

## Exploiting The Gap Between Fundamental Reality And Market Perception

# A Short-Horned Bull; Buying the Brutal Selloff

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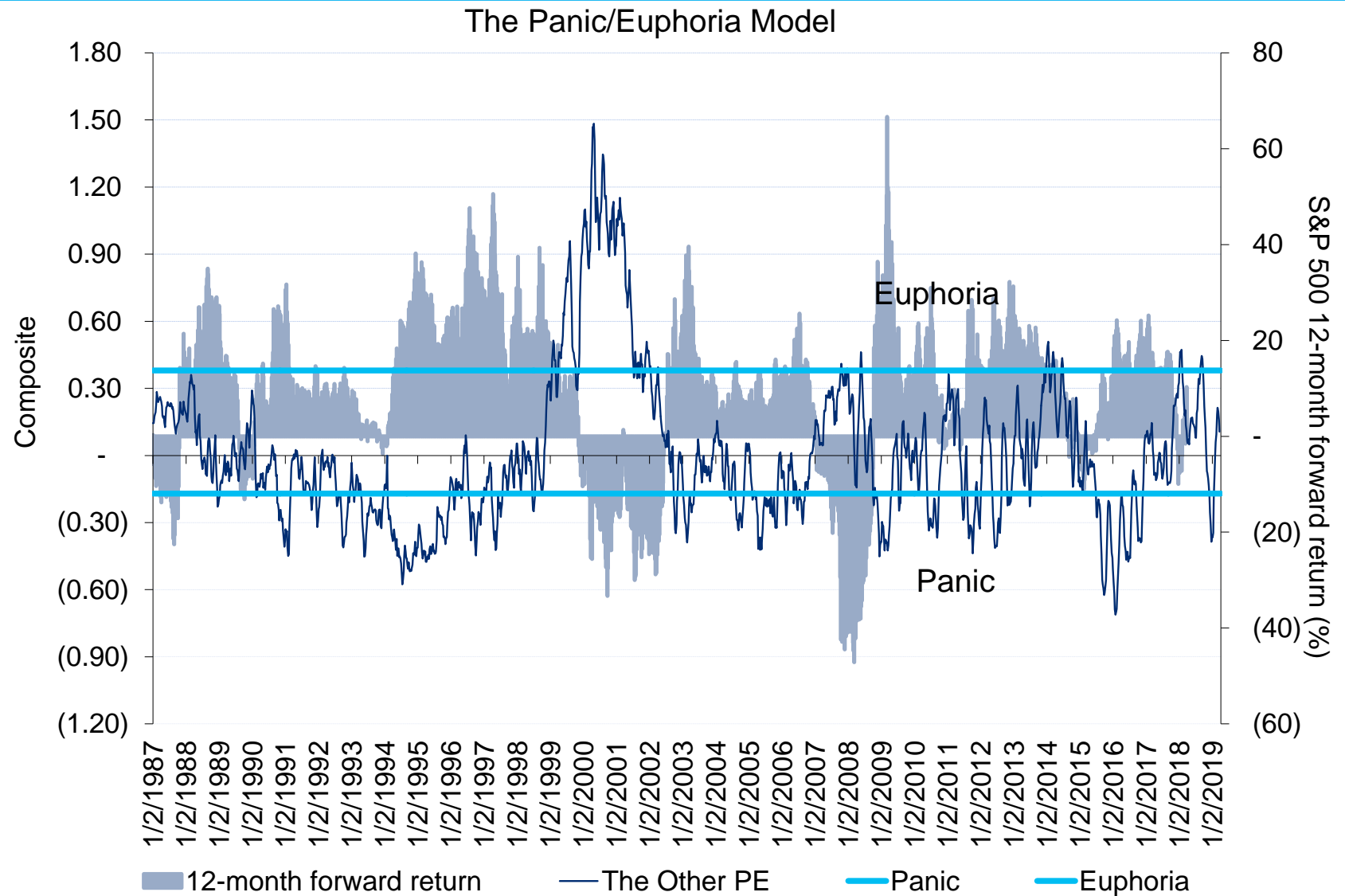
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**See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures**

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This presentation was approved for distribution on 22 March 2019; the disclosures in Appendix A1 are current as of the same date.

