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May 6th, 2016

May to be more about improving credit markets than economy

2.5-std rally in HY is followed by double-digit equity gains 100% of time

May is off to a bumpy start—the S&P 500 is down 80bp for the month (down 3 of 4 days), as soft data in recent weeks (China disappointment, stronger USD, weak 1Q16 GDP) has weighed on stocks. On the other hand conditions in fixed income/credit markets are nearly universally positive (relative value, flows, fundamentals, new issuance, etc). So the question is which is more important. In our view, there are significant tailwinds building in credit markets, which in turn are positive for equities. But more importantly, the dramatic recovery in HY is one of the strongest in more than 35 years for that market and as we discuss in this report, has always presaged (yes, 100% of the time) a subsequent surge in equity markets.

- **The story is credit remains the global "search for carry" (slide 3).** As we discussed in a few recent reports, the compression of yields globally, from accommodative central banks is driving investors to US fixed income and credit assets. After all, US 30-yr yields at 2.7% are the same as Spain's and Portugal's 30-year bonds, even as US fundamentals are substantially better. The US 10-yr offers a 1.8% yield compared to negative in Japan and a mere 15bp in Germany. We believe this is a long-term tailwind given the substantially more attractive yields on risky assets in the US. Overall, market conditions are favorable to credit assets (bonds, etc) driven by four factors: (i) high US carry relative to rest of world; (ii) recovery in commodity prices, alleviating default pressures; (iii) reduced supply of bonds globally (less M&A and was 25% of issuance in 2015) and (iv) positioning (investors were OW defensive assets).
- **High-yield (slide 6) has rallied 13% since mid-Feb, a 2.5 std rally while stocks gained but less—there are 184 prior instances of this (50D) since 1984—there was remarkably strong equity performance in next 6 and 12-months, with stocks gaining 11%/15%, respectively (96%/100% win-ratio).** In essence, it is a very strong positive signal for risky assets when HY manages to post double-digit gains in 50 days. And because this move was vastly stronger in HY, there is a natural catch-up move in equities. Those 184 instances fall into 5 periods and if we only looked at the "first instance" of these 5 episodes, it remained a very strong signal for stocks.
- **But no clear signal from Economic data, growth improving and is mixed but supporting growth scare more than "warning shots of recession"—not supportive of a Fed move in mid-year (slide 7).** With global growth disappointing in the past few quarters, it is natural for investors to be wary of the potential "slip into recession." However, we remain encouraged that US and global PMIs have recovered. And in general, the tailwinds are building given the weakening of USD (and broke to the downside), rising oil prices and easing credit conditions. Hence, we believe markets will further gain assurance that "tail risks" have been reduced.
- **What could go wrong? The biggest concern, we believe, is investors are increasingly weary of monetary policy without fiscal stimulus.** It is obvious that investors just remain concerned about overall economic growth prospects—something clearly heard at the Ira Sohn conference this week and among the meetings with our clients. Quarterly earnings have been overall fairly solid and as we noted recently, earnings revisions have been positive. Hence, we believe risk/reward is still attractive here.

BOTTOM LINE: We see catalysts in May but the bigger story, in our view, is this vast improvement in credit—stick with "stocks are the new bonds" strategy. We believe stocks will manage to post new highs in May. While the start of the month has certainly been bumpy, positive tailwinds are in place—as we noted, USD flattening, rising oil, easing credit conditions and of course, bearish positioning of clients. To capitalize on this strategy, we continue to recommend two approaches: (i) stocks are the new bonds (yield parity, or div yield>bond yield), to leverage the global search for carry and (ii) Value (or Growth as cheap as value) to leverage falling USD and easing credit. Value benefits from both:

The tickers for "stocks are the new bonds" are: **CSCO, IBM, QCOM, TXN, INTC, XLNX, ADP, TGT, EMR, CAT, BA, GE, UPS, MMM, CMI, PX, HSBC, CME, BBT, USB, BLK, WFC, JPM, AMP, PRU, CVX, XOM, OXY, NOV, PFE, ABBV, MRK, JNJ, LLY, PM, HSY, KO, PG, MO, PEP, KMB, CL, SO, PPL, DUK, WEC, ES, XEL, D,** and **ED.**

The tickers for Value (Growth as cheap as Value) are: **F, DHR, ITW, IBM, TXN, ORCL, APD, PPG, XOM, APA, DVN, TROW, JPM, GS, MS, CFG, JNJ, PFE,** and **VZ.**

FLASH

U.S. Portfolio Strategy
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Performance	4Q15	1Q16	2Q16	YTD
S&P 500	**6.5%**	**0.8%**	**-0.4%**	**0.3%**
Cycl (Mat,IT,Disc,Ind)	6.1%	0.8%	-2.6%	-1.9%
Near Cycl (Ener,Fin)	3.6%	-2.5%	2.9%	0.3%
Def (Stpl,HC,Tel,Util)	7.1%	1.3%	0.5%	1.8%
Value	**5.3%**	**1.5%**	**0.7%**	**2.2%**
Growth	**7.4%**	**0.1%**	**-1.5%**	**-1.4%**

Valuation	2016E	2017E	Target
S&P 500 price	2051	→	2325
Fundstrat EPS Est	$127	$142	—
P/E (Y+1)	16.1x	14.4x →	16.4x
Div Yield	2.2%	2.4%	—

Sector Ratings

Cyclicals		Near Cyclicals		Defensives	
Technology	**OW**	**Financials**	**OW**	Telecom	OW
Industrials	**OW**	Energy	OW	Healthcare	N
Materials	OW			*Staples*	*UW*
Discretionary	N			*Utilities*	*UW*

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STRATEGY: Stick with "Value" and "Stocks are the new bonds"

We have highlighted two strategies below:

- **Strategy #1: "Stocks are the new bonds"**… the criteria is (i) div yield > co's own long-term bond yield, (ii) mkt cap is above $10B, and (iii) S&P credit rating is A- or better. See slide 11 and slide 12 for more details.
- **Strategy #2: "Growth as cheap as Value"**… stock is in both S&P 500 Growth & Value indices, and meets at least one of the following: (i) top quartile of Int'l sales, (ii) under-earning Energy stock, (iii) P/E below 20x. See slide 13 and slide 14 for more details.

Figure: 50 Stock ideas: cos with dividend yield higher than their own bond yield

50 "Stocks are the new bonds"

	Name	Ticker	YTD relative perf	Div yield less bond yield	S&P credit rating	New on 4/8/15
Technology	Cisco Systems Inc	CSCO	-4%	193 bp	AA-	
	Intl Business Machi	IBM	6%	130 bp	AA-	
	Qualcomm Inc	QCOM	2%	110 bp	A+	x
	Texas Instruments I	TXN	3%	100 bp	A+	x
	Intel Corporation	INTC	-14%	86 bp	A+	x
	Xilinx, Inc.	XLNX	-9%	68 bp	A-	x
	Automatic Data Pro	ADP	2%	25 bp	AA	x
Discretionary	Target Corp	TGT	7%	32 bp	A	
Industrials	Emerson Electric C	EMR	10%	95 bp	A	
	Caterpillar Inc	CAT	7%	96 bp	A	
	Boeing Company	BA	-9%	57 bp	A	x
	General Electric Co	GE	-4%	68 bp	AA+	
	United Parcel Servi	UPS	6%	67 bp	A+	
	3M Company	MMM	11%	51 bp	AA-	x
	Cummins Inc	CMI	29%	-25 bp	A+	
Materials	Praxair Inc	PX	10%	85 bp	A	x
Financials	Hsbc Holdings Plc-	HSBC	-20%	633 bp	A	
	Cme Group Inc	CME	2%	334 bp	AA-	x
	Bb&T Corp	BBT	-10%	132 bp	A-	x
	U.S. Bancorp	USB	-3%	46 bp	A+	x
	BlackRock, Inc.	BLK	3%	44 bp	AA-	x
	Wells Fargo & Com	WFC	-10%	32 bp	A	x
	JPMorgan Chase &	JPM	-8%	28 bp	A-	x
	Ameriprise Financia	AMP	-13%	32 bp	A	x
	Prudential Financial	PRU	-7%	22 bp	A	x
Energy	Chevron Corp	CVX	12%	231 bp	AA-	
	Exxon Mobil Corp	XOM	13%	139 bp	AAA	
	Occidental Petroleu	OXY	12%	114 bp	A	
	National Oilwell Va	NOV	-1%	-33 bp	A-	

	Name	Ticker	YTD relative perf	Div yield less bond yield	S&P credit rating	New on 4/8/15
Healthcare	Pfizer Inc	PFE	4%	117 bp	AA	
	Abbvie Inc	ABBV	5%	88 bp	A	x
	Merck & Co. Inc.	MRK	2%	81 bp	AA	
	Johnson & Johnson	JNJ	10%	30 bp	AAA	
	Eli Lilly and Compa	LLY	-11%	10 bp	AA-	x
Staples	Philip Morris Interna	PM	12%	169 bp	A	
	Hershey Co/The	HSY	3%	38 bp	A	x
	Coca-Cola Co/The	KO	5%	137 bp	AA-	
	Procter & Gamble C	PG	2%	96 bp	AA-	
	Altria Group, Inc.	MO	8%	66 bp	A-	x
	PepsiCo, Inc.	PEP	4%	57 bp	A	x
	Kimberly-Clark Cor	KMB	-0%	163 bp	A	x
	Colgate-Palmolive C	CL	7%	13 bp	AA-	x
Utilities	Southern Co/The	SO	8%	224 bp	A-	
	Ppl Corp	PPL	12%	174 bp	A-	
	Duke Energy Corp	DUK	12%	139 bp	A-	
	Wec Energy Group	WEC	17%	70 bp	A-	
	Eversource Energy	ES	12%	45 bp	A	
	Xcel Energy Inc	XEL	13%	41 bp	A-	
	Dominion Resources	D	6%	37 bp	AAA-	
	Consolidated Edisor	ED	17%	19 bp	A-	
	Median		4%	69 bp		
	Average		3%	96 bp		
	% of stocks positive		70%			

Source: Fundstrat, Bloomberg, FactSet.

Source: Fundstrat, Bloomberg, FactSet.

Figure: 19 Growth as cheap as Value ideas

19 Growth stocks that are as cheap as Value

Name	Ticker	2016E sales growth	2016E EPS growth	P/E ('16E)	P/B relative to S&P 500	ROE
Ford Motor Co	F	3.0%	7.7%	6.5x	65%	33%
Danaher Corp	DHR	11.3%	14.0%	19.3x	98%	15%
Illinois Tool Works	ITW	0.4%	7.7%	18.1x	258%	37%
Intl Business Machines (	IBM	-3.0%	-9.3%	10.8x	340%	95%
Texas Instruments Inc	TXN	-1.1%	2.8%	17.7x	210%	29%
Oracle Corp	ORCL	0.0%	4.6%	14.2x	128%	19%
Air Products & Chemica	APD	0.6%	11.0%	18.7x	162%	8%
Ppg Industries Inc	PPG	2.1%	10.7%	16.6x	202%	28%
Exxon Mobil Corp	XOM	-18.9%	-33.5%	27.7x	77%	8%
Apache Corp	APA	-21.6%	-516.8%	n/m	372%	-163%
Devon Energy Corp	DVN	-21.9%	-148.7%	n/m	92%	-114%
T Rowe Price Group Inc	TROW	0.1%	0.0%	15.9x	141%	24%
Jpmorgan Chase & Co	JPM	-0.7%	-11.8%	10.3x	36%	10%
Goldman Sachs Group I	GS	-12.9%	-19.9%	9.6x	32%	7%
Morgan Stanley	MS	-5.2%	-11.9%	9.8x	27%	7%
Citizens Financial Group	CFG	6.0%	12.1%	11.9x	21%	4%
Johnson & Johnson	JNJ	2.5%	6.5%	17.0x	158%	22%
Pfizer Inc	PFE	6.5%	9.0%	14.0x	116%	11%
Verizon Communications	VZ	-2.0%	-0.8%	12.9x	401%	128%
Median		0.0%	2.8%	14.2x	128%	15%
Average		-2.9%	-35.1%	14.8x	154%	11%
% of stocks positive		53%	58%			89%

Source: Fundstrat, Bloomberg, FactSet.

