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CIRCLE OF LIFE PART I (of II): Essential Guide to Sectors

March 2016

Portfolio Strategy

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For Reg AC certification and other important disclosures, see slide 90.

Our Research Process

An integrated research process with a proven track record...

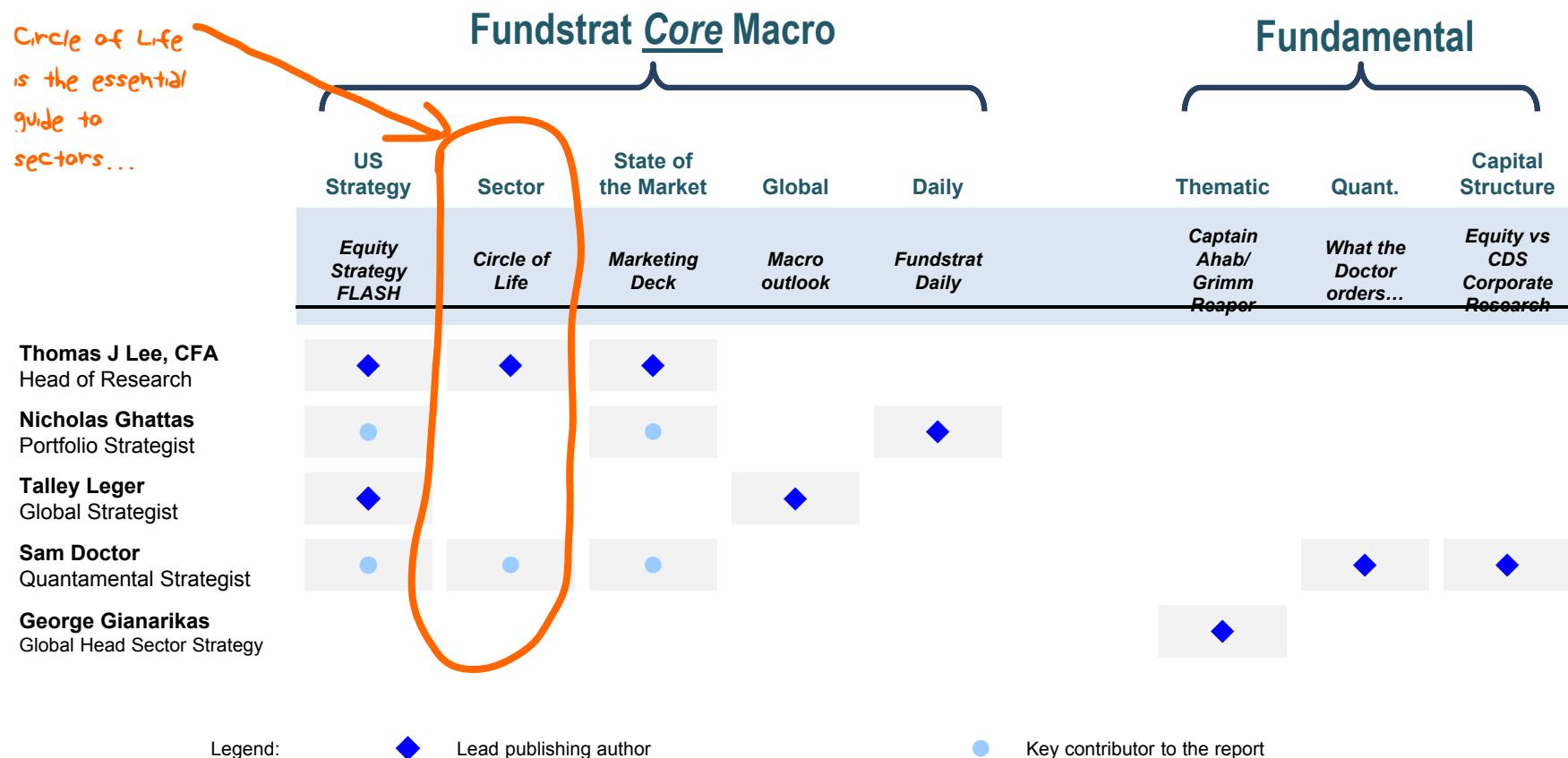
An integrated approach: (i) macro; (ii) fundamental and (iii) qualitative:

Product	The Team	Approach	Flagship Products
Portfolio Strategy	Thomas Lee Nicholas Ghattas Katherine Khor	Regime Analysis Cross-market analysis Historical analogs Sector recommendations	US Equity Strategy FLASH State of the Market (Marketing Deck) Special Reports Video
Global Strategy	Talley Léger	Cross-market analysis	Global Research Global Dashboard
Smid-cap Strategist and Head of Sector Strategy	George Gianarikas	Qualitative: Qualitative drivers of alpha Focus on fundamental inflections Growth and Value focused	Captain Ahab (CEO benchmarking) Grimm Reaper (inflection points) ROE growers Special Situations / Activist Longs
Quantamental Strategy	Sam Doctor	Quantamental themes: Snoopy's Liquid Book Barnacles Captain PEG Wisdom of the Crowd	Sam-dar Quantitative Analysis What the "Doctor" orders (stock ranks) Corporate Capital Structure Research: CDS vs Equity

Our Research Products

An integrated research process with a proven track record...

An integrated approach: (i) macro; (ii) fundamental and (iii) qualitative:



Executive Summary

(click sector name to jump to section)

[Executive Summary](#)

[Circle of Life Framework](#)

[Technology](#)

[Industrials](#)

[Consumer Discretionary](#)

[Basic Materials](#)

[Energy](#)

[Financials](#)

[Healthcare](#)

[Staples](#)

[Telecom and Utilities](#)

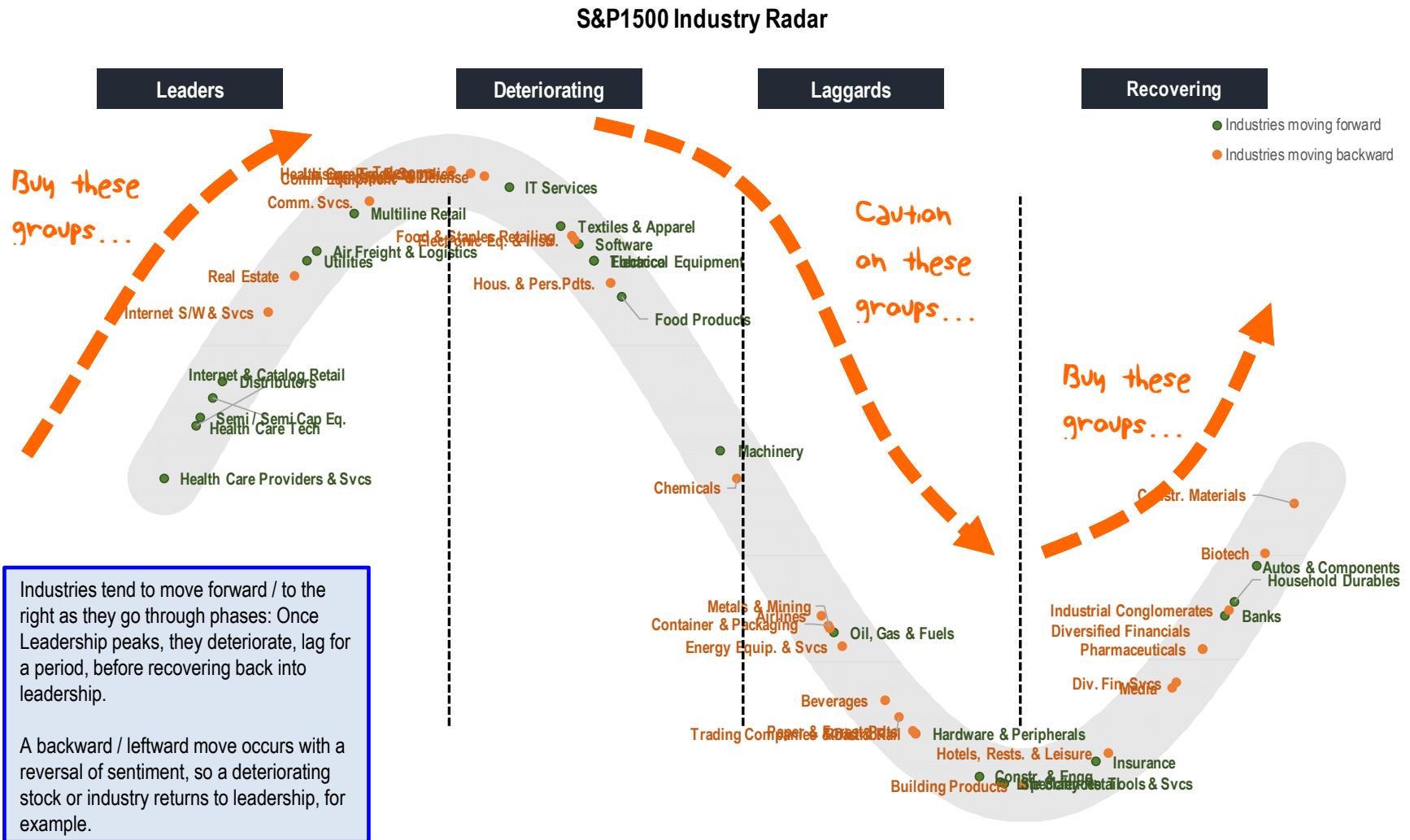
CIRCLE OF LIFE: Executive Summary

We are introducing “Circle of Life: The Essential Guide to Sectors.” We are establishing a framework to identify investment opportunities in sectors and industries, but with the generalized notion that groups move through stages of outperformance and underperformance of varying duration.

- **MOVING THROUGH THE CIRCLE OF LIFE:** Secular and cyclical factors can weigh on this cycle for multiple years—one only has to look at the 6 consecutive years of underperformance of **Oil & Gas Drilling** or the 9 consecutive years of outperformance of **Healthcare Distributors** to appreciate this. Using the quantitative models developed by Sam Doctor, Fundstrat Quantamental Strategist, the various sectors and industries are staged and are updated regularly in the publication “Sam-dar” (see latest published on 3/8/2016 and can be customized for clients for their specific holdings).
- **IDENTIFYING NEAR-TERM IDEAS BASED ON FRAMEWORK ([SLIDE 9](#)):** In the near-term, we attempt to identify opportunities based on the sector and groups sensitivity to: (i) macro factors, such as USD, HY and oil; (ii) Relative value between Credit and Equity and versus history; (iii) Contrarian positioning versus Street and Sell-side and (iv) Laggards become Leaders (mean reversion, which can take years, see above). This is a flexible framework and likely other factors will be added as markets naturally evolve.
- **TWO KEY FACTORS STANDOUT: REVERSALS IN OIL/CREDIT AND SOARING SHORT INTEREST ([SLIDE 17](#) and [SLIDE 25](#)):** First, in the past 6 weeks, the cadence of macro factors has shifted very favorably for risky assets—namely, oil arguably bottomed with max contango (see our previous reports); high-yield has staged its strongest rally since 2011; USD has flattened and potentially rolling over. We have identified sectors and industries with **INCREMENTALLY RISING** correlation to these factors. Additionally, short interest continues to rise and the highest in 5 years—at the extreme this is a contrarian indicator.
- **SECTORS: ENERGY AND MATERIALS ([SLIDE 9](#)):** In the near-term, Energy and Materials have the broadest benefits from improving USD, Oil and HY. Additionally, these sectors have seen the strongest positive moves in credit. While they remain very contrarian. And finally, as shown later, they have been consistent laggards.
- **6 INDUSTRIES: COMM EQUIPMENT, INDUSTRIAL CONGLOMERATES, MACHINERY, METALS & MINING, CASINOS and ENERGY EQ & SERVICES ([SLIDE 10](#)):** Using a similar framework for industries, we see these 6 industries as attractive near-term opportunities.
- **THIS REPORT IS PART I OF II:** Part II of this report is a chartbook detailing the 54 most important industries and a review of the fundamentals and positioning of those industries.

Circle of Life: Groups tend to move through stages...

Figure: Position and direction of movement of 54 GICS 2/3 industries on the Fundstrat Composite Radar



Source: Fundstrat, Factset, Bloomberg

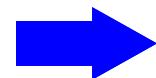
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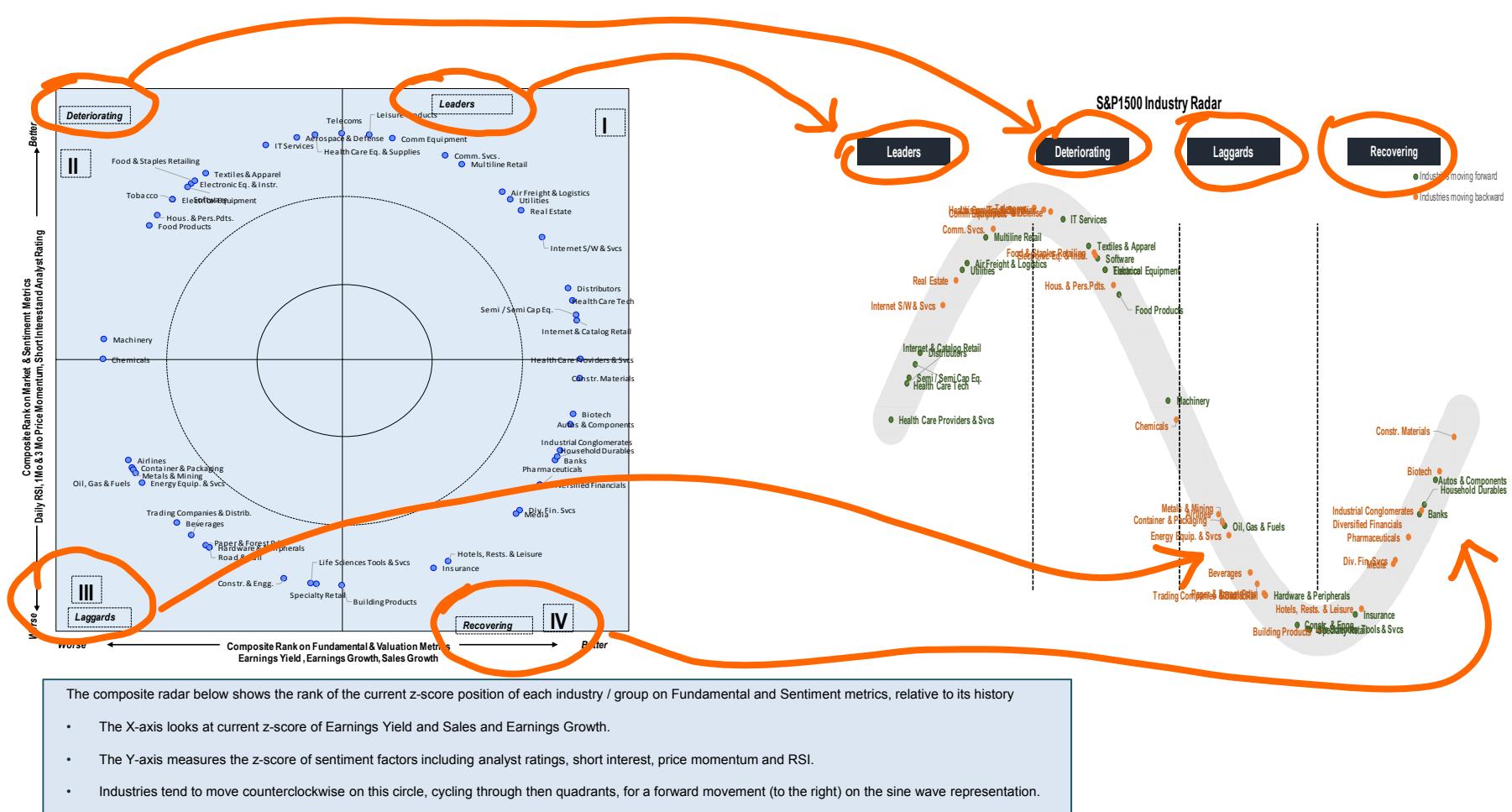
Slide 6

CoL is derived from “Sam-dar” Quantamental Strategy

From “Radar” with X- and Y-axis...



To a “Circle of Life” wave...

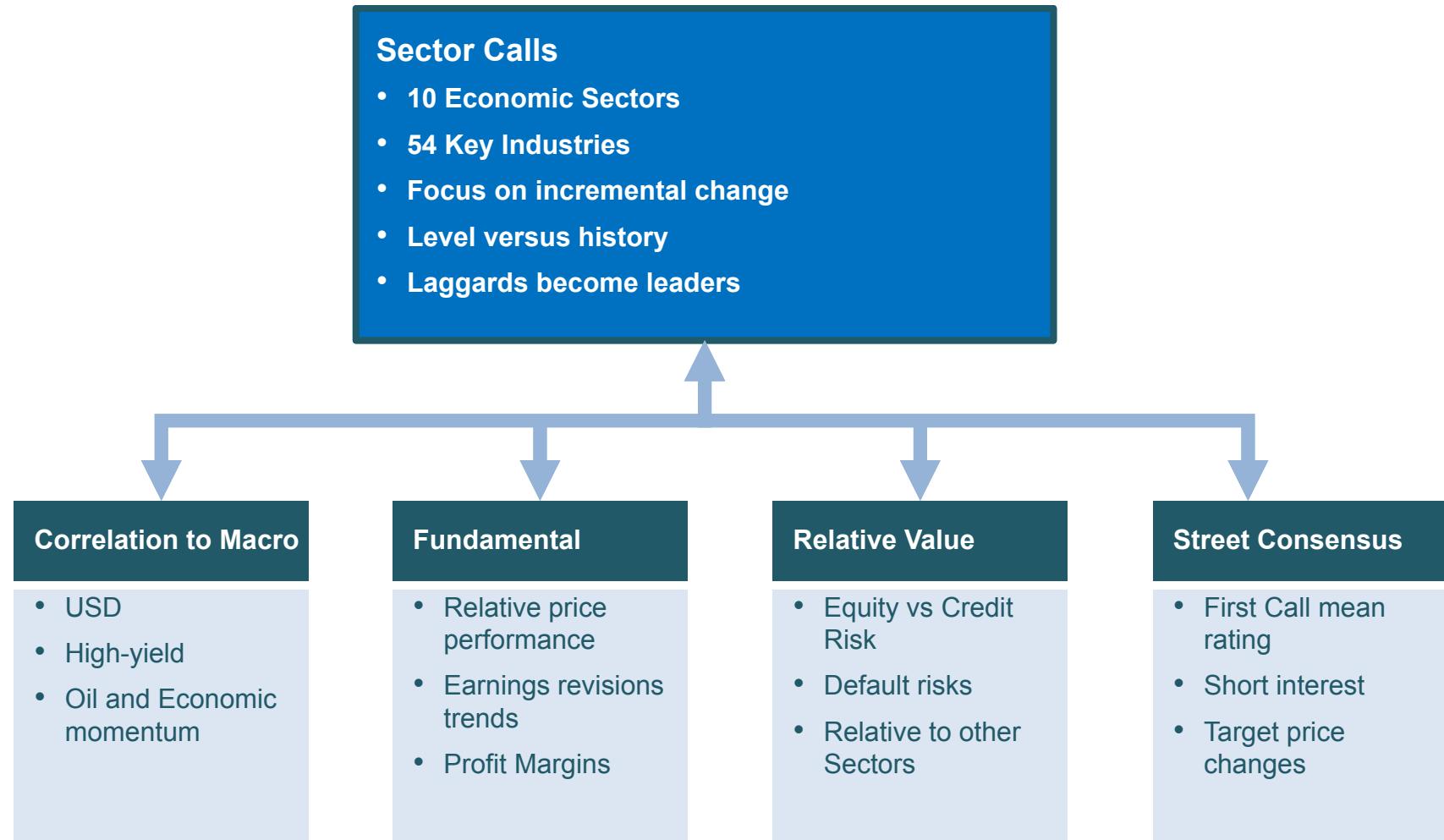


Source: Fundstrat, Factset, Bloomberg

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Stylized framework: Multiple factors at work....



Sectors: In near-term, Energy and Materials most attractive...

Macro-correlation	Relative Value	Contrarian positions	Laggards turn Leaders																																																																																																																																																																	
Economic visibility is improving and best evidenced by rising oil, tightening of high-yield spreads. A non-consensus development is the weakening of the USD (Fundstrat expected this in 2016).	We are looking for instances where credit performance has exceeded equity performance. Or in some instances, where equities have become 3-std deviations inexpensive.	At the extremes, high short interest is a contrarian buy signal. Similarly, low short interest could see poor risk/reward. Similarly, when analysts are less bullish, risk/reward improves.	Eventually, we see sector leadership as mean reverting. Hence, when groups have lagged for a sufficient period, risk/reward is attractive. Groups which have led for multiple periods offer less attractive risk/reward.																																																																																																																																																																	
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Source: Fundstrat, Factset

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Slide 9

Industries: 6 Industries incrementally attractive near-term...

	Macro-correlation			Relative Value			Contrarian positions			Laggards turn Leaders		
	Correlations to...			Relative Value			Contrarian Positioning			Laggards become leaders...		
	HY	USD	Oil	CDX vs Equity			Short interest	Sell-side				Laggards become Leaders
Communications Equipment			↑	↑ CDS rallied 4bp				↑	>1 std FCmean			↑ 6 years of consecutive underperformance
Industrial Conglomerates		↑↑		↑ CDS rallied 2bp								
Machinery		↑↑						↑	>1 std FCmean			
Metals and Mining	↑↑		↑	↑↑ CDS rallied 63bp			↑↑	↑	>1 std FCmean			↑ 5 years of consecutive underperformance
Casinos		↑		↑↑ CDS rallied 21bp			↑↑		High levels of short interest			
Energy Equipment & Services	↑↑	↑		↑ CDS rallied 13bp			↑↑	↑	>1 std FCmean			↑ 5 years of consecutive underperformance

Source: Fundstrat, Factset

Industries (slide 1 of 3): Comm. Eq. & Industrial Conglomerates...

Figure: Communications Equipment Price History

Last 24 months



Figure: Industrial Conglomerates Price History

Last 24 months



Figure: Communications Equipment comps table

Priced as of 3/14/2015

Ticker	Company name	Mkt cap (\$ mm)	YTD perf (relative)	Growth				Int'l Sales			
				vs. Value		Momentum Factor		Quality Factor		FC mean	
				Value	Growth	High	Low	High	Low	Top	Bottom
1 CSCO	Cisco Systems, Inc.	\$140,195	3.2%	x	x					1.49	1.3%
2 MSI	Motorola Solutions, Inc.	\$12,413	6.1%	x	x			x		1.86	2.8%
3 JNPR	Juniper Networks, Inc.	\$10,028	-5.0%	x	x			x		1.68	2.6%
4 HRS	Harris Corporation	\$10,025	-7.2%	x	x					1.20	2.8%
5 FFIV	F5 Networks, Inc.	\$6,921	3.7%	x	x					1.82	8.2%
Average		\$35,916	0.2%							1.61	3.5%
Median		\$10,028	3.2%							1.68	2.8%

Source: Fundstrat, FactSet, Bloomberg

Note: YTD perf is relative to the S&P 500. Growth and Value is based on S&P 500 indices (not pure). Momentum factor is based on stocks in the Dow Jones US Long Momentum and Dow Jones US Short Momentum indices. Quality is based on stocks in the S&P 500 High Quality Rank and Low Quality Rank indices. FC mean is from FactSet, where 1="most liked" and 3="least liked".

Figure: Industrial Conglomerates comps table

Priced as of 3/14/2015

Ticker	Company name	Mkt cap (\$ mm)	YTD perf (relative)	Growth				Int'l Sales					
				vs. Value		Momentum Factor		Quality Factor		FC mean			
				Value	Growth	High	Low	High	Low	Top	Bottom		
1 GE	General Electric Company	\$283,091	-1.6%	x	x	x		x		x	1.39	1.2%	
2 MMM	3M Company	\$97,944	8.6%	x	x			x		x	1.68	1.1%	
3 DHR	Danaher Corporation	\$62,263	-0.3%	x	x			x		x	1.38	1.2%	
4 ROP	Roper Technologies, Inc.	\$17,566	-6.3%	x	x			x			1.57	2.3%	
Average				\$115,216 0.1%								1.50	1.4%
Median				\$80,103 -1.0%								1.48	1.2%

Source: Fundstrat, FactSet, Bloomberg

Industries (slides 2 of 3): Machinery and Metals/Mining...

Figure: Machinery Price History

Last 24 months



Figure: Metals & Mining Price History

Last 24 months

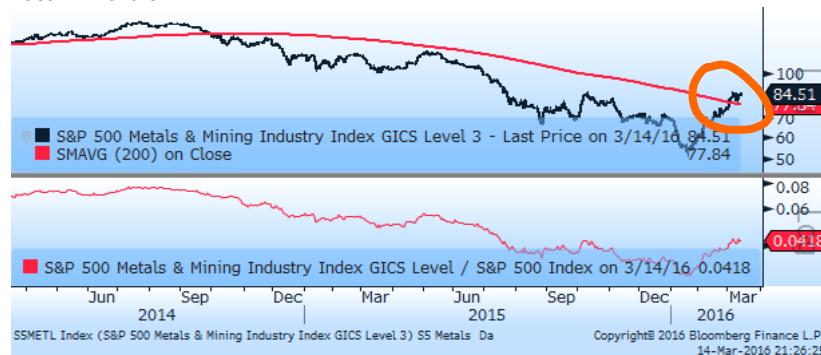


Figure: Machinery comps table

Priced as of 3/14/2015

Ticker	Company name	Mkt cap (\$ mm)	YTD perf (relative)	Growth vs. Value				Momentum Factor				Quality Factor				Int'l Sales Quartile		FC mean (1=Street consensus)	Short interest % of float
				Value	Growth	High	Low	High	Low	Top	Bottom	High	Low	Top	Bottom	FC mean	Short interest % of float		
1 CAT	Caterpillar Inc.	\$42,393	8.2%	x				x		x			2.09		7.4%				
2 ITW	Illinois Tool Wo	\$35,711	7.0%	x	x			x		x			1.52		2.1%				
3 DE	Deere & Comp	\$26,156	8.5%	x				x					2.08		11.9%				
4 PCAR	PACCAR Inc	\$18,527	14.5%	x									1.83		5.2%				
5 CMI	Cummins Inc.	\$18,129	20.6%	x				x	x				1.93		6.5%				
6 IR	Ingersoll-Rand	\$15,100	8.1%	x						x			1.38		1.5%				
7 SWK	Stanley Black	\$14,990	-5.4%		x								1.63		3.4%				
8 PH	Parker-Hannifir	\$14,645	13.0%	x				x					1.85		5.0%				
9 DOV	Dover Corpora	\$9,738	2.9%	x				x					1.88		4.4%				
10 PNR	Pentair plc	\$9,095	3.3%	x	x			x					1.92		6.6%				
11 SNA	Snap-on Incorp	\$8,876	-8.9%	x				x					1.63		4.1%				
12 XYL	Xylem Inc.	\$6,863	5.5%	x	x					x			1.58		1.6%				
13 FLS	Flowserve Cor	\$5,877	8.6%	x				x		x			1.91		7.1%				
Average		\$17,392	6.6%										1.79		5.1%				
Median		\$14,990	8.1%										1.85		5.0%				

Source: Fundstrat, FactSet, Bloomberg.

Figure: Metals & Mining comps table

Priced as of 3/14/2015

Ticker	Company name	Mkt cap (\$ mm)	YTD perf (relative)	Growth vs. Value				Momentum Factor				Quality Factor				Int'l Sales Quartile		FC mean (1=Street consensus)	Short interest % of float	
				Value	Growth	High	Low	High	Low	Top	Bottom	High	Low	Top	Bottom	FC mean	Short interest % of float			
1 NUE	Nucor Corpora	\$14,423	13.2%	x						x						1.48	2.0%			
2 NEM	Newmont Mini	\$14,118	46.4%	x				x			x	x				1.62	2.9%			
3 AA	Alcoa Inc.	\$12,517	-0.8%	x				x			x	x				1.63	13.6%			
4 FCX	Freeport-McMo	\$11,955	48.5%	x				x		x	x	x	x			1.86	16.0%			
Average		\$13,253	26.8%														1.64	8.6%		
Median		\$13,318	29.8%														1.62	8.2%		

Source: Fundstrat, FactSet, Bloomberg.

Note: YTD perf is relative to the S&P 500. Growth and Value is based on S&P 500 indices (not pure). Momentum factor is based on stocks in the Dow Jones US Long Momentum and Dow Jones US Short Momentum indices. Quality is based on stocks in the S&P 500 High Quality Rank and Low Quality Rank indices. FC mean is from FactSet, where 1="most liked" and 3="least liked".

Industries (slide 3 of 3): Energy Equipment & Casinos/Gaming...

Figure: Energy Equipment & Services Price History

Last 24 months



Figure: Casinos & Gaming Price History (Russell 1000)

Last 24 months



Figure: Energy Equipment & Services comps table

Priced as of 3/14/2015

Ticker	Company name	Mkt cap (\$ mm)	YTD perf (relative)	Growth vs. Value				Momentum Factor				Quality Factor				Int'l Sales Quartile	
				Value	Growth	High	Low	High	Low	Top	Bottom	(1=Street consensus)	FC mean	Short interest %	of float		
1 SLB	Schlumberger I	\$93,992	6.5%	x		x		x		x		1.28	4.6%				
2 HAL	Halliburton Cor	\$31,003	5.5%	x				x				1.30	4.0%				
3 BHI	Baker Hughes	\$20,049	-3.7%	x				x	x			1.30	1.5%				
4 CAM	Cameron Intert	\$12,985	6.5%		x				x			1.60	1.9%				
5 NOV	National Oilwe	\$12,548	1.0%	x					x			1.97	12.4%				
6 HP	Helmerich & P	\$6,847	15.3%	x								1.86	21.1%				
7 FTI	FMC Technolo	\$6,249	-5.2%	x					x			1.54	4.8%				
8 RIG	Transocean Ltd	\$4,107	-7.9%	x					x			2.51	36.1%				
9 DO	Diamond Offsh	\$3,126	6.1%	x				x	x			2.26	13.4%				
10 ESV	Ensco plc	\$2,633	-27.6%	x		x			x			2.19	11.4%				
Average			\$19,354	-0.3%								1.78	11.1%				
Median			\$9,697	3.3%								1.73	8.1%				

Source: Fundstrat, FactSet, Bloomberg.

Note: YTD perf is relative to the S&P 500. Growth and Value is based on S&P 500 indices (not pure). Momentum factor is based on the Dow Jones US Long Momentum and Dow Jones US Short Momentum indices. Quality is based on stocks in the S&P 500 High Quality Rank and Low Quality Rank indices. FC mean is from FactSet, where 1="most liked" and 3="least liked".

Figure: Casinos & Gaming comps table (Russell 1000)

Priced as of 3/14/2015

Ticker	Company name	Mkt cap (\$ mm)	YTD perf (relative)	Growth vs. Value				Momentum Factor				Quality Factor				Int'l Sales Quartile	
				Value	Growth	High	Low	High	Low	Top	Bottom	(1=Street consensus)	FC mean	Short interest %	of float		
1 LVS	Las Vegas Sar	\$40,990	20.6%	x				x			x		1.57	4.0%			
2 MGM	MGM Resorts	\$11,755	-6.6%	x				x			x		1.15	4.3%			
3 WYNN	Wynn Resorts,	\$8,757	24.4%	x	x			x	x	x	x		1.57	19.2%			
4 IGT	International G	\$3,215	1.1%	x				x						1.67	2.4%		
Average			\$16,179	9.9%												1.49	7.5%
Median			\$10,256	10.9%												1.57	4.2%

Source: Fundstrat, FactSet, Bloomberg.

Note: we are using the Russell 1000 for this industry group; all other comps tables use only the S&P 500.

Executive Summary (click sector name to jump to section)

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[Circle of Life Framework](#)

[Technology](#)

[Industrials](#)

[Consumer Discretionary](#)

[Basic Materials](#)

[Energy](#)

[Financials](#)

[Healthcare](#)

[Staples](#)

[Telecom and Utilities](#)

PRICE: Investors needed to be Cyclical since mid-January



PRICE: As financial conditions eased, “low-quality” outperformed...

Figure: Comparative relative performance: 1-month

Relative to S&P 500. Not on a sector neutral basis

	Overall	Growth vs Value		Momentum Factor		Quality Factor		Int'l sales Quartile	
		Value	Growth	High	Low	High	Low	Top	Bottom
S&P500 Absolute	8.3%	8.6%	8.1%	8.7%	17.8%	7.2%	14.6%	8.6%	8.4%
S&P500 Relative	-	0.3%	(0.2%)	0.4%	9.5%	(1.1%)	6.3%	0.3%	0.1%
Relative to S&P 500...	Cyclicals lead....								
Discretionary	2.7%	3.5%	2.1%	2.3%	8.4%	0.8%	5.5%	3.1%	4.1%
Industrials	0.2%	(0.2%)	(0.7%)	(1.4%)	0.6%	(0.7%)	0.4%	0.6%	0.7%
Materials	1.8%	3.9%	(1.2%)	(2.6%)	22.4%	(3.4%)	9.2%	4.9%	2.2%
Technology	1.3%	4.2%	0.7%	(1.0%)	11.3%	0.0%	8.1%	3.0%	(2.8%)
Energy	1.9%	2.8%	5.9%	(4.3%)	16.9%	(3.6%)	9.0%	(2.0%)	13.1%
Financials	1.0%	1.0%	2.9%	(1.6%)	8.7%	(0.7%)	3.4%	(1.5%)	0.7%
Healthcare	(2.4%)	(1.4%)	(2.6%)	0.5%	(5.5%)	(0.0%)	(5.6%)	(2.6%)	4.2%
Staples	(4.0%)	(4.0%)	(3.4%)	(3.0%)	(3.9%)	(5.1%)	(4.5%)	(3.5%)	(4.1%)
Telecoms	(2.7%)	(2.6%)	(3.0%)	(3.2%)	17.6%	-	(2.1%)	-	(2.8%)
Utilities	(2.8%)	(2.5%)	(4.4%)	(3.2%)	4.0%	(3.7%)	(1.1%)	11.2%	(2.5%)

Source: Fundstrat, Factset, Bloomberg.

Note: "Value" and "Growth" based on S&P 500 Value & Growth indices (not puree). "Momentum" based on Dow Jones US Long Momentum and Dow Jones US Short Momentum indices. "Quality" based on S&P 500 High Quality Rank and Low Quality Rank indices.

Financial
conditions
improve,
enabling
“low
quality” to
lead...

MACRO CORRELATIONS: High-yield staged largest rally since 2011

Figure: US High-yield OAS STW (USOHHYTO Index)

Last 12 months



Figure: Rolling 3-month correlation to High-Yield Option Adjusted Spread (OAS); sector correlations are RELATIVE

Last 12 months

	3/14/15	4/14/15	5/14/15	6/14/15	7/14/15	8/14/15	9/14/15	10/14/15	11/14/15	12/14/15	1/14/16	2/14/16	3/14/16
Strong inverse correlation	Matr -0.89	S&P 500 -0.79	Matr -0.68	Matr -0.76	Matr -0.84	Matr -0.94	Enrg -0.86	S&P 500 -0.76	HlthCre -0.50	Enrg -0.57	Enrg -0.92	Fincl -0.91	S&P 500 -0.85
	ConDisc -0.85	ConDisc -0.69	Tech -0.56	Tech -0.67	Tech -0.81	Enrg -0.92	Matr -0.82	HlthCre -0.74	Matr -0.40	Utes -0.15	S&P 500 -0.67	S&P 500 -0.91	Fincl -0.82
	S&P 500 -0.84	Matr -0.66	Enrg -0.49	S&P 500 -0.61	Indu -0.67	Indu -0.85	S&P 500 -0.77	Fincl -0.63	S&P 500 -0.20	S&P 500 -0.12	Matr -0.63	ConDisc -0.71	Tech -0.69
	Tech -0.60	Tech -0.66	S&P 500 -0.48	Enrg -0.17	S&P 500 -0.61	Telco -0.73	Indu -0.20	Matr -0.57	Telco -0.19	HlthCre -0.11	ConDisc -0.50	Tech -0.68	ConDisc -0.64
	Telco -0.11	Indu 0.02	Telco -0.28	Fincl -0.10	Enrg -0.43	S&P 500 -0.37	HlthCre -0.07	Enrg -0.16	Fincl -0.11	Matr 0.05	Indu -0.40	Enrg -0.66	Matr -0.18
	HlthCre 0.08	Fincl 0.05	Indu 0.10	Telco -0.03	Telco -0.26	Tech -0.36	Fincl 0.05	Telco 0.30	Indu 0.12	Indu 0.07	Fincl -0.26	Matr -0.60	HlthCre -0.12
	Indu 0.11	Enrg 0.09	Staple 0.17	HlthCre 0.15	Utes -0.04	Utes 0.51	Telco 0.22	Tech 0.49	Tech 0.12	Telco 0.08	Tech 0.02	Indu 0.06	Enrg -0.02
	Enrg 0.12	Telco 0.18	Fincl 0.38	ConDisc 0.43	Fincl 0.30	HlthCre 0.74	Tech 0.23	Indu 0.61	Enrg 0.14	Staple 0.20	Utes 0.32	HlthCre 0.43	Indu 0.46
	Fincl 0.45	HlthCre 0.27	ConDisc 0.38	Staple 0.59	Staple 0.56	Fincl 0.82	ConDisc 0.76	ConDisc 0.69	ConDisc 0.31	ConDisc 0.21	Staple 0.72	Utes 0.91	Telco 0.79
	Staple 0.67	Staple 0.66	Utes 0.52	Indu 0.67	HlthCre 0.61	ConDisc 0.86	Staple 0.86	Staple 0.84	Utes 0.56	Fincl 0.28	Telco 0.77	Telco 0.91	Utes 0.85
	Utes 0.81	Utes 0.83	HlthCre 0.60	Utes 0.74	ConDisc 0.79	Staple 0.91	Utes 0.88	Utes 0.86	Staple 0.59	Tech 0.31	HlthCre 0.82	Staple 0.96	Staple 0.88

Source: Fundstrat, Bloomberg, FactSet.

Note: correlation is calculated as the trailing 90-day correlation of the level of HY spreads vs. the sector's relative price ratio to the S&P 500. The relative price ratio is calculated as the rebased sector price, divided by the rebased S&P 500 price.

MACRO HY: Industries with highest and lowest correlation to HY

Below is a list of Industries positively and negatively correlated to High-yield spread performance. In the past month, HY has seen a large rally and hence, spreads are contracting. To find groups that benefit from this, we should look for groups with inverse correlation.

- The groups with the highest inverse correlation are shown below on the left.

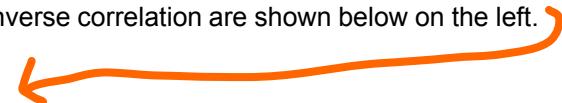


Figure: Strongest INVERSE correlations to HY spreads
Trailing 3-months; sector correlations are relative

Strong inverse correlation	S&P 500 GICS industry groups			3m correlation to HY STW
	Mkt cap (\$ mm)	#	Based on relative price	
1	Homebuilding	\$25,770	3	-0.84
2	Semiconductors	\$449,253	13	-0.81
3	Household Durables	\$82,830	9	-0.81
4	Asset Management & Custody Banks	\$215,287	10	-0.80
5	Automobiles & Components	\$169,463	7	-0.79
6	Application Software	\$141,363	5	-0.75
7	Oil & Gas Exploration & Production	\$272,384	18	-0.72
8	Oil & Gas Refining & Marketing	\$106,953	4	-0.72
9	Consumer Finance	\$143,287	5	-0.70
10	Investment Banking & Brokerage	\$160,362	4	-0.70
11	Internet & Catalog Retail	\$400,111	5	-0.68
12	Regional Banks	\$169,562	11	-0.67
13	Diversified Banks	\$817,927	6	-0.66
14	Health Care Services	\$83,435	4	-0.59
15	Hotels, Resorts & Cruise Lines	\$81,467	5	-0.57
16	Technology Hardware, Storage & Per	\$711,886	8	-0.53
17	Life Sciences Tools & Services	\$107,596	4	-0.49
18	Health Care Distributors	\$102,363	5	-0.47
19	Insurance	\$468,253	20	-0.46
20	Semiconductor Equipment	\$45,532	3	-0.45

Source: Fundstrat, FactSet, Bloomberg.

