

## The next 6 months favor Cyclical: Financials, Energy, Industrials, Tech, Materials

### Summary

We made the call Oct-13th that events were “de-risking” for the S&P 500 Cyclical, with positives including: Fed Quasi-QE, a trade détente, as well as some Brexit movement. We now view that as positive to mid-2020 for S&P Cyclical relative to Defensive industries. Specifically, by mid-2020 we see the dollar down, 10Y yield up (2.25%), oil up (\$80/bbl.), and nominal GDP recovery, all of which favors S&P 500 Cyclical, e.g. Financials, Energy, Industrials, Tech, Materials. The call is about Cyclical alpha and not S&P 500 beta, as our S&P 500 target is only 3,050 in 2019 (2,900 prior) and 3,100 in 2020E (new).

### Key Points

#### Oct-13, 2019 we switched from preferring Defensives to Cyclical in 4Q19 (we now extend that call to mid-2020)

- We see long Cyclical/short Defensive rising through mid-2020, similar to 2016 [p. 3]
- We do not expect a “nominal GDP recession” despite weak current manufacturing [p. 4]
- Cyclical alpha not S&P beta: We see SPX fair value 3,050 in 2019 (prior 2,900) and 3,100 in 2020 [p. 5]
- 2019-20E earnings resemble 2015-16 (EPS slowed after excessive Fed tightening) [p. 6]
- At a granular level, we are long 12 reflation industries and short 12 deflation industries to 2Q20 [p. 7]
- We see this reflation vs. deflation trade (from the prior bullet point) rising strongly [p. 8]
- Stay on alert: If recession drums beat again...get Defensive (fast) [p. 9]

#### Here’s what changed to prompt our Oct-13th shift in favor of a Cyclical sector recovery into mid-2020

- There are modest signs of a bottom for PMIs and the 10Y yield [p. 11]
- The Fed is adding excess reserves, which may push the dollar down, 10Y yield up...[p. 12]
- ...and if the dollar falls and 10Y yield rises, Energy & Financials should rise [p. 13]
- Oil usually rises when this many speculators are “net short” oil contracts [p. 14]
- As the 10Y yield rises, Financials have greater valuation (dividend yield) protection [p. 15]
- By 2Q20E: we see \$80 Brent, 2% 10Y breakeven inflation, 0.25% TIPS, and 2.25% for the 10Y [p. 16]
- And...if a trade truce leads China to seasonally boost stimulus in 1Q20, that will help [p. 17]
- Plus, “We’ve got November to April seasonality going for us...which is nice” [p. 18]

#### We think a recession has been delayed, but the following are the risks to our thesis

- The Fed has backed off from its 4Q18 to 1H19 error, but is it *too little too late*? [p. 20]
- Why the trade cease fire? Rising unemployment risk by Nov-2020 as indicated by the curve [p. 21]
- The consumer is key to U.S. GDP and is fine for now, but what if it can’t get any better? [p. 22]
- Wall of Worry: Curve inversion (50dma) points to a recession May-2020 +/- 4 mos. [p. 23-24]
- The risk of a recession within a year may be shaving 7% off the S&P 500 price [p. 25]
- History says Oct-2019 is the *do-or-die month* that will decide recession risk [p. 26]

**Appendices:** (1) We see weak EPS in 2019 carrying over to 2020, but that shouldn’t preclude Cyclical rotation [28-34]. (2) In the next decade, we see Active beating Passive (but few pensions will hit their goals) [35-40]

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All relevant disclosures and certifications appear on pages 41 - 42 of this report.

## In our view:

On Oct-13th we shifted from having been over-weight Defensives & Bond Proxies in the prior 12 months to now calling for a *Cyclical* sector recovery (we are now *extending* that call from 4Q 2019 into mid-2020)

**STIFEL**

**Macro & Portfolio Strategy**

MARKET COMMENTARY/STRATEGY

October 13, 2019

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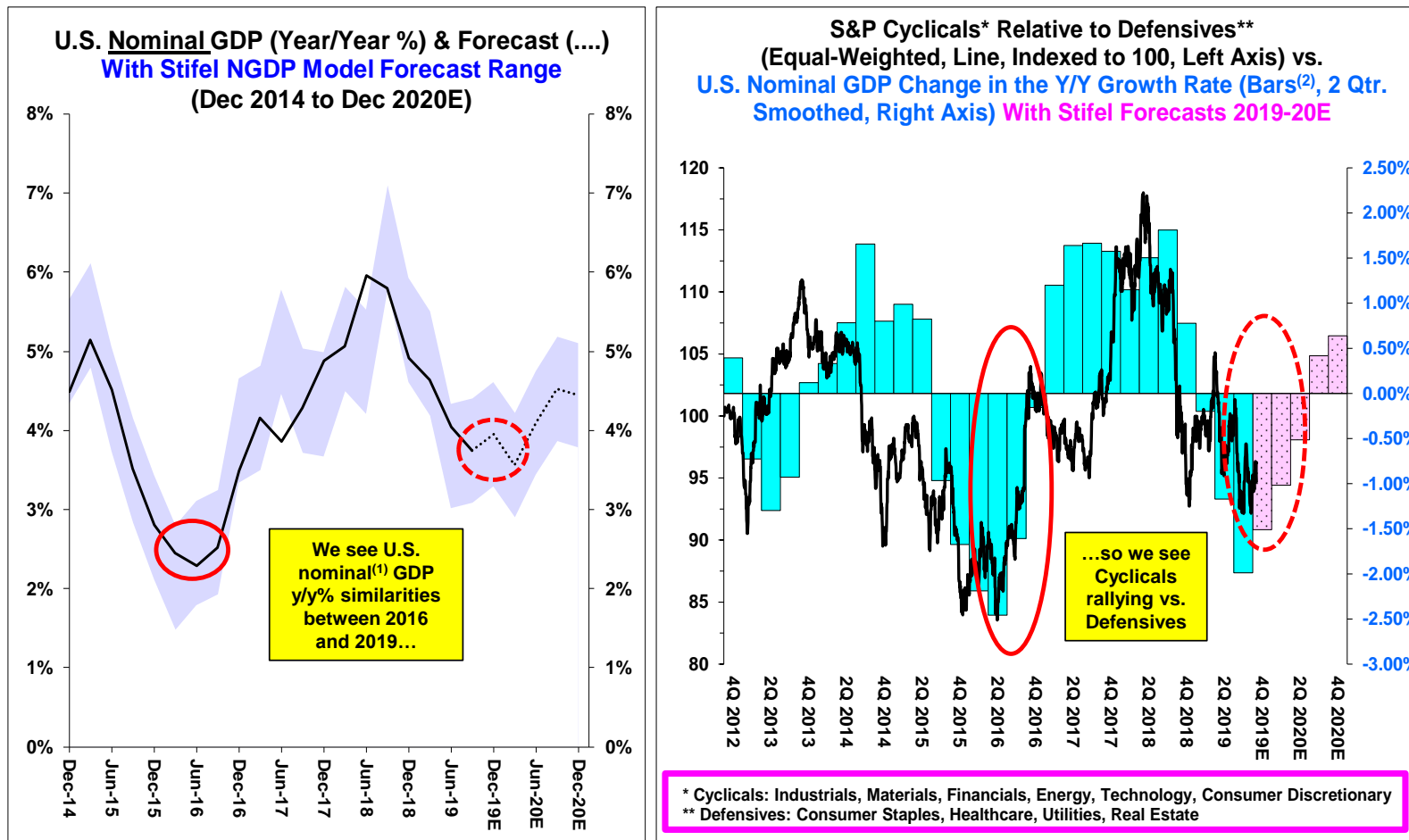
Events last week de-risked S&P 500 Cyclical - we see a 4Q19 Cyclical sector bounce

**Summary**

*Events last week have de-risked S&P Cyclical sectors: President Trump gave in to a “mini-deal” on trade (as China wanted), the Fed gave in to mini-QE (our term, not theirs) to mid-2020 (which global liquidity had required), and UK PM Johnson gave ground on Brexit (as the EU wanted). We see a positive market effect in 4Q19 for Cyclical (but not Defensives, which we favored the past year). We now expect a weaker dollar and higher 10Y yield in 4Q19 as investor risk posture and higher reserves weaken the dollar and lift longer yields, benefiting S&P Cyclical sectors; we see Financials and Energy rising at the expense of Defensive Utilities, REITs and Staples. We see this occurring despite weak EPS guidance, although we would expect sluggish EPS, a high market P/E (due to Fed policy) and continued mid-2020 recession potential to limit S&P 500 upside in 4Q19.*

Source: Stifel.

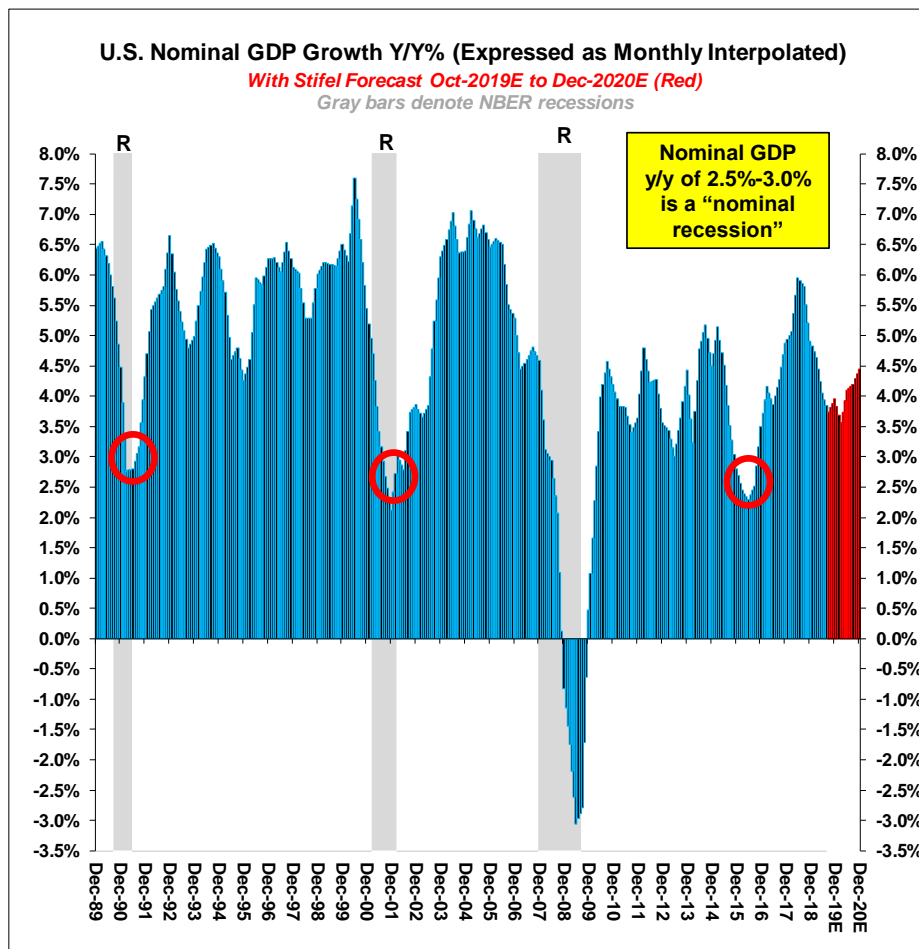
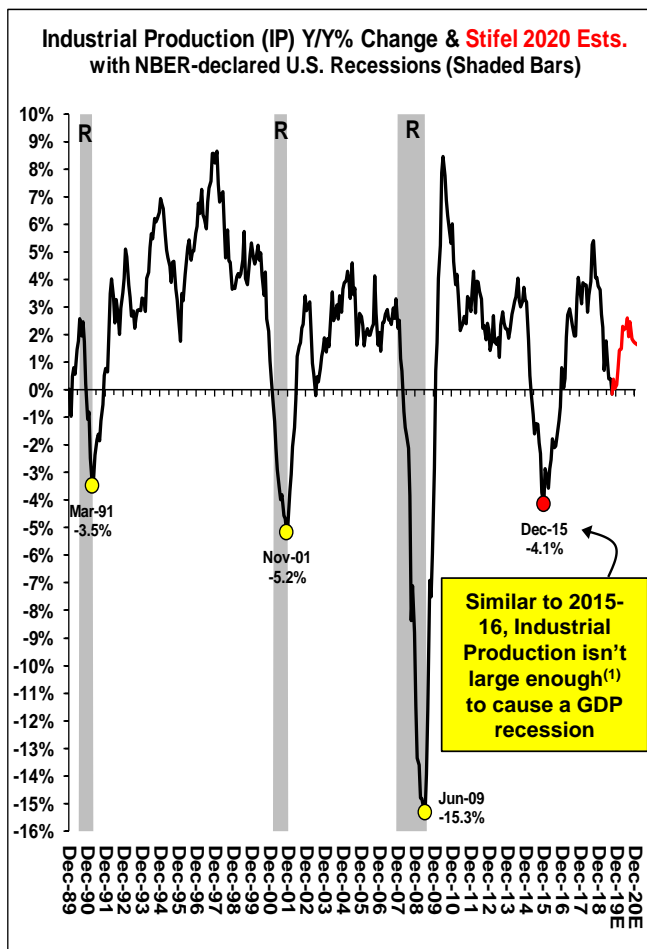
## We see long Cyclical/short Defensive up through mid-2020, similar to 2016



Source: Bloomberg data, [NBER Recession Dates](#), Stifel estimates.

- (1) We believe the goal since the late-1990s has been nominal GDP ("NGDP," real GDP + inflation) due to deflation pressure (debt, over-capacity, demographics, technology).
- (2) The bars in the right chart are y/y change in rate of growth for NGDP; example: 3% y/y to 4% y/y is +100bps. Chart (right) depicts the two quarter average of this change.

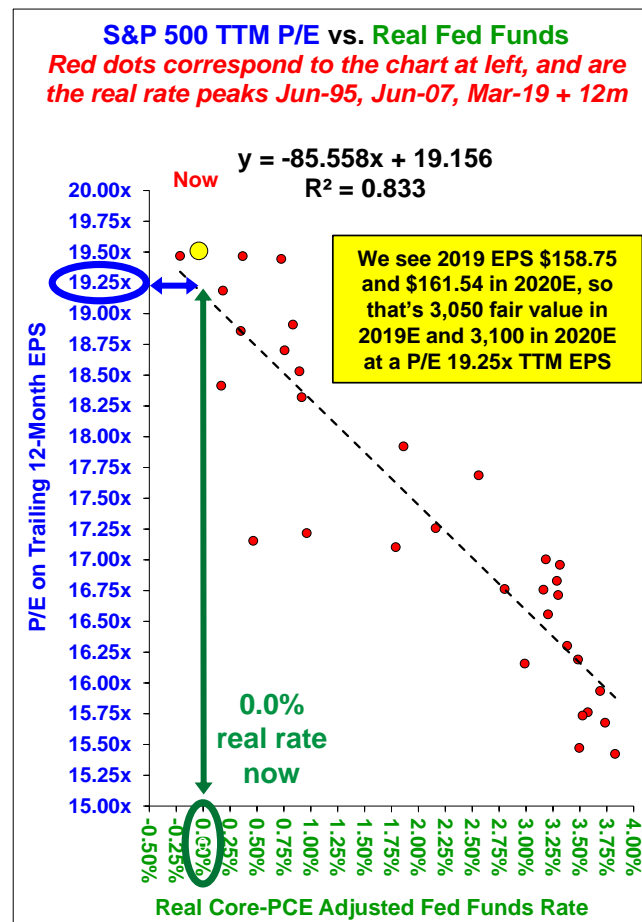
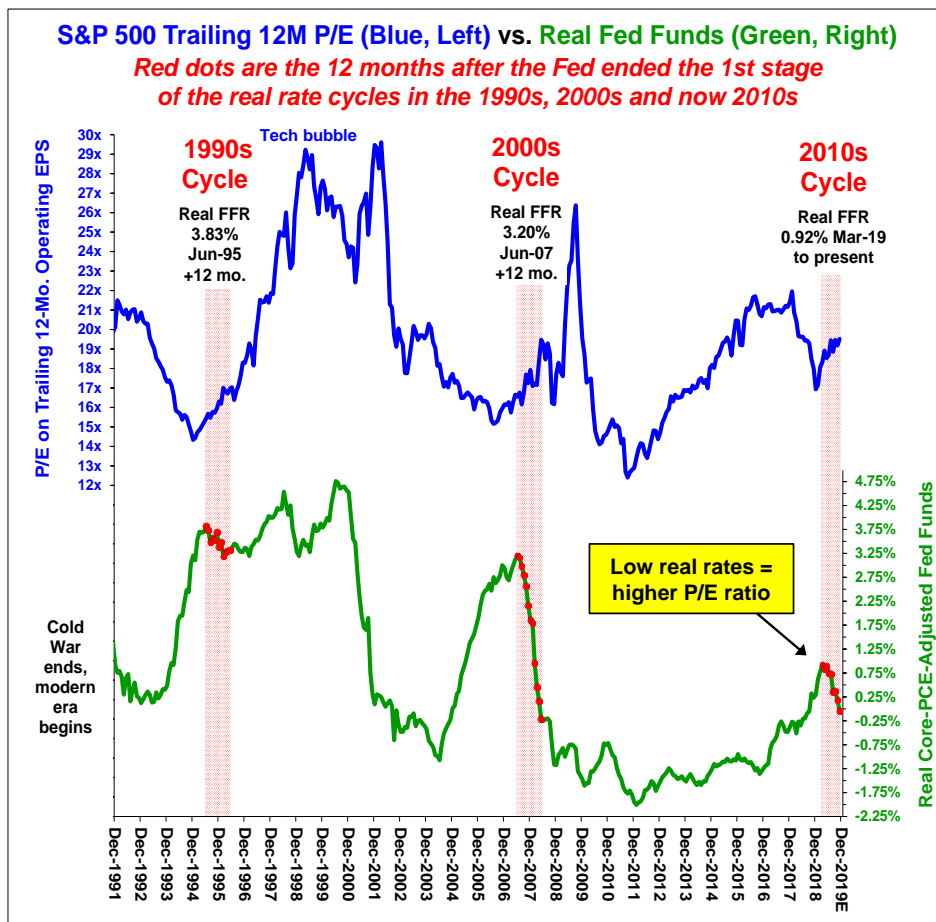
## We do not expect a “nominal GDP recession” despite weak manufacturing<sup>(1)</sup>



Source: Stifel, Bloomberg data.

