European Equity Strategy

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# European Equity Strategy Chart Pack

## May 2020

# Past the worst

**Equities gave back some of their impressive April gains lately, but are still up c20% from the March lows. Too good to be true? Technicals no longer look oversold, P/Es have re-rated sharply and the lockdown exit could bring a second wave of infections. Consolidation is logical, but we believe the worst has passed and we do not expect equities to retest their March lows: the central banks' put should prevent further market dislocation, although it exacerbates the disconnect between asset prices and fundamentals; economic surprises and earnings revisions are the most negative on record, but global economy is starting to show signs of bottoming out, helped by surging money supply and aggressive fiscal stimulus – buying equities when PMIs bottom was typically a good strategy; cautious investor positioning reduces the odds of another round of material de-risking. We continue to believe equities offer an attractive risk-reward on a 6-12m horizon and advise buying on dips. We hold a balanced cyclical/defensive allocation but reduce our highly consensus Quality/Growth bias by downgrading Staples to UW.**

- **Virus under control, no signs of a second wave so far** (p.6). Equities rebounded as the COVID-19 curve flattened last month. As lockdowns are being relaxed, a second wave of infections is a key risk. So far so good, new cases have not rebounded in the countries that have already loosened their lockdowns, such as Austria, Germany, Denmark, Switzerland and Spain.
- **Global economy close to a bottom** (p.10). The magnitude of the economic shock is without precedent, with global GDP expected to contract 3.3% in 2020, but so has been the response from policy markets and governments. Central banks' balance sheets and fiscal deficits are skyrocketing, which inflates asset prices but should also help the recovery in activity. Money supply and saving rate are surging, Chinese data is rebounding, albeit unevenly, and DM economies are slowly reopening. Buying equities when PMIs are bottoming was typically a better strategy than buying them when they are peaking.
- **Earnings estimates starting to look more realistic** (p.28). EPS revisions quickly turned the most negative on record and consensus estimates are being slashed much faster than during GFC. Downgrades are not over, but we think Q2 will mark the trough if our H2 recovery scenario materialises. In 2009, equities bottomed 10 months ahead of earnings.
- **Asset reflation in full swing** (p.38). Equities look expensive on P/E metric, but less so on P/Book, P/Sales and CAPE metrics. Risk premia are still near extreme, as central banks are anchoring risk-free rates around the zero bound. Corporate credit looks attractively valued vs. equities, but the two asset classes move closely together. A well functioning credit market helps equities.
- **Positioning still cautious** (p.45). Mutual funds' cash holdings are record high and neither systematic investors nor HFs have bought the dip in equities. Market breadth remained narrow and 'risk-off' during the rebound, resulting in extreme Quality/Growth vs. Value dispersion. As the crowded safety trades worked all the way ytd, most mutual funds are beating their benchmark. This suggests that the pain trade could come from style rotation, rather than from another leg down in equities.

# No return to normal, COVID-19 will have many long-term implications

**Past the worst does not mean out of the woods, nor back to 'normal'. The covid-19 crisis will have many implications for society, economy and financial markets over the long run, which investors should consider when building their investment strategies:**

- **More state.** As the world economy came to a standstill, governments played a key role in providing a life line to businesses and households. As restrictive social distasting measures will not all be removed quickly, the crisis could result in a more permanent government intervention in society and the economy, as well as more regulation.
- **More debt**. Fiscal deficits and public debt are skyrocketing, as is corporate leverage. The policy response creates an asymmetry in favour of credit vs. equity holders for the companies that receive state aid, as they could be left with more debt, weaker cash flows and lower payouts over the long run. We keep a preference for high credit quality companies.
- **More inflation**. Following a decade of QE and falling interest rates, policy makers were forced to innovate. They are now putting 'wages' into the pockets of consumers directly and are monetizing public debt, helping to keep a lid on yields. Governments may enter an endless loop of issuing aid directly to their citizens, which could have reflationary implications in the long run. More asset reflation could also boost the inequality gap and feed populism.
- **Less globalisation**. The covid-19 crisis is another 'make it or break it' moment for Europe and revived the China-US dispute. It could accelerate de-globalisation, which started with the trade war, and prompt governments to promote self-sufficiency in strategic areas like food, healthcare or defence.
- **More Tech**. Tech played a key role in keeping a big part of the economy afloat when most of the world went on lockdown. More WFH, more virtual meetings, less business travel, less office space needed, less polluting commuting could boost productivity over the long run while making people happier. The crisis will likely accelerate the digitalisation of the economy.
- **More Healthcare.** The crisis reinforces the secular trend towards more healthcare spending by governments and more universal coverage, both in developed and emerging economies. Research budgets could be boosted as well as spending on infrastructure and equipment. This could be an important theme of the upcoming US election campaign.
- **A different consumer**: The COVID-19 crisis could accelerate the shift in spending patterns and consumer behaviour. Contagion fears and social distancing rules, more WFH and digitalisation will force supply adjustments to meet the new forms of consumer demand.
- **More ESG investing**. ESG funds have performed relatively well during the market rout and have had resilient inflows. The virus crisis could accelerate the realization that investment and businesses should primarily serve human well-being and sustainability. It also shows the merit of ESG as an efficient portfolio diversification tool.

# US leadership comes at a high price, favor core vs. peripheral Eurozone

- **OW Europe vs. US** (p.81). US equities keep benefiting from their relative safe-haven, quality and growth status, while European equities are underperforming due to their higher beta nature and weaker economic/fiscal fundamentals of the region.
  - Weak domestic growth, declining Banks profitability, lack of Tech, over-reliance on the 'old economy', messy politics and trade exposure have turned Europe into a consensus UW for a while, but its depressed relative valuations to the US and bearish positioning seem to be pricing in a lot already.
  - The growth/quality nature of the US equity market remains a structural advantage vs. Europe, but the end of the buybacks super-cycle and the collapse in oil prices could be more problematic for the former.
  - Europe offers a 'cheap' option on a potential 6-12m recovery, in our view, which keeps us modestly OW vs. the US, for now.
- **UW UK** (p.90). The end to the multi-year political deadlock revived investors' appetite for the UK, but we keep a preference for Eurozone, as the region has a more diversified sector composition, lower oil exposure, and faces lower dividend risk than the UK. No trade-deal Brexit tail-risk remains elevated as the negotiations with the EU are being complicated by the COVID-19 crisis, while the extension deadline in June is approaching fast. Within the UK, we advise a balanced exposure between exporters and domestics (BCEUUKEX / BCEUUKDM).
- **OW core vs. periphery within Eurozone** (p.100). Italy and Spain are being badly hurt by COVID-19, have weaker fiscal position than France and Germany and more exposure to Banks, even though ECB is providing a powerful backstop to peripheral spreads. Peripheral equity markets are highly concentrated and skewed to Financials, while core markets are more diversified and also have more exposure to China.
- **OW China and selected EM exposure (BCEUCHIN / BCEUEREM)** (p.106). Many EM countries are badly hurt by the pandemic, which exacerbates their structural imbalances. While EM sovereign default rates could rise overall, we believe the USD debt default risks for the major EMs are very remote. China, India, Russia, Mexico, Indonesia are all safely in IG territory, while Brazil's external position is also very strong. The Chinese economy is reopening, Fed liquidity and the search for yield are coming back, dollar has stabilized, China policy makers are shifting to stimulus mode. Medium term though, EM could face headwinds from accelerated de-globalization, ageing population and increasing labour costs.

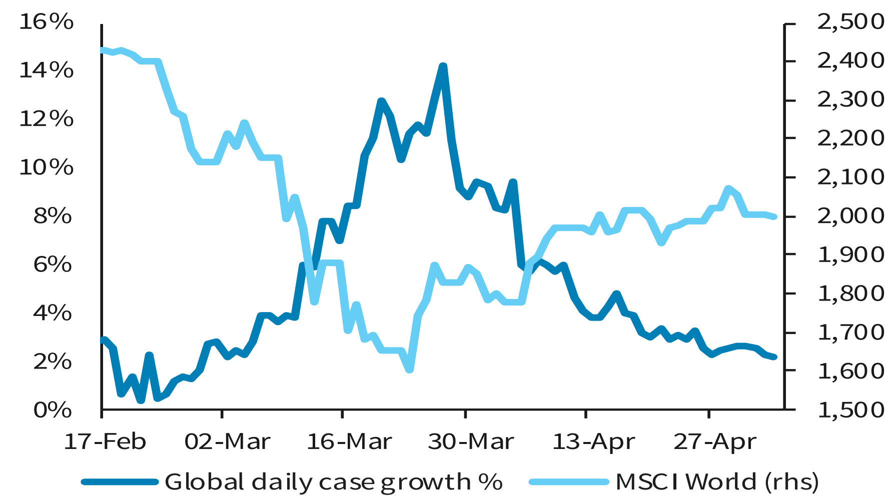
# Balanced cyclical/defensive allocation, reduce Quality/Growth bias

- **Quality has worked, but is crowded and expensive** (p.55). Market leadership during the rally remained narrow and skewed to Quality/Growth. The continued outperformance of the popular safety trades likely explains why a majority of funds beat their benchmark ytd. The pain trade is thus more likely to come from a 'risk-on' style rotation, rather than from another leg down in equities. We expect the recovery to be uneven, but acknowledge the Quality/Growth space is consensus and expensive. We thus cut Staples to UW, which reduces our Quality/Growth bias. **We screened for quality stocks trading on attractive valuations** (p.10).
- **Balanced Cyclicals/Defensives allocation** (p.116). The Covid-19 disruption will hurt the global economy badly in H1, but ample stimulus should help the rebound in activity later this year. We cut our beta exposure in Q1, upgrading **Healthcare (OW)** and **Telecoms (MW)** and downgrading **Banks** (**MW**), **Energy** and **Discretionary (UW).** We now cut **Staples** to **UW** and add the weight evenly across Cyclicals, which should benefit the most from the H2 recovery.
  - **Tech** and **Cap Goods (OW)** have been relatively resilient ytd and could be vulnerable to negative growth surprises, but both are 'quality' cyclicals, in our view, offering margins and balance sheet resiliency.
  - We remain **UW Discretionary.** **Autos, Travel&Leisure** and **Retail (UW)** fell the most and thus rebounded the most lately, but we would fade the rally as structural concerns abound and higher unemployment could hurt consumers for longer. We find the medium-term prospects more compelling for **Luxury Goods (MW)**, even though the sector is not immune to weaker consumer and trades on expensive valuations.
  - Within commodities, we prefer **Mining (OW)** to **Energy (UW)**, as the former is a more direct play on forthcoming Chinese stimulus, while oil supply/demand imbalances and ESG constrain remain headwinds for the latter.
  - **Utilities** and **Healthcare (OW)** are our preferred defensives. Utilities benefit from the decarbonisation revolution, which helps their profitability. Healthcare offers attractive valuations and growth prospects, while election risk in the US is limited. **Telecoms (MW)** is a cheap defensive hedge, but lacks positive long-term catalysts.
- **MW Financials. Banks (MW)** trade on depressed valuation multiples and are in a much better liquidity and balance sheet position than in 2008-09. However, lower-for-longer yields, elevated credit risk and regulatory pressure to cut shareholder payout is likely to continue weighing on the sector. We prefer **Insurance (OW)** due to their stronger capital position, more resilient earnings and relatively safer dividends.
- **Themes and baskets**: Sustainable yield (BCEUERIC), Value/Growth (BCEUVALO/BCEUGROW), ESG/Sustainability, Cyclicals/Defensives (BCEUECYC / BCEUEDEF), High/Low credit rating (BCEUELDR/BCEUEHDR), short Cycle (BCEUSHCY), Tech spending.

# The worst is likely over
## Outbreak seems to be under control, no evidence of a second wave yet

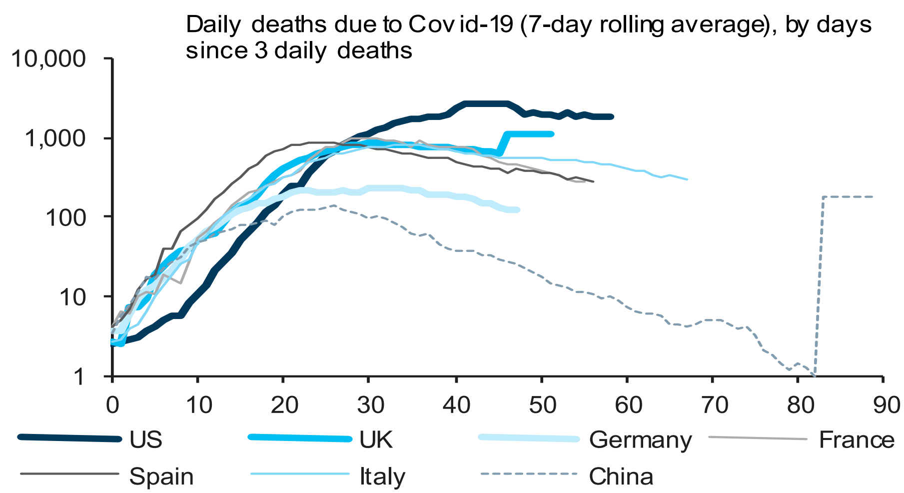
- The covid-19 situation is fluid, but bad news is diminishing. The pandemic curve keeps flattening in most countries and death tolls are falling.
- Confirmation that the outbreak is under control is the key condition for equities to rebound sustainably, but investors should beware of the risk of a second wave of infections after the lockdowns are lifted.
- So far so good, new cases have not rebounded in the countries that have already loosened their lockdowns, such as Austria, Germany, Denmark, Switzerland and Spain etc.,

**Equities are trading on the indication of outbreak stabilization**



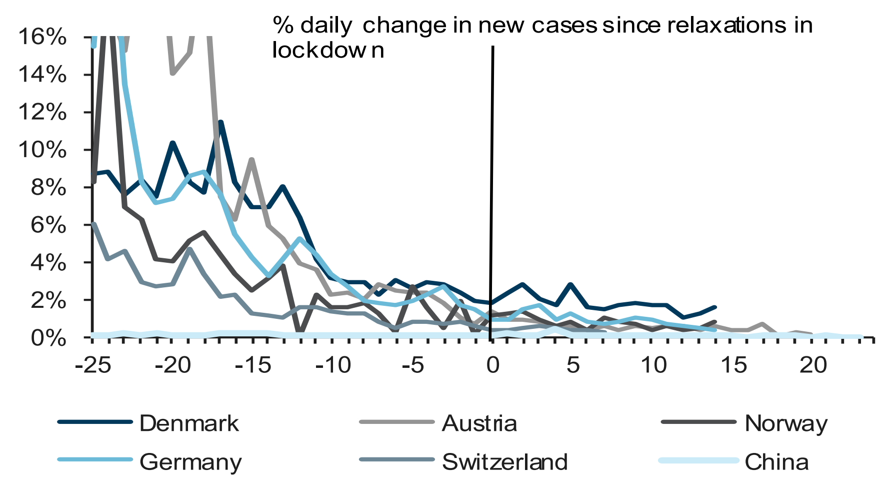

Source: Bloomberg, Barclays Research

**Covid-related deaths are plateauing across most affected countries**




Source: Bloomberg, Barclays Research

**New cases keep falling for countries that have loosened lockdowns**




Source: Bloomberg, Barclays Research

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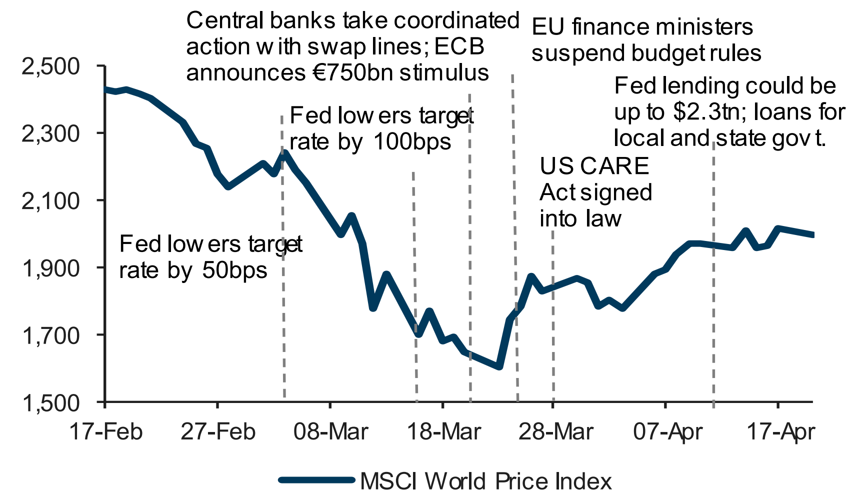
May 05, 2020

# Central banks have short-circuited market dislocation…

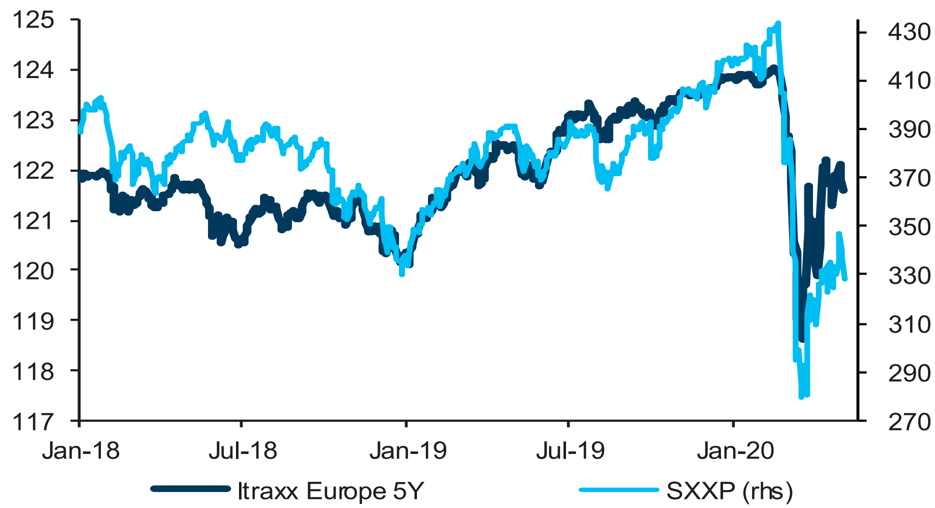
- The rebound in equities coincided with the flattening virus curve, but was triggered by decisive action from central banks.
- Fed and ECB have successfully short-circuited extreme market volatility and avoided another painful liquidity crisis.
- Both have re-started asset purchases and are providing unlimited liquidity, which gives a backstop to the credit market, and thus to the equity market.

**Equities have been helped by decisive policy/government interventions**



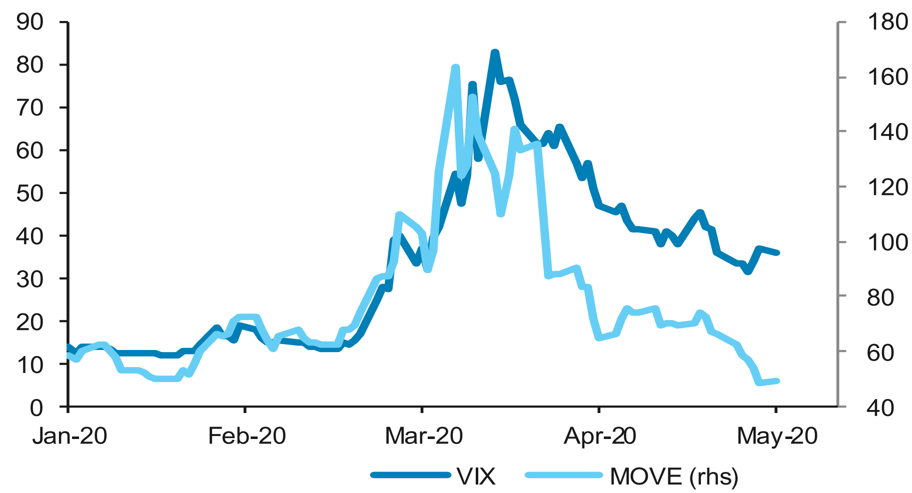

Source: Bloomberg, Barclays Research

**Credit and equities rebounded in tandem**




Source: Bloomberg, Barclays Research

**VIX and MOVE are down from extreme high levels**

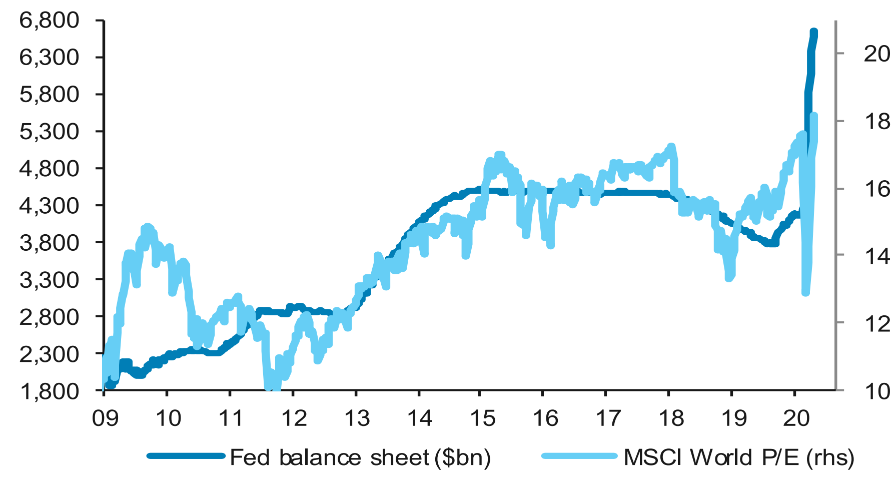



Source: Bloomberg

# …but exacerbated the divergence between equities and fundamentals

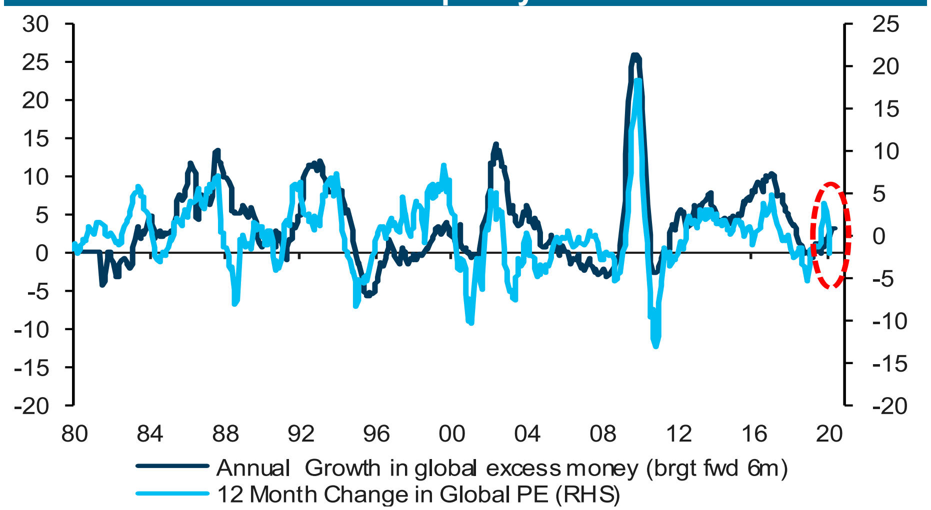
- Central banks' action contributed to exacerbate the decoupling between asset prices and fundamentals.
- The rebound in equities was entirely due to P/E expansion, as central banks' balance sheets are surging.
- As excess liquidity is set to increase materially, asset prices could remain inflated for longer, despite the dire macro and earnings fundamentals.

**Massive increase in Fed's balance sheet inflates P/Es**



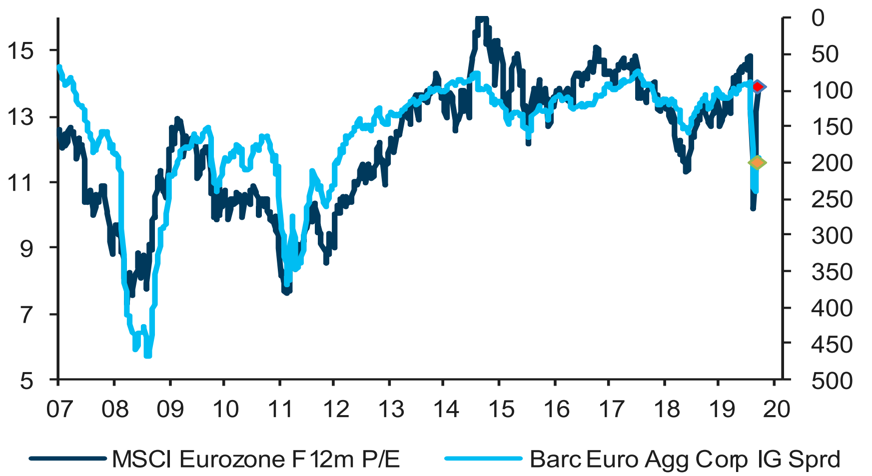

Source: Bloomberg, IBES

**Over the long run, P/E multiples move with excess liquidity…**




Source: Barclays Economics Research

**Equity P/Es are highly correlated with credit spreads**

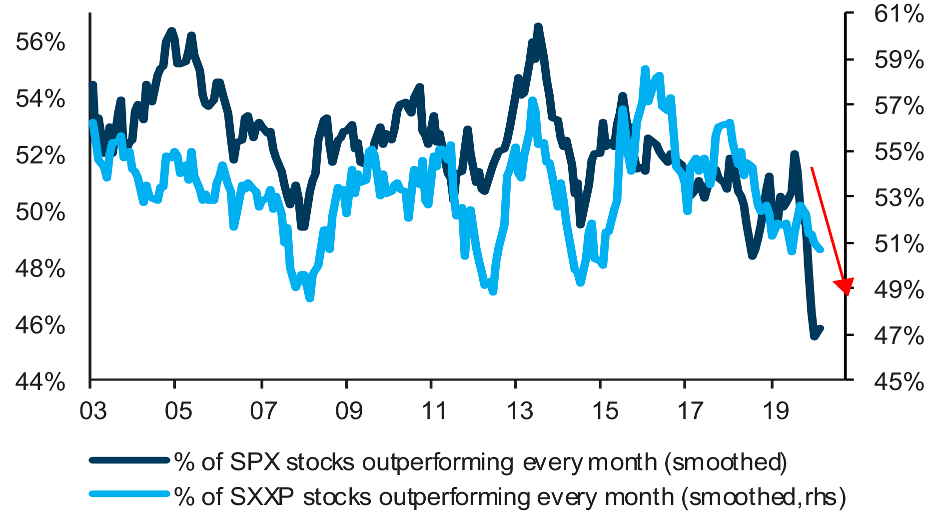



Source: Bloomberg, Datastream

# Dispersion within the equity market is extreme…

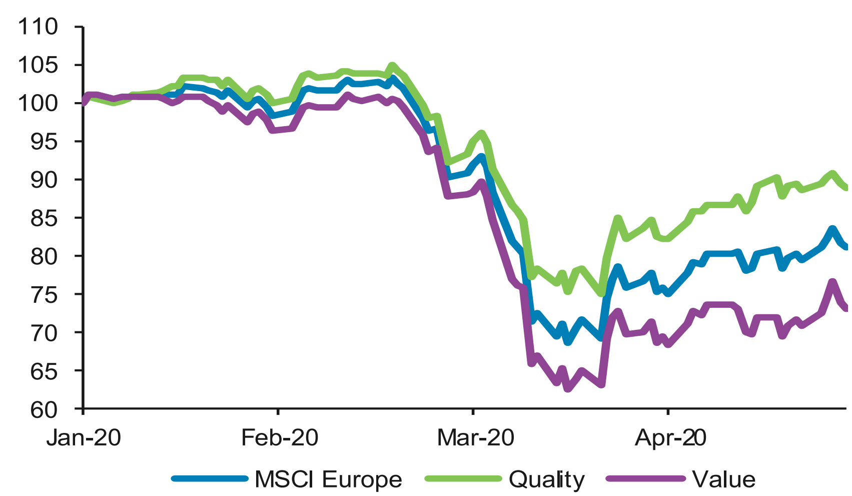
- Central banks' intervention prevented further market dislocation but increased the dispersion within the equity market.
- The market breadth narrowed further during the rally, as the upside only came from the Quality and Growth stocks, while Value stocks did not rebound much.
- As a result, the valuation gap between Quality/Growth and Value is extreme, which should be a favorable environment for stock picking.

**Narrowing market breadth seen during the latest rally**



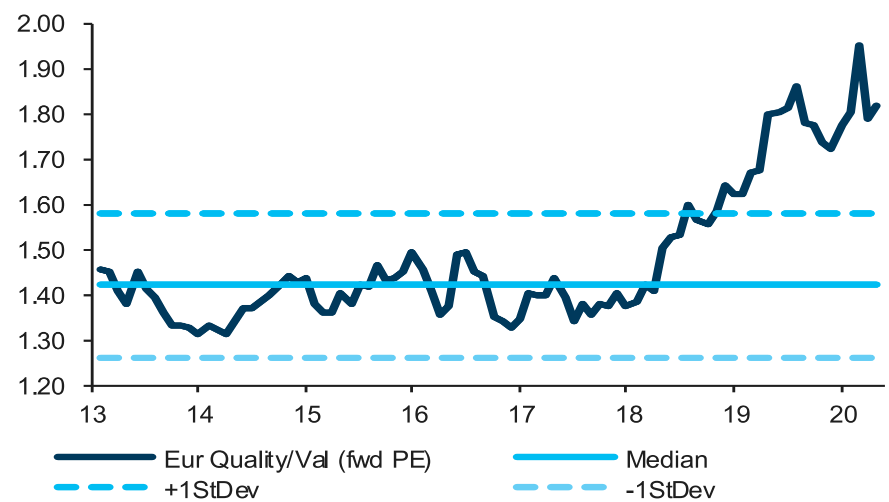

Source: Bloomberg

**Performance gap between Quality and Value increased**




Source: Datastream

**Valuation dispersion is near extreme**




Source: IBES

# …which creates opportunities – quality at a reasonable price

- We screened for stocks which score well on Quality metrics but are cheaper than their sector/subsector peers.
- For Quality, we generated a score based on equal weighted ranking of ROE, Total Debt/Equity and an Earnings variability score.
- For Valuation, we used an equal weight ranking of P/E and P/B within that stock's sector/subsector.
- We then gave the Quality score and Valuation score an equal weighting to produce the screen.
- This produces a screen that produces stocks with better quality scores, but below-average (sector-adjusted) valuation.

**Quality at a reasonable price screen**

| | | | Quality Metrics | | | Valn Metrics | |
|---|---|---|---|---|---|---|---|
| Name | ISIN | Sector | ROE | TD/Equity | EPS Variablility Score | P/E | P/B |
| JOHNSON MATTHEY | GB00BZ4BQC70 | Materials | 14 | 50 | 4 | 11.2 | 1.3 |
| ASSOCIATED BRIT.FOODS | GB0006731235 | Consumer Staples | 8 | 6 | 8 | 15.8 | 1.5 |
| ADECCO GROUP | CH0012138605 | Industrials | 19 | 44 | 16 | 13.3 | 1.6 |
| HENKEL PREF. (XET) | DE0006048432 | Consumer Staples | 11 | 24 | 6 | 16.5 | 1.8 |
| ATOS | FR0000051732 | Information Technology | 48 | 77 | 18 | 9.1 | 1.0 |
| EVONIK INDUSTRIES (XET) | DE000EVNK013 | Materials | 23 | 50 | 18 | 12.9 | 1.1 |
| SMITH & NEPHEW | GB0009223206 | Health Care | 12 | 40 | 2 | 19.9 | 1.4 |
| NOVARTIS 'R' | CH0012005267 | Health Care | 25 | 53 | 5 | 14.2 | 3.4 |
| RANDSTAD | NL0000379121 | Industrials | 11 | 36 | 16 | 13.3 | 1.5 |
| SECURITAS B | SE0000163594 | Industrials | 17 | 112 | 8 | 12.6 | 2.0 |
| AVIVA | GB0002162385 | Financials | 15 | 65 | 10 | 4.4 | 0.5 |
| DASSAULT AVIATION | FR0000121725 | Industrials | 16 | 13 | 25 | 10.7 | 1.3 |
| CAPGEMINI | FR0000125338 | Information Technology | 10 | 49 | 10 | 12.3 | 1.7 |
| INFINEON TECHS. (XET) | DE0006231004 | Information Technology | 9 | 18 | 9 | 20.9 | 2.3 |
| PORSCHE AML.HLDG. (XET) PREF. | DE000PAH0038 | Consumer Discretionary | 12 | 0 | 30 | 4.0 | 0.4 |
| METSO | FI0009007835 | Industrials | 20 | 7 | 46 | 13.1 | 2.3 |
| RWE (XET) | DE0007037129 | Utilities | 50 | 21 | 23 | 14.6 | 0.9 |
| DANONE | FR0000120644 | Consumer Staples | 11 | 98 | 5 | 16.3 | 2.3 |
| BAE SYSTEMS | GB0002634946 | Industrials | 27 | 88 | 9 | 10.4 | 2.9 |
| 3I GROUP | GB00B1YW4409 | Financials | 15 | 7 | 23 | 5.8 | 0.9 |
| BASF (XET) | DE000BASF111 | Materials | 19 | 48 | 27 | 14.9 | 1.0 |
| BARRATT DEVELOPMENTS | GB0000811801 | Consumer Discretionary | 16 | 4 | 11 | 10.8 | 1.1 |
| MONDI | GB00B1CRLC47 | Materials | 21 | 57 | 7 | 11.8 | 1.7 |
| WHITBREAD | GB00B1KJJ408 | Consumer Discretionary | 96 | 13 | 10 | 28.0 | 0.8 |
| TAYLOR WIMPEY | GB0008782301 | Consumer Discretionary | 20 | 3 | 11 | 9.5 | 1.5 |
| ALFA LAVAL | SE0000695876 | Industrials | 20 | 54 | 13 | 17.1 | 2.7 |
| MEGGITT | GB0005758098 | Industrials | 9 | 43 | 12 | 10.2 | 0.9 |
| ANGLO AMERICAN | GB00B1XZS820 | Materials | 15 | 43 | 17 | 8.2 | 0.7 |
| ORKLA | NO0003733800 | Consumer Staples | 11 | 25 | 14 | 20.4 | 2.7 |
| FERGUSON | JE00BJVNSS43 | Industrials | 25 | 54 | 5 | 15.4 | 2.3 |
| SAINT GOBAIN | FR0000125007 | Industrials | 7 | 80 | 5 | 9.6 | 0.6 |
| BEIERSDORF (XET) | DE0005200000 | Consumer Staples | 12 | 8 | 4 | 28.3 | 3.4 |
| SKF B | SE0000108227 | Industrials | 13 | 51 | 19 | 14.7 | 1.9 |

Source: Datastream

# Macro
## Not out of the woods yet, but global economy likely near the bottom

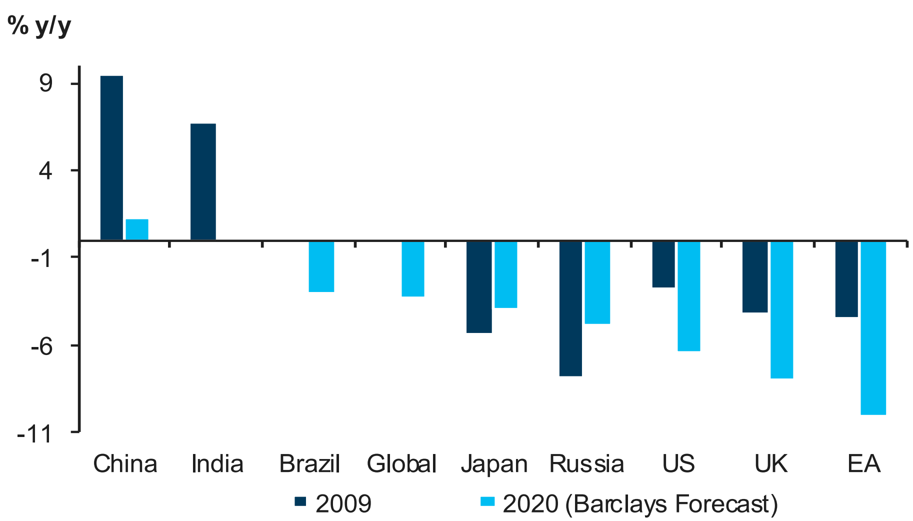
- Incoming data confirms the devastating effect that 'stay-at-home' orders and other social distancing measures are having on the global economy.
- We expect a major global recession in 2020, but concentrated in Q2/Q3 and then followed by a quick rebound into 2021. The total loss in output due to COVID-19 is expected to be bigger in magnitude than 2008-09. Our base case looks for Global GDP growth of –3.3% and Eurozone GDP growth of –10.1% in 2020.
- Given the more total halt most economies are experiencing this time, the trough in activity will be deeper than in 08/09, and while the rebound is expected to be sharp as well, it will likely be shallower than previously expected and take longer to recover full output.

**Barclays' GDP growth forecasts look for a deep fall in 2020 and a strong recovery in 2021**

| | GDP y/y | | | | GDP q/q,saar | | | | GDP y/y | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 4Q19 | 1Q20 | 2Q20 | 3Q20 | 4Q19 | 1Q20 | 2Q20 | 3Q20 | CY 20 | CY 21 |
| **Global** | | | | | 2.7 | -13.9 | -16.6 | 36.5 | -3.3 | 5.1 |
| **US** | 2.3 | 0.9 | -13.5 | -7.3 | 2.1 | -4.8 | -40.0 | 25.0 | -6.4 | 3.6 |
| **Euro Area** | 1.0 | -3.6 | -21.7 | -10.1 | 0.4 | -15.5 | -56.3 | 75.6 | -10.1 | 7.5 |
| Germany | 0.5 | -3.4 | -19.7 | -10.6 | 0.1 | -12.7 | -52.7 | 54.5 | -9.9 | 5.7 |
| France | 0.9 | -5.3 | -24.0 | -8.5 | -0.3 | -21.2 | -57.9 | 112.5 | -10.5 | 9.3 |
| Spain | 1.8 | -4.1 | -24.9 | -12.2 | 1.7 | -19.2 | -61.9 | 89.5 | -11.6 | 9.3 |
| Italy | 0.1 | -4.8 | -24.7 | -12.7 | -1.2 | -17.4 | -60.6 | 80.6 | -11.9 | 8.7 |
| **UK** | 1.1 | -2.2 | -18.2 | -7.1 | 0.1 | -9.8 | -51.5 | 70.2 | -8.0 | 6.3 |
| **China** | 6.0 | -6.8 | 0.2 | 4.7 | 5.8 | -36.5 | 41.7 | 26.2 | 1.3 | 6.9 |
| **India** | 4.7 | 2.2 | -12.4 | 3.0 | 4.9 | -4.5 | -43.0 | 96.5 | 0.0 | 7.5 |

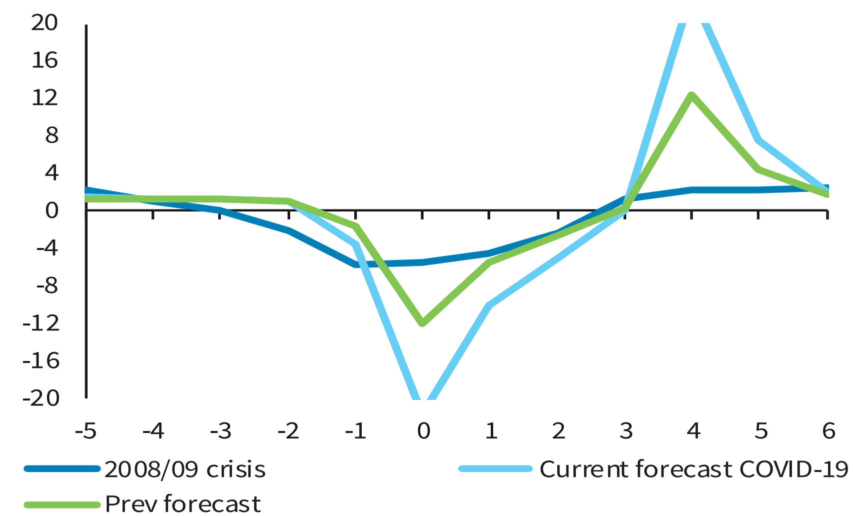
Source: Barclays Economic Research

**Our economists expect a global recession worse in size to 2008-09**




Source: Barclays Economics Research

**Quarterly path of Eurozone y/y real GDP growth in '08/09, vs. current forecasts from our economists**




Source: Barclays Economics Research

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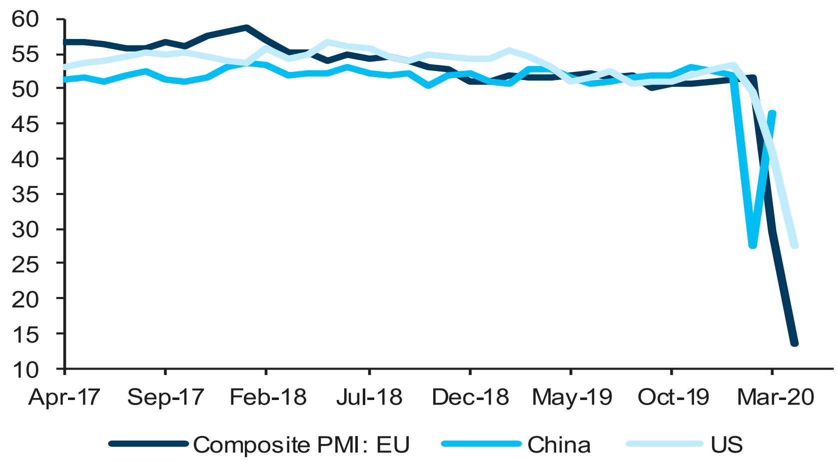
Restricted - External

May 05, 2020

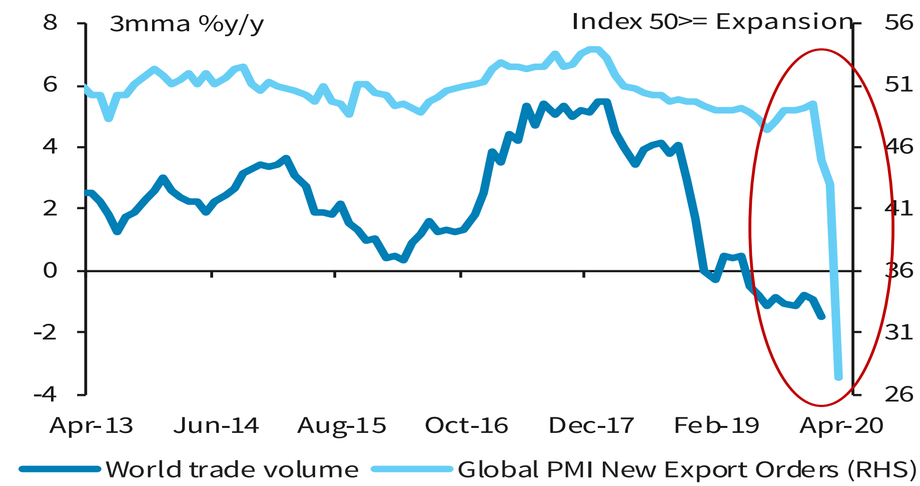
# Real-time data collapsed as the global economy came to a standstill…

## US, Europe and China PMIs



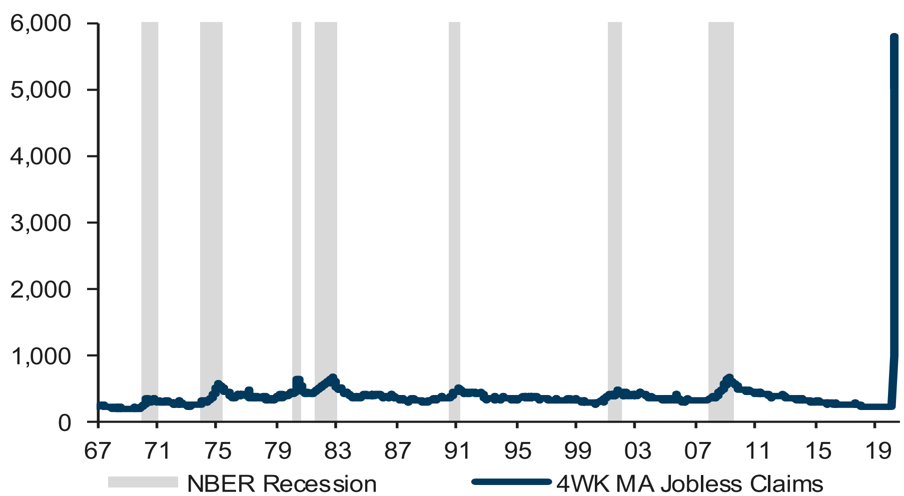

Source: Bloomberg, Barclays Economic Research

## COVID-19 after trade war adds to the drag on global trade



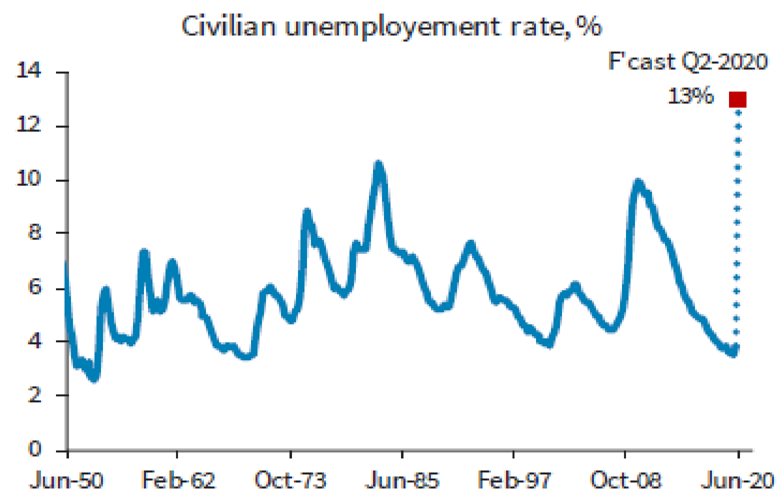

Source: Bloomberg

## Jobless claims have surged the most on record, but seem to have peaked already




Source: Barclays Economics Research

## US unemployment rate expected to follow in Q2




Source: Barclays Economics Research

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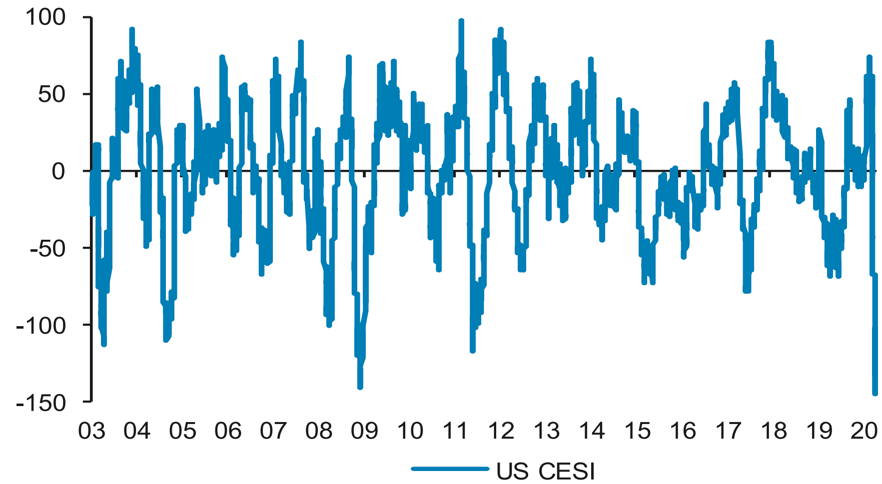
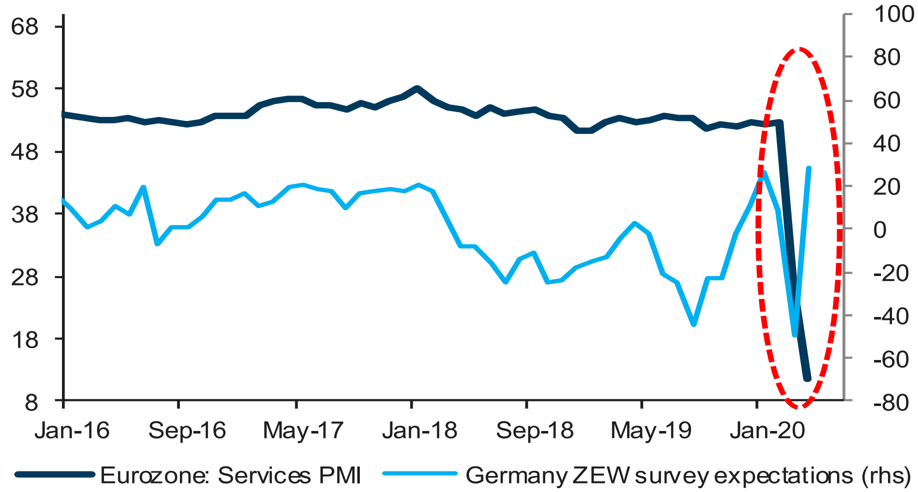
# …but second derivative to improve as the economy re-opens

## US CESI is the worst on record, bounce likely



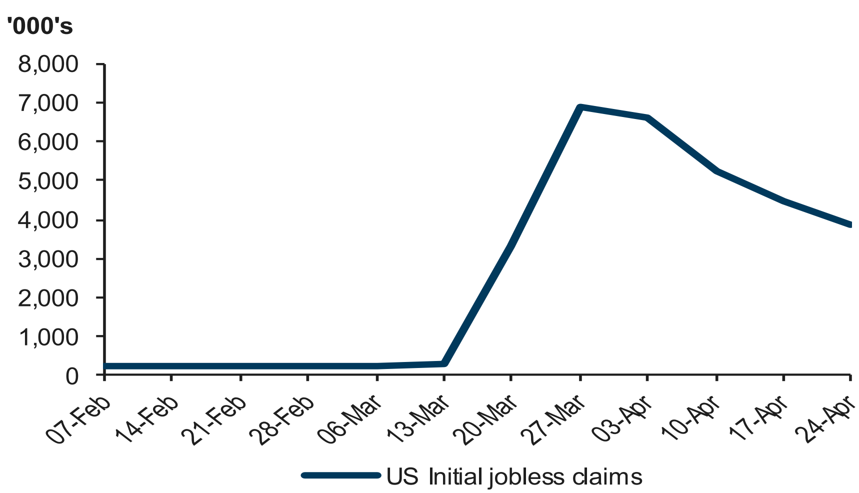

Source: Bloomberg

## ZEW expectations survey rebounded in April



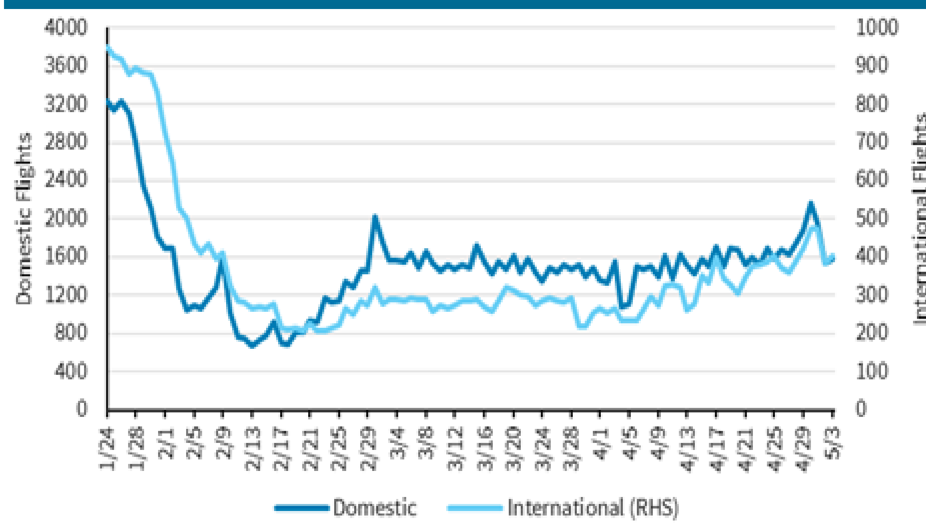

Source: Bloomberg, Markit

## Jobless claims are off their peak level, but remain high




Source: Bloomberg

## # of Flight departures starting to trend up in China

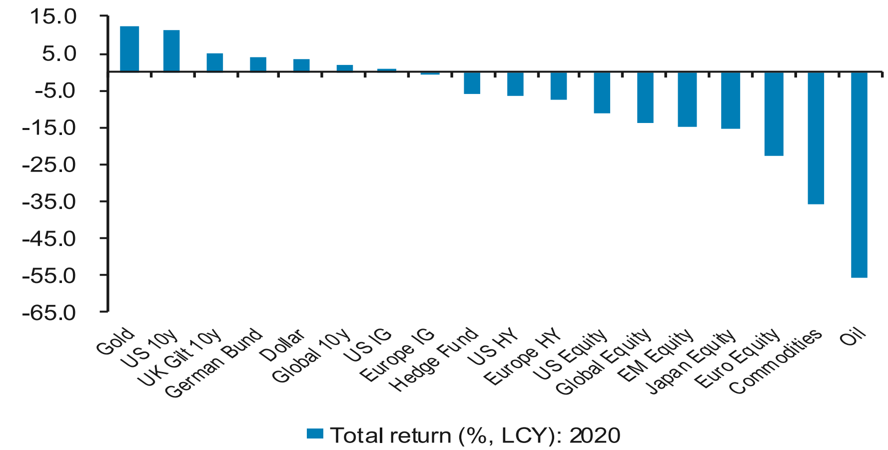



Source: Barclays Economics Research

# Equities typically fall 30% in a ‘normal’ recession

- The average peak-to-trough equity fall during the last 10 recessions in the US for S&P500 was 29%. In Europe the average fall was 32% for equity prices.
- This is broadly consistent with the recent peak to trough moves seen in the two regions, but we note than in 2008-09, equities fell more, by nearly 60%

**Equities are underperforming most asset classes ytd**




Source: Bloomberg, Datastream

**S&P500 price and earnings moves around past US recessions**

| Recession start | Recession end | SPX peak | SPX trough | SPX Peak-trough (months) | Perf: SPX peak to trough | Trailing EPS peak to trough |
|---|---|---|---|---|---|---|
| Jul-53 | Apr-54 | Jan-53 | Sep-53 | 8 | -11% | -18% |
| Aug-57 | Mar-58 | Jul-56 | Dec-57 | 17 | -17% | -22% |
| Apr-60 | Jan-61 | Jul-59 | Oct-60 | 15 | -10% | -12% |
| Dec-69 | Oct-70 | Nov-68 | May-70 | 18 | -36% | -13% |
| Nov-73 | Feb-75 | Oct-73 | Oct-74 | 12 | -44% | -15% |
| Jan-80 | Jun-80 | Jan-80 | Mar-80 | 2 | -15% | -5% |
| Jul-81 | Oct-82 | Nov-80 | Aug-82 | 21 | -27% | -19% |
| Jul-90 | Feb-91 | Jul-90 | Oct-90 | 3 | -20% | -37% |
| Mar-01 | Oct-01 | Aug-00 | Oct-02 | 26 | -49% | -54% |
| Dec-07 | May-09 | Oct-07 | Mar-09 | 17 | -57% | -92% |
| **Average** | | | | **14** | **-29%** | **-29%** |
| **Median** | | | | **16** | **-24%** | **-18%** |

Source: Datastream, Barclays Research

**MSCI EUROPE price and earnings moves around past US recessions**

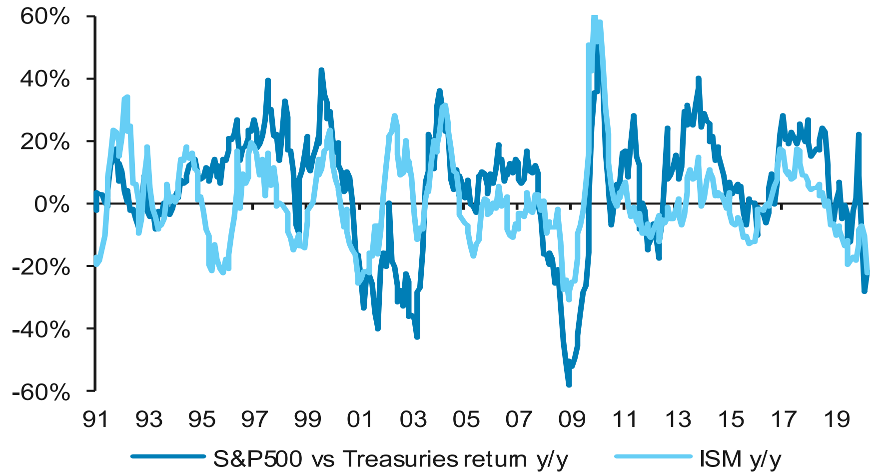
| Recession start | Recession end | MSCI Europe peak | MSCI Europe trough | MSCI Europe Peak-trough (months) | Perf: MSCI Europe peak to trough | Trailing EPS peak to trough |
|---|---|---|---|---|---|---|
| Nov-73 | Feb-75 | Apr-73 | Dec-74 | 20 | -44% | -39% |
| Jan-80 | Jun-80 | Apr-79 | Mar-80 | 11 | -10% | -32% |
| Jul-81 | Oct-82 | Apr-81 | Sep-81 | 5 | -12% | -9% |
| Jul-90 | Feb-91 | Jun-90 | Sep-90 | 3 | -23% | -40% |
| Mar-01 | Oct-01 | Aug-00 | Mar-03 | 31 | -53% | -41% |
| Dec-07 | May-09 | May-07 | Feb-09 | 21 | -53% | -51% |
| **Average** | | | | **15** | **-32%** | **-35%** |
| **Median** | | | | **16** | **-33%** | **-39%** |

Source: Datastream, Barclays Research

# Medium term risk-reward attractive after PMIs have collapsed

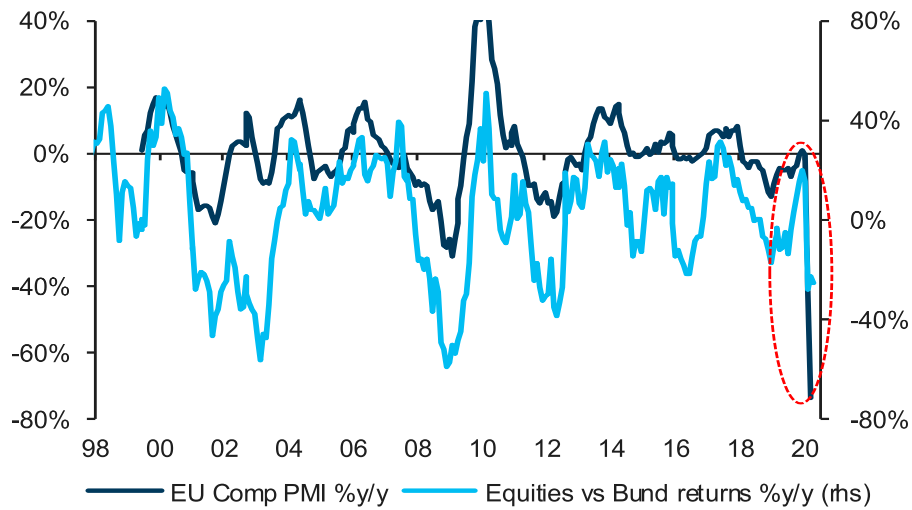
- In the US, the equity/bond underperformance is line with the ISM at 41.5 recorded in April.
- The EU composite PMI for Apr'20 fell to 13.5, the lowest level since the data started in 1998. European equities could fall another 10% or so vs. bonds to fully match the current level of PMI, but our work shows that equities were always up on a six-month horizon after PMI fell below 40.
- The previous PMI trough of 36.2 was seen in Feb'09, after which SXXP returned 42% in the following 12 months. When PMIs are in the 35-40 range the 6m forward median SXXP returns are 17.6% with a 100% positive hit ratio.

**US Equity/bond performance consistent with ISM at 41.5**




Source: Datastream

**In Europe, Equities vs bund returns has not fully matched the sharp fall in PMI…**




Source: Bloomberg, Datastream

**…but equities rebounded 100% of the time in the next 6m after PMI went below 40**

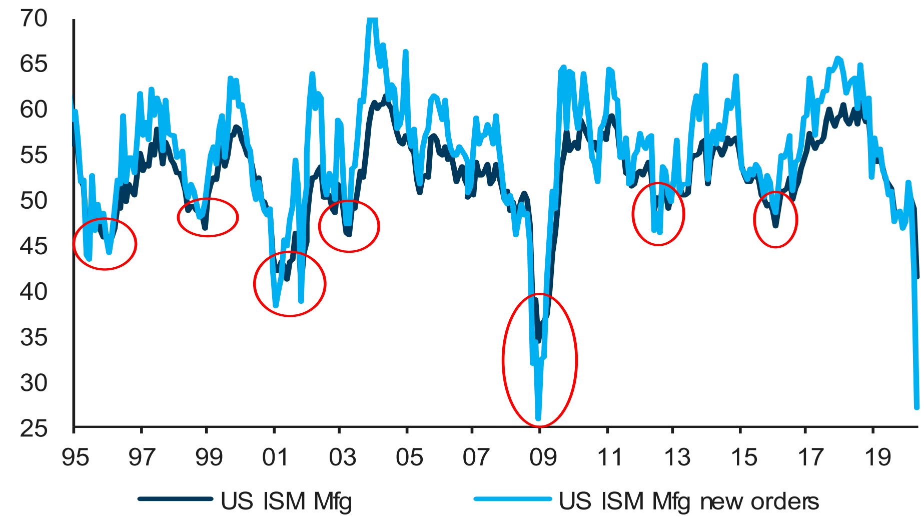
| | Median FWD perf SXXP Index | | | Hit Ratio | | |
|---|---|---|---|---|---|---|
| PMI Levels | 1M | 3M | 6M | 1M | 3M | 6M |
| 30-35 | NA | NA | NA | NA | NA | NA |
| 35-40 | -3.6% | 4.7% | 17.6% | 40% | 60% | 100% |
| 40-45 | 1.4% | 12.8% | 16.6% | 50% | 75% | 75% |
| 45-50 | 1.4% | 4.0% | 6.9% | 69% | 75% | 75% |
| 50-55 | 0.3% | 1.8% | 2.5% | 52% | 60% | 60% |
| 55-60 | 0.7% | 1.3% | 2.1% | 60% | 56% | 65% |
| 60-65 | -0.9% | 0.2% | -4.5% | 33% | 67% | 0% |

Source: Bloomberg, Datastream

# Buying equities when PMI bottomed was typically a good strategy

- Based on our analysis of past instances of ISM bottoming out, since 1995, we found that markets on average always went up in the subsequent +3m,+6m and +12m timeframes.
- In terms of sector performance, Cyclicals outperformed defensives once the ISM bottomed out

**We analysed seven instances of ISM bottoming out below 50 since 1995**




Source: Bloomberg

**European sector performance around ISM bottom since 1995**

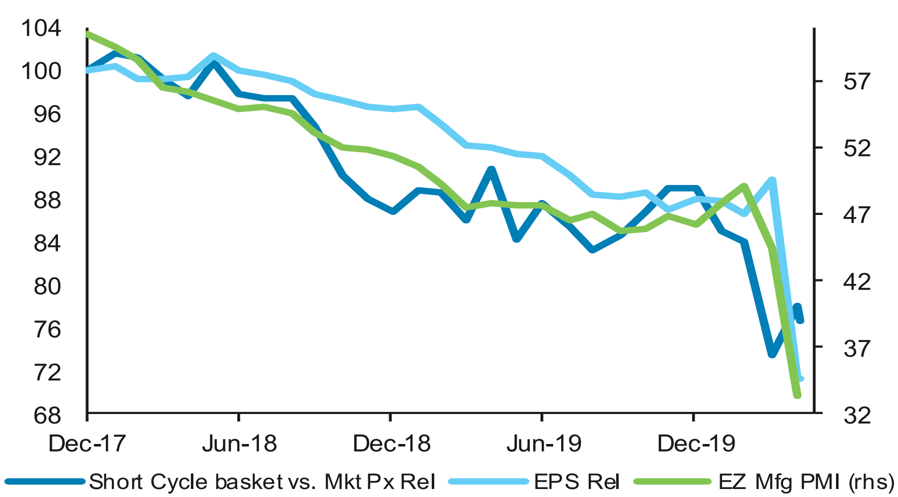
| | Median performance around ISM bottom | | | | | | Average performance around ISM bottom | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | -3m | -1m | +1m | +3m | +6m | +12m | -3m | -1m | +1m | +3m | +6m | +12m |
| **MSCI Europe** | **-4.7%** | **-4.1%** | **1.3%** | **4.6%** | **4.8%** | **19.8%** | **0.5%** | **-3.5%** | **0.3%** | **2.1%** | **5.2%** | **13.0%** |
| Financials | -7.8% | -2.0% | -0.2% | 2.3% | 4.1% | 18.1% | 4.9% | -2.6% | -1.2% | 0.7% | 3.9% | 12.1% |
| Energy | 1.4% | -1.8% | -0.7% | 7.2% | 5.2% | 26.0% | 0.8% | -0.9% | -1.1% | 5.5% | 9.4% | 20.2% |
| Materials | -4.6% | -4.0% | 2.3% | 9.3% | 15.2% | 23.6% | 4.4% | -3.2% | 1.4% | 7.7% | 13.4% | 26.5% |
| Industrials | -7.0% | -5.8% | 0.4% | 6.6% | 13.0% | 22.6% | 0.6% | -5.2% | 0.7% | 5.0% | 9.8% | 17.4% |
| C Disc | -1.8% | -5.9% | 2.4% | 6.8% | 10.8% | 21.3% | 1.8% | -5.1% | 2.3% | 5.3% | 9.0% | 15.6% |
| Tech | 1.2% | -5.0% | 1.9% | 5.5% | 5.9% | 24.7% | -0.9% | -7.2% | 2.5% | 3.3% | 7.6% | 25.1% |
| C Staples | -2.6% | -3.3% | -1.3% | -0.1% | 4.3% | 12.0% | -2.3% | -3.4% | -1.4% | -0.7% | 5.0% | 6.7% |
| Healthcare | -2.7% | -2.3% | 1.2% | -0.7% | 1.6% | 10.7% | -3.0% | -2.0% | -0.4% | -0.3% | 2.4% | 5.6% |
| Telecom | 3.5% | -3.6% | 2.2% | 0.6% | -0.1% | 16.2% | -1.4% | -4.5% | 2.4% | 0.5% | -0.1% | 14.8% |
| Utilities | 2.6% | -3.2% | 0.8% | 0.6% | -0.1% | -1.7% | 0.8% | -2.5% | -1.1% | -2.3% | -0.5% | 3.1% |
| Cyclicals | -2.5% | -2.9% | 0.7% | 3.5% | 4.8% | 9.2% | 0.2% | -2.7% | 1.0% | 2.7% | 4.3% | 8.0% |
| Defensives | -0.2% | -1.4% | 0.3% | 0.8% | 0.7% | 6.5% | -1.5% | -1.9% | 0.0% | -0.3% | 1.3% | 4.0% |

Source: Bloomberg, Datastream

# Watch 'Short Cycle' stocks

- Our Short Cycle basket BCEUSHCY has been designed to reflect short-term changes in the macro environment, as measured by the Eurozone Manufacturing PMI.
- The basket closely tracks both the short-term direction and inflections in the macro data tape, and so could be used to add or hedge exposure to accelerating/falling macro via one simple instrument.
- We note that the basket started to outperform during the latest rebound despite the further weakening in PMIs, but is still well below the relative highs of January.

**Our 'Short Cycle' basket follows PMI**




Source: Refinitiv, Barclays Research

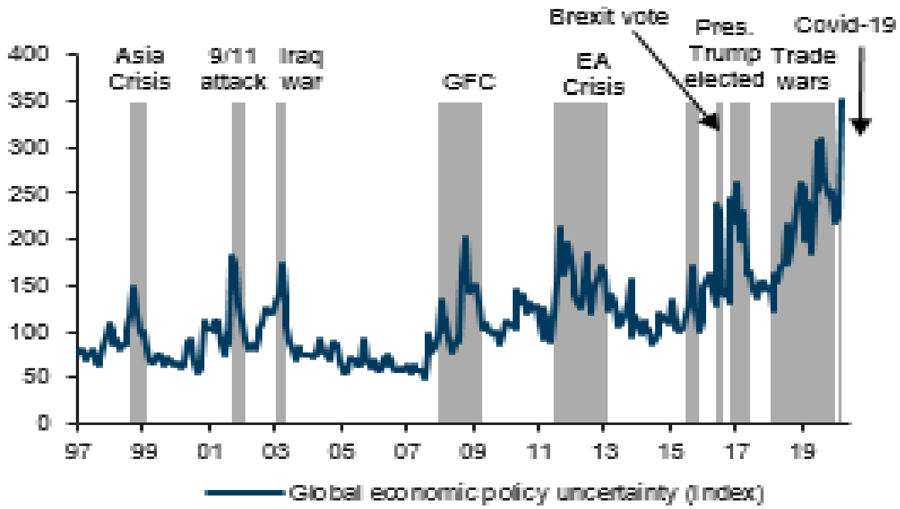
**Barclays European Short Cycle Basket – BCEUSHCY**

| Ticker | Name | Sector | Mcap ($bn) |
|---|---|---|---|
| BAS GR | BASF SE | Materials | 70.5 |
| CLN SW | Clariant AG-Reg | Materials | 6.8 |
| ANTO LN | Antofagasta Plc | Materials | 11.2 |
| RIO LN | Rio Tinto Plc | Materials | 90.8 |
| MT NA | ArcelorMittal | Materials | 17.4 |
| HEI GR | HeidelbergCement | Materials | 14.7 |
| CRH ID | CRH Plc | Materials | 29.4 |
| NHY NO | Norsk Hydro ASA | Materials | 7.4 |
| SIE GR | Siemens AG-Reg | Industrials | 107.5 |
| SAND SS | Sandvik AB | Industrials | 22.6 |
| SKFB SS | SKF AB- B Shares | Industrials | 8.6 |
| SGO FP | Saint Gobain | Industrials | 22.1 |
| AHT LN | Ashtead Group | Industrials | 13.6 |
| FERG LN | Ferguson Plc | Industrials | 19.4 |
| KNIN SW | Kuehne & Nagel-R | Industrials | 19.5 |
| MAERSKB DC | AP Moller-B | Industrials | 28.1 |
| ADEN SW | Adecco Group AG | Industrials | 10.1 |
| RAND NA | Randstad NV | Industrials | 10.5 |
| VOLVB SS | Volvo AB-B | Industrials | 32.7 |
| DAI GR | Daimler AG | C Disc | 61.5 |
| RNO FP | Renault SA | C Disc | 14.4 |
| CON GR | Continental AG | C Disc | 26.8 |
| STM IM | STMicroelectronics | IT | 21.9 |
| IFX GR | Infineon Tech | IT | 26.5 |
| TEMN SW | Temenos AG-Reg | IT | 10.9 |
| CAP FP | Capgemini SE | IT | 19.9 |
| HEXAB SS | Hexagon AB-B | IT | 19.8 |
| WPP LN | WPP Plc | Comm. Svs. | 15.9 |
| ITV LN | ITV Plc | Comm. Svs. | 7.1 |
| HEN3 GR | Henkel AG -Pfd | C Staples | 43.3 |

Source: Bloomberg, Barclays Research

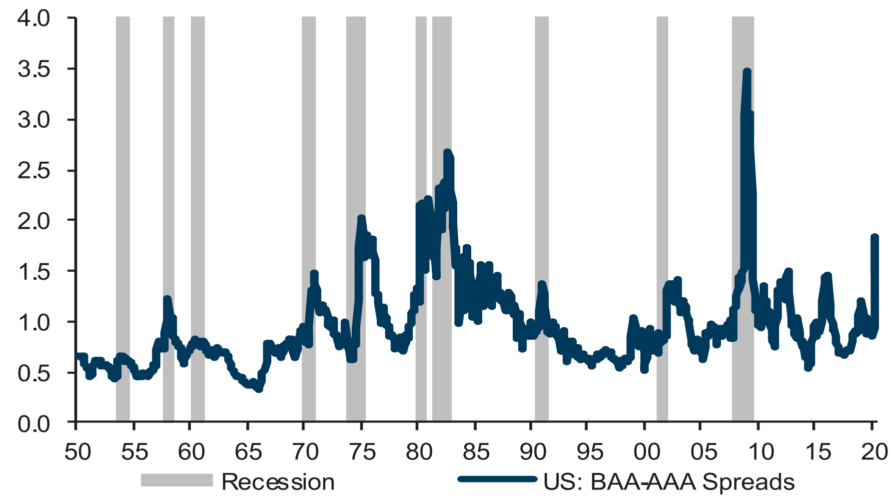
# High uncertainty, but tighter credit spreads and higher oil lately are welcome

## Policy uncertainty keeps rising



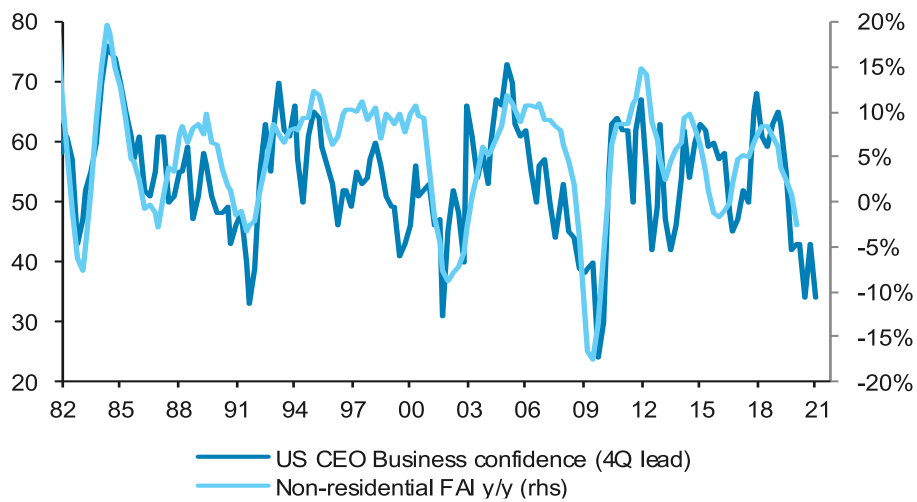

Source: Policyuncertainity.com, Bloomberg

## Credit spreads have narrowed and are well off the '08 levels



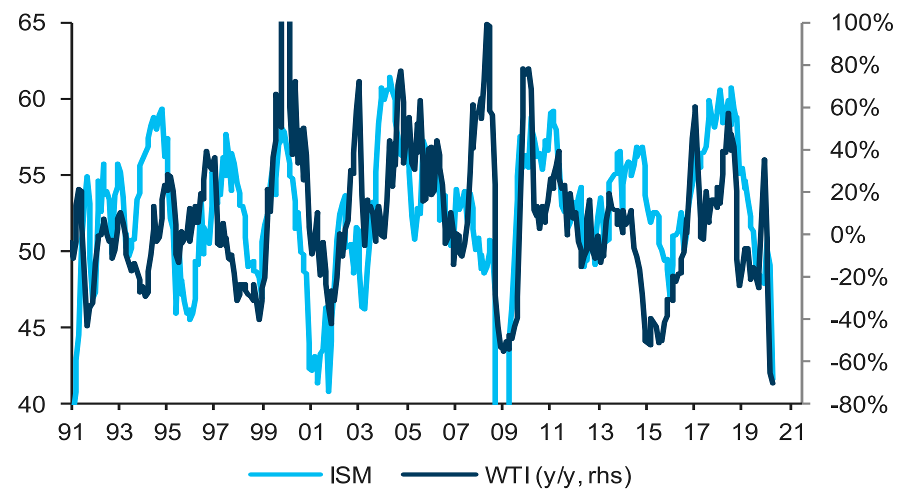

Source: Barclays Research

## Falling US CEO confidence points to lower capex ahead




Source: BEA, Datastream, Bloomberg

## Falling oil is a curse, not a blessing – latest rebound in welcome



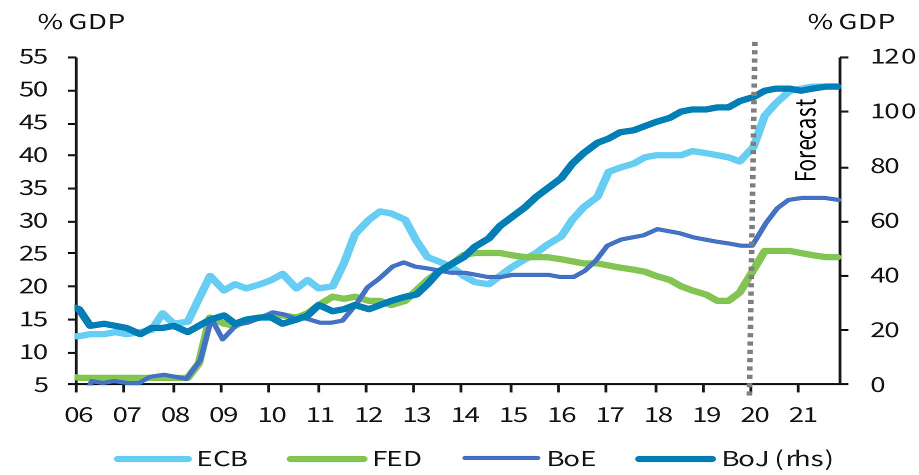

Source: Bloomberg

BARCLAYS

# This is not 2008 – Central banks did not lose time to act this time around

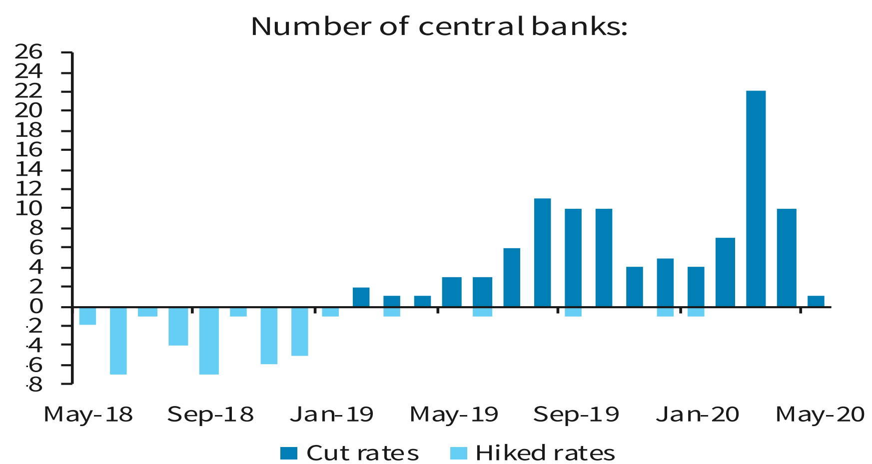
- We believe the speed and scale of the policy response this time around reduce the downside risks to the markets.
- All the key central banks cut rates aggressively, while Fed and ECB re-started QE, providing unlimited liquidity support and basically monetizing the increase in public debt.
- Central banks are now more experienced in dealing with liquidity crises following the GFC, and their policy tools are tested.

## Central bank balance sheets – the only way is up



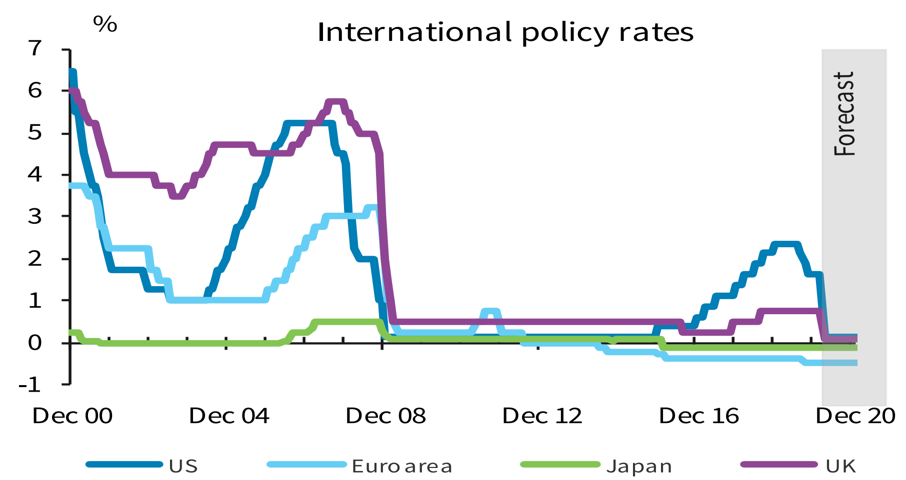

Source: Barclays Economics Research; Data as of Q1 2020.

## Central banks move swiftly to fight the Covid-19 impact




Source: Bloomberg, Barclays Economic Research; Data as of 5th May

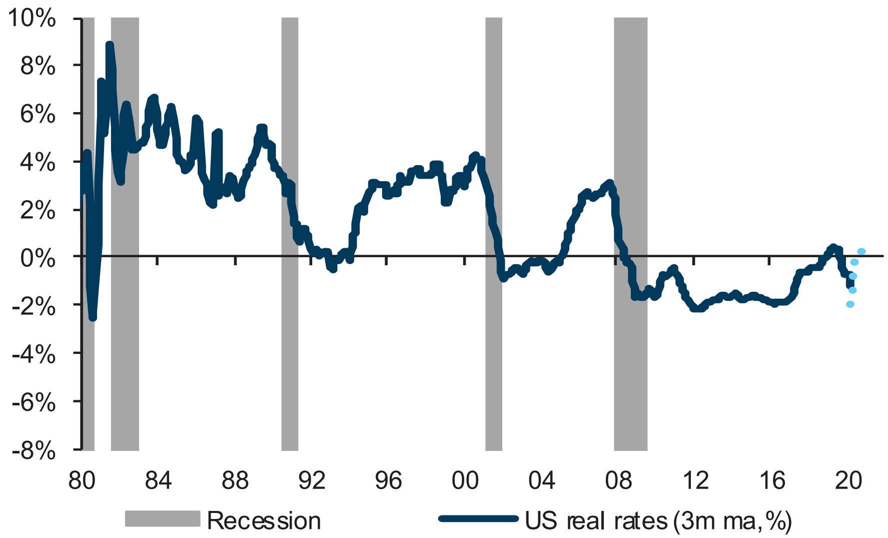
## The key central banks have slashed interest rates




Source: Bloomberg, Barclays Research

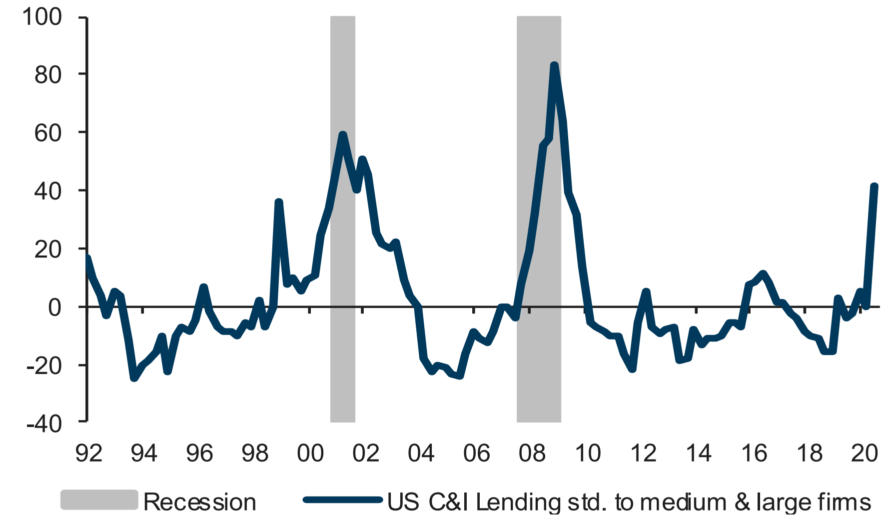
# Real rates are negative, money supply is surging…

## US Real Fed Funds rates are negative again



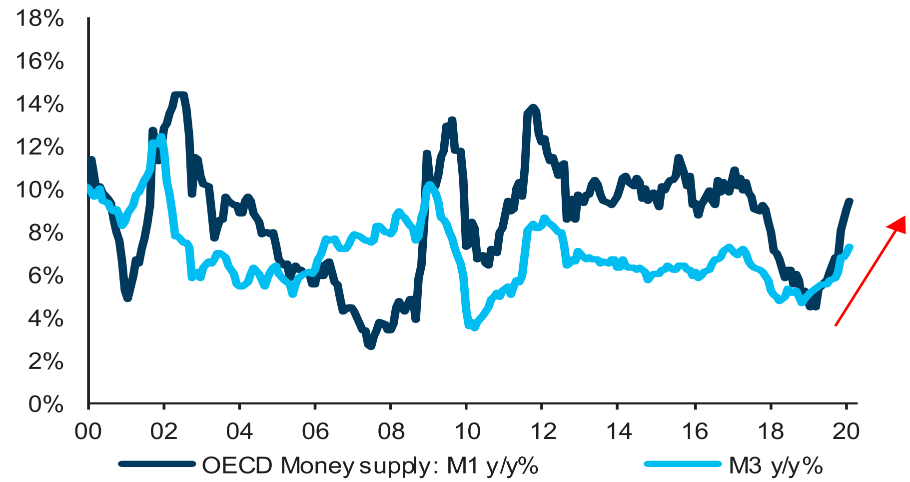

Source: Bloomberg, dotted line denotes Barclays Research forecasts

## US banks' lending standards see sharp increase



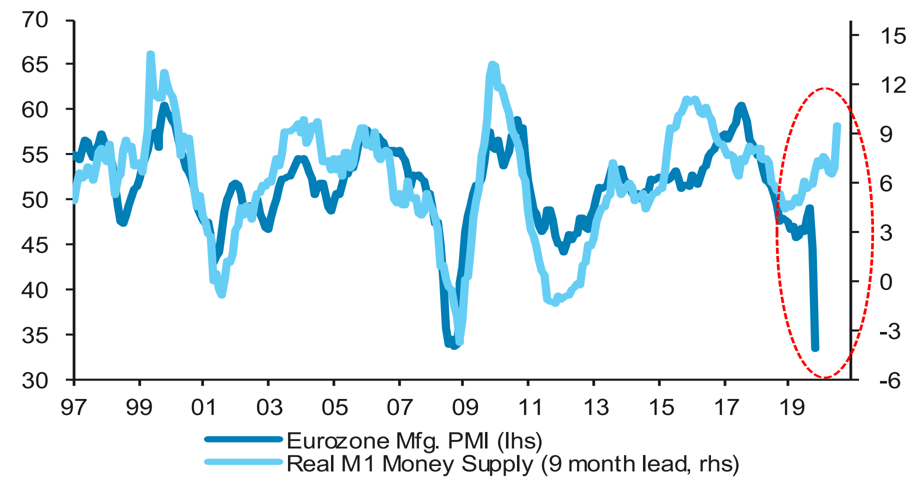

Source: Datastream, NBER

## Money supply is rebounding across OECD




Source: Bloomberg, Barclays Economics Research

## M1 leads PMI in Eurozone

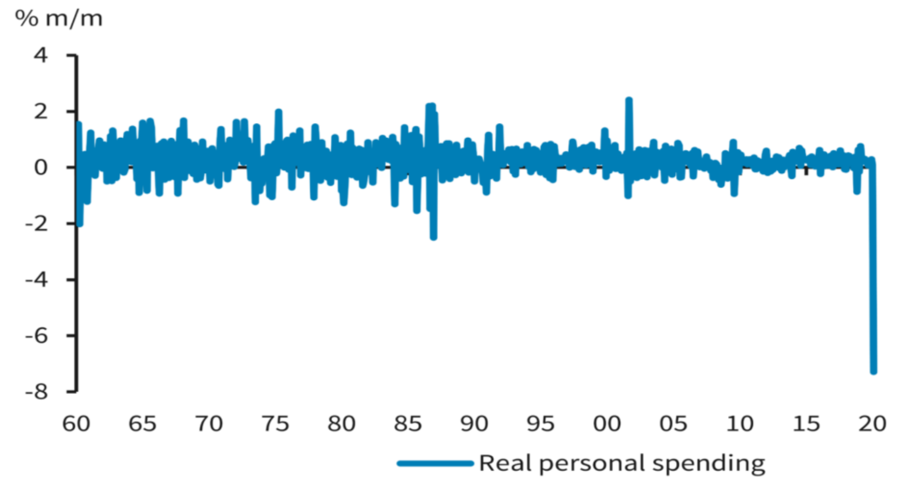



Source: Markit, ECB, Bloomberg, Datastream

# …as is consumer saving rate

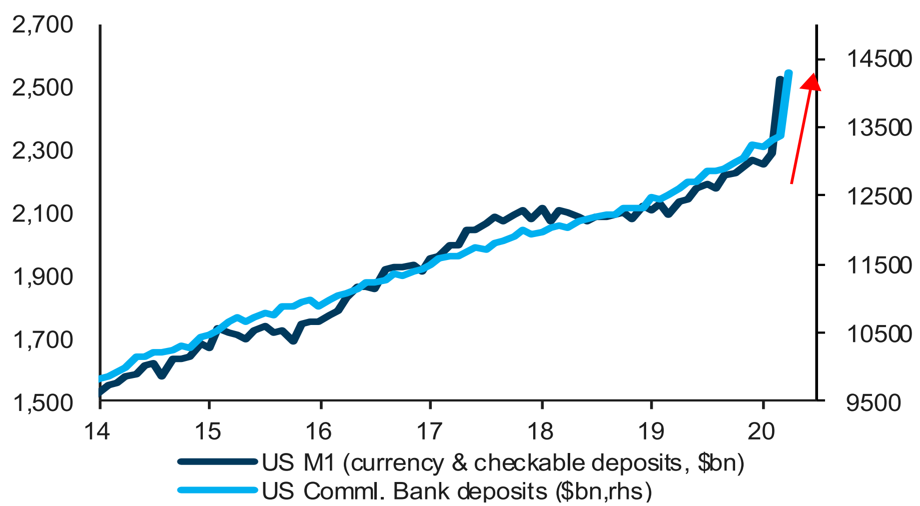
- With most of the world in lockdown, real personal spending fell to historically low levels.
- Meanwhile, furlough schemes are providing a temporary offset to rising unemployment, which leads to cash savings going up. The proportion of disposable income that is being held back has sharply increased.
- When restrictions are lifted, this pent-up demand may lead to a surge in some sort of 'revenge' spending from consumers, although much of that depends on the level of unemployment post lockdown.

**Personal spending has collapsed**



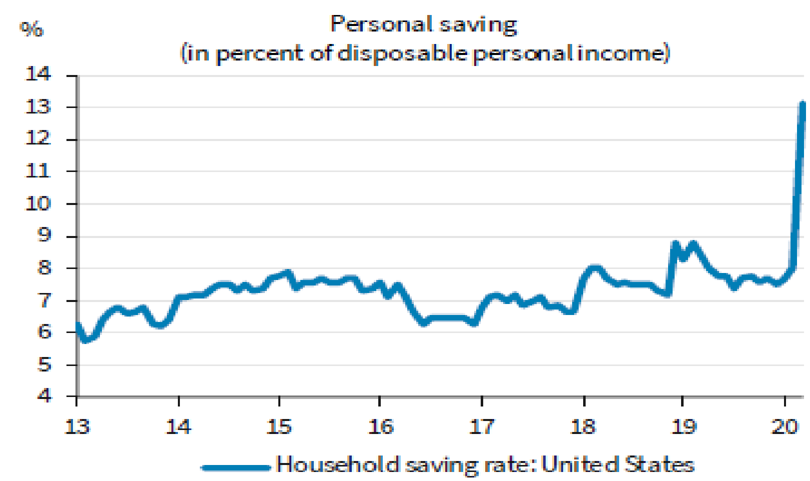

Source: Barclays Economics Research

**Cash savings have gone up significantly**




Source: Fed, Datastream

**Consumption is retrenching more than income, pushing saving rates higher**

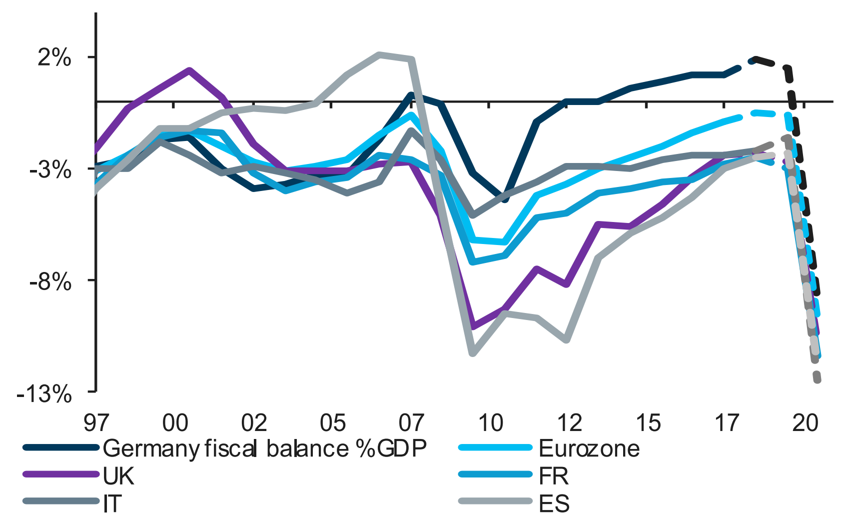



Source: BEA, Haver Analytics, Barclays Research

# 'War time' style fiscal response in Europe…

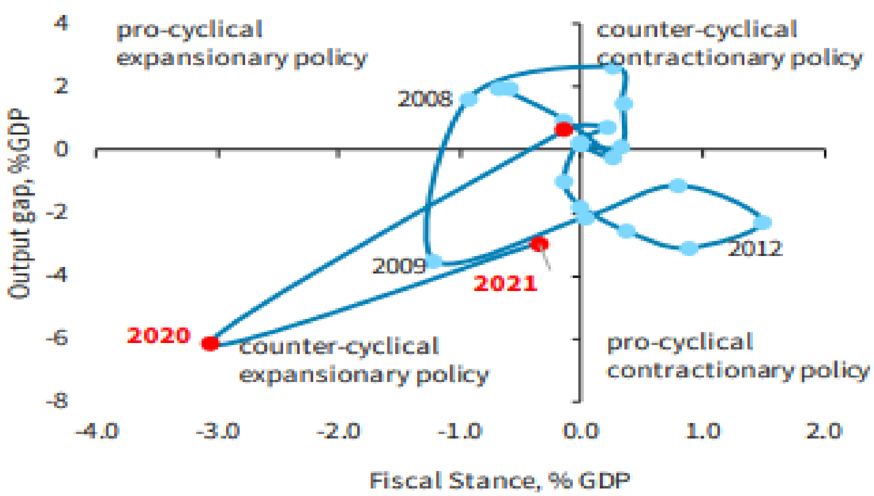
- Fiscally stronger countries like Germany and France have formulated robust national policy responses. The remaining key issue is the need for additional aid for the fiscally vulnerable economies like Italy and Spain, which will see large jumps in their public debt ratios as a result of the crisis.
- EU Leaders endorsed the €540bn package of short-term emergency measures agreed to by the Eurogroup to support the most vulnerable member states. They tasked the Commission to frame a proposal for the Recovery Fund tied with the next EU Budget.
- We estimate that euro area public deficit is likely to shoot up to 9.8% from an estimated 0.6% in 2019. Worst affected by this health crisis, Italy is likely to pay the highest price with the public deficit increasing to 12.5% of GDP.

