November 28, 2016

U.S. Sector Positioning In The Post-Election World Of Reflation

Two major investment implications have emerged from the surprise Trump victory earlier this month. First, optimism about U.S. economic growth has improved. Second, the election has had a meaningful impact on some equity sectors based on expectations that the incoming administration will ease regulations. These factors have led to a stampede out of bonds and fixed-income proxies into pro-growth sectors such as financials and industrials.

While it is not clear how much more of this rotation will still play out, technical conditions for the sectors that have been most impacted by these moves are now stretched and suggest that a significant amount of portfolio repositioning has already taken place. From a fundamental standpoint, the U.S. economic backdrop was already improving prior to the election. Economic growth was not particularly robust, but it was getting sturdier, as evidenced by improved readings for the U.S. PMI manufacturing and services indexes, and the moderate re-acceleration in consumption growth in recent months (**chart 1**).

Trump's stated goals of individual and corporate tax cuts, repealing regulations, and a large infrastructure package are decidedly pro-growth over the intermediate term. However, many of his policy prescriptions are light on detail and the timing or sequencing of his policy actions remains

MRB U.S. Equity Sectors Allocation*

	-		N		+
Consumer Discretionary			■		
Consumer Staples		■			
Energy		■			
Financials				■	
Health Care				■	
Industrials		■			
Information Technology				■	
Materials		■			
Real Estate		■			
Telecom Services			■		
Utilities		■			

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* 6-12 month horizon; relative to the U.S. equity benchmark
Note: + = maximum overweight, N = neutral, – = maximum underweight

- President-elect Trump's economic agenda has potentially bullish implications for the economy and risk assets over the next 1-2 years.
- Investors should have a moderate bias in favor of cyclical over defensive sectors, tempered by caution towards commodity-linked plays.
- Overweight financial stocks, which are in the sweet spot given tailwinds from asset reflation, a steepening yield curve, and less regulation.
- Remain overweight technology stocks where cyclical conditions are decisively improving.
- Health care stocks are cheap and should re-rate as drug-pricing concerns fade.
- Downgrade exposure to the real estate and utilities sectors to underweight from neutral, and lower telecoms to neutral. These stocks will be prone to lag as deflation risks diminish and bond yields rise over the coming year, although cheap valuations will limit downside risks for telecoms.

Summary Of MRB's U.S. Equity Sector Recommendations
(6-12 Month Horizon)

- **Consumer Discretionary (Neutral):** Healthy household balance sheets, a sturdy labor market, subdued oil prices, and a strong dollar are key positives. However, the sector is beginning to lose interest-rate support. Our bias is to downgrade these stocks, but we await better risk/reward opportunities in later-cycle groups before cutting our exposure.
- **Consumer Staples (Underweight):** We remain cautious given our moderate pro-growth stance and preference for cyclical plays. Although relative valuation multiples have recently corrected to their historical norms, there is still room for the sector to de-rate as economic conditions improve. Valuations remain close to record highs relative to other defensive sectors such as health care and telecoms.
- **Energy (Underweight):** Persistent oversupply conditions will keep oil prices in a trading range, thus making it difficult for energy stocks to sustain outperformance on a 6-12 month horizon.
- **Financials (Overweight):** The sector is a large beneficiary of asset reflation, yield curve steepening, and the prospect of less regulation under the Republican sweep. Loan volume growth and credit quality continue to be healthy for banks. Despite recent outperformance, relative valuations remain cheap from an historical context.
- **Health Care (Overweight):** Concerns over the sector's earnings power are overdone. Relative earnings will remain well supported by drug innovation and the solid pace of U.S. health care expenditure growth. Valuations are at a significant discount to the broad equity market and are attractive versus their history. Health care stocks also trade cheaply versus other defensive plays such as consumer staples and utilities.
- **Industrials (Underweight):** Relative performance has run ahead of underlying fundamentals. U.S. fiscal policy stimulus will take time to play out before benefiting the relative earnings of industrial companies. With relative valuations on the expensive side, and a recovery in business investment still not in train, caution is warranted.
- **Information Technology (Overweight):** Relative earnings are underpinned by improving cyclical conditions, as well as secular trends such as the migration to the cloud, data growth, and the proliferation of connected devices. In addition, technology companies generate a relatively high ROE and offer strong balance sheets, which enable the deployment of cash to fund growth opportunities and increase payouts to shareholders. Relative valuations are undemanding and suggest the sector has additional re-rating potential as relative earnings climb further.
- **Materials (Underweight):** A recovery in Chinese residential real estate construction and optimism over a pickup in U.S. infrastructure investment have driven a rally in commodity prices, to the benefit of the sector. However, our judgement is that China's housing market will slow around mid-2017, thereby putting renewed downward pressure on commodity prices, and likely overwhelming any positive impact of increased U.S. infrastructure spending.
- **Real Estate (Downgrade To Underweight):** Rising bond yields over the coming year will weigh on the relative performance of this interest rate-sensitive sector.
- **Telecom Services (Downgrade To Neutral):** The negative impact of higher bond yields is offset by very cheap relative valuations, which will limit downside risks compared with more expensive defensive plays such as consumer staples and utilities.
- **Utilities (Downgrade To Underweight):** Performance will lag as the stock/bond ratio climbs and deflation risks continue to diminish. Relative valuations remain elevated versus their history, underscoring that additional de-rating is likely.

Table 1 MRB U.S. Equity Sub-Groups Allocation

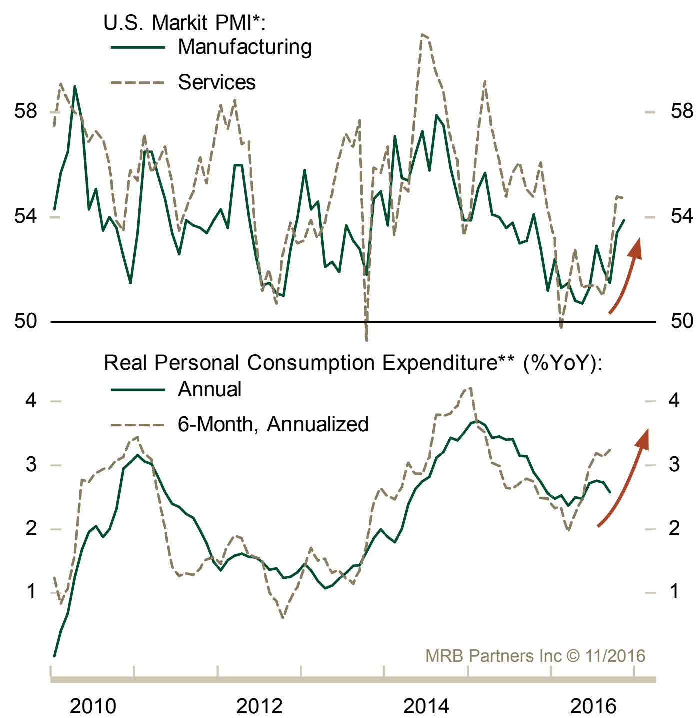
Sector	Overall Sector Ratings* –		N		+	Industry Ratings* Underweight	Neutral	Overweight
Consumer Discretionary			■			Hotels, Restaurants & Leisure Retailing Textile, Apparel & Luxury Goods	Auto Components Automobiles	Media Household Durables
Consumer Staples		■				Beverages Household & Personal Products	Food Products Food & Staples Retailing Tobacco	
Energy		■				Energy Equipment & Services Oil, Gas & Consumables		
Financials				■		Capital Markets		Banks Insurance Consumer Finance
Health Care				■			Biotechnology	Health Care Equipment & Supplies Health Care Providers & Services Pharmaceuticals
Industrials		■				Construction & Engineering Electrical Equipment Machinery	Aerospace & Defense Air Freight & Logistics Industrial Conglomerates Road & Rail	
Information Technology				■			Technology Hardware & Equipment	Software & Services Semiconductor & Semi-Equipment
Materials		■				Chemicals Metals & Mining		
Real Estate		■				Real Estate ↓		
Telecom Services			■				Telecom Services ↓	
Utilities		■				Utilities ↓		

* 6-12 month horizon; relative to the U.S. equity benchmark
Note: + = maximum overweight, N = neutral, – = maximum underweight; new recommendations ↑ upgrade, ↓ downgrade

unknown. Therefore, it is premature to ***meaningfully*** reposition U.S. equity portfolios. That said, Trump's pro-growth agenda enhances the odds that economic momentum will improve in the coming year, provided he does not precipitate a trade war through the enactment of protectionist policies.

Given the changing landscape, we recently upgraded U.S. financials to overweight, while also raising the global sector to neutral (see the November 18 **MRB *Weekly Macro Strategy Report***). As a follow-up to this move, we are downgrading our 6-12 month view on real estate stocks and utilities to underweight from neutral, while lowering our exposure to telecom stocks to neutral from overweight. These changes apply to both our U.S. and global portfolios.

Chart 1 U.S. Economic Growth Has Been Regaining Momentum



* Source: Markit Economics
** Smoothed; source: U.S. Bureau of Economic Analysis

Bonds are oversold, so we would lighten exposure to these interest-rate sensitive sectors gradually and on a pull back in yields. Short-term technical factors aside, we expect bond yields to trend higher over the course of the next year as growth expectations improve, deflation risks continue to recede, and the Fed resumes hiking interest rates. On the flip side, we would also use rallies in government bond prices to increase positions in financial stocks, especially large-cap banks and insurers. Portfolio positioning may require additional ongoing adjustments as Trump's policies become clearer in the coming months.

The table on page 1 shows our current U.S. sector allocation preferences. Our U.S. industry group recommendations are provided in **table 1**.

Trump's pro-growth agenda enhances the odds that economic momentum will improve

Sector Recommendations

Table 2 summarizes the factors that underpin our sector ratings. These include: earnings impulse; valuation; and price momentum. All readings are relative to the U.S. benchmark and are used to assess prospective performance and risk. The sectors are ranked from most to least preferred based on an aggregate score, which is a weighted average of each factor (i.e. earnings impulse, valuation, and price momentum). Earnings impulse receives 50% of the weight in our overall assessment since earnings are the dominant driver of sector performance on a 6-12 month horizon. Price momentum and valuation are used primarily as risk factors, with extreme deviations from historical norms altering the overall risk-reward assessment.

Table 2 **U.S. Equity Sector Factor Analysis**

	Earnings Impulse (– N +)	Valuation (– N +)	Price Momentum (– N +)	Recommendation* (– N +)
Financials	□□□■□	□□□■□	□□□■□	□□□■□
Information Technology	□□□■□	□□□■□	□□■□□	□□□■□
Health Care	□□□■□	□□□□■	□■□□□	□□□■□
Telecom Services	□□■□□	□□□□■	□■□□□	□□■□□
Consumer Discretionary	□□■□□	□□■□□	□■□□□	□□■□□
Industrials	□■□□□	□■□□□	□□□■□	□■□□□
Energy	□■□□□	□■□□□	□□■□□	□■□□□
Materials	□■□□□	□■□□□	□□■□□	□■□□□
Consumer Staples	□■□□□	□□■□□	□■□□□	□■□□□
Real Estate	□■□□□	□■□□□	□■□□□	□■□□□
Utilities	□■□□□	□■□□□	□■□□□	□■□□□

More Attractive ↕ *Less Attractive*

* + = maximum overweight, N = neutral and – = maximum underweight

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Pages 13-23 at the back of this report provide our earnings, valuation, and price momentum indicators for each individual sector.

Implications Of Trump's Victory

There are four key potential macro drivers of a Trump presidency:

- **Better Growth:** Proposed cuts to individual and corporate taxes, coupled with greater infrastructure spending, have the potential to boost economic output over the next 1-2 years. Investors should have a moderate bias in favor of cyclical over defensive sectors (tempered by caution towards commodity-related plays).

- **Less Regulation:** Repealing regulations will be perceived as being especially positive for sectors with a large exposure to government policy such as financials and health care. Less regulation is also pro-growth in general, but the main impact is on specific sectors.

- **Reduced Deflation Risks:** Improved prospects for fiscal stimulus coming on top of better economic growth momentum are reducing deflation risks, which is positive for equities, especially cyclicals and value stocks. Although inflation expectations have risen significantly since the election, there is room for a further moderate rise as growth conditions improve.

- **Stronger U.S. Dollar:** The U.S. dollar has broken out in the aftermath of the election, driven by the re-pricing in fixed-income markets. Tailwinds for the dollar could persist on a one-year horizon if Trump's policies boost aggregate demand, although we anticipate a more gradual rise than has been the case recently.

Improved prospects for fiscal stimulus are reducing deflation risks

It is important to distinguish between market expectations about Trump's policies and what will ultimately occur. In the near term, markets are confident that the above factors will prevail, and we concur. However, there will inevitably be roadblocks for many policy areas, and there is ample scope for disappointment on several fronts. These can only be assessed as Trump's policies are articulated. The general tenor of his program will remain the narrative for the market for the foreseeable future.

Financials: In the Sweet Spot

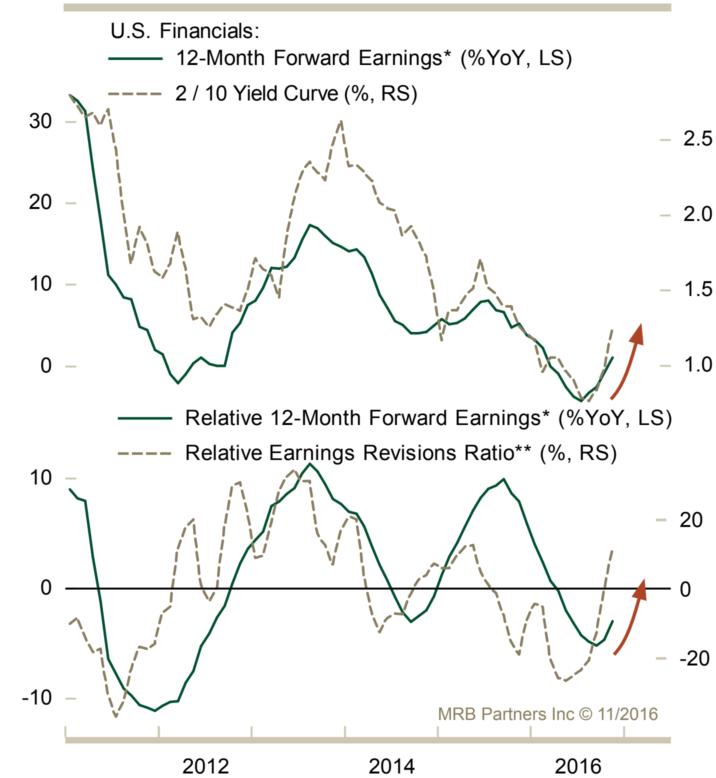
Financial stocks are beneficiaries of all the above macro trends, making them our preferred play on Trump's policy agenda. Relative earnings for these stocks are positively leveraged to asset reflation and yield curve steepening (**chart 2**). While the incoming Trump administration will have a difficult time repealing Dodd-Frank, even a minor rollback of regulatory burdens will be perceived as positive for the sector, whose valuation multiples have been penalized this decade due to the harmful impact that regulations have had on bank ROEs. In addition, financial stocks tend to outperform during periods of dollar strength as the latter encourages the Fed to hike rates gradually, which in turn fosters continued credit expansion and improves growth prospects for banks.

While financial stocks have significantly outperformed since the election, their relative valuations remain low by historical standards (**chart 3**). The post-election rally started from relative valuation levels that were near their all-time lows. Relative value based on the price/book (P/B) ratio is only at the mid-point of its post-crisis range, underscoring that there is still plenty of room for financial stocks to re-rate as their relative ROE prospects improve.