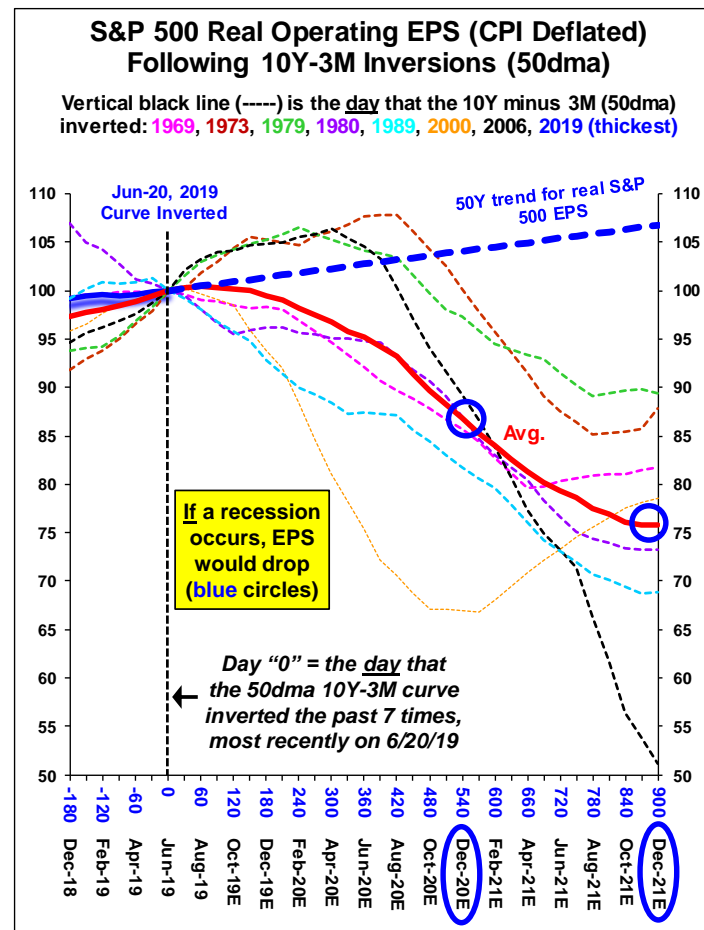
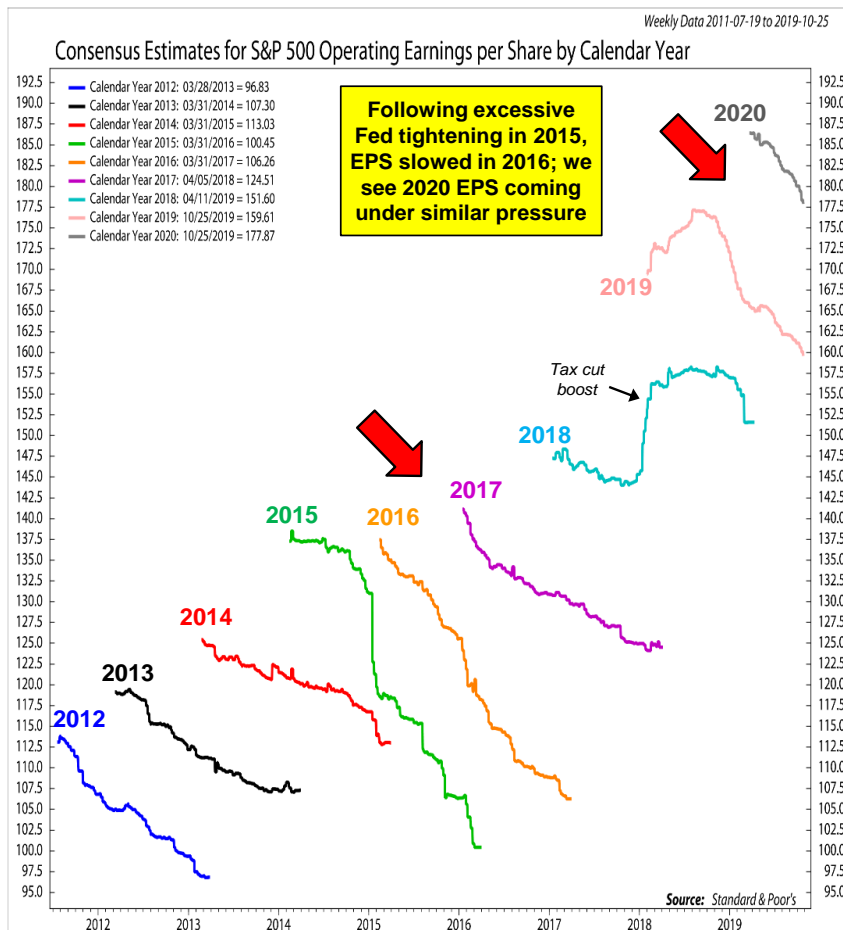
(1) According to Commerce Department figures, Manufacturing was 11% of GDP in 2Q19, the smallest share since 1947 and down from 11.1% in 1Q19.

## We believe the next 6 months are about Cyclical *alpha* not S&P 500 *beta*: We see S&P 500 fair value as 3,050 in 2019 (prior 2,900) and 3,100 in 2020



Source: Bloomberg data, Stifel estimates.

## 2019-20E resembles 2015-16 (EPS slowed after excessive Fed tightening)



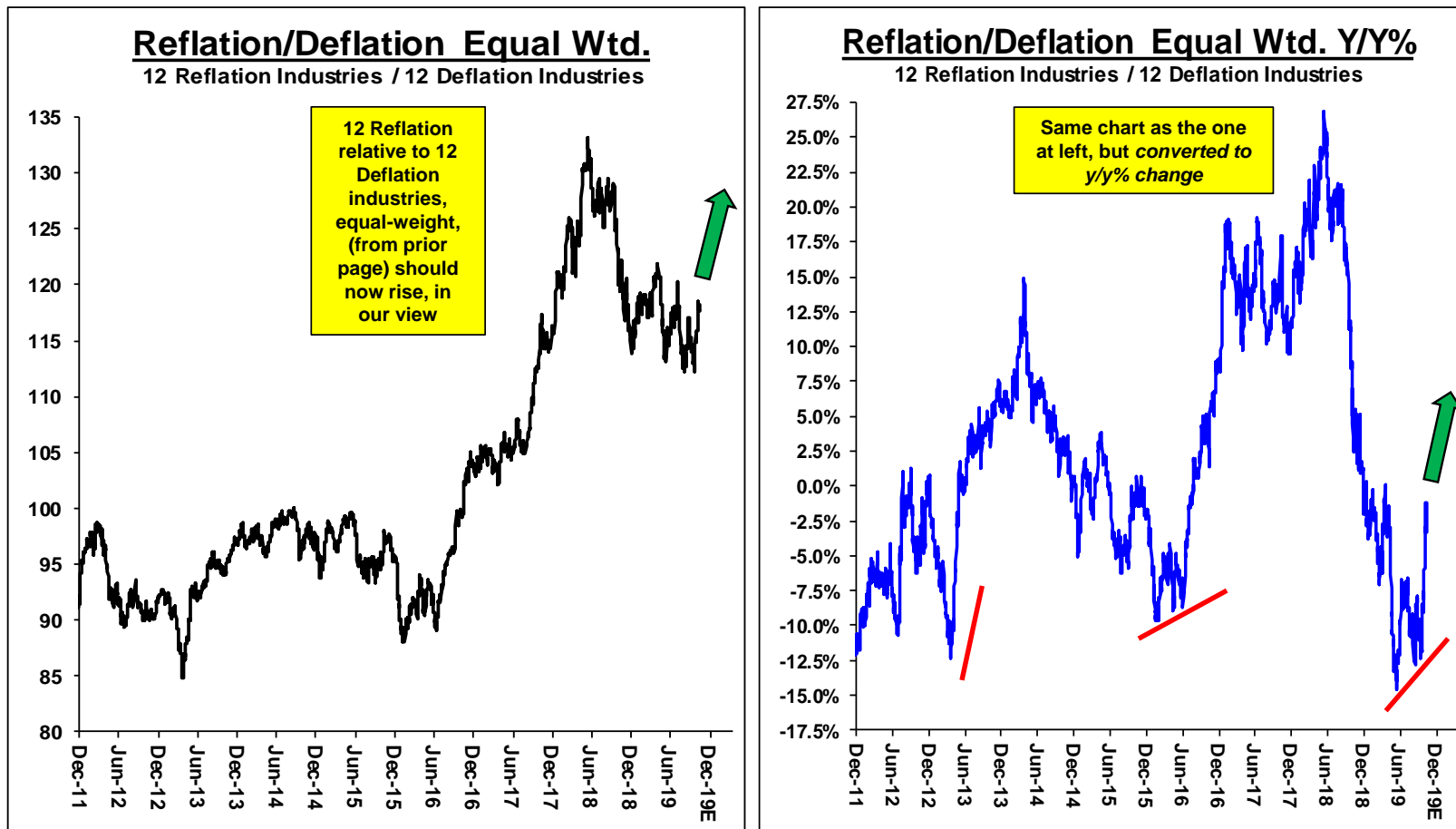
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## At a granular level, we are long 12 green and short 12 red into 2Q 2020 (See Appendix # 1 for major stocks in each of these Industry groups)

S&P 500 Industry correlation vs. reflation metrics, based on trailing 5 years of prices					(A) DXY Dollar <i>(Inverse)</i>	(B) Gold to Oil Ratio <i>(Inverse)</i>	(C) 10Y Break-even Inflation	(D) U.S. 10Y Yield	Equal-Wtd. (A) to (D) Average Correlation	
Rank	Tickers	GICS Industry	Market Cap.	TTM Rel. to SPX	5Yr. Rolling Correl.	5Yr. Rolling Correl.	5Yr. Rolling Correl.	5Yr. Rolling Correl.	(SORT)	
1	S5DIVF Index	Diversified Financials	\$1,234,119	-4.4%	0.39	0.65	0.73	0.64	0.60	RCYFCLLAITCIONS
2	S5BANKX Index	Banks	\$1,442,036	-1.5%	0.13	0.53	0.75	0.73	0.54	
3	S5TECH Index	Tech Hardware & Equip.	\$1,604,182	-2.3%	0.12	0.57	0.61	0.59	0.47	
4	S5TRAN Index	Transportation	\$497,534	-8.7%	0.29	0.57	0.49	0.44	0.45	
5	S5SSEQX Index	Semiconductors & Equip.	\$1,024,917	10.6%	0.14	0.39	0.61	0.55	0.42	
6	S5RETL Index	Retailing	\$1,790,902	-0.5%	-0.12	0.22	0.35	0.46	0.23	
7	S5SFTW Index	Software & Svcs	\$3,158,778	13.6%	-0.07	0.15	0.30	0.35	0.18	
8	S5HCES Index	H.C. Equipment & Svcs.	\$1,642,651	-3.8%	-0.07	0.11	0.21	0.39	0.16	
9	S5MATRX Index	Materials	\$693,289	-2.4%	0.31	0.06	-0.02	-0.24	0.03	
10	S5ENRSX Index	Energy	\$1,100,350	-24.7%	0.16	0.05	-0.18	-0.29	-0.06	
11	S5CPGS Index	Capital Goods	\$1,711,899	1.6%	0.11	-0.22	0.02	-0.17	-0.07	
12	S5AUCO Index	Autos & Components	\$124,110	-8.1%	0.12	-0.12	-0.29	-0.36	-0.16	
13	S5HOTR Index	Consumer Services	\$522,643	5.7%	-0.22	-0.36	-0.23	-0.09	-0.22	DIDSEIFNLSAITIVEOSN
14	S5INSU Index	Insurance	\$596,645	4.3%	-0.17	-0.32	-0.23	-0.36	-0.27	
15	S5PHRM Index	Pharma, Biotech, Life Sci.	\$1,957,018	-7.3%	0.03	-0.32	-0.54	-0.44	-0.32	
16	S5CODU Index	Consumer Durables & Appar.	\$306,963	-1.9%	0.06	-0.33	-0.56	-0.50	-0.33	
17	S5MEDA Index	Media & Entertainment	\$2,144,418	0.8%	-0.28	-0.36	-0.46	-0.55	-0.41	
18	S5TELSX Index	Telecommunication Svcs.	\$616,020	7.4%	-0.11	-0.48	-0.58	-0.64	-0.45	
19	S5FDSR Index	Food & Staples Retailing	\$573,687	-1.9%	-0.11	-0.43	-0.67	-0.61	-0.45	
20	S5FDBT Index	Food, Beverage, & Tobacco	\$1,057,092	-6.8%	-0.15	-0.60	-0.59	-0.61	-0.49	
21	S5REAL Index	Real Estate	\$807,434	12.7%	-0.16	-0.58	-0.80	-0.82	-0.59	
22	S5UTILX Index	Utilities	\$880,822	10.7%	-0.15	-0.68	-0.77	-0.80	-0.60	
23	S5HOUS Index	Household & Pers. Prod.	\$500,757	18.9%	-0.17	-0.63	-0.80	-0.85	-0.61	
24	S5COMS Index	Comm'l & Prof'l. Svcs	\$217,257	13.9%	-0.41	-0.53	-0.71	-0.81	-0.61	

Source: Bloomberg data, Stifel estimates.

## We see this reflation vs. deflation trade (from the prior page<sup>(1)</sup>) recovering

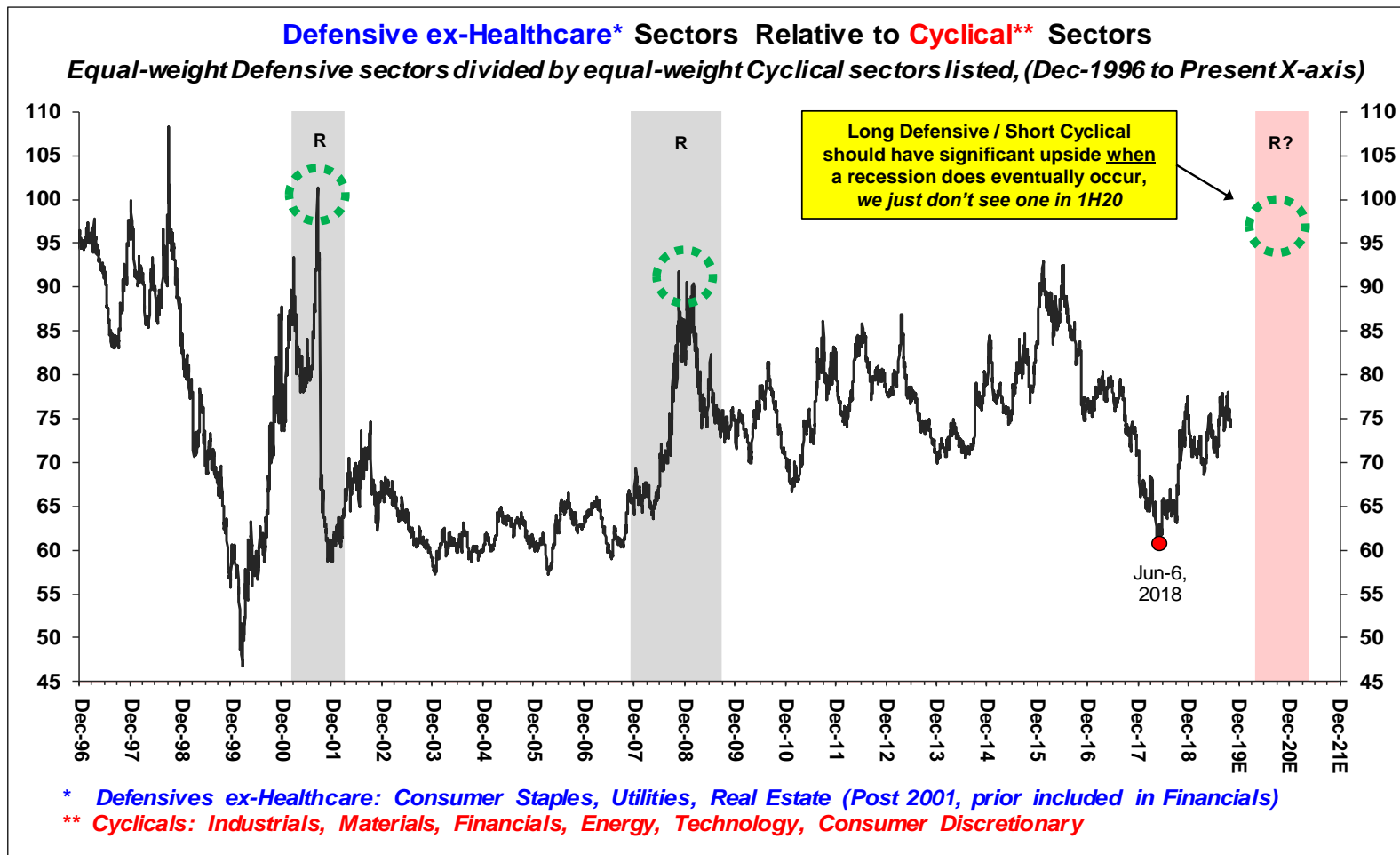


Source: Bloomberg data, Stifel estimates.

(1) The 12 equal-weight reflation cyclical GICS2 industries on the prior page (mostly green) relative to the 12 equal-weight disinflation defensives (mostly red).



## Stay on alert: If recession drums beat again...get Defensive (fast)



Source: Stifel.

## ***In our view:***

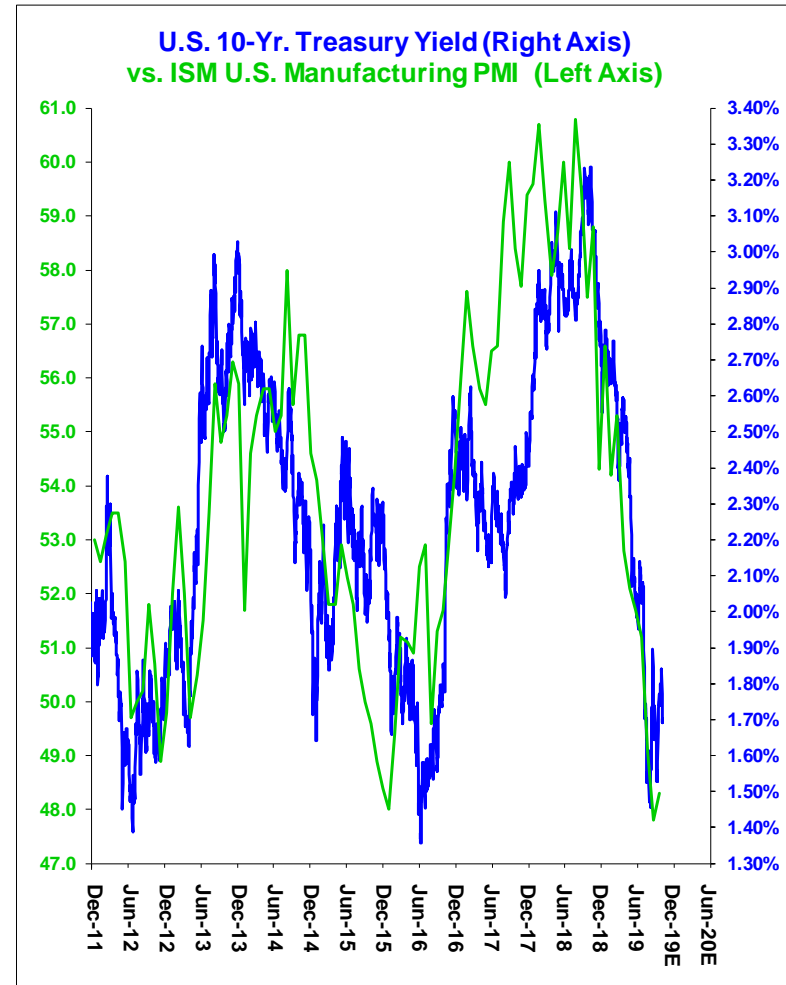
**Here's what changed to prompt our Oct-13th shift in favor of a *Cyclical* sector recovery into mid-2020**

Source: Stifel.

