



COVID-19 UPDATE: Bonds of many "epicenter" stocks are back to par. Wow. FYI, Bars not reason millennials spreading COVID-19.

THIS MESSAGE IS BEING SENT SOLELY TO CLIENTS OF FS INSIGHT

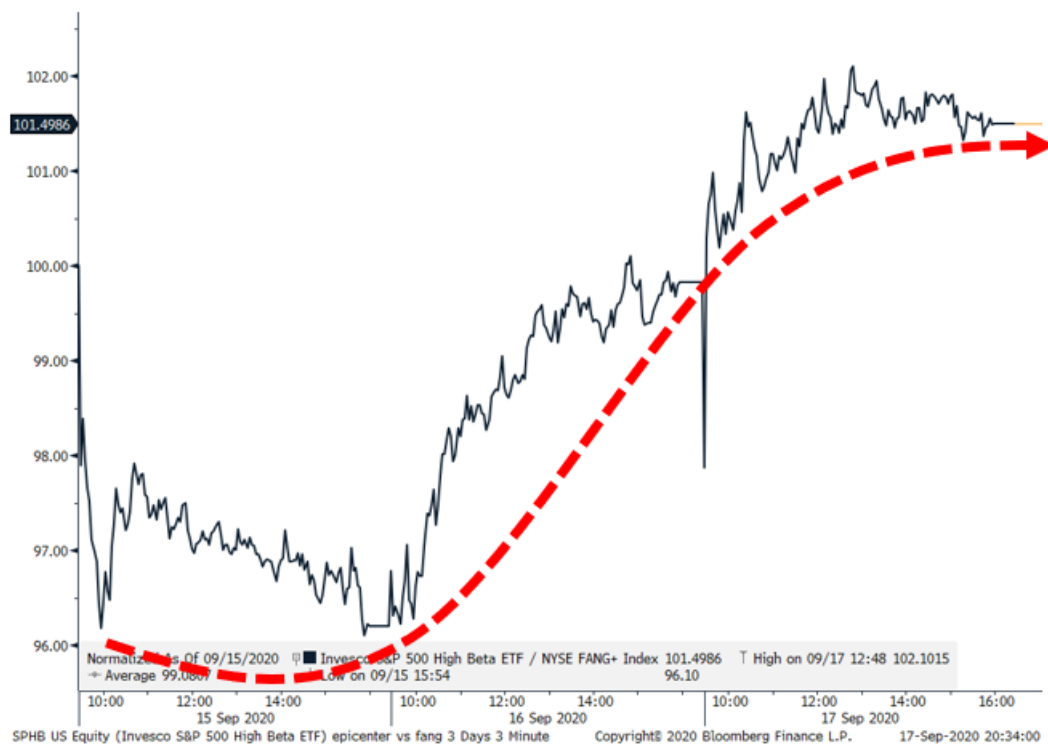
STRATEGY: Very telling that "epicenter" stocks rise during choppy market week

It has been a really choppy week for markets, and stocks still remain ~7% off their recent highs. And we soon enter the seasonal trade "sell Rosh Hashanah, buy Yom Kippur" (9/19-9/28) so this bumpy ride might continue. Stocks have risen relentlessly since March, so any pullback is not entirely surprising to us. And for the past few days, we have highlighted multiple reasons why stocks still have positive risk/reward into YE.

If I had to cite a few curiosities this week, two stand out:

- foremost, epicenter stocks have outperformed. This is interesting because it is telling that "epicenter" stocks are showing strength during a broader sell-off. Certainly, in my opinion, a change in market character
- second, the VIX has really backed off its highs. It was 40 a week ago and even yesterday, closed at the lows

In all, I would interpret this as selling seems closer to an end than a beginning.



Epicenter stocks, who survive this economic depression, are stronger biz = higher margin = higher P/E multiple

This global pandemic gauntlet is a true test for any company, but the cyclicals (aka "epicenter") are particularly tested. After all, these companies are expected to suffer severe losses in an economic downturn. And this downturn is an outright global depression.

Even during the 2008 GFC, Consumer Discretionary companies managed to generate 10% more operating income with 11% less sales. Yup, lower sales but way higher operating income. This, we believe, is happening today at multiple times the speed.