# Sentiment Backs off From September's Euphoria, But Also Out of December's Panic

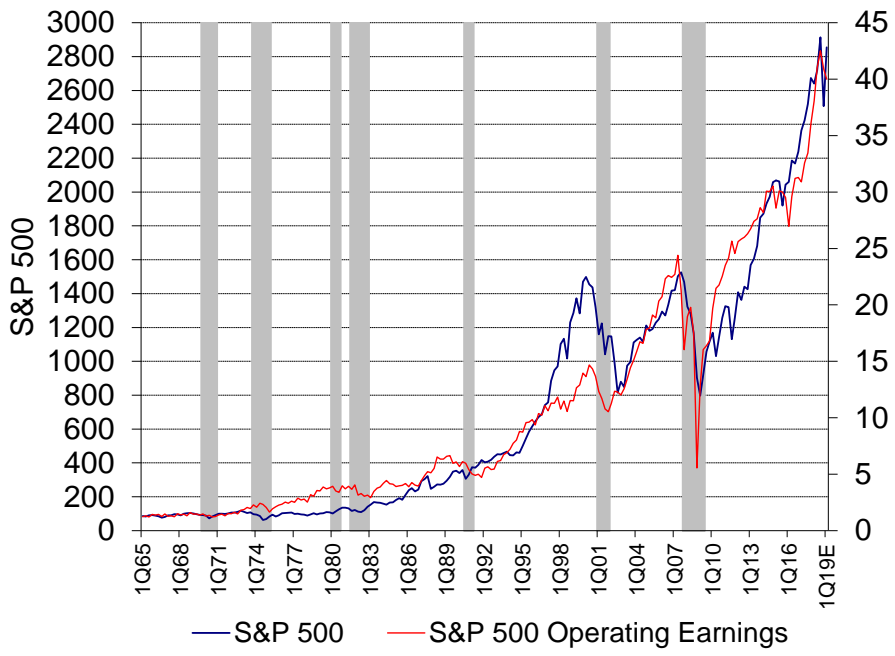


- Back to neutral after a roller-coaster ride since September 2018

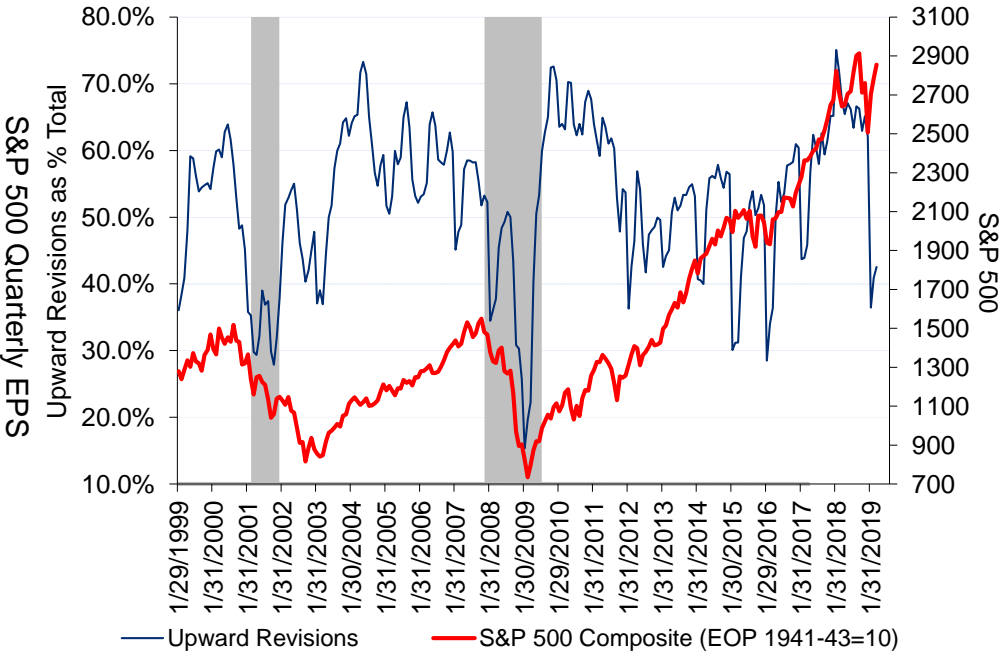
Source: Bloomberg, Pinnacle data, FactSet, Haver Analytics and Citi Research – U.S. Equity Strategy

# S&P 500 Performance, Earnings and Revisions

## S&P 500 Performance vs Earnings



## S&P 500: Upward Revisions as a % of Total vs S&P 500



Source: FactSet, Thomson Reuters, Haver Analytics and Citi Research - US Equity Strategy

# S&P 500 Price Targets and Earnings

## S&P 500 Price Targets

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019<sup>1</sup></b>
S&P 500	1,848	2,059	2,044	2,239	2,674	2,507	2,850
DJIA	16,577	17,823	17,425	19,763	24,719	23,327	26,000

Source: Citi Research – U.S. Equity Strategy

<sup>1</sup>2019 target introduced on 9/28/18 and lowered on 12/31/18.

## S&P 500 EPS Estimates

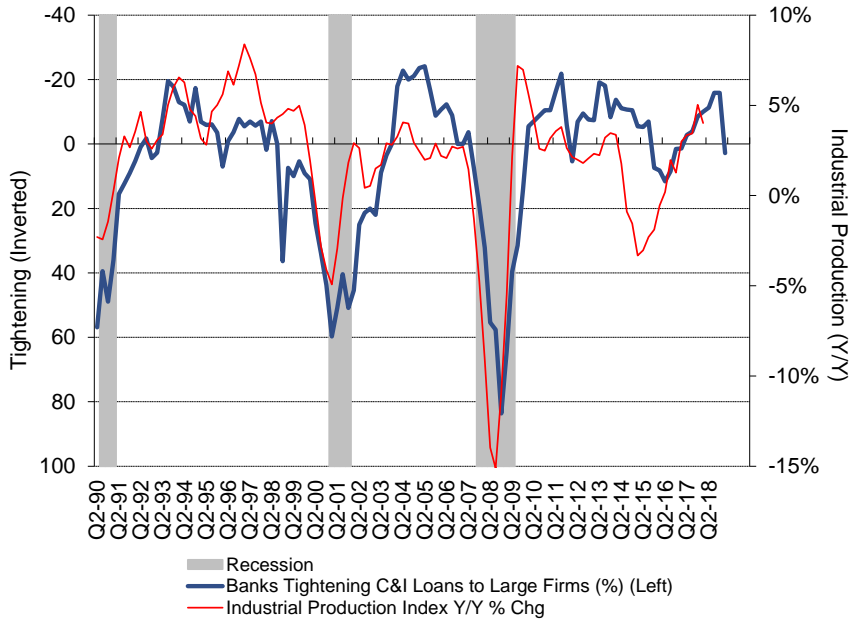
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018E</b>	<b>2019E</b>
S&P 500 Operating EPS Estimate	\$118.83	\$118.20	\$119.08	\$132.95	\$162.50	\$172.50
Y/Y Change	7.6%	-0.5%	0.7%	11.6%	22.2%	6.2%

Source: Citi Research – U.S. Strategy

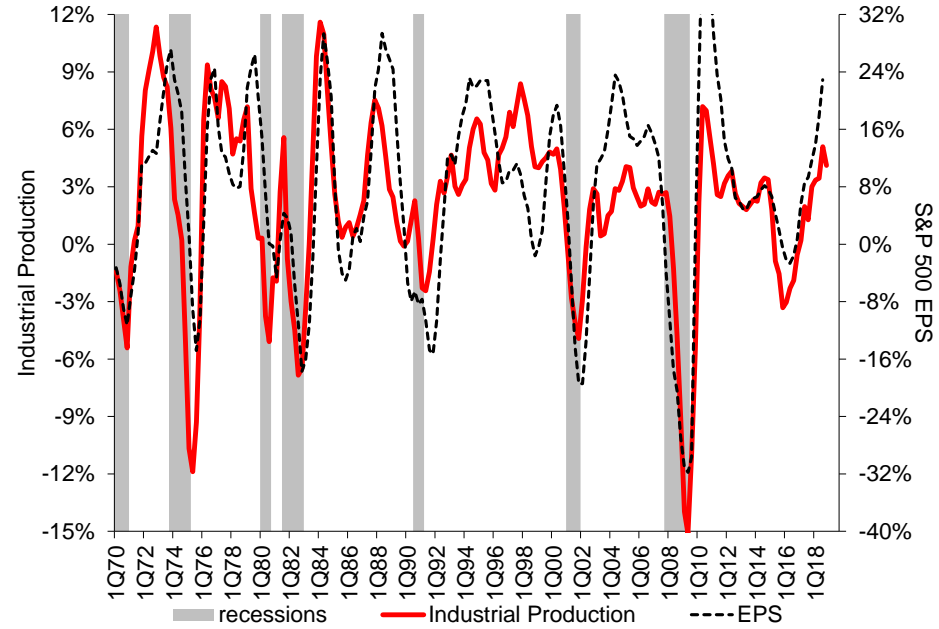
2018 EPS forecast introduced on 12/22/16, lowered on 3/24/17 and 6/30/2017 and raised on 10/6/17, 12/19/17, 1/26/2018, 3/9/2018, 5/4/2018, 8/03/2018, and 11/9/2018. 2019 EPS forecast introduced on 1/26/2018 and raised on 3/9/2018, 5/4/2018, 8/03/2018, and 11/9/2018.