**Fiscal deficits are widening sharply across the Eurozone**



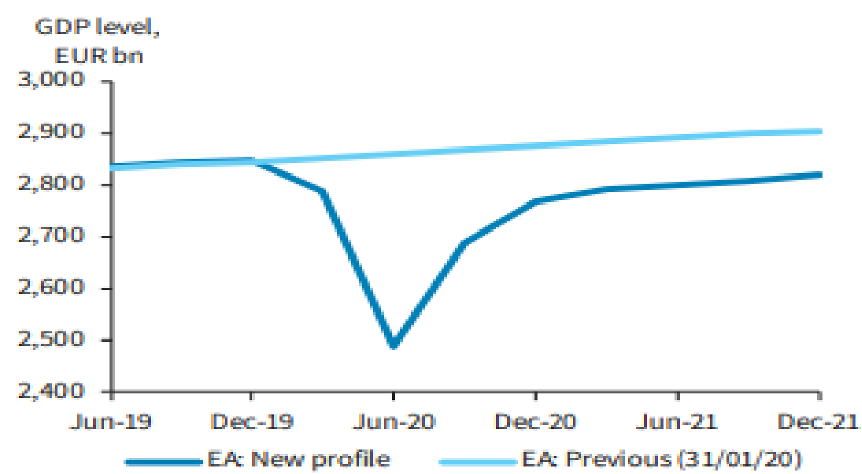

Source: Barclays Economic Research

**Europe's policy likely to be more decisive than in the past…**




Source: Barclays Economic Research

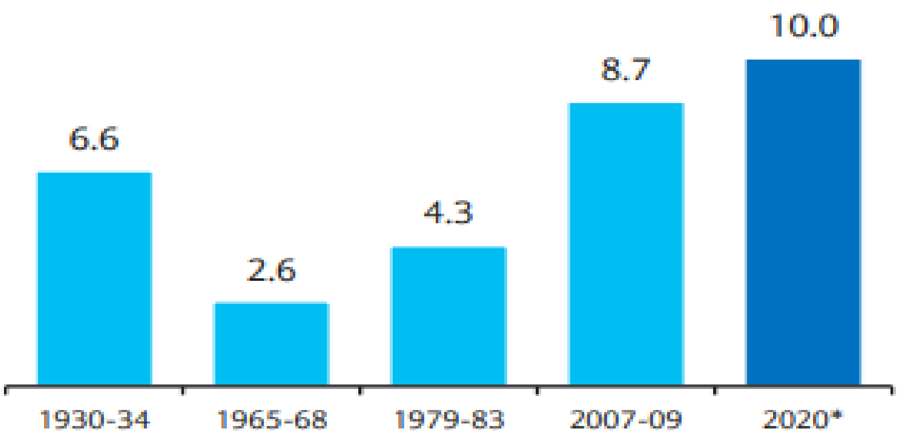
**…but the euro area economy will be hit hard, nevertheless**




Source: Barclays Economic Research

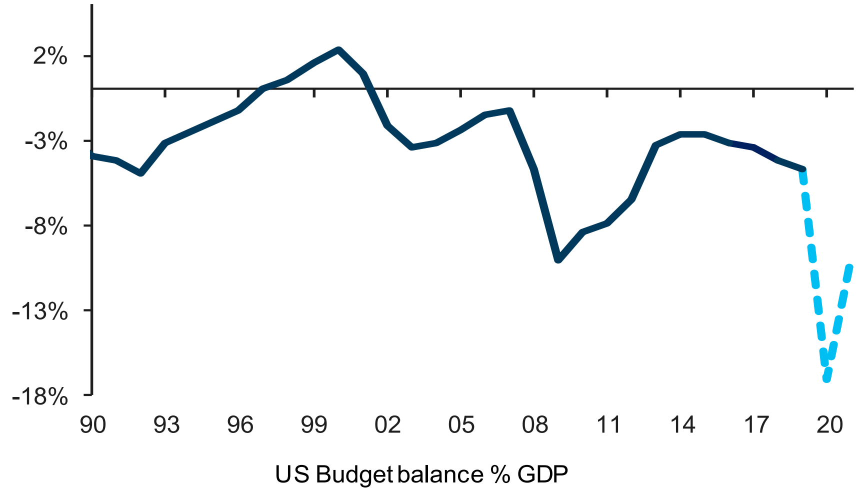
# …and in the US

## Congressional spending packages



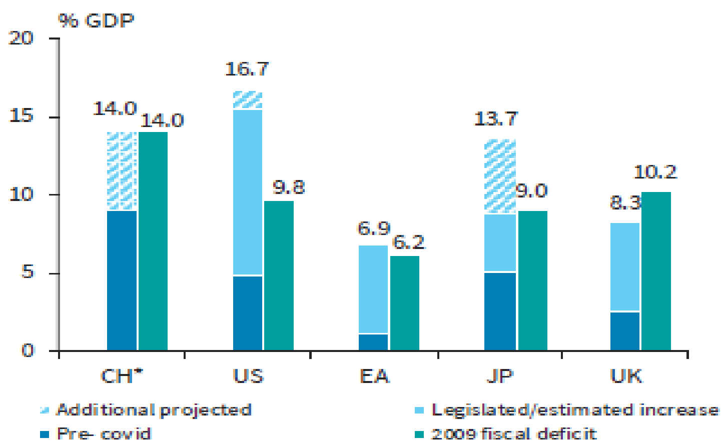

Source: Barclays Economic Research, * Total spending at $2.1 trillion, which is preliminary and subject to change. The other data points measure deficit increase

## The US to run a 'war time' like fiscal deficit



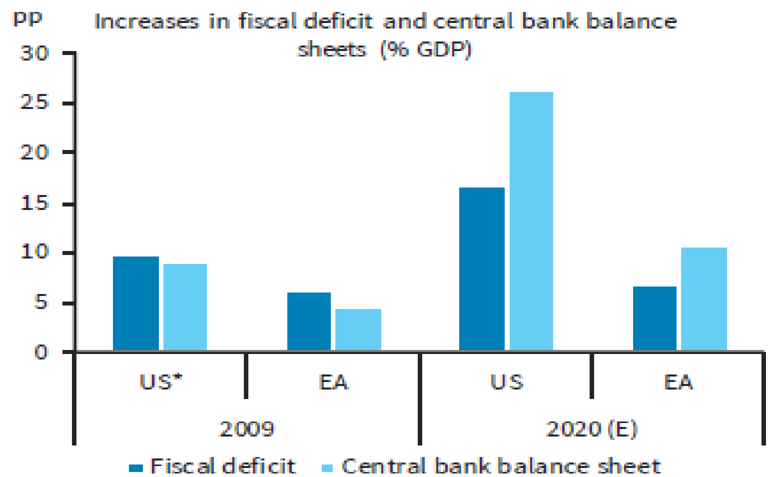

Source: Barclays Economic Research, dotted line denotes Barclays forecast

## Fiscal deficits bigger than in 2009…




Source: Barclays Economic Research; Note: *for China shows augmented fiscal deficit. Shaded area for additional fiscal measures not yet announced

## …including the parallel expansion of balance sheets

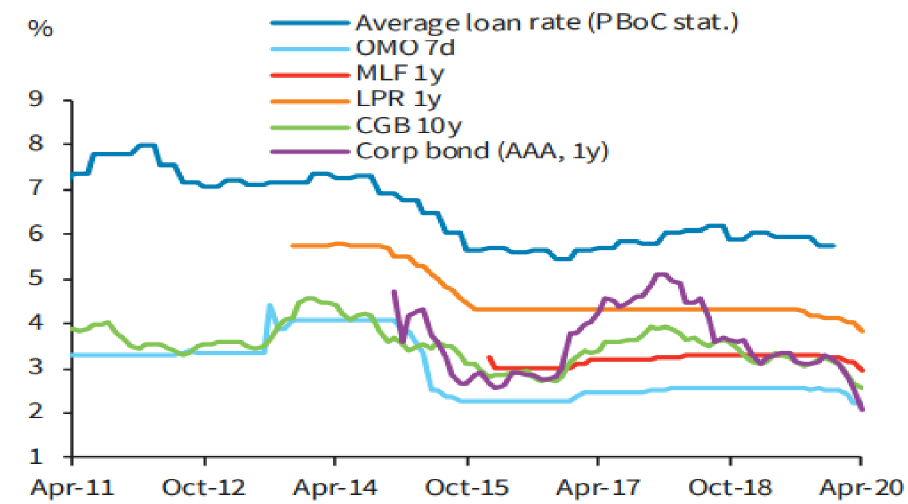



Source: Barclays Economic Research

# Growth stimulus now the top priority in China…

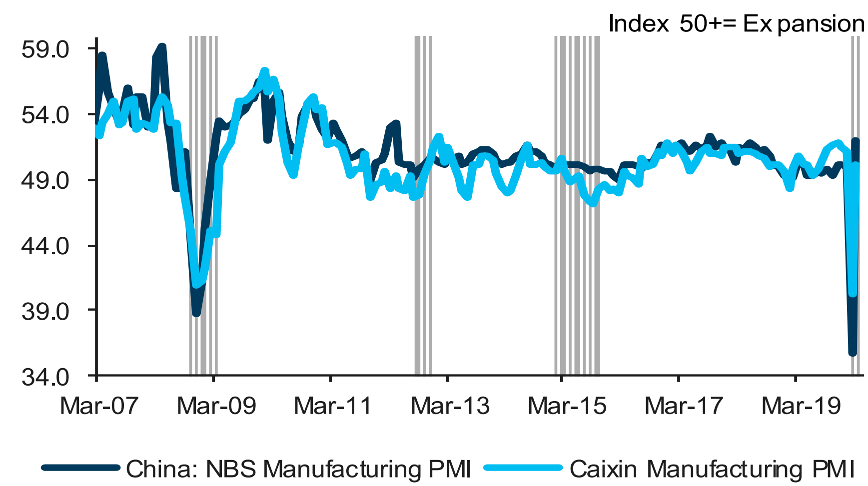
- April PMI prints confirmed that the recovery in manufacturing has stalled, largely due to slumping global demand, while services have continued to narrow the contraction.
- We expect the Chinese government to step up easing to mitigate the drag from coronavirus outbreak, especially in view of its signalling ‘stabilising growth’ as the priority for 2020 (versus de-leveraging and containing the housing bubble) even before the virus outbreak.
- Looking forward, we believe monetary policy will prioritise growth, with the focus on lowering financing costs and stabilizing credit growth.

**Our China economists expect further 30-50bp falls in policy rates**



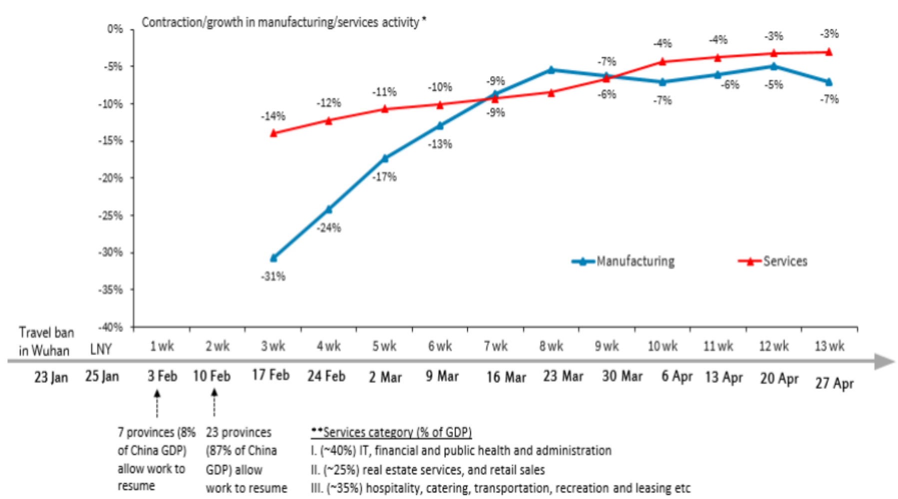

Source: Barclays Economics Research

**The PBoC tends to cut the benchmark deposit rate when PMI contracts sharply**




Note: shades mark benchmark rate cut cycles. Source: CEIC, Barclays Research

**Services recovered quicker than manufacturing in April**



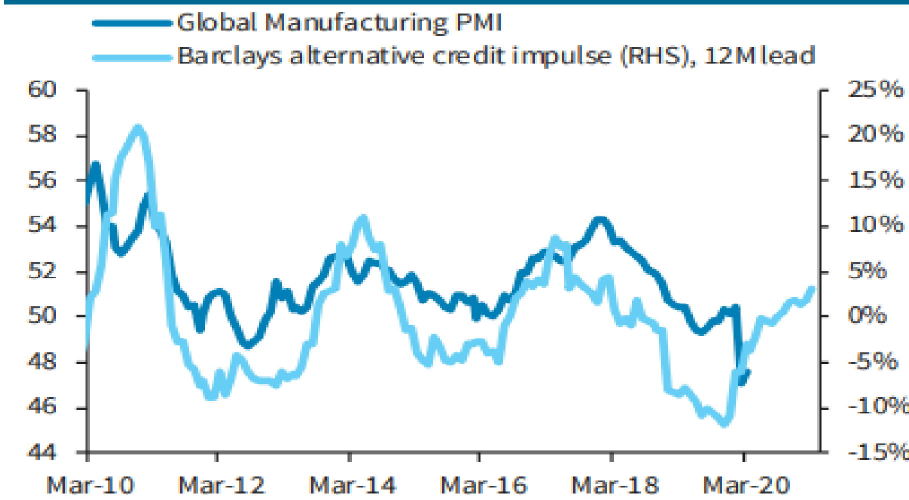

Source: Barclays Research

# …as both domestic and external demand are being hurt by COVID-19

## House prices have cooled down but not collapsed

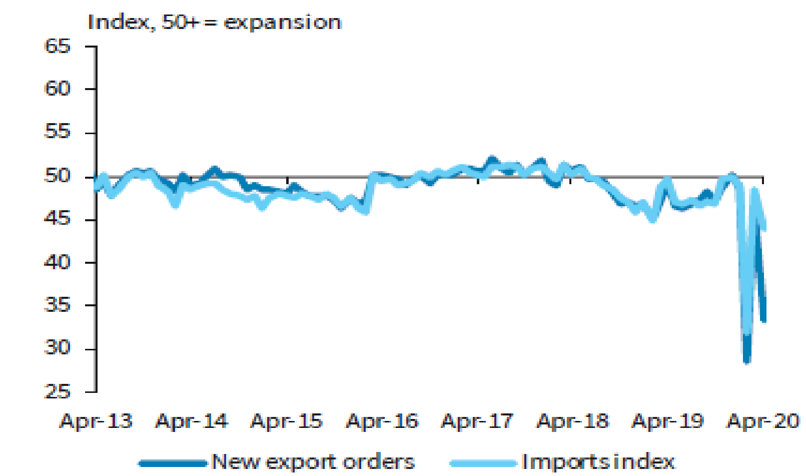

Source: BIS, Barclays Economics Research, Note: the gap is defined as debt/GDP - trend

## Credit impulse turned positive pre covid-19



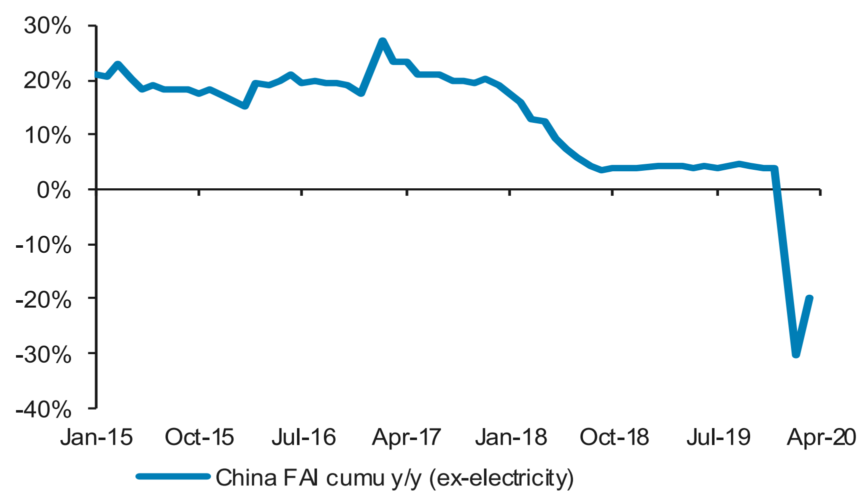

Source: Barclays Research

## Weak global demand is constraining the rebound in China




Source: CEIC, Barclays Economic Research

## China FAI recovered marginally in March from Feb lows




Source: Bloomberg

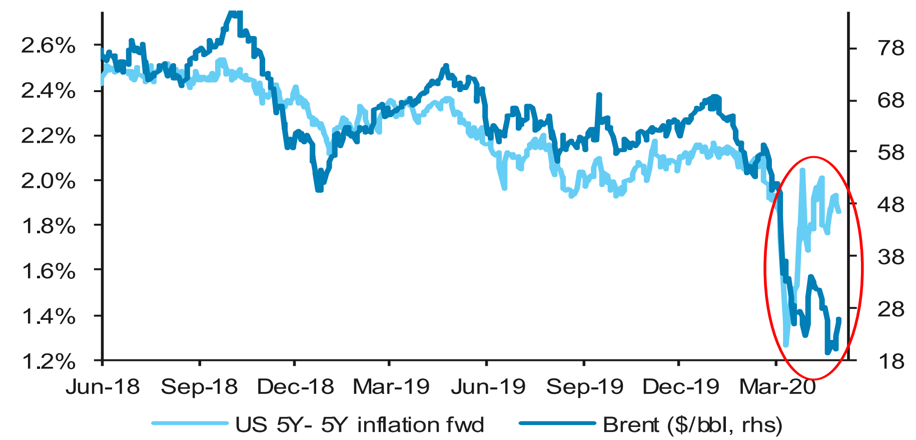
# Key policy and government announcements

| Country | Monetary Policy | Fiscal policy |
|---|---|---|
| Australia | • Central bank rate cut by 25bps on 3 March, additional measures of reduction in cash rate target to 0.25%, introduction of a A$90bn (4.5% of GDP) term funding facility for banks | • Total direct spending amounts to A$208.7bn (10.5% of GDP), measures include - Wage subsidies, direct cash transfers, supporting business cash flows, tax write offs |
| Canada | • Bank of Canada in three tranches has cut interest rates by 150bps to 0.25%, additional measures include expansion of repo operations. Retail banks announce mortgage-payment deferment facilities; relief for federally regualted pension plan sponsors | • Initial package of CAD 1.1bn targeting insurance sickness benefits and additional funding for health care; A new package of CAD 52bn to switch to larger wage subsidy scheme announced; Tax payment deferrals, targetted support for energy sector and innovative start-ups |
| China | • 1 & 5 year benchmark rat lowered by 10bp in Feb and another round of cuts in April up to 20bp, issuance of covid-19 bonds of CNY 135bn; Reduction in RRR in range of 50-100bp; Rediscounting loans of CNY 1tn to support SMEs | • Frontloading of infra projects, exemption for small scaled taxpayers and reduction of VAT rates on a range of products & services; tax carry forward facility for a few industries of up to 8 years |
| EU | • Asset purchase programme (APP) - a temporary envelope of €120bn until end of year; a new temporary APP of public and put sector securities worth €750bn<br>• Easing cap. requirements & collateral stds on major banks till Sep-2021, lowering of interest rates in TLTRO III until June 2021 | • €37bn CRII will accelerate implementation of cohesion policy, further enhancements have been made in CRII+<br>• Pandemic Crisis support credit lines up to 2% of respective country's GDP as a benchmark (about €240bn in total) |
| France | • Govt to provide €300bn of guarantees for company loans<br>• French bank regulator has decided to fully release CCB on 18 March; wider access to refinancing for SMEs | • Costs of fiscal package for households at around €16.5bn; postponements of social and fiscal deadlines early reimbursements of tax credits at €48.5bn |
| Germany | • Bank regulator declared its intention to reduce CCB from 0.25% to 0%<br>• Loans of €600bn to be disbursed touted as "Economy stabilisation fund" | • Overall fiscal measures well over €1tn (including €156bn from supp budget 2020) - widen access to social benefits, wage subsidies, recapitalisation measures |
| Spain | • Govt to provide €100bn of guarantees for company loans and €200bn in liquidity for companies and SMEs | • €138bn (of which €104bn is liquidity measures) and excluding other items not directly affecting the deficit amounts to around 1.1% of GDP. |
| Italy | • State guarantee for up to €10bn in new loans for SMEs, bank regulator temporarily allows banks to operate below Pillar 2 guidance, CCB and LCR | • Overall €25bn of measures inlcuding €3.2bn for health care: €10.3bn for employment and incomes and €5.1bn support to raise liquidity |
| Japan | • Wide range expansion in central bank buying, facilitating corporate financing through, increasing the upper limit to purchase CP and corporate bonds | • Addn package of JPY431bn on 10 March for Wage subsidies and emergency loans and credit guarantees for SMEs; On Apr 7, a new package of 4.6% GDP announced |
| UK | • Interest rates lowered from 0.75% to 0.15% in two steps on 11 and 19 March, increase BoE's holdings of public and pvt debt; Easing of cap requirements and restrictions on banks not to increase dividends or bonuses | • UK government has announced a GBP401.5bn (18.1% of GDP), measures include GBP 330bn of state loans and guarantees; VAT payments deferrals, additional funding for NHS |
| US | • FOMC lowered interest rates 100bps to 0-0.25%; large scale asset purchases of treasury securities and agency MBS will be unlimited<br>• Temporary dollar swap lines with an no. of central banks; 60 day moratorium on evictions and foreclosures for single family homeowners | • The CARES act will have a total cost of around $2tn or 9% of GDP - Direct payments of $1200 for each adult and $500 for children; increase in unemployment insurance benefits. For companies a range of tax reductions and deferrals |

Source: Central banks, OECD, Bloomberg, Barclays Economic Research

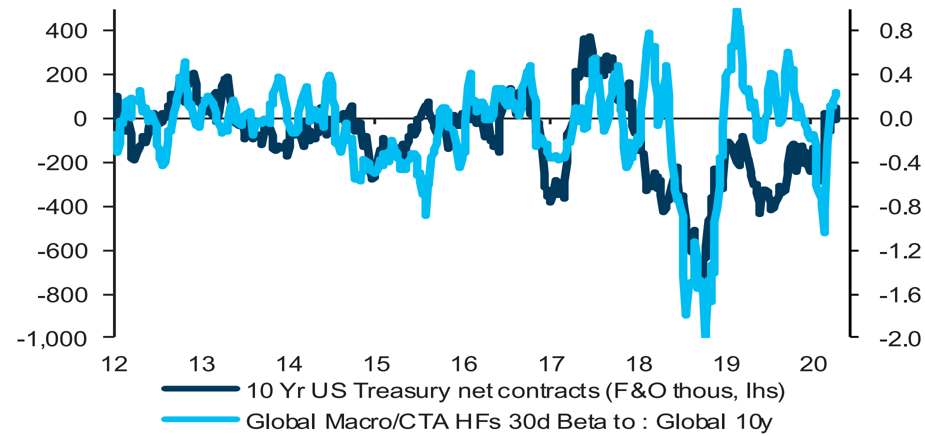
# Bund yield and inflation forwards are off the lows

## Inflation forwards have rebounded and decoupled from oil



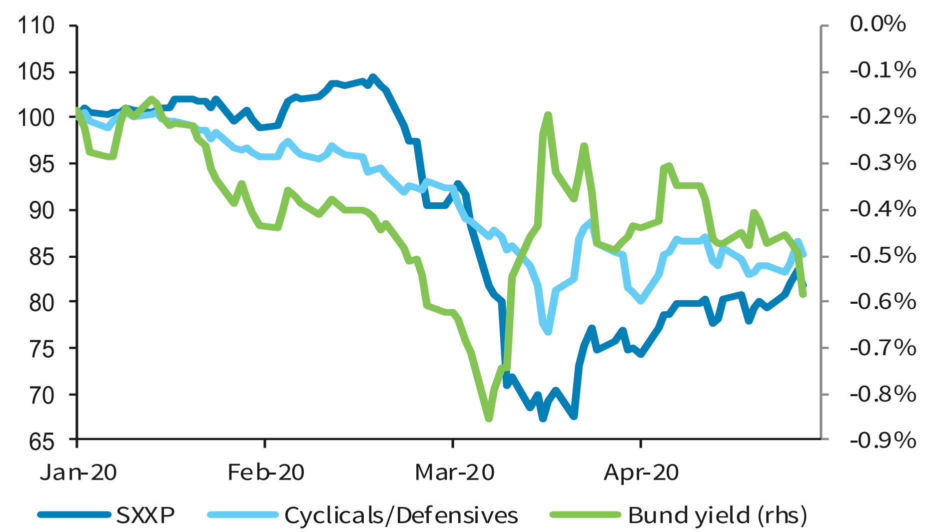

Source: Bloomberg

## Macro HFs/CTAs have closed their shorts on Treasuries



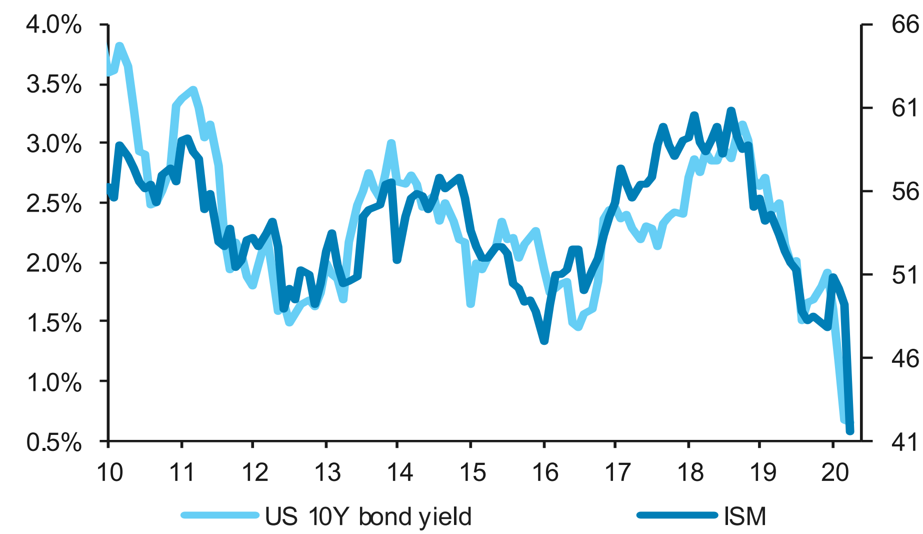

Source: Bloomberg, Barclays Research

## Bund yield rebounded with equities, but have stalled lately




Source: Datastream

## US bond yields fell in line with ISM

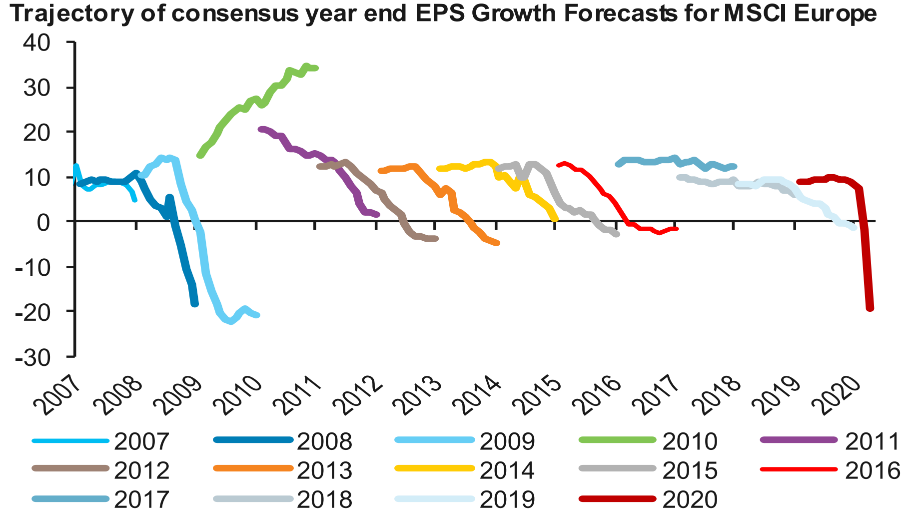



Source: Bloomberg

# Earnings
## Downgrades coming (very) fast

- FY20 estimates have fallen precipitously in most regions into deeply negative territory.
- The expected contraction in EPS growth rate is already at levels seen in 2008-09.
- The pace and magnitude of earnings cuts have been much greater this time around, although the collapse in activity suggests there might still be more to go.

**Earnings estimates being revised sharply, unlike previous years**




Source: Datastream, IBES

**IBES consensus sharply down ytd…**

| EPS y/y | Latest | on Dec 31, 2019 | 2019 | 2018 |
|---|---|---|---|---|
| | 2020e | 2020e | | |
| MSCI World | -15.0% | 8.9% | -1.4% | 15.8% |
| US | -16.1% | 9.4% | 1.4% | 24.0% |
| Europe | -19.3% | 8.9% | -2.5% | 6.9% |
| UK | -26.7% | 6.8% | -5.4% | 10.4% |
| Eurozone | -18.3% | 10.2% | -4.3% | 4.3% |
| Germany | -14.0% | 11.3% | -10.3% | -4.1% |
| France | -22.4% | 11.8% | -3.4% | 9.3% |
| Italy | -26.9% | 5.2% | 4.2% | 20.4% |
| Spain | -19.6% | 10.5% | -8.0% | 7.2% |
| Japan | 7.1% | 8.8% | -4.9% | 3.2% |
| EM | 3.2% | 15.0% | -2.9% | 12.1% |

Source: IBES

**…led by Cyclicals**

| | Europe | | | |
|---|---|---|---|---|
| | EPS growth% | | Sales growth% | |
| | 2020E | 2021E | 2020E | 2021E |
| C Disc | -35.1% | 56.1% | -10.3% | 9.7% |
| C Staples | -4.1% | 9.2% | -0.7% | 3.3% |
| Energy | -68.3% | 127.5% | -27.2% | 15.6% |
| H Care | 2.0% | 11.5% | 4.3% | 5.4% |
| Industrials | -24.9% | 30.8% | -7.9% | 6.8% |
| Financials | -22.2% | 20.9% | -2.7% | 2.4% |
| Info Tech | -6.9% | 27.4% | 1.3% | 8.4% |
| Materials | -19.9% | 22.7% | -8.4% | 5.8% |
| Telecom | -4.0% | 13.3% | -1.2% | 2.4% |
| Utilities | 8.4% | 7.6% | 16.7% | 4.4% |
| Real Estate | -3.9% | 7.5% | 5.2% | 3.4% |
| Market | -19.3% | 24.0% | -6.5% | 6.3% |
| Ex Energy | -14.9% | 20.6% | -3.2% | 5.2% |
| Ex Fin | -18.2% | 25.0% | -7.4% | 7.3% |
| Cyclicals | -24.5% | 34.8% | -8.3% | 7.6% |
| Defensives | -0.2% | 10.4% | 3.9% | 3.8% |

Source: Datastream, IBES

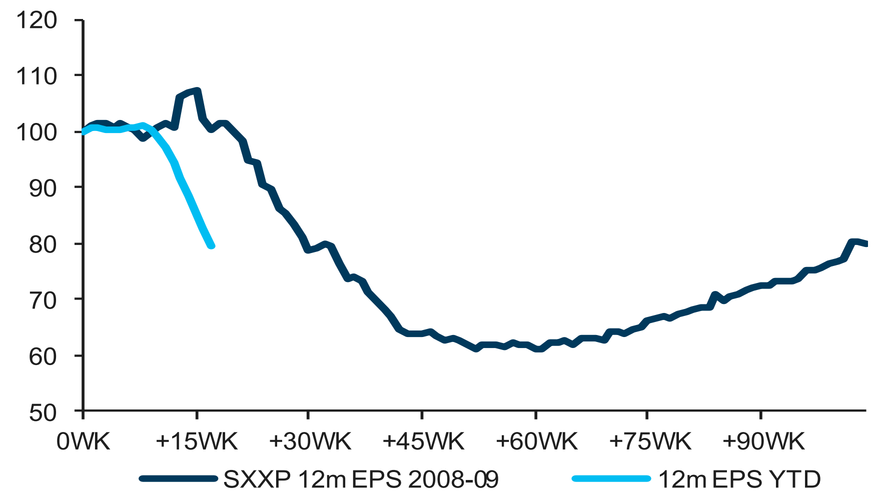
# EPS revisions are the most negative on record

## IBES estimates for 2020 are now in line with 2008-09 levels

| EPS y/y | 2020 Latest | 2020 as of Dec 31, 2019 | 2021 | 2008 | 2009 |
|---|---|---|---|---|---|
| **MSCI World** | **-15.0%** | **8.9%** | **22.6%** | **-13.3%** | **-3.6%** |
| **US** | **-16.1%** | **9.4%** | **23.9%** | **-8.8%** | **1.3%** |
| **Europe** | **-19.3%** | **8.9%** | **24.0%** | **-13.9%** | **-20.5%** |
| UK | -26.7% | 6.8% | 25.0% | -4.6% | -31.2% |
| Eurozone | -18.3% | 10.2% | 26.2% | -14.3% | -24.0% |
| France | -22.4% | 11.8% | 28.7% | -3.2% | -32.5% |
| Germany | -14.0% | 11.3% | 32.7% | -25.0% | -16.5% |
| Italy | -26.9% | 5.2% | 24.1% | -4.4% | -42.5% |
| Spain | -19.6% | 10.5% | 17.2% | 5.1% | -10.6% |
| **Japan** | **7.1%** | **9.8%** | **15.8%** | **-38.0%** | **n/a** |
| **EM** | **3.2%** | **15.0%** | **20.4%** | **-1.2%** | **0.2%** |
| Brazil | -12.3% | 22.8% | 28.4% | 22.0% | -5.8% |
| Russia | -27.2% | 1.1% | 17.4% | 17.3% | -35.3% |
| India | 12.0% | 23.9% | 23.0% | 1.6% | 10.6% |
| China | 3.8% | 12.1% | 17.8% | 2.2% | 14.7% |

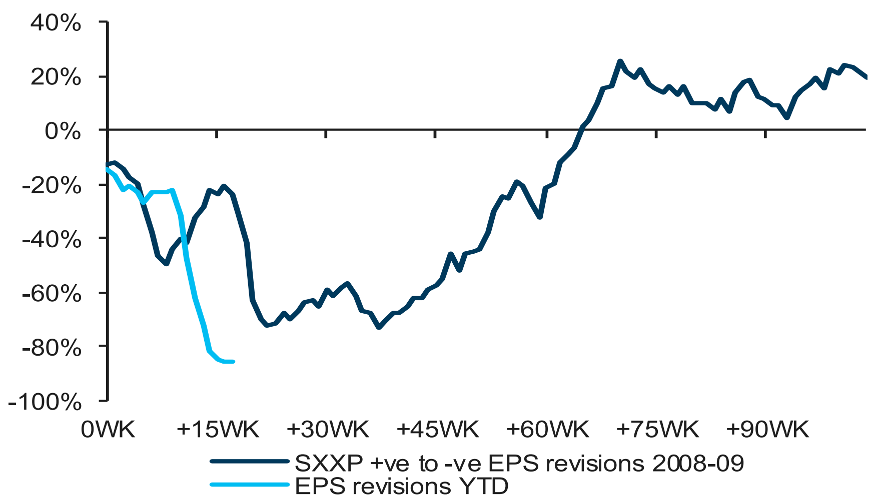
Source: IBES

## SXXP Fwd EPS momentum now vs. 2008-09



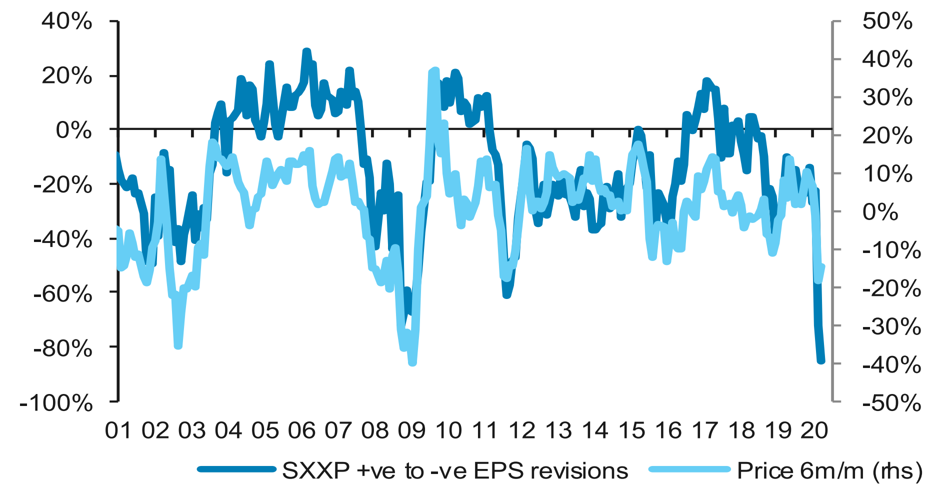

Source: IBES

## The ratio of EPS upgrades to downgrades for SXXP is currently at -86%, lower than 2008-09 lows…




Source: IBES

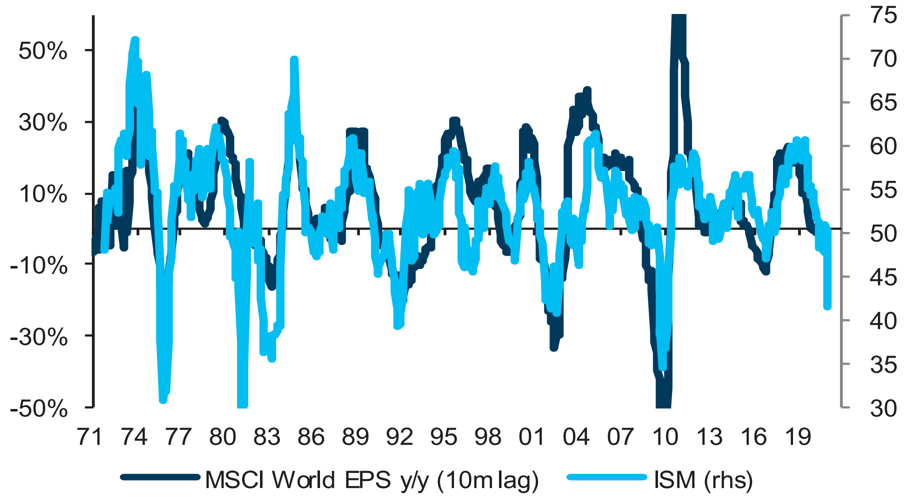
## …but equity market performance has not fallen as much as EPS revisions




Source: IBES

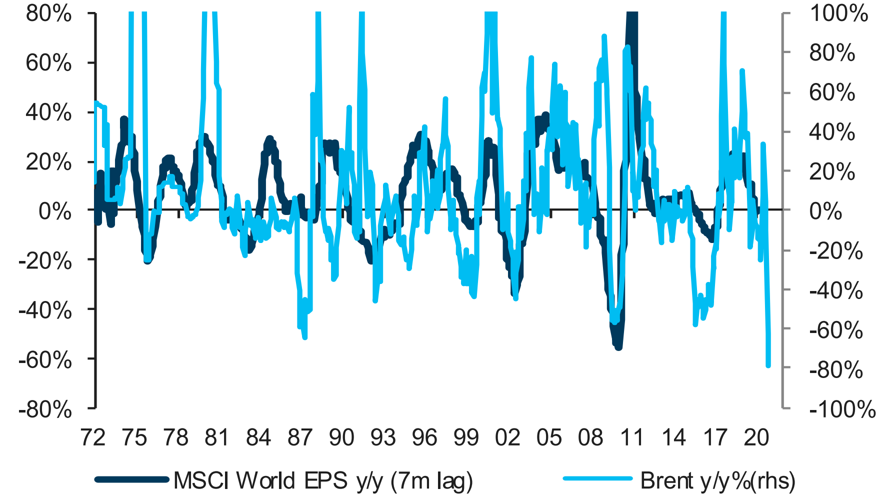
# Top-line indicators in free fall…

## MSCI World EPS growth vs ISM



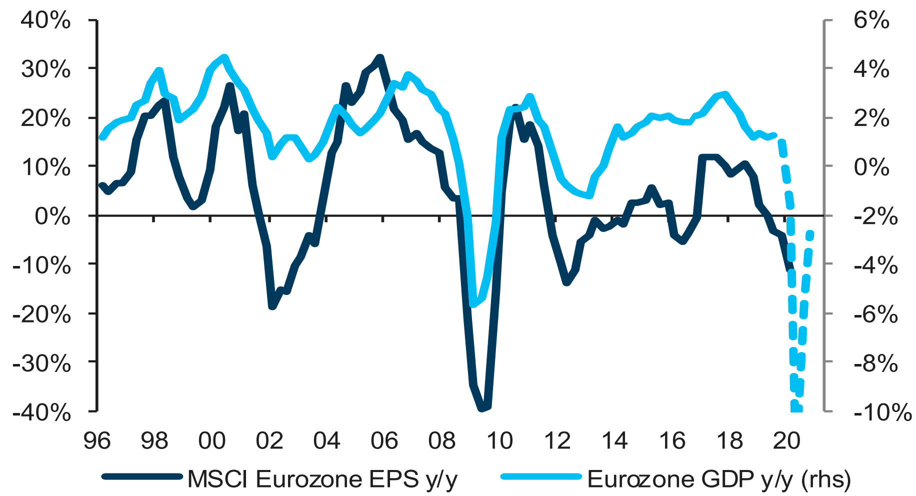

Source: Datastream

## A 10% fall in oil price lowers MSCI World EPS by about 8%



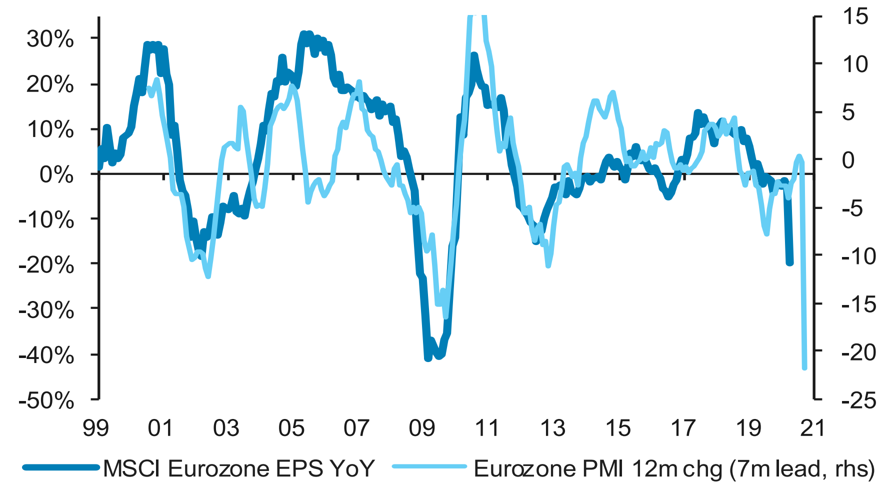

Source: Datastream, Bloomberg

## GDP growth matters for EPS growth




Source: IBES, Barclays Research

## Eurozone PMI points to deeply negative EPS growth

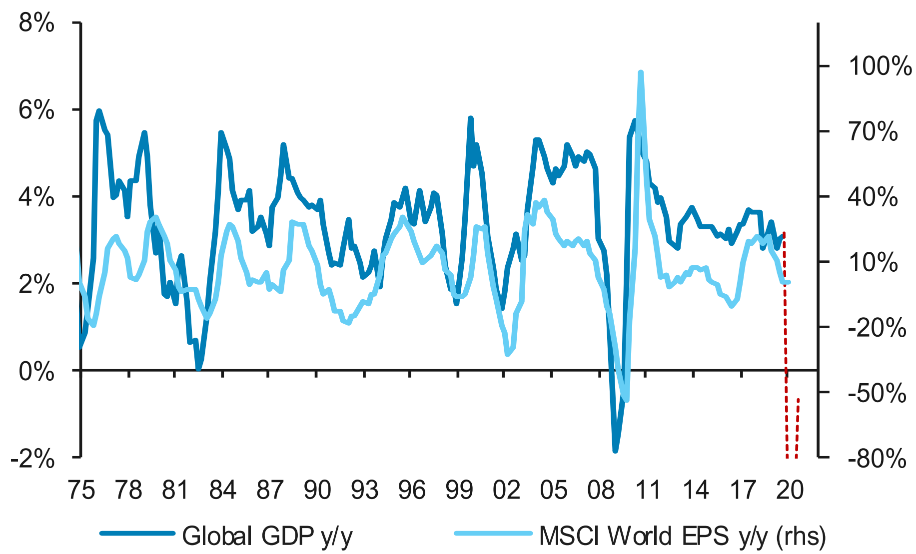



Source: IBES, Bloomberg

# …earnings follow GDP

- As a rule of thumb, the Global GDP threshold required for earnings to grow is 3%.
- The median EPS growth rate observed in Europe when global GDP growth was below 2% is around -10%.
- Our economists' recently lowered forecast of -3.3% global GDP growth for 2020 is without precedent in the last 50 years, which implies that the earnings fall could also be unprecedented.

**Global GDP growth vs EPS growth**




Source: Bloomberg, Datastream

**EPS growth in different Global GDP growth regimes**

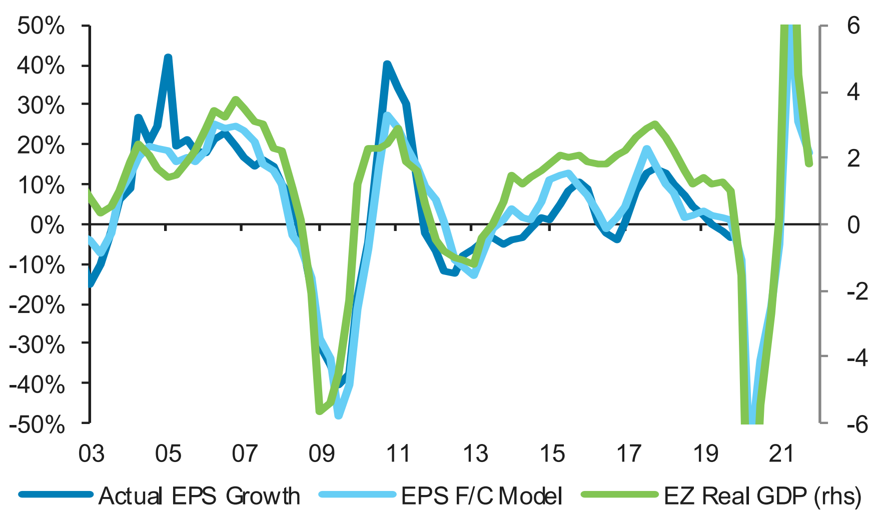
| Global Real GDP y/y | MSCI World EPS y/y | MSCI US EPS y/y | MSCI Europe EPS y/y |
|---|---|---|---|
| **<2%** | **-6.6%** | **-4.7%** | **-1.4%** |
| 2-2.5% | -8.2% | -3.1% | -9.5% |
| 2.5-3% | -4.4% | 2.1% | -9.4% |
| 3-3.5% | 1.7% | 2.2% | 3.6% |
| 3.5-4% | 12.8% | 9.2% | 13.3% |
| 4-5% | 17.5% | 13.7% | 18.1% |
| >5% | 14.5% | 15.9% | 10.3% |

Source: Datastream, median trailing EPS growth

# Earnings to fall 30-40% in 2020…and to rebound in 2021

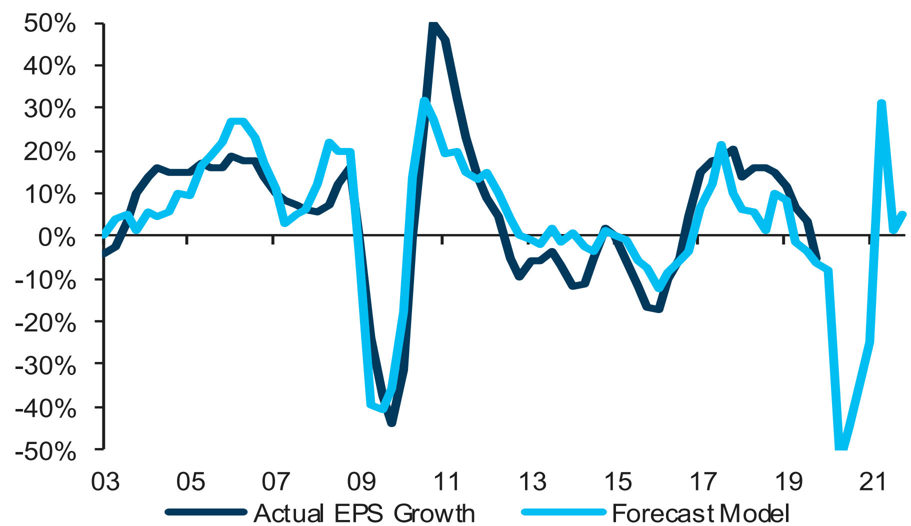
- Our earnings models use as inputs GDP growth, commodity prices, FX rates, and a profit margin proxy. The largest contributor to EPS growth in the models is GDP growth, with commodity, FX and margin nuancing the output produced.
- Using the latest estimates from our colleagues for these inputs in 2020, we get Euro Stoxx (SXXE) earnings down 35% (average of quarterly forecasts), and FTSE 100 (which has more commodities, particularly oil) down ~40%. Euro Stoxx earnings were down ~-40%, and FTSE 100 -45%, on a y/y basis at their nadir in 2009, so the model forecasts for 2020 are not unprecedented.
- For 2021, we forecast EPS to rebound, but these are of a lower magnitude than the drops in 2020, with Euro Stoxx up 25% and FTSE 100 rebounding 15%. Our forecast FTSE 100 rebound is lower at least in part by the continuing lower oil price our analysts are forecasting.

**Euro Stoxx (SXXE) EPS model shows plunge in 2020, followed by significant rebound in 2021**




Source: Refinitiv, Bloomberg, Barclays Research

**FTSE 100 EPS model shows similar 2020 plunge before rebounding in 2021 but is further hindered by lower oil**

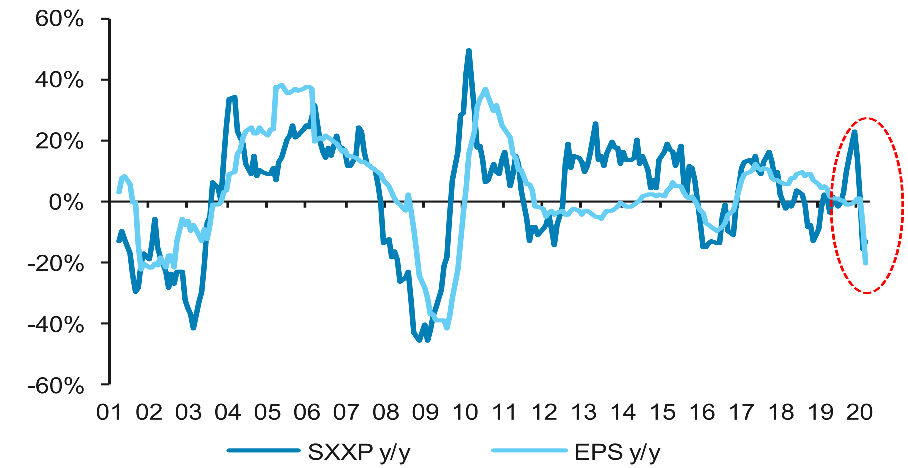



Source: Refinitiv, Bloomberg, Barclays Research

# In 2009, equities rebounded with PMI, ahead of EPS momentum

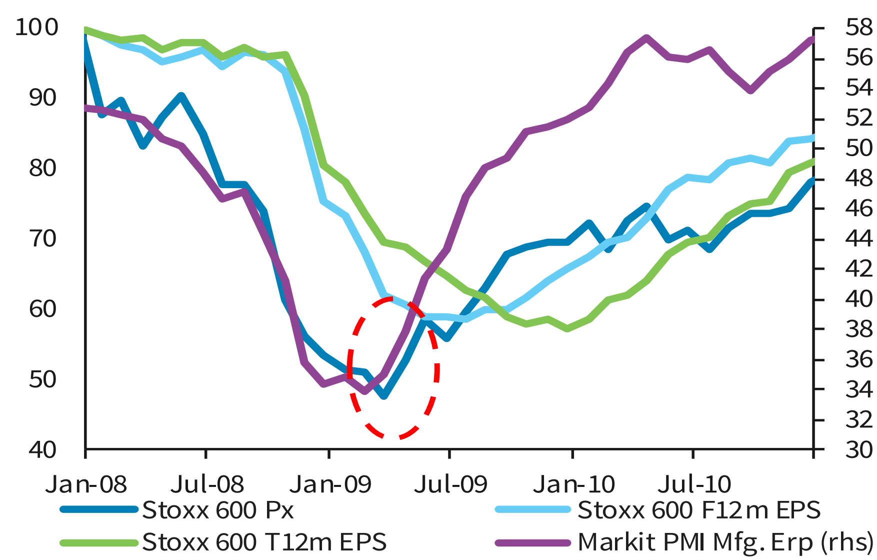
- The recent 35% peak-to-trough move in SXXP was less severe than the 60% fall of 2008-09.
- We note that back then, the equity market bottomed in March ’09, roughly at the same time as PMI, but five months ahead of the turn in EPS momentum and 10 months before the downgrades ended.

**Markets initially fell significantly, pricing a deep cut to EPS this year, but have since recovered some lost ground**



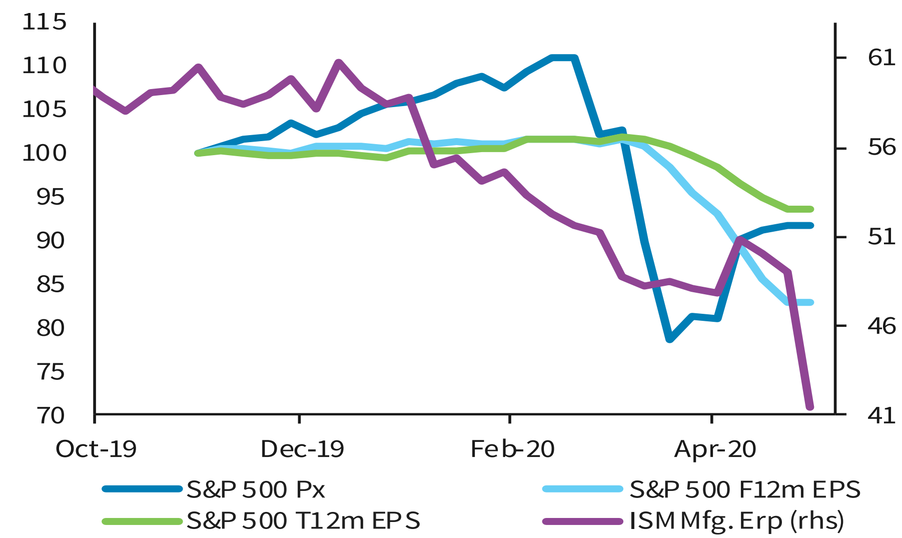

Source: Datastream

**Equities troughed ahead of earnings and with forward-looking indicators like PMIs in 2009**




Source: Refinitiv

**Earnings estimates are yet to be adjusted lower, but the market fall looks consistent with the drop in PMIs**




Source: Refinitiv

# Q1 results as bad as expected

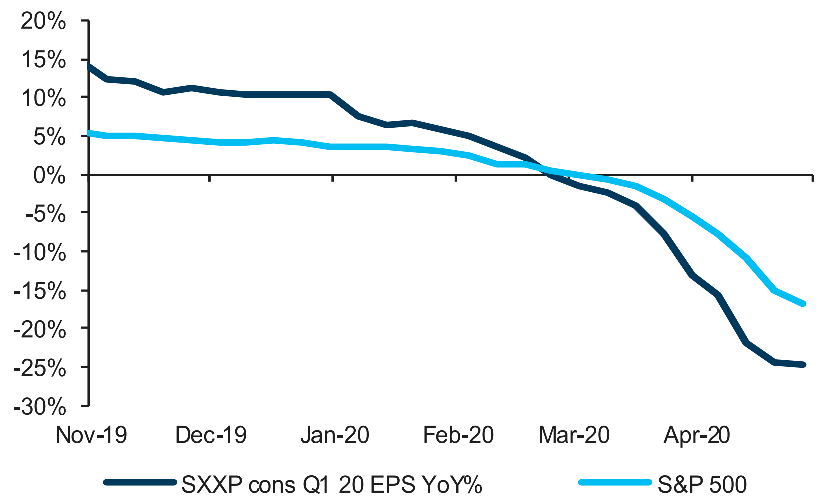
- Midway into the earnings season, Q1 EPS growth is coming in at -13% y/y in the US and -30% in Europe, which is the lowest since GFC.
- The poor results have not come as a surprise to the markets and share price reaction has been generally positive.
- Forecasts for the remaining quarters in 2020 have fallen sharply since the start of the reporting season.

## Q1 results snapshot

| Results snapshot | SXXP | | | | SPX | | | |
|---|---|---|---|---|---|---|---|---|
| | Sales y/y | Sales beats | EPS y/y | EPS beats | Sales y/y | Sales beats | EPS y/y | EPS beats |
| Energy | -18.9% | 45% | -60.6% | 20% | -11.4% | 47% | -1.6% | 80% |
| Materials | -2.0% | 73% | -26.9% | 67% | -8.0% | 54% | -27.3% | 83% |
| Industrials | -5.0% | 81% | -35.6% | 63% | -10.2% | 57% | -37.7% | 70% |
| Tech | 4.5% | 55% | 7.7% | 45% | 5.6% | 83% | 12.3% | 79% |
| Cons. Disc. | -7.4% | 63% | -75.6% | 71% | 6.5% | 76% | -49.4% | 68% |
| Comm. Svcs. | 1.8% | 78% | -25.1% | 56% | 5.0% | 64% | 8.5% | 80% |
| Cons. Stap. | 8.3% | 83% | 41.0% | 67% | 3.8% | 70% | 3.9% | 85% |
| Healthcare | 13.9% | 91% | 17.5% | 70% | 10.8% | 81% | 8.8% | 81% |
| Utilities | -11.3% | 17% | 18.0% | 20% | -2.3% | 0% | 14.5% | 78% |
| Financials | -0.6% | 48% | -32.8% | 55% | 0.4% | 52% | -46.0% | 47% |
| **Market** | **-7.0%** | **63%** | **-30.5%** | **54%** | **0.8%** | **63%** | **-13.0%** | **70%** |
| **Market ex Energy** | **-1.9%** | **65%** | **-24.7%** | **57%** | **2.3%** | **64%** | **-13.4%** | **70%** |
| **Market ex Fins** | **-8.2%** | **68%** | **-29.4%** | **54%** | **0.9%** | **66%** | **-2.4%** | **77%** |
| **Cyclicals** | **-4.8%** | **72%** | **-44.4%** | **61%** | **-1.5%** | **67%** | **-14.5%** | **73%** |
| **Defensives** | **5.1%** | **72%** | **13.4%** | **57%** | **6.9%** | **67%** | **8.1%** | **81%** |

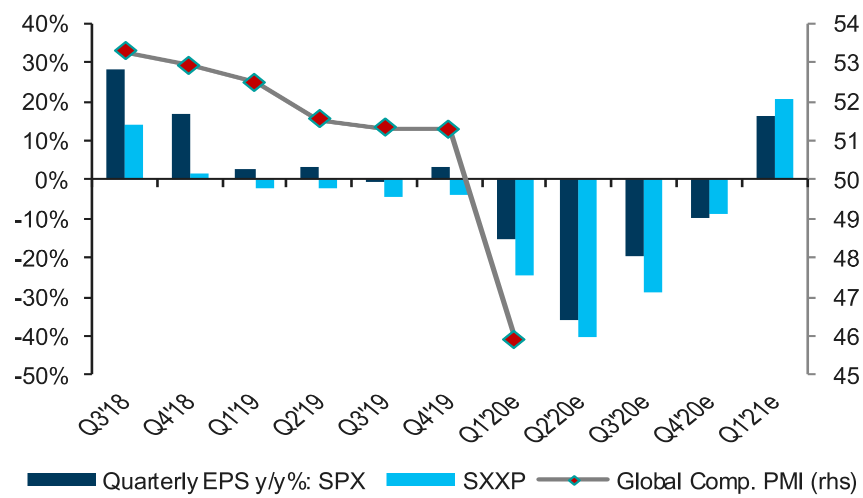
Source: Bloomberg, Barclays Research

## Estimates have fallen sharply in Europe and US for Q1…




Source: Refinitiv, Datastream

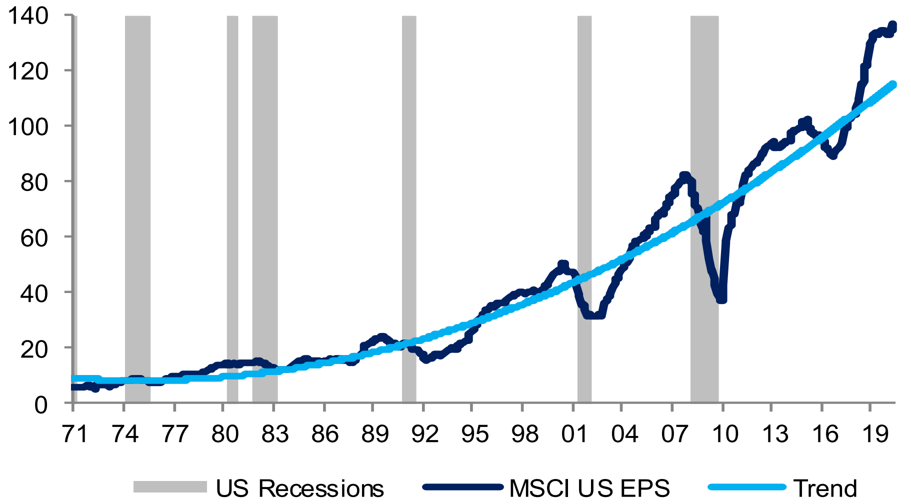
## …and Q2 is expected to be even worse




Source: Refinitiv, Datastream

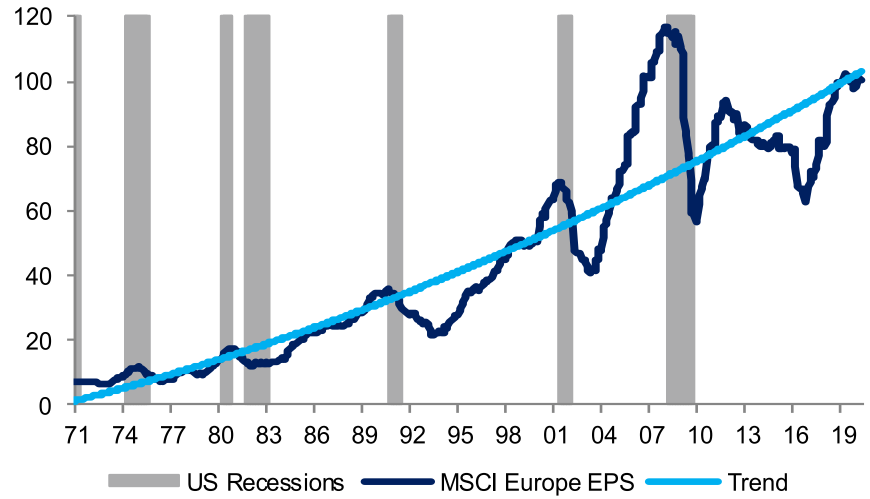
# Earnings are the key long-term driver of equities

## Trailing earnings are well above the trend in the US...



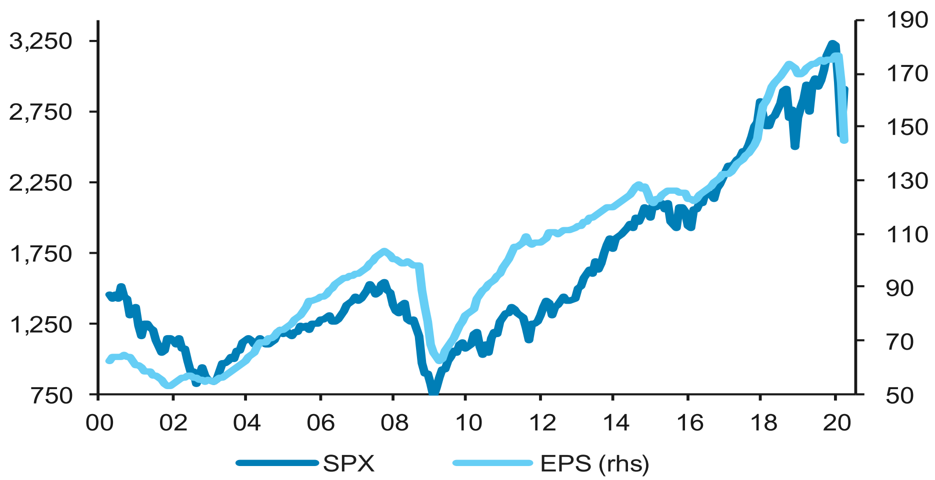

Source: Datastream, NBER

## ...and are far from being depressed in Europe



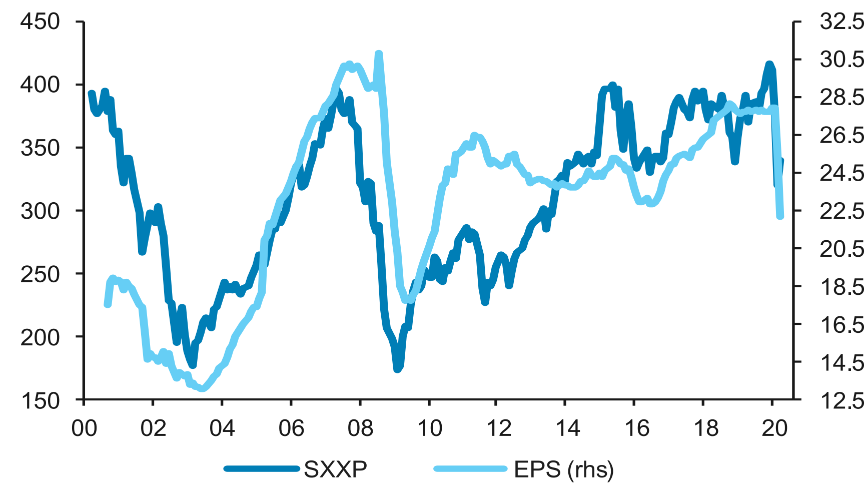

Source: Datastream, NBER

## Over the long run, equities move with earnings, in the US…




Source: IBES, Refinitiv

## …and in Europe

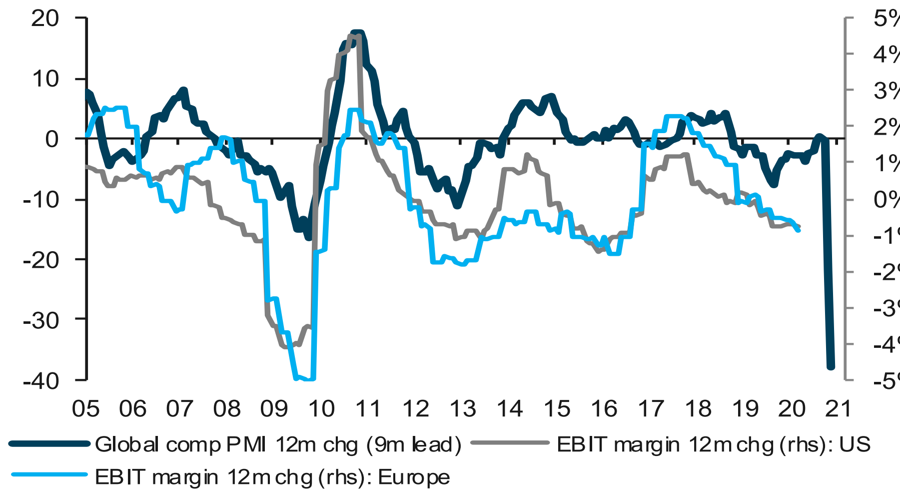



Source: IBES, Refinitiv

# Profit margins follow activity momentum

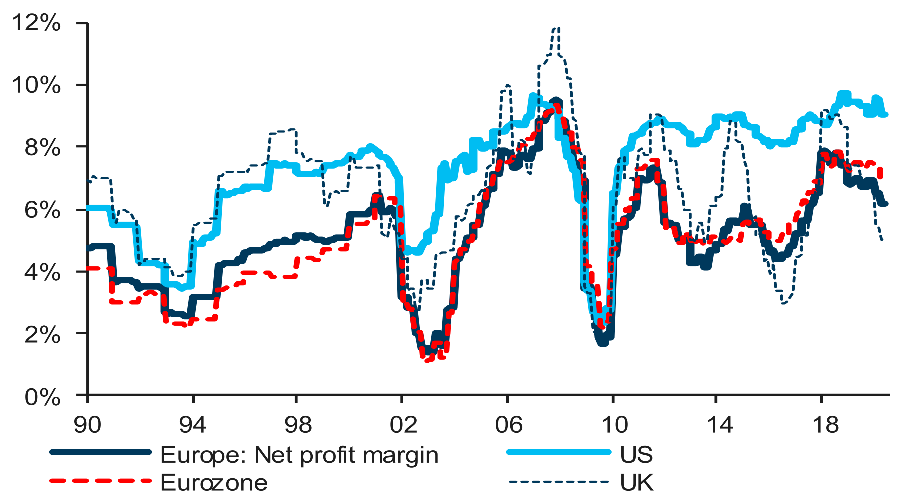
- Profit margins typically follow activity momentum and are thus likely to fall sharply this year in all the main regions.

**Profit Margins move with activity momentum**



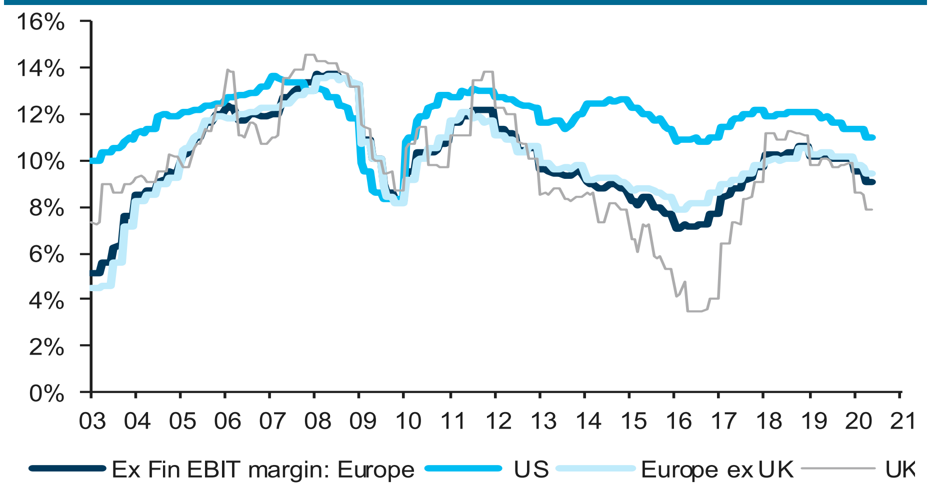

Source: Datastream, Barclays Research

**Net profit margins should fall sharply…**




Source: Worldscope, Barclays Research

**…and operating margins too**




Source: Worldscope, Barclays Research

BARCLAYS

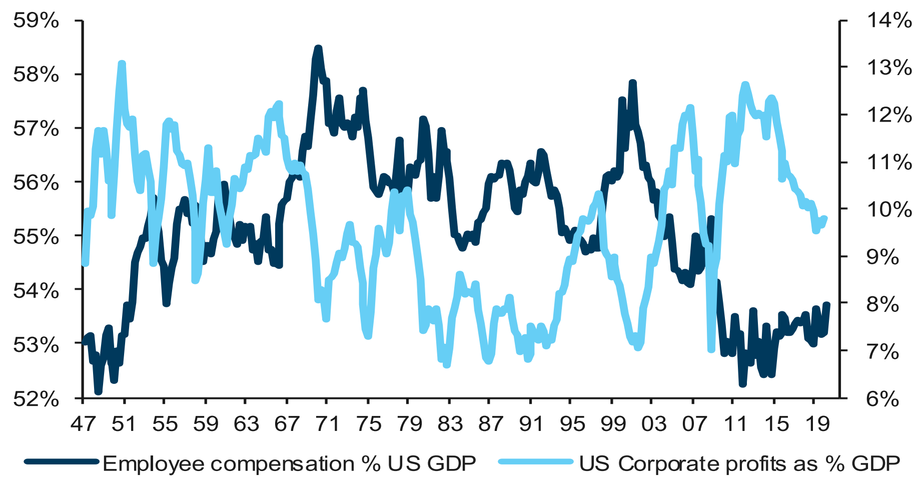


Restricted - External

May 05, 2020

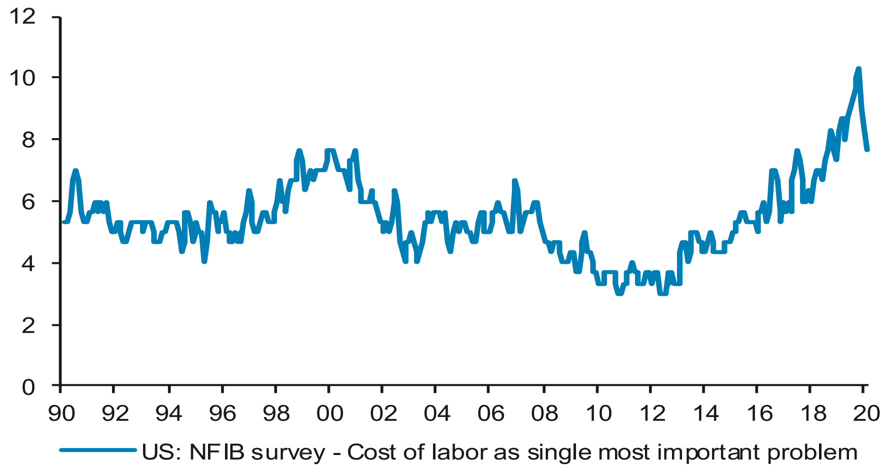
# Falling NIPA margins and rising labour costs were flashing red for some time

## The gap between US profit and wage shares of GDP was elevated but is narrowing



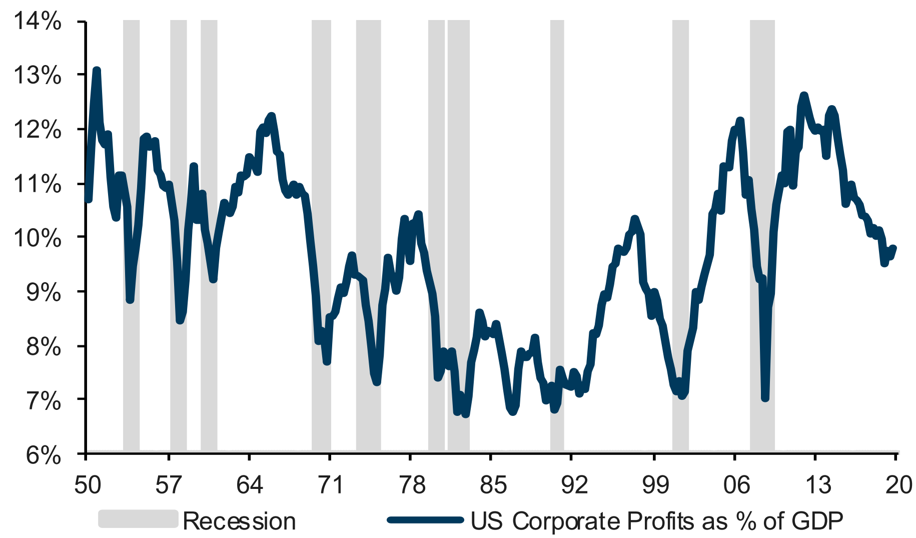

Source: BEA

## Rising labour costs were problematic for US SMEs




Source: Bloomberg

## US corporate profit share of GDP has been rolling over for a while…




Source: BEA, NBER

## …which typically precedes recessions

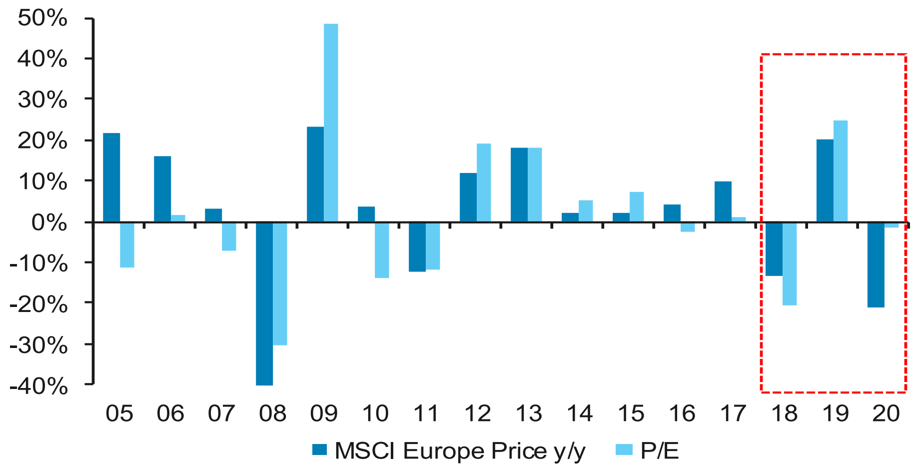
| Margins peak date | Recession start date | Cycle peak in margins | Level @ start of recession (as % of peak margin) | # of Qtr's from peak margins to recession |
|---|---|---|---|---|
| Q4 '50 | Q3 '53 | 13.1% | 81% | 8 |
| Q2 '55 | Q3 '57 | 11.9% | 87% | 7 |
| Q2 '59 | Q2 '60 | 11.3% | 90% | 3 |
| Q1 '66 | Q4 '69 | 12.2% | 73% | 11 |
| Q1 '73 | Q4 '73 | 9.7% | 95% | 2 |
| Q4 '78 | Q1 '80 | 10.4% | 82% | 4 |
| Q3 '81 | Q3 '81 | 7.9% | 100% | 0 |
| Q1 '84 | Q3 '90 | 8.6% | 79% | 20 |
| Q3 '97 | Q1 '01 | 10.4% | 69% | 11 |
| Q3 '06 | Q4 '07 | 12.2% | 83% | 4 |
| *Q1 '12* | | *12.6%* | *75% of peak at current level* | |
| **Median** | | **10.9%** | **82%** | **5** |
| **Average** | | **10.8%** | **84%** | **7** |

Source: Barclays Research

# Valuations

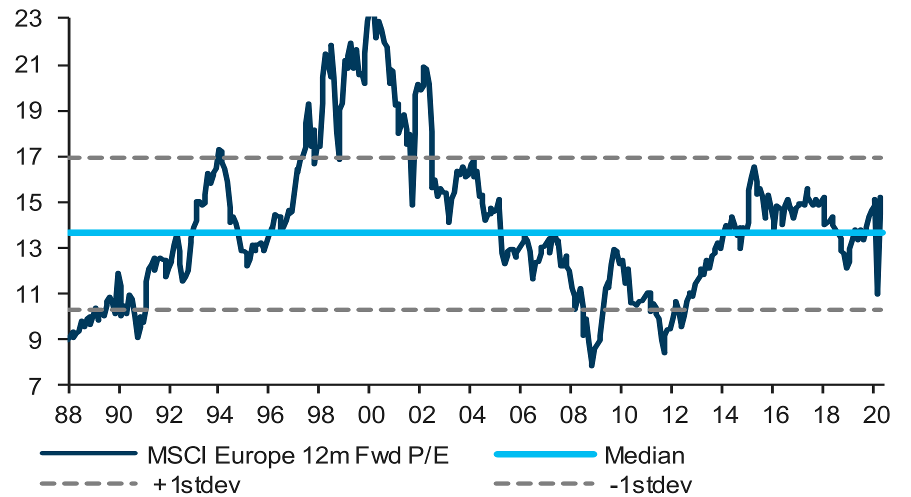
## P/E multiples back to the highs, but unreliable when earnings collapse…

### P/E multiples re-rated to 2019 levels recently




Source: IBES

### MSCI Europe P/E recovered sharply from March lows of 10.1x to 15.2x currently



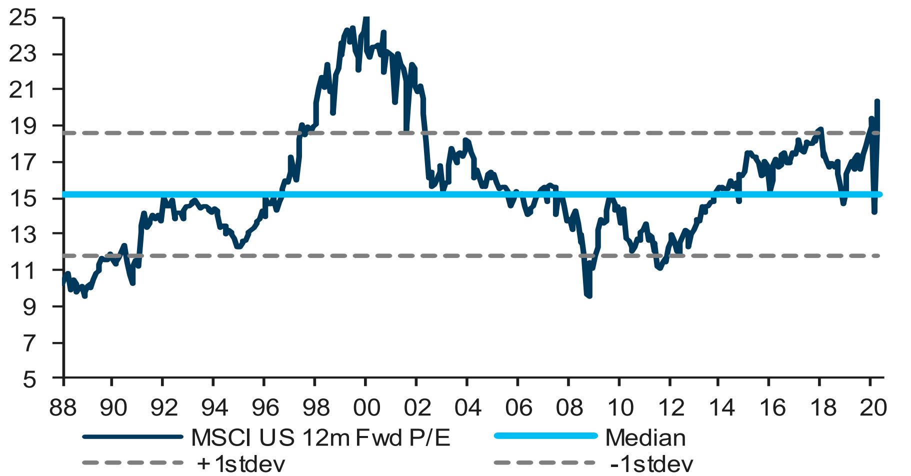

Source: IBES

### Regional P/E multiples in the long-term context

| | Current | *1st Jan* | 10Y Median | 20Y Median | Current vs 10Y Median | Current vs 20Y Median |
|---|---|---|---|---|---|---|
| **MSCI World** | **17.7** | ***17.1*** | **15.0** | **15.0** | **18%** | **17%** |
| **US** | **19.9** | ***18.7*** | **15.9** | **15.7** | **25%** | **26%** |
| **Europe** | **14.6** | ***14.8*** | **13.6** | **13.6** | **7%** | **7%** |
| UK | 13.0 | *13.2* | 12.6 | 12.9 | 3% | 1% |
| Eurozone | 14.0 | *14.5* | 13.2 | 13.2 | 6% | 6% |
| France | 14.6 | *14.9* | 13.5 | 13.4 | 8% | 9% |
| Germany | 13.6 | *14.1* | 12.4 | 12.7 | 10% | 7% |
| Italy | 11.2 | *11.9* | 11.3 | 12.5 | -1% | -10% |
| Spain | 11.3 | *12.0* | 11.8 | 12.7 | -4% | -11% |
| **Japan** | **13.6** | ***14.5*** | **13.5** | **14.8** | **1%** | **-8%** |
| **EM** | **11.9** | ***12.8*** | **11.1** | **11.0** | **7%** | **8%** |
| Brazil | 10.5 | *13.2* | 10.6 | 9.7 | 0% | 8% |
| Russia | 6.1 | *6.4* | 5.2 | 6.1 | 16% | 0% |
| India | 16.4 | *18.9* | 16.6 | 15.7 | -1% | 4% |
| China | 11.8 | *12.2* | 10.5 | 11.4 | 12% | 4% |

Source: IBES

### MSCI US P/E is above pre-Covid levels

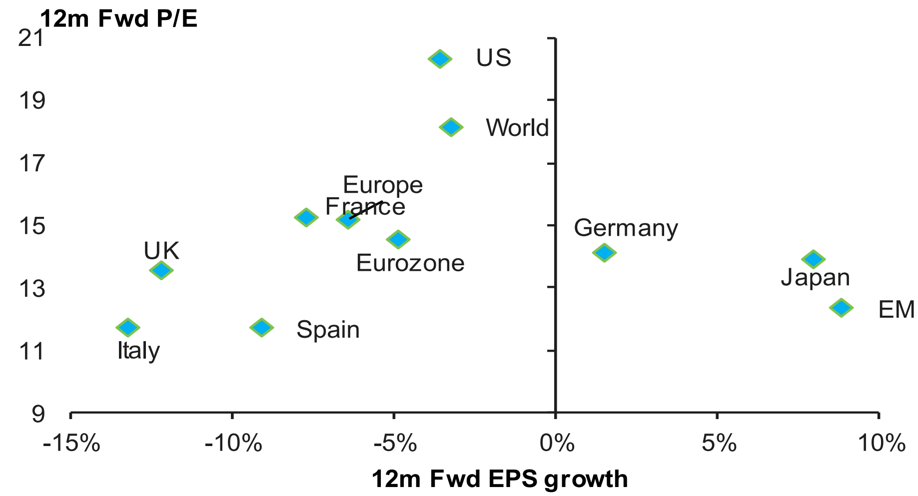



Source: IBES

# …P/Es typically move with EPS revisions

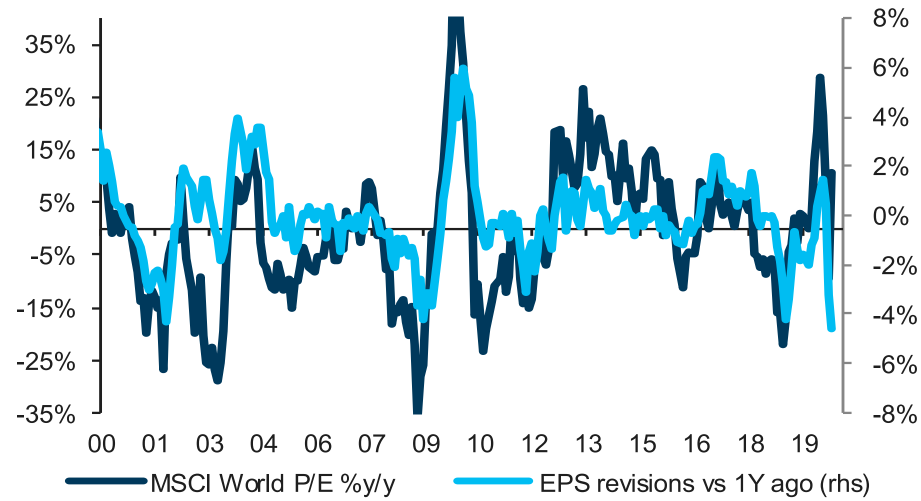
- Historically, there was a strong positive correlation between the moves in P/E multiples and the change in EPS revisions.
- However, as seen in '09, P/E multiples will likely rebound strongly early in the recovery, along with the improving second derivative in earnings revisions.

**P/Es are positively correlated to EPS growth**



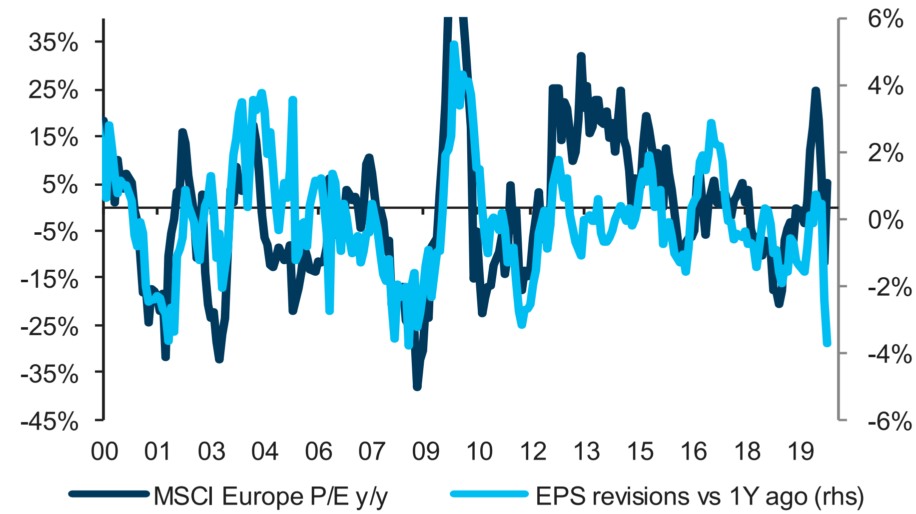

Source: Datastream, IBES

**Change in P/E multiple and EPS revisions for MSCI World**




Source: IBES

**Change in P/E multiple and EPS revisions for MSCI Europe**

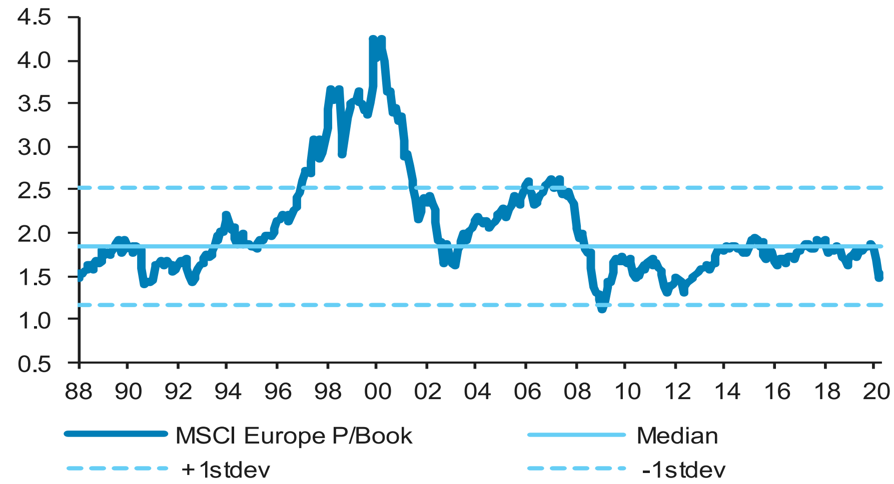



Source: IBES

# P/Book looks less stretched, in particular for Europe

- P/Book, which is a more stable valuation metric during times of earnings stress, have come down.
- MSCI Europe is trading outright cheap compared to history and not far from the last recession lows.
- MSCI US is trading in line with long-term average and almost double the trough multiple of 2009.

