



Weekly Sector Specialist Note (July 26th – July 30th, 2021)

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

Highlights and Updates from the Week

FINANCIALS Tickers: PYPL, V/MA, SQ (Go to Section)	Talking Points: PYPL print, V/MA, HOOD, Insurance Brokers, P&C (Commercial Underwriters) Catalysts: SQ Earnings, Deal Stock Earnings, AIG Earnings, KKR/APO, ALL
TELCO, MEDIA & INTERNET Tickers: GOOGL, ATUS, ATVI, PINS, CMCSA (Go to Section)	Talking Points: What have we learned from internet prints? What happened in China? Anybody listening to music? Catalysts: Earnings (DISCA 8/3, FOXA 8/4, VIAC 8/4)
TECHNOLOGY Tickers: TXN, INTC, ZM/FIVN (Go to Section)	Talking Points: Earnings (MSFT, TWLO, AMD, LRCX, AAPL) Catalysts: More Earnings (ZI 8/2, VRNS 8/2, RNG 8/3)
INDUSTRIALS Tickers: OTIS, LMT, GE (Go to Section)	Talking Points: Earnings! (OTIS, LMT, GE, UPS, RTX, GD, URI) Catalysts: More Earnings Prints (KMT 8/2, LHX 8/3, CMI 8/3, TDG 8/4)
ENERGY/UTILITIES Tickers: KMI, EPD, MMP (Go to Section)	Talking Points: E&Ps gassy names lag on hedging, Utilities, Midstream, US Majors, Refiners Catalysts: 2Q Earnings Quick Setups for Next Week (PXD, WMB, COP, DVN, ET, OKE, PAA, MPLX, and more)
CONSUMER Tickers: MCD, MDLZ, DPZ (Go to Section)	Talking Points: Problems in Restaurant Land, Retailers chugging along, Staples High Bars, Costs/PnL Catalysts: Earnings (UAA 8/3, CLX 8/4, PZZA 8/5)
SPECIAL SITUATIONS Tickers: KSU, LB, GXO (Go to Section)	Talking Points: KSU-CNI-CP, LB / VSCO / BBWI, XPO / GXO, Arb Spreads, WLTW-AON, SPAC Market Catalysts: XPO spin (XPO / GXO) regular way trading begins, LB spin (BBWI / VSCO) regular way trading begins

WEEKLY TRADING COLOR

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SUMMARY

Bigger picture: Just a VERY busy week between the Earnings tsunami, the FOMC and the regulatory crackdown in China, the pain on the Risk Arb side (China sensitive deals and AON WLTW blockage) and the worsening Covid landscape. Couple things I think we learned:

1. **Mega cap Tech & Positioning:** Mega Cap Tech came thru and reported for the most part fantastic numbers. The problem? Investors were positioned for it – all crowded longs heading into the prints. Naturally, the incremental buyer is missing. On top of that, the group had benefitted from the China turmoil earlier in the week which made the set up even more difficult. Retail investors piled back into US tech earlier in the week. Interestingly as we saw Profit taking in Mega Cap Tech by institutional holders later in the week, some of that money was pushed into Smidcap growth despite rates moving higher. Hence, Investors are still looking for growth. And with pockets within the China trade being uninvestable for now – US tech is the natural place to look.
2. **Covid:** Meaningful shift in headlines. Remember those masks? Well they are coming back. Does the market care? No, not really. Not yet at least. In fact Sustainability of the Covid beneficiary trade is more of a concern as we learned post AMZN, PINS and PYPL. Just looking at the PYPL vs. the MA print one can see it. The consumer is in good shape. However, the consumer has started to shift spending from good to services as mobility improved.
3. **The Reopen trade:** Some will argue has run out of steam but that is not what companies are saying. There is clearly a more selective approach by investors – this week's dispersion looking at the Reopen baskets highlights that. Earnings will be one factor in determining where investors will put the money to work. Things will get more interesting next week as the focus shifts to Smidcaps – Expect more single stock dispersion and more volatility.

We saw Broad-based risk reduction earlier in the week driven by a mix of fear of Chinese equity weakness spilling over as well as nervousness ahead of Mega cap tech earnings and Wednesday's FOMC meeting, followed by signs that investors turned more constructive Thursday. At no time though we saw signs of panic. Yes I think risk came off broadly earlier in the week as we saw HF activity pick up but LOs remains mostly on the sidelines with exception of some China ADRs and stock specific dislocations like ATVI. In fact Thursday I thought the action was very constructive as we saw HFs deploy money again both on the long and short side. We saw money rotate out of the defensive trade that had dominated our flows recently and put back into pockets of the Cyclical trade – the reflating trade.

HOW BOUT OUR FLOWS

Flows on the HT desk were skewed to the sell side 4 out 5 days this week. Retail continued to be a net buyer in aggregate. Majority of inflows remain heavily concentrated in ETFs. Flows this week unsurprisingly focused around China ADR's and earnings. China ADRs and ETF's were broadly sold (especially internet) money was rotating into US internet – GOOG/GOOGL and FB the main beneficiaries. With Chinese stocks in turmoil, dragging down the overall market and particularly emerging markets to start the week, investors pile into US Equity ETFs, with inflows of \$12B. The AUM increase was driven by Large cap and Tech funds.

SECTOR BREAKDOWN

Equities are set to end the week lower as Mega Cap Tech earnings disappointed on the margin against a high bar as we lap tough YoY eCommerce comps. This dynamic was further fueled by the July FOMC meeting/presser giving indication the economy is making good progress and downplaying the economic impact of the Delta variant in the US. The Macro Reopening trade has been the beneficiary of the rotation out of Growth/Tech with Materials +4% and Financials +1.4% having outperformed most on the week as Comm Services -2.1% and Consumer Discretionary -1% lagged most.

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WHATS AHEAD?

China's NBS PMIs (over weekend)), the US ISMs for July (Mon/Wed)), and the US jobs report (Fri). Another VERY busy week of earnings with focus shifting to Smidcaps. BABA important one on the large cap side. BOE on Thursday.

