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Update on bank stock picks and corporate algorithm

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Agenda:

- Bank stock picks since rolling out our 2020 picks are up 5%; still favour Sberbank, BBL, Fifth Third
- Best performers are BofA, OTP in Hungary; worst is PEKAO. Corporate algorithm: US up 9%; developed up 10%; China up 6%
- Are you watching credit spreads? They are rallying like crazy! Pay attention — they like what they see. On geopolitics, every time the US starts another war, China wins.

1. Portfolio update: Southeast Asia, Eastern Europe, US still the best

A. The image below shows our top picks globally. All are doing well with Sberbank up the most. BBL had a tough few weeks as it bought an Indonesian bank which the market disliked. However, the rebound of the stock was achieved on massive volume. Pay attention. Fifth Third looks good as does Citi in the US. Sticking with these since we rolled them out in November.

B. On the flip side, we look at the anaemic markets where any reversal in policy — or policy blunders — will cause a serious setback. Italy, Brazil and Mexico have problematic bank liquidity and sovereign leverage dynamics.

C. OTP in Hungary is doing great. Hungary is one of the few countries in a sweet spot with ideal liquidity conditions, low leverage and manageable sovereign debt. The others are Czech Republic, Poland, Taiwan, Indonesia and the Philippines. This is the hunting ground for 2020.

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2. Corporate algorithm: Seeking best returns with the best-managed balance sheets, solid capital structure, tight cost control, good working capital management and net cash.

A. Our developed portfolio algorithm picked out stocks like Inditex, Atlas, Nike and Ulta, all of which are up 10% or more since we launched our 2020 portfolio in November. One of our top 5 picks in the US is Yandex, which is up 28%. The developed banks portfolio is up 10%. It also picked out Monster Beverage and Nvidia, up 13% and 18%, respectively.

B. The European algorithm picked up Novolipetsk, up 15% and Dassault Systeme, up 9%. Asia's portfolio was flat. Inner Mongolia Yili Industrial was up 8% while Hero Motorcorp was down 10%.

C. China was our big call moving into 2020 with the cooling of trade tensions, aggressive reform measures being pushed through, injection of liquidity and FX stabilisation. Aisino and Jiangsu Yanghe are up 11% each respectively.

Our algorithm loves the US banks as best in class for developed banks

Best Banks – January 2020: Sberbank is top pick; BBL deserves a look.

| Top 5 Buys				
Region	Country	Equity	Name	Returns since Nov 4, 2019 (%)
US	US	FITB US EQUITY	Fifth Third Bancorp	4.9
GEMs	Thailand	BBL TB Equity	Bangkok Bank	-7.8
Asia	Indonesia	BBRI IJ Equity	Bank Rakyat	5.7
Frontier	Egypt	COMI EY Equity	CIB Egypt	3.0
Europe	Russia	SBER RM Equity	SBERBANK	9.7

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High yield has rallied hard, causing high yield - investment grade spread to hit multi year lows.

Credit Spreads

US HY vs IG (bp)

LF98YW - High Yield   IGUUDC10 - Investment Grade
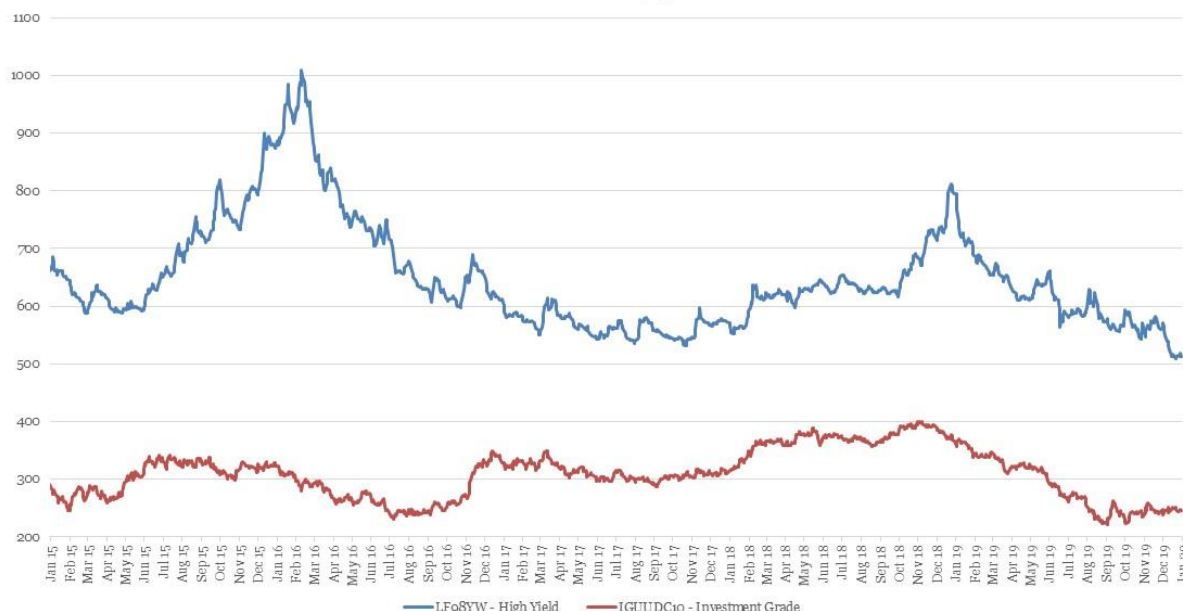
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3. Look at the charts on high yield spreads over investment grade. This is the spread 80% of America borrows at. It's on fire.