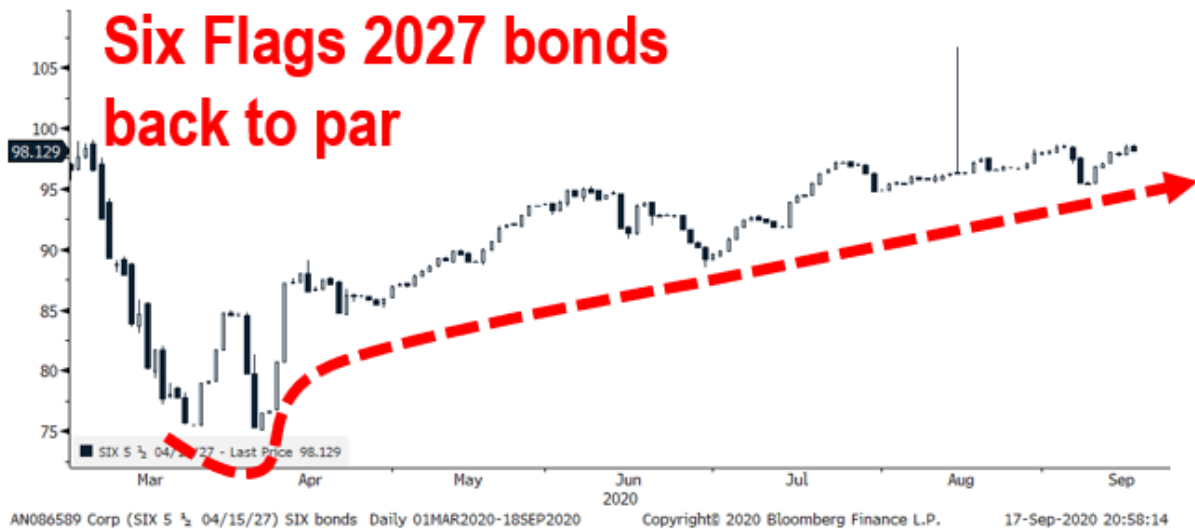
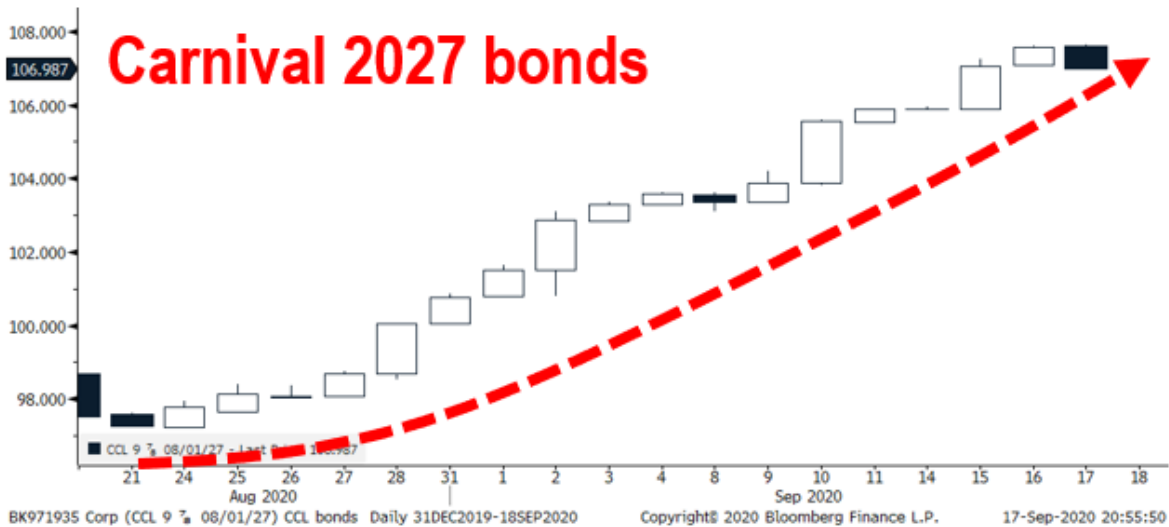
Figure: Consumer Discretionary comparative statistics
Fundstrat

Consumer Discretionary \$ billions	2Q07	1Q10	1Q10 vs 2Q07...	
			Dollar delta	% change
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%

Source: Fundstrat

Moreover, the bond market has been considerably more optimistic about the prospects for "epicenter" companies. I list two examples below for Carnival 2027 bonds and Six Flags 2027 bonds. These two companies are among the hardest hit industries, as travel and leisure have been obliterated by COVID-19.

- Carnival bonds look like the chart for FANG
- Six Flags bonds traded to 75 in March and are now back to par -- WOW!



Updating our trifecta epicenter stock list -- 50 names. 10 deletions and 15 new names

We are updating our list of trifecta epicenter stocks. This list is based upon favorable views from the three-way: (i) Global Portfolio Strategy (Rauscher); (ii) Technicals (Sluymer) and (iii) Quant DQM (tireless Ken).

15 additions:

Consumer Discretionary: WH, YUM, GPS
Industrials: AAL, JBLU, UAL, ACM, GE
Real Estate: SLG, ACC, FRT, KIM, NNN, EPR
Financials: FITB

10 Deletions:

Consumer Discretionary: LEA, HLT, DRI, COLM, SCI
Industrials: LUV
Real Estate: STOR
Financials: C, CFG
Energy: HFC

The full list of 50 epicenter stocks is below.

								Performance...		
Ticker	Company name	Sub-industry name	Current Price	Market Cap (\$mm)	DQM Quintile 1	Brian Rauscher	Robert Sluymer	2/19-3/23	3/23-9/17	Since 2/19
Industrials										
<i>Transportation & Airlines</i>										
New	AAL	American Airlines Group Inc	\$13.63	\$6,932		OW	OW	-63.8%	33.0%	-51.9%
	ALK	Alaska Air Group Inc	\$42.15	\$5,211		OW	OW	-63.1%	75.4%	-35.3%
	DAL	Delta Air Lines Inc	\$33.96	\$2,162		OW	OW	-62.0%	52.8%	-42.0%
New	JBLU	Jetblue Airways Corp	\$12.91	\$3,517		OW	OW	-67.0%	88.2%	-38.0%
New	UAL	United Airlines Holdings Inc	\$38.36	\$11,161		OW	OW	-66.9%	46.1%	-51.7%
	UBER	Uber Technologies Inc	\$37.06	\$64,952	OW	OW	OW	-45.4%	65.4%	-9.7%
<i>Capital Goods</i>										
New	ACM	Aecom	\$40.15	\$6,440	OW		OW	-51.7%	63.7%	-20.9%
	WAB	Westinghouse Air Brake Techn	\$68.82	\$13,096	OW	OW	OW	-47.7%	67.3%	-12.5%
	CSL	Carlisle Cos Inc	\$125.96	\$6,875	OW	OW		-38.2%	25.6%	-22.4%
New	GE	General Electric Co	\$7.05	\$61,711	OW	OW	OW	-51.5%	15.4%	-44.1%
	CFX	Colfax Corp	\$34.63	\$4,100	OW		OW	-58.9%	130.9%	-5.0%
	DOV	Dover Corp	\$115.38	\$16,611	OW		OW	-44.2%	76.5%	-1.6%
	MIDD	Middleby Corp/The	\$94.05	\$5,231		OW	OW	-60.8%	114.4%	-16.0%
	XYL	Xylem Inc/Ny	\$85.85	\$15,450		OW	OW	-35.6%	51.6%	-2.4%
	OC	Owens Corning	\$68.24	\$7,371	OW		OW	-52.6%	119.4%	3.9%
Materials										
<i>Chemicals</i>										
	LYB	Lyondellbasell Industries Nv	\$79.90	\$26,674	OW	OW	OW	-50.6%	97.3%	-2.5%
	MOS	Mosaic Co/The	\$19.26	\$7,301	OW		OW	-49.9%	108.9%	4.6%
Real Estate										
<i>Equity Real Estate Investment</i>										
New	SLG	St Green Realty Corp	\$50.97	\$3,786	OW		OW	-56.2%	23.9%	-45.7%
New	ACC	American Campus Communities	\$37.03	\$5,097	OW		OW	-56.4%	78.4%	-22.3%
New	FRT	Federal Realty Investment Trust	\$83.65	\$6,327		OW	OW	-46.9%	25.5%	-33.4%
New	KIM	Kimco Realty Corp	\$12.85	\$5,558	OW		OW	-49.3%	36.6%	-30.8%
New	NNN	National Retail Properties Inc	\$38.20	\$6,629	OW		OW	-52.4%	41.5%	-32.7%
	O	Realty Income Corp	\$64.07	\$22,107	OW	OW	OW	-45.6%	47.8%	-19.6%
New	EPR	Epr Properties	\$32.23	\$2,405		OW	OW	-74.9%	89.0%	-52.5%