Technology: Don't Give Up On Further Relative Upside

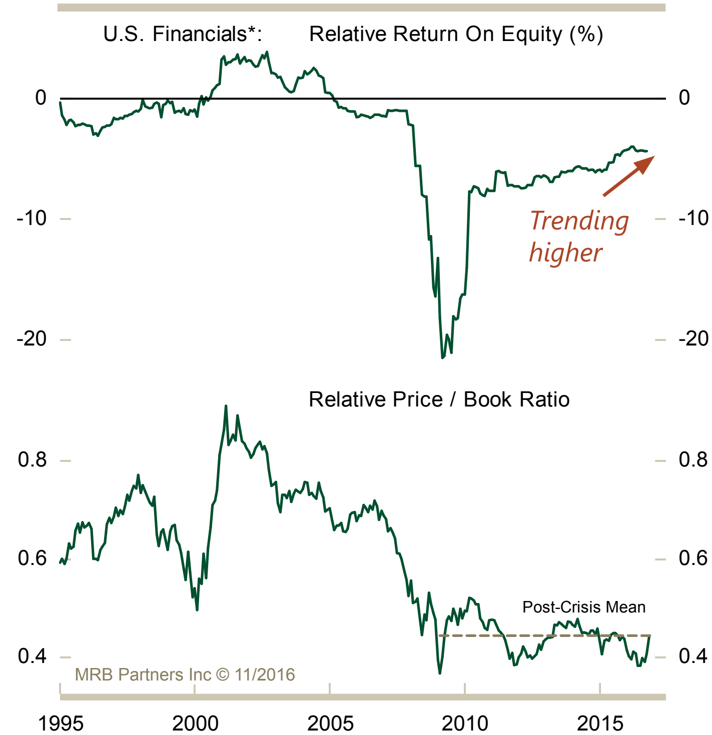
Technology stocks have served as a source of funds for the rotation into deep cyclical stocks. We remain positive on the sector, and would be buyers on dips. Tech is one of the few cyclical sectors where growth dynamics have shown decisive signs of improvement (**chart 4**). The San Francisco Fed's Tech Pulse Index, a coincident indicator

Chart 2 **Steepening Yield Curve Is Good For Earnings**



* Smoothed; source: Thomson Financial / IBES
** Upward revisions minus downward revisions divided by total revisions; source: Thomson Financial / IBES
Note: Panel 2 relative to U.S. equity benchmark

Chart 3 **Relative Valuations Remain Low By Historical Standards**



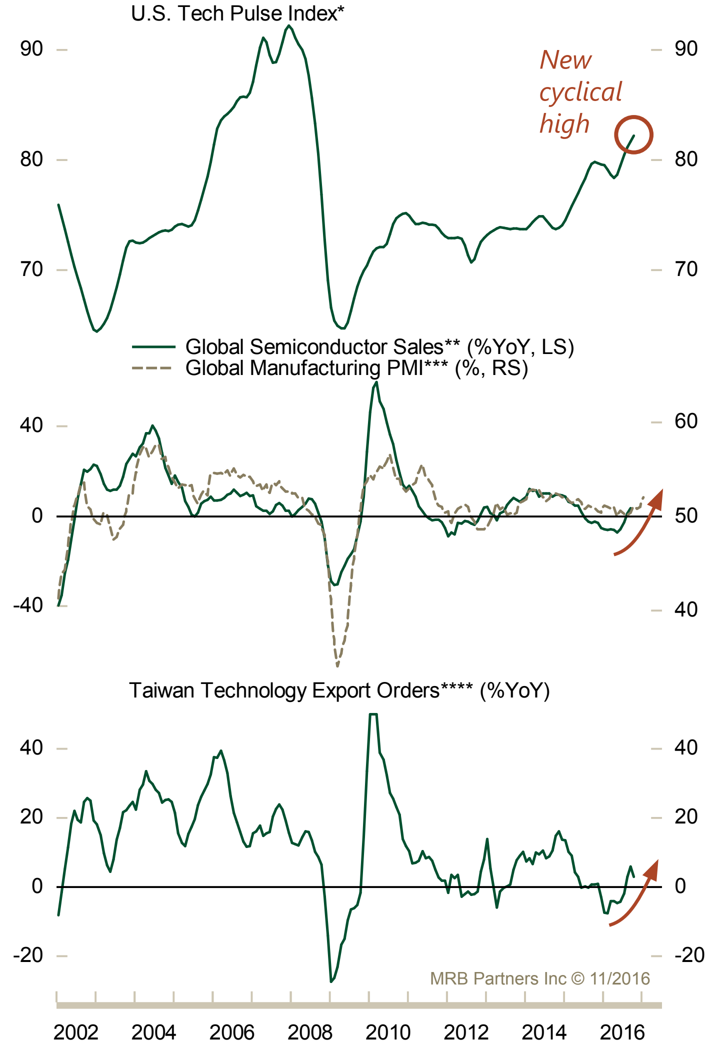
* Relative to U.S. equity benchmark; source: MSCI

of U.S. tech activity, is at a new post-recession high. Global semiconductor sales growth has hooked up, and should continue to recover as economic growth firms. Asian activity gauges are also positive, with export orders for Taiwanese technology goods improving in recent months. Consistent with these trends, the relative earnings revisions ratio for technology stocks is the strongest of any sector.

We also favor tech stocks for their ability to deliver strong dividend growth, which will be an increasingly desirable attribute in an environment of rising bond yields. In terms of valuations, the sector trades at reasonable multiples relative to the broad equity market, leaving it with room to further re-rate as cyclical conditions continue to improve.

Trump's victory has mixed policy implications for technology stocks. As a cyclical sector, tech will benefit from the President-elect's pro-growth policies. Moreover, Trump's propensity for tax reform and a repatriation tax holiday would be positive for technology companies given the large amounts of cash they hold overseas. On the other hand, if Trump pursues protectionist policies against China, this could invite retaliatory action against the tech industry, which relies heavily on supply chains in the country. A stronger dollar is also a potential headwind to earnings. However, the impact is more ambiguous than for other globally-oriented sectors given that many multinational technology companies outsource production to Asia, and hence see their purchasing power increase when the dollar rises.

Chart 4 Tech Cyclical Activity Indicators Improving



* Source: Federal Reserve
** Source: Semiconductor Industry Association
*** Advanced; source: J.P. Morgan Chase & Co
**** Smoothed; truncated above 50; source: Taiwan Ministry of Economic Affairs; includes: electronic and information & communication products

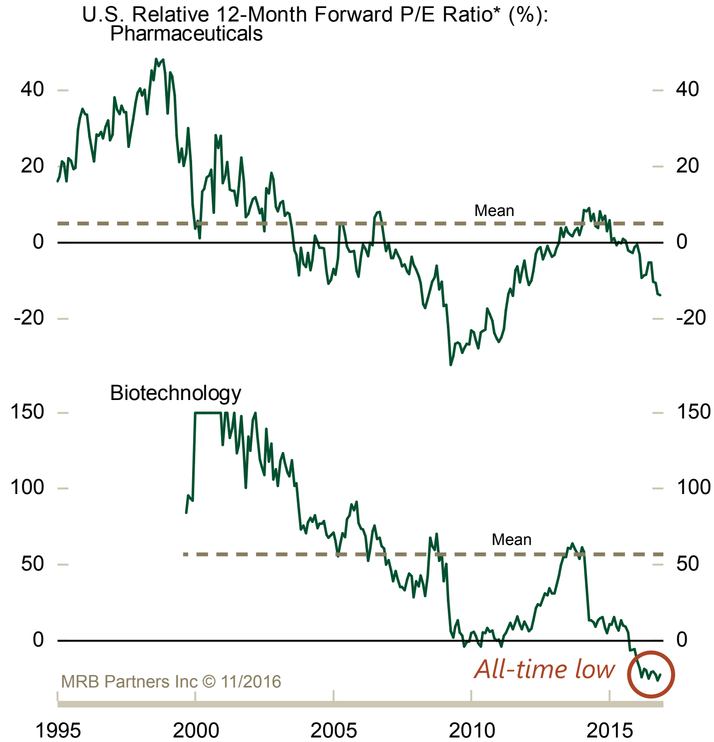
Health Care: Deeply Discounted Growth

We remain bullish on health care stocks. The sector has significantly de-rated in the past year on concerns over drug pricing regulation. Performance has also been weighed down by negative clinical outcomes and earnings disappointments related to mounting competitive pressures in certain drug categories. Consequently, the sector now trades at a low relative valuation, with biotechnology and pharmaceutical stocks especially cheap versus their history (**chart 5**). Although profit momentum for the sector has slowed, relative earnings power should remain well supported by relatively strong top-line performance and the solid pace of U.S. health care expenditure growth.

> Relative earnings revisions for tech stocks are the strongest of any sector

We will update our intra-sector positioning in an upcoming report, but our bias post the election is to favor drug companies over utilization plays. Regulatory actions to curb drug pricing will be less of a threat under President-elect Trump. The single biggest focus of the Republican Party will be to repeal certain elements of the Affordable Care Act (ACA). Against this backdrop, pharmaceutical and biotechnology companies should have more tailwinds than utilization plays (i.e. hospitals, managed care firms leveraged to Medicaid expansion, and medical equipment manufacturers), which could be weighed down by uncertainties surrounding health care reform. Drug makers would also see greater benefits from efforts of the Trump administration to offer a one-time tax amnesty on foreign earnings since these companies have large amounts of accumulated overseas profits. As concerns over drug pricing fade and markets refocus on drug pipelines, valuation multiples for pharmaceutical and biotechnology stocks should expand.

Chart 5 **Pharma And Biotech Stocks Are Cheap**



* Relative to U.S. equity benchmark; source: Thomson Financial / IBES
Note: Panel 2 truncated above 150; - - - historical mean

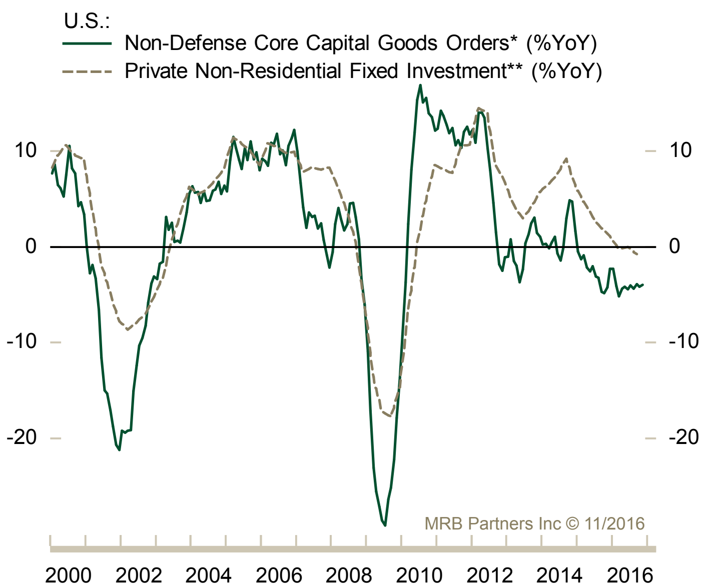
Industrials: Too Far, Too Fast

Industrial stocks have benefited from fiscal stimulus expectations. We remain underweight the sector, believing that stock prices have run well ahead of their underlying fundamentals. We would like to get more positive on the sector, but find it difficult to do so given weak relative earnings revisions trends, expensive valuations, and the lack of clarity regarding Trump's infrastructure and trade policies.

Valuation multiples for pharma and biotech stocks should expand as concerns over drug pricing fade

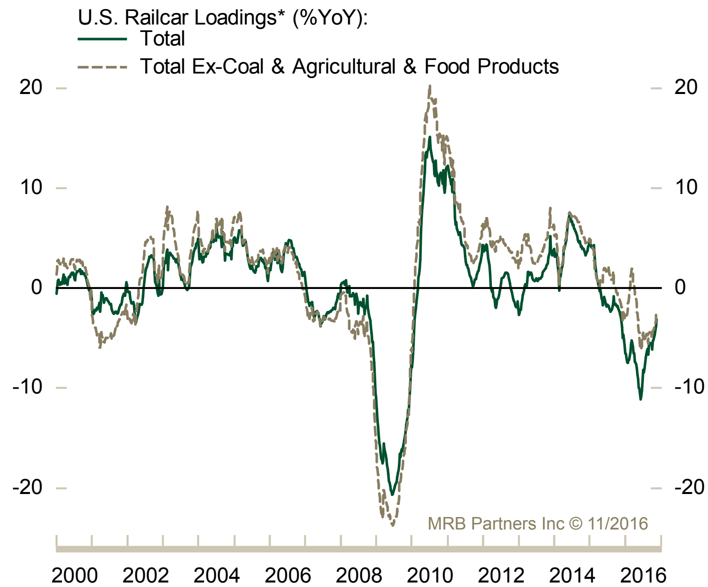
Core capital goods orders remain subdued and suggest that a pickup in business investment (capex) is not yet in train, despite our expectation that it will ultimately develop in the coming year (**chart 6**). Furthermore, short cycle gauges of industrial activity such as railcar loadings, while above their worst levels, are still negative on a year-over-year basis (**chart 7**). These indicators underscore that any turnaround in the relative earnings momentum of the industrial sector will be gradual, especially given ongoing weak capex trends in commodity end-markets. Even if an infrastructure spending bill is enacted quickly, the benefits from such a program will be slow to flow through to the earnings of industrial stocks due to a lack of "shovel-ready" projects. In addition, the global orientation of capital goods manufacturers exposes the sector to risks from a strong dollar and potential protectionist trade policies by the incoming Trump administration.

Chart 6 **Core Capital Goods Orders Suggest Investment Will Remain Subdued**



* Smoothed; advanced; excludes aircraft; source: U.S. Census Bureau
** Source: U.S. Bureau of Economic Analysis

Chart 7 **Railroad Shipments Are Improving, But Remain Weak**



* Smoothed; source: Association of American Railroads

Energy: Excess Supplies Will Remain A Limiting Factor

We are underweight energy stocks. The relative performance of the sector hinges on oil prices. The latter have recently been buoyed by noises from OPEC, which continues to hold out the hope for an agreement to freeze/cut production. We doubt that any such agreement will dent excess supplies sufficiently to support a sustained rise in oil prices[1]. Rig counts in the Permian Basin are now decisively rising, and point to an increase in output in the U.S.' most profitable oil region (**chart 8**). Oil inventories also remain elevated and their growth rate has recently started to tick back up. Persistent oversupply conditions will keep oil prices in a trading range, implying that upside in the relative earnings of the energy sector will be limited, thus making it difficult for these stocks to sustain outperformance.

A cooling of China's housing market in 2017 will rekindle concerns about commodity demand

Materials: China To Cast A Shadow Over Commodity Demand In 2017

The material sector's relative performance is correlated with industrial commodity prices. Base metals prices have rebounded this year on the back of a recovery in China's housing market, and have extended their gains post the election on optimism regarding a large U.S. infrastructure package. While rising inflation expectations and increased U.S. fiscal stimulus are supportive of industrial commodity prices, China consumes approximately half of the world's industrial metals, and hence remains the most important driver of commodity demand. We expect China's housing market to cool in 2017 as macroprudential measures clamp down on home sales, which in turn, will slow domestic real estate construction[2]. The latter will rekindle concerns about commodity demand and lead to

[1] **MRB *Commodities Research Highlight***, "***OPEC's Fairy Tale: A (Very) Short Story***", November 3, 2016
[2] **MRB *China Research Highlight***, "***How China's Property Boom Goes Bust (Again)***", October 11, 2016

renewed downward pressure on the prices of industrial metals to the detriment of the material sector's earnings.

