

## Highlights and Updates from the Week

<p><b>FINANCIALS</b>  <b>Tickers:</b> AFRM, PYPL, SQ, Visa/MA, FIS, FISV, WFC, Citi, JPM, BAC, SCHW  <a href="#">(Go to Section)</a></p>	<p><b>Highlights:</b> A bit of a twist this week, some reversal in 1) Fed speak (less aggressive taper talk), 2) bond trends (rates down, auctions well bid), 3) near-term sentiment (skittishness into results – the right call), and 4) stock action (the one-way train hit pause today).....<b>At the end of the day – JPM results were solid (beat/raised NII guide), the eco/macro backdrop remains supportive (recovery/its not like the Fed extended QE duration or anything) and stimulus is still on the come....so some sell-the-news on the back of this run is not a shock, nor is it a game-changer.</b> As for WFC/Citi/broader laterals for the rest of the group; WFC one-off/terribly messaged, I don't think an NII proxy for peers. Citi only real guided down on fee revs, which I do think we need to be prepared to see at peers (trading, mortgage, etc).</p>
<p><b>TELCO, MEDIA &amp; INTERNET</b>  <b>Tickers:</b> WISH, IAC, ANGI, AMZN, CMCSA, EA, UBI AMT, CHTR  <a href="#">(Go to Section)</a></p>	<p><b>Highlights:</b> Really tough week for TMT that saw a <b>large unwind/de-gross spurred by a rotation into value/reflation trade, which caused a massive short squeeze in cons shorts like GME, T, VZ and the media sector.</b> Then the long side of the trade was impacted, with popular longs like cable, TMUS, SNAP, PINS and more underperforming. <b>There was real pain this week</b> and it's unclear when the volatility will end. Some of these moves higher are really starting to challenge valuation but it doesn't seem to matter right now. <b>This isn't a fundamentals driven market.</b></p>
<p><b>TECHNOLOGY</b>  <b>Tickers:</b> ZS, MU  <a href="#">(Go to Section)</a></p>	<p><b>Highlights:</b> This week was eventful. The 2020 trend of <b>info overload and constant Tech news flow has carried over into 2021</b> for sure as <b>we've seen several conferences, pos-pre's, CEO turn-over, issuance across the capital structure, and choppy markets.</b> From my convo's, the <b>tape feels very strange.</b></p>
<p><b>HEALTHCARE</b>  <b>Tickers:</b> LLY, BIIB, IBB, ILMN, DXCM, BSX, JNJ, CVS, WBA, NVRO  <a href="#">(Go to Section)</a></p>	<p><b>Highlights:</b> It was all about JPM this week- While no big M&amp;A, LLY Alzheimer's excitement seemed to fill the void. Tools / Dx &gt; Medtech this week in Medtools. Expectations around the JNJ single dose vaccine are creeping higher given commentary from Operation Warp Speed and updated Phase ½ data published in the NEJM on Wednesday. Tune in next week on Tuesday for another UBS HC Team Sentiment call to wrap up what mattered most this week.</p>
<p><b>INDUSTRIALS</b>  <b>Tickers:</b> WRK, GPK, PKG, IP, SWK, GE  <a href="#">(Go to Section)</a></p>	<p><b>Highlights:</b> Main themes remained in-tact this week, with reflation beneficiaries again the outperformers given the move in rates &amp; USD, but there were also a few days of reversion the other way and far more dispersion under the surface. On the thematic side, the EV/ESG theme has perhaps maintained the greatest positive momentum; while Infrastructure winners took a bit of a breather with choppy trading dynamics.</p>
<p><b>ENERGY/UTILITIES</b>  <b>Tickers:</b> SRE, SO, ET, EPD, PCG, XOM, CVI  <a href="#">(Go to Section)</a></p>	<p><b>Highlights:</b> Energy outperformed the broader markets again this week with the sector up 14% YTD. <b>Sentiment remains strong to the upside and it doesn't appear that anyone is willing to call the top anytime soon with momentum this strong. Inbound interest from generalists only continues to increase as positioning still remains off sides/underweight.</b> Also worth noting that Energy remains still ~10% below its June highs after COVID started despite the recent rally + outlook much better now at the commodity level.</p>
<p><b>CONSUMER</b>  <b>Tickers:</b> MAS, FL, WW, TGT, BYND, YND, LVS, BBBY  <a href="#">(Go to Section)</a></p>	<p><b>Highlights:</b> The talk of the week has <b>clearly focused on the short covering</b> that we've seen across broader consumer and TMT. What felt different about yesterday was that longs began to noticeably lag, too. Our PB data (similar to others, we've heard) showed clear signs of gross and net reduction within cons discretionary. We highlight these not for the sake of underscoring the pain of this week, but <b>rather to see where some reversion may be possible</b> - if we're closer to the end of this factor shift, than the beginning.</p>
<p><b>SPECIAL SITUATIONS</b>  <b>Tickers:</b> CMD, STE, GRA, ACIA, CSCO, MTSC, INFO, SPGI, DD, IFF, DELL, VMW, EHC, SRE, SPACs  <a href="#">(Go to Section)</a></p>	<p><b>Highlights:</b> We saw a new deal in <b>CMD-STE</b> (and alongside with it, we did a review of precedents and concluded arbs are reasonably good at identifying bump-prone deals – evidenced by initial negative spreads) and a revised bid for <b>GRA</b> (from 40 North) but the unexpected fireworks in arb land came from <b>ACIA-CSCO</b> as litigation was put to bed in exchange for a new deal at a 64% premium vs the prior deal – and it still comes out at a discount vs IPHI – plus the deal is de-risked from regulatory and the only relevant condition appears to be the ACIA vote – thus the spread appears wide. We learned of a lot of other interest for <b>MTSC</b> in the proxy. In <b>INFO-SPGI</b>, we learned there were exclusive negotiations as expected, and saw no obvious reasons as to why INFO did not seek to “reset” the terms after its relative price outperformance after October 5, 2020 <b>DD</b> and <b>IFF</b> continued their massive moves early in the week but started to see some reversion mid-week. Conversion activity still running approximately in line with precedents, suggesting investors are likely insuring against potential proration, as much as the ability of the spread to withstand arb pressure remains in question. <b>DELL-VMW</b> saw some fireworks given the surprise CEO departure from VMW. <b>SPACs:</b> We saw a near-record 25 deals price this week to raise \$7.4bn. All are once again trading above deal price. Expectations and market euphoria continue to go higher in the space. We had 4 De-SPAC transactions announced this week, led by Proterra-ACTC trading up 107% on announcement.</p>

## WEEKLY TRADING COLOR

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### SUMMARY

A week to remember – certainly for folks involved in the Consumer discretionary and TMT space. Overall equity indexes remain resilient, helped by seasonal flows however, below the surface we saw a dramatic pick-up in dispersion and single stock volatility. Not earnings driven but rather technical forces and crowded positioning playing a role. One of the most notable trends this week was the continued squeeze higher in our High Short Interest basket +8%. It wasn't just Energy though, instead focus shifted to Consumer Discretionary and TMT names with GME clearly among the trigger points – but there were many more. I highlighted traditional Media last week – take a look this week (VIAC, DISCA etc). Squeeze higher earlier in the week in the short basket was followed but broader de-grossing Thursday/ Friday. Capitol attack injected fresh momentum into calls for regulatory reforms for Mega cap tech and social Media. Today's pull back a classic sell the news event after Biden's plan did not include any surprises. Macro backdrop hasn't changed but stimulus appears priced in near term and the pain below the surface at some point has to show in the overall market. We are seeing that today. Discussion round the FED and earlier Tapering picked up this week but Powell on Thursday threw some cold water on that theory. (We expect the Fed to announce the taper in September) Looking at the broader indexes, dips in general were bought again with fairly large closing imbalances this week suggesting 401k mutual fund inflows, Dealers' Gamma hedging and Roll ups still a force. Another observation, the US market appeared to act better after the Europeans called it a day. Systematic flows are not a major factor but I think still contributing to the steady bid as well. Financial earnings in general underwhelming – earnings expectation have clearly risen recently but given the limited upgrades from Q3 beats, they should be support the cyclical rally. Something to watch over the next couple weeks. Keep an eye on rates and USD. USD strengthens. Things seems to calm down a bit on the US/China tension front. What else to watch? Rates and Inflation breakevens and the rotation in particular out of Mega Caps into Small caps.

The VIX is trying to settle lower but think the Inauguration keeping a bid underneath. We had a very busy week on the HT desk, the pick-up in violent moves on the single stock side forcing investors hands. Our flows continue to suggest LOs slowly rotating out of Growth and Momentum (Mega Caps) into Value and the Cyclical trade. Not every day but the trends is obvious. For the second week in a row to start the year, investors piled into Equity ETFs in particular Small caps. Retail net to buy with notable inflows into ETFs, selling Communication Services and Tech

### HOW BOUT OUR FLOWS

**UBS High-touch Single Stock Desk:** Flow on the HT desk was skewed to the sell side mostly driven by the LO community. HFs were very busy, in particular Wednesday/ Thursday – flow though fairly balanced but signs of degrossing/ unwind. Desk was better to buy in Telcos, Tech (Hardware), Industrials and Utilities while selling Basic Materials, Financials and Consumer discretionary. We saw the most short activity in the Basic Materials.

