FSnotes on **Equity** Markets

2021 **Strategy Outlook**

Exiting '*Greater* Depression'
= cycle reversion

Key to 2020:
SYMMETRY
Speed decline = recovery
+14%

Key to 2021:
CYCLE REVERSION
Profits + Capex + VIX
+13-15%

For Reg AC certification and other important disclosures see Slide 68.

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SAVE THE DATE: 2021 Outlook upcoming webinars

Date	Webinar	Time
12/21/2020	**Tom DeMark** 2021 Market Update	3pm ET
1/11/2021	2021 Technical Outlook **Rob Sluymer**	3pm ET
1/19/2021	2021 Global Portfolio Strategy Outlook **Brian Rauscher**	3pm EDT
Feb 2021	2021 Bitcoin and Digital Asset Outlook **Thomas Lee and David Grider**	3pm EDT

Source: FSInsight

EXECUTIVE SUMMARY

- 2021 is ‘Cycle reversion’ as much as 2020 was about ‘symmetry.’
  Reversion→ VIX, margins, capital spending, consumer demand, Value vs Growth

- 2021 is year+1 of start of a new economic expansion. Pent-up demand + massive ‘relief’ and celebration of pandemic finale could lead to substantially stronger than expected GDP recovery. This is what the resilience of equities in 2020 seem to suggest.

- Epicenter (aka Cyclical) profit margins will likely outperform consensus in 2021-2022 due to massive cost re-engineering this year. 2022 EPS >$200 (per Brian Rauscher).

- Real interest rates -6.0% in 2021-2022, the lowest in more than 60 years. Massive tailwind for asset heavy companies and best time to outperform Growth (Slide 42)

- Volatility to decline substantially in 2021-2023, with VIX sinking below 20 and VIX futures normalizing. This is a major risk-on signal for Cyclicals (aka Epicenter) with 84% win-ratio (Slide 31).

- “Pause that refreshes” -- We expect S&P 500 to stall between Feb-April 2021, correct ~10% to 3,500 before surging into YE 2021 (Slide 11).

Our YE 2021 Target is 4,300, based upon 20.5X-21.0X 2022 EPS of $204-$210.
Our top 3 favorite sectors are: **Industrials, Discretionary** and **Energy**

RISK: A lot can go wrong…

- The future is uncertain
- COVID-19 could mutate
  - Mink strain
- Election turmoil redux?
- Vaccine doesn't work
- USD crashes
- Interest rates surge
- IPO bubble?
- Retail stock trading bubble?
- People are too bullish
- Congress goes after US Big Tech
- Biden has health issues
- Hackers

2020: World got 'lucky' as 2020 is worse than any disaster movie

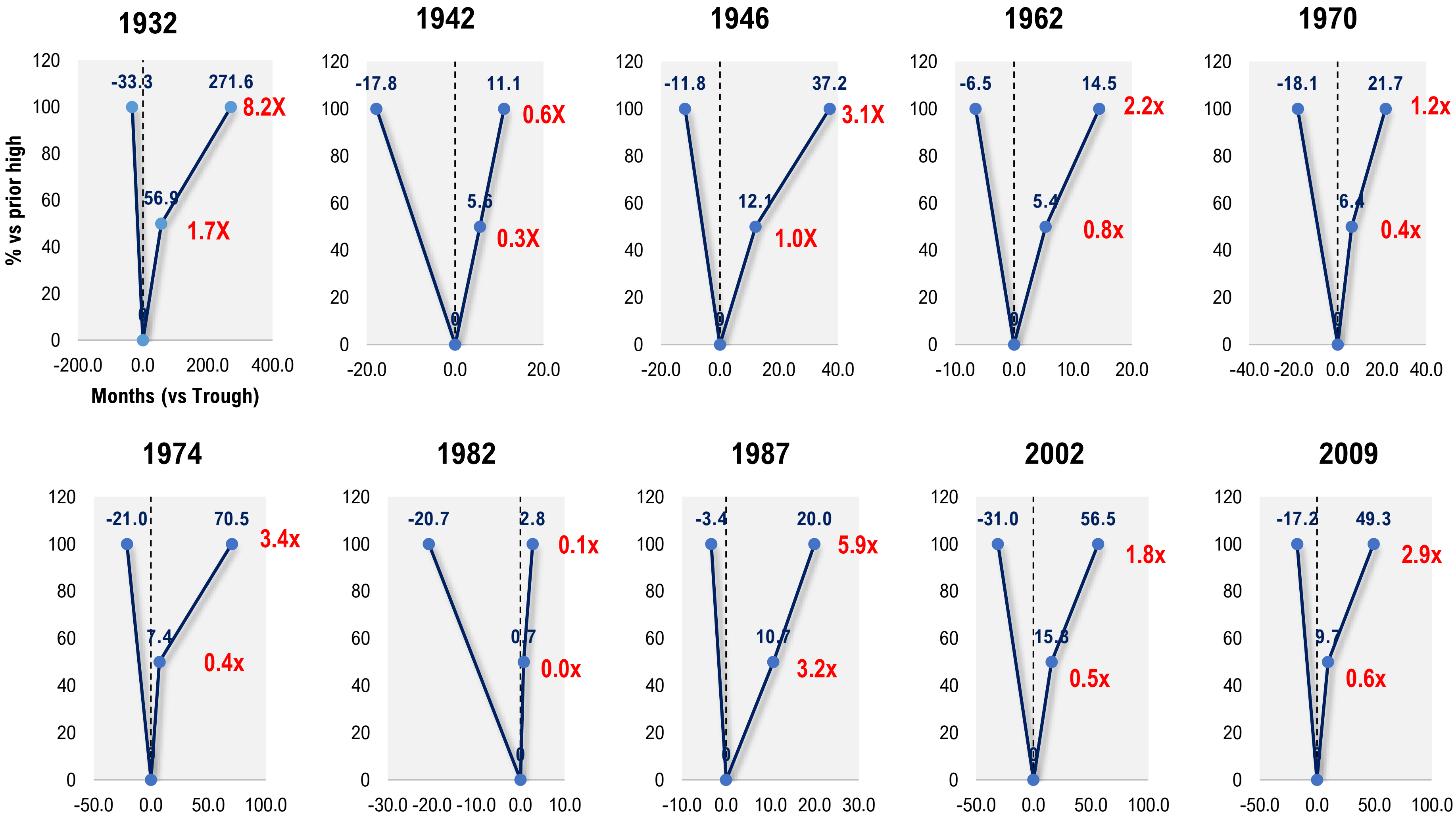
- COVID-19 kills 1 million
- Global economy shutdown
- Recession > Great Depression
- Fed throws out playbook
- Largest fiscal stimulus ever
- Stock market crash
- Contested election

Source: Fundstrat, Bloomberg, Factset

2020 PROVED SYMMETRY: Faster the decline, the faster the recovery…

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

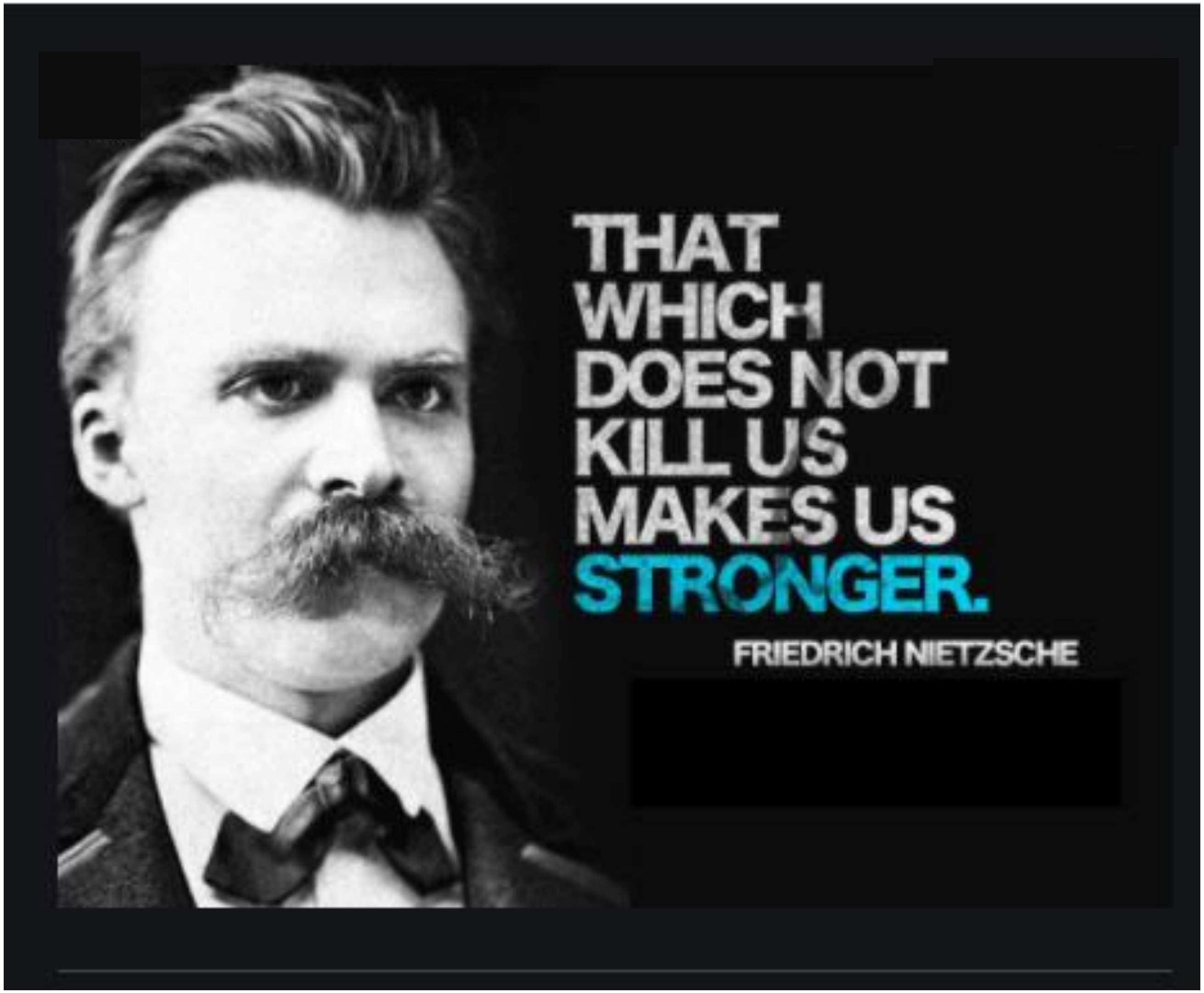


Source: Fundstrat, Bloomberg, Factset

OVERVIEW: Key foundations of 2021 (and some vs 2020)

• **New economic expansion starting**	- Equity risk premia will fall. - Cyclical tilted businesses see top-line upside. - Massive margin upside - Look at China => PMI explosion
• **Central banks 'dovish' potentially *indefinitely***	Risk assets see valuation support. - don't fight the Fed
• **US 'real interest' rate most negative in >70 years**	10Y less nominal GDP >6% in 2021 and 2022 - 'real assets' earn excess returns - Epicenter (aka Value) crushes Growth historically
• **Credit outlook remains positive**	Strong liquidity support corporate business models - leveraged businesses benefit (aka Value)
• **Scared money gets less scared**	Older Americans faced greatest risk from COVID-19 Older Americans control 76% of wealth ***- Vaccine trigger massive increase in risk appetite***
• **Risk of 'inflation' higher**	Inflation breakevens say 5-yr high 'risk of inflation'

2020 KEY TAKEAWAY → UNKILLABLE



Source: Fundstrat, Bloomberg, Factset

OVERVIEW: 2020 about ‘symmetry’. 2021 about ‘*cycle reversion*’

2020 Symmetry	Speed of decline = speed of recovery Strong cos get stronger = weak cos get weaker
2021 Profit cycle reversion	Profit margins recover faster for ‘epicenter’ stocks
2021 Investment cycle reversion	Global trade recovery = inventory cycle Consumer de-urbanization = housing cycle Corporate fears ease = capex cycle
2021 Volatility reversion	VIX avg in 2020 well above LT-avg Volatility falling = institutional exposure rises
2021 Value/Growth reversion	Value starting multi-decade outperformance?
2021 Bonds vs Stocks	Valuation of stocks seem very low compared to bonds

2021 TARGET: 4,300 based on 20.5X to 21.0X *2022* EPS to $204-$210

- **The acceleration of growth is due to the anticipated recovery in PMIs both US and globally.**

Figure: Sensitivity analysis for EPS in 2021
Per Fundstrat

	Rating	Consensus EPS % growth 2020	Consensus EPS % growth 2021	Fundstrat 2021 EPS % growth Low	Fundstrat 2021 EPS % growth High
Cyclicals		**-13.9%**	**27.5%**	**31.8%**	**36.1%**
Consumer Discretionary	**Overweight**	-34.6%	59.2%	75.0%	85.0%
Industrials	**Overweight**	-49.8%	78.4%	88.0%	100.0%
Information Technology	**Overweight**	5.1%	14.3%	16.0%	18.0%
Materials	**Overweight**	-9.8%	28.1%	28.0%	32.0%
Communication Services	**Overweight**	-2.4%	14.0%	16.5%	19.0%
Near-Cyclicals		**-37.8%**	**30.2%**	**35.3%**	**40.6%**
Energy	**Overweight**	-107.1%	669.0%	600.0%	800.0%
Financials	**Overweight**	-28.3%	20.7%	24.0%	30.0%
Real Estate	**Underweight**	-1.4%	4.3%	4.0%	5.0%
Defensives		**6.0%**	**8.6%**	**8.5%**	**9.8%**
Consumer Staples	**Underweight**	2.0%	6.0%	5.8%	7.0%
Healthcare	**Neutral**	6.9%	10.6%	10.5%	12.0%
Utilities	**Underweight**	11.3%	4.7%	4.0%	5.0%
S&P 500		**-14.7%**	**21.8%**	**24.9%**	**28.4%**
EPS Level 2021			**$168**	**$177**	**$182**
EPS Level 2022			**$196**	**$204**	**$210**
YE 2021 P/E ('22E EPS)				**21.07x**	**20.49x**
YE 2021 Fair Value				**4,300**	**4,300**

Source: Fundstrat

S&P 500 TARGET: 3,500 before 1H. 4,300 by YE.

- **Equities need to work off overbought conditions before mid-year but key factors support surge to 4,300**

Figure: S&P 500
2019-2021

2021: "Pause that refreshes" in 1H2021

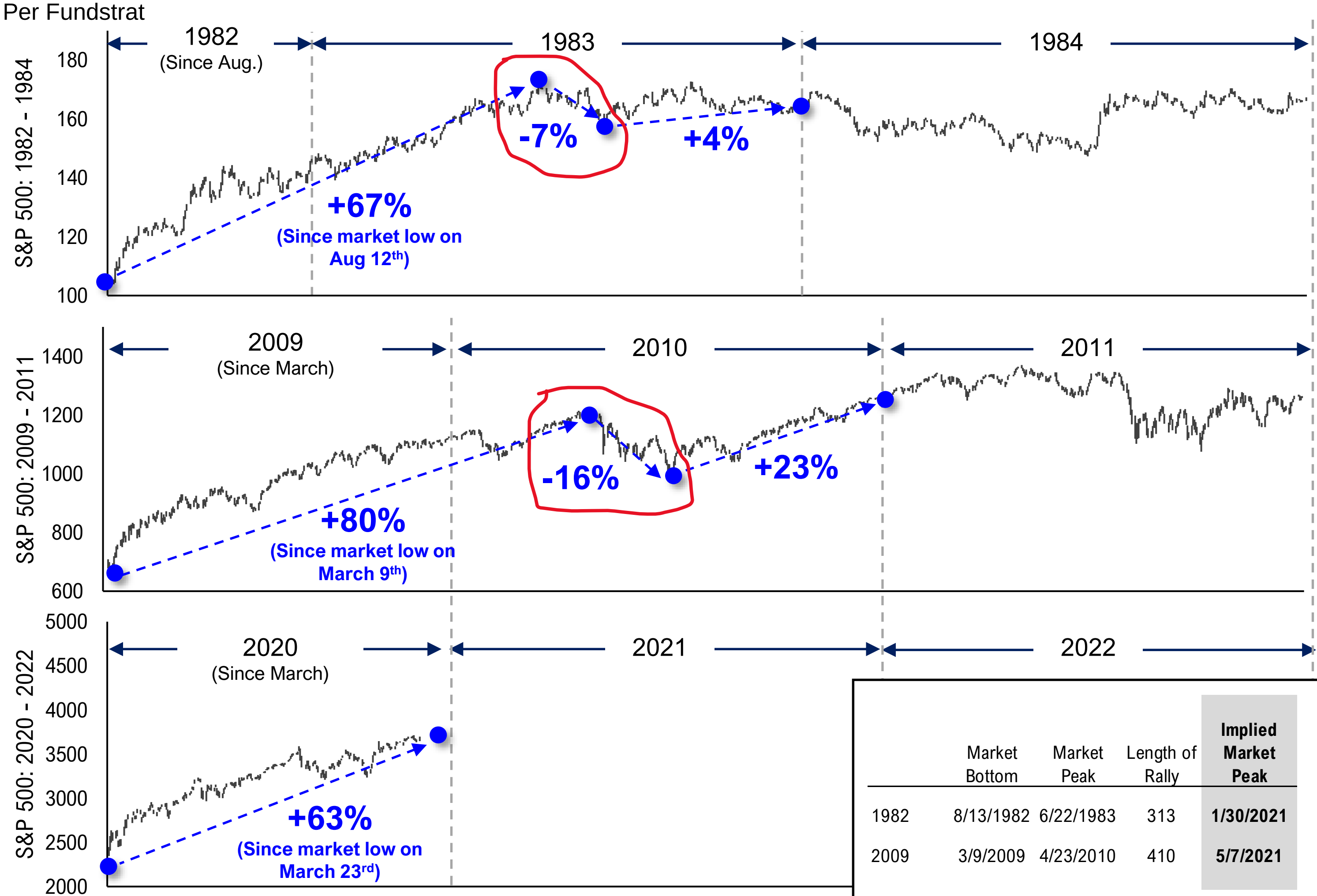
Source: Fundstrat, Bloomberg, Factset

2021 ROADMAP: 2021 looks to have a "pause that refreshes"

- **I am stating the obvious – but markets cannot rise in a straight line**
- **We believe stocks will take a 'reset' similar to the first 12-18 months of a new bull market**

Figure: 3-year market comparison: 1982 – 1984 vs. 2009 – 2011 vs. 2020 – 2022

Per Fundstrat



	Market Bottom	Market Peak	Length of Rally	**Implied Market Peak**	End of Market Correction	Length of Correction	**Implied End of Correction**
1982	8/13/1982	6/22/1983	313	**1/30/2021**	8/8/1983	47	**3/18/2021**
2009	3/9/2009	4/23/2010	410	**5/7/2021**	7/2/2010	70	**7/16/2021**

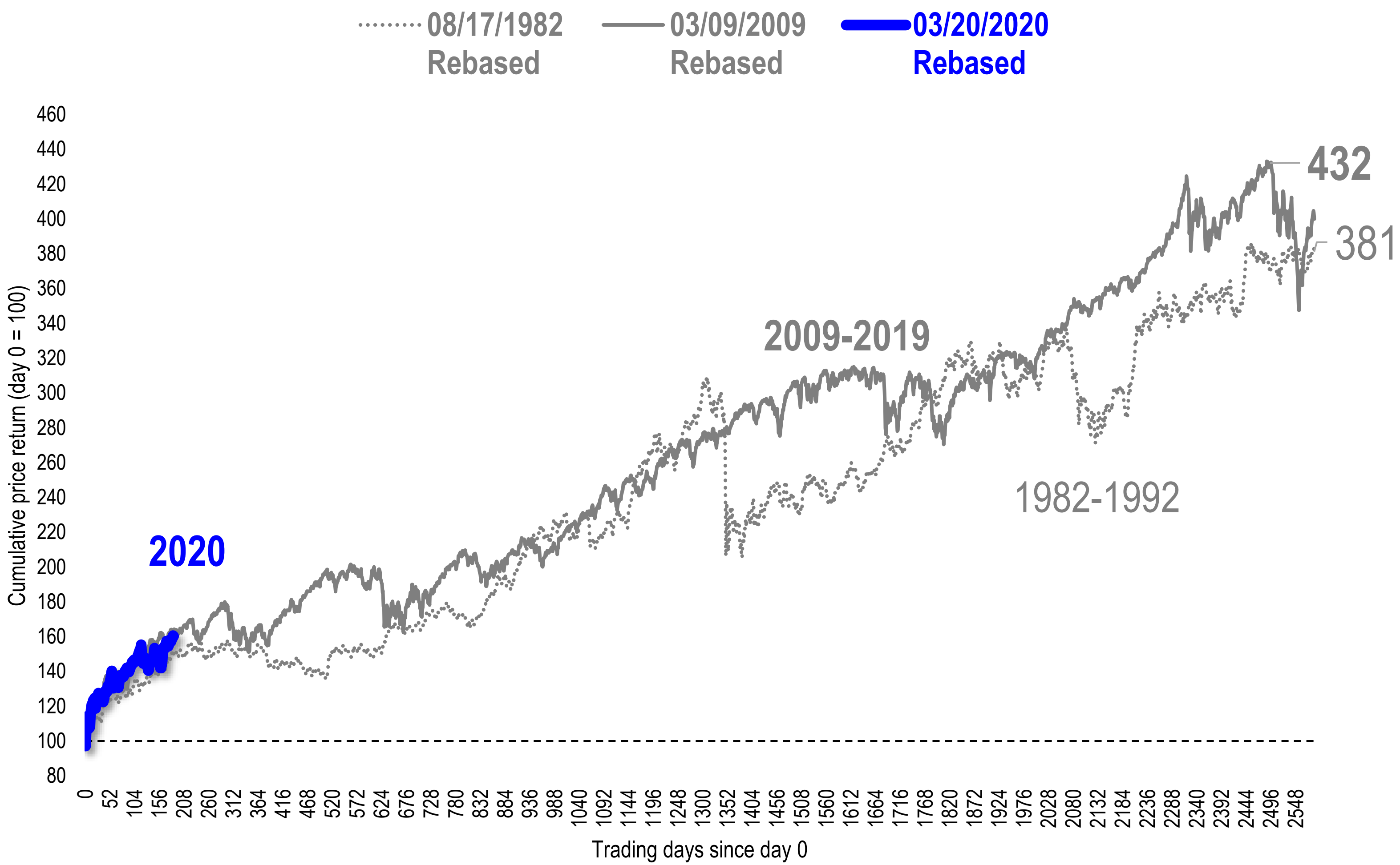
Source: Fundstrat, Bloomberg, Factset

NEW BULL MARKET: Implies ~10,000 by 2030 if matches 1982 or 2009

If this is a new bull market, then stocks should have a very impressive decade of total return

- **The implied upside to S&P 500 by 2030 is ~10,000**

Figure: S&P 500 Indexed return
Day 0 = 1982, 2009 and 2020



Source: Fundstrat, Bloomberg, Factset

SECTOR: Top picks → Discretionary, Industrials and Energy

- **There is the most agreement with Discretionary and Industrials and least with Energy**

Figure: Sector views for 2021

Per Fundstrat. OW = Overweight. UW = Underweight. N = Neutral

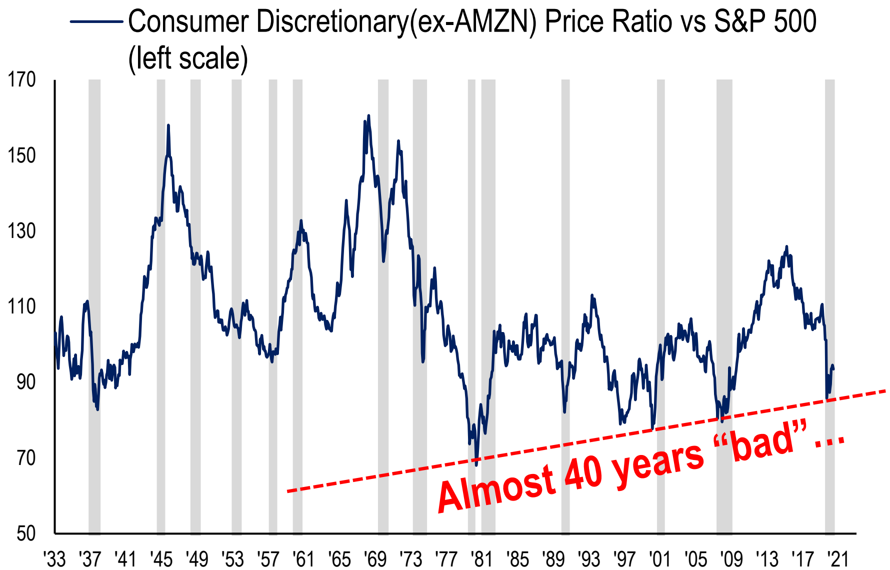
	Market Cap	Macro Strategy Thomas Lee	Global Strategy Rauscher	Technical Strategy Sluymer	
Growth + Defensives	**$20,749**				
Information Technology	8,767	OW	OW	N	
Communication Services	3,620	OW	OW	N	
Real Estate	784	UW	UW	UW	
Consumer Staples	2,368	UW	UW	UW	
Healthcare	4,303	N	UW	UW	
Utilities	907	UW	UW	UW	
Epicenter	**$11,332**				
Consumer Discretionary	3,735	OW 1	OW 1	OW 3	Trifecta
Industrials	2,764	OW 3	OW 2	OW 1	
Energy	766	OW 2	UW	N	No-fecta
Financials	3,224	OW	N	OW	
Materials	843	OW	OW 3	OW 2	

