%	A	1.2%	1%	-1%	20.9x	27%		
	12	RBC Regal Beloit Corp	\$84.97	\$3,479	\$17.7	-6.0%	3.60	2%	1.5%	—	2.5%	-1%	5%	14.7x	11%		
	13	ROK Rockwell Automation Inc	\$204.41	\$23,619	\$168.4	8.5%	2.92	-6%	2.0%	A	1.6%	3%	3%	22.9x	69%		
Industrial Conglomerates	14	ROP Roper Technologies Inc	\$351.94	\$36,622	\$195.4	4.7%	4.20	6%	0.6%	BBB+	2.3%	7%	5%	25.9x	14%		
Industrial Machinery	15	LECO Lincoln Electric Holdings	\$95.91	\$5,865	\$27.8	-5.7%	3.00	-4%	2.1%	NR	2.3%	1%	7%	19.1x	36%		
Application Software	16	PH Parker Hannifin Corp	\$207.59	\$26,668	\$164.3	11.9%	3.70	-2%	1.8%	A-	1.5%	1%	-10%	19.5x	24%		
	17	ADSK Autodesk Inc	\$184.37	\$40,567	\$229.0	16.0%	4.23	1%	—	BBB	2.1%	22%	59%	41.7x	—		
Communications Equipment	18	SNPS Synopsys Inc	\$136.60	\$20,535	\$130.8	34.8%	4.64	13%	—	—	1.2%	8%	14%	26.2x	14%		
	19	CSCO Cisco Systems Inc	\$45.98	\$195,059	\$927.2	-21.2%	3.97	11%	3.0%	AA-	0.8%	-2%	5%	14.2x	28%		
Electronic Equipment & Instrum	20	FLIR Flir Systems Inc	\$52.68	\$7,067	\$33.0	-6.3%	4.60	13%	1.3%	BBB	2.3%	5%	10%	20.8x	14%		
	21	ZBRA Zebra Technologies Corp-CIA	\$255.45	\$13,774	\$96.5	33.1%	4.18	3%	—	BB+	2.4%	6%	9%	18.1x	34%		
Semiconductor Equipment	22	MKSI Mks Instruments Inc	\$109.94	\$5,993	\$41.9	42.9%	5.00	11%	0.8%	BB+	2.8%	11%	42%	17.7x	9%		
	23	AVGO Broadcom Inc	\$323.13	\$128,176	\$652.4	-0.2%	4.29	8%	3.9%	BBB-	1.3%	10%	9%	13.9x	10%		
Semiconductors	24	NVDA Nvidia Corp	\$225.15	\$137,792	\$1,653.0	41.3%	4.28	2%	0.3%	A-u	1.5%	20%	31%	30.8x	23%		
	25	QCOM Qualcomm Inc	\$88.43	\$100,973	\$689.2	28.1%	4.03	10%	3.0%	A-	1.4%	13%	18%	21.2x	153%		
	26	XLNX Xilinx Inc	\$96.38	\$24,236	\$313.2	-14.1%	3.70	12%	1.5%	NR	1.9%	10%	10%	26.7x	37%		
Technology Hardware, Storage &	27	AAPL Apple Inc	\$279.86	\$1,243,492	\$6,231.6	50.1%	3.88	-6%	1.1%	AA+	1.6%	6%	9%	21.6x	56%		
	28	IMMR Immersion Corporation	\$7.07	\$225	\$1.5	-48.5%	5.00	70%	—	—	10.4%	8%	147%	35.3x	-26%		
Health Care Equipment	29	ISRG Intuitive Surgical Inc	\$590.04	\$68,193	\$323.0	-4.1%	4.36	2%	—	—	1.5%	14%	11%	42.1x	19%		
	30	VAR Varian Medical Systems Inc	\$143.26	\$13,022	\$81.0	-0.9%	3.80	-3%	—	—	1.9%	11%	17%	26.5x	17%		
Interactive Media & Services	31	GOOG Alphabet Inc-C1 C	\$1,361.17	\$938,630	\$1,639.1	4.1%	4.88	9%	0.0%	AA+	1.0%	18%	17%	25.0x	18%		
			Average		\$106,420	\$555.3	8.7%	4.01	5%	1.6%	2.7%	7%	41%	24.2x	25%		
			Median		\$23,619	\$130.8	4.7%	4.18	4%	1.5%	1.9%	6%	9%	21.2x	19%		
			% of stocks positive		58%		71%		18%		17%		25.0x		18%		

Source: Fundstrat, Factset, Bloomberg,

* TSLA is not DQM Quintile 1, but we believe it is an important producer of autonomous equipment (the Tesla Autopilot)

AUTOMATION PART II: The beneficiaries

We identified 48 stock ideas from our quant model that are related to the adoption of AI and/or automation technology

- The 17 stocks listed below could benefit from AI and/or automation technology. All of them have increasing market cap and positive earnings growth, however, have deteriorating net income per employee and weakening EBIT margin over the past 3 years.

Figure: AI/ Automation Stock list

Per Fundstrat

Company information										Fundamentals & Valuation						
Analyst Ratings																
	Ticker	Company name	Current Price	Mkt cap (\$ mm)	3m avg daily liquidity (\$ mm)	YTD perf (relative to S&P 500)	FC Mean (5=Buy 1=Sell) ⁽¹⁾	Mean implied upside ⁽²⁾	Dividend Yield	Issuer Rating	Short interest % of float	2020E			P/E ('20E)	ROE
							3.83	19%				sales growth ⁽³⁾	2020E EPS growth ⁽³⁾	P/E		
Apparel, Accessories & Luxury	1	CPRI Capri Holdings Ltd	\$38.10	\$5,777	\$83.4	-26.8%	3.83	19%	—	BBB-	8.4%	4%	8%	7.2x	15%	
Automotive Retail	2	AAP Advance Auto Parts Inc	\$153.50	\$10,631	\$158.2	-29.8%	4.04	12%	0.2%	BBB-	4.1%	2%	13%	17.1x	12%	
Department Stores	3	KSS Kohls Corp	\$49.79	\$7,796	\$188.4	-52.3%	3.44	3%	6.4%	BBB	12.7%	2%	-0%	10.2x	13%	
Distributors	4	GPC Genuine Parts Co	\$105.35	\$15,307	\$66.4	-17.6%	3.14	-2%	—	—	2.1%	1%	5%	17.8x	22%	
General Merchandise Stores	5	DG Dollar General Corp	\$152.77	\$38,895	\$285.3	14.0%	4.21	11%	0.8%	BBB	1.6%	8%	12%	20.6x	26%	
	6	TGT Target Corp	\$125.96	\$63,829	\$552.8	63.3%	4.24	8%	2.1%	A	2.6%	4%	8%	18.2x	29%	
Home Furnishings	7	BSET Bassett Furniture Inds	\$16.81	\$170	\$0.6	-43.4%	3.00	7%	3.2%	—	0.5%	1%	88%	17.7x	3%	
	8	ETH Ethan Allen Interiors Inc	\$17.93	\$477	\$4.0	-19.8%	3.00	6%	4.9%	NR	13.1%	-5%	-1%	11.6x	8%	
Home Improvement Retail	9	LOW Lowe'S Cos Inc	\$120.08	\$92,038	\$418.7	2.7%	4.44	9%	1.9%	BBB+	1.4%	3%	17%	18.0x	75%	
Internet & Direct Marketing Re	10	AMZN Amazon.Com Inc	\$1,769.21	\$877,169	\$5,253.1	-9.5%	4.86	23%	—	AA-	0.9%	18%	32%	64.9x	24%	
Restaurants	11	DENN Denny'S Corp	\$20.09	\$1,186	\$10.0	-3.4%	4.25	24%	—	NR	5.2%	-22%	16%	24.5x	—	
Specialty Stores	12	TSCO Tractor Supply Company	\$93.72	\$11,095	\$130.8	-15.0%	3.97	16%	1.5%	—	1.9%	7%	11%	17.9x	37%	
Electrical Components & Equipm	13	POWL Powell Industries Inc	\$49.02	\$568	\$2.7	68.7%	3.33	-1%	—	—	2.1%	14%	97%	29.3x	3%	
Industrial Conglomerates	14	CSL Carlisle Cos Inc	\$159.91	\$9,063	\$55.9	31.8%	4.00	2%	—	BBB	3.9%	6%	12%	17.7x	17%	
Industrial Machinery	15	DOV Dover Corp	\$113.13	\$16,434	\$92.0	32.1%	3.71	-1%	1.8%	BBB+	3.3%	2%	8%	18.0x	23%	
Research & Consulting Services	16	HURN Huron Consulting Group Inc	\$69.58	\$1,594	\$6.3	8.3%	5.00	5%	—	—	0.5%	7%	9%	24.7x	5%	
Hypermarkets & Super Centers	17	COST Costco Wholesale Corp	\$293.50	\$129,662	\$591.7	16.8%	3.94	4%	0.9%	A+	1.3%	7%	6%	33.8x	26%	
Average			\$75,394	\$464.7	1.2%	3.91	9%	2.4%	3.9%			3%	20%	21.7x	21%	
Median			\$10,631	\$92.0	-3.4%	3.97	7%	1.9%	2.1%			4%	11%	18.0x	19%	
% of stocks positive					47%		82%					88%	88%		100%	

Source: Fundstrat, Factset, Bloomberg.

AUTOMATION: Descriptions of AI/ Automation suppliers

Below is the descriptions of the AI/ automation suppliers and component suppliers

