

2020 **COVID-19**

Post-Apocalypse: New Normal

Key to 2019:
Don't fight the Fed
PE matters more than 'E'
+30%

Key to 2020:
Don't fight Central Banks
~~EPS upside on P/E rise~~
+10%

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- **COVID-19 cases plateau**
- **GDP <> EPS <> Stocks**
- **2020 Election dynamics**
- **New Normal: “Epicenter” groups struggle**
- **Demographics might explain Tech + Equity stamina**
- **“Granny shots” outperforming in 2020**

2020: Why stocks will recover

	<u>Description</u>	<u>Impact</u>
Disease	5 th US pandemic since 1900	US recovered every time
Economy bottomed	US economy already bottomed	Stocks bottom <i>before</i> economy bottoms
V-shape	Stocks always V-shaped recovery	S&P 500 could make all-time high in Summer 2020
Cost cutting	Companies cut costs in recession	2021 EPS \$190 or higher
Fed	“whatever it takes”	“don’t fight the Fed”

Understanding “negative bias”



Disease is terrifying and killing hundreds of thousands



Economy facing worst Depression in 5 lifetimes and worse than even “the Great Depression”



Stocks moved at lightning speed but economy at stall speed



White House polarizing and muddies policy adoption



Generational conflict: Baby Boomers vs Millennials



“Macro” thought leaders extremely bearish

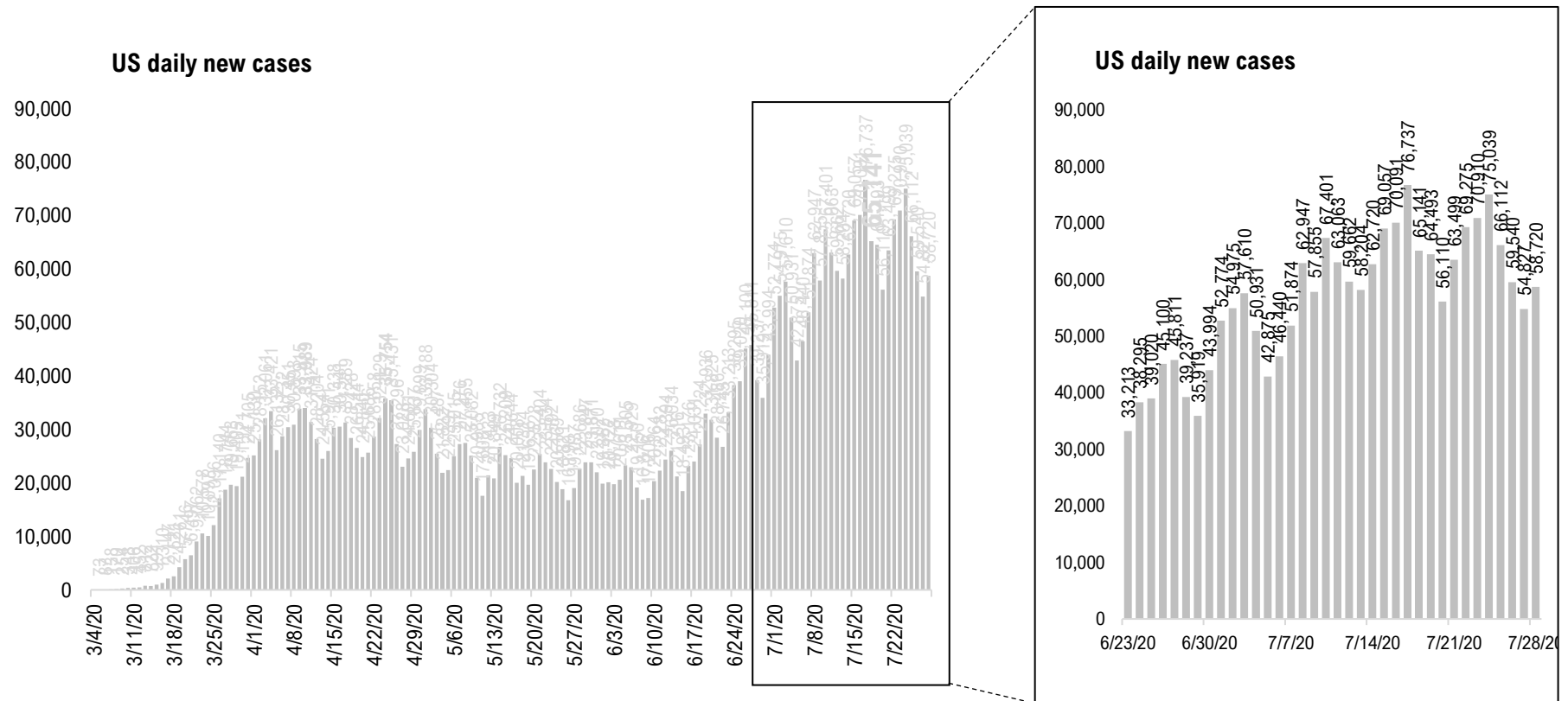


COVID-19 CRISIS: USA daily cases are rolling over...

After nearly 3-month shutdown, the COVID-19 spread has been largely controlled in the US. However, following the national protests in >350 cities, US daily new cases resurged again.

- The leading indicator remains “daily new cases” and it has surpassed the prior high of 35,754 on April 24 and made a new high of 76,737 on July 17th. But as the new epicenters F-CAT (FL, CA, AZ, TX) are apexing, the daily new cases in the US are rolling over.

Figure: Daily New Cases for US overall
COVID-19 daily new cases



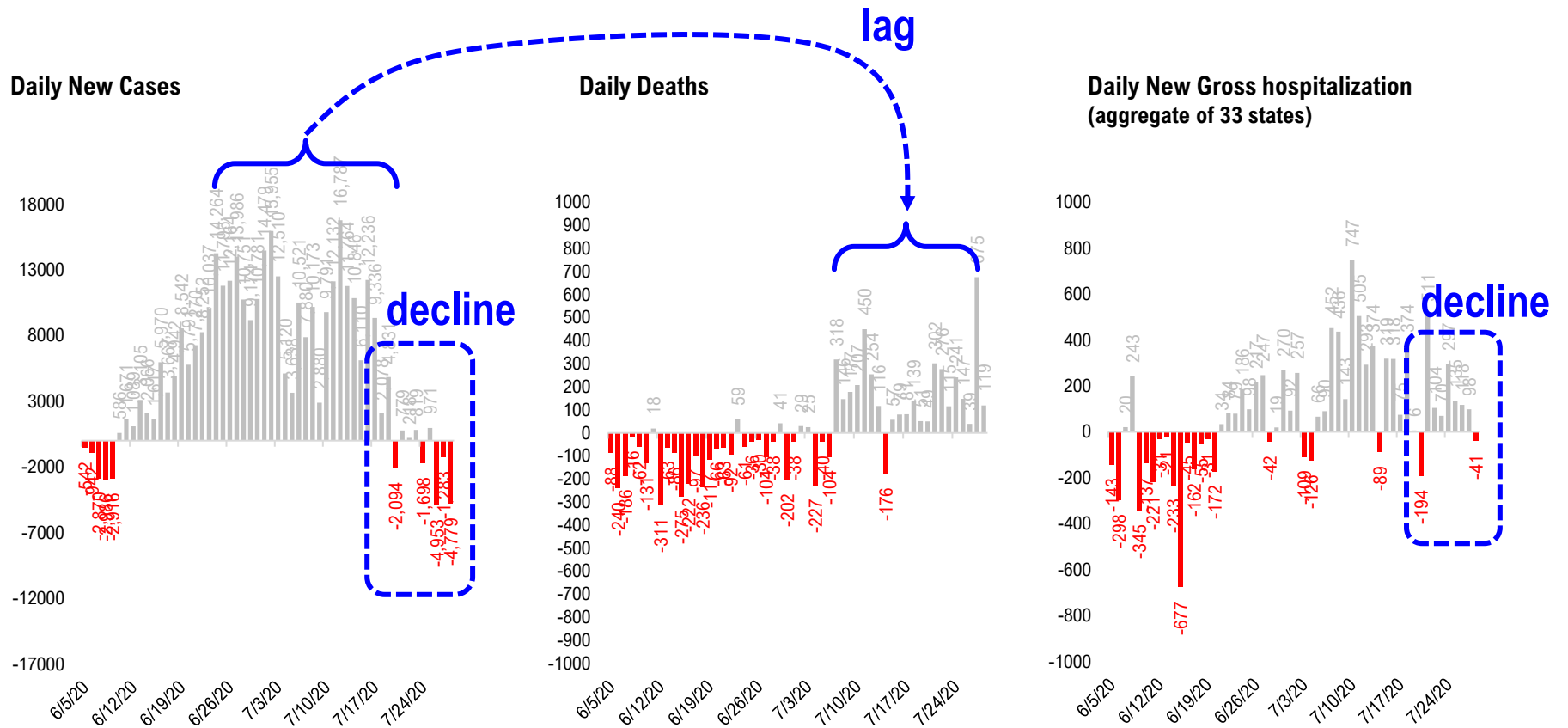
Source: COVID-19 Tracking Project, Johns Hopkins. FSInsight

COVID-19 CRISIS: USA daily cases are rolling over...

States tend to report less new COVID-19 cases over the weekend. In order to minimize this “weekend effect”, we use the rolling 7-day change to adjust the “seasonality”.

- On a “seasonality” adjusted basis, the three key metrics – Daily Cases, Daily Deaths, Daily Gross Hospitalization – seem to be rolling over from recent surge. And the testing capacity continues to expand in the US.

Figure: Rolling 7-Day Change in the Key Metrics – Daily Cases, Daily Deaths, Daily Gross Hospitalization, Daily Tests
Past 8 weeks



Source: COVID-19 Tracking Project, Johns Hopkins. FSInsight



Disease path...

Urban office space apocalypse
Restaurants structural problems
Will people travel
There is no new normal

Discussion

WFH → less demand for offices → ecosystem impact
6 feet of space → optimization issues
Perception of disease path → travel demand
Sports + Schools + Concerts + Socializing



Cure/ Vaccine...

Vaccine timeline. Vaccines safe?
Lingering health issue for “cured”

Discussion

Operation “Warp speed” = 1Q2021 vaccine. Is this safe?
Stories of lingering respiratory and mental problems.



“New normal”...

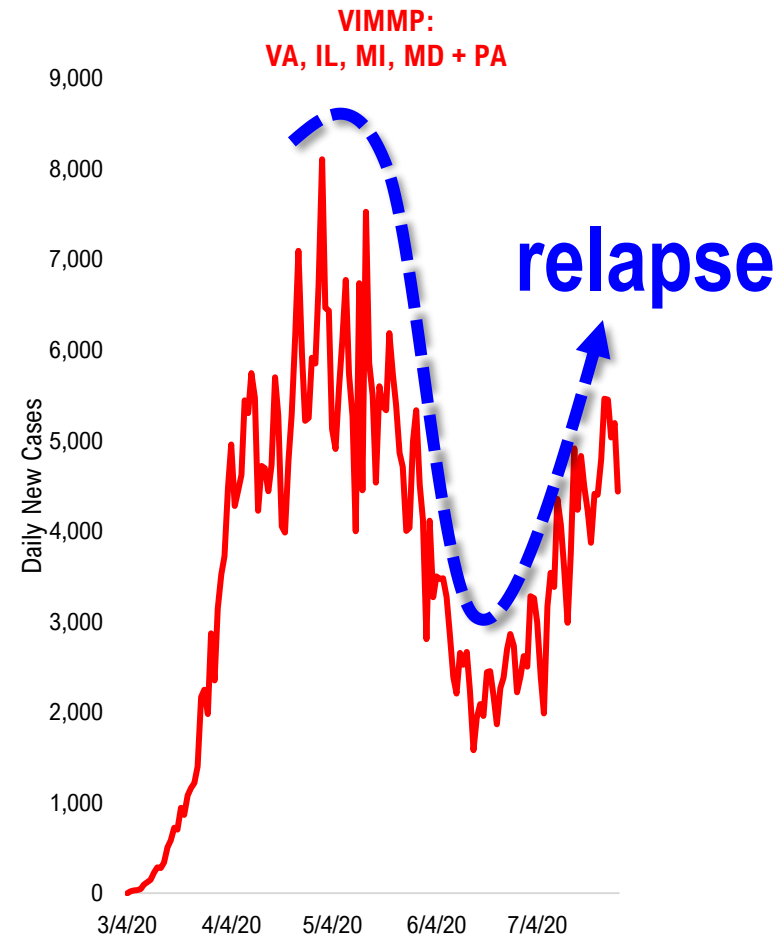
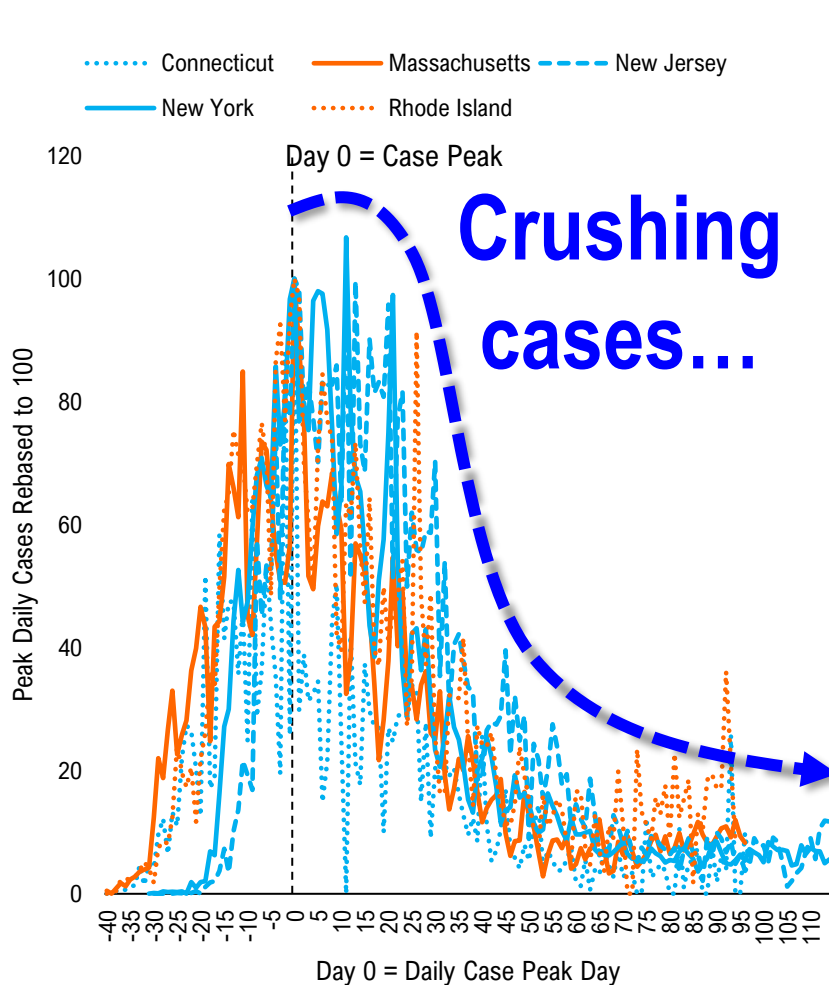
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TWO PATHS: states that opened last have demonstrated two virus paths...

NY, NJ, CT, MA and RI (left chart) have seen daily cases absolutely collapse since their respective peaks, while daily cases in VIMMP (VA, IL, MI, MD + PA) quadrupled, after falling 88% from their peaks.



Source: COVID-19 Tracking Project, Johns Hopkins. FSInsight

NEW epicenter: Latin America, surpassing USA for daily COVID-19 cases

The US is no longer the global epicenter of the crisis, as Latin America now surpasses the US in daily reported cases.

- Ironic observation, if COVID-19 is now a “rest of World” story, this will be a business opportunity for US biz.

Figure: Daily New Cases by Regions

Per Johns Hopkins CSSE

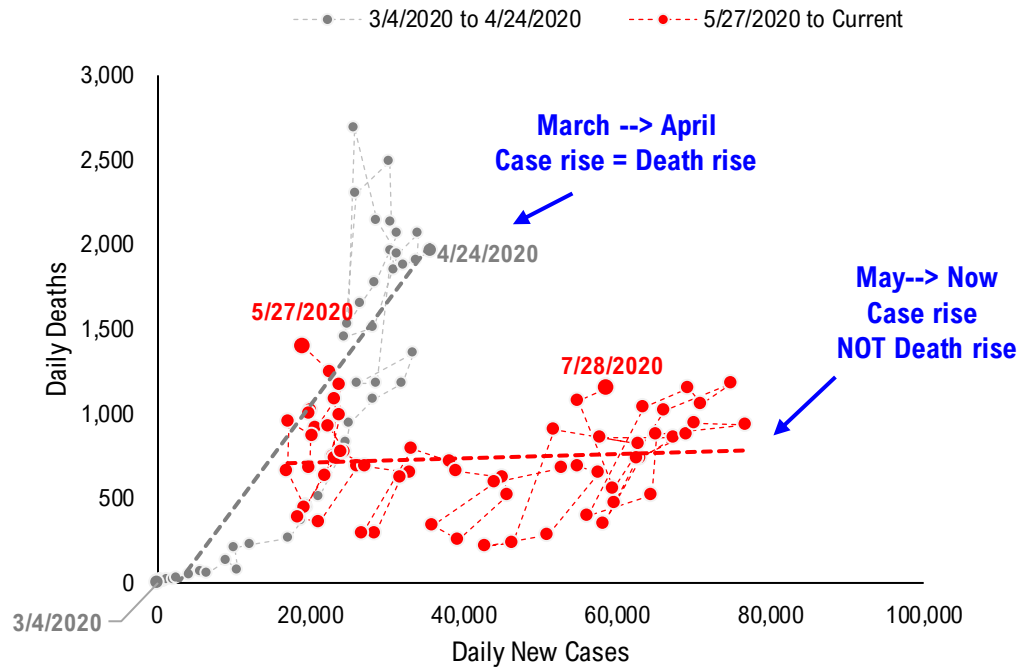
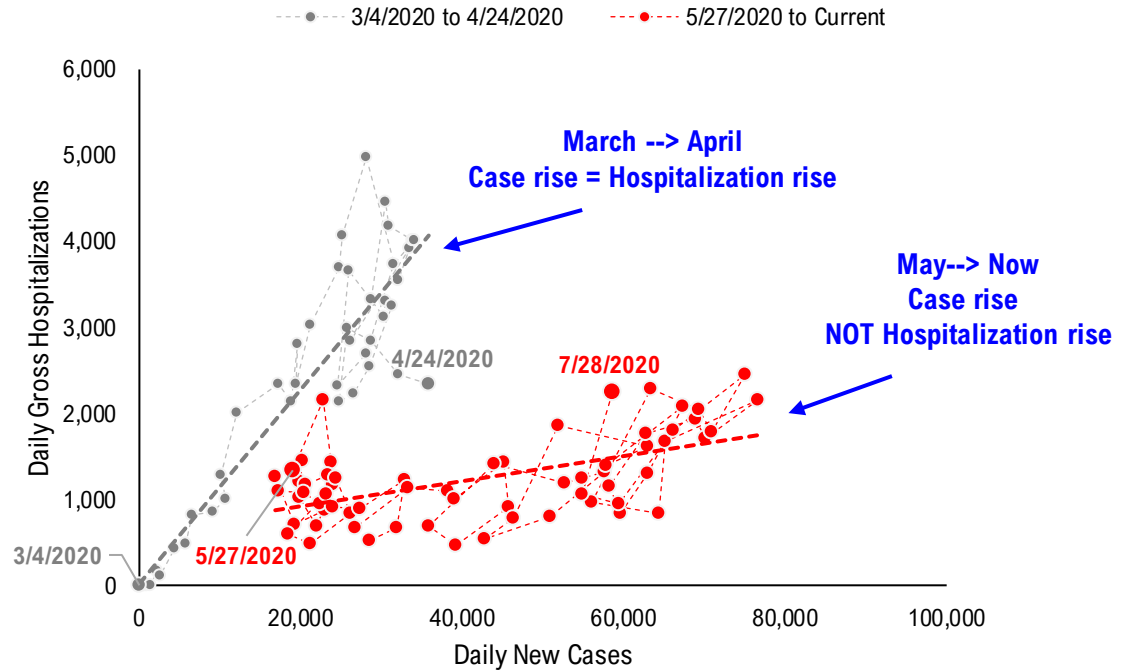
3/27/2020	4/10/2020	4/24/2020	5/8/2020	5/22/2020	6/5/2020	6/19/2020	7/3/2020	7/17/2020	7/28/2020
Europe 35,634	Europe 38,586	US + Canada 34,019	US + Canada 28,068	Latin America 33,875	Latin America 47,182	Latin America 58,570	Latin America 72,231	Latin America 72,602	Latin America 65,432
US + Canada 16,624	US + Canada 34,328	Europe 30,669	Europe 27,422	US + Canada 25,073	US + Canada 21,894	US + Canada 28,473	US + Canada 55,408	US + Canada 72,365	US + Canada 58,132
Latin America 1,416	Latin America 5,790	Latin America 11,820	Latin America 18,868	Europe 19,514	Europe 18,212	Pakistan + India + Bangladesh 22,981	Pakistan + India + Bangladesh 27,389	Pakistan + India + Bangladesh 39,450	Pakistan + India + Bangladesh 35,880
Asia ex- India+Pakistan 978	Asia ex- India+Pakistan 1,638	Pakistan + India + Bangladesh 2,801	Pakistan + India + Bangladesh 5,721	Pakistan + India + Bangladesh 9,981	Pakistan + India + Bangladesh 16,820	Europe 18,730	Europe 16,249	Africa 19,290	Europe 18,332
Africa 545	Pakistan + India + Bangladesh 1,098	Asia ex- India+Pakistan 2,369	Africa 2,945	Africa 4,166	Africa 6,467	Africa 8,930	Africa 14,218	Europe 17,457	Africa 15,021
Pakistan + India + Bangladesh 264	Africa 760	Africa 1,520	Asia ex- India+Pakistan 1,906	Asia ex- India+Pakistan 2,225	Asia ex- India+Pakistan 2,565	Asia ex- India+Pakistan 3,314	Asia ex- India+Pakistan 12,006	Asia ex- India+Pakistan 7,321	Asia ex- India+Pakistan 7,932

Brazil/ Latam
“epicenter”
+65,000 cases/ day

India + Pakistan set
to overtake USA
+36,000 cases/day

Source: FSInsight, Johns Hopkins CSSE

COVID-19: Cases vs Hospitalizations vs Deaths diverging...



Source: COVID-19 Tracking Project, Johns Hopkins. FSInsight

- **COVID-19 cases plateau**

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S&P 500: the next key level is the prior all-time highs of 3,394...

The S&P 500 close above 3,232 is important. We highlighted in several recent reports the importance of clearing these key levels for S&P 500.

- **And unless there is a serious relapse in the fundamental trajectory of the disease, Central Bank or economic health, we think this is a matter of time before old highs are taken out.**

Figure: S&P 500 50% retrace is key

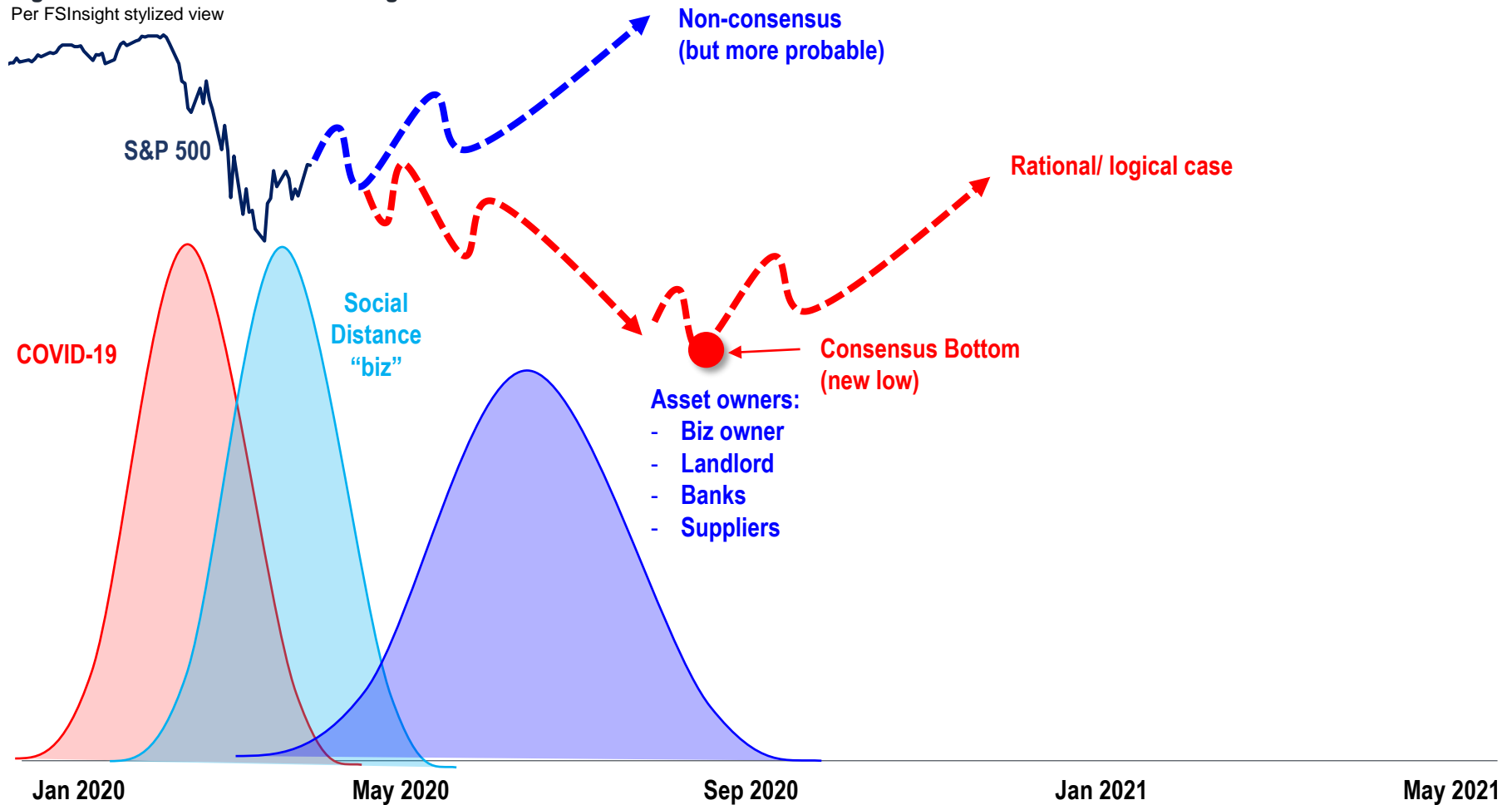


Source: Johns Hopkins, FSInsight, Bloomberg, Factset

WAY FORWARD: 3 Waves of “bad news” ahead... will stocks face the same?

The market is facing two subsequent waves of bad news. First, will be the loss of visibility for the “social distance” cos. Next will be the “asset owners” facing a second wave of dismay as social distance victims face challenges.

Figure: 3 Waves of bad news coming
Per FSInsight stylized view



Source: Johns Hopkins, FSInsight, Bloomberg, Factset

SOCIAL DISTANCE SPEND: \$717 billion of \$17T consumer wallet

Figure: Social Distance spending based on BLS data

BLS Consumer Expenditures Survey

		Total Social Distance "Taboo" spend	717.7
1. Housing	2,640.7		
Shelter ex-out of town [I]	2,570.8		
Lodging on out-of-town trips [I]	69.9	Hotel + Travel	69.9
		Lodging on out-of-town trips [I]	69.9
2. Transportation	1,283.0		
Transportation ex-Airfare + Cruises	1,206.9		
Transportation Airfare + Cruises	76.1	Airlines + Cruise spend	76.1
		Airline fares [I]	65.8
		Ship fares [I]	10.3
3. Food	1,041.4		
Food at home	586.8		
Food away from home	454.6	Restaurants + Bars + Eating Out	492.7
		Meals at restaurants, carry outs and other [D]	388.7
		Lunch [D]	123.9
		Dinner [D]	193.0
		Snacks and nonalcoholic beverages [D]	32.0
		Breakfast and brunch [D]	39.8
		Food or board at school [I]	4.5
		Catered affairs [I]	5.3
		Food on out-of-town trips [I]	45.4
		School lunches [I]	6.3
		Meals as pay [I]	4.4
		Alcohol away from home	38.1
4. Personal insurance and pensions [I]	958.9		
5. Healthcare	653.0		
6. Personal care products + Miscellaneous	552.8		
7. Entertainment	424.0		
Pets + Audio Visual Equipment + Svcs	344.9		
Social, recreation, health club membership [I] etc	79.0	Sports + Concerts + Movies	79.0
		Social, recreation, health club membership [I]	25.9
		Fees for participant sports [D]	13.0
		Play, theater, opera, concert [I]	8.8
		Movie, other admissions, out-of-town trips [I]	8.5
		Admission to sporting events [I]	6.7
		Tickets to movies [I]	6.4
		Tickets to parks or museums [I]	3.5
		Participant sports, out-of-town trips [I]	3.5
		Admission to sports events, out-of-town trips [I]	2.8
8. Apparel and services	245.3		
9. Cash contributions [I]	248.1		

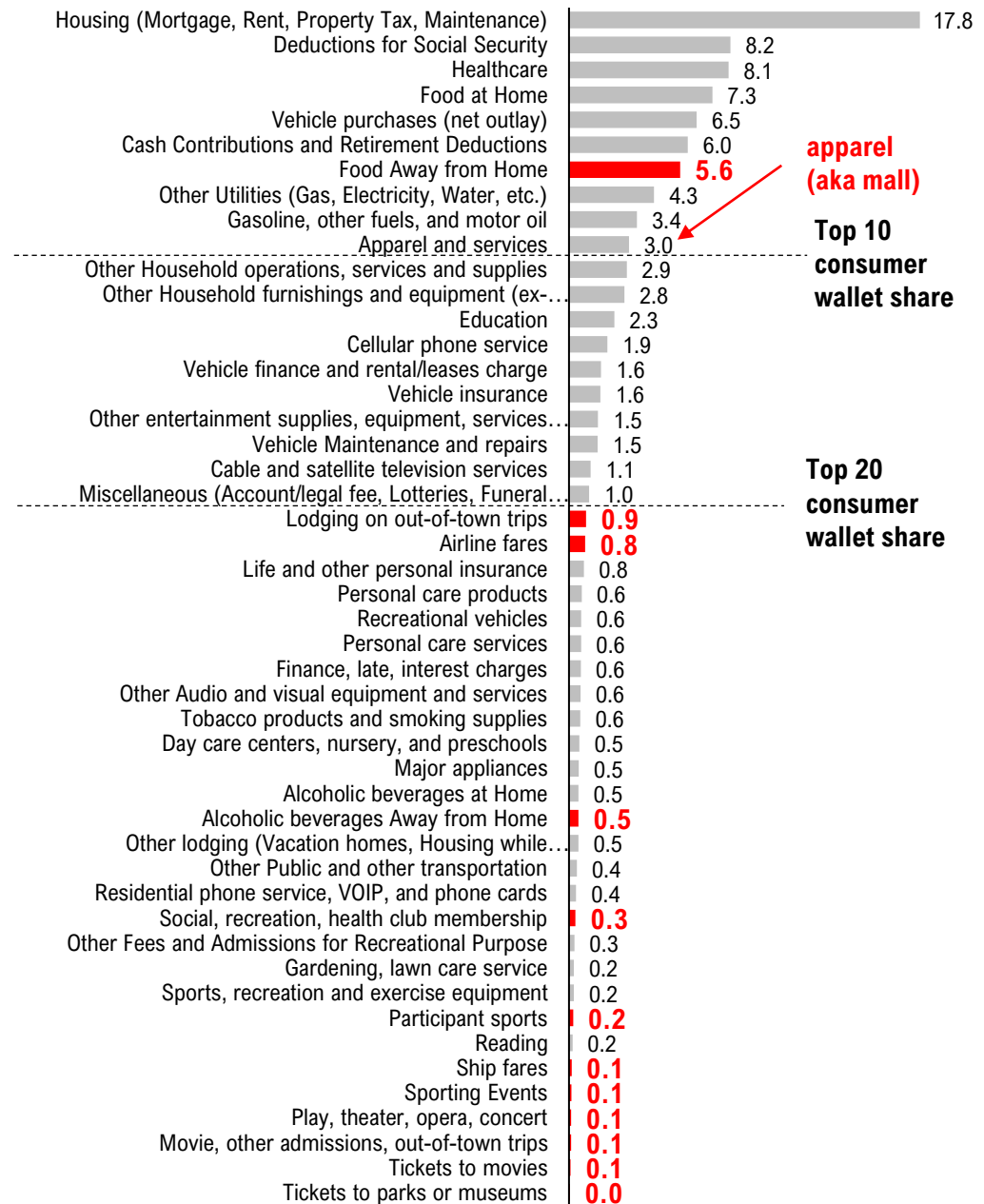
Source: FSI Insight, Bloomberg, Factset

RE-OPEN: as people are willing to visit malls and restaurants, these two are also the largest share of outside spending (+3% and +5.6%)

We took the 2018 BLS Consumer Expenditures Survey and condensed the 1,100 lines of consumer spending into 50 categories shown below. And we highlighted the "social distance" victim categories with a red bar (vs grey for everything else).

