

Markets Stumble to End January; No Sector Rating Changes

Main Points

Macro Environment: The vaccine rally that kicked off at the start of November 2020 carried into the first half of January but ultimately stumbled to end the month. Stretched valuations and an underwhelming vaccine rollout left the stock market vulnerable to a sentiment shift. The GameStop short squeeze and continued line of SPACs announcing deals were judged as too indicative of irrational exuberance. The result was a quick selloff to end the month as investors cut their risk exposures. We highlighted the potential for a 1Q21 selloff in recent publications of the *Weekly Portfolio Strategy Note*. However, the month-end selloff did not change our longer-term market view. We acknowledge sentiment is irrational in specific corners of the market, but other parts of the market remain orderly. The list of positive catalysts remains intact in our view: (1) the Federal Reserve remains committed to supporting the economy; (2) the Biden administration is pushing for additional fiscal stimulus; (3) COVID-19 case counts are trending lower and vaccine distribution is underway; and (4) operating leverage could lead to better-than-expected earnings. The near-term path is likely to be bumpy, but we believe the stock market can come out the other side in good shape.

Monthly Sector Recap: The S&P 500 ended the month slightly lower, but the real story during January was the underlying sector dispersion. Cyclical sectors jumped out to an early lead to start the new year before underperforming in the second half selloff. In contrast, Tech, Comm Svcs, and Real Estate started slow before outperforming to end the month. At the individual sector level, Energy was a top three performing sector for a third consecutive month, while Cons Stpls was a bottom three performing sector for a third consecutive month. 1 month Sales estimate changes for Materials, Financials, and Energy were each above +10% compared to the S&P 500's -1% estimate change and Cons Stpls' -5% revision. 1 month EPS estimate changes for Energy (+33%) and Financials (+9%) far outpaced the S&P 500 (+4%), while Industrials (-2%) and Real Estate (-1%) lagged. From a flows perspective, Financials, Energy, and Materials experienced the largest percentage of net inflows, while Cons Stpls, Comm Svcs, and Real Estate experienced the largest percentage of net outflows.

Sector Positioning

- ▶ **Health Care:** Second best performing sector in January (**Fig 3**); % of upward EPS revisions trailing S&P 500 (**Fig 21**)
- ▶ **Cons Stpls:** Relative underperformer for third consecutive month (**Fig 3**); Ninth consecutive month of net outflows (**Fig 37**)
- ▶ **Energy:** Top performing sector in January (**Fig 3**); Improving sector breadth (**Fig 57**); Potential catch-up trade (**Figs 55-56**)
- ▶ **Tech:** Strong margins make it a portfolio stabilizer (**Figs 5 & 62**); Expensive valuation (**Fig 63**) & technicals (**Figs 66-67**) concerning
- ▶ **Comm Svcs:** Lowest conviction OW due to antitrust headline risk, technicals (**Figs 77-78**), & lack of sector breadth (**Fig 82**)
- ▶ **Cons Disc:** Projected 2021 margin expansion (**Fig 84**); Improving sector breadth (**Fig 90**), but technical setup concerning (**Figs 88-89**)
- ▶ **Industrials:** Projected margin expansion (**Fig 95**); % of upward EPS revisions leading S&P 500 (**Fig 98**); 10mo sustained inflows (**Fig 103**)
- ▶ **Materials:** % of upward revisions below S&P 500 (**Fig 109**); Improving sector breadth (**Fig 112**) & net inflows (**Fig 114**)
- ▶ **Financials:** % of upward revisions above S&P 500 (**Fig 120**); Potential catch-up trade (**Figs 121-122**); Improving sector breadth (**Fig 123**)

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Monthly Insights

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U.S. Sector Ratings

12-18 Month Investment Horizon

Sector	Our View	Last Chg
Comm Svcs	OW	Dec-19
Tech	OW	Dec-19
Industrials	OW	Jan-21
Cons Disc	N	Dec-19
Health Care	N	Jan-21
Real Estate	N	Dec-19
Financials	N	Jan-21
Utilities	N	Jul-20
Cons Staples	UW	Jan-21
Materials	UW	Dec-19
Energy	UW	Sep-20

Source: MarketDesk Research

[Research Portal](#) →

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.

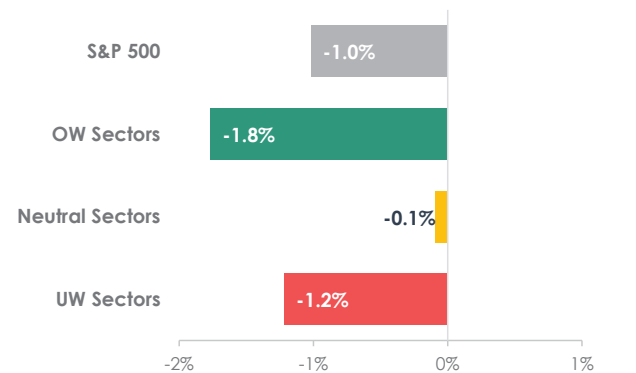
● Underweight (UW) ● Neutral (N) ● Overweight (OW)

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		•	•	●	0.92	0.74%	-0.2	20.6	27.9	-4.6	-1.7	24.0	Lower conviction OW due to: (1) increasing antitrust risk for social media companies and (2) a lack of depth
Tech		•	•	●	1.22	0.93%	-0.8	17.2	36.5	-0.8	-1.2	4.8	Expensive valuations are a headwind, but Tech is essential to businesses and leveraged to secular trends
Industrials		•	•	●	0.89	1.62%	-4.3	19.1	6.2	1.2	33.0	23.0	Low interest rates & less confrontational Biden trade agenda could spur fixed capital investment
Cons Disc		•	●	•	0.97	0.82%	0.8	18.7	30.3	1.1	11.0	3.1	Benefits from vaccine rollout; Higher savings rate & more fiscal stimulus positive, but high unemployment negative
Real Estate		•	●	•	0.79	3.92%	0.0	6.8	-6.0	-1.0	5.1	-4.8	Faces post-pandemic demand & rent uncertainty; Firm N rating due to yield & diversification benefits
Health Care		•	●	•	0.78	1.47%	1.4	9.8	17.7	-0.2	1.0	13.0	Potential Medicaid rate cuts & Biden admin push for price controls = headwinds; Defensive industry
Utilities		•	●	•	0.60	3.17%	-0.9	3.8	-7.0	-0.5	1.1	10.0	Attractive dividend yield; Prefer Utilities over Cons Staples if looking for a defensive play
Financials		•	●	•	0.89	2.07%	-1.8	21.7	-1.4	17.0	33.0	15.0	Vaccine distro, resilient earnings, yield curve steepening, & more stimulus could lead to 2021 reserve releases
Energy		●	•	•	1.20	5.42%	3.7	12.1	-22.4	12.0	30.0	74.0	Expect oil demand to gradually recover but remain volatile; Asset write-downs are still a material risk
Cons Stpls		●	•	•	0.67	2.64%	-5.0	3.7	4.1	-6.6	-14.0	-9.8	Margins expanded in pandemic, but low beta likely to underperform in rally; Less time at home = headwind
Materials		●	•	•	0.96	1.76%	-2.4	18.1	24.7	9.7	54.0	30.0	Ability to raise prices if production costs increase; Stimulus could lead to inflation & sector provides hedge
U.S. Sector Groups													
Cyclicals		•	●	•	0.95	1.69%	-1.2	17.5	16.9	3.2	19.0	14.0	
Defensive		•	●	•	0.68	2.42%	-1.5	5.8	4.9	-2.4	-4.0	4.3	

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 — January 2021

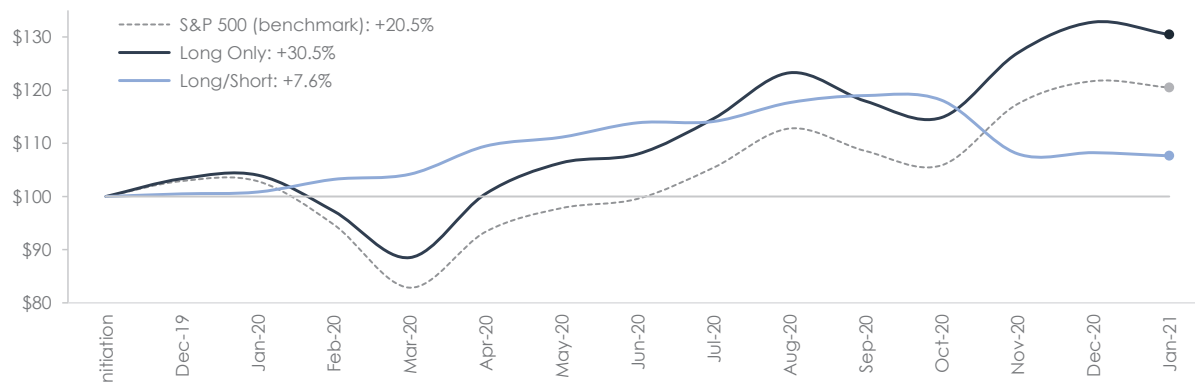
Average sector performance by rating levels across sectors.



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.

Sector Performance

Monthly Returns

Energy was a top three performing sector for a third consecutive month and the top performing sector for the second time in three months. The sector significantly underperformed over the past 1-year and is a candidate for a catch-up / mean reversion trade. The comment on the top of page 14 goes more in-depth.

Monthly Report

February 1, 2021

Figure 3: U.S. Sector Total Returns

	February 2020	March 2020	April 2020	May 2020	June 2020	July 2020	August 2020	September 2020	October 2020	November 2020	December 2020	January 2021	YTD	1-Year
Best	Comm Svcs -5.6%	Health -3.9%	Energy 30.8%	Tech 7.2%	Tech 6.9%	Utilities 7.8%	Tech 11.9%	Materials 1.5%	Utilities 5.1%	Energy 28.0%	Financials 6.3%	Energy 3.7%	Energy 3.7%	Tech 36.5%
	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%	Utilities 1.1%	Comm Svcs 0.8%	Financials 16.8%	Tech 5.5%	Health 1.4%	Health 1.4%	Cons Disc 30.3%
	Real Estate -7.0%	Tech -8.6%	Materials 15.2%	Materials 6.9%	Real Estate 2.4%	Cons Disc 7.3%	Industrials 8.5%	Industrials -0.7%	Materials -0.7%	Industrials 16.0%	Energy 4.5%	Cons Disc 0.8%	Cons Disc 0.8%	Comm Svcs 27.9%
	Tech -7.3%	Utilities -10.1%	Comm Svcs 14.4%	Cons Disc 6.5%	Materials 2.2%	Materials 7.1%	Comm Svcs 8.1%	Cons Stpls -1.7%	Financials -0.9%	Materials 12.4%	Comm Svcs 4.5%	Real Estate 0.0%	Real Estate 0.0%	Materials 24.7%
	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 Disc -1.9%	Industrials -1.4%	Comm Svcs 12.3%	Health 3.8%	Comm Svcs -0.2%	Comm Svcs -0.2%	Health 17.7%
	Cons Stpls -8.2%	Comm Svcs -14.4%	Health 12.6%	Utilities 4.2%	Comm Svcs 0.1%	Tech 5.7%	Materials 4.4%	Health -2.2%	Cons Disc -2.7%	Tech 11.4%	Real Estate 2.7%	Tech -0.8%	Tech -0.8%	Industrials 6.2%
	Materials -8.5%	Cons Disc -15.0%	Financials 9.5%	Health 3.3%	Cons Stpls -0.2%	Health 5.5%	Financials 4.3%	Real Estate -2.7%	Cons Stpls -2.9%	Cons Disc 10.0%	Materials 2.5%	Utilities -0.9%	Utilities -0.9%	Cons Stpls 4.1%
	Utilities -9.9%	Industrials -18.7%	Real Estate 9.0%	Financials 2.7%	Financials -0.5%	Industrials 4.4%	Health 2.6%	Financials -3.4%	Real Estate -3.0%	Real Estate 9.7%	Cons Disc 2.4%	Financials -1.8%	Financials -1.8%	Financials -1.4%
	Industrials -9.9%	Real Estate -19.3%	Industrials 8.8%	Energy 2.0%	Energy -1.1%	Financials 3.8%	Real Estate 0.4%	Tech -5.3%	Health -3.6%	Health 7.9%	Cons Stpls 1.7%	Materials -2.4%	Materials -2.4%	Real Estate -6.0%
	Financials -11.2%	Financials -21.1%	Cons Stpls 7.0%	Real Estate 1.7%	Health -2.4%	Real Estate 3.6%	Energy -1.1%	Comm Svcs -5.4%	Energy -4.1%	Cons Stpls 7.5%	Industrials 1.0%	Industrials -4.3%	Industrials -4.3%	Utilities -7.0%
Worst	Energy -15.3%	Energy -34.6%	Utilities 3.3%	Cons Stpls 1.7%	Utilities -4.7%	Energy -4.8%	Utilities -2.6%	Energy -14.5%	Tech -5.0%	Utilities 0.7%	Utilities 0.6%	Cons Stpls -5.0%	Cons Stpls -5.0%	Energy -22.4%

The January return paths across sectors were noteworthy. Cyclical sectors (e.g., Energy, Materials, Financials, and Cons Disc) raced out to an early lead before stumbling as the market sold off at the end of the month. On the other side, Tech, Comm Svcs, Utilities, and Real Estate started the month as relative underperformers before becoming relative outperformers during the month end selloff.

	February 2020	March 2020	April 2020	May 2020	June 2020	July 2020	August 2020	September 2020	October 2020	November 2020	December 2020	January 2021	YTD	1-Year
	Cyclical -8.2%	Defensive -6.5%	Cyclical 12.8%	Cyclical 5.3%	Cyclical 2.3%	Defensive 6.7%	Cyclical 6.7%	Defensive -0.9%	Defensive -0.5%	Cyclical 12.7%	Cyclical 3.6%	Cyclical -1.2%	Cyclical -1.2%	Cyclical 16.9%
	Defensive -8.2%	Cyclical -15.9%	Defensive 7.6%	Defensive 3.1%	Defensive -2.4%	Cyclical 5.6%	Defensive 1.5%	Cyclical -2.6%	Cyclical -1.9%	Defensive 5.4%	Defensive 2.0%	Defensive -1.5%	Defensive -1.5%	Defensive 4.9%

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.

Fundamental Analysis

Valuation & Earnings

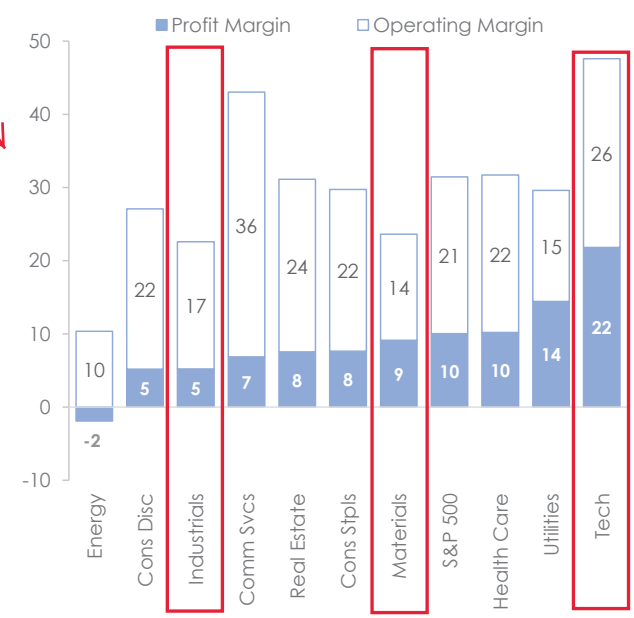
Tech's strong profit and operating margins make it a portfolio stabilizer in our view. However, more cyclical sectors likely offer a margin expansion catalyst during 2021. While we continue to OW Tech as a portfolio stabilizer, we favor opportunistically selling into Tech strength and adding exposure to cyclical sectors forecasted to see margin expansion in 2021.

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
S&P 500 Index	-5 std	+5 std	27.0x	21.8x	4.1x	3.5x	18.1x	-9.5%	23.4%	-1.1%	8.4%	
OW Tech	+1.4 ●	+2.6 ●	40.2x	26.9x	3.9x	3.9x	13.6x	-22.4	49.8	-0.9	10.0	Growth, Momentum
Industrials	+2.7 ●		46.5x	24.1x	5.1x	2.6x	18.8x	-45.9	92.0	-11.9	10.2	Growth
N Cons Disc	+3.5 ●		52.8x	33.4x	11.7x	3.0x	24.5x	-25.9	57.6	-0.2	12.7	Growth
Financials	+0.6 ●		16.5x	13.6x	1.3x	2.7x	14.8x	-15.9	21.4	-0.3	3.0	Momentum
Utilities	+1.1 ●		19.5x	18.6x	2.1x	4.9x	13.0x	1.8	5.1	-2.4	4.6	
Real Estate	+1.5 ●		20.8x	19.0x	2.6x	8.4x	21.5x	-14.9	9.6	-8.4	7.1	
Health Care	+2.2 ●		18.6x	16.7x	4.9x	2.8x	16.9x	9.8	11.5	9.1	7.0	
UW Materials	+1.7 ●		26.3x	20.3x	3.1x	2.9x	14.6x	-5.6	29.5	-4.6	9.3	Growth
Energy	-0.4 ●		-150.8x	25.9x	1.4x	1.5x	12.2x	-45.7	668.5	-30.2	17.7	Growth, Value, Momentum
Cons Stpls	+1.0 ●		21.0x	19.7x	5.9x	1.9x	14.2x	4.2	6.6	3.4	2.7	

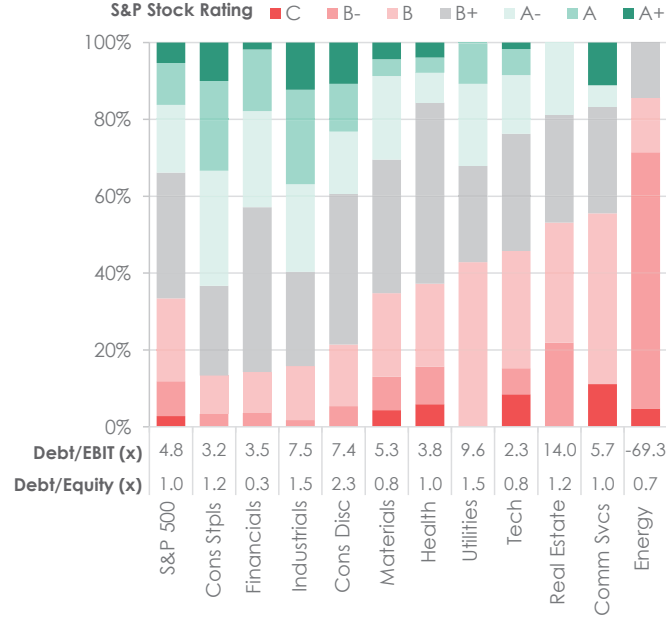
Valuation Composite is average Z-Score of LTM P/E, NTM P/E, P/B, EV/Sales, and EV/EBITDA analyzing the past 5 years of data. Growth Factor Tilt = NTM Sales & EPS greater than S&P 500 Index. Value Factor Tilt = Valuation composite negative for the sector. Momentum Factor = Top 3 sectors with the highest 3-month returns.

