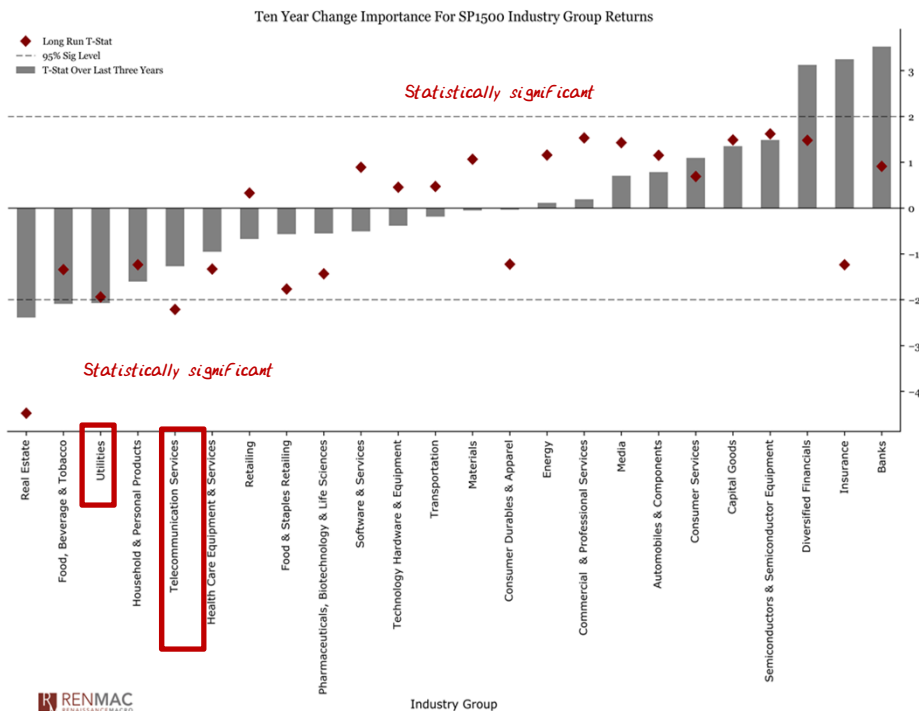


Equity Income Deep Dive

From a long-term trend perspective, little has changed since last month's report. Utilities continue to have some of the strongest absolute and relative trends in the market, while Telecom is one of only two sectors that are bearishly ranked in our trend model (Energy is the other). On a tactical basis (weeks) we expect the performance gap to close between the two groups. Utilities are on the verge of an overbought condition while Telecom is currently emerging from an oversold state. 10-yr yields are rallying out of their own (near) oversold condition, which should prove more of a headwind to Utes than Telecom. As the chart below shows, Utes have had a statistically significant negative relationship with yields over the past three years while the Telecom sector has not. We are not big bond bears but do expect the current rally in yields to continue a bit longer which should help close the performance gap.

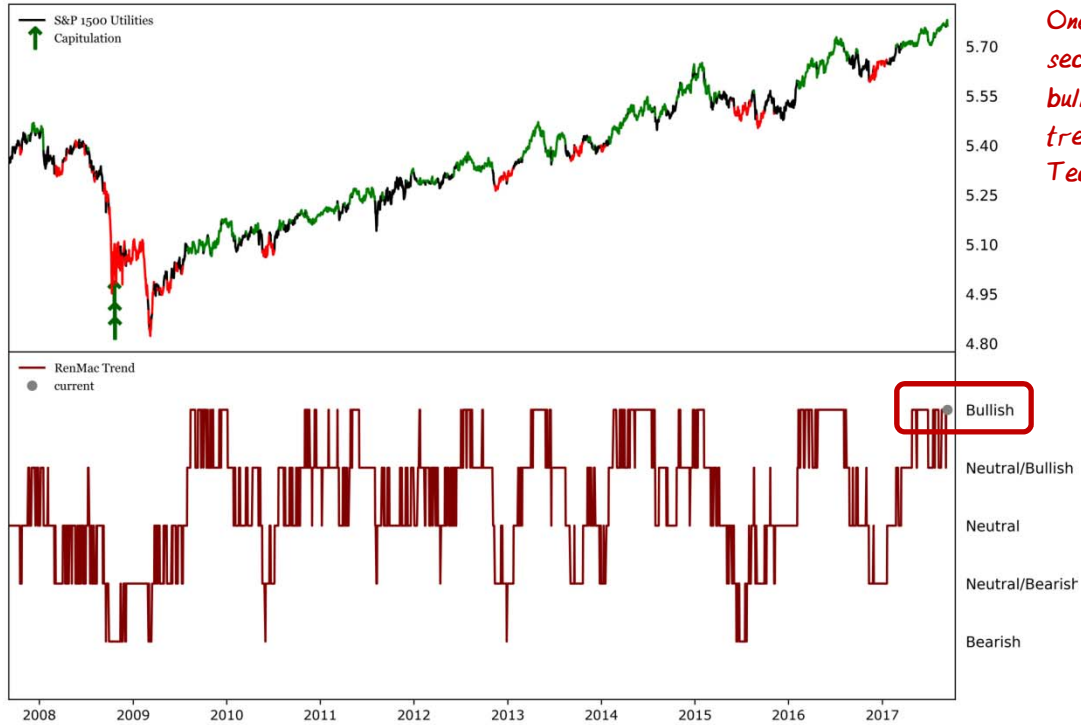
On a multi-month basis, we continue to prefer Utilities to Telecom given superior trends, stronger breadth and firmer credit. One thing worth monitoring is the long-term excess returns of the two groups. Telecom is firmly in the contrarian zone; Utilities are in still in a bullish position, but one that suggests we're at the tail-end of outperformance.



- *Small Cap Utilities Strength (pg. 5)*
- *Banks vs. Utes (pgs. 12 – 14)*
- *Value / Quality Trading System (Pgs. 23 – 24)*
- *Telecom credit bearish (pg. 33)*
- *Telecom SERM in contrarian zone (pg. 35)*
- *Telecom Tops including VZ and T (pgs. 37 – 38)*

Utilities

Trend: Bullish



One of only three sectors with the most bullish reading in our trend model (HC and Tech)

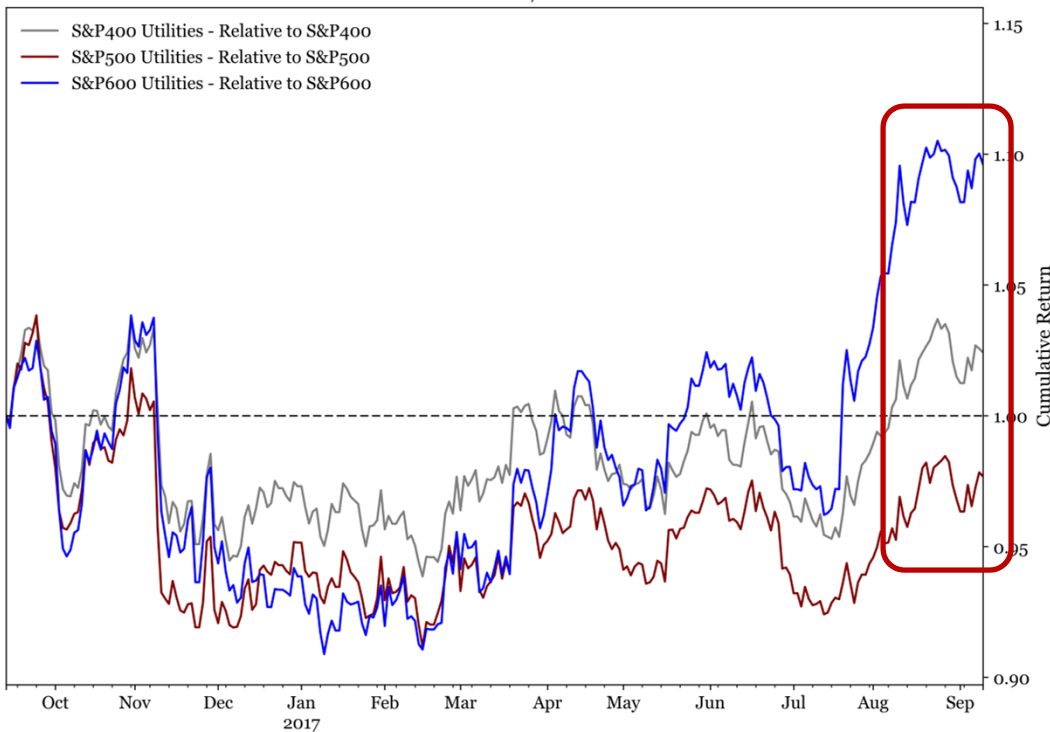


Why the trend model is positive is clear. Absolute trends are firm, and relative has been climbing most of the year.



Strong equal weight trends confirm the strength of the sector.

S&P400/S&P500/S&P600 Utilities Relative 2016-2017



Small cap relative performance has been the strongest relative to its index. One of few sectors where small cap looks stronger; only Health Care has similarly strong small cap trends.

Small-Caps Outperforming

S&P Small Cap 600 / Utilities - SEC (SP824-SPX)



Small Cap Utilities not only lead small cap but are also leading the much firmer SP 500.

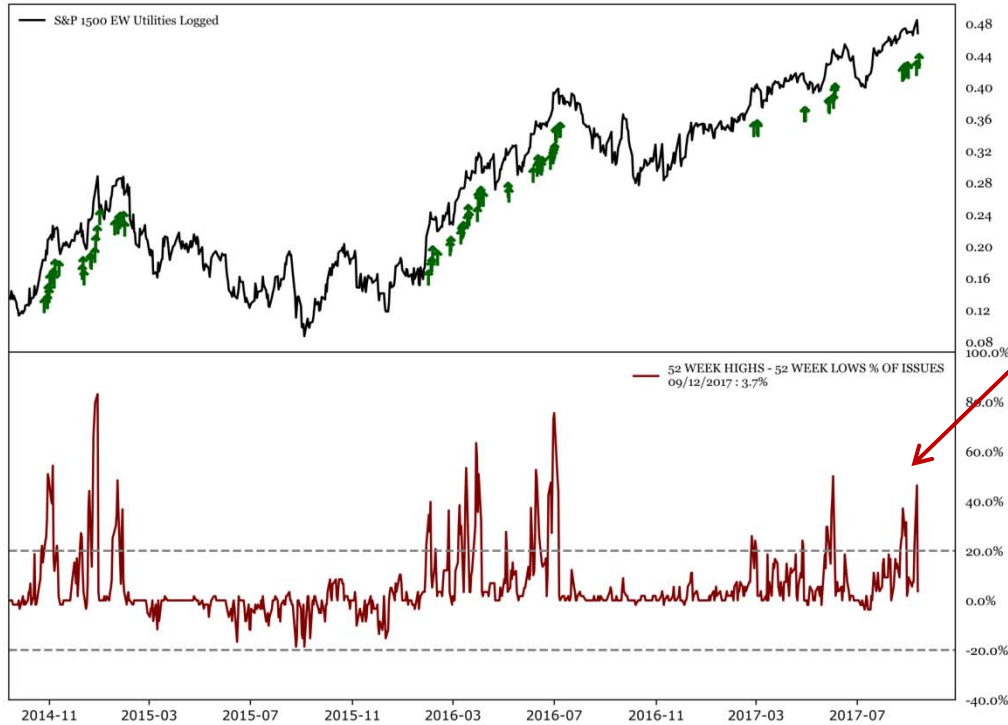
Global Performance: Bullish



Developed Ex. US Utilities are improving vs. their bench market. Absolute trends are firm and relative appears to be basing.

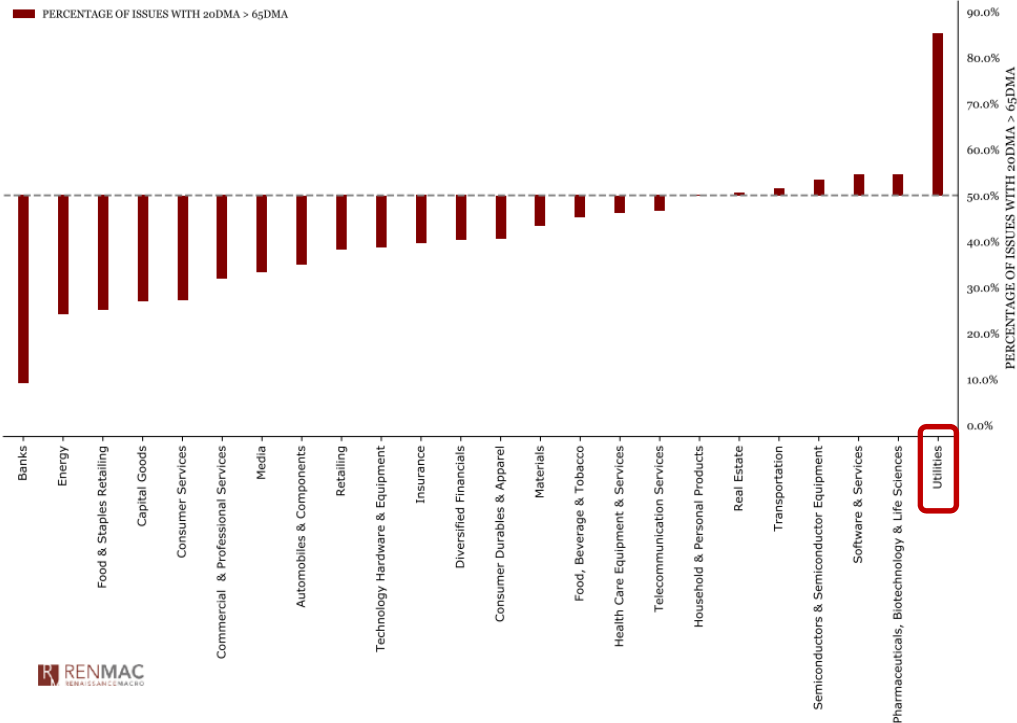


While absolute performance of EM Utilities has carved out a base, weak relative shows that it's likely to lag vs. other EM.



Net 52 week highs to lows show the significant breadth in the sector.

SP1500 Industry Group PERCENTAGE OF ISSUES WITH 20DMA > 65DMA
09/11/2017



No Industry Group has stronger intermediate trends than Utilities. Clearly the weakness in 10-yr yields has helped the group (note banks on the other extreme).

Internals: Low Correlations



The Advancers – Decliners line has been a steady climber since mid-2015 and has been stronger on pullbacks than EW trends.