# Economy Tied to Credit (Which Tightened in 4Q18)

## Bank Lending Standards vs Industrial Production



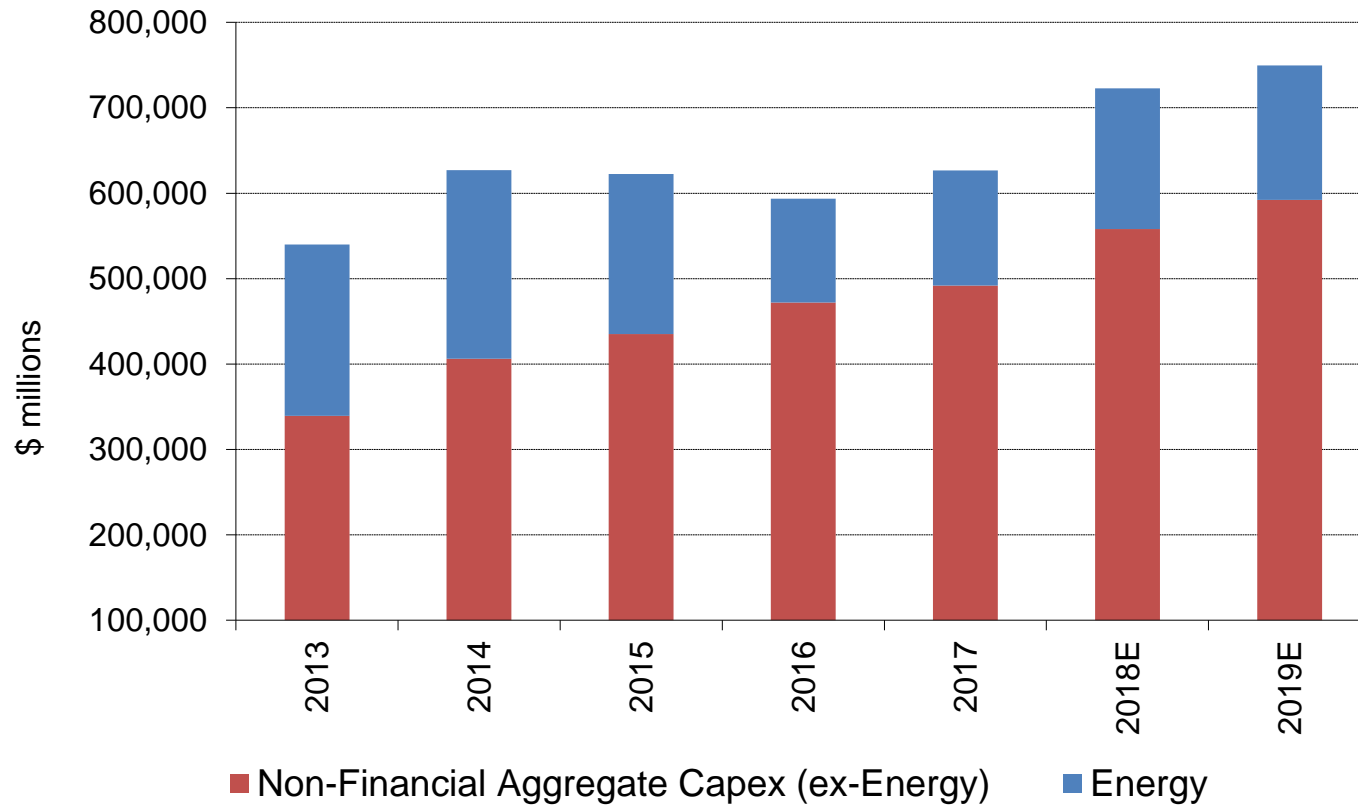
## S&P 500 EPS vs Industrial Production



Source: Haver Analytics and Citi Research – U.S. Equity Strategy

# Economic & Earnings Backdrop

## Energy Capex as a Proportion of Aggregate Capex

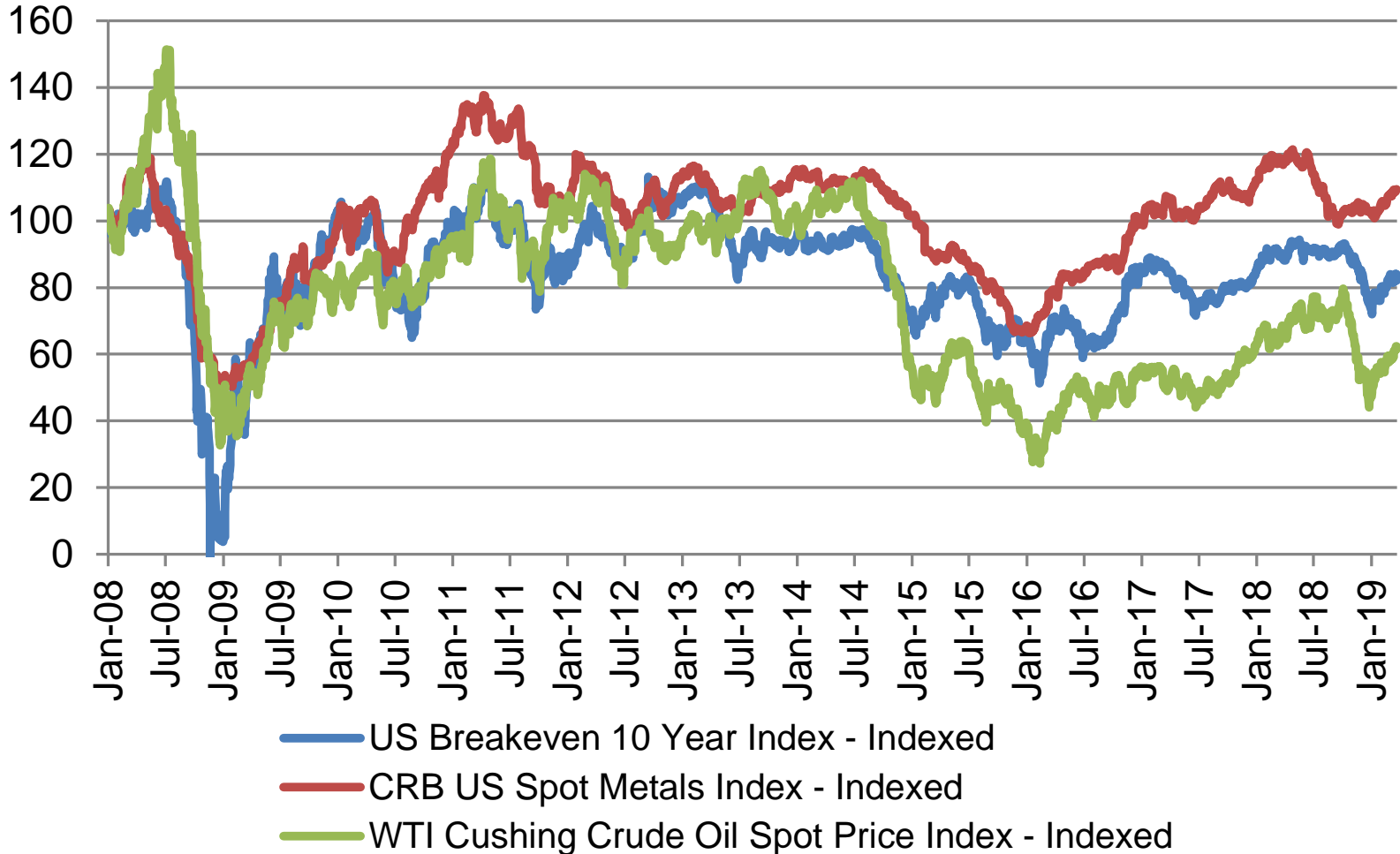


- Capex intentions have climbed ex-Energy since November 2018, despite trade and slowdown concerns