Note: correlation is calculated as the trailing 90-day correlation of the level of HY spreads vs. the sector's relative price ratio to the S&P 500. The relative price ratio is calculated as the rebased sector price, divided by the rebased S&P 500 price.

Figure: Strongest POSITIVE correlations to HY spreads
Trailing 3-months; sector correlations are relative

	S&P 500 GICS industry groups			3m correlation to HY STW
	Mkt cap (\$ mm)	#	Based on relative price	
1	Soft Drinks	\$397,771	5	0.85
2	Household Products	\$358,329	5	0.82
3	Hypermarkets & Super Centers	\$282,116	2	0.76
4	Utilities sector	\$605,611	30	0.73
5	Restaurants	\$250,423	5	0.68
6	Health Care Equipment	\$384,655	12	0.67
7	Tobacco	\$343,816	3	0.67
8	Telecom sector	\$492,129	5	0.65
9	Integrated Oil & Gas	\$572,855	3	0.65
10	Food Products	\$381,177	13	0.60
11	Drug Retail	\$198,065	2	0.56
12	Industrial Conglomerates	\$460,863	4	0.52
13	Media	\$569,142	17	0.48
14	Diversified Financial Services	\$296,507	7	0.46
15	Pharmaceuticals	\$1,023,902	11	0.44
16	Aerospace & Defense	\$456,024	10	0.43

Source: Fundstrat, FactSet, Bloomberg.

Note: correlation is calculated as the trailing 90-day correlation of the level of HY spreads vs. the sector's relative price ratio to the S&P 500. The relative price ratio is calculated as the rebased sector price, divided by the rebased S&P 500 price.

MACRO CORRELATIONS: Oil bottomed with max contango...

Figure: WTI Crude

Last 12 months



Figure: Rolling 3-month correlation to WTI Crude Oil; sector correlations are RELATIVE

Last 12 months

	3/14/15	4/14/15	5/14/15	6/14/15	7/14/15	8/14/15	9/14/15	10/14/15	11/14/15	12/14/15	1/14/16	2/14/16	3/14/16
Strong positive correlation ↑	Fincl 0.60	Enrg 0.59	Enrg 0.83	Matr 0.79	Matr 0.76	Matr 0.95	Enrg 0.95	Enrg 0.71	Enrg 0.67	Enrg 0.81	Enrg 0.94	S&P 500 0.94	S&P 500 0.93
	Indu 0.53	Matr 0.43	S&P 500 0.39	Telco 0.60	Tech 0.63	Enrg 0.94	Matr 0.93	Tech 0.48	ConDisc 0.44	Utes 0.66	S&P 500 0.7	Fincl 0.85	Fincl 0.64
	Enrg 0.46	S&P 500 0.32	Telco 0.22	S&P 500 0.51	Indu 0.41	Indu 0.84	S&P 500 0.51	S&P 500 0.28	Tech 0.23	Staple 0.29	Matr 0.68	Enrg 0.77	Tech 0.59
	Tech 0.24	Telco 0.24	Matr 0.18	Enrg 0.33	S&P 500 0.40	Telco 0.72	Indu 0.46	Matr 0.17	Staple 0.18	Telco 0.26	ConDisc 0.42	Matr 0.70	ConDisc 0.48
	S&P 500 0.16	ConDisc 0.21	Tech 0.16	Telco 0.10	Enrg 0.25	S&P 500 0.24	Telco 0.10	ConDisc 0.17	Indu 0.14	HlthCre -0.05	Indu 0.32	Tech 0.63	Matr 0.45
	Matr -0.14	Tech 0.03	ConDisc -0.21	Fincl 0.05	Telco 0.14	Tech 0.24	Tech -0.20	Indu -0.02	S&P 500 0.14	Indu -0.20	Fincl 0.24	ConDisc 0.60	Enrg 0.36
	Telco -0.15	Staple -0.08	HlthCre -0.22	HlthCre -0.25	Fincl 0.03	Utes -0.59	HlthCre -0.24	Staple -0.08	Matr 0.08	Matr -0.22	Tech -0.09	Indu 0.05	HlthCre -0.13
	ConDisc -0.16	Indu -0.18	Staple -0.40	ConDisc -0.45	Utes -0.32	HlthCre -0.69	Fincl -0.36	Fincl -0.26	Utes -0.16	ConDisc -0.31	Utes -0.32	HlthCre -0.52	Indu -0.19
	Utes -0.20	Utes -0.27	Fincl -0.40	Staple -0.55	HlthCre -0.39	Fincl -0.76	ConDisc -0.75	HlthCre -0.32	Telco -0.21	S&P 500 -0.31	Staple -0.71	Telco -0.84	Telco -0.60
	Staple -0.44	Fincl -0.29	Utes -0.43	Utes -0.69	ConDisc -0.56	ConDisc -0.83	Utes -0.85	Telco -0.50	HlthCre -0.38	Fincl -0.42	HlthCre -0.76	Utes -0.88	Utes -0.75
Strong inverse correlation ↓	HlthCre -0.73	HlthCre -0.46	Indu -0.67	Indu -0.73	Staple -0.73	Staple -0.96	Staple -0.93	Utes -0.55	Fincl -0.63	Tech -0.73	Telco -0.76	Staple -0.94	Staple -0.80

Positively correlated to rising oil...

Source: Fundstrat, Bloomberg, FactSet.

Note: correlation is calculated as the trailing 90-day correlation of the level of the USD or Oil vs. the sector's relative price ratio to the S&P 500. The relative price ratio is calculated as the rebased sector price, divided by the rebased S&P 500 price.

MACRO OIL: Industries with highest and lowest oil correlations

As we noted in prior reports, we believe oil has bottomed and is going to gradually climb in 2016—hopefully aided by a weakening USD. With rising oil, the groups to benefit from rising oil are those with positive correlations.

- Not surprisingly, most positively levered groups are Cyclical, but only one is Energy related...

Figure: Strongest POSITIVE correlations to Oil

Trailing 3-months; sector correlations are relative

Positive correlation

		Mkt cap	#	3m correlation to Oil
				Based on relative price
1	Household Durables	\$82,830	9	0.84
2	Oil & Gas Exploration & Production	\$272,384	18	0.80
3	Homebuilding	\$25,770	3	0.78
4	Automobiles & Components	\$169,463	7	0.75
5	Semiconductors	\$449,253	13	0.74
6	Asset Management & Custody Banks	\$215,287	10	0.69
7	Semiconductor Equipment	\$45,532	3	0.64
8	Investment Banking & Brokerage	\$160,362	4	0.51
9	Consumer Finance	\$143,287	5	0.50
10	Application Software	\$141,363	5	0.49
11	Internet & Catalog Retail	\$400,111	5	0.48
12	Regional Banks	\$169,562	11	0.47
13	Diversified Banks	\$817,927	6	0.47
14	Technology Hardware, Storage & Per	\$711,886	8	0.45
15	Oil & Gas Storage & Transportation	\$89,052	5	0.42
16	Oil & Gas Refining & Marketing	\$106,953	4	0.42
17	Energy Equipment & Services	\$193,539	10	0.42
18	Chemicals	\$390,112	15	0.41
19	Communications Equipment	\$179,581	5	0.38
20	Metals & Mining	\$53,014	4	0.35
21	Hotels, Resorts & Cruise Lines	\$81,467	5	0.35

Source: Fundstrat, FactSet, Bloomberg.

Note: correlation is calculated as the trailing 90-day correlation of the level of Oil vs. the sector's relative price ratio to the S&P 500.

The relative price ratio is calculated as the rebased sector price, divided by the rebased S&P 500 price.

Figure: Strongest INVERSE correlations to Oil

Trailing 3-months; sector correlations are relative

3m correlation

		Mkt cap	#	3m correlation to Oil
				Based on relative price
1	Soft Drinks	\$397,771	5	-0.77
2	Health Care Equipment	\$384,655	12	-0.72
3	Hypermarkets & Super Centers	\$282,116	2	-0.72
4	Restaurants	\$250,423	5	-0.69
5	Pharmaceuticals	\$1,023,902	11	-0.66
6	Drug Retail	\$198,065	2	-0.64
7	Household Products	\$358,329	5	-0.63
8	Utilities sector	\$605,611	30	-0.60
9	Tobacco	\$343,816	3	-0.57
10	Media	\$569,142	17	-0.53
11	Aerospace & Defense	\$456,024	10	-0.53
12	Telecom sector	\$492,129	5	-0.43
13	Food Products	\$381,177	13	-0.41
14	Integrated Oil & Gas	\$572,855	3	-0.36
15	Systems Software	\$621,219	5	-0.35

Source: Fundstrat, FactSet, Bloomberg.

Note: correlation is calculated as the trailing 90-day correlation of the level of Oil vs. the sector's relative price ratio to the S&P 500.

The relative price ratio is calculated as the rebased sector price, divided by the rebased S&P 500 price.

MACRO CORRELATIONS: USD no longer rising and likely falls...

Figure: USD (DXY Index)

Last 12 months



Figure: Rolling 3-month correlation to US Dollar (DXY Index); sector correlations are RELATIVE

Last 12 months

	3/14/15	4/14/15	5/14/15	6/14/15	7/14/15	8/14/15	9/14/15	10/14/15	11/14/15	12/14/15	1/14/16	2/14/16	3/14/16
Strong inverse correlation	Fincl -0.68	Staple -0.72	Matr -0.64	Matr -0.77	Matr -0.43	Matr -0.69	Indu -0.74	Indu -0.72	Utes -0.69	Utes -0.85	Utes -0.40	Telco -0.57	Indu -0.75
	Utes -0.50	Utes -0.71	Tech -0.61	Tech -0.58	Fincl -0.32	Enrg -0.68	Telco -0.66	Utes -0.61	Telco -0.62	Staple -0.78	Enrg -0.27	Staple -0.53	Matr -0.66
	Enrg -0.45	Telco -0.62	S&P 500 -0.54	S&P 500 -0.35	Tech -0.25	Indu -0.66	Matr -0.39	ConDisc -0.49	Staple -0.59	Telco -0.71	Staple -0.22	Utes -0.61	Enrg -0.55
	Indu -0.38	Enrg -0.62	Telco -0.50	Telco -0.28	Indu -0.12	Telco -0.47	Enrg -0.22	Staple -0.46	HlthCre -0.32	Enrg -0.36	Telco -0.08	Indu -0.49	Telco -0.52
	Staple -0.27	Indu -0.43	Enrg -0.48	Fincl -0.26	S&P 500 -0.10	S&P 500 0.02	Utes -0.16	Telco -0.42	Matr -0.12	HlthCre -0.13	Matr -0.06	Matr -0.16	Utes -0.45
	Tech 0.15	Matr -0.25	Utes 0.03	Enrg -0.13	Telco -0.07	Tech 0.02	Tech 0.08	Tech -0.31	Enrg 0.00	Matr 0.30	ConDisc 0.01	HlthCre 0.08	Staple -0.41
	Telco 0.18	Tech 0.10	Indu 0.08	HlthCre 0.35	Enrg 0.04	Fincl 0.37	ConDisc 0.22	Enrg 0.12	Fincl 0.06	ConDisc 0.34	S&P 500 0.02	Enrg 0.29	S&P 500 0.20
	S&P 500 0.30	S&P 500 0.31	Staple 0.15	ConDisc 0.45	ConDisc 0.17	Utes 0.44	Staple 0.28	Matr 0.16	Indu 0.24	Indu 0.39	HlthCre 0.26	Tech 0.37	Tech 0.44
	HlthCre 0.52	Fincl 0.46	Fincl 0.32	Staple 0.50	HlthCre 0.19	HlthCre 0.50	HlthCre 0.46	HlthCre 0.44	ConDisc 0.39	Fincl 0.62	Indu 0.27	S&P 500 0.42	Fincl 0.49
	Matr 0.70	HlthCre 0.62	HlthCre 0.68	Indu 0.51	Staple 0.35	ConDisc 0.58	S&P 500 0.46	Fincl 0.67	S&P 500 0.57	S&P 500 0.63	Tech 0.37	Fincl 0.52	HlthCre 0.59
Strong positive correlation	ConDisc 0.80	ConDisc 0.82	ConDisc 0.69	Utes 0.63	Utes 0.41	Staple 0.72	Fincl 0.55	S&P 500 0.70	Tech 0.69	Tech 0.75	Fincl 0.43	ConDisc 0.68	ConDisc 0.64

Source: Fundstrat, Bloomberg, FactSet.

Note: correlation is calculated as the trailing 90-day correlation of the level of the USD or Oil vs. the sector's relative price ratio to the S&P 500. The relative price ratio is calculated as the rebased sector price, divided by the rebased S&P 500 price.

INVERSE
Correlation
rose sharply
for these
Sectors...

MACRO USD: Cyclical have highest correlation to USD...

We do not have strong conviction but we believe the consensus view of strong USD does not have history on its side. We will admit that strong USD is logical in the context of diverging monetary policy and relative growth—however, this is a case where consensus “needs to be right”

- But if USD is in fact weakening, the groups positive levered to this have inverse correlation to USD. The list of names is not entirely surprising.

Figure: Strongest INVERSE correlations to USD

Trailing 3-months; sector correlations are relative

S&P 500 GICS industry groups			3m correlation to USD
	Mkt cap (\$ mm)	# cos	Based on relative price
1 Machinery	\$225,701	13	-0.78
2 Industrial Conglomerates	\$460,863	4	-0.74
3 Integrated Oil & Gas	\$572,855	3	-0.71
4 Metals & Mining	\$53,014	4	-0.71
5 Chemicals	\$390,112	15	-0.65
6 Transportation	\$379,220	14	-0.64
7 Energy Equipment & Services	\$193,539	10	-0.61
8 Telecom sector	\$492,129	5	-0.58
9 Household Products	\$358,329	5	-0.57
10 Diversified Financial Services	\$296,507	7	-0.56
11 Utilities sector	\$605,611	30	-0.52
12 Tobacco	\$343,816	3	-0.47
13 Soft Drinks	\$397,771	5	-0.45
14 Food Products	\$381,177	13	-0.44
15 Casinos & Gaming	\$8,757	1	-0.44
16 Hypermarkets & Super Centers	\$282,116	2	-0.34
17 Oil & Gas Storage & Transportation	\$89,052	5	-0.34

Source: Fundstrat, FactSet, Bloomberg.

Note: correlation is calculated as the trailing 90-day correlation of the level of the USD vs. the sector's relative price ratio to the S&P 500. The relative price ratio is calculated as the rebased sector price, divided by the rebased S&P 500 price.

Figure: Strongest POSITIVE correlations to USD

Trailing 3-months; sector correlations are relative

S&P 500 GICS industry groups			3m correlation to USD
	Mkt cap (\$ mm)	# cos	Based on relative price
1 Oil & Gas Refining & Marketing	\$106,953	4	0.74
2 Application Software	\$141,363	5	0.72
3 Life Sciences Tools & Services	\$107,596	4	0.72
4 Real Estate	\$546,097	27	0.65
5 Internet & Catalog Retail	\$400,111	5	0.64
6 Hotels, Resorts & Cruise Lines	\$81,467	5	0.61
7 Health Care Services	\$83,435	4	0.60
8 Biotechnology	\$578,962	9	0.58
9 Investment Banking & Brokerage	\$160,362	4	0.51
10 Diversified Banks	\$817,927	6	0.49
11 Health Care Distributors	\$102,363	5	0.49
12 Consumer Finance	\$143,287	5	0.47
13 Regional Banks	\$169,562	11	0.45
14 Data Processing & Outsourced Services	\$424,826	11	0.43
15 Pharmaceuticals	\$1,023,902	11	0.40
16 Asset Management & Custody Banks	\$215,287	10	0.40
17 Specialty Retail	\$480,664	19	0.39
18 Homebuilding	\$25,770	3	0.38
19 Semiconductors	\$449,253	13	0.38
20 Insurance	\$468,253	20	0.37
21 Systems Software	\$621,219	5	0.34

Source: Fundstrat, FactSet, Bloomberg.

Note: correlation is calculated as the trailing 90-day correlation of the level of the USD vs. the sector's relative price ratio to the S&P 500. The relative price ratio is calculated as the rebased sector price, divided by the rebased S&P 500 price.

CREDIT: IG CDS rally implies easing credit conditions

Figure: Markit CDX North America Investment Grade Index (5-Yr)

Last 12 months



Figure: 1-month delta of Investment Grade 5-year CDS spreads

Last 12 months

Sell-off since May 2015

RALLY

	4/14/15	5/14/15	6/14/15	7/14/15	8/14/15	9/14/15	10/14/15	11/14/15	12/14/15	1/14/16	2/14/16	3/14/16	CDS spreads
Better	Staple -26 bp	Enrg -16 bp	Tech -3 bp	Staple 1 bp	HlthCre -1 bp	Telco 0 bp	Utes -5 bp	Fin (Sub) -19 bp	HlthCre -2 bp	Staple -5 bp	Matr 0 bp	Enrg -147 bp	Sector:
	Enrg -15 bp	Matr -2 bp	HlthCre -1 bp	ConDisc 1 bp	Utes 0 bp	Staple 0 bp	Fin (Snr) -3 bp	Telco -6 bp	Telco -1 bp	HlthCre -4 bp	HlthCre 3 bp	Matr -39 bp	Energy
	Fin (Snr) -7 bp	Utes 0 bp	Staple 0 bp	Utes 2 bp	Indu 0 bp	ConDisc 0 bp	HlthCre 1 bp	Utes -2 bp	Tech -1 bp	Telco -3 bp	Utes 5 bp	Fin (Sub) -38 bp	Materials
	S&P 500 -5 bp	S&P 500 1 bp	Telco 1 bp	Telco 3 bp	Fin (Snr) 0 bp	Fin (Snr) 0 bp	Telco 7 bp	Staple -2 bp	Fin (Snr) 0 bp	Tech -3 bp	Staple 5 bp	S&P 500 -33 bp	Financials (Sub)
	Fin (Sub) -3 bp	Fin (Sub) 2 bp	Utes 1 bp	Indu 3 bp	Staple 1 bp	Indu 1 bp	Staple 7 bp	HlthCre -1 bp	Staple 1 bp	Indu -1 bp	Indu 8 bp	Tech -33 bp	S&P 500
	Matr -3 bp	Indu 2 bp	Indu 1 bp	Fin (Snr) 4 bp	Tech 2 bp	HlthCre 1 bp	Matr 8 bp	Fin (Snr) -1 bp	Utes 2 bp	Fin (Sub) 0 bp	Telco 14 bp	ConDisc -32 bp	Technology
	ConDisc -2 bp	Staple 2 bp	S&P 500 2 bp	S&P 500 4 bp	Fin (Sub) 3 bp	Matr 2 bp	S&P 500 9 bp	S&P 500 0 bp	Indu 3 bp	Fin (Snr) 0 bp	ConDisc 14 bp	Fin (Snr) -32 bp	Discretionary
	Indu -1 bp	HlthCre 3 bp	Fin (Sub) 3 bp	Tech 5 bp	ConDisc 5 bp	Utes 2 bp	Tecn 10 bp	Indu 2 bp	ConDisc 3 bp	ConDisc 2 bp	S&P 500 22 bp	Telco -18 bp	Financials (Senior)
	HlthCre -1 bp	Fin (Snr) 3 bp	ConDisc 3 bp	Fin (Sub) 6 bp	S&P 500 7 bp	S&P 500 3 bp	Enrg 12 bp	Tech 5 bp	Fin (Sub) 7 bp	Utes 3 bp	Tech 27 bp	Utes -12 bp	Telecom
	Telco 0 bp	ConDisc 5 bp	Fin (Snr) 3 bp	HlthCre 6 bp	Telco 8 bp	Tech 4 bp	Fin (Sub) 15 bp	ConDisc 7 bp	S&P 500 13 bp	Matr 7 bp	Fin (Sub) 31 bp	Indu -11 bp	Utilities
	Utes 1 bp	Tech 7 bp	Matr 4 bp	Enrg 7 bp	Matr 18 bp	Fin (Sub) 5 bp	ConDisc 21 bp	Matr 9 bp	Matr 27 bp	S&P 500 8 bp	Fin (Snr) 46 bp	Staple -6 bp	Industrials
	Tech 4 bp	Telco 8 bp	Enrg 8 bp	Matr 8 bp	Enrg 37 bp	Enrg 19 bp	Indu 22 bp	Enrg 10 bp	Enrg 99 bp	Enrg 90 bp	Enrg 92 bp	HlthCre 1 bp	Staples
													Healthcare

Source: Fundstrat, Bloomberg, Markit, FactSet.

Note: indices are based on U.S. five year CDS indices from Markit. The sectors are based on the Global Industry Classification System (GICS), and may include foreign companies listed on U.S. exchanges.

CREDIT: Deep cyclicals saw some of largest CDS rallies...

There has been a positive reversal in CDS since February. From May 2015 to February 2016 (see prior slide), CDS spreads were widening which is a signaling of tightening financial conditions. This reversed in February.

- We have highlighted the groups with the largest improvement in CDS spreads below. Perhaps not surprisingly, leading the top of the list are Energy and Materials names. But also Casinos.

Figure: Groups with improving CDS spreads

3-month delta of 5-yr CDS spreads

S&P 500 GICS industry groups				5-yr implied CDS spreads		
	Industry name	Mkt cap (\$ mm)	# cos	3 mos ago (12/2015)	Current (3/2016)	3m CDS spread delta
1	Oil & Gas Storage & Transportation	\$89,052	5	654 bp	562 bp	-92 bp
2	Metals & Mining	\$53,014	4	336 bp	273 bp	-63 bp
3	Oil & Gas Exploration & Production	\$272,384	18	431 bp	404 bp	-27 bp
4	Technology Hardware, Storage & Perif	\$711,886	8	99 bp	73 bp	-25 bp
5	Telecom sector	\$492,129	5	195 bp	174 bp	-21 bp
6	Casinos & Gaming	\$8,757	1	435 bp	414 bp	-21 bp
7	Energy Equipment & Services	\$193,539	10	340 bp	327 bp	-13 bp
8	Multiline Retail	\$125,701	6	116 bp	108 bp	-8 bp
9	Managed Health Care	\$260,840	5	64 bp	56 bp	-8 bp
10	Semiconductor Equipment	\$45,532	3	72 bp	65 bp	-7 bp
11	Textiles, Apparel & Luxury Goods	\$170,276	8	118 bp	112 bp	-7 bp
12	Health Care Services	\$83,435	4	63 bp	57 bp	-6 bp
13	Household Durables	\$82,830	9	131 bp	126 bp	-5 bp
14	Homebuilding	\$25,770	3	185 bp	180 bp	-5 bp
15	Media	\$569,142	17	116 bp	111 bp	-5 bp
16	Food Products	\$381,177	13	52 bp	47 bp	-5 bp
17	Health Care Equipment	\$384,655	12	41 bp	36 bp	-5 bp
18	Automobiles & Components	\$169,463	7	158 bp	153 bp	-5 bp
19	Communications Equipment	\$179,581	5	65 bp	60 bp	-4 bp
20	Hotels, Resorts & Cruise Lines	\$81,467	5	100 bp	96 bp	-4 bp
21	Pharmaceuticals	\$1,023,902	11	119 bp	115 bp	-4 bp
22	Restaurants	\$250,423	5	94 bp	90 bp	-4 bp
23	Utilities sector	\$605,611	30	56 bp	53 bp	-3 bp
24	Internet & Catalog Retail	\$400,111	5	111 bp	108 bp	-3 bp
25	Specialty Retail	\$480,664	19	135 bp	133 bp	-3 bp
26	Biotechnology	\$578,962	9	64 bp	62 bp	-3 bp
27	Life Sciences Tools & Services	\$107,596	5	41 bp	39 bp	-3 bp
28	Drug Retail	\$198,065	2	68 bp	66 bp	-3 bp
29	Industrial Conglomerates	\$460,863	4	37 bp	35 bp	-2 bp
30	Tobacco	\$343,816	3	38 bp	37 bp	-2 bp
31	Transportation	\$379,220	14	95 bp	93 bp	-2 bp
32	Data Processing & Outsourced Servic	\$424,826	11	69 bp	68 bp	-2 bp

Source: Fundstrat, FactSet, Bloomberg.

Note: 5-yr implied CDS spreads are implied by the Bloomberg Issuer Default Risk model Likelihood of Default.

Figure: Groups with deteriorating CDS spreads

3-month delta of 5-yr CDS spreads

S&P 500 GICS industry groups				5-yr implied CDS spreads		
	Industry name	Mkt cap (\$ mm)	# cos	3 mos ago (12/2015)	Current (3/2016)	3m CDS spread delta
1	Integrated Oil & Gas	\$572,855	3	90 bp	106 bp	16 bp
2	Consumer Finance	\$143,287	5	154 bp	166 bp	12 bp
3	Semiconductors	\$449,253	13	78 bp	90 bp	12 bp
4	Systems Software	\$621,219	5	48 bp	58 bp	11 bp
5	Oil & Gas Refining & Marketing	\$106,953	4	226 bp	237 bp	10 bp
6	Investment Banking & Brokerage	\$160,362	4	105 bp	112 bp	7 bp
7	Real Estate	\$546,097	27	125 bp	131 bp	6 bp
8	Asset Management & Custody Banks	\$215,287	10	82 bp	87 bp	6 bp
9	Insurance	\$468,253	20	76 bp	80 bp	5 bp
10	Diversified Financial Services	\$296,507	7	64 bp	68 bp	4 bp
11	Regional Banks	\$169,562	11	75 bp	79 bp	3 bp
12	Diversified Banks	\$817,927	6	85 bp	87 bp	3 bp
13	Application Software	\$141,363	5	56 bp	59 bp	3 bp

Source: Fundstrat, FactSet, Bloomberg.

Note: 5-yr implied CDS spreads are implied by the Bloomberg Issuer Default Risk model Likelihood of Default.

These industries saw widening of CDS, but not in a meaningful way... meaning, overall there is a net improvement in CDS

POSITIONING: Oddly, Short Interest continues to rise...

Figure: Short Interest as a % of Float

Last 12 months



Figure: 3-month delta in Short Interest as a % of Float

Last 12 month

Rising short interest	3/14/16												Sector:	Short interest % of float		
	1/14/15	4/14/15	5/14/15	6/14/15	7/14/15	8/14/15	9/14/15	10/14/15	11/14/15	12/14/15	1/14/16	2/14/16	3/14/16	1-yr ago	Now	
Enrg 112 bp	Enrg 91 bp	Enrg 47 bp	Utes 18 bp	Telco 59 bp	Enrg 74 bp	Enrg 166 bp	Enrg 103 bp	Fincl 60 bp	ConDisc 66 bp	ConDisc 51 bp	Enrg 172 bp	Enrg 165 bp	Enrg 165 bp	Energy	5.5%	8.6%
Indu 51 bp	Indu 51 bp	Indu 36 bp	Indu 18 bp	ConDisc 27 bp	Indu 58 bp	Indu 67 bp	Staple 84 bp	ConDisc 49 bp	Matr 39 bp	Enrg 48 bp	Matr 112 bp	Matr 100 bp	Matr 100 bp	Materials	3.0%	4.6%
Tele 30 bp	Tech 38 bp	Tech 4 bp	ConDisc 14 bp	Indu 25 bp	ConDisc 40 bp	Staple 55 bp	Matr 82 bp	Matr 42 bp	HlthCre 28 bp	Matr 2 bp	ConDisc 88 bp	Telco 69 bp	Telco 69 bp	Telecom	5.8%	5.6%
S&P 500 14 bp	S&P 500 17 bp	ConDisc 3 bp	S&P 500 0 bp	Utes 20 bp	Matr 37 bp	ConDisc 48 bp	ConDisc 75 bp	Staple 34 bp	Tech 22 bp	HlthCre 0 bp	Telco 35 bp	ConDisc 53 bp	ConDisc 53 bp	Discretionary	5.2%	7.0%
Tech 14 bp	Matr 9 bp	S&P 500 3 bp	Staple -2 bp	Enrg 15 bp	Staple 35 bp	S&P 500 44 bp	Indu 70 bp	S&P 500 32 bp	Staple 21 bp	Telco -2 bp	Utes 43 bp	Utes 52 bp	Utes 52 bp	Utilities	2.3%	2.8%
ConDisc 11 bp	Fincl 8 bp	Fincl -1 bp	Fincl -5 bp	S&P 500 13 bp	S&P 500 27 bp	Matr 37 bp	S&P 500 58 bp	Tech 31 bp	S&P 500 17 bp	S&P 500 -6 bp	S&P 500 40 bp	Fincl 43 bp	Fincl 43 bp	Financials	2.4%	2.9%
Staple 2 bp	ConDisc 5 bp	Staple -7 bp	Enrg -8 bp	Matr 13 bp	HlthCre 7 bp	Tech 26 bp	Tech 48 bp	HlthCre 29 bp	Indu 7 bp	Tech -19 bp	HlthCre 34 bp	S&P 500 40 bp	S&P 500 40 bp	S&P 500	3.6%	4.6%
Fincl -1 bp	Staple 4 bp	Utes -11 bp	Tech -13 bp	Staple 7 bp	Tech 7 bp	Fincl 21 bp	Fincl 39 bp	Enrg 18 bp	Fincl -9 bp	Indu -24 bp	Indu 12 bp	HlthCre 37 bp	HlthCre 37 bp	Healthcare	3.0%	3.6%
Telco -10 bp	Utes -5 bp	Matr -28 bp	Matr -16 bp	HlthCre 6 bp	Fincl 3 bp	HlthCre 6 bp	HlthCre 33 bp	Indu 2 bp	Enrg -12 bp	Fincl -35 bp	Tech 6 bp	Tech 6 bp	Tech 6 bp	Technology	3.8%	4.2%
HlthCre -21 bp	Telco -17 bp	HlthCre -28 bp	HlthCre -18 bp	Fincl 3 bp	Utes 2 bp	Utes 6 bp	Utes 12 bp	Utes -16 bp	Utes -24 bp	Utes -49 bp	Staple -12 bp	Indu -10 bp	Indu -10 bp	Industrials	3.5%	4.3%
Utes -69 bp	HlthCre -43 bp	Telco -63 bp	Telco -19 bp	Tech -2 bp	Telco -30 bp	Telco -16 bp	Telco -100 bp	Telco -32 bp	Telco -50 bp	Staple -52 bp	Fincl -21 bp	Staple -32 bp	Staple -32 bp	Staples	2.9%	3.3%

Source: Fundstrat, Bloomberg, FactSet. Note: Upgrades less downgrades (as a % of total) is the change in buy recommendations, less the change in sell recommendations, divided by the total # of analyst recommendations (calculated as a 3-month delta). The delta in short interest as a % of float shown at the sector level is based on an equal-weight average of the S&P 500 constituents.

POSITIONING: Deep cyclicals have largest short interest...

Short interest ultimately needs to reverse, in our view, especially since economic momentum is improving. We think this is a particularly good time to be contrarian here and focus on groups with large levels of short interest.

- We have highlighted a few groups with rising and/or high levels of short interest. This includes Metals and Mining and also Casinos and Gaming.

Figure: Groups with rising short interest...

3-month delta of short interest as % of float

S&P 500 GICS industry groups			Short interest % of float		
	Mkt cap (\$ mm)	# cos	3 mos ago (12/2015)	Current (3/2016)	3-mo delta (bp)
1 Multiline Retail	\$125,701	6	7.2%	9.7%	258 bp
2 Metals & Mining	\$53,014	4	0.7%	8.6%	248 bp
3 Energy Equipment & Services	\$193,539	10	10.7%	11.6%	88 bp
4 Hotels, Resorts & Cruise Lines	\$81,467	5	6.6%	7.5%	86 bp
5 Restaurants	\$250,423	5	3.5%	4.3%	83 bp
6 Textiles, Apparel & Luxury Goods	\$170,276	8	5.8%	6.5%	75 bp
7 Household Durables	\$82,830	9	5.8%	6.5%	68 bp
8 Semiconductor Equipment	\$45,532	3	6.2%	6.9%	67 bp
9 Specialty Retail	\$480,664	19	8.4%	9.0%	64 bp
10 Regional Banks	\$169,562	11	3.0%	3.6%	63 bp
11 Automobiles & Components	\$169,463	7	4.2%	4.6%	48 bp
12 Internet Software & Services	\$799,284	7	5.1%	5.6%	43 bp
13 Asset Management & Custody Banks	\$215,287	10	2.1%	2.5%	40 bp
14 Diversified Financial Services	\$296,507	7	2.2%	2.6%	38 bp
15 Application Software	\$141,363	5	3.3%	3.7%	38 bp
16 Semiconductors	\$449,253	13	5.7%	6.0%	35 bp
17 Household Products	\$358,329	5	2.5%	2.8%	33 bp
18 Health Care Distributors	\$102,363	5	3.9%	4.2%	28 bp
19 Hypermarkets & Super Centers	\$282,116	2	1.8%	2.0%	19 bp
20 Oil & Gas Exploration & Production	\$272,384	18	3.7%	3.8%	17 bp
21 Diversified Banks	\$817,927	6	1.0%	1.2%	17 bp
22 Health Care Equipment	\$384,655	12	2.4%	2.6%	16 bp
23 Investment Banking & Brokerage	\$160,362	4	1.5%	1.7%	13 bp
24 Utilities sector	\$605,611	30	2.3%	2.4%	11 bp
25 Telecom sector	\$492,129	5	2.3%	2.4%	11 bp

Source: Fundstrat, FactSet, Bloomberg.

High levels going higher...

Figure: Groups with declining short interest...

3-month delta of short interest as % of float

S&P 500 GICS industry groups			Short interest % of float		
	Mkt cap (\$ mm)	# cos	3 mos ago (12/2015)	Current (3/2016)	3-mo delta (bp)
1 Integrated Oil & Gas	\$572,855	3	7.5%	3.9%	-359 bp
2 Homebuilding	\$25,770	3	9.1%	7.8%	-128 bp
3 Internet & Catalog Retail	\$400,111	5	10.5%	9.6%	-89 bp
4 Industrial Conglomerates	\$460,863	4	2.1%	1.7%	-64 bp
5 Oil & Gas Refining & Marketing	\$106,953	4	2.1%	1.4%	-64 bp
6 Casinos & Gaming	\$8,757	1	19.0%	18.5%	-47 bp
7 Aerospace & Defense	\$456,324	10	2.2%	1.9%	-33 bp
8 Media	\$569,142	17	4.9%	4.6%	-33 bp
9 Health Care Services	\$83,435	4	4.1%	3.7%	-33 bp
10 Systems Software	\$621,219	5	1.9%	1.6%	-28 bp
11 IT Consulting & Other Services	\$245,354	5	4.7%	4.5%	-26 bp
12 Consumer Finance	\$143,287	5	2.5%	2.3%	-20 bp
13 Technology Hardware, Storage & Peri	\$711,886	8	4.5%	4.3%	-20 bp
14 Food Products	\$381,177	13	4.0%	3.9%	-16 bp
15 Drug Retail	\$198,065	2	1.8%	1.7%	-15 bp
16 Insurance	\$468,253	20	2.1%	2.0%	-14 bp
17 Life Sciences Tools & Services	\$107,596	4	3.2%	3.1%	-10 bp

Source: Fundstrat, FactSet, Bloomberg.

One of the most shorted groups still...

POSITIONING: Street still downgrading stocks, at the bottom...

Figure: Consensus Street Ratings (5=most liked, 1=least liked)

Last 12 months

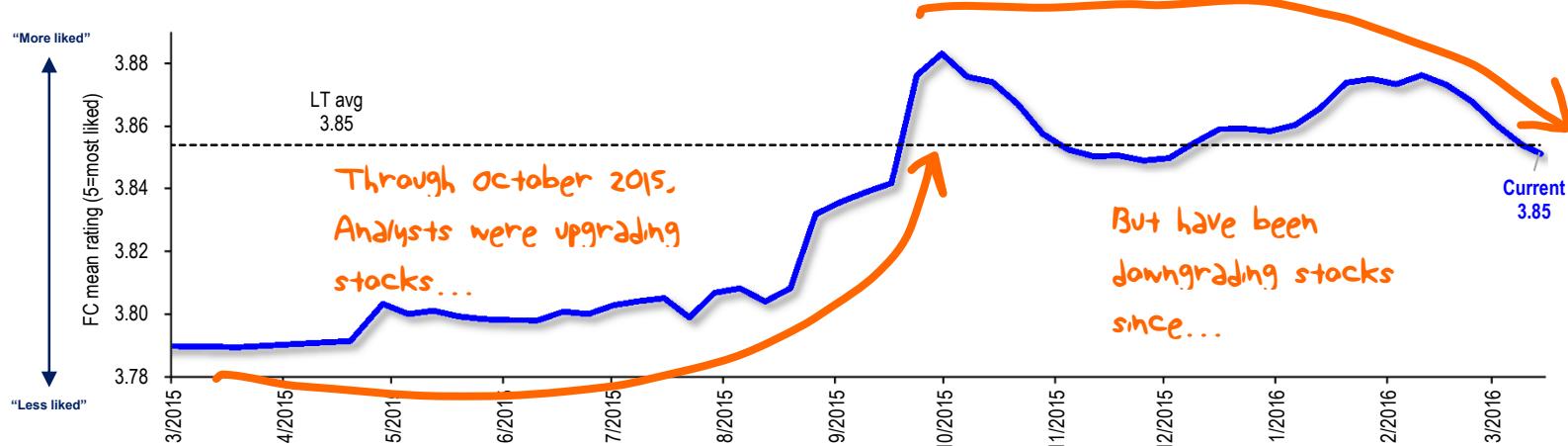
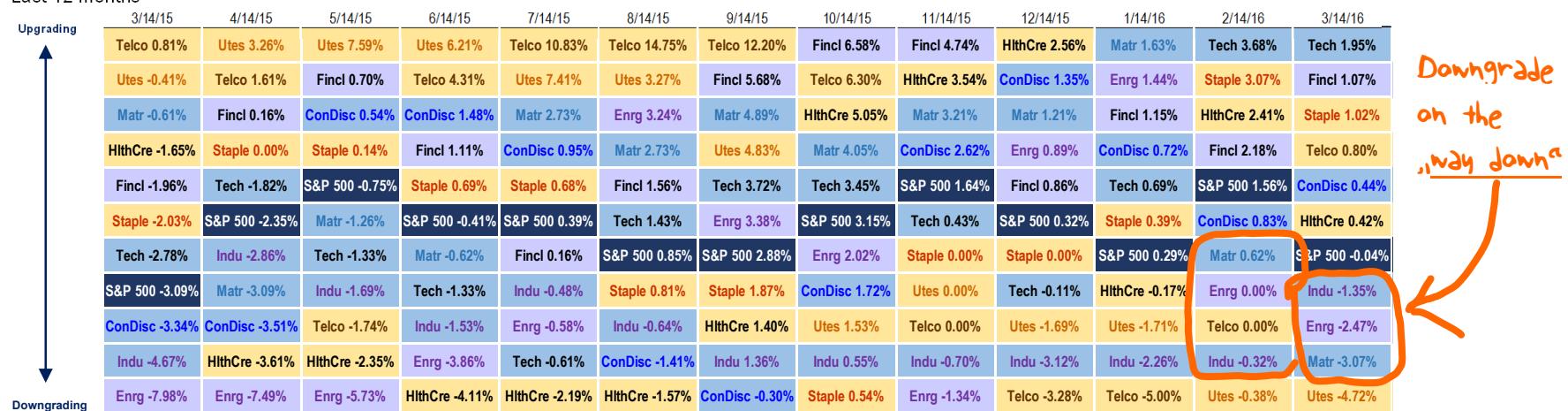


Figure: Upgrades less downgrades as a % of total analyst recommendations (rolling 3 months)

Last 12 months



Source: Fundstrat, Bloomberg, FactSet. Note: Upgrades less downgrades (as a % of total) is the change in buy recommendations, less the change in sell recommendations, divided by the total # of analyst recommendations (calculated as a 3-month delta). The delta in short interest as a % of float shown at the sector level is based on an equal-weight average of the S&P 500 constituents. S&P 500 FC mean is an equal-weight average of the constituents individual FC mean rating (where 5=most liked and 1=least liked by analysts).

