

Neil Dutta – Economics

Kim Wallace – Washington & Global Policy

Rob Ginsberg – Sector Deep Dives & Small Cap

Howard Mason – Payment Processors & Banks

Pete Ward – Metals & Mining

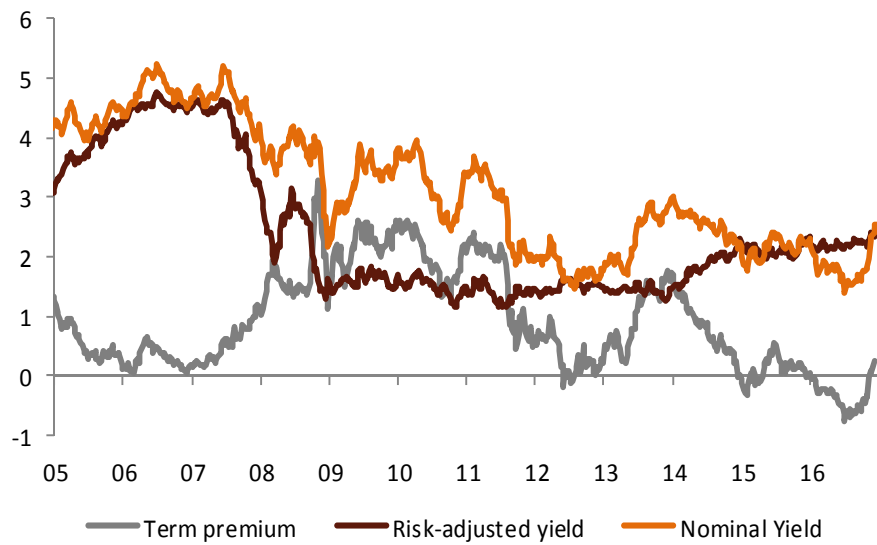
April Scee – Consumer Packaged Goods

Jeff deGraaf – Market Technicals & Strategy

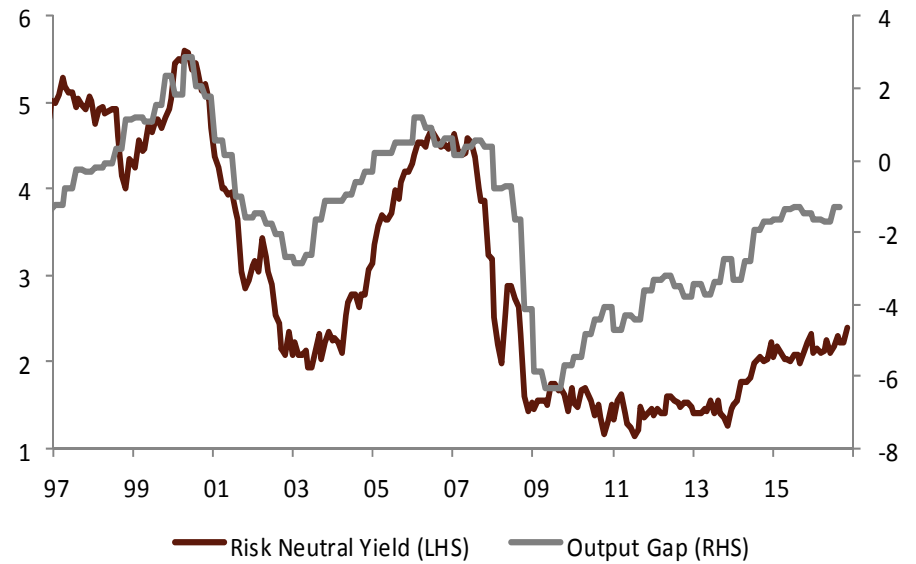
January 5, 2017

Neil Dutta

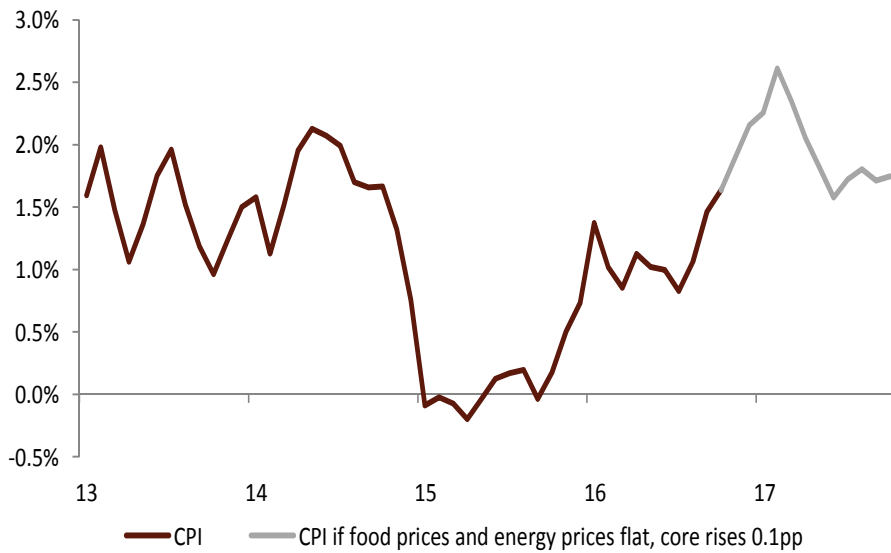
Higher term premium pushing rates up
(percent)



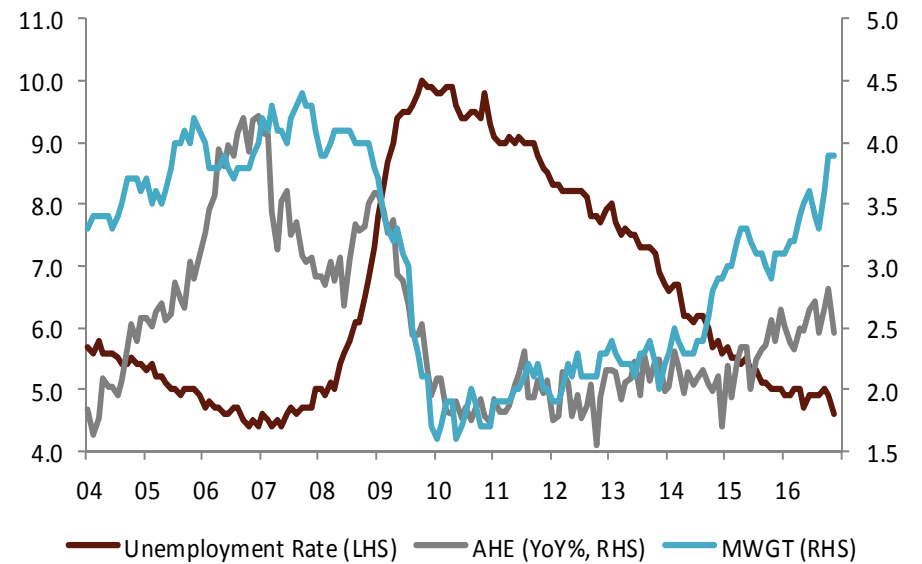
Risk neutral yields have moved to go up



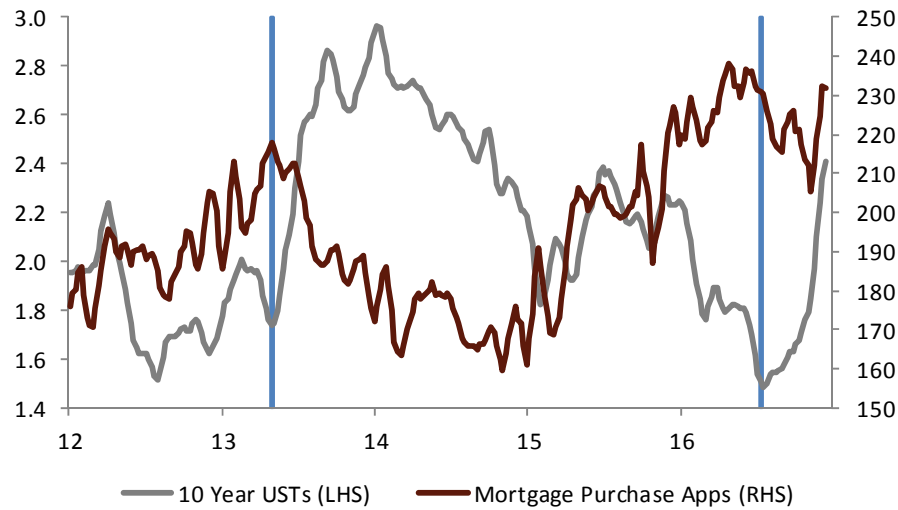
Headline CPI to cross 2.5% next year
(year-over-year % change)



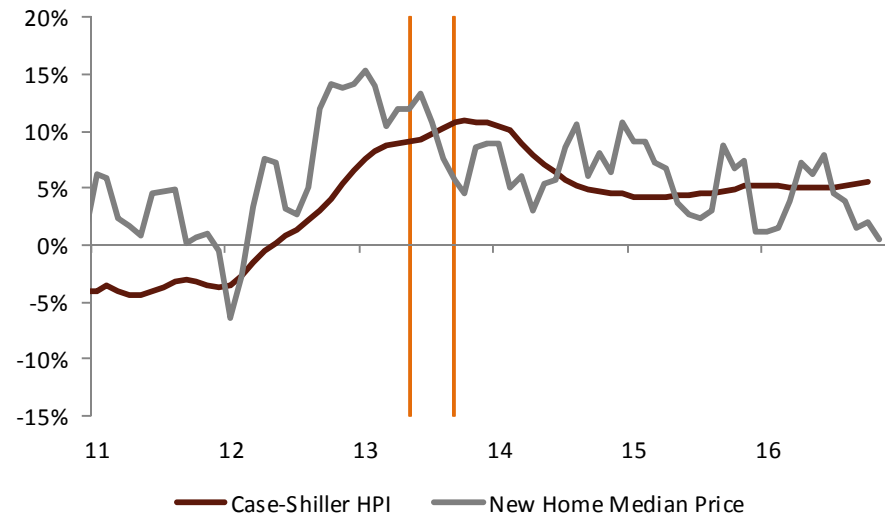
Relationship between U3 & wages still holds



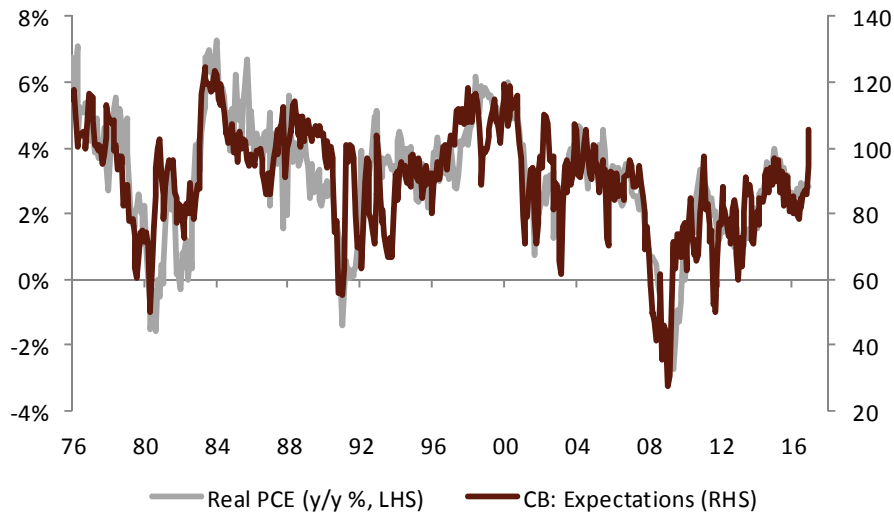
Purchase applications hanging in there



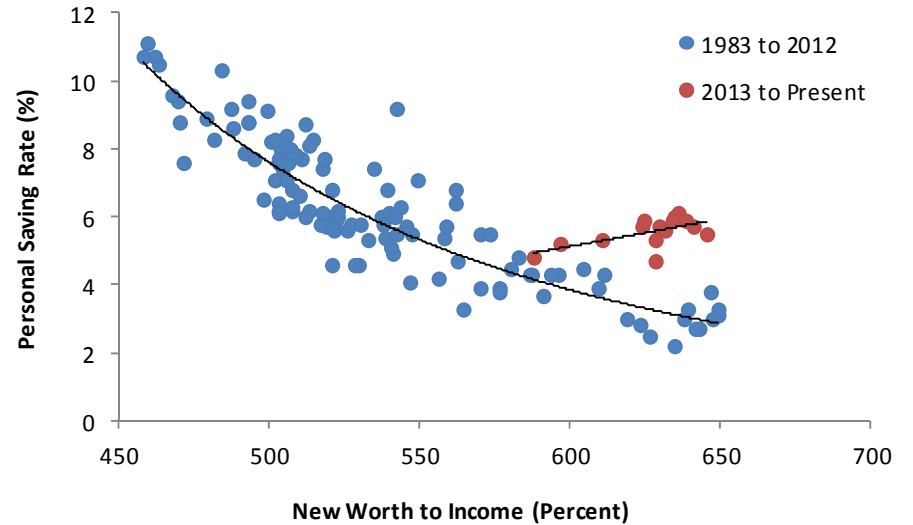
**Home prices not rising as quickly
(% change, year-over-year)**



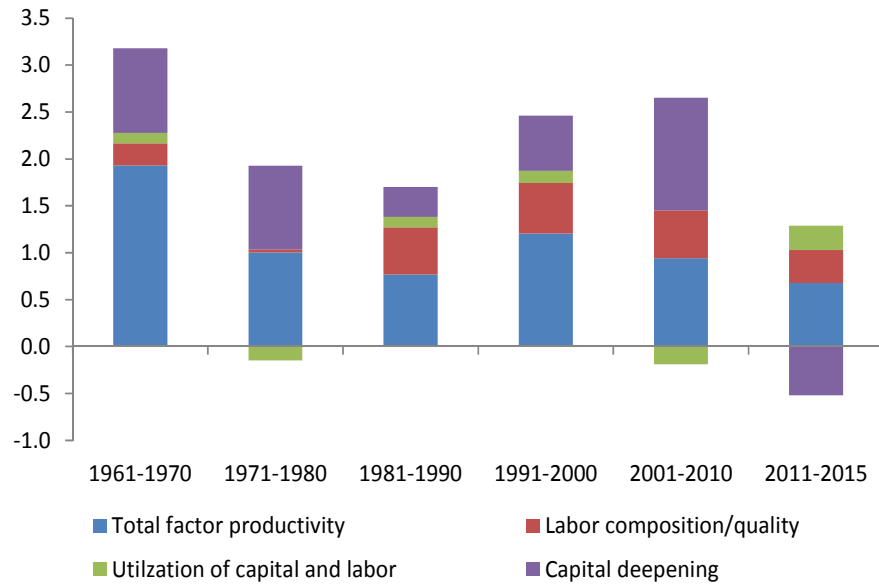
Sentiment points to spending surge



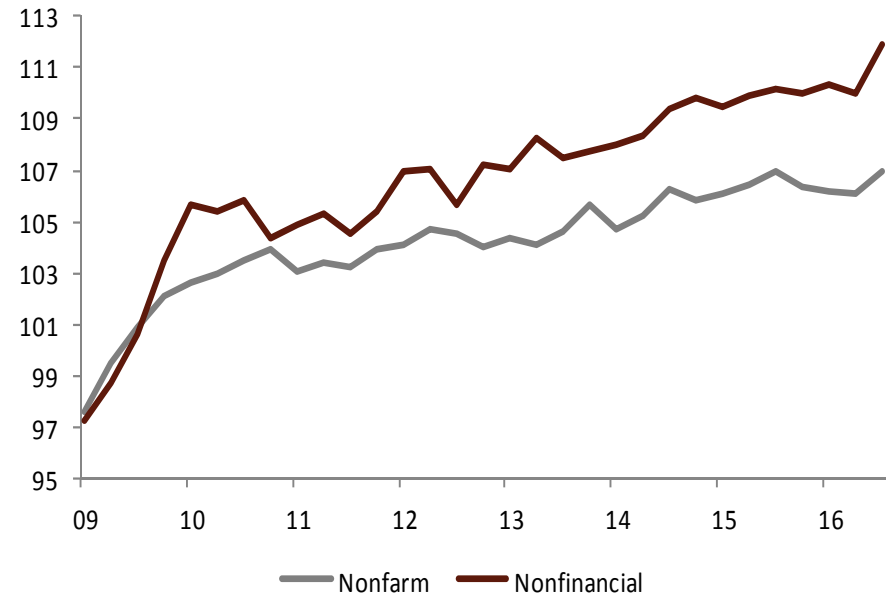
Savings rate needs to decline (percent)