Figure: AI/ Automation Stock list

Per Fundstrat

Ticker	Company Name	Company Description
APTV	Aptiv Plc	Aptiv PLC manufactures and distributes vehicle components such as connector wires, safety restraint systems, pin headers, and underwater towed arrays.
GNTX	Gentex Corp	Gentex Corporation designs, manufactures, and markets products that use electro-optic technology. The Company's product lines include automatic-dimming rearview mirrors.
SRI	Stoneridge Inc	Stoneridge, Inc. designs and manufactures engineered electrical and electronic components, modules, and systems.
TSLA	Tesla Inc	Tesla Inc. designs, manufactures, and sells high-performance electric vehicles and electric vehicle powertrain components.
GRMN	Garmin Ltd	Garmin Ltd. designs, develops, manufactures, and markets hand-held, portable, and fixed mount GPS-enabled products and other navigation, communications, and information
CW	Curtiss-Wright Corp	Curtiss-Wright Corporation designs, manufactures, and overhauls precision components and systems.
MOGA	Moog Inc-Class A	Moog Inc. manufactures precision motion control components and systems.
TDY	Teledyne Tech. Inc	Teledyne Technologies Inc. provides electronic subsystems and instrumentation such as digital imaging products and software, monitoring instrumentation.
DE	Deere & Co	Deere & Company manufactures and distributes a range of agricultural, construction, forestry, and commercial and consumer equipment.
AME	Ametek Inc	AMETEK, Inc. is a global manufacturer of electronic instruments and electromechanical devices and a supplier of electrical interconnects, specialty metals, technical motors and
EMR	Emerson Electric Co	Emerson Electric Co. designs and manufactures electronic and electrical equipment, software, systems, and services.
RBC	Regal Beloit Corp	Regal Beloit Corporation designs, manufactures, and sells electric motors and controls such as gearboxes, automotive transmissions, rotary cutting tools, automatic transfer switches.
ROK	Rockwell Automation Inc	Rockwell Automation, Inc. produces industrial automation products such as control systems, motor control devices, sensors, and industrial control panels.
ROP	Roper Technologies Inc	Roper Technologies, Inc. manufactures and distributes industrial controls, fluid handling, pumps, medical and scientific devices, analytical instrumentation products, RFID
LECO	Lincoln Electric Holdings	Lincoln Electric Holdings, Inc. designs and manufactures welding and cutting products such as arc welding power sources, wire feeding systems, robotic welding packages.
PH	Parker Hannifin Corp	Parker-Hannifin Corporation manufactures motion control products, including fluid power systems, electromechanical controls, and related components.
ADSK	Autodesk Inc	Autodesk, Inc. supplies PC software and multimedia tools that are used across industries for architectural/mechanical design and visualization applications.
SNPS	Synopsys Inc	Synopsys, Inc. supplies electronic design automation solutions to the global electronics market.
CSCO	Cisco Systems Inc	Cisco Systems designs, manufactures, and sells IP-based networking and other products related to the communications and IT industry and provide services associated with it.
FLIR	Flir Systems Inc	FLIR Systems, Inc. designs, manufactures, and markets thermal imaging and broadcast camera systems for a variety of applications.
ZBRA	Zebra Tech. Corp	Zebra Technologies Corporation designs and manufactures advanced data capture devices, such as laser, 2D and RFID scanners and readers, and specialty printers.
MKSI	Mks Instruments Inc	MKS Instruments, Inc. develops, manufactures, and supplies instruments and components used to control and analyze gases in semiconductor.
AVGO	Broadcom Inc	Broadcom Inc. designs, develops, and markets digital and analog semiconductors.
NVDA	Nvidia Corp	NVIDIA Corporation designs, develops, and markets three dimensional (3D) graphics processors and related software.
QCOM	Qualcomm Inc	QUALCOMM Incorporated manufactures digital wireless communications equipment.
XLNX	Xilinx Inc	Xilinx, Inc. designs, develops, and markets complete programmable logic solutions.
IMMR	Immersion Corp.	Immersion Corporation offers touch feedback technology solutions in mobile devices, automotive touchscreen and touchpads, medical training equipment, gaming consoles.
ISRG	Intuitive Surgical Inc	Intuitive Surgical, Inc. designs, manufactures, and markets surgical systems.
VAR	Varian Med. Sys. Inc	Varian Medical Systems, Inc. designs, manufactures, sells, and services medical equipment.
GOOG	Alphabet Inc-C1 C	Alphabet Inc. through its subsidiaries, provides web-based search, advertisements, maps, software applications, mobile operating systems, consumer content, enterprise solutions.

Source: Fundstrat, Bloomberg

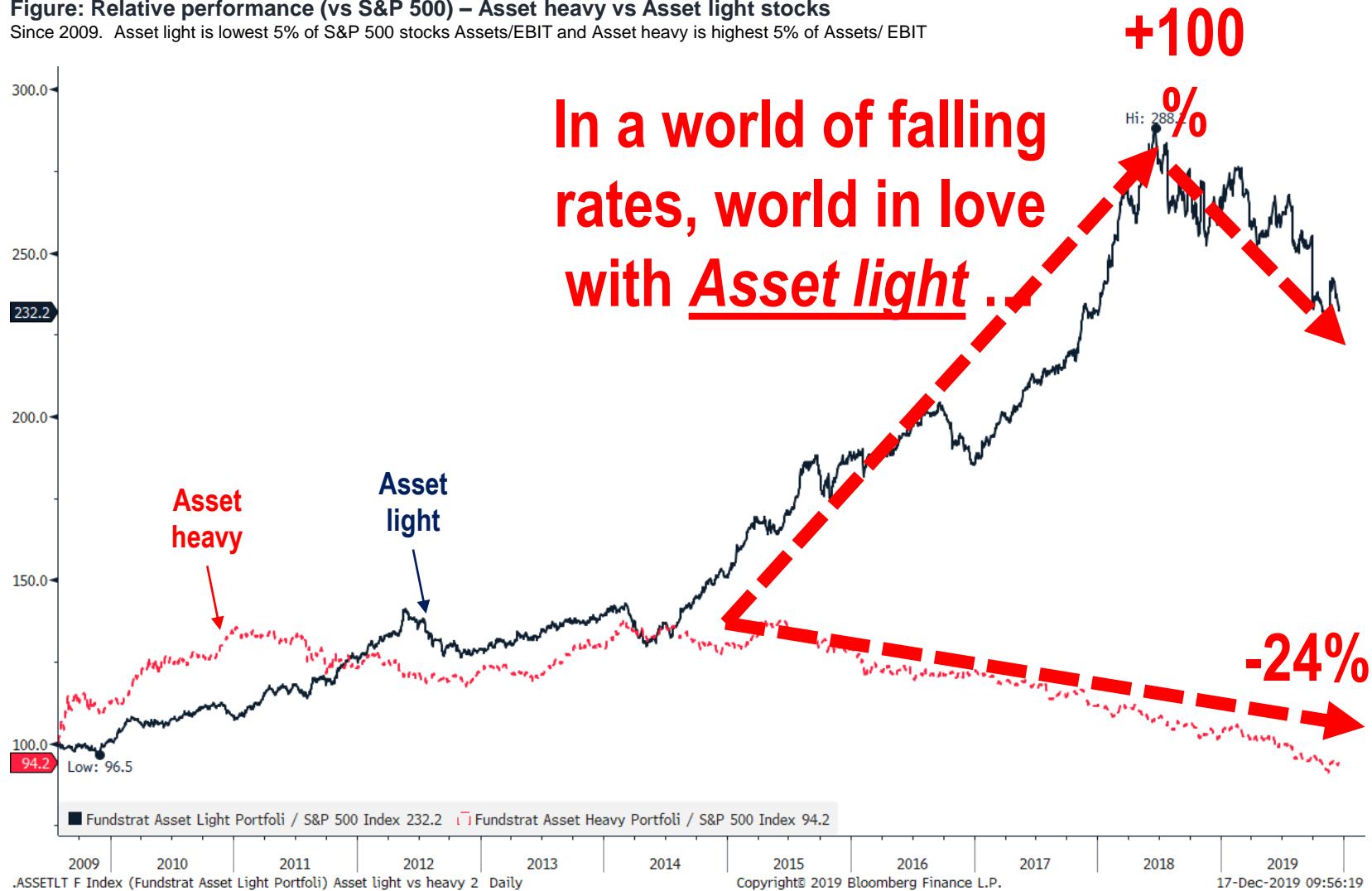
ASSET LIGHT: Since 2015, Asset light crushed asset heavy stocks

We can create a proxy for asset light and asset heavy based on Assets/\$1mm of EBIT. And the price performance of top and bottom 5% is shown below.

- Since 2015, as investors see permanency in falling rates, they have started to heavily favor asset light stocks.

Figure: Relative performance (vs S&P 500) – Asset heavy vs Asset light stocks

Since 2009. Asset light is lowest 5% of S&P 500 stocks Assets/EBIT and Asset heavy is highest 5% of Assets/ EBIT

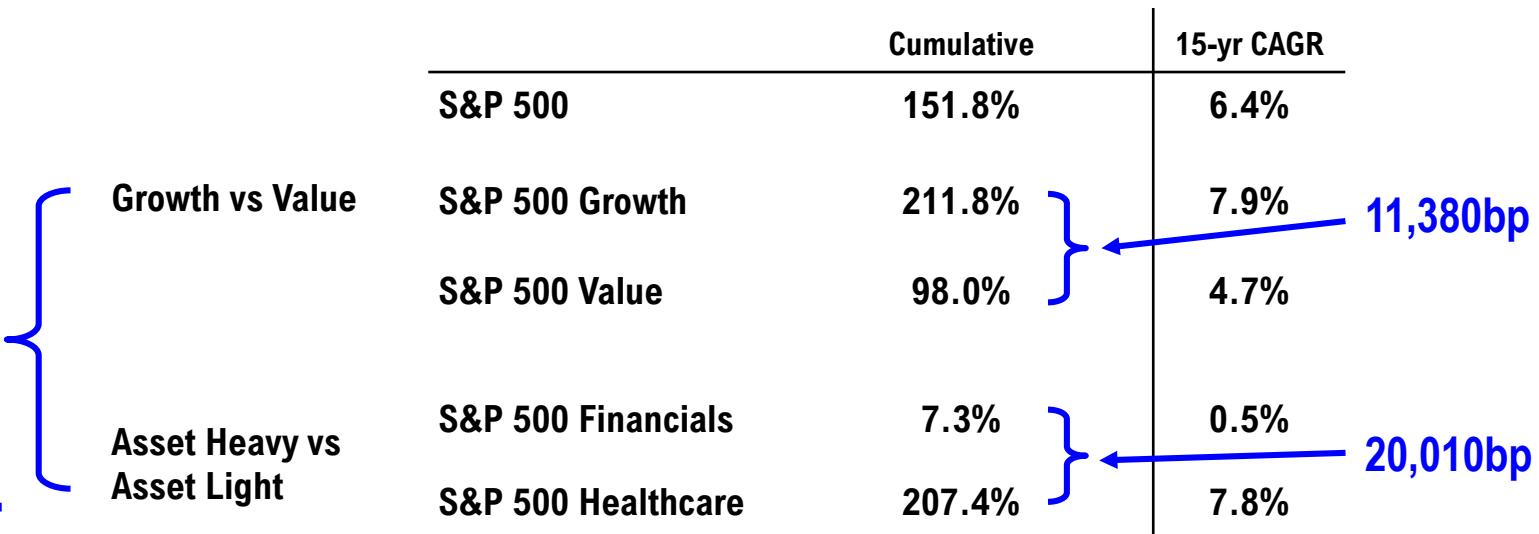


Multi-decade tailwinds for “Growth” and “asset-light” businesses

**Drivers
of Asset
light...**

	1980	2019	Delta
Inflation	10.0%	2.0%	800bp
Interest rates —cost of capital	16.0%	2.4%	1,360bp
Cumulative excess supply: prime age workforce*			611 million (27.5%)