POSITIONING: Analysts still cutting Target Prices...

Figure: Rolling 1-month % change of 12-month target prices

Last 12 months

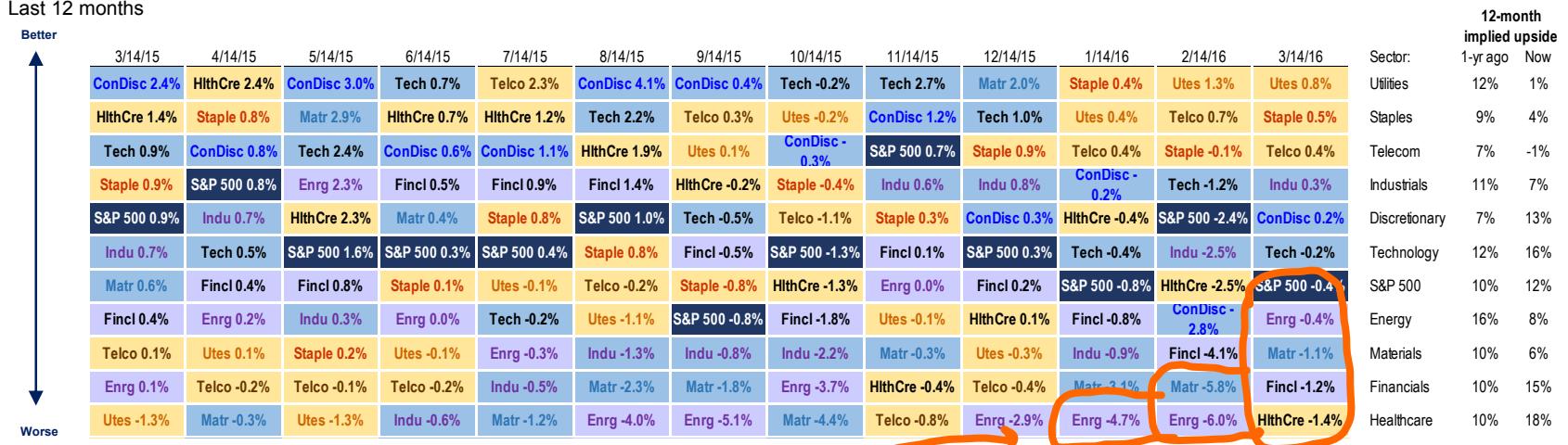
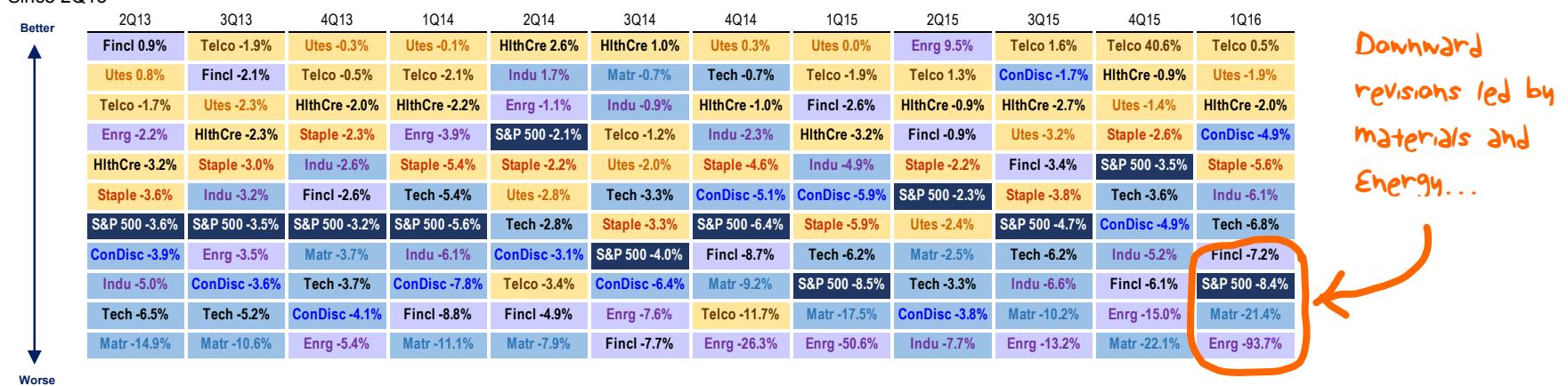


Figure: Rolling 3-month estimate revision

Since 2Q13



Source: Fundstrat, Bloomberg, FactSet.

Note: price targets are 12-month targets based on aggregation of underlying member price targets. They are calculated by summing the Bloomberg Target Price multiplied by the # of shares in the index for each member, divided by the index divisor.

Note: estimate revisions are trailing 3-months, as of the end of each calendar quarter. Estimate revisions for the current quarter (1Q16) are as of today's date. EPS estimates are sourced from FactSet Market Aggregates.

Downward
revisions led by
materials and
Energy...

LAGGARDS TO LEADERS: Sectors

Healthcare has outperformed for consecutive years and 2016 is going to be a challenge for Healthcare to outperform again...

Figure: Laggards become Leaders

Since 1970

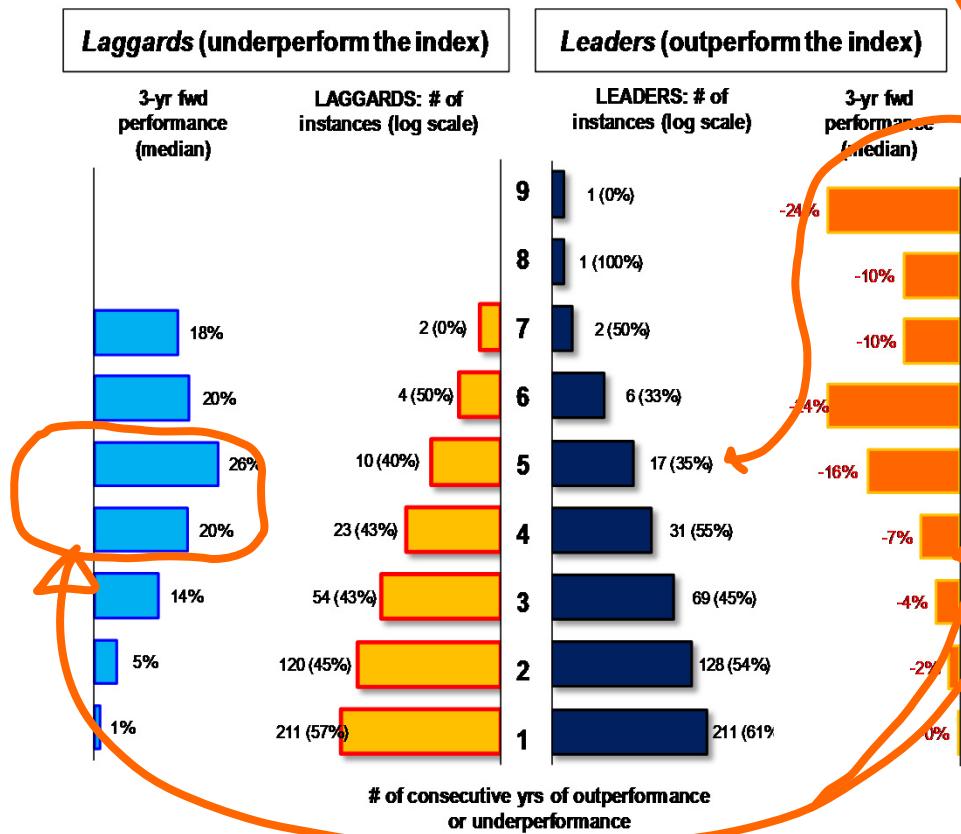


Figure: Current list of Laggards and Leaders

As of year-end 2015

LEADERS	Consecutive yrs of out-performance	Cumulative out-performance	2015 performance (relative)	YTD 2016 perf (relative)
Healthcare	5	66%	5.9%	-4.2%
Technology	2	13%	5.0%	-0.6%
Staples	2	7%	4.5%	4.5%
Discretionary	1	9%	9.2%	0.0%

LAGGARDS	Consecutive yrs of under-performance	Cumulative under-performance	2015 performance (relative)	YTD 2016 perf (relative)
Materials	5	-48%	-9.6%	2.2%
Energy	4	-76%	-22.8%	3.1%
Telecom	4	-47%	-1.0%	13.5%
Industrials	2	-8%	-4.0%	2.3%
Utilities	1	-8%	-7.7%	11.7%
Financials	1	-3%	-2.8%	-5.6%

Source: Fundstrat, Bloomberg, Datastream, Dartmouth.

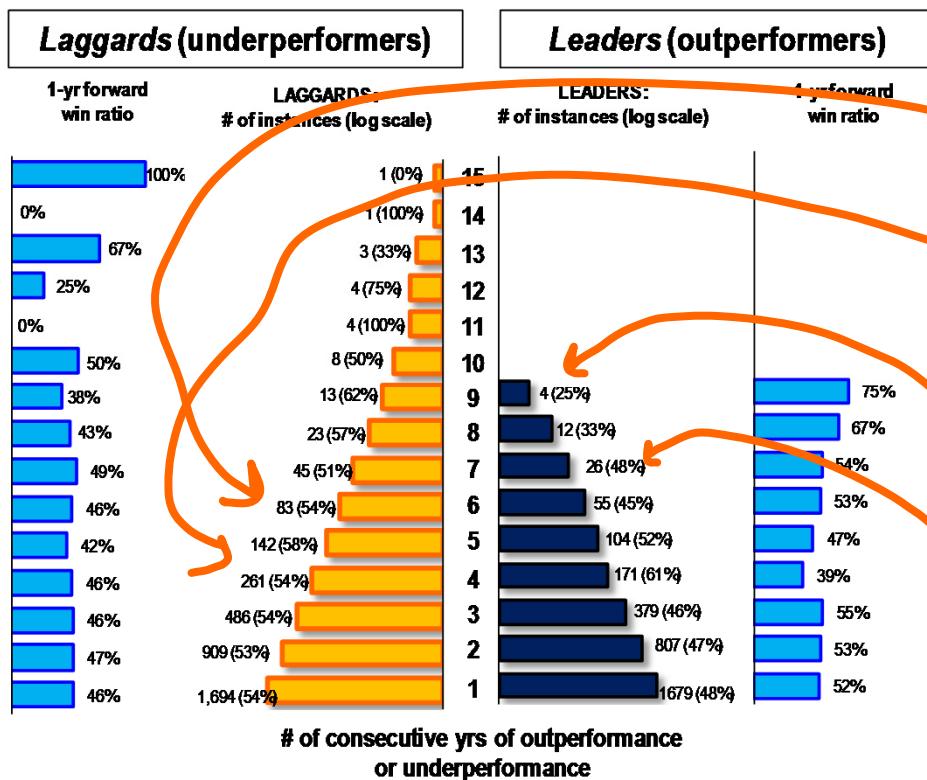
Note: Data uses 3 connected price series including Dartmouth (1928-1970), Datastream (1970-1990), and Bloomberg (1990-2016). 3-yr fwd performance is based on the median stock within each cohort of consecutive years of out(under)performance. Table on right is showing sectors as of YE 2015, and does not give consideration to YTD 2016 performance.

LAGGARDS TO LEADERS: Industries

Lagging industries tend to persist, but as shown below, a group lagging for 6 years likely has LOW EXPECTATIONS....

Figure: Laggards become Leaders

Since 1970



Source: Fundstrat, Bloomberg, Datastream.

Note: incorporates Bloomberg GICS level 4 (1990-2015) and Datastream (1970-2015) sub-industry groups. 1-year fwd win ratio is calculated as [1-conditional probability]. "Streaks" in the table on the right are based on YE 2015 data. We are showing 2016 performance for comparative purposes.

Figure: 10 best/worst current streaks

As of year-end 2015 (based on GICS 3 groups)

LAGGARDS	Consecutive yrs of under-performance	Cumulative under-performance	2015 perf (relative)	YTD 2016 perf (relative)
Oil & Gas Drilling	6	-145%	-31%	-4%
Steel	6	-126%	-18%	13%
Oil & Gas Exploration & Produ	6	-110%	-35%	-1%
Communications Equipment	6	-69%	-13%	4%
Coal & Consumable Fuels	5	-155%	-76%	32%
Diversified Metals & Mining	5	-150%	-70%	44%
Gold	5	-133%	-4%	48%
Construction & Farm Machinery	5	-92%	-31%	11%
Oil & Gas Equipment & Servic	5	-82%	-20%	4%
Integrated Oil & Gas	4	-74%	-16%	6%

LEADERS	Consecutive yrs of out-performance	Cumulative out-performance	2015 perf (relative)	YTD 2016 perf (relative)
Health Care Distributors	9	146%	6%	-9%
Apparel Retail	7	335%	2%	6%
Distillers & vintners	6	252%	33%	0%
Housewares & Specialties	6	230%	16%	-6%
Home Improvement Retail	6	223%	22%	-2%
Cable & Satellite	6	139%	4%	6%
Biotechnology	5	247%	6%	-13%
Data Processing & Outsourced	5	134%	11%	-3%
Drug Retail	5	92%	6%	1%
Building Products	4	150%	25%	2%

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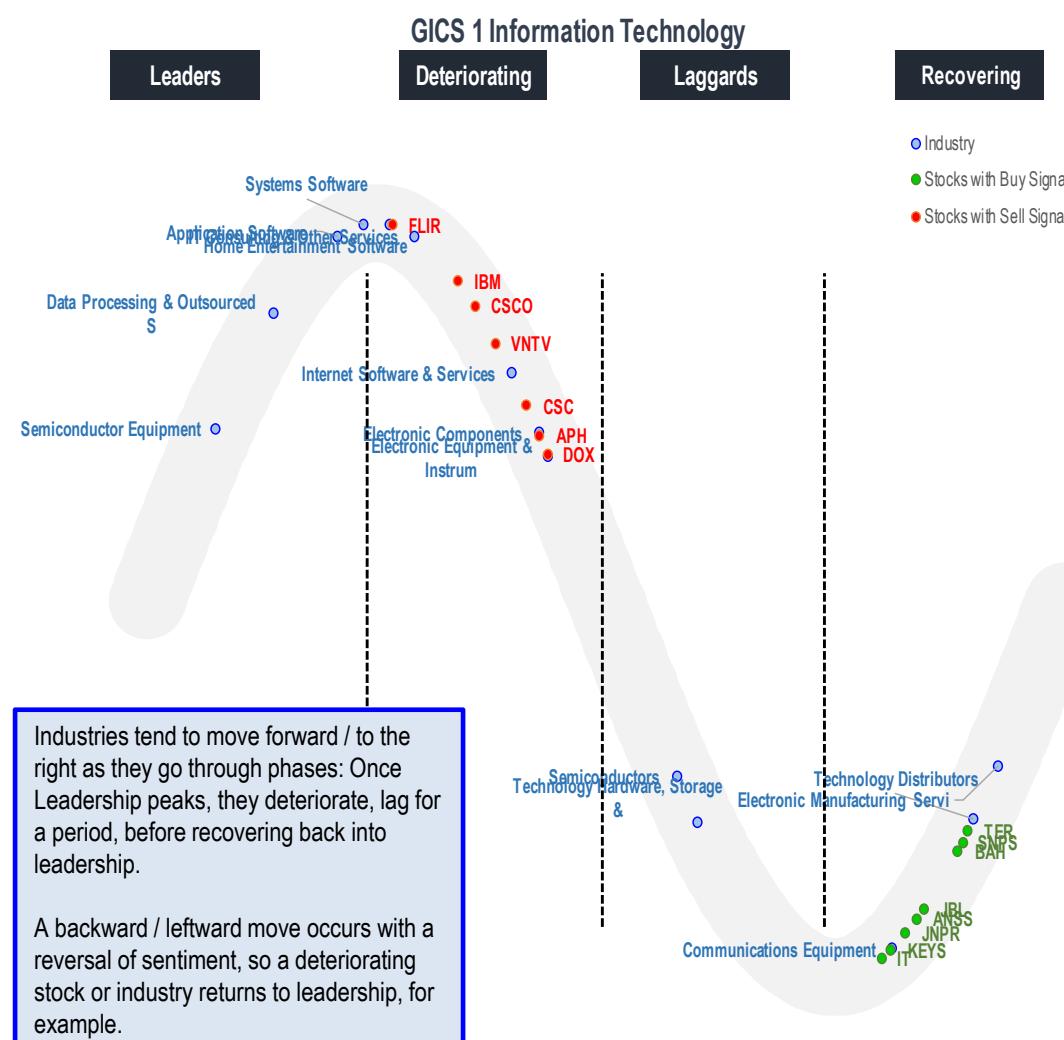
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CYCLICALS: Technology (GICS1: 45)

Figure: Technology Fundstrat Composite Radar



Source: Fundstrat, Factset, Bloomberg

Rating:

OVERWEIGHT

Strategy Rationale:

Technology is a sector likely to re-rate higher given strong balance sheets, high margins and building tailwinds from weaker USD, improving economic momentum.

Most Attractive Groups:

Semiconductor Equipment, Data Processing, Application Software, Technology Distributors, Communications Equipment

Least Attractive Groups:

Semiconductors, Technology Hardware, Electronic Equipment & Instruments, Internet Software and Services

CYCLICALS: Technology (GICS1: 45)

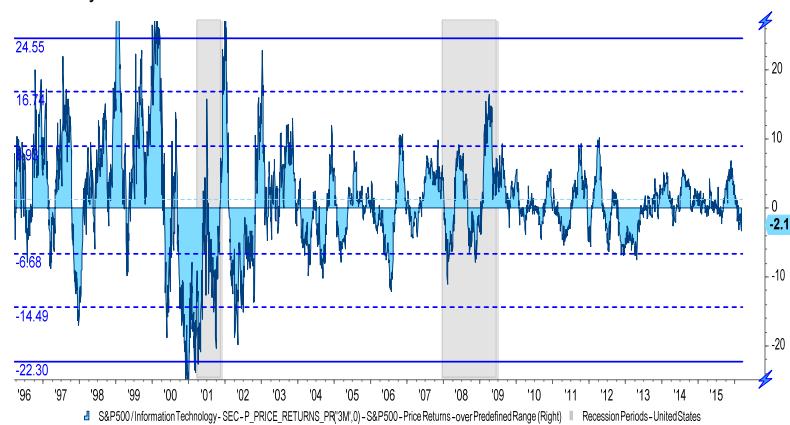
Relative Price Ratio vs. S&P 500

30-Dec-1994 to 11-Mar-2016 (Daily)



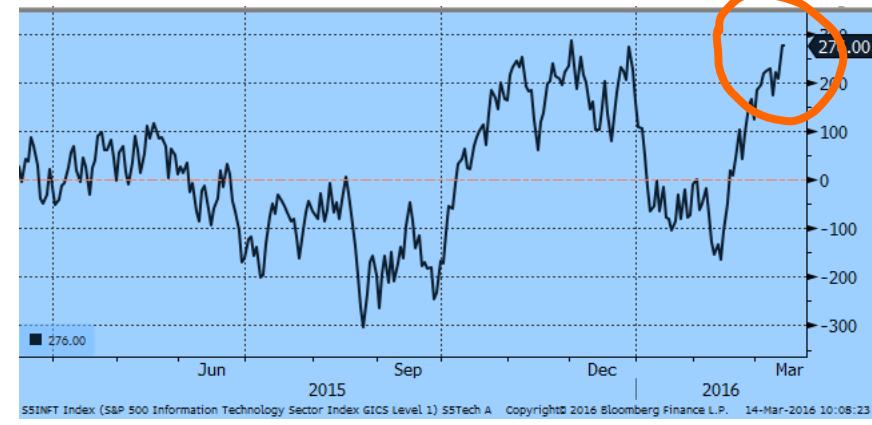
3M Return Relative

Last 20 years



Advance/Decline line

Last 12 months



CYCLICALS: Technology (GICS1: 45)

Figure: 3-month relative performance

Relative to the S&P 500

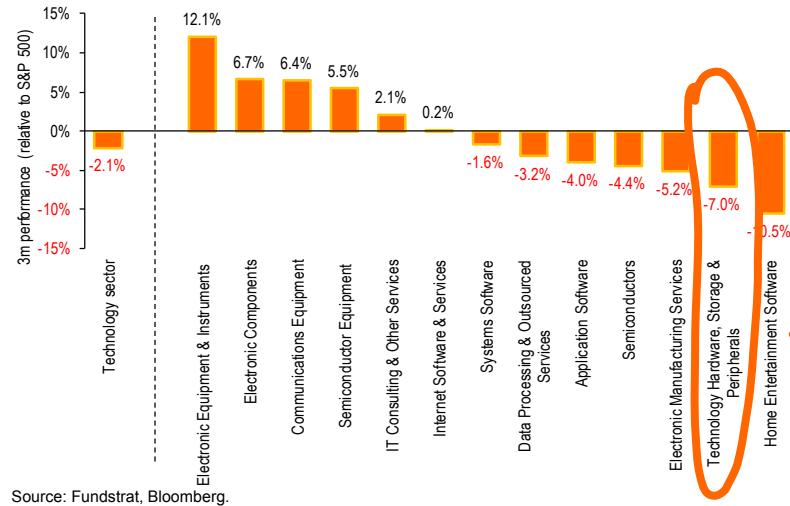


Figure: Default Risk (relative to the S&P 500)

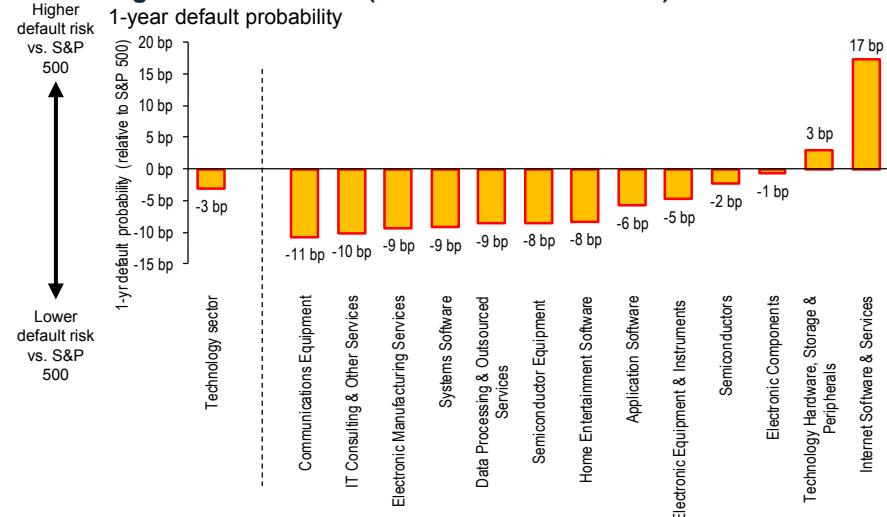


Figure: NTM vs. LTM revenue growth

Based on consensus

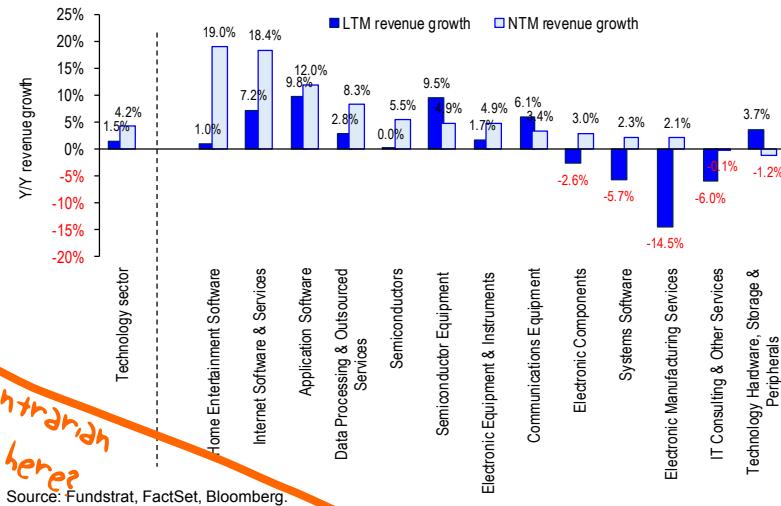
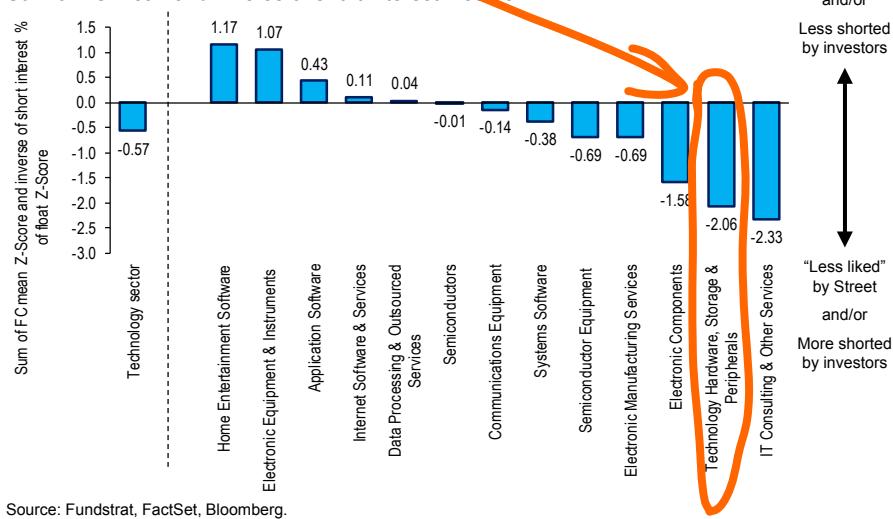


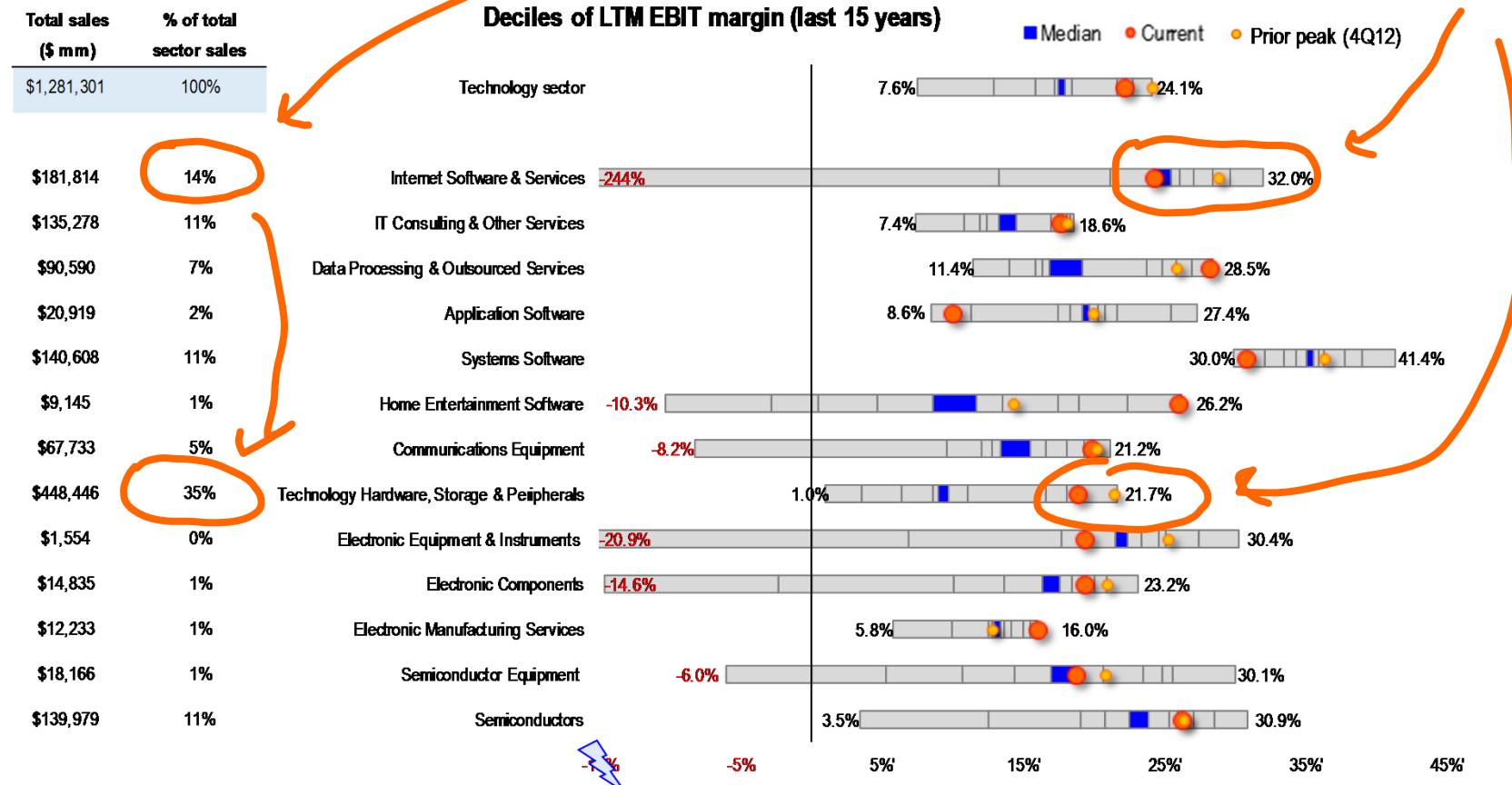
Figure: Composite sell-side and buy-side sentiment

Sum of FC mean and inverse of short interest z-score



CYCLICALS: Technology (GICS1: 45)

Figure: Deciles of LTM EBIT margin
Last 15 years



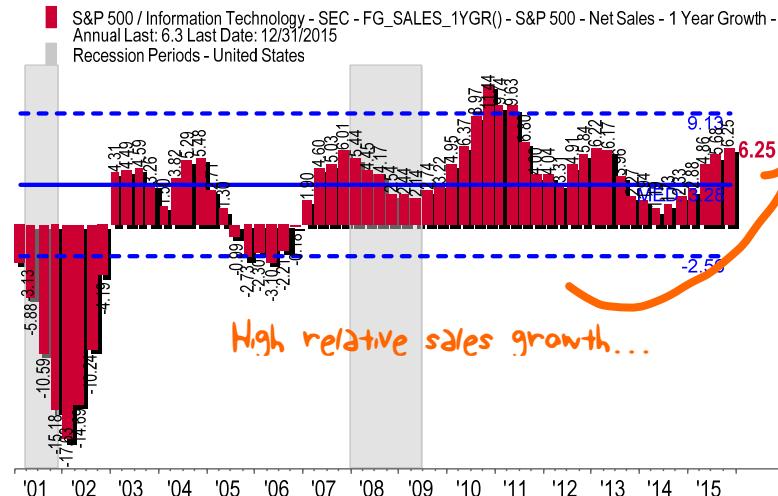
Source: Fundstrat, Factset.

Note: LTM EBIT margin is calculated based on FactSet Market Aggregates. EBIT and Sales for each constituent are calendarized, and the universe of constituents is limited to those with both estimated and actual value for both Sales and EBIT.

CYCLICALS: Technology (GICS1: 45)

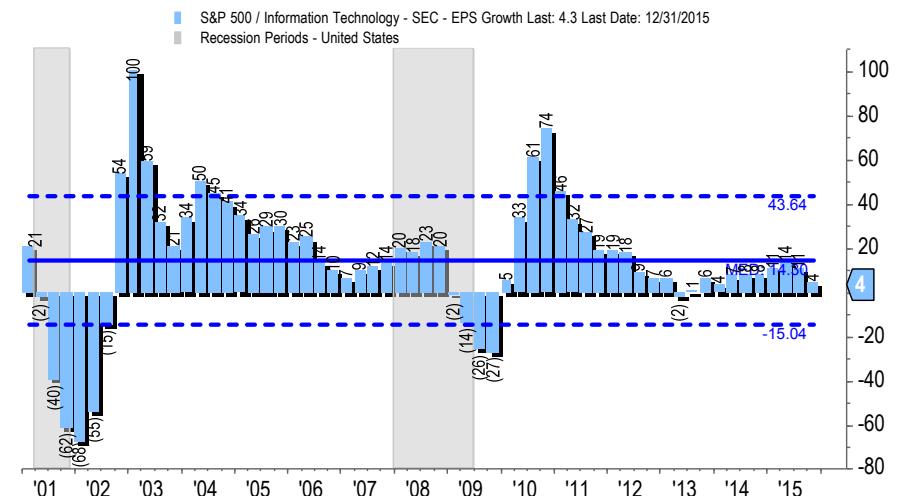
Sales Growth YoY % change (relative)

Last 15 years



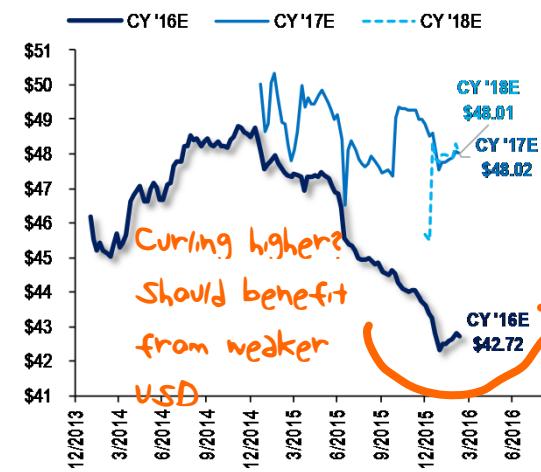
EPS Growth YoY % change (absolute)

Last 15 years



EPS Forecasts FY1 and FY2

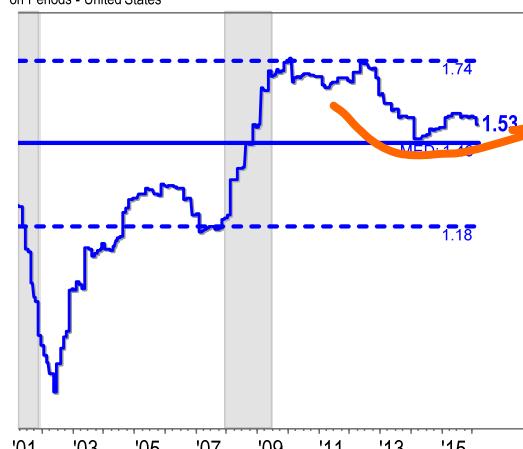
Past 24 months



EBIT margin Relative

Since 2000

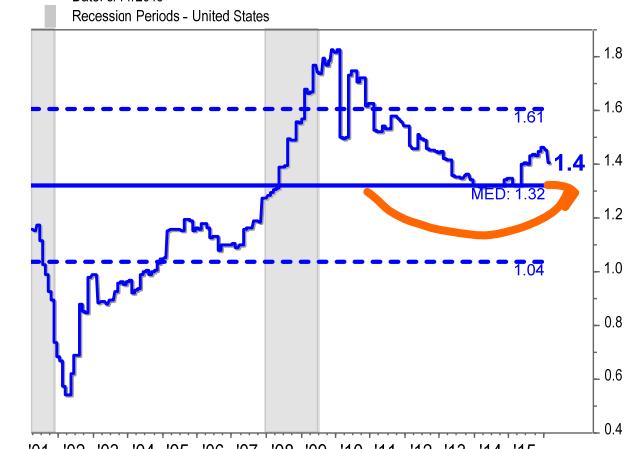
Legend: S&P 500 / Information Technology - SEC - EBIT Margin - LTM Relative to S&P 500 Last: 1.5 Last Date: 3/11/2016
Recession Periods - United States



ROE Relative

Since 2000

Legend: S&P 500 / Information Technology - SEC - ROE - LTM Relative to S&P 500 Last: 1.4 Last Date: 3/11/2016
Recession Periods - United States



Source: Fundstrat, Factset

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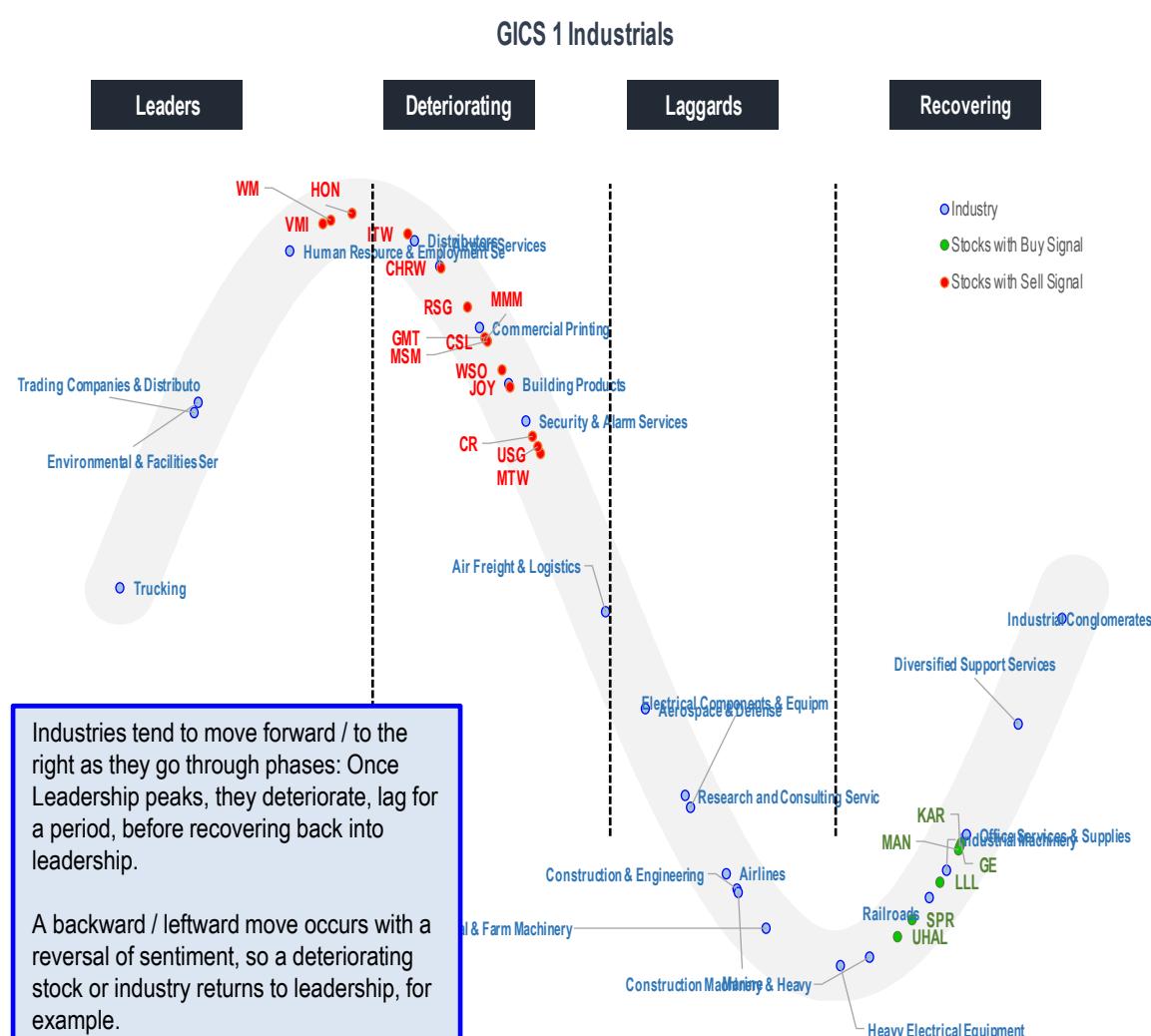
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CYCLICALS: Industrials (GICS1: 20)

Figure: Industrials Fundstrat Composite Radar



Source: Fundstrat, Factset, Bloomberg

Rating:

OVERWEIGHT

Strategy Rationale:

Industrials have underperformed because of a “recession” in demand for Industrial products. Surprisingly, the industry has managed to maintain relatively high margins and there are building tailwinds from weaker USD, improving economic momentum.

