GIAM Macro & Market Research - Market Commentary

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Equity sector models and strategy: still OW on Value but turning more constructive on staples

- **We provide an assessment of European sectors and styles judging from the signals produced by our quant models, further enriched by our qualitative analysis.**
- **The bulk of the overweight is maintained in Value sectors, financials and energy, to leverage on economic recovery, higher 10-year yields and CPI.**
- **We increased even further the exposure to households - bottoming earnings revisions and peaking confidence indicators - financing it with a higher underweight in Media (poor revisions and quant models).**
- **Regarding specific sectors, we overweight banks, div. financials, energy, materials, household & personal products, software and tech hardware and underweight cons. services, media, real estate, utilities and telecoms.**
- **Our quantitative analysis coming from Machine Learning (ML) and classic approaches shows undervaluation for energy, auto and software and overvaluation for comm. & prof. services, pharma, telecoms, media, materials, food, cons. services and retailing.**
- **Among European styles, undervaluation is indicated for defensives, momentum, small cap and min. volatility. Expensive are low leverage, large cap and cyclicals.**

In the last month, equities were able to advance further thanks to a lingering good macro momentum with central banks reassuring against a bold hawkish change in stance. Furthermore, vaccinations progressed well, and the activity reopening in the euro area (EA) continued.

Yields did not rise, and their volatility was rather low, but this ultimately **has not stopped the rotation into cyclical value names**, because of their good earnings momentum and inflation expectations which continue to drift higher. We expect yields to rise further, too, and see a steeper yield curve (both beneficial to Value).

In such environment, financials, materials and to a lesser extent energy normally outperform. Energy also represents a good hedge in case of rising inflation.

Financials and Energy (OW) still look attractive on quant models (based on macro variables), with energy still particularly appealing on different valuation metrics.
Materials look more expensive on quant (slight OW) but still good on revisions. In the last reporting season for Q1 2021, European materials have shown one of the highest annual earnings growth (203% vs the median of 123%).

We then use **Software** (OW) as a hedge to relative performance, as the sector shows an appreciable undervaluation based on quant models and better revisions than average. Another hedge is represented by the **Household** sector (OW) which is neutral based on quant models but has appealing bottoming earnings as well sales revisions. **Tech Hardware** (OW) is neutral on quant models but revisions are bottoming out, too.

We use such relative performance hedges (high quality cyclical growth, and defensive growth in the case of Household) as we approach **tapering discussion, the peak in confidence indicators and GDP quarterly growth with also sign of overvaluation in the cyclical/defensive performance by our quant models**.
We finance Household's OW by a **further increase in Media's underweight** (poor revisions and quant models with average valuation).

In sum, OW positions are: financials, energy, materials, household, software, and tech. hardware.

UW: Cons. services (extreme negative quant, very poor revisions, slightly poor valuation based on mkt multiples), media, real estate (poor revisions and mkt multiple valuation), telecoms (quant overvaluation, poor revisions) and utilities (poor revision and mkt multiples, and mixed quant outcome).

In what follows we provide insight on the tools mentioned above.

At the end of 2019 we introduced our proprietary equity valuation tool "Quant signals for EU equity sectors and styles" to yield indications of over- or undervaluation for different sectors and styles of European equities. The regression-based models use macro- and financial variables to produce fair value estimates of the ratio between the MSCI Europe Sector/Style index and the broad MSCI Europe index.

The table below summarizes current signals for all sectors/styles covered along with some additional descriptive statistics of how they have performed (in total return terms) over the recent past. The 2nd and 3rd columns in the table show numbers from a different approach to modelling, **leveraging on a genetic algorithms process based on machine learning (ML) principles (i.e. evolutionary learning module).** Of course, even this approach is based on historical series of data and is influenced by the big drawdown and volatility experienced this year.

The signals are taken from both types of **quant models:**

- **Undervalued (UV)**: energy, auto and software; defensive, momentum, small cap and min. volatility.
- **Overvalued (OV)**: comm. & prof. services, pharma, telecom. services, media, materials, food, cons. services and retailing; low leverage, large cap and cyclicals.

In terms of weight, the undervalued sectors represent around 16% of the MSCI Europe, while the overvalued ones 27%. However, **the weighted average of the signal** (represented by standard deviations from the corresponding fair value) is **rather balanced**: -1.3 for UV sectors versus 1.6 for OV ones.

