



Weekly Sector Specialist Note (February 16th – February 19th, 2021)

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

Highlights and Updates from the Week

<p>FINANCIALS</p> <p>Tickers: WFC, AIG, STT, SQ, PYPL, MA, V, DFS, COF</p> <p>(Go to Section)</p>	<p>Highlights: Little change in sentiment despite the continued back-up in rates; the bias is still bullish, but it's not a 1-sided discussion, and skeptics are not hard to find. Overall – broader debates remain; what will be the natural/right level for iRates? Or at what point does the Fed have to consider adjusting policy? Pace > threshold is largely acknowledged as the key determinant. And in spite of Fed attempts at full disclosure – rumblings growing louder about this taper timing (Jackson Hole/late August starting to draw speculation – especially in light of the committee's plans to be forthright in front-running its own plans).</p>
<p>TELCO, MEDIA & INTERNET</p> <p>Tickers: MYTE, CHTR, DIS, TRIP, UBER, DISCA</p> <p>(Go to Section)</p>	<p>Highlights: A tough week for TMT as an unwind ripped through the space. The market has been driven by themes, not fundamentals or valuation, which has proven frustrating. Investors are scared to short some of the high flying, overvalued names and have resorted to using large, liquid names as funding shorts, particularly the FANG complex. The long side of that trade is some of the themes that have been working – like the reopening trade and the DTC trade. It is unclear what gets the market back on track to focus on fundamentals.</p>
<p>TECHNOLOGY</p> <p>Tickers: AMAT, CRWD, TWLO, SNPS, Hon Hai</p> <p>(Go to Section)</p>	<p>Highlights: It feels like the new-norm for the 10yr is 1.30%. Should this be home for a while and we stop seeing aggressive moves higher, I think the pain in software will subside and the trade will come back on. One thing I will continue to watch though is the move real rates... which I believe was the main pain-point in this week's mini sell-off.</p>
<p>HEALTHCARE</p> <p>Tickers: KOD, REGN, ROG, MD, VTRS, EW</p> <p>(Go to Section)</p>	<p>Highlights: While earnings were in full force, Macro trends controlled conversations – growth high fliers (like Diagnostic and "innovation" stocks) cooled off while value stocks (Pharma and MCOs) outperformed. In therapeutics, bad news for BLUE spooked the sector, and we hosted an interesting call on next gen wet AMD agents like Kodiak's KSI-301 and Roche's Faricimab.</p>
<p>INDUSTRIALS</p> <p>Tickers: DE, ALLE, LUV, ACM, EMR, JCI, KBR, IR, SPR, HEI, CW, PWR, MTZ</p> <p>(Go to Section)</p>	<p>Highlights: It was a short but no less busy week with overarching narrative still similar as the market continues to reward the re-opening and reflation beneficiaries. The move in rates has been front and center with the move higher in real yields proving an incremental tailwind for the value trade and incremental headwind for growth. This week though, demand was notably absent and felt more like a buyers strike (or MF just full in positions). Names that come up in this arena include OTIS, CARR, FTV, UNP, DOW, APD, ITW, NSC, TDG, DOV, ROP, FMC... given poor px-action, seems like investors are inclined to chase strength vs buy weakness.</p>
<p>ENERGY/UTILITIES</p> <p>Tickers: PAA, DUK, D, GNRC, CHK</p> <p>(Go to Section)</p>	<p>Highlights: Sentiment this week across broader energy is best described as mixed combined with anxiety, but still skewed bullish. Despite the busy earnings week, it's been quieter on the flow side on our desk - some unwinds, some adds but better for sale overall. Last week we had seen some incremental signs of investors looking to add to quality/big caps, but this week that demand is not back.</p>
<p>CONSUMER</p> <p>Tickers: TGT, TPX, MAR</p> <p>(Go to Section)</p>	<p>Highlights: It was another interesting week, perhaps more similar to the last than the weeks we saw earlier in the year. It was telling how companies continued to trade more on investor perception of recovery / opportunity into 2H than the actual reported results or even company guidance. The broader theme of reopening vs. everything else continues to dominate the market and our own conversations with investors.</p>
<p>SPECIAL SITUATIONS</p> <p>Tickers: ET, ENBL, WORK, CRM, CSGP, CLGX, WLTW, AON, FTI, TE FP, Quantum, Si, CAPA, SPACs</p> <p>(Go to Section)</p>	<p>Highlights: During the holiday shortened week, we saw only one new M&A announcement, with ET acquiring midstream operator ENBL for 0.8595 shares of ET. While the market appeared to already be assuming it, WORK-CRM received a 2nd request from the FTC on Tuesday night and we've seen the spread widen to ~\$2.85, or ~19% annualized to a 6/30/21 close. The market was pleasantly surprised to see another topping bid situation (after last week's COHR euphoria) with CSGP coming in over the top of the PE firms Stone Point / Insight to bid for CLGX. The SPAC market remained robust, with 15 IPOs pricing to raise \$3.3bn while 7 de-SPACs were announced representing \$8.1bn of TEV / \$1.7bn of PIPE proceeds / \$2.0bn of IPO proceeds. Standout de-SPACs included proteomics co. Quantum-Si coming public through CAPA, with the common trading up 108% on the back of that announcement. Proteomics has become a fertile ground for SPACs, with Nautilus Biotech (announced 2/8 – through ARYA) also trading exceptionally well.</p>

WEEKLY TRADING COLOR

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SUMMARY

All about rates. Muted action at the index level (SPX has moved <50bps every session this week, maybe <25bps but haven't had time to confirm) but things clearly heated up again below the surface. Plenty of cross currents and the next leg of the rotation. It was all about rates – not so much absolute levels but rather the velocity of move. It was the most discussed topic all week. We have gone from .70 to 1.34 in the 10yr over the last 6 months, bulk of that driven by inflation expectations but Real rates have also started to move over the past few weeks. I will not pretend to be an expert but found a note by my colleague Simon Penn very helpful ([link](#) Pictorial Guide to Treasury Yields). Rates are moving higher in anticipation of growth and the Reopen. The FE being vague allows room to overshoot. Data will improve. Inflation will pick up. Hence I don't think anybody is surprised by rates moving higher but it appears whenever the velocity of such move picks up, it triggers these 48 -72 hours of rotation into Cyclical and Value. We have seen it so many times over the past year. We saw it this week. Growth then becomes a source of funds but in only lasts a few days. Folks are not willing to give up just yet on the Growth trade. Now Mega Cap tech remains a source of funds. We are seeing that today in Software, Internet and Ecommerce where folks are moving out the risk curve again and the Smidcap space outperforms.

HOW BOUT OUR FLOWS

UBS High-touch Single Stock Desk: Flow on the HT desk was fairly balanced this week as investors reacted to move in rates. Our HF flow was slightly skewed to the buy side. Short activity remains subdued on the single stock side. LOs were better for sale. We were better to buy Telcos and Utes, no major surprise there given Defensives acted very well midweek. We were better to buy in the Retail space. Saw money flow out of Tech and HC – all not surprising looking at sector and factor performance this week.

ETF flows: Despite the market lower through Thursday of this holiday shortened week, money continued to flow into Equity ETFs. After adding \$20B to AUM last week, investors piled in another \$6B after Presidents Day. For the third week in a row, large cap ETFs accounted for a significant portion of the inflows and Tech led the way among the sectors. Financials have also added \$600MM with the sector outperforming on the back of the move in rates. We saw buyers of KRE Wednesday on the slight pullback following Tuesday's 3% rally. EEM is a slight underperformer this week vs SPY, but investors still pumped another \$1B into AUM. Fixed Income gave back some of the YTD flows we've seen, with \$1B of outflows. Investors pulled \$1.5B from Investment Grade ETFs this week. Precious Metals saw outflows of almost \$1B for the second straight week as the retail buzz in Silver fades. Volatility ETFs are worth keeping an eye on as they have been generating increasing Retail interest. Looking to profit from volatile markets, \$800MM was added to the group this week, with UVXY leading the way.