Source: DataCentral, Haver Analytics and Citi Research – U.S. Equity Strategy

# Inflation Expectations & Oil Prices

Commodities and 10-year TIPs Breakeven

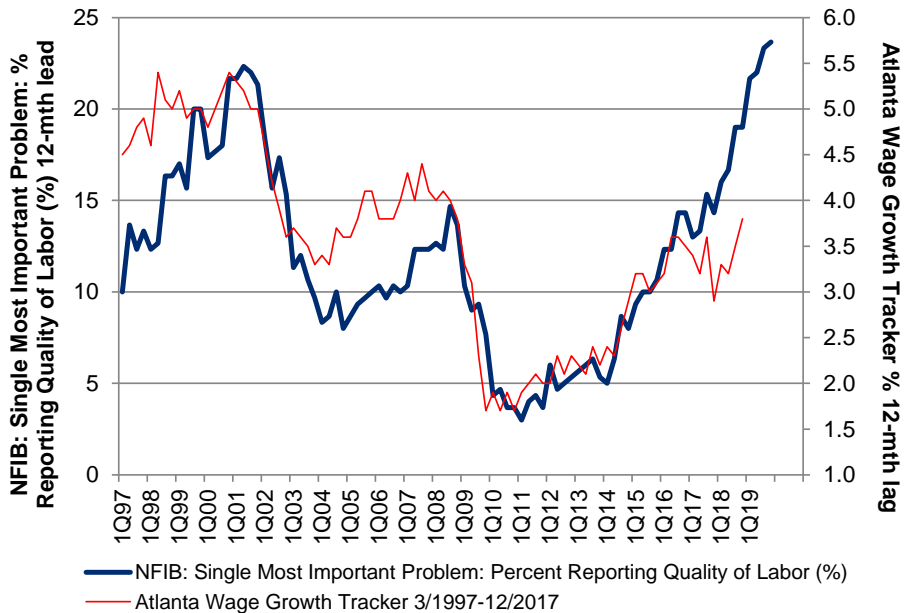


- Is Fed dovishness too complacent now?

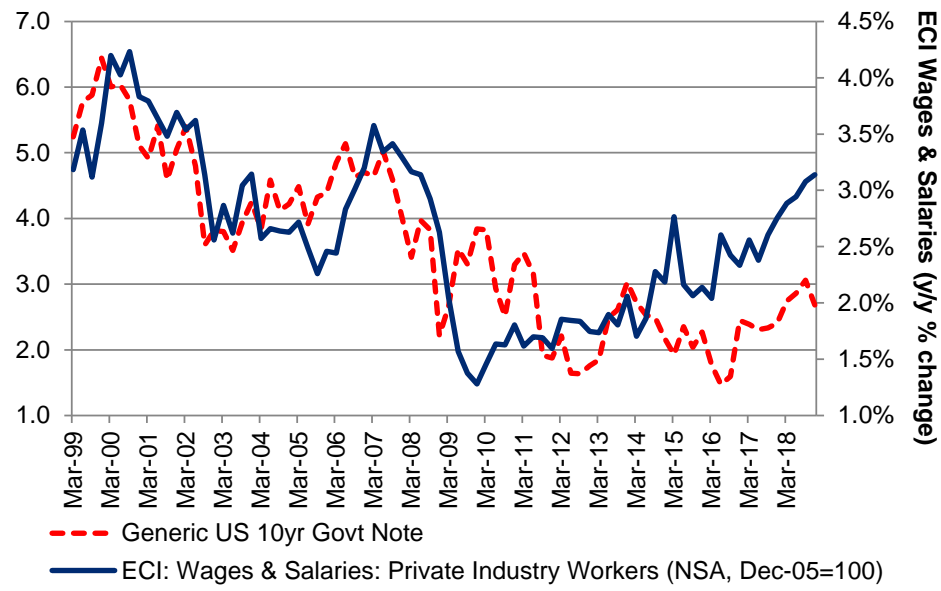
Source: Bloomberg, Haver Analytics and Citi Research – U.S. Equity Strategy