Equity Quant Models Signals

Index	ML Approach		Classic Approach		Performances	
	Current ST. DEV.	Over/Undervalued OV/UV	Current ST. DEV.	Over/Undervalued OV/UV	%TR YTD	%TR From Peak (Feb. 19, 2020)
MSCI Europe	-	-	-	-	13.9	6.2
Banks	-0.59	N	0.04	N	30.5	-7.0
Insurance	-0.39	N	-0.83	N	13.2	-1.9
Div. Financials	-0.77	N	-	-	13.6	10.9
Capital Goods	-0.19	N	-0.16	N	14.6	15.5
Transportation	0.90	N	-	-	32.0	46.4
Comm. & Prof. Services	1.78	OV	-	-	8.2	-0.9
Pharma	1.40	OV	1.26	OV	6.1	-3.9
HC Equip. & Services	-0.57	N	-	-	10.0	5.5
Energy	0.36	N	-2.07	Strong UV	14.9	-18.6
Telecom. Services	3.76	Strong OV	-	-	13.2	-6.3
Media & Entertainment	3.07	Strong OV	-	-	11.8	-3.0
Utilities	-1.45	UV	2.53	Strong OV	1.3	-3.5
Materials	2.00	OV	0.61	N	16.7	29.4
Food & Staples Retailing	0.87	N	-	-	9.9	2.1
Food, Beverages & Tobacco	1.81	OV	-	-	10.0	-0.5
Household & Pers. Products	0.59	N	-	-	7.3	4.8
Cons. Durables and Apparel	0.34	N	-	-	22.0	32.0
Cons. Services	1.24	OV	-	-	21.8	1.0
Retailing	1.17	OV	-	-	5.0	15.4
Automobiles & Components	-0.17	N	-1.19	UV	26.2	41.8
Software	-1.84	UV	-2.07	Strong UV	8.0	-9.4
Tech. Hardware & Equipment	-0.08	N	-	-	18.4	31.7
Semiconductors	-0.85	N	-	-	29.6	65.9
Cyclicals	1.79	OV	1.05	OV	17.4	12.6
Defensive	-2.98	Strong UV	-1.59	UV	7.9	-3.9
Value	-0.61	N	0.74	N	15.0	-0.9
Growth	0.44	N	0.48	N	12.7	12.3
Quality	0.27	N	3.09	Strong OV	12.5	12.5
Momentum	-1.00	UV	-0.47	N	11.1	13.5
Large Cap	1.65	OV	0.18	N	14.1	4.6
Large Cap Value	1.07	OV	-1.35	UV	15.2	-2.2
Small Cap	-2.67	Strong UV	-0.21	N	16.4	17.3
Small Cap Growth	-2.73	Strong UV	0.06	N	12.6	23.5
Low Leverage	2.39	Strong OV	3.26	Strong OV	14.6	13.6
Minimum Volatility	-1.97	UV	-2.46	Strong UV	7.7	-2.7

UV = Undervaluation OV = Overvaluation
Last Update: 31/05/2021
Source: Eikon, own calculations

Total return (TR) breakdown (year-to-date): **high correlation between TR and earnings changes**, with notable differences being Energy, Materials and Transportation (lagging their earnigns YTD) and Insurance, Telecom. Services and Media (outpacing).

Total Return decomposition, PE expansion and Risk Measures from 31/12/2020 to 31/5/2021

Index	%TR	%PR	%DY	%EPS	%PE	5Y Beta
MSCI Europe	**13.9**	11.9	2.0	**17.2**	**-4.6**	**1.0**
Banks	**30.5**	28.1	2.4	**31.2**	**-2.4**	**1.3**
Real Estate	**5.8**	4.0	1.8	**0.0**	**3.9**	**0.8**
Utilities	**1.3**	-0.4	1.8	**4.3**	**-4.6**	**0.8**
Auto & Components	**26.2**	24.8	1.5	**40.8**	**-11.4**	**1.3**
Capital Goods	**14.6**	12.6	1.9	**11.1**	**1.3**	**1.2**
Consumer Durables	**22.0**	21.0	1.0	**19.8**	**1.0**	**1.1**
Consumer SVS	**21.8**	21.7	0.1	**22.5**	**-0.7**	**1.2**
Div. Financials	**13.6**	11.8	1.8	**33.3**	**-16.2**	**1.2**
Energy	**14.9**	12.3	2.6	**58.5**	**-29.2**	**1.3**
Food, Bev. & Tobacco	**10.0**	8.0	2.0	**3.9**	**3.9**	**0.7**
Food & Stales Retailing	**9.9**	7.7	2.2	**9.0**	**-1.3**	**0.6**
HC Equip. & Services	**10.0**	9.0	1.0	**2.0**	**6.8**	**0.8**
Household & Pers. Prod.	**7.3**	5.6	1.7	**1.3**	**4.1**	**0.7**
Insurance	**13.2**	8.8	4.4	**2.4**	**6.1**	**1.2**
Materials	**16.7**	13.8	2.9	**39.9**	**-18.7**	**1.1**
Media & Entertainment	**11.8**	11.4	0.3	**6.2**	**4.9**	**1.0**
Pharma	**6.1**	3.4	2.7	**-0.2**	**3.6**	**0.7**
Retailing	**5.0**	4.8	0.2	**7.2**	**-2.3**	**1.0**
Semiconductors	**29.6**	29.1	0.5	**31.6**	**-2.0**	**1.2**
Tech Software & Serv.	**5.1**	4.2	0.9	**6.8**	**-2.5**	**1.1**
Telecom Services	**13.2**	11.3	1.9	**4.2**	**6.6**	**0.9**
Tech Hardware & Equip.	**18.4**	17.8	0.5	**13.5**	**3.8**	**1.0**
Transportation	**32.0**	30.1	1.8	**61.2**	**-19.3**	**1.0**
Comm. & Prof. Services	**8.2**	6.6	1.6	**8.3**	**-1.7**	**1.0**

