Stifel Equity Research – Macro & Portfolio Strategy Outlook

S&P 500 to 2,500 in 2017 led by Reflation Trade; S&P 500 then tops in 2018, with a bear market 2019

In our view:

S&P 500: As deflation fears transition to reflation confidence, low rates magnify P/E in front of rising EPS

Reflation Trade: S&P 500 EPS +17.7% y/y 2017E, pricing power with economic growth lifts Reflation Trade

GDP Syncs: Balanced growth without U.S. overheating, just as world GDP improves and syncs in 2017E

End Game: It is the final run for post-09 bull market; the next bear market reminds us of challenges ahead

Supplemental: Other Relevant Sections

What 200 years of commodity cycles tell us about the outlook for financial assets

Fiscal is a “grow or bust” situation, the healthcare fiasco, robots to the rescue?

De-globalization: Oh yes, it is very real…and there are major challenges ahead

Predicting the market 10 years ahead (P.S. - S&P 500 drops to 2,100 in 1Q 2019)

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**S&P 500**: As deflation fears transition to reflation confidence, low rates magnify P/E in front of rising EPS

- Recovering S&P 500 EPS with still low rates lift the S&P 500 to 2,500 within a year.
- The pace of S&P 500 price gain should slow as the y/y growth of EPS peaks in 3Q17.
- Fed is unlikely to “over-hike” in 2017 (but does so by 2018, at a rate of only 1.75%).
- We think continuation of the post-2009 bull market hinges on a higher U.S. 10Y yield.

Source: Stifel.
Low rates with positively inflecting EPS should overcome the deflation wall of worry\(^{(1)}\), lifting the S&P 500 price to 2,500. Capitalizing 2017E S&P 500 EPS of $125 +17.7% y/y (Street $130) by our mid-grade Baa yield forecast of 5% is an S&P 500 fair value of 2,500.

Investors are shaking off their deflation fear. Fed rate hikes are eliciting progressively smaller S&P 500 pull-backs (top chart), and recent oil price weakness is seen as temporary\(^{(2)}\), causing investors not to be fearful of deflation (bottom).

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\(^{(1)}\) The “wall of worry” among investors the past five years has been that low rates are a sign of deflation risk, which is a negative for EPS growth. For example, the price implied by capitalizing S&P 500 EPS at the Baa rate (green line, left chart) was well above the actual S&P 500 price (black line) 2011-15, but with the lines now rising in unison since 2016 we see that as a sign of reflation confidence.

\(^{(2)}\) We attribute the recent spike in U.S. oil inventories to latent arrivals (90d transit) of pre-OPEC Agreement cargos and mild weather. We expect inventory to now fall with refinery seasonal restarts.
We see EPS lifting the S&P 500 price, albeit at a slower pace after Sep-2017E when y/y EPS slow. S&P 500 returns usually moderate a few months before peaks in y/y growth during EPS recoveries\(^1\) (top chart), which we see occurring by Sep-2017E in this cycle (bottom chart).

Will stocks follow a typical pre- & post-recession pattern? Examining average stock prices in all (eleven) post-WW2 economic cycles\(^2\), two years before a recession (i.e., 2017) is a good year for stocks, followed by a peak (2018) and then a recession / bear market (2019).

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Source: National Bureau of Economic Analysis and Bloomberg data, Stifel format.

\(^1\) Major EPS growth rate peaks >20% y/y that we use are: Sept-47, Dec-50, Sept-55, Dec-73, Dec-76, Sept-79, Jun-84, June-88, Mar-95, Mar-00, Dec-03, and Jun-10.

\(^2\) National Bureau of Economic Research (NBER) dates the U.S. business cycle, as peaks (recessions begin) and troughs (recovery begins). Since 1946 in 11 business cycles the stock market (using the Dow Industrials) peaked a mean 9.0 months before the start of recessions, with a standard deviation of 9 months, implying U.S. stocks peak ~Mar-2018 +/- 9 months.
Critically important to understand: the Fed is farther along with “hikes” than investors realize. Interest rates weigh heavily this cycle (excess debt, high valuation, the need for EPS reflations), and we believe the Fed began tightening in May 2014 (half-way through QE3 taper) when the Atlanta Fed Shadow Fed Funds bottomed at minus 3% (left, blue line). We see further 25bps Fed rate hikes in Jun-2017, Nov-2017 and Jan-2018, the last just days before the Chair’s term ends Feb-2018 (left, magenta line), with fed funds reaching 1.75%. That is the top of a post-1980 recession-leading downtrend (left chart, red diagonal line) attributable to the deflationary effect of debt. The logic of the Shadow Fed Funds having bottomed May 2014 is valid based on the behavior of markets and sectors since 2013 (right chart).

Source: U.S. Federal Reserve and Bloomberg data, Stifel format.

(1) We believe this rate cycle began in May 2014 when the Shadow Fed Funds (Atlanta Fed) bottomed at minus 3% during the QE3 taper and began rising. The Shadow rate shows what fed funds rate would have looked like if investors had not had recourse to cash, i.e., if 0% had not been the floor during the era of 0% rates from 2008-15.
We believe that continuation of the post-2009 bull market requires a higher U.S. 10Y yield. When the bull market ends the bond proxies (REITs, Utilities, Telco, Staples, which move opposite the 10Y yield) may provide shelter from a likely deflation shock / recession in which the 10Y yield would fall. *We just believe it is too soon to make that call*, and instead foresee the 10Y peaking at 3% by late 2017 / early 2018 (left chart). We believe a yield higher than 3% is unlikely this cycle, however, given low yields abroad that anchor U.S. bond yields. Debt levels remain deflationary and global rebalancing remains a challenge, causing central banks to move slowly. Thus, we see a 10Y yield cap of 3% this economic cycle and 4% the next economic cycle, range-bound into the mid-2020s. (right chart).
In our view:

Reflation Trade: S&P 500 EPS +17.7% y/y in 2017, pricing power with economic growth lifts the Reflation Trade

- We see Reflation Trades resuming leadership as both global growth and EPS recover.
- Reflation Trade stocks and pricing power\(^{(1)}\) are breaking out of their post-Crisis slide.
- 2017 S&P 500 EPS(E) $125 +17.7%, with about half of that EPS gain Financials + Energy.
- Despite the temptation to sell the elevated Reflation Trade P/E, wait for EPS in 2017.

Source: Stifel.