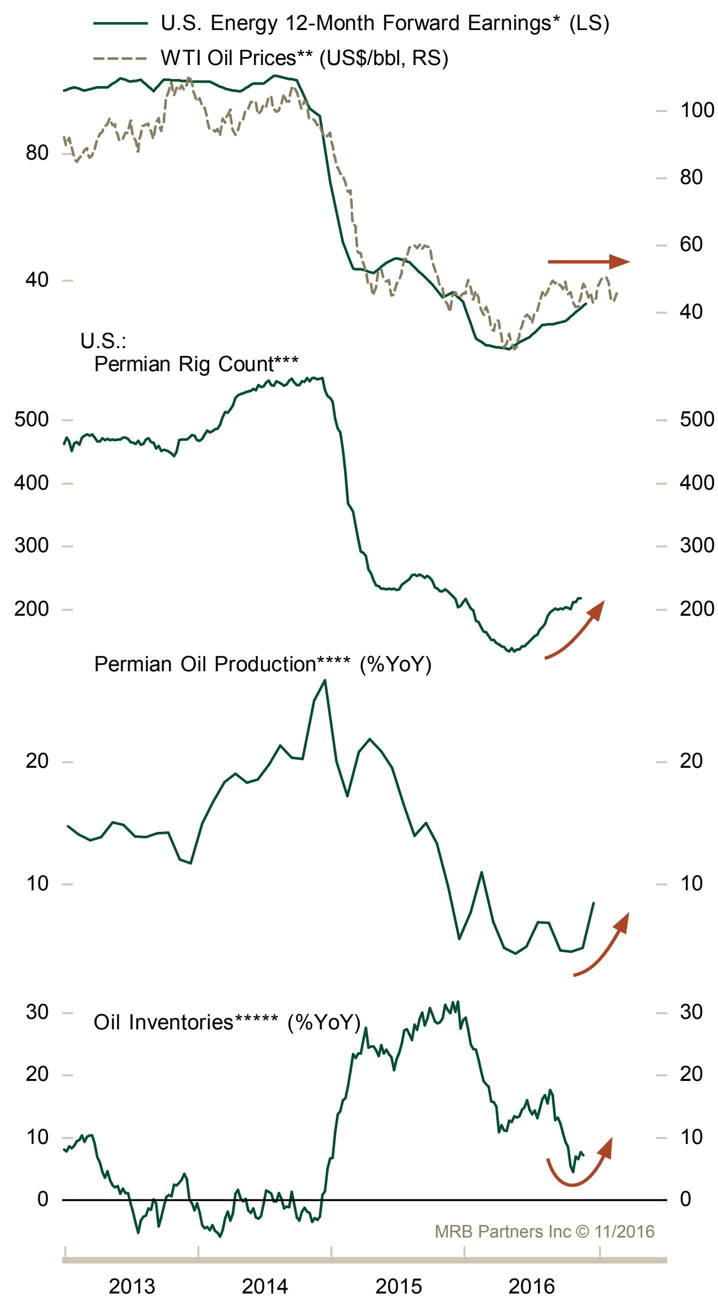
In addition, the stronger dollar remains a threat to the sustainability of the rally in commodity prices. The traditional inverse relationship between the U.S. dollar and commodity prices has recently broken down, but should soon re-assert itself (**chart 9**). As such, we are reluctant to chase the rally in material stocks.

Views On Remaining Sectors

We continue to be underweight the consumer staples sector. These stocks could enjoy a near-term bounce from oversold levels. However, if bonds continue to re-price over the next 6-12 months, as we expect, the sector has further relative downside (**chart 10**). Relative earnings have shown some modest improvement this year, but could face renewed headwinds as sectors with greater leverage to improving economic conditions deliver superior profit growth. Earnings estimates could also be impaired by the stronger dollar given the global revenue streams earned by consumer staples companies. Our valuation indicator is at a neutral reading, suggesting that there is still ample room for these stocks to de-rate further as deflation risks continue to diminish and bond yields move higher in the coming year.

Utilities and real estate stocks will similarly lag in a rising bond yield environment. Upward trending bond yields and improving economic growth prospects will reduce the appeal of the relatively high dividend yields offered by these sectors. Utilities with large coal-fired assets could modestly benefit due to the potential for environmental restrictions to be relaxed under Trump, but such policy actions are unlikely to materially impact the relative earnings of the sector, which should weaken as economic growth improves. While relative valuations have corrected recently, they remain well above their long-term average, reinforcing that de-rating potential is still high.

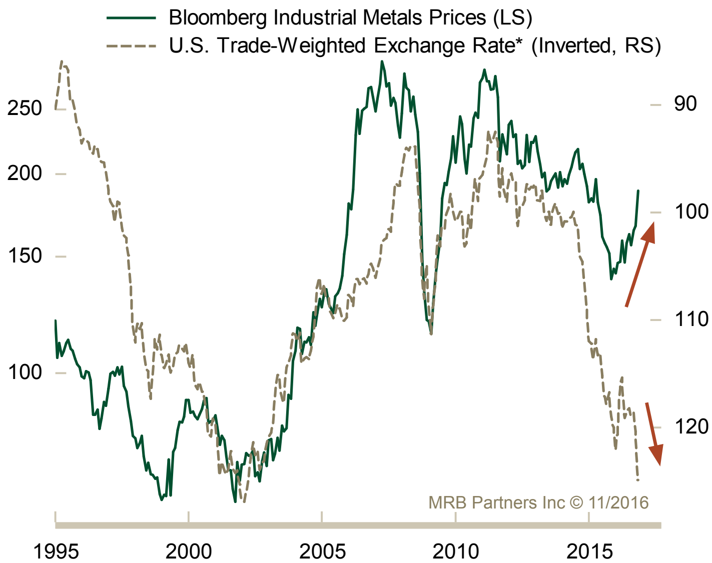
Chart 8 **Supply Trends Will Cap Oil Prices**



* Rebased; source: Thomson Financial / IBES
** Advanced 13 weeks
*** Source: Baker Hughes
**** Smoothed; source: U.S. Energy Information Administration
***** Source: U.S. Department of Energy

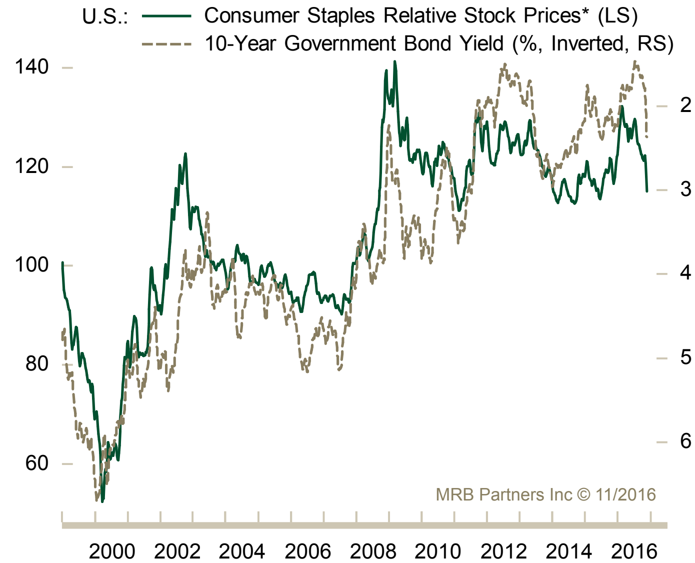
The U.S. real estate sector is dominated by REITs, which are especially vulnerable to higher bond yields given elevated commercial property values. Improving economic activity is

Chart 9 **Huge Divergence Between Commodity Prices And The Dollar**



* Source: J.P. Morgan Chase & Co.

Chart 10 **Higher Bond Yields Will Hurt The Relative Performance Of Staples Stocks**



* Rebased; relative to U.S. equity benchmark; source: MSCI
Note: Both series smoothed

positive for rent growth. However, the long-lived nature of commercial real estate leases means that the sector's cash flows have low leverage to the business cycle. As a result, the ***relative*** cash flow growth of real estate stocks tends to weaken during periods when economic momentum is picking up steam, which reinforces relative downside risks for the sector (**chart 11**).

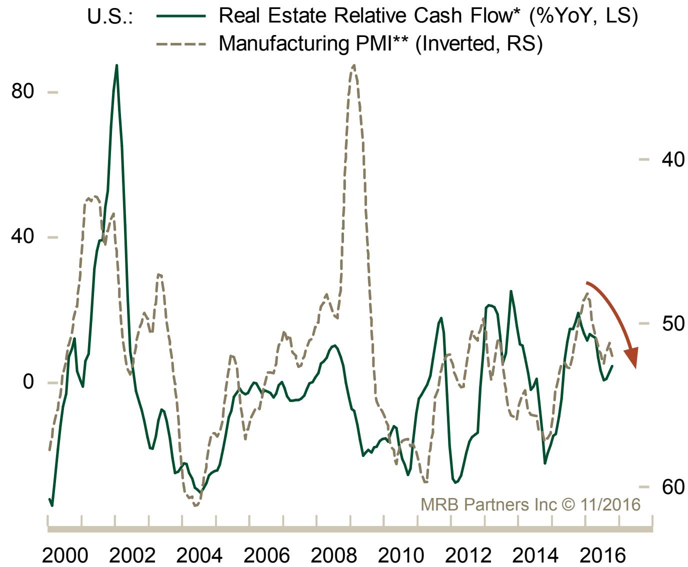
Other factors also cloud the outlook for these stocks. For example, supply pressures have begun to emerge in certain segments of the commercial real estate market (i.e. apartments), which risk dampening future landlord pricing power. In addition, bank lending standards on commercial real estate loans have tightened considerably in the past year, thus resulting in higher borrowing costs for transactions and commercial construction projects that may erode property values.

The real estate sector is especially vulnerable to higher bond yields given elevated commercial property prices

We are recommending a neutral stance on the consumer discretionary sector given balanced risks. The U.S. consumer remains in good shape, with incomes growing at a solid clip, household balance sheets healthy, and the employment market sturdy. Subdued oil prices and a strengthening dollar are also positive for these stocks. However, the sector is beginning to lose support from low interest rates and accelerating wages are a growing threat to the margins of labor intensive sub-groups such as consumer services and retailing. While Trump's proposed tax cuts to individuals would benefit the sector, they are mostly skewed towards higher-income brackets. This reduces the boost to consumer spending growth as high-income brackets have a higher propensity to save. The sector could also face risks from trade policies. Specifically, if Trump imposes tariffs on imported goods or renegotiates NAFTA, costs for retailers and auto manufacturers could rise, thereby squeezing their profits.

The relative forward earnings of consumer discretionary stocks have rolled over, but it is too soon to tell whether this is a temporary pullback or marks an important turning point. The sector is likely to cede earnings leadership if economic growth improves sufficiently to drive faster earnings growth in other cyclical groups. Indeed, the historically elevated ROE of consumer discretionary stocks suggest that leverage to improving economic growth will be lower than for other pro-cyclical plays. Our bias is to cut exposure to this sector, but we await signs that economic growth is on a stronger trajectory before downgrading our view to underweight.

Chart 11 **Relative Cash Flows For The Real Estate Sector Are Counter-Cyclical**



* Smoothed; relative to U.S. equity benchmark; source: MSCI
** Smoothed; source: Institute for Supply Management

A neutral stance is also appropriate for telecom stocks. While rising bond yields will be a headwind to relative performance, historically cheap valuations should limit downside risks compared with other more richly-priced interest rate-sensitive plays such as utilities and consumer staples.

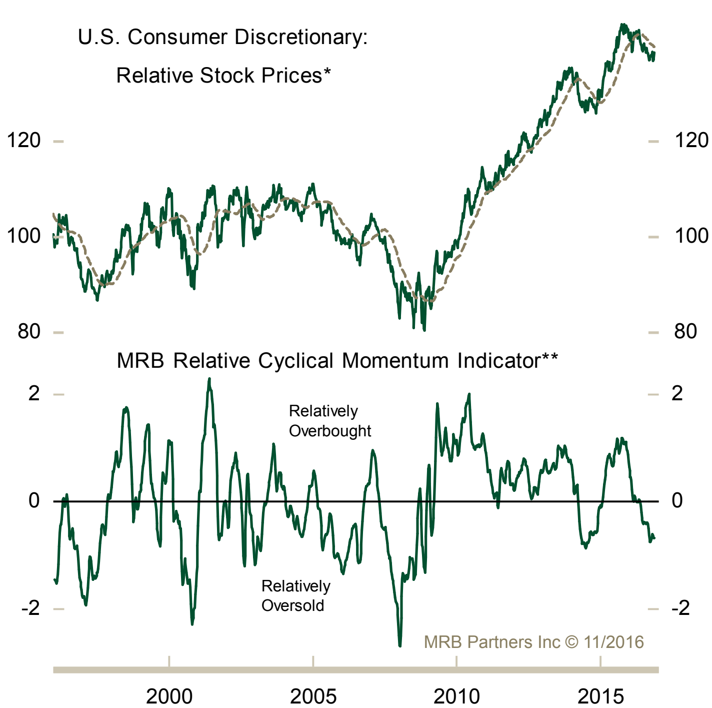
The consumer discretionary sector could face risks from trade policies

Final Word: *President-elect Trump's fiscal policies and plans to roll back regulations have potentially bullish implications for the economy and risk assets over the next 1-2 years. However, it is premature to reposition portfolios with an aggressive cyclical tilt. We recommend maintaining a moderately pro-cyclical stance. Investors should overweight technology, financial, and health care stocks, while underweighting the consumer staples, utilities (downgrade from neutral), and real estate (downgrade from neutral) sectors, which will remain vulnerable to rising interest rates and receding deflation risks. Industrial stocks discount an overly-optimistic outlook for infrastructure investment, and thus also warrant an underweight stance. Avoid resource sectors, which face ongoing commodity supply headwinds and the specter of a cooling in China's housing market next year. A neutral allocation is appropriate for consumer discretionary and telecom stocks (downgrade from overweight) where risks are more balanced.*