Figure 5: Sector Operating Margins (%)



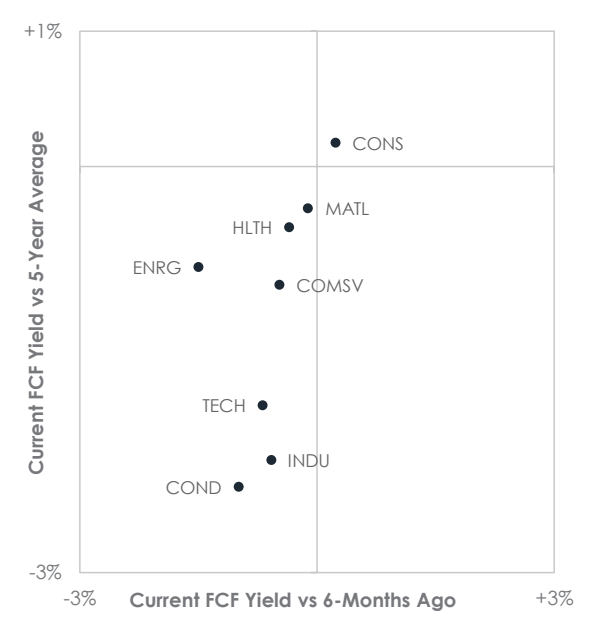
Source: MarketDesk Research

Figure 6: Debt / EBITDA & Sector Rating Composition



Source: MarketDesk Research

Figure 7: Free Cash Flow Trends



Source: MarketDesk Research

Technical Analysis

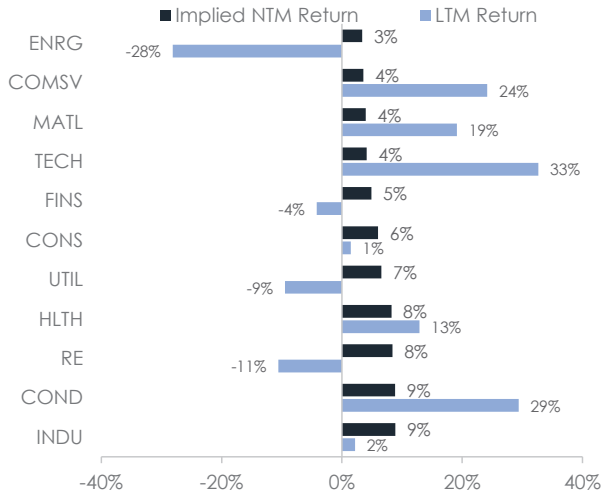
6 Charts to Monitor

January's month end selloff significantly impacted shorter-term sector technicals. On the defensive front, Real Estate jumped from 80% to 85% of the index above the 50dma, while Cons Stpls fell from 61% to 45%. In addition, most cyclical sectors (e.g., Industrials, Financials, Materials, and Cons Disc) saw their near-term technical strength weaken significantly.

Defensive sector NTM EPS revisions continue to broadly trail the market. On the outer fringes, Real Estate remains weak (e.g., 1mo & 6mo both trailing), Financials and Materials remain strong but are slowly fading, and Industrials is losing strength (e.g., negative 1mo with strong 6mo).

Figure 8: LTM Returns & Implied NTM Returns

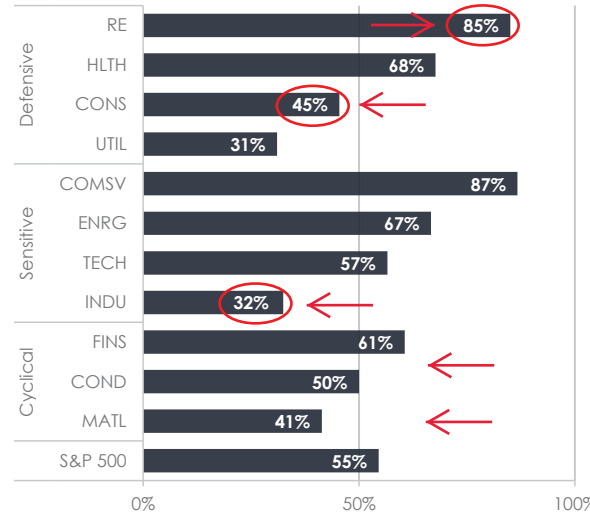
Providing a quantitative view into future sector performance, the implied NTM returns are based on regression analysis using weekly historical data since 2000.



Source: MarketDesk Research

Figure 9: % of Index Above 50dma

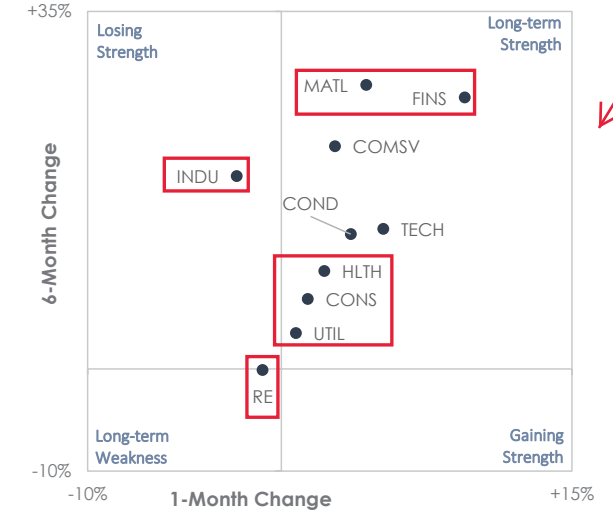
Short-term technical strength based on the percentage of companies within each sector above their 50-day moving average.



Source: MarketDesk Research

Figure 10: NTM EPS Revisions (1-Month vs 6-Month)

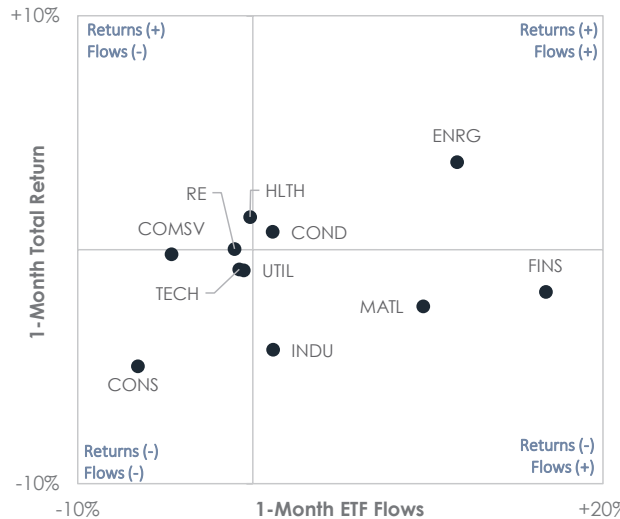
A look at the change in NTM EPS revision over the last 1-month period vs the 6-month change.



Source: MarketDesk Research

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

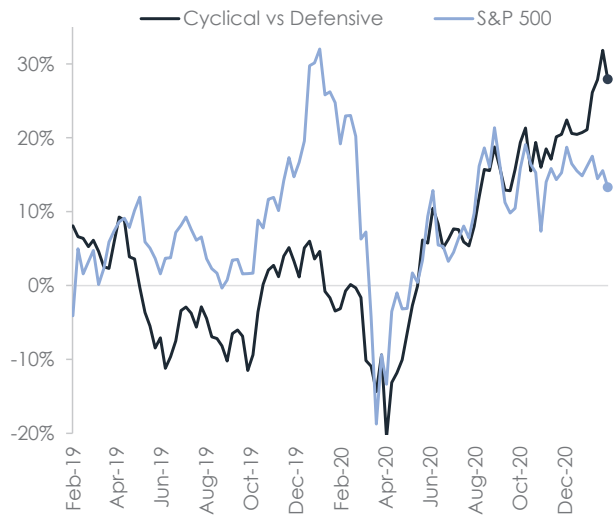
The scatter plot below highlights areas where investors are adding (or removing) capital based on recent returns.



Source: MarketDesk Research

Figure 12: Cyclical vs Defensive Rolling LTM Returns

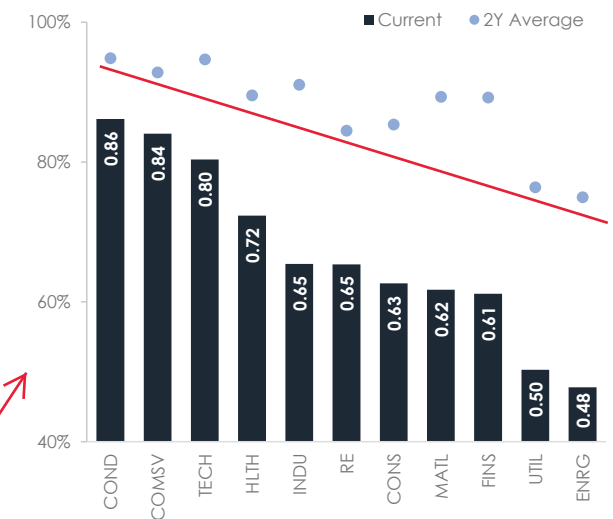
The relative performance between Cons Discretionary (Cyclical) and Cons Staples (Defensive) often leads the S&P 500.



Source: MarketDesk Research

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

Daily sector correlations vs the S&P 500 over the past 3 months are below the 2-year average for every sector. This indicates sectors are starting to move based on idiosyncratic issues, which suggests active sector selection is more attractive than owning broad market index funds.

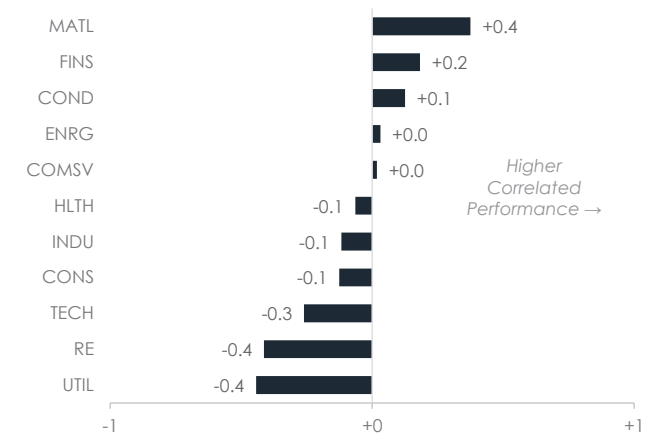
The analysis below simplifies Sector Allocation into two investment regimes: stock selection and sector selection. The chart graphs the NTM P/E dispersion against performance intra-correlation for each sector. Both axes are standardized using z-scores based on month-end data vs the three-year moving 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



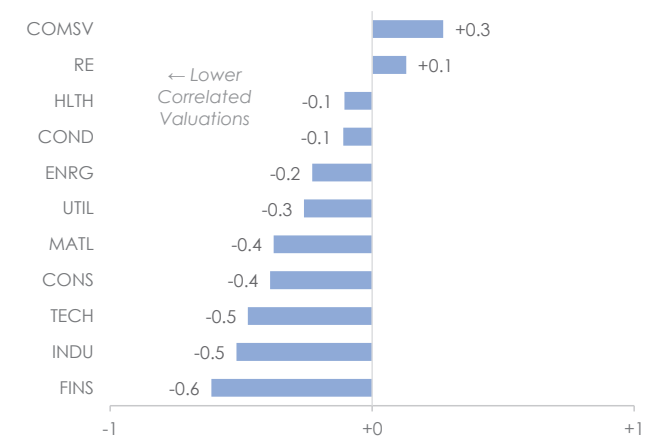
Source: MarketDesk Research. **MSCI USA Defensive Sectors** include Health Care, Consumer Staples, and Utilities. **MSCI USA Cyclical Sectors** include Information Technology, Industrials, Communication Services, Consumer Discretionary, Materials, Financials, and Real Estate. **Note:** Energy is currently 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's gross margins are at a decade low, and Wall Street estimates indicate gross margins are forecasted to stay low over the next 12 months. In contrast, net margins are forecasted to rise above 10%, a number which was not reached over the past decade. In our view, analysts are over projecting Health Care's operating leverage increase. Health Care supply chains are stressed, and Medicaid reimbursement cuts are a significant risk due to stressed government budgets.

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	18.6x	16.7x	4.9x	16.9x	13.1%	10.2%	1.0x	9.8%	11.5%	9.1%	7.0%	1%	13%	9%	16%
Biotech	163.4x	62.9x	7.6x	59.0x	18.4	10.2	0.6x	49.3	158.5	12.1	16.5	7	25	17	45
Hospital Management	23.1x	22.6x	11.4x	11.5x	11.6	5.1	6.9x	12.1	2.3	-1.5	6.5	7	32	26	27
Medical/Nursing Services	377.2x	91.0x	8.3x	35.6x	6.6	1.2	1.2x	60.5	307.6	4.2	6.3	4	31	46	61
Medical Distributors	12.0x	11.0x	8.7x	8.8x	1.7	1.2	2.4x	5.9	9.7	5.1	4.9	2	14	7	18
Medical Devices	38.3x	30.2x	5.7x	31.7x	22.4	18.1	0.6x	10.2	27.0	6.4	13.1	2	13	16	29
Managed Care	16.4x	15.0x	2.9x	12.9x	6.3	4.6	0.4x	9.9	9.6	14.6	7.5	-4	10	9	18

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

The relative valuation composite sits at a two decade low, while Health Care's own valuation composite sits at a two decade high. We put more weight in the sector's valuation composite than the relative valuation composite, which is overstated by the S&P 500's valuation in our view.

Figure 18: Gross & Profit Margins (%)



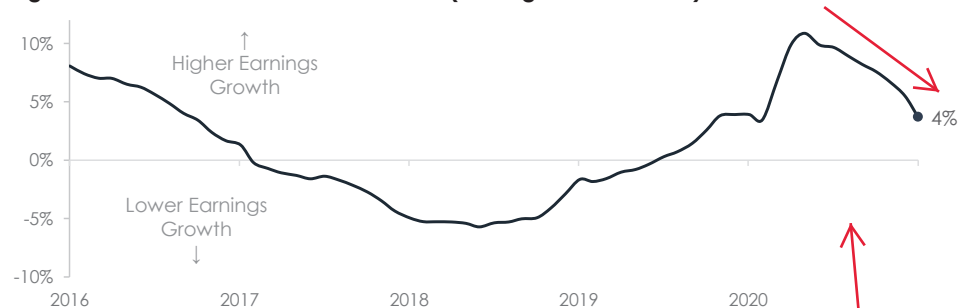
Source: MarketDesk Research

Figure 19: Valuation Composite vs S&P 500



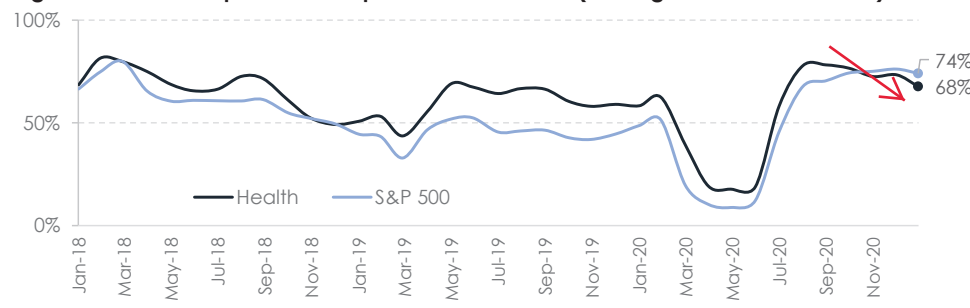
Source: MarketDesk Research. Composite is average Z-Score of LTM P/E, NTM P/E, P/B, EV/S, EV/EBITDA.

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 2021 & 2022 EPS)



Source: MarketDesk Research

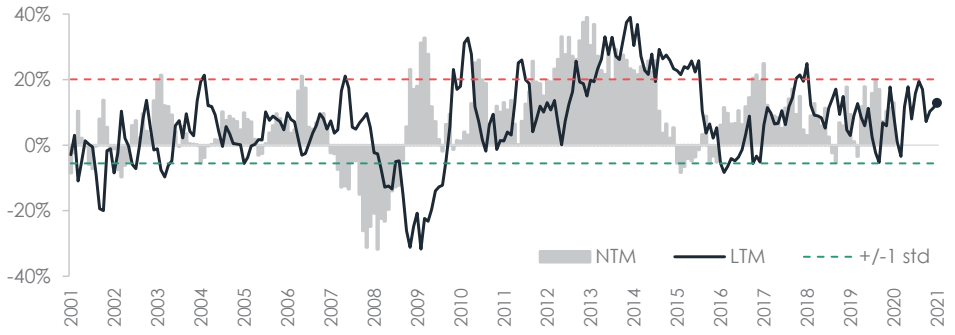
Health Care's blended EPS growth advantage continues to fade as the sector's % of upward revisions steadily trends lower.

Health Care

Technicals & Sentiment

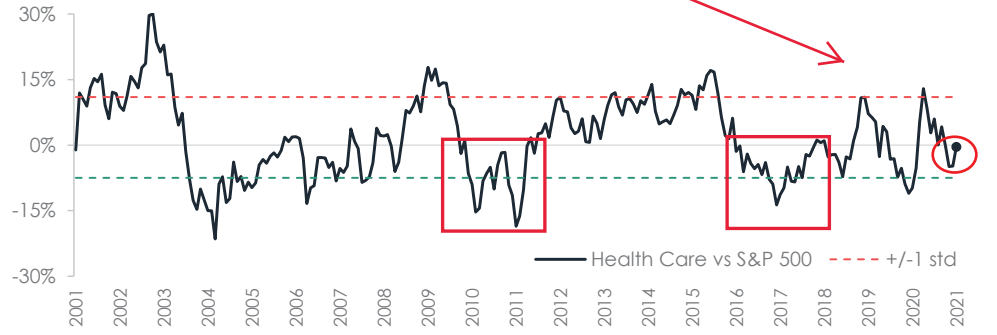
Health Care outperformed in January amid the month end volatility, which made it the second best performing sector and boosted its relative return vs the S&P 500. However, we are not convinced the sector's outperformance can continue. When we look back to the post 2008 financial crisis and post 2016 industrial recession periods, Health Care underperformed for an extended period of time.