**UBS RMM Client Flow:** January 2021 continues to see the largest daily retail volumes (\$) since March 2020 and one possible theory for the increased retail volumes has been retail investors putting their 2nd round of stimulus checks to work via the US Equity market. If you look at charts below we have seen a clear change in trend of UBS RMM Client volumes since 12/30 when the 2nd round of stimulus check distribution began. Inflows are beginning to trend up again with yesterday's inflows at highest levels since 12/18 led by ETF's & Financials on the 6th consecutive day of net inflows Retail's been a net better buyer throughout the week. EV names continue to be very active amongst retail clients with NIO seeing the largest inflows ever recorded in our data set on Monday. TSLA also seeing large inflows on Monday. We estimate that of all names in the SP500 TSLA has the highest daily average retail activity at 20-25% of volume. GM, BLNK, PLUG, CCIV have also all been active with retail flow. Tech had the largest sell skew amongst retail clients in the first half of the week. Wednesday retail inflows were driven mainly by ETF buying. Ark ETF's remains highly popular amongst retail investors with ARKK being the most bought ETF YTD and ARKG also seeing large client inflows. Semis were also topical Wednesday with retail having sold into the outperformance of INTC post their CEO change and adding to TSM longs post earnings. Later in the week retail sold into the outperformance of small caps in anticipation of Biden's stimulus plan. Retail investors are clearly increasing activity in many sub \$5 stocks with volume in sub \$5 stocks increasing on average to the largest levels since June

**ETF flows:** For the second week in a row to start the year, investors piled into Equity ETFs. Volumes were down substantially compared to last week, but we still saw close to \$10B of inflows across the board. Financials added \$2.5B ahead of earnings for the sector which kicked off this morning. Overall inflows into Fins is now over \$5B YTD. Tech regained the outflows we saw last week, adding just over \$2B to AUM through Thursday. Small caps continued their significant outperformance in the second week of the year. IWM is now up 8% vs SPY on the year. This rotation played out in ETF flows again with outflows in Large Caps names (IVV and SPY) and inflows in Small Caps (IWM).

### SECTOR BREAKDOWN

Equities are now set to end the week in the red as the announcement of Biden's proposed \$1.9Tn relief bill proved to be a sell-the-news type event as the realities of passing the legislation and the market's run ahead of itself sets in.

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### WHATS AHEAD?

Focus will shift to earnings but there is clearly some fear of violence around the inauguration next week. We will get some data out of China as well as flash PMIS. Still waiting for the JNJ Vaccine data.

# QUANT INSIGHTS

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## TOP 10 OVERWEIGHT/UNDERWEIGHT GLOBALLY

Overweight		Investor Weight	Active Weight	Wow Chg	Underweight		Investor Weight	Active Weight	Wow Chg
Prosus N.V. Class N	PRX NA	0.42%	0.33%	↓	Apple Inc.	AAPL UW	2.52%	-1.21%	↑
Tata Consultancy Services Limited	TCS IS	0.39%	0.33%	↑	Taiwan Semiconductor Manufacturing Co	2330 TT	0.37%	-0.48%	↓
Walmart Inc.	WMT UN	0.65%	0.31%	↓	Amazon.com, Inc.	AMZN UW	1.89%	-0.35%	↑
Tencent Holdings Ltd.	700 HK	0.99%	0.28%	↓	Nestle S.A.	NESN SE	0.23%	-0.32%	↑
LVMH Moët Hennessy Louis Vuitton SE	MC FP	0.54%	0.25%	↑	Tesla Inc	TSLA UW	0.77%	-0.31%	↓
T-Mobile US, Inc.	TMUS UW	0.37%	0.25%	↓	Microsoft Corporation	MSFT UW	2.40%	-0.22%	↑
Reliance Industries Limited	RIL IS	0.34%	0.21%	↓	Roche Holding Ltd	ROG SE	0.18%	-0.21%	↑
Charter Communications, Inc. Class A	CHTR UW	0.34%	0.19%	↓	Novartis AG	NOVN SE	0.16%	-0.18%	↑
Visa Inc. Class A	V UN	0.77%	0.17%	↓	Commonwealth Bank of Australia	CBA AT	0.03%	-0.16%	↓
Chugai Pharmaceutical Co., Ltd.	4519 JT	0.20%	0.14%	↓	Exxon Mobil Corporation	XOM UN	0.16%	-0.15%	↓

Note: The calculation is based on MSCI AC World index universe. Data as of 8 January 2021 close.

Source: FactSet, MSCI, UBS Quantitative Research

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

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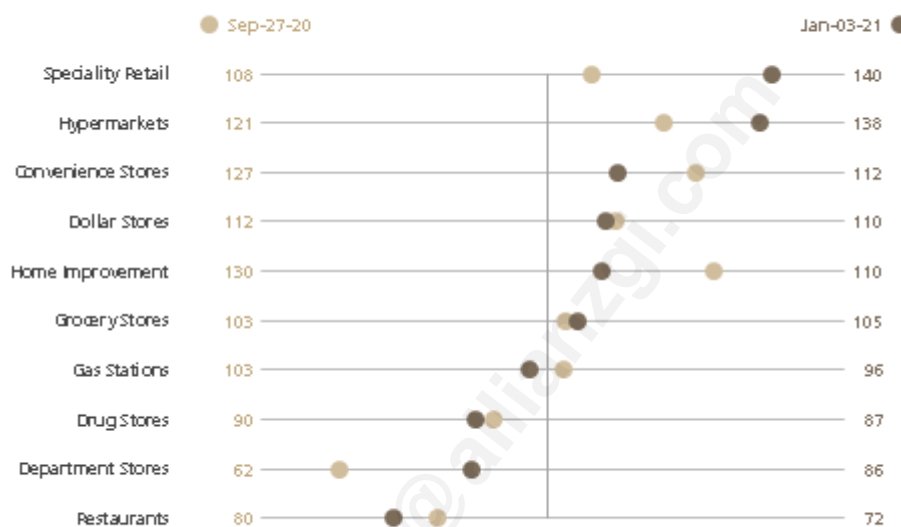
## SUMMARY

UBS Evidence Lab has recently updated their [US Consumer Receipt Transaction Monitor](#) which tracks consumer spending behavior across major consumer categories via an aggregated analysis of receipts.

Here is a key insight and visual representation from this dataset:

- Retail (Specialty Retail, Department Stores) and Supermarkets gained the most spend during 4Q, while Home Improvement and Travel (Convenience Stores, Gas) lagged.

**Share of Transactions, Indexed to Average Share from Sep 2018 to Aug 2019  
(Base 100)**



Source: UBS Evidence Lab, Coinout

## COVID TRACKING

[Covid-19 Catalogue](#)  
[Fact Pack: City Flight](#)  
[Fact Pack: Mobility](#)  
[Product Overview](#)  
[Healthcare](#)  
[Global Traffic Congestion Monitor](#) - weekly  
[Global Public Transit Network Traffic Monitor](#) – daily  
[Global Covid-19 Foot Traffic Monitor](#) - daily  
[China Migration Network Traffic Model](#) - daily  
[Global Unemployment Search Monitor \[ Google \]](#) - daily  
[Global Signal Strain Monitor](#) – weekly  
[US Consumer Receipt Transaction Monitor](#) - weekly  
[US COVID-19 Impact Consumer Survey](#) – weekly  
[UK COVID-19 Impact Consumer Pulsecheck Survey](#) – ad hoc  
[China COVID-19 Consumption and Payment Consumer PulseCheck](#) – Ad hoc  
[Japan Covid-19 Impact Consumer PulseCheck Survey](#) – ad hoc  
[South Korea Covid-19 Impact Consumer PulseCheck Survey](#) – ad hoc  
[COVID-19: Syndicated Consumer Surveys](#) – ad hoc  
[Best Sellers \[ Amazon \]](#) - weekly  
[COVID-19 Daily Search Monitor \[ Google \]](#) – daily