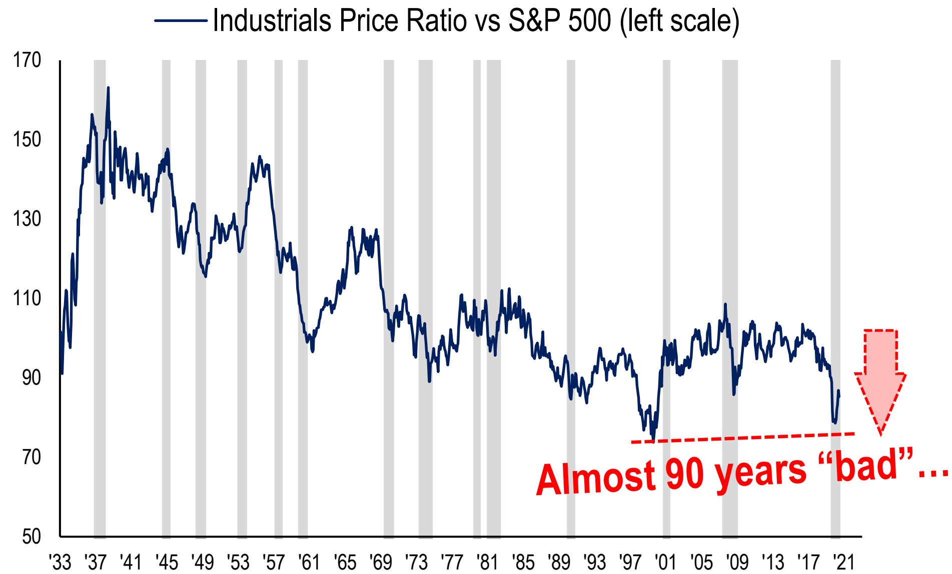
Source: Fundstrat

SECTORS: Top 3 sectors to start in 2021…

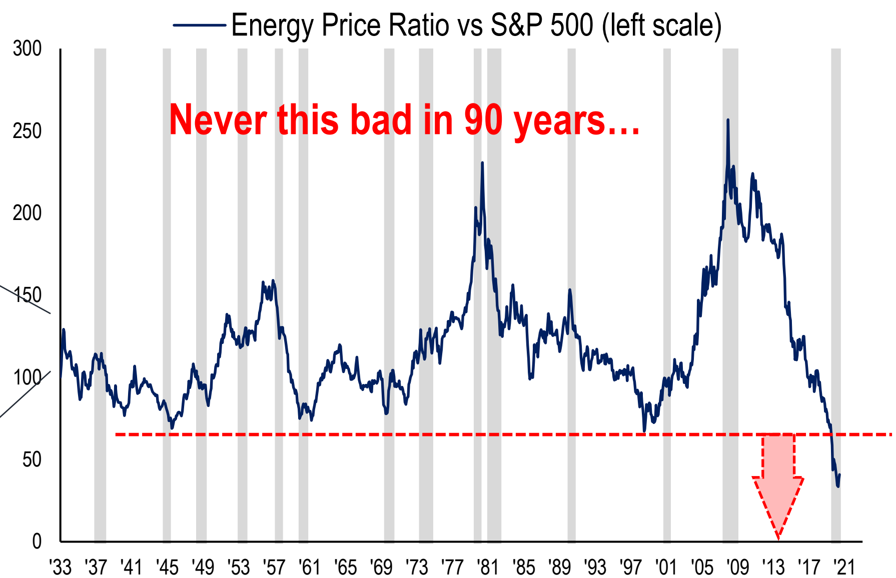
	Lee	Rauscher	Sluymer	Rationale
Consumer Discretionary	**1**	**1**	**3**	• Highly levered to vaccine + end of pandemic • Lots of consumer 'pent-up demand' • Operating leverage → Margin upside + demand recovery • Nearly 40-year bad underperformance (ex-AMZN)
Industrials	**3**	**2**	**1**	• Highly levered to vaccine + end of pandemic • Levered to capex recovery coming from 'negative real rates' • Levered to fiscal relief package • Global PMIs going to surge • Nearly 90-years bad underperformance
Energy	**2**			• Supply constraints under new White House • Capital scarcity as Private Equity 'not fooled again' • Demand recovery as travel and economy recovers • Non-consensus • Worst price charts since 'Whale Oil' was used

SECTORS: Charts so bad, they have to be good…Can it get worse?





So bad, back to Moby Dick era



Epicenter "Trifecta": 30 Consumer Discretionary stock ideas

Below is the current Trifecta Epicenter stock list for Consumer Discretionary sector. These are the stocks that were hit the hardest by the pandemic and have the greatest operating leverage to a re-opening. And we like the earnings upside in these stocks, because of the massive cost reset.

- **The stocks are based on positive views coming from the trifecta of: (i) Quant (tireless Ken), (ii) Global Portfolio Strategy (Brian Rauscher and (iii) Technicals (Rob Sluymer).**
- **The tickers are AN, GM, F, HOG, GRMN, LEG, TPX, PHM, TOL, NWL, HAS, MAT, PII, MGM, HLT, MAR, NCLH, RCL, WH, WYND, SIX, DRI, SBUX, FL, GPS, LB, CRI, VFC, GPC, BBY**

Ticker	Company name	Sub-industry name	Current Price	Market Cap ($mm)	DQM Quintile 1	Brian Rauscher	Robert Sluymer
Consumer Discretionary							
Automobiles & Components							
AN	Autonation Inc	Automotive Retail	$65.92	$5,792	OW	OW	OW
GM	General Motors Co	Automobile Manufacturers	$41.42	$59,285		OW	OW
F	Ford Motor Co	Automobile Manufacturers	$9.04	$35,965	OW	OW	OW
HOG	Harley-Davidson Inc	Motorcycle Manufacturers	$36.65	$5,618		OW	OW
Consumer Durables							
GRMN	Garmin Ltd	Consumer Electronics	$118.33	$22,629	OW	OW	OW
LEG	Leggett & Platt Inc	Home Furnishings	$40.73	$5,397	OW	OW	OW
TPX	Tempur Sealy International Inc	Home Furnishings	$27.09	$5,590	OW	OW	
PHM	Pultegroup Inc	Homebuilding	$42.50	$11,394	OW	OW	
TOL	Toll Brothers Inc	Homebuilding	$45.33	$5,720		OW	OW
NWL	Newell Brands Inc	Housewares & Specialties	$20.07	$8,516	OW	OW	OW
HAS	Hasbro Inc	Leisure Products	$94.76	$12,985	OW	OW	
MAT	Mattel Inc	Leisure Products	$17.84	$6,209	OW	OW	OW
PII	Polaris Inc	Leisure Products	$96.39	$5,947	OW	OW	
Hotels, Resorts, Cruise Lines, Restaurants & Theme Parks							
MGM	Mgm Resorts International	Casinos & Gaming	$30.98	$15,302		OW	OW
HLT	Hilton Worldwide Holdings Inc	Hotels, Resorts & Cruise Lines	$104.41	$28,968		OW	OW
MAR	Marriott International Inc/Md	Hotels, Resorts & Cruise Lines	$130.44	$42,306		OW	OW
NCLH	Norwegian Cruise Line Holding	Hotels, Resorts & Cruise Lines	$25.46	$8,036		OW	OW
RCL	Royal Caribbean Cruises Ltd	Hotels, Resorts & Cruise Lines	$73.65	$16,523		OW	OW
WH	Wyndham Hotels & Resorts Inc	Hotels, Resorts & Cruise Lines	$56.47	$5,261		OW	OW
WYND	Wyndham Destinations Inc	Hotels, Resorts & Cruise Lines	$43.37	$3,724		OW	OW
SIX	Six Flags Entertainment Corp	Leisure Facilities	$32.87	$2,793		OW	OW
DRI	Darden Restaurants Inc	Restaurants	$116.49	$15,167		OW	OW
SBUX	Starbucks Corp	Restaurants	$103.27	$121,208		OW	OW
Retailing							
FL	Foot Locker Inc	Apparel Retail	$40.79	$4,251	OW	OW	OW
GPS	Gap Inc/The	Apparel Retail	$20.33	$7,604		OW	OW
LB	L Brands Inc	Apparel Retail	$38.70	$10,763	OW	OW	OW
CRI	Carter'S Inc	Apparel, Accessories & Luxury	$91.62	$3,999		OW	OW
VFC	Vf Corp	Apparel, Accessories & Luxury	$86.37	$33,685		OW	OW
GPC	Genuine Parts Co	Distributors	$96.50	$13,924	OW	OW	
BBY	Best Buy Co Inc	Computer & Electronics Retail	$103.50	$26,801	OW	OW	

Source: Fundstrat, Bloomberg, Factset

Epicenter "Trifecta": 28 Industrials stock ideas + 9 Energy stock ideas

Below is the current Trifecta Epicenter stock list for Industrials and Energy sectors. These are the stocks that were hit the hardest by the pandemic and have the greatest operating leverage to a re-opening. And we like the earnings upside in these stocks, because of the massive cost reset.

- **The stocks are based on positive views coming from the trifecta of: (i) Quant (tireless Ken), (ii) Global Portfolio Strategy (Brian Rauscher and (iii) Technicals (Rob Sluymer).**
- **The tickers for Industrials sector are AGCO, OC, ACM, WAB, EMR, GNRC, NVT, CSL, GE, MMM, IEX, PNR, CFX, DOV, MIDD, SNA, XYL, FLS, DAL, JBLU, LUV, MIC, KEX, UNP, JBHT, R, UBER, UHAL**
- **The tickers for Energy sector are HP, NOV, SLB, EOG, PXD, HFC, MPC, PSX, XEC**

Ticker	Company name	Sub-industry name	Current Price	Market Cap ($mm)	DQM Quintile 1	Brian Rauscher	Robert Sluymer
Industrials							
Capital Goods							
AGCO	Agco Corp	Agricultural & Farm Machinery	$97.81	$7,326	OW	OW	
OC	Owens Corning	Building Products	$74.58	$8,072	OW	OW	OW
ACM	Aecom	Construction & Engineering	$47.45	$7,154	OW	OW	OW
WAB	Westinghouse Air Brake Techn	Construction Machinery & Heavy	$73.65	$14,018	OW	OW	OW
EMR	Emerson Electric Co	Electrical Components & Equipm	$81.28	$48,609		OW	OW
GNRC	Generac Holdings Inc	Electrical Components & Equipm	$220.44	$13,853	OW	OW	OW
NVT	Nvent Electric Plc	Electrical Components & Equipm	$23.26	$3,957		OW	OW
CSL	Carlisle Cos Inc	Industrial Conglomerates	$152.97	$8,165		OW	OW
GE	General Electric Co	Industrial Conglomerates	$10.93	$95,745	OW	OW	OW
MMM	3M Co	Industrial Conglomerates	$175.41	$101,180	OW	OW	
IEX	Idex Corp	Industrial Machinery	$195.39	$14,792	OW	OW	OW
PNR	Pentair Plc	Industrial Machinery	$51.89	$8,632	OW	OW	OW
CFX	Colfax Corp	Industrial Machinery	$37.03	$4,386	OW	OW	OW
DOV	Dover Corp	Industrial Machinery	$120.87	$17,418		OW	OW
MIDD	Middleby Corp/The	Industrial Machinery	$131.94	$7,337		OW	OW
SNA	Snap-On Inc	Industrial Machinery	$171.92	$9,321		OW	OW
XYL	Xylem Inc/Ny	Industrial Machinery	$99.02	$17,847		OW	OW
FLS	Flowserve Corp	Industrial Machinery	$37.31	$4,860	OW	OW	OW
Transportation							
DAL	Delta Air Lines Inc	Airlines	$41.08	$26,198		OW	OW
JBLU	Jetblue Airways Corp	Airlines	$14.65	$4,607		OW	OW
LUV	Southwest Airlines Co	Airlines	$45.73	$26,993		OW	OW
MIC	Macquarie Infrastructure Corp	Airport Services	$32.89	$2,868	OW	OW	OW
KEX	Kirby Corp	Marine	$51.76	$3,108	OW	OW	OW
UNP	Union Pacific Corp	Railroads	$198.85	$133,999	OW	OW	OW
JBHT	Jb Hunt Transport Services Inc	Trucking	$137.68	$14,550	OW	OW	OW
R	Ryder System Inc	Trucking	$63.46	$3,420	OW	OW	OW
UBER	Uber Technologies Inc	Trucking	$50.49	$93,309	OW	OW	OW
UHAL	Amerco	Trucking	$428.22	$8,396	OW	OW	OW
Energy							
Energy							
HP	Helmerich & Payne Inc	Oil & Gas Drilling	$24.74	$2,662	OW	OW	OW
NOV	National Oilwell Varco Inc	Oil & Gas Equipment & Services	$13.94	$5,412	OW	OW	OW
SLB	Schlumberger Nv	Oil & Gas Equipment & Services	$22.84	$31,794	OW	OW	OW
EOG	Eog Resources Inc	Oil & Gas Exploration & Produc	$52.70	$30,744	OW	OW	OW
PXD	Pioneer Natural Resources Co	Oil & Gas Exploration & Produc	$116.89	$19,219		OW	OW
HFC	Hollyfrontier Corp	Oil & Gas Refining & Marketing	$25.56	$4,141		OW	OW
MPC	Marathon Petroleum Corp	Oil & Gas Refining & Marketing	$41.65	$27,100		OW	OW
PSX	Phillips 66	Oil & Gas Refining & Marketing	$67.29	$29,392		OW	OW
XEC	Cimarex Energy Co	Oil & Gas Exploration & Produc	$40.22	$4,101	OW	OW	OW

Source: Fundstrat, Bloomberg, Factset

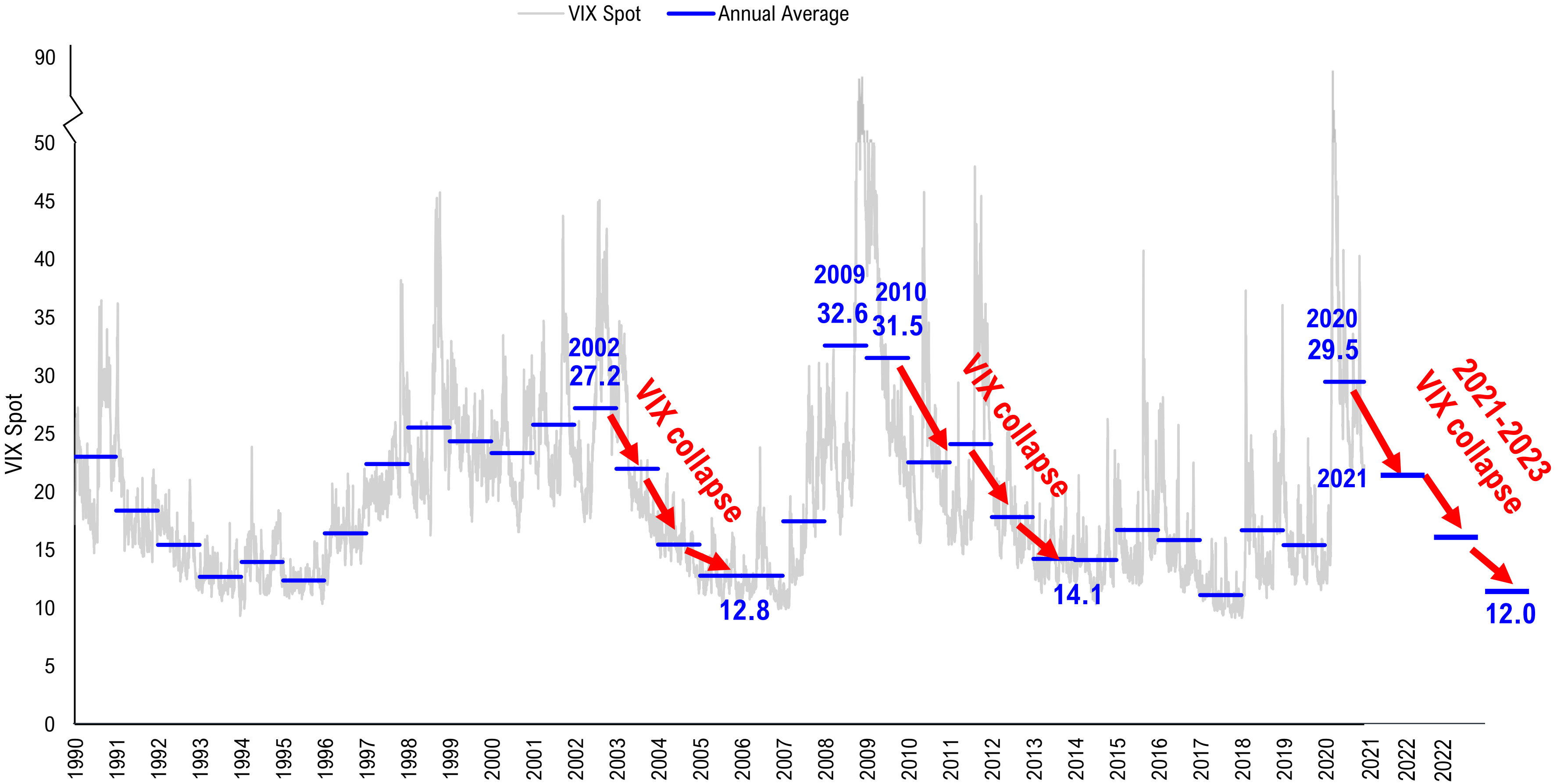
Epicenter: We warned it would be violent…

CYCLE REVERSION: VIX to collapse 2021-2023 and average 12.0 by 2023…

The VIX averaged 29.5 in 2020, the third highest level in 30-years.

- **After 2002 and 2009, VIX collapsed over the next 3 yeas. And such a collapse is likely 2021-2023…**

Figure: spot VIX index history
Since 1990



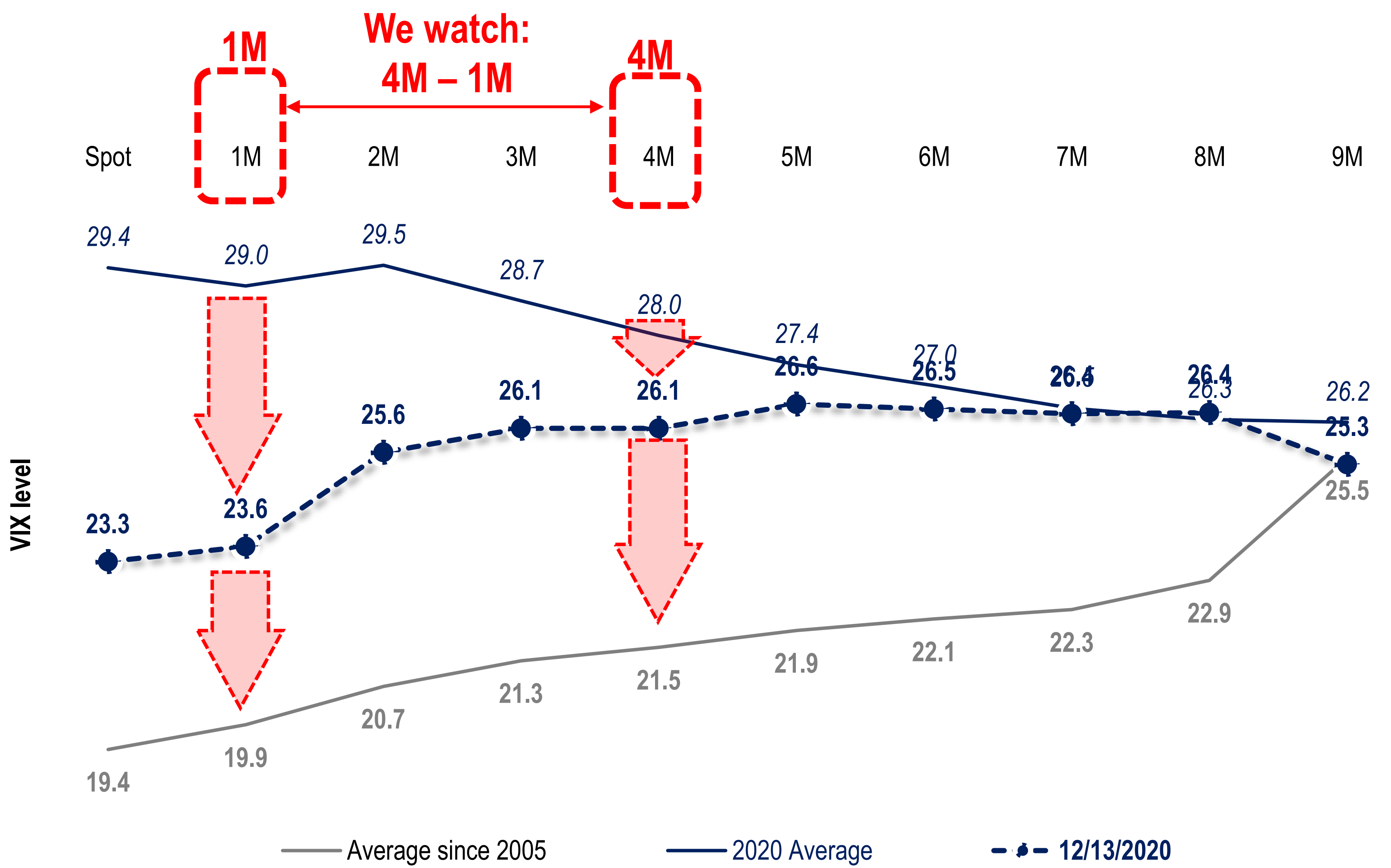
Source: Fundstrat, Bloomberg

NORMALIZING VIX: In 2020, investors kept seeing massive near-term risk

The VIX term structure normally sees higher VIX in the future (see grey line) but in 2020, the opposite was true

- **In 2020, investors keep expecting massive near-term volatility but saw normal long-term**

Figure: VIX futures are set for a similarly large adjustment
Per Fundstrat



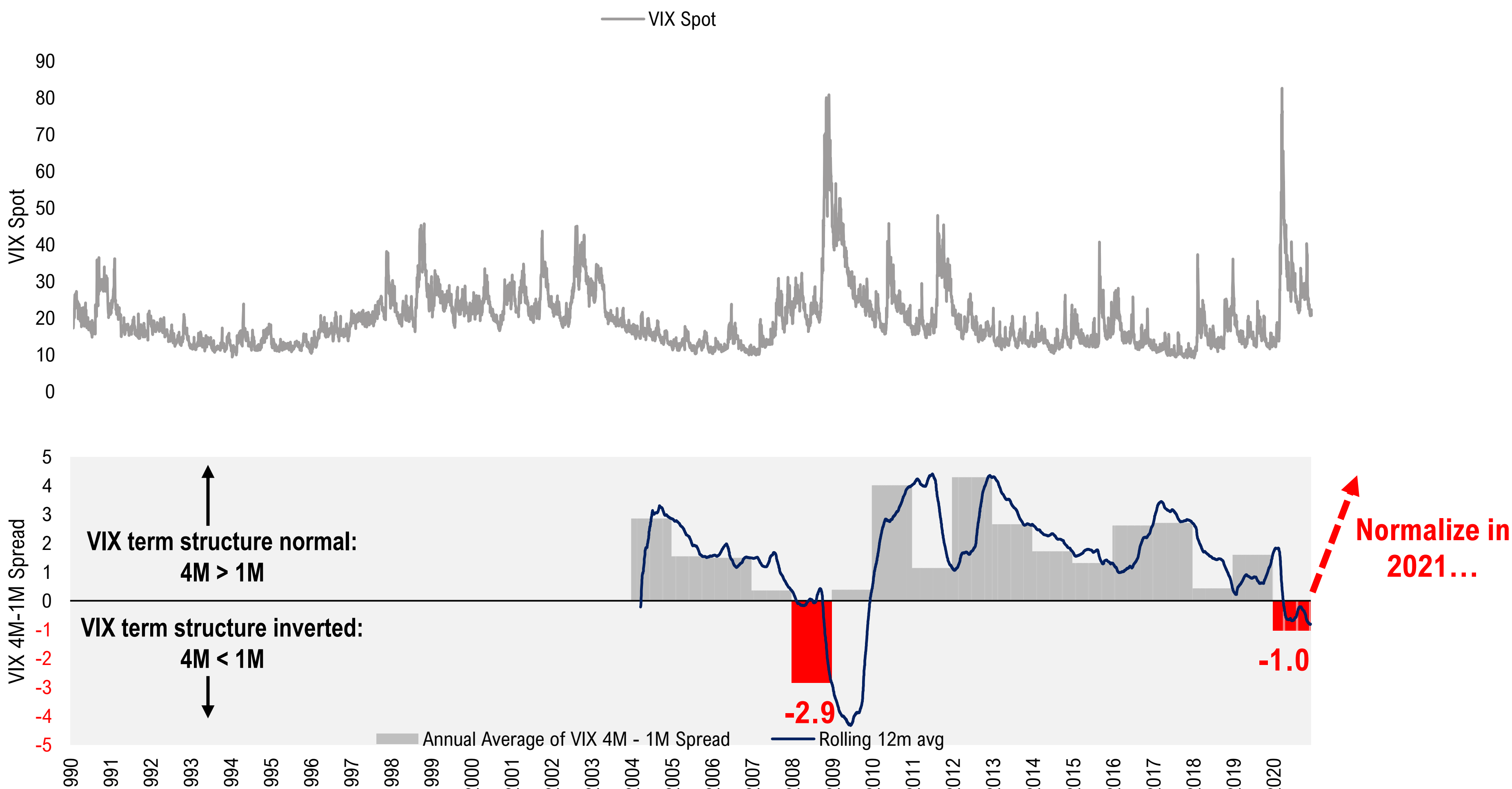
Source: Fundstrat

NORMALIZING VIX TERM STRUCTURE: High volatility followed by Low Vol

The full year 2020 saw VIX term structure inverted. This only happened in 2009 and in 2010 and beyond, VIX normalized.