Figure 22: Y/Y Sector Returns



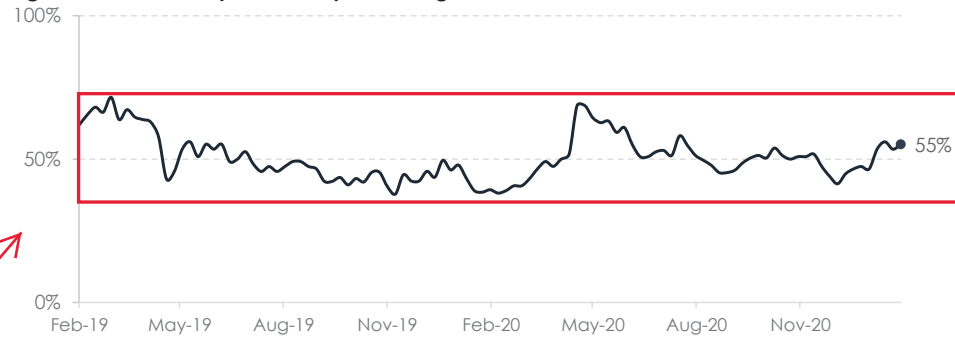
Source: MarketDesk Research

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



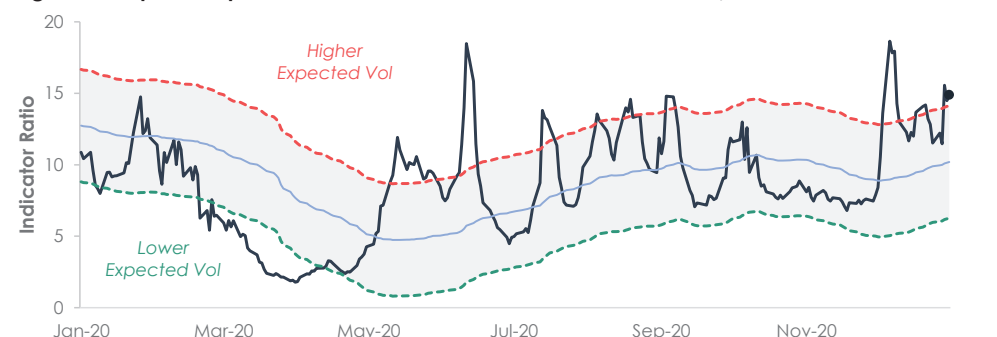
Source: MarketDesk Research

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



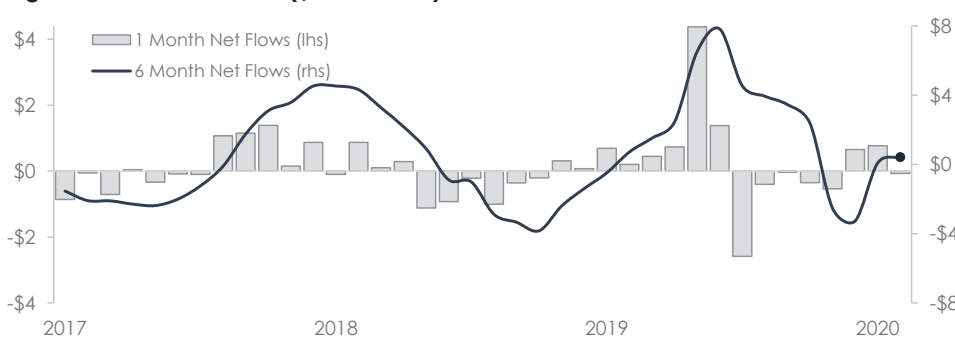
Source: MarketDesk Research

Figure 25: Option-implied Position Indicator



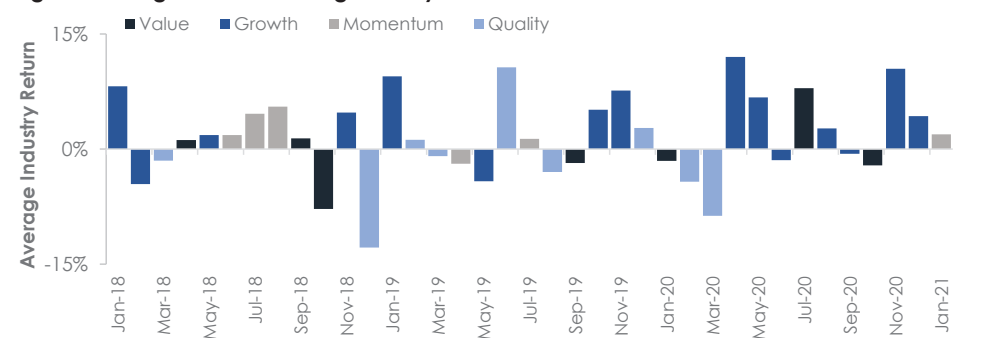
Source: MarketDesk Research. **Indicator Ratio** = Implied Option Volatility vs Historical Price Volatility.

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.

The % of companies outperforming the S&P 500 highlights the sector's steady, defensive nature. If the stock market collapses, Health Care is a good hiding place. With the uncertain economic and trading environments today, we are content to maintain Health Care at Neutral.

Consumer Staples

Fundamentals

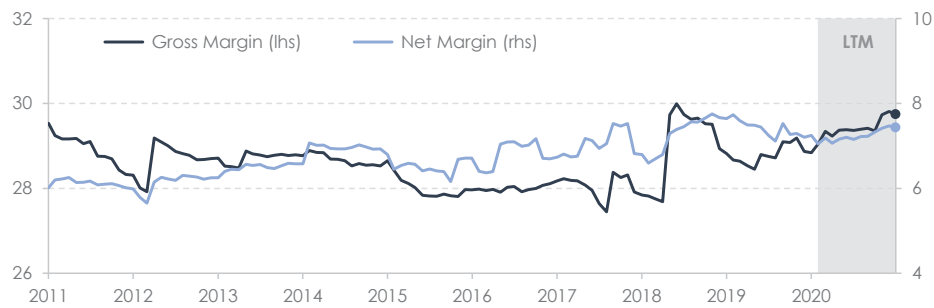
Similar to Health Care, Cons Stpls' relative valuation composite sits at a two decade low, while its sector valuation composite sits near a two decade high. We put more weight in the sector's valuation composite than the relative valuation composite, which is overstated by the S&P 500's valuation in our view.

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	21.0x	19.7x	5.9x	14.2x	10.3%	7.6%	1.2x	4.2%	6.6%	3.4%	2.7%	-5%	3%	2%	1%
Drugstore Chains	10.0x	9.8x	1.6x	8.4x	4.9	2.6	1.0x	-1.6	2.5	4.0	2.6	11	34	17	4
Food Retail	22.2x	22.3x	4.6x	10.5x	4.0	2.7	0.8x	15.0	-0.4	5.7	0.6	-2	2	8	23
Food Products	17.1x	16.8x	2.2x	13.5x	16.8	11.9	0.9x	4.9	1.8	3.6	0.4	-2	4	-2	4
Tobacco	12.4x	11.4x	-24.7x	9.3x	45.5	31.3	-7.4x	1.7	9.5	0.4	5.7	-2	13	3	-8
Food Distributors	38.7x	24.6x	5.3x	21.4x	2.0	1.0	2.6x	-34.0	57.2	1.0	7.3	-2	34	39	-11
Beverages	24.5x	22.6x	2.9x	15.5x	22.7	15.6	0.7x	5.7	8.6	0.0	6.2	-5	14	13	13
Household Durables	24.5x	22.5x	8.2x	16.6x	20.5	15.6	1.2x	9.2	9.1	3.7	8.3	-7	-2	-2	4
Beverages (Non-Alcoholic)	25.5x	22.8x	7.7x	19.1x	19.9	15.2	1.8x	-3.4	12.2	-1.1	7.0	-8	6	4	-6

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

Figure 29: Gross & Profit Margins (%)



Source: MarketDesk Research

Figure 30: Valuation Composite vs S&P 500



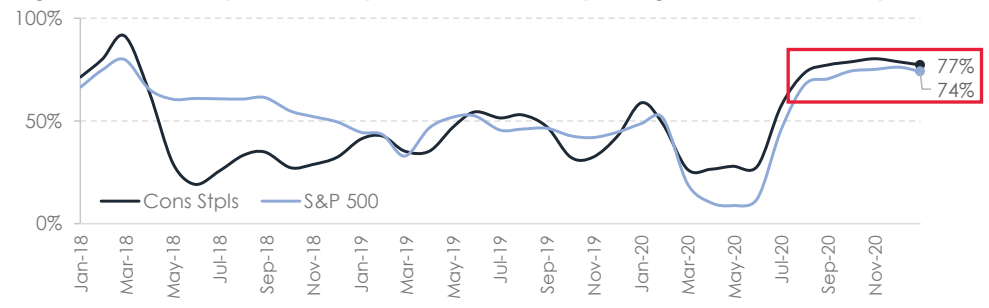
Source: MarketDesk Research. Composite is average Z-Score of LTM P/E, NTM P/E, P/B, EV/JS, EV/EBITDA.

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 2021 & 2022 EPS)



Source: MarketDesk Research

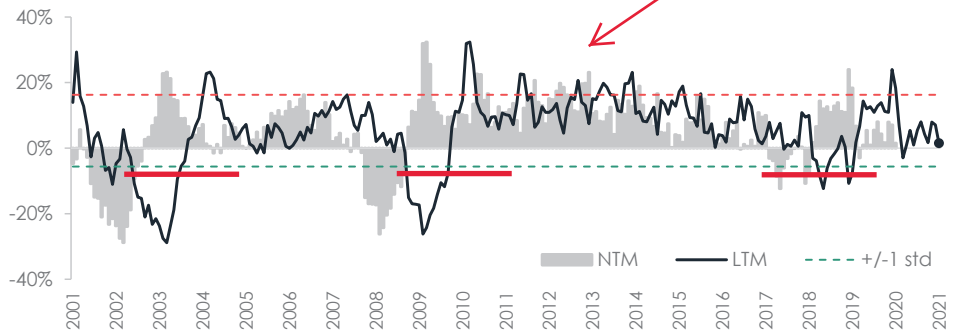
Cons Stpls' % of upward EPS revisions remains above the S&P 500, but the blended EPS growth reflects the sector's reality -- EPS revisions are moving up, but not keeping pace with the broad index. We attribute this to Cons Stpls' lower growth profile.

Consumer Staples

Technicals & Sentiment

Cons Stpls relative performance dipped below the -1 std line in January 2021. While the -1 std line can signify support, we believe the current environment is more similar to the early 2000s, 2009-2010, and 2017-2018 periods (Fig 34) during which the sector underperformed on a relative basis. While absolute performance (Fig 33) was not terrible in those periods, other sectors provide more attractive returns. We would not completely rotate out of Cons Stpls, but instead search for opportunities in other sectors.

Figure 33: Y/Y Sector Returns



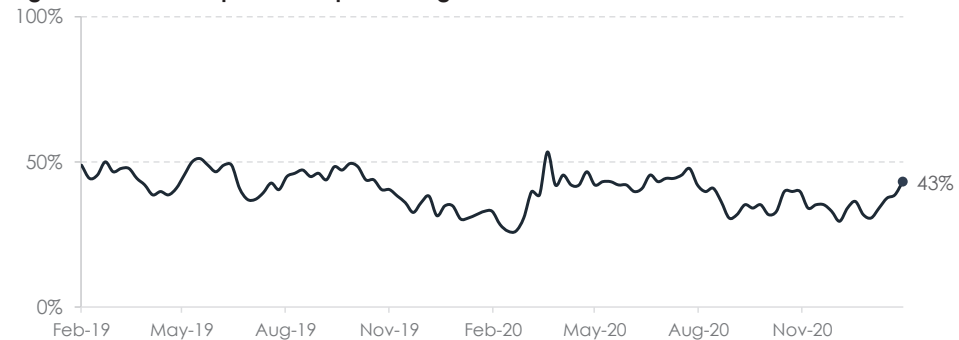
Source: MarketDesk Research

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



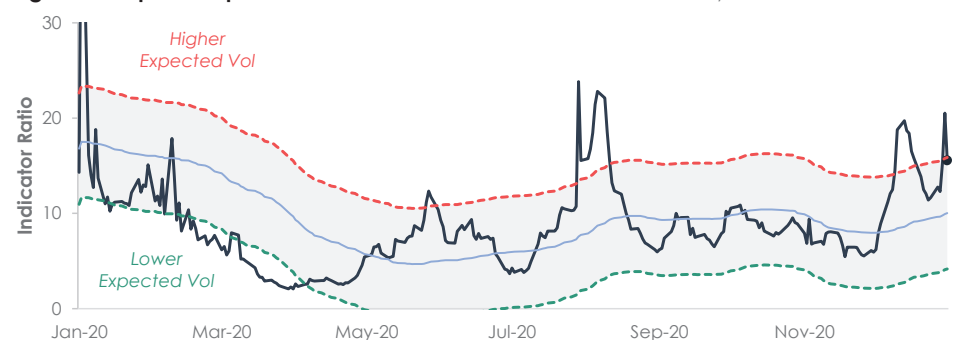
Source: MarketDesk Research

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



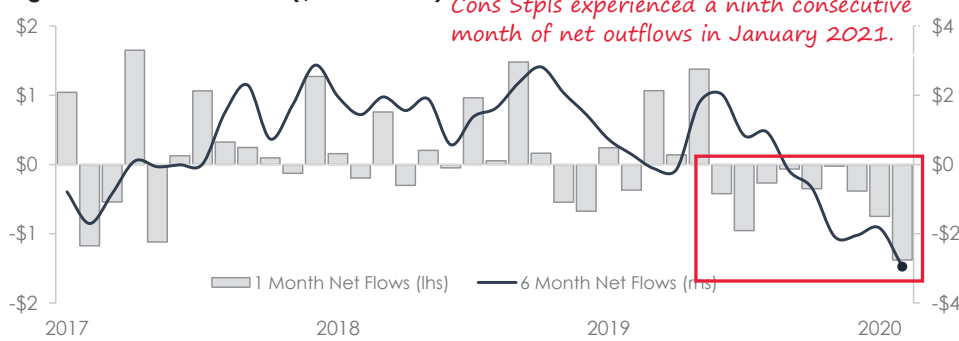
Source: MarketDesk Research

Figure 36: Option-implied Position Indicator



Source: MarketDesk Research. **Indicator Ratio** = Implied Option Volatility vs Historical Price Volatility.

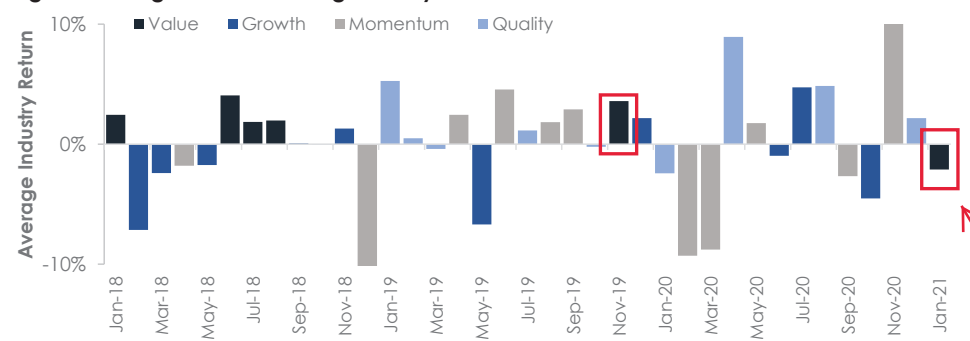
Figure 37: Sector ETF Flows (\$ USD Billions)



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

Cons Stpls experienced a ninth consecutive month of net outflows in January 2021.

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.

Value was the top performing factor in Cons Stpls for the first time since November 2019 as drugstore chains (+11%) outperformed the broader sector (-5%). Refer to Figure 28 for the full slate of industry performance.

Alternative power generation (e.g., renewable energy) remains strong within Utilities. The Biden administration is likely to be a strong advocate for the industry, which makes it a durable trend in our view. Renewable energy stocks, such as PLUG and FCEL, are significantly overbought in our view. We favor the actual power generators, such as BEP / BEPC and NEE / NEP, which pay dividends and are more established companies.

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	19.5x	18.6x	2.1x	13.0x	23.5%	14.4%	1.5x	1.8%	5.1%	-2.4%	4.6%	-1%	0%	2%	-10%
Alt Power Generation	55.5x	37.0x	5.0x	24.7x	21.3	1.9	3.4x	12.2	49.7	-16.9	19.7	7	32	27	23
Water Utilities	35.8x	33.5x	3.5x	21.5x	31.2	18.0	1.4x	14.0	7.2	18.3	7.6	2	9	7	5
Electric Utilities	18.5x	18.0x	2.0x	12.2x	22.6	13.6	1.5x	2.6	2.6	-2.0	4.4	-1	0	4	-9
Gas Utilities	16.6x	15.8x	1.7x	12.1x	19.7	12.9	1.2x	10.3	5.1	-1.4	6.2	-2	3	0	-20

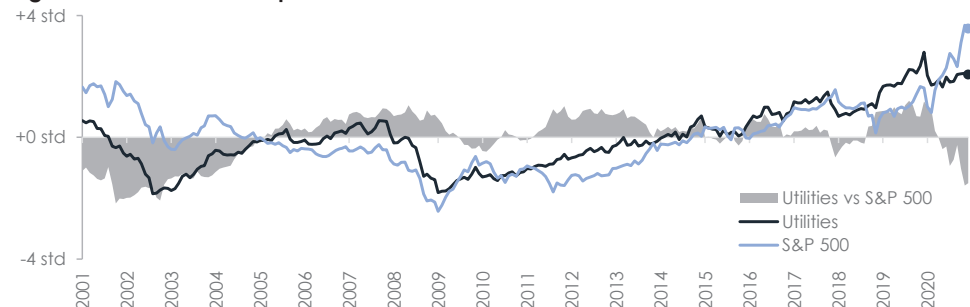
The color blue (red) highlights the highest (lowest) value for each column among industries.

Figure 40: Gross & Profit Margins (%)



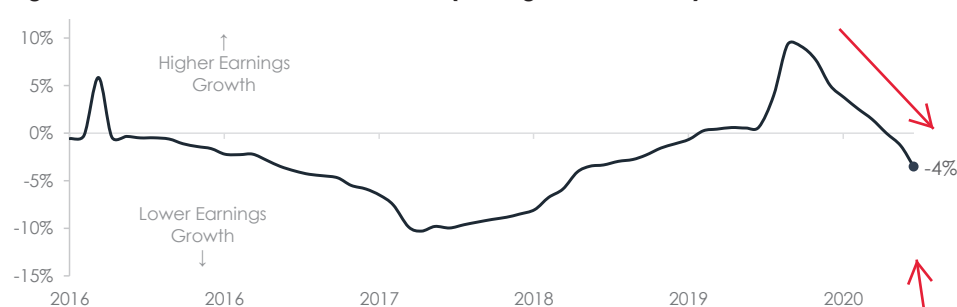
Source: MarketDesk Research

Figure 41: Valuation Composite vs S&P 500



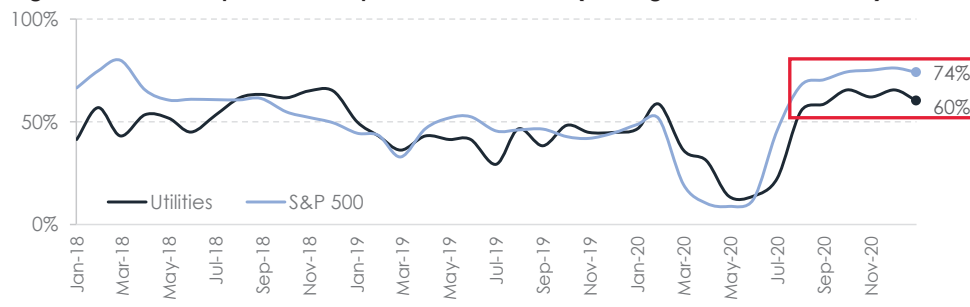
Source: MarketDesk Research. Composite is average Z-Score of LTM P/E, NTM P/E, P/B, EV/S, EV/EBITDA.

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 2021 & 2022 EPS)

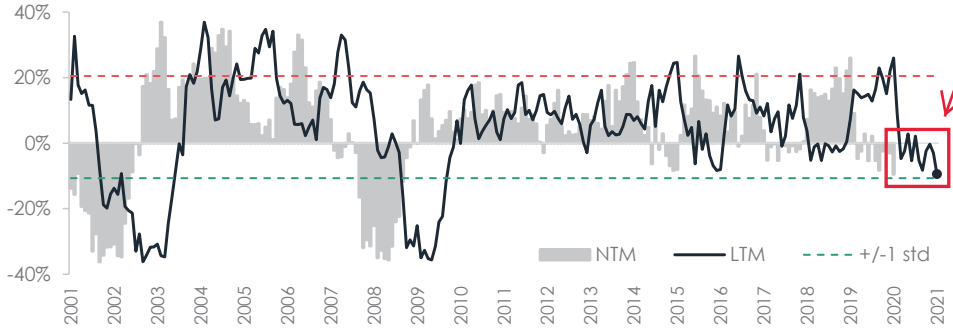


Source: MarketDesk Research

Utilities' blended EPS growth continues to trend lower, and the % of upward revisions is trailing the S&P 500. With low interest rates, monetary and fiscal stimulus, and pent up business and consumer demand, we believe there are more attractive sector opportunities elsewhere. However, we maintain our Neutral rating due to: (1) renewable energy exposure; (2) higher relative dividends; and (3) low beta in the event of a swift market selloff.