FINANCIALS

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TOP TALKING POINTS

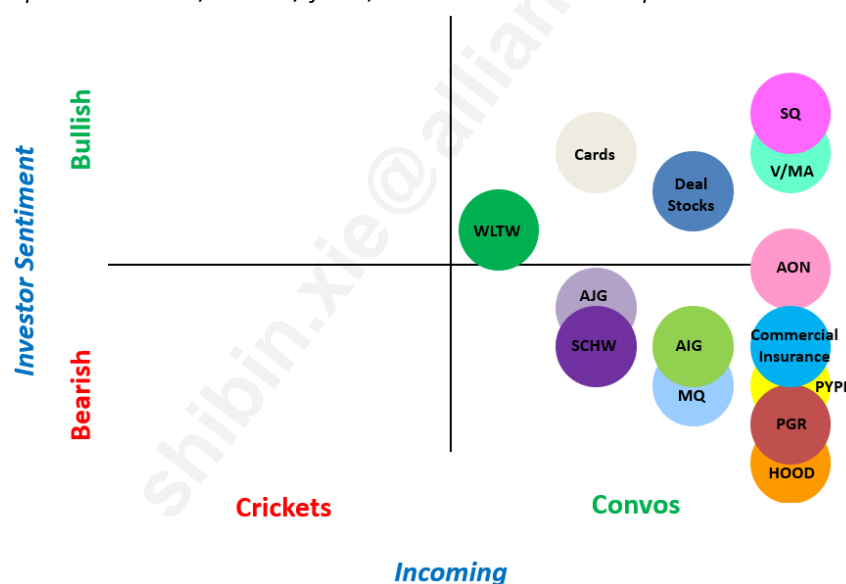
- **PYPL** – Shares under pressure on a light print, weak 3Q guidance – primarily related to take rate pressure (largely attributed to again bigger than expected eBay attrition). From here – the debate is intense; for the Bulls, its an eBay issue, volume still strong/4Q guidance in focus, with pricing offsets on the come to support MT guidance.
- **V/MA** – Spend trends pretty good, not great. US volumes well above consensus/but only in-line/even a bit light vs the buy-side. Visa XB has seen some decel from crypto – while MA US volumes lagged Visa's pretty considerably. Expenses for the win – combined the broader trajectory of spend – with less cited risk from virus variants. Visa beat 3Q expenses/guided 4Q than feared and incentives appear to be trending in the right direction. MA beat and relieved fears with high +20% 3Q spend guidance. Out-year upside is still very much intact as XB recovers.
- **HOOD** – opened into a rage of hype and hate – to which the stock cratered then rallied then fell again....trading in the ~\$30B market cap range as I write.
- **Insurance Brokers** – stole the show #again, headlined by AON/WLTW deal break to kick things off Monday morning. From there; where does that leave AON...+13% on the week, back to exactly in-line with its historical avg multiple vs MMC – a strong print (+11% organic) to boot....vs some less aggressive 2H guidance (+MSD FY).
- **P&C (Commercial Underwriters)** – CB beat/sold off in the exact same fashion as TRV/WRB the prior week (rate decel/lack of margin flow-through > booming growth).

INCOMING & SENTIMENT

A VISUAL look at what investors wanted to talk about this week:

CRICKETS = Little/No Interest, **CONVOS = Interest**...and everything in between.

SENTIMENT = based on specialist's convo/PB data/flows, **INCOMING** = based on specialist's convos...both are 100% subjective



UPCOMING CATALYSTS

- **SQ earnings** – into max hubbub...on many different levels...Seller should beat handily, all eyes on CashApp - with a first look at July as comps get incrementally tougher (for both). This one has been loved, but the jitters are picking up by the day it seems
- **Deal stock earnings** – GPN Monday morning, FIS Tuesday – we need to see 40% handles at a minimum.....focus will shift to 2H outlooks immediately....I think we need to see 2H eps upside
- **AIG earnings** – expect solid results...but is the call going to be more focused on the Life side/BX/the 43 bps fee paid.....and still/more muddled exit plans?
- **KKR/APO** – the bar only that much higher following peer prints/reactions....but to expect anything else?
- **ALL** – very much in focus.....following PGR and now KMPR results....news on rate request denials (PGR in TX being the latest). Growth/mix/outlook and of course margin deterioration in focus...

Most Read Articles of the Week

- **S&P Global (SPGI, Buy, USD 476 from 445)** - [Standalone Outlook Improving Ahead of INFO Merger Close](#) (Alex Kramm, CFA)

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TOP TALKING POINTS

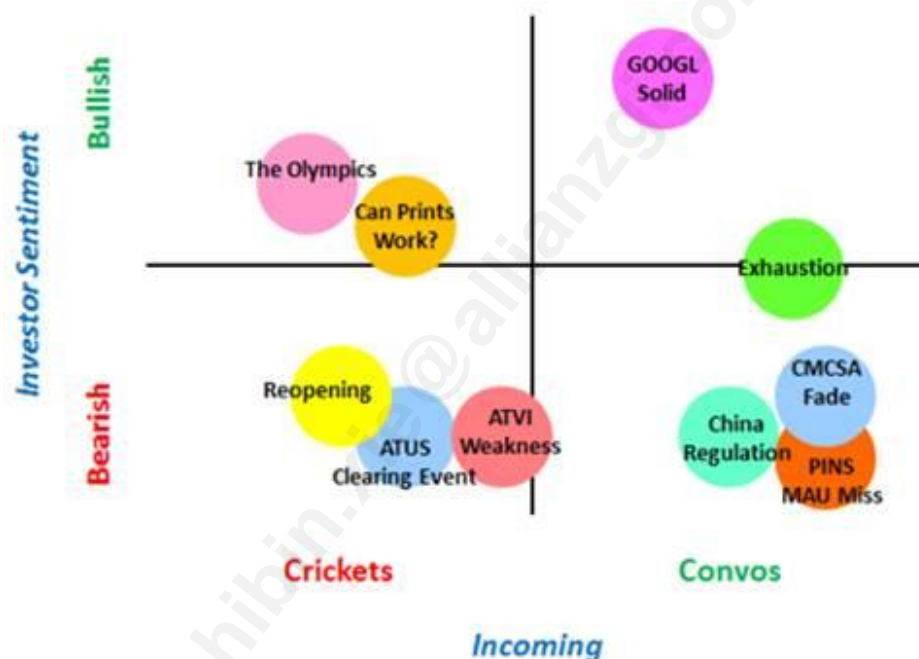
- **What have we learned from internet prints?** Advertising trends are **VERY STRONG** both digital and linear. FB beat ad rev cons by 5%, GOOG Sites rev by 20%, SNAP rev by 16%, TWTR rev by 12% and PINS rev by 9%. But we've also learned that **engagement is A MIXED BAG**, with PINS reporting some of the worst engagement trends yet.
- **What happened in China?** Chinese regulators cracked down on the education sector this week, spurring an unwind across sectors. Jerry Liu wrote that for internet names, the pressure will likely continue to the end of the year and that it's **TOO EARLY** to assume impacts are priced in and "buy the bottom" as companies are still assessing the impact/risks.
- **Anyone listening to music?** SPOT reported another miss and guide down on MAUs due to continued COVID impacts but UBS u/g to Neutral driven by **more balanced risk/reward** (SPOT -30% ytd), better financial results, **expectations for improving MAU trends** post-pandemic, traction with new initiatives and a more attractive valuation.