										Performance...		
Ticker	Company name	Sub-industry name	Current Price	MarketCap (\$mm)	DQM Quintile 1	Brian Rauscher	Robert Stuymer	2/19-3/23	3/23-9/17	Since 2/19		
Consumer Discretionary												
Automobiles & Components												
GM	General Motors Co	Automobile Manufacturers	\$31.92	\$45,681	OW		OW	-49.6%	81.4%	-8.6%		
Household Durables												
LEG	Leggett & Platt Inc	Home Furnishings	\$44.93	\$5,948	OW		OW	-50.0%	100.0%	-0.1%		
TPX	Tempur Sealy International Inc	Home Furnishings	\$90.96	\$4,690	OW		OW	-61.6%	151.2%	-3.6%		
PHM	PulteGroup Inc	Homebuilding	\$45.46	\$12,191	OW		OW	-61.9%	156.3%	-2.3%		
TOL	Toll Brothers Inc	Homebuilding	\$44.38	\$5,600		OW	OW	-70.9%	221.6%	-6.3%		
Hotels, Casinos, Restaurants, Leisure and OTAs												
LVS	Las Vegas Sands Corp	Casinos & Gaming	\$49.08	\$37,487		OW	OW	-37.1%	13.0%	-29.0%		
OCL	Carnival Corp	Hotels, Resorts & Cruise Lines	\$16.24	\$13,371		OW	OW	-72.3%	35.3%	-62.5%		
New	WH	Wyndham Hotels & Resorts Inc	\$53.90	\$5,021		OW	OW	-58.3%	115.3%	-10.1%		
	WYND	Wyndham Destinations Inc	\$33.45	\$2,852	OW		OW	-66.2%	99.0%	-32.7%		
	SIX	SixFlags Entertainment Corp	\$24.60	\$2,085		OW	OW	-70.6%	119.8%	-35.3%		
New	YUM	Yum! Brands Inc	\$93.71	\$28,244		OW	OW	-46.3%	65.8%	-10.9%		
	EXPE	Expedia Group Inc	\$96.79	\$13,669		OW	OW	-59.3%	90.3%	-20.6%		
Retailing												
VFC	Vf Corp	Apparel, Accessories & Luxury	\$74.59	\$29,064		OW	OW	-44.9%	62.2%	-10.6%		
	FL	Foot Locker Inc	\$35.95	\$3,753		OW	OW	-53.8%	97.3%	-8.8%		
New	GPS	Gap Inc/The	\$16.90	\$6,312		OW	OW	-63.4%	169.1%	-1.6%		
	ULTA	Ulta Beauty Inc	\$234.73	\$13,221		OW	OW	-51.7%	63.9%	-20.9%		
Energy												
Energy Equipment & Services												
HAL	Halliburton Co	Oil & Gas Equipment & Services	\$14.82	\$13,019		OW	OW	-76.5%	182.8%	-33.5%		
Oil, Gas & Consumable Fuels												
EOG	Eog Resources Inc	Oil & Gas Exploration & Produ	\$41.19	\$23,983	OW	OW		-55.3%	19.3%	-46.7%		
	PXD	Pioneer Natural Resources Co	\$97.08	\$15,948	OW	OW		-56.6%	58.4%	-31.2%		
	WMB	Williams Cos Inc/The	\$21.31	\$25,861		OW	OW	-48.3%	91.1%	-1.1%		
Financials												
Banks												
New	FITB	Fifth Third Bancorp	\$21.87	\$15,577	OW	OW	OW	-59.0%	79.9%	-26.2%		
	WTFC	Wintrust Financial Corp	\$42.44	\$2,445	OW	OW		-54.1%	43.3%	-34.2%		
Diversified Financials												
	SYF	Synchrony Financial	\$27.64	\$16,135	OW	OW	OW	-61.6%	115.9%	-17.2%		
Insurance												
	BHF	Brighthouse Financial Inc	\$28.79	\$2,678	OW	OW		-64.4%	72.5%	-38.6%		
	PRU	Prudential Financial Inc	\$68.59	\$27,093		OW	OW	-57.9%	74.9%	-26.3%		
	AFG	American Financial Group Inc/ Multi-Line Insurance	\$66.92	\$5,925		OW	OW	-56.5%	37.3%	-40.3%		

(* Please note that the stocks rated OW on this list meet the requirements of our investment theme as of the publication date. We do not monitor this list day by day. A stock taken off this list means it no longer meets our investment criteria, but not necessarily that it is neutral rated or should be sold. Please consult your financial advisor to discuss your risk tolerance and other factors that characterize your unique investment profile.

Source: Fundstrat

Tune into our webinar TODAY at 3:30pm ET with IHME head science researcher, Christopher Murray...