A. High yield has rallied hard, causing high yield - investment grade spread to hit multi year lows. This is all happening through bitter rancor with China, an impeachment and the targeted assassination of a top Iranian General. What the hell? Spread moves suggest much higher stock prices.

B. It comes down to: Don't Fight the Fed. The Fed is creating easy conditions because global debt dynamics are too fragile (and the dollar's strength was taking all the oxygen out of the room) to tighten. In fact, the Fed is now in "Bernanke speak". It is telling the market that it is unlikely to hike even if it sees higher inflation.

C. As for the targeted assassination strategy of the US against Iran, you should read a great book called "Rise and Kill First" by acclaimed journalist Ronen Bergman. It's a history of the Mossad's use of assassination as national policy. The Israeli strategy of targeted assassination against military and paramilitary leaders was fine at first, but Bergman concludes it really only perpetuates conflicts, causes fanatically violent splinter groups, unites a public common cause, creates sudden political vacuums which breed instability and then leaves you with no one to negotiate with when the fighting stops. It's a bad idea. **Do you know who is the winner every time the US steps into another sh*t show in the Middle East or Africa? China.** China stays out of these conflicts while the US spends blood and treasure in the Middle East. It's $6 trillion and counting. How much more? To what end? For what goals? I don't see a way out. But this is good for the domestic war machine as the Pentagon has an $800 billion budget, the 19th largest economy in the world. This is about the same size as the Indonesian economy. (By the way, it's almost exactly 21 years to the day that Clinton fired missiles into Iraq during his impeachment crisis: December 17, 1998). Wag the Dog, indeed.

Bank stock picks and corporate algorithm PLUS credit spreads

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Part I – Bank Picks

Best Banks – January 2020: Sberbank is top pick; BBL deserves a look.