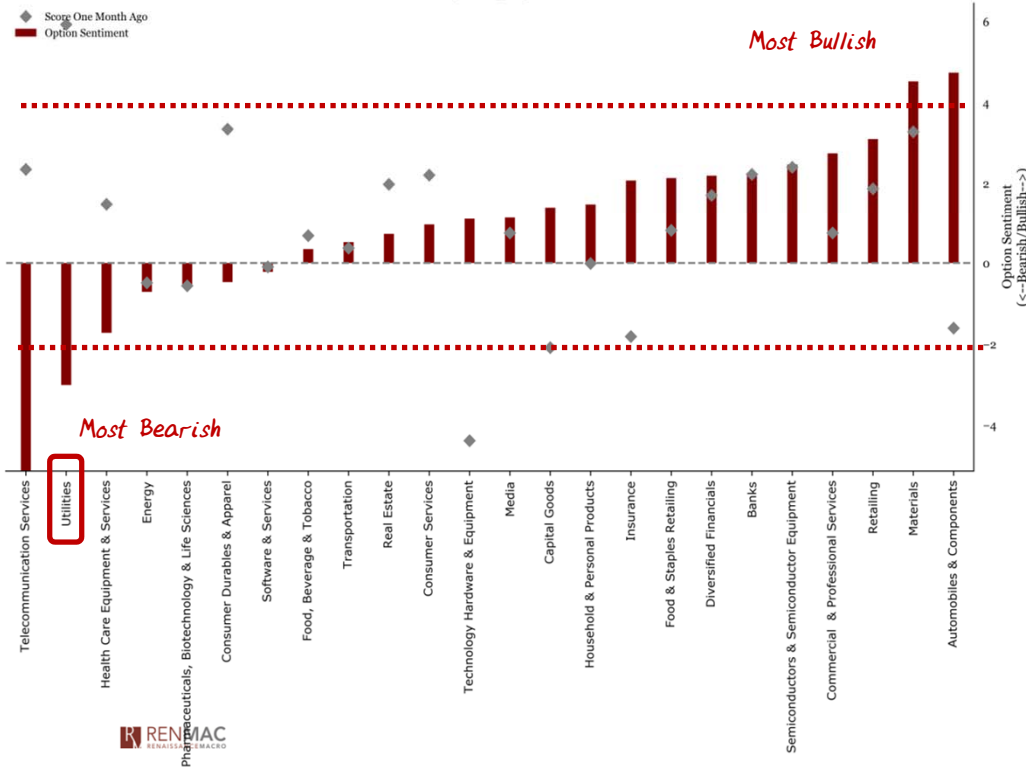
Correlations remains low in the group despite the strong relationship to the 10-year.

Utilities Equity ETF Flows and XLU US Equity



ETF Flows have been neutral for most of 2017.

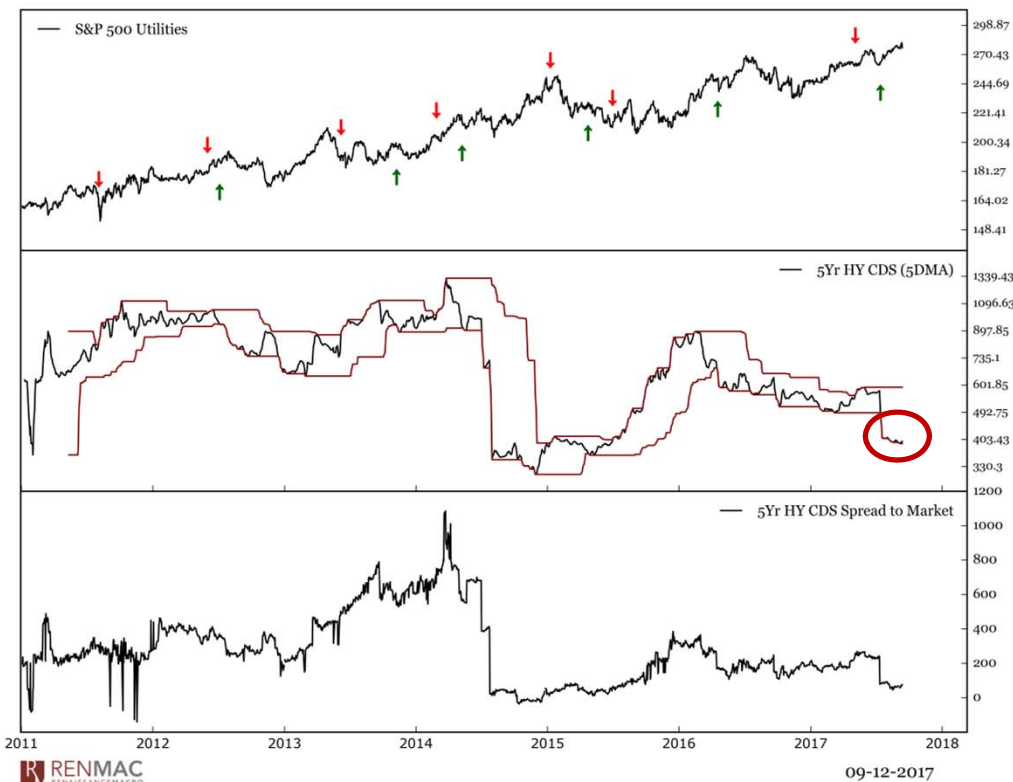
SP1500 Industry Group Option Sentiment



Tactically, our propriety option sentiment scoring system suggests Utilities could be do for a breather.



While some credit measures vs. the market have crept higher (reflecting market firmness not concerns in Utes, in our opinion) absolute measures show little in the way of investor concern.



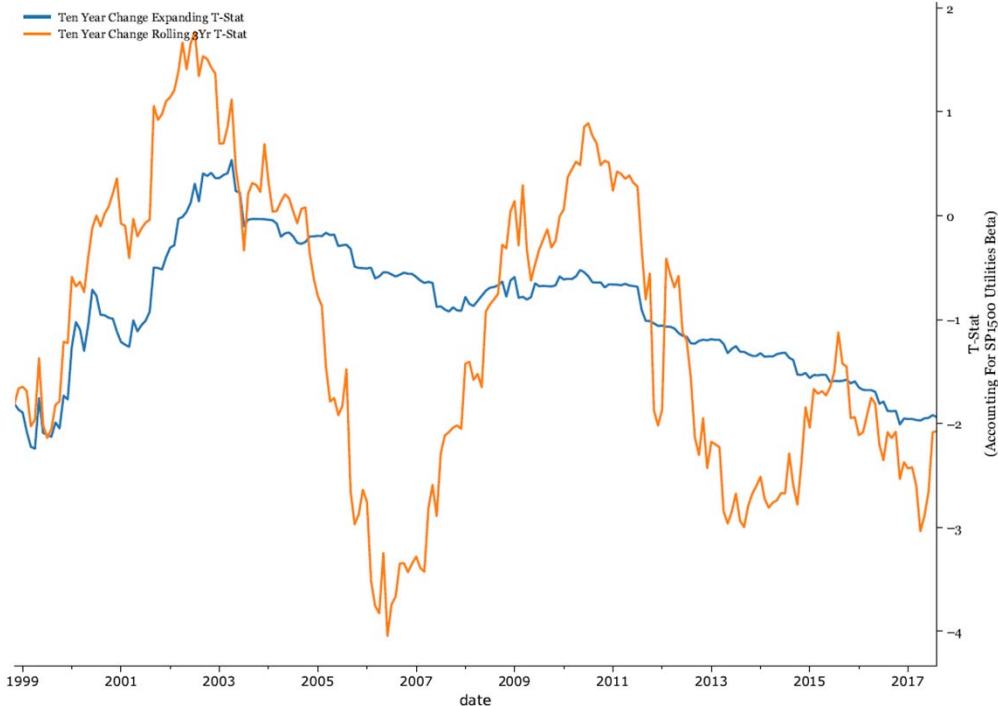
US Generic Govt 10 Year Yield

Close: 2.1935



10 year yields have rallied from a near oversold condition. We don't view this as a trend change but were not yet overbought or bumping into meaningful support so the rally likely has more room.

SP1500 Utilities Ten Year Change Importance
12/31/1995-08/31/2017

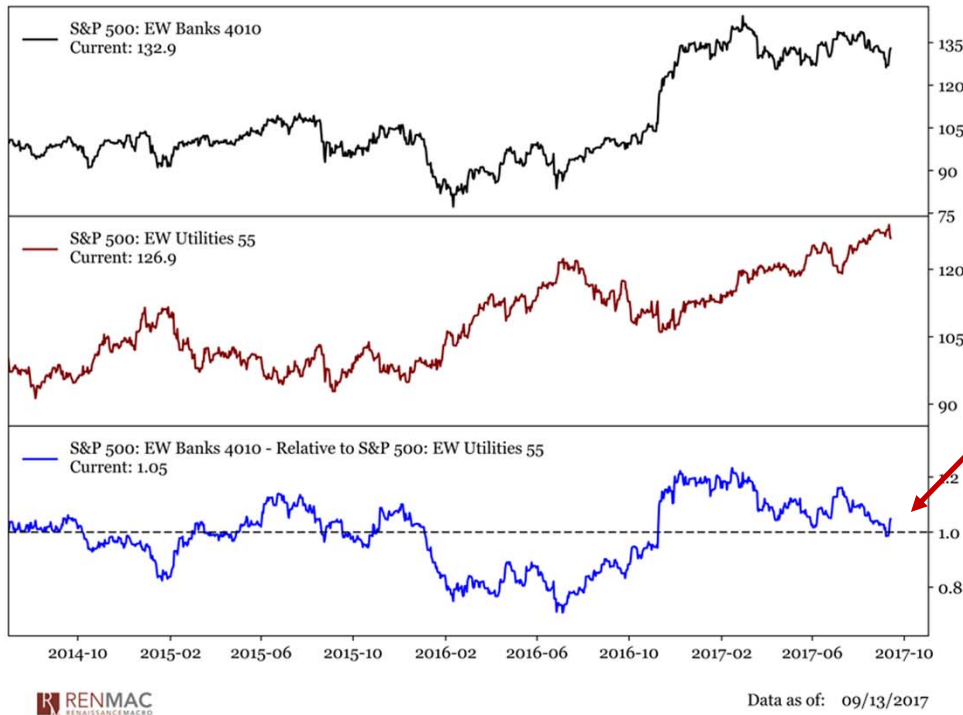


The relationship between 10yr yields and Utilities has been statistically significant over the past three years.

Banks Outperforming Utes



The relative performance of Banks vs. Utilities has been driven by the 10yr.

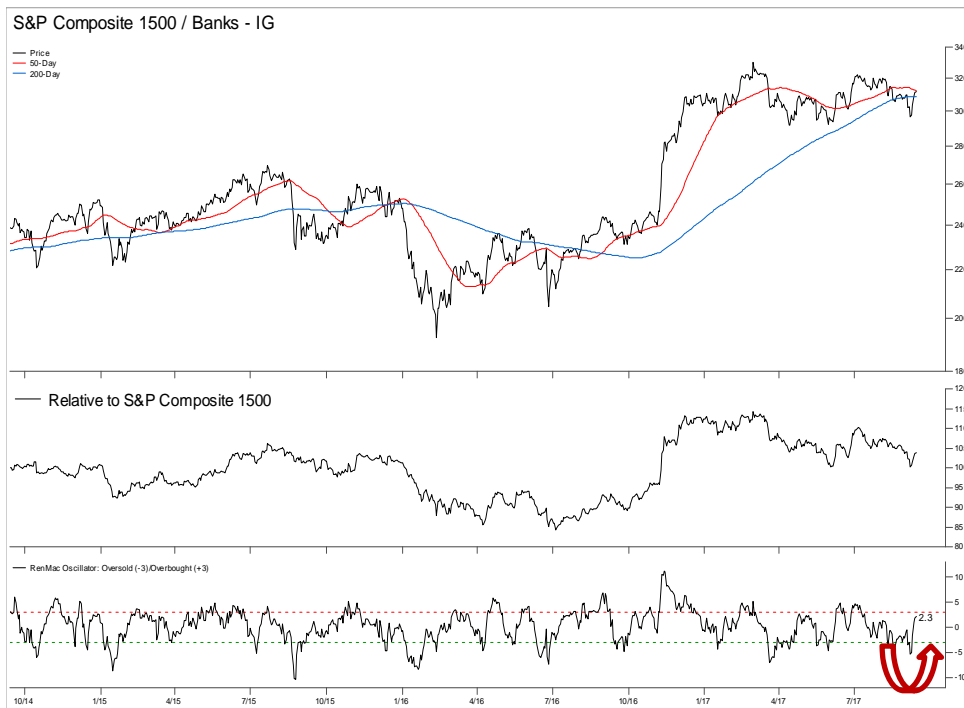


The bounce in the 10yr has helped provide some outperformance for the Banks.

Banks vs Utes



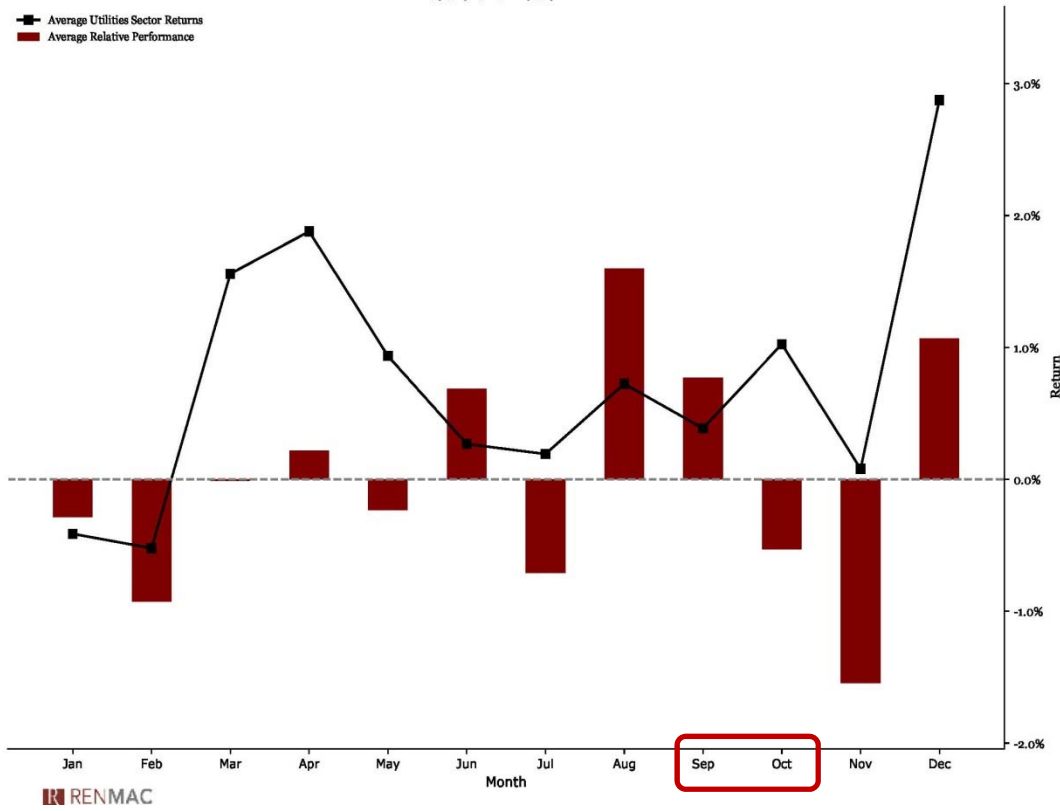
As the Utilities sector approached an overbought condition, it was met with a negative volatility alert. At the same time, Banks moved into oversold territory. Unsurprisingly, Banks began to improve vs. Utilities. We think the improvement has a little room left but long-term trends and internals are stronger in Utilities than Banks. Unless the increase in yields is sustainable, we expect Utes to outperform Banks.



