

Defensively Position Portfolio — Upgrade Cons Staples to N, Downgrade Energy to UW



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Main Points

The market is on a sugar high right now. Federal Reserve stimulus and low interest rates continue to send equity valuations higher. The S&P 500 reached an all-time high in August, and Apple made history by being the first company to surpass the \$2Tn market cap milestone. Tech claimed the top August 2020 performance spot after a middle-of-the-pack July 2020 performance. Tech's doubters continue to call for mean reversion, but Fed stimulus measures and the sector's higher relative earnings power (**Figure 64**) are simply too much to overcome. Cons Disc followed close behind Tech as Amazon continues to dominate online retail and the ecommerce trend moves into hyperdrive.

As the market heads into the fall, market pressures continue to build. The S&P 500 is bumping up against all-time highs. Valuations are being distorted (especially Tech and Cons Disc), and investors are pulling forward equity returns. The 2020 presidential election occurs the first week of November 2020, and both political bases are digging in their heels. The debate over the U.S. Postal System, which is generally a sleepy government bureaucracy, is an indicator of how contentious the election could become. In the corporate world, companies continue to announce more layoffs and furloughs. Enhanced unemployment benefits expired at the end of July 2020, which could weaken consumer spending during the fall. From a public health perspective, there is a risk the vaccine development timeline will stretch into 2021.

There are simply too many risks forming, and we prefer to transition to a lower beta portfolio. However, we do not want to sacrifice a large amount of upside to position more defensively. To achieve this goal, we are downgrading Energy and replacing it with Cons Staples. While Energy could outperform in a cyclical rally, we do not believe low interest rates and Fed stimulus measures are enough to overcome the sector's issues. In our view, this sector swap allows us to position the portfolio more defensively without sacrificing upside.

Sector Roundup

- **Health Care:** High risk of becoming a punching bag during 2020 election similar to 2016 election (**Figures 22 & 23**)
- **Cons Staples:** Upgrade from UW to N to increase portfolio defensiveness as Fed stimulus measures distort markets
- **Utilities:** Maintain N rating due to elevated market risks; Downside risk lower than average as y/y return nears -1std line (**Figure 44**)
- **Energy:** Downgrade from N to UW -- Refer to page 13 for in-depth discussion; Cheap valuations aren't enough to justify N rating
- **Tech:** Maintain OW — Refer to page 15 & 7/24/20 Strategy Snapshot for in-depth discussion; Monitor stretched technicals (**Figures 66 & 67**)
- **Industrials:** Favor active stock selection (**Figure 14**); % outperforming and high-low index suggest strong breadth (**Figures 101 & 102**)
- **Real Estate:** Negative sentiment priced in; Unlike Energy, we maintain Real Estate at N -- Refer to page 27 for in-depth discussion

Table of Contents

- 1 Monthly Insights
- 2 Summary of Sector Ratings
- 3 Performance Matrix
- 4 Fundamental Snapshot
- 5 Technicals / Sentiment
- 6 Stock vs Sector Selection
- 7-28 Sector Deep Dives

U.S. Sector Ratings

12-18 Month Investment Horizon

Sector	Our View	Last Chg
Comm Svcs	OW	Dec-19
Tech	OW	Dec-19
Health Care	OW	Dec-19
Cons Disc	N	Dec-19
Cons Staples	N	Sep-20
Real Estate	N	Dec-19
Industrials	N	Dec-19
Utilities	N	Jul-20
Financials	UW	Jul-20
Materials	UW	Dec-19
Energy	UW	Sep-20

Source: MarketDesk Research

[Research Portal →](#)

MarketDesk Sector Ratings: The goal of sector ratings and the following analysis is to simplify sector investing by focusing on the key drivers of risk and return. Below is a summary of our allocation views for the next 12 months. Up / down arrows indicate a positive (▲) or negative (▼) change in view since the prior monthly report.

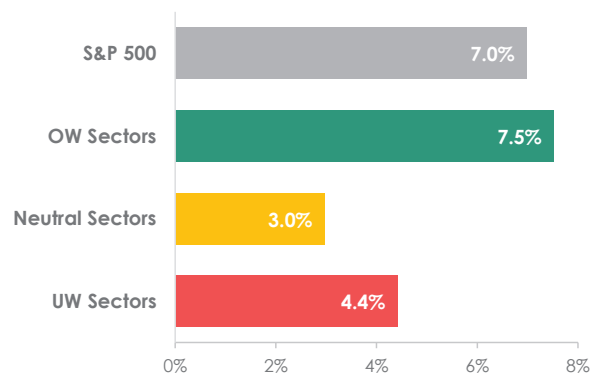
● Underweight (UW) ● Neutral (N) ● Overweight (OW)

Sector	Allocation View				Beta	Dividend Yield	Performance (%)			Asset Flows (%)			Rationale
	Chg	UW	N	OW			1M	6M	1Y	1M	6M	1Y	
U.S. Sectors													
Comm Svcs		•	•	●	0.87	0.88%	8.1	21.5	25.0	0.3	24.0	42.0	Mixture of high growth Interactive Media & low beta Telecom; The "Stay at Home Sector"
Tech		•	•	●	1.07	0.97%	11.9	40.5	56.9	1.0	9.6	17.0	Valuation composite +3std vs 5yr average (Fig 4); Technical setup is concerning (Figs 66-67), but stick with sector
Health Care		•	•	●	0.83	1.49%	2.6	17.8	22.0	-0.1	11.0	17.0	Sector most likely to become "2020 election punching bag"; Strong blended EPS growth (Fig 20)
Cons Disc		•	●	•	0.97	1.02%	9.6	30.2	26.8	2.3	0.3	-5.5	Amazon & online retailers driving the sector higher; Reliant on consumer demand; Second infection wave = Big risk
Real Estate		•	●	•	1.12	3.80%	0.4	-4.8	-8.0	-0.2	-11.0	-6.9	Investors overly pessimistic in our view; Technicals present an attractive set up (Figs 132-133)
Industrials		•	●	•	1.07	1.95%	8.5	7.4	4.7	4.6	9.8	5.7	Faces low capacity utilization & disrupted supply chain as manufacturers start / stop / re-start production lines
Utilities		•	●	•	0.99	3.28%	-2.6	-3.2	-2.2	5.4	8.6	16.0	Prefer Utilities over Cons Stpls as defensive play; Technicals present an attractive set up (Figs 44-45); Attractive yield
Cons Stpls	▲	•	●	•	0.76	2.47%	4.6	14.4	10.7	-0.3	-1.0	-1.5	Defensive position with S&P 500 at all-time high; Risk of underperformance in Fed stimulus rally
Energy	▼	●	•	•	1.35	6.23%	-1.1	-18.9	-31.0	-5.1	37.0	37.0	Oil demand collapse leading to dwindling storage supply and plunging prices; Long road to recovery
Financials		●	•	•	1.23	2.44%	4.3	-4.6	-4.6	0.8	-2.0	-7.3	Low interest rates & deteriorating credit quality priced in, but loan growth stalling is not in our view
Materials		●	•	•	1.04	1.91%	4.4	20.6	13.2	-0.7	-10.0	-23.0	Gold & forest products carrying sector higher; Stimulus could lead to inflation & materials provide a hedge
U.S. Sector Groups													
Cyclicals		•	●	•	1.05	1.85%	6.7	15.8	16.3	1.2	2.9	3.0	Limited upside in our view while the economy reopens & investors assess the economic damage
Defensive		•	●	•	0.86	2.41%	1.5	9.7	10.2	1.7	6.1	10.0	Be prepared to quickly rotate to defensives if case counts continue to increase

Performance is total return including dividends. **Beta** versus S&P 500 Index for past 6 months. **Asset Flows** use 5 largest ETFs for each category and divide total net flows by total beginning of period AUM. **MSCI USA Defensive Sectors** include Health Care, Consumer Staples, and Utilities. **MSCI USA Cyclical Sectors** include Information Technology, Industrials, Communication Services, Consumer Discretionary, Materials, Financials, and Real Estate. Note: Energy is currently removed from defensive sectors due to the sector's idiosyncratic risk drivers.

Figure 1: Performance of MDR Ratings — August 2020

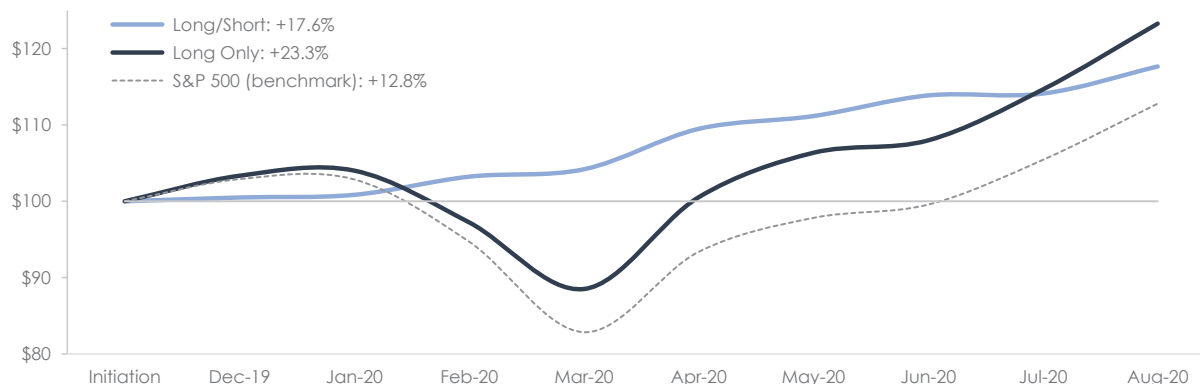
Average sector performance by rating levels across sectors.



Source: MarketDesk Research

Figure 2: Model Portfolios Performance

Based on equal weight total return data. Assumes long OW and short UW sectors. Returns do not include borrowing costs.



Source: MarketDesk Research. **Note:** MDR Sector Ratings began on 11/30/2019.

Figure 3: U.S. Sector Total Returns

	September 2019	October 2019	November 2019	December 2019	January 2020	February 2020	March 2020	April 2020	May 2020	June 2020	July 2020	August 2020	YTD	1-Year
Best	Financials 4.5%	Health 5.1%	Tech 5.4%	Energy 6.0%	Utilities 6.7%	Comm Svcs -5.6%	Health -3.9%	Energy 30.8%	Tech 7.2%	Tech 6.9%	Utilities 7.8%	Tech 11.9%	Tech 35.5%	Tech 56.9%
	Utilities 4.2%	Tech 3.9%	Financials 5.1%	Tech 4.3%	Tech 4.0%	Health -6.6%	Cons Stpls -5.6%	Cons Disc 18.9%	Comm Svcs 6.9%	Cons Disc 3.1%	Comm Svcs 7.4%	Cons Disc 9.6%	Cons Disc 20.2%	Cons Disc 26.8%
	Energy 4.0%	Comm Svcs 3.0%	Health 5.0%	Health 3.5%	Real Estate 1.2%	Real Estate -7.0%	Tech -8.6%	Materials 15.2%	Materials 6.9%	Real Estate 2.4%	Cons Disc 7.3%	Industrials 8.5%	Comm Svcs 15.4%	Comm Svcs 25.0%
	Materials 3.2%	Financials 2.5%	Industrials 4.5%	Utilities 3.3%	Comm Svcs 0.6%	Tech -7.3%	Utilities -10.1%	Comm Svcs 14.4%	Cons Disc 6.5%	Materials 2.2%	Materials 7.1%	Comm Svcs 8.1%	Health 7.1%	Health 22.0%
	Industrials 3.0%	Industrials 1.1%	Comm Svcs 3.2%	Materials 2.9%	Cons Stpls 0.3%	Cons Disc -7.6%	Materials -14.1%	Tech 13.7%	Industrials 5.4%	Industrials 2.0%	Cons Stpls 6.9%	Cons Stpls 4.6%	Cons Stpls 5.3%	Materials 13.2%
	Real Estate 1.9%	Real Estate 1.1%	Materials 3.2%	Cons Disc 2.8%	Cons Disc -0.1%	Cons Stpls -8.2%	Comm Svcs -14.4%	Health 12.6%	Utilities 4.2%	Comm Svcs 0.1%	Tech 5.7%	Materials 4.4%	Materials 3.5%	Cons Stpls 10.7%
	Cons Stpls 1.7%	Cons Disc 0.1%	Energy 1.6%	Financials 2.6%	Industrials -0.4%	Materials -8.5%	Cons Disc -15.0%	Financials 9.5%	Health 3.3%	Cons Stpls -0.2%	Health 5.5%	Financials 4.3%	Industrials -3.6%	Industrials 4.7%
	Tech 1.6%	Materials 0.0%	Cons Stpls 1.4%	Cons Stpls 2.4%	Financials -2.7%	Utilities -9.9%	Industrials -18.7%	Real Estate 9.0%	Financials 2.7%	Financials -0.5%	Industrials 4.4%	Health 2.6%	Utilities -6.8%	Utilities -2.2%
	Cons Disc 1.3%	Cons Stpls -0.4%	Cons Disc 1.3%	Comm Svcs 2.2%	Health -2.7%	Industrials -9.9%	Real Estate -19.3%	Industrials 8.8%	Energy 2.0%	Energy -1.1%	Financials 3.8%	Real Estate 0.4%	Real Estate -10.4%	Financials -4.6%
	Health -0.1%	Utilities -0.8%	Real Estate -1.3%	Real Estate 0.7%	Materials -6.2%	Financials -11.2%	Financials -21.1%	Cons Stpls 7.0%	Real Estate 1.7%	Health -2.4%	Real Estate 3.6%	Energy -1.1%	Financials -17.6%	Real Estate -8.0%
Worst	Comm Svcs -0.3%	Energy -2.1%	Utilities -1.9%	Industrials -0.2%	Energy -11.0%	Energy -15.3%	Energy -34.6%	Utilities 3.3%	Cons Stpls 1.7%	Utilities -4.7%	Energy -4.8%	Utilities -2.6%	Energy -38.8%	Energy -31.0%
	September 2019	October 2019	November 2019	December 2019	January 2020	February 2020	March 2020	April 2020	May 2020	June 2020	July 2020	August 2020	YTD	1-Year
	Cyclical 2.2%	Cyclical 1.7%	Cyclical 3.0%	Defensive 3.1%	Defensive 1.5%	Cyclical -8.2%	Defensive -6.5%	Cyclical 12.8%	Cyclical 5.3%	Cyclical 2.3%	Defensive 6.7%	Cyclical 6.7%	Cyclical 6.1%	Cyclical 16.3%
	Defensive 2.0%	Defensive 1.3%	Defensive 1.5%	Cyclical 2.2%	Cyclical -0.5%	Defensive -8.2%	Cyclical -15.9%	Defensive 7.6%	Defensive 3.1%	Defensive -2.4%	Cyclical 5.6%	Defensive 1.5%	Defensive 1.9%	Defensive 10.2%

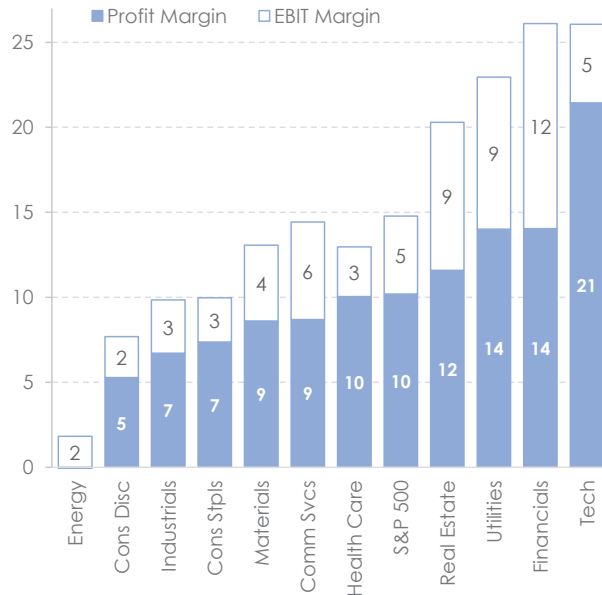
MSCI USA Defensive Sectors include Health Care, Consumer Staples, and Utilities. MSCI USA Cyclical Sectors include Information Technology, Industrials, Communication Services, Consumer Discretionary, Materials, Financials, and Real Estate. Note: Energy is currently removed from defensive sectors due to the sector's idiosyncratic risk drivers.

Figure 4: Valuation & Earnings Snapshot

Sector	Valuation Multiples					Earnings Growth				Factor Exposure		
	Valuation Composite	LTM P/E	NTM P/E	P/B	EV/Sales	EV/EBITDA	LTM EPS Growth	NTM EPS Growth	LTM Sales Growth	NTM Sales Growth	Quant Factor Tilts	
S&P 500 Index	-5 std +5 std	23.7x	22.9x	3.8x	3.2x	16.7x	-11.7%	11.2%	-1.1%	4.2%		
Comm Svcs	+1.2	29.5x	28.1x	3.4x	3.4x	11.7x	-11.2	16.6	3.3	5.4	Growth, Momentum	
OW Tech	+3.0	27.8x	28.0x	10.1x	6.7x	22.1x	3.5	10.6	3.5	6.3	Momentum	
Health Care	+2.0	17.3x	16.7x	4.6x	2.7x	16.8x	6.9	10.4	9.8	6.9		
Cons Disc	+3.5	39.0x	34.2x	9.8x	2.4x	19.3x	-30.4	34.8	-2.6	5.7	Growth, Momentum	
Cons Stpls	+2.0	21.2x	21.0x	6.3x	1.9x	14.9x	0.5	5.2	2.4	2.5		
N Utilities	+0.8	19.0x	18.0x	2.0x	4.7x	12.5x	3.2	3.7	-0.6	2.1		
Real Estate	+0.3	18.6x	18.2x	2.4x	7.4x	18.4x	-7.2	0.9	-3.8	1.6		
Industrials	+2.7	31.3x	26.2x	4.7x	2.3x	15.1x	-36.4	41.4	-10.1	2.4	Momentum	
Materials	+1.5	23.1x	22.0x	2.8x	2.6x	13.4x	-19.9	13.2	-11.3	1.9		
UW Energy	-1.7	-228.3x	-98.9x	1.1x	1.3x	8.9x	-79.1	900.0	-23.0	2.0	Value	
Financials	+0.3	15.5x	14.4x	1.1x	2.7x	14.0x	-21.1	9.7	-1.3	1.6		

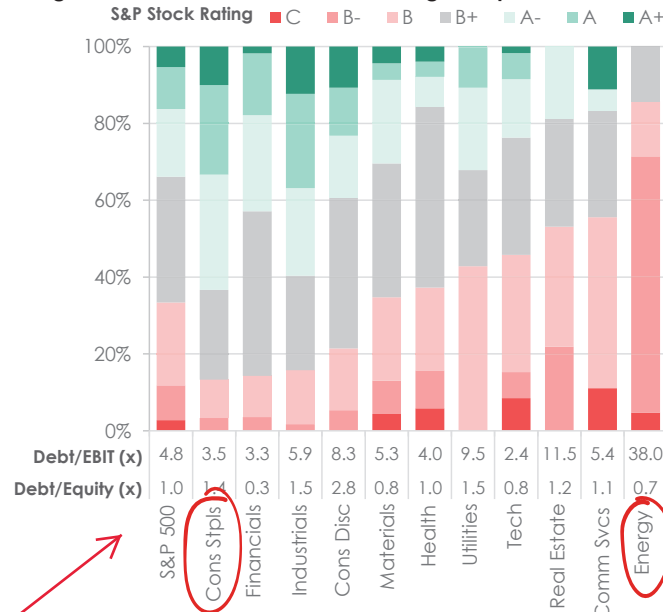
Valuation Composite is average Z-Score of LTM P/E, NTM P/E, P/B, EV/Sales, and EV/EBITDA analyzing the past 5 years of data. **Growth Factor Tilt** = NTM Sales & EPS greater than S&P 500 Index. **Value Factor Tilt** = Valuation composite negative for the sector. **Momentum Factor** = 1-month return higher than the S&P 500 Index.

Figure 5: Sector Operating Margins (%)



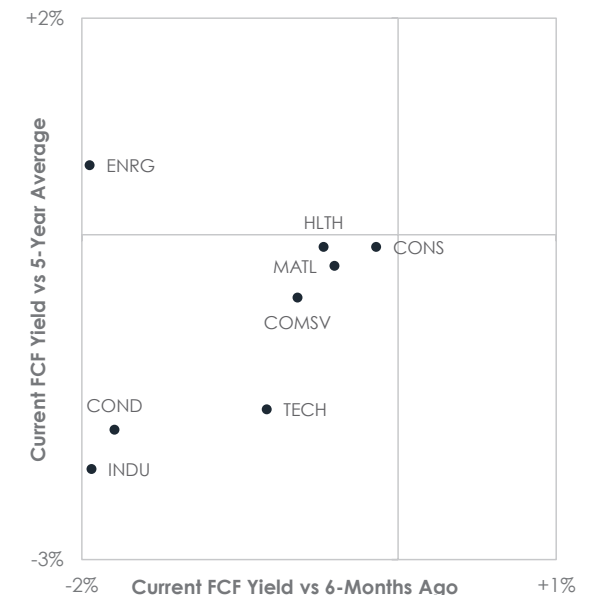
Source: MarketDesk Research

Figure 6: Debt / EBITDA & Sector Rating Composition



Source: MarketDesk Research

Figure 7: Free Cash Flow Trends



Source: MarketDesk Research

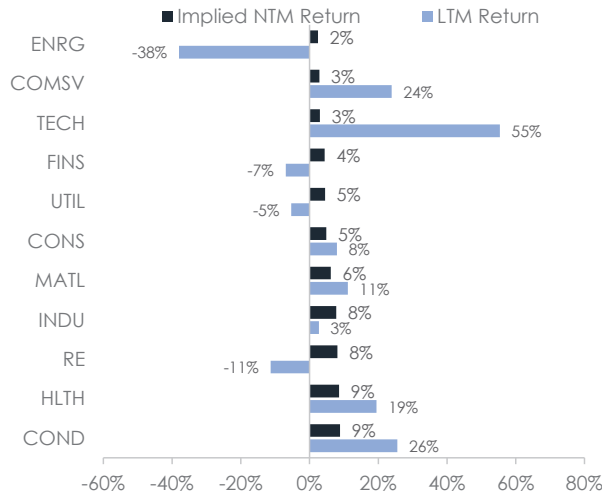
With our Energy downgrade and Consumer Staples upgrade, we are increasing portfolio quality.