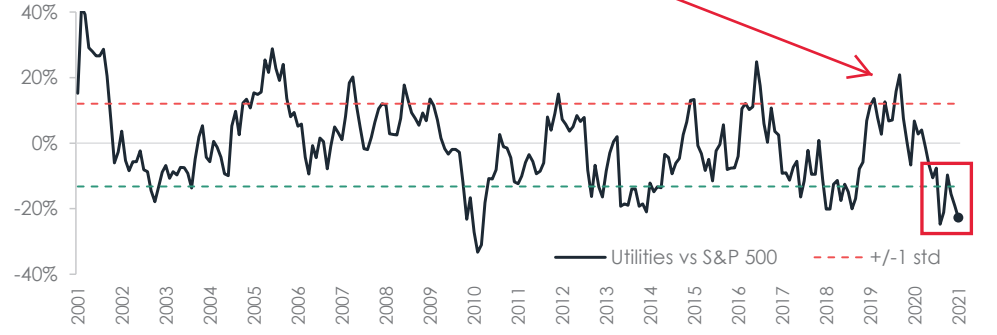
Utilities are underperforming in the current market environment on both an absolute and relative basis. The sector's y/y return sits near the -1 std line, which generally represents support. However, the sector's relative return vs the S&P 500 continues to trend lower and is now below the -1 std line.

Figure 44: Y/Y Sector Returns



Source: MarketDesk Research

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



Source: MarketDesk Research

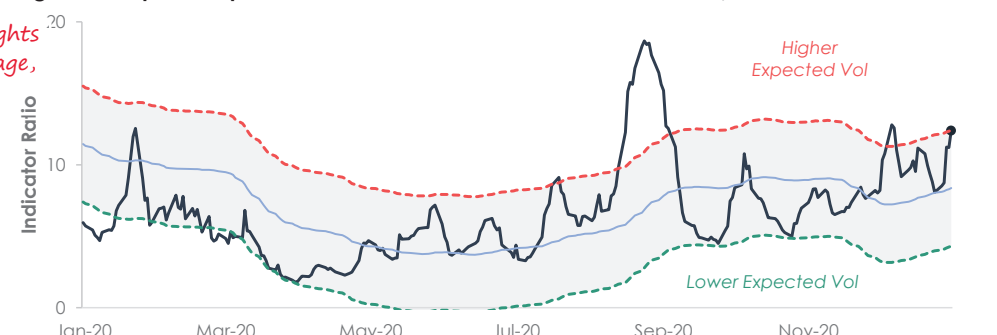
Figure 46: % of Companies Outperforming S&P 500 LTM Returns



The % of companies outperforming the S&P 500 highlights the sector's lack of depth. As mentioned on the prior page, we would focus on renewable energy producers.

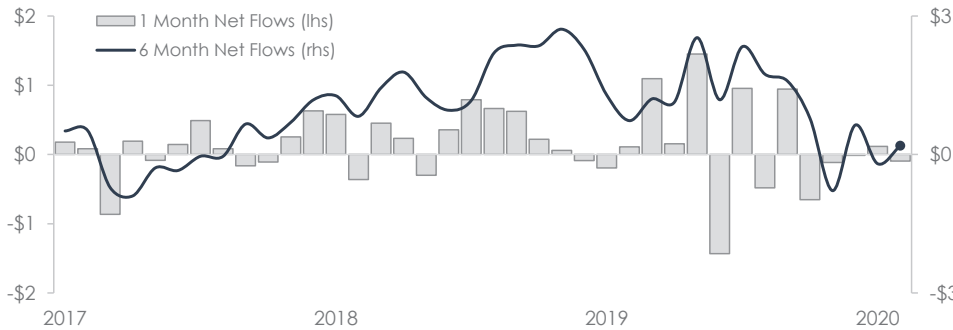
Source: MarketDesk Research

Figure 47: Option-implied Position Indicator



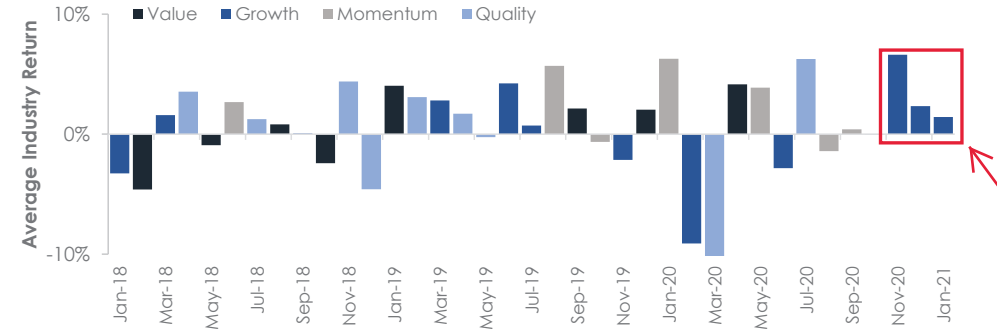
Source: MarketDesk Research. Indicator Ratio = Implied Option Volatility vs Historical Price Volatility.

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.

Growth was the largest factor driving Utilities' performance for a third consecutive month in January 2021. We attribute this to the renewable energy industry.

Energy was a relative outperformer for a third consecutive month as oil prices continued to drift higher. Our longer term view on the sector is more positive than our near-term view, so positions should be longer-term oriented in our view.

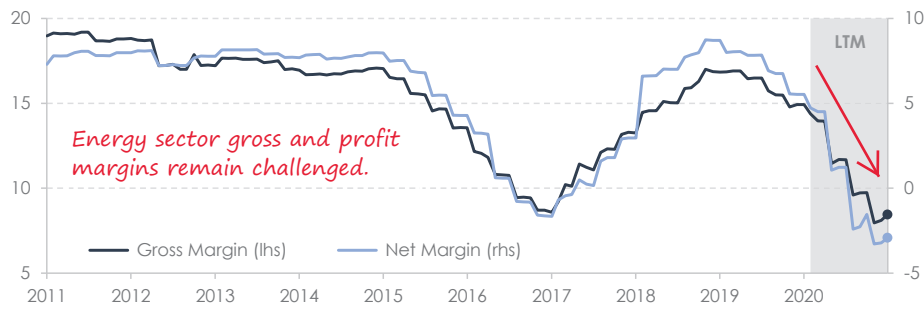
Relying on a valuation catalyst in the energy sector is challenging given the uncertainty over oil field and equipment valuations and the potential for asset write-downs. In addition, the amount of money-losing companies makes it difficult to rely on P/E multiples.

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			
												1M	3M	6M	1Y
Energy	-150.8x	25.9x	1.4x	12.2x	-0.7%	-1.9%	0.7x	-45.7%	668.5%	-30.2%	17.7%	4%	37%	9%	-26%
Coal	-1240.0x	-14346.4x	0.9x	5.3x	-18.5	-21.6	1.0x	-618.0	7977.9	-30.0	10.8	13	73	59	-13
Oil & Gas Production	-25.0x	24.4x	1.4x	8.7x	-32.8	-24.5	1.0x	-117.1	204.6	-27.0	26.3	7	57	20	-26
Integrated Oil	-270.0x	21.9x	1.2x	12.1x	-2.2	-2.1	0.3x	14.6	1303.1	-28.0	23.1	5	30	4	-25
Oil & Gas Pipelines	28.8x	10.9x	1.7x	11.0x	19.3	5.2	1.9x	-41.8	164.2	-20.2	7.0	4	23	13	-26
Oil Refining	-7.0x	72.7x	1.3x	20.3x	-3.1	-2.6	1.2x	-143.1	147.6	-34.6	14.4	2	50	11	-28
Oilfield Services/Equipment	-119.2x	40.4x	1.7x	10.4x	4.8	0.1	1.0x	-72.8	389.1	-23.8	-0.8	0	50	27	-27

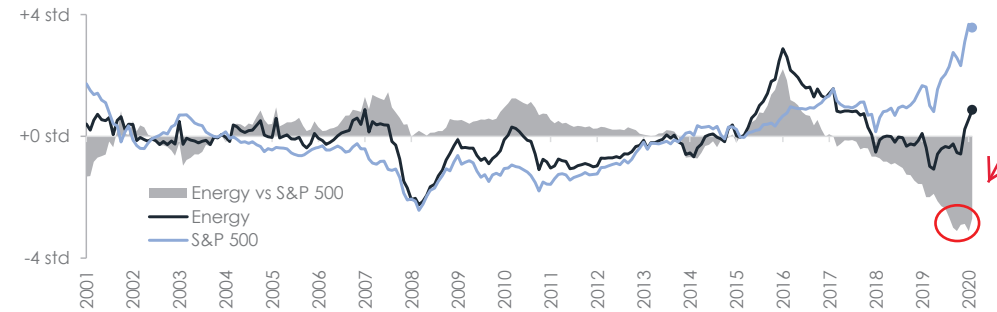
The color blue (red) highlights the highest (lowest) value for each column among industries.

Figure 51: Gross & Profit Margins (%)



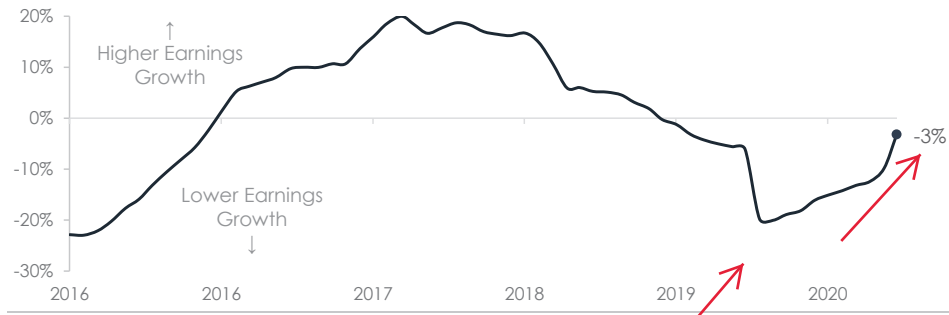
Source: MarketDesk Research

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.

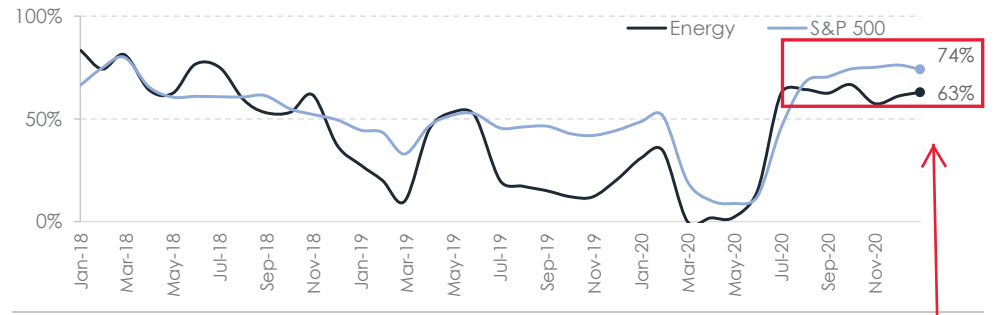
Figure 53: Blended EBITDA Growth vs S&P 500 (Average of NTM & LTM)



Source: MarketDesk Research

Energy's blended EBITDA growth is likely being overstated by the sector's big LTM drop (-38.7%) and corresponding 'big' NTM climb (+44.8%).

Figure 54: % of Companies with Upward EPS Revisions (Average of 2021 & 2022 EPS)



Source: MarketDesk Research

The % of upward revisions is below the S&P 500 but holding steady. Oil prices drifting higher is a positive for the sector's NTM EPS revisions, but it is still difficult to get excited about the positive trajectory given challenged balance sheets.

Energy

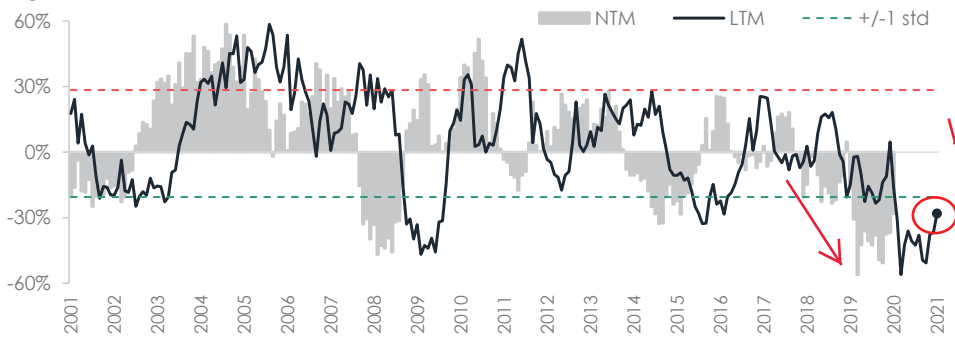
Technicals & Sentiment

The Energy sector is still paying for its debt fueled capital expenditure binge during the last decade. The question is how long the sector will remain in the penalty box. The following numbers help put Energy's mean reversion potential in perspective. XLE would need to rally ~48% to close at its 12/31/2019 price and ~78% to close at its 12/31/2017 price. There's obviously been a significant amount of book value destruction over the past few years, but those performance numbers would only mean the sector breaks even. The performance gap will close at some point -- the big question in our view is when.

Monthly Report

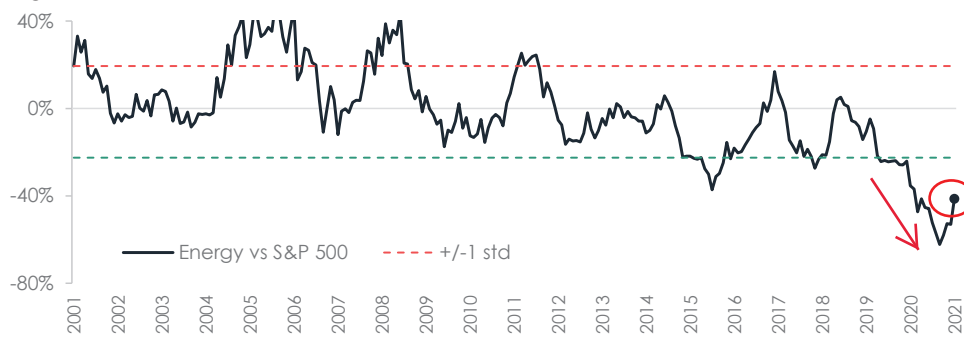
February 1, 2021

Figure 55: Y/Y Sector Returns



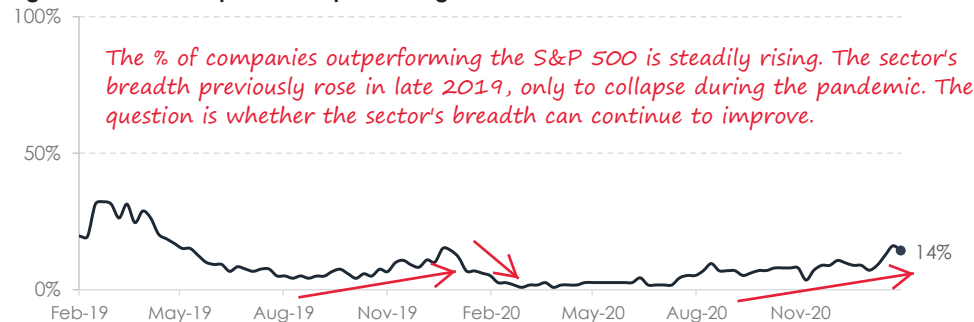
Source: MarketDesk Research

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



Source: MarketDesk Research

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



The % of companies outperforming the S&P 500 is steadily rising. The sector's breadth previously rose in late 2019, only to collapse during the pandemic. The question is whether the sector's breadth can continue to improve.

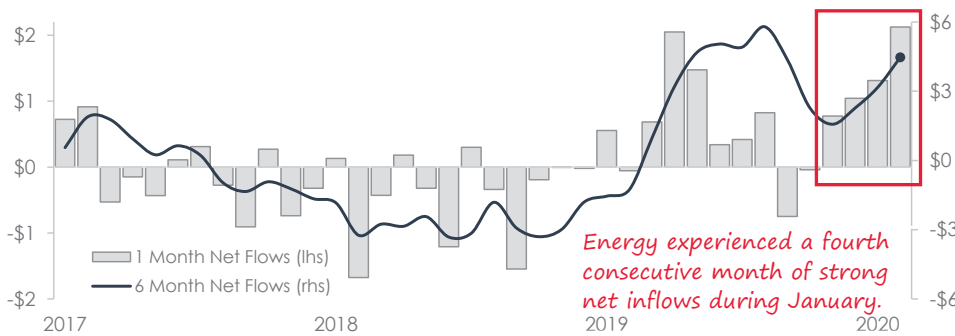
Source: MarketDesk Research

Figure 58: Option-implied Position Indicator



Source: MarketDesk Research. **Indicator Ratio** = Implied Option Volatility vs Historical Price Volatility.

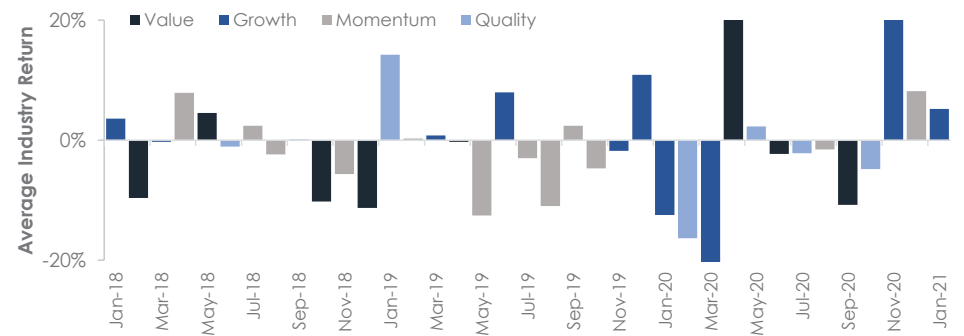
Figure 59: Sector ETF Flows (\$ USD Billions)



Energy experienced a fourth consecutive month of strong net inflows during January.

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.

Information Technology

Fundamentals

Tech's gross and profit margins remain strong despite the pandemic. In our view, it is difficult to exchange the sector's secular growth potential and margins for other sectors. However, there are likely more attractive opportunities on a risk-adjusted basis in other sectors. Potential Tech headwinds include ...

Tech was the sixth best performing sector in January. However, the sector's return path during the month was noteworthy. It underperformed in the first half of January before outperforming on a relative basis in the second half of January. In our view, this solidifies Tech's reputation as a safe haven sector.