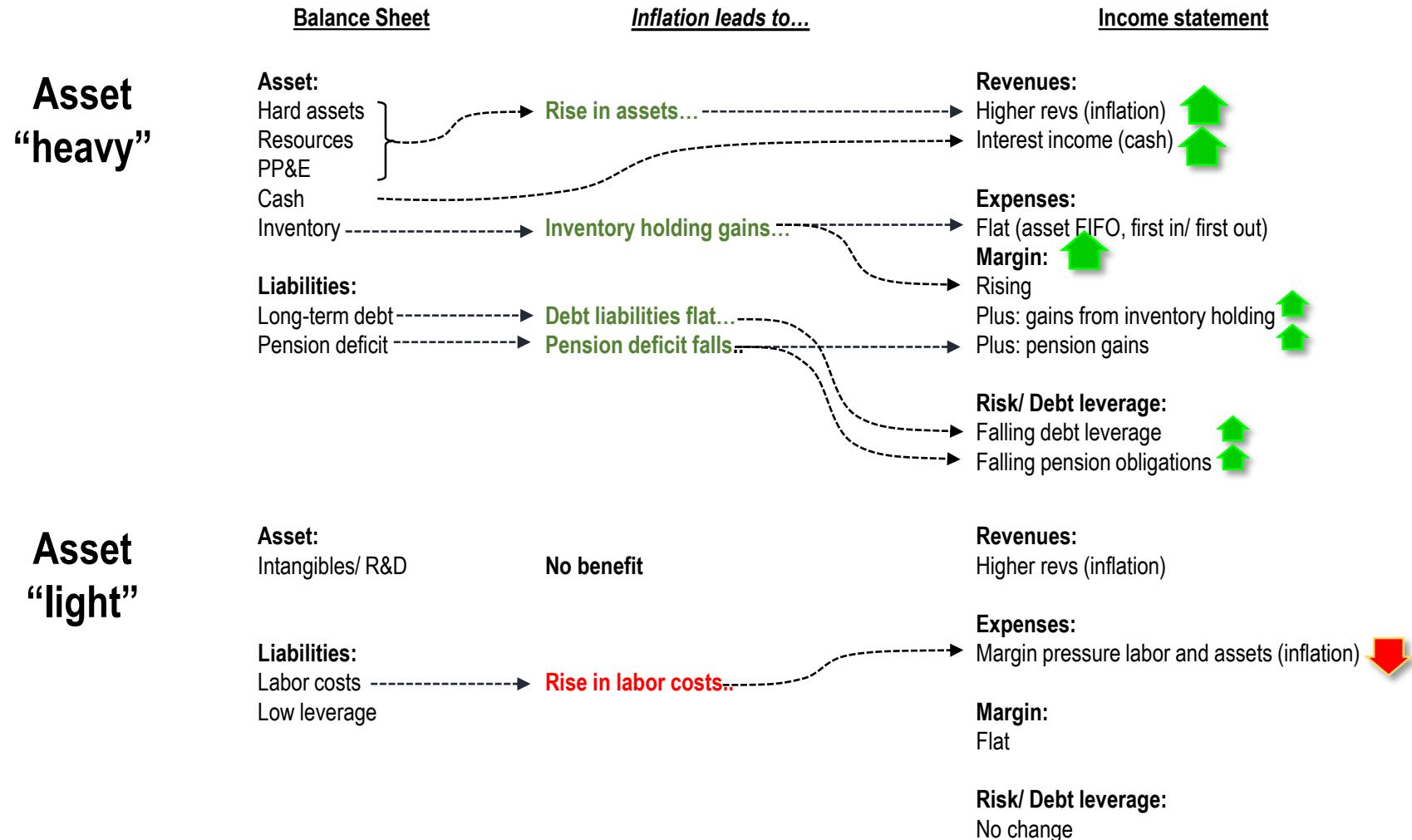
**Drove
multi-
decade
returns...**



* Excess labor supply is calculated since 1973, the first time labor shortfall

ASSET INTENSITY: Asset “heavy” beats Asset “light” business models....

Figure: Comparative benefit of Asset heavy/ Value stocks in inflation rising environments
Per Fundstrat



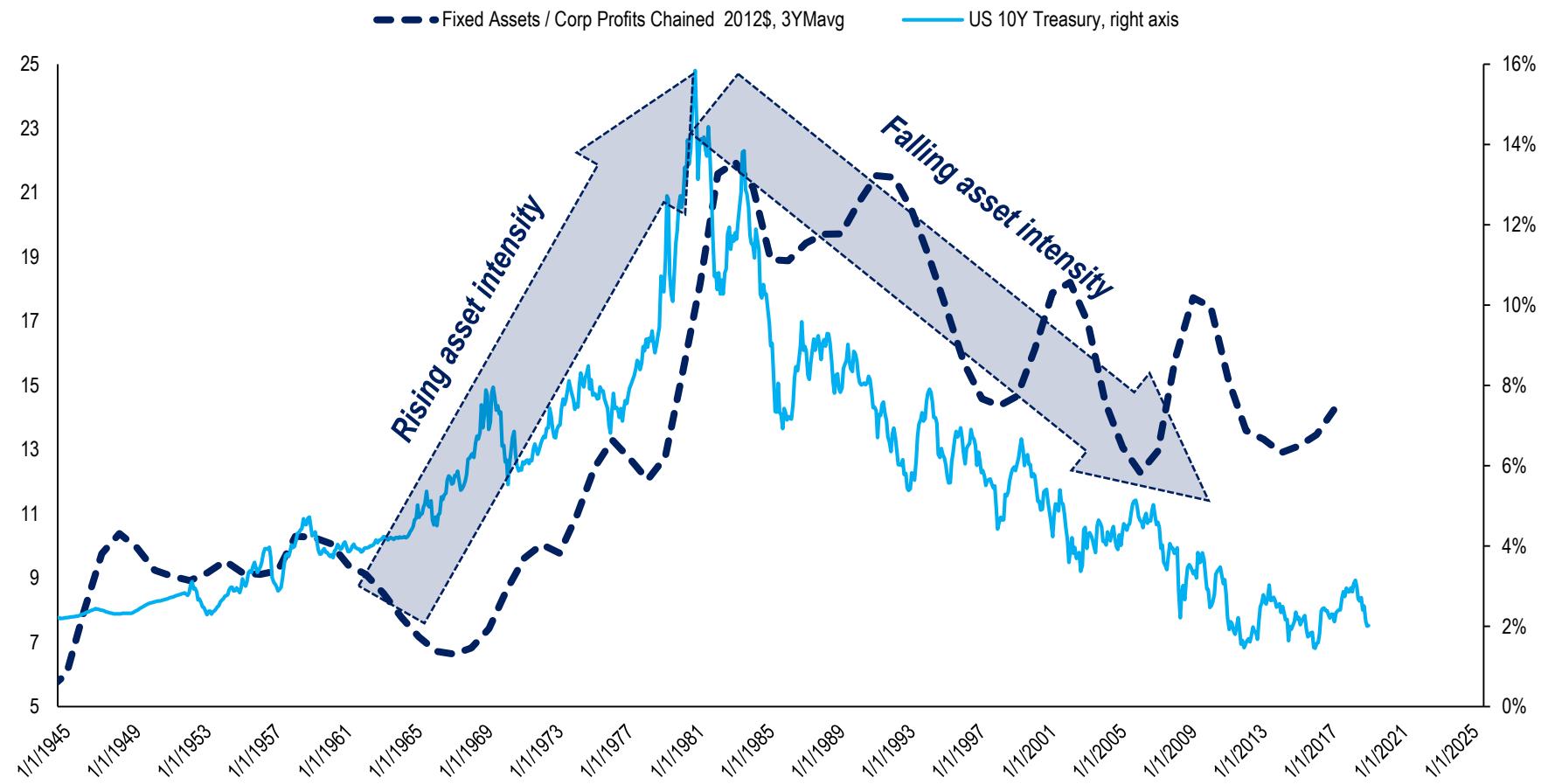
Source: Fundstrat, Bloomberg

ASSET LIGHT: As interest rates fell, corporations became asset light...

Below we show the relationship between fixed assets needed to generate \$1 million of corporate profit (in 2012 dollars), and the US 10-year Treasury yield.

- As interest rates soared from 1965-1982, US corporates became “Asset Heavy” using more assets to generate \$1 million in REAL profit. Similarly, as interest rates plunged, corporations became “asset light.”

Figure: Real Fixed Assets per million 2012\$ of corporate profits (3 year moving average) vs 10 Year Treasury Yield
Since 1945



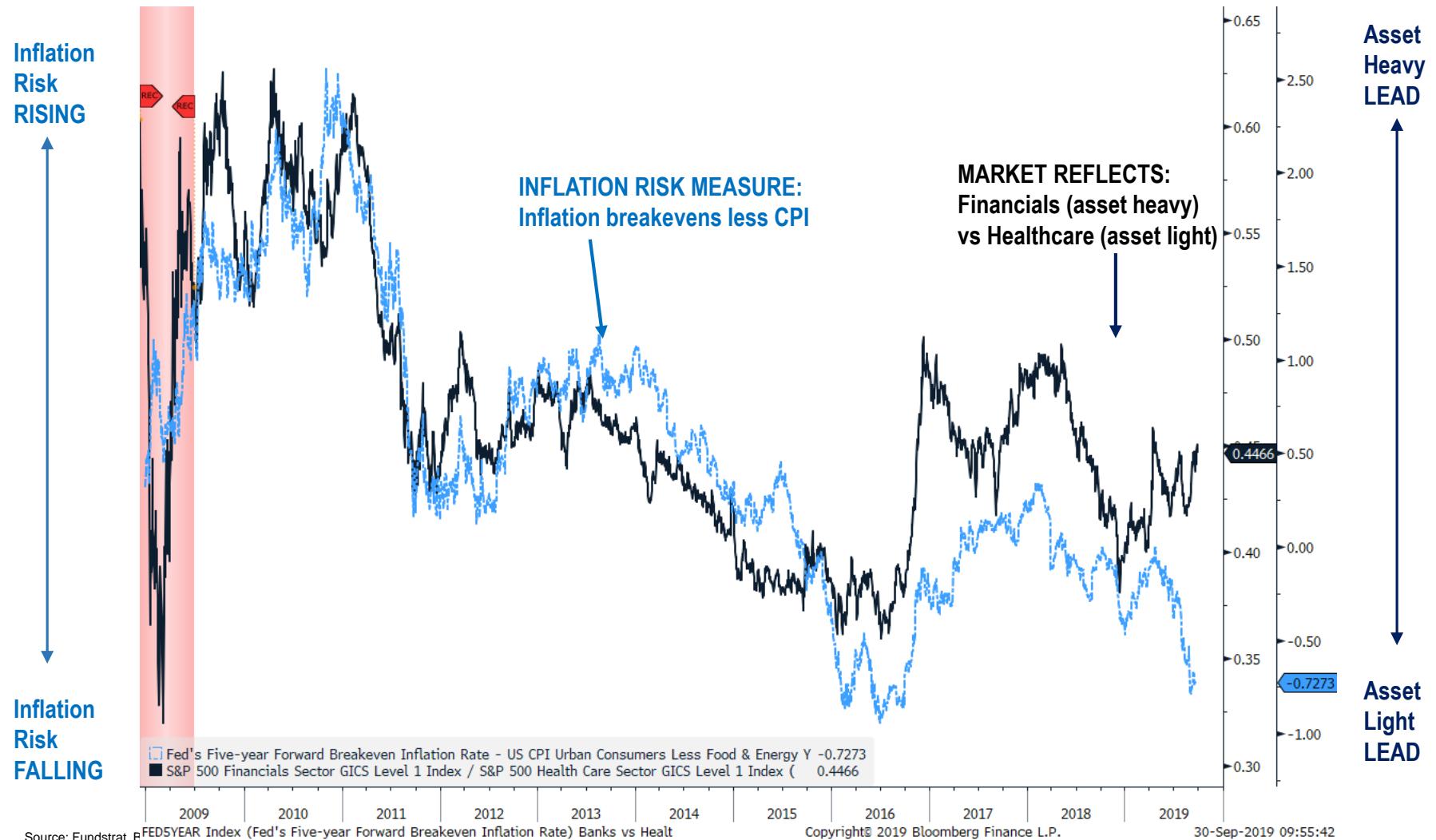
Source: Fundstrat, Bloomberg, BEA

ASSET INTENSITY: Equity markets already recognize this...