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UPCOMING CATALYSTS

- **DISCA 8/3:** Expect solid 2Q results w/US dist accelerate to 12%/18% ex acctng vs 12%, US ad rev +13%/int'l +65%, and healthy DTC sub growth in 2Q21 -- > **UBSe 17.5M/cons 16.8m**. 3Q DTC sub trends to benefit from Vodafone deal, Magnolia content and Olympics (3Q cons 21.2m). Listen for commentary on deal synergies, DTC strategy with WM. Sentiment mixed as DISCA in deal purgatory.
- **FOXA 8/4:** Expect continued strength in cable affiliate amid similar rates and improved sub declines (UBSe 6.5%/cons 5% vs. 6.2% last qtr), growth in adv (cons +2% vs -7% last qtr) driven by a strong scatter market, easy comps, & upside at Tubi **Listen for comments on Tubi investments, higher content costs** (drive higher revs but lower EBITDA and FCF in FY22), discussion of strategy (FLTR? Fox News?) and capital return (UBSe \$300M in F4Q).
- **VIAC 8/4:** Expect continued DD retrans growth and improved cable net affiliate growth (UBSe 6% vs. +3% last qtr) driven by better sub trends and Hulu inclusion. **Dom cable adv rev growth should accelerate** driven by easy comps & upside at Pluto TV (UBSe +22% y/y vs 6% in 1Q). **Streaming rev growth should accelerate q/q to 100% (cons +83%) from 65% in 1Q** (easier adv comps, Pluto strength, P+ subs). **Total streaming sub adds of +4.3m/UBSe 5.4m vs 6m in 1Q** for a total base of 40m subs. **Focus will be on impact of DTC pivot on profitability and FCF.**

Most Read Articles of the Week

- Comcast Corporation (CMCSA, Neutral, USD 60) - [Broadband & Parks driving outperformance](#) (John C. Hodulik, CFA)

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TECHNOLOGY

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TOP TALKING POINTS

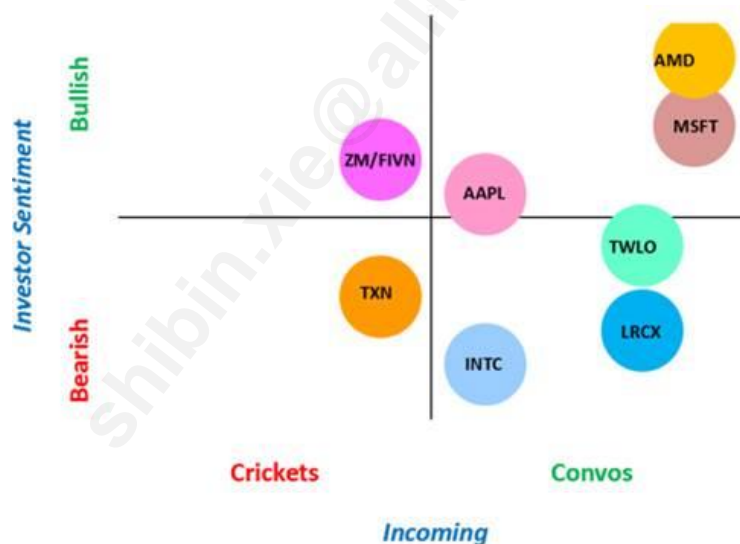
- **MSFT:** The nitpicks ex-Azure bogey miss were some saying the weren't happy with Office Commercial, upside coming from LNKD and advertising, and FCF was a little light.
- **TWLO:** Lots of chatter and focus on what the real organic is. UBSe gets to 2Q 50% y/y, including \$47M Segment, \$13M ValueFirst, and \$9M A2P, a 30bps accel vs 49% in 1Q. Investors are nitpicking again at the GMs which were -100bps below the Street, and the lack of clarity on organic contribution in the guidance. These 3 are the biggest talking points as TWLO becomes more of a battleground stock.
- **AMD:** There was no negative feedback, best semis print yet. If you want to be nitpicky, they guided Sep GMs to 48% which is no leverage vs the Jun print. But, that 48% is 100bps above the Street and combined with the C21 GM raise to 48% implies Q4 GMs at 50% vs the Street's 47.5%. Also, AMD just beat their GM guidance by 100bps because they are making progress on getting supply, which they told you on the call they should continue to make progress on.
- **LRCX:** Feedback focused on the bogey misses, 2H NAND comments, lack of GM upside, and China. Pushback from bulls is that the China number is not all domestic China They also point to the real EPS power LRCX will to grind out and are looking at C22 with a 4-handle. Bears are saying NAND spend looks very heavy, and are nervous about the SPE tape.
- **AAPL:** There weren't too many nitpicks other than peak growth concerns. LastQ it was a Macs/iPad led Q, which investors picked at as not sustainable. This Q was all iPhone. GM showed leverage sequentially, every product beat, and every geo ex-Rest/Asia beat. For nitpicks the smaller topline beat, ex-Services and ex-Wearables revs decel'd, revs were guided to decel in Sep with supply constraints hitting iPhones more, and margins were guided -100bps QoQ for Sep.

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UPCOMING CATALYSTS

- **8/2: ZI EPS:** While ZEN had some idio wonkiness to their print, the core business seems to be doing well, which serves the down-market, similar to ZI. Investors seem to expect M/H30s growth for C22.
- **8/2: VRNS EPS:** Shares have recouped the post-1Q losses. The intro of the integrated and rebranded Polyrize tech in May offers potentially meaningful TAM expansion, as well as a jumping off point for further SaaS offerings. Specific channel commentary was difficult to come by, but we think the current attack environment could be a boon for threat detection and UEBA players like VRNS.
- **8/3: RNG EPS:** Focus remains on the delta in growth between subs revenue and Office ARR as investors remain cautious on the discrepancy, in addition to overarching competitive concerns especially after the proposed ZM/FIVN deal that is consolidating formidable UCaaS/CCaaS competitors. Posting higher growth rates will be key to RNG's success/failure.

Most Read Articles of the Week

- **KLA Corporation (KLAC, Neutral, USD 350 from 345)** - [Strong 2H Revision Suggests ~\\$90B 2H WFE Run Rate](#) (Timothy Arcuri)
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INDUSTRIALS