SECTOR BREAKDOWN

Equities are set to end the week down small, with the focus this week being on the backup in real rates and the corresponding rotation out of Growth and into Value beginning to take place. On the whole, the tape tilts risk-on with Financials +2.75%, Energy +1.64%, and Consumer Discretionary +1.3% set to outperform most on the week... while Healthcare -2%, Info Tech -68bp, and traditional Defensives like Utes/REITs/Staples -20-30bps lagged most. As the vaccines continue to be rolled out and fiscal stimulus is encouraged publically (last night by Yellen), the Reopening/Reflation trade gains momentum with our Reopening Basket and Macro Reopening Basket set to outperform our Stay-at-Home basket by +5.8% and 4.1% respectively. Our Macro/Thematic baskets tell a similar story with Cyclical +2.7% outperforming most, followed by Low Rate Losers +2.5%, Inflation Beneficiaries +2.1% and HY Debt Sensitivity +1.4% while High Short Interest -2.3%, Last Quarter's Losers -1.9%, Profitless Tech -1.8% and High Growth SAAS -1.7% lagged most.

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WHATS AHEAD?

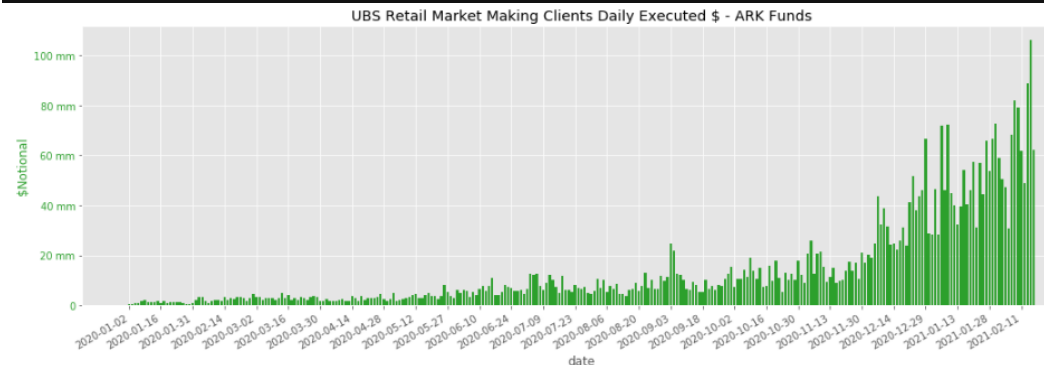
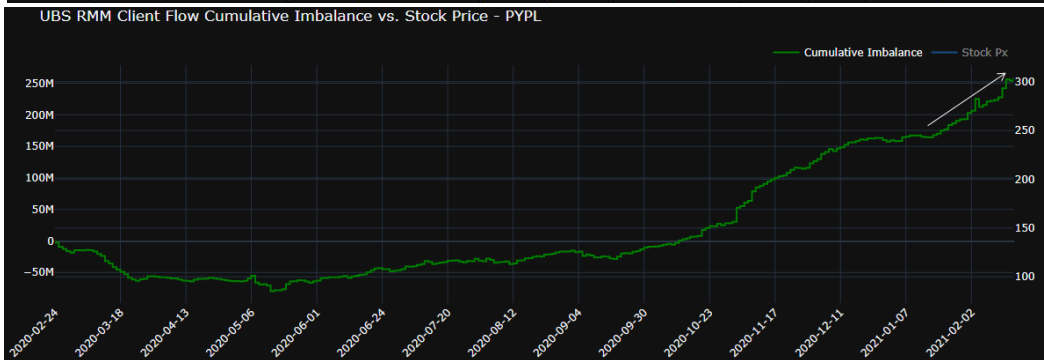
Powell testimony on Tue/Wed and potential JNJ headlines later on in the week. A flurry of analyst meetings (SPOT, SNAP, STX, AKAM, HAS TWTR) and still some earnings with DISCA, PANW, HD, M, SQ, TOL, LOW, TJX and VIAC among highlights. Plenty of Macro data. US PCE for Jan will be watched closely as well as trade report (we expect falling trade volumes); personal income (a huge surge because of the December stimulus bill); and durables shipments (we forecast continued strength in factory activity).

UBS RETAIL MARKET MAKING

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SUMMARY

Retail continues to be a buyer of the market after 14 straight days of inflows. Stocks with crypto exposure continue to see increased retail activity while money continues to flow out of Gold ETF's. PYPL and SQ both seeing increased inflows this week with RIOT and MARA volumes also elevated. PINS we saw large profit taking after the long weekend – seeing the largest net outflows of any name on Tuesday. CCIV has been and remains the most active SPAC in terms of retail volume with increased interest again after the Reuters story midweek. So far in 2021 CCIV has seen twice the inflows of any other SPAC. PLTR activity has also picked up post earnings with retail a better buyer of the pullback. It had the largest buy imbalance of any stock on Tuesday and Wednesday. WMT with record inflows and volumes on Friday. Ark ETF's continue to gain momentum with record volumes.



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	0.48%	0.38%	↑	Apple Inc.	AAPL UW	2.44%	-1.29%	↑
Tencent Holdings Ltd.	700 HK	1.27%	0.37%	↑	Taiwan Semiconductor Manufacturing Co	2330 TT	0.40%	-0.50%	↑
Tata Consultancy Services Limited	TCS IS	0.39%	0.32%	↓	Amazon.com, Inc.	AMZN UW	1.85%	-0.10%	↑
Walmart Inc.	WMT UN	0.62%	0.29%	↓	Tesla Inc	TSLA UW	0.65%	-0.31%	↑
Reliance Industries Limited	RIL IS	0.37%	0.24%	↑	Microsoft Corporation	MSFT UW	2.52%	-0.32%	↓
LVMH Moët Hennessy Louis Vuitton SI MC FP		0.52%	0.23%	↓	Nestlé S.A.	NESN SE	0.22%	-0.31%	↓
T-Mobile US, Inc.	TMUS UW	0.32%	0.21%	↓	Roche Holding Ltd	ROG SE	0.19%	-0.21%	↓
Foshan Haitian Flavouring & Food Co., 603288 C1		0.19%	0.18%	↑	Meituan Class B	3690 HK	0.13%	-0.21%	↓
Charter Communications, Inc. Class A	CHTR UW	0.31%	0.17%	↓	Exxon Mobil Corporation	XOM UN	0.17%	-0.17%	↓
Southern Copper Corporation	SCCO UN	0.15%	0.14%	↓	Berkshire Hathaway Inc. Class B	BRK/B UN	0.37%	-0.17%	↓

Note: The calculation is based on MSCI AC World index universe. Data as of 12 February 2021 close.
Source: FactSet, MSCI, UBS Quantitative Research

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

SUMMARY

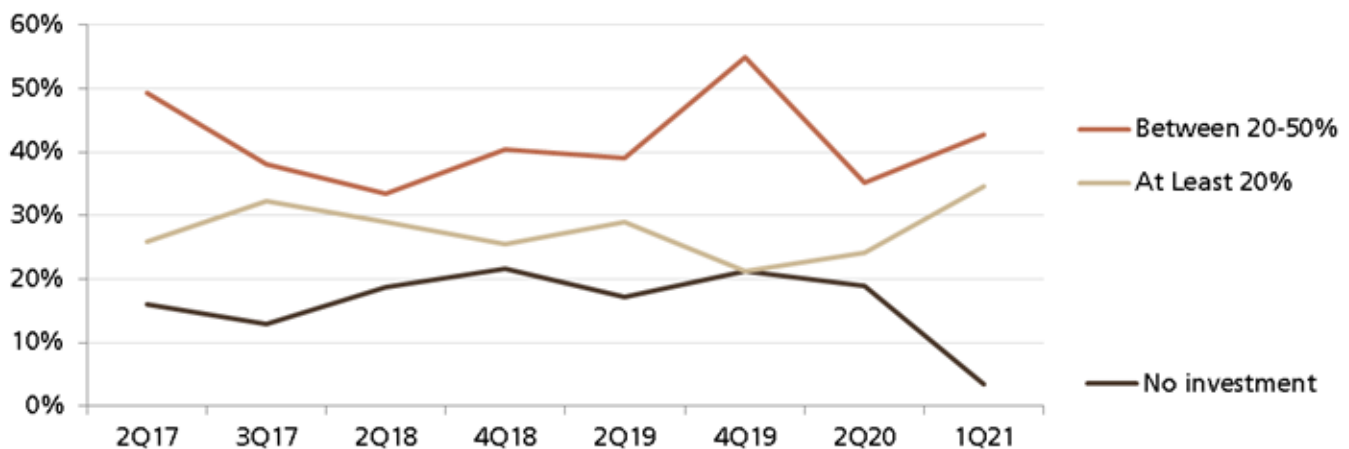
UBS Evidence Lab: Where will US Executives spend marketing dollars in 2021?

