

# US Equity Strategy Presentation

## *To buy or not to buy?*

## *Bottom vs bear signs, what to own/avoid*

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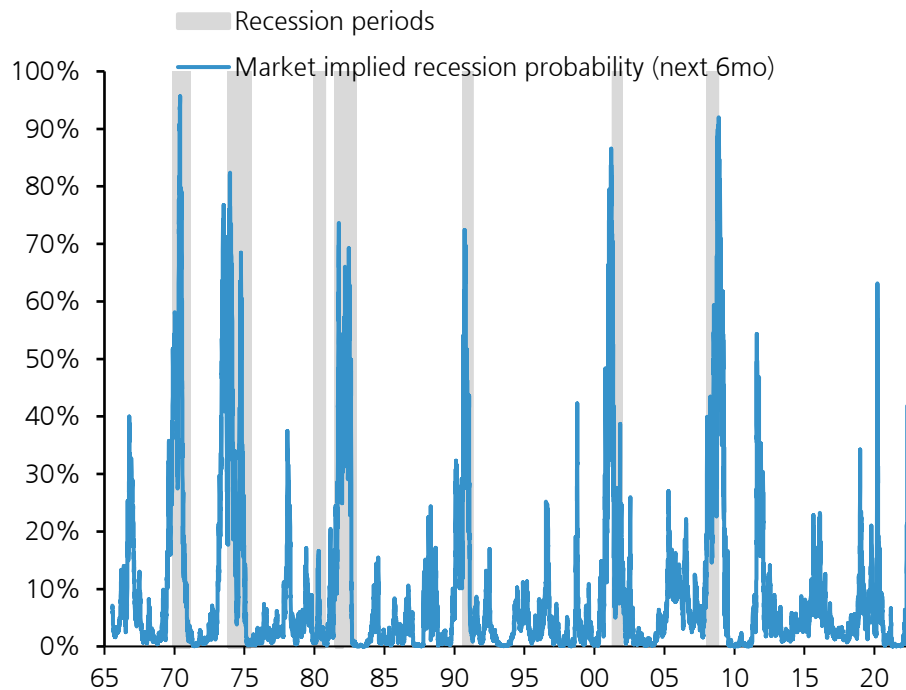
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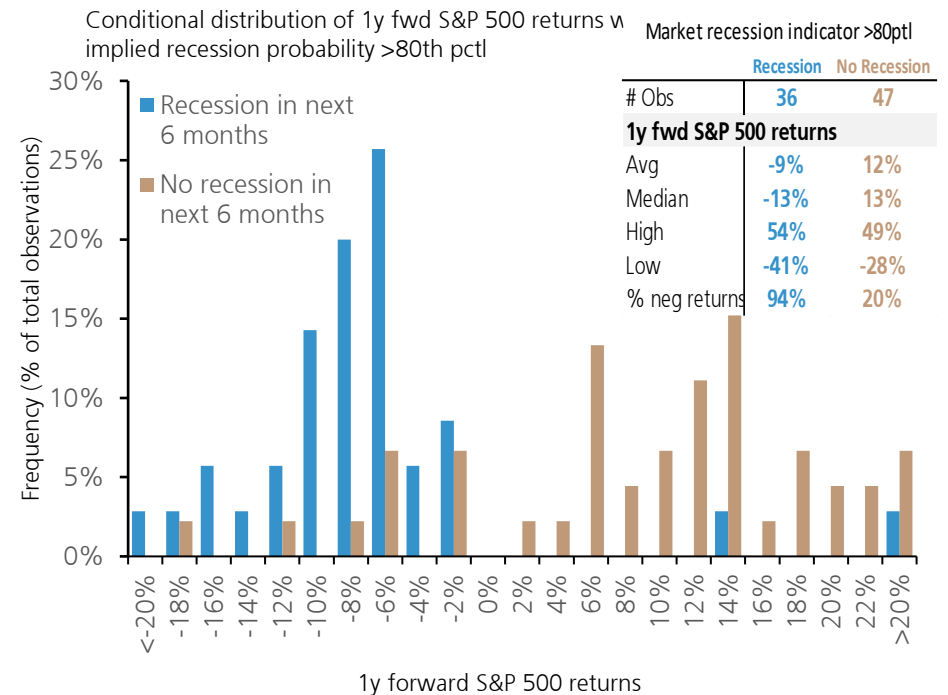
# Recession pricing and forward return distribution

## Equity market implied probability of a recession in next 6 months



Source : Fama French, Bloomberg, UBS

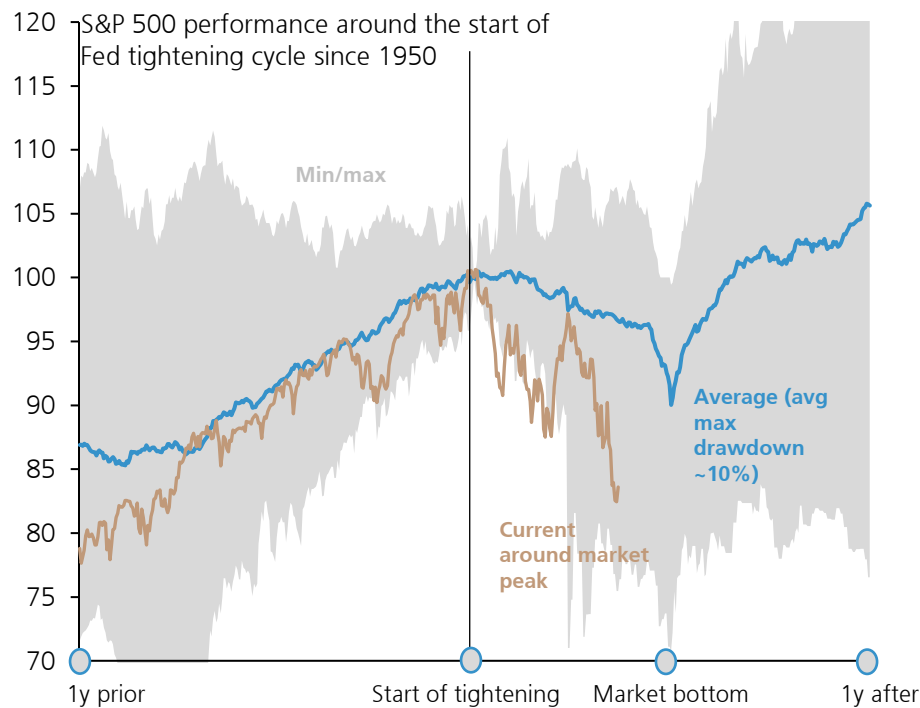
## Distribution of 1y fwd S&P 500 returns when our market implied recession probability indicator is >80th pct



Source : Fama French, Bloomberg, UBS

# One of worst selloffs around Fed liftoff, de-ratings in recession

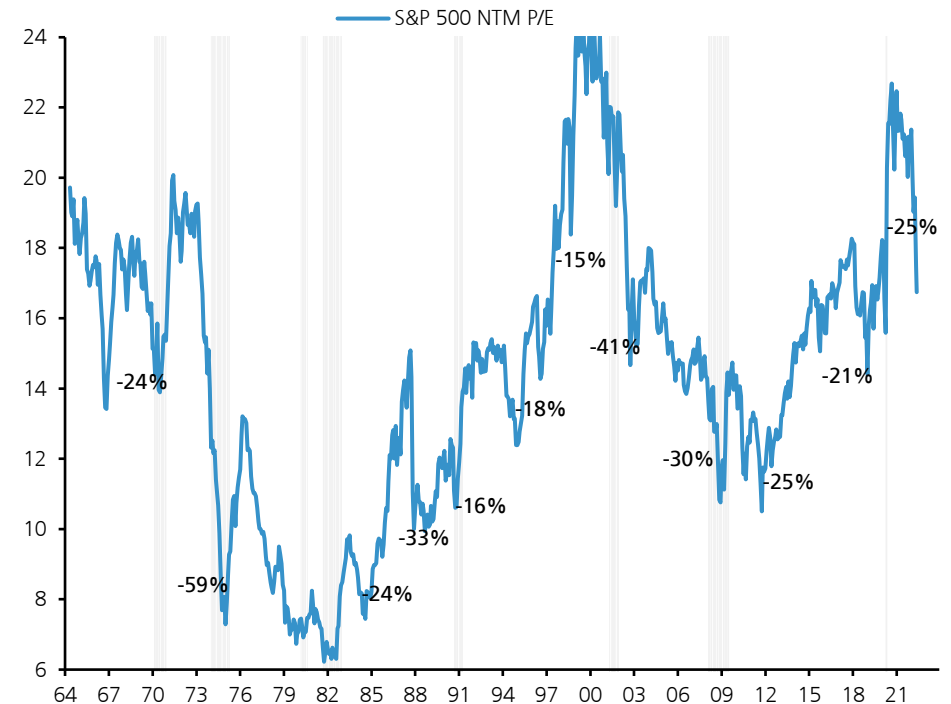
## Performance of S&P 500 around beginning of Fed tightening cycles



Source : Bloomberg, UBS



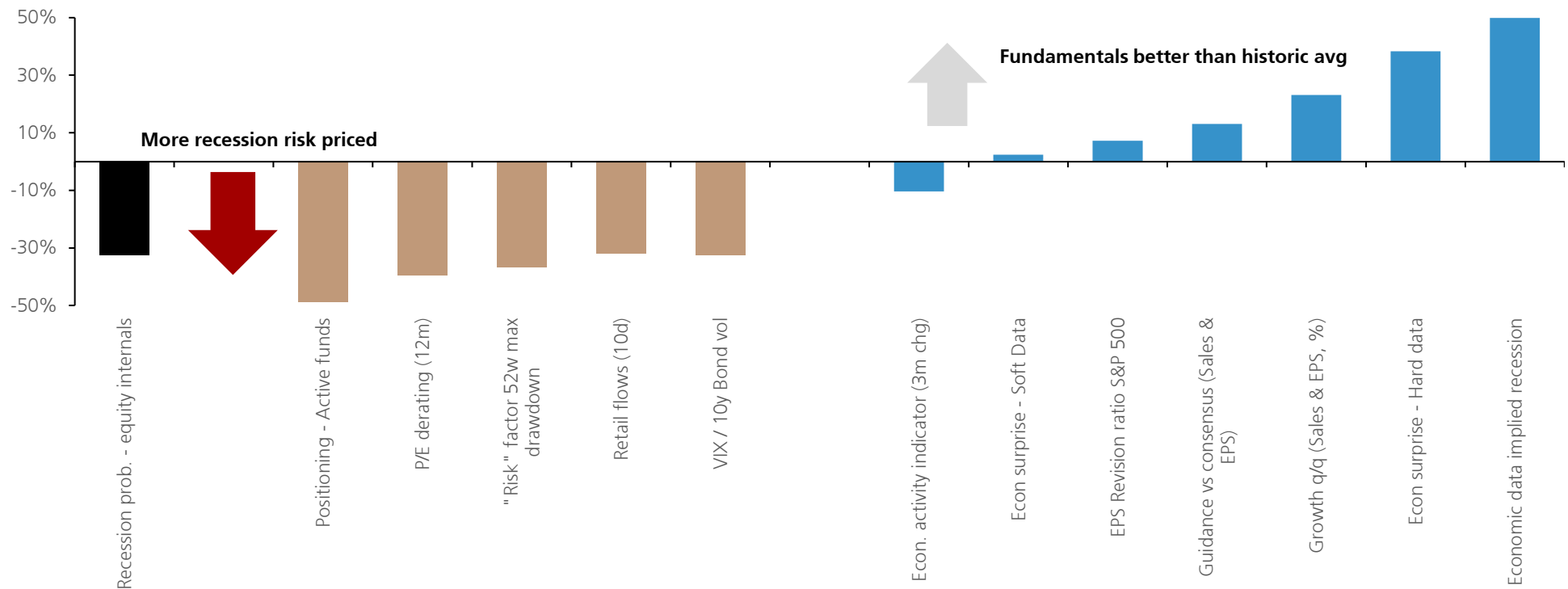
## S&P 500 forward P/E



Source : FactSet, UBS

# Markets pricing recession risk, will fundamentals follow?

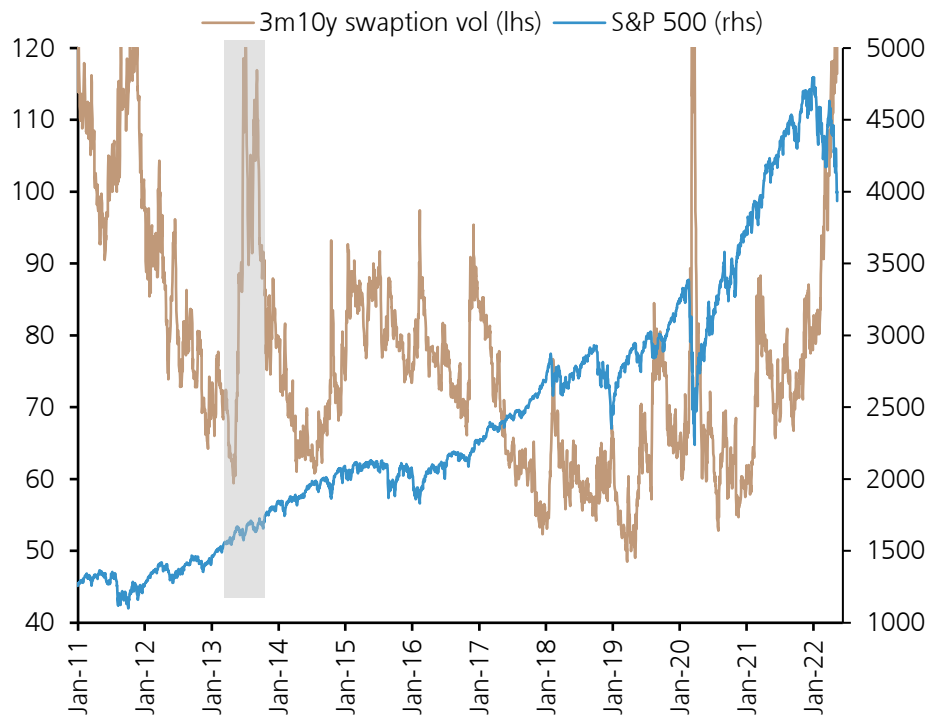
## Market implied recession vs economic indicators