The percentage of Industrials trading above the 50dma increased +19% m/m, while Utilities decreased -45% m/m.

Wall Street was too negative going into 2Q20 earnings. Following strong EPS upgrades the last 3-months, the risk is Wall Street is now too positive ahead of 3Q20 earnings.

Figure 8: LTM Returns & Implied NTM Returns

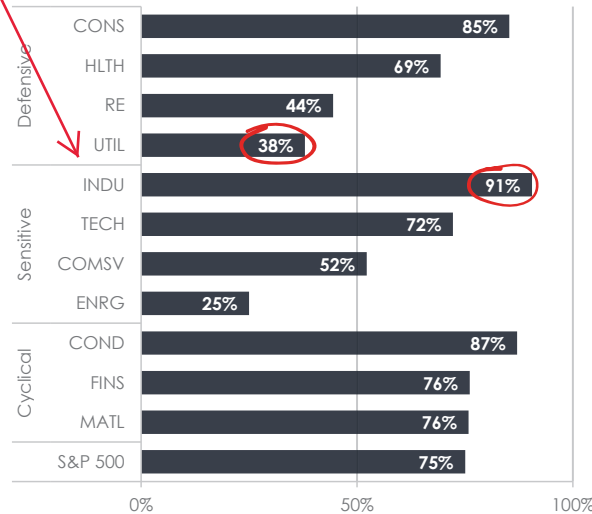
Providing a quantitative view into future sector performance, the implied NTM returns are based on regression analysis using weekly historical data since 2000.



Source: MarketDesk Research

Figure 9: % of Index Above 50dma

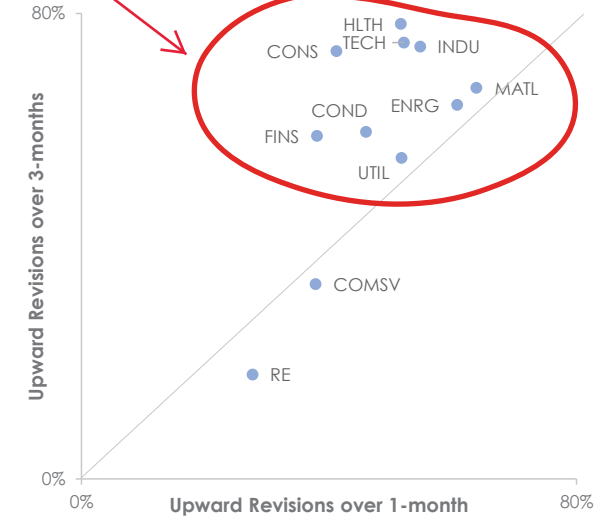
Short-term technical strength based on the percentage of companies within each sector above their 50-day moving average.



Source: MarketDesk Research

Figure 10: % of Sector with Upward EPS Revisions

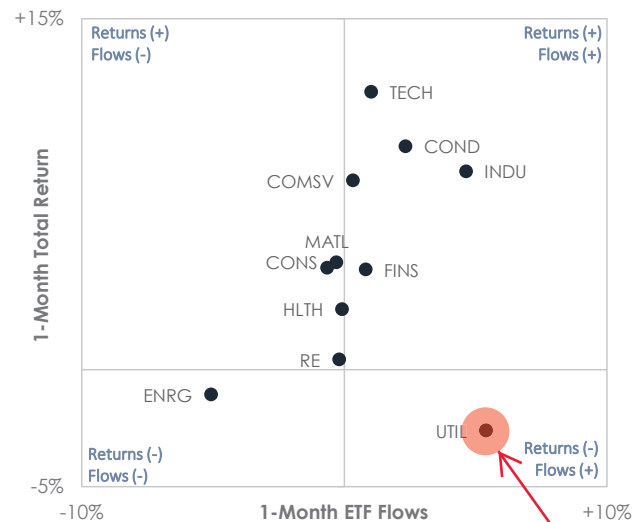
A look at the underlying breadth of upward earnings revisions across sectors over the past 1 and 3-months.



Source: MarketDesk Research

Figure 11: 1-Month Asset Flows vs 1-Month Performance

The scatter plot below highlights areas where investors are adding (or removing) capital based on recent returns.

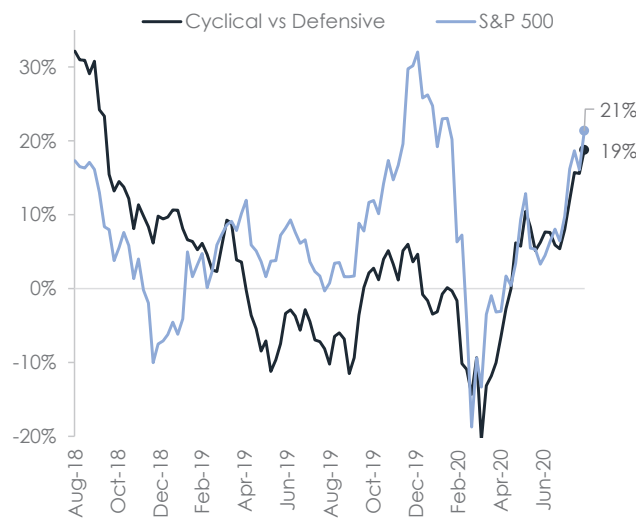


Source: MarketDesk Research

Utilities experienced positive inflows in August despite negative performance. It appears investors are starting to position a slightly more defensively.

Figure 12: Cyclical vs Defensive Rolling LTM Returns

The relative performance between Cons Discretionary (Cyclical) and Cons Staples (Defensive) often leads the S&P 500.

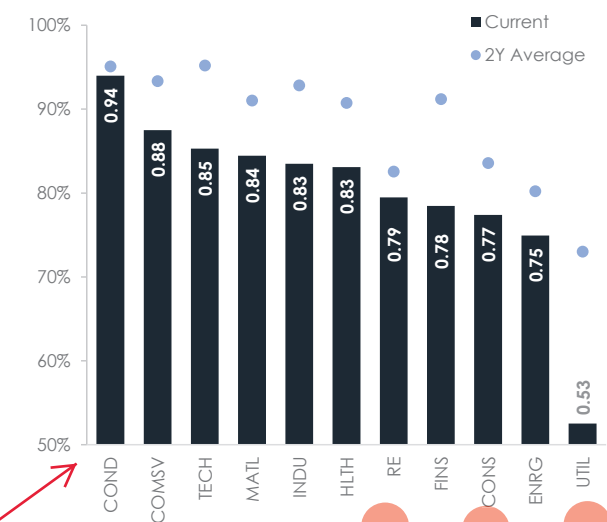


Source: MarketDesk Research

With the S&P 500 hitting all-time highs during a global health pandemic, sectors with lower correlations vs the S&P 500 can diversify portfolios. Real Estate, Cons Staples, and Utilities each possess correlations below 0.8.

Figure 13: Sector Correlation with S&P 500

The current correlation of each sector's daily movement to the S&P 500 vs its 2-year average level.

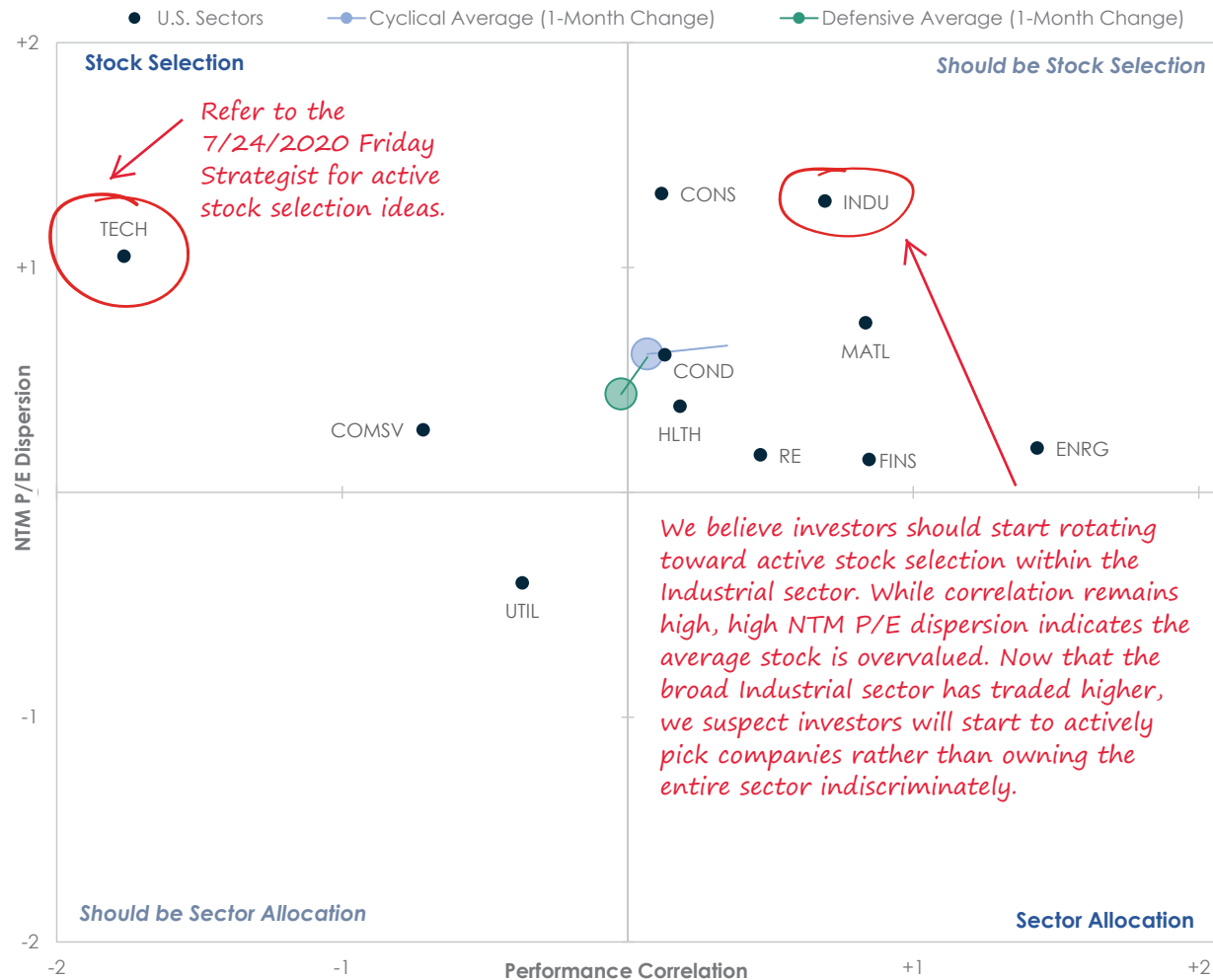


Source: MarketDesk Research

Stock vs Sector Selection

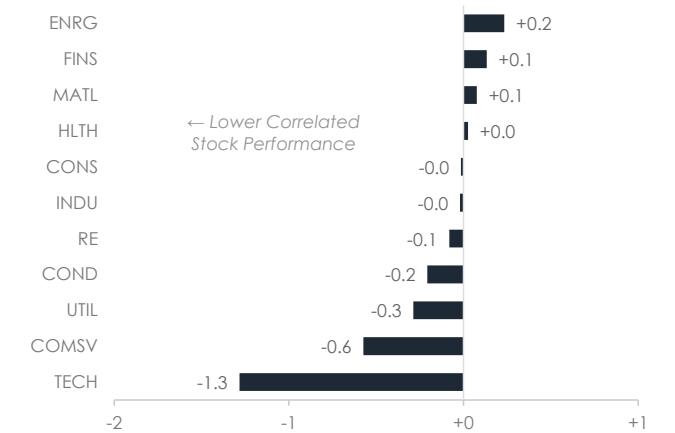
The analysis below simplifies Sector Allocation into two investment regimes: stock selection and sector selection. The chart graphs the NTM P/E dispersion against performance intra-correlation for each sector. Both axes are standardized using z-scores based on month-end data vs the three-year moving average. The further a sector's value is from either axis, the stronger the implied investment regime. Performance correlation is measured by taking the average daily correlation of each company vs the sector average performance over the prior 3-months. Positive correlation indicates companies are moving together (e.g. sector allocation), while negative correlation indicates companies are moving independently of each other (e.g. stock selection). NTM P/E dispersion is calculated as the average amount of standard deviations each individual company's NTM P/E sits vs the company's 3-year average. High LTM P/E dispersion highlights countries where the average company is overvalued vs its 3-year average (e.g. active stock selection approach to identify superior stocks), while lower dispersion highlights countries where the average company trades below its 3-year average (e.g. passive allocations to ride country revaluation higher). NTM P/E levels above 50x are removed to cleanse the data.

Figure 14: Sector Valuation Dispersion & Performance Correlation



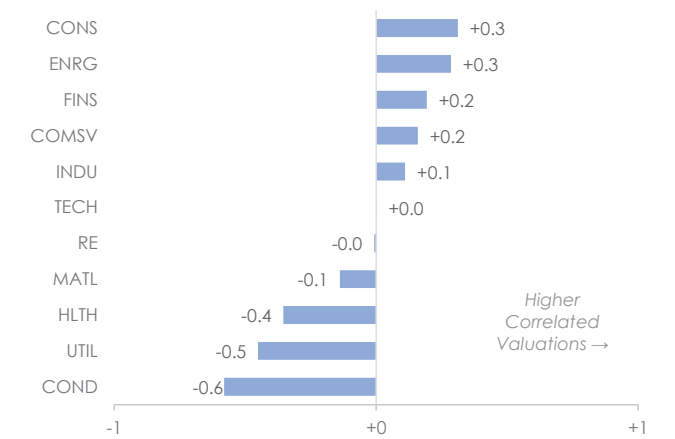
Source: MarketDesk Research. MSCI USA Defensive Sectors include Health Care, Consumer Staples, and Utilities. MSCI USA Cyclical Sectors include Information Technology, Industrials, Communication Services, Consumer Discretionary, Materials, Financials, and Real Estate. Note: Energy is currently removed from defensive sectors due to the sector's idiosyncratic risk drivers.

Figure 15: 1-Month Change in Performance Correlation



Source: MarketDesk Research

Figure 16: 1-Month Change in NTM P/E Dispersion



Source: MarketDesk Research

Health Care Fundamentals

Health Care is at risk of increased volatility during the presidential election campaign. Pharma is one of the most exposed industries. In contrast, Managed Care appears to be less impacted than 2016 due to low risk of Medicare for All enactment (Biden & Harris are less progressive). Home health could also benefit as candidates look to move more healthcare services outside of the "traditional" health care system.

Monthly Report

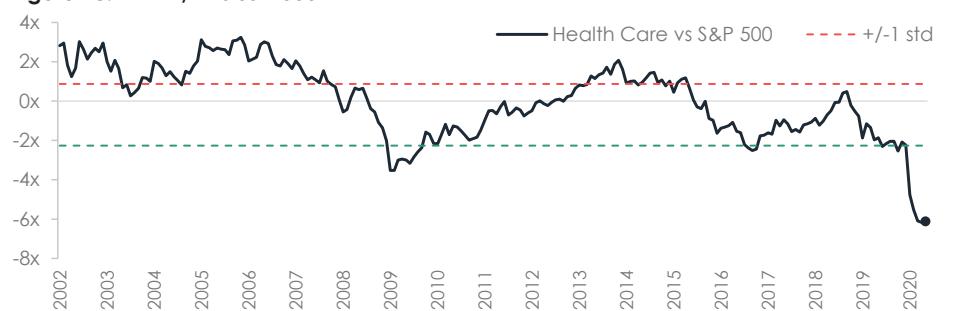
September 1, 2020

Figure 17: Sector & Industry Snapshot

Sector / Industry	Valuation Multiples				Operating Ratios			Earnings Growth				Performance			
	LTM P/E	NTM P/E	P/B	EV/EBITDA	EBIT Margin	Profit Margin	Debt/Equity	LTM EPS Growth	NTM EPS Growth	LTM Sales Growth	NTM Sales Growth	Price Return (%)			
												1M	3M	6M	1Y
Health Care	17.3x	16.7x	4.6x	16.8x	13.0%	10.0%	1.0x	6.9%	10.4%	9.8%	6.9%	3%	5%	17%	19%
Medical Services	150.9x	107.6x	5.4x	23.2x	6.6	-0.2	1.4x	30.1	155.9	5.4	7.0	9	19	27	37
Pharma	21.4x	21.9x	5.3x	18.9x	31.1	22.1	1.2x	-4.1	9.8	1.6	4.0	5	12	18	29
Managed Care	15.3x	14.5x	2.8x	9.2x	6.5	4.6	0.5x	13.0	11.9	18.3	9.5	3	-1	18	28
Hospital/Nursing	16.9x	16.9x	12.6x	10.0x	11.5	4.4	10.9x	14.9	4.5	-1.2	4.3	2	18	8	20
Biotech	78.1x	62.9x	6.6x	66.6x	19.7	12.6	0.6x	54.8	62.1	9.9	12.0	0	1	21	37
Medical Distributors	11.6x	11.1x	5.3x	8.8x	1.6	1.1	1.6x	-0.1	6.7	4.7	4.9	-2	2	12	18

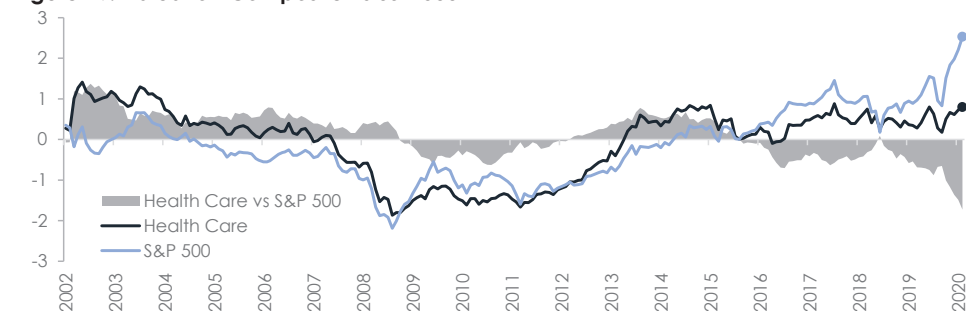
The color blue (red) highlights the highest (lowest) value for each column among industries.

Figure 18: NTM P/E vs S&P 500



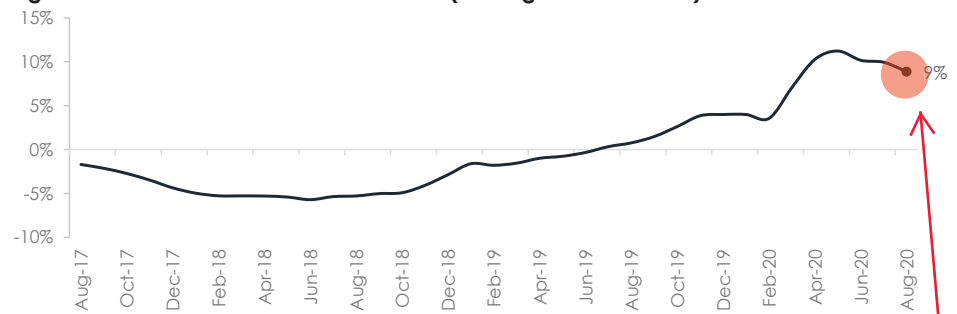
Source: MarketDesk Research. Note: 1 std = 10-year avg +/- 10-year standard deviation.

Figure 19: Valuation Composite vs S&P 500



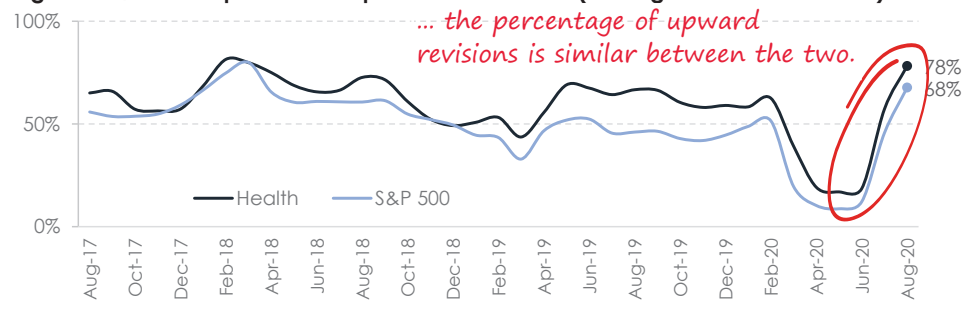
Source: MarketDesk Research. Composite is average Z-Score of LTM P/E, NTM P/E, P/B, EV/S, EV/EBITDA.

Figure 20: Blended EPS Growth vs S&P 500 (Average of NTM & LTM)



Source: MarketDesk Research

Figure 21: % of Companies with Upward EPS Revisions (Average of 2020 & 2021 EPS)



Source: MarketDesk Research

We expect the blended EPS gap to narrow in the coming months as negative LTM S&P 500 EPS continues to roll off. Health Care & the S&P 500 NTM EPS are both estimated to grow ~10-11%, and ...