Seasonality: Neutral

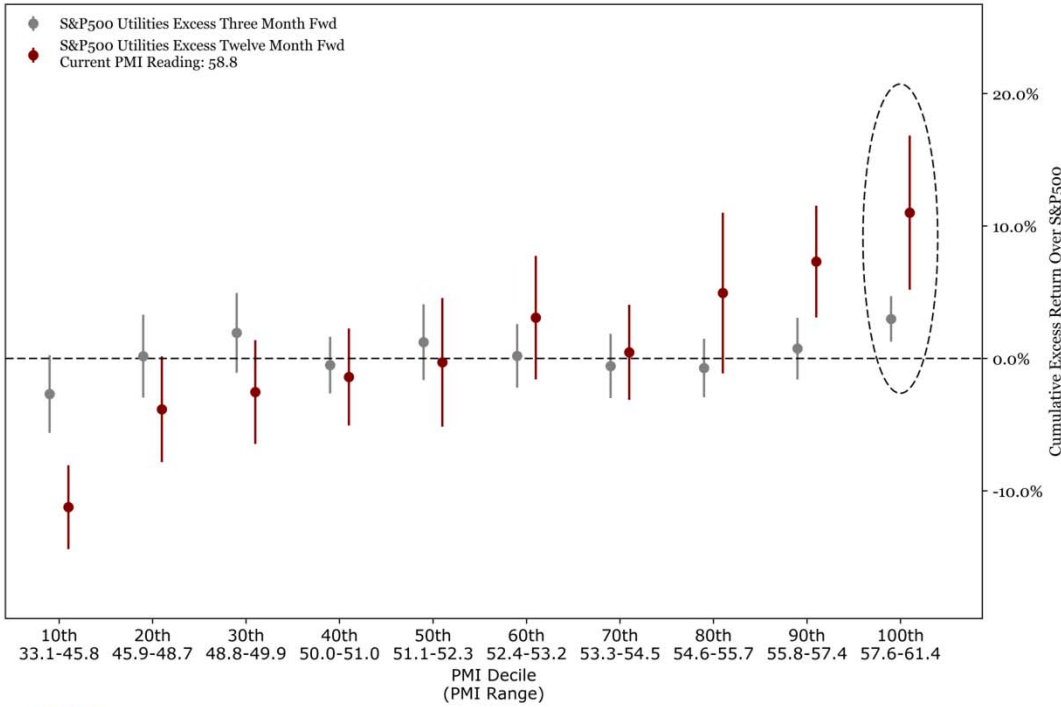
Seasonality of SP500 Utilities Sector
09/30/1989-12/31/2016

■ Average Utilities Sector Returns
■ Average Relative Performance

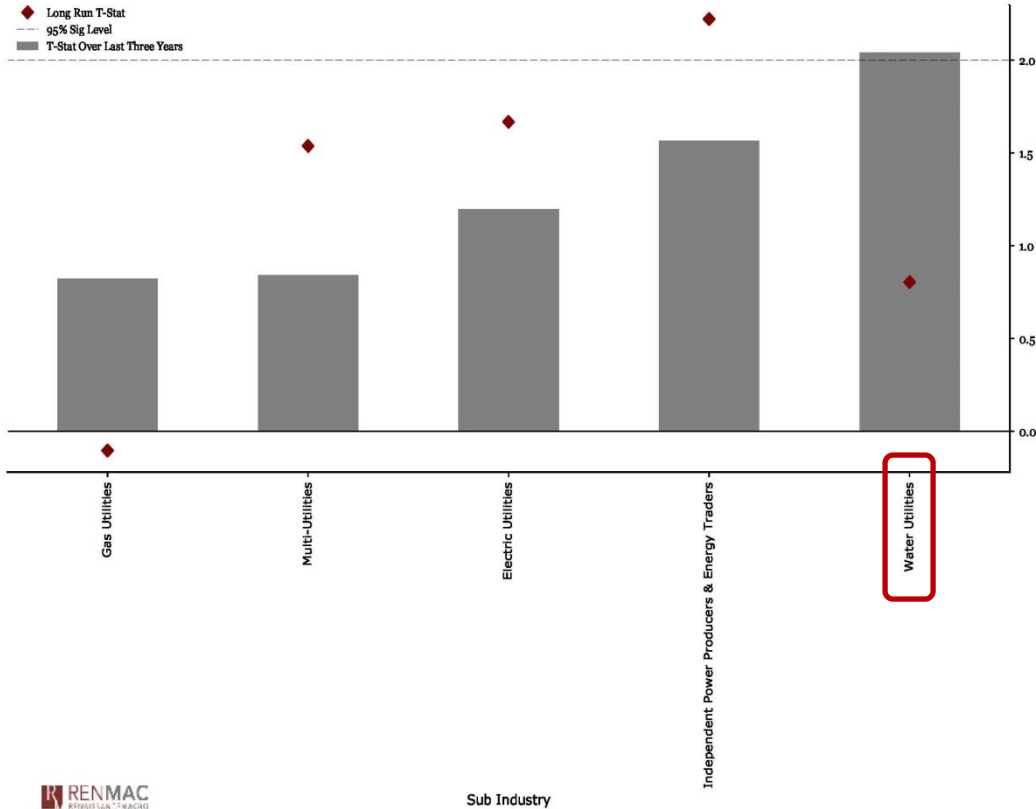


October and November are the weakest months for relative returns for the Sector. Absolute returns have historically been positive.

S&P500 Utilities Returns Based on PMI Decile
09/30/1989-08/31/2017

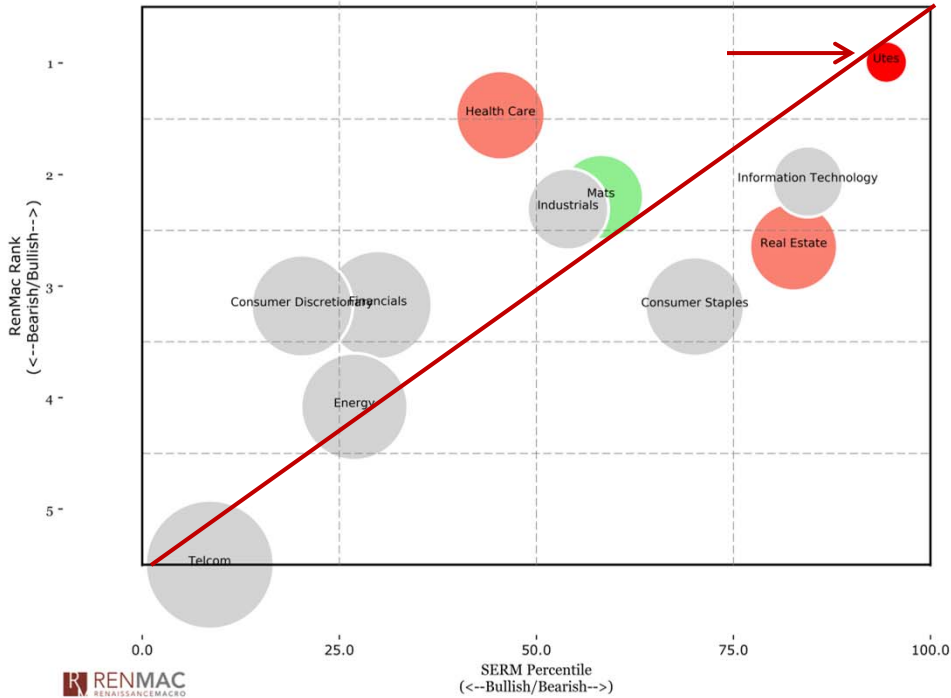


As a sector, Utilities have the strongest excess returns when PMI readings are strong.



Water Utilities have had the strongest relationship with PMIs over the past three years.

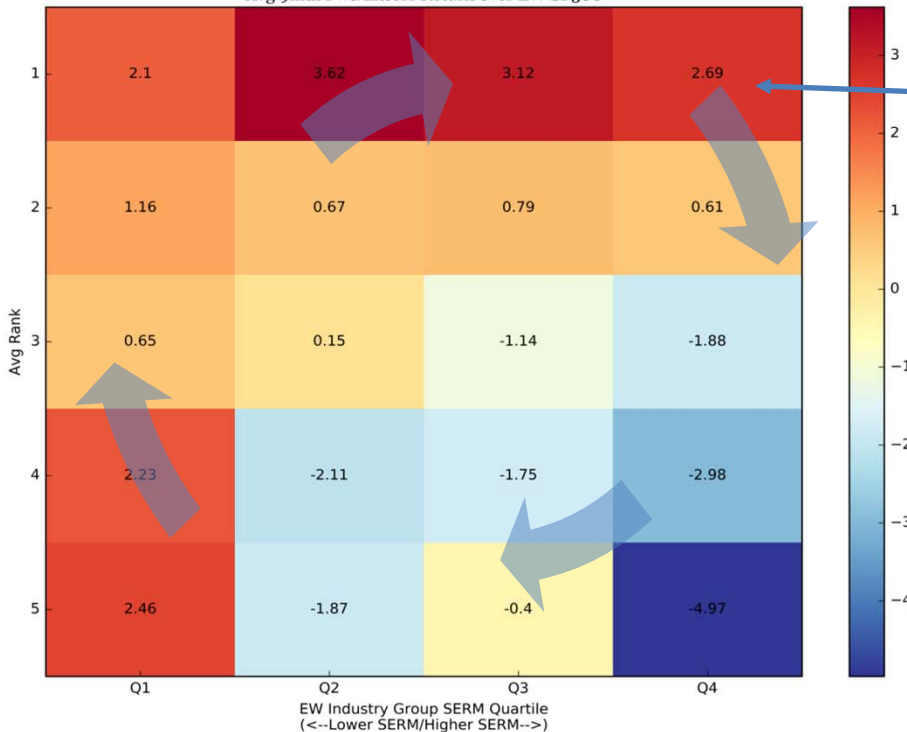
RenMac SP500 Sector Bubble Chart
09/13/2017



Utilities are still favorably positioned in our SERM model, but at a performance extreme which suggests we're in the later innings. We wouldn't be selling the sector broadly but would be wary of names whose relative performance begins to taper off vs. the market.

The Red dot signifies a tactical headwind from option sentiment (discussed on page 9). The small dot signifies that the group is overbought, another tactical headwind.

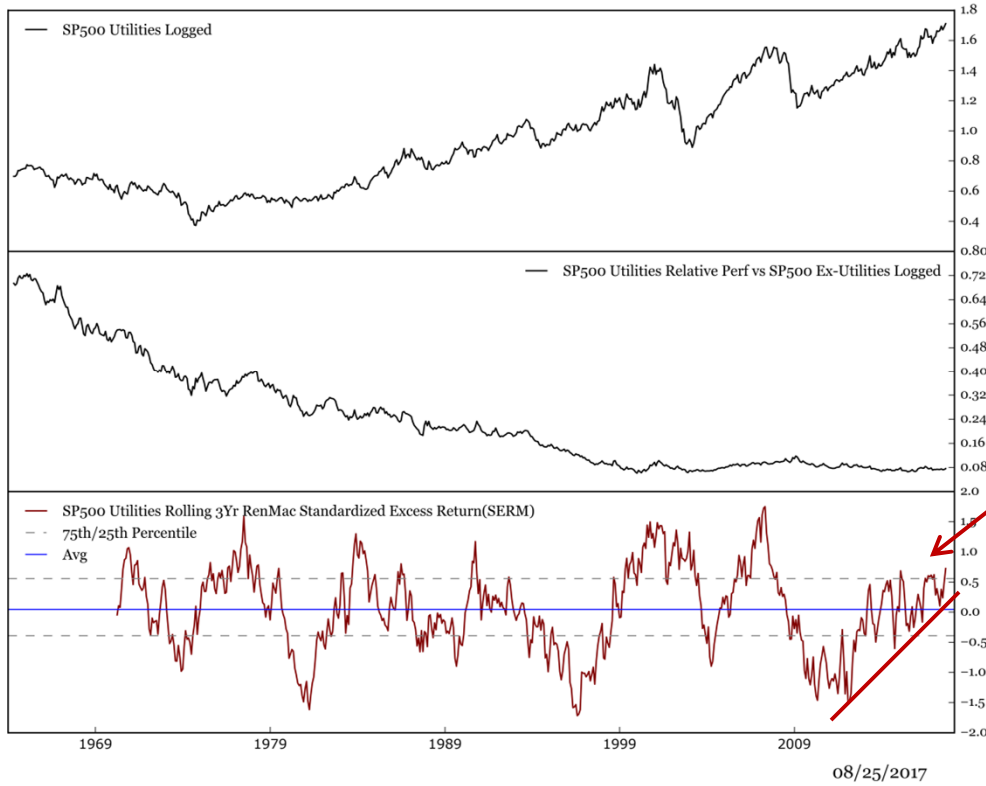
SP500 EW Industry Group SERM & RenMac Rank
Avg 9mth Fwd Excess Return over EW SP500



Forward excess returns are still positive in this zone but a drop in momentum (Y-axis) would suggest the outperformance is ending.

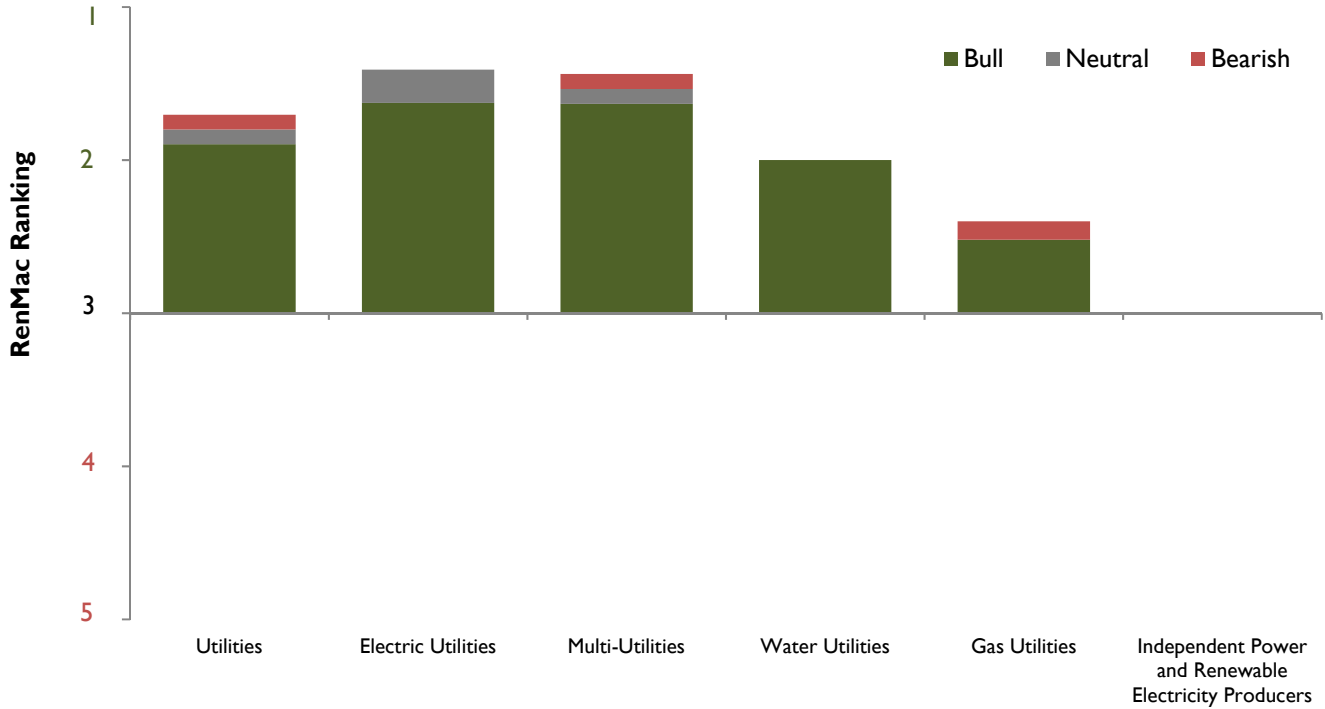
Groups typically follow an elliptical path in our SERM model.