# Inflation ??

## NFIB Single Most Important Problem: % Reporting Quality of Labor vs Atlanta Wage Growth Tracker



## 10yr yields vs Wage Growth

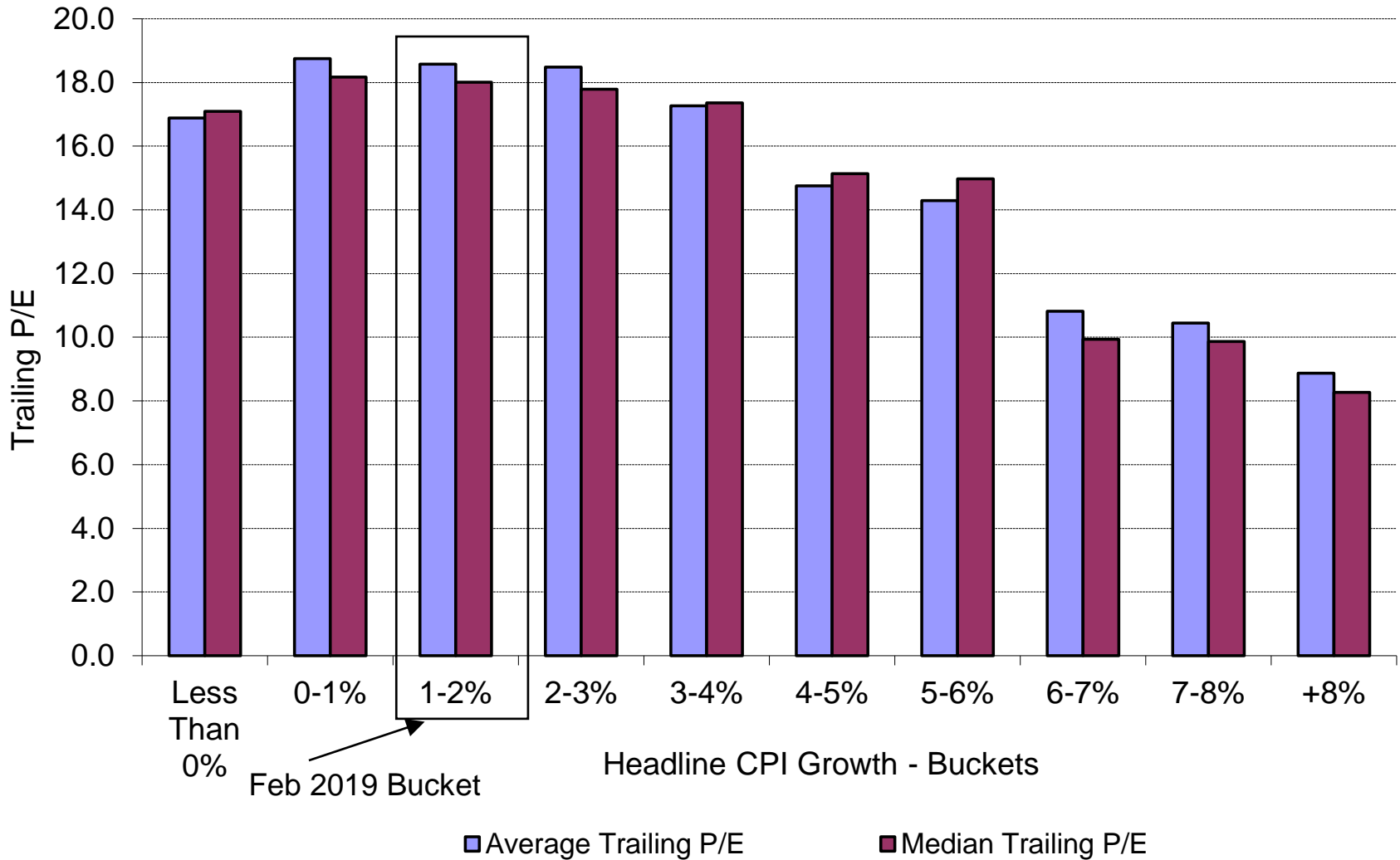


Source: Bloomberg, Haver Analytics and Citi Research – U.S. Equity Strategy



# Valuation Concerns Are Overdone

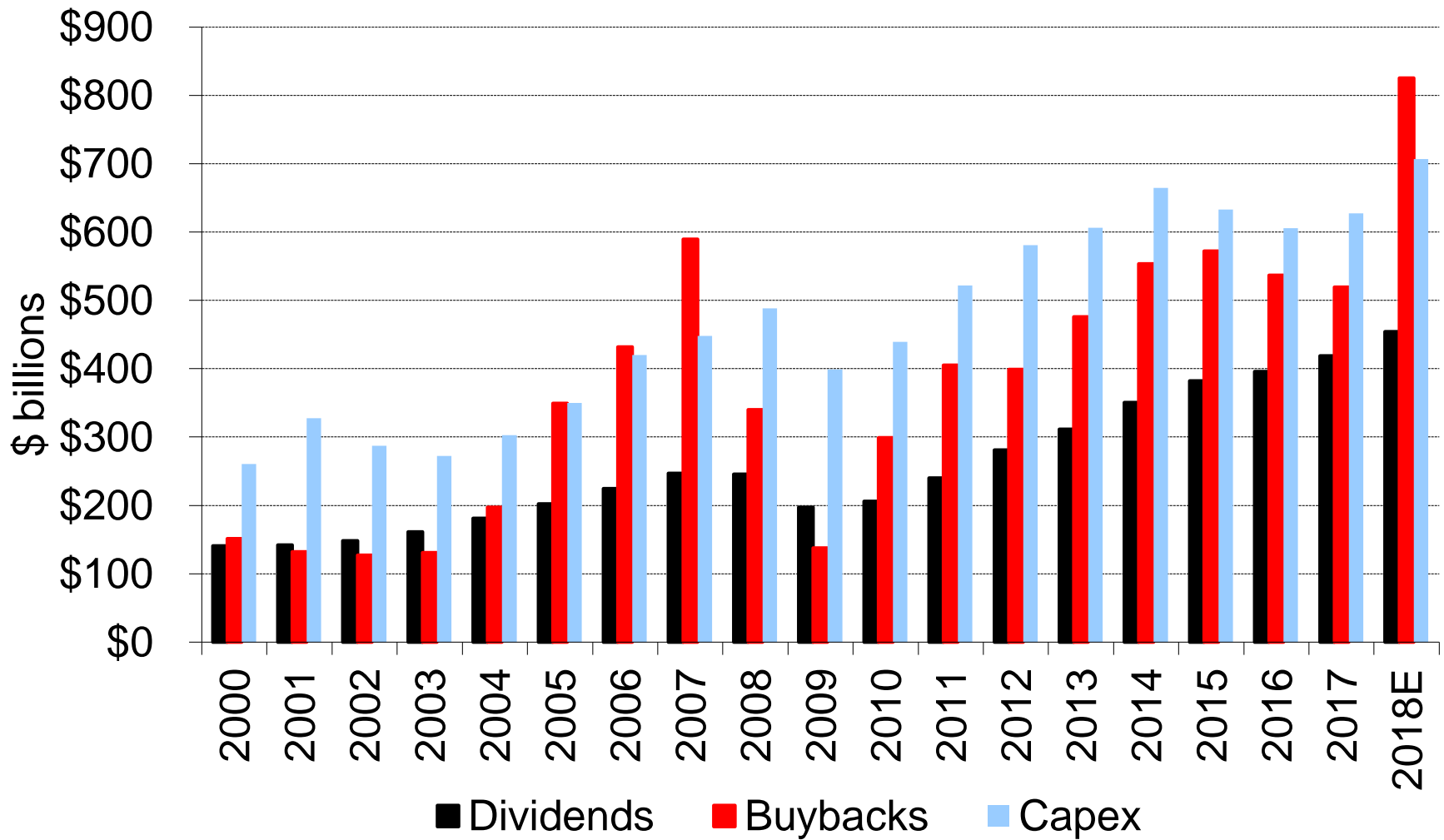
## Trailing P/E Average vs Buckets of CPI Growth Since 1960