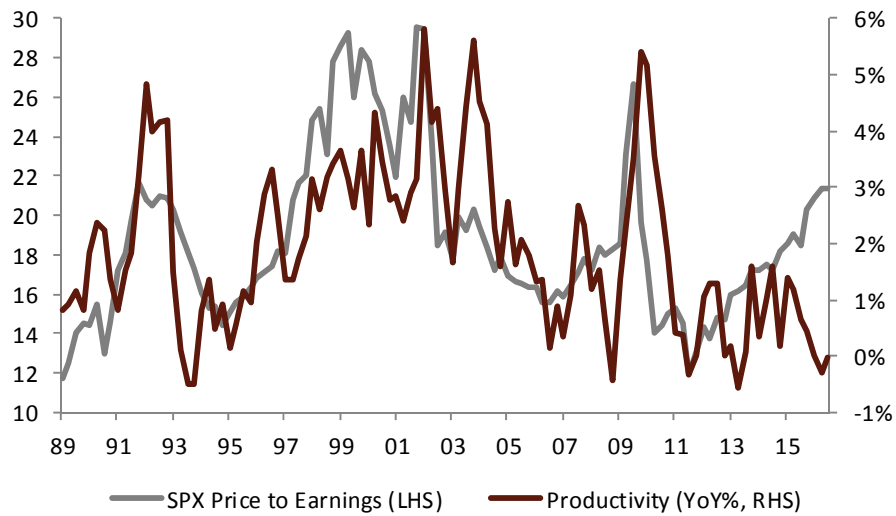
Lack of capital deepening
(Contribution to growth, annualized)



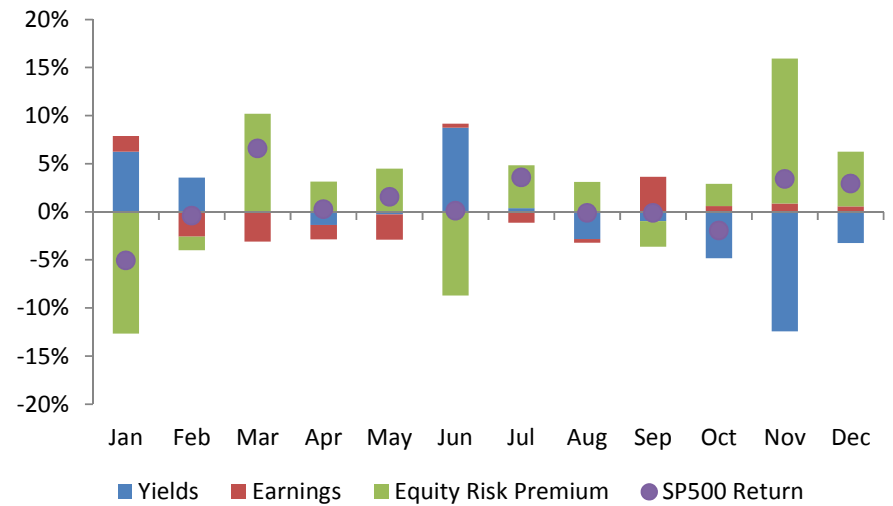
Financial sector weighing on productivity
(Output per hour, 2009 = 100)



Stronger productivity tends to reinforce multiple



Less support from yields Contribution to S&P return (percent)

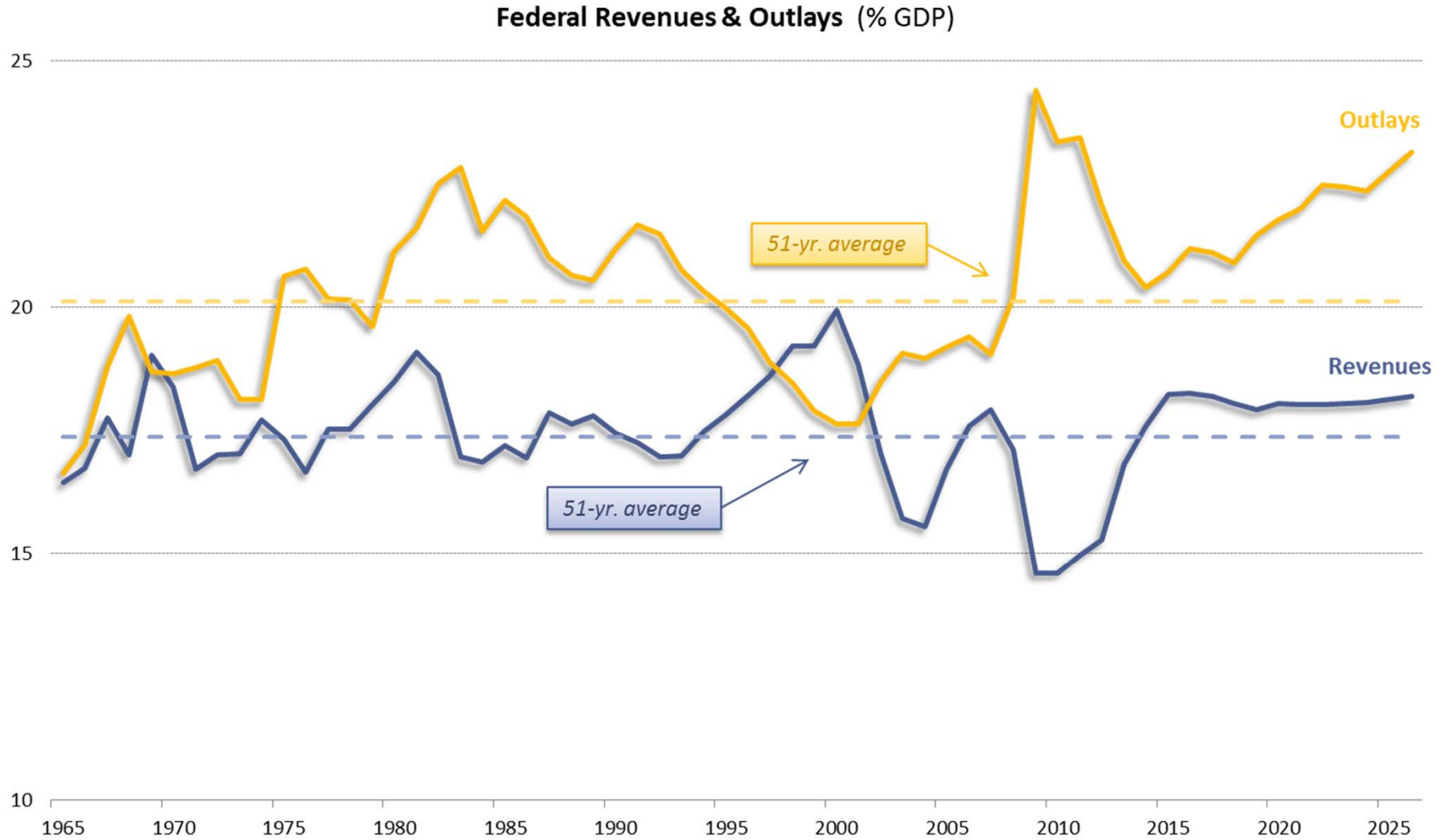




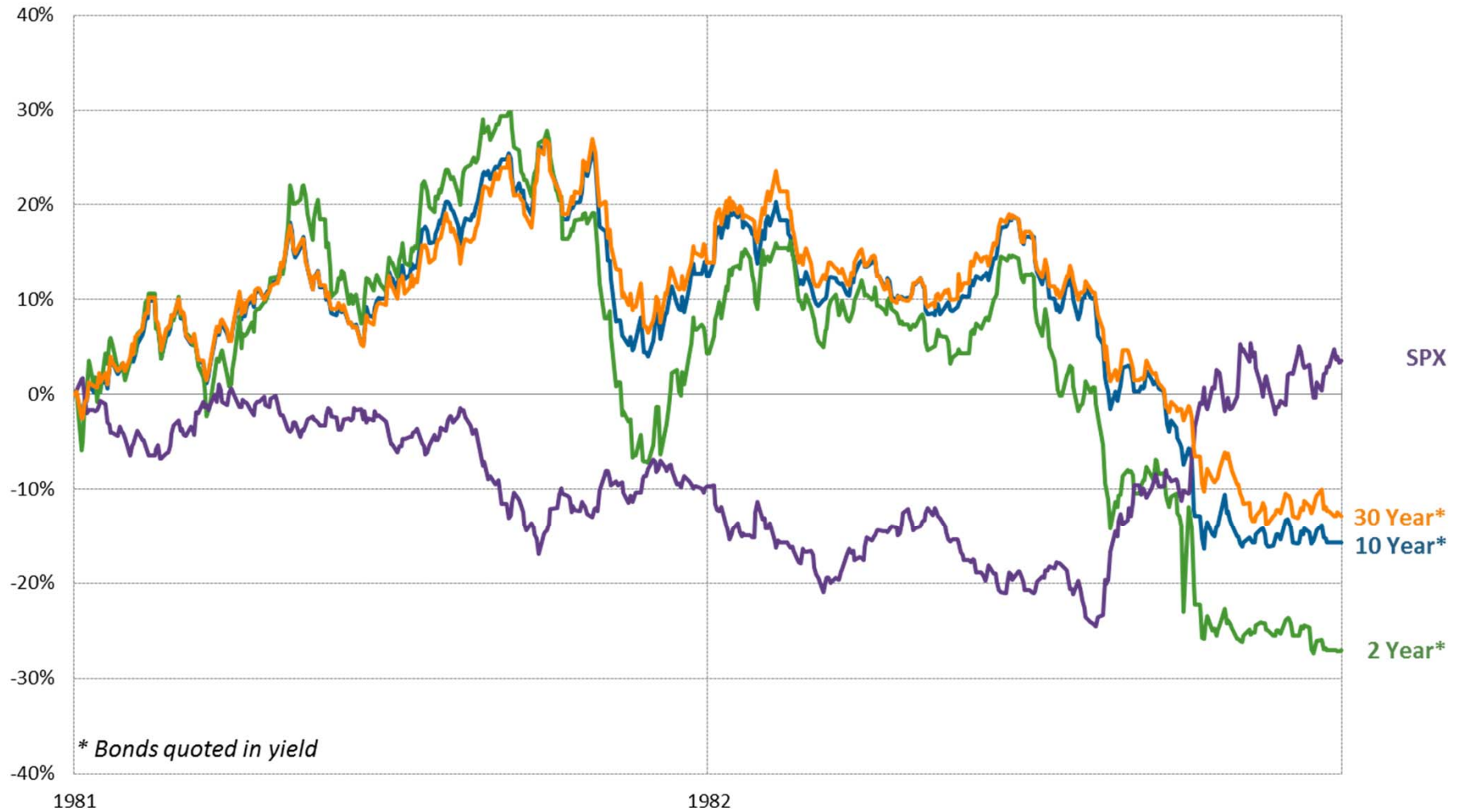
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Washington & Global Policy