- According to [the GHRA survey](#), approximately 40% of respondents are willing to visit mall, off-mall stores and restaurant even without a vaccine. Restaurant and malls are actually the most significant outside spending categories shown on the right.
- Restaurant ("Food away from home") is 5.6% of the consumer wallet while Malls (mostly "Apparel") is 3%.
- Except these two categories, other "social distance" victim categories are mostly ranked low within the list.

■ Social Distance Category ■ % Total Expenditure



Source: FSInsight, Bloomberg, Factset

EMPLOYMENT: US employment started to recover since May...

Below we list the top 25 job-loss industries during the COVID-19 pandemic and their corresponding job recovery in May and June. The employment impact of “social distance” corporate victims generally have lower than US median income.

- The employment in most of these industries have well recovered since May. As the economy gradually reopens, industries like Dentists, Personal Cares, Automobile Dealers, Repair and Maintenance have recovered >50% of their job losses during the pandemic.

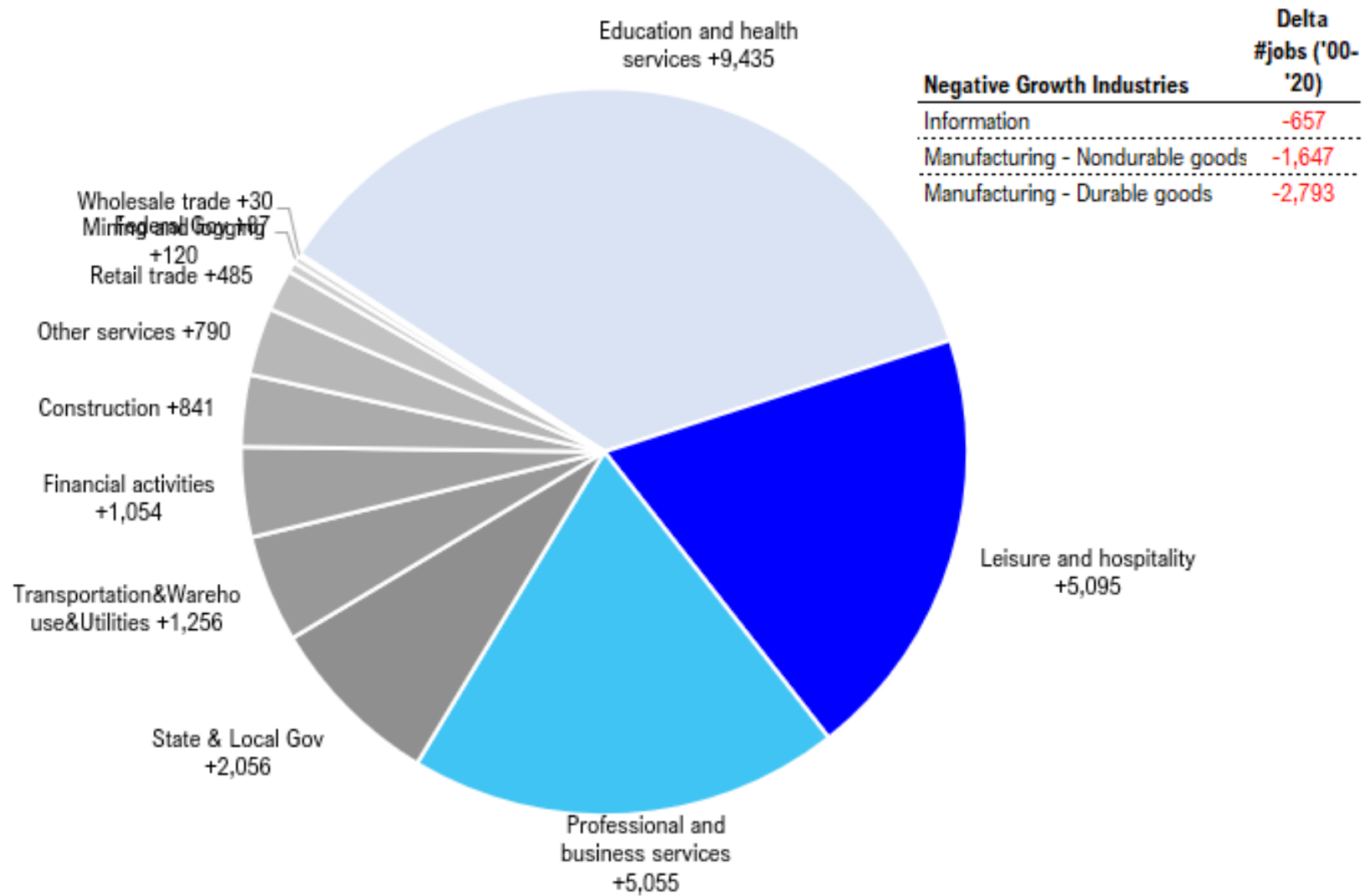
Figure: Top 25 job loss industries during the pandemic
Per BLS

Top 25 Job loss Industries (Feb - Apr)	Median Income	(a) February through April			(b) May Employment Report			(c) June Employment Report			(d)=(b)+(c)		(d)/(a)
		Job Losses Feb-Apr	Income Lost (\$B) Feb-Apr	As % Total Personal Income	Job added in May	Income Gained (\$B) in May	As % Total Personal Income	Job added in June	Income Gained (\$B) in May	As % Total Personal Income	Total Job added since May	% Recovery since May	
				100%		100%			100%				
Total Personal Income (\$B)			100%		100%			100%					
1 Food services and drinking places	\$23,890	-6,076	-\$145.2	-0.8%	1,462	\$34.9	0.2%	1,483	\$35.4	0.2%	2,945	48.5%	
2 Amusements, gambling, and recreation	26,800	-1,037	-\$27.8	-0.2%	68	\$1.8	0.0%	353	\$9.5	0.1%	421	40.6%	
3 Employment services(1)	31,260	-1,009	-\$31.6	-0.2%	50	\$1.6	0.0%	161	\$5.0	0.0%	212	21.0%	
4 Accommodation	26,980	-912	-\$24.6	-0.1%	-113	-\$3.0	-0.0%	239	\$6.4	0.0%	126	13.8%	
5 Personal and laundry services	27,570	-852	-\$23.5	-0.1%	171	\$4.7	0.0%	264	\$7.3	0.0%	435	51.1%	
6 Clothing and clothing accessories stores	25,310	-797	-\$20.2	-0.1%	74	\$1.9	0.0%	202	\$5.1	0.0%	275	34.5%	
7 Offices of dentists	48,520	-549	-\$26.6	-0.2%	256	\$12.4	0.1%	190	\$9.2	0.1%	447	81.4%	
8 Educational services	50,150	-511	-\$25.6	-0.1%	29	\$1.5	0.0%	93	\$4.7	0.0%	123	24.0%	
9 Local government education	48,980	-446	-\$21.8	-0.1%	-291	-\$14.3	-0.1%	70	\$3.4	0.0%	-221	-49.6%	
10 Nonresidential specialty trade contractors	47,820	-416	-\$19.9	-0.1%	162	\$7.7	0.0%	71	\$3.4	0.0%	233	56.1%	
11 Transportation equipment(1)	51,070	-401	-\$20.5	-0.1%	49	\$2.5	0.0%	193	\$9.9	0.1%	242	60.2%	
12 Child day care services	26,430	-371	-\$9.8	-0.1%	32	\$0.9	0.0%	80	\$2.1	0.0%	112	30.3%	
13 Local government, excluding education	48,980	-342	-\$16.8	-0.1%	-180	-\$8.8	-0.1%	-14	-\$0.7	-0.0%	-193	-56.5%	
14 Residential specialty trade contractors	47,820	-328	-\$15.7	-0.1%	161	\$7.7	0.0%	64	\$3.1	0.0%	225	68.5%	
15 Offices of physicians	46,330	-295	-\$13.7	-0.1%	62	\$2.9	0.0%	80	\$3.7	0.0%	142	48.2%	
16 Automobile dealers	36,950	-289	-\$10.7	-0.1%	90	\$3.3	0.0%	58	\$2.1	0.0%	148	51.0%	
17 Miscellaneous store retailers	26,060	-276	-\$7.2	-0.0%	65	\$1.7	0.0%	70	\$1.8	0.0%	135	48.7%	
18 Membership associations and organizations	41,150	-274	-\$11.3	-0.1%	11	\$0.5	0.0%	32	\$1.3	0.0%	43	15.8%	
19 Services to buildings and dwellings	29,660	-268	-\$7.9	-0.0%	65	\$1.9	0.0%	53	\$1.6	0.0%	118	44.0%	
20 Department stores	25,310	-268	-\$6.8	-0.0%	47	\$1.2	0.0%	49	\$1.2	0.0%	96	35.9%	
21 Individual and family services	28,070	-247	-\$6.9	-0.0%	19	\$0.5	0.0%	28	\$0.8	0.0%	47	18.8%	
22 Repair and maintenance	38,020	-244	-\$9.3	-0.1%	79	\$3.0	0.0%	60	\$2.3	0.0%	140	57.1%	
23 Performing arts and spectator sports	37,330	-243	-\$9.1	-0.1%	-10	-\$0.4	-0.0%	11	\$0.4	0.0%	2	0.7%	
24 Offices of other health practitioners	45,670	-237	-\$10.8	-0.1%	68	\$3.1	0.0%	48	\$2.2	0.0%	115	48.5%	
25 Motion picture and sound recording industri	43,360	-236	-\$10.2	-0.1%	-10	-\$0.5	-0.0%	3	\$0.1	0.0%	-8	-3.3%	
Total	\$37,624	-16,926	-\$533	-3.0%	2,414	\$69	0.4%	3,943	\$122	0.7%	6,357	37.6%	
Other Industries		-5,213	-\$553	-3.1%	285	\$64	0.4%	857	\$114	0.6%	1,142	21.9%	
All Industries	\$49,089	-22,139	-\$1,086.8	-6.2%	2,699	\$132	0.8%	4,800	\$236	1.3%	7,499	33.9%	

Most of the hardest-hit industries are well recovered since May...

Source: FSInsight, BLS

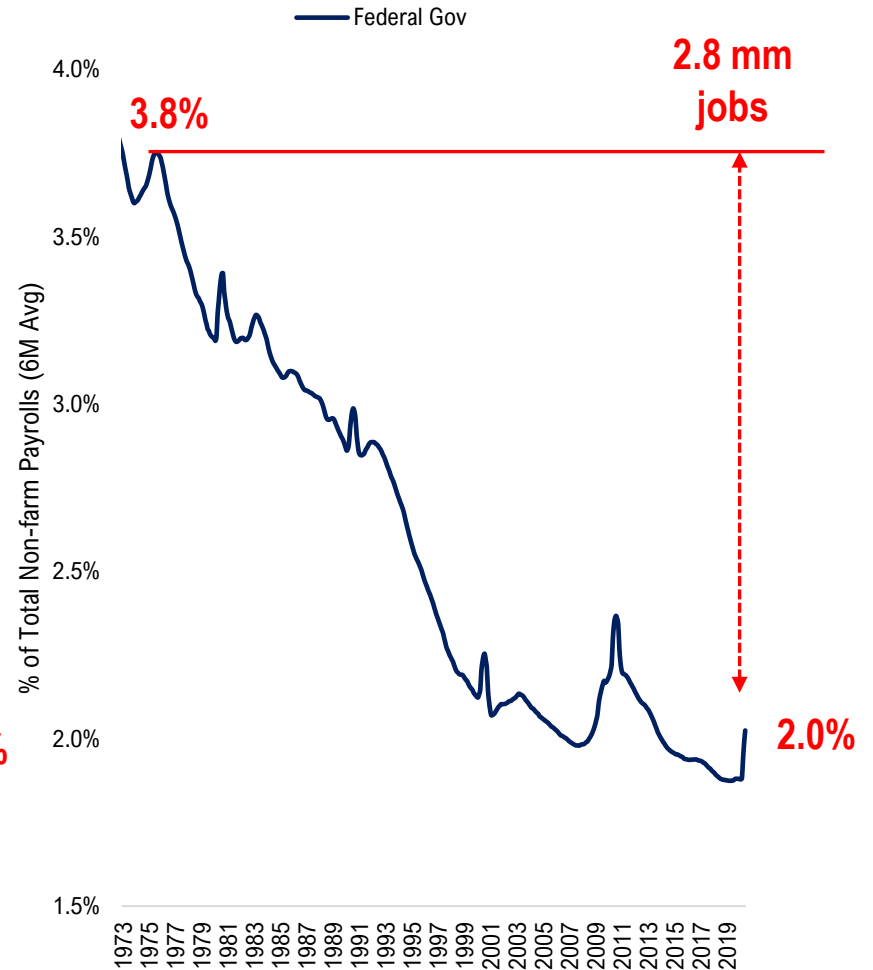
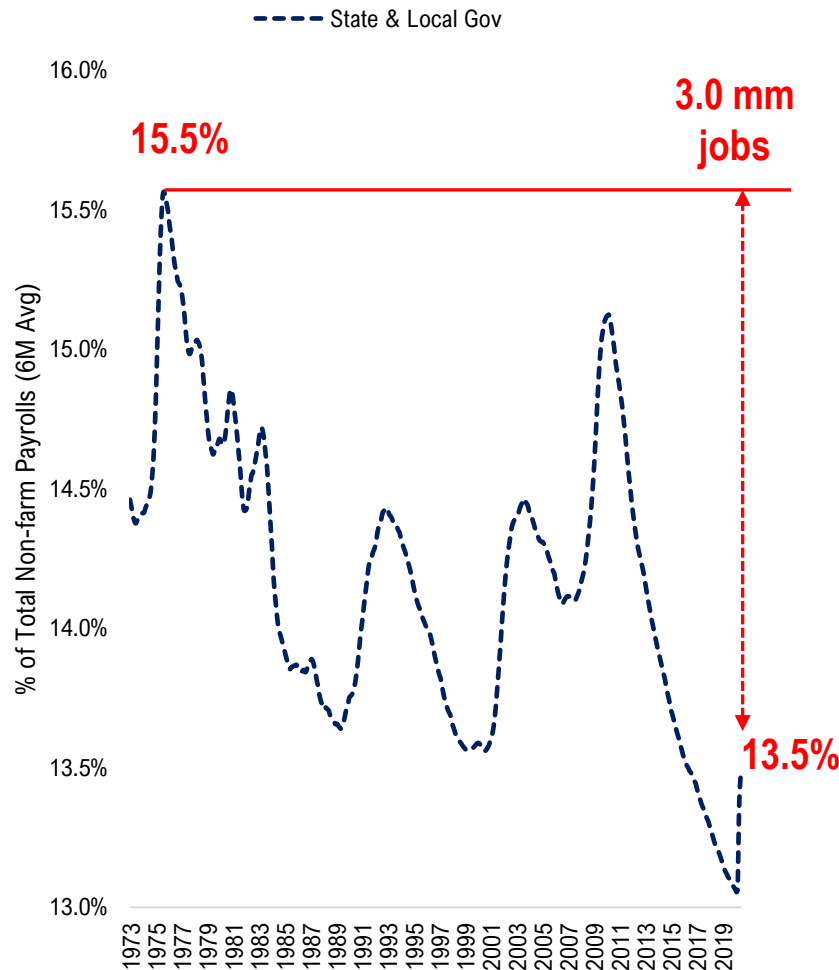
EMPLOYMENT: Jobs growth past 20 years (2000-2020) from 3 areas...



Source: FSInsight, BLS

FUTURE JOBS: Federal and State + Local Governments could expand...

- If Federal and State/Local employment share of employment recovers to early 1970s levels, this is 5.8 million Jobs
- This more than replaces lost “leisure” jobs from COVID-19.



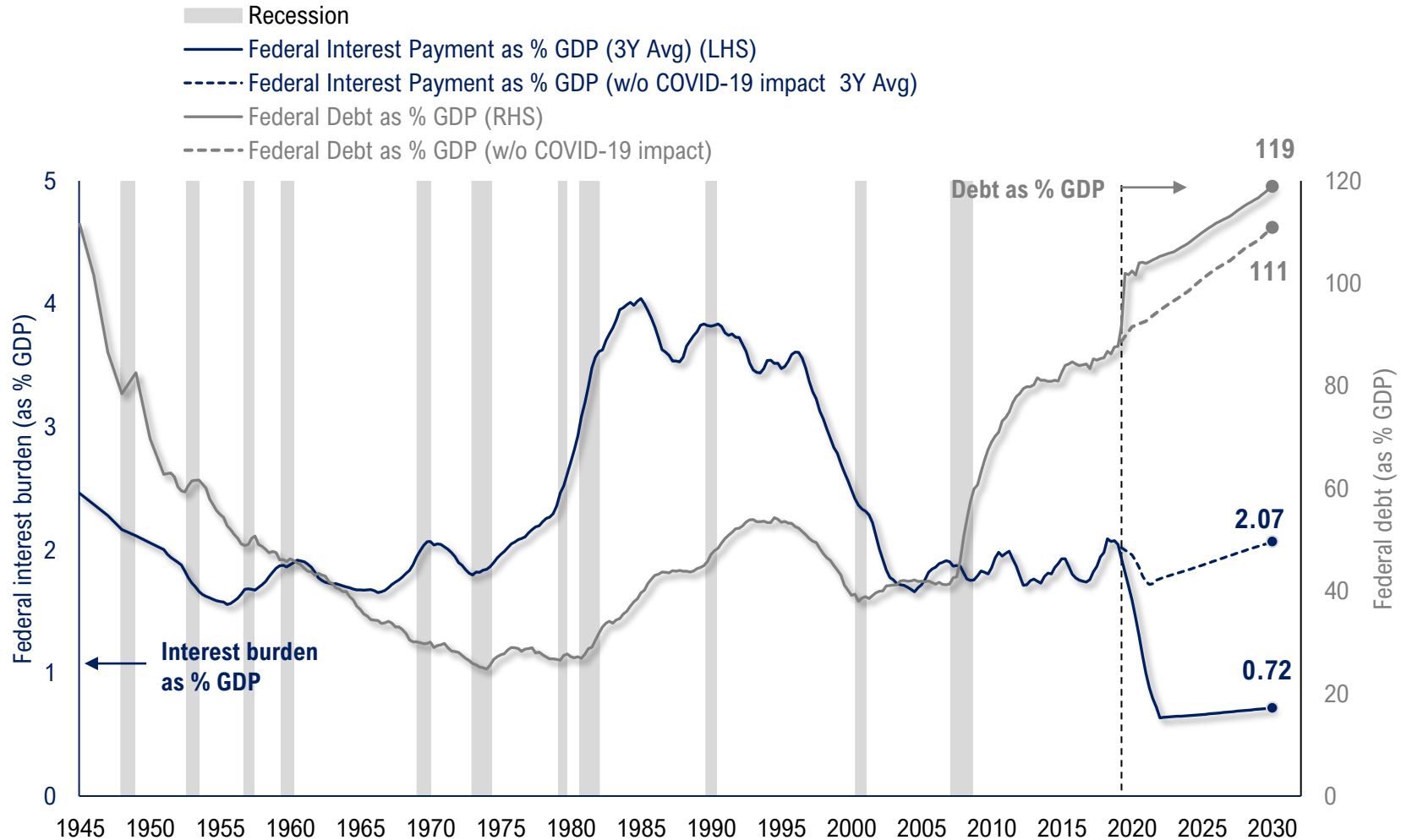
Source: FSI Insight, BLS

GOVT DEBT: Per CBO, US debt service falls, even w/COVID-19 debt...

- Because the broad drop in US interest rates (10-yr has dropped from 2% to 0.6%), post-COVID, debt service is set to fall in the coming years. Per the CBO.

Figure: Federal debt service forecast based on COVID-19 federal spending

Since 1945

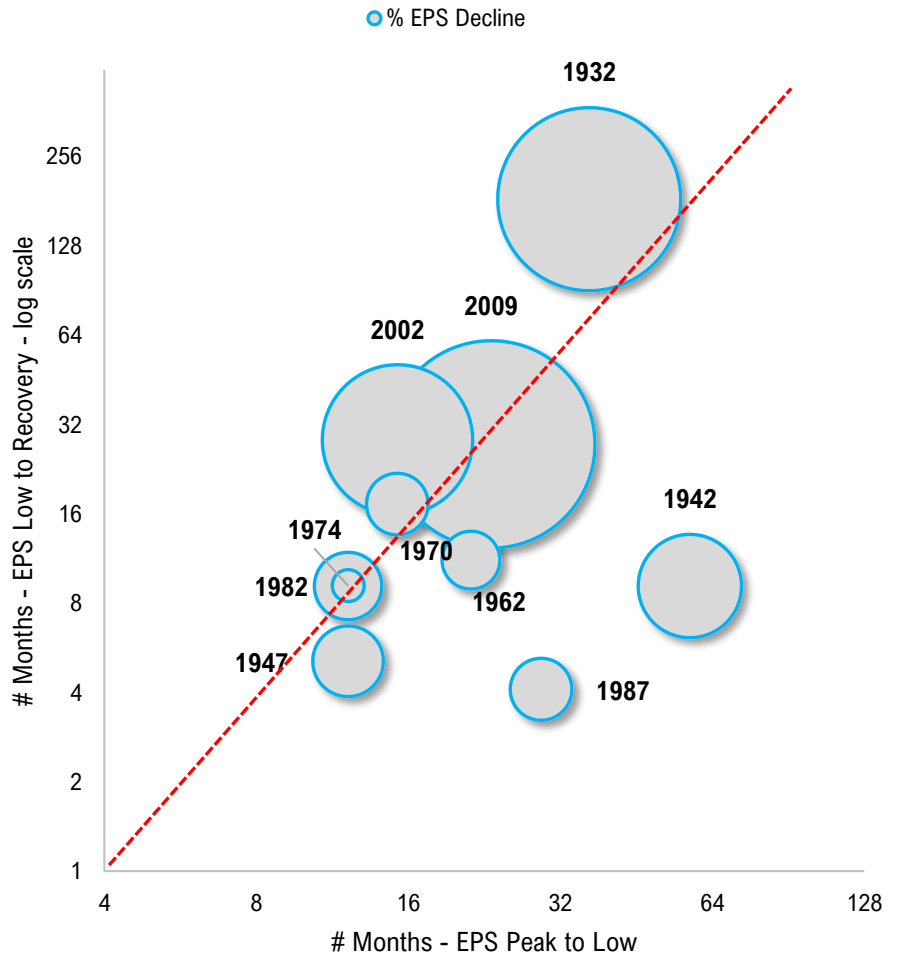


Source: FSInsight, Bloomberg, Factset

PROFIT RECOVERY: Generally, EPS recovery is symmetric

Figure: EPS peak to trough declines and time to recover to peak
Since 1929

Earnings Peak	Earnings Trough	Earnings Recovery	% EPS Decline	# Months Peak to Low	# Months Low to Recover	Ratio recovery to decline
12/31/1929	12/31/1932	1/31/1948	-75%	37	184	5.0x
9/30/1941	6/30/1946	3/31/1947	-29%	58	9	0.2x
6/30/1945	6/30/1946	11/30/1946	-16%	12	5	0.4x
9/30/1959	6/30/1961	5/31/1962	-12%	21	11	0.5x
9/30/1969	12/31/1970	5/31/1972	-13%	15	17	1.1x
9/30/1974	9/30/1975	6/30/1976	-15%	12	9	0.8x
3/31/1980	3/31/1981	12/31/1981	-5%	12	9	0.8x
1/31/1985	6/30/1987	10/31/1987	-13%	29	4	0.1x
9/30/2000	12/31/2001	4/30/2004	-54%	15	28	1.9x
6/30/2007	5/31/2009	8/31/2011	-91%	23	27	1.2x
			-32%	24	30	1.2x
			-15%	18	10	0.8x



During GFC, EPS recovery = EPS decline duration

Source: Johns Hopkins, FSInsight, Bloomberg, Factset

OPERATING LEVERAGE: GFC, Discretionary EBIT ATH with 11% less sales

Figure: Consumer Discretionary comparative statistics

FSInsight

			1Q10 vs 2Q07...	
	2Q07	1Q10	Dollar delta	% change
Consumer Discretionary \$ billions				
Sales	\$356.0	\$316.9	(\$39.1)	(11.0%)
Cash expenses	308.9	270.6	(38.3)	(12.4%)
EBITDA	47.1	46.3	(0.8)	(1.7%)
EBITDA margin	13.2%	14.6%		1.4%
D&A	17.3	13.4	(3.9)	(22.5%)
Op. Income	\$29.8	\$32.9	\$3.1	10.4%

Operating Income

	Pre-GFC peak	Date recovered	Sales vs Peak
Consumer Discretionary	2Q07	1Q10	-11%
Automobile Manufacturers	3Q07	1Q10	-78%
Homebuilding	1Q07	4Q09	-69%
Consumer Electronics	1Q07	3Q19	-52%
Auto Parts & Equipment	2Q08	1Q15	-28%
Home Furnishings	3Q08	3Q09	-26%
Apparel, Accessories & Luxury Goods	1Q07	4Q09	-15%
Restaurants	3Q08	2Q09	-6%
Computer & Electronics Retail	1Q07	1Q10	-5%
Leisure Products	3Q08	3Q09	-5%
Footwear	3Q08	3Q10	-3%
Specialized Consumer Services	2Q08	2Q09	-1%
Department Stores	1Q07	1Q15	-1%
Automotive Retail	3Q08	2Q10	5%
Distributors	2Q08	3Q10	6%
Internet & Direct Marketing Retail	1Q07	3Q09	7%
Apparel Retail	1Q08	1Q11	11%
General Merchandise Stores	1Q08	1Q10	12%
Education Services	2Q08	4Q08	19%
Home Improvement Retail	3Q07	3Q11	19%
Tires & Rubber	1Q08	3Q11	21%
Homefurnishing Retail	1Q07	1Q10	22%
Hotels, Resorts & Cruise Lines	3Q08	3Q14	22%
Motorcycle Manufacturers	3Q07	1Q14	23%
Housewares & Specialties	2Q08	3Q12	30%
Household Appliances	3Q07	2Q11	94%
Casinos & Gaming	3Q07	4Q19	—
Specialty Stores	1Q07	—	—

Source: FSInsight, Bloomberg, Factset

OPERATING LEVERAGE: 5 of 11 re-attained pre-GFC ATH EBIT w/lower Revs

Figure: EBIT and Revs for GICS

Per FSInsight

	<u>Operating Income Peak</u>			<u>Op Income Trough</u>		<u>Op Income Reattains Peak</u>			# Quarters back to pre-GFC	Sales vs Peak
	Quarter	\$/ share	Rev/ share	Quarter	\$/ share	Quarter	\$/ share			
Consumer Discretionary	2Q07	6.63	79.30	4Q08	-1.07	1Q10	7.14	11	-13%	
Basic Materials	2Q08	7.18	56.79	4Q08	0.89	1Q11	7.84	11	-13%	
Industrials	2Q08	8.76	69.36	1Q09	4.40	2Q12	9.13	16	-1%	
Technology	4Q07	6.81	40.94	1Q09	1.30	4Q09	7.67	8	-5%	
Energy	3Q08	27.75	157.95	1Q09	-0.20	—	—	—	—	
Financials	2Q07	10.64	80.71	4Q08	-28.72	1Q19	11	47	-27%	
Communication Services	2Q08	4.62	27.24	4Q09	3.24	1Q11	4.68	11	5%	
Consumer Staples	3Q08	6.97	70.71	4Q08	5.46	3Q09	7.39	4	1%	
Healthcare	3Q08	8.62	66.32	4Q09	6.94	2Q10	9.16	7	19%	
Utilities	3Q08	8.06	43.37	2Q09	4.30	—	—	—	—	

Source: FSInsight, Bloomberg, Factset

OPERATING LEVERAGE: Employee expense as % cash costs

Figure: Estimated employee cost as % cash costs

Per FSInsight

	<i>Employee costs...</i>				As % Cash exp	EBITDA	Operating Income	Net Income
	Revenue	Cash Costs	# Employees	\$				
S&P 500	\$12,009	\$9,626	26,113,500	\$2,037	21%	\$2,430	\$1,629	\$1,315
Consumer Discretionary	1,615	1,374	5,688,142	444	32%	241	141	112
Information Technology	1,275	888	3,185,063	248	28%	387	286	247
Consumer Staples	1,382	1,225	4,379,775	342	28%	156	117	102
Industrials	1,367	1,136	3,994,598	312	27%	230	159	129
Real Estate	113	62	193,952	15	25%	51	26	17
Financials	1,494	1,033	2,756,822	215	21%	460	397	252
Materials	377	314	728,526	57	18%	64	32	33
Communication Services	944	652	1,409,204	110	17%	291	171	133
Utilities	319	203	366,129	29	14%	116	63	52
Health Care	2,162	1,870	2,833,220	221	12%	292	205	182
Energy	1,008	868	578,069	45	5%	140	28	54

Source: FSInsight, Bloomberg, Factset

EPS: Ramp up strongly in 3Q20, 4Q20 and really surprise to upside in 2021

Three factors are weighing in on EPS over the next 12-15 quarters.

- (i) The impact from economic shutdown (Corona hit) and this is worst in 2Q2020, and starts to fade; (ii) the tailwind from cost engineering, which starts to be seen in 3Q2020 but really is strongest in 2021; (iii) the economic recovery tailwinds, which is both the re-opening + fiscal stimulus + interest rate savings. This should be the strongest in 2021.