Comparing inflation risk premia influences how Financials (asset heavy) trades versus Healthcare (asset light) illustrates that equity markets are good at detecting this inflation risk.

Figure: Inflation risk explains Financials (asset heavy) vs Healthcare (asset light)

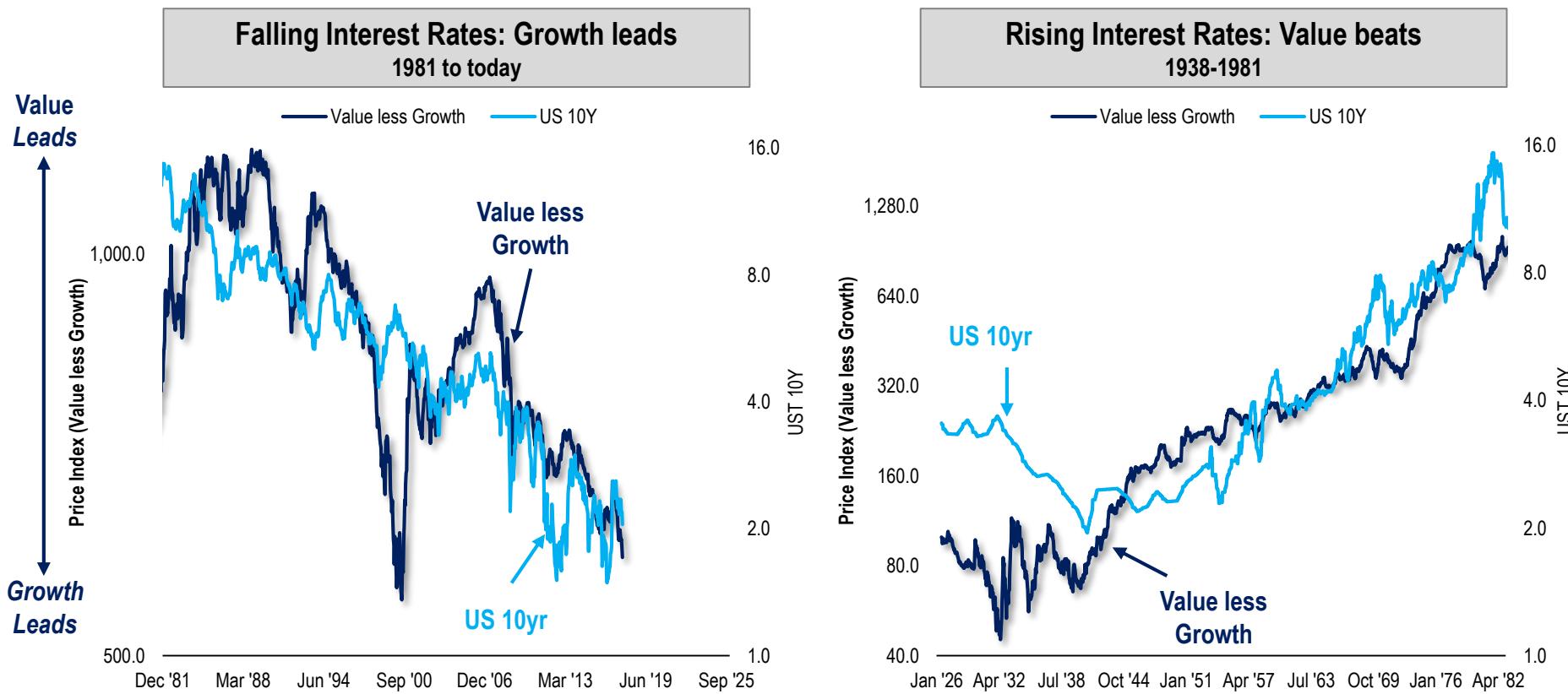
Since 2009



VALUE-Style Investing: Rising interest rates + Inflation good for Value...

- During the 43 year rise of interest rates (1943-1981), Value stocks outperformed most years.
- Rising rates equates to higher nominal returns (either from inflation or real growth) and this in turn leads to faster EPS growth—hence, rising rates favor Value stocks which outperform when nominal growth is faster.

Figure: Interest rates and the comparative returns of Value vs Growth
Since 1926



Source: Fundstrat, Bloomberg

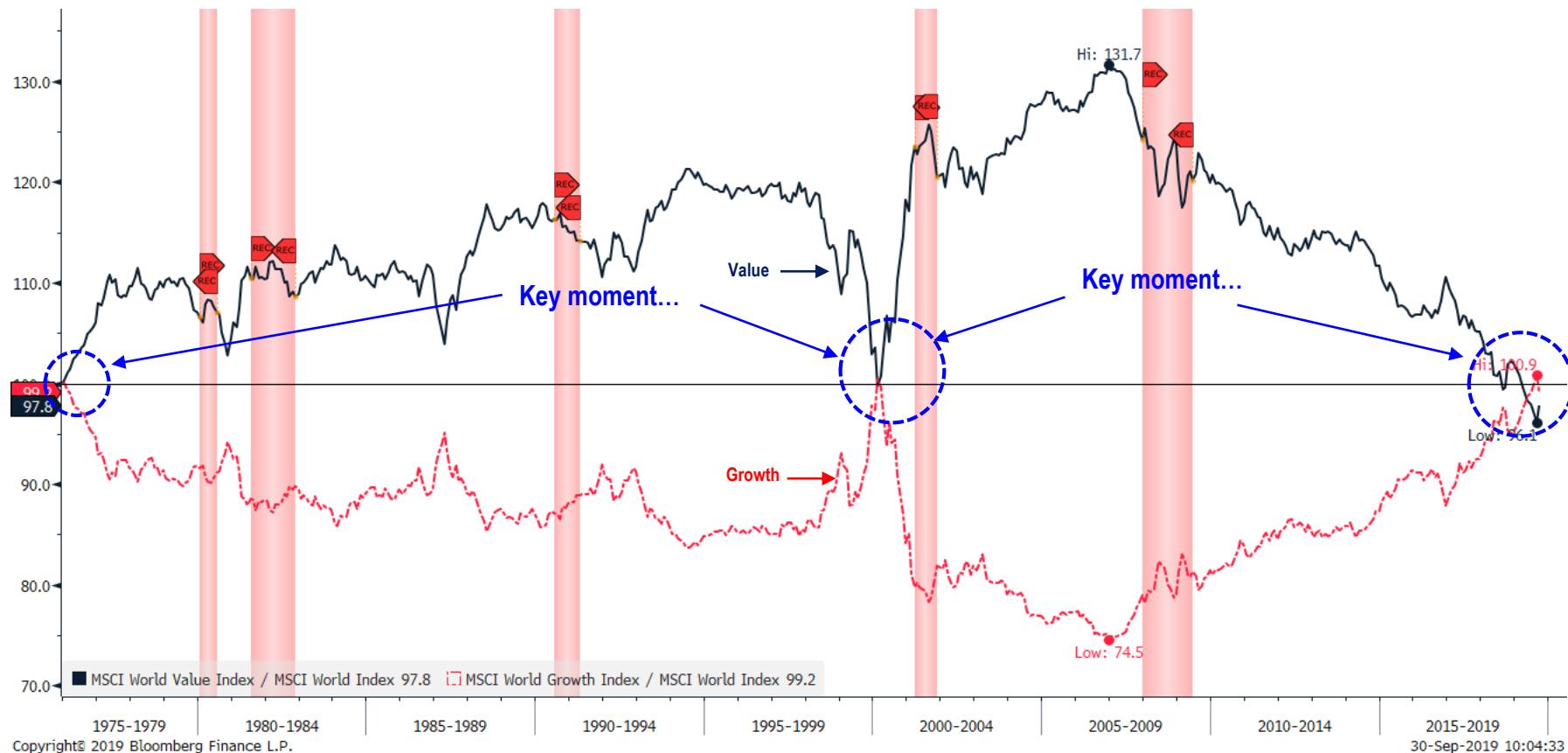
Key moment: Globally, Value vs Growth retraced 40 years of progress...

Arguably, Value versus Growth is facing a more important juncture globally. MSCI Value stocks (price ratio vs MSCI World) has touched a level that has marked major turning points for Value vs Growth.

- Again, this highlights whether this is a key moment in Value stocks worldwide—it is very telling to us and we believe now is the time to be OW Value.

Figure: MSCI World Growth and Value relative price performance (vs MSCI World) past 45 years

Since 1974



Source: Fundstrat, Bloomberg

BOOMERS + GENX'ERS: Do you remember this?



ASSET LIGHT: We believe market close to “jumping the shark” on asset light

Warren Buffett, from Berkshire Hathaway 2018 + 2019 annual shareholder meeting...

But you now have the four largest companies, by market value, in the United States — a \$30 trillion market — you have four companies that essentially don't need any net tangible assets...

...And that is really due to the fact that this has become somewhat, you could call it an asset-light economy.



ASSET INTENSITY: Stock selection criteria

As noted on the prior slides, we believe inflation, particularly wage inflation, will shift favor asset intensive businesses.

- The screening criteria below identifies stocks which benefit from rising overall inflation on both the balance sheet, income statement but we also layered in qualitative criteria.**

Figure: Asset Intensity stock list criteria

Per Fundstrat

Factor type	Criteria	Rationale
Balance Sheet	Asset boost from inflation	<ul style="list-style-type: none"> High Asset to Sales ratio High Inventory to Sales ratio High Inventory to Assets ratio
	De-leveraging	<ul style="list-style-type: none"> Higher Assets to Equity ratio Higher Pension deficit to Equity Market Cap
Income Statement	<ul style="list-style-type: none"> Low wage inflation exposure Cash balance leverage 	<ul style="list-style-type: none"> Low # employees per \$1 million of EBIT High cash + Investment to Equity Market Cap
Quality Metrics	<ul style="list-style-type: none"> Sales outpaces Asset Growth DQM Quant Model 	<ul style="list-style-type: none"> Sales Growth exceeds Asset Growth past 5-years Ranked DQM Quintile 1

Source: Fundstrat, Bloomberg, FactSet

* Cash to Net Income ratio is calculated by using the sum of Cash, Cash Equivalents, LT Investment (unrestricted) divided by Net Income

ASSET INTENSITY: Stocks positively levered to asset inflation vs wages

We identified 26 stock ideas from our Fundstrat Doctor Quant Model (DQM) that will benefit from the rising inflation.