Long-Term SERM: Bearish

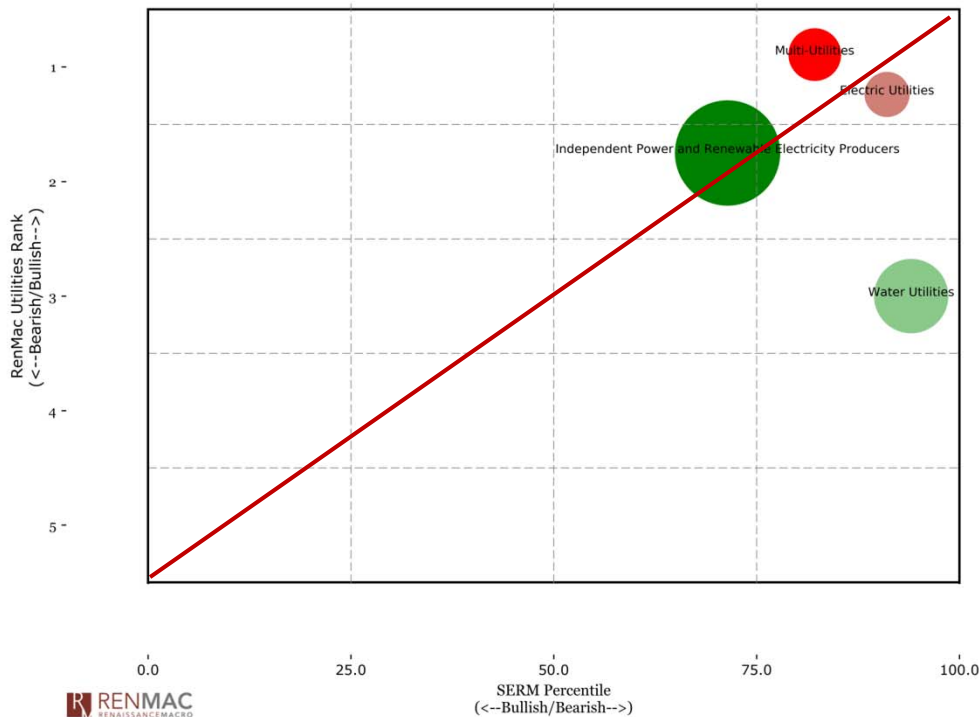


SERM For Utes is above the 75th percentile vs. its history. We're not yet at crisis level extremes but it does suggest we're in the late innings of outperformance.

Utilities Ranking Distribution

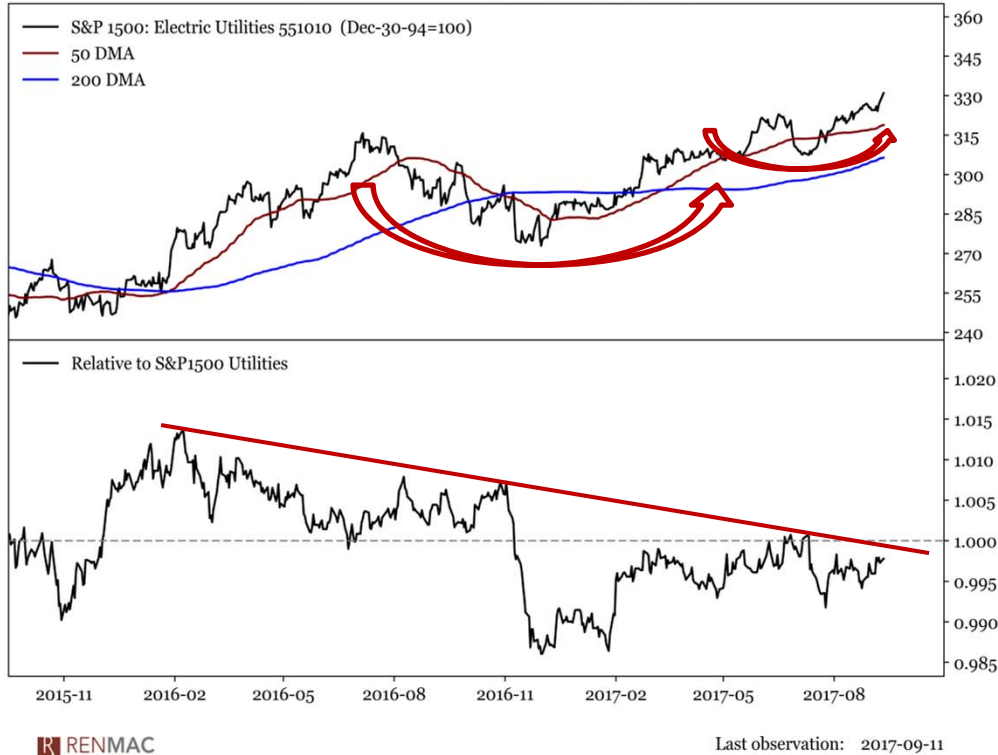


RenMac SP1500 Utilities Bubble Chart
09/12/2017



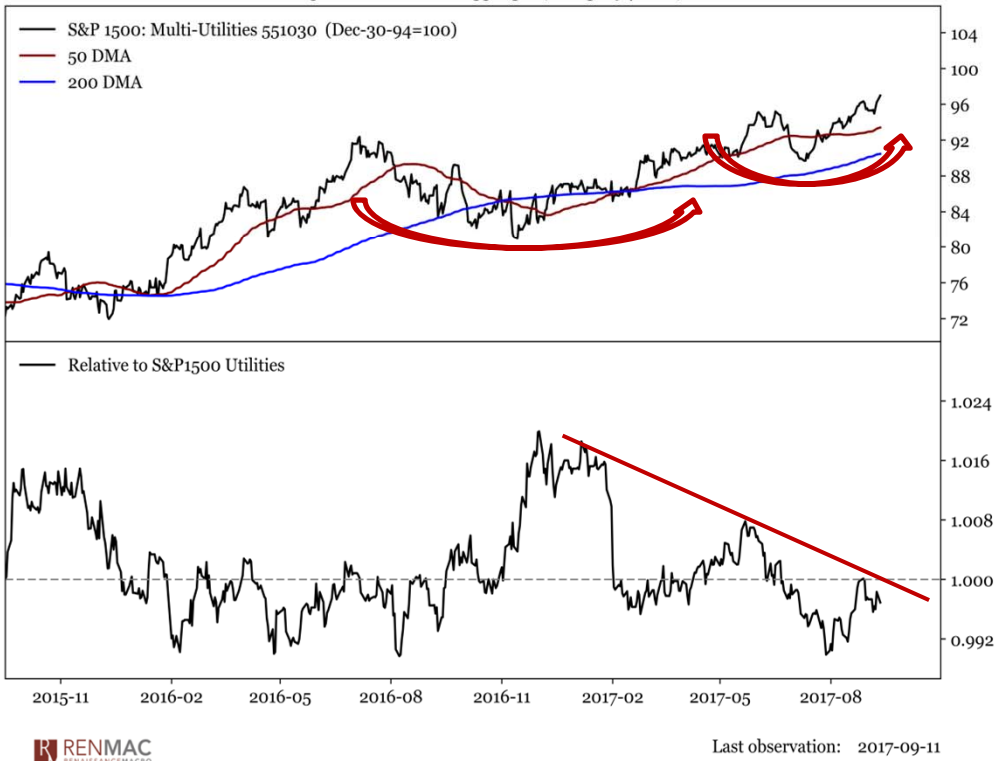
Water Utilities are still in a performance extreme but have seen momentum slip (vs. the sector). Be careful of long positions where relative performance is falling.

S&P 1500: Electric Utilities 551010 (Dec-30-94=100)



New absolute highs after breaking out of a basing pattern. Continue to be a buyer of weakness or consolidation in this group. Against the sector, the relative price continues to hold below resistance, but the weakness is attributed to the strength in the Power Producers.

S&P 1500: Multi-Utilities 551030 (Dec-30-94=100)



Another bullish industry at new highs.

S&P 1500: Water Utilities 551040 (Dec-30-94=100)

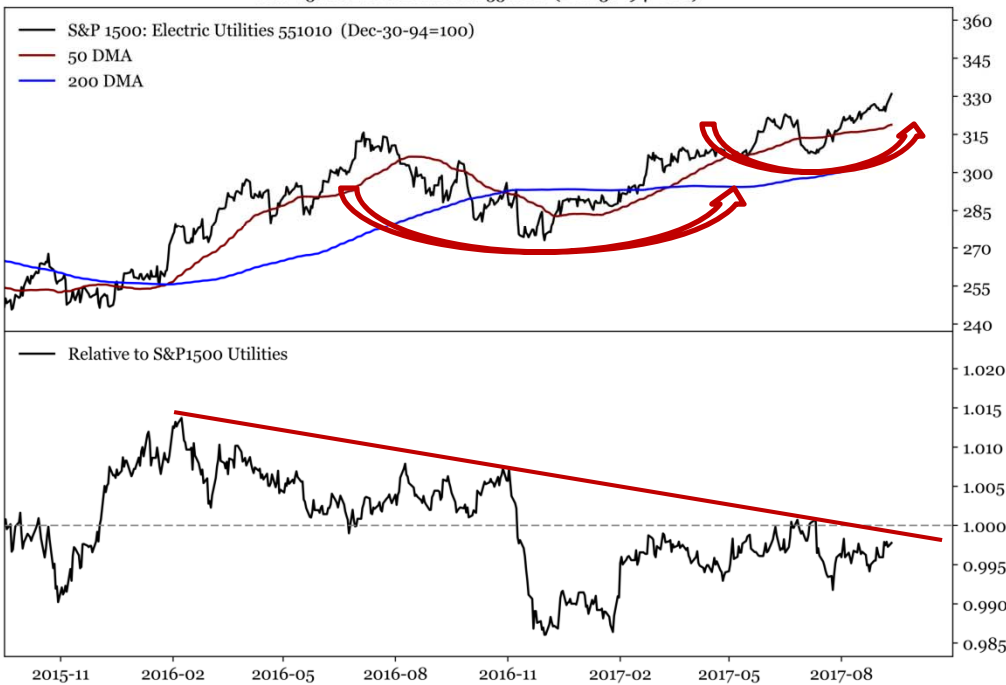


Water Utes are close to breaking out above resistance to new highs.



Last observation: 2017-09-11

S&P 1500: Electric Utilities 551010 (Dec-30-94=100)

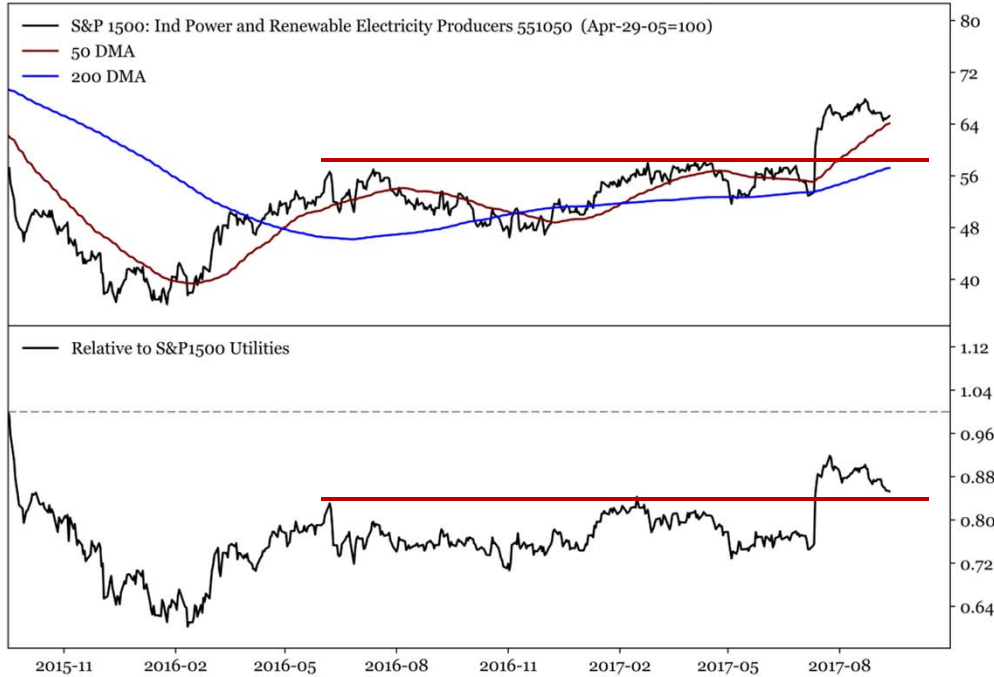


Similar to the rest of the industries, absolute trends are strong and at new highs.



Last observation: 2017-09-11

S&P 1500: Ind Power and Renewable Electricity Producers 551050 (Apr-29-05=100)



AES and NRG are the only two components in this group. The group is oversold after post-breakout consolidation. We would be buyers of this weakness / consolidation.

NRG Energy, Inc. (NRG-USA)



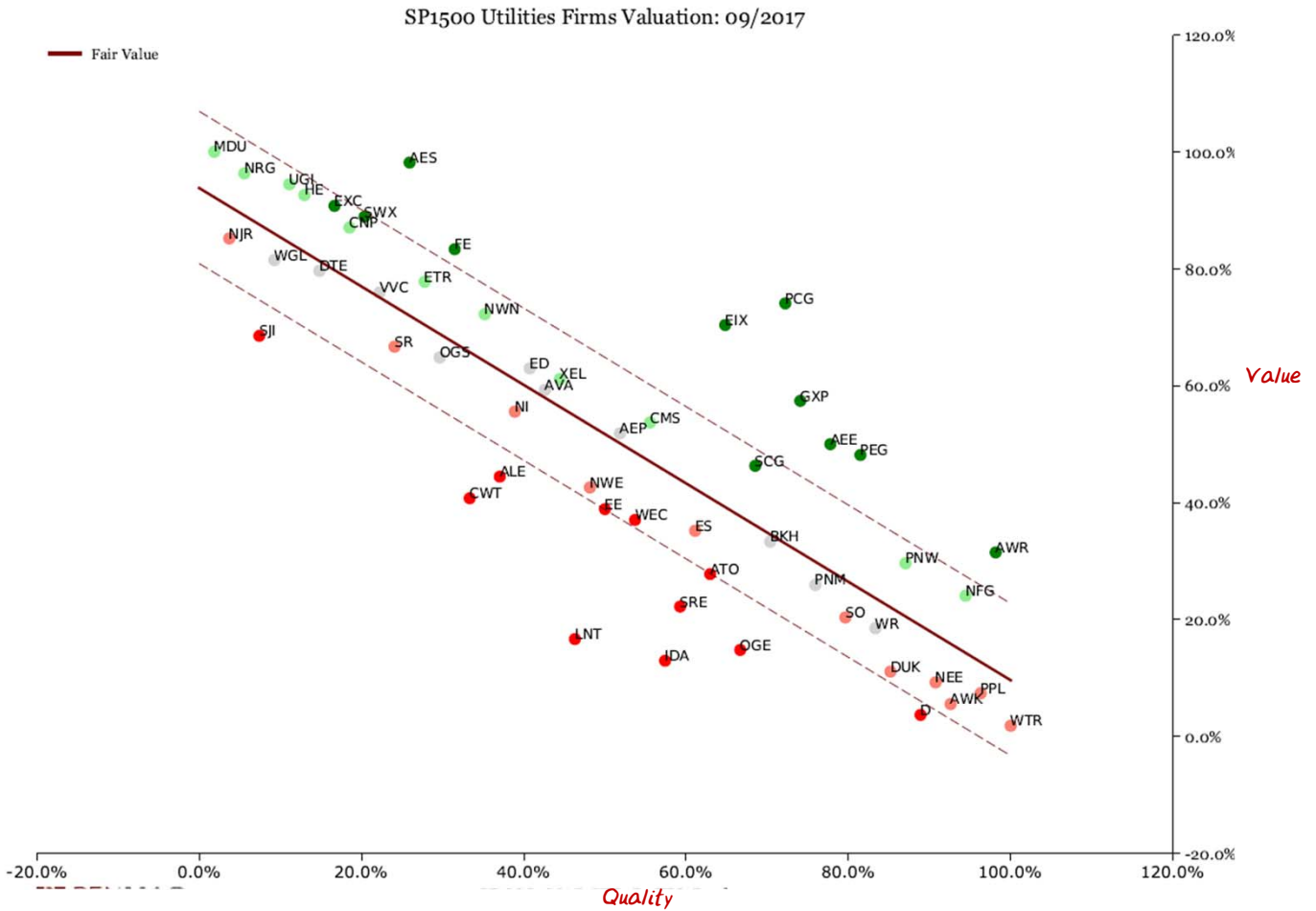
NRG is the top performing Utility stock of 2017 as it is up almost 100%. The stock has been consolidating and working off the extreme overbought condition throughout the past two months. It is closing in on an attractive oversold condition for the first time since it broke out. We would be buyers of the oversold condition.