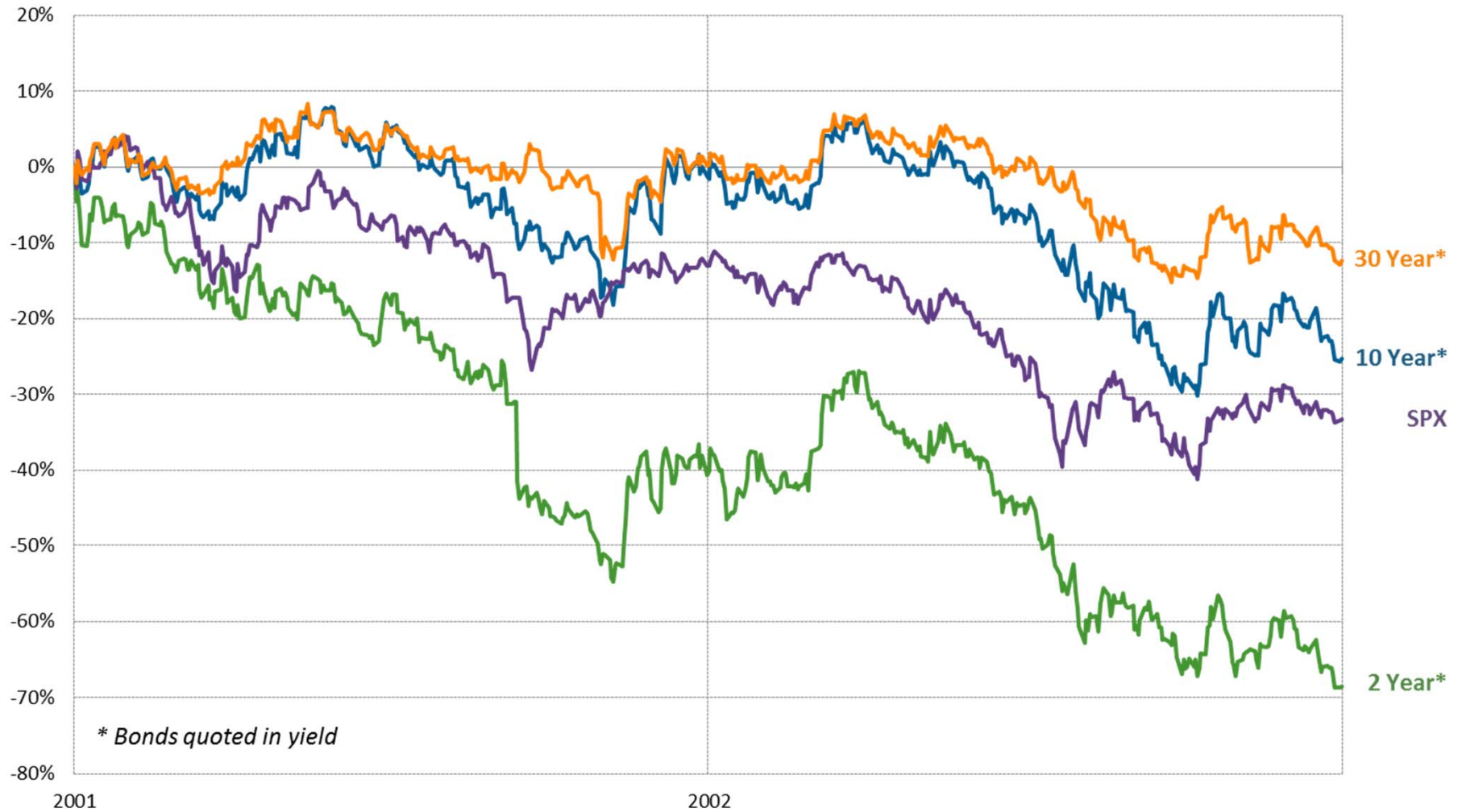
Kim Wallace

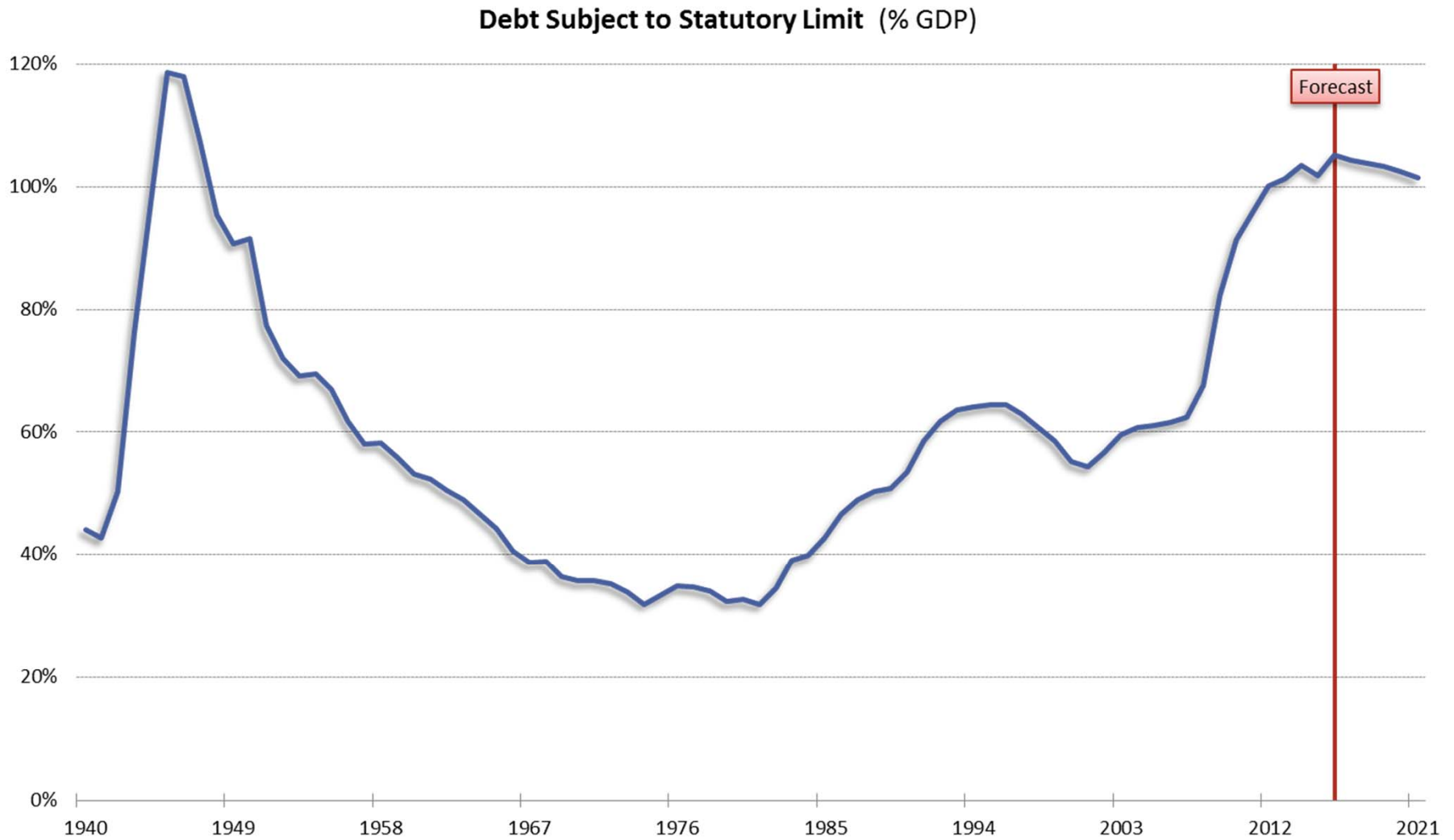


1981-1982 Fiscal Episode (cumulative % appreciation)



2001-2002 Fiscal Episode (cumulative % appreciation)



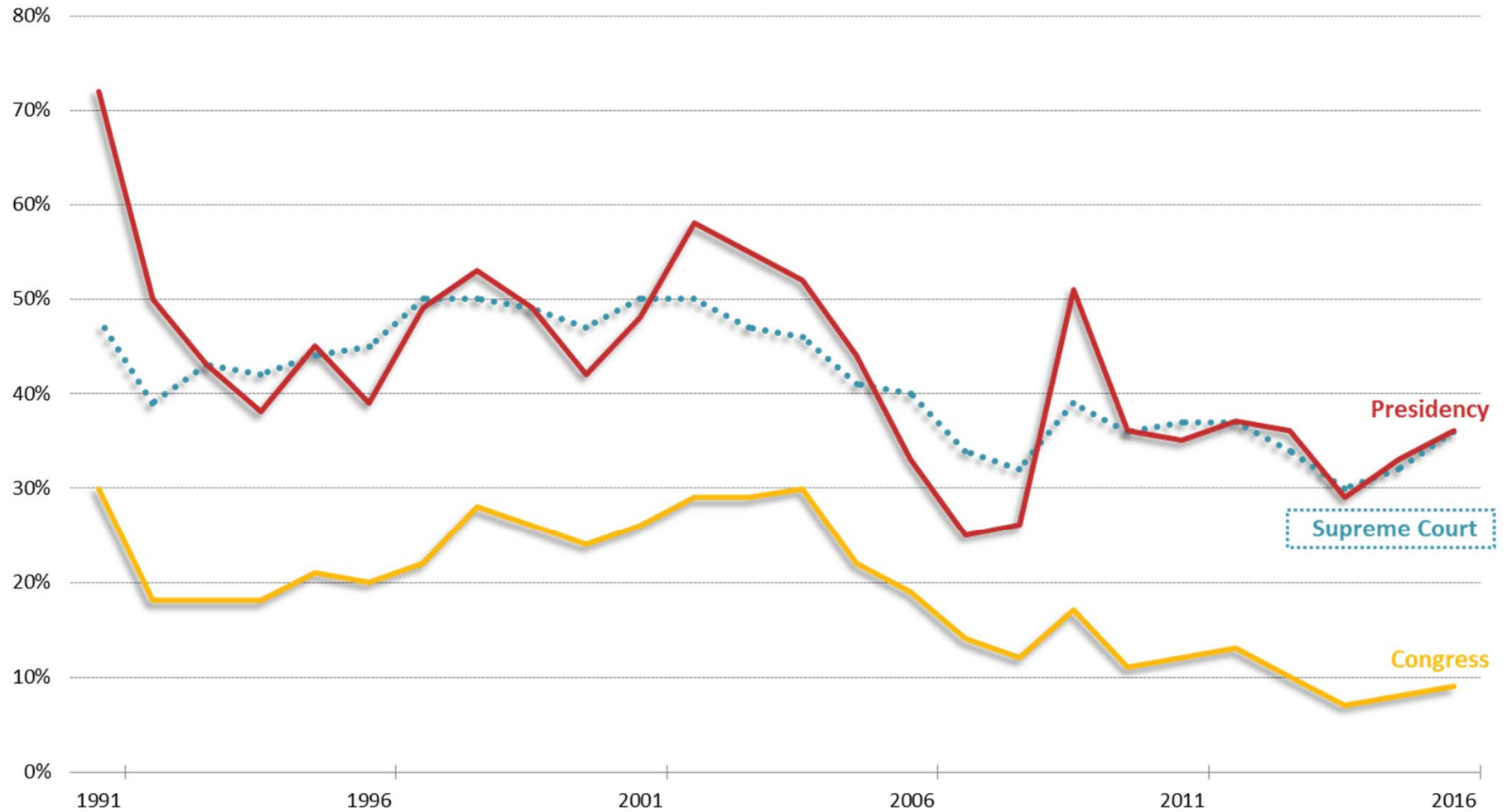


Trump's first issue priority should be * ... (% voters)

	All voters	Trump voters	Clinton voters
Healthcare/Obamacare	20	29	12
Economy	12	15	9
Immigration/secure border	10	15	6
Unify the country	8	5	12
Jobs/unemployment	8	10	7
Personal behavior/divisions	6	1	11
Defense/national security	3	4	2
Environment/climate	3	--	6
Foreign policy	3	1	4

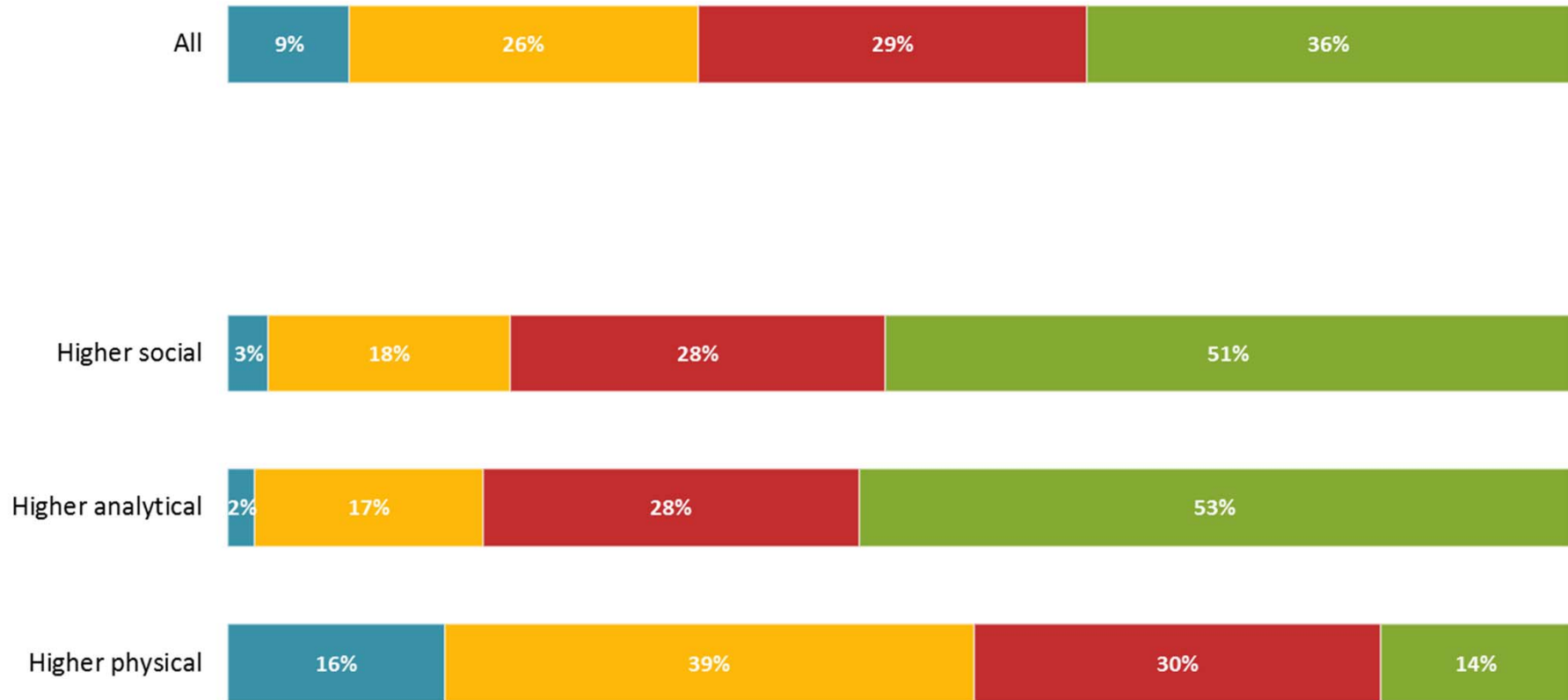
* Note: Open-ended Question
Source: Pew Research Center (Nov. 11-14, 2016)

Confidence in Federal Branches of Government (great deal + quite a lot)

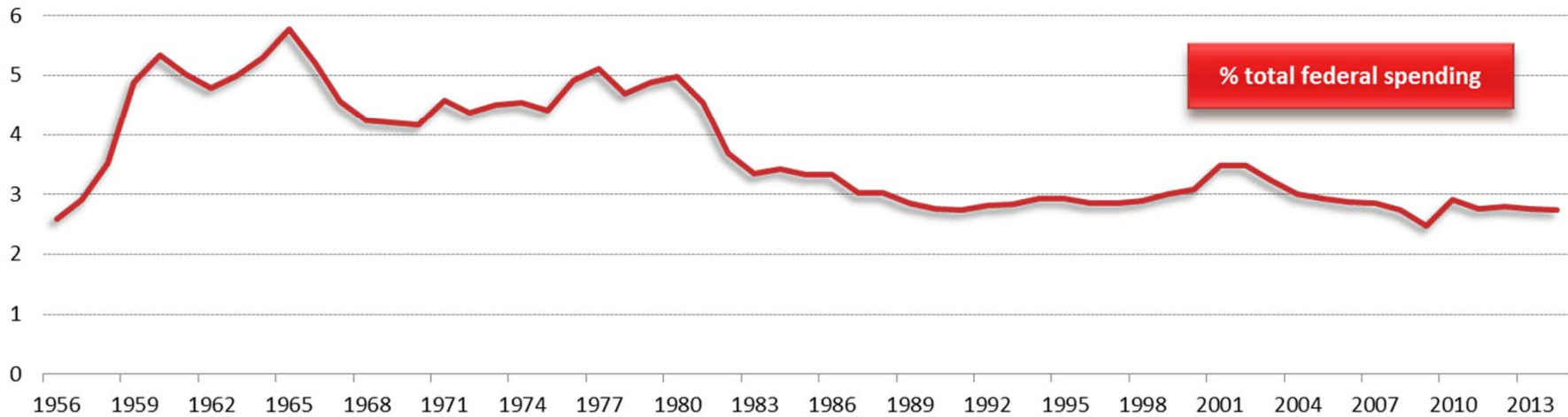
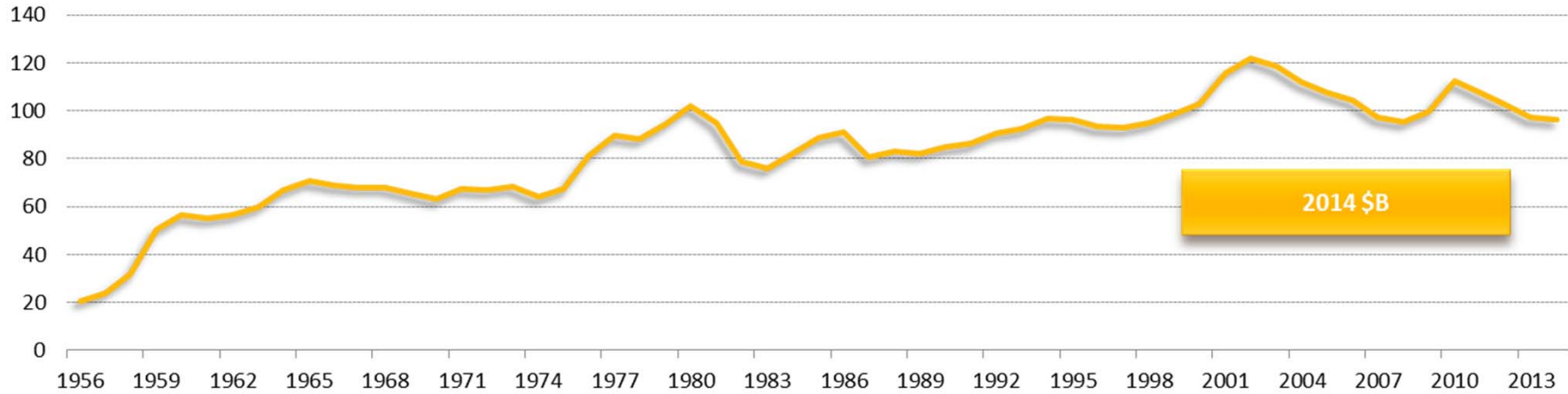