Compared to just mid-last year, **US Executives now anticipate revenue and margin growth to recover in 2021** according to our [semi-annual C-Suite survey](#). So what are the spending priorities? Will executives continue to increase **social and online marketing budgets** compared to traditional print and TV?

Here are some insights and visual representation from this dataset:

- Overall ad budgets are expected to rise in 2021, with the majority of senior leaders anticipating **growth in the +1-5% (y/y) range**. On the extreme, roughly 10% of respondents cite marketing spend will grow at least 'double-digits' next year – we have **not seen that response rate since 2017**.
- When asked about specific marketing channels, executives plan to **increase allocation to digital like Social Media, Search and Online Video** at roughly **twice the planned growth** of more traditional print and billboards, and **four times the growth** of TV.

Marketing Budget Allocated to Online, Social and Search



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

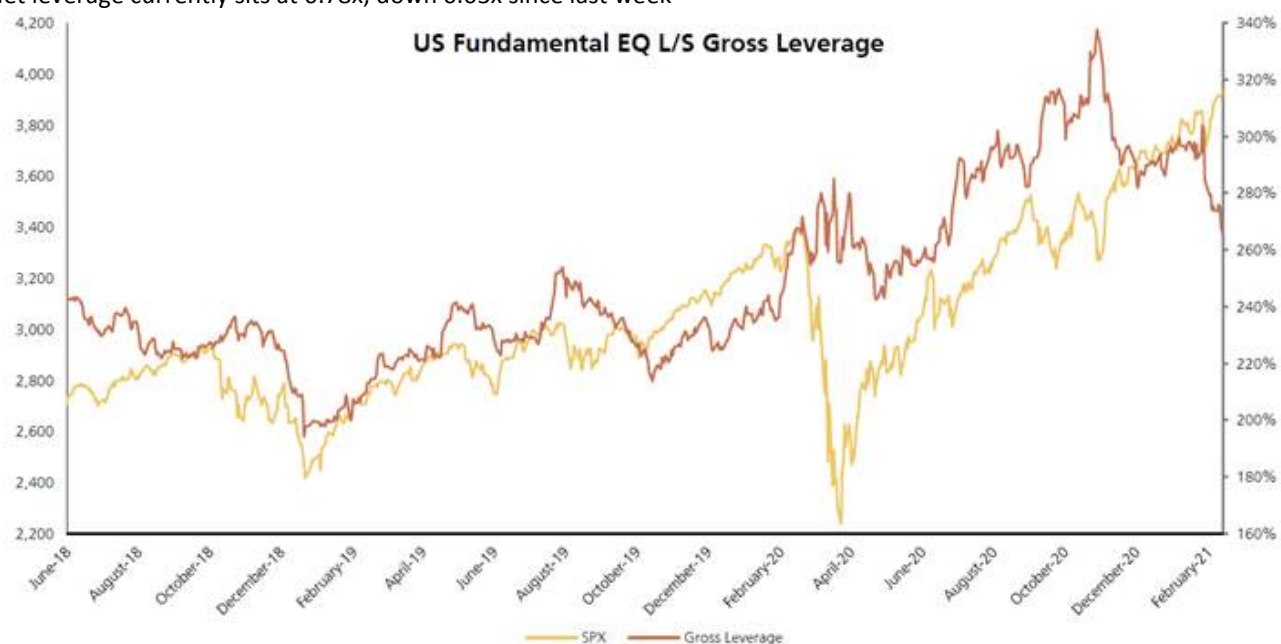
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- [Brand Tracker \[WeChat \]](#)
- [Best Sellers \[Amazon \]](#)
- [China YMTC Semi Chip Plant Construction Monitor](#)
- [Global App Monitor – TMT](#)
- [Global Cargo Shipping Monitor – Coal](#)

SUMMARY

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

- Gross leverage decreased 0.08x to 2.66x week over week
 - Long leverage decreased 0.05x while short leverage down 0.03x
 - Leverage change was driven by increase in Equity
- Major sector themes last week
 - Clients moved exposure within sectors on the long side – reducing exposure to Real Estate while increasing exposure to Communication Services
 - Clients closed down shorts in Utilities
- Net leverage currently sits at 0.78x; down 0.03x since last week



CROWDED LONGS

Region	Common Name	#	#1W	%1W	%YTD
Americas	Amazon.com Inc	1	1	-2.22%	0.64%
Americas	Microsoft Corp	2	3	1.15%	10.15%
Americas	Facebook Inc	3	2	0.90%	-0.97%
Americas	Alphabet Inc A	4	5	0.30%	19.54%
APAC	Kweichow Moutai Co Ltd	5	4	12.45%	30.18%
Americas	Walt Disney Co	6	6	3.59%	3.58%
Americas	Wells Fargo & Co	7	8	2.98%	11.44%
APAC	Taiwan Semiconductor Manufac	8	9	0.00%	19.25%
Americas	Mastercard Inc	9	7	0.66%	-4.35%
Americas	Visa Inc	10	12	0.72%	-3.86%
Americas	Uber Technologies Inc	11	11	3.50%	18.88%
APAC	CSL Ltd	12	-	0.16%	-2.27%
Americas	Alphabet Inc C	13	17	0.29%	20.11%
Europe	Linde PLC	14	14	-1.82%	-4.11%
Americas	Micron Technology Inc	15	10	8.52%	17.07%

CROWDED SHORTS

Region	Common Name	#	#1W	%1W	%YTD
Americas	Salesforce.Com Inc	1	1	0.62%	8.02%
Americas	ViacomCBS Inc	2	2	7.90%	56.49%
Americas	Apple Inc	3	4	-1.02%	2.17%
Americas	Advanced Micro Devices Inc	4	3	6.68%	2.25%
Americas	S&P Global Inc	5	12	4.76%	3.26%
APAC	Afterpay Ltd	6	5	0.29%	28.59%
APAC	Treasury Wine Estates Ltd	7	8	1.81%	7.98%
Americas	Discovery Inc	8	10	12.02%	58.86%
APAC	Cochlear Ltd	9	21	-0.82%	9.21%
Americas	Intel Corp	10	11	6.24%	24.80%
Americas	AT&T Inc	11	6	-0.45%	1.93%
Europe	J Sainsbury PLC	12	9	-2.88%	1.60%
Americas	International Business Machi	13	7	0.51%	-2.75%
Europe	Aon PLC	14	15	2.16%	8.18%
Americas	Tesla Inc	15	-	-4.24%	15.65%