Source: FactSet, Haver Analytics and Citi Research – U.S. Equity Strategy

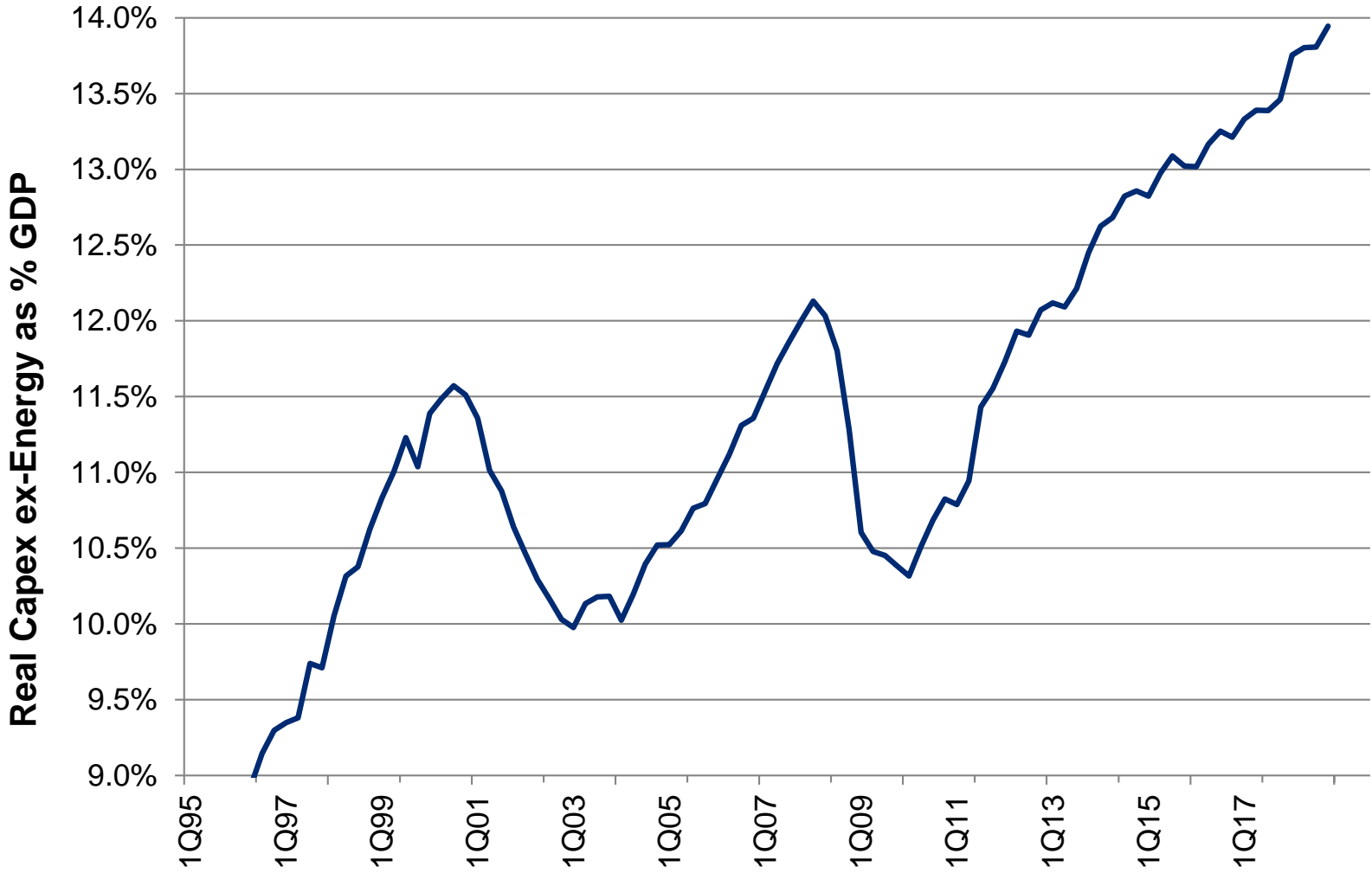
# Capex Myths Debunked

S&P 500 Uses of Cash



# Capex Myths Debunked

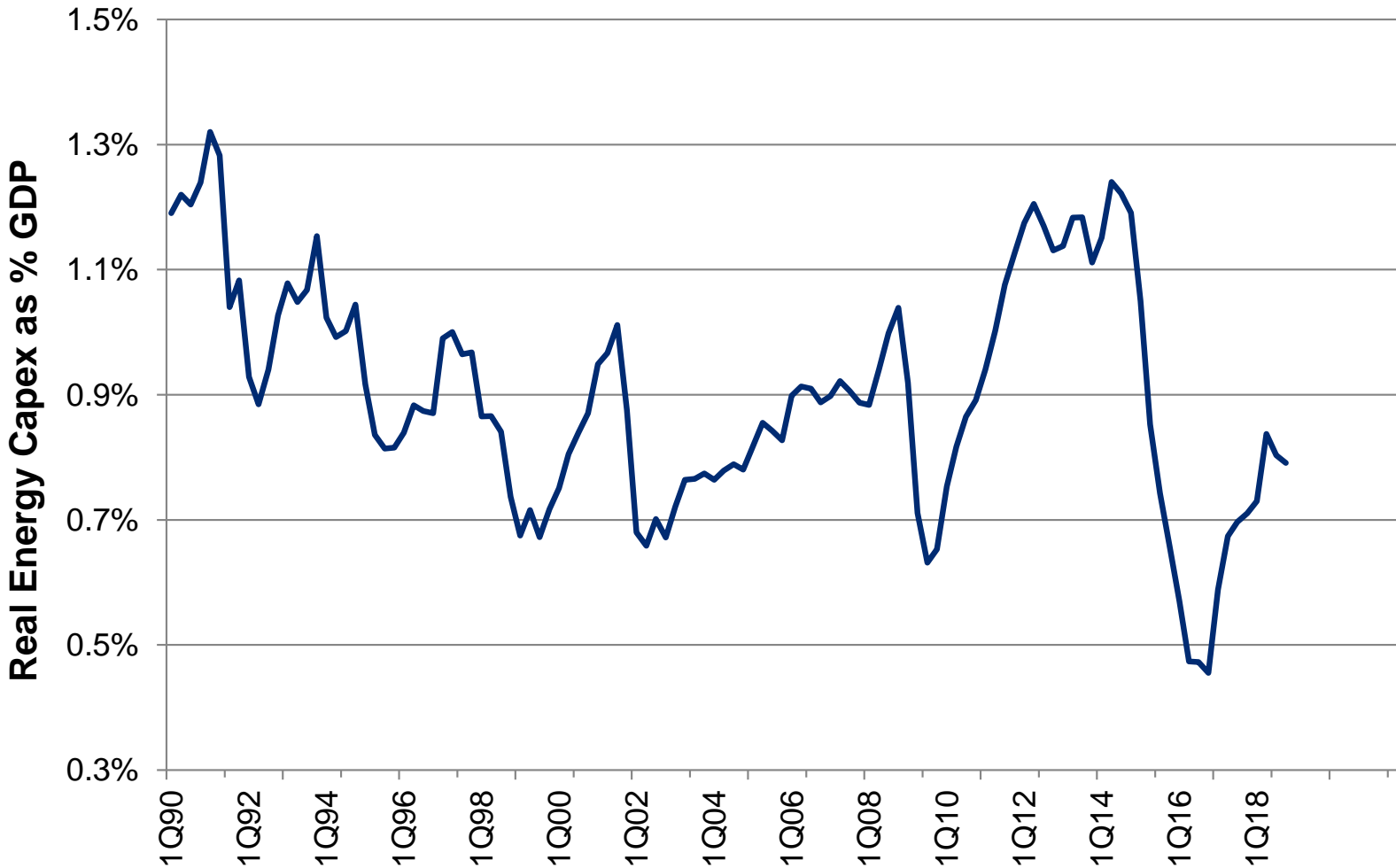
Real Private Nonresidential Fixed Investment ex Real Energy Spending % GDP