		Top 5 Buys		
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World Chart
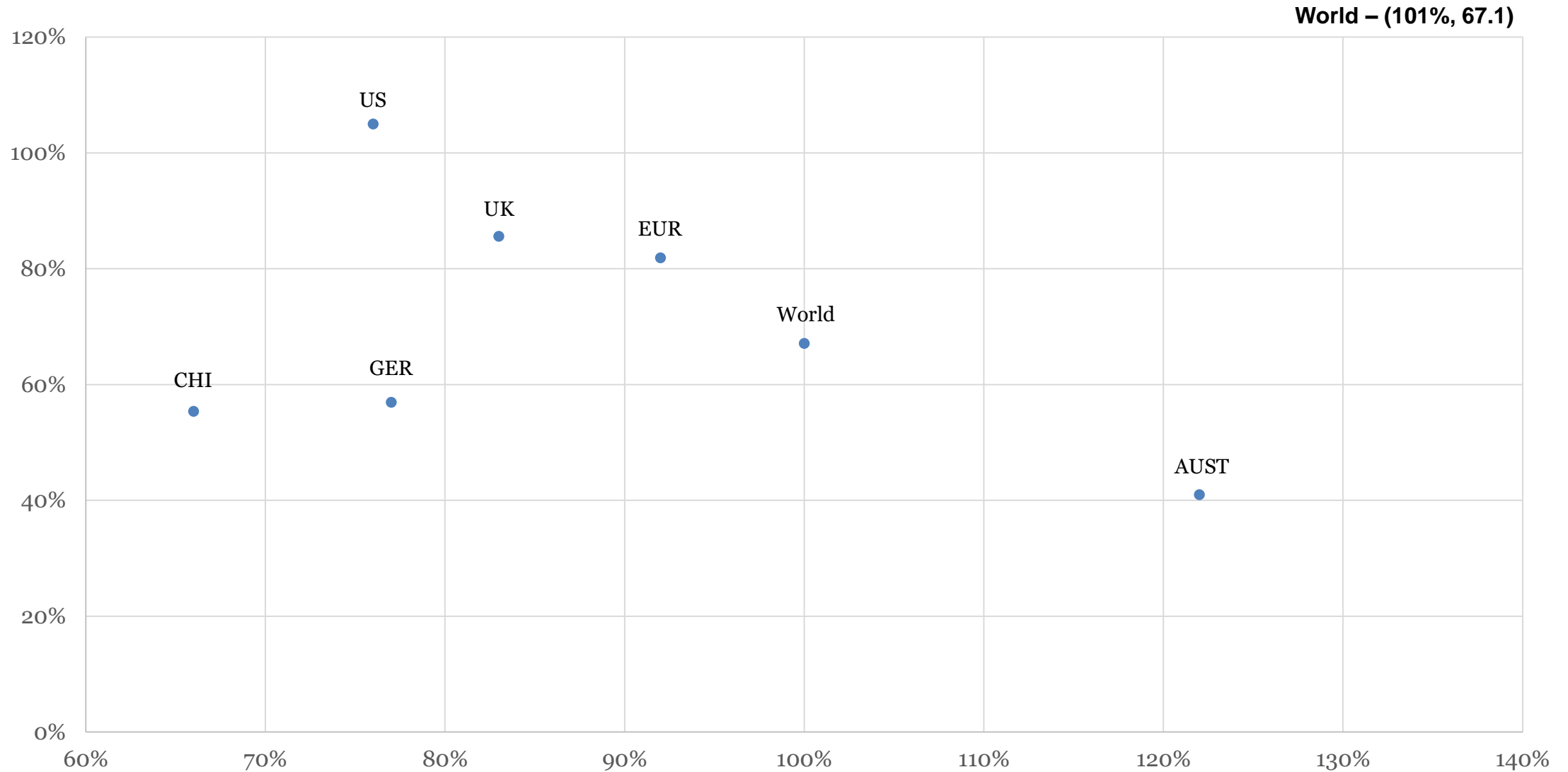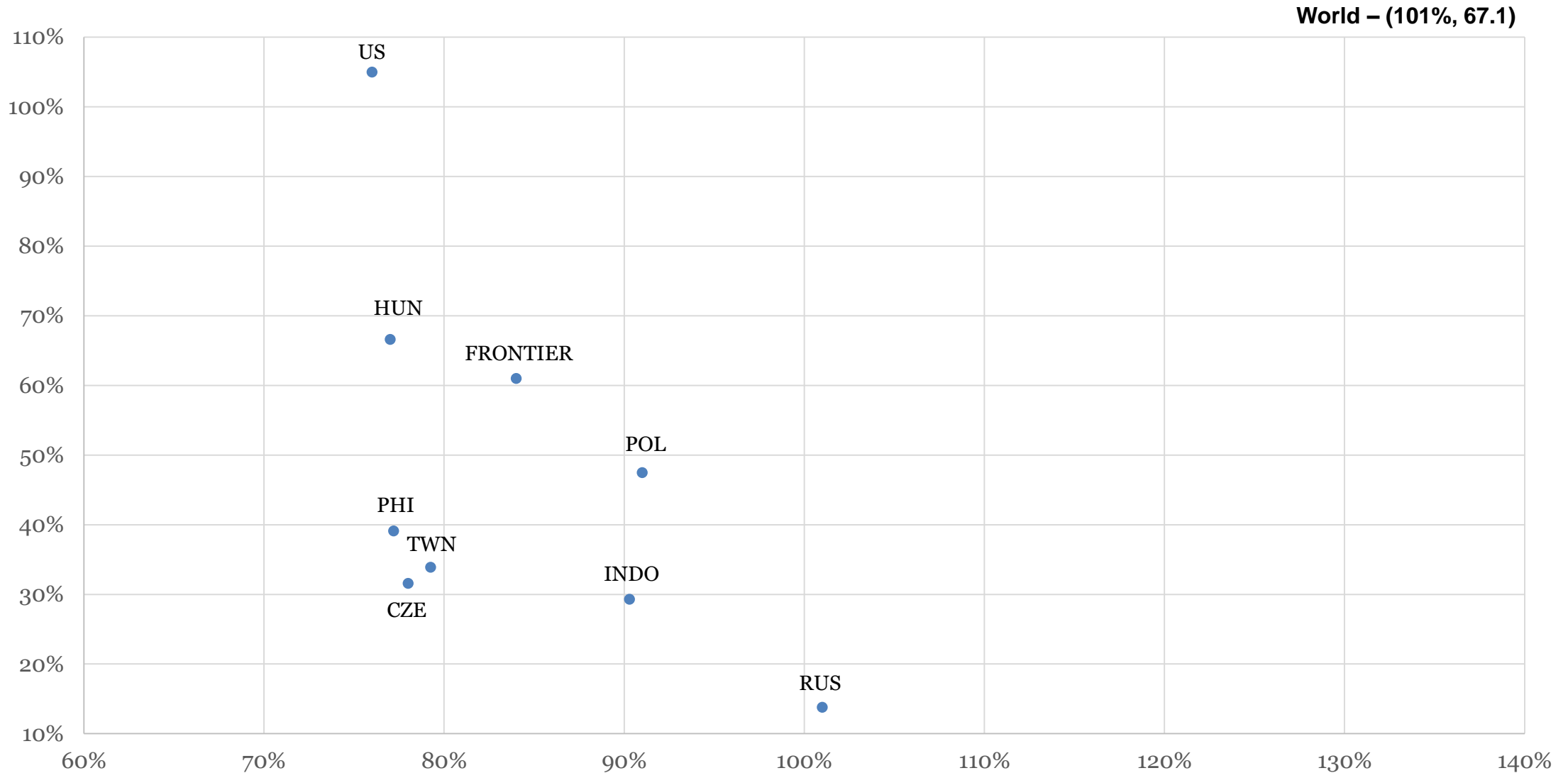
Gross Govt Debt/GDP(%)

World – (101%, 67.1)