Figure: S&P 500 Quarterly and Monthly EPS

Per FSInsight

	Monthly EPS	Quarter EPS	Corona hit	Cost savings/ Engineering costs	Economic recovery impact
1Q2020	see above	\$33.49	MILD *1 month)	NONE	NONE
2Q2020	-\$4.16	-12.50	SEVERE (3 months)	NONE	NONE
3Q2020	1.65	5.00	MODERATE (1.5 months)	MODERATE (1.5 months)	MODERATE (1.5 months)
4Q2020	8.00	24.00	Minimal	MAJOR (Labor + Real Estate)	MAJOR
<hr/>					
2020 Full Year		\$50.00			
2021 Full Year	\$16.08	\$193.00	None	MASSIVE (Labor + Real Estate)	MASSIVE (Stimulus + lower rates)

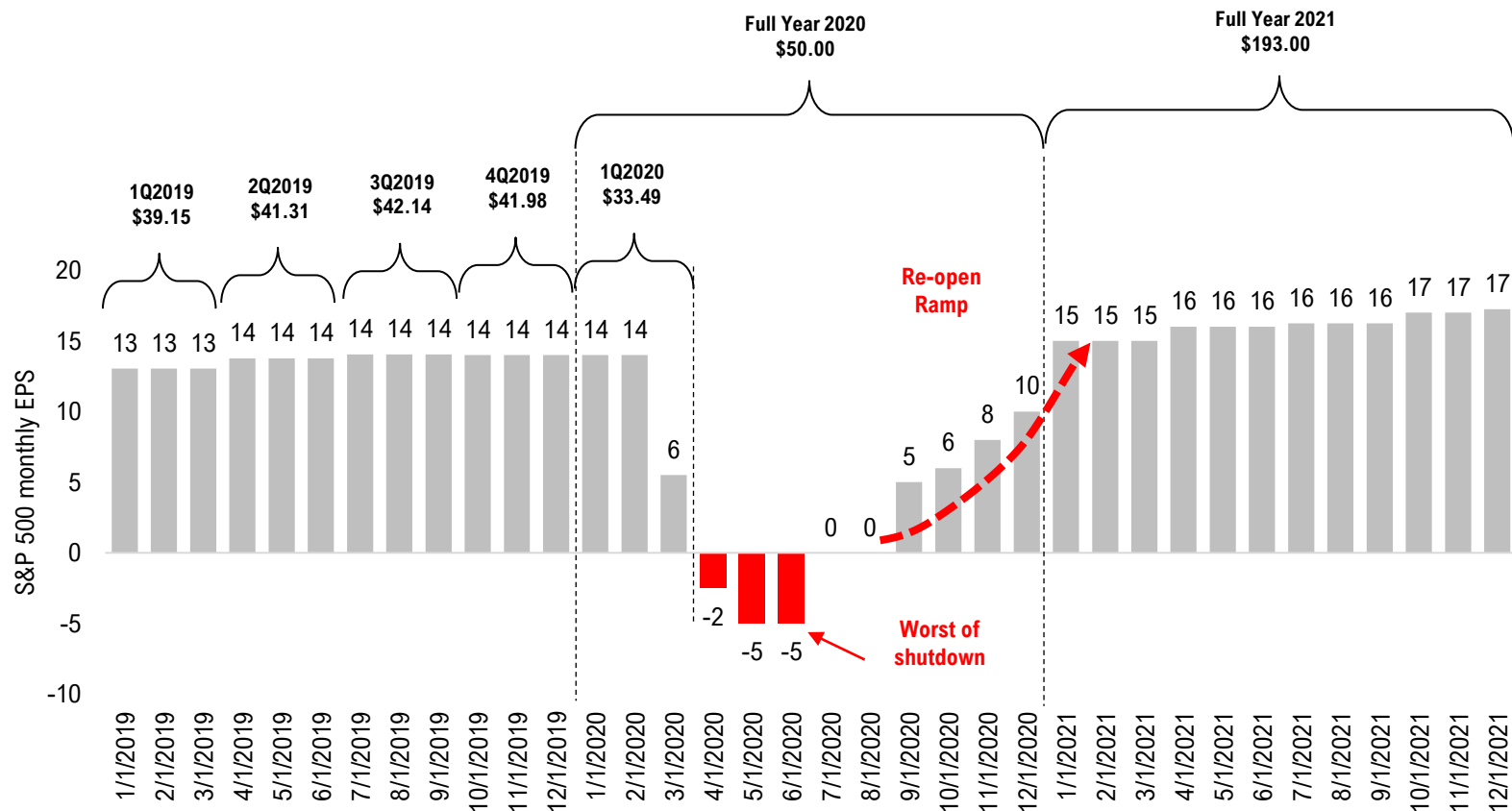
Source: FSInsight

EPS: 2021 EPS could be \$193 or even higher as we expect it to ramp up in 3Q2020 and 4Q2020...

Based on the three factors ([Slide 2](#)), we see monthly EPS really strengthening starting from 3Q2020 and into 2021.

- We think S&P 500 2021 EPS could be ~\$193/share or even higher, which reflects the operating leverage from cost savings (engineering costs + real estate) and lower debt service due to lower interest rates.

Figure: S&P 500 monthly EPS
Since 2019



Source: FSInsight, Refinitiv

- **COVID-19 cases plateau**
- **GDP <> EPS <> Stocks**

- **2020 Election dynamics**

- **New Normal: “Epicenter” groups struggle**
- **Demographics might explain Tech + Equity stamina**
- **“Granny shots” outperforming in 2020**



L. Thomas Block Washington and Policy Strategist

Tom had a 21-year career at J.P. Morgan, as Global Head of Government Relations. Prior to that, he served as Legislative Assistant and Chief of Staff in the House, and Legislative Staff Director in the Senate.

The Harris Poll

For release: Thursday AM, July 28, 1988

1988 #60
ISSN 0895-7983

DUKAKIS HOLDS 18 POINT LEAD, WITH GOP STILL TO BE HEARD FROM

By Louis Harris

The very temporary bottom line from the Democratic convention is that Governor Michael Dukakis took a three point lead into Atlanta and came out with a big and gaudy 18 point margin over Vice President Bush -- by 57-39 percent. While this is one of the biggest leads for a Democrat coming out of their convention in 24 years, two caveats are immediately in order. First, the Republican convention is yet to be held in New Orleans next month. Second, while Dukakis added to the positive impression, Bush did not become more unpopular.

According to this Harris Poll, taken by telephone between July 22nd and 25th, among a national cross section of 1,268 voters, the number who said they would vote for Dukakis rose 7 points from 50 to 57 percent, while the number committed to George Bush dropped from 47 to 39 percent, a decline of 8 points. This means the lead of the Massachusetts Democrat shot up from 3 to 18 points.

Significantly, the message that emanated from Atlanta was that it is time for change. The number of voters who now opt for the next president starting with new policies increased from 57 to 64 percent, precisely the same 7 points that Dukakis gained. The number who want the country to head in the same direction dropped from 38 to 31 percent from just before the Democratic convention. It is critical for Bush to turn this balance around by the end of the GOP convention next month, since 3 in every 4 who want basic change also want Dukakis in the White House.

Perhaps the most significant gain for the new Democratic nominee emerged in the number who view him as a leader. Before the convention a 55-38 percent majority saw Dukakis as a leader. Now, that number has soared to 64-33 percent, up 9 points. However, despite the heavy attacks on Bush from keynote speaker Ann Richards and Senator Edward Kennedy at the convention, the balance on Bush on the leadership equation remained the same: 47 percent positive and 50 percent negative. Significantly, no more than 47 percent expressed a positive view of Kennedy's speech and only 52 percent reacted positively to the keynote address. So the anti-Bush rhetoric did not seem to change much of the basic voter set in the election.

By contrast, the acceptance speech of Michael Dukakis was a smash success, with a 73-15 percent majority reacting positively toward it. Indeed, overall, an 80-17 percent were positive about the nomination of the Massachusetts Governor by the Democrats. Among the 83 percent of the voters who said they saw at least part of the convention on TV, Dukakis holds a commanding 58-38 percent lead in voter preference. Among the 17 percent who were not exposed to TV coverage, the Democratic edge is much smaller: 52-44 percent margin. This means that the Democratic convention, especially Dukakis' own speech, added a full 12 points to his current lead.

Now, of course, the burden is on Bush and the GOP to match that performance.

TABLES

Between July 22nd and 25th, the Harris Poll asked a nationwide cross section of 1,268 voters by telephone:

"Of course, this November for president, it will be Vice President George Bush for the Republicans and Governor Michael Dukakis for the Democrats. If you had to choose right now, would you be for Bush or Dukakis?"

PREFERENCE FOR BUSH OR DUKAKIS

	July 22-25	July 7-12
Bush	39	47
Dukakis	57	50
Not Sure	4	3

"How would you rate (READ EACH NAME) as a leader, on a scale of 1 to 10, with 1 being the worst, and 10 the best?"

LEADERSHIP RATINGS OF BUSH AND DUKAKIS

	July 22-25			July 7-12		
	(**) <u>Positive</u>	<u>Negative</u>	<u>Not Sure</u>	<u>Positive</u>	<u>Negative</u>	<u>Not Sure</u>
Vice President Bush	47	50	3	47	50	3
Governor Dukakis	64	33	3	55	38	7

(**)Positive = 6 to 10 on scale

Negative = 1 to 5 on scale

"Whoever is elected president this year will have to decide whether to break with the past or whether to continue in the direction we are headed. Would you like to see the next president start with new policies or keep us headed in the same direction?"

DIRECTIONS FOR NEXT PRESIDENT

	July 22-25	July 7-12
Start with new policies	64	57
Keep headed in same direction	31	38
Not sure	5	5

METHODOLOGY

This Harris Poll was conducted by telephone within the United States between July 22nd and 25th, among a cross section of 1,268 voters nationwide. Voters are defined as those adults who voted in the 1984 presidential election, or who are now 18 to 29 years of age and say they are absolutely or probably certain to vote in the 1988 presidential election. Figures for age, sex, race and education were weighted where necessary to bring them into line with their actual proportions in the population.

In a sample of this size, one can say with 95 percent certainty that the results have a statistical precision of plus or minus three percentage points of what they would be if the entire adult population had been polled.

This statement conforms to the principles of disclosure of the National Council on Public Polls.

The Harris Poll

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PREFERENCE FOR BUSH OR DUKAKIS

July 22-25

Bush
Dukakis
Not Sure

%

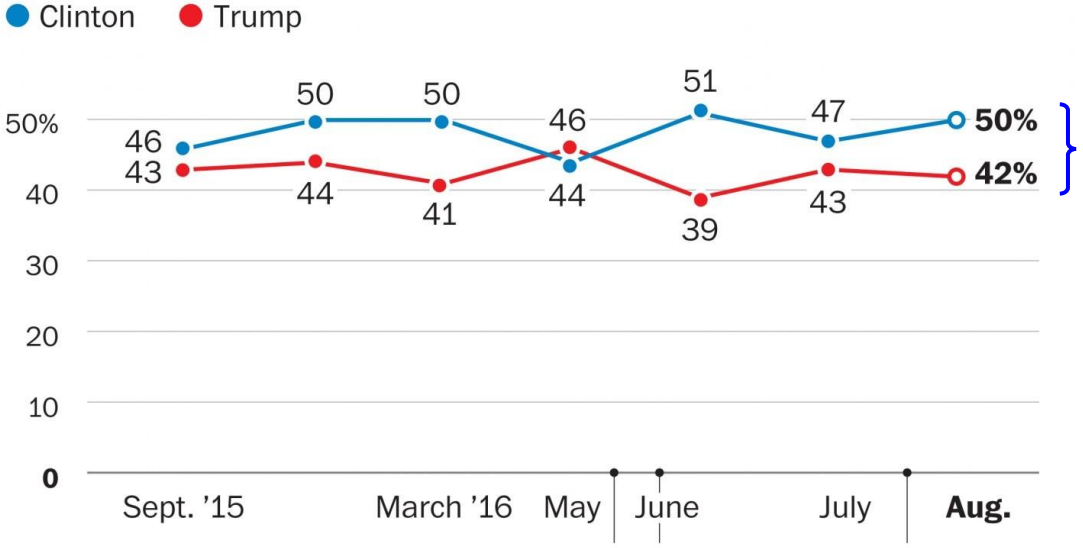
39
57
4

July 1988 –
Dukakis led
Bush by 18
points

<https://theharrispoll.com/wp-content/uploads/2017/12/Harris-Interactive-Poll-Research-DUKAKIS-HOLDS-18-POINT-LEAD-WITH-GOP-STILL-TO-BE-HEARD-FROM-1988-07.pdf>

Clear lead for Clinton after conventions

Q: If the presidential election were being held today and the candidates were Hillary Clinton and Tim Kaine, the Democrats, and Donald Trump and Mike Pence, the Republicans, for whom would you vote?






July 2016 - Clinton has widened lead ahead of Trump to 8 points

Note: Other/No opinion not shown.

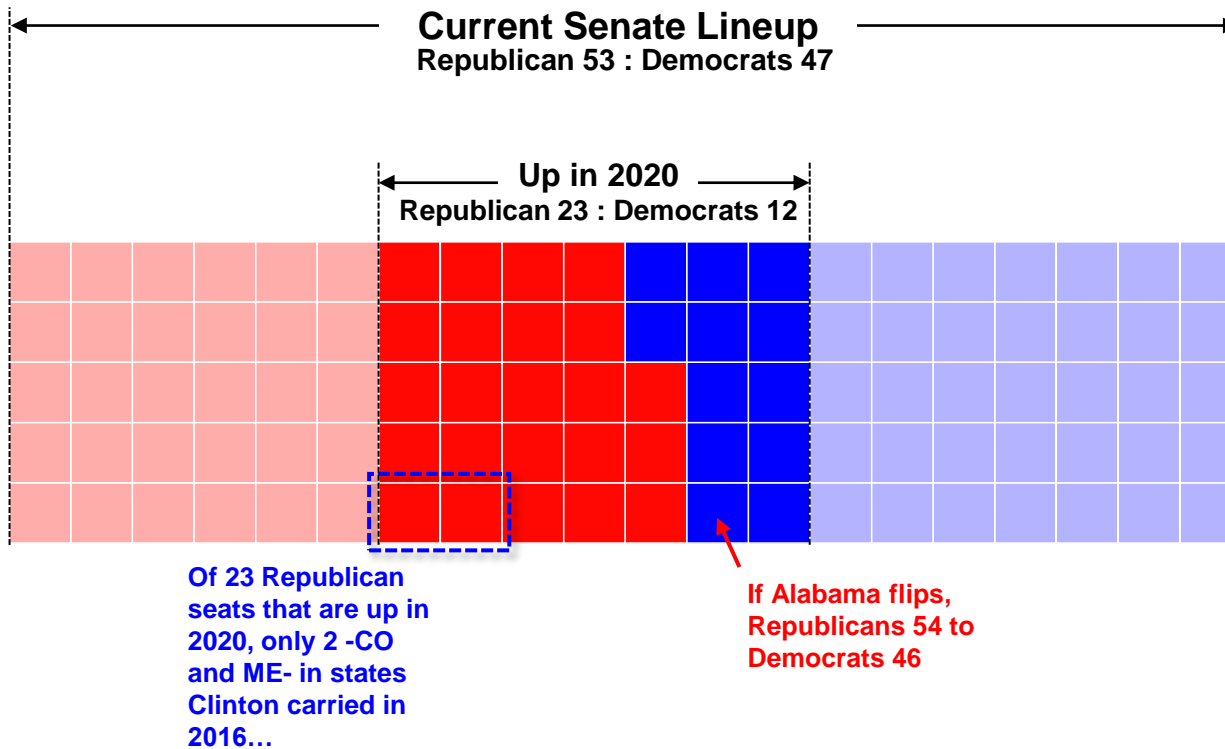
Trump claims nomination Clinton claims nomination Democratic and Republican conventions

Source: Washington Post-ABC News poll Aug. 1-4; error margin +/- 4 percentage points among 815 registered voters.

Tom Block's Takeaways...

State	RCP Polls				Prior Elections...		
	Biden	Trump	RCP Average	4 Years Ago	2016 	2012 	2008 
Wisconsin (10)	47.8	41.8	Biden +6.0	Clinton +5.5	Trump +0.7	Obama +6.9	Obama +13.9
Michigan (16)	48	40.3	Biden +7.7	Clinton +3.7	Trump +0.3	Obama +9.5	Obama +16.4
Ohio (18)	47	44.7	Biden +2.3	Clinton +2.5	Trump +8.1	Obama +3.0	Obama +4.6
Pennsylvania (20)	49.4	42.8	Biden +6.6	Clinton +1.0	Trump +0.7	Obama +5.4	Obama +10.3
Florida (29)	49.4	43.6	Biden +5.8	Trump +0.2	Trump +1.2	Obama +0.9	Obama +2.8
Georgia (16)	45	47.7	Trump +2.7	Trump +5.3	Trump +5.1	Romney +7.8	McCain +5.2
North Carolina (15)	47.3	45.3	Biden +2.0	Clinton +2.0	Trump +3.7	Romney +2.0	Obama +0.3
New Hampshire (4)	48	43.7	Biden +4.3	Clinton +3.7	Clinton +0.3	Obama +5.6	Obama +9.6
Iowa (6)	44.5	46	Trump +1.5	Trump +0.2	Trump +9.5	Obama +5.8	Obama +9.5
Missouri (10)	43.3	49.7	Trump +6.4	Trump +7.5	Trump +18.5	Romney +9.4	McCain +0.1
Arizona (11)	47.8	45	Biden +2.8	Clinton +0.5	Trump +3.5	Romney +9.1	McCain +8.5
Nevada (6)	48.3	44.3	Biden +4.0	Clinton +0.5	Clinton +2.4	Obama +6.7	Obama +12.5

Source: FSInsight, RCP



Most endangered Republicans

AZ: McSally vs Kelly
CO: Gardner vs Hickenlooper

TB Toss up

ME: Collins vs Gideon
MT: Daines vs Bullock

RCP Toss ups

Republican Seats
GA: Perdue vs Ossoff
IA: Ernst vs Greenfield
NC: Tillis vs Cunningham
Democratic seat
MI: Peters vs James

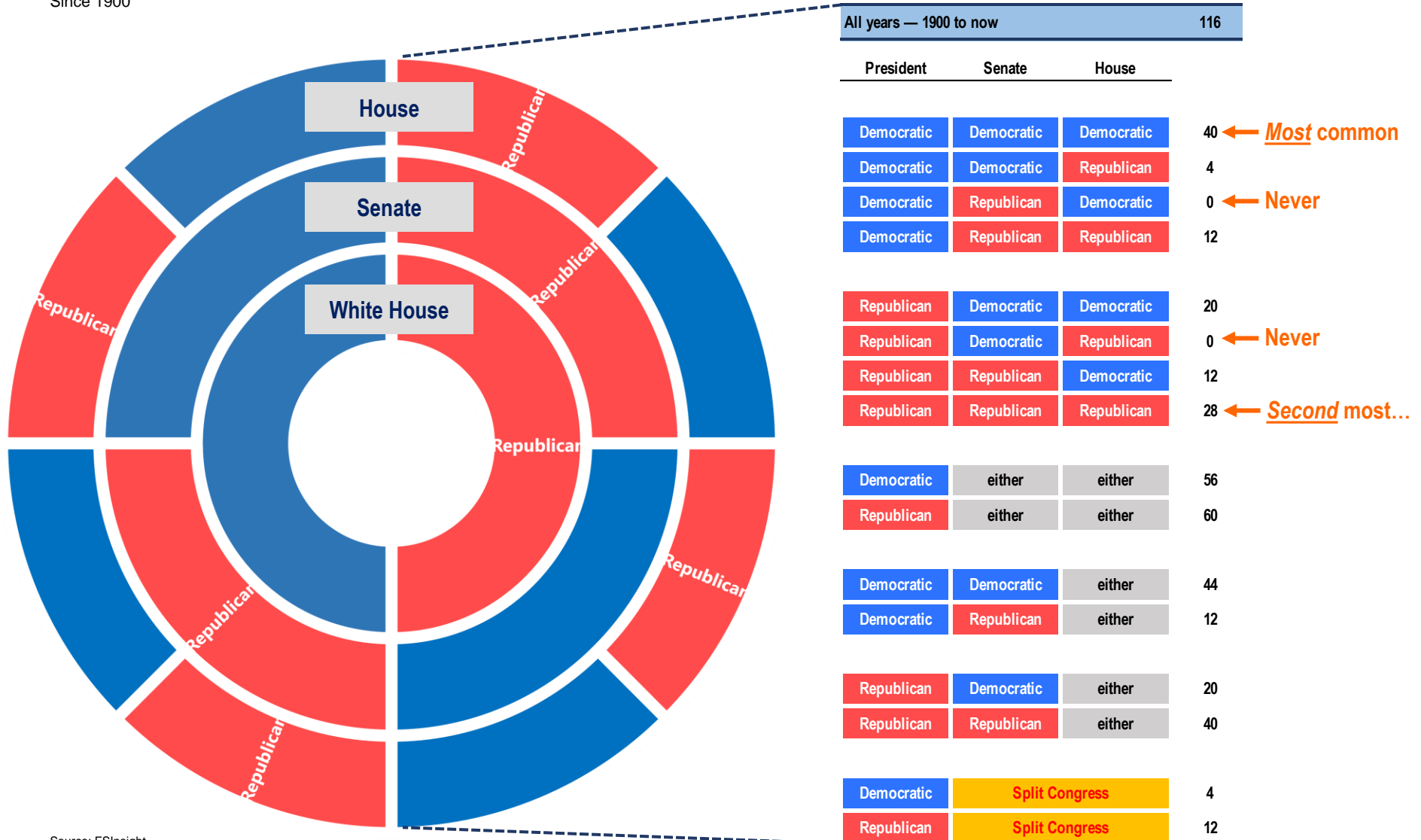
Source: FSInsight, RCP

Of 16 combinations of Political Power, D-R-D and R-R-D never seen

Figure: Different combinations of White House and Senate and House of Representatives analyzed

Since 1900

of years



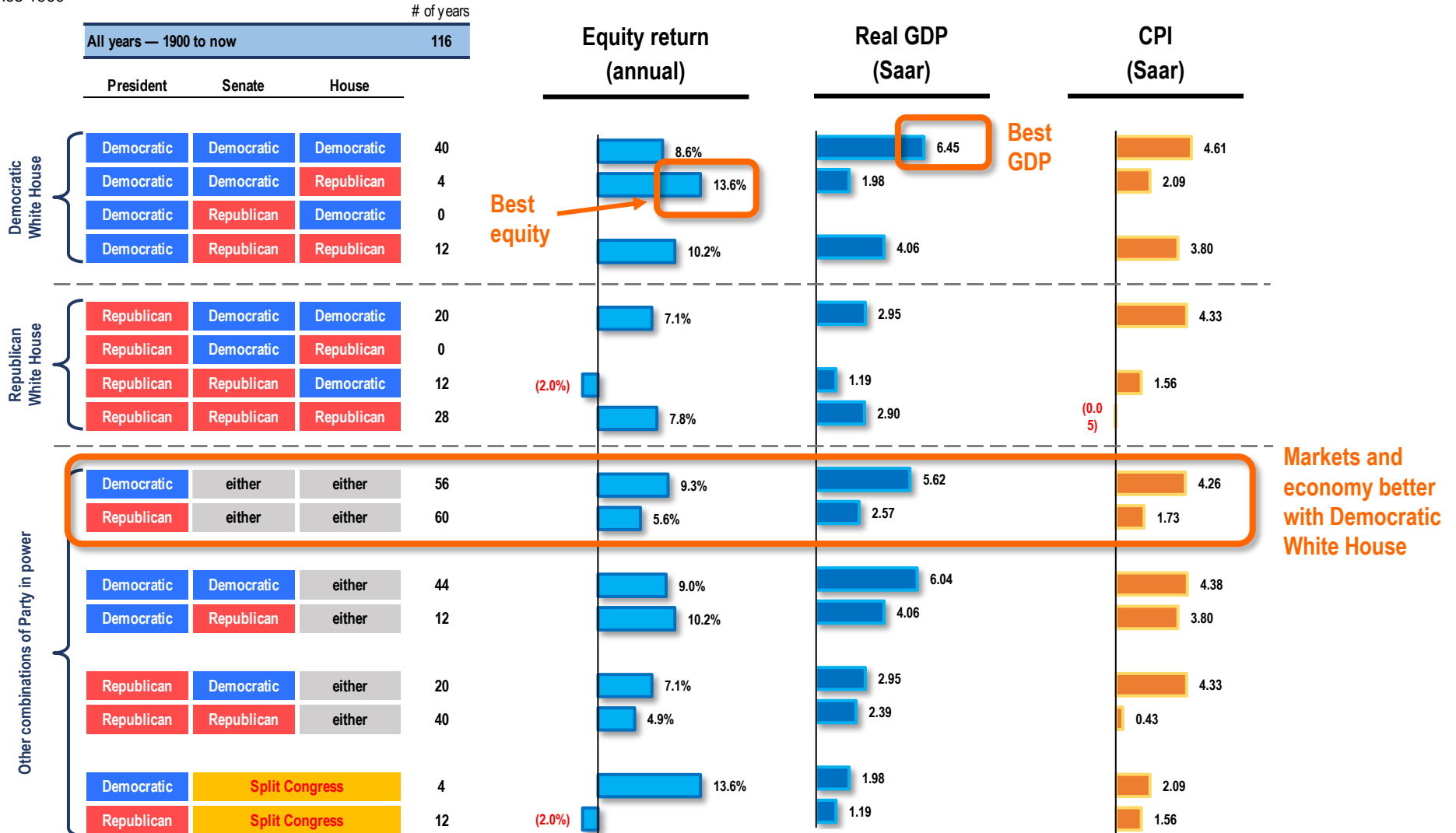
Source: FSInsight

Political party in control: Comparative Stock and economic returns

Equity markets in general, have done best with **Democratic Presidents**, regardless of Congress.

Figure: Political Party and Comparative Equity and GDP returns

Since 1900



Source: FSI Insight, Bloomberg

- **COVID-19 cases plateau**
- **GDP <> EPS <> Stocks**
- **2020 Election dynamics**

• **New Normal: “Epicenter” groups struggle**

- **Demographics might explain Tech + Equity stamina**
- **“Granny shots” outperforming in 2020**