## MOST DOWNLOADED

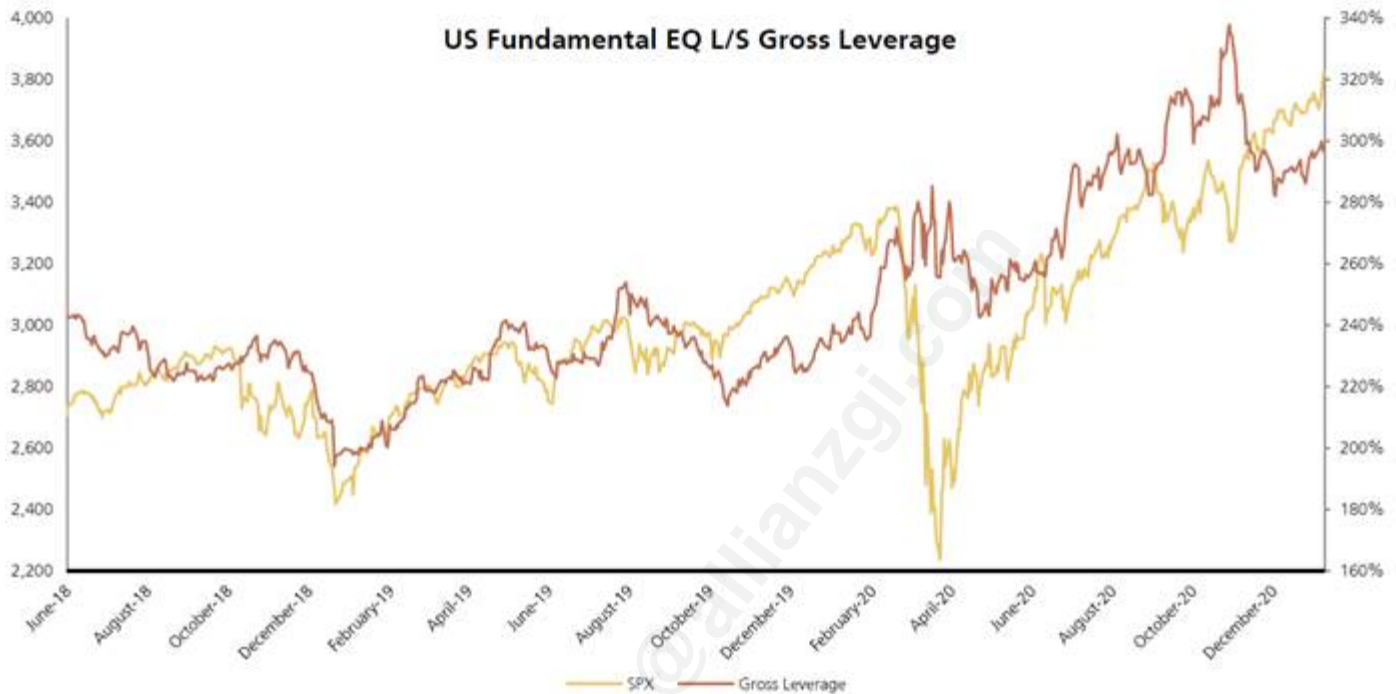
- [Global Brand Tracker \[ Instagram \]](#)
- [Best Sellers \[ Amazon \]](#)
- [China After-School Education Consumer Survey](#)
- [China Education App Usage Monitor](#)
- [China Ecommerce App Usage Monitor](#)
- [Global Cargo Vessel Shipping Monitor](#)
- [Global Social Media App Monitor](#)
- [Global Traffic Congestion Monitor](#)
- [US Drug Formulary Tracker](#)
- [US Reopening Consumer Survey](#)



## SUMMARY

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

- Gross leverage increased 0.03x to 2.97x week over week
  - Long leverage increased 0.02x while short leverage continues to hover around 0.99x
  - Leverage change was driven by increase in long exposure
- Major sector themes last week
  - Clients increased long exposure to IT
  - Clients closed down shorts in broad equity indices and Consumer Discretionary
- Net leverage currently sits at 0.98x; up 0.02x since last week



## CROWDED LONGS

Region	Common Name	#	#1W	%1W	%YTD
Americas	Amazon.com Inc	1	1	-2.28%	-2.28%
Americas	Microsoft Corp	2	2	-1.26%	-1.26%
Americas	Facebook Inc	3	3	-2.05%	-2.05%
Americas	Alphabet Inc A	4	4	2.58%	2.58%
APAC	Kweichow Moutai Co Ltd	5	5	4.60%	4.60%
Americas	Walt Disney Co	6	9	-1.37%	-1.37%
Americas	Apple Inc	7	6	-0.48%	-0.48%
Americas	Visa Inc	8	7	-1.50%	-1.50%
Americas	Uber Technologies Inc	9	8	4.47%	4.47%
Americas	Mastercard Inc	10	12	-0.74%	-0.74%
Americas	Micron Technology Inc	11	18	2.98%	2.98%
Americas	Alphabet Inc C	12	10	3.16%	3.16%
Europe	Just Eat Takeaway.com NV	13	11	7.68%	7.68%
APAC	Gree Electric Appliances Inc	14	21	4.46%	4.46%
Americas	Kraft Heinz Co	15	13	-3.00%	-3.00%

## CROWDED SHORTS

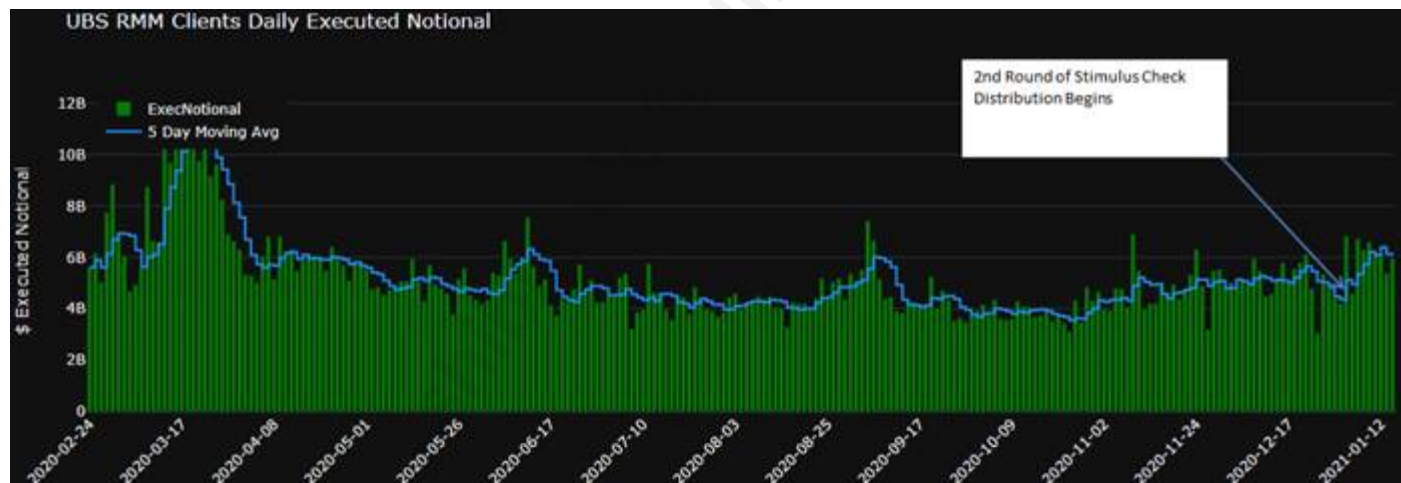
Region	Common Name	#	#1W	%1W	%YTD
Americas	Salesforce.Com Inc	1	1	-0.22%	-0.22%
Americas	Apple Inc	2	2	-0.48%	-0.48%
Americas	Advanced Micro Devices Inc	3	7	3.13%	3.13%
Americas	AT&T Inc	4	3	2.71%	2.71%
Europe	J Sainsbury PLC	5	5	7.67%	7.67%
Americas	S&P Global Inc	6	9	-0.57%	-0.57%
Americas	International Business Machi	7	6	2.11%	2.11%
Europe	Aon PLC	8	12	-2.86%	-2.86%
APAC	Woodside Petroleum Ltd	9	8	9.10%	9.10%
Americas	ViacomCBS Inc	10	11	7.51%	7.51%
Europe	Deutsche Lufthansa AG	11	13	-3.28%	-3.28%
Europe	Trainline PLC	12	14	-4.83%	-4.83%
Americas	Morgan Stanley	13	21	9.81%	9.81%
Americas	Intel Corp	14	10	3.67%	3.67%
Europe	Heineken NV	15	18	1.95%	1.95%

## SUMMARY

January 2021 continues to see the largest daily retail volumes (\$) since March 2020 and one possible theory for the increased retail volumes has been retail investors putting their 2nd round of stimulus checks to work via the US Equity market. If you look at charts below we have seen a clear change in trend of UBS RMM Client volumes since 12/30 when the 2<sup>nd</sup> round of stimulus check distribution began. This trend will be something to keep an eye going forward with the ongoing talks of increased stimulus package with the Biden administration. (Chart 1 & 2)

- **Where has the increased volumes by UBS RMM Clients been focused?**

- **Low Price Securities** - Retail investors are clearly increasing activity in many sub \$5 stocks with volume in sub \$5 stocks increasing on average to the largest levels since June. The top 5 stocks by executed shares since 12/30 have all been sub \$1 stocks (CTRM, SNDL, NAKD, BNGO, & ZOM) as retail investors are increasing activity in speculative penny stocks. These same low priced stocks have also been large contributor to the noticeable increase in overall market volumes in 2021 (Charts 3 & Table 4)
- **TSLA:** - has traded 3x the notional of 2<sup>nd</sup> nearest stock by UBS RMM Clients since 12/30 with over \$6 billion of UBS RMM Client turnover in TSLA since 12/30 and only -\$32m of net outflows. The large notional traded + small net outflows in TSLA are indications of large two sided/day trading like activity in TSLA by retail investors. (Table 4)
- **ETF's** – nearly +\$1.5b of inflows since 12/30 with increased activity Ark Funds (with ARKK & ARKG both in Top 3 for most bought stocks across all of UBS RMM Client flow since 12/30) and increased activity in the alternative energy space (ICLN).