\(^{(1)}\) We calculated a harmonic mean for the PPI & CPI price indices corresponding to 20 Reflation Trades relative to 20 Deflation Trades. By using a harmonic mean we remove distortion from outliers such as the PPI Oil & Gas which has base effects versus the Feb-2016 low. In addition, we use multiple inflation indices within the 20 Reflation and 20 Deflation industries to better match the specific companies contained within each S&P industry.
After a balance sheet recession (1), credit & capex are naturally slow to recover (i.e., little need for new debt and more capacity), making credit & capex stocks *de facto* “late cycle.” The 20 S&P industries responding well (green) and poorly (red) to reflation are from our 11/3/16 pre-election report on reflationary populism.

S&P 500 Industry correlations vis-à-vis seven reflation metrics. Correlations span Oct. 2011 to Oct. 2016, other data is 3/17/2017, intraday. Figures shown are rankings from 0 to 1, exclusive.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Ticker</th>
<th>GICS Industry</th>
<th>Market Cap (M)</th>
<th>TTM Total Return</th>
<th>Factor (A) U.S. T/L's</th>
<th>Factor (B) 5/5Y Forward Inflation</th>
<th>Factor (C) U.S. Trade-Weighted Dollar (Major)</th>
<th>Factor (D) 10 Yr- minus Policy Rate (Global Yield Curve Proxy)</th>
<th>Factor (E) U.S. 10Y Yield</th>
<th>Factor (F) S&amp;P 500 Value wave</th>
<th>Factor (G) China Nom. GDP (CHN)</th>
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Source: Bloomberg data, Stifel.

(1) A balance sheet recession is a type of economic recession that occurs when higher levels of private sector debt cause individuals or companies to collectively focus on saving (i.e., paying down debt) rather than spending or investing, causing economic growth to slow or decline.
We see a third leg up for the Reflation Trade, supported by EPS and pricing power. The relative strength of the 20 equal-weight Reflation Trades have oscillated up since Jan-2016 while Deflation Trades have retreated (left charts). Note that Reflation Trade relative pricing power\(^{(1)}\) is now \(\geq 0\%\) (red line & circle, right chart) and the trade’s relative stock performance (blue line, right chart) has broken out of the post-2008 Crisis downtrend.

\(^{(1)}\) We depict the harmonic mean for the PPI & CPI price indices corresponding to the 20 Reflation Trades versus the 20 Deflation Trades. By using a harmonic mean we remove distortion from the PPI Oil & Gas which enjoys base effects versus the Feb-2016 low. In addition, we use multiple inflation indices within industries to better match the specific companies within the S&P industry.
We estimate 2017 S&P 500 EPS of $125 +17.7% y/y (Street +22.6%), with about half of gain Energy & Financials. EPS consensus for 2017 is $130 but usually falls as the year progresses (top, left). Financials & Energy are just under half of the EPS growth in 2017E (bottom, left) as cyclical growth recovers from the 2014-15 slowdown (right chart).
EPS recovery favors the cyclical side of the economy. The soaring dollar during the 2014-15 Fed policy divergence\(^{(1)}\) contributed to oil collapsing, which led to negative U.S. y/y Industrial Production (IP), previously unheard of outside of recessions! But IP recoveries typically last for several years.

Stronger manufacturing orders with depleted inventory is favorable for Industrial Production and the S&P 500. When the ISM Orders index minus the ISM Inventory index rises (green line) that signals production, EPS and S&P 500 price strength (black line). The S&P 500 at +10% y/y (circled) by year-end 2017 would be 2,500.

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(1) On Jul-1, 2014 the currency markets began to anticipate Fed hawkishness and what was (in retrospect) premature exit vis-à-vis extreme central bank easing abroad (e.g., negative rates ECB, BoJ).
Most of the EPS recovery for the 20 Reflation Trade industries (equal-weighted) that we cite occurs after y/y U.S. Industrial Production (IP) turns positive, and we note that U.S. IP on a y/y basis only rose above zero in Dec-2016. The 20 Reflation Trades we cite (green lines) historically have a strong price gain (top chart) in advance of EPS (bottom chart), with all of the earnings gains occurring after IP turns positive (gray bars are periods with negative y/y IP).
In our view:

**GDP Syncs:** Balanced growth without the U.S. overheating, just as world GDP improves and syncs in 2017E

- Higher U.S. 10Y would signal reflation, but that will require higher 10Y yields *abroad*.
- U.S. fiscal spending seems hyped, but business tax cuts are more likely, lifting profits.
- At full employment we see U.S. wages +4% y/y (2.8% now), then Fed exits, S&P peaks.
- Europe may see loan growth and thus GDP, while China has reflation to lift NGDP.

Source: Stifel.
A higher U.S. 10Y yield would signal reflation, but that requires higher 10Y yields overseas (global growth, less QE abroad). Low 10Y yields abroad (G10 ex-U.S.) weigh on the U.S. 10Y yield. As U.S. inflation rises and the foreign floor for rates lifts (ECB, BoJ slow QE), the U.S. 10Y could rise to 3% (2.25% inflation, 0.75% real).

We see little reason to fear a deflationary dollar spike. A plausible scenario (within a year) is a U.S. 2Y yield of 2.25E% and the G10 ex-U.S. 2Y rising from -.25% to 0%, resulting in a 5% dollar rise. We believe this would require a scaling back of ECB and BoJ QE, which we see occurring due to lack of bond supply.

Source: Bloomberg data, Stifel format.
So as not to repeat the 2014-15 policy divergence\(^{(1)}\) mistake, we need to see U.S. long-term inflation views\(^{(2)}\) rise in tandem with dollar strength. Divergence between the 5y/5y inflation swap rate (black line) and dollar (green line) would just repeat the stress of 2014-2015.

Synchronized global growth is thus the key ingredient to lift the S&P 500. Rising global PMIs are pointing to better global GDP, although 2H17 will show whether growth continues. If so, that would reduce existing policy divergence, which we would view favorably.

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**Global PMIs are converging and expanding...**

- **U.S.**
- **Eurozone**
- **Japan**
- **China**
- **U.K.**
- **Global**

**Good exit?**

The Fed’s first attempt at exit in 2014-15 led to a destructive dollar spike and collapsing inflation views.

**Premature exit\(^{(2)}\)**

The Fed’s first attempt at exit in 2014-15 led to a destructive dollar spike and collapsing inflation views.

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(1) On Jul-1, 2014 the currency markets began to anticipate Fed hawkishness & premature exit vis-à-vis extreme central bank easing overseas (e.g., negative rates). The Fed reversed course in 1Q16.