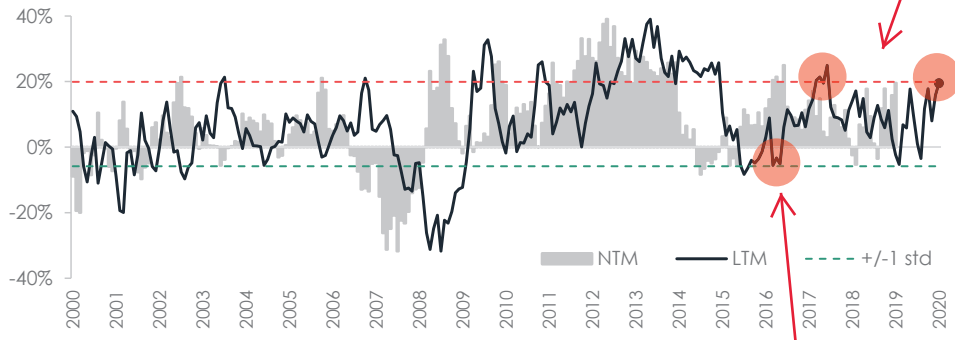
Health Care

Technicals & Sentiment

Monthly Report

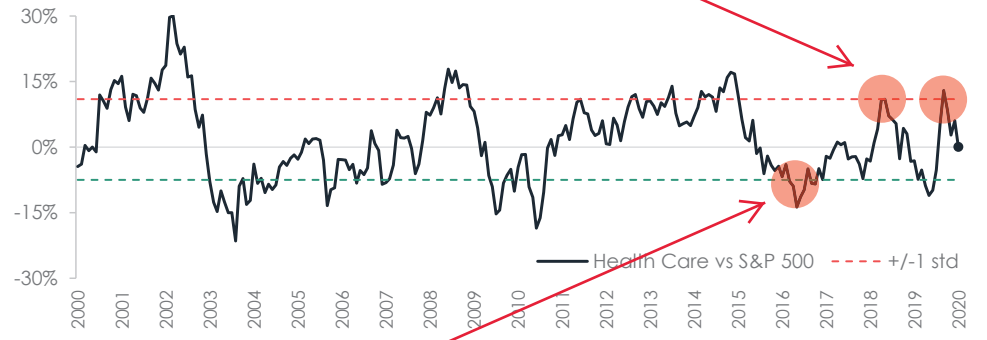
September 1, 2020

Figure 22: Y/Y Sector Returns



Source: MarketDesk Research

Figure 23: Y/Y Relative Sector Returns vs S&P 500



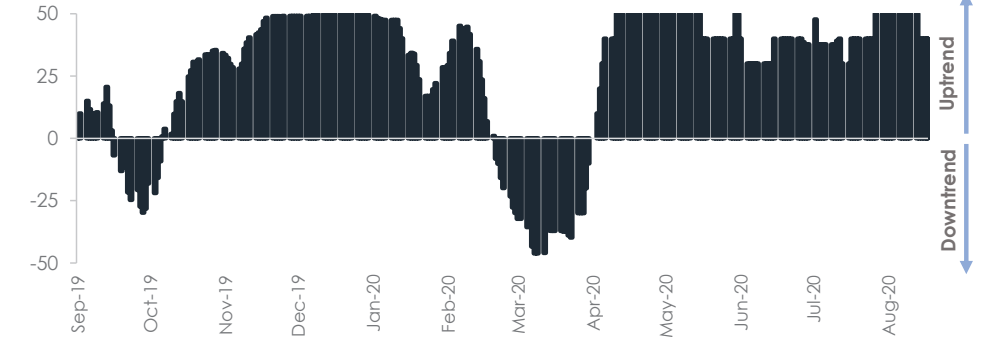
Source: MarketDesk Research

Figure 24: % of Companies Outperforming S&P 500 LTM Returns



Source: MarketDesk Research

Figure 25: Sector High-Low Index



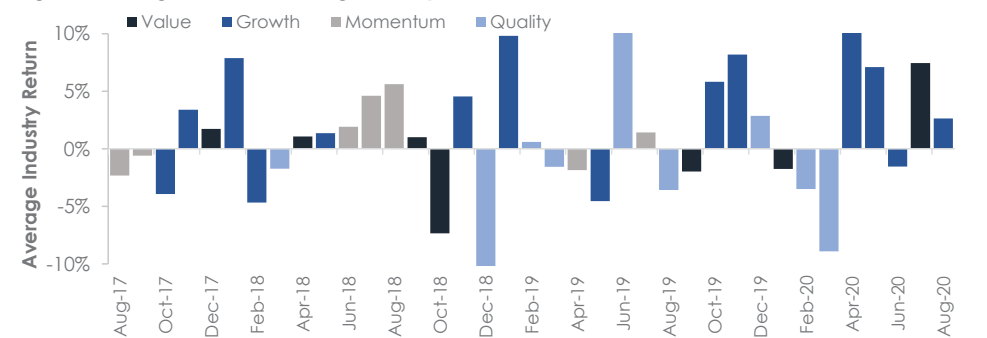
Source: MarketDesk Research. H/L Index = (% of New 52wk Highs vs % of New 52wk Lows) - (50%)

Figure 26: Sector ETF Flows (\$ USD Billions)



Source: MarketDesk Research. ETF Flows are based on 5 largest sector ETFs.

Figure 27: Largest Factor Driving Industry Performance Each Month



Source: MarketDesk Research. Value is based on NTM P/E. Growth is based on blended EPS growth (NTM & LTM). Quality is based on Profit Margin. Momentum is based on previous 3-month returns.

Health Care's technicals are giving us pause. The y/y sector return is bumping up against the +1std line, and the y/y relative return vs the S&P 500 is behaving similar to the 2018 / 2019 bounce off the +1std line.

2016 presidential election volatility & selloff

The percentage of companies outperforming the S&P 500 over the LTM continues to trend down from the April 2020 high. The S&P 500 is gradually overpowering Health Care. It is difficult to identify an industry to power Health Care higher, especially as the market enters the 2020 presidential campaign season.

Consumer Staples Fundamentals

We would not chase the Food Distributor August 2020 rally.

Consumer Staples is "the Left Behind Sector". Fed stimulus measures are pushing up Tech & Consumer Discretionary valuations, and leaving defensive sectors like Consumer Staples in the dust. The question now becomes: When does the Fed Stimulus effect wear off? Until the stimulus rush disappears, Consumer Staples will continue to underperform. Despite the risk of underperformance, we are upgrading the sector to N to position more defensively.

Monthly Report

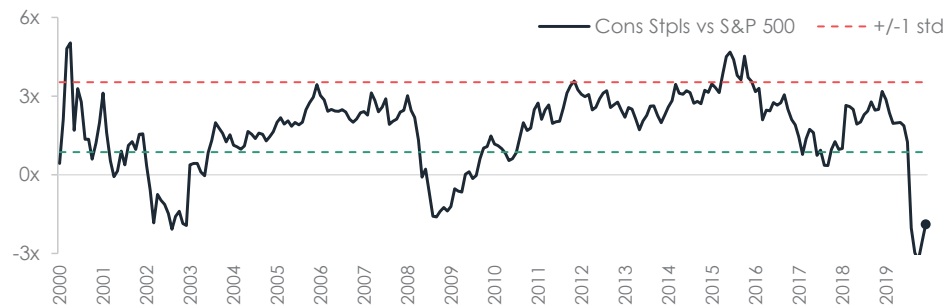
September 1, 2020

Figure 28: Sector & Industry Snapshot

Sector / Industry	Valuation Multiples				Operating Ratios			Earnings Growth				Performance			
	LTM P/E	NTM P/E	P/B	EV/EBITDA	EBIT Margin	Profit Margin	Debt/Equity	LTM EPS Growth	NTM EPS Growth	LTM Sales Growth	NTM Sales Growth	Price Return			
												1M	3M	6M	1Y
Consumer Staples	21.2x	21.0x	6.3x	14.9x	10.0%	7.4%	1.4x	0.5%	5.2%	2.4%	2.5%	5%	11%	13%	8%
Food Distributors	26.2x	24.6x	4.6x	18.0x	2.3	1.3	2.8x	-22.6	15.7	4.8	4.5	15	13	-12	-20
Food Retail	22.7x	23.3x	5.3x	11.6x	3.8	2.6	1.0x	6.3	4.4	3.8	2.1	6	11	28	29
Tobacco	12.9x	12.3x	-37.4x	10.2x	44.6	31.2	-10.8x	0.8	5.8	-0.9	3.0	5	10	1	6
Beverages	23.4x	23.2x	3.0x	15.3x	21.8	14.5	0.9x	-3.6	5.6	-1.6	2.4	5	11	14	6
Household Durables	26.0x	25.8x	9.1x	18.1x	19.6	14.8	1.3x	5.6	8.1	1.9	2.8	4	15	20	13
Food Products	17.7x	18.4x	2.4x	14.6x	16.4	11.6	0.9x	-1.2	2.4	1.3	0.7	4	9	24	15
Beverages (Non-Alcoholic)	25.8x	24.5x	8.1x	19.5x	20.0	15.1	1.9x	-4.5	6.3	0.0	3.5	3	8	1	-1
Drugstore Chains	8.4x	8.1x	1.3x	7.7x	5.1	2.7	1.0x	-3.1	2.9	8.6	3.3	-3	-7	-2	-7

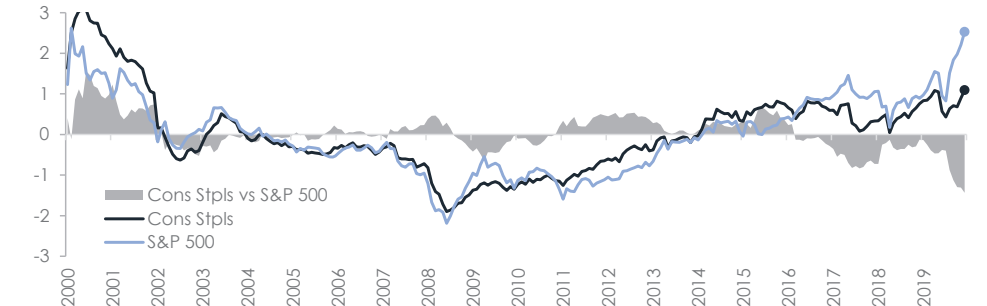
The color blue (red) highlights the highest (lowest) value for each column among industries.

Figure 29: NTM P/E vs S&P 500



Source: MarketDesk Research. Note: 1 std = 10-year avg +/- 10-year standard deviation.

Figure 30: Valuation Composite vs S&P 500



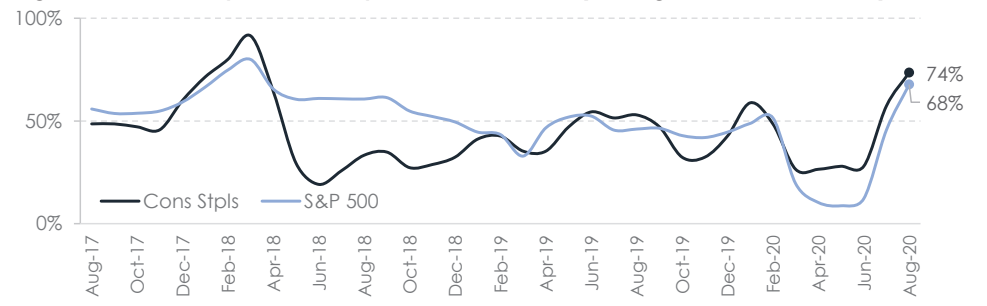
Source: MarketDesk Research. Composite is average Z-Score of LTM P/E, NTM P/E, P/B, EV/JS, EV/EBITDA.

Figure 31: Blended EPS Growth vs S&P 500 (Average of NTM & LTM)



Source: MarketDesk Research

Figure 32: % of Companies with Upward EPS Revisions (Average of 2020 & 2021 EPS)



Source: MarketDesk Research

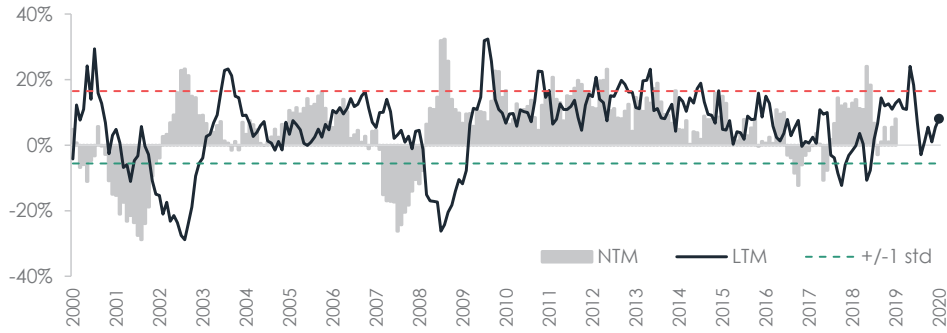
Consumer Staples

Technicals & Sentiment

Monthly Report

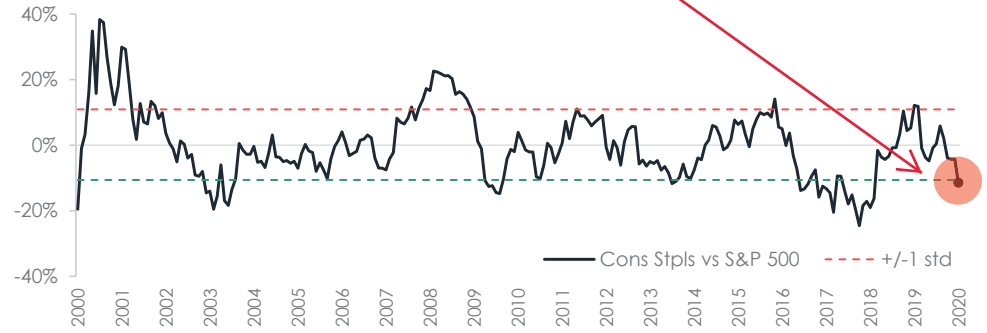
September 1, 2020

Figure 33: Y/Y Sector Returns



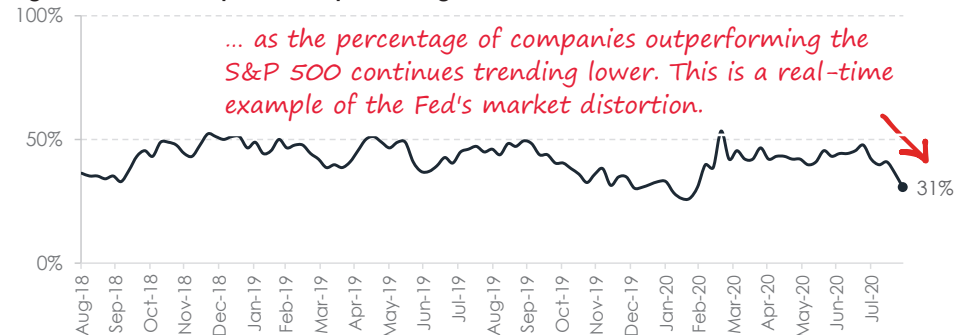
Source: MarketDesk Research

Figure 34: Y/Y Relative Sector Returns vs S&P 500



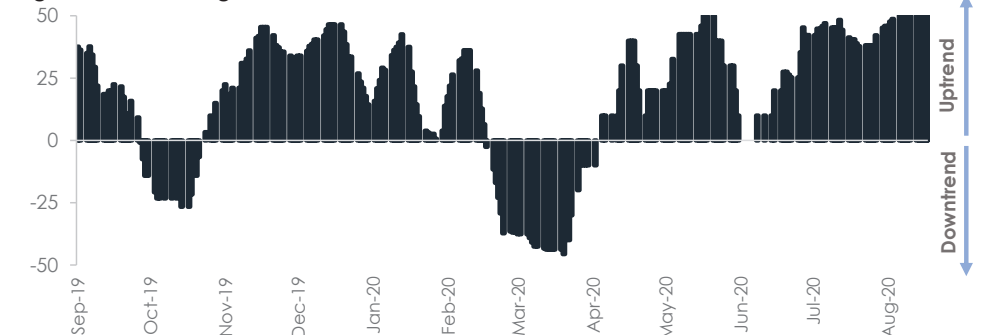
Source: MarketDesk Research

Figure 35: % of Companies Outperforming S&P 500 LTM Returns



Source: MarketDesk Research

Figure 36: Sector High-Low Index



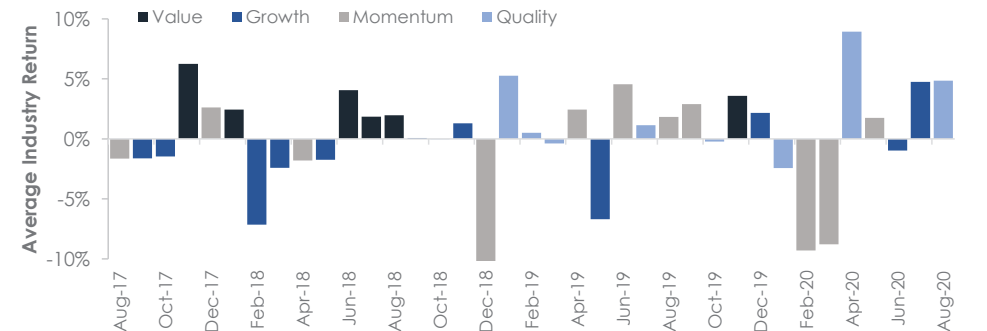
Source: MarketDesk Research. H/L Index = (% of New 52wk Highs vs % of New 52wk Lows)-[50%]

Figure 37: Sector ETF Flows (\$ USD Billions)



Source: MarketDesk Research. ETF Flows are based on 5 largest sector ETFs.

Figure 38: Largest Factor Driving Industry Performance Each Month



Source: MarketDesk Research. Value is based on NTM P/E. Growth is based on blended EPS growth (NTM & LTM). Quality is based on Profit Margin. Momentum is based on previous 3-month returns.

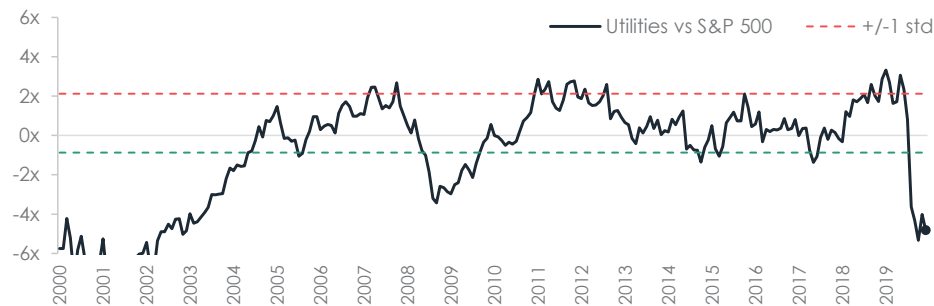
Utilities was the worst performing sector in August 2020, which we attribute to mean reversion after the sector's strong July 2020 outperformance. We maintain our N rating due to elevated risks: 2020 presidential election, excessive Tech & Consumer Discretionary valuations, and the risk of sustained high unemployment.

Figure 39: Sector & Industry Snapshot

Sector / Industry	Valuation Multiples				Operating Ratios			Earnings Growth				Performance			
	LTM P/E	NTM P/E	P/B	EV/EBITDA	EBIT Margin	Profit Margin	Debt/Equity	LTM EPS Growth	NTM EPS Growth	LTM Sales Growth	NTM Sales Growth	Price Return			
												1M	3M	6M	1Y
Utilities	19.0x	18.0x	2.0x	12.5x	23.0%	14.0%	1.5x	3.2%	3.7%	-0.6%	2.1%	-3%	-1%	-5%	-5%
Alt Power Generation	32.8x	22.9x	3.2x	16.9x	27.7	2.1	3.6x	-18.2	35.9	-7.4	0.6	3	8	2	8
Gas Utilities	18.4x	15.9x	1.6x	11.2x	19.5	10.7	1.2x	6.3	7.1	0.6	4.4	-2	-5	-11	-19
Electric Utilities	18.0x	17.4x	1.9x	11.7x	21.6	13.2	1.6x	4.5	2.6	0.3	2.4	-3	0	-5	-5
Water Utilities	33.8x	31.3x	3.2x	20.8x	31.0	17.4	1.4x	11.2	10.3	14.5	11.6	-4	4	7	2

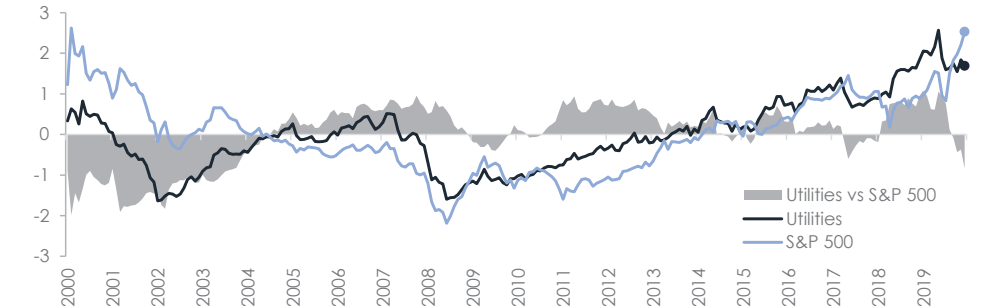
The color blue (red) highlights the highest (lowest) value for each column among industries.