Source: UBS Data Solutions

# CONFERENCE CALLS

## COMING UP

	Date	Sector	Time (EDT)	Company/Topic	UBS Host	Link to RSVP
NEW	15-Jan	Aerospace, Defense & Airlines	10:00 AM	Expert Call: How Have Aircraft Fleet Planners Navigated The Pandemic Thus Far And What Do They Do From Here?	Myles Walton, Jarrod Castle, Celine Fornaro	<a href="#">PLEASE REGISTER HERE</a>
	15-Jan	TMT	10:30 AM	Software VC Day Recap Call	Karl Keirstead	<a href="#">PLEASE REGISTER HERE</a>
	15-Jan	Retail & TMT	11:00 AM	UBS Expert Call: Consumer Electronics Retail Trends into 2021 & Beyond	Michael Lasser, David Vogt	<a href="#">PLEASE REGISTER HERE</a>
NEW	15-Jan	Utilities	11:00 AM	Advanced Reactors w/ Former NRC Commissioner Jeff Merrifield	Dan Ford	<a href="#">PLEASE REGISTER HERE</a>
	15-Jan	Industrials	11:00 AM	UBS Conference Call: Housing Intentions Survey	Nishu Sood	<a href="#">PLEASE REGISTER HERE</a>
NEW	15-Jan	Industrials & Materials	12:00 PM	UBS Industrials & Materials Sentiment Call: Looking at the Laggards	Kelsey Perselay, Allyson Gordon, Myles Walton, Tom Wadewitz, Steve Fisher, Markus Mittermaier, Damian Karas, Chris Snyder, John Roberts, Andreas Bokkenheuser	<a href="#">PLEASE REGISTER HERE</a>
NEW	19-Jan	Consumer	9:00 AM	Expert Call: Mid-Atlantic Beer Distributor – Latest US Supply/Demand Insights	Sean King, Nik Oliver	<a href="#">PLEASE REGISTER HERE</a>
NEW	19-Jan	Healthcare	10:00 AM	Expert Event: Neuromod Expert Call Focused on NANS Data and Feedback	Matt Taylor	<a href="#">PLEASE REGISTER HERE</a>
NEW	19-Jan	Healthcare	11:00 AM	UBS Healthcare TEAM Sentiment Call Tuesday	Dan Brennan, Colin Bristow, Kevin Caliendo, Navin Jacob, Whit Mayo, Esther Rajavelu, Matt Taylor	<a href="#">PLEASE REGISTER HERE</a>
	20-Jan	ESG	10:30 AM	Grid Natural Gas Cost w/ RMI	Aniket Shah	<a href="#">PLEASE REGISTER HERE</a>
	22-Jan	Renewables	11:00 AM	Electrifying medium & heavy duty vehicles w/ Lion	Jon Windham	<a href="#">PLEASE REGISTER HERE</a>

## REPLAYS

	Date	Sector	Time (EDT)	Company/Topic	UBS Host	Replay	Replay Code
NEW	12-Jan	Industrials	11:00 AM	Corporate Access: KEYS Teach In	Chris Snyder	US: 1 888 286.8010 Int'l: +1 617 801.6888	60173277
NEW	12-Jan	TMT	1:00 PM	UBS Expert Call: Key Trends in U.S. TV Advertising with Andy Donchin	John Hodulik	<a href="#">Click to Request Replay</a>	
NEW	11-Jan	Consumer	9:00 AM	UBS MGM – Entain: IAC's Involvement & Impact on the Proposed Acquisition	Robin Farley, Eric Sheridan, Jarrod Castle, Richard Payman	<a href="#">Click to Request Replay</a>	
	8-Jan	Healthcare	11:00 AM	UBS Expert Call – Update on SARS-CoV-2 Virus & Immunity	Navin Jacob, Michael Leuchten, Dan Brennan, Laura Sutcliffe	US: 1 888 286.8010 Int'l: +1 617 801.6888	98863006
	8-Jan	Industrials	12:00 PM	UBS Industrials / Materials Sentiment Call: Top Debates of 2021	Kelsey Perselay, Allyson Gordon, Myles Walton, Tom Wadewitz, Steve Fisher, Markus Mittermaier, Damian Karas, Chris Snyder, John Roberts, Andreas Bokkenheuser	US: 1 888 286.8010 Int'l: +1 617 801.6888	83677316
	8-Jan	Healthcare	1:00 PM	Expert Event: Lab Industry Testing Volumes and Dynamics with XIFIN	Kevin Caliendo, Dan Brennan, Matt Taylor, Whit Mayo	US: 1 888 286.8010 Int'l: +1 617 801.6888	17914150
	8-Jan	Consumer	11:00 AM	UBS Consumer Discretionary Sentiment / Positioning Call: 2021 Kick Off!	Nick Smith, Dennis Geiger, Jay Sole, Michael Lasser, Mark Paski	US: 1 888 286.8010 Int'l: +1 617 801.6888	44459606
	8-Jan	TMT	8:00 AM	MU EPS Feedback Call	Tim Arcuri, Andrew Rocha	US: 1 888 286.8010 Int'l: +1 617 801.6888	92576837
	8-Jan	Consumer	10:00 AM	UBS Expert Event: Powersports Dealers Conference Call	Robin Farley	<a href="#">Click to Request Replay</a>	
	8-Jan	Healthcare	10:00 AM	UBS Expert Call: Insights into the utilization of lab diagnostics in Europe	Michael Leuchten, Dan Brennan, Matt Taylor	US Dial-in: 617-213-4164 UK Dial-in: 0207 136 9233	34097572

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**Sentiment:** A bit of a twist this week, some reversal in 1) Fedspeak (less aggressive taper talk), 2) bond trends (rates down, auctions well bid), 3) near-term sentiment (skittishness into results – the right call), and 4) stock action (the one-way train hit pause today).....**At the end of the day – JPM results were solid (beat/raised NII guide), the eco/macro backdrop remains supportive (recovery/its not like the Fed extended QE duration or anything) and stimulus is still on the come.....so some sell-the-news on the back of this run is not a shock, nor is it a game-changer.** As for WFC/Citi/broader laterals for the rest of the group; WFC one-off/terribly messaged, I don't think an NII proxy for peers. Citi only real guided down on fee revs, which I do think we need to be prepared to see at peers (trading, mortgage, etc). But buybacks are coming back – and why care so much about 'FY21', inclusive of continued 1H growth pressures – as opposed to the trajectory of upside trends...(ie no change here...).

## WHAT HAPPENED THIS WEEK

- **JPM beat/raised NII guidance** (\$55.5B from prior \$54B), inclusive of still muted near-term loan growth. Bears more focused on expense guidance (raised to \$68B+), expense commentary ('would love to spend more), valuation (2x+ TBV), but I think more an excuse to talk down results in search of a better entry point on the long side...Some interesting snippets off the conference call – capital, forbearance cliff, Fintech competition
- **WFC dominated discussion** today with actually more debate around the expense outlook (the \$8B gross/3.7B FY21/\$1B net/trajectory) than the dismal NII guidance. Buyback and rate leverage still intact, but the dream arguably a bit muddled; still have the upside from an asset cap lift, but what is the downside on expenses?
- **Citi also in focus**, with downside to revenue guidance (fees) and expenses (+2-3% vs consensus +1.5%) weighing on the stock/forward estimate revisions. The bears are pretty loud here – but I'm not sure why fee revenue headwinds are such a surprise....that said, sounded noncommittal on buyback commentary, not a whole lot from incoming CEO Fraser just yet and a few outlier credit hiccups of note
- **AFRM IPO off with a BANG**, to say the least – followed by a broader selloff across Payments/Fintech yesterday (technical/unwind?). Super active weak: **AFRM vs PYPL/SQ**: BNPL penetration upside + rev growth edge vs where is the 'risk-adjusted' as we think about valuation? (given differences in credit/funding/regulatory/product specific exposures). Better said: in five years, where will BNPL/Affirm be (TBD) vs where will SQ/PYPL be (...given size of user base, product suite, activity levels à leveraging their own network effect in preparing for the future)....ie added LTM user growth in the 10s of millions, exponentially higher client engagement, growing functionality/accelerated flywheel effect.....What above V/MA? not cheap, well-owned, lack some of the 'new-age' tech exuberance but also over-levered to the future/reopening/post-pandemic return to normalcy cycle. **Bulls will argue**; of all this modern payments technology, V/MA still not being disintermediated. **Bears will argue**; less effectively leveraging their own network effects.
- Top 5 Performers – **BHF, ALLY, SIVB, UNM, IVZ**,
- Bottom 5 Performers – **MA, MSCI, FISV, GPN, SPGI**

## NEXT WEEK'S CATALYSTS

- Bank Earnings – with all eyes on **BAC** Tuesday (NII guidance, buyback resumption, expense guide reiteration), **GS** Tuesday (strategic update, buyback resumption), **STT** Tuesday (NII guidance....servicing fee discussion/outlook), **MS** Wednesday (guidance, ETFC integration update, go forward disclosure plans), **BK** Wednesday (NII update/outlook), **DFS** Wednesday/call Thursday (growth trends, NIM/NII trajectory, expense outlook), **SBNY** (NII growth resumption, credit update), **TRV** Thursday (margin outlook, top-line trends), **ALLY** Friday (NIM expansion, growth outlook, expense trajectory) and the rest of the rest of the Super-Regionals: **CMA, CFG, USB, MTB, KEY, FITB, RF, HBAN** (NII/growth outlook, capital return plans, fee income headwinds)

## COLOR FROM THE UBS DESKS

## Derivatives

- **From The Desk** – Better to buy turned better for sale into the back-half of the week as investors pared back into results. As for today, better for sale into weakness, but activity relatively limited
- **Derivs** – Activity heavier on the long side, upside exposure being bought, rolled forward/higher, though not one-sided

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## Most Read Articles of the Week

1. [European Banks "Bank Merger Model"](#) – Jason Napier, Daniele Brupbacher, Ignacio Cerezo
2. [European Banks "Bank and Aggregated Financials"](#) – Jason Napier, Daniele Brupbacher, Ignacio Cerezo



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**Sentiment:** Really tough week for TMT that saw a large unwind/de-gross spurred by a rotation into value/reflation trade, which caused a massive short squeeze in cons shorts like GME, T, VZ and the media sector. Then the long side of the trade was impacted, with popular longs like cable, TMUS, SNAP, PINS and more underperforming. **There was real pain this week** and it's unclear when the volatility will end. Some of these moves higher are really starting to challenge valuation but it doesn't seem to matter right now. **This isn't a fundamentals driven market.** Earnings start next week and investors expect strong prints from most of TMT but the question is forward guidance.