Salvatore Ruscitti

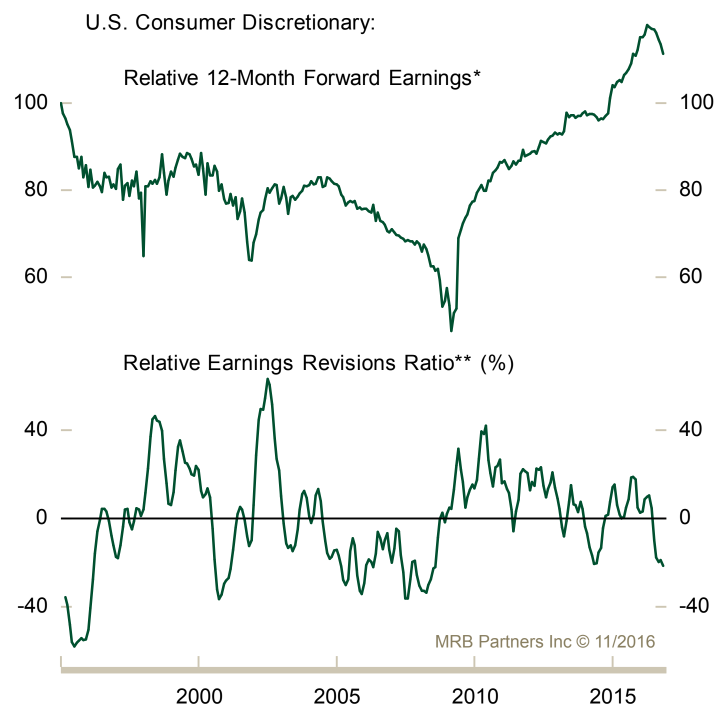
Consumer Discretionary: *Neutral*

Relative Price Momentum



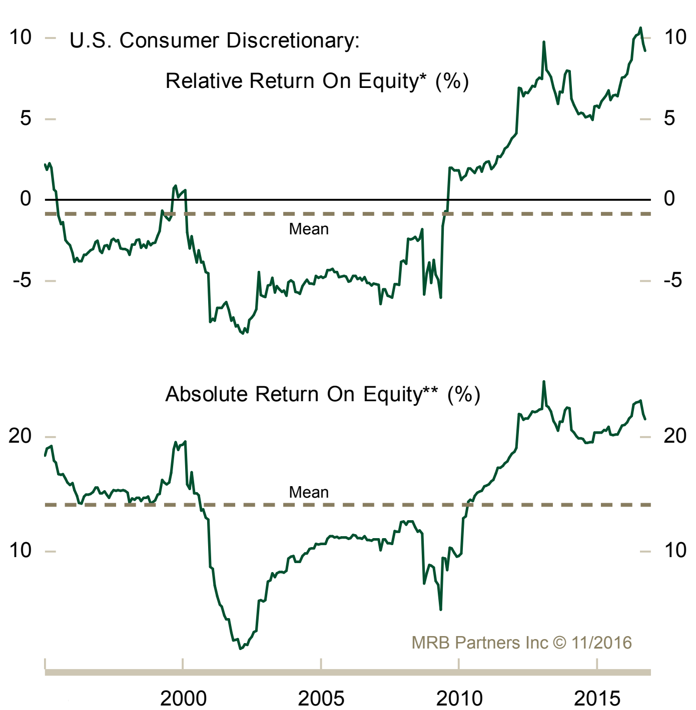
* - - - 40-week moving average; relative to U.S. equity benchmark; rebased; source: MSCI
** Standardized

Earnings Momentum



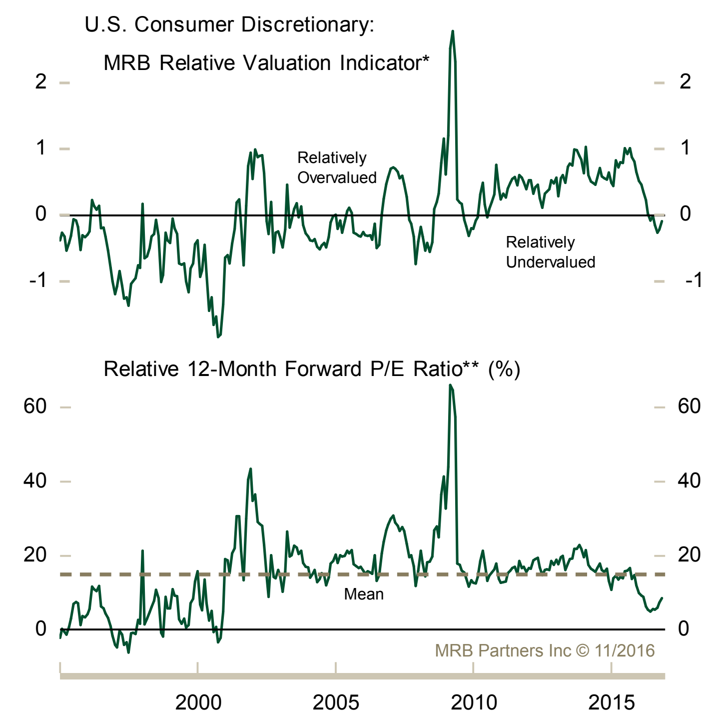
* Relative to U.S. equity benchmark; rebased; source: Thomson Financial / IBES
** Upward revisions minus downward revisions divided by total revisions; relative to U.S. equity benchmark; smoothed; source: Thomson Financial / IBES

ROE Cycle



* Relative to U.S. equity benchmark; source: MSCI
** Source: MSCI

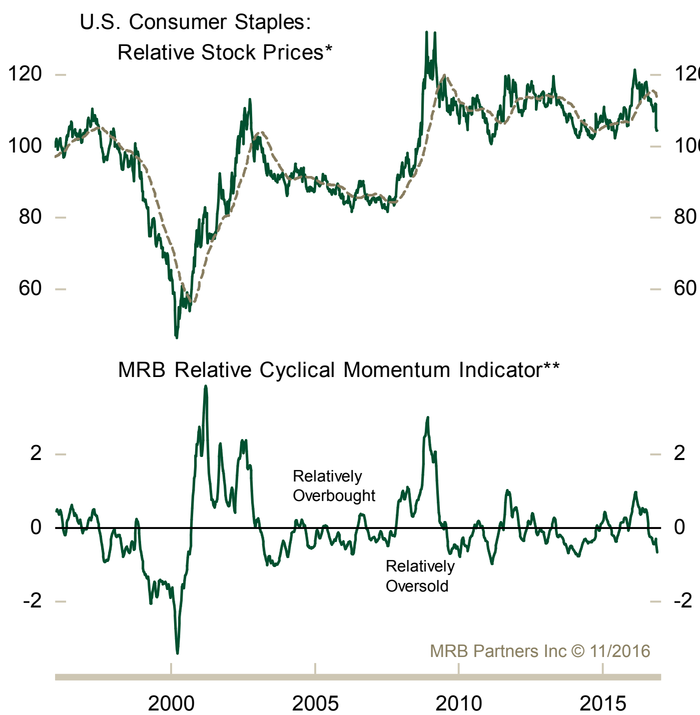
Relative Valuation



* Weighted average of select valuation measures; standardized
** % Premium (+), discount (-) to U.S. average; source: Thomson Financial / IBES

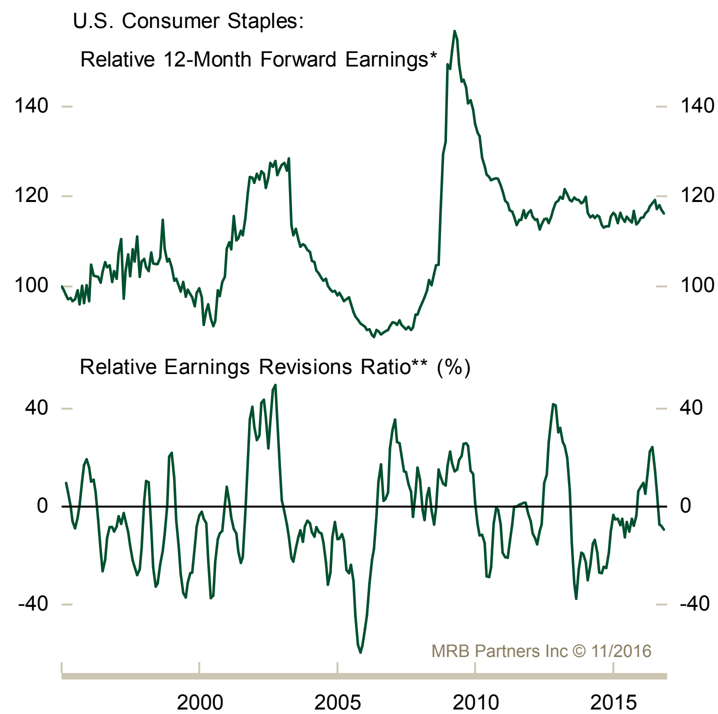
Consumer Staples: *Underweight*

Relative Price Momentum



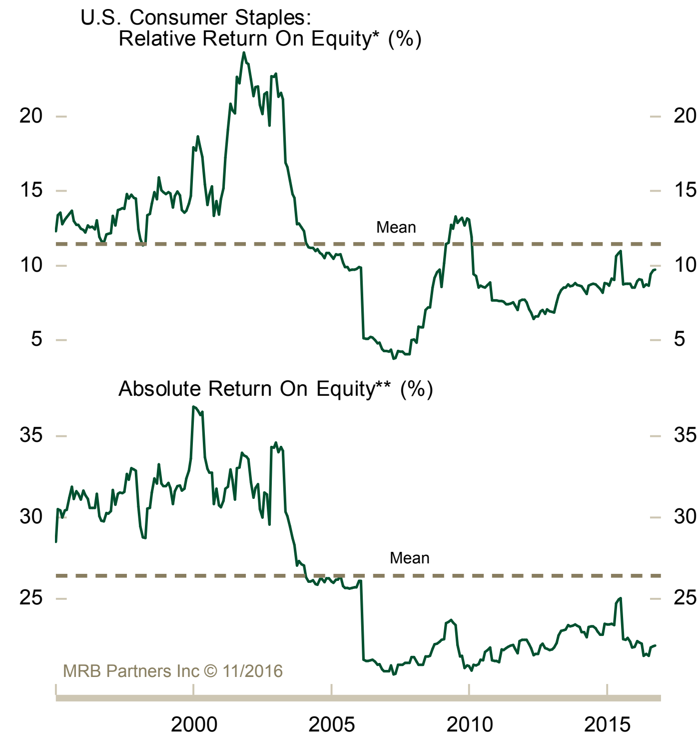
* - - - 40-week moving average; relative to U.S. equity benchmark; rebased; source: MSCI
** Standardized

Earnings Momentum



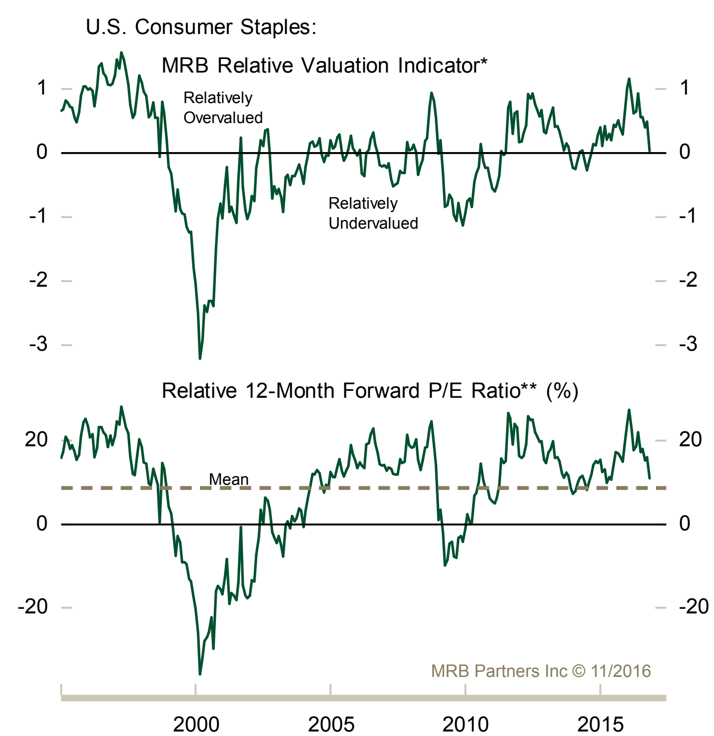
* Relative to U.S. equity benchmark; rebased; source: Thomson Financial / IBES
** Upward revisions minus downward revisions divided by total revisions; relative to U.S. equity benchmark; smoothed; source: Thomson Financial / IBES

ROE Cycle



* Relative to U.S. equity benchmark; source: MSCI
** Source: MSCI

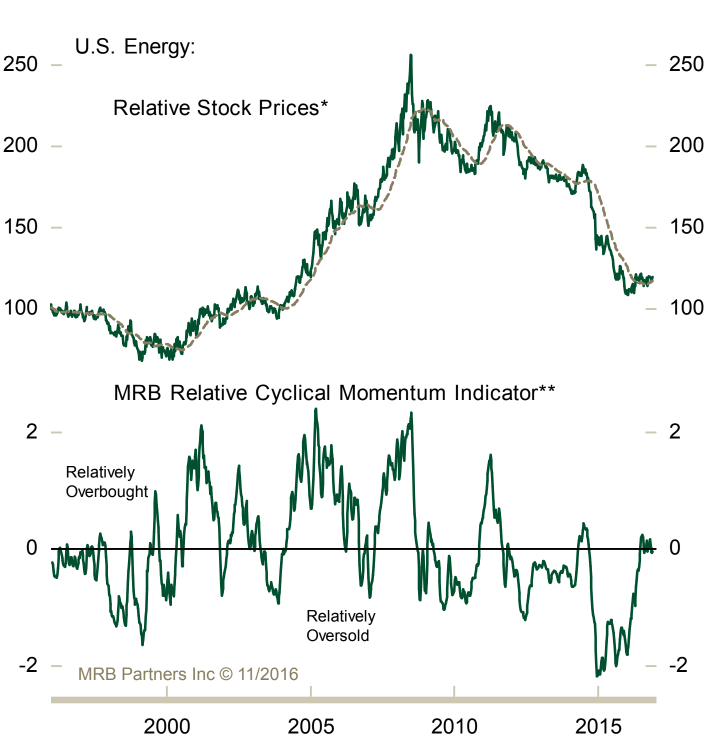
Relative Valuation



* Weighted average of select valuation measures; standardized
** % Premium (+), discount (-) to U.S. average; source: Thomson Financial / IBES

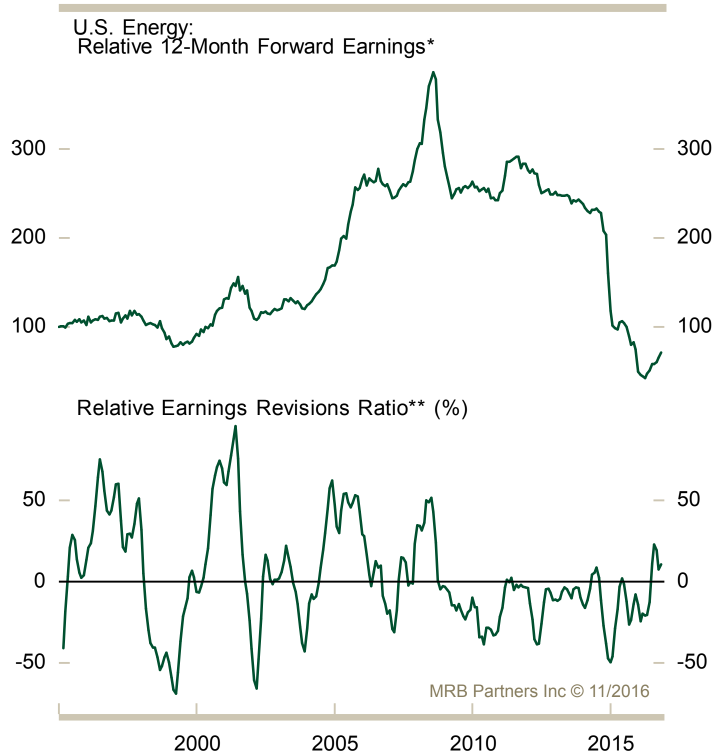
Energy: *Underweight*

Relative Price Momentum



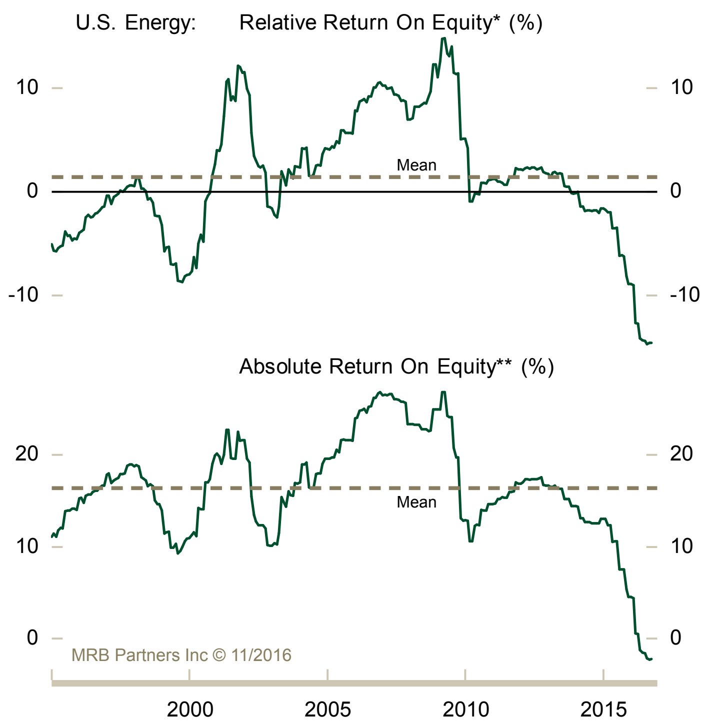
* - - - 40-week moving average; relative to U.S. equity benchmark; rebased; source: MSCI
** Standardized