Earnings are 12-months forward; PE = Price/Earnings 12M forward; DY is estimated as %TR - %Price

Source: Thomson Reuters

As said, the **quantitative analysis is extended with various valuation metrics** (which are a mix of value and growth approaches to valuation), recent **historical performance** data - proxy for **potential technical reversal** - as well as the analysis of trends between earnings/sales **revisions** and sector prices (both relative to the MSCI Europe).

Valuation: we take into consideration **Shiller PE** discount, expected **total return** (calculated as the sum of DY and next years' earnings growth), average **PEG ratio adjusted** for RoE and cost-of-equity, gap from three-stage earnings growth model (8-year history), **market multiples** gap vs history and current **PE** vs historical average **excluding bubble years** (1987-1996, 2003-2007, 2009-2019).

We give weights to different methodologies in order to avoid 100% bias towards a "value" approach (expected Total Return and PEG adjusted have more a "growth" bias, having both a weight of 64%).

Valuation metrics

Sectors (Europe)	Shiller PE, discount	Exp. TR = DY + next years' EPS growth	average PEG*	average PEG adj.*	LT earnigns growth (3yr fwd vs cur-rent year)	LT earnings growth (3-5yr)	DY - 10Y yield	LT DEV gap (the higher = the cheaper)	ST DEV gap (the higher = the cheaper)	Market multiples, discount to history	PE vs. hist. avg. excl. bubble years	Price vs earnings perfor-mance since 1995	Rank 1= most under-valued
weights used in the calculation of rank	9%	32%		32%					9%	9%	9%		
Market	3%	20%	1.1	1.8	19.4%	14.5%	2.8%			22%	40%	21%	5
Auto and Components	5%	53%	0.3	1.8	78.5%	20.1%	3.5%	0.0	0.4	-13%	-2%	-57%	2
Banks	-16%	21%	0.8	2.5	23.0%	9.8%	**4.7%**	2.5	2.2	-4%	6%	3%	7
Capital Goods	40%	25%	1.3	2.0	31.0%	14.2%	1.8%	-3.0	-4.0	48%	91%	40%	13
Commercial/Professional Services	31%	14%	2.2	2.4	13.6%	9.6%	2.0%	-1.7	-1.5	43%	53%	43%	20
Consumer Durables and Apparel	66%	33%	1.1	1.7	34.0%	28.6%	1.5%	-3.8	-4.4	54%	123%	54%	8
Consumer Services	27%	77%	0.9	2.9	108.8%	43.3%	1.0%	-2.7	-1.9	79%	445%	63%	19
Diversified Financials	-2%	14%	1.5	2.5	6.3%	15.7%	2.3%	0.4	0.2	6%	-5%	21%	14
Energy	**-38%**	**89%**	**0.2**	**1.8**	120.4%	48.0%	**4.5%**	**4.9**	**4.0**	**-14%**	**67%**	**-33%**	1
Food and Staples Retailing	-18%	10%	2.3	2.8	8.3%	4.8%	3.5%	3.3	3.2	-11%	-2%	2%	15
Food, Beverages and Tobacco	19%	12%	2.3	2.6	9.1%	9.3%	2.6%	-0.3	1.9	13%	31%	37%	17
Health Care Equipment and Services	20%	16%	1.9	2.4	13.8%	15.1%	1.0%	-1.2	-0.7	20%	47%	51%	16
Household and Pers. Products	3%	8%	2.3	3.3	5.2%	6.2%	2.2%	-0.4	0.4	16%	6%	20%	23
Insurance	-38%	21%	0.8	1.7	11.7%	19.3%	**4.8%**	0.6	1.8	-15%	-19%	-74%	3
Materials	30%	17%	1.1	1.7	14.5%	12.1%	3.7%	-1.1	-1.2	9%	24%	12%	6
Media	-11%	16%	1.7	2.5	18.4%	9.8%	2.0%	2.0	1.4	22%	-7%	21%	10
Pharmaceuticals, Biotechnology and Life	-9%	11%	2.2	2.4	7.4%	8.2%	2.7%	0.4	1.4	15%	2%	14%	12
Real Estate	-40%	8%	2.3	3.3	5.4%	4.2%	2.9%	2.7	3.3	11%	-1%	0%	21
Retailing	26%	39%	1.3	2.1	45.6%	31.0%	0.9%	-1.2	-0.9	80%	220%	60%	11
Semi-Conductor and Semi-C. Equipment	112%	26%	1.5	1.9	25.5%	25.9%	0.5%	-4.9	-4.3	92%	16% -		18
Software and Services	30%	11%	2.3	3.3	11.5%	8.7%	0.9%	-2.0	-1.9	41%	-5%	-5%	25
Technology Hardware and Equipment	236%	11%	2.1	2.5	9.2%	10.8%	1.2%	1.3	-0.6	31%	-72%	26%	22
Telecommunication Services	-24%	12%	**2.1**	**2.7**	6.1%	8.0%	4.5%	3.2	3.0	-13%	-64%	1%	9
Transportation	-2%	93%	1.1	2.2	170.4%	10.3%	2.2%	-5.0	-5.5	45%	213%	30%	4
Utilities	3%	10%	**2.3**	**3.3**	7.6%	3.7%	4.2%	0.3	-1.0	18%	37%	30%	24
Median	**3%**	**16%**	**1.5**	**2.4**	**0.1**	**10.8%**	**2.3%**	**-0.1**	**-0.2**	**18.0%**	**15.9%**	**21%**	
Average	**18%**	**27%**	**1.6**	**2.4**	**0.3**	**15.6%**	**2.6%**	**-0.2**	**-0.2**	**23.7%**	**49.7%**	**16%**	
st. dev.	*57%*	*25%*	*0.7*	*0.5*	*0.4*	*11.6%*	*1.3%*	*2.5*	*2.6*	*30%*	*107.5%*	*34%*	
a) Discretionary+Transp. average	**13%**	**46%**	**1.2**	**2.3**	**0.7**	**21.1%**	**2%**	**-1.1**	**-1.1**	**37%**	**141%**	**25%**	
b) = (a) -food retail, retail and C.serv.	14%	49%	**1.0**	**2.1**	**0.8**	**17.2%**	**2.3%**	**-1.7**	**-2.0**	**27.0%**	**81.6%**	**12%**	