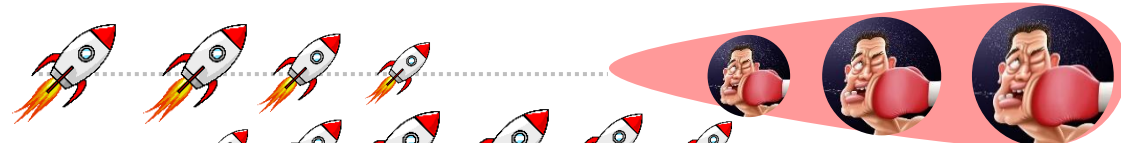


STRATEGY: Virus strength = Strategy

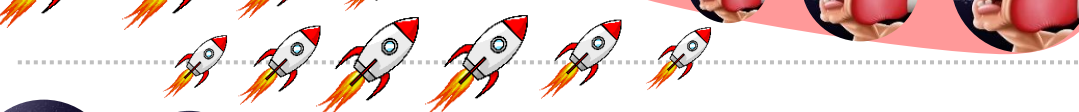


Sectors

Bond proxies



Secular Growth

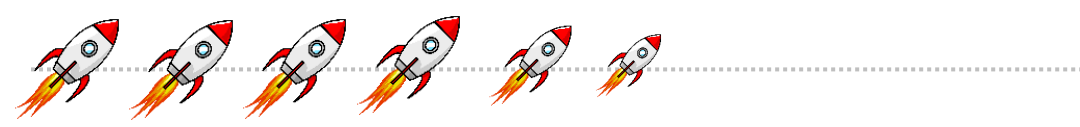


Epicenter

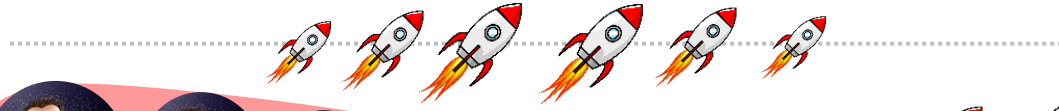


Styles

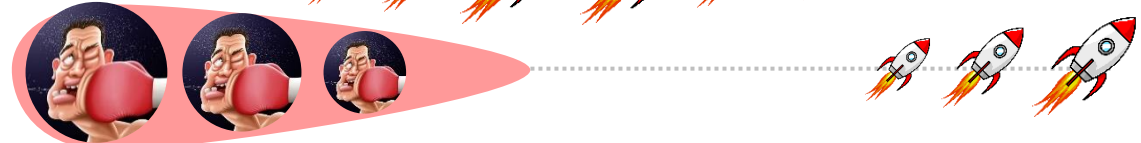
Momentum



GARP



Value



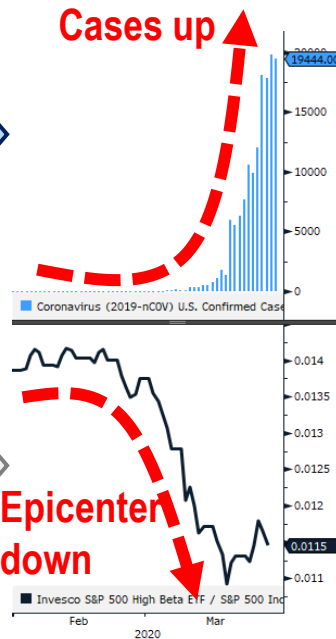
Source: FSInsight, Bloomberg

EPICENTER: Epicenter stocks INVERSE to COVID-19 daily case trend

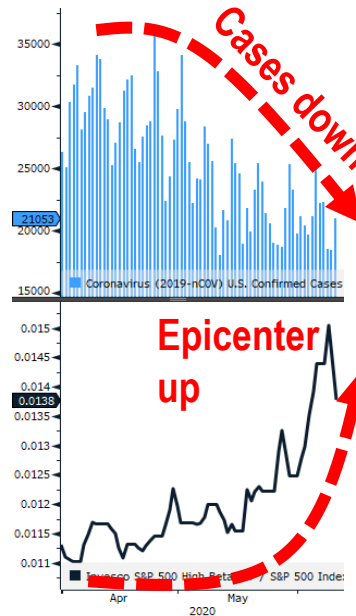
Daily COVID-19 Cases

SPHB relative to S&P 500

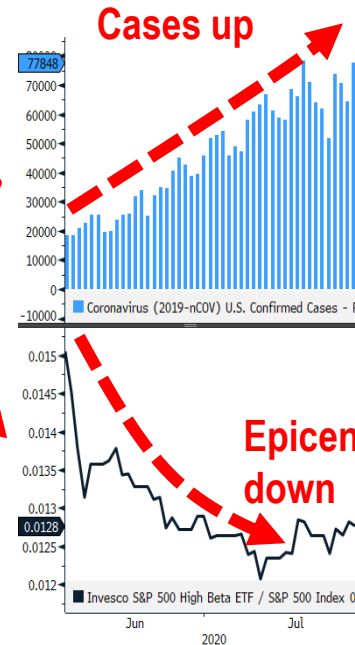
Feb to Mar 2020



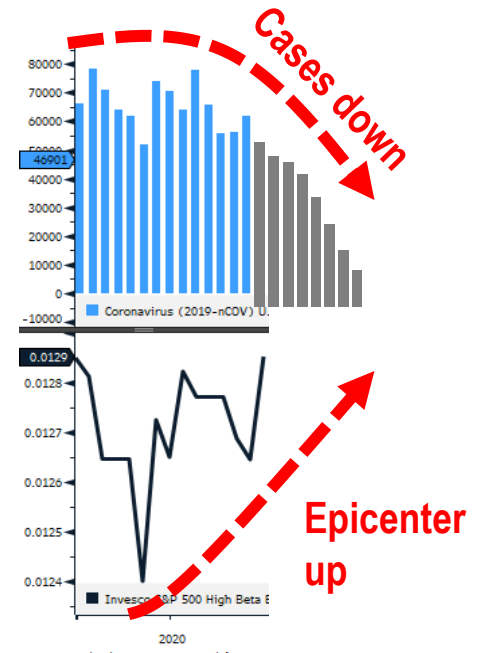
Apr to May 2020



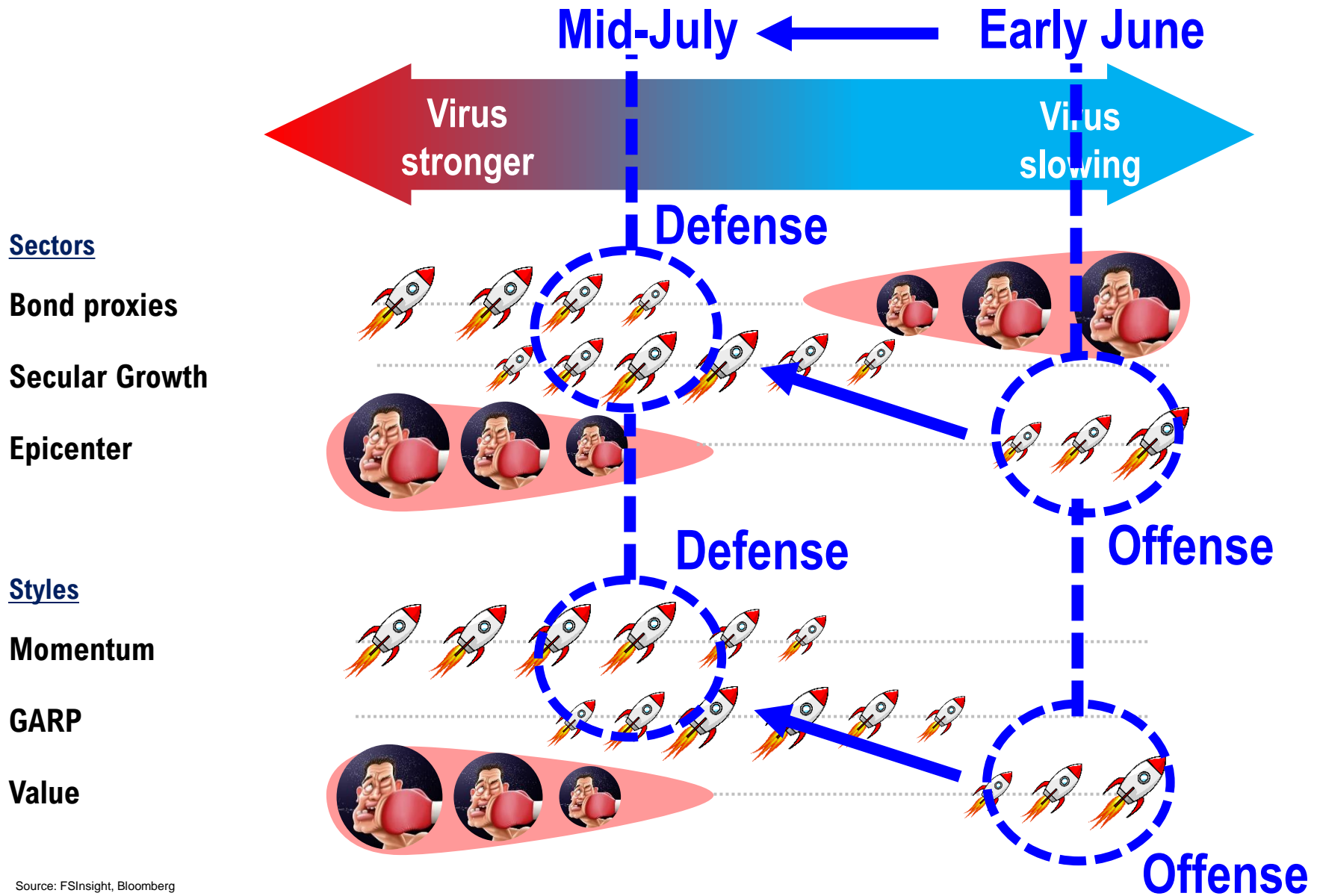
June to July 2020



July to now



STRATEGY: Virus strength = Strategy



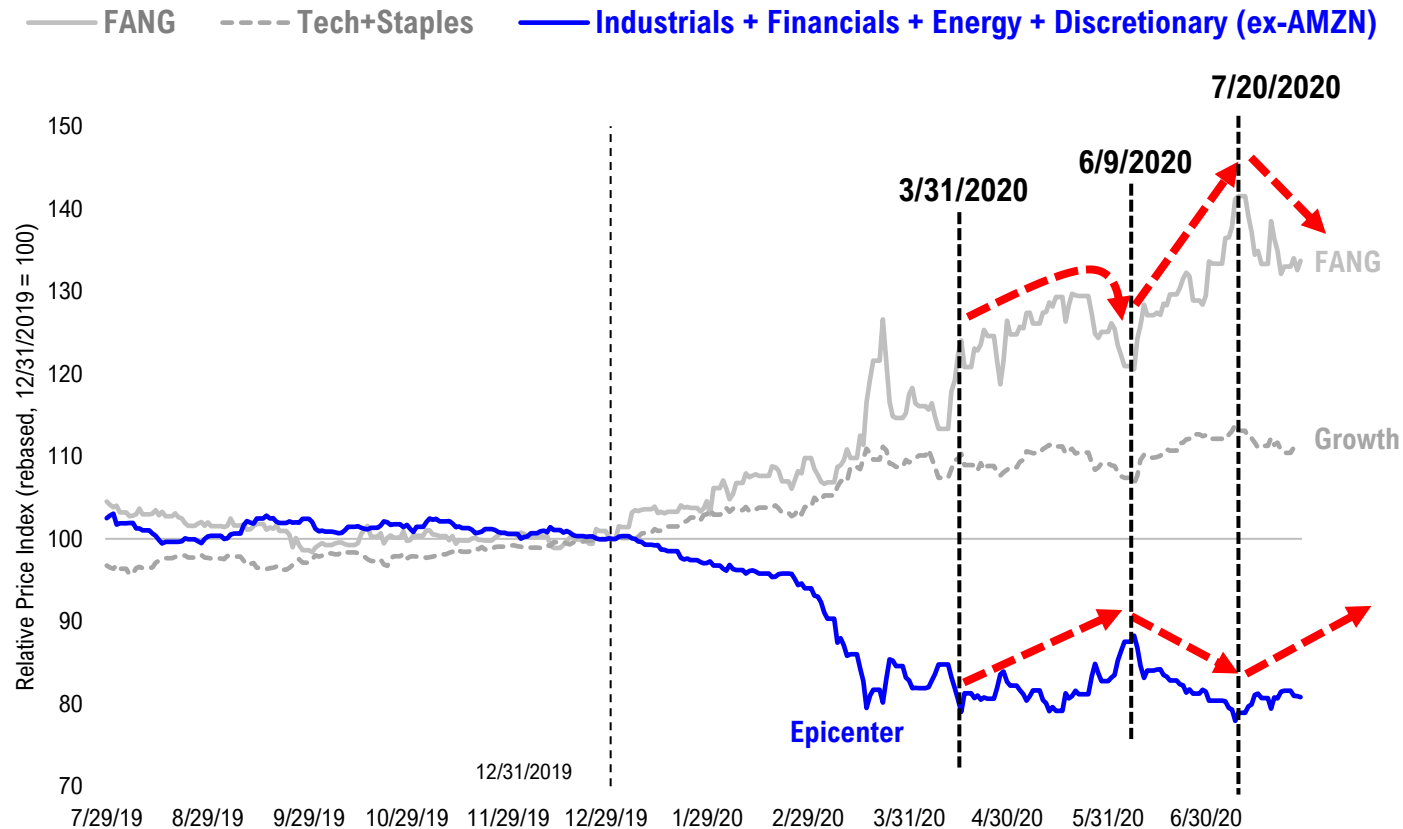
Source: FSInsight, Bloomberg

STRATEGY: the risk/reward for epicenter stocks is favorable

- Hence, the peak of new cases in F-CAT or a development of a cure/vaccine will a binary event, leading to a rotation into cyclicals. As recent COVID-19 data shows, the cases in F-CAT seem to be rolling over soon. Therefore, the risk/reward for epicenter is favorable.

Figure: Rebased epicenter group relative performances

Past 1 Year; Start of 2020 = 100



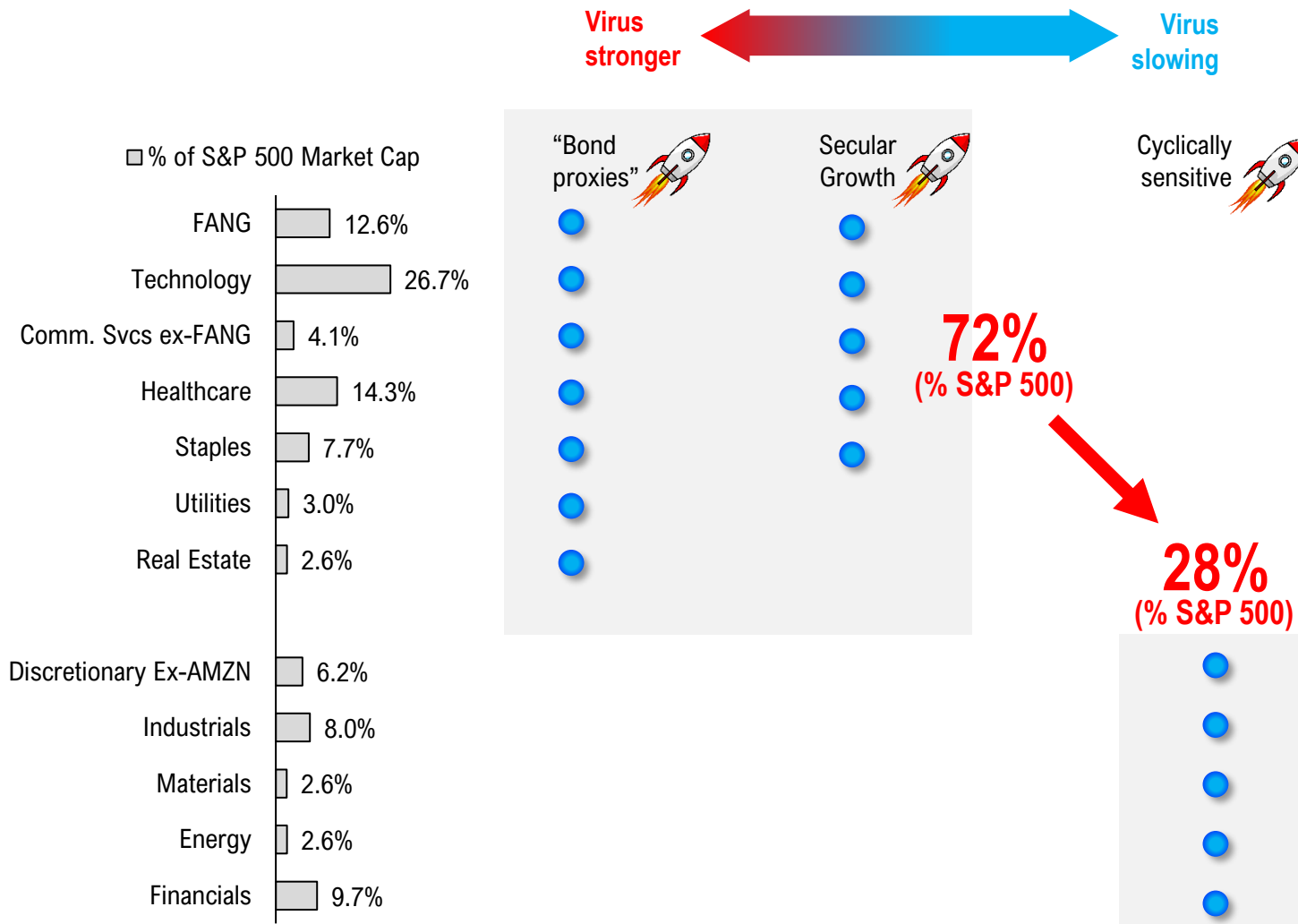
Source: FSInsight, Bloomberg

STRATEGY: If eco data bottomed (yes), then time to OW “epicenter”...



STRATEGY: More S&P 500 points coming from “epicenter” stocks

Figure: Sector Composition of S&P 500
Bloomberg, as of 7/20/2020



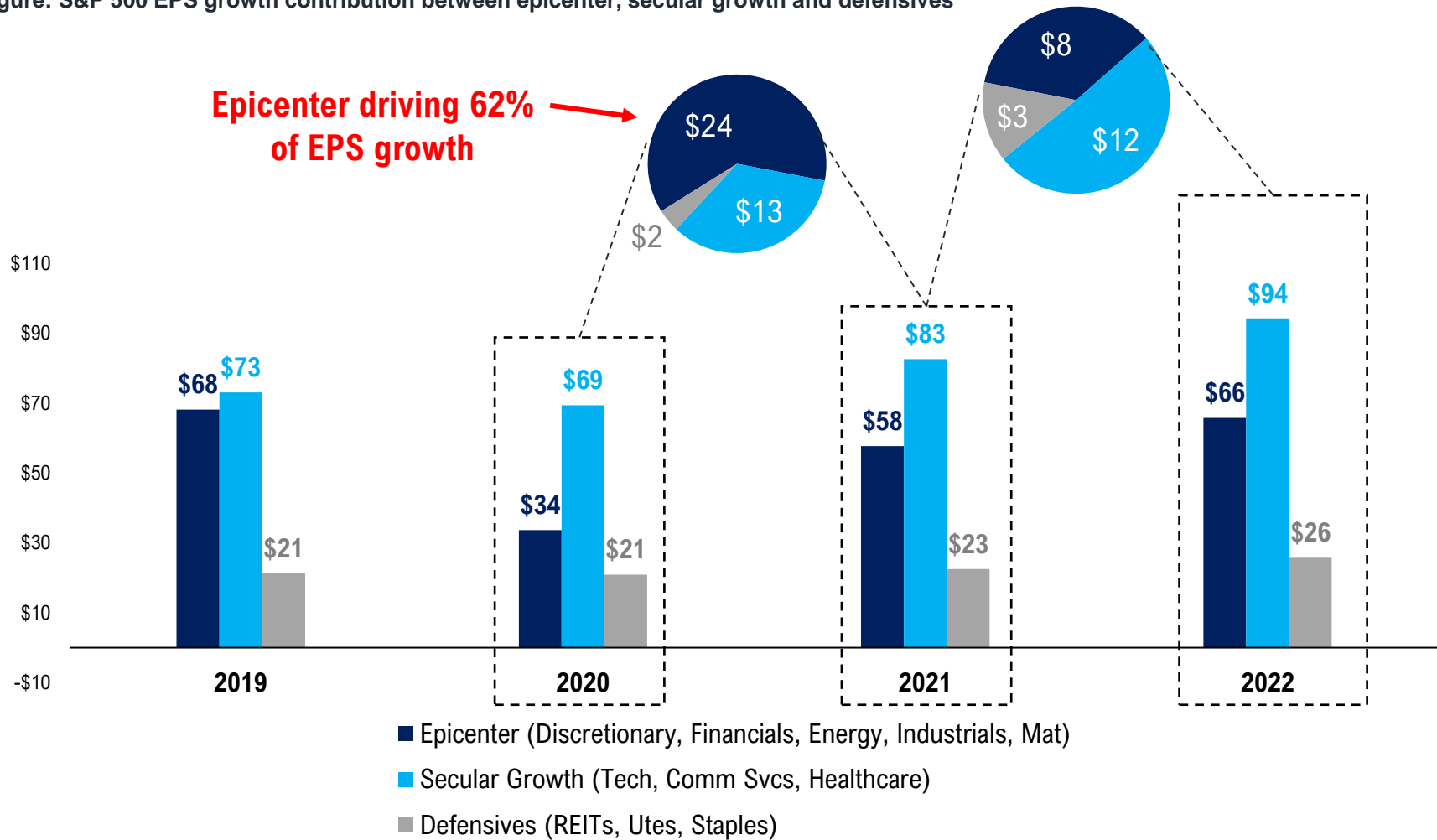
Source: FSInsight, Bloomberg

EPS GROWTH: 62% of EPS growth in 2021 is driven by Epicenter...

We have broken down the composition of earnings growth in 2021 from various sectors.

- Epicenter is a 26% weight but is accounting for 62% of EPS growth in 2021.

Figure: S&P 500 EPS growth contribution between epicenter, secular growth and defensives



Source: FSInsight, Bloomberg, Factset

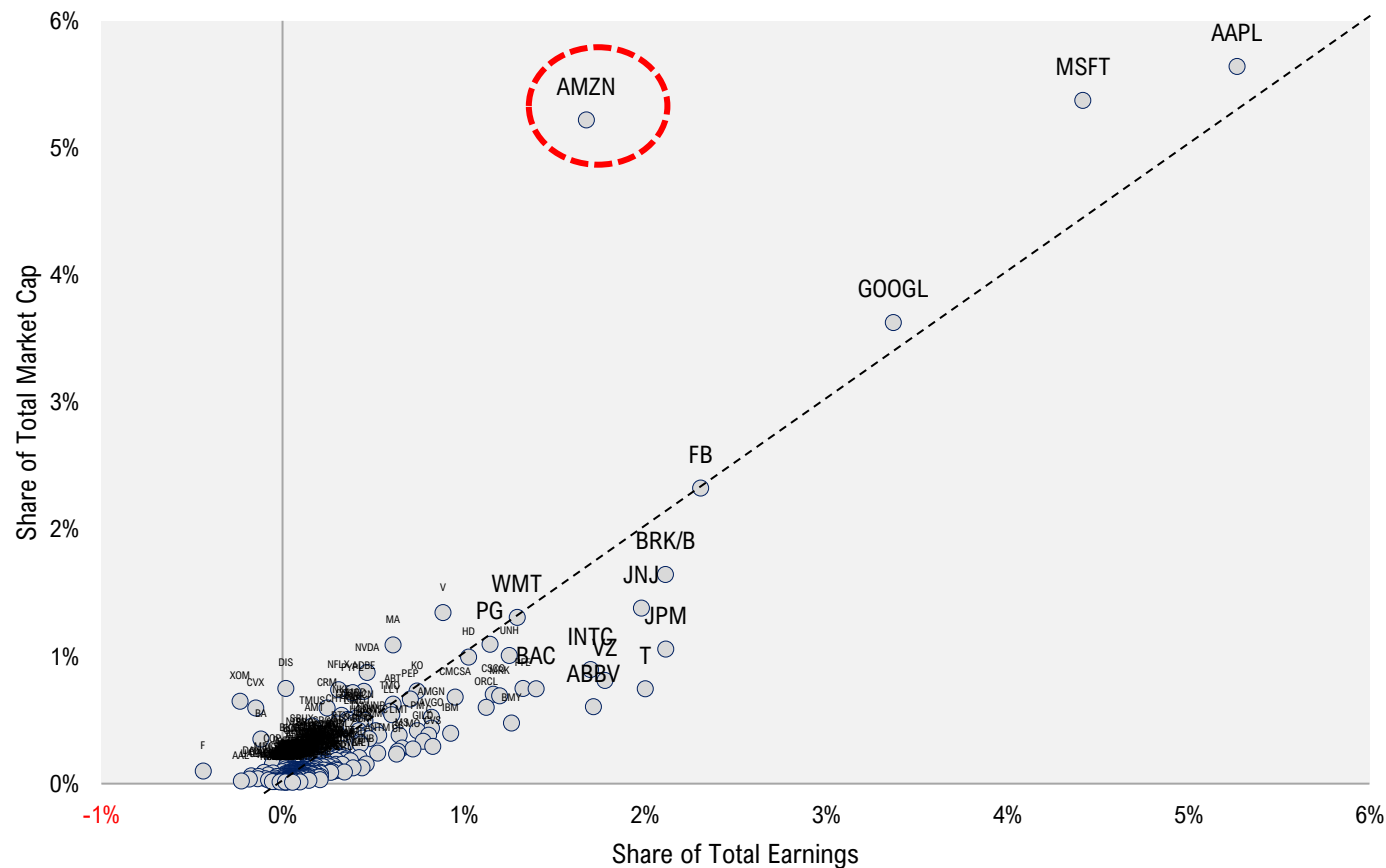
MEGA-CAPS: Top 5 "Market Cap share" about the same as "Earnings share"

Below we plot the earnings share vs market cap share of each constituent in the S&P 500. Compared to other constituents, only Amazon shows relatively significant deviation from the trendline.

- One can argue these top 5 companies have higher revenue and EPS growth, and thus, deserve to have a higher valuation. And their market positions are considerably more dominant, which warrants a smaller equity risk premia (higher PE) as their incremental profitability should be higher

Figure: S&P 500 Earnings Share vs. Market Value Share

As of 7/23/2020



Source: FSInsight, Bloomberg, Factset

NEW NORMAL: Aftermath, who are winners?

We think there are some structural changes in the aftermath of COVID-19.

- Take a look below → this is our best guess and not a prediction.

Figure: Way forward → What changes after COVID-19

Per FSInsight best guess

Structural Change	Rationale	Investment Impact	Winners
1. Supply chain moves back to USA	From China → USA	US infrastructure boom	US leadership: - Technology - Healthcare - Financials
2. De-urbanization	Cities → suburbs	Residential housing boom + Millennials buy homes not rent	US housing stocks US Consumer Discretionary US banks US autos
3. Work from home	Office → home	Buy a house and get a write-off	US housing US home furnishing US banks
4. Buy USA	Global → USA	USA gathers assets	S&P 500 Small-caps

Source: FSInsight, Bloomberg, Factset

NEW NORMAL: Aftermath, who are winners?

We think there are some structural changes in the aftermath of COVID-19.

- Take a look below → this is our best guess and not a prediction.



























Figure: Way forward → What changes after COVID-19

Per FSInsight best guess

Structural Change	Rationale	Stranded Capital	New Capital
1. Supply chain moves back to USA	From China → USA	Foreign factories Foreign supply chains	Domestic factories Domestic supply chains
2. De-urbanization	Cities → suburbs	Urban restaurants Urban shopping City-centric services	Housing + furnishing Infrastructure Home entertainment Home delivery Suburban entertainment Suburban amenities
3. Work from home	Office → home	Office space midtown/ urban office services	Home technology Home furnishings
4. Buy USA	Global → USA	Foreign-based asset	US based assets

Source: FSInsight, Bloomberg, Factset

NEW NORMAL: Binary effects from a Vaccine/Cure

Industry	COVID-19 Impact	Vaccine/ Cure Impact	Long-term issues
Airlines			Vaccine/ Cure = Full recovery
Cruises			Vaccine/ Cure = Full recovery
Casinos			Vaccine/ Cure = Full recovery
Hotels			Vaccine/ Cure = Full recovery
Theme Parks			Vaccine/ Cure = Full recovery
Sports			Vaccine/ Cure = Full recovery
Concerts			Vaccine/ Cure = Full recovery
Bars			Vaccine/ Cure = Recovery
Restaurants			Failure rate high => less new capital
Retail			Already challenged
Fitness / Gyms			Surveys show cancellation risk
Urban office space			De-urbanization
Urban entertainment			Vaccine/ Cure = Full recovery

EPICENTER: 40 ideas

We have identified 40 epicenter stocks as these stocks are still well off their highs but are considered fundamentally attractive based on the work of our head of Global Portfolio Strategy, Brian Rauscher and/or Head of Technical Strategy, Rob Sluymer, or screen attractively based on the quant work by our data science team led by Ken Xuan (aka tireless Ken)..

- 17 of the 40 ideas are “early in the barbell recovery”. The tickers are TJX, GM, BKNG, CCL, WYNN, CVX, XOM, FITB, CFG, MS, RE, CMI, NOC, GD, SNA, FLS, PCAR
- 18 are in the “middle of barbell recovery”. The tickers are ROST, ULTA, EOG, SIVB, STT, JCI, DOV, AOS, ETN, CSX, PNR, UNP, JBHT, CAT, DE, DAL, PH, EMR.
- 5 are “late in the barbell strategy” but still buyable. The tickers are AAP, BWA, DLTR, IEX, GWW.

Figure: Epicenter Stock Ideas
Per FSInsight

Ticker	Company name	Sub-industry name	Current Price	Market Cap (\$mm)	DQM Quintile 1	Brian Rauscher	Robert Sluymer	Performance...		
								2/19-3/23	3/23-6/11	YTD
Still in the "early barbell recovery"										
TJX	Tjx Cos Inc/The	Apparel Retail	52.01	62,302		OW	OW	-42.4%	43.3%	-13.8%
GM	General Motors Co	Automobile Manufacturers	27.58	39,469	OW	OW		-49.6%	50.6%	-27.6%
BKNG	Booking Holdings Inc	Internet & Direct Marketing Re	1,603.22	65,621	OW	OW		-41.5%	37.9%	-22.7%
CCL	Carnival Corp	Hotels, Resorts & Cruise Lines	19.48	14,157		OW	OW	-72.3%	45.3%	-65.7%
WYNN	Wynn Resorts Ltd	Casinos & Gaming	91.27	9,845		OW	OW	-57.7%	55.9%	-35.4%
CVX	Chevron Corp	Integrated Oil & Gas	91.39	170,630	OW	OW	OW	-51.0%	64.8%	-25.8%
XOM	Exxon Mobil Corp	Integrated Oil & Gas	46.55	196,802	OW	OW		-47.9%	46.8%	-33.8%
FITB	Fifth Third Bancorp	Regional Banks	20.62	14,680	OW	OW	OW	-59.0%	62.4%	-35.8%
CFG	Citizens Financial Group Inc	Regional Banks	25.33	10,806	OW	OW		-58.6%	54.3%	-39.7%
MS	Morgan Stanley	Investment Banking & Brokerage	45.89	72,307		OW	OW	-50.6%	60.3%	-12.8%
RE	Everest Re Group Ltd	Reinsurance	212.12	8,482	OW	OW		-40.8%	22.7%	-23.8%
CMI	Cummins Inc	Construction Machinery & Heavy	164.35	24,246	OW	OW	OW	-38.8%	61.9%	-7.0%
NOC	Northrop Grumman Corp	Aerospace & Defense	319.58	53,274	OW	OW		-26.3%	18.9%	-6.7%
GD	General Dynamics Corp	Aerospace & Defense	150.43	43,152	OW	OW		-42.9%	39.4%	-15.8%
SNA	Snap-On Inc	Industrial Machinery	133.06	7,232	OW	OW		-39.5%	39.5%	-21.3%
FLS	Flowerserve Corp	Industrial Machinery	27.57	3,588	OW	OW		-57.8%	40.3%	-45.8%
PCAR	Paccar Inc	Construction Machinery & Heavy	72.95	25,221		OW	OW	-32.8%	45.4%	-8.2%
Mid-stage in the "barbell recovery"										
ROST	Ross Stores Inc	Apparel Retail	91.48	32,560		OW	OW	-48.8%	50.0%	-18.9%
ULTA	Ulta Beauty Inc	Specialty Stores	226.66	12,764		OW	OW	-51.7%	57.7%	-10.8%
EOG	Eog Resources Inc	Oil & Gas Exploration & Produc	51.63	30,051	OW	OW		-55.3%	48.1%	-38.9%
SIVB	Svb Financial Group	Regional Banks	206.96	10,661		OW	OW	-46.4%	42.4%	-18.8%
STT	State Street Corp	Asset Management & Custody Ban	62.28	21,920	OW		OW	-45.1%	41.5%	-22.7%
JCI	Johnson Controls International	Building Products	\$34.39	\$25,578	OW	OW	OW	-44.0%	43.1%	-17.4%
DOV	Dover Corp	Industrial Machinery	96.33	13,866	OW	OW	OW	-44.2%	47.2%	-16.5%
AOS	A O Smith Corp	Building Products	46.87	7,553		OW	OW	-19.3%	31.5%	-1.7%
ETN	Eaton Corp Plc	Electrical Components & Equipm	85.77	34,308		OW	OW	-44.6%	47.4%	-10.1%
CSX	Csx Corp	Railroads	69.23	52,993		OW	OW	-40.6%	43.3%	-5.6%
PNR	Pentair Plc	Industrial Machinery	37.08	6,145	OW	OW		-47.7%	61.3%	-19.6%
UNP	Union Pacific Corp	Railroads	164.97	111,940		OW	OW	-37.9%	43.2%	-9.7%
JBHT	Jb Hunt Transport Services Inc	Trucking	114.43	12,068		OW	OW	-28.2%	42.6%	-3.5%
CAT	Caterpillar Inc	Construction Machinery & Heavy	121.89	65,972	OW	OW		-32.9%	32.3%	-17.7%
DE	Deere & Co	Agricultural & Farm Machinery	153.18	47,924		OW	OW	-32.6%	35.9%	-12.8%
DAL	Delta Air Lines Inc	Airlines	29.67	18,923		OW	OW	-62.0%	22.4%	-53.5%
PH	Parker-Hannifin Corp	Industrial Machinery	177.33	22,737		OW	OW	-53.9%	77.8%	-15.7%
EMR	Emerson Electric Co	Electrical Components & Equipm	61.17	36,548	OW	OW		-47.0%	58.8%	-20.7%
Late-stage in the "barbell recovery"										
AAP	Advance Auto Parts Inc	Automotive Retail	\$133.22	\$9,206	OW	OW	OW	-44.0%	69.6%	-16.9%
BWA	Borgwarner Inc	Auto Parts & Equipment	33.39	6,922	OW	OW		-39.2%	54.4%	-24.7%
DLTR	Dollar Tree Inc	General Merchandise Stores	87.82	20,834		OW	OW	-17.0%	16.7%	-5.3%
IEX	Ilex Corp	Industrial Machinery	151.67	11,435	OW	OW		-33.9%	31.8%	-12.1%
GWW	Ww Grainger Inc	Trading Companies & Distributo	304.56	16,284	OW		OW	-31.8%	46.0%	-9.6%

Source: FSInsight, Bloomberg

EPICENTER: 14 stock ideas related to travel

We identified 14 travel related epicenter stock ideas, combining the analytics of Quant (DQM by our quant team), Global Strategy (Rauscher) and Technicals (Sluymmer).

- We combined the attractive names coming from a combination of i) DQM Quintile 1, ii) overweight by Brian Rauscher, and iii) overweight by Robert Sluymmer. The tickers are CCL, WYND, WYNN, MGM, LVS, HLT, NCLH, EXPE, UAL, DAL, LUV, ALK, SIX and DIS.