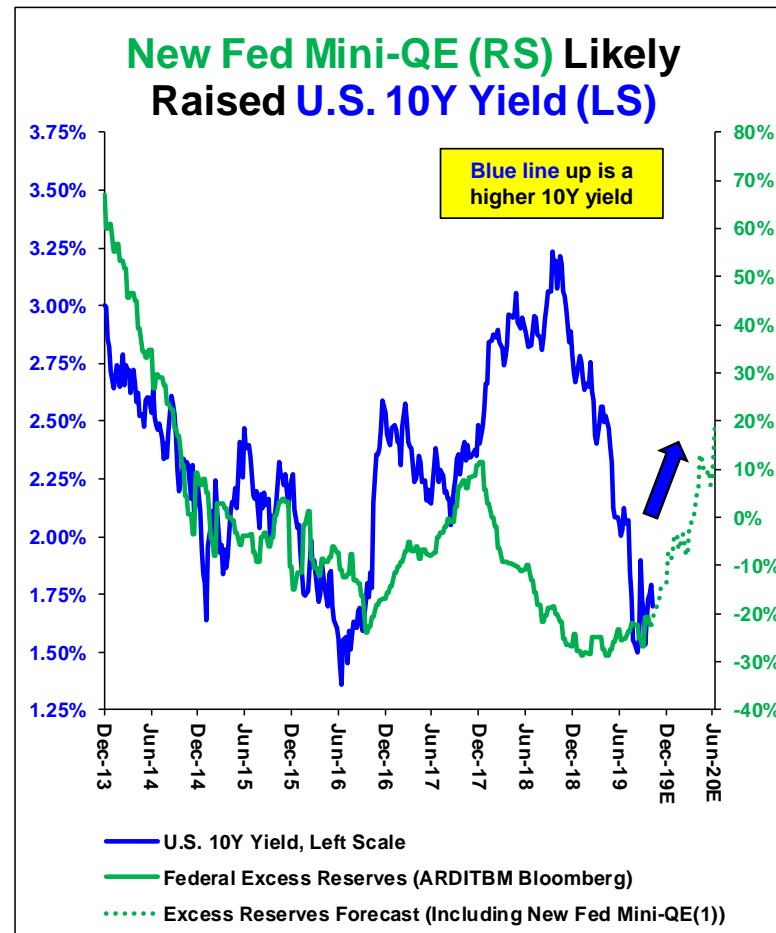
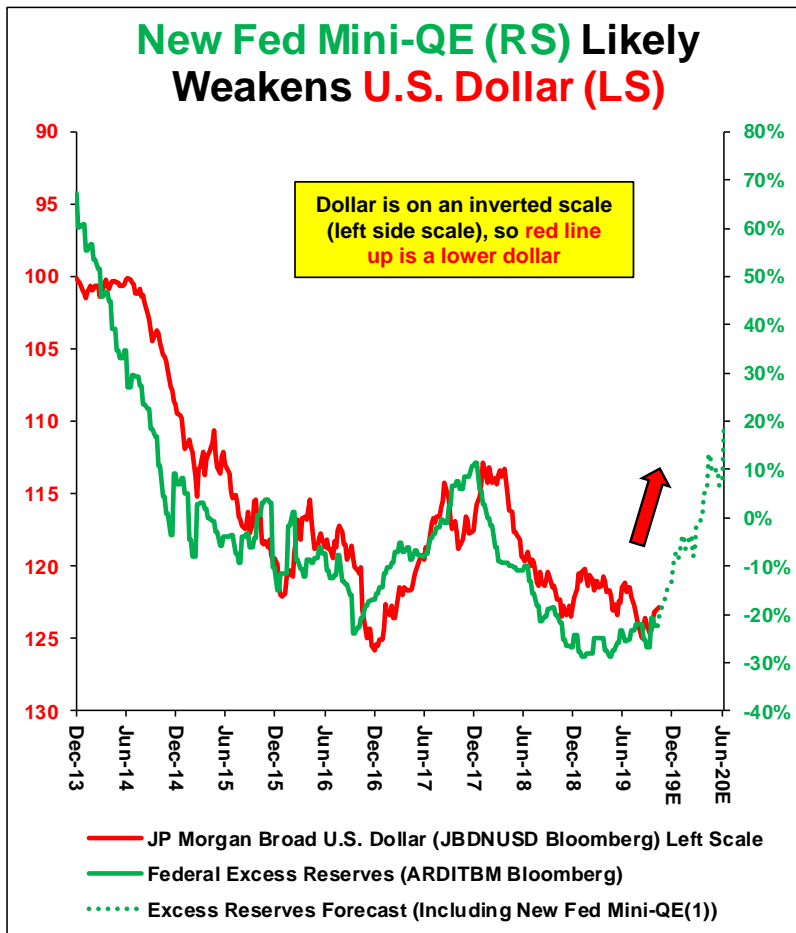
## There are modest signs of a bottom for PMIs and the 10Y yield



Source: Stifel.



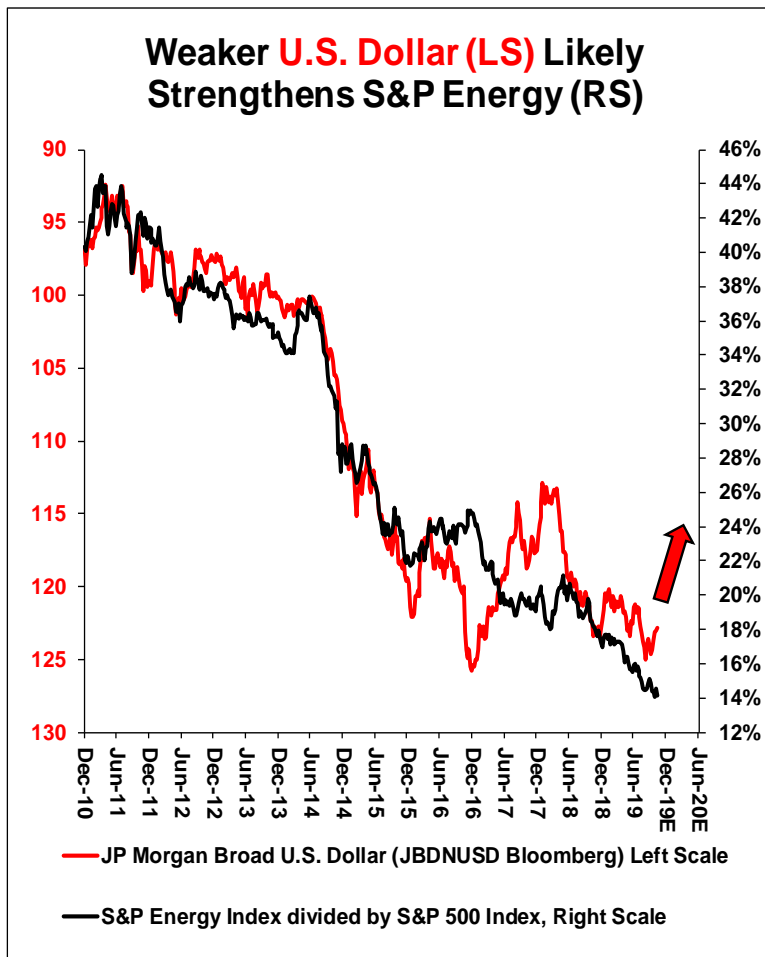
## Fed is adding reserves<sup>(1)</sup>, which may push the dollar down, 10Y yield up...



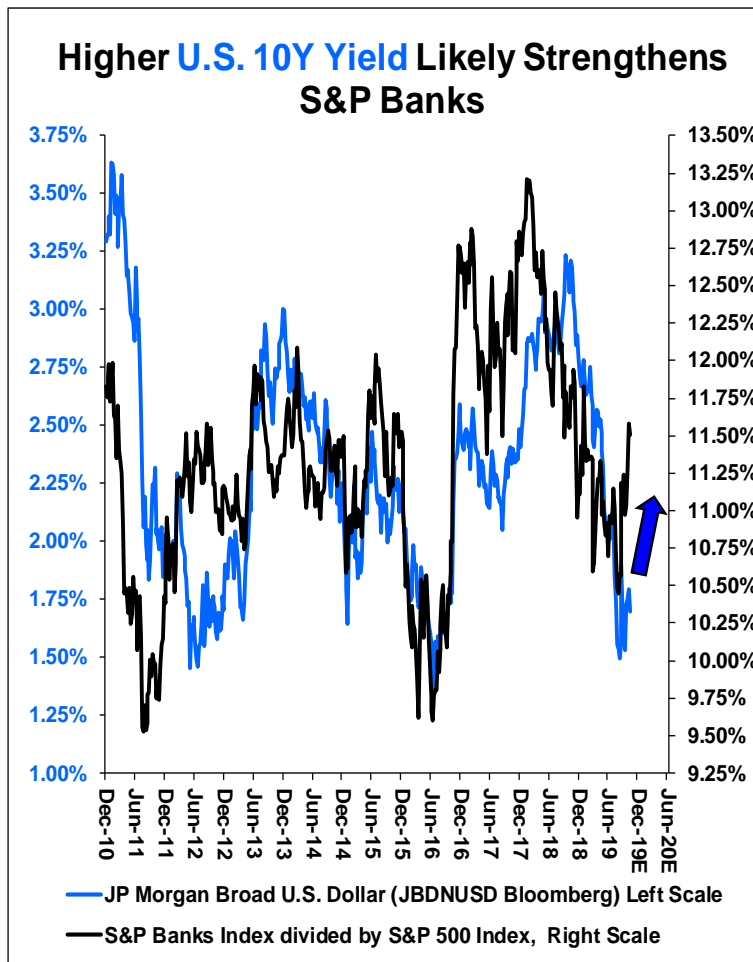
Source: Bloomberg data, Stifel estimates.

(1) NY Fed has begun purchasing up to \$60B/m., mostly T-bills, at least to 2Q20, while continuing to roll coupon payments and MBS maturities. We estimate excess reserves will expand \$240B, although Street estimates range up to \$400B+. The effect may be a curve steepener, although Treasury short-term bills issuance will affect supply.

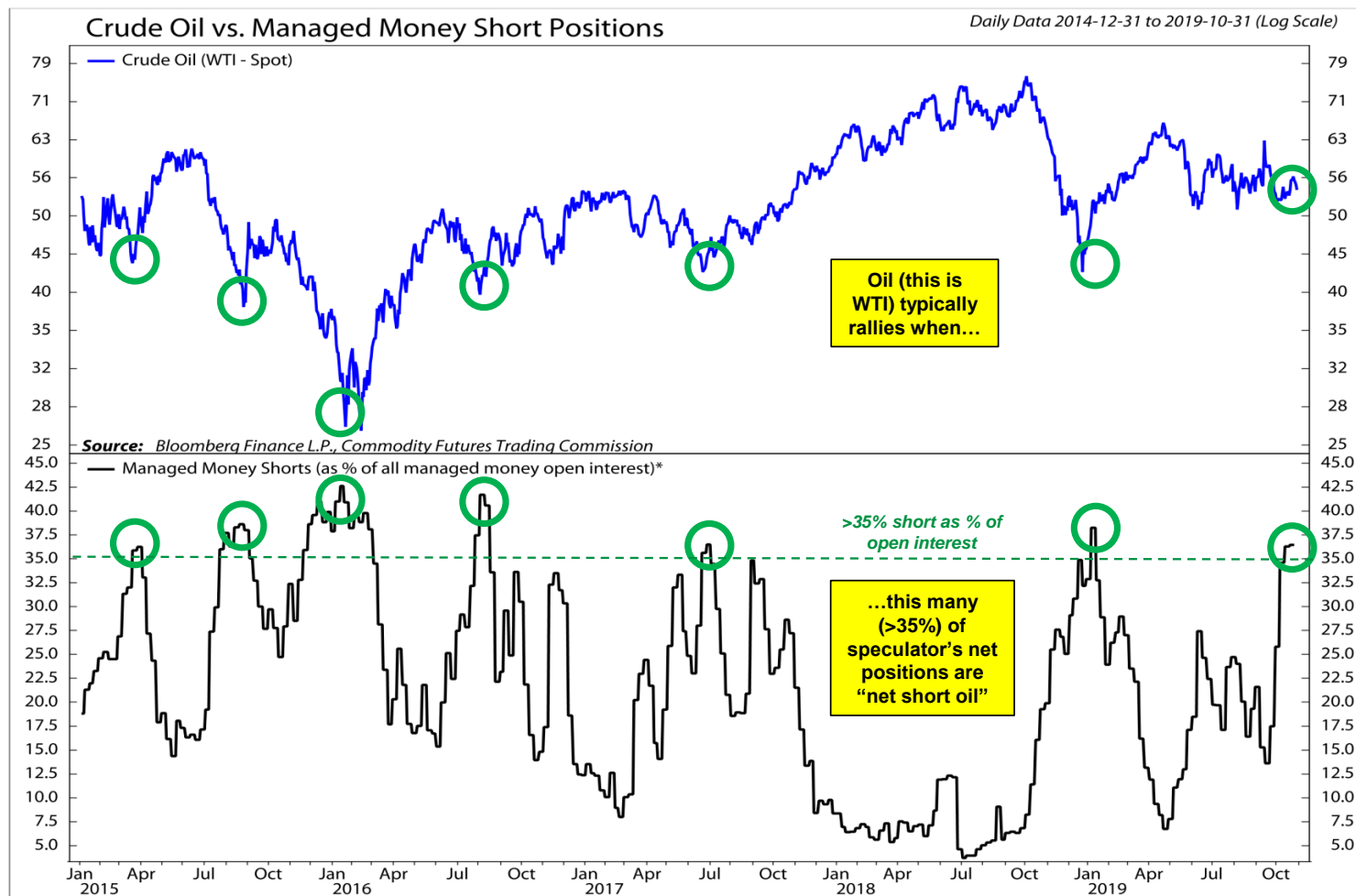
## ...and if the dollar falls & 10Y yield rises, Energy & Financials *should* rise



Source: Bloomberg data, Stifel estimates.

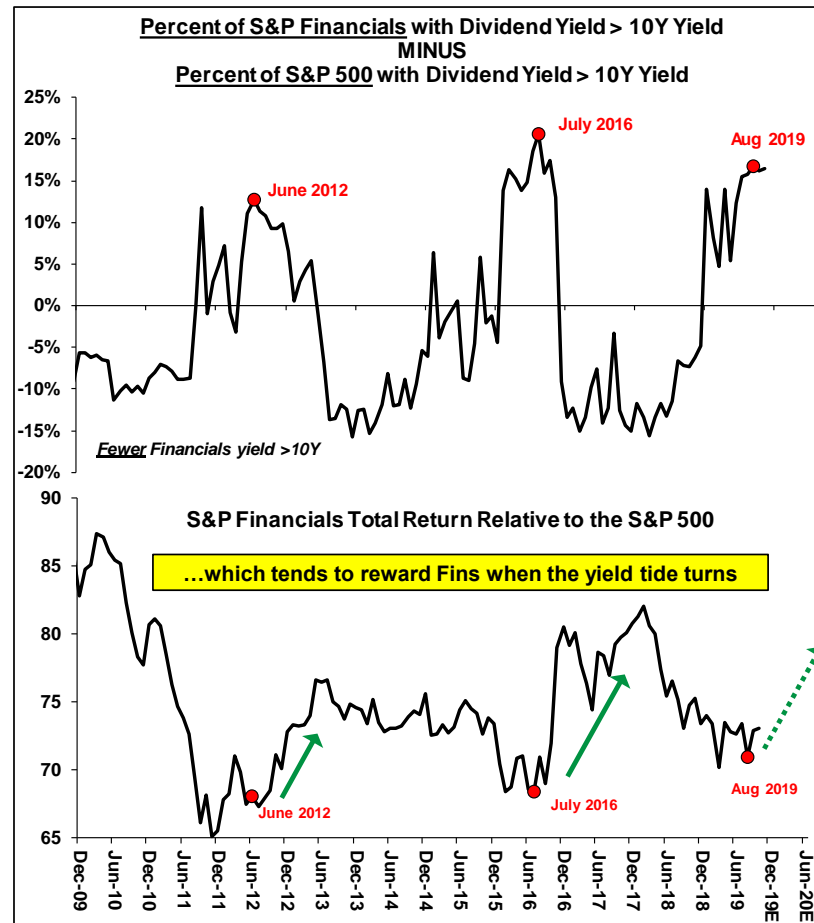
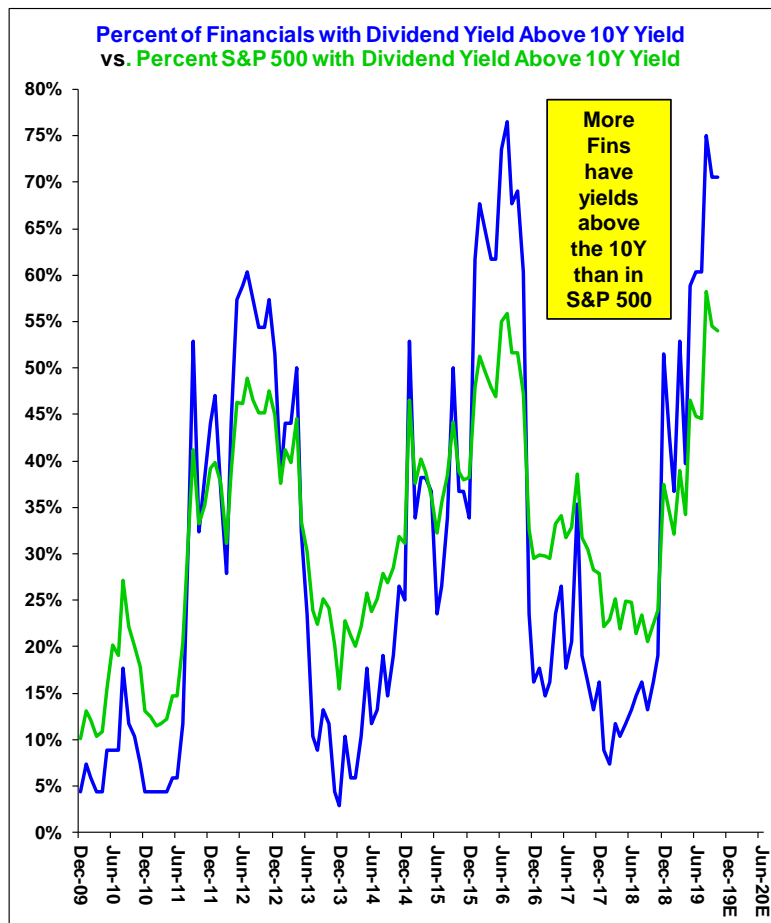