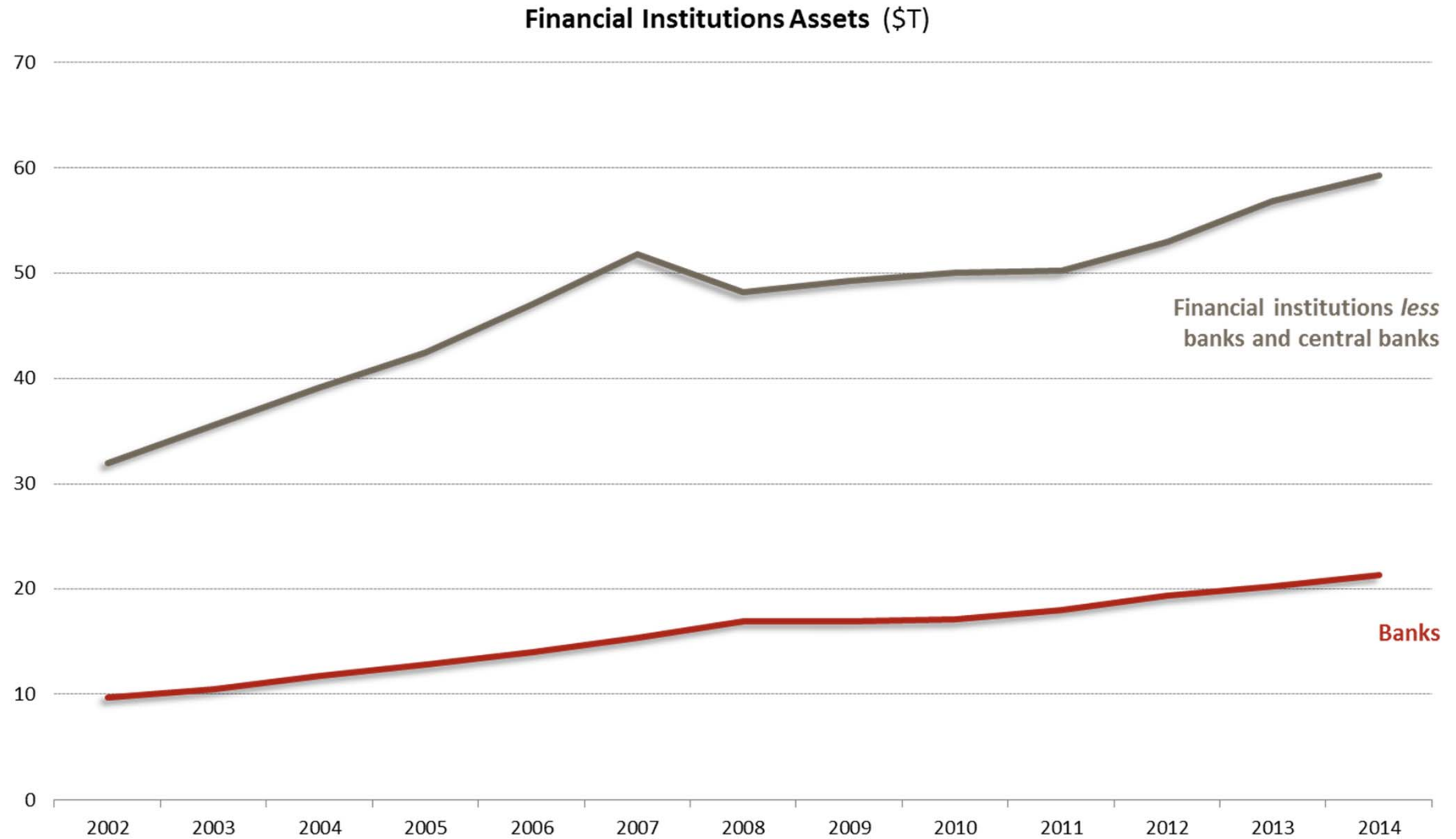
Employed Civilians 16+ by Work Skills, 2015 (%)

■ Less than high school ■ High school ■ Some college ■ Bachelor's degree+



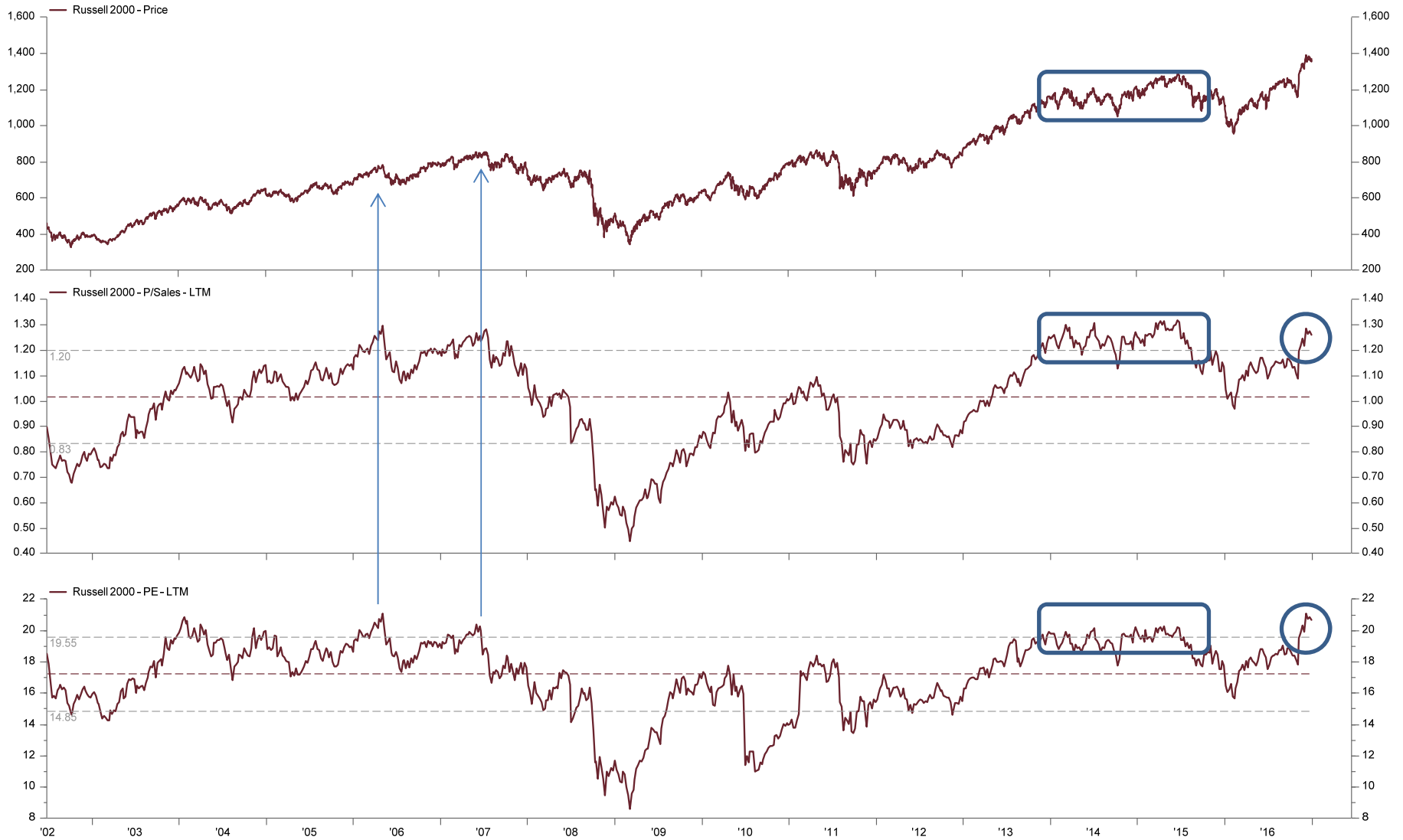
Federal Spending on Transportation and Water Infrastructure



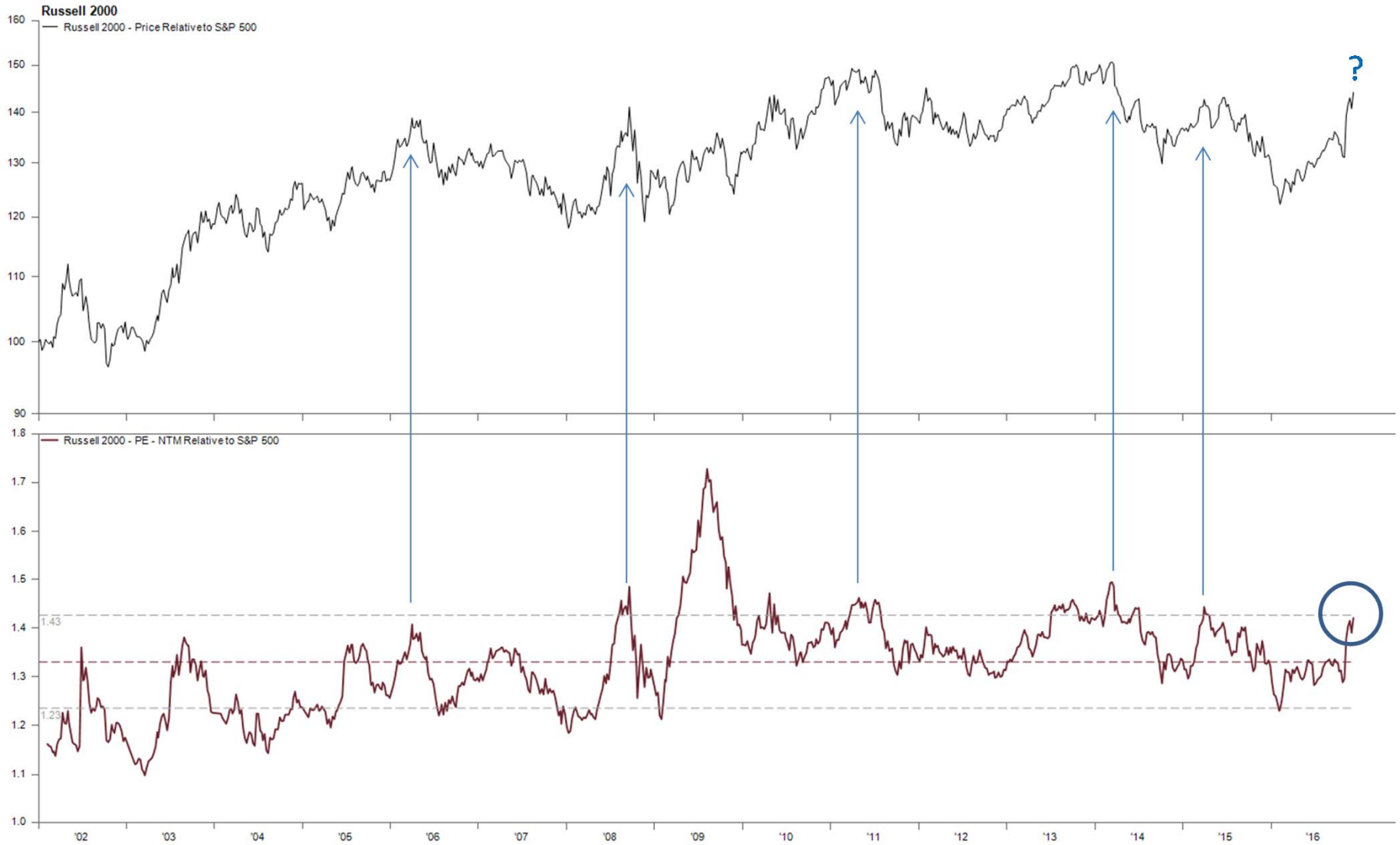


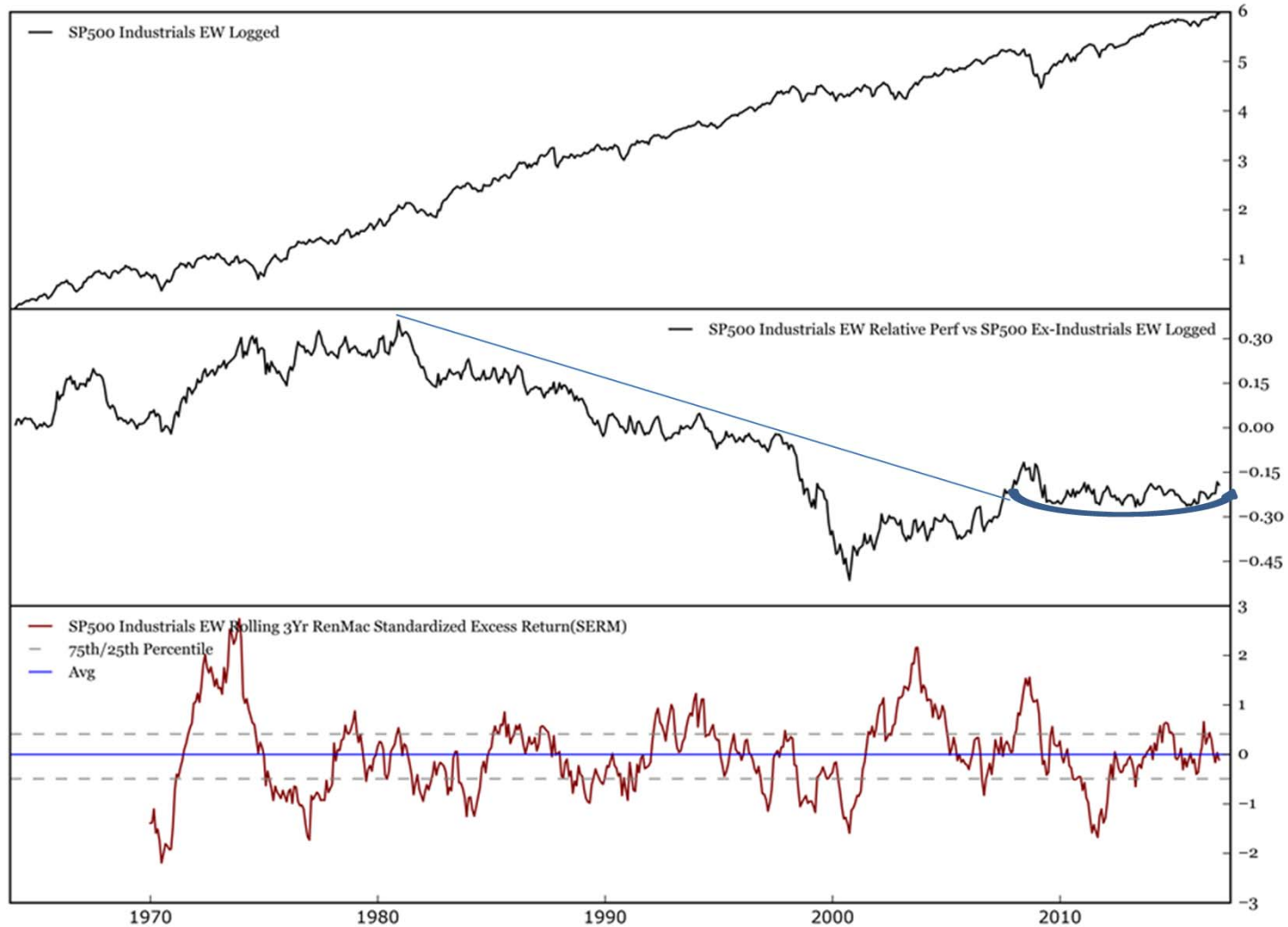
Rob Ginsberg

Small Cap: Can valuation derail our bullish thesis?