Source : Bloomberg, FactSet , UBS Quant Research, UBS

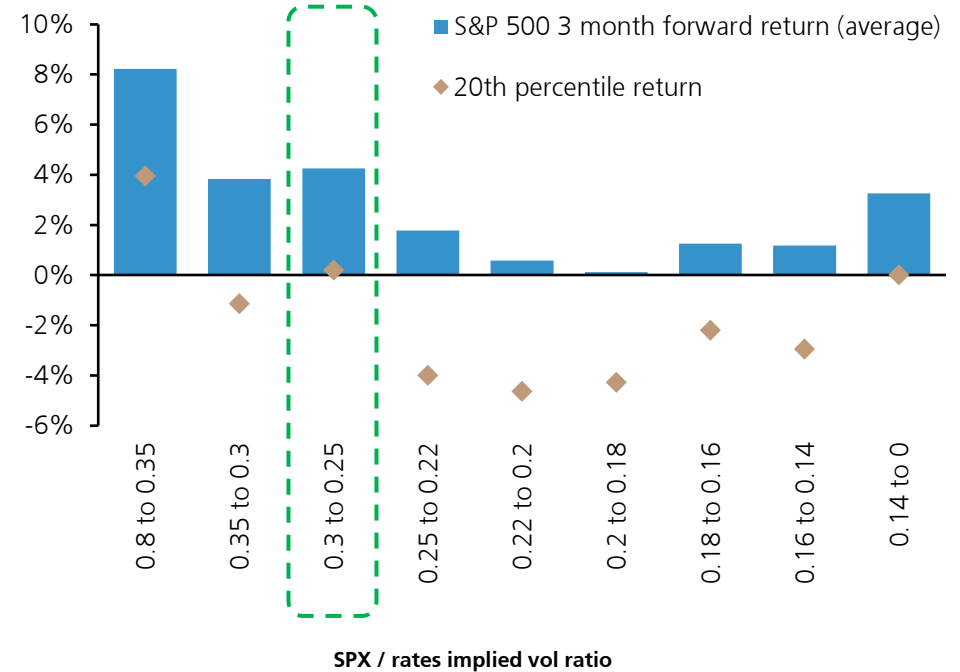
# Rates vol receding precondition for equity bottom, bounce

## S&P 500 vs implied 10y bond volatility



Source : Bloomberg, UBS

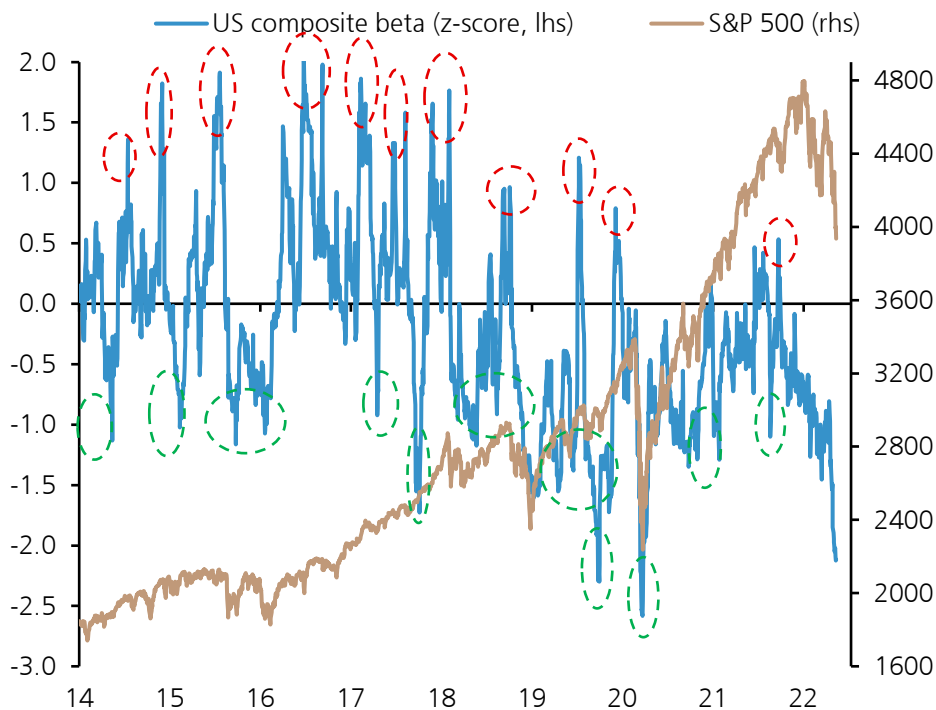
## Forward returns implied by VIX / bond vol



Source : Bloomberg, UBS

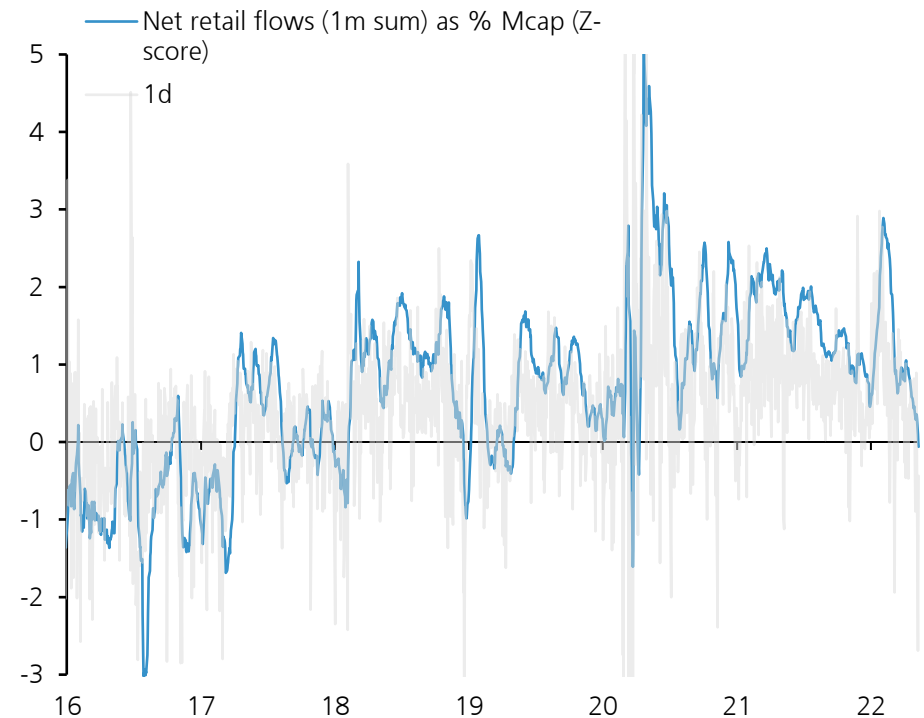
# Positioning supportive: active funds de-risked, retail is selling

## US active manager composite positioning (z-score)



Source : Bloomberg, UBS

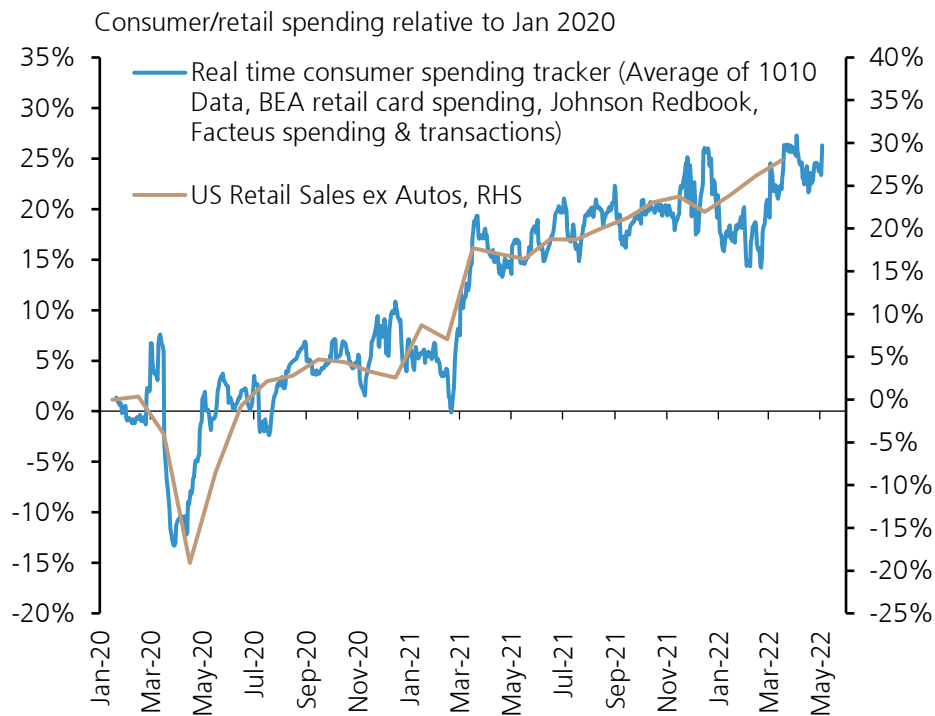
## Retail net flows of US stocks as a share of market cap



Source : Bloomberg, UBS Data Solutions, UBS

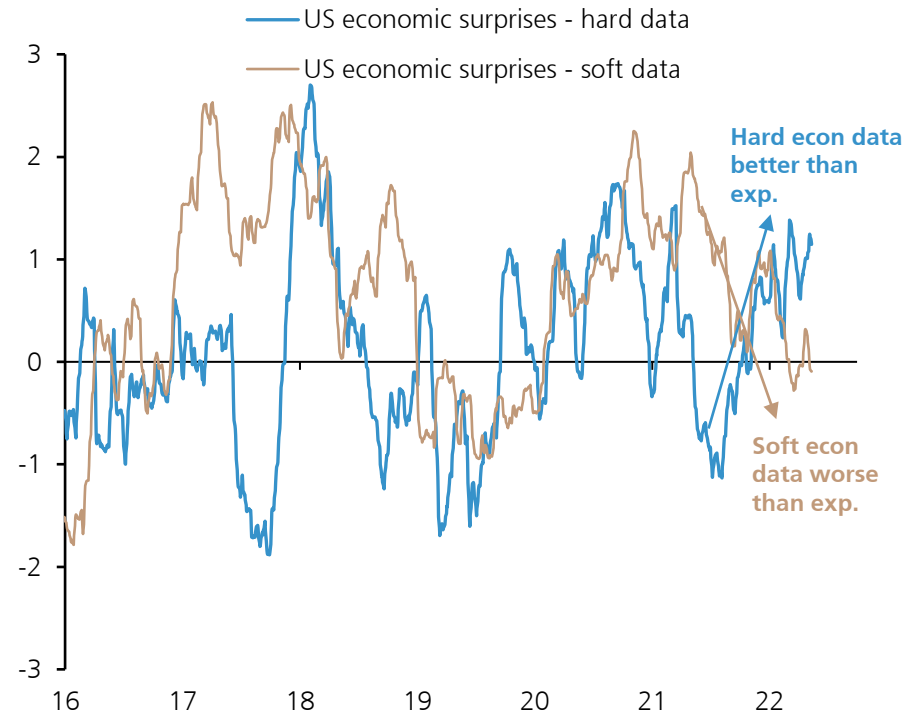
# Signposts: consumer is key, hard data vs soft data