## Oil usually rises when *this many* speculators are “net short” oil contracts



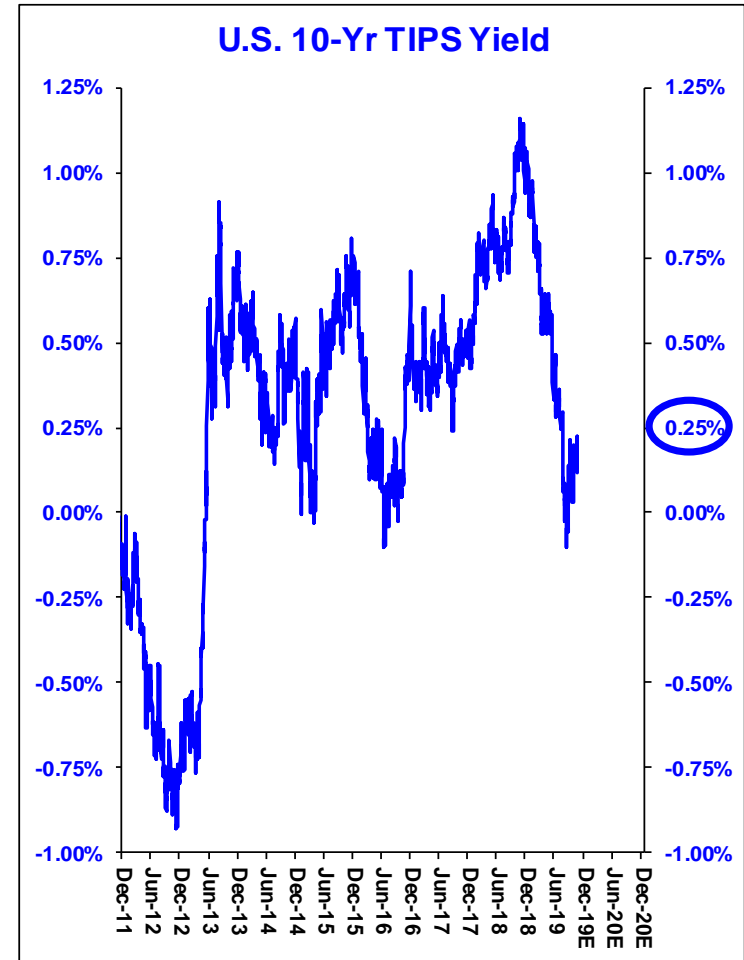
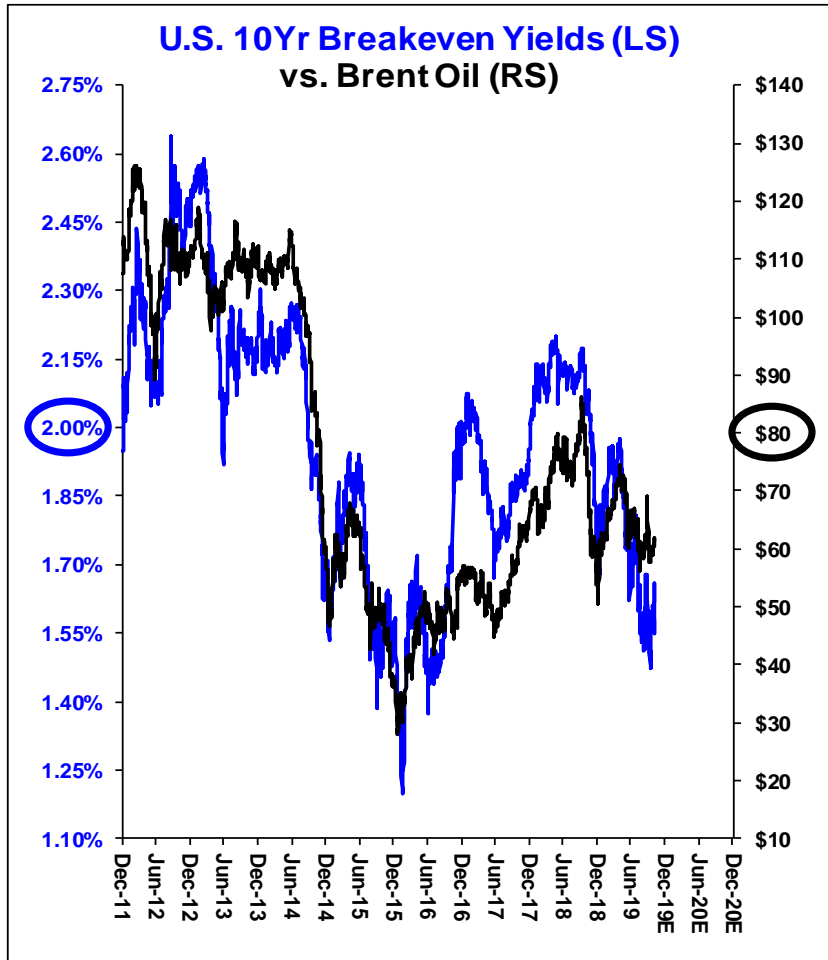
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## As the 10Y yield rises, Financials have greater valuation (yield) protection



Source: Bloomberg data, Stifel estimates.

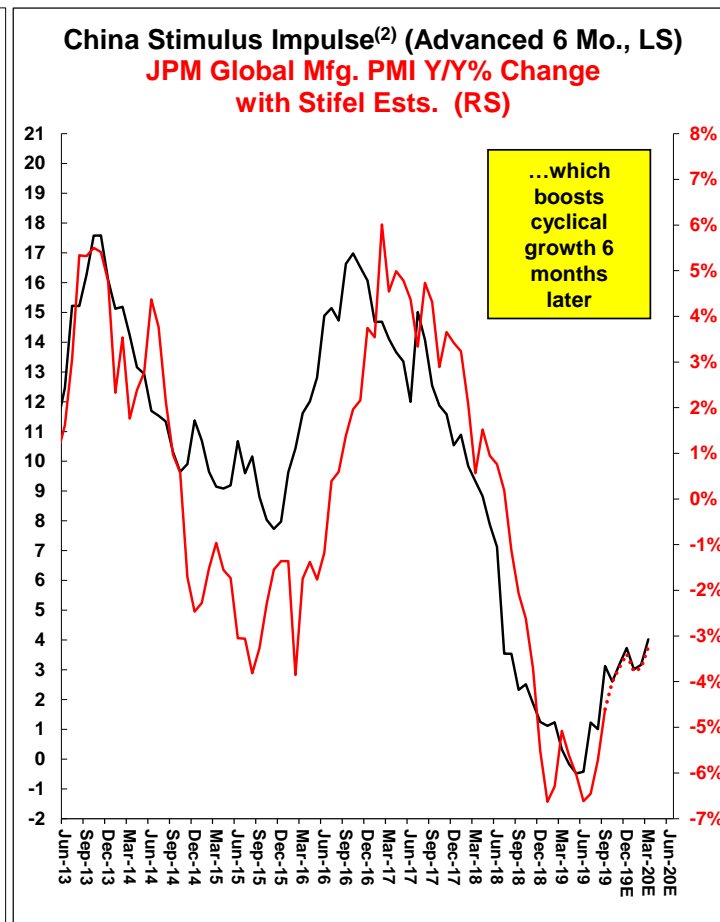
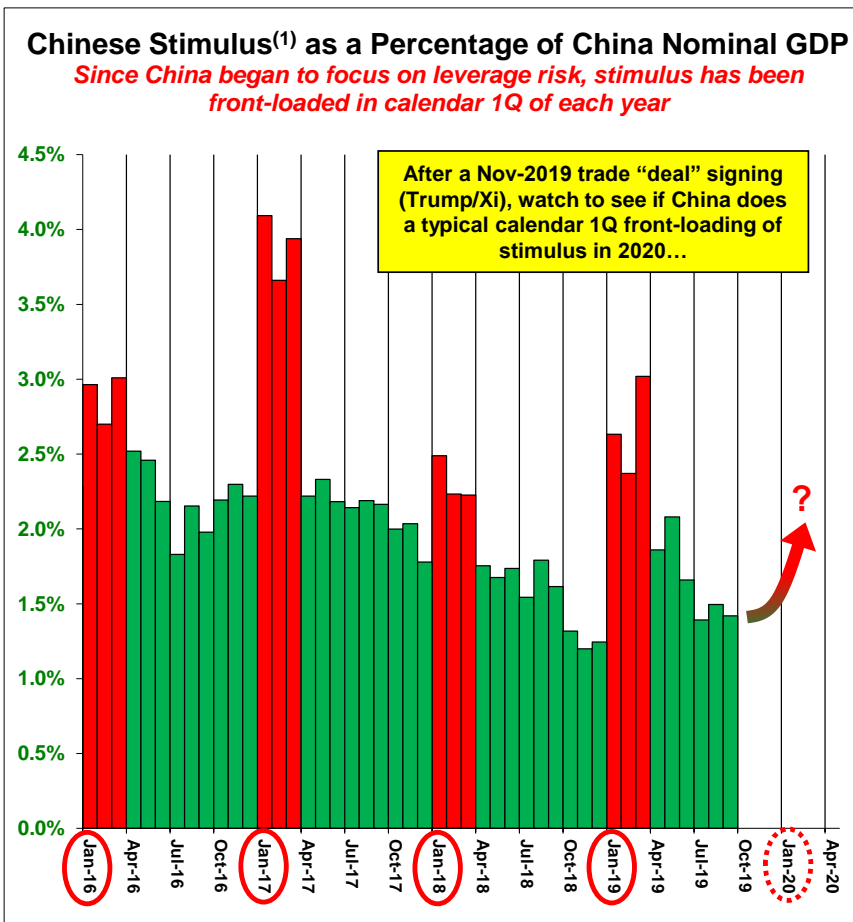
By 2Q20E: we see \$80 Brent, 2% 10Y BE, 0.25% TIPS, so 2.25% 10Y



Source: Bloomberg data, Stifel estimates.



## And...if a trade truce leads China to boost stimulus in 1Q20, that will help



Source: China State Statistics, Bloomberg, Stifel estimates.

- (1) We show the 3-mo. moving average of the m/m change in China stimulus as a percentage of China nominal GDP. Stimulus is: bank & non-bank lending, excluding Special Government Bonds to prevent double-counting and excluding equity issuance plus local government bond issuance (for Local Government Financing Vehicles).
- (2) China stimulus (as defined footnote #1) divided by China nominal GDP, multiplied by 100. The “impulse” is that current month figure divided by same month a year ago.

## Plus, “We’ve got Nov-Apr seasonality going for us...which is nice”

S&P 500 "Seasonality" in the past seven decades					
An initial lump-sum of \$10,000 (no further contributions) invested in 1950 in the S&P 500 has been far more rewarding the 6 months Nov-1 to Apr-30 than in the other 6 months May-1 to Oct-31					
Year	S&P 500 May 1st - Oct. 31st	S&P 500 Nov. 1st - Apr. 30th	Year (Cont.)	S&P 500 May 1st - Oct. 31st	S&P 500 Nov. 1st - Apr. 30th
1950	\$10,000	\$10,000	1986	\$27,658	\$167,792
1951	\$10,571	\$11,875	1987	\$24,512	\$201,441
1952	\$11,447	\$12,433	1988	\$26,668	\$212,551
1953	\$11,769	\$12,824	1989	\$29,836	\$240,142
1954	\$13,546	\$15,171	1990	\$27,935	\$237,298
1955	\$15,428	\$18,562	1991	\$29,686	\$298,100
1956	\$14,810	\$21,626	1992	\$30,418	\$319,882
1957	\$13,569	\$22,119	1993	\$32,798	\$341,010
1958	\$16,348	\$23,865	1994	\$34,875	\$333,092
1959	\$16,598	\$27,196	1995	\$39,918	\$367,961
1960	\$16,586	\$26,157	1996	\$43,543	\$418,603
1961	\$17,696	\$32,508	1997	\$50,147	\$480,204
1962	\$15,624	\$31,367	1998	\$49,942	\$588,211
1963	\$16,837	\$39,393	1999	\$51,308	\$719,513
1964	\$18,260	\$42,961	2000	\$50,780	\$771,281
1965	\$19,239	\$45,802	2001	\$43,367	\$678,213
1966	\$17,249	\$45,837	2002	\$35,985	\$693,874
1967	\$17,503	\$54,642	2003	\$41,607	\$724,943
1968	\$18,836	\$57,714	2004	\$42,840	\$770,419
1969	\$17,957	\$58,757	2005	\$45,096	\$795,678
1970	\$18,704	\$50,151	2006	\$47,853	\$872,376
1971	\$17,224	\$63,633	2007	\$50,479	\$947,389
1972	\$18,111	\$73,791	2008	\$35,698	\$856,101
1973	\$18,636	\$71,752	2009	\$42,852	\$783,094
1974	\$15,625	\$60,945	2010	\$43,169	\$905,752
1975	\$16,270	\$73,729	2011	\$40,099	\$1,053,924
1976	\$16,809	\$85,805	2012	\$40,964	\$1,188,560
1977	\$16,163	\$83,895	2013	\$45,530	\$1,359,996
1978	\$15,961	\$90,364	2014	\$49,272	\$1,473,703
1979	\$16,419	\$101,467	2015	\$49,651	\$1,538,494
1980	\$20,209	\$108,895	2016	\$51,666	\$1,545,170
1981	\$19,049	\$116,181	2017	\$56,367	\$1,750,994
1982	\$22,537	\$114,196	2018	\$58,283	\$1,817,858
1983	\$22,912	\$143,722	2019	\$60,705	\$1,995,368
1984	\$24,350	\$143,841			
1985	\$26,247	\$159,234			

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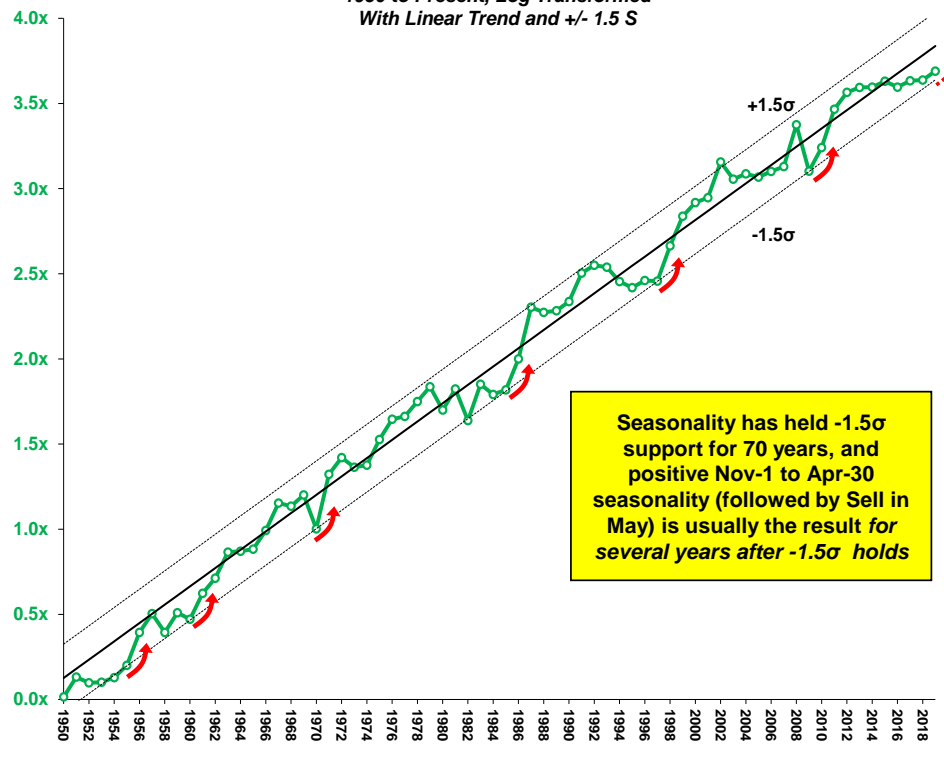
**Nov-1 to Apr-30 return  
cumulatively 33x  
more than May 1 to Oct-31**

### "Sell In May and Go Away" is Cyclical as well as Seasonal

**Strong seasonal period Nov-1 to Apr-30 total return index  
as a multiple of**

**Weak seasonal period May 1 to Oct-31 total return index**

1950 to Present, Log Transformed  
With Linear Trend and +/- 1.5 S



Source: Bloomberg data, Stifel format.

***In our view:***

**We think a recession has been  
*delayed*, but the following are  
the risks to our thesis**

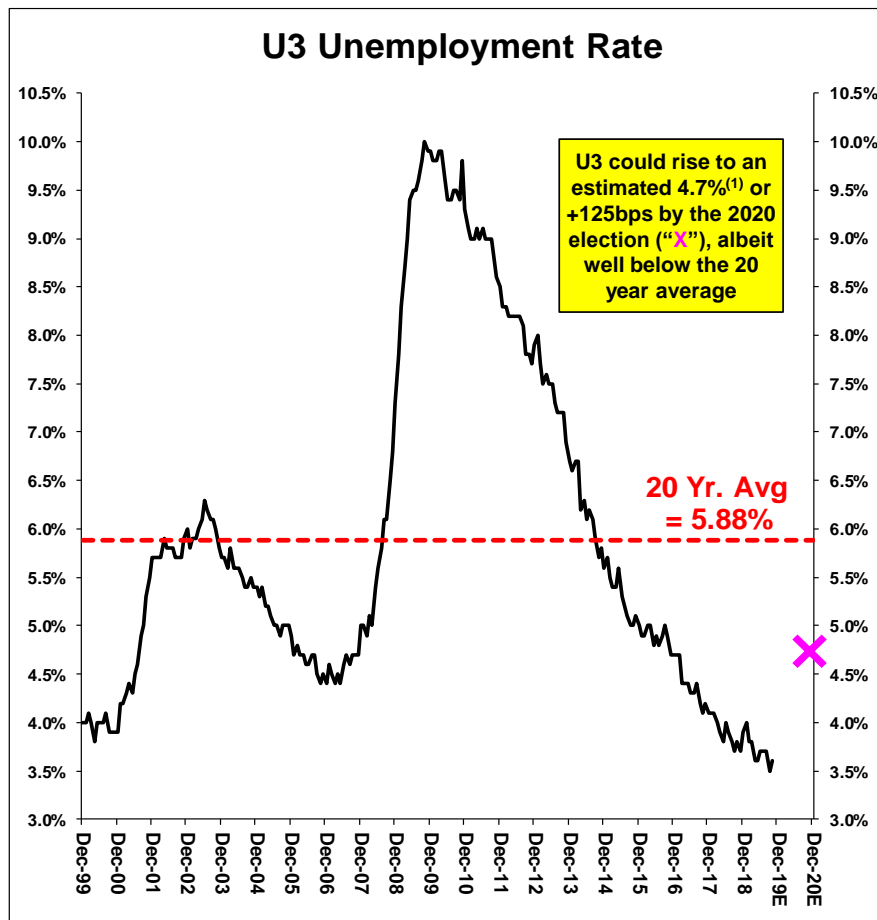
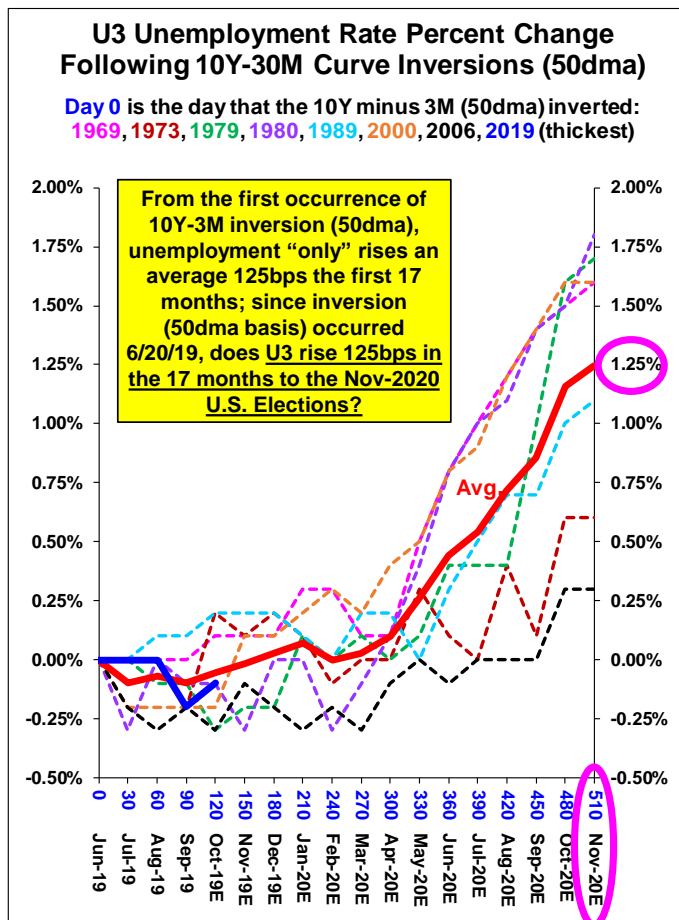
## Fed has backed off from its 4Q18-1H19 error, but is it *too little too late*?



Source: Bloomberg data, Stifel estimates.