... Particularly on a relative basis







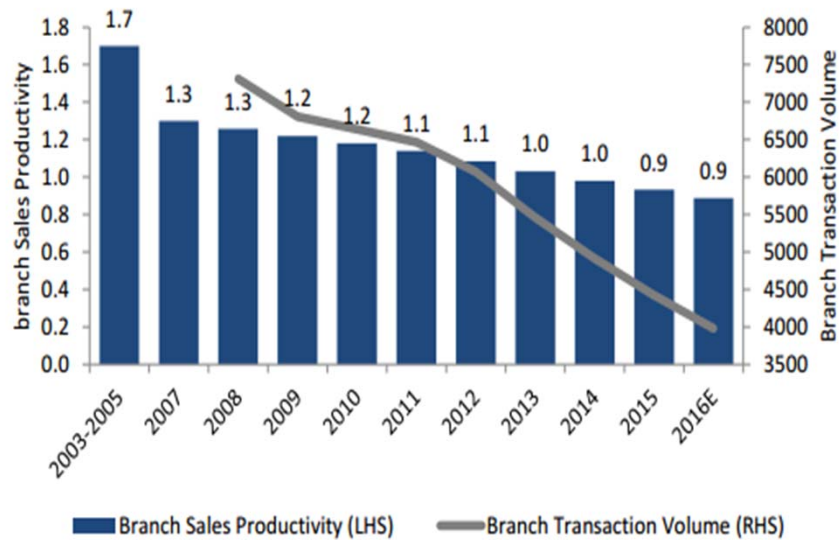
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Payment Processors & Banks

Howard Mason

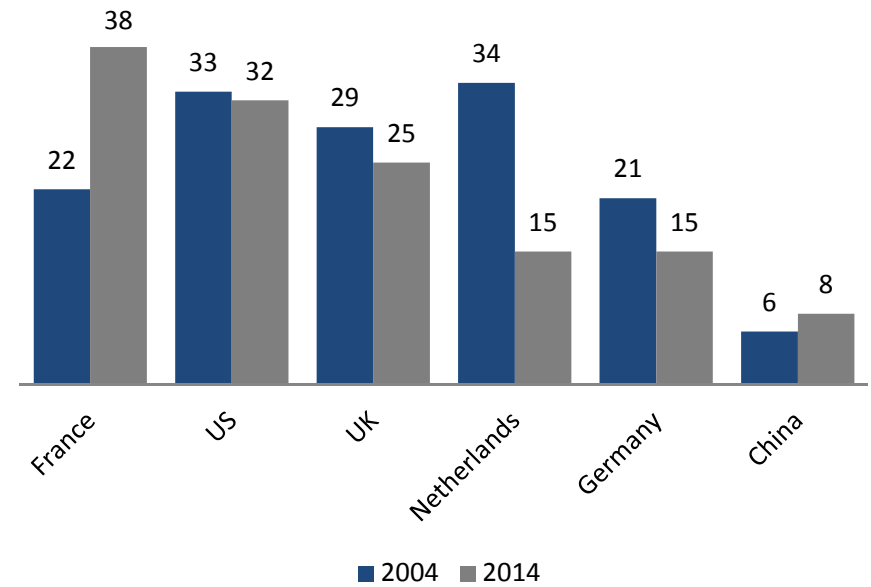
Coverage Universe: AXP, MA, PYPL, V, BAC, C, JPM, and WFC

Branch traffic & sales productivity are in decline

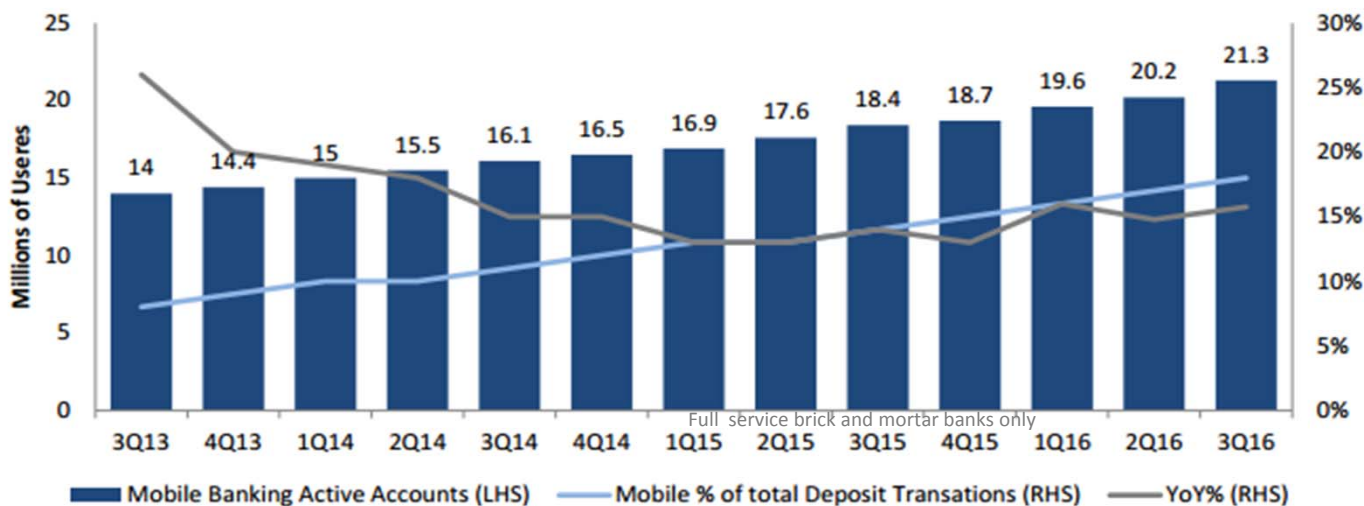


Branch Density (2004 – 2014)

(branches per 100,000 adults)



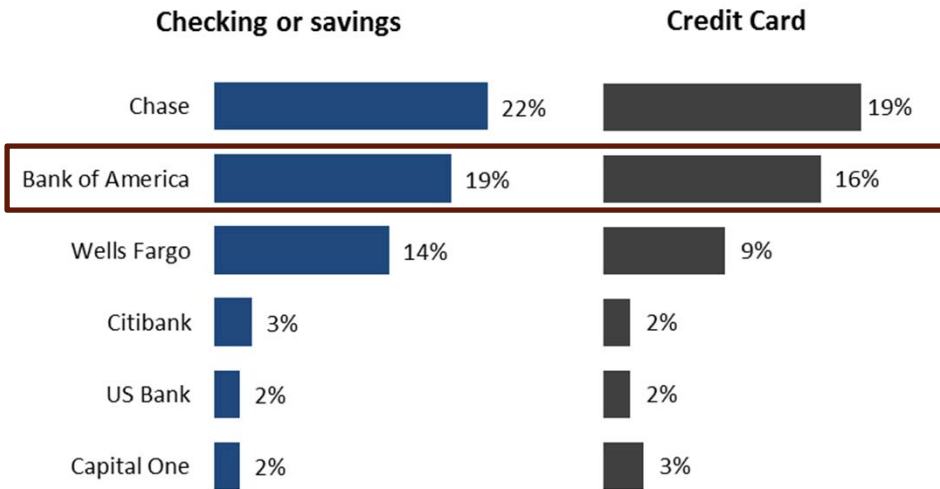
Growth of mobile banking at BAC



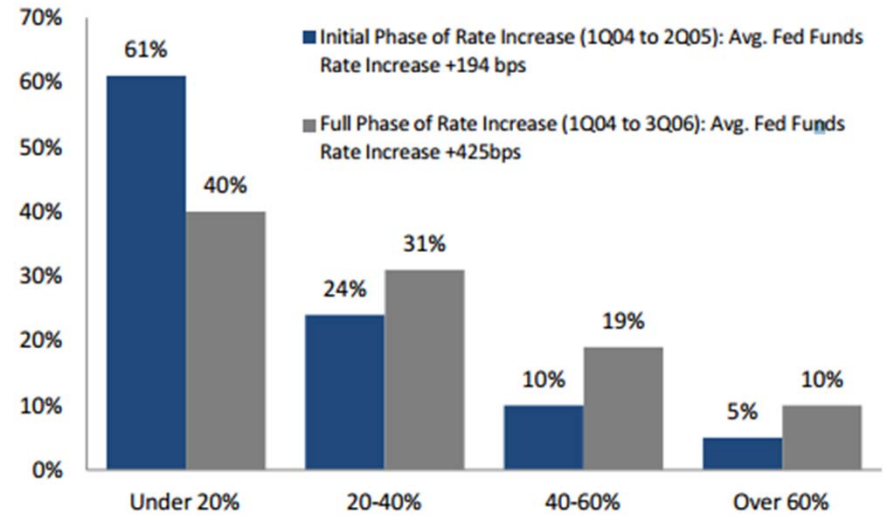
BAC trimming branches

Bank	2009	2010	2011	2012	2013	2014	2015	2016
WFC	2,708	5,710	5,541	5,506	5,481	5,477	5,481	5,487
JPM	4,853	4,875	5,054	5,222	5,319	5,351	5,272	5,166
BAC	5,659	5,594	5,437	5,347	5,129	4,884	4,688	4,607
USB	2,063	2,172	2,218	2,209	2,215	2,281	2,269	2,265
PNC	1,030	2,318	2,334	2,758	2,665	2,550	2,509	2,474
BBT	1,472	1,756	1,741	1,738	1,814	1,808	1,853	2,182
RF	1,775	1,667	1,657	1,612	1,602	1,567	1,541	1,513
STI	1,425	1,398	1,396	1,394	1,343	1,311	1,271	1,237
TD	994	1,070	1,247	1,264	1,268	1,262	1,261	1,222
FITB	339	1,217	1,226	1,229	1,233	1,217	1,208	1,096
COF	693	943	940	938	891	857	807	779
HBAN	609	616	616	612	603	592	587	625
C	1,013	1,015	1,013	1,031	993	922	789	737
Rest	69,763	66,812	66,629	66,597	66,642	67,001	67,505	68,010

Millennial penetration



Variation in deposit betas more pronounced in early phase of last up-rate cycle



Comparative yields and rates at JPM, BAC and WFC

2016Q3 - \$bn	JPM				BAC				WFC			
	Mix	Balance	Rate	Interest	Mix	Balance	Rate	Interest	Mix	Balance	Rate	Interest
<i>Net Interest Margin</i>	100%	2,116	2.24%	11.9	100%	1,870	2.22%	10.4	100%	1,735	2.8%	12.3
<i>Net Interest Spread</i>	79%	1,662	2.11%	11.9	69%	1,297	1.99%	10.4	74%	1,284	2.7%	12.3
<i>NIB Contribution</i>	21%	454	0.13%	-	31%	573	0.23%	-	26%	451	0.12%	-
IE Assets	100%	2,116	2.70%	14.3	100%	1,870	2.73%	12.8	100%	1,735	3.17%	13.8
Loans	41%	874	4.23%	9.3	48%	901	3.73%	8.4	55%	957	4.16%	10.0
Trading	10%	220	3.46%	1.9	7%	129	3.43%	1.1	5%	89	2.71%	0.6
Securities	13%	273	2.95%	2.0	23%	423	2.04%	2.2	21%	358	2.85%	2.6
Cash/Equivalent	33%	709	0.52%	0.9	19%	357	0.50%	0.4	17%	299	0.50%	0.4
Other	2%	41	2.01%	0.2	3%	60	4.49%	0.7	2%	31	3.17%	0.2
IB Liabilities	100%	1,662	0.59%	2.4	100%	1,297	0.74%	2.4	100%	1,284	0.48%	1.5
Deposit	56%	929	0.15%	0.3	61%	789	0.13%	0.3	70%	898	0.16%	0.4
LT Debt	18%	300	1.84%	1.4	18%	227	2.33%	1.3	20%	252	1.59%	1.0
Trading	12%	196	0.58%	0.3	6%	73	1.32%	0.2	0%	-	na	-
Wholesale	14%	236	0.71%	0.4	16%	208	1.09%	0.6	10%	133	0.52%	0.2

2016Q3 - \$bn	JPM				BAC				WFC			
	Mix	Balance	Rate	Interest	Mix	Balance	Rate	Interest	Mix	Balance	Rate	Interest
Loans	100%	874	4.23%	9.3	100%	901	3.73%	8.4	100%	957	4.16%	10.0
Consumer xCard	42%	367	3.17%	2.9	39%	354	3.26%	2.9	45%	430	4.42%	4.8
Residential Mortgage	21%	181	3.41%	1.5	21%	188	3.41%	1.6	29%	279	3.95%	2.8
Home Equity	6%	54	3.84%	0.5	8%	71	3.84%	0.7	5%	49	4.37%	0.5
Other	15%	133	2.58%	0.9	10%	93	2.58%	0.6	11%	102	5.73%	1.5
Card	15%	133	9.60%	3.2	11%	97	9.36%	2.3	4%	35	11.60%	1.0
Wholesale	43%	375	3.35%	3.2	50%	449	2.88%	3.2	52%	493	3.41%	4.2