CONFERENCE CALLS

COMING UP

	Date	Sector	Time (EDT)	Company/Topic	UBS Host	Link to RSVP	Dial-In	Replay	Replay Code
NEW	22-Feb	Utilities	10:00 AM	Hydrogen Developments w/ Pillsbury	Dan Ford	PLEASE REGISTER HERE			
NEW	23-Feb	TMT	8:00 AM	Palo Alto Networks (PANW) EPS Call	Fatima Boolani, Andrew Rocha	PLEASE REGISTER HERE	US: 1 888 286.8010 Int'l: +1 617 801.6888	43005989	
NEW	23-Feb	TMT	8:30 AM	CDNS Earnings Recap	Pradeep Ramani, Andrew Rocha	PLEASE REGISTER HERE	US: 1 888 286.8010 Int'l: +1 617 801.6888	54026870	
	23-Feb	US Equity Strategy	10:00 AM	Rise of retail: will it last, what are the impacts?	Keith Parker, Brennan Hawken, Fabrice Schloegel	PLEASE REGISTER HERE			
NEW	23-Feb	Renewables/Industrials	10:00 AM	Expert Call: European Clean Truck Regulations with Council on Clean Transportation	Steve Fisher	PLEASE REGISTER HERE			
	23-Feb	Renewables	11:00 AM	Lithium ion Battery Innovation & Trends w/ Nano One	Jon Windham	PLEASE REGISTER HERE			
NEW	23-Feb	Utilities	1:00 PM	Texas Volatility & Grid Resilience	Dan Ford	PLEASE REGISTER HERE			
	24-Feb	Renewables	11:00 AM	Zero Emission Aviation w/ ZeroAvia	Jon Windham	PLEASE REGISTER HERE			
	24-Feb	Consumer	3:00 PM	UBS Access: Mattel Inc. Fireside Chat with CEO & CFO	Arpine Kocharyan	PLEASE REGISTER HERE			
NEW	25-Feb	TMT	8:30 AM	NVDA Earnings Recap	Tim Arcuri, Andrew Rocha	PLEASE REGISTER HERE	US: 1 888 286.8010 Int'l: +1 617 801.6888	31124777	
	25-Feb	Industrials	10:00 AM	Fireside Chat with the CEO of Acuity Brands (AYI)	Chris Snyder	PLEASE REGISTER HERE			
	25-Feb	Renewables	11:00 AM	Green Hydrogen w/ Fusion Fuel	Jon Windham	PLEASE REGISTER HERE			
NEW	26-Feb	TMT	8:15 AM	Salesforce, Workday & VMware EPS Call	Karl Keirstead	PLEASE REGISTER HERE	US: 1 888 286.8010 Int'l: +1 617 801.6888	70751216	
NEW	26-Feb	TMT	9:00 AM	Zscaler (ZS) EPS Call	Fatima Boolani, Andrew Rocha	PLEASE REGISTER HERE	US: 1 888 286.8010 Int'l: +1 617 801.6888	45575232	
	26-Feb	Renewables	11:00 AM	100% Electric Boating w/ Vision Marine	Jon Windham	PLEASE REGISTER HERE			
	1-Mar	Consumer	12:00 PM	Handbag Resale Industry: Current Trends	Jay Sole, Eric Sheridan, Zuzanna Pusz, Alex Steiger	PLEASE REGISTER HERE	Click to Request Replay		

REPLAYS

	Date	Sector	Time (EDT)	Company/Topic	UBS Host	Replay	Replay Code
NEW	19-Feb	TMT	8:30 AM	AMAT Earnings Recap Call	Tim Arcuri, Andrew Rocha	US: 1 888 286.8010 Int'l: +1 617 801.6888	79003332
NEW	19-Feb	Healthcare	10:00 AM	Expert Event: Dr. Suzanne Baron Interventional Cardiologist Call	Matt Taylor	US: 1 888 286.8010 Int'l: +1 617 801.6888	27078604
NEW	19-Feb	Healthcare	11:00 AM	Expert Call on Evolving Trends in Epilepsy Treatments	Esther Rajavelu	US: 1 888 286.8010 Int'l: +1 617 801.6888	18545215
NEW	19-Feb	Consumer	12:00 PM	Off-Price: Current Trends	Jay Sole	Click to Request Replay	
	11-Feb	Financials	10:00 AM	Expert call: In turbulent times, how is the policy landscape towards financials changing?	Saul Martinez, Brennan Hawken	US: 1 888 286.8010 Int'l: +1 617 801.6888	62912281
	11-Feb	TMT	2:30 PM	CYBR EPS Recap Call	Fatima Boolani, Andrew Rocha	US: 1 888 286.8010 Int'l: +1 617 801.6888	36709949
	10-Feb	Consumer	10:00 AM	Expert Event: Cruise Line Bookings Conference Call with One of the Largest U.S. Cruise Sellers	Robin Farley	Click to Request Replay	
	10-Feb	TMT	11:00 AM	Talking 5G w/ Telco & Semis	Timothy Arcuri, John Hodulik, Batya Levi, Gabrielle Brown, Andrew Rocha	US: 1 888 286.8010 Int'l: +1 617 801.6888	45350664
	9-Feb	TMT	10:30 AM	MSFT Modeling Deep-Dive Call	Karl Keirstead, Taylor McGinnis	US: 1 888 286.8010 Int'l: +1 617 801.6888	47445809
	8-Feb	Consumer	10:00 AM	UBS Harley: Investor Sentiment & Debates Group Call	Nick Smith, Robin Farley, Mark Paski	Click to Request Replay	
	8-Feb	Energy	12:00 PM	UBS Midstream Call: Fireside Chat with East Daley on 2021 Outlook for Midstream	Shneur Gershuni, Lloyd Byrne, Agnieszka Zmigrodzka, Michelle Kenel	US: 1 888 286.8010 Int'l: +1 617 801.6888	58663104
	8-Feb	Healthcare	10:00 AM	UBS Expert Event: Prominent COVID Epidemiologist and Health Economist Call	Matt Taylor, Dan Brennan, Kevin Caliendo, Whit Mayo	US: 1 888 286.8010 Int'l: +1 617 801.6888	91941289

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FINANCIALS

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Sentiment: Little change in sentiment despite the continued back-up in rates; the bias is still bullish, but it's not a 1-sided discussion, and skeptics are not hard to find. Or at what point does the Fed have to consider adjusting policy? Pace > threshold is largely acknowledged as the key determinant. And in spite of Fed attempts at full disclosure – **rumblings growing louder about this taper timing (Jackson Hole/late August starting to draw speculation – especially in light of the committee's plans to be forthright in front-running its own plans).**

WHAT HAPPENED THIS WEEK

- **WFC** – shares took off (+10% on the week) on the first real tangible news that progress with regulators is being made. I don't think it pulls the timeframe forward, but instead represents a lot more confidence in that 1H22 assumption. \$4/share type exit rate FY22 eps # on the radar...shares still at 1.1x TBV...
- **AIG** – met with very mixed reaction. Results just okay/noisy but messaging around Lifeco buyer interest took a meaningful step in the right direction (did half its business just double in value?). Bulls combined Lifeco sale prospects with the PC rate backdrop, better commercial growth + announced repurchase and view AIG risk/reward as suddenly compelling....vs Bears remain skeptical – on the micro, on the macro, on mgmt/execution, the 19.9% hurdle/timing, etc etc
- **STT** – released news of the loss of the majority of the servicing assets of one of its large clients....so much for that; structural pricing pressure is a fact of life for this group, but there had been some expectation that the AUM could be retained.
- **iRates** – its now +20 bps on the 10yr dating back to last Friday morning, nearly +30 bps for real yields. In the context of which – the flat SP is perhaps more impressive than the KRE's +4% move, the XLF's +3.5% bounce
- Top 5 Performers – **WFC, CBOE, RGA, LNC, FRC**
- Bottom 5 Performers – **AFRM, STEP, PAYA, PYPL, AIZ**

NEXT WEEK'S CATALYSTS

- **SQ 4Q Results** (Tuesday AMC) – consensus Seller gross profit looks a bit high (volumes reflect Dec weakness, but GP est is still at +11%), as does CashApp gross profit (sub/seller decel to +125% seems right, but gross profit is still high, inclusive of BTC benefits, at +165%). Nonetheless, expect focus on user growth and engagement; daily actives, % of daily/monthly actives, monthly actives, Cash Card, Direct Deposit, Large Account, Square Card, CashApp GPV/business usage (network cross-sell)
- **CG Investor Day** (Tuesday) – fundamental momentum building (fundraising, deployment, performance), FRE guidance seems conservative
- **MSCI Investor Day** (Wednesday) – ESG, Analytics growth outlook, subscription growth/retention trends
- Competitor Conference (Weds-Friday) - **GS CEO** Wednesday morning, **WFC CFO** to flex in reiterating FY guidance (when was the last time WFC did not guide down..?), **SBNY CEO DePaolo on his \$10B+ of crypto deposits**, **STT updated outlook** (2Q NII stabilization, FY servicing fee growth toward +5%), **CBOE on its recent 8K....**, **APO's Rowan/on the back of the back and forth ATH/AIG headlines**, **COF's Fairbank....**, **MS CFO Pruzan** Thursday morning/on the back of yesterday's hearing, **JPM CFO Piepszak**, **DFS CFO Greene following a disappointing 4Q call/guidance** (growth/expense messaging), **BK CFO Portnoy on similarly guided 2Q-4Q NII stabilization** (also disappointing expense guidance, crypto headlines, lumpy fee rate headwinds), **Citi CFO Mason**, **BAC CFO Donofrio**, **ALLY CFO LaClair**, and **IBKR CEO Peterffy** following yesterday commentary on the scare from January 28th ..