Monthly Report

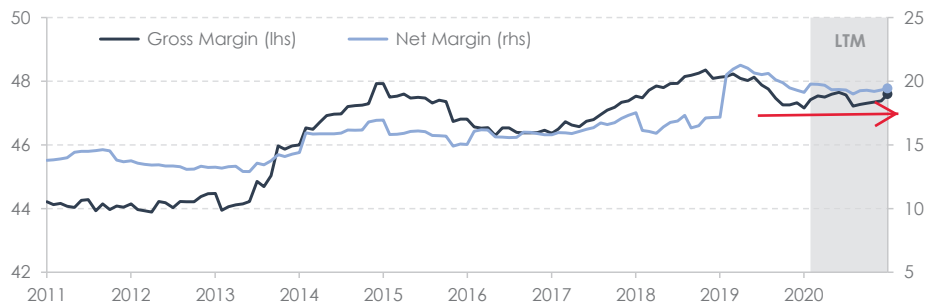
February 1, 2021

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			
												1M	3M	6M	1Y
Information Technology	30.9x	26.7x	10.5x	23.0x	26.5%	21.8%	0.8x	8.6%	15.9%	6.3%	9.5%	-1%	16%	17%	35%
Electronic Components	35.3x	27.5x	4.0x	19.3x	9.2	6.5	0.5x	-4.7	28.5	-0.6	6.7	5	33	43	52
Semiconductors	24.8x	21.9x	6.3x	18.1x	31.0	25.4	0.6x	7.0	13.2	8.7	8.5	2	21	29	46
Internet Software	47.7x	35.6x	7.6x	29.9x	22.0	18.3	0.1x	19.0	33.7	16.9	22.6	2	12	20	38
Software	49.5x	40.6x	13.7x	36.7x	28.8	22.2	0.8x	33.5	23.2	10.1	13.6	1	16	19	44
Hardware	10.3x	9.1x	4.5x	8.0x	8.5	6.0	2.7x	-6.6	13.9	-2.7	1.6	0	33	32	12
Telecom Equipment	35.7x	28.5x	27.8x	28.2x	24.2	20.1	1.7x	14.3	24.9	10.2	15.2	0	22	26	70
I.T. Services	28.7x	25.7x	7.1x	20.4x	14.9	11.6	0.9x	-4.5	11.5	2.6	6.4	-3	17	12	22
Data Processing Services	37.1x	30.0x	4.7x	26.3x	23.3	16.9	0.7x	2.3	23.5	4.9	8.1	-5	15	12	22

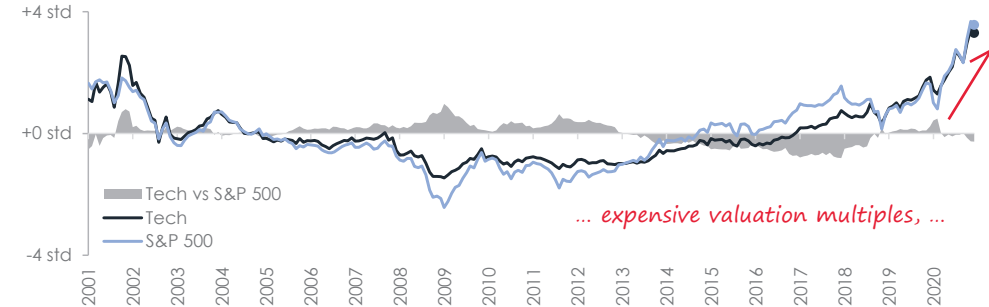
The color blue (red) highlights the highest (lowest) value for each column among industries.

Figure 62: Gross & Profit Margins (%)



Source: MarketDesk Research

Figure 63: Valuation Composite vs S&P 500



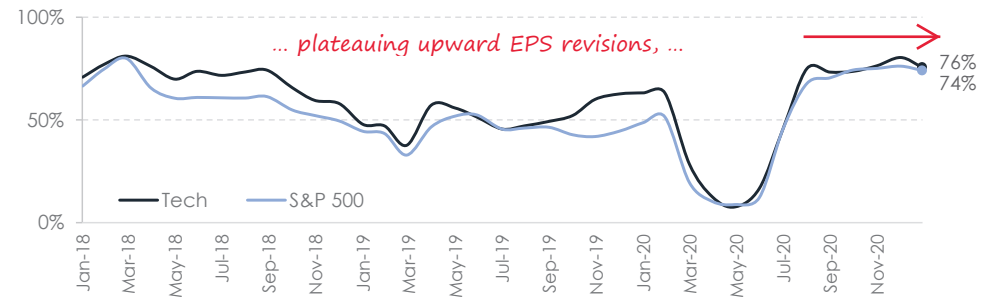
Source: MarketDesk Research. Composite is average Z-Score of LTM P/E, NTM P/E, P/B, EV/S, EV/EBITDA.

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



Source: MarketDesk Research

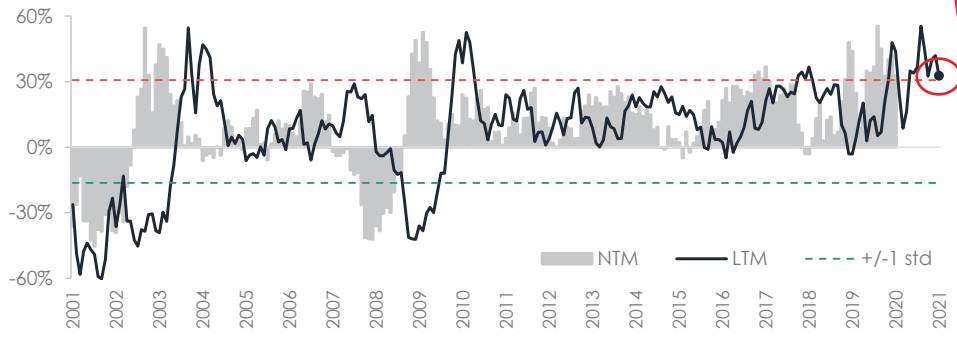
Figure 65: % of Companies with Upward EPS Revisions (Average of 2021 & 2022 EPS)



Source: MarketDesk Research

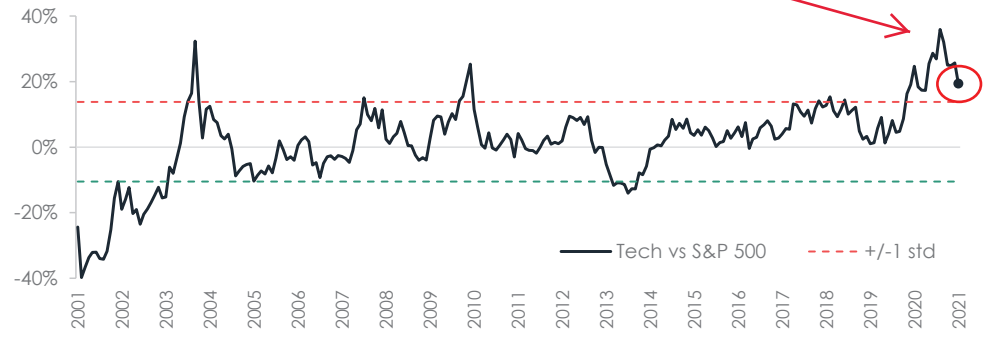
... y/y sector returns and relative returns vs the S&P 500 above the +1 std line, and ...

Figure 66: Y/Y Sector Returns



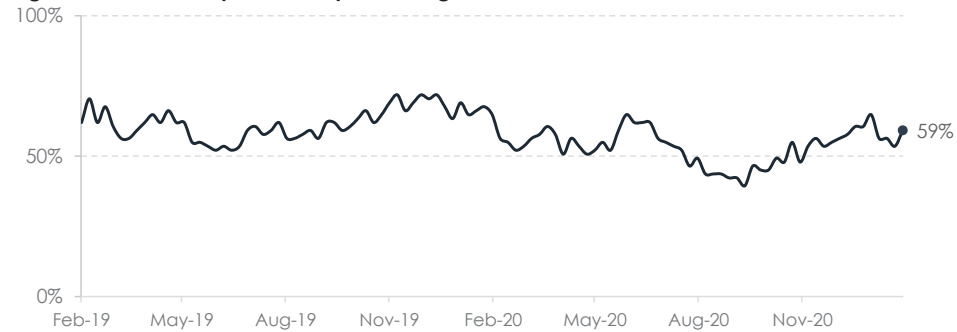
Source: MarketDesk Research

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



Source: MarketDesk Research

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



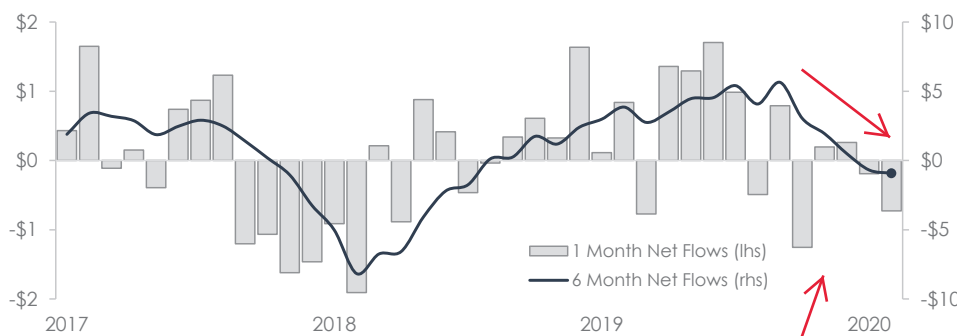
Source: MarketDesk Research

Figure 69: Option-implied Position Indicator



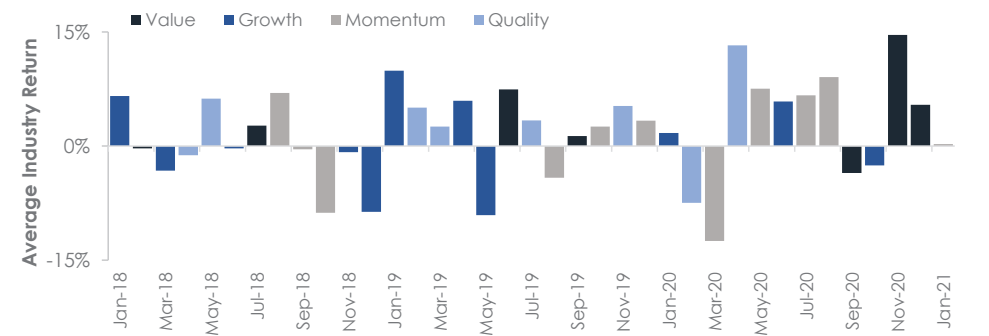
Source: MarketDesk Research. **Indicator Ratio** = Implied Option Volatility vs Historical Price Volatility.

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.

... weakening ETF flows. While we continue to believe in Tech's staying power in the long-term, we would be hesitant to add new capital right now and would look to opportunistically book profits on strong performance runs.

Communication Services

Fundamentals

Our conviction in the Comm Svcs OW is starting to waver. Social media and streaming stocks carried the sector higher during the pandemic, but those individual companies are expensively priced today. Social media stocks also face the risk of increased regulation and antitrust headlines following recent headlines related to banning social media accounts and removing specific content. We are wary of owning social media companies caught in the crossfire of a free speech debate. If the sector leaders run out of steam, the sector's lower growth profile and lack of depth are concerning in our view. We maintain our OW for now, but the reasons to downgrade to Neutral are piling up.

Monthly Report

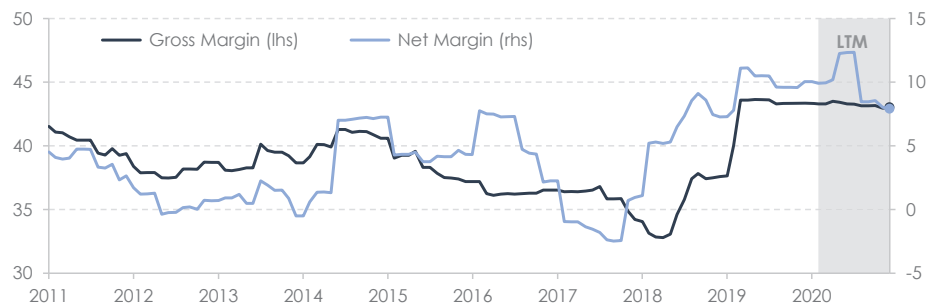
February 1, 2021

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	40.2x	26.9x	3.9x	13.6x	13.9%	6.9%	1.0x	-22.4%	49.8%	-0.9%	10.0%	0%	17%	20%	27%
Specialty Telecom	14.8x	14.2x	1.6x	6.3x	15.6	4.7	2.9x	8.4	3.6	-5.4	-2.1	15	31	18	8
Broadcasting	18.8x	13.9x	3.0x	9.5x	12.2	4.9	2.4x	-21.2	35.0	2.3	5.0	11	32	34	2
Books/Magazines	13.0x	-	1.7x	7.6x	4.8	0.9	1.2x	3.5	-	-4.4	-	6	66	56	-11
Movies/Entertainment	-5.3x	-15.2x	25.5x	1984.2x	-65.2	-73.2	11.8x	-2895.0	88.7	-54.2	111.3	3	39	41	-3
Newspapers	-35.7x	65.4x	2.4x	13.0x	4.1	-2.7	0.4x	-138.3	159.0	9.3	-2.2	3	39	32	43
Advertising Services	36.6x	26.2x	11.1x	16.6x	8.4	5.0	4.1x	-25.5	39.5	-10.5	4.0	-2	43	55	42
Major Telecom	10.1x	9.9x	1.8x	6.9x	12.3	5.9	1.1x	-4.8	1.2	-3.7	2.0	-4	0	-4	-16
Wireless	54.3x	50.1x	2.3x	11.1x	9.2	3.8	1.1x	5.3	8.8	39.4	12.4	-4	18	20	83
Cable/Satellite	41.6x	32.3x	4.1x	15.0x	16.0	6.5	1.3x	-15.4	29.3	1.1	9.8	-5	13	11	26

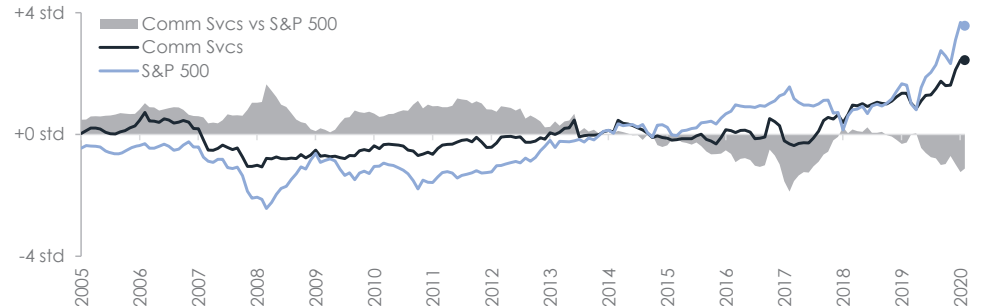
The color blue (red) highlights the highest (lowest) value for each column among industries.

Figure 73: Gross & Profit Margins (%)



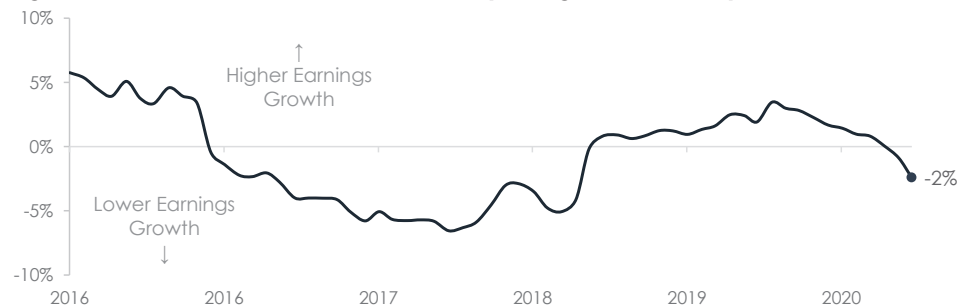
Source: MarketDesk Research

Figure 74: Valuation Composite vs S&P 500



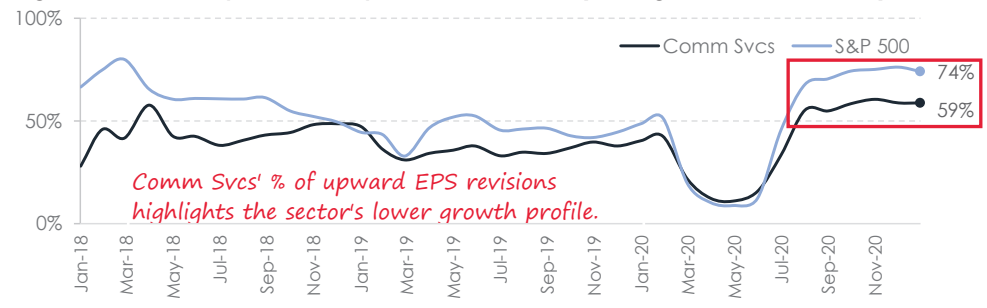
Source: MarketDesk Research. Composite is average Z-score of LTM P/E, NTM P/E, P/B, EV/S, EV/EBITDA.

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 2021 & 2022 EPS)



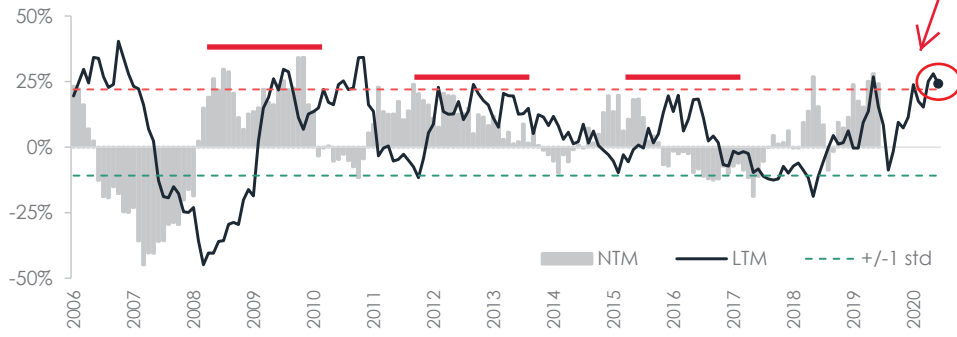
Source: MarketDesk Research

Communication Services

Technicals & Sentiment

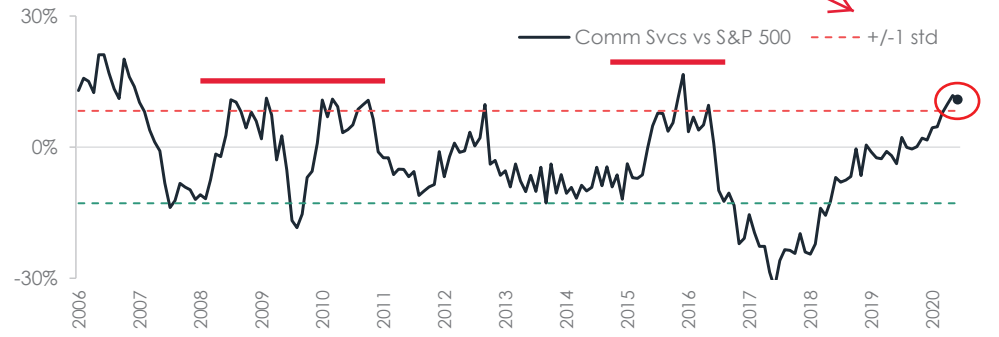
Comm Svcs' y/y sector return and relative return vs the S&P 500 both sit near the +1 std line, which historically represents resistance. However, the 2018 sector composition change resulted in the inclusion of social media stocks, which could continue to push the sector higher. If the sector were to lose its leadership, performance could suffer as investors head for the exits.