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Metals & Mining

Pete Ward

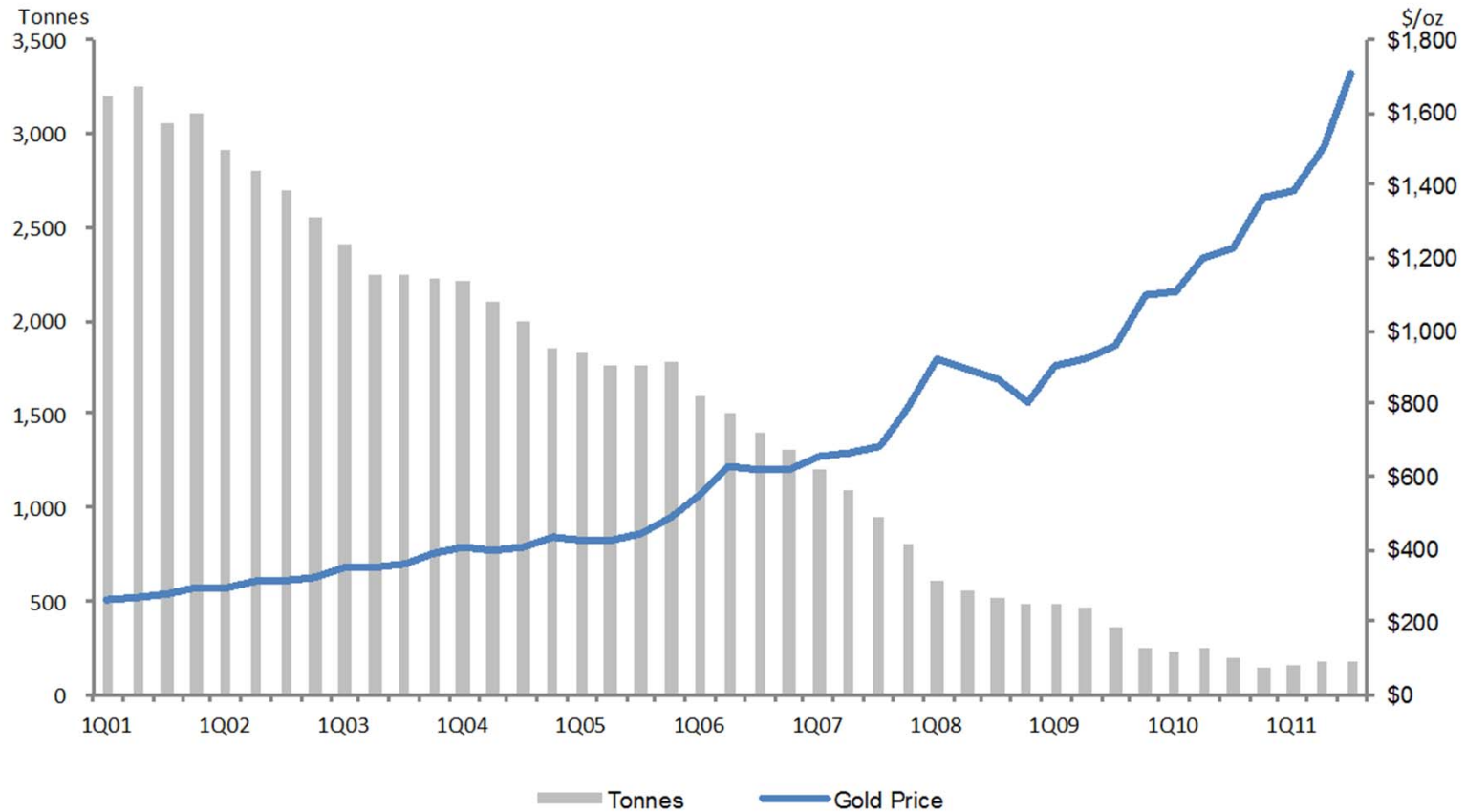
Coverage Universe: ABX, BHP, FCX, GG, NEM, RIO

	<u>Recommendation</u>	<u>Current Price</u>	<u>Major exposures</u>	<u>Justification for Recommendation</u>
Barrick Gold	Underweight	\$16.18	Gold	Very expensive valuation. If we remove Pascua and Cerro Casale from P&P reserves, the company only has a decade. In our opinion, a substantial increase in the gold price is already discounted. We find attraction in a pair trade that is long gold and short major gold mining stocks.
BHP Billiton	Equal weight	1331p	Iron Ore, Oil, Copper	Reasonably valued. We like the commodity exposures long term. The company's low cost position and strong balance sheet should limit downside. We could move toward OW at a slightly lower valuation.
Freeport-McMoRan	Overweight	\$13.51	Copper, Gold, Molybdenum	We like the assets and commodity exposure long term. We believe political risk concerns are overdone. And, winning back investor trust will take time. But, we remain confident that leverage to copper prices will prove highly desirable over the next decade. Risks are high but we like the risk/reward balance.
Goldcorp	Underweight	\$13.99	Gold	Now that growth has turned negative, Goldcorp's historical growth multiple needs to compress. With just a decade of reserves, we believe GG will have to spend enormously to replace depletion. FCF will be minimal. We like a pair trade to be long gold and short major gold miners.
Newmont Mining	Equal weight	\$34.27	Gold	Equal weight rating leaning UW. We shy away from UW for now simply because 2016/2017 results will likely be decent. But, they are unsustainable. We likely move toward UW at a higher stock price and/or as the market begins to focus on 2018 results. In our experience, it remains early for that.
Rio Tinto	Overweight	3139p	Iron Ore, Copper, Aluminum	The company's low cost positions in iron ore and aluminum will generate attractive FCF in any commodity price environment. Longer term, leverage to copper prices is attractive. Stock is not terribly inexpensive. But, we believe it still discounts an overly bearish outlook for the commodities. We see modest upside with limited risk.

Gold – Real interest rates are very important



Gold – Massive short covering will not repeat





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Consumer Packaged Goods

April Scee

Coverage Universe: AVP, BFB, CHD, CL, CLX, COTY, DPS, EL, HLF
KMB, KO, MNST, NUS, NWL, PEP, PG

Critical Trends for 2017 and Stocks That Benefit

Policy Uncertainty Likely to Lead Debate Near-Term	Transactions Should Provide A Floor For Valuation	Cash Returns Should Also Help Growth Algorithm
<p>Impacts of potential policy changes will remain in focus until policies take shape. The answers aren't easy though, even on repatriation beneficiaries and lower corporate tax rates. Other topics, like import taxes are even more challenging, given lack of visibility on moving parts within the companies.</p> <p>Benefit repatriation: AVP, NUS, HLF, CL, EL, PG, KO Benefit lower corporate tax: DPS, CHD, CLX, MNST</p>	<p>High cash balances, low interest rates, slower growth, and meaningful multiple contraction for the group should incentivize continued consolidation & portfolio adjustments...and provide a floor for group valuation.</p> <p>Most Likely Targets: CLX, CHD, MNST</p>	<p>Historically, CPG growth algo was MSD organic + modest margin incr + share repo = 8-12% EPS growth. With EMs stabilizing, less F/x hit, easier comps, & margin help, growth should improve vs depressed levels. If we get a repatriation bill and funds are used for buyback, double-digit EPS growth could return.</p> <p>Most likely to incr buyback: HLF, NUS, CL, KMB, PEP, PG Likely to reinvest (M&A/CapEx): KO, EL, NWL, BF/B</p>
Group Should Get More Aggressive on Margins	Niche Will Continue to Take Share/CPG Buy Them	Cadence of Innovation Must Accelerate
<p>Historically, entry barriers helped protect CPG margins. Protections are eroding as competition (Niche) and the cost of growth increases. CPG will likely utilize restructurings and reduce marketing spend to protect margins (mirroring actions taken by activists and private equity in the space).</p> <p>Biggest margin opportunity (likely to get addressed): NWL, DPS, COTY, KMB, CL</p>	<p>Lower entry barriers and consumer demand for differentiated products are helping Niche Brands win. Big brands share losses will likely escalate in 2017 without strong innovation, more aggressive e-commerce/digital push, and improved consumer engagement.</p> <p>Categories most at risk: Pet, Beauty, Baby Winners (smart buyers of Niche): EL, NWL, DPS, CLX</p>	<p>Real innovation is increasingly necessary to drive CPG organic growth. Successful ideation requires understanding consumers & identifying unmet needs. Product development requires risk-taking & willingness to fail. Being competitive requires doing reaching shelf quickly. We think small, independent brands are advantaged and winning more often. Big companies that emulate these success factors will most likely win.</p> <p>Best innovation set-up: EL, NWL, DPS, MNST</p>
CPG Should Get More Aggressive E-Commerce/Digital	Consumer Engagement Should Improve	Customization Will Gain Traction and Share
<p>CPG has shifted slower toward e-commerce and alternative media than consumers. As share of wallet continues shifting to e-commerce and consumer engagement increasingly driven by alternative media, those who move more quickly with consumers will win.</p> <p>Most Aggressive E-Commerce/Digital Push: NWL</p>	<p>Most big companies understand benefit of engaging with consumers, but few do it well. Digital capabilities can help brands generate successful innovation and marketing through de-facto, nationwide focus groups -- building brands, loyalty, and organic potential while lowering cost (better innovation/marketing hit rate).</p> <p>Companies that will win: PEP, MNST</p>	<p>Big brands attempt to appeal to all consumers, all the time. As a result, they often stand for nothing. Today's consumer will pay more for custom product that fits their personality. Customization therefore drives sales, improves margins, and drives consumer engagement.</p> <p>Best Customization Capabilities: NWL, EL</p>

THE ESTEE LAUDER COMPANIES (EL, OW, \$97PT)

Summary



Thesis

Inflection in Clinique & Lauder (40% of sales) will boost organic; M&A is elevating business' growth & competency profile; and although cost of growth is up, productivity allows modest margin increases.

Bull Case

Best-in-class organic growth should continue (suggesting multiple is too low), driven by:

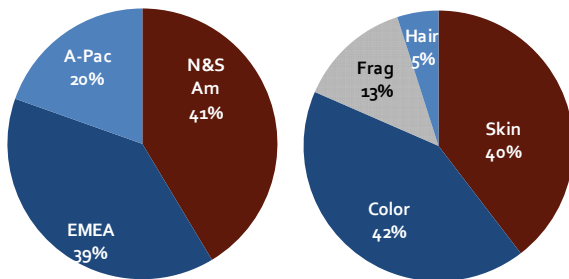
- Aggressive push on e-commerce/digital
- Learnings from Niche acquisitions should help core brands
- Lauder/Clinique approaching stabilization (channel & marketing changes, innovation)
- Diversification away from Department Stores
- Makeup tailwinds

Niche brand M&A fills gaps in portfolio & could continue

Large inventory/margin opportunity when needed

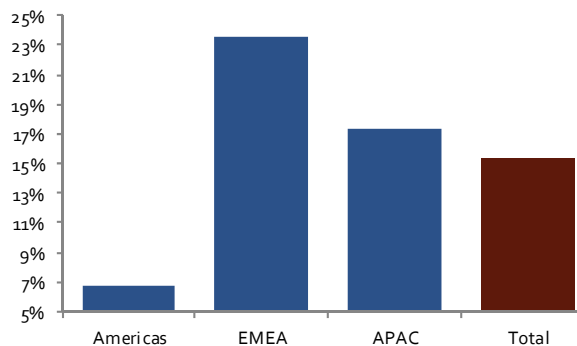
Although family unlikely to sell, EL = a coveted asset with valuation support (scarcity value)