- (1) For neutral we use Laubach & Williams (SF & NY Fed, [here](#)) 1-sided estimate (Bloomberg USNREST1), add Core PCE inflation SA y/y% for a neutral nominal rate.
- (2) Atlanta Fed Shadow Fed Funds ([here](#)) shows what fed funds rate *would have been* had 0% not been the floor amid QE and Zero Interest Rate Policy (ZIRP) 2009-15.
- (3) The intra-day S&P 500 high was 2,940.91 on Sep-21, 2018 and the intra-day low was 2,346.58 on Dec-26, 2018, a decline of (20.21%).

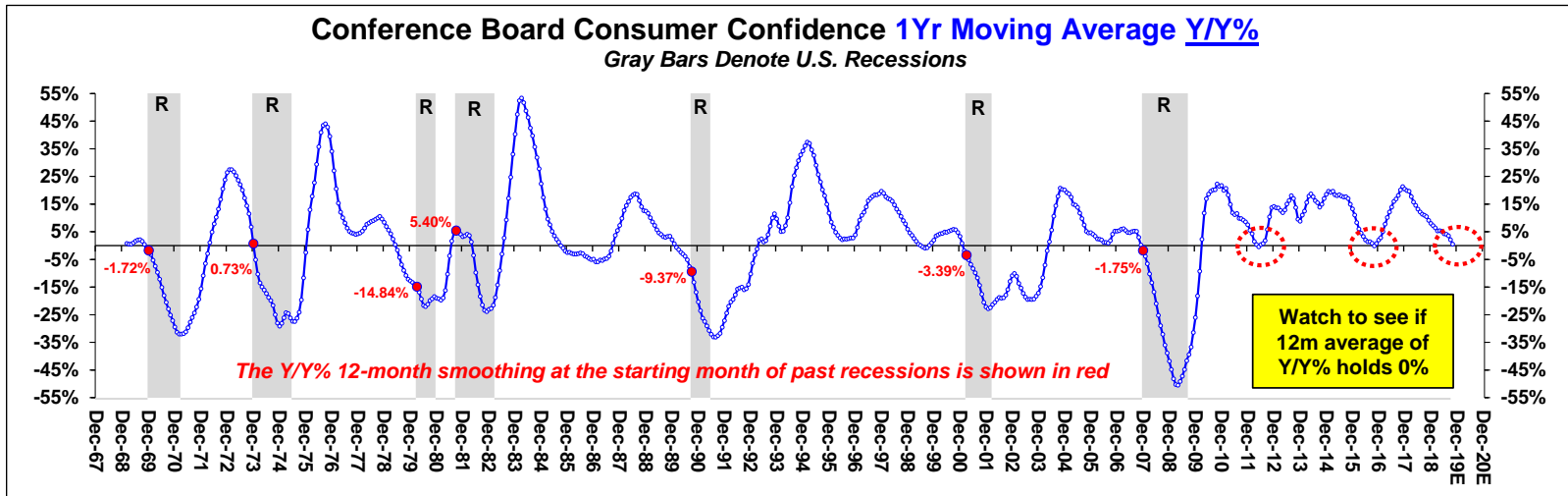
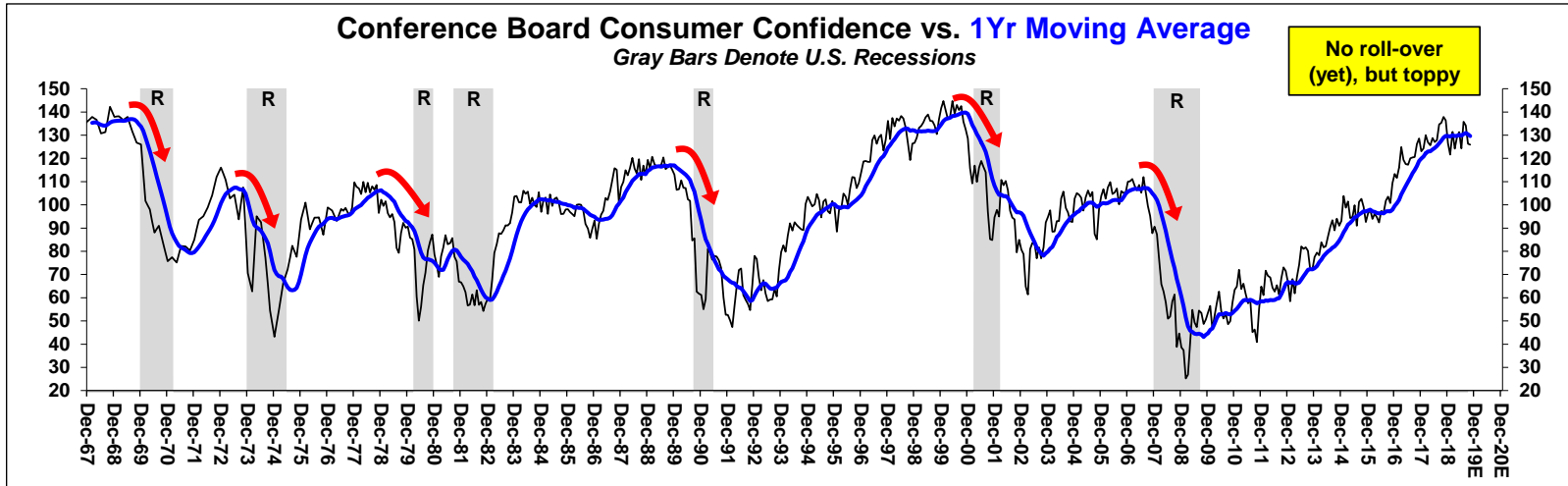
## Why the trade war cease fire? Rising unemployment risk by Nov-2020



Source: Bloomberg data, Stifel estimates.

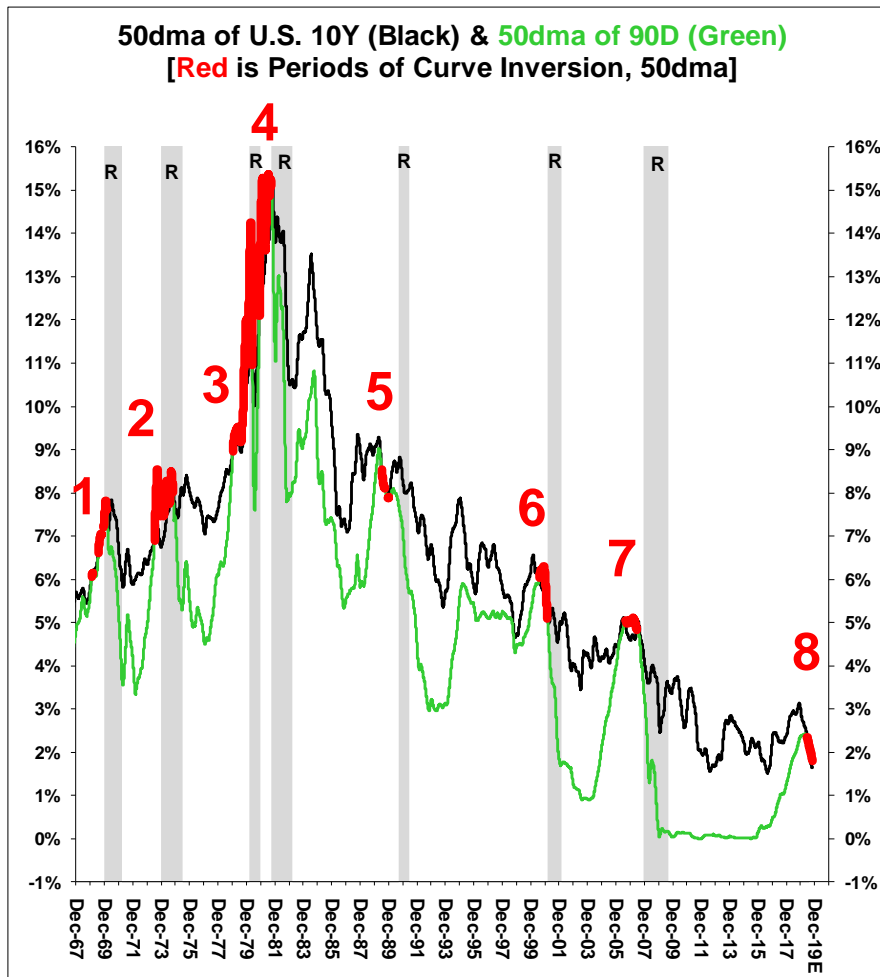
(1) In the seven recessions since 1968, from the day the 50dma of the 10Y minus 3M yield curve inverts until the day that a recession begins, the U3 unemployment rate has increased an average of 0.2% in that period. We add 0.2% to the current U3 of 3.5% and a further 1% for the period May 2020 (yield curve-based recession start date) until the Nov-2020 election (see left chart) and derive a possible 4.7% U3 on the day of the 2020 election (right chart, "X"), which is far below the 20 year average.

## Consumer is key to U.S. GDP and is OK for now, but can't get better?



Source: Stifel.

## Wall of Worry: Inversion (50dma) points to a recession May-2020 +/- 4 mos.

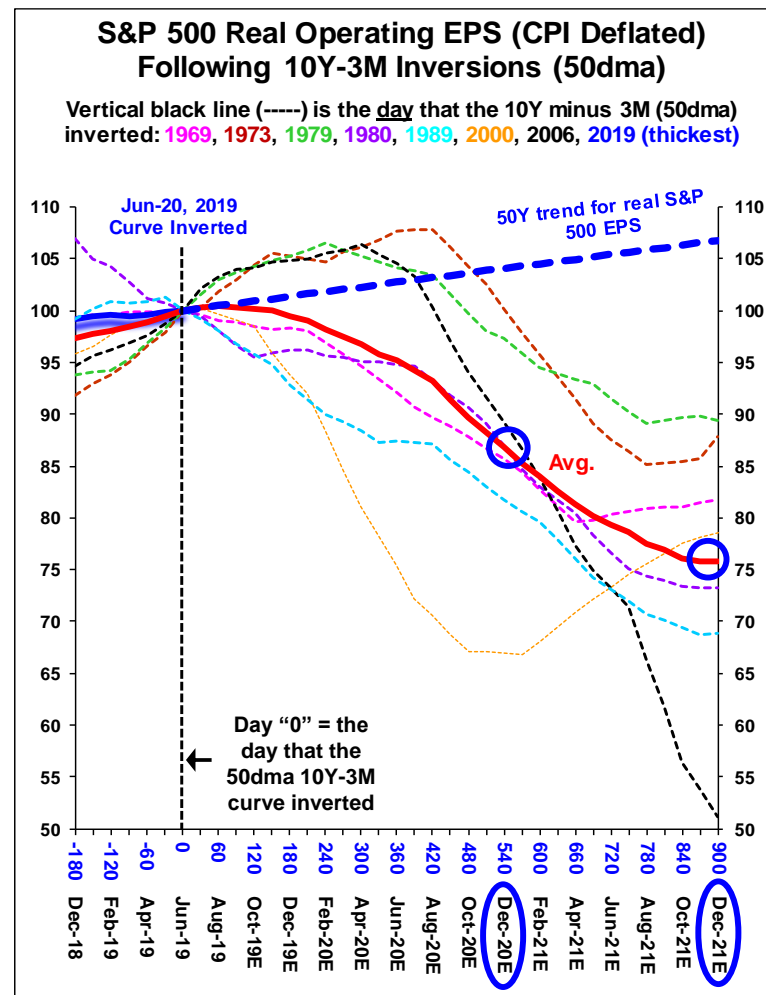
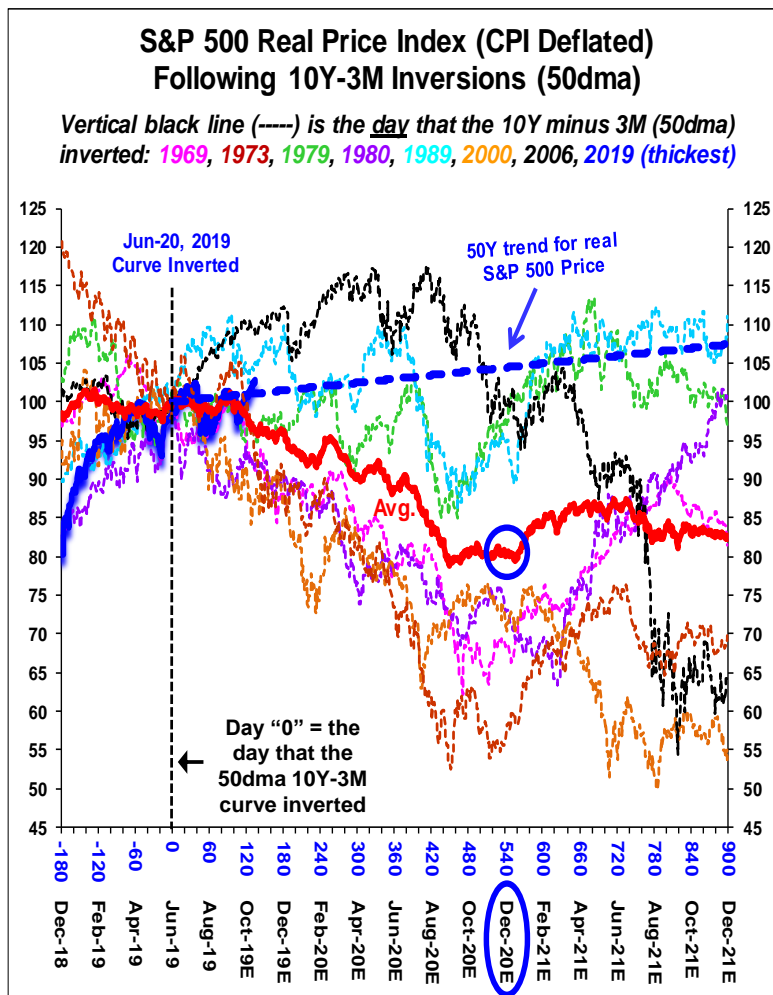


Source: Stifel.

			(50dma)
	1st 10Y-3M Inversion (50dma)	Recession Starts (NBER)	leads recession (days)
1	10-Feb-69	31-Dec-69	-324
2	10-Jul-73	30-Nov-73	-143
3	16-Jan-79	31-Jan-80	-380
4	28-Nov-80	31-Jul-81	-245
5	07-Jul-89	31-Jul-90	-389
6	14-Aug-00	31-Mar-01	-229
7	24-Aug-06	31-Dec-07	-494
8	20-Jun-19	May 2020E	-315 avg.

**The 10Y-3M yield curve (50dma) indicates a recession begins early May 2020 +/- 4 months (at +/- 1σ)**

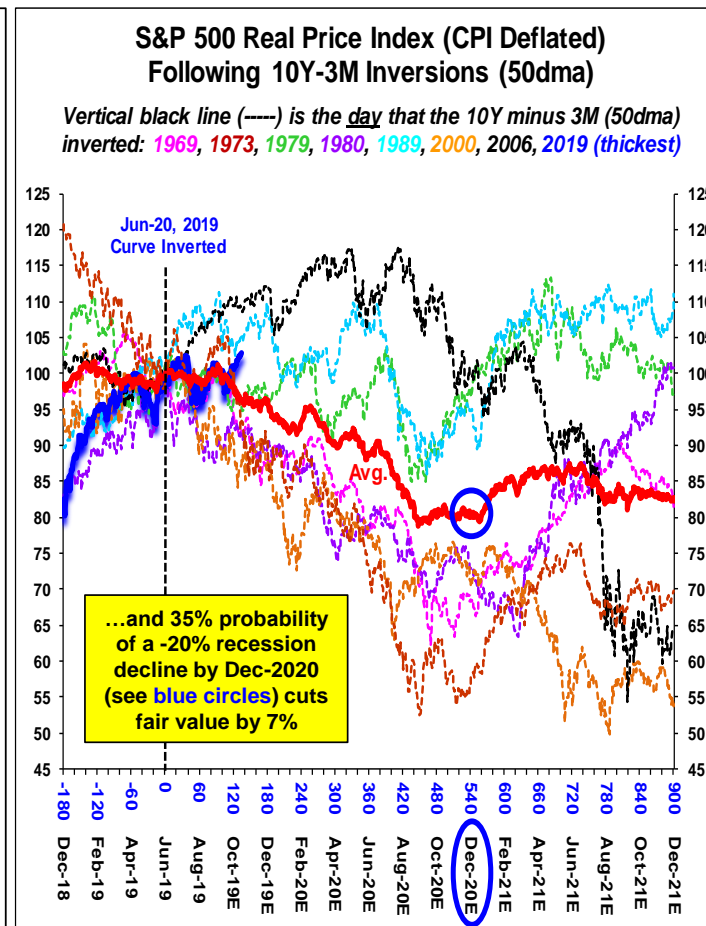
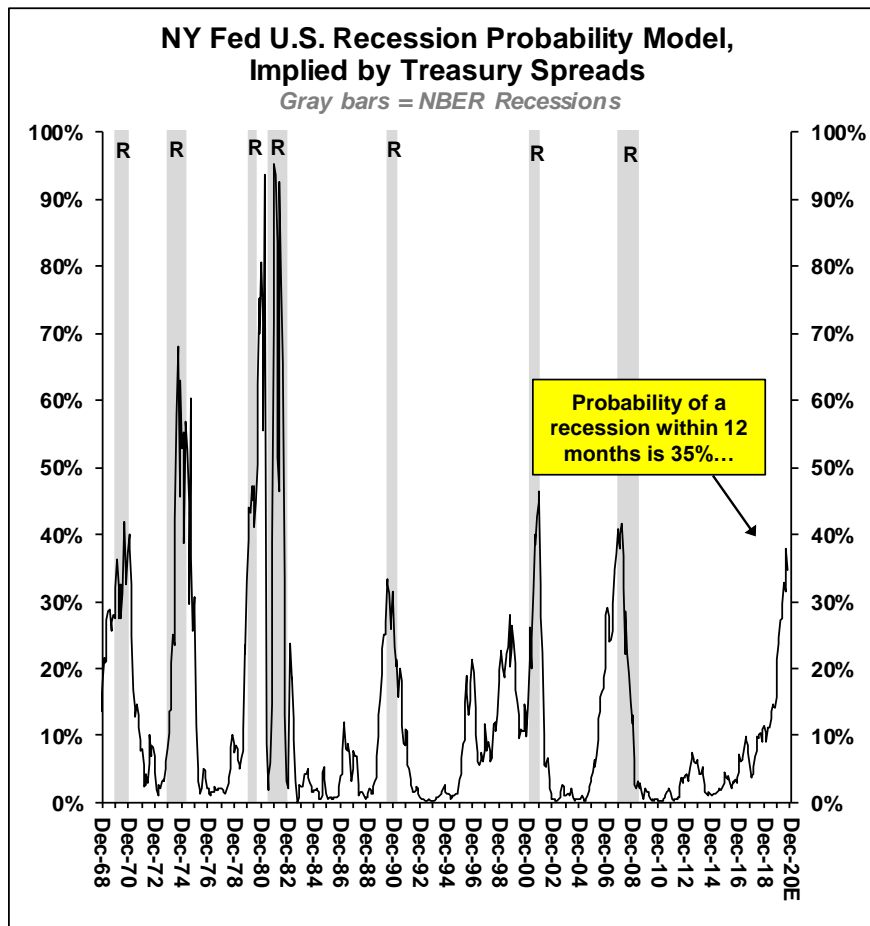
## After past 10Y/3M (50dma) inversions, stocks fell *first*, then EPS fell *longer*



Source: Stifel.



## The risk<sup>(1)</sup> of a recession within a year may be shaving 7% off the S&P 500



Source: Bloomberg data, Stifel estimates.