Note: The discretionary sectors = auto, consumer durables, consumer services, media, retailing.
fwd **PEG** is 12m fwd PE divided by expected long-term EPS growth (3-5yrs). EPS = 12m fwd earnings. **Trailing PEG** = trailing PE divided by earnings growth (3yr fwd vs current year).
Average PEG is the average of fwd PEG and trailing PEG. **PEG adj.** (higher = expensive): PEG is modified by the ratio COE/ROE which signals the ability to produce a return on capital higher than the cost of it. COE = cost of equity = 10yr gov't bond rate + 6% mkt risk premium x country Beta versus MSCI WORLD (monthly returns over the last 10 yrs).
DEV gap = three-stage discounted earnings based valuation vs. MSCI Europe (higher positive gap = cheaper valuation).
Mkt Multiples (PE, PB, PCF, and DY) are based on 12m forward estimates. PEs are since 1987, the rest is since 2003.
Shiller PE: Price earnings ratio based on average inflation-adjusted earnings from the previous 10 years.
The rank is derived from the valuation score, which is calculated as a sum of standardized expected total return (32%), average PEG ratio adj. (for ROE and COE) (32%), Shiller PE discount (9%), gap from 8 year three-stage earnings growth model (9%), market multiples discount taken from 2004 (9%), and PE vs. hist. avg. excl. bubble years (9%).

Starting from valuation (80%) we add then **a measure of potential technical reversal** (with a weight of 20%) which is proxied by the **relative performance** achieved in the last 6/12 months.