Figure: 14 Travel-Related “Epicenter” Stock Ideas

Per FSInsight

Ticker	Companyname	Sub-industryname	Current Price	Market Cap (\$mm)	Fundstrat DQM	Brian Rauscher	Robert Sluymmer	Performance...		
								2/19-3/23	3/23-6/11	YTD
Consumer Discretionary										
CCL	Carnival Corp	Hotels, Resorts & Cruise Lines	19.57	14,207		OW	OW	-72.3%	45.3%	-65.7%
WYND	Wyndham Destinations Inc	Hotels, Resorts & Cruise Lines	33.33	2,838			OW	-66.2%	84.0%	-40.2%
WYNN	Wynn Resorts Ltd	Casinos & Gaming	91.44	9,864		OW	OW	-57.7%	55.9%	-35.4%
MGM	Mgm Resorts International	Casinos & Gaming	18.90	9,319		OW		-71.5%	95.0%	-46.4%
LVS	Las Vegas Sands Corp	Casinos & Gaming	49.34	37,685		OW		-37.1%	13.0%	-28.9%
HLT	Hilton Worldwide Holdings Inc	Hotels, Resorts & Cruise Lines	77.17	21,396		OW		-43.8%	22.5%	-30.0%
NCLH	Norwegian Cruise Line Holding	Hotels, Resorts & Cruise Lines	19.67	5,042		OW		-81.4%	78.4%	-70.5%
EXPE	Expedia Group Inc	Internet & Direct Marketing Re	81.59	11,503		OW		-58.3%	52.9%	-28.1%
UAL	United Airlines Holdings Inc	Airlines	37.85	11,143		OW		-66.9%	26.9%	-62.2%
DAL	Delta Air Lines Inc	Airlines	29.68	18,930		OW	OW	-62.0%	22.4%	-53.5%
LUV	Southwest Airlines Co	Airlines	35.32	20,814		OW		-40.9%	-2.7%	-39.2%
ALK	Alaska Air Group Inc	Airlines	37.46	4,591			OW	-63.1%	48.1%	-47.5%
SIX	Six Flags Entertainment Corp	Leisure Facilities	22.25	1,884				-70.6%	95.6%	-51.5%
DIS	Walt Disney Co/The	Movies & Entertainment	114.66	207,107				-39.3%	31.3%	-22.1%

Source: FSInsight, Bloomberg

EPICENTER: 49 SMID cap “epicenter” stock ideas

We identified 49 SMID cap epicenter stock ideas, combining the analytics of Quant (DQM by our quant team), Global Strategy (Rauscher) and Technicals (Sluymmer).

- These stocks are either the social distancing victims or within the epicenter sector groups. The tickers are CPA, SKYW, GES, ZUMZ, WGO, LAD, AGS, BYD, CNTY, CZR, ERI, MCRI, PENN, RRR, SGMS, TRWH, SONO, UEIC, IBP, KBH, RH, ROCK, ECHO, WERN, CHH, H, LIND, VAC, WYND, PLNT, SEAS, VSTO, BJRI, CAKE, CBRL, CHUY, NDLS, PBPB, PLAY, RRGB, RUTH, REGI, SYBT, ASTE, MTW, CECE, BE, HLIO and EXPO.

Figure: 49 SMID cap “Epicenter” Stock Ideas

Per FSInsight

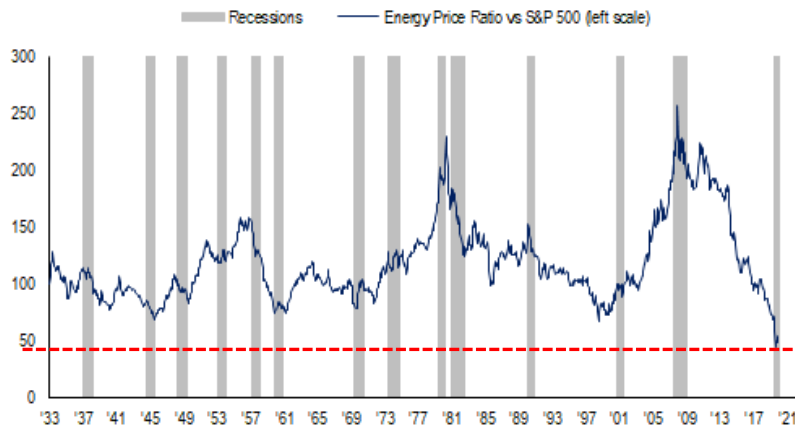
Ticker	Company name	Current Price	Mkt Cap (\$mm)	Performance...					
				DQM Quintile1	Brian Rauscher	Robert Sluymmer	2/19-3/23	3/23-6/11	YTD
Airline									
CPA	Copa Holdings Sa	52.01	2,199	OW		OW	-66.6%	38.5%	-54.0%
SKYW	Skywest Inc	32.95	1,652		OW		-63.3%	48.3%	-52.2%
Apparel Retail									
GES	Guess? Inc	9.20	622	OW	OW	OW	-71.4%	37.1%	-61.4%
ZUMZ	Zumiez Inc	25.65	652	OW	OW	OW	-46.2%	48.1%	-26.2%
Automobile									
WGO	Winnebago Industries Inc	63.05	2,125	OW	OW	OW	-63.8%	182.6%	17.2%
LAD	Lithia Motors Inc	125.72	2,862	OW	OW	OW	-46.3%	76.8%	-15.2%
Casinos									
AGS	Playags Inc	4.67	172	OW	OW		-82.4%	133.2%	-64.6%
BYD	Boyd Gaming Corp	20.36	2,265	OW			-64.3%	67.6%	-31.9%
CNTY	Century Casinos Inc	5.08	150		OW		-79.9%	192.5%	-40.9%
CZR	Caesars Entertainment Corp	11.31	7,733			OW	-58.7%	86.1%	-17.5%
ERI	Eldorado Resorts Inc	34.68	2,699		OW	OW	-85.0%	218.5%	-44.2%
MCRI	Monarch Casino & Resort Inc	35.98	654			OW	-66.0%	84.8%	-26.9%
PENN	Penn National Gaming Inc	28.65	3,895		OW	OW	-73.6%	184.3%	9.0%
RRR	Red Rock Resorts Inc	13.01	1,526		OW		-71.8%	65.8%	-47.8%
SGMS	Scientific Games Corp	13.96	1,319	OW	OW		-69.4%	84.0%	-49.3%
TRWH	Twin River Worldwide Holdin	21.64	659		OW		-73.8%	178.8%	-15.4%
Consumer Electronics									
SONO	Sonos Inc	12.20	1,329	OW	OW	OW	-41.9%	48.1%	-22.2%
UEIC	Universal Electronics Inc	43.48	605	OW	OW	OW	-29.9%	35.6%	-16.6%
Homebuilding									
IBP	Installed Building Products In	66.15	1,971	OW	OW	OW	-55.2%	88.4%	-5.2%
KBH	Kb Home	31.17	2,819	OW	OW	OW	-71.6%	161.5%	-13.4%
RH	Rh	230.72	4,451	OW	OW	OW	-67.8%	185.5%	7.6%
ROCK	Gibraltar Industries Inc	43.39	1,406	OW	OW	OW	-33.1%	24.9%	-8.8%
Logistics & Trucking									
ECHO	Echo Global Logistics Inc	20.34	541	OW	OW	OW	-19.2%	24.3%	0.9%
WERN	Werner Enterprises Inc	39.43	2,724	OW	OW	OW	-18.6%	28.5%	10.6%

Source: FSInsight, Bloomberg

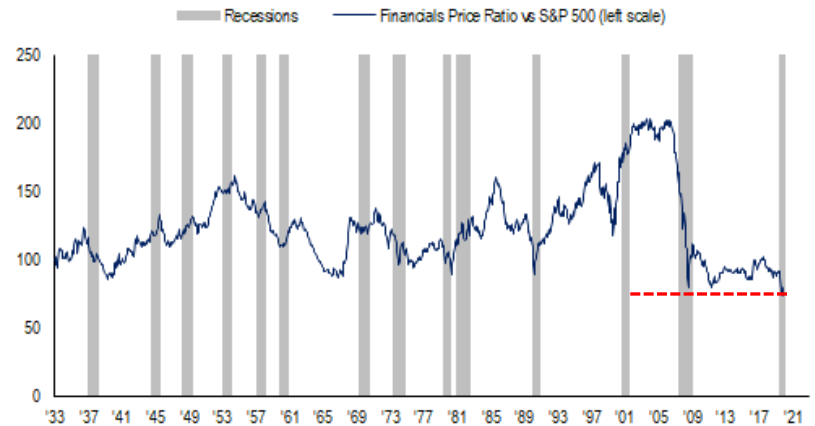
Ticker	Company name	Current Price	Mkt Cap (\$mm)	Performance...					
				DQM Quintile1	Brian Rauscher	Robert Sluymmer	2/19-3/23	3/23-6/11	YTD
Hotels + Cruise Lines									
CHH	Choice Hotels International Ir	80.88	4,477			OW	-50.5%	52.7%	-20.9%
H	Hyatt Hotels Corp	54.90	5,549			OW	-47.2%	14.2%	-39.5%
LIND	Lindblad Expeditions Holding	8.40	419		OW		-79.1%	157.5%	-49.6%
VAC	Marriott Vacations Worldwide	85.48	3,509	OW			-65.3%	92.7%	-34.4%
WYND	Wyndham Destinations Inc	32.12	2,735	OW			-66.2%	84.0%	-40.2%
Leisure									
PLNT	Planet Fitness Inc	65.35	5,650			OW	-57.3%	74.3%	-12.6%
SEAS	Seaworld Entertainment Inc	16.86	1,319	OW	OW		-70.9%	59.9%	-47.0%
VSTO	Vista Outdoor Inc	10.76	624	OW	OW	OW	-15.1%	35.8%	44.9%
Restaurants									
BJRI	Bj'S Restaurants Inc	21.68	483		OW	OW	-77.8%	123.1%	-43.7%
CAKE	Cheesecake Factory Inc/The	23.00	1,046		OW	OW	-61.6%	41.3%	-42.9%
CBRL	Cracker Barrel Old Country S	109.81	2,602	OW	OW		-50.9%	38.4%	-27.8%
CHUY	Chuy'S Holdings Inc	15.04	296	OW	OW		-66.8%	86.6%	-40.2%
NDLS	Noodles & Co	5.54	245		OW	OW	-53.8%	36.3%	-3.1%
PBPB	Potbelly Corp	2.55	61		OW		-59.8%	21.4%	-42.2%
PLAY	Dave & Buster'S Entertainme	15.61	741		OW		-78.5%	46.9%	-63.6%
RRGB	Red Robin Gourmet Burgers	11.76	152		OW		-76.1%	33.3%	-64.9%
RUTH	Ruth'S Hospitality Group Inc	9.02	308		OW		-81.1%	99.2%	-59.5%
Others									
REGI	Renewable Energy Group Inc	26.95	1,052	OW	OW	OW	-38.5%	43.6%	0.3%
SYBT	Stock Yards Bancorp Inc	33.85	767	OW	OW	OW	-37.2%	35.9%	-18.1%
ASTE	Astec Industries Inc	42.27	955	OW	OW	OW	-34.5%	44.4%	1.3%
MTW	Manitowoc Co Inc/The	10.42	360	OW	OW	OW	-30.8%	22.7%	-39.1%
CECE	Ceco Environmental Corp	5.95	211	OW	OW	OW	-48.6%	50.8%	-21.7%
BE	Bloom Energy Corp	8.77	1,098	OW	OW	OW	-72.4%	123.4%	16.3%
HLIO	Helios Technologies Inc	34.22	1,098	OW	OW	OW	-10.2%	-9.8%	-24.3%
EXPO	Exponent Inc	70.84	3,652	OW	OW	OW	-25.8%	21.1%	7.2%

EPICENTER STOCKS: Lots of runway if they are turning more structurally

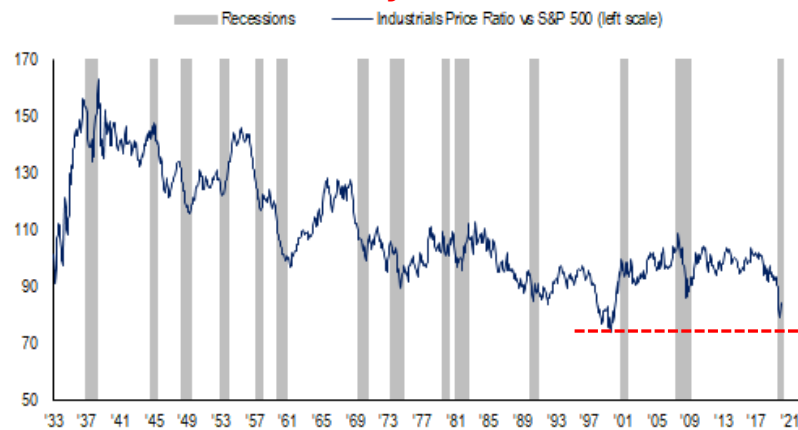
Never this bad in 90 years...



Almost 90 years "bad"...



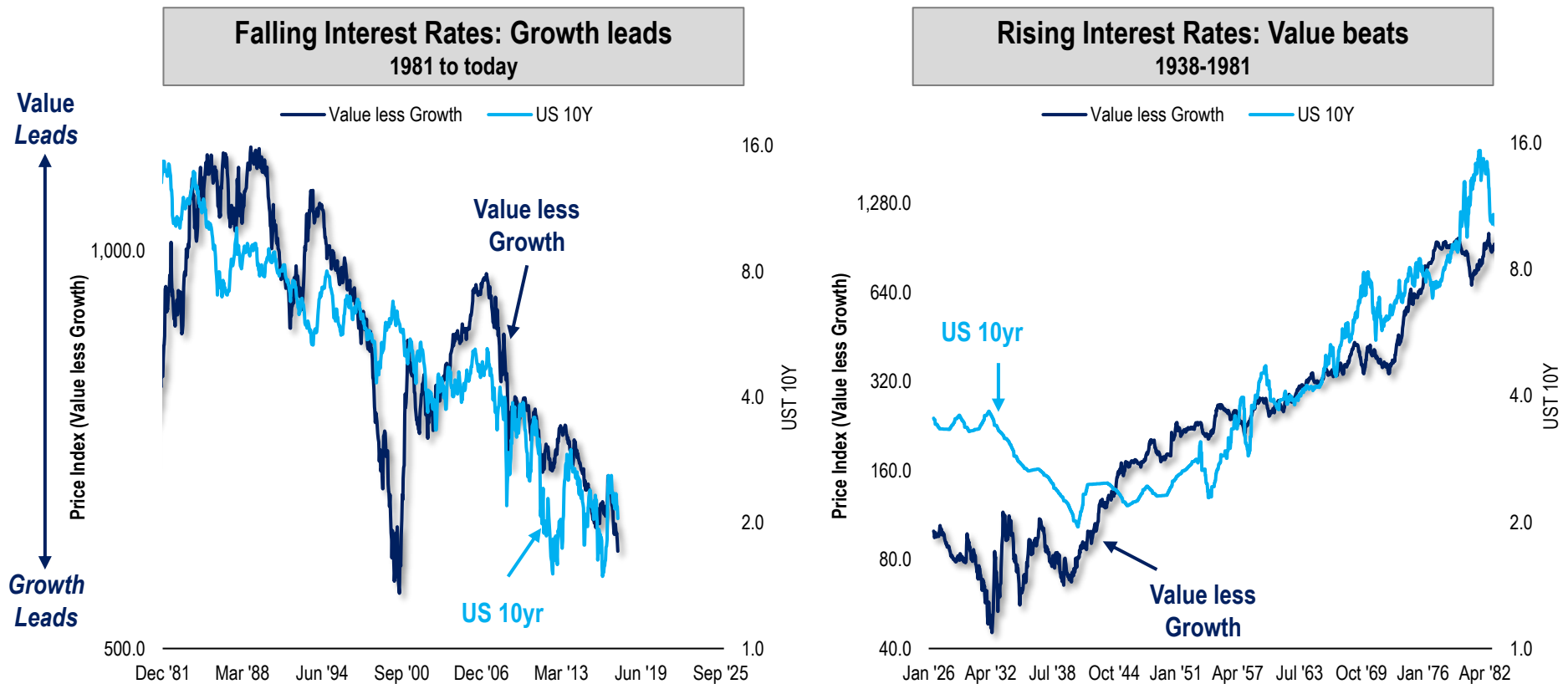
Almost 90 years "bad"...



VALUE-Style Investing: Rising interest rates + Inflation good for Value...

- During the 43 year rise of interest rates (1943-1981), Value stocks outperformed most years.
- Rising rates equates to higher nominal returns (either from inflation or real growth) and this in turn leads to faster EPS growth—hence, rising rates favor Value stocks which outperform when nominal growth is faster.

Figure: Interest rates and the comparative returns of Value vs Growth Since 1926



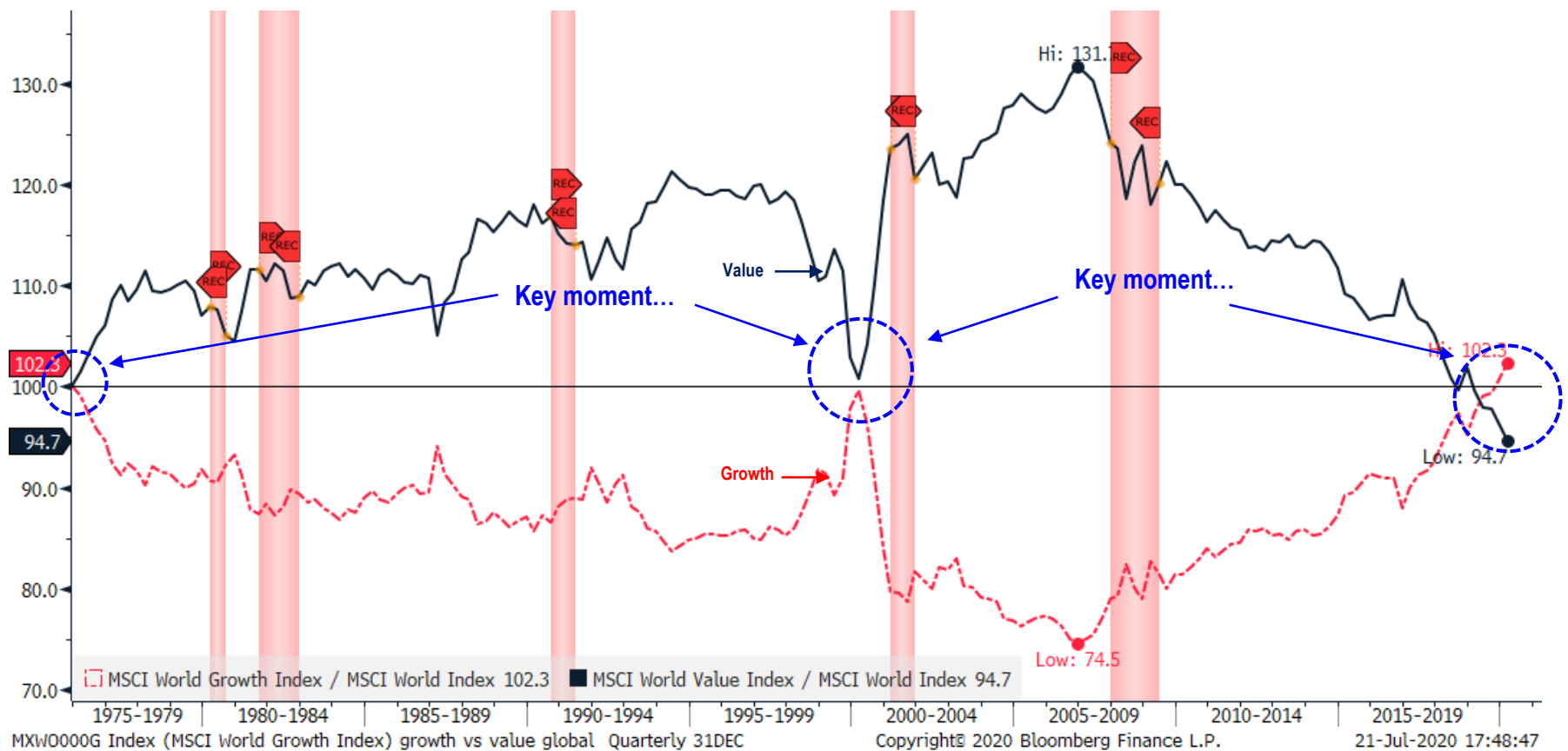
Source: FSInsight, Bloomberg

Key moment: Globally, Value vs Growth retraced 40 years of progress...

Arguably, Value versus Growth is facing a more important juncture globally. MSCI Value stocks (price ratio vs MSCI World) has touched a level that has marked major turning points for Value vs Growth.

- Again, this highlights whether this is a key moment in Value stocks worldwide—it is very telling to us and we believe now is the time to be OW Value.

Figure: MSCI World Growth and Value relative price performance (vs MSCI World) past 45 years
Since 1974



Source: FSInsight, Bloomberg

- **COVID-19 cases plateau**
- **GDP <> EPS <> Stocks**
- **2020 Election dynamics**
- **New Normal: “Epicenter” groups struggle**

Demographics might explain Tech + Equity stamina

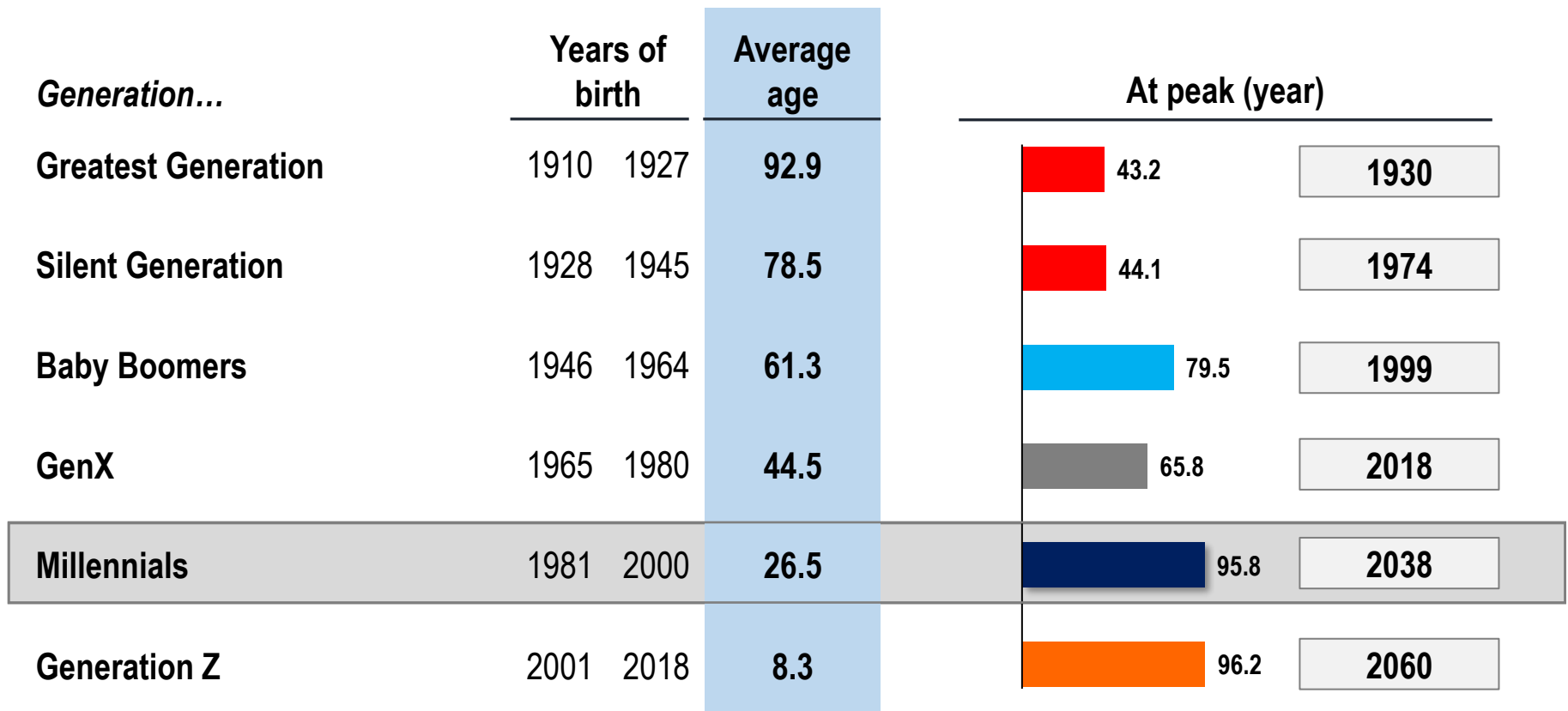
- **“Granny shots” outperforming in 2020**

DEMOGRAPHICS: Explains business cycles better than people realize...

Millennials are significant for two reasons: sheer size, both in the US and the rest of the world, and relatively young age.

- **First, they are the largest single generation ever (larger than Boomers) at a population of 2.5 billion globally.**
- **Second, at an average age of 26.5, they are just entering their prime income years.**

Figure: Total US Population divided by age groups
2017. Data provided by the DESA UN Data sets.



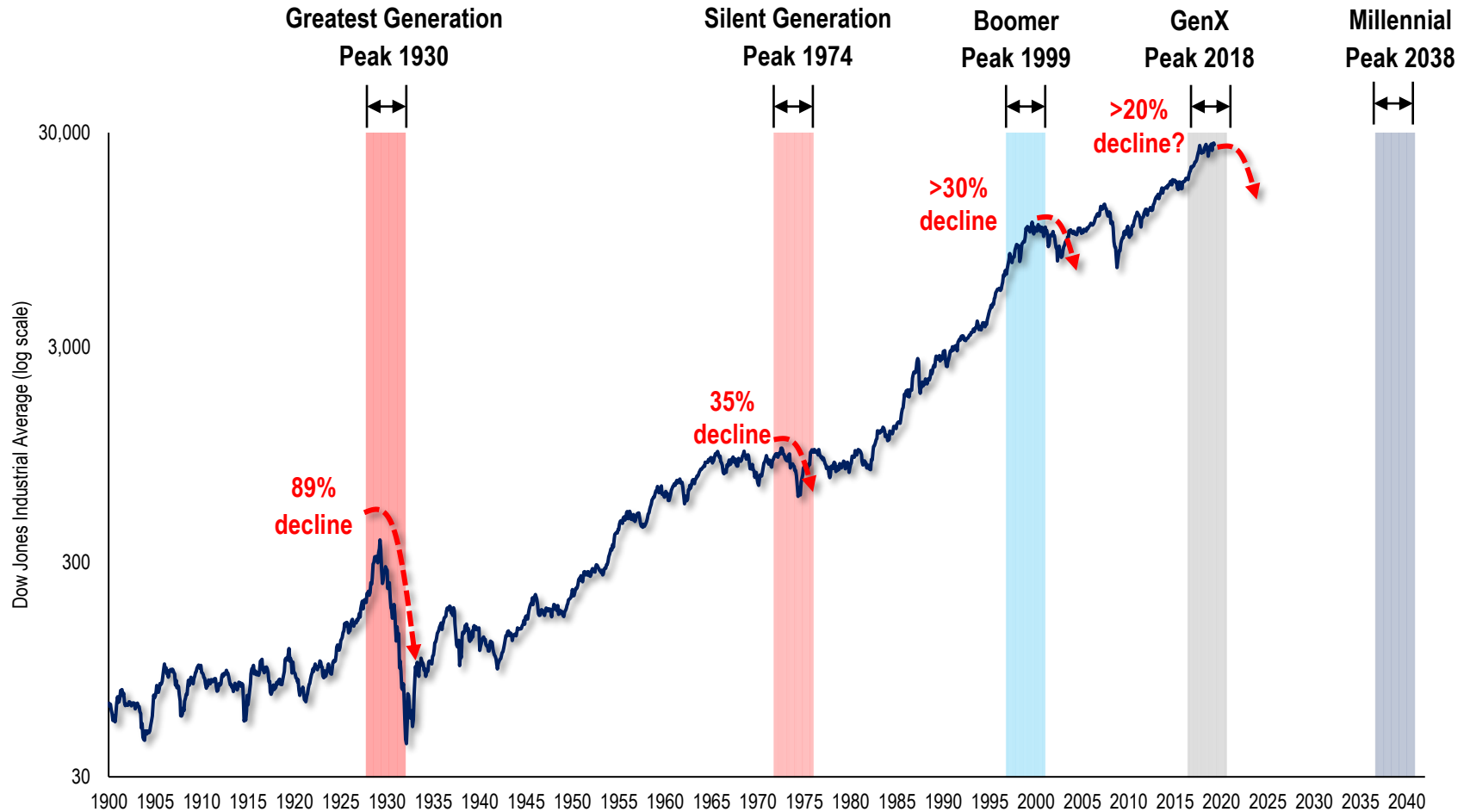
Source: FSInsight. Peak population figures above include immigration. **Reduced immigration will lead to a smaller overall size of GenZ.

DEMOGRAPHICS: Major market turning points with each generation's peak

Notably, equity markets tend to peak with each generation's peak. Notice this below.

- GenX is reaching the peak size of the cohort in 2018.

Figure: Dow Jones Industrials Average
Since 1900



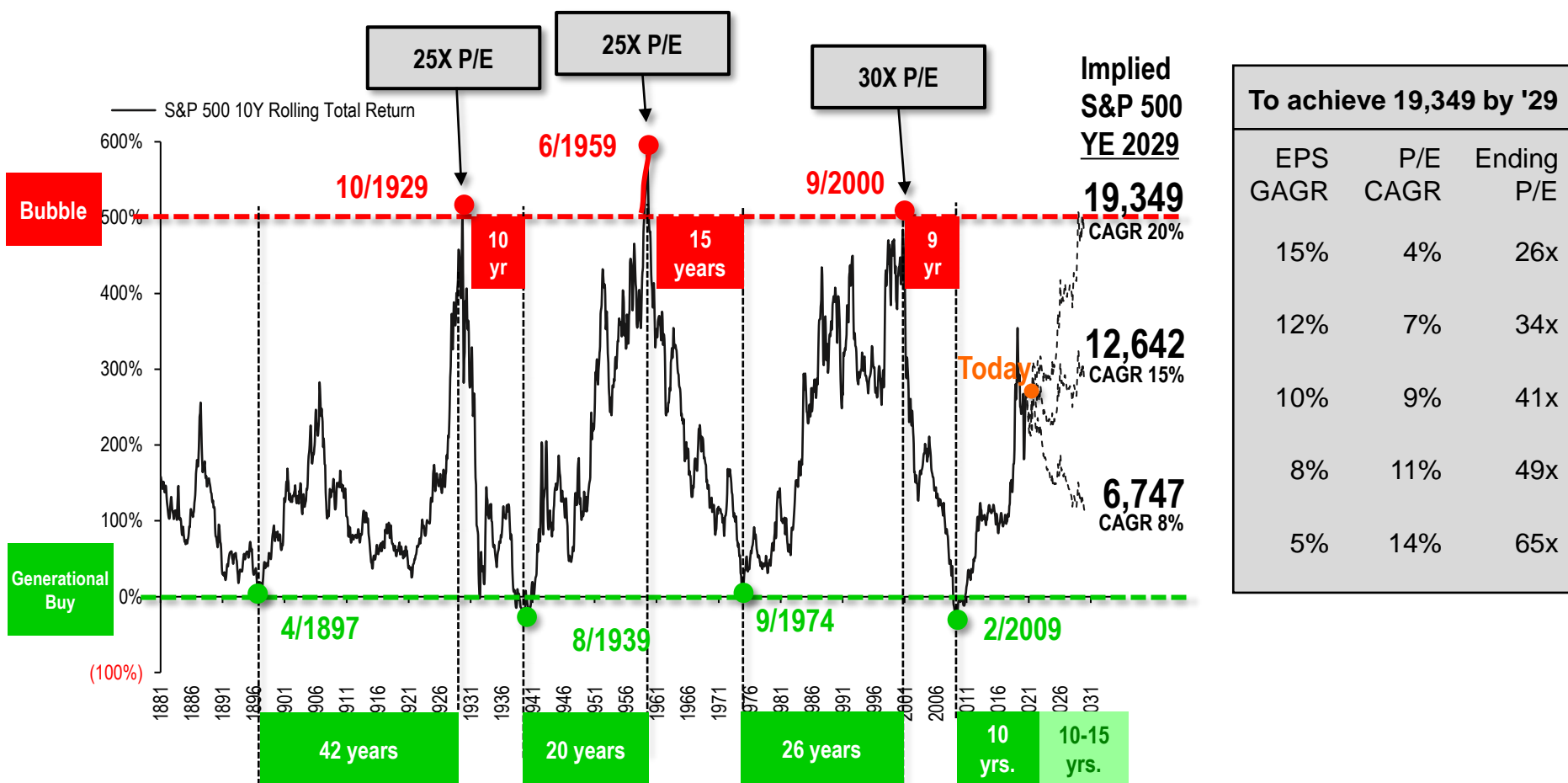
Source: FSInsight, Bloomberg

Long-term bull markets see peak acceleration to 500% 10-yr returns

Long-term bull markets last 20-42 years and peak returns accelerate to cumulative gain 500%...