(1) Federal Reserve Bank of New York [\(link\)](#).

## History says Oct-2019 is the *do-or-die* month that decides recession risk

The recession risk is May 2020 based on a 50dma of the yield curve...

...and the S&P 500 leads by 6½ months (so that implies risk peaks ~Oct-2019E)

Recessions After 10Y-3M Yield Curve Inversion (50dma of Inversion)			
<p>"DATE OF INVERSION" refers to the date the <u>50dma</u> of 10Y minus 3M yield curve <u>first</u> inverted</p>	Official (NBER) start date* of Recession following inversion	Months from 50dma of 10Y-3M inversion to Recession start	
	10-Feb-69	Dec-69	10.7 mos.
	10-Jul-73	Nov-73	4.7 mos.
	16-Jan-79	Jan-80	12.5 mos.
	28-Nov-80	Jul-81	8.1 mos.
	07-Jul-89	Jul-90	12.8 mos.
	14-Aug-00	Mar-01	7.5 mos.
	24-Aug-06	Dec-07	16.2 mos.
	20-Jun-19	May-20E	10.5 mos.
		<b>Mean</b>	<b>10.4 mos.</b>
	<b>Median</b>	<b>10.7 mos.</b>	

**Jun-20, 2019 was the 50dma 10Y/3M inversion, so adding 10.5 months is a possible May 2020 recession, and since the S&P 500 leads recessions by 6½ months (table, right), risk peaks around Oct-2019**

\* NBER data for the peak and trough of the U.S. business cycle (i.e., the recession dates) is given as the end of the month (e.g., Jan-31, 1980 in the table above).

S&P 500 Price Movement prior to U.S. NBER Recessions					
S&P 500 After Mar-4, 1957, prior was S&P Composite					
Immediate** Pre-Recession S&P 500 Peak Date	S&P 500 Trough Date	S&P 500 Peak to Trough %	NBER U.S. Business Cycle Peak Date	NBER Business Cycle Trough Date	Immediate** Pre-Recession Peak <u>Before</u> the Business Cycle Peak
29-Nov-68	26-May-70	-36.1%	31-Dec-69	30-Nov-70	-13.1 mos.
11-Jan-73	3-Oct-74	-48.2%	30-Nov-73	31-Mar-75	-10.6 mos.
13-Feb-80	27-Mar-80	-17.1%	31-Jan-80	31-Jul-80	0.4 mos.
28-Nov-80	12-Aug-82	-27.1%	31-Jul-81	30-Nov-82	-8.1 mos.
16-Jul-90	11-Oct-90	-19.9%	31-Jul-90	31-Mar-91	-0.5 mos.
1-Sep-00	9-Oct-02	-48.9%	31-Mar-01	30-Nov-01	-6.9 mos.
9-Oct-07	9-Mar-09	-56.8%	31-Dec-07	30-Jun-09	-2.7 mos.
Average Decline		-36.3%	Average Lead Time		-5.9 mos.
Median Decline		-36.1%	Median Lead Time		-6.9 mos.

\*\* The "Immediate Pre-Recession" peak price has not necessarily been the highest price in the year before the starting date for a U.S. recession, but rather the point of S&P 500 price roll-over at which a recession began to be discounted in equities and a decline of 15+% (rounded) began. For example, on 9/1/2000 the S&P 500 closing price was 1,520.77 but that was not the high in the year before the Mar-2001 recession (which was the 3/24/2000 close of 1,527.46). Our view is that the market decline *reflective of* impending recession occurred closer to the event, which was the the 9/1/2000 price after which the S&P 500 rolled over.

Source: Bloomberg data, [NBER Recession Dates](#), Stifel estimates.

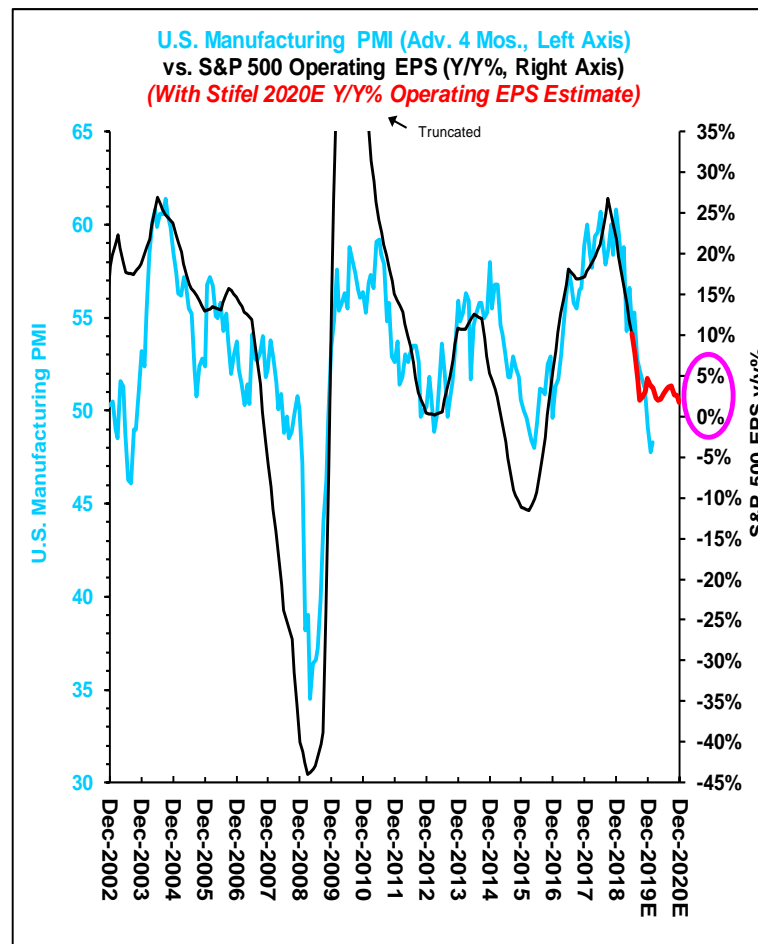
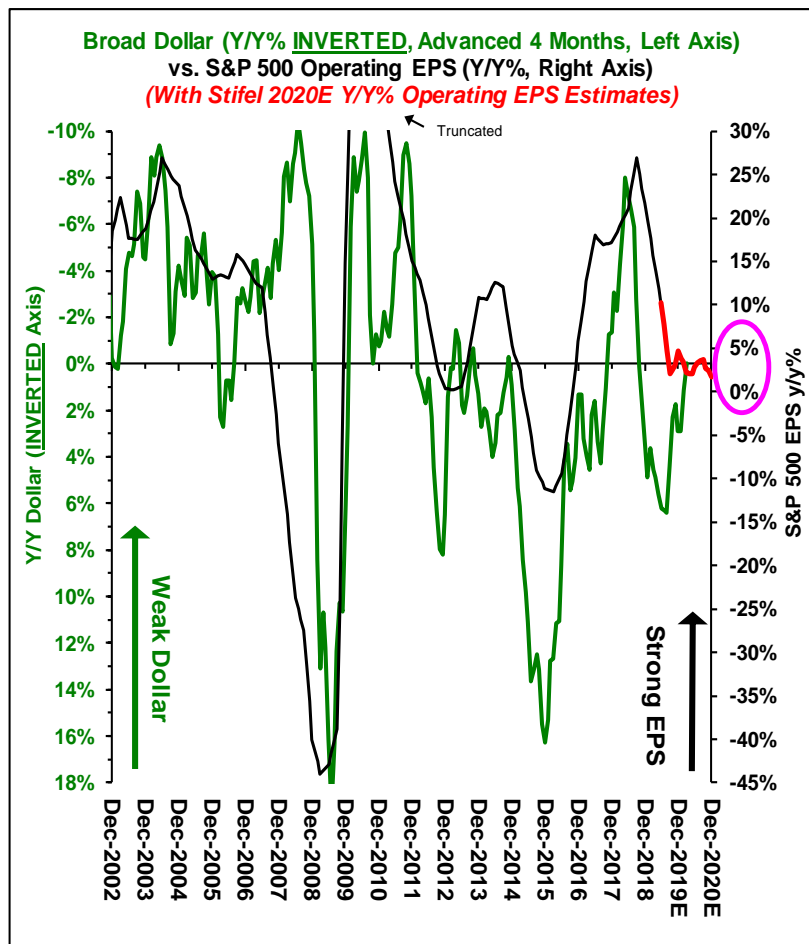
## Appendices

- 1. We see weak EPS growth in 2019 carrying over to 2020, but that shouldn't preclude a Cyclical rotation [28-34]**
- 2. In the next decade, we see Active management beating Passive (but few pensions will hit their goals) [35-40]**

***In our view:***

**(1) We see weak EPS growth in 2019  
carrying over to 2020, but that  
shouldn't preclude a Cyclical rotation**

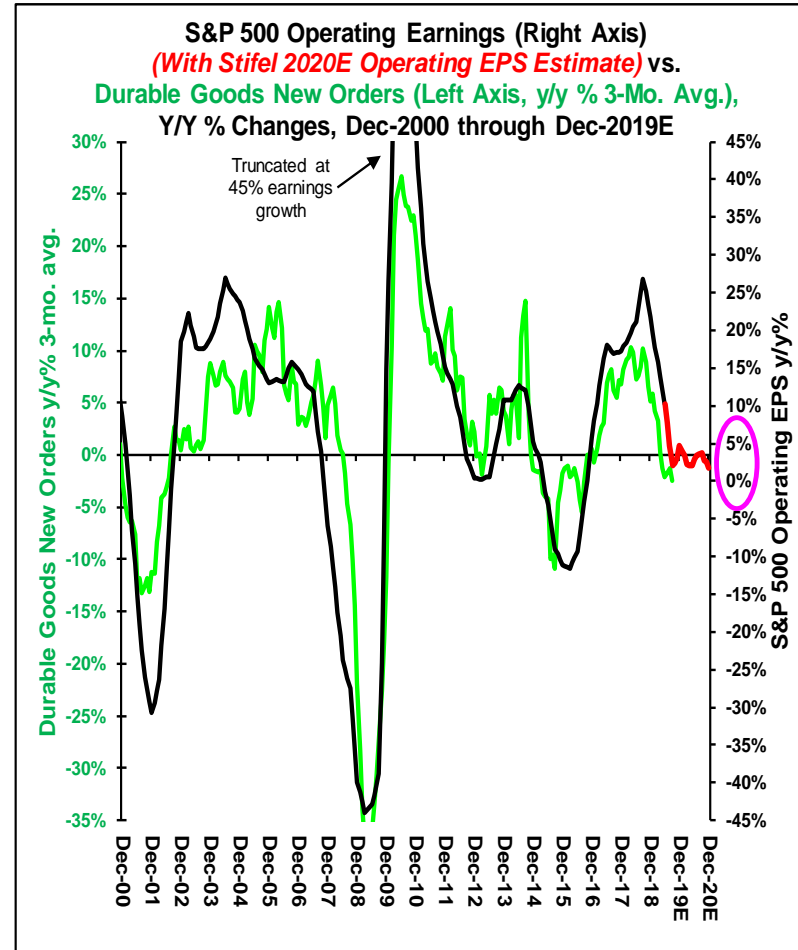
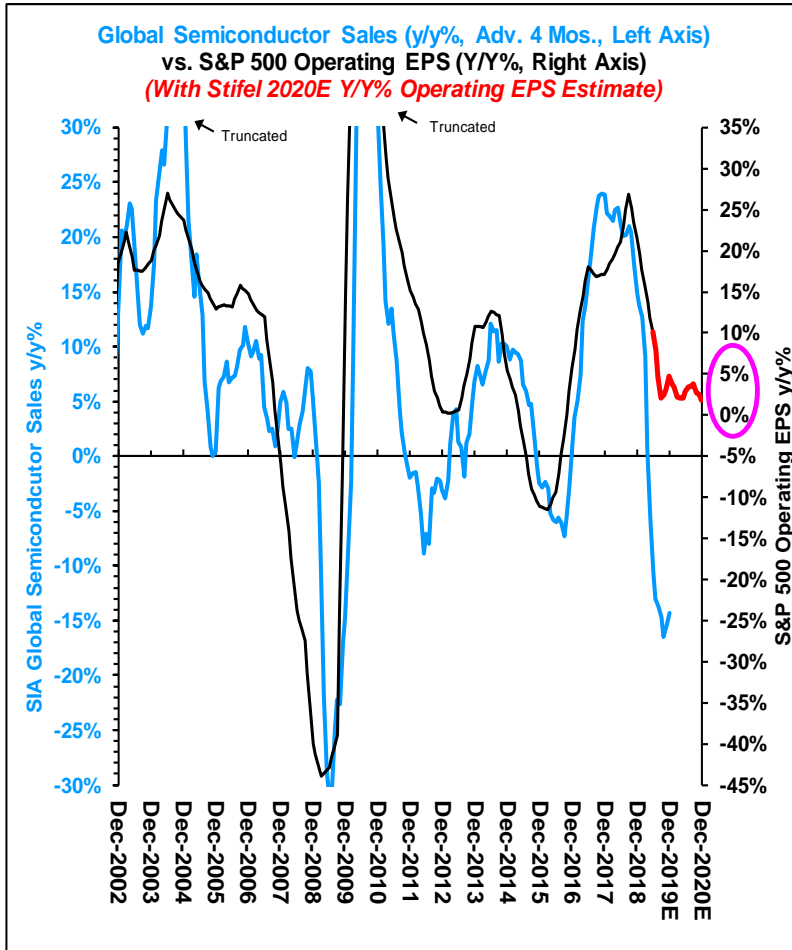
## A weaker dollar<sup>(1)</sup> and bottoming Manufacturing PMI would help EPS



Source: Bloomberg data, S&P Dow Jones Data, Stifel estimates.

(1) The Broad Dollar [Bloomberg USTWBGD] is 51% [weighted](#) EM currencies, so tightening global dollar liquidity adversely affects dollar-denominated debts abroad.

## We need to see a y/y bottom for cap goods, both short-cycle & long-cycle



Source: Bloomberg data, Stifel estimates.

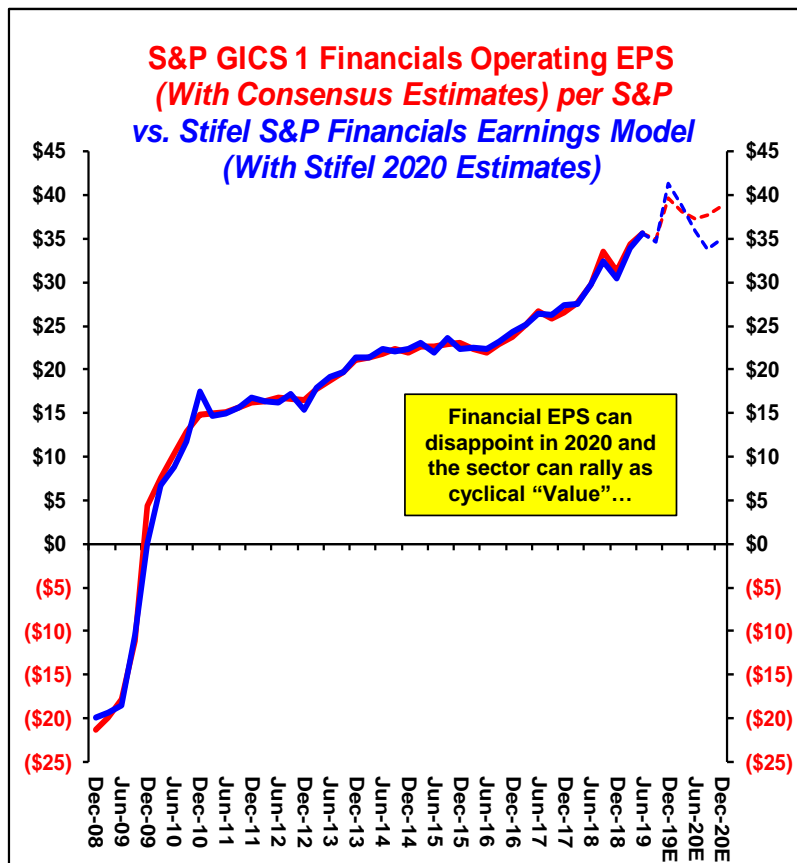
## Healthcare & Financial EPS are the largest outliers vs. Street in our model<sup>(1)</sup>

Name	Ticker	(SORT) Wgt. Of Sector EPS in S&P 500	Stifel EPS		S&P Consensus		\$EPS Effect	
			2019E	2020E	2019E	2020E	2019E	2020E
<b>S&amp;P 500</b>	<b>SPX</b>		<b>\$158.75</b>	<b>\$161.54</b>	<b>\$159.20</b>	<b>\$177.55</b>	<b>(\$0.45)</b>	<b>(\$16.01)</b>
<b>GICS 1 Information Technology</b>	<b>S5INFT</b>	<b>20.3%</b>	<b>\$64.46</b>	<b>\$72.96</b>	<b>\$65.10</b>	<b>\$75.03</b>	<b>(\$0.22)</b>	<b>(\$1.59)</b>
<i>GICS 2 Software</i>	<i>S5SFTW</i>	8.3%	\$73.35	\$78.78	\$77.05	\$91.04	(\$0.50)	(\$3.42)
<i>GICS 2 Tech Hardware</i>	<i>S5TECH</i>	6.9%	\$72.78	\$81.74	\$72.17	\$84.44	\$0.07	(\$0.63)
<i>GICS 2 Semiconductors</i>	<i>S5SSEQX</i>	5.2%	\$66.36	\$83.76	\$63.84	\$69.75	\$0.21	\$2.45
<b>GICS 1 Financials</b>	<b>S5FINL</b>	<b>17.1%</b>	<b>\$41.37</b>	<b>\$34.87</b>	<b>\$39.66</b>	<b>\$38.64</b>	<b>\$0.49</b>	<b>(\$2.44)</b>
<i>GICS 2 Banks</i>	<i>S5BANKX</i>	10.0%	\$33.84	\$31.92	\$30.25	\$31.54	\$0.61	\$0.15
<i>GICS 2 Diversified Financials</i>	<i>S5DIVF</i>	3.8%	\$44.84	\$41.59	\$44.74	\$47.74	\$0.01	(\$0.93)
<i>GICS 2 Insurance</i>	<i>S5INSU</i>	3.3%	\$31.49	\$23.47	\$33.70	\$36.23	(\$0.12)	(\$1.67)
<b>GICS 1 Healthcare</b>	<b>S5HLTH</b>	<b>14.2%</b>	<b>\$55.58</b>	<b>\$60.55</b>	<b>\$60.17</b>	<b>\$73.62</b>	<b>(\$1.09)</b>	<b>(\$7.04)</b>
<i>GICS 2 Pharm, Biotech, &amp; Life Sciences</i>	<i>S5PHRM</i>	8.2%	\$46.98	\$49.63	\$53.08	\$63.51	(\$0.91)	(\$4.53)
<i>GICS 2 Health Care Equip. &amp; Srvc</i>	<i>S5HCES</i>	6.0%	\$59.68	\$64.51	\$61.41	\$75.04	(\$0.19)	(\$2.51)
<b>GICS 1 Industrials</b>	<b>S5INDU</b>	<b>10.5%</b>	<b>\$37.75</b>	<b>\$37.78</b>	<b>\$36.60</b>	<b>\$41.58</b>	<b>\$0.20</b>	<b>(\$1.51)</b>
<i>GICS 2 Capital Goods</i>	<i>S5CPGS</i>	7.3%	\$36.43	\$37.97	\$35.24	\$42.93	\$0.14	(\$1.25)
<i>GICS 2 Transportation</i>	<i>S5TRAN</i>	2.7%	\$55.16	\$54.27	\$53.77	\$57.16	\$0.06	(\$0.27)
<i>GICS 2 Commercial &amp; Professional Srvc.</i>	<i>S5COMS</i>	0.5%	\$12.93	\$13.81	\$12.32	\$13.71	\$0.00	\$0.00
<b>GICS 1 Consumer Discretionary</b>	<b>S5COND</b>	<b>8.8%</b>	<b>\$38.66</b>	<b>\$38.30</b>	<b>\$39.22</b>	<b>\$45.07</b>	<b>(\$0.08)</b>	<b>(\$2.26)</b>
<i>GICS 2 Retail</i>	<i>S5RETL</i>	4.4%	\$75.79	\$77.26	\$81.62	\$95.78	(\$0.09)	(\$1.83)
<i>GICS 2 Consumer Services</i>	<i>S5HOTR</i>	1.6%	\$49.16	\$50.95	\$51.90	\$59.97	(\$0.01)	(\$0.32)
<i>GICS 2 Automobiles &amp; Components</i>	<i>S5AUCO</i>	1.4%	\$16.20	\$14.32	\$13.56	\$16.45	\$0.01	(\$0.07)
<i>GICS 2 Consumer Durables &amp; Apparel</i>	<i>S5CODU</i>	1.4%	\$19.81	\$19.79	\$18.92	\$21.10	\$0.00	(\$0.04)
<b>GICS 1 Communication Srvc.</b>	<b>S5TELS</b>	<b>8.6%</b>	<b>\$8.81</b>	<b>\$9.80</b>	<b>\$8.81</b>	<b>\$9.80</b>	<b>\$0.00</b>	<b>\$0.00</b>
<b>GICS 1 Consumer Staples</b>	<b>S5CONS</b>	<b>6.9%</b>	<b>\$29.96</b>	<b>\$31.40</b>	<b>\$29.86</b>	<b>\$32.14</b>	<b>\$0.01</b>	<b>(\$0.19)</b>
<b>GICS 1 Energy</b>	<b>S5ENRS</b>	<b>6.1%</b>	<b>\$20.18</b>	<b>\$18.69</b>	<b>\$18.09</b>	<b>\$21.33</b>	<b>\$0.21</b>	<b>(\$0.61)</b>
<b>GICS 1 Utilities</b>	<b>S5UTIL</b>	<b>3.1%</b>	<b>\$14.40</b>	<b>\$14.61</b>	<b>\$15.68</b>	<b>\$16.71</b>	<b>(\$0.07)</b>	<b>(\$0.25)</b>
<b>GICS 1 Materials</b>	<b>S5MATR</b>	<b>2.8%</b>	<b>\$19.55</b>	<b>\$19.26</b>	<b>\$18.09</b>	<b>\$21.33</b>	<b>\$0.07</b>	<b>(\$0.22)</b>
<b>GICS 1 Real Estate</b>	<b>S5RLST</b>	<b>1.6%</b>	<b>\$7.39</b>	<b>\$7.58</b>	<b>\$6.58</b>	<b>\$5.63</b>	<b>\$0.02</b>	<b>\$0.12</b>