D is the top weight in the Multi-Utilities industry. It has been consolidating at the highs for years and has become a laggard in Utilities. The absolute price is on the verge of breaking out above resistance. Look for an improvement in relative price to confirm the breakout.



EXC is also one of the largest weights in Utilities and has become a laggard as it consolidates near multi-year highs. EXC has formed a long-term basing pattern and we would be buyers of any strength. Look for an improvement in relative price to confirm the breakout.

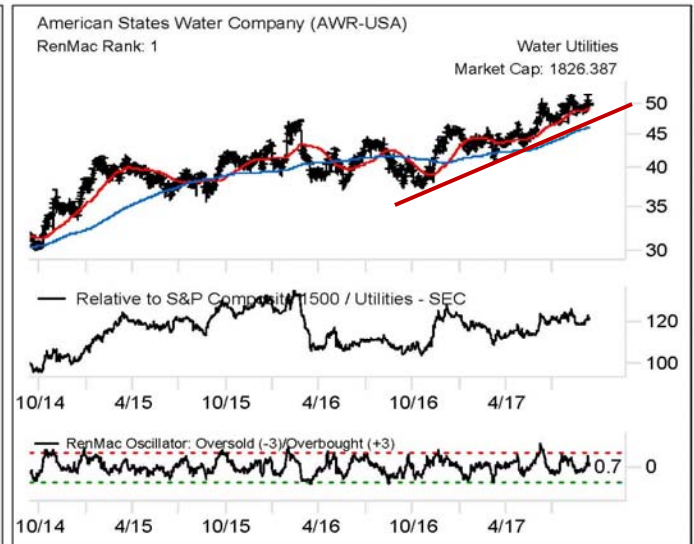
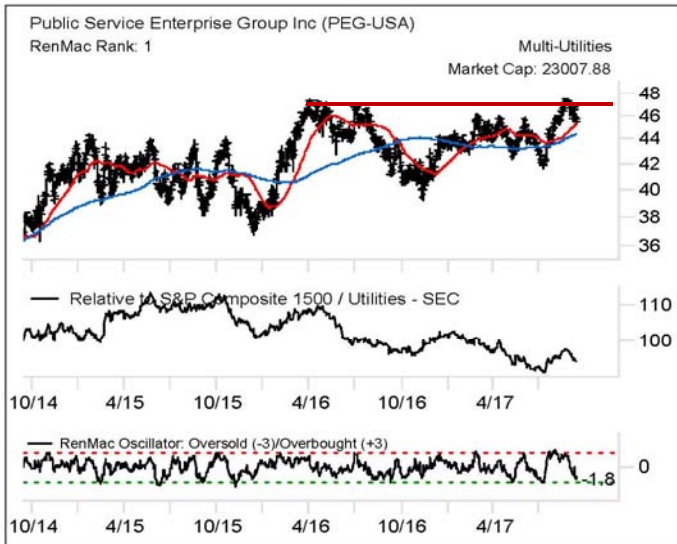
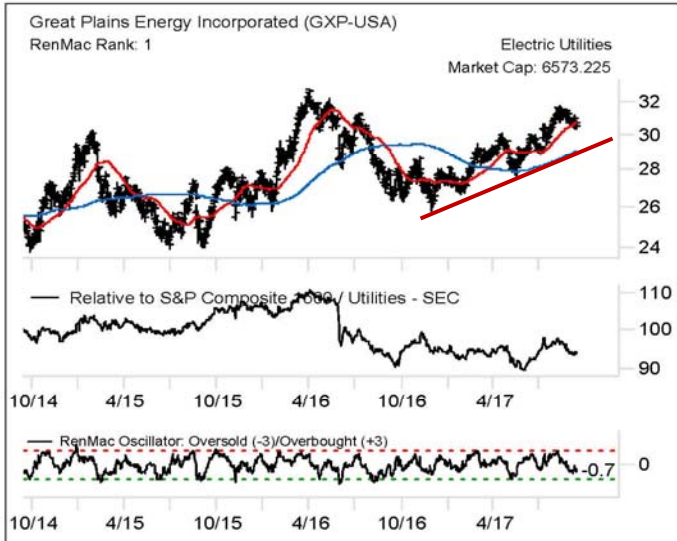


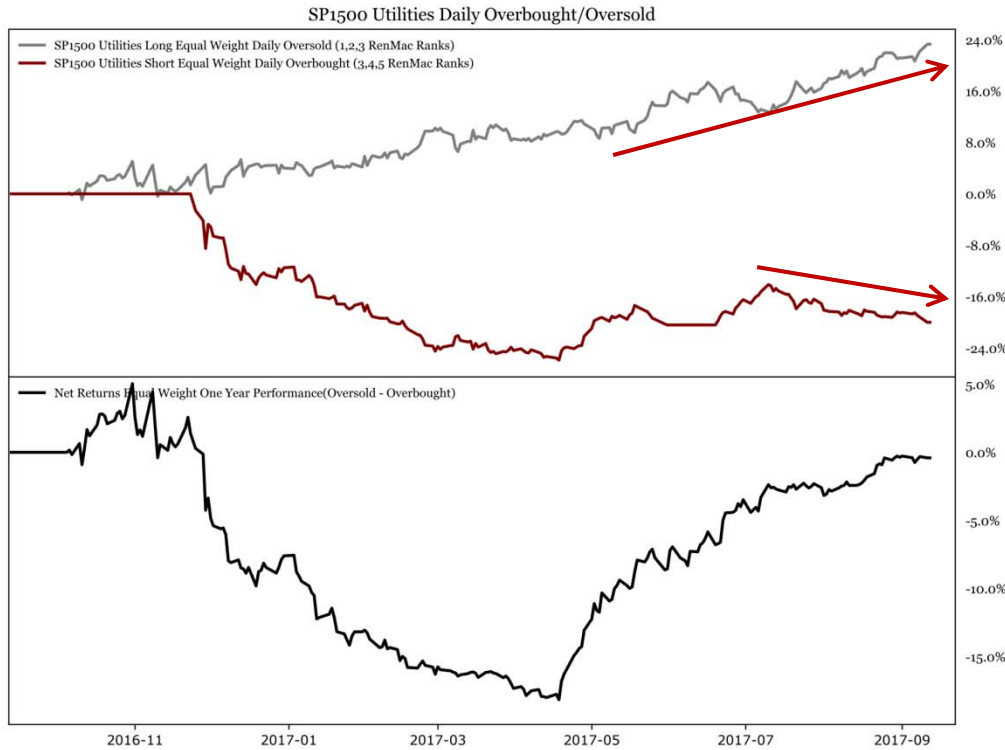
We find that value is a more effective screening tool when combined with a filter of quality. We measure this relationship for each company versus the sector over time, and then look for the highest deviations as a signal of mis-pricing.

The names with green dots are undervalued given their quality. Conversely, the names in red are awarded too high a valuation given their quality.

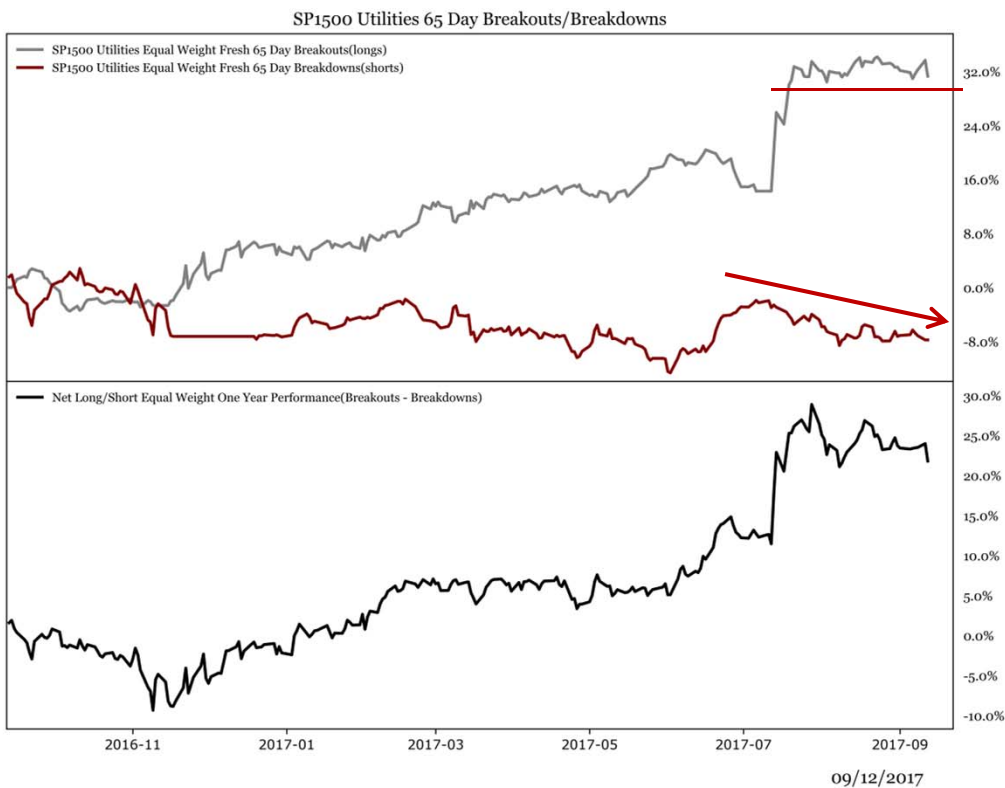
We picked the most bullish charts using this filter on the next pages.

Bullish Value / Quality Charts





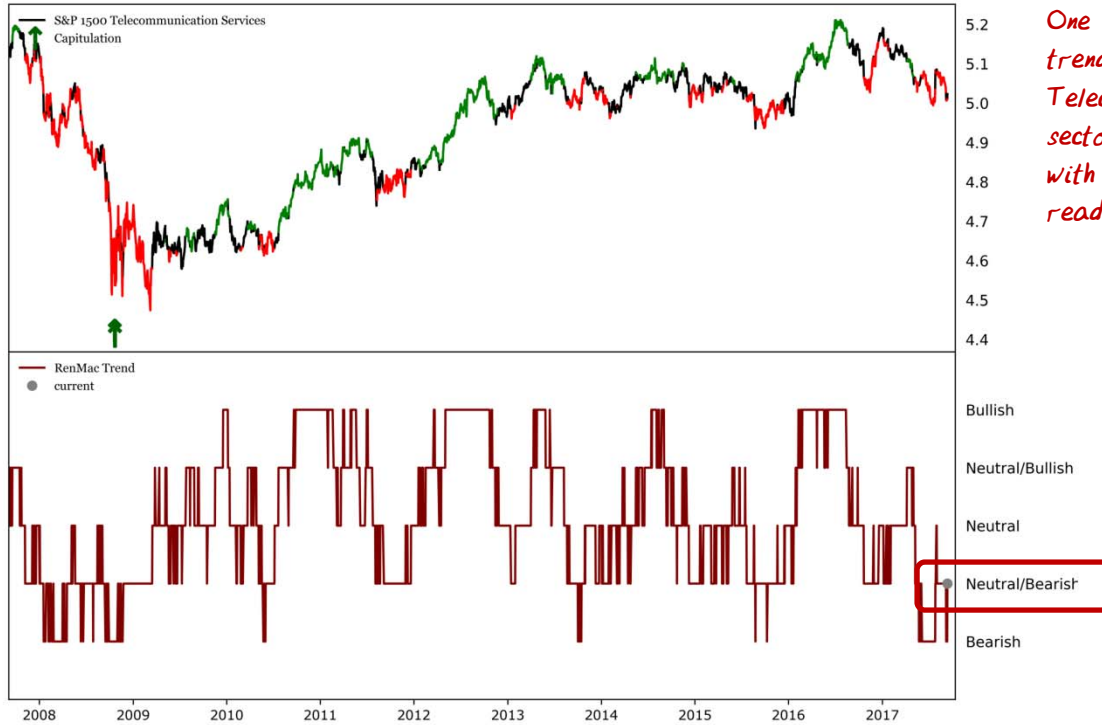
Given the broad strength of the sector, it's not a surprise that selling overbought conditions has been a weaker trading strategy of late. The performance of oversold conditions in uptrend has more than made up the performance differential.



Buying breakouts has been an effective strategy.

Telecom

Trend: Bearish



One of the weakest trends in the market. Telecom is the only sector beside Energy with a bearish trend reading.



A rolling top in absolute performance and a persistent downtrend in relative performance. We would expect some near-term relief out of the current oversold condition but without an improvement in relative, we would fade the strength.