Earnings Momentum



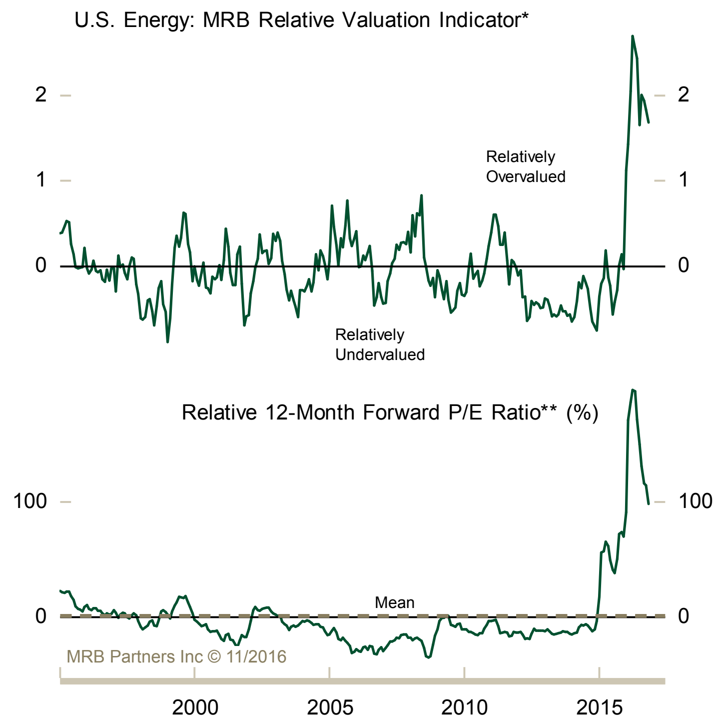
* Relative to U.S. equity benchmark; rebased; source: Thomson Financial / IBES
** Upward revisions minus downward revisions divided by total revisions; relative to U.S. equity benchmark; smoothed; source: Thomson Financial / IBES

ROE Cycle



* Relative to U.S. equity benchmark; source: MSCI
** Source: MSCI

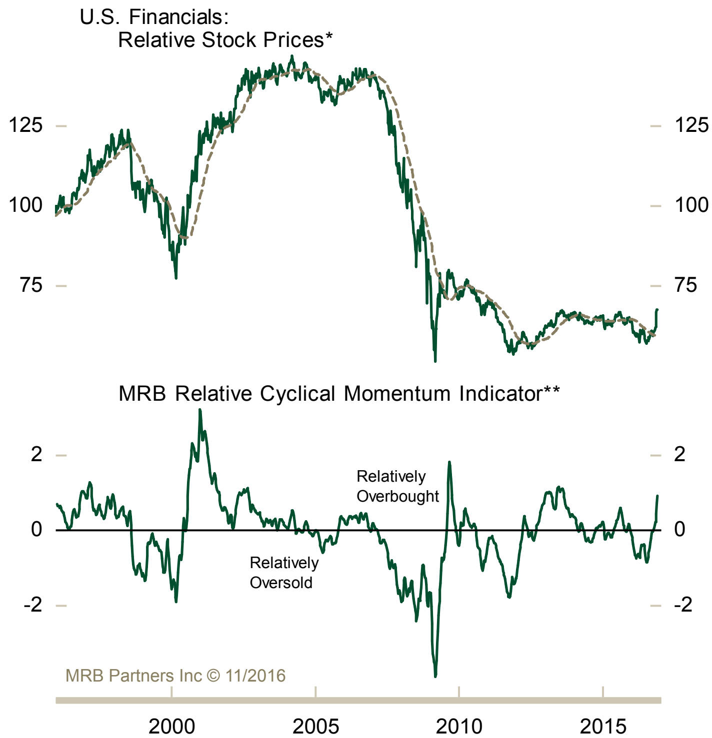
Relative Valuation



* Weighted average of select valuation measures; standardized
** % Premium (+), discount (-) to U.S. average; source: Thomson Financial / IBES

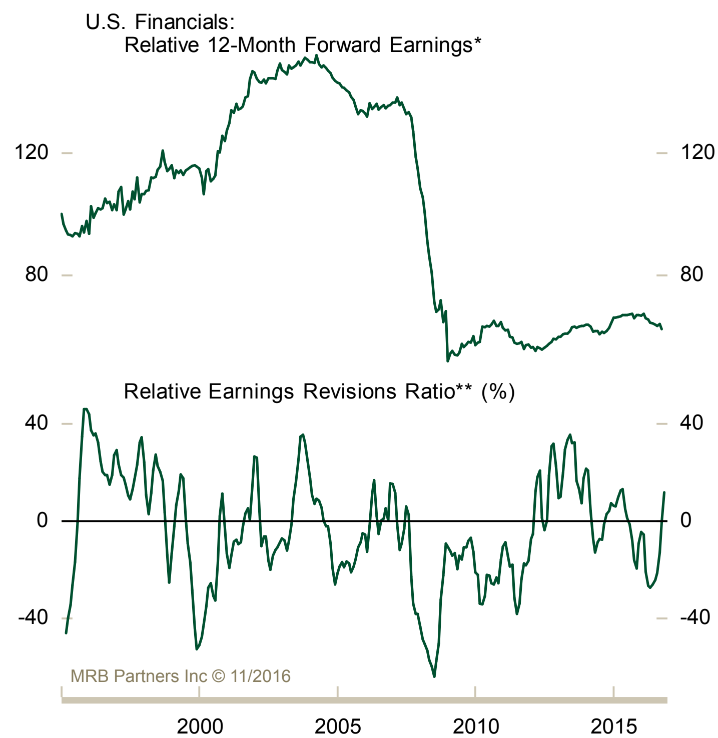
Financials: *Overweight*

Relative Price Momentum



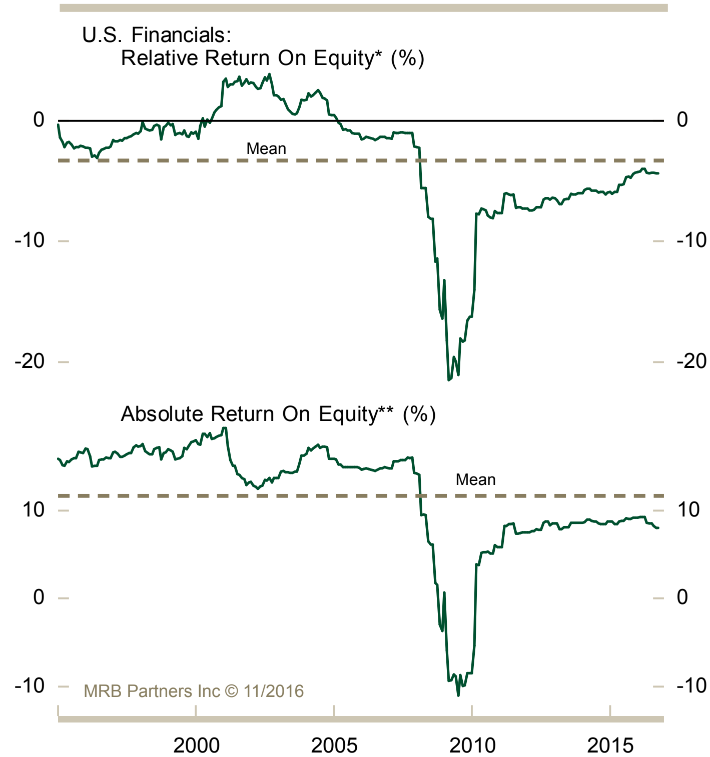
* - - - 40-week moving average; relative to U.S. equity benchmark; rebased; source: MSCI
** Standardized

Earnings Momentum



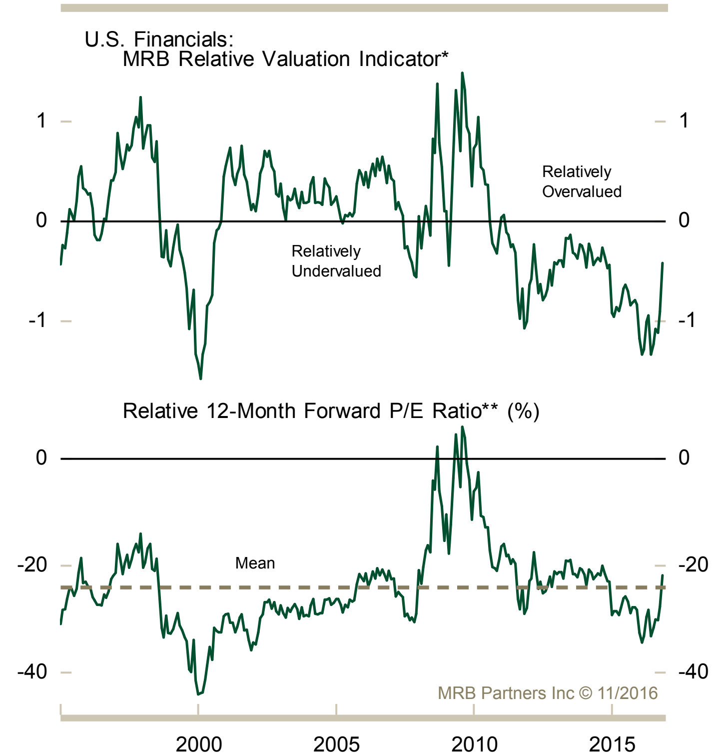
* Relative to U.S. equity benchmark; rebased; source: Thomson Financial / IBES
** Upward revisions minus downward revisions divided by total revisions; relative to U.S. equity benchmark; smoothed; source: Thomson Financial / IBES

ROE Cycle



* Relative to U.S. equity benchmark; source: MSCI
** Source: MSCI

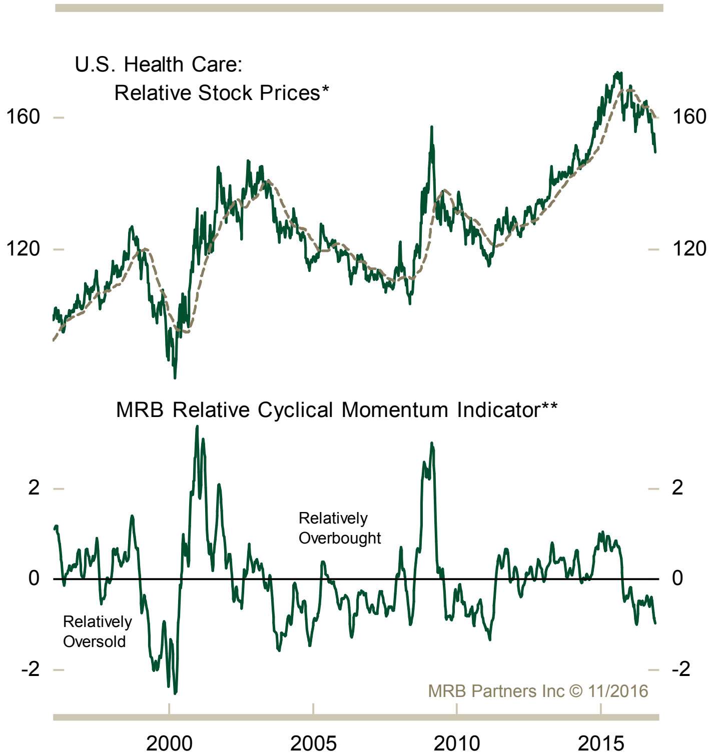
Relative Valuation



* Weighted average of select valuation measures; standardized
** % Premium (+), discount (-) to U.S. average; source: Thomson Financial / IBES

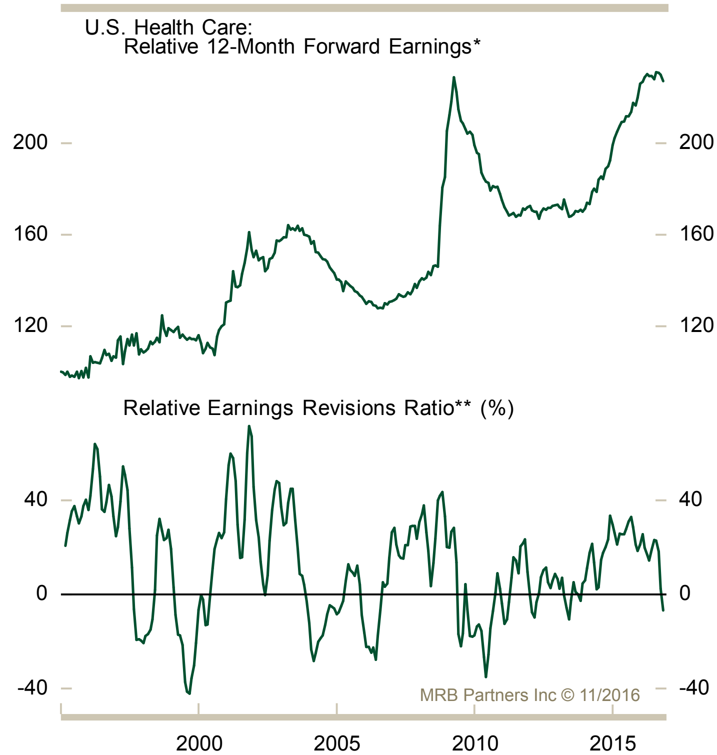
Health Care: *Overweight*

Relative Price Momentum



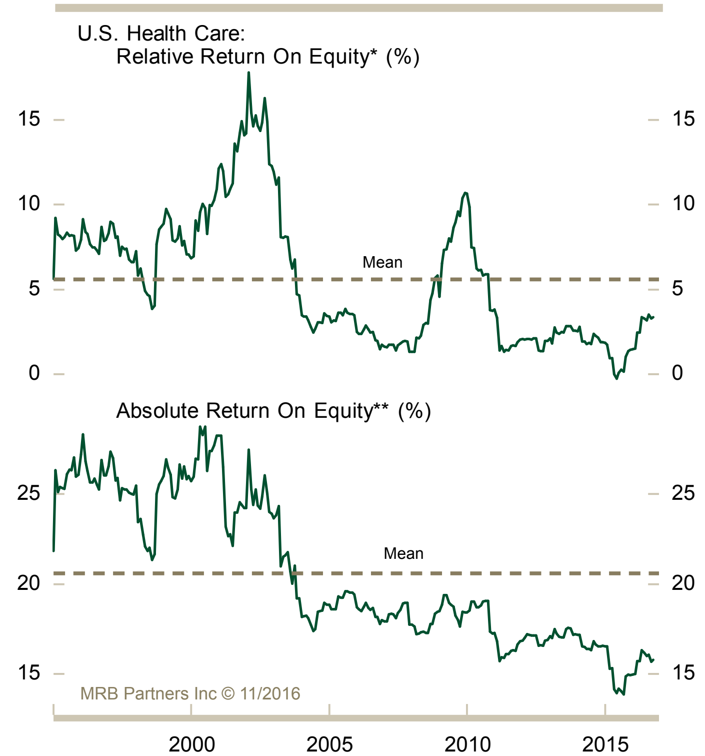
* - - - 40-week moving average; relative to U.S. equity benchmark; rebased; source: MSCI
** Standardized