- **The current bull market has risen for 10 years and if the history plays out, S&P 500 could reach 19,000 YE 2029 vs. 3,000 now.**

Figure: 10-year rolling returns of the US equities
Since 1881



Source: FSInsight, Bloomberg.

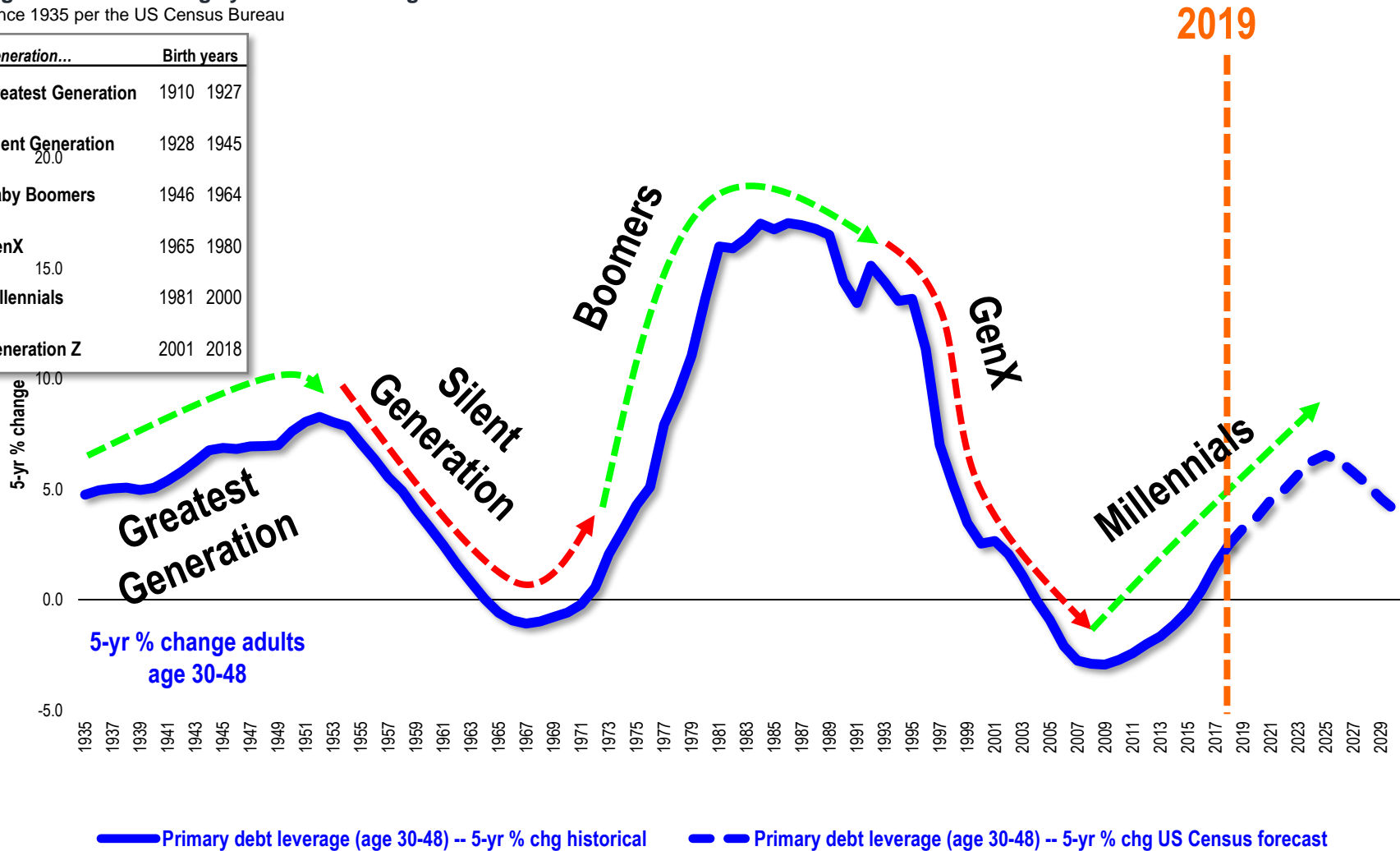
LABOR SUPPLY: Prime skilled US adults age 30-48 inflecting up and surging

The number of adults in “prime leverage age” (age 30-48) is below, based on data from the US Census Bureau.

- This figure fell from 2001-2008 (is GFC not a surprise?) and as shown below, set to accelerate 2018 to 2026.

Figure: Prime Leverage years: # adults age 30-48
Since 1935 per the US Census Bureau

Generation...	Birth years
Greatest Generation	1910 1927
Silent Generation	1928 1945
Baby Boomers	1946 1964
GenX	1965 1980
Millennials	1981 2000
Generation Z	2001 2018



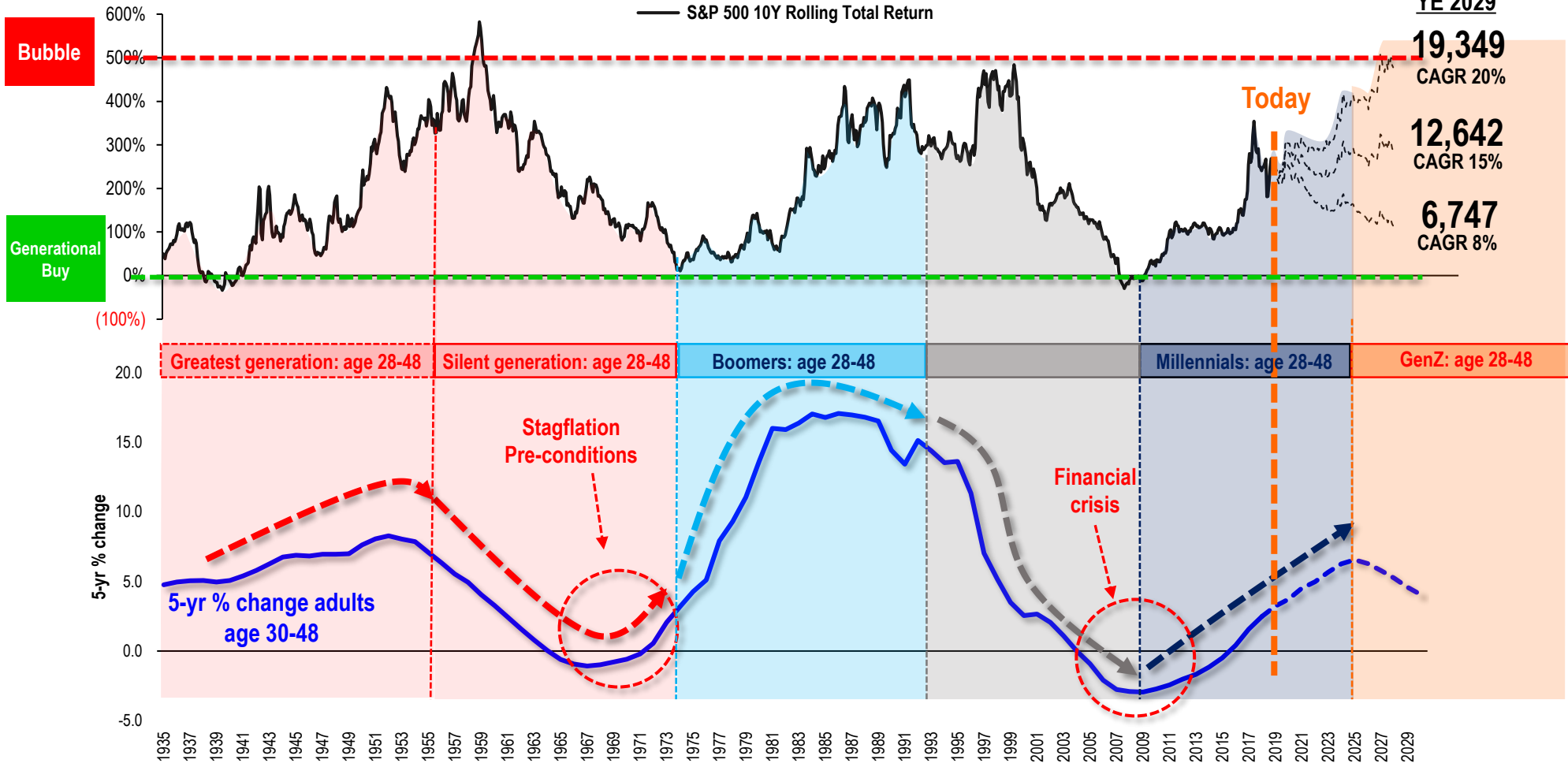
Source: FSInsight, Bloomberg, BEA, National Association of Realtors, US Census Bureau

STOCK: Like housing, equity markets also follow moves in adults age 28-48

We overlay the # of adults in "prime leverage age" (age 30-48) against the 10-year rolling total return of S&P 500 below.

Figure: Prime Leverage years: # adults age 30-48

Since 1935 per the US Census Bureau



Source: FSInsight, Bloomberg, BEA, National Association of Realtors, US Census Bureau

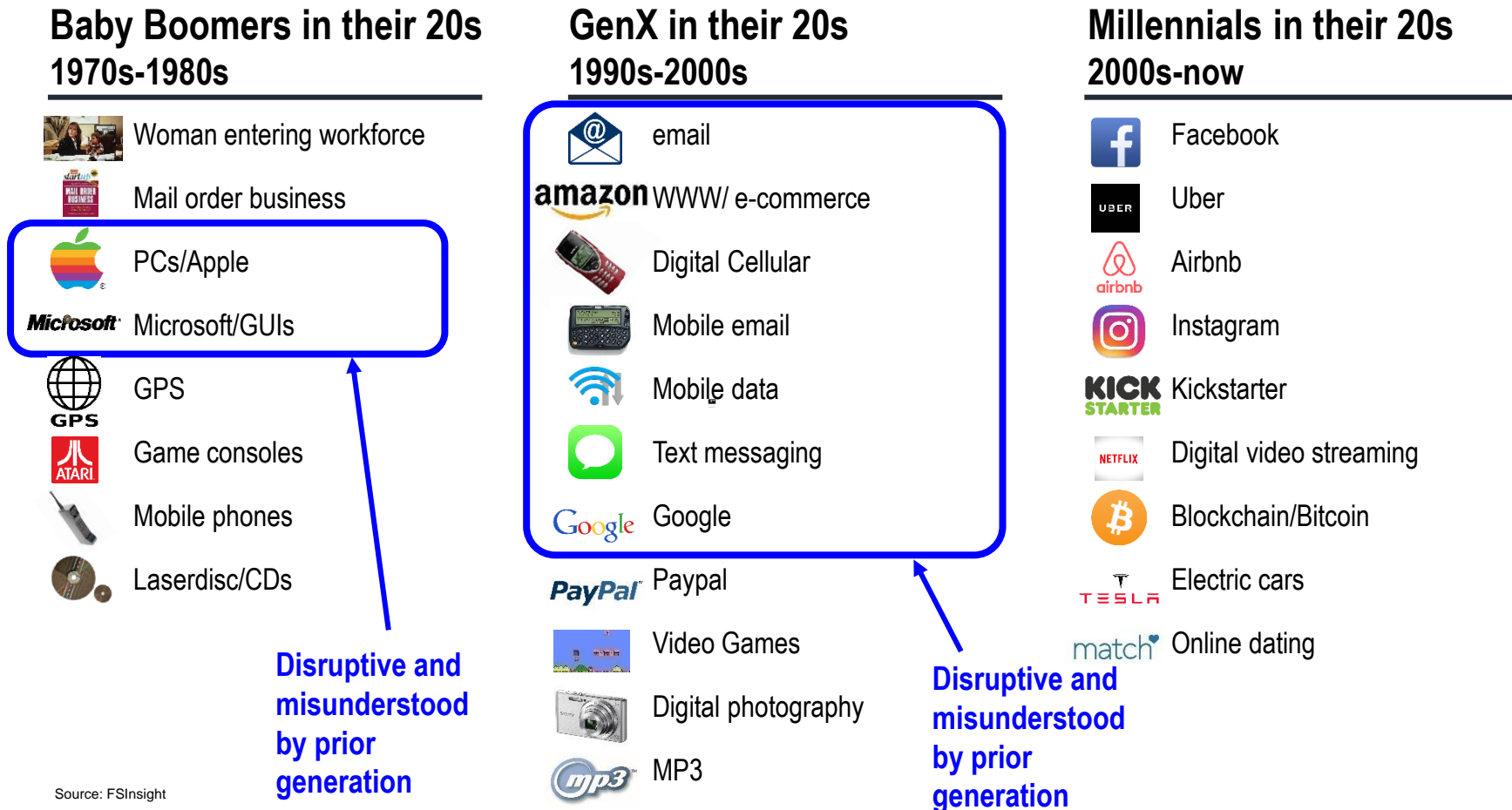
— Primary debt leverage (age 30-48) -- 5-yr % chg historical - - - Primary debt leverage (age 30-48) -- 5-yr % chg US Census forecast

Each generation sees innovations... its mostly digital today

Each generation is also characterized by innovations that differentiate that generation from prior generations.

- As shown below, what differentiates the millennial experience (in their 20s) is the growth of social media and digital businesses. Notably, we believe blockchain is the newest innovation.

Figure: Innovations seen when each generation was in their 20s
General sources. Wired magazine.



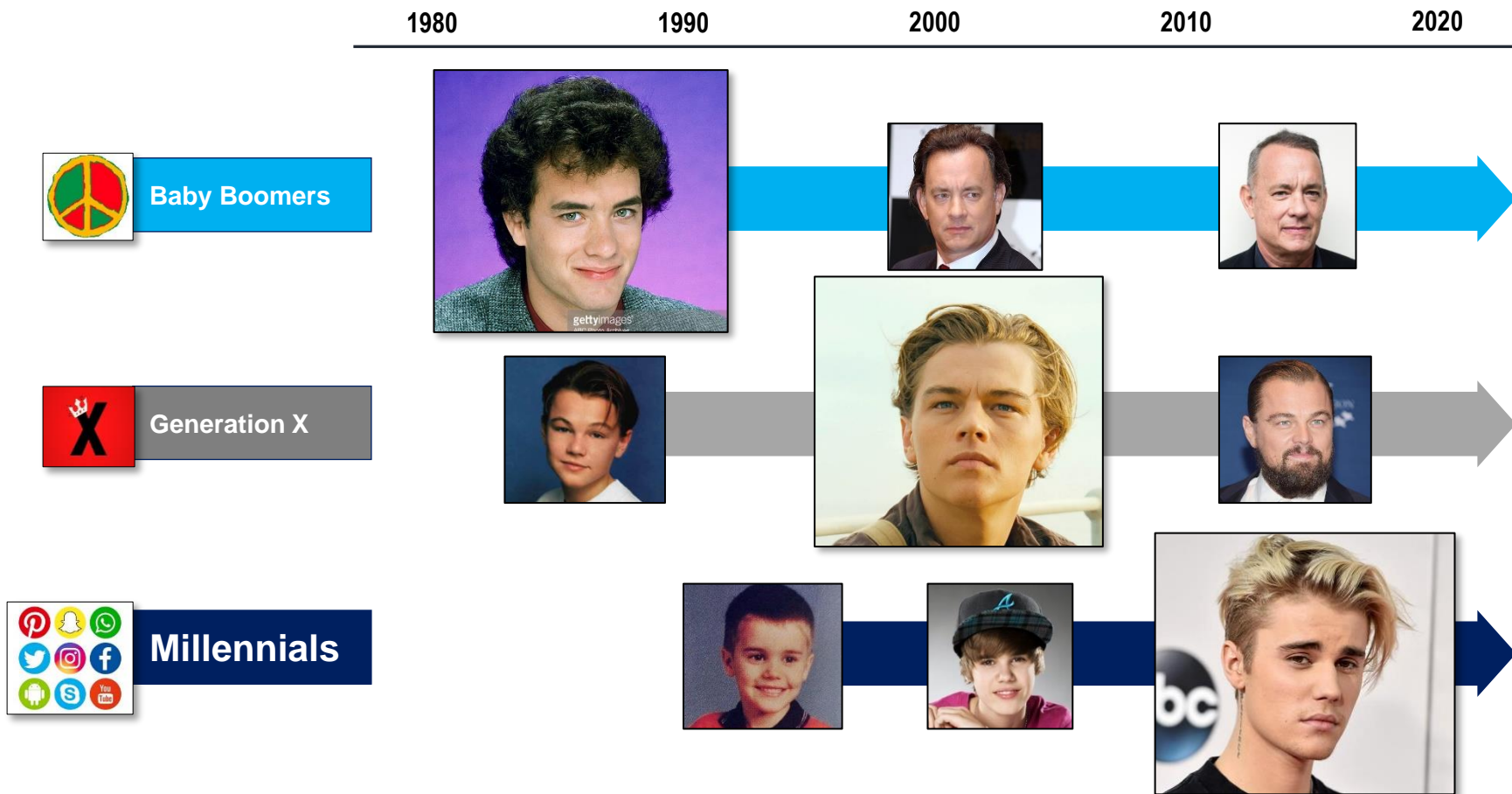
Source: FSInsight

Bubble look-back: Looking at the world of generations in their 20s...

But the broader point we want to highlight is how each generation is told they are witnessing an asset bubble.

- **Obvious ones come to mind when we look at each: Boomers, EM and Topix. GenX—Telecom and Internet**
But the duration is something that is not well appreciated. In fact, let's look at the Topix to appreciate this.

Figure: What did each generation look like in their 20s
FSInsight and public information



Source: FSInsight, Bloomberg

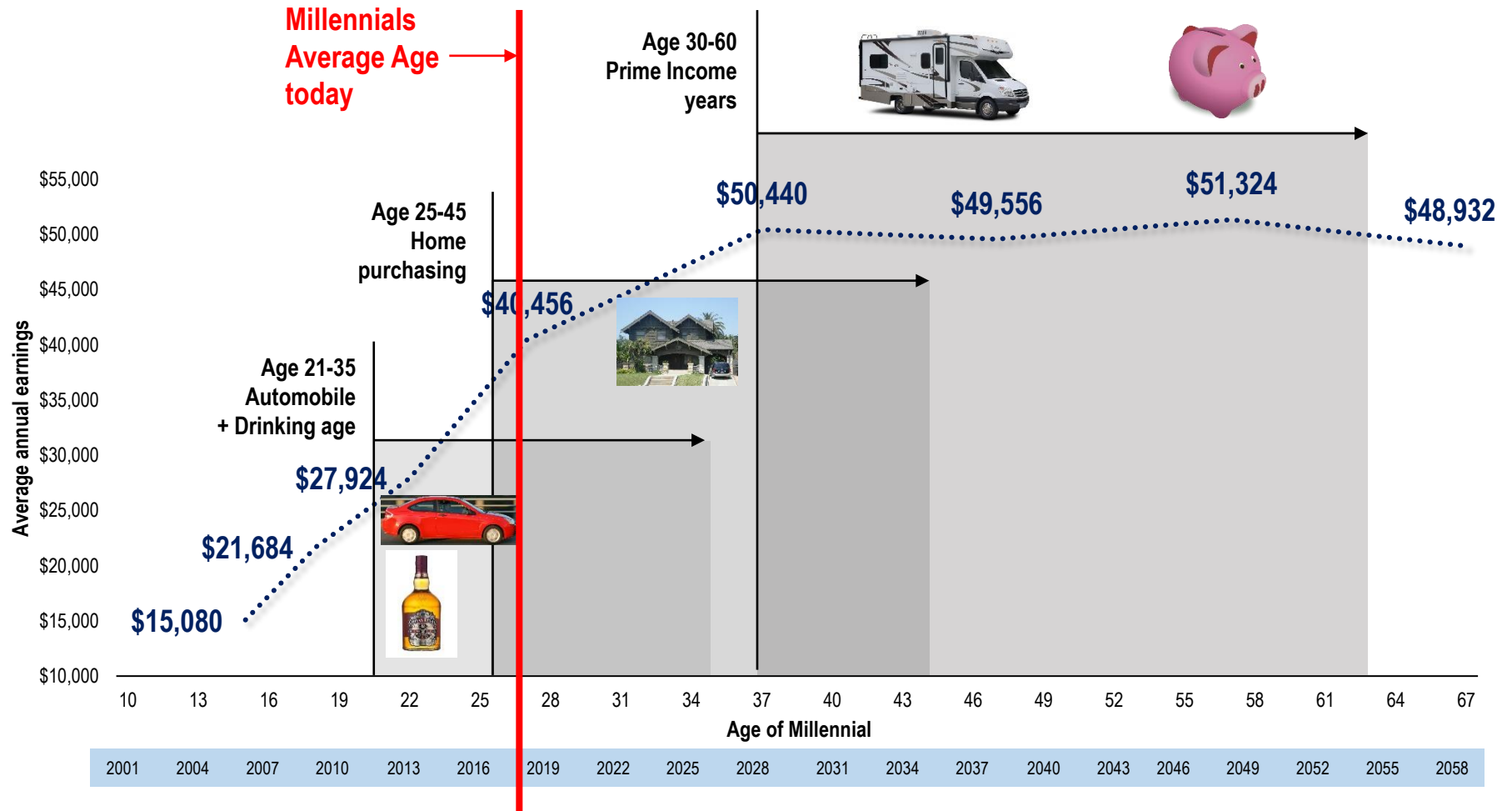
Millennials average age is 26.5... still early in life cycle

The oldest millennials are 36 but the average age is 26.5. As shown below, this means the peak of millennials are driving the automobile market but just beginning to impact the housing market. And early in the investing market.

- As the following slides show, millennials are now the most important cohort to follow for several key segments.

Figure: Life cycle of Millennial spending and income

Survey of Consumer Finance for 2017 "real income" levels (born between 1981-2000)



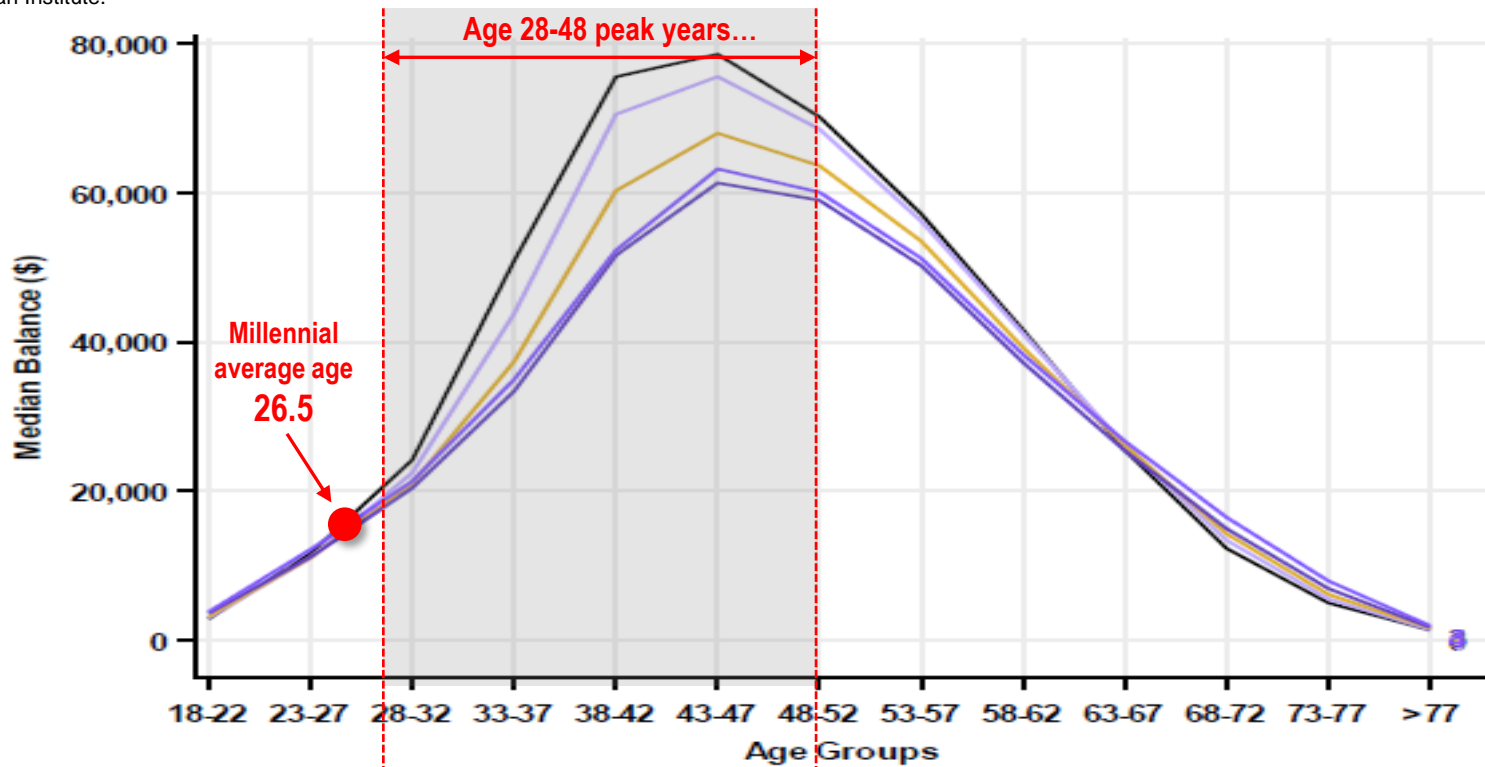
Source: FSInsight, Bloomberg, Census Bureau

LEVERAGE: Household debt *peaks* between ages 28-53, or 2019 to 2039...

- Millennials are about to become prime consumers of leverage. The Urban institute shows that leverage peaks between age 28-53. For Millennials, this is between 2019-2039.

Figure: Median debt balance by Age Group

US data. From Urban Institute.



Millennials	2009	2014	2019	2024	2029	2034	2039	2044	2049	2054	2059
Median age	18.0	23.0	27.0	32.0	37.0	42.0	47.0	52.0	57.0	62.0	67.0

Millennials hit this between 2019-2039...

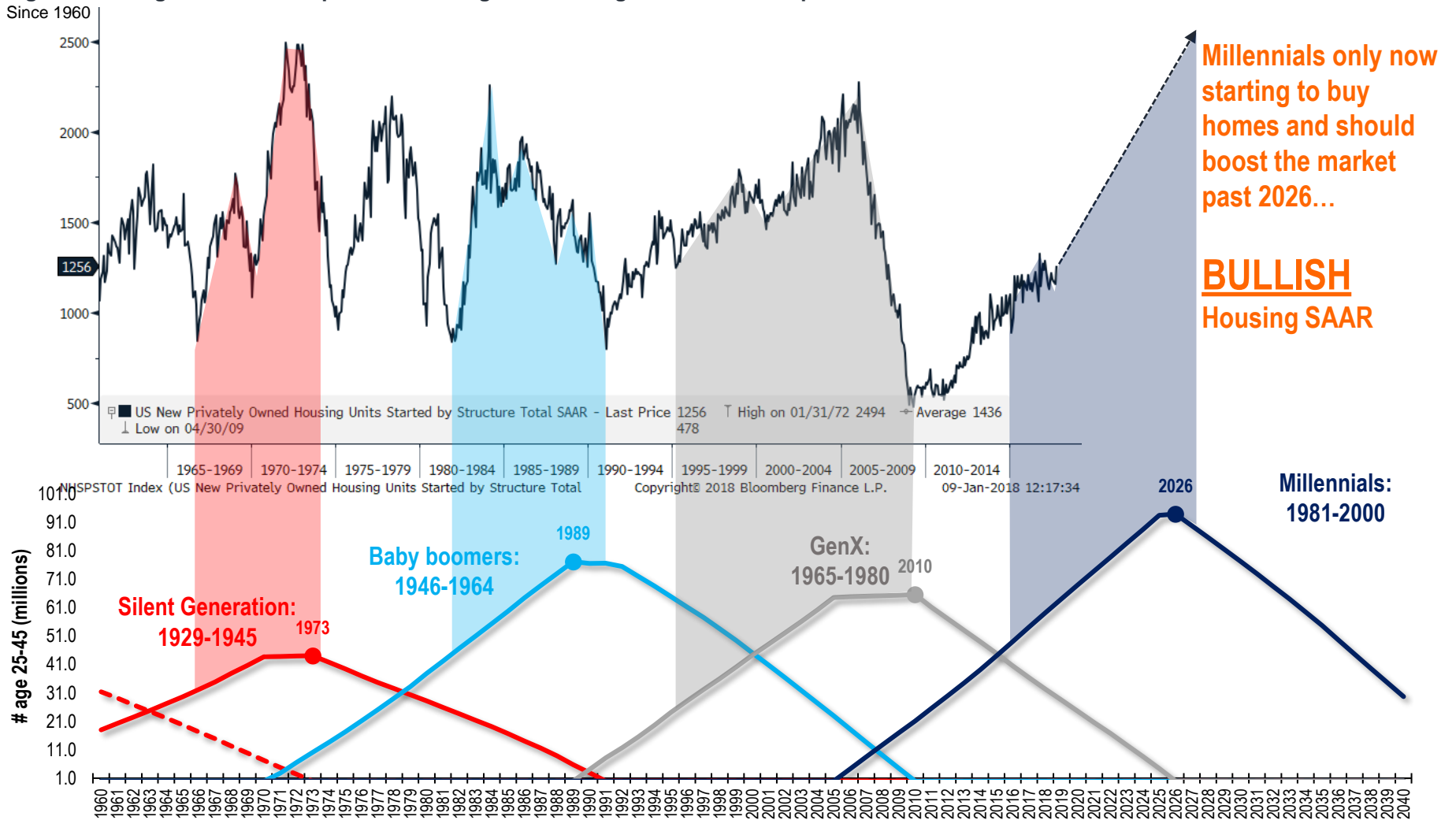
Source: FSInsight, Bloomberg. <https://www.urban.org>

Housing follow generations and implies peak starts 2029 or so...

We believe the prime market for homebuyers is age 25-45 and as shown below, this cohort size seems to explain housing cycles.

- If precedent generations are a template, housing starts should rise through 2029 towards 2.5 million starts.

Figure: Housing starts and comparative size of generations age 25-45. Starts reported in thousands.