(2) Five year forward inflation is the “5-year forward 5-year inflation swap rate” (Bloomberg FWISUS55) investors’ expectation of average inflation over the 5-year period beginning 5 years from today.
U.S. defense and infrastructure spending would help, but we are wary of “fiscal hype.” We see at most +65bps of incremental fiscal GDP spending\(^{(1)}\) ($120B), but doubt it starts before calendar 4Q17 (Federal fiscal 1Q18).

Corporate tax cuts may be a more potent fiscal factor. The Ryan Plan 20% corporate tax rate (incidentally, equal to the OECD average) with no other changes lifts after-tax S&P 500 income +7% per Ned Davis Research.

Other proposed tax factors support populist ends by utilizing the tax code, but their outlooks are more politically fluid:

1. **Border Adjustment Tax (BAT):** Imports taxed, exports tax-free. Shifts tax from income to consumption (aging society) and offsets the subsidy to exports that other regimes provide by refunding their VATs at export.
2. **Non-deductibility of interest:** Interest deductibility combined with payroll taxation and healthcare costs magnified the use of debt and debt-for-labor substitution since the 1980s, a factor in lost manufacturing jobs.
3. **Write-off of equipment at purchase:** Investment is key to productivity and to an extent employment, and deductibility of capex may encourage both.


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(1) $70B of infrastructure and ~$50B of defense in the first year of spending is worth 65bps of GDP ($120B / $18.6T GDP) at a 1x multipier (no output gap). Timing/funding are issues we watch.

(2) A [2015 Pentagon Study](#) by the Defense Business Board outlined a path to saving $125B over 5 years by improving DoD administrative processes to enhance productivity and reduce overhead.
In the U.S. we especially watch wage rates. Hourly Wages\(^{(1)}\) may rise in the next 1-2 years as the U.S. is just now reaching full employment. We think wages running hot at +4% y/y actually benefits\(^{(2)}\) sustainable growth and productivity, but we doubt the Fed agrees.

We expect +4% y/y hourly wages to occur before an S&P 500 top, events we see by 2018-19. We see 4% nominal (i.e., about 2% real) wages by 2018. The S&P 500 did not peak until Jul-1990, Mar-2000, and Oct-2007 (before recessions but after achieving 4% wage growth).

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(1) Average Hourly Earnings (AHE) All Employees Total Private SA data 2006 to present. Prior data are AHE Non-Supervisory Production SA.

(2) If labor costs rise we see a chain reaction of capex to mitigate those labor costs, leading to better productivity. In addition, personal savings rates may fall, lifting consumption.

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Source: Federal Reserve, Bureau of Economic Analysis & Bloomberg data. Stifel format.
In Europe, we also watch for loan growth and bank recapitalization. Given the lack of Eurozone fiscal policy support, the lending channel is critical (1) for Eurozone growth. Note that Eurozone loan growth of 4% y/y equates to Eurozone GDP growth of about 2%.

We believe the China PPI (which has been lifted by stimulus and devaluation) signals higher 1H 2017 China nominal GDP. Although the PPI is influenced by commodities and cannot sustain growth, it helps the global reflation sentiment and the higher yield case.

Source: Bloomberg data, Stifel format.

(1) Perhaps in the wake of populist pressures at the ballot box, and having given up on fiscal support, the ECB may take the lead in pushing harder (e.g., via bank stress tests) for political authorities to resolve the continent’s estimated €1 trillion ($1.1 trillion) non-performing loans, the persistence of which has hampered lending.
**In our view:**

**End Game:** This is the final run for post-2009 bull market; the next bear market reinforces the challenges ahead

- This is the final run (to 2018) for the post-09 bull market, then it’s range bound to ~2024.

- We’d move up our S&P 500 top by a year (to late 2017) if Fed repeats a “year 2000” error.

- Global rebalancing & populism will be with us for many years, lowering equity returns.

- If it’s “too soon” to expect global rebalancing\(^{(1)}\), then low correlation warns of correction.

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Source: Stifel.

\(^{(1)}\) Global rebalancing refers to the process by which “excess savers” (e.g., China, Germany, Japan) save less (via less growth) or spend more (thereby raising inflation), which reduces the availability of excess savings that had previously been exported by the excess savers (via large current account surpluses). The offsetting “excess spender” deficit countries (e.g., U.S., UK, some peripheral EU states, several EM countries), which had been recipients of the excess savers’ surpluses, would likely see higher borrowing costs (lower P/E multiples, lower growth), lower consumption (affordability issues/less access to credit) and increasing bad debt (not serviceable). Populism is less a cause of these problems than a symptom of the unsustainable conditions that were created by these savings/investment/consumption imbalances, which we expect to take years to resolve while creating periodic shocks.
We realize that we’re squeezing the last little bit out of the post-2009 bull market. These charts from our 4/5/2016 report show that three valuation & sentiment variables\(^{(1)}\)** advanced 10 years** are predictive of S&P 500 total return (left chart). Subtracting dividends from total return we can then estimate the S&P 500 price\(^{(2)}\)** level** from 2017 to 2026E (right chart). This technique depicts a market that is broadly range-bound for a decade, 2015 to 2024E. We attribute that possibility to rate normalization (which lowers the P/E) combined with global rebalancing (which pressures EPS).

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**Trailing 10-Year S&P 500 Total Return vs. CAPE Ratio, Household Equity (% Fin’l Assets) & Tobin’s Q (All advanced 10 years)**

10 year anniversary of the 2009 Crisis low portends 2,095 for S&P 500 in Feb-2019E\(^{(3)}\)

**Dotted line** is the trailing 10 year S&P 500 total return to 2026E

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**S&P 500 Index 2006 to Present (Green) vs. Model-Based\(^{(2)}\)** Projections 2006-2026E

GREEN: Actual S&P 500 from 2006-2017

BLUE: S&P 500 as predicted a decade earlier by the CAPE, Tobin’s Q & Household Equity Model

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(1) To overcome single method deficiencies, we combine a “flow” variable (CAPE), a “stock” variable (Tobin’s Q), and a “sentiment” variable (Household stocks NIPA 158) to forecast the S&P 500.

(2) Knowing the prior month S&P 500 and the model prediction for n+1 month trailing 10 year total return, we subtract dividend yield and impute the price level for the S&P 500 n+1, n+2, n+3, etc.

We would move up our S&P 500 top by a year (to late 2017) if the Fed repeats its “year 2000” error. 1997-2000 (top row) parallels 2014-2017 (bottom row) as bookends (i.e., 2000 & 2015) for the China-saving versus U.S.-debt imbalance, which reached a climax half-way through the period (i.e., mid-2007, pre-GFC). If S&P 500 EPS growth rolls over sharply in 4Q2017 as in 4Q2000 (point A) while global recession risk bottoms and resurges (B) and the 10Y-to-fed funds curve flattens but the Fed hikes anyway (C), then we would have to call the bull market over.