- **This is what we see in 2021 and beyond, a return to a normal volatility environment.**

Figure: Spot VIX vs VIX 4M less 1M spread
Since 1990

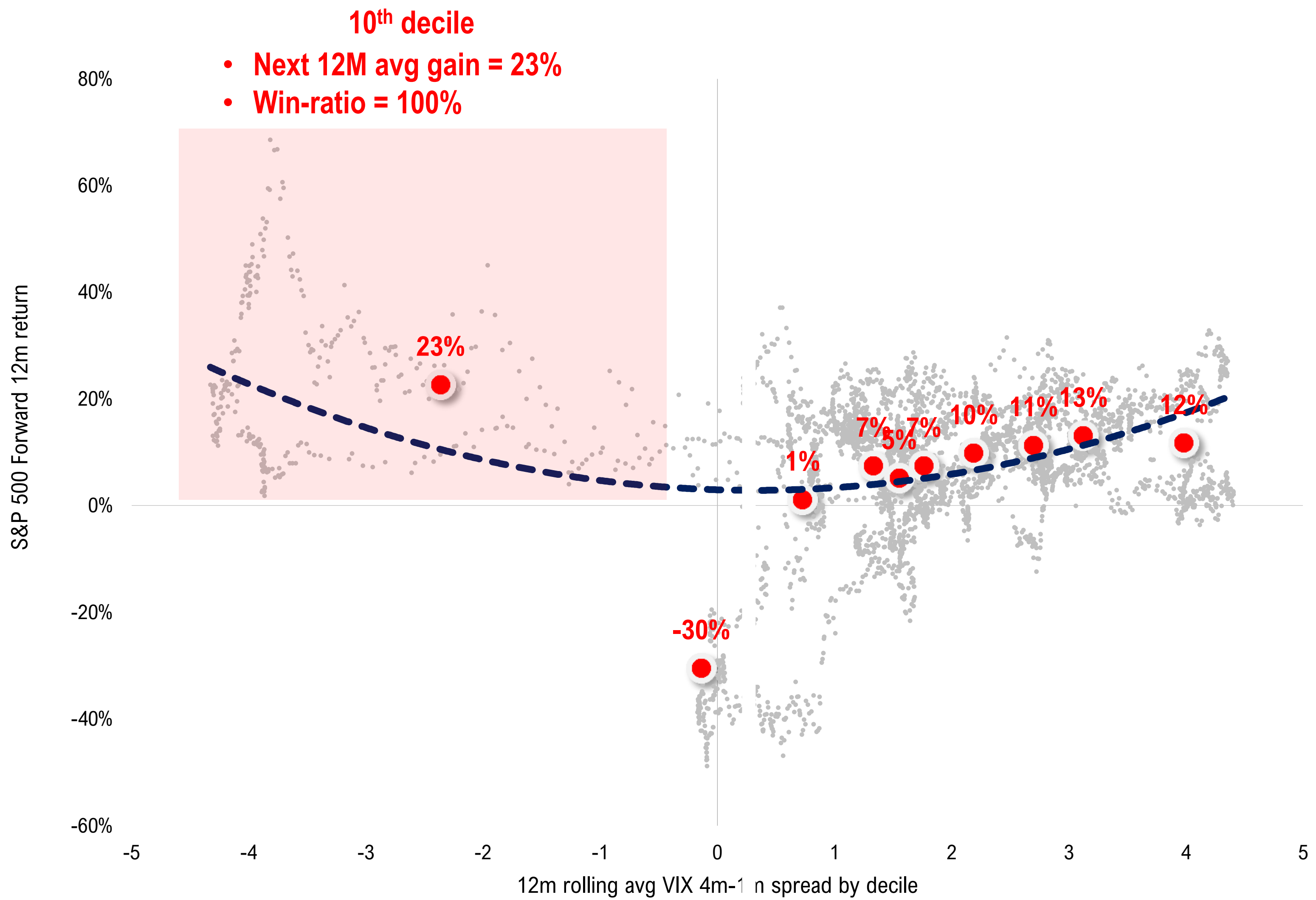


Source: Fundstrat, Bloomberg

VIX TS vs S&P 500 RETURNS: 100% positivity next 12 months

- **Whenever VIX has been inverted >12M (avg value), S&P 500 had positive returns next 12M. 100% of the time**

Figure: VIX 4m less 1m spread vs. S&P 500 forward 12m return
Since 2004

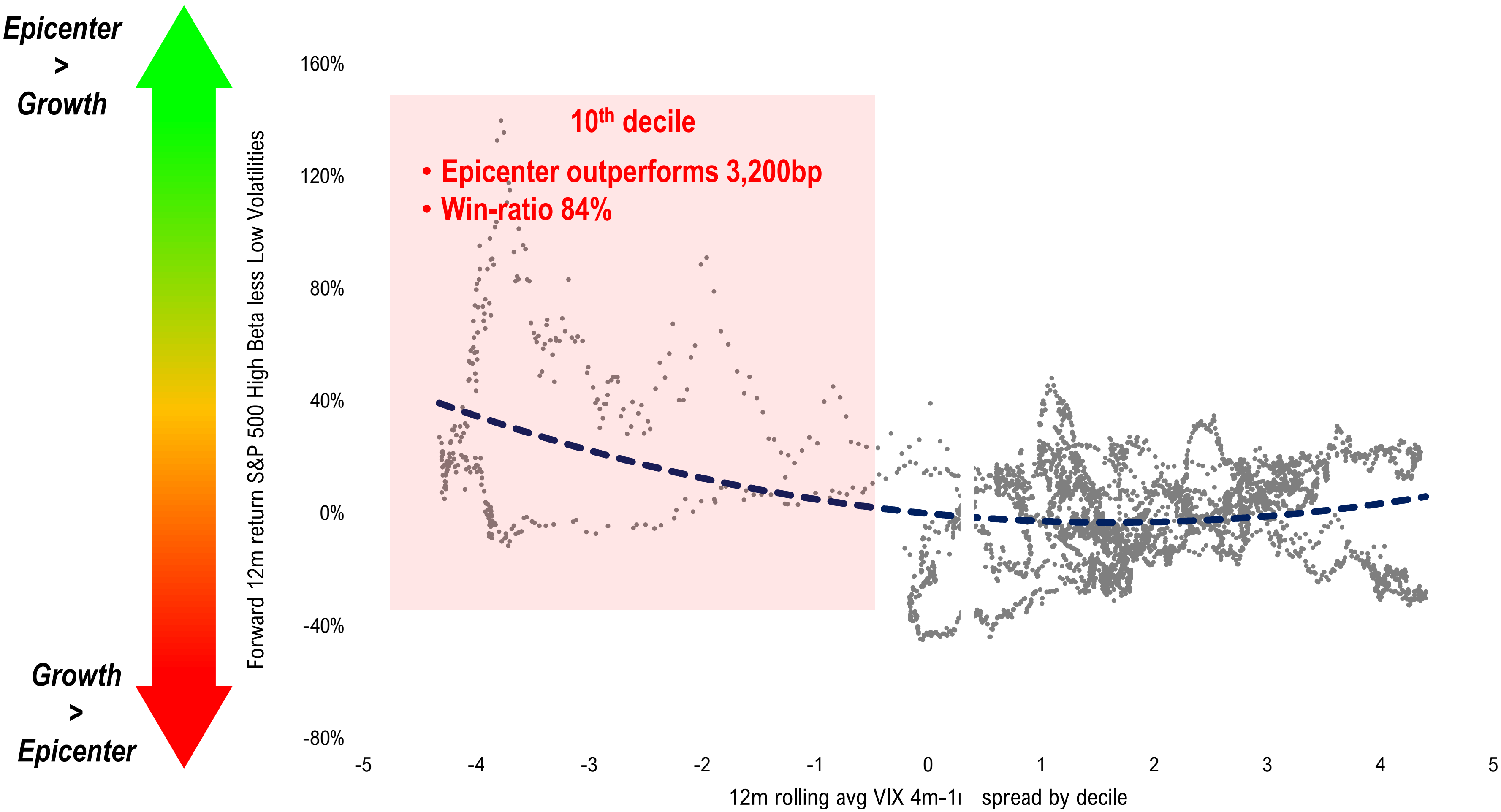


Source: Fundstrat, Bloomberg

VIX TS vs EPICENTER: Epicenter sees massive rally when VIX normalizes

- **The outperformance of Epicenter (aka Cyclicals) is even stronger, with 3,200bp outperformance.**

Figure: VIX 4m less 1m spread vs. S&P 500 High Beta Index forward 12m return relative to S&P 500 Low Volatility Index
Since 2004



Source: Fundstrat, Bloomberg

Epicenter: Tailwinds for Epicenter stocks in 2021

Today | Dec 2020 | Dec 2021

- Santa Claus rally
- Fiscal stimulus
- Europe COVID-19 rollover
- US COVID-19 Wave 3
  US “soft lockdowns”

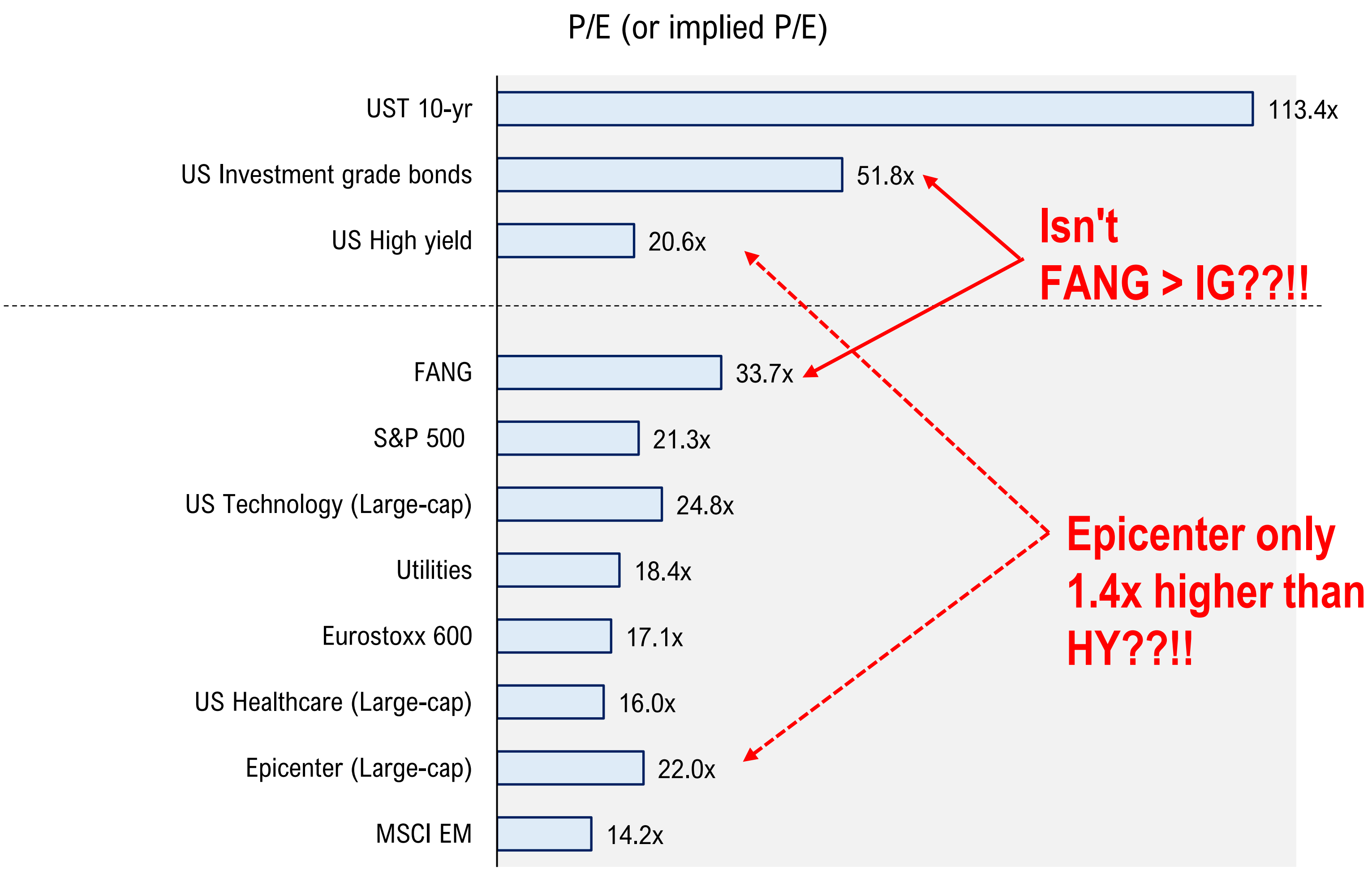
Favors “epicenter”

- COVID-19 wave 3 ending
  Vaccine/ therapeutics
- Global economic stimulus
- Global demand recovery
  China still strong

Favors “epicenter”

CYCLE REVERSION: TINA, or Bonds and Stocks valuations converge

Figure: PE of Bonds (inverse of YTW) and PE of equities
Current



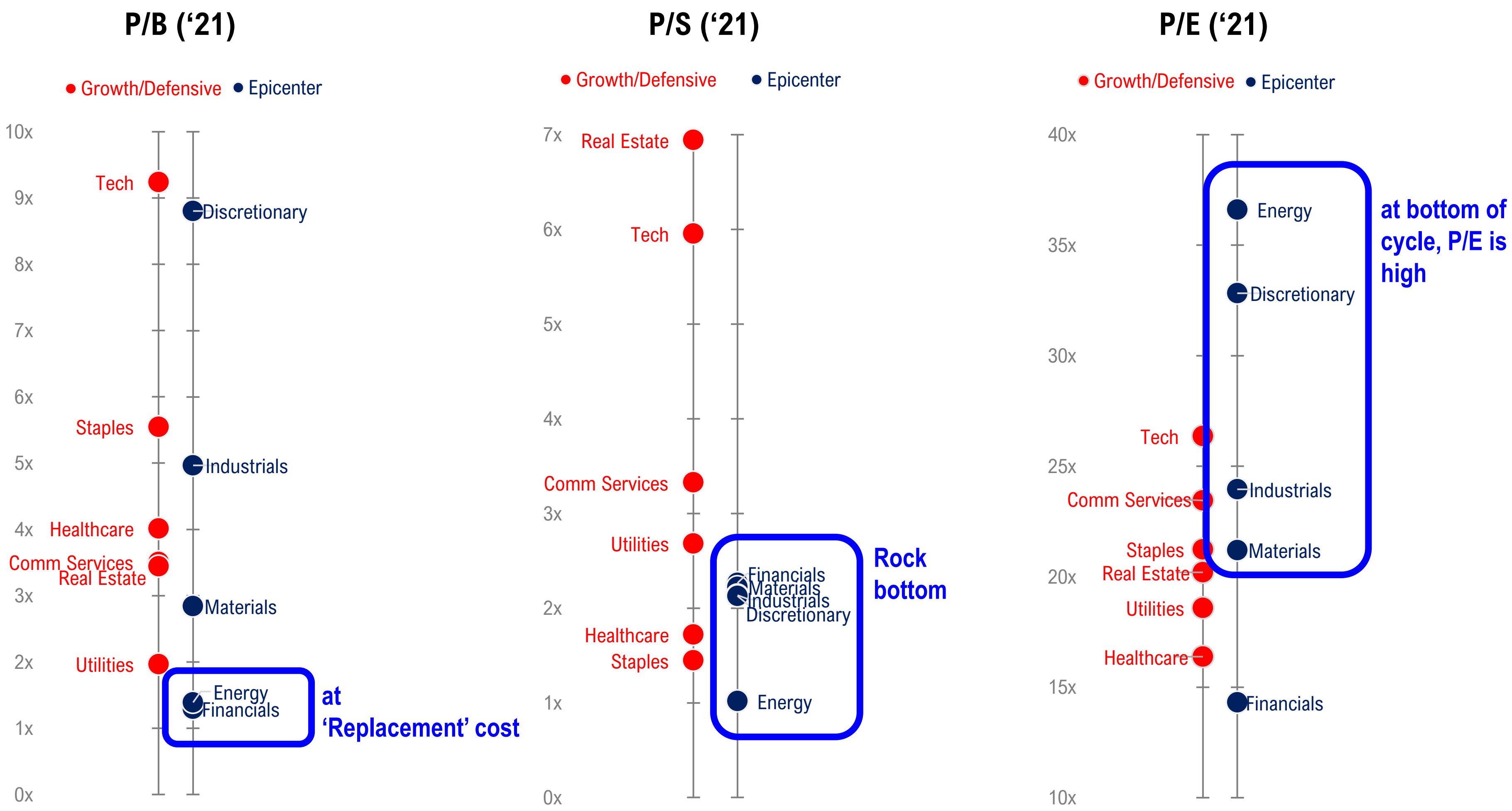
Source: Fundstrat and BofA

VALUATION REVERSION: Epicenter valuations consistent with 'bottom of cycle'

We highlight the comparative valuation of Epicenter vs Growth/Defensives on various metrics.

- **Epicenter stock valuations consistent with cycle low – bottom at P/B but high on P/E ('E' depressed)**

Figure: P/B, P/S and P/E Valuations
GICS 1 Sectors

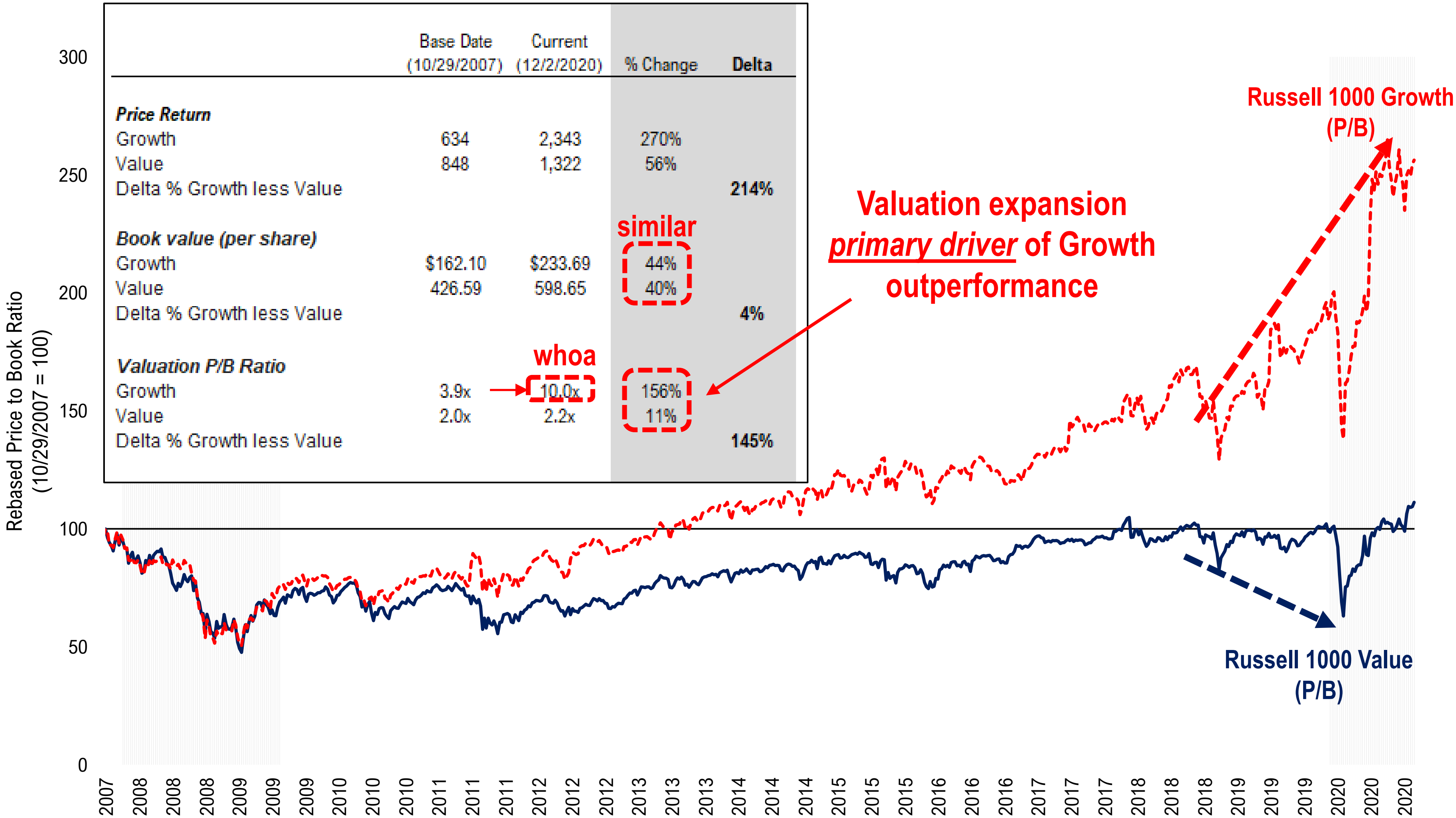


Source: Fundstrat

CYCLE REVERSION P/B RATIO: Growth and Value

- **Almost all of the outperformance of Growth due to the multiple expansion, not book value growth**

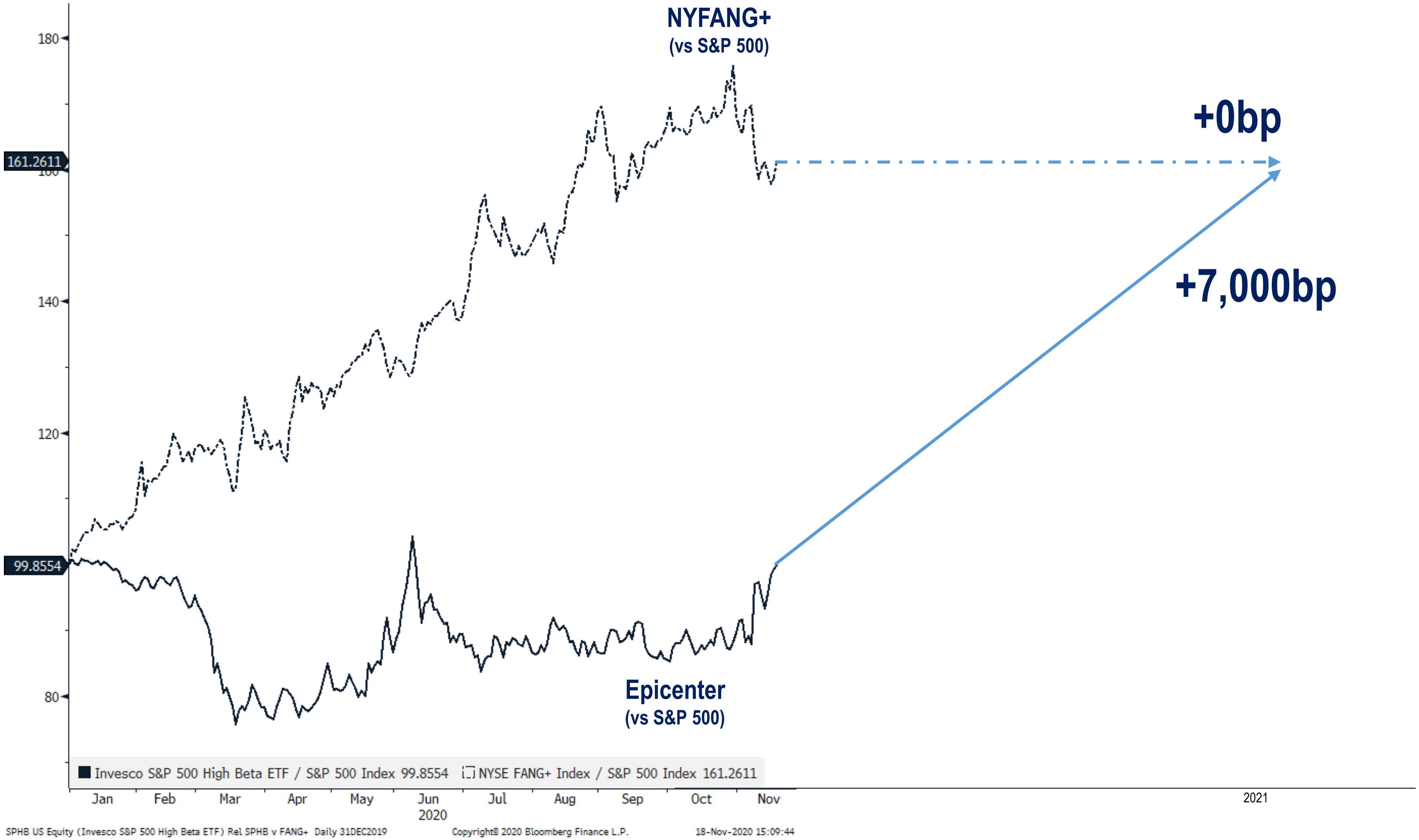
Figure: Consensus Price to Book Ratio – Russell 1000 Growth and Value Indices
Rebased 10/29/2007 = 100



	Base Date (10/29/2007)	Current (12/2/2020)	% Change	Delta
Price Return				
Growth	634	2,343	270%	
Value	848	1,322	56%	
Delta % Growth less Value				**214%**
Book value (per share)				
Growth	$162.10	$233.69	44%	
Value	426.59	598.65	40%	
Delta % Growth less Value				**4%**
Valuation P/B Ratio				
Growth	3.9x	10.0x	156%	
Value	2.0x	2.2x	11%	
Delta % Growth less Value				**145%**

Source: Fundstrat, Bloomberg, Factset

CYCLE REVERSION: 7,000bp of upside if Epicenter just "mean reverts"



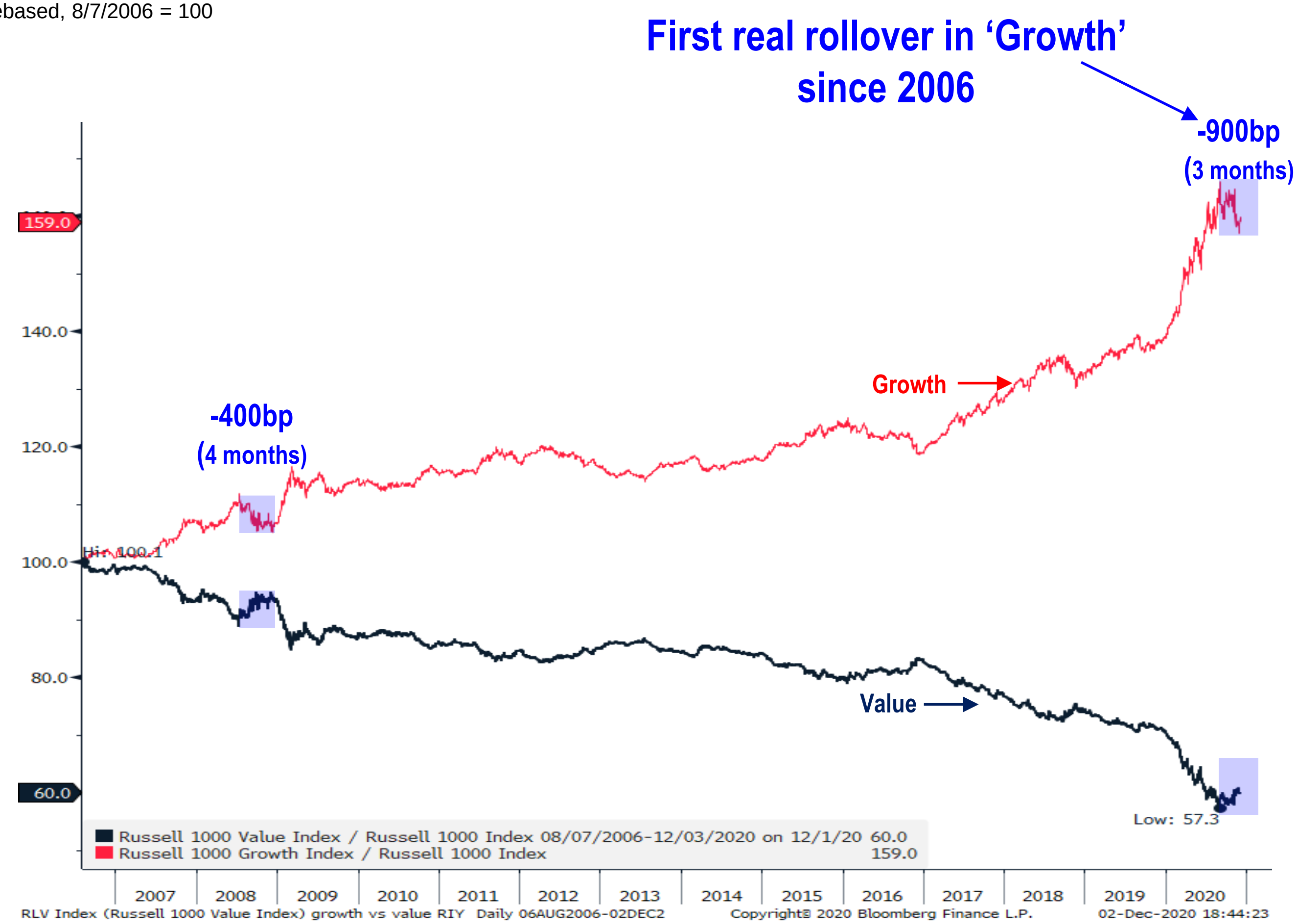
CYCLE REVERSION: First ‘wiggle’ in Growth outperformance since 2007

One of the most important questions in 2021 is whether sufficient structural factors/changes have taken place in 2020 to justify a period where Epicenter (aka Cyclical stocks aka Value) can durably outperform Growth.