WHAT HAPPENED THIS WEEK	NEXT WEEK'S CATALYSTS
<ul style="list-style-type: none"> <li><b>DIGITAL ADV:</b> Channel checks show continued acceleration in digital ad spend in 4Q vs. 3Q, with forecasts at-or-above pre-COVID estimates. Oct/Nov growth rates strong y/y but Dec spend showed softness. Pecking order FB, GOOG, PINS, SNAP, TWTR. (<a href="#">link</a>)</li> <li><b>WISH:</b> Initiating w/Buy rating and \$28pt -- &gt;WISH is executing against a large global HH TAM of \$780m with several secular tailwinds and solid It opps. (<a href="#">link</a>)</li> <li><b>IAC/ANGI:</b> Dec saw acceleration in Vimeo rev (+57% y/y in Dec vs +54% in Nov) and 200bps decel m/m on both ANGI rev and SR was better than expected. (<a href="#">link</a>)</li> <li><b>AMZN/CMCSA:</b> AMZN plans to bid for Serie A TV rights in Italy which are held by Sky/CMCSA. Serie A wants \$4.2b for 3 seasons (EUR1.15/season). Sky currently pays ~EUR780m/yr for exclusive rights to 7 of 10 weekly matches. Sky will have to pay more to keep these. (<a href="#">link</a>)</li> <li><b>EA/UBI:</b> UBI confirmed that a new Star Wars franchise deal with Lucasfilm Games (EA had prior rights). (<a href="#">link</a>)</li> <li><b>AMT:</b> Paying \$9.4b in cash to buy 31k towers from Tele fonica, ~25.4x EBITDA and ~27x 2021E AFFO. Deal should be accretive immediately to AFFO/sh (UBSe ~1%) and drive organic rev growth of ~6% through '25. (<a href="#">link</a>)</li> <li><b>TV ADV:</b> The TV ad market has been resilient and there has not been a pullback in spend due to recent worsening virus trends. Total TV ad spend improved from -25% in 2Q to -8% in 3Q to down 2-3% in 4Q and can grow +MSD y/y in 2021 y/y but DOWN MSD vs 2019. (<a href="#">link</a>)</li> <li><b>TELCO/MEDIA/CABLE:</b> S&amp;P credit call suggests base case C-Band spectrum spend is similar to UBS estimates w/T having little flexibility (\$20b spend puts it near d/g threshold). CMCSA to focus on getting back to historical leverage levels (potential for buybacks in '22), media to have LT challenges, and no near-term changes to the LUMN divi. See below for full details. (<a href="#">link</a>)</li> <li><b>CHTR:</b> A/N filings suggest that CHTR repurchased ~\$2b in December for a total of ~4.9b in 4Q20. This is MORE than UBSe \$3.1b. ~\$13b of repurchases for FY20. (<a href="#">link</a>)</li> </ul>	<ul style="list-style-type: none"> <li><b>1/19 @6PM NFLX 4Q EPS:</b> While NFLX has u/p the market (-35% vs SPX +3% since July), Sheridan remains on the sidelines as he doesn't have line of sight to get more constructive given mixed data points -- &gt;price increases show pricing power BUT weaker trends in many sub metrics tracked (strong Oct/Nov but slowdown in Dec). 4Q net adds raised to 6.5 vs cons 6m/bogey ~6m, 1Q lowered to 6.1m vs cons 7.5m/bogey 7m Sheridan would like to see how subs track vs tough comps, whether price increases impact gross adds/churn, and how the global competitive environment plays out. Remain Neutral but raise pt to \$540 from \$500. See below for more: <a href="https://bit.ly/3qkjKir">https://bit.ly/3qkjKir</a> <ul style="list-style-type: none"> <li><b>SENTIMENT</b> Very mixed on NFLX...it has been a funding short for many HFs over the past month or so against a Long DIS or Long SPOT and expectations have been fairly low due to stock price and tough 1H comps. But starting to see some covering in the unwind this week.</li> </ul> </li> </ul>
COLOR FROM THE UBS DESKS	
Derivatives	Most Read Articles of the Week
<ul style="list-style-type: none"> <li>The desk saw protection buying in BABA ahead of potential ban but vols have cratered w/skew collapsing. Multiple put buyers for short replacement of VIAC / DISCA as people get squeezed. (<a href="#">Back to Top</a>)</li> </ul>	<ol style="list-style-type: none"> <li><a href="#">DoorDash Inc: With Valuation Having DASH'd, We Wait To Order – Initiate at Neutral</a> – Eric J. Sheridan, Benjamin Miller, Alex Vegliante</li> </ol>

Andrew Rocha 212.713.9011 [andrew.rocha@ubs.com](mailto:andrew.rocha@ubs.com)

**Sentiment:** This week was eventful. The 2020 trend of info overload and constant Tech news flow has carried over into 2021 for sure as we've seen several conferences, pos-pre's, CEO turn-over, issuance across the capital structure, and choppy markets. From my convo's, the tape feels very strange. Aside from Semis which were bid up on the back of TSMC, everything else this week felt unwindy and a bit systematic. SPX, NDQ, IGV, and our SaaS and MegaCap Tech baskets all traded in tight ranges and Tech overall saw outflows vs other sectors. I am concerned about what we're seeing transpire re: stocks moving MSD/HSD on no news, IPO-mania to put it lightly, dare I mention SPACs, pink sheet names accounting for 20% of daily volume, record amount of call options trading, very low put/call ratios, and let's not forget stretched valuations across all of Tech. Stepping back a bit, I think we have some runway over the NT with the Fed pumping the breaks on taper talk, but putting this all together, to me, it feels like this is going to end in fireworks.

WHAT HAPPENED THIS WEEK	NEXT WEEK'S CATALYSTS
<ul style="list-style-type: none"> <li>• <b>ZS Investor Day:</b> Spoke to a hidden 6x install base ARR oppy from ARPU uplift + a serviceable user base that's 6% penetrated. ZS also id'd a new \$23B spend pool for ZCP, which gives ZS exposure into the growing infrastructure/workload protection arena. <a href="#">Link</a></li> <li>• <b>MU CFO Call:</b> Tim hosted a meeting with CFO Dave Zinsner where he reinforced themes from the call last week and pointed to improving FCF metrics.</li> <li>• <b>SaaS Issuance:</b> CRWD, DOCU and ZM all tap public markets. CRWD issued \$750M in junk bonds, DOCU issued a \$600M convert and entered into a \$500M revolver, and ZM did a secondary and raised \$1.75B</li> <li>• <b>Pat Gelsinger CEO Swap:</b> INTC announced that current VMW CEO Pat Gelsinger will take over as CEO of INTC as of Feb 15<sup>th</sup>. The also announced that Q4 EPS would come in above the high-end of the guidance range. VMW subsequently announced that CFO Zane Rowe would step in as Interim CEO.</li> <li>• <b>UBS VC Day:</b> 4 trends: (1) most mentioned was workflow automation w/ UiPath, Automation Anywhere, Celonis, IronClad + Icertis most flagged, (2) data and analytics via ML/AI where SNOW, DataRobot, Confluent, Amplitude, Segment, Cohesity, + CockroachDB cited, (3) Low/no-code dev w/ Unqork + Webflow, + (4) next-gen collab products, cyber, shift to digital channels, + dev tools. <a href="#">Link</a></li> <li>• <b>TSMC EPS:</b> TSMC blew it out of the water on the print and guide. Importantly, they guided 2021 capex to \$25-28B vs the Street's \$19B, UBSe's \$21B and Local Press talking about \$22B, and vs 2020's \$17B – with 80% of spending going towards 7nm, 5nm, and 3nm. That's +56% y/y growth in capex – massive – and the read is obviously that the number includes contribution from INTC outsourcing in some capacity.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Expert Call on How IT Spend Priorities are Changing in '21 for a Global Bank (1/19):</b> Diviya is hosting a call at 9am ET on How IT Spend Priorities are Changing in '21 for a Global Bank with Rob Perry, Global Head of Technology Advisory &amp; Business Partnerships at UBS – <a href="#">Register</a></li> <li>• <b>UBS APAC Semis/HW Analyst Calls (1/19-20):</b> Alice Chen and Sunny Lin are hosting calls with US investors.</li> <li>• <b>ASML EPS (1/20):</b> Mulholland notes that 80% of TSMC's capex for '21 and expects will be spent on advanced nodes which will require higher litho intensity and is a clear positive for ASML. He thinks the €5.4B guide for EUV sales is overly conservative as it doesn't include any INTC outsourcing, an increased pace of investment from TSMC as it prepares to ramp N3 in H2, nor anything for Samsung starting litho investment towards its 3nm GAA process in '21 which he believes will happen. He's modeling 46 EUV machines, and given the long lead times thinks there is limited upside to '21 EUV units as more of the capex could be infrastructure-related vs equipment although he notes immersion demand could surprise more strongly. <a href="#">Link</a></li> <li>• <b>CTXS EPS (1/21):</b> Investors have been talking about burst capacity licenses renewals, and a potential concerted move by CTXS to get customers to renew early with discounts being given.</li> <li>• <b>INTC EPS (1/21):</b> Now with the enormous TSMC capex number for 2021 and the announcement that Pat Gelsinger is taking over the CEO role, from my convo's with investors, INTC has overnight become a 'story stock'. Numbers for this year don't matter anymore, it's now all about 2022 and 2023 and progress on 7nm. There is still debate on the exact level of outsourcing, but given TSMC overnight I think the pendulum has swung a bit more towards outsourcing.</li> </ul>