- The benefits will mainly come from appreciation in assets (asset intensive), gains from held inventory, falling pension deficit and less exposure to wage inflation.

Figure: Asset Intensity stock list

Per Fundstrat

	Company information				Determinant Ratio									Fundamentals & Valuation				
	Ticker	Company name	Current Price	Mkt cap (\$ mm)	YTD perf (relative to S&P 500)	Assets				Pension Deficit		# of Employee	Sales growth less Cash* to		Dividend Yield	Issuer Rating	2020E EPS growth ⁽³⁾ ('20E)	P/E
						to Sales	to Assets	to Sales	to Equity	as of Mkt Cap	per \$1m EBIT	Assets growth	Net Income					
Internet & Direct Marketing Re	1 BKNG	Booking Holdings Inc	\$1,995.02	\$83,503	-11.5%	1.6x	--	--	2.6x	--	4.6	25.5%	348%	--	A-	13%	17.5x	
	2 EBAY	Ebay Inc	\$35.40	\$28,799	-1.2%	2.1x	--	--	4.3x	--	4.8	16.9%	317%	1.6%	BBB+	5%	12.2x	
Communications Equipment	3 CSCO	Cisco Systems Inc	\$45.98	\$195,059	-21.2%	2.0x	1.7%	3.4%	2.5x	--	4.7	26.8%	308%	3.0%	AA-	5%	14.2x	
Data Processing & Outsourced S	4 PYPL	Paypal Holdings Inc	\$109.57	\$128,656	3.0%	3.0x	--	--	3.1x	--	6.4	8.9%	272%	--	BBB+	14%	31.4x	
Electronic Components	5 DLB	Dolby Laboratories Inc-C1 A	\$68.40	\$6,854	-16.7%	2.4x	1.0%	2.3%	1.2x	--	7.1	(5.0%)	738%	1.3%	—	11%	25.2x	
Semiconductor Equipment	6 KLAC	Kla Corp	\$172.06	\$27,150	65.0%	1.3x	17.9%	24.1%	3.5x	0.5%	4.0	6.3%	206%	2.0%	BBB	17%	17.4x	
Semiconductors	7 XLNX	Xilinx Inc	\$96.38	\$24,236	-14.1%	1.8x	6.1%	11.0%	1.8x	--	4.6	15.8%	1.5%	NR	10%	26.7x		
Systems Software	8 MSFT	Microsoft Corp	\$155.53	\$1,186,508	25.8%	2.2x	0.7%	1.7%	2.8x	--	3.4	8.1%	414%	1.3%	AAA	13%	28.9x	
	9 ORCL	Oracle Corp	\$53.99	\$173,181	-7.7%	2.8x	--	--	4.5x	0.4%	7.9	22.7%	307%	1.8%	A+	8%	12.8x	
Technology Hardware, Storage & Gold	10 AAPL	Apple Inc	\$279.86	\$1,243,492	50.1%	1.4x	1.3%	1.9%	3.2x	--	1.9	20.2%	408%	1.1%	AA+	9%	21.6x	
Oil & Gas Refining & Marketing	11 RGLD	Royal Gold Inc	\$114.66	\$7,521	6.6%	5.9x	0.3%	1.7%	1.2x	--	0.1	14.8%	37660%	--	—	89%	42.4x	
Asset Management & Custody Ban	12 PSX	Phillips 66	\$114.14	\$50,719	5.2%	0.5x	6.5%	3.2%	2.0x	1.2%	2.3	22.3%	74%	3.3%	BBB+	20%	10.6x	
Consumer Finance	13 AMP	Ameriprise Financial Inc	\$167.44	\$21,214	33.1%	--	--	--	--	1.6%	5.6	2.4%	A	11%	9.3x			
Investment Banking & Brokerage	14 AXP	American Express Co	\$123.68	\$101,204	2.4%	4.9x	--	--	9.0x	--	5.1	(5.8%)	612%	1.4%	BBB+	12%	13.9x	
	15 LPLA	Lpl Financial Holdings Inc	\$93.49	\$7,557	25.8%	1.1x	--	--	5.8x	--	5.9	19.4%	410%	1.1%	—	2%	12.9x	
	16 AMTD	Td Ameritrade Holding Corp	\$51.81	\$28,006	-21.5%	--	--	--	--	--	3.4	2.4%	A	-29%	17.6x			
Distillers & Vintners	17 BF/B	Brown-Forman Corp-Class	\$64.24	\$29,970	7.7%	1.6x	28.5%	44.3%	3.5x	0.8%	4.4	1.8%	35%	1.1%	A-	—	nm	
Tobacco	18 PM	Philip Morris International	\$86.25	\$134,194	1.9%	1.3x	21.9%	28.2%	3.7x	2.9%	6.8	14.6%	39%	5.5%	A	7%	15.5x	
Biotechnology	19 AMGN	Amgen Inc	\$243.20	\$144,505	-2.4%	2.8x	4.4%	12.6%	5.3x	--	1.8	19.5%	315%	2.5%	A-	11%	15.1x	
	20 ENTA	Enanta Pharmaceuticals Inc	\$63.88	\$1,260	-37.1%	2.2x	--	--	1.1x	--	1.5	25.0%	584%	--	—	-136%	nm	
Pharmaceuticals	21 NKTR	Nektar Therapeutics	\$20.92	\$3,680	-63.7%	1.8x	1.8%	3.2%	1.3x	--	0.9	(33.3%)	281%	--	—	3%	nm	
Interactive Media & Services	22 GOOGL	Alphabet Inc-C1 A	\$1,360.70	\$938,630	2.9%	1.7x	0.5%	0.8%	1.3x	--	3.6	4.2%	414%	0.0%	AA+	17%	25.0x	
Electric Utilities	23 EIX	Edison International	\$74.00	\$26,536	3.0%	4.5x	0.5%	2.2%	4.5x	3.0%	5.4	(4.7%)	328%	3.3%	BBB	-3%	16.2x	
	24 EXC	Exelon Corp	\$44.70	\$43,357	-28.2%	3.5x	1.4%	5.0%	3.6x	9.2%	6.5	(1.4%)	490%	3.4%	BBB+	-1%	14.4x	
Multi-Utilities	25 BKH	Black Hills Corp	\$78.42	\$4,819	-2.4%	4.0x	1.7%	6.7%	3.0x	2.6%	7.3	(0.2%)	29%	2.8%	BBB+	6%	21.2x	
	26 D	Dominion Energy Inc	\$81.64	\$67,197	-13.1%	5.9x	1.8%	10.6%	3.5x	2.8%	4.5	4.8%	211%	4.5%	BBB+	4%	18.7x	
Average				\$181,070	-0.3%	2.6x	5.8%	9.6%	3.3x	2.5%	4.4	9.5%	1947.9%	2.3%	5%	19.2x		
Median				\$36,663	0.3%	2.1x	1.7%	3.4%	3.1x	2.1%	4.6	11.7%	316.9%	2.0%	9%	17.4x		
% of stocks positive				50%												84%		

Source: Fundstrat, Bloomberg, FactSet

* Cash to Net Income ratio is calculated by using the sum of Cash, Cash Equivalents, LT Investment (unrestricted) divided by Net Income

- **CLIFF NOTES: 'E' matters more than 'PE'**
- **2020 “rising animal spirits”**
- **Millennials driving US de-coupling**
- **Inflation revives in late-2020**
- **Granny Shots**
- **Thematic Strategies for 2020**
- **Tactical Strategies for 2020**

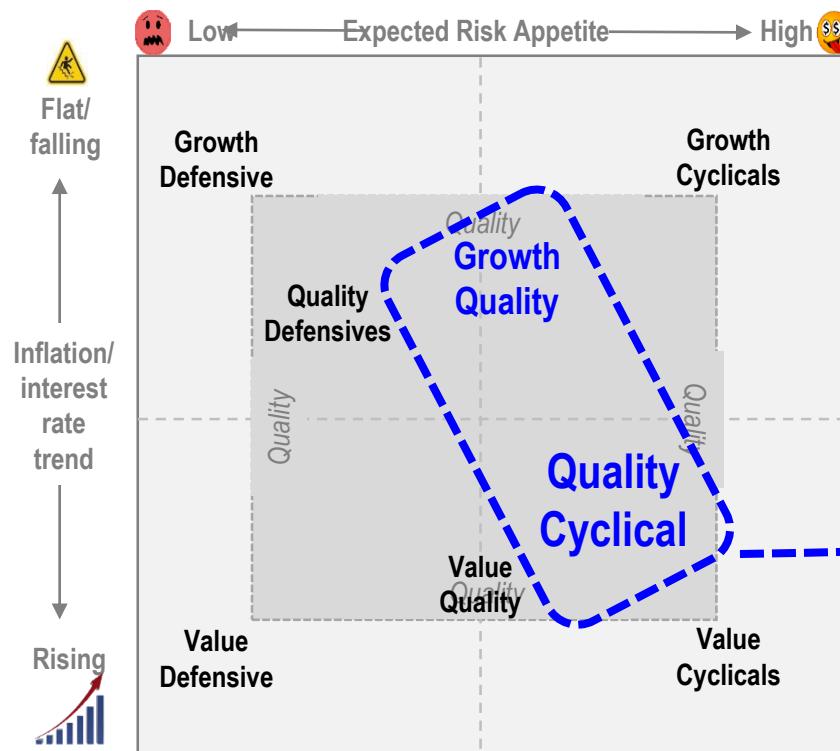
STYLE TILT REBALANCE: Rotate to Growth Cyclical (from Quality Cyclical)

Below is a summary matrix where our investment themes fit within the context of risk appetite and interest rate/ inflation.