Figure 40: NTM P/E vs S&P 500



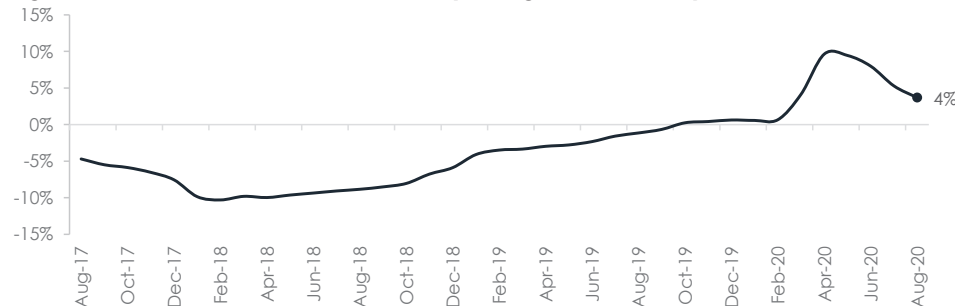
Source: MarketDesk Research. Note: 1 std = 10-year avg +/- 10-year standard deviation.

Figure 41: Valuation Composite vs S&P 500



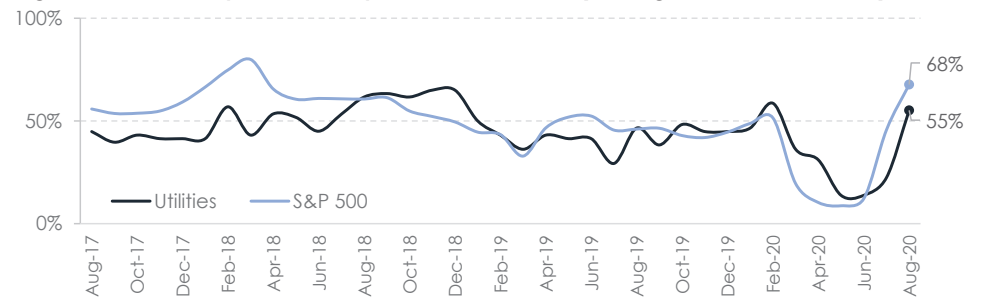
Source: MarketDesk Research. Composite is average Z-Score of LTM P/E, NTM P/E, P/B, EV/S, EV/EBITDA.

Figure 42: Blended EPS Growth vs S&P 500 (Average of NTM & LTM)



Source: MarketDesk Research

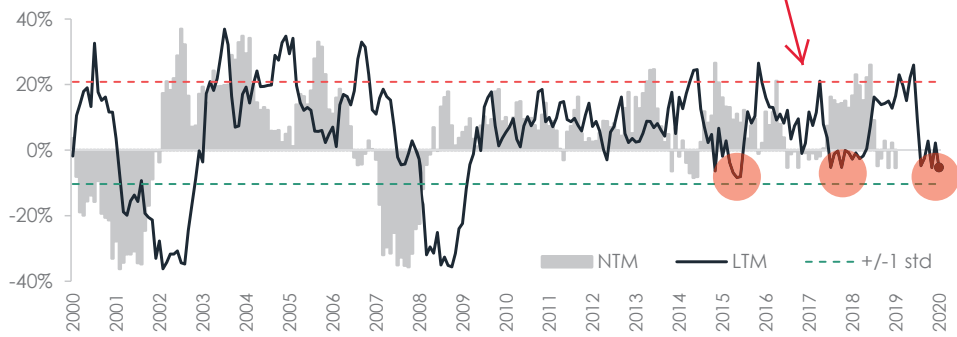
Figure 43: % of Companies with Upward EPS Revisions (Average of 2020 & 2021 EPS)



Source: MarketDesk Research

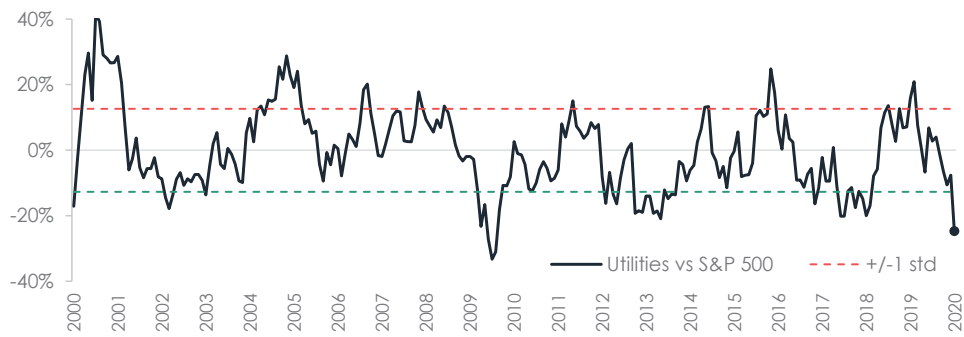
We continue to find the Utilities setup attractive. The downside appears minimal as Utilities currently sit near the -1std line.

Figure 44: Y/Y Sector Returns



Source: MarketDesk Research

Figure 45: Y/Y Relative Sector Returns vs S&P 500



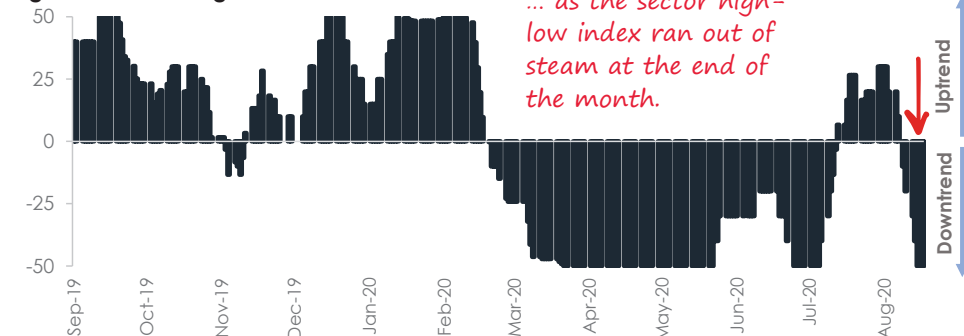
Source: MarketDesk Research

Figure 46: % of Companies Outperforming S&P 500 LTM Returns



Source: MarketDesk Research

Figure 47: Sector High-Low Index



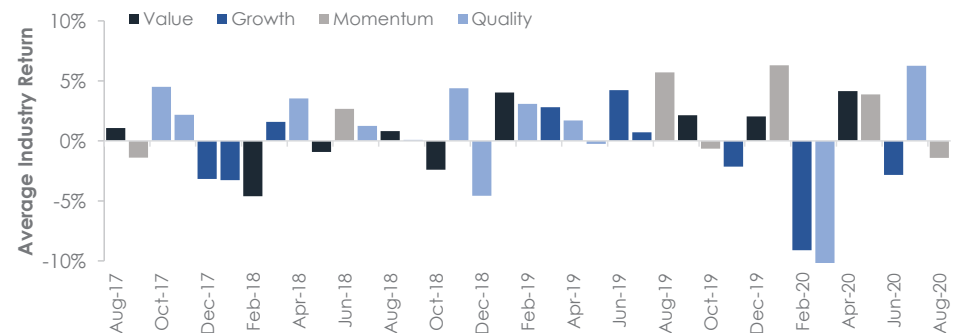
Source: MarketDesk Research. **H/L Index** = (% of New 52wk Highs vs % of New 52wk Lows)-[50%]

Figure 48: Sector ETF Flows (\$ USD Billions)



Source: MarketDesk Research. **ETF Flows** are based on 5 largest sector ETFs.

Figure 49: Largest Factor Driving Industry Performance Each Month



Source: MarketDesk Research. **Value** is based on NTM P/E. **Growth** is based on blended EPS growth (NTM & LTM). **Quality** is based on Profit Margin. **Momentum** is based on previous 3-month returns.

Similar to Consumer Staples, Utilities are being left behind in the rally. The percentage of companies outperforming the S&P 500 the LTM plummeted in August ...

We are officially downgrading Energy from N to UW. Over the past few months, we struggled to UW Energy due to its strong underperformance, beaten up valuation, and low S&P 500 weighting. During this month's sector review, we finally concluded there are no catalysts worth rating Energy N. While most investors are saying "It can only get better from here", we are left saying "What makes it better from here?" There are simply too many negative thematic catalysts to overcome in our view: weak oil demand, low oil prices, anticipated asset write-downs, and a production surge as oil prices recover.

September 1, 2020

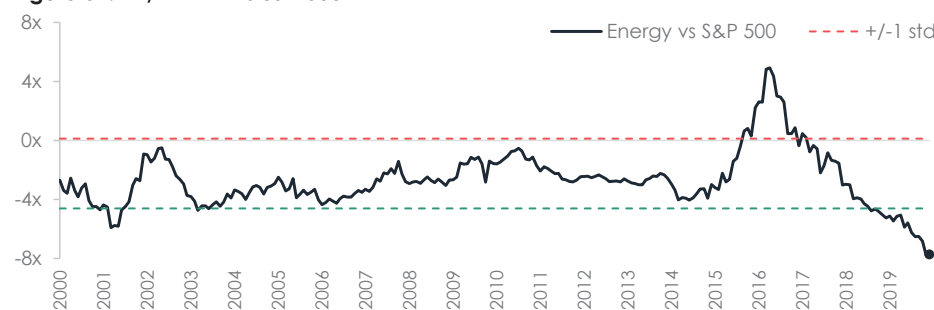
Figure 50: Sector & Industry Snapshot

Sector / Industry	Valuation Multiples				Operating Ratios			Earnings Growth				Performance			
	LTM P/E	NTM P/E	P/B	EV/EBITDA	EBIT Margin	Profit Margin	Debt/Equity	LTM EPS Growth	NTM EPS Growth	LTM Sales Growth	NTM Sales Growth	Price Return			
Energy	-228.3x	-98.9x	1.1x	8.9x	1.3%	-0.5%	0.7x	-79.1%	900.0%	-23.0%	2.0%	-1%	-8%	-21%	-38%
Oilfield Services/Equipment	-77.1x	6.3x	1.7x	8.3x	4.9	0.2	1.0x	-81.5	144.9	-17.4	-11.8	5	8	-26	-27
Oil & Gas Pipelines	18.6x	13.7x	1.4x	10.4x	18.6	6.5	1.8x	-32.7	56.2	-17.1	-5.5	1	-9	-24	-39
Oil & Gas Production	-16.5x	57.6x	1.0x	6.6x	-14.5	-13.5	0.9x	-101.1	42.5	-20.5	-5.5	-1	0	-26	-41
Integrated Oil	-	-	1.1x	9.8x	2.3	0.8	0.3x	-80.3	62780.5	-24.0	5.9	-2	-10	-17	-36
Coal	-	-	0.6x	3.3x	-	-	1.0x	-	-	-	-	-5	-9	-38	-69
Oil Refining	-7.9x	5.0x	1.1x	11.4x	1.7	-0.4	1.1x	-107.0	89.2	-23.8	5.3	-7	-15	-26	-39

The color blue (red) highlights the highest (lowest) value for each column among industries.

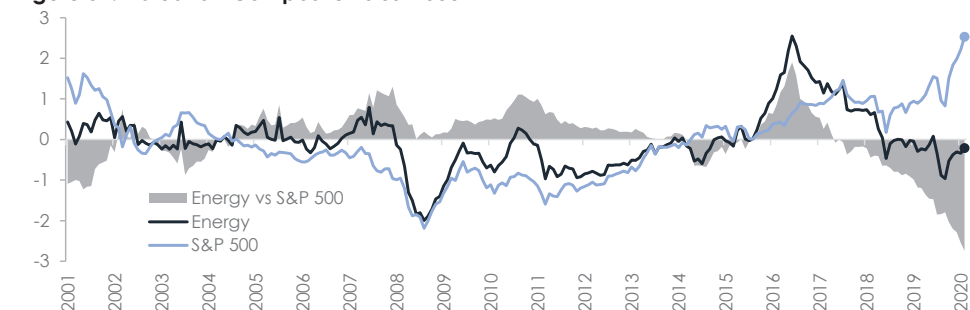
What industry can carry energy higher? Each industry faces issues: oilfield services / equipment (drilling slowdown, layoffs drain talent), pipelines (less drilling = less transportation demand), oil & gas production (overpaid for land = write-downs, weak oil prices), integrated oil (weak oil prices, asset write-downs), oil refining (crack spreads are under pressure), and coal (continued secular decline).

Figure 51: EV/EBITDA vs S&P 500



Source: MarketDesk Research. Note: 1 std = 10-year avg +/- 10-year standard deviation.

Figure 52: Valuation Composite vs S&P 500



Source: MarketDesk Research. Composite is average Z-Score of LTM P/E, NTM P/E, P/B, EV/S, EV/EBITDA.

Figure 53: Blended EBITDA Growth vs S&P 500 (Average of NTM & LTM)



Source: MarketDesk Research

Figure 54: % of Companies with Upward EPS Revisions (Average of 2020 & 2021 EPS)



Source: MarketDesk Research

Do not be fooled by improving estimates. There are still a lot of money-losing, zombie energy companies with bleak futures.

Energy

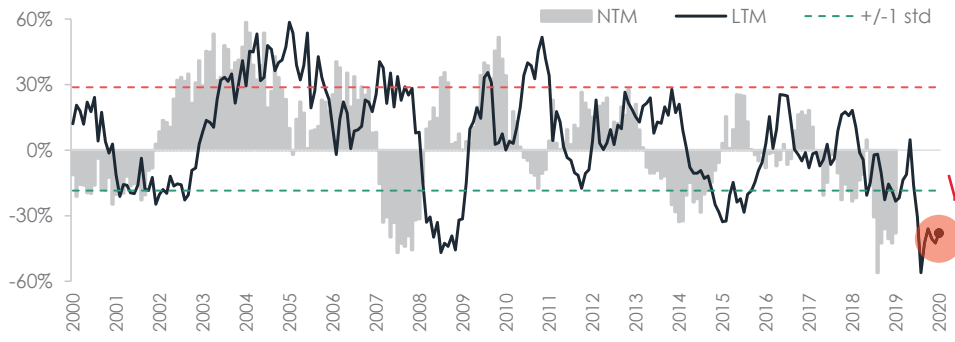
Technicals & Sentiment

Monthly Report

September 1, 2020

What is going to change Energy's outlook for the better? The y/y sector return and y/y S&P 500 relative return are both lost in the middle of nowhere, and ...

Figure 55: Y/Y Sector Returns



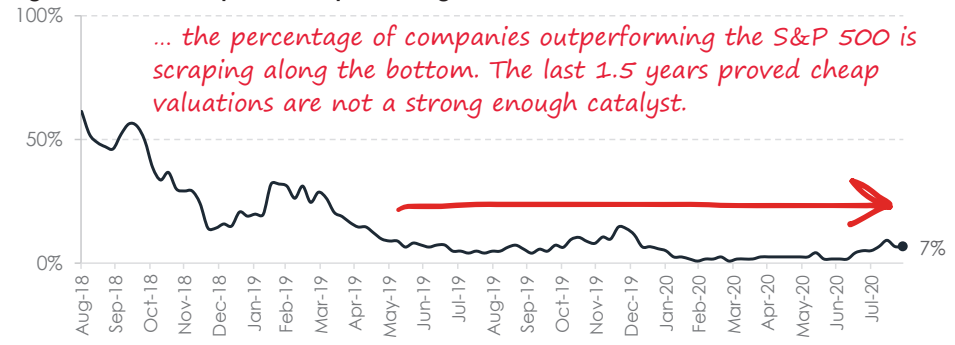
Source: MarketDesk Research

Figure 56: Y/Y Relative Sector Returns vs S&P 500



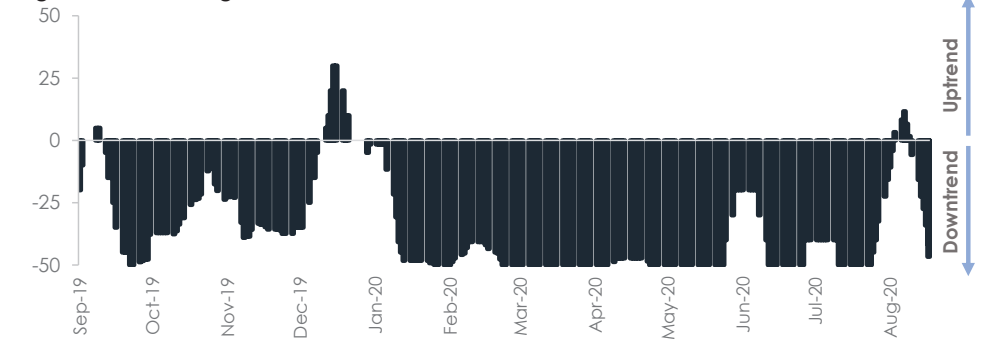
Source: MarketDesk Research

Figure 57: % of Companies Outperforming S&P 500 LTM Returns



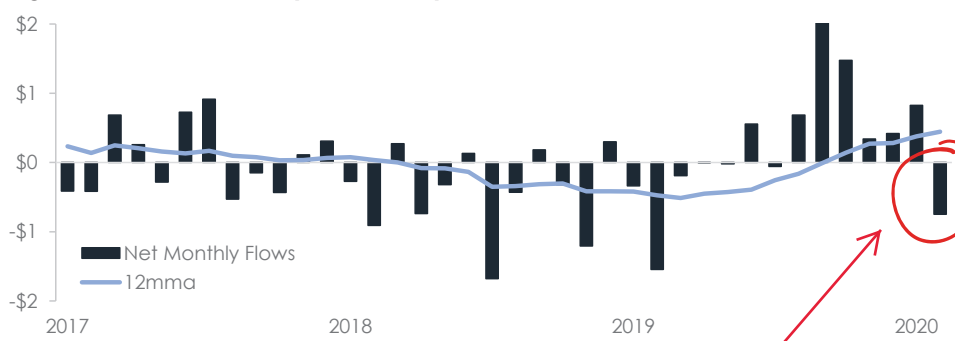
Source: MarketDesk Research

Figure 58: Sector High-Low Index



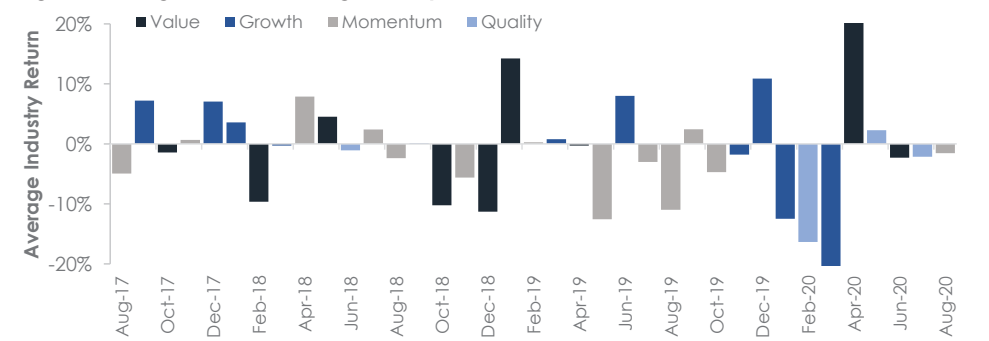
Source: MarketDesk Research. H/L Index = (% of New 52wk Highs vs % of New 52wk Lows)-[50%]

Figure 59: Sector ETF Flows (\$ USD Billions)



Source: MarketDesk Research. ETF Flows are based on 5 largest sector ETFs.

Figure 60: Largest Factor Driving Industry Performance Each Month



Source: MarketDesk Research. Value is based on NTM P/E. Growth is based on blended EPS growth (NTM & LTM). Quality is based on Profit Margin. Momentum is based on previous 3-month returns.

We could claim the Energy recovery trade is crowded just like the Tech trade, only in a different way. Investors continue to toss money at the sector and say "The only way out is up". Notably, Energy experienced net outflows in August after 6 consecutive months of net inflows. It appears investors are cooling toward the beaten up sector.

Information Technology

Fundamentals

Tech is a must own in every portfolio. Most businesses compete on the basis of price. Tech, especially software, allows businesses to generate economies of scale, automate their operations, and decrease their cost structure. If a company wants to compete, Tech is a must have, which is why we continue to OW the sector. The 7/24/2020 Strategy Snapshot further explains our views and frames Tech's current valuation and strong 2020 performance.

Monthly Report

September 1, 2020

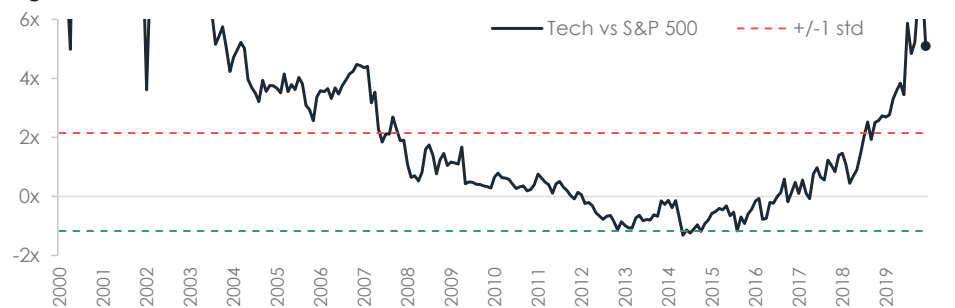
Figure 61: Sector & Industry Snapshot

Sector / Industry	Valuation Multiples				Operating Ratios			Earnings Growth				Performance			
	LTM P/E	NTM P/E	P/B	EV/EBITDA	EBIT Margin	Profit Margin	Debt/Equity	LTM EPS Growth	NTM EPS Growth	LTM Sales Growth	NTM Sales Growth	Price Return			
Information Technology	27.8x	28.0x	10.1x	22.1x	26.1%	21.4%	0.8x	3.5%	10.6%	3.5%	6.3%	12%	26%	40%	55%
Telecom Equipment	31.6x	32.5x	25.4x	27.6x	23.5	19.7	1.6x	5.6	15.9	5.2	9.3	20	59	84	133
Software	46.8x	43.0x	13.6x	35.9x	27.3	20.4	0.8x	21.7	23.4	9.2	10.7	11	23	41	57
Internet Software	43.6x	39.5x	7.1x	27.0x	21.3	17.4	0.1x	-3.1	26.9	14.2	17.4	11	21	36	45
Semiconductors	21.2x	21.3x	5.3x	16.0x	30.7	25.2	0.6x	-4.3	8.2	2.0	6.1	10	17	31	50
Hardware	8.8x	8.6x	3.7x	7.3x	8.4	6.0	2.7x	-4.3	2.6	-3.2	-1.2	8	21	1	-3
Electronic Components	25.1x	24.0x	3.0x	14.7x	8.8	6.3	0.5x	-13.0	14.3	-1.9	2.7	6	24	24	19
Data Processing Services	31.0x	29.5x	4.2x	25.4x	21.9	16.0	0.7x	6.8	12.6	7.9	6.4	3	11	21	20
I.T. Services	23.7x	23.9x	6.9x	19.1x	15.9	12.5	0.9x	-0.8	5.4	2.4	3.7	3	11	21	24

The color blue (red) highlights the highest (lowest) value for each column among industries.