Figure 77: Y/Y Sector Returns



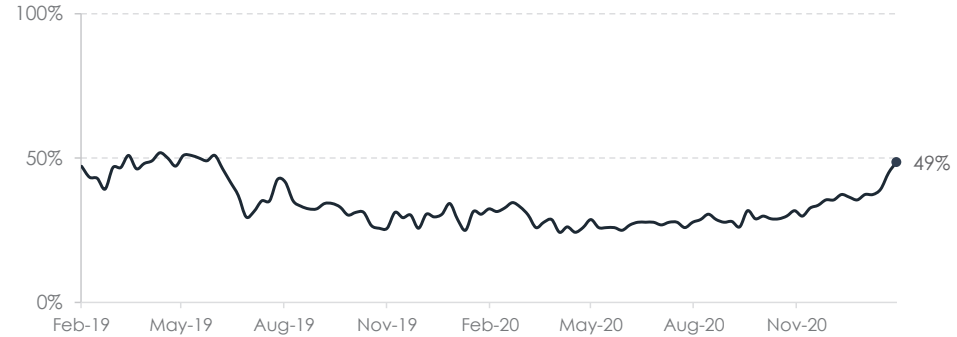
Source: MarketDesk Research

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



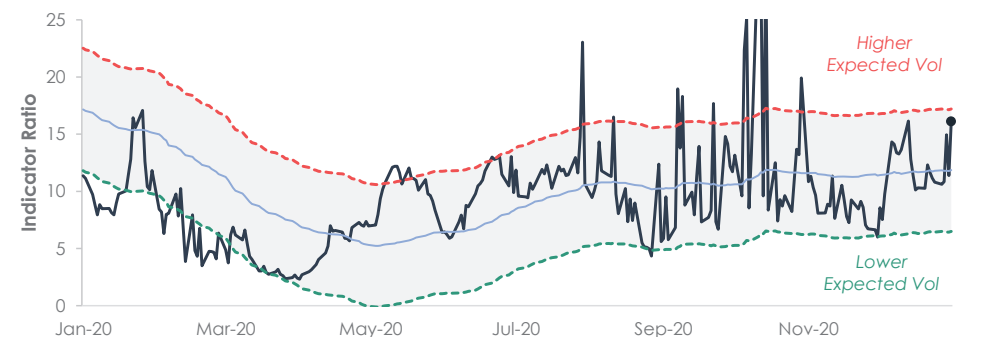
Source: MarketDesk Research

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



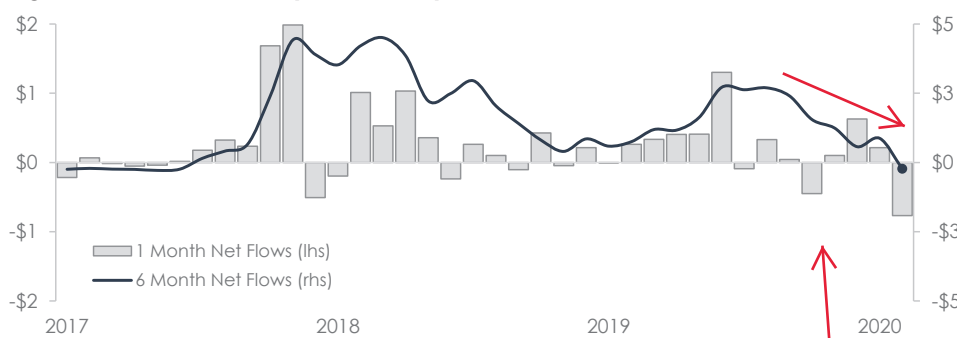
Source: MarketDesk Research

Figure 80: Option-implied Position Indicator



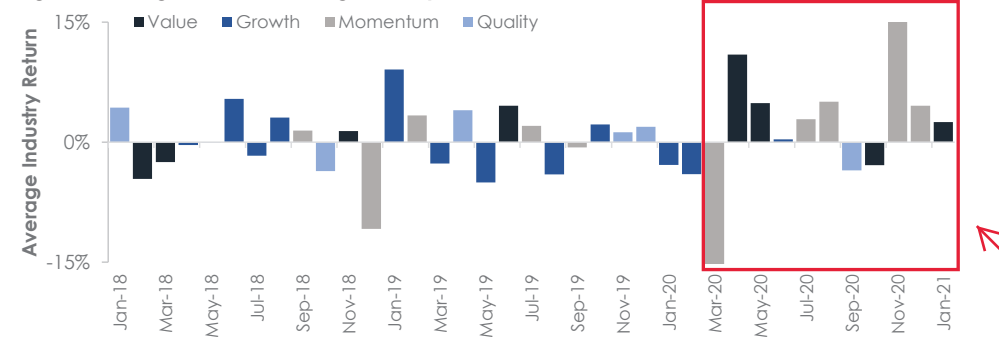
Source: MarketDesk Research. **Indicator Ratio** = Implied Option Volatility vs Historical Price Volatility.

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.

Weak flows and a focus on momentum and value indicate investor sentiment is wavering with regard to the sector.

Consumer Discretionary

Fundamentals

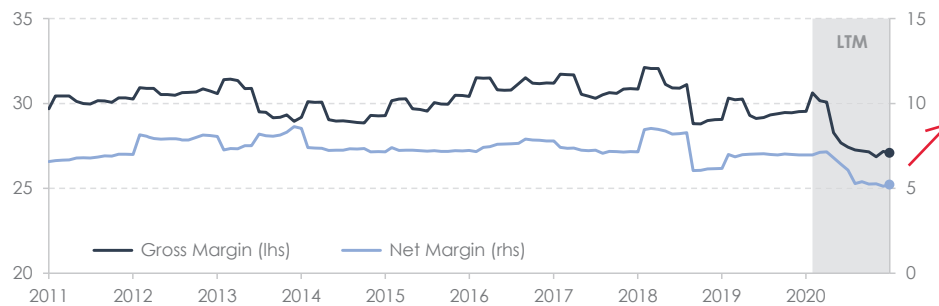
Cons Disc's gross margin is expected to improve from ~27% over the last 12 months to ~31% over the next 12 months, while net margins are expected to grow ~5% to ~7% over the same period. Both would represent a normalized run rate. In our view, the biggest risks to the margin projections are a resurgent virus, reimposed restrictions, and a delayed vaccine rollout. While COVID-19 statistics (e.g., hospitalizations, case counts, vaccination plans) are all trending in a positive direction, any stumble would be a headwind for Cons Disc stocks.

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	52.8x	33.4x	11.7x	24.5x	7.7%	5.2%	2.3x	-25.9%	57.6%	-0.2%	12.7%	1%	13%	18%	29%
Automobiles	106.8x	54.1x	9.3x	40.6x	4.4	3.3	3.1x	-15.6	96.1	-9.3	20.1	14	91	152	292
Homebuilding	11.4x	9.1x	2.0x	10.5x	12.7	9.7	0.6x	29.5	25.5	10.4	18.5	9	16	13	20
Auto Parts	80.8x	20.7x	4.0x	16.0x	4.4	1.5	1.2x	-40.7	285.0	-11.9	20.8	2	31	45	34
Internet Retail	107.1x	73.9x	19.4x	38.4x	5.5	4.5	0.8x	85.3	44.9	33.7	17.8	-1	7	2	65
Restaurants	46.3x	29.3x	-38.6x	23.3x	13.5	8.3	-8.1x	-23.5	57.2	-6.2	13.7	-3	8	18	10
Apparel/Footwear	48.5x	29.5x	9.0x	31.6x	8.6	6.4	0.9x	-21.6	63.6	-7.2	13.6	-5	14	38	23
Discount Stores	20.0x	19.3x	5.1x	11.4x	8.5	6.3	0.5x	31.1	3.6	12.8	3.3	-5	3	11	29
Casinos/Gaming	-36.9x	-296.8x	7.2x	41.1x	-15.4	-27.7	6.2x	-320.7	184.9	-38.3	66.5	-8	30	53	4
Hotels/Cruiselines	-11.1x	-18.8x	4.2x	165.4x	-21.6	-34.5	2.8x	-218.3	65.8	-50.5	39.5	-10	22	38	-23

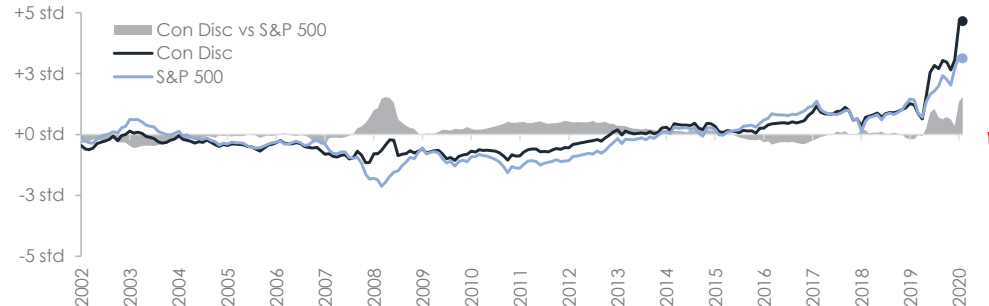
The color blue (red) highlights the highest (lowest) value for each column among industries.

Figure 84: Gross & Profit Margins (%)



Source: MarketDesk Research

Figure 85: Valuation Composite vs S&P 500



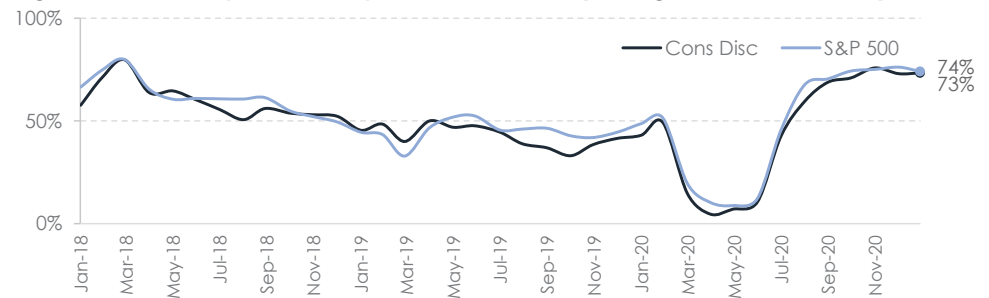
Source: MarketDesk Research. Composite is average Z-Score of LTM P/E, NTM P/E, P/B, EV/S, EV/EBITDA.

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



Source: MarketDesk Research

Figure 87: % of Companies with Upward EPS Revisions (Average of 2021 & 2022 EPS)



Source: MarketDesk Research

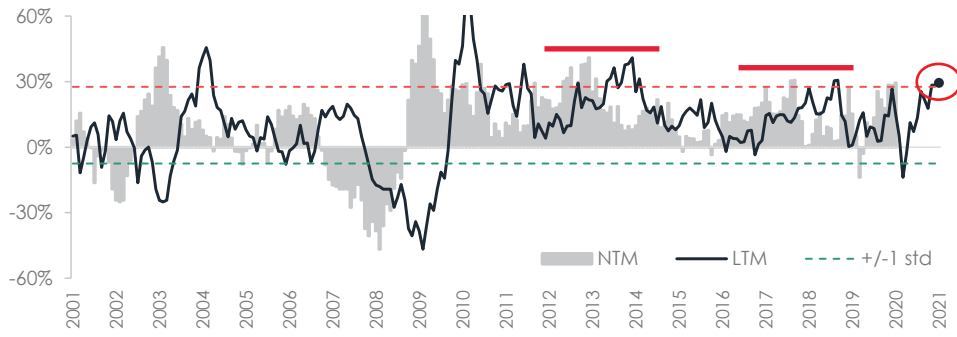
Relying on valuations as a catalyst to own Cons Disc remains difficult given the sector's sensitivity to social distancing, COVID-19 case counts, and the ongoing vaccine rollout. Figure 86 highlights the sector's EPS volatility.

Consumer Discretionary

Technicals & Sentiment

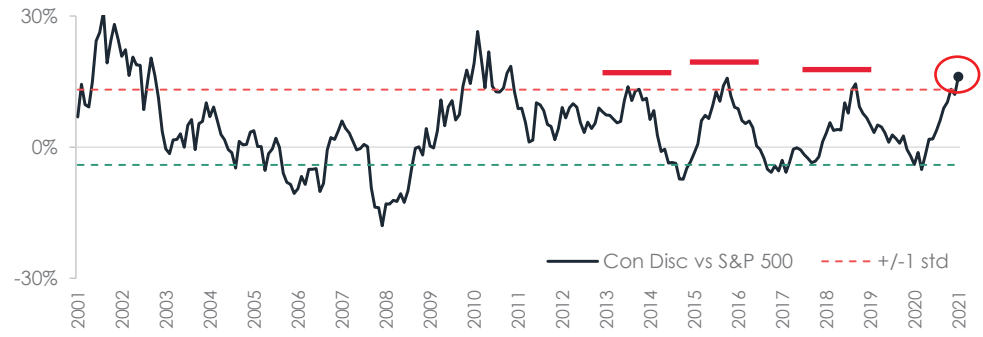
Cons Disc was the third best performing sector in January. The y/y sector return and relative return vs the S&P 500 both pushed above the +1 std line, which generally represents resistance. The sector's path forward is unclear given conflicting consumer indicators. On the positive side, the savings rate is up, and the Biden administration appears intent on passing additional fiscal stimulus. On the negative side, unemployment remains elevated, and the virus's resurgence is pressuring retail sales. Due to the uncertainty and stretched technicals, we maintain our Neutral rating.

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



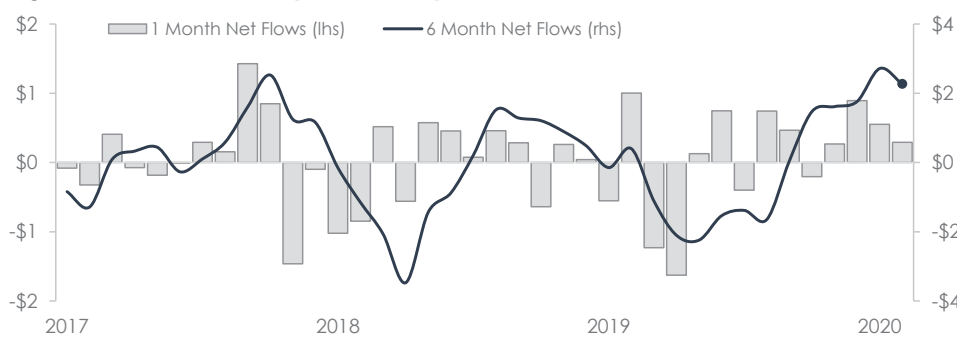
Source: MarketDesk Research

Figure 91: Option-implied Position Indicator



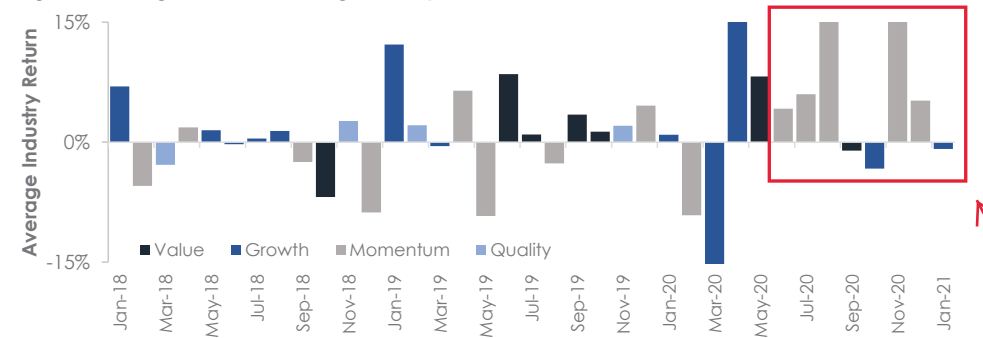
Source: MarketDesk Research. **Indicator Ratio** = Implied Option Volatility vs Historical Price Volatility.

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.

Momentum remains a driving force in Cons Disc as the sector benefits from its AMZN and TSLA exposure.

Industrials' gross and profit margins both suffered during the pandemic but are expected to rebound over the next 12 months. Gross margins are projected to expand from ~23% to ~28%, while profit margins are forecasted to rise from ~6% to ~9%. We attribute the margin projections to increased operating leverage.

The 1/29/2021 Strategy Snapshot focused on our recent Industrials upgrade from N to OW at the start of 2021. It discusses the current manufacturing / industrial environment, lists the catalysts we are monitoring, and highlights attractive industries. While the sector is likely to experience volatility in the near-term, the medium-term and longer-term industry dynamics are attractive in our view.

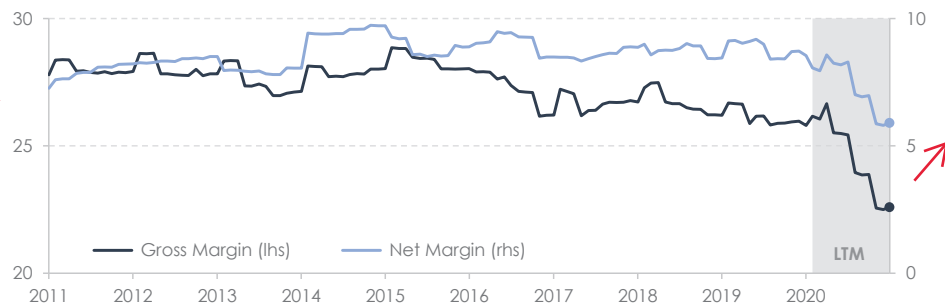
Figure 94: Sector & Industry Snapshot

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	46.5x	24.1x	5.1x	18.8x	8.3%	5.2%	1.5x	-45.9%	92.0%	-11.9%	10.2%	-4%	12%	18%	5%
Marine Shipping	8.6x	9.5x	0.6x	6.8x	27.6	8.8	1.3x	60.2	-7.6	-6.3	-2.8	4	33	13	-18
Personnel Services	21.4x	18.2x	3.1x	12.2x	3.8	2.6	0.4x	-23.6	17.4	-9.7	6.2	2	24	30	6
Building Products	22.9x	20.3x	10.8x	14.8x	12.4	7.1	2.1x	13.7	12.4	3.2	12.0	-1	10	10	9
Trucking	27.0x	20.2x	3.6x	11.3x	7.2	4.4	0.6x	13.2	33.4	-1.7	8.9	-1	9	10	32
Engineering & Construction	25.3x	18.4x	2.7x	12.0x	4.9	2.6	0.5x	179.2	37.2	-7.3	3.6	-2	22	46	29
Airlines	-3.2x	-7.5x	3.2x	-11.4x	-48.8	-43.3	4.3x	-310.7	79.1	-52.4	51.0	-4	23	46	-29
Railroads	24.2x	20.4x	5.6x	15.3x	40.2	26.9	1.2x	-6.3	18.7	-9.5	8.2	-4	11	18	12
Aerospace & Defense	55.5x	21.8x	4.2x	19.0x	5.8	3.3	1.6x	-45.5	151.8	-7.8	8.7	-5	19	16	-21
Air Freight/Couriers	18.9x	16.3x	6.1x	12.4x	7.8	6.2	1.4x	10.3	16.0	9.4	6.3	-8	-3	16	49

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

It is tempting to look at the airline industry as value play, but the fundamentals are a mess right now.

Figure 95: Gross & Profit Margins (%)



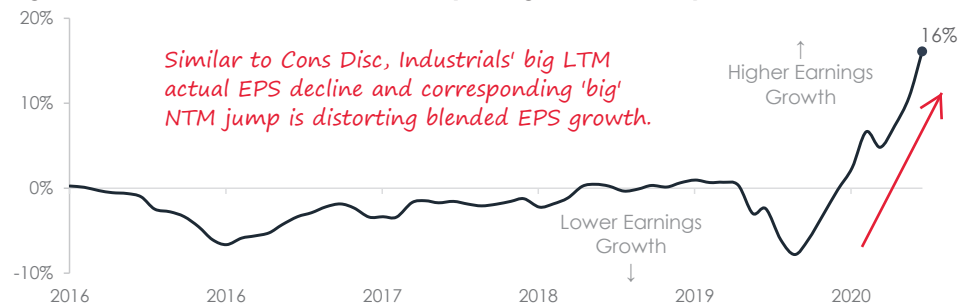
Source: MarketDesk Research

Figure 96: Valuation Composite vs S&P 500



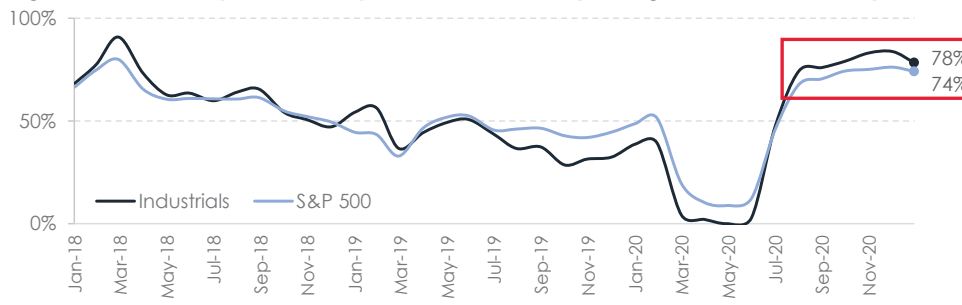
Source: MarketDesk Research. Composite is average Z-Score of LTM P/E, NTM P/E, P/B, EV/S, EV/EBITDA.

