

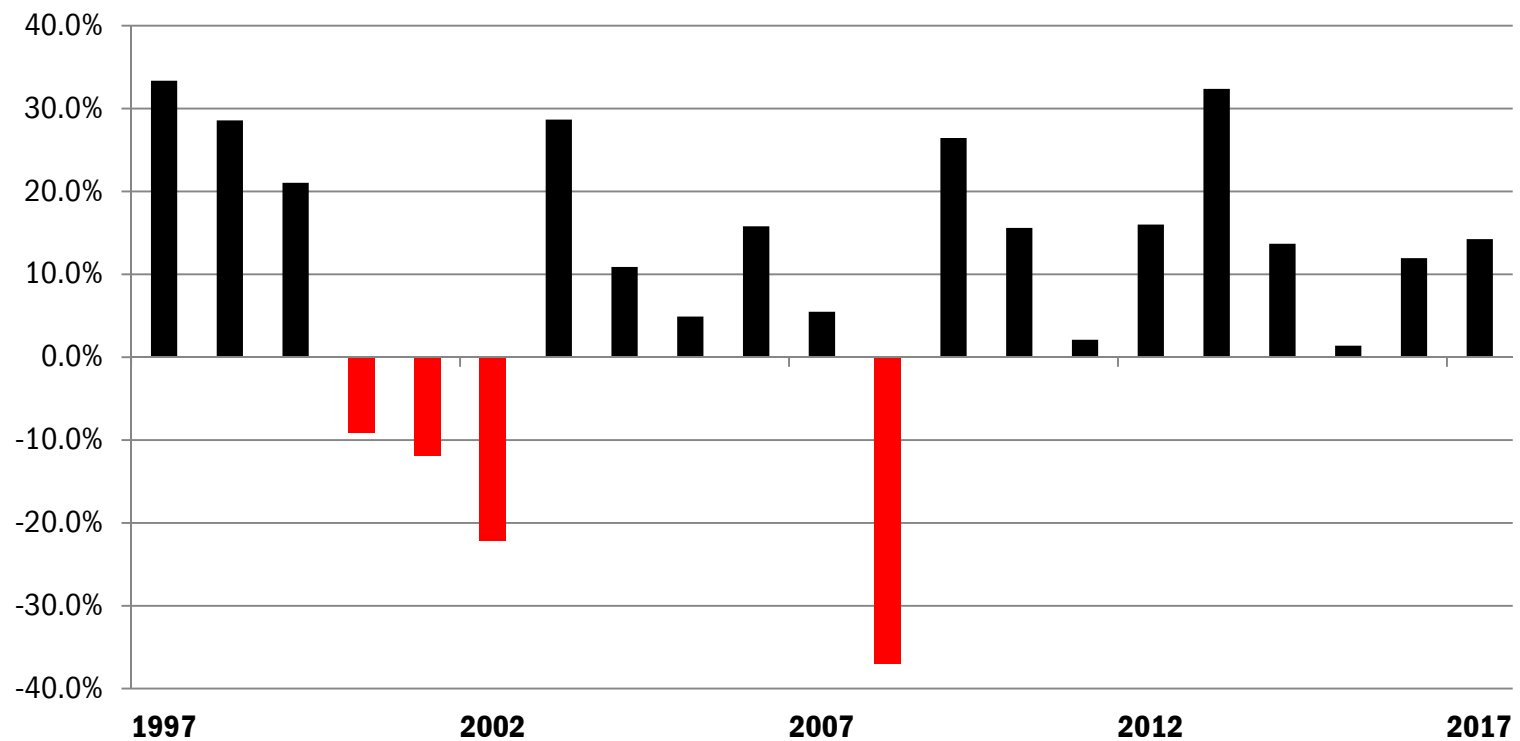
OUTLOOK

Buy the Leader or Buy the Laggard?

OCTOBER 17, 2017

The Last Twenty Years

- In the ninth year of positive returns, how much longer?