## Consumer spending solid



Source : 1010 data, Bloomberg, UBS

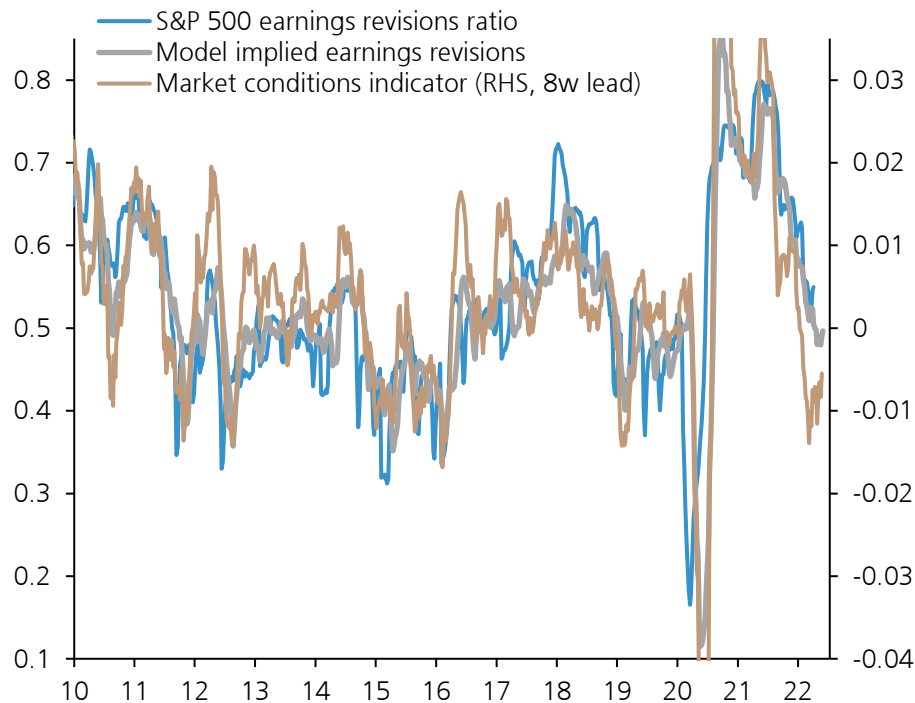
## Soft data disappointing, hard data better



Source : Bloomberg, UBS

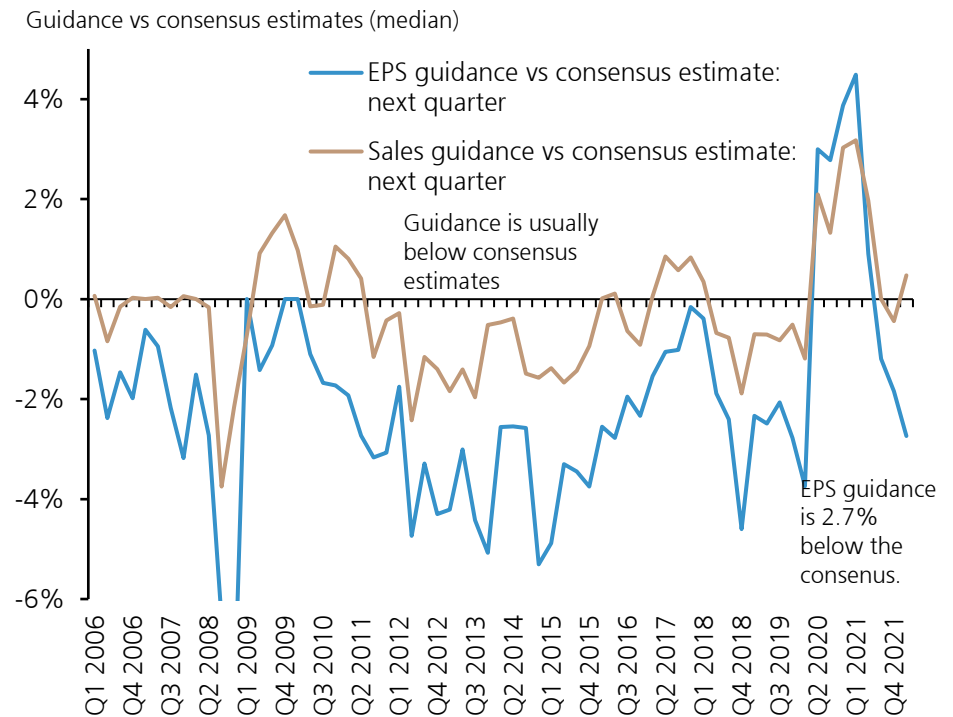
# Signposts: earnings momentum and guidance to set tone

**Our equity indicator of econ activity/ fin cond is ticking up, points to bottoming in EPS revisions**



Source: Bloomberg, FactSet, UBS

**Guidance was solid for sales and weaker for EPS**



Source: FactSet, UBS

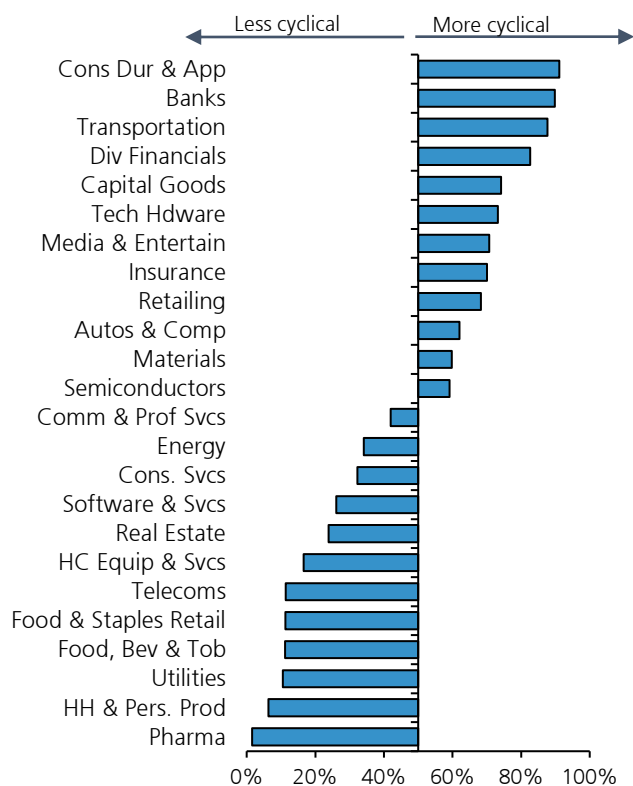


*What is most exposed to slower growth, tighter financial conditions? What's priced?*

# Sensitivities to growth, stagflation and financial conditions

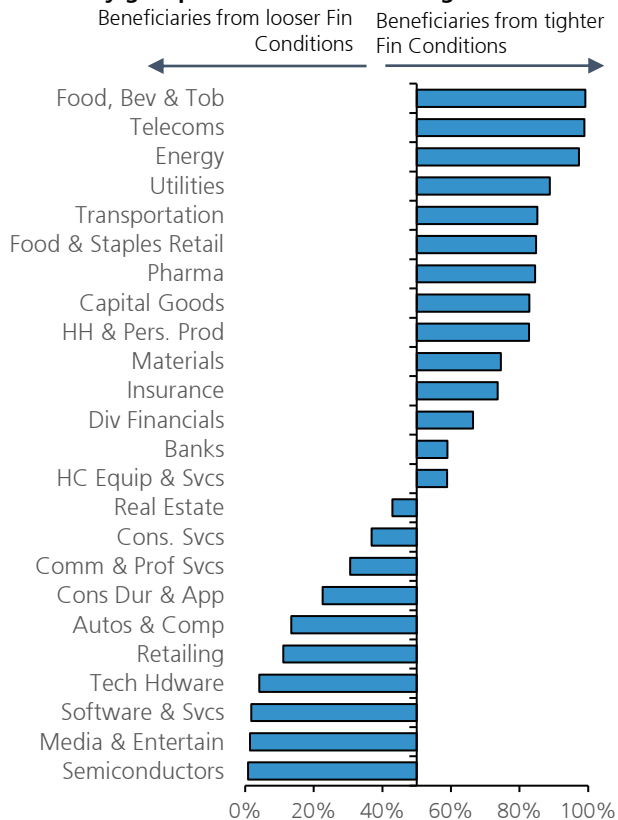
## Cyclicality ranking

Industry group cyclicality ranking



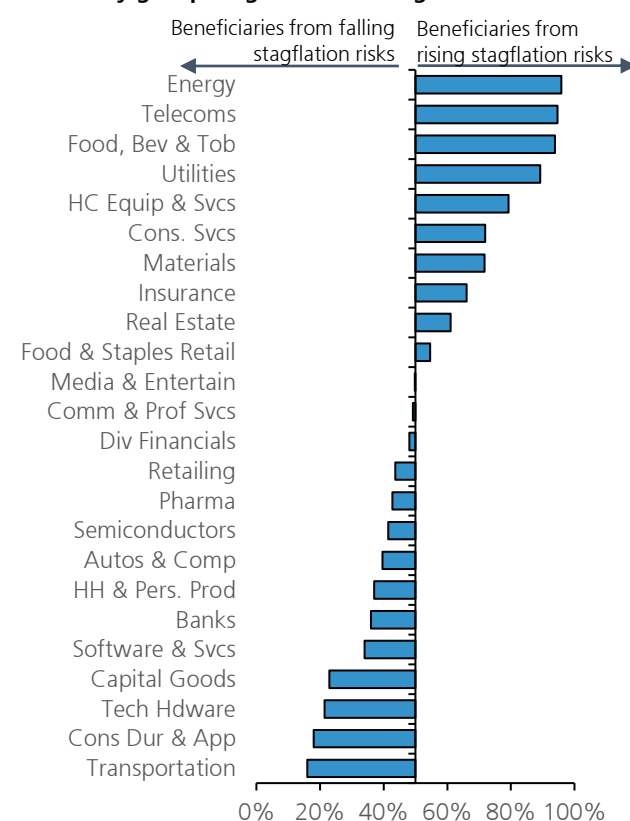
## Tighter Fin. Condition ranking

Industry group Fin Conditions ranking



## Stagflation ranking

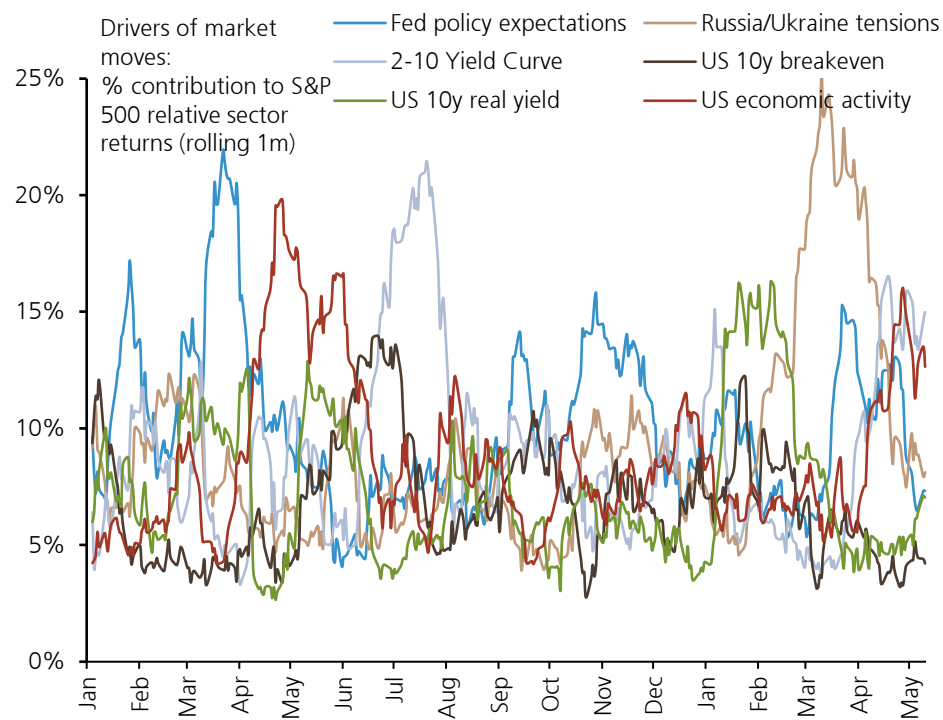
Industry group stagflation ranking



Source : Bloomberg, UBS

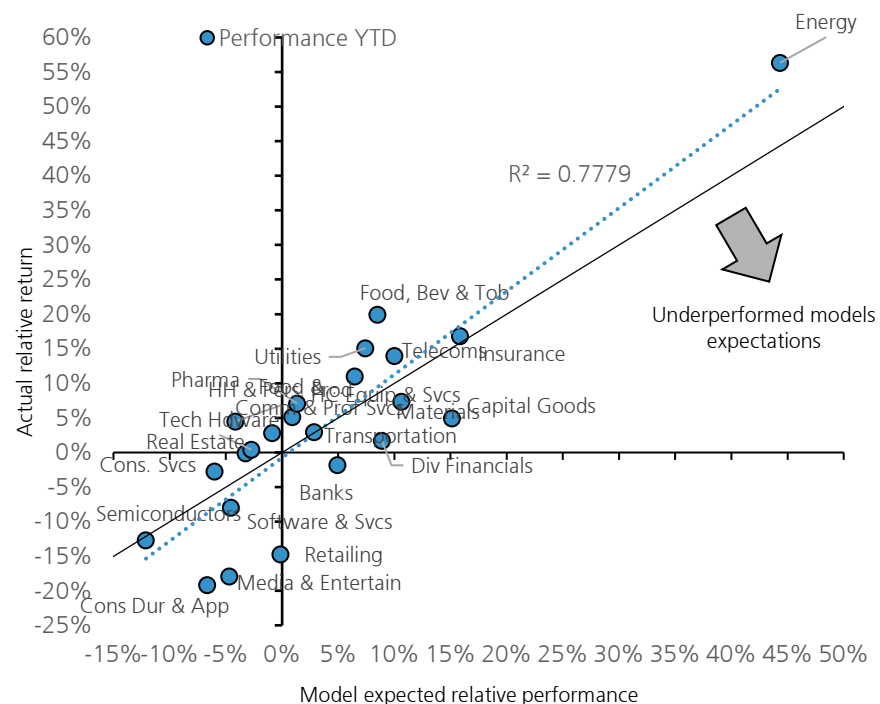
# Growth, Fed and late cycle fears driving markets