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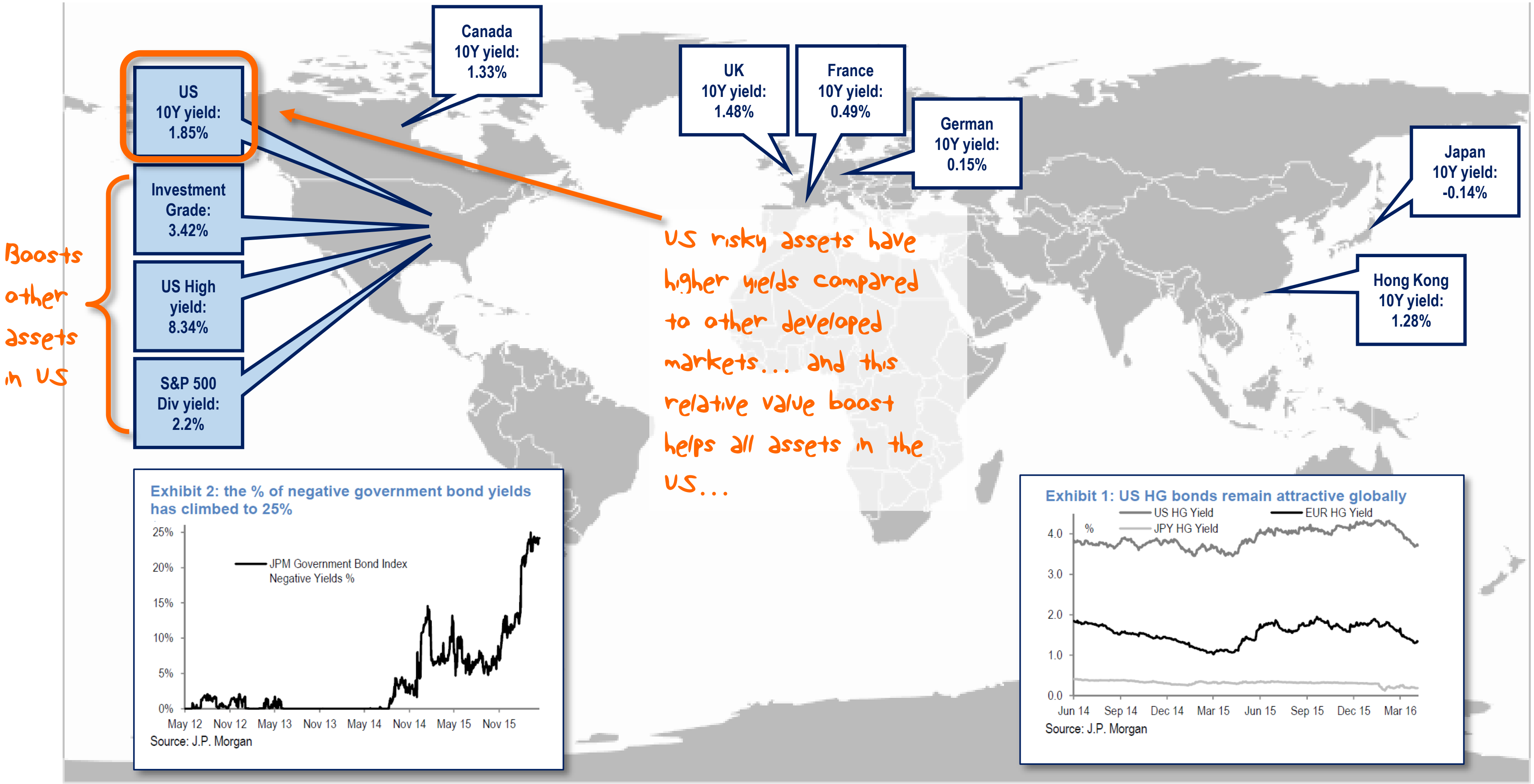
#1: The global search for "carry" (or yield)…

As we discussed a few weeks (see "…New Highs" dated 4/22/16), the global compression of rates (due to Central banks) has created very attractive yields in the US, both US Treasuries and credit and even equity assets.

- **In fact, as shown below, US assets offer very high yields while arguably better quality economic fundamentals.**

Figure: Global Bond Yields
Is it any wonder why US is attractive?



Source: Fundstrat, Bloomberg.

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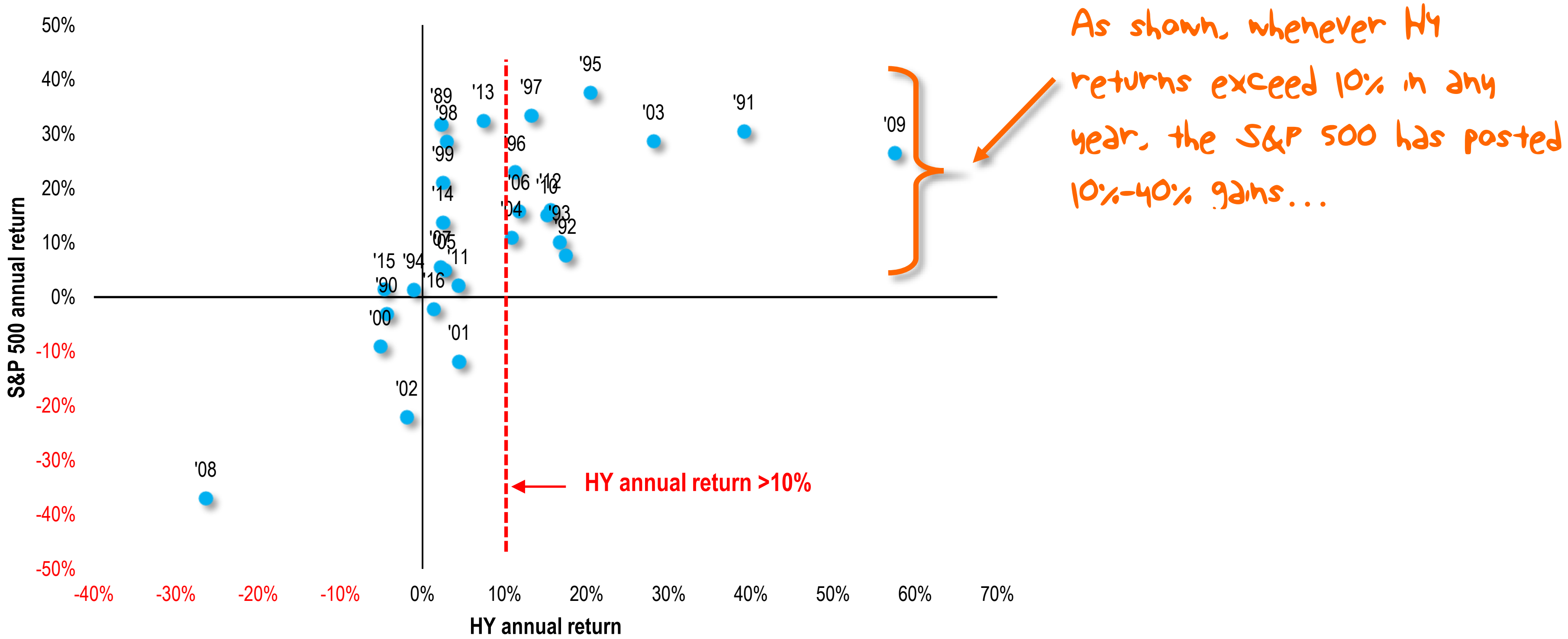
#2: HIGH-YIELD: Strategists looking for 10+% returns in 2016, bullish for stocks

Overall, market conditions are favorable to credit assets (bonds, etc) driven by four factors: (i) high US carry relative to rest of world; (ii) recovery in commodity prices, alleviating default pressures; (iii) reduced supply of bonds globally (less M&A and was 25% of issuance in 2015) and (iv) positioning (investors were OW defensive assets).

- **Credit strategists are raising their targets for High-yield, as the positives mentioned above are driving improvements in spreads. For reference, US HY OAS (options-adjusted) spreads are about 680bp (STW) and that figure is well below prior Street consensus YE16 HY spread targets of 800-850bp.**
- **If HY spreads stay flat into YE, total return in HY will be 12%-13%, which as shown below, argues for double-digit gains in equities. *WE BELIEVE THIS MAY THE SINGLE MOST IMPORTANT DRIVER OF EQUITIES INTO YE.***

Figure: S&P 500 has always posted double-digit gains when high-yield returns >10%
Since 1984



Source: Fundstrat, Bloomberg.

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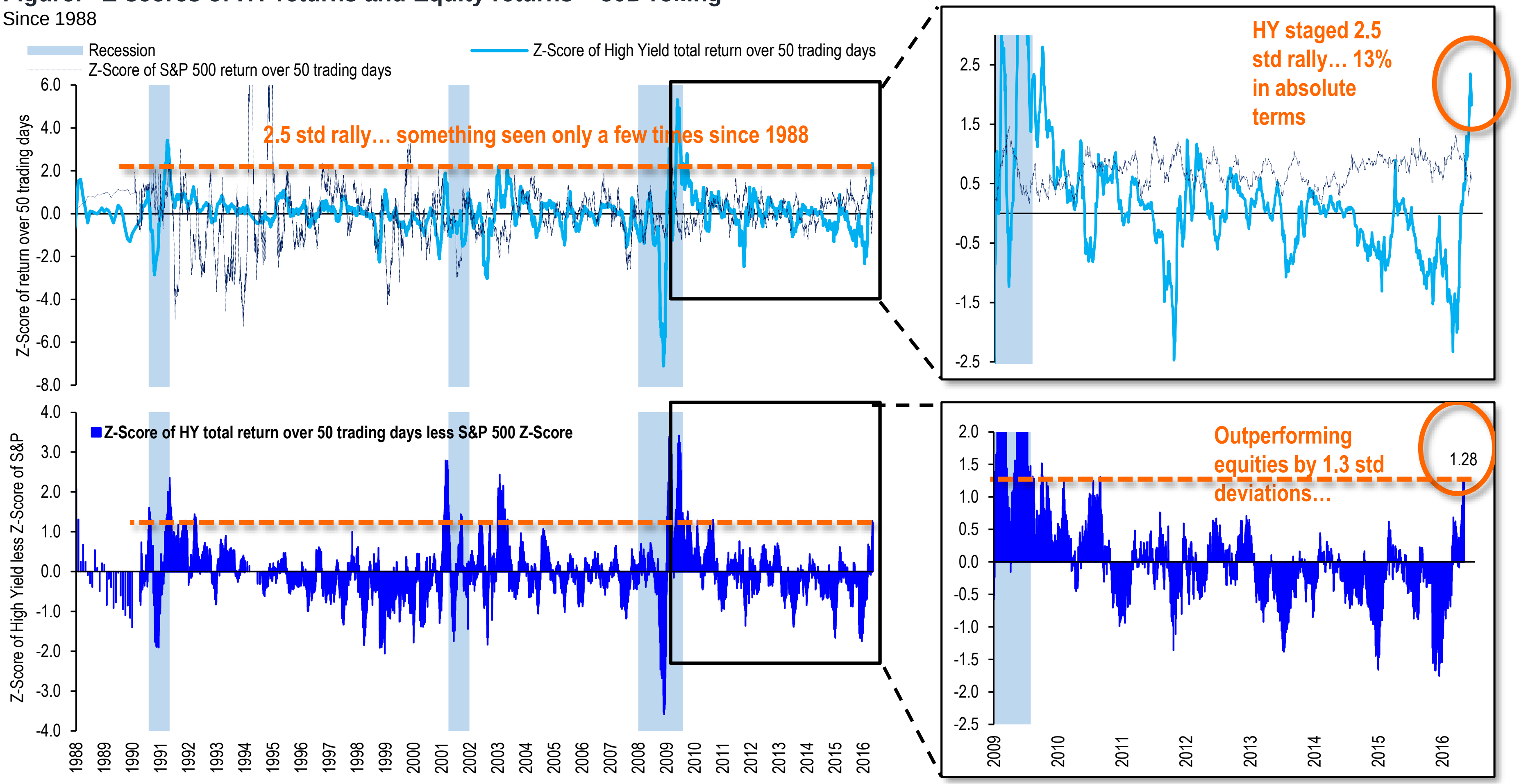
#3: HIGH-YIELD: Outperformed equities by > 1-std dev since mid-Feb…

We have calculated the z-score of the trailing 50-day performance of HY and equities since 1988. As shown below, HY delivered a 2.5 std deviation gain, 13% in absolute terms.

- **This rally is 1-std greater than the rally seen in equities (lower chart) and as shown, this has not been seen since 2011. Generally, equity and credit are directionally related.**

Figure: Z-scores of HY returns and Equity returns – 50D rolling
Since 1988



Source: Fundstrat, Bloomberg, St. Louis Federal Reserve.

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#3b: HIGH-YIELD: Stocks ***ALWAYS*** catch-up with 100% win-rate

The relative outperformance of HY (prior slide) is extremely bullish for equities. As shown below, there are a total of 585 instances (overlapping) where HY outperformed equities by 1-std, in a 50-day period. Of these, equities gained solidly in the following 3-/6- and 12-month period with very high win-ratios. More importantly, we should focus on those instances where HY and stocks rallied (184 instances) in 50-days and look at subsequent performance. The returns are even stronger.

- As to why this is the case, we see HY rally as creating positive conditions for stocks. Any gap creates the "catch-up" opportunity.
- **Stocks are up 100% of the time 12-months out with an average gain of 15% and even 6-months out, stocks were up 96% of the time with 11% average gains.**
- **Moreover, if we looked at "unique" instances (without overlap), stocks were up 100% of the time and average gain of 15%. The lowest return was 1990 when stocks only gained 8% in the next 12 months.**

Figure: Comparative performance of equities following a 1-std outperformance of HY (50D rolling)
Since 1988

	# instances		50 trading day return: High Yield	50 trading day return: S&P 500	S&P 500 forward returns: +3m	+6m	+12m
All instances	454	Average	8.7%	-0.1%	6.3%	10.3%	15.9%
		Median	7.5%	-1.5%	5.8%	10.0%	13.6%
		Win ratio	96%	41%	79%	83%	86%
HY outperforms S&P 500 by 1-sigma AND S&P 500 positive those 50 days	184	Average	13.9%	10.0%	5.9%	11.3%	15.0%
		Median	12.6%	9.1%	5.1%	10.1%	12.6%
Including non-unique instances		Win ratio	100%	100%	79%	96%	100%
HY outperforms S&P 500 by 1-sigma AND S&P 500 positive those 50 days	5	Average	9.1%	4.5%	-0.6%	5.7%	14.9%
		Median	9.5%	4.5%	1.6%	8.2%	13.4%
Unique instances only		Win ratio	100%	100%	50%	75%	100%

100% win-ratio...

		50 trading day return: High Yield	50 trading day return: S&P 500	S&P 500 forward returns: +3m	+6m	+12m
	10/31/1984	8.4%	1.4%	8.2%	8.3%	14.3%
	7/27/1990	6.2%	0.4%	-13.8%	-4.9%	7.8%
	2/28/1991	11.4%	11.2%	4.1%	8.1%	12.4%
	12/27/2002	9.5%	4.8%	-0.8%	11.5%	25.2%
	Average	9.1%	4.5%	-0.6%	5.7%	14.9%
	Median	9.5%	4.5%	1.6%	8.2%	13.4%
	Win ratio	100%	100%	50%	75%	100%
Current	4/27/2016	12.7%	13.1%	—	—	—

Source: Fundstrat, Bloomberg.