Revenue by Segment

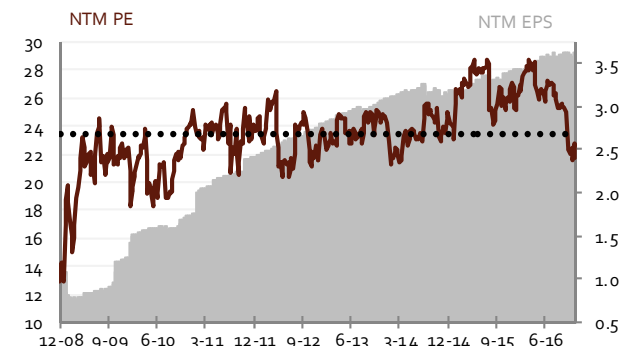


Source: RenMac, Thomson Reuters

Operating Margin by Segment

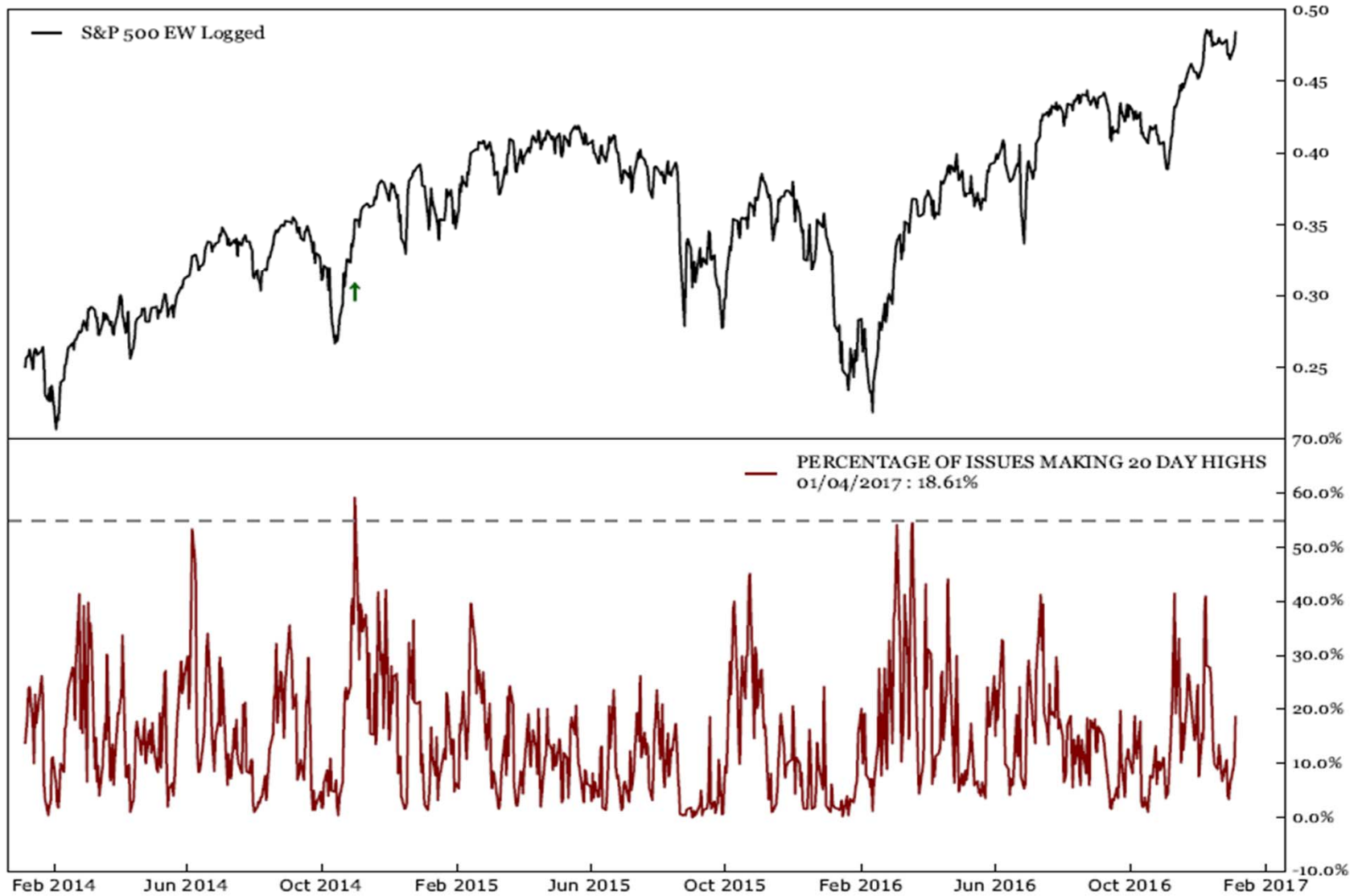


Valuation & Estimate Trajectory

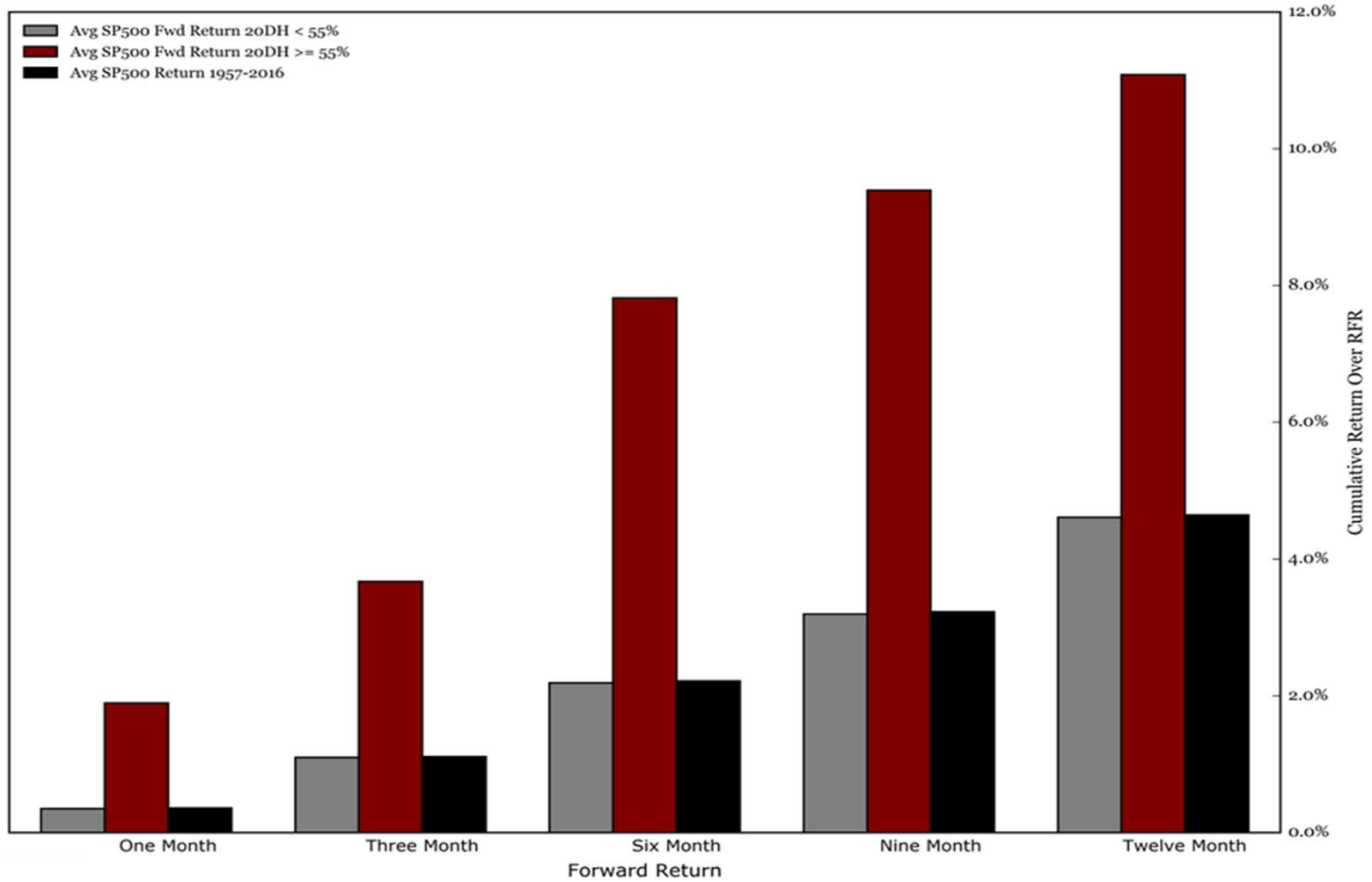


Jeff deGraaf

20-day highs imply rotation

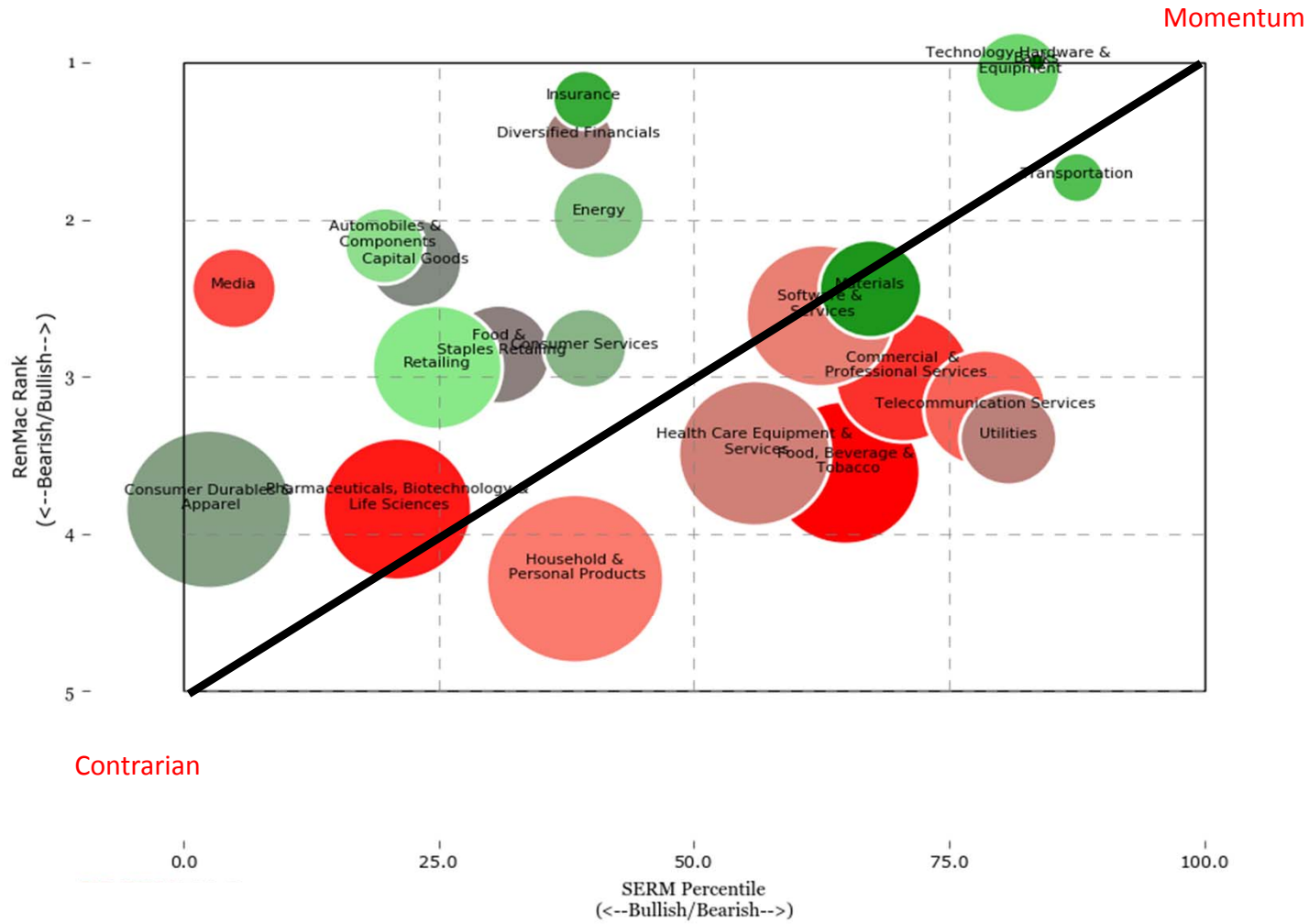


20-day highs > 55% = bull market

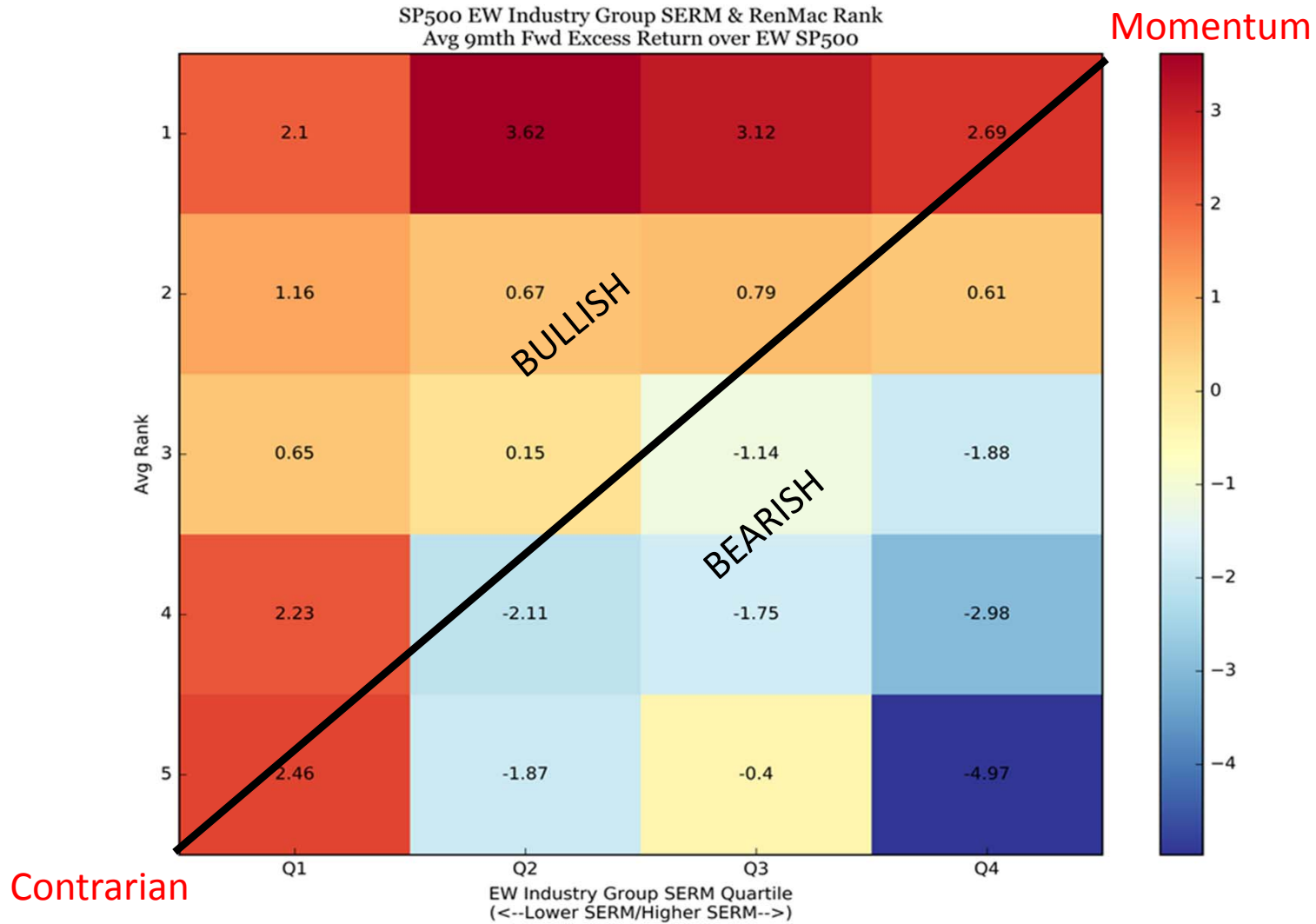


Today's industry positioning: pro-cyclical

RenMac SP500 Industry Group Bubble Chart
01/04/2017

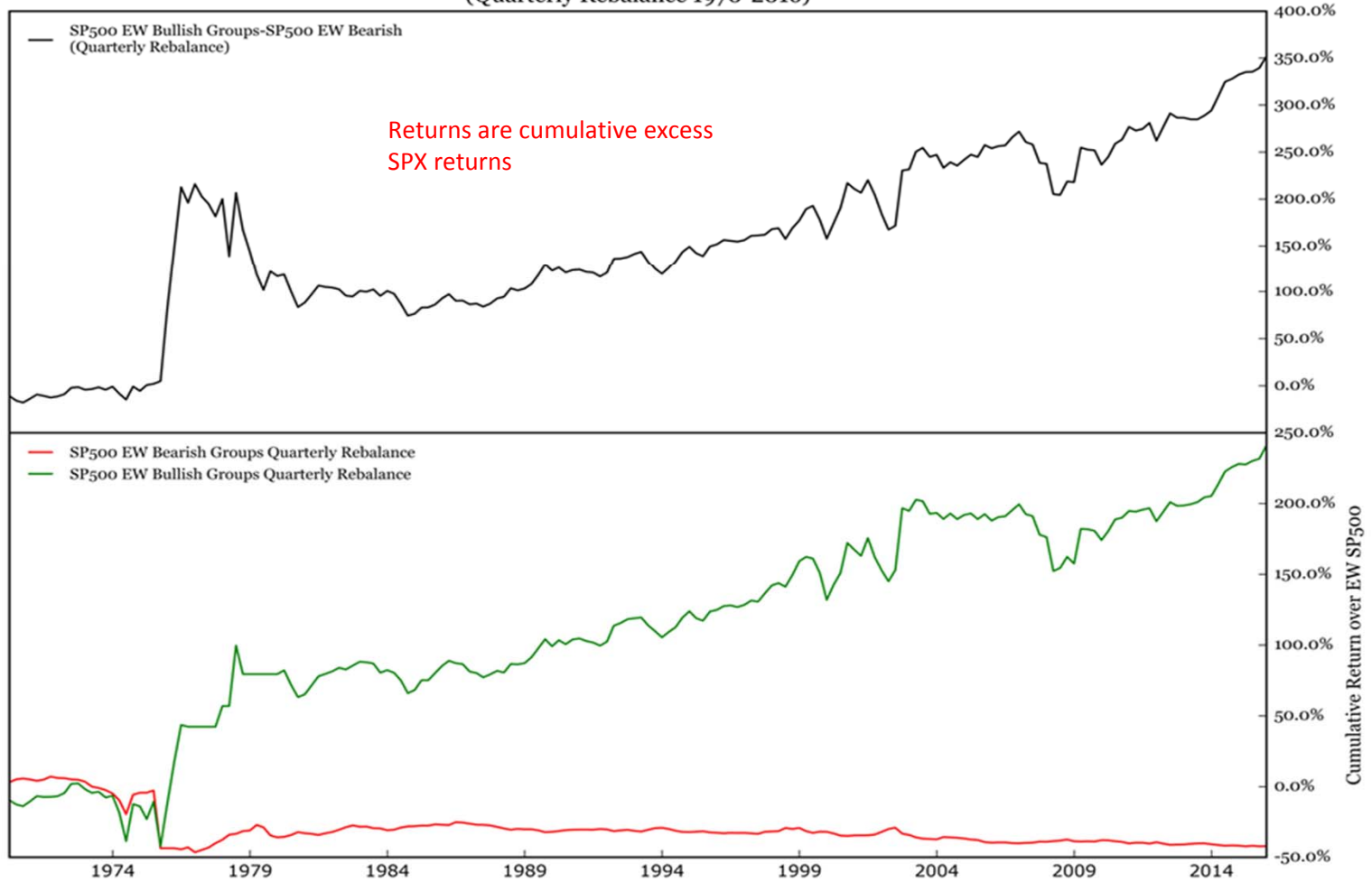


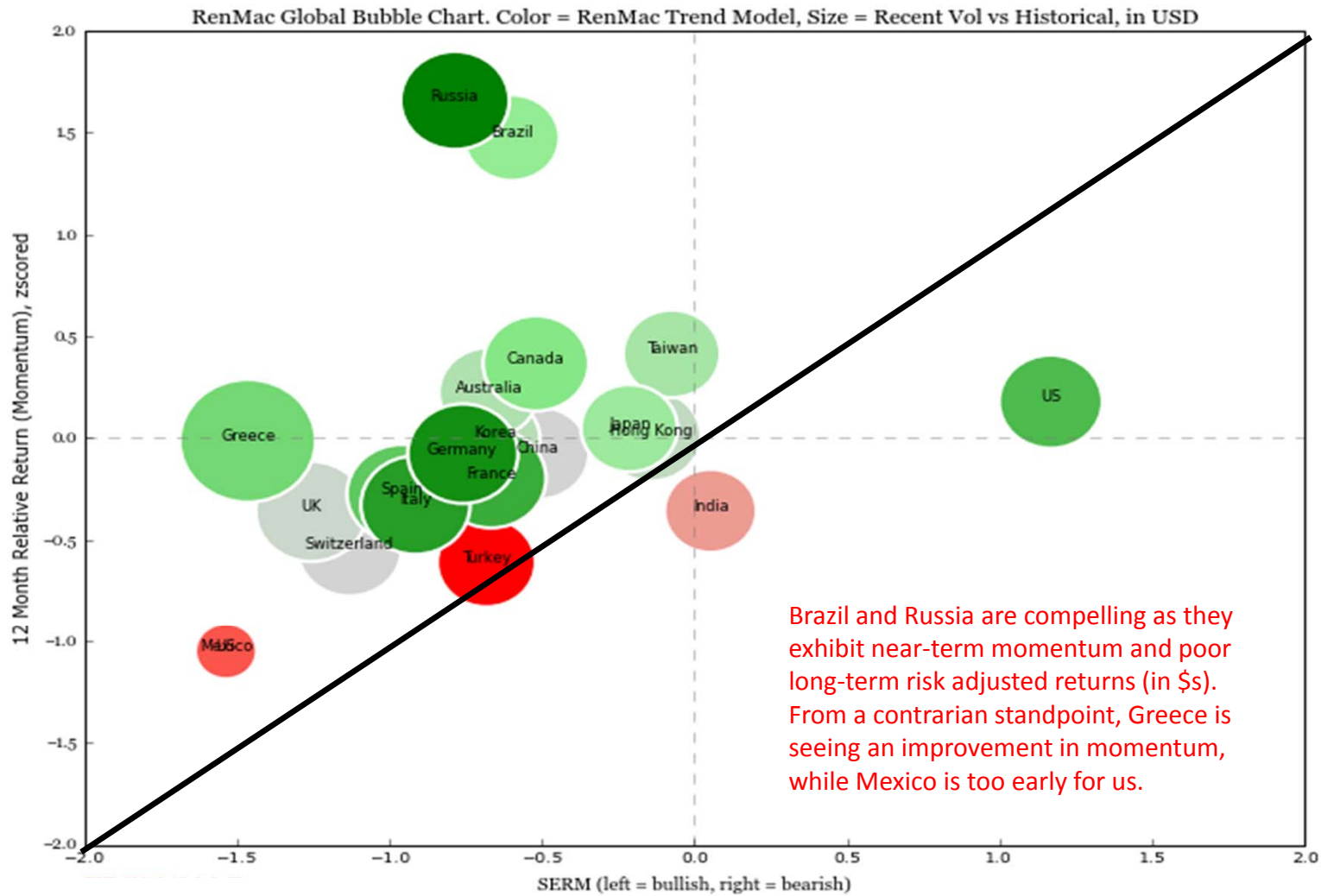
Historical return heat-map (1970)

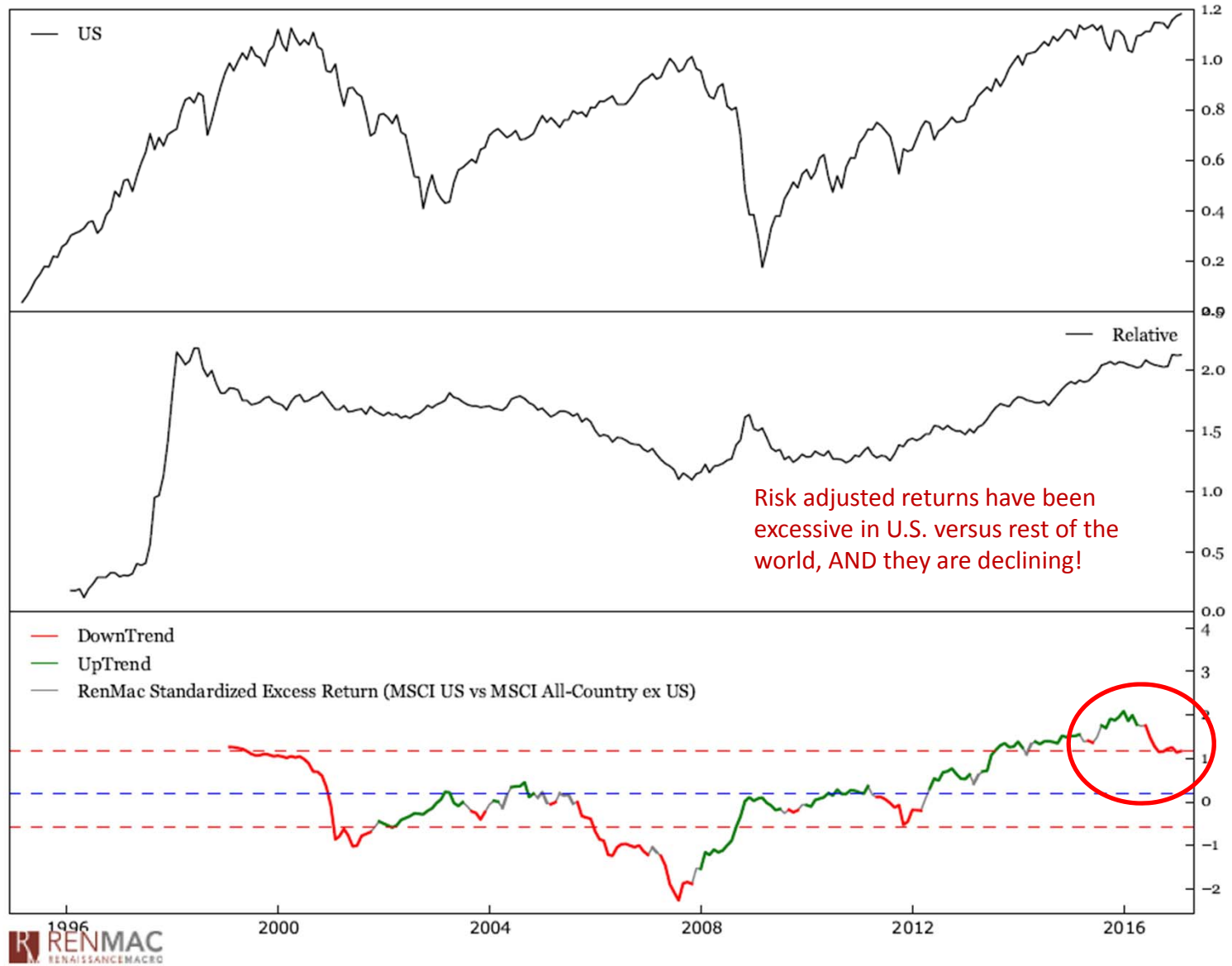


Quarterly rebalance: L/S and long only works

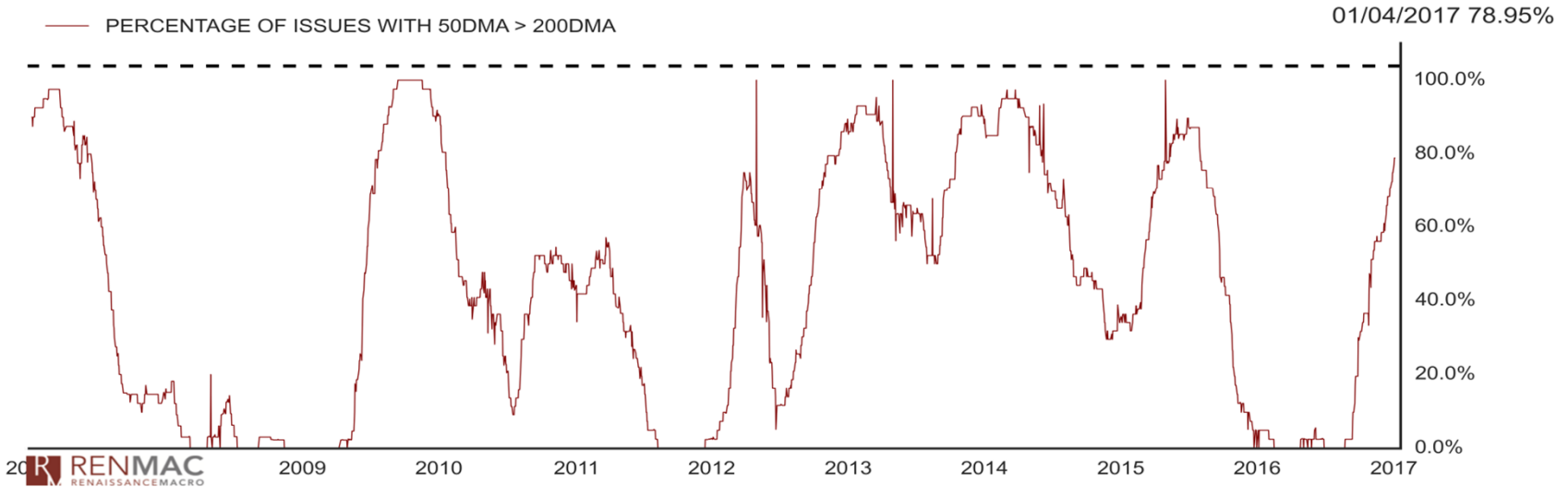
SP500 Industry Group SERM & Ranking Trading
 (Quarterly Rebalance 1970-2016)



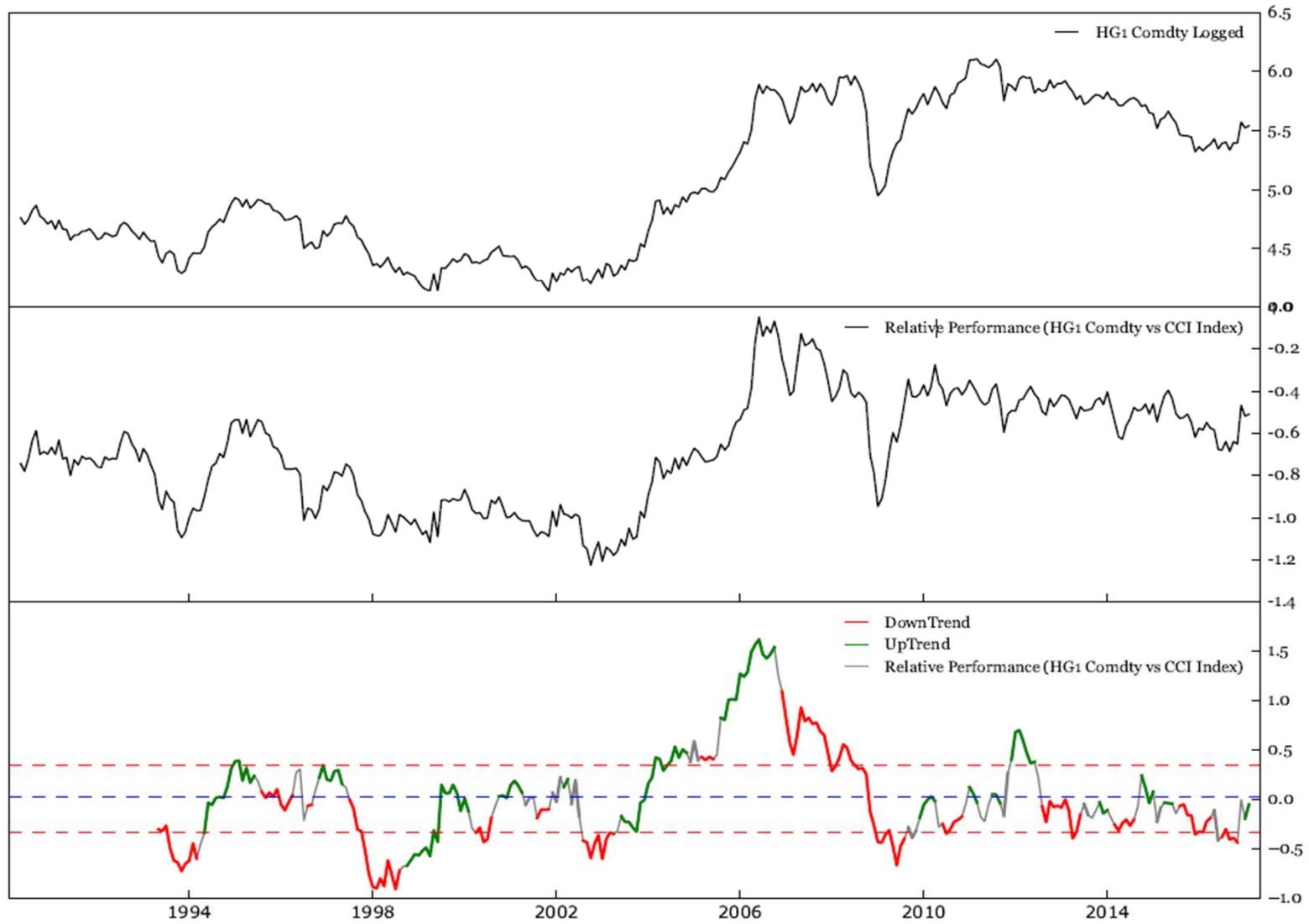




European banks basing?



Copper SERM supportive of trend





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Disclosures

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Price target and Valuation Methodology:

Each Analyst has a single price target in all of the stocks that they cover. The price target represents that Analyst's expectation of where the stock will trade in the next twelve months.

We use an enterprise value multiple of estimated future EBITDA to arrive at our price targets.

Risk Disclosure(s): Change in commodity prices is the key risk for Metals and Mining. In addition, the companies face political, geological and financing risks.

Guide to RenMac's Fundamental Research Rating System: Our fundamental coverage Analysts use a relative ranking system to rate stocks as Buy, Sell or Hold (see definitions below) relative to other companies covered by the Analyst or are deemed to be in the same industry (the Analysts Coverage Universe). In addition to the stock ratings each Analyst provides an Industry Ratings which provides the outlook for the industry coverage as Positive, Neutral or Negative (see definitions below). Investors should carefully read the entire research report including the definitions of all ratings and not infer its content from ratings alone.

Stock Ratings: Overweight – The stock is expected to outperform the un-weighted expected total return of the industry coverage universe over the next 12 months. Equal Weight – The stock is expected to perform in line with the un-weighted expected total return of the industry coverage universe over the next 12 months. Underweight – The stock is expected to underperform the un-weighted expected total return of the industry coverage universe over the next 12 months. Ratings Suspended - The ratings and price target have been suspended temporarily due to market events that make coverage impracticable or to comply with applicable regulations and /or firm policy.

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We use a variety of valuation methodologies to arrive at our price targets including an enterprise value multiple of estimated future EBITDA and a tangible book value multiple of estimated return on tangible common equity.

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Price target and Valuation Methodology:

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To arrive at our valuation we use a blend of relative value metrics and a DCF.

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