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TOP TALKING POINTS

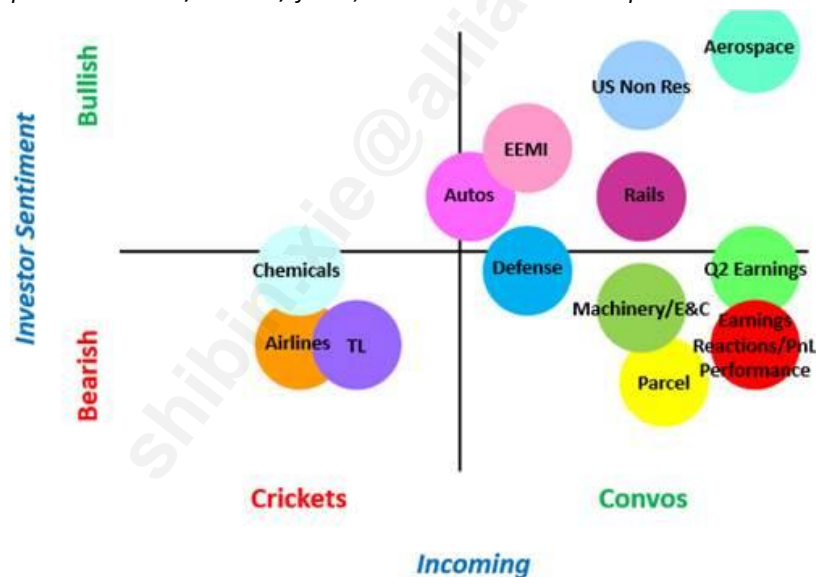
- **OTIS:** Definitely the print with the most amount of pushback this morning. Bulls argue that the print was solid, with strong orders/trends and also are keen to acknowledge an inline margin performance for the quarter, but don't want to fight a positive revision/beat and raise story – call is also helping the bull point. Bear points revolve around implied 2H, margin performance (inclu backlog) and valuation
- **LMT:** Feedback quieter than I would have otherwise thought given the uncharacteristic Q2 print
- **GE:** CFO mentioned that EPS would be at the higher end of the range for the total co & print delivered the biggest surprise to FY21 by raising Industrial FCF guidance, while also beating expectations for FCF in the quarter
- **UPS:** Co mentioned that 2H op margin will be 12%, a definitive ding to the bull case and now taking away the “conservatism” pass some were ready to give them.
- **RTX:** While overall feedback has been positive on the print, one pushback is \$0.15 of the \$0.30 raise look attributable to tax. That said, the performance in COL aftermarket was exactly what the company needed to show the potential this business can have through the recovery and the solid beat and raise should support the stock.
- **GD:** Stock has attracted HF ownership given biz jet cycle exposure, though LO sponsorship is lacking. Biggest standout metric in the quarter was Gulfstream Orders which came in at 2.0x vs last quarter 1.1x. and \$0.50 guidance raise.
- **URI:** Main focus here is on margin performance and adj EBITDA weakness, and a guide raise that was not up to snuff with buyside expectations.

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UPCOMING CATALYSTS

- **KMT (8/2):** Given the short the short cycle narrative, KMT has been a cons/crowded short for a while now. The key focus for FQ4 is organic growth and incremental margins.
- **LHX (8/3):** Stock has barely come up in investor conversations as of late, though HFs have liked to have some exposure there. For the quarter, this will be Chris Kubasik's first call as CEO, so investors are curious to see how his first time goes.
- **CMI (8/3):** Sentiment has swayed predominately negative here as investors continue to be bearish on the truck OEM, especially with outsized exposure to China. CMI has been up front about costs running higher than expected compared to the guidance they provided on their early May conference call.
- **TDG (8/4):** Given affinity to own aftermarket within Aero, TDG is viewed favorably by both the LO and HF community.

Most Read Articles of the Week

- **Schneider National Inc (SNDR, Neutral, USD 27) - [Upside 2Q Boosted by Strong Revenue Growth & Gain on Sale](#)** (Thomas Wadewitz)
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ENERGY/UTILITIES

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TOP TALKING POINTS

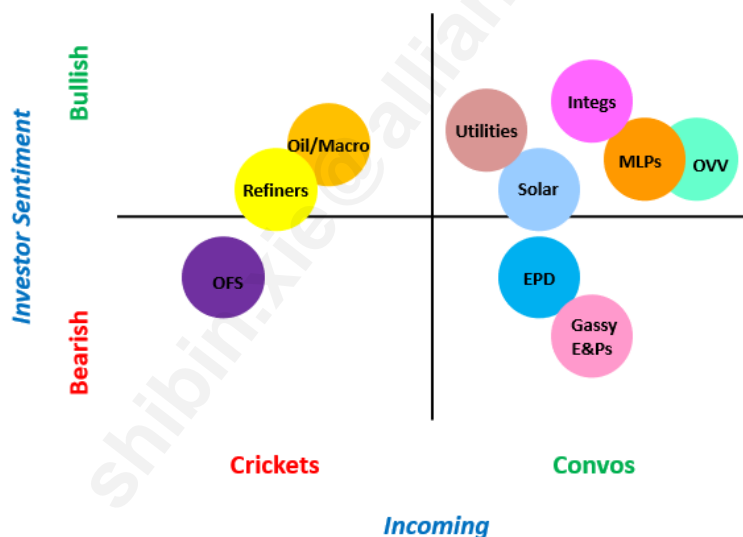
- **MIDSTREAM:** thus far this earnings season its been all about messaging around capital returns and positioning based on reactions thus far. **KMI**, **EPD** and **MMP** traded down on unchanged commentary around buybacks, while **HESM** has been o/p since the print after unit buyback announcement.
- **E&Ps:** mixed results and reactions thus far... **CVE** best performer after talked up more asset sales. **OVV** most frustrating after arguably the strongest print we saw this week yet stock has been punished for no fundamental reason ever since. **SU** lagged on Forthills issue. **HES** had a decent print and actually traded well.
- **US MAJORS:** **CVX** strong print with the real standout feature being the re-start of the buyback... Rigby had forecast 4Q but sector-wide momentum (RDS upped div and Total announced buyback) suggested 3Q start was increasingly likely. **XOM** also beat but u/p as they dinged buybacks and divs vs debt reduction.
- **REFINERS:** **VLO** finished up 5% this week. 2Q commentary has generally been constructive although folks generally remain lukewarm on the refining space in general.
- **UTILITIES:** in-line to beats across the board this week (**SO**, **XEL**, **CMS**, **ES**, **POR**) and reactions have been better this qtr so far. **SO** was news of the week as they announced completion of HFT.
- **SOLAR/CLEAN TECH:** **FSLR** o/p post strong print amid 2Q top/bottom beat and bookings at record levels + capacity expansion with reports.

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UPCOMING CATALYSTS

- **PXD** (8/2, AMC): remains controversial. Cheap but DPE equity still the overhang.
- **WMB** (8/2, AMC) folks expecting a guide increase so a headline beat isn't enough. Whether authorize a buyback or not is likely key.
- **COP** (8/3, BMO): we think will beat on CF, while capex in line. Folks have paired COP long vs US majors like CVX because has more oil leverage and has lagged vs other E&Ps. Some concerns they might by Shell assets, but sounds like others don't care.
- **DVN** (8/3, AMC): remains a consensus long. Folks kicking around the Felix piece that's supposed to be sold. Debate remains around formulaic approach to returns.
- **ET** (8/3, AMC): skewed long, however not nearly as crowded as post 1Q earnings. Every time pops over \$10 sellers show up on our desk as of late. Most of the buy-side that we spoke with are hesitant on believing that ET's growth capex won't exceed \$1bn.
- **OKE** (8/3, AMC): likely a consensus long, and although there is a CEO change, most continue to believe there will be positive stock reaction around the call. Plenty expect '22 numbers to go up (they actually have been as the street is putting out previews).