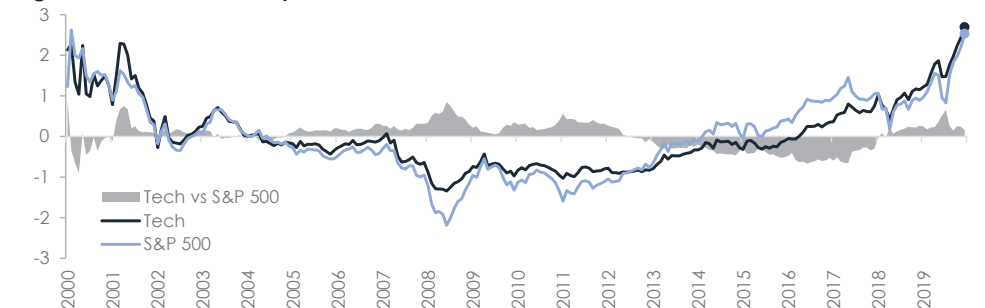
If you are searching for a cyclical Tech trade tied to the economic reopening, consider semiconductors. The industry trades less expensive vs its historical valuation composite average and generates stronger margins.

Figure 62: NTM P/E vs S&P 500



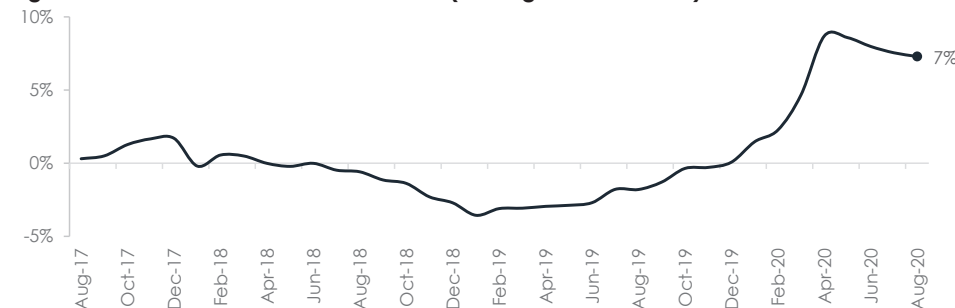
Source: MarketDesk Research. Note: 1 std = 10-year avg +/- 10-year standard deviation.

Figure 63: Valuation Composite vs S&P 500



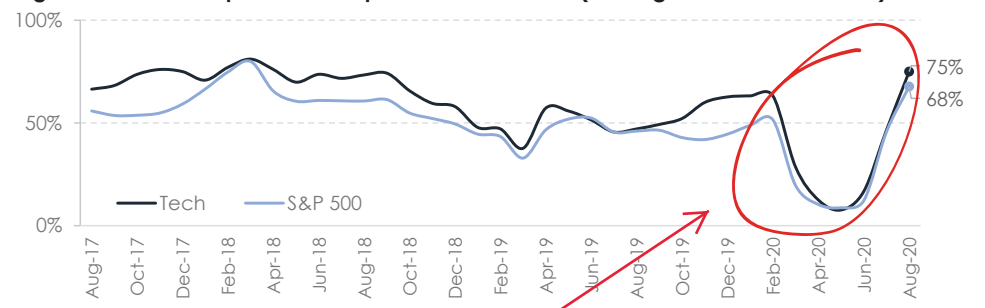
Source: MarketDesk Research. Composite is average Z-Score of LTM P/E, NTM P/E, P/B, EV/S, EV/EBITDA.

Figure 64: Blended EPS Growth vs S&P 500 (Average of NTM & LTM)



Source: MarketDesk Research

Figure 65: % of Companies with Upward EPS Revisions (Average of 2020 & 2021 EPS)



Source: MarketDesk Research

The comparison of upward revisions highlights how the Tech sector is driving the S&P 500 revision ratio higher.

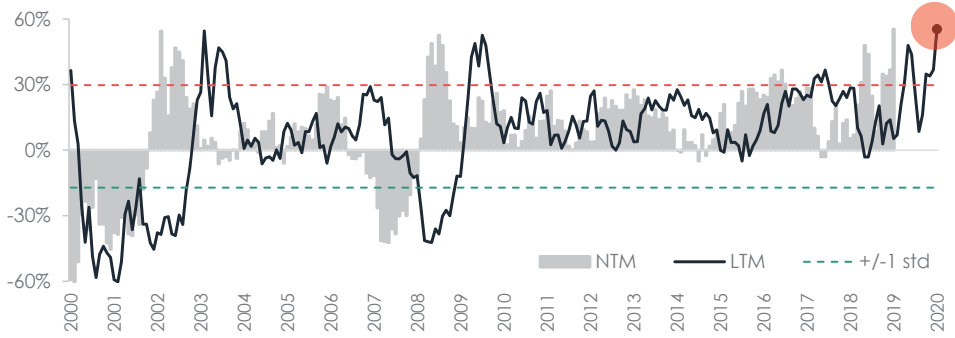
Information Technology

Technicals & Sentiment

Monthly Report

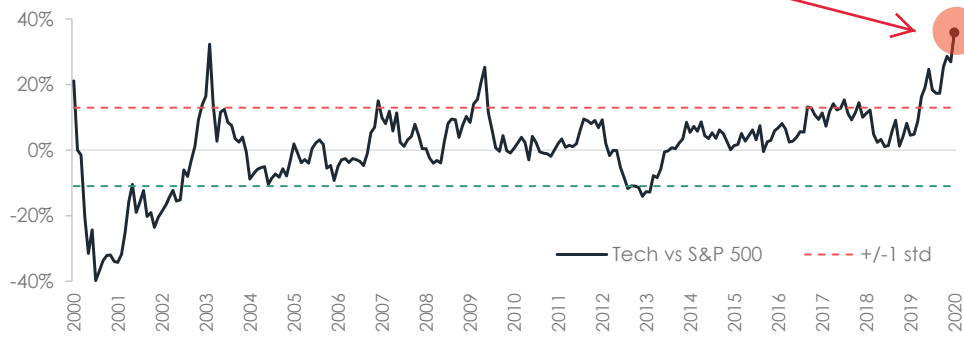
September 1, 2020

Figure 66: Y/Y Sector Returns



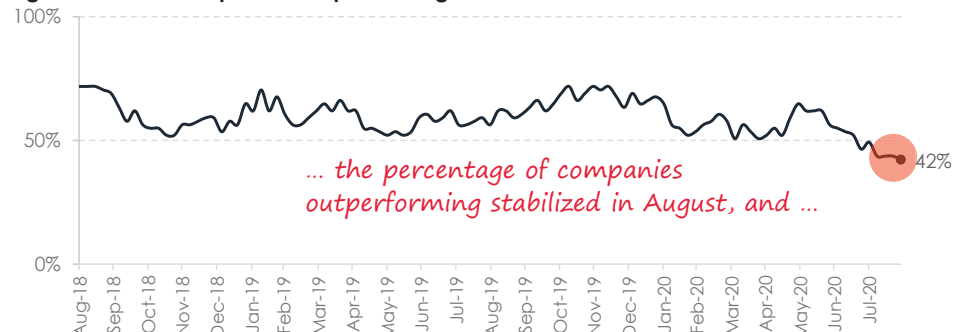
Source: MarketDesk Research

Figure 67: Y/Y Relative Sector Returns vs S&P 500



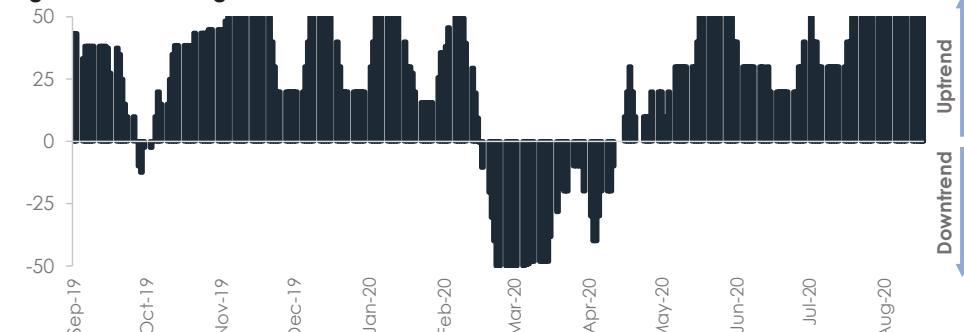
Source: MarketDesk Research

Figure 68: % of Companies Outperforming S&P 500 LTM Returns



Source: MarketDesk Research

Figure 69: Sector High-Low Index



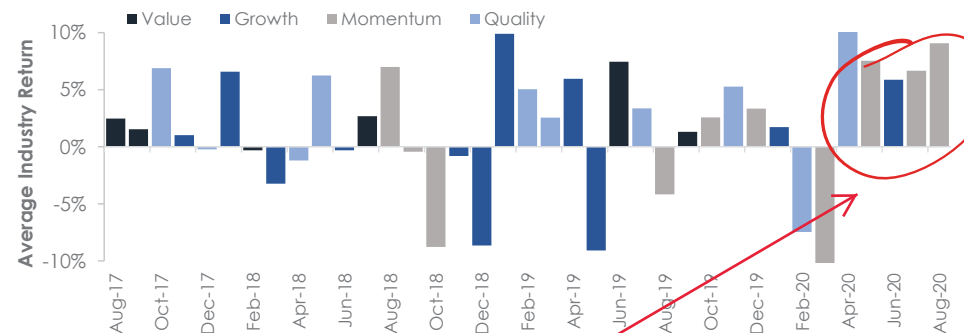
Source: MarketDesk Research. H/L Index = (% of New 52wk Highs vs % of New 52wk Lows)-[50%]

Figure 70: Sector ETF Flows (\$ USD Billions)



Source: MarketDesk Research. ETF Flows are based on 5 largest sector ETFs.

Figure 71: Largest Factor Driving Industry Performance Each Month



Source: MarketDesk Research. Value is based on NTM P/E. Growth is based on blended EPS growth (NTM & LTM). Quality is based on Profit Margin. Momentum is based on previous 3-month returns.

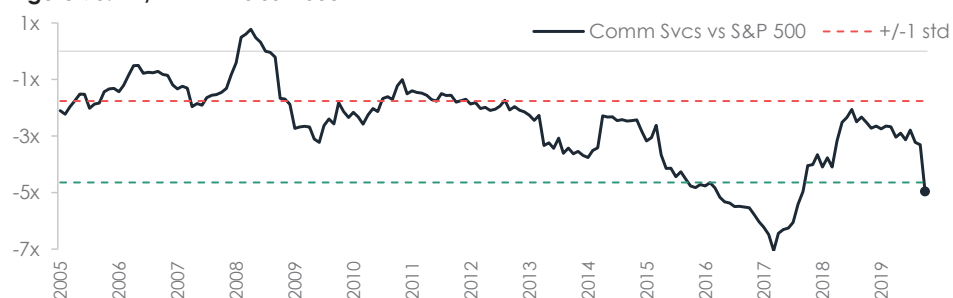
... Tech experienced a month of net inflows in August after July's net outflows. Momentum continues to drive the sector higher.

Figure 72: Sector & Industry Snapshot

Sector / Industry	Valuation Multiples				Operating Ratios			Earnings Growth				Performance			
	LTM P/E	NTM P/E	P/B	EV/EBITDA	EBIT Margin	Profit Margin	Debt/Equity	LTM EPS Growth	NTM EPS Growth	LTM Sales Growth	NTM Sales Growth	Price Return			
												1M	3M	6M	1Y
Communication Services	29.5x	28.1x	3.4x	11.7x	14.4%	8.7%	1.1x	-11.2%	16.6%	3.3%	5.4%	8%	16%	21%	24%
Movies/Entertainment	8.7x	-116.0x	9.5x	20.4x	-25.6	-31.8	5.7x	-591.6	-229.0	-41.1	51.3	14	7	-9	-22
Wireless	94.0x	96.4x	2.1x	12.5x	8.0	1.9	1.2x	-43.6	-26.1	26.4	21.3	9	17	27	48
Newspapers	-14.3x	18.4x	2.0x	11.6x	4.7	-1.9	0.4x	-91.0	55.5	7.9	1.1	6	17	18	19
Cable/Satellite	31.9x	28.9x	4.2x	11.6x	16.8	9.1	1.7x	6.3	20.3	3.7	5.3	6	16	23	30
Advertising Services	27.9x	24.3x	8.4x	12.1x	7.9	4.7	4.4x	-22.3	28.5	-8.4	-0.9	5	21	3	2
Broadcasting	11.5x	11.2x	2.3x	9.3x	15.8	13.2	2.4x	-1.9	0.0	18.2	4.1	4	8	-6	-17
Major Telecom	10.7x	10.7x	1.9x	7.1x	18.2	11.1	1.2x	-3.9	-0.6	-2.0	-0.3	2	0	-4	-7
Specialty Telecom	17.5x	20.3x	1.5x	7.1x	14.7	6.1	2.4x	493.7	-16.1	-4.4	-3.2	1	8	-2	7
Books/Magazines	14.6x	14.7x	1.3x	6.5x	7.1	0.6	1.2x	-24.6	4.9	-0.6	-0.8	-2	-16	-37	-52

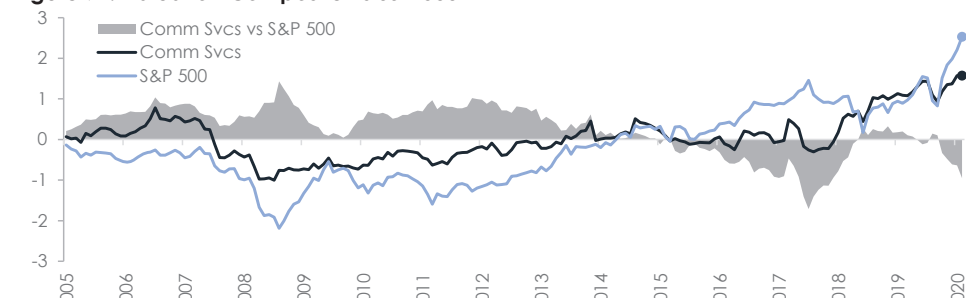
The color blue (red) highlights the highest (lowest) value for each column among industries.

Figure 73: EV/EBITDA vs S&P 500



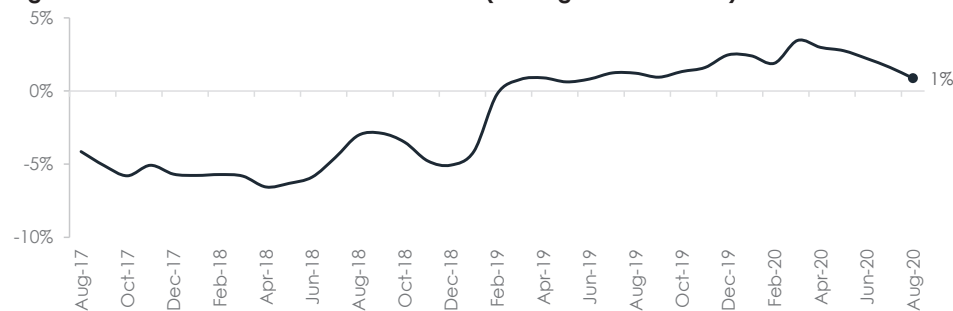
Source: MarketDesk Research. Note: 1 std = 10-year avg +/- 10-year standard deviation.

Figure 74: Valuation Composite vs S&P 500



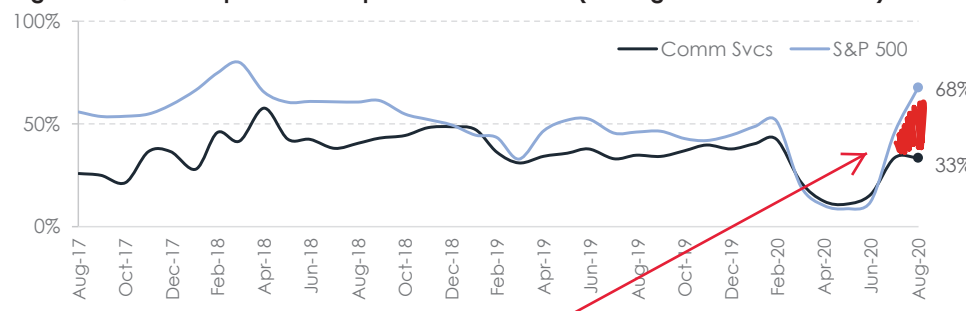
Source: MarketDesk Research. Composite is average Z-score of LTM P/E, NTM P/E, P/B, EV/S, EV/EBITDA.

Figure 75: Blended EBITDA Growth vs S&P 500 (Average of NTM & LTM)



Source: MarketDesk Research

Figure 76: % of Companies with Upward EPS Revisions (Average of 2020 & 2021 EPS)



Source: MarketDesk Research

Comm Svcs' weak upward revision ratio vs the S&P 500 is concerning. It indicates there is not a high level of breadth behind FB, GOOG, and NFLX.

Communication Services

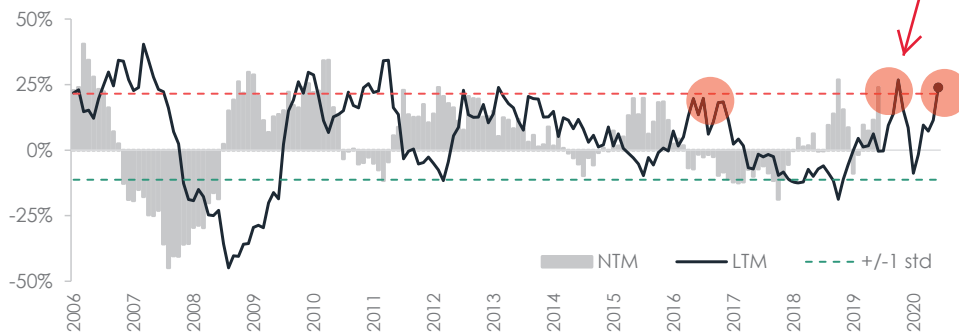
Technicals & Sentiment

Comm Svcs' technicals are becoming stretched. However, we are maintaining the OW rating for now ...

Monthly Report

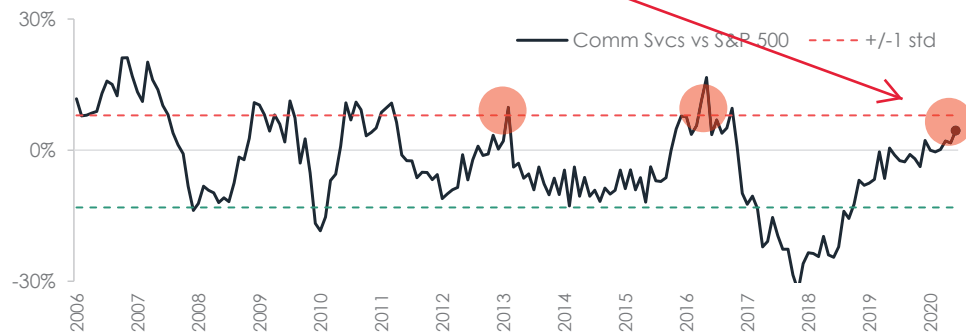
September 1, 2020

Figure 77: Y/Y Sector Returns



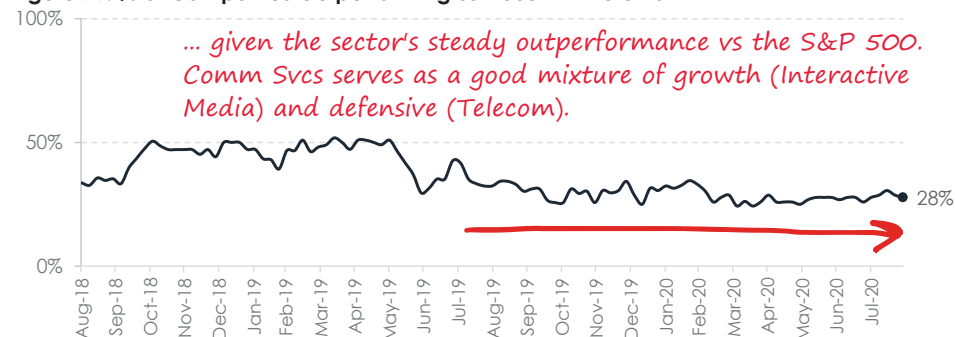
Source: MarketDesk Research

Figure 78: Y/Y Relative Sector Returns vs S&P 500



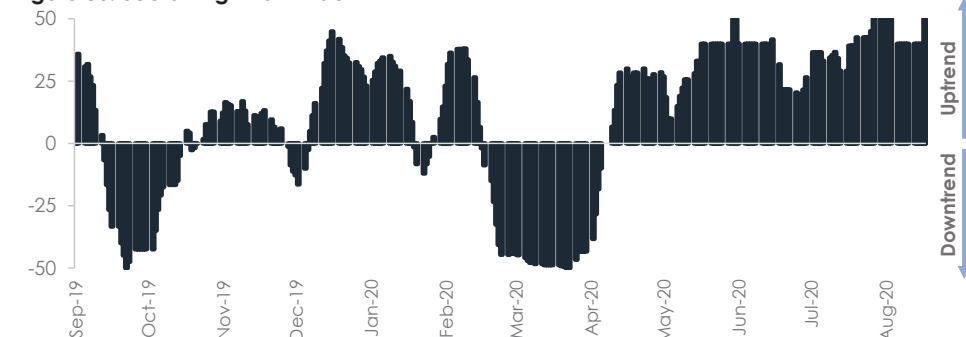
Source: MarketDesk Research

Figure 79: % of Companies Outperforming S&P 500 LTM Returns



Source: MarketDesk Research

Figure 80: Sector High-Low Index



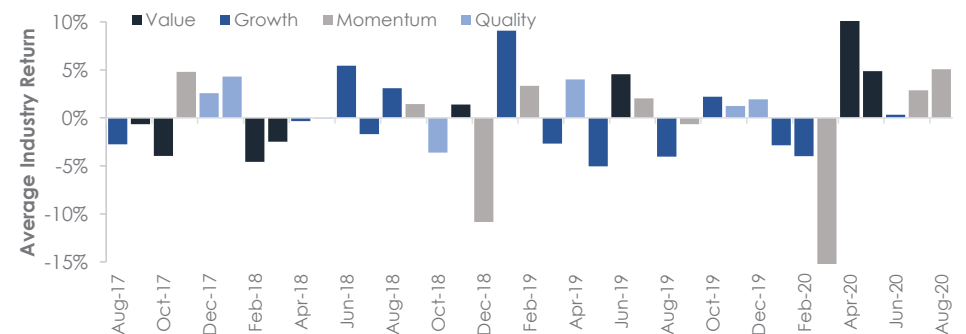
Source: MarketDesk Research. **H/L Index** = (% of New 52wk Highs vs % of New 52wk Lows)-[50%]

Figure 81: Sector ETF Flows (\$ USD Billions)



Source: MarketDesk Research. **ETF Flows** are based on 5 largest sector ETFs.