Source: FSInsight, Bloomberg, Factset

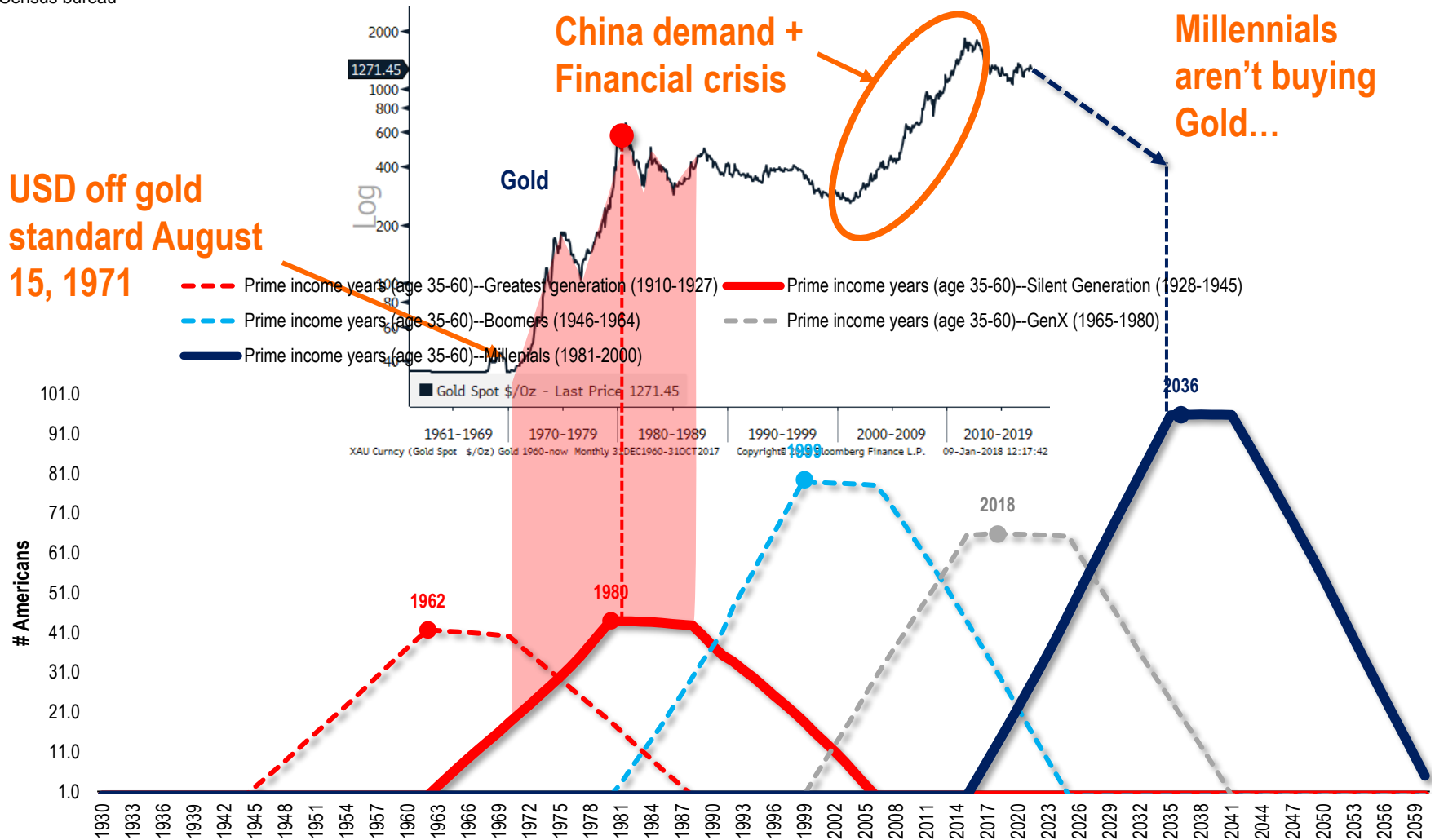
Silent Generation bought gold...

As shown below, the Silent Generation was in their prime income years. The USD moved off the gold standard in 1971.

- As shown, this surge in gold and coincident generational prime income of "Silent Generation" means this generation is the key cohort of "gold bugs".

Figure: Comparative Gold prices and the prime income years of various generations

Census bureau

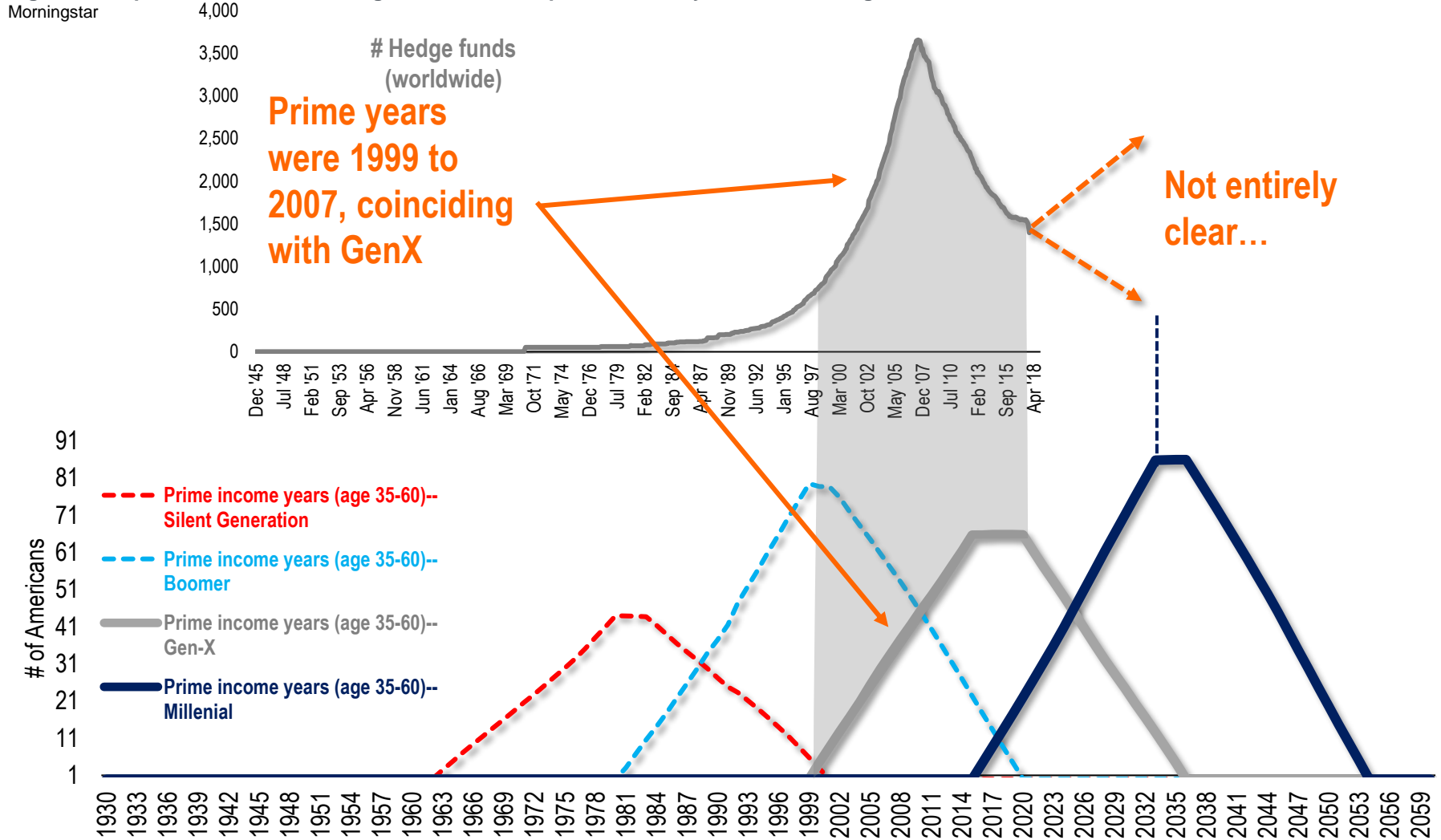


GenX really liked Hedge funds...

The prime years for hedge funds (based on number) was 1990s to 2007. Since then, the number of funds has been declining.

- The hedge fund industry is evolving and those with deep fundamental or a unique advantage will likely appeal to millennials..

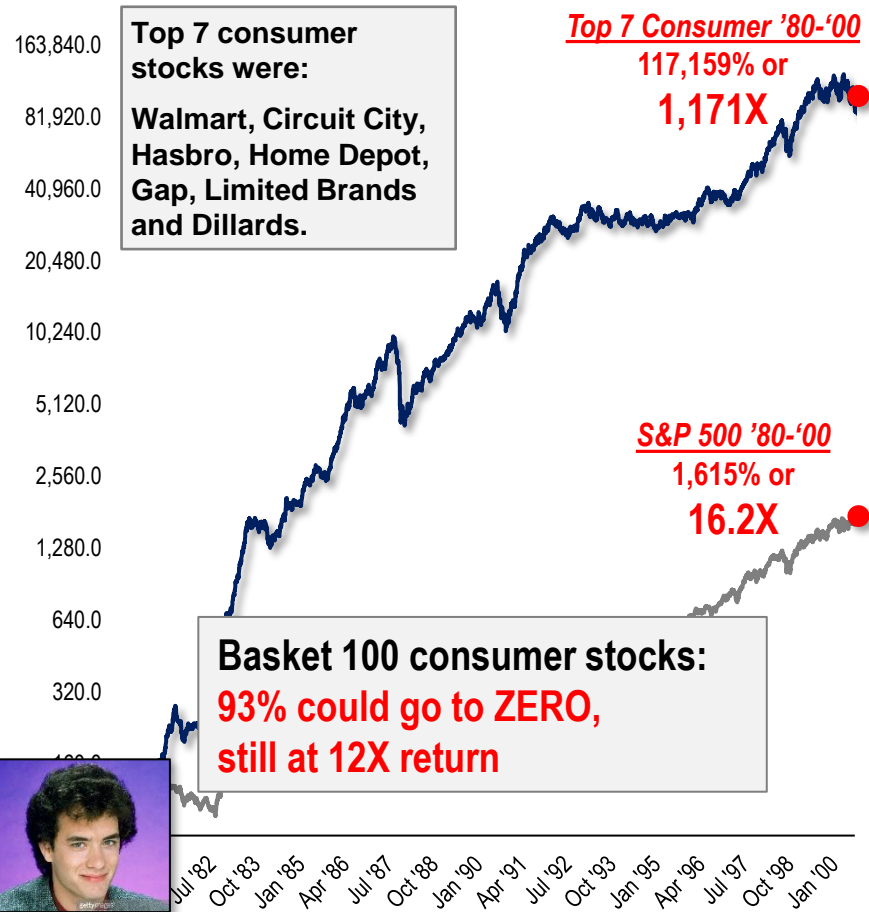
Figure: Comparative number of Hedge funds and the prime income years of various generations



“Generational” Bets paid off for Boomers and for GenX

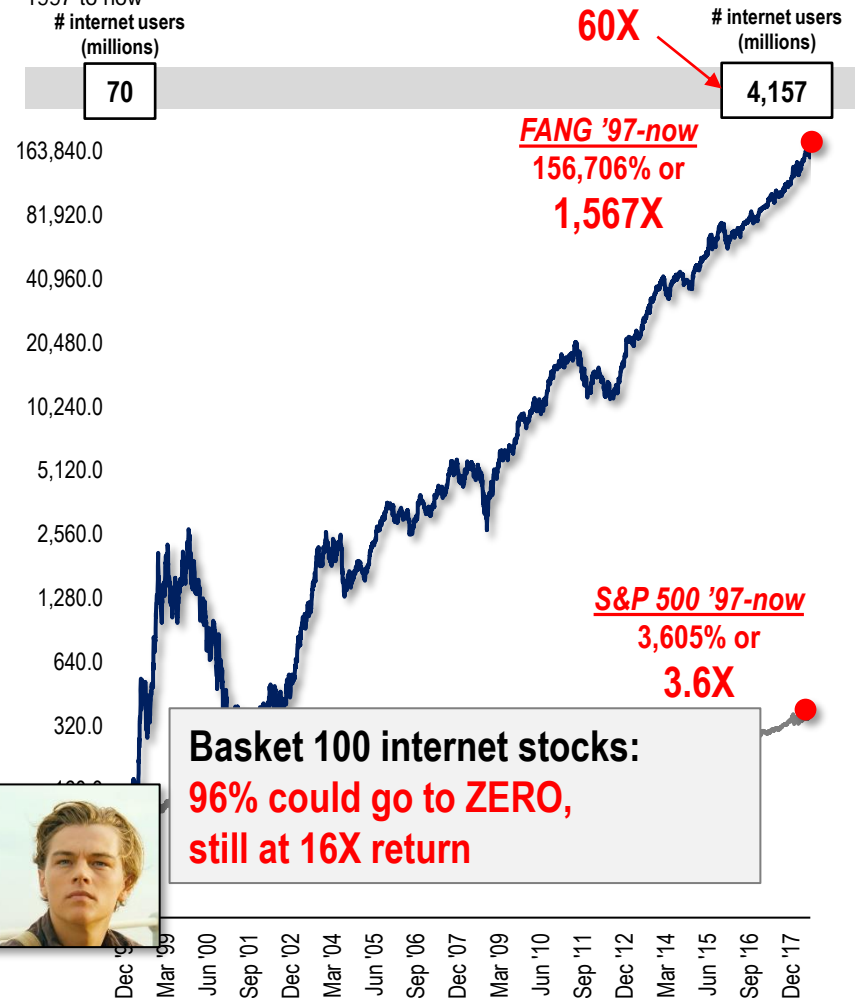
BOOMER SPEND VS PARENTS: Consumer Stocks was right vector

Figure: Comparative performance of Top 7 Consumer stocks
1980 to 2000



GenX FANG: Internet

Figure: Comparative performance of FANG
1997 to now

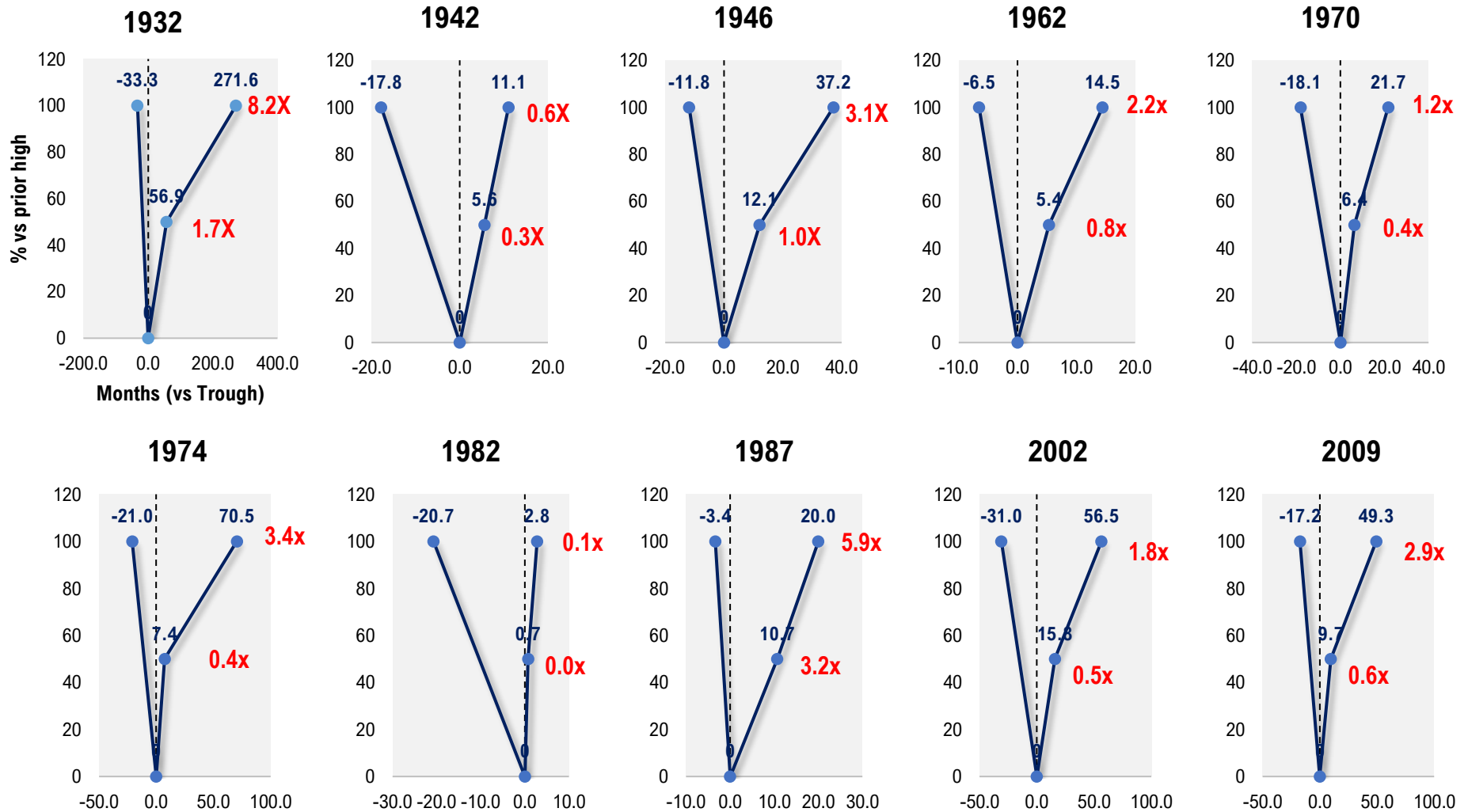


Source: FSInsight, Bloomberg

“V” BOTTOMS = RULE: True of basically every major decline >35% since 1920

This is also true of the 10 declines >36% since 1920. In other words, markets tend to recover as quickly as they fall.

Figure: Speed of recovery versus speed of decline
Declines from 1920 to 2019



Source: FSInsight, Bloomberg, Factset

“V” BOTTOMS = RULE: Implies new highs by July 2020

This is also true of the 10 declines >36% since 1920. In other words, markets tend to recover as quickly as they fall.

Figure: Speed of recovery versus speed of decline

Declines from 1920 to 2019

50% Recovery (of points lost)						100% Recovery (of points lost)					
Decline		Implied date				Decline		Implied date			
Trough	% Decline	Months	# months from low	Ratio recovery to decline	50% recovery (ass. 3/31 trough)	Trough	% Decline	Months	# months from low	Ratio recovery to decline	100% recovery (ass. 3/31 trough)
8/12/82	-27%	20.7	0.7	0.0X	4/1/20	8/12/82	-27%	20.7	2.8	0.1X	4/5/20
4/28/42	-33%	17.8	5.6	0.3X	4/12/20	4/28/42	-33%	17.8	11.1	0.6X	4/25/20
5/26/70	-36%	18.1	6.4	0.4X	4/14/20	5/26/70	-36%	18.1	21.7	1.2X	5/19/20
10/3/74	-48%	21.0	7.4	0.4X	4/14/20	10/9/02	-49%	31.0	56.5	1.8X	6/13/20
10/9/02	-49%	31.0	15.8	0.5X	4/20/20	6/26/62	-28%	6.5	14.5	2.2X	6/29/20
Median		18.0	8.5	0.5X	4/21/20	Median		18.0	33.2	2.5X	7/13/20
3/9/09	-57%	17.2	9.7	0.6X	4/22/20	3/9/09	-57%	17.2	49.3	2.9X	7/26/20
6/26/62	-28%	6.5	5.4	0.8X	5/3/20	10/3/74	-48%	21.0	70.5	3.4X	8/15/20
6/1/32	-86%	33.3	56.9	1.7X	6/9/20	12/4/87	-34%	3.4	20.0	5.9X	11/29/20
12/4/87	-34%	3.4	10.7	3.2X	8/8/20	6/1/32	-86%	33.3	271.6	8.2X	2/28/21
10/9/46	-27%	4.4	19.9	4.5X	10/1/20	10/9/46	-27%	4.4	44.6	10.1X	5/17/21
3/23/20	-34%	1.1				3/23/20	-34%	1.1			

Source: FSInsight, Bloomberg, Factset

DRY POWDER: Total “dry powder” ~\$17 trillion, or 79% of GDP

- Total “dry powder” is nearly 79% of GDP, hence, we think there is more cash on the sidelines.

Figure: Institutional and retail money market fund assets

Since 2007

	\$ billions	% GDP
Coronavirus Preparedness & Response Act	\$8	
Families First Corona Virus Response Act	192	
CARES Act	2,700	
Paycheck Protection Program and Health Care Act	733	
Fiscal Stimulus	\$3,633	
Asset purchases	1,600	
Liquidity measures	2,000	
Emergency lending programs and facilities	2,000	
Federal Reserve COVID-19	\$5,600	
Total Public Sector "dry powder"	\$9,233	43%
Institutional Money Market cash	3,220	
Retail Money Market cash	1,568	
Total Money Market Cash	\$4,788	
Private Equity undeployed cash (est)	\$2,000	
Total Private Sector "dry powder"	\$6,788	32%
Net "cash" raised by investment grade cos in 2020	\$1,000	
Total Private Sector "dry powder"	\$1,000	5%
Aggregate "dry powder"	\$17,021	79%

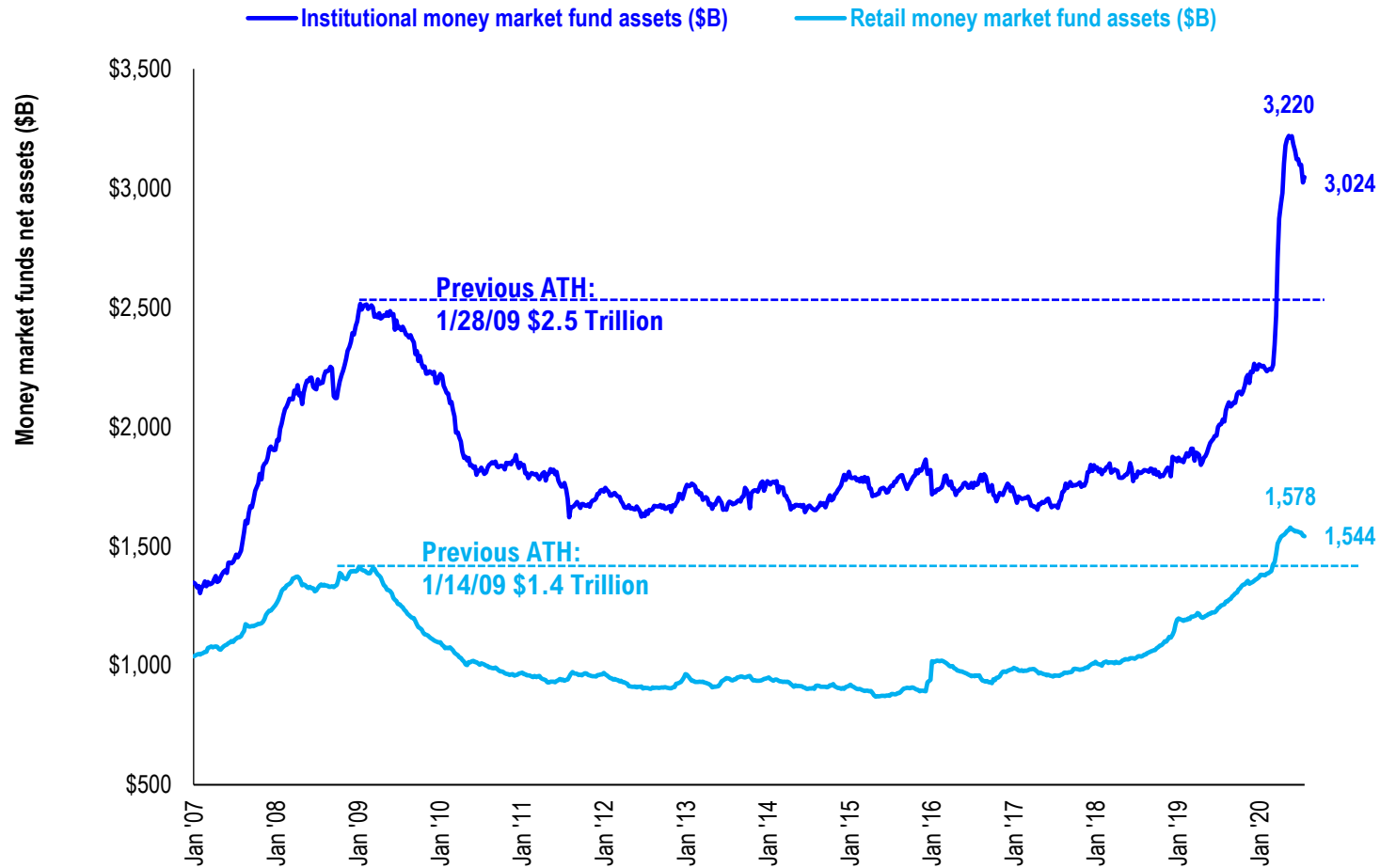
Source: FSInsight, Bloomberg, ICI

DRY POWDER: still a lot of cash on the sidelines...

Given stock market had a >45% rally and recovered from the ~2,200 lows, we realize investors have the impression a lot of firepower has been used up as investors chased this rise.

- However, this is not what has happened, surprisingly. There are still \$4.5T cash on the sidelines...

Figure: Institutional and retail money market fund assets
Since 2007



Source: FSI Insight, Bloomberg, ICI

LABOR: Global excess supply of labor is gone, first time since 1973

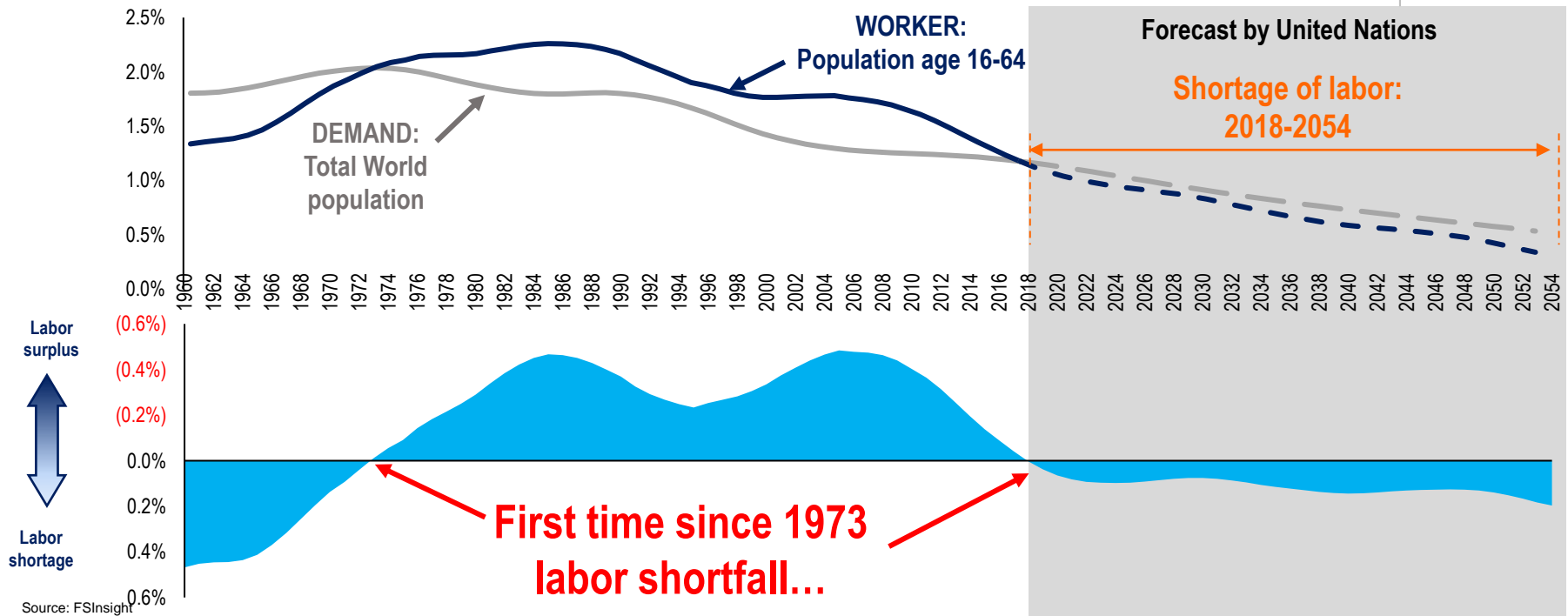
Global labor supply is falling into a deficit. This is shown below and is most acute in high income countries (4.9% labor)

- The decline in labor is widespread (except Africa and India, basically) and total shortfall is 43 million workers.

Figure: Spread between total population growth and workforce growth (age 16-64)

Per UN DESA

	2018		2028		Delta		CAGR		% current	
	Total	Workforce (16-64)	Total	Workforce (16-64)	Total	Workforce (16-64)	Total	Workforce (16-64)	Shortage	workforce
World	7,632,819	4,983,447	8,407,900	5,446,592	775,081	463,145	1.0%	0.9%	(42,903)	(0.9%)
World ex-Africa	6,344,899	4,264,461	6,778,314	4,501,749	433,416	237,288	0.7%	0.5%	(78,025)	(1.8%)
High-income countries	1,197,191	783,527	1,242,592	775,187	45,401	(8,340)	0.4%	(0.1%)	(38,054)	(4.9%)
Mid/Low-income countries	6,435,628	4,199,919	7,165,308	4,671,404	729,680	471,485	1.1%	1.1%	(4,849)	(0.1%)



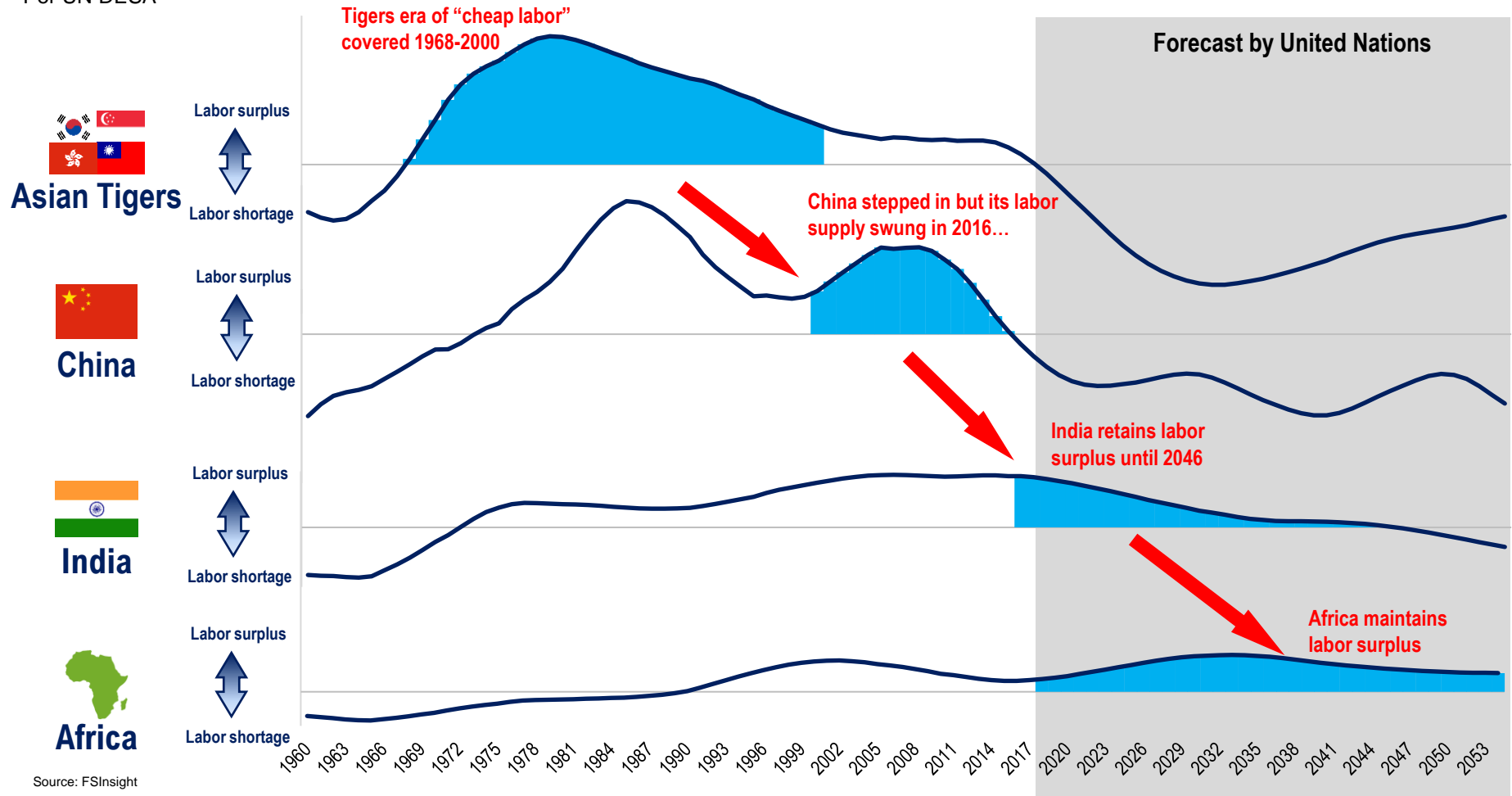
Source: FSInsight

LABOR: From Tigers to China to India (until 2046) and Africa

China and the Four Asian Tigers (Hong Kong, Korea, Singapore and Taiwan) entered labor shortage recently.