Trend: Equal-Weight Bearish

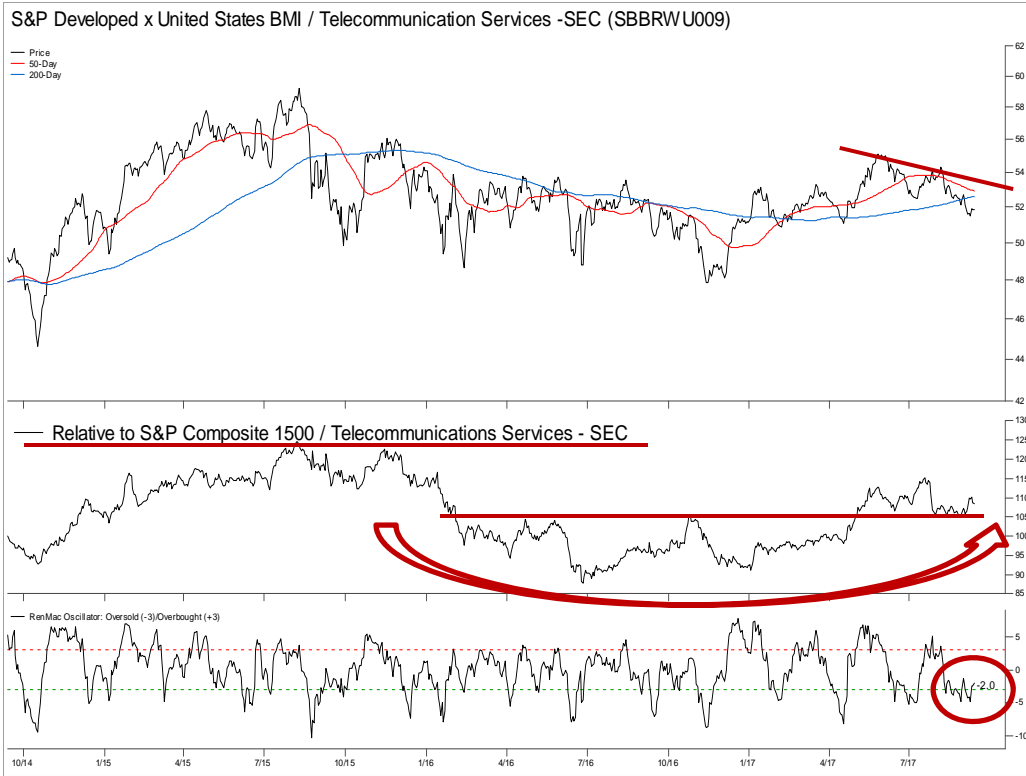


Weak equal weight absolute and relative performance are signaling the same weakness that cap weighted trends are.

S&P400/S&P500/S&P600 Telecommunication Services Relative 2016-2017



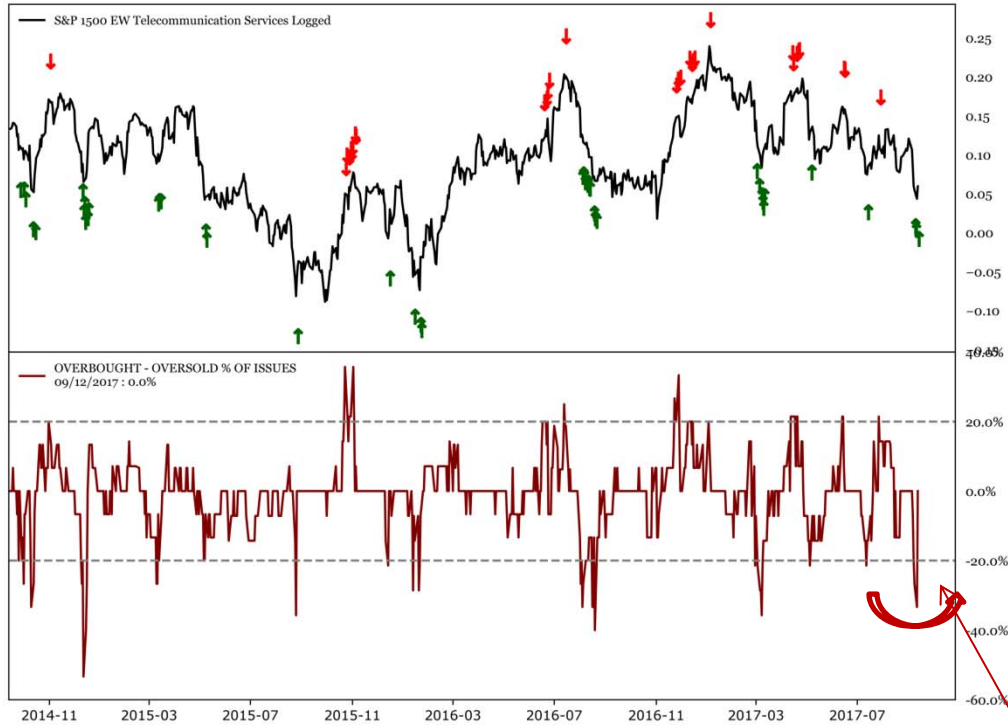
Small-caps are outperforming large and mid but are under pressure.



Relative to the US, trends are strong in other developed markets but still weak on an absolute basis.

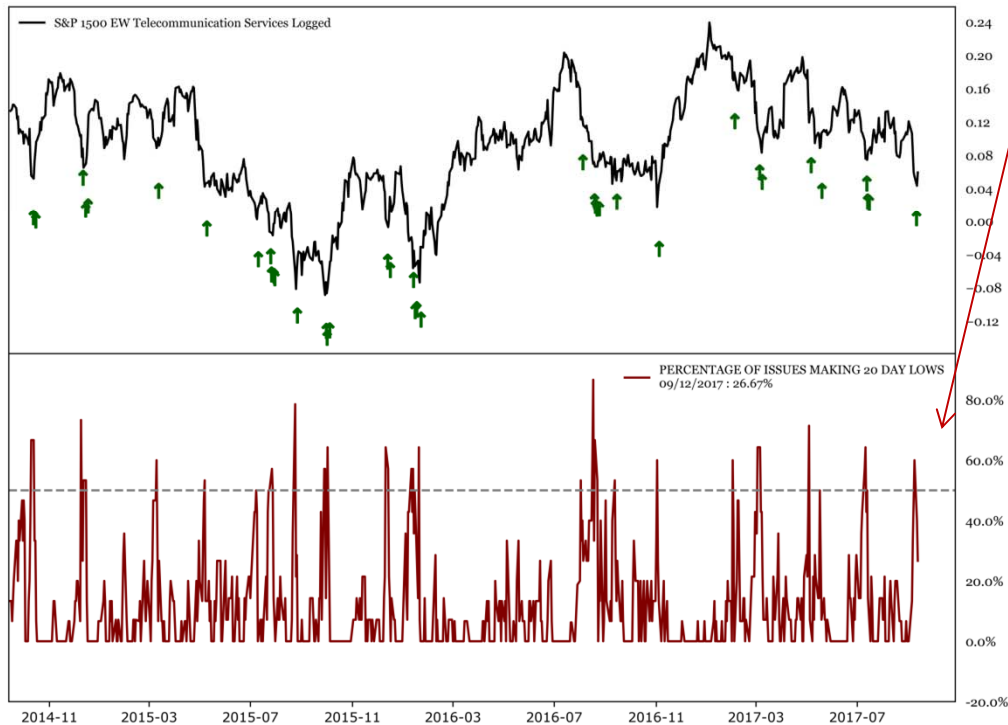


EM Trends are trying to turn; absolute trend appears to have found it's footing, the recent OB pullback held at the 50-day. Relative trends show better options for EM exposure than Telecom.



RENMAC
RENAISSANCEMACRO

Both the number of overbought vs. oversold issues and percentage of issues making a 20-day low likely signal an interim low for the group.



RENMAC
RENAISSANCEMACRO

Internals: Bearish

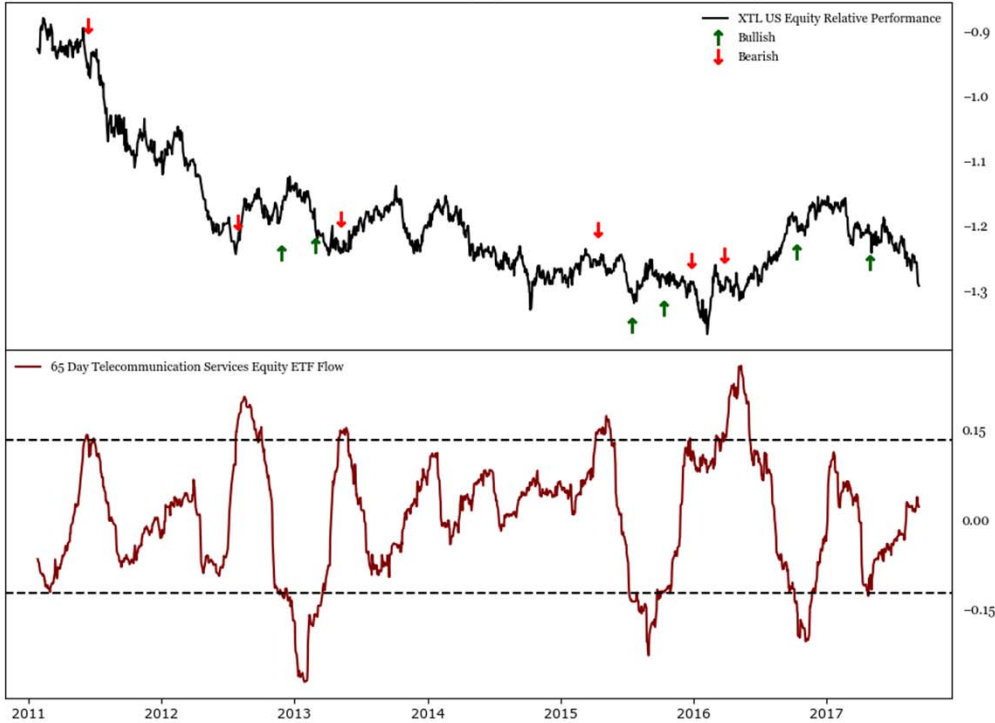


The advancers vs. declines line recently broke the uptrend.



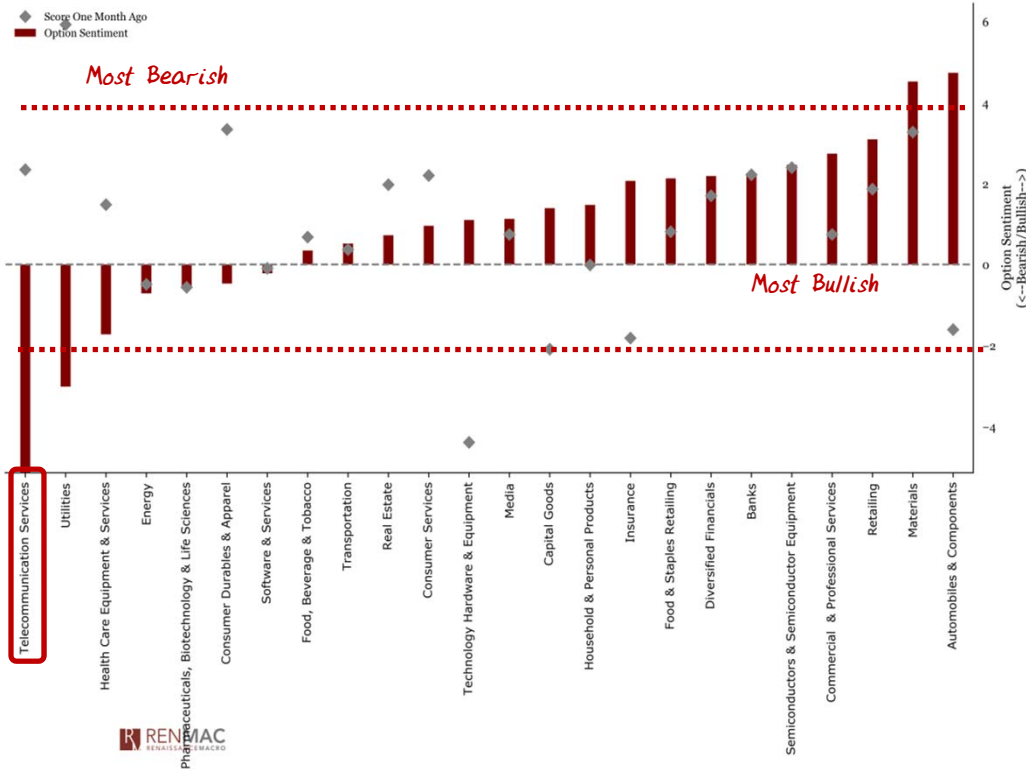
Long term trends continue to weaken.

Telecommunication Services Equity ETF Flows and XTL US Equity

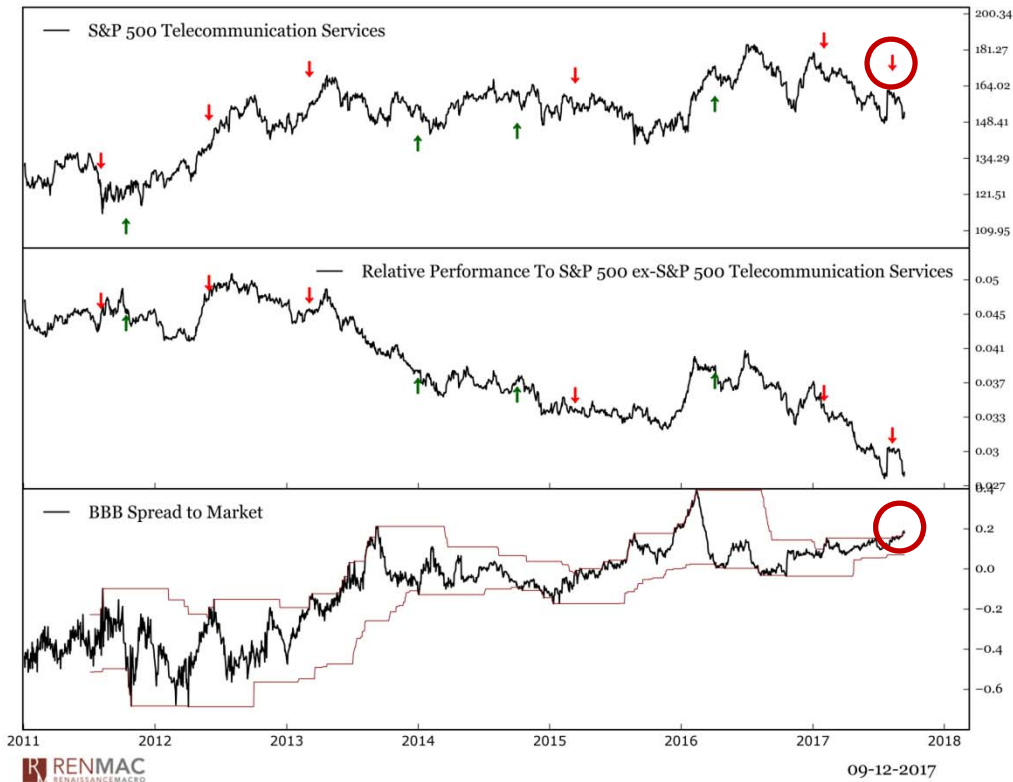


ETF Flows are rising despite the weak performance.