Valuation + potential technical reversal

Sectors (Europe)	(1) Valuation score (80%) (lower=better)	(2) avg rel. performance (20%) (lower=better)	rel. perf. - 6M (TR)	rel. perf. - 12M (TR)	Beta 5 yr	R2 (Beta 5y)	Style	Rank (1) + (2)
Energy	-1.5	-5.2	-2.1	-8.2	1.3	57%	Value	1
Auto and Components	-0.9	24.1	11.2	36.9	1.4	76%	-	2
Insurance	-0.7	2.1	-1.9	6.2	1.2	77%	Value	3
Market	-0.3	0.0	0.0	0.0	1.0	100%	-	4
Transportation	-0.6	25.7	13.3	38.1	1.1	73%	-	5
Materials	-0.3	9.8	5.7	13.9	1.1	78%	-	6
Pharmaceuticals, Biotechnology and Life	0.0	-15.7	-7.6	-23.8	0.6	36%	-	7
Telecommunication Services	0.0	-6.1	-3.0	-9.2	0.9	58%	-	8
Retailing	0.0	-4.0	-6.5	-1.5	1.0	56%	-	9
Banks	-0.1	13.3	8.4	18.1	1.5	64%	Value	10
Food and Staples Retailing	0.1	-8.8	-5.3	-12.4	0.6	40%	-	11
Media	0.0	1.7	-0.6	4.1	1.1	73%	-	12
Health Care Equipment and Services	0.2	-8.1	-1.8	-14.4	0.9	60%	-	13
Consumer Durables and Apparel	-0.1	16.2	8.8	23.6	1.0	71%	Growth	14
Food, Beverages and Tobacco	0.2	-7.0	-2.0	-12.0	0.6	51%	-	15
Capital Goods	0.0	5.9	-0.4	12.1	1.3	88%	-	16
Diversified Financials	0.1	1.7	-0.6	4.1	1.2	77%	-	17
Commercial/Professional Services	0.3	-7.2	-3.1	-11.3	0.9	71%	Growth	18
Consumer Services	0.2	13.6	9.5	17.6	1.3	73%	Growth	19
Real Estate	0.5	-6.2	-6.3	-6.1	1.0	68%	Value	20
Semi-Conductor and Semi-C. Equipment	0.2	27.6	20.7	34.6	1.3	58%	Growth	21
Technology Hardware and Equipment	0.5	4.4	1.7	7.0	0.8	33%	-	22
Household and Pers. Products	0.7	-8.5	-7.9	-9.1	0.5	36%	Growth	23
Utilities	0.7	-6.4	-8.9	-3.8	0.8	53%	Value	24
Software and Services	0.8	-8.1	-2.3	-13.9	1.0	58%	Growth	25

Note: Rank is derived from valuation (80%) and the average relative performance (20%) (which considers 6m and 12m relative performance of each sector vs the MSCI Europe). The valuation score is calculated as a sum of standardized expected total return (32%), average PEG ratio adj. (for ROE and COE) (32%), Shiller PE discount (9%), gap from 8 year three-stage earnings growth model (9%), market multiples discount taken from 2004 (9%), and PE vs. hist. avg. excl. bubble years (9%).
A sector is "Value" when its contribution to the MSCI EU Value index is at least 4 times higher than its contribution to the Growth index.
Most negative valuation score = cheapest = highest valuation rank (1); lowest perf. = highest perf. rank
Average PEG is the average of fwd PEG and trailing PEG. fwd PEG is 12m fwd PE divided by expected EPS long-term growth. EPS = 12m fwd earnings.
Trailing PEG = trailing PE divided by earnings growth F0-F3.

Overall, our final decision (OW/UW) is derived from:

- **quant signals and earnings/sales revisions momentum**
- **final score obtained through valuation and performance,**
- **macro view - point of the cycle considerations -** tilt we want to give to sector allocation - **plus policy action support expected.**

Summary table

Sectors (Europe)	Rank (valuation + performance) (1=best)	QUANT / ML* Current ST. DEV. (lowest = best)	QUANT / ML* (Over/Under-valued OV/UV)	Earnings / sales revisions TREND	Earnings / sales revisions GAP
Market	4				
Auto and Components	2	-1.2 / -0.2	UV / N	-	=/-
Banks	10	0.0 / -0.6	N / N	-	+
Capital Goods	16	-0.2 / -0.2	N / N	+	=
Commercial/Professional Services	18	- / 1.8	- / OV	+	+
Consumer Durables and Apparel	14	- / 0.3	- / N	=/-	+
Consumer Services	19	- / 1.2	- / OV	-	--
Diversified Financials	17	- / -0.8	- / N	-	+
Energy	1	-2.1 / 0.4	Strong UV / N	=/-	+
Food and Staples Retailing	11	- / 0.9	- / N	-	=
Food, Beverages and Tobacco	15	- / 1.8	- / OV	+	-
Health Care Equipment and Services	13	- / -0.6	- / N	+	+
Household and Pers. Products	23	- / 0.6	- / N	+	=/+
Insurance	3	-0.8 / -0.4	N / N	-	=
Materials	6	0.6 / 2.0	N / OV	+	+
Media	12	- / 3.1	- / Strong OV	-	-
Pharmaceuticals, Biotechnology and Life	7	1.3 / 1.4	OV / OV	+	=/+
Real Estate	20	- / -	- / -	=/+	-
Retailing	9	- / 1.2	- / OV	-	=
Semi-Conductor and Semi-C. Equipment	21	- / -0.9	- / N	=/-	=/+
Software and Services	25	-2.1 / -1.8	Strong UV / UV	+	=/-
Technology Hardware and Equipment	22	- / -0.1	- / N	+	=
Telecommunication Services	8	- / 3.8	- / Strong OV	-	-
Transportation	5	- / 0.9	- / N	=/+	-
Utilities	24	2.5 / -1.5	Strong OV / UV	-	+