- In the chronology below is the progress of labor supply. The Tigers were the first, followed by China joining in the 2000s, and now we're seeing a shift in India. India's labor surplus will start to diminish in 2019, but won't enter labor shortage until 2046. Africa will maintain its labor surplus through the forecasted period.

Figure: Spread between total population growth and workforce growth (age 16-64)
Per UN DESA



Source: FSInsight

AUTOMATION: Labor Shortage *drives demand* for ‘automation’
‘Demand for automation drive by necessity’

When there was
“surplus labor”

Suppliers:

China 

Asia 

India 

Africa 

When there is
“labor shortage”

Suppliers:

USA 

Japan 

China 

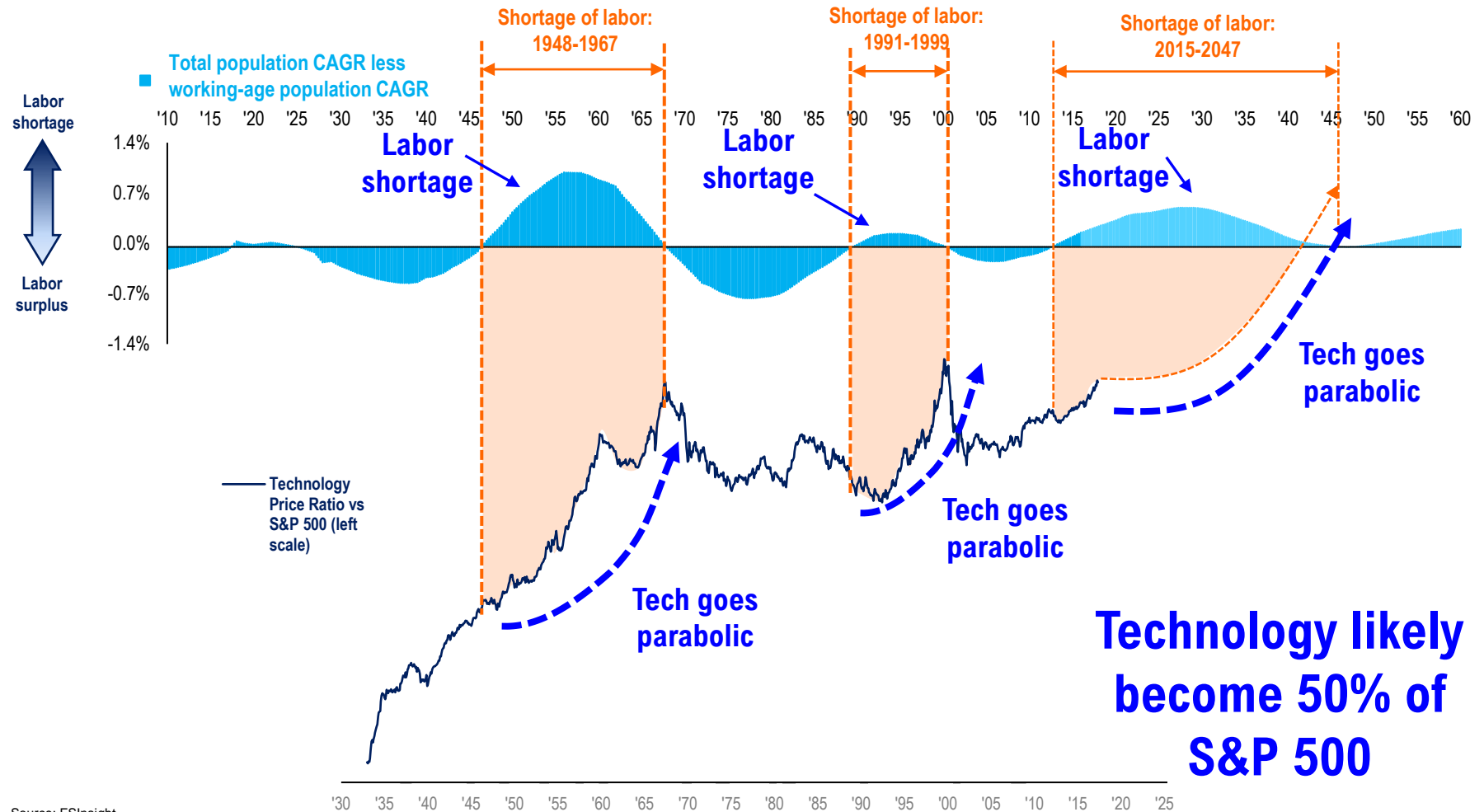
Germany 

AUTOMATION: Technology becomes 50% of S&P 500 weight

We have compared the performance of US Technology stocks (vs S&P 500) and indicated periods of labor shortage.

- The outperformance of Technology during periods of labor shortage is substantial—and we believe the forecasted 2015-2047 to benefit Technology stocks.

Figure: Comparative relative performance of US Technology stocks during periods of US labor shortage
Since 1930-now



Source: FSInsight

- **COVID-19 cases plateau**
 - **GDP <> EPS <> Stocks**
 - **2020 Election dynamics**
 - **New Normal: “Epicenter” groups struggle**
 - **Demographics might explain Tech + Equity stamina**
- **“Granny shots” outperforming in 2020**

STRATEGY: Increase “win-rate” of stock picks...

Shaquille:

(career success)

52%



Rick Barry:

(career success)

90%



Rebalanced

STRATEGY: Granny Shots represents the “best of the best” from Thematics

The granny shots represent the best of the best from the thematic portfolios.

- This is derived from looking at stocks which appear in multiple themes. As listed on the following pages, no stock appears in 6 of 6 thematics, but AAPL and GOOG appear in 5 and 4 out of 6.

Figure: Granny Shots are the “best of the best”
Stocks which appear in multiple themes.

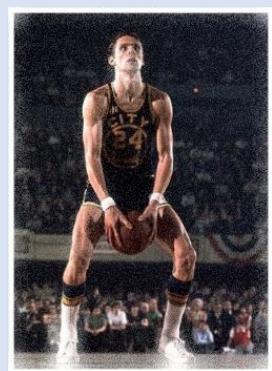
Tactical (6M-12M)

	# stocks
Style tilt	24
Seasonality	16
PMI Recovery	23

Thematic (3Y-5Y)

	# stocks
Millennials	28
Automation/ AI	49
Asset intensity	26

Granny Shots



Rick Barry career free throw percentage was eye-popping 90%, incredible considering Shaquille O’Neal’s only 52%.

His secret? The unorthodox style of underhanded throws, which is considered “not macho” enough for most players.

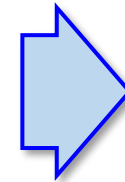
# overlaps “layups”	Tickers
5	AAPL
4	GOOG
3	GRMN, CSCO, XLNX LOW
2	EMR, HPQ, BWA LEN, CF, MXIM AMZN, EBAY, PG NVDA, MSFT, MNST TSLA, PYPL, BKNG AXP, BF/B, PM



THEME: Summary of changes for 3Q rebalance

Below summarizes the changes taking place on the 6 FSInsight themes, along with brief descriptions of each.

FSInsight Theme	Description	Dec 13, 2019	NEW (post-rebalance)
Granny Shots	"Best of best" as it reflects stocks appearing in multiple themes	Best of best (from below)	Same approach
Tactical — 6-12M			
1. Value / Growth Tilt	Optimize style tilt, reflecting DQM and macro factors	Quality Defensive + Growth Quality	Pure Value + Value Cyclicals
2. Seasons the <u>NEW</u> Seasonality	Identify groups which exhibit consistent seasonality next 6M	8 Industries: Internet & Direct Marketing Retail Real Estate Services Semiconductor Equipment Oil & Gas Refining & Marketing Oil & Gas Equipment Service Managed Health Care Industrial Machinery Interactive Home Entertainment	<div style="border: 1px dashed blue; padding: 5px;"> 6 NEW Industries: • Tech Hardware • Home Improvement Retail • Household Products • Fertilizers • Distributors • Consumer Electronics • Homebuilding 1 EXISTING industries: • Internet & Direct Marketing Retail </div>
3. PMI Recovery	Sectors and style that benefit from PMI recovers above 50.	Tech, Industrials, Financials, Energy + Value	Same approach with new stock ideas
Thematic — 3-5 years			
4. Millennials prime years	Thematic bet on generational transformation driven by millennials.	Millennial transformation. Millennial accelerators.	No change
5. Labor shortage— AI/ automation	Past 50 years saw 33% worker surplus/ GDP output. Next 35 years is massive deficit.	Automation/ AI suppliers. Beneficiaries Automation/ AI	No change
6. Asset Intensity — Assets vs OpEx	Combo of millennials and automation make world "asset heavy"	Assets over OpEx.	No change



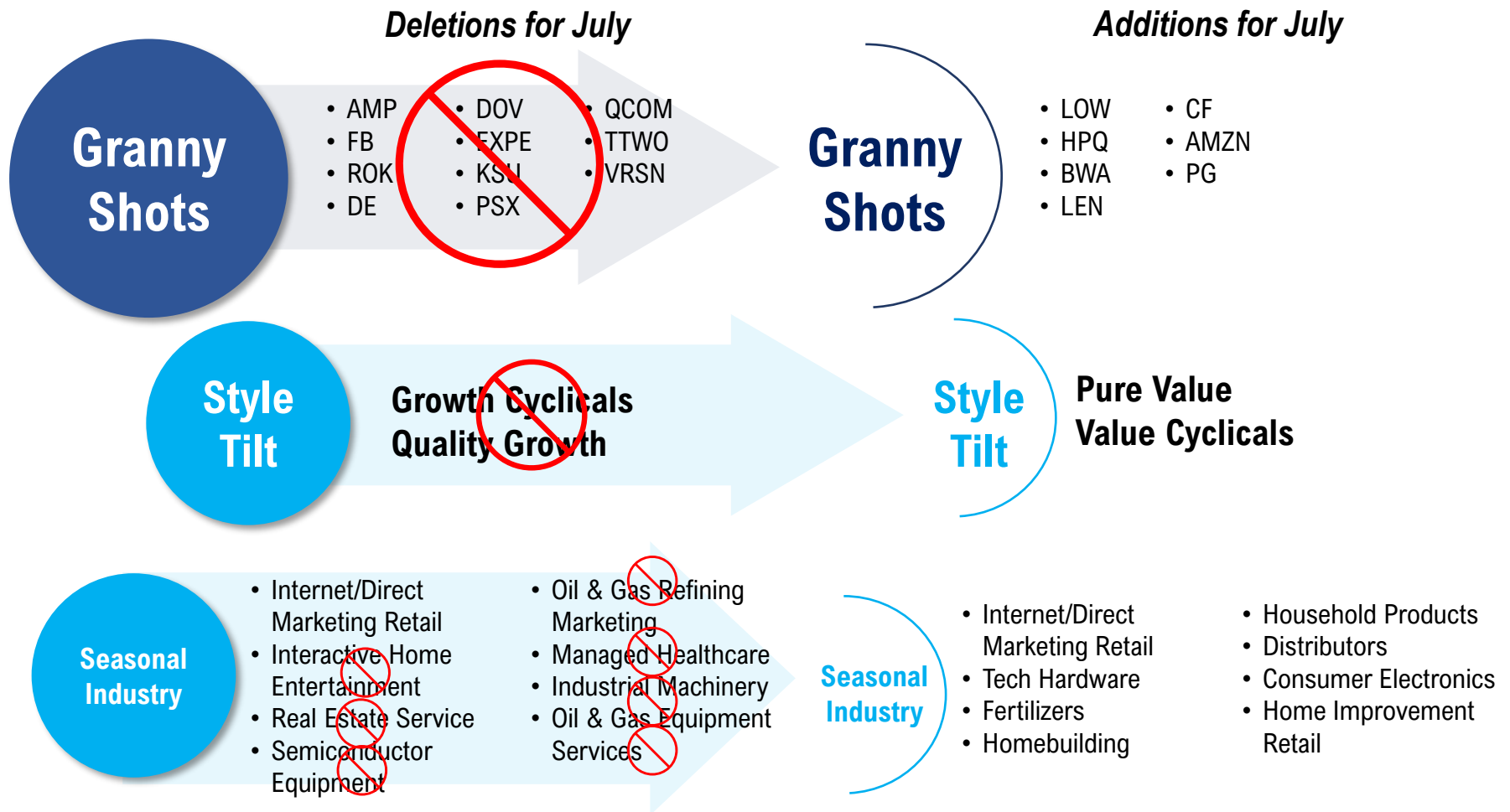
8 Seasonality Industry picks...

Source: FSInsight

GRANNY SHOTS REBALANCE: Summary changes for 3rd quarter of 2020

December rebalance

July rebalance



Source: FSInsight, Bloomberg, Factset

GRANNY SHOTS: Beat S&P 500 15 out of the 19 months since inception...

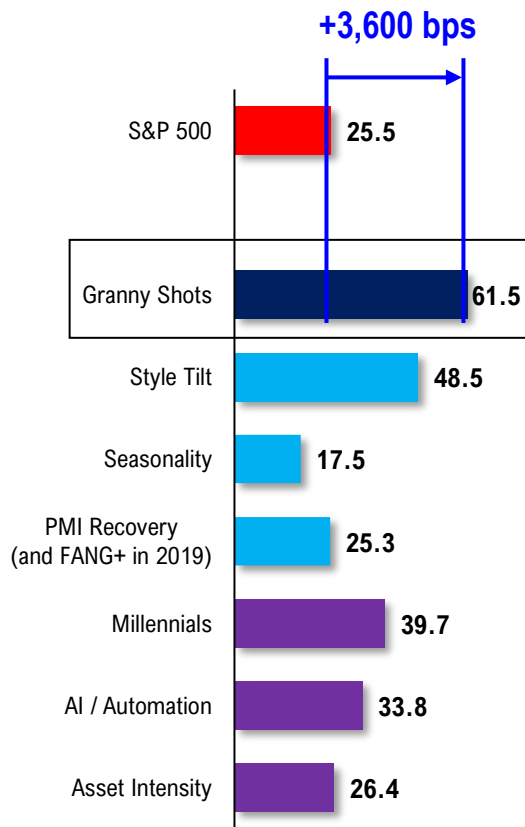
The relative performance of Granny Shots is below and as highlighted, has beaten the S&P 500 by 3,600bp since inception.

- Granny Shots, which are the “best of the best” for our thematic portfolios (and rebalanced every quarter) has consistently outperformed on a monthly basis. It has beaten the S&P 500 by 3,600bp since inception and 2,030bp YTD.

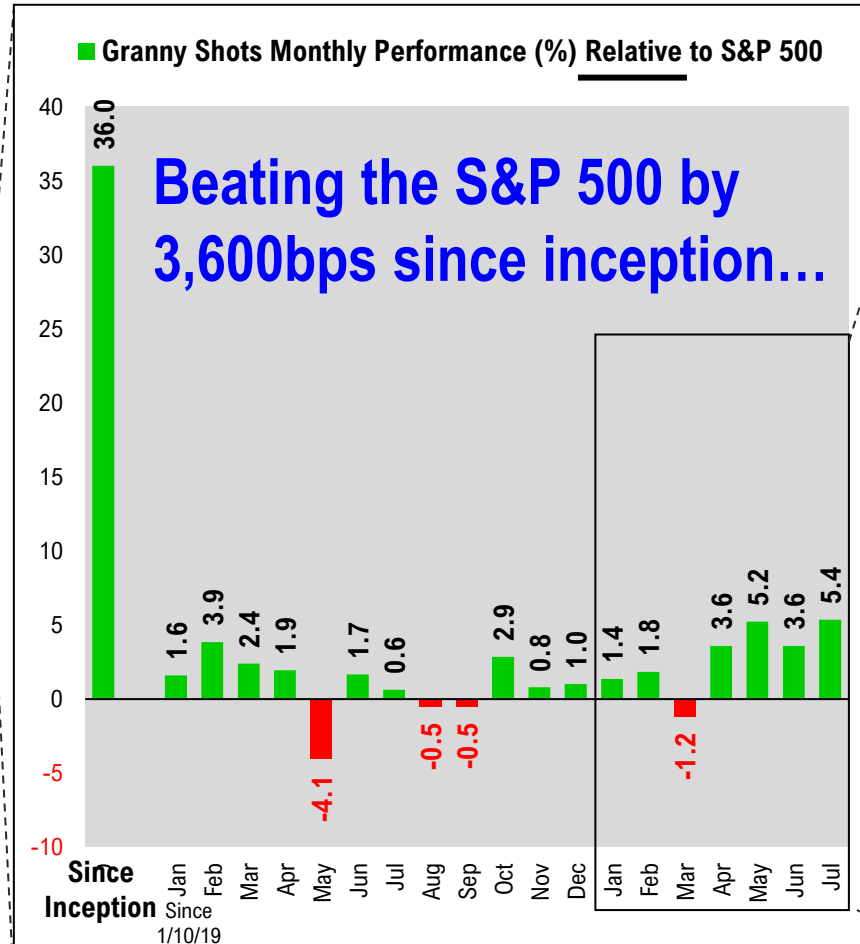
Figure: Granny Shots Portfolio Performance

Monthly; As of 7/29/20

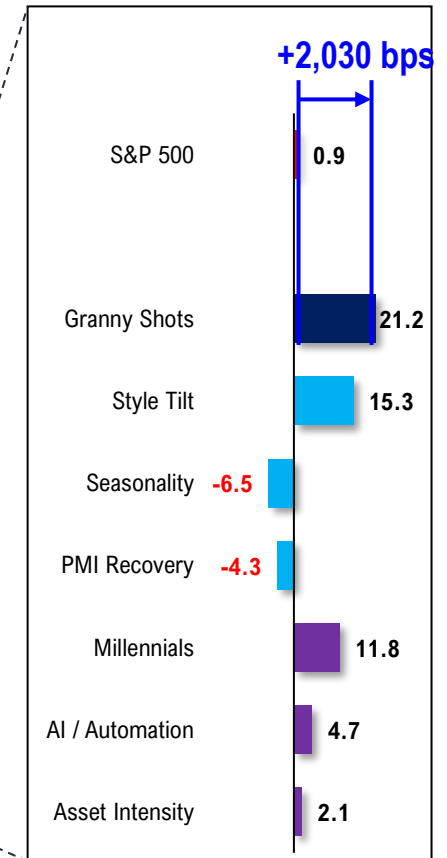
Since Inception (return since 1/10/19)



Source: FSInsight, Bloomberg, Factset



YTD Performance



Portfolio Strategy: Investment recommendations

We are introducing our tactical and thematic strategies for 2020.

Figure: FSInsight Portfolio Strategy Summary Relative to S&P 500

Performance is calculated since strategy introduction, 1/10/2019. Changes due to 3Q20 rebalance are highlighted in **Blue

FSInsight Theme	Execution of Strategy	List of Stocks	Portfolio Relative Return
Granny Shots	Intersect of below investment strategy	AAPL, GOOG, GRMN, BKNG, CSCO, XLNX,, EMR, MXIM, EBAY, NVDA, MSFT, MNST, TSLA, PYPL, AXP, BF/B, PM, AMZN, LOW, HPQ, BWA, LEN, CF, PG	36.0%
Tactical — 6-12M			
1 Value / Growth Tilt	Market re-discovered valuation risk. • Pure Value • Value Cyclical	CF, COF, PFG, CFG, FITB, RE, CAH, CNP, EMR, LEG, LOW, DXC, HPQ, DISCK, DISH, ALK, JCI, PNR, SNA, BWA, GM, MHK, LEN, EMN	23.0%
2 Seasons the <i>NEW</i> Seasonality	Overweight groups with good seasonals. CURRENT: Distributors, Tech Hardware, Household Product & Retail, Fertilizers, Homebuilder, Online Retail, Electronics	BKNG ,EBAY, AAPL, HPQ, GRMN, LKQ, LOW, DHI, LEN, NVR, PHM, AMZN, CF, CHD, CL, PG	-8.0%
3 PMI Recovery*	Sectors and style that benefit from PMI recovers above 50. • Tech, Industrials, Financials, Energy + Value	NVDA, MXIM, AAPL, GOOGL, COP, CVX, CSCO, LRCX,, XLNX, MSFT,, AFL, CPRT, MMM, HFC, VLO, NUE, MNST, MO, BIIB, JNJ, PNW	-4.9%
Thematic — 3-5 years			
4 Millennials prime years	Millennials driving >50% GDP growth. • Millennial transformation. • Millennial accelerates growth.	COLM, TPR, BWA, TSLA, ORLY, NKE, ULTA, PYPL, SQ, AXP, JPM, ALL, TAP, BF/B, PM, GOOG, FB, DIS, TMUS, GRMN, TOL, WM, PG, GIS, EL, AAPL, MNST, ED	14.2%
5 Labor shortage— AI/ automation	World is short 78 million workers. • Automation/ AI suppliers. • Beneficiaries of Automation/ AI	APTV, GNTX, SRI, GRMN, CW, MOG/A, TDY, DE, AME, EMR, RBC, ROK, ROP, LECO, PH, ADSK, SNPS, CSCO, FLIR, ZBRA, MKSI, AVGO, NVDA, QCOM, XLNX, IMMR, ISRG, VAR, GOOG, CPRI, TSLA, AAP, AAPL, KSS, GPC, DG, TGT, BSET, ETH, LOW, AMZN, DENN, TSCO, POWL, CSL, DOV, HURN, COST, MXIM	8.3%
6 Higher inflation— Assets vs OpEx	Inflation trending higher long term. • Assets over OpEx.	BKNG, EBAY, CSCO, PYPL, DLB, KLAC, XLNX, MSFT, ORCL, AAPL, RGLD, PSX, AMP, AXP, LPLA, AMTD, BF/B, PM, AMGN, ENTA, NKTR, GOOGL, EIX, EXC, BKH, D	0.9%

Source: FSInsight, Bloomberg

*.New strategy introduced on December 2019 rebalance

Portfolio Strategy: Performance Tracking

Below is the performance tracking of the 6 investment themes.

Figure: FSInsight Portfolio Strategy Summary Relative to S&P 500

**Performance is calculated since strategy introduction, 1/10/2019.

FSInsight Theme	Execution of Strategy	Date Added	Last 3 Months			FY19 (since 1/10)	1Q20	2Q20	3Q20	4Q20	Since Inception Rel.Return
			May	Jun	Jul						
S&P 500	S&P 500 Price Index		4.5%	1.8%	5.1%	24.4%	-20.0%	20.0%	5.1%	-	25.5%
<i>Performance relative to S&P 500...</i>											
Granny Shot	Intersect of below investment strategy	1/10/19	5.2%	3.6%	5.4%	8.8%	1.6%	14.6%	5.4%	-	36.0%
Tactical — 6-12M											
1 Value / Growth Tilt	Market re-discovered valuation risk. • Pure Value • Value Cyclical	1/10/19	4.8%	-0.2%	6.4%	4.3%	2.9%	4.8%	6.4%	-	23.0%
2 Seasons the NEW Seasonality	Overweight groups with good seasonals. CURRENT: Distributors, Tech Hardware, Household Product & Retail, Fertilizers, Homebuilder, Online Retail, Electronics	1/10/19	3.6%	-0.1%	3.9%	1.2%	-13.0%	8.0%	3.9%	-	-8.0%
3 PMI Recovery*	Sectors and style that benefit from PMI recovers above 50. • Tech, Industrials, Financials, Energy + Value	12/13/19	3.1%	0.3%	0.2%	0.4%	-9.0%	28.1%	5.3%	-	-4.9%
Thematic — 3-5 years											
4 Millennials prime years	Millennials driving >50% GDP growth. • Millennial transformation. • Millennial accelerates growth.	1/10/19	3.6%	2.1%	3.6%	0.5%	0.1%	8.5%	3.6%	-	14.2%
5 Labor shortage— AI/ automation	World is short 78 million workers. • Automation/ AI suppliers. • Beneficiaries of Automation/ AI	1/10/19	3.6%	1.6%	2.2%	3.4%	-5.5%	11.0%	2.2%	-	8.3%
6 Higher inflation— Assets vs OpEx	Inflation trending higher long term. • Assets over OpEx.	1/10/19	2.7%	1.3%	-1.2%	-0.6%	-1.5%	5.2%	-1.2%	-	0.9%

Source: FSInsight, Bloomberg

* portfolio strategy newly introduced on December '19 rebalance, replacing our 2019 portfolio recommendation – “FANG in odd years”

Rick Barry career free throw percentage was eye-popping 90%, incredible considering Shaquille O'Neal's only 52%.



His secret? The unorthodox style of underhanded throws, which is considered "not cool" enough for most players.

Rebalanced

GRANNY SHOTS: Best bets in 2020

We recommend investors our granny shots, comprised of 24 stocks.

- These stocks are recommended across at least two of our investment strategies for 2020, which makes them likely to benefit from multiple themes and secular tailwinds.

Figure: Granny shots – recommended across at least two investment strategies for 2020

Per FSInsight

Company information					Analyst Ratings						Fundamentals & Valuation				Theme Membership						
Ticker	Company name	Current Price	Mkt cap (\$ mm)	YTD perf (relative to S&P 500)	FC Mean (5=Buy 1=Sell) ⁽¹⁾	Mean implied upside ⁽²⁾	Dividend Yield	Issuer Rating	Short interest % of float	2020E sales growth ⁽³⁾	2020E EPS growth ⁽³⁾	P/E ('20E)	ROE	Value / Growth Tilt	Seasonality	PMI Recovery	Millennials	AI / Automation	Inflation	Strategy Count	
1	AAPL	Apple Inc	\$380.16	\$1,647,741	28.6%	4.09	-2%	0.9%	AA+	0.9%	1%	4%	30.6x	62%		•	•	•	•	•	5
2	GOOG	Alphabet Inc-Cl C	\$1,522.02	\$1,039,443	13.0%	5.00	5%	0.0%	AA+	0.8%	5%	-15%	36.6x	18%		•	•	•	•	•	4
3	GRMN	Garmin Ltd	\$98.78	\$18,890	0.4%	3.20	-8%	--	--	2.9%	-6%	-16%	26.5x	21%	•		•	•	•	•	3
4	CSCO	Cisco Systems Inc	\$46.71	\$197,223	-3.5%	3.83	6%	3.2%	AA-	0.9%	-5%	2%	14.8x	30%		•	•	•	•	•	3
5	XLNX	Xilinx Inc	\$107.82	\$26,221	9.4%	3.35	-7%	1.4%	NR	3.3%	-5%	-14%	40.5x	31%		•	•	•	•	•	3
New	6	LOW	Lowe'S Cos Inc	\$148.71	\$112,276	23.3%	4.53	-1%	1.7%	BBB+	1.0%	7%	19%	21.8x	184%	•	•		•	•	3
7	BKNG	Booking Holdings Inc	\$1,707.54	\$69,891	-17.7%	3.76	-1%	--	A-	3.1%	-53%	-86%	nm	63%		•				•	2
8	EMR	Emerson Electric Co	\$63.74	\$38,083	-17.3%	3.48	3%	3.1%	A	1.2%	-10%	-18%	21.2x	27%	•				•		2
New	9	HPQ	Hp Inc	\$17.08	\$24,424	-17.7%	3.24	5%	4.4%	BBB	1.4%	-8%	-6%	8.1x	--	•	•				2
New	10	BWA	Borgwarner Inc	\$38.92	\$8,069	-11.1%	4.18	5%	1.8%	BBB	10.0%	-20%	-54%	20.6x	16%	•			•		2
New	11	LEN	Lennar Corp-A	\$72.68	\$22,003	29.4%	3.95	2%	0.5%	BB+	3.4%	-5%	9%	11.6x	13%	•	•				2
New	12	CF	Cf Industries Holdings Inc	\$31.36	\$6,705	-35.2%	4.05	15%	3.9%	--	2.7%	-12%	-37%	24.0x	17%	•	•				2
13	MXIM	Maxim Integrated Products	\$69.90	\$18,641	12.8%	3.32	6%	2.6%	BBB+ *	2.2%	-5%	-7%	30.9x	37%		•		•			2
New	14	AMZN	Amazon.Com Inc	\$3,033.53	\$1,513,052	63.3%	4.75	2%	--	AA-	0.9%	24%	-18%	nm	19%		•		•		2
New	15	EBAY	Ebay Inc	\$54.53	\$38,317	50.2%	3.61	12%	1.2%	BBB+	2.5%	-1%	25%	15.4x	143%		•			•	2
16	PG	Procter & Gamble Co/The	\$128.31	\$317,650	1.9%	3.96	3%	2.4%	AA-	0.6%	4%	10%	25.8x	10%		•		•			2
17	NVDA	Nvidia Corp	\$418.62	\$257,451	77.1%	4.50	-4%	0.2%	A-	1.3%	34%	-	51.2x	29%			•		•		2
18	MSFT	Microsoft Corp	\$204.06	\$1,544,938	28.5%	4.72	13%	1.0%	AAA	0.5%	14%	21%	35.4x	40%			•			•	2
19	MNST	Monster Beverage Corp	\$77.31	\$40,709	20.8%	3.89	-5%	--	--	1.7%	2%	-1%	36.7x	30%		•	•				2
20	TSLA	Tesla Inc	\$1,499.11	\$279,377	257.5%	2.50	-24%	--	B+	8.6%	21%	28264%	nm	5%				•	•		2
21	PYPL	Paypal Holdings Inc	\$184.60	\$216,750	69.8%	4.52	-1%	--	BBB+	1.1%	15%	9%	54.6x	12%				•		•	2
22	AXP	American Express Co	\$96.69	\$77,851	-23.2%	3.63	8%	1.8%	BBB+	1.6%	-17%	-62%	31.6x	18%				•		•	2
23	BF/B	Brown-Forman Corp-Class B	\$69.21	\$32,113	1.5%	2.44	-11%	1.0%	A-	2.6%	-3%	-5%	42.5x	46%				•		•	2
24	PM	Philip Morris International	\$78.39	\$122,076	-8.7%	4.56	11%	6.1%	A	0.5%	-4%	-3%	15.6x	--				•		•	2
Average			\$319,579	\$319,579	23.0%	3.88	1%	2.1%		2.3%	-1%	1218%	28.4x	40%							
Median			\$73,871	\$73,871	11.1%	3.92	2%	1.7%		1.5%	-4%	-5%	26.5x	28%							
% of stocks positive					67%		58%				42%	38%		100%							

Source: FSInsight, Bloomberg, Factset

Disclosures

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Analyst Industry/Sector Views

Positive (+): The analyst expects the performance of his industry/sector coverage universe over the next 6-18 months to be attractive vs. the relevant broad market benchmark, being the S&P 500 for North America.

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

Negative (-): The analyst expects his or her industry coverage universe over the next 6-18 months to underperform vs. the relevant broad market benchmark, being the S&P 500 for North America.

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