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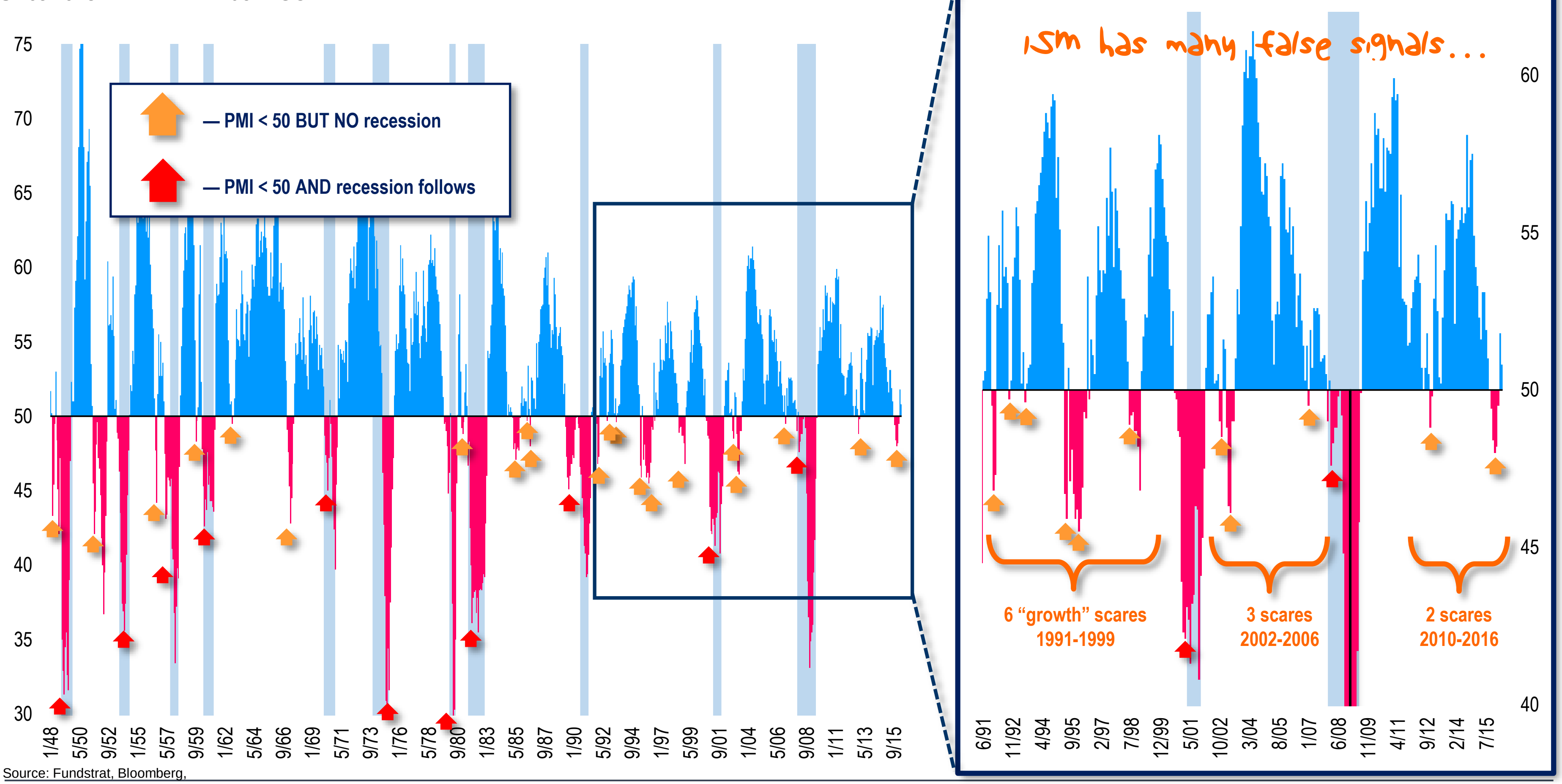
#4: PMIs have predicted 22 of the last 11 recessions…

US Manufacturing PMIs have improved in each of the last two months (see bottom right), alleviating concerns the US is slipping into a recession. The PMIs matter, as the diffusion index measure general activity. However, investors place too much signal in its dip below 50.

- **Since 1948, the PMI has fallen below 50 22 times, predicting 11 of the recessions since 1948—a 50% success rate. In fact, since 1990, the PMI has dipped below 50, 13 times, predicting 3 recessions.**
- **US GDP growth certainly slowed last year, but such a pause has been characteristic of expansions since 1990 (shown below) and therefore a slow-down is not a recession.**

Figure: US Manufacturing PMI has fallen below 50 in 22 separate episodes, predicting 11 recessions.

Since 1948 – NAPMPMI Index <GO>



Source: Fundstrat, Bloomberg,

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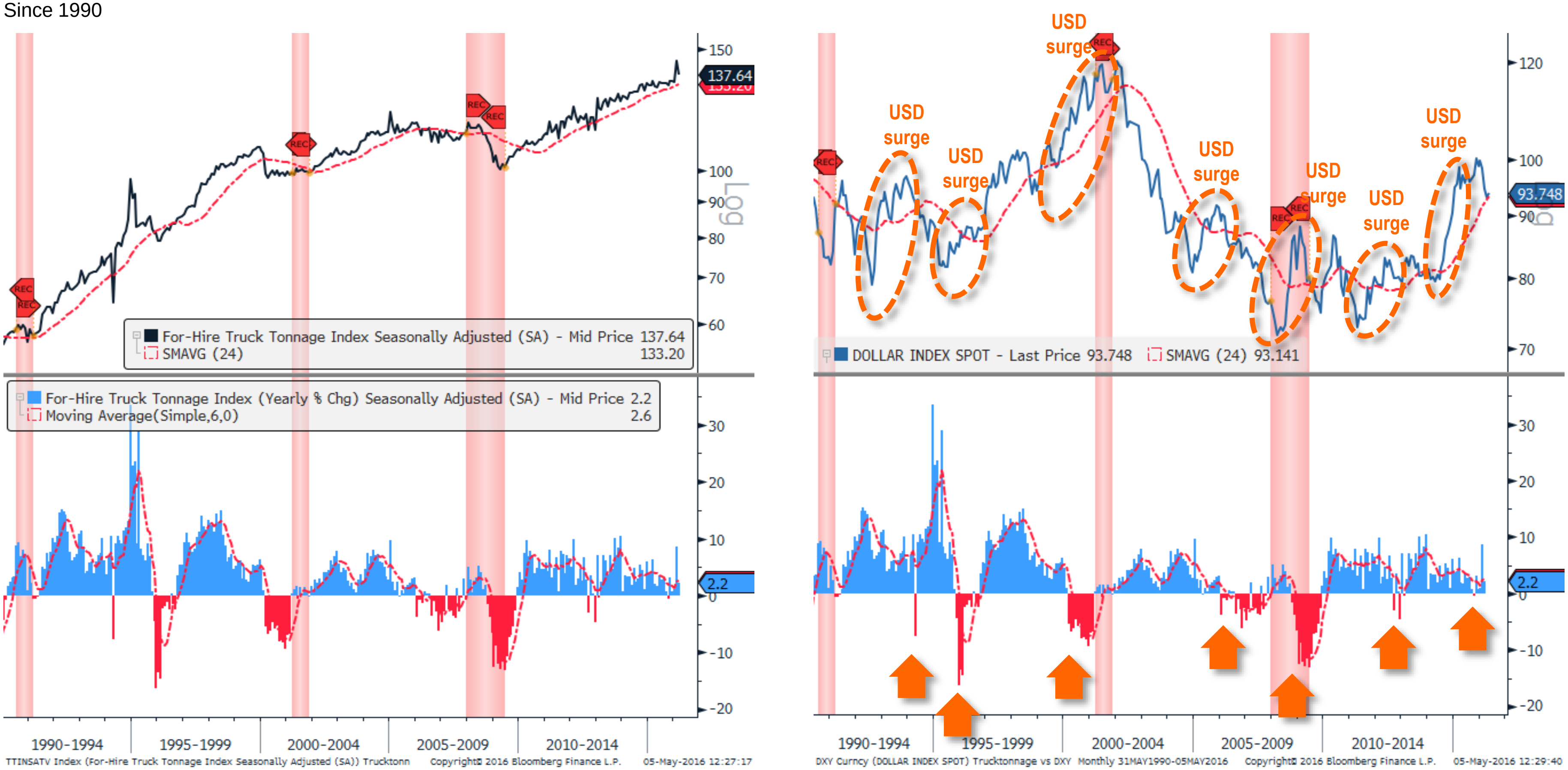
#4b: Truck tonnage modestly improving, suggesting drags diminishing…

Trucking carries 69% of all freight carried in the US (by weight) and is therefore a pretty good barometer of overall economic activity. The latest ATA Truck Tonnage index is shown below and as shown, the index has recovered (down from Feb) and is up YoY.

- The weakness in tonnage since 2014 reflects the "factory recession" and "fracking declines"—both declines weighed on freight volumes. And while causality is not perfect, the surge in USD in past 18 months is a factor.
- **As shown below right, each surge in USD has weighed on tonnage growth. With USD flat/rolling over, we see this as a tailwind.**

Figure: ATA Truck tonnage and USD Levels: Gradual improvements…
Since 1990



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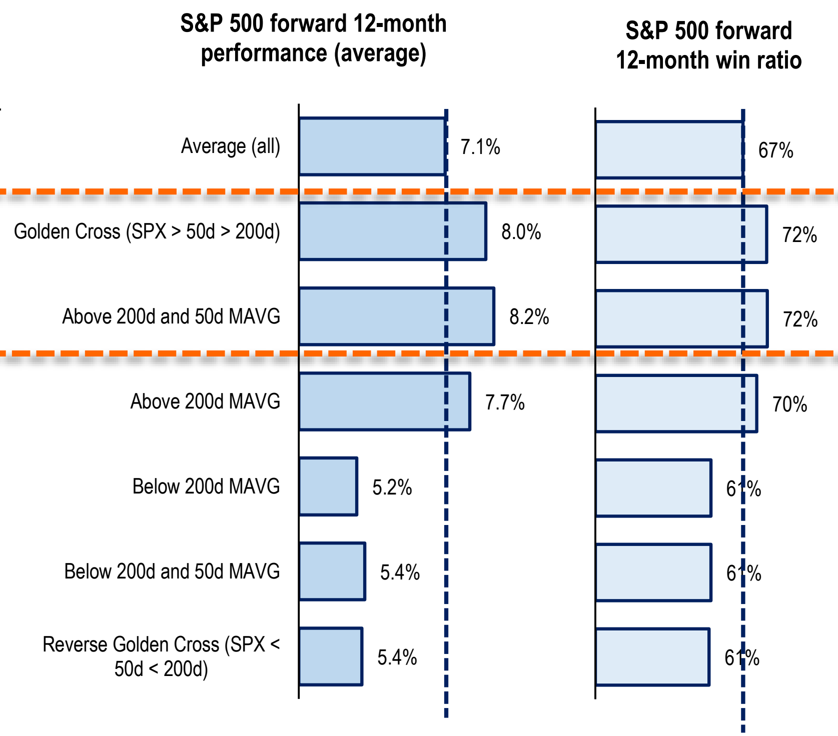
#5: S&P 500 sees best returns when above both 200d and 50d MAVG…

The S&P 500 is current above both its 50-day and 200-day moving average (2043/2013, respectively). On 4/25/16, the S&P 500 50-day moved above its 200-day moving average, something technicians call a "golden cross." In general, this technical condition is positive for equities. We have shown the subsequent performance of markets below:

- **Since 1928, equity markets generally perform better when the S&P 500 is above its 200-day moving average (MAVG) but returns are even better when above both its 50-day and 200-day MAVG.**
- **Returns average 8% annually (vs 7% for all periods) and win ratio is 500bp higher at 72%. Bottom line, with equities seeing a "Golden Cross," the risk/reward is attractive.**

Figure: S&P 500 performance is best when it is above both the 50d and 200d MAVG
Since 1928. Forward performance based on S&P relative to its 200d & 50d moving averages

S&P 500	% of instances	S&P 500 forward returns (average) 3m	6m	12m	S&P 500 forward win ratio 3m	6m	12m
All	100%	1.7%	3.5%	7.1%	62%	66%	67%
Golden Cross SPX > 50d > 200d	45%	2.1%	4.4%	8.0%	67%	73%	72%
Above 200d and 50d MAVG	51%	2.1%	4.4%	8.2%	67%	72%	72%
Above 200d MAVG	66%	2.1%	4.3%	7.7%	67%	71%	70%
Below 200d MAVG	34%	0.7%	1.5%	5.2%	53%	54%	61%
Below 200d and 50d MAVG	24%	1.3%	1.6%	5.4%	54%	53%	61%
Reverse Golden Cross SPX < 50d < 200d	19%	1.0%	0.8%	5.4%	53%	52%	61%



As shown, this is historically one of the best times to be LONG equity assets…

Source: Fundstrat, Bloomberg.