Earnings Momentum



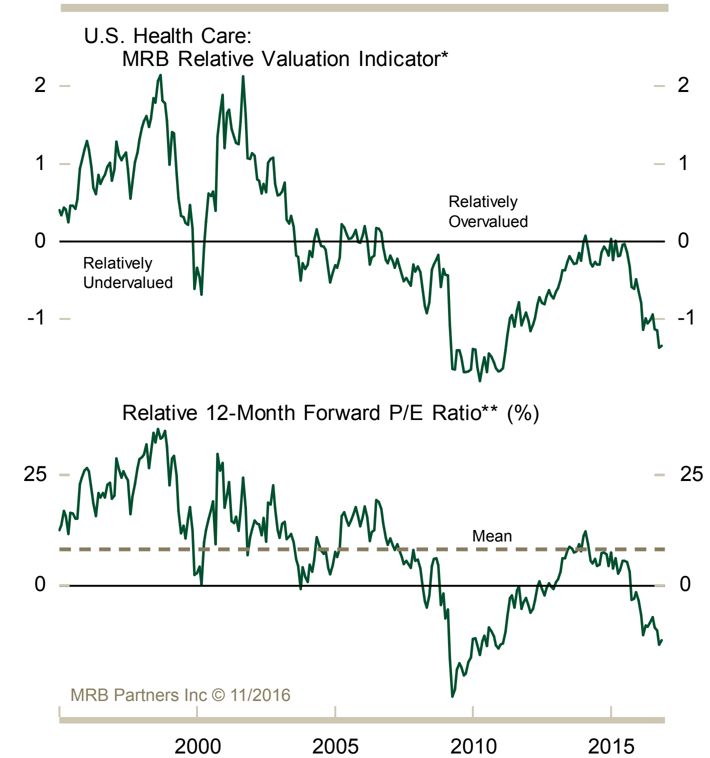
* Relative to U.S. equity benchmark; rebased; source: Thomson Financial / IBES
** Upward revisions minus downward revisions divided by total revisions; relative to U.S. equity benchmark; smoothed; source: Thomson Financial / IBES

ROE Cycle



* Relative to U.S. equity benchmark; source: MSCI
** Source: MSCI

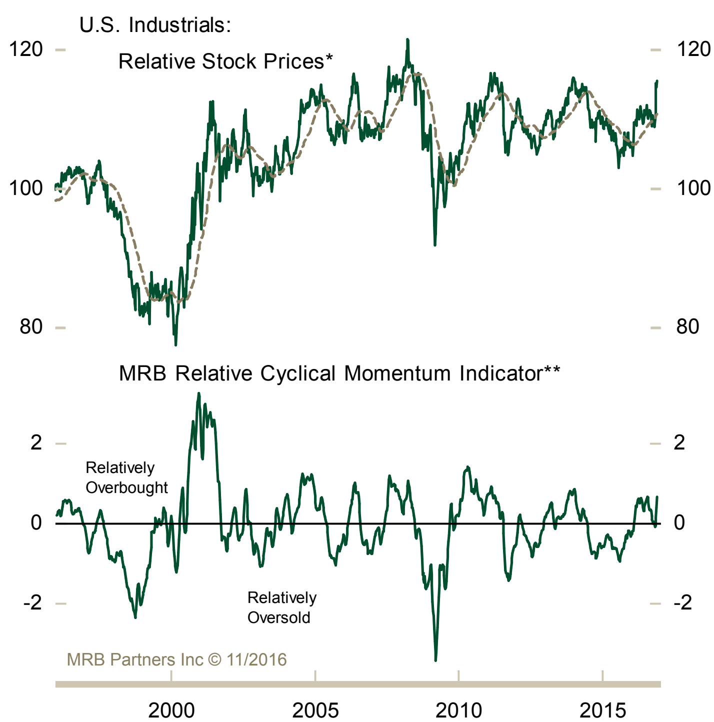
Relative Valuation



* Weighted average of select valuation measures; standardized
** % Premium (+), discount (-) to U.S. average; source: Thomson Financial / IBES

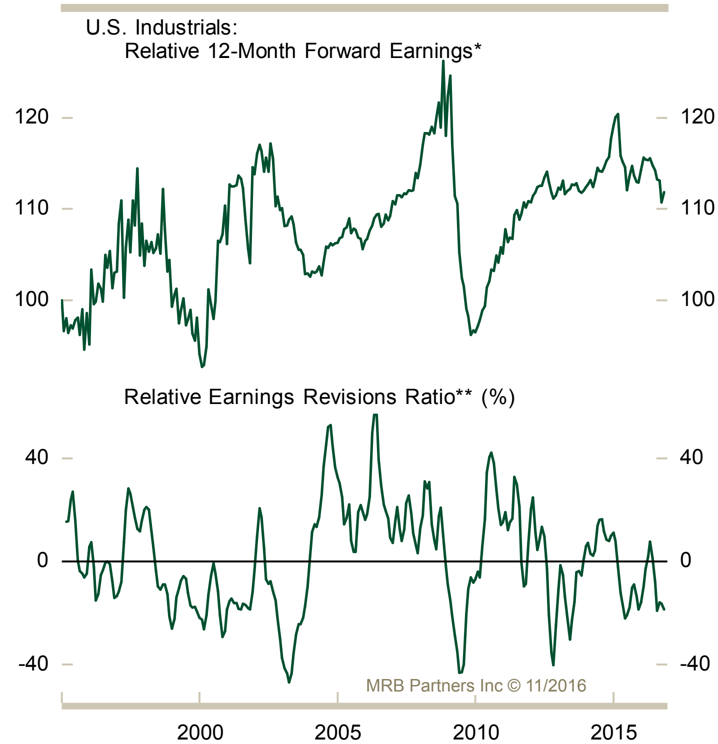
Industrials: *Underweight*

Relative Price Momentum



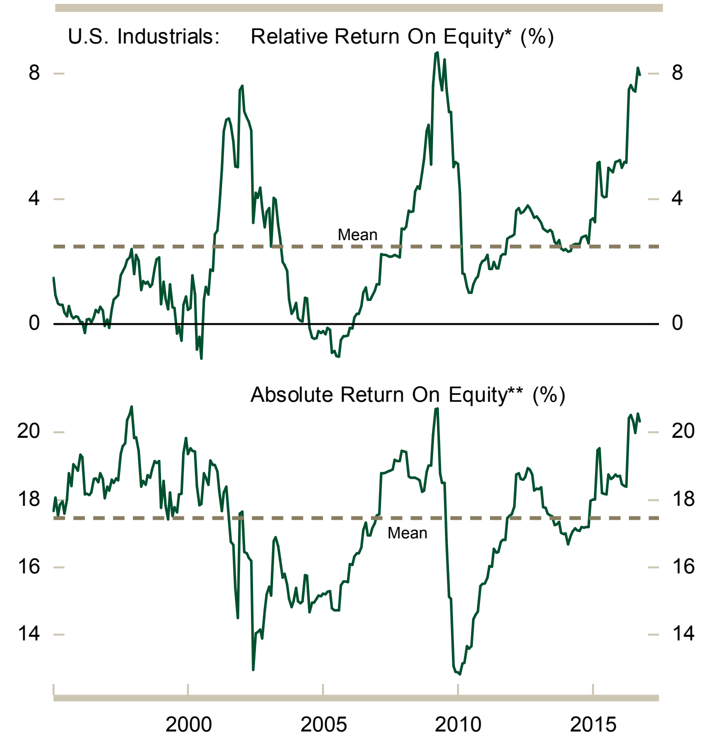
* - - - 40-week moving average; relative to U.S. equity benchmark; rebased; source: MSCI
** Standardized

Earnings Momentum



* Relative to U.S. equity benchmark; rebased; source: Thomson Financial / IBES
** Upward revisions minus downward revisions divided by total revisions; relative to U.S. equity benchmark; smoothed; source: Thomson Financial / IBES

ROE Cycle



* Relative to U.S. equity benchmark; source: MSCI
** Source: MSCI

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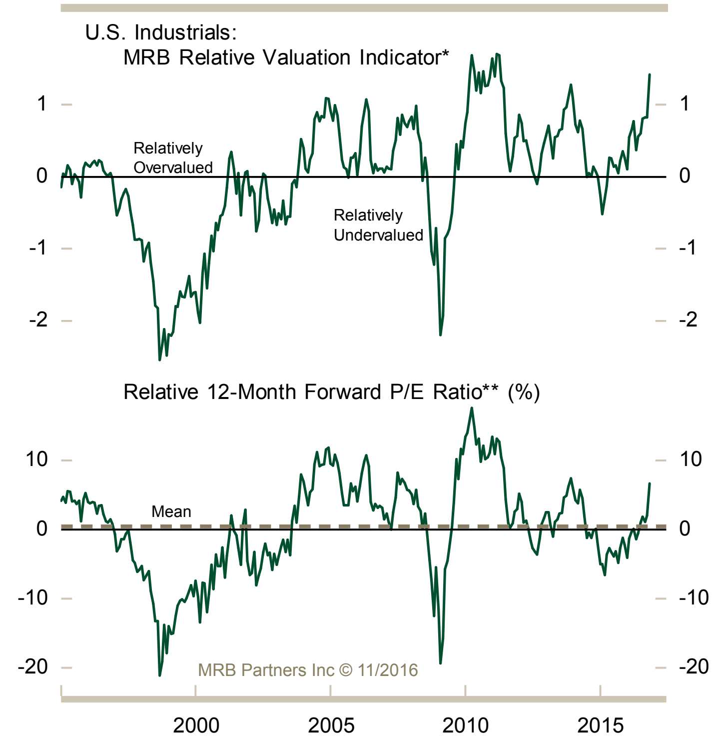
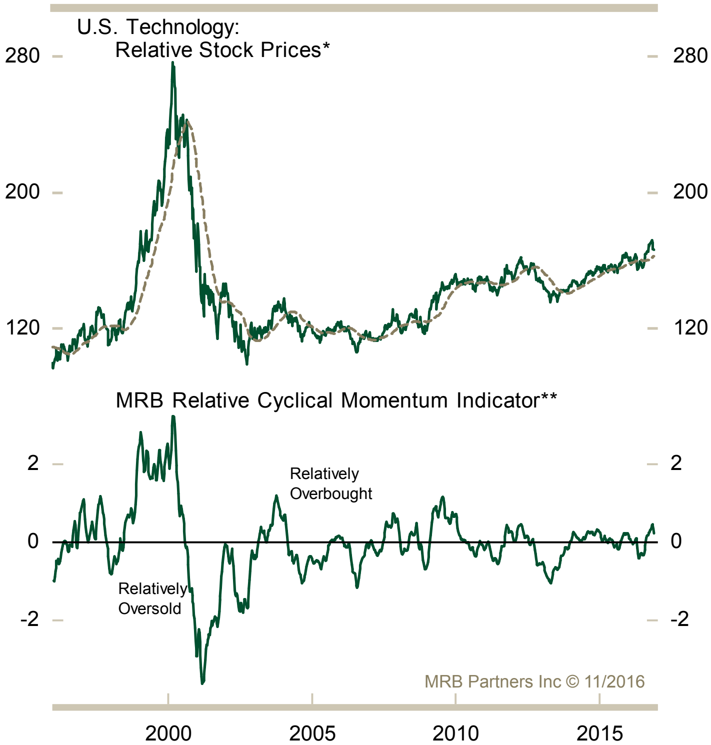
Relative Valuation



* Weighted average of select valuation measures; standardized
** % Premium (+), discount (-) to U.S. average; source: Thomson Financial / IBES

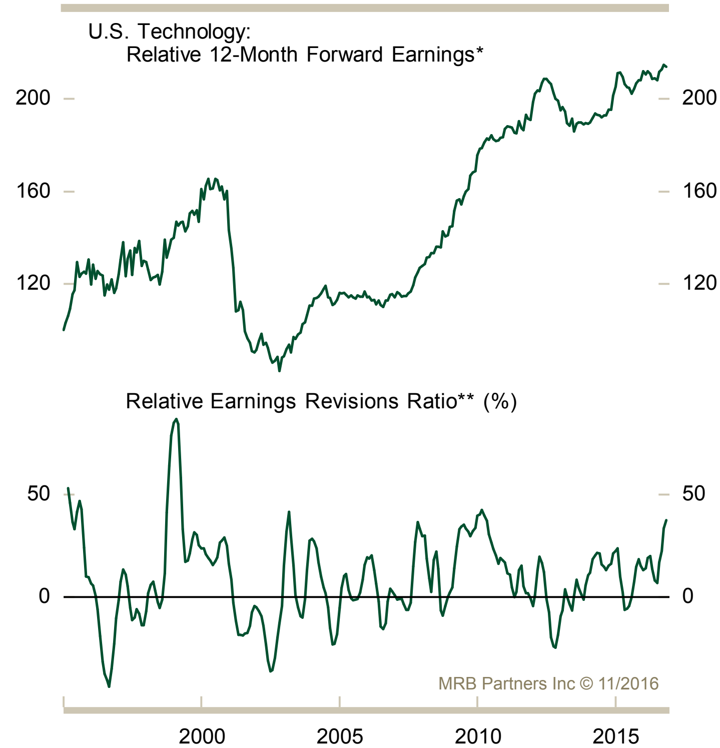
Information Technology: *Overweight*

Relative Price Momentum



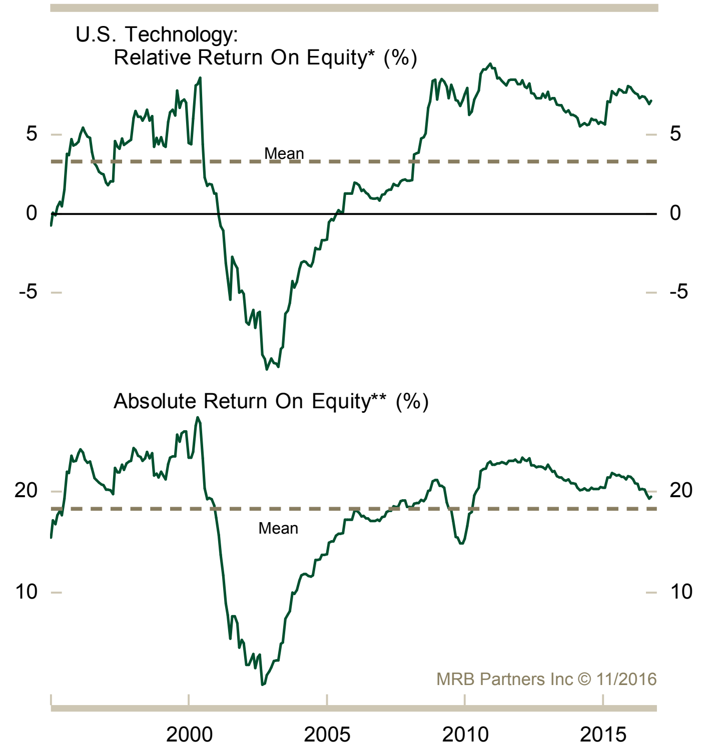
* - - - 40-week moving average; relative to U.S. equity benchmark; rebased; source: MSCI
** Standardized