Most Read Articles of the Week

- Fortis Inc (FTS, Buy, CAD 61 from 63) - [2Q'21 C\\$0.55; Lowering PT on Updated FX Forecast](#) (Ross Fowler, CFA)
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CONSUMER

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TOP TALKING POINTS

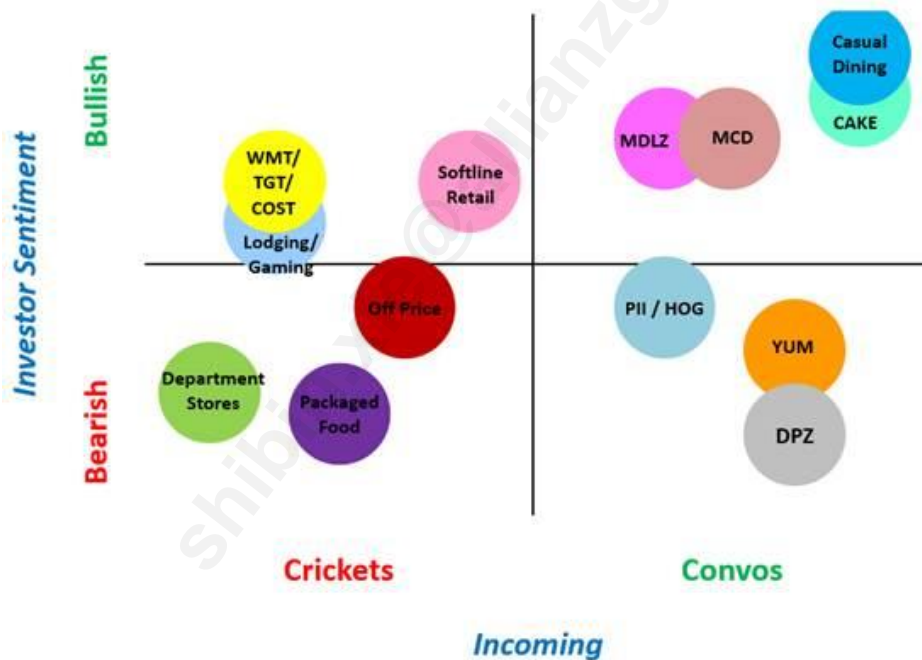
- **PROBLEMS IN RESTAURANT LAND:** Investors were very frustrated this week as it seemingly continued the theme from last week of most restaurant prints going the wrong direction of consensus. Beyond frustration for a day or two, the big theme is that RLM% for casual diners disappointed more or less across the board. Some are wondering if this will put a somewhat permanent / medium term "hold" on the reopening trade.
- **RETAILERS GENERALLY CHUGGING ALONG, FUNDAMENTALS > STOCK PRICES:** The results in retail world were generally as strong or stronger than investors anticipated, but the stocks did not respond all that much. This more or less happened in 1Q and the strength was seen later post print. Investors are wondering if this means reopening is "priced in" or if we just need to wait a bit longer.
- **STAPLES – HIGH BARS WERE SET EARLY:** Blow out numbers earlier in reporting season has made some stocks move lower on still good results. That said, most investors are not reading too much into it. Investors remain of the view that while relatively uninteresting and still with issues as a sector, fundamentals have remained better for longer than initially anticipated here.
- **COSTS AND REST OF THE P&L:** For discretionary companies, the "rest of the P&L" other than sales is very topical this earnings season. Sales are somewhat known and in many cases transitory, so either inflation, costs, or company strategies seem to be the real drivers of stock prices and investors' views.

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UPCOMING CATALYSTS

- **8/3: UAA EARNINGS RELEASE:** Sentiment remains positive here, even though the stock hasn't done much. It seems that a fair number of people are hoping that this release can get the stock moving again, while others wonder if the stall out is not an indicator that the story has played out (slightly mixed).
- **8/4: CLX EARNINGS RELEASE:** Although investors remain negative, staples have acted decently well on prints and the view is this could be near the "last cut." So, some wonder if the stock is ownable post the guide – but most want to see it first.
- **8/5: PZZA EARNINGS RELEASE:** This was the long side of the DPZ trade and investors have essentially stuck with the trade, even though DPZ was painful; they think trends are still very solid for the co. and industry.

Most Read Articles of the Week

- O'Reilly Automotive, Inc. (ORLY, Buy, USD 680) - [Putting Doubts In The Rear View](#) (Michael Lasser)
- Hilton Worldwide Holdings, Inc. (HLT, Buy, USD 136) - [Unit Growth Better in 2022 and Beyond](#) (Robin M. Farley)

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SPECIAL SITUATIONS

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- **KSU-CNI-CP:** We think CP's pursuit of proxy solicitation is a balancing act so as to be well positioned in case the STB rejects the voting trust (in an appealable manner) before the KSU vote – the proxy solicitation would reduce the odds of a successful vote and of KSU being locked up in a deal with CNI until the out date in February 2022 while CNI potentially pursues appeal. We call it a balancing act because if CP succeeds in derailing the vote, KSU would not be entitled to the \$1 billion regulatory fee even if the voting trust is rejected (in an appealable manner) before the vote, but CP would also likely not have to pay the \$700 million competing bid termination fee and KSU would not have to refund the \$700 million fee CNI previously paid to CP. We say "likely" because it is conceivable that CNI could argue that CP's activities could qualify as an acquisition proposal and demand the competing bid termination fee, but that argument may be a stretch. CP could also have launched an exchange offer, but in that case CP would certainly have had to pay the competing bid termination fee if it entered into a deal with KSU after a failed KSU vote. We think that the vote is likely to succeed if the STB does not reject the voting trust before the vote. It is conceivable, however, that some shareholders would not send proxies so as to provide KSU with reasons to adjourn / postpone the meeting and allow the STB decision to be observed before the vote
- **LB / VSCO / BBWI:** When-issued trading is winding down (Monday will be the last day) – while LB is continuing to grind higher, the market is still not recognizing the SOTP upside. The when-issued pieces continued to trade on light volume (particularly the BBWI piece). There will be index selling in VSCO next week (our index desk estimates 6.9m net shares for sale, effective on the close of Tuesday) and despite its discount valuation (~3.65x and 2022e EV/EBITDAR – a hair cheaper than cheap peer ANF on this metric), there could be near term volatility. Based on LB wholeCO price and after carving out VSCO, we see BBWI trading at a 2.5-3x discount to ULTA on 2022e Adj EV/EBITDAR.
- **XPO / GXO:** With earnings out of the way (which were good and saw raised guides), shares rose yesterday but were not immune to a little give back on Friday as the market trailed off. As today is the last day of when-issued way trading, Monday will see the index events in both pieces – with expected net sales of ~3.2m shares each, effective on the close. We see GXO currently trading at ~10.25x 2022e EBITDA (ex op leases and also ex fin leases). As noted above, Tom is now using 10x embedded in his SOTP. We also see GXO trading at ~6.3x adj EV / EBITDAR (incl fin leases and incl op leases in EV). On the adjusted metric, GXO remains above the cheapest Europe peer (WIN LN which trades at ~5.9x) but below the average of CLG LN, IDL FP, WIN LN (~8.2x). Based on the XPO WholeCO price and after stripping out GXO (since XPO-W has not been trading), we see RemainCo XPO trading at ~8.8x 2022e EBITDA ex op leases (using Tom's updated 2022e EBITDA of ~\$1.4bn) or a ~33% discount to the broader peer group EV/2022e EBITDA multiple ex op leases (ODFL, SAIA, CHRW, JBHT). Tom uses an 11x multiple for RemainCo XPO, embedded in his PT as noted above.
- **Arb Spreads:** The market-cap weighted non-annualized spread finally began to narrow today (at the time of this writing) after widening steadily through the week – it was at 6.9% today vs. an approximate peak of 7.4% yesterday and the pre-WLTW-AON break level of 5.8% on Friday (average level of 4.9% for the year). XLNX-AMD, MXIM-ADI, KSU-CNI, AJRD-LMT, INFO-SPGI all narrowed today while COHR-IIVI and CHNG-UNH widened. There was also slight narrowing in simple average and median non-annualized spreads to 2.9% and 1.4%, respectively.
- **WLTW-AON:** We examined the WLTW-AON termination spread effect relative to historical terminations not involving competing bids and also not involving prior revisions in terms. We find that WLTW-AON termination spread effect was worse than approximately ~70%-80% of other terminations in terms of both spread widening and overshooting. We put out our detailed methodology and precedent stats – let us know if you missed it.
- **SPAC Market:** The hits have continued to erode sentiment in the SPAC space – this week's major event was the significant guidance cut at ATIP only ~1 month after closing their de-SPAC transaction. This was especially hard hitting given the brand-name SPAC sponsor (Fortress) and selling sponsor (Advent) involved. That stock is now down at the ~\$3.15 level. We also saw a deal cut in the pending close space, with Archer-ACIC transaction cutting the EV to ~\$1.7bn from ~\$2.7bn, with very little reaction to the cut from the public market. The IPO front was reasonably active with 9 deals priced to raise ~\$1.8bn. Only 2 of those deals are trading above deal price, with market participants pointing out the impact of day 1 selling from the anchor orders (who are receiving founder shares) as the root cause. We had 4 deals announced for \$8.1bn of TEV with none of them trading above cash in trust. In fact, there are only 3 deals announced in the month of July trading above cash in trust (Property Guru-BTNB, Circle-CND & Nextdoor-KVSB). The market continues to drift wider for searching SPACs, with an avg spread to cash in trust of ~2.7%.