Most Attractive Groups:

Industrial Conglomerates,
Diversified Support Services,
Machinery,
Railroads,
Trucking,
Trading Companies

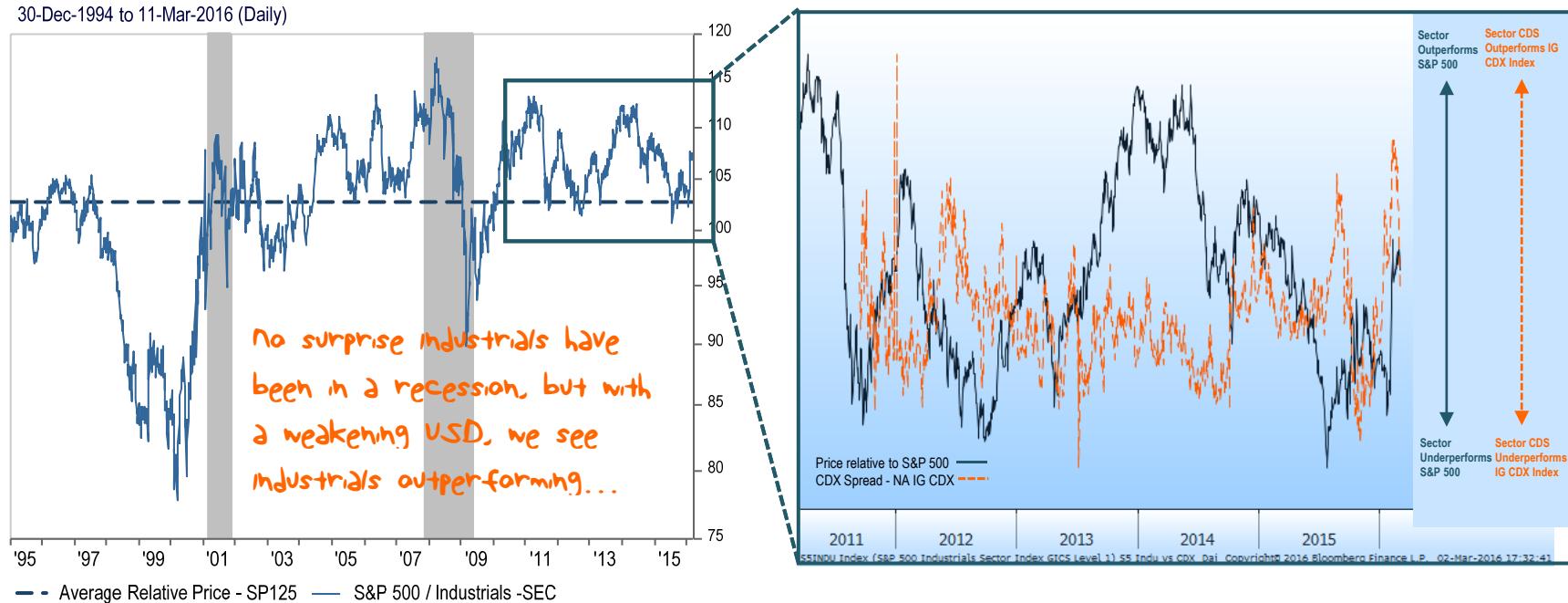
Least Attractive Groups:

Air Freight & Logistics,
Airlines,
Aerospace & Defense,
Electrical Components

CYCLICALS: Industrials (GICS1: 20)

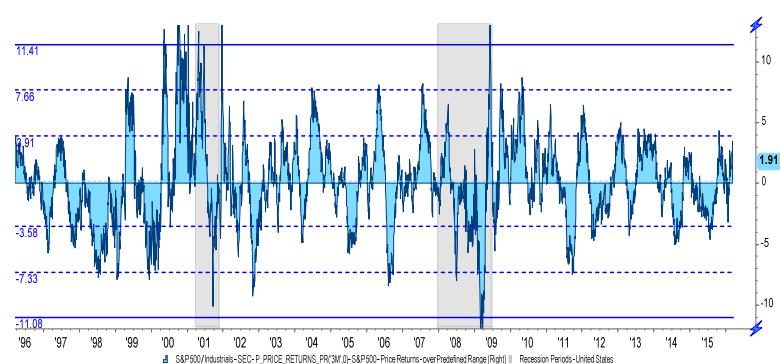
Relative Price Ratio vs. S&P 500

30-Dec-1994 to 11-Mar-2016 (Daily)



3M Return Relative

Last 20 years



Source: Fundstrat, Factset

Advance/Decline line

Last 12 months

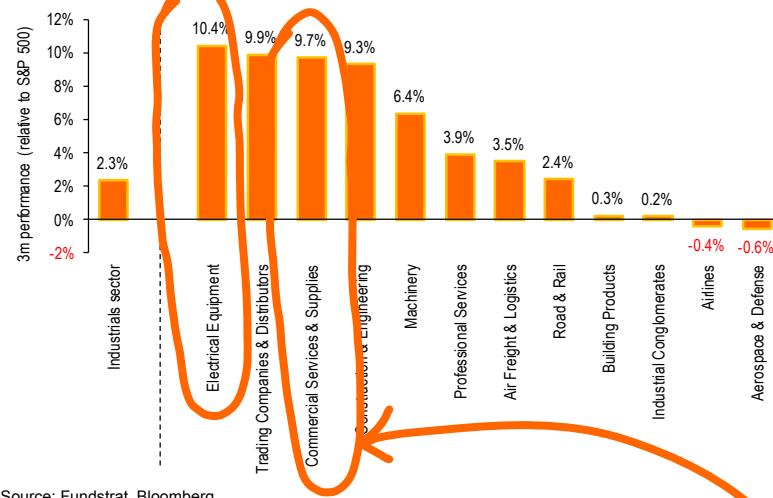


Source: Fundstrat, Factset

CYCLICALS: Industrials (GICS1: 20)

Figure: 3-month relative performance

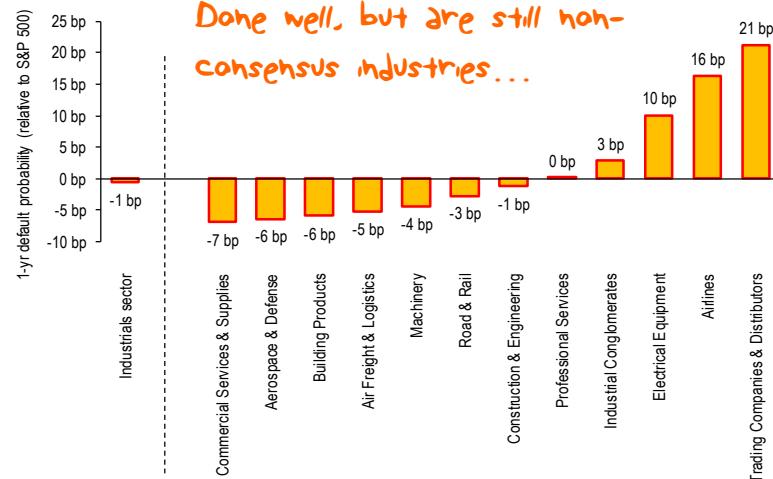
Relative to the S&P 500



Source: Fundstrat, Bloomberg.

Figure: Default Risk (relative to the S&P 500)

1-year default probability

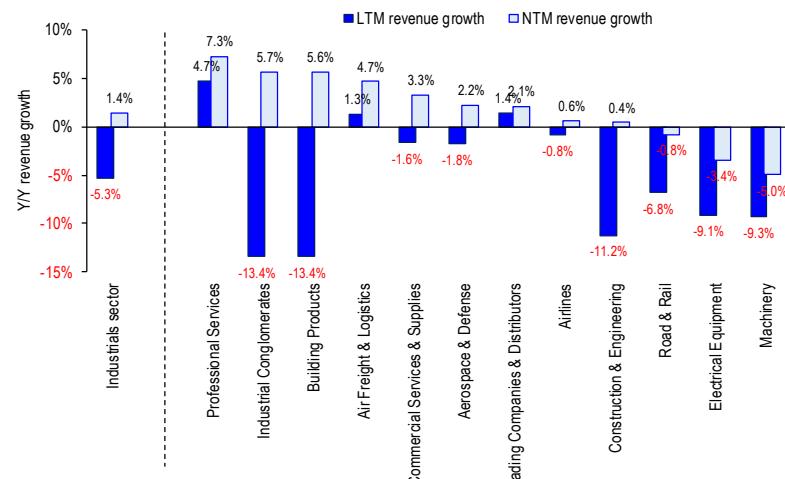


Source: Fundstrat, FactSet, Bloomberg.

Note: Default Risk calculation is Bloomberg-calculated, and is based on Robert Merton's "Distance-to-Default". The calculation is supplemented by including industry-specific financial health metrics, as well as interest coverage, cash flow, and balance sheet health metrics.

Figure: NTM vs. LTM revenue growth

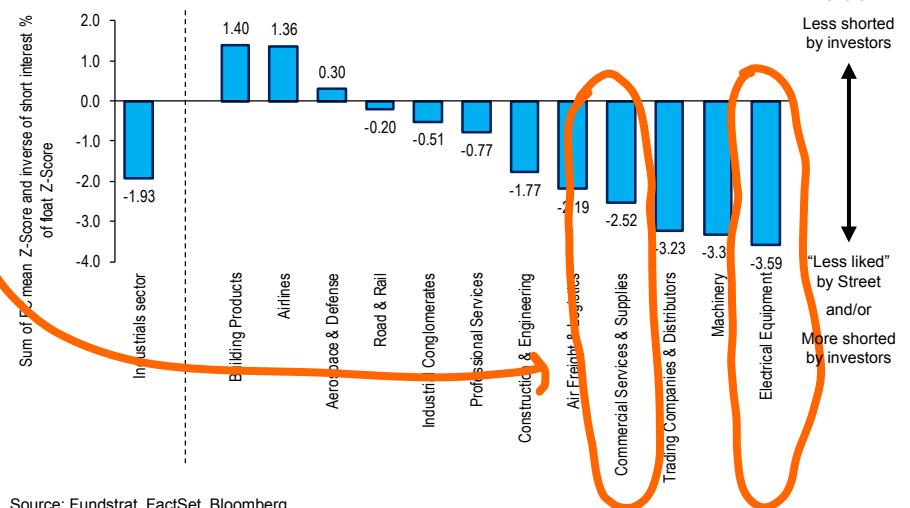
Based on consensus



Source: Fundstrat, FactSet, Bloomberg.

Figure: Composite sell-side and buy-side sentiment

Sum of FC mean and inverse of short interest z-score



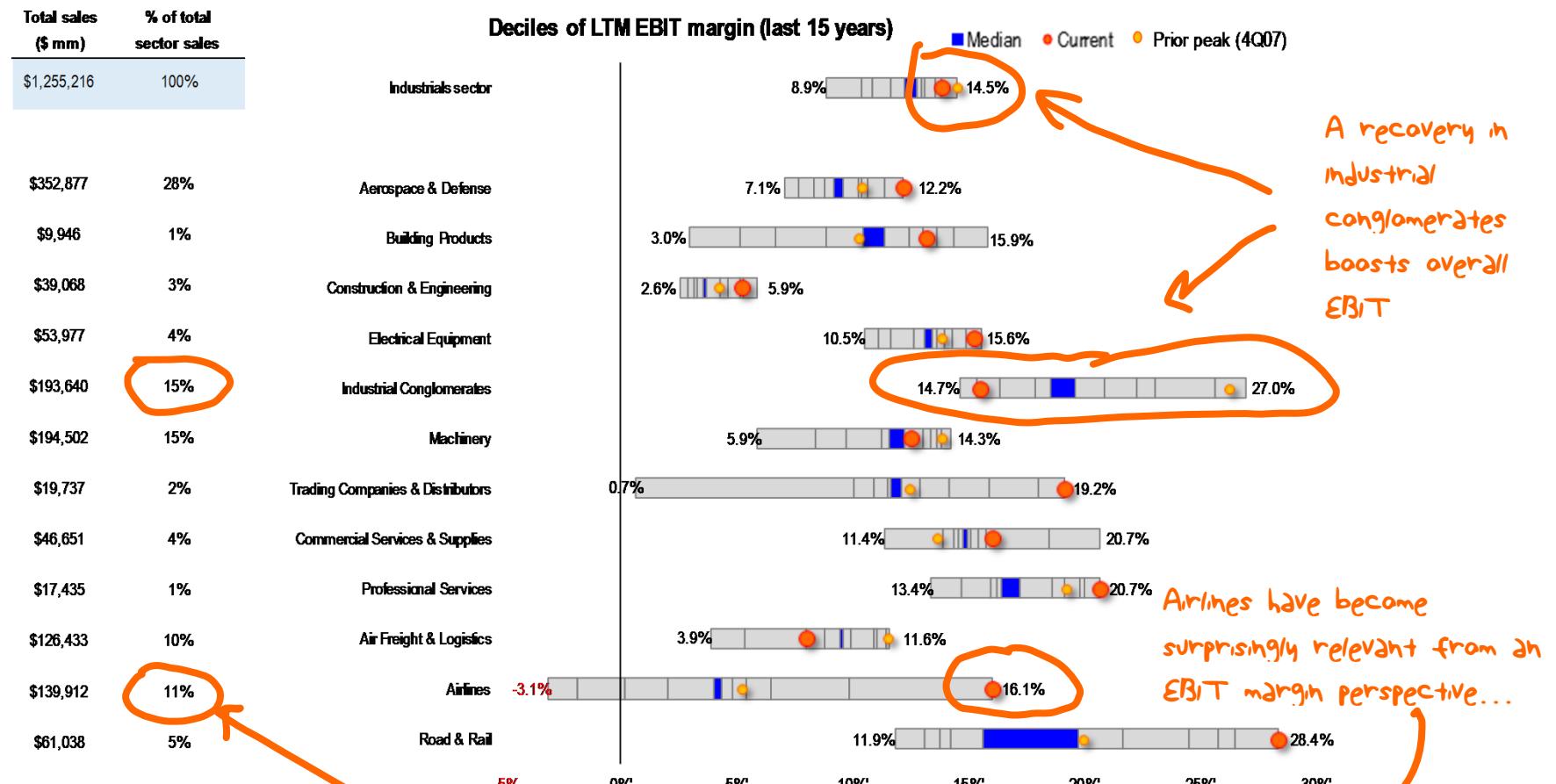
Source: Fundstrat, FactSet, Bloomberg.

Note: we are calculating industry-level Short Interest & FC Mean based on an equal-weighted average of the constituents. A positive value for Short Interest Z-Score indicates that Short Interest is lower than average, whereas a negative value suggests Short Interest is higher than average.

CYCLICALS: Industrials (GICS1: 20)

Figure: Deciles of LTM EBIT margin

Last 15 years



Source: Fundstrat, Factset.

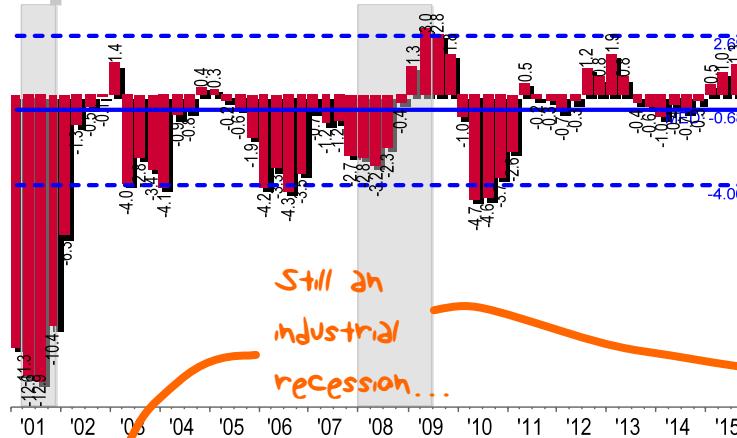
Note: LTM EBIT margin is calculated based on FactSet Market Aggregates. EBIT and Sales for each constituent are calendarized, and the universe of constituents is limited to those with both and estimated and actual value for both Sales and EBIT.

CYCLICALS: Industrials (GICS1: 20)

Sales Growth YoY % change (relative)

Last 15 years

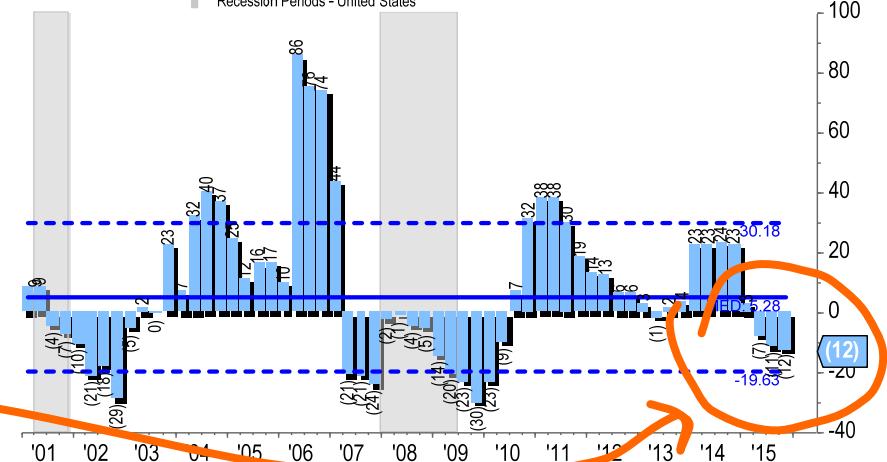
S&P 500 / Industrials - SEC - FG_SALES_1YGR() - S&P 500 - Net Sales - 1 Year Growth - Annual Last: 1.1 Last Date: 12/31/2015
Recession Periods - United States



EPS Growth YoY % change (absolute)

Last 15 years

S&P 500 / Industrials - SEC - EPS Growth Last: -12.3 Last Date: 12/31/2015
Recession Periods - United States



EPS Forecasts FY1 and FY2

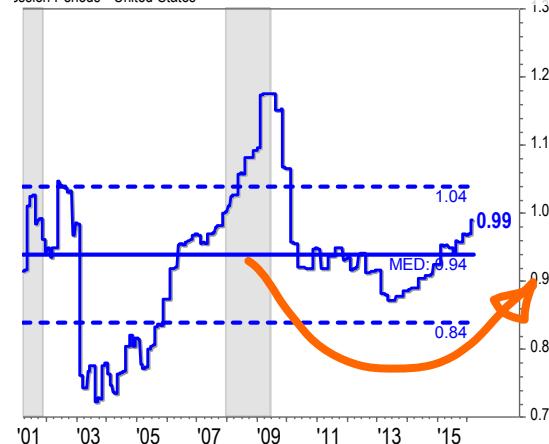
Past 24 months

All from weaker USD?

EBIT margin Relative

Since 2000

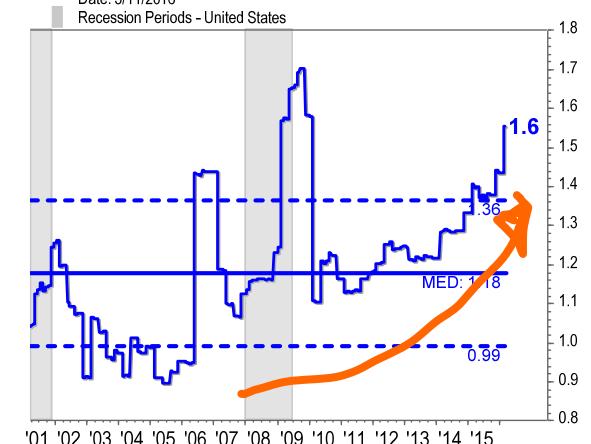
500 / Industrials - SEC - EBIT Margin - LTM Relative to S&P 500 Last: 1.0 Last Date: 3/1
Recession Periods - United States



ROE Relative

Since 2000

S&P 500 / Industrials - SEC - ROE - LTM Relative to S&P 500 Last: 1.6 Last Date: 3/11/2016
Recession Periods - United States



Source: Fundstrat, Factset

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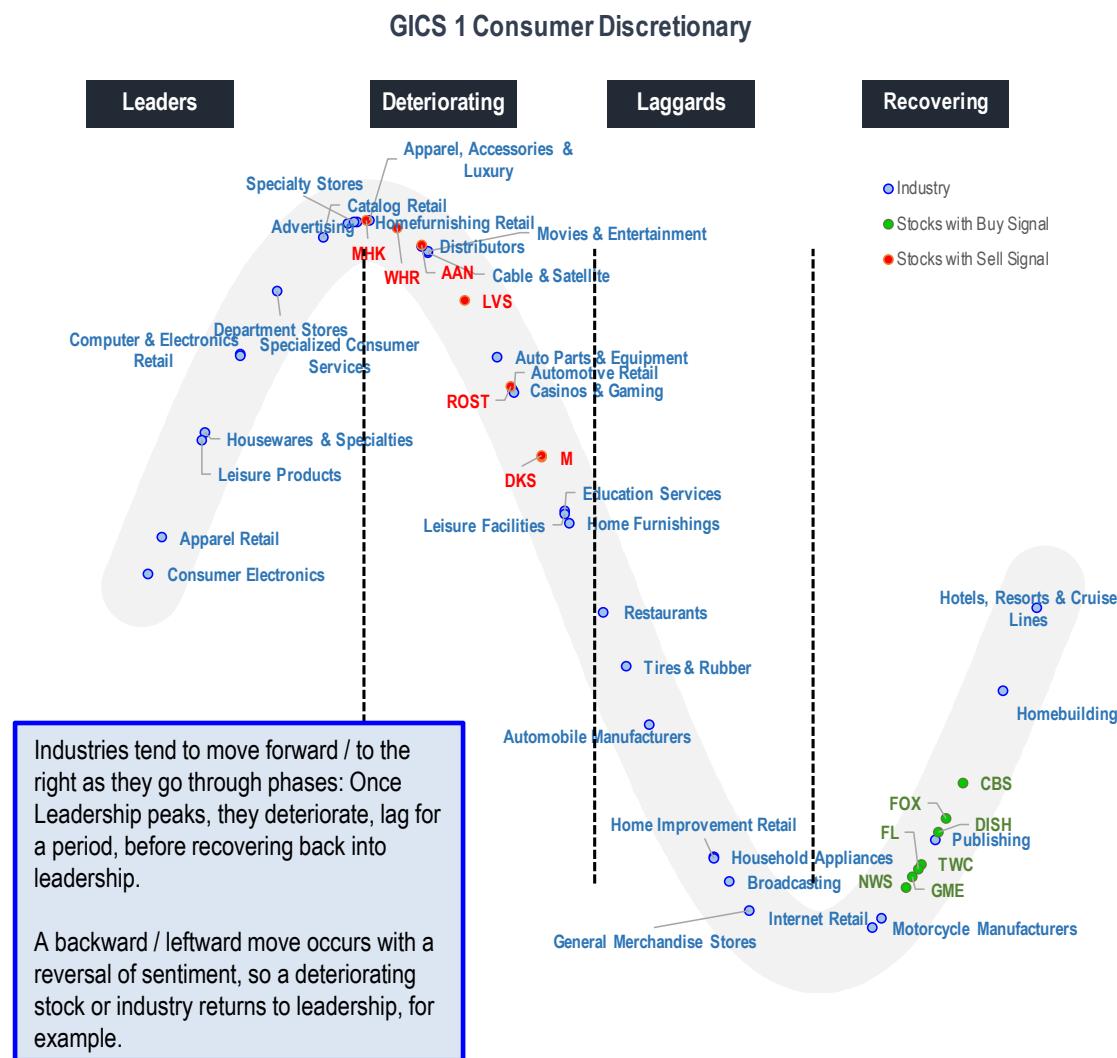
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CYCLICALS: Consumer Discretionary (GICS1: 25)

Figure: Consumer Discretionary Fundstrat Composite Radar



Rating:

NEUTRAL

Strategy Rationale:

Consumer Discretionary has outperformed for most of the past 7 years. The tailwinds were lower commodity prices and contained wage costs and higher USD. We see incremental wage pressures as a headwind for Consumer Discretionary, which is the most labor intensive sector in the S&P 500.

Most Attractive Groups:

Hotels, Resorts & Cruiselines,
Homebuilding,
Publishing,
Motorcycles,
Apparel retail,
Consumer electronics,
Internet Catalog retail,
Department stores

Least Attractive Groups:

Cable & Satellite,
Education services,
Auto parts,
Leisure facilities,
Tires & Rubber,
Automakers

Source: Fundstrat, Factset, Bloomberg

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CYCLICALS: Consumer Discretionary (GICS1: 25)

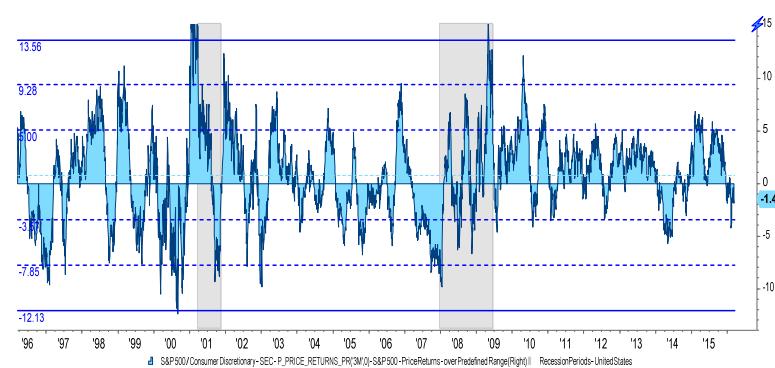
Relative Price Ratio vs. S&P 500

30-Dec-1994 to 11-Mar-2016 (Daily)



3M Return Relative

Last 20 years



Advance/Decline line

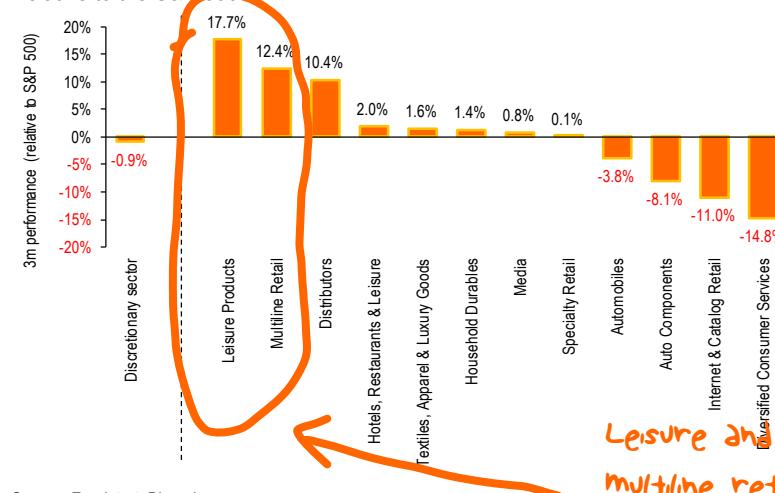
Last 12 months



CYCLICALS: Consumer Discretionary (GICS1: 25)

Figure: 3-month relative performance

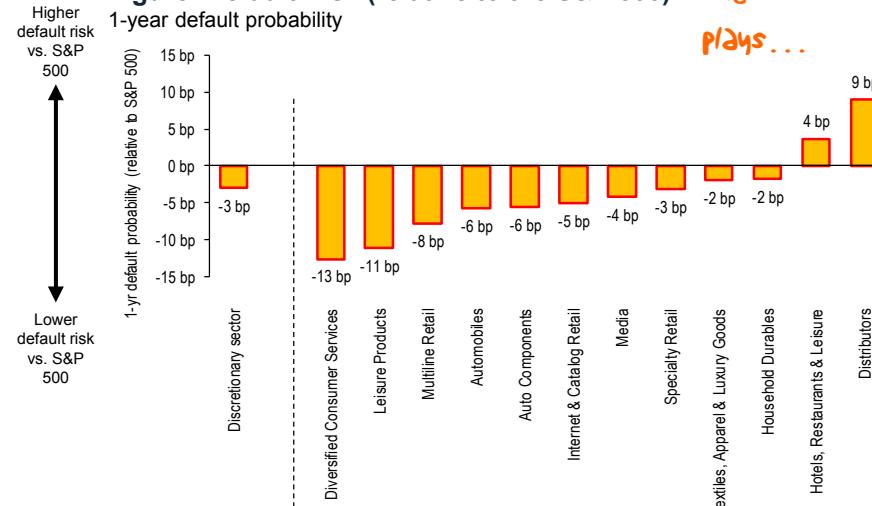
Relative to the S&P 500



Source: Fundstrat, Bloomberg.

Figure: Default Risk (relative to the S&P 500)

1-year default probability

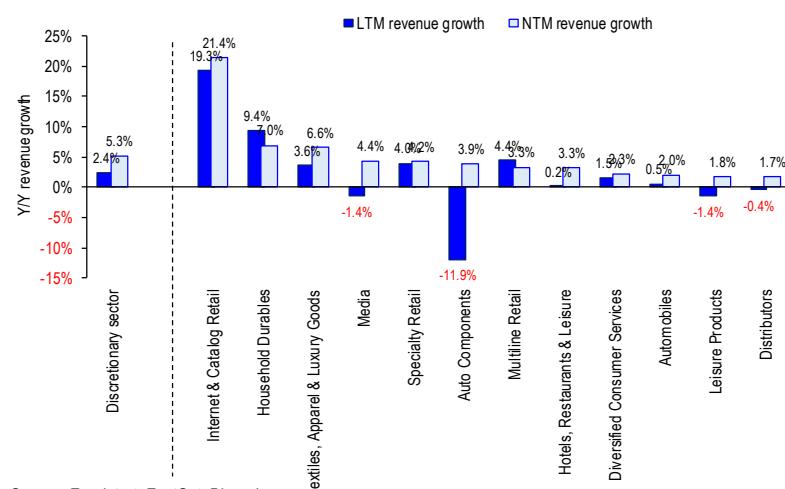


Source: Fundstrat, FactSet, Bloomberg.

Note: Default Risk calculation is Bloomberg-calculated, and is based on Robert Merton's "Distance-to-Default". The calculation is supplemented by including industry-specific financial health metrics, as well as interest coverage, cash flow, and balance sheet health metrics.

Figure: NTM vs. LTM revenue growth

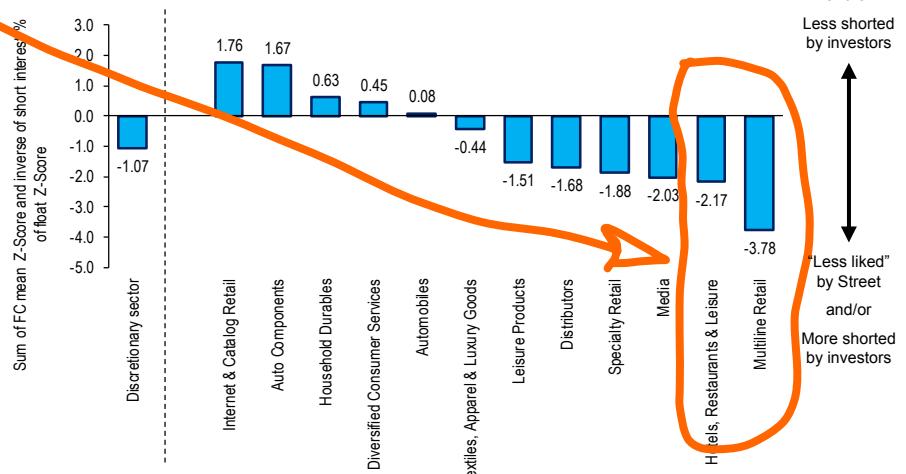
Based on consensus



Source: Fundstrat, FactSet, Bloomberg.

Figure: Composite sell-side and buy-side sentiment

Sum of FC mean and inverse of short interest z-score



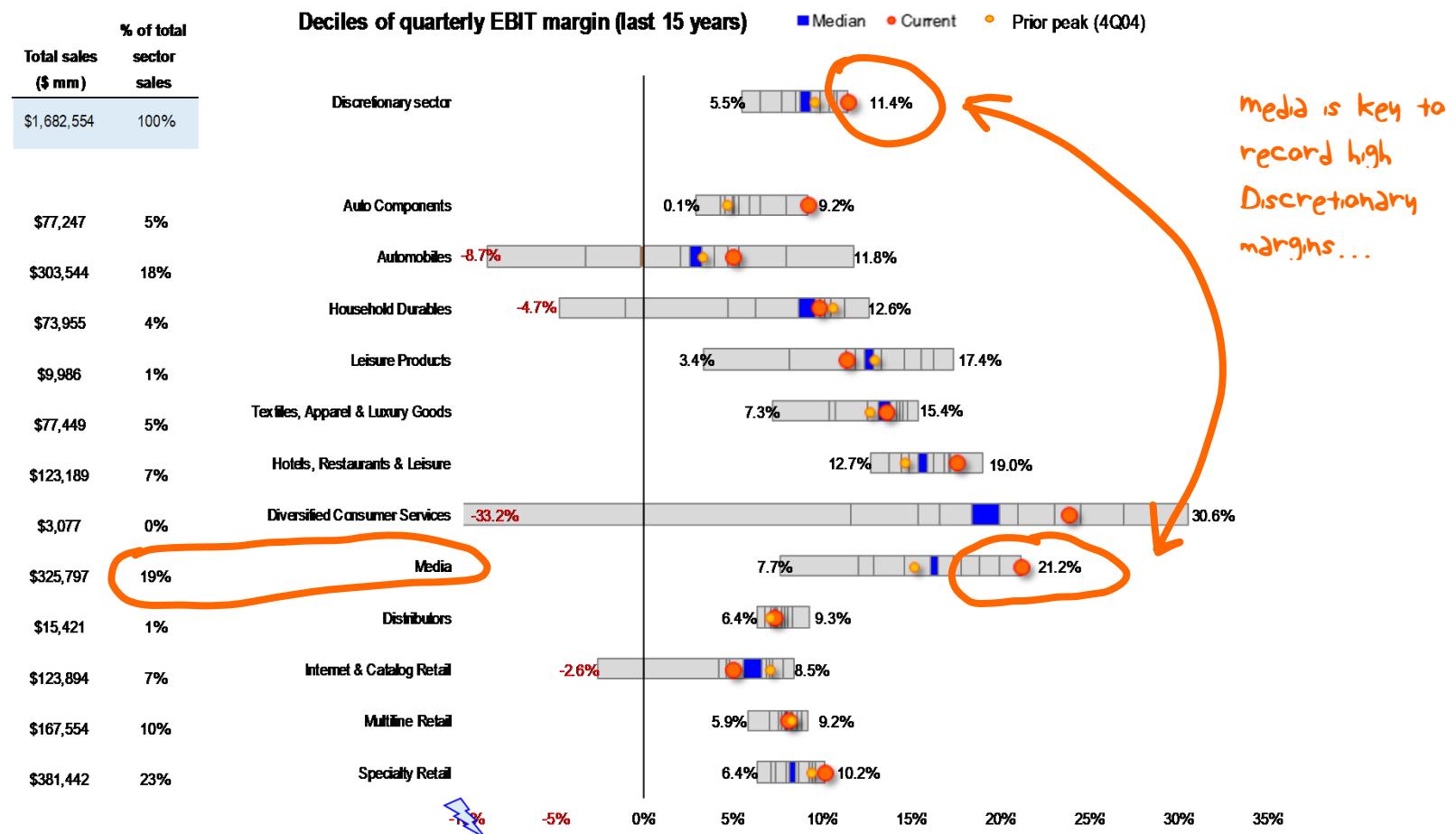
Source: Fundstrat, FactSet, Bloomberg.

Note: we are calculating industry-level Short Interest & FC Mean based on an equal-weighted average of the constituents. A positive value for Short Interest Z-Score indicates that Short Interest is lower than average, whereas a negative value suggests Short Interest is higher than average.

CYCLICALS: Discretionary (GICS1: 25)

Figure: Deciles of LTM EBIT margin

Last 15 years



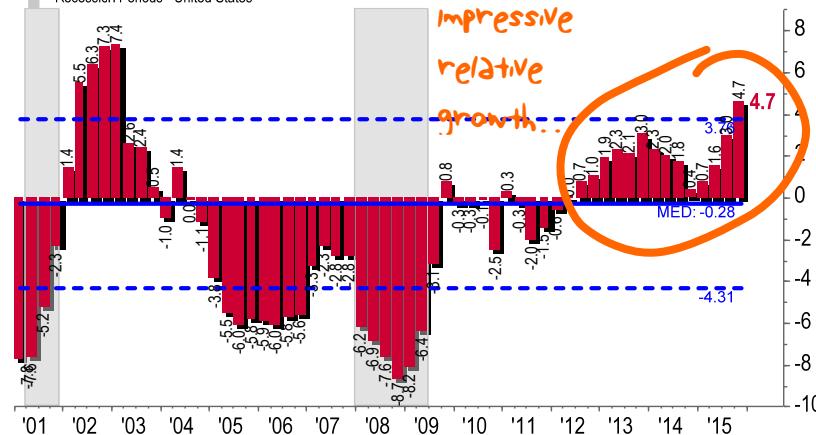
media is key to record high Discretionary margins...