Figure 82: Largest Factor Driving Industry Performance Each Month



Source: MarketDesk Research. **Value** is based on NTM P/E. **Growth** is based on blended EPS growth (NTM & LTM). **Quality** is based on Profit Margin. **Momentum** is based on previous 3-month returns.

Consumer Discretionary

Fundamentals

We would not chase the Casinos / Gaming and Hotels / Cruiselines rally. However, we would be looking to selectively add to Homebuilding and Discount Stores (e.g. DG & DLTR). Homebuilding is strong as consumers look to buy their own space and housing inventory remains tight. The expiration of enhanced unemployment benefits at the end of July 2020 and risk of continued layoffs and furloughs are positive for Discount Stores.

Monthly Report

September 1, 2020

Figure 83: Sector & Industry Snapshot

Sector / Industry	Valuation Multiples				Operating Ratios			Earnings Growth				Performance			
	LTM P/E	NTM P/E	P/B	EV/EBITDA	EBIT Margin	Profit Margin	Debt/Equity	LTM EPS Growth	NTM EPS Growth	LTM Sales Growth	NTM Sales Growth	Price Return			
												1M	3M	6M	1Y
Consumer Discretionary	39.0x	34.2x	9.8x	19.3x	7.7%	5.3%	2.8x	-30.4%	34.8%	-2.6%	5.7%	10%	21%	30%	26%
Automobiles	152.3x	104.8x	6.1x	25.9x	2.5	1.8	3.9x	-57.2	219.2	-10.8	6.8	61	140	161	279
Casinos/Gaming	4.6x	39.6x	6.2x	20.6x	-4.2	-12.5	5.2x	-210.6	-18.9	-26.1	35.0	25	17	-3	0
Hotels/Cruiselines	-3.0x	-42.7x	3.6x	20.9x	-8.1	-16.1	2.7x	-137.2	-15.4	-34.8	21.6	22	15	-18	-26
Apparel/Footwear	39.9x	34.9x	8.3x	25.5x	8.5	6.4	1.1x	-25.2	36.1	-6.6	4.3	12	15	12	11
Restaurants	40.1x	35.1x	-23.6x	22.5x	14.2	8.9	-5.5x	-22.3	31.3	-3.8	6.4	11	14	13	-1
Auto Parts	67.5x	42.0x	2.9x	11.9x	4.5	1.9	1.6x	-66.3	315.2	-13.4	5.0	10	16	11	8
Internet Retail	106.8x	94.6x	22.3x	44.2x	5.4	3.9	0.8x	46.1	42.9	26.7	21.5	9	42	87	97
Discount Stores	20.3x	19.7x	5.1x	13.3x	7.9	5.7	0.6x	18.1	11.9	10.2	5.8	5	4	28	15
Homebuilding	12.3x	11.5x	1.9x	11.5x	10.8	8.5	0.6x	9.8	13.2	4.5	7.8	4	26	21	29

The color blue (red) highlights the highest (lowest) value for each column among industries.

Figure 84: NTM P/E vs S&P 500

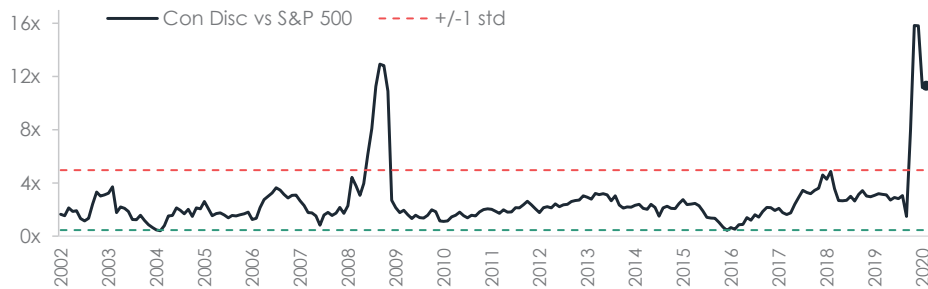


Figure 85: Valuation Composite vs S&P 500

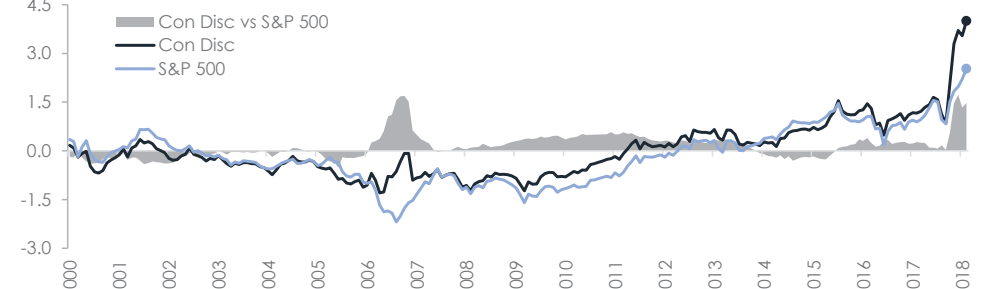


Figure 86: Blended EPS Growth vs S&P 500 (Average of NTM & LTM)

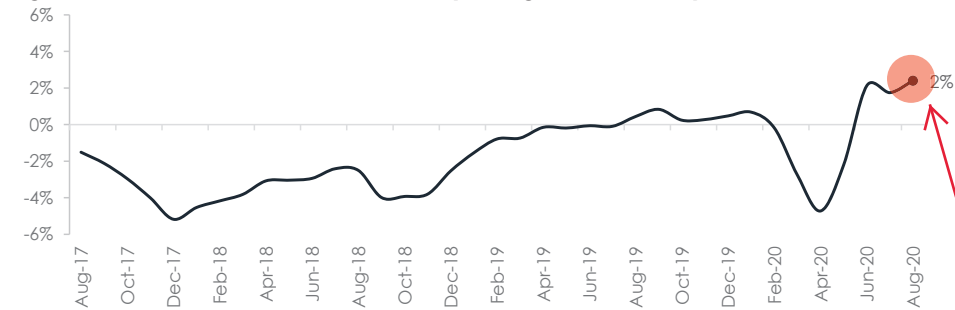
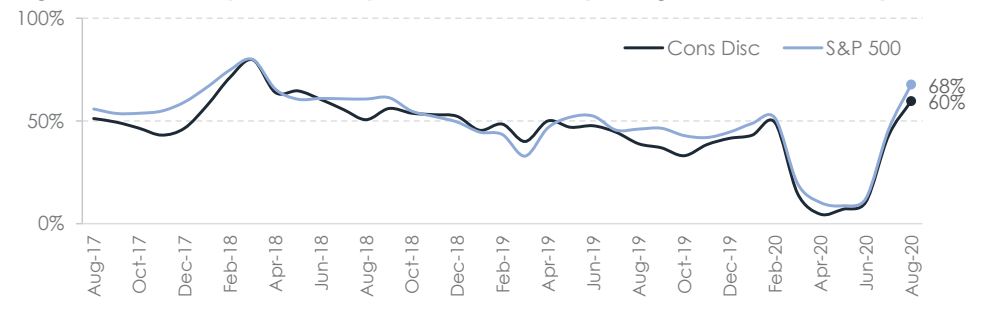


Figure 87: % of Companies with Upward EPS Revisions (Average of 2020 & 2021 EPS)



Consumer Discretionary's blended EPS is highly susceptible to a second infection wave. There is also the risk casinos, hotels, and cruises face a prolonged downturn if the consumer weakens.

Consumer Discretionary

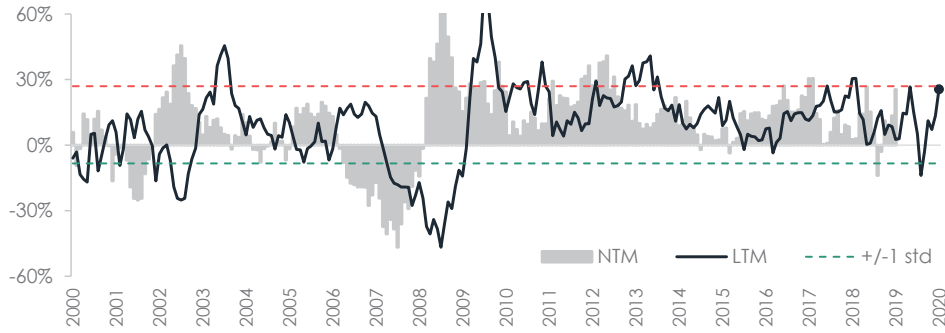
Technicals & Sentiment

Monthly Report

September 1, 2020

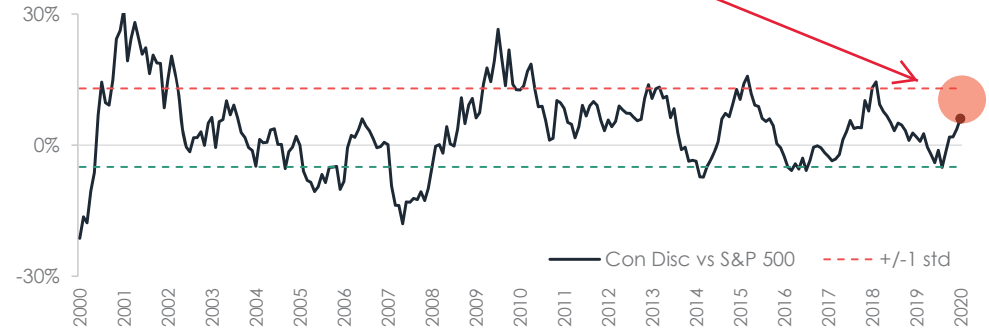
Since 2010, Consumer Discretionary's trading pattern followed the +/-1std boundaries closely. Given the strength of this relationship, it appears the sector can outperform the S&P 500 for a bit longer.

Figure 88: Y/Y Sector Returns



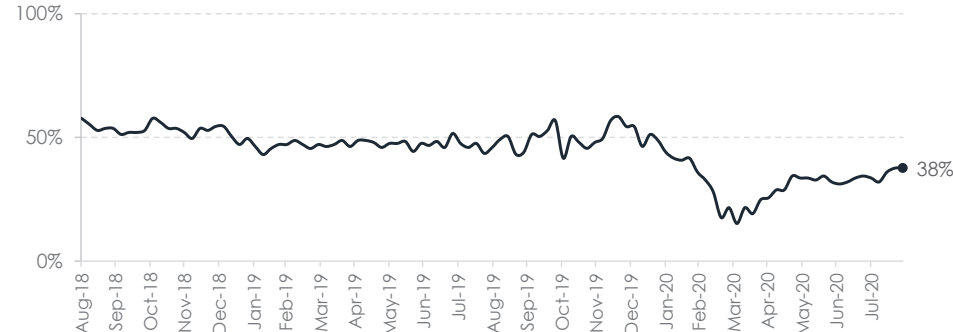
Source: MarketDesk Research

Figure 89: Y/Y Relative Sector Returns vs S&P 500



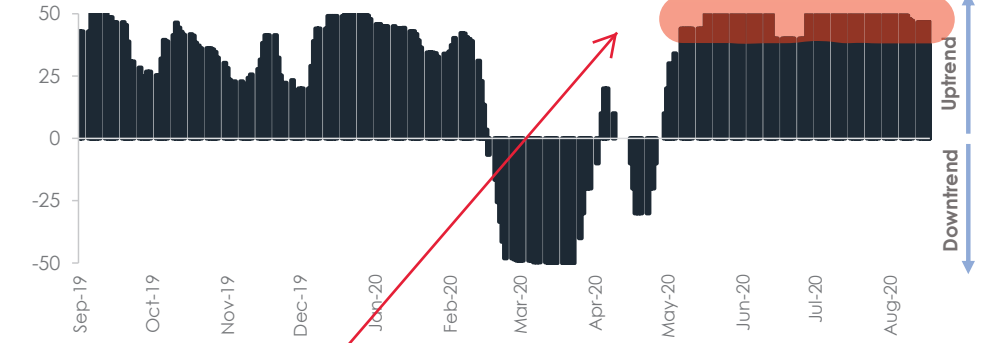
Source: MarketDesk Research

Figure 90: % of Companies Outperforming S&P 500 LTM Returns



Source: MarketDesk Research

Figure 91: Sector High-Low Index



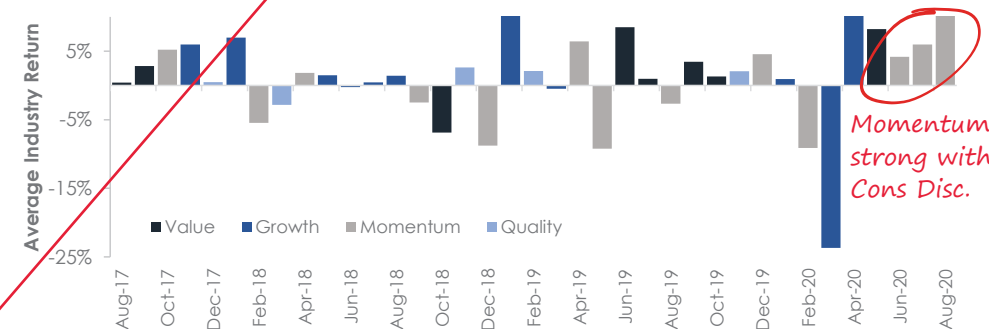
Source: MarketDesk Research. $H/L Index = (\% \text{ of New 52wk Highs vs } \% \text{ of New 52wk Lows}) - (50\%)$

Figure 92: Sector ETF Flows (\$ USD Billions)



Source: MarketDesk Research. **ETF Flows** are based on 5 largest sector ETFs.

Figure 93: Largest Factor Driving Industry Performance Each Month



Source: MarketDesk Research. **Value** is based on NTM P/E. **Growth** is based on blended EPS growth (NTM & LTM). **Quality** is based on Profit Margin. **Momentum** is based on previous 3-month returns.

Consumer Discretionary's high-low index remained strong for the fourth consecutive month since May as companies continued to reach new highs. It suggest market sentiment overall remains highly positive. If the index can remain strong, Consumer Discretionary can keep moving higher.

Industrials

Fundamentals

We would not chase the Airline rally higher. Leisure travel is returning, but business travel is not rebounding as quickly.

Industrials are significantly overvalued vs their historical valuation composite. The sector's earnings volatility, especially airlines, is not making it easy to determine exactly how overvalued the sector is currently.

Monthly Report

September 1, 2020

Figure 94: Sector & Industry Snapshot

Sector / Industry	Valuation Multiples				Operating Ratios			Earnings Growth				Performance			
	LTM P/E	NTM P/E	P/B	EV/EBITDA	EBIT Margin	Profit Margin	Debt/Equity	LTM EPS Growth	NTM EPS Growth	LTM Sales Growth	NTM Sales Growth	Price Return			
												1M	3M	6M	1Y
Industrials	31.3x	26.2x	4.7x	15.1x	9.9%	6.7%	1.5x	-36.4%	41.4%	-10.1%	2.4%	8%	15%	6%	3%
Airlines	0.5x	13.0x	1.9x	24.5x	-26.2	-22.4	2.5x	-197.6	-26.2	-37.9	26.4	19	20	-28	-42
Air Freight/Couriers	19.5x	21.1x	7.1x	14.0x	7.3	5.7	1.6x	11.0	6.0	3.2	4.5	17	56	64	36
Engineering & Construction	22.9x	15.2x	2.0x	11.4x	4.5	2.2	0.5x	90.5	71.7	-6.6	-1.2	11	15	5	4
Trucking	28.9x	26.8x	3.7x	12.0x	6.7	4.1	0.6x	-9.8	23.9	-4.6	3.1	10	15	44	44
Railroads	22.2x	21.5x	5.5x	14.4x	38.9	25.9	1.3x	-7.3	8.9	-8.9	1.7	10	13	17	20
Aerospace & Defense	30.1x	23.0x	4.0x	15.1x	7.7	5.2	1.7x	-34.2	40.3	-7.2	3.4	6	2	-18	-24
Building Products	22.5x	22.7x	11.9x	14.2x	11.3	6.6	2.6x	-1.8	7.8	0.5	3.2	6	23	15	22
Personnel Services	17.2x	17.1x	2.6x	9.2x	4.1	2.6	0.4x	-23.5	3.5	-8.6	-0.4	5	12	1	-9
Marine Shipping	10.7x	7.1x	0.6x	6.8x	33.1	9.1	1.3x	131.9	34.1	2.9	-1.9	0	-6	-20	-31

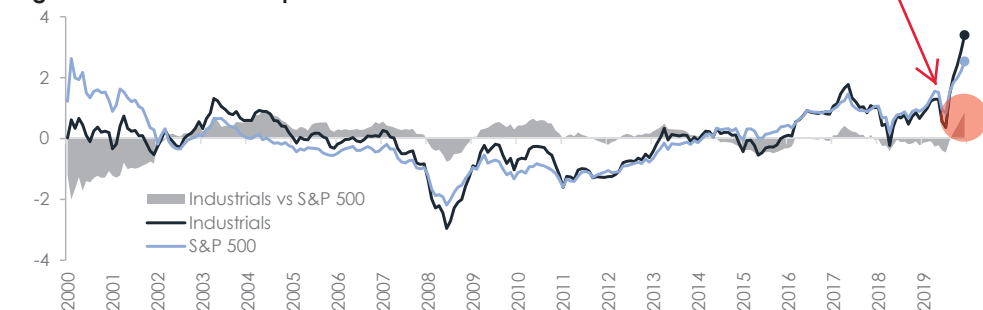
The color blue (red) highlights the highest (lowest) value for each column among industries.

Figure 95: NTM P/E vs S&P 500



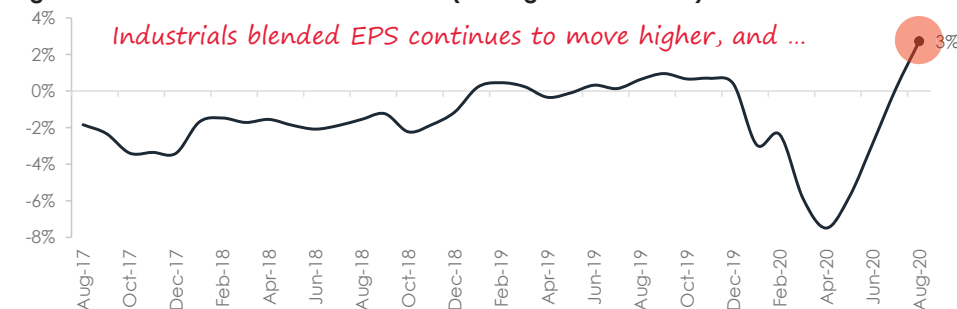
Source: MarketDesk Research. Note: 1 std = 10-year avg +/- 10-year standard deviation.

Figure 96: Valuation Composite vs S&P 500



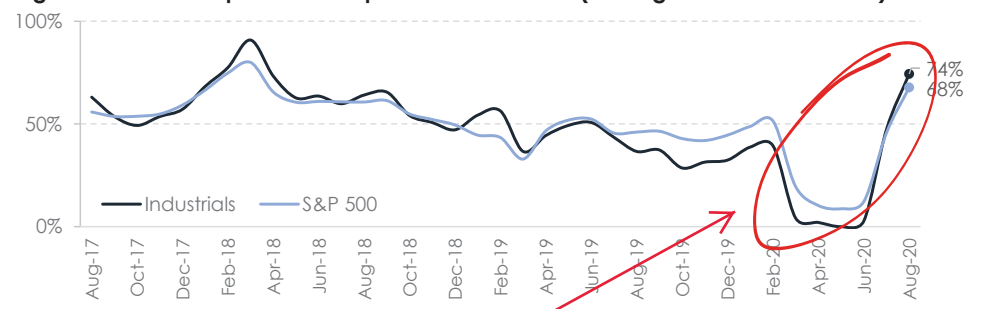
Source: MarketDesk Research. Composite is average Z-Score of LTM P/E, NTM P/E, P/B, EV/JS, EV/EBITDA.