#### COLOR FROM THE UBS DESKS

Derivatives	Most Read Articles of the Week
<ul style="list-style-type: none"> <li>• <b>NXPI</b> sold 7k Jun 180 C's at 16.15 vs 176.10 stock, neutral <a href="#">(Back to Top)</a></li> </ul>	<ol style="list-style-type: none"> <li>1. <a href="#">Memory Semis: DRAM upcycle firing up</a> – Nicolas Gaudois, Timothy Arcuri, Kenji Yasui</li> <li>2. <a href="#">Microsoft Corp.: Impact of the SolarWinds Attack</a> – Karl Keirstead, Fatima Boolani</li> </ol>

## HEALTHCARE

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**Sentiment:** The big question in Medtools going is was if COVID testing beats would get faded, and if Medtech utilization misses would get bought. The answer, generally speaking, was no. The COVID beats were better than expected, but so were the base businesses, for Tools / Dx companies, while for Medtech names, the misses were a bit worse than expected. In Therapeutics, while we didn't get that big M&A deal that often comes this week, we did at least get some exciting Alzheimer's data from Lilly. Managed Care enthusiasm is waning as we're back to this FOMO market, and it feels like that's not the Value that value investors want.

WHAT HAPPENED THIS WEEK	NEXT WEEK'S CATALYSTS
<ul style="list-style-type: none"> <li>• <b>LLY / BIIB / IBB</b> So you're telling me there's a chance?! Here we go.. BIIB seemed like a head fake. What about this? Can they file on the solid phase 2 data in March? What's peak sales?</li> <li>• <b>ILMN</b> 4Q print was better than expected, but the 2021 guide was worse, and there were some hopes of a new high-end sequencer product launch.</li> <li>• <b>DXCM</b> grew 23% in 4Q but that was not enough to hit the buy-side "bogey". Debate will continue on pricing/channel shifts.</li> <li>• <b>BSX</b> Boston Scientific closed down ~3% on Tuesday after preannouncing 4Q organic rev down 8.0%, inclusive of a 370bp basis point impact associated with the conversion to next gen WATCHMAN (down 4.3% ex that) vs Street -0.4%. Stock has behaved better since.</li> <li>• <b>JNJ</b> Vaccine full phase ½ data were published in the New England Journal of Medicine Wednesday and results were better than previous data- Navin Jacob and Kevin Caliendo estimate that the single dose vaccine efficacy could be 65-75%.</li> <li>• <b>CVS / WBA vaccine</b> CVS sounded proud and confident on the vaccine rollout (700k vaccinations so far in 40k LTC facilities). They discussed the capacity to crank out 20-25m doses / month when they get to the retail phase. On the flip side, WBA have a much more tepid answer on vaccine capacity</li> </ul>	<ul style="list-style-type: none"> <li>• <b>NVRO / MDT / Medtech (1/15-1/16) NANS</b> (North American Neuromodulation Society Virtual Meeting). <ul style="list-style-type: none"> <li>○ <b>NVRO / MDT / Medtech (1/19)</b> Matt Taylor hosting expert call on Tuesday to go over the conference</li> </ul> </li> <li>• <b>Healthcare (1/19)</b> On Tuesday @ 11am ET join the UBS US HC Team for another SENTIMENT call featuring Paul Sperber from HC Trading and Yours Truly – we will discuss the most important takeaways and client feedback from this week's conference</li> <li>• <b>JNJ</b> Full phase 3 data any day now for the single shot, non-cold storage required COVID vaccine. Efficacy expectations are creeping up based on the full phase ½ data as well as the tea leaves from Operation Warp Speed.</li> </ul>
COLOR FROM THE UBS DESKS	
Derivatives	Most Read Articles of the Week
<ul style="list-style-type: none"> <li>• <b>RPRX...</b> 4k Jul 45 puts bot in the market vs selling 4k Apr 65 call, paid 4.10</li> <li>• <b>JNJ</b> jan160-mar165 c/s sold 6700x 2.70</li> <li>• <b>NKTR</b> feb22c sold 2000x .60</li> </ul> <p><a href="#">(Back to Top)</a></p>	<ol style="list-style-type: none"> <li>1. <a href="#">JD Health International: Can China's online pharmacy leader extend across a growing online healthcare industry?</a> – Yawen Tan</li> <li>2. <a href="#">DexCom Inc: Room for Multiple Winners; Growth Algorithm Intact; Upgrading to Buy</a> – Matthew Taylor, Young Li, Michael Sarcone</li> <li>3. <a href="#">Nanobiotix SA: Novel radio-enhancer with blockbuster potential – Initiate at BUY</a> – Navin Jacob, Jonathan Lim, Sriker Nadipuram</li> </ol>

## INDUSTRIALS

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**Sentiment:** On the thematic side, the EV/ESG theme has perhaps maintained the greatest positive momentum as it seems like every day another major company announces an EV partnership. GM was the posterchild after its constructive presentation at CES, with the stock up ~20% on the week and investors chasing it higher. We have continued to see a relentless bid for names within this broader framework though concerns are mounting regarding how crowded the trade is getting and will some of the froth come out. Some other themes were a little choppy this week - Infrastructure is a good example of this, with UBS Infra basket having its 2<sup>nd</sup> worst day since the election on Wednesday as investors have looked to lock in some gains post the run up.

WHAT HAPPENED THIS WEEK	NEXT WEEK'S CATALYSTS
<ul style="list-style-type: none"> <li><b>US Paper and Packaging Sector</b> Launch: Pecking order - <b>Buy Rated WRK</b>; <b>Neutral Rated GPK</b> and <b>Sell Rated PKG and IP</b></li> <li><b>WRK</b> – (Buy, PT \$59): <a href="#">Starting to Bear Fruit; Initiate with a Buy as ROIC upside and leverage reduction will drive rerating</a> <a href="#">Read the Report</a></li> <li><b>GPK</b> – (Neutral, PT \$18): <a href="#">Still early to price in longer-term opportunities; Initiate Neutral</a> Consumer business likely remains steady; sustainability theme still developing <a href="#">Read the Report</a></li> <li><b>PKG</b> – (Sell, PT \$112): <a href="#">Where To From the Top? Initiate with Sell Rating</a> <a href="#">Read the Report</a></li> <li><b>IP</b> (Sell, PT \$40): <a href="#">Capacity Additions Restrict Pricing Upside; Initiate with Sell Rating</a> <a href="#">Read the Report</a></li> <li><b>US A&amp;D/ Airlines</b> - Like HII, RTX and B into the Q - Think 4Q results will lend themselves to favor aftermarket vs. OEM with RTX, TDG and B preferred. BA will likely have the messiest of 4Qs with ~\$6B in FCF burn and a likely forward loss on the 787, but see the print as an important clearing event with deliveries accelerating sequentially through the end of the year. <a href="#">Read the Report</a></li> <li><b>EEMI UPGRADE TO BUY: IR</b> (self help stock and margins not priced in) and <b>EMR</b> (growth inflection driven by better capex and IP not priced in) to <b>BUY ratings...</b> In my conversations over the past month, it seems like these two names in particular have elicited increasing interest from the buy-side given longer cycle nature &amp; upside if capex rebounds this year.</li> <li><b>US EEMI</b> - Capex growth &amp; IP recovery drive our outlook for a 'post-Covid-19' recovery in 2021 and beyond <a href="#">Read the Report</a></li> <li><b>SWK</b> (Buy, PT\$227, prev \$194) - Re-iterating Buy rating &amp; increasing PT to \$227 as we enter a catalyst rich year <a href="#">Read the Report</a></li> <li><b>GE</b> (Buy, PT\$14, prev \$12) - GE remains a top pick in 2021 <a href="#">Read the Report</a></li> <li><b>ETN</b> (Buy, PT\$142, prev \$127) - Drivers into 2021 following the hydraulics sale. Reiterate Buy &amp; increase PT to \$142 <a href="#">Read the Report</a></li> </ul>	<ul style="list-style-type: none"> <li><b>JBHT Q4 (1/19):</b> Investor sentiment is favorable toward JBHT, as investors have looked to play the TL derivative and have flocked to the name. That said, the stock has moved up and earnings expectations for 4Q are not high, so it is a weird set up. At current price, the question is if valuation will be decoupled from TL, in a best case scenario vs not being the case</li> <li><b>CONFERENCE CALL: China Infrastructure Update with Robin Xu (1/19 @8AM)</b> <a href="#">REGISTER HERE</a></li> <li><b>ZOOM LUNCH (1/19):</b> Myles Walton Earnings Preview Lunch @12PM. Let me know if you are interested</li> <li><b>FAST Q4 (1/20):</b> I still think there is a contingency of investors that are long GWW, short FAST, though not to the same extent as in the fall of 2020. LOs are looking at FAST so we are also seeing some HFs hop aboard that train. LOs think they can buy a good company, great mgmt while it is out of favor – view is that share gains will pick up post COVID.</li> <li><b>UAL Q4 (1/20):</b> Not a material focus here. Similar to the rest of the group, investors are looking for an update on liquidity and any potential needs, as well as how they look to react to the modestly improved operating environment.</li> <li><b>ZOOM LUNCH (1/20):</b> John Roberts Earnings Preview Lunch @12PM. Let me know if you are interested.</li> <li><b>ZOOM LUNCH (1/20):</b> Steve Fisher Earnings Preview Lunch @1PM. Let me know if you are interested</li> <li><b>CONFERENCE CALL: An Update from IATA with Brian Pearce (1/20 @10AM EST)</b></li> <li><b>UNP Q4 (1/21):</b> Company already reported prelim revenue and expense results, which were better than expectations and cons numbers, so the surprise factor has really been taken out of the report.</li> <li><b>CSX Q4 (1/21):</b> Investors have mixed feelings here, and doesn't feel well owned.</li> <li><b>PPG Q4 (1/21):</b> Investors have viewed PPG favorably, though many have played SHW&gt;PPG. For the quarter, UBSe 4Q EPS of \$1.58 in line with cons, as guide is for \$1.50-\$1.57.</li> <li><b>KSU Q4 (1/22):</b> Remains favored US rail.</li> </ul>