- **Below we plot the relative performance of Russell 1000 Growth and Value since 2006. As you can see, in the past 3 months, the long-time leader Growth has seen a 900bp underperformance (vs R1K index). This bears quite a lot of importance in 2021 - are we seeing the start of a 14-year cycle of Value leadership?**

Figure: Russell 1000 Value vs. Russell 1000 Growth

Rebased, 8/7/2006 = 100

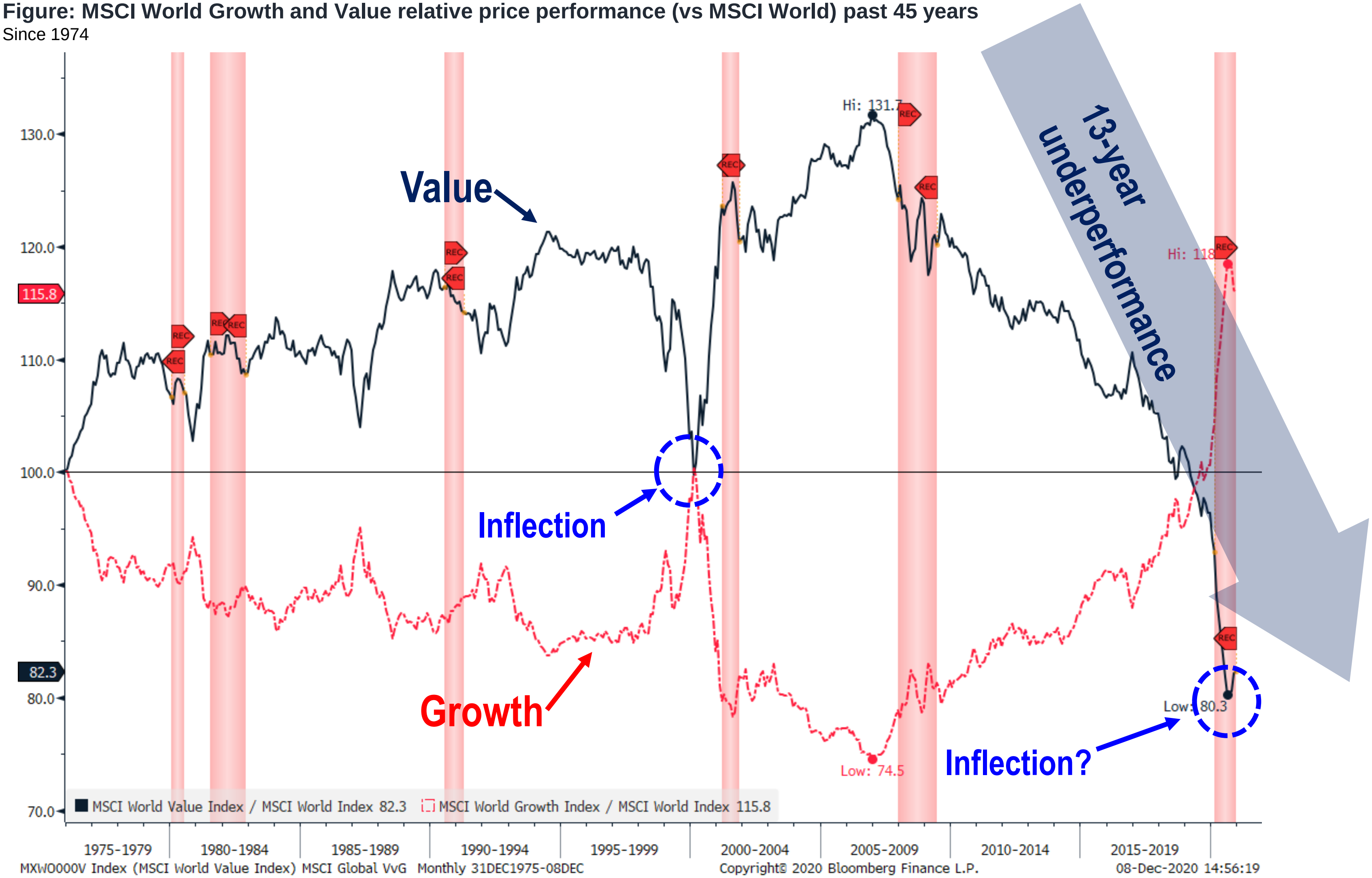


Source: Fundstrat, Bloomberg, Factset

CYCLE REVERSION: 13-years of horrific underperformance of Value

- **Is this 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



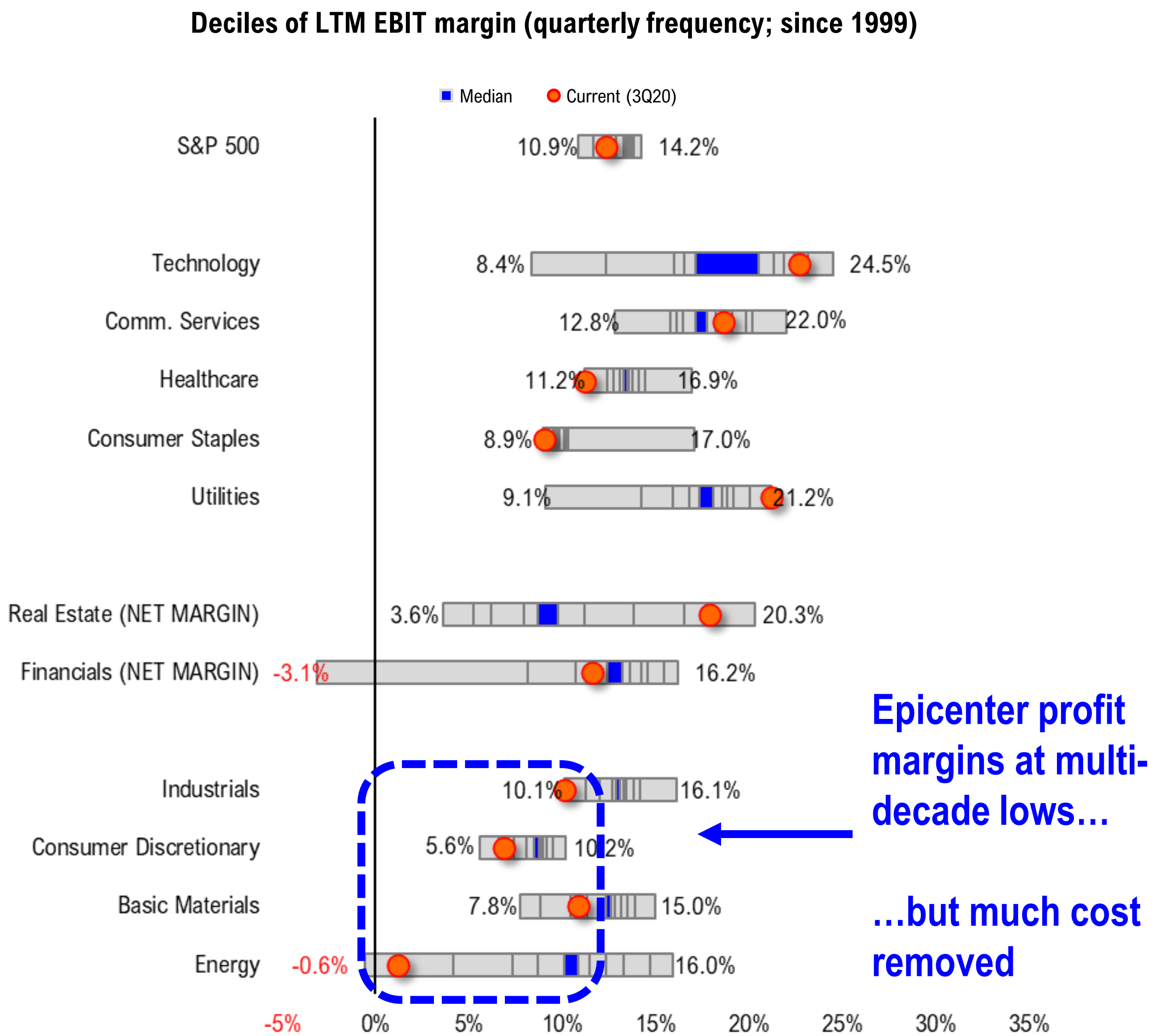
Source: Fundstrat, Bloomberg

CYCLE REVERSION: Profit margins of Epicenter (aka Cyclicals) recover

Figure: Deciles of LTM EBIT margin

Since 1999

% contribution to S&P 500 Sales		to S&P 500 EBIT		Market cap weight	
Total Sales ($B)	% share	Total EBIT	% share	Market cap	% share
$14,079	100%	$1,333	100%	$30,621	100%
$1,302	9%	$295	22%	$8,480	28%
$1,555	11%	$140	11%	$2,046	7%
$111	1%	$20	1%	$770	3%
$2,216	16%	$172	13%	$4,189	14%
$304	2%	$64	5%	$869	3%
$1,577	11%	$183	14%	$3,223	11%
$827	6%	$10	1%	$745	2%
$1,280	9%	$130	10%	$2,653	9%
$1,490	11%	$102	8%	$3,408	11%
$361	3%	$39	3%	$815	3%
$951	7%	$177	13%	$3,422	11%

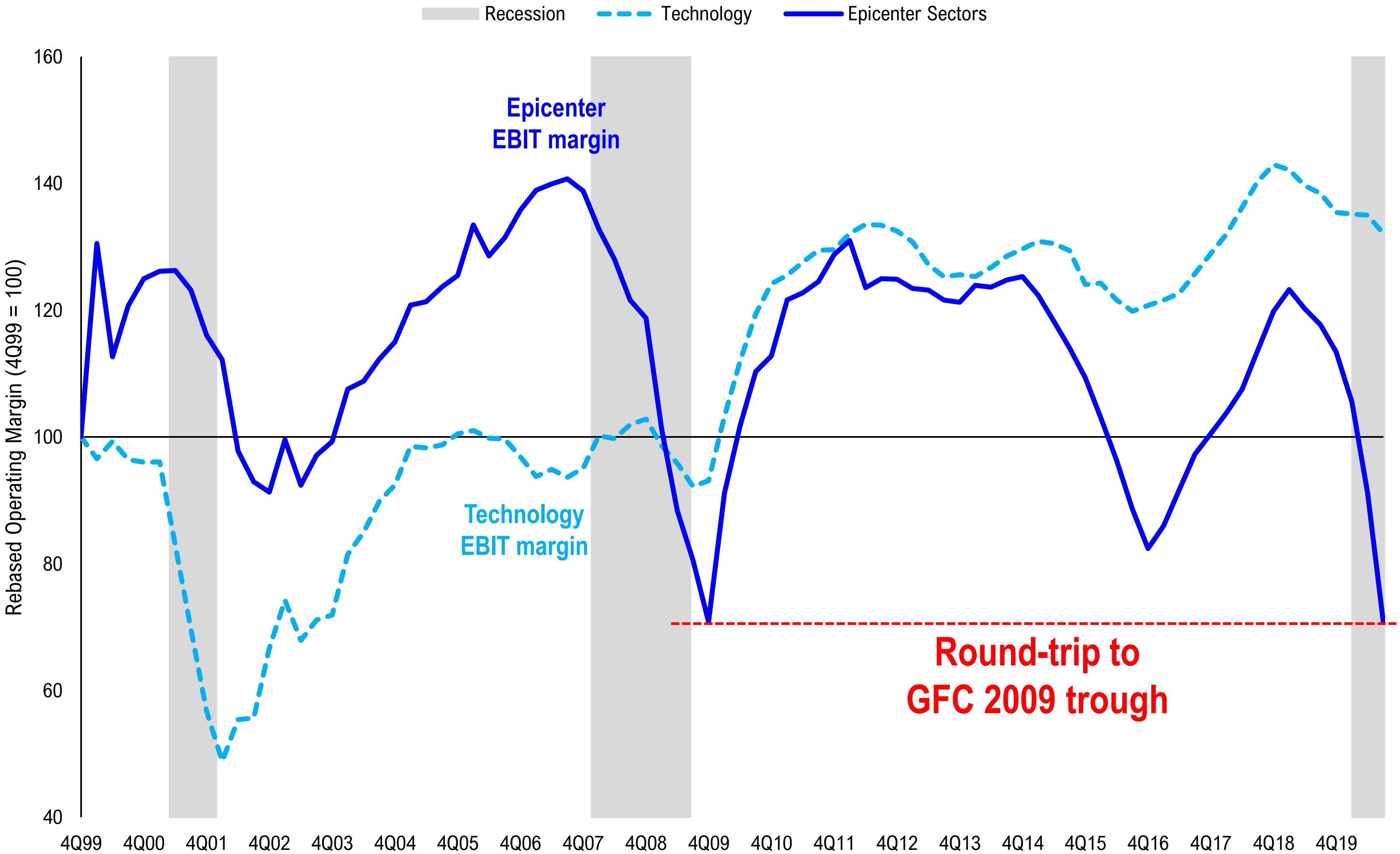


Source: Fundstrat, Factset.

CYCLE REVERSION: Epicenter EBIT margins round-tripped back to 2009 lows

- 2020 EBIT margins collapsed for Epicenter groups, while Technology margins remains strong, still rising

Figure: Comparative Rebased EBIT margin
Since 1999

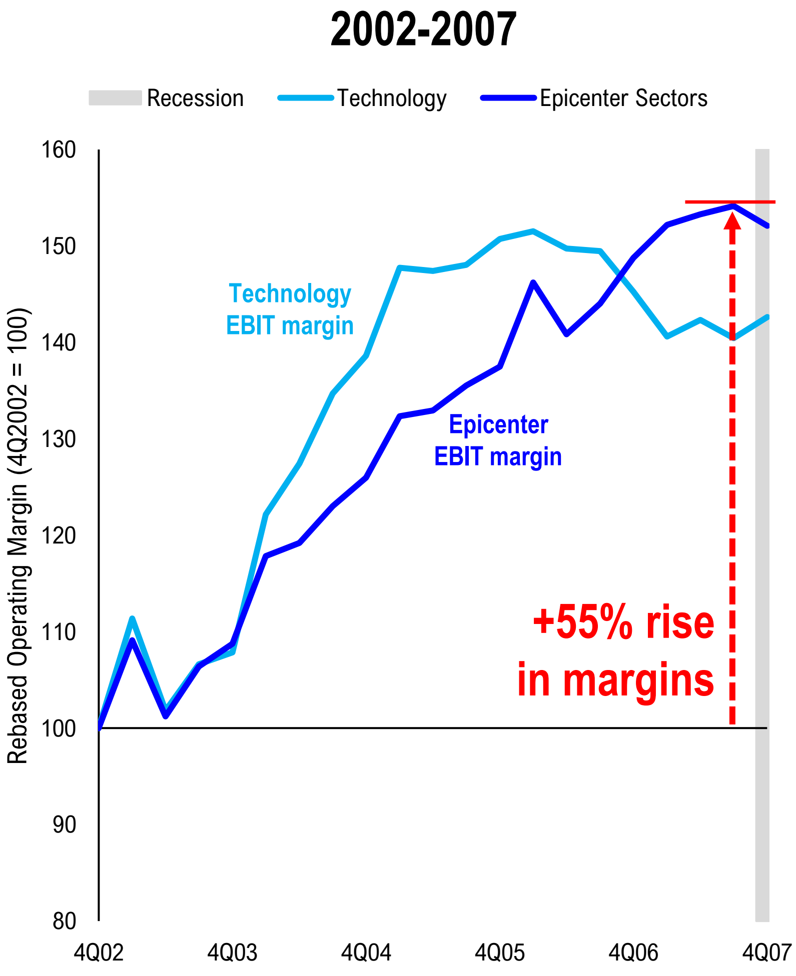


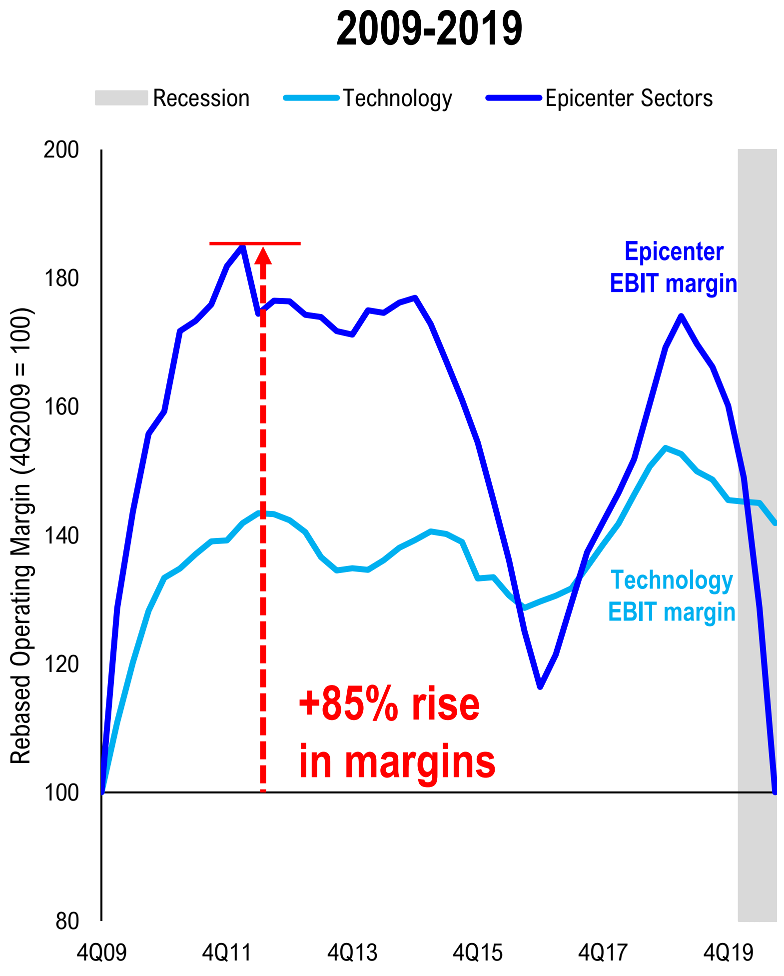
Source: Fundstrat, Bloomberg, Factset

CYCLE REVERSION: Shouldn't 2021 EBIT expansion surpass prior cycles?

- **Epicenter stocks saw 55%-85% rise in incremental EBIT margins in two most recent expansionary cycles. Should Epicenter EBIT margins surpass that in 2021 and beyond?**
- **If 'Yes' = BOOM!**

Figure: Comparative Rebased EBIT margin
Since 1999





Source: Fundstrat, 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 Fundstrat best guess

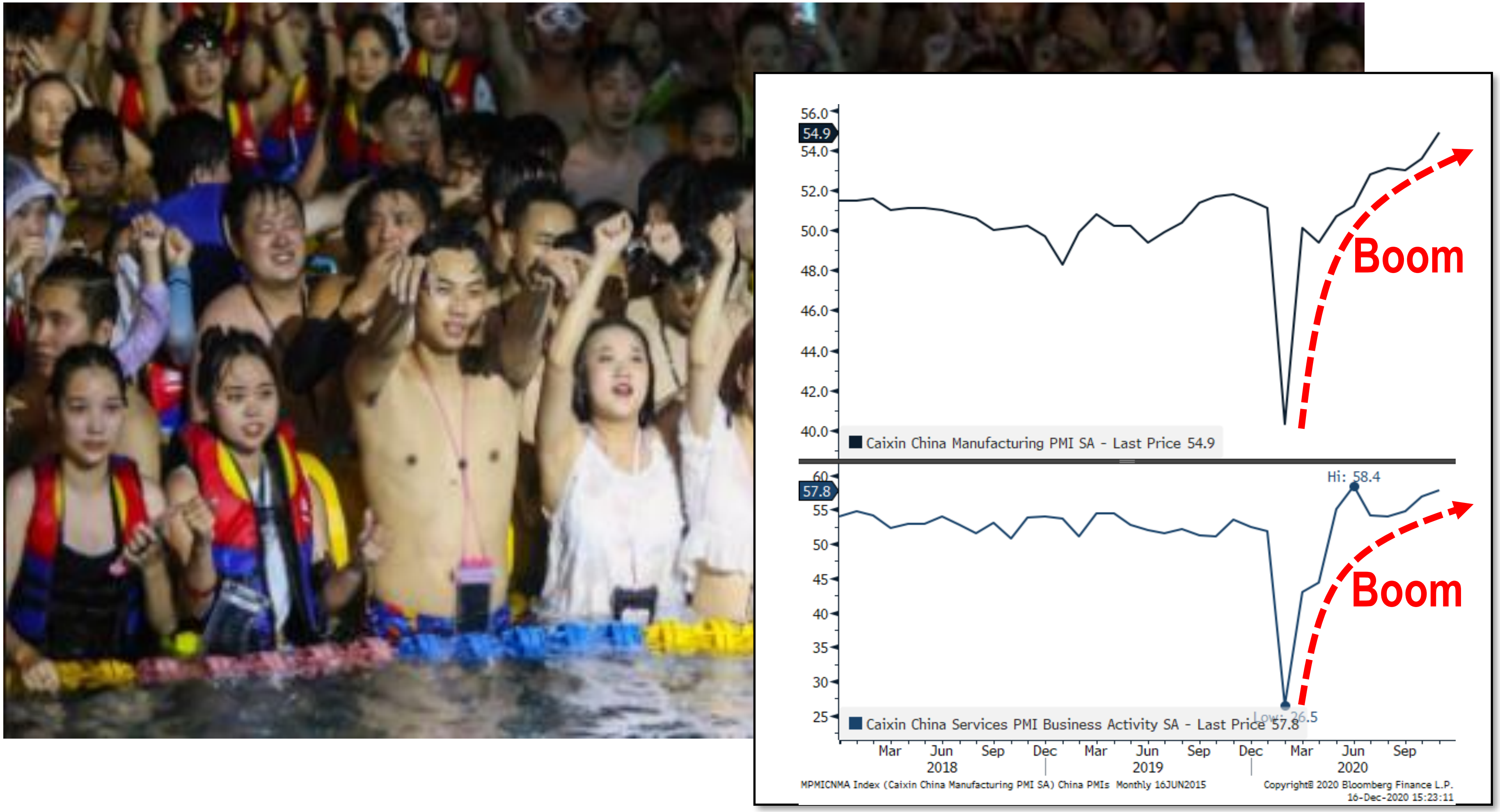
Structural Change	Rationale	Stranded Capital	New Capital
1. **Supply chain moves back to USA**	From China → USA	Foreign factories Foreign supply chains	Domestic factories Domestic supply chains
2. **De-urbanization**	Cities → suburbs	Urban restaurants Urban shopping City-centric services	Housing + furnishing 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: Fundstrat, Bloomberg, Factset