Source: Haver Analytics and Citi Research – U.S. Equity Strategy

# Capex Myths Debunked

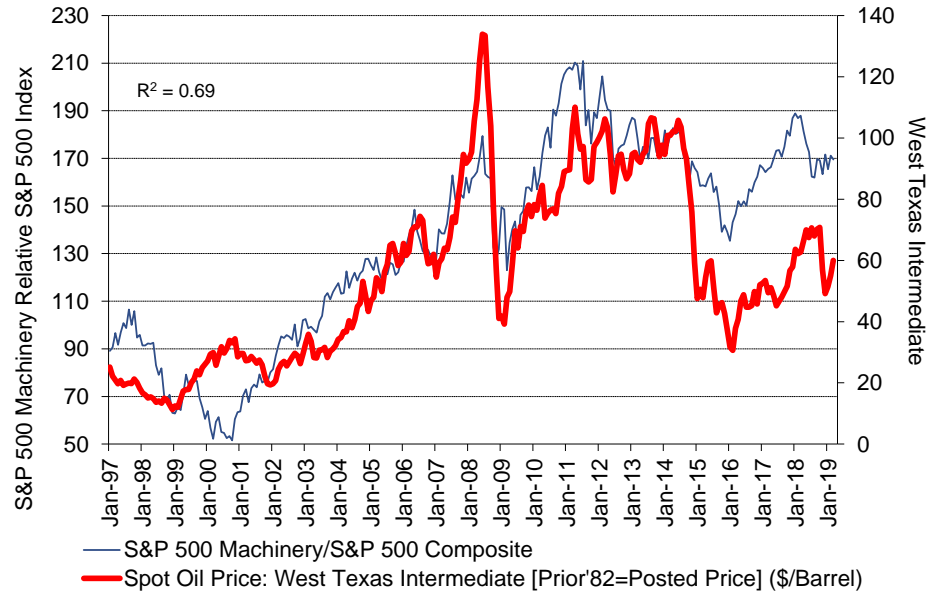
Real Energy Capex as a % of Real GDP



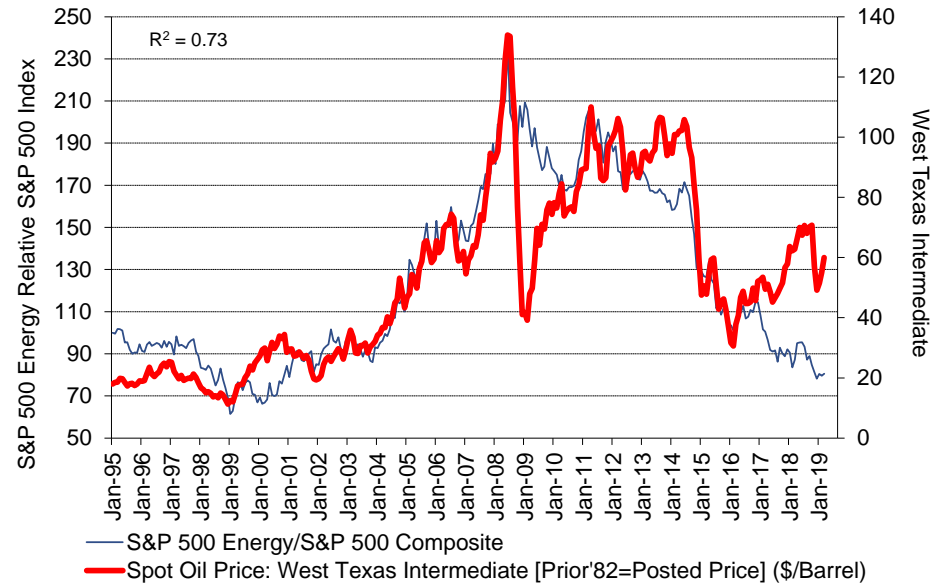
Source: Haver Analytics and Citi Research – U.S. Equity Strategy

# Capex Beneficiaries But Oil Prices Matter

## Relative S&P 500 Machinery vs WTI



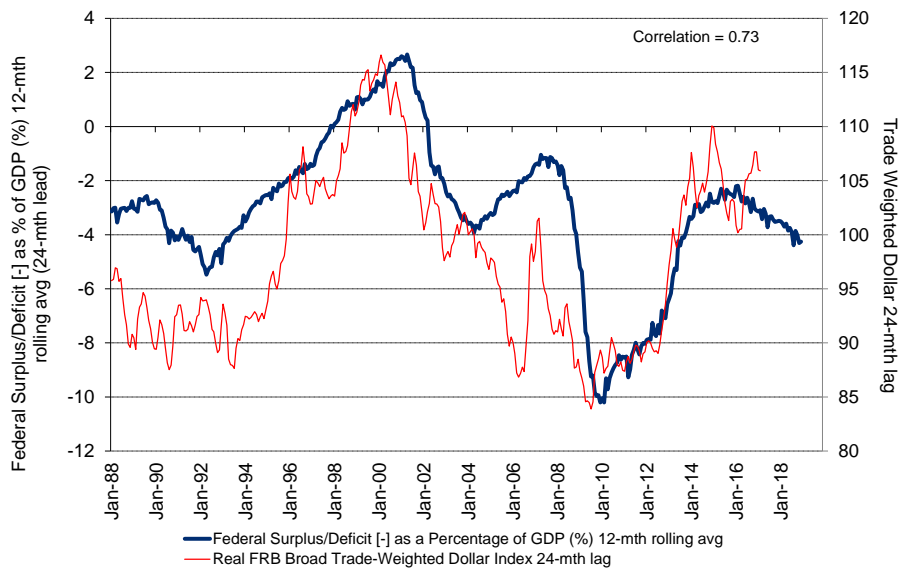
## Relative S&P 500 Energy vs WTI



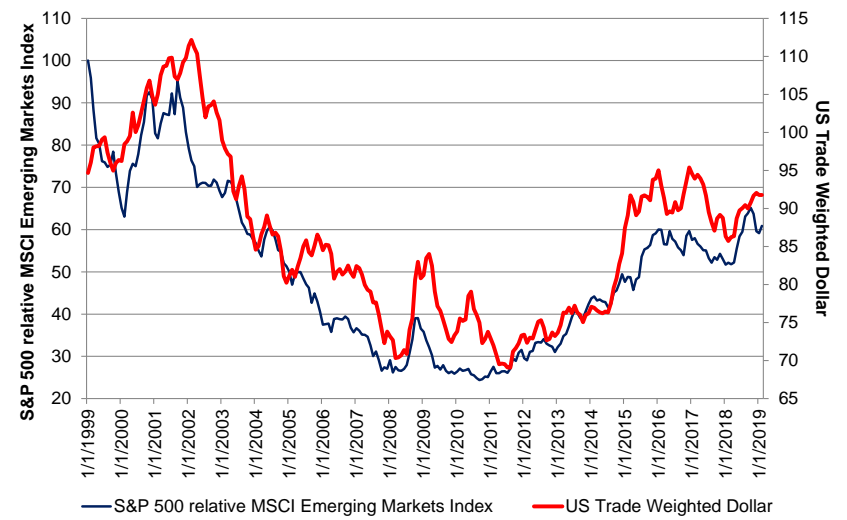
Source: Haver Analytics and Citi Research – U.S. Equity Strategy