CLIENT CONVERSATIONS

- 8/2/21: PFPT-Private Austria expiration, XPO spin (XPO / GXO) regular way trading begins
- 8/3/21: Ardagh Metal Packaging-GRSV shareholder meeting; WRI-KIM expected closing date; LB spin (BBWI / VSCO regular way trading begins); DISCA earnings, BHC earnings, SWI earnings
- 8/4/21: ODP earnings
- 8/5/21: Li-Cycle-PDAC & EBSB-INDB shareholder meetings; LDL-Private HSR expiration; BDX earnings, COMM earnings, VMEO earnings, IAC earnings

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QUANT INSIGHTS

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TOP 10 OVERWEIGHT/UNDERWEIGHT GLOBALLY

Overweight		Investor Weight	Active Weight	Wow Chg	Underweight		Investor Weight	Active Weight	Wow Chg
Visa Inc. Class A	V UN	0.96%	0.33%	↓	Apple Inc.	AAPL UW	2.91%	-0.83%	↓
Facebook, Inc. Class A	FB UW	1.61%	0.28%	↑	NVIDIA Corporation	NVDA UW	0.17%	-0.55%	↓
Microsoft Corporation	MSFT UW	3.37%	0.26%	↓	Alibaba Group Holding Ltd.	9988 HK	0.15%	-0.45%	↑
Alphabet Inc. Class A	GOOGL UW	1.45%	0.25%	↑	Taiwan Semiconductor Manufacturing Co	2330 TT	0.41%	-0.36%	↑
UnitedHealth Group Incorporated	UNH UN	0.82%	0.22%	↓	Nestle S.A.	NESN SE	0.29%	-0.25%	↑
PayPal Holdings Inc	PYPL UW	0.69%	0.18%	↑	Tencent Holdings Ltd.	700 HK	0.35%	-0.24%	↑
Mastercard Incorporated Class A	MA UN	0.70%	0.18%	↑	Tesla Inc	TSLA UW	0.51%	-0.23%	↑
Alphabet Inc. Class C	GOOG UW	1.39%	0.17%	↑	Toyota Motor Corp.	7203 JT	0.10%	-0.18%	↑
Comcast Corporation Class A	CMCSA UW	0.53%	0.13%	↑	Commonwealth Bank of Australia	CBA AT	0.03%	-0.16%	↑
Adobe Inc.	ADBE UW	0.58%	0.13%	↑	Roche Holding Ltd	ROG SE	0.24%	-0.15%	↑

Source : FactSet, MSCI, UBS Quantitative Research. Note: The calculation is based on MSCI AC World index universe. Data is as of 23 July 2021 close.

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

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SUMMARY

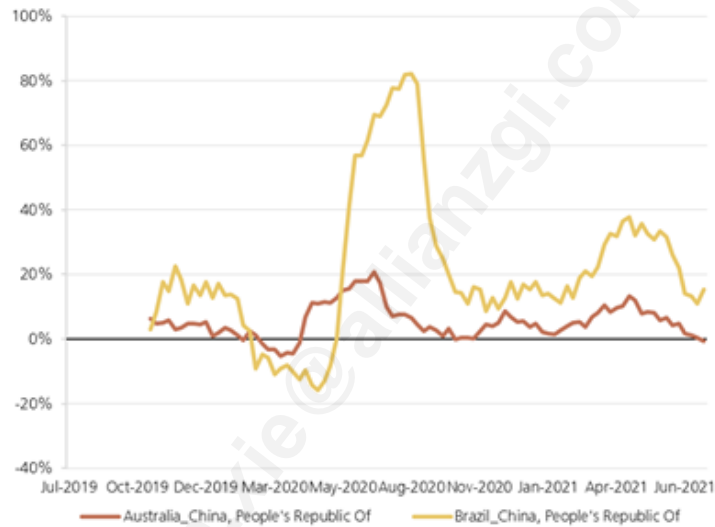
UBS Evidence Lab: Is China beginning to diversify its iron ore supply sources?

A ***NEW*** feature of our [Global Maritime Cargo Monitor](#) now shows the **delivery destinations of coal and iron ore shipments** from major exporters around the globe. For example, is China commodity imports driving iron ore price inflation? Using real-time AIS data, the data shows iron ore shipments from **Australia and Brazil to China are up 12% y/y**. As Brazil enters its traditionally strong export season, volumes have been increasing faster than similar activity from Australia's ports.

Interested in the data?

Our monitor uses **real-time AIS data on more than 22,000 large container, dry bulk and liquid tanker ships** to track the movement of ships which is essential for understanding global economic activity. With our latest update, now you can also track corridor, port and company-level activity of the coal and iron ore markets across major global ports.