COLOR FROM THE UBS DESKS

Derivatives

- **From The Desk** – Again better to buy in more spread sensitive groups – vs better for sale amongst Trusts, Cards and Alts. P&C remains a very active space amongst LO accounts, both ways
- **Derivs** – Less chasing on the Derivs side – instead busier amongst call over-writers (selling upside in longs) and other types of profit-taking

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What's on Deck

- Feb 22-24, Mar 1-3: **Shinhan Financial Group Ltd (055550)** - **NDR** - Investor Relations (Hong Kong; London; New York)
- Feb 24: **Ameris Bancorp (ABCB)** - **NDR** - CEO; CFO; Exec Vice President (Chicago)

Sentiment: A tough week for TMT as an unwind ripped through the space. The market has been driven by themes, not fundamentals or valuation, which has proven frustrating. Investors are scared to short some of the high flying, overvalued names and have resorted to **using large, liquid names as funding shorts, particularly the FANG complex**. The long side of that trade is some of the themes that have been working – like the reopening trade and the DTC trade. It is unclear what gets the market back on track to focus on fundamentals.

WHAT HAPPENED THIS WEEK

- **MYTE:** Team Sheridan initiates MYTE w/a Neutral...it is at the forefront of changed consumer behavior by high-end luxury shoppers. MYTE offers 1) A **unique value proposition** for both luxury brands and consumers and is well positioned to benefit from positive secular themes; 2) **MYTE can achieve ~22% 5yr rev CAGR** in FY20-25 (new customer growth, expanding wallet share, new categories); and 3) Strong margin profile with gross margins to remain stable at 46% and Adj EBITDA margins in the 7-8% range over FY20-25. ([link](#))
- **CHTR:** Filings suggest that **CHTR bought back \$1.2B in Jan** vs \$2b in Dec. UBSe \$1.5B in 1Q21. ([link](#))
- **DIS:** DIS model update post the F1Q print/new segment disclosure along with Evidence Lab data around D+ subs and a new price target of \$215 vs prior \$200. The key takeaways are that Evidence Lab data suggests **D+ app download rankings have remained solid globally (helped by strong Latam launch)**, the **Parks business will bottom in the March quarter** and should improve from there (*UBSe peak EBIT losses in F2Q*), and FY21/FY22 estimates are generally higher with FY21 EPS now \$1.58 vs prior -\$0.10 and cons \$1.86...FY22 EPS now \$5.44 vs prior \$5.38 and cons \$4.67. **Read the full report here:** ([link](#))
- **RATINGS:** P2+ PUT ratings are trending -7.7% in 1Q21, in-line with 4Q's -8%. **Younger demos continue to vanish w/A18-49 -17% and P25-34 -22% but older folks 55+ are stable. But comps gets TOUGHER in 2Q21** ([link](#))
- **TRIP:** Mixed 4Q result and **weak 1Q guidance** w/2H recovery. TRIP framed the subscription biz as a *"multi-billion dollar recurring rev biz in the long term."*
- **UBER:** UK Supreme Court ruled that **UBER drivers are "workers" entitled to certain rights like minimum wage etc...**...similar to what happened with AB5.

NEXT WEEK'S CATALYSTS

- **DISCA 2/22 @8AM:** Expect to hear **early D+ sub update (bogey is ~10m subs...5m existing and 5m incremental)**, **US adv recovery** continuing (*UBSe -2.5% in 4Q20 and +4.2% for 2021*). Expect **accelerating US affiliate growth** following renewals and improved sub declines (*UBSe 4.9% in 4Q20 vs. 2.2% 3Q*). Core opex savings helps offset DTC dilution of ~\$250M. FCF conversion to decline from recent trend of ~60% (*UBSe 53% in 2021; guidance for 50%+*).
- **VIAC 2/24 @4PM:** Improved cable net affiliate growth (*UBSe 6% vs. +4% 3Q*) driven by better sub trends and Hulu inclusion (*UBSe ~5% growth*).
- **BKNG 2/24 @4:30PM:** 4Q demand for alt accommodations still likely outstripped core lodging as certain geographies implemented greater mobility restrictions and **UBSe RN growth of -65% y/y (cons -58%) and bookings growth of -67% y/y (cons -66%)**. UBS expects **2021 will recover to ~65% of 2019 levels of demand & 2022 at ~80% of 2019 levels**.
- **SPOT 2/22 @11AM ET/4PM ET:** SPOT is hosting a **Virtual "Stream On" Event** at 11AM ET followed by an **investor discussion and Q&A** with mgmt at 4PM ET.
- **SNAP 2/23 @12PM ET:** Investors think SNAP's one **hour investor event** to focus more on product and platform evolution. Unclear if SNAP will touch on financials, though a debate has emerged around **content spend and how that impacts gross/EBITDA margins** going forward.
- **VIAC 2/24 @4PM ET:** Most investors are expecting **guide to total DTC subs (P+, Showtime, Noggin etc.) of ~50m subs over the next 2-3 years -- > they already have ~20m subs from All Access and Showtime and other smaller services**.
- **TWTR 2/25 @12PM ET:** The **event** will likely tackle key debates such as broadening the advertising base, DR efforts, product monetization roadmap, strategy for continued user growth.

COLOR FROM THE UBS DESKS

Derivatives

- **Desk is seeing buyers of VZ puts** in 1wk-2wk space after the 5% move this week. **VIAC vol remains very elevated**, with seller through put spread 1x2s.

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What's on Deck

- Mar 25-26: **Japan Internet Day - Conference** (Tokyo)
- Sep 2-3: **China TMI Virtual Conference 2021** (Shenzhen)
- Dec 6-8: **Global TMT Conference 2021** (New York)

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Sentiment: It feels like the new-norm for the 10yr is 1.30%. Should this be home for a while and we stop seeing aggressive moves higher, I think the pain in software will subside and the trade will come back on. One thing I will continue to watch though is the move real rates... which I believe was the main pain-point in this week's mini sell-off. Within **software**, it continues to be a mainly a quality-driven tape where **companies exposed to cloud, digital transformation, and customer engagement are faring well vs others** and the **tape is less about hype/growth/momentum**. On the other side of tech, after AMAT this week I expect the **SOX** to recover from its 2 day intra-week slump.

WHAT HAPPENED THIS WEEK

- **Expert Call on the Cyber Post-SWI Impact:** UBS hosted an Expert Call on the Post-SWI Impact on the Enterprise with UBS IT. My high level take was that the overall tone of the call was bullish on the MSFT security opportunity. One of the main takes was that cyber spending is going to be very discriminate and more gradual vs a broad-based up 10-15% in aggregate.
- **AMAT EPS:** Beat/Raise... big Korea and Taiwan numbers. Revs beat \$5162M vs \$4979M and grew 10.1% qq vs Seasonality 1% qq. GMs beat 45.9% vs 45.4%, OMs beat 29% vs 28%, and EPS beat \$1.39 vs \$1.28. Semi Systems beat \$3553M vs \$3462M and grew 15.7% qq, and was driven by F/L which beat and grew 15.7% qq, DRAM which missed and was -6.3% qq, and NAND which beat and grew 37.7% qq. For the guide, implied Growth was 4.4% qq vs Seasonality Guide 5.5%/Print 7.2%. Investor focus was on the guide and the >\$70Bs WFE mentioned on the call.
- **CRWD/Humio:** announced that they are acquiring Humio for \$400M. Humio is a cloud log management tech, therefore putting CRWD more in the observability space and is a continuation of the merging of observability and security theme – though from the other direction now as traditional security is moving more into observability. Negative read to SPLK, ESTC, and SUMO.
- **TWLO Feedback:** in short they crushed and I didn't pick up any real nitpicking as TWLO was able to accelerate growth inorganic and maintain L-50s% organic. That's where the focus was.
- **SNPS Feedback:** there were both sides of the camp. Some investors were pushing back that they wanted to see SNPS raise guidance, which they didn't. The pushback here is that raising the guide during Q1 is uncharacteristic for SNPS. The more critical investors just think to sustain these +40x multiples companies need to be raising – though some pushback to this is that SNPS is the lower multiple business in design vertical software cohort.