* ML: results based on machine learning approach

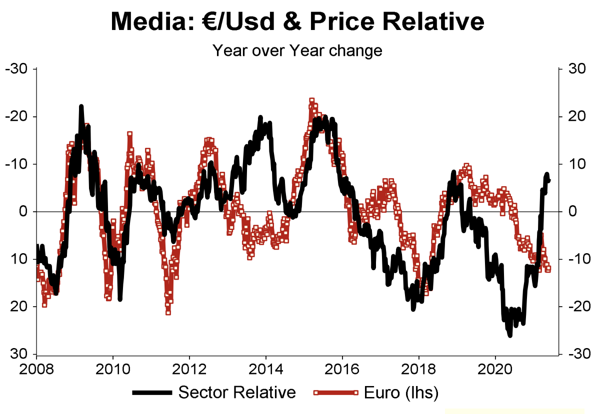
Sectors	PE		PB		PCF		DY		Avg.	PEG adj. *
	12m f	Discount	12m f	Discount	12m f	Discount	12m f	Discount	Discount, %	
Europe	16.3	24.8	1.9	14.6	9.7	26.6	3.0	-20.0	21.5	1.8
Auto and Components	8.1	-36.6	1.0	-4.9	4.2	0.8	3.7	11.4	-13.0	1.9
Banks	10.2	1.2	0.7	-32.2	6.2	16.2	5.0	0.4	-3.8	2.8
Capital Goods	22.2	50.7	3.5	54.5	14.8	54.5	2.1	-31.9	47.9	2.2
Commercial/Prof.Services	23.5	40.3	7.2	69.5	17.0	44.5	2.2	-18.4	43.2	2.7
Consumer Durables & Apparel	28.0	67.4	3.9	58.3	20.4	65.1	1.7	-26.9	54.4	1.6
Consumer Services	37.9	122.3	3.6	32.1	21.5	103.5	1.3	-59.7	79.4	2.9
Diversified Financials	12.8	13.2	1.1	-9.4	7.2	-10.6	2.5	-29.2	5.6	1.9
Energy	10.5	-8.1	1.1	-27.3	4.0	-26.3	4.7	-5.3	-14.1	1.8
Food and Staples Retailing	13.4	-2.7	1.5	-13.2	5.8	-13.4	3.8	13.8	-10.8	3.3
Food, Beverages and Tobacco	20.1	18.7	3.3	1.0	15.6	21.4	2.8	-10.6	12.9	2.4
Health Care Equip.and Services	26.3	33.6	3.1	5.4	16.1	24.1	1.3	-15.5	19.6	2.2
Household and Pers. Products	23.1	19.8	5.2	31.9	18.3	18.2	2.5	4.1	16.5	3.9
Insurance	10.8	12.9	1.1	-4.1	9.5	-67.4	5.1	3.2	-15.5	1.5
Materials	13.4	3.9	2.2	33.8	8.7	20.2	4.0	23.4	8.6	1.7
Media	19.8	28.8	1.9	-19.0	12.1	37.5	2.3	-40.8	22.0	2.8
Pharmaceuticals, Biotech. and LS	16.5	13.9	3.8	14.6	14.2	18.8	2.9	-12.7	15.0	2.2
Real Estate	18.9	4.1	0.9	0.1	17.5	9.0	3.1	-29.4	10.7	5.8
Retailing	36.9	106.0	4.3	38.5	25.7	108.1	1.2	-66.2	79.7	2.1
Semis	33.8	28.5	8.3	180.2	28.5	124.7	0.7	-33.9	91.8	1.7
Software and Services	27.8	47.9	4.6	34.6	22.4	46.8	1.1	-34.1	40.8	3.6
Tech. Hardware and Equipment	21.0	25.1	3.1	36.1	14.1	10.4	1.4	-50.3	30.5	2.3
Telecommunication Services	14.5	-26.5	1.3	-14.6	3.5	-23.6	4.7	-13.6	-12.8	2.4
Transportation	19.9	33.2	3.4	76.8	9.7	44.6	2.4	-23.9	44.6	3.0
Utilities	16.7	26.7	1.9	17.5	6.7	14.3	4.4	-13.7	18.0	5.0