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 2021 & 2022 EPS)

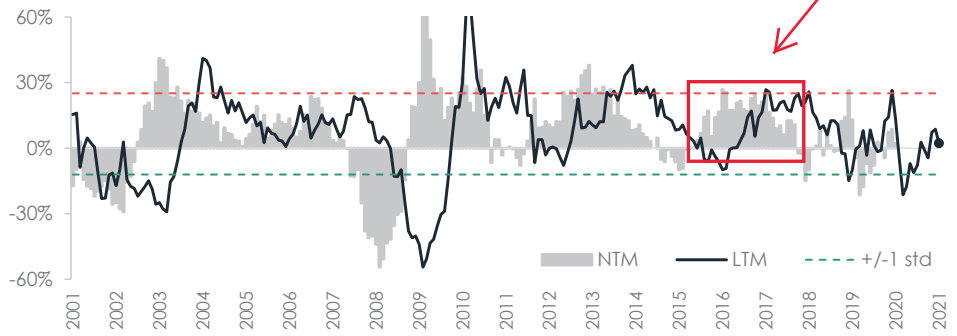


Source: MarketDesk Research

The sector's % of upward EPS revisions continues to outpace the S&P 500. However, the relative gap did tighten over the past few months, which is important to monitor moving forward.

We touched on Industrials' technicals as a catalyst in the 1/29/2021 Strategy Snapshot. In our view, the current period is similar to the post 2016 industrial recession period when the Industrials sector generated positive y/y returns and outperformed the S&P 500 Index.

Figure 99: Y/Y Sector Returns



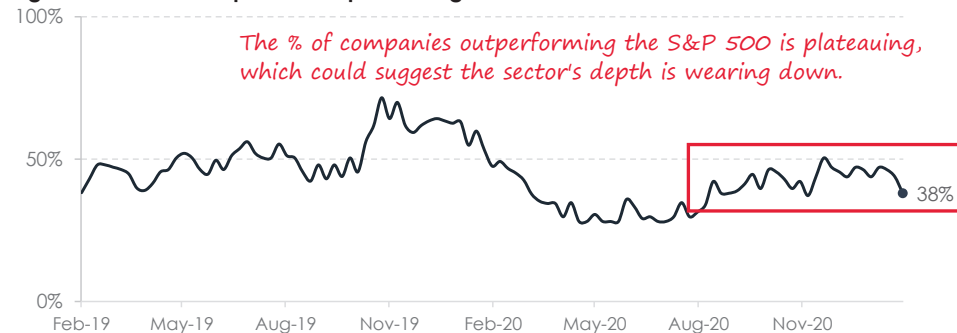
Source: MarketDesk Research

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



Source: MarketDesk Research

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



The % of companies outperforming the S&P 500 is plateauing, which could suggest the sector's depth is wearing down.

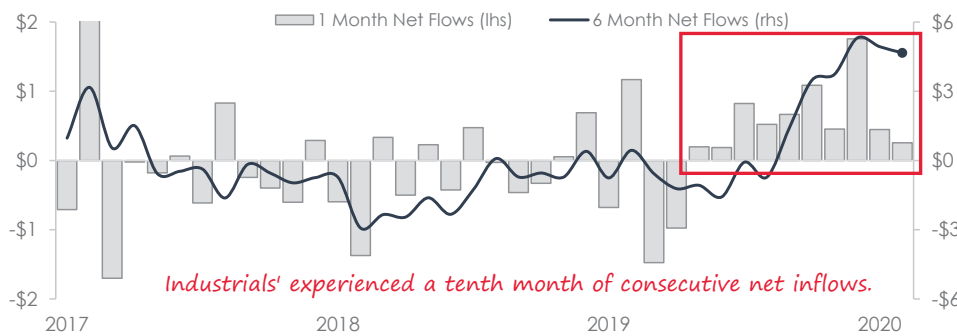
Source: MarketDesk Research

Figure 102: Option-implied Position Indicator



Source: MarketDesk Research. Indicator Ratio = Implied Option Volatility vs Historical Price Volatility.

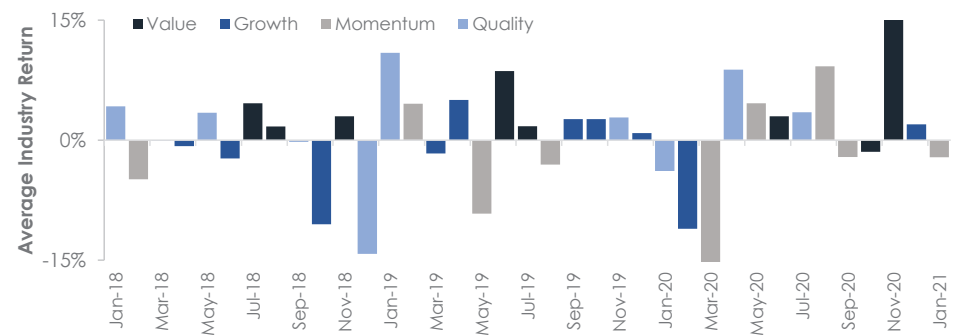
Figure 103: Sector ETF Flows (\$ USD Billions)



Industrials' experienced a tenth month of consecutive net inflows.

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.

Similar to Industrials, Materials gross and profit margins both suffered during the pandemic but are expected to rebound over the next 12 months. Gross margins are projected to expand from ~24% to ~30%, while profit margins are forecasted to rise from ~6% to ~11%. We attribute the margin projections to rising economic growth projections and increased operating leverage.

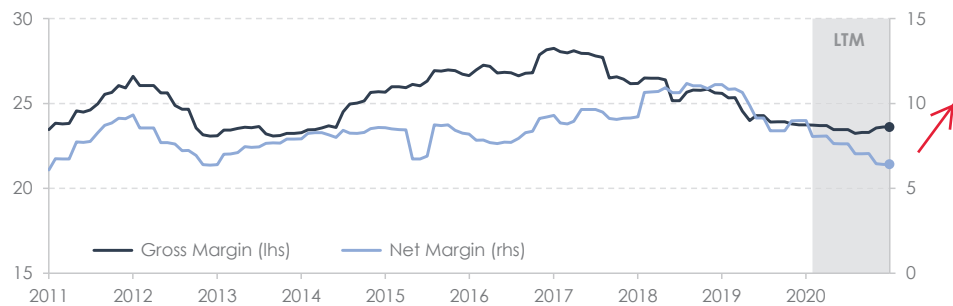
Materials' sector valuation composite sits at a two decade high, suggesting valuations are stretched. The question is whether Materials can grow into their current valuations. Margin expansion (refer to Figure 106) would be a good start, but economic growth is also needed. With the economic recovery slowing and vaccine rollout off to an underwhelming start, we simply are not confident enough to upgrade Materials to Neutral from UW.

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	26.3x	20.3x	3.1x	14.6x	14.0%	9.1%	0.8x	-5.6%	29.5%	-4.6%	9.3%	-2%	12%	17%	23%
Forest Products	18.6x	17.4x	4.7x	13.3x	9.8	6.3	0.6x	104.2	6.8	9.7	4.6	5	26	19	43
Chemicals (Agricultural)	27.4x	20.4x	1.9x	13.2x	12.4	7.1	0.4x	4.9	34.0	0.2	6.7	4	26	34	31
Chemicals (Diversified)	21.5x	18.5x	2.0x	14.4x	15.0	10.0	0.8x	-15.7	15.9	-7.0	-2.3	4	27	40	39
Construction Materials	26.8x	25.1x	3.1x	14.0x	17.2	11.1	0.7x	7.8	6.7	0.2	3.7	2	9	34	9
Pulp & Paper	25.5x	12.3x	1.0x	7.8x	3.9	1.6	0.7x	-33.5	106.1	-11.6	0.9	-2	28	26	-2
Precious Metals	26.5x	16.3x	2.1x	10.0x	32.4	17.5	0.3x	111.0	62.1	22.3	16.8	-2	-4	-14	27
Steel	32.5x	11.9x	1.6x	11.4x	3.9	0.1	0.8x	-40.1	177.8	-7.2	30.6	-3	19	39	17
Containers/Packaging	19.1x	15.8x	3.5x	10.5x	10.6	6.2	1.9x	-5.8	20.7	-0.5	4.1	-4	10	25	17
Aluminum	278.2x	19.7x	2.0x	7.7x	7.1	0.5	1.0x	26.0	1296.4	-36.6	9.4	-15	37	54	12

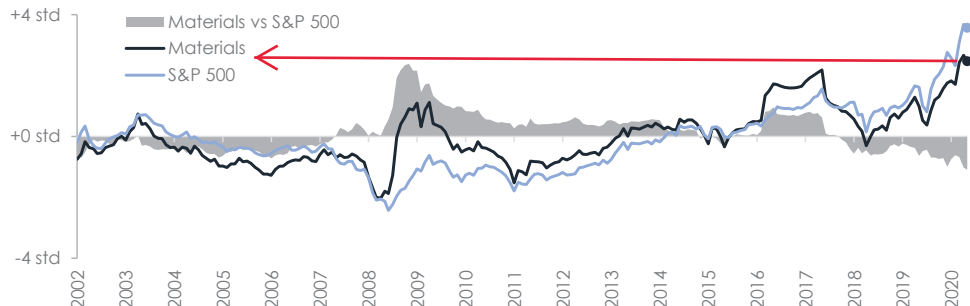
The color blue (red) highlights the highest (lowest) value for each column among industries.

Figure 106: Gross & Profit Margins (%)



Source: MarketDesk Research

Figure 107: Valuation Composite vs S&P 500



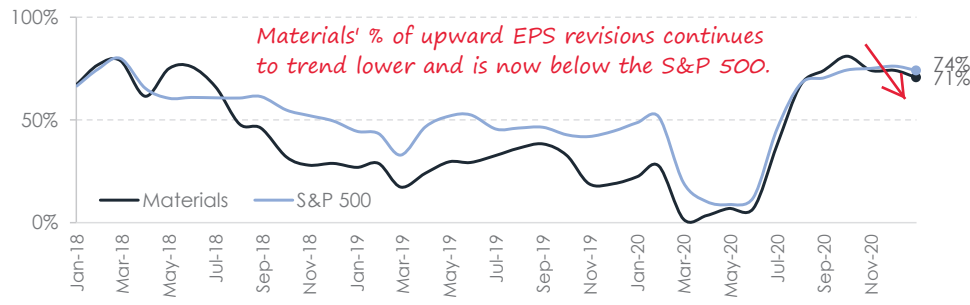
Source: MarketDesk Research. Composite is average Z-Score of LTM P/E, NTM P/E, P/B, EV/S, EV/EBITDA.

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



Source: MarketDesk Research

Figure 109: % of Companies with Upward EPS Revisions (Average of 2021 & 2022 EPS)



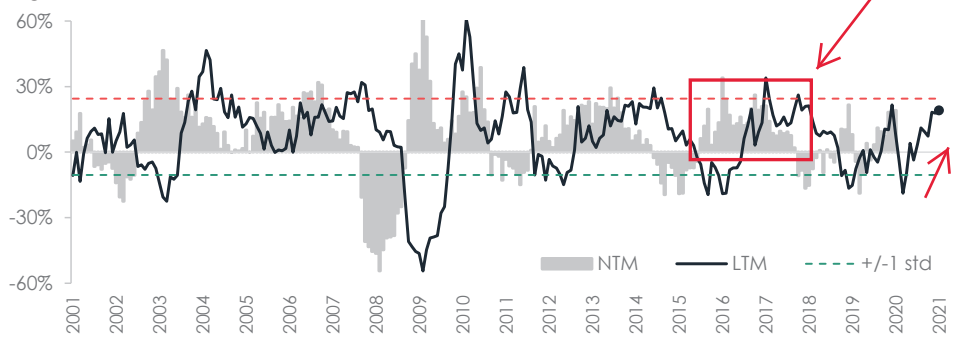
Source: MarketDesk Research

Materials

Technical & Sentiment

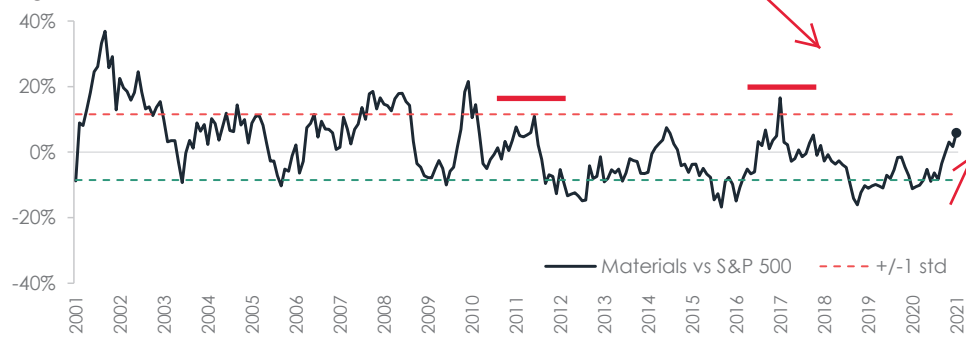
The sector's technicals continue to trend toward the +1 std line, which on a relative basis vs the S&P 500 was only surpassed 1 time over the past decade. The question is what happens if performance bumps up against what is typically resistance. If the next few years are similar to the post 2016 industrial recession period, Materials could generate strong performance on an absolute basis (Fig 110). The return path forward is less clear on a relative basis vs the S&P 500 (Fig 111), but expensive Tech and social media valuations could act as a headwind for the S&P 500 and be the Materials sector's ticket to relative outperformance.

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



The % of companies outperforming the S&P 500 surged higher in January to a two year high. We attribute the improving breadth to expectations of additional fiscal stimulus following the Democrat's Georgia runoff election wins, which pushed inflation expectations higher in early January.

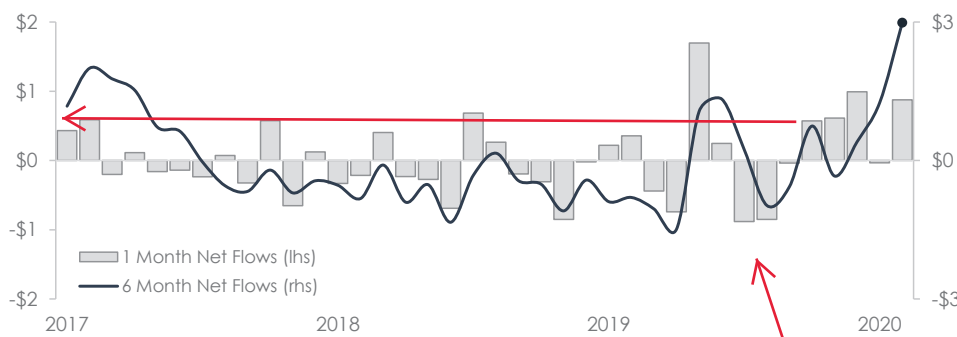
Source: MarketDesk Research

Figure 113: Option-implied Position Indicator



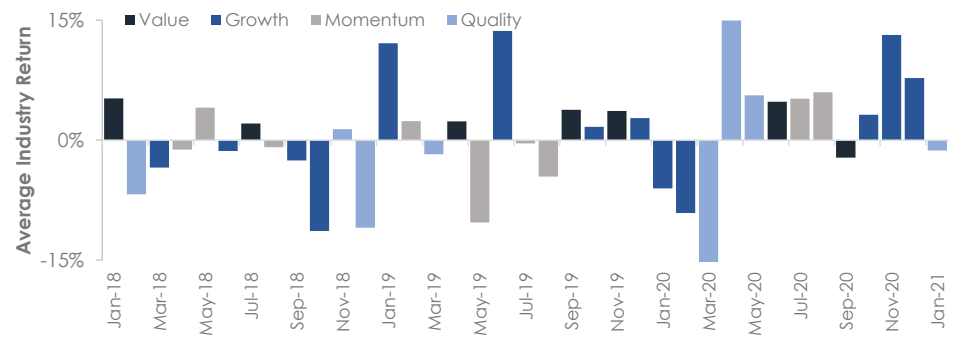
Source: MarketDesk Research. Indicator Ratio = Implied Option Volatility vs Historical Price Volatility.

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.

Materials experienced strong net inflows in January, with the inflows concentrated in the first half of January around the Democrat's Georgia runoff wins. If you take a step back and look at the sector's net flows over the past few years, Materials have not experienced this steady of net inflows since 2017. Investor interest in the sector certainly appears to be picking up.

During the Federal Reserve's January 2021 FOMC meeting, Chairman Powell said it is too early to consider tapering given the economic recovery's recent slowdown. Combined with the Fed's inflation guidance last year, this means interest rates are likely to stay low for an extended period. Net interest margins are likely to remain weak as a result. In the near-term, we maintain our Neutral rating due to better than expected credit losses and the potential for loan loss reserve releases.

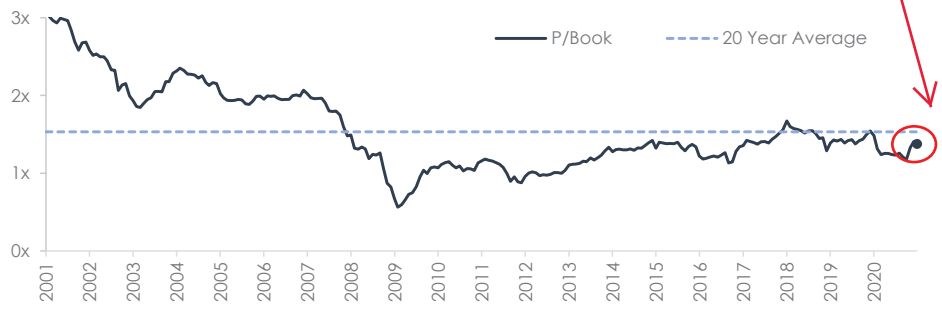
Figure 116: Sector & Industry Snapshot

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	16.5x	13.6x	1.3x	14.8x	25.4%	13.9%	0.3x	-15.9%	21.4%	-0.3%	3.0%	-2%	21%	20%	-3%
Regional Banks	16.5x	12.4x	1.1x	-105.8x	40.0	18.7	0.8x	-21.7	33.2	11.4	0.8	3	28	39	1
Savings Banks	16.0x	13.0x	1.1x	-	41.2	24.2	-	-8.8	21.2	4.6	5.5	2	26	30	-9
Investment Managers	16.6x	14.0x	2.3x	14.2x	31.6	21.6	0.9x	-3.8	18.6	1.4	11.6	0	23	21	17
Major Banks	15.5x	11.8x	1.0x	-	36.5	18.0	-	-29.2	30.7	-3.2	-2.4	-1	29	28	-11
Investment Banks/Brokers	14.9x	14.4x	1.9x	8.8x	31.1	20.7	4.1x	22.1	3.6	12.9	3.3	-1	27	30	13
Life/Health Insurance	10.9x	8.1x	0.6x	-158.0x	10.5	7.9	2.0x	-13.4	34.8	-4.4	3.0	-1	22	23	-10
P&C Insurance	16.4x	13.4x	1.4x	-	11.7	9.5	-	-4.7	21.9	4.4	8.2	-5	11	10	-5
Insurance Brokers	23.7x	21.5x	5.0x	23.7x	22.3	16.8	1.2x	9.6	10.3	2.3	5.7	-6	8	-1	1

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

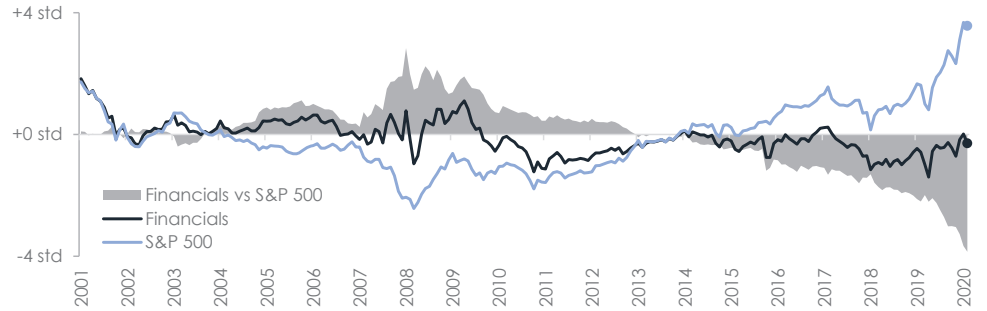
Financials' price-to-book ratio ticked slightly lower in January 2021 after jumping higher in December 2020. It remains below the 20-year average but is inline on a 5-year average.