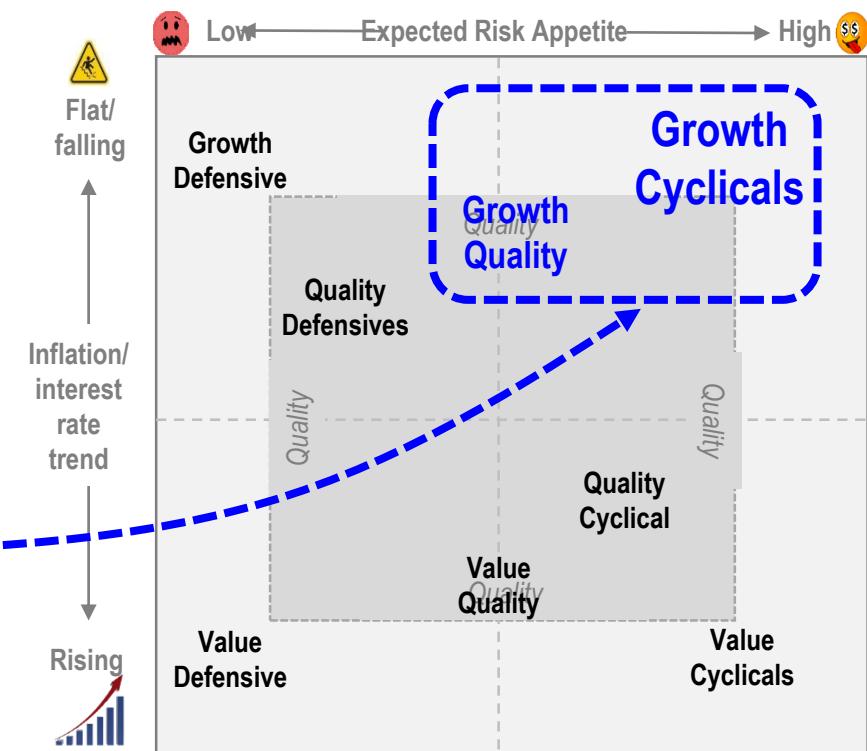
- In current rebalance, we are recommending investors OW Growth Quality and Growth Cyclical.

Source: Comparative matrix between Risk appetite and interest rate/ inflation outlook
Prepared by Fundstrat

Oct '19 tilt:
Quality Cyclical



Jan '20 tilt:
Growth Cyclical



Source: Fundstrat

STYLE TILT: Rebalance, adding 6 net stocks, revised is now 27 stocks

Below we show the constituent rebalancing of the Fundstrat Style Tilt strategy.

Rebalanced

Figure: Style Tilt constituents before and after rebalance

New constituents effective on 12/13/19

Style Tilt Portfolio As of 7/12/19		Deletions	Additions	Revised
Growth	Quality			
BMY	NUE	BMY	SCHW NSC	AMP PYPL
ADP	IBM	ADP	REGN GWW	MNST VRSN
BIIB	CMI	AMGN	PYPL EXPE	BIIB NVDA
JNJ	ATVI	NKE	VRSN HAS	ROK QCOM
MXIM	BYY	XOM	NVDA CF	JNJ KSU
MNST	NTAP	NUE	QCOM CSCO	MXIM NSC
ROK	AMGN	IBM	KSU V	TXN GWW
XLNX		CMI	TTWO MSFT	XLNX EXPE
TXN		ATVI		FB HAS
NKE		NTAP		GOOG CF
GOOG		BYY		MSFT NVR
XOM				CSCO REGN
FB				V TTWO
AMP				SCHW

Source: Fundstrat, Bloomberg, Factset

STYLE TILT: Growth Quality + Growth Cyclical Ideas

We recommend investors OW Growth Cyclical and Growth Quality comprised of 27 stocks (11 stocks exist in both).

- Growth Quality comprises 83 stocks and our recommended list is 17 names.**
- Cyclical Growth comprises 153 stocks and our recommended list is 21 names.**

Figure: Growth Quality/ Growth Cyclical and DQM 1 Rated

Per Fundstrat



Company information										Fundamentals & Valuation							
	Ticker	Company name	Current Price	Mkt cap (\$ mm)	3m avg daily liquidity (\$ mm)	YTD perf (relative to S&P 500)	Analyst Ratings					2020E sales growth ⁽³⁾	2020E EPS growth ⁽³⁾	P/E ('20E)	ROE		
							FC Mean (5=Buy 1=Sell) ⁽¹⁾	Mean implied upside ⁽²⁾	Dividend Yield	Issuer Rating	Short interest %						
Pure Growth Quality	Financials	AMP Ameriprise Financial Inc	\$167.44	\$21,214	\$134.6	33.1%	4.38	6%	2.4%	A	1.7%	3%	11%	9.3x	34%		
	Staples	SCHW Schwab (Charles) Corp	\$49.72	\$63,869	\$453.1	-7.6%	4.10	7%	1.4%	A	2.7%	-0%	-6%	19.6x	20%		
	Healthcare	MNST Monster Beverage Corp	\$62.49	\$33,600	\$161.2	-0.3%	3.82	7%	—	—	3.0%	9%	11%	27.7x	27%		
	Technology	BIIB Biogen Inc	\$301.40	\$54,385	\$615.1	-27.1%	3.41	2%	—	A-	2.4%	-2%	-1%	9.2x	39%		
	Regeneron Pharmaceuticals	REGN	\$376.01	\$41,284	\$254.4	-26.6%	3.67	4%	—	—	2.9%	8%	8%	14.4x	23%		
	JNJ Johnson & Johnson	JNJ	\$141.79	\$373,173	\$954.8	-17.4%	4.08	6%	2.8%	AAA	0.7%	4%	5%	15.6x	23%		
Pure Growth Cycicals	Technology	PYPL Paypal Holdings Inc	\$109.57	\$128,656	\$714.9	3.0%	4.57	16%	—	BBB+	1.3%	17%	14%	31.4x	16%		
	VRSN Verisign Inc	VRSN	\$192.66	\$22,620	\$117.3	2.6%	3.00	10%	—	BBB	1.1%	5%	6%	34.3x	—		
	NVDA Nvidia Corp	NVDA	\$225.15	\$137,792	\$1,653.0	41.3%	4.28	2%	0.3%	A-u	1.5%	20%	31%	30.8x	23%		
	Qualcomm Inc	QCOM	\$88.43	\$100,973	\$689.2	28.1%	4.03	10%	3.0%	A-	1.4%	13%	18%	21.2x	153%		
	Kansas City Southern	KSU	\$152.99	\$15,164	\$137.5	33.0%	4.20	3%	1.1%	BBB	5.9%	6%	15%	19.1x	12%		
	Norfolk Southern Corp	NSC	\$190.56	\$49,688	\$299.4	0.1%	3.84	7%	2.1%	BBB+	1.6%	1%	11%	16.9x	18%		
Growth Quality + Growth Cyclical	W.W. Grainger Inc	GWW	\$337.22	\$18,165	\$113.1	-7.9%	2.90	-5%	1.8%	A+	4.2%	4%	7%	18.0x	50%		
	Expedia Group Inc	EXPE	\$114.23	\$16,550	\$325.6	-25.9%	4.03	15%	1.2%	BBB*-	5.2%	8%	14%	16.5x	12%		
	Hasbro Inc	HAS	\$102.26	\$13,993	\$137.8	-1.5%	4.38	12%	2.8%	BBB-	4.5%	5%	22%	22.0x	14%		
	Cf Industries Holdings Inc	CF	\$46.88	\$10,193	\$94.8	-19.6%	3.90	11%	2.6%	—	1.9%	2%	20%	18.0x	15%		
	Cisco Systems Inc	CSCO	\$45.98	\$195,059	\$927.2	-21.2%	3.97	11%	3.0%	AA-	0.8%	-2%	5%	14.2x	28%		
	Visa Inc-Class A Shares	V	\$186.24	\$366,611	\$1,358.8	13.8%	4.67	9%	0.6%	AA-	1.7%	11%	14%	30.0x	42%		
	Maxim Integrated Products	MXIM	\$60.47	\$16,364	\$101.7	-8.4%	3.22	5%	3.0%	BBB+	1.9%	-4%	-8%	27.2x	42%		
	Texas Instruments Inc	TXN	\$127.07	\$118,782	\$564.0	7.2%	3.64	-2%	2.8%	A+	1.5%	-1%	-3%	25.4x	53%		
	Xilinx Inc	XLNX	\$96.38	\$24,236	\$313.2	-14.1%	3.70	12%	1.5%	NR	1.9%	10%	10%	26.7x	37%		
	Microsoft Corp	MSFT	\$155.53	\$1,186,508	\$3,199.7	25.8%	4.84	4%	1.3%	AAA	0.8%	12%	13%	28.9x	43%		
	Facebook Inc-Class A	FB	\$197.92	\$564,418	\$2,587.2	23.7%	4.59	18%	—	—	1.2%	22%	43%	21.6x	21%		
	Take-Two Interactive Software	TTWO	\$122.71	\$13,909	\$153.4	-8.1%	4.36	10%	—	—	2.3%	-1%	2%	24.8x	17%		
Industrials	Alphabet Inc-C1 C	GOOG	\$1,361.17	\$938,630	\$1,639.1	4.1%	4.88	9%	0.0%	AA+	1.0%	18%	17%	25.0x	18%		
	Rockwell Automation Inc	ROK	\$204.41	\$23,619	\$168.4	8.5%	2.92	-6%	2.0%	A	1.6%	3%	3%	22.9x	69%		
	Nvr Inc	NVR	\$3,860.00	\$14,262	\$154.6	31.1%	3.33	-2%	—	BBB+	2.6%	5%	6%	16.9x	42%		
Average			\$169,027	\$667.5	2.6%	3.95	7%	1.9%	—	—	2.2%	6%	11%	21.8x	34%		
Median			\$41,284	\$313.2	0.1%	4.03	7%	2.0%	—	—	1.7%	5%	11%	21.6x	25%		
% of stocks positive					48%	79%					72%	79%	93%				

Source: Fundstrat, Bloomberg, FactSet

SEASONALITY: Methodology for Seasonal Trades

Rebalanced

Below we show the GICS 4 industries with the best win ratio (% of periods with positive relative return) between mid-December and June (the next year) from 1990 – 2019.

- These sub-industries are also highly ranked by our quantitative (Fundstrat Quantamental Model) and technical models.

Figure: Comparative GICS 4 Industries ranked on seasonality

Per Fundstrat

GICS 4 Win Ratio and Relative Return between Dec 13 and June 30 (next year)

Factor type	Criteria	GICS 4 Industry	Number of periods	Avg. Rel. Return	Win Ratio	Rank of Avg DQM	DQM Avg. Long-Short Rank
Quality	DQM quintile ranking	Real Estate Services	11	11%	82%	21	31
	DQM Quintile 1 less 5 spread	Oil & Gas Equipment & Services	24	8%	75%	22	30
Technical	Technical ranking	Semiconductor Equipment	24	8%	71%	27	17
		Oil & Gas Refining & Marketing	24	7%	71%	20	33
		Managed Health Care	24	5%	71%	8	14
Seasonal	Average return	Industrial Machinery	24	4%	71%	14	13
	Win-ratio	Internet & Direct Marketing Retail	17	12%	71%	12	5
		Interactive Home Entertainment	16	11%	69%	16	10

Additions: Real Estate Services, Oil & Gas Equipment & Services, Semiconductor Equipment, Oil & Gas Refining & Marketing, Industrial Machinery, Interactive Home Entertainment

Deletions: Construction Machinery & Heavy Trucks, Industrial REITs, Asset Management & Custody Banks, Personal Products, Distillers & Vintners

Existing: Internet & Direct Marketing Retail, Managed Health Care

Source: Fundstrat

SEASONALITY: NEW 8 Industries identified...