## Machine learning model: drivers of S&P 500 relative returns



Source : Bloomberg, UBS

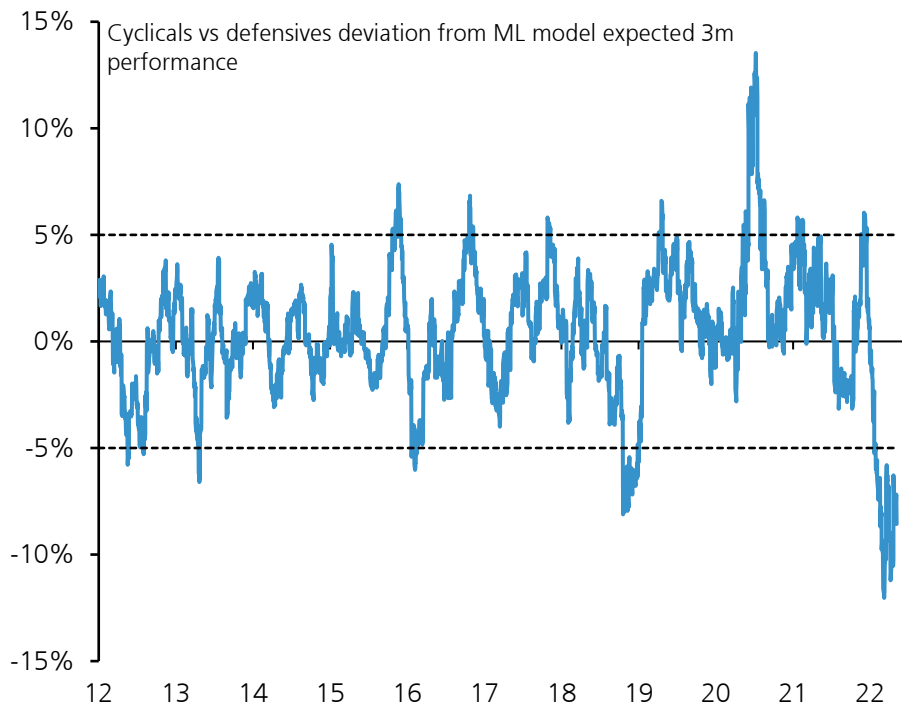
## Industry group actual vs machine learning model expected relative performance YTD



Source : Bloomberg, FactSet, UBS

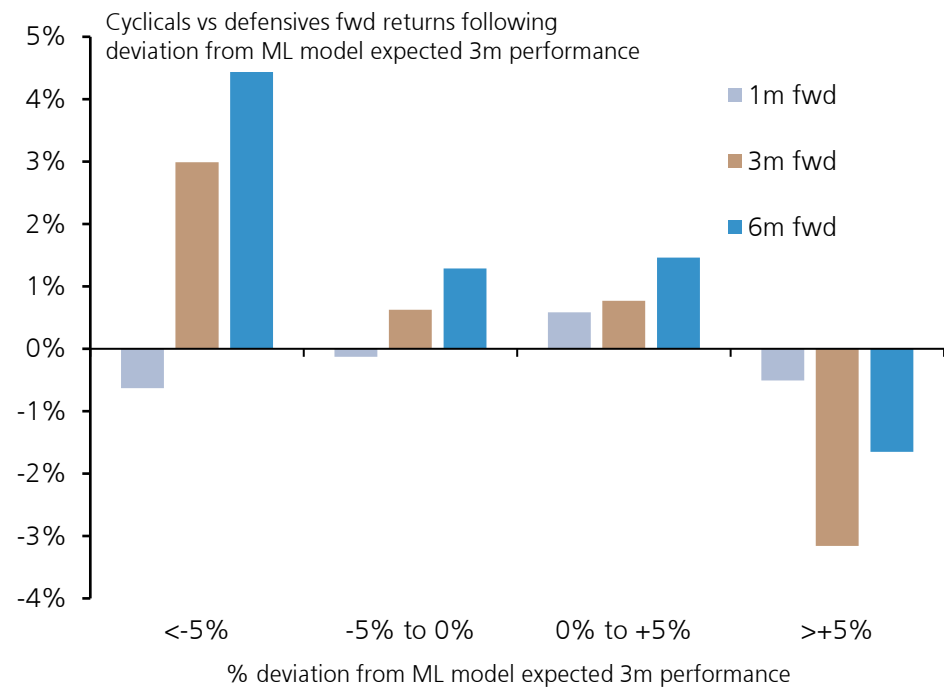
# Cyclicals vs defensives: performance overshoot fundamentals

## Historical deviation of cyclical vs defensive from model predictions



Source : Bloomberg, UBS

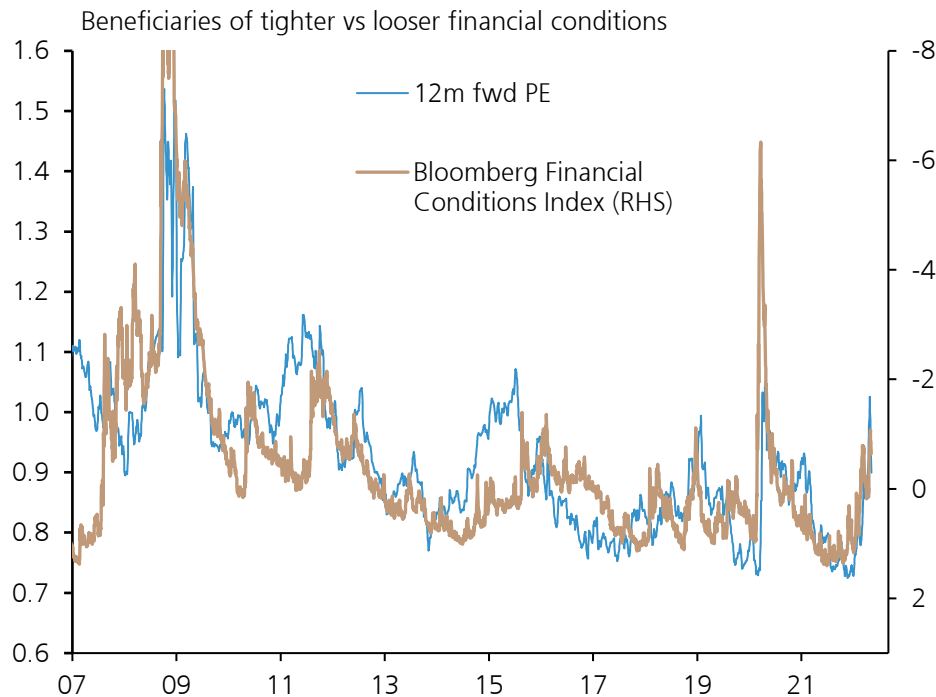
## Cyclical vs defensive forward returns following deviations from model expectations



Source : Bloomberg, FactSet, UBS

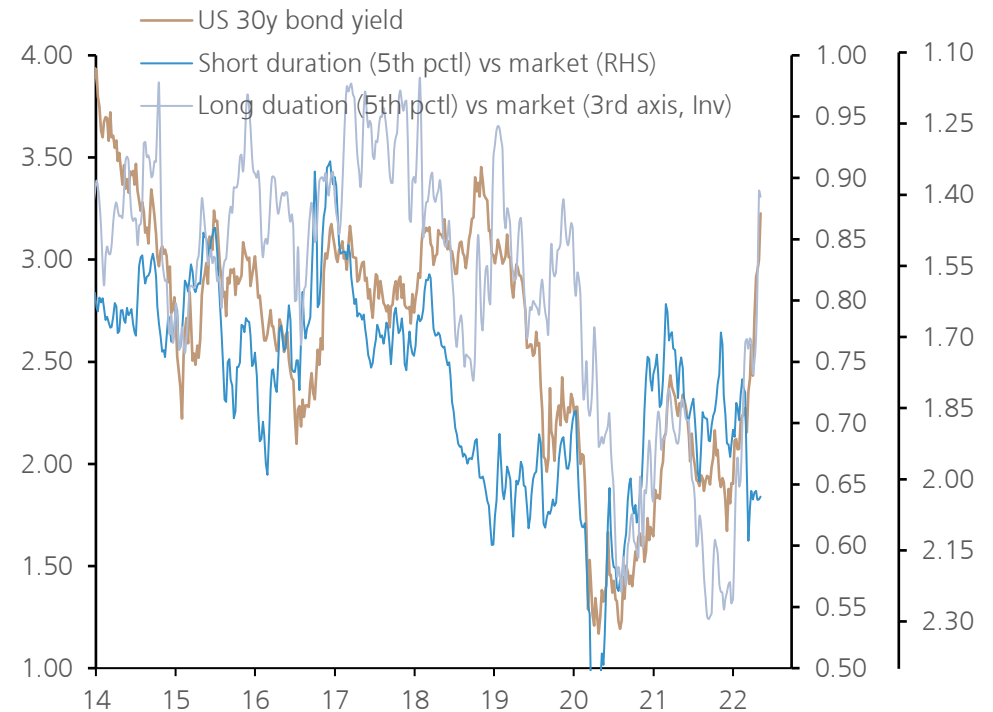
# Financial conditions tightening getting priced within equities

## Beneficiaries of tighter vs looser financial conditions relative valuations



Source : Bloomberg, FactSet, UBS

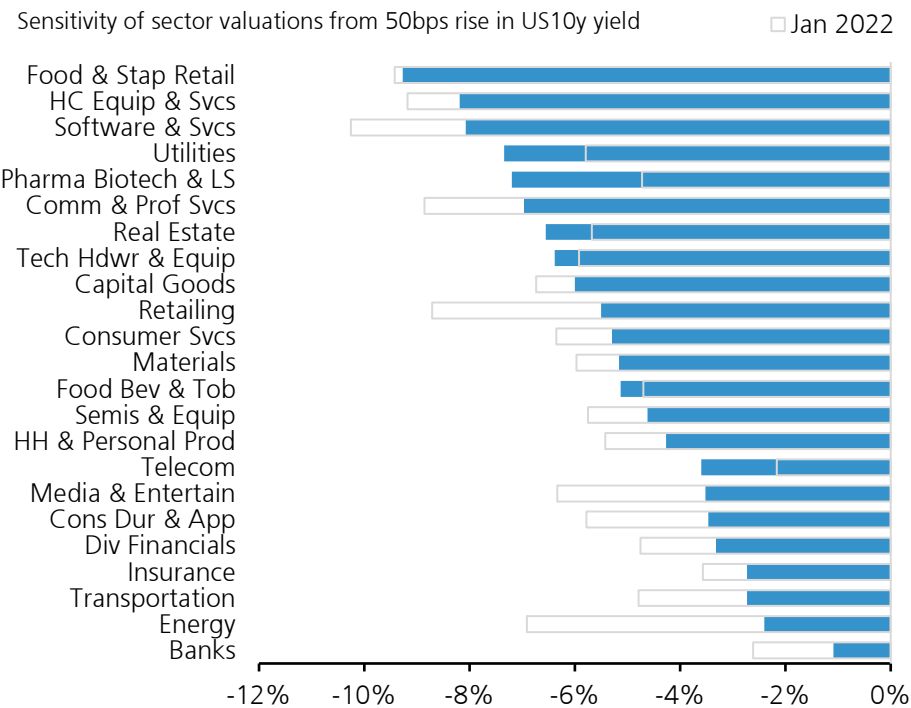
## Long and short duration stock (5th pctl) valuations vs US 30y yield



Source : FactSet, Bloomberg, UBS

# Sensitivities to rates are lower; positioning for lower rates vol

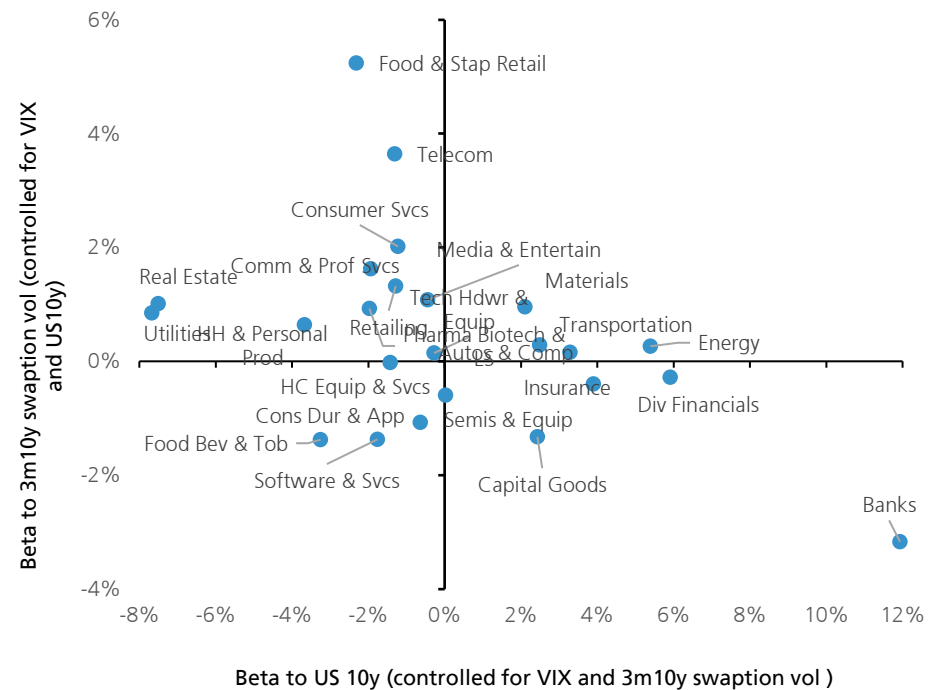
## Sensitivity of sector valuation to US 10y - DDM framework