CYCLICALS: Consumer Discretionary (GICS1: 25)

Sales Growth YoY % change (relative)

Last 15 years

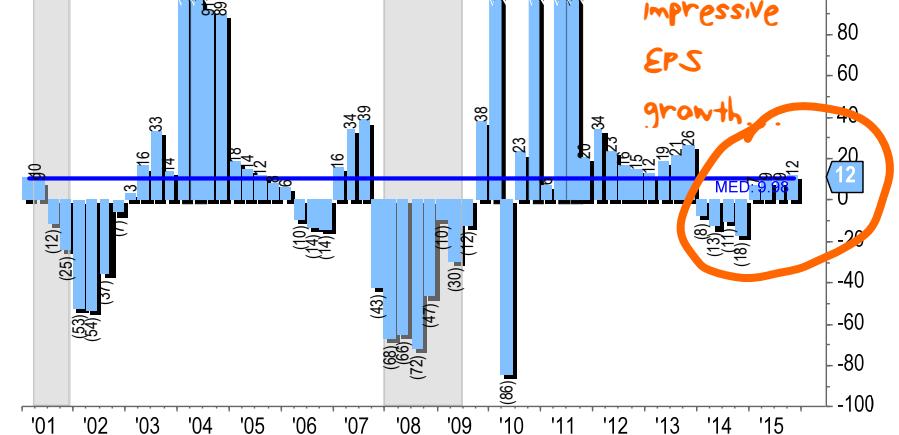
S&P 500 / Consumer Discretionary - SEC - FG_SALES_1YGR() - S&P 500 - Net Sales - 1 Year Growth - Annual Last: 4.7 Last Date: 12/31/2015
Recession Periods - United States



EPS Growth YoY % change (absolute)

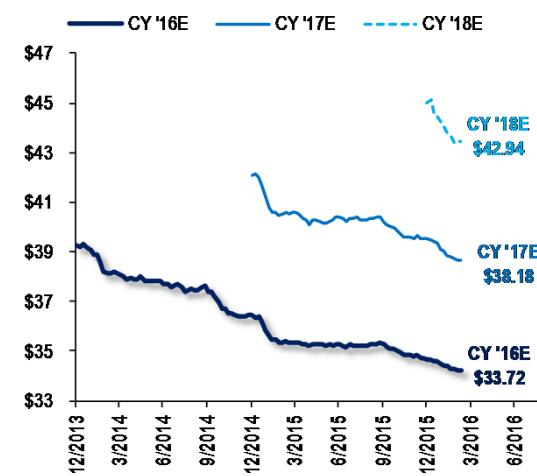
Last 15 years

S&P 500 / Consumer Discretionary - SEC - EPS Growth Last: 12.0 Last Date: 12/31/2015
Recession Periods - United States



EPS Forecasts FY1 and FY2

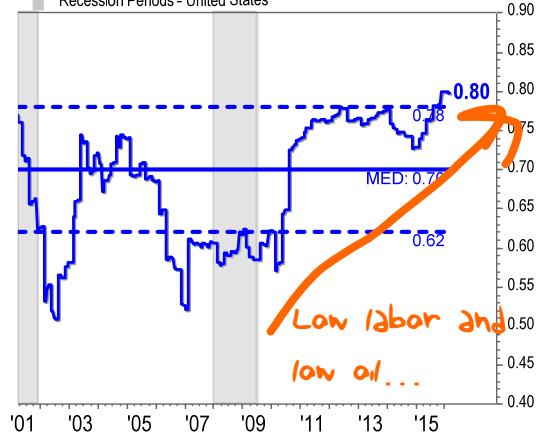
Past 24 months



EBIT margin Relative

Since 2000

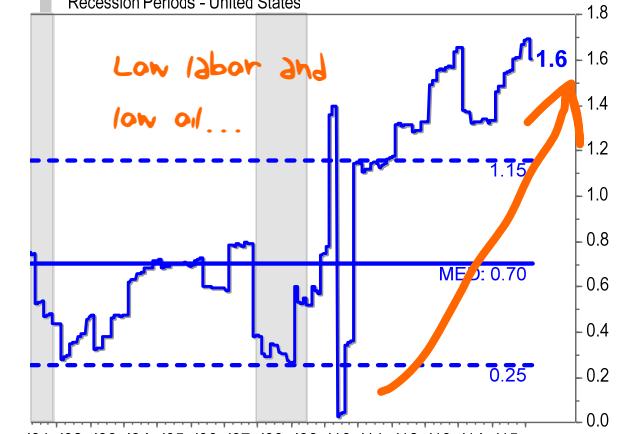
S&P 500 / Consumer Discretionary - SEC - EBIT Margin - LTM Relative to S&P 500 Last: 0.8 Last Date: 3/11/2016
Recession Periods - United States



ROE Relative

Since 2000

S&P 500 / Consumer Discretionary - SEC - ROE - LTM Relative to S&P 500 Last: 1.6 Last Date: 3/11/2016
Recession Periods - United States



Source: Fundstrat, Factset

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CYCLICALS: Basic Materials (GICS1: 15)

Figure: Basic Materials Fundstrat Composite Radar



Rating:

OVERWEIGHT

Strategy Rationale:

Basic materials has been in the same recession as Industrials since 2011 and suffers overcapacity and the strong USD. However, tailwinds are improving as oil has bottomed and we believe USD should be flat/down.

Most Attractive Groups:

Steels,
Aluminum,
Gold,
Construction materials,
Paper & Packaging

Least Attractive Groups:

Paper products,
Specialty chemicals,
Fertilizers,
Commodity chemicals,
Industrial gases

CYCLICALS: Basic Materials (GICS1: 15)

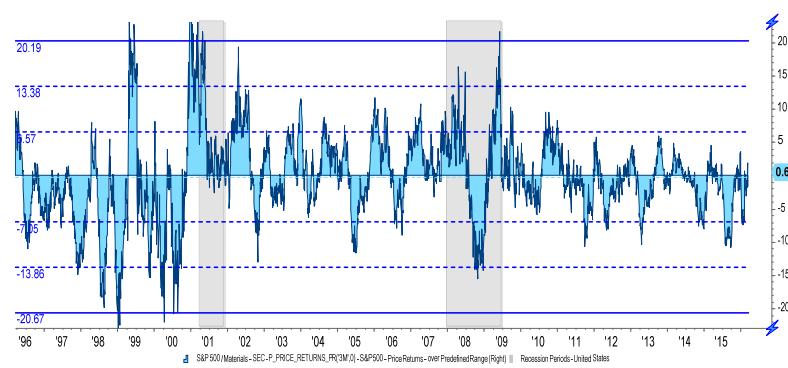
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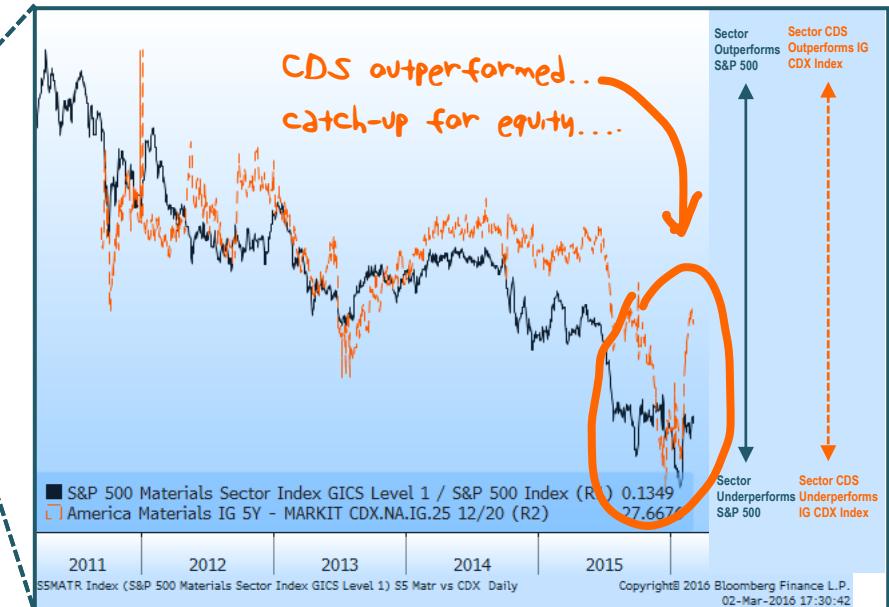


3M Return Relative

Last 20 years



Source: Fundstrat, Factset



Advance/Decline line

Last 12 months

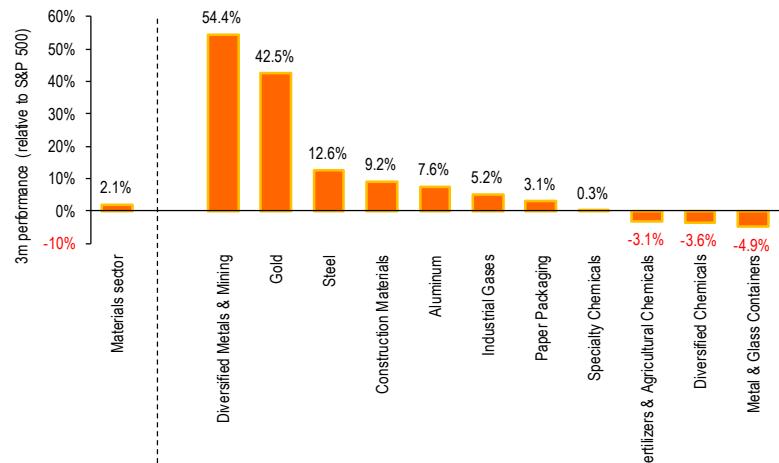


Source: Fundstrat, Factset

CYCLICALS: Basic Materials (GICS1: 15)

Figure: 3-month relative performance

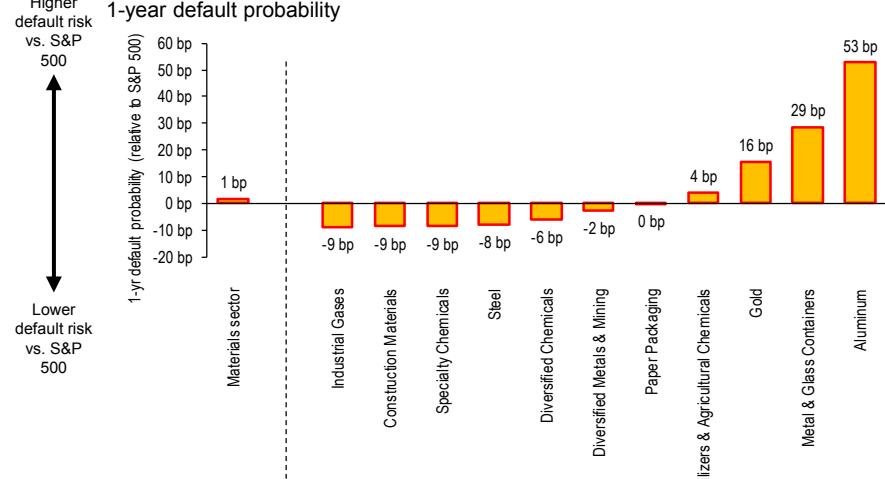
Relative to the S&P 500



Source: Fundstrat, Bloomberg.

Figure: Default Risk (relative to the S&P 500)

1-year default probability

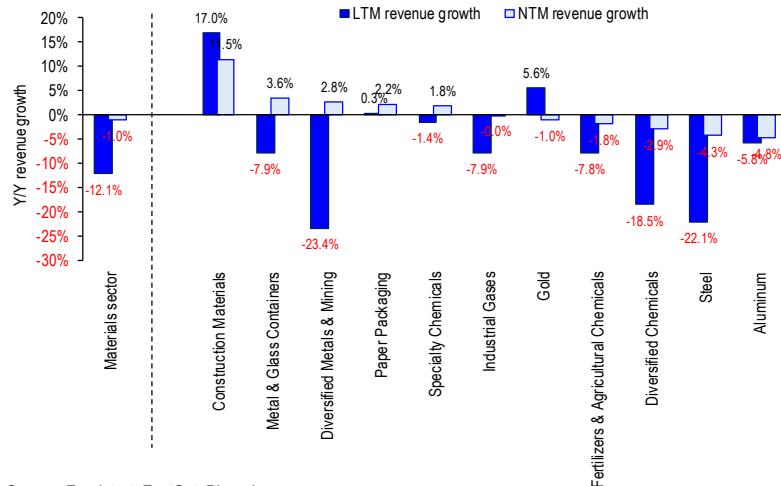


Source: Fundstrat, FactSet, Bloomberg.

Note: Default Risk calculation is Bloomberg-calculated, and is based on Robert Merton's "Distance-to-Default". The calculation is supplemented by including industry-specific financial health metrics, as well as interest coverage, cash flow, and balance sheet health metrics.

Figure: NTM vs. LTM revenue growth

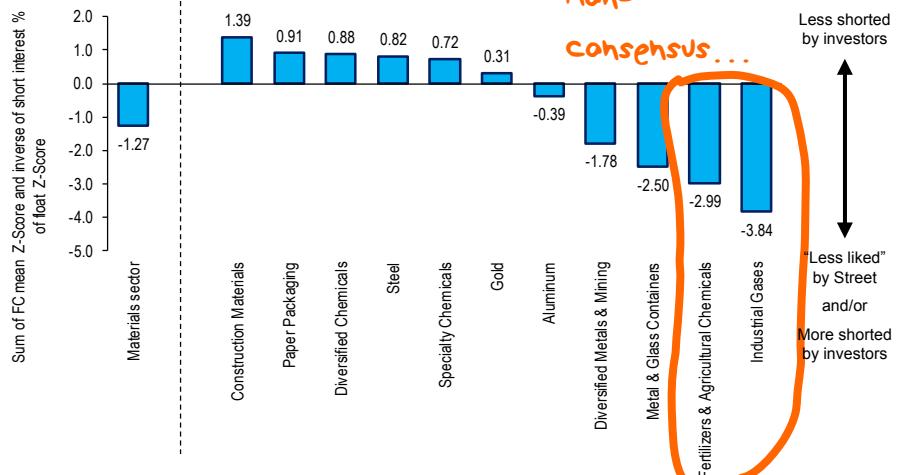
Based on consensus



Source: Fundstrat, FactSet, Bloomberg.

Figure: Composite sell-side and buy-side sentiment

Sum of FC mean and inverse of short interest z-score



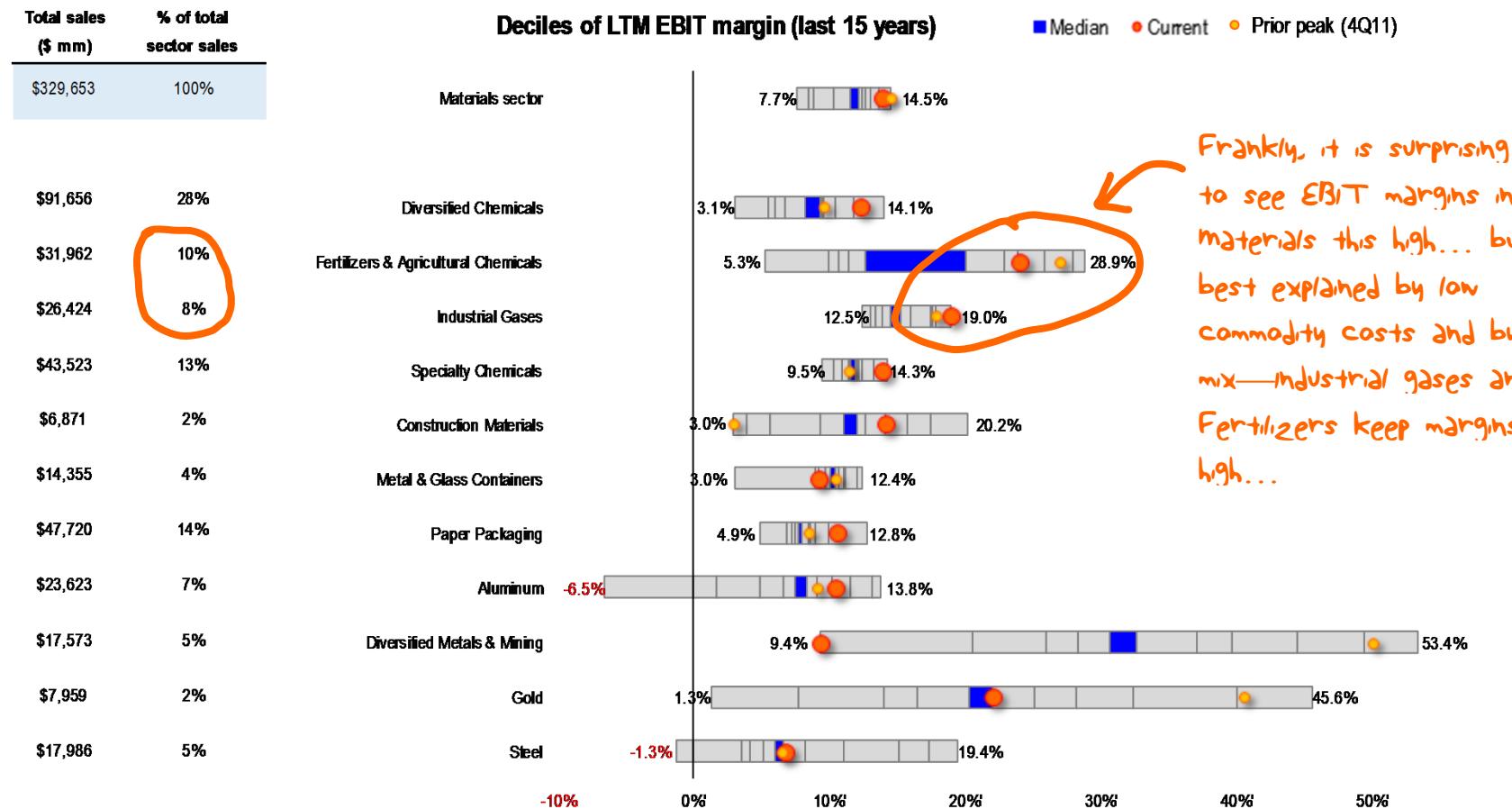
Source: Fundstrat, FactSet, Bloomberg.

Note: we are calculating industry-level Short Interest & FC Mean based on an equal-weighted average of the constituents. A positive value for Short Interest Z-Score indicates that Short Interest is lower than average, whereas a negative value suggests Short Interest is higher than average.

CYCLICALS: Basic Materials (GICS1: 15)

Figure: Deciles of LTM EBIT margin

Last 15 years



Source: Fundstrat, Factset.

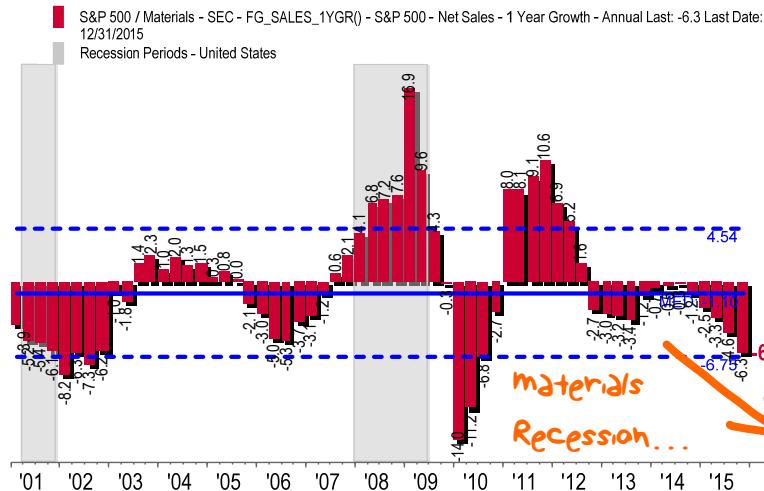
Note: LTM EBIT margin is calculated based on FactSet Market Aggregates. EBIT and Sales for each constituent are calendarized, and the universe of constituents is limited to those with both and estimated and actual value for both Sales and EBIT.

Frankly, it is surprising to see EBIT margins in materials this high... but best explained by low commodity costs and by mix—industrial gases and Fertilizers keep margins high...

CYCLICALS: Basic Materials (GICS1: 15)

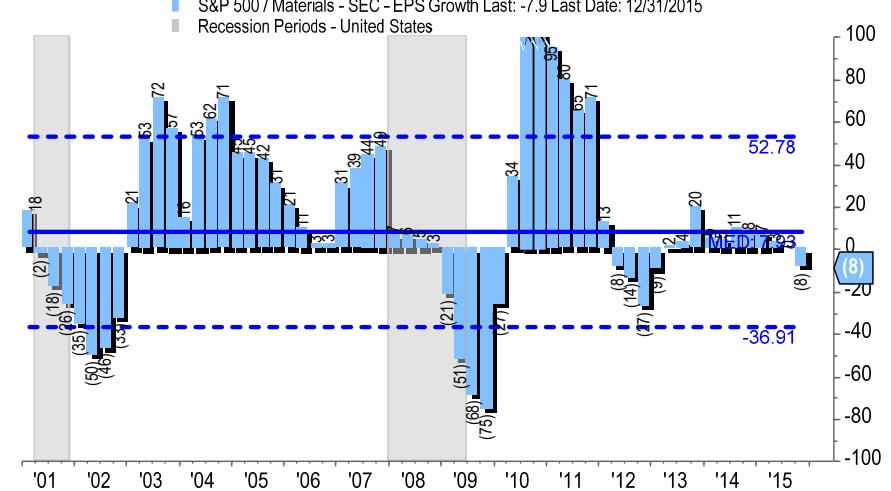
Sales Growth YoY % change (relative)

Last 15 years



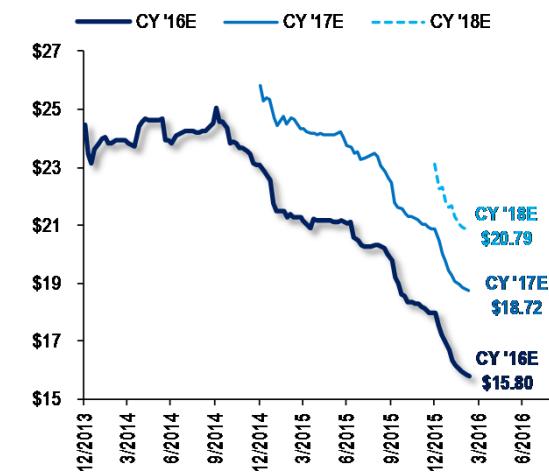
EPS Growth YoY % change (absolute)

Last 15 years



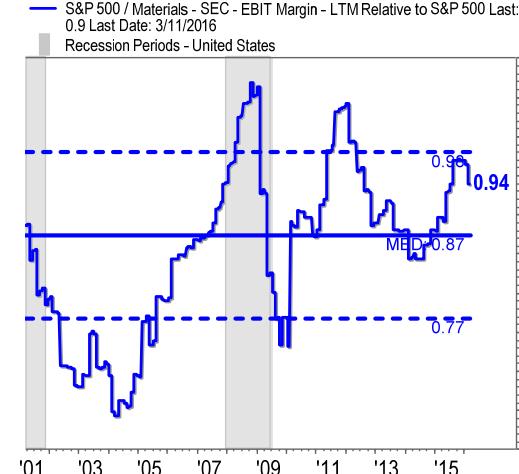
EPS Forecasts FY1 and FY2

Past 24 months



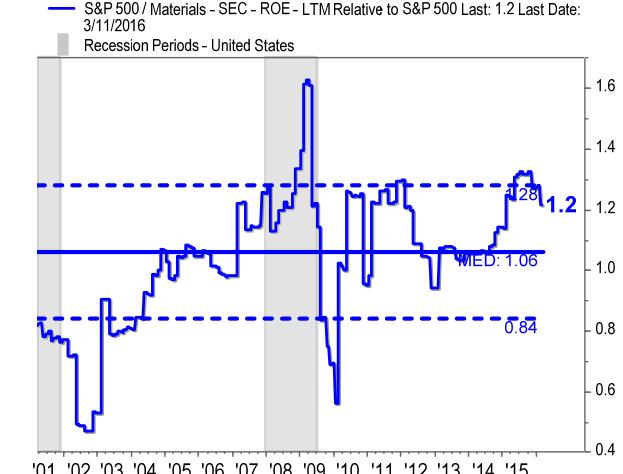
EBIT margin Relative

Since 2000



ROE Relative

Since 2000



Source: Fundstrat, Factset

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NEAR CYCLICALS: Energy (GICS1: 10)

Figure: Energy Fundstrat Composite Radar



Rating:

OVERWEIGHT

Strategy Rationale:

It has all been about oil for Energy. Oil supply/demand is becoming a lot more favorable and therefore we expect Energy stocks to gain traction in 2016. Moreover, we believe the bulk of EPS reductions is behind the group and should see easier comparisons in 2H16.

Most Attractive Groups:

Integrated oil & gas,
Oil & gas equipment & services,
Oil & gas drilling,
Refiners

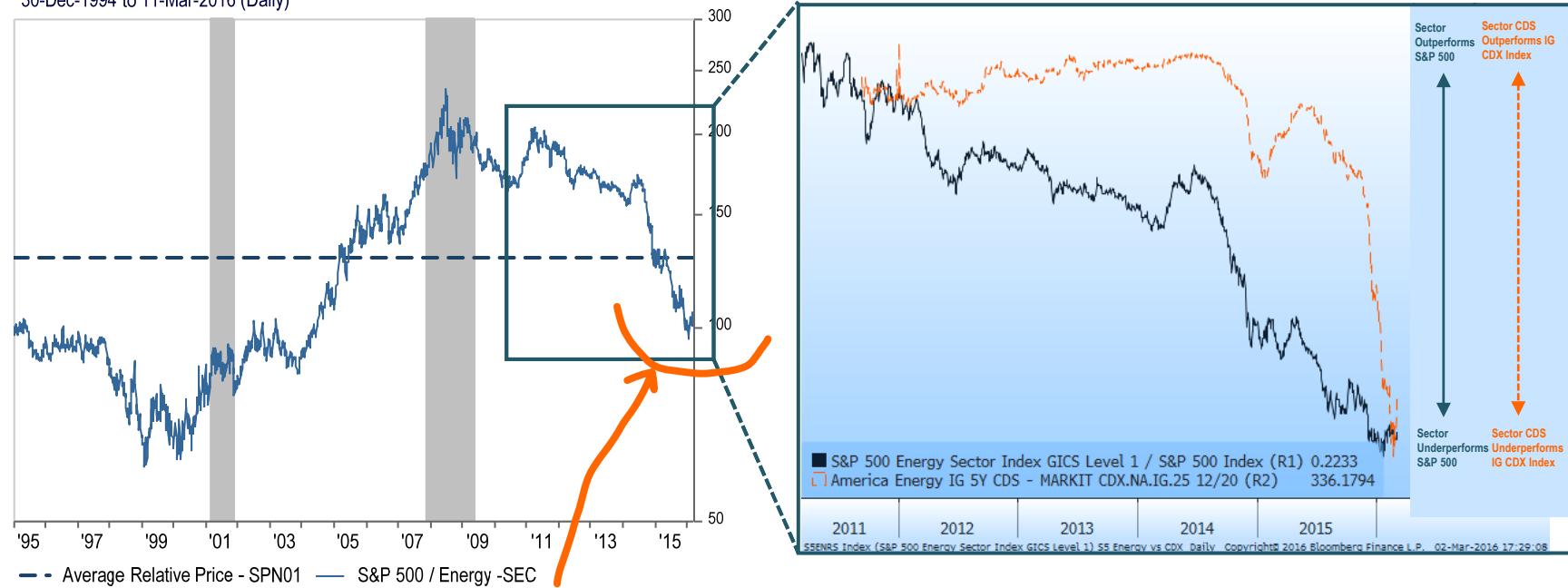
Least Attractive Groups:

Oil & gas exploration & production

NEAR CYCLICALS: Energy (GICS1: 10)

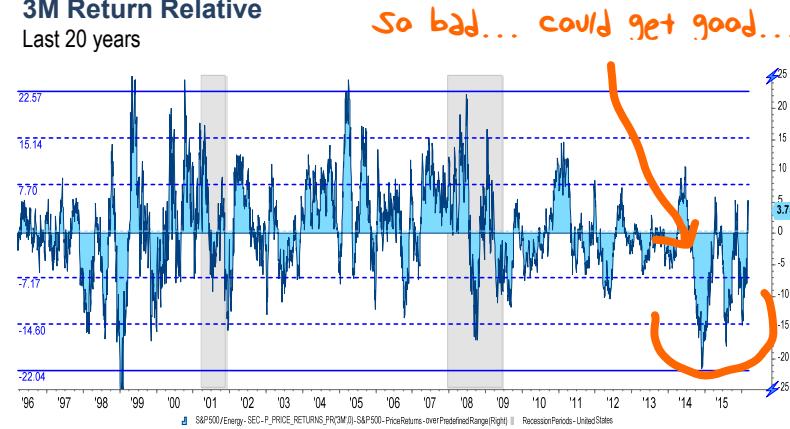
Relative Price Ratio vs. S&P 500

30-Dec-1994 to 11-Mar-2016 (Daily)



3M Return Relative

Last 20 years



Advance/Decline line

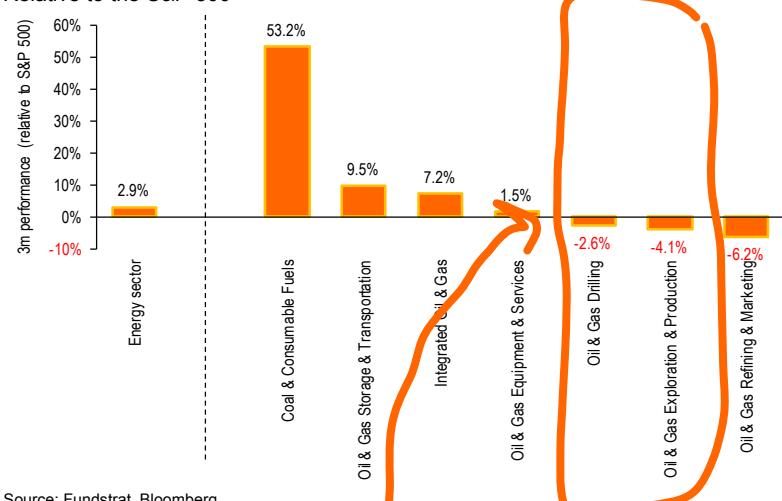
Last 12 months



NEAR-CYCLICALS: Energy (GICS1: 10)

Figure: 3-month relative performance

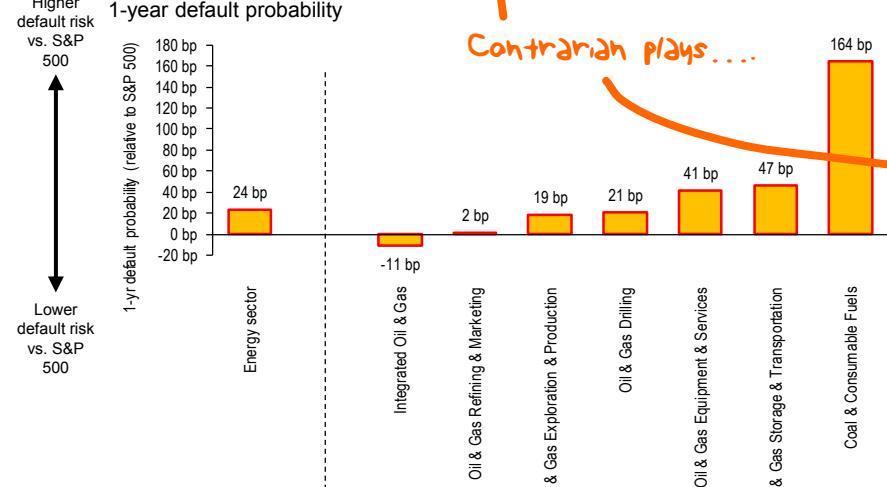
Relative to the S&P 500



Source: Fundstrat, Bloomberg.

Figure: Default Risk (relative to the S&P 500)

1-year default probability

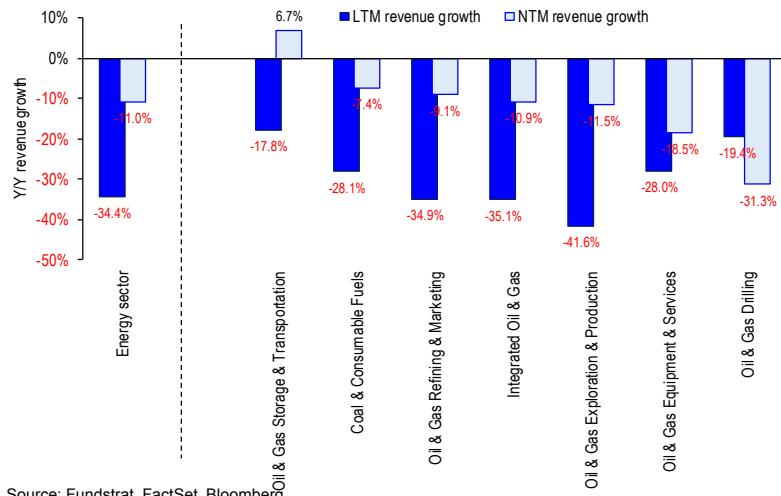


Source: Fundstrat, FactSet, Bloomberg.

Note: Default Risk calculation is Bloomberg-calculated, and is based on Robert Merton's "Distance-to-Default". The calculation is supplemented by including industry-specific financial health metrics, as well as interest coverage, cash flow, and balance sheet health metrics.

Figure: NTM vs. LTM revenue growth

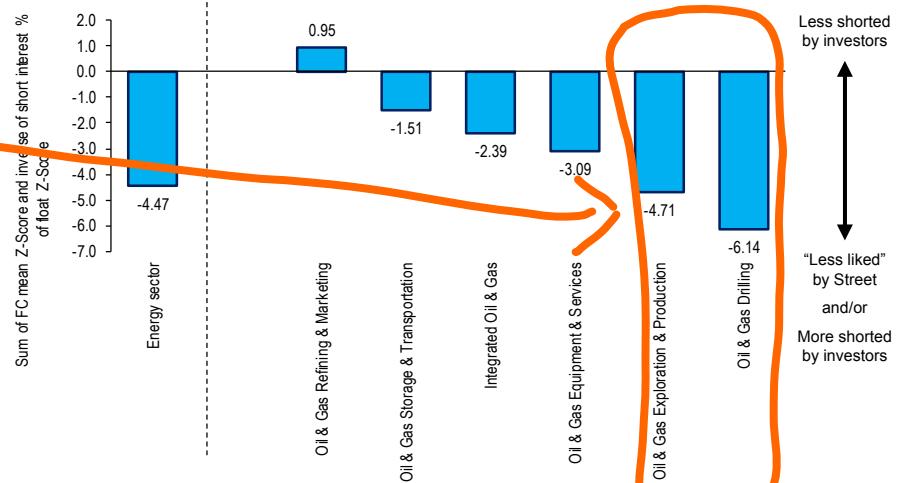
Based on consensus



Source: Fundstrat, FactSet, Bloomberg.

Figure: Composite sell-side and buy-side sentiment

Sum of FC mean and inverse of short interest z-score



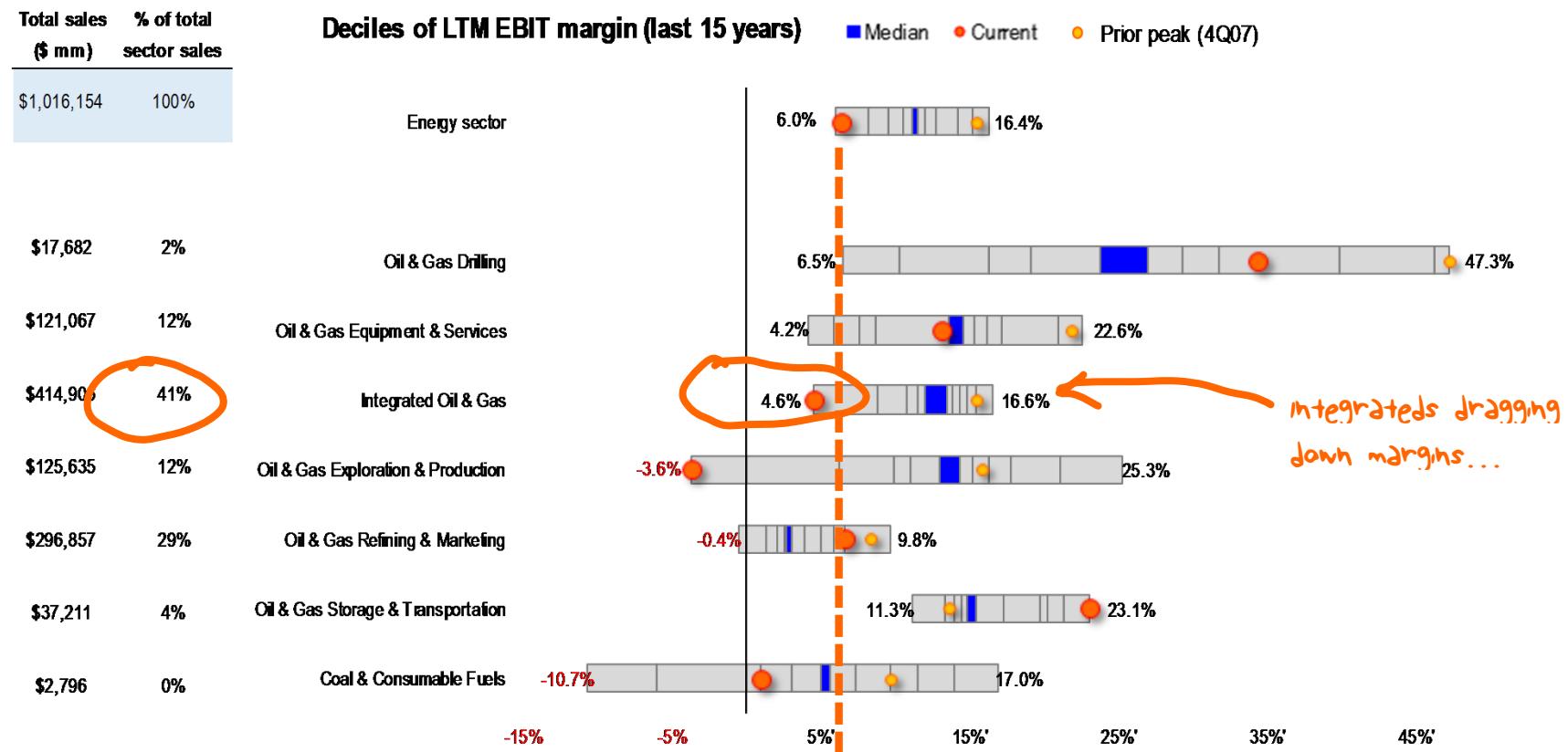
Source: Fundstrat, FactSet, Bloomberg.

Note: we are calculating industry-level Short Interest & FC Mean based on an equal-weighted average of the constituents. A positive value for Short Interest Z-Score indicates that Short Interest is lower than average, whereas a negative value suggests Short Interest is higher than average.

NEAR CYCLICALS: Energy (GICS1: 10)

Figure: Deciles of LTM EBIT margin

Last 15 years



Source: Fundstrat, Factset

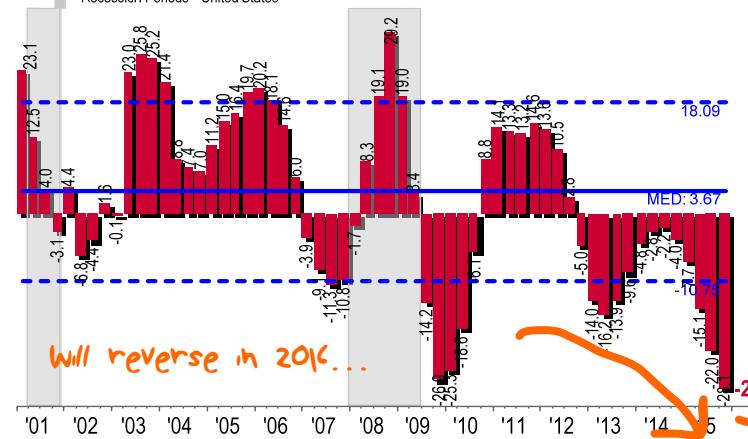
Note: LTM EBIT margin is calculated based on FactSet Market Aggregates. EBIT and Sales for each constituent are calendarized, and the universe of constituents is limited to those with both and estimated and actual value for both Sales and EBIT.