LDR

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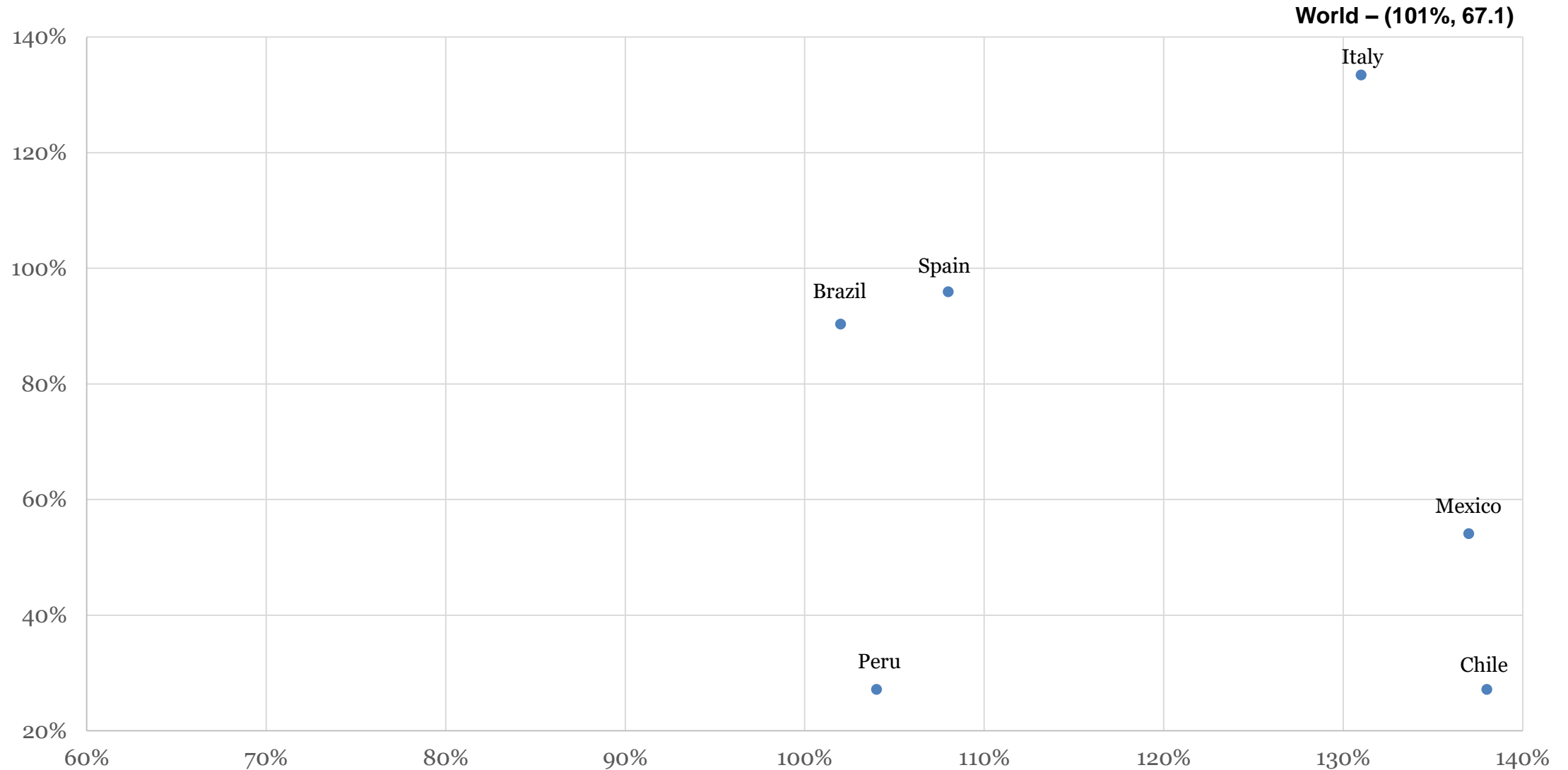
Developed banks – Top 5

Rank	Equity	Name	Country	P/B	P/E	ROC	Current ROE	NPL/ Total Loans (%)	Reserves/ NPLs	Tier 1 Cap Ratio	Tangible Leverage	LDR	Returns since Nov 4 2019 (%)
1	FITB US EQUITY	FIFTH THIRD BANCORP	US	1.06	11.36	6%	12.5%	0.4%	317%	11.3%	11.59	88%	4.9
2	C US Equity	Citigroup	US	0.89	9.07	2%	9.8%	0.5%	348%	13.5%	12.51	71%	7.9
3	SYDB DC Equity	SYDBANK	Denmark	0.72	9.60	3%	7.6%	4.2%	92%	19.0%	13.15	82%	6.0
4	BAC US Equity	Bank Of America	US	1.16	11.39	3%	10.8%	0.5%	194%	13.2%	13.26	69%	9.8
5	JPM US Equity	JP Morgan	US	1.66	12.63	4%	14.2%	0.5%	278%	13.7%	14.13	67%	8.3
		Averages		1.1	10.8	3.6%	11.0%	1.2%	246%	14.1%	12.9	75.4%	7.4

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Eastern European banks – Top 5

Rank	Equity	Name	Country	P/B	P/E	ROC	Current ROE	NPL/ Total Loans (%)	Reserves/ NPLs	Tier 1 Cap Ratio	Tangible Leverage	LDR	Returns since Nov 4 2019 (%)
1	OTP HB Equity	OTP BANK PLC	Hungary	1.91	10.41	13%	18.5%	8.6%	87%	13.6%	8.70	77%	13.5
2	KOMB CP Equity	KOMERCNI BANKA	Czech Republic	1.49	9.55	7%	16.1%	2.7%	70%	17.9%	11.56	78%	5.1
3	PEO PW Equity	PEKAO	Poland	1.28	12.98	6%	10.0%	5.3%	86%	15.8%	8.91	91%	-8.0
	Averages			1.6	11.0	8.7%	14.9%	5.5%	81%	15.8%	9.7	82.0%	3.5

Part II – Corporate Picks

Update on Developed Portfolio recommended in Feb 2019

Developed Markets Portfolio	Equity	Name	Country	Returns since Nov 4 2019 (%)
1	ULTA US Equity	Ulta Beauty	US	9.2
2	ROST US Equity	Ross Stores	US	5.3
3	HD US Equity	Home Depot	US	-7.5
4	7974 JP Equity	Nintendo	Japan	2.9
5	NKE US Equity	Nike	US	14.0
6	9843 JT Equity	Nitori	Japan	1.3
7	NOVC GR Equity	Novo Nordisk	Denmark	2.3
8	ITX SM Equity	Inditex	Spain	12.8
9	ATCOA SS Equity	Atlas	Sweden	10.2
Average				5.6%
SPX				6.2%