Source : Bloomberg, FactSet, UBS



## Industry Group beta to US 10y and 3m10y swaption vol

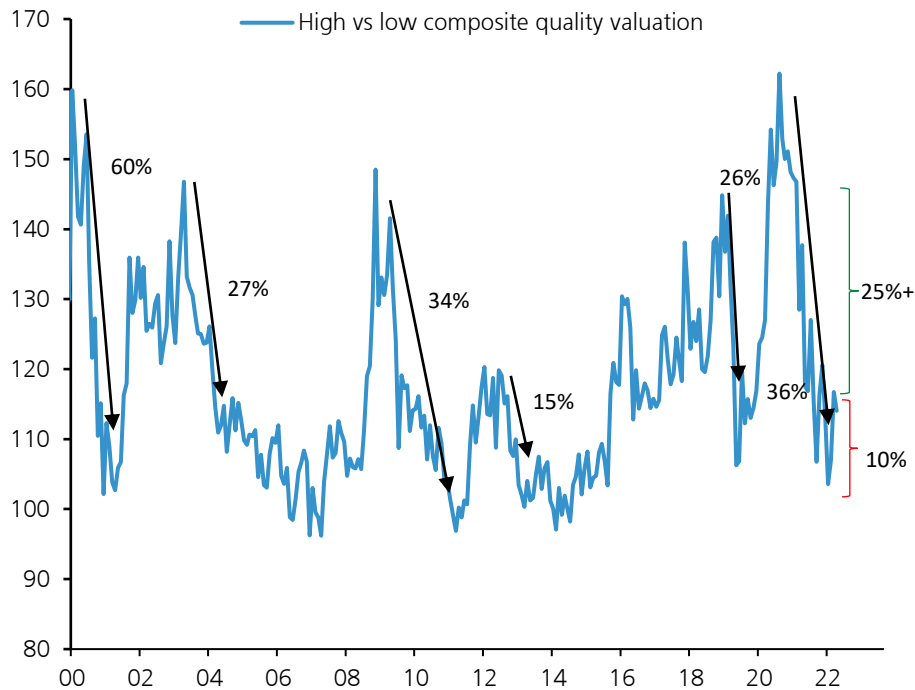


Source : Bloomberg, UBS

*Quality to lead the next stage: what to own/avoid*

# High quality to lead in the next phase of the cycle

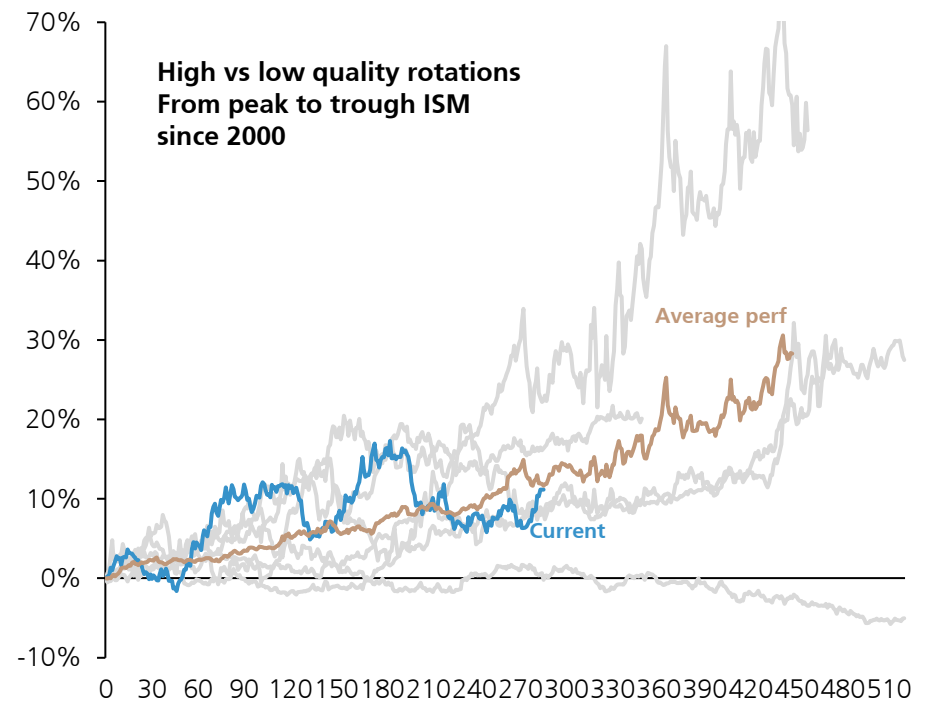
## High vs low quality relative 12mo fwd P/E (sector neutral)



Source : UBS Quant Research, UBS



## High vs low quality performance after ISM peaks, to ISM trough

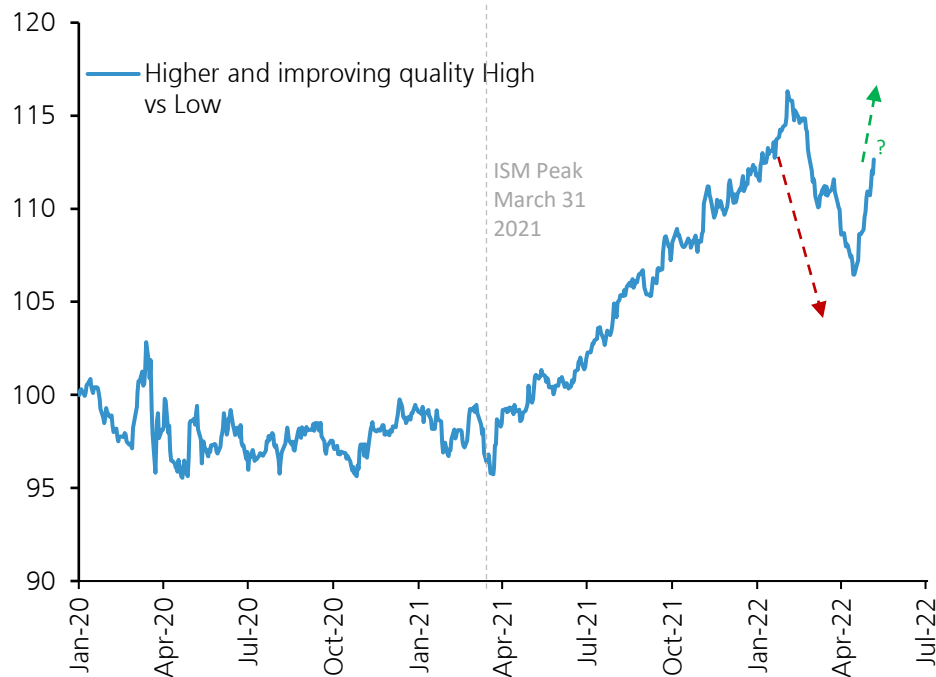


Source : UBS Quant Research, UBS



# Screens: higher+improving quality over lower quality+less improvement

## Performance of high and improving quality vs lower quality with less improvement



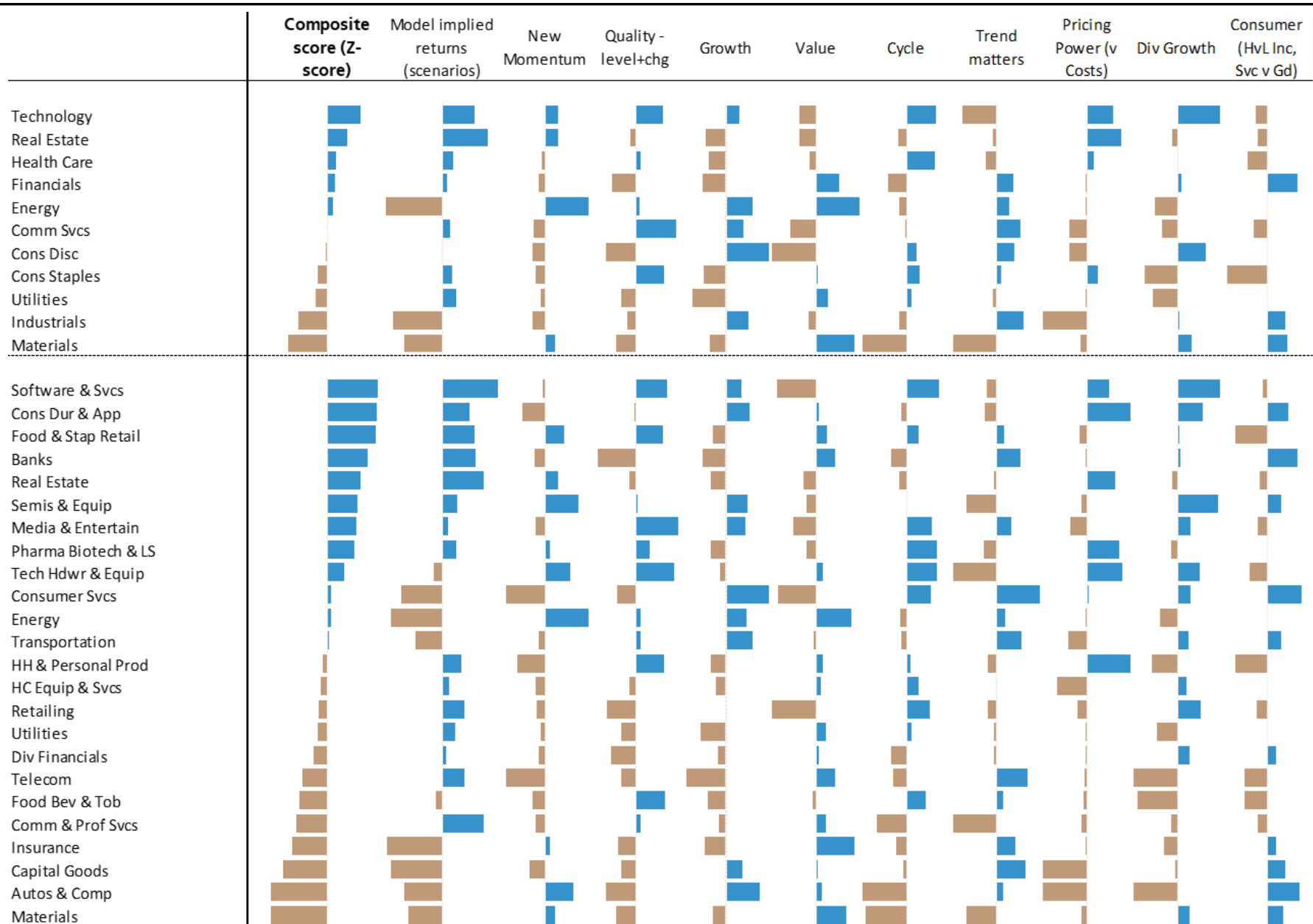
Source : Bloomberg, UBS Quant Research, UBS