**MSCI Europe P/B is well below the median**



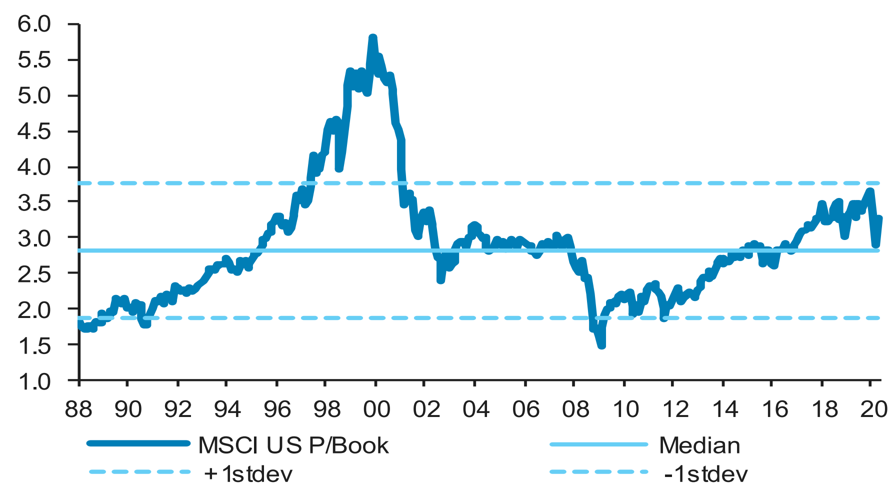

Source: IBES

**Regional P/B multiples in the long-term context**

| | Current | 10Y Median | 20Y Median | Current vs 10Y Median | Current vs 20Y Median |
|---|---|---|---|---|---|
| MSCI World | 2.2 | 2.2 | 2.3 | 4% | -2% |
| **US** | **3.3** | **2.8** | **2.9** | **18%** | **14%** |
| **Europe** | **1.5** | **1.7** | **1.8** | **-11%** | **-15%** |
| UK | 1.4 | 1.8 | 1.9 | -21% | -25% |
| Eurozone | 1.3 | 1.5 | 1.6 | -12% | -19% |
| France | 1.4 | 1.5 | 1.6 | -8% | -17% |
| Germany | 1.3 | 1.6 | 1.6 | -17% | -18% |
| Italy | 0.9 | 1.0 | 1.2 | -8% | -21% |
| Spain | 0.9 | 1.3 | 1.5 | -30% | -40% |
| **Japan** | **1.1** | **1.3** | **1.4** | **-11%** | **-18%** |
| **EM** | **1.5** | **1.6** | **1.7** | **-7%** | **-11%** |
| Brazil | 1.6 | 1.5 | 1.6 | 4% | 1% |
| Russia | 0.8 | 0.8 | 1.0 | -1% | -21% |
| India | 2.5 | 3.0 | 3.1 | -16% | -19% |
| China | 1.7 | 1.6 | 1.8 | 4% | -6% |

Source: IBES

**MSCI US P/B is back to historical median**

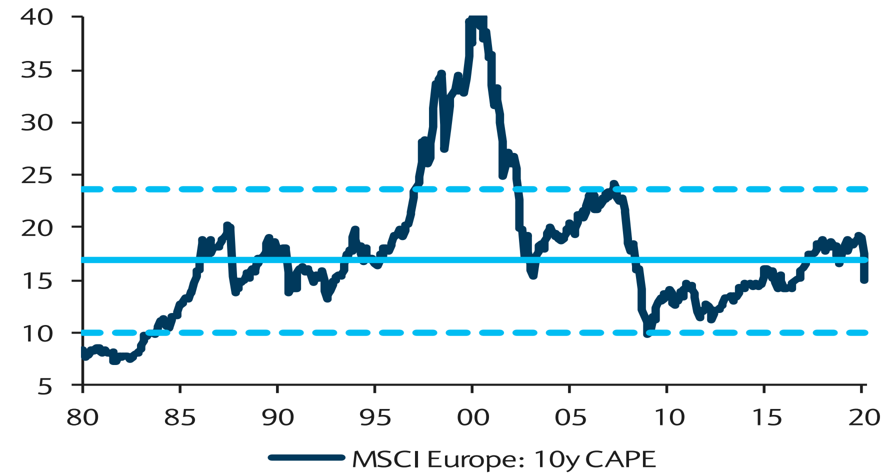



Source: IBES

# CAPE also off the highs

- On cyclically adjusted P/E, Eurozone is looking cheap vs. history, while US is still above the long term average, but still lower than the recent highs.

**MSCI Europe CAPE has fallen below median**



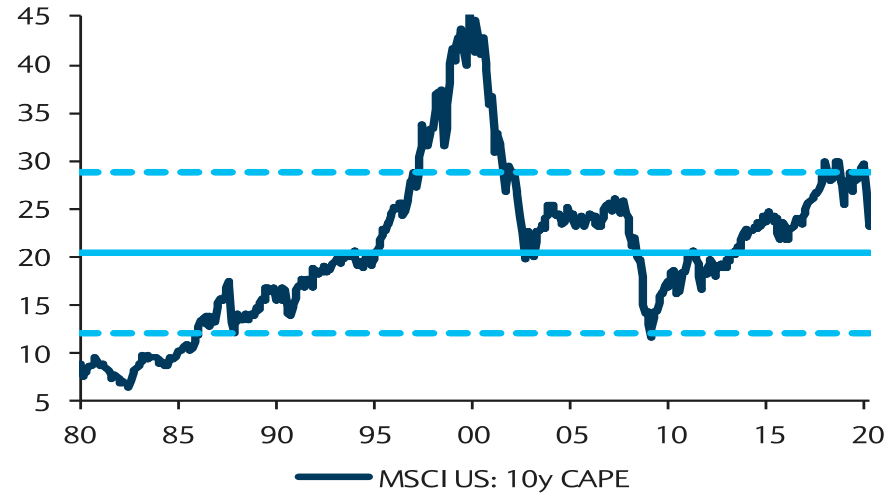

Source: IBES

**Regional CAPE in the long-term context**

| | Current | 10Y Median | 20Y Median | Current vs 10Y Median | Current vs 20Y Median |
|---|---|---|---|---|---|
| **MSCI World** | **21.2** | **19.3** | **21.7** | **10%** | **-2%** |
| **US** | **26.1** | **23.3** | **23.7** | **12%** | **10%** |
| **Europe** | **14.9** | **14.7** | **17.5** | **2%** | **-15%** |
| UK | 12.1 | 13.1 | 14.8 | -7% | -18% |
| Eurozone | 13.8 | 13.2 | 15.8 | 5% | -12% |
| France | 16.7 | 15.3 | 19.6 | 9% | -15% |
| Germany | 14.1 | 16.7 | 18.0 | -16% | -22% |
| Italy | 13.7 | 10.1 | 14.6 | 36% | -6% |
| Spain | 10.1 | 11.7 | 13.2 | -13% | -23% |
| **Japan** | **17.7** | **22.7** | **25.7** | **-22%** | **-31%** |
| **EM** | **12.4** | **14.2** | **n/a** | **-12%** | **n/a** |
| Brazil | 12.5 | 11.6 | n/a | 7% | n/a |
| Russia | 6.2 | 6.2 | n/a | 1% | n/a |
| China | 14.4 | 14.4 | 17.1 | 0% | -16% |

Source: IBES

**MSCI US CAPE is still above median**

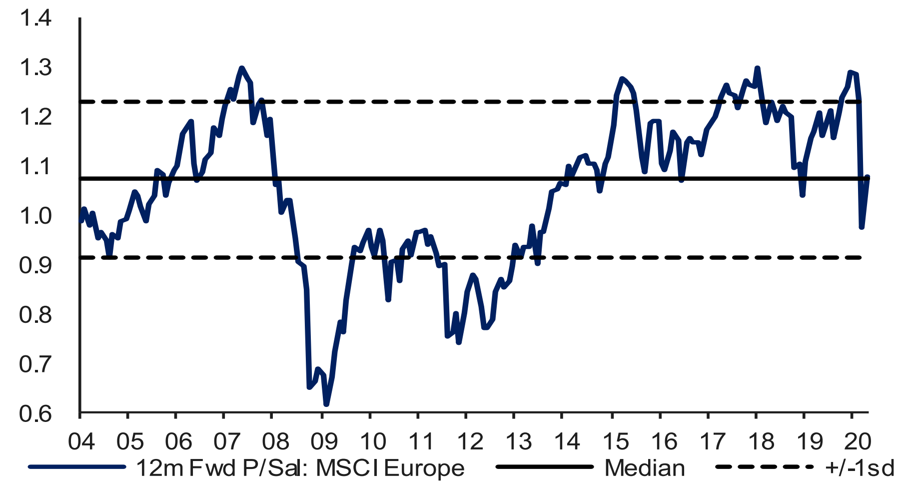



Source: IBES

# P/Sales not extreme either, but still well above the '08 lows

- On Price/sales, Europe is trading close to long-term median, but double the trough level of '09.
- Among major regions/countries, only US, China and Japan are trading above long-term median on Price/sales.

## MSCI Europe Price to sales is near the median



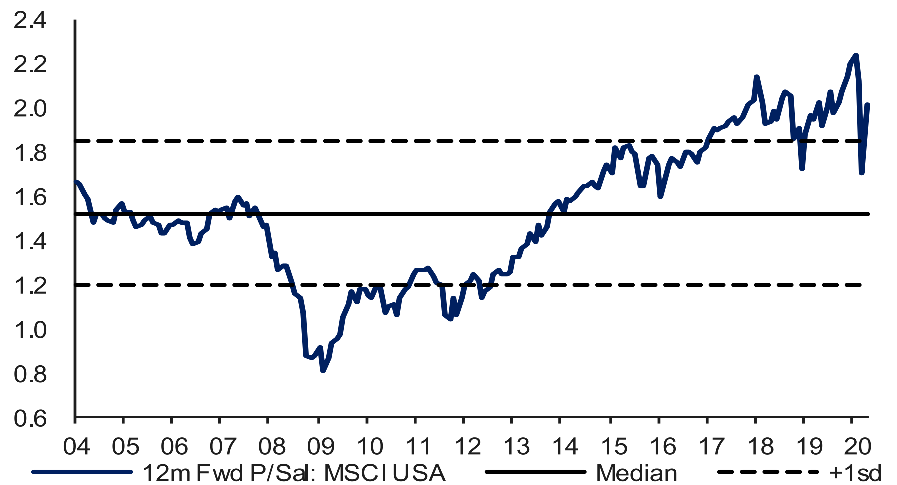

Source: IBES

## Regional Price to sales in the long-term context

| | Current | 10Y Median | 15Y Median | Current vs 10Y Median | Current vs 15Y Median |
|---|---|---|---|---|---|
| MSCI World | 1.5 | 1.4 | 1.3 | 12% | 20% |
| **US** | **2.0** | **1.7** | **1.5** | **19%** | **34%** |
| **Europe** | **1.1** | **1.1** | **1.1** | **-2%** | **-1%** |
| UK | 1.0 | 1.1 | 1.1 | -13% | -13% |
| Eurozone | 0.9 | 0.9 | 0.9 | -3% | -4% |
| France | 1.0 | 0.9 | 0.9 | 1% | 3% |
| Germany | 0.7 | 0.8 | 0.7 | -8% | -4% |
| Italy | 0.5 | 0.6 | 0.6 | -12% | -19% |
| Spain | 0.9 | 1.2 | 1.3 | -23% | -26% |
| **Japan** | **0.8** | **0.7** | **0.7** | **4%** | **7%** |
| **EM** | **0.7** | **0.8** | **0.8** | **-1%** | **-7%** |
| Brazil | 0.9 | 0.9 | 1.0 | 0% | -3% |
| Russia | 0.8 | 0.8 | 0.8 | 10% | 0% |
| India | 1.6 | 1.8 | 1.9 | -12% | -17% |
| China | 0.5 | 0.4 | 0.4 | 31% | 23% |

Source: IBES

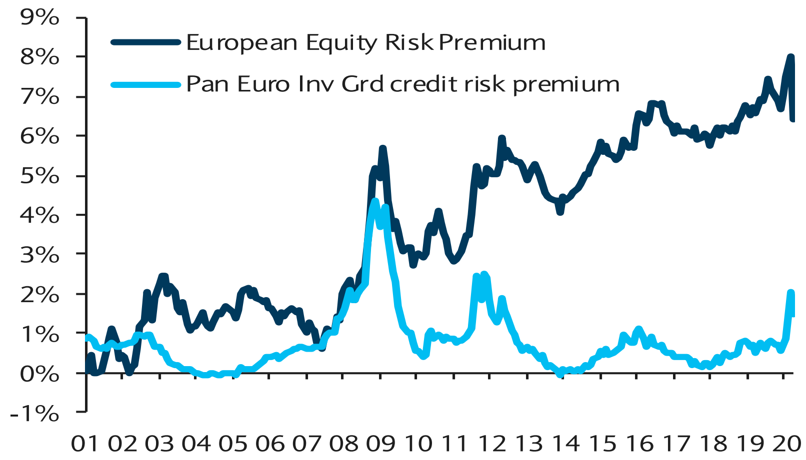
## MSCI US Price to sales is above the median




Source: IBES

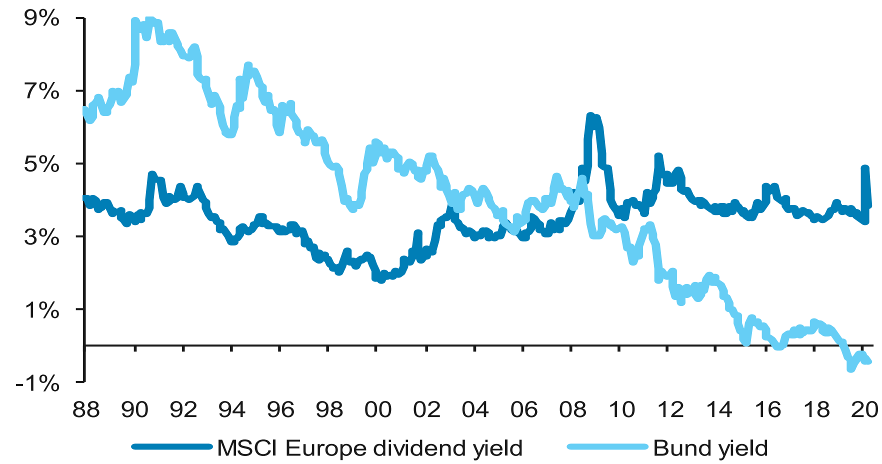
# TINA? Equities look very cheap compared to bonds…

## Equity and Credit risk premium



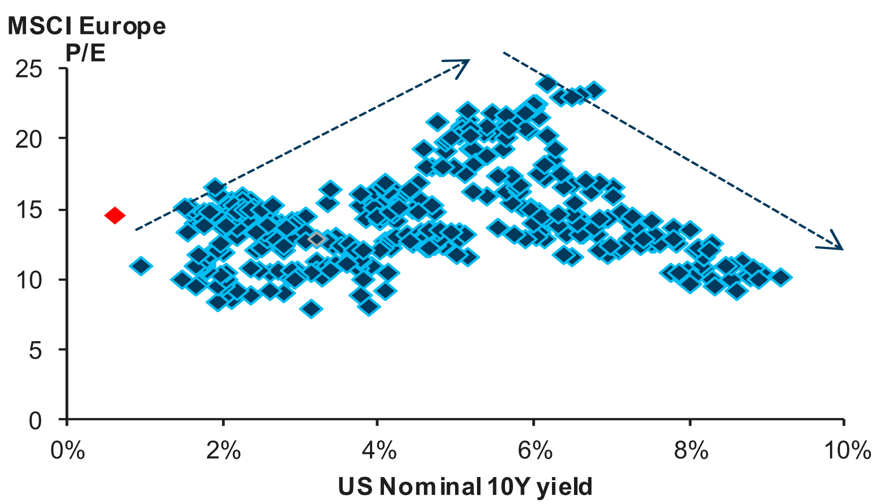

Source: Barclays Research

## Equity dividend yield is in line with historical levels, while bond yields are much lower



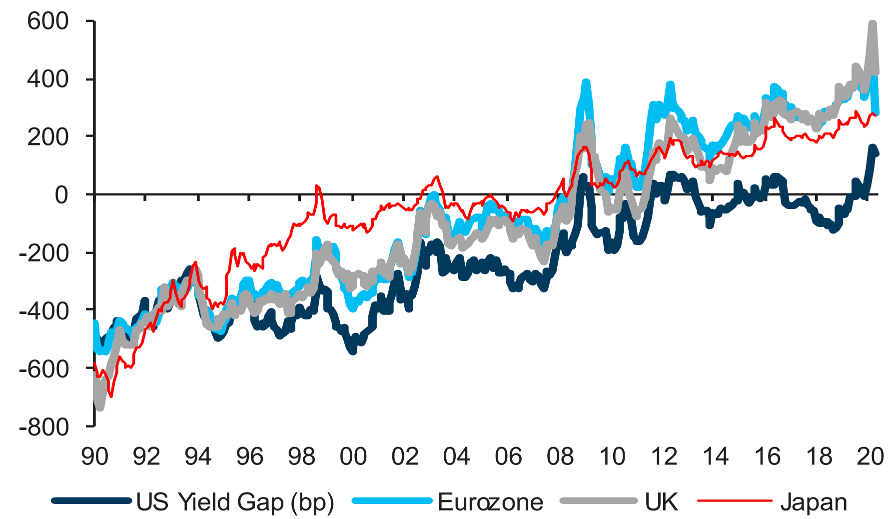

Source: Datastream

## Yields are at lowest levels which would suggest potential upside to equities




Source: Datastream, red dot shows the current numbers

## Relative to bonds, equities still look attractively valued

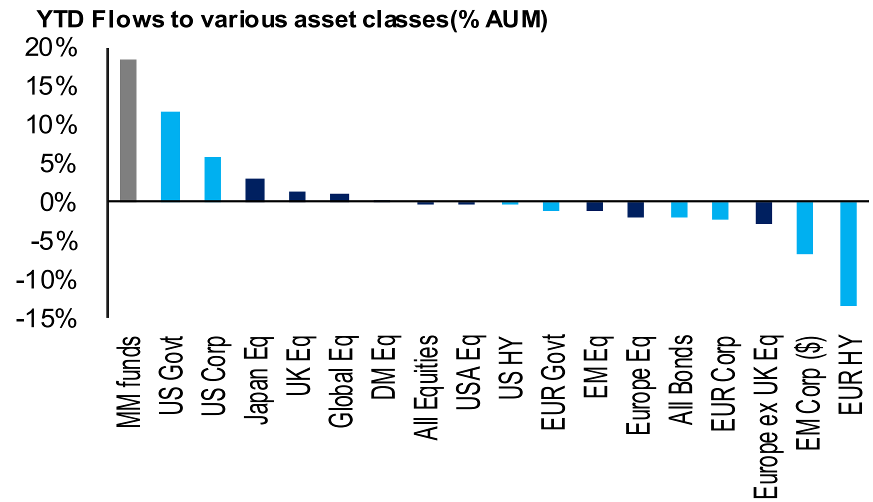



Source: Datastream

# Positioning remains cautious
## Cash is king

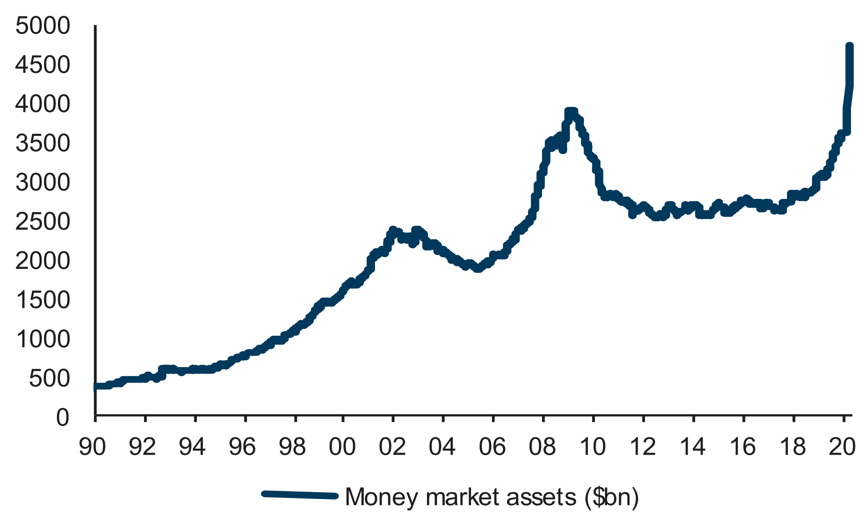
- Investor participation in the latest rally was light and equity volumes dried up after the surge seen in March. Mutual funds added to cash at an unprecedented pace.
- On the year, money market funds have seen their AUM growing by 18.5%, more than any other asset class. On the flipside, European HY credit had the biggest outflows, at 13.5% of AUM, while equity flows have been broadly flat.

**Ytd cumulative flows across the main asset classes**



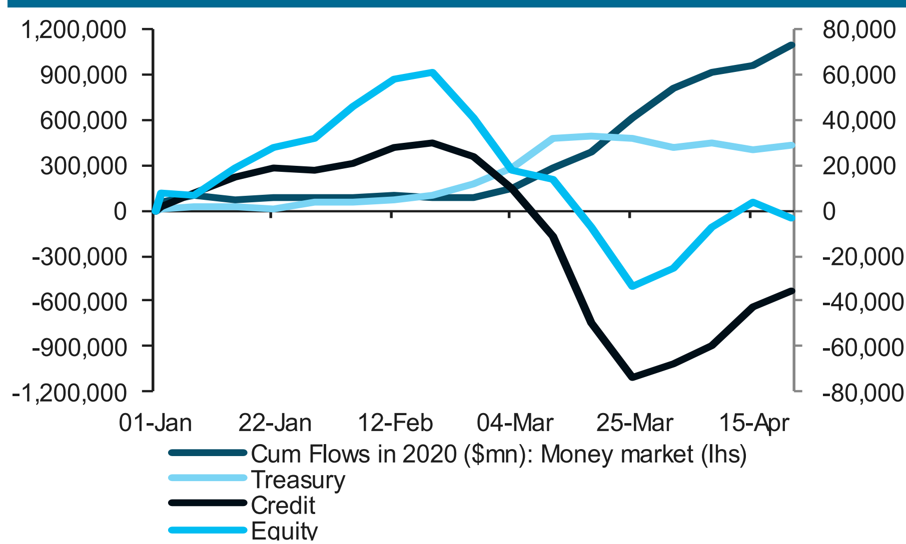

Source: EPFR

**Mutual funds' cash holdings are now above GFC levels**




Source: Bloomberg, ICI

**Cumulative fund flows across asset classes YTD**




Source: EPFR, Barclays Research

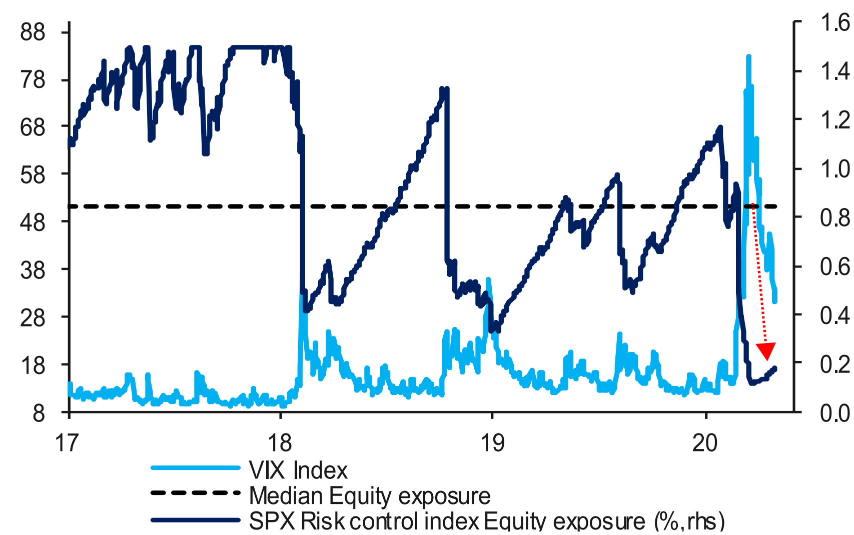
# Systematic investors and HFs have not bought the dip in equities

- The sharp fall in volatility has not yet prompted volatility target funds to increase their equity exposure, which remains at historical lows. As these funds tend to be formulaic, it is likely that if equity volatility continues to fall, they will start buying equities.
- The beta to equities of macro HFs is also negative and short interest is still elevated, suggesting that after reducing exposure last month they have not added back, yet. Their long/short HF counterparts also remain underweight on equities.

**Short interest remains elevated overall**

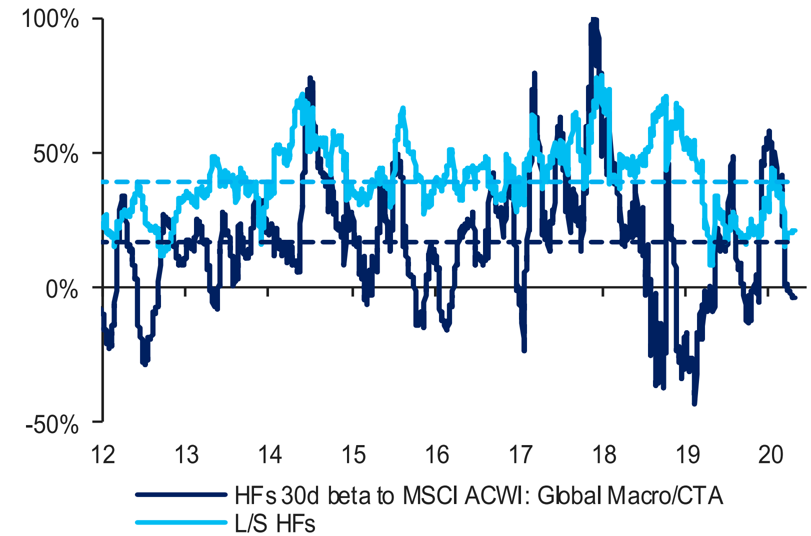

Source: Barclays Research, Bloomberg

**Leveraged funds' de-risking has gone a long way already**




Source: Bloomberg

**Global Macro/CTA and Long/Short HFs are maintaining their underweight on equities**




Source: HFRX, Barclays Research, Bloomberg

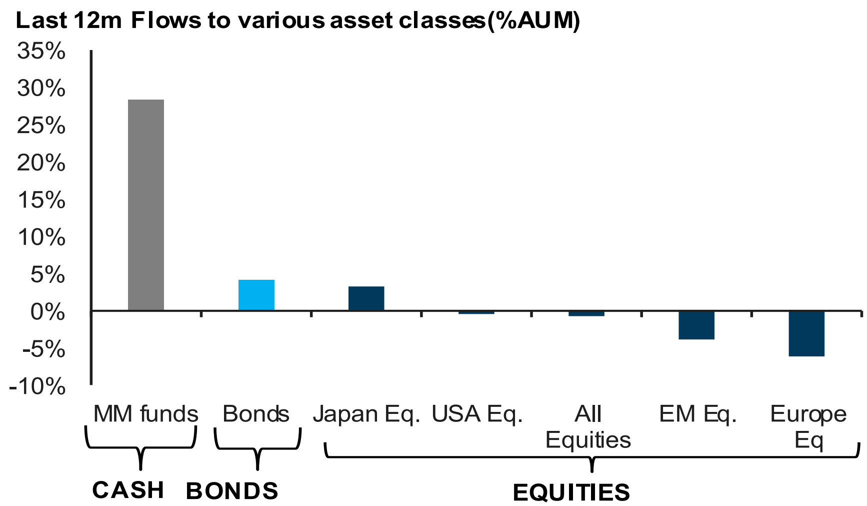
# LO positioning was far less bullish than in Q4'18 ahead of the correction

- The contrast between flat equity flows ytd and the 20-25% fall in global equities is striking. We note, however, that equities had material outflows in the previous 12 months, even though they performed well.
- Following the de-risking episode of H2 2018, investors never sold bonds to buy equities. Positioning was thus far less bullish than ahead of the Q4'18 sell-off.
- Relative safe havens like bonds, gold and cash received material inflows last year despite the strong equity rebound.

**Gold and money market inflows already surged in 2019**

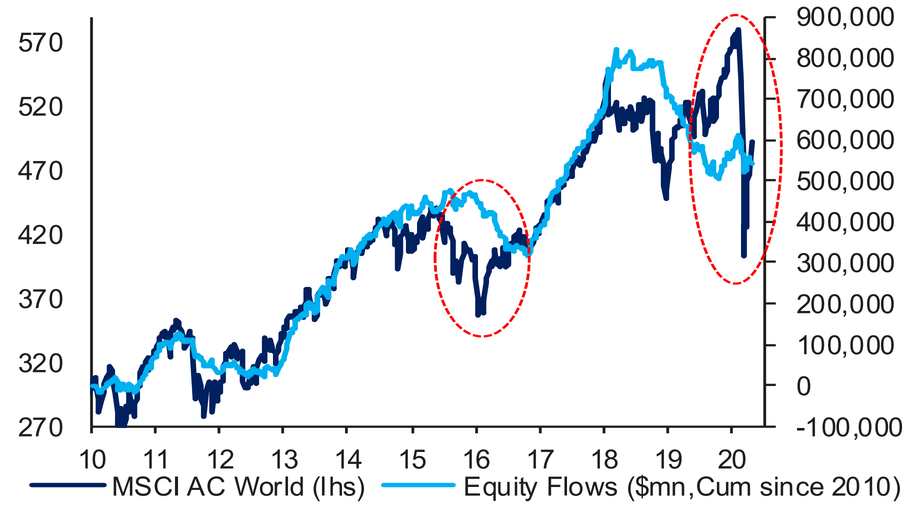

Source: Bloomberg, EPFR, Barclays Research

**Investors have been moving to cash over the last 12m**




Source: EPFR, Barclays Research

**Equity had outflows last year despite its strong performance**




Source: EPFR, Barclays Research

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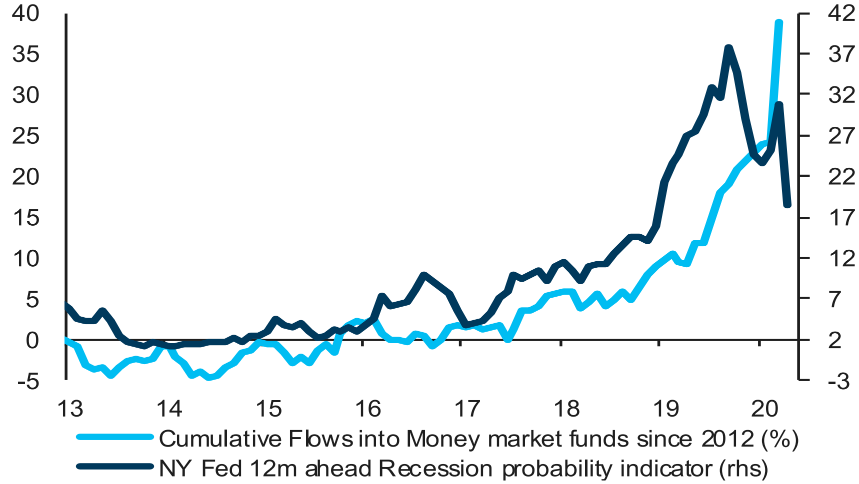
May 05, 2020

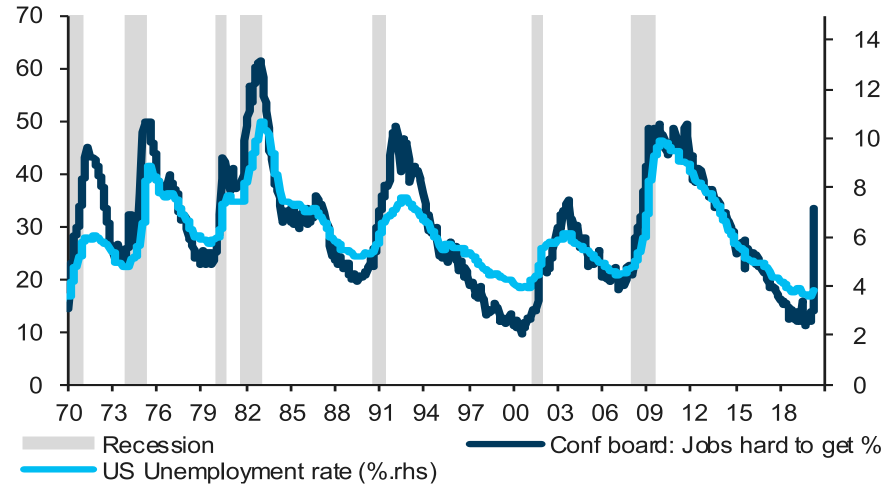
# Late-cycle risks seem to have been well anticipated this time around

## Investors had moved to cash as recession risks increased



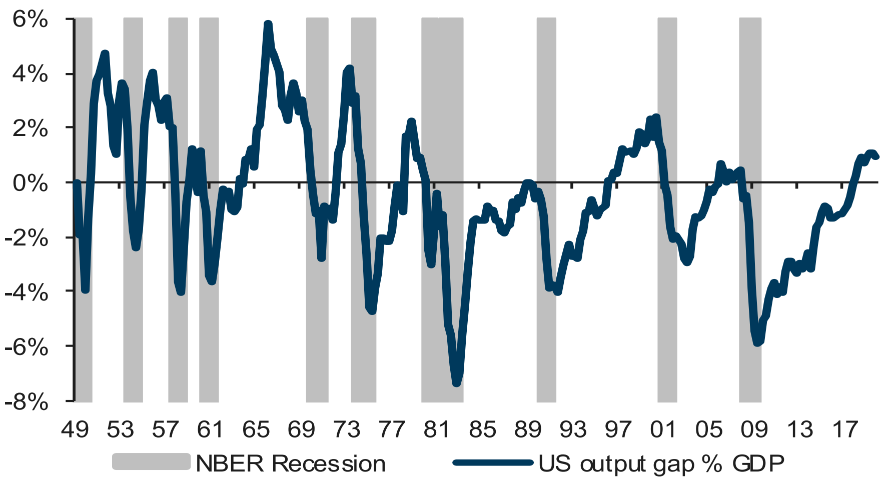

Source: EPFR, Barclays Research, Bloomberg

## US unemployment rate was at historical lows



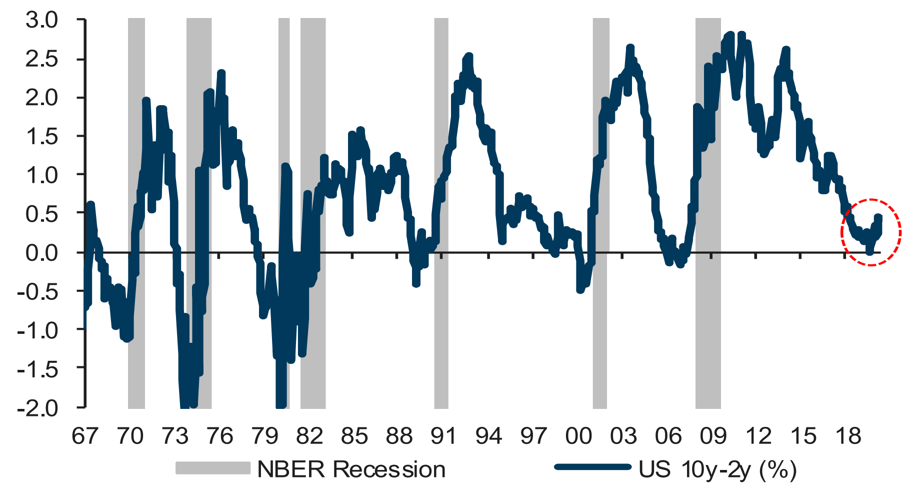

Source: Bloomberg, NBER

## US output gap was positive – a late-cycle phenomenon




Source: CBOE, NBER, Bloomberg

## Inverted US yield curve pointed to a recession in 2020




Source: Bloomberg, Barclays Live

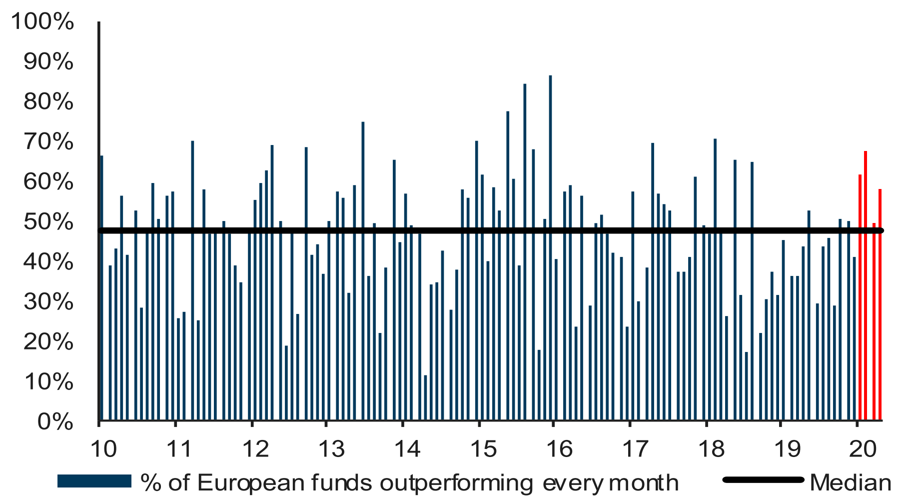
# Majority of Mutual funds are beating their benchmark ytd as safety trade worked

- The performance of the popular safety trades, both on the way down and up this year, has helped the relative performance of mutual funds. We find that the performance of funds has been above the long-term average so far this year, with c60% of them beating their benchmark in Europe in April, as of last week.
- This is in sharp contrast to 2019, when fund performance was below average for a majority of months. We note that the pick-up in funds' outperformance this year has coincided with the underperformance of Value, suggesting that European funds are underweight on Value exposure.

**More of the same – Quality/Low vol ETFs keep getting inflows**

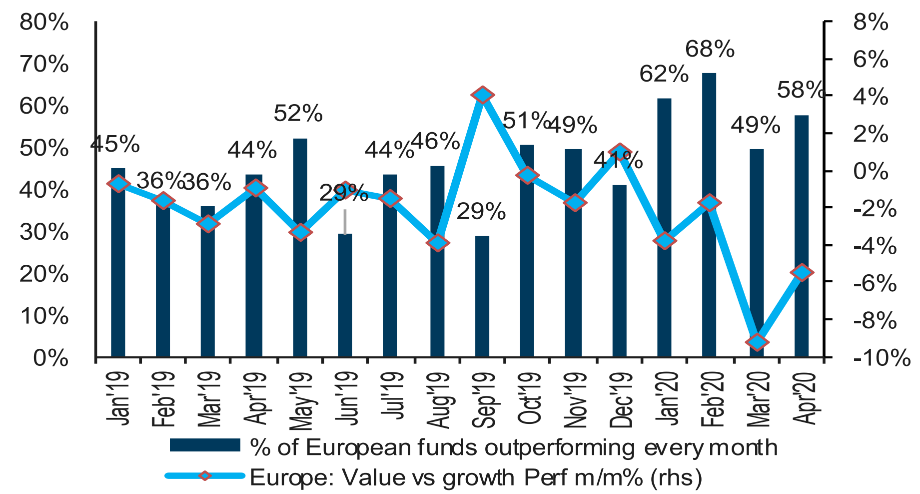

Source: EPFR, Bloomberg, Barclays Research

**European mutual fund performance has been above average so far this year after a subpar 2019**




Source: Bloomberg, Barclays Research

**Improving mutual fund performance has coincided with Value underperformance in the last few months**

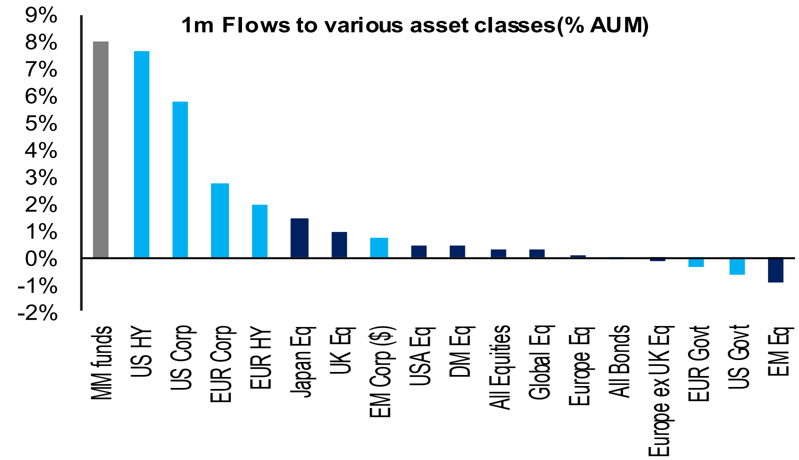



Source: Bloomberg, Barclays Research

# Risk appetite is back in credit, not in equities

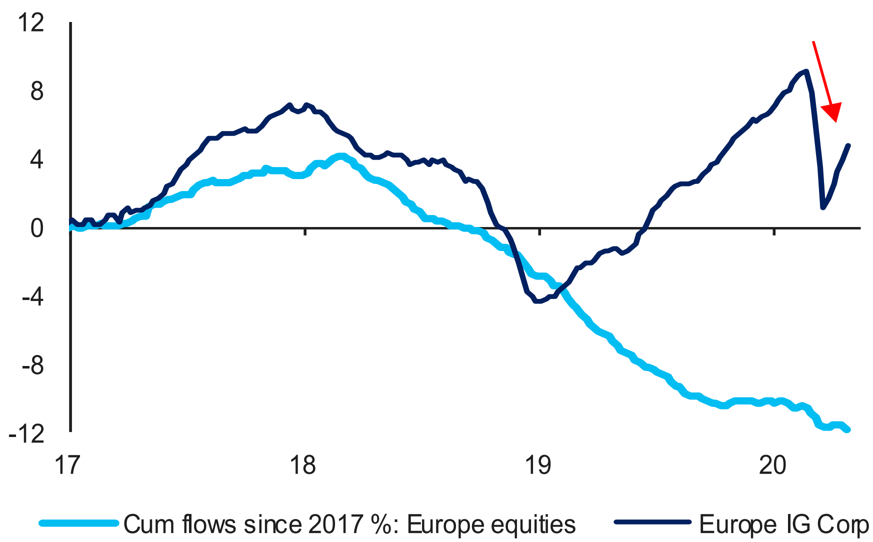
- The re-opening of the 'QE trade' by the Fed and ECB last year led to a sharp increase in credit inflows, which were wiped out most recently. In contrast, equities never saw inflows of a similar magnitude in 2019 and are thus logically seeing less outflow now.
- Credit flows rebounded more than equity flows last month as investors welcomed the QE boost by the Fed and the ECB. The divergence between credit inflows and equity outflows that started last year after the U-turn operated by the Fed and the ECB continues.

**Credit funds inflows resumed last month**



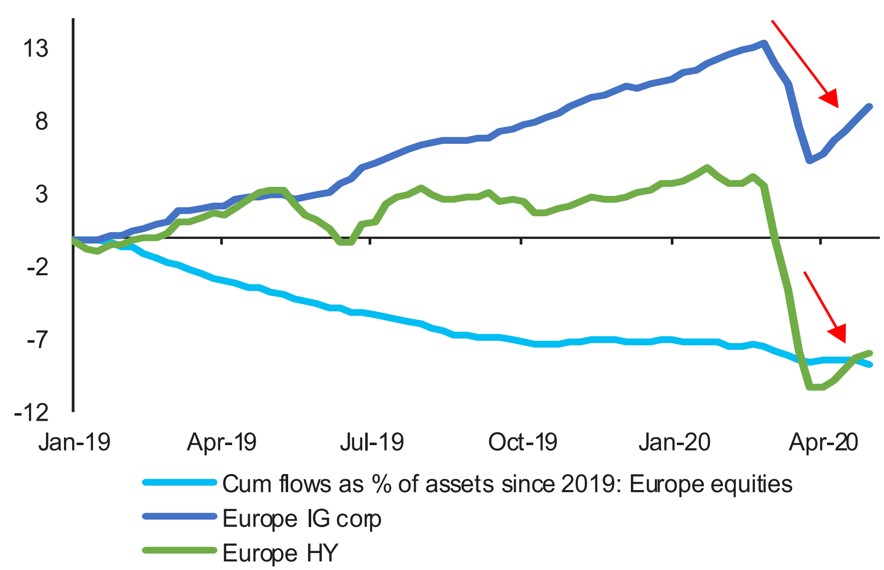

Source: EPFR, Barclays Research

**Credit and equity flows have decoupled since last year**




Source: EPFR, Barclays Research

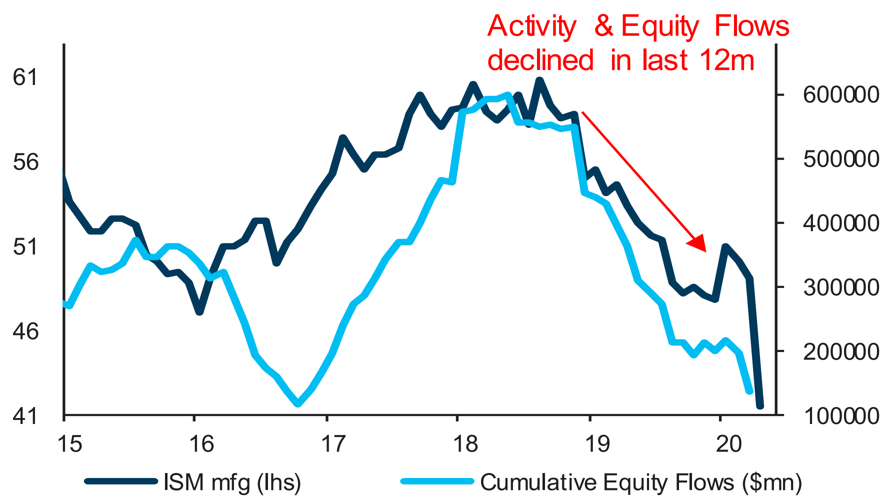
**Credit flows fell more than equity flows during the sell-off and rebounded more recently**




Source: EPFR, Barclays Research

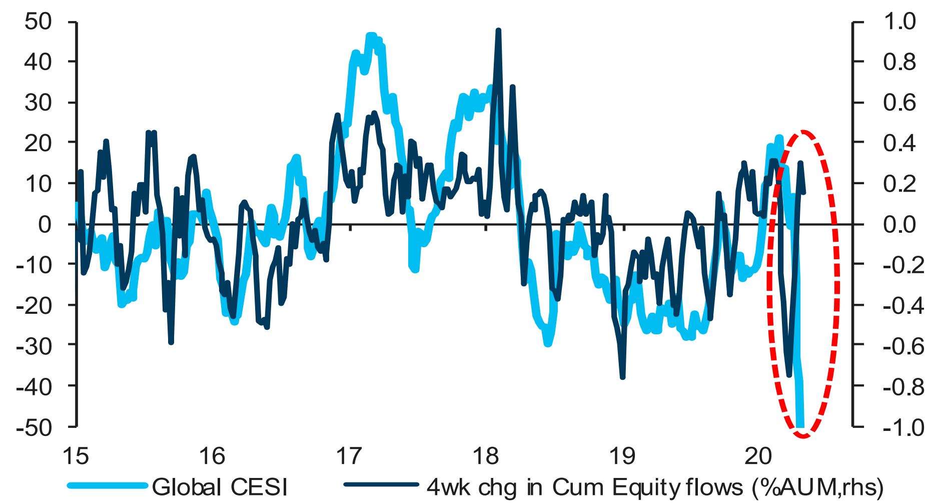
# Macro expectations drive equity flows, retail buying subdued

## Equity flows have followed ISM lower



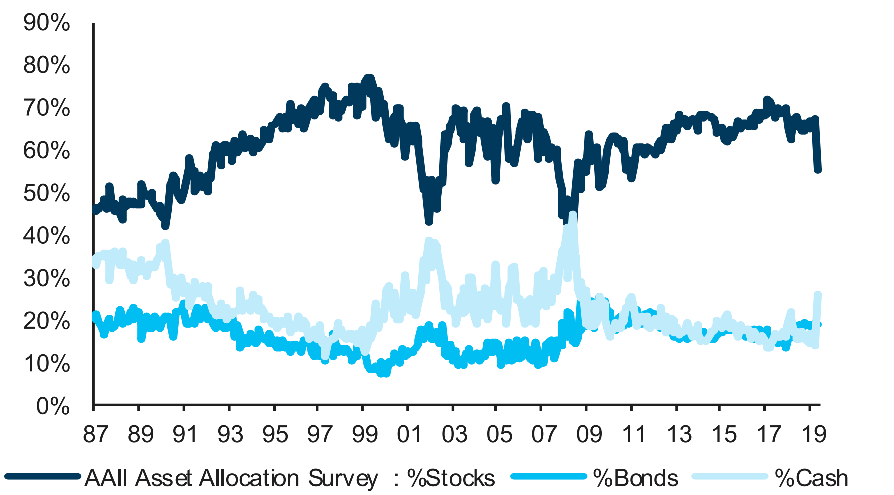

Source: EPFR, Datastream

## Equity flows move with eco surprises



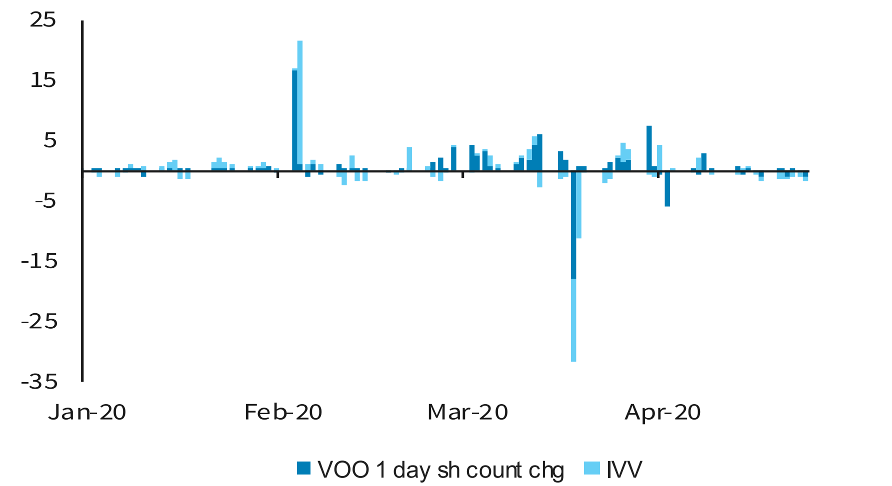

Source: EPFR, Barclays Research

## Retail allocation to cash has risen while exposure to stocks has come down sharply




Source: AAII, Bloomberg

## Retail inflows in the most popular US ETFs have been negligible

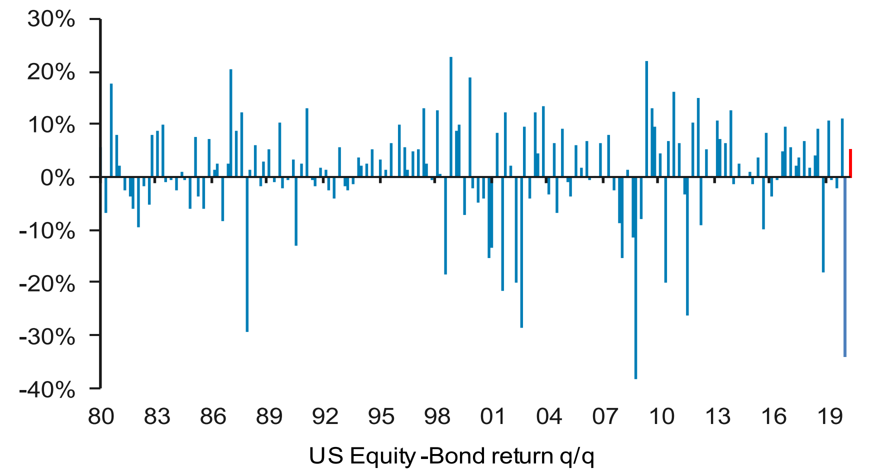



Source: EPFR

# Pension funds' rebalancing could favor equities over bonds

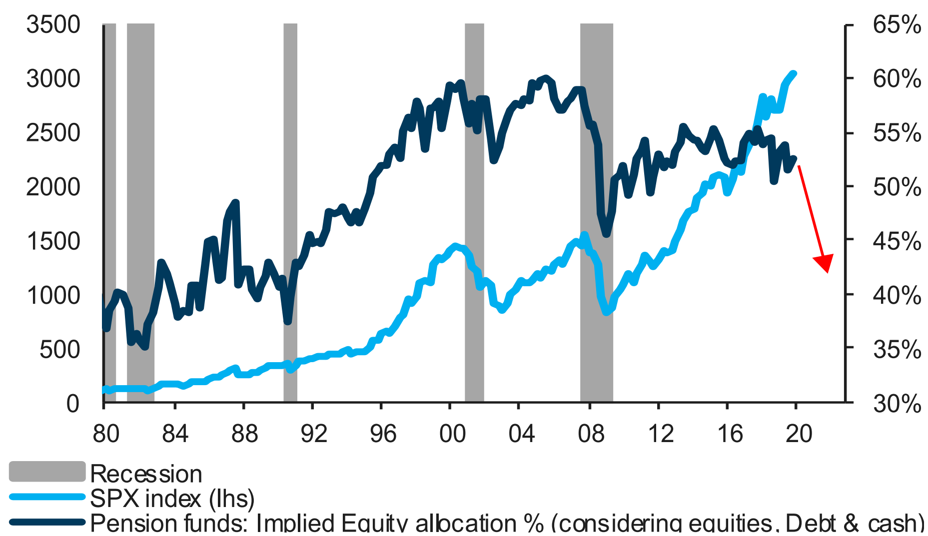
- The extreme equity/bond divergence in Q1 likely resulted in pension funds holding not enough equities relative to their target allocation and too many bonds. We believe that any further equity underperformance would be cushioned to some extent by pension funds coming to the rescue.
- Looking at historical US equity ownership data, it is clear that pension funds accumulate equities during recessions or downturns, suggesting they maintain a fixed equity/bond allocation.

**Equity/Bond performance turned positive in April, after collapsing in Q1**



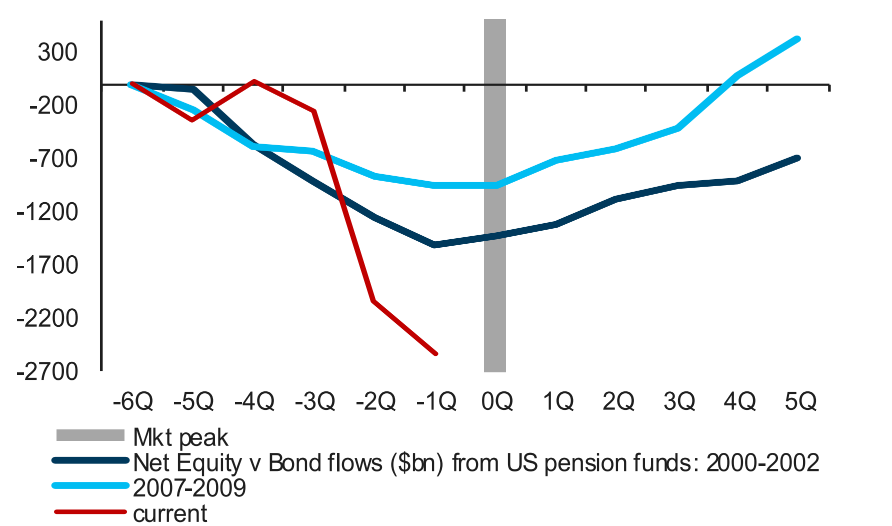

Source: Bloomberg

**Pension fund equity allocation would have fallen sharply given the extreme equity underperformance in Q1'20**




Source: Fed, Datastream, Barclays Research

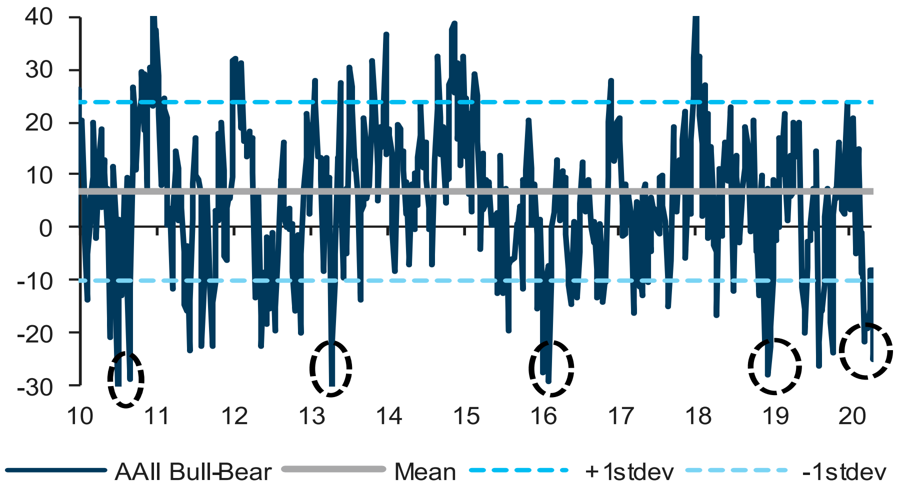
**Pension funds reallocated significantly to equities during previous downturns**




Source: Fed, DataStream, Barclays Research

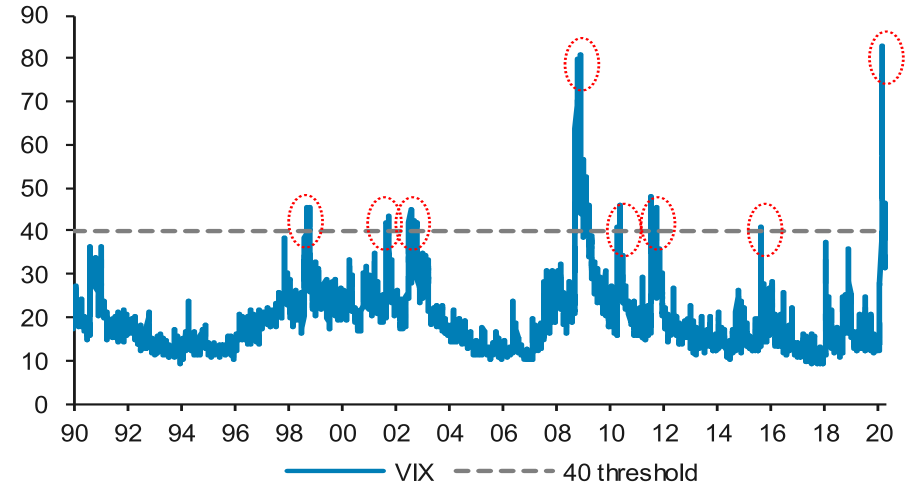
# Technicals
## Off deeply oversold levels, but sentiment still bearish

**AAII bull bear higher at -13 vs. -25 last week**



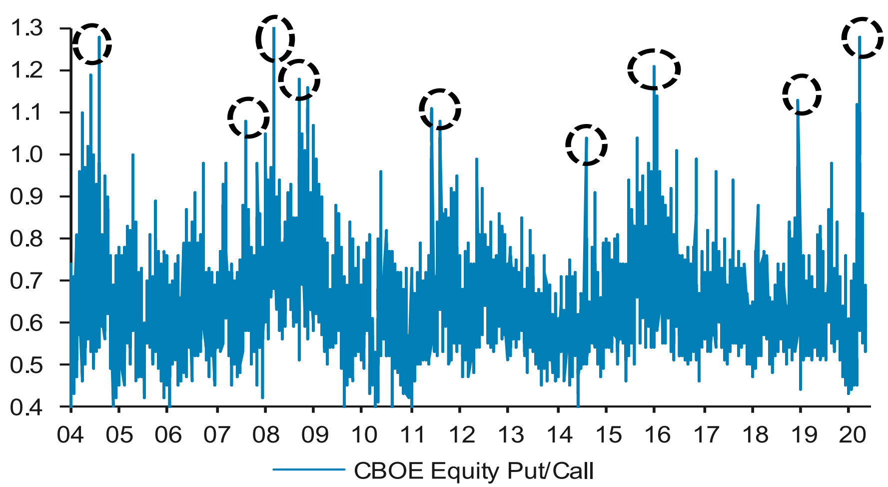

Source: Bloomberg

**VIX is below the 40 threshold**



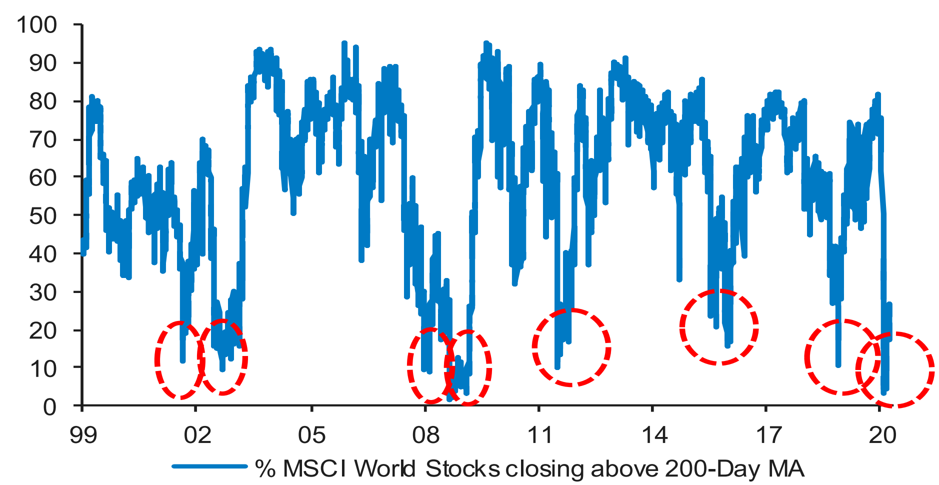

Source: Bloomberg

**SPX Put/Call ratio is no longer extreme**




Source: Bloomberg

**The % of MSCI World stocks above 200-day moving average is much higher at 23% vs. 3% on 16 Mar**




Source Bloomberg

# Contrarian ‘buy’ signals were triggered at the lows in March

- VIX only breached the 40 threshold on seven previous occasions since 1990, and stocks rebounded 86% of the time in the next three and six months.
- Put/Call ratio for SPX is at the highest level since 2018. The markets have on average risen over the subsequent three, six and 12-month timeframes.
- % of MSCI World stocks trading above their 200-day moving average is at 15%, the lowest since Dec 2018. The previous occasions of similar depressed levels saw equities rebounding in the next six months in all instances except during the 2008 crisis.

## Market was up 86% of the time in the next 6 months after VIX>40

| VIX>40 | | S&P500 performance | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Date | level | -3m | -1m | -1w | +1w | +1m | +3m | +6m | +9m | +12m |
| Aug-98 | 44 | -12% | -15% | -12% | 2% | 6% | 22% | 29% | 36% | 38% |
| Sep-01 | 42 | -14% | -11% | -5% | -3% | 4% | 9% | 12% | -0.3% | -16% |
| Jul-02 | 42 | -26% | -17% | -11% | 10% | 17% | 9% | 7% | 11% | 21% |
| Sep-08 | 47 | -14% | -14% | -8% | -4% | -16% | -21% | -29% | -16% | -4% |
| May-10 | 41 | 5% | -6% | -6% | 2% | -5% | 2% | 10% | 18% | 21% |
| Aug-11 | 48 | -17% | -17% | -13% | 8% | 6% | 14% | 21% | 22% | 25% |
| Aug-15 | 41 | -11% | -9% | -10% | 4% | 2% | 10% | 1% | 10% | 15% |
| Average | | -13% | -13% | -9% | 3% | 2% | 6% | 7% | 11% | 14% |
| Median | | -14% | -14% | -10% | 2% | 4% | 9% | 10% | 11% | 21% |
| % up | | 14% | 0% | 0% | 71% | 71% | 86% | 86% | 71% | 71% |
| Feb-20 | 40 | -6% | -10% | -11% | 2% | n/a | n/a | n/a | n/a | n/a |

Source: Bloomberg

## Current level of Put/Call ratio gave good buy signal in the past

| Date | Put call ratio | SPX performance | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | -3m | -1m | -1w | +1w | +1m | +3m | +6m | +12m |
| Aug-04 | 1.28 | -4% | -4% | -3% | 0% | 5% | 9% | 13% | 15% |
| Aug-07 | 1.05 | -7% | -9% | -6% | 4% | 6% | 5% | -4% | -8% |
| Mar-08 | 1.35 | -14% | -5% | 0% | 6% | 7% | 7% | -7% | -39% |
| Nov-08 | 1.16 | -37% | -16% | -5% | 10% | 10% | -8% | 10% | 36% |
| Jun-11 | 1.02 | -3% | -5% | -2% | 0% | 3% | -9% | -3% | 3% |
| Aug-14 | 1.04 | 2% | -3% | -3% | 0% | 4% | 4% | 5% | 9% |
| Jan-16 | 1.14 | -7% | -8% | -2% | 0% | 2% | 11% | 15% | 21% |
| Dec-18 | 1.13 | -18% | -9% | -7% | 4% | 9% | 17% | 21% | 33% |
| Mar-20 | 1.12 | -12% | -18% | -11% | | | | | |
| **Average** | | **-11%** | **-8%** | **-4%** | **3%** | **6%** | **4%** | **6%** | **9%** |
| **Median** | | **-7%** | **-8%** | **-3%** | **2%** | **5%** | **6%** | **7%** | **12%** |

Source: Bloomberg

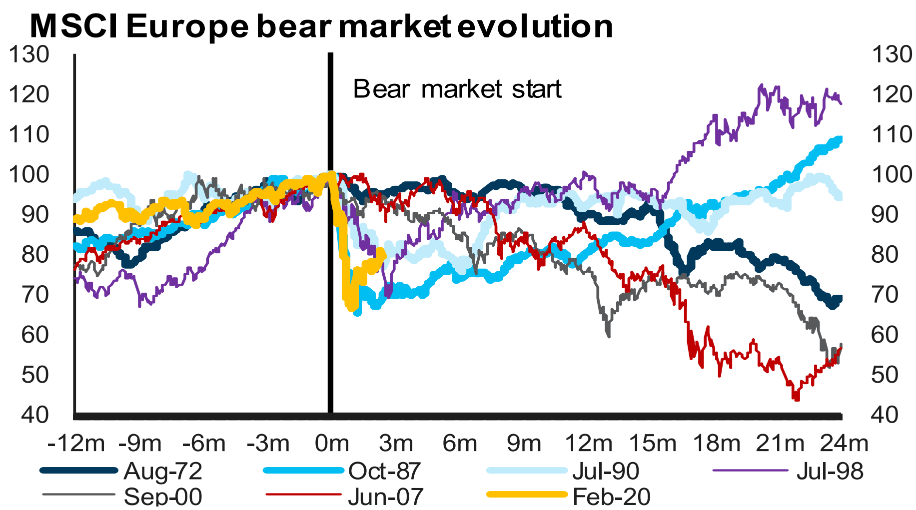
## The low level stocks above 200-day MA is also a contrarian signal

| Date | % stocks below 200d MA | MSCI World performance | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | -3m | -1m | -1w | +1w | +1m | +3m | +6m | +12m |
| Sep-01 | 88 | -21% | -18% | -9% | 8% | 12% | 16% | 19% | -5% |
| Oct-02 | 91 | -18% | -14% | -6% | 10% | 15% | 18% | 10% | 30% |
| Mar-08 | 91 | -12% | -3% | 0% | 2% | 8% | 4% | -12% | -48% |
| Oct-08 | 98 | -31% | -28% | -20% | 4% | 3% | 3% | -7% | 24% |
| Aug-11 | 86 | -14% | -11% | -8% | 3% | 1% | 3% | 8% | 5% |
| Jan-16 | 84 | -12% | -10% | -3% | 2% | 3% | 13% | 14% | 19% |
| Dec-18 | 89 | -18% | -10% | -6% | 5% | 10% | 17% | 20% | 29% |
| Mar-20 | 85 | -13% | -17% | -10% | | | | | |
| **Average** | | **-17%** | **-14%** | **-8%** | **5%** | **7%** | **11%** | **7%** | **8%** |
| **Median** | | **-16%** | **-13%** | **-7%** | **4%** | **8%** | **13%** | **10%** | **19%** |

Source Bloomberg

# The quicker bear markets are, the faster recoveries are

## European bear markets – past and present




Source: Datastream, Barclays Research

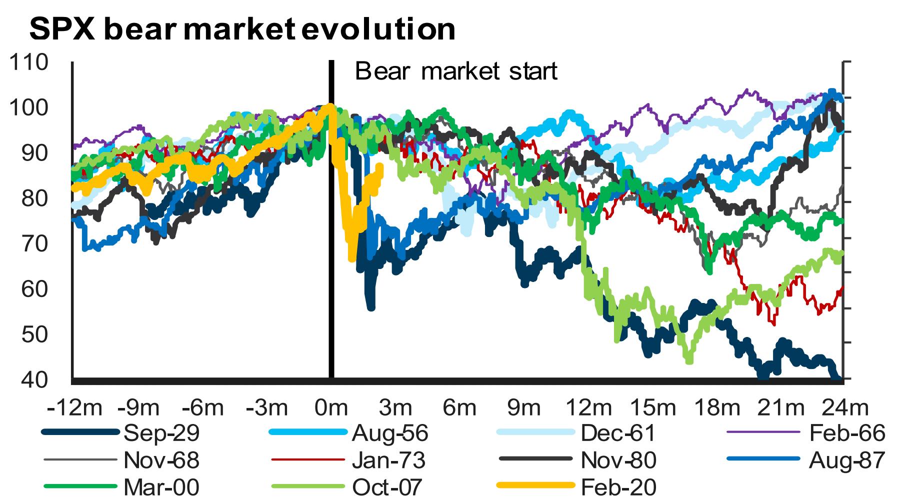
## Anatomy of the historical MSCI Europe bear markets

**MSCI Europe - 20% Drawdown(DD) analysis**

| DD start date | DD bottom date | DD cycle end date | Months to DD bottom | Months from DD bottom to full recovery | Ratio of Months taken for mkt recovery vs mkt fall | Max drawdown |
|---|---|---|---|---|---|---|
| Aug-72 | Jan-75 | Oct-80 | 29 | 71 | 2 | -46.2% |
| Oct-87 | Nov-87 | Jul-89 | 1 | 21 | 17 | -34.7% |
| Jul-90 | Jan-91 | Mar-93 | 6 | 26 | 4 | -24.5% |
| Jul-98 | Oct-98 | Jul-99 | 3 | 9 | 3 | -31.1% |
| Sep-00 | Mar-03 | May-07 | 31 | 51 | 2 | -58.4% |
| Jun-07 | Mar-09 | Jan-18 | 22 | 108 | 5 | -56.6% |
| **Average** | | | **15** | **47** | **6** | **-41.9%** |
| **Median** | | | **14** | **38** | **4** | **-40.5%** |

Source: Datastream, Barclays Research

## US bear markets – past and present




Source: Datastream, Barclays Research

## Anatomy of the historical S&P 500 bear markets

**S&P 500 - 20% Drawdown(DD) analysis**

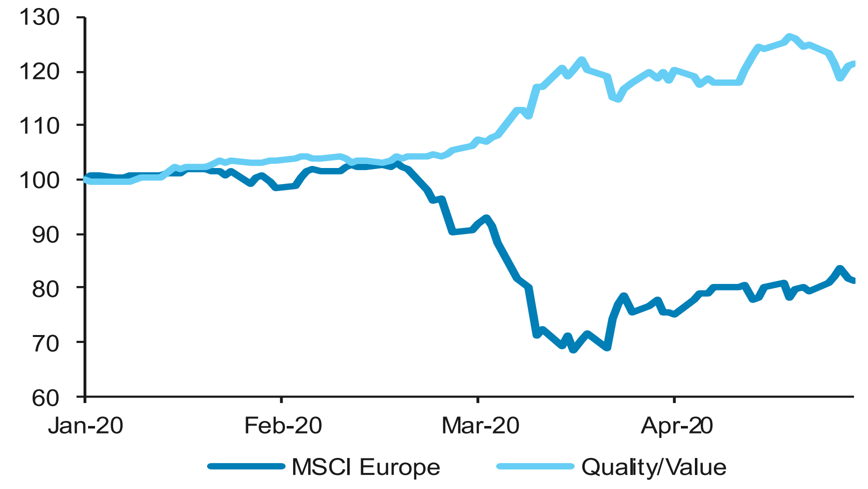
| DD start date | DD bottom date | DD cycle end date | Months to DD bottom | Months from DD bottom to full recovery | Ratio of Months taken for mkt recovery vs mkt fall | Max drawdown |
|---|---|---|---|---|---|---|
| Sep-29 | Jun-32 | Sep-54 | 47 | 388 | 8 | -86.2% |
| Aug-56 | Oct-57 | Sep-58 | 21 | 16 | 1 | -21.6% |
| Dec-61 | Jun-62 | Sep-63 | 9 | 21 | 2 | -28.0% |
| Feb-66 | Oct-66 | May-67 | 11 | 10 | 1 | -22.2% |
| Nov-68 | May-70 | Mar-72 | 26 | 31 | 1 | -36.1% |
| Jan-73 | Oct-74 | Jul-80 | 30 | 101 | 3 | -48.2% |
| Nov-80 | Aug-82 | Nov-82 | 30 | 4 | 0 | -27.1% |
| Aug-87 | Dec-87 | Jul-89 | 5 | 29 | 6 | -33.5% |
| Mar-00 | Oct-02 | Jun-07 | 44 | 81 | 2 | -49.1% |
| Oct-07 | Mar-09 | Mar-13 | 25 | 71 | 3 | -56.8% |
| **Average** | | | **25** | **75** | **3** | **-40.9%** |
| **Median** | | | **25** | **30** | **2** | **-34.8%** |

Source: Datastream, Barclays Research

# Themes
## 1. Quality keeps working, but is crowded – Value hedges warranted

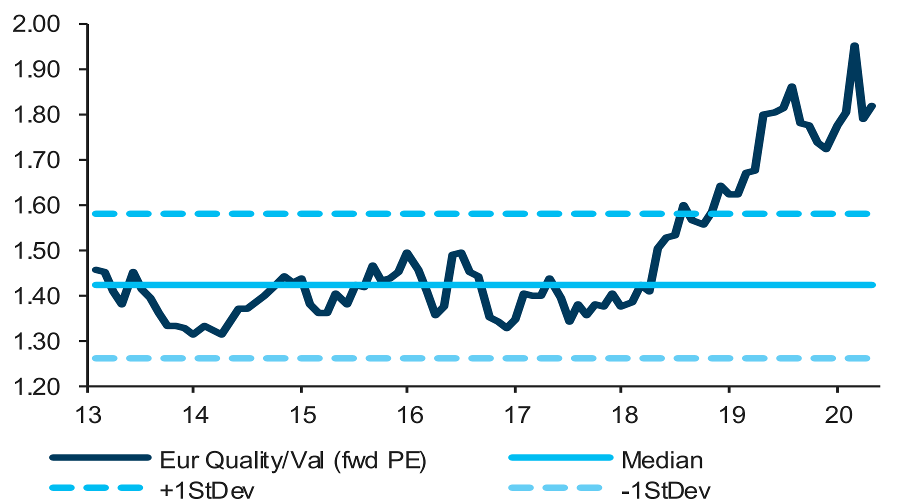
- Within the equity market, the leadership has not changed with the latest rebound. Quality and Growth factors, which strongly outperformed Value during the sell-off, have also outperformed so far during the rally.
- The strong outperformance of Quality and Growth vs. Value has resulted in an even more extreme valuation dispersion between the two factors.
- P/E relative is indeed at an all-time high, but breaking it down between Quality and Value, we note that it is more due to Value being much cheaper than usual, rather than Quality being more expensive.

**Quality has outperformed Value all the way this year**



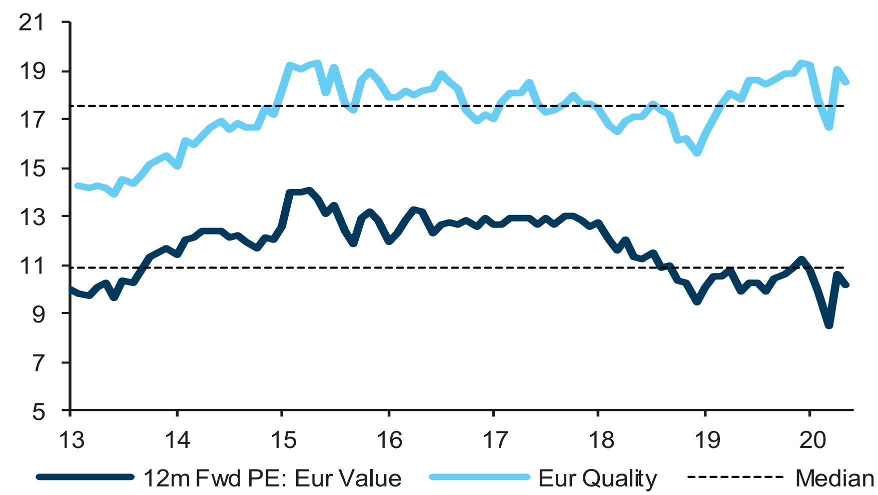

Source: Datastream, MSCI

**Quality/Value P/E differential is near extreme…**




Source: Datastream, IBES.

**…but is exacerbated by historically low P/E for Value stocks**

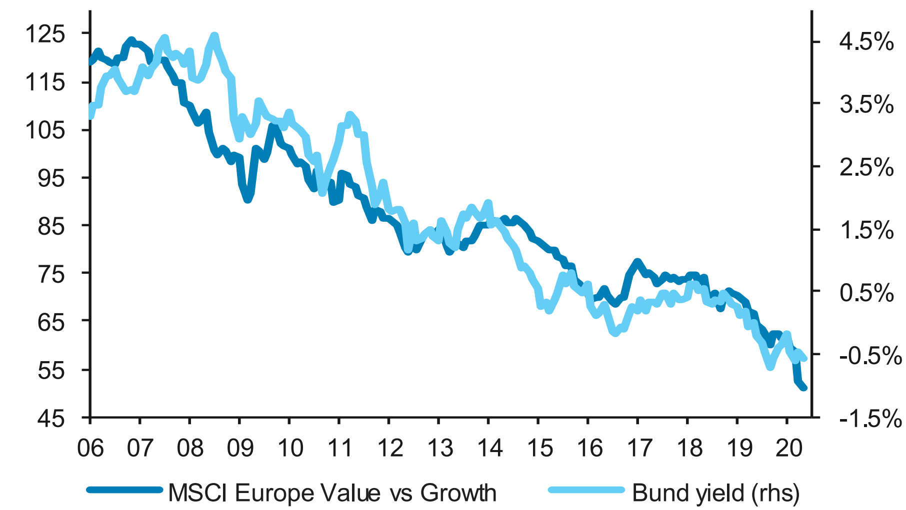



Source: Datastream, IBES.

# Bond yield direction remains the key driver of the Value/Growth trade

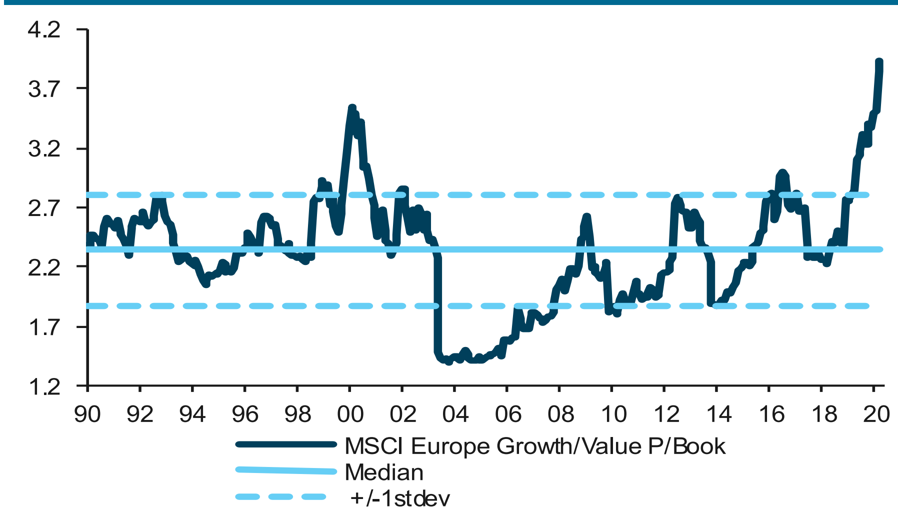
- Quality/Growth positioning is crowded, which warrants some diversification into Value, in our view.
- Yet, the Value/Growth trade is highly dependent on the direction of bond yields. Bond yields thus need to go up for the Value rotation to gather pace, which is unlikely to happen quickly given the dovish Fed and ECB, although PMIs are more likely to go up than down in the coming months.
- Unless bond yields change direction for good, any short-term Value rotation is unlikely to be sustained.

**The Value/Growth trade is highly dependent on bond yield direction**



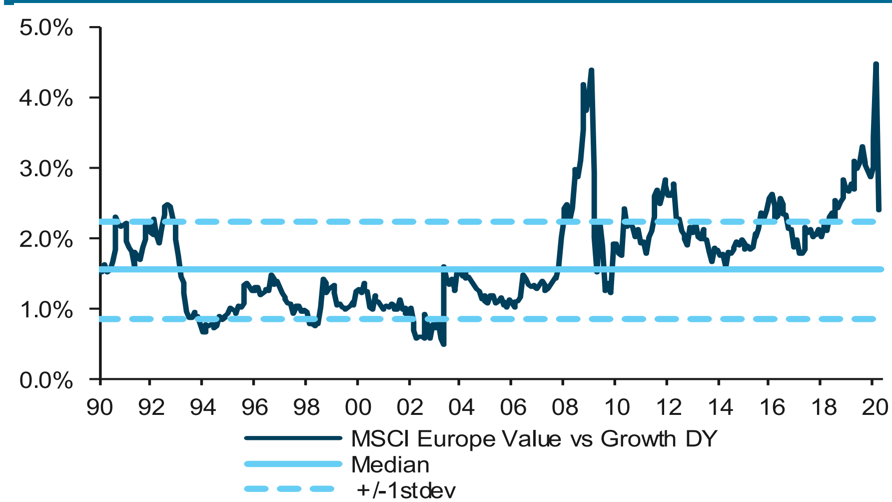

Source: Datastream

**Growth looks stretched vs. Value on P/Book metric**




Source: Datastream

**Value/Growth dividend yield differential declined sharply**

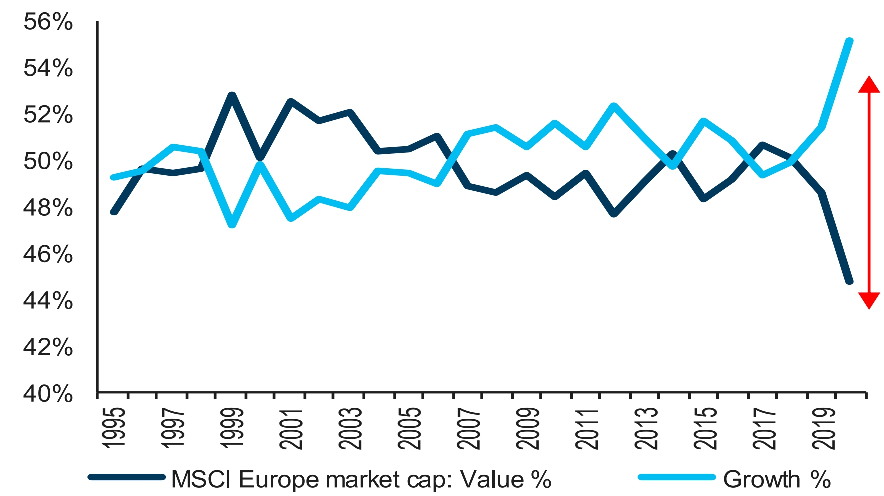



Source: Datastream

# Value not dominant anymore, but typically moves with PMI

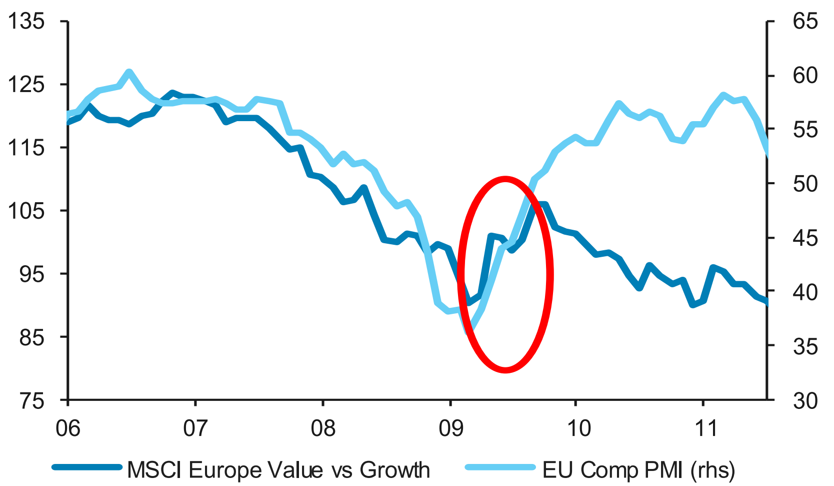
- Growth is now the dominant factor in MSCI Europe, as it weighs 56% of market cap. It thus means that a broadening of the market leadership towards Value may not be required for equities to keep rallying from here.
- However, in 2009, the rebound in equities was initially driven by Value, which coincided with the rebound in PMIs and bond yields, but it did not last.

**Value constitutes a smaller part of the European market than ever before – Growth is now the dominant factor**



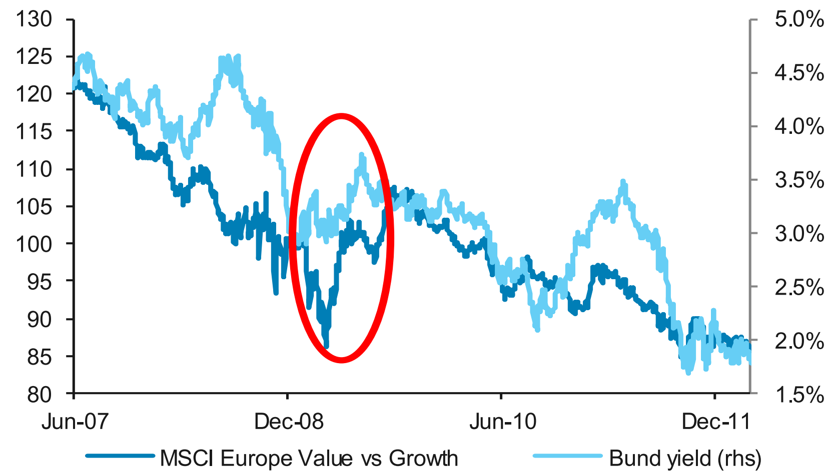

Source: Datastream

**In 2009, the market rebound saw Value outperform along with PMIs rebounding…**




Source: Datastream

**…and bond yields rebounding**

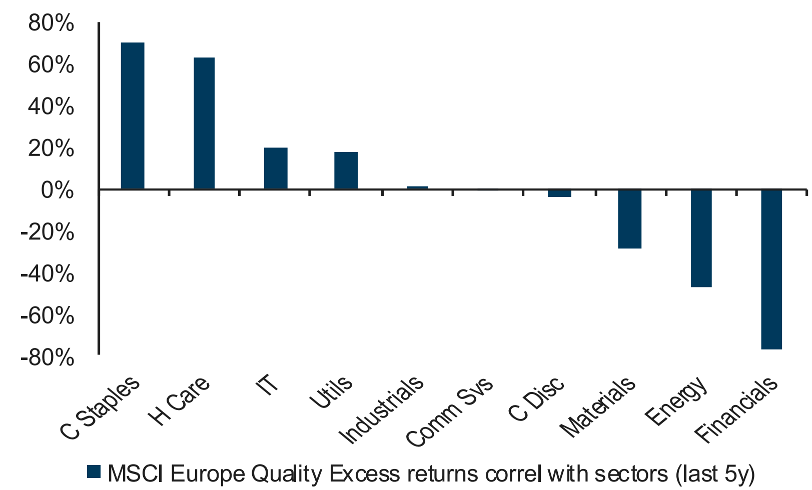



Source: Datastream

# Quality sectors in demand due to earnings and cash flow safety

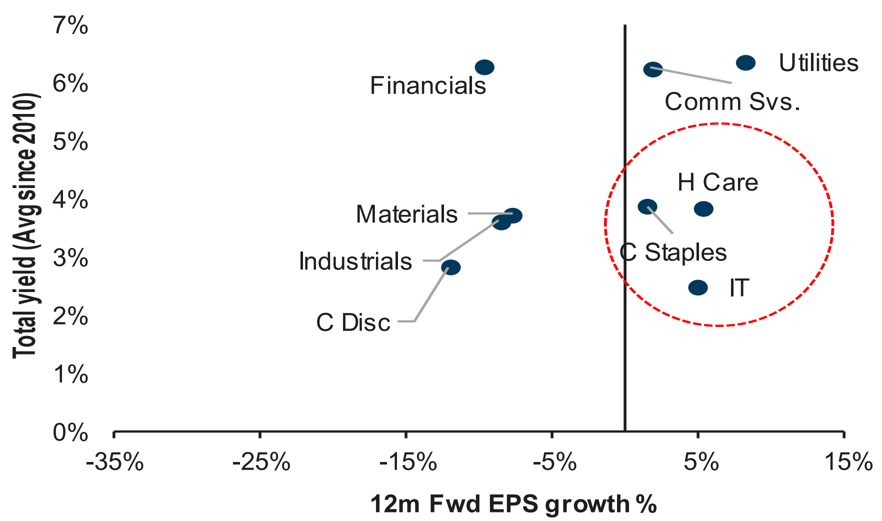
- Staples, Healthcare, Tech and Utilities are the sectors most biased to Quality, while Financials, Energy, Materials and Discretionary are the least. Our sector allocation is thus biased to Quality, even though we hold a balanced cyclical/defensive exposure.
- Quality/Growth sectors tend to have less financials leverage than Value as well as more earnings and cash flows safety. Bailed out sectors are mostly Value, and several deep Value sectors like Energy and Autos still face many structural challenges that constrain their shareholder attractiveness, in our view.

**Staples, Healthcare and Tech constitute a major chunk of European Quality**



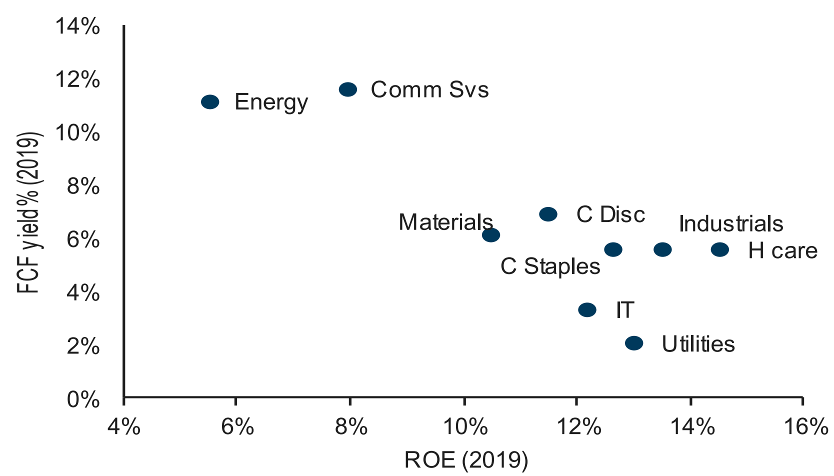

IBES, Bloomberg, Datastream

**Shareholder yield vs. EPS growth**




Source: Datastream, IBES.

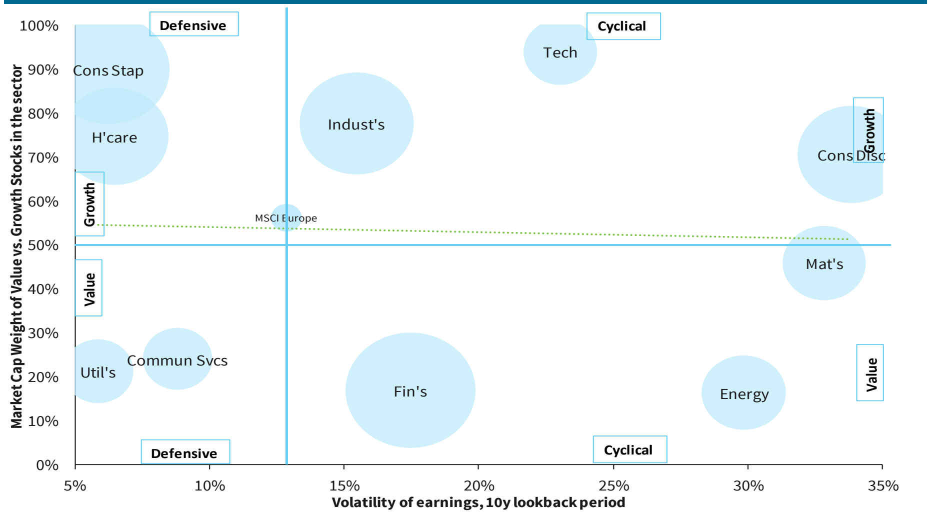
**ROE/FCF yield matrix**




Source: Datastream, IBES.