2021: BOOM follows vanquish of COVID-19. Look at China

- **We expect a boom in the economy to follow the vanquish of COVID-19. Look at China. Wow**

Figure: China PMI
Markit PMI



Source: Fundstrat, Bloomberg, Factset

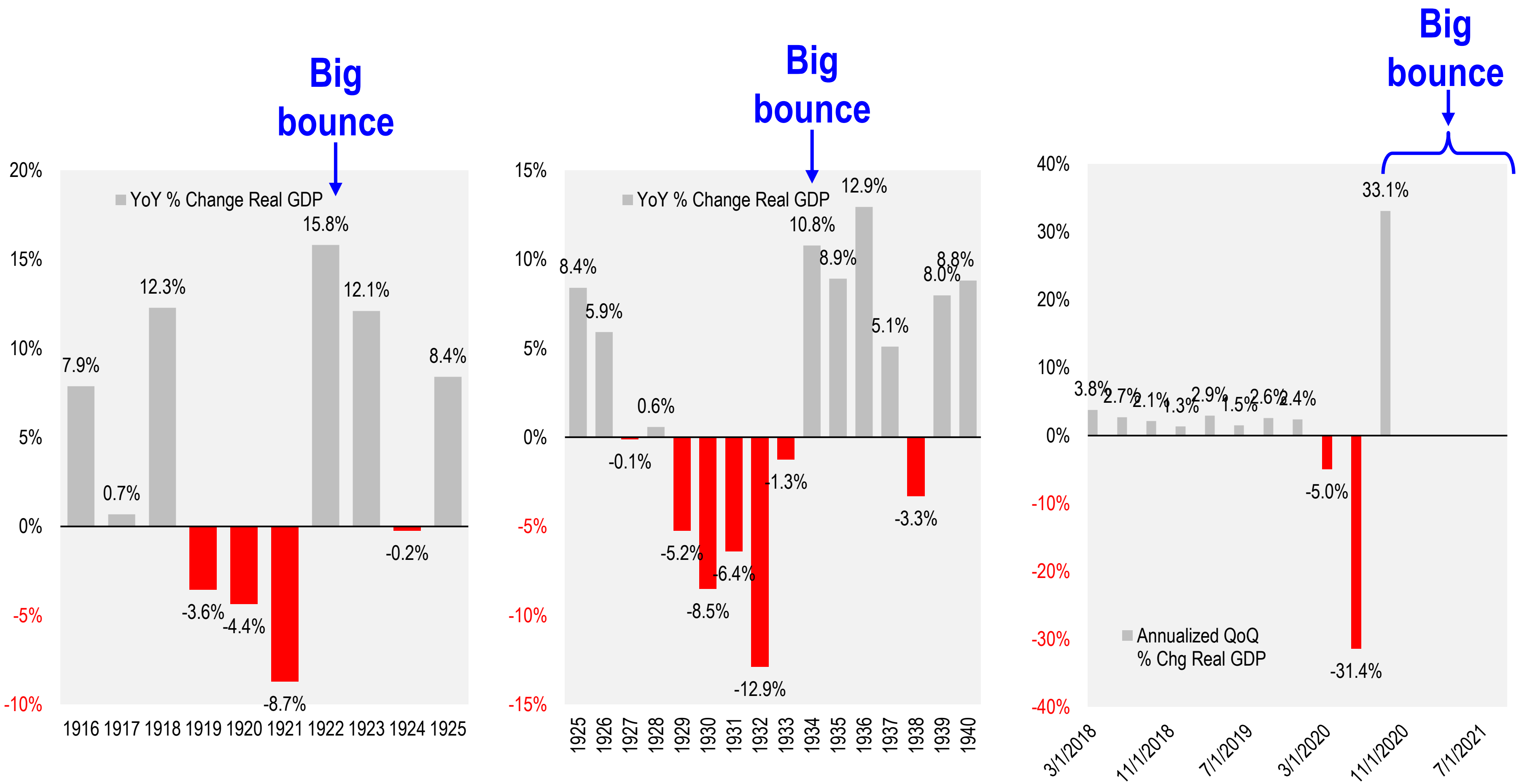
ECONOMY: Fast declines lead to fast bounces

Typically, GDP growth is robust following major GDP declines.

- **2020 GDP decline is one of the faster ever declines – hence, Greater Depression**

Figure: GDP Growth – YoY for pre-1945

Since 1900



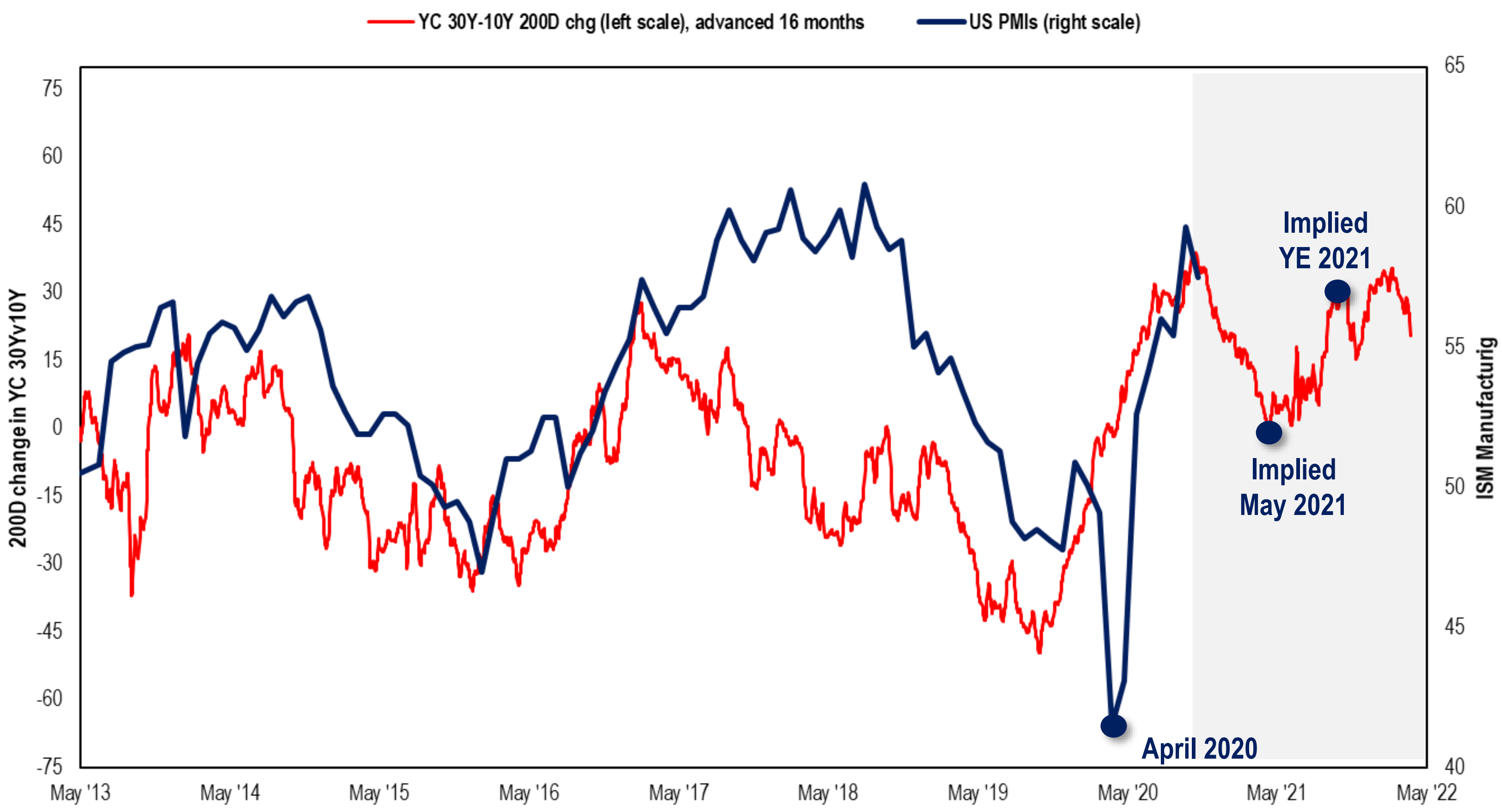
Source: Fundstrat, Bloomberg, Factset

ECONOMY: 30Y-10Y still ‘textbook’ leads ISM by 16 months = >50 in 2021

The long-term yield curve (10M change of 30Y-10Y yield spread) demonstrated a good predictive power on ISM PMI.

- **Since our April 2017 study, the long-term yield curve seems to be doing a pretty good job of predicting ISM.**
- **2020 has been ‘textbook’ of ISM following the 30Y-10Y 200D change… with a lag of 16 months**

Figure: Long-term yield curve 10M change (advanced 16-months) and ISM Manufacturing
Past 6 years



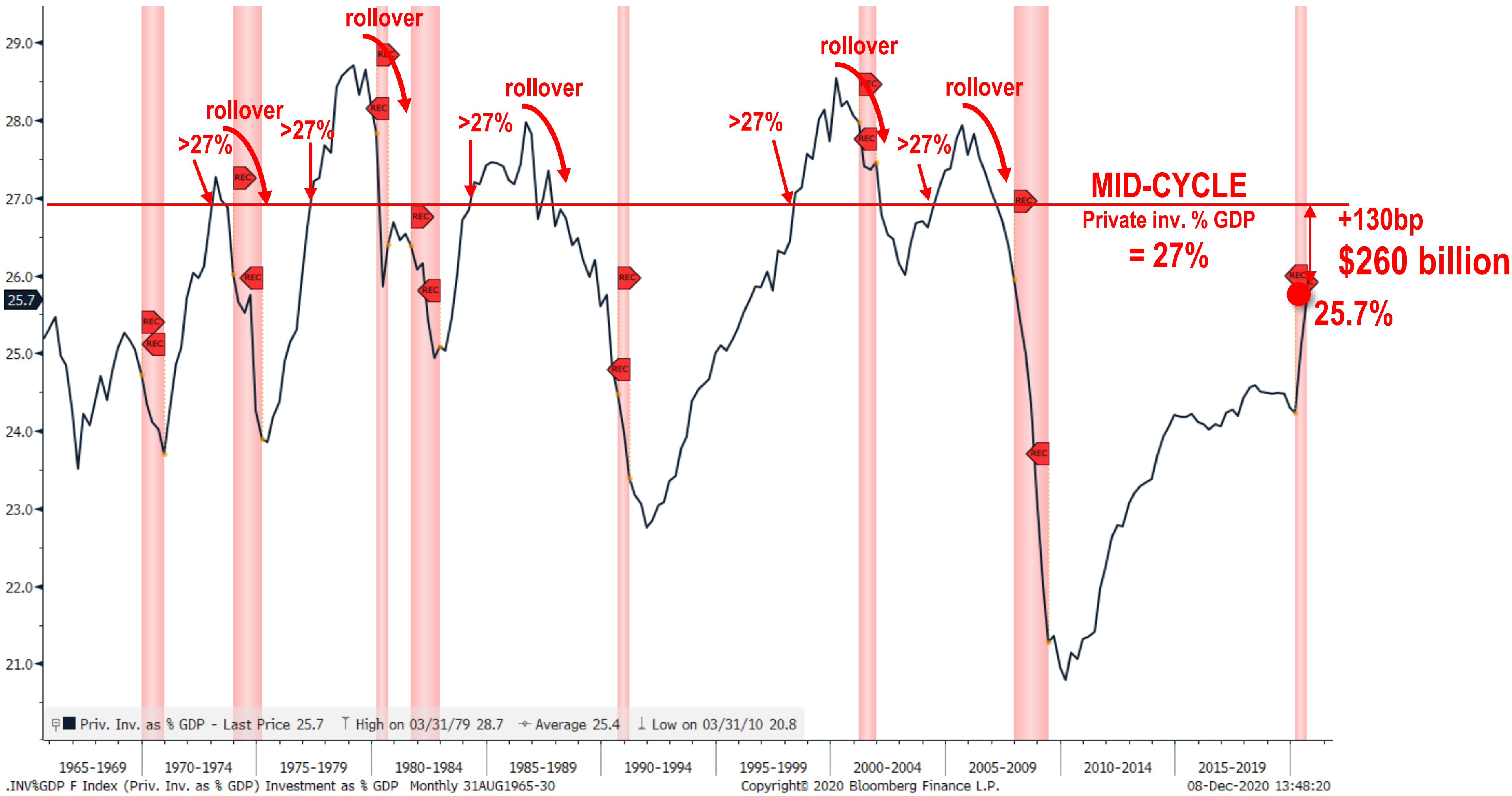
Source: Fundstrat, Bloomberg, Factset

INVESTMENT: Finally rising and MID-CYCLE when reaches 27% of GDP

Private Investment peaking is logically the peak of the business cycle—when private sector has over-invested.

- **This ratio (past 50 years) is 27% and needs to rollover before we see a recession. Currently, this ratio is at 25.7%**

Figure: Private Investment (sum of capex + durables + residential investment) as % GDP is still below 27%
Since 1970



Source: Fundstrat

MEAN REVERSION ONLY: *+300bp upside* to investment as % GDP

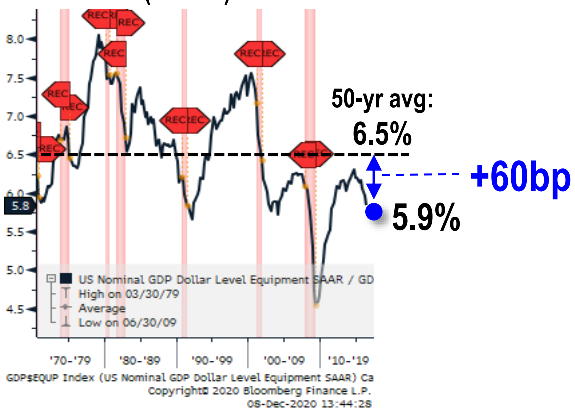
There are 5 components for private investment spending (shown below), (i) Capex; (ii) IP spend; (iii) Non-res building; (iv) Res. Construction; and (v) consumer durables purchases

- **Just "mean reversion" to 50-yr averages implies 300bp upside to investment spend, or $600 billion in capex.**

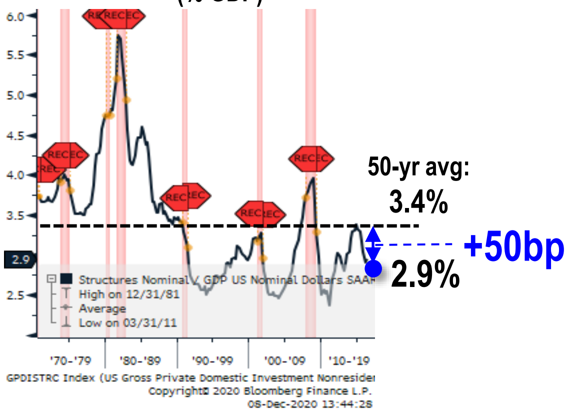
Figure: Comparative components of private investment spending (as % GDP)

Since 1970

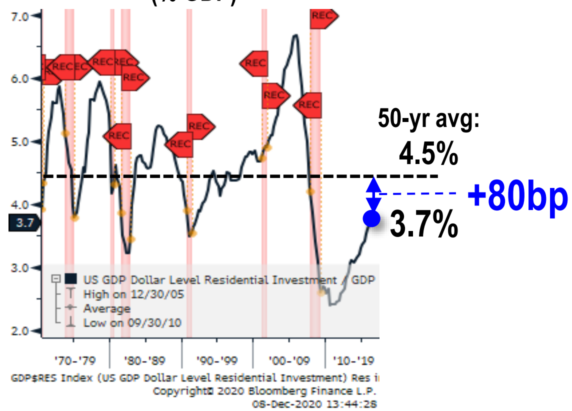
Capex
(% GDP)



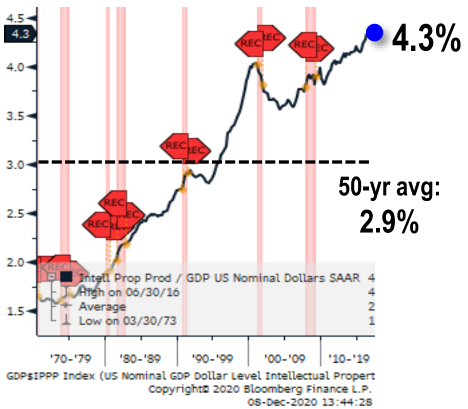
Non-Residential Investment
(% GDP)



Residential Investment
(% GDP)

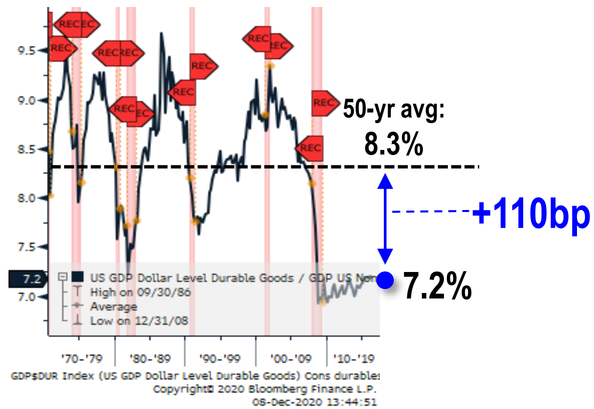


Intellectual Property
(% GDP)



MEAN REVERSION ONLY:
+300bp = $600 billion capex

Consumer Durables
(% GDP)



Source: Fundstrat, Bloomberg, Factset

ECONOMY: Going 'asset heavy' = housing boom

We believe there is substantial pent-up demand in housing.

- **After nearly 12 years of massive under-building, we expect housing starts to exceed 2 million annually soon**

Figure: US Housing starts

Since 1960. Units in thousands

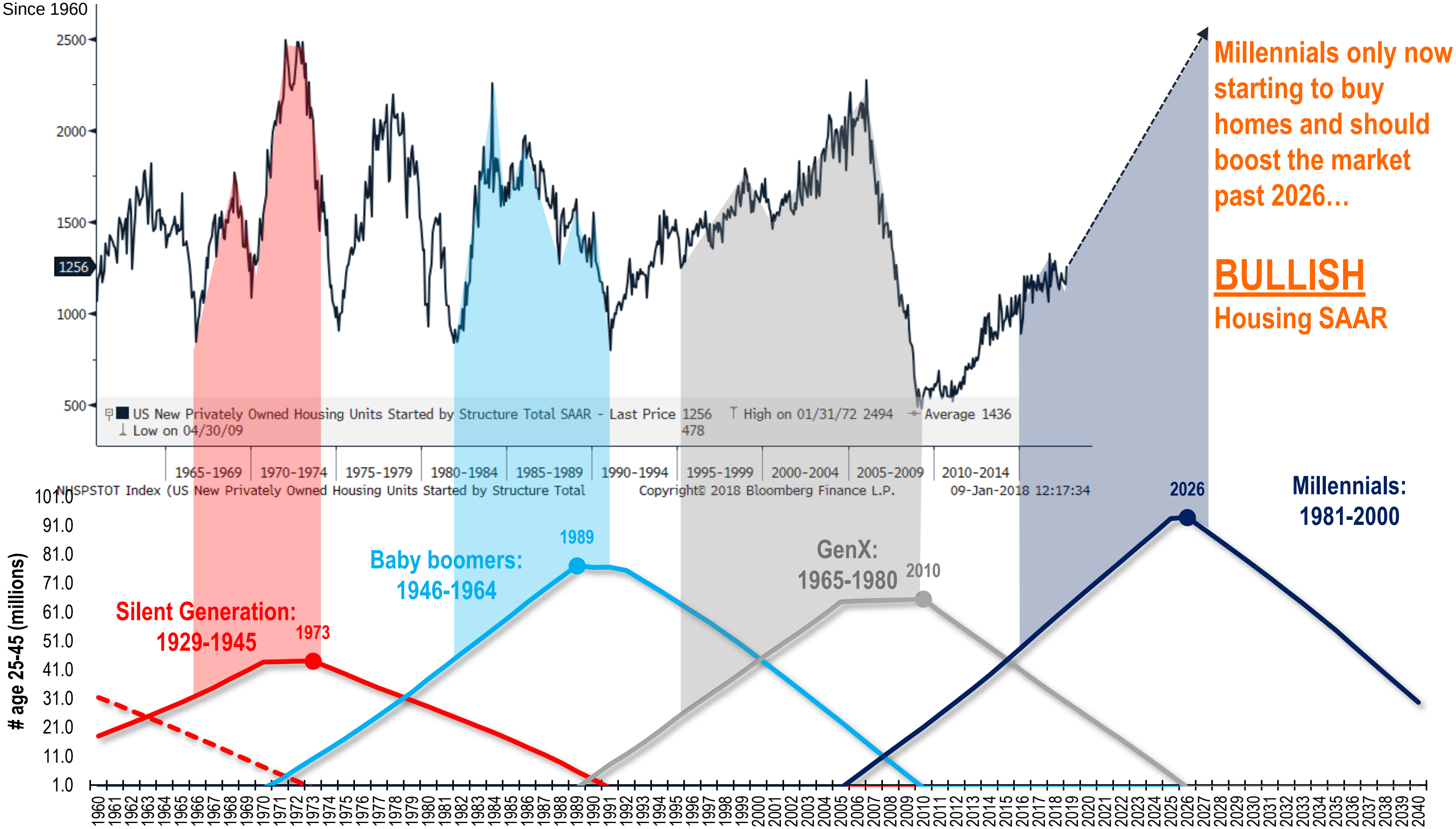
Source: Fundstrat

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.



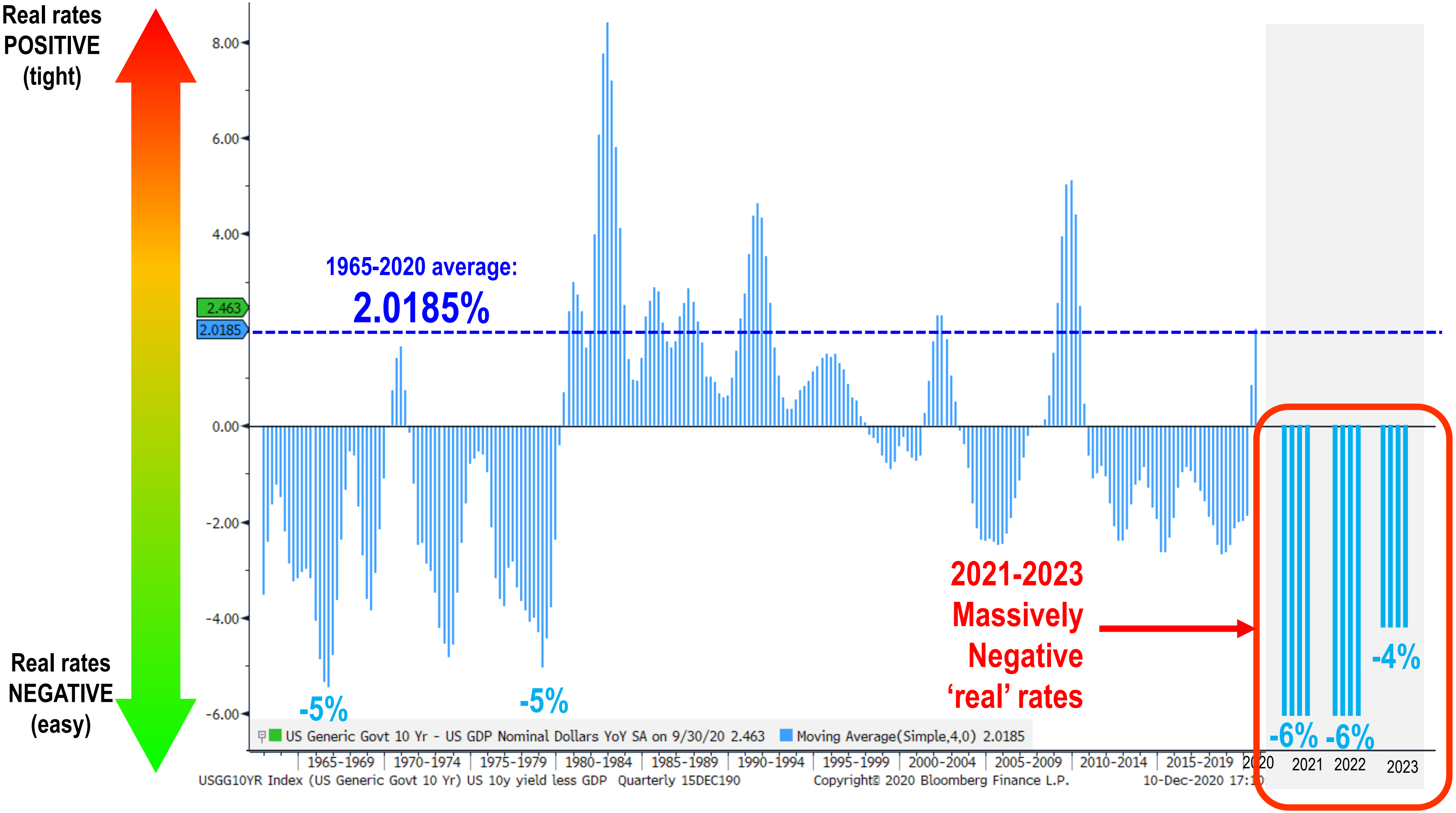
Source: Fundstrat, Bloomberg, Factset

EASY MONEY: "Real rates" lowest since early 1960s...