But the future is uncertain. And we wanted to get the perspective of one of the leading COVID-19 healthcare researchers. We are hosting a webinar with one of the founders of IHME ([IHME website healthdata.org](http://IHME_website_healthdata.org)), you may know as healthdata.org, and is one of the forecasters for COVID-19 used by the White House. We will be speaking with Christopher J.L. Murray who is the lead researcher there. FYI, the IHME is forecasting a brutal flu season, with daily deaths rising to as much as 12,000 per day in December (peaked at ~2,000 in April 2020).

- TODAY at 3:30pm ET.
- the time is odd but Murray of IHME is based on the West Coast

Similar to our broader work on COVID-19, we want to make this available to the public, so you are welcome to share this webinar invitation (except not to CNN). The details of this webinar are below:

Details and Specifics

Date: TODAY, September 18th, 2020

Time: 3:30 pm Eastern Time

Duration: 45-60 minutes (including live Q&A)

Link --> [Click here to register](#)

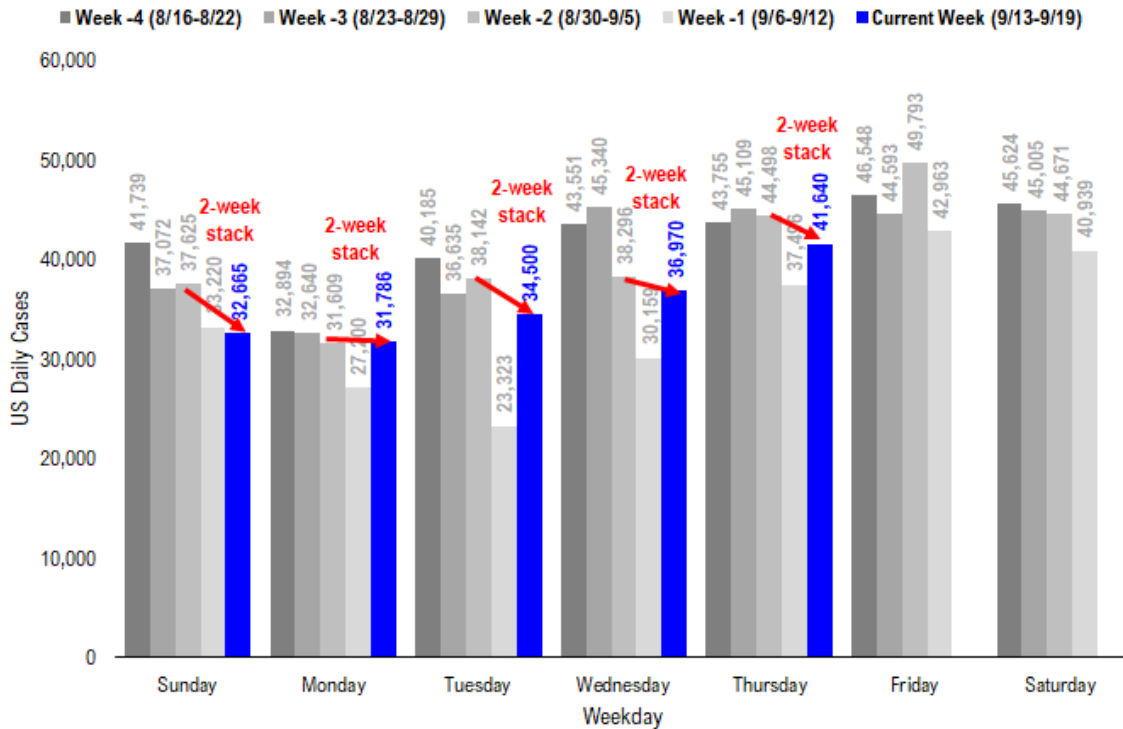
1. Registration is required to receive dial-in details.
2. You will receive a copy of the presentation before the Webinar. The call will be accessible via computer, phone or both. If you login, you can view the presentation during the Webinar. If you call in only, we recommend having a copy on hand if possible.
3. To request a replay of the call, please email inquiry@fsinsight.com.

Should you have any questions, please do not hesitate to contact us at (212) 293-7140 or email inquiry@fsinsight.com.

POINT 1: Next week better baseline for trends. US daily cases 41,640 up +4,144 vs 7D ago.

We can't help thinking that there is very likely some type of distortion in trends due to last week's Labor Day holiday -- that is, long weekend and closures mean reported data was less complete last week and this week, we are seeing a catch up of this data. And for now, the best way to put this in perspective is to look at 2-week trends (see red arrows).

- Next week, therefore, is a better baseline, because the Labor Day effects will be gone
- Daily cases on Thursday came in at 41,640 and +4,144 vs 7D ago.

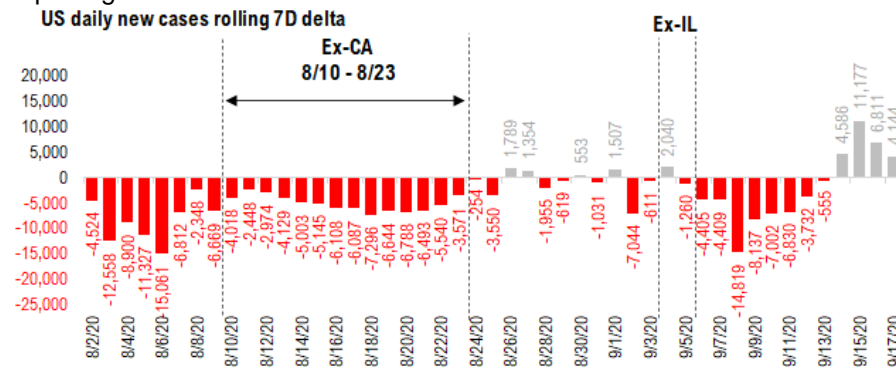


Source: COVID-19 Tracking Project

Next week will give us a clearer picture...