Figure 117: Price to Book vs Historical Average



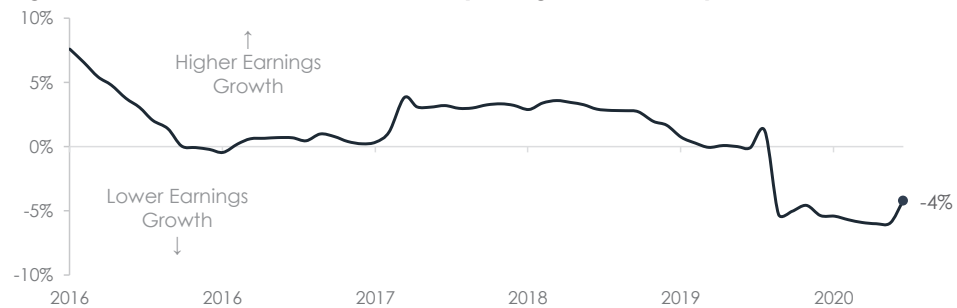
Source: MarketDesk Research

Figure 118: Valuation Composite vs S&P 500



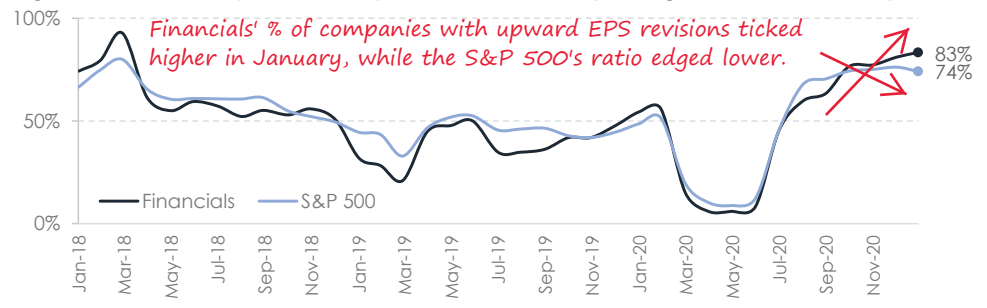
Source: MarketDesk Research. Composite is average Z-score of LTM P/E, NTM P/E, P/B, EV/S, EV/EBITDA.

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 2021 & 2022 EPS)



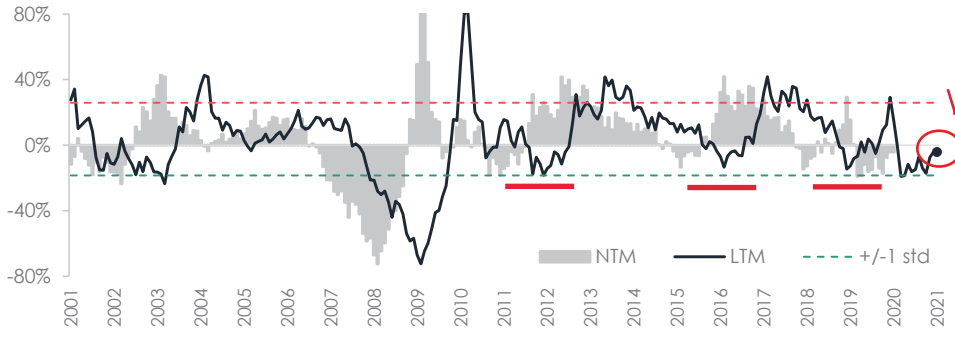
Source: MarketDesk Research

Financials

Technicals & Sentiment

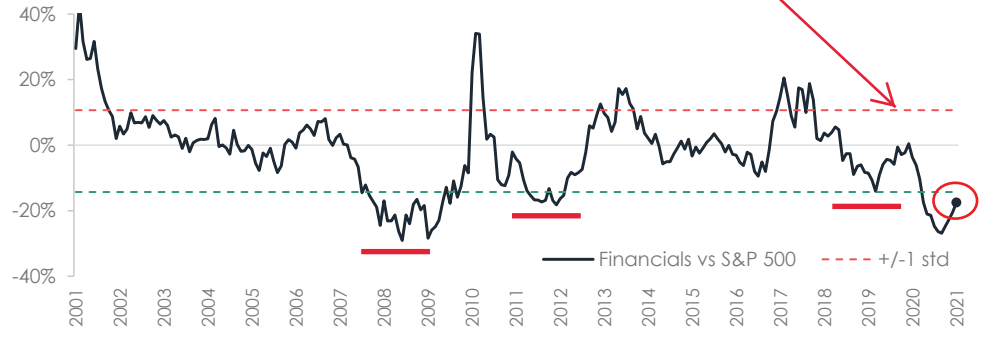
Financials' technicals remain attractive in our view. From a y/y sector return standpoint, the sector bounced off the -1 std line. From a relative return vs the S&P 500 standpoint, the sector is moving up toward the -1 std line after plunging through during the pandemic. Interest rates drifting higher, better than expected loan losses, and strong capital buffers are all positive catalysts. We believe Financials benefit from a mean reversion trade, with Tech's expensive valuations acting as a headwind for the S&P 500.

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



The % of companies outperforming the S&P 500 ticked higher from 17% in December to 20% in January. The sector's breadth continues to improve.

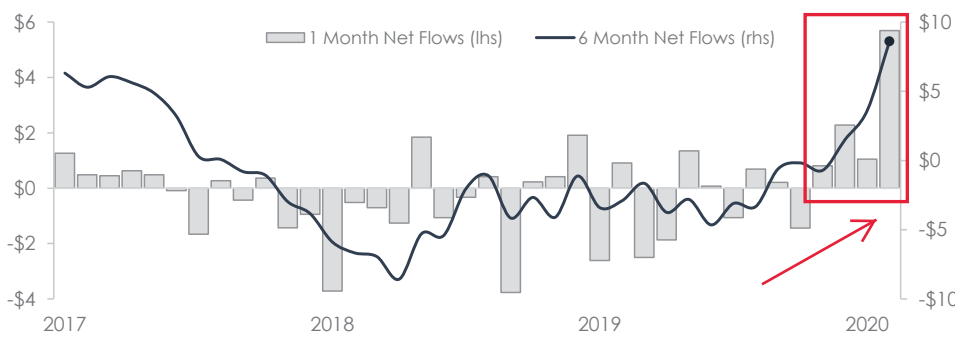
Source: MarketDesk Research

Figure 124: Option-implied Position Indicator



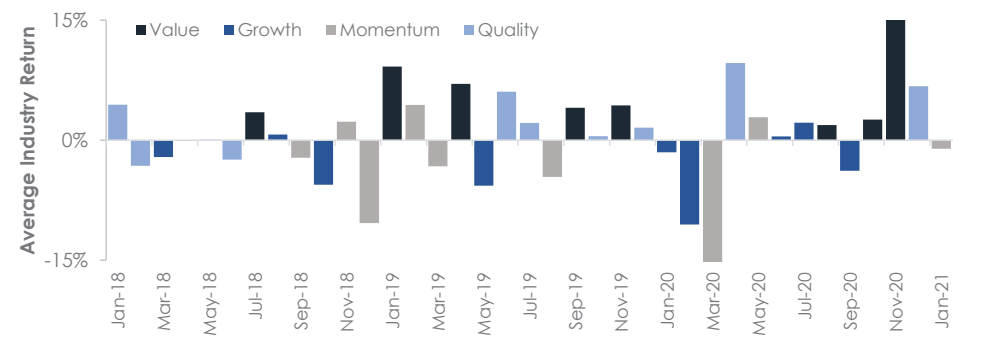
Source: MarketDesk Research. **Indicator Ratio** = Implied Option Volatility vs Historical Price Volatility.

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.

Financials experienced a fourth consecutive month of net inflows. The inflows were strongest in the first half of the month before gradually trailing off in the second half as market volatility pushed U.S. treasury yield lower.

The Real Estate sector remains split by property end type. We continue to prefer data center, residential, and industrials REITs over retail, hotel, and office REITs.

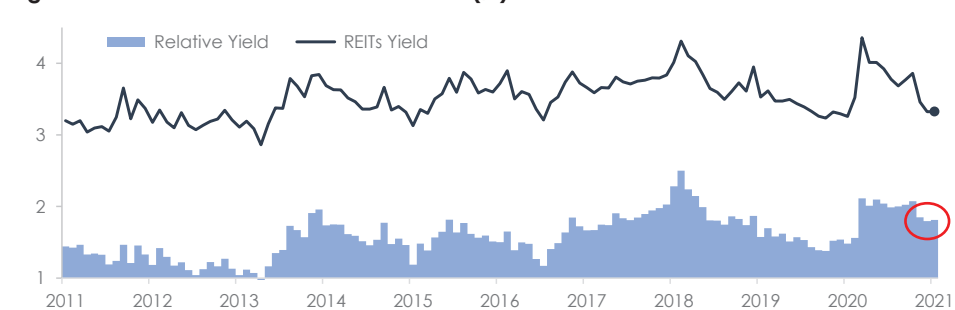
Real Estate's return path during January was noteworthy. The sector underperformed during the first half of the month before outperforming during the second half of the month, which we attribute to the sector's diversification benefit, higher yield, and valuation discount catalysts. We maintain our Neutral rating to take advantage of all three.

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			
	1M	3M	6M	1Y											
Real Estate	20.8x	19.0x	2.6x	21.5x	19.0%	7.5%	1.2x	-14.9%	9.6%	-8.4%	7.1%	0%	11%	4%	-10%
Real Estate Development	28.7x	17.1x	2.0x	21.8x	6.0	1.9	1.5x	-29.4	6.7	-7.4	9.5	1	27	39	-2
REITs	20.5x	17.8x	2.4x	24.9x	22.4	3.9	1.6x	-17.7	1.5	-8.1	7.4	0	11	4	-11

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

Figure 128: Yield & Relative Yield vs S&P 500 (%)



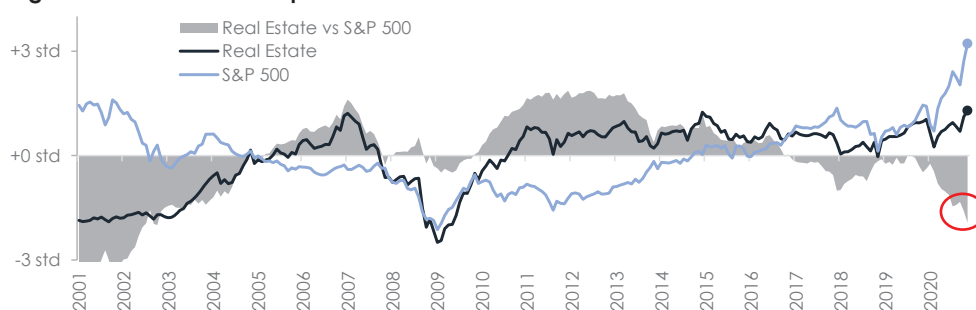
Source: MarketDesk Research

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



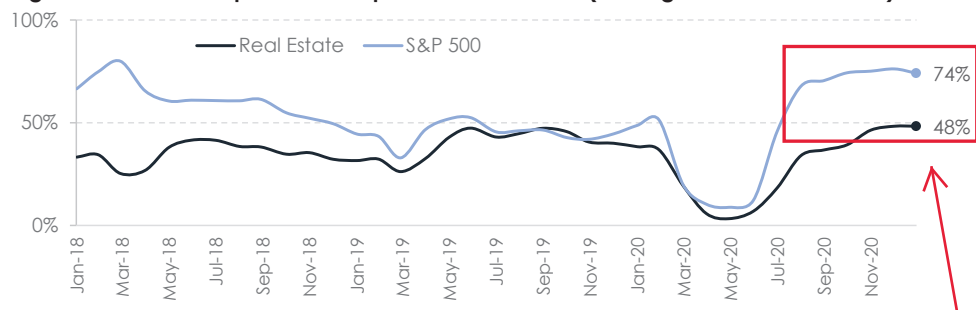
Source: MarketDesk Research

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 131: % of Companies with Upward EPS Revisions (Average of 2021 & 2022 EPS)



Source: MarketDesk Research

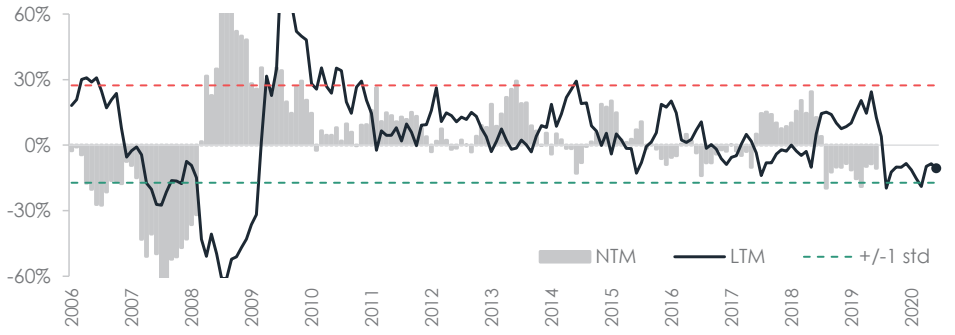
The % of companies with upward EPS revisions continues to trail the S&P 500. The sector's uncertain future creates the risk of property write-downs, such as Boston Properties' recent office impairments.

Real Estate

Technicals & Sentiment

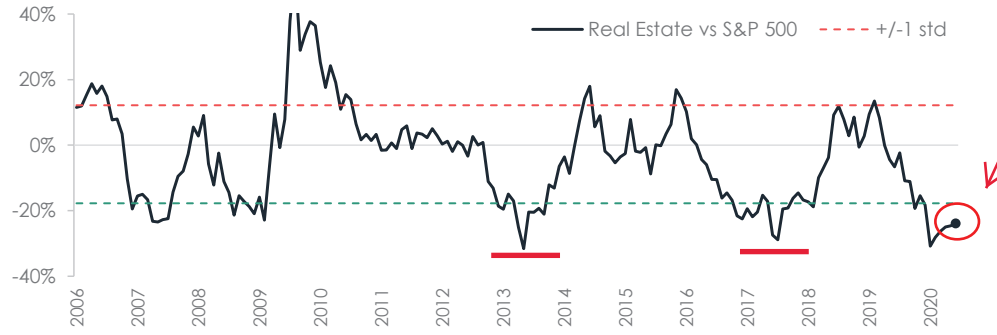
Real Estate was the second worst performing sector in 2020, which caused the sector to push below the -1 std line on a relative return basis similar to 2017 and 2013. However, Real Estate's current position under the -1 std line is due to COVID-19 severely impacting retail, hotel, and office properties -- not the sector's underperformance in a strong economy. It will take time for the sector's problems to be resolved and for investors to 'rediscover' Real Estate, but we believe the longer-term technicals are attractive.

Figure 132: Y/Y Sector Returns



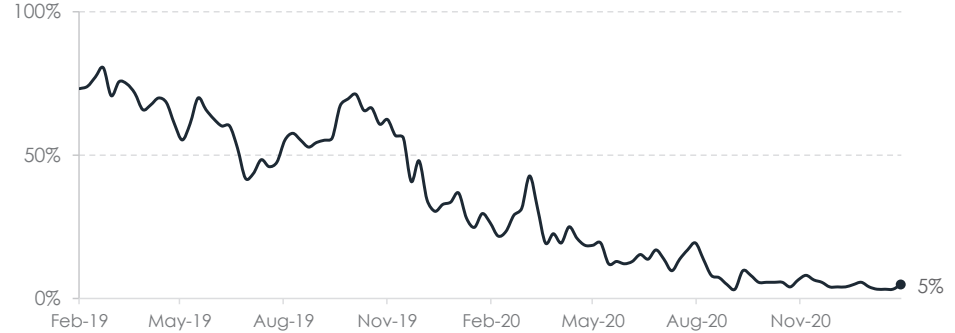
Source: MarketDesk Research

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

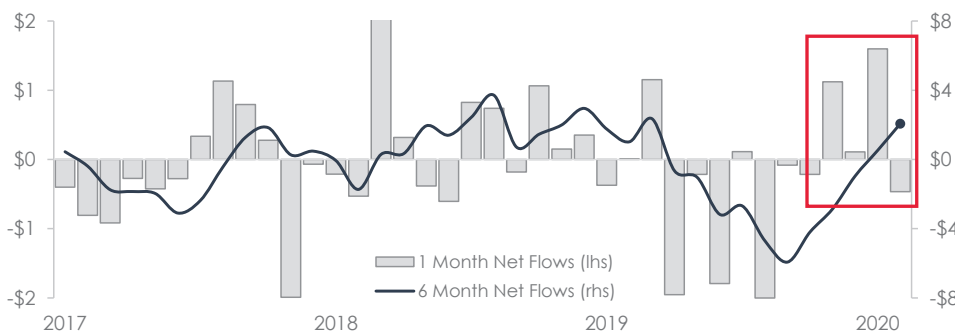
Real Estate experienced net outflows after three consecutive months of new inflows.

Figure 135: Option-implied Position Indicator



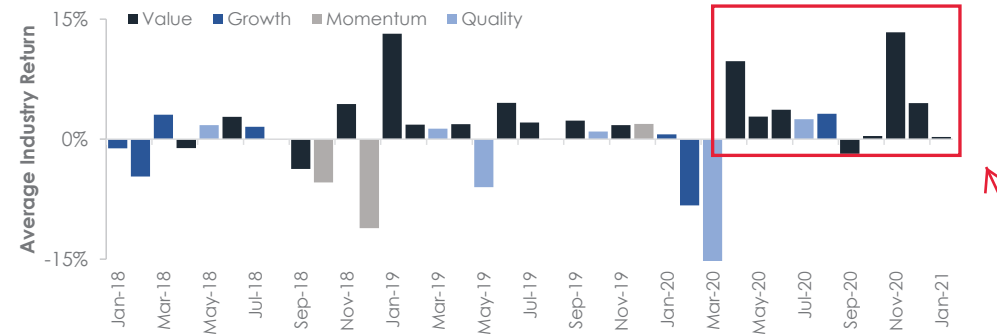
Source: MarketDesk Research. Indicator Ratio = Implied Option Volatility vs Historical Price Volatility.

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.

Value remains a strong driver of performance in the Real Estate sector as investors search for opportunities with a margin of safety.

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