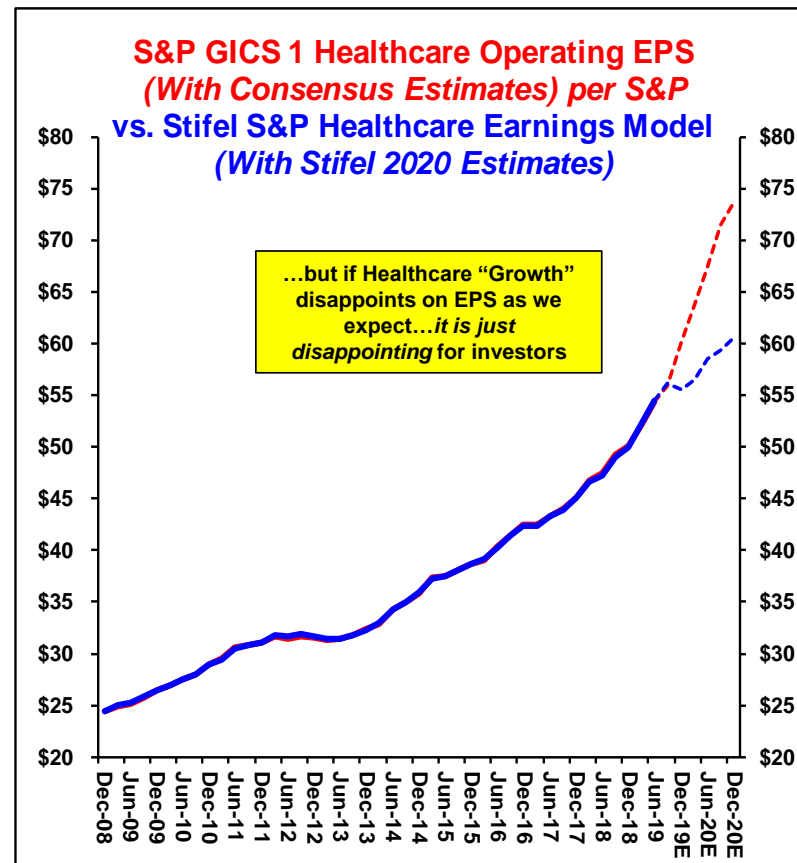
Source: Bloomberg data, S&P data, Stifel estimates.

(1) Our S&P 500 EPS model uses economic factors that correlate with S&P Operating EPS for S&P industries, which we consolidate into an EPS estimate with divisors.

## Oddity of Cyclical vs. Growth: the former can disappoint, the latter cannot



- Some major factors include:
- ISM PMI
  - Conference Board Leading Economic Indicators
  - Goldman Sachs Financial Conditions Index
  - U.S. PCE<sup>(1)</sup> Financial Services



- Some major factors include:
- Retail Sales Drugs
  - U.S. PCE<sup>(1)</sup> Pharmaceuticals
  - U.S. PCE<sup>(1)</sup> Health Care Services

Source: Bloomberg data, S&P Dow Jones Data, Stifel estimates.

(1) PCE is Personal Consumption Expenditures. Health care PCE includes government & insurance expenditures on behalf of individuals (not just out-of-pocket spending).



## Major S&P 500 stocks in the 12 reflation industries (green, see pg. 7)

Rank	Name	Ticker	TTM Rel. Ret.	Mkt Cap.	Rank	Name	Ticker	TTM Rel. Ret.	Mkt Cap.
1	<i>S&amp;P 500 DIV FINANCIAL IX</i>	<i>S5DIVF Index</i>	-4.37%	\$1,234,119	7	<i>S&amp;P 500 SFTW &amp; SVCS INDX</i>	<i>S5SFTW Index</i>	13.58%	\$3,158,778
	BERKSHIRE HATH-B	BRK/B Equity	-9.87%	\$524,445		MICROSOFT CORP	MSFT Equity	23.94%	\$1,095,611
	AMERICAN EXPRESS	AXP Equity	1.57%	\$96,793		VISA INC-CLASS A	V Equity	15.07%	\$355,952
	GOLDMAN SACHS GP	GS Equity	-16.90%	\$80,764		MASTERCARD INC-A	MA Equity	26.72%	\$281,544
2	<i>S&amp;P 500 BANKS INDEX</i>	<i>S5BANKX Index</i>	-1.54%	\$1,442,036	8	<i>S&amp;P 500 HC EQUIP&amp;SVC IDX</i>	<i>S5HCES Index</i>	-3.77%	\$1,642,651
	JPMORGAN CHASE	JPM Equity	5.62%	\$403,491		UNITEDHEALTH GRP	UNH Equity	-14.84%	\$240,815
	BANK OF AMERICA	BAC Equity	1.73%	\$282,536		ABBOTT LABS	ABT Equity	7.92%	\$148,515
	WELLS FARGO & CO	WFC Equity	-12.98%	\$221,989		MEDTRONIC PLC	MDT Equity	8.16%	\$146,618
3	<i>S&amp;P 500 TECH HW &amp; EQP IX</i>	<i>S5TECH Index</i>	-2.30%	\$1,604,182	9	<i>S&amp;P 500 MATERIALS INDEX</i>	<i>S5MATRX Index</i>	-2.40%	\$693,289
	APPLE INC	AAPL Equity	0.87%	\$1,114,815		LINDE PLC	LIN Equity	11.66%	\$107,707
	CISCO SYSTEMS	CSCO Equity	-8.09%	\$199,163		ECOLAB INC	ECL Equity	14.04%	\$55,597
	TE CONNECTIVITY	TEL Equity	5.69%	\$30,272		SHERWIN-WILLIAMS	SHW Equity	32.32%	\$53,165
4	<i>S&amp;P 500 TRANSPN INDEX</i>	<i>S5TRAN Index</i>	-8.71%	\$497,534	10	<i>S&amp;P 500 ENERGY INDEX</i>	<i>S5ENRSX Index</i>	-24.66%	\$1,100,350
	UNION PAC CORP	UNP Equity	2.50%	\$116,285		EXXON MOBIL CORP	XOM Equity	-24.58%	\$291,185
	UNITED PARCEL-B	UPS Equity	-1.70%	\$99,859		CHEVRON CORP	CVX Equity	-6.06%	\$218,565
	CSX CORP	CSX Equity	-10.84%	\$55,319		CONOCOPHILLIPS	COP Equity	-31.74%	\$61,271
5	<i>S&amp;P 500 SEMI &amp; SEMI EQP</i>	<i>S5SSEQX Index</i>	10.60%	\$1,024,917	11	<i>S&amp;P 500 CAPITAL GDS IDX</i>	<i>S5CPGS Index</i>	1.62%	\$1,711,899
	INTEL CORP	INTC Equity	5.99%	\$244,949		BOEING CO/THE	BA Equity	-17.64%	\$192,295
	TEXAS INSTRUMENT	TXN Equity	11.12%	\$110,864		HONEYWELL INTL	HON Equity	9.60%	\$124,736
	NVIDIA CORP	NVDA Equity	-21.32%	\$122,324		UNITED TECH CORP	UTX Equity	2.30%	\$124,975
6	<i>S&amp;P 500 RETAILING INDEX</i>	<i>S5RETL Index</i>	-0.51%	\$1,790,902	12	<i>S&amp;P 500 AUTO &amp; COMP IDX</i>	<i>S5AUCO Index</i>	-8.10%	\$124,110
	AMAZON.COM INC	AMZN Equity	-6.28%	\$887,822		GENERAL MOTORS C	GM Equity	-7.21%	\$53,308
	HOME DEPOT INC	HD Equity	20.21%	\$257,985		FORD MOTOR CO	F Equity	-14.30%	\$34,376
	LOWE'S COS INC	LOW Equity	2.07%	\$85,438		APTIV PLC	APT Equity	4.37%	\$23,104

Source: Bloomberg data.

## Major S&P 500 stocks in the 12 deflation industries (red, see pg. 7)

Rank	Name	Ticker	TTM Rel. Ret.	Mkt Cap.	Rank	Name	Ticker	TTM Rel. Ret.	Mkt Cap.
<b>13</b>	<b>S&amp;P 500 CONS SRV IDX</b>	<b>S5HOTR Index</b>	<b>5.73%</b>	<b>\$522,643</b>	<b>19</b>	<b>S&amp;P 500 FOOD/STPL RETAIL</b>	<b>S5FDSR Index</b>	<b>-1.87%</b>	<b>\$573,687</b>
	MCDONALDS CORP	MCD Equity	0.93%	\$148,821		WALMART INC	WMT Equity	5.48%	\$334,118
	STARBUCKS CORP	SBUX Equity	31.46%	\$100,033		COSTCO WHOLESALE	COST Equity	17.07%	\$130,512
	LAS VEGAS SANDS	LVS Equity	0.83%	\$47,649		WALGREENS BOOTS	WBA Equity	-42.26%	\$49,572
<b>14</b>	<b>S&amp;P 500 INSURANCE INDEX</b>	<b>S5INSU Index</b>	<b>4.32%</b>	<b>\$596,645</b>	<b>20</b>	<b>S&amp;P 500 FD BEV &amp; TOB IDX</b>	<b>S5FDBT Index</b>	<b>-6.80%</b>	<b>\$1,057,092</b>
	CHUBB LTD	CB Equity	9.97%	\$68,950		COCA-COLA CO/THE	KO Equity	4.13%	\$233,676
	MARSH & MCLENNAN	MMC Equity	11.60%	\$52,536		PEPSICO INC	PEP Equity	13.47%	\$192,028
	AMERICAN INTERNA	AIG Equity	11.24%	\$45,622		PHILIP MORRIS IN	PM Equity	-15.31%	\$127,582
<b>15</b>	<b>S&amp;P 500 PHRM BIO &amp; LF SC</b>	<b>S5PHRM Index</b>	<b>-7.35%</b>	<b>\$1,957,018</b>	<b>21</b>	<b>S&amp;P 500 REAL ESTATE INDX</b>	<b>S5REAL Index</b>	<b>12.70%</b>	<b>\$807,434</b>
	JOHNSON&JOHNSON	JNJ Equity	-17.07%	\$348,881		AMERICAN TOWER C	AMT Equity	31.71%	\$96,827
	MERCK & CO	MRK Equity	8.42%	\$222,676		CROWN CASTLE INT	CCI Equity	18.04%	\$57,878
	PFIZER INC	PFE Equity	-22.39%	\$213,333		PROLOGIS INC	PLD Equity	26.59%	\$55,754
<b>16</b>	<b>S&amp;P 500 CON DUR&amp;AP INDEX</b>	<b>S5CODU Index</b>	<b>-1.90%</b>	<b>\$306,963</b>	<b>22</b>	<b>S&amp;P 500 UTILITIES INDEX</b>	<b>S5UTILX Index</b>	<b>10.72%</b>	<b>\$880,822</b>
	NIKE INC -CL B	NKE Equity	4.77%	\$140,588		NEXTERA ENERGY	NEE Equity	29.19%	\$116,216
	VF CORP	VFC Equity	-7.69%	\$33,164		DUKE ENERGY CORP	DUK Equity	6.75%	\$68,744
	DR HORTON INC	DHI Equity	30.81%	\$19,164		DOMINION ENERGY	D Equity	10.14%	\$66,802
<b>17</b>	<b>S&amp;P 500 Media &amp; Ent</b>	<b>S5MEDA Index</b>	<b>0.76%</b>	<b>\$2,144,418</b>	<b>23</b>	<b>S&amp;P 500 HH &amp; PR PDTS IDX</b>	<b>S5HOUS Index</b>	<b>18.86%</b>	<b>\$500,757</b>
	ALPHABET INC-C	GOOG Equity	4.48%	\$872,718		PROCTER & GAMBLE	PG Equity	28.84%	\$309,981
	FACEBOOK INC-A	FB Equity	13.28%	\$549,959		ESTEE LAUDER	EL Equity	19.25%	\$67,242
	WALT DISNEY CO	DIS Equity	0.46%	\$235,638		COLGATE-PALMOLIV	CL Equity	0.98%	\$57,692
<b>18</b>	<b>S&amp;P 500 TELECOMM SVCS IX</b>	<b>S5TELSX Index</b>	<b>7.45%</b>	<b>\$616,020</b>	<b>24</b>	<b>S&amp;P 500 Comm &amp; Prof Serv</b>	<b>S5COMS Index</b>	<b>13.87%</b>	<b>\$217,257</b>
	AT&T INC	T Equity	21.88%	\$284,087		WASTE MANAGEMENT	WM Equity	16.03%	\$47,608
	VERIZON COMMUNIC	VZ Equity	-0.63%	\$251,621		REPUBLIC SVCS	RSG Equity	9.95%	\$27,890
	T-MOBILE US INC	TMUS Equity	6.05%	\$70,628		IHS MARKIT LTD	INFO Equity	20.35%	\$28,226

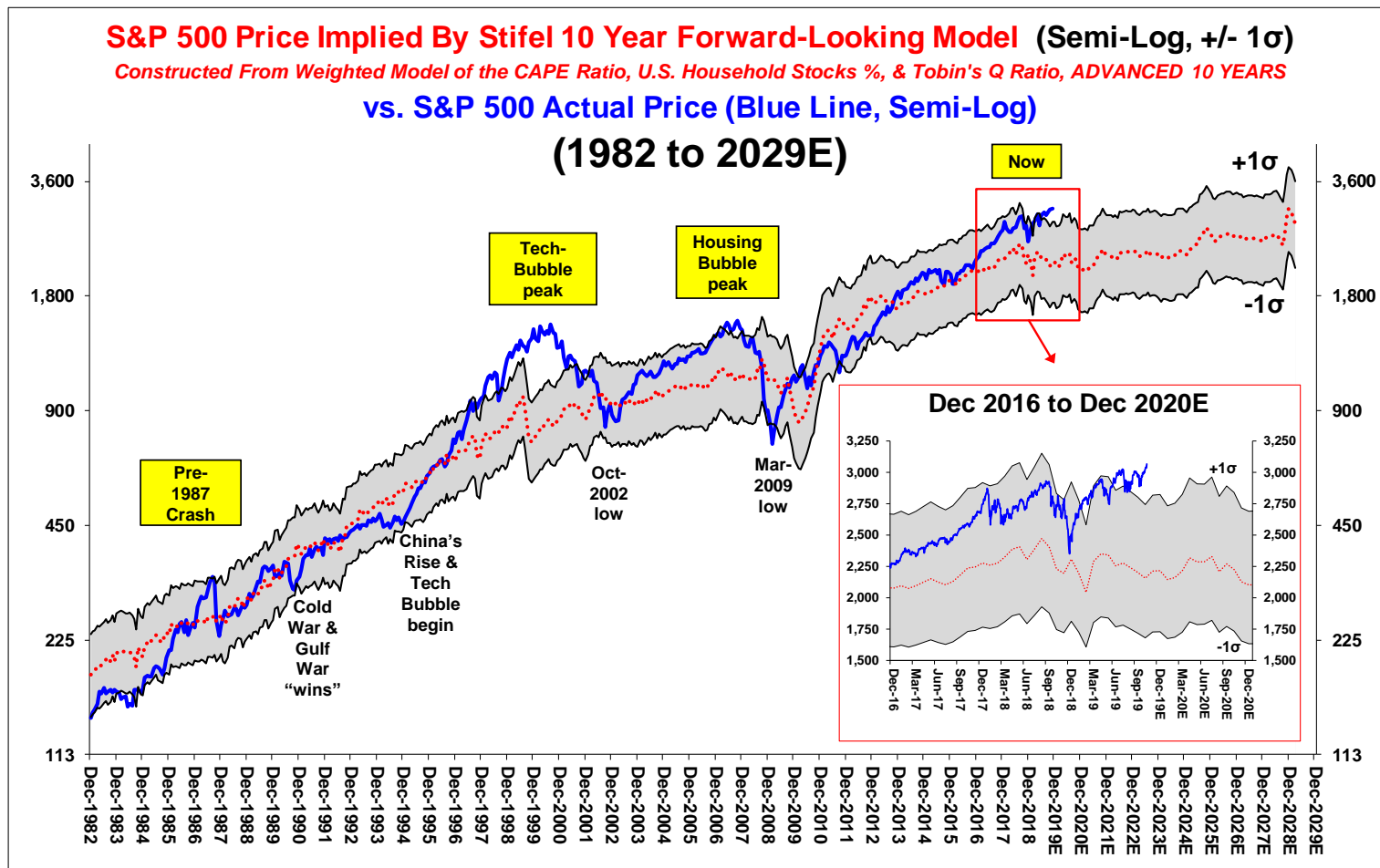
Source: Bloomberg data.