Again, the daily change vs 7D ago, in our view, is the leading indicator as it is what influences the 7D moving average. The 7D delta is up, meaning cases are higher vs 7D ago, but the level of increase is slowing. It was +11,177 on Tuesday.

- the fact this 7D delta is falling is suggesting to us that this week's rise is really due to last week's under-reporting.



Source: COVID-19 Tracking and Fundstrat

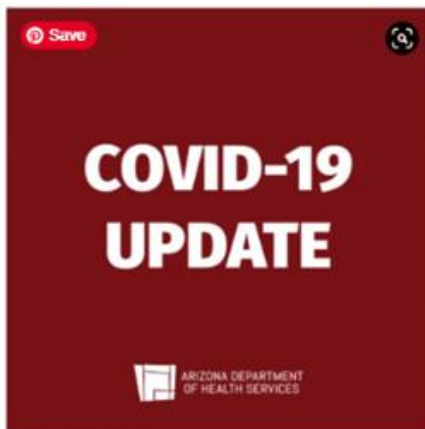
These are the 6 states with highest 7D delta in daily reported cases. The top of the list is Arizona. Arizona's rise, however, seems to be result of new testing as noted below.

6 states with largest 7D delta in daily cases

Arizona	1,176 vs 461 (-7D)	+715
Florida	3,255 vs 2,583	+672
Missouri	1,747 vs 1,116	+631
Utah	911 vs 346	+565
Minnesota	909 vs 381	+528
Wisconsin	2,034 vs 1,547	+487
Total		+3,598

Arizona is going to roll out antigen testing (using saliva) and they will be including these cases in their daily results. So the state will be seeing a massive surge in cases over the next few days.

COVID-19 Antigen Tests



Over the next couple of days, Arizona will be adding a significantly higher number of cases than our recent average. This is a result of advancements in testing, and includes recently classified positive antigen cases dating back over the previous several months.

In late August, a fourth antigen test was authorized by the Food and Drug Administration (FDA) for diagnosing COVID-19. Antigen tests, not to be confused with serologic (or antibody) tests, can detect if a person is currently infected by looking for specific parts of the virus from a respiratory sample (like a nasal swab). This type of testing, used for viral infections like influenza or bacterial infections like strep throat, can play an important role in certain settings since they are point-of-care, meaning results may be available at the testing site in less than an hour. The University of Arizona is using antigen testing as part of their testing strategy as students and faculty have returned to campus. They're not alone, with antigen testing receiving national recognition for its role in the return

of Pac-12 football.

When compared to Polymerase Chain Reaction (PCR), antigen tests may not be as accurate or able to run as many patient samples per day. However, the quick results provide the ability to rapidly triage and make decisions.

Antigen testing for COVID-19 is becoming more readily available in Arizona. Until now, a person with a positive antigen test has only been counted in our Data Dashboard when they have a known exposure to a person with COVID-19 or have symptoms of COVID-19, such as shortness of breath, cough, or sore throat. However, some people with positive antigen tests have not been counted because they don't know if they were in contact with a known COVID-19 case and they don't have symptoms.

Moving forward, we are expanding how we define cases to include anyone with a positive antigen test in the probable case category, which is consistent with the recently updated national case definition for COVID-19 from the Council of State and Territorial Epidemiologists (CSTE). More information on the COVID-19 case definition for Arizona is available [here](#). Our Data Dashboard has been updated to combine antigen and PCR tests into "COVID-19 Diagnostic Tests" to replace "COVID-19 PCR Tests."

This week, we have been working on data validation and identifying antigen tests that meet the case definition. When our Data Dashboard updates today, 577 probable cases will be added. The majority of these are antigen positives collected in September, primarily from Pima County. Tomorrow, we will complete our validation and add the remaining positive antigen tests that have been reported to the Department over the previous several months. This change will provide a more accurate picture of COVID-19 in Arizona moving forward.

It's important to note that classification of cases is a surveillance tool used to better understand the burden of disease in the community, but does not necessarily impact the way an individual is treated for a disease by their healthcare provider. The use and reporting of different tests continues to evolve as we increase our understanding of COVID-19.

By Cara Christ | September 17th, 2020 | Preparedness | 0 Comments

<https://directorsblog.health.azdhs.gov/covid-19-antigen-tests/>

6 states with largest 7D delta in daily cases

Tennessee	1,053 vs 1,650 (-7D)	-597
Alabama	670 vs 1,148	-478
Texas	3,518 vs 3,852	-334
Kentucky	606 vs 795	-189
South Carolina	781 vs 958	-177
Virginia	1,101 vs 1,236	-135
Total		-1,910

Daily Case Increases (by State) (09/17)

% total new cases (state cases/ total US cases)

% total US pop (state population/ total US population)