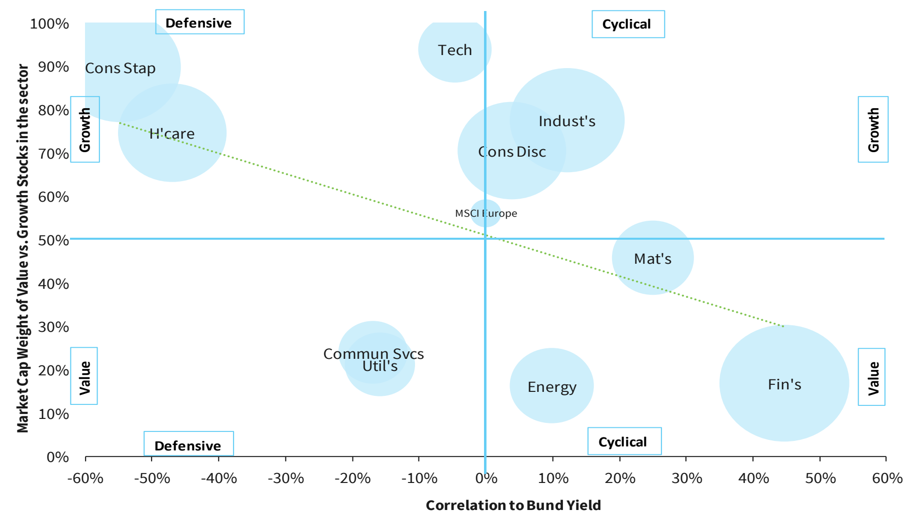
# Value vs. Growth is not the same as Cyclical vs. Defensive

## Europe Value/Growth vs. earnings cyclicality




Source: Refinitiv, Barclays Research

## Europe Value/Growth correlation to bund yield




Source: Refinitiv, Barclays Research

## MSCI Europe Value and Growth weightings by sector

| | Sector | Value | Growth | Value-Growth |
|---|---|---|---|---|
| Value | Financials | 27% | 3% | 25% |
| | Energy | 11% | 1% | 10% |
| | Utilities | 11% | 1% | 10% |
| | Comm Svcs | 7% | 2% | 4% |
| | Materials | 8% | 5% | 3% |
| | Real Estate | 2% | 0% | 2% |
| Growth | Industrials | 10% | 15% | -4% |
| | Healthcare | 9% | 19% | -10% |
| | Cons Disc | 8% | 17% | -10% |
| | IT | 0% | 12% | -12% |
| | Cons Stap | 5% | 25% | -19% |

Source: Datastream

## MSCI USA Value and Growth weightings by sector

| | Sector | Value | Growth | Value-Growth |
|---|---|---|---|---|
| Value | Financials | 20% | 3% | 17% |
| | Cons Stap | 15% | 2% | 13% |
| | Energy | 6% | 0% | 6% |
| | Utilities | 7% | 0% | 7% |
| | Healthcare | 17% | 12% | 5% |
| | Real Estate | 4% | 2% | 1% |
| | Materials | 3% | 2% | 1% |
| Growth | Industrials | 8% | 7% | 0% |
| | Comm Svcs | 8% | 14% | -5% |
| | Cons Disc | 3% | 18% | -14% |
| | IT | 9% | 39% | -31% |

Source: Datastream

# Growth and Value baskets

- Our European Growth (**BCEUGROW**) and Value (**BCEUVALO**) baskets are sector-neutral.

## Barclays European Growth basket (BCEUGROW)

| Ticker | Name | Sector | EPS CAGR 2018-21 | Mkt cap ($bn) |
|---|---|---|---|---|
| HL/ LN | Hargreaves Lans. | Financials | 9% | 10.7 |
| PGHN SW | Partners Group | Financials | 9% | 20.7 |
| PRU LN | Prudential Plc | Financials | 3% | 46.1 |
| DB1 GR | Deutsche Boerse | Financials | 8% | 28.3 |
| ZURN SW | Zurich Insurance | Financials | 9% | 58.6 |
| JMT PL | Jeronimo Martins | C Staples | 8% | 10.7 |
| KYG ID | Kerry Group-A | C Staples | 10% | 22.2 |
| DGE LN | Diageo Plc | C Staples | 9% | 93.4 |
| BARN SW | Barry Calleb-Reg | C Staples | 11% | 11.4 |
| KNEBV FH | Kone Oyj-B | Industrials | 11% | 33.2 |
| RTO LN | Rentokil Initial | Industrials | 10% | 10.4 |
| DSV DC | Dsv Panalpina A | Industrials | 14% | 25.3 |
| SAF FP | Safran Sa | Industrials | 21% | 74.3 |
| WKL NA | Wolters Kluwer | Industrials | 9% | 19.2 |
| DPW GR | Deutsche Post-Rg | Industrials | 15% | 44.8 |
| ZAL GR | Zalando Se | C Disc | 23% | 10.4 |
| ADS GR | Adidas Ag | C Disc | 14% | 59.9 |
| KER FP | Kering | C Disc | 12% | 72.3 |
| STMN SW | Straumann Hldg-R | Health Care | 21% | 14.1 |
| NOVOB DC | Novo Nordisk-B | Health Care | 10% | 137.1 |
| GALP PL | Galp Energia | Energy | 7% | 13.7 |
| NESTE FH | Neste Oyj | Energy | 10% | 26.9 |
| CHR DC | Chr Hansen Holdi | Materials | 9% | 10.3 |
| SY1 GR | Symrise Ag | Materials | 15% | 12.8 |
| SIKA SW | Sika Ag-Reg | Materials | 17% | 24.6 |
| TEMN SW | Temenos Ag-Reg | IT | 17% | 10.5 |
| WDI GR | Wirecard Ag | IT | 39% | 16.1 |
| ENEL IM | Enel Spa | Utilities | 11% | 76.9 |
| CLNX SM | Cellnex Telecom | Comm Svs. | 17% | 16.0 |
| DWNI GR | Deutsche Wohnen | Real Estate | 6% | 13.2 |

Source: Bloomberg, IBES, Datastream, Barclays Research. For more information please see our report 2020 Outlook - Climbing at altitude , Nov 27, 2019

## Barclays European Value basket (BCEUVALO)

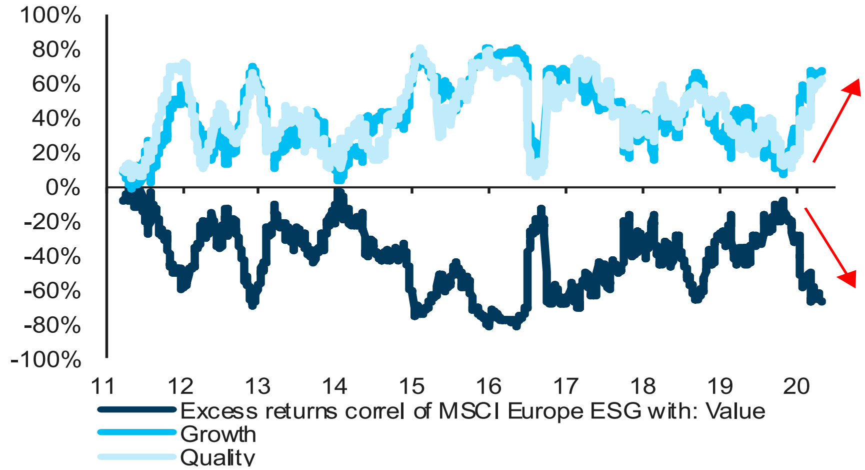
| Ticker | Name | Sector | P/B | Mkt cap ($bn) |
|---|---|---|---|---|
| NN NA | NN Group | Financials | 0.5 | 13.5 |
| STAN LN | Standard Chartered | Financials | 0.6 | 29.8 |
| GLE FP | Soc Generale Sa | Financials | 0.4 | 26.7 |
| DBK GR | Deutsche Bank-Rg | Financials | 0.2 | 15.8 |
| SAN SM | Banco Santander | Financials | 0.7 | 69.2 |
| CA FP | Carrefour Sa | C Staples | 1.3 | 13.8 |
| ABF LN | Assoc Brit Foods | C Staples | 2.0 | 24.7 |
| TSCO LN | Tesco Plc | C Staples | 1.6 | 29.9 |
| AD NA | Ahold Delhaize | C Staples | 1.8 | 29.3 |
| SGO FP | Saint Gobain | Industrials | 1.1 | 22.5 |
| BOL FP | Bollore | Industrials | 1.3 | 13.1 |
| CNHI US | CNH Industrial | Industrials | 2.1 | 15.0 |
| MAERSKB DC | AP Moller-B | Industrials | 1.0 | 27.0 |
| EN FP | Bouygues Sa | Industrials | 1.5 | 15.7 |
| KGF LN | Kingfisher Plc | C Disc | 0.7 | 5.9 |
| BMW GR | BMW Ag | C Disc | 0.9 | 53.3 |
| VOW GR | Volkswagen Ag | C Disc | 0.9 | 99.9 |
| CCL LN | Carnival Plc | C Disc | 0.9 | 29.9 |
| SAN FP | Sanofi | Health Care | 1.7 | 114.9 |
| SN/ LN | Smith & Nephew | Health Care | 1.5 | 18.6 |
| ENI IM | ENI Spa | Energy | 1.0 | 56.6 |
| REP SM | Repsol Sa | Energy | 0.8 | 26.3 |
| HEI GR | Heidelbergcement | Materials | 0.8 | 14.2 |
| MT NA | Arcelormittal | Materials | 0.4 | 17.3 |
| GLEN LN | Glencore Plc | Materials | 0.6 | 43.6 |
| CAP FP | Capgemini Se | IT | 2.3 | 19.3 |
| NOKIA FH | Nokia Oyj | IT | 1.2 | 20.1 |
| EDF FP | EDF | Utilities | 0.6 | 31.0 |
| VOD LN | Vodafone Group | Comm Svs. | 0.6 | 55.9 |
| GFC FP | Gecina Sa | Real Estate | 1.0 | 12.8 |

Source: Bloomberg, IBES, Datastream, Barclays Research. For more information please see our report 2020 Outlook - Climbing at altitude , Nov 27, 2019

# 2. ESG – a winner of the COVID-19 crisis

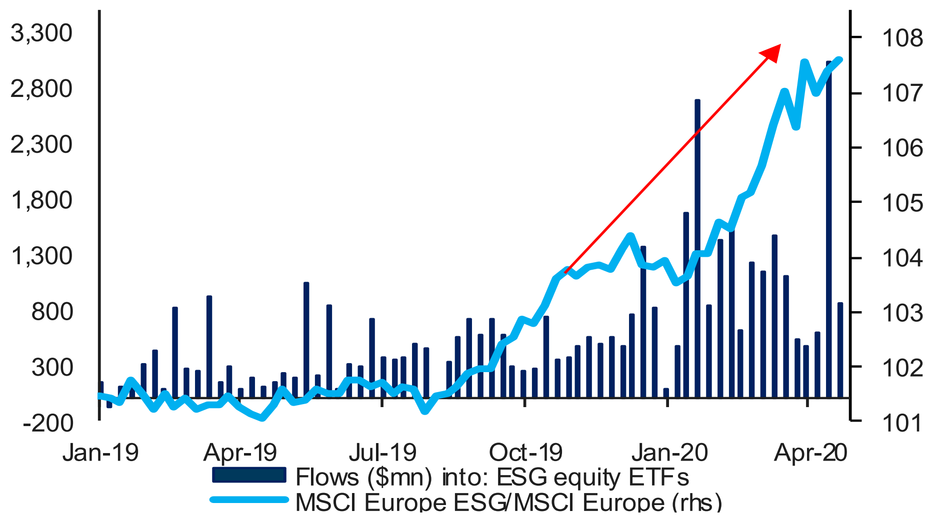
- There is a clear overlap between ESG stocks and the popular Quality and Growth styles, which likely explains the resiliency of ESG funds.
- The performance of ESG funds and the inflows into these funds have remained strong, which contrasts with the outflows suffered by the broader equity funds.
- ESG funds have indeed benefitted from both secular (sustainability) and cyclical (Quality bias) factors.

**ESG stocks mostly belong to the quality/growth bucket**



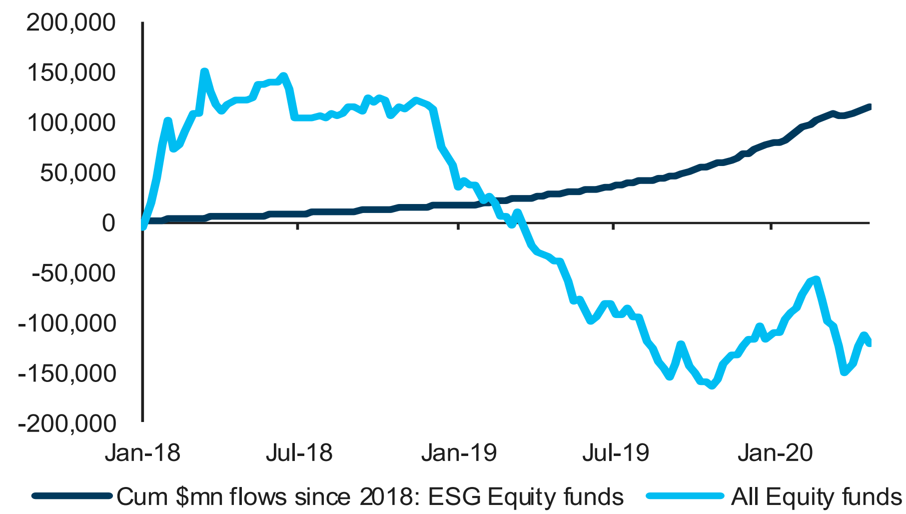

Source: Datastream

**ESG stocks are benefitting from tailwinds – both secular (sustainability) and cyclical (Quality focus) factors**




Source: Datastream, EPFR

**Flows into ESG funds have not been hindered by the broader equity market redemptions**

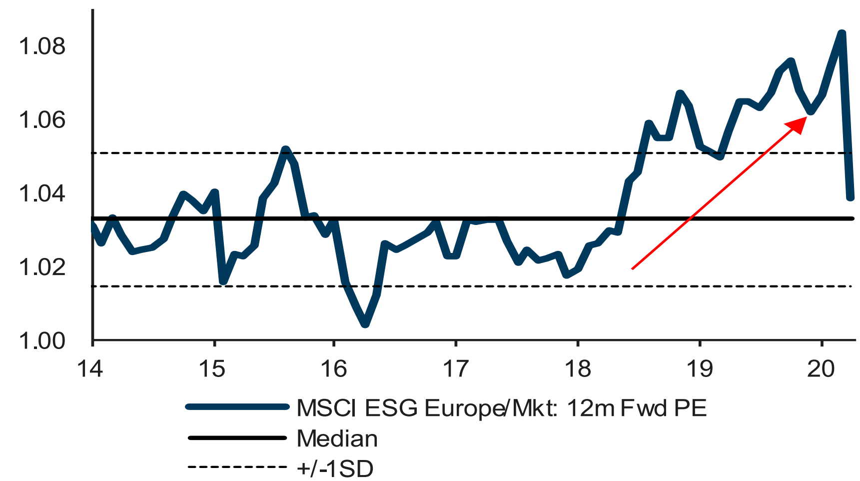



Source: EPFR, Barclays Research

# ESG relative valuation impacted by larger EPS downgrades in non-ESG names

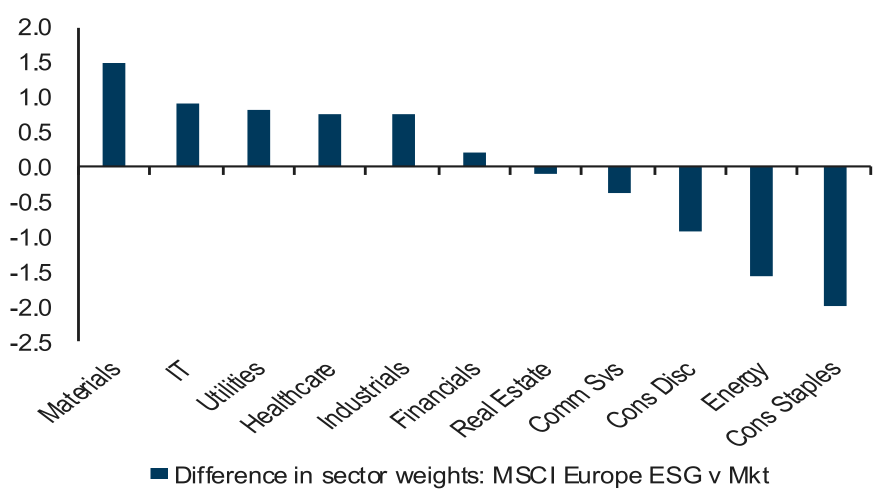
- Given the unprecedented media attention on Sustainability and its relative immaturity as an investment style, ESG is having a fast-growing impact on equity market positioning.
- We believe that it is likely contributing to exacerbate the valuation dispersion between winners and losers.
- However, ESG stocks have de-rated recently relative to the overall MSCI Europe index. This is due to massive EPS downgrades in some sectors like Energy. On a sector level, ESG names in Real estate, Materials, Industrials, Comm svc's and consumer discretionary still trade at a premium over broader sector indices.

**ESG stocks relative de-rating has been driven by a relatively larger EPS fall in broader market due to Energy & Fins**



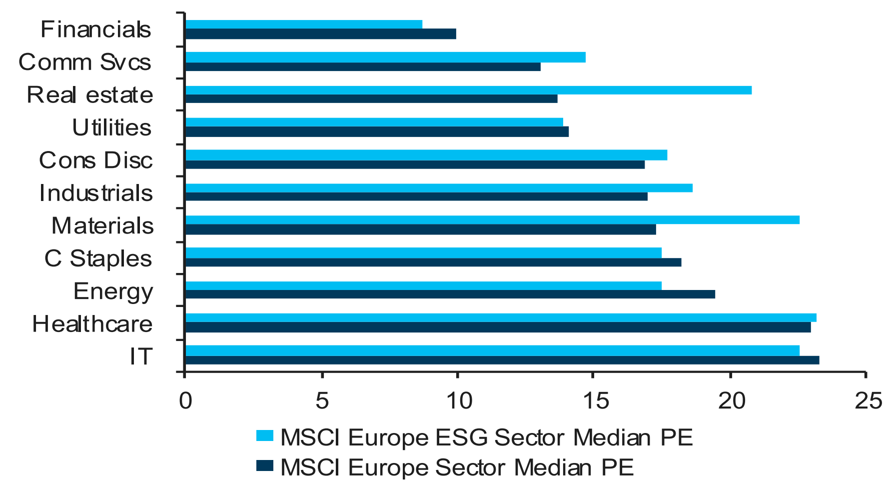

Source: Datastream

**Sector weighting further reveals the divergence between ESG and non-ESG stocks**




Source: MSCI, Bloomberg

**ESG stocks are trading at a premium across most European sectors**

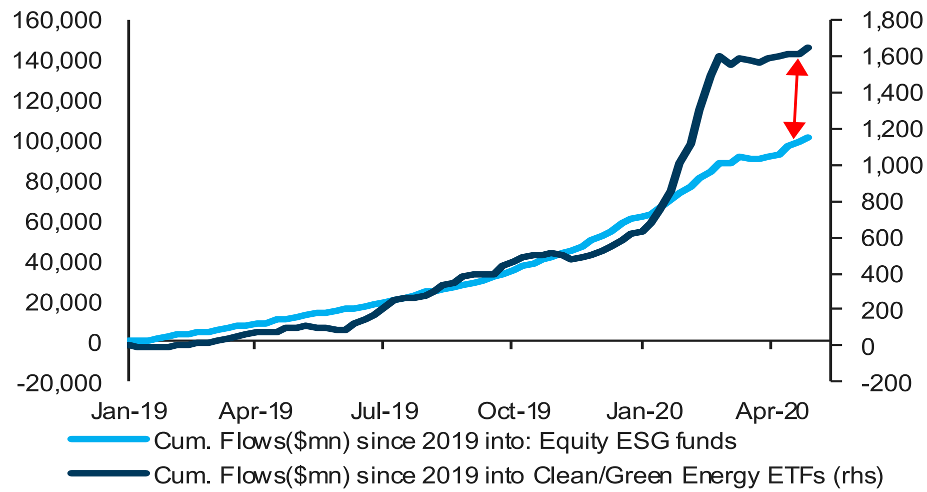



Source: MSCI, Bloomberg

# Green bubble vs. falling oil price

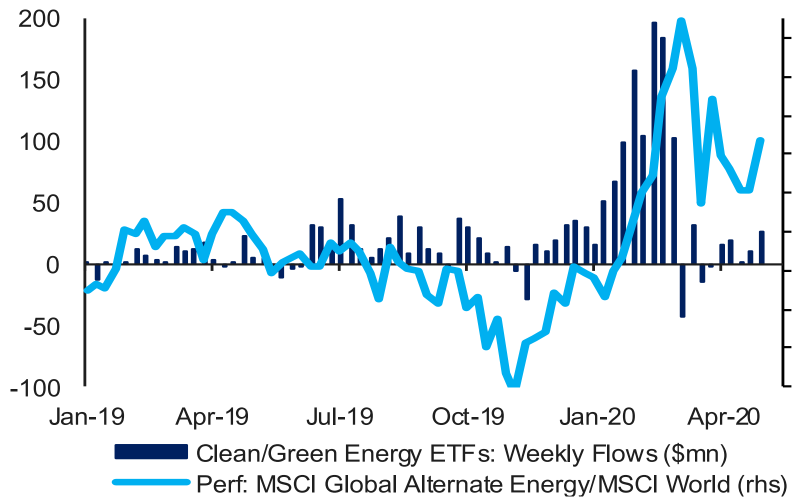
- Within the ESG space, the Green theme gathered most investor interest recently.
- However, we note that the clean/green energy space's relative performance has rolled over lately. We believe it is likely due to the collapse in oil prices, which investors might see as a threat to the viability of some green energy projects.
- Flows into the space have remained steady, though.

**Within the ESG space, 'Green' energy funds are those seeing the biggest inflows ytd**



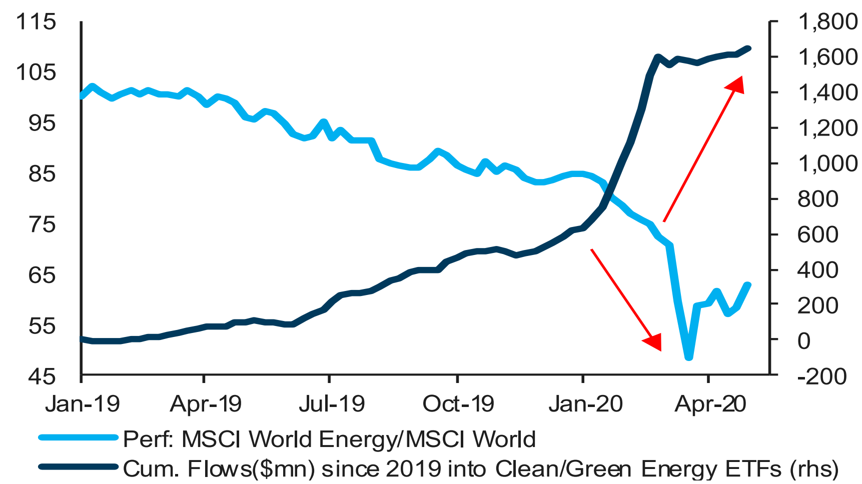

Source: Datastream, EPFR

**The flows in 'Green' ETF have accompanied decline in performance most recently, though**




Source: Datastream, EPFR

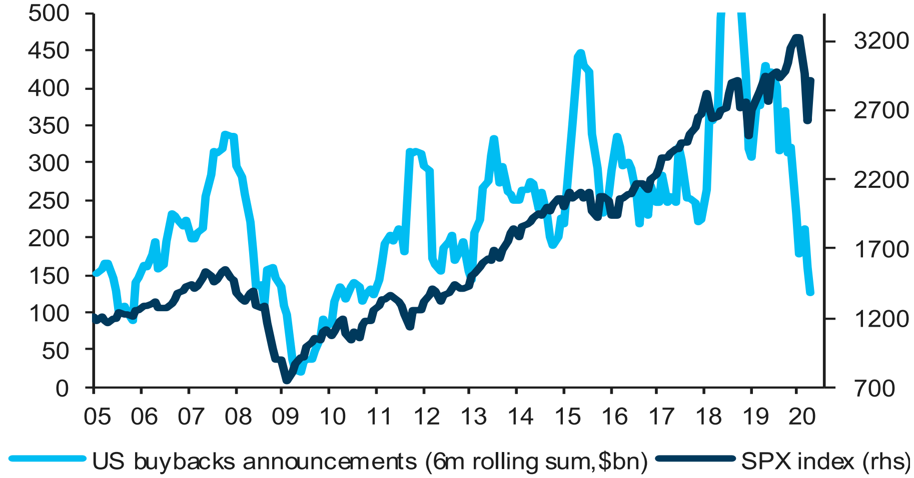
**The sharp fall in the Energy sector ytd is in stark contrast to the inflows seen in 'Clean/Green' Energy ETFs**




Source: EPFR, Datastream

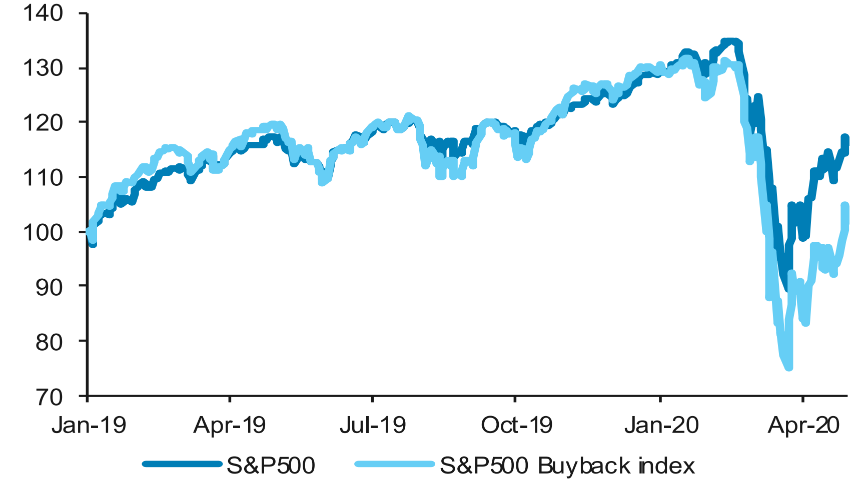
# 3. Shareholder payout, a year to forget - buybacks are being suspended fast…

## US buyback announcements have slowed after the 2018 bounce



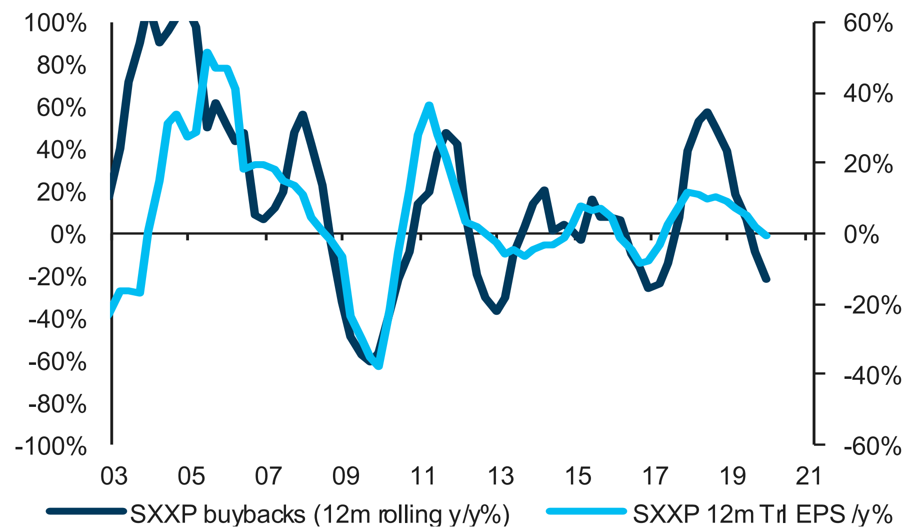

Source: Bloomberg, Barclays Research

## S&P 500 Buyback index has underperformed the overall S&P 500 by more than 8% from the February highs



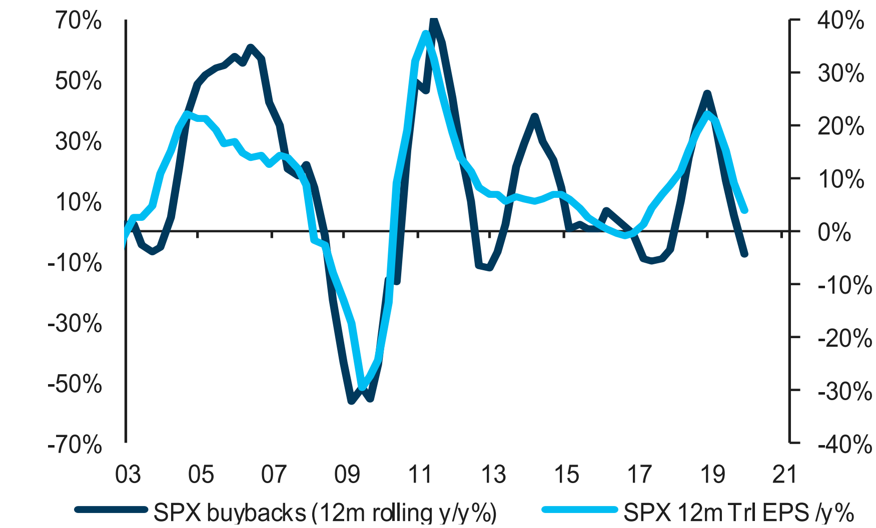

Source: Bloomberg

## Buybacks track earnings cyclicality and are declining rapidly in Europe




Source: Bloomberg, Barclays Research

## Buybacks are rolling over too in the US along with earnings

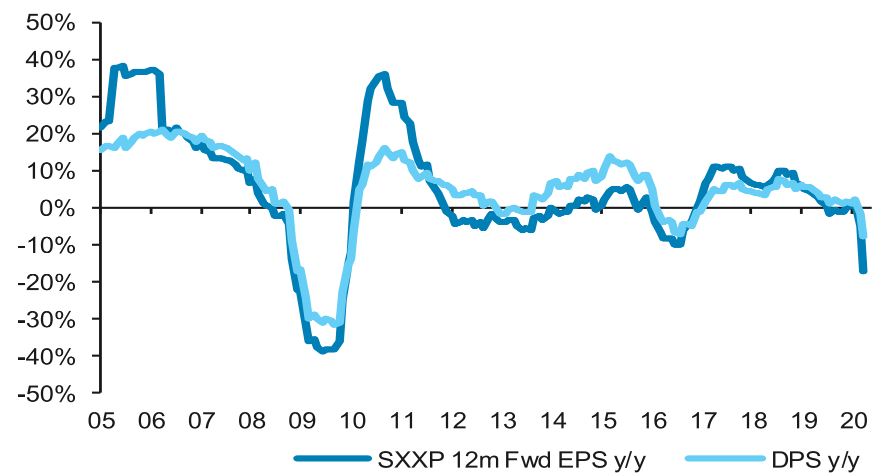



Source: Bloomberg, Barclays Research

# …and dividends are set to fall sharply in 2020

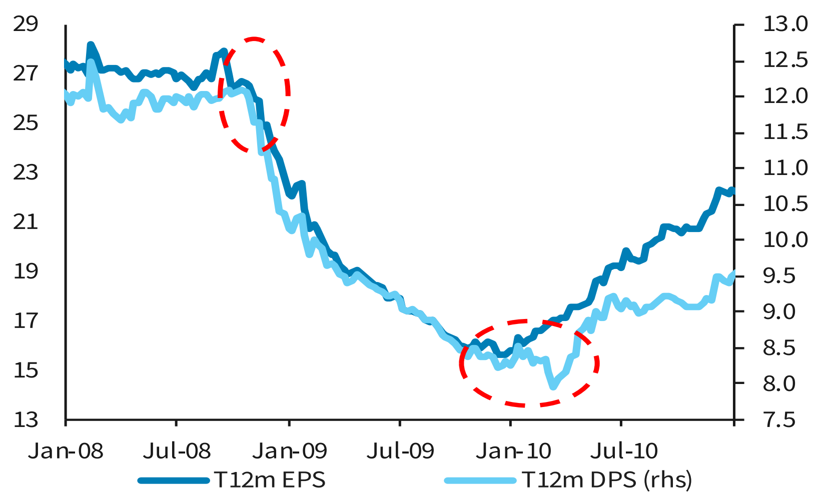
- In 2008-09, SXXP DPS fell by 36% vs. 43% for EPS, and 65% of companies cut dividends. This time, the sudden halt to activity could also force companies to preserve capital and cash flow, but balance sheets are generally healthier. However, many face pressure to preserve jobs and prioritize social responsibility over payout, given the massive state aid received. Special dividends and buybacks look the most at risk, but cuts to ordinary dividends are likely too.
- That said, we believe the dividend hit this year, while severe, will be a one-off if coronavirus shutdown does not hurt economy in the long run.

**Over the long run, dividends closely follow earnings**




Source: Refinitiv

**Stoxx 600 trailing EPS in '08/09 EPS fell 50% and DPS fell 40%; DPS troughed later than EPS**




Source: Refinitiv

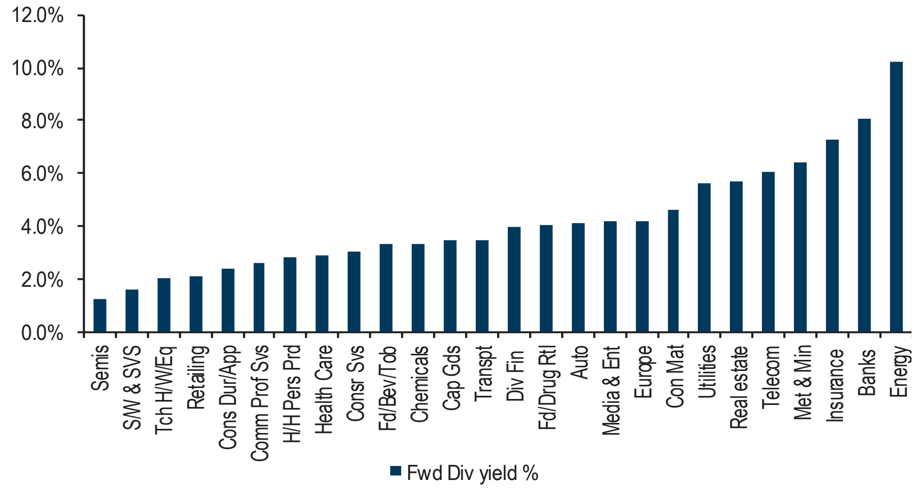
**Sector EPS and DPS fall in 2008-09**

| | 12m Fwd PE | | | | vs. EPS fall in 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | Current F12m P/E based on cons. | 15y median F12m P/E | Current Disc/ Prem to 15y med | At Mkt bottom in Mar'09 | Fall in EPS during 09 recession | P/E based on fall in EPS during 09 recession | Disc/Prem of P/E based on trough '09 EPS to 15y med | Fall in DPS during 09 recession |
| **Europe** | **15.2** | **12.9** | **18%** | **8.2** | **-43%** | **20.1** | **56%** | **-36%** |
| Energy | 17.8 | 10.4 | 72% | 7.6 | -35% | 9.9 | -5% | -4% |
| Healthcare | 17.1 | 15.3 | 12% | 9.0 | 13% | 14.6 | -5% | 11% |
| Telecoms | 12.4 | 12.9 | -4% | 8.3 | 2% | 10.3 | -20% | -11% |
| Utilities | 14.2 | 13.5 | 5% | 7.9 | -4% | 13.4 | -1% | 2% |
| C Staples | 18.4 | 16.7 | 11% | 11.1 | 2% | 16.0 | -4% | -3% |
| Financials | 9.3 | 10.5 | -11% | 5.5 | -69% | 22.1 | 112% | -71% |
| Industrials | 17.3 | 14.6 | 18% | 8.7 | -44% | 22.7 | 55% | -37% |
| IT | 21.7 | 17.6 | 23% | 13.1 | -61% | 47.4 | 169% | -34% |
| Materials | 15.4 | 12.6 | 22% | 7.9 | -58% | 28.0 | 122% | -36% |
| C Disc | 17.7 | 13.0 | 36% | 12.3 | -62% | 28.7 | 121% | -38% |

Source: IBES

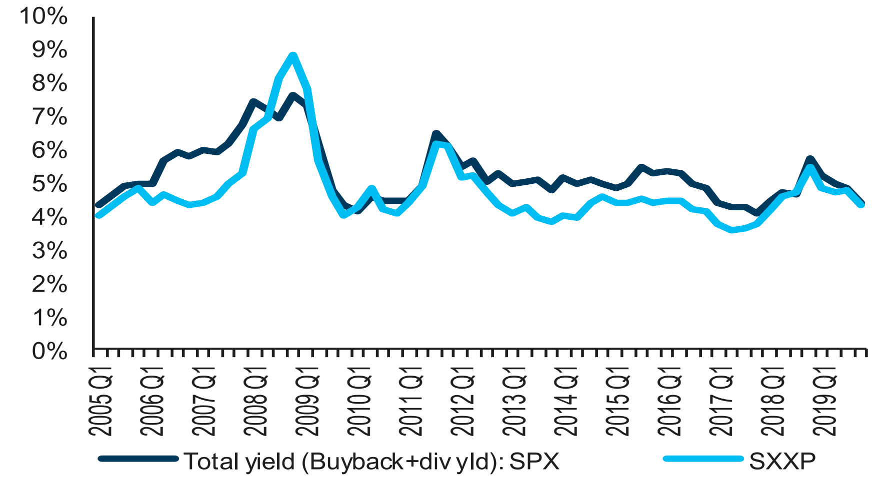
# Shareholder payout in line with long-term average ahead of the crisis

## European Level 2 sector Dividend yield



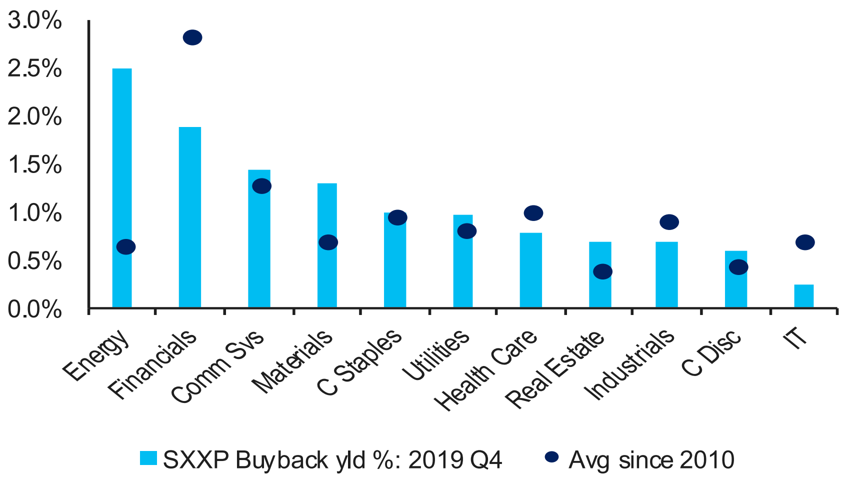

Source: Datastream

## Total yield is broadly similar across US and Europe and in line with historical averages



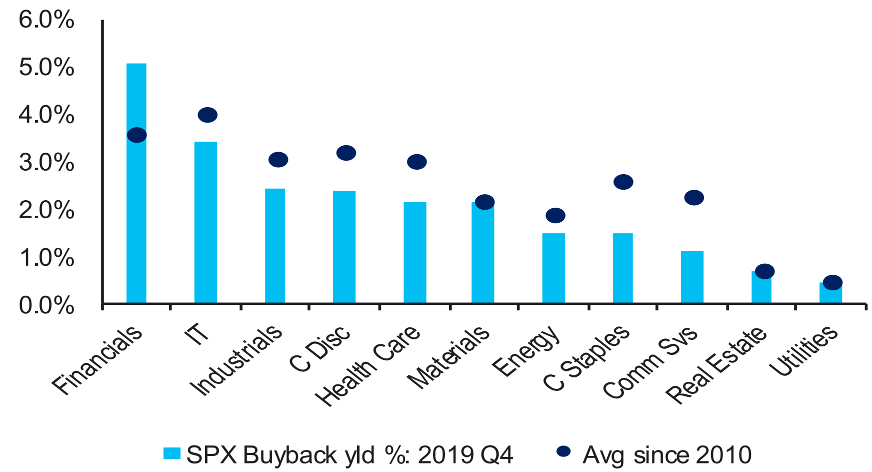

Source: Bloomberg, Barclays Research

## In Europe, Energy and Materials buyback yields were much higher than average recently




Source: Bloomberg, Barclays Research

## Financials in US lead the way

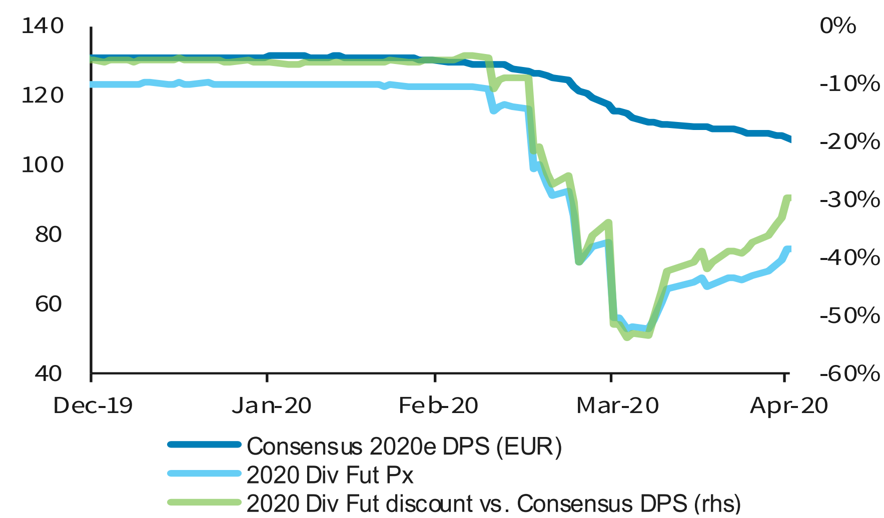



Source: Bloomberg, Barclays Research

# Euro Stoxx dividend future discount closing, but FTSE 100 still far below consensus

- Dividends will be under severe pressure this year and next.
- Divs will be cut, not just due to lower EPS in '20/21, but may also become more difficult to pay out due to official sector/ social responsibility /PR point of view.
- Euro Stoxx 50 div futures have closed some of the gap to consensus as more companies have confirmed divs for 2020.
- However FTSE 100 div futures remain far below consensus as it is seeing more cuts.
- Outer year ('22-24) div futures look better value and less risky to us, although this assumes an economic rebound.

**SX5E Dividend Future price for 2020 is recovering as more companies confirm dividends, closing the discount**



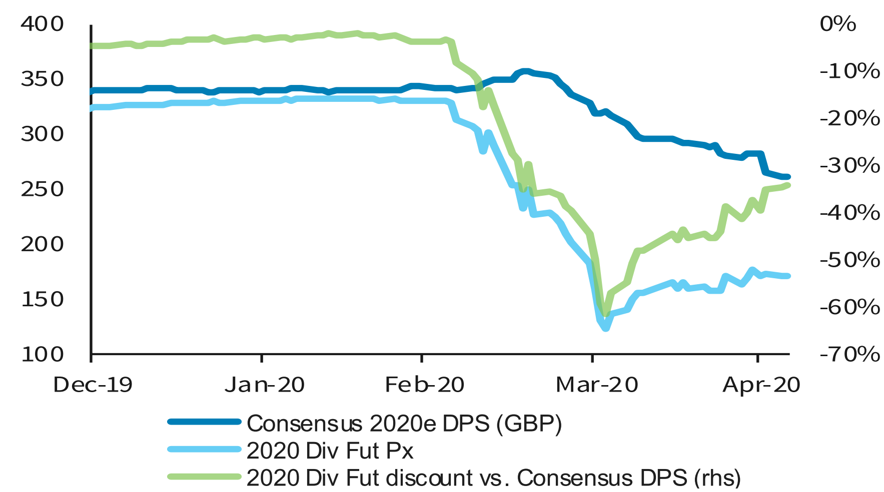

Source: Bloomberg, Barclays Research Note: Analysis on SX5E Div Futures

**Both Index level Div Futures & aggregated single stock Div Futures imply further discounts to consensus DPS**

| Year | Cons DPS (EUR) | Cons Div Y | Index Div Fut (DPS, EUR) | Index Div Fut Implied Div Y | Index Div Fut Disc to Cons | Single Stock Div Fut Aggr'd (DPS, EUR) | Single Stock Div Fut Implied Div Y | Single Stock Div Fut Disc to Cons |
|---|---|---|---|---|---|---|---|---|
| 2020 | 106.3 | 3.7% | 79.4 | 2.8% | -25% | 89.9 | 3.1% | -15% |
| 2021 | 121.3 | 4.2% | 73.0 | 2.5% | -40% | 89.9 | 3.1% | -26% |
| 2022 | 131.4 | 4.6% | 82.0 | 2.9% | -38% | 89.9 | 3.1% | -32% |

Source: Bloomberg, Barclays Research Note: Analysis on SX5E Div Futures

**FTSE 100 Div Fut px for 2020 is not recovering as it is seeing more cuts by companies, and risk remains**

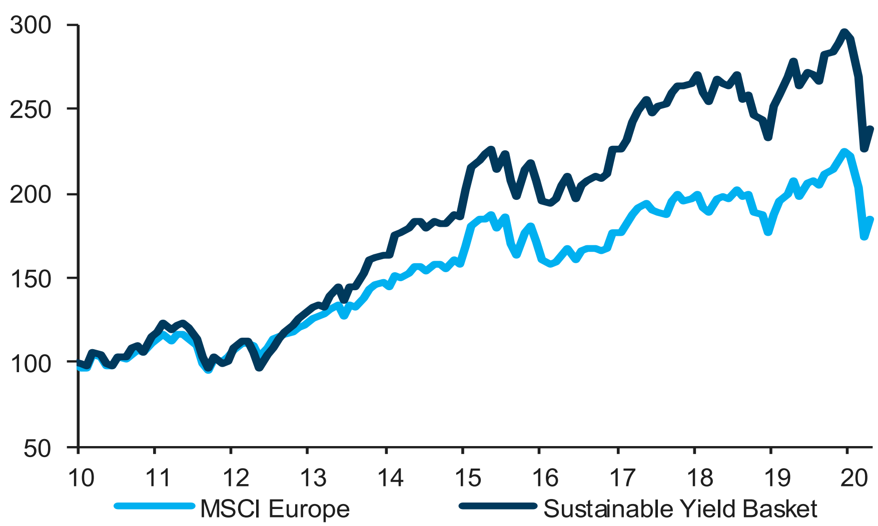



Source: Bloomberg, Barclays Research Note: Analysis on FTSE 100 Div Futures

# Yield sustainability is key

- Depressed bond yields reinforce the attractiveness of sustainable dividend yield stocks.
- Our basket consists of stocks with positive earnings growth for the last reported year and the next fiscal year. These stocks are also expected to grow their dividends and have a dividend coverage ratio higher than 1.
- It is available on Bloomberg as **BCEUERIC.**

## Barclays European sustainable yield basket performance




Source: Bloomberg,

## Barclays European sustainable yield basket (BCEUERIC)

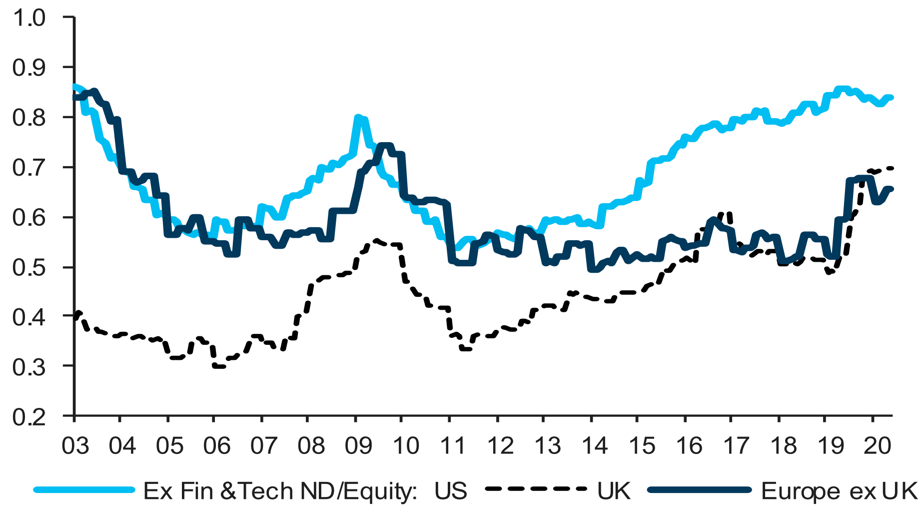
| Ticker | Name | Sector | DY 20e | Mcap ($bn) |
|---|---|---|---|---|
| MC FP | Lvmh | C Disc | 2.1% | 193.1 |
| AD NA | Ahold Delhaize | C Staples | 3.8% | 25.9 |
| SWMA SS | Swedish Match Ab | C Staples | 2.7% | 9.3 |
| CCH LN | Coca-Cola Hbc Ag | C Staples | 3.3% | 7.6 |
| NESN SW | Nestle Sa-Reg | C Staples | 2.8% | 309.6 |
| TSCO LN | Tesco Plc | C Staples | 3.6% | 27.8 |
| BP/ LN | BP Plc | Energy | 9.7% | 84.6 |
| NN NA | NN Group | Financials | 9.4% | 9.5 |
| LGEN LN | Legal & Gen Grp | Financials | 9.7% | 14.5 |
| SREN SW | Swiss Re Ag | Financials | 8.6% | 25.2 |
| HL/ LN | Hargreaves Lansd | Financials | 3.3% | 8.0 |
| VNA GR | Vonovia Se | Real Estate | 3.8% | 26.9 |
| SGRO LN | Segro Plc | Real Estate | 3.0% | 10.2 |
| AHT LN | Ashtead Group | Industrials | 2.6% | 9.3 |
| ASSAB SS | Assa Abloy Ab-B | Industrials | 2.2% | 20.3 |
| HO FP | Thales Sa | Industrials | 3.8% | 17.7 |
| GEBN SW | Geberit Ag-Reg | Industrials | 2.8% | 16.5 |
| WKL NA | Wolters Kluwer | Industrials | 1.9% | 19.0 |
| FERG LN | Ferguson Plc | Industrials | 3.6% | 14.0 |
| ASML NA | ASML Holding Nv | IT | 1.0% | 116.0 |
| ERICB SS | Ericsson Lm-B | IT | 2.2% | 26.6 |
| AI FP | Air Liquide Sa | Materials | 2.5% | 59.6 |
| GIVN SW | Givaudan-Reg | Materials | 2.2% | 28.5 |
| PHIA NA | Koninklijke Philips | Health Care | 2.4% | 36.8 |
| NOVN SW | Novartis Ag-Reg | Health Care | 3.9% | 207.3 |
| NOVOB DC | Novo Nordisk-B | Health Care | 2.3% | 145.5 |
| UU/ LN | United Utilities | Utilities | 4.4% | 7.8 |
| IBE SM | Iberdrola Sa | Utilities | 4.7% | 63.2 |
| VOD LN | Vodafone Group | Comm Svs | 7.2% | 38.0 |
| KPN NA | KPN (Konin) Nv | Comm Svs | 6.3% | 10.2 |

Source: Bloomberg, IBES, Datastream, Barclays Research.
For more information please see our report Hold your nerve, equities still have upside, 30 July 2018.

# 4. Credit – this is not 2008

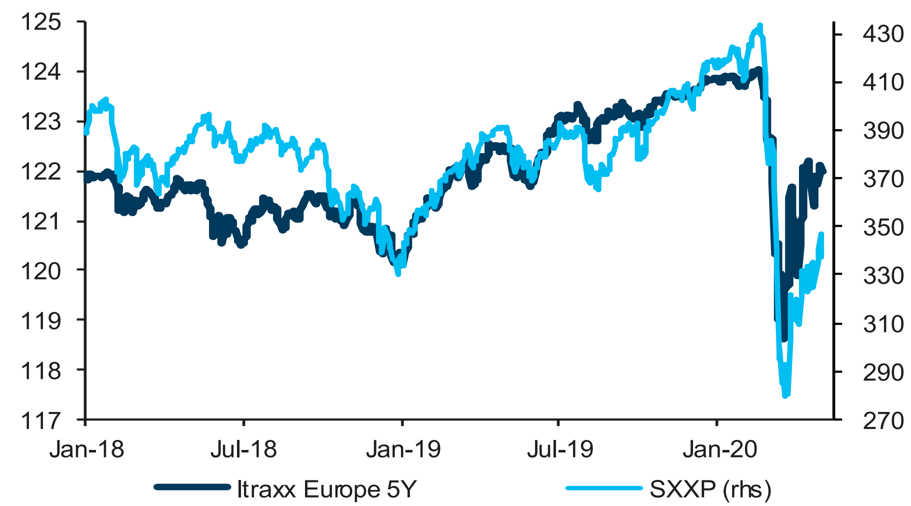
- Credit is at the forefront of equity investor concerns. We note that the price action in equity and credit markets has been pretty equal so far, with both falling sharply in the sell-off and rebounding in tandem.
- Companies have re-levered this cycle, but ND/Equity for MSCI Eurozone as a whole is in line with the historical median and below the peak of the previous cycle.
- Cash on balance sheets has increased, funding costs are low due to depressed bond yields and the maturity wall for HY is not steep, but liquidity could become problematic for some sectors if the FCF disruption intensifies.

**Net debt to equity in Eurozone is below previous cycle highs but it is higher in the UK and US**



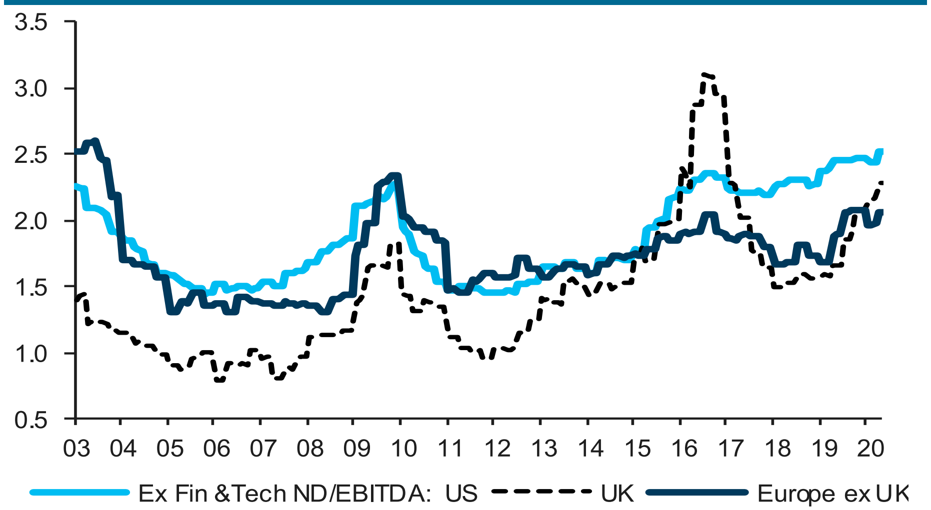

Source: Datastream, Worldscope

**Equity and credit markets keep moving in tandem**




Source: Bloomberg

**Net Debt/EBITDA is more elevated in the US than in Europe**

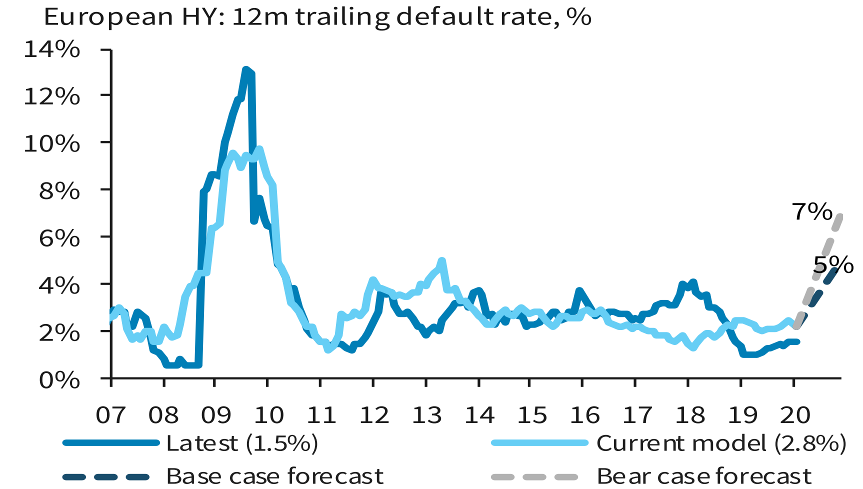



Source: Datastream, Barclays Research

# Credit pain to be less this time around than in 2008

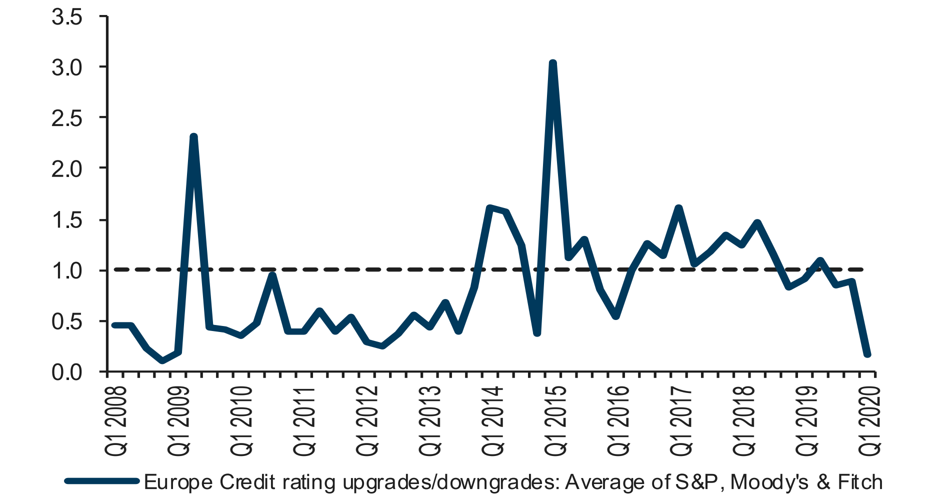
- Our credit strategists forecast the default rate among corporates to rise sharply, especially among sectors like Airlines, Leisure etc., which are heavily impacted by the lockdown. However, the extent of defaults is likely to be lower than 2008-09, in their view, with many governments across the globe having promised to rescue companies that are in dire state.
- Q1 saw surging rating downgrades across US and Europe. The ratio of rating upgrades to downgrades is down to the lowest since the early days of GFC. In nominal terms, though, our credit strategists expect €42bn of Fallen Angels in 2020 – rivalling 2013 and 2014, but a far cry from the amount of downgrades to HY seen in 2009.

**Default rates to go up, but not as much as during GFC**



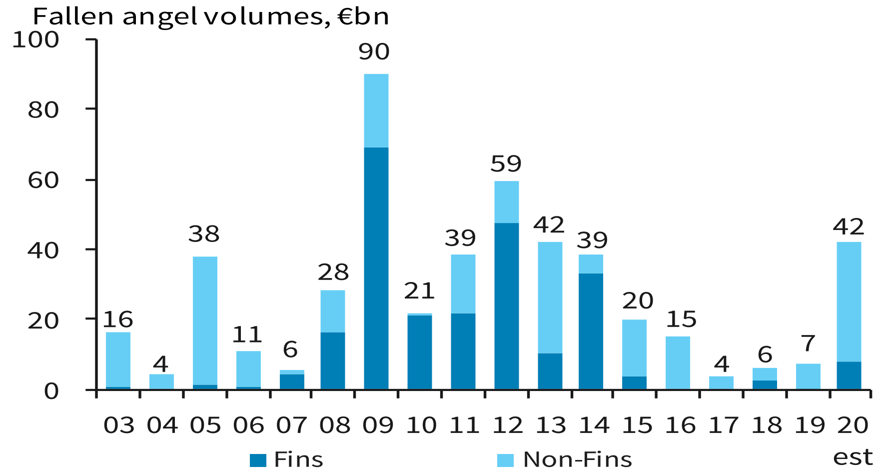

Source: Barclays Credit Research

**Q1'20 recorded the lowest rating upgrades vs. downgrades ratio for credit since the financial crisis**




Source: Bloomberg

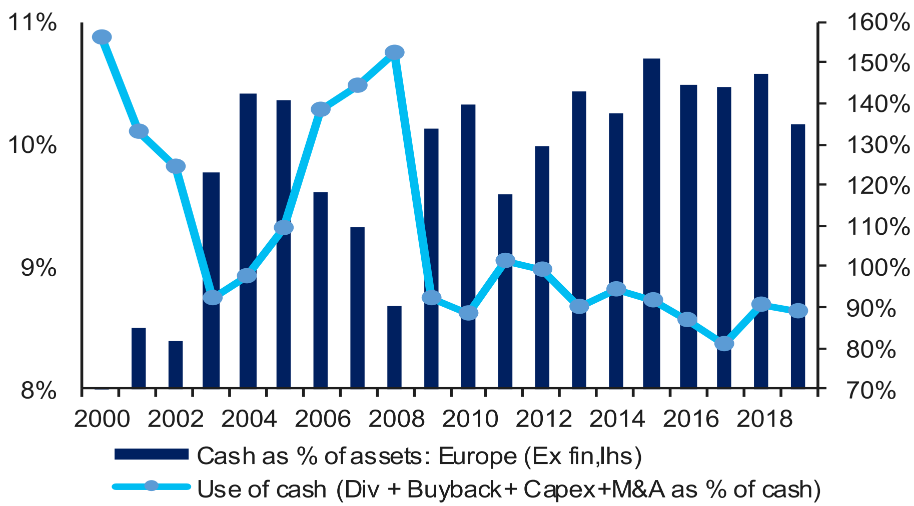
**We expect Fallen Angels (downgrades from IG to HY), rivalling 2013-14, but much less extreme than 2009**




Source: Barclays Credit Research

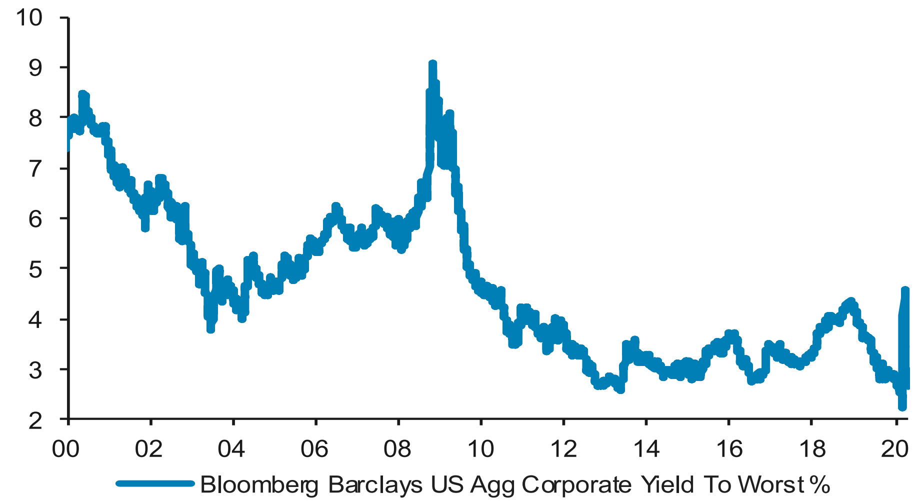
# Companies have cash on their B/S and don't face a steep refinancing wall

## Liquidity is a concern but firms are more cash-rich compared to 2008



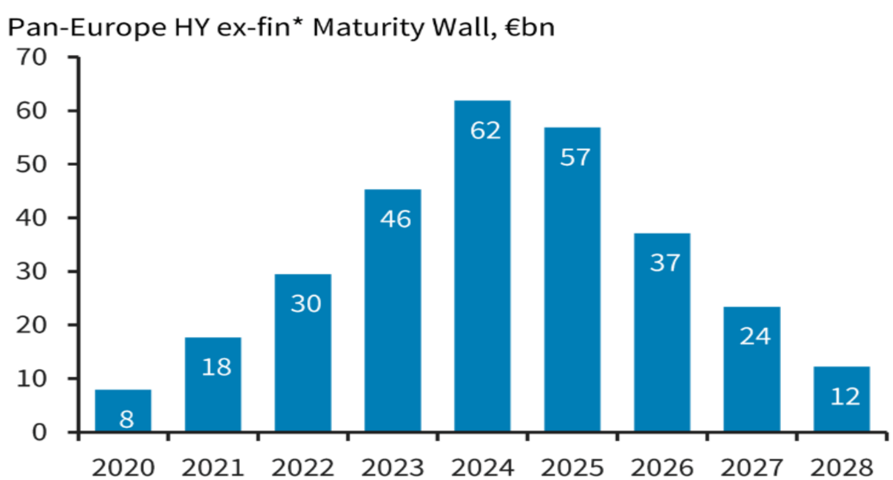

Source: Datastream, Worldscope

## As bond yields have fallen, credit costs remain low



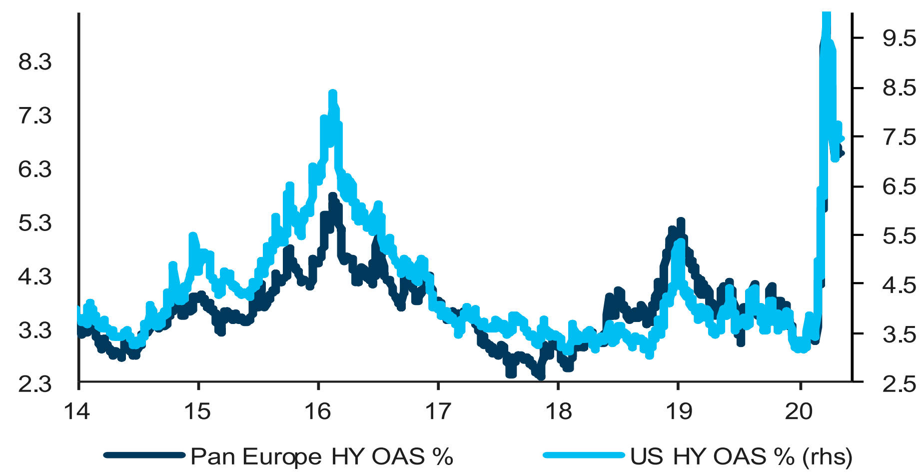

Source: Bloomberg

## European HY companies don't face a high maturity wall as most have already refinanced at a low rate




Source: Barclays Credit Research

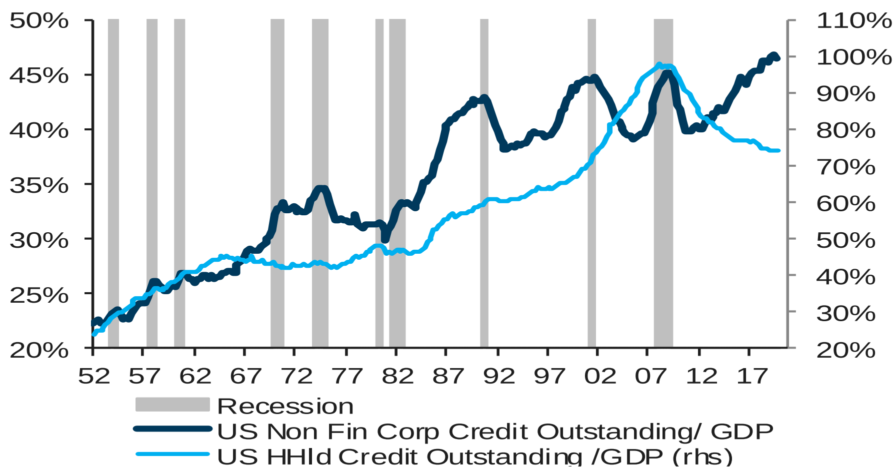
## HY credit spreads higher than the previous oil shock of 2016




Source: Bloomberg

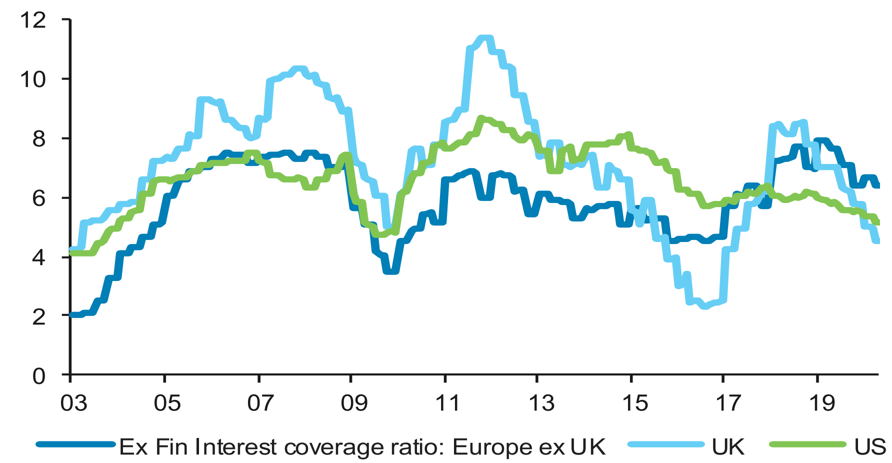
# US corporate balance sheets look more leveraged than European ones

## US corporate leverage has increased, but household leverage has gone down



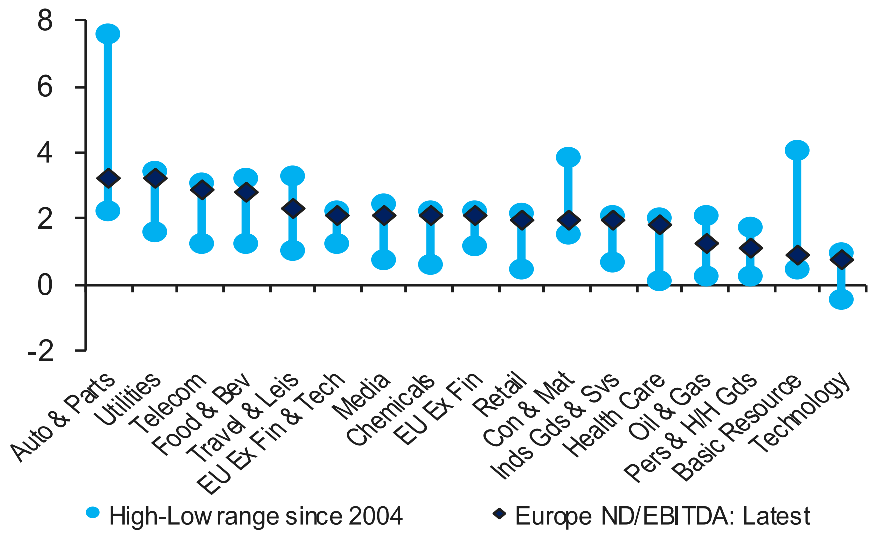

Source: Fed, NBER

## Interest will fall as earnings collapse



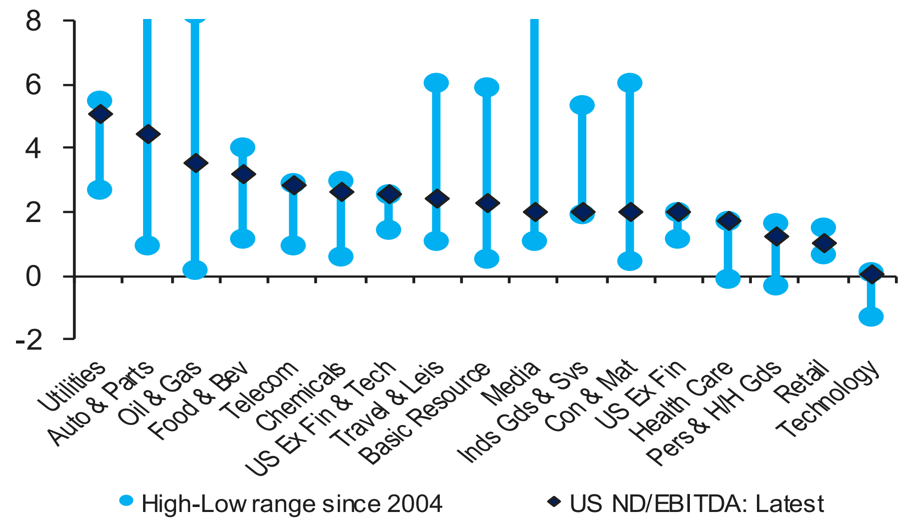

Source: Datastream, Barclays Research

## European sectors ND/EBITDA in the historical context




Source: Datastream, Barclays Research

## US sectors ND/EBITDA in the historical context




Source: Datastream, Barclays Research

# Corporate leverage baskets

- Our corporate leverage baskets screen for the SXXP stocks that have very good credit ratings (A3 and above) and those that have poor credit ratings (Baa3 and below) according to Moody's. All stocks in the basket have been filtered for liquidity criterion based on market cap.

## Barclays Europe high credit rating basket (BCEUELDR)

| Ticker | Name | Sector | Debt Rating | 12m fwd ND/EBITDA |
|---|---|---|---|---|
| AI FP | Air Liquide Sa | Materials | A3 | 2.0 |
| AIR FP | Airbus Se | Industrials | A2 | (1.1) |
| ASML NA | ASML Holding Nv | IT | A3 | (0.4) |
| AZN LN | AstraZeneca Plc | Health Care | A3 | 1.3 |
| ATCOA SS | Atlas Copco Ab-A Shs | Industrials | A2 | (0.1) |
| BAS GY | BASF Se | Materials | A2 | 1.9 |
| BMW GY | BMW | C Disc | A1 | (0.9) |
| BHP LN | BHP Group Plc | Materials | A2 | 0.5 |
| EN FP | Bouygues Sa | Industrials | A3 | 0.7 |
| CPG LN | Compass Group Plc | C Disc | A3 | 1.4 |
| DAI GY | Daimler Ag | C Disc | A3 | 0.2 |
| DPW GY | Deutsche Post Ag-Reg | Industrials | A3 | 1.7 |
| DGE LN | Diageo Plc | C Staples | A3 | 2.7 |
| EDF FP | EDF | Utilities | A3 | 2.9 |
| ENGI FP | Engie | Utilities | A3 | 2.7 |
| EQNR NO | Equinor Asa | Energy | Aa2 | 0.9 |
| EL FP | EssilorLuxottica | C Disc | A2 | 0.4 |
| GSK LN | GlaxoSmithKline Plc | Health Care | A2 | 2.1 |
| HEN3 GY | Henkel Ag | C Staples | A2 | 0.2 |
| KBX GY | Knorr-Bremse Ag | Industrials | A2 | (0.3) |
| DSM NA | Koninklijke Dsm Nv | Materials | A3 | 0.7 |
| MC FP | LVMH | C Disc | A1 | 1.1 |
| ML FP | Michelin (Cgde) | C Disc | A3 | 1.0 |
| NESN SE | Nestle Sa-Reg | C Staples | Aa3 | 1.5 |
| NOVN SE | Novartis Ag-Reg | Health Care | A1 | 0.9 |
| OMV AV | OMV Ag | Energy | A3 | 0.9 |
| PROX BB | Proximus | Comm Svs | A1 | 1.3 |
| RDSA NA | Royal Dutch Shell Plc-A | Energy | Aa2 | 1.5 |
| SAN FP | Sanofi | Health Care | A1 | 1.1 |
| SAP GY | SAP Se | IT | A2 | 0.7 |
| SU FP | Schneider Electric Se | Industrials | A3 | 0.8 |
| SCMN SE | Swisscom Ag-Reg | Comm Svs | A2 | 1.9 |
| TEL NO | Telenor Asa | Comm Svs | A3 | 1.8 |
| HO FP | Thales Sa | Industrials | A2 | 1.0 |
| FP FP | Total Sa | Energy | Aa3 | 1.3 |
| ULVR LN | Unilever Plc | C Staples | A1 | 1.9 |
| VER AV | Verbund Ag | Utilities | A3 | 1.2 |
| DG FP | Vinci Sa | Industrials | A3 | 2.3 |
| VOW3 GY | Volkswagen Ag-Pref | C Disc | A3 | (0.7) |

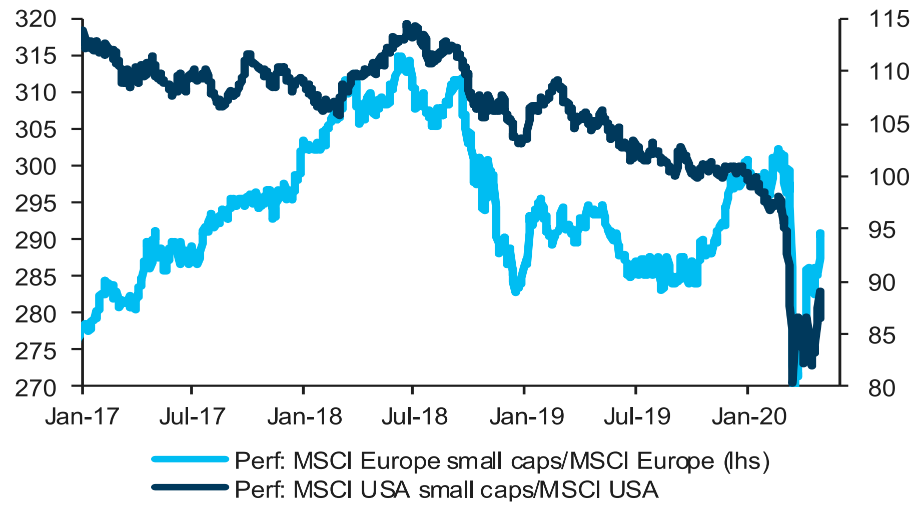
## Barclays Europe low credit rating basket (BCEUEHDR)

| Ticker | Name | Sector | Debt Rating | 12m Fwd ND/EBITDA |
|---|---|---|---|---|
| AKERBP NO | Aker BP Asa | Energy | Ba1 | 1.2 |
| MAERSKB DC | AP Moller-Maersk A/S-B | Industrials | Baa3 | 1.8 |
| MT NA | Arcelormittal | Materials | Baa3 | 1.7 |
| ATL IM | Atlantia Spa | Industrials | Ba3 | 4.8 |
| CLN SE | Clariant Ag-Reg | Materials | Ba1u | 1.3 |
| CNHI IM | CNH Industrial Nv | Industrials | Baa3 | 7.2 |
| LHA GY | Deutsche Lufthansa-Reg | Industrials | Ba1 | 1.5 |
| EDP PL | EDP | Utilities | Baa3 | 3.6 |
| ERICB SS | Ericsson Lm-B Shs | IT | Ba2 | (0.9) |
| EVR LN | Evraz Plc | Materials | Ba2 | 1.6 |
| EO FP | Faurecia | C Disc | Ba1 | 0.9 |
| FCA IM | Fiat Chrysler | C Disc | Ba2 | (0.3) |
| FRE GY | Fresenius Se & Co Kgaa | Health Care | Baa3 | 2.7 |
| GRF SQ | Grifols Sa | Health Care | B2 | 3.5 |
| HEI GY | Heidelbergcement Ag | Materials | Baa3 | 2.0 |
| HIK LN | Hikma Pharmaceuticals | Health Care | Ba1 | (0.2) |
| INF LN | Informa Plc | Comm Svs | Baa3 | 2.4 |
| IAG LN | Intl Consolidated Airline | Industrials | Baa3 | 1.4 |
| ITV LN | ITV Plc | Comm Svs | Baa3 | 1.2 |
| KPN NA | Koninklijke Kpn Nv | Comm Svs | Baa3 | 2.4 |
| LDO IM | Leonardo Spa | Industrials | Ba1 | 1.3 |
| MTX GY | MTU Aero Engines Ag | Industrials | Baa3 | 0.8 |
| NEXI IM | Nexi Spa | IT | Ba3 | 3.2 |
| NOKIA FH | Nokia Oyj | IT | Ba2 | (0.8) |
| UG FP | Peugeot Sa | C Disc | Baa3 | (1.1) |
| PRX NA | Prosus Nv | C Disc | Baa3 | 20.7 |
| RCO FP | Remy Cointreau | C Staples | Baa3 | 1.4 |
| RNO FP | Renault Sa | C Disc | Ba1 | (0.3) |
| RWE GY | RWE Ag | Utilities | Baa3 | 2.6 |
| STERV FH | Stora Enso Oyj-R Shs | Materials | Baa3 | 2.3 |
| TIT IM | Telecom Italia Spa | Comm Svs | Ba1 | 3.1 |
| TEF SQ | Telefonica Sa | Comm Svs | Baa3 | 2.6 |
| TSCO LN | Tesco Plc | C Staples | Baa3 | 2.2 |
| TKA GY | thyssenkrupp Ag | Materials | B1 | 3.7 |
| TUI LN | Tui Ag-Di | C Disc | Ba3 | 1.1 |
| FR FP | Valeo Sa | C Disc | Baa3 | 1.2 |
| WDI GY | Wirecard Ag | IT | Baa3 | (1.8) |

Source: Bloomberg, IBES, Datastream, Moody's, Barclays Research Notes: * Moody's debt rating for senior unsecured debt is considered. . For more information please see our report **2019 Outlook - Late Cycle Blues,** 28 Nov 2018

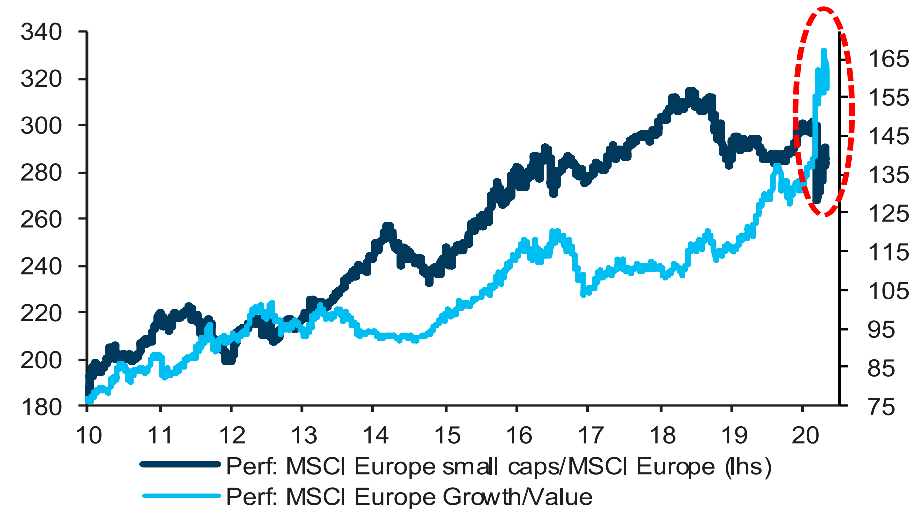
# 5. Small caps are high beta but valuations look attractive

**Small caps have outperformed large caps ins US and Europe in recent recovery**



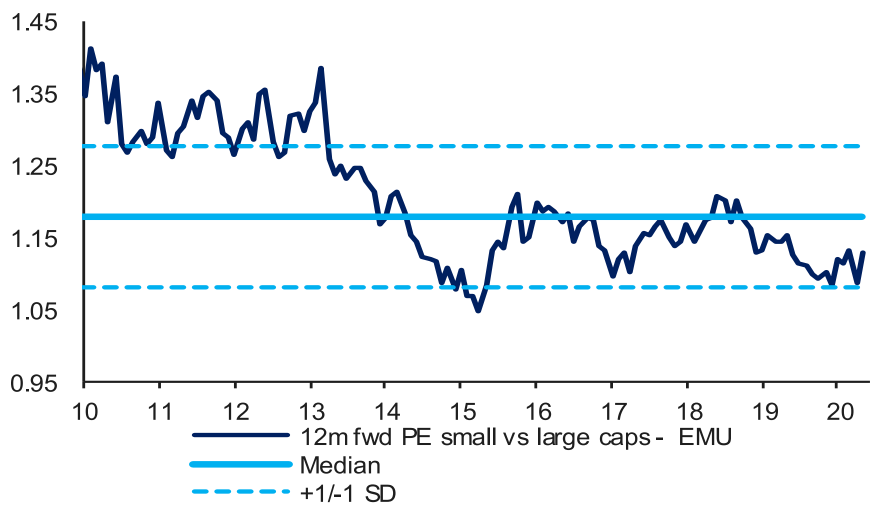

Source: Datastream

**Small cap decoupled from Growth vs. Value – liquidity the cause?**



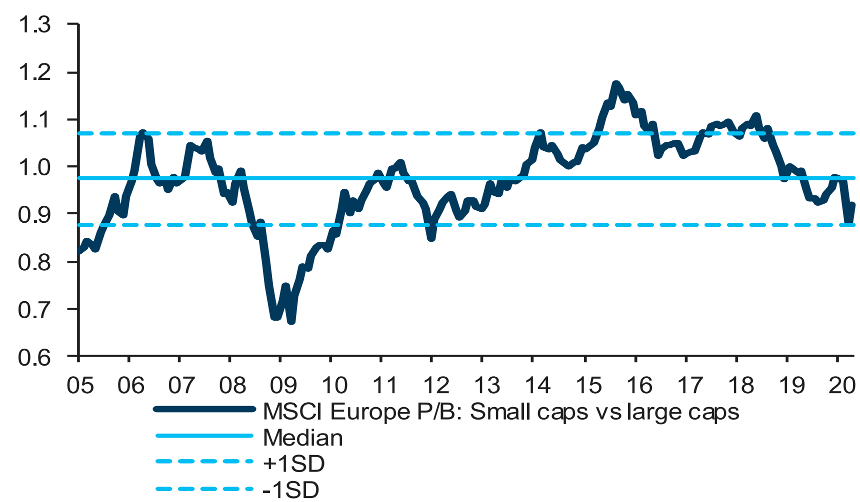

Source: Datastream

**Small caps P/E vs. large are cheap relative to history**




Source: Datastream

**Small/Large P/Book relative remains cheap too**

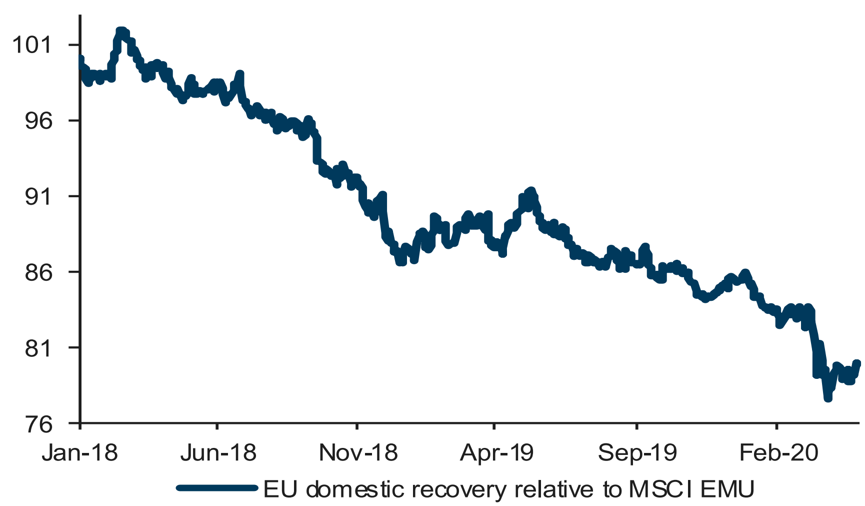



Source: Datastream

# 6. Fiscal easing beneficiaries

- Eurozone looks set to deliver its most aggressive fiscal policy in a decade to mitigate the drag from COVID-19.
- This should facilitate the recovery in domestic plays later on this year (BCEUEUDR).

**Domestic spending plays underperformed massively in 2018 but were stable in 2019, recently started falling again**




Source: Datastream, Barclays Research

**Companies benefitting from fiscal easing (BCEUEUDR)**

| Ticker | Name | Sector | Mcap ($bn) | Europe exposure % |
|---|---|---|---|---|
| AC FP | Accor | C Disc | 12.0 | 53% |
| BOSS GY | Boss (Hugo) | C Disc | 5.0 | 63% |
| DHER GR | Delivery Hero | C Disc | 7.6 | 35% |
| FNAC FP | FNAC Darty | C Disc | 2.1 | 100% |
| ITX SM | Inditex | C Disc | 92.3 | 61% |
| UG FP | Peugeot | C Disc | 22.8 | 78% |
| RNO FP | Renault | C Disc | 20.3 | 64% |
| RKET GY | Rocket Internet | C Disc | 4.0 | 67% |
| SK FP | Seb | C Disc | 8.4 | 52% |
| TGYM IM | Technogym | C Disc | 2.5 | 60% |
| TUI1 GR | TUI | C Disc | 6.3 | 100% |
| ZAL GR | Zalando | C Disc | 9.9 | 100% |
| BEI GY | Beiersdorf | C Staples | 25.3 | 51% |
| CA FP | Carrefour | C Staples | 15.3 | 68% |
| CPR IM | Davide Campari | C Staples | 11.2 | 31% |
| A3M SQ | Atresmedia Corp | Comm Svs. | 1.1 | 97% |
| FNTN GY | Freenet | Comm Svs. | 2.9 | 100% |
| MMB FP | Lagardere Groupe | Comm Svs. | 3.5 | 68% |
| MMT FP | M6-Metropole Tv | Comm Svs. | 2.4 | 87% |
| TL5 SQ | Mediaset Espana | Comm Svs. | 2.6 | 97% |
| PSM GY | Prosiebensat 1 Media | Comm Svs. | 4.0 | 89% |
| RRTL GY | RTL Group (Lux) | Comm Svs. | 9.2 | 70% |
| SAX GY | Stroeer | Comm Svs. | 3.3 | 87% |
| TFI FP | TF1 (Tv.Fse.1) | Comm Svs. | 2.1 | 96% |
| VIV FP | Vivendi | Comm Svs. | 38.4 | 85% |
| ADEN SW | Adecco | Industrials | 8.9 | 54% |
| ATL IM | Atlantia | Industrials | 21.1 | 86% |
| EN FP | Bouygues | Industrials | 13.5 | 79% |
| FGR FP | Eiffage | Industrials | 9.6 | 97% |
| RAND NA | Randstad | Industrials | 9.8 | 69% |
| RXL FP | Rexel | Industrials | 3.7 | 55% |
| RYA ID | Ryanair Holdings | Industrials | 15.1 | 100% |
| SGO FP | Saint Gobain | Industrials | 20.2 | 56% |
| SPIE FP | Spie | Industrials | 2.9 | 69% |
| DG FP | Vinci | Industrials | 58.3 | 80% |
| DWNI GY | Deutsche Wohnen | Real Estate | 17.7 | 100% |
| CFC FP | Cecina Reit | Real Estate | 11.4 | 100% |
| LI FP | Klepierre REIT | Real Estate | 10.7 | 90% |
| VNA GY | Vonovia | Real Estate | 27.0 | 100% |

Source: Bloomberg, IBES, Datastream, Barclays Research. For more information please see our report [Fiscal easing on its way, but lower-for-longer yields to constrain the broader risk-on trade,](#) 25 Mar 2019

# 7. Oil price volatility

- Gyrations in oil price direction have key implications for growth, earnings and inflation. We created two baskets of the European stocks that have the most positive/negative correlation to oil price within each level 1 sector.