## High vs low quality performance after ISM peaks, to ISM trough



Source : UBS Quant Research, UBS

# Sector, style and sub-industry scorecard



UBS

Source: UBS

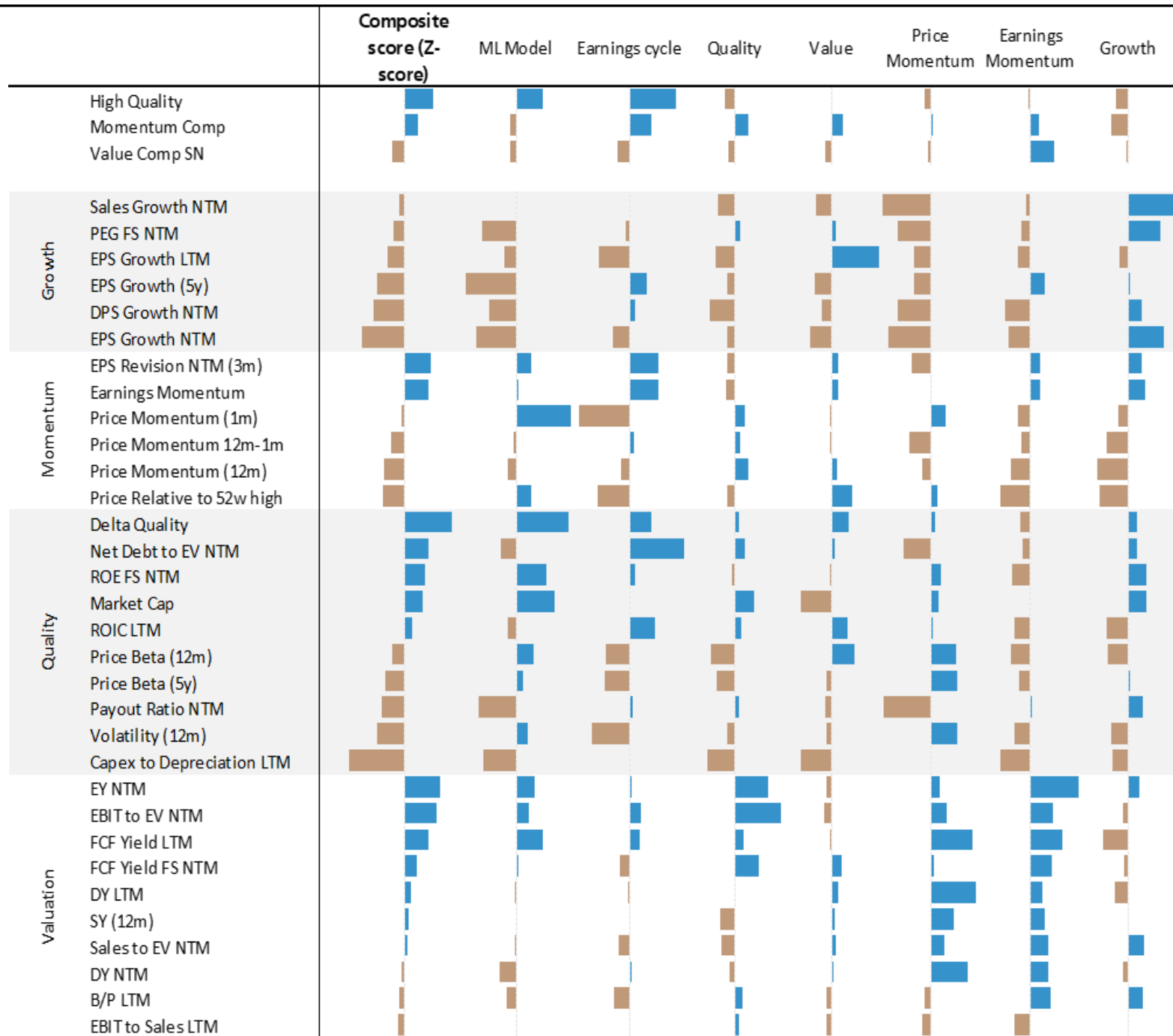
# Industry and sub-industry scorecard

Sector	Industries/ sub industries	Composite score (Z-score)	Model implied returns (scenarios)	New Momentum	Quality - level+chg	Growth	Value	Cycle	Trend matters	Pricing Power (v Costs)	Div Growth	Consumer (HvL Inc, Svc v Gd)
Materials	Construction Materials											
	Containers & Packaging											
	Chemicals											
Industrials	Metals & Mining											
	Road & Rail											
	Aerospace & Defense											
Cons Disc	Airlines											
	Professional Svcs											
	Trading Comp & Distributors											
Comm svcs	Comm Svcs & Supplies											
	Industrial Conglomerate											
	Machinery											
Technology	Construction & Eng											
	Air Freight & Logistics											
	Building Products											
Financials	Electrical Equipment											
	Multiline Retail											
	Homebuilding											
Energy	Textiles & Apparel											
	Restaurants											
	Specialty Retail											
Cons Staples	Hotels & Leisure											
	HH Durables											
	Internet Retail											
Health Care	Automobiles											
	Auto Comp											
	Interactive Media & Svcs											
Consumer	Media											
	Entertainment											
	Div Telecom Svcs											
Health Care	Systems Software											
	Application Software											
	Data Processing & Outsourced Serv											
Health Care	Semis & Equip											
	IT Consulting & Other Services											
	Comm Equipment											
Health Care	Tech Hardware Storage											
	Electronic Equip Instru											
	Fin Exchanges & Data											
Health Care	Regional Banks											
	Prop & Cas Insurance											
	Insurance Brokers											
Health Care	Multi-Sector Holdings											
	Cons Fins											
	Asset Mgt											
Health Care	Diversified Banks											
	IB & Brokerage											
	Life & Health Insurance											
Health Care	O&G Refining											
	Energy Equip & Svcs											
	O&G Exploration & Prod											
Health Care	O&G Storage and Transport											
	Integrated Oil & Gas											
	Personal Products											
Health Care	Food & Staples Retail											
	Tobacco											
	Beverages											
Health Care	Household Products											
	Food Products											
	Biotech											
Health Care	HC Equipment											
	Life Sciences											
	Managed HC											
Health Care	HC Svcs											
	HC Tech											
	HC Distributors											
Health Care	Pharmaceuticals											
	HC Facilities											
	HC Supplies											

Source: UBS



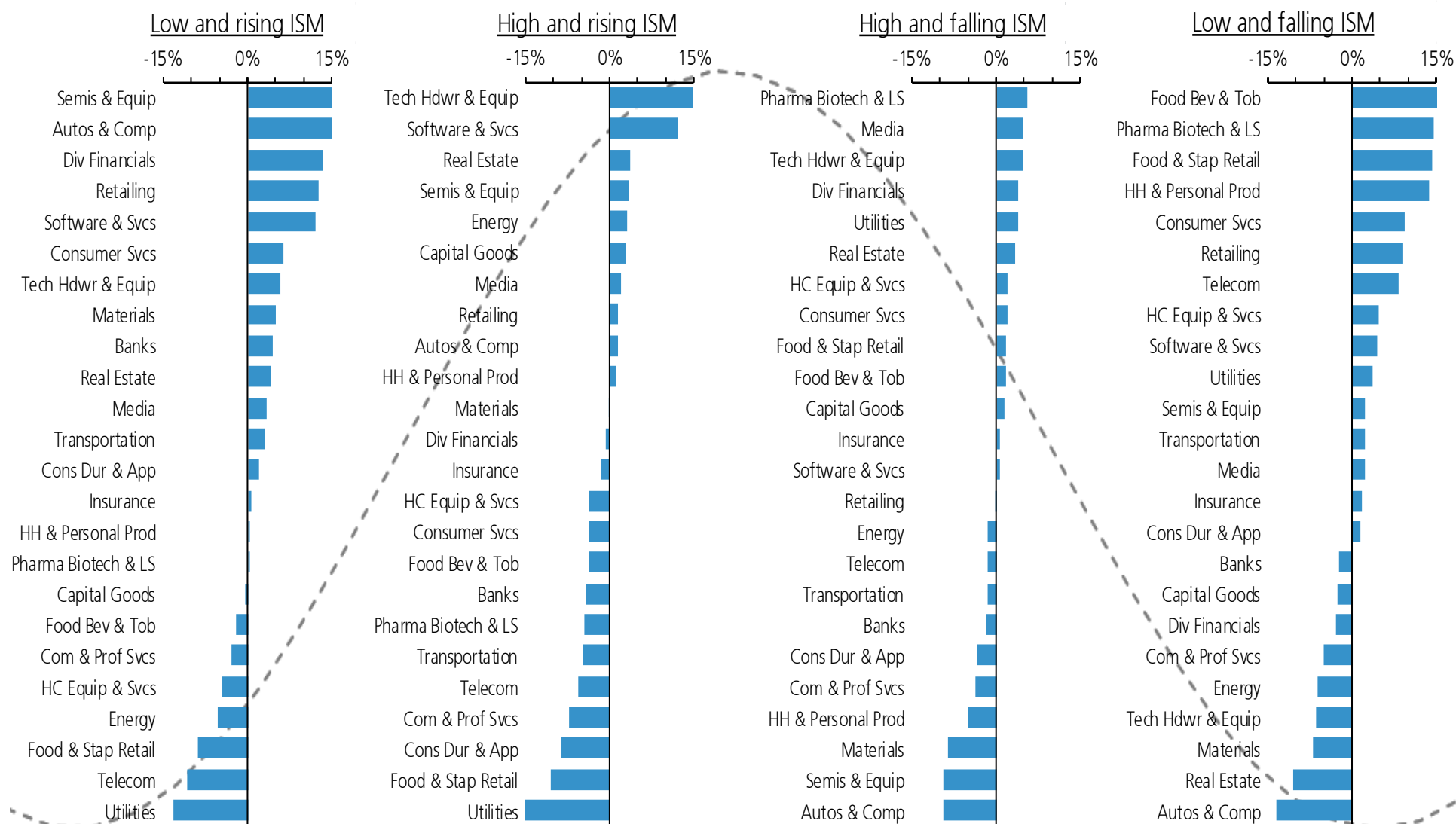
# Style and factor scorecard



Source : UBS

# What works when: Industry group returns through the ISM cycle

## Industry group relative returns through the phases of the ISM cycle (returns vs. S&P 500, annualized)



UBS

Source: Haver, FactSet, UBS

# Earnings cycle: what performs in earnings cycle phases

## Average relative industry group returns during different earnings cycle stages

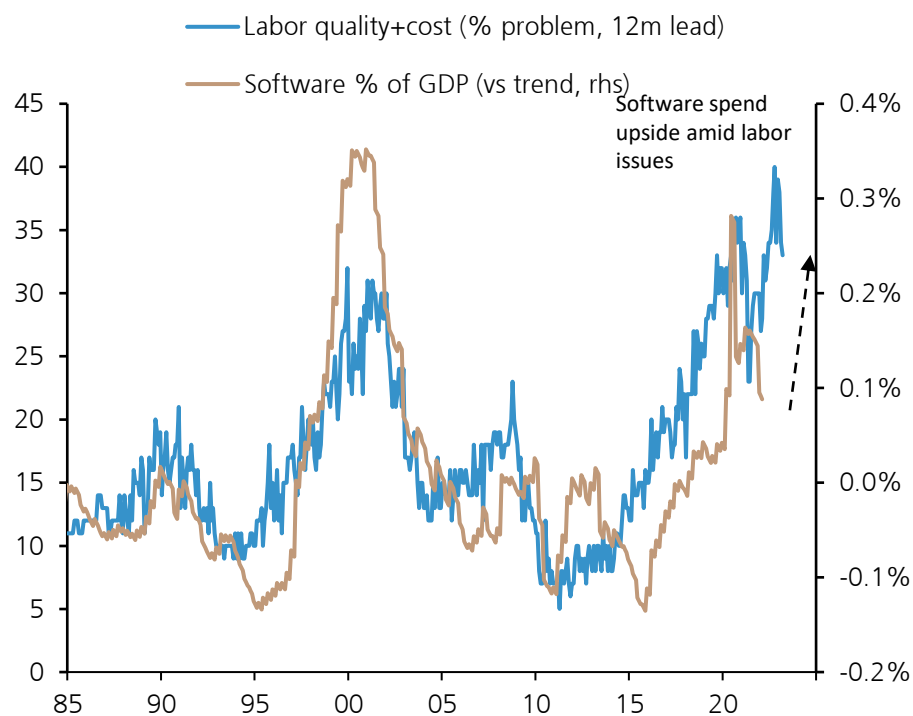
### Annualized average relative performance during market cycles

Recovery		Early Cycle		Mid Cycle		Late Cycle		Recession	
Autos & Comp	76.2%	Consumer Svcs	9.6%	Software & Svcs	9.4%	Tech Hdwr & Equip	6.4%	Food Bev & Tob	57.9%
Div Financials	69.3%	Real Estate	6.9%	Semis & Equip	4.5%	Retailing	5.9%	HH & Personal Prod	43.5%
Tech Hdwr & Equip	64.1%	Banks	5.6%	Tech Hdwr & Equip	3.6%	Semis & Equip	5.7%	HC Equip & Svcs	43.2%
Retailing	51.1%	Capital Goods	4.6%	Media & Entertain	3.0%	Real Estate	5.2%	Food & Stap Retail	39.2%
Semis & Equip	48.4%	Materials	4.6%	HH & Personal Prod	3.0%	Cons Dur & App	5.0%	Pharma Biotech & LS	35.1%
Cons Dur & App	33.8%	Energy	4.2%	Energy	2.8%	Consumer Svcs	3.2%	Telecom	19.6%
Transportation	31.8%	Div Financials	3.8%	Consumer Svcs	0.9%	Comm & Prof Svcs	2.9%	Comm & Prof Svcs	17.5%
Banks	28.1%	Cons Dur & App	3.5%	Capital Goods	0.4%	Software & Svcs	2.5%	Tech Hdwr & Equip	15.7%
Materials	27.6%	Retailing	3.1%	Transportation	0.3%	Insurance	2.5%	Utilities	14.1%
Software & Svcs	19.7%	HC Equip & Svcs	3.1%	Food Bev & Tob	-0.2%	Utilities	2.4%	Consumer Svcs	12.7%
Media & Entertain	16.0%	Transportation	2.2%	Pharma Biotech & LS	-0.3%	Transportation	0.8%	Software & Svcs	9.9%
Insurance	6.2%	Tech Hdwr & Equip	1.8%	Materials	-0.7%	Telecom	0.3%	Retailing	4.6%
Comm & Prof Svcs	1.9%	Media & Entertain	1.5%	Retailing	-0.9%	HC Equip & Svcs	-0.2%	Energy	4.0%
Capital Goods	1.5%	Food Bev & Tob	0.6%	Food & Stap Retail	-1.2%	Food & Stap Retail	-0.8%	Media & Entertain	1.1%
HH & Personal Prod	-4.1%	Semis & Equip	-0.1%	HC Equip & Svcs	-1.4%	Pharma Biotech & LS	-0.9%	Semis & Equip	-3.0%
Food Bev & Tob	-8.3%	Comm & Prof Svcs	-0.2%	Insurance	-3.1%	Media & Entertain	-1.1%	Materials	-10.9%
Energy	-10.2%	Autos & Comp	-0.9%	Cons Dur & App	-4.3%	Div Financials	-1.1%	Capital Goods	-12.9%
Consumer Svcs	-13.7%	Insurance	-1.8%	Div Financials	-5.1%	Capital Goods	-1.5%	Transportation	-13.4%
Real Estate	-14.6%	Utilities	-2.5%	Banks	-5.4%	Materials	-1.5%	Cons Dur & App	-17.4%
Food & Stap Retail	-27.3%	Software & Svcs	-2.5%	Comm & Prof Svcs	-5.4%	Food Bev & Tob	-2.9%	Insurance	-35.8%
HC Equip & Svcs	-27.7%	HH & Personal Prod	-3.6%	Telecom	-7.2%	Banks	-3.6%	Banks	-43.5%
Utilities	-30.9%	Food & Stap Retail	-5.7%	Utilities	-7.2%	HH & Personal Prod	-4.6%	Autos & Comp	-44.8%
Telecom	-36.2%	Pharma Biotech & LS	-7.9%	Real Estate	-8.2%	Autos & Comp	-4.9%	Real Estate	-45.5%
Pharma Biotech & LS	-40.8%	Telecom	-10.1%	Autos & Comp	-9.7%	Energy	-5.1%	Div Financials	-47.7%