	Sorted				
	7D Ago	Last 3-day Trend			
	9/10/20	9/15/20	9/16/20	9/17/20	vs 7D ago
United States	37,496	34,500	36,970	41,640	+4,144
States:					
1 Texas	3,852	4,816	3,409	3,518	
2 Florida	2,583	3,116	2,355	3,255	<-higher
3 California	3,338	2,235	2,950	3,238	
4 Illinois	1,953	1,466	1,941	2,056	
5 Wisconsin	1,547	1,348	1,408	2,034	<-higher
6 Georgia	1,836	1,496	2,223	1,847	
7 Missouri	1,116	1,317	1,191	1,747	<-higher
8 North Carolina	1,222	1,106	1,137	1,552	<-higher
9 Arizona	461	487	695	1,176	<-higher
10 Virginia	1,236	943	845	1,101	
11 Ohio	1,121	1,001	1,033	1,067	
12 Tennessee	1,650	957	1,856	1,053	
13 Oklahoma	771	1,091	970	1,034	<-higher
14 Iowa	902	401	803	948	
15 Pennsylvania	587	1,151	776	933	<-higher
16 Utah	346	562	747	911	<-higher
17 Minnesota	381	402	462	909	<-higher
18 New York	757	766	652	896	
19 Arkansas	398	676	606	883	<-higher
20 Indiana	758	689	580	837	
21 Michigan	924	571	680	829	
22 South Carolina	958	742	571	781	
23 Mississippi	517	505	711	701	<-higher
24 Alabama	1,148	701	927	670	
25 Maryland	503	599	643	631	<-higher
26 Kentucky	795	718	764	606	
27 New Jersey	424	436	388	569	<-higher
28 Louisiana	464	371	508	478	
29 Colorado	265	400	587	459	<-higher
30 Nebraska	456	307	328	449	
31 Massachusetts	403	313	306	429	
32 Idaho	307	278	283	396	<-higher
33 South Dakota	263	193	297	395	<-higher
34 North Dakota	333	233	269	390	
35 Washington	458	327	347	386	
36 Puerto Rico	459	229	46	382	
37 Nevada	288	226	208	347	<-higher
38 West Virginia	209	156	220	234	
39 Connecticut	222	136	135	220	
40 Montana	195	137	187	216	
41 Oregon	183	178	188	210	
42 Hawaii	169	66	101	160	
43 New Mexico	161	81	118	158	
44 Rhode Island	106	120	108	130	<-higher
45 Alaska	124	42	49	105	
46 Wyoming	49	46	128	86	<-higher
47 Delaware	94	200	97	84	
48 District of Columbia	25	65	56	47	<-higher
49 New Hampshire	56	34	32	34	
50 Guam	88	39	47	32	
51 Maine	26	15	23	21	
52 U.S. Virgin Islands	6	4	7	6	
53 Vermont	3	6	1	3	
54 Northern Mariana Islands	0	0	0	1	
55 Kansas	0	0	971	0	
56 American Samoa	0	0	0	0	

Source: COVID-19 Tracking and Fundstrat

POINT 2: Don't blame bars: Millennials + GenZ spreading COVID-19 because they work

One of the storylines that I generally viewed as mostly correct is this: "millennials spread COVID-19 because of bars." And there have been many media articles about this, including this latest one below from Kaiser Health News. I mean, KHN is as legit as they come. And they have a quote in this article from Dr. Fauci, who confirms this linkage of bars = COVID.



COVID-19

Deadly Mix: How Bars Are Fueling COVID-19 Outbreaks

By Will Stone • AUGUST 21, 2020

 REPUBLISH THIS STORY



But public health experts and top health officials, including the nation's top infectious diseases official, Dr. Anthony Fauci, have said: When bars open, infections tend to follow.

<https://khn.org/news/deadly-mix-how-bars-are-fueling-covid-19-outbreaks/>

But there seems to be a rethink about this. It is true that younger adults, Millennials and GenZ are in fact responsible for the June-July surge of COVID-19 across the US. But the WHO recently suggested this is not due to bars and socializing, but rather, because these people are employed in jobs that make them more vulnerable.

SCIENCE | CORONAVIRUS COVERAGE

Millennials and Gen Z are spreading coronavirus—but not because of parties and bars

Younger generations are blamed for the pandemic's spread, but also face the brunt of the transmission risk that comes with keeping the economy going.

6 MINUTE READ

BY REBECCA RENNER



PUBLISHED SEPTEMBER 17, 2020

economic and societal inequality. [An August 18 briefing from the World Health Organization](#) announced that people in their 20s, 30s, and 40s are now driving the virus's spread, but that's [because most are just trying to do their jobs](#).

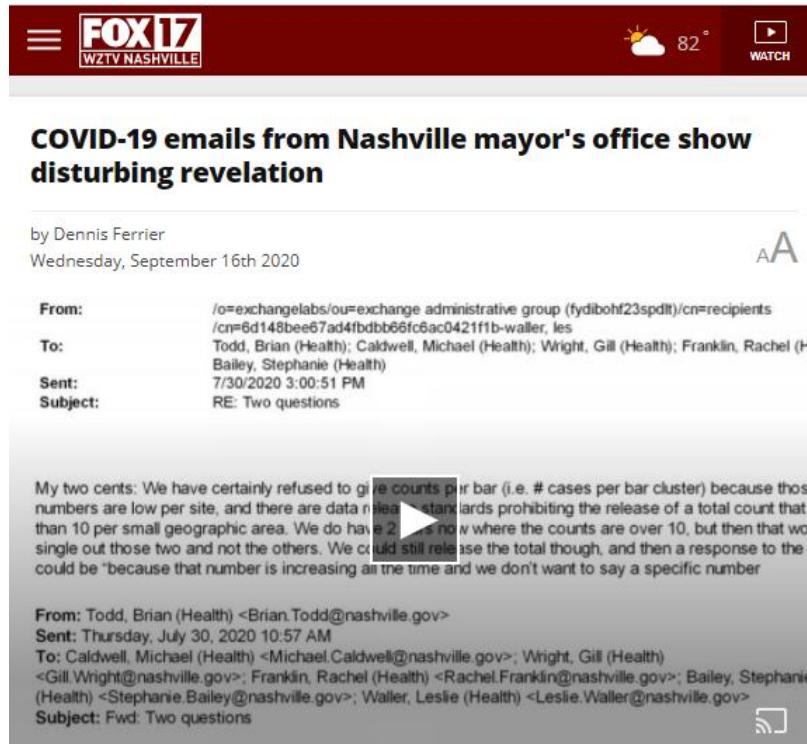
Source: National Geographic

The article has an interesting discussion about how younger adults are employed in jobs that require them to move around or be exposed to customers, hence raising their risk of exposure. In fact, they also quote a Cornell Professor who pretty much suggests this same notion again.

“In the past few decades, we’ve seen a shift in the economy toward more service jobs,” including retail, food service, hospitality, and childcare, says [Sharon Sassler](#), a professor of policy analysis and management at Cornell University. “Young people in those service jobs are now at a greater risk of being exposed.” What’s more, emerging research is confirming what many experts have observed with natural disasters: economic vulnerability severely impairs a person’s ability to cope with catastrophe, and this burden falls heavily on younger generations.