Source: Bloomberg, Organization of Economic Cooperation & Development (OECD) & Ned Davis Research data, Stifel format.

(1) Measures the probability of a global recession via CLI’s (Amplitude-Adjusted Composite Leading Indicators) per OECD and Ned Davis Research, shown 3-month smoothed. Twenty-six OECD western economies plus the non-OECD countries Brazil, China, India, Indonesia, Russia & South Africa are part of the index.
If it is “too soon” to believe in smooth global rebalancing then low correlation may foreshadow a correction. The global savings glut (China saved after 2001 WTO entry, the U.S. spent those savings) led to increasing debt and falling real interest rates. As money became “free” S&P 500 stocks correlated (red arrow, left chart). Correlation peaked in 2011 (with China GDP growth) and is now at a level consistent with an S&P 500 correction (right charts). For correlation to durably fall we need to see a lower global savings glut and normalizing interest rates.
A History of the Fed Funds Rate Since 1979

Source: Hedgeye illustration.
Supplemental: Other Relevant Sections

- What 200 years of commodity cycles tell us about the outlook for financial assets (pp. 25-32)

- Fiscal is a “grow or bust” situation, the healthcare fiasco, robots to the rescue? (pp. 33-40)

- De-globalization: Oh yes, it is very real…and there are major challenges ahead (pp. 41-49)

- Predicting the market 10 years ahead (P.S.- the S&P 500 drops to 2,100 by 1Q 2019) (pg. 50-55)

Source: Stifel.
What 200 years of commodity cycles tell us about the outlook for financial assets

Source: Stifel.
Movements in gold depend primarily on two variables: the direction of real interest rates and movement of the dollar. If real 10Y Treasury yields rise (left chart, 10Y real yield is inverted so that a rising real 10Y yield is a falling blue line), and the dollar rises (right chart), then gold falls. A rising real yield and rising dollar signify a rising value of money versus gold, thereby causing gold to fall in money terms. But if the real rate falls and the dollar declines, then gold should rise. We expect a push-pull trading range for gold well into the mid-2020s (and lower gold in 2017-2018).

Source: Stifel format. Data from Bloomberg.
Gold divided by Oil is “deflation relative to reflation;” we see gold falling and oil rising if the Reflation Trade has a leg up. When gold as money buys more oil (line below rises), that is “deflation” because gold-as-money is gaining value versus the things money can buy, like oil. Conversely, when the line falls that is “reflation,” because gold-as-money is losing value versus oil which is inflating in gold terms. We believe the decline in gold/oil since Feb-2016 (point A) is a reflation push-back against the post-2008 deflation/de-leveraging trend that began in Jun-2008 (Point B). If the gold/oil ratio bottoms at the 19.4x average (horizontal line below), which is also post-2008 trend support (diagonal red line, point C), that may be $55/bbl. oil and $1,067/oz. gold.

Source: National Bureau of Economic Analysis Macro Database and Bloomberg data, Stifel format.
We see improved oil market fundamentals in 2Q17-2018 (until the Aramco IPO). Excess oil stockpiles (global oil stockpiles % of demand, red --- line) may soon top as over-production (global oil output minus demand, as a % of demand, green line) falls back to balance of 0% (left axis, green circle). We believe Saudi Arabia must have a successful Aramco\(^{(1)}\) IPO, which has led to an artificial tightening of supply that should become apparent in 2Q17 as the production cuts of early 2017 take effect and shipments fall (90-day lag for transport) and U.S. imports decline.

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\[\text{Excess Production}^* \text{ (Global production minus demand, LS)} \text{ vs.} \]

\[\text{Global commercial oil stockpiles (EIA, RS)}\]

\[\text{Both as } \% \text{ of Demand}\]

---

\[\text{Oil market balanced 2017-18?}\]

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\[\text{Source: Stifel format. Data from IEA, EIA & Bloomberg.}\]

\[\text{(1) The Saudi Arabian government intends to sell up to 5 percent of Aramco in 2018, most likely in the second half 2018 (article). Saudi Arabia is in transition, and we believe must float Aramco.}\]
Renewed commodity price weakness, probably in 2018, will be our “tell” that deflation risk is resurfacing. Commodities last peaked in Jul-2008, the 6th major peak in 200 years (left chart, green dots). By indexing those six past peaks to 100 and showing price movement the next 18 years (right chart), we see that commodity prices in this cycle (green line) resemble the pre-WW2 down-cycles (gray line 1814-1832, black line 1864-1882, red line 1920-1938), all periods of alternating reflations/deflations, financial crises, depressions and political populism. In that way, renewed commodity weakness (possibly by 2018) would be seen as a very negative signal to us.

Commodity bear markets are either good or great for stocks\(^{(1)}\), but this commodity wash-out is troubling. Below we show the S&P 500 total return in the 18 years after every major commodity peak since 1800. Stocks are tracking a path similar to deflationary pre-WW2 commodity down-cycles\(^{(1)}\), signaling deflation risks.

The low 10Y yield confirms deflation risks. The 10Y yield (green line) is following a path similar to government bond yields in deflationary pre-WW2 commodity down-cycles\(^{(1)}\). At this point (year #9, 2017) the 10Y “should” be 4%, but it is far lower due to central bank policy that has avoided a contraction of money supply\(^{(2)}\).

**Source:** Equities from Yale Finance 1815-1925 linked to overlapping Shiller / Yale / S&P Composite total return data post-1871. Long-Term (usually 10-12 year) U.S. Treasury Rates are Historical Statistics of the U.S. – Vol. 3. 1798-1900, ‘A History of Interest Rates’ (Homer & Sylla, with gaps estimated using tight OLS regressions vs. high-grade municipal yields).

\(^{(1)}\) Stocks historically perform well during commodity down-cycles, most likely due to deflationary pressure that increases the value of money and lowers the capitalization rate (interest rate) applied to earnings. The S&P 500 total return indexed to begin Jul-2008 (green line, left chart) is most closely tracking the S&P total return that existed during pre-WW2 commodity down-cycles that began in 1814, 1864 and 1920, all of which were eras of (periodic) forced de-leveraging associated with the gold standard. The current source of forced de-leveraging may be global rebalancing and a lack of central bank tools to forestall episodic deflationary de-leveraging. As a result, the 10Y yield is likely to remain below 4% into the 2020s (right chart) as deflation remains a greater risk than inflation.