Figure 97: Blended EPS Growth vs S&P 500 (Average of NTM & LTM)



Source: MarketDesk Research

Figure 98: % of Companies with Upward EPS Revisions (Average of 2020 & 2021 EPS)



Source: MarketDesk Research

... the percentage of upward revisions indicates underlying strength in the move higher. This follows the near 0% upward revisions from February through April 2020. Wall Street appears to be readjusting its models higher following 2Q20 earnings.

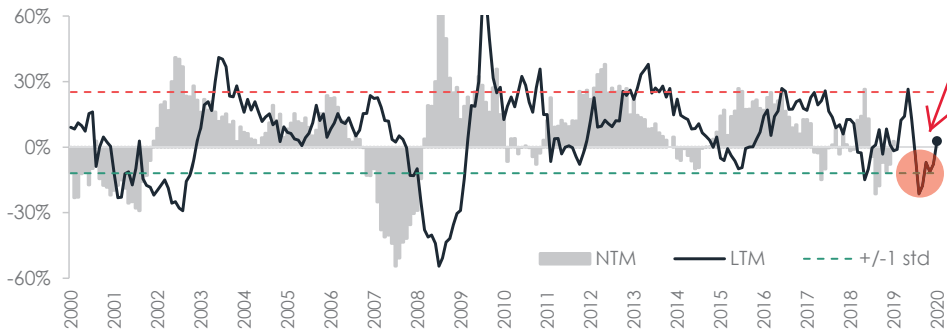
Industrials

Technicals & Sentiment

Monthly Report

September 1, 2020

Figure 99: Y/Y Sector Returns



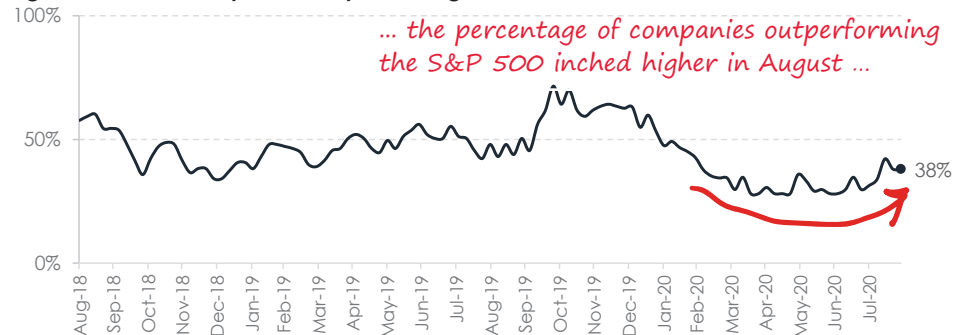
Source: MarketDesk Research

Figure 100: Y/Y Relative Sector Returns vs S&P 500



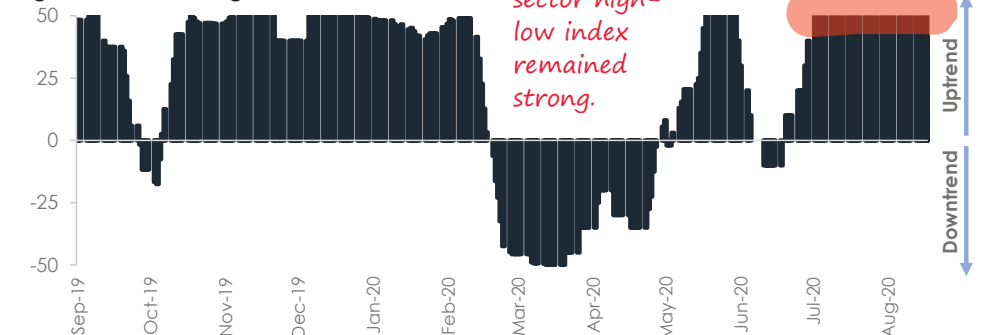
Source: MarketDesk Research

Figure 101: % of Companies Outperforming S&P 500 LTM Returns



Source: MarketDesk Research

Figure 102: Sector High-Low Index



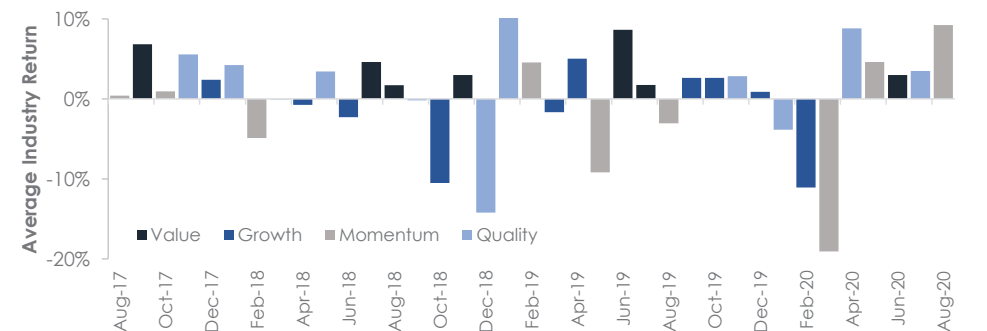
Source: MarketDesk Research. **H/L Index** = (% of New 52wk Highs vs % of New 52wk Lows)-[50%]

Figure 103: Sector ETF Flows (\$ USD Billions)



Source: MarketDesk Research. **ETF Flows** are based on 5 largest sector ETFs.

Figure 104: Largest Factor Driving Industry Performance Each Month



Source: MarketDesk Research. **Value** is based on NTM P/E. **Growth** is based on blended EPS growth (NTM & LTM). **Quality** is based on Profit Margin. **Momentum** is based on previous 3-month returns.

Industrials bounced hard off the -1std line, but it was not enough to keep pace with the broader S&P 500. However, ...

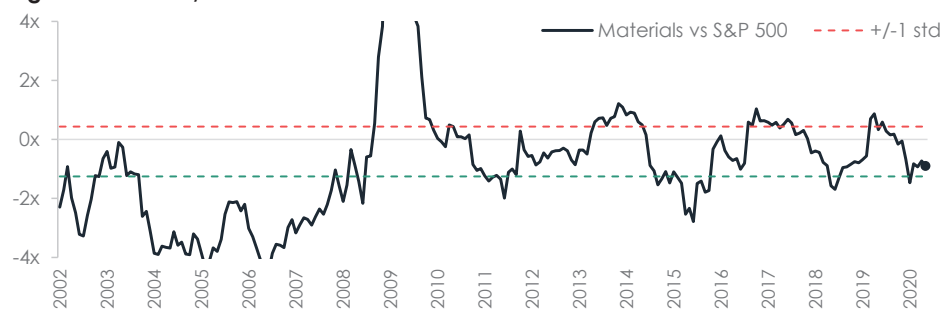
Materials' industry performance during August 2020 is indicative of an economic recovery and risk-on sentiment. Aluminum and steel were strong performers, while precious metals underperformed. It is good from a sentiment perspective to see new industries lead the way, but we remain hesitant to upgrade the sector to N.

Figure 105: Sector & Industry Snapshot

Sector / Industry	Valuation Multiples				Operating Ratios			Earnings Growth				Performance			
	LTM P/E	NTM P/E	P/B	EV/EBITDA	EBIT Margin	Profit Margin	Debt/Equity	LTM EPS Growth	NTM EPS Growth	LTM Sales Growth	NTM Sales Growth	Price Return			
												1M	3M	6M	1Y
Materials	23.1x	22.0x	2.8x	13.4x	13.1%	8.6%	0.8x	-19.9%	13.2%	-11.3%	1.9%	4%	14%	19%	11%
Aluminum	45.6x	36.4x	1.6x	5.6x	6.9	0.9	1.0x	-68.1	49.9	-30.7	-9.0	18	38	-12	-7
Pulp & Paper	34.5x	25.8x	0.9x	7.7x	3.9	1.6	0.7x	-66.0	97.6	-11.1	-2.9	9	12	-3	-7
Steel	98.2x	60.5x	1.3x	8.8x	4.0	1.2	0.8x	-77.2	385.3	-11.7	2.0	8	10	3	-7
Containers/Packaging	16.2x	16.7x	3.1x	10.0x	10.5	6.2	1.8x	-11.9	0.4	-1.4	0.4	6	10	10	2
Chemicals (Agricultural)	21.7x	19.3x	1.5x	11.2x	12.1	6.2	0.4x	-8.5	16.4	-0.8	2.3	5	13	11	4
Forest Products	23.3x	21.1x	4.6x	15.5x	7.1	4.2	0.6x	29.9	23.7	0.8	4.3	5	32	34	52
Chemicals (Diversified)	15.6x	15.4x	1.5x	11.1x	15.1	9.8	0.7x	-36.1	7.9	-24.6	1.7	4	11	19	-11
Construction Materials	22.8x	20.6x	2.5x	11.8x	15.5	9.6	0.8x	2.4	4.3	1.1	2.2	1	10	-5	-15
Precious Metals	36.6x	23.9x	2.6x	14.1x	20.9	17.7	0.3x	85.3	83.5	20.3	16.8	-2	16	52	69

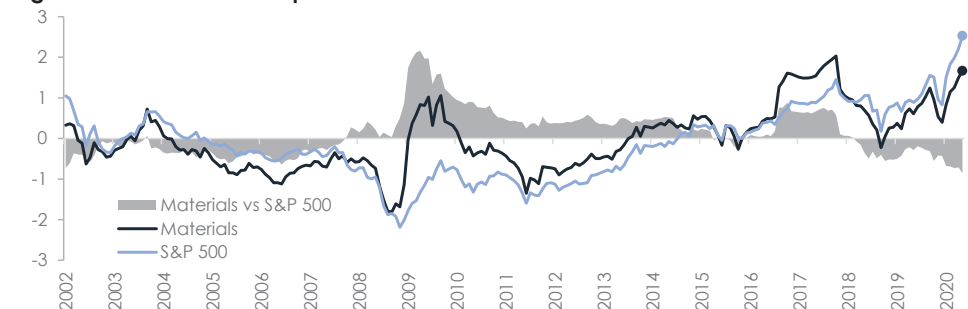
The color blue (red) highlights the highest (lowest) value for each column among industries.

Figure 106: NTM P/E vs S&P 500



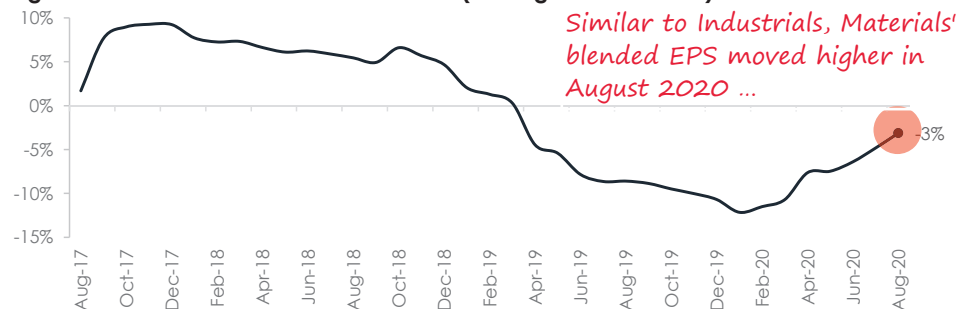
Source: MarketDesk Research. Note: 1 std = 10-year avg +/- 10-year standard deviation.

Figure 107: Valuation Composite vs S&P 500



Source: MarketDesk Research. Composite is average Z-Score of LTM P/E, NTM P/E, P/B, EV/S, EV/EBITDA.

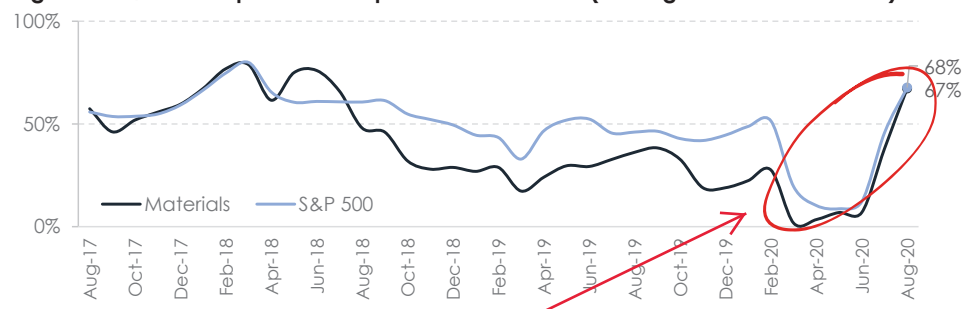
Figure 108: Blended EPS Growth vs S&P 500 (Average of NTM & LTM)



Source: MarketDesk Research

Similar to Industrials, Materials' blended EPS moved higher in August 2020 ...

Figure 109: % of Companies with Upward EPS Revisions (Average of 2020 & 2021 EPS)



Source: MarketDesk Research

... with the upward revision ratio keeping pace with the S&P 500 after trailing from March through June 2020. Again, we attribute this to Wall Street models being updated during 2Q20 earnings.

Materials

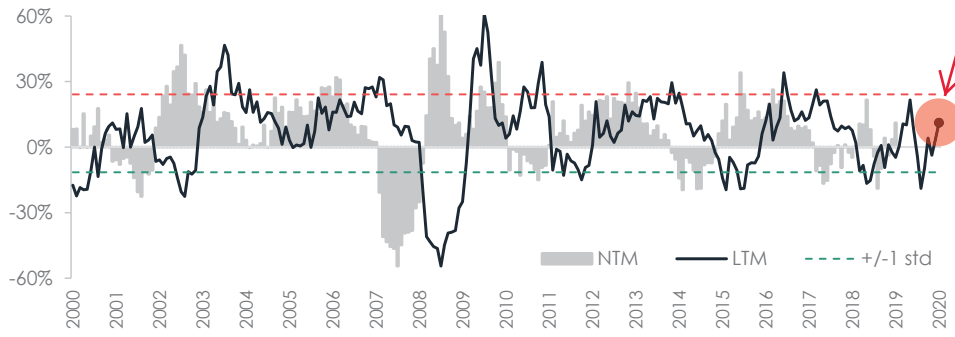
Technicals & Sentiment

Monthly Report

September 1, 2020

Similar to Industrials, Materials bounced hard off the -1std line, but it was not enough to keep pace with the broader S&P 500.

Figure 110: Y/Y Sector Returns



Source: MarketDesk Research

Figure 111: Y/Y Relative Sector Returns vs S&P 500



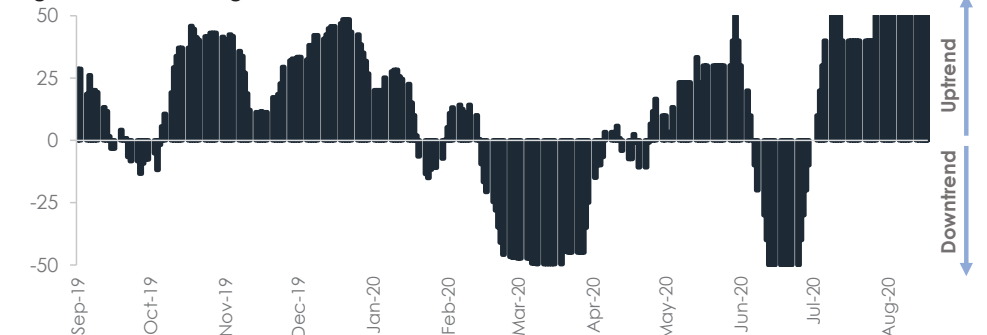
Source: MarketDesk Research

Figure 112: % of Companies Outperforming S&P 500 LTM Returns



Source: MarketDesk Research

Figure 113: Sector High-Low Index



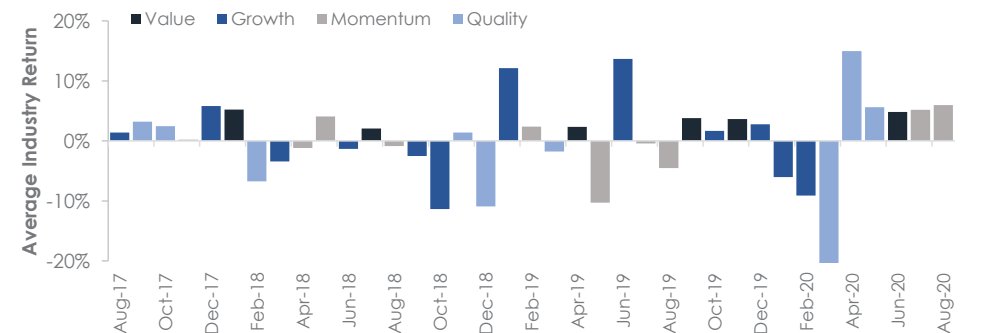
Source: MarketDesk Research. $H/L\ Index = (\% \text{ of New 52wk Highs vs } \% \text{ of New 52wk Lows}) - 50\%$

Figure 114: Sector ETF Flows (\$ USD Billions)



Source: MarketDesk Research. **ETF Flows** are based on 5 largest sector ETFs.

Figure 115: Largest Factor Driving Industry Performance Each Month



Source: MarketDesk Research. **Value** is based on NTM P/E. **Growth** is based on blended EPS growth (NTM & LTM). **Quality** is based on Profit Margin. **Momentum** is based on previous 3-month returns.

Financials

Fundamentals

We continue to UW Financials due to negative thematic catalysts (e.g. low interest rates, expected weak credit growth, & risk of elevated credit losses). Within Financials, we remain tactically OW Investment Banks and P&C Insurance. Refer to the 5/22/2020 Friday Strategist for the investment bank position, and the 6/12/2020 Friday Strategist for our tactical P&C Insurance position.

Monthly Report

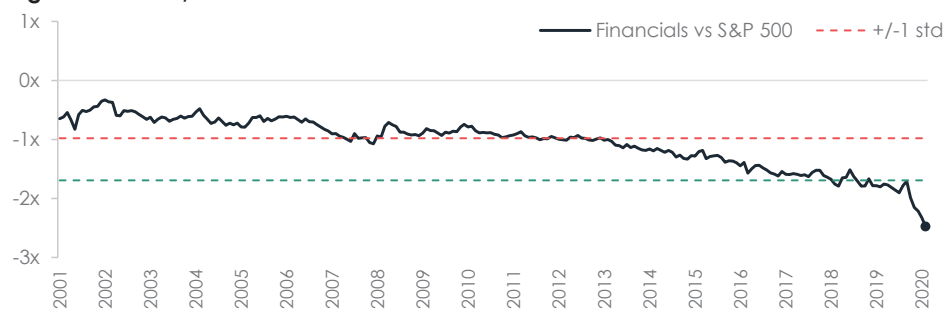
September 1, 2020

Figure 116: Sector & Industry Snapshot

Sector / Industry	Valuation Multiples				Operating Ratios			Earnings Growth				Performance			
	LTM P/E	NTM P/E	P/B	EV/EBITDA	EBIT Margin	Profit Margin	Debt/Equity	LTM EPS Growth	NTM EPS Growth	LTM Sales Growth	NTM Sales Growth	Price Return			
												1M	3M	6M	1Y
Financials	15.5x	14.4x	1.1x	14.0x	26.1%	14.0%	0.3x	-21.1%	9.7%	-1.3%	1.6%	4%	7%	-6%	-7%
Investment Banks/Brokers	14.7x	14.6x	1.5x	17.9x	29.9	20.1	5.5x	-8.5	1.7	2.1	0.3	6	6	4	4
Regional Banks	14.1x	13.0x	0.9x	-149.9x	41.4	18.9	0.8x	-25.7	11.4	8.2	2.4	3	3	-15	-18
Major Banks	15.6x	13.7x	0.9x	-	38.4	16.2	-	-36.3	21.9	-2.9	-2.5	3	2	-18	-19
Life/Health Insurance	7.8x	6.9x	0.5x	-	11.2	9.1	-	-3.7	6.9	-3.0	1.0	3	3	-14	-20
P&C Insurance	14.8x	13.6x	1.3x	-	12.0	9.5	-	3.2	9.7	4.6	5.9	2	10	-3	-12
Investment Managers	15.9x	15.3x	2.3x	20.6x	30.1	22.4	1.1x	-3.7	5.2	-0.2	5.4	1	9	8	13
Savings Banks	14.0x	13.1x	0.9x	-	39.0	23.3	-	-12.1	2.3	5.0	5.5	-1	-4	-23	-28
Insurance Brokers	23.0x	22.5x	5.2x	24.8x	21.8	16.5	1.3x	11.6	7.5	2.9	3.7	-1	7	7	11

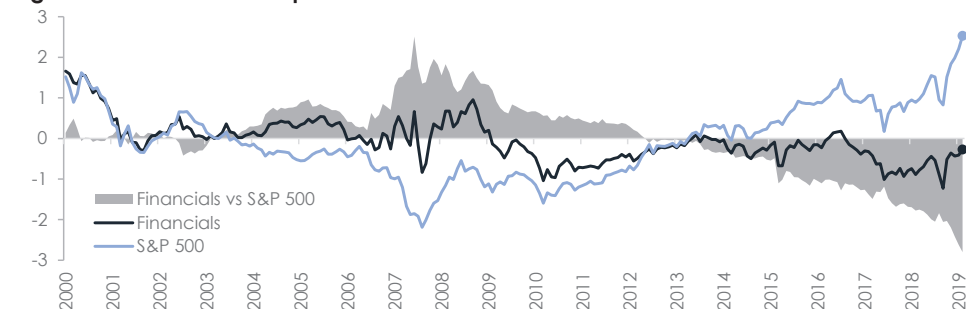
The color blue (red) highlights the highest (lowest) value for each column among industries.