Source: <https://www.nationalgeographic.com/science/2020/09/millennials-generation-z-coronavirus-scapegoating-beach-parties-bars-inequality-cvd/#close>

Emails suggest Nashville Mayor's office hiding fact bars account for barely any cases in the city...
And this Fox 17 news story was forwarded to me by one of our clients in San Antonio, TX (thanks Mark!!!) about how it looks like the Nashville's Mayor's office found so few cases of COVID-19 caused by bars, they decided to keep that a secret.



Source: Fox17.com

NASHVILLE, Tenn. (WZTV) — The coronavirus cases on lower Broadway may have been so low that the mayor's office and the Metro Health Department decided to keep it secret.

Emails between the mayor's senior advisor and the health department reveal only a partial picture. But what they reveal is disturbing.

The discussion involves the low number of coronavirus cases emerging from bars and restaurants and how to handle that.

And most disturbingly, how to keep it from the public.

Source: Fox17.com

Nashville bars and restaurants responsible for 22 of >2,000 cases examined... or 1%

According to this story, of the >2,000 cases that were contact traced on June 30th, only 22, or 1% were traced to bars. That is a surprisingly low figure and really shockingly low.

- Of course, it could be different today?

On June 30th, contact tracing was given a small view of coronavirus clusters. Construction and nursing homes were found to be causing problems with more than a thousand cases traced to each category, but bars and restaurants reported just 22 cases.

Source: Fox17.com

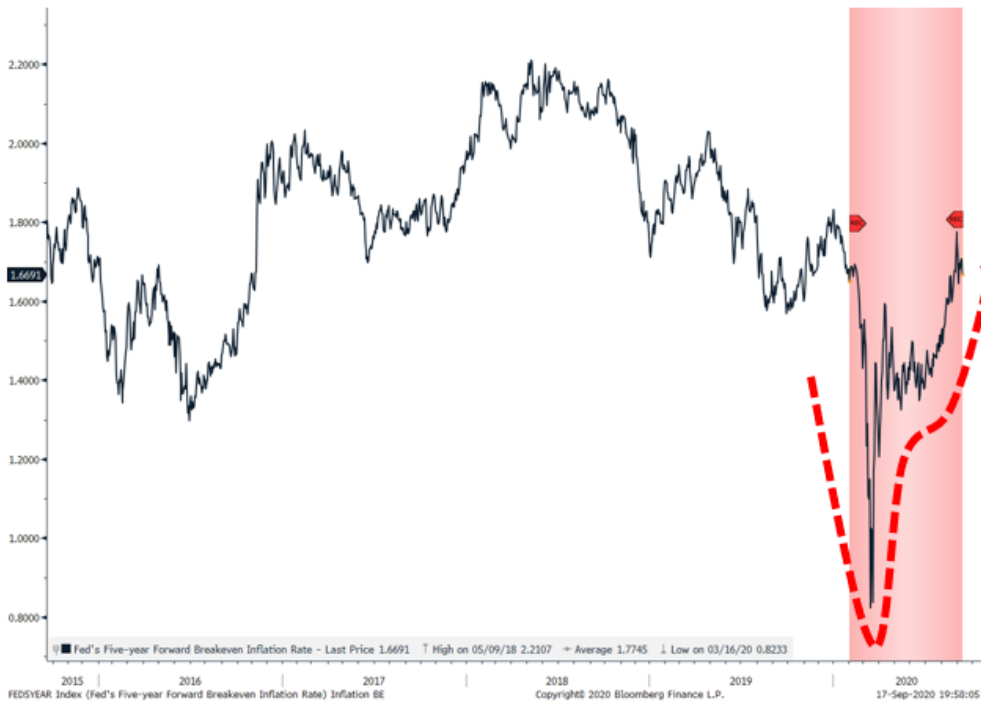
POINT 3: Inflation "risk premia" highest in 3-years --> favors asset-heavy companies

The natural question on everyone's mind is whether this massive level of money printing + fiscal stimulus leads to a surge in inflation. The Fed would like some inflation, but their message yesterday is rates low for long. And of course, BOJ and ECB have not had much success, even with their levels of monetary easing.

The preferred measure of inflation, for us, is this inflation breakevens and as you can see below, has begun to modestly recover after crashing earlier this year.

- But the trend is still not clear.
- We also like to look at "risk premia" for inflation implied by taking this less CPI (proxy).

Figure: Inflation Breakevens rising modestly Since 2015



Inflation risk premia has jumped to the highest level in 3 years...

The light blue line below is this adjusted inflation measure (inflation breakevens less CPI) and when it is falling, the market sees falling risk of inflation risk (left scale).

- this light blue line has jumped to the highest level in 3 years
- thus, while we have no inflation, markets are "sensing" inflation risk

Notably, notice how the relative performance of Financials versus Healthcare seems to track this inflation risk measure? This has been a pretty good tactical signal for the past 10 years.

- Financials are asset heavy while Healthcare is asset light
- Hence, when inflation risk is up, Financials outperform
- It looks like Financials have some "catching up" to do (rise)