NEXT WEEK'S CATALYSTS

- **Hon Hai IR Call (2/21):** Grace Chen will be hosting IR Alex Yang for a group call on Sunday night at 10pm ET. The call will be hosted in English. Register here <https://bit.ly/200s5NY>.
- **FROG IPO Lock-Up Expiration (2/22)**
- **PANW EPS Recap Call (2/23):** Fatima and I are hosting an **EPS Recap Call for PANW on Tue, Feb 23 at 8am ET**. Again there will be a live Q&A following Fatima's comments, so email/IB me if you'd like to ask a question. Registration <https://bit.ly/3pxmEzB>.
- **CDNS EPS Recap Call (2/23):** Pradeep and I are hosting an **EPS Recap Call for CDNS on Tue, Feb 23 at 8:30am ET**. Again there will be a live Q&A following Pradeep's comments, so email/IB me if you'd like to ask a question. Registration (<https://bit.ly/3rZxFLx>).
- **NVDA EPS Recap Call (2/25):** Arcuri and I are hosting an **EPS Recap Call for NVDA Thu, Feb 25 at 8:30am ET**. Again there will be a live Q&A following Tim's comments, so email/IB me if you'd like to ask a question. Registration (<https://bit.ly/2MPNZQm>).
- **Brookings Institute Economics Call (2/25):** Our **Economics Team** is hosting a call on **Thu, Feb 25 at 8:10am** for a call on **Direction of America Economy/Biden Proposal** with a Senior Fellow in Economic Studies, **Brookings Institution** – Registration <https://bit.ly/3pBqMyu>.
- **CRM+WDAY+VMW EPS Recap Call (2/26):** Karl and I are hosting an **EPS Recap Call for CRM + WDAY + VMW on Fri, Feb 26 at 8:15am ET**. Again there will be a live Q&A following Karl's comments, so email/IB me if you'd like to ask a question. Registration <https://bit.ly/3pvpWDh>.

COLOR FROM THE UBS DESKS

Derivatives

- Singlestock vol seems to have found a floor, especially in the 1 year bucket. The flow has been dominated by overwriters in tech post earnings.
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What's on Deck

- Feb 22-23, 26, Mar 2-4: **Dentsu Group Inc (4324) - NDR** - Investor Relations (New York)
- Mar 1-4, 8-10: **Shingo Hirata (Japan Elec Components) - Virtual US marketing March 2021** (New York)
- Mar 8: **Disruptive Technology Virtual Day 2021 - Conference** (London; Tokyo)

HEALTHCARE

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Sentiment: According to Paul Sperber of UBS HC Trading, this week was a MAJOR reversal of trend- for the last 2 weeks Pharma and Managed Care were the clearest laggards / source of funds with money flowing into the re-opening plays (Med Tech most notably). With the bid this week to Value Pharma and Managed Care both lead the XLV. Paul points out that what is interesting though was that the desk was NOTABLY better for sale across the group and has been for last couple of days.

WHAT HAPPENED THIS WEEK

- **KOD vs REGN vs ROG** The team hosted a timely call with an Ophthalmologist after last weekend's Angiogenesis conference. The focus was on the next generation wet AMD assets, namely Kodiak's KSI-301 and Roche's Faricimab, and how they will fit in the treatment paradigm with incumbent Eylea, taking into account biologics on the horizon. Key debates brought up were CST / dryness levels of KSI, absolute AE's from KSI, and the trial design of KSI. Our expert was more favorable on Faricimab and did not downplay player involvement with biosimilars.
- **ROG (-)** Michael Leuchten downgraded Roche from Buy to Neutral. "Our Buy thesis on Roche was based on a view that the base business revenue erosion would be limited enough to allow the pipeline to offer true upside potential. Things changed in 2020 though, with biosimilar erosion of Avastin/Herceptin/Rituxan, 40% of '19 pharma sales, (and the pandemic) removing CHF5.9bn from the top-line, limiting pharma growth to 2% CER. The key top-line growth drivers, Tecentriq, Ocrevus and Hemlibra, performed well and on the profit side Roche generated CHF1.8bn in efficiencies to counter the biosimilar drag. However the drag continues in '21 (CHF4.6bn) and whilst the Diagnostic division (Dx) will continue to benefit from the pandemic and soften the blow, looking into '22 consensus seems too high for both divisions."
- **MD** Nice Sell call from Whit here. Shares closed down 25%. Mgmt speaks to a ~\$33M run rate in the quarter, meaning ~\$130M annual run rate- how does that jive with the \$270M they speak of??

NEXT WEEK'S CATALYSTS

- **VTRS (2/22)** Viatris hosting a financial session ahead of their March analyst day. Should be a catalyst for shares with heavy investor focus on ability to meet FCF targets post caution @ JPM. Is mid \$6B with 4% divvy the bogey?
- **EW (2/23)** Matt Taylor hosting vNDR with EU / Canada accounts
- **MDT (2/23)** EPS: Do they still think FY4Q (April) can show normalized growth on a 2 year stack? Also important is progress in areas where they have been gaining share (e.g. pacers, spine, neuro) to see traction under new CEO.
- **TDOC (2/24)** Already pre-announced, so will be mostly about 2021 metrics and how to think about growth and LVGO. A top weighting in the highly-followed ARKG ETF, Teladoc has blown through ~80% of the ~30 analysts that cover the stock's Price Target's, so messaging likely needs to be very good.
- **OMI (2/24)** Caliendo Street High. Stock has lagged after NOT preannouncing at JPM, but we are confident in upside to 4Q and suspect they will keep guidance of DD EPS growth. Is there \$3 in earnings power or more in 2021? Also in question is the durability of earnings.
- **HSIC / XRAY / ALGN / NVST (2/25-2/27)** Chicago Dental Society Midwinter virtual Meeting. Could be some surprises as maybe a new product launch or two. With no IDS until Fall, some companies may use this venue to launch new offerings.
- **PTCT (any day)** Huntington's data in healthy volunteers.

COLOR FROM THE UBS DESKS

Derivatives

- **N/A**
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What's on Deck

- Feb 23-24: **CSL Behring (CSL) - NDR** - CEO; Investor Relations (New York)
- Feb 23: **Ansell Ltd (ANN) - NDR** - CEO; Investor Relations (New York)
- Feb 23, 25-26: **Vinicius Ribeiro - LatAm Healthcare & Education - Virtual US Marketing** (New York)
- Feb 23: **Edwards Lifesciences Corp (EW) - NDR** - CFO; Investor Relations (New York) - **NEW**
- Feb 24-25: **Colin Bristow - US Large & SMID Cap Biotechnology - NY Call - Marketing** (New York) - **NEW**

INDUSTRIALS

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Sentiment: Some of the best performers on the week included Airlines (SKYW, SAVE, AAL, HA, DAL, UAL) and Miners (FCX, X). Meanwhile names like DE & CAT- two clear reflationary winners- are among the few longs that have yet to really pull back. On the flip side, some of the worst performers included recent outperformers tied to EV/Renewables which lost steam this week given the macro backdrop (ALB, Auto complex also a function of earnings). High quality longs in Industrials/Materials also continue to struggle which has been an ongoing theme throughout this earnings season. I don't think investors are truly giving up in Rails, or parts of Multi's, etc... but they are just not the hot trade right now.