## Barclays Europe positive sensitivity to oil basket (BCEUEHCO)

| Ticker | Name | Sector | Mkt cap ($bn) | Correlation to OIl |
|---|---|---|---|---|
| EQNR NO | Equinor | Energy | 79.6 | 45% |
| TEN IM | Tenaris | Energy | 16.1 | 43% |
| BLT LN | BHP Billiton | Materials | 43.2 | 39% |
| RDSA NA | Royal Dutch Shell | Energy | 139.0 | 38% |
| ENI IM | ENI | Energy | 60.6 | 37% |
| FP FP | Total | Energy | 151.1 | 37% |
| REP SQ | Repsol Ypf | Energy | 28.2 | 35% |
| BP/ LN | BP | Energy | 136.0 | 33% |
| AAL LN | Anglo American | Materials | 30.5 | 33% |
| MT NA | Arcelormittal | Materials | 24.5 | 28% |
| ANTO LN | Antofagasta | Materials | 10.4 | 27% |
| RIO LN | Rio Tinto | Materials | 63.2 | 24% |
| SAND SS | Sandvik | Industrials | 18.5 | 22% |
| AHT LN | Ashtead Group | Industrials | 10.8 | 16% |
| RNO FP | Renault | C DIsc | 19.9 | 15% |
| ATCOA SS | Atlas Copco A | Industrials | 19.7 | 15% |
| FCA IM | Fiat Chrysler Autos. | C DIsc | 25.0 | 12% |
| BMW GY | BMW (Xet) | C DIsc | 51.1 | 12% |
| PSON LN | Pearson | C DIsc | 9.5 | 12% |
| SU FP | Schneider Electric | Industrials | 41.9 | 12% |
| BRBY LN | Burberry Group | C DIsc | 9.2 | 11% |
| EDF FP | EDF | Utilities | 49.7 | 7% |
| FORTUM FH | Fortum | Utilities | 18.8 | 5% |
| TEL2B SS | Tele2 B | Comm. Svs. | 7.6 | 4% |
| CNA LN | Centrica | Utilities | 10.5 | 0% |
| DRI GY | 1&1 Drillisch | Comm. Svs. | 8.8 | 0% |

## Barclays Europe negative sensitivity to oil basket (BCEUELCO)

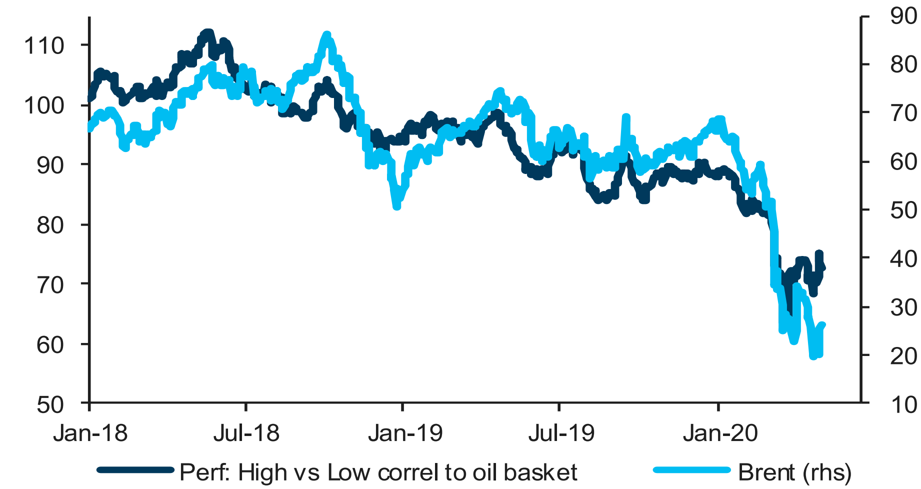
| Ticker | Name | Sector | Mkt cap ($bn) | Correlation to OIl |
|---|---|---|---|---|
| SCMN SE | Swisscom 'R' | Comm. Svs. | 24.1 | -27% |
| TRN IM | Terna Rete Elettrica Naz | Utilities | 11.0 | -26% |
| BARN SE | Barry Callebaut | C Staples | 9.5 | -26% |
| NESN SE | Nestle 'R' | C Staples | 258.7 | -24% |
| LISN SE | Lindt & Spruengli | C Staples | 10.8 | -23% |
| RYA ID | Ryanair Holdings | Industrials | 15.4 | -23% |
| REE SQ | Red Electrica | Utilities | 11.7 | -22% |
| NOVN SE | Novartis 'R' | Health Care | 226.0 | -22% |
| GIVN SE | Givaudan 'N' | Materials | 22.5 | -22% |
| COLR BB | Colruyt | C Staples | 9.7 | -21% |
| MAN GY | Man (Xet) | Industrials | 14.5 | -21% |
| ADP FP | Adp | Industrials | 19.3 | -21% |
| ELE SQ | Endesa | Utilities | 23.8 | -20% |
| OR FP | L'Oreal | C Staples | 131.8 | -20% |
| DSY FP | Dassault Systemes | IT | 30.7 | -20% |
| EMSN SE | EMS-Chemie 'N' | Materials | 12.7 | -19% |
| LUX IM | Luxottica | C Disc | 28.0 | -19% |
| BEI GY | Beiersdorf (Xet) | C Staples | 26.9 | -19% |
| ELISA FH | Elisa | Comm. Svs. | 7.2 | -19% |
| PROX BB | Proximus | Comm. Svs. | 8.9 | -19% |
| AM FP | Dassault Aviation | Industrials | 12.9 | -19% |
| KNIN SE | Kuehne & Nagel Intl. | Industrials | 16.0 | -18% |
| SY1 GY | Symrise (Xet) | Materials | 10.3 | -18% |
| SW FP | Sodexo | C Disc | 15.6 | -17% |
| CPG LN | Compass Group | C Disc | 34.3 | -16% |
| ITX SQ | Inditex | C Disc | 90.7 | -15% |
| CCL LN | Carnival | C Disc | 10.0 | -13% |
| AKZA NA | Akzo Nobel | Materials | 20.8 | -10% |

Source: Bloomberg, IBES, Datastream, Barclays Research. For more information please see our report **2019 Outlook - Late Cycle Blues**, 28 Nov 2018

# Markets priced for weak oil demand but speculators take contrarian positions

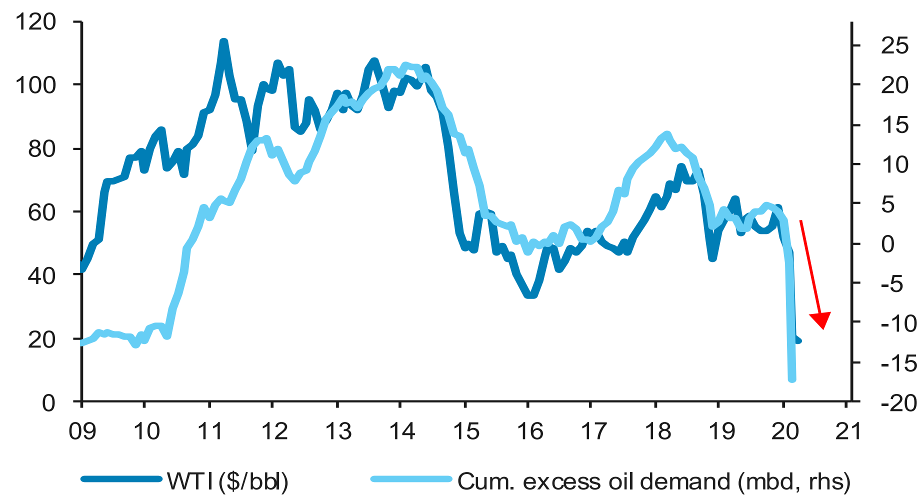
- The relative performance of our European high correl to oil (BCEUEHCO) and Low correl to oil (BCEUELCO) baskets tracks the oil prices closely. Most recently, the basket of stocks with High correl to oil are trending up despite the fact that oil prices remain depressed.
- Current crude oil prices are in line with the weak demand expectations. However, speculators have been increasing long positions on oil, possibly expecting a bounce in prices from very low levels.

**Our European oil stock baskets track the prices of crude oil very closely**



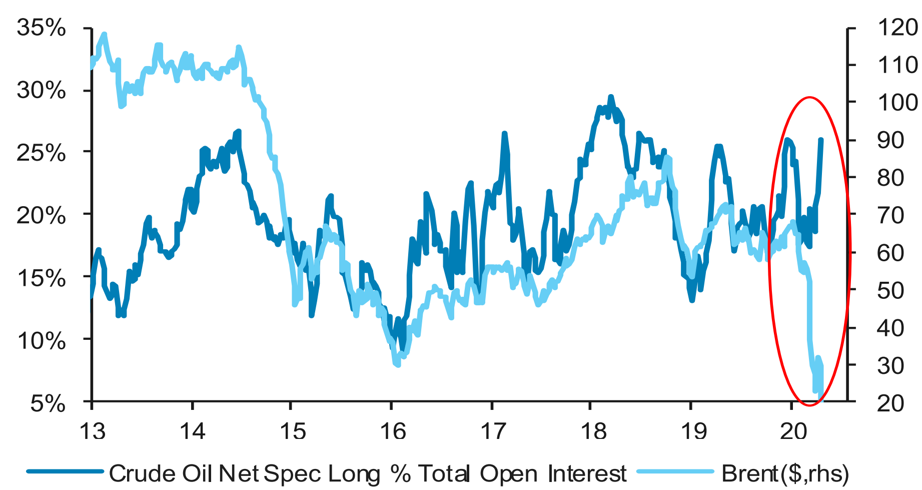

Source: Datastream

**Markets expect demand for oil to remain weak…**




Source: Bloomberg, Datastream

**…but speculators are positioned for a rebound in oil prices**

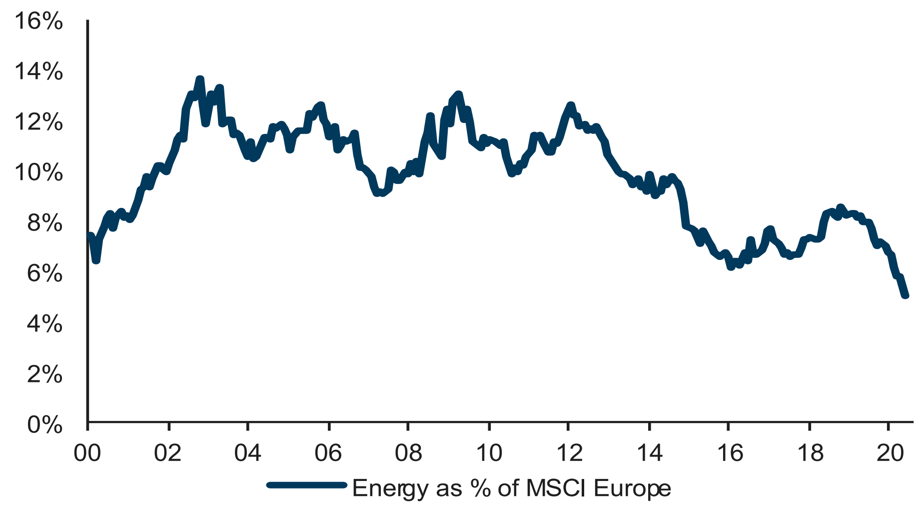



Source: CFTC, Bloomberg

# Credit and Equity sensitivity to oil has come down, in Europe at least

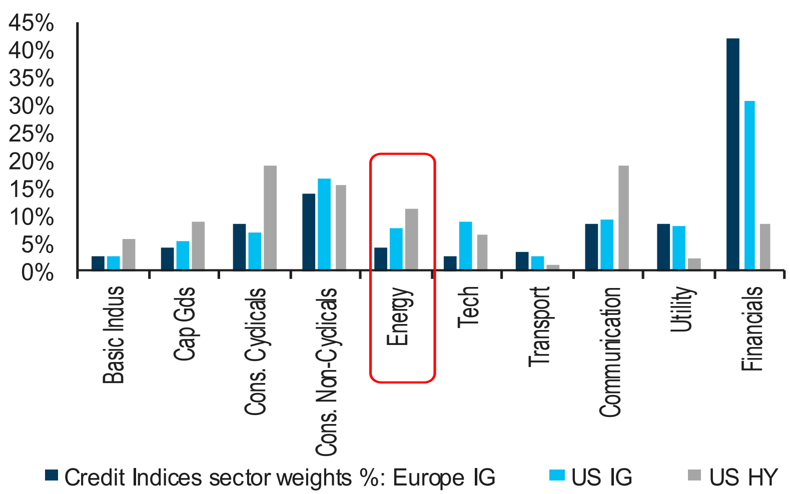
- Energy is a smaller part of the European IG credit market (and negligible in European HY market), constituting about 4% of the index. However, it's much larger in the US, constituting about 8% of the IG universe and, more importantly, 11% of the HY universe.
- In fact, the proportion of distressed bonds (bonds with greater than 1,000bp in OAS) in US Energy is, at 36%, higher than the rate reached during the height of the energy crisis in early 2016. Our US credit analysts expect Energy to form a major portion of defaults in 2020 and beyond assuming energy prices remain low.

**Energy constitutes a smaller part of the European equity universe than it did a few years ago**



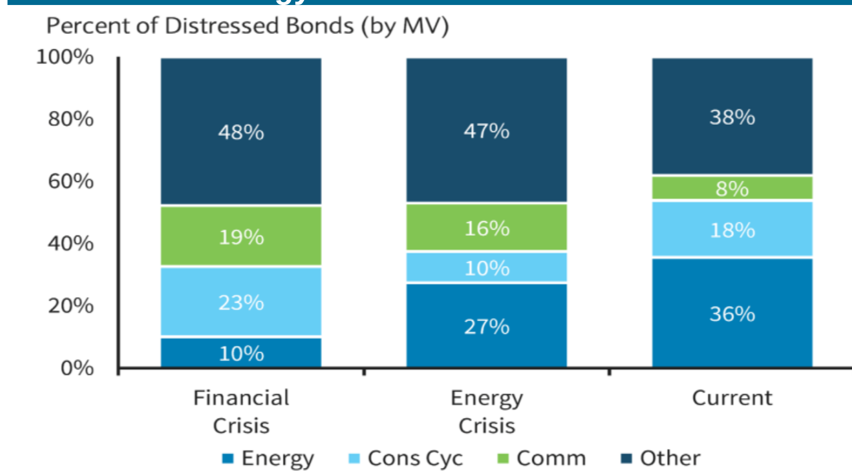

Source: Datastream

**Energy forms a relatively smaller part of the European credit market…**




Source: Bloomberg, Barclays Research

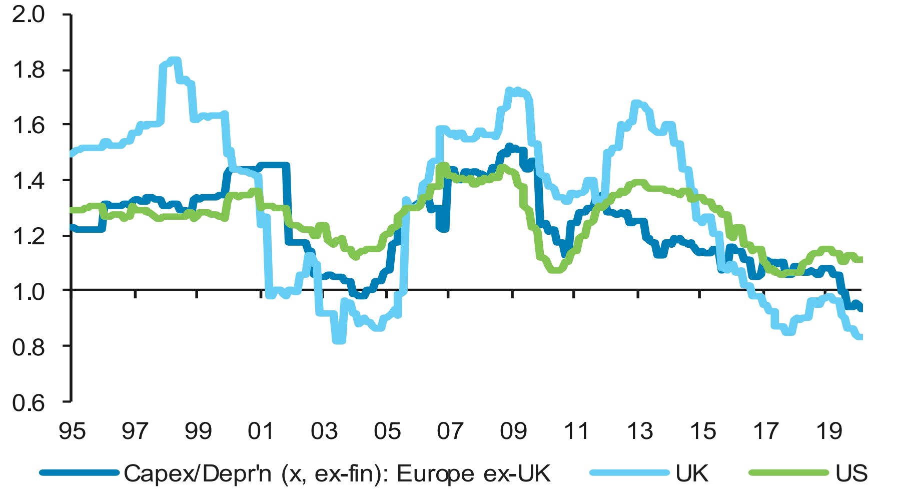
**…unlike the US, where it is much bigger and risks from Energy sector defaults are substantial**




Source: Barclays Credit Research. Note: Distressed defined as bonds with greater than 1,000bp in OAS. October 2008 represents peak of distressed rate during financial crisis, and February 2016 represents peak of distressed rate during the energy crisis

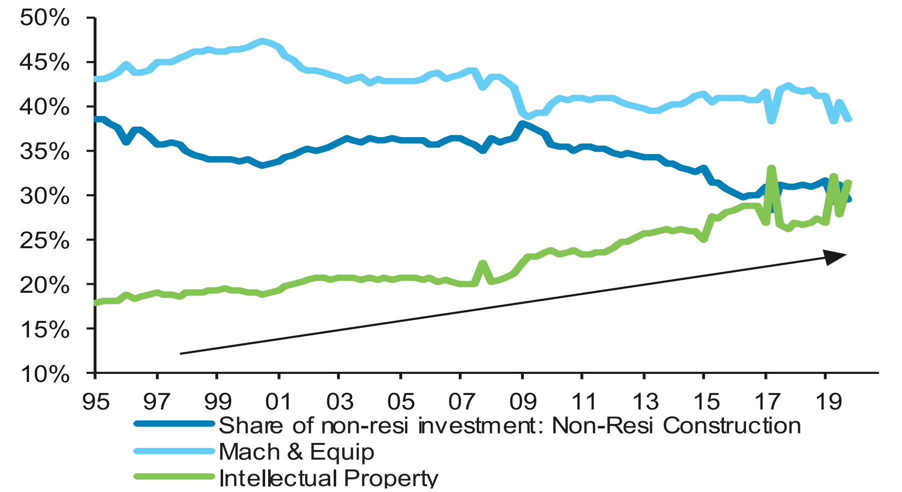
# 8. Capex – All about Tech and digitalisation

## Capex/Depreciation have been trending down this cycle…



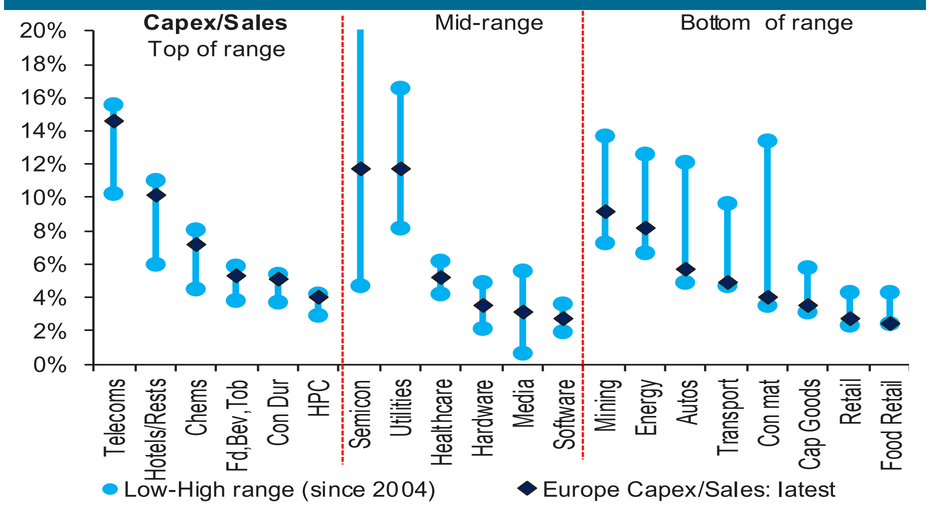

Source: Datastream, Worldscope

## …but investment in Technology has been rising steadily



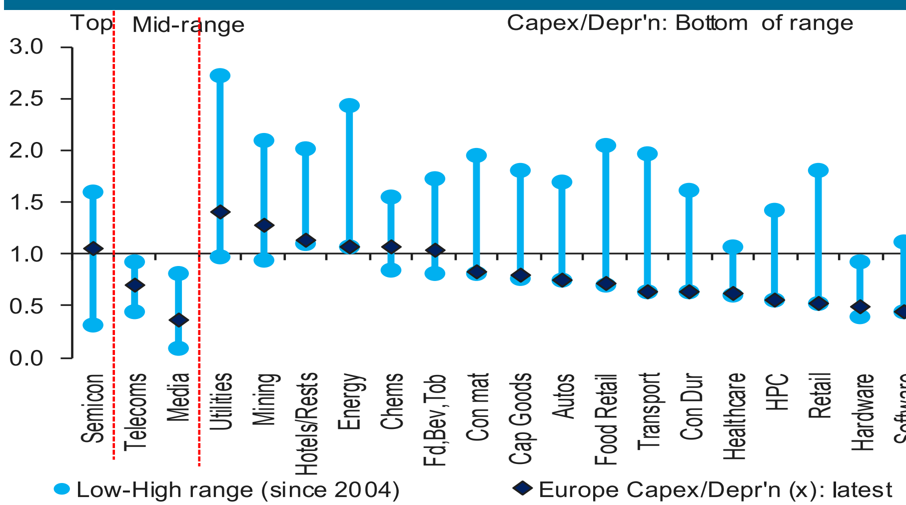

Source: Eurostat, Datastream, Barclays Research.

## Europe sector capex/sales




Source: Datastream, Worldscope

## Europe sector capex/depreciation




Source: Datastream, Worldscope

# Leaders in the automation and digitalisation boom

**Stock names related to each Capex theme**

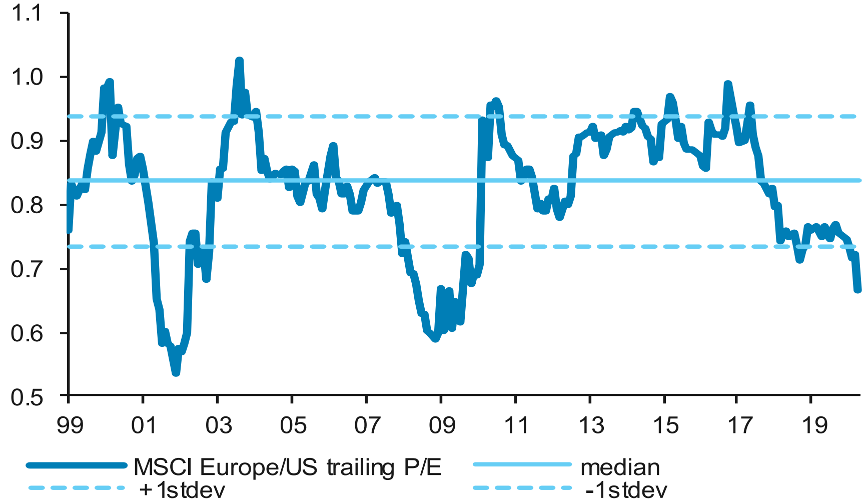
| | | |
|---|---|---|
| | Industrials | Atlas Copco, ABB, Siemens, Schneider Electric |
| Automation | Technology | Infineon, STMicro |
| | Materials | Johnson Matthey |
| Technology/IT Infrastructure | Technology | ASML, SAP, Temenos, AVEVA, Dassault, Atos, Capgemini, Nokia, Ericsson |
| | Cons. Disc | ASOS, Boohoo, Zalando, Zooplus |
| E-Commerce | Technology | Adyen, Wirecard |
| | Industrials | Deutsche Post, BPost, DSV |
| Autos: CASE | Industrials | Atlas Copco, ABB |
| | Technology | Infineon, STMicro |
| | Industrials | Vestas*, Siemens-Gamesa*, ABB, Alstom-GE*, Siemens, Schneider Electric, Prysmian*, Nexans* |
| Renewables & grid integration | | RWE, Iberdrola, Enel, , National Grid, E.ON |
| | Utilities | Infineon, STMicro |
| | Technology | |
| Commodity Capex | Industrials | Sandvik, Metso, Epiroc, Weir |
| | Oil Services | Tenaris, Subsea 7 |

Source: Barclays Research, * means the company is not covered by Barclays Research sector analysts but still has exposure to the theme

# Regional Allocation

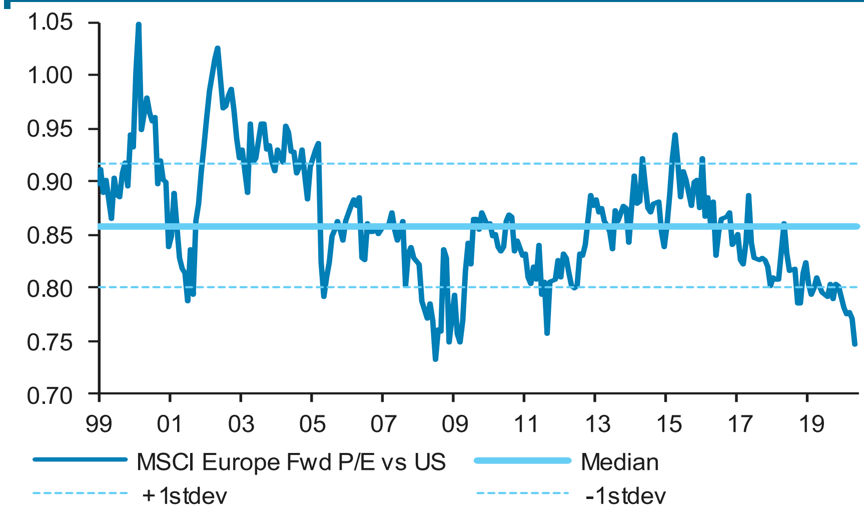
## 1) OW Europe vs US – Tough times, but relative valuations are favourable…

**Europe/US trailing P/E is the lowest since GFC**



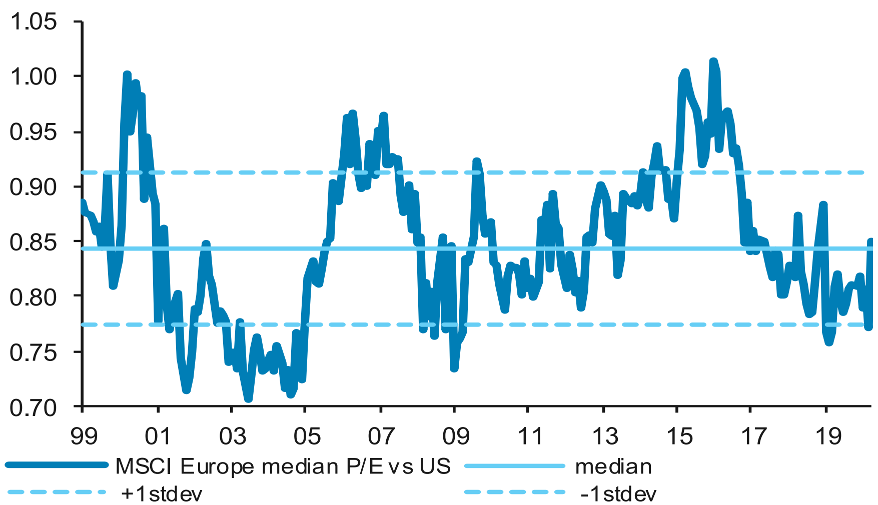

Source: Datastream

**Europe/US Fwd P/E is at 2008 lows**



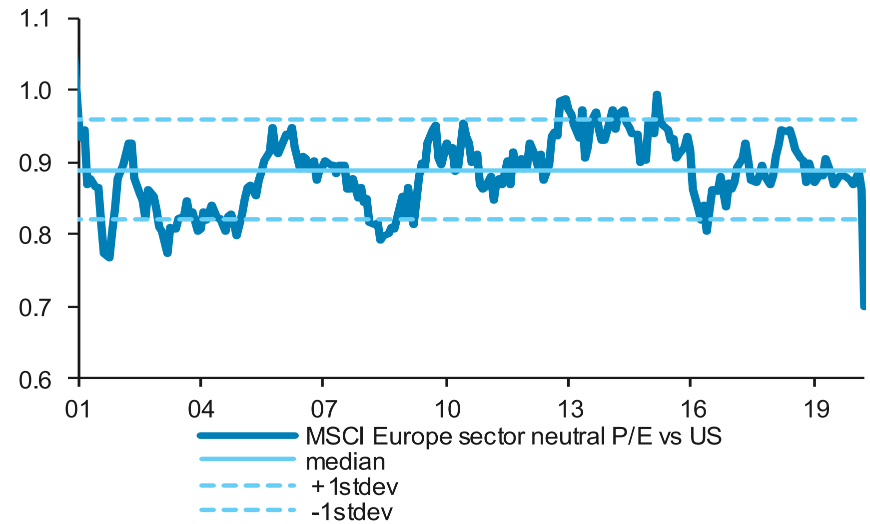

Source: IBES

**The median P/E of Europe vs US recovered recently**




Source: IBES, Barclays Research

**Adjusted for sector composition, European P/E is at an all-time low**

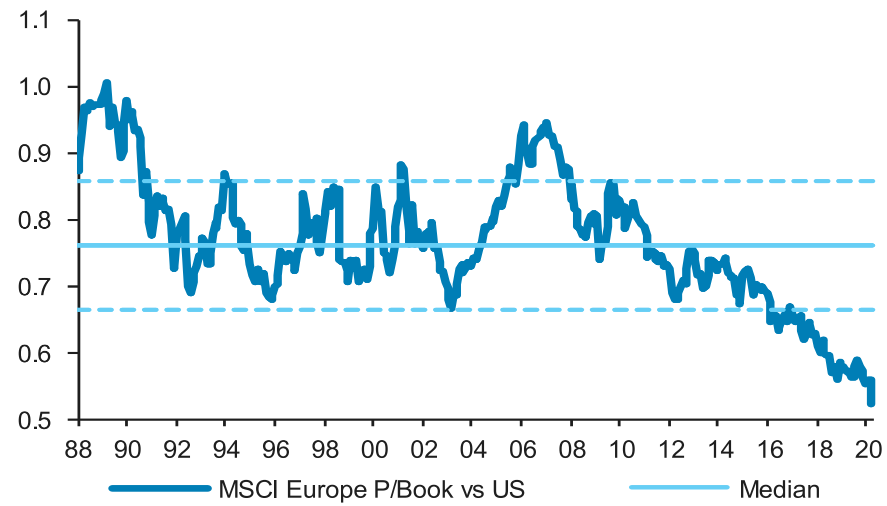



Source: IBES, Barclays Research

# …even though profitability is structurally lower

- On P/Book metrics, the US is trading the most expensive of the main regions, which looks consistent with its higher-than-average ROE.
- On the flipside, Europe, EM and Japanese equities are all trading at a discount to their 10- and 20-year median multiple.

## Europe P/B relative to the US is at 30-year lows



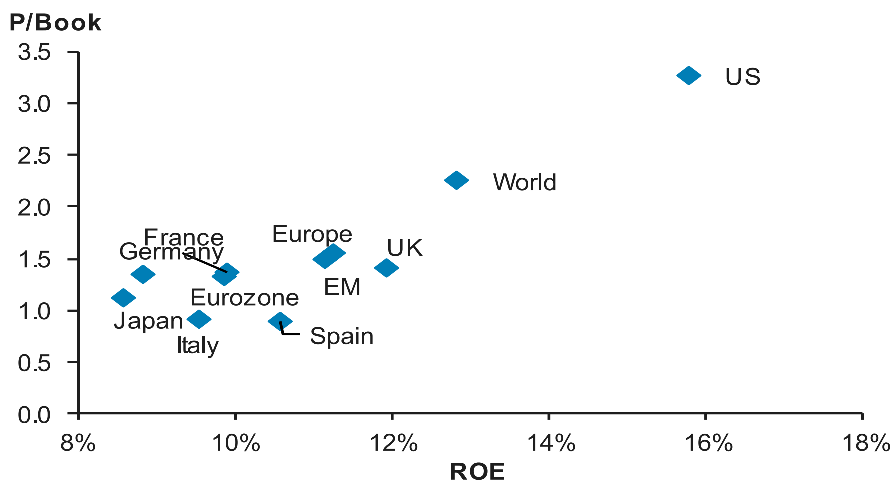

Source: Datastream

## Regional P/Book in the historical context

| | Current | 10Y Median | 20Y Median | Current vs 10Y Median | Current vs 20Y Median |
|---|---|---|---|---|---|
| MSCI World | 2.2 | 2.2 | 2.3 | 4% | -2% |
| **US** | **3.3** | **2.8** | **2.9** | **18%** | **14%** |
| **Europe** | **1.5** | **1.7** | **1.8** | **-11%** | **-15%** |
| UK | 1.4 | 1.8 | 1.9 | -21% | -25% |
| Eurozone | 1.3 | 1.5 | 1.6 | -12% | -19% |
| France | 1.4 | 1.5 | 1.6 | -8% | -17% |
| Germany | 1.3 | 1.6 | 1.6 | -17% | -18% |
| Italy | 0.9 | 1.0 | 1.2 | -8% | -21% |
| Spain | 0.9 | 1.3 | 1.5 | -30% | -40% |
| **Japan** | **1.1** | **1.3** | **1.4** | **-11%** | **-18%** |
| **EM** | **1.5** | **1.6** | **1.7** | **-7%** | **-11%** |
| Brazil | 1.6 | 1.5 | 1.6 | 4% | 1% |
| Russia | 0.8 | 0.8 | 1.0 | -1% | -21% |
| India | 2.5 | 3.0 | 3.1 | -16% | -19% |
| China | 1.7 | 1.6 | 1.8 | 4% | -6% |

Source: Datastream

## Regional P/Book vs ROE

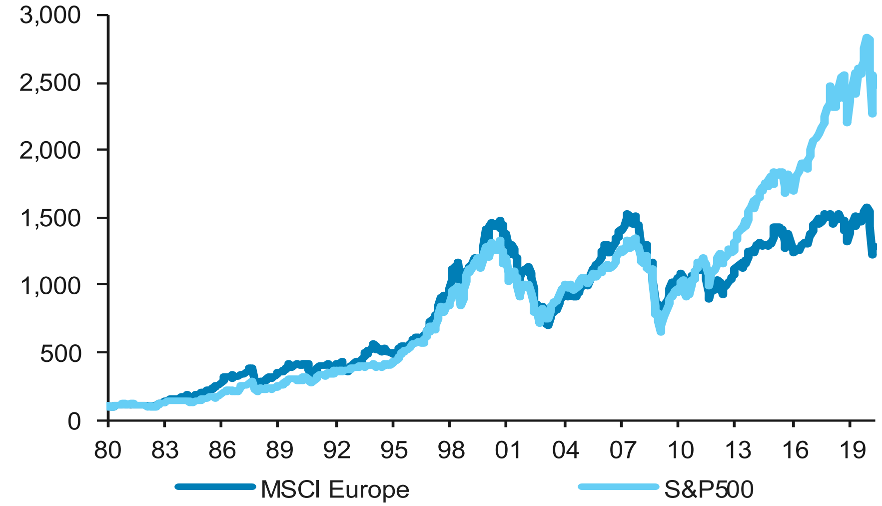



Source: Datastream

# The secular Europe/US underperformance is consistent with earnings…

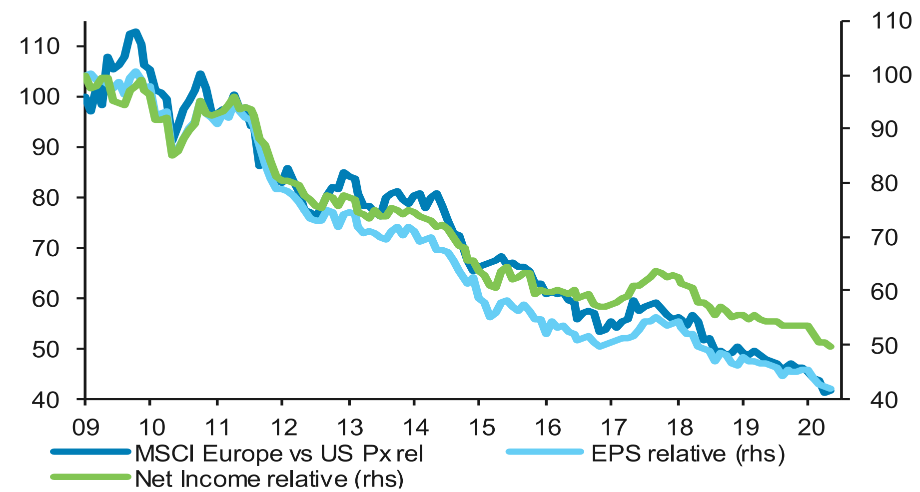
- Europe has underperformed the US all the way since 2011. It is holding up relatively better in the last year, however.
- US outperformance during the last decade has largely been driven by relative earnings.

**Europe has underperformed US since 2011**



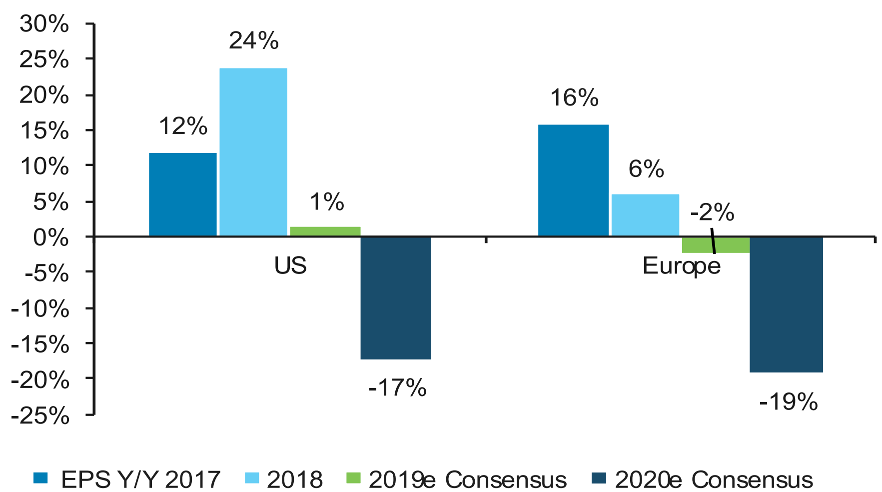

Source: Datastream, re-based to 100 in Jan-80

**Europe's secular underperformance has been largely due to earnings**




Source: IBES, Refinitiv, Barclays Research

**Europe EPS growth about the same as US for 2020**

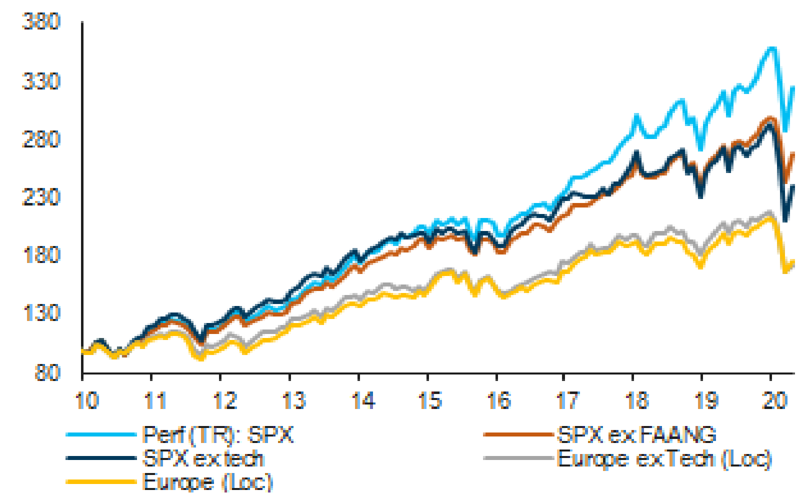



Source: Datastream, IBES, Bloomberg

# …which was mostly due to Tech and Buybacks

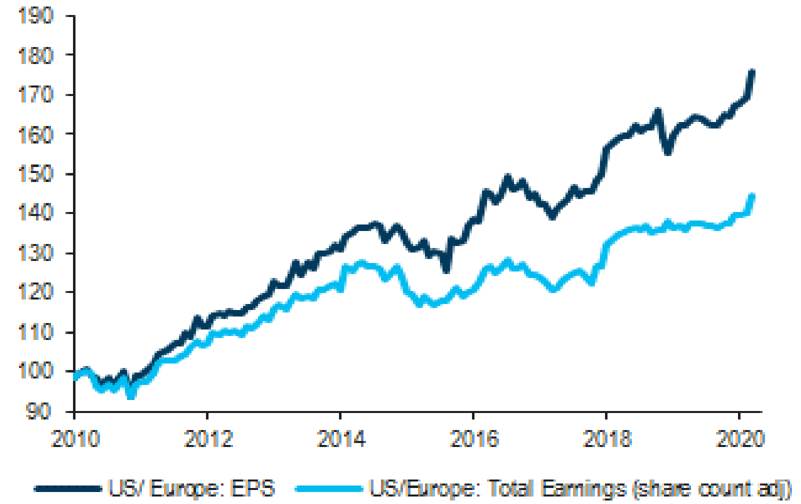
- US has outperformed Europe by c.150% over the past decade. Tech sector alone explains half of the outperformance of US over Europe since 2010.
- Additionally, buybacks have exaggerated relative earnings by at least 30% over the past decade.
- Tech really started breaking away in terms of performance from 2016 only. So in fact, if we look at US vs Europe performance excl Tech since the start of 2016, it has been broadly flat. This is even without taking into account the effect of buybacks.

**Tech sector alone explains half of the outperformance of US over Europe since 2010**



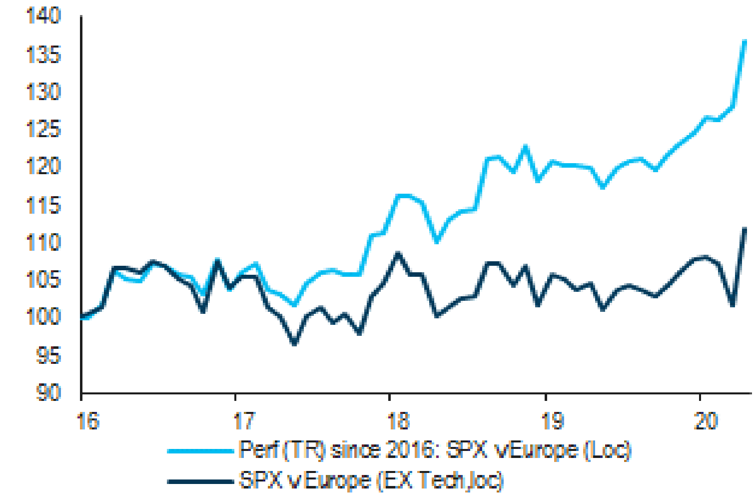

Source: Datastream

**Buybacks exaggerated relative earnings by at least 30% over the past decade**




Source: IBES, Refinitiv, Barclays Research

**US vs. Europe performance excl Tech since the start of 2016 has been broadly flat**

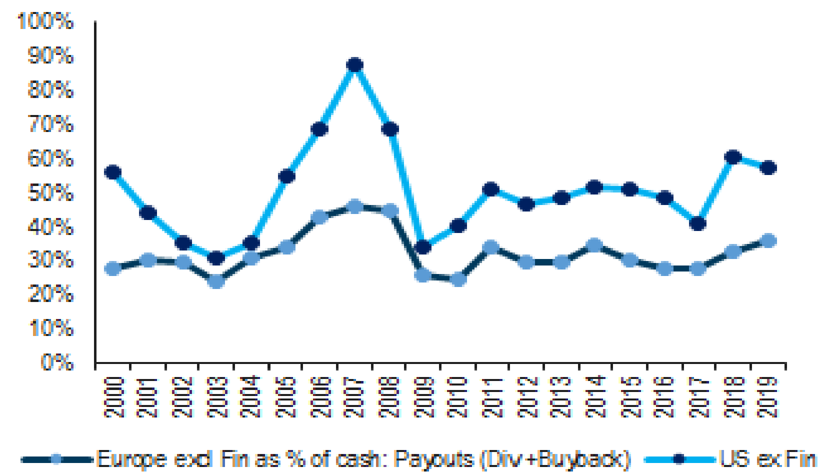



Source: Datastream, IBES, Bloomberg

# US might lose the bid from buybacks

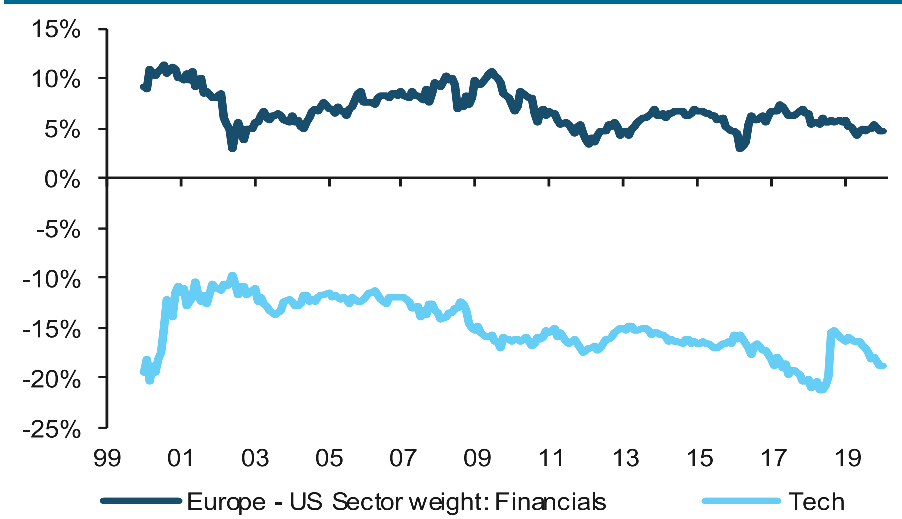
- Europe is an "old economy" equity market dominated by Financials, Industrials, Materials and Staples, while Tech weights a mere 7% of the market cap, about the same as 15 years ago. In contrast, the weight of the Tech sector in the US index doubled between 2004-2018 (including FAANG stocks). Even after MSCI realignment, the sector still makes up 26% of US market cap.
- US companies generally pay out a larger portion of their cash as Divs + Buybacks compared to Europe. Buybacks are going to be especially difficult going forward with stressed cash levels on balance sheet & possible government regulations.

**US companies generally pay out a larger portion of their cash as Divs + Buybacks compared to Europe**




Source: Bloomberg, Barclays Research

**Tech is 26% of US market cap… but only 7% of Europe**




Source: Datastream. Note: US tech drop in Dec 2018 due to MSCI sector realignment

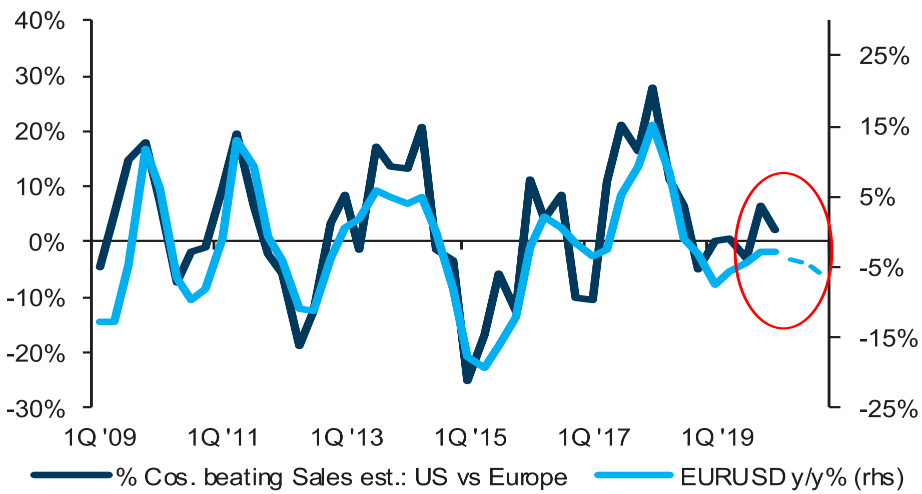
**MSCI Europe and US sector composition and ROEs**

| | Weight | ROE | Weight | ROE | Weight | ROE |
|---|---|---|---|---|---|---|
| Market | 100.0% | 11.3% | 100.0% | 15.8% | 0% | -5% |
| Energy | 5% | 9% | 3% | 5% | 2% | 4% |
| Materials | 7% | 11% | 2% | 10% | 5% | 1% |
| Industrials | 13% | 17% | 8% | 22% | 5% | -5% |
| Discretionary | 10% | 12% | 11% | 31% | -1% | -19% |
| Staples | 16% | 18% | 7% | 28% | 8% | -10% |
| Healthcare | 17% | 17% | 15% | 18% | 2% | -1% |
| Financials | 15% | 8% | 10% | 12% | 5% | -3% |
| IT | 7% | 12% | 26% | 27% | -19% | -15% |
| Telecoms | 4% | 10% | 11% | 14% | -7% | -4% |
| Utilities | 5% | 12% | 3% | 10% | 2% | 1% |
| Real Estate | 1% | 5% | 3% | 8% | -2% | -4% |

Source: Bloomberg, Datastream

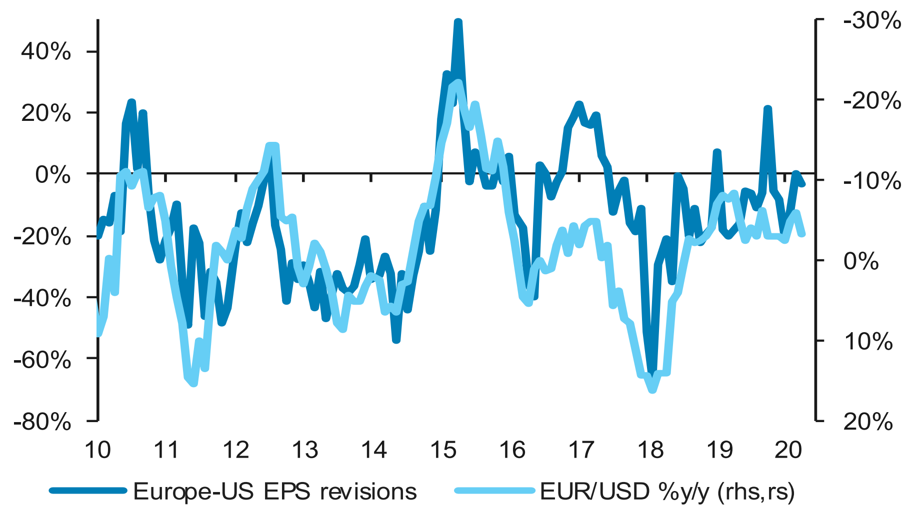
# The weak euro is a tailwind for European earnings…

## % Quarterly sales beats in US/Europe and EUR/USD



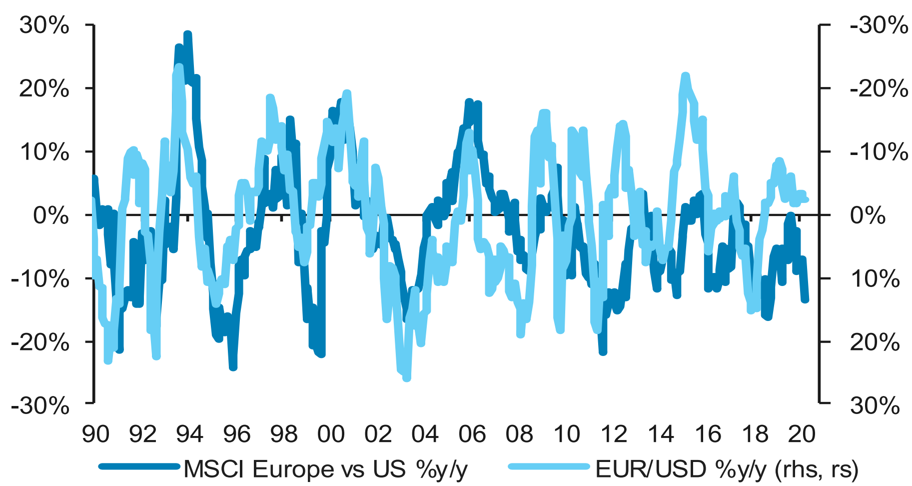

Source: Bloomberg, Barclays Research, dotted line uses spot EUR/USD until year-end

## The weaker euro has helped the relative EPS revisions of Europe vs US



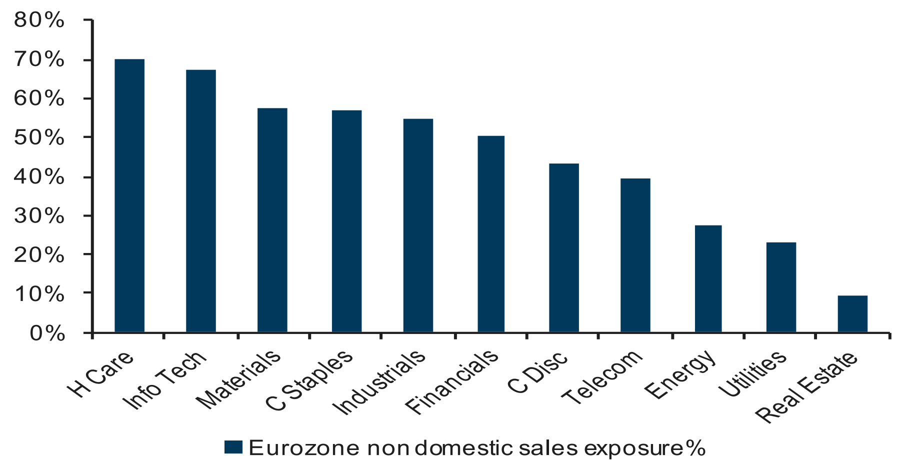

Source: Datastream

## A weaker euro typically helps European equities




Source: Datastream

## Eurozone sectors' non-domestic revenues exposure




Source: Bloomberg, Worldscope

BARCLAYS



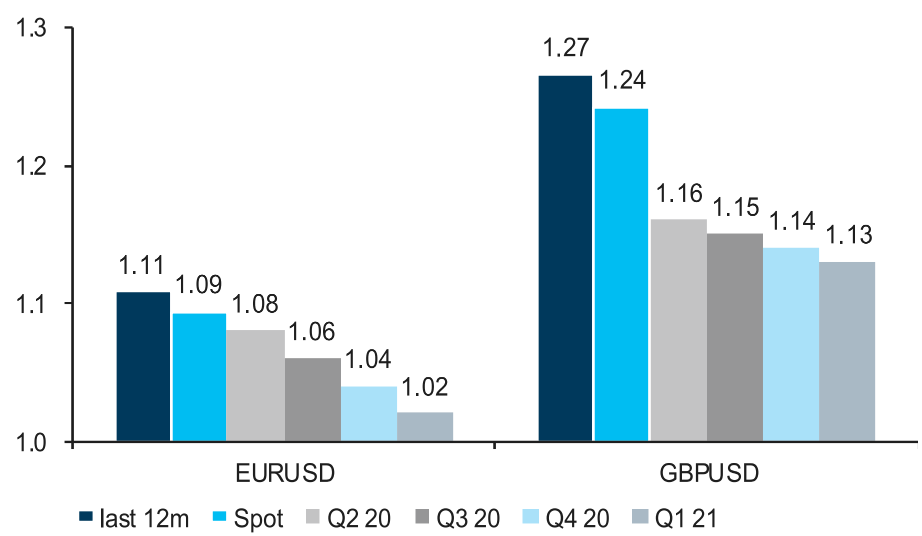
Restricted - External

May 05, 2020

# …and helps exporters to mitigate the drag from weaker global demand

- Our Eurozone exporter basket includes the stocks that derive the biggest share of revenue from abroad and are not overly exposed to EM. It is available on Bloomberg with **BCEUEUEX** ticker.
- A potential further rebound in Euro could hurt the space in the near term, but Barclays forecasts stable EURUSD down the road.
- Most recently Euro has weakened, which is a positive for the Exporters basket.

## Barclays FX forecasts




Source: Bloomberg, Barclays FX Research

## Barclays Eurozone exporters basket (BCEUEUEX)

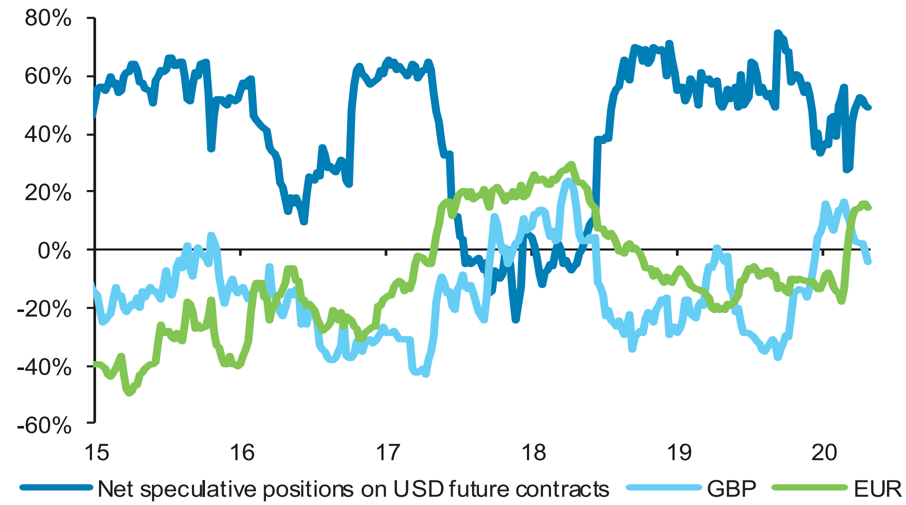
| Ticker | Name | Sector | Country | Mcap ($bn) | Non Europe exposure |
|---|---|---|---|---|---|
| DAI GY | Daimler | C Disc | Germany | 74.1 | 58% |
| FCA IM | Fiat Chrysler Autos. | C Disc | Italy | 26.2 | 83% |
| MC FP | LVMH | C Disc | France | 180.5 | 71% |
| PUB FP | Publicis Groupe | C Disc | France | 14.6 | 72% |
| SW FP | Sodexo | C Disc | France | 16.2 | 63% |
| CPR IM | Davide Campari Milano | C Staples | Italy | 10.1 | 55% |
| AD NA | Koninklijke Ahold Delhaize | C Staples | Netherlands | 31.3 | 70% |
| TEN IM | Tenaris | Energy | Italy | 21.6 | 90% |
| AGN NA | Aegon | Financials | Netherlands | 13.3 | 48% |
| HNR1 GY | Hannover Ruck. | Financials | Germany | 15.7 | 63% |
| MUV2 GY | Muenchener Ruck. | Financials | Germany | 32.3 | 59% |
| BAYN GY | Bayer | Health Care | Germany | 104.1 | 62% |
| FME GY | Fresenius Med.Care | Health Care | Germany | 30.9 | 84% |
| GRF SQ | Grifols Ord Cl A | Health Care | Spain | 12.6 | 84% |
| PHIA NA | Philips Eltn.Koninklijke | Health Care | Netherlands | 41.9 | 79% |
| UCB BB | UCB | Health Care | Belgium | 16.5 | 69% |
| ACS SQ | ACS Activ.Constr.Y Serv. | Industrials | Spain | 13.7 | 83% |
| AIR FP | Airbus | Industrials | France | 99.2 | 75% |
| BNR GY | Brenntag | Industrials | Germany | 9.1 | 57% |
| HOT GY | Hochtief | Industrials | Germany | 11.6 | 93% |
| LR FP | Legrand | Industrials | France | 19.6 | 55% |
| MTX GY | MTU Aero Engines Hldg. | Industrials | Germany | 10.9 | 84% |
| REN NA | Relx | Industrials | Netherlands | 22.9 | 77% |
| WKL NA | Wolters Kluwer | Industrials | Netherlands | 17.6 | 69% |
| DSY FP | Dassault Systemes | IT | France | 39.4 | 58% |
| SAP GY | SAP | IT | Germany | 147.3 | 86% |
| UBI FP | Ubisoft Entm. | IT | France | 13.4 | 64% |
| AI FP | Air Liquide | Materials | France | 55.3 | 63% |
| HEI GY | Heidelbergcement | Materials | Germany | 16.8 | 68% |
| SOLB BB | Solvay | Materials | Belgium | 13.7 | 71% |

Source: Bloomberg, IBES, Datastream, Barclays Research. For more information please see our report Hold your nerve, equities still have upside, 30 July 2018.

# Dollar benefits from its ‘safe haven’ status

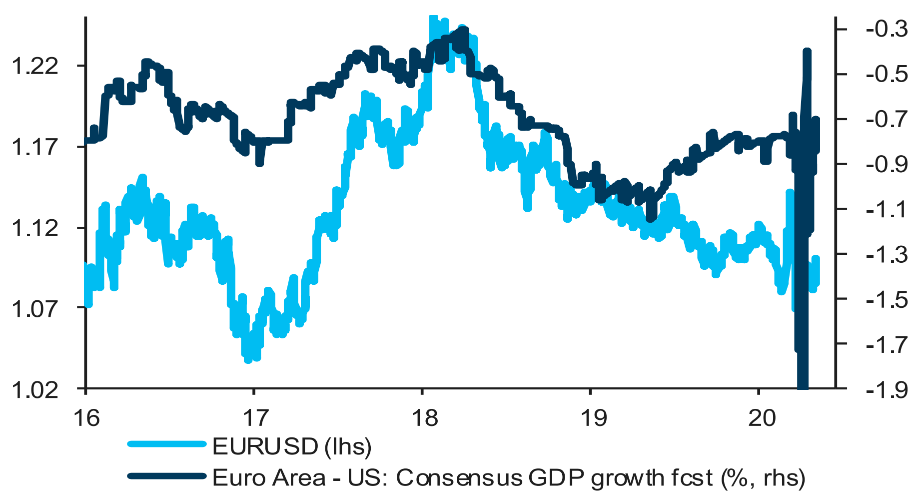
- The FX market is showing evidence of elevated risk aversion as the dollar rebounded recently, against most of the other currencies.
- Speculative positions on CFTC dollar futures contracts have rebounded.
- GDP growth and rates differential between Europe and US has rebounded recently.

**USD is a crowded long vs. GBP and EUR**



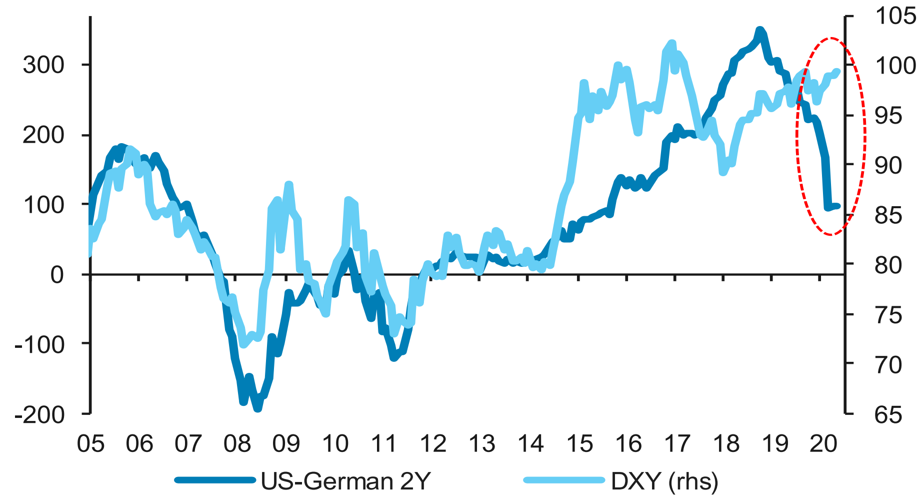

Source: CFTC, Bloomberg

**Eurozone/US GDP Growth differential has stabilised lately**




Source: Bloomberg, Datastream

**DXY is not reflecting the narrowing US-German yield gap**




Source: Bloomberg, Datastream





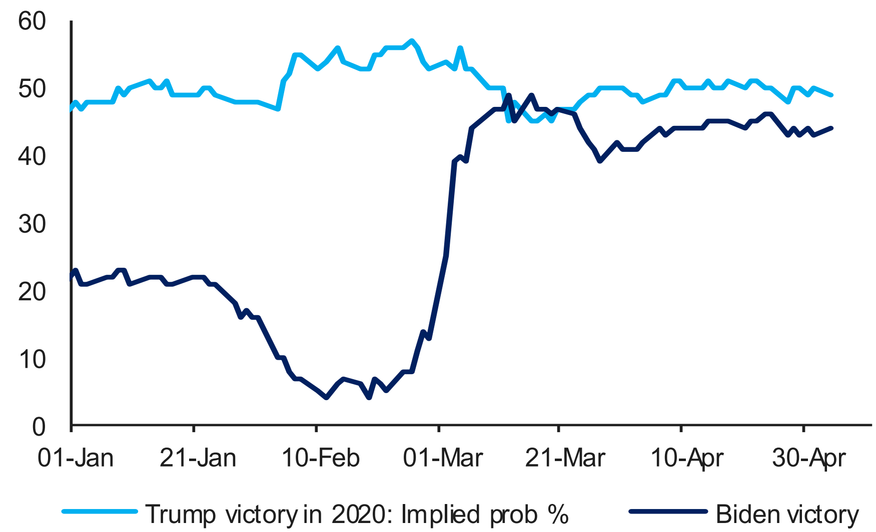
May 05, 2020

# US elections risk has receded, but outcome still not a done deal

**Probability of a Democratic victory picked up recently, which also coincided with Covid-19 cases jumped in US**

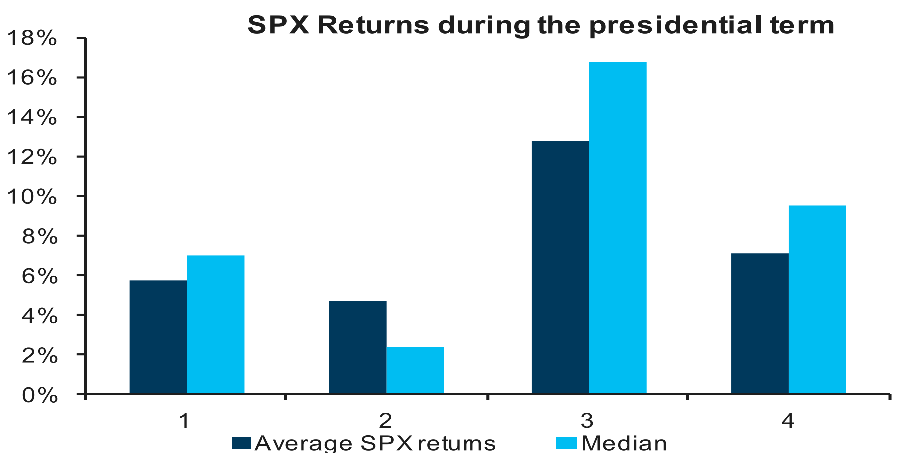

Source: Bloomberg

**Despite the surge lately, Biden trailing Trump**



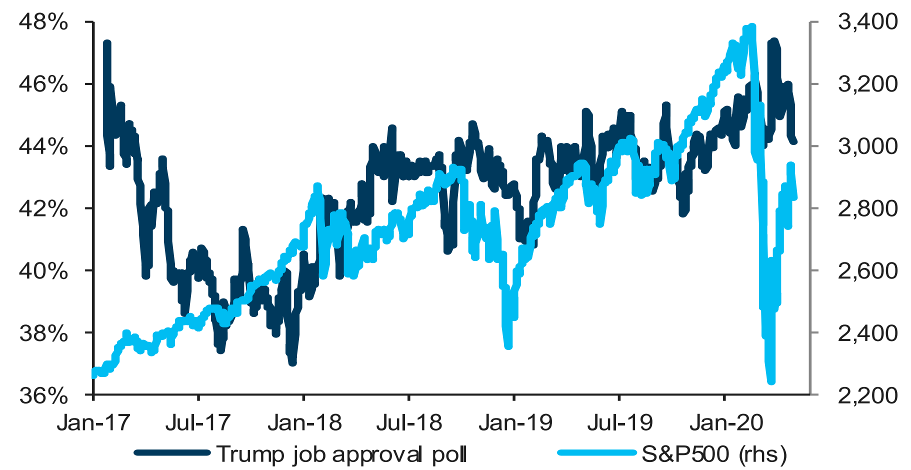

Source: Bloomberg

**The fourth year of presidential terms is typically positive for S&P500 returns…but not as much as the third one**




Source: Barclays Research. Note: Year-4 is Presidential election year, since 1928

**Trump ratings declined recently tracking S&P500**

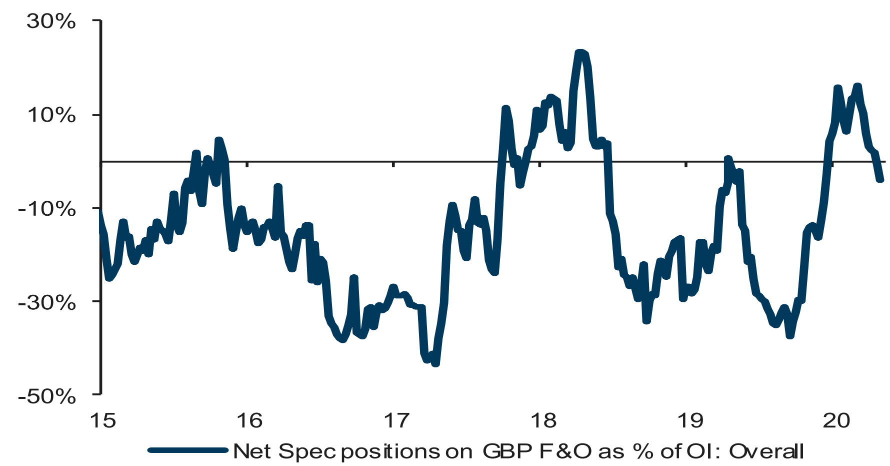



Source: Bloomberg

# 2) UW UK – UK large cap equities remained well bid in Q1 as GBP weakened

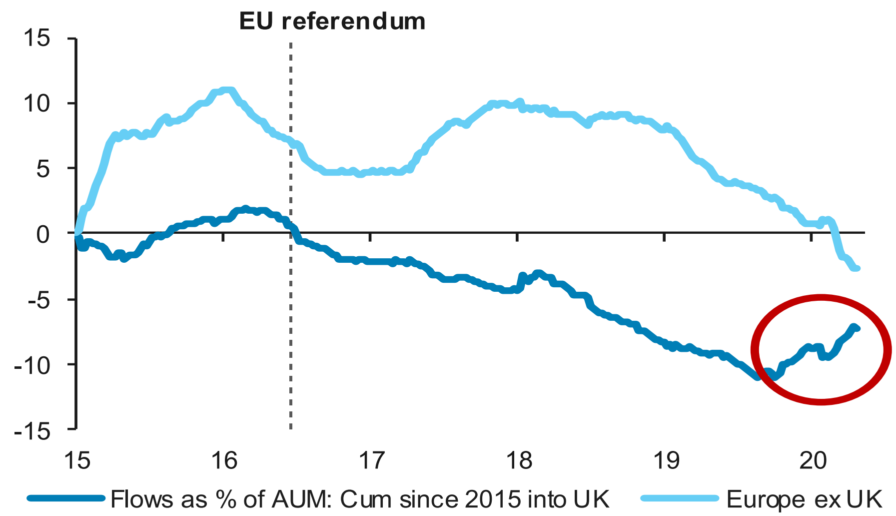
- After receiving strong inflows in Q4'19, UK equity inflows continued in Q1'20, while continental Europe equities saw further outflows.
- But UK inflows were restricted to just the large cap, export driven FTSE 100 while the domestic FTSE 250 saw outflows.
- UK inflows were mostly driven by a weak GBP as speculators closed the GBP longs that they opened in Q4. They are now marginally short the GBP, again.

**GBP shorts opened up recently**



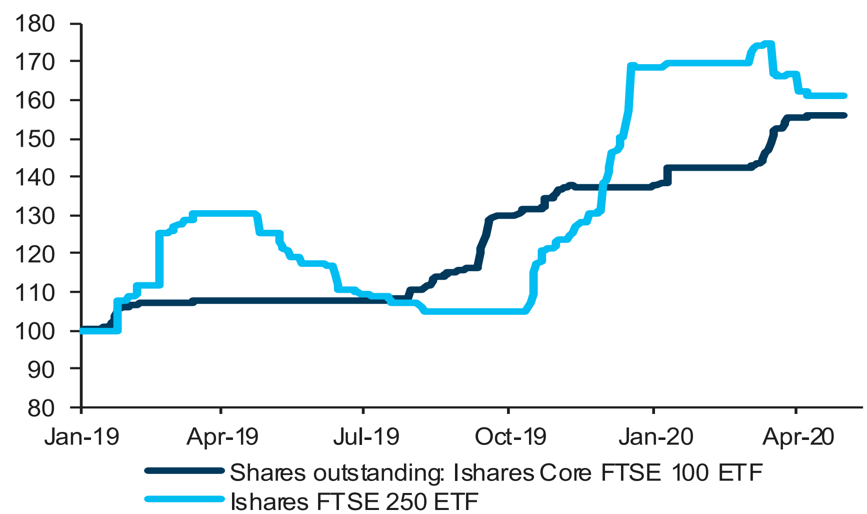

Source: CFTC, Bloomberg

**UK equity inflows continued in Q1 while conti Europe saw further outflows, but it was led by…**




Source: EPFR

**Large cap FTSE 100 while FTSE 250 saw outflows**

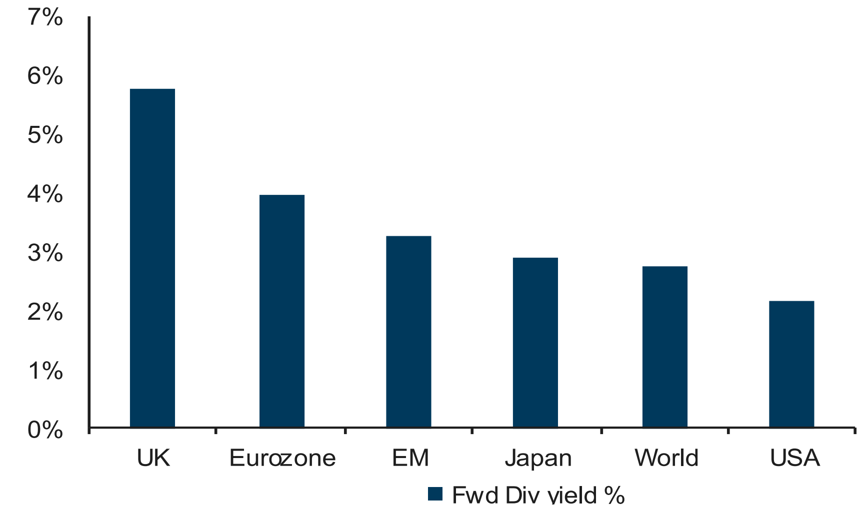



Source: Barclays Research, EPFR

# UK is a high-yielding market, highly exposed to Energy and Financials

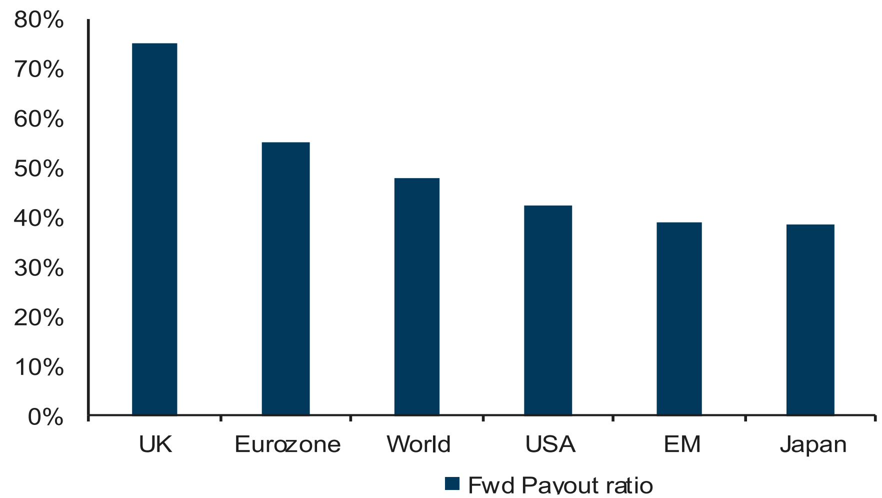
- UK equities are skewed to Defensives, Energy and Financials.
- As a result, UK has a particularly high dividend yield and also a high payout ratio.
- However, as Energy and Financials are big contributors to UK dividends, we see downside risks to dividend outlook.

**UK offers the highest dividend yield within Europe…**




Source: Datastream

**…and has the highest payout ratio**




Source: Datastream

**MSCI UK has an Energy, Financials and Defensive bias**

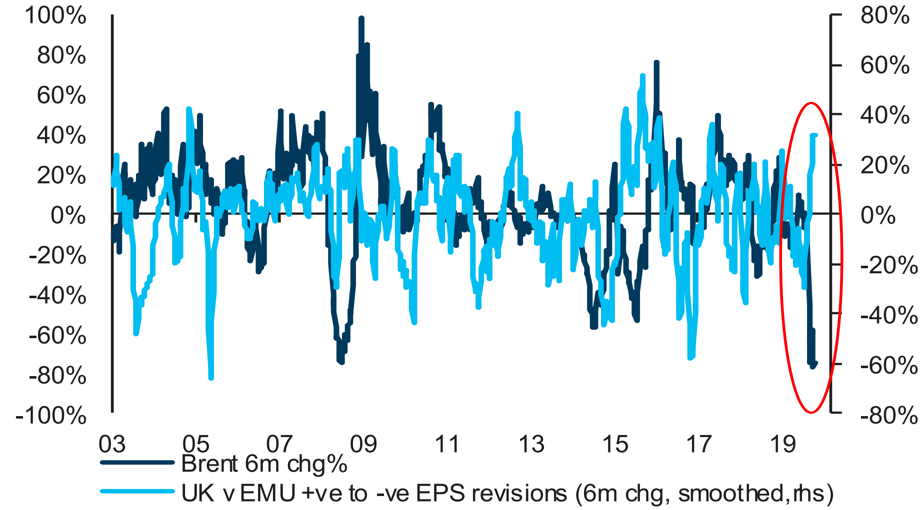
| | MSCI UK | MSCI Eurozone | MSCI World |
|---|---|---|---|
| **Energy** | **12%** | **4%** | **4%** |
| Materials | 8% | 7% | 4% |
| Industrials | 11% | 13% | 10% |
| Discretionary | 6% | 15% | 11% |
| Staples | 20% | 11% | 9% |
| HealthCare | 14% | 10% | 15% |
| Financials | 18% | 14% | 13% |
| IT | 1% | 12% | 20% |
| Telecoms | 4% | 5% | 9% |
| Utilities | 4% | 7% | 3% |
| Real Estate | 1% | 2% | 3% |
| Cyclicals | 27% | 47% | 45% |
| Defensives | 40% | 30% | 30% |
| **Cyc-Def** | **-13%** | **18%** | **15%** |

Source: Datastream

# Lower oil not fully priced in yet, relative EPS downgrades on the cards for UK

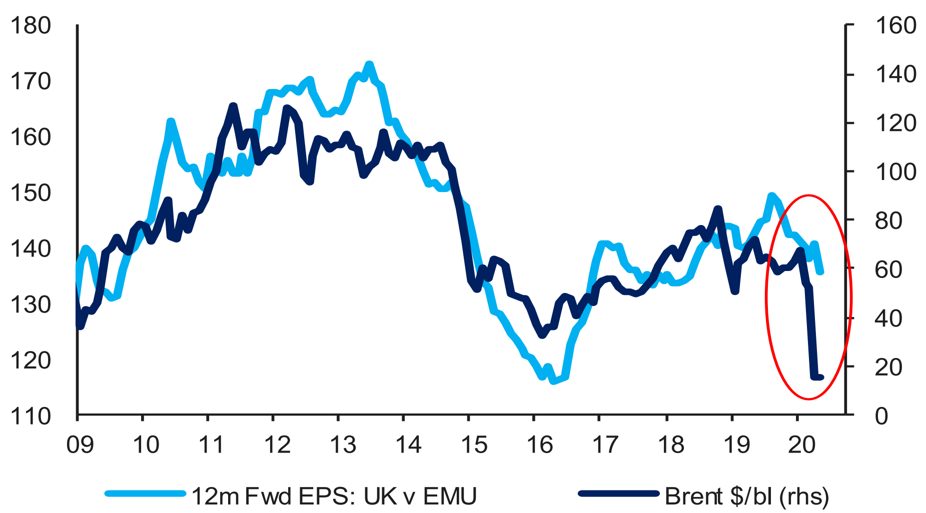
- Oil prices are a key driver of UK relative EPS momentum versus EMU.
- EPS momentum has still not adjusted to lower oil prices as it still appears to be implying a $50-60 per barrel price range.
- Given the oversupply and weak demand in the near term, we may see more EPS downgrades for UK equities, in our view.

**EPS revisions have decoupled from Oil prices**



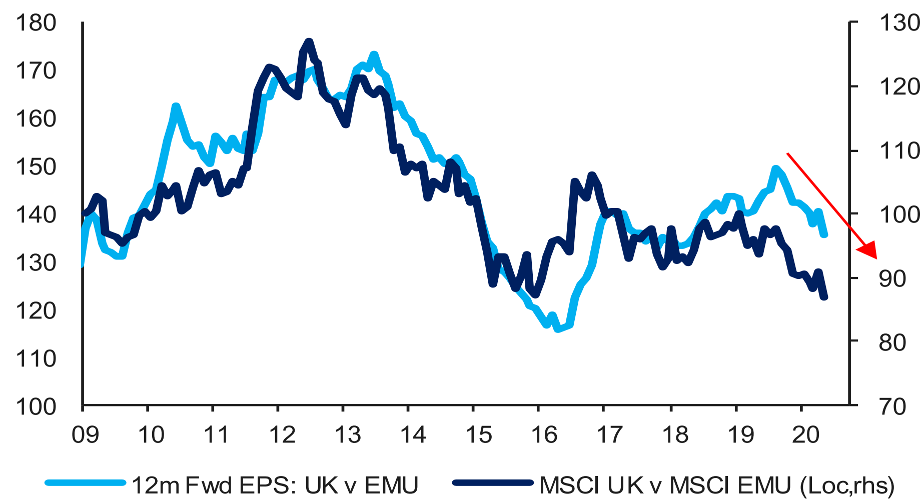

Source: IBES, Datastream

**UK rel EPS momentum driven by oil prices and appears to imply $50-60/barrel despite the supply & demand shocks..**




Source: IBES, Datastream

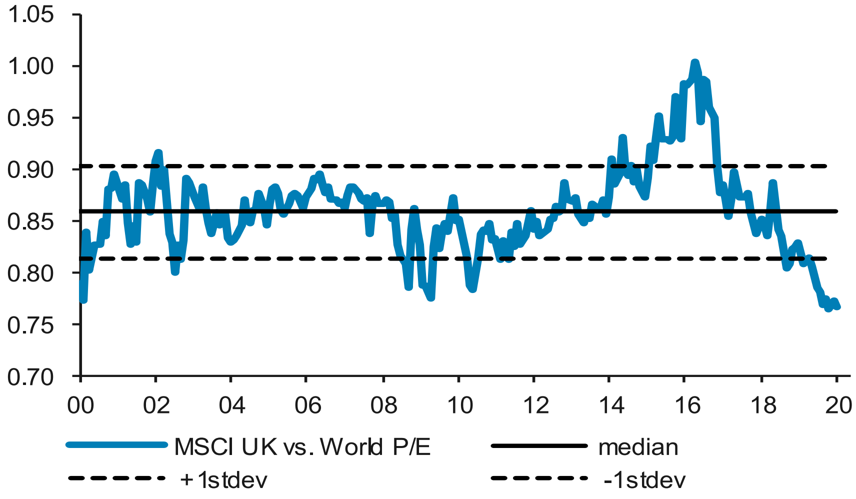
**..and hence more downgrades to EPS possible, at least in the near term**




Source: IBES, Datastream

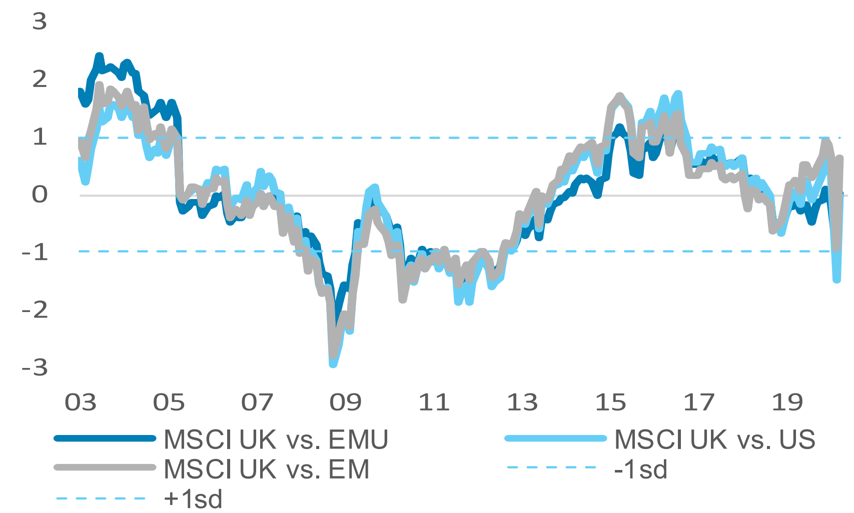
# UK valuations look attractive at face value, but a lot is due to Energy sector

## MSCI UK P/E is at record depressed level vs. MSCI World…



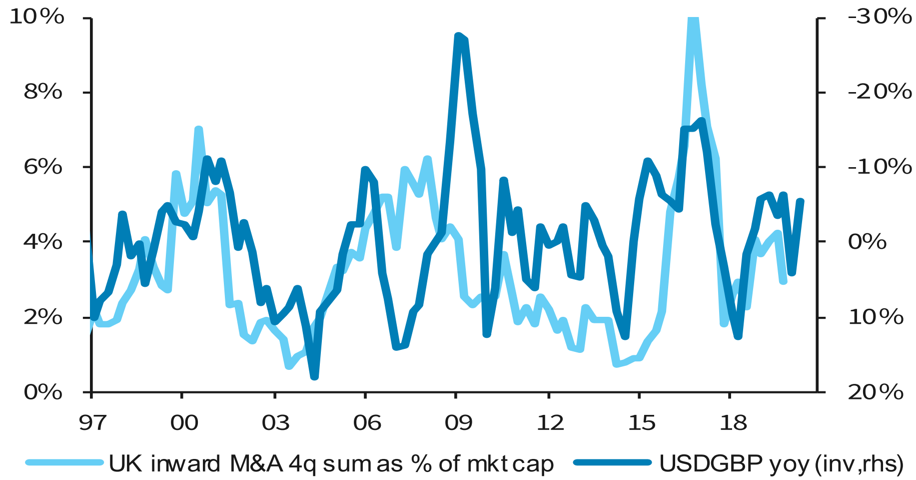

Source: IBES

## …in the recent correction it also got cheaper relative to other regions



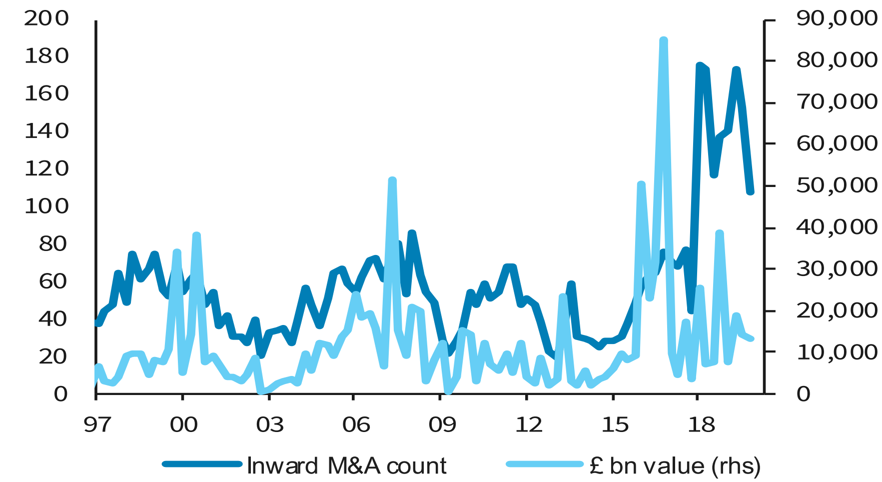

Source: IBES

## Inbound M&A rose last year as GBP fell




Source: Refinitiv, Barclays Research

## Inward M&A deal counts have come down recently

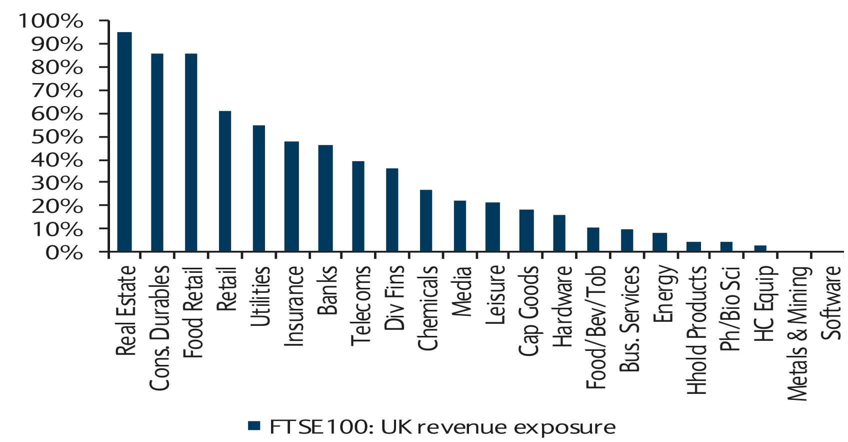



Source: Refinitiv, Barclays Research

# Brexit stage 2 vs. COVID-19

- Amid the COVID-19 crisis, uncertainty about the trade negotiation between UK/EU and UK/ROW is unsettling.
- The UK government's objective to seal a Free Trade Agreement (FTA) with the EU this year in order to leave at the end of the implementation period seems highly ambitious.

**UK sectors' domestic revenue exposure**




Source: Worldscope, Bloomberg, Barclays Research

**Projected timeline for UK-EU negotiations**

**Jan 2020**

**9 Jan:** House of Commons passes WAB

**13 Jan:** WAB moves to House of Lords

**21 Jan:** EU special briefing session where EC will offer more clarity on structure of future agreement

**27 Jan:** MPs debate final WAB changes before bill becomes law

**29 Jan:** European parliament expected to ratify the WA

**31 Jan:** UK leaves EU at 2300 GMT. Transition period begins.

**Feb**

**1 Feb:** UK/EU representatives can meet to agree Northern Ireland protocol implementation

**25 Feb:** EU expected to agree negotiating mandate, to be passed to chief negotiator, Michel Barnier

**Mar**

**1 Mar:** 30-day deadline for UK to publish negotiating objectives

**12 Mar:** EU trade ministers hold regular meeting in Brussels (may offer guide on progress)

**26-27 Mar:** EU summit

**Jun**

**18-19 Jun:** EU summit

**June:** UK-EU summit to discuss trade talk progress (foreseen in political declaration)

**30 Jun:** Deadline by which any extension should be agreed

**Nov**

**26 Nov:** EU-stated deadline for a trade deal to have been agreed, to allow time to ratify before end of December

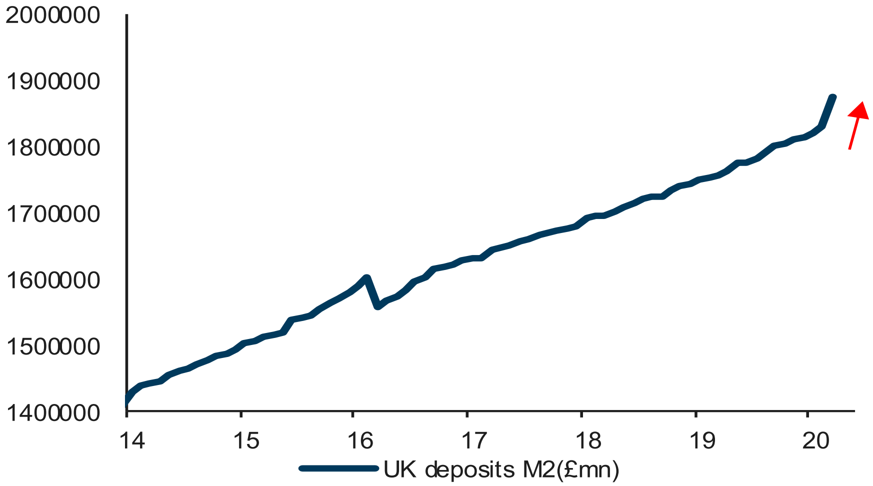
**Dec**

**30 Dec:** End of transition period under current agreement

Source: Various news reports, "Getting the UK ready for the next phase of Brexit Negotiations" by Raoul Ruparel, December 2019. Note: some dates are estimated and therefore highly subject to change

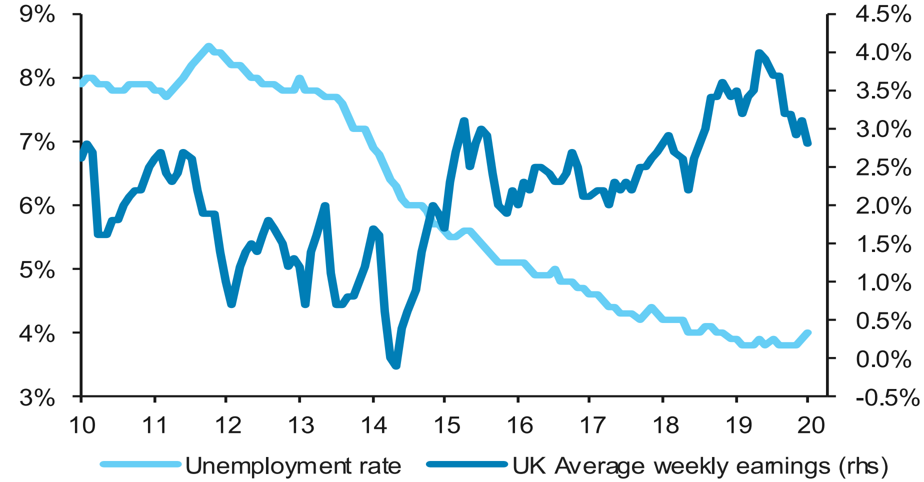
# Savings up but consumer spending and labour market to remain weak

## Cash retail deposits/savings have seen a spike



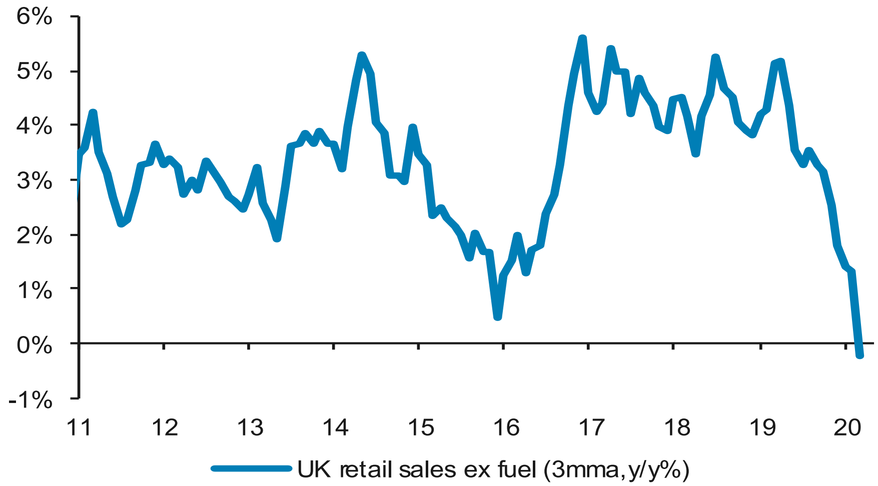

Source: Bloomberg

## The UK labour market has softened recently and is expected to see a spike in UE due to Covid-19



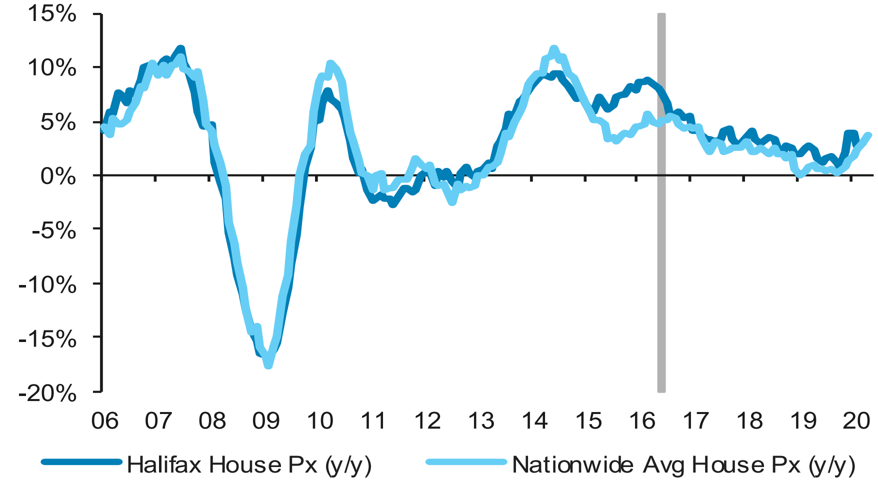

Source: Datastream, Barclays Research

## UK retail sales keep falling




Source: Bloomberg

## The housing market appears to be bottoming out, for now



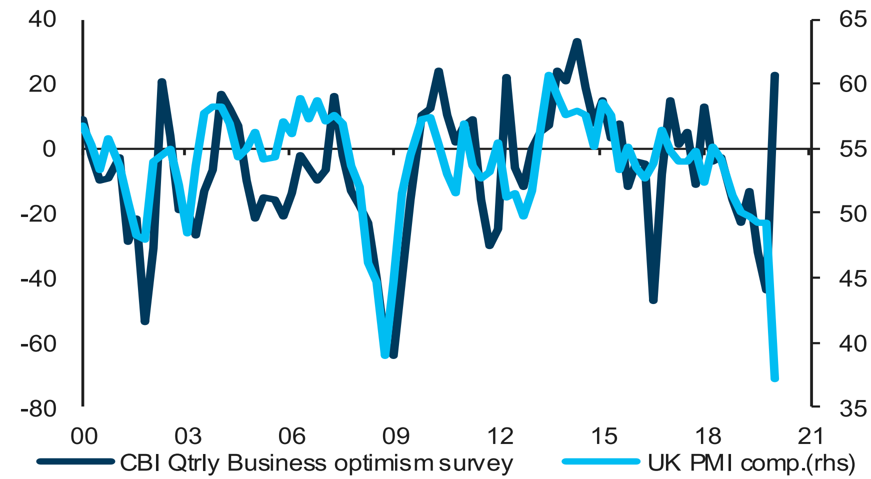

Source: Worldscope, Barclays Research

# Business sentiment materially hurt by COVID-19

## April PMIs declined the most on record

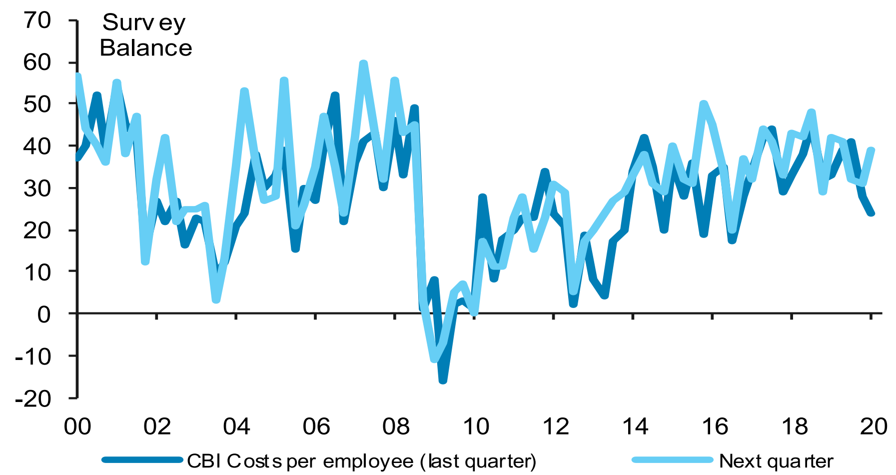

Source: Barclays Economics Research

## CBI business survey went up strongly in Q1 – a one-off?



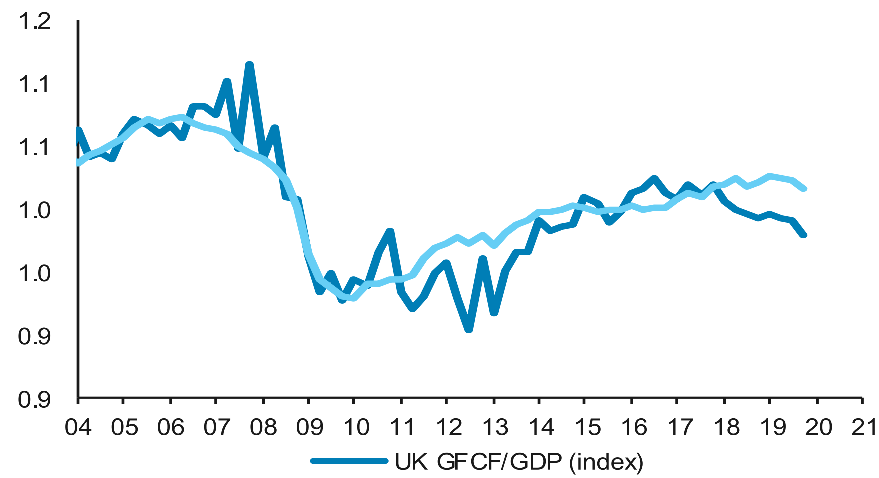

Source: Datastream, Barclays Research, Lloyds, Markit.