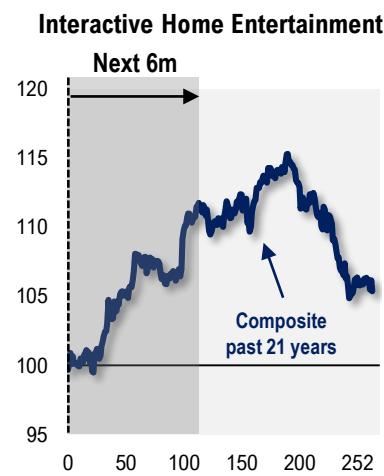
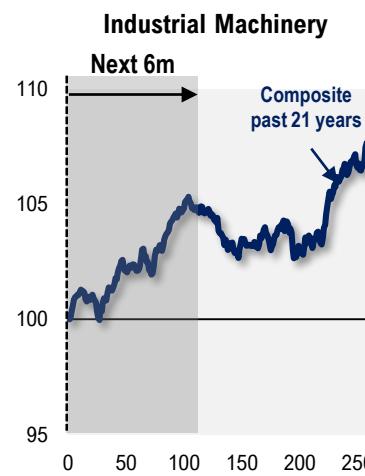
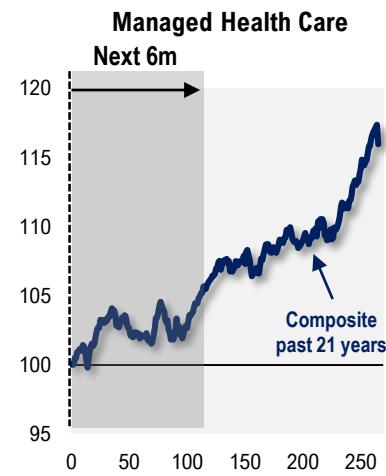
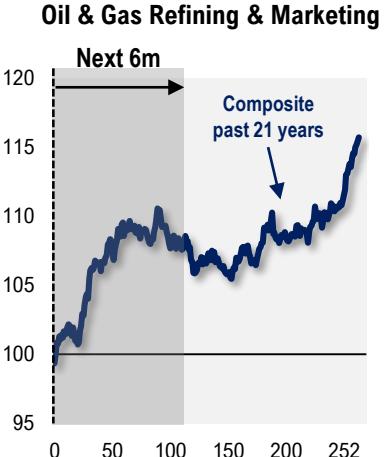
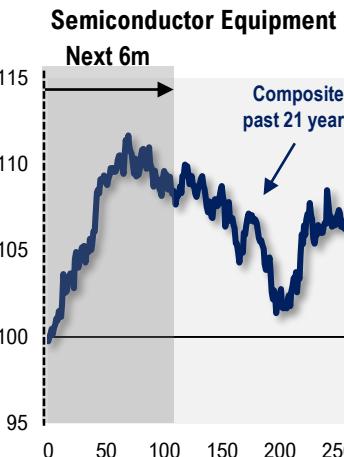
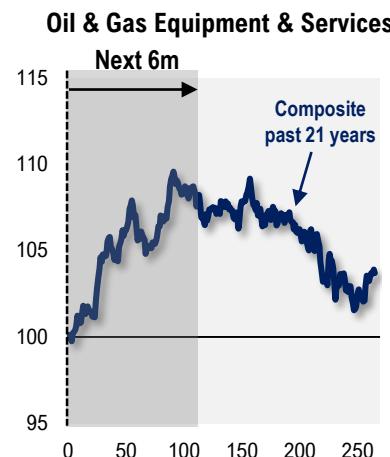
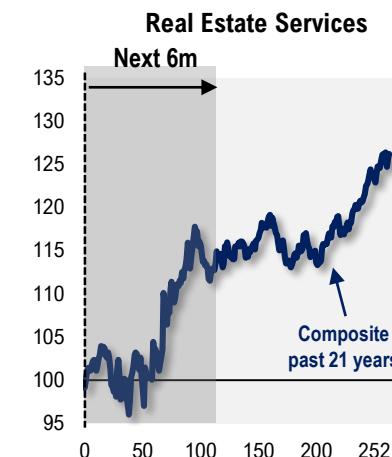
We show the index price history of the 8 GICS 4 industries ranked best by 6 month win ratio from Dec 13 – Jun 30.

Rebalanced

- These 8 sub-industries have historically had the best outperformance during this period. We recommend 17 stocks from them which are top ranked by DQM ([slide 91](#)).

Figure: 8 Industries with positive 6M seasonality (Dec 13 – Jun 30) and DQM Metrics – Seasonality rebased to Dec 13 = 100.

Per Fundstrat. Up to 21 years of history, — current year. Rebased to 100 as of 12/13/19.



Source: Fundstrat, Bloomberg

SEASONALITY: REVISED Portfolio, 17 ideas

We recommend stocks which historically have had the best relative performance from mid-December through June (Next year).

- These stocks are ranked in DQM 1 and found within the 8 GICS 4 industries that typically outperform through the next 6 month period.

Figure: Stocks within 8 sub industries with best historical performance from mid-December through June

Per Fundstrat

Company information										Fundamentals & Valuation						
										Analyst Ratings						
				Current	Mkt cap	3m avg daily liquidity	YTD perf (relative to S&P 500)	FC Mean (5=Buy 1=Sell) ⁽¹⁾	Mean implied upside ⁽²⁾	Dividend	Issuer	Short interest % of float	2020E sales growth ⁽³⁾	2020E EPS growth ⁽³⁾	P/E (^(20E))	ROE
Semiconductor Equipment	1	AMAT	Applied Materials Inc	\$59.96	\$54,882	\$402.7	55.8%	4.41	12%	1.5%	A-	2.1%	12%	22%	16.1x	36%
	2	LRCX	Lam Research Corp	\$284.25	\$41,239	\$413.6	81.4%	4.00	-4%	1.7%	BBB+	4.4%	2%	4%	18.9x	41%
Interactive Home Entertainment	3	ATVI	Activision Blizzard Inc	\$58.61	\$45,028	\$376.8	-1.5%	4.50	4%	--	BBB+	3.4%	8%	13%	23.4x	14%
	4	TTWO	Take-Two Interactive Software	\$122.71	\$13,909	\$153.4	-8.1%	4.36	10%	--	—	2.3%	-1%	2%	24.8x	17%
Industrial Machinery	5	DOV	Dover Corp	\$113.13	\$16,434	\$92.0	32.1%	3.71	-1%	1.8%	BBB+	3.3%	2%	8%	18.0x	23%
	6	FLS	Flowserve Corp	\$48.37	\$6,330	\$38.7	-0.1%	3.29	2%	1.7%	BBB-	3.1%	4%	13%	19.7x	15%
Oil & Gas Refining & Marketing	7	IEX	Idex Corp	\$167.20	\$12,717	\$69.7	5.1%	3.50	-3%	1.2%	BBB	2.1%	2%	3%	28.0x	20%
	8	PNR	Pentair Plc	\$45.92	\$7,719	\$42.1	-5.8%	3.35	-5%	1.6%	BBB-	2.1%	4%	9%	18.0x	19%
Internet & Direct Marketing Re	9	PSX	Phillips 66	\$114.14	\$50,719	\$278.2	5.2%	4.33	13%	3.3%	BBB+	1.2%	15%	20%	10.6x	19%
	10	VLO	Valero Energy Corp	\$95.14	\$39,070	\$290.0	-0.4%	4.62	14%	4.1%	BBB	2.0%	16%	95%	9.7x	11%
Real Estate Services	11	BKNG	Booking Holdings Inc	\$1,995.02	\$83,503	\$629.7	-11.5%	3.89	6%	--	A-	2.5%	7%	13%	17.5x	55%
	12	EBAY	Ebay Inc	\$35.40	\$28,799	\$271.2	-1.2%	3.37	13%	1.6%	BBB+	2.9%	2%	5%	12.2x	39%
Managed Health Care	13	EXPE	Expedia Group Inc	\$114.23	\$16,550	\$325.6	-25.9%	4.03	15%	1.2%	BBB*-	5.2%	8%	14%	16.5x	12%
	14	CBRE	Cbre Group Inc - A	\$59.22	\$19,824	\$81.5	20.6%	4.09	3%	--	—	1.9%	8%	8%	14.6x	20%
	15	ANTM	Anthem Inc	\$291.78	\$73,985	\$407.9	-16.2%	4.52	13%	1.1%	A	1.5%	12%	17%	12.8x	14%
	16	HUM	Humana Inc	\$365.88	\$48,452	\$302.4	0.4%	4.44	-5%	0.7%	BBB+	1.5%	11%	5%	19.6x	23%
	17	WCG	Wellcare Health Plans Inc	\$320.71	\$16,141	\$158.3	8.5%	3.46	1%	--	BB *+	5.9%	16%	9%	18.7x	14%
	Average			\$33,841	\$254.9	8.2%	3.99	5%	1.8%		2.8%	8%	15%	17.6x	23%	
	Median			\$28,799	\$278.2	-0.1%	4.03	4%	1.6%		2.3%	8%	9%	18.0x	19%	
% of stocks positive						47%		71%				94%	100%		100%	

Source: Fundstrat, Bloomberg, Factset

PMI RECOVERY: 22 Value ideas from the winning sectors when PMI > 50

Value has been outperforming the Growth historically when PMI recovers above 50 ([Slide 12](#)). Regarding sectors, Technology (including Comm. Services), Financials and Industrials are the leading sectors when PMI >50. Energy has been outperforming in the past 25 years.

New

- These Value stocks are ranked in DQM 1 and found within the 5 GICS 1 sectors that typically outperform through the next 6-month period.