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Industrials	Emerson Electric C	EMR	10%	**95 bp**	A	
	Caterpillar Inc	CAT	7%	**96 bp**	A	
	Boeing Company	BA	-9%	**57 bp**	A	x
	General Electric Co	GE	-4%	**68 bp**	AA+	
	United Parcel Servi	UPS	6%	**67 bp**	A+	
	3M Company	MMM	11%	**51 bp**	AA-	x
	Cummins Inc	CMI	29%	**-25 bp**	A+	
Materials	Praxair Inc	PX	10%	**85 bp**	A	x
Financials	Hsbc Holdings Plc-	HSBC	-20%	**633 bp**	A	
	Cme Group Inc	CME	2%	**334 bp**	AA-	x
	Bb&T Corp	BBT	-10%	**132 bp**	A-	x
	U.S. Bancorp	USB	-3%	**46 bp**	A+	x
	BlackRock, Inc.	BLK	3%	**44 bp**	AA-	x
	Wells Fargo & Corr	WFC	-10%	**32 bp**	A	x
	JPMorgan Chase &	JPM	-8%	**28 bp**	A-	x
	Ameriprise Financia	AMP	-13%	**32 bp**	A	x
	Prudential Financial	PRU	-7%	**22 bp**	A	x
Energy	Chevron Corp	CVX	12%	**231 bp**	AA-	
	Exxon Mobil Corp	XOM	13%	**139 bp**	AAA	
	Occidental Petroleu	OXY	12%	**114 bp**	A	
	National Oilwell Va	NOV	-1%	**-33 bp**	A-	

	Name	Ticker	YTD relative perf	Div yield less bond yield	S&P credit rating	New on 4/8/15
Healthcare	Pfizer Inc	PFE	4%	**117 bp**	AA	
	Abbvie Inc	ABBV	5%	**88 bp**	A	x
	Merck & Co. Inc.	MRK	2%	**81 bp**	AA	
	Johnson & Johnson	JNJ	10%	**30 bp**	AAA	
	Eli Lilly and Compa	LLY	-11%	**10 bp**	AA-	x
Staples	Philip Morris Interna	PM	12%	**169 bp**	A	
	Hershey Co/The	HSY	3%	**38 bp**	A	x
	Coca-Cola Co/The	KO	5%	**137 bp**	AA-	
	Procter & Gamble C	PG	2%	**96 bp**	AA-	
	Altria Group, Inc.	MO	8%	**66 bp**	A-	x
	PepsiCo, Inc.	PEP	4%	**57 bp**	A	x
	Kimberly-Clark Cor	KMB	-0%	**163 bp**	A	x
	Colgate-Palmolive C	CL	7%	**13 bp**	AA-	x
Utilities	Southern Co/The	SO	8%	**224 bp**	A-	
	Ppl Corp	PPL	12%	**174 bp**	A-	
	Duke Energy Corp	DUK	12%	**139 bp**	A-	
	Wec Energy Group	WEC	17%	**70 bp**	A-	
	Eversource Energy	ES	12%	**45 bp**	A	
	Xcel Energy Inc	XEL	13%	**41 bp**	A-	
	Dominion Resources	D	6%	**37 bp**	AAA-	
	Consolidated Edisor	ED	17%	**19 bp**	A-	
	Median		4%	**69 bp**		
	Average		3%	**96 bp**		
	% of stocks positive		70%			

Source: Fundstrat, Bloomberg, FactSet.

Figure: 19 Growth as cheap as Value ideas

19 Growth stocks that are as cheap as Value

Name	Ticker	2016E sales growth	2016E EPS growth	P/E ('16E)	P/B relative to S&P 500	ROE
Ford Motor Co	F	3.0%	7.7%	6.5x	65%	33%
Danaher Corp	DHR	11.3%	14.0%	19.3x	98%	15%
Illinois Tool Works	ITW	0.4%	7.7%	18.1x	258%	37%
Intl Business Machines (	IBM	-3.0%	-9.3%	10.8x	340%	95%
Texas Instruments Inc	TXN	-1.1%	2.8%	17.7x	210%	29%
Oracle Corp	ORCL	0.0%	4.6%	14.2x	128%	19%
Air Products & Chemica	APD	0.6%	11.0%	18.7x	162%	8%
Ppg Industries Inc	PPG	2.1%	10.7%	16.6x	202%	28%
Exxon Mobil Corp	XOM	-18.9%	-33.5%	27.7x	77%	8%
Apache Corp	APA	-21.6%	-516.8%	n/m	372%	-163%
Devon Energy Corp	DVN	-21.9%	-148.7%	n/m	92%	-114%
T Rowe Price Group Inc	TROW	0.1%	0.0%	15.9x	141%	24%
Jpmorgan Chase & Co	JPM	-0.7%	-11.8%	10.3x	36%	10%
Goldman Sachs Group I	GS	-12.9%	-19.9%	9.6x	32%	7%
Morgan Stanley	MS	-5.2%	-11.9%	9.8x	27%	7%
Citizens Financial Group	CFG	6.0%	12.1%	11.9x	21%	4%
Johnson & Johnson	JNJ	2.5%	6.5%	17.0x	158%	22%
Pfizer Inc	PFE	6.5%	9.0%	14.0x	116%	11%
Verizon Communications	VZ	-2.0%	-0.8%	12.9x	401%	128%
Median		0.0%	2.8%	14.2x	128%	15%
Average		-2.9%	-35.1%	14.8x	154%	11%
% of stocks positive		53%	58%			89%

Source: Fundstrat, Bloomberg, FactSet.

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STRATEGY: By ratings tier, majority are investment-grade issuers…

As shown below, there are 117 companies whose dividend yield is above their own long-term bond yield. These are just surprising to us—after all, it highlights the value within the equity.

- **As shown on the lower left table, most of these are BBB- to A-rated. The lower end of investment grade. But still solid credits and as shown, the dividend yield premium is 50-370bp.**
- **By sector, these issuers are primarily in Financials, Utilities, Staples, Technology, and Industrials.**
- **Last November, there were more Industrial and Energy companies—but many Energy companies cut dividends and their cost of debt has since risen.**

Figure: 117 companies with div yield > bond yield
Based on spread of dividend yield less bond yield

	S&P credit rating	# of cos	a Avg div yield	b Avg bond yield	c = (a-b) **Div yield less bond yield**
	All cos	117	4.3%	3.3%	**100 bp**
Investment Grade	AAA	2	3.2%	2.2%	**99 bp**
	AA+	1	3.0%	2.5%	**56 bp**
	AA	3	3.1%	2.4%	**64 bp**
	AA-	10	3.5%	2.3%	**121 bp**
	A+	6	3.0%	2.4%	**63 bp**
	A	17	3.3%	2.7%	**66 bp**
	A-	12	3.8%	2.8%	**102 bp**
	BBB+	19	3.8%	3.2%	**62 bp**
	BBB	22	4.0%	3.5%	**52 bp**
	BBB-	13	6.3%	4.0%	**227 bp**
High Yield	BB+	7	6.3%	4.8%	**145 bp**
	BB	2	11.4%	7.7%	**369 bp**
	BB-	1	5.1%	4.2%	**94 bp**
	B+	2	5.0%	4.2%	**85 bp**

Source: Fundstrat, Bloomberg.
(1) Bond yield is a weighted-average yield to maturity of bonds maturing 7-10 years from today.
(2) We are adjusting for "split ratings" between S&P and Moody's by taking the higher of the two, and expressing it in S&P rating scale terms.

Figure: 91 cos in S&P 500 with div yield > bond yield
Based on spread of dividend yield less bond yield

Sector	# of cos	# of cos in S&P 500	a Avg div yield	b Avg bond yield	c = (a-b) **Div yield less bond yield**
All companies	117	91	4.3%	3.3%	**100 bp**
Financials	37	20	4.9%	3.6%	**132 bp**
Utilities	15	13	3.7%	2.7%	**98 bp**
Staples	12	10	3.3%	2.7%	**68 bp**
Technology	10	9	4.0%	2.7%	**129 bp**
Industrials	11	10	3.2%	2.7%	**54 bp**
Discretionary	10	9	4.0%	3.6%	**38 bp**
Energy	6	6	7.3%	4.8%	**244 bp**
Materials	8	6	4.0%	3.7%	**25 bp**
Healthcare	5	5	3.3%	2.6%	**66 bp**
Telecom	3	3	5.4%	4.6%	**79 bp**

Source: Fundstrat, Bloomberg.

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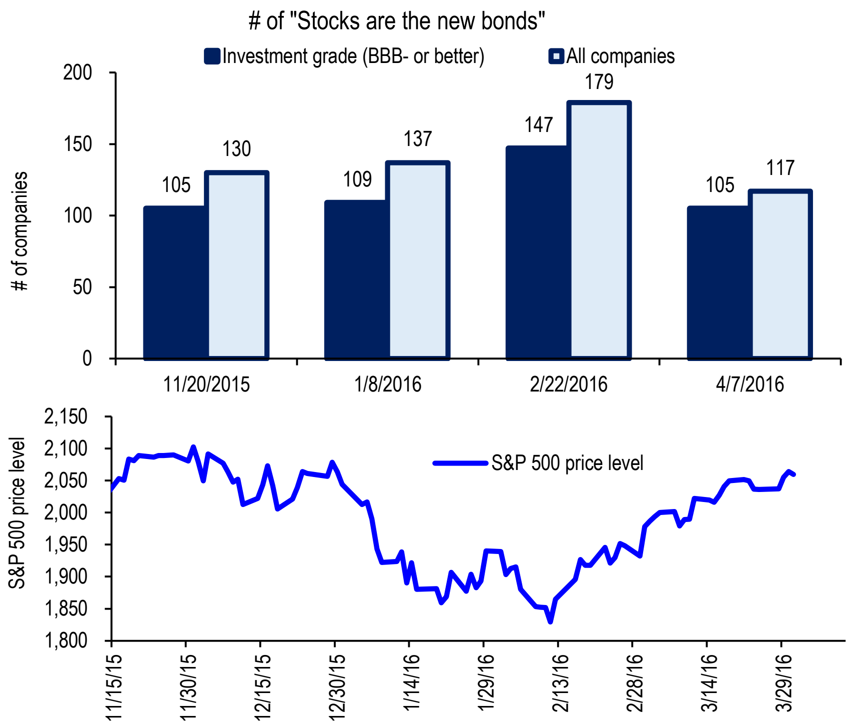
STRATEGY: Today, still about the same number of "stocks are the new bonds"

As shown below, there are still 117 major US companies with a dividend yield exceeding their bond yield. This is down slightly from the 130 on November 2015 but still a significant number of companies. And also a breakdown of companies on the bottom right chart.

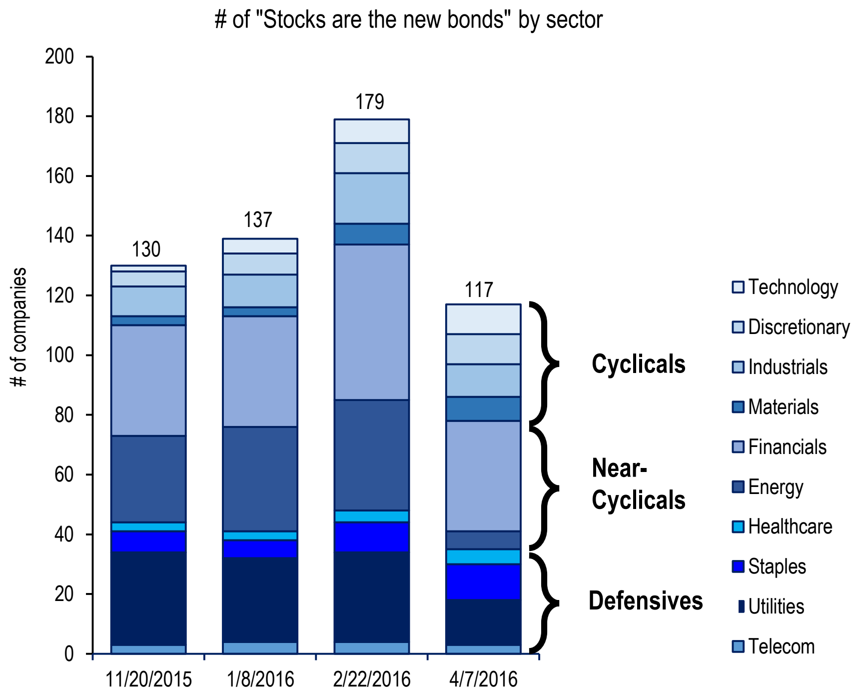
- **The number of "stocks are the new bonds" rose to 179 in February (with the market rout) but the list is still a sizable number today.**
- **As shown on the bottom right chart, the decrease in stocks is attributable to a contraction of Utility and Energy companies.**

Figure: # of "Stocks are the new bonds" fell from 179 to 117 recently
Stocks with dividend yield greater than their own bond yield



Source: Fundstrat, Bloomberg, FactSet.

Figure: Between Feb-April, Energy saw a big decrease
Sector composition of "Stocks are the new bonds" since 11/20/2015



Source: Fundstrat, Bloomberg, FactSet.

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STRATEGY: Overweight *Value* if the USD is weakening…

Value has been highly correlated to USD and the relationship is highlighted on the chart below. There are a few reasons why we believe this relationship exists:

- **A modest factor is that Value has a higher OW in Energy (700bp more than Growth) and Industrials (200bp) but this OW in Energy does not explain the difference.**
- **Rather, we think the driver is that Value (sector neutral) has lower valuations and therefore is more positively levered to implied higher inflation—that is, weaker USD tends to lead to higher import costs—this would de-rate higher multiple stocks. And thus, the incremental boost on EPS is better levered in Value stocks.**

Figure: Value (relative to S&P 500) is highly correlated to performance of the US Dollar
Since 2011

Source: Fundstrat, Bloomberg.

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STRATEGY: Value is highly correlated to macro variables of USD, oil and HY

The natural question is how does an investor position for a weakening of USD and a bottom in oil? The easy answer is to look at the correlation of sectors and styles of USD (we also showed oil and yield curve and high-yield).