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US Top 5

#	Ticker	Short Name	Industry	Market Cap ($US Billion)	Altman z-score	Market Expectation/ALT z-score	ROE(%)	P/B	Net Debt ($US Billion)	Returns since Nov 4 2019 (%)
1	ISRG US Equity	INTUITIVE SURGICAL	Health Care	64.6	35.2	94.9%	N.A.	8.3	-3.1	6.8
2	YNDX US Equity	YANDEX NV-A	Communication Services	11.1	19.8	90.4%	17.4	3.6	-1.0	27.6
3	TXN US Equity	TEXAS INSTRUMENT	Information Technology	110.3	13.8	58.8%	42.0	12.3	0.8	9.8
4	EW US Equity	EDWARDS LIFE	Health Care	49.4	15.8	86.1%	27.5	12.9	-0.36	-1.8
5	INTU US Equity	INTUIT INC	Information Technology	66.7	20.3	77.8%	67.5	17.8	-2.3	3.8
Averages				60.4	21.0	81.6%	38.6	11.0	-1.2	9.2

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Developed Markets – Top 5

#	Ticker	Short Name	Industry	Market Cap ($US Billion)	Altman z-score	Market Expectation/ALT z-score	ROE(%)	P/B	Net Debt ($US Billion)	Returns since Nov 4 2019 (%)
1	FB US Equity	FACEBOOK INC-A	Communication Services	552.2	27.6	90.7%	24.1	5.9	-41.1	8.3
2	MNST US Equity	MONSTER BEVERAGE	Consumer Staples	30.6	23.4	85.9%	24.1	7.6	-1.0	13.2
3	NVDA US Equity	NVIDIA CORP	Information Technology	123.4	22.7	82.5%	33.1	11.9	-5.4	18.4
4	INTU US Equity	INTUIT INC	Information Technology	66.7	20.3	77.8%	67.5	17.8	-2.3	3.8
5	7741 JP Equity	HOYA CORP	Health Care	33.1	19.3	83.8%	17.4	5.6	-2.7	8.9
Averages				161.2	22.7	84.1%	33.2	9.8	-10.5	10.5

Europe – Top 5

#	Ticker	Short Name	Industry	Market Cap ($US Billion)	Altman z-score	Market Expectation/ALT z-score	ROE(%)	P/B	Net Debt ($US Billion)	Returns since Nov 4 2019 (%)
1	DSY FP Equity	DASSAULT SYSTEME	Information Technology	40.4	8.1	77.8%	15.0	7.0	-2.1	8.6
2	RMS FP Equity	HERMES INTL	Consumer Discretionary	76.6	16.5	81.8%	25.5	11.9	-2.6	3.0
3	OR FP Equity	L'OREAL	Consumer Staples	163.4	8.8	84.5%	14.9	5.4	-3.2	1.3
4	NOVOB DC Equity	NOVO NORDISK-B	Health Care	137.2	12.3	73.8%	80.7	17.3	-2.3	2.3
5	NLMK RM Equity	NOVOLIPETSK STEE	Materials	12.0	6.0	29.2%	24.4	2.1	0.9	14.6
Averages				85.9	10.3	69.4%	32.1	8.7	-1.9	6.0

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Asia/Emerging Markets – Top 5