Iron Ore Shipments from Australia/Brazil to China (Y/Y Change in MDWT*)



Source: UBS Evidence Lab, IHS Markit; data as of July 11, 2021

* Modified deadweight tonnage is a proprietary UBS Evidence Lab metric that more accurately estimates the weight of cargo onboard a ship by taking into account how low it sits in the water.

Newly Released Datasets

- [Global Video Game Monitor](#) - Track the largest and fastest growing franchises on Twitch, across 80+ game franchises and 30+ global publishers, including Epic Games, Tencent Holdings, Electronic Arts, Activision, Microsoft, among others.
- [US Foot Traffic Monitor - Theme Parks](#) - We use data from multiple apps, encompassing a panel of 13 million users in the US, that have given consent to allow persistent location tracking.
- [US Digital Advertising Spend Monitor](#) - Track the spend and impressions of over 600+ companies who advertise on Facebook, Instagram, Twitter, among others.
- [US New vehicle Fuel Efficiency Trends](#) - Dataset aggregates vehicle fuel economy for new car registrations by PADD, state, county, and zip code in the United States – this includes segmenting by fuel type (Gas, Diesel, Hybrid, FCEV, HEV).

MOST DOWNLOADED

1. [US Digital Advertising Spend Monitor](#)
2. [Global Employee Reviews Monitor \[Glassdoor\]](#)
3. [Global Merchandise Planning Monitor](#)
4. [Global App Monitor - TMT](#)
5. [Global Video Game Monitor](#)
6. [US E&P Rig Monitor](#)
7. [COVID-19 Activity Monitor](#)
8. [Global App Monitor – Financials](#)
9. [Global Covid-19 Foot Traffic Monitor](#)
10. [Global Brand Tracker \[Instagram\]](#)

UBS RETAIL MARKET MAKING

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SUMMARY

Retail continuing to be a net buyer in aggregate. Majority of inflows remain heavily concentrated in ETFs. Flows this week unsurprisingly focused around China ADR's and earnings. Monday BABA and JD were both in the top 3 most sold names. Other large dislocations like BEKE and EDU both saw record inflows. China ETF's were also broadly sold led by FXI and MCHI. As China was broadly for sale (especially internet) money was rotating into US internet – GOOG/GOOGL and FB the main beneficiaries. Tuesday China continued to see retail outflows with FAANG names seeing their largest inflows in 6 months. AMZN saw its 4th largest day of inflows since 2013 ahead of earnings later in the week. AAPL flows also turned to buy after having been for sale for the last month plus. As China saw some of a relief rally on Wednesday retail sold into the bounce. BABA finished as the 2nd most sold name on the day. Thursday AMZN was the most bought symbol for the 3rd day in a row before earnings. China flipped small to buy for the first time this week. HOOD was the 3rd most bought stock on the day, but inflows were light compared to other high profile IPO's like COIN, ABNB, RBLX. For the week - BABA ends as the most sold name followed by retail selling the rally in AMD. AMZN, QQQ's, FB, GOOGL, PYPL, MSFT, and UPS the most bought symbols.

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SUMMARY

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

- Gross leverage decreased 0.03x to 2.95x week over week
 - Long leverage down 0.05x to 1.94x while short leverage increased 0.02x to 1.01x
 - Leverage change was driven by increase in Short Exposure
- Major sector themes last week
 - Clients increased short exposure to Consumer Discretionary
- Net leverage down 0.07x to 0.92x since last week



CROWDED LONGS

Region	Common Name	#	#1W	%1W	%YTD
Americas	Amazon.com Inc	1	1	2.32%	12.27%
Americas	Microsoft Corp	2	3	3.18%	30.83%
Americas	Facebook Inc	3	2	8.39%	35.37%
Americas	Alphabet Inc A	4	4	4.76%	51.79%
Americas	Apple Inc	5	15	1.48%	12.32%
Americas	Mastercard Inc	6	5	1.59%	10.57%
APAC	Kweichow Moutai Co Ltd	7	6	-2.86%	-4.03%
APAC	BHP Group Ltd	8	7	-1.16%	24.05%
Americas	Netflix Inc	9	18	-2.81%	-4.68%
Americas	Visa Inc	10	10	0.36%	14.18%
Americas	Uber Technologies Inc	11	9	2.75%	-6.94%
Europe	AstraZeneca PLC	12	24	1.68%	18.05%
Americas	Alphabet Inc C	13	17	4.53%	57.33%
Americas	PayPal Holdings Inc	14	16	4.72%	31.74%
Americas	Salesforce.Com Inc	15	11	4.12%	11.56%

CROWDED SHORTS

Region	Common Name	#	#1W	%1W	%YTD
APAC	Afterpay Ltd	1	11	3.38%	-9.58%
Americas	Tesla Inc	2	1	-0.13%	-8.83%
Europe	Delivery Hero SE	3	4	6.20%	1.89%
Americas	Apple Inc	4	2	1.48%	12.32%
Europe	Rolls-Royce Holdings PLC	5	16	2.76%	-14.04%
APAC	Fortescue Metals Group Ltd	6	5	-2.06%	14.75%
Americas	Oracle Corp	7	18	0.23%	37.16%
Europe	Deutsche Lufthansa AG	8	12	1.24%	-8.93%
Americas	Salesforce.Com Inc	9	10	4.12%	11.56%
Americas	S&P Global Inc	10	14	0.98%	27.87%
APAC	Qantas Airways Ltd	11	21	-3.60%	-6.19%
Americas	NVIDIA Corp	12	8	7.69%	49.89%
Americas	International Business Machi	13	-	1.76%	15.06%
APAC	Woolworths Group Ltd	14	6	3.35%	15.40%
Americas	Exxon Mobil Corp	15	-	-0.49%	42.80%