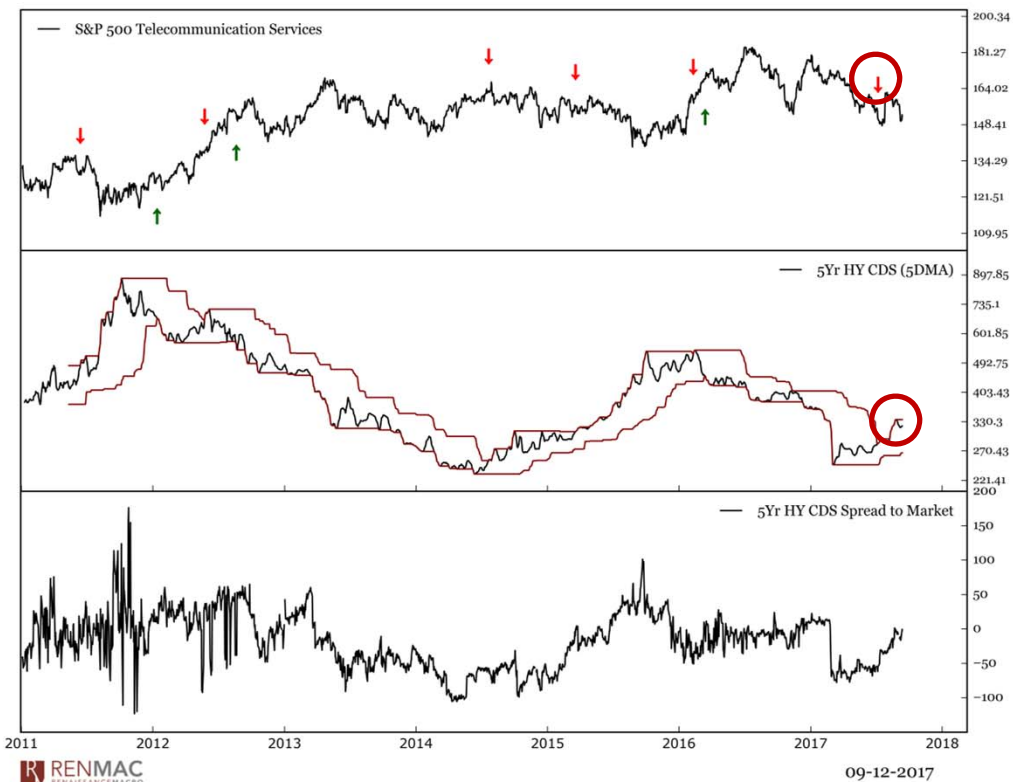
SP1500 Industry Group Option Sentiment



Option sentiment for Telecom is bearishly positioned.



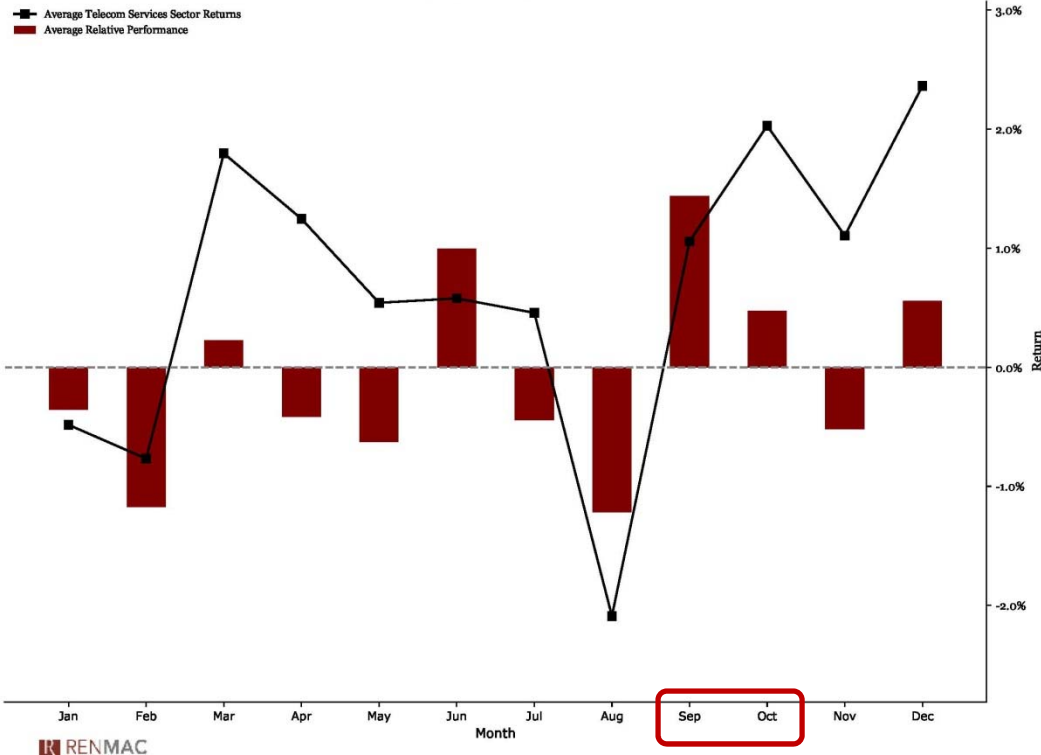
BBB Spreads relative to the market continues to deteriorate. The recent 65-day high suggests further weakness for the sector vs. the market.



Absolute credit measures (HY CDS in this case) are also showing signs of concern.

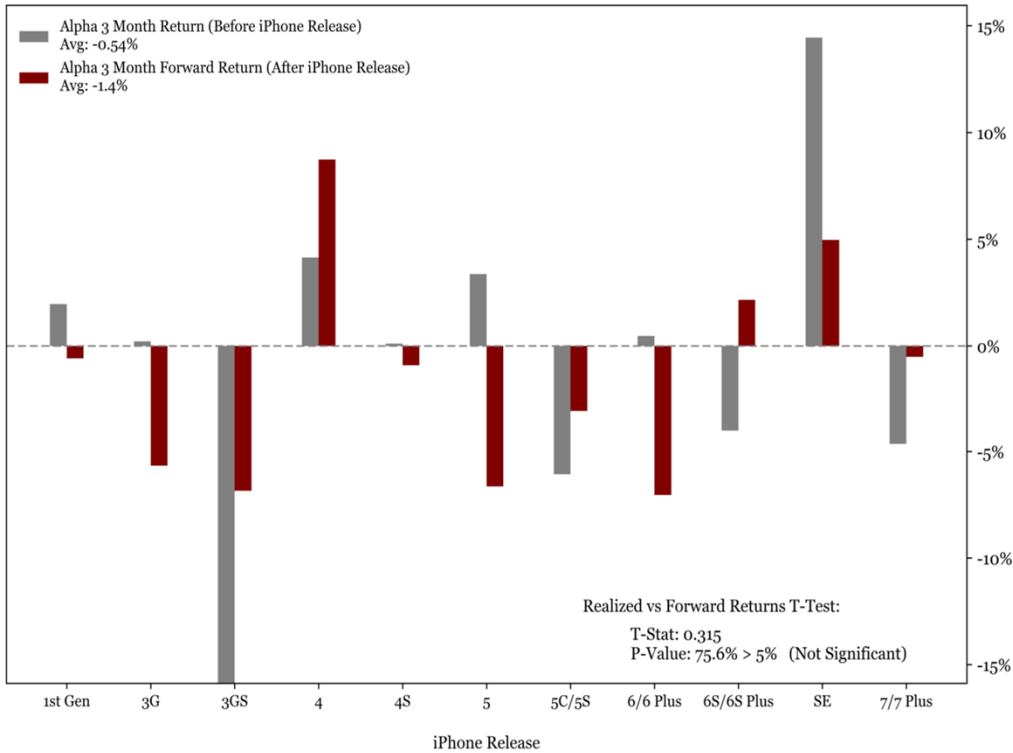
Seasonality: Bullish

Seasonality of SP500 Telecom Services Sector
09/30/1989-12/31/2016



September is historically the strongest month for relative performance of Telecom vs. the market. It's also typically the market's weakest month.

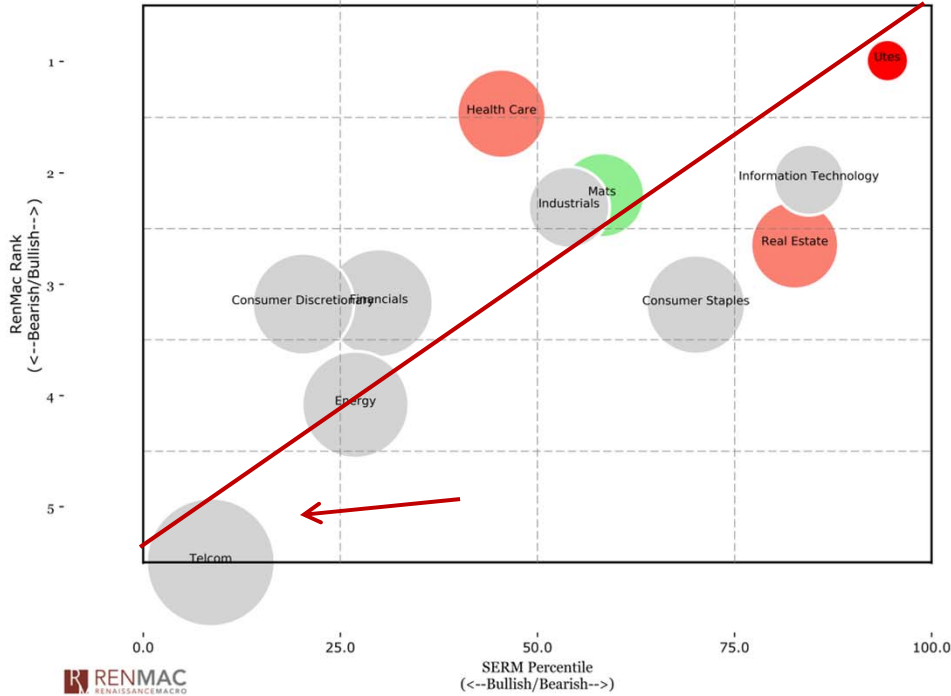
S&P500 Telecommunication Services Realized vs Forward Return
iPhone Release Dates



Don't buy Telecom b/c of iPhone release.

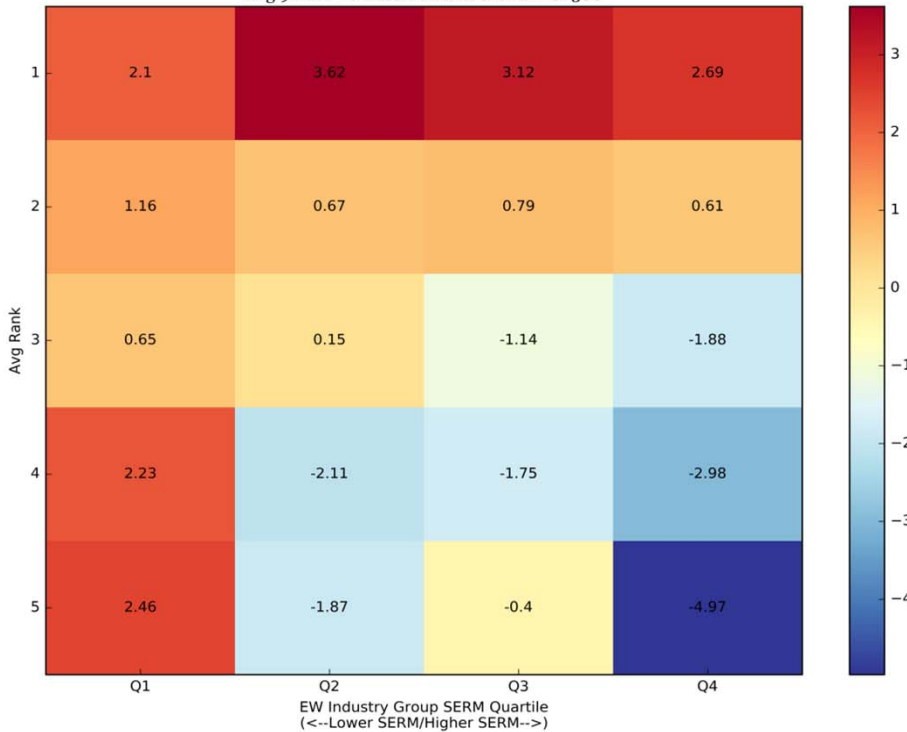
SERM: Contrarian Zone

RenMac SP500 Sector Bubble Chart
09/13/2017

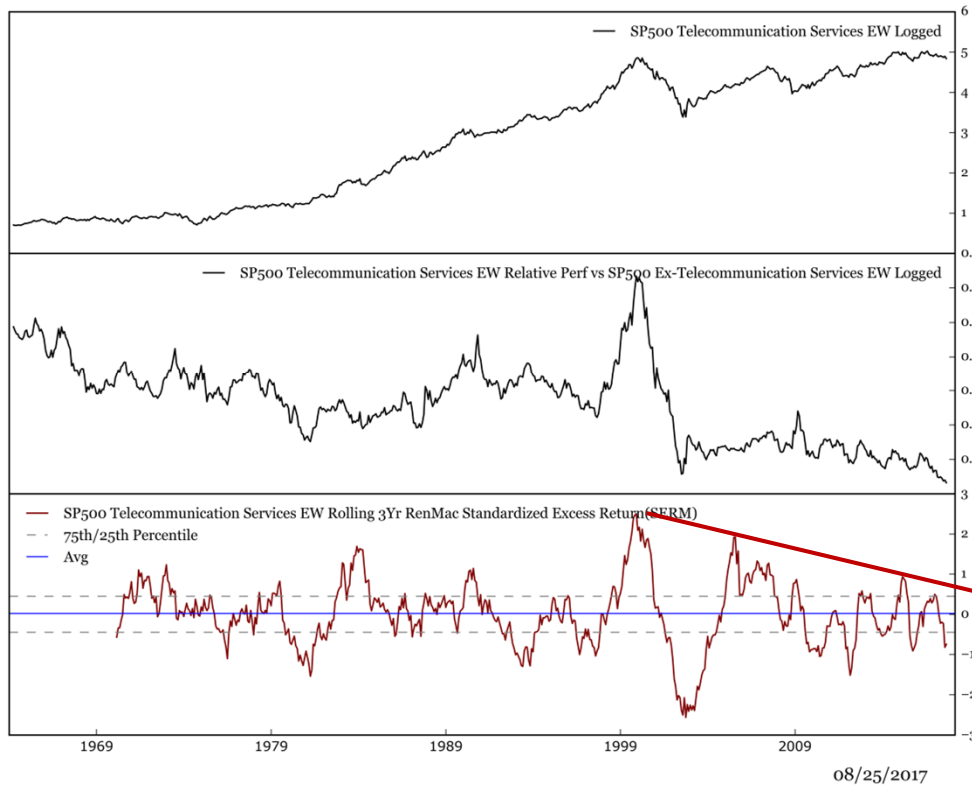


In the contrarian zone of our SERM model. We'd wait for a confirmation of momentum before buying the group broadly.

SP500 EW Industry Group SERM & RenMac Rank
Avg 9mth Fwd Excess Return over EW SP500



Long-Term SERM: Bullish



SERM is below the contrarian zone for Telecom but we would prefer to see it begin to improve before making the contrarian play.