Figure 117: Price/Book Ratio vs S&P 500



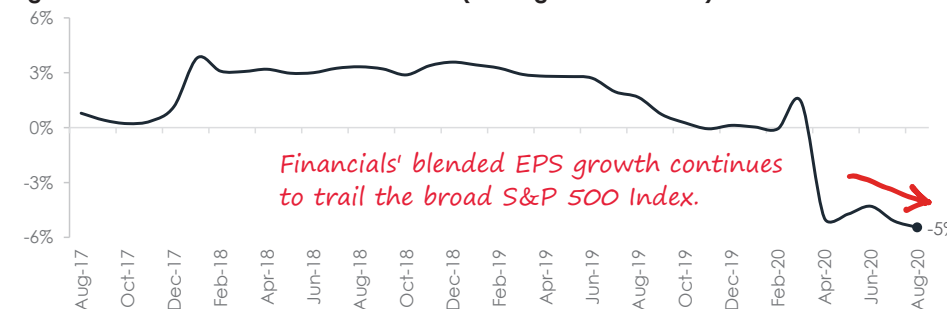
Source: MarketDesk Research. Note: 1 std = 10-year avg +/- 10-year standard deviation.

Figure 118: Valuation Composite vs S&P 500



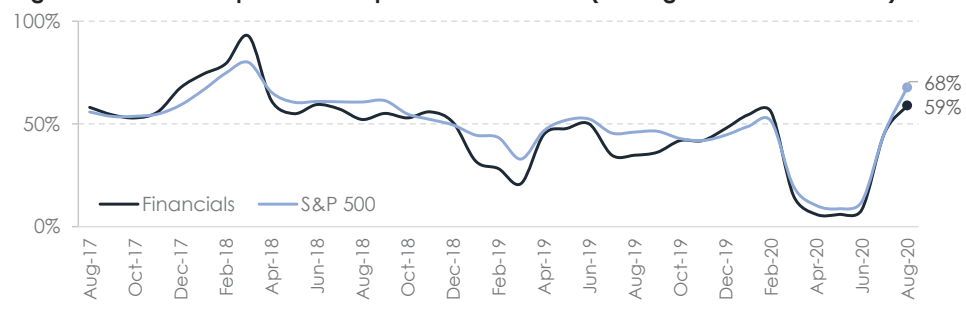
Source: MarketDesk Research. Composite is average Z-Score of LTM P/E, NTM P/E, P/B, EV/S, EV/EBITDA.

Figure 119: Blended EPS Growth vs S&P 500 (Average of NTM & LTM)



Source: MarketDesk Research

Figure 120: % of Companies with Upward EPS Revisions (Average of 2020 & 2021 EPS)



Source: MarketDesk Research

Financials

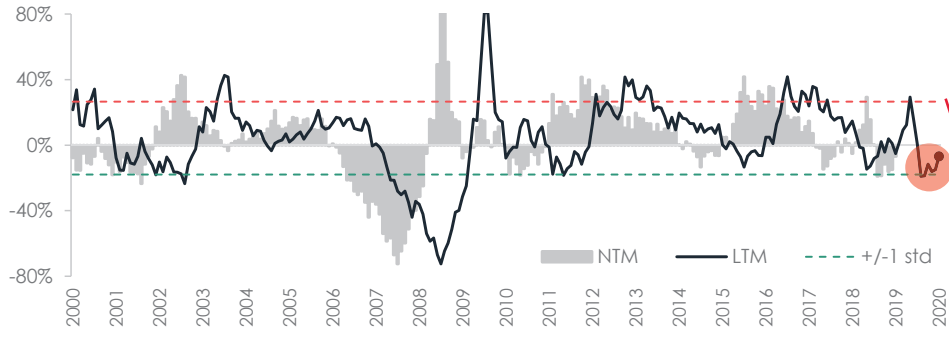
Technicals & Sentiment

Monthly Report

September 1, 2020

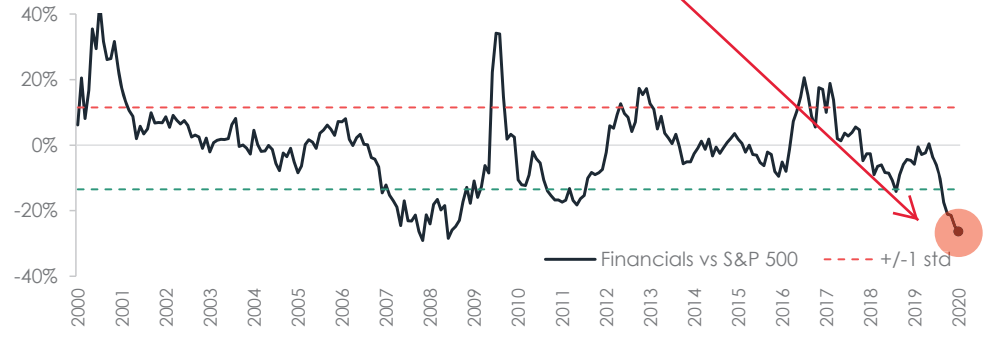
Financials found support in August at the -1std line. Again, it was not enough to keep pace with the broader S&P 500 (see Materials & Industrials for the same technical issue).

Figure 121: Y/Y Sector Returns



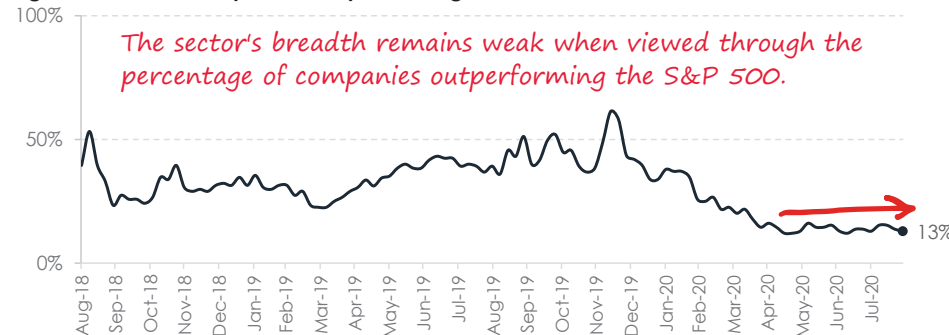
Source: MarketDesk Research

Figure 122: Y/Y Relative Sector Returns vs S&P 500



Source: MarketDesk Research

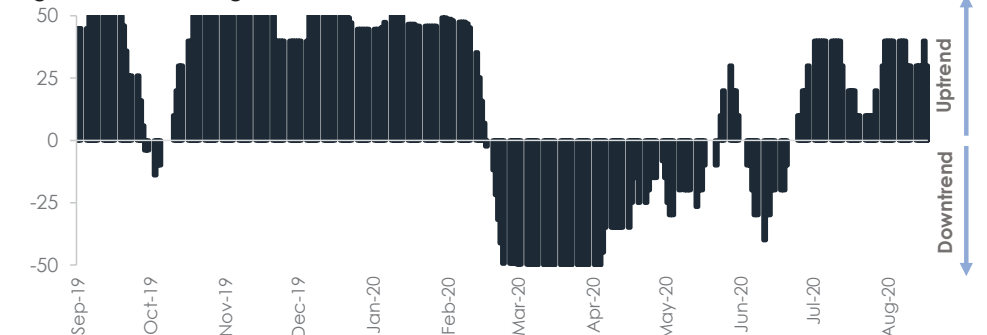
Figure 123: % of Companies Outperforming S&P 500 LTM Returns



Source: MarketDesk Research

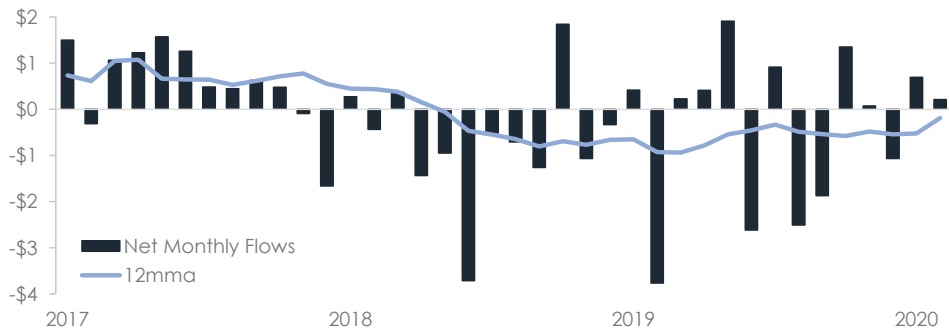
The sector's breadth remains weak when viewed through the percentage of companies outperforming the S&P 500.

Figure 124: Sector High-Low Index



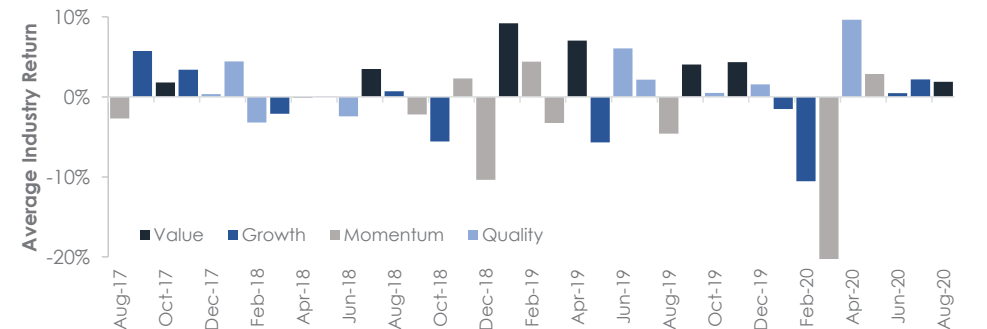
Source: MarketDesk Research. $H/L\ Index = (\% \text{ of New 52wk Highs vs } \% \text{ of New 52wk Lows}) - 50\%$

Figure 125: Sector ETF Flows (\$ USD Billions)



Source: MarketDesk Research. **ETF Flows** are based on 5 largest sector ETFs.

Figure 126: Largest Factor Driving Industry Performance Each Month



Source: MarketDesk Research. **Value** is based on NTM P/E. **Growth** is based on blended EPS growth (NTM & LTM). **Quality** is based on Profit Margin. **Momentum** is based on previous 3-month returns.

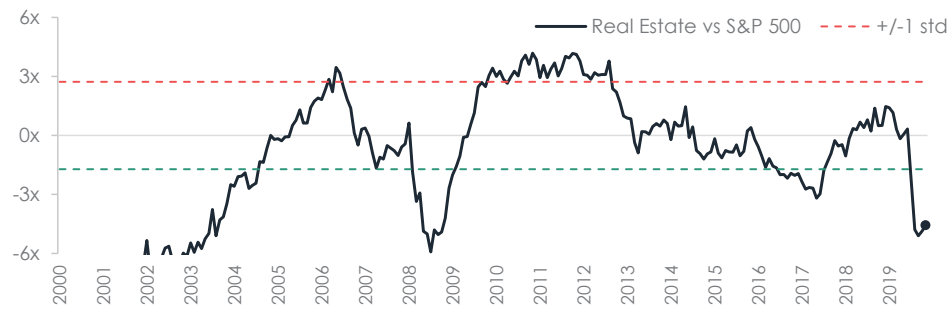
Figure 127: Sector & Industry Snapshot

Sector / Industry	Valuation Multiples				Operating Ratios			Earnings Growth				Performance			
	LTM P/E	NTM P/E	P/B	EV/EBITDA	EBIT Margin	Profit Margin	Debt/Equity	LTM EPS Growth	NTM EPS Growth	LTM Sales Growth	NTM Sales Growth	Price Return			
Real Estate	18.6x	18.2x	2.4x	18.4x	20.3%	11.6%	1.2x	-7.2%	0.9%	-3.8%	1.6%	0%	6%	-6%	-11%
Real Estate Development	22.4x	18.1x	1.5x	17.7x	6.7	2.9	1.5x	-33.9	3.9	-9.3	3.6	6	13	-17	-15
REITs	18.9x	17.8x	2.3x	23.5x	21.8	8.0	1.6x	-13.5	0.5	-4.3	2.8	0	6	-8	-13

The color blue (red) highlights the highest (lowest) value for each column among industries.

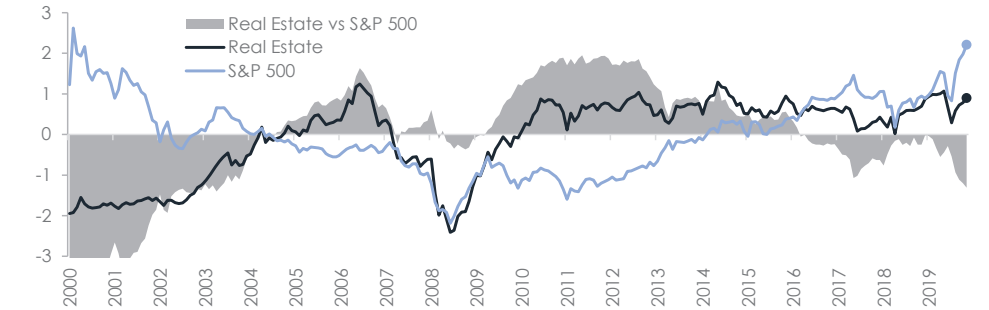
We remain N rated the Real Estate sector despite the uncertainty surrounding its future. The sector faces two risks today: (1) future rent revenue declines due to the work from home trend and potential tenant default risk and (2) property value declines as properties' cash flows are stressed. To the sector's advantage, REITs are backed by tangible assets, while ownership in other sectors is less tangible and more based on earnings power. Real Estate's tangible backing acts as a floor to the sector's value, while other sectors do not enjoy the same degree of tangible backing. We continue to believe the sector can play a dual combination role of diversification (portfolio stabilization) and yield generation (low bond yields) in today's market environment.

Figure 128: NTM P/E vs S&P 500



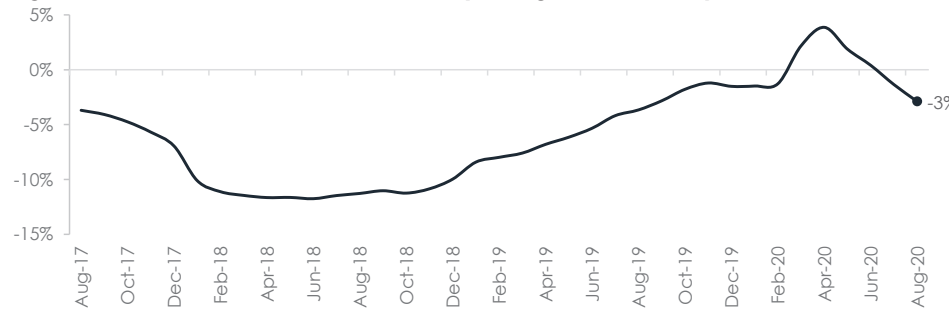
Source: MarketDesk Research. **Note:** 1 std = 10-year avg +/- 10-year standard deviation.

Figure 129: Valuation Composite vs S&P 500



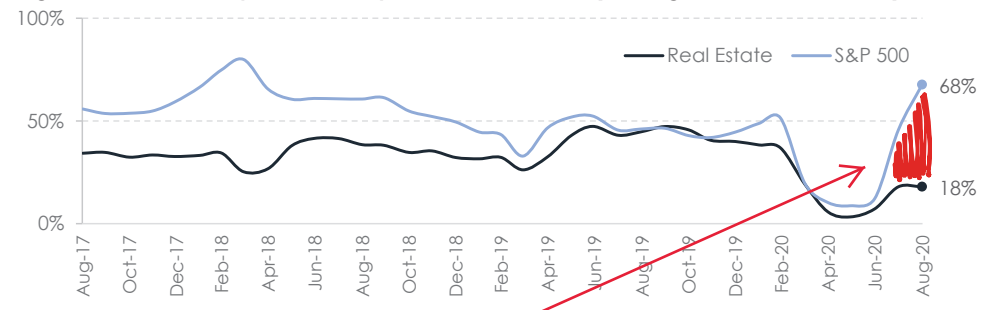
Source: MarketDesk Research. **Composite** is average Z-Score of LTM P/E, NTM P/E, P/B, EV/S, EV/EBITDA.

Figure 130: Blended EPS Growth vs S&P 500 (Average of NTM & LTM)



Source: MarketDesk Research

Figure 131: % of Companies with Upward EPS Revisions (Average of 2020 & 2021 EPS)



Source: MarketDesk Research

Real Estate's upward revisions continue to meaningfully trail the broad S&P 500 Index.

Real Estate

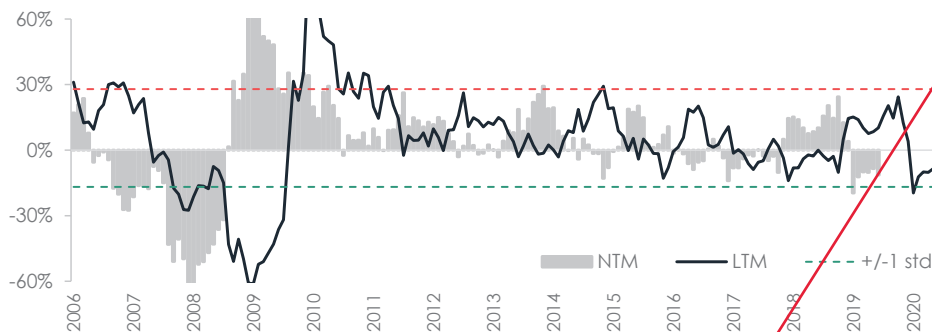
Technicals & Sentiment

We believe Figure 134 highlights Real Estate's portfolio stabilization benefit. The percent of companies outperforming the S&P 500 surged higher during the 4Q18 market selloff, moved lower to start 2019, and then trended higher as the Federal Reserve cut interest rates during 2H 2019. As Fed stimulus powered the S&P 500 higher in 2020, the sector reverted to underperforming the S&P 500.

Monthly Report

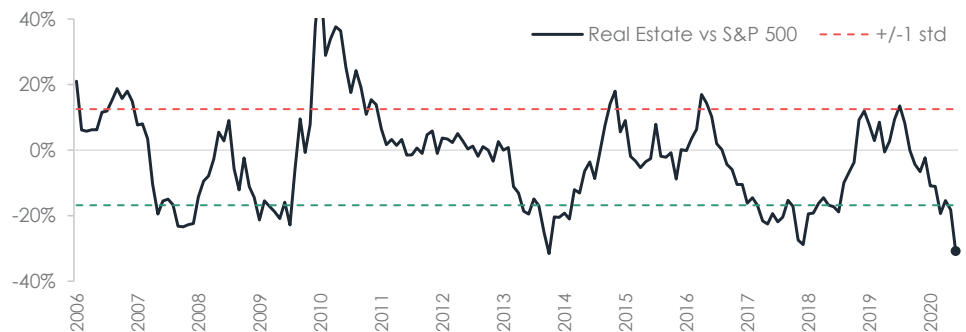
September 1, 2020

Figure 132: Y/Y Sector Returns



Source: MarketDesk Research

Figure 133: Y/Y Relative Sector Returns vs S&P 500



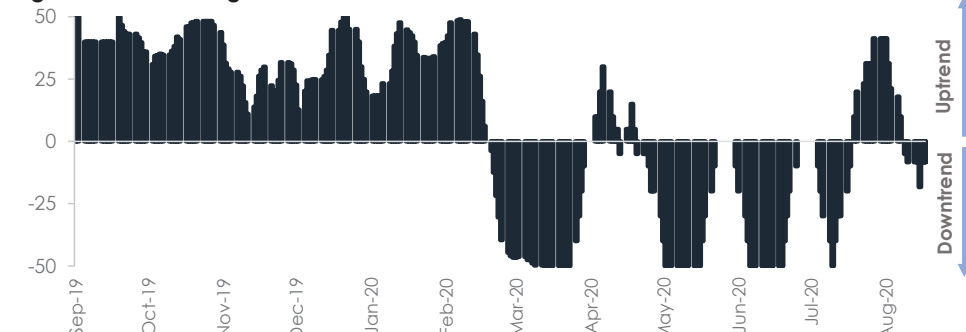
Source: MarketDesk Research

Figure 134: % of Companies Outperforming S&P 500 LTM Returns



Source: MarketDesk Research

Figure 135: Sector High-Low Index



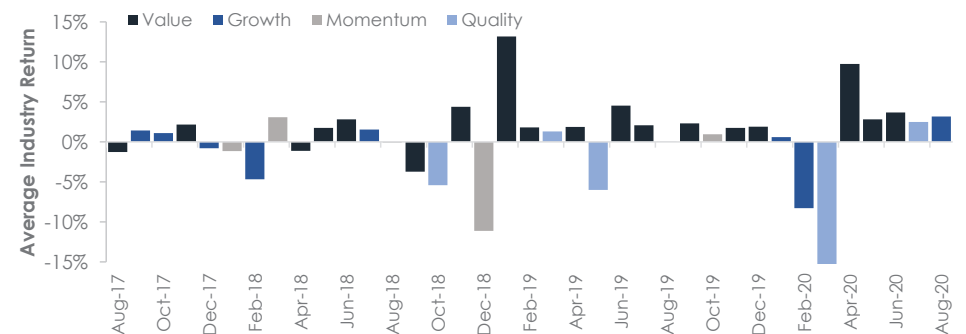
Source: MarketDesk Research. H/L Index = (% of New 52wk Highs vs % of New 52wk Lows)-[50%]

Figure 136: Sector ETF Flows (\$ USD Billions)



Source: MarketDesk Research. ETF Flows are based on 5 largest sector ETFs.

Figure 137: Largest Factor Driving Industry Performance Each Month



Source: MarketDesk Research. Value is based on NTM P/E. Growth is based on blended EPS growth (NTM & LTM). Quality is based on Profit Margin. Momentum is based on previous 3-month returns.

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