Source: Bloomberg, UBS

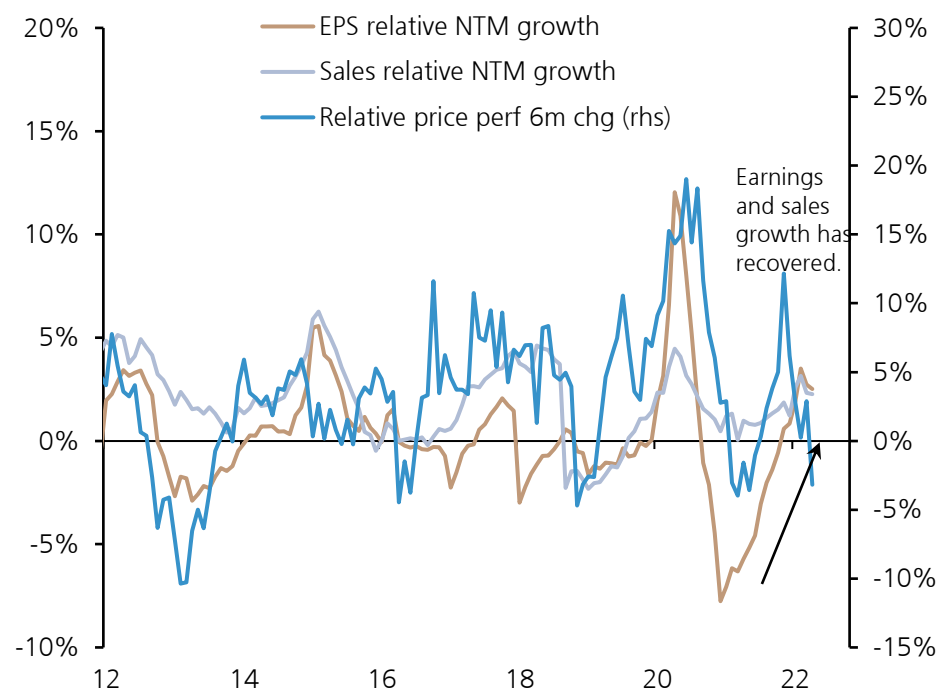
# Technology upgrade to o/w (from u/w) led by Software

## Software spending % of GDP (vs trend) and labor quality+cost issues



Source: UBS

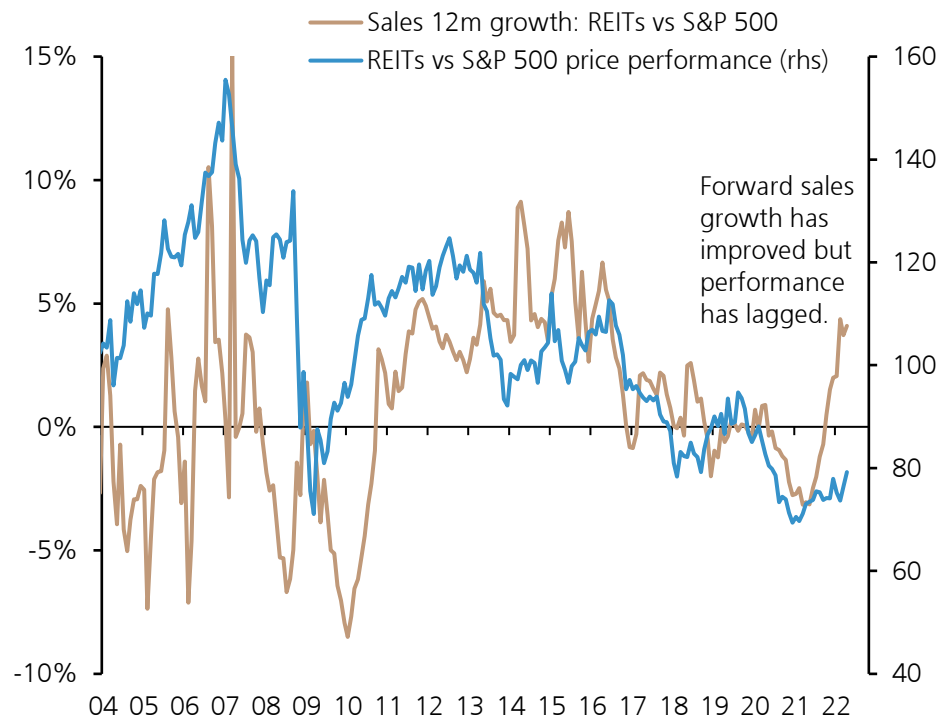
## Technology earnings and sales growth vs change in price relative to S&P 500



Source: UBS

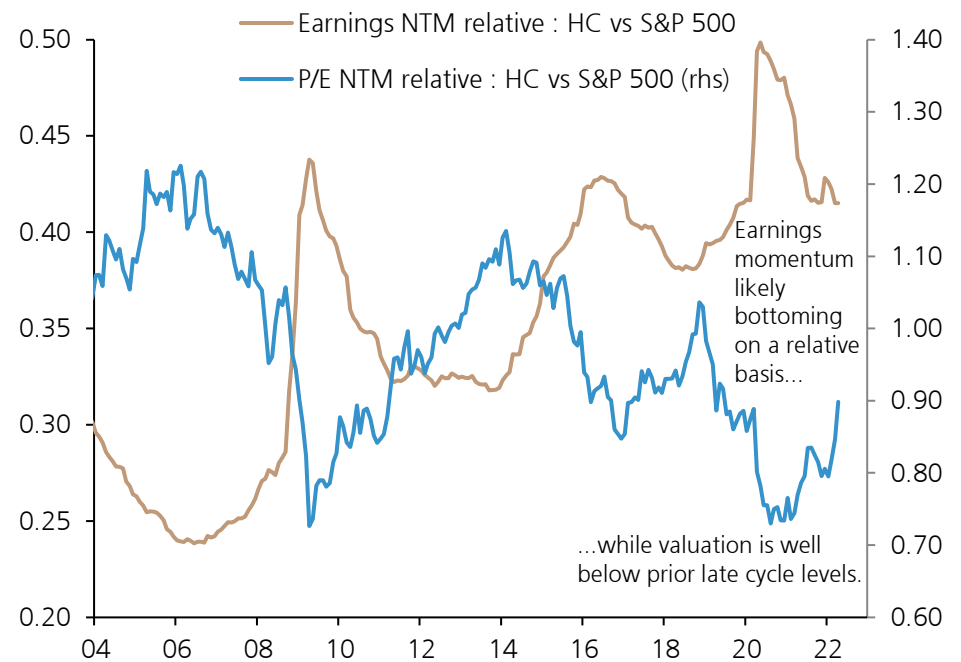
# REITs upgrade to o/w; Healthcare stay o/w vs Staples u/w

## Real Estate vs S&P 500 price performance vs forward sales growth



Source: FactSet, UBS

## Healthcare relative forward earnings expectations vs relative valuation

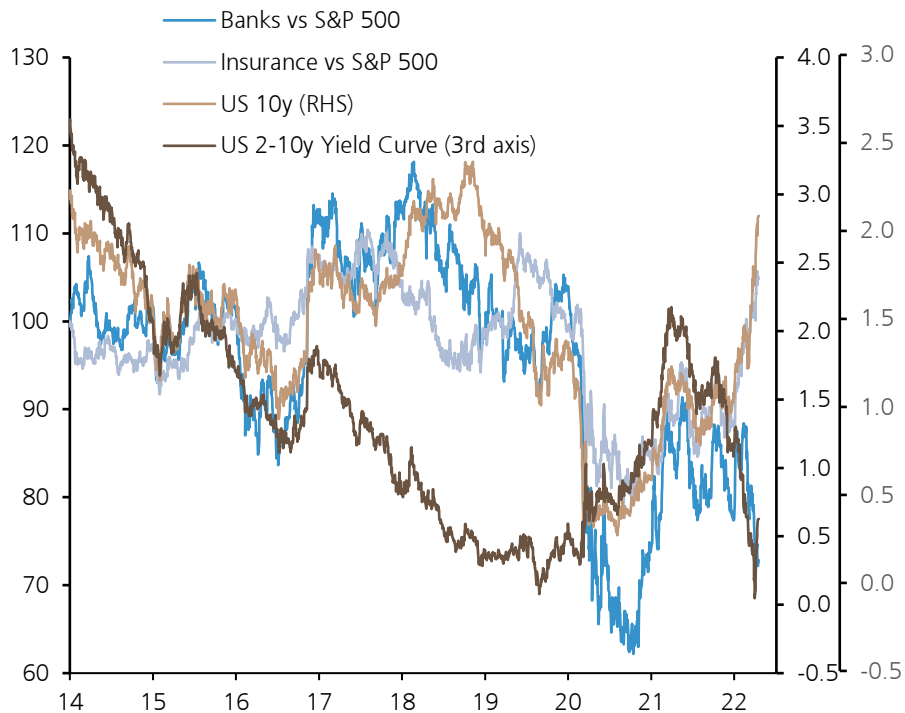


Source: FactSet, UBS



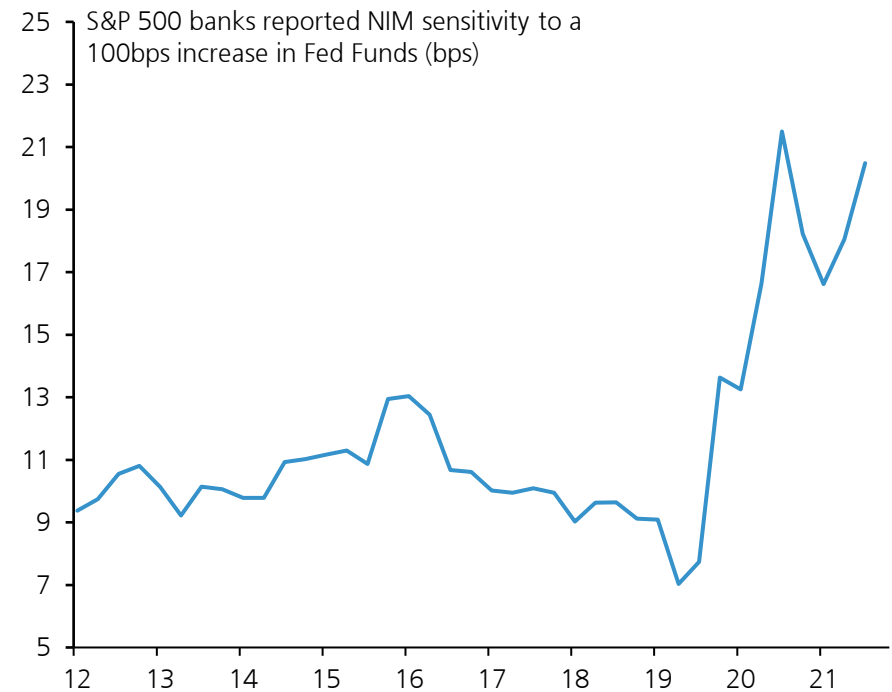
# Financials remain o/w: Banks over Insurance