## Services: Costs per employee are increasing moderately




Source: Bloomberg

## Investment – UK vs. OECD – mind the gap

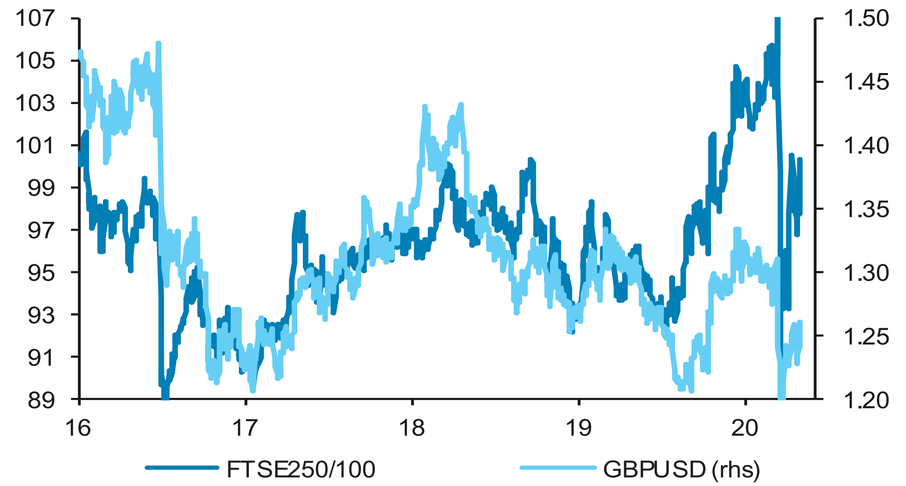



Source: OECD, ONS, Barclays Research

# FTSE250 looks very cheap vs. FTSE100 following the ytd underperformance

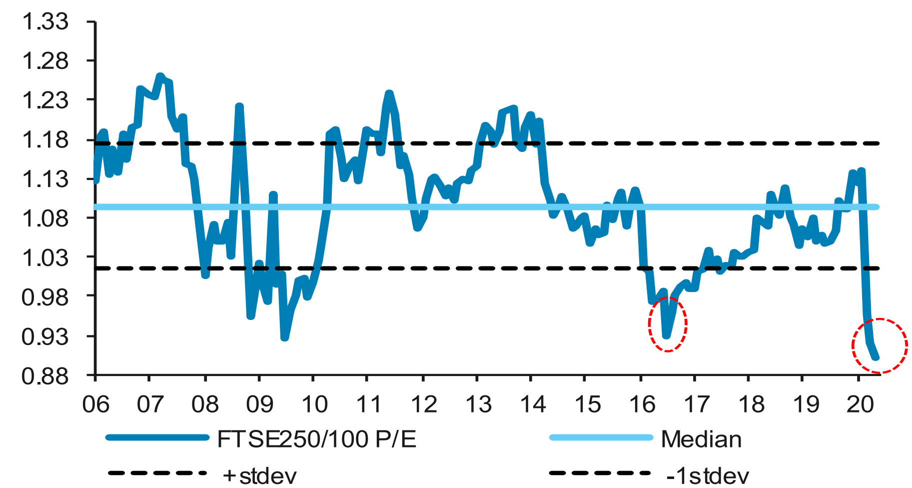
- Following the sharp rebound in domestic UK exposure during Q4, we neutralized our domestics/exporters preference.
- The ongoing trade negotiations with the EU should keep business in cautious mode, while the COVID-19 situation remains fluid.
- We note however that FTSE250 has underperformed FTSE100 ytd and is now trading near record cheap valuations.

**FTSE250/100 perf declined sharply and closed the gap with implied levels by GBP**



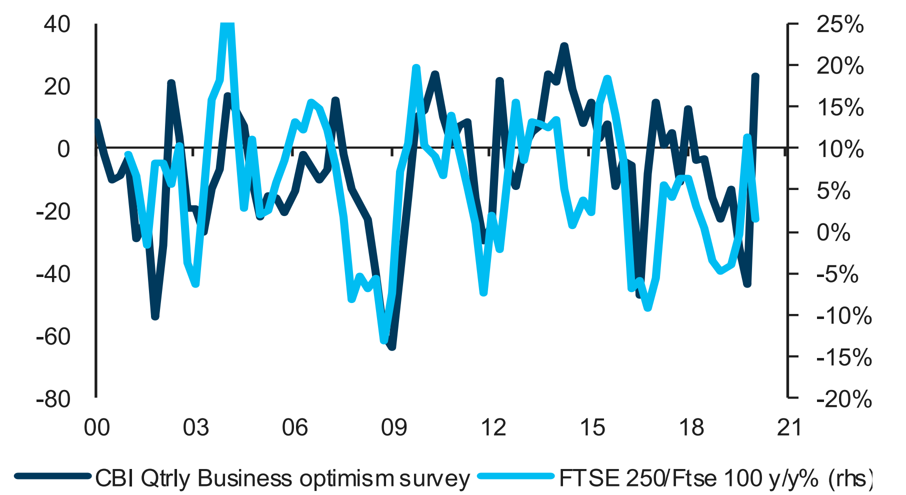

Source: Bloomberg, Barclays Research

**FTSE 250 P/E vs. FTSE 100 has de-rated and is lower than GFC**




Source: IBES

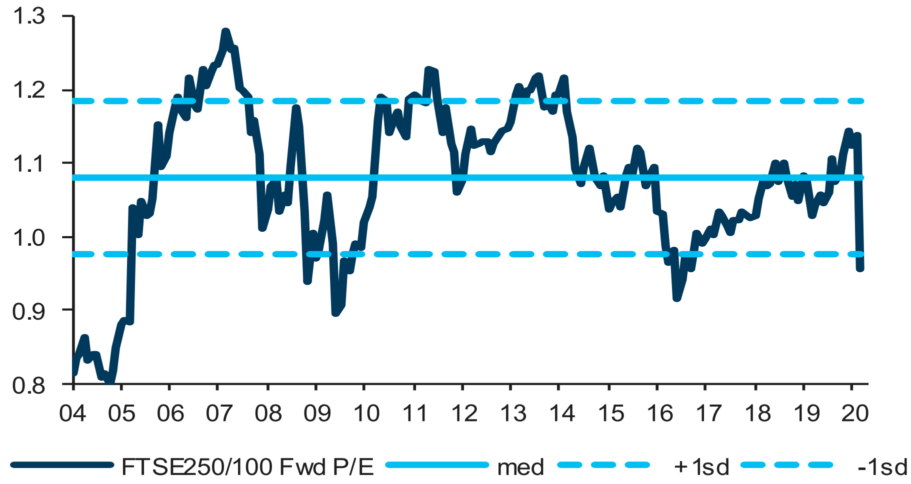
**Domestic plays follow activity indicators – up and down**




Source: Bloomberg

# FTSE 100 & 250 relative valuations

## FTSE 250 vs 100 P/E is well below median levels




Source: IBES

## FTSE 250 vs 100 P/B below average


Source: IBES

## MSCI UK Sector Valuations

| | F12m EPS Growth | F12m P/E | P/E dev from 20yr med (%) | P/B | Div Yield |
|---|---|---|---|---|---|
| MSCI UK | -12.1 | 13.0 | 0.5 | 1.5 | 5.3 |
| MSCI UK ex Fins | -8.7 | 15.1 | 8.9 | 3.6 | 5.0 |
| Energy | -46.9 | 19.1 | 63.6 | 0.9 | 8.6 |
| Materials | -16.0 | 10.2 | -13.3 | 1.5 | 7.1 |
| Industrials | -3.7 | 16.7 | 14.1 | 4.9 | 2.4 |
| Tech | -3.8 | 17.8 | -18.2 | 2.7 | 3.1 |
| Cons Disc | -12.0 | 14.0 | 0.3 | 2.6 | 3.9 |
| Cons Staples | 1.7 | 13.0 | -12.2 | 2.2 | 4.5 |
| Telecommunicatio | 16.2 | 12.5 | -2.9 | 0.8 | 6.9 |
| Healthcare | 4.6 | 18.2 | 19.8 | 9.7 | 3.9 |
| Utilities | -1.3 | 14.3 | 8.0 | 2.3 | 5.6 |
| Banks | -30.0 | 8.9 | -15.0 | 0.6 | 6.7 |

Source: IBES

## FTSE 250 Sector Valuations

| | F12m EPS Growth | F12m P/E | P/E dev from 20yr med (%) | P/B | Div Yield |
|---|---|---|---|---|---|
| FTSE 250 | -2.8 | 11.9 | -15.7 | 1.6 | 3.4 |
| FTSE 250 ex Fins | -2.1 | 12.1 | -10.0 | 1.6 | 2.8 |
| Oil & Gas | -27.5 | 10.2 | -27.3 | 0.7 | 4.0 |
| Materials | -9.8 | 8.8 | -28.4 | 1.6 | 3.0 |
| Industrials | -9.4 | 12.7 | -9.2 | 2.2 | 3.1 |
| Tech | -3.6 | 12.2 | -25.3 | 2.3 | 3.1 |
| Cons Goods | 1.3 | 10.6 | -9.8 | 1.8 | 3.8 |
| Cons Svcs | -1.0 | 10.9 | -19.4 | 1.9 | 3.1 |
| Telecommunicati | 36.9 | 14.5 | -16.9 | 1.3 | 5.0 |
| Healthcare | 9.4 | 21.5 | 9.1 | 2.1 | 1.7 |
| Utilities | 15.6 | 8.0 | -45.0 | 1.7 | 4.9 |
| Banks | -8.2 | 5.0 | -44.4 | 0.8 | 4.4 |

Source: IBES

# UK domestic and exporters baskets

## Barclays UK exporters basket (BCEUUKEX)

| Ticker | Name | Sector | Mcap ($bn) | Non-UK exposure |
|---|---|---|---|---|
| BRBY LN | Burberry Group | C Disc | 10.7 | 89% |
| CCL LN | Carnival | C Disc | 6.3 | 100%* |
| CPG LN | Compass Group | C Disc | 41.1 | 91% |
| IHG LN | Ictl.Htls.Gp. | C Disc | 10.9 | 96% |
| INF LN | Informa | C Disc | 12.5 | 91% |
| PSON LN | Pearson | C Disc | 6.5 | 91% |
| BATS LN | British American Tobacco | C Staples | 88.1 | 99% |
| DGE LN | Diageo | C Staples | 94.0 | 94% |
| IMB LN | Imperial Brands | C Staples | 20.9 | 90% |
| RB/ LN | Reckitt Benckiser Group | C Staples | 54.4 | 95% |
| RDSA LN | Royal Dutch Shell A | Energy | 122.6 | 100%* |
| HSBA LN | HSBC Holdings | Financials | 12.9 | 77% |
| PRU LN | Prudential | Financials | 6.4 | 68% |
| III LN | 3I Group | Financials | 43.0 | 89% |
| AZN LN | AstraZeneca | Health Care | 124.4 | 86% |
| GSK LN | GlaxoSmithKline | Health Care | 109.7 | 97% |
| SN/ LN | Smith & Nephew | Health Care | 18.9 | 95% |
| AHT LN | Ashtead Group | Industrials | 13.4 | 87% |
| ITRK LN | Intertek Group | Industrials | 11.3 | 93% |
| MRO LN | Melrose Industries | Industrials | 13.8 | 95% |
| REL LN | Relx | Industrials | 45.9 | 93% |
| RR/ LN | Rolls-Royce Holdings | Industrials | 17.8 | 88% |
| SGE LN | Sage Group | IT | 10.1 | 80% |
| EVR LN | Evraz | Materials | 6.6 | 100% |
| FRES LN | Fresnillo | Materials | 5.7 | 100% |
| RIO LN | Rio Tinto | Materials | 66.3 | 99% |
| VOD LN | Vodafone Group | Telecom | 52.6 | 85% |
| NG/ LN | National Grid | Utilities | 39.9 | 60% |

Source: Bloomberg, IBES, Datastream, Barclays Research.
See European Equity Strategy: UK: Bumpy ride ahead, but low GBP helps, 19 June 2019, for all relevant disclosures. * indicates company had some UK exposure but the split is not disclosed

## Barclays UK domestic basket (BCEUUKDM)

| Ticker | Name | Sector | Mcap ($bn) | UK exposure |
|---|---|---|---|---|
| PSN LN | Persimmon | C Disc | 10.1 | 100% |
| BDEV LN | Barratt Developments | C Disc | 8.5 | 100% |
| BKG LN | Berkeley | C Disc | 7.3 | 100% |
| TW/ LN | Taylor Wimpey | C Disc | 7.2 | 98% |
| WTB LN | Whitbread | C Disc | 7.6 | 96% |
| NXT LN | Next | C Disc | 11.5 | 91% |
| JD/ LN | JD Sports Fashion PLC | C Disc | 9.5 | 45% |
| ITV LN | ITV | C Disc | 7.1 | 72% |
| FLTR LN | Flutter Entertainment Plc | C Disc | 8.7 | 46% |
| SBRY LN | Sainsbury J | C Staples | 6.1 | 100% |
| MRW LN | Morrison (WM) Spmkts. | C Staples | 6.1 | 100% |
| ABF LN | Associated Brit. Foods | C Staples | 25.4 | 43% |
| LLOY LN | Lloyds Banking Group | Financials | 53.1 | 100% |
| HL/ LN | Hargreaves Lansdown | Financials | 10.8 | 100% |
| LGEN LN | Legal & General | Financials | 21.0 | 98% |
| RBS LN | Royal Bank Of Sctl.Gp. | Financials | 34.5 | 93% |
| AV/ LN | Aviva | Financials | 20.1 | 55% |
| IAG LN | Intl. Consolidated Airlines | Industrials | 14.1 | 33% |
| RMV LN | Rightmove | IT | 7.0 | 97% |
| BLND LN | British Land | Real Estate | 6.6 | 100% |
| LAND LN | Land Securities Group | Real Estate | 8.7 | 100% |
| BT/A LN | BT Group | Telecom | 23.9 | 81% |
| UU/ LN | United Utilities Group | Utilities | 7.5 | 100% |
| SSE LN | SSE | Utilities | 17.4 | 97% |
| SVT LN | Severn Trent | Utilities | 7.1 | 90% |

Source: Bloomberg, IBES, Datastream, Barclays Research.
For more information see Navigating troubled waters - 'Crash out' unlikely but UK stocks still face challenges, 12 Sept 2018.

# 3) Eurozone - OW Core (France and Germany) vs. Periphery (Spain & Italy)

## Eurozone countries macro snapshot

| | GDP y/y | | Unemployment Rate | | Fiscal Balance %GDP | | Public Debt %GDP | | Current account %GDP | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 19 | 20e | 19 | 20e | 19 | 20e | 19 | 20e | 19 | 20e |
| Eurozone | 1.2 | -10.1 | 7.6 | 9.8 | -0.6 | -9.8 | 86.5 | 107.9 | 2.7 | 1.3 |
| France | 1.3 | -10.5 | 8.5 | 9.4 | -3.0 | -11.4 | 98.8 | 123.2 | -0.7 | -1.5 |
| Germany | 0.6 | -9.9 | 3.2 | 4.8 | 1.5 | -8.9 | 59.0 | 78.5 | 7.3 | 4.8 |
| Italy | 0.3 | -11.9 | 9.9 | 10.8 | -1.6 | -12.5 | 135.5 | 167.7 | 2.8 | 1.5 |
| Spain | 2.0 | -11.6 | 14.1 | 16.2 | -2.3 | -11.8 | 96.4 | 123.3 | 2.0 | 2.6 |
| UK | 1.4 | -8.0 | 3.8 | 6.4 | -2.7 | -10.8 | 83.4 | 100.9 | -3.8 | -0.3 |

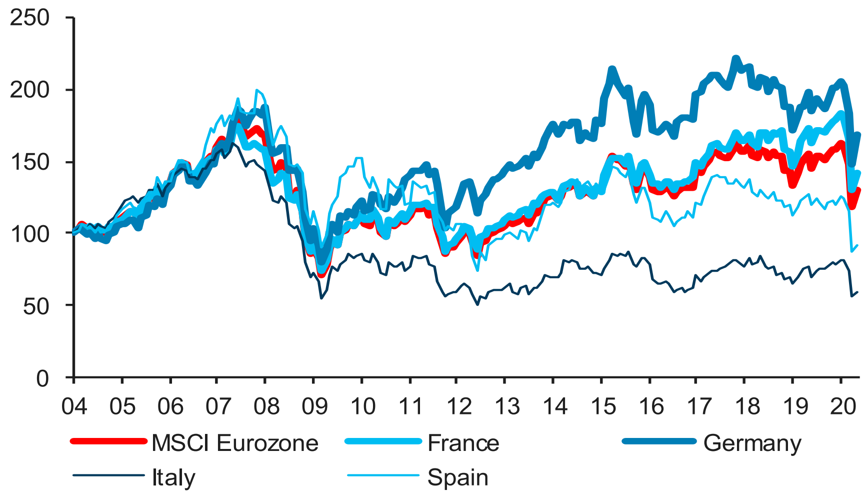
Source: Barclays Economics Research

## Eurozone countries performance, valuations and earnings forecasts

| | YTD | 12m | '20e y/y | '21e y/y | Current | 20 Y Median | % Diff | DY | ROE |
|---|---|---|---|---|---|---|---|---|---|
| **Eurozone** | **-20.7%** | **-16.8%** | **-18.3%** | **26.2%** | **13.9** | **13.2** | **5%** | **2.3%** | **9.9%** |
| France | -22.8% | -17.7% | -22.4% | 28.7% | 14.5 | 13.4 | 8% | 1.9% | 9.9% |
| Germany | -18.4% | -15.3% | -14.0% | 32.7% | 13.4 | 12.7 | 5% | 1.8% | 8.8% |
| Italy | -26.5% | -22.1% | -26.9% | 24.1% | 11.0 | 12.5 | -12% | 3.1% | 9.5% |
| Spain | -27.4% | -28.3% | -19.6% | 17.2% | 11.2 | 12.7 | -12% | 5.0% | 10.6% |

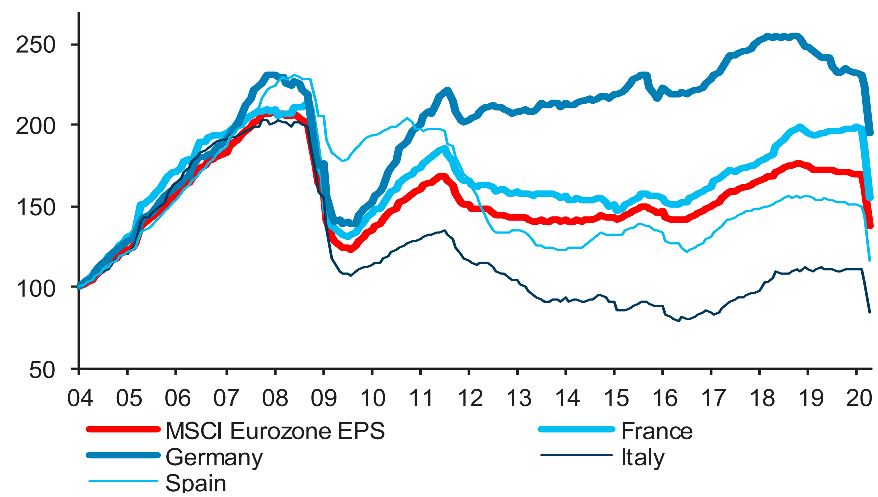
Source: Datastream, IBES

## Germany has outperformed in the current cycle…




Source: Datastream, re-based to 100 in Jan-04

## …which is due to stronger earnings



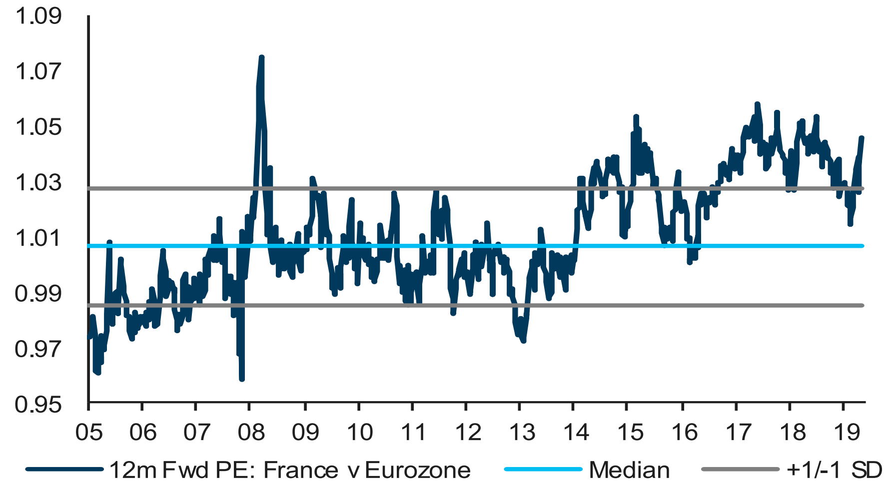

Source: IBES, re-based to 100 in Jan-04

# Eurozone countries' valuations

## German relative P/E has been below historical median

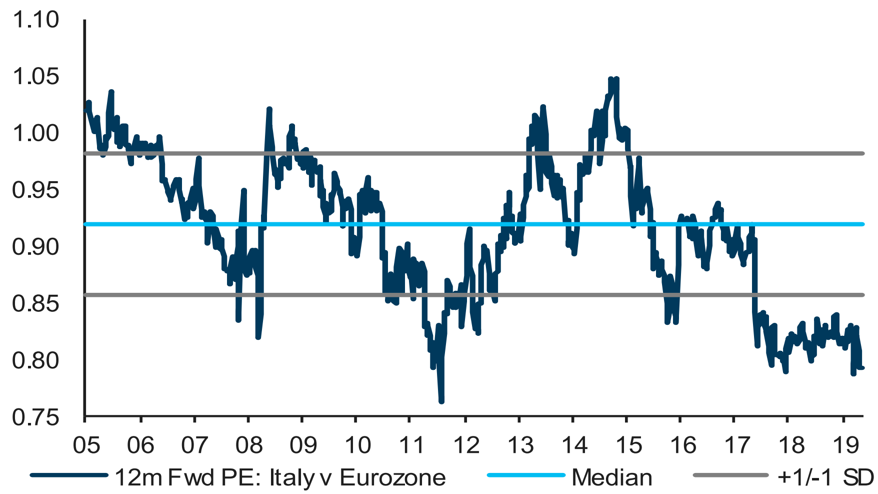

Source: Datastream, IBES, MSCI

## France has re-rated most recently



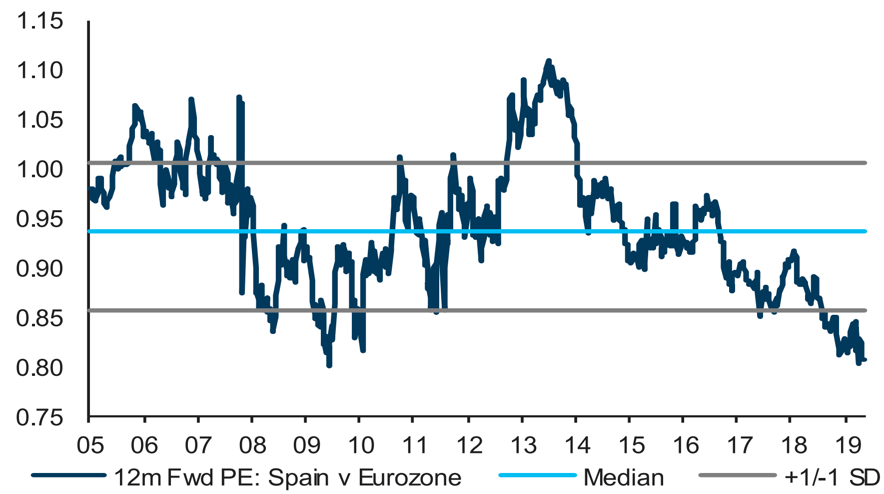

Source: Datastream, IBES, MSCI

## Italy valuation is at extreme lows




Source: Datastream, IBES, MSCI

## Spain valuation is also below 1SD levels

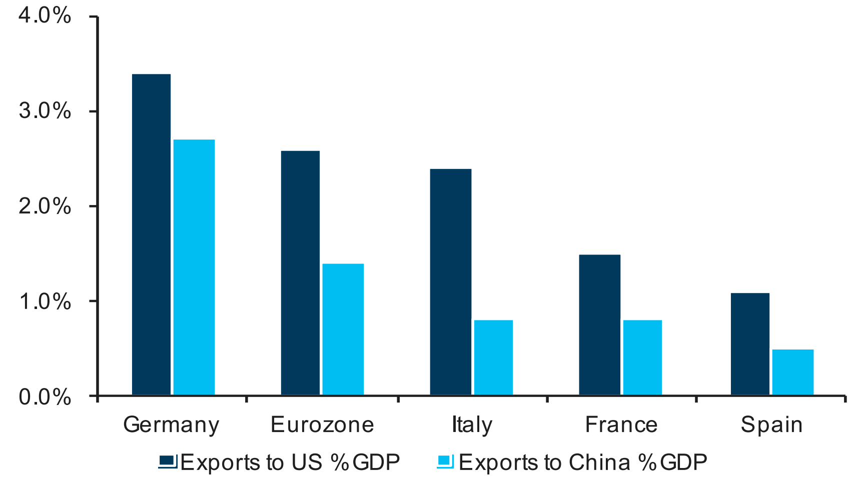



Source: Datastream, IBES, MSCI

# Germany is exposed to the global cycle…

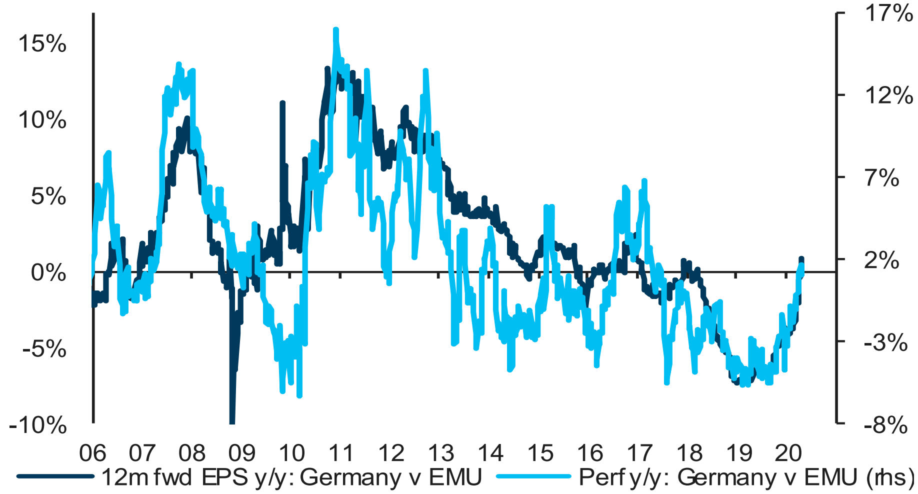
- German market is highly levered to global trade with Auto industry being a very significant contributor.
- The coronavirus outbreak is a headwind as it disrupts supply chains and global trade, while the drags from the US-China trade wars and Autos sector disruption are not going away.
- We note however that in relative terms, Germany EPS momentum is starting to rebound, which is a positive for equity performance.

**Exports matter more to Germany than any other Eurozone economy**



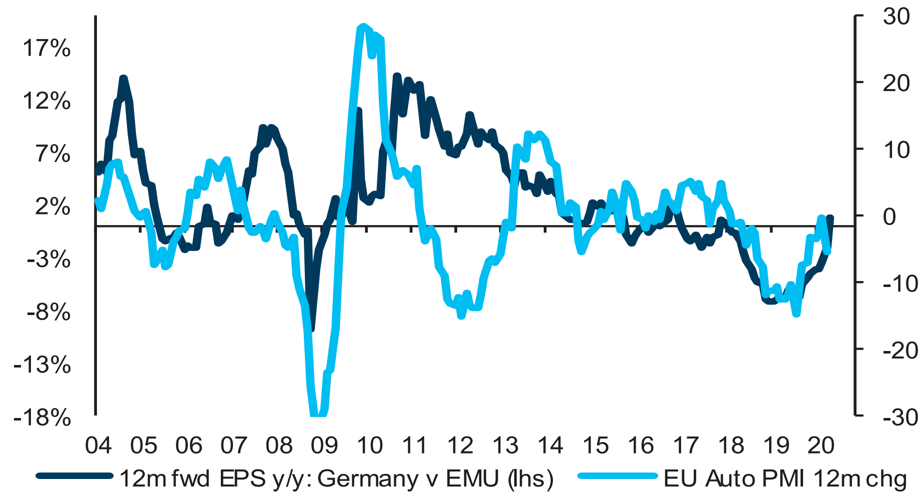

Source: IBES, Datastream, Barclays Research

**Germany relative EPS is trending up…**




Source: Markit, Bloomberg, Barclays Research

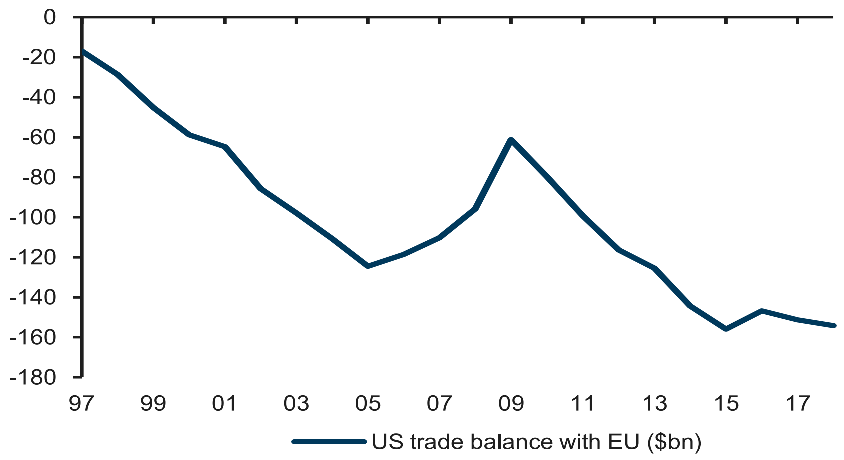
**..but auto sector structural weakness remains problematic**




Source: Eurostat

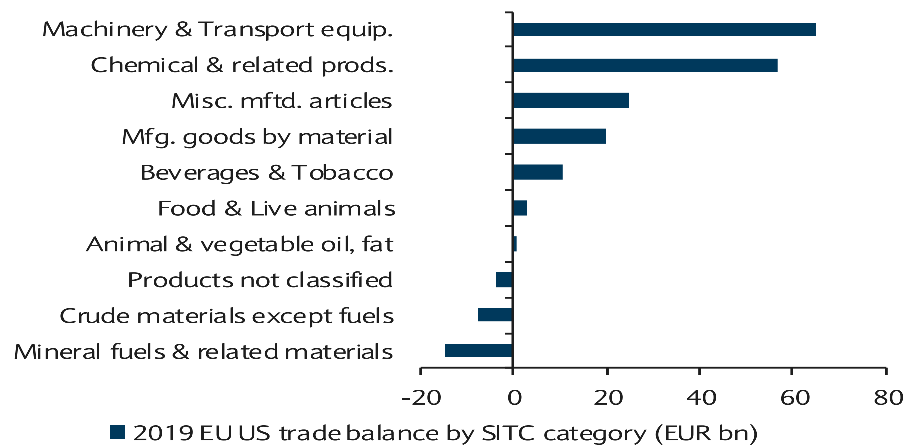
# …for better or for worse

## US trade deficit with the EU has increased materially



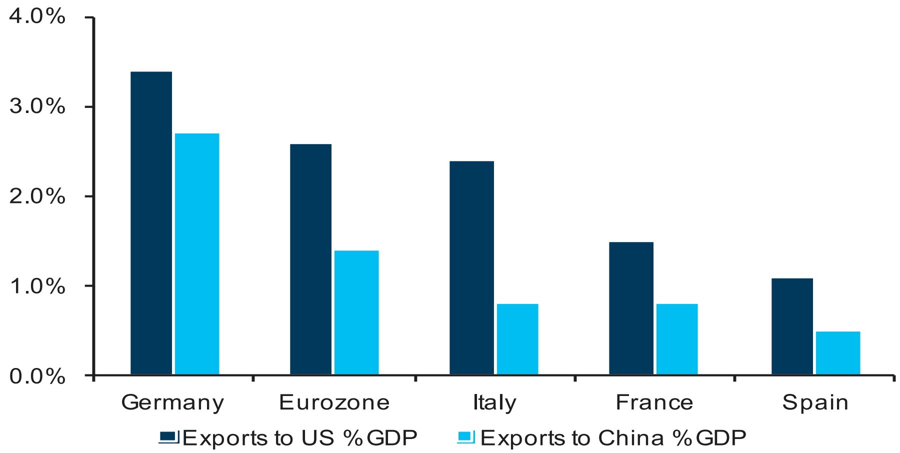

Source: Census

## 2019 EU-US trade balance by SITC category



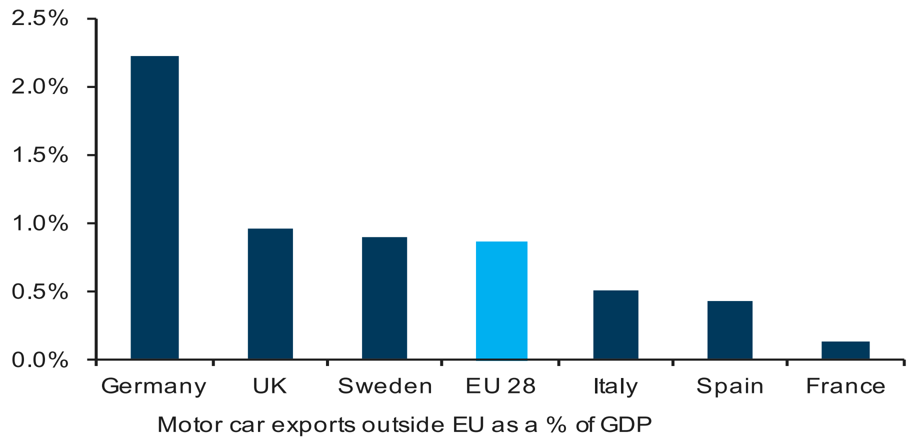

Source: Census, EUR bn

## Germany is the most exposed to US and China trade




Source: Eurostat

## Car exports matter for German GDP

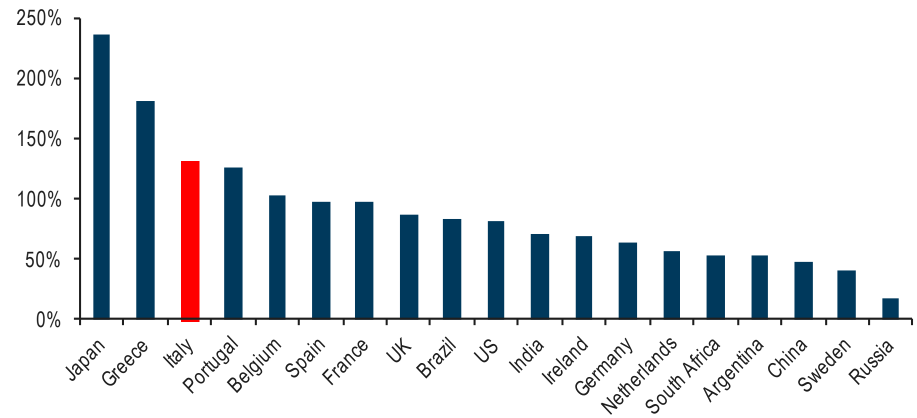



Source: Eurostat

# Italian macro recovery painfully altered by COVID-19, but ECB's put works

- Italian economy is set to be hurt particularly badly by the COVID-19 outbreak and to see a surge in public debt.
- BTP spreads widened dangerously last month, but the aggressive ECB backstop seems to be working, which also helps equities.

**Italy public-debt-to-GDP looks difficult to sustain at the current level**

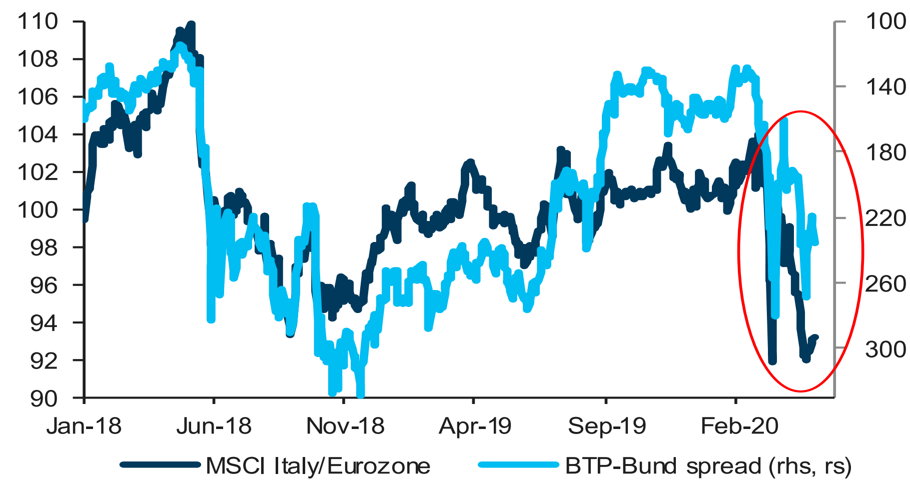



Source: Bloomberg, as of 2017

**Italy PMI manufacturing has nose-dived**


Source: Markit, Bloomberg

**BTPs have retraced most of the recent increase, which helps equities**




Source: Datastream

# Periphery is a call on Banks, France is well diversified and Germany is highly cyclical

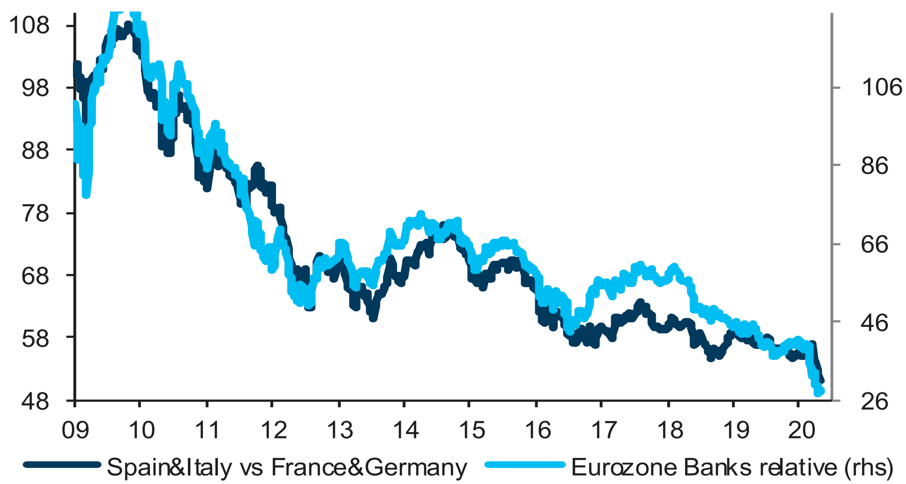
- The French equity market is the most diversified within Eurozone in terms of sector composition, which is a plus in the current uncertain environment.
- Italy and Spain are mostly skewed towards Financials.
- Germany has by far the most cyclical sector composition.

## Eurozone countries' equity market cap composition

| Market Cap % | Eurozone | France | Germany | Italy | Spain | UK | Switzerland |
|---|---|---|---|---|---|---|---|
| Materials | 7% | 6% | 9% | 0% | 0% | 8% | 6% |
| Industrials | 13% | 20% | 13% | 9% | 10% | 11% | 7% |
| Discretionary | 15% | 20% | 16% | 15% | 9% | 6% | 3% |
| IT | 12% | 7% | 15% | 0% | 7% | 1% | 1% |
| Cyclicals | 47% | 52% | 52% | 23% | 27% | 27% | 18% |
| Staples | 11% | 13% | 4% | 2% | 0% | 20% | 27% |
| HealthCare | 10% | 10% | 14% | 2% | 3% | 14% | 40% |
| Telecoms | 5% | 5% | 6% | 2% | 12% | 4% | 1% |
| Utilities | 7% | 3% | 4% | 29% | 29% | 4% | 0% |
| Defensives | 33% | 31% | 27% | 35% | 44% | 43% | 68% |
| Energy | 4% | 7% | 0% | 11% | 4% | 12% | 0% |
| Real Estate | 2% | 2% | 5% | 0% | 0% | 1% | 1% |
| Financials | 14% | 8% | 16% | 30% | 25% | 18% | 14% |

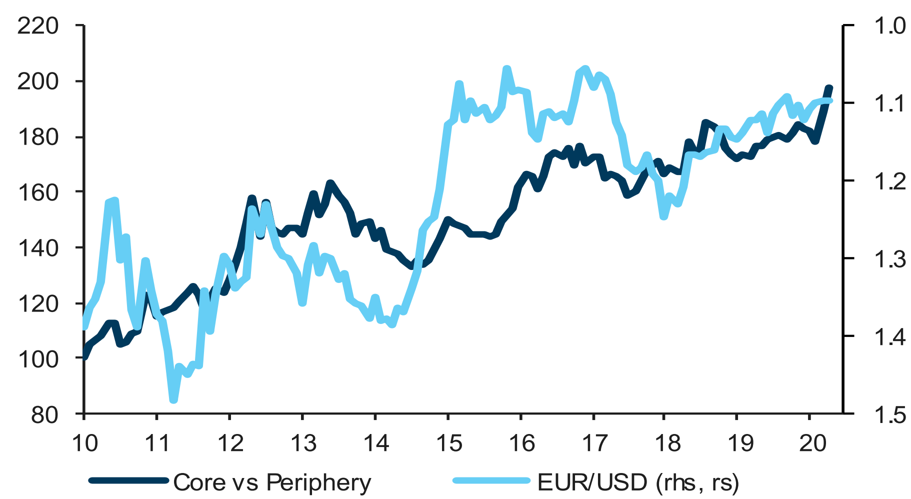
Source: Datastream

## Periphery vs Core and Banks relative is the same trade




Source: Datastream

## Core vs Periphery equities and EUR/USD

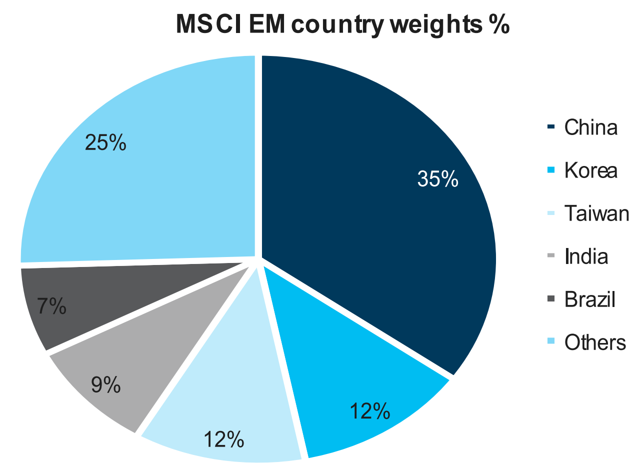



Source: Datastream

# 4) OW China and selected EM exposure

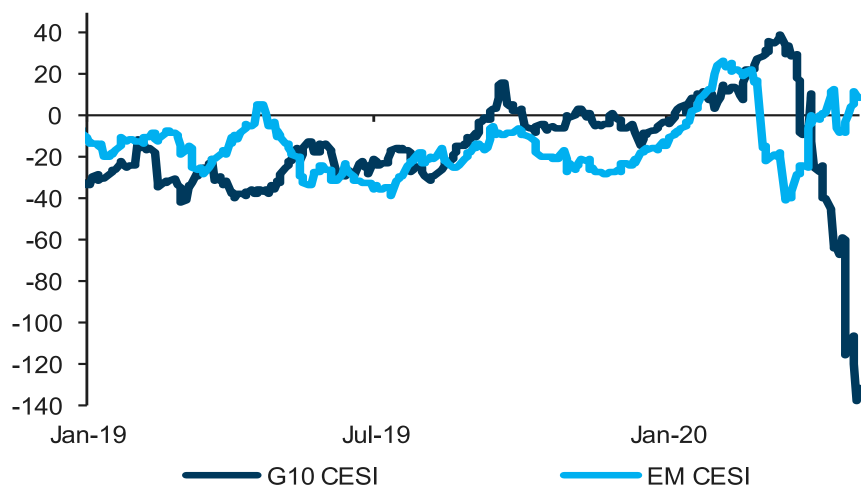
- COVID-19 cases seem to have peaked for good in China, Korea and in Taiwan. These countries form a major share (c.60%) of the MSCI EM and although external demand is expected to remain tepid, local activity should recover to an extent. However, the risk of re-escalation of the epidemic, through imported cases, remains elevated.
- The return of ample Fed liquidity injections is a welcome development for EM assets, in our view and recent dollar stabilization is welcome, but EM FX remains weak.
- Meanwhile, eco surprises are rebounding in EM, contrasting with the collapse seen in DM.

**A major % share of EM index constituents appear to have the virus under control**



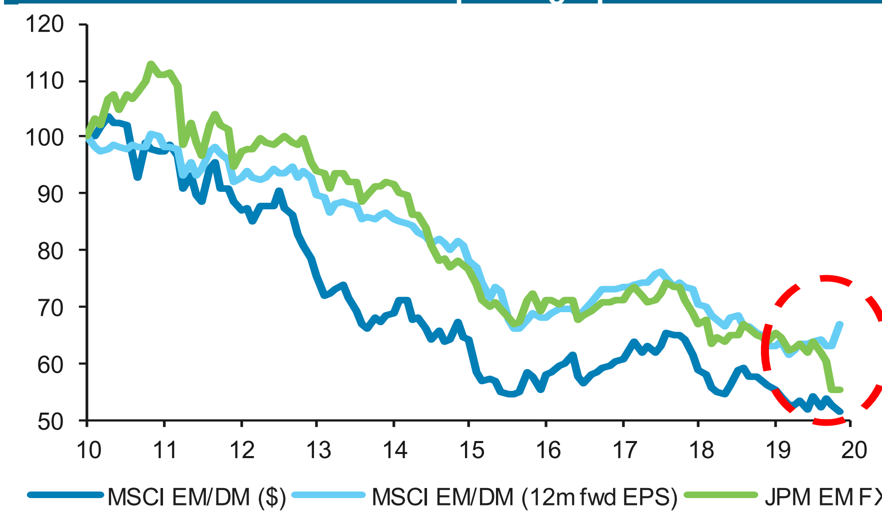

Source: MSCI

**EM CESI appears to have troughed out, unlike DM**




Source: Bloomberg, Barclays Research

**Strong dollar is a headwind, but EM EPS relatively recently started picking up**

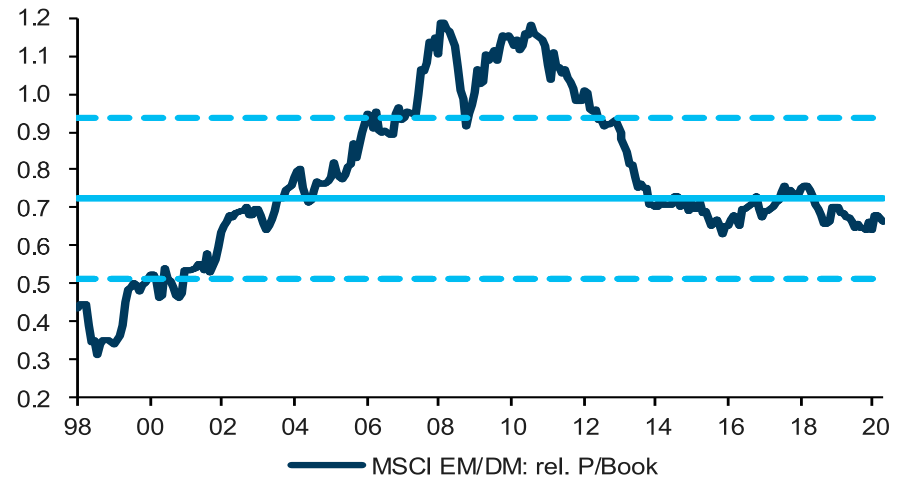



Source: Bloomberg, Datastream

# EM valuations have improved and look attractive vs. DM…

- EM valuation vs. DM is now sustainably below historical average.
- EM EPS is falling less than DM EPS, while the EM index has underperformed DM, leading to P/E cheapening.
- EM vs. DM P/B has also moderated somewhat.

**MSCI EM/DM P/Book is below historical median**

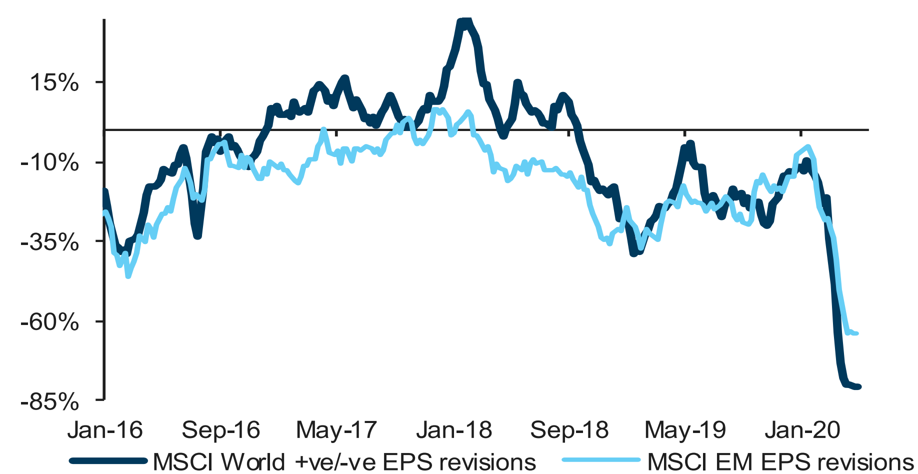



Source: Barclays Research, Datastream, IBES, MSCI

**MSCI EM/DM P/E relative is below historical median**


Source: Barclays Research. Datastream, MSCI

**EM and DM EPS both trending lower, but DM worse**




Source: Barclays Research, Datastream, IBES, MSCI

# …and EM EPS Momentum outperforming DM, while EM still looks well shorted

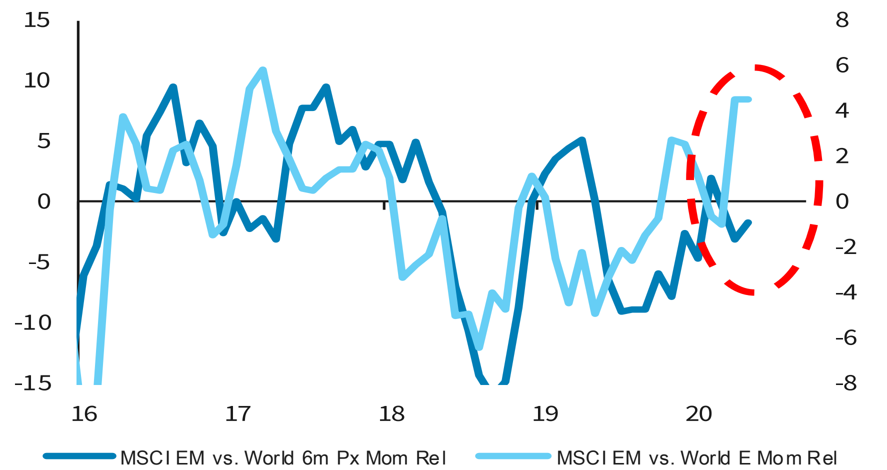
- EM EPS momentum, which usually shows a strong relationship to price momentum, is outperforming DM, but EM price is still lagging DM.
- Meanwhile, MSCI EM short interest (which has been a good contrarian indicator in the past) still looks high at +1.5 standard deviations.
- EM equity revenue generation is significantly more exposed to EM than it is to DM. Given a majority of the EM index is well past their virus peak, have managed their COVID-19 risk well, and also have significant exposure to Tech (which we expect to see a secular benefit from virus), EM activity and revenues may rebound more quickly than DM.

**EM equities revenue exposure is significantly more intra EM than EM-DM**

| % of 2017 Revenue Exposure | EM | DM |
|---|---|---|
| Energy | 76% | 24% |
| Materials | 78% | 22% |
| Industrials | 88% | 12% |
| Consumer Discretionary | 70% | 30% |
| Information Technology | 49% | 51% |
| Communication Services | 94% | 6% |
| Consumer Staples | 82% | 18% |
| Health Care | 91% | 9% |
| Utilities | 98% | 2% |
| Financials | 91% | 9% |
| Real Estate | 99% | 1% |
| **MSCI EM** | **80%** | **20%** |

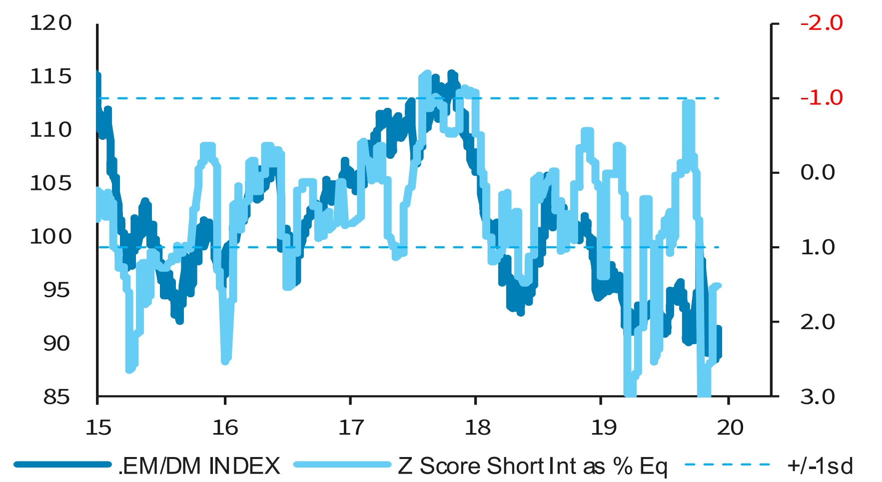
Source: Datastream, Bloomberg, Barclays Research

**MSCI EM relative EPS momentum is outstripping relative performance**




Source: : Datastream

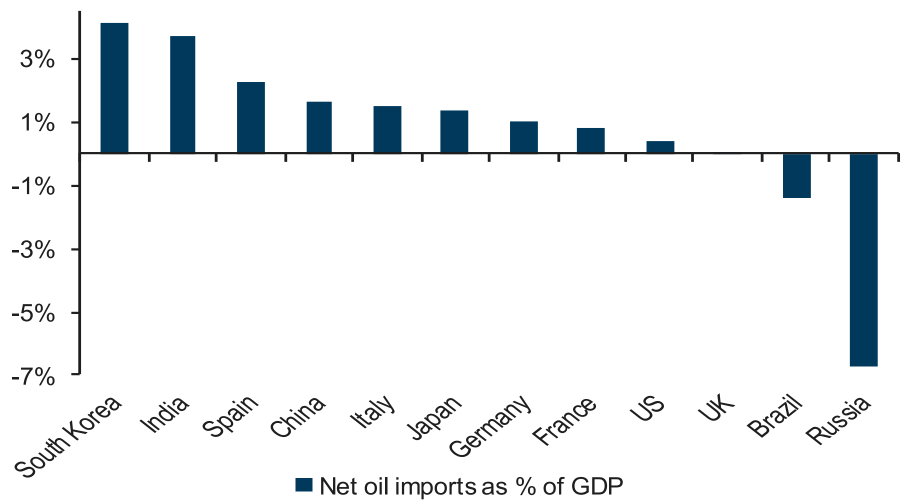
**Short Interest in EEM remains high at +1.5 Std Dev's**




Source: Bloomberg

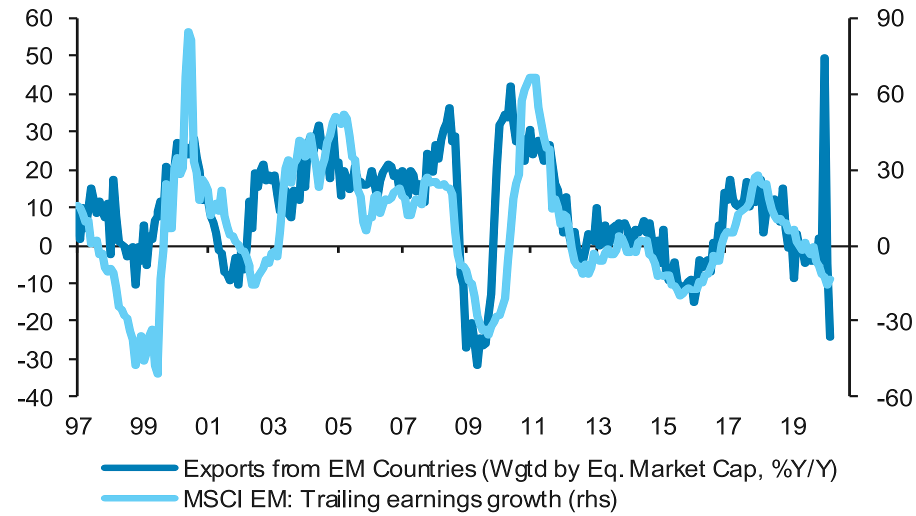
# Lower oil helps EM Asia, but the COVID-19 disruption hurts external demand

## Lower oil price is a positive for India and China, but negative for Brazil and Russia



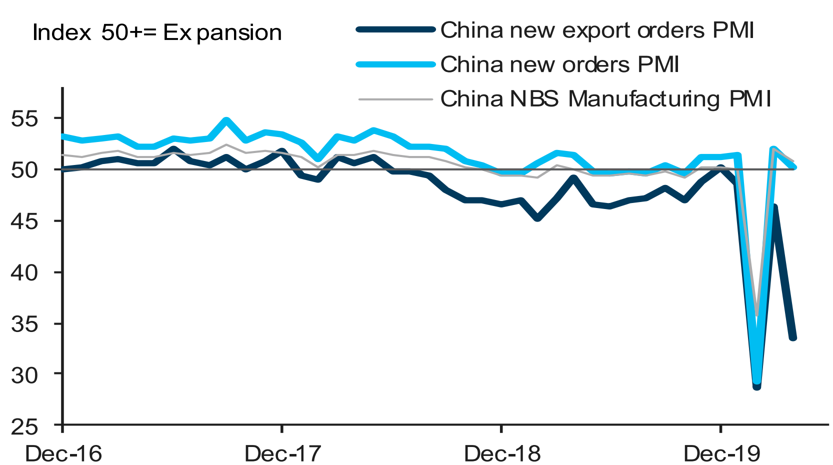

Source: Bloomberg

## EM exports and earnings move together



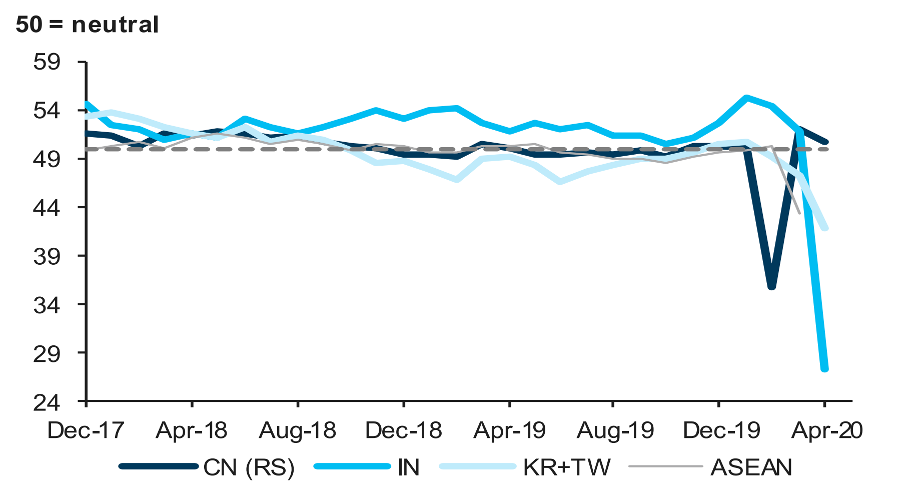

Source: Barclays Research, Datastream

## China's PMI bounced after the collapse in Feb…




Source: Haver, Barclays EM Research

## …but PMIs remain weak in the rest of EM Asia

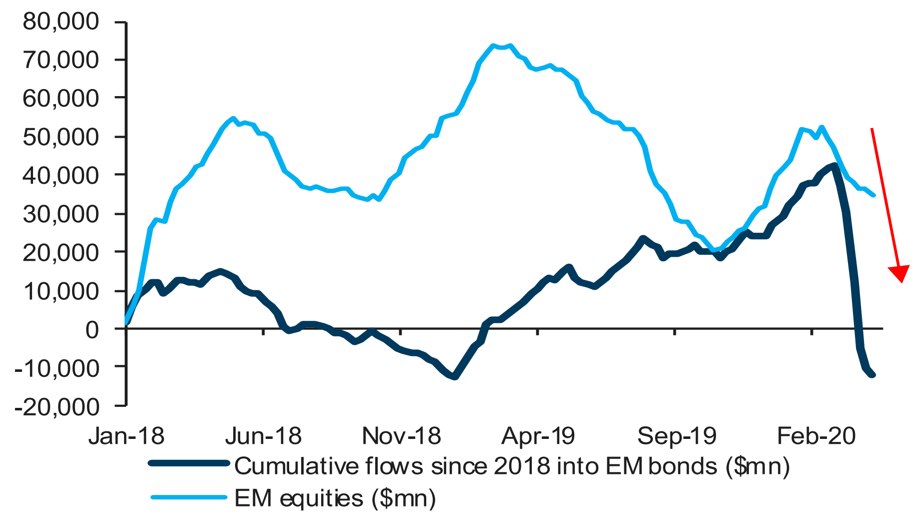



Source: Haver, Barclays EM Research

# Fed liquidity could help the recovery in EM assets

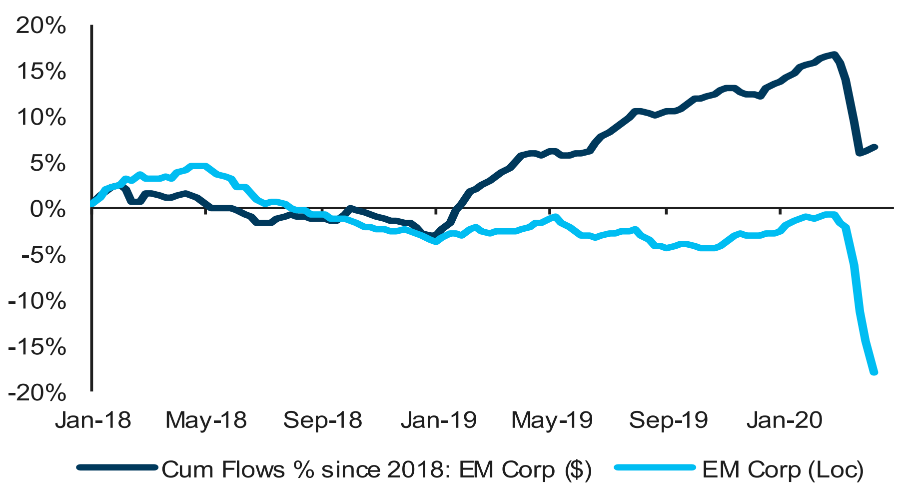
- EM fixed income had sharp outflows ytd as markets turned risked-off and liquidity dried up.
- However, with Fed re-opening the tap, it could reactivate the carry trade and the search for yield that typically benefitted EM assets.
- We note that EM equities have been more resilient than fixed income recently, and have seen less outflow.

**EM Equities have seen less outflow**



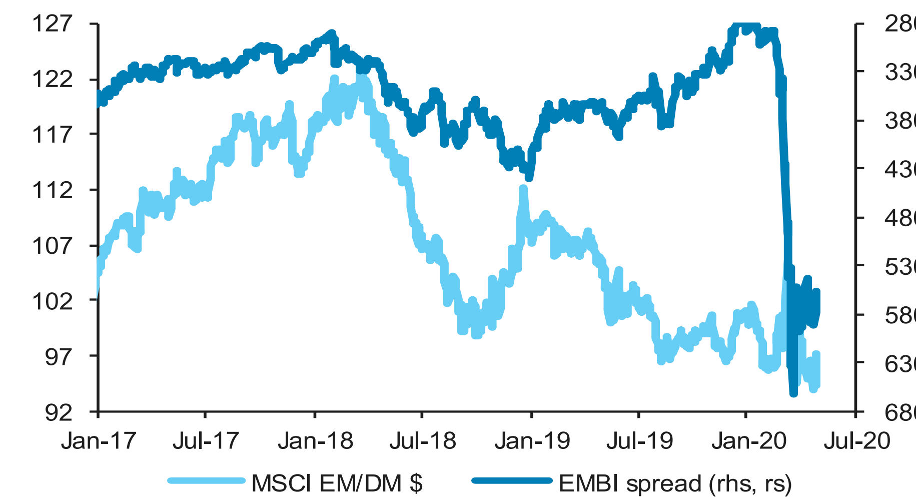

Source: EPFR, Barclays Research

**Local FX EM bonds seeing outflows along with Hard currency bonds**




Source: EPFR, Barclays Research

**EM spreads closed the gap with equities**

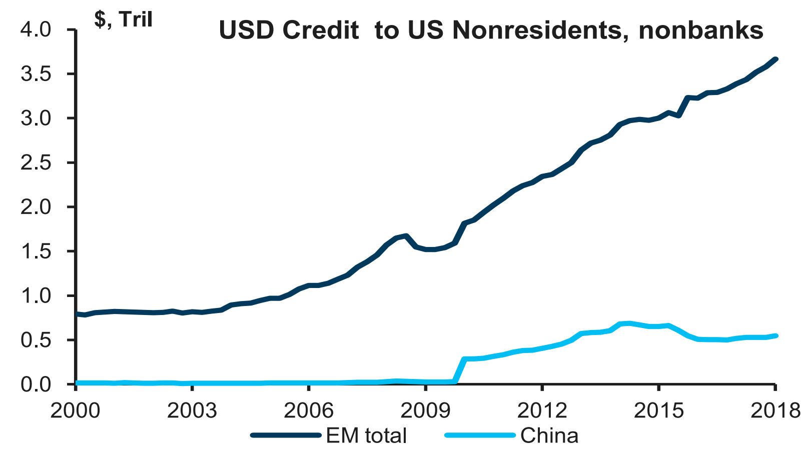



Source: Bloomberg, Datastream

# Structural imbalances and dollar dependence remain

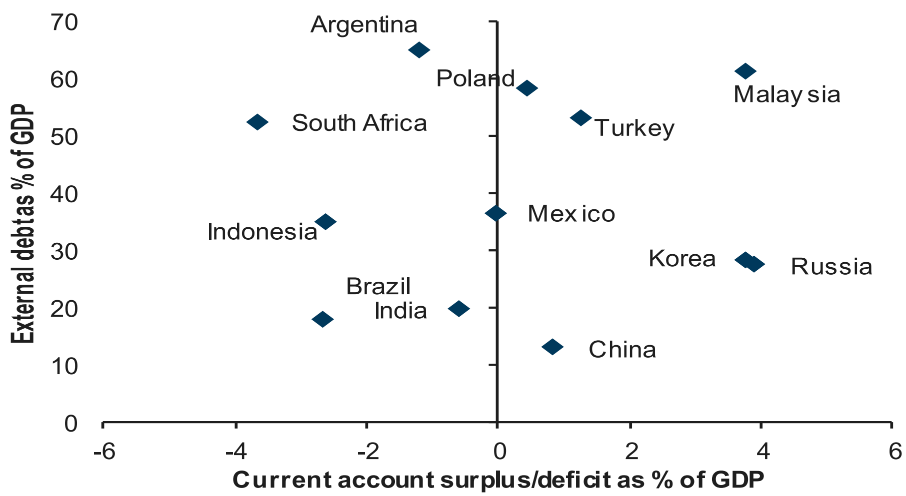
- EM structural imbalances remain plenty and many countries are overly dependent on external funding conditions.
- The unwinding of the carry trades in late 2018 hurt those with poor external debt and current account metrics pretty badly.
- While it is likely that EM sovereign default rates will rise overall, the USD debt default risks for the major EMs (that would be most relevant for equity markets) are still very remote, in our view. China, India, Russia, Mexico, Indonesia are all safely in IG territory, while Brazil's external position is also very strong.

**A lot of credit has flown into EMs**



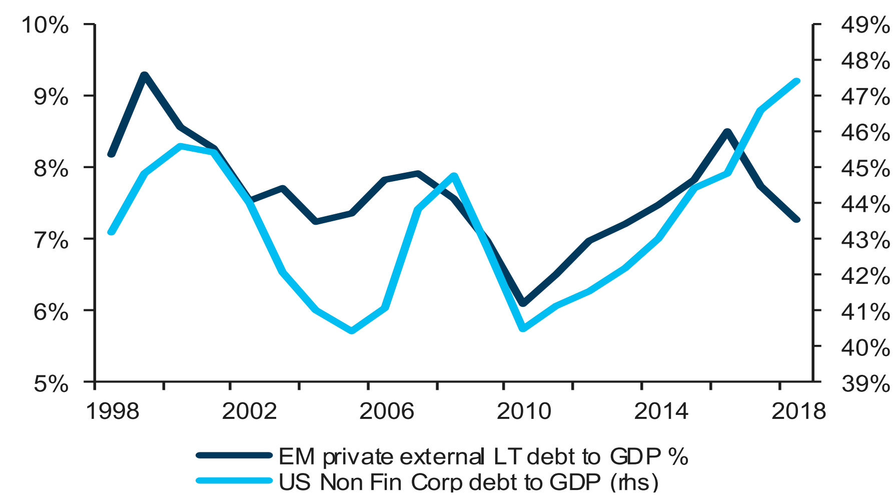

Source: BIS, Barclays Economics Research

**EM countries' external debt and current account balances**




Source: Datastream, World Bank, Haver

**Private debt to GDP has declined from recent peak in EM but not in US**

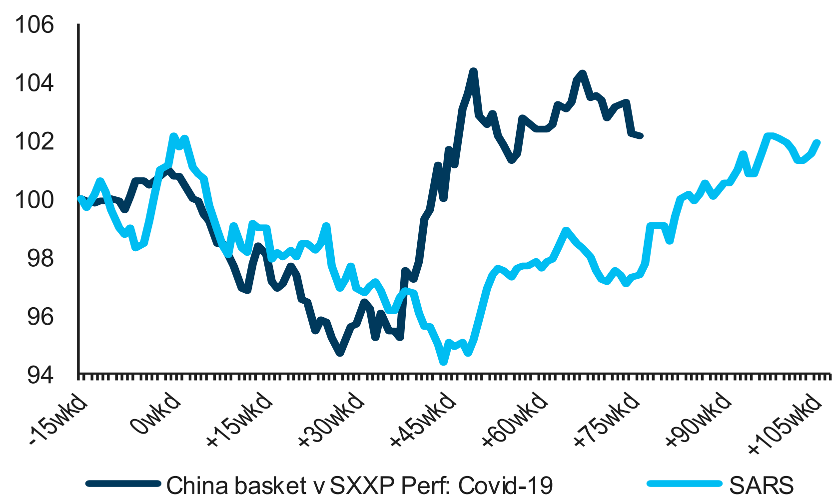



Source: Datastream, World Bank, Haver, Note: EM data only till 2016

# China-exposed stocks have led the rebound

- Our basket of the European stocks that have the biggest exposure to China started rolling over in January, when the virus outbreak appeared in China.
- Many of the stocks in the basket have now recovered from their lows, as the new cases reported out of China fell and the economy re-opened.

**China plays (BCEUCHIN) witnessed a sharp recovery as new cases in China slowed dramatically**




Source: Bloomberg, Refinitiv Datastream, Barclays Research.

Basket Source (RHS): Barclays Research, Bloomberg, Worldscope, company reports. Based on 2018 sales exposure of ≥15% to China for Stoxx 600 with market cap > € . "Asia" exposure is where companies report Asia/APAC or similar and evidence points to a significant proportion of that coming from China. Performance calculated at close 04 May 2020.

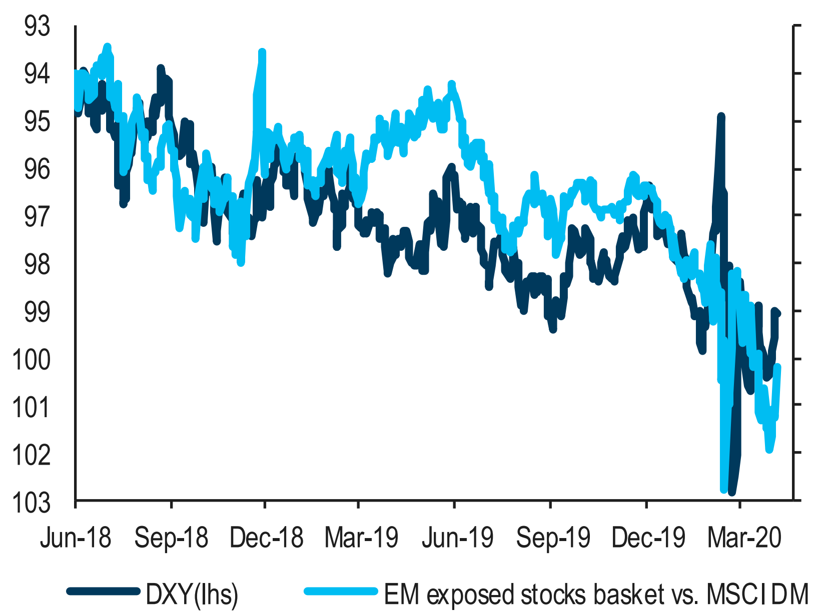
**European China basket - BCEUCHIN**

| BBG | Company | Sector | 2018 Sales Exposure | | Perf since Jan high |
|---|---|---|---|---|---|
| | | | China | Asia | |
| PRX NA | PROSUS NV | Con Disc | 80% | | -4% |
| STM IM | STMICROELECTRONICS NV | IT | 61% | | -2% |
| BHP LN | BHP BILLITON PLC | Materials | 53% | | -10% |
| RIO LN | RIO TINTO PLC | Materials | 45% | | -10% |
| STAN LN | STANDARD CHARTERED PLC | Financials | 41% | | -12% |
| HSBA LN | HSBC HOLDINGS PLC | Financials | 39% | | -2% |
| UHR SE | SWATCH GROUP AG/THE-BR | Con Disc | 37% | | -9% |
| CFR SE | CIE FINANCIERE RICHEMONT-REG | Con Disc | 27% | | -9% |
| RB/ LN | RECKITT BENCKISER GROUP PLC | Con Staples | 27% | | 2% |
| IFX GY | INFINEON TECHNOLOGIES AG | IT | 25% | | 0% |
| GLEN LN | GLENCORE PLC | Materials | 25% | | -4% |
| KNEBV FH | KONE OYJ | Industrials | 25% | | -3% |
| PRU LN | PRUDENTIAL PLC | Financials | 24% | | -1% |
| AAL LN | ANGLO AMERICAN PLC | Materials | 23% | | -9% |
| SK FP | SEB SA | Con Disc | 23% | | -12% |
| 1COV GY | COVESTRO AG | Materials | 21% | | -10% |
| UMI BB | UMICORE | Materials | 21% | | -5% |
| ADS GY | ADIDAS AG | Con Disc | 21% | | -9% |
| DEC FP | JCDECAUX SA | Comm Svs | 20% | | -14% |
| BMW GY | BAYERISCHE MOTOREN WERKE AG | Con Disc | 20% | | -14% |
| ITRK LN | INTERTEK GROUP PLC | Industrials | 19% | | -5% |
| ATCOA SS | ATLAS COPCO AB-A SHS | Industrials | 18% | | -9% |
| AZN LN | ASTRAZENECA PLC | Health Care | 18% | | -2% |
| DPW GY | DEUTSCHE POST AG-REG | Industrials | 18% | | -6% |
| ASML NA | ASML HOLDING NV | IT | 17% | | 2% |
| KBX GY | KNORR-BREMSE AG | Industrials | 16% | | -1% |
| BRBY LN | BURBERRY GROUP PLC | Con Disc | 16% | | -13% |
| BVI FP | BUREAU VERITAS SA | Industrials | 16% | | -3% |
| INF LN | INFORMA PLC | Comm Svs | 16% | | -8% |
| SKFB SS | SKF AB-B SHARES | Industrials | 16% | | 0% |
| SGSN SE | SGS SA-REG | Industrials | 15% | | -8% |
| EO FP | FAURECIA | Con Disc | 15% | | -10% |
| ABBN SE | ABB LTD-REG | Industrials | 15% | | 1% |
| ASM NA | ASM INTERNATIONAL NV | IT | | 58% | -6% |
| MONC IM | MONCLER SPA | Con Disc | | 43% | -9% |
| KER FP | KERING | Con Disc | | 32% | -7% |
| BIM FP | BIOMERIEUX | Health Care | | 32% | 0% |
| RCO FP | REMY COINTREAU | Con Staples | | 31% | -14% |
| MC FP | LVMH MOET HENNESSY LOUIS VUI | Con Disc | | 29% | -6% |
| DAI GY | DAIMLER AG-REGISTERED SHARES | Con Disc | | 24% | -14% |
| VOW3 GY | VOLKSWAGEN AG-PREF | Con Disc | | 18% | -10% |
| **Median Performance** | | | | | **-7%** |
| **SXXP Inde** | **Stoxx 600** | **-** | **2%** | | **0%** |

# EM exposure basket has underperformed ytd, but bounced lately

- Our EM exposure basket has rolled over sharply ytd due to coronavirus fears and the stronger dollar, but rebounded most recently.
- Near term volatility could remain elevated, but we think the recent weakness is an opportunity to add to the space.

**EM exposure basket has recently moved in line with dollar**




Source: Bloomberg, Worldscope, Barclays Research

**Barclays European EM exposure basket (BCEUEREM)**

| Ticker | Name | Sector | Country | Mcap ($bn) |
|---|---|---|---|---|
| ADS GR | Adidas Ag | C Disc | Germany | 60.1 |
| KER FP | Kering | C Disc | France | 72.1 |
| CFR SW | Cie Financi-Richemont | C Disc | Switzerland | 43.1 |
| RB/ LN | Reckitt Benckiser | C Disc | Britain | 53.7 |
| UHR SW | Swatch Group-Br | C Disc | Switzerland | 14.2 |
| ULVR LN | Unilever Plc | C Staples | Britain | 162.7 |
| JMT PL | Jeronimo Martins | C Staples | Portugal | 10.7 |
| CCH LN | Coca-Cola Hbc Ag | C Staples | Switzerland | 11.0 |
| BN FP | Danone | C Staples | France | 55.8 |
| RDSA LN | Royal Dutch Sh-A | Energy | Netherlands | 238.2 |
| BBVA SM | Bbva | Financials | Spain | 36.4 |
| SAN SM | Banco Santander | Financials | Spain | 69.2 |
| STAN LN | Standard Chartered | Financials | Britain | 29.8 |
| MRK GR | Merck Kgaa | Health Care | Germany | 52.1 |
| PHIA NA | Koninklijke Phillips | Health Care | Netherlands | 39.8 |
| BVI FP | Bureau Veritas S | Industrials | France | 11.3 |
| ATCOA SS | Atlas Copco-A | Industrials | Sweden | 42.7 |
| ALFA SS | Alfa Laval Ab | Industrials | Sweden | 10.2 |
| ABBN SW | Abb Ltd-Reg | Industrials | Switzerland | 46.9 |
| SAND SS | Sandvik Ab | Industrials | Sweden | 23.1 |
| EDEN FP | Edenred | Industrials | France | 12.4 |
| ASML NA | Asml Holding Nv | IT | Netherlands | 113.5 |
| ERICB SS | Ericsson Lm-B | IT | Sweden | 30.1 |
| YAR NO | Yara Intl | Materials | Norway | 11.0 |
| DSM NA | Dsm (Konin) | Materials | Netherlands | 23.2 |
| BHP LN | Bhp Group Plc | Materials | Australia | 122.3 |
| LHN SW | Lafargeholcim-Re | Materials | Switzerland | 32.2 |
| AAL LN | Anglo Amer Plc | Materials | Britain | 33.4 |
| TEF SM | Telefonica | Comm. Svs. | Spain | 39.5 |
| NTGY SM | Naturgy Energy | Utilities | Spain | 25.9 |

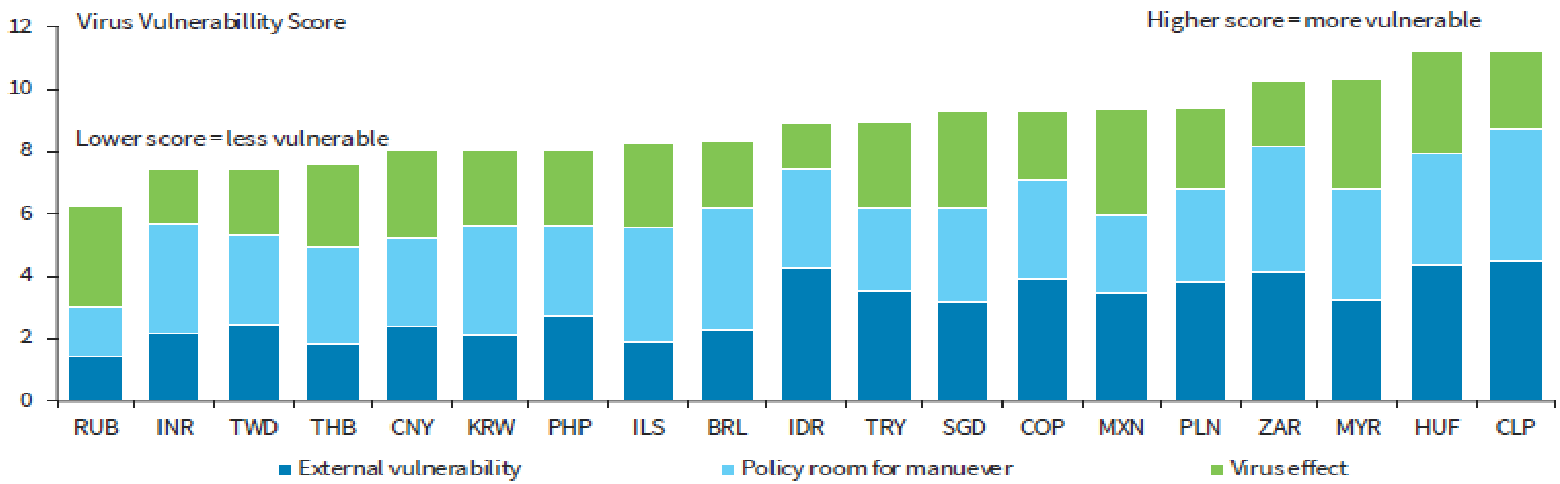
Source: Bloomberg, IBES, Datastream, Barclays Research.
For more information please see our report *2020 Outlook - Climbing at altitude* , Nov 27, 2019

# EM countries COVID-19 vulnerability scorecard

**EM countries scorecard on vulnerability suggests preference for EM Asia over Latam**

- According to our economists, EM scorecard points to clear Asia outperformance. Asian economies have lower external imbalances and better health infrastructure, are generally oil importing and have more room on the policy front.
- LatAm is at the other end of the spectrum, with vulnerabilities in terms of existing market positioning/dependence on external capital flows, lack of adequate FX reserves, dependence on commodity prices, monetary policy credibility issues and weaker balance sheets in the public and private sectors.
- The EMEA picture combines two separate narratives: one is relatively cleaner balance sheets and room for policy easing in a weaker global backdrop, and the other is the diametric opposite. ILS and RUB fitting into the former narrative; the HUF, TRY and ZAR into the latter; and the PLN somewhere in between.

EMs scored on the basis of their external vulnerabilities, room for policy maneuver and effect from the virus outbreak




Note: External vulnerability measures include CA+FDI as % CDP, gross ext. debt as % CDP, net IIP as % CDP, share of foreign LCY bond holdings and IMF reserve adequacy. Policy room for maneuver measures include fiscal balance as % CDP, sovereign credit rating, real rates and WB governance indicator. Virus effect measures include available health care infrastructure (hospital beds and physicians per capita), CVC participation, travel and tourism as % CDP and CA sensitivity to oil. Countries are ranked on the basis of each measure, scored based on these ranks and then scores are aggregated on an equal-weighted basis. Source: Barclays Research

Source: Barclays Economics Research. Refer **The Emerging Markets Quarterly: The perfect storm** for more details

# EM countries scorecard

**MSCI EM countries scorecard**

| | Overall rank | Price Mom (1,3 & 6m) | P/Book vs 10Y median | Fwd P/E vs 10Y median | Fwd Div Yield | F12m EPS Growth | EPS Mom | ROE |
|---|---|---|---|---|---|---|---|---|
| **MSCI EM** | | **-5.4%** | **6.3%** | **6.9%** | **3.5%** | **8.9%** | **-15.2%** | **11.3%** |
| Chile | **1** | -9.4% | -19.0% | -25.5% | 4.5% | 12.1% | -7.3% | 9.6% |
| South Africa | **2** | -9.3% | -15.4% | -30.2% | 3.6% | 21.7% | -21.3% | 11.8% |
| Mexico | **3** | -12.8% | -25.9% | -29.4% | 4.6% | 7.3% | -28.5% | 12.5% |
| Indonesia | **4** | -14.2% | -21.0% | -20.1% | 4.6% | 4.0% | -16.8% | 14.4% |
| Taiwan | **5** | 2.2% | 11.2% | 9.5% | 4.2% | 9.0% | -5.7% | 11.0% |
| Philipines | **6** | -10.4% | -22.6% | -28.5% | 2.1% | 4.5% | -7.7% | 11.4% |
| India | **7** | -4.2% | -3.5% | -2.9% | 1.6% | 13.1% | -15.7% | 12.8% |
| Colombia | **8** | -25.3% | -1.4% | -46.1% | 7.1% | 6.2% | -22.1% | 12.3% |
| China | **9** | -0.7% | 10.8% | 15.3% | 3.0% | 8.3% | -8.8% | 12.3% |
| Korea | **10** | -4.5% | -10.0% | 12.9% | 2.7% | 32.0% | -11.0% | 6.9% |
| Hungary | **11** | -10.5% | 12.5% | -24.3% | 1.7% | -7.2% | -21.9% | 15.2% |
| Thailand | **12** | -3.5% | -6.2% | 19.4% | 3.8% | -2.7% | -23.8% | 10.6% |
| Russia | **13** | -13.2% | 17.3% | 12.6% | 9.3% | -15.3% | -30.5% | 15.7% |
| Poland | **14** | -12.9% | -7.9% | -15.2% | 3.1% | 2.2% | -25.4% | 9.3% |
| Greece | **15** | -14.0% | 12.3% | -12.7% | 4.3% | 2.5% | -32.4% | 4.7% |
| Brazil | **16** | -20.6% | 48.9% | 6.0% | 3.3% | -0.1% | -37.5% | 14.9% |

Source: Bloomberg, Worldscope, Barclays Research; Performance calculated at close 04 May 2020

# Sector Allocation

- **OW** Utilities, Healthcare, Industrials, Tech
- **MW** Materials, Financials, Telecoms
- **UW** Discretionary, Energy, Real Estate, Staples

- Our methodology for sector allocation uses both quantitative and fundamental analysis

1) We have developed a European level 2 sector scorecard based on eight variables: Price momentum, Price vs. 52WMA, P/Book, P/E and DY vs. 5Y median, EPS revisions, LT EPS growth, ROE vs 5Y median, correlation to PMI and ESG exposure.