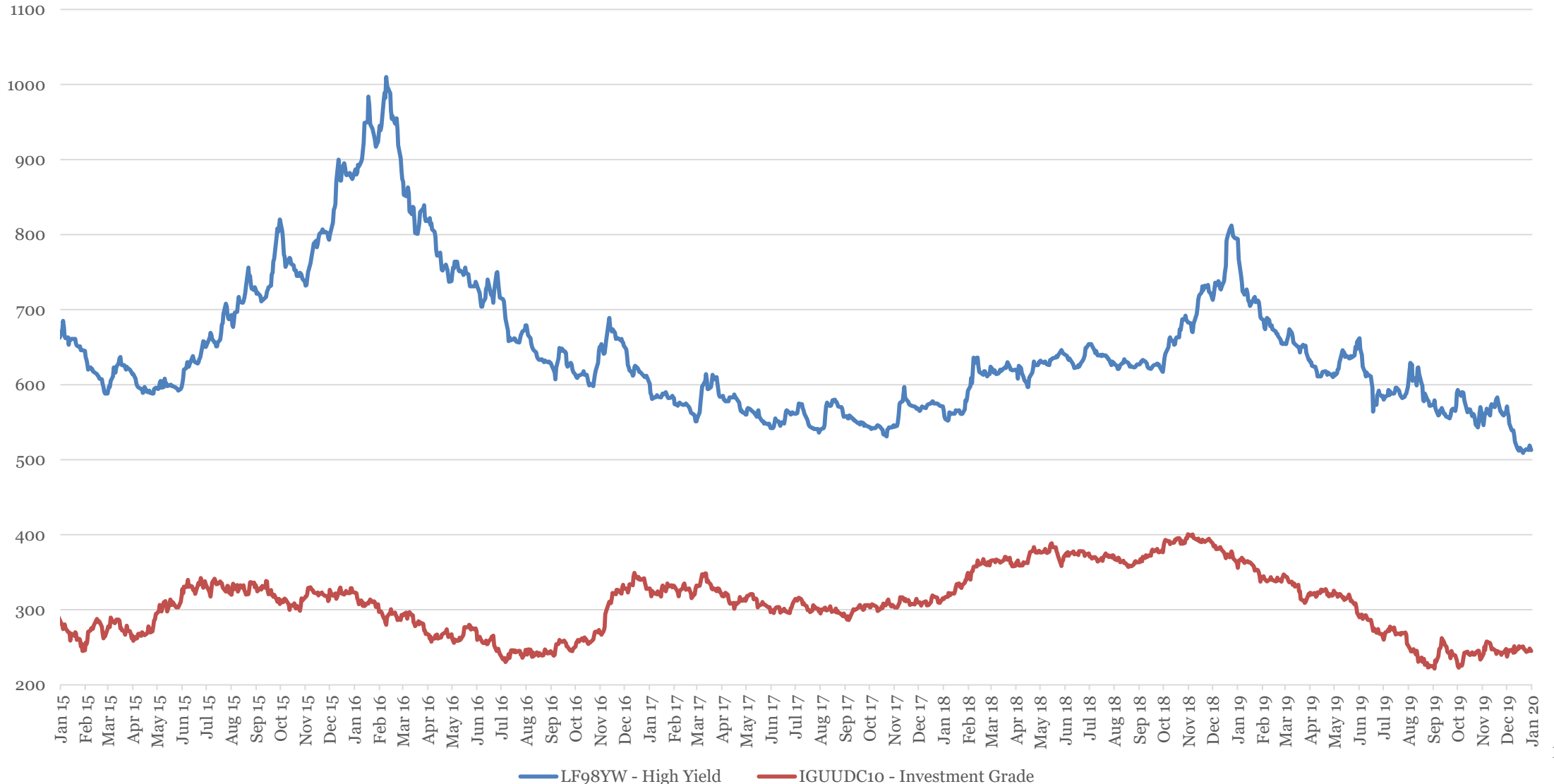| #	Ticker	Short Name	Industry	Market Cap ($US Billion)	Altman z-score	Market Expectation/ALT z-score	ROE(%)	P/B	Net Debt ($US Billion)	Returns since Nov 4 2019 (%)
1	HCLT IN Equity	HCL TECH LTD	Information Technology	22.2	8.6	64.2%	27.2	3.7	-1.0	1.6
2	051900 KS Equity	LG HOUSEHOLD & H	Consumer Staples	17.0	9.7	69.4%	23.4	4.8	0.1	0.4
3	000895 CH Equity	HENAN SHUAN-A	Consumer Staples	14.2	10.2	62.9%	31.9	6.6	-0.1	1.4
4	600887 CH Equity	INNER MONG YIL-A	Consumer Staples	25.5	8.3	64.6%	25.6	7.1	-1.8	7.9
5	HMCL IN Equity	HERO MOTOCORP LT	Consumer Discretionary	7.5	9.5	62.0%	N.A.	4.0	-0.4	-10.3
Averages				17.3	9.3	64.6%	27.0	5.2	-0.6	0.2

China – Top 5

#	Ticker	Short Name	Industry	Market Cap ($US Billion)	Altman z-score	Market Expectation/ALT z-score	ROE(%)	P/B	Net Debt ($US Billion)	Returns since Nov 4 2019 (%)
1	600887 CH Equity	INNER MONG YIL-A	Consumer Staples	25.5	8.3	64.6%	25.6	7.1	-1.8	7.9
2	000423 CH Equity	DONG E-E-JIAO-A	Health Care	3.3	8.1	65.1%	21.8	2.1	-0.7	0.5
3	000895 CH Equity	HENAN SHUAN-A	Consumer Staples	14.2	10.2	62.9%	31.9	6.6	-0.1	1.4
4	002304 CH Equity	JIANGSU YANGHE-A	Consumer Staples	22.0	8.3	68.9%	23.3	4.3	-3.1	10.5
5	600271 CH Equity	AISINO CORP-A	Information Technology	5.5	5.9	49.1%	17.4	3.3	-1.3	11.6
Averages				14.1	8.2	62.1%	24.0	4.7	-1.4	6.4

Part III – Credit Spreads

III. Credit Spreads:
High yield spreads at multi year lows

US HY vs IG (bp)

LF98YW - High Yield   IGUUDC10 - Investment Grade

III. Credit Spreads

HY-IG Spread (bp) (From 2014)