### COLOR FROM THE UBS DESKS

Derivatives	Most Read Articles of the Week
<ul style="list-style-type: none"> <li>Quiet week with no theme emerging in the options space <a href="#">(Back to Top)</a></li> </ul>	<ol style="list-style-type: none"> <li><a href="#">U.S. Transportation: 2021 Transports Outlook: Still Room Left for the Freight Cycle &amp; Transport Stocks</a> – Thomas Wadewitz, Alex Johnson, Michael Triano</li> </ol>



Cat Gordon 212.713.9836 [catherine.gordon@ubs.com](mailto:catherine.gordon@ubs.com)

**Sentiment:** Energy outperformed the broader markets again this week with the sector up 14% YTD. **Sentiment remains strong to the upside and it doesn't appear that anyone is willing to call the top anytime soon with momentum this strong. Inbound interest from generalists only continues to increase as positioning still remains off sides/underweight.** Also worth noting that Energy remains still ~10% below its June highs after COVID started despite the recent rally + outlook much better now at the commodity level. Also interesting to note, momentum indices starting to see composition change – the combination of Energy/Financials/Materials are now a bigger component than Tech on the long side of the momentum index (Energy used to be ~20% of the short book). **Activity across broader Energy on our desk has been mixed, but generally constructive. We have continued to see signs of LO investors adding incremental weight to already favored quality E&Ps and some rotational activity in Majors and supply has largely dried up.** Meanwhile, we have not seen as much outright short supply into strength YTD, if anything shorts have remained as pairs with L/S players continuing to favor leverage names. And notably, our retail desk saw net inflows into Energy this week – the first week since the rally began in Nov. We have continued to see upside activity off our derivs desk, with investors mostly rolling calls and selling puts in **XLE** and **XOM**. Also to note, our HY Credit Team has noted that Energy credit remains extremely bid with new issue space very much open/new deals announced almost daily (mostly to refi debt.)

## WHAT HAPPENED THIS WEEK

**UBS WINTER ENERGY & INFRASTRUCTURE 1x1 VIRTUAL CONFERENCE – HIGH-LEVEL TAKEAWAYS:**

- **MIDSTREAM/MLPs:** 1) capex creep in '21 unlikely, 2) mgmt teams increasingly open to buybacks, 3) balance sheets remain a focus, and 4) NGLs/propane strength very topical – those with exposure suggested upside to earnings potential. On corporate sentiment, mgmt teams sounded very encouraged with an upbeat tone, but hard not to be given where commodity prices are trading and how stocks have been acting lately. But I'd say overall mgmt teams sounded conservative / cautious about setting the bar too high in terms of messaging. **For more specific takeaways, see Team Gershuni's full note: [here](#).**
- **UTILITIES:** no real change in investor sentiment, hard for anyone to argue that plenty of stocks screen cheap, it's just a matter of who will get out of their own way - **SRE** provided a path (not to mention remains way undervalued, especially with LNG breaking out) and then **SO** took a hit with the covid delay around HFT, but it was a good meeting and I'd say they also gave a path and we saw LOs buying the weakness on our desk.
- **TOP 20 1x1 REQUESTS (in order):** D, AEP, NEE, OKE, SO, ETR, EPD, PAA, PCG, ES, WES, DCP, CMS, WEC, LNG, TRGP, ES, NS, OGE, NI

**OTHER STOCK-SPECIFIC NEWS HIGHLIGHTS:**

- **PCG:** received Wildfire Safety Certificate – removes major overhang for the stock. ([link](#))
- **XOM:** u/p after WSJ article on the SEC investigation ([link](#)). The stock is up 22% YTD (vs CVX +13%) so not a surprise to see some profit taking, but think this is largely noise and investors will use weakness as a buying oppy.
- **CVI** (not covered): CEO sent letter to **DK** denying interest in acquiring the company. CVI's letter also calls for DK to shut down 2 refineries, sell its retail business.

## NEXT WEEK'S CATALYSTS

**4Q'20 EARNINGS:**

- **HAL** (1/19, BMO): UBSe 4Q revs \$3.2bn and EBITDA \$545m broadly in line with consensus. Focus will be on the confidence of the inflection in int'l activity in 2H'21.
- **KMI** (1/20, AMC): interest levels increasing with sentiment not as "blah" anymore. That said, no fireworks expected around earnings – their Analyst Day the following week is the bigger catalyst.
- **BKR** (1/21, BMO): UBSe 4Q revs \$5.4bn and EBITDA \$628m broadly in line with consensus. Focus will be the margin progress on the Turbomachinery & Process Solutions division which has been the source of beats the last few qtrs.
- **SLB** (1/22, BMO): UBSe 4Q revs \$5.3bn and EBITDA \$1.03bn, roughly inline with consensus. Focus will be on the confidence of the inflection in int'l activity in 2H'21.

**UBS UPCOMING EXPERT CALLS:**

- 1/20: **ESG & Energy Expert Series - Natural Gas Cost in the Grid with RMI** @ 10:30am ET ([link to register](#))
- 1/20: **Grid Natural Gas Cost w/ RMI** @ 10:30am ET: <https://bit.ly/34lYTTs>
- 1/22: **Electrifying medium & heavy duty vehicles w/ Lion** @ 11am ET: <https://bit.ly/3s1MpKS>

## COLOR FROM THE UBS DESKS

## Derivatives

- The chase continues as XOP is up another 9.5% in the past 5 sessions. Vols continue to be firm as realized remains high, overwriters have been called away on supply, and stocks are at levels not seen since the brief spike higher last June.

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## Most Read Articles of the Week

1. [Where the Puck is Going: Can a Phoenix Rise From the Ashes?](#) – Shneur Z. Gershuni, Aga Zmigrodzka, Michelle Kenel
2. [European Oil & Gas: 2020 Scorecard and 2021 Outlook: Demand recovery the shot in the arm](#) – Jon Rigby, Amy Wong, Henri Patricot

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**Sentiment:** The talk of the week has **clearly focused on the short covering** that we've seen across broader consumer and TMT. What felt different about yesterday was that longs began to noticeably lag, too. Our PB data (similar to others, we've heard) showed clear signs of gross and net reduction within cons discretionary. We highlight these not for the sake of underscoring the pain of this week, but **rather to see where some reversion may be possible** - if we're closer to the end of this factor shift, than the beginning. While there is clearly some significance to stimulus spend (link to article); and further e-comm data shows signs of strength - the positioning dynamic, retail push, and trade exhaustion should create some opportunities in the near-term. Looking first at our UBXXSHRT Basket, the top performing consumer names yesterday were: BBBY, BYND, DDS, FIZZ, GME, W. Some other noteworthy, squeeze moves this week: BIG, DBI, HOME, MIK, SHAK, SIG, WSM. Meanwhile, a few noteworthy "longs" that have underperformed this week: ARMK, DG/DLTR, CPRI/TPR, CPRT/IAA, HD, LB, LVS, LULU/NKE, MCD, SAM, TJX/ROST/BURL, YUMC.