2) We then apply a macro overlay to this quant analysis, for example how activity momentum, the direction of bond yields or FX would impact sector preferences

3) We take into account our sector analysts' views on sectors and stocks.

| | Barclays Equity Strategy Recommendation | MSCI Europe Weight | Barclays Allocation | Barclays vs Benchmark |
|---|---|---|---|---|
| Energy | UW | 5.1% | 3.0% | -2.1% |
| Materials | MW | 7.2% | 7.5% | 0.3% |
| Industrials | OW | 12.7% | 14.5% | 1.8% |
| Discretionary | UW | 9.5% | 7.5% | -2.0% |
| Staples | UW | 15.7% | 14.0% | -1.7% |
| Healthcare | OW | 17.5% | 19.0% | 1.5% |
| Financials | MW | 15.0% | 15.0% | 0.0% |
| IT | OW | 6.9% | 9.0% | 2.1% |
| Telecoms | MW | 4.2% | 4.0% | -0.2% |
| Utilities | OW | 4.9% | 6.5% | 1.6% |
| Real Estate | UW | 1.3% | 0.0% | -1.3% |
| | | **100.0%** | **100.0%** | **0.0%** |

Source: Barclays Research, MSCI. Notes: Overweight (OW): The performance of the MSCI Europe sector is expected to outperform the MSCI Europe index in the next 3-6 months. Marketweight (MW): The performance of the MSCI Europe sector is expected to perform in line with the MSCI Europe index in the next 3-6 months. Underweight (UW): The performance of the MSCI Europe sector is expected to underperform the MSCI Europe index in the next 3-6 months

# Sector scorecard

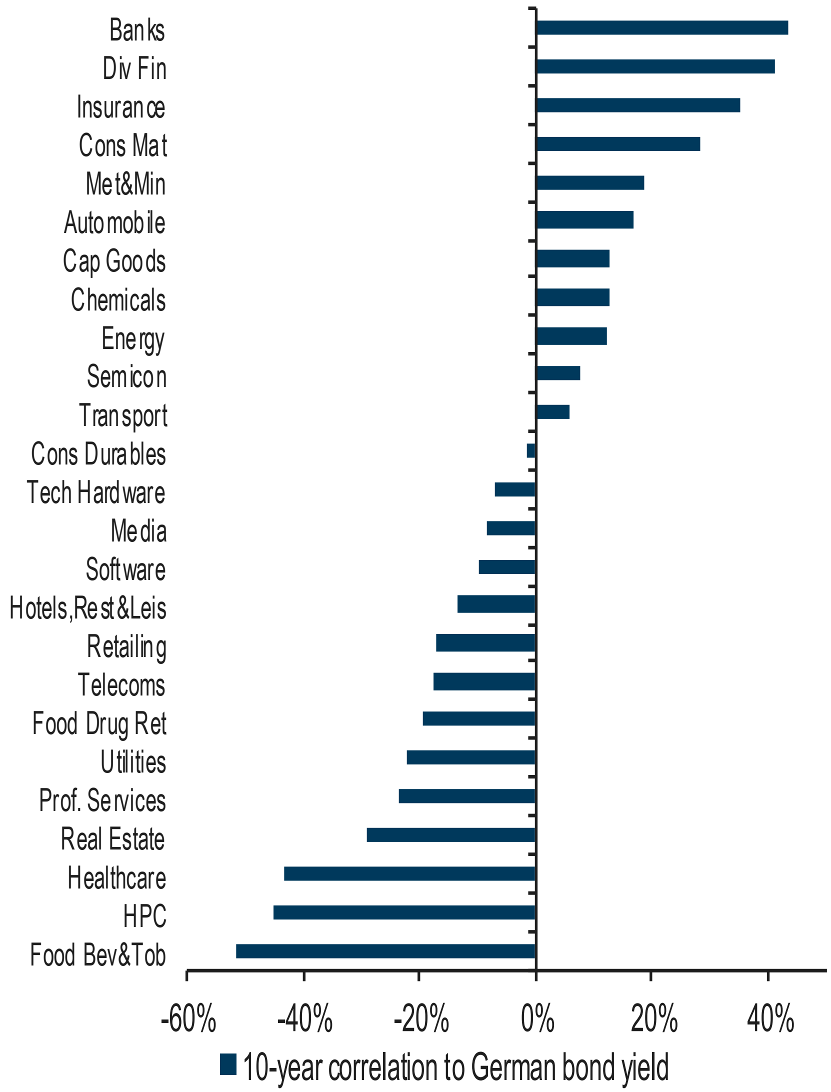
## MSCI Europe Sector Scorecard

| | Overall rank | Price momentum (3 months) | Price vs. 52w MA | P/Book vs 5Y median | Fwd P/E vs 5Y median | Div Yield vs. 5Y Median | EPS (%3m) | EPS (LT) | ROE vs. 5Y Median | 10Y Correl to PMI | MSCI ESG weight vs MSCI Europe |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Weights | 5% | 5% | 15% | 15% | 5% | 10% | 15% | 20% | 5% | 5% |
| Insurance | 1 | -30.2% | -23.2% | -11.3% | -23.6% | 30.0% | -8.7% | 12.2% | 25.3% | 10.4% | 4.1% |
| Cons Mat | 2 | -24.5% | -18.4% | -29.2% | -19.5% | 68.0% | -21.7% | 10.3% | 21.0% | 16.8% | 0.2% |
| Telecoms | 3 | -21.9% | -20.3% | -21.5% | -21.2% | 8.0% | -12.0% | 11.1% | 27.7% | -9.5% | -0.3% |
| Tech Hardware | 4 | -5.9% | -4.8% | 7.6% | -5.9% | -56.6% | -3.5% | 27.0% | 44.5% | 3.0% | -0.6% |
| Food Drug Ret | 5 | -4.5% | -2.9% | -7.7% | -11.0% | 16.6% | -1.7% | 6.8% | 18.9% | -15.1% | 1.1% |
| Banks | 6 | -39.6% | -35.1% | -45.1% | -25.0% | 19.8% | -33.6% | 2.3% | 11.7% | 25.4% | -2.7% |
| Div Fin | 7 | -21.6% | -12.5% | -11.5% | 5.0% | -4.4% | -22.5% | 5.5% | 36.5% | 35.0% | -0.2% |
| Media | 8 | -31.9% | -29.2% | -41.6% | -9.8% | 17.8% | -22.8% | 2.8% | 7.2% | 4.5% | -0.1% |
| Cap Goods | 9 | -30.4% | -21.2% | -18.4% | -5.5% | -1.4% | -23.5% | 5.9% | 11.4% | 19.2% | 0.0% |
| Food Bev&Tob | 10 | -14.5% | -10.5% | -12.9% | -5.3% | 9.4% | -9.9% | 6.1% | 15.7% | -29.5% | -6.1% |
| HPC | 11 | -8.8% | -6.0% | -1.0% | -1.2% | 6.1% | -6.8% | 4.6% | 12.4% | -20.3% | 3.4% |
| Real Estate | 11 | -29.7% | -21.6% | -27.1% | -23.0% | 19.4% | -7.4% | 1.9% | -19.4% | -9.7% | 0.0% |
| Met&Min | 13 | -26.3% | -25.1% | -21.7% | -12.0% | 38.2% | -26.0% | -7.8% | 0.7% | 2.4% | -1.9% |
| Utilities | 14 | -19.4% | -8.1% | 8.6% | -4.7% | -7.1% | -5.5% | 3.5% | 18.9% | -16.1% | 0.0% |
| Transport | 15 | -26.5% | -19.8% | -19.8% | 36.7% | 0.0% | -41.6% | 11.4% | 5.1% | 18.8% | -0.6% |
| Healthcare | 16 | -4.0% | 4.9% | 3.6% | 6.5% | -11.3% | -1.0% | 9.0% | -1.6% | -17.6% | 1.5% |
| Software | 17 | -20.9% | -14.0% | -10.3% | 5.1% | -4.7% | -14.0% | 11.0% | -3.7% | -11.2% | 0.6% |
| Chemicals | 18 | -14.2% | -7.9% | -14.3% | 16.3% | 11.7% | -14.8% | 6.2% | -13.8% | 0.4% | 3.2% |
| Semicon | 19 | -11.5% | 6.0% | 22.5% | 18.7% | 1.4% | -13.4% | 17.1% | -0.6% | 13.1% | 1.4% |
| Hotels,Rest&Leis | 20 | -32.1% | -28.2% | -42.5% | 1.8% | 9.4% | -37.8% | 4.7% | -9.7% | -11.7% | 0.4% |
| Energy | 21 | -34.3% | -35.5% | -32.0% | 23.5% | 63.8% | -62.5% | 2.6% | 11.0% | -9.5% | -1.7% |
| Automobile | 22 | -26.1% | -25.4% | -43.8% | 9.1% | 12.5% | -41.2% | 4.3% | -24.0% | 15.6% | -1.8% |
| Prof. Services | 23 | -16.7% | -8.5% | -1.6% | 16.3% | -22.3% | -11.6% | 5.4% | 0.2% | -18.5% | 1.1% |
| Cons Durables | 24 | -23.2% | -15.3% | -14.3% | 21.4% | -31.0% | -26.7% | 5.8% | -3.0% | -17.6% | -0.5% |
| Retailing | 25 | -17.8% | -8.2% | -9.1% | 73.6% | -9.3% | -35.0% | 6.5% | -29.7% | -3.3% | -1.2% |

Source: Barclays Research, MSCI, Refinitiv

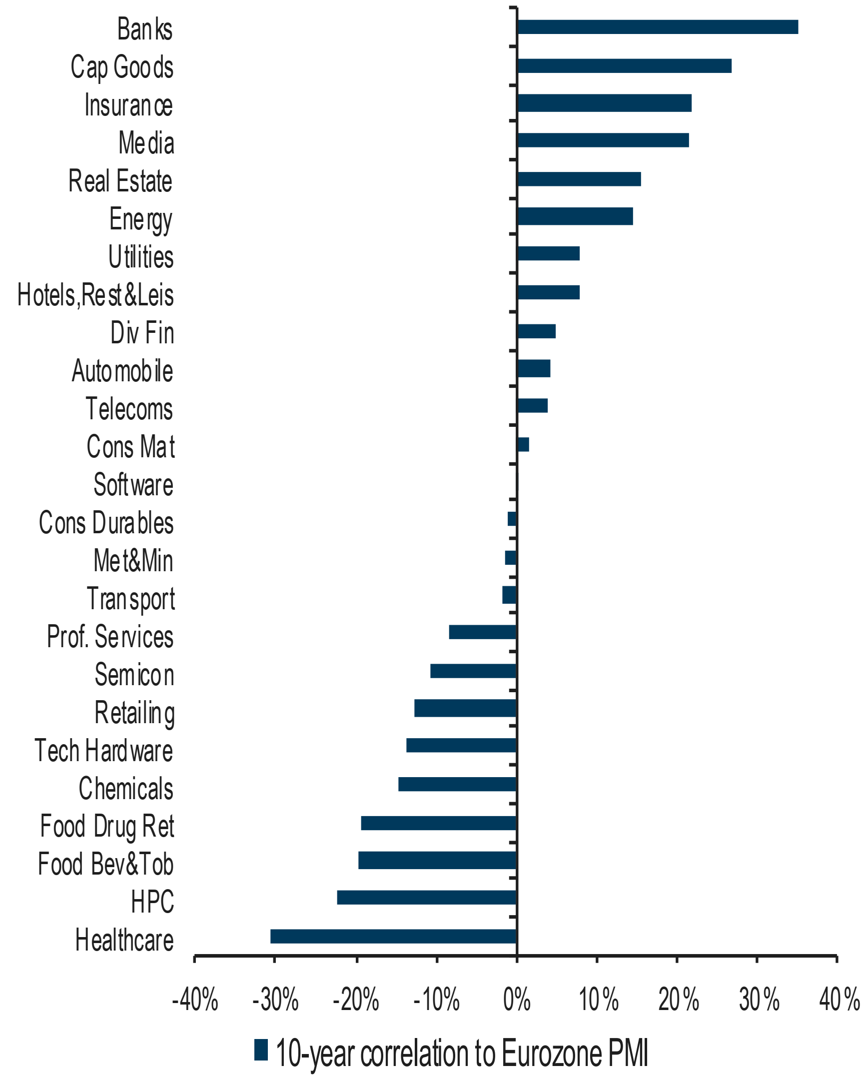
# Bond yields and PMI direction matter for sectoral leadership

**European sectors' correlation to bond yields**




Source: Barclays Research, Datastream

**European sectors' correlation to PMI**




Source: Barclays Research, Datastream

# Sectors’ earnings and valuations recessionary stress test

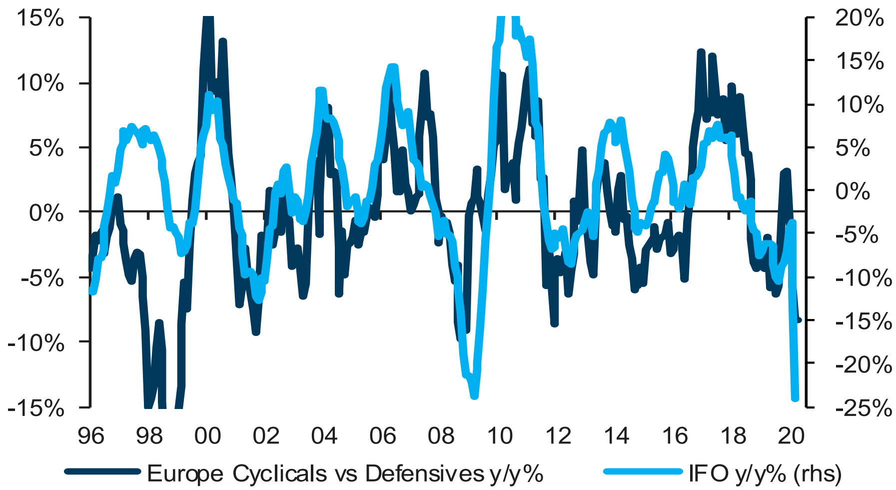
## Level 2/3 sector peak to trough earnings in 08/09, what valuation that implies we are on

| | 12m Fwd PE | | | | vs. EPS fall in 2009 | | | Standard EPS falls | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Current F12m P/E based on consensus | 15y median F12m P/E | Current Disc/ Prem to 15y med | At Mkt bottom in Mar'09 | Fall in EPS during 09 recession | P/E based on fall in EPS during 09 recession | Disc/Prem of P/E based on trough '09 EPS to 15y med | P/E if EPS falls -25% | P/E if EPS falls -50% | P/E if EPS falls -60% | Fall in DPS during 09 recession |
| **Europe** | **14.6** | **12.9** | **14%** | **8.2** | **-43%** | **19.3** | **50%** | **14.7** | **22.0** | **27.5** | **-36%** |
| Energy | 16.7 | 10.4 | 61% | 7.6 | -35% | 9.3 | -11% | 8.0 | 12.0 | 14.9 | -4% |
| Chemicals | 19.9 | 14.8 | 35% | 9.8 | -33% | 23.8 | 61% | 21.4 | 32.1 | 40.1 | -13% |
| Cons Mat | 12.2 | 13.3 | -9% | 7.3 | -52% | 19.3 | 45% | 12.3 | 18.5 | 23.1 | -53% |
| Met&Min | 10.4 | 10.7 | -3% | 6.6 | -70% | 25.6 | 139% | 10.1 | 15.2 | 19.0 | -45% |
| Cap Goods | 15.4 | 14.5 | 6% | 8.4 | -39% | 18.6 | 28% | 15.1 | 22.7 | 28.3 | -35% |
| Prof. Services | 20.2 | 16.2 | 25% | 10.9 | -20% | 21.7 | 34% | 23.0 | 34.5 | 43.1 | -30% |
| Transport | 20.2 | 14.0 | 45% | 10.0 | -78% | 51.6 | 268% | 15.3 | 23.0 | 28.7 | -48% |
| Automobile | 8.8 | 9.0 | -2% | 30.3 | -135% | | | 6.6 | 9.8 | 12.3 | -81% |
| Cons Durables | 22.4 | 16.2 | 38% | 9.9 | -39% | 26.2 | 61% | 21.2 | 31.7 | 39.7 | -43% |
| Retailing | 31.9 | 16.6 | 92% | 12.6 | -29% | 28.9 | 74% | 27.2 | 40.8 | 50.9 | -18% |
| Hotels,Rest&Leis | 18.1 | 16.4 | 10% | 9.7 | -26% | 14.6 | -11% | 14.5 | 21.7 | 27.1 | -32% |
| Food Drug Ret | 12.7 | 13.7 | -7% | 10.7 | -7% | 12.9 | -6% | 15.9 | 23.9 | 29.9 | -4% |
| Food Bev&Tob | 17.9 | 16.7 | 7% | 11.0 | 1% | 15.4 | -8% | 20.6 | 30.9 | 38.7 | -8% |
| HPC | 20.3 | 19.5 | 4% | 12.8 | 4% | 17.5 | -10% | 24.2 | 36.3 | 45.4 | 18% |
| Healthcare | 16.9 | 15.3 | 10% | 9.0 | 13% | 14.4 | -6% | 21.7 | 32.6 | 40.7 | 11% |
| Banks | 7.7 | 10.2 | -24% | 5.7 | -75% | 19.7 | 94% | 6.6 | 9.9 | 12.4 | -75% |
| Div Fin | 14.6 | 11.2 | 30% | 5.6 | -75% | 44.3 | 294% | 14.8 | 22.2 | 27.7 | -82% |
| Insurance | 8.1 | 9.8 | -17% | 4.9 | -48% | 13.9 | 41% | 9.7 | 14.5 | 18.1 | -46% |
| Software | 20.2 | 17.3 | 17% | 11.8 | -5% | 17.9 | | 22.5 | 33.8 | 42.3 | -29% |
| Tech Hardware | 17.0 | 16.5 | 3% | 11.5 | -62% | 40.6 | 146% | 20.6 | 30.8 | 38.6 | -35% |
| Semicon | 24.1 | 20.2 | 19% | | -197% | | | 26.8 | 40.2 | 50.3 | -33% |
| Telecoms | 12.0 | 12.9 | -7% | 8.3 | 2% | 9.9 | -23% | 13.5 | 20.3 | 25.3 | -11% |
| Utilities | 13.7 | 13.5 | 1% | 7.9 | -4% | 13.0 | -4% | 16.7 | 25.1 | 31.3 | 2% |

Source: MSCI, IBES, Refinitiv

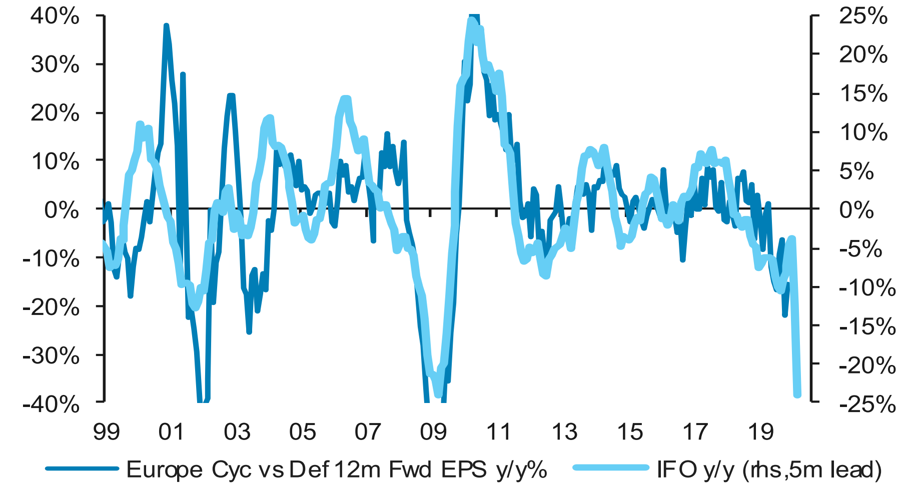
# MW Cyclicals vs. Defensives – Earnings risk, but improved valuations

## Cyclicals/Defensives follow PMIs



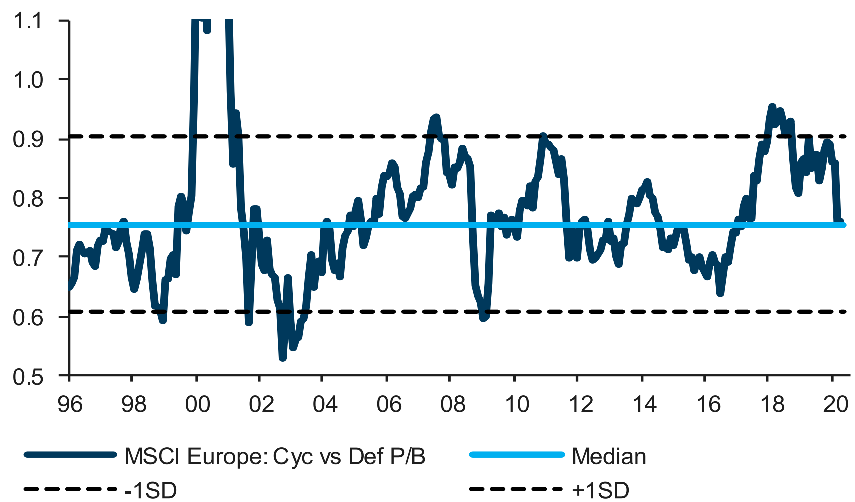

Source: IBES, Datastream

## Cyclicals' relative EPS momentum has downside



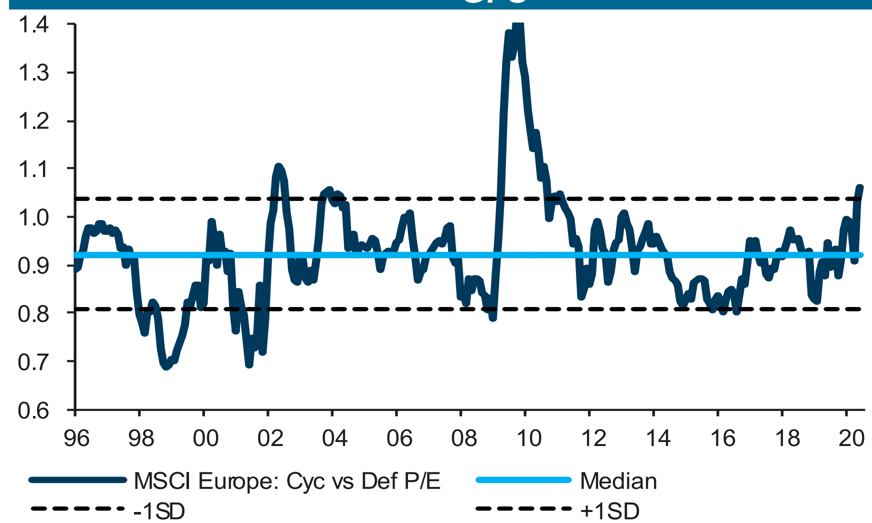

Source: IBES, Datastream

## Cyclicals/Defensives P/Book is back to the median




Source: Datastream

## Cyclicals/Defensives Fwd P/E dispersion is highest since GFC

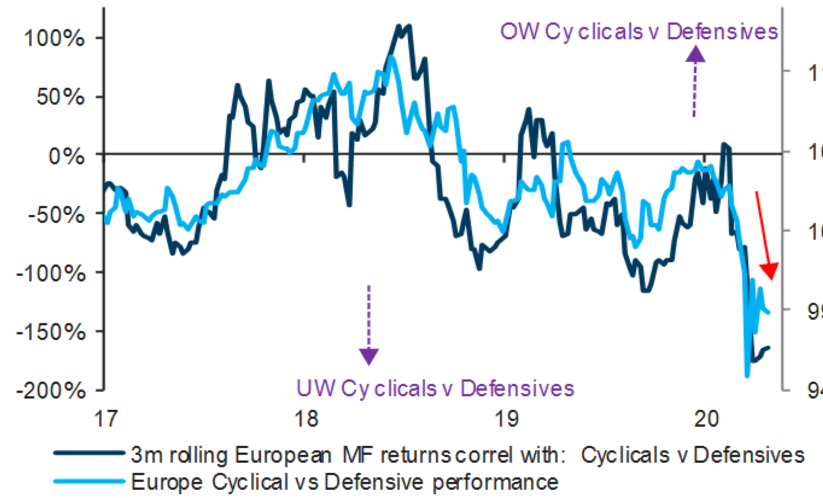



Source: Datastream

# Mutual funds are extremely UW Cyclicals

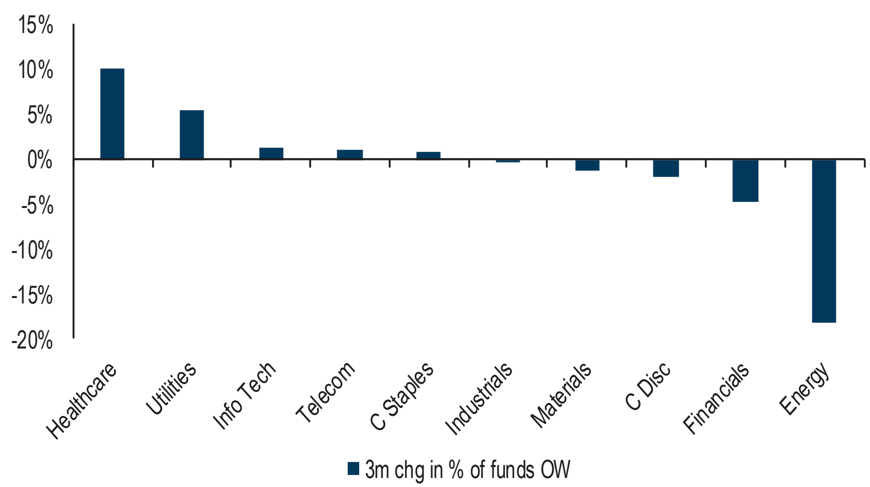
- The exposure of mutual funds to Cyclical and Value sectors has fallen to multi-year lows ytd. Equity investors do not appear to be positioned for good news.
- As of the end of March, a large number of mutual funds had turned overweight on quality/defensive sectors like Healthcare, Utilities and Tech. On the other hand, exposure to Energy, Financials and Consumer Discretionary was reduced aggressively, leading to a sharp reduction in Value and beta exposure overall.

**Cyclicals' relative EPS momentum has downside**



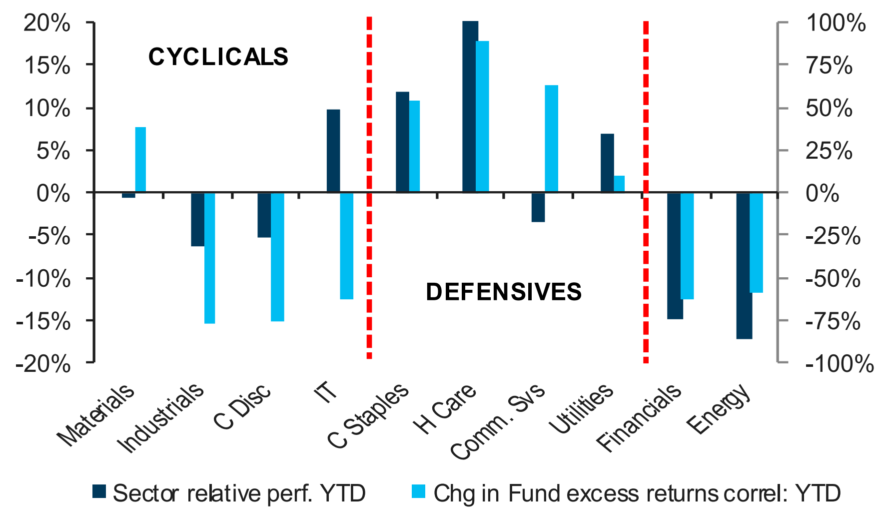

Source: Barclays Research, Datastream

**Last 3m change in MF's sector positioning**




Source: EPFR

**Growth/Quality titled defensive sectors like Healthcare and Staples have been in favour among MFs**



# Cyclicals and Defensives baskets

## Barclays European Cyclicals basket (BCEUECYC)

| Ticker | Name | Sector | Mkt. cap ($mn) |
|---|---|---|---|
| AIR FP | Airbus | Industrials | 115,527 |
| SIE GY | Siemens (Xet) | Industrials | 108,118 |
| DG FP | Vinci | Industrials | 67,472 |
| SAF FP | Safran | Industrials | 67,677 |
| SU FP | Schneider Electric | Industrials | 55,307 |
| REL LN | RELX | Industrials | 45,862 |
| ABB SS | ABB Ltd N | Industrials | 47,156 |
| DPW GY | Deutsche Post (Xet) | Industrials | 46,517 |
| AENA SQ | AENA Sme | Industrials | 27,530 |
| EXPN LN | Experian | Industrials | 28,705 |
| KNEBV FH | Kone 'B' | Industrials | 28,029 |
| ATCOA SS | Atlas Copco A | Industrials | 30,714 |
| HO FP | Thales | Industrials | 21,526 |
| RR/ LN | Rolls-Royce Holdings | Industrials | 17,843 |
| ASSAB SS | Assa Abloy B | Industrials | 25,072 |
| ATL IM | Atlantia | Industrials | 19,765 |
| SAND SS | Sandvik | Industrials | 22,214 |
| MC FP | LVMH | C Disc | 220,849 |
| ITX SM | Inditex | C Disc | 95,103 |
| RMS FP | Hermes Intl. | C Disc | 76,401 |
| DAI GY | Daimler (Xet) | C Disc | 60,468 |
| ADS GY | Adidas (Xet) | C Disc | 60,601 |
| EL FP | Essilorluxottica | C Disc | 66,625 |
| ML FP | Michelin | C Disc | 22,156 |
| RIO LN | Rio Tinto | Materials | 66,257 |
| BAS GY | BASF (Xet) | Materials | 70,652 |
| AI FP | Air Liquide | Materials | 63,265 |
| GLEN LN | Glencore | Materials | 41,377 |
| BHP LN | BHP Group | Materials | 45,589 |
| AAL LN | Anglo American | Materials | 35,712 |
| LHN SW | Lafargeholcim | Materials | 31,999 |
| CRH ID | CRH (Dub) | Materials | 29,105 |
| SAP GY | SAP (Xet) | IT | 166,495 |
| ASML NA | ASML Holding | IT | 114,471 |
| NXPI US | NXP Semiconductors | IT | 31,939 |

## Barclays European Defensives basket (BCEUEDEF)

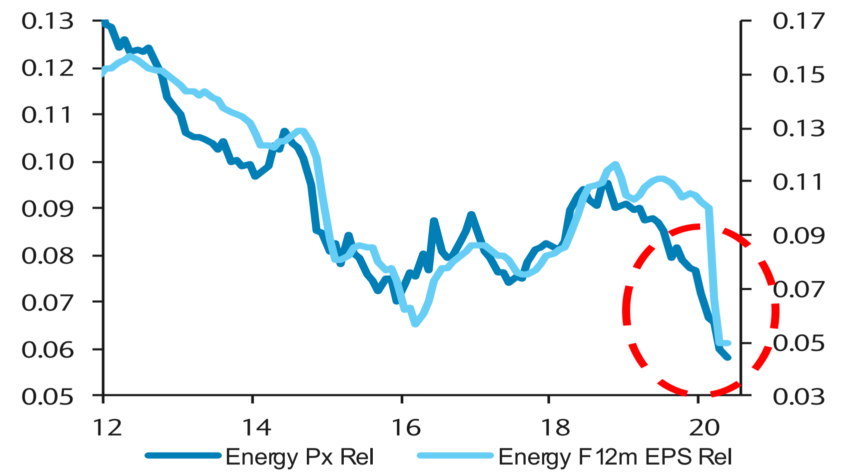
| Ticker | Name | Sector | Mkt. cap ($mn) |
|---|---|---|---|
| NESN SW | Nestle 'R' | C Staples | 309,880 |
| OR FP | L'Oreal | C Staples | 157,931 |
| ABI BB | Anheuser-Busch Inbev | C Staples | 132,951 |
| BATS LN | British American Tobacco | C Staples | 88,089 |
| BEI GY | Beiersdorf (Xet) | C Staples | 29,112 |
| IMB LN | Imperial Brands | C Staples | 20,913 |
| ABF LN | Associated Brit.Foods | C Staples | 25,353 |
| KYGA LN | Kerry Group 'A' | C Staples | 21,798 |
| CARLB DC | Carlsberg B | C Staples | 16,912 |
| CA FP | Carrefour | C Staples | 13,814 |
| NOVN SW | Novartis 'R' | Health Care | 228,390 |
| ROG SW | Roche Holding | Health Care | 214,640 |
| SAN FP | Sanofi | Health Care | 117,828 |
| AZN LN | Astrazeneca | Health Care | 124,377 |
| LONN SW | Lonza Group | Health Care | 25,068 |
| SN/ LN | Smith & Nephew | Health Care | 18,889 |
| UCB BB | UCB | Health Care | 15,408 |
| MRK GR | Merck Kgaa (Xet) | Health Care | 15,339 |
| SOON SW | Sonova N | Health Care | 14,370 |
| DIM FP | Sartorius Stedim Biotech | Health Care | 13,671 |
| DTE GY | Deutsche Telekom (Xet) | Comm Svs. | 79,424 |
| VOD LN | Vodafone Group | Comm Svs. | 52,597 |
| TEF SQ | Telefonica | Comm Svs. | 38,375 |
| ORA FP | Orange | Comm Svs. | 43,384 |
| VIV FP | Vivendi | Comm Svs. | 33,593 |
| SCMN SW | Swisscom | Comm Svs. | 26,756 |
| BT/A LN | BT Group | Comm Svs. | 23,923 |
| WPP LN | WPP | Comm Svs. | 15,803 |
| ENEL IM | Enel | Utilities | 76,291 |
| IBE SM | Iberdrola | Utilities | 62,490 |
| EDF FP | EDF | Utilities | 31,245 |
| NG LN | National Grid | Utilities | 39,949 |
| ENGI FP | Engie | Utilities | 37,817 |
| RWE GY | RWE (Xet) | Utilities | 17,955 |
| EDP PL | EDP Energias De Portugal | Utilities | 14,766 |

Source: Bloomberg, IBES, Datastream, Barclays Research. For more information please see our report Cyclicals: Don't rush to buy the dip, 15 May 2019

# **Energy** UW
## Fundamentals catching up with oil price reality

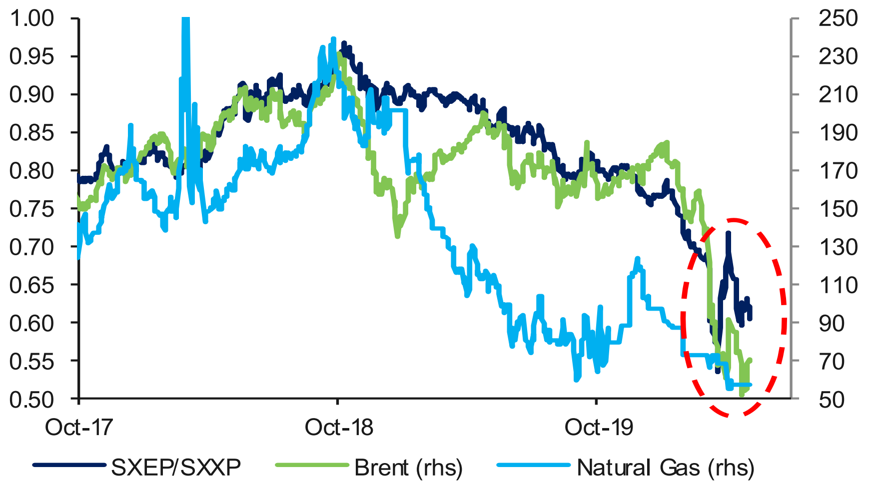
- Energy sector is subject to unprecedented turmoil, both from the size of the virus-related demand shock, and the supply side unable to respond quickly enough or in broad enough fashion to stop a dramatic build in crude reserves, which threatens to overwhelm global storage capacity.
- This led to unprecedented moves in the front month US oil future going negative last month, and while technical in the short run, remains highly likely to happen again.
- We downgraded Energy to UW last month post the strong rally it had vs. the market, and keep it at UW as we expect the sector's fundamentals to remain under significant pressure for the foreseeable future.

**Energy sector EPS relative was resilient, but has been marked to market vs. oil over the last month**



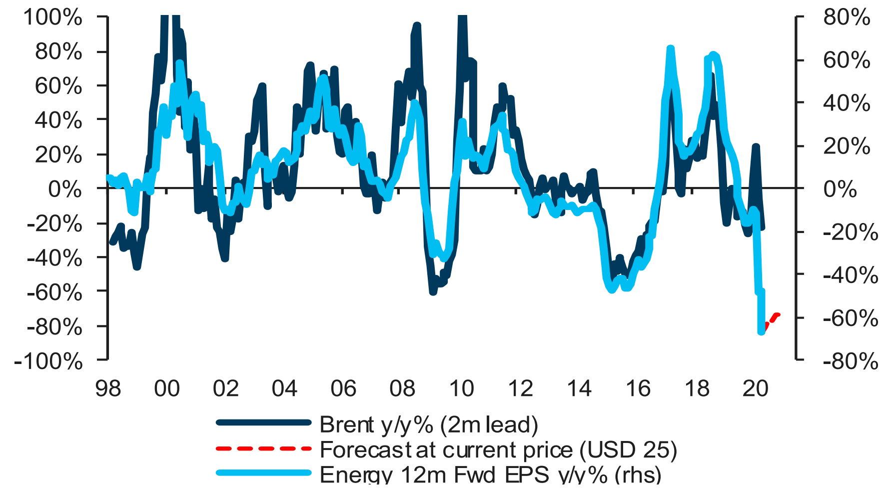

Source: MSCI, Refinitiv, IBES, Barclays Research

**Energy sector bounce is giving way again on oil market turmoil**




Source: Bloomberg, Barclays Research

**Energy EPS growth -60% if Brent crude stays around $25/bl**

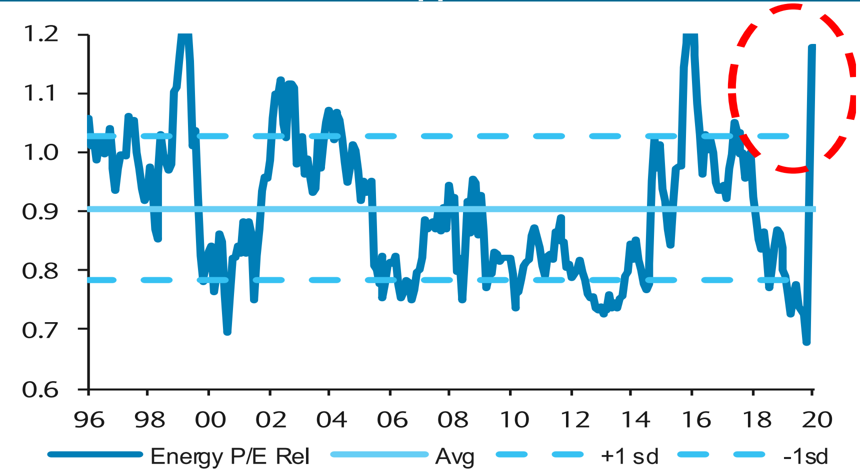



Source: Refinitiv, Bloomberg, Barclays Research

# Dividend risk now a reality, while sector no longer cheap as ‘E’ catching up

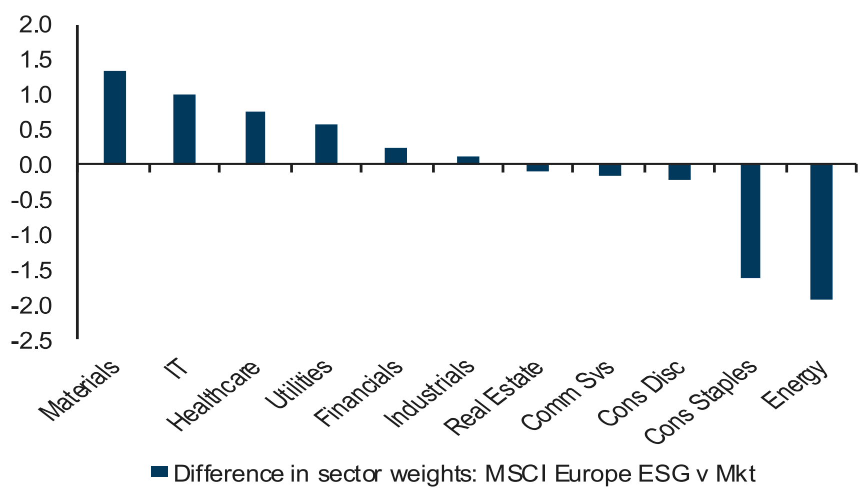
- The fallacy of P/E as a valuation amidst drastic change is highlighted by the Energy sector, which went from cheapest ever P/E to nearly most expensive ever P/E over one month, once a vaguely correct EPS figure was applied.
- Given the uncertainties the sector faces, some participants may feel it would be better to preserve cash and balance sheet strength to accelerate energy transition, given ESG concerns are making it harder for investors to allocate to the sector.
- Buybacks are out, capex is being reined in, and we have seen the first dividend cut from an oil major, potentially allowing others to follow suit.
- Some evidence investors are discriminating within the sector – rewarding ‘better’ ESG stocks and punishing the others.

**Energy P/E dramatically worsened as realistic EPS has been applied**



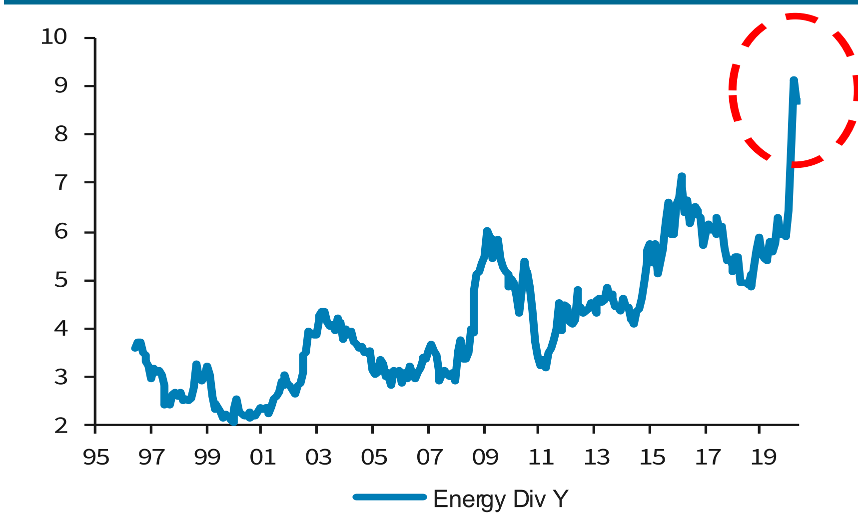

Source: Refinitiv, MSCI, IBES, Barclays Research

**Energy is the most under-represented sector in MSCI Europe ESG index**




Source: MSCI Bloomberg

**Dividend yield under threat now that the first oil major has cut their dividend**

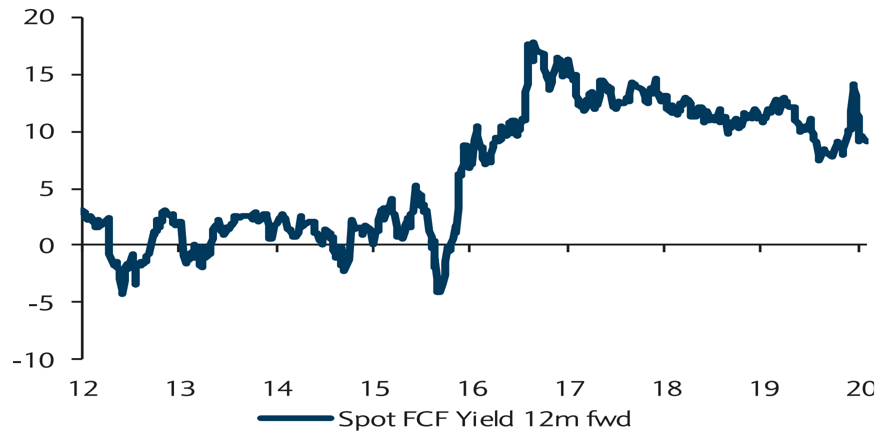



Source: Refinitiv, MSCI, IBES, Barclays Research

# **Materials** MW
## Mining OW, Chemicals & Construction Mat's MW

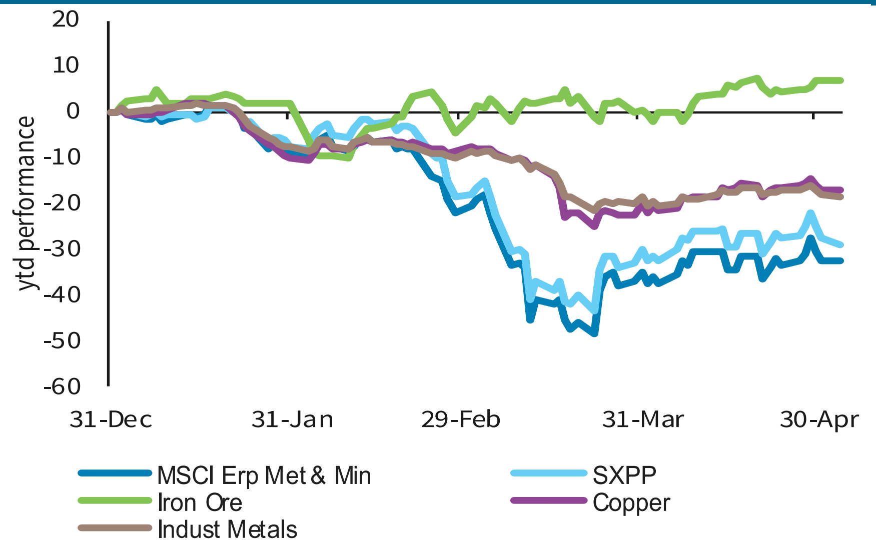
- We keep Mining at OW, as we expect China to stimulate their economy through FAI, thus stoking commodity demand. Chemicals and Const. Mat's we keep at MW.
- Mining is one of the worst performing sectors ytd, down 29%, and underperforming the underlying commodities (down ~0-20%).
- We expect a sharp contraction in H1 could be followed by a sharp rebound (should the situation stabilize), including higher levels of stimulus than we previously expected.

**Mining FCF yield remains attractive, though didn't become more attractive as Px falling in line with commodities**



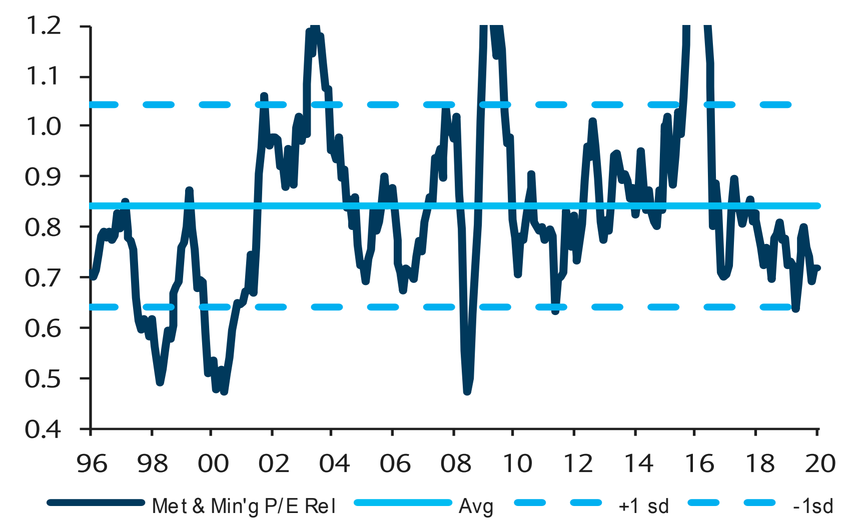

Source: Barclays Mining Research

**Mining shares significantly underperforming the underlying commodities**




Source: Bloomberg, Barclays Research

**Mining P/E on the cheap side**



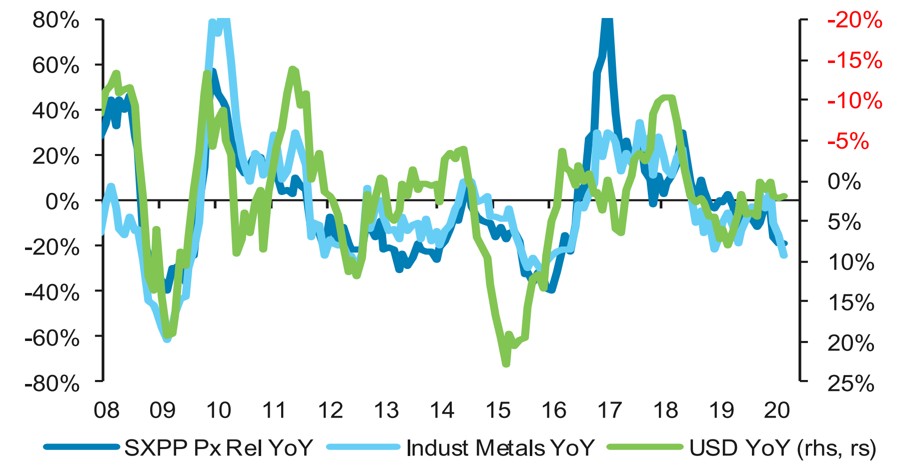

Source: Refinitiv, Barclays Research

(8), (9), (10): please refer to slide 170 for hyperlinks to previously published research reports.

# Mining OW – Key play on China stimulus

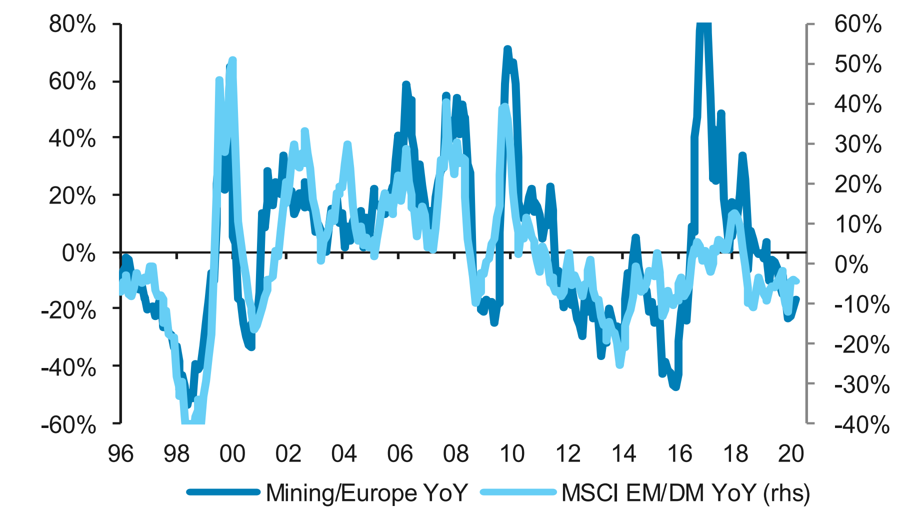
- Stronger USD and weaker commodity prices are clearly negative for the sector, but these could prove to be short-lived.
- Iron Ore is now 2.5x more important to sector EBITDA than Copper.
- Miners relative to the market is highly correlated to EM/DM.

**Mining sector performs with higher metals and weaker USD**



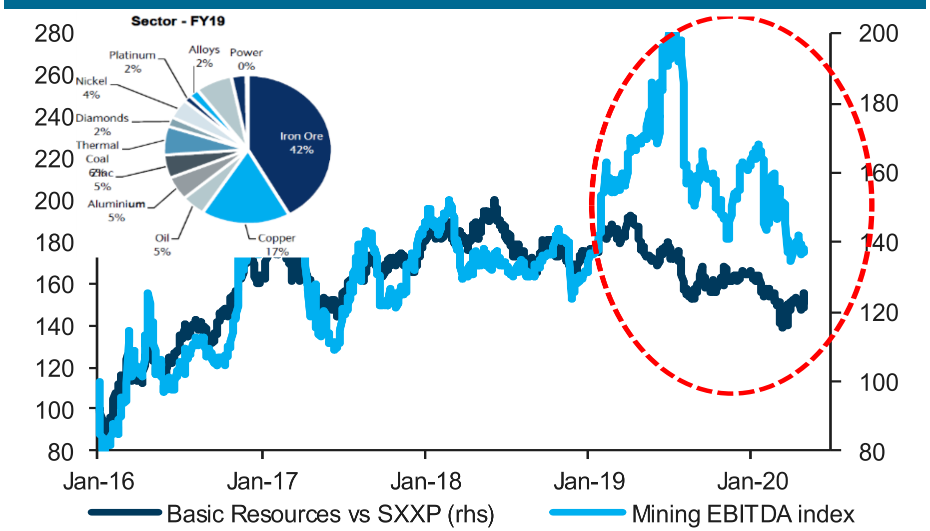

Source: Bloomberg, Barclays Research

**Mining relative to the market and EM/DM highly correlated**




Source: Refinitiv, Barclays Research

**EBITDA split: Iron Ore 2.5x more important than Copper**

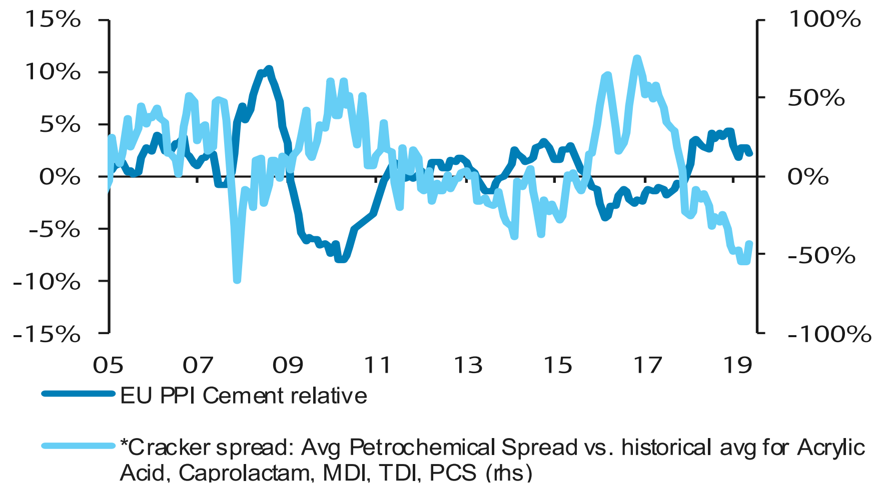



Source; Barclays Mining Research, Bloomberg

# Construction Materials and Chemicals MW

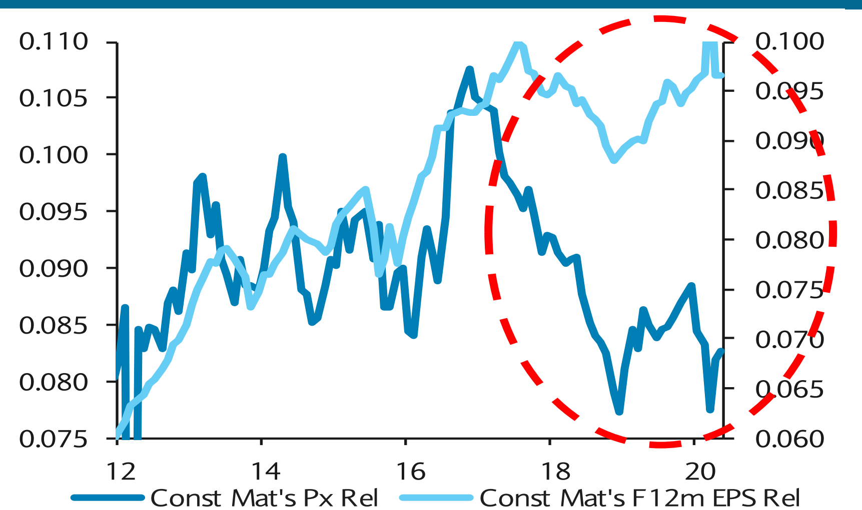
- We cut Construction Materials to MW at the end of last year given strong outperformance in 2019 and some headwinds on the construction side; however, we note they are cheapening significantly as their EPS is actually outperforming the market, while price is underperforming.
- Chemicals trade at record valuations given earnings fall, and we question whether COVID-19 disruption will cause further headwinds for the sector, although lower oil price may make feedstocks cheaper and help margins. For now, we leave at MW.
- Both sectors have exposure to EM, but look more expensive than Miners.

**Cement PPI still healthy, Cracker spreads continue lower**



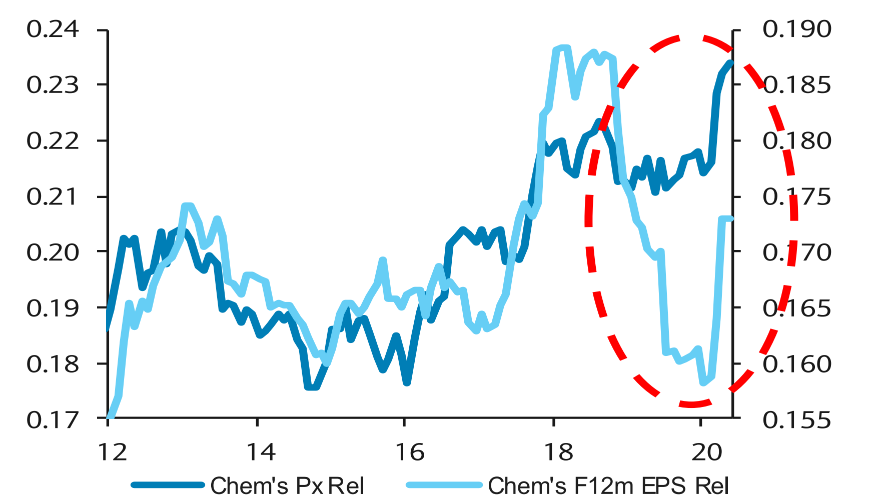

Source: ICIS, Bloomberg, Barclays Research

**Construction price is significantly lagging its EPS…**




Source: MSCI, Refinitiv, IBES, Barclays Research

**…while Chemicals price is far outpacing its EPS**

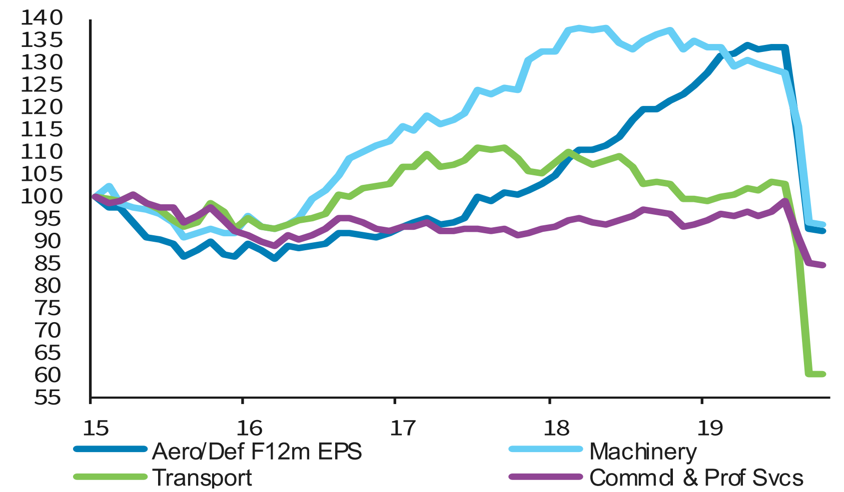



Source: MSCI, Refinitiv, IBES, Barclays Research

# **Industrials** OW
## Quality cyclical…

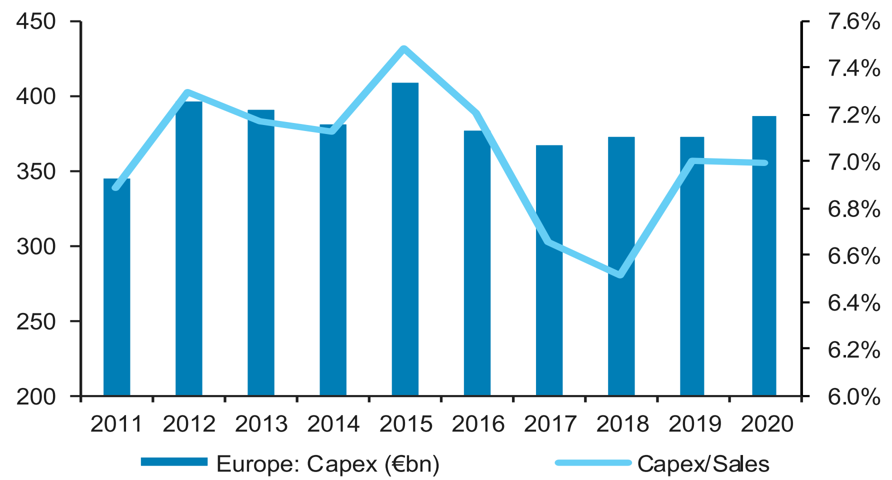
- We have been OW Industrials as we want to keep some cyclicality in the sector portfolio, and prefer to be in higher quality parts for now.
- We think they are likely to see disruption from the virus spread but we expect stimulus measures to end up benefitting the sector.
- Industrials are still not cheap as EPS is falling broadly in line with Price.
- Many Industrial companies have adjusted their cost base, their supply chain and footprint following the last crisis and so should be (relatively) better insulated compared to the last downturn.

**All subsector earnings now under pressure, incl Aero which had been considered high quality and defensive**



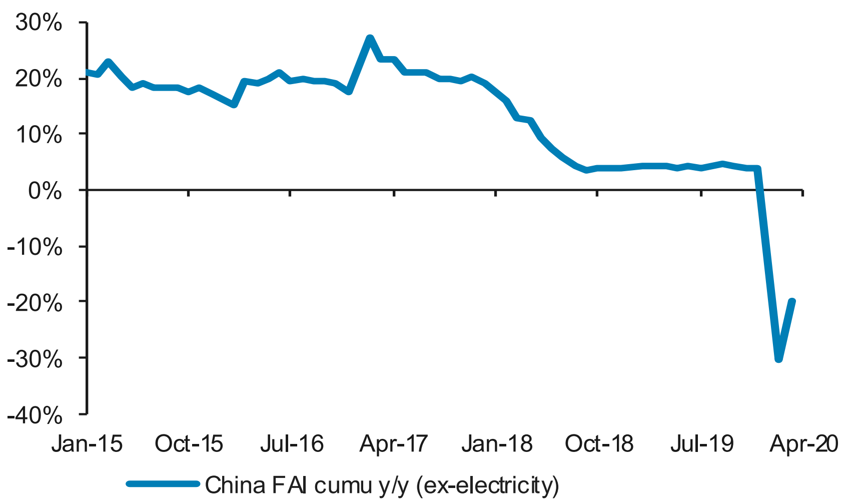

Source: MSCI, Refinitiv, IBES, Barclays Research

**Capex likely to take a hit, but could be short term if situation passes relatively quickly**




Source: Barclays Research, Worldscope. Note: Barclays estimates for the coverage universe (ex Fin)

**China FAI rebound has started as stimulus is kicking in**

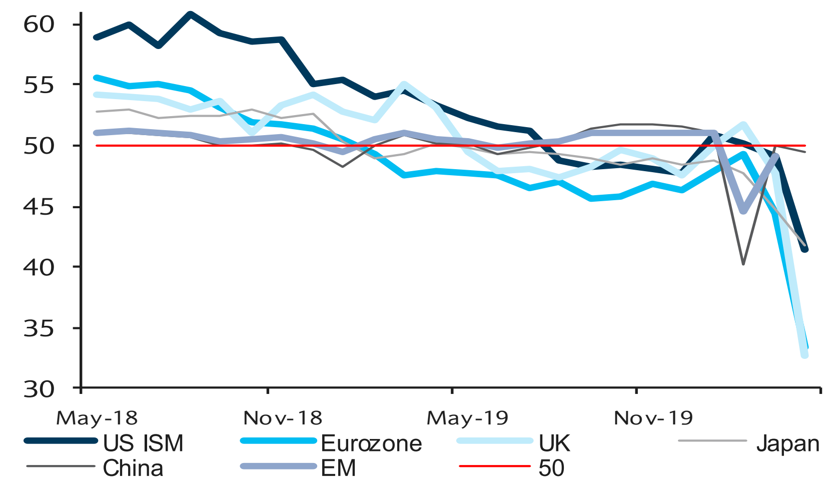



Source: Bloomberg

# …but still not cheap

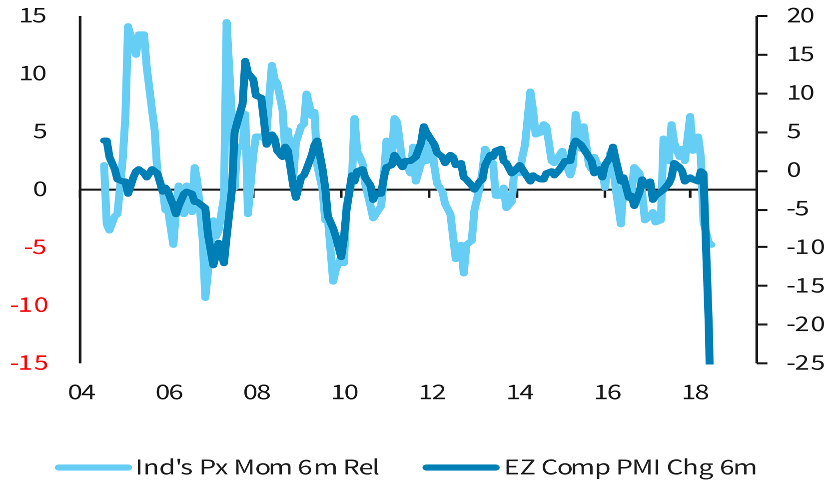
- Lead indicators such as Manufacturing PMI's which were staging a comeback after stabilizing in Q4 last year have now collapsed. We would expect these to find a bottom in the next month or two.
- However, by construction, PMI's may not be the best measure of the actual level of economic activity.
- Industrials earnings seem more resilient and higher quality this earnings cycle, as companies have improved their business models.

**PMI's generally still falling, but may not be the best measure of actual activity given their construction**



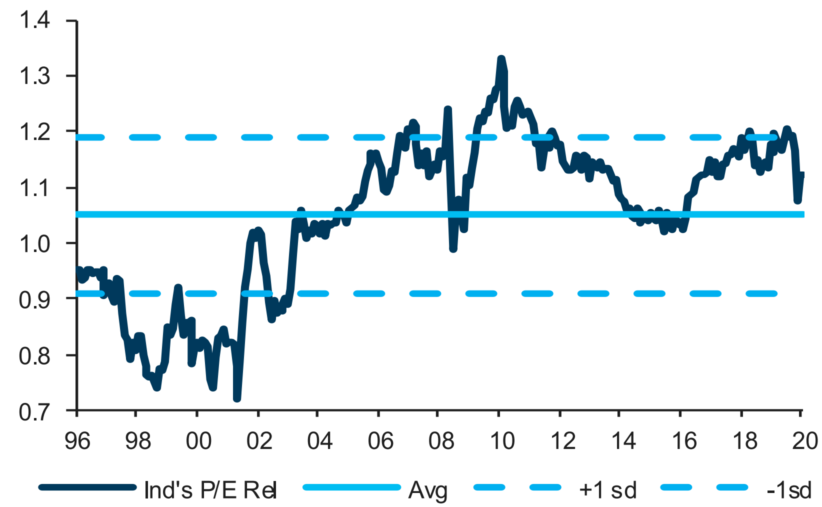

Source: Haver, Barclays Research

**Industrials is following activity lower**




Source: IBES, MSCI, Markit, Barclays Research

**Industrials relative P/E still not cheap**

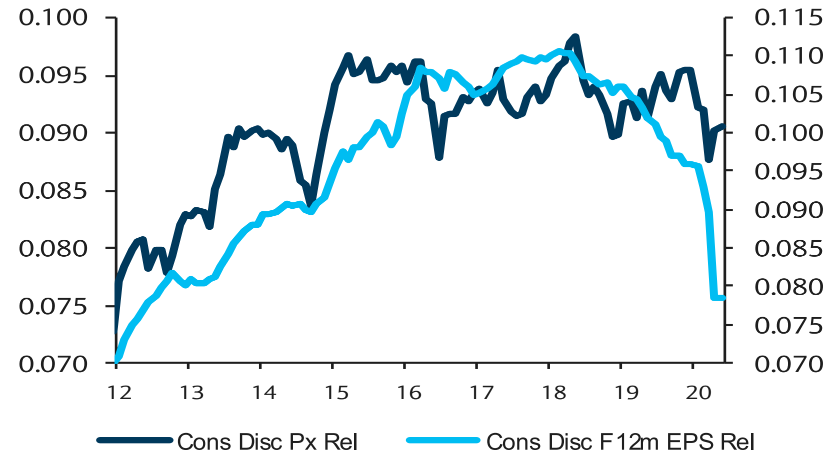



Source: MSCI, Refinitiv, IBES, Barclays Research

# **Consumer Discretionary** – UW all subcomponents except Luxury

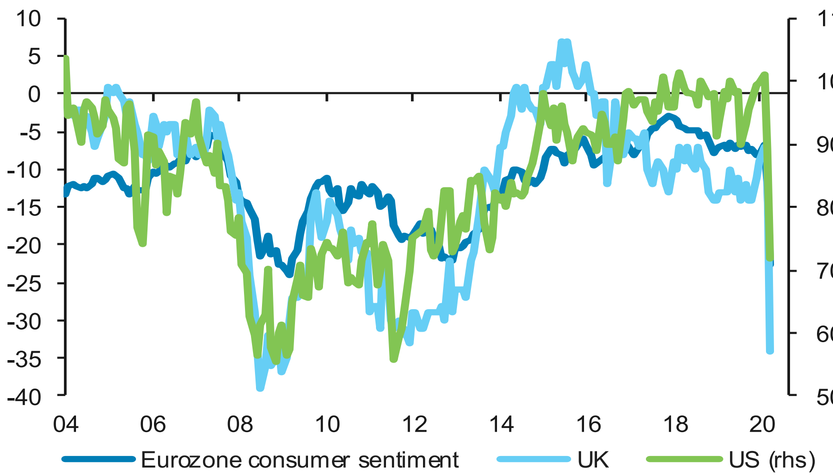
- We expect COVID-19 to have a significant impact on Consumer over the next few months, which will inevitably impact spending and is unlikely to recover quickly. We keep the overall sector at UW.
- Autos and Retail already have structural issues, and now acute issues due to the COVID-19 crisis.
- Consumer Services (Hotels, Leisure, and Gaming) are also facing significant acute headwinds from the crisis.
- Luxury Goods is higher quality and growth in normal times, but will not be immune to the complete curtailment of consumer activity. Its quality nature belies the cyclicality of its earnings – EPS fell 40% in 08/09, and similar could happen this time. However, cash flow and B/S position is strong.

**Cons. Disc EPS still falling dramatically but price has been recovering**



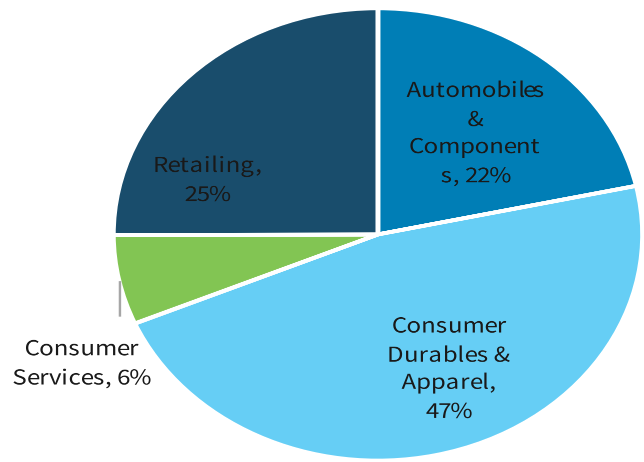

Source: MSCI, Refinitiv, IBES, Barclays Research

**Consumer sentiment has seen its quickest ever fall, and now rivals levels seen in GFC**




Source: Bloomberg

**Discretionary subsectors all have structural or acute challenges (or both)**



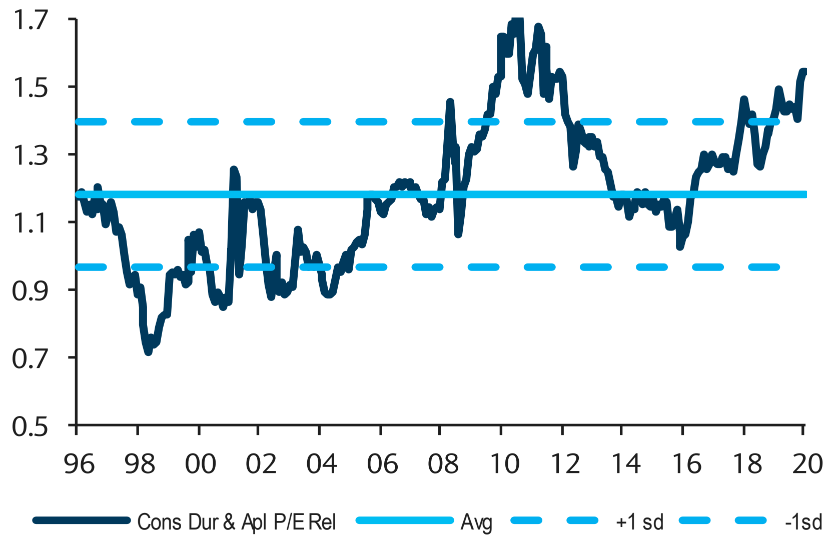

Source: MSCI, Refinitiv, Barclays Research

* Refer **2020 Outlook - Climbing at altitude**, Nov 27 2019 for more details

# Luxury is high quality, but comes at a high price

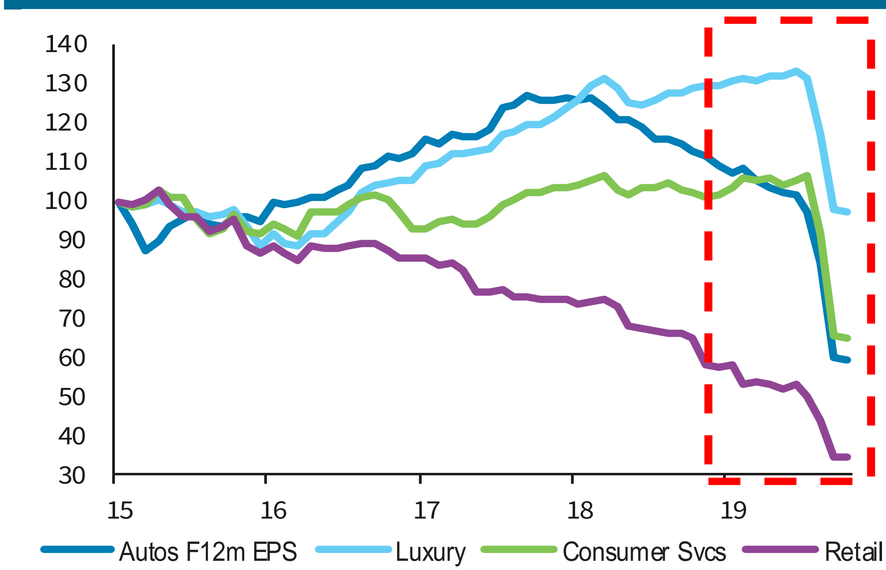
- Luxury goods is the bright spot in Consumer Discretionary, a long-term secular growth story, with high-quality characteristics.
- However, it is expensive, and also more cyclical than many expect.
- Luxury EPS fell 40% in '08/09, and could see a similar drop this time given the almost complete standstill of the consumer.

**Luxury still expensive, but its EPS is more cyclical than it gets credit for**




Source: Refinitiv

**Luxury EPS is not immune. All subsectors now falling**

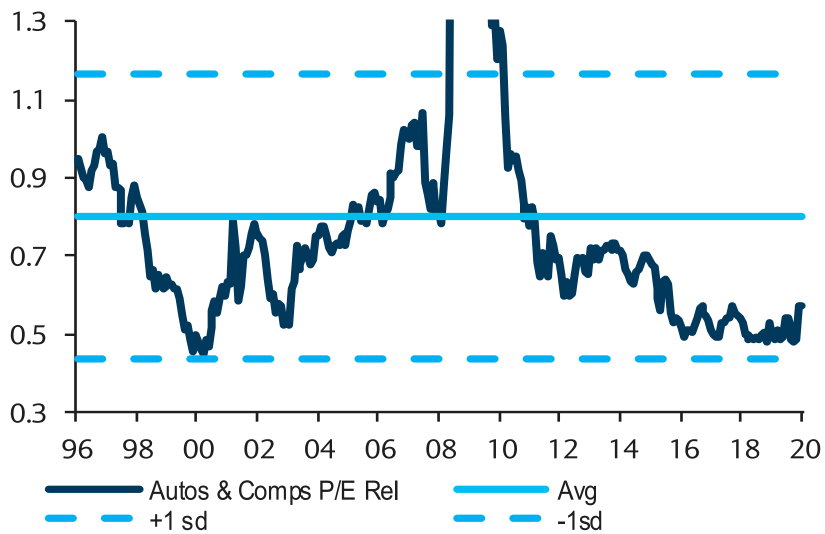



Source: Refinitiv

# Autos are cheap & under-owned, but COVID-19 is yet another major headwind

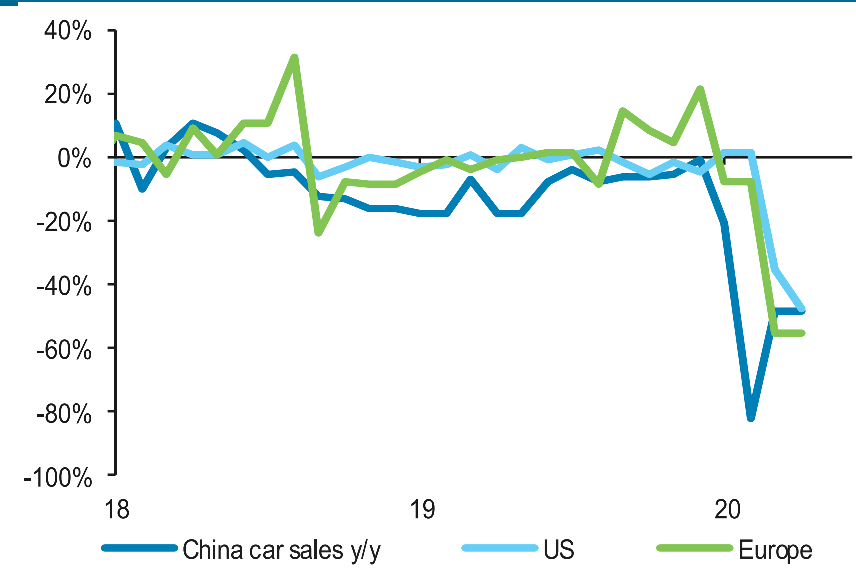
- Autos bounced vs. the market, along with other deep value plays.
- However, car sales are collapsing, with all regions (China, US, and Europe) now showing negative YoY volume growth of around -60%. China has rebounded as their lockdown ended; however, we expect the worst is to come for Europe & US, where lockdowns are in much earlier stages.
- Coronavirus will likely continue to cause acute issues in supply chains, and for end demand for an extended period.
- This is on top of well-known secular headwinds such as the shift to electric drive trains, ride hailing and autonomous driving that won't go away anytime soon.
- These imply lower profits going forward even once capex winds down given higher value per car, with 2020 being the crunch year.
- Valuation is already very low, and arguably contains a lot of uncertainty in the price already.
- The sector's high correlation to PMI may prove more of a headwind if they fall as expected over the next few months.

**Autos valuations have de-rated sharply due to structural & cyclical headwinds, but a catalyst for re-rating is missing**




Source: MSCI, Refinitiv, IBES, Barclays Research

**Car sales growth globally has fallen precipitously**

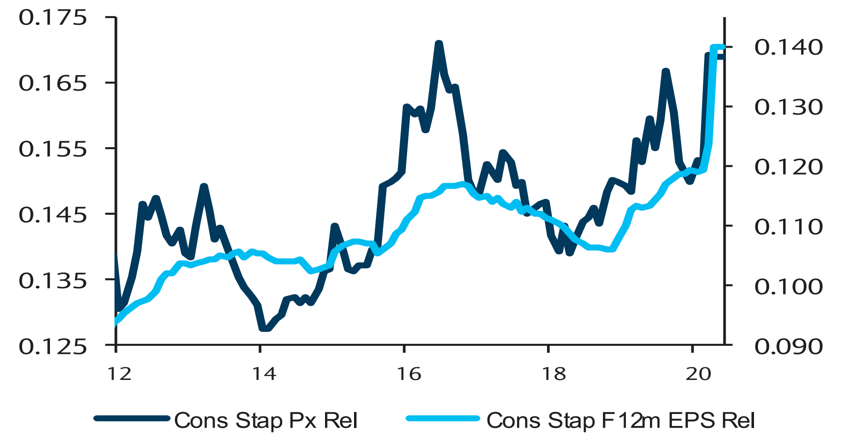



Source: Bloomberg

# Consumer Staples - UW

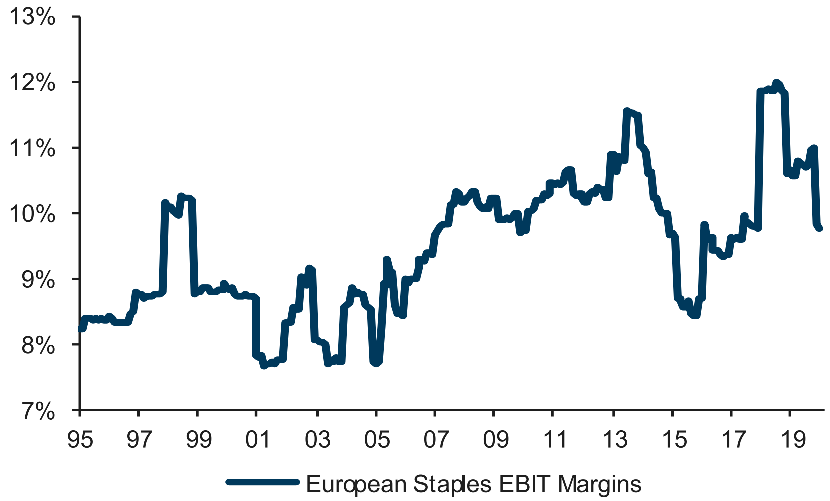
- We cut Staples to UW. The sector worked well as defensive Quality hedge ytd but could see some profit-taking if PMIs stabilize and lacks positive catalysts, in our view.
- Some of the more cyclical parts like Beverages have fared worse, but overall the sector has behaved defensively, in line with its relative EPS and with bund yields.
- The sector is not looking extremely expensive but lacks positive growth catalysts against Healthcare and Utilities. Staples are not immune to consumer slowdown and EPS and margins are falling across the subsectors.

**Staples relative price now back in line with EPS**



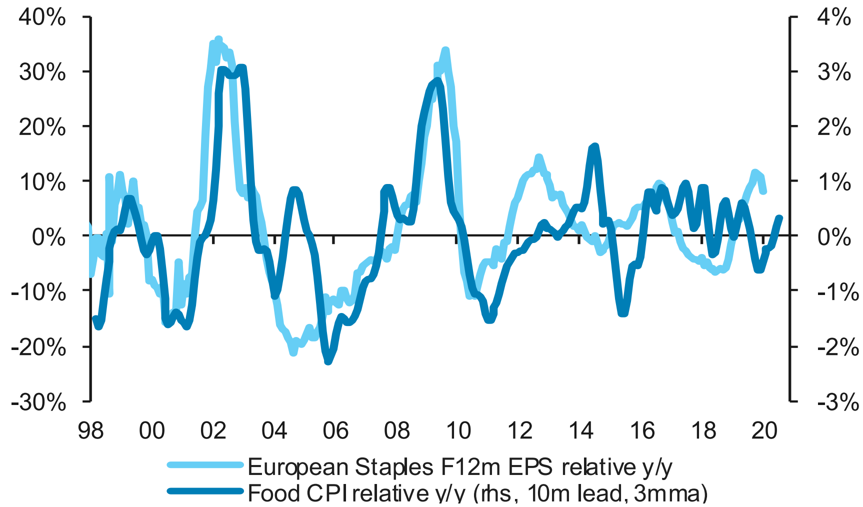

Source: MSCI, IBES, Refinitiv, Barclays Research

**Margins had been improving, although suffered most recently**




Source: Worldscope, Barclays Research

**Food inflation is recovering, although relative earnings are already much higher than food CPI**

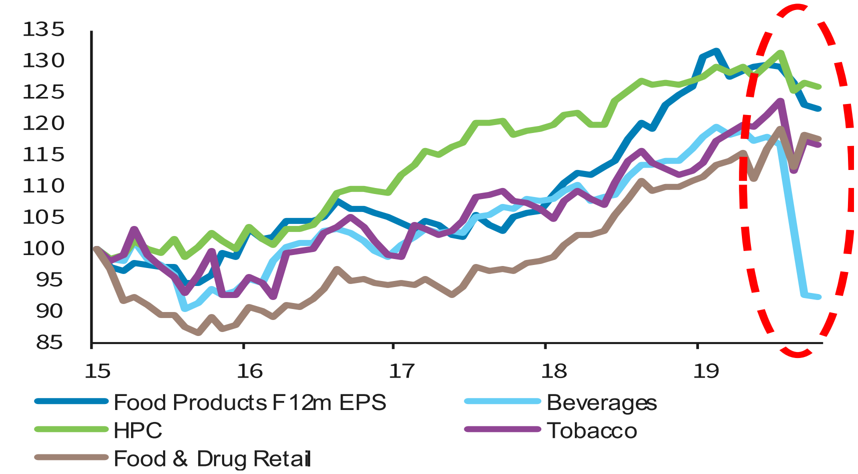



Source: IBES, Refinitiv, Eurostat

# Sector EPS have fallen, but price performance was helped by falling yields

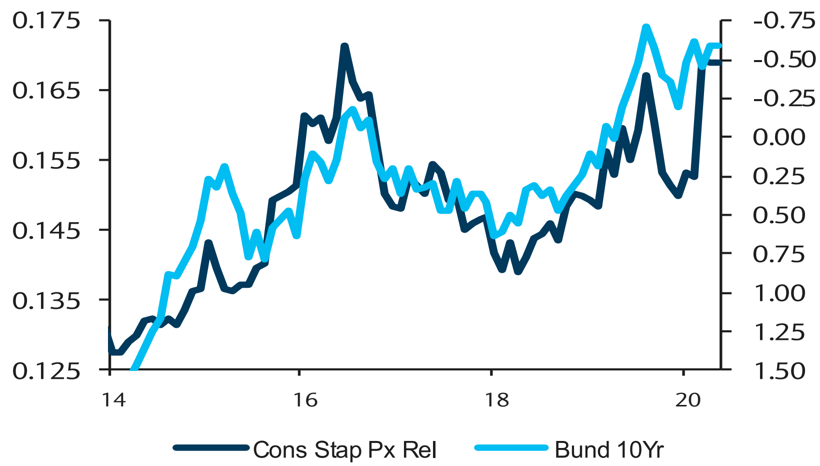
- Staples typically move in the opposite direction to bond yields.
- Relative performance followed bund yields lower in Q3, fully discounting the defensive nature of the sector, but then they gave some performance back as the economy stabilised and a few companies missed consensus growth. We upgraded from UW to MW at the beginning of 2020.
- Organic sales growth has been strong, although there are risks with the virus, particularly in beverages.
- The sector valuation cheapened a little vs. the market as its more resilient EPS is holding up better than some other more cyclical sectors.

**EPS growth is now falling**



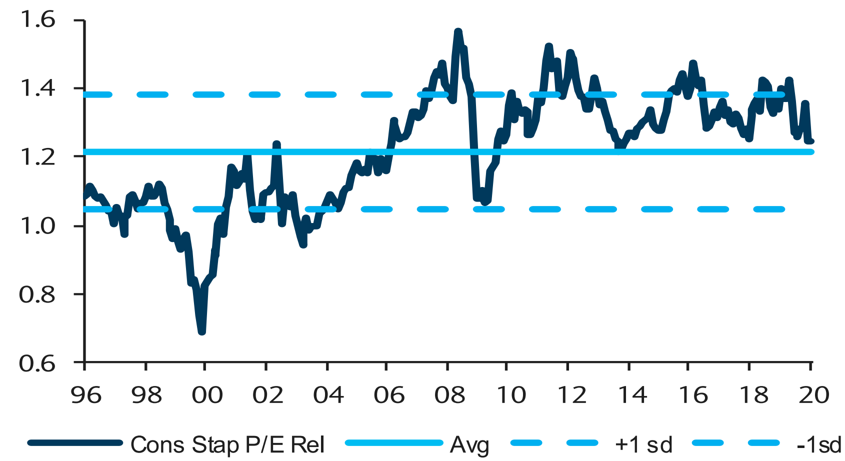

Source: EPFR, Barclays Research

**Staples fully discounted Q3 bund yield move, gave back a lot of perf, but hasn't reacted much to curr yield move**




Source: MSCI, IBES, Refinitiv, Barclays Research

**Staples P/E cheapened, then became expensive again given falls elsewhere in the market**

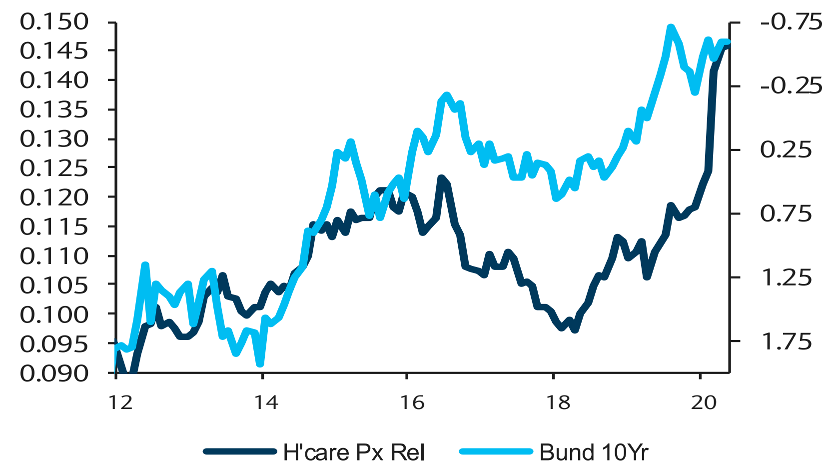



Source: MSCI, IBES, Refinitiv, Barclays Research

# **Healthcare** OW
## Defensive growth with catalysts

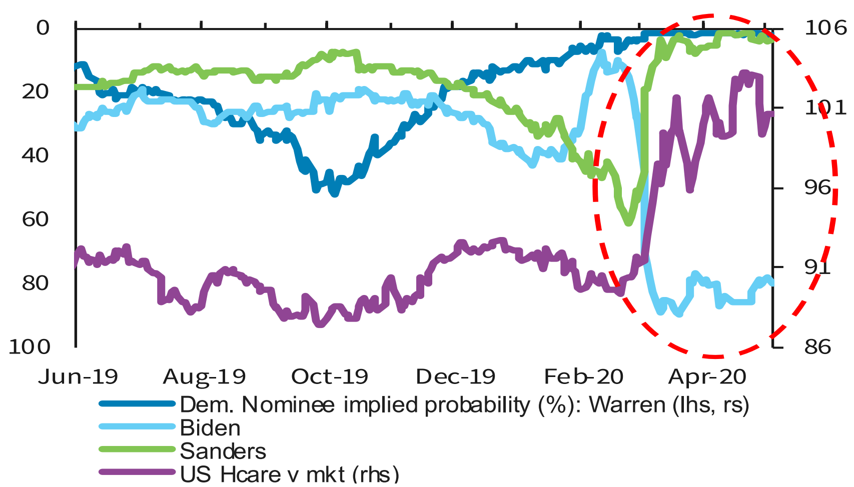
- Healthcare sector has performed well during the sell-off but should continue to be supported by its defensive-growth nature, in our view, while valuations are not particularly demanding and dividends look safe.
- For the moment, US politics influence on the sector has receded. Biden is the presumptive Democrat nominee and is not expected to push for major changes. On the Republican side, President Trump's approval ratings have fallen a little but re-election still looks highly possible.
- Either outcome is less bad for the Healthcare sector than Democratic progressives, so its relative performance has likely been helped by this, as well as its defensive growth characteristics.