- **Value is the most inversely correlated with USD (-0.93)—thus, is arguably the most leveraged to a USD weakening.**
- As to why? Weaker USD is generally stimulative to GDP growth and hence, boosts growth outlook. Moreover, Value is heavily comprised of Industrials, Energy, Old-Tech and all of these groups have large non-USD businesses, hence, a weakening is a tailwind for EPS.
- The sector negatively impacted is Consumer Discretionary. As shown, Consumer Discretionary has the highest positive correlation to USD (0.75), hence the most negative exposure.
- **Similarly, Value is the most positively correlated with Oil prices rising.**
- **Hence, we favor Value over Growth and Value over Momentum (FANG ends with a DANG).**

Figure: 1-yr correlation: Markets vs Styles and Sectors
Based on daily price data; since March 2015 (except DXY Index). P-values below 0.01 for all correlations.

	DXY Index during surge (5/2014 to 3/2015)	WTI crude oil	High-Yield STW	
S&P 500	0.78	0.73	-0.79	
Small vs. Large-Cap	-0.27	0.86	-0.94	Styles
MSCI U.S. momentum	0.94	-0.83	0.84	Styles
Pure Value	-0.93	0.93	-0.95	Styles
S&P 500 Low Quality	0.46	0.91	-0.97	Styles
Technology	0.78	-0.62	0.69	Sectors
Discretionary	0.75	-0.68	0.70	Sectors
Industrials	-0.37	0.06	-0.04	Sectors
Materials	-0.79	0.84	-0.84	Sectors
Financials	0.30	0.53	-0.67	Sectors
Energy	-0.95	0.91	-0.90	Sectors
Healthcare	0.94	0.25	-0.38	Sectors
Staples	0.69	-0.86	0.93	Sectors
Utilities	0.35	-0.69	0.75	Sectors
Telecom	-0.85	-0.47	0.57	Sectors

= strong positive correlation (above 0.60)

= strong inverse correlation (below -0.60)

Source: Fundstrat, FactSet, Bloomberg.

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SECTORS: Rising Oil lifts Energy and Financials; Tech and Telecom lagging…

A nearly 19% gain in WTI Spot Oil drove strong Energy and Financials outperformance. Materials also posted a solid 2.7% outperformance.

- **Near Cyclicals drove the outperformance,** with Cyclicals underperforming led entirely by Tech. **Defensives** lagged modestly with Telecom and Staples (modestly) weighing on the supergroup performance.

Figure: Trailing 1-month relative performance of sectors
Since June 2015

	6/5/15	7/5/15	8/5/15	9/5/15	10/5/15	11/5/15	12/5/15	1/5/16	2/5/16	3/5/16	4/5/16	5/5/16
S&P 500 (Abs.)	**0.2%**	**-0.8%**	**1.1%**	**-8.5%**	**3.4%**	**5.7%**	**-0.4%**	**-3.6%**	**-6.8%**	**6.4%**	**2.3%**	**0.3%**
Cyclicals	**0.4%**	**-0.8%**	**-0.6%**	**1.1%**	**1.4%**	**0.9%**	**-0.1%**	**-1.8%**	**-1.3%**	**1.0%**	**0.8%**	**-1.7%**
Materials	-1.4%	-1.9%	-6.3%	-0.4%	-2.1%	0.9%	1.5%	-2.7%	2.0%	0.0%	0.1%	2.7%
Industrials	-0.1%	-1.7%	-1.4%	1.2%	0.4%	0.4%	-0.1%	0.3%	2.0%	0.6%	0.0%	0.2%
Discretionary	0.7%	1.9%	1.6%	1.4%	1.1%	0.1%	0.0%	-1.8%	-1.8%	2.8%	-0.2%	0.4%
Technology	1.1%	-1.9%	0.8%	0.6%	1.4%	2.8%	1.1%	-2.1%	-1.4%	1.4%	2.3%	-5.6%
Near Cyclicals	**-0.9%**	**-0.1%**	**-3.3%**	**-0.5%**	**-0.4%**	**-0.3%**	**-0.9%**	**-1.1%**	**-2.5%**	**0.1%**	**-2.3%**	**4.3%**
Energy	-5.3%	-2.7%	-11.1%	2.9%	0.6%	1.2%	-7.8%	-1.5%	0.1%	1.5%	-3.0%	8.3%
Financials	1.3%	0.4%	1.1%	-1.9%	-0.8%	-0.2%	1.5%	-1.4%	-4.0%	-0.3%	-2.0%	3.1%
Defensives	**-0.1%**	**1.5%**	**3.4%**	**-1.3%**	**-1.0%**	**-2.9%**	**0.7%**	**3.9%**	**3.1%**	**-2.4%**	**0.1%**	**-0.4%**
Staples	-2.3%	2.3%	4.2%	-0.2%	1.6%	-3.6%	1.4%	3.6%	5.6%	-1.8%	0.3%	-0.9%
HealthCare	2.5%	1.8%	1.7%	-2.5%	-3.5%	-0.6%	-0.1%	2.8%	-2.7%	-1.9%	-0.4%	1.3%
Telecom	-2.8%	1.6%	-3.4%	3.4%	-3.1%	-3.0%	0.9%	4.8%	13.9%	-3.2%	1.3%	-3.9%
Utilities	-3.3%	0.4%	2.0%	1.8%	4.6%	-6.0%	-3.2%	6.8%	13.8%	-5.8%	1.6%	0.7%

Source: Fundstrat, Bloomberg, FactSet.

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STYLES: Value over FANG and Stocks are the new Bonds outperformed in a volatile week

In a volatile week, strategies like Value over FANG and Stocks are the New Bonds outperformed the S&P 500. The Credit Easing and USD weakening strategies underperformed. In general, less-volatile styles performed better than the S&P 500.

Figure: Trailing 1-week absolute performance of styles
Since March 2016

3/3/2016	3/10/2016	3/17/2016	3/24/2016	3/31/2016	4/7/2016	4/14/2016	4/21/2016	4/28/2016	5/5/2016
High Beta 9.6%	Dividend Yield 1.7%	FS: USD weakens 5.7%	Mega-Cap 0.2%	Russell 2000 3.2%	Growth -0.3%	High Beta 7.0%	FS: Credit easing 3.4%	Dividend Yield 1.6%	Low Volatility 0.7%
FS: USD weakens 8.4%	FS: Value over FANG 1.1%	High Beta 4.7%	Growth 0.1%	Contrarian 2.3%	Mega-Cap -0.4%	FS: Credit easing 5.2%	High Beta 2.4%	Low Volatility 0.9%	Momentum (D.J.) -0.5%
FS: Credit easing 6.3%	FS: Stocks "new bonds" 0.8%	Contrarian 3.6%	FS: Credit easing 0.1%	Momentum (D.J.) 1.9%	FS: Value over FANG -0.7%	FS: USD weakens 5.0%	FS: USD weakens 2.3%	High Beta 0.8%	Growth -0.6%
Contrarian 5.6%	Low Volatility 0.4%	Equal Weight 3.1%	S&P 500 -0.2%	Dividend Yield 1.7%	Low Volatility -0.7%	Contrarian 4.3%	Value 0.8%	FS: Stocks "new bonds" 0.7%	Dividend Yield -0.7%
Russell 2000 4.3%	Value 0.1%	FS: Value over FANG 2.7%	Low Volatility -0.3%	Growth 1.5%	Momentum (D.J.) -0.8%	Russell 2000 3.3%	Equal Weight 0.6%	FS: USD weakens 0.5%	FS: Value over FANG -0.8%
Equal Weight 3.3%	Equal Weight -0.1%	Growth 2.6%	Momentum (D.J.) -0.4%	Equal Weight 1.4%	S&P 500 -0.9%	Value 2.8%	Russell 2000 0.6%	Value 0.4%	Mega-Cap -0.8%
Value 2.7%	Mega-Cap -0.2%	S&P 500 2.6%	FS: Value over FANG -0.5%	Low Volatility 1.4%	FS: Stocks "new bonds" -1.2%	Equal Weight 2.5%	Contrarian 0.5%	Russell 2000 0.4%	FS: Stocks "new bonds" -1.0%
S&P 500 2.1%	S&P 500 -0.2%	Russell 2000 2.6%	Value -0.6%	FS: Value over FANG 1.4%	Value -1.5%	FS: Stocks "new bonds" 2.1%	Mega-Cap 0.4%	FS: Value over FANG 0.3%	S&P 500 -1.2%
Momentum (D.J.) 1.8%	FS: USD weakens -0.4%	Value 2.5%	FS: Stocks "new bonds" -0.7%	S&P 500 1.2%	Equal Weight -1.6%	S&P 500 2.0%	S&P 500 0.4%	Equal Weight 0.3%	Value -1.8%
Mega-Cap 1.6%	Contrarian -0.4%	Low Volatility 2.5%	Equal Weight -0.8%	High Beta 1.2%	Dividend Yield -1.7%	Mega-Cap 1.8%	Growth 0.0%	Contrarian 0.3%	Equal Weight -1.8%
Growth 1.6%	Growth -0.5%	FS: Stocks "new bonds" 2.4%	Dividend Yield -1.1%	Mega-Cap 1.0%	Russell 2000 -1.9%	FS: Value over FANG 1.7%	FS: Value over FANG 0.0%	FS: Credit easing 0.1%	Russell 2000 -2.8%
Dividend Yield 1.5%	High Beta -0.5%	Dividend Yield 2.3%	Russell 2000 -1.1%	FS: USD weakens 0.9%	High Beta -2.5%	Dividend Yield 1.6%	FS: Stocks "new bonds" -0.2%	Momentum (D.J.) 0.0%	FS: USD weakens -3.1%
FS: Stocks "new bonds" 1.5%	FS: Credit easing -0.6%	Mega-Cap 2.1%	Contrarian -1.7%	FS: Stocks "new bonds" 0.9%	FS: Credit easing -3.8%	Growth 1.3%	Momentum (D.J.) -0.4%	S&P 500 -0.7%	Contrarian -4.4%
FS: Value over FANG 1.2%	Momentum (D.J.) -0.6%	Momentum (D.J.) 2.1%	High Beta -2.2%	Value 0.8%	FS: USD weakens -3.8%	Momentum (D.J.) 1.1%	Dividend Yield -0.9%	Mega-Cap -1.8%	FS: Credit easing -5.1%
Low Volatility 0.3%	Russell 2000 -1.1%	FS: Credit easing 1.6%	FS: USD weakens -2.7%	FS: Credit easing 0.3%	Contrarian -3.9%	Low Volatility 0.5%	Low Volatility -1.2%	Growth -1.9%	High Beta -5.3%

= Fundstrat theme strategy
= styles with higher risk
= S&P 500
= all other styles

Fundstrat theme definitions:

USD weakens:
Buy stocks inverse correlation to USD (Value style, Energy / Materials / Telecom sectors)

Credit easing:
Buy inverse correlation to HY spreads (Value and Low-Quality)

FANG ends with DANG:
Leaders rarely lead the following year. Buy Value over Momentum.

Stocks are the "new bonds":
Buy stocks where dividend yield > co's own bond yield.

Source: Fundstrat, Bloomberg.

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VALUATION: stocks are attractively valued…

We believe stocks are attractively valued. The S&P 500 dividend yield premium to the 10-year Treasury yield widened by 10bp over the past week. The '17E P/E, while modestly above LT average, is somewhat inflated due to Energy (the "ex-Energy" '17E P/E is roughly 15X).

Figure: Valuation and performance of sectors and styles
As of 5/5/2016

	Name		BBG ticker	YTD performance: Absolute	YTD performance: Relative	P/E multiple: '16E (Y+1)	P/E multiple: '17E (Y+2)	P/E multiple: Z-Score (Y+2)	Div yield	Rel to 10-yr yield
Broad Market Indices	S&P 500		SPX	0.3%	**0.0%**	17.5x	15.4x	0.41	2.2%	45 bp
	Russell 2000		RTY	-2.5%	**-2.8%**	24.5x	19.9x	0.74	1.6%	-13 bp
	Value		SVX	2.2%	**1.9%**	16.0x	14.0x	0.97	2.7%	98 bp
	Growth		SGX	-1.4%	**-1.8%**	19.2x	17.0x	1.01	1.7%	-7 bp
	Dow Jones Industrial Avg		INDU	1.4%	**1.0%**	16.5x	14.6x	0.39	2.6%	83 bp
	Dow Transports		TRAN	2.1%	**1.8%**	13.0x	12.0x	-0.60	1.5%	-28 bp
Cyclicals	Technology	OW	S5INFT	-4.0%	**-4.3%**	16.4x	14.7x	-0.10	1.7%	-5 bp
	Discretionary	N	S5COND	0.6%	**0.3%**	18.2x	16.2x	0.03	1.6%	-13 bp
	Industrials	OW	S5INDU	3.4%	**3.0%**	16.4x	15.0x	0.27	2.3%	53 bp
	Materials	OW	S5MATR	5.0%	**4.6%**	17.9x	15.3x	0.79	2.3%	51 bp
Near Cyclicals	Financials	OW	S5FINL	-3.6%	**-3.9%**	14.1x	12.6x	0.56	2.3%	58 bp
	Energy	OW	S5ENRS	8.9%	**8.6%**	94.9x	29.4x	3.34	3.3%	152 bp
Defensives	Healthcare	N	S5HLTH	-3.5%	**-3.8%**	15.6x	14.1x	-0.50	1.7%	-8 bp
	Staples	UW	S5CONS	4.6%	**4.3%**	21.6x	19.6x	2.19	2.6%	80 bp
	Utilities	UW	S5UTIL	13.4%	**13.1%**	17.7x	17.1x	2.00	3.4%	162 bp
	Telecom	OW	S5TELS	10.7%	**10.4%**	13.6x	13.1x	-0.77	4.7%	292 bp

Source: Fundstrat, FactSet, Bloomberg.