NEAR CYCLICALS: Energy (GICS1: 10)

Sales Growth YoY % change (relative)

Last 15 years

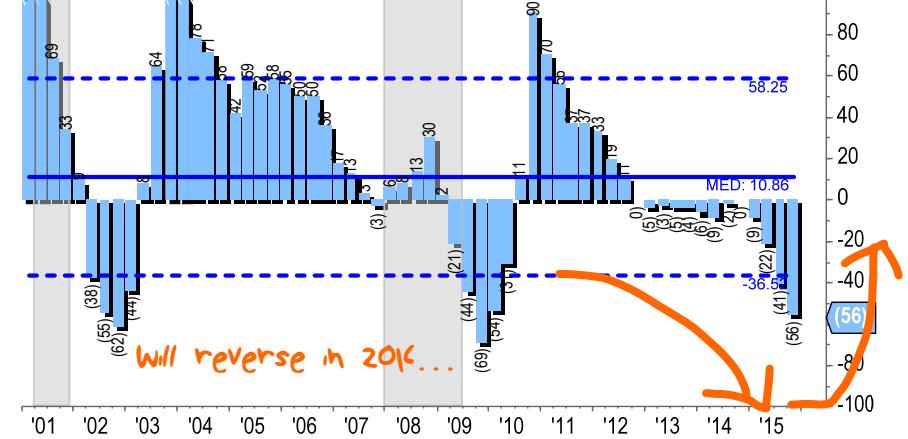
S&P 500 / Energy - SEC - FG_SALES_1YGR() - S&P 500 - Net Sales - 1 Year Growth - Annual Last: -28.1 Last Date: 12/31/2015
Recession Periods - United States



EPS Growth YoY % change (absolute)

Last 15 years

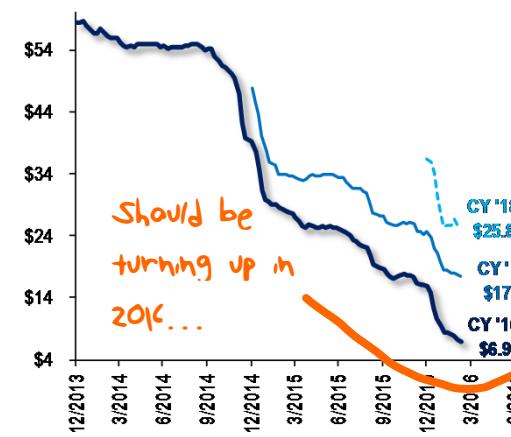
S&P 500 / Energy - SEC - EPS Growth Last: -56.1 Last Date: 12/31/2015
Recession Periods - United States



EPS Forecasts FY1 and FY2

Past 24 months

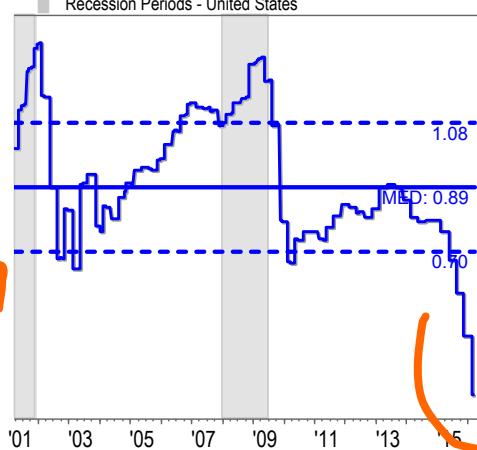
CY '16E CY '17E CY '18E



EBIT margin Relative

Since 2000

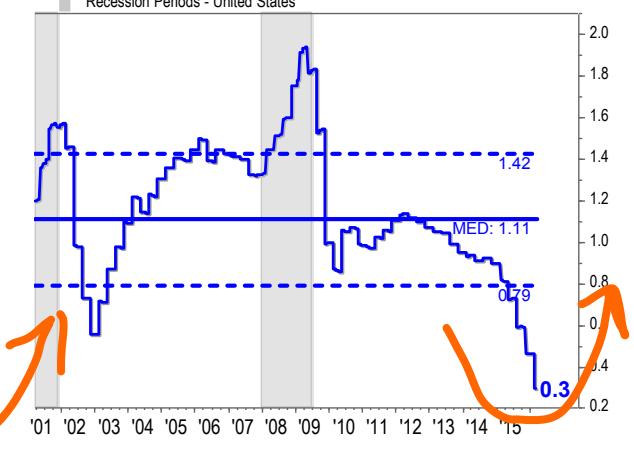
S&P 500 / Energy - SEC - EBIT Margin - LTM Relative to S&P 500
Last: 0.3 Last Date: 3/11/2016
Recession Periods - United States



ROE Relative

Since 2000

S&P 500 / Energy - SEC - ROE - LTM Relative to S&P 500 Last: 0.3 Last Date: 3/11/2016
Recession Periods - United States



Source: Fundstrat, Factset

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NEAR CYCLICALS: Financials (GICS1: 40)

Figure: Financials Fundstrat Composite Radar



Source: Fundstrat, Factset, Bloomberg

Rating:

OVERWEIGHT

Strategy Rationale:

Financials have gone through a negative bubble, as underperformance since 2009 has not been seen since the 1960s. Falling and negative rates is a headwind for Financials, but we believe investors are vastly underestimating and underpricing inflation in the U.S.

Most Attractive Groups:

Diversified banks,
Reinsurance,
Mortgage REITs,
Consumer Finance,
Industrial & Diversified REITs,
Asset Managers,
Diversified Banks,
Various REITs

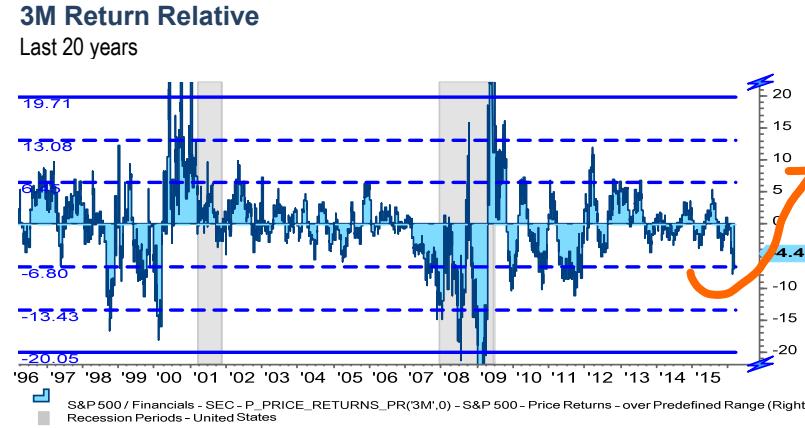
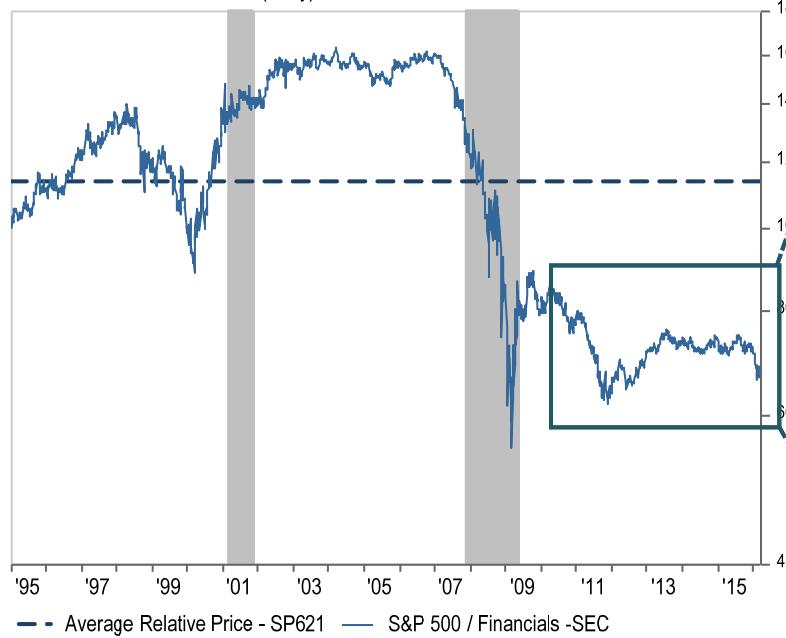
Least Attractive Groups:

Insurance brokers,
Investment banking,
Multi-line insurance,
Specialized finance,
Life & Health Insurance,
Office REITs

NEAR CYCLICALS: Financials (GICS1: 40)

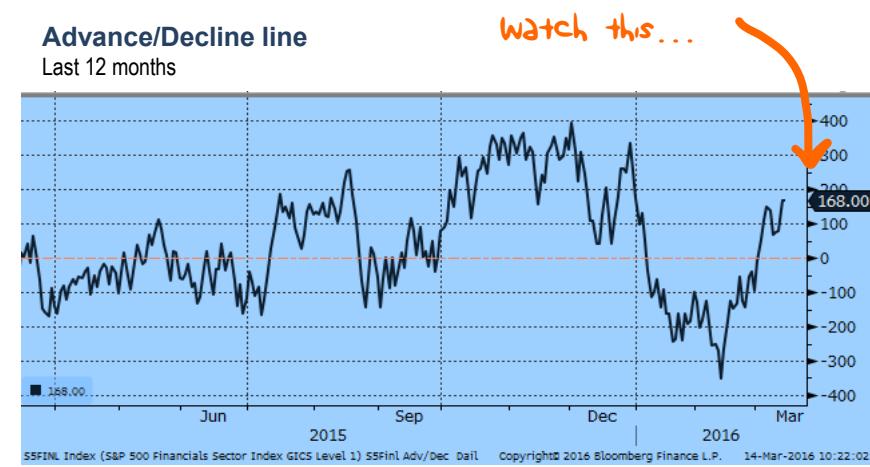
Relative Price Ratio vs. S&P 500

30-Dec-1994 to 11-Mar-2016 (Daily)



Advance/Decline line

Last 12 months



NEAR-CYCLICALS: Financials (GICS1: 40)

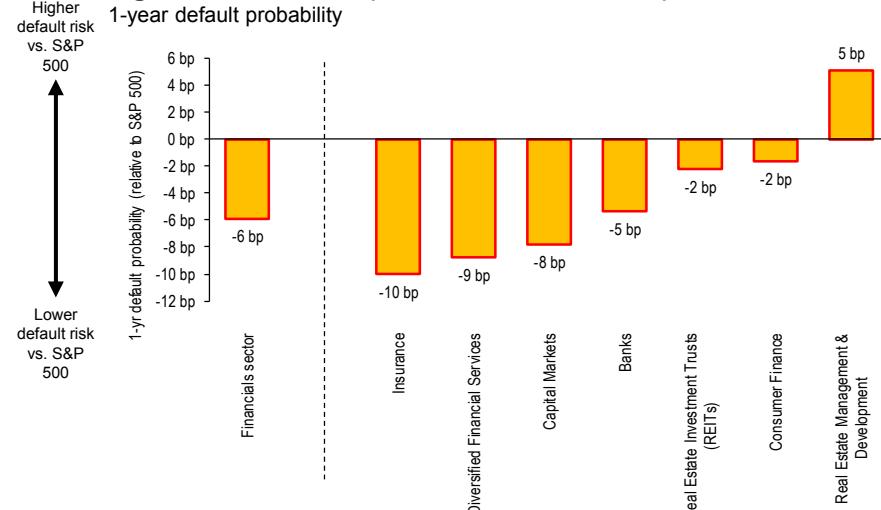
Figure: 3-month relative performance

Relative to the S&P 500



Source: Fundstrat, Bloomberg.

Figure: Default Risk (relative to the S&P 500)

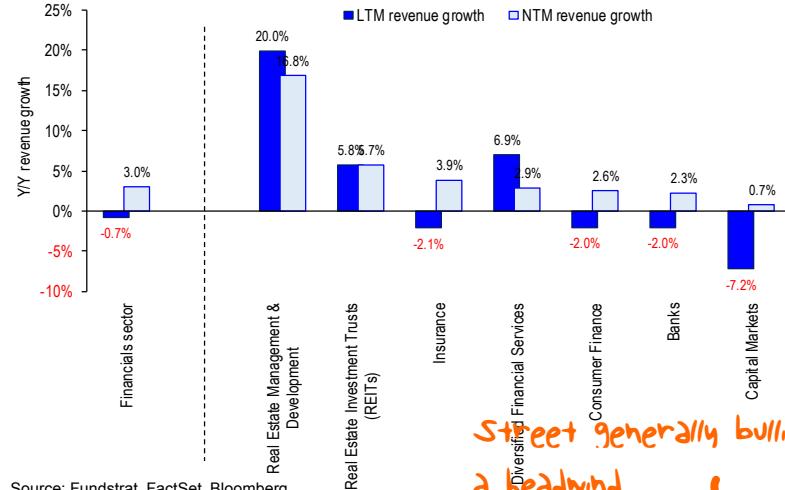


Source: Fundstrat, FactSet, Bloomberg.

Note: Default Risk calculation is Bloomberg-calculated, and is based on Robert Merton's "Distance-to-Default". The calculation is supplemented by including industry-specific financial health metrics, as well as interest coverage, cash flow, and balance sheet health metrics.

Figure: NTM vs. LTM revenue growth

Based on consensus



Source: Fundstrat, FactSet, Bloomberg.

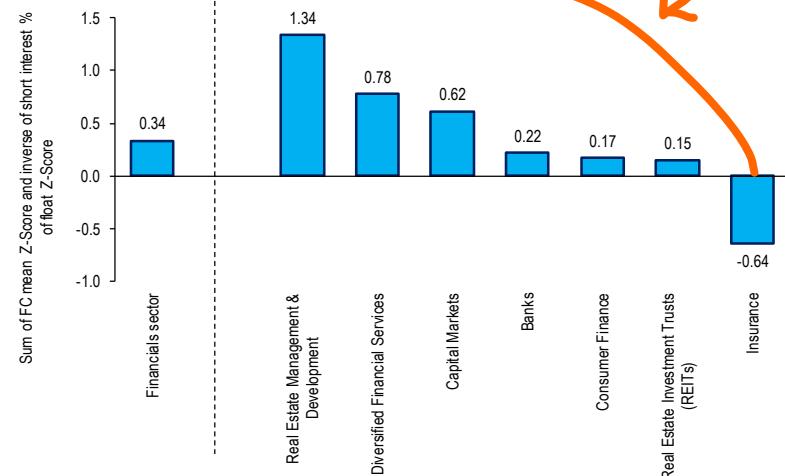
Street generally bullish...
a headwind...

"More liked" by Street
and/or
Less shorted by investors

"Less liked" by Street
and/or
More shorted by investors

Figure: Composite sell-side and buy-side sentiment

Sum of FC mean and inverse of short interest z-score



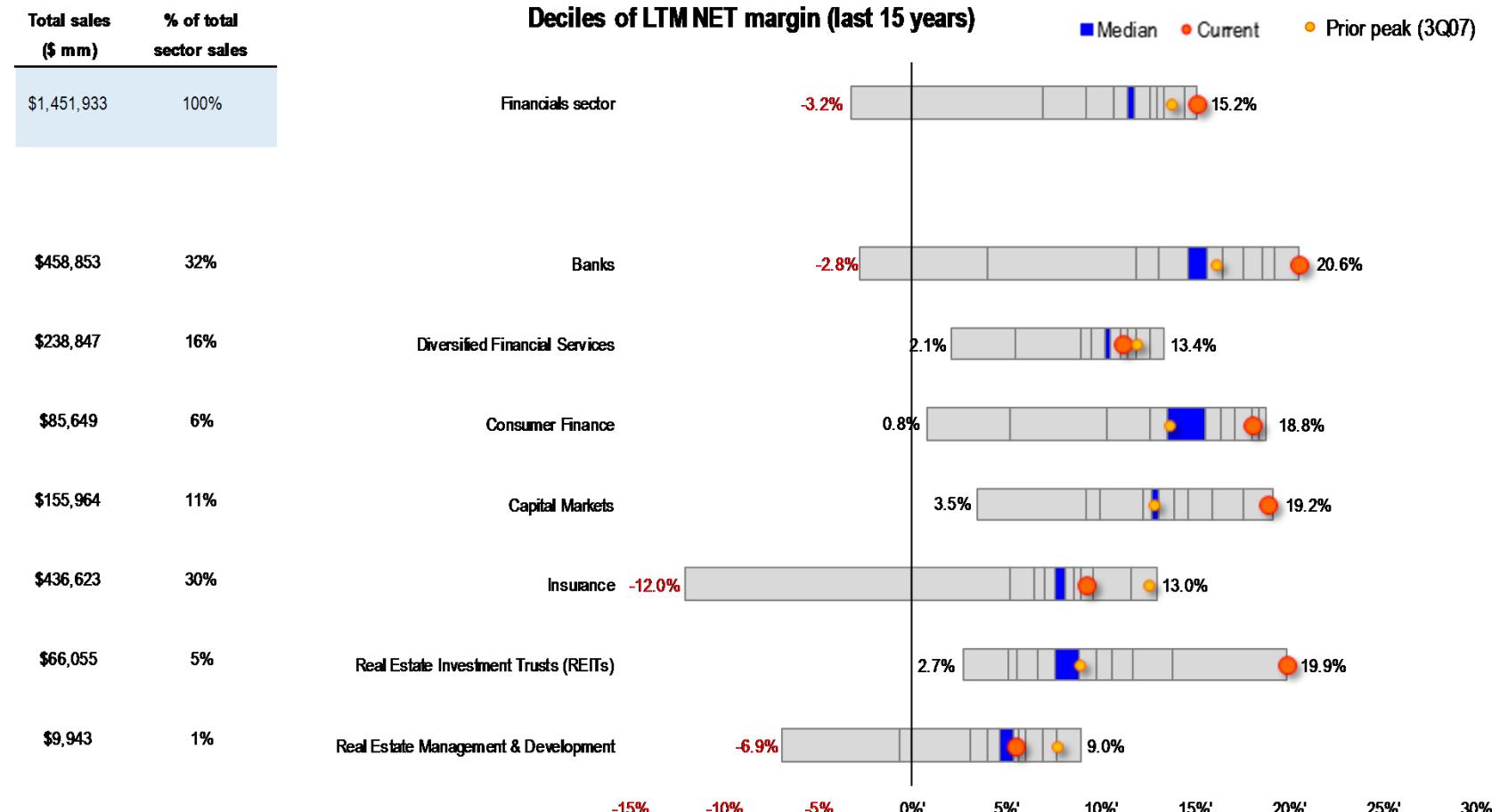
Source: Fundstrat, FactSet, Bloomberg.

Note: we are calculating industry-level Short Interest & FC Mean based on an equal-weighted average of the constituents. A positive value for Short Interest Z-Score indicates that Short Interest is lower than average, whereas a negative value suggests Short Interest is higher than average.

NEAR CYCLICALS: Financials (GICS1: 40)

Figure: Deciles of LTM net margin

Last 15 years



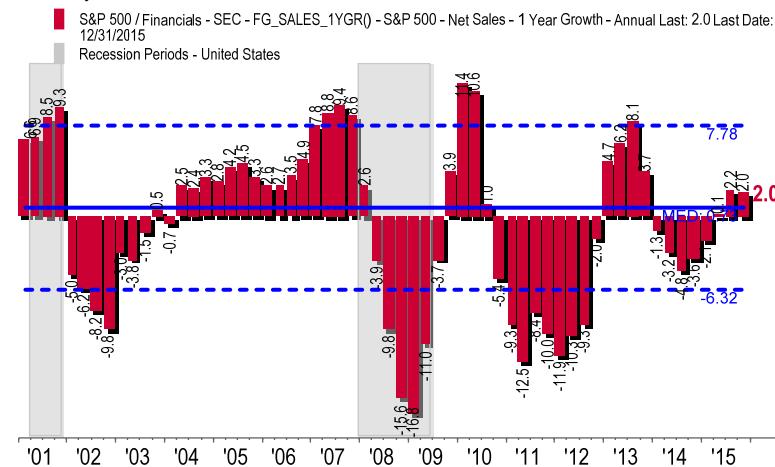
Source: Fundstrat, Factset.

Note: LTM net margin is calculated based on FactSet Market Aggregates. Net Income and Sales for each constituent are calendarized, and the universe of constituents is limited to those with both estimated and actual value for both Sales and Net Income.

NEAR CYCLICALS: Financials (GICS1: 40)

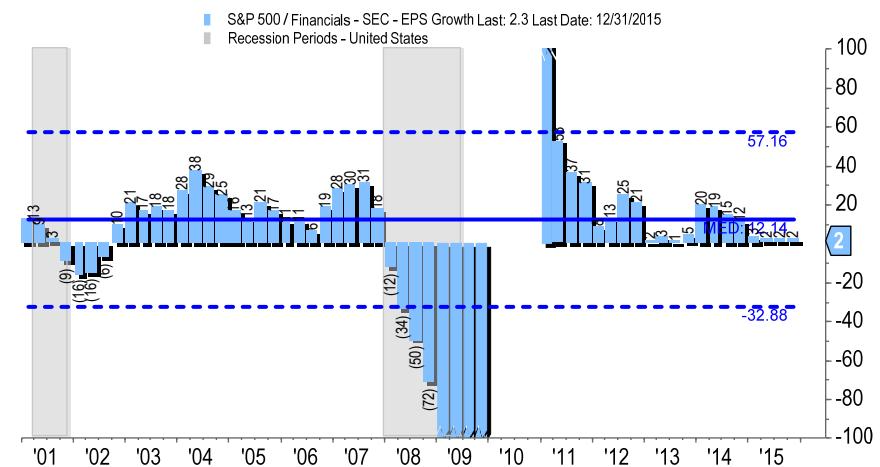
Sales Growth YoY % change (relative)

Last 15 years



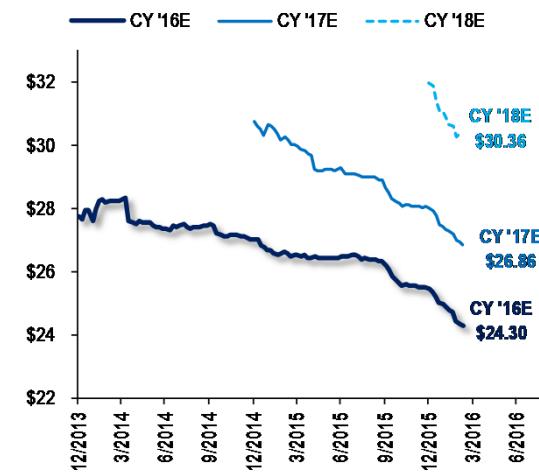
EPS Growth YoY % change (absolute)

Last 15 years



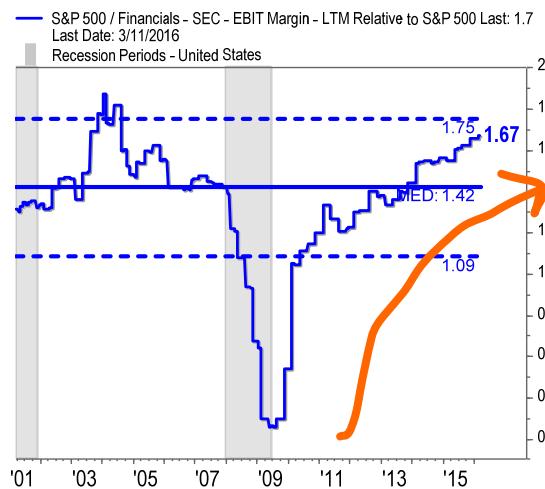
EPS Forecasts FY1 and FY2

Past 24 months



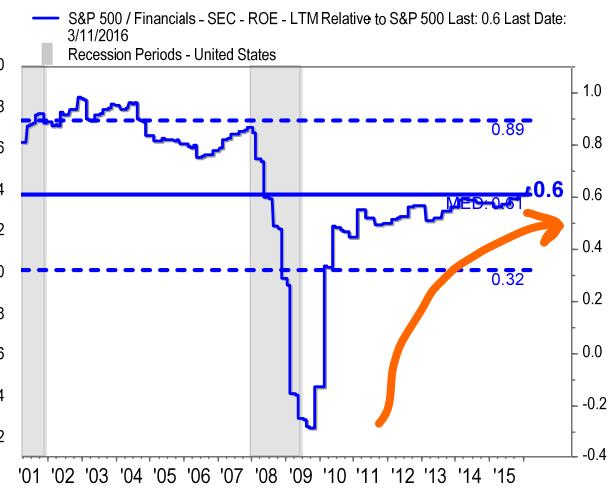
EBIT margin Relative

Since 2000



ROE Relative

Since 2000



Source: Fundstrat, Factset

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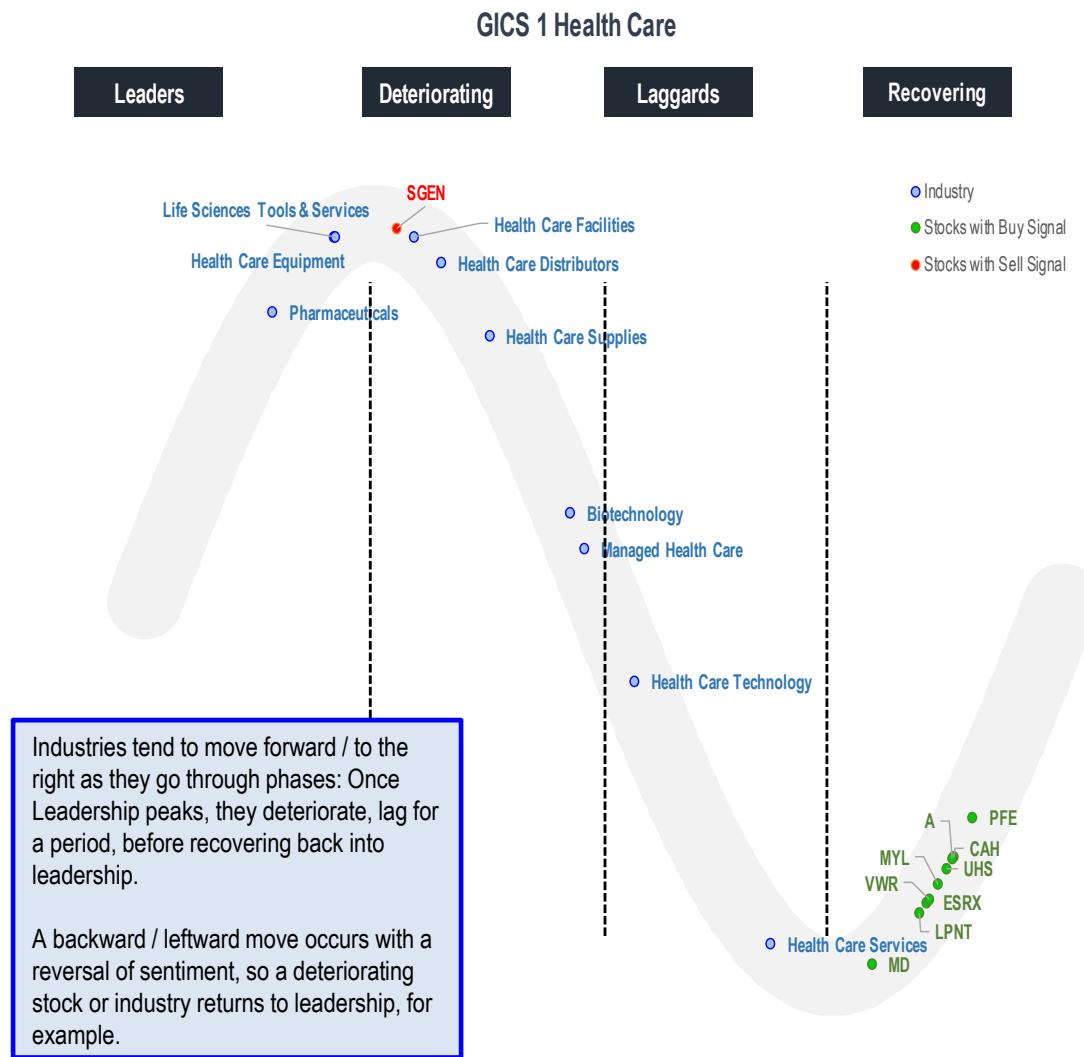
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[Staples](#)

[Telecom and Utilities](#)

DEFENSIVES: Healthcare (GICS1: 35)

Figure: Healthcare Fundstrat Composite Radar



Source: Fundstrat, Factset, Bloomberg

Rating:

NEUTRAL

Strategy Rationale:

Healthcare remains a fundamentally attractive business. And the group does not have a demanding multiple. The challenge, in our view, is this is a consensus OW group and therefore, may have less of an ability to outperform peers when the macro tailwinds we see become more evident. That is, Healthcare underperforms in a weak USD, rising oil, HY rally world.

Most Attractive Groups:

Healthcare services,
Life Sciences tools & services,
Healthcare equipment,
Pharmaceuticals

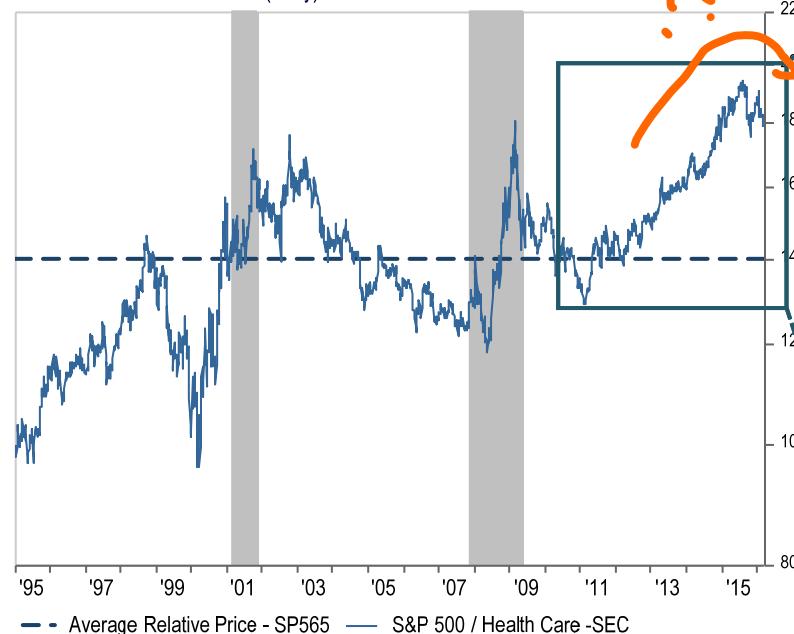
Least Attractive Groups:

Biotechnology,
Healthcare supplies,
Healthcare facilities,
Managed Healthcare,
Healthcare Technology

DEFENSIVES: Healthcare (GICS1: 35)

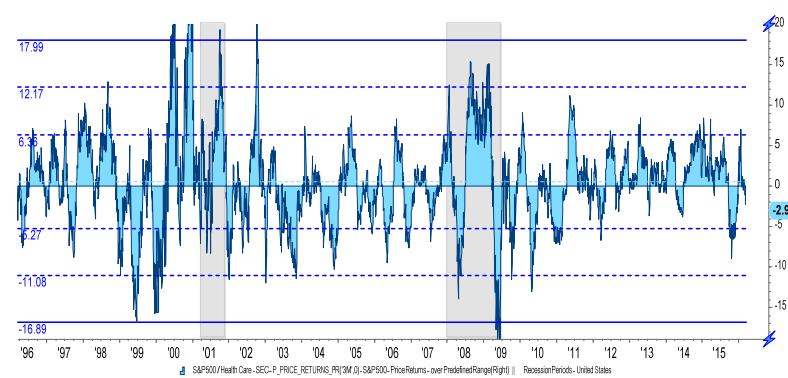
Relative Price Ratio vs. S&P 500

30-Dec-1994 to 11-Mar-2016 (Daily)



3M Return Relative

Last 20 years



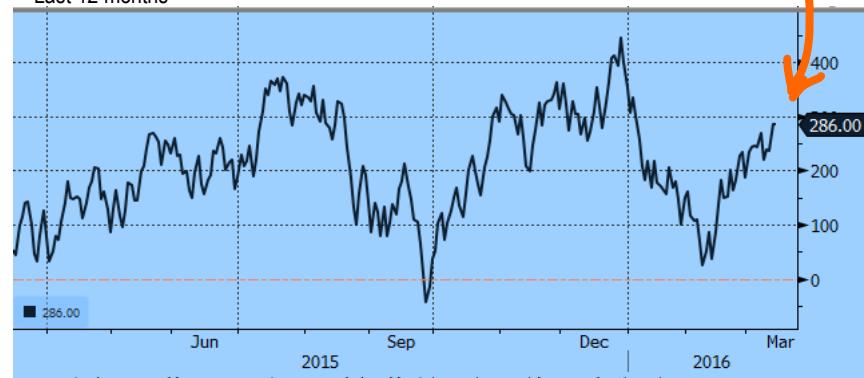
Source: Fundstrat, Factset



Healthcare has to prove
2016 will be the exception...

Advance/Decline line

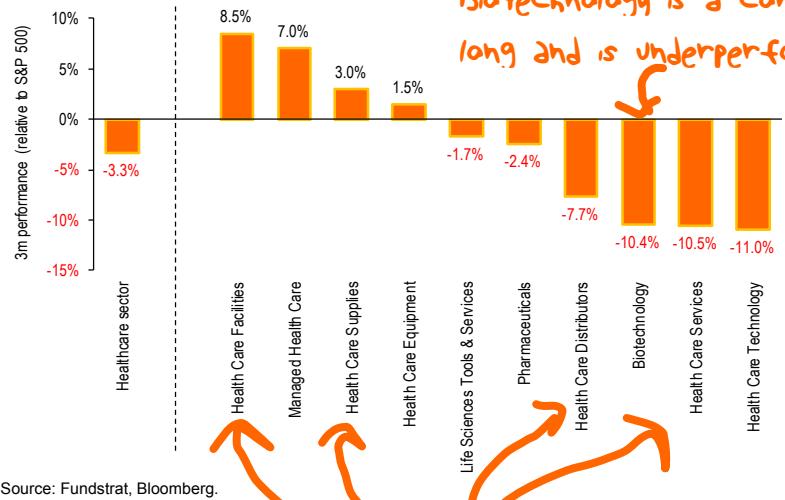
Last 12 months



DEFENSIVES: Healthcare (GICS1: 35)

Figure: 3-month relative performance

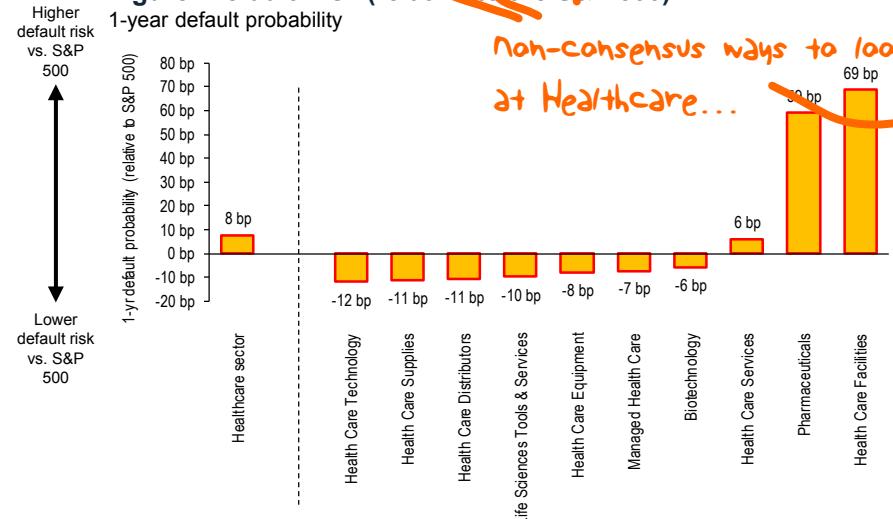
Relative to the S&P 500



Source: Fundstrat, Bloomberg.

Figure: Default Risk (relative to the S&P 500)

1-year default probability

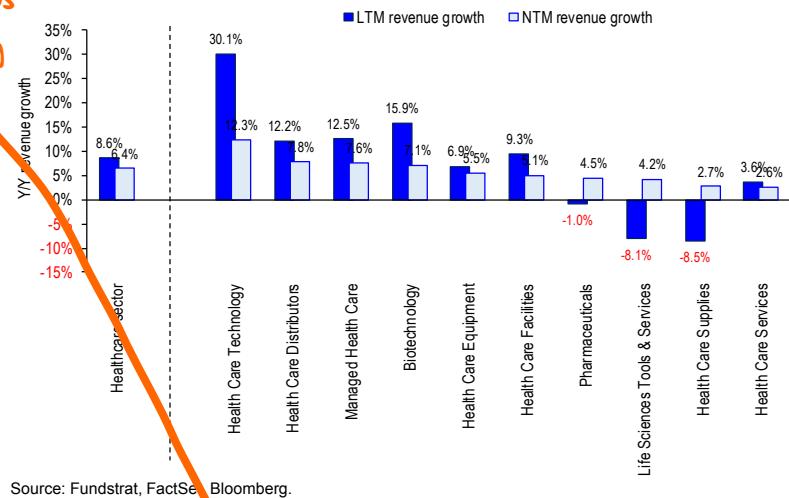


Source: Fundstrat, FactSet, Bloomberg.

Note: Default Risk calculation is Bloomberg-calculated, and is based on Robert Merton's "Distance-to-Default". The calculation is supplemented by including industry-specific financial health metrics, as well as interest coverage, cash flow, and balance sheet health metrics.

Figure: NTM vs. LTM revenue growth

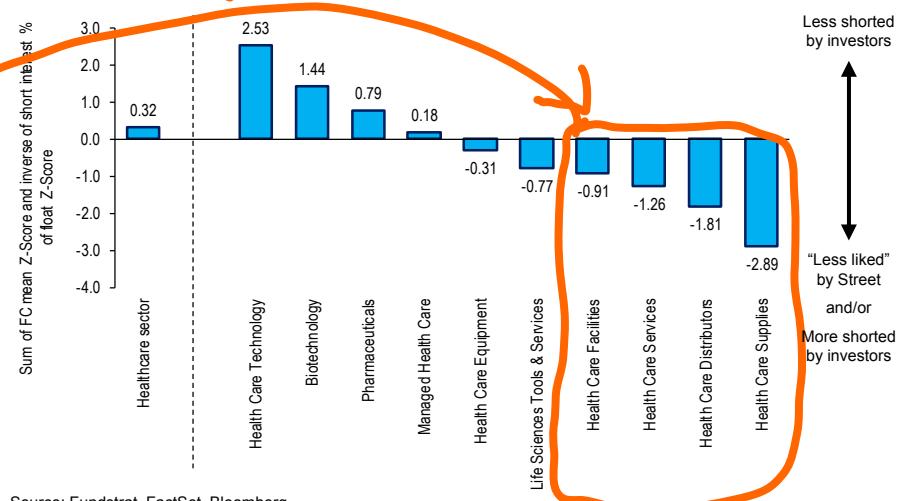
Based on consensus



Source: Fundstrat, FactSet, Bloomberg.