S&P 500 Index — HY-IG Spread (bp) — — Mean — — - 1SD — — -1SD

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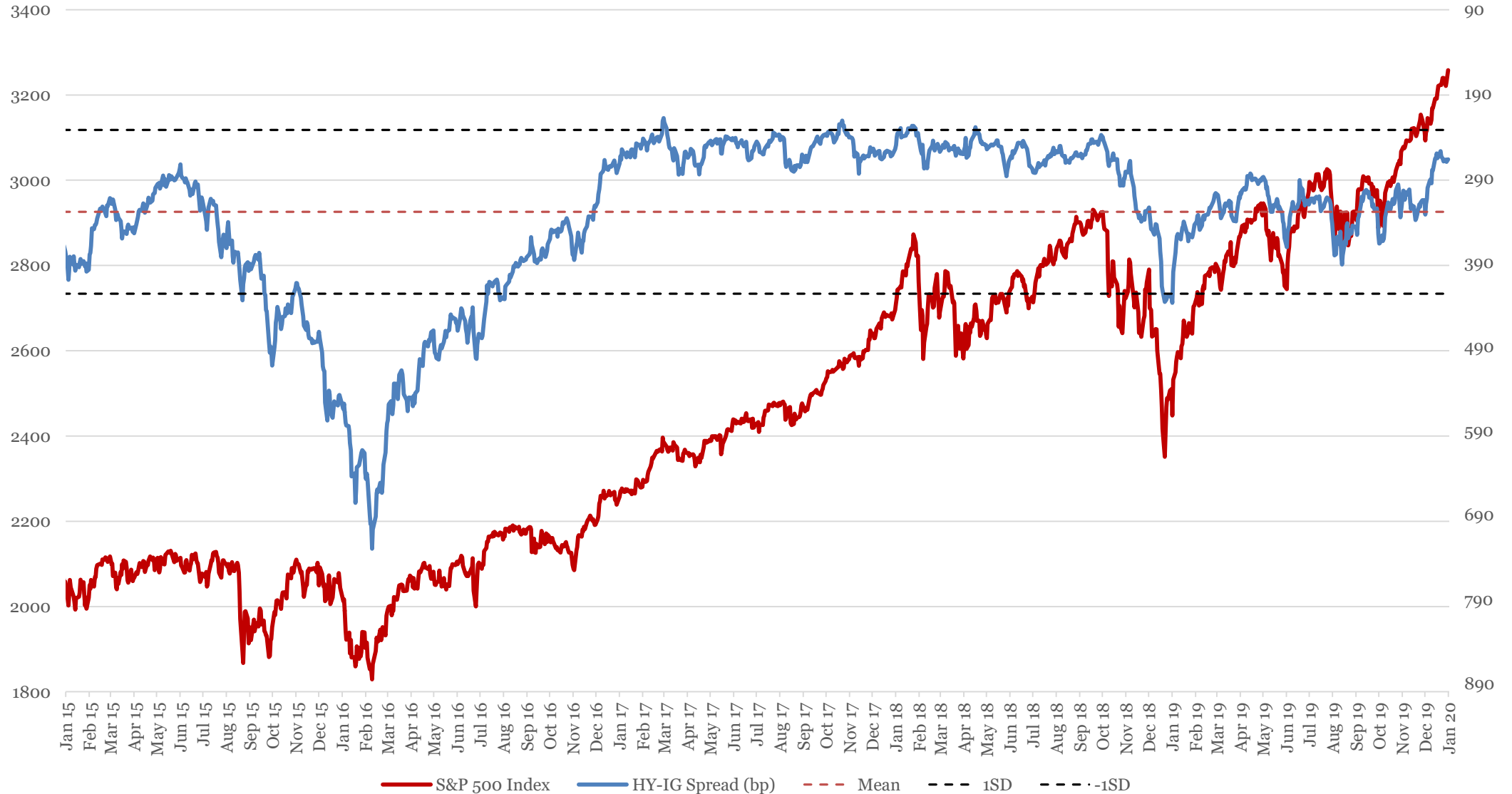
III. Credit Spreads

12M HY-IG Spread (bp)

S&P 500 Index · HY-IG Spread (bp) · --- Mean · --- 1SD · --- -1SD

III. Credit Spreads: 100 bps rally since October

3M HY-IG Spread (bp)

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S&P 500 Index — HY-IG Spread (bp) — — Mean — — 1SD — — -1SD

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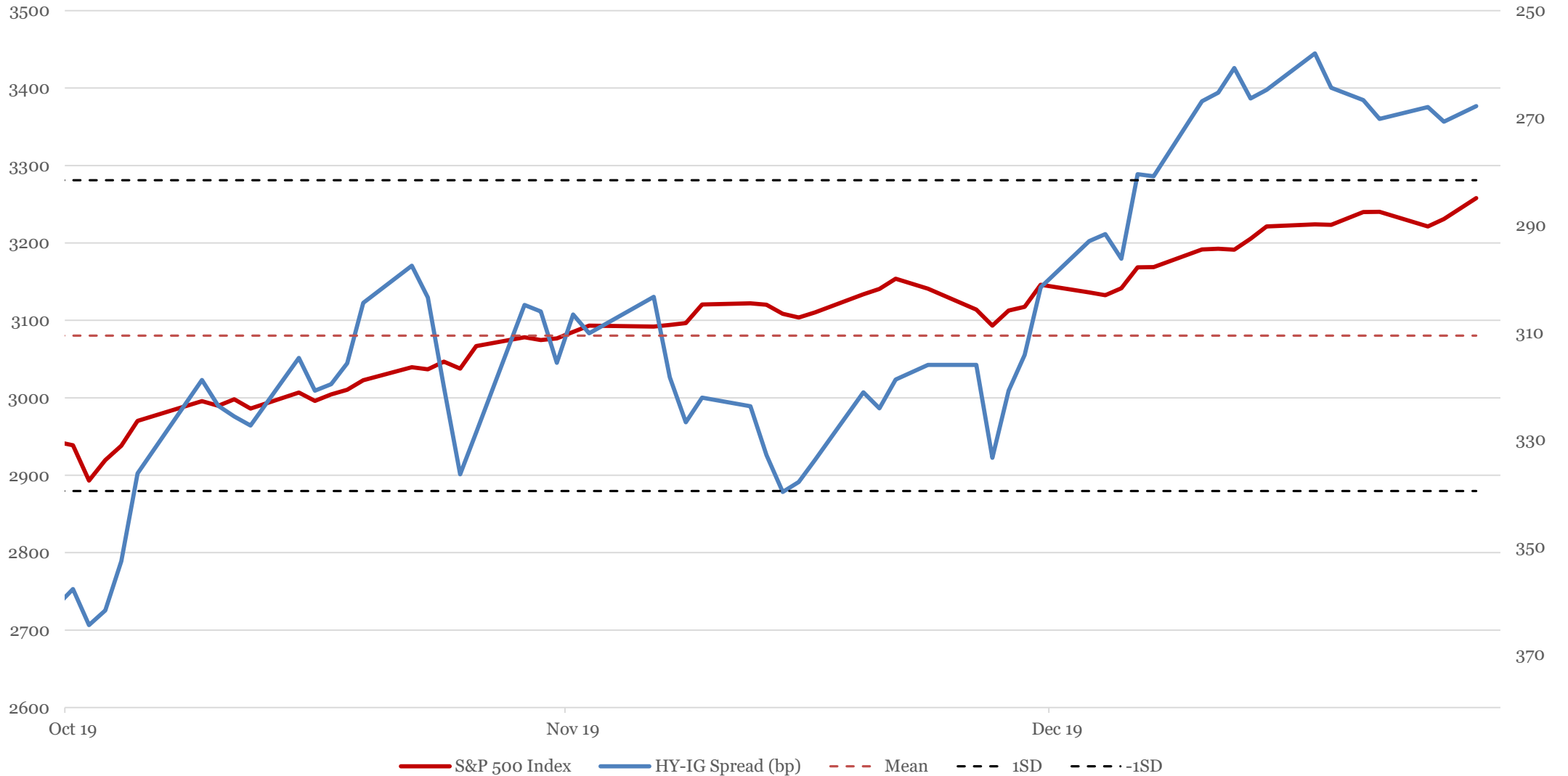
III. Credit Spreads