# Trade + Regulatory Jitters

**Real Broad Trade Weighted Dollar (24-mth lag) vs Federal Surplus/Deficit as a Percentage of GDP (%) 12-month rolling avg**



**S&P 500 rel MSCI EM Index vs US \$ Trade Weighted**



Source: Bloomberg, FactSet, Haver Analytics and Citi Research – U.S. Equity Strategy

# Industry Group Recommendations

## Industry Group Recommendations

<i>Overweight</i>	<i>Market Weight</i>	<i>Underweight</i>
Banks	Commercial & Professional Services	Autos & Components
Capital Goods	Consumer Durables & Apparel	Media & Entertainment
Energy	Food, Beverage & Tobacco	Retailing
Household & Personal Products	Materials	Software & Services
Insurance	Real Estate	Tech Hardware & Equipment
Pharma, Biotech & Life Sciences	Consumer Services	Telecom Services
Semis & Semi Equipment	Diversified Financials	Transportation
	Food & Staples Retailing	Utilities
	Health Care Equipment & Services	

## Sector Recommendations (Based on Industry Group Recommendations)

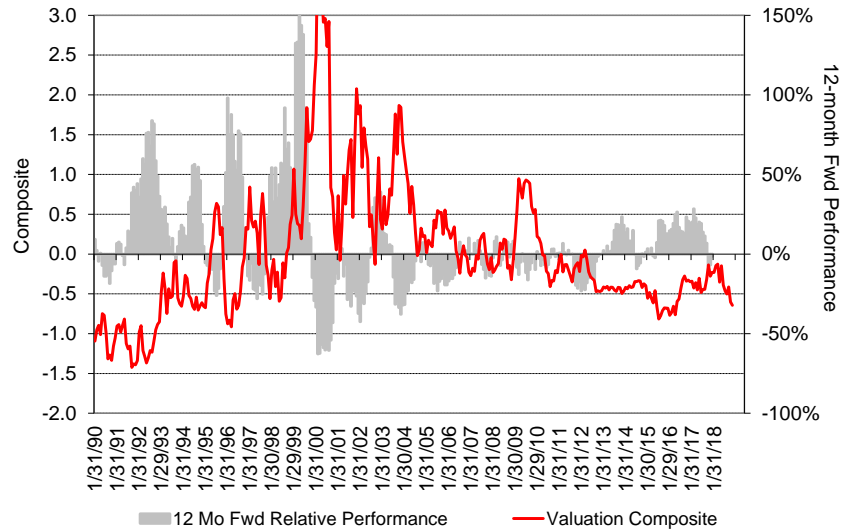
<i>Overweight</i>	<i>Market Weight</i>	<i>Underweight</i>
Energy	Real Estate	Consumer Discretionary
Financials	Materials	Communication Services
Health Care		Information Technology
Industrials		Utilities
Consumer Staples		

## Recent Changes

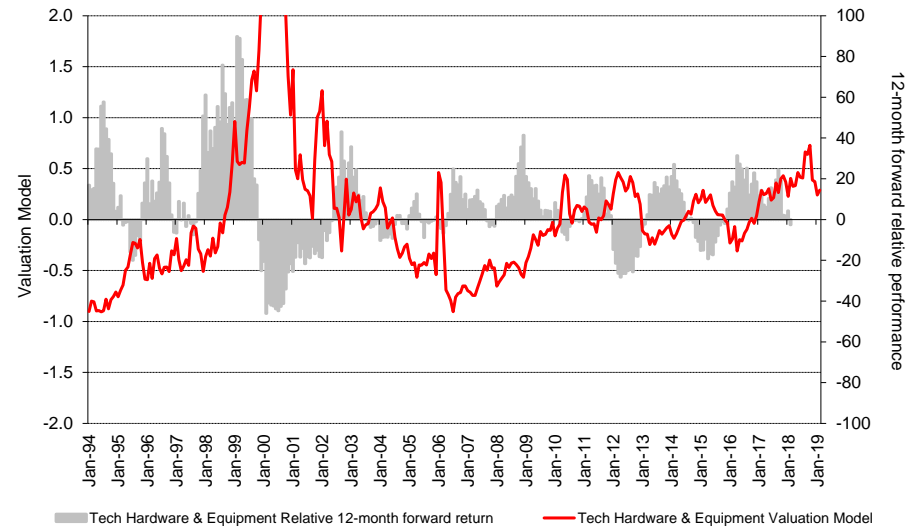
- On January 11, 2019, we lowered Consumer Services to Market Weight from Overweight, lifted Food & Staples Retailing to Market Weight from Underweight, upgraded Diversified Financials to Market Weight from Underweight, reduced Health Care Equipment & Services to Market Weight from Overweight, and raised Semis & Semi Equipment to Overweight from Market Weight.
- On October 12, 2018, we raised Household & Personal Products to Overweight from Market Weight, upgraded Consumer Durables & Apparel to Market Weight from Underweight, and reduced Diversified Financials to Underweight from Market Weight.
- On July 13, 2018, we lifted Pharma and Biotech to Overweight from Market Weight, upgraded Food, Beverage & Tobacco to Market Weight from Underweight, reduced Materials to Market Weight from Overweight, downgraded Media to Underweight from Market Weight, and lowered Transportation to Underweight from Market Weight.
- On April 13, 2018, we lowered Media to Market Weight from Overweight, reduced Diversified Financials to Market Weight from Overweight, downgraded Retailing to Underweight from Market Weight, and lifted Pharma & Biotech to Market Weight from Underweight.
- On January 12, 2018, we raised Capital Goods, Consumer Services, and Materials to Overweight from Market Weight and lowered Retailing to Market Weight from Overweight.

# Information Technology

## Semis & Semi Cap Equipment Valuation Model



## Tech Hardware & Equipment Valuation Model





# Risks to the Outlook

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- I. Central Bank Policy Errors
- II. Trade Protectionism
- III. Geopolitics / Local Politics
- IV. Interest Rates Restrain Certain Parts of the Economy (housing, autos, etc.)

# Appendix A-1

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Citi Research Global Fundamental Coverage	54%	36%	10%	10%	86%	4%
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