S&P 500 returns by year with dividends reinvested into the index. Source: S&P

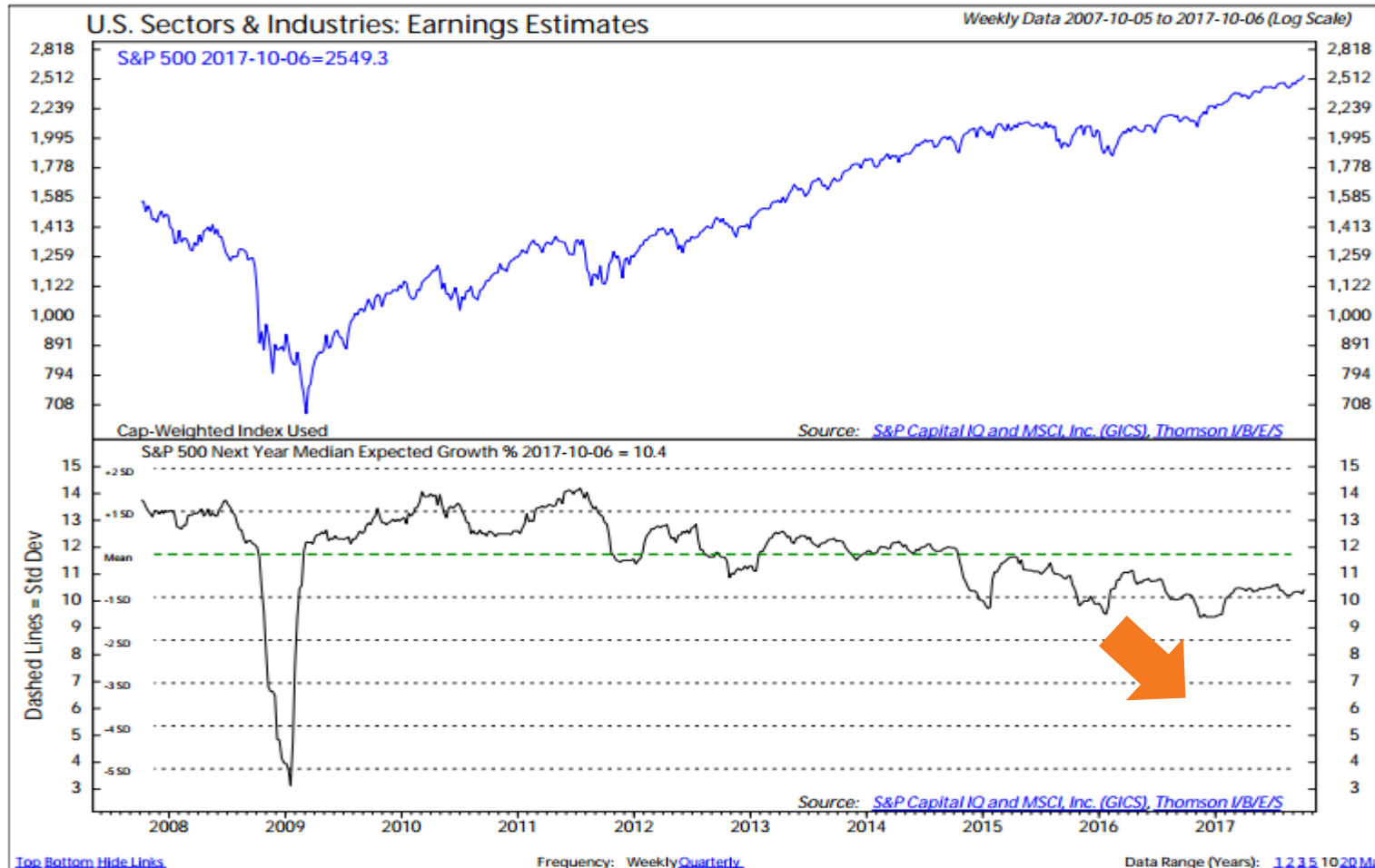
Current Macro Conditions



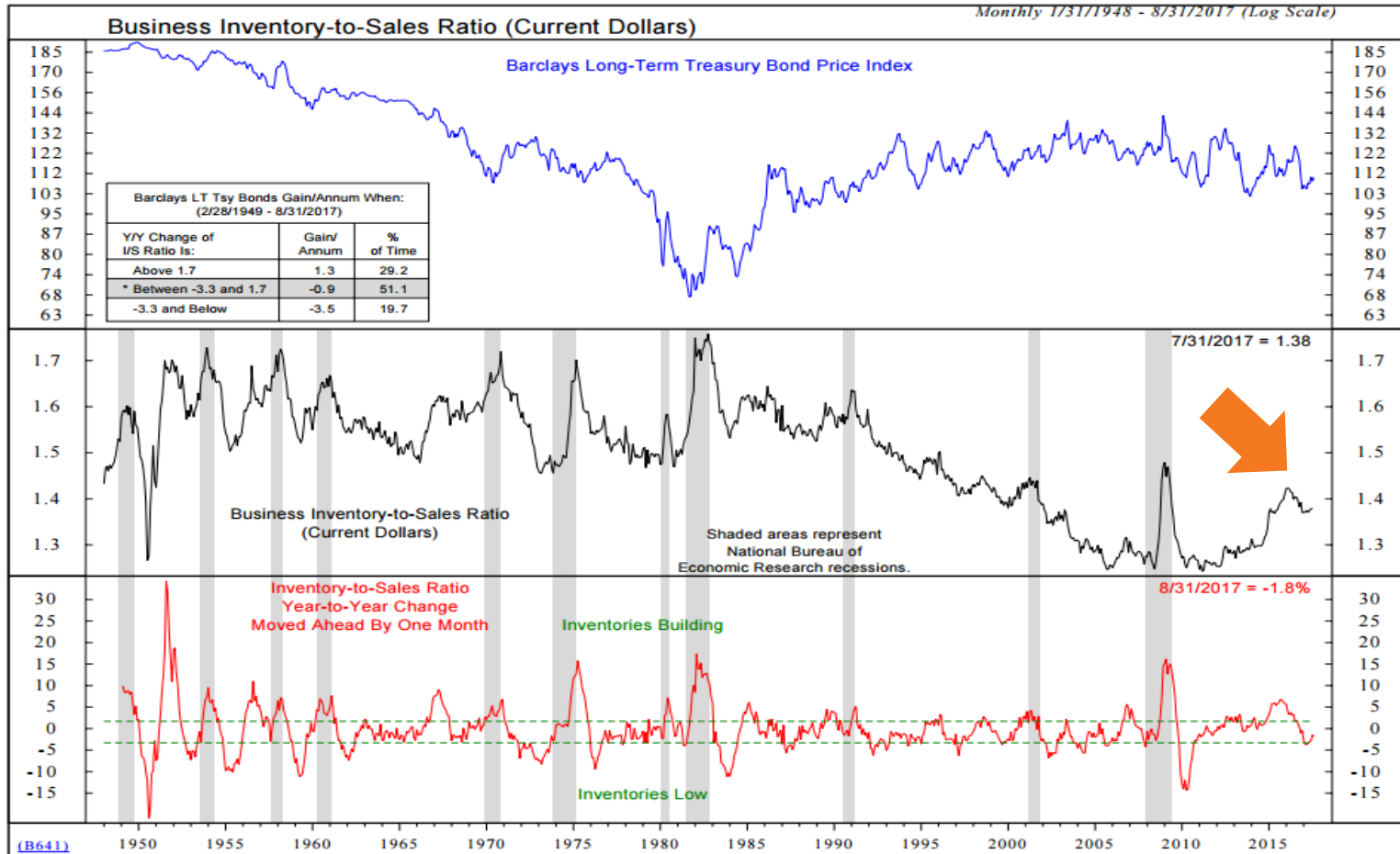
MONTAG Macro Factors					
	2007	2011	2013	2015	2017
Leading Indicators	Declining	Rising	Rising	Rising	Rising
MARKET					
Expected Earnings	~15%	~13%	~11.5%	~11.5%	~10%
Investor Sentiment	High / Falling	High / Stable	High / Stable	High / Falling	High / Rising
Stock Market Valuation	Average	Low	Average	Above Average	Improving
CONSUMER					
Consumer Sentiment	High	Low	Low	Declining	Improving
Employment	High	Low	Low	Average	Improving
BUSINESS					
Business Inventories	High	Normal	Normal	Normal	Low
Speculation	Excessive	Low	Low	Increasing	Increasing
Spending / Demand	Excessive	Normal	Normal	Normal	Rising
Debt	Excessive	Declining	Declining	Stable	Stable
Capital Expenditures	High	Very Low	Below Average	Average	Rising
Capacity Utilization	Low	Low	Low	Low	Low
GOVERNMENT					
Fed Policy	Accommodative	Accommodative	Accommodative	Accommodative	Neutral
Bank Lending	None	Increasing	Increasing	Increasing	Neutral
Bank Capital	Low	High	High	High	High
Inflation	Low	Low	Low	Low	Low
Asset Prices	High	Low	Average	Average	Average
Saving Rate	Negative	Positive	Neutral	Neutral	Neutral
Europe	Declining	Declining	Improving	Declining	Improving
China	High	High	Stable	Declining	Neutral
Margins	Low	Near Highs	High	High	High
COMMENTARY					
MARKET	Accelerating earnings growth, rising capital spending, low cost of debt service, and low earnings growth expectations favors companies that can exceed revenue expectations.				
CONSUMER	Consumer sentiment has improved with employment growth. High levels of employment will lead to increased inflation expectations, driving Financial stock performance.				
BUSINESS	Inventories are low and there continues to be excess production capacity. Earnings are growing which with low interest rates means debt coverage is improving. Companies have slowed debt issuance over the last year.				
GOVERNMENT	Fed is increasing the Fed Funds rate and will likely continue as inflationary pressures build. Proposed tax cuts will benefit US earnings and will benefit US markets over the rest of the world.				