HY-UST Spread (bp) (From 2014)

Legend: S&P 500 Index · HY-UST 10 Yr Spread (bp) · Mean · 1SD · -1SD

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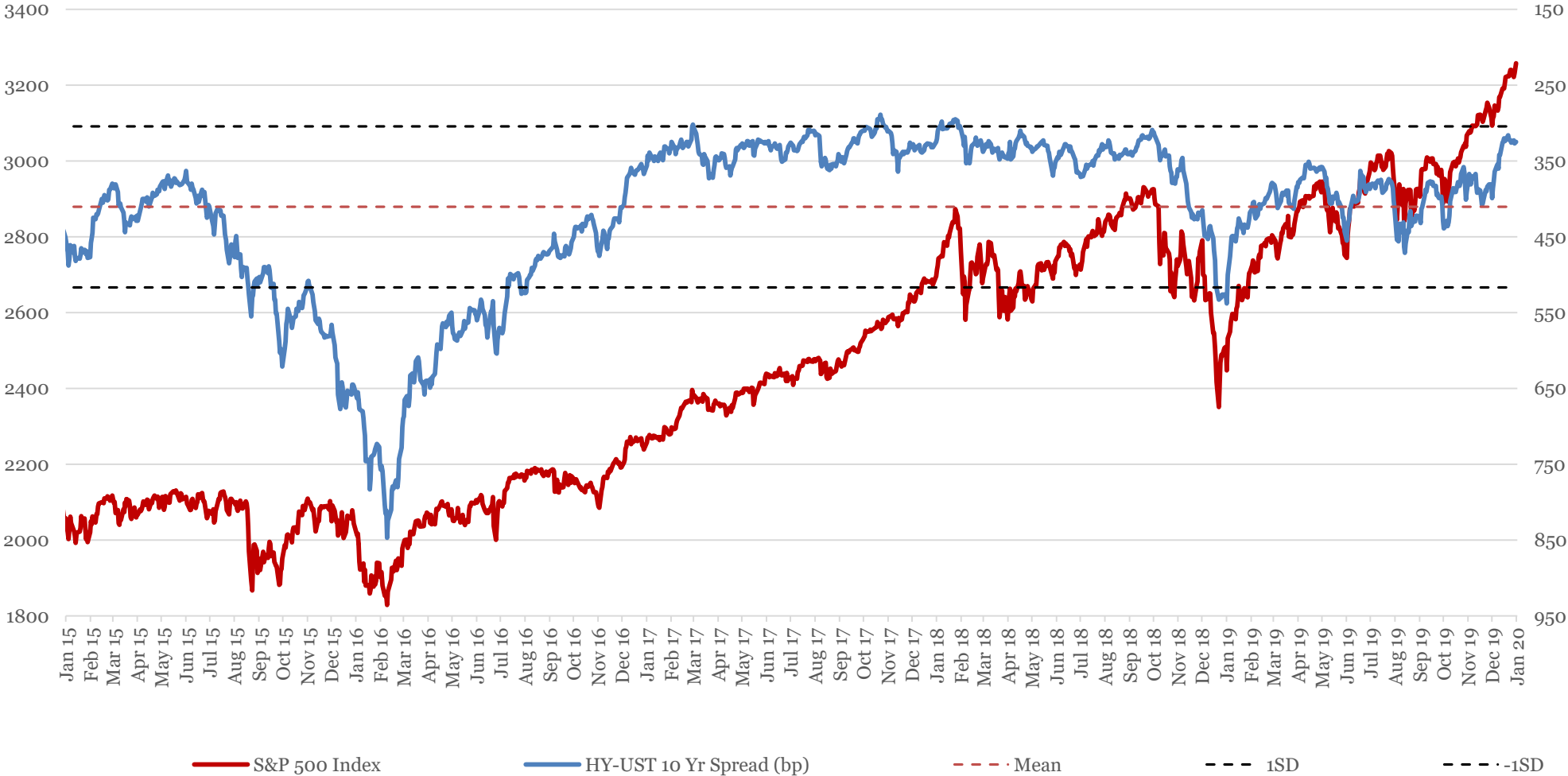
III. Credit Spreads

IG-UST Spread (bp) (From 2014)

Legend: S&P 500 Index — IG-UST 10 Yr Spread (bp) — Mean — 1SD — -1SD