\(^{(2)}\) Fed policy since the 2008 Crisis has been to prevent a contraction of money (money is debt on the other side of the balance sheet), leading to a collapse of money velocity (GDP/M) and thus rates.
Looking beyond the 2020s, commodity cycles point to a major inflation (dollar decline) cycle in the 2030s. The commodity index level has peaked 6 times since 1805 (left chart, green circles). Converting that line to a growth rate (right chart), we see that the 4 highest growth peaks are ~55 years apart (Kondratiev cycles). The next major peak may be in the year 2037 (55 years after 1981 peak) at a rolling 10-year commodity growth rate of 16%/yr. (last “X”, right). The implication is that the dollar may lose 77% of its value versus commodities in the 10 years ending 2037 {[1−(1/(1.16^{10}))]}.
We expect the S&P 500 total return to outperform the Commodity Index in-line with the historical trend to 2026E. The S&P 500 total return relative to commodity index is shown below since Jan-1871, with our forecast for each shown as a red line (--- right side) and individually (inset box) to 2026E. Thereafter, commodities may outperform in the inflationary conditions we expect, perhaps associated with major dollar debasement as previously described.

Fiscal is a “grow or bust” situation, the healthcare fiasco, robots to the rescue?

Source: Stifel.
The case for infrastructure: sluggish housing combined with fiscal austerity has greatly restrained U.S. GDP since 2010 (but infrastructure investment could fill the gap). The Government portion of the GDP equation\(^{(1)}\) subtracted 0.8% per year from annual GDP growth since 2009 (left chart) because initial counter-cyclical fiscal deficits employed during the recession were reduced via austerity after 2010 (top, right). With housing not recovering to pre-crisis levels within capex (bottom, right), public infrastructure could fill that gap, thereby providing investment growth in the near term and productivity in the long term. The question is more one of politics than economics.

\(^{(1)}\) GDP is Consumption + Fixed Investment + Government (i.e., Government Investment & Consumption, not transfer payments) + Net Exports. By removing Government we compare GDP as reported to just the Consumption + Fixed Investment + Net Exports portion.
We see a motive for Republican populists and budget hawks in Congress to come together: power. Public debt funded household deleveraging after the 2008 Crisis (left), leading to a populist backlash. Low interest (as % of government revenue) and lengthened Treasury maturities probably serve to delay a “bond vigilante” reckoning by the length of maturities, or to about 2025E (right), but fiscal hawks have already taken notice. Why might the hawks acquiesce to deficits and consent to tax cuts and defense/infrastructure spending in 2017-18? Because the Nov-2018 Senate mid-terms could give Republicans a filibuster-proof majority of 60 (and 3-branch government control).

Source: BEA and Census data, Stifel format.
The tax wedge is limited to 30% of GDP, so it is fast becoming a “grow or borrow” situation. Tax revenue is capped at 30% of GDP (left chart), so raising income taxes won’t raise revenue. Given the large number of aging, populist and poorly saved voters\(^{(1)}\), a VAT is unlikely as well. So it comes down to “grow or borrow,” and if “borrow” is chosen, we note the Fed has a third mandate\(^{(2)}\) about which little is spoken, which is to ensure “moderate long-term interest rates.” That is rate repression, which is within the power of a central bank, and is called “euthanasia of the rentier.”

\(1\) According to the Wall Street Journal 1/14/13, 67% of Americans age 55+ (median Baby Boomer is age ~58) are “a little” or “a lot” behind in retirement savings and total retirement assets for 60% of 55+ are less than $50,000 excluding primary residences. They are recipients of Government Social Benefits Paid to Persons (right chart, red line), which is Social Security, Medicare, Medicaid, Food Stamps (SNAP), unemployment, Veteran’s benefits, Civil/Military pensions, and other items.

\(2\) 1977 revisions to the Federal Reserve Act instruct the Fed to pursue three goals: “maximum employment, stable prices, and moderate long-term interest rates.” Although the third objectives is rarely mentioned (the Fed widely viewed as having only a “dual mandate”), the law is clear and rate repression may occur as needed.
Problems with more government debt eventually occur if nominal growth per unit of debt continues falling. By ~2037 the incremental U.S. nominal GDP per $1 of new non-financial debt may hit $0 (default). At that point we would expect interest on debt to equal nominal GDP (thereby requiring untenable primary fiscal surpluses).

Debt growth probably continues until half the Baby Boom has died, around the year 2037. Other than controlling healthcare costs (a government liability), reflating away debt would be fruitless if cost-indexed liabilities have not peaked, which occurs around 2037 when ½ the Baby Boom has died (liability arc peaks).

Source: BEA, Fed and Census data.
Tech replacing labor will increasingly spread from manufacturing to the services. Many administrative and sales jobs are subject to automation risk (right side of chart below). Note that jobs with fine motor skills and human judgment (left side of chart) should survive.

Artificial Intelligence (AI) to the rescue (for solvency)? Trends support a “human brain on a chipset” by the 2030s. Since output can be taxed *in lieu of labor*, and population shortfalls may be replaced by machines, AI may solve two problems: demographics and tax revenue.

Source: As published in *The Bank Credit Analyst*. Source credit is shown within charts.
Healthcare is the dominant consumer issue (and thus a major political issue). Cheaper food prices\(^{(1)}\) the past six decades has caused food to be “over-consumed.” The Baby Boomers (born 1946-64) are now older, heavier and less healthy, and they are increasingly utilizing healthcare which is a demand inelastic product within a 3rd party payer system – i.e., healthcare is egregiously expensive and increasingly an out-of-pocket cost. Below we show out-of-pocket consumer spending on “essential items” as a % of personal income (left chart), depicting the magnitude of the squeeze. Remarkably, healthcare has been all of consumer spending growth since 1967 (right chart).

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(1) When food & beverage consumed away from home (restaurants & bars) is included, the effect is the same: A cumulative 9.8% of personal income drop 1Q59 to present.

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Source: Bureau of Economic Analysis data (Table 2.4.5U. Personal Consumption Expenditures by Type of Product [HERE]). Stifel format.
S&P Biotech trades with the group’s relative pricing\(^{(1)}\) power, and we are not interested in getting in front of possible government pricing pressure during the process of ACA reform. When the Producer Price Index (PPI) for Pharmaceuticals minus Core Personal Consumption Expenditure (PCE) deflator (i.e., the excess pricing for drugs) is falling (as it is now), S&P Biotechnology under-performs the S&P 500. We don’t see biotech relative pricing power up strongly in 2017 given a topping PPI Pharmaceuticals, bottoming Core PCE, or looming ACA reform.