Essentially first time div yield is premium to 10-year yield since 1950s…

These sectors have strong div yields, but are fairly valued on a P/E basis…

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COMPOSITE PMIs: 70% of countries have PMI above 50, vs. 59% last month

We have flagged instances of weak PMI readings (below 50), and as shown, Commodity Producers PMIs have suffered significantly over the past 18 months. This considered, 50% of Commodity Producing nations are above 50, compared to just 25% in mid-2015.

- **Also of note is the sharp improvement in "PMI diffusion" for both Developed and Emerging economies compared to February.**

Figure: Global Composite PMIs

Since April 2014

= PMI between 47 to 50

= PMI below 47

	Composite PMI	Source	4/14	5/14	6/14	7/14	8/14	9/14	10/14	11/14	12/14	1/15	2/15	3/15	4/15	5/15	6/15	7/15	8/15	9/15	10/15	11/15	12/15	1/16	2/16	3/16	4/16
	Global	Markit	52.7	54.2	55.4	55.5	55.2	54.8	53.5	53.1	52.4	52.9	53.9	54.8	54.2	53.5	53.1	53.6	53.8	52.7	53.1	53.6	52.7	52.6	50.8	51.3	
	Developed Markets	Markit	53.6	55.3	56.4	56.7	56.1	55.6	54.2	53.8	52.7	53.6	54.6	55.9	55.1	54.4	54.2	54.7	55.1	53.9	54.1	54.6	53.6	53.3	51.4	51.8	
	Emerging Markets	Markit	50.3	50.7	52.3	51.6	52.5	52.3	51.4	51.3	51.7	51.3	51.9	51.6	51.2	50.6	49.6	50.0	49.4	48.8	49.7	50.1	49.5	50.2	49.1	50.6	
% above 50	Total		**70%**	**70%**	**78%**	**78%**	**70%**	**78%**	**70%**	**78%**	**70%**	**67%**	**78%**	**70%**	**67%**	**74%**	**59%**	**70%**	**59%**	**63%**	**63%**	**67%**	**70%**	**70%**	**59%**	**70%**	**65%**
	Developed		75%	67%	83%	92%	67%	67%	67%	83%	75%	67%	83%	67%	67%	83%	83%	92%	92%	83%	83%	83%	83%	83%	75%	83%	75%
	Emerging		71%	86%	86%	71%	86%	71%	86%	86%	86%	100%	100%	86%	71%	71%	57%	71%	57%	43%	57%	57%	86%	86%	57%	86%	86%
	Commodity		63%	63%	75%	75%	63%	100%	63%	63%	63%	38%	75%	63%	63%	63%	25%	38%	38%	50%	38%	50%	38%	38%	38%	50%	43%
Developed	USA	ISM	55.2	56.2	56.5	57.1	58.0	57.7	56.4	59.1	56.7	56.5	56.6	56.4	56.8	55.6	55.8	58.7	57.4	55.9	57.3	55.7	54.9	52.9	53.0	54.2	55.1
	Canada*	Markit	54.1	54.7	56.1	53.8	55.8	54.0	56.4	54.8	51.7	45.2	46.2	48.7	49.9	52.2	54.0	50.2	50.0	49.6	48.4	48.0	45.8	46.5	47.7	51.7	53.1
	Eurozone	Markit	54.0	53.5	52.8	53.8	52.5	52.0	52.1	51.1	51.4	52.6	53.3	54.0	53.9	53.6	54.2	53.9	54.3	53.6	53.9	54.2	54.3	53.6	53.0	53.1	53.0
	Germany	Markit	56.1	55.6	54.0	55.7	53.7	54.1	53.9	51.7	52.0	53.5	53.8	55.4	54.1	52.6	53.7	53.7	55.0	54.1	54.2	55.2	55.5	54.5	54.1	54.0	53.6
	France	Markit	50.6	49.3	48.1	49.4	49.5	48.4	48.2	47.9	49.7	49.3	52.2	51.5	50.6	52.0	53.3	51.5	50.2	51.9	52.6	51.0	50.1	50.2	49.3	50.0	50.2
	Italy	Markit	52.6	52.7	54.2	53.1	49.9	49.5	50.4	51.2	49.4	51.2	51.0	52.4	53.9	53.7	54.0	53.5	55.0	53.4	53.9	54.3	56.0	53.8	53.7	52.4	53.1
	Spain	Markit	56.3	55.6	55.2	55.7	56.9	55.3	55.5	53.8	54.3	56.9	56.0	56.9	59.1	58.3	55.8	58.3	58.8	54.6	55.0	56.2	55.2	55.3	54.5	55.1	55.2
	UK	Markit	59.2	58.9	57.9	58.7	59.5	57.5	55.8	57.6	55.4	56.7	56.6	58.5	58.4	55.8	57.4	56.7	55.3	53.3	55.3	55.7	55.2	56.2	52.7	53.6	51.9
	Japan	Markit	46.3	49.2	50.0	50.2	50.8	52.8	49.5	51.2	51.9	51.7	50.0	49.4	50.7	51.6	51.5	51.5	52.9	51.2	52.3	52.3	52.2	52.6	51.0	49.9	48.9
	Australia*	Australian Ind.	44.8	49.2	48.9	50.7	47.3	46.5	49.4	50.1	46.9	49.0	45.4	46.3	48.0	52.3	44.2	50.4	51.7	52.1	50.2	52.5	51.9	51.5	53.5	58.1	53.4
	Singapore	Markit	54.2	54.4	55.6	53.8	53.6	52.1	51.6	53.6	52.9	53.4	52.9	51.2	49.9	49.5	51.1	51.3	50.8	51.4	50.2	52.2	52.1	52.5	51.6	52.0	49.4
	Hong Kong	Markit	49.7	49.1	50.1	50.4	49.6	49.8	47.7	48.8	50.3	49.4	50.7	49.6	48.6	47.6	49.2	48.2	44.4	45.7	46.6	46.6	46.4	46.1	46.4	45.5	45.3
Emerging	Mexico*	Markit	51.8	51.9	51.8	51.5	52.1	52.6	53.3	54.3	55.3	56.6	54.4	53.8	53.8	53.3	52.0	52.9	52.4	52.1	53.0	53.0	52.4	52.2	53.1	53.2	52.4
	China	Markit	49.5	50.2	52.4	51.6	52.8	52.3	51.7	51.1	51.4	51.0	51.8	51.8	51.3	51.2	50.6	50.2	48.8	48.0	49.9	50.5	49.4	50.1	49.4	51.3	50.8
	Taiwan*	Markit	52.3	52.4	54.0	55.8	56.1	53.3	52.0	51.4	50.0	51.7	52.1	51.0	49.2	49.3	46.3	47.1	46.1	46.9	47.8	49.5	51.7	50.6	49.4	51.1	49.7
	South Korea*	Markit	50.2	49.5	48.4	49.3	50.3	48.8	48.7	49.0	49.9	51.1	51.1	49.2	48.8	47.8	46.1	47.6	47.9	49.2	49.1	49.1	50.7	49.5	48.7	49.5	50.0
	Vietnam*	Markit	53.1	52.5	52.3	51.7	50.3	51.7	51.0	52.1	52.7	51.5	51.7	50.7	53.5	54.8	52.2	52.6	51.3	49.5	50.1	49.4	51.3	51.5	50.3	50.7	52.3
	Poland*	Markit	52.0	50.8	50.3	49.4	49.0	49.5	51.2	53.2	52.8	55.2	55.1	54.8	54.0	52.4	54.3	54.5	51.1	50.9	52.2	52.1	52.1	50.9	52.8	53.8	51.0
	India	Markit	49.5	50.7	53.8	53.0	51.6	51.8	51.0	53.6	52.9	53.3	53.5	53.2	52.5	51.2	49.2	52.0	52.6	51.5	52.6	50.2	51.6	53.3	51.2	54.3	52.8
Commodity producers	Brazil	Markit	49.9	49.8	49.9	49.3	49.6	50.6	48.4	48.1	49.2	49.2	51.3	47.0	44.2	42.9	41.0	40.8	44.8	42.7	42.7	44.5	43.9	45.1	39.0	40.8	39.0
	Nigeria	Markit	57.8	54.3	52.0	52.5	50.5	52.7	55.3	54.8	52.8	54.4	52.1	53.9	54.5	51.3	47.9	49.6	50.0	54.4	52.1	53.9	54.5	51.3	47.9	49.6	49.6
	South Africa	Markit	49.4	49.7	49.5	46.4	51.1	52.6	52.7	50.5	50.2	49.8	50.0	51.6	51.5	50.1	49.2	48.9	49.3	47.9	47.5	49.6	49.1	49.6	49.1	47.0	47.9
	Indonesia*	Markit	51.1	52.4	52.7	52.7	49.5	50.7	49.2	48.0	47.6	48.5	47.5	46.4	46.7	47.1	47.8	47.3	48.4	47.4	47.8	46.9	47.8	48.9	48.7	50.6	50.9
	Russia	Markit	47.6	47.1	50.1	51.3	51.1	50.9	49.1	47.6	47.2	45.6	44.7	46.8	50.8	51.6	49.5	50.9	49.3	50.9	49.0	50.5	47.8	48.4	50.6	50.8	
	Malaysia*	Markit	52.7	50.9	50.6	50.0	49.4	51.0	51.5	51.3	51.0	49.1	51.1	50.5	48.8	49.5	47.6	47.7	47.2	48.3	48.1	47.0	48.0	48.6	47.8	48.4	47.1
	UAE	Markit	58.3	57.3	58.2	58.0	58.4	57.6	61.2	58.3	58.4	59.3	58.1	56.3	56.8	56.4	54.7	55.8	57.1	56.0	54.0	54.5	53.3	52.7	53.1	54.5	52.8
	Saudi Arabia	Markit	58.5	57.0	59.2	60.1	60.7	61.8	59.1	57.6	57.9	57.8	58.5	60.1	58.3	57.0	56.1	57.7	58.7	56.5	55.7	56.3	54.4	53.9	54.4	54.5	54.2

Source: Fundstrat, Bloomberg. Note: * represents manufacturing.

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DELTA OF PMIs: 81% of countries saw better March PMI vs 33% in Feb…

The % of companies seeing positive improvement in PMI on a m/m basis jumped from 33% in February to 81% in March, reaching its best level since at least March 2014.