#### WHAT HAPPENED THIS WEEK

- US Restaurants - Latest Thoughts on COVID-19 Impacts & Risks:** Preference remains on reopen beneficiaries, given EPS upside potential for casual diners (CD) and select QSRs, while stimulus beneficiaries became more topical. Investors recognize QSR multinationals may be out of favor currently, but valuations for several now create more interesting upside opportunities. We weren't expecting the limited amount of disagreement on MCD and RBI as top ideas, as we assumed both cont. to be out of favor. But MCD appears more well liked, while RBI's valuation & catalysts represent a strong '21 setup as investors gradually get more positive.
- MAS (Buy, PT \$71) - Concerns about DIY and input costs are more than priced in:** In this note, we analyze the impact of continued DIY strength and increasing input/copper prices on Masco's earnings. On DIY, we think investors are overly focused on difficult comps and not enough on the potential for remodeling demand to persist after the pandemic; in our recent conversations with management they point out the same. We address the relevance of Lowe's 2021 market outlook for Masco and conclude that it isn't fully applicable to Masco's Deco Arch division.
- Lodging - Hotel Owner Outlook:** We caught up with a hotel owner that has over 70 properties under 20 different brand flags including HLT, MAR, IHG, and H. He expects RevPAR to continue at current levels for the next several months with no improvement. He believes there is a lot of cash on the sidelines looking to buy hotels, so discounts have not turned out to be as wide as he expected they would be. He sees 20% discounts.

#### NEXT WEEK'S CATALYSTS

Last week before the earnings really kick off. Our analysts are continuing to schedule helpful calls.

**NEW: 01/19 @ 09:00:00** - Expert Call: Mid-Atlantic Beer Distributor - Latest US Supply/Demand Insights Hosted by Sean King, Nik Oliver [Please Register Here](#)

Also, save the date for our consumer conference!!

**Tuesday, March 9 – Wednesday, March 10, 2021**  
**Same quality corporates and investors.**  
**Same compelling content.**  
**Your location.**

UBS is delighted to announce the 10<sup>th</sup> annual Global Consumer and Retail Conference, taking place on Tuesday, March 9 – Wednesday, March 10, 2021.

#### COLOR FROM THE UBS DESKS

##### Derivatives

- FL** February 47.5 - 52.5 call spread, our customer here paid \$1.20 for 1575x
- WW** Mar 27.50 puts look bought 5k for up to \$5.20
- TGT** Feb 210 calls were just sold 12k times to open @ \$2.60 = 300k shares for Sale.
- BYND** June 140 - 165 put spread, our customer sold 6500x @ \$18 ... rolling down.
- YND..** another big roll here: customer sold 6500x June 155 puts, sold 12.9k June 150 puts, to buy 18.5k June 140 puts.
- LVS...** 4250 Mar 60 calls bot in the market for 2.12 vs stock, neutral
- BBBY** Jan 26 puts, our customer bot 1k vs 50k shares... flipping short to puts.

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##### Most Read Articles of the Week

1. [US Paper & Packaging: Boxed into a Corner; Initiate with a cautious view](#) – Cleve Rueckert, Cadu Schmidt, Andreas Bokkenheuser
2. [European Consumer Staples "2021 Outlook: More ladders than snakes"](#) – Nik Oliver, Guillaume Delmas, Robert Rampton
3. [EMEA Paper and Packaging: Strong performance, not a clear-cut recovery – downgrade one notch](#) – Mikael Doepel, Cadu Schmidt, Andreas Bokkenheuser

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**Sentiment:** We saw a new deal in **CMD-STE** (and alongside with it, we did a review of precedents and concluded arbs are reasonably good at identifying bump-prone deals – evidenced by initial negative spreads) and a revised bid for **GRA** (from 40 North) but the unexpected fireworks in arb land came from **ACIA-CSCO** as litigation was put to bed in exchange for a new deal at a 64% premium vs the prior deal – and it still comes out at a discount vs **IPHI** – plus the deal is de-risked from regulatory and the only relevant condition appears to be the ACIA vote – thus the spread appears wide. We learned of a lot of other interest for **MTSC** in the proxy. In **INFO-SPGI**, we learned there were exclusive negotiations as expected, and saw no obvious reasons as to why **INFO** did not seek to “reset” the terms after its relative price outperformance after October 5, 2020 **DD** and **IFF** continued their massive moves early in the week but started to see some reversion mid-week. Conversion activity still running approximately in line with precedents, suggesting investors are likely insuring against potential proration, as much as the ability of the spread to withstand arb pressure remains in question. **DELL-VMW** saw some fireworks given the surprise CEO departure from **VMW**. We fielded several questions if it could derail the spin and UBS David Vogt and Karl Kierstead see no changes / impact to the spin process. Also, as much as the stub took a breather, it had been off to the races, especially post the last quarter and the move was barely a blip in the grand scheme of things – it has since rebounded nonetheless. Whit Mayo juiced his PT to \$106 in **EHC** – embeds the Home Health spin into his PT (as a reminder, they exploring strategic alts for home health) and sees remainCo IRF business as cheap. UBS Cleve Rueckert initiated on **IP** with a Sell rating this week – does not see the spin of printing & writing alone as creating value to offset the concerns on the NA containerboard market. Dan Ford continues to push the **SRE** call – which has been left in no-mans land. But, the **INova** tender is the first step to creating a separate infrastructure business and the second step is for a selldown of a non-controlling stake to set a mark. His SOTP puts shares in the \$150-200 range – a lot of room here. **SPACs:** We saw a near-record 25 deals price this week to raise \$7.4bn. All are once again trading above deal price. Expectations and market euphoria continue to go higher in the space. We had 4 De-SPAC transactions announced this week, led by Proterra-ACTC trading up 107% on announcement.

#### CLIENT CONVERSATIONS

- **DD** and **IFF** continued their massive moves early in the week but started to see some reversion mid week. Despite the reversion, **IFF** is only off ~1.3% since last Friday, while **DD** is off ~0.4% (at the time of this writing). The stub has also given back some gains beginning mid week and now sits at ~13.8x EBITDA, still a premium to the weighted average of peers as well as to **MMM**. The spread has compressed to ~3.5%, as the cap remains in place. Conversion activity still running approximately in line with precedents, suggesting investors are likely insuring against potential proration, as much as the ability of the spread to withstand arb pressure remains in question and the ex-hedging cost spread this week appeared relatively wide to reflect this uncertainty, although has narrowed today. We continued field calls from clients on the relative cheapness of **PF IFF** (which we see at ~15x EBITDA, a ~30% discount to their European peer set, essentially double the discount **IFF** traded at just prior to the deal announcement) but did get some pushback this week as well (lower organic growth vs peers, deal execution risk, near term technical, etc) – still most don’t disagree the relative cheapness to peers may overcompensate for some of these concerns.
- **DELL-VMW:** UBS David Vogt and Karl Kierstead see no material changes / impact to the spin process on the back of the **VMW** CEO departure. Pat Gelsinger will remain on the Board (hence this is amicable – at the end of the day, he took his dream job). Any CEO candidate will be acutely aware of the plans on the spin. Michael Dell is Chairman of **VMW** and will be critical in the new CEO decision. Also, as much as the stub took a breather, it had been off to the races, especially post the last quarter and the move around the news was barely a blip in the grand scheme of things – it has since rebounded nonetheless (thus the market appears to agree there is no material issue).
- **ACIA-CSCO:** The merger agreement appears to have been de-risked (from the perspective of **ACIA**) to an extent we do not recall seeing previously. In effect, the only relevant condition appears to be the **ACIA** shareholder vote. We are using a March 15, 2021 closing date. Also, as litigation was put to bed in exchange for a new deal at a 64% premium vs the prior deal, it still comes out at a discount vs **IPHI** – with the de-risked deal with maybe some option value, the spread seems wide in light of the merger agreement characteristics.
- **SPACs:** We saw a near-record 25 deals price this week to raise \$7.4bn. All are once again trading above deal price. \$14.2bn of issuance in the first 2 weeks already exceeds the entirety of new issuance from 2019. While the IPO backlog shrank a bit this week, we still have 62 deals on file seeking to raise \$15.8bn (even before the Friday night rush to file new S-1s). Our market monitor now has 255 SPACs who raised a collective \$83.6bn of IPO proceeds. Expectations and market euphoria continue to go higher in the space, with the median spread to cash in trust at (5.4%), another all-time tight level. We had 4 De-SPAC transactions announced this week, led by Proterra-ACTC trading up 107% on announcement. We also had some very +ve P&L events on news headlines, namely that **Lucid Motors** was looking to come public through **CCIV** – delivering a 114% return to IPO investors before we even have a definitive agreement! We also saw positive reactions to headlines that **Tilman Fertitta** is in talks to bring his **Casino & Casual Diner** business public through **FST**.
- **2020 M&A Review:** State of U.S. M&A - 2020 Review - A Year of Extremes: US M&A activity dropped precipitously in 1H20 due to COVID-19 uncertainty, improved in 3Q20, and surged in 4Q20. 2H20 was the seventh strongest, while 4Q20 was the sixth strongest since 1998. The 2H20 recovery was in sharp contrast to 1H20, which marked the second worst by deal count and the fifth worst by deal value since 1998. Let us know if you would like to see the full presentation.

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