**Source**: Bloomberg data, Stifel format

(1) PPI Pharmaceuticals & Drugs methodology [here](#).
De-globalization: Oh yes, it is very real…and there are major challenges ahead
Populism is a backlash against globalization. World Bank\(^1\) produced a chart (left) showing that from the end of the Cold War (~1988) to the Financial Crisis (2008), the process of creating an Emerging Market Middle Class (e.g., China) displaced high-pay/equal-skill Western (e.g., U.S.) Middle Classes whose income stagnated in the period. Though proposed U.S. measures such as a Border Adjustment Tax (BAT) are disruptive near-term, something of the sort may be needed to equalize tax regimes\(^2\) and shift taxation indirectly to consumption in an aging society. The rising real dollar that may result from a U.S. that no longer provides dollars to the world via trade deficits is good for U.S. workers (right chart), as discretionary incomes rise, but highly disruptive for countries abroad that have dollar debts or external deficits.

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Real Growth of U.S. Personal Income After Spending on Essential Items\(^*\) (LS) vs. U.S. Real Trade-Weighted Major Dollar Index (RS), 1973 to Present

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(1) Creating an Emerging Market Middle Class...
(2) Penalized the Developed Market Middle Class...
(3) and enriched the global 1%

---


(1) World Bank Economist Branko Milanovic paper here. The chart shows 1988, one year before the Berlin Wall and Tiananmen Square fell, to the 2008 Financial Crisis.
(2) Border Adjustment Tax (BAT) removes the effect of trading partners using a VAT to suppress domestic demand while those same countries subsidize exports by refunding the VAT at the point of export. The BAT exempts exports from a lowered U.S. income tax rate while taxing imports by an amount approximately equal to the VAT refund subsidy enjoyed by foreign exporters. In addition, a BAT would shift taxation from producers (whose investment is needed for growth) to consumers, the latter a bigger cohort in an aging society such as the U.S.
Global rebalancing and populism will be with us for many years, weighing(1) on stocks. The 9/11 (2001) attacks in the U.S. led to a non-economic focus for the U.S. (wars) just as China entered WTO (Dec-2001) and flooded the U.S. with its savings (top left), buying U.S. government debt while expanding China’s manufacturing capacity, a form of “vendor financing.” Lower goods prices and rising U.S. debt masked the displacement of U.S. labor and lost income until 2007 (bottom left), while competition and new technologies led to automation that further displaced labor in many industries. Middle class income stagnated as profit vs. wage share diverged (right chart). Those factors had begun to correct (also right chart), but not before a populist tipping point in 2016. Parallel to those changes in the West, China by 2013 signaled rivalry rather than globalization on open (political, market access) terms. As a result, we believe “globalization” is ending and a type of “New Cold War” is beginning.

Global rebalancing refers to the process by which “excess savers” (e.g., China, Germany, Japan) save less (via less growth) or spend more (thereby raising inflation), which reduces the availability of excess savings that had previously been exported by the excess savers (via large current account surpluses). The offsetting “excess spender” deficit countries (e.g., U.S., UK, some peripheral EU states, several EM countries), which had been recipients of the excess savers’ surpluses, would likely see higher borrowing costs (lower P/E multiples, lower growth), lower consumption (affordability issues/less access to credit) and increasing bad debt (not serviceable). Populism is less a cause of these problems than a symptom of the unsustainable conditions that were created by these savings/investment/consumption imbalances, which we expect to take years to resolve while creating periodic shocks.

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We believe the Trump Administration needs Congress in 2017 and will focus on fiscal policy and not trade, but 2018 will be a very different story. We expect tax and ACA reform in 2017 to be followed by the unilateral use of Presidential trade powers in 2018. We have that view(1) because there are political advantages to negotiating with Congress in 2017 to strengthen the U.S. economy, followed by a pumped-up/stimulated U.S. (with Fed raising rates) employing trade actions that play well to the Republican base just before the Senate mid-term election in Nov-2018 (when a Senate super-majority of 60 is the Republican goal).

**Emergency Banking Relief Act of 1933:** President may restrict trade during ‘national emergencies’. Presidents can declare national emergencies without predetermined expiration or congressional approval(2).

**Trade Act of 1974**
- **(Section 201)** ITC investigates threat of injury from imports and reports to president. President can then implement four-year ‘safeguards’, which include tariffs by product or industry, but not by country.
- **(Section 301)** U.S. Trade Representative (Lighthizer) can take punitive action against countries ‘unreasonably, unjustifiably or discriminatorily restricting or burdening U.S. commerce.’ Note that WTO has ruled against Section 301 unless it is used with prior WTO consultation.

**The International Emergency Economic Powers Act (IEEPA) of 1977:** President is granted sweeping power to regulate commerce during periods of international emergency (broadly defined, not specific). Invoking the National Emergency Act does not require congressional approval. President may regulate commerce and freeze foreign assets, though not specifically tariffs. IEEPA used most recently to sanction Iran and Russia.

**North America Free Trade Agreement (NAFTA)(3)**
- **Chapter 22:** Members may withdraw after providing notice, following six-month grace period.
- **Section 201:** President may proclaim additional duties ‘as necessary to maintain the general level of reciprocal concessions’ with Mexico and Canada.

Source: Stifel format.

(1) We expect President Trump to move on domestic policy in 2017E, then trade in 2018E, see our report President Trump’s First Two Years, 11/18/16.
(3) NAFTA work is Gary Hufbauer Reginald Jones Senior Fellow Peterson Institute for International Economics, Sep-12, 2016 National Association for Business Economists (NABE).
Deglobalization may also derail China’s attempt to sprint from $8,000 GDP per capita currently to a “middle income” level of $13,000 by the year 2021E, thus creating tension as China’s population ‘grows old before it grows rich.’ Utilizing what is called the “Asian Model” in the 10 years 1977-1987, the GDP per capita of Taiwan and Korea rose 5-fold from $1,000 to $5,000 (left). China entered the WTO in 2001 and achieved the same feat in the 10 years 2001-2011 (right) with a larger (thus globally disruptive) population. Taiwan and Korea more than doubled GDP per capita again the next 10 years 1987-1997 to ~$13,000 even as the overall GDP growth rate halved from about 12% to 6%/year (left side). For China to duplicate that feat in the period 2011 to 2021E they may need globalization - not least for political stability(1) - during a period in which China will rapidly age(2).