Earnings Momentum



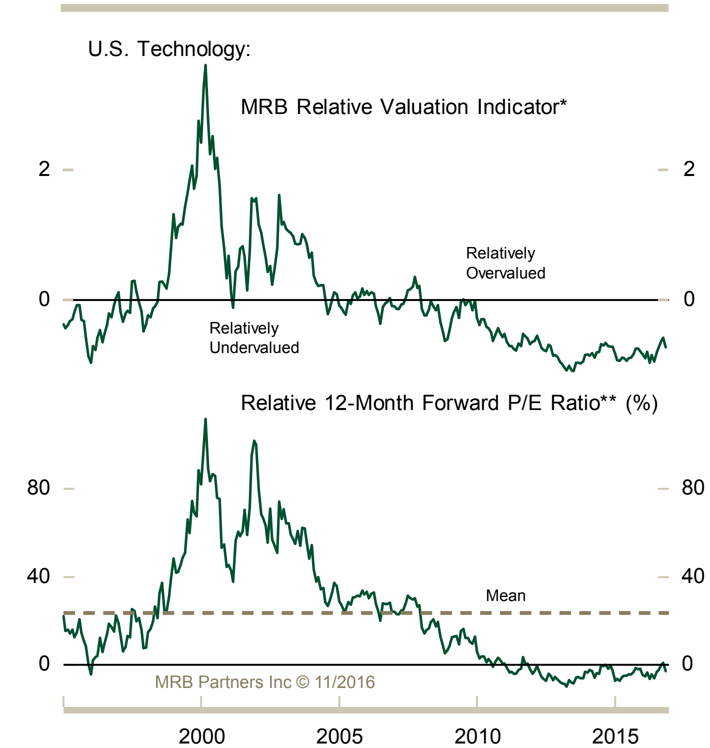
* Relative to U.S. equity benchmark; rebased; source: Thomson Financial / IBES
** Upward revisions minus downward revisions divided by total revisions; relative to U.S. equity benchmark; smoothed; source: Thomson Financial / IBES

ROE Cycle



* Relative to U.S. equity benchmark; source: MSCI
** Source: MSCI

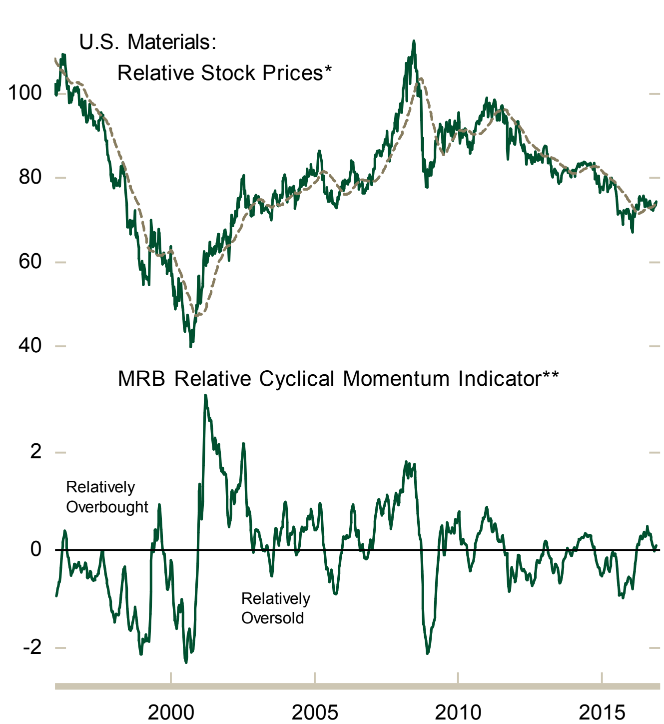
Relative Valuation



* Weighted average of select valuation measures; standardized
** % Premium (+), discount (-) to U.S. average; source: Thomson Financial / IBES

Materials: *Underweight*

Relative Price Momentum



* - - - 40-week moving average; relative to U.S. equity benchmark; rebased; source: MSCI
** Standardized
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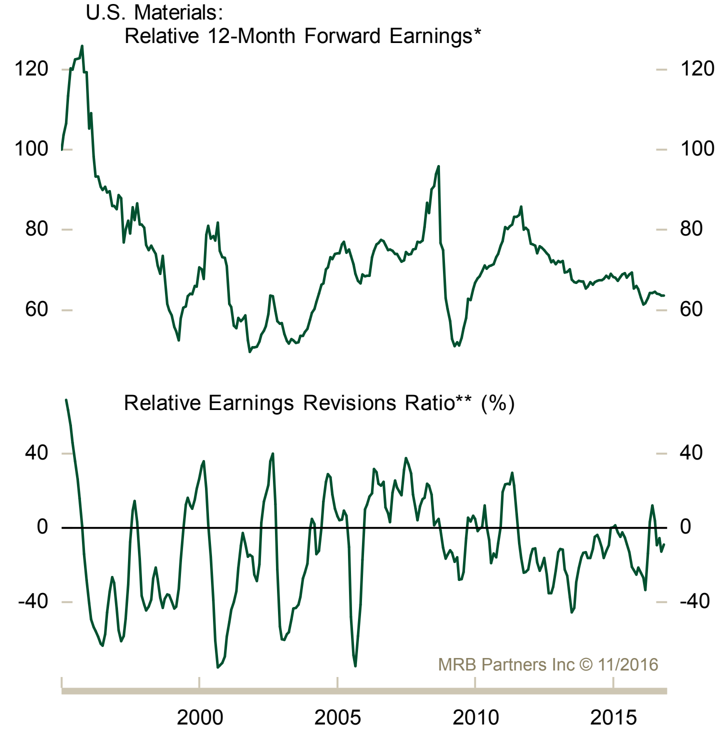
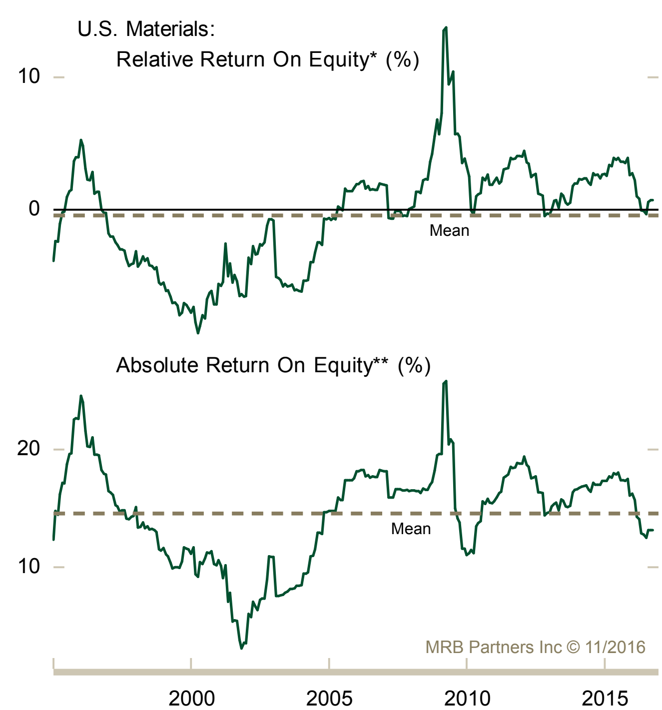
Earnings Momentum



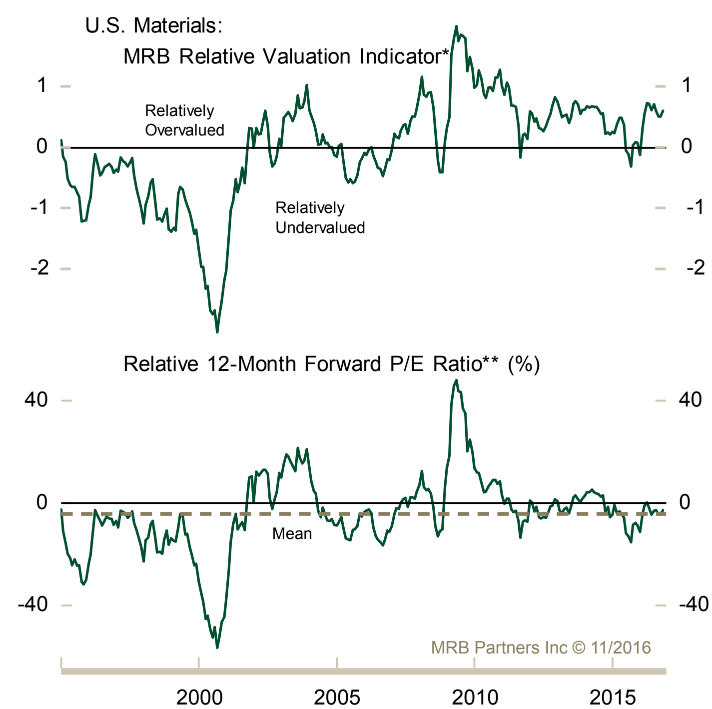
* Relative to U.S. equity benchmark; rebased; source: Thomson Financial / IBES
** Upward revisions minus downward revisions divided by total revisions; relative to U.S. equity benchmark; smoothed; source: Thomson Financial / IBES

ROE Cycle



* Relative to U.S. equity benchmark; source: MSCI
** Source: MSCI

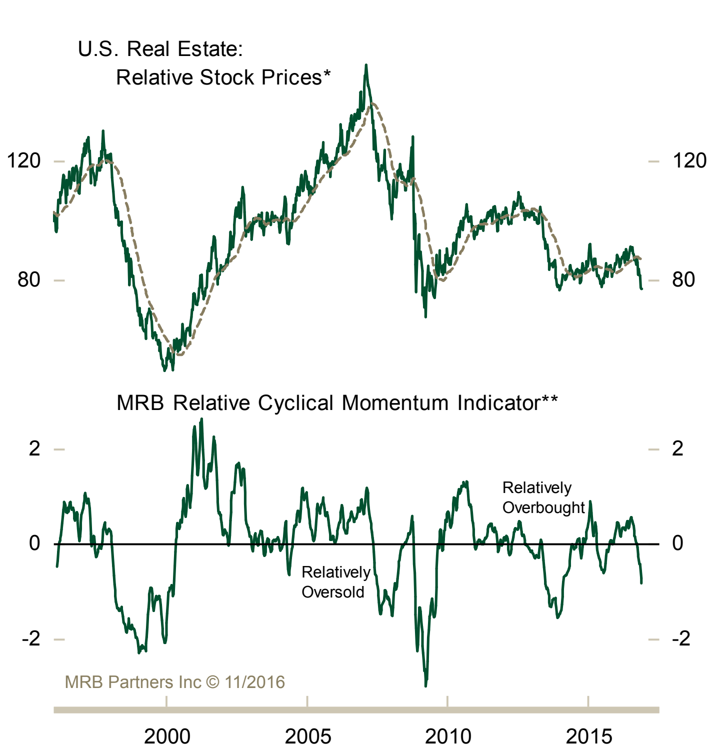
Relative Valuation



* Weighted average of select valuation measures; standardized
** % Premium (+), discount (-) to U.S. average; source: Thomson Financial / IBES

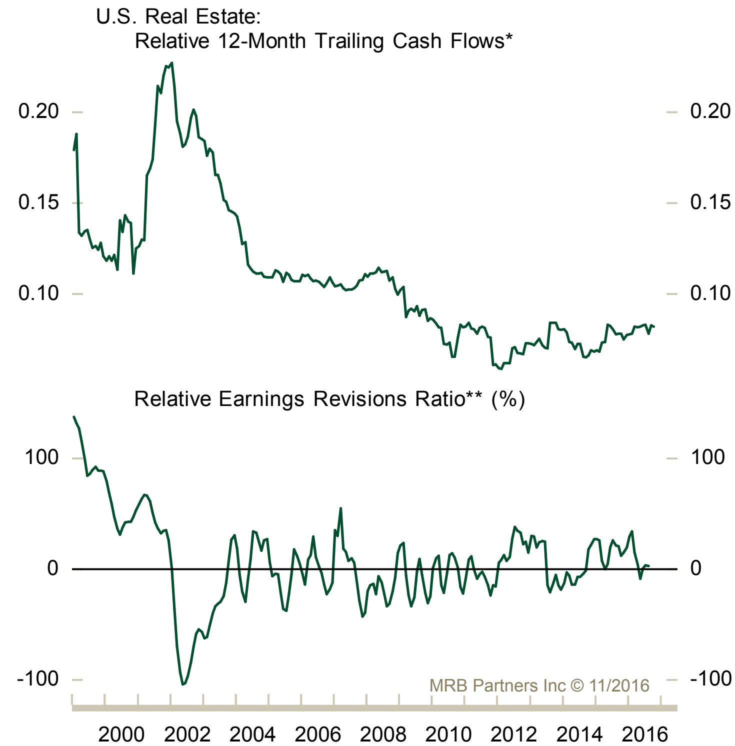
Real Estate: *Underweight*

Relative Price Momentum



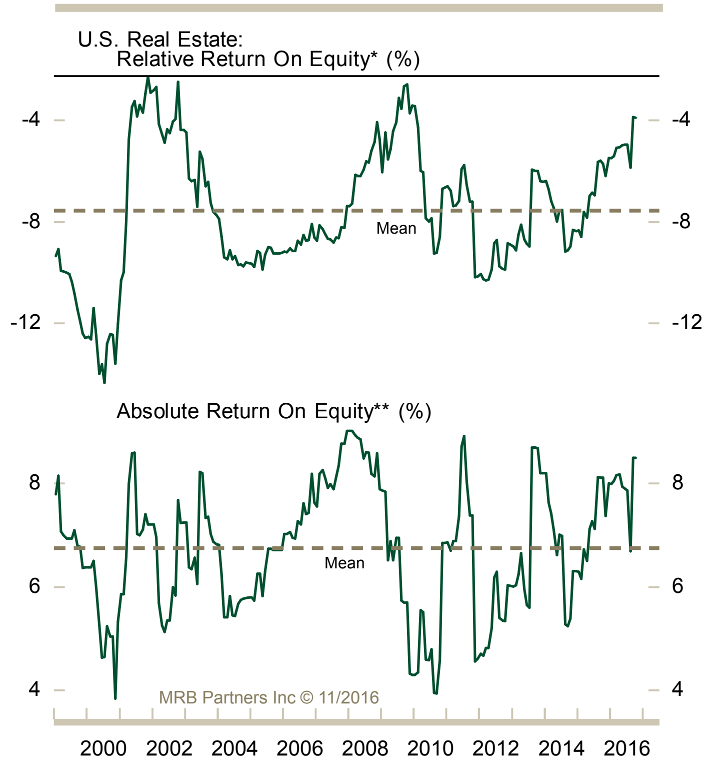
* - - - 40-week moving average; relative to U.S. equity benchmark; rebased; source: MSCI
** Standardized

Earnings Momentum



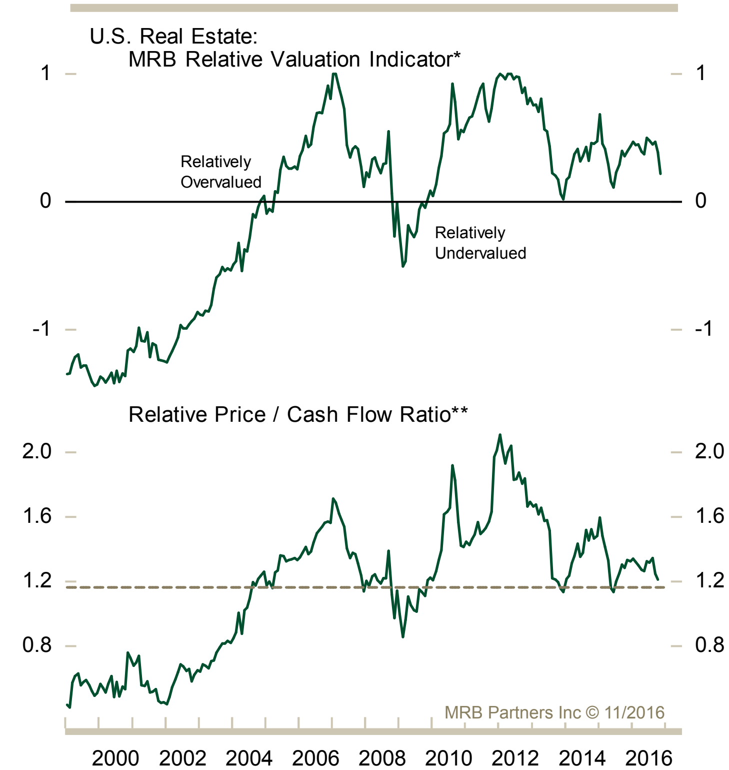
* Relative to U.S. equity benchmark; source: MSCI
** Upward revisions minus downward revisions divided by total revisions; relative to U.S. equity benchmark; smoothed; source: Thomson Financial / IBES