Figure: Composite sell-side and buy-side sentiment

Sum of FC mean and inverse of short interest z-score



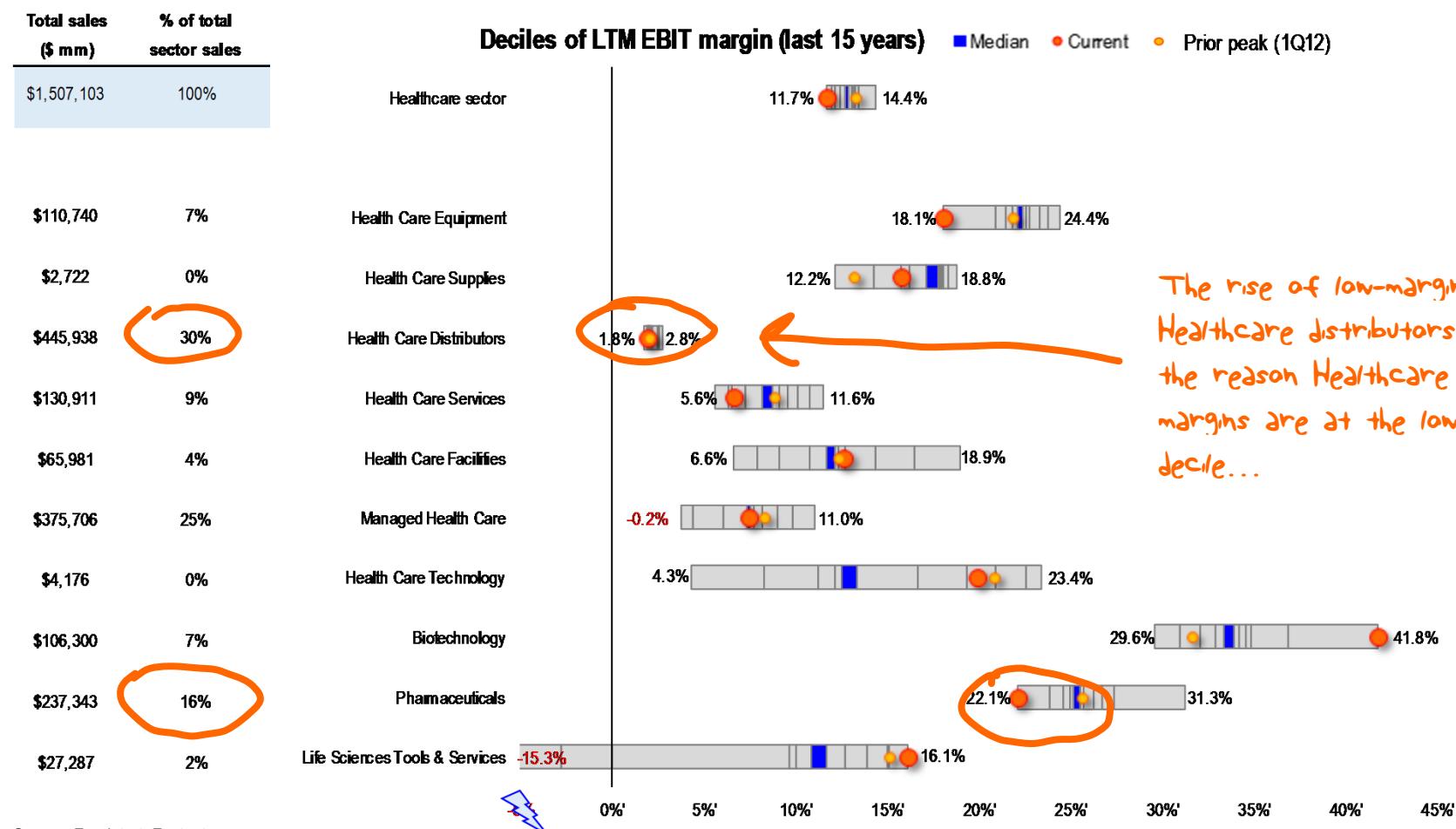
Source: Fundstrat, FactSet, Bloomberg.

Note: we are calculating industry-level Short Interest & FC Mean based on an equal-weighted average of the constituents. A positive value for Short Interest Z-Score indicates that Short Interest is lower than average, whereas a negative value suggests Short Interest is higher than average.

DEFENSIVES: Healthcare (GICS1: 35)

Figure: Deciles of LTM EBIT margin

Last 15 years



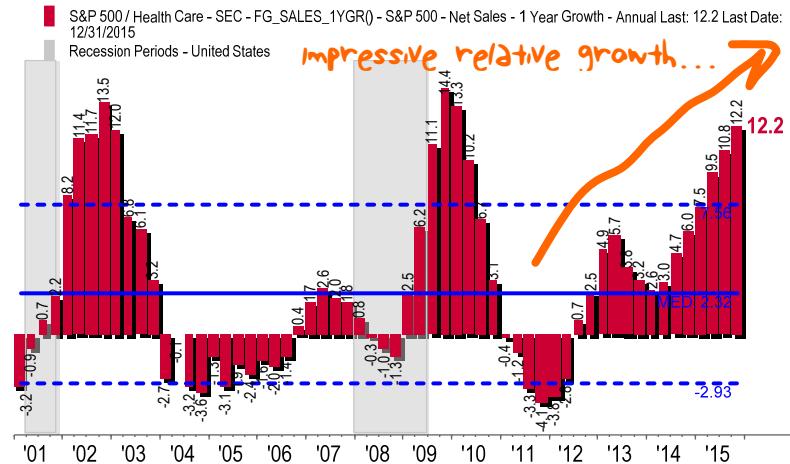
Source: Fundstrat, Factset.

Note: LTM EBIT margin is calculated based on FactSet Market Aggregates. EBIT and Sales for each constituent are calendarized, and the universe of constituents is limited to those with both and estimated and actual value for both Sales and EBIT.

DEFENSIVES: Healthcare (GICS1: 35)

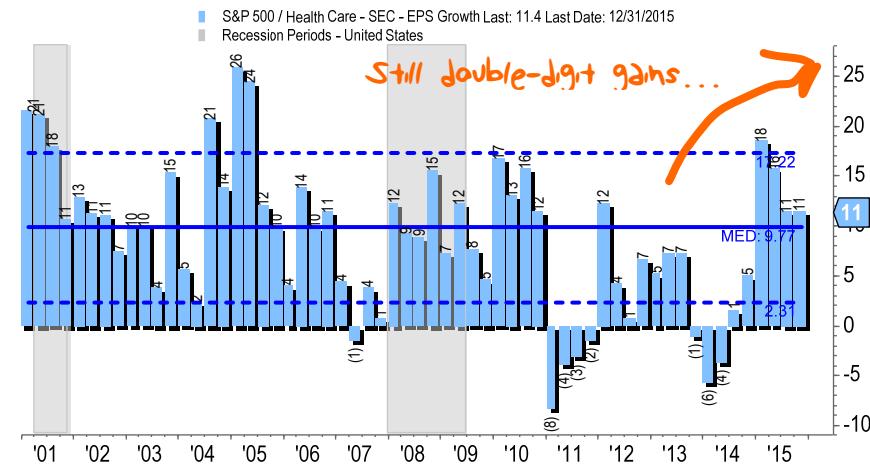
Sales Growth YoY % change (relative)

Last 15 years



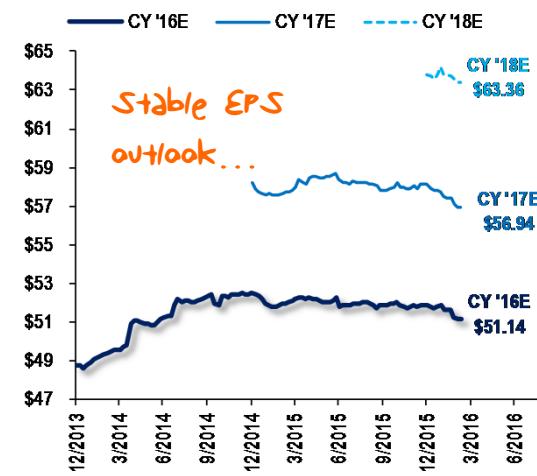
EPS Growth YoY % change (absolute)

Last 15 years



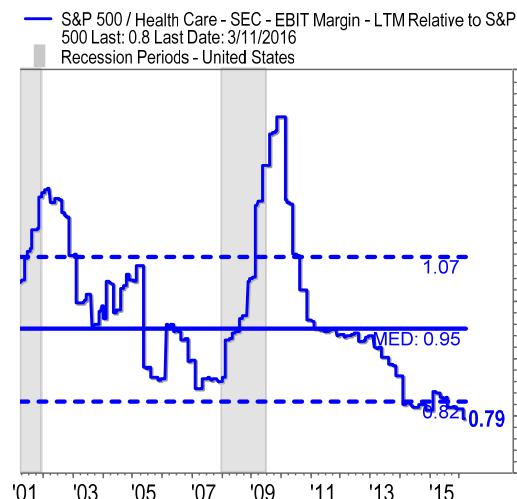
EPS Forecasts FY1 and FY2

Past 24 months



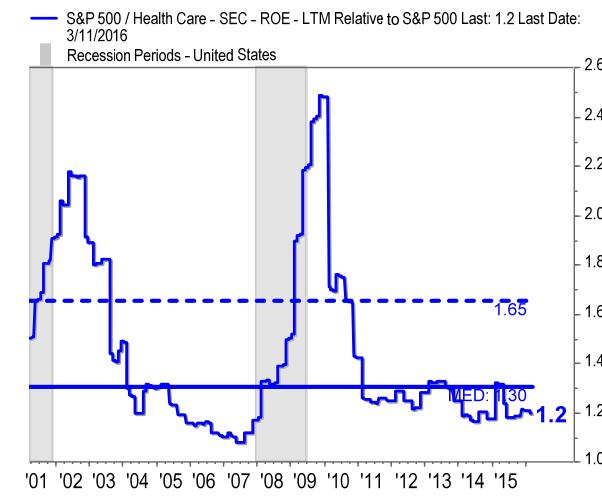
EBIT margin Relative

Since 2000



ROE Relative

Since 2000



Source: Fundstrat, Factset

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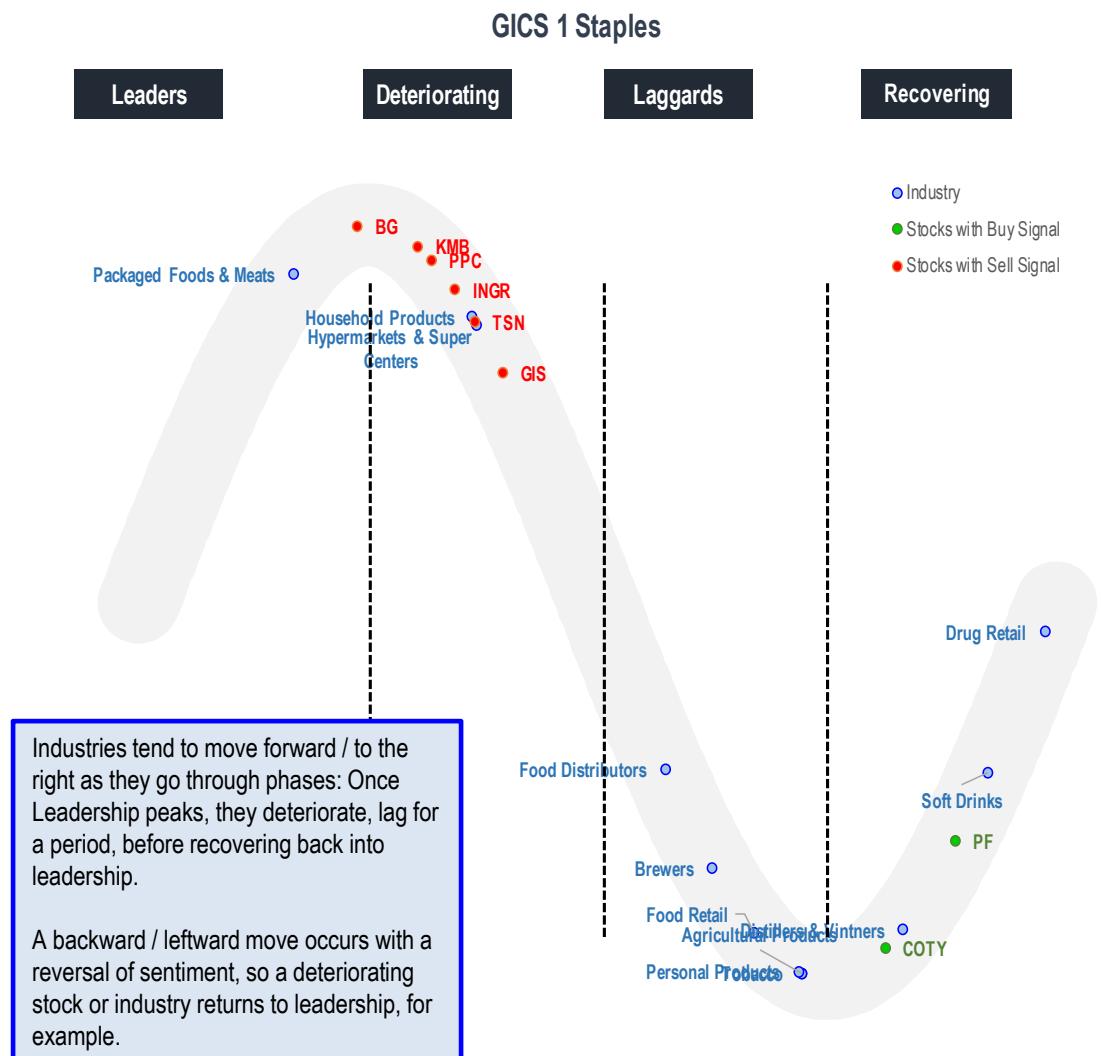
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DEFENSIVES: Consumer Staples (GICS1: 30)

Figure: Consumer Staples Fundstrat Composite Radar



Source: Fundstrat, Factset, Bloomberg

Rating:

UNDERWEIGHT

Strategy Rationale:

Consumer Staples has proven to be a long-term market outperformer, supported by stable demand businesses and reasonable pricing power. The tailwind from flat/down USD is a positive for the group as well. The challenge, in our view, is this group is less levered to rising oil and easing credit conditions.

Most Attractive Groups:

Drug retail,
Soft drinks,
Packaged foods

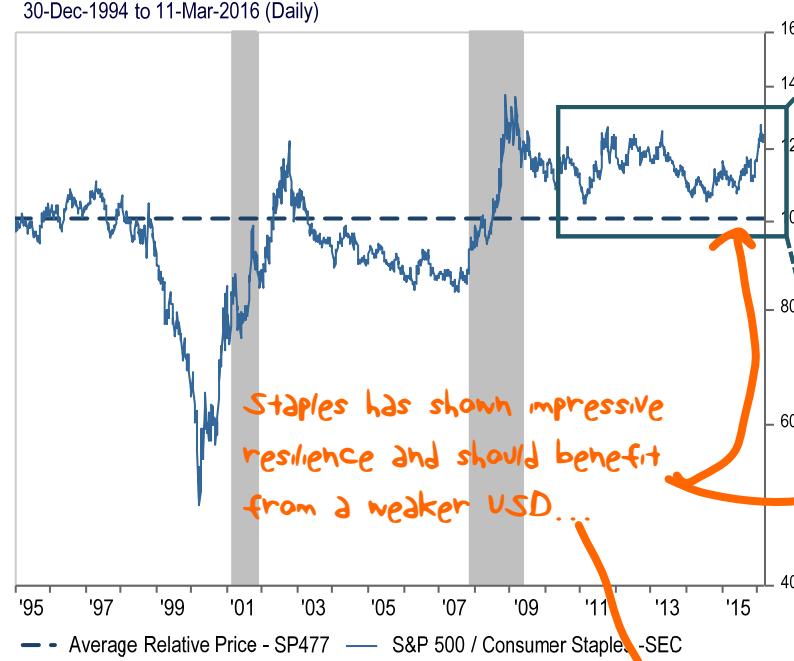
Least Attractive Groups:

Food distributors,
Brewers,
Food retail,
Personal products

DEFENSIVES: Consumer Staples (GICS1: 30)

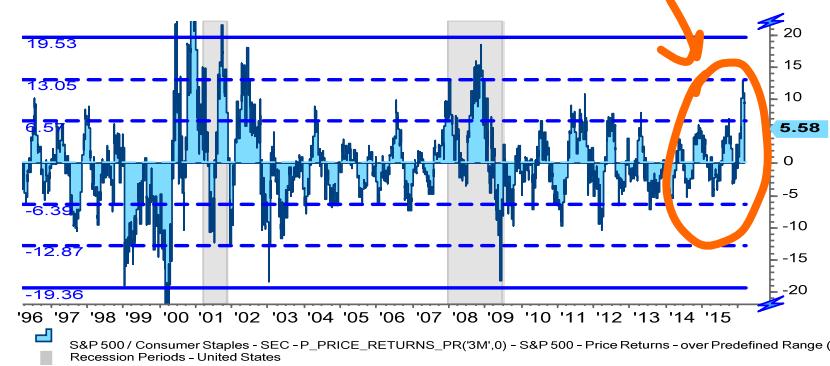
Relative Price Ratio vs. S&P 500

30-Dec-1994 to 11-Mar-2016 (Daily)



3M Return Relative

Last 20 years



Source: Fundstrat, Factset

EPS Forecasts FY1 and FY2

Past 24 months

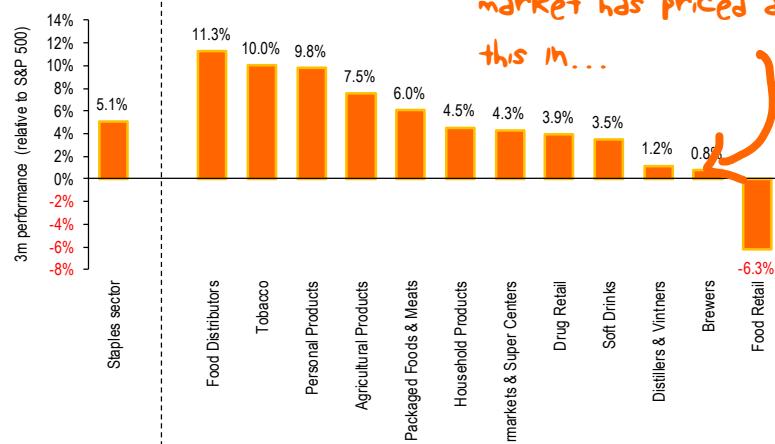


Source: Fundstrat, Factset

DEFENSIVES: Consumer Staples (GICS1: 30)

Figure: 3-month relative performance But it sure seems like the market has priced a lot of this in...

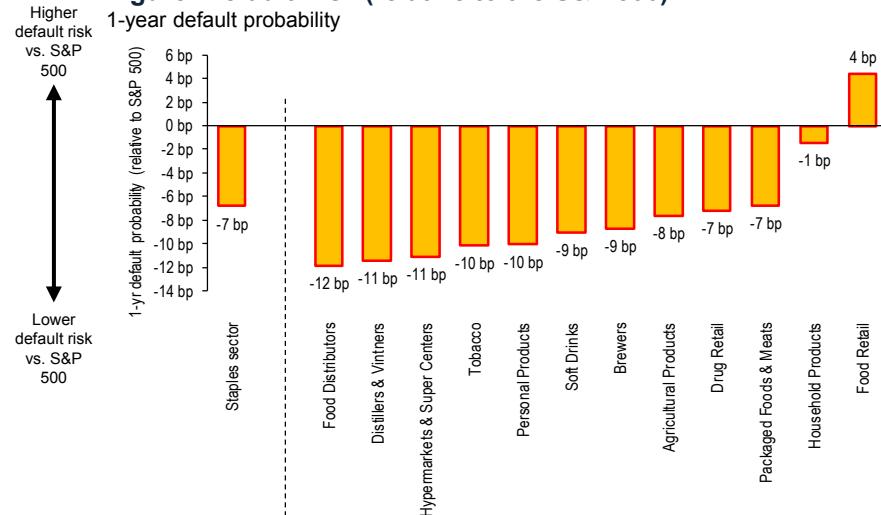
Relative to the S&P 500



Source: Fundstrat, Bloomberg.

Figure: Default Risk (relative to the S&P 500)

1-year default probability

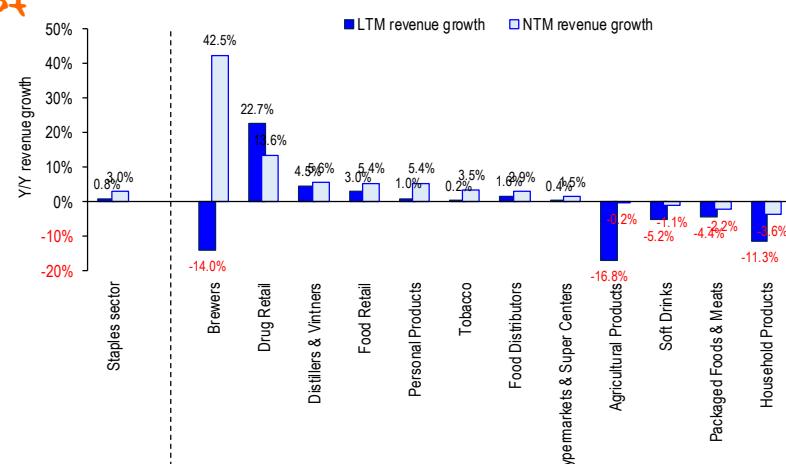


Source: Fundstrat, FactSet, Bloomberg.

Note: Default Risk calculation is Bloomberg-calculated, and is based on Robert Merton's "Distance-to-Default". The calculation is supplemented by including industry-specific financial health metrics, as well as interest coverage, cash flow, and balance sheet health metrics.

Figure: NTM vs. LTM revenue growth

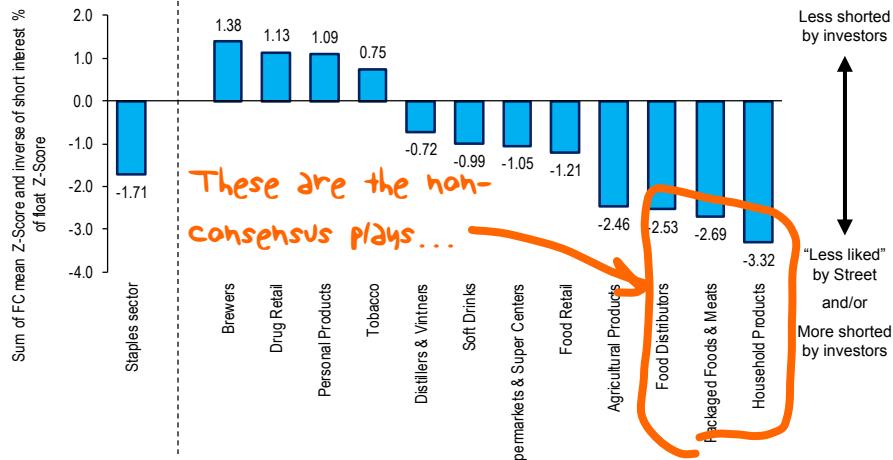
Based on consensus



Source: Fundstrat, FactSet, Bloomberg.

Figure: Composite sell-side and buy-side sentiment

Sum of FC mean and inverse of short interest z-score



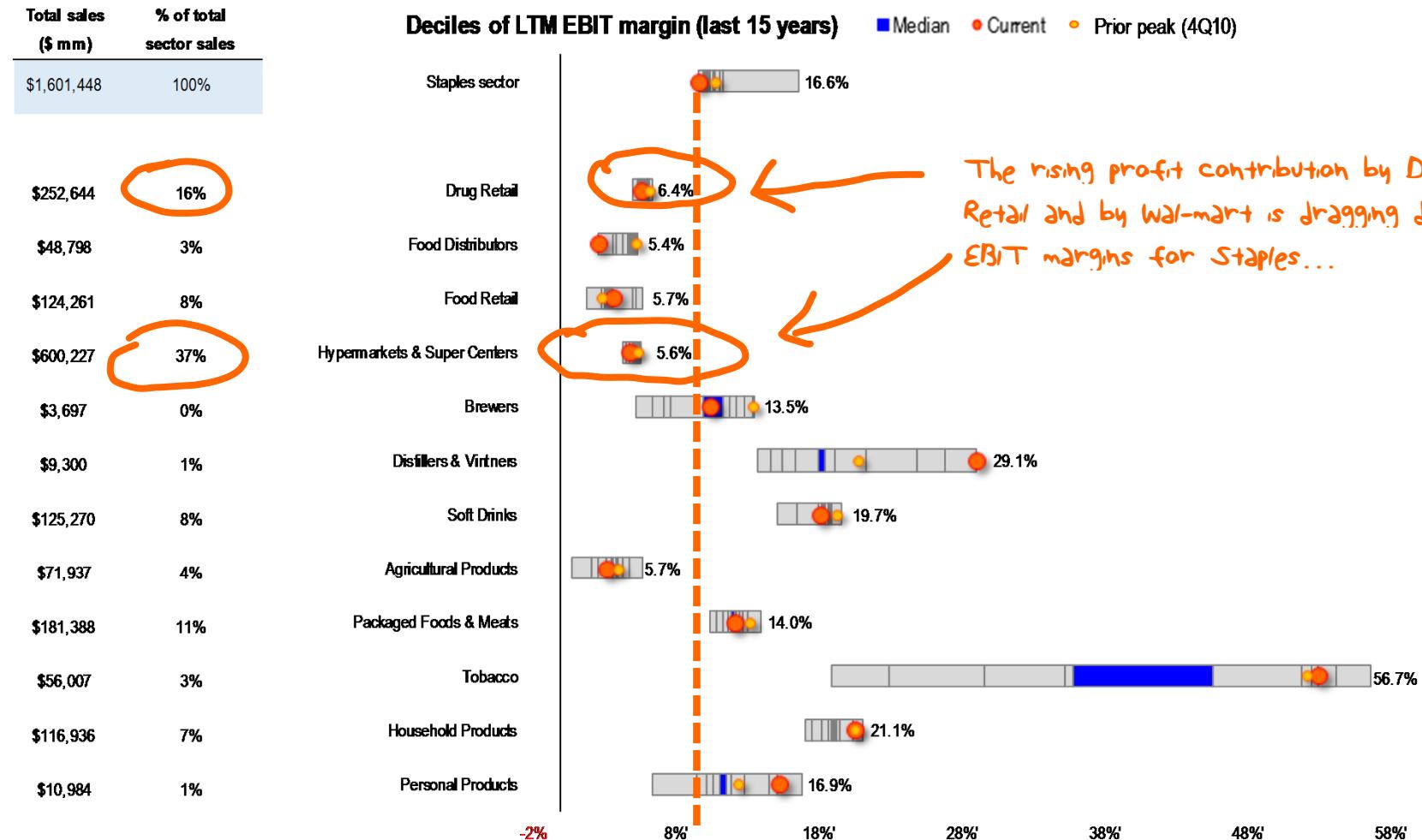
Source: Fundstrat, FactSet, Bloomberg.

Note: we are calculating industry-level Short Interest & FC Mean based on an equal-weighted average of the constituents. A positive value for Short Interest Z-Score indicates that Short Interest is lower than average, whereas a negative value suggests Short Interest is higher than average.

DEFENSIVES: Consumer Staples (GICS1: 30)

Figure: Deciles of LTM EBIT margin

Last 15 years



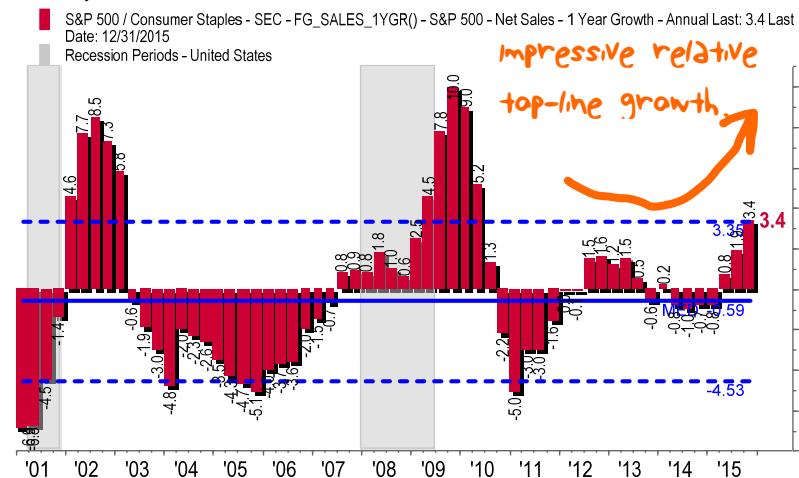
Source: Fundstrat, Factset

Note: LTM EBIT margin is calculated based on FactSet Market Aggregates. EBIT and Sales for each constituent are calendarized, and the universe of constituents is limited to those with both and estimated and actual value for both Sales and EBIT.

DEFENSIVES: Consumer Staples (GICS1: 30)

Sales Growth YoY % change (relative)

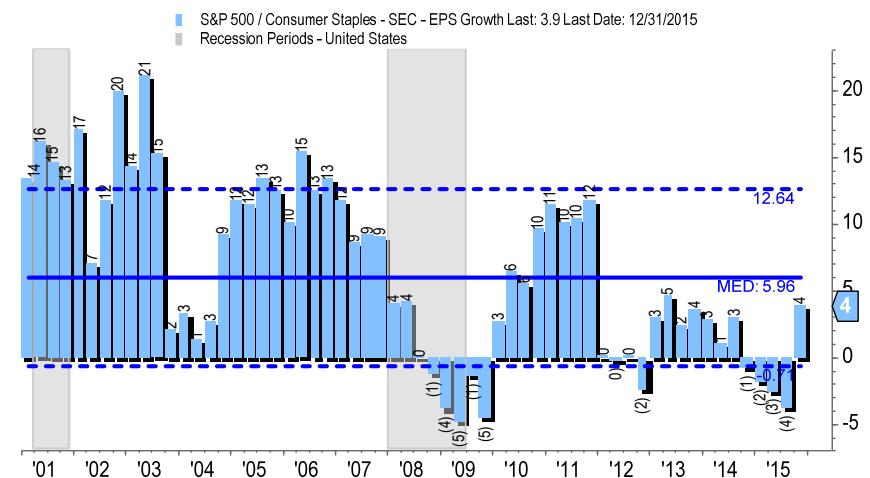
Last 15 years



Impressive relative top-line growth.

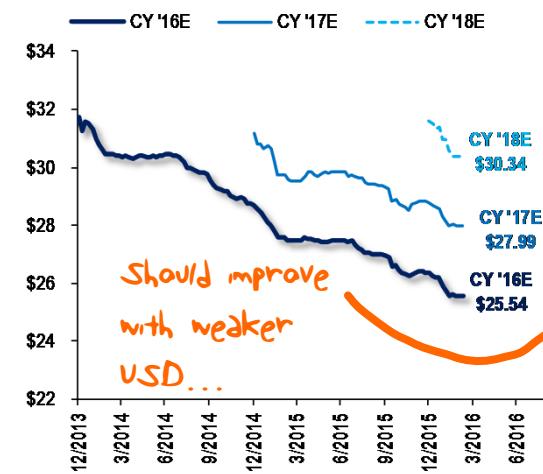
EPS Growth YoY % change (absolute)

Last 15 years



EPS Forecasts FY1 and FY2

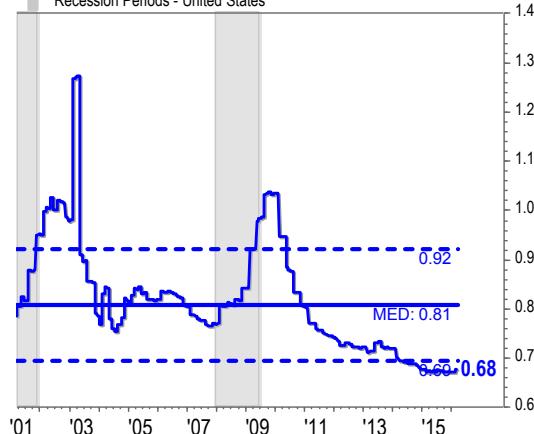
Past 24 months



EBIT margin Relative

Since 2000

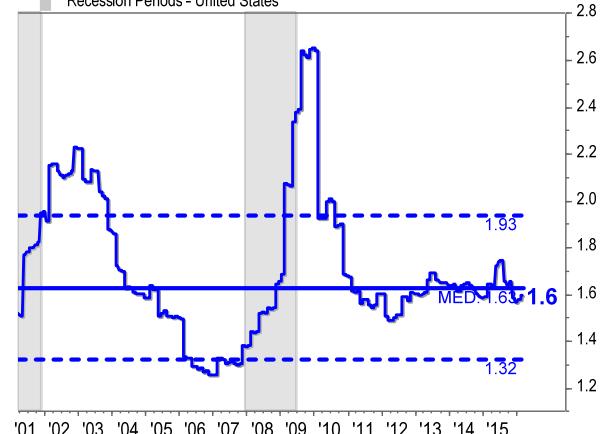
S&P 500 / Consumer Staples - SEC - EBIT Margin - LTM Relative to S&P 500 Last: 0.7 Last Date: 3/11/2016
Recession Periods - United States



ROE Relative

Since 2000

S&P 500 / Consumer Staples - SEC - ROE - LTM Relative to S&P 500 Last: 1.6 Last Date: 3/11/2016
Recession Periods - United States



Source: Fundstrat, Factset

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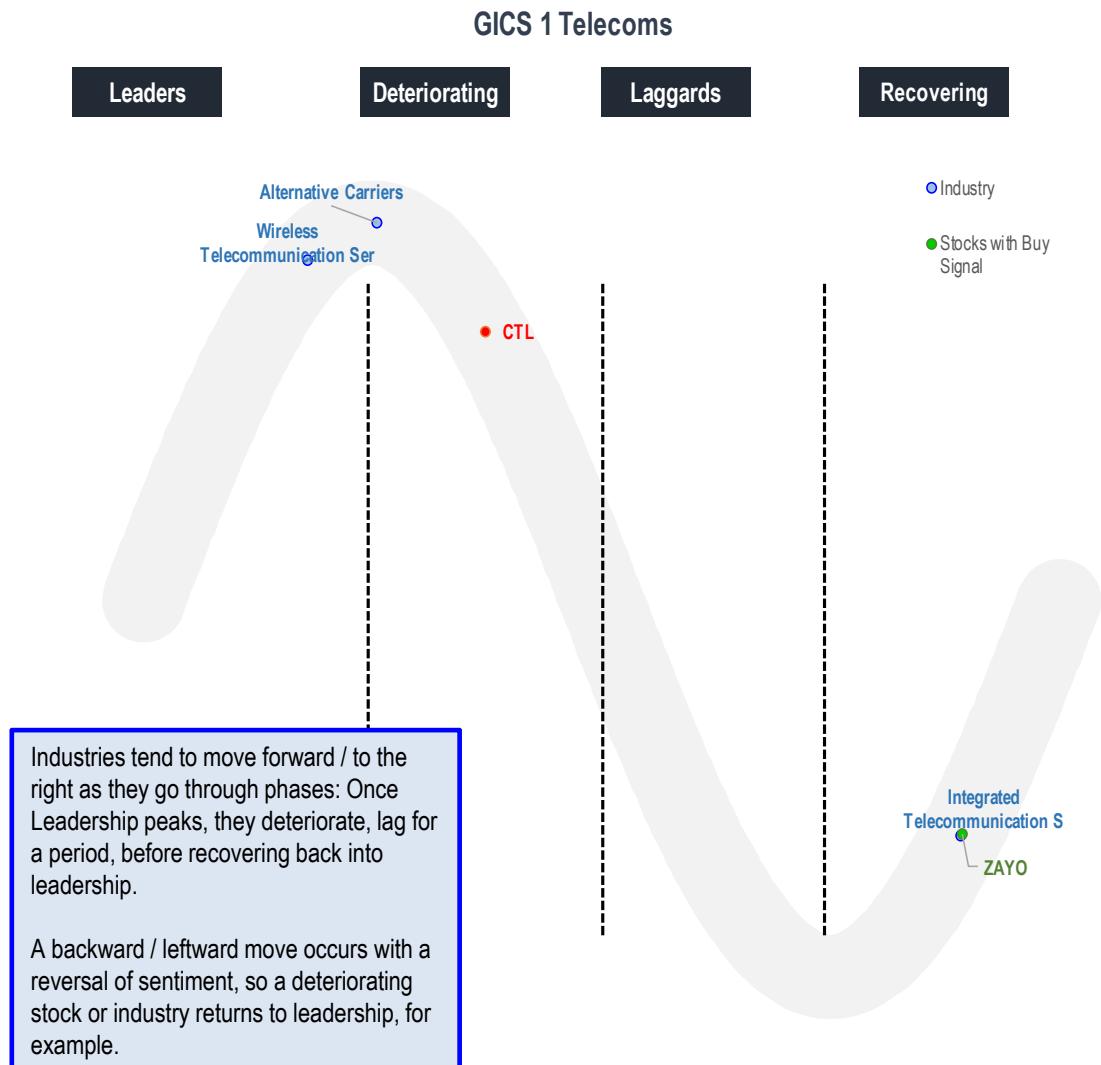
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DEFENSIVES: Telecom Services (GICS1: 50)

Figure: Telecom Services Fundstrat Composite Radar



Source: Fundstrat, Factset, Bloomberg

Rating:

OVERWEIGHT

Strategy Rationale:

Really hard to call this a “sector” since there are only 5 stocks in the entire Sector. We upgraded Telecom Services in late-2014 as we saw the group as a cheap way to gain Technology exposure. The rise in Telecom Services is a bit of a catch-up trade in the context of a group that has underperformed the last 15 years.

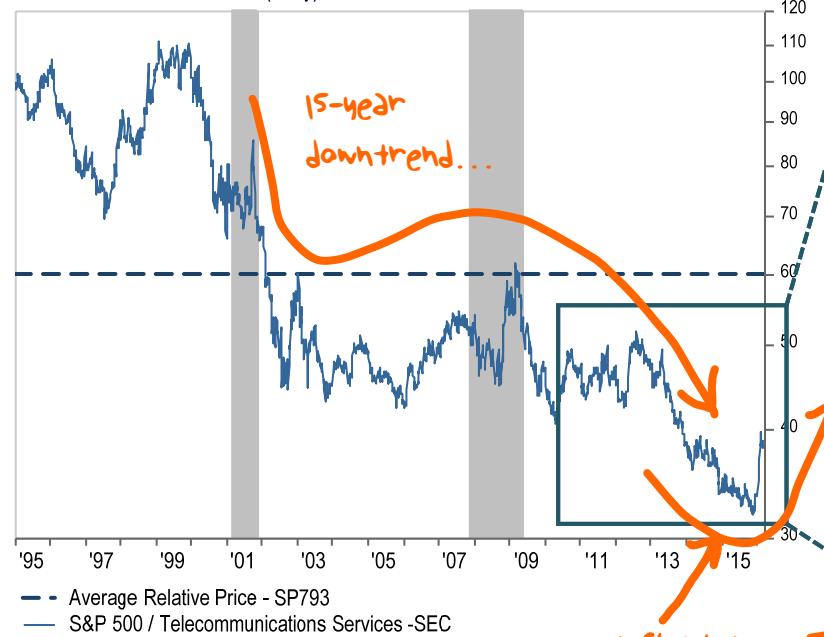
The group has risen double-digits YTD, so we are not exactly excited about adding exposure here.

But in a pull-back, we remain steady buyers of Telecom Services.