- **Historically, 10Y is 2.0185% above nominal GDP growth but in 2020-2023, -6.00%. Massively easy money**

Figure: 'Real' rates – US 10Y less nominal GDP growth

Since 1960

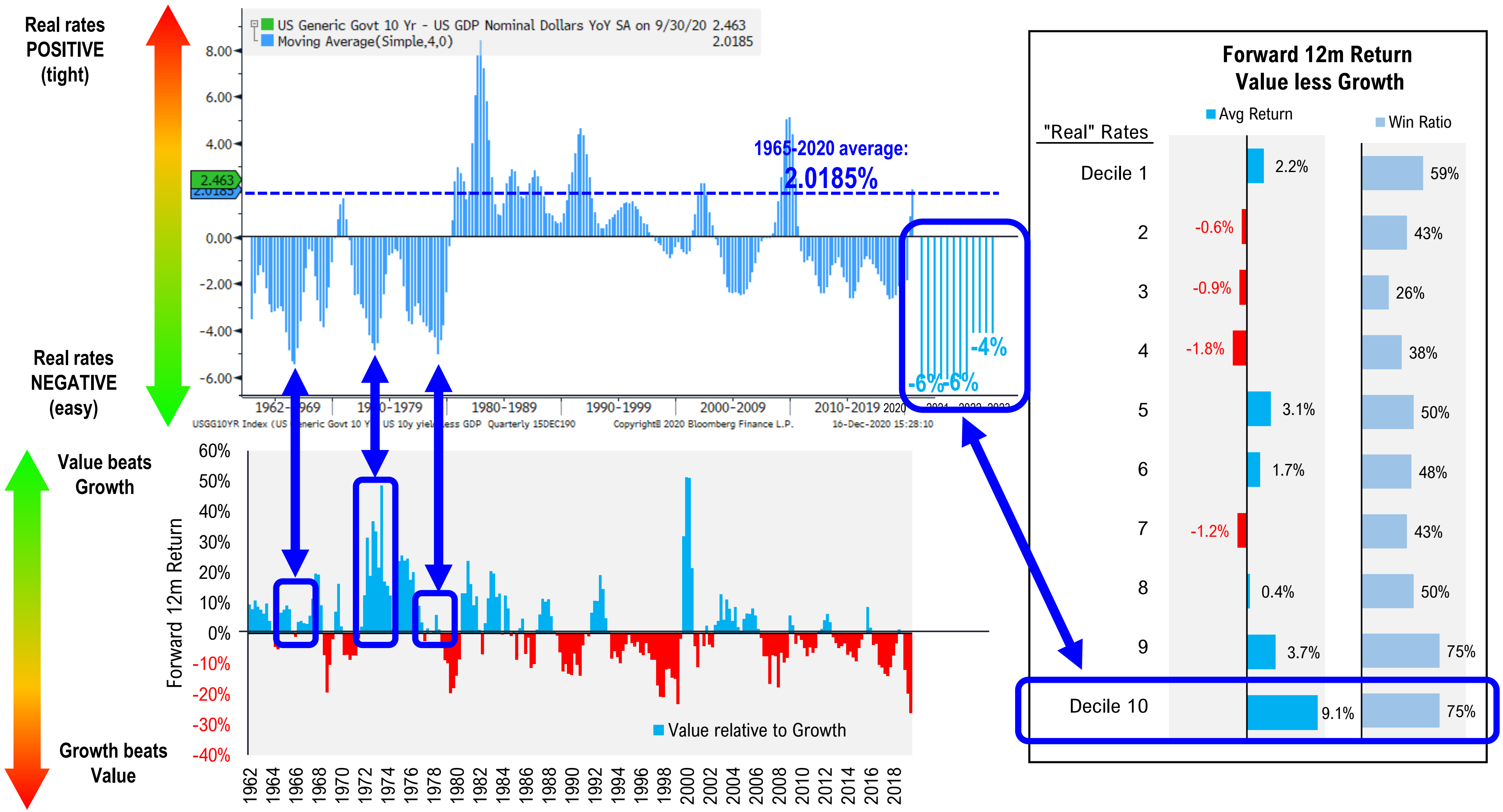


Source: Fundstrat, Bloomberg, Factset

EASY MONEY: Epicenter leads when "real rates" sharply negative

- **Historically, 10Y is 2.0185% above the nominal GDP growth rate but in 2020-2023, should be -6.00%. Massively easy money**

Figure: 'Real' rates – US 10Y less nominal GDP growth
Since 1960

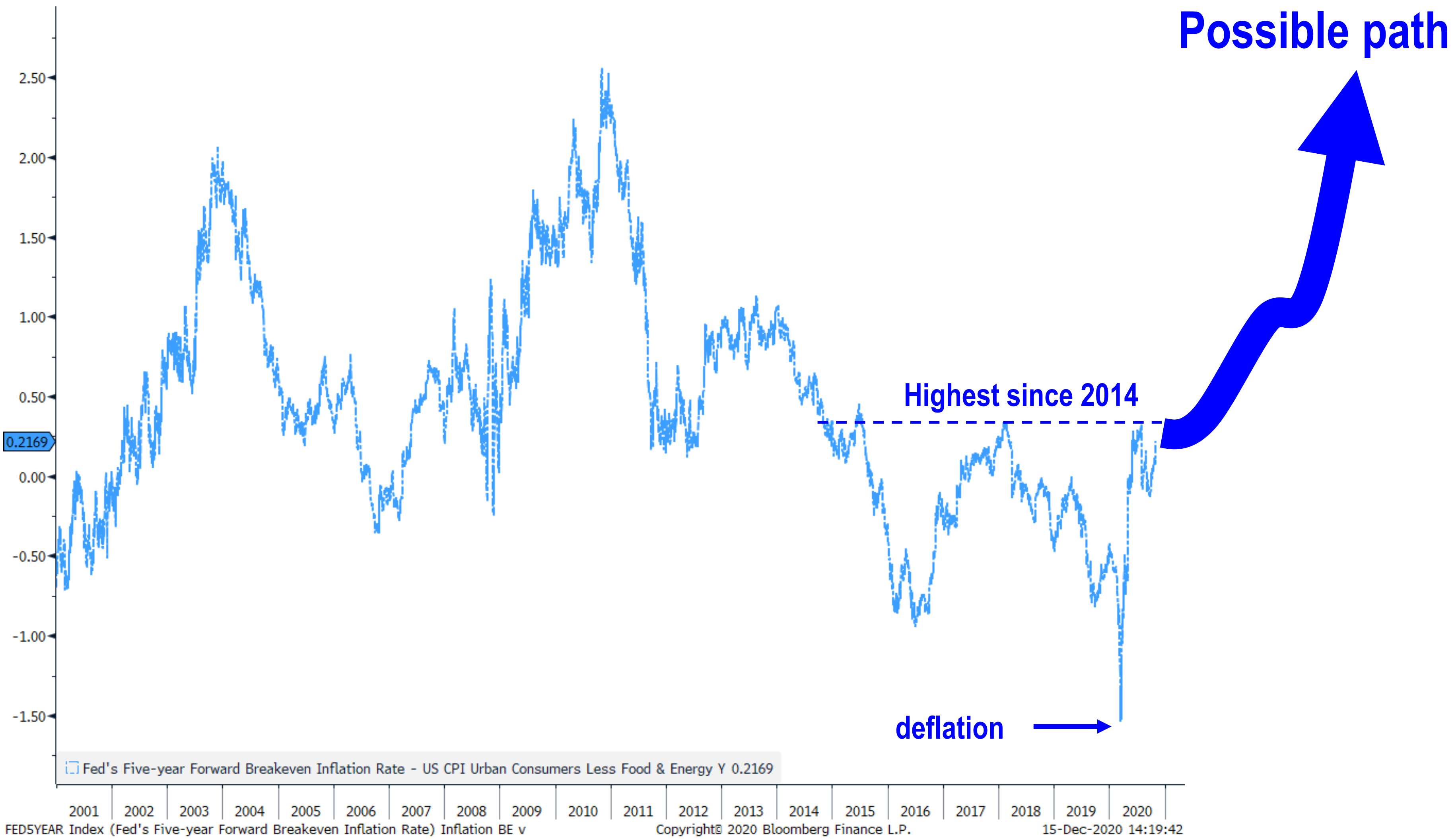


Source: Fundstrat, Bloomberg, Factset

CYCLE REVERSION: Inflation 'risk' is highest since 6 years

- **The implied 'inflation' risk is the highest since 2015…**

Figure: Inflation risk = Fed 5-yr Inflation breakevens less CPI
Since 2000



Source: Fundstrat, Bloomberg, Factset

ASSET INTENSITY: Asset "heavy" beats Asset "light" business models....

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

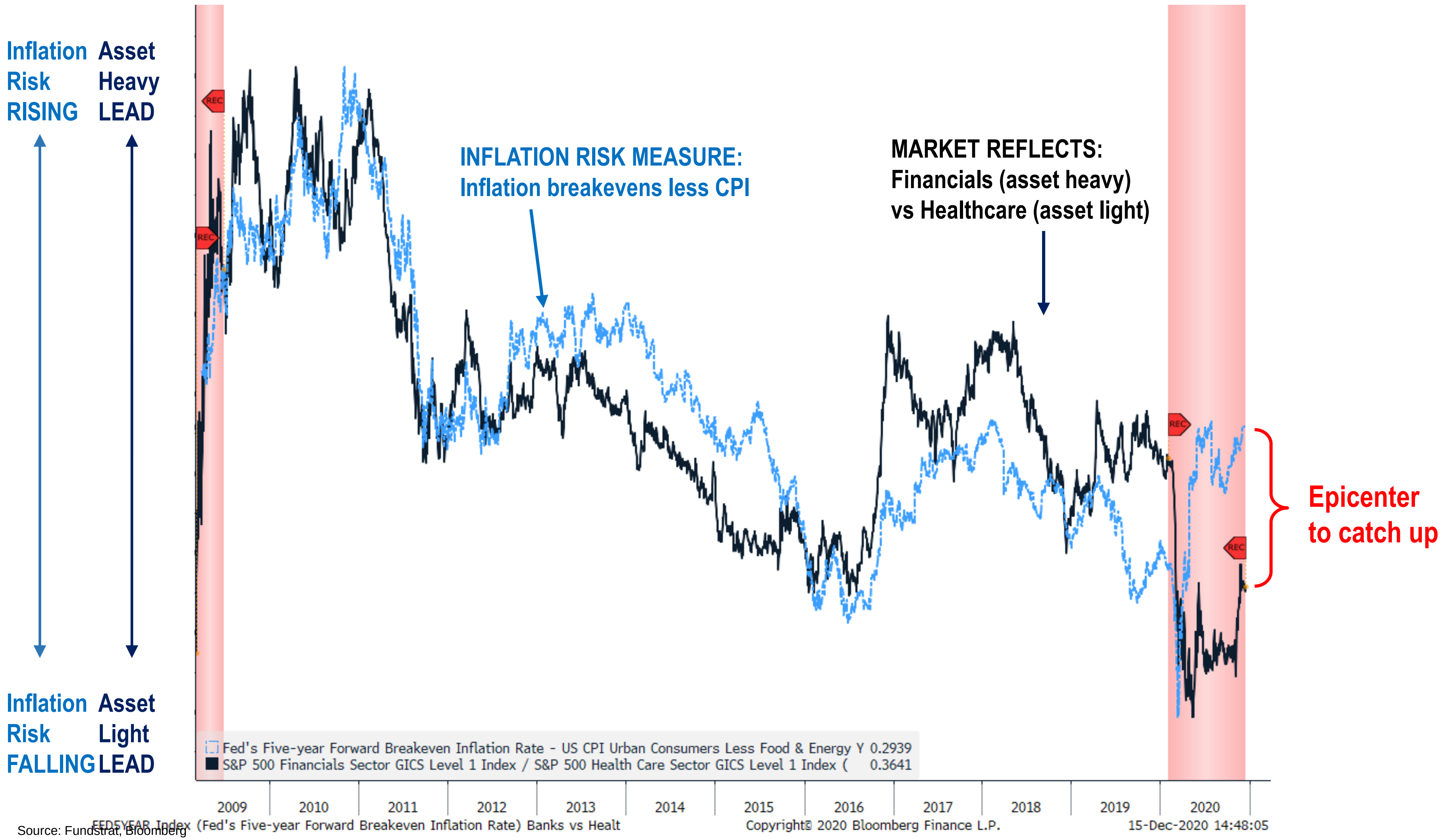
	Balance Sheet	*Inflation leads to...*	Income statement
Asset "heavy"	**Asset:** Hard assets Resources PP&E Cash Inventory	Rise in assets... Inventory holding gains...	**Revenues:** Higher revs (inflation) Interest income (cash) **Expenses:** Flat (asset FIFO, first in/ first out) **Margin:** Rising Plus: gains from inventory holding Plus: pension gains
	Liabilities: Long-term debt Pension deficit	Debt liabilities flat... Pension deficit falls...	**Risk/ Debt leverage:** Falling debt leverage Falling pension obligations
Asset "light"	**Asset:** Intangibles/ R&D	**No benefit**	**Revenues:** Higher revs (inflation)
	Liabilities: Labor costs Low leverage	Rise in labor costs...	**Expenses:** Margin pressure labor and assets (inflation) **Margin:** Flat **Risk/ Debt leverage:** No change

Source: Fundstrat, Bloomberg

CYCLE REVERSION: Rising inflation risk = Asset heavy lead = epicenter

Comparing inflation risk premia influences how Financials (asset heavy) trades versus Healthcare (asset light) illustrates that equity markets are good at detecting this inflation risk.

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



Source: Fundstrat, Bloomberg

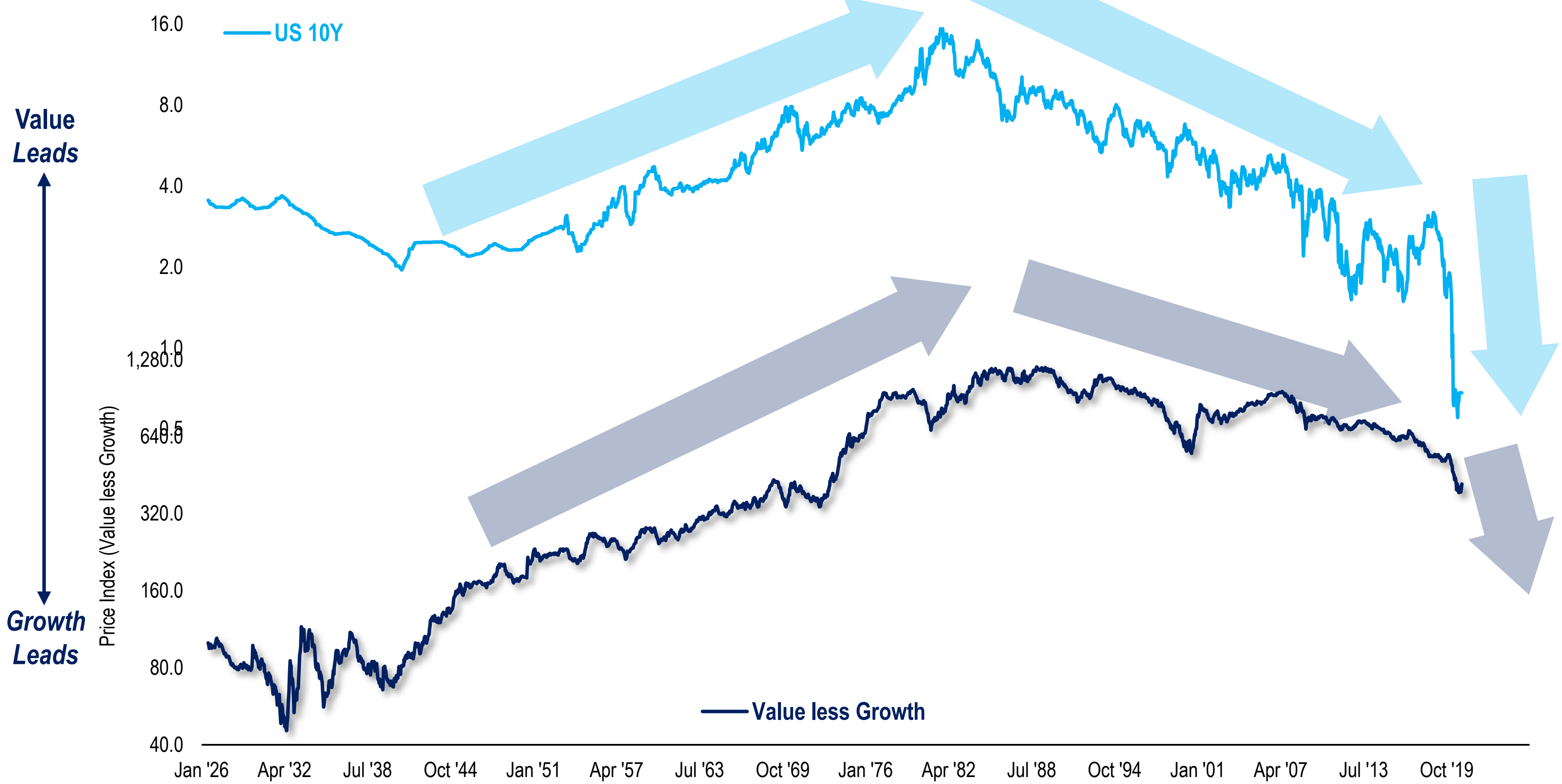
CYCLE REVERSION: Interest rates 'go up'? If so, bullish for Value

We have written two reports previously discussing what we see as factors behind the lagging returns in Value, of which, we see 3 of 4 factors as temporary (see report published Sept 8, 2017 "4 factors explain underperformance of Value"). And last week, we noted that the underperformance of US Value vs US Growth AND Global Value is historic.

- **But as highlighted below, perhaps the biggest headwind to Value's performance has been QE and falling interest rates. As shown below, during periods of rising rates, Value generally has outperformed.**

Figure: Comparison of US 10-year yields and Value vs Growth relative returns

Price index for Value vs Growth is based on daily return (Value less Growth). Since 1926

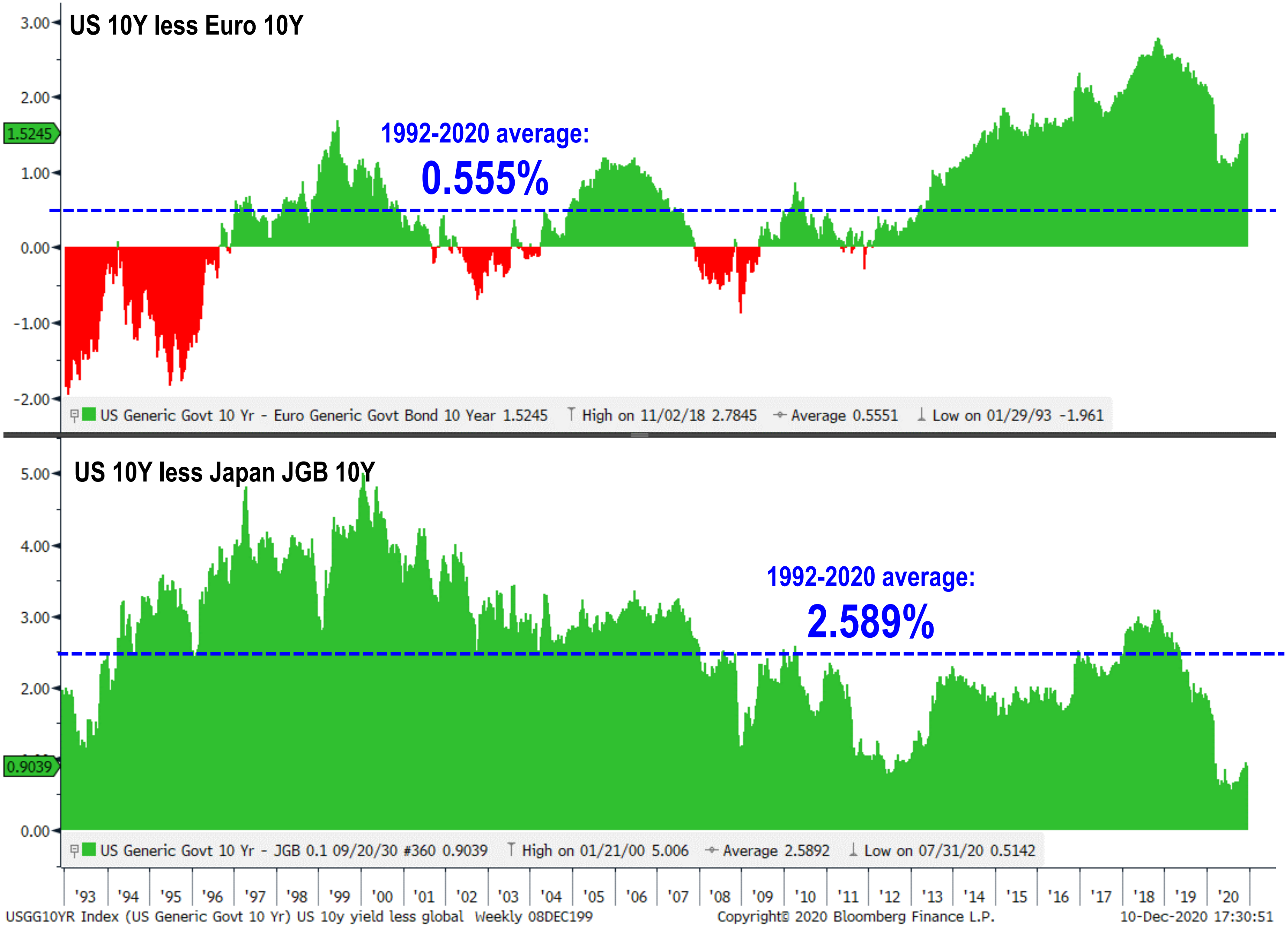


Source: Fundstrat, Bloomberg. FAMA until 1975

US TINA: US 10Y yield superior to Germany and Japan

- **US 10Y yields offer a rich enhancement of return versus Europe and Japan**

Figure: US 10Y less respective 10Y yield on Europe and Japan
Since 1992

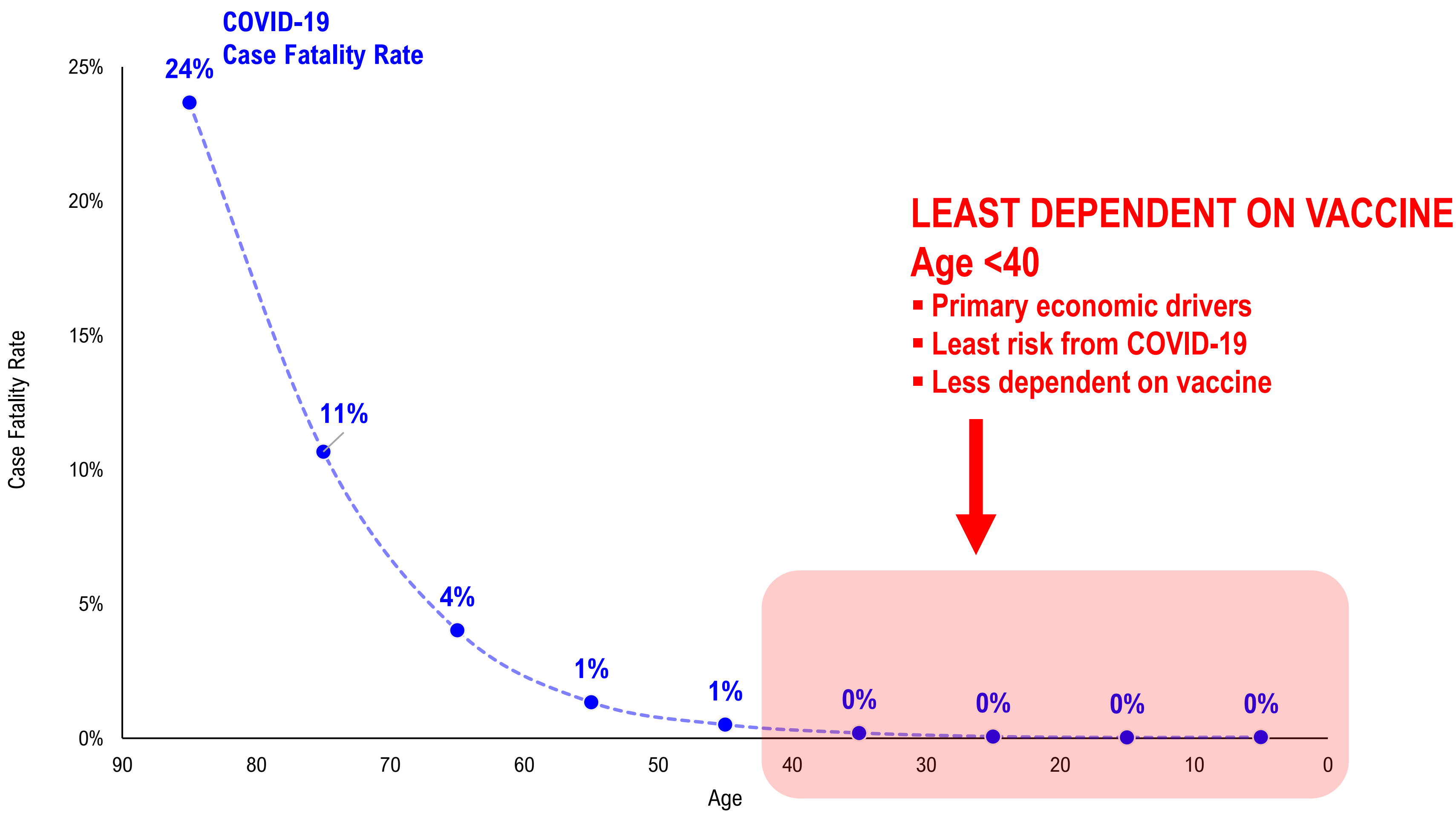


Source: Fundstrat, Bloomberg, Factset

VACCINE PARADOX: Younger Adults least at risk, and key to US GDP growth

- **Younger adults (<age 40) are the primary driver of US GDP growth and face the least amount of risk from COVID-19. Thus, economy is less dependent, arguably, on a vaccine.**