Figure: 22 Value ideas from GICS 1 sectors performance when PMI recovers above 50

Per Fundstrat

Company information										Fundamentals & Valuation							
				3m avg daily liquidity				YTD perf (relative to S&P 500)		Analyst Ratings				2020E			
	Ticker	Company name	Current Price	Mkt cap (\$ mm)	(\$ mm)	3m avg daily liquidity	YTD perf (relative to S&P 500)	FC Mean (5=Buy 1=Sell) ⁽¹⁾	Mean implied upside ⁽²⁾	Dividend Yield	Issuer Rating	Short interest %	of float	2020E sales growth ⁽³⁾	2020E EPS growth ⁽³⁾	P/E ('20E)	ROE
Technology	1	CIEN	Ciena Corp	\$42.07	\$6,496	\$112.1	-2.4%	4.36	18%	--	BB+	5.8%		6%	23%	16.2x	12%
	2	VRSN	Verisign Inc	\$191.55	\$22,489	\$118.9	2.7%	3.00	11%	--	BBB-	1.1%		5%	6%	34.1x	—
	3	INTC	Intel Corp	\$58.03	\$252,431	\$1,003.8	-2.8%	3.39	-1%	2.3%	A+	1.4%		2%	1%	12.5x	26%
	4	MXIM	Maxim Integrated Products	\$59.68	\$16,150	\$100.8	-9.1%	3.22	6%	3.1%	BBB+	1.9%		-4%	-8%	26.8x	42%
	5	NVDA	Nvidia Corp	\$225.48	\$137,994	\$1,631.8	42.4%	4.28	2%	0.3%	BBB+u	1.5%		20%	31%	30.9x	23%
	6	AAPL	Apple Inc	\$274.94	\$1,221,631	\$6,197.9	47.8%	3.88	-4%	1.1%	AA+	1.6%		6%	9%	21.2x	56%
Comm. Svcs.	7	FB	Facebook Inc-Class A	\$194.74	\$555,349	\$2,551.6	22.1%	4.59	20%	--	—	1.2%		22%	43%	21.3x	21%
	8	GOOGL	Alphabet Inc-Cl A	\$1,348.24	\$930,495	\$1,705.2	2.5%	4.73	8%	0.0%	AA+	1.1%		18%	17%	24.7x	18%
Financials	9	AMP	Ameriprise Financial Inc	\$167.23	\$21,187	\$134.4	33.7%	4.38	6%	2.4%	A	1.7%		3%	11%	9.3x	34%
	10	STT	State Street Corp	\$79.31	\$28,839	\$164.3	-0.7%	3.82	-9%	2.7%	A	1.5%		1%	10%	12.4x	9%
	11	CFG	Citizens Financial Group	\$40.13	\$17,445	\$142.0	8.5%	4.43	3%	3.7%	BBB+	1.8%		1%	2%	10.4x	9%
	12	MTB	M & T Bank Corp	\$169.84	\$22,412	\$97.6	-7.8%	3.27	-1%	2.7%	A-	1.5%		-2%	-0%	12.5x	13%
Industrials	13	SIVB	Svb Financial Group	\$249.85	\$12,884	\$102.8	5.1%	4.23	-0%	0.0%	BBB	1.9%		-0%	-10%	13.0x	21%
	14	DE	Deere & Co	\$172.47	\$54,306	\$330.2	-10.9%	3.92	4%	1.8%	A	1.9%		-7%	-6%	18.4x	29%
	15	CAT	Caterpillar Inc	\$145.49	\$80,406	\$482.7	-12.0%	3.57	-0%	2.9%	A	1.8%		-5%	-2%	13.6x	39%
	16	CMI	Cummins Inc	\$182.06	\$27,892	\$200.3	9.7%	3.31	-2%	2.5%	A+	3.6%		-8%	-13%	14.1x	34%
Energy	17	EMR	Emerson Electric Co	\$75.82	\$46,186	\$202.4	0.4%	3.78	-0%	2.7%	A	1.2%		1%	-1%	20.8x	27%
	18	KSU	Kansas City Southern	\$151.38	\$15,005	\$136.5	32.1%	4.20	4%	1.1%	BBB	5.9%		6%	15%	18.9x	12%
	19	HP	Helmerich & Payne	\$42.11	\$4,567	\$69.6	-38.7%	3.56	5%	6.7%	BBB+	6.0%		-12%	-74%	92.9x	-1%
	20	CVX	Chevron Corp	\$118.07	\$223,255	\$677.3	-18.0%	4.38	15%	4.2%	AA	1.1%		1%	8%	17.1x	9%
	21	MUR	Murphy Oil Corp	\$24.95	\$3,923	\$70.7	-19.8%	3.56	12%	4.0%	BB+	17.5%		5%	-30%	34.9x	25%
	22	COP	Conocophillips	\$62.56	\$68,645	\$387.7	-26.2%	4.76	18%	2.7%	A	1.1%		-14%	-9%	18.9x	25%
			Average		\$171,363	\$755.5	2.7%	3.94	5%	2.5%		2.9%		2%	1%	22.5x	23%
			Median		\$28,366	\$182.3	-0.2%	3.90	4%	2.7%		1.7%		1%	2%	18.6x	23%
			% of stocks positive			50%			64%					64%	55%	95%	

Source: Fundstrat

PMI REPLACE FANG: FANG works during “odd” years

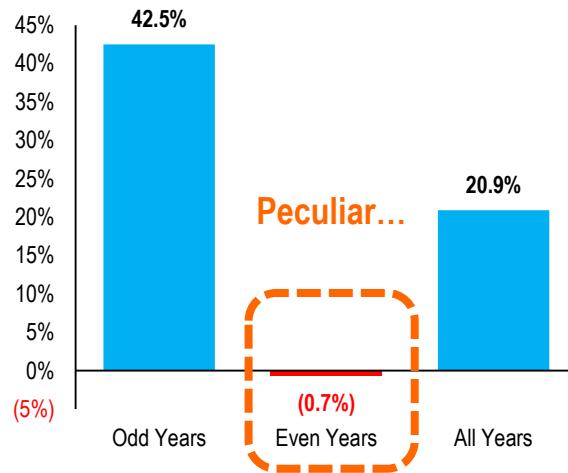
A peculiarity about FANG is that as a group, FANG performs considerably better during “odd” years..

- In “odd” years, FANG is up 100% of the time and average relative performance of 4,250bp. And underperforms during “even” years.

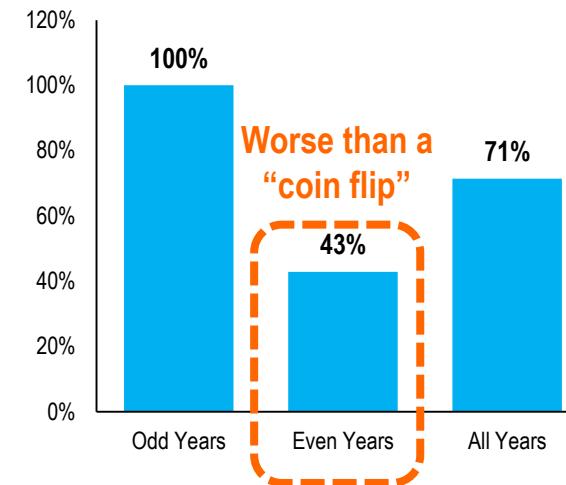
Figure: Relative return and win ratio in odd and even years for FANG stocks versus S&P 500

Since 2006. FANG: Facebook, Amazon.com, Netflix, Google (Alphabet)

FANG – Relative Return to S&P 500



FANG – Win Ratio against S&P 500



	Rel Retur Odd Years	Even Years	All Years
FB	43.1%	4.1%	26.4%
AMZN	63.1%	2.7%	32.9%
NFLX	60.6%	40.7%	50.7%
GOOGL	32.4%	(8.5%)	11.9%
Aggregat	42.5%	(0.7%)	20.9%

	Win Ratio Odd Years	Even Years	All Years
FB	100%	67%	86%
AMZN	71%	57%	64%
NFLX	57%	57%	57%
GOOGL	100%	14%	57%
Aggregate	100%	43%	71%

Source: Fundstrat, Bloomberg, Factset

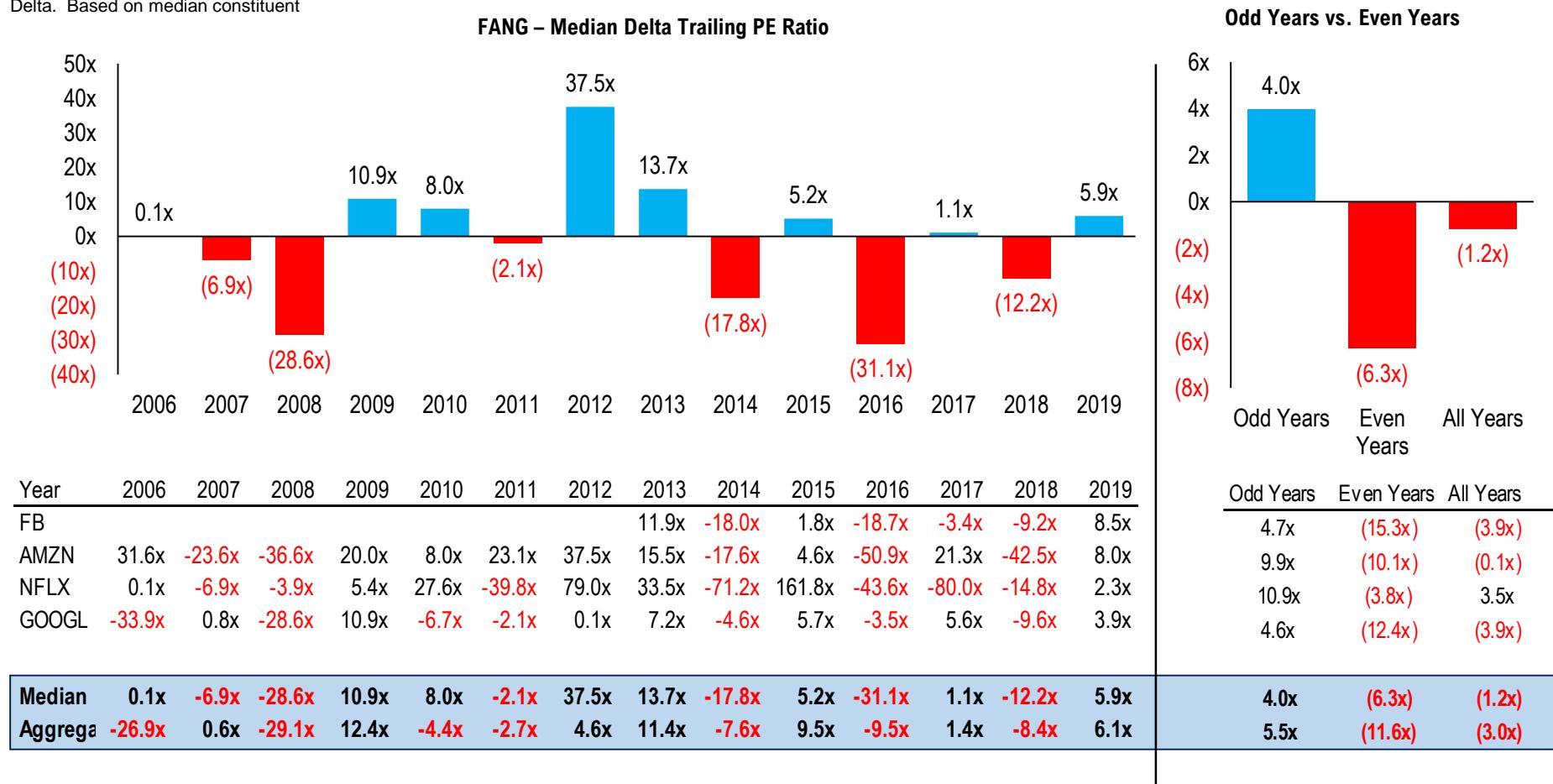
FANG: because P/E contracts every other year...

But despite the consistent earnings growth, P/E performance has been less consistent. As shown below, P/E expands and contracts in alternative years (2007-2008 and 2012-2013, exceptions).

- But the takeaway is that the strong EPS growth (and consistent growth) is offset by P/E multiple contraction—in other words, P/E explains the alternating year outperformance of FANG.
- As to why P/E contracts every other year—that is a bit of a mystery, particularly, since these companies are in different industries.

Figure: Change in PE YoY

Delta. Based on median constituent



Source: Fundstrat, Bloomberg, Factset

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