- **Notably, 100% of Emerging economies saw an improved PMI reading in March.**

Figure: m/m DELTA of Global Composite PMIs

Since April 2014

= PMI improved m/m

	m/m delta	Source	4/14	5/14	6/14	7/14	8/14	9/14	10/14	11/14	12/14	1/15	2/15	3/15	4/15	5/15	6/15	7/15	8/15	9/15	10/15	11/15	12/15	1/16	2/16	3/16	4/16
	Global	Markit	-0.7	1.5	1.2	0.1	-0.3	-0.4	-1.3	-0.4	-0.7	0.5	1.0	0.9	-0.6	-0.7	-0.4	0.5	0.2	-1.1	0.4	0.5	-0.9	-0.1	-1.8	0.5	
	Developed Markets	Markit	-0.9	1.7	1.1	0.3	-0.6	-0.5	-1.4	-0.4	-1.1	0.9	1.0	1.3	-0.8	-0.7	-0.2	0.5	0.4	-1.2	0.2	0.5	-1.0	-0.3	-1.9	0.4	
	Emerging Markets	Markit	0.2	0.4	1.6	-0.7	0.9	-0.2	-0.9	-0.1	0.4	-0.4	0.6	-0.3	-0.4	-0.6	-1.0	0.4	-0.6	-0.6	0.9	0.4	-0.6	0.7	-1.1	1.5	
% improving m/m	Total		63%	44%	52%	52%	52%	48%	41%	44%	48%	56%	52%	41%	41%	33%	41%	56%	52%	33%	59%	56%	37%	52%	33%	81%	33%
	Developed		67%	50%	50%	75%	50%	25%	42%	58%	50%	58%	50%	58%	50%	33%	75%	33%	50%	33%	75%	58%	25%	50%	33%	67%	42%
	Emerging		57%	57%	43%	29%	57%	57%	29%	71%	57%	71%	57%	0%	14%	29%	14%	86%	29%	29%	86%	29%	57%	43%	29%	100%	29%
	Commodity		63%	25%	63%	38%	50%	75%	50%	0%	38%	38%	50%	50%	50%	38%	13%	63%	75%	38%	13%	75%	38%	63%	38%	88%	25%
Developed	USA	ISM	1.2	1.0	0.3	0.6	0.9	-0.3	-1.3	2.7	-2.4	-0.2	0.1	-0.2	0.4	-1.2	0.2	2.9	-1.3	-1.5	1.4	-1.6	-0.8	-2.0	0.1	1.2	0.9
	Canada*	Markit	0.5	0.6	1.4	-2.3	2.0	-1.8	2.4	-1.6	-3.1	-6.5	1.0	2.5	1.2	2.3	1.8	-3.8	-0.2	-0.4	-1.2	-0.4	-2.2	0.7	1.2	4.0	1.4
	Eurozone	Markit	0.9	-0.5	-0.7	1.0	-1.3	-0.5	0.1	-1.0	0.3	1.2	0.7	0.7	-0.1	-0.3	0.6	-0.3	0.4	-0.7	0.3	0.3	0.1	-0.7	-0.6	0.1	-0.1
	Germany	Markit	1.8	-0.5	-1.6	1.7	-2.0	0.4	-0.2	-2.2	0.3	1.5	0.3	1.6	-1.3	-1.5	1.1	0.0	1.3	-0.9	0.1	1.0	0.3	-1.0	-0.4	-0.1	-0.4
	France	Markit	-1.2	-1.3	-1.2	1.3	0.1	-1.1	-0.2	-0.3	1.8	-0.4	2.9	-0.7	-0.9	1.4	1.3	-1.8	-1.3	1.7	0.7	-1.6	-0.9	0.1	-0.9	0.7	0.2
	Italy	Markit	1.5	0.1	1.5	-1.1	-3.2	-0.4	0.9	0.8	-1.8	1.8	-0.2	1.4	1.5	-0.2	0.3	-0.5	1.5	-1.6	0.5	0.4	1.7	-2.2	-0.1	-1.3	0.7
	Spain	Markit	2.1	-0.7	-0.4	0.5	1.2	-1.6	0.2	-1.7	0.5	2.6	-0.9	0.9	2.2	-0.8	-2.5	2.5	0.5	-4.2	0.4	1.2	-1.0	0.1	-0.8	0.6	0.1
	UK	Markit	1.8	-0.3	-1.0	0.8	0.8	-2.0	-1.7	1.8	-2.2	1.3	-0.1	1.9	-0.1	-2.6	1.6	-0.7	-1.4	-2.0	2.0	0.4	-0.5	1.0	-3.5	0.9	-1.7
	Japan	Markit	-6.5	2.9	0.8	0.2	0.6	2.0	-3.3	1.7	0.7	-0.2	-1.7	-0.6	1.3	0.9	-0.1	0.0	1.4	-1.7	1.1	0.0	-0.1	0.4	-1.6	-1.1	-1.0
	Australia*	Australian Ind.	-3.1	4.4	-0.3	1.8	-3.4	-0.8	2.9	0.7	-3.2	2.1	-3.6	0.9	1.7	4.3	-8.1	6.2	1.3	0.4	-1.9	2.3	-0.6	-0.4	2.0	4.6	-4.7
	Singapore	Markit	1.0	0.2	1.2	-1.8	-0.2	-1.5	-0.5	2.0	-0.7	0.5	-0.5	-1.7	-1.3	-0.4	1.6	0.2	-0.5	0.6	-1.2	2.0	-0.1	0.4	-0.9	0.4	-2.6
	Hong Kong	Markit	-0.2	-0.6	1.0	0.3	-0.8	0.2	-2.1	1.1	1.5	-0.9	1.3	-1.1	-1.0	-1.0	1.6	-1.0	-3.8	1.3	0.9	0.0	-0.2	-0.3	0.3	-0.9	-0.2
Emerging	Mexico*	Markit	0.1	0.1	-0.1	-0.3	0.6	0.5	0.7	1.0	1.0	1.3	-2.2	-0.6	0.0	-0.5	-1.3	0.9	-0.5	-0.3	0.9	0.0	-0.6	-0.2	0.9	0.1	-0.8
	China	Markit	0.2	0.7	2.2	-0.8	1.2	-0.5	-0.6	-0.6	0.3	-0.4	0.8	0.0	-0.5	-0.1	-0.6	-0.4	-1.4	-0.8	1.9	0.6	-1.1	0.7	-0.7	1.9	-0.5
	Taiwan*	Markit	-0.4	0.1	1.6	1.8	0.3	-2.8	-1.3	-0.6	-1.4	1.7	0.4	-1.1	-1.8	0.1	-3.0	0.8	-1.0	0.8	0.9	1.7	2.2	-1.1	-1.2	1.7	-1.4
	South Korea*	Markit	-0.2	-0.7	-1.1	0.9	1.0	-1.5	-0.1	0.3	0.9	1.2	0.0	-1.9	-0.4	-1.0	-1.7	1.5	0.3	1.3	-0.1	0.0	1.6	-1.2	-0.8	0.8	0.5
	Vietnam*	Markit	1.8	-0.6	-0.2	-0.6	-1.4	1.4	-0.7	1.1	0.6	-1.2	0.2	-1.0	2.8	1.3	-2.6	0.4	-1.3	-1.8	0.6	-0.7	1.9	0.2	-1.2	0.4	1.6
	Poland*	Markit	-2.0	-1.2	-0.5	-0.9	-0.4	0.5	1.7	2.0	-0.4	2.4	-0.1	-0.3	-0.8	-1.6	1.9	0.2	-3.4	-0.2	1.3	-0.1	0.0	-1.2	1.9	1.0	-2.8
	India	Markit	0.6	1.2	3.1	-0.8	-1.4	0.2	-0.8	2.6	-0.7	0.4	0.2	-0.3	-0.7	-1.3	-2.0	2.8	0.6	-1.1	1.1	-2.4	1.4	1.7	-2.1	3.1	-1.5
Commodity producers	Brazil	Markit	-1.1	-0.1	0.1	-0.6	0.3	1.0	-2.2	-0.3	1.1	0.0	2.1	-4.3	-2.8	-1.3	-1.9	-0.2	4.0	-2.1	0.0	1.8	-0.6	1.2	-6.1	1.8	-1.8
	Nigeria	Markit	0.8	-3.5	-2.3	0.5	-2.0	2.2	2.6	-0.5	-2.0	1.6	-2.3	1.8	0.6	-3.2	-3.4	1.7	0.4	4.4	-2.3	1.8	0.6	-3.2	-3.4	1.7	0.0
	South Africa	Markit	-0.8	0.3	-0.2	-3.1	4.7	1.5	0.1	-2.2	-0.3	-0.4	0.2	1.6	-0.1	-1.4	-0.9	-0.3	0.4	-1.4	-0.4	2.1	-0.5	0.5	-0.5	-2.1	0.9
	Indonesia*	Markit	1.0	1.3	0.3	0.0	-3.2	1.2	-1.5	-1.2	-0.4	0.9	-1.0	-1.1	0.3	0.4	0.7	-0.5	1.1	-1.0	0.4	-0.9	0.9	1.1	-0.2	1.9	0.3
	Russia	Markit	-0.2	-0.5	3.0	1.2	-0.2	-0.2	-1.8	-1.5	-0.4	-1.6	-0.9	2.1	4.0	0.8	-2.1	1.4	-1.6	1.6	-1.9	1.5	-2.7	0.6	2.2	0.2	-50.8
	Malaysia*	Markit	0.2	-1.8	-0.3	-0.6	-0.6	1.6	0.5	-0.2	-0.3	-1.9	2.0	-0.6	-1.7	0.7	-1.9	0.1	-0.5	1.1	-0.2	-1.1	1.0	0.6	-0.8	0.6	-1.3
	UAE	Markit	0.6	-1.0	0.9	-0.2	0.4	-0.8	3.6	-2.9	0.1	0.9	-1.2	-1.8	0.5	-0.4	-1.7	1.1	1.3	-1.1	-2.0	0.5	-1.2	-0.6	0.4	1.4	-1.7
	Saudi Arabia	Markit	1.5	-1.5	2.2	0.9	0.6	1.1	-2.7	-1.5	0.3	-0.1	0.7	1.6	-1.8	-1.3	-0.9	1.6	1.0	-2.2	-0.8	0.6	-1.9	-0.5	0.5	0.1	-0.3

Source: Fundstrat, Bloomberg.
Note: * represents manufacturing.

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GLOBAL CDS SPREADS: widening modestly, but Energy & Fincls still rallying

CDS spreads widened somewhat MTD, but this follows 2 consecutive months of improvement and spreads are still 30bp narrower compared to the February wides.

- Energy and Financials continue to see improvement, with HY America Energy narrowing an impressive 550bp m/m.

Figure: Level of Global CDS Spreads (bp)
Since April 2014

= spreads narrowing m/m

	5-yr CDS spread (bp)	4/14	5/14	6/14	7/14	8/14	9/14	10/14	11/14	12/14	1/15	2/15	3/15	4/15	5/15	6/15	7/15	8/15	9/15	10/15	11/15	12/15	1/16	2/16	3/16	4/16	5/16
	Global	67	65	60	55	66	56	59	65	63	69	66	60	63	64	67	68	72	84	87	78	82	91	115	94	80	85
North America	Markit iTraxx North America IG CDS	67	65	60	55	66	56	59	65	63	69	66	60	63	64	67	68	72	84	87	78	82	91	115	94	80	85
	Bloomberg America Energy IG 5Y CDS	72	67	61	56	67	64	84	100	136	172	175	139	136	115	118	130	158	178	209	191	233	335	447	389	298	247
	Bloomberg America Sr. Financials IG 5Y CDS	74	70	65	66	74	67	76	73	73	81	80	77	74	76	75	85	79	83	81	74	74	73	94	100	102	101
	Bloomberg America Subordinated Financials IG 5Y CDS	88	86	82	86	103	87	95	81	84	92	91	84	87	86	86	95	93	107	118	99	100	99	124	107	113	107
	Markit iTraxx North America HY CDS	107	107	109	109	107	108	107	107	107	105	106	108	107	107	107	107	106	104	101	103	102	101	98	101	102	102
	Bloomberg America Energy HY 5Y CDS	290	286	264	254	294	276	347	441	536	667	742	686	1118	1079	1162	1244	1767	1801	1093	1121	1344	1613	2032	2004	1506	923
Europe	Markit iTraxx Europe 5Y CDS	70	69	61	56	66	55	60	66	55	64	55	48	57	63	68	75	63	73	87	71	73	80	110	92	77	79
	Blomberg Europe Energy IG 5Y CDS	57	57	49	48	57	50	55	66	67	88	79	65	72	68	69	72	76	95	105	87	97	114	199	151	128	107
	Bloomberg Europe Sr. Financials IG 5Y CDS	86	81	72	69	77	66	71	71	63	73	71	61	70	75	80	93	82	89	88	74	72	75	108	104	99	98
	Bloomberg Europe Subordinated Financials IG 5Y CDS	148	137	121	116	129	110	181	185	168	184	181	155	173	178	191	210	194	208	202	168	166	172	260	243	239	235
	Markit iTraxx Europe HY 5Y CDS	273	271	237	225	270	227	244	355	310	352	302	249	261	282	305	325	290	339	350	291	302	328	422	374	319	330
	Bloomberg Europe Sr. Financials HY 5Y CDS	206	200	183	203	235	199	246	206	190	201	203	161	176	181	189	206	198	265	264	262	264	339	445	403	393	394
	Bloomberg Europe Subordinated Financials HY 5Y CDS	262	222	200	233	330	226	412	423	396	394	393	330	334	302	314	358	344	422	445	429	427	531	785	726	683	662
Asia	Markit iTraxx Japan 5Y CDS	83	86	75	63	65	57	63	62	62	69	64	60	58	51	56	58	59	66	77	68	74	76	92	90	87	74
	Markit iTraxx Asia ex-Japan 5Y CDS	123	127	106	99	106	90	96	109	100	110	110	100	110	105	110	110	113	140	155	124	131	139	159	152	147	145
	Markit iTraxx Australia 5Y CDS	99	95	85	82	88	79	85	93	91	96	95	82	90	87	91	97	99	113	132	114	124	129	151	144	139	135
	Markit iTraxx Emerging Markets 5Y CDS	110	110	111	112	109	112	109	93	91	88	88	88	90	91	91	91	90	89	89	91	90	89	88	90	91	91

Source: Fundstrat, Bloomberg.

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DELTA of CDS SPREADS: most sub-groups are seeing credit improve m/m

CDS are tightening for 65% of all indices we track, although the "global" index widened modestly compared to early April. 2/3 of the U.S. indices showed improvement, and 75% of the Japan indices improved as well. European improvements were not as broad-based, but still over half of the indices tightened m/m.