Green = Positive for Investors
Black = Neutral for Investors
Red = Negative for Investors

Expected Earnings Growth

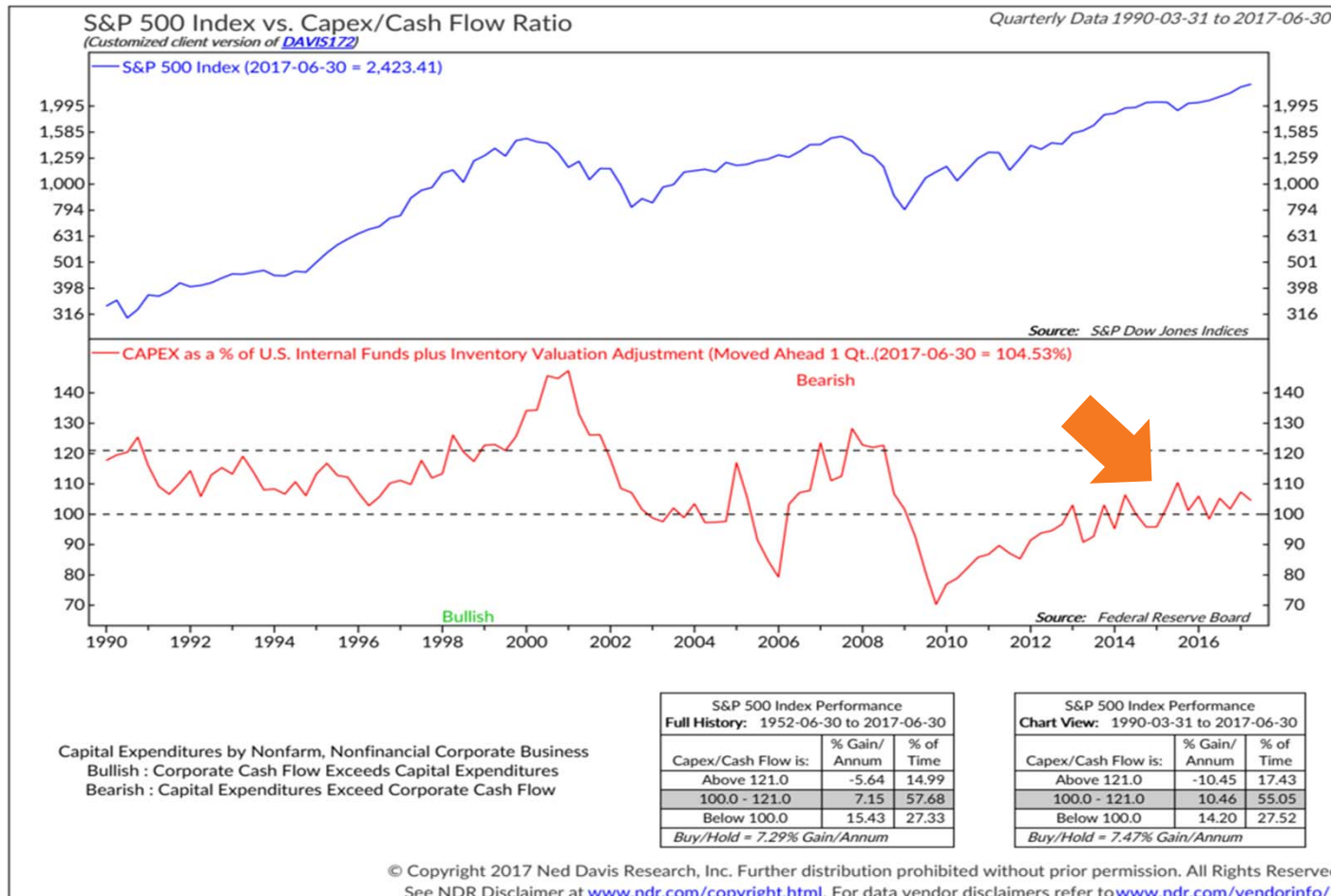


Inventories are Low

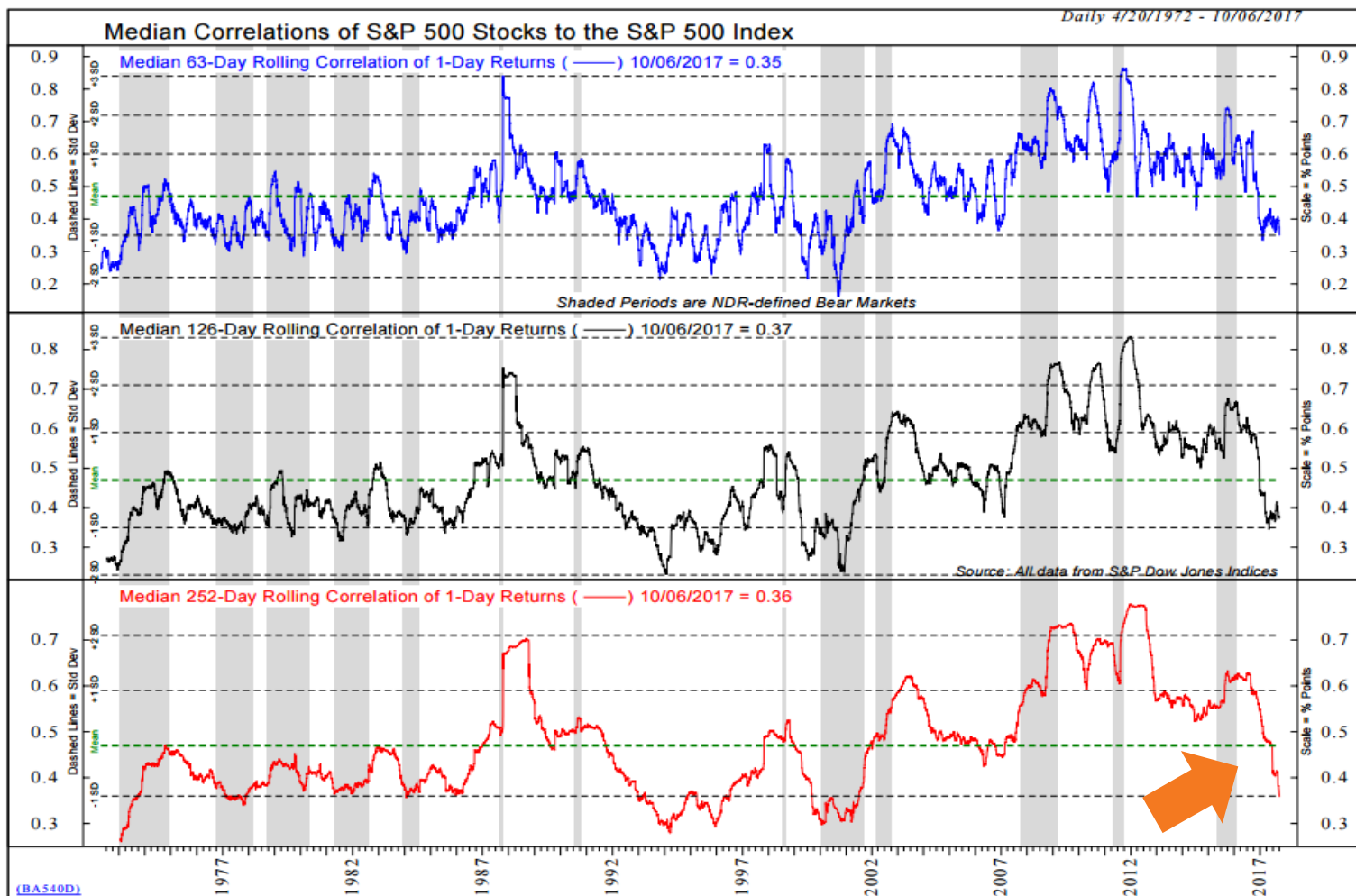


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Capital Spending is Low



Correlation Between Stocks Has Declined



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Leader Vs. Laggard

SECTOR	BACKDROP	CYCLICAL	LEADER / LAGGARD
CONSUMER DISCRETIONARY	Tied to consumer spending. Benefits from increase in wages and increase in GDP. Typically the sector is early cycle. Sector favors leading companies who correctly identify consumer trends and position a product to take advantage which will lead to pricing growth.		Leader
CONSUMER STAPLE	Returns are driven by revenue growth which is based on ability to raise price or margins which is based on ability to cut costs. Industry participants historically copy successful strategies which will help returns of the laggard.		Favors Leader