Figure: Case fatality rate by age
Per CDC

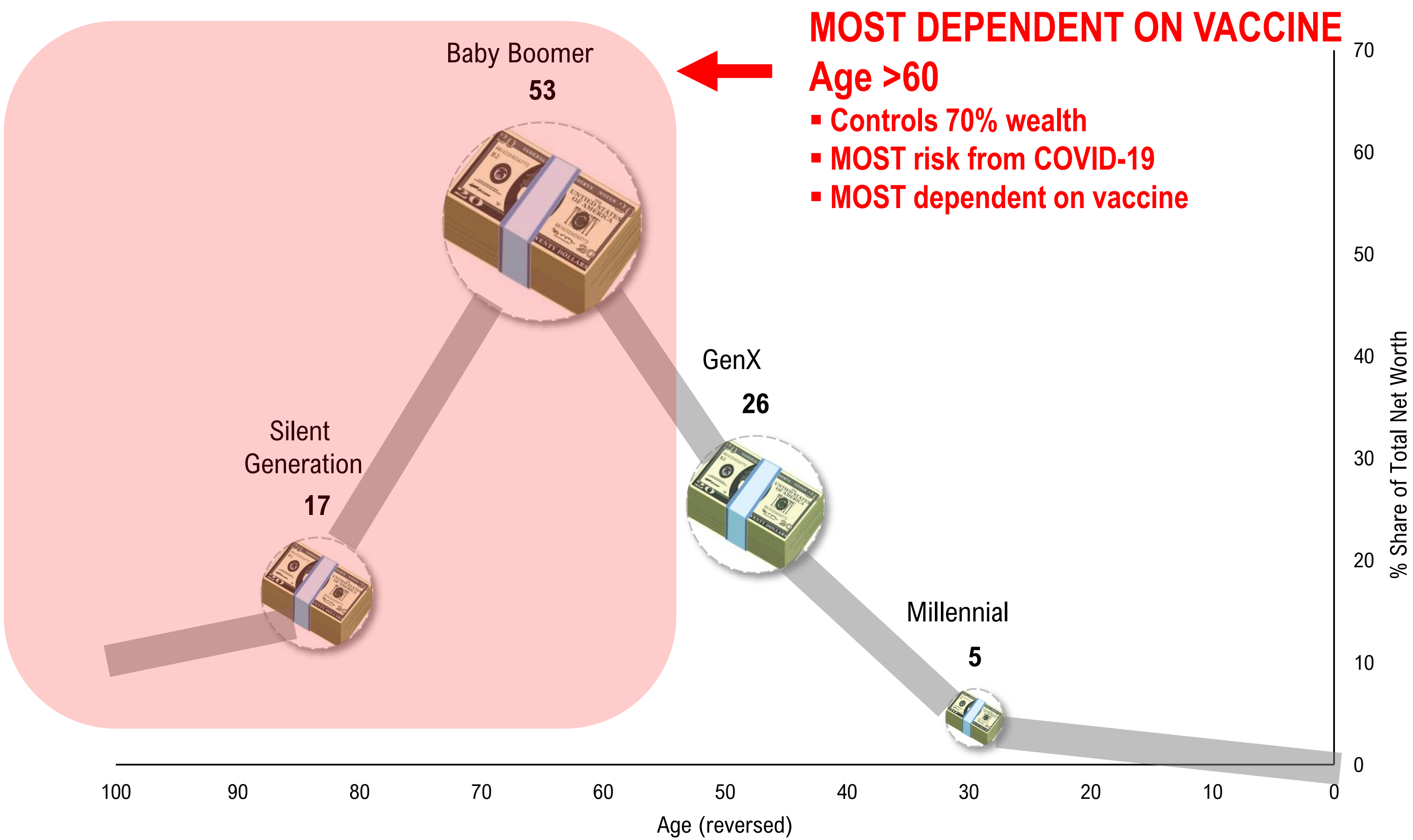


Source: Fundstrat, Bloomberg, Factset

VACCINE PARADOX: Financial markets are controlled by >age 60, most at risk

- **Adults >age 60 control 70% of the wealth today, and this cohort is most at risk from COVID-19**

Figure: Share of US household wealth
Per Federal Reserve

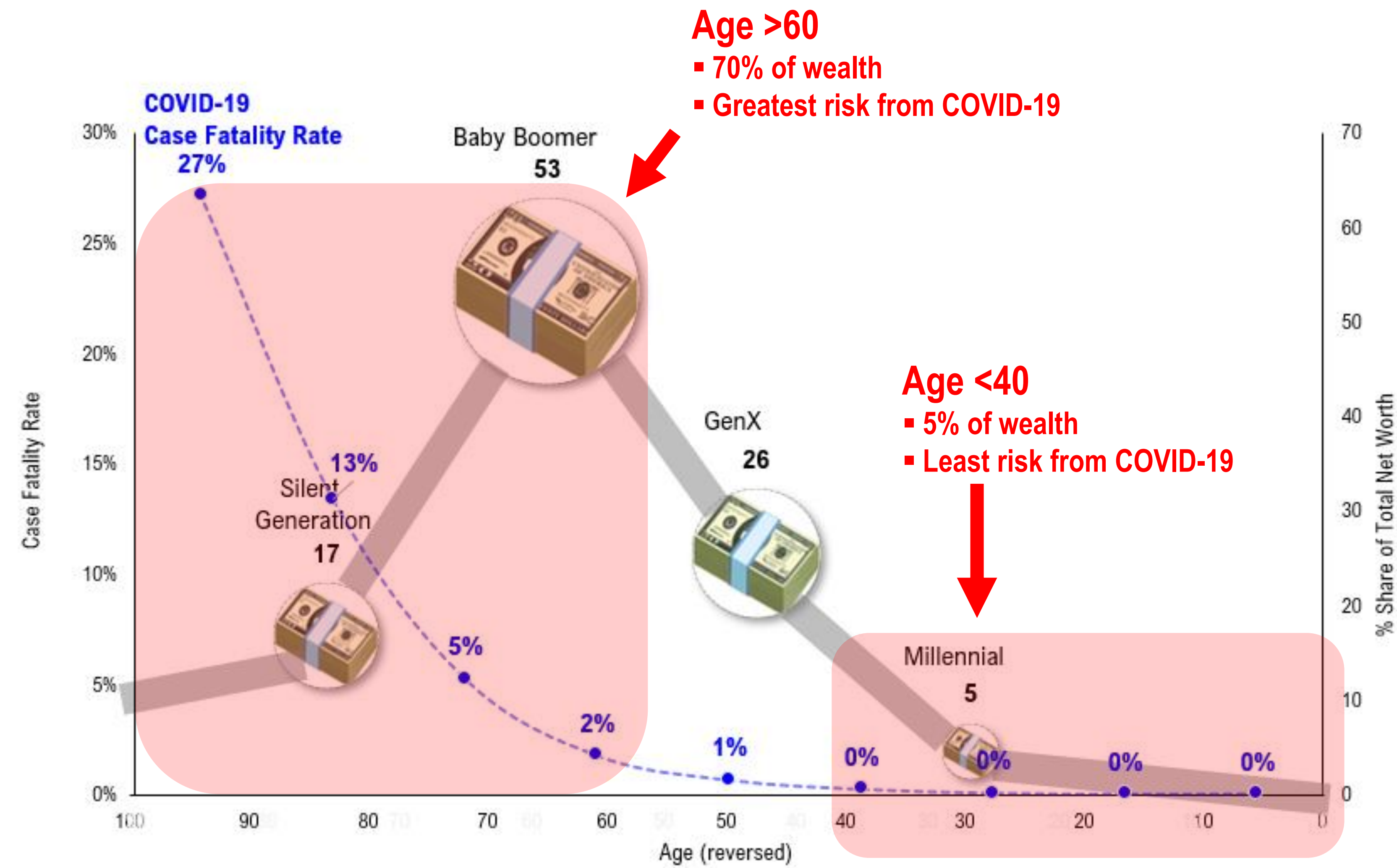


Source: Fundstrat, Bloomberg, Factset

SCARED MONEY: Vaccine matters more for financial markets than economy

- **Americans age >60 have 70% of US wealth and face the greater risk from COVID-19**
- **Thus, an effective vaccine matters more for financial markets than economy…**

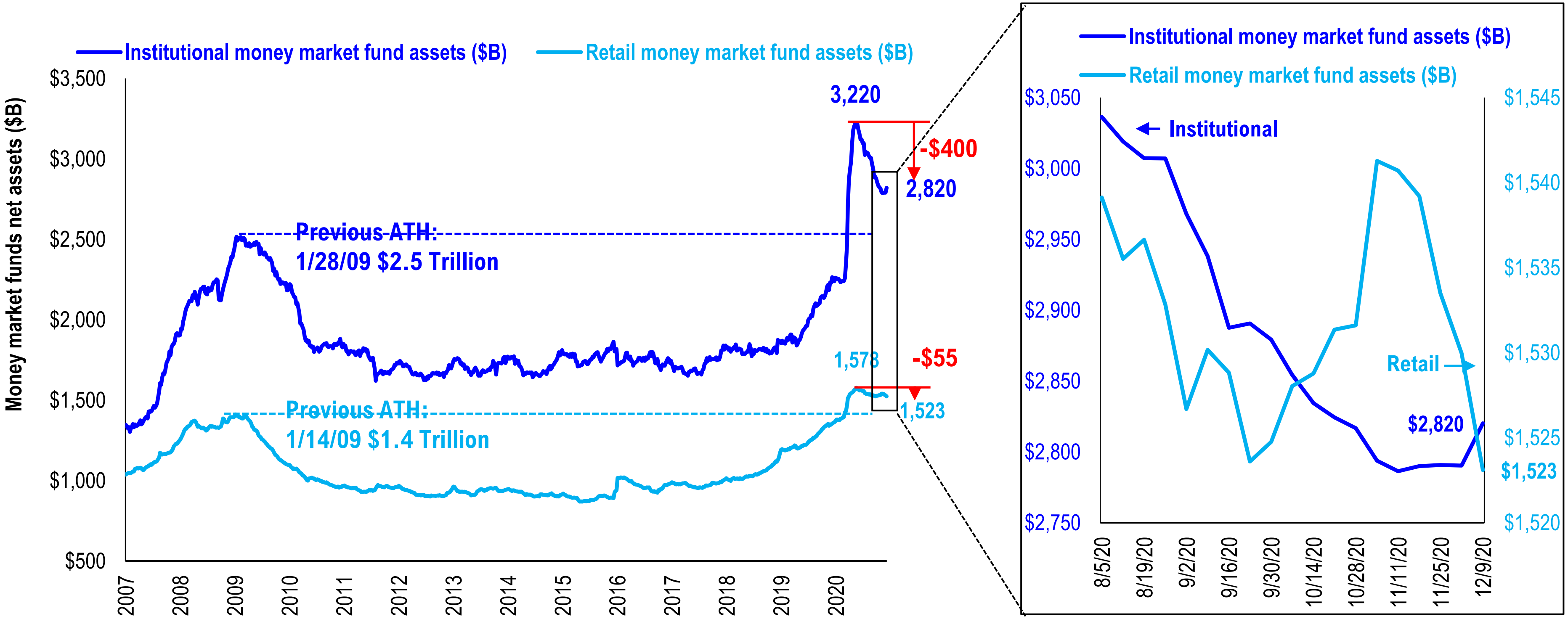
Figure: Comparative share of US wealth and Case fatality rate from COVID-19



Source: Fundstrat, Federal Reserve and CDC

DRY POWDER: Money on sidelines has "barely" budged… and now down to "only" $4.3 trillion, from the peak of $4.8 trillion

Figure: Institutional and retail money market fund assets
Since 2007



Source: Fundstrat, Bloomberg, ICI

INDEX vs STOCKS: Some validity to why institutions "write-off" 90% down…

Since 1975…

 # stocks listed on NYSE, NASDAQ, AMEX

41,592

Down 90% from ATH

18,676 (45%)

Average stock goes to zero

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

Shaquille:	Rick Barry:
(career success)	(career success)
52%	**90%**

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, CSCO, GOOG and XLNX appear in 4 out of 6.**

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

Tactical (6M-12M)

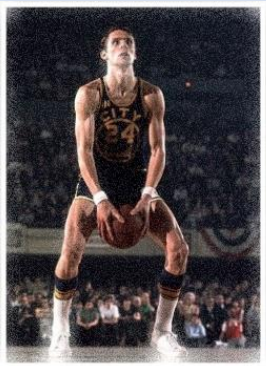
	# stocks
Style tilt	28
Seasonality	22
PMI Recovery	20

Thematic (3Y-5Y)

	# stocks
Millennials	28
Automation/ AI	49
Asset intensity	26

Granny Shots

# overlaps "layups"	Tickers
4	GOOG, AAPL, CSCO XLNX
3	GRMN, MSFT, MXIM
2	LEN, KLAC, MNST OMC, GWW, INTC LOW, AMZN, EBAY TSLA, PYPL, AXP BF/B, PM, NVDA QCOM



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.

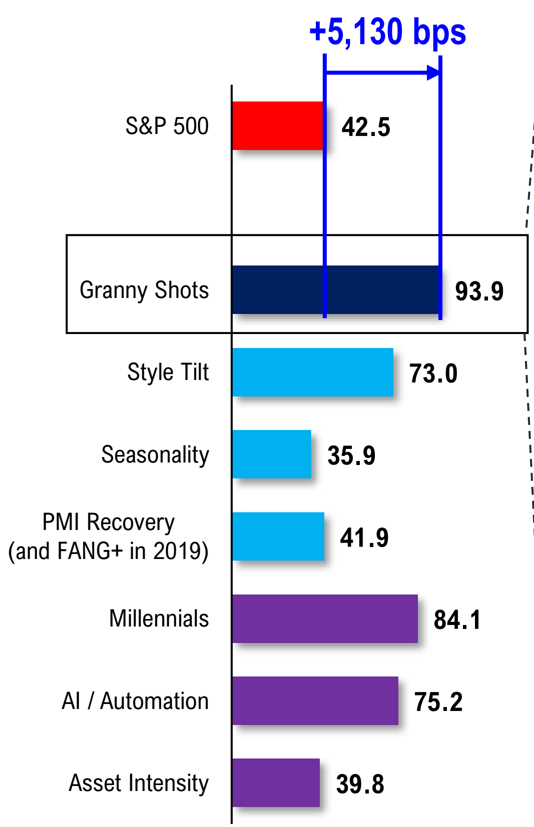
GRANNY SHOTS: Beat S&P 500 18 out of the 24 months since inception…

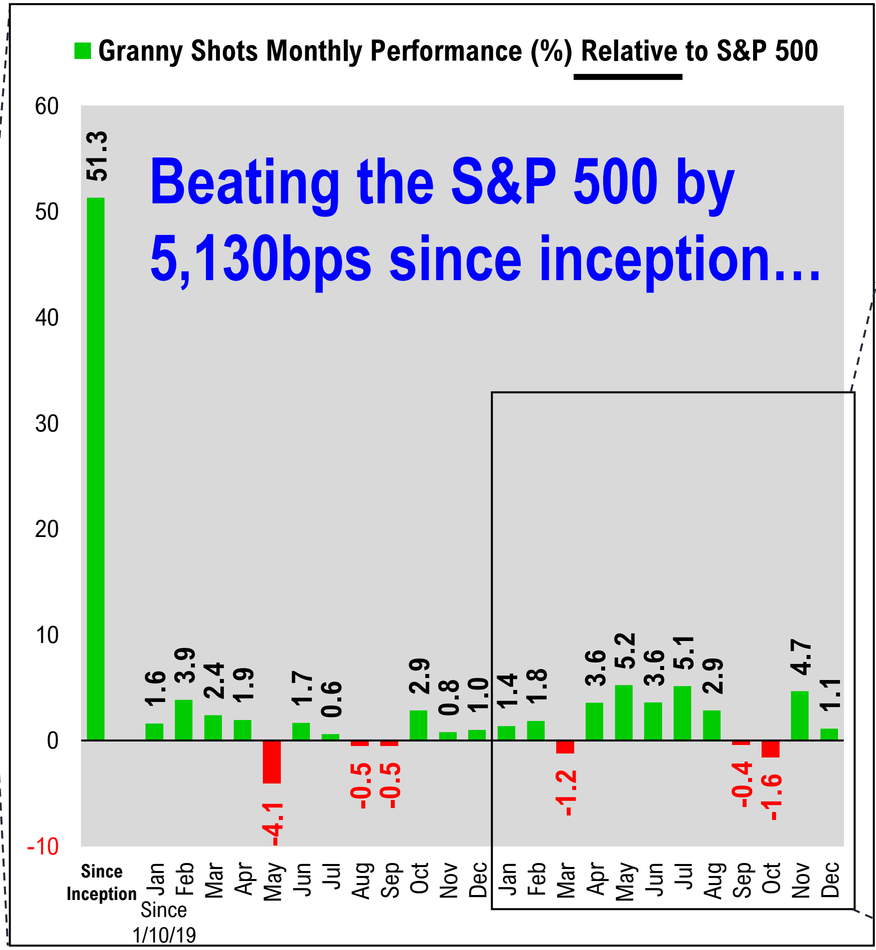
The relative performance of Granny Shots is below and as highlighted, has beaten the S&P 500 by 5,130bp since inception.

- **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 5,130bp since inception and 3,090bp YTD.**

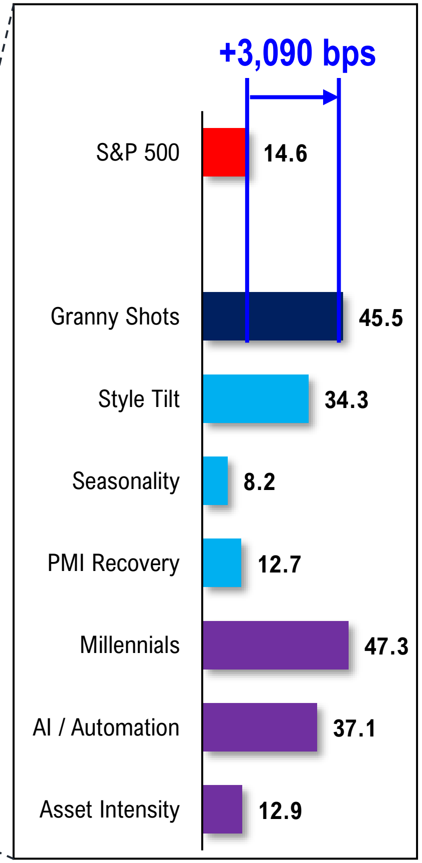
Figure: Granny Shots Portfolio Performance
Monthly; As of 12/16/20

Since Inception
(return since 1/10/19)





YTD Performance



Source: Fundstrat, Bloomberg, Factset

Rebalanced

GRANNY SHOTS: Best bets in 2020

We recommend investors our granny shots, comprised of 23 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.**

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.

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

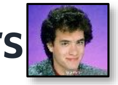
		Company information							Analyst Ratings		Fundamentals & Valuation								Theme Membership						
		Ticker	Company name	Current Price	Mkt cap ($ mm)	3m avg daily liquidity ($ mm)	YTD perf (relative to S&P 500)	FC Mean (5=Buy 1=Sell) (1)	Mean implied upside (2)	Dividend Yield	Issuer Rating	Short interest % of float	2021E sales growth (3)	2021E EPS growth (3)	P/E ('21E)	ROE	Value / Growth Tilt	Seasonality	PMI Recovery	Millennials	AI / Automation	Inflation	Strategy Count
	1	GOOG	Alphabet Inc-Cl C	$1,818.55	$1,227,779	$2,816.6	21.4%	5.00	4%	0.0%	AA+	0.9%	21%	19%	29.5x	18%	•			•	•	•	4
	2	AAPL	Apple Inc	$124.38	$2,114,684	$15,206.3	54.8%	4.23	2%	0.7%	AA+	0.6%	15%	21%	31.2x	74%	•			•	•	•	4
	3	CSCO	Cisco Systems Inc	$44.37	$187,486	$970.6	-22.1%	3.90	9%	3.3%	AA-	1.0%	-1%	-2%	14.1x	29%	•		•		•	•	4
	4	XLNX	Xilinx Inc	$146.19	$35,834	$451.0	34.9%	3.09	-14%	1.1%	NR	1.4%	12%	32%	43.2x	24%	•	•			•	•	4
	5	GRMN	Garmin Ltd	$122.85	$23,494	$84.4	11.3%	3.60	-10%	2.1%	—	1.4%	7%	6%	24.1x	22%	•			•	•		3
	6	MSFT	Microsoft Corp	$216.01	$1,633,143	$6,348.2	22.4%	4.79	12%	1.0%	AAA	0.5%	11%	17%	31.9x	41%	•	•				•	3
	7	MXIM	Maxim Integrated Products	$87.66	$23,432	$192.6	27.9%	3.33	-12%	2.2%	BBB+ *+	3.1%	13%	22%	31.7x	39%	•	•			•		3
	8	LEN	Lennar Corp-A	$72.50	$22,134	$220.3	15.4%	4.09	23%	0.6%	BB+	3.2%	10%	12%	8.8x	14%	•	•					2
New	9	KLAC	Kla Corp	$266.94	$41,232	$224.2	35.2%	3.80	-11%	1.4%	BBB+	2.2%	8%	18%	21.8x	48%	•					•	2
	10	MNST	Monster Beverage Corp	$88.20	$46,562	$179.4	24.2%	4.16	5%	--	—	2.1%	12%	14%	33.7x	27%	•			•			2
New	11	OMC	Omnicom Group	$64.65	$13,898	$135.4	-34.8%	3.29	-7%	4.2%	BBB+	5.8%	5%	10%	11.8x	38%	•	•					2
New	12	GWW	Ww Grainger Inc	$406.67	$21,825	$117.7	5.5%	3.38	-4%	1.5%	A+	1.8%	4%	12%	22.2x	31%	•		•				2
New	13	INTC	Intel Corp	$50.69	$207,728	$1,640.1	-29.9%	3.09	3%	2.7%	A+	1.8%	-5%	-7%	11.2x	29%	•	•					2
	14	LOW	Lowe'S Cos Inc	$151.24	$110,817	$727.6	11.7%	4.52	21%	1.6%	BBB+	0.8%	-3%	1%	17.2x	164%		•			•		2
	15	AMZN	Amazon.Com Inc	$3,177.29	$1,594,209	$15,581.3	57.4%	4.89	20%	--	AA-	0.7%	18%	28%	71.2x	25%		•			•		2
	16	EBAY	Ebay Inc	$49.89	$34,391	$454.9	23.6%	3.78	24%	1.3%	BBB+	3.8%	7%	9%	13.6x	174%		•				•	2
	17	TSLA	Tesla Inc	$649.88	$616,022	$22,058.6	662.2%	3.00	-44%	--	BB-	6.3%	47%	-	nm	5%				•	•		2
	18	PYPL	Paypal Holdings Inc	$216.94	$254,187	$1,837.6	86.0%	4.58	4%	0.0%	BBB+	1.4%	19%	19%	48.0x	18%				•		•	2
	19	AXP	American Express Co	$123.52	$99,459	$466.8	-15.4%	3.65	-5%	1.4%	BBB+	1.2%	11%	104%	18.3x	15%				•		•	2
	20	BF/B	Brown-Forman Corp-Class B	$78.96	$37,787	$64.2	2.2%	2.33	-6%	0.9%	A-	1.4%	6%	9%	41.2x	42%				•		•	2
	21	PM	Philip Morris International	$82.64	$128,697	$362.9	-17.5%	4.44	10%	5.8%	A	0.5%	8%	11%	14.5x	—				•		•	2
	22	NVDA	Nvidia Corp	$534.00	$330,546	$5,929.6	112.4%	4.36	10%	0.1%	A-	1.0%	20%	20%	46.0x	29%		•			•		2
New	23	QCOM	Qualcomm Inc	$158.80	$179,603	$1,066.3	65.4%	4.30	0%	1.7%	A-	1.4%	38%	69%	22.4x	95%		•			•		2
		Average			**$390,650**	**$3,353.8**	**50.2%**	**3.90**	**1%**	**1.7%**		**1.9%**	**12%**	**20%**	**27.6x**	**45%**							
		Median			**$110,817**	**$466.8**	**22.4%**	**3.90**	**3%**	**1.4%**		**1.4%**	**11%**	**16%**	**23.3x**	**29%**							
		% of stocks positive					**78%**		**61%**				**87%**	**87%**		**100%**							

Source: Fundstrat, Bloomberg, Factset

APPENDIX:

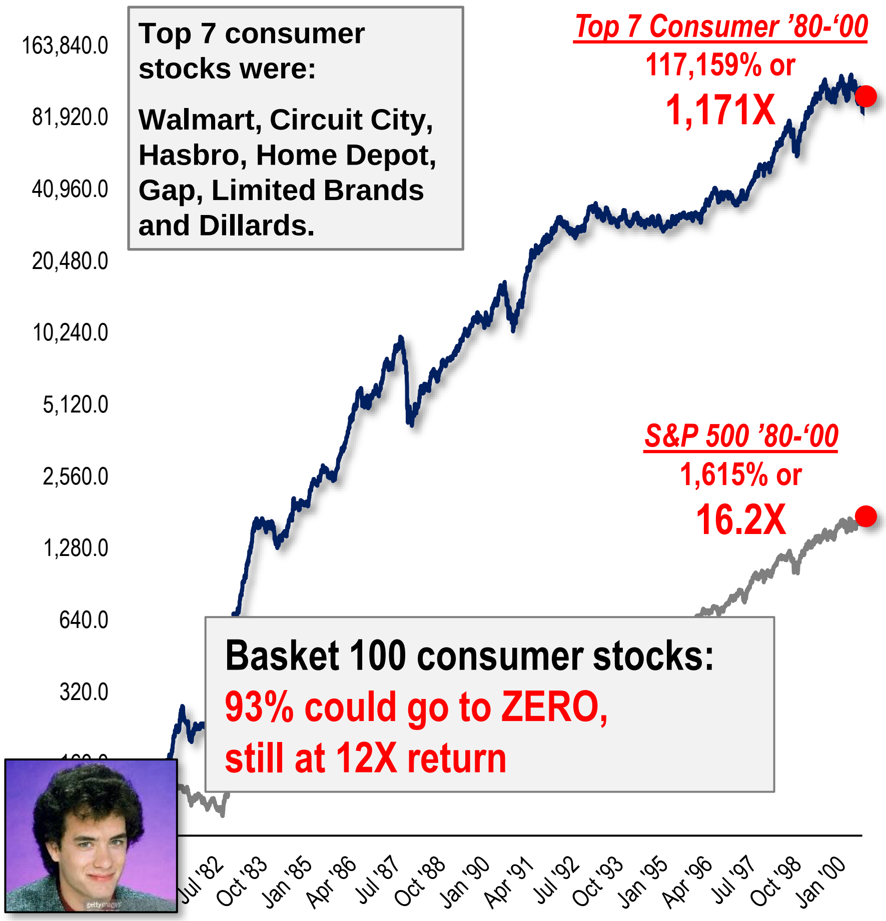
Perhaps this is all about Millennials

Source: Fundstrat

"Generational" Bets paid off for Boomers  and for GenX 

BOOMER SPEND VS PARENTS: Consumer Stocks was right vector

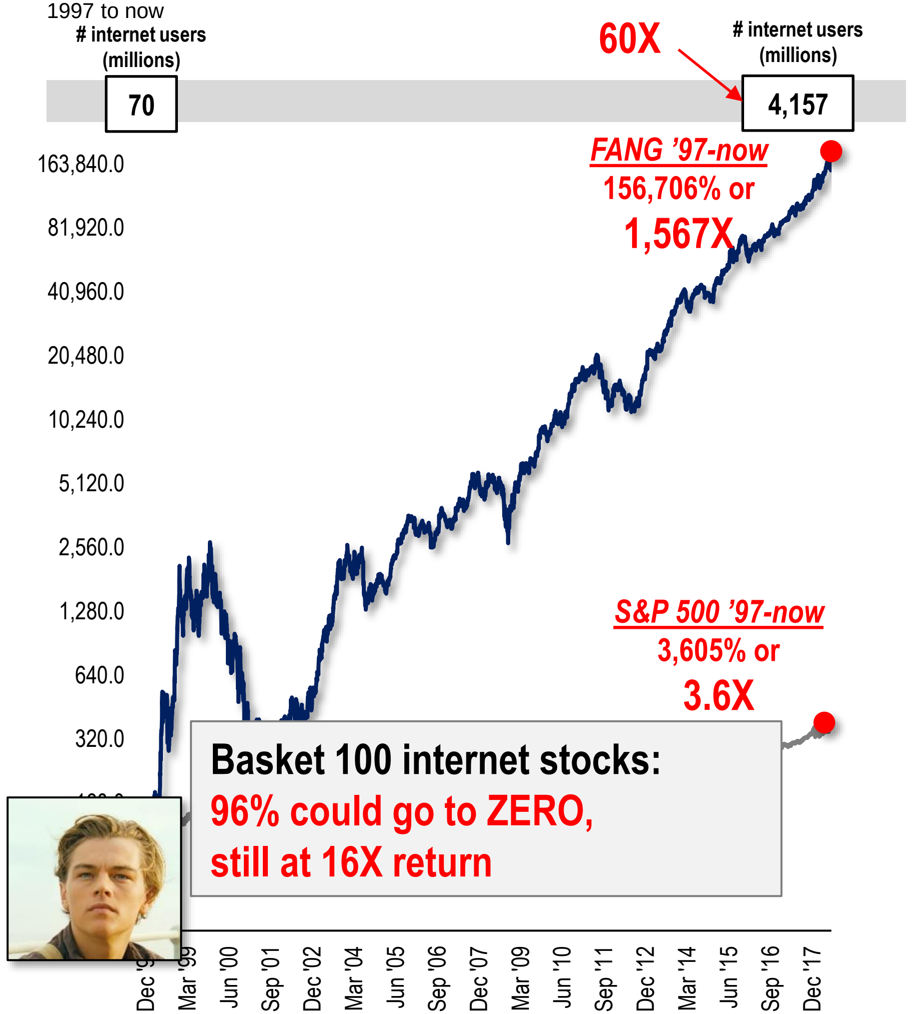
Figure: Comparative performance of Top 7 Consumer stocks
1980 to 2000



Source: Fundstrat, Bloomberg

GenX FANG: Internet

Figure: Comparative performance of FANG
1997 to now



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.

Generation…	Years of birth		Average age	At peak	(year)
Greatest Generation	1910	1927	**92.9**	43.2	1930
Silent Generation	1928	1945	**78.5**	44.1	1974
Baby Boomers	1946	1964	**61.3**	79.5	1999
GenX	1965	1980	**44.5**	65.8	2018
Millennials	1981	2000	**26.5**	95.8	2038
Generation Z	2001	2018	**8.3**	96.2	2060

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

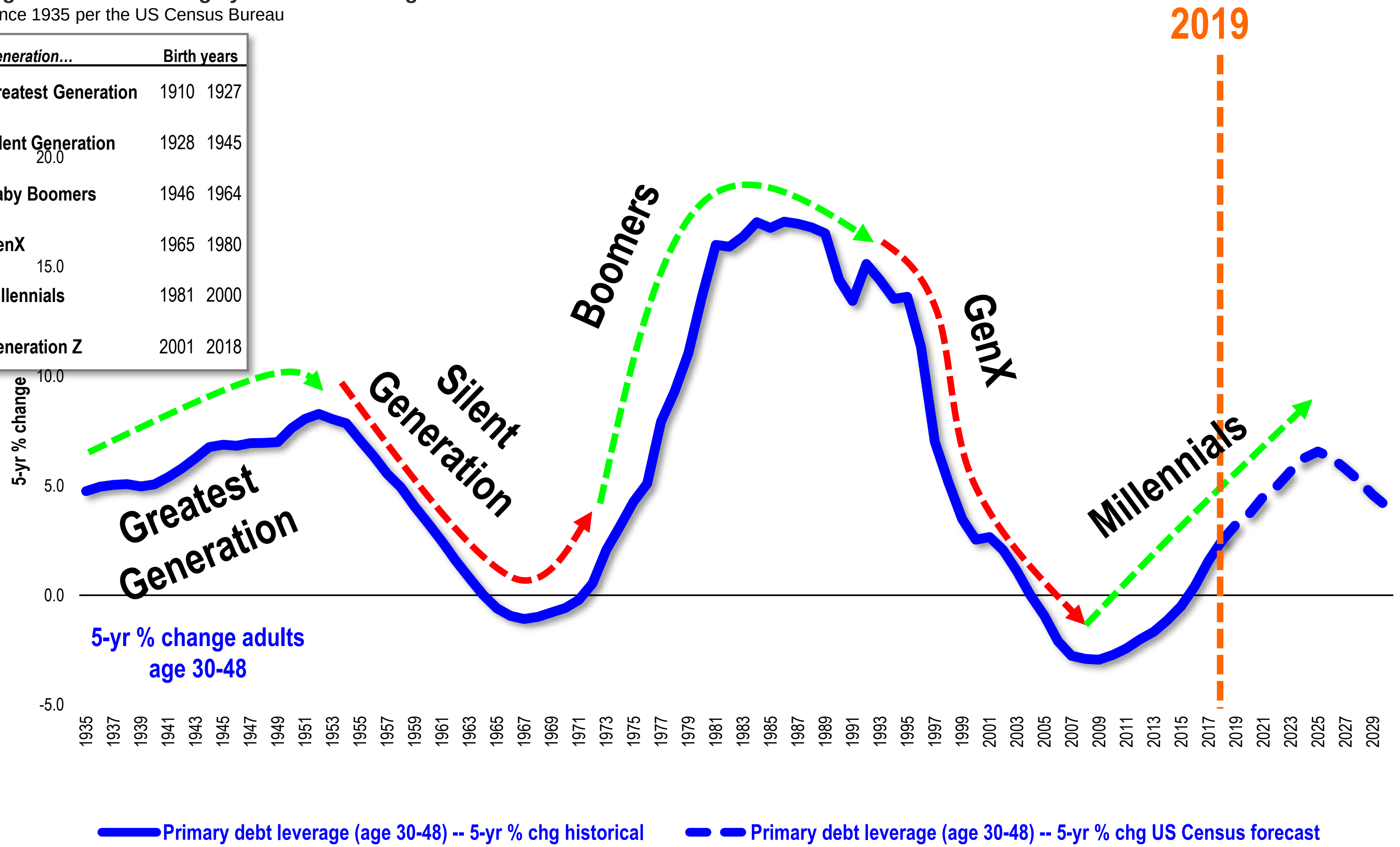
LABOR SUPPLY: Prime skilled US adults age 30-48 inflecting up and surging

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



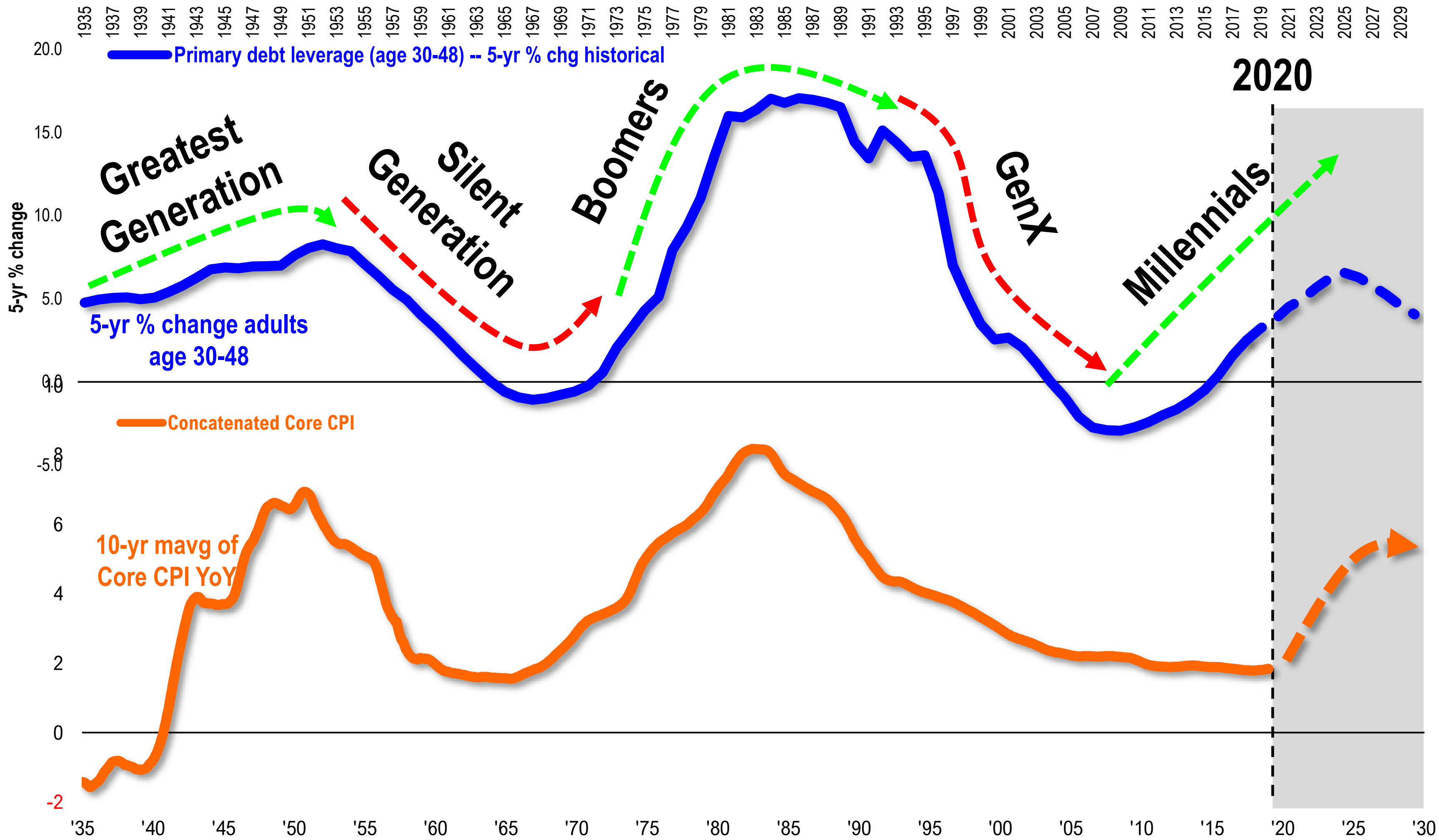
Source: Fundstrat, Bloomberg, BEA, National Association of Realtors, US Census Bureau

INFLATION: pricing levels follow the population in prime leverage age...

We overlay the # of adults in "prime leverage age" (age 30-48) against the 10-year moving average of US Core CPI growth.

- **As millennials enter their prime income/leverage age, the increasing demand could cause inflation to climb up.**

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



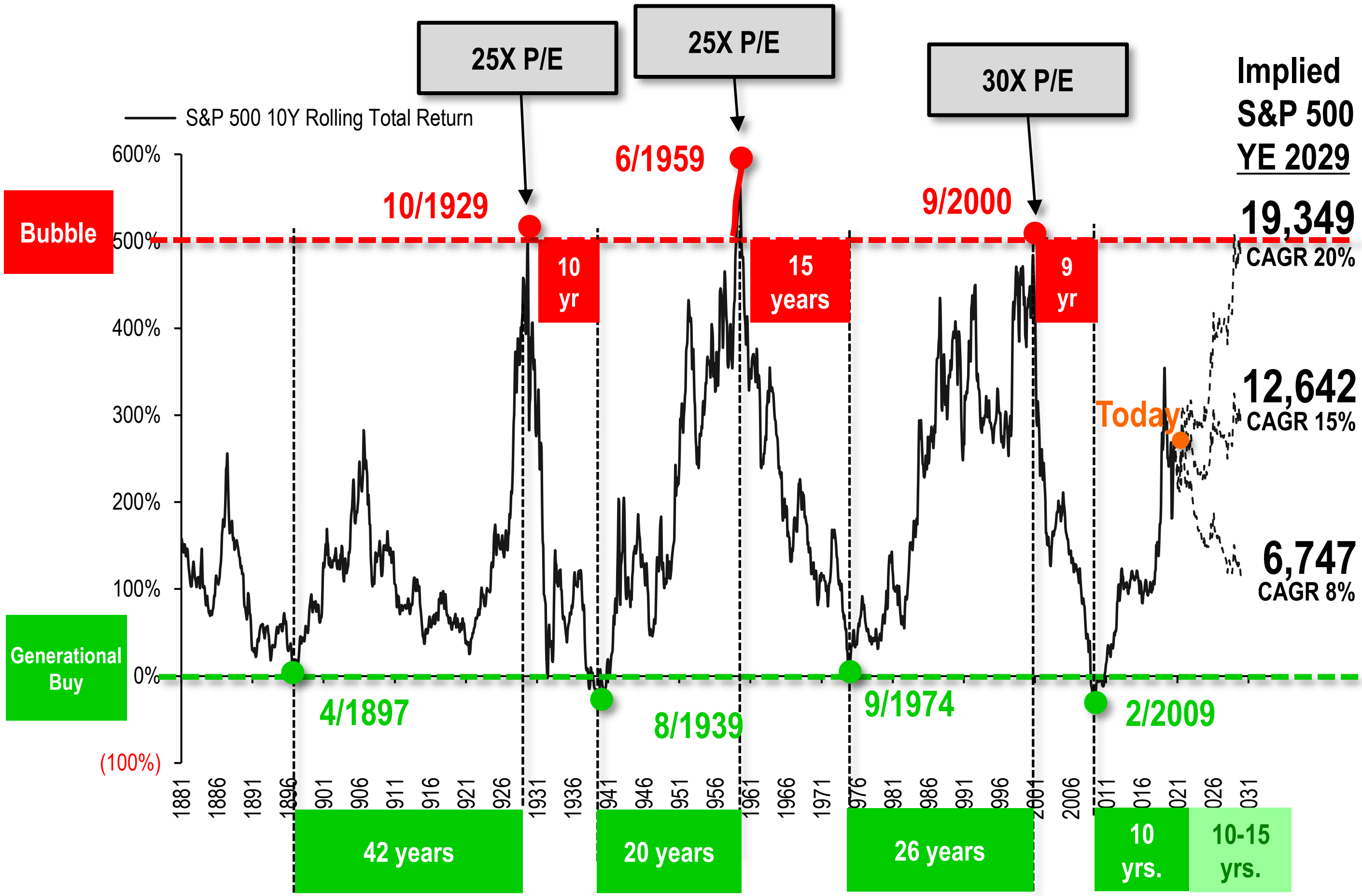
Source: Fundstrat, Bloomberg, BEA, National Association of Realtors, US Census Bureau

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



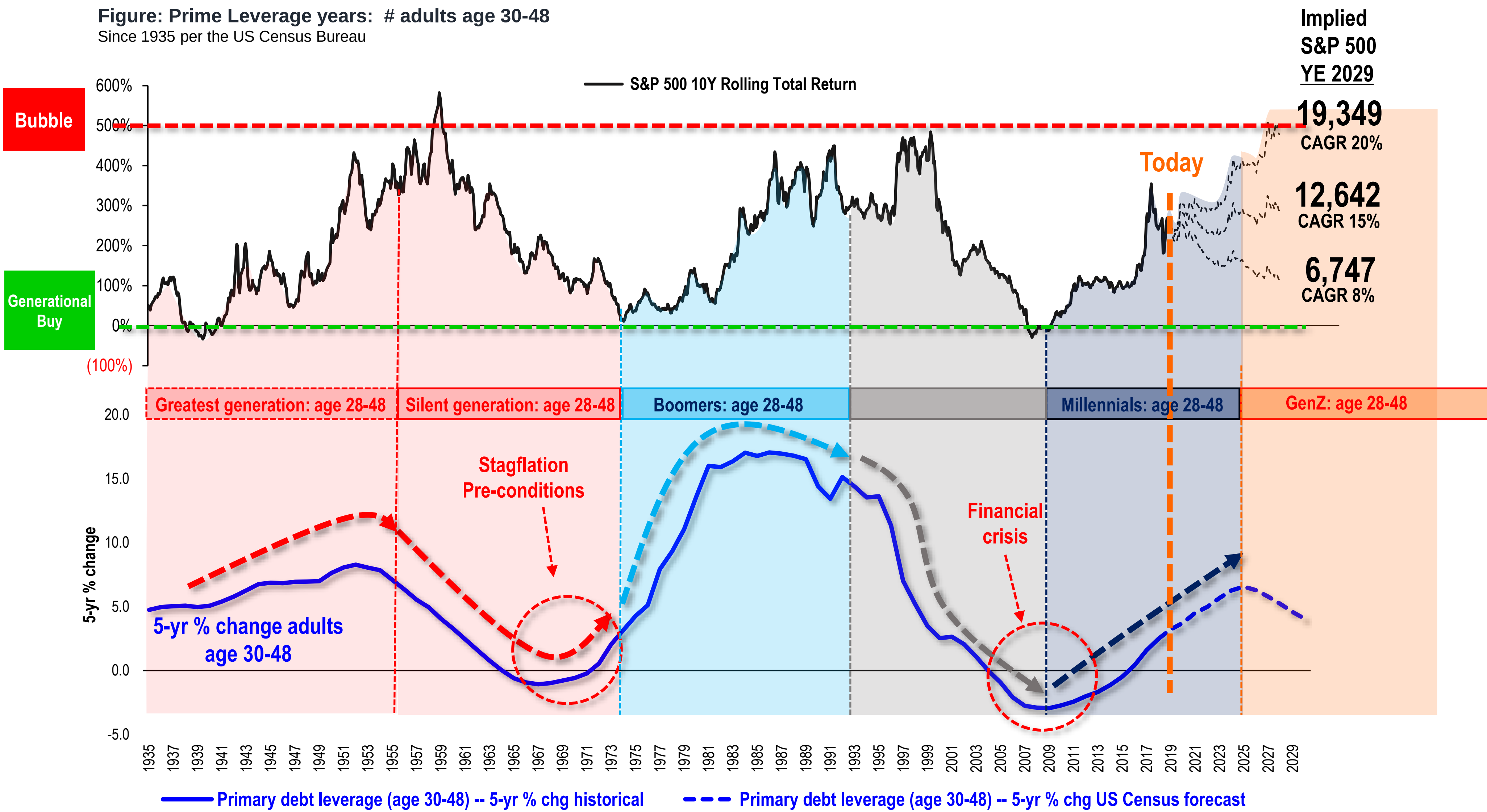
To achieve 19,349 by '29		
EPS GAGR	P/E CAGR	Ending P/E
15%	4%	26x
12%	7%	34x
10%	9%	41x
8%	11%	49x
5%	14%	65x

Source: Fundstrat, Bloomberg
Disclaimer: Past performance does not guarantee future results

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



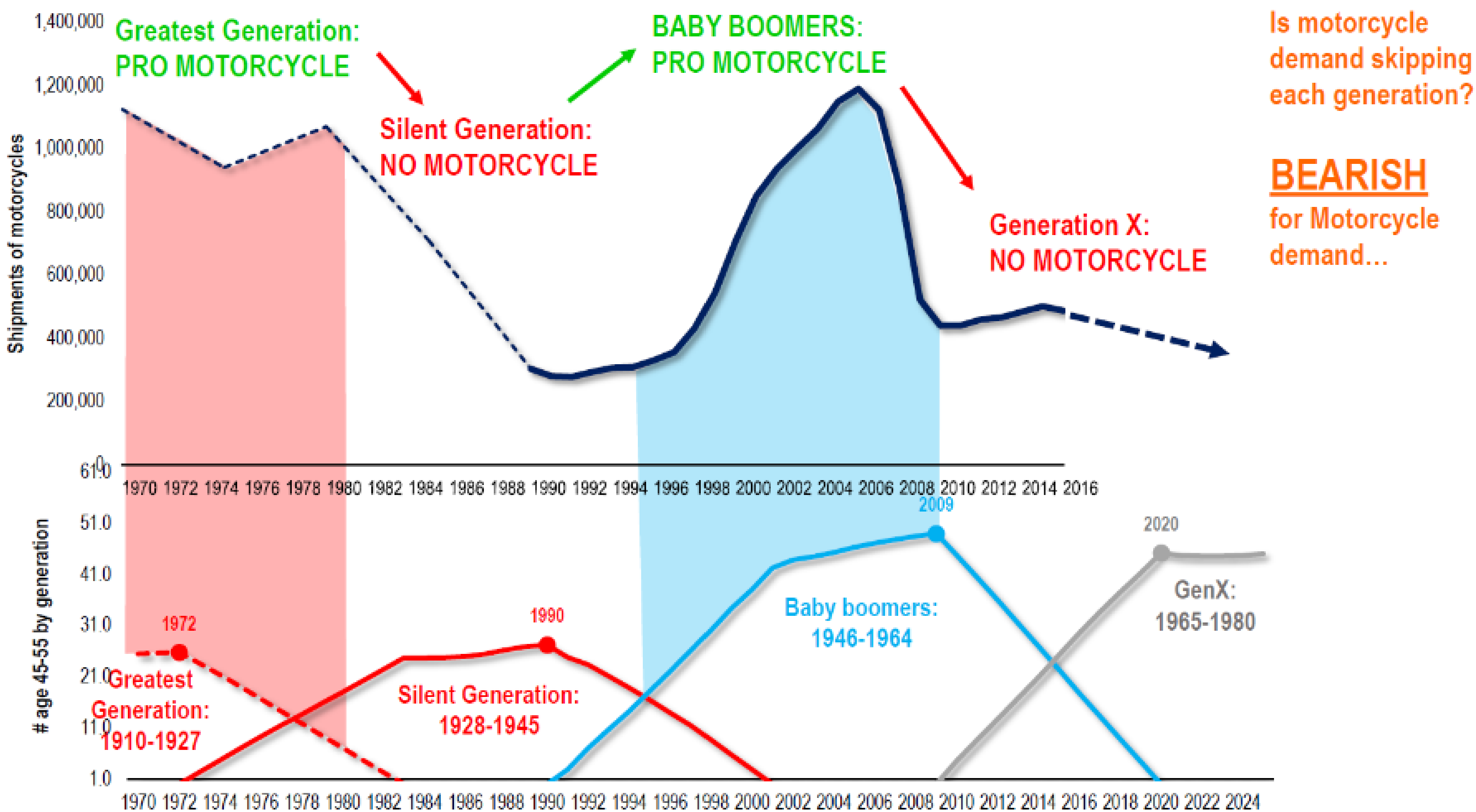
Source: Fundstrat, Bloomberg, BEA, National Association of Realtors, US Census Bureau
Disclaimer: Past performance does not guarantee future results

Motorcycles demand skips generations?

Another example of demographics is the sales of motorcycles, which have generally have not performed well since 2008.

- **Assuming peak demand for motorcycles is nostalgia driven (late middle ages 45-55), demand peaked with boomers.**

Figure: Motorcycle Retail shipments and the comparative size of generations at late middle-ages (age 45-55)
Since 1970



Source: Fundstrat, Bloomberg, Factset

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