WHAT HAPPENED THIS WEEK

- **DE:** Absolutely crushed it...then again, I think we all expected a huge beat and raise. DE is raising NI guidance from \$3.6-\$4B to \$4.6-5B, which is substantially higher than the \$4-\$4.5B bogey and \$4.1B cons.
- **ALLE:** Tough one- I wouldn't expect investors to view this result as favorably as the 25% EPS beat would imply, as it was driven by the int'l segment and guidance implies Americas softness in F'21 on non-res headwinds. Also beat aided by \$0.09 tax tailwind.
- **LUV:** First positive update in a while...co is now guiding better cash burn for the quarter at \$15M/day vs prev \$17M/day due to improving operating revenue trends in Q1 2021. I'd point you to Myles Walton's bookings report from last week, which was the second week in a row of positive trends...so looks like it is coming through now.
- **ACM:** More than doubling adjusted EPS and FCF from FY20 to FY24, including >\$4.30 of adjusted EPS and > \$680M of FCF in FY24. Co expects to deliver \$2.5B of cumulative FCF from FY21-FY24, supported by a reiterated expectation to convert 75% of adjusted EBITDA to attributable, unlevered free cash flow on a normalized basis. Reiterated FY21 guidance. [Link](#)
- **EMR reported TTM orders -3% organically.** AS orders -12% ex 2% of favorable currency impact, and C&RS orders were +16% ex 2% of favorable currency impact. [8-K](#)
- **JCI is also raising FY21 guidance this morning after detailing SG&A cost reductions.** For FY21, co is now guiding \$0.05 higher at low& high end of the range to \$2.50 -\$2.60, vs prev \$2.45 - \$2.55. Adj Segment EBITA margin is now expected to expand by 60 -90bps vs prev 40-60bps. Full year organic revenue growth is +L-MSD, and FCF conversion of 100% remain unchanged. Fiscal Q2 guidance is also unchanged.
- **US EEMI - Capex: Further upward revisions for 2021. CEO Survey reaffirms our outlook for 2021/22** - Refreshed deep dive on capex and IP momentum, the two key drivers of sector growth, and see a synchronous recovery of both factors into 2021/22.

NEXT WEEK'S CATALYSTS

- **KBR (2/22):** Feedback was mixed on KBR, with the pushback on how much KBR has moved away from its logistics roots and to what extent its roll up nature enables it to win business.
- **IR (2/22):** At a high level looking for a gradual sequential improvement in the quarter, though on the call management said they expect revenues in PST and HPS comparable to 3Q. Maybe shifting focus here given the announcement to sell majority of that business.
- **SPR (2/23):** Investors have continued to hang on to long positions with SPR as a way to play the return of the 737MAX. SPR is on a strong recovery path and 737MAX deliveries and customer receptivity has been encouraging.
- **HEI (2/23):** Valuation remains a barrier to entry, though favoritism is still displayed given aftermarket exposure.
- **UBS San Francisco Virtual Chemicals Mini-Conference (2/23):** Participating companies include: APD, ASH, CE, EMR, GLW, PPG, RPM, SHW, GRA. Seven of the 10 participating firms will have CEO/CFOs present.
- **CW (2/24):** Stock has been a long for some of the SMID cap tied books given aero exposure and nice yield. Investors are looking for strong sequential growth in sales and margins at Commercial/Industrial and Power, which together with another good quarter in Defense, should drive margins toward 19.5% (vs 17.5% last Q).
- **PWR (2/25):** Stock remains a relative long in the grand scheme of the E&C world, though not as long as investors used to be.
- **MTZ (2/26):** Stock has become PWR 2.0 of 2021. Mgmt remains confident in seeing rapid growth in clean energy revenues.

COLOR FROM THE UBS DESKS

Derivatives

- **N/A**
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What's on Deck

- Feb 22: **Airbus SE (AIR) - NDR** - CEO; CFO; Investor Relations (New York)
- Feb 24-25: **Sandvik AB (SAND) - NDR** - CFO (New York)
- Feb 24, Mar 2-4: **Aurizon Holdings Ltd (AZI) - NDR** - CEO; CFO; Investor Relations (London; New York)

ENERGY/UTILITIES

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Sentiment: Sentiment this week across broader energy is best described as mixed combined with anxiety, but still skewed bullish. Pullback in crude prices to end the week with WTI back below \$60/bbl with some inevitable profit-taking as the Texas cold snap looks to be receding. Also news that the Biden administration is exploring diplomatic re-engagement with Iran and the March 4th OPEC meeting approaching (consensus for OPEC to add back 1mbpd) added to the nervousness. Despite the busy earnings week, it's been **quieter on the flow side on our desk - some unwinds, some adds but better for sale overall. Last week we had seen some incremental signs of investors looking to add to quality/big caps, but this week that demand is not back.**

WHAT HAPPENED THIS WEEK

- **SOLAR/RENEWABLES:** This week we fielded far more questions on **Solar** than traditional energy given the underperformance (TAN -6% vs SPX +0.3%). The weakness just seems to fit with broader market themes re: yields/growth/high fliers. **We've also seen any hint of weakness at the open usually results in stocks trading lower throughout the day - a lot of nervous money out there that's recently come into the space.** And then **RUN** remains the most asked with it now down on the yr.
- **MIDSTREAM:** some Qs around degrossing given the moves. Most surprised by **TRGP** reaction – one of the better prints we've seen thus far, yet the trend of sell the prints continues. **ET** traded down on surprise announcement of **ENBL** deal, but traded better to end the week post FY'21 high end of guide. With a few more big prints still to come (**WMB, OKE, LNG**), folks bracing for print s to be sold at this point, but sentiment overall still has an upward bias despite some messaging issues from a select few this earnings season (**PAA, MMP, EPD**). **Encouragingly, we haven't seen the same downside beta on bad news like there has been last couple of yrs and most names have recovered in the following days post prints.**
- **UTILITIES/POWER:** lagged the broader markets with highest multiple stocks getting hit the hardest amid inflation concerns with a pullback in treasury yields. Sell the prints has also been the trend this earnings season for the group despite mostly beats and in-line to better than expected guides, but we finally saw some positive reactions to end the week from **SO, DTE** and **POR**. **FE** was the second best performer within the group after Icahn news (+7%). On the Power side, Texas outages obviously was a huge focus with **NRG** down 8% on the week on short generation, while **VST** up 7% on long generation. Other names impacted include **EXC** on the risk side and then **AEP** as a beneficiary on transmission. **Link to notes from Team Ford on TX impacts [here](#) and [here](#).**

NEXT WEEK'S CATALYSTS

4Q'20 EARNINGS:

- **OKE** (2/22, AMC): focus is all about guidance – Shneur sees upside risk to numbers for both '21 and '22.
- **WMB** (2/22, AMC): focus on the call will be around '21 EBITDA sensitivities, capital allocation, and future capex expectations.
- **OXY** (2/22, AMC): remains controversial, but a HF long on oil torque. Projected to beat slightly vs UBSe.
- **MRO** (2/22, AMC): skewed short. Lloyd sees a slight beat driven by stronger oil and total prod'n vs cons.
- **XEC** (2/22, AMC): continuing to see improving well costs driven by quicker drilling and completion time.
- **FANG** (2/22, AMC): forecast FANG to be inline with hedges losses offset some of the pricing gains late in 4Q. Update on QEP/Guidon and inventory will be looked for.
- **ETRN** (2/23, BMO): all eyes on MVP - timing of FERC application & updated timeline for completion + potential changes to capex
- **PXD** (2/23, AMC): remains a cons long. See a beat w/ total prod'n & realizations coming in higher + costs lower.
- **LNG** (2/24, BMO): remains a consensus long. Shneur est '21 EBITDA of \$4.25bn above cons of \$4.13bn due to higher expected utilization and global natgas pricing.
- **EXC** (2/24, BMO): focus will be on details for the financial impact as actual retail obligations post ERCOT
- **FTI** (2/24, AMC): Amy downgraded standalone FTI to Neutral this week as she sees limited upside.
- **NRG** (2/25, BMO): focus for the call will be financial impacts for TX.
- **PCG** (2/25, BMO): first call from new CEO Patti Poppe. Expect to learn mgmt appointments .

COLOR FROM THE UBS DESKS

Derivatives

- Starting to see some interesting flow in **refiners**. Buyers in the market of May calls in **PSX** and June calls in **VLO**. Previous the large prints had mostly been in the ETFs and ETF proxies like **XOM**. On the Utility side kind of quiet but did see a large buyer of **NRG** puts today (stock up for the first time in a week).