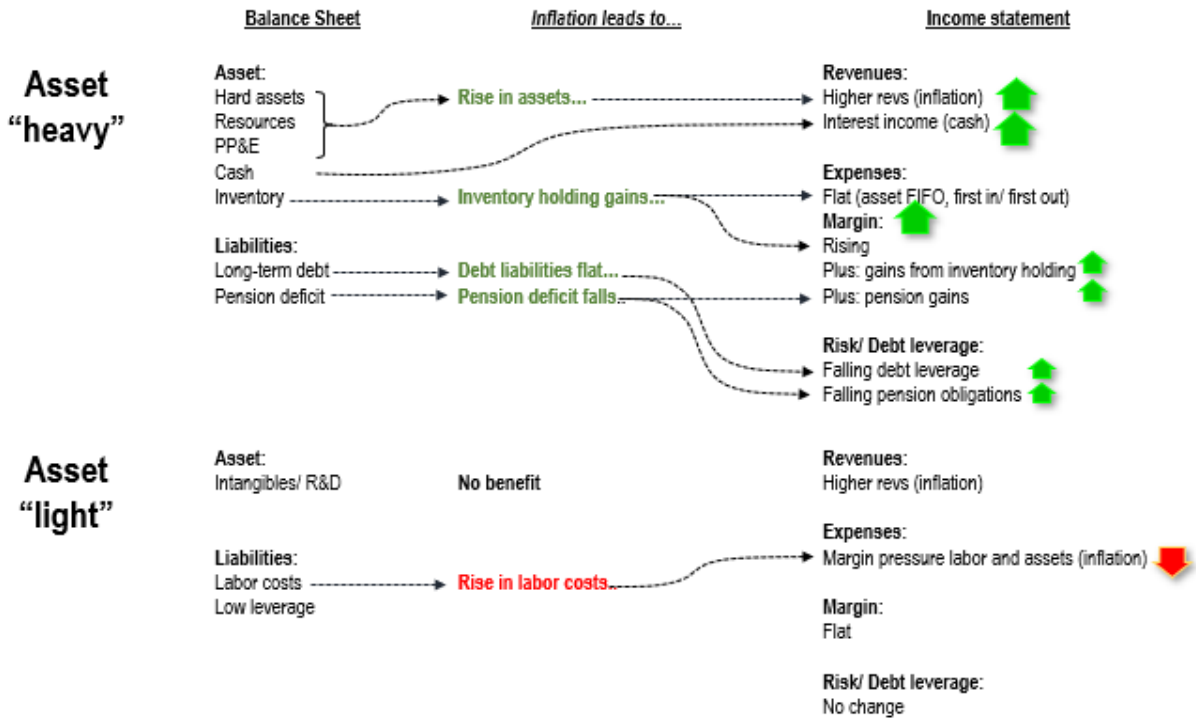
Figure: Inflation risk explains Financials (asset heavy) vs Healthcare (asset light)
Since 2009



This is our stylized explanation for why inflation boosts the returns and equity of asset heavy companies:

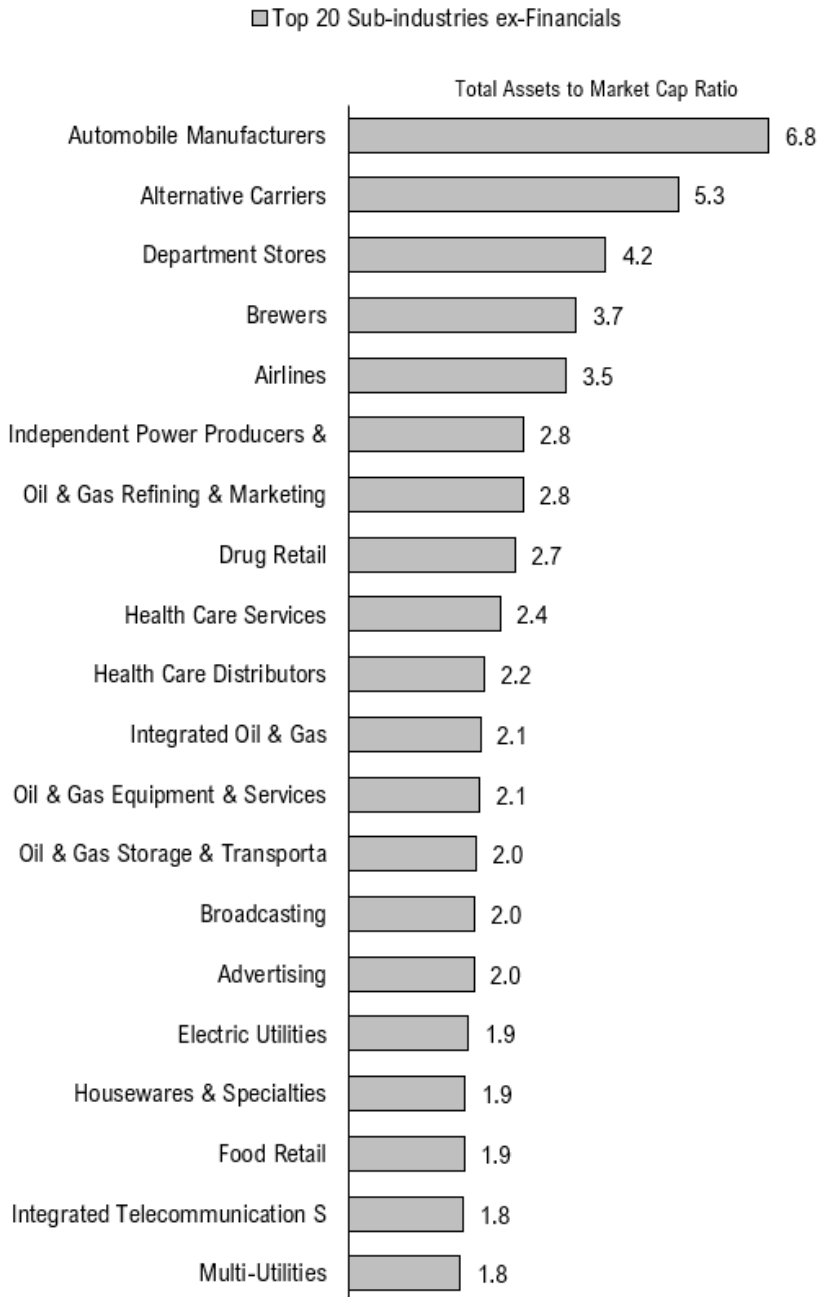
- higher asset turns from inflation
- strengthens capital structure (real value debt falls)
- operating margin increase

Figure: Comparative benefit of Asset heavy/ Value stocks in inflation rising environments
Per Fundstrat



Source: Fundstrat, Bloomberg

And our data scientist, tireless Ken, has put together the 20 industries with the highest asset intensity in the S&P 500.



Source: Fundstrat

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