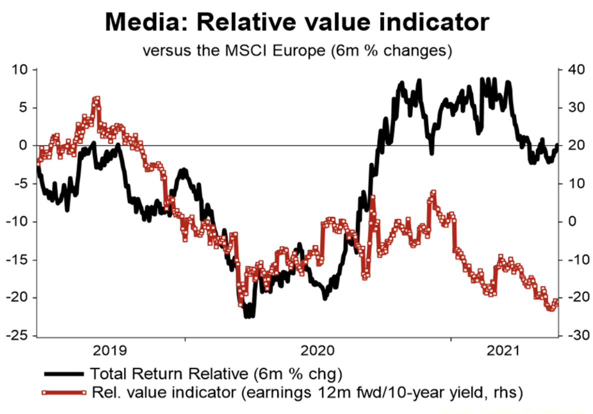
Note: Discount in % to long-run norm; 12m f = expected in 12 months. Multiples are since 2004. In case of DY, a discount means the market had a higher DY, meaning the market is at premium for this multiple.
PEG adj. (higher = expensve): PEG (12m fwd PE / earnings growth over 2-5 yrs) is modified by the ratio COE/ROE, which signals the ability to produce a return on capital higher than the cost of it. COE = cost of equity = 10yr govt bond rate + 6% mkt risk premium x country Beta versus MSCI WORLD (monthly returns over the last 10 yrs).
Source: Thomson Reuters Datastream, IBES estimates.

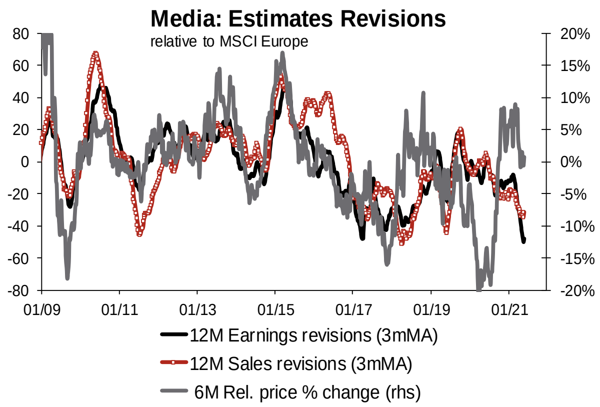
Please find below **some additional insight on Media and Household**, the sectors subject to changes this month.

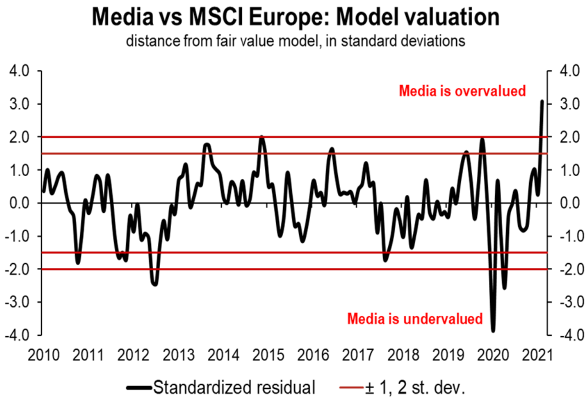
Media (higher UW)

The sector is characterized by poor earnings and sales revisions, unsupportive quant models and a large positive gap between the total return relative and the relative value indicator.