DEFENSIVES: Telecom Services (GICS1: 50)

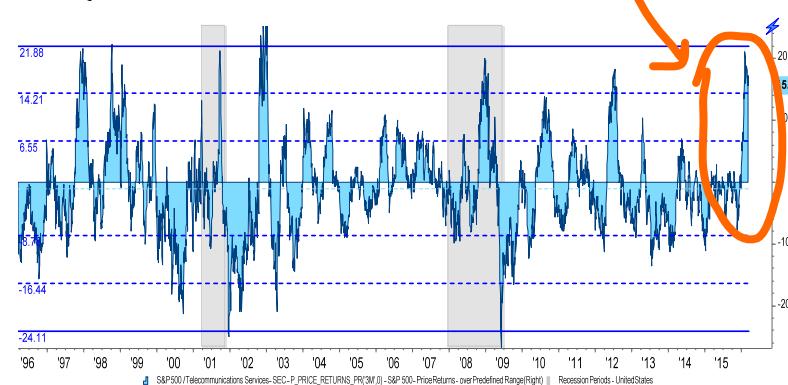
Relative Price Ratio vs. S&P 500

30-Dec-1994 to 11-Mar-2016 (Daily)



3M Return Relative

Last 20 years

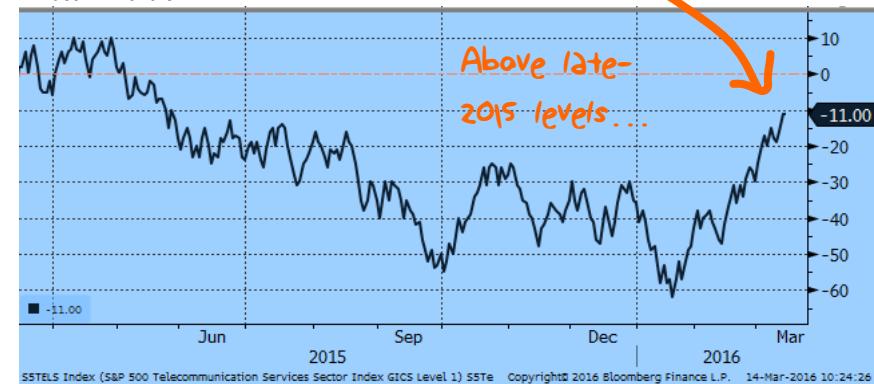


Source: Fundstrat, Factset



Advance/Decline line

Last 12 months

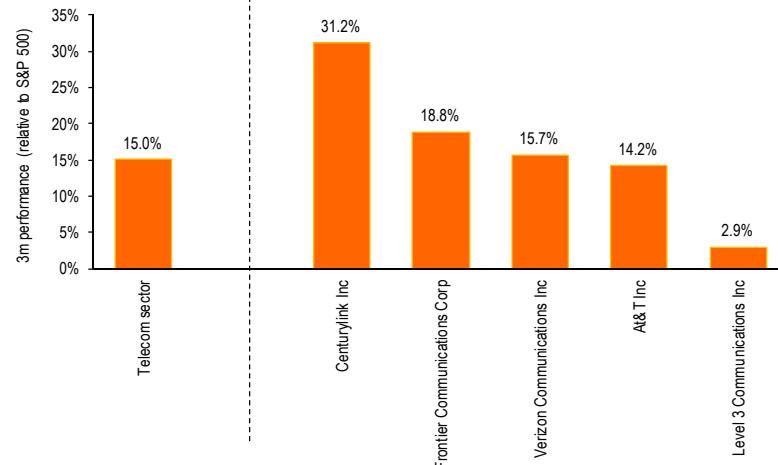


Source: Fundstrat, Factset

DEFENSIVES: Telecom Services (GICS1: 50)

Figure: 3-month relative performance

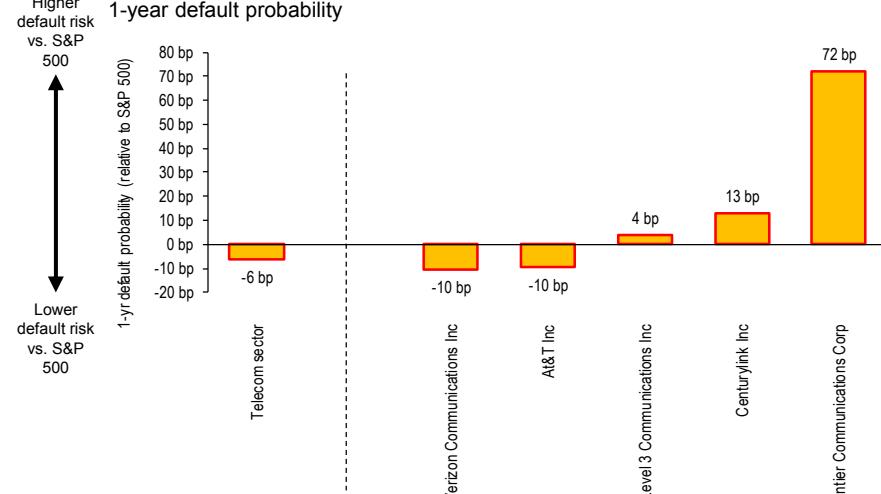
Relative to the S&P 500



Source: Fundstrat, Bloomberg.

Figure: Default Risk (relative to the S&P 500)

1-year default probability

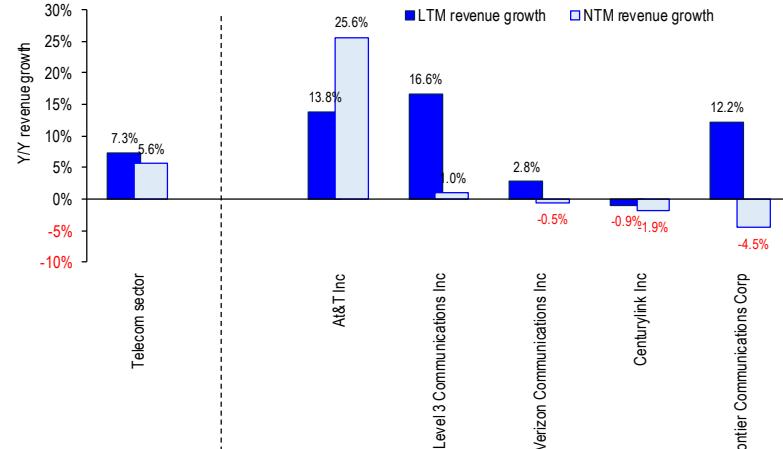


Source: Fundstrat, FactSet, Bloomberg.

Note: Default Risk calculation is Bloomberg-calculated, and is based on Robert Merton's "Distance-to-Default". The calculation is supplemented by including industry-specific financial health metrics, as well as interest coverage, cash flow, and balance sheet health metrics.

Figure: NTM vs. LTM revenue growth

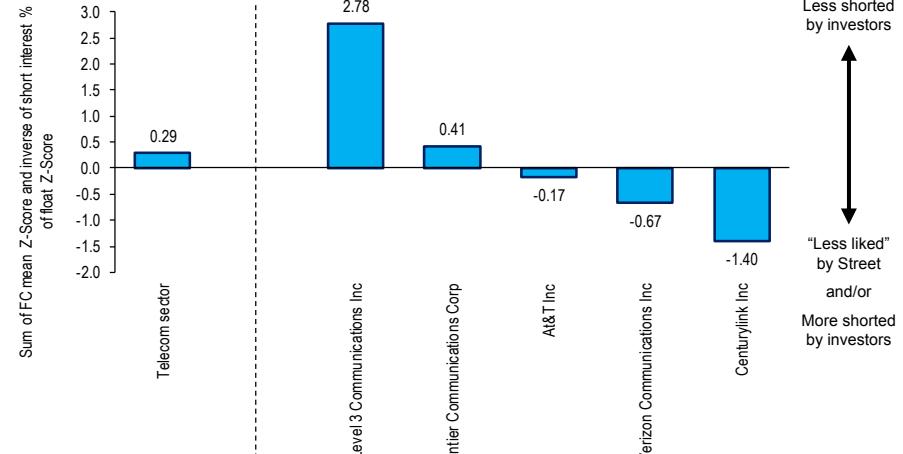
Based on consensus



Source: Fundstrat, FactSet, Bloomberg.

Figure: Composite sell-side and buy-side sentiment

Sum of FC mean and inverse of short interest z-score



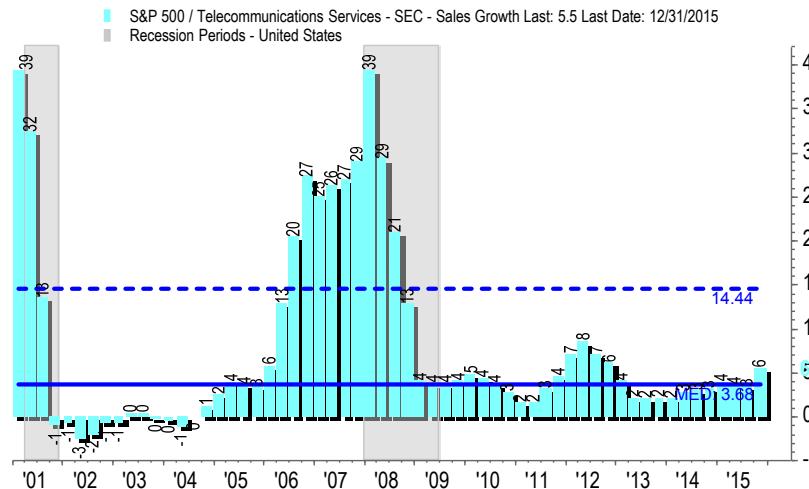
Source: Fundstrat, FactSet, Bloomberg.

Note: we are calculating industry-level Short Interest & FC Mean based on an equal-weighted average of the constituents. A positive value for Short Interest Z-Score indicates that Short Interest is lower than average, whereas a negative value suggests Short Interest is higher than average.

DEFENSIVES: Telecom Services (GICS1: 50)

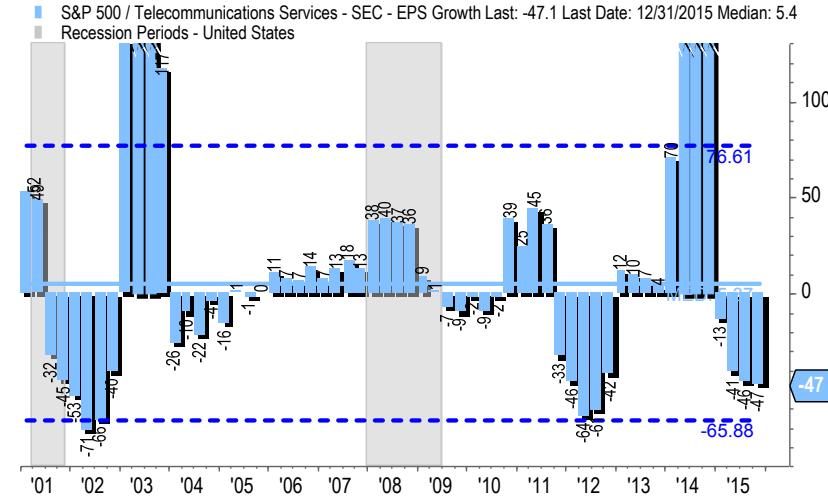
Sales Growth YoY % change (relative)

Last 15 years



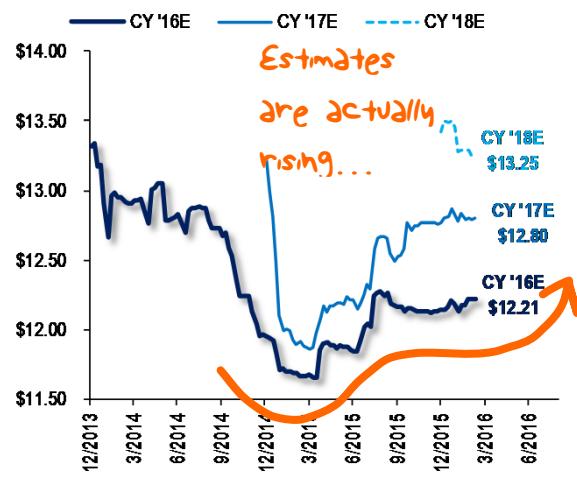
EPS Growth YoY % change (absolute)

Last 15 years



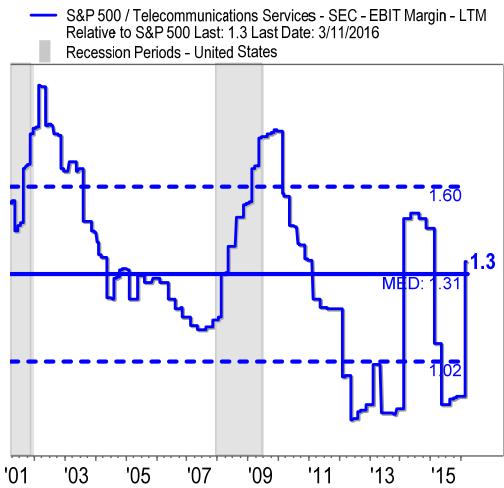
EPS Forecasts FY1 and FY2

Past 24 months



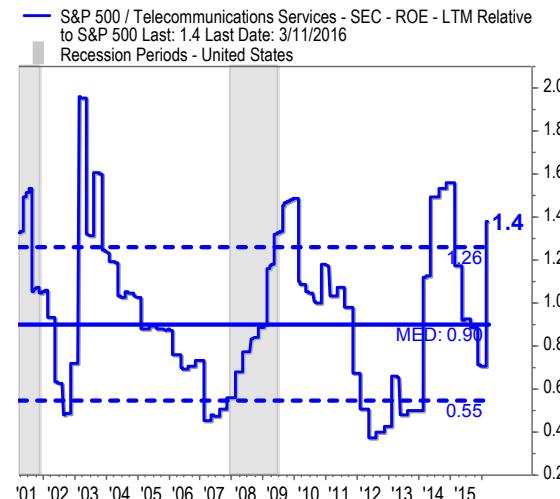
EBIT margin Relative

Since 2000



ROE Relative

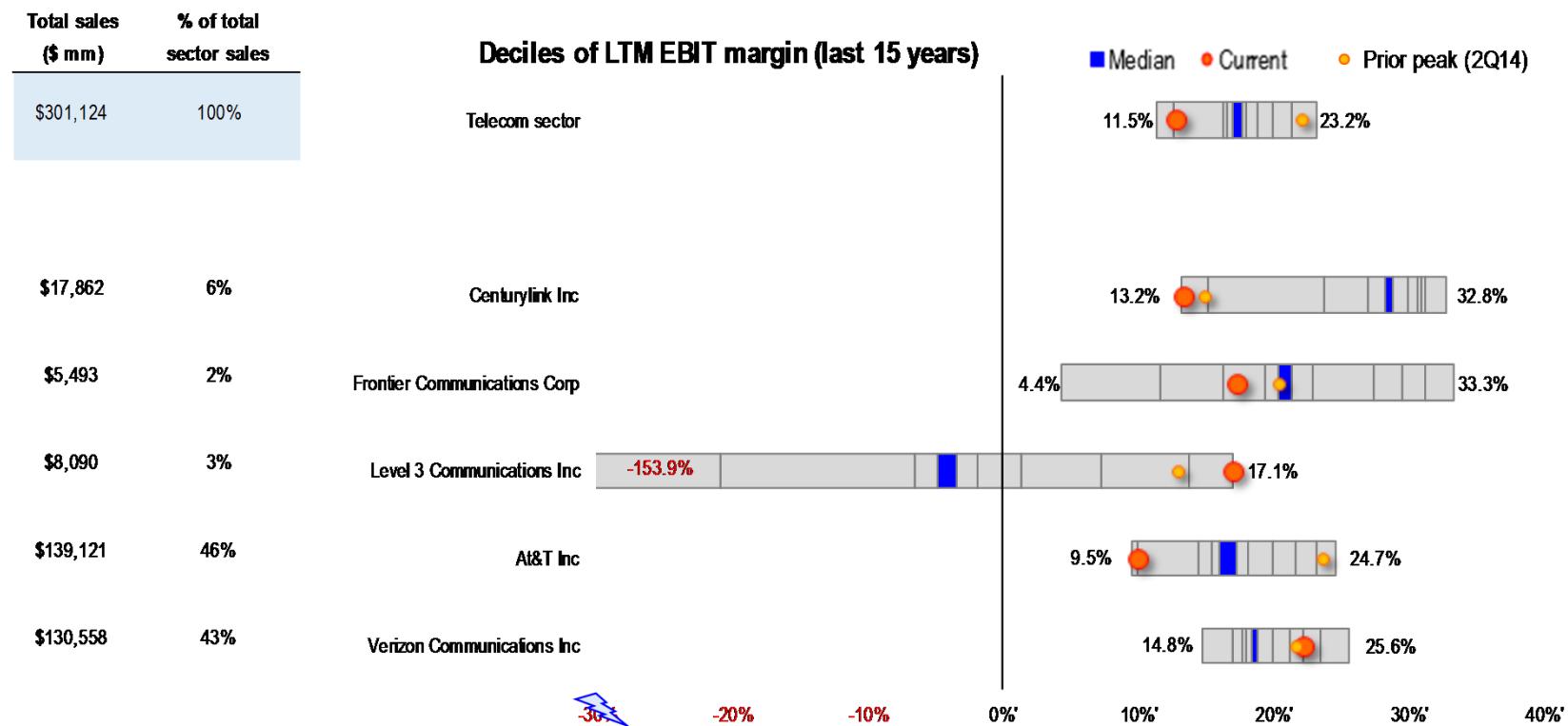
Since 2000



Source: Fundstrat, Factset

DEFENSIVES: Telecom Services (GICS1: 50)

Figure: Deciles of LTM EBIT margin
Last 15 years

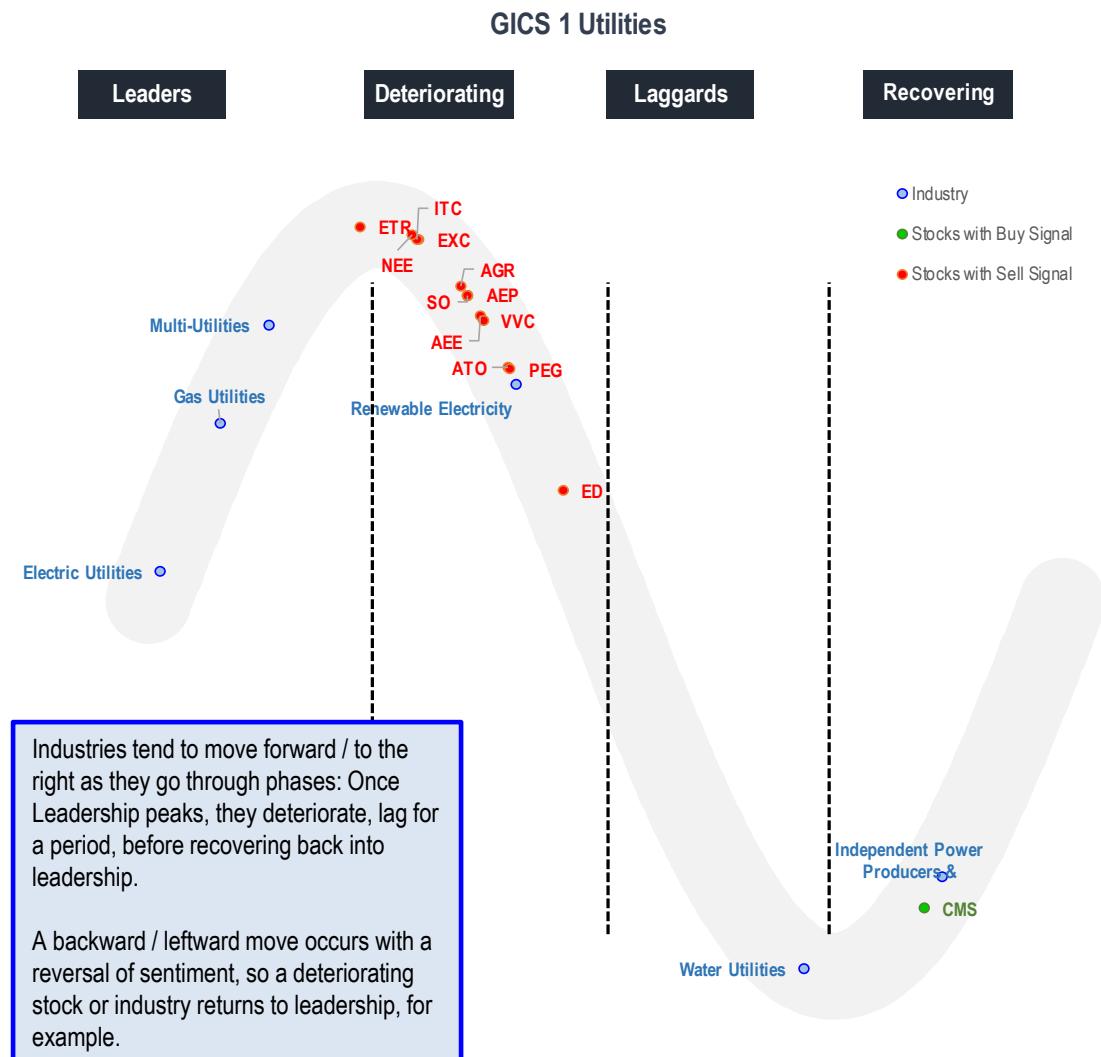


Source: Fundstrat, Factset.

Note: LTM EBIT margin is calculated based on FactSet Market Aggregates. EBIT and Sales for each constituent are calendarized, and the universe of constituents is limited to those with both and estimated and actual value for both Sales and EBIT.

DEFENSIVES: Utilities (GICS1: 55)

Figure: Utilities Fundstrat Composite Radar



Rating:

UNDERWEIGHT

Strategy Rationale:

Utilities outperform when one of two conditions develop: (i) plunging interest rates as Utilities are very interest rate sensitive and (ii) markets price in a recession. While there was a growth scare earlier this year, we expect interest rates to rise nominally in 2016 (Fed action plus inflation). Hence, we would fade the Utility rally.

Most Attractive Groups:

Independent power producers,
Electric utilities,
Multi-utilities,
Gas utilities

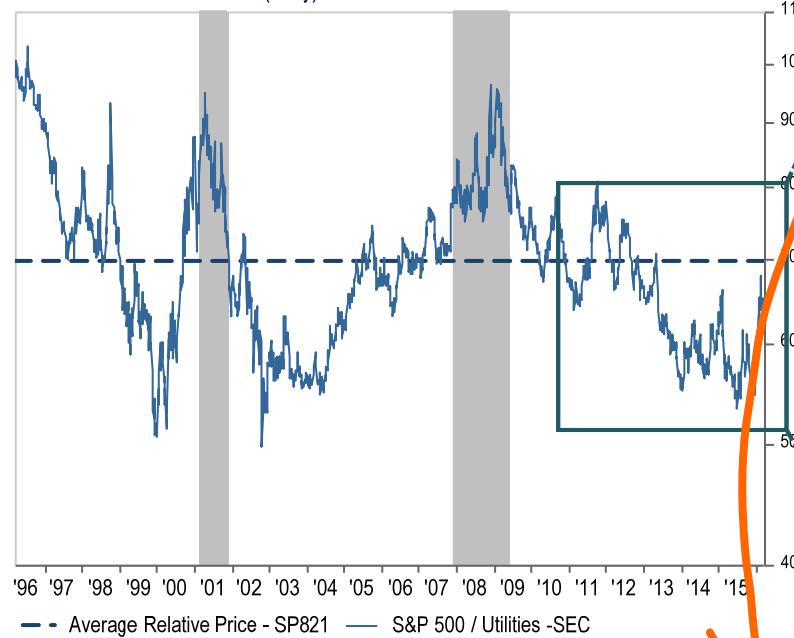
Least Attractive Groups:

Water utilities,
Renewable electricity

DEFENSIVES: Utilities (GICS1: 55)

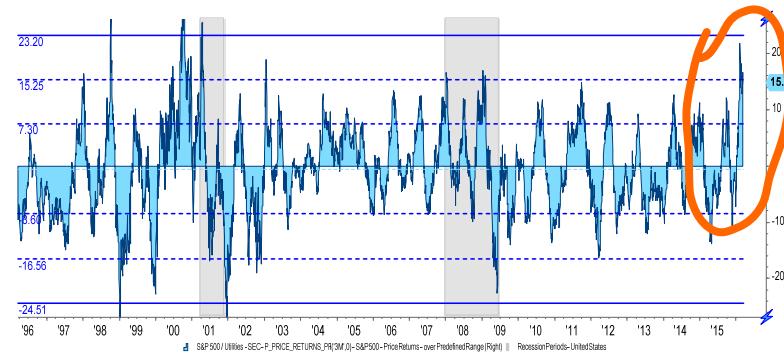
Relative Price Ratio vs. S&P 500

11-Mar-1996 to 11-Mar-2016 (Daily)



3M Return Relative

Last 20 years



Source: Fundstrat, Factset

Utilities have performed impressively... but a lot

of this is attributable to the fall in the 10Y and we do not believe Utilities are still buyable here...



Advance/Decline line

Last 12 months

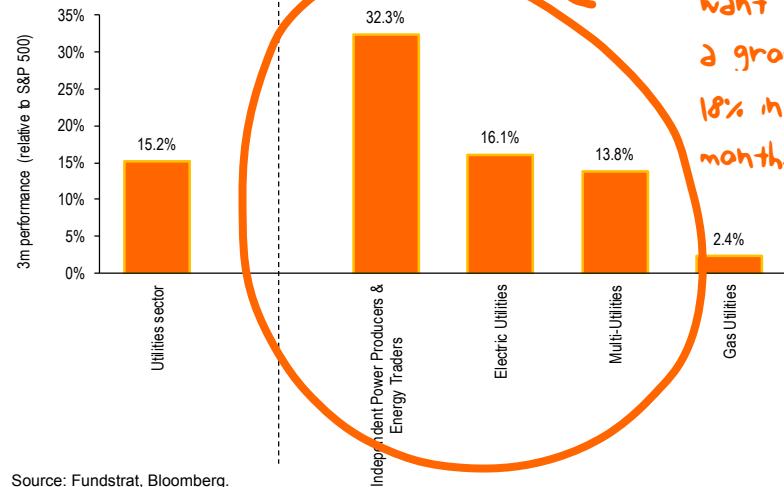


Source: Fundstrat, Factset

DEFENSIVES: Utilities (GICS1: 55)

Figure: 3-month relative performance

Relative to the S&P 500

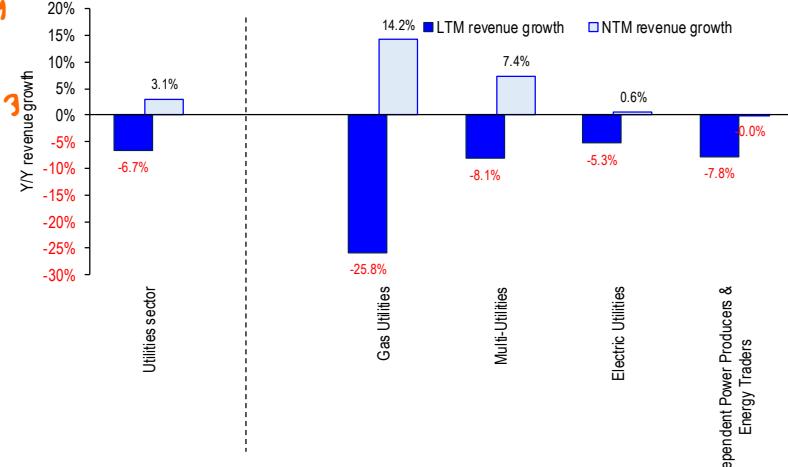


Source: Fundstrat, Bloomberg.

Do you really
want to buy
a group up
18% in past 3
months?

Figure: NTM vs. LTM revenue growth

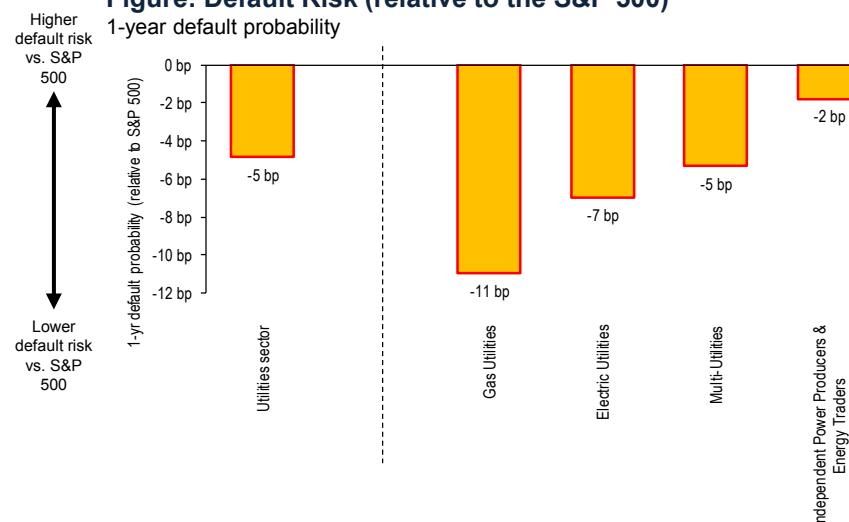
Based on consensus



Source: Fundstrat, FactSet, Bloomberg.

Figure: Default Risk (relative to the S&P 500)

1-year default probability



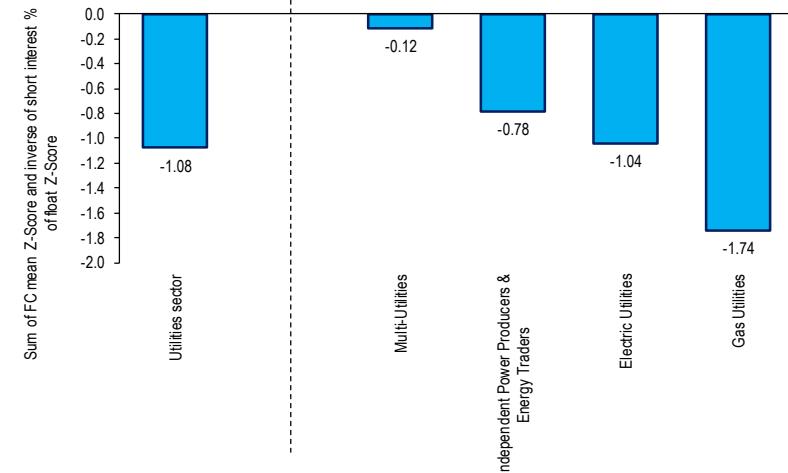
Higher default risk
vs. S&P 500
↓
Lower default risk
vs. S&P 500

Source: Fundstrat, FactSet, Bloomberg.

Note: Default Risk calculation is Bloomberg-calculated, and is based on Robert Merton's "Distance-to-Default". The calculation is supplemented by including industry-specific financial health metrics, as well as interest coverage, cash flow, and balance sheet health metrics.

Figure: Composite sell-side and buy-side sentiment

Sum of FC mean and inverse of short interest z-score



"More liked"
by Street
and/or

Less shorted
by investors

"Less liked"
by Street
and/or
More shorted
by investors

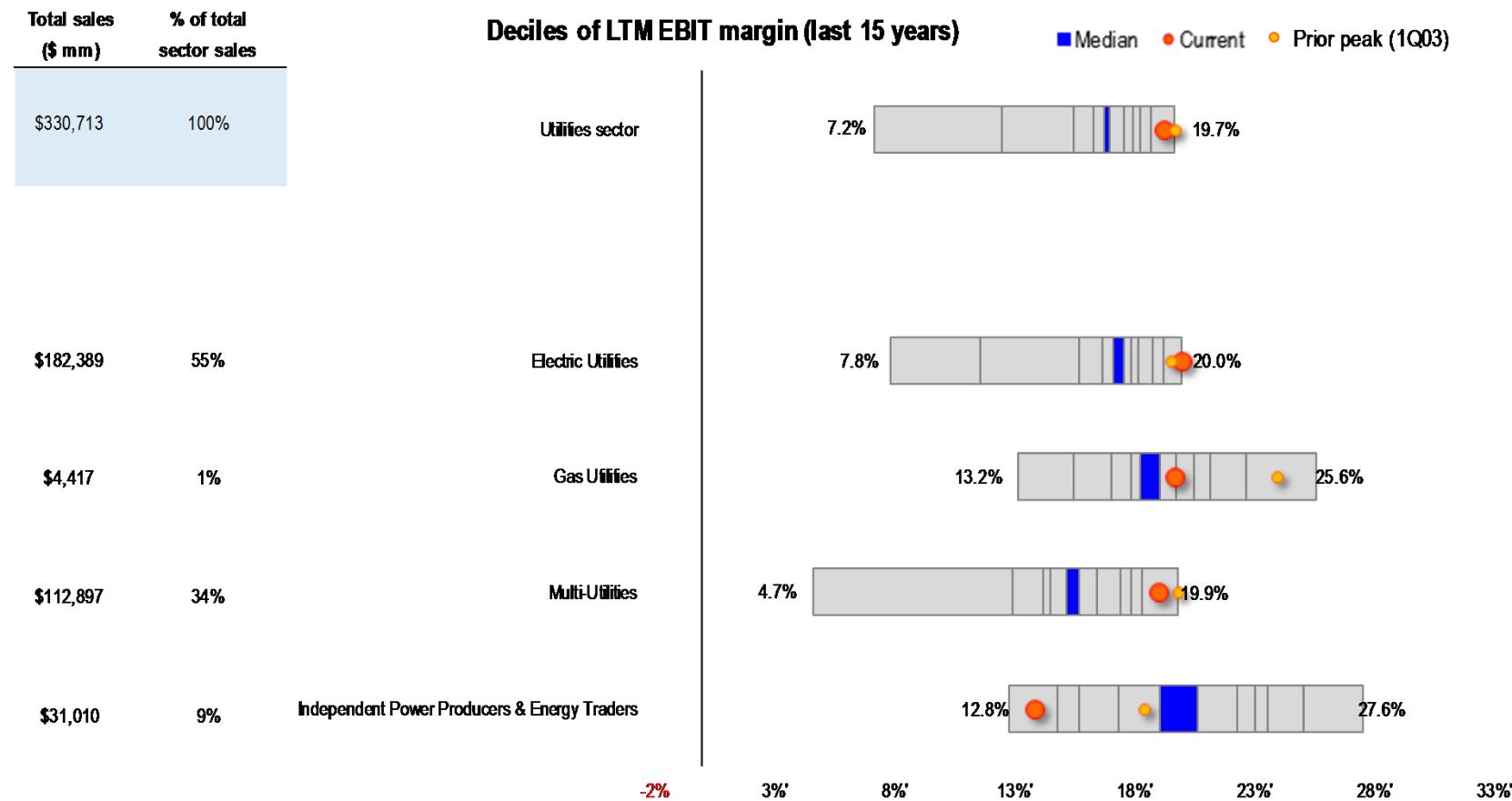
Source: Fundstrat, FactSet, Bloomberg.

Note: we are calculating industry-level Short Interest & FC Mean based on an equal-weighted average of the constituents. A positive value for Short Interest Z-Score indicates that Short Interest is lower than average, whereas a negative value suggests Short Interest is higher than average.

DEFENSIVES: Utilities (GICS1: 55)

Figure: Deciles of LTM EBIT margin

Last 15 years



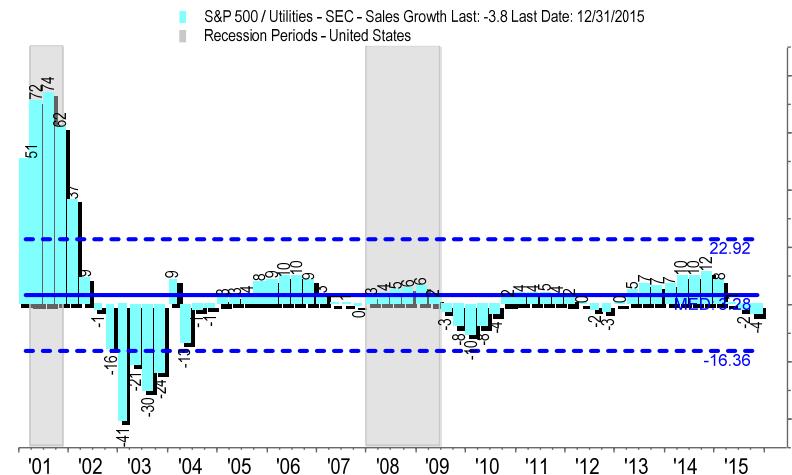
Source: Fundstrat, Factset.

Note: LTM EBIT margin is calculated based on FactSet Market Aggregates. EBIT and Sales for each constituent are calendarized, and the universe of constituents is limited to those with both and estimated and actual value for both Sales and EBIT.

DEFENSIVES: Utilities (GICS1: 55)

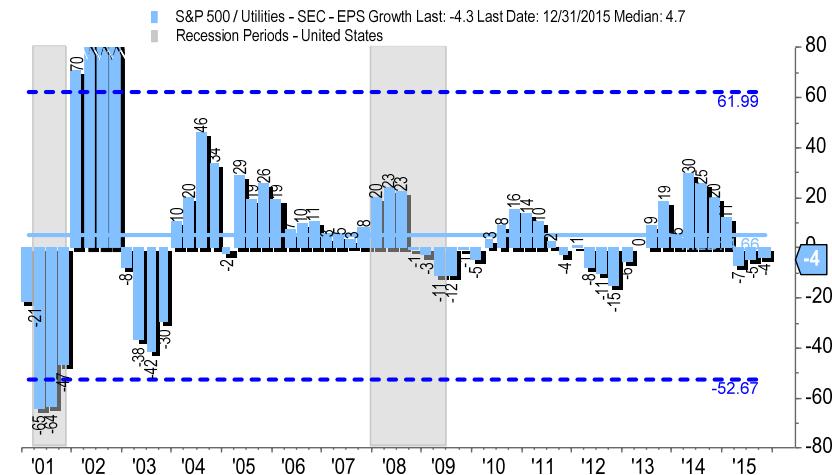
Sales Growth YoY % change (relative)

Last 15 years



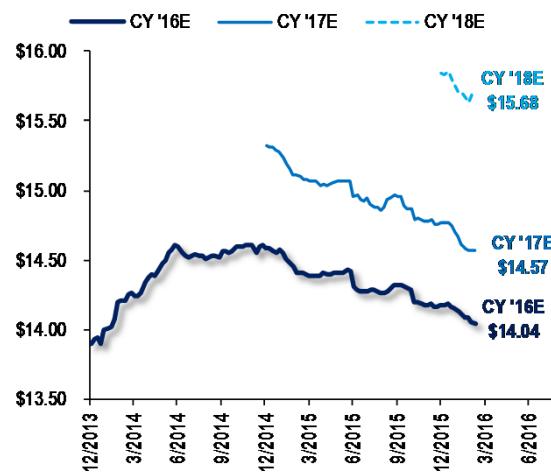
EPS Growth YoY % change (absolute)

Last 15 years



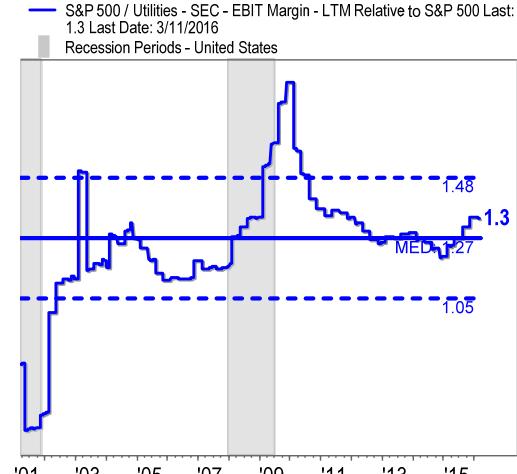
EPS Forecasts FY1 and FY2

Past 24 months



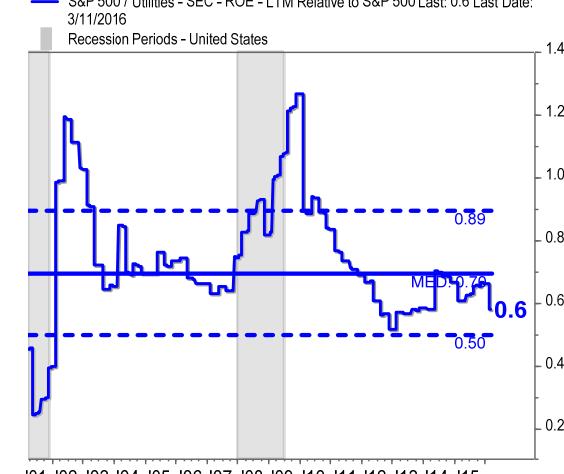
EBIT margin Relative

Since 2000



ROE Relative

Since 2000



Source: Fundstrat, Factset

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Neutral (N): The analyst expects the performance of his or her industry/sector coverage universe over the next 6-18 months to be in line with the relevant broad market benchmark, being the S&P 500 for North America.

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