ROE Cycle



* Relative to U.S. equity benchmark; source: MSCI
** Source: MSCI

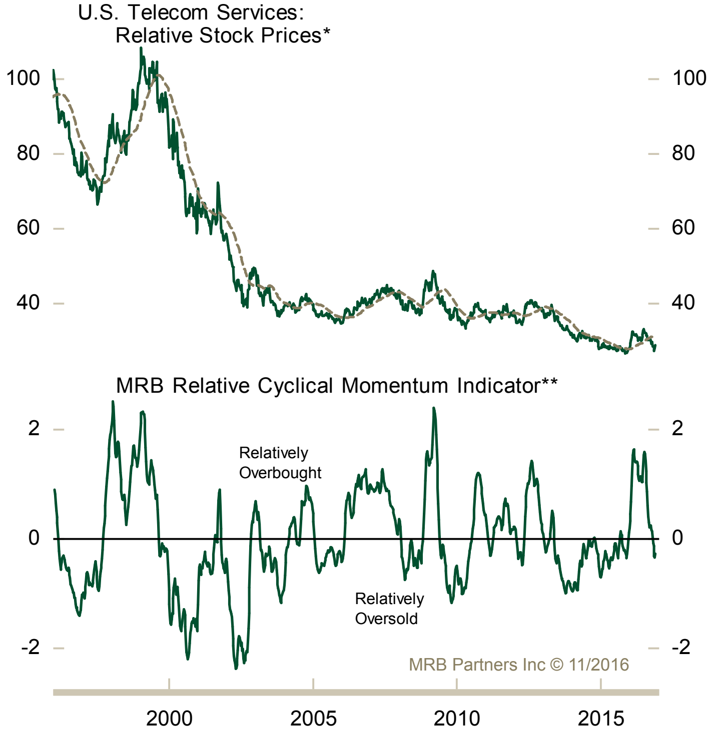
Relative Valuation



* Weighted average of select valuation measures; standardized
** Relative to U.S. equity benchmark; source: MSCI
Note: Panel 1 truncated above 1; - - - mean from 1999

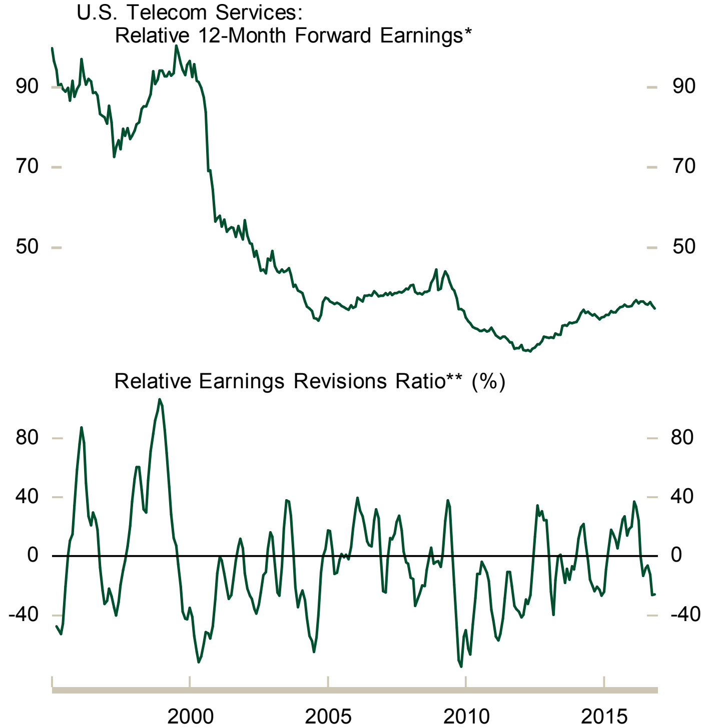
Telecom Services: *Neutral*

Relative Price Momentum



* - - - 40-week moving average; relative to U.S. equity benchmark; rebased; source: MSCI
** Standardized

Earnings Momentum



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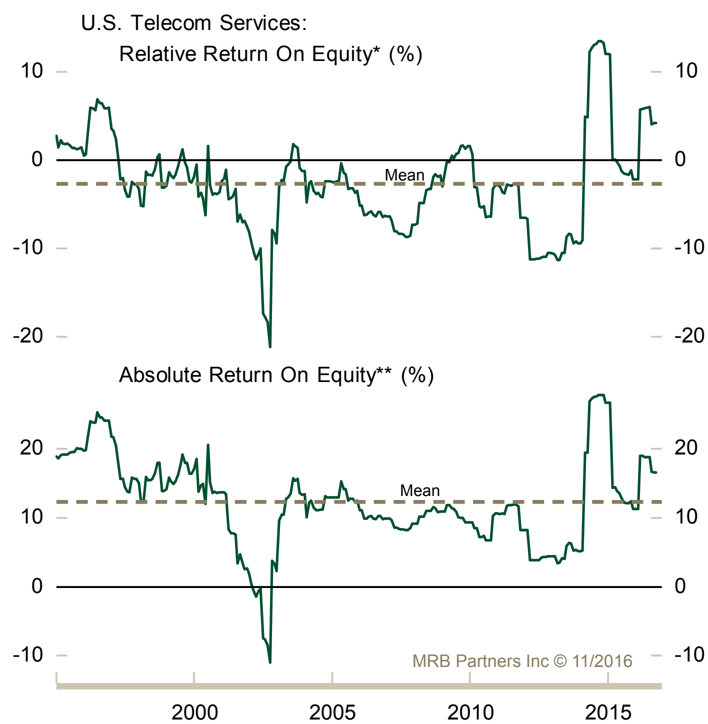
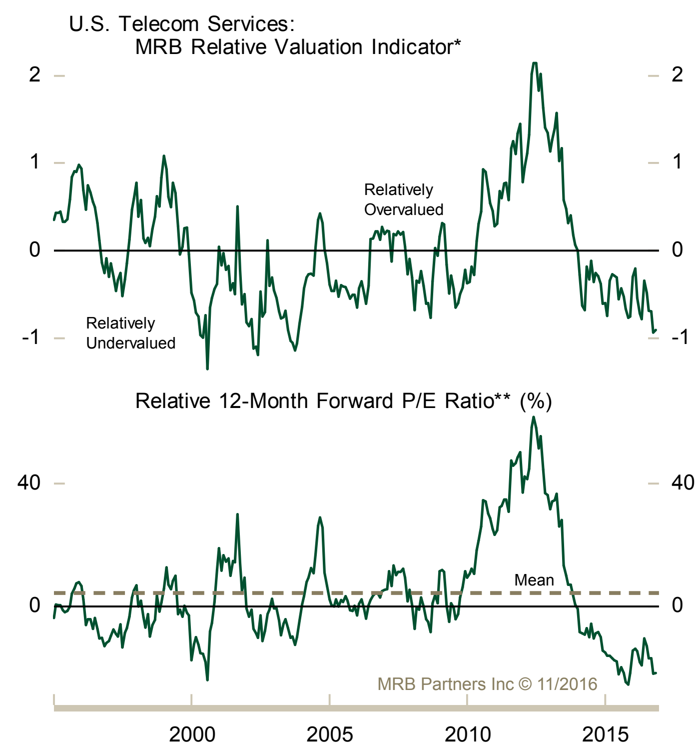
ROE Cycle



* Relative to U.S. equity benchmark; source: MSCI
** Source: MSCI

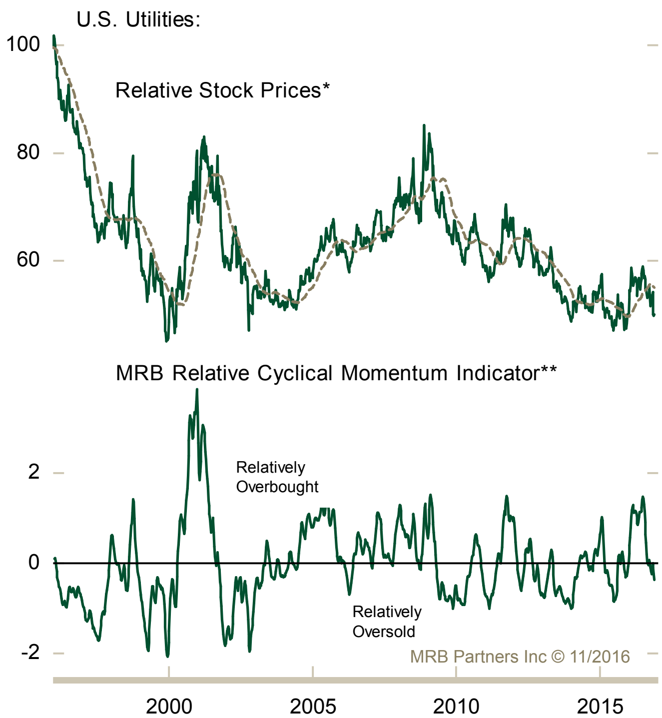
Relative Valuation



* Weighted average of select valuation measures; standardized
** % Premium (+), discount (-) to U.S. average; source: Thomson Financial / IBES

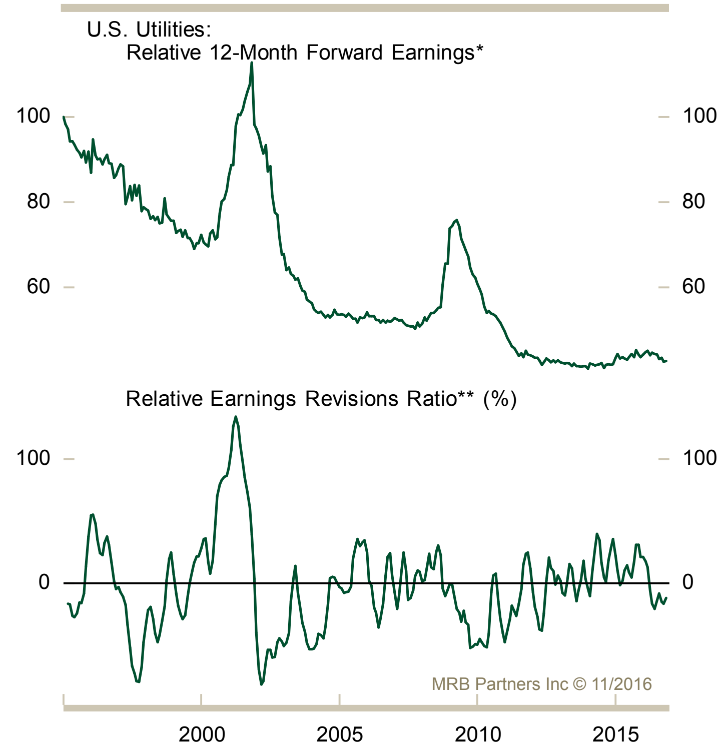
Utilities: *Underweight*

Relative Price Momentum



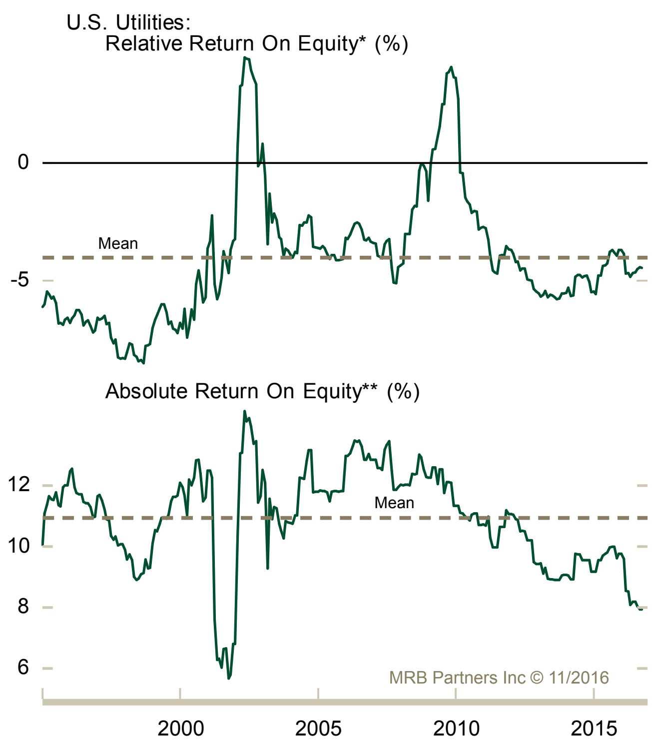
* - - - 40-week moving average; relative to U.S. equity benchmark; rebased; source: MSCI
** Standardized

Earnings Momentum



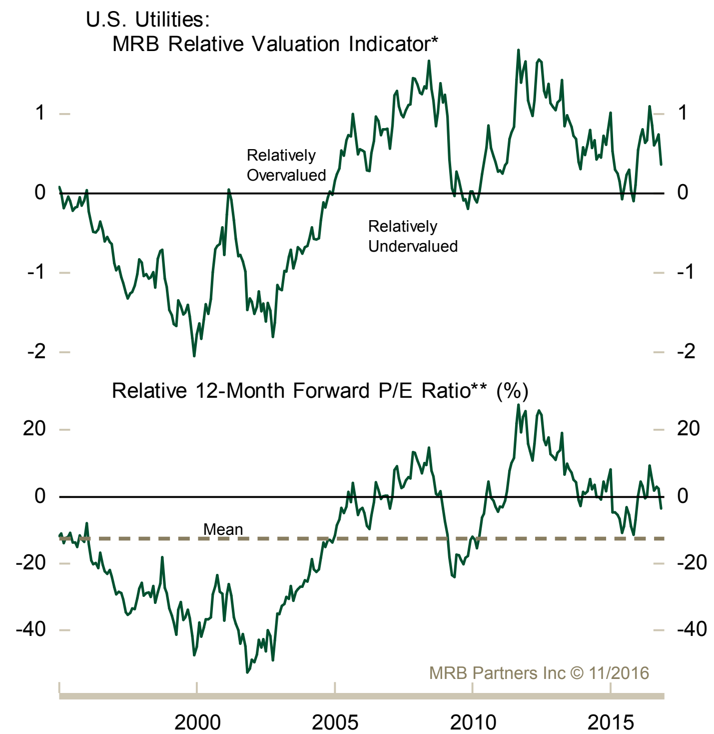
* Relative to U.S. equity benchmark; rebased; source: Thomson Financial / IBES
** Upward revisions minus downward revisions divided by total revisions; relative to U.S. equity benchmark; smoothed; source: Thomson Financial / IBES

ROE Cycle



* Relative to U.S. equity benchmark; source: MSCI
** Source: MSCI

Relative Valuation



* Weighted average of select valuation measures; standardized
** % Premium (+), discount (-) to U.S. average; source: Thomson Financial / IBES

MacroResearchBoard

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Independent Investment Strategy

November 28, 2016

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