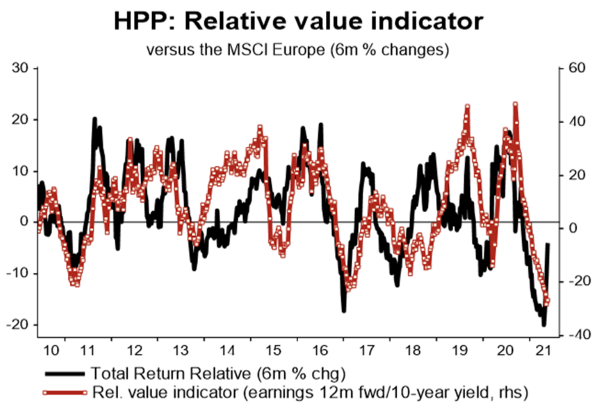


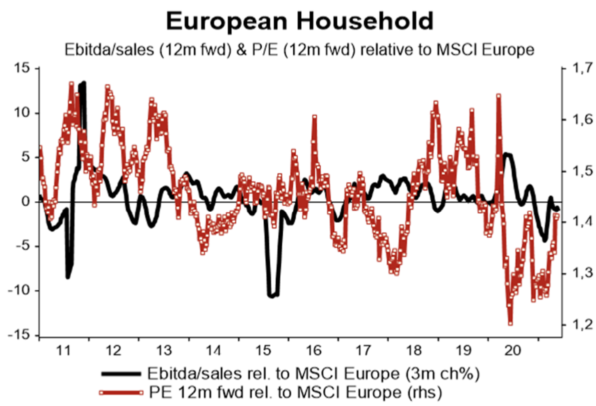


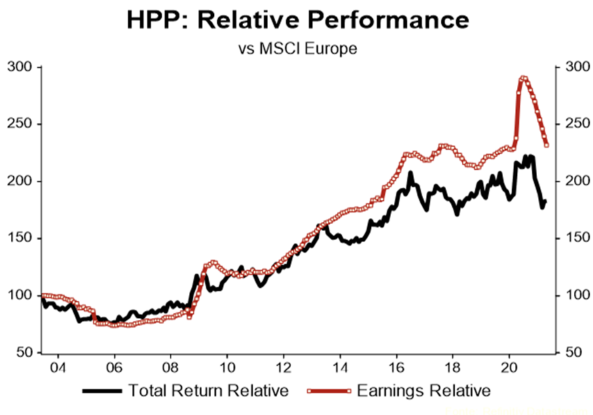


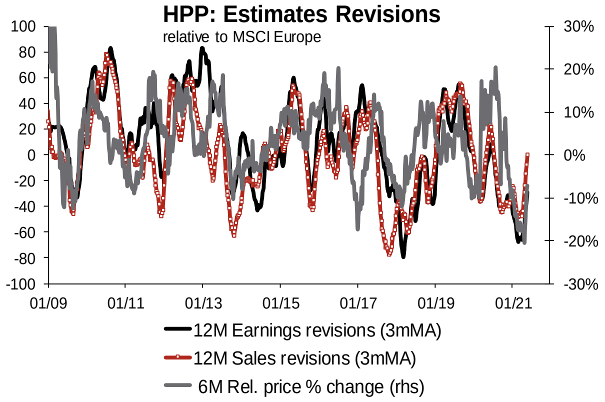
Household & Personal Products (higher OW)

The sector is characterized by a stronger earnings trend vs MSCI Europe and should provide a hedge in case of market correction, as it has shown one of the lowest drawdowns among European sectors. Earnings and sales revisions have bottomed and are now moving on the upside, supporting a positive momentum for the sector.

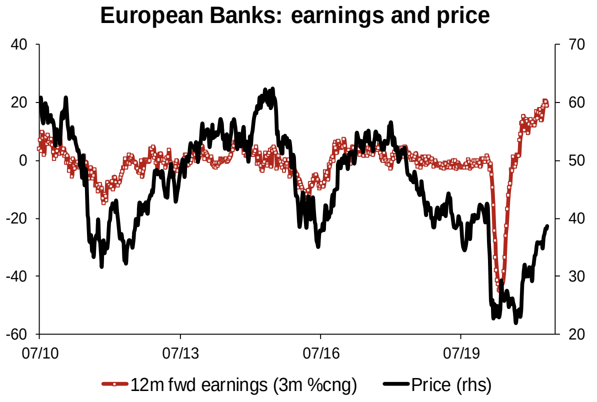


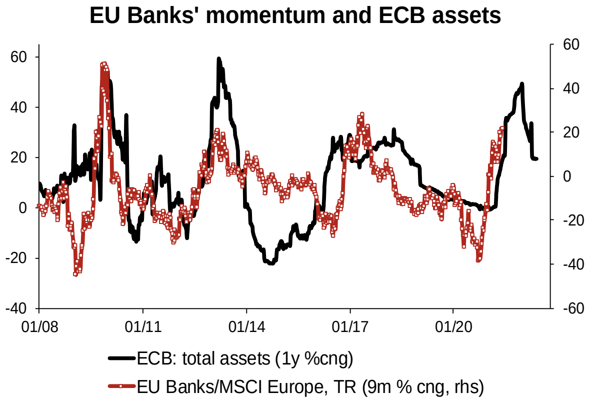


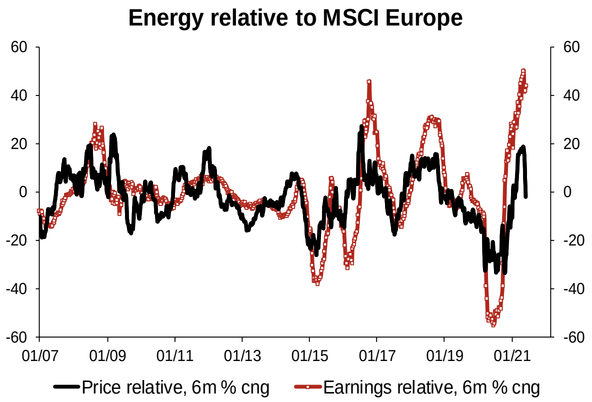


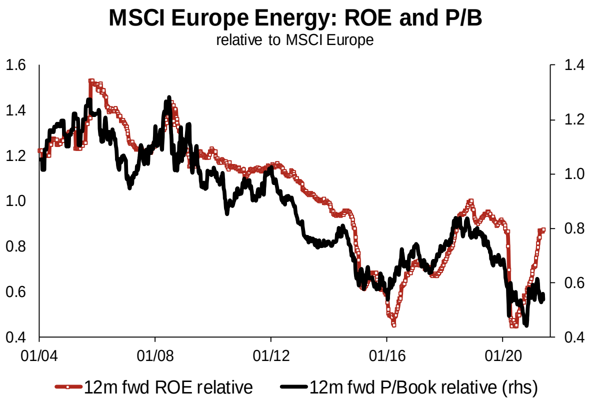


Banks and Energy look quite attractive.









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