ENERGY	Cyclical industry that is tied to the price of oil which tends to move in a set range over a cycle. Typically performs well when capital spending is falling -- future supply should be coming down -- and underperforms as capital spending increases. Participant spending and actions tend to follow the price of oil. Items that will lead to outperformance include quality of the companies assets and quality of management.	YES	Favors Laggard
FINANCIALS	Financials are driven by the amount of leverage and quality of the business. During the early part of the cycle credit will improve, during the mid part of the cycle returns will flow to higher levels of leverage and during the late cycle avoid leverage; buy property and casualty insurance.	YES	Mostly Laggard
HEALTH CARE	Sector is driven by new product cycles. In drug manufacturing, patent protection can protect pricing for a considerable period and will drive outperformance. Typically, laggards that lack new drugs acquire new assets with the cash flow from expiring patent drugs and this can drive performance. In devices, new technology that improves a process typically wins share and can price above the competition		Leader
INDUSTRIALS	Mostly a cyclical industry tied to GDP. Focus on PMI reports and leading economic indicators. Staffing and transportation segments tend to be early cycle. Mid-cycle companies will typically see revenue growth at the expense of margin as the cycle begins and then margin will come through. Aerospace tends to be late cycle.	YES	Mostly Laggard
MATERIALS	Cyclical Industry that is tied to GDP growth and capital spending. GDP growth acceleration from trough levels typically coincides with low levels of capital spending which means increased demand with no immediate growth in supply. This drives pricing and returns. Capital spending adds a significant amount of capacity at once and if the entire industry follows suit will tend to kill pricing in the absence of growing demand.	YES	Favors Laggard
TECHNOLOGY	Sector is driven by new product cycles. Hardware tends to be cyclical and price competitive. Product cycles will drive pricing and these leaders are the most important to performance in the space. Leaders can change as the product cycle changes. Software companies can take price as they change the mechanism of delivery. Typically, hardware companies will underperform when GDP growth decelerates and software companies will become defensive. Key to outperformance is to not miss a product cycle and to sell a holding if it has.		Leader