Figure: m/m DELTA of global CDS spreads

Since April 2014

= spreads narrowing m/m

Region	m/m delta of 5-yr CDS spread (bp)	4/14	5/14	6/14	7/14	8/14	9/14	10/14	11/14	12/14	1/15	2/15	3/15	4/15	5/15	6/15	7/15	8/15	9/15	10/15	11/15	12/15	1/16	2/16	3/16	4/16	5/16
	Global	5	-3	-5	-5	11	-10	2	6	-2	7	-3	-6	3	1	3	1	4	11	4	-9	4	9	24	-20	-15	5
	% of CDS indices improving m/m	**65%**	**82%**	**88%**	**65%**	**12%**	**88%**	**12%**	**35%**	**71%**	**18%**	**71%**	**94%**	**24%**	**53%**	**18%**	**0%**	**59%**	**12%**	**41%**	**82%**	**29%**	**24%**	**12%**	**82%**	**76%**	**65%**
North America	Markit iTraxx North America IG CDS	5	-3	-5	-5	11	-10	2	6	-2	7	-3	-6	3	1	3	1	4	11	4	-9	4	9	24	-20	-15	5
North America	Bloomberg America Energy IG 5Y CDS	-1	-5	-6	-5	11	-3	20	16	36	36	3	-36	-3	-21	3	12	28	20	31	-18	42	102	112	-58	-91	-51
North America	Bloomberg America Sr. Financials IG 5Y CDS	1	-4	-5	1	8	-7	9	-3	0	8	-1	-3	-3	2	-1	10	-6	4	-2	-7	0	-1	21	6	2	-1
North America	Bloomberg America Subordinated Financials IG 5Y CDS	-16	-2	-4	4	17	-16	8	-14	3	8	-1	-7	3	-1	0	9	-2	14	11	-19	1	-1	25	-17	6	-6
North America	Markit iTraxx North America HY CDS	-1	-1	2	1	-3	1	-1	0	0	-1	1	2	-1	0	-1	0	0	-2	-3	2	-1	-2	-3	3	1	0
North America	Bloomberg America Energy HY 5Y CDS	2	-4	-22	-10	40	-18	71	94	95	131	75	-56	432	-39	83	82	523	34	-708	28	223	269	419	-28	-498	-583
	Subtotal: % of North America CDS indices improving	**50%**	**100%**	**83%**	**50%**	**17%**	**83%**	**17%**	**50%**	**33%**	**17%**	**50%**	**83%**	**50%**	**67%**	**33%**	**0%**	**50%**	**17%**	**50%**	**67%**	**17%**	**50%**	**17%**	**67%**	**50%**	**67%**
Europe	Markit iTraxx Europe 5Y CDS	-2	-1	-8	-4	9	-11	4	6	-10	9	-9	-8	9	5	5	8	-12	10	14	-16	2	6	31	-18	-15	2
Europe	Blomberg Europe Energy IG 5Y CDS	-3	0	-8	-1	9	-7	5	11	1	21	-9	-14	7	-4	1	3	4	19	10	-18	10	17	85	-48	-23	-21
Europe	Bloomberg Europe Sr. Financials IG 5Y CDS	-9	-5	-9	-3	8	-11	5	0	-8	10	-2	-10	9	5	5	13	-11	7	-1	-14	-2	3	33	-4	-5	-1
Europe	Bloomberg Europe Subordinated Financials IG 5Y CDS	-14	-11	-16	-5	13	-19	71	4	-17	16	-3	-26	18	5	13	19	-16	14	-6	-34	-2	6	88	-17	-4	-4
Europe	Markit iTraxx Europe HY 5Y CDS	15	-1	-34	-12	45	-43	18	111	-46	43	-50	-53	12	22	23	20	-35	48	11	-58	11	26	94	-48	-55	11
Europe	Bloomberg Europe Sr. Financials HY 5Y CDS	-22	-6	-17	20	32	-36	47	-40	-16	11	2	-42	15	5	8	17	-8	67	-1	-2	2	75	106	-42	-10	1
Europe	Bloomberg Europe Subordinated Financials HY 5Y CDS	-32	-40	-22	33	97	-104	186	11	-27	-2	-1	-63	4	-32	12	44	-14	78	23	-16	-2	104	254	-59	-43	-21
	Subtotal: % of Europe CDS indices improving	**86%**	**86%**	**100%**	**71%**	**0%**	**100%**	**0%**	**14%**	**86%**	**14%**	**86%**	**100%**	**0%**	**29%**	**0%**	**0%**	**86%**	**0%**	**43%**	**100%**	**43%**	**0%**	**0%**	**100%**	**100%**	**57%**
Asia	Markit iTraxx Japan 5Y CDS	6	3	-11	-11	2	-8	6	0	0	7	-5	-5	-2	-6	5	2	1	7	11	-9	6	3	16	-2	-4	-13
Asia	Markit iTraxx Asia ex-Japan 5Y CDS	-5	3	-21	-7	7	-16	6	12	-8	10	-1	-9	10	-5	5	0	2	27	15	-31	8	8	19	-7	-4	-3
Asia	Markit iTraxx Australia 5Y CDS	-2	-4	-10	-3	6	-9	6	9	-3	5	-2	-13	8	-3	4	6	2	14	19	-18	10	5	23	-7	-5	-4
Asia	Markit iTraxx Emerging Markets 5Y CDS	2	0	1	1	-3	3	-3	-17	-2	-3	0	0	2	1	0	0	-1	-1	0	2	-1	-1	-1	2	1	0
	Subtotal: % of Asia and EM CDS indices improving	**50%**	**50%**	**75%**	**75%**	**25%**	**75%**	**25%**	**50%**	**100%**	**25%**	**75%**	**100%**	**25%**	**75%**	**25%**	**0%**	**25%**	**25%**	**25%**	**75%**	**25%**	**25%**	**25%**	**75%**	**75%**	**75%**

Source: Fundstrat, Bloomberg.

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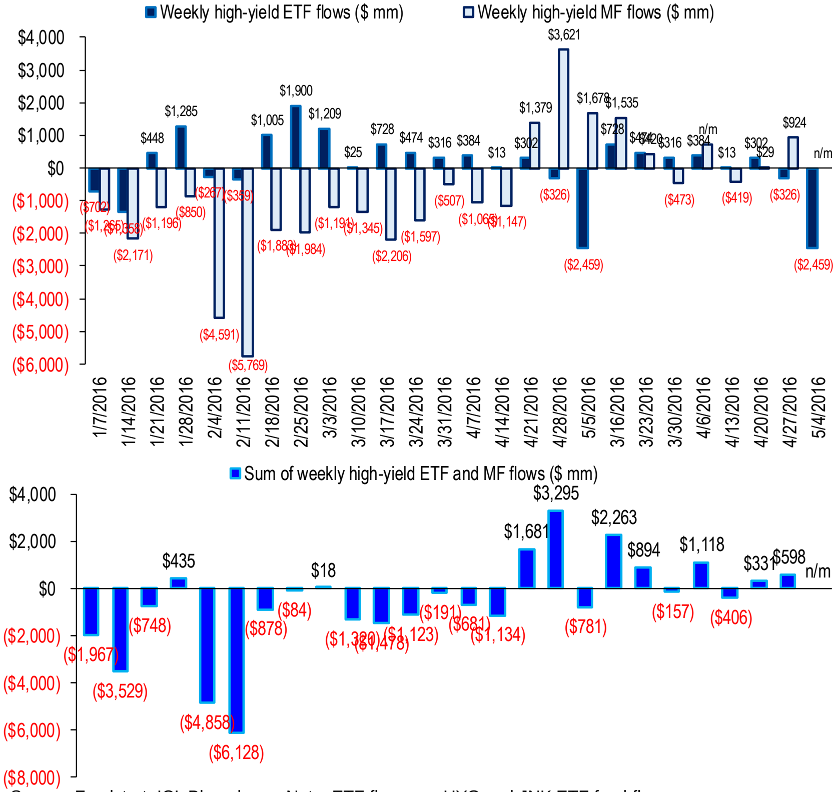
FUND FLOWS: Equity flows collapsed again but markets remain resilient

After briefly turning positive in March, equity flows have collapsed and the 4-week moving average now sits at a $3.7B outflow. This considered, markets have remained resilient despite the lack of incoming liquidity.

- High-Yield flows also turned negative in the week of March 30th, but this week, ETFs are seeing modest inflows of $195B.

Figure: High-Yield inflows remained strong this month…

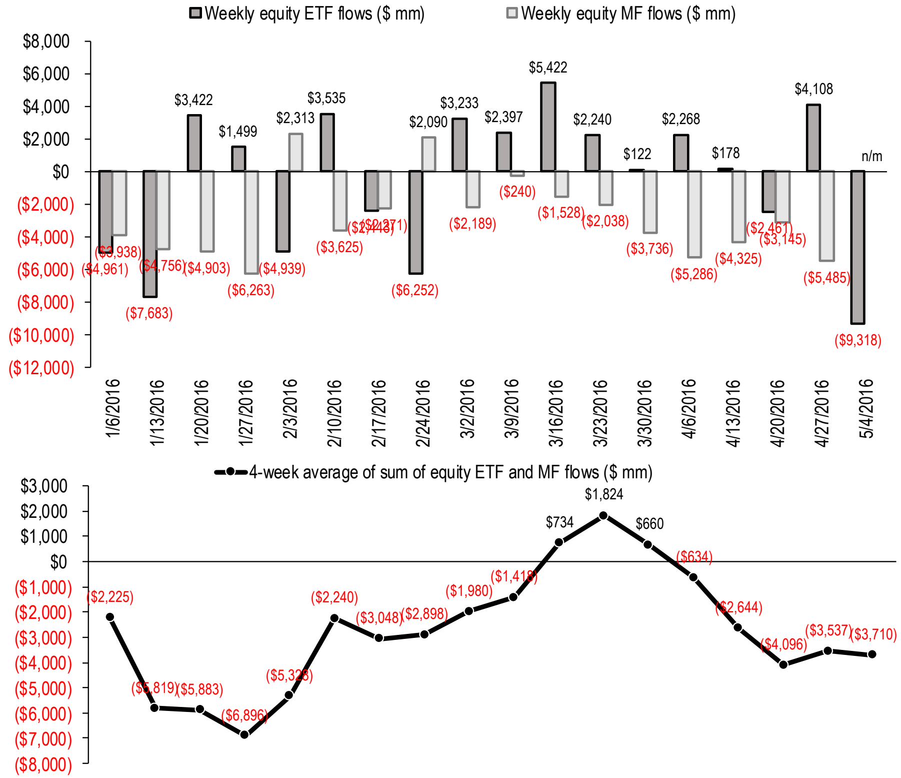
Weekly high-yield ETF and MF fund flows since March 2016



Source: Fundstrat, ICI, Bloomberg. Note: ETF flows are HYG and JNK ETF fund flows.

Figure: Equity flows take a step back after 4 weeks of improvement

Weekly equity ETF and MF fund flows since January2016



Source: Fundstrat, ICI, Bloomberg. Note: ETF flows are for the 25 largest equity ETFs.

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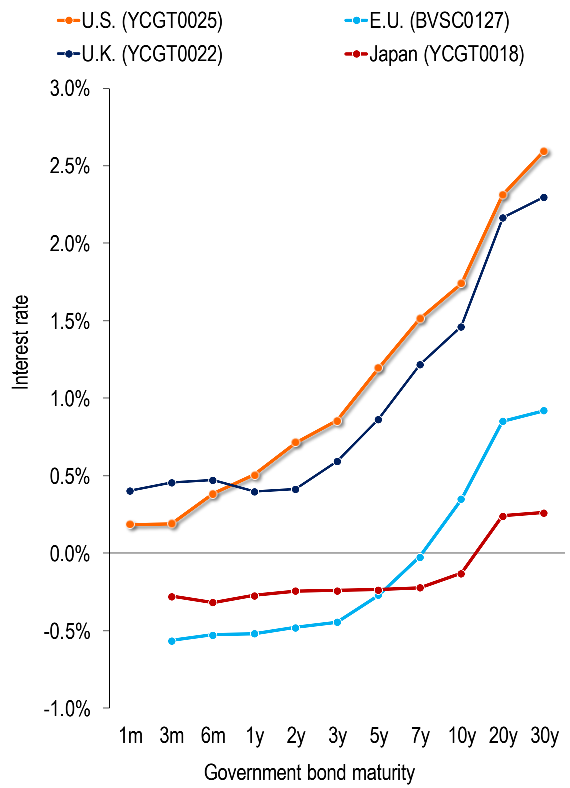
YIELD CURVES: Japan 10Y less 2Y nears inversion

Japan's 10Y less 2Y yield curve, while still positive at 12bp, has continued to trend lower over the past year and is now near its lowest level in the last 12 months.

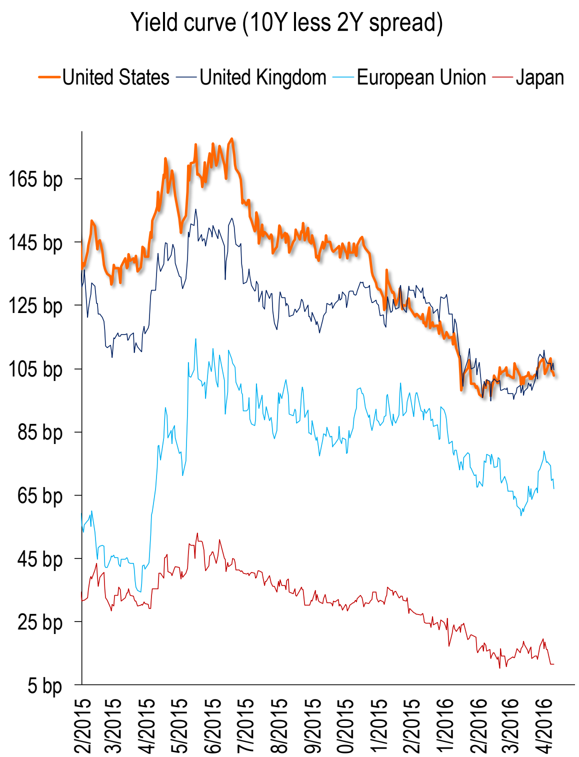
- Encouragingly, both the U.S. 10Y/2Y and 30Y/10Y curves remain relatively steep at a 103 and 85bp. The long-term curve has actually steepened since February 2016, and has continued to steepen over the past week.

Figure: Term structure of interest rates
Govt bond yields (1m – 30Y)



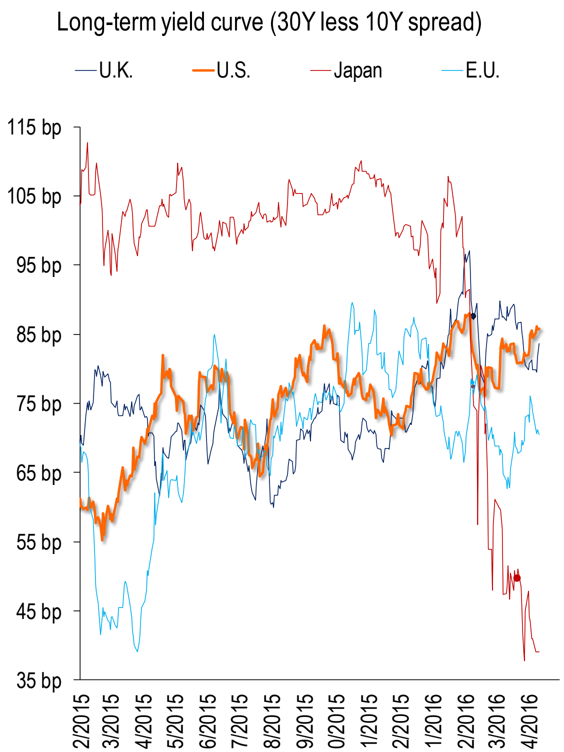
Source: Fundstrat, Bloomberg.

Figure: 10Y less 2Y for major economies
Since February 2015



Source: Fundstrat, Bloomberg.

Figure: 30Y less 10Y for major economies
Since February 2015



Source: Fundstrat, Bloomberg.

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