Source: Bloomberg, China State Statistics, Stifel format. IMF World Economic Outlook. GDP is current U.S. dollars per person and NOT PPP dollars. Real GDP growth rates are 2-year smoothed.

(1) China’s President Xi took office in 2012 at a stage of development similar to Taiwan and Korea in 1988. Rising income demands accountable government., e.g., Korea ejected President (formerly General) Chun Doo-hwan in 1988, and Taiwan embraced democratic reforms in 1988 with Lee Teng-hui. China’s needed less corruption and continued growth for political stability.

(2) China’s one-child policy of the past and embedded fertility trends ensure that China’s population will age more rapidly than many countries in the West in the next few decades (explained).
Low yields abroad have restrained the Fed from exiting at a faster pace, with Germany a prime example of central bank distortion. Germany runs a China-sized current account surplus, and eschews domestic use of that surplus via fiscal deficits, preferring instead to run fiscal surpluses. As a result, Germany exports its savings, fueling global imbalances. We do see relief, however. As euro break-up risk subsides, EU growth improves and the ECB runs low on bonds to purchase, we see the ECB signaling QE taper. This could lift the German 10Y yield, since it has been ECB QE plus euro flight-to-safety (via implicit break-up risk\(^1\) priced into German bunds) that has pulled the German real 10Y yield (on a comparable\(^2\) basis) far below the U.S. 10Y (left). As German Core Inflation nears comparable U.S. levels (right chart) and ECB tapers, we see higher global 10Y yields.

Source: Bloomberg data, Stifel format.

\(^1\) According to an ECB study, the implicit redenomination of German debt post-euro break-up to a possibly appreciating German currency suppresses German yields.

\(^2\) Shelter is not included in European HICP measurements, so we use U.S. CPI Core (excluding Food & Energy) less Shelter for comparison to the German HICP Core rate.
Brexit is still a risk. The UK strategy may be to devalue\(^1\) sharply first, seize growth vs. Europe, then negotiate. In addition, common market treaties may moderate the process to something that is considered, in hindsight, “soft exit” with accommodations. Given the threat posed to the Brussels elite by any member’s exit, the EU may treat the UK like ‘an escaped prisoner’\(^2\) raising exit risks. In that event, having strong U.S. backing (Anglophile Trump) may help the UK.


\(^1\) Sharp real currency declines occur when either the nominal exchange rate plunges or there is sharp deflation (which lowers costs vs. competitors, hence “real” more than nominal depreciation).

\(^2\) Shortly after Brexit, an article appeared in which former Secretary of State Henry Kissinger said ‘Don't treat Britain like a prison escapee.’
We view Italy as the ultimate tail risk for the euro, but probably not until the next economic downturn later this decade. Italy used a currency devaluation beggar-thy-(German)-neighbor strategy 1971-98, which enabled Italy’s industrial production (IP) to out-grow German IP 1971-98 (A). But that tool ended with the euro’s inception in 1999, whereupon Italy’s relative IP plunged (B). Only dramatic ECB easing has arrested Italy’s decline since 2015 (C). With a political culture that has made little progress reducing Italy’s relative labor cost (D), rising Italian debt, and falling support for the euro (E), we see a ticking time bomb.

Source: Eurobarometer and Bloomberg data, Stifel format.
Cyclical history points to a 20-25% S&P 500 bear market by 2019. Within the Siegel Constant(1) we note that 1995-2020E parallels 1925-1950. To wit, W.W. I ended in 1918 and stocks soared in a tech & peace dividend “New Era” 1925-1929; the Berlin Wall and Tiananmen Square fell in 1989 and by 1995-1999 stocks soared in a “New Economy.” After a 5 year run toward a bubble top (1929, 2000), stocks oscillated in 3 waves of shock, acceptance, capitulation 1929-49(2) and 2000-2020E (#1-3 below), although the 3rd decline in this era has not occurred (#3, right side). Policymakers mitigated(3) deflation in both periods, but by the latter stage (1945-50, 2010-15) politics and the global monetary order were changing, and a Cold War began with the USSR post-1947, now China post-2017(?)

S&P 500 Real Total Return Index, Jan-1871 to Present
Value of $100 invested in the S&P Stock Index in Jan-1871
dividends reinvested, after inflation

Source: Standard & Poor's /Yale Dr. Shiller data, Dr. Jeremy Siegel conceptual, Stifel cyclical 1929-49 vs. 2000-2020E interpretation and notations, BEA & Census inflation data.

(1) Siegel's Constant is the solid black line above, the ~6.8% inflation-adjusted total return trend with dividends reinvested for the S&P 500 (and predecessor) U.S. stock index.


(3) The 1930s/40s had fiscal stimulus with Federal works and WW II wartime spending, while the 2000s/2010s featured a larger monetary role (QE) and a smaller fiscal role (2008 Stimulus).
Predicting the market 10 years ahead (P.S.- the S&P 500 drops to 2,100 in 1Q 2019)

Source: Stifel.
Valuation and equity ownership predict the market’s path 10 years ahead. In our report 4/5/16 here, we used the Shiller CAPE P/E, Household stock ownership (as a percent of household financial assets) and Tobin’s Q\(^{(1)}\) to predict S&P 500 trailing 10 year total return (dark blue line) a decade ahead for the past 70 years.


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(1) CAPE is Cyclically Adjusted P/E or price divided by 10 year average real EPS. Household Stocks is stock holdings (direct and indirect) of the Household Sector as a percentage of Household Sector financial assets. Tobin’s Q relates price to the replacement value of assets using BEA and Flow of Funds (National Accounts) data.
We see an S&P 500 total return of about 5%/year from year-end 2016 to year-end 2026E. Flipping the indicators on the prior page upside down and advancing them 10 years (120 months) allows us to chart a range for trailing 10 year S&P 500 total return at any point along 2017 to 2026E (far right side of the chart). The reason we flip the indicators upside down is because high valuation and high equity ownership portend low returns, just as the opposite – low valuation, low equity ownership – predicts good returns.


(1) As noted in a yellow box above, the S&P 500 total return spikes to 13.1% for the 10 years ended 1Q2019. Using the Feb-2009 S&P 500 month-end closing low of 735 and multiplying by the price return (excl. dividend yield) from Feb-2009 to Feb-2019E of 11.0%/year for 10 years equals 2,095 for the S&P 500 in Feb-2019E. The formula is: for the 10 years ended Feb-2019E, the indicated 13.1% total return minus 2.1% dividend yield^{10} = [735 \times (1.110^{10})] = 2,095 by Feb-2019E.
1956 to 2016: All methods work, but Household Stock Ownership % of Financial Assets is the most accurate.