VZ & T: Tops

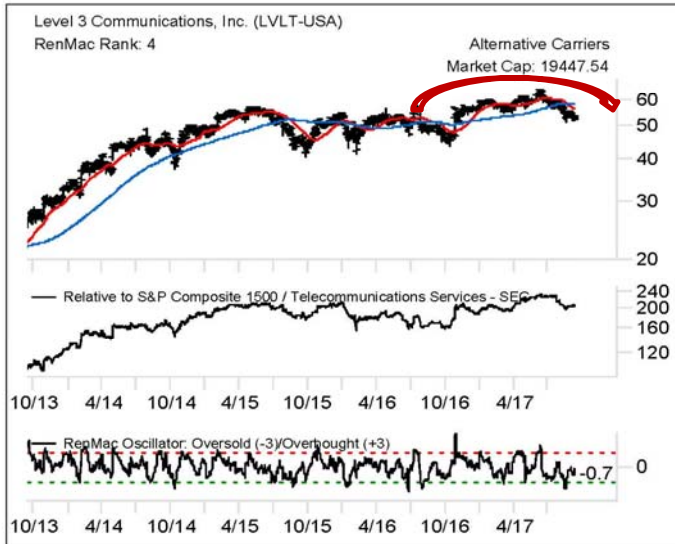
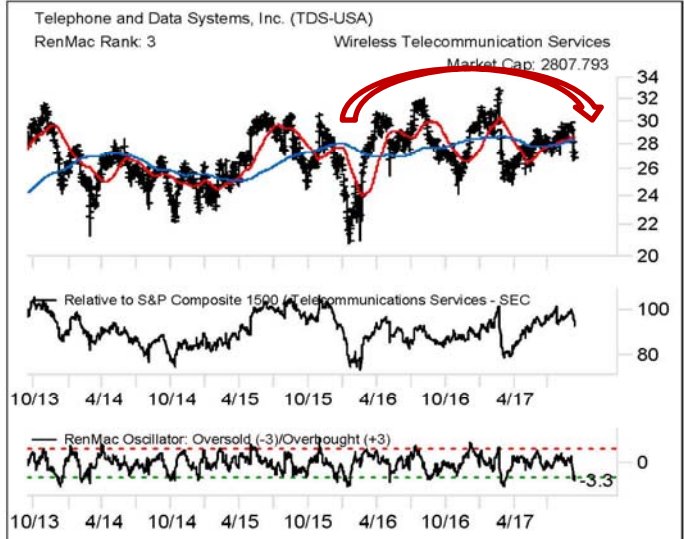
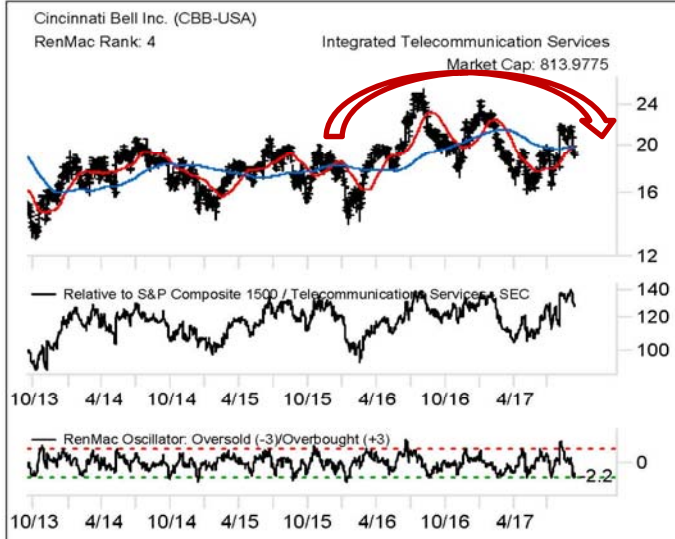
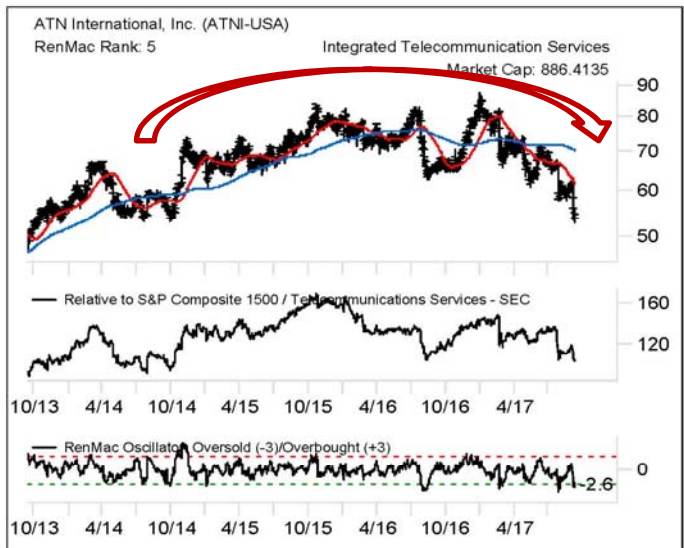
Verizon Communications Inc. (VZ-USA)
RenMac Rank: 4



AT&T Inc. (T-USA)
RenMac Rank: 4



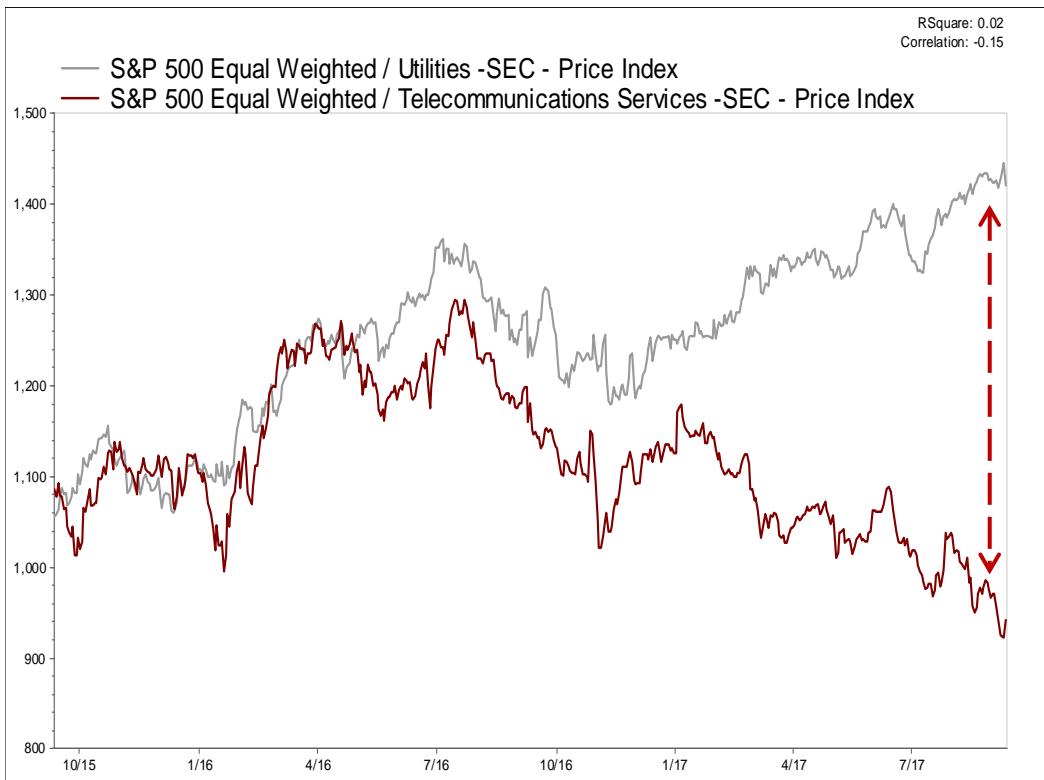
Large topping patterns but trends are oversold as price tries to hold above long-term support. We would be sellers of strength in this two Telecom bellwethers.

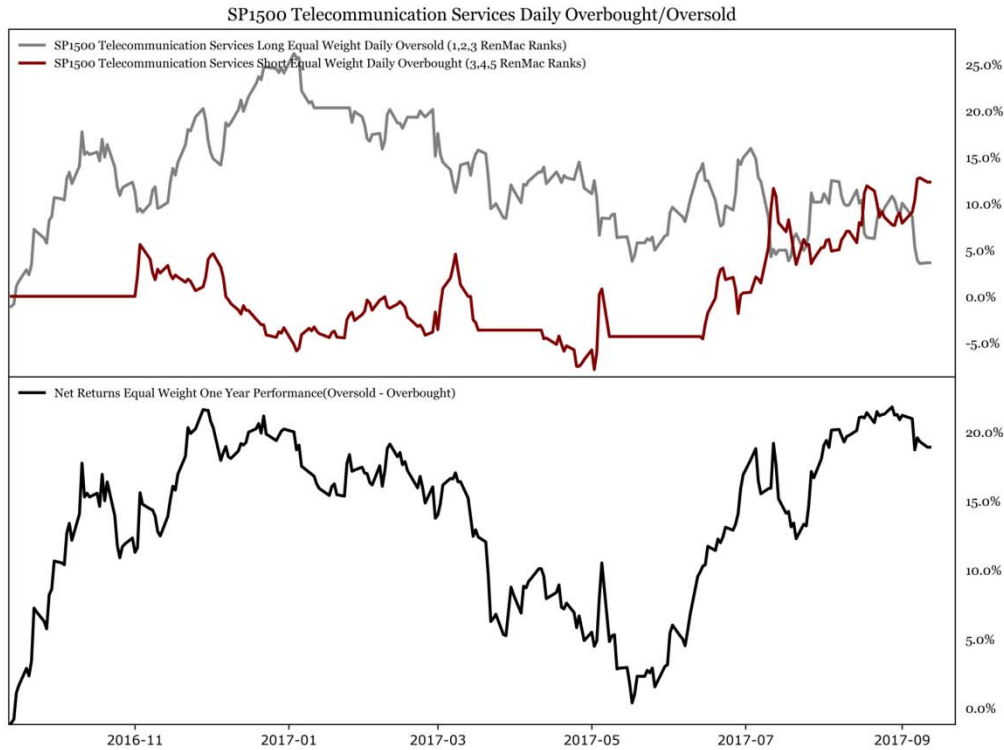


Own Utes Over Telecom

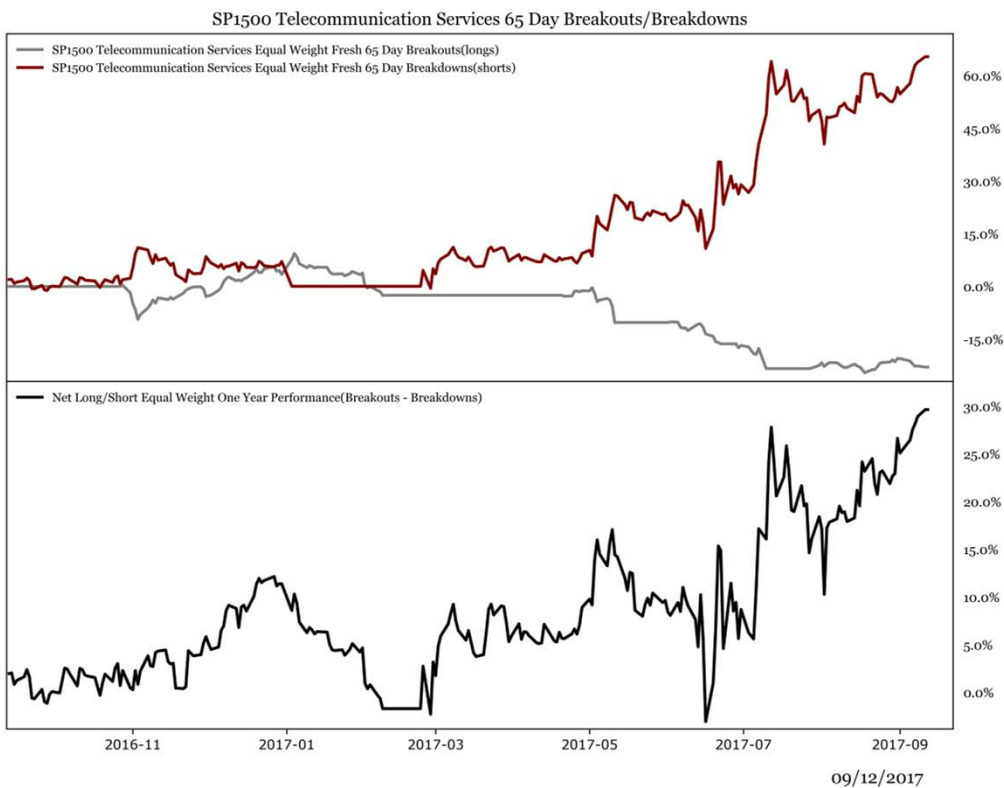


For Equity Income exposure, we prefer owning Utilities to Telecom. Utes have been far stronger both cap and equal weight.





Bearish strategies are driving the returns of our technical trading strategies.



Equity Income Rankings			
Symbol	Company Name	Rank	Oversold (-3) Overbought(+3)
Utilities			
Electric Utilities			
GXP	Great Plains Energy Inc	1	-1
NEE	NextEra Energy Inc	1	-1
PNW	Pinnacle West Capital Corp	1	1
EXC	Exelon Corp	1	1
PNM	PNM Resources Inc	1	1
OGE	OGE Energy Corp	1	1
ES	Eversource Energy	1	1
PPL	PPL Corp	1	1
DUK	Duke Energy Corp	1	1
PCG	PG&E Corp	1	2
LNT	Alliant Energy Corp	1	2
EE	El Paso Electric Co	1	2
AEP	American Electric Power Co Inc	1	2
XEL	Xcel Energy Inc	1	2
IDA	IDACORP Inc	1	3
ALE	ALLETE Inc	1	3
FE	FirstEnergy Corp	2	-1
EIX	Edison International	2	1
ETR	Entergy Corp	2	1
WR	Westar Energy Inc	3	-1
HE	Hawaiian Electric Industries Inc	3	3
SO	Southern Co/The	3	3
Gas Utilities			
ATO	Atmos Energy Corp	2	-1
UGI	UGI Corp	2	0
NJR	New Jersey Resources Corp	2	0
NFG	National Fuel Gas Co	2	0
OGS	ONE Gas Inc	2	0
SR	Spire Inc	2	0
WGL	WGL Holdings Inc	2	0
NWN	Northwest Natural Gas Co	2	2
SJI	South Jersey Industries Inc	4	0
SWX	Southwest Gas Holdings Inc	4	0
Independent Power and Renewable Electricity Producers			
NRG	NRG Energy Inc	2	-2
AES	AES Corp/VA	4	0
Multi-Utilities			
PEG	Public Service Enterprise Group Inc	1	0
AVA	Avista Corp	1	0
BKH	Black Hills Corp	1	0
AEE	Ameren Corp	1	1
NI	NiSource Inc	1	1
CMS	CMS Energy Corp	1	1
SRE	Sempra Energy	1	1
CNP	CenterPoint Energy Inc	1	2
DTE	DTE Energy Co	1	2
ED	Consolidated Edison Inc	1	2
VVC	Vectren Corp	1	3
WEC	WEC Energy Group Inc	1	3
NWE	NorthWestern Corp	2	0

Equity Income Rankings			
Symbol	Company Name	Rank	Oversold (-3) Overbought(+3)
D	Dominion Energy Inc	2	1
MDU	MDU Resources Group Inc	3	3
SCG	SCANA Corp	4	-1
<u>Water Utilities</u>			
AWK	American Water Works Co Inc	2	1
CWT	California Water Service Group	2	1
AWR	American States Water Co	2	1
WTR	Aqua America Inc	2	1
<u>Telecom</u>			
<u>Diversified Telecommunication Services</u>			
IRDM	Iridium Communications Inc	1	-1
GNCMA	General Communication Inc	1	0
CCOI	Cogent Communications Holdings Inc	1	0
VG	Vonage Holdings Corp	1	0
LMOS	Lumos Networks Corp	1	1
VZ	Verizon Communications Inc	2	-3
CBB	Cincinnati Bell Inc	2	-3
LVLT	Level 3 Communications Inc	2	-1
T	AT&T Inc	3	-4
ATNI	ATN International Inc	3	-3
CTL	CenturyLink Inc	3	-2
CNSL	Consolidated Communications Holdings Inc	3	-2
FTR	Frontier Communications Corp	3	-1
<u>Wireless Telecommunication Services</u>			
TDS	Telephone & Data Systems Inc	2	-3
SPOK	Spok Holdings Inc	4	-3

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