## Relative performance of Banks and Insurance vs US10y and yield curve



Source: FactSet, UBS

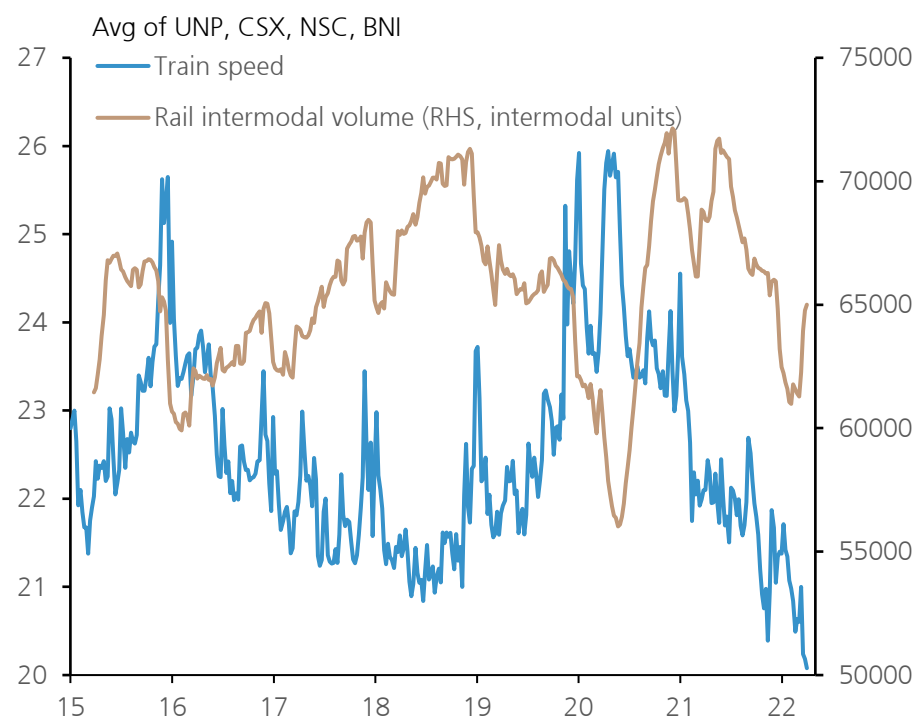
## Banks NIM sensitivity to Fed Funds



Source: Bloomberg, UBS

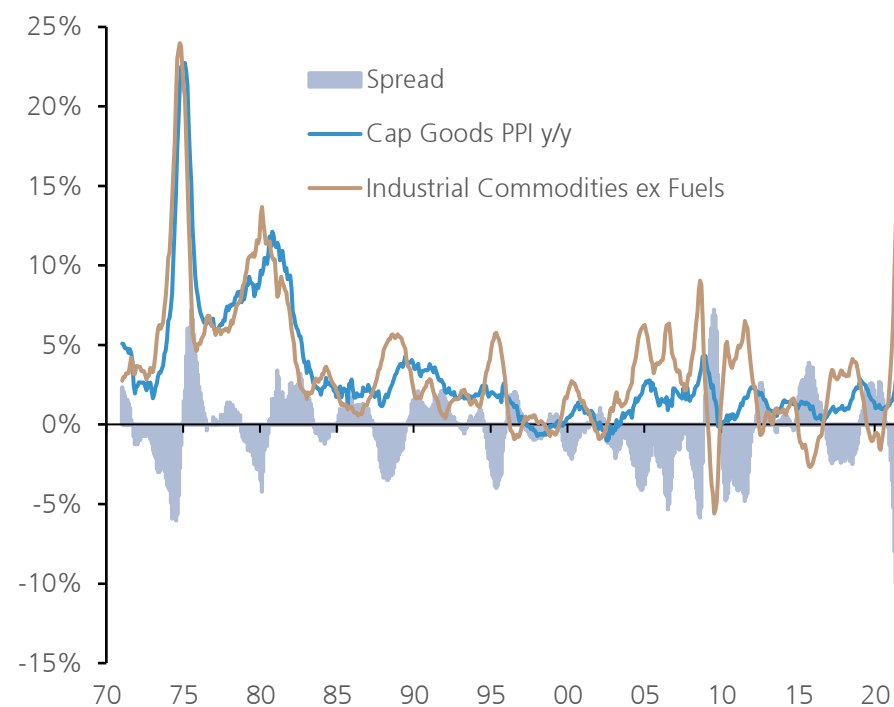
# Industrials u/w: Transportation over Cap Goods

## Upside for rail/freight volumes



Source: FactSet, UBS

## Margin headwinds for Cap Goods intensifying



Source: Bloomberg, UBS

# Higher and improving quality screen

Ticker	Name	Sector	Mcap (\$bn)	Price	Delta Quality	FCF Yield (LTM)	Composite Quality	Sales Growth NTM
GOOGL	Alphabet Inc. Class A	Communication Services	1432.5	2330.1	94%	40%	94%	81%
ORLY	O'Reilly Automotive, Inc.	Consumer Discretionary	40.0	603.6	83%	51%	96%	46%
KO	Coca-Cola Company	Consumer Staples	279.7	64.5	94%	64%	70%	71%
HSY	Hershey Company	Consumer Staples	32.7	223.8	88%	52%	91%	75%
EL	Estee Lauder Companies Inc. Class A	Consumer Staples	56.2	241.8	88%	39%	92%	81%
CTRA	Coterra Energy Inc.	Energy	25.8	31.9	97%	48%	80%	98%
XOM	Exxon Mobil Corporation	Energy	381.6	90.3	97%	66%	90%	51%
COP	ConocoPhillips	Energy	133.3	102.9	90%	62%	77%	75%
CVX	Chevron Corporation	Energy	326.7	166.3	97%	52%	75%	70%
PDCE	PDC Energy, Inc.	Energy	7.0	73.1	82%	85%	100%	97%
RE	Everest Re Group, Ltd.	Financials	11.2	284.1	81%	84%	68%	68%
COF	Capital One Financial Corp	Financials	52.9	130.3	81%	94%	94%	69%
USB	U.S. Bancorp	Financials	73.2	49.2	91%	51%	78%	73%
DFS	Discover Financial Services	Financials	32.6	115.4	96%	85%	92%	49%
A	Agilent Technologies, Inc.	Health Care	36.7	122.2	85%	51%	73%	48%
PFE	Pfizer Inc.	Health Care	273.6	48.5	95%	90%	84%	64%
MASI	Masimo Corporation	Health Care	6.9	124.8	85%	52%	87%	61%
MTD	Mettler-Toledo International Inc.	Health Care	29.8	1311.4	85%	41%	93%	42%
RHI	Robert Half International Inc.	Industrials	10.9	98.7	83%	65%	100%	76%
OSK	Oshkosh Corp	Industrials	6.2	93.9	83%	97%	73%	53%
PH	Parker-Hannifin Corporation	Industrials	35.5	276.2	83%	72%	66%	47%
OC	Owens Corning	Industrials	9.2	95.1	83%	92%	61%	62%
KNX	Knight-Swift Transportation Holdings Inc	Industrials	8.2	50.2	83%	91%	63%	84%
FTV	Fortive Corp.	Industrials	21.9	61.1	83%	56%	75%	58%
CTAS	Cintas Corporation	Industrials	39.6	386.7	83%	36%	96%	44%
RSG	Republic Services, Inc.	Industrials	41.2	130.3	83%	42%	63%	44%
WM	Waste Management, Inc.	Industrials	65.9	158.6	83%	43%	70%	43%
TRMB	Trimble Inc.	Information Technology	15.8	63.3	94%	55%	63%	51%
PAYX	Paychex, Inc.	Information Technology	45.0	124.6	94%	37%	85%	46%
SNPS	Synopsys, Inc.	Information Technology	43.2	282.3	100%	39%	89%	69%
V	Visa Inc. Class A	Information Technology	337.8	205.2	94%	42%	82%	78%
HUN	Huntsman Corporation	Materials	7.3	34.6	87%	73%	63%	48%
CF	CF Industries Holdings, Inc.	Materials	20.8	100.3	99%	81%	96%	93%
LIN	Linde plc	Materials	158.7	312.6	87%	52%	71%	55%
CBRE	CBRE Group, Inc. Class A	Real Estate	27.0	81.8	92%	82%	94%	80%
LAMR	Lamar Advertising Company Class A	Real Estate	9.3	107.2	92%	56%	89%	49%
AEP	American Electric Power Company, Inc.	Utilities	51.2	99.7	81%	52%	69%	58%
ED	Consolidated Edison, Inc.	Utilities	32.8	92.7	81%	50%	73%	44%
NEE	NextEra Energy, Inc.	Utilities	141.1	71.8	94%	85%	75%	100%
NFG	National Fuel Gas Company	Utilities	6.5	71.3	81%	83%	96%	98%

Source : FactSet, UBS Quant Research, UBS; [Quality to lead the next stage: what to own/avoid](#); Note: For Financials Earnings Yield was used in place of FCF Yield. Prices as of 05/06/2022

# Lower quality with less improvement screen

Ticker	Name	Sector	Mcap (\$bn)	Price	Delta	FCF Yield (LTM)	Sales Growth	
					Quality		High Quality	NTM
NFLX	Netflix, Inc.	Communication Services	83.7	188.3	11%	15%	9%	62%
PARA	Paramount Global Class B	Communication Services	19.4	29.7	23%	26%	19%	43%
DLTR	Dollar Tree, Inc.	Consumer Discretionary	36.3	161.4	13%	20%	33%	40%
KMX	CarMax, Inc.	Consumer Discretionary	14.8	92.4	13%	3%	5%	28%
CZR	Caesars Entertainment Inc	Consumer Discretionary	13.5	63.0	13%	40%	9%	67%
CAG	Conagra Brands, Inc.	Consumer Staples	17.0	35.4	12%	62%	25%	27%
SWN	Southwestern Energy Company	Energy	8.4	7.5	25%	39%	38%	5%
NOV	NOV Inc.	Energy	7.4	18.8	5%	18%	18%	62%
CME	CME Group Inc. Class A	Financials	76.7	213.3	15%	6%	34%	57%
CBOE	Cboe Global Markets Inc	Financials	11.8	111.3	15%	14%	25%	59%
AON	Aon Plc Class A	Financials	60.9	286.6	9%	10%	19%	46%
CAH	Cardinal Health, Inc.	Health Care	16.0	57.9	18%	79%	31%	39%
ABC	AmerisourceBergen Corporation	Health Care	32.5	155.2	30%	78%	26%	51%
CNC	Centene Corporation	Health Care	49.6	84.8	13%	80%	28%	54%
UHS	Universal Health Services, Inc. Class B	Health Care	8.5	126.3	18%	18%	37%	44%
STE	STERIS Plc	Health Care	22.7	227.0	18%	27%	29%	54%
CHRW	C.H. Robinson Worldwide, Inc.	Industrials	13.7	106.4	27%	16%	38%	28%
J	Jacobs Engineering Group Inc.	Industrials	17.8	137.6	27%	59%	32%	45%
KBR	KBR, Inc.	Industrials	6.6	47.2	27%	54%	7%	1%
HII	Huntington Ingalls Industries, Inc.	Industrials	8.8	219.7	18%	65%	39%	64%
ITT	ITT, Inc.	Industrials	6.2	73.7	10%	10%	19%	47%
BR	Broadridge Financial Solutions, Inc.	Information Technology	16.7	143.1	4%	29%	21%	35%
CDW	CDW Corp.	Information Technology	23.1	171.2	22%	35%	22%	68%
SQ	Block Inc Class A	Information Technology	49.6	95.6	13%	19%	19%	62%
IFF	International Flavors & Fragrances Inc.	Materials	31.3	122.8	24%	46%	4%	40%
ASH	Ashland Global Holdings, Inc.	Materials	5.7	104.4	8%	60%	28%	19%
AIRC	Apartment Income REIT Corp	Real Estate	7.2	46.1	25%	19%	30%	14%
AEE	Ameren Corporation	Utilities	24.1	93.3	6%	25%	29%	67%
ETR	Entergy Corporation	Utilities	24.0	118.3	13%	6%	31%	38%
CNP	CenterPoint Energy, Inc.	Utilities	19.5	30.9	13%	8%	4%	65%
OGE	OGE Energy Corp.	Utilities	7.9	39.3	6%	15%	17%	4%
PEG	Public Service Enterprise Group Inc	Utilities	34.6	68.9	19%	58%	33%	6%

Source : FactSet, UBS Quant Research, UBS; [Quality to lead the next stage: what to own/avoid](#); Note: For Financials Earnings Yield was used in place of FCF Yield. Prices as of 05/06/2022

# Valuation Method and Risk Statement

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Equity market returns are influenced by corporate earnings, interest rates, risk premia, as well as other variables influenced by the business cycle. The outlook for any and all of these variables is subject to change.

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12-Month Rating	Definition	Coverage <sup>1</sup>	IB Services <sup>2</sup>
<b>Buy</b>	FSR is > 6% above the MRA.	56%	32%
<b>Neutral</b>	FSR is between -6% and 6% of the MRA.	35%	28%
<b>Sell</b>	FSR is > 6% below the MRA.	8%	22%
Short-Term Rating	Definition	Coverage <sup>3</sup>	IB Services <sup>4</sup>
<b>Buy</b>	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
<b>Sell</b>	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 March 2022.

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

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Issuer Ratings						
	UBS Terminology	Rating Category <sup>1</sup>	Time Horizon	Definition	Coverage <sup>2</sup>	IB Services <sup>3</sup>
Credit Outlook	Positive	Buy	Up to 6 months	UBS' expected trend in a company's creditworthiness	<1%	<1%
	Stable	Hold			<1%	<1%
	Negative	Sell			<1%	<1%
	UBS Terminology	Time Horizon		Definition		
Credit Rating	AAA, AA, A (+/-)	Up to 12 months		UBS' assessment of a company's creditworthiness. Credit Ratings are only used in the evaluation of Swiss corporates.		
	BBB, BB, B (+/-)					
	CCC, CC, C (+/-)					
Security Recommendations						
	UBS Terminology	Time Horizon		Definition		
Bond Recommendation	Outperform	Up to 3 months		A corporate bond's expected relative performance versus a defined reference		
	Marketperform					
	Underperform					
	UBS Terminology	Time Horizon		Definition		
CDS Recommendation	Buy Protection	Up to 3 months		Recommendation to hedge a company's creditworthiness		
	Sell Protection					

Note: Bond recommendations may be defined as 'Tactical', as in Tactical Outperform or Tactical Underperform, where there is a near term catalyst(s) taken into account.

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