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What's on Deck

- Feb 22, 24-26: **Ovintiv Inc (OVV)** - NDR - CEO; CFO; President (New York)
- Feb 25-26, Mar 2-3: **Mitsubishi Materials Corp (5711)** - NDR - CEO (London; New York)
- Mar 24: **PG&E Corp (PCG)** - NDR - CEO; Investor Relations (New York)

CONSUMER

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Sentiment: It was another interesting week, perhaps more similar to the last than the weeks we saw earlier in the year. It was telling how **companies continued to trade more on investor perception of recovery / opportunity into 2H than the actual reported results or even company guidance.** The broader theme of reopening vs. everything else continues to dominate the market and our own conversations with investors. Looking ahead to next week then **with retail reports, it would seem as though this would again be true** – if history of earnings thus far holds, the "reopening" names will have a lower bar to actually guide and talk to specific QTD performance whereas COVID winners will have a tougher time performing on prints, even if results are good. Staples have been topical, too. We have been almost 90% for sale the last two weeks in staples, particularly beverages, food and HPC. More recently, we continue to see demand across the XLP universe, which generally seems to be more covering vs. real money going back to work here.

WHAT HAPPENED THIS WEEK

- **U.S. Hardlines & Grocery Retail - Watching Wages – A Deep Dive on the Impact of Rising Wages:** We believe the best positioned companies to manage through this headwind include the Home Improvement retailers, Best Buy, and Costco. On the other hand, the grocers and dollar stores are more at risk.
- **TGT (Neutral, PT \$190) - A Same Day Delivery?: Most likely, TGT finished 4Q strong.** We're modeling 17.0% SSS, which compares to the 16.8% cons (buyside bar ~20%). We think the market will wait to see how sales unfold in the coming quarters before bidding the stock to the next level. With the print, TGT might not provide as granular guidance as it has in the past (though, it could be an outlier as others seem to be doing so).
- **TPX (Buy, PT \$40 from \$30) - A Quality Bed at the Right Price – Upgrade to Buy:** We believe the risk-reward on TPX is skewed to the upside at current levels. While it's well-known that the NT set up is favorable, we believe the market will be surprised by the degree of strength TPX will see in 1H'21 (we est. ~35% revenue growth vs. cons. 30%).
- **MAR (Neutral, PT \$134) - Net Unit Growth Not Accelerating in 2021:** MAR guidance of 6% unit growth in '21 was on a gross basis, and they usually guide on net, which is what investors value. Group demand looks strong for '22, with prices up 11% from what was originally being quoted for 2021 last year.

NEXT WEEK'S CATALYSTS

MOST REQUESTED AT THE UPCOMING CONFERENCE

The most requested meetings (# of requests) at our upcoming conference. In rank order from most requested first (and all are over ~2x the "average" number of requests):

BUD
TJX
UAA
DECK
TXRH
CL
TAP
AEO
BJ
FND
HAS
WEN
SKX
CRI

REGISTRATION CLOSED this past week for our UBS Consumer Conference.

Tuesday, March 9th - Wednesday, March 10th

A Full list of Confirmed Company Attendees can be found [here](#)
Click [here](#) to view the Preliminary Agenda (*subject to change*)

COLOR FROM THE UBS DESKS

Derivatives

- Overall flows continue to be focused in the front couple of months. Biggest theme has been upside buying in underperforming cyclicals, particularly in CCL where we have seen one way flow in buying calls and call spreads heading into today.

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What's on Deck

- Feb 22: **Jay Sole - Zoom Softlines Earnings Preview Discussion - Marketing** (New York)
- Feb 23, Mar 2-5: **Roland Corp (7944) - NDR** - CEO; CFO; CMO (London; New York)
- Feb 23-24: **Bilal Aziz - European Leisure - North America - Marketing** (New York)
- Feb 24: **Mattel Inc (MAT) - NDR** - CEO; CFO (New York)

SPECIAL SITUATIONS

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Sentiment: During the holiday shortened week, we saw only one new M&A announcement, with **ET** acquiring midstream operator **ENBL** for 0.8595 shares of ET. While the market appeared to already be assuming it, **WORK-CRM** received a 2nd request from the FTC on Tuesday night and we've seen the spread widen to ~\$2.85, or ~19% annualized to a 6/30/21 close. This is a well held position amongst arbs, where most believe the deal gets done and it is mostly a question of potential remedies & timing. The market was pleasantly surprised to see another topping bid situation (after last week's COHR euphoria) with **CSGP** coming in over the top of the PE firms Stone Point / Insight to bid for **CLGX**. It seems very likely CSGP will prevail. **WLTW-AON** received a statement of issues from the ACCC on Wednesday night, which sent the spread to ~\$22 as investors contemplate whether the divestiture cap is enough to get this deal done. Event/Index/HF investors are spending time digesting the complicated cross-border **FTI-TE FP** spin, as SpinCo began trading on Euronext Paris. The **SPAC** market remained robust, with 15 IPOs pricing to raise \$3.3bn while 7 de-SPACs were announced representing \$8.1bn of TEV / \$1.7bn of PIPE proceeds / \$2.0bn of IPO proceeds. Standout de-SPACs included proteomics co. **Quantum-Si** coming public through **CAPA**, with the common trading up 108% on the back of that announcement. Proteomics has become a fertile ground for SPACs, with Nautilus Biotech (announced 2/8 – through ARYA) also trading exceptionally well.

CLIENT CONVERSATIONS

- **CLGX-CSGP:** CSGP surprised the market and came in with a topping bid in the CLGX take-private, offering an un-collared all-stock consideration. We do not expect the incumbent buyer (Stone Point / Insight sponsors) is in a position to match. If the incumbent buyers would match the headline value with equity (implying increasing in equity contribution from \$2.5 billion to \$3.6 billion, our estimated IRR would decline from 16% to 8% in a five-year exit and from 16% to 10% in a seven-year exit. Given that the LBO math is already stretched, we would be surprised to see any or a meaningful change in the existing offer terms. We also tried to identify prior deals in which a strategic and publicly-traded interloper to a definitive LBO deal made its proposal in all stock. They are rare – 11 of the 12 cases with interlopers to an LBO had at least a 60% cash component (and most came in 100% cash). Indeed, we could find only one such all-stock case since 1998 – the famous IBP-Donaldson Lufkin & Jenrette-Smithfield-Tyson three party competing bid situation in late 2000. Given the relatively large size of CSGP and the scarcity of precedents, we are clearly not in a position to make robust inferences, but we could see the appeal to CLGX from the inclusion of a collar in the deal terms, in light of financial markets trading at all-time highs, the expected duration of the deal, relatively low liquidity of CSGP, and the general absence of precedents that could inform the advisors' and the board's thinking.
- **WLTW-AON:** On the back of the disclosure on Wednesday night of the ACCC's findings we examined an EC precedent. The ACCC's preliminary findings can be damaging to the outcome of the WLTW-AON merger if such findings survive a full investigation and if other jurisdictions adopt similar conclusions, as the divestiture cap (and perhaps even the reverse termination fee) might not provide sufficient protection. The ACCC's preliminary views can be summarized as follows: (i) Large customers have complex needs that mainly WLTW, AON, and MMC can satisfy given their sophistication (data / analytics/ experience / institutionalization of risk segments / access to supply / extensive relationships with insurers and reinsurers, etc), (ii) Large customers might often want comprehensive solutions from a single provider, along with all the ancillary services that come with such solutions, (iii) While smaller players can sometimes address the needs in specific sub-segments, such smaller players are typically not material constraints on these three large players with respect to large customers. In this context, we thought it is useful to revisit the MMC-JLT decision that we touched on back in March 2020 – it is plausible that the narrow segment-centric and somewhat customer size-independent view that that characterized the JLT decision might not apply in a combination of two of the three largest global insurance / reinsurance brokers. Estimating deal break prices has been difficult, but we have a range of \$205-\$218 for WLTW based on adjusted multiples using peers and \$221-\$227 for AON on our sheets at present (if we use an insurance index instead, we would get \$220 for WLTW and \$236 for AON) – all before taking into account any effect relating to post-termination business uncertainty, reverse termination fee, and arb unwind. The spread was most recently trading ~10% non-annualized.
- **SPACs:** The SPAC market shows no signs of slowing down even during a holiday week, with 15 IPOs priced to raise \$3.3bn and 7 De-SPAC announcements representing \$8.1bn of TEV / \$1.7bn of PIPE proceeds / Backed by \$2.0bn in IPO proceeds. While we have seen the occurrence of de-SPAC announcements being sold on day 1 increase, there are still significant outliers – this week that included Quantum-Si-CAPA up 108% on announcement and BlackSky-SFTW up 28% on announcement. As of Friday morning, we had 33 SPAC S-1s filed this week seeking to raise \$8.3bn.

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