CONFERENCE CALLS

COMING UP

	Date	Sector	Time (EDT)	Company/Topic	UBS Host	Link to RSVP	Dial-In	Replay	Replay Code
	30-Jul	TMT	8:00 AM	SWKS + KLAC EPS Recap Call	Tim Arcuri, Andrew Rocha	PLEASE REGISTER HERE		US: 1 888 286 8010 Int'l: +1 617 801 6888	228 225 71
NEW	30-Jul	TMT	8:30 AM	Twilio and Zendesk Earnings Recap Call	Taylor McGinnis, Andrew Rocha	PLEASE REGISTER HERE		US: 1 888 286 8010 Int'l: +1 617 801 6888	91915112
NEW	30-Jul	Industrials	12:00 PM	UBS Industrials / Materials Call - How Are Industrial 2Q Results Trending So Far & What's The Road-Through To Next Week	Kelsey Perselay, Myles Walton, Tom Wadewitz, Steve Fisher, Markus Mittermaier, Chris Snyder, John Roberts	PLEASE REGISTER HERE		US: 1 888 286 8010 Int'l: +1 617 801 6888	37388611
	30-Jul	Financials	1:00 PM	Weekly Update on Debates and Themes Across Financials and Fintech	Brennan Hawken, Alex Kramm, Brian Meredith, Brook Vandervliet	PLEASE REGISTER HERE			
	2-Aug	Consumer	12:00 PM	Back-to-School: The Early Read	Jay Sole	PLEASE REGISTER HERE		Click to Request Replay US: 1 888 286 8010 Int'l: +1 617 801 6888	
NEW	3-Aug	TMT	8:30 AM	ZoomInfo Earnings Recap Call	Taylor McGinnis, Andrew Rocha	PLEASE REGISTER HERE		US: 1 888 286 8010 Int'l: +1 617 801 6888	32993980
NEW	4-Aug	TMT	8:30 AM	RingCentral Earnings Recap Call	Taylor McGinnis, Andrew Rocha	PLEASE REGISTER HERE		US: 1 888 286 8010 Int'l: +1 617 801 6888	24074553
NEW	4-Aug	Industrials	11:00 AM	UBS Expert Call: Security Products & Access Control (Non-Res + Res)	Chris Snyder, Peter Grom	PLEASE REGISTER HERE		US: 1 888 286 8010 Int'l: +1 617 801 6888	97443213
NEW	19-Aug	TMT	8:30 AM	NVDA EPS Recap Call	Tim Arcuri, Andrew Rocha	https://bit.ly/375A9Qg		US: 1 888 286 8010 Int'l: +1 617 801 6888	84324535
NEW	20-Aug	TMT	8:30 AM	AMAT EPS Recap Call	Tim Arcuri, Andrew Rocha	https://bit.ly/3BN53VO		US: 1 888 286 8010 Int'l: +1 617 801 6888	28441153

REPLAYS

	Date	Sector	Time (EDT)	Company/Topic	UBS Host	Replay	Replay Code
NEW	29-Jul	TMT	8:00 AM	NOVW EPS Recap Call	Karl Keirstead, Andrew Rocha	US: 1 888 286 8010 Int'l: +1 617 801 6888	538 118 90
NEW	29-Jul	TMT	8:30 AM	QCOM, UNIC, TER EPS Recap Call	Tim Arcuri, Andrew Rocha	US: 1 888 286 8010 Int'l: +1 617 801 6888	636 198 57
NEW	28-Jul	TMT	8:00 AM	AMD EPS Recap Call	Tim Arcuri, Andrew Rocha	US: 1 888 286 8010 Int'l: +1 617 801 6888	937 970 49
NEW	28-Jul	TMT	8:30 AM	MSFT EPS Recap Call	Karl Keirstead, Andrew Rocha	US: 1 888 286 8010 Int'l: +1 617 801 6888	288 610 07
NEW	28-Jul	TMT	9:00 AM	Apple (AAPL) Earnings Recap Call	David Vogt, Andrew Rocha	US: 1 888 286 8010 Int'l: +1 617 801 6888	406 308 51
	27-Jul	Industrials	4:30 PM	UBS RTX, Q&E and UPS Earnings Feedback: What We're Thinking, What They're Saying	Kelsey Perselay, Myles Walton, Tom Wadewitz, Steve Fisher, Markus Mittermaier	US: 1 888 286 8010 Int'l: +1 617 801 6888	84704437
	27-Jul	Consumer	12:00 PM	Expert Call - Off-Price Retail: Latest Trends	Jay Sole	Click to Request Replay	
	27-Jul	Consumer	11:00 AM	UBS Call: Discussing Lawn & Garden with a Former VP of Home Improvement Merchandising at Walmart	Peter Grom, Michael Lasser	Click to Request Replay	
	27-Jul	TMT	8:30 AM	CDNS EPS Recap Call	Pradeep Raman, Andrew Rocha	US: 1 888 286 8010 Int'l: +1 617 801 6888	183 990 44
	23-Jul	Industrials	12:00 PM	UBS Industrials / Materials Sentiment Call: Spotlight on Earnings	Kelsey Perselay, Myles Walton, Tom Wadewitz, Steve Fisher, Markus Mittermaier, Chris Snyder, John Roberts	US: 1 888 286 8010 Int'l: +1 617 801 6888	71291863
	22-Jul	Consumer	12:00 PM	How a Former Retail CFO is Modeling FY22	Michael Lasser, Jay Sole, Michael Goldsmith	Click to Request Replay	
	22-Jul	Consumer	2:30 PM	UBS Consumer Sentiment / Positioning Call	Nick Smith, Dennis Geiger, Jay Sole, Michael Lasser, Peter Grom, Arpine Kocharyan	US: 1 888 286 8010 Int'l: +1 617 801 6888	50541105
	21-Jul	Healthcare	4:00 PM	UBS Expert Event: DME Expert Call Focused on Sleep Devices	Matt Taylor, Kevin Caliendo	US: 1 888 286 8010 Int'l: +1 617 801 6888	22357683
	20-Jul	Consumer	10:00 AM	Expert Event: UBS Cruise Seller Update Call	Robin Farley	Click to Request Replay	
	20-Jul	Healthcare	10:00 AM	UBS Expert Event: Urologist Call Focused on MIS BPH Treatments and COVID Recovery	Matt Taylor	US: 1 888 286 8010 Int'l: +1 617 801 6888	32870813
	20-Jul	Consumer	12:00 PM	Expert Call: Europe Athletic Wear Trends	Jay Sole	Click to Request Replay	
	20-Jul	Healthcare	8:00 PM	UBS Expert Event: MedTech Litigation Risks Expert Call Focused on Sleep Devices	Matt Taylor, Kevin Caliendo	US: 1 888 286 8010 Int'l: +1 617 801 6888	57855178
	16-Jul	Healthcare	10:00 AM	UBS Expert Event: DME Expert Call Focused on Sleep Devices	Matt Taylor, Kevin Caliendo	US: 1 888 286 8010 Int'l: +1 617 801 6888	57117066
	16-Jul	TMT	10:30 AM	2Q Cloud Preview on AWS, Azure and GCP	Karl Keirstead, Andrew Rocha	US: 1 888 286 8010 Int'l: +1 617 801 6888	307 700 18
	16-Jul	Industrials	12:00 PM	UBS Industrials / Materials Sentiment Call: Spotlight on Earnings	Kelsey Perselay, Myles Walton, Tom Wadewitz, Steve Fisher, Markus Mittermaier, Chris Snyder, John Roberts	US: 1 888 286 8010 Int'l: +1 617 801 6888	31546254
	15-Jul	Consumer	10:00 AM	L Brands: Perspectives from Equity Trading and Special Situations Heading into the Split	Jay Sole, Mark Pasti, Randy Udell	Click to Request Replay	
	15-Jul	Energy	10:30 AM	UBS Midstream: 2Q/21 Preview Call	Shneur Gershuni	US: 1 888 286 8010	68129924
	15-Jul	Industrials	2:00 PM	Trends in Brokerage & Truckload With Two Private Companies	Tom Wadewitz	Click to Request Replay	

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