***In our view:***

**(2) In the next decade, we see  
Active beating Passive  
(but few pensions will hit their goals)**

Source: Stifel.

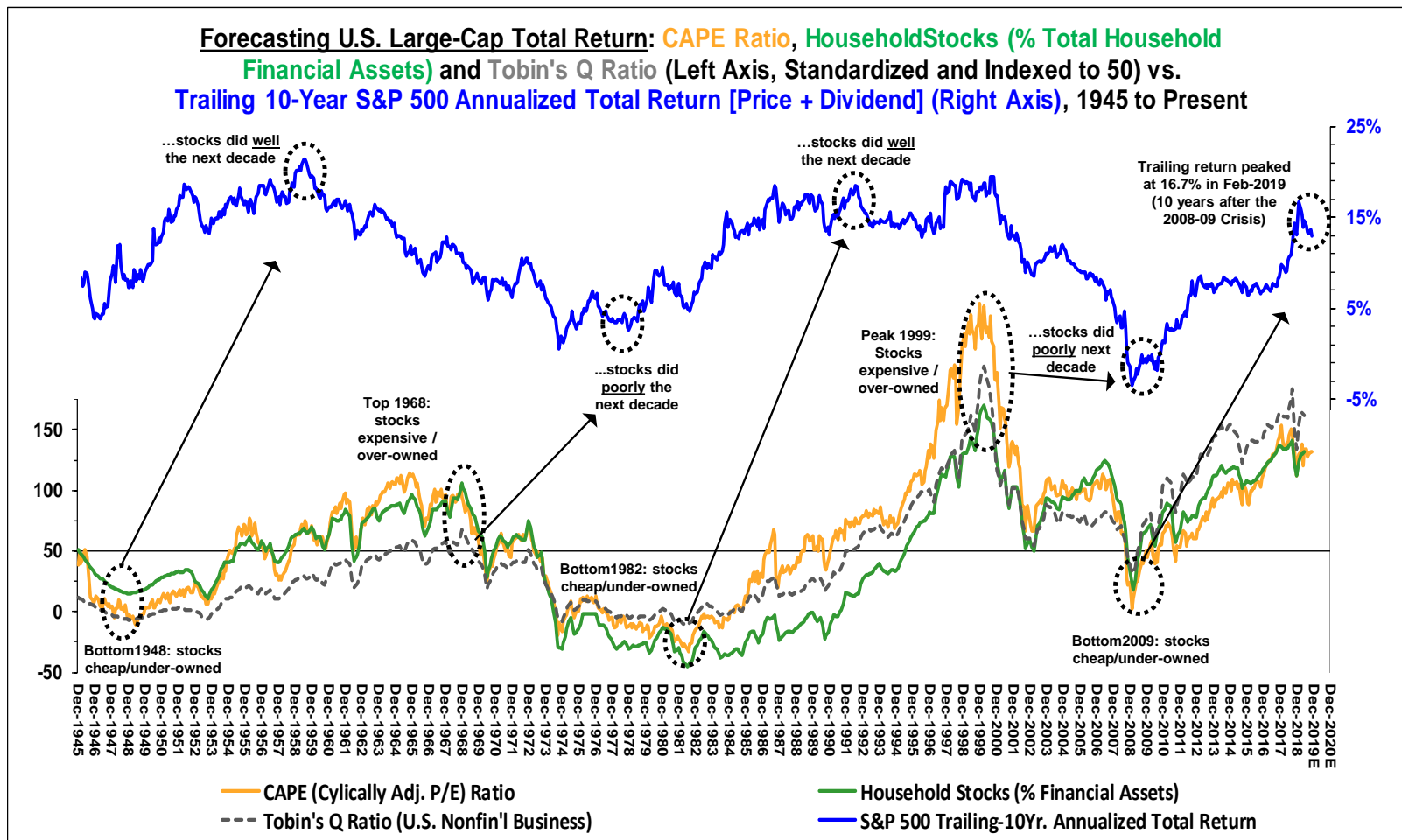
## S&P 500 is at the top end of our 10 year forward-looking model<sup>(1)</sup> range



Source: S&P 500 total return Bloomberg data, S&P historical [Shiller](#) (Stifel Operating adjustment), U.S. Flow of Funds (tables [b.103](#) and [b.101](#)), Stifel estimates.

(1) Our model is based on Shiller's CAPE, Tobin's Q price/replacement book and household stocks % of household financial assets (U.S. Flow of Funds) advanced 10 years. By its nature this model is far more useful for predicting the next 10 year annualized total return than any point along the way.

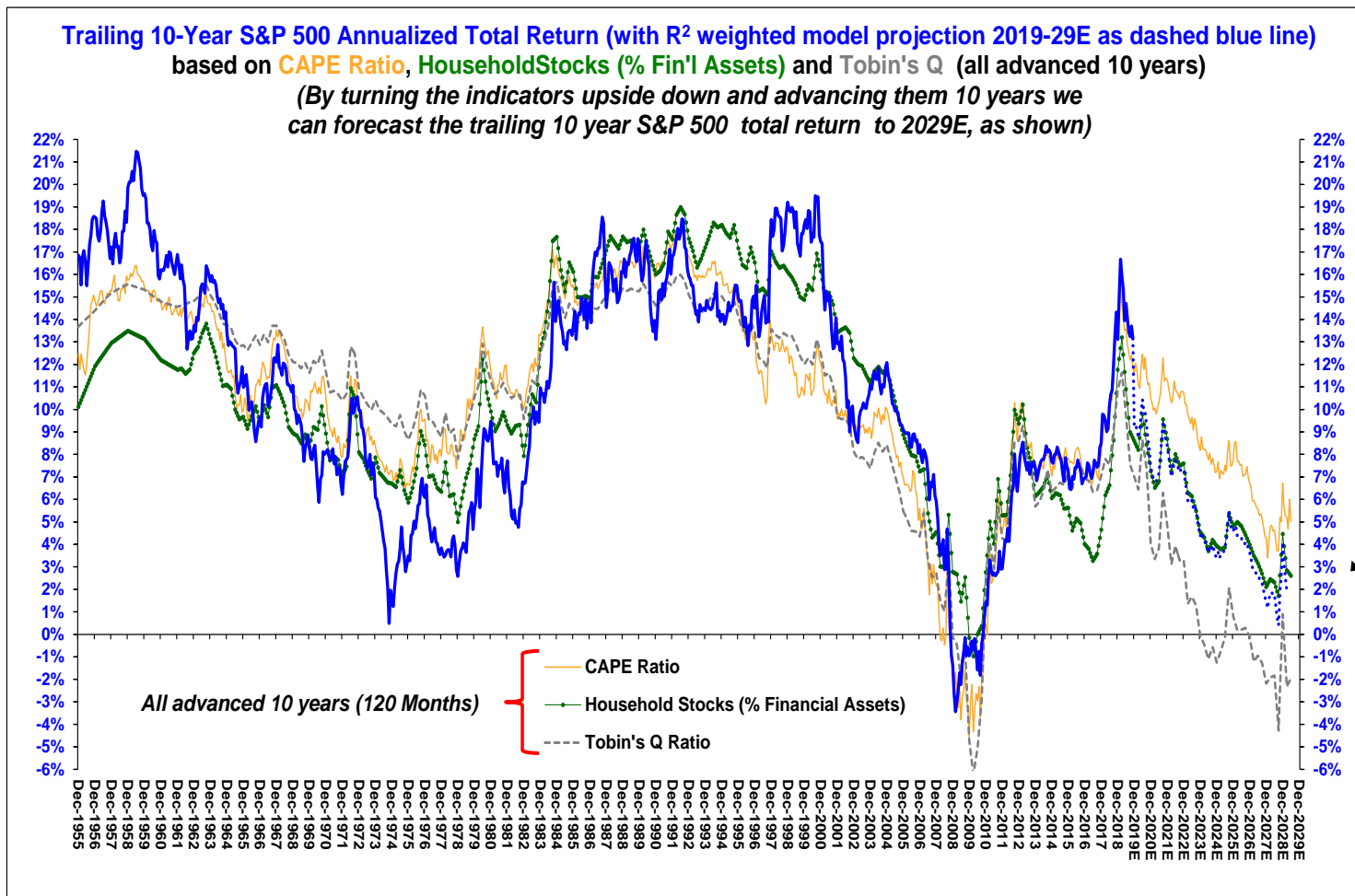
## Three measures<sup>(1)</sup> can estimate S&P 500 total return the next 10 years



Source: S&P 500 total return Bloomberg data, S&P historical [Shiller](#) (Stifel Operating adjustment), U.S. Flow of Funds (tables [b.103](#) and [b.101](#)), Stifel estimates.

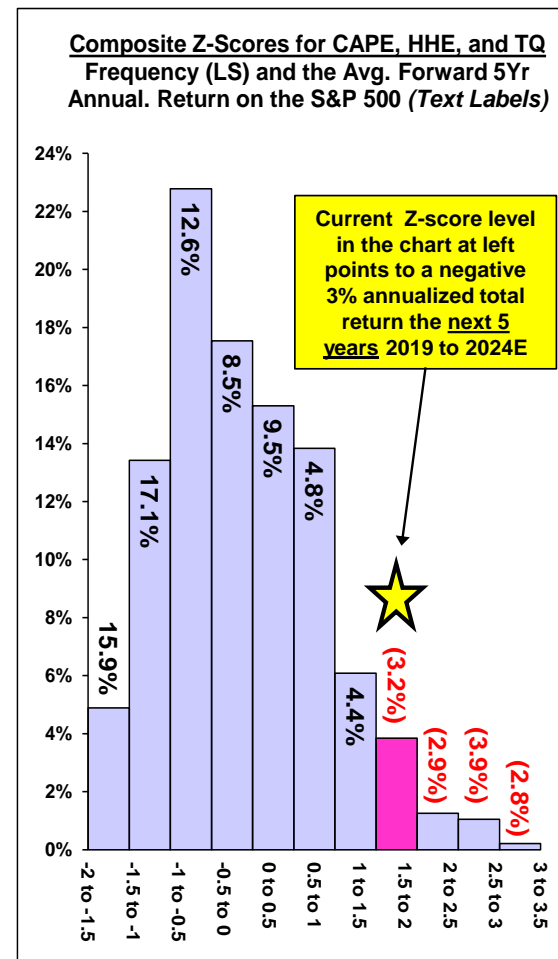
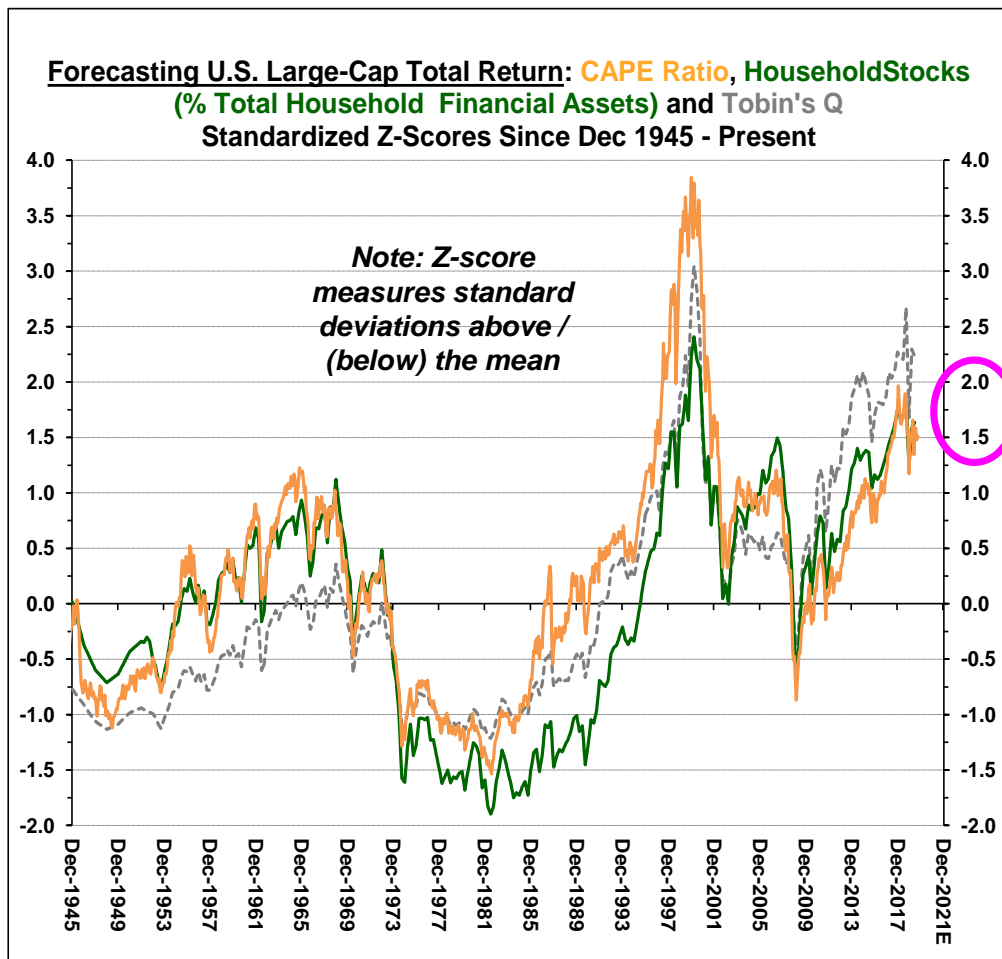
(1) A "flow" variable ([CAPE](#)), "stock" variable ([Tobin's Q](#)), and "sentiment" variable (Household stock ownership, Flow of Funds [b.101](#)) may forecast S&P 500 10 years ahead.

## Flip & advance those factors (prior page) 10 years, it shows 3%/yr. 2019-29E



Source: S&P 500 total return Bloomberg data, S&P historical [Shiller](#) (Stifel Operating adjustment), U.S. Flow of Funds (tables [b.103](#) and [b.101](#)).

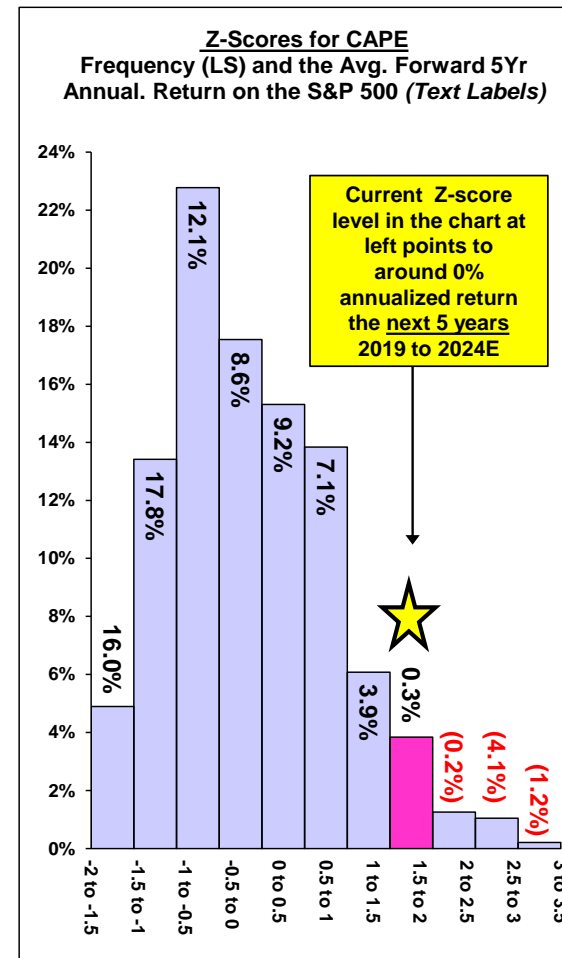
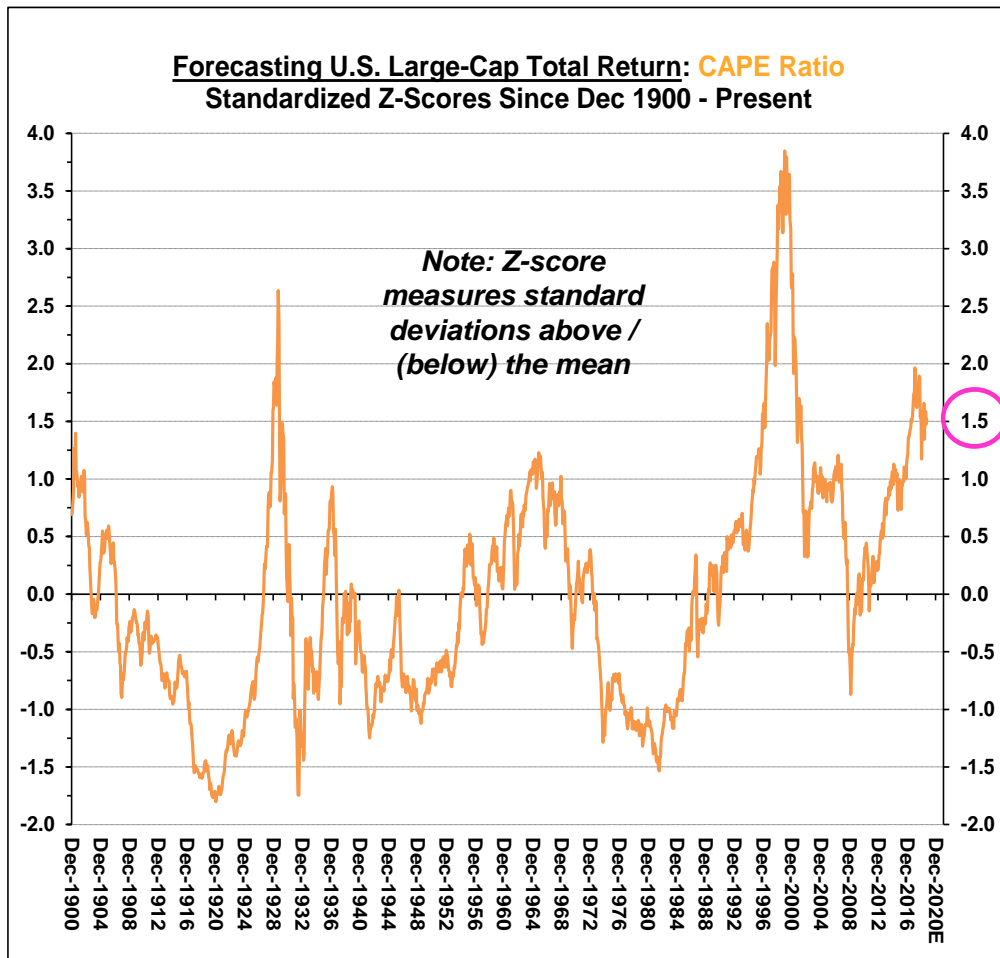
## Moreover, our metrics<sup>(1)</sup> show an S&P 500 that is down the next 5 years



Source: Stifel.

(1) A "flow" variable (CAPE), "stock" variable (Tobin's Q) and "sentiment" variable (Household stock ownership, Flow of Funds [b.101](#)) may forecast the S&P 500 10 years ahead.

## CAPE<sup>(1)</sup> has >100 years history and shows ~0%/year return for 5 years



Source: Stifel.

(1) CAPE is P/E on trailing 10 year inflation-adjusted average EPS; Bloomberg Operating EPS 1989 to present and before 1989, S&P/Shiller/Yale GAAP EPS [data](#) which we gross up 11.7% to match the historical GAAP/Operating difference between EPS.



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The recommendation contained in this report was produced at 3 November 2019 19:01EST and disseminated at 4 November 2019 00:01EST.

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