CAPE is a “Flow” concept based on EPS with 0.69 R²

Household Stock Ownership is a “Sentiment” concept with 0.80 R²

Tobin’s Q is a “Stock” concept based on replacement book value with 0.75 R²

Source: Bloomberg data, Stifel format.
Major stocks in reflation trade based on screen

S&P 500 Industry correlations vis-à-vis seven reflation metrics. Correlations span Oct. 2011 to Oct. 2016, other data is as of 3/17/2017, intraday. Figures shown are rankings from 0 to 1, exclusive.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Ticker</th>
<th>GICS Industry</th>
<th>Market Cap. (TTM)</th>
<th>5 Yr. Correl.</th>
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<tr>
<td>1</td>
<td>SSCBND Index</td>
<td>Banks</td>
<td>$1,411,918</td>
<td>50.5%</td>
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<td>2</td>
<td>SACP Index</td>
<td>Capital Markets</td>
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<td>3</td>
<td>SCF index</td>
<td>Consumer Finance</td>
<td>$175,821</td>
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<td>4</td>
<td>SINSX Index</td>
<td>Insurance</td>
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<td>24.1%</td>
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<tr>
<td>5</td>
<td>SAAUTO Index</td>
<td>Automobiles</td>
<td>$116,134</td>
<td>9.9%</td>
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<td>6</td>
<td>SSDVF Index</td>
<td>Div. Financial Svcs.</td>
<td>$236,696</td>
<td>27.9%</td>
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<td>SSMACH Index</td>
<td>Machinery</td>
<td>$317,633</td>
<td>31.1%</td>
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<td>8</td>
<td>SSCHEM Index</td>
<td>Chemicals</td>
<td>$446,756</td>
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<td>9</td>
<td>SAAUTC Index</td>
<td>Auto Components</td>
<td>$40,712</td>
<td>24.0%</td>
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<td>10</td>
<td>SSINDCX Index</td>
<td>Industrial Conglomerates</td>
<td>$490,162</td>
<td>8.3%</td>
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Source: Bloomberg data, Stifel format.
Major stocks in disinflation trade based on screen

S&P 500 Industry correlations vis-à-vis seven reflation metrics. Correlations span Oct. 2011 to Oct. 2016, other data is 3/17/2017, intraday. Figures shown are rankings from 0 to 1, exclusive.

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<th>Rank</th>
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<th>Market Cap.</th>
<th>TTM Total Return</th>
<th>5 Yr. Correl.</th>
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<td>SSDDSTX Index</td>
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<td>-4.1%</td>
<td>0.02</td>
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<td>SSPERXS Index</td>
<td>Personal Products</td>
<td>$33,446</td>
<td>-12.3%</td>
<td>0.40</td>
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<td>43</td>
<td>SSPHARX Index</td>
<td>Pharma.</td>
<td>$1,064,096</td>
<td>14.4%</td>
<td>0.40</td>
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<tr>
<td>44</td>
<td>SSAIRLX Index</td>
<td>Airlines</td>
<td>$122,261</td>
<td>9.5%</td>
<td>0.38</td>
</tr>
<tr>
<td>45</td>
<td>SSDCON Index</td>
<td>Div. Consumer Svcs.</td>
<td>$5,026</td>
<td>-6.5%</td>
<td>0.37</td>
</tr>
<tr>
<td>46</td>
<td>SSFDSRX Index</td>
<td>Food &amp; Staples Retail</td>
<td>$528,621</td>
<td>-2.0%</td>
<td>0.35</td>
</tr>
<tr>
<td>47</td>
<td>SSHOTRX Index</td>
<td>Hotel, Restaurants &amp; Leisure</td>
<td>$333,252</td>
<td>9.4%</td>
<td>0.35</td>
</tr>
<tr>
<td>48</td>
<td>SSHCTEX Index</td>
<td>H.C. Tech.</td>
<td>$18,580</td>
<td>8.9%</td>
<td>0.35</td>
</tr>
<tr>
<td>49</td>
<td>SSMRET Index</td>
<td>Multi-line Retail</td>
<td>$92,345</td>
<td>-21.6%</td>
<td>0.34</td>
</tr>
<tr>
<td>50</td>
<td>SSBOTX Index</td>
<td>Biotech.</td>
<td>$607,608</td>
<td>11.4%</td>
<td>0.33</td>
</tr>
</tbody>
</table>

**Equal-Wtd. Average Ranking**

**Rank Ticker GICS Industry Market Cap. TTM Total Return 5 Yr. Correl.**

**S5IPPEX Index**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Ticker</th>
<th>GICS Industry</th>
<th>Market Cap.</th>
<th>TTM Total Return</th>
<th>5 Yr. Correl.</th>
</tr>
</thead>
<tbody>
<tr>
<td>51</td>
<td>SSSOPRX Index</td>
<td>Household Products</td>
<td>$377,298</td>
<td>11.3%</td>
<td>0.32</td>
</tr>
<tr>
<td>52</td>
<td>SSLBS Index</td>
<td>Leisure Products</td>
<td>$21,023</td>
<td>3.4%</td>
<td>0.32</td>
</tr>
<tr>
<td>53</td>
<td>SSIPPEX Index</td>
<td>Independent Energy Producers</td>
<td>$13,105</td>
<td>13.8%</td>
<td>0.32</td>
</tr>
<tr>
<td>54</td>
<td>SSSDIVT Index</td>
<td>Div. Telecomm. Svcs.</td>
<td>$501,437</td>
<td>4.7%</td>
<td>0.30</td>
</tr>
<tr>
<td>55</td>
<td>SSRTS Index</td>
<td>REBTs</td>
<td>$583,033</td>
<td>1.8%</td>
<td>0.26</td>
</tr>
<tr>
<td>56</td>
<td>SSBEVG Index</td>
<td>Beverages</td>
<td>$441,285</td>
<td>3.8%</td>
<td>0.22</td>
</tr>
<tr>
<td>57</td>
<td>SSELUTX Index</td>
<td>Electrical Utilities</td>
<td>$403,045</td>
<td>8.0%</td>
<td>0.21</td>
</tr>
<tr>
<td>58</td>
<td>SSFDRX Index</td>
<td>Food Products</td>
<td>$401,137</td>
<td>9.7%</td>
<td>0.19</td>
</tr>
</tbody>
</table>

Source: Bloomberg data, Stifel format.
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