**Healthcare relative performance vs bund yield**



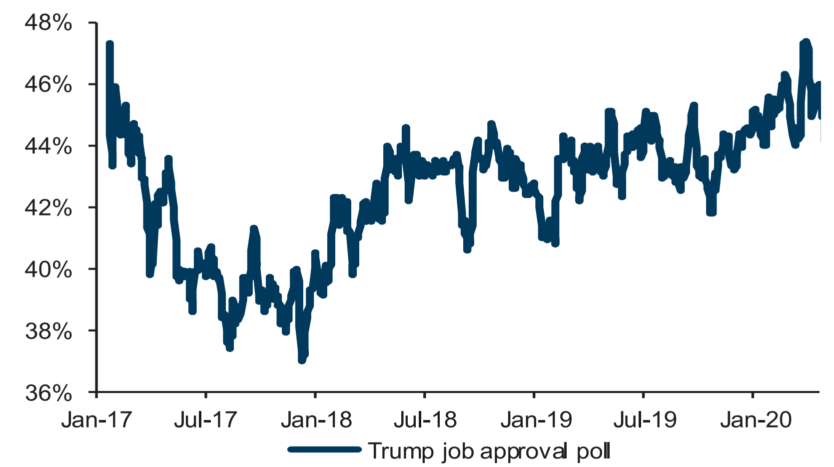

Source: MSCI, IBES, Refinitiv, Barclays Research

**With Biden the presumptive nominee, political headwinds for the sector fell**




Source: Bloomberg

**Trump approval ratings falling marginally after initial bump**

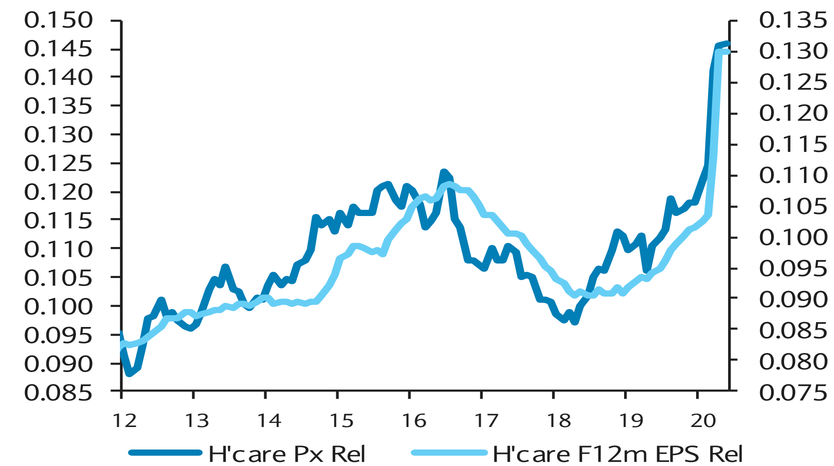



Source: Bloomberg

# Valuation not excessive, weak EUR helps

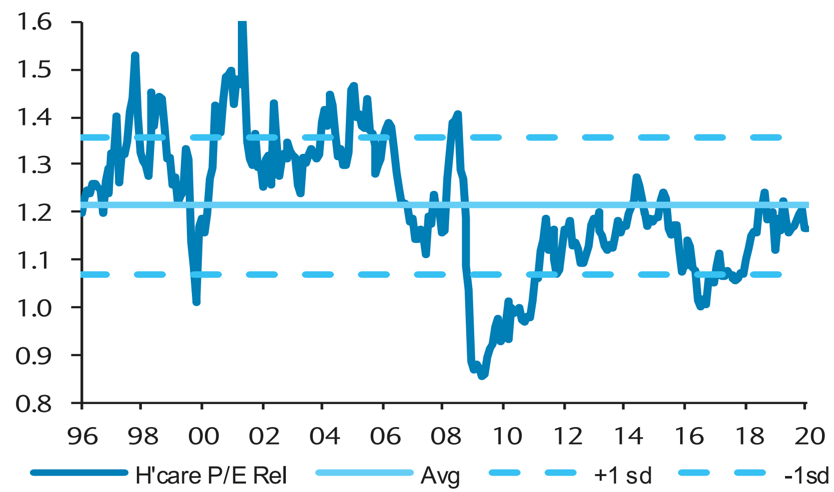
- The sector's valuation is not demanding for a defensive growth asset, in our view, and we prefer it to Staples.
- We don't see a near-term risk to the sector's strong fundamentals, and we expect it to continue to deliver in the coming 6-12m.
- Recent outperformance makes it appear to be outperforming the recent EUR weakness (currently a small tailwind).

## European Healthcare vs. EPS relative



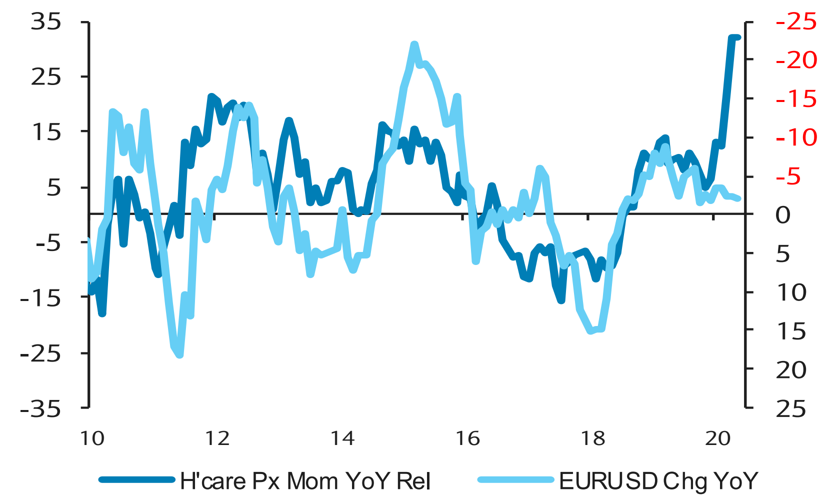

Source: Refinitiv

## Healthcare valuations do not look demanding for a defensive growth sector




Source: Refinitiv

## European Healthcare relative vs. EURUSD

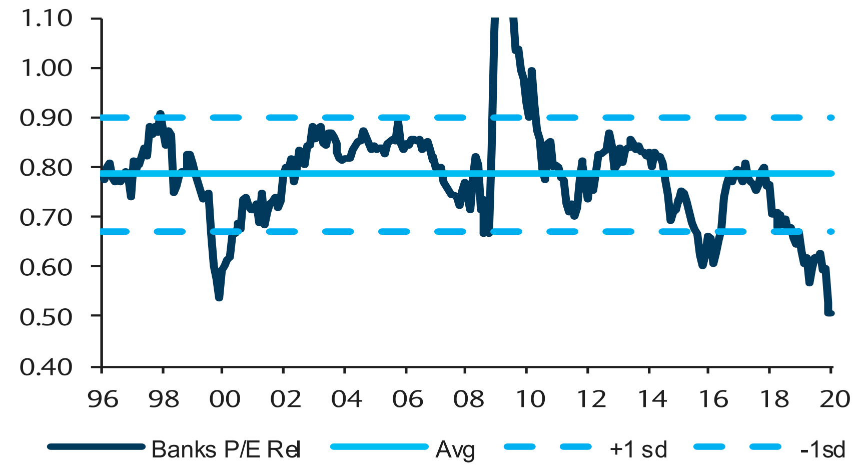



Source: Refinitiv

# Financials MW
## MW Banks – Cheap, for a reason

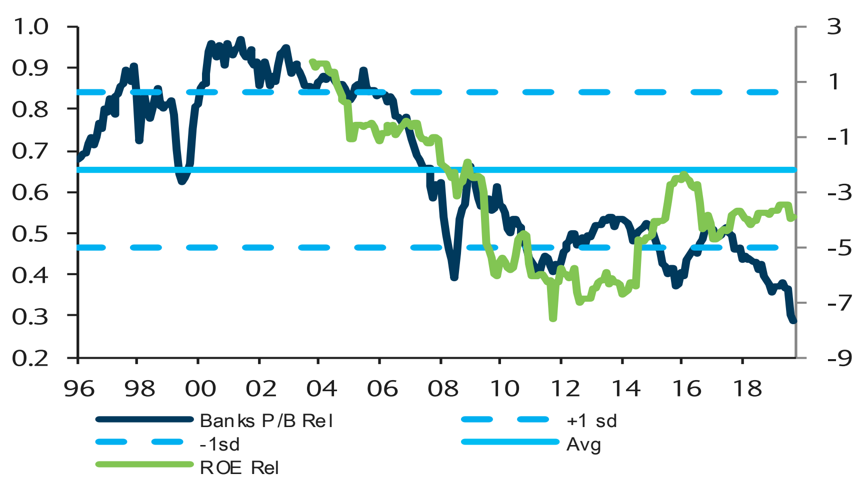
- We are MW Financials, with a preference for Insurance over Banks.
- Falling yields due to virus fears and central bank rate cuts are unhelpful, and Banks never enjoyed a relief bounce like most other sectors did.
- Dividends across large parts of the banks sector have been suspended, and large provisions against loan losses are being made with Q1 results.
- However, with yields at depressed levels, we believe it might not take much for a bounce, particularly if activity picks up.
- The proportion of European mutual funds overweight Banks currently stands at 30%, having bounced recently.

**European Banks P/E relative at record lows**



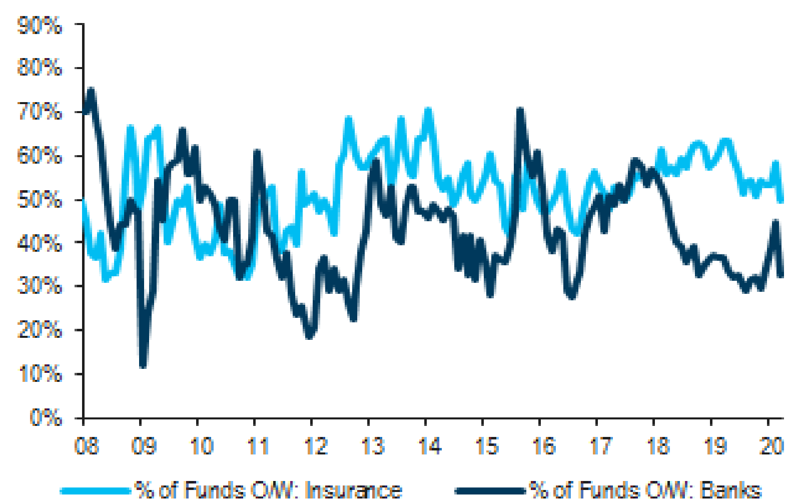

Source: IBES, MSCI, Barclays Research

**European Banks P/Book relative at all-time lows, despite resilient ROE**




Source: IBES, MSCI, Barclays Research

**Investors continue to show a preference for higher-quality Insurance over Banks**

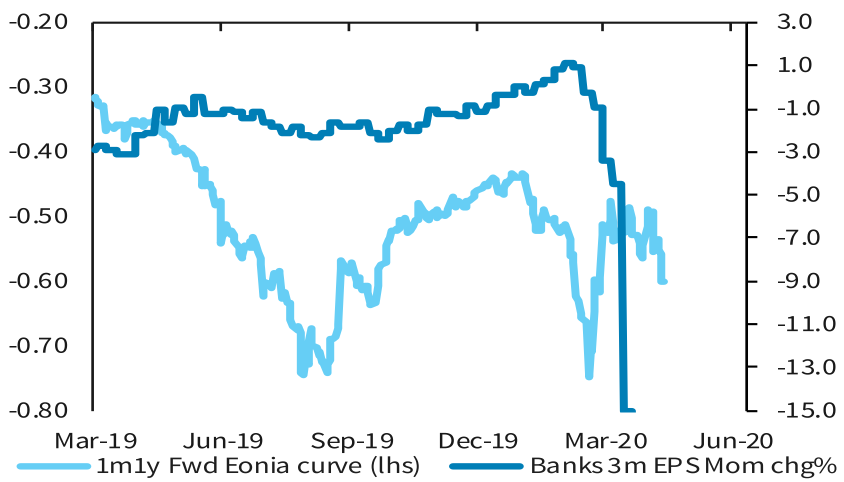



Source: EPFR, Barclays Research

# Earnings downside material…

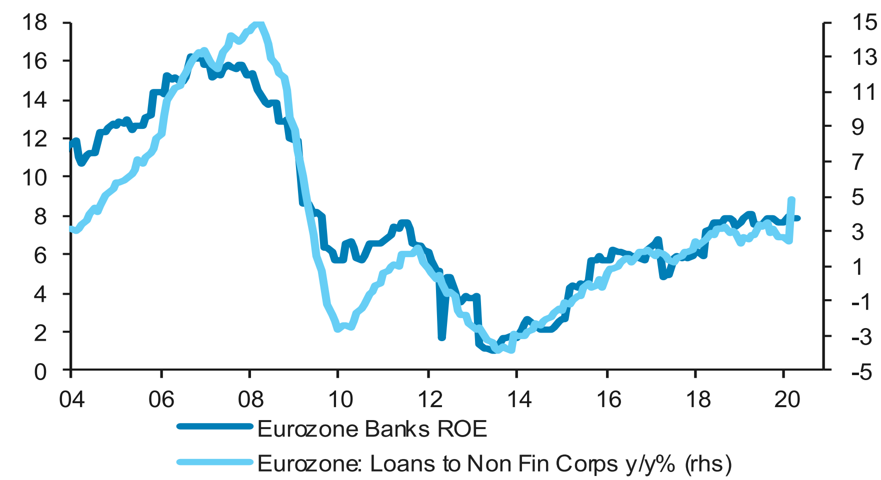
- Banks earnings are likely to remain pressured if bond yields stay lower for longer and yield curve does not steepen sustainably.
- As credit volumes and quality are likely to weaken, this should hurt profitability and constrain shareholder payout.

**Banks EPS momentum follows the Eonia curve**




Source: IBES, Bloomberg

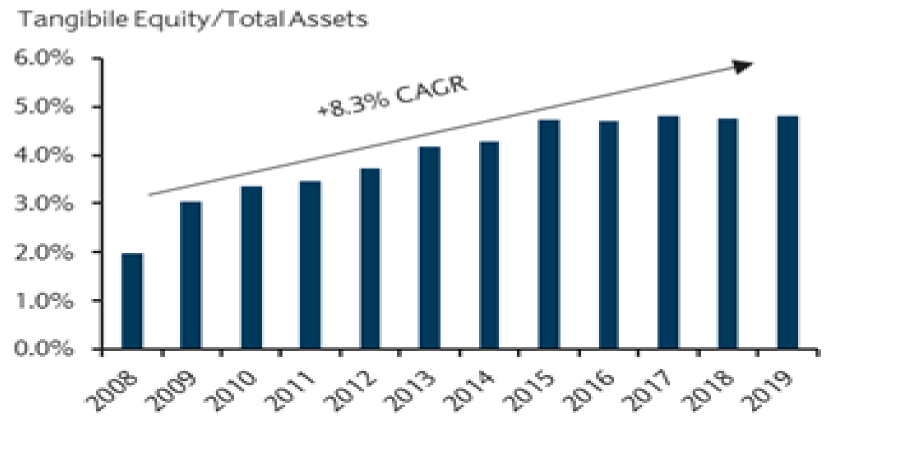
**Private loan likely to fall along with Banks' ROE**




Source: Refinitiv, Eurostat

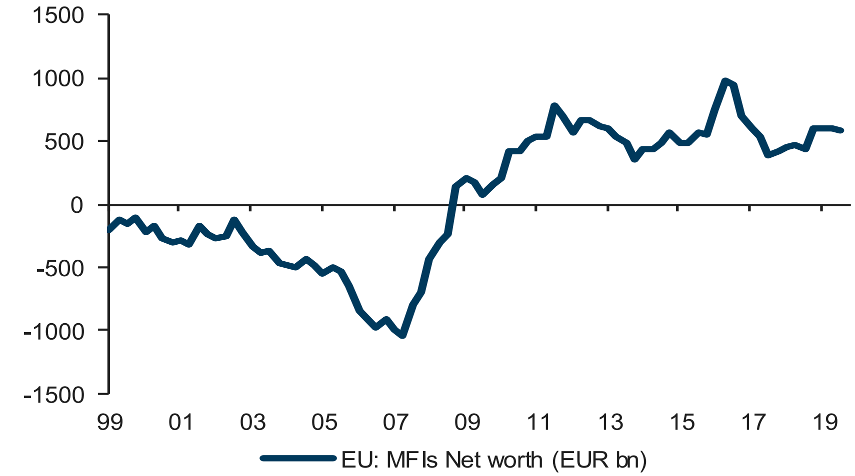
# …but capital and liquidity position is much stronger than in 2008

## European Bank Sector: Capital position strengthened since 2008



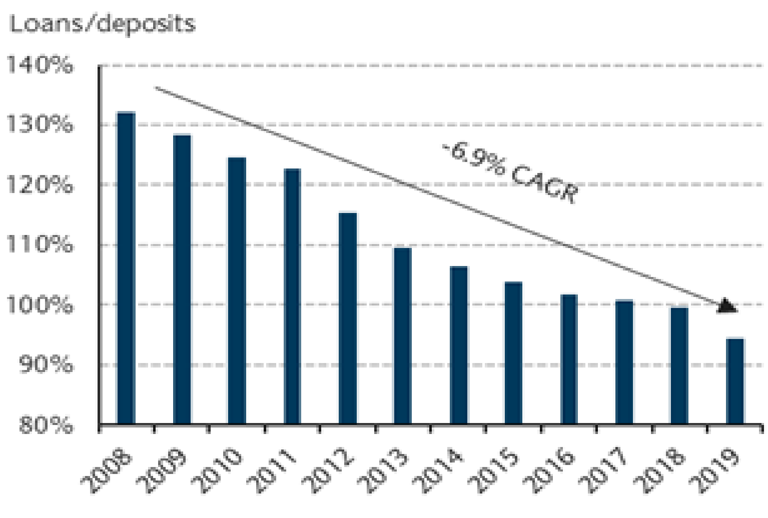

Source: Bloomberg, Barclays Research

## European Banks' balance sheets are in better shape



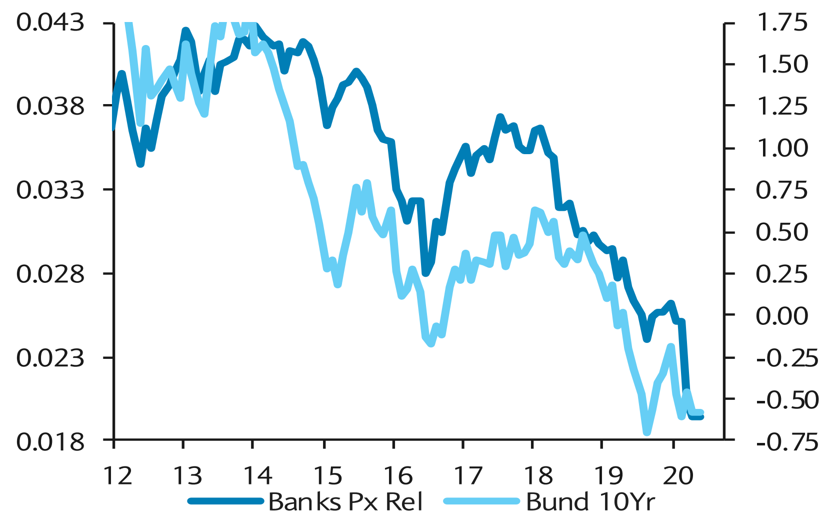

Source: Bloomberg

## European Bank sector: Deposit growth outstripped loan growth




Source: Bloomberg, Barclays Research

## Banks move with bond yields

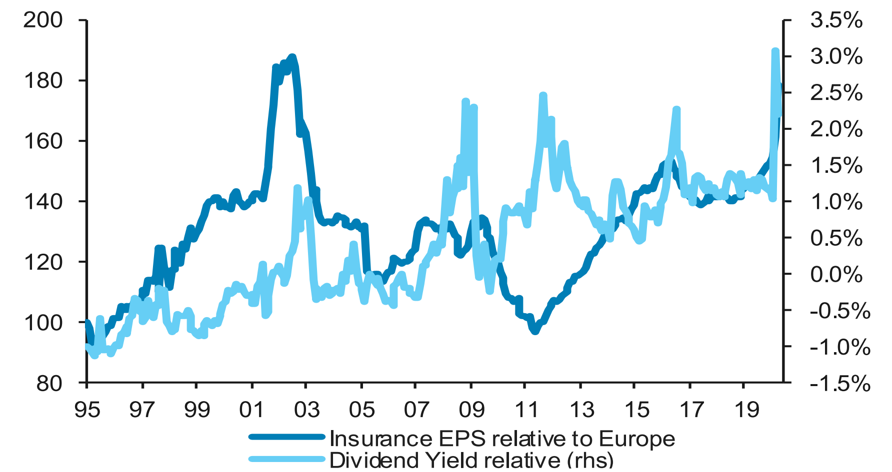



Source: Refinitiv, Barclays Research

# OW Insurance – Resilient earnings, healthy capital

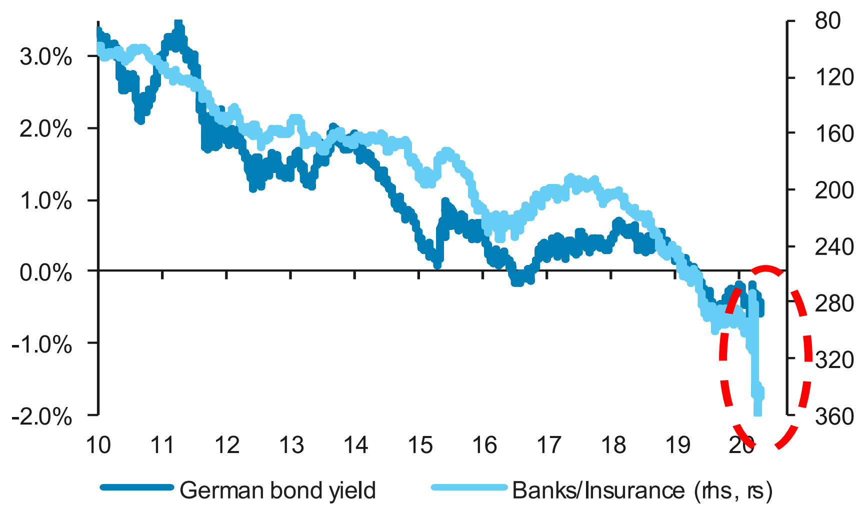
- We like Insurance due to its solid dividend yield, valuation and strong EPS momentum. Our sector analysts believe that Insurers' capital position is strong, and while there has been regulatory pressure on the dividend, most companies are postponing their dividend until later in the year rather than cutting outright.
- We note, however, that Insurance has already outperformed Banks significantly as it benefitted from flight to quality and safety last year and further this year.
- The relative P/Book between the two is looking very stretched at present, but likely reflects the lower earnings and balance sheet risk of Insurance vs Banks.

**Insurance dividend yield is backed by strong earnings**



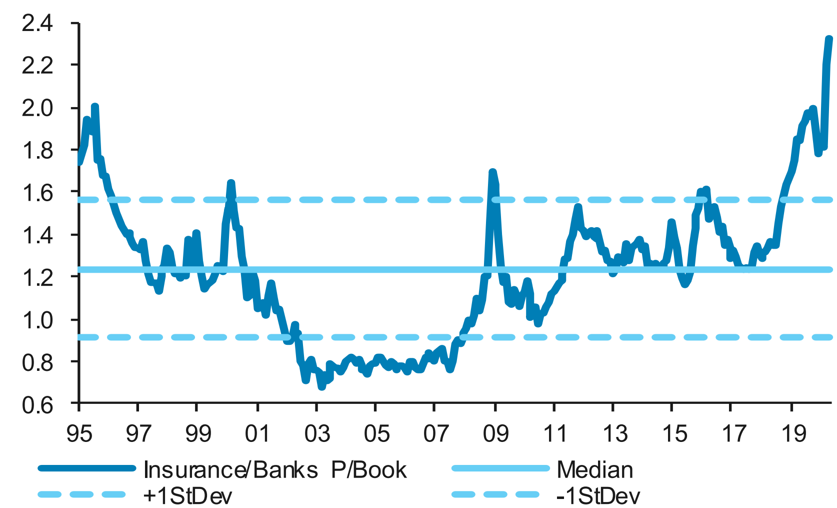

Source: IBES, Refinitiv, Barclays Research

**Insurance has benefitted from the flight to quality…**




Source: IBES, Refinitiv, Barclays Research

**…and re-rated sharply vs Banks**

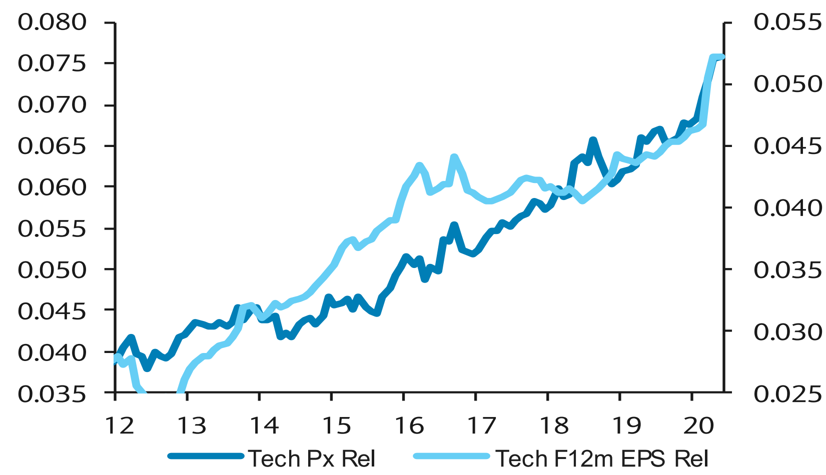



Source: IBES, Refinitiv, Barclays Research

# Information Technology OW
## Secular growth intact

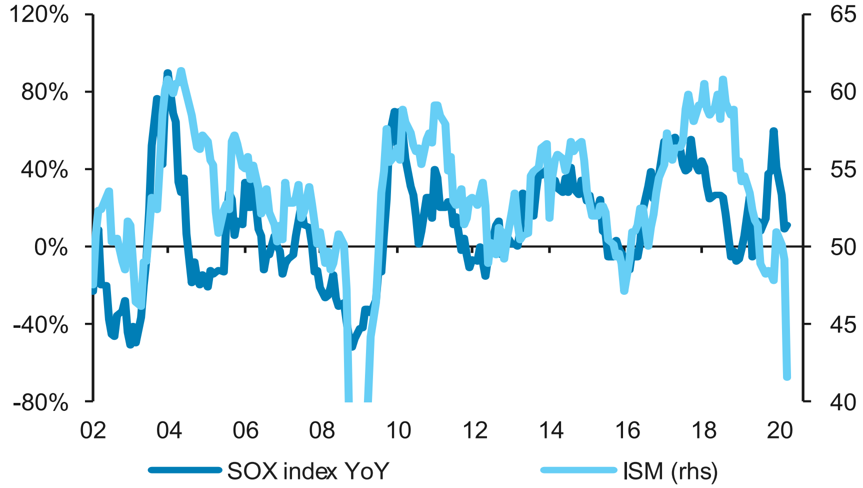
- Tech is one of the better performing sectors ytd despite fears of coronavirus disrupting the tech supply chain. We raised the sector to OW on its initial underperformance, and it has done well since. We like the long-term secular growth the sector offers.
- Semis have done very well in anticipation of the inventory cycle turning, but did underperform substantially into the downturn. Meanwhile, Tech Hardware (mainly network equipment names in Europe) have already discounted a lot of bad news and profit warnings while Software should benefit from increasing activity levels.
- No doubt there will be disruption but several indicators in the Tech supply chain look good, including Tech PMI New Orders to Inventories, Export Orders and Semi sales.

**MSCI Europe Technology relative performance and earnings, secular trend remains in place**



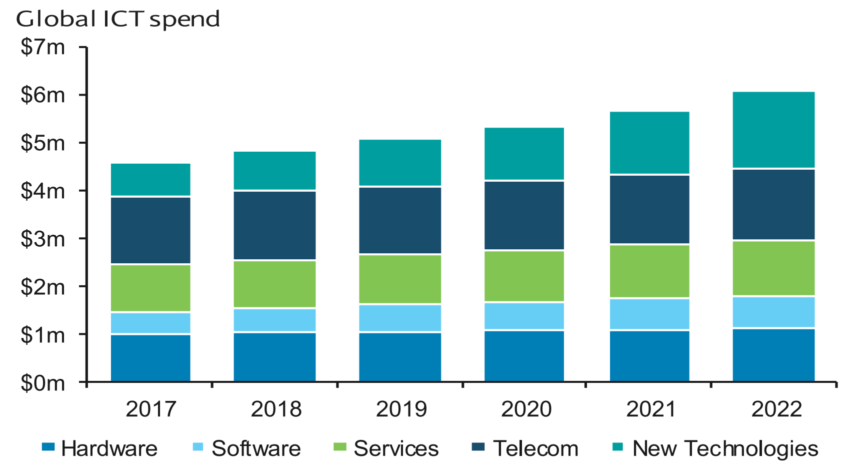

Source: MSCI, IBES, Refinitiv, Barclays Research

**SOX reconnecting with lower ISM**




Source: Bloomberg

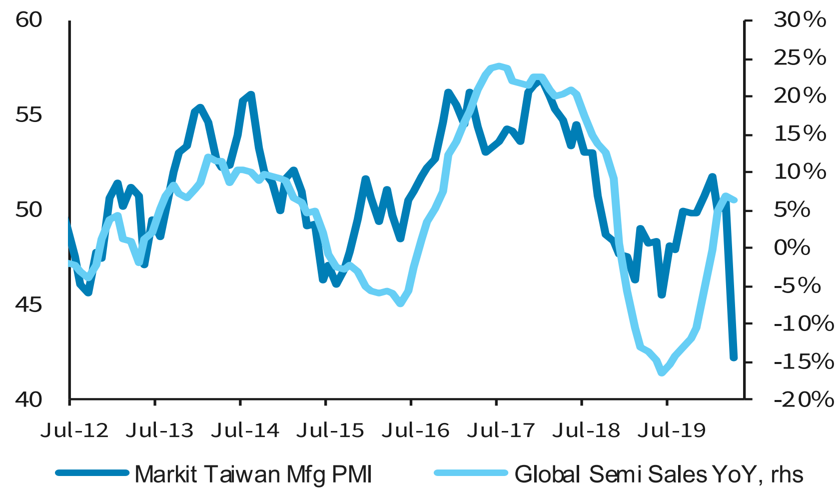
**Global ICT spending is forecast to continue growing, at 6% p.a**




Source: IDC figures 2017-2019. Combination of IDC and Barclays Research estimates 2020-2022

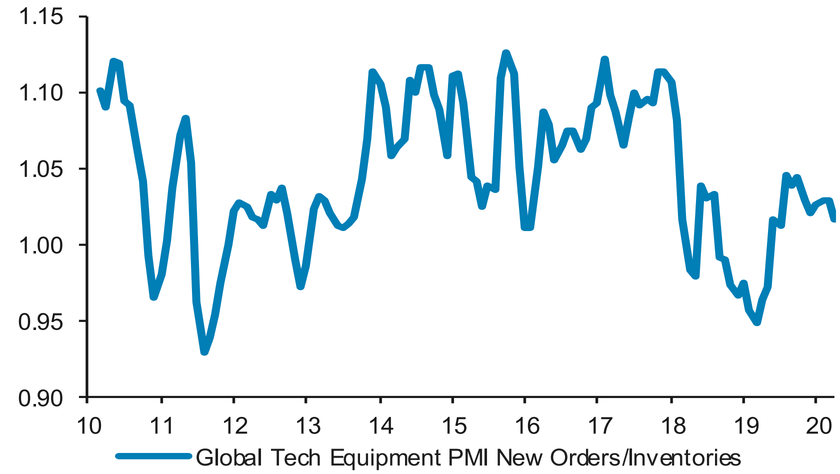
# Tech indicators continue to recover, but valuations are not cheap

## Taiwan Mfg PMI fell sharply, Semi sales to follow?



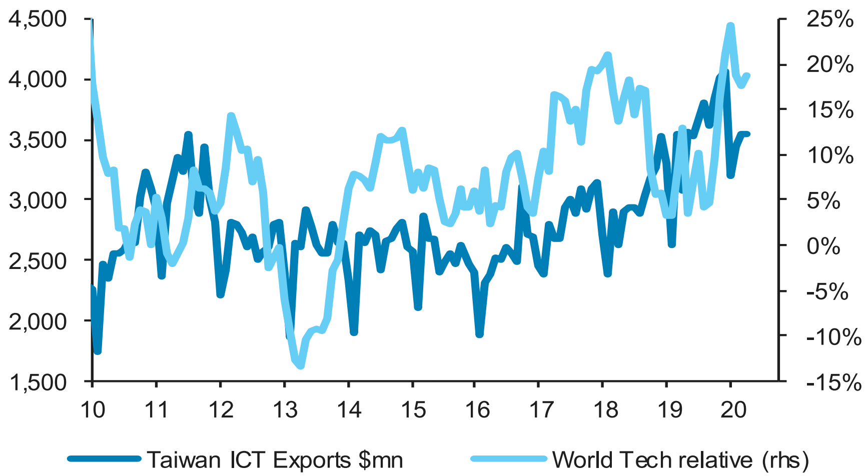

Source: Bloomberg, NDC, SIA

## Tech PMI new-orders-to-inventories bottomed out mid-2019



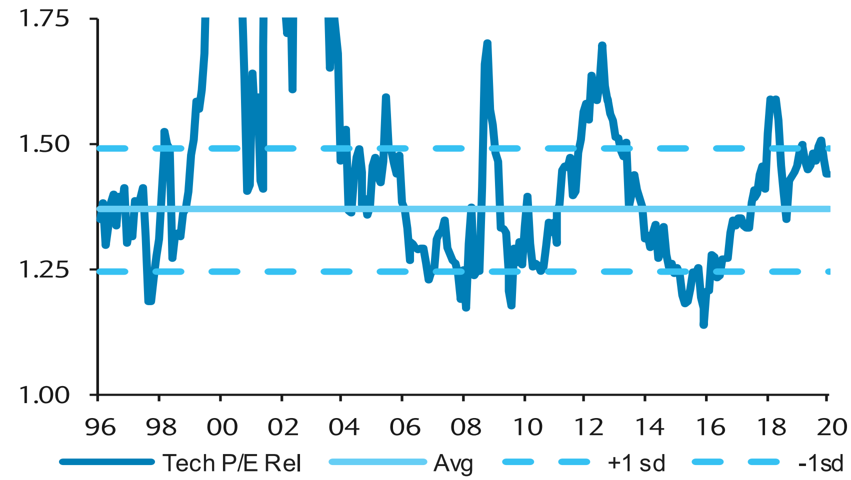

Source: Markit, Bloomberg

## Taiwan tech exports were surging pre COVID-19




Source: Refinitiv, Bloomberg

## Tech valuation somewhat expensive again

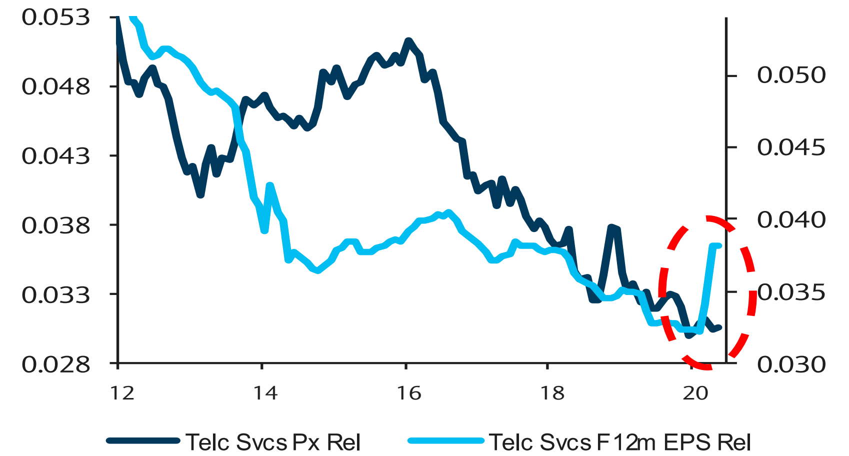



Source: MSCI, IBES, Refinitiv, Barclays Research

# **Telecoms** MW
## Defensive yield play, with persistent structural issues

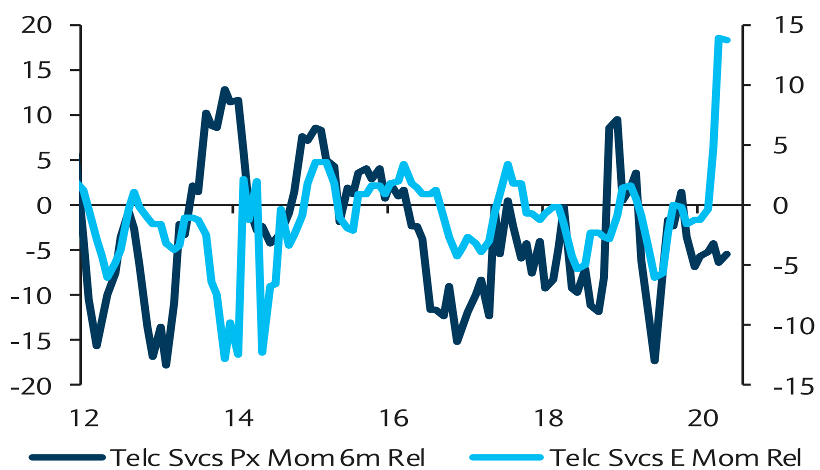
- While we remain unexcited by the long-term growth prospects of the sector, we believe its elevated dividend yield is generally safe while earnings volatility is lower than other sectors.
- Following years of underperformance, its valuation does not look demanding, in our view.
- However, the allure of relatively stable revenues and earnings make them more attractive in this virus-induced downturn, and we upgraded to MW.

**MSCI Europe Telecoms relative price is underperforming EPS, which has jumped**



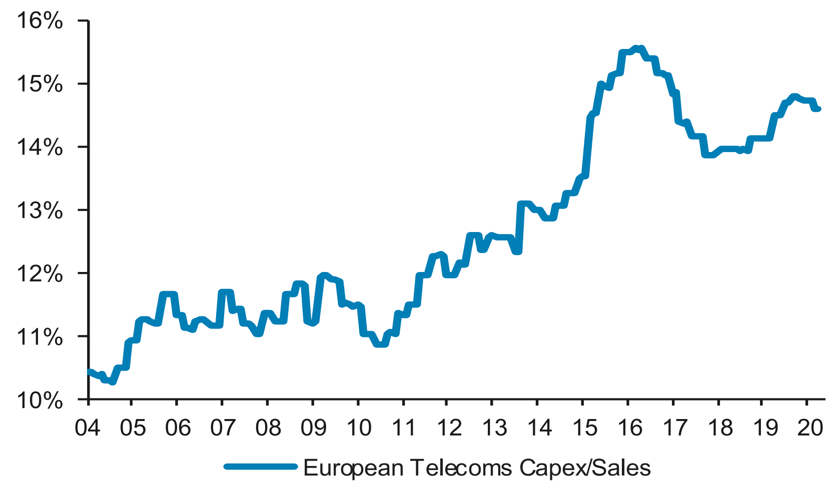

Source: MSCI, IBES, Refinitiv, Barclays Research

**Telecoms relative performance is lagging its improving EPS momentum**




Source: IBES, Datastream

**Capex requirement is not showing signs of abating**

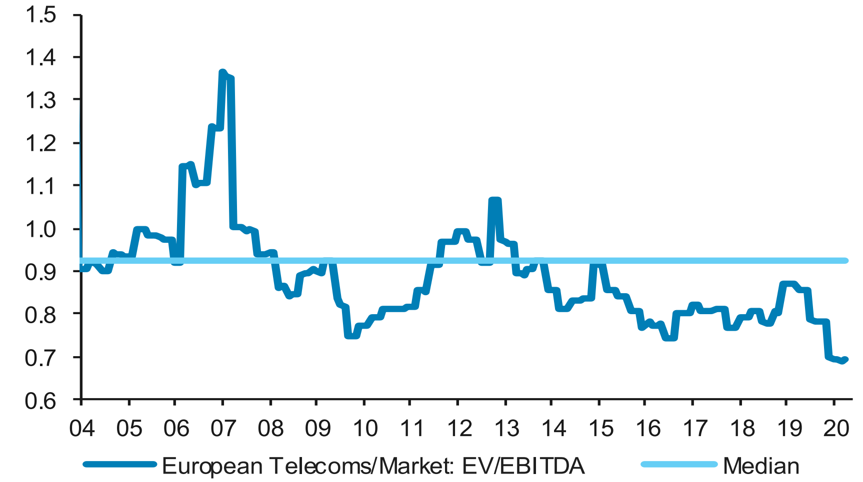



Source: Worldscope, Barclays Research

# Sector looks cheap but lacks positive medium-term catalysts

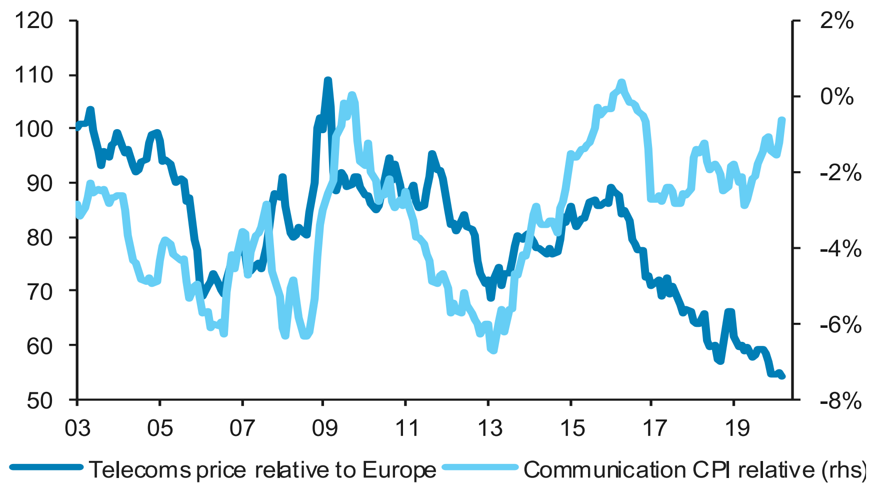
- The sector has fallen vs. the market over the years, despite falling bund yields. Over the long run, the negative secular growth (deflationary pricing) is dominating, so over the very long run it has not behaved like a usual defensive asset despite the fall in bund yields. This is likely because pricing remains deflationary, causing a constant headwind to earnings for the sector.
- Consolidation could help with sector valuation and pricing, but we need to wait to see how the new European Commission will approach competition.

**Valuations continue to fall – consolidation could be a catalyst for a re-rating**



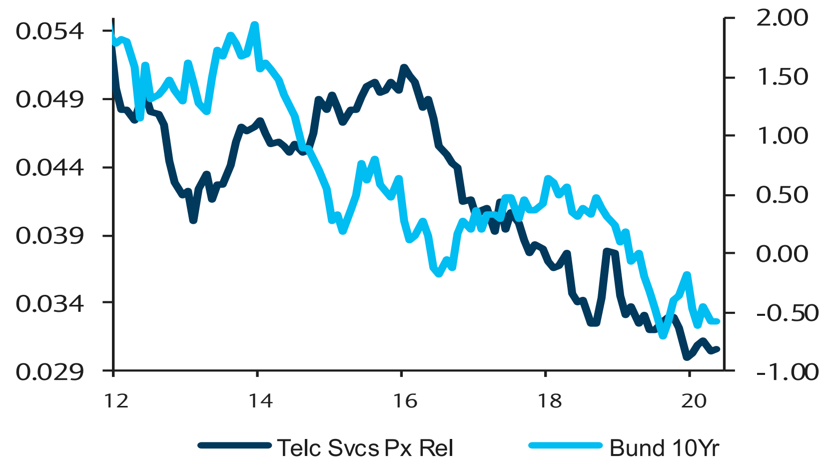

Source: Worldscope

**Telcos remains weak vs. market despite negative CPI abating**




Source: Eurostat, Refinitiv, Barclays Research

**Telcos have fallen relatively despite plunging bund yields**

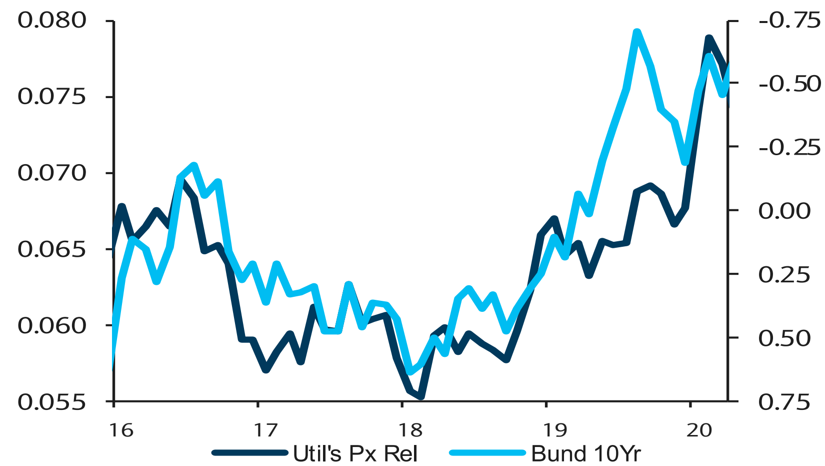



Source: Datastream, Barclays Research

# Utilities OW
## Defensive value hedge…with growth catalyst

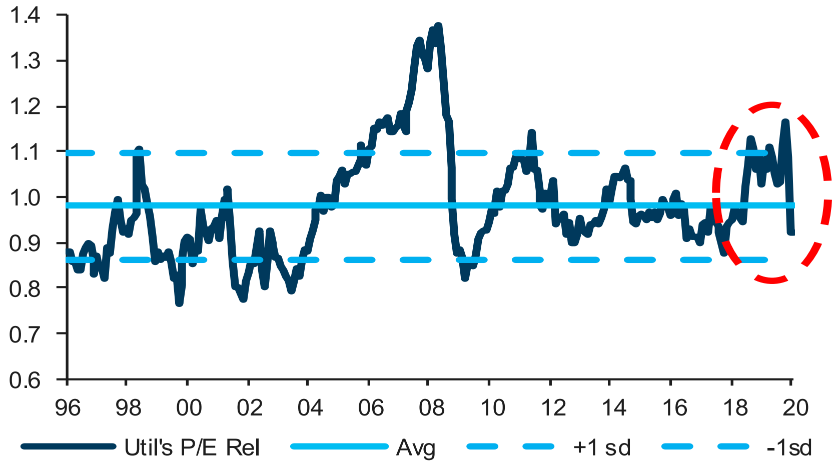
- Utilities are one of the best performing sectors since the virus crisis began, and ytd. We upgraded Utilities to OW in summer 2019* as we wanted to add a defensive sector, with Value characteristics as a hedge.
- Since then, the story has evolved into an emerging secular growth story around renewables, which are now sustainably cheaper than using fossil fuels for new generation capacity.
- Our sector analysts see Utilities benefiting from four major themes: Decarbonising power, Electrification of the economy, Decarbonisation of other fuels, Storing/removing carbon.

**Utilities the new favourite defensive asset, outperforming during virus crisis due to emerging growth story**



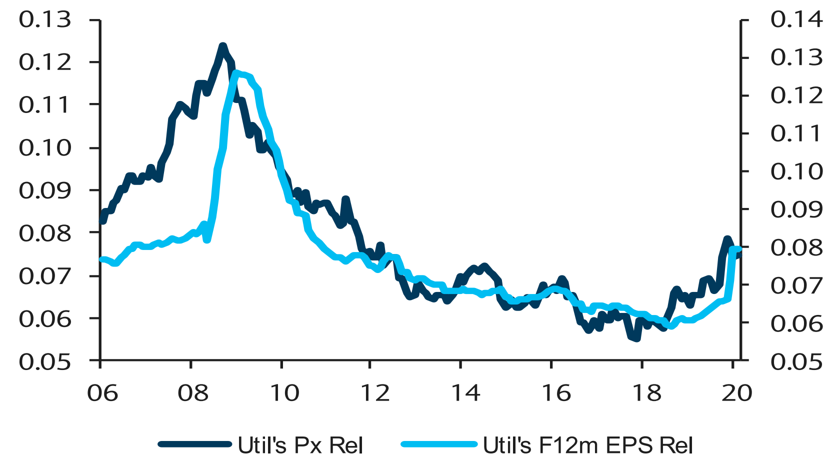

Source: IBES, MSCI, Refinitiv, Barclays Research

**Utilities P/E has fallen most recently as its defensive EPS is outperforming more cyclical parts of the market**




Source: IBES, MSCI, Refinitiv, Barclays Research

**Utilities underperformed 10 years in a row, driven by negative EPS momentum, until 2019**



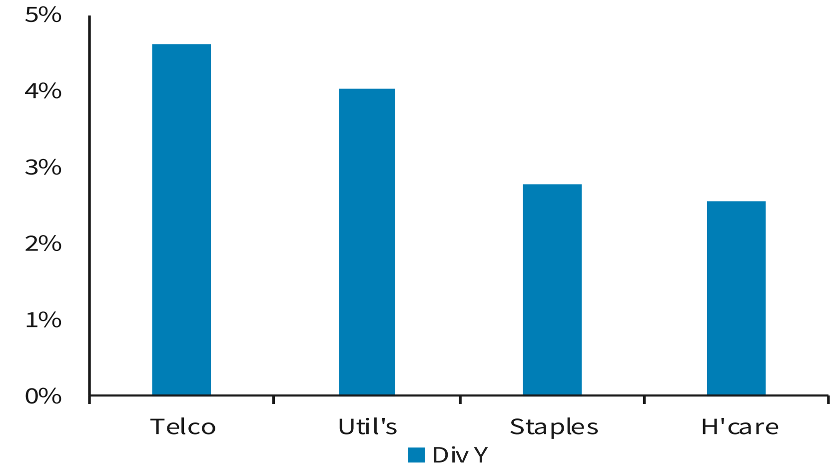

Source: IBES, MSCI, Refinitiv, Barclays Research

* Refer **Turning more defensive - August Chart Pack**, Aug 6 2019 for more details

# Valuations are still not demanding vs. other Defensives

- Clearly, the improving Utilities outlook isn't unnoticed by investors. We note that while the sector's valuation has re-rated, its P/E multiple remains lower than for other defensives in Europe like Real Estate, Staples and Healthcare, and also lower than for US Utilities.
- Relative P/E has recently fallen as other sectors are seeing larger EPS downgrades, causing them to re-rate.
- Renewables generation price now looks to be sustainably competitive with traditional generation.
- This is driving a multi-year renewables capex boom, and turning renewables into a secular growth story.

**Utilities trading expensive as they have re-rated on the defensive-growth thesis**



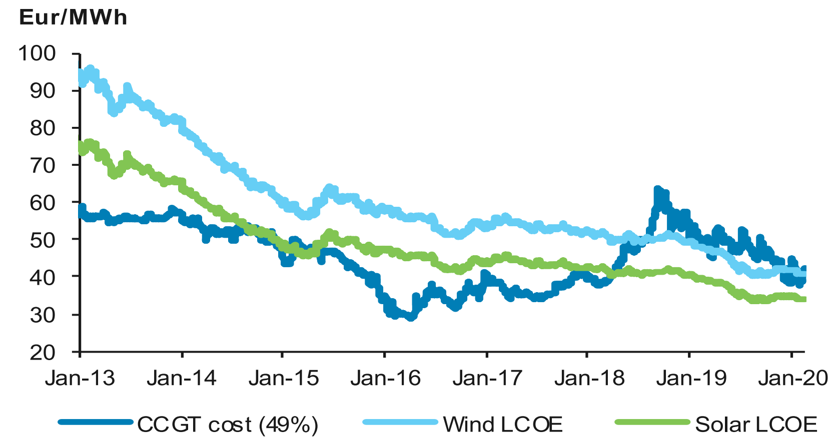

Source: IBES, MSCI, Refinitiv, Barclays Research

**Utilities are not cheap vs. their own history, but still trade at a much lower P/E multiple than most defensive sectors**

| | Current | 10Y Median | 20Y Median | Current vs 10Y Median | Current vs 20Y Median |
|---|---|---|---|---|---|
| C Staples | 18.1 | 18.0 | 16.7 | 1% | 9% |
| Healthcare | 17.0 | 15.5 | 16.1 | 10% | 6% |
| Telecom | 11.7 | 13.6 | 13.5 | -14% | -14% |
| Utilities | 13.5 | 13.5 | 13.5 | 0% | 0% |
| Real Estate | 14.0 | 17.6 | 18.1 | -20% | -23% |
| US Utilities | 17.8 | 16.0 | 15.0 | 11% | 19% |

Source: IBES,

**The cost of new renewable electricity generation capacity is now sustainably below the cost of new CO2 emitting methods**

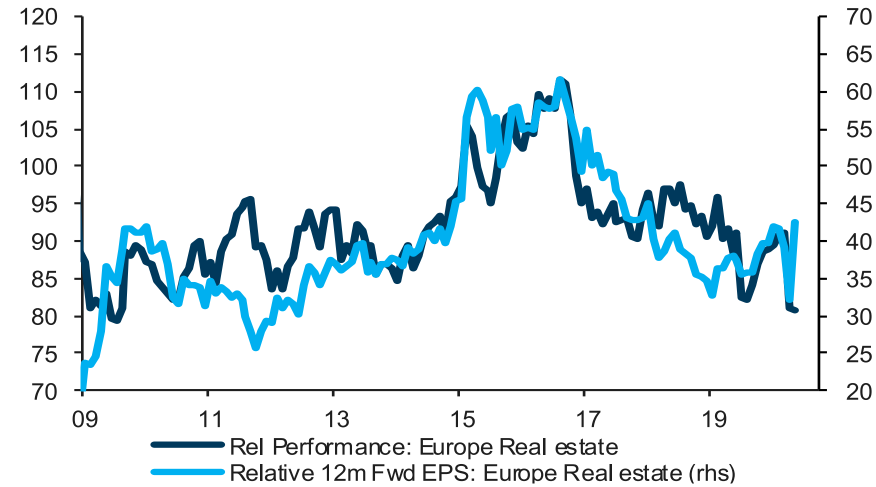



Source: Barclays Research, Bloomberg. CCGT = combined cycle gas turbine. LCOE = levelised cost of electricity

# **Real Estate** UW
## Bond proxy, but retail and potentially office exposure a concern

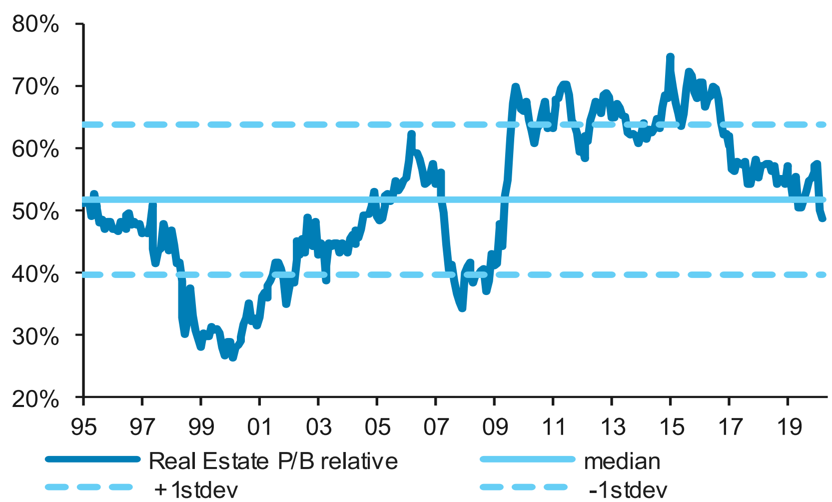
- We stay UW the sector as headwinds are unlikely to dissipate in the short run. We recognise the sector has performed relatively well as it behaves like a bond much of the time, particularly in risk-off.
- At the start of 2020, our sector analysts viewed the sector as fully valued, with more stocks under coverage showing downside compared to those showing upside.
- Significant retail exposure is a headwind for the sector in the current uncertain environment.
- If working from home becomes a more normal day-to-day practice, office rents could suffer in the long term.

**Real Estate Relative Performance vs EPS, EPS rebounding as other sectors' EPS falls more**



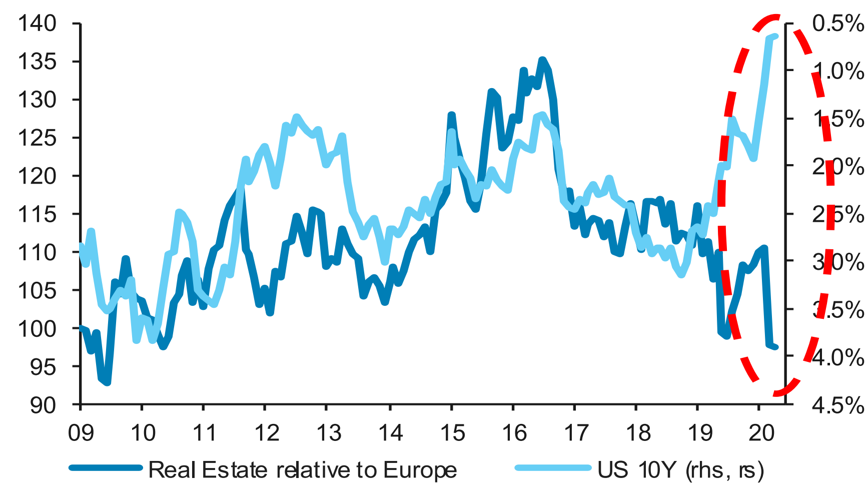

Source: MSCI, IBES, Refinitiv, Barclays Research

**Real Estate valuation not demanding**




Source: Refinitiv, Barclays Research

**Real Estate underperformed despite yield falling YTD**




Source: Refinitiv, Barclays Research

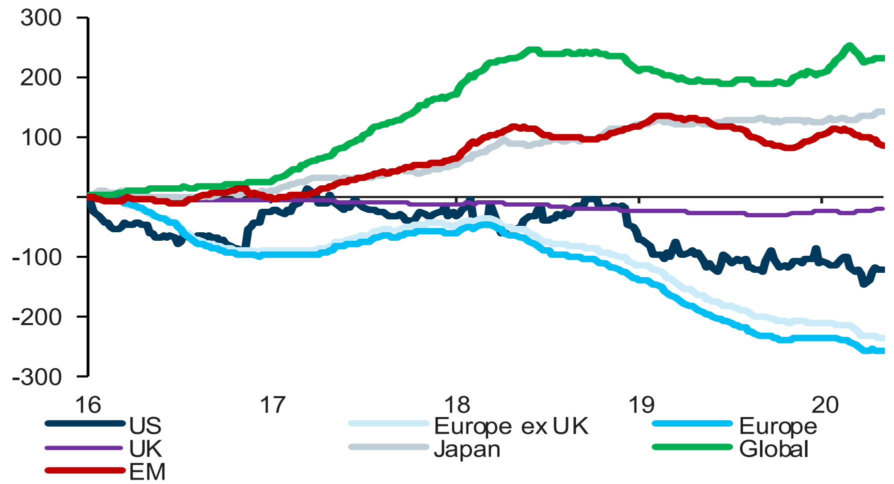
# Fund Flows

## Bond and Equity flows snapshot

| % of AUM | YTD | 1m | 3m | 6m | 12m | 1W |
|---|---|---|---|---|---|---|
| Equities | -0.1% | 0.1% | -0.4% | 0.3% | -0.8% | -0.1% |
| DM | 0.1% | 0.3% | -0.1% | 0.3% | -0.5% | 0.0% |
| Global | 1.0% | 0.1% | 0.0% | 1.6% | 1.5% | 0.0% |
| USA | -0.2% | 0.3% | -0.1% | -0.2% | -0.5% | 0.0% |
| Europe | -2.1% | -0.2% | -1.9% | -1.8% | -6.1% | -0.2% |
| Europe ex UK | -2.9% | -0.4% | -2.7% | -3.0% | -8.2% | -0.2% |
| UK | 1.0% | 0.6% | 1.0% | 2.7% | 1.9% | -0.2% |
| Japan | 3.2% | 1.8% | 2.5% | 2.8% | 3.3% | 0.4% |
| EM | -1.5% | -1.2% | -2.5% | 0.3% | -4.0% | -0.3% |
| Active Equity | -2.1% | 0.0% | -1.8% | -3.0% | -6.3% | -0.1% |
| Passive Equity | 2.1% | 0.3% | 1.2% | 3.8% | 5.1% | -0.1% |
| MM funds | 19.7% | 6.2% | 18.2% | 20.5% | 28.5% | 1.5% |
| Bonds | -1.8% | 0.6% | -3.1% | -0.5% | 4.2% | 0.2% |

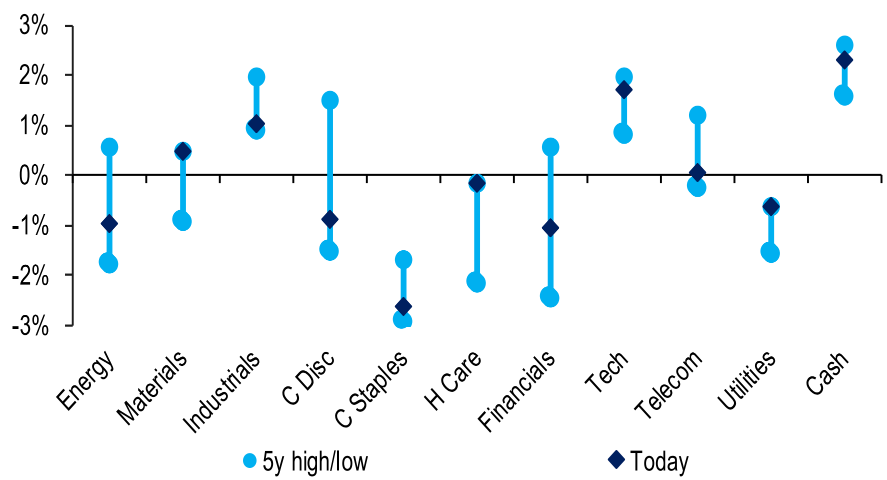
Source: EPFR

## Regional cumulative equity flows since 2016 ($bn)



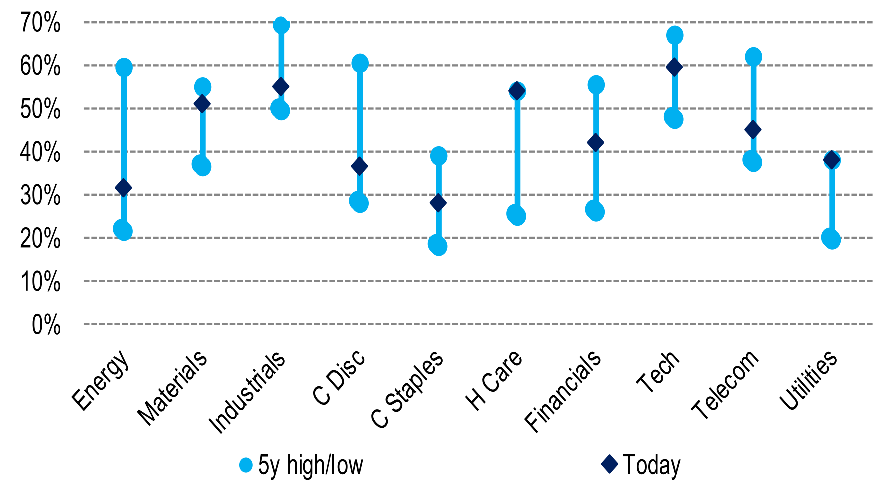

Source: EPFR

## European funds' sector positioning – Fund allocation gap to benchmark




Source: EPFR, Datastream

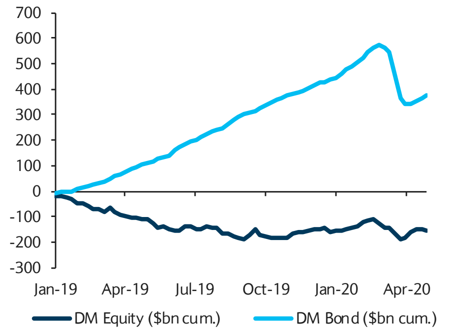
## % of European funds OW per sector vs 5Y average



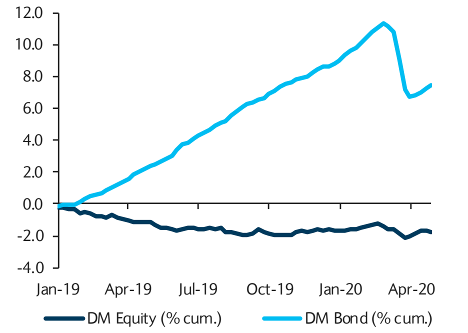

Source: EPFR, Datastream

# Fund flows regional snapshot

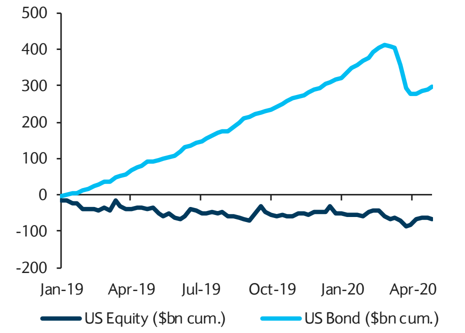
## DM flows ($bn)



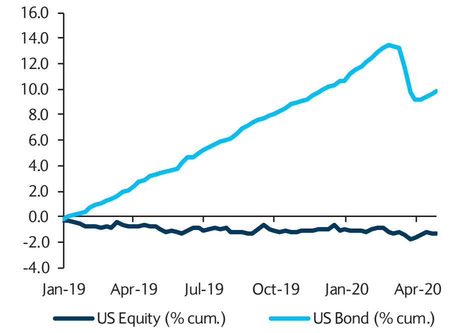

## DM flows (% of AUM)



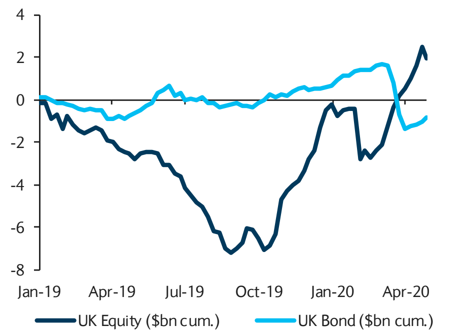

## US flows ($bn)



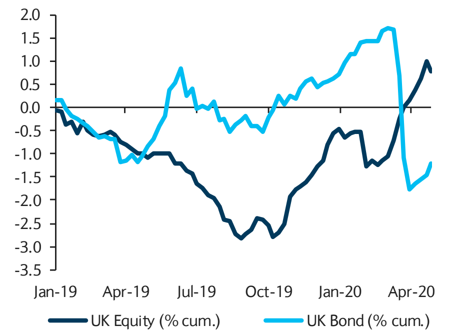

## US flows (% of AUM)



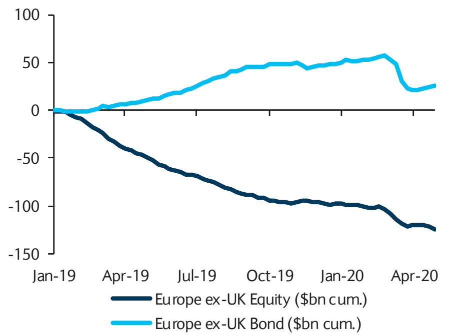

## UK flows ($bn)



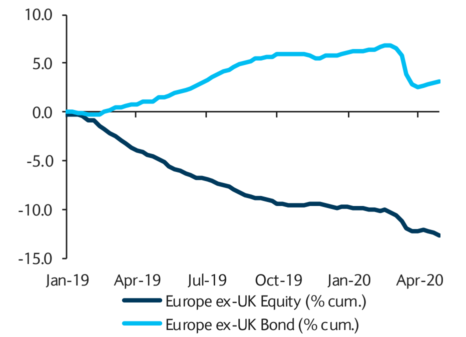

## UK flows (% of AUM)



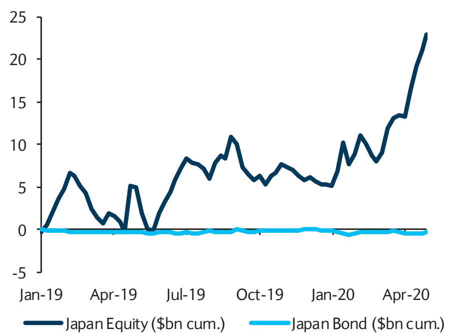

## Europe ex-UK flows ($bn)



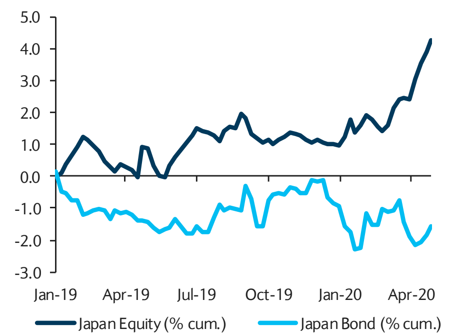

## Europe ex-UK flows (% of AUM)



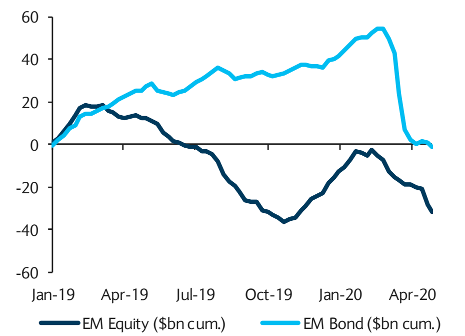

## Japan flows ($bn)



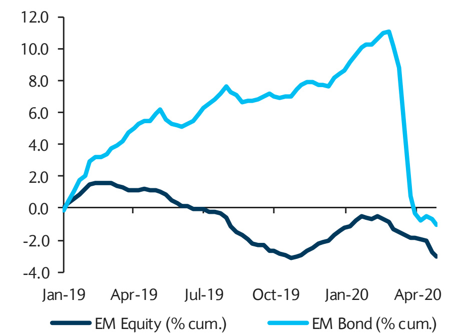

## Japan flows (% of AUM)




## EM flows ($bn)




## EM flows (% of AUM)




Source: Barclays Research, EPFR.

# Activity heat maps
## US

| US HEAT MAP | Jan-18 | Feb-18 | Mar-18 | Apr-18 | May-18 | Jun-18 | Jul-18 | Aug-18 | Sep-18 | Oct-18 | Nov-18 | Dec-18 | Jan-19 | Feb-19 | Mar-19 | Apr-19 | May-19 | Jun-19 | Jul-19 | Aug-19 | Sep-19 | Oct-19 | Nov-19 | Dec-19 | Jan-20 | Feb-20 | Mar-20 | Apr-20 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Macro** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ISM MFG | 59.2 | 60.6 | 58.9 | 58.4 | 59.0 | 59.9 | 58.2 | 60.8 | 59.3 | 58.5 | 58.8 | 55.0 | 55.5 | 54.1 | 54.6 | 53.4 | 52.3 | 51.6 | 51.3 | 48.8 | 48.2 | 48.5 | 48.1 | 47.8 | 50.9 | 50.1 | 49.1 | 41.5 |
| ISM MFG NEW ORDERS | 65.4 | 63.8 | 61.6 | 62.6 | 63.3 | 63.4 | 60.0 | 64.8 | 61.8 | 59.1 | 61.2 | 52.5 | 56.8 | 54.9 | 55.5 | 53.1 | 52.5 | 50.5 | 51.1 | 47.6 | 48.5 | 48.9 | 46.8 | 47.6 | 52.0 | 49.8 | 42.2 | 27.1 |
| ISM MFG NEW ORDER - INV | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ISM NON MFG | 59.5 | 58.2 | 58.7 | 57.5 | 58.2 | 59.2 | 57.5 | 58.9 | 61.2 | 60.3 | 60.2 | 58.0 | 56.0 | 58.5 | 56.3 | 55.7 | 56.3 | 55.4 | 54.8 | 56.0 | 53.5 | 54.4 | 53.9 | 54.9 | 55.5 | 57.3 | 52.5 | |
| DODGE CONSTRUCTION | 154 | 150 | 165 | 144 | 170 | 190 | 173 | 157 | 150 | 179 | 167 | 150 | 153 | 148 | 171 | 145 | 161 | 176 | 182 | 173 | 166 | 153 | 213 | 171 | 161 | 162 | 158 | |
| OECD US INDUSTRIAL CONFIDENCE | 101.3 | 101.4 | 101.2 | 101.1 | 101.2 | 101.3 | 101.3 | 101.4 | 101.3 | 101.1 | 100.9 | 100.6 | 100.5 | 100.3 | 100.2 | 100.0 | 99.8 | 99.7 | 99.5 | 99.2 | 99.0 | 98.9 | 98.9 | 99.0 | 99.2 | 99.3 | 99.3 | 0.0 |
| NFIB SMALL BIZ OPTIMISM | 106.9 | 107.6 | 104.7 | 104.8 | 107.8 | 107.2 | 107.9 | 108.8 | 107.9 | 107.4 | 104.8 | 104.4 | 101.2 | 101.7 | 101.8 | 103.5 | 105.0 | 103.3 | 104.7 | 103.1 | 101.8 | 102.4 | 104.7 | 102.7 | 104.3 | 104.5 | 96.4 | 96.4 |
| **Inflation** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| CPI YOY | 2.1 | 2.2 | 2.4 | 2.5 | 2.8 | 2.9 | 2.9 | 2.7 | 2.3 | 2.5 | 2.2 | 1.9 | 1.6 | 1.5 | 1.9 | 2.0 | 1.8 | 1.6 | 1.8 | 1.7 | 1.7 | 1.8 | 2.1 | 2.3 | 2.5 | 2.3 | 1.5 | |
| CORE CPI YOY | 1.7 | 1.7 | 2.0 | 2.0 | 2.1 | 2.0 | 2.1 | 2.0 | 2.0 | 1.9 | 2.0 | 2.0 | 1.8 | 1.6 | 1.5 | 1.6 | 1.5 | 1.6 | 1.6 | 1.8 | 1.7 | 1.6 | 1.5 | 1.6 | 1.7 | 1.8 | | |
| PPI YOY | 0.3 | 0.2 | 0.2 | -0.3 | 0.7 | 0.2 | 0.1 | 0.1 | 0.2 | 0.7 | -0.8 | -0.6 | -0.6 | 0.4 | 1.1 | 0.5 | 0.0 | -0.5 | 0.3 | -0.3 | -0.1 | 0.6 | 0.4 | 0.4 | -0.1 | -0.9 | -1.1 | |
| **Employment** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| NFP | 121 | 406 | 176 | 137 | 278 | 219 | 136 | 244 | 80 | 201 | 134 | 182 | 269 | 1 | 147 | 210 | 85 | 182 | 194 | 207 | 208 | 185 | 261 | 184 | 214 | 275 | -701 | |
| ISM NON MFG EMPLOYMENT | 59.4 | 55.3 | 56.3 | 55.7 | 54.3 | 54.4 | 56.2 | 57.2 | 61.9 | 58.4 | 57.8 | 56.2 | 56.4 | 55.6 | 55.9 | 54.5 | 57.1 | 55.2 | 55.7 | 53.7 | 51.7 | 53.9 | 54.9 | 54.8 | 53.1 | 55.6 | 47.0 | |
| ISM MFG EMPLOYMENT | 54.7 | 60.1 | 56.6 | 55.3 | 56.4 | 56.0 | 56.4 | 58.1 | 58.5 | 56.6 | 57.8 | 56.2 | 55.2 | 53.2 | 57.1 | 52.4 | 53.1 | 54.3 | 51.3 | 47.6 | 46.5 | 47.9 | 46.8 | 45.2 | 46.6 | 46.9 | 43.8 | 27.5 |
| UNEMPLOYMENT | 4.1 | 4.1 | 4.0 | 4.0 | 3.8 | 4.0 | 3.8 | 3.8 | 3.7 | 3.8 | 3.7 | 3.9 | 4.0 | 3.8 | 3.8 | 3.6 | 3.6 | 3.7 | 3.7 | 3.7 | 3.5 | 3.6 | 3.5 | 3.5 | 3.6 | 3.5 | 4.4 | |
| AVG. HOURLY EARNINGS YOY | 2.7 | 2.6 | 2.8 | 2.8 | 2.9 | 2.9 | 2.8 | 3.2 | 3 | 3.3 | 3.4 | 3.4 | 3.3 | 3.5 | 3.4 | 3.3 | 3.3 | 3.4 | 3.5 | 3.5 | 3.1 | 3.2 | 3.3 | 3.0 | 3.1 | 3.0 | 3.1 | |
| **Consumer** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| CONSUMER CONF | 124.3 | 130.0 | 127.0 | 125.6 | 128.8 | 127.1 | 127.9 | 134.7 | 135.3 | 137.9 | 136.4 | 126.6 | 121.7 | 131.4 | 124.2 | 129.2 | 131.3 | 124.3 | 135.8 | 134.2 | 126.3 | 126.1 | 126.8 | 128.2 | 130.4 | 132.6 | 118.8 | 86.9 |
| CONSUMER SENT | 95.7 | 99.7 | 101.4 | 98.8 | 98.0 | 98.2 | 97.9 | 96.2 | 100.1 | 98.6 | 97.5 | 98.3 | 91.2 | 93.8 | 98.4 | 97.2 | 100.0 | 98.2 | 98.4 | 89.8 | 93.2 | 95.5 | 96.8 | 99.3 | 99.8 | 101.0 | 89.1 | 71.8 |
| RETAIL SALES | 4.0 | 4.5 | 4.7 | 4.3 | 6.2 | 5.5 | 6.1 | 5.7 | 3.4 | 4.4 | 3.6 | 0.9 | 2.5 | 2.0 | 3.6 | 3.9 | 3.0 | 3.6 | 3.6 | 4.3 | 4.0 | 3.3 | 3.3 | 5.6 | 4.9 | 4.5 | -5.8 | |
| RETAIL SALES EX GAS & AUTOS | -0.2 | 0.7 | 0.0 | 0.3 | 1.4 | -0.3 | 0.7 | 0.0 | -0.1 | 0.8 | 0.6 | -2.6 | 2.8 | -0.7 | 0.9 | 0.6 | 0.6 | 0.7 | 0.6 | 0.3 | | 0.3 | -0.4 | 0.4 | 1.0 | -0.1 | -2.8 | |
| **Manufacturing & Industry** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| IP YOY | -0.3 | 0.4 | 0.6 | 0.9 | -0.8 | 0.8 | 0.4 | 0.8 | 0.1 | 0.2 | 0.5 | 0.0 | -0.4 | -0.5 | 0.1 | -0.6 | 0.2 | 0.1 | -0.2 | 0.7 | -0.4 | -0.4 | 0.9 | -0.4 | -0.5 | 0.5 | -5.4 | |
| CAP UTIL | 77.6 | 77.8 | 78.2 | 78.8 | 78.1 | 78.6 | 78.8 | 79.3 | 79.3 | 79.3 | 79.6 | 79.5 | 79.0 | 78.5 | 78.4 | 77.8 | 77.8 | 77.7 | 77.4 | 77.8 | 77.4 | 77.0 | 77.6 | 77.1 | 76.7 | 77.0 | 72.7 | |
| DURABLES GOODS EX TRANS | 6.6 | 8.1 | 7.3 | 9.2 | 8.4 | 9.1 | 8.2 | 7.5 | 5.2 | 5.0 | 4.8 | 3.7 | 4.3 | 2.3 | 1.5 | -0.1 | 0.2 | 0.4 | -0.3 | -0.2 | -0.4 | -0.8 | -0.8 | -1.1 | -0.5 | -1.0 | | |
| CAPITAL GOODS EX AIRCRAFT & DEFENSE | -0.4 | 1.1 | -0.5 | 0.8 | 0.1 | 0.9 | 1 | -0.2 | 0 | 0.7 | -0.3 | -0.1 | 1.2 | 0.3 | -0.6 | 0.4 | 0.4 | 0 | -0.7 | -0.1 | -0.8 | 0.7 | -0.4 | -0.4 | 1.1 | -0.9 | | |
| **Housing** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HOUSING STARTS | 1,334 | 1,290 | 1,327 | 1,267 | 1,332 | 1,180 | 1,184 | 1,279 | 1,236 | 1,211 | 1,202 | 1,142 | 1,291 | 1,149 | 1,199 | 1,270 | 1,264 | 1,233 | 1,204 | 1,375 | 1,266 | 1,340 | 1,381 | 1,601 | 1,619 | 1,564 | 1,216 | |
| NAHB HOUSEBUILDERS | 72 | 71 | 70 | 68 | 70 | 68 | 68 | 67 | 67 | 68 | 60 | 56 | 58 | 62 | 62 | 63 | 66 | 64 | 65 | 67 | 68 | 71 | 71 | 76 | 75 | 74 | 72 | 30 |
| HOUSES SOLD | 628 | 644 | 654 | 629 | 650 | 618 | 609 | 604 | 607 | 557 | 615 | 564 | 644 | 669 | 693 | 656 | 598 | 729 | 660 | 708 | 725 | 707 | 700 | 723 | 777 | 741 | | |
| HOUSE PRICES | 6.2 | 6.4 | 6.5 | 6.4 | 6.3 | 6.1 | 5.9 | 5.7 | 5.4 | 5.3 | 5.0 | 4.6 | 4.2 | 3.9 | 3.7 | 3.6 | 3.5 | 3.3 | 3.2 | 3.2 | 3.2 | 3.2 | 3.4 | 3.7 | 3.9 | 4.2 | | |

Source: Bloomberg, Barclays Research

# Eurozone

| | Jan-18 | Feb-18 | Mar-18 | Apr-18 | May-18 | Jun-18 | Jul-18 | Aug-18 | Sep-18 | Oct-18 | Nov-18 | Dec-18 | Jan-19 | Feb-19 | Mar-19 | Apr-19 | May-19 | Jun-19 | Jul-19 | Aug-19 | Sep-19 | Oct-19 | Nov-19 | Dec-19 | Jan-20 | Feb-20 | Mar-20 | Apr-20 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Eurozone** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| **Macro** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Composite PMI | 58.8 | 57.1 | 55.2 | 55.1 | 54.1 | 54.9 | 54.3 | 54.5 | 54.1 | 53.1 | 52.7 | 51.1 | 51 | 51.9 | 51.6 | 51.5 | 51.8 | 52.2 | 51.5 | 51.9 | 50.1 | 50.6 | 50.6 | 50.9 | 51.3 | 51.6 | 29.7 | 13.5 |
| Mfg PMI | 59.6 | 58.6 | 56.6 | 56.2 | 55.5 | 54.9 | 55.1 | 54.6 | 53.2 | 52 | 51.8 | 51.4 | 50.5 | 49.3 | 47.5 | 47.9 | 47.7 | 47.6 | 46.5 | 47 | 45.7 | 45.9 | 46.9 | 46.3 | 47.9 | 49.2 | 44.5 | 33.4 |
| Services PMI | 58 | 56.2 | 54.9 | 54.7 | 53.8 | 55.2 | 54.2 | 54.4 | 54.7 | 53.7 | 53.4 | 51.2 | 51.2 | 52.8 | 53.3 | 52.8 | 52.9 | 53.6 | 53.2 | 53.5 | 51.6 | 52.2 | 51.9 | 52.8 | 52.5 | 52.6 | 26.4 | 11.7 |
| Construction PMI | 57 | 53.9 | 50.6 | 52.5 | 52.7 | 51.9 | 50.3 | 51 | 51.6 | 52.2 | 53 | 53.1 | 50.6 | 52.6 | 52.2 | 52.1 | 50.6 | 50.8 | 50.6 | 49.1 | 50.5 | 50.7 | 50.6 | 51.3 | 51.9 | 52.5 | 33.5 | 33.5 |
| EU manufacturing confidence | 10.3 | 9.1 | 7.4 | 8.3 | 7.6 | 8 | 6.4 | 6.3 | 5.7 | 4.5 | 4.7 | 2.6 | 0.7 | -0.1 | -1.4 | -4 | -2.6 | -5.3 | -7.1 | -5.6 | -8.7 | -9.3 | -8.9 | -9.3 | -7 | -6.2 | -11.2 | -30.4 |
| EU services confidence | 16.3 | 17.5 | 16.6 | 15.4 | 14.9 | 15 | 15.8 | 14.8 | 15.3 | 14.1 | 14 | 12.2 | 11.1 | 12.2 | 11.6 | 11.8 | 12.1 | 11.1 | 10.6 | 9.1 | 9.5 | 9 | 9.2 | 11.3 | 11 | 11.1 | -2.3 | -35 |
| IP ex const. y/y% | 3.4 | 2 | 2.7 | 1.4 | 2.4 | 2.4 | -0.2 | 0.7 | 0.6 | 0.9 | -3.1 | -4.3 | -0.6 | -0.1 | -0.7 | -0.8 | -1.2 | -2.3 | -1.6 | -2.3 | -1.4 | -1.7 | -1.4 | -3.4 | -1.7 | -1.9 | -1.9 | -1.9 |
| **Inflation** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Headline CPI y/y% | 1.3% | 1.1% | 1.4% | 1.2% | 2.0% | 2.0% | 2.2% | 2.1% | 2.1% | 2.3% | 1.9% | 1.5% | 1.4% | 1.5% | 1.4% | 1.7% | 1.2% | 1.30% | 1.00% | 1.00% | 0.80% | 0.70% | 1.00% | 1.30% | 1.40% | 1.20% | 0.70% | 0.40% |
| Core CPI y/y% | 1.0% | 1.0% | 1.1% | 0.7% | 1.2% | 1.0% | 1.1% | 1.0% | 1.0% | 1.2% | 0.9% | 0.9% | 1.1% | 1.0% | 0.8% | 1.3% | 0.8% | 1.10% | 0.90% | 0.90% | 1.00% | 1.10% | 1.30% | 1.30% | 1.10% | 1.20% | 1.00% | 0.90% |
| **Consumer** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| EU consumer confidence | -3.2 | -3.5 | -4.2 | -4.4 | -4.8 | -4.8 | -4.7 | -4.9 | -5.6 | -5.3 | -6.1 | -7.7 | -7.4 | -6.9 | -6.6 | -7.4 | -6.5 | -7.2 | -6.6 | -7.1 | -6.6 | -7.6 | -7.2 | -8.1 | -8.1 | -6.6 | -11.6 | -22.7 |
| Retail sales ex autos y/y% | 2.7% | 2.2% | 2.3% | 3.0% | 2.9% | 2.8% | 2.2% | 3.2% | 1.1% | 4.5% | 2.2% | 1.3% | 2.6% | 3.4% | 2.4% | 2.7% | 1.9% | 3.0% | 3.0% | 3.2% | 3.2% | 2.0% | 2.9% | 2.8% | 2.8% | 3.5% | | |
| Car sales y/y% | 7.1% | 4.3% | -5.3% | 9.6% | 0.8% | 10.5% | 10.5% | 31.2% | -23.5% | -7.3% | -8.0% | -8.4% | -4.6% | -1.0% | -3.9% | -0.4% | 0.1% | 1.4% | 1.4% | -8.4% | 14.5% | 8.7% | 4.9% | 21.7% | -7.5% | -7.4% | -55.1% | |
| **Lending** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Money supply M1, y/y% | 8.8% | 8.4% | 7.4% | 7.1% | 7.5% | 7.4% | 7.0% | 6.5% | 6.8% | 6.8% | 6.7% | 6.6% | 6.2% | 6.7% | 7.5% | 7.4% | 7.1% | 7.2% | 7.8% | 8.4% | 7.9% | 8.4% | 8.3% | 8.0% | 7.9% | 8.1% | 10.3% | |
| Loans to Non Fin corps. y/y% | 2.4% | 2.2% | 2.4% | 2.6% | 2.9% | 2.7% | 3.1% | 3.2% | 3.2% | 3.0% | 3.1% | 2.9% | 2.3% | 2.7% | 2.5% | 2.8% | 2.8% | 3.3% | 3.3% | 3.5% | 2.9% | 3.1% | 2.6% | 2.6% | 2.6% | 2.4% | 4.8% | |
| Loans to Households y/y% | 3.1% | 2.9% | 3.0% | 2.9% | 3.0% | 3.0% | 3.3% | 3.1% | 3.1% | 3.2% | 3.2% | 3.0% | 3.2% | 3.2% | 3.1% | 3.1% | 3.1% | 3.2% | 3.2% | 3.3% | 3.2% | 3.3% | 3.3% | 3.5% | 3.7% | 3.9% | 3.3% | |
| **Country snapshot** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| **Germany** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Composite PMI | 59 | 57.6 | 55.1 | 54.6 | 53.4 | 54.8 | 55 | 55.6 | 55 | 53.4 | 52.3 | 51.6 | 52.1 | 52.8 | 51.4 | 52.2 | 52.6 | 52.6 | 50.9 | 51.7 | 48.5 | 48.9 | 49.4 | 50.2 | 51.2 | 50.7 | 35 | 17.1 |
| Mfg PMI | 61.1 | 60.6 | 58.2 | 58.1 | 56.9 | 55.9 | 56.9 | 55.9 | 53.7 | 52.2 | 51.8 | 51.5 | 49.7 | 47.6 | 44.1 | 44.4 | 44.3 | 45 | 43.2 | 43.5 | 41.7 | 42.1 | 44.1 | 43.7 | 45.3 | 48.0 | 45.4 | 34.5 |
| Services PMI | 57.3 | 55.3 | 53.9 | 53 | 52.1 | 54.5 | 54.1 | 55 | 55.9 | 54.7 | 53.3 | 51.8 | 53 | 55.3 | 55.4 | 55.7 | 55.4 | 55.8 | 54.5 | 54.8 | 51.4 | 51.6 | 51.7 | 52.9 | 54.2 | 52.5 | 31.7 | 15.9 |
| Construction PMI | 59.8 | 52.7 | 47 | 50.9 | 53.9 | 53 | 50 | 51.5 | 50.2 | 49.8 | 51.3 | 53.3 | 50.7 | 54.7 | 55.6 | 53 | 51.4 | 50 | 49.5 | 46.3 | 50.1 | 51.5 | 52.5 | 53.8 | 54.9 | 55.8 | 42 | |
| Consumer Confidence | 2.8 | 3.1 | 2.2 | 1.3 | 0.9 | 0.4 | -0.6 | 0.7 | 1.2 | 0.9 | 0.8 | -0.4 | -0.4 | -0.2 | -0.1 | -0.7 | -1.4 | -3.1 | -2.9 | -3.9 | -2.4 | -4.1 | -2.0 | -3.7 | -3.6 | -2.6 | -7.6 | -16.3 |
| **France** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Composite PMI | 59.6 | 57.3 | 56.3 | 56.9 | 54.2 | 55 | 54.4 | 54.9 | 54 | 54.1 | 54.2 | 48.7 | 48.2 | 50.4 | 48.9 | 50.1 | 51.2 | 52.7 | 51.9 | 52.9 | 50.8 | 52.6 | 52.1 | 52 | 51.1 | 52 | 28.9 | 11.2 |
| Mfg PMI | 58.4 | 55.9 | 53.7 | 53.8 | 54.4 | 52.5 | 53.3 | 53.5 | 52.5 | 51.2 | 50.8 | 49.7 | 51.2 | 51.5 | 49.7 | 50 | 50.6 | 51.9 | 49.7 | 51.1 | 50.1 | 50.7 | 51.7 | 50.4 | 51.1 | 49.8 | 43.2 | 31.5 |
| Services PMI | 59.2 | 57.4 | 56.9 | 57.4 | 54.3 | 55.9 | 54.9 | 55.4 | 54.8 | 55.3 | 55.1 | 49 | 47.8 | 50.2 | 49.1 | 50.5 | 51.5 | 52.9 | 52.6 | 53.4 | 51.1 | 52.9 | 52.2 | 52.4 | 51.0 | 52.5 | 27.4 | 10.4 |
| Consumer Confidence | -4.7 | -6.8 | -6.3 | -7.5 | -8.1 | -9.7 | -8.8 | -9.6 | -12.6 | -10.9 | -13.9 | -17.5 | -13.8 | -11.6 | -10.8 | -11.1 | -9.5 | -9.3 | -7.3 | -7.7 | -5.6 | -6.3 | -6.0 | -8.8 | -9.0 | -7.3 | -11.4 | -19.0 |
| **Italy** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Composite PMI | 59 | 56 | 53.5 | 52.9 | 52.9 | 53.9 | 53 | 51.7 | 52.4 | 49.3 | 49.3 | 50 | 48.8 | 49.6 | 51.5 | 49.5 | 49.9 | 50.1 | 51 | 50.3 | 50.6 | 50.8 | 49.6 | 49.3 | 50.4 | 50.7 | 20.2 | 20.2 |
| Mfg PMI | 59 | 56.8 | 55.1 | 53.5 | 52.7 | 53.3 | 51.5 | 50.1 | 50 | 49.2 | 48.6 | 49.2 | 47.8 | 47.7 | 47.4 | 49.1 | 49.7 | 48.4 | 48.5 | 48.7 | 47.8 | 47.7 | 47.6 | 46.2 | 48.9 | 48.7 | 40.3 | 31.1 |
| Services PMI | 57.7 | 55 | 52.6 | 52.6 | 53.1 | 54.3 | 54 | 52.6 | 53.3 | 49.2 | 50.3 | 50.5 | 49.7 | 50.4 | 53.1 | 50.4 | 50 | 50.5 | 51.7 | 50.6 | 51.4 | 52.2 | 50.4 | 51.1 | 51.4 | 52.1 | 17.4 | |
| Consumer Confidence | -11.1 | -11.1 | -11.3 | -10.5 | -12.0 | -9.4 | -8.8 | -9.5 | -9.9 | -9.5 | -10.7 | -10.2 | -10.5 | -11.8 | -13.1 | -13.4 | -12.1 | -14.0 | -11.8 | -12.9 | -13.8 | -14.4 | -16.1 | -14.2 | -13.2 | -13.7 | -21.2 | |
| **Spain** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Composite PMI | 56.7 | 57.1 | 55.8 | 55.4 | 55.9 | 54.8 | 52.7 | 53 | 52.5 | 53.7 | 53.9 | 53.4 | 54.5 | 53.5 | 55.4 | 52.9 | 52.1 | 52.1 | 51.7 | 52.6 | 51.7 | 51.2 | 51.9 | 52.7 | 51.5 | 51.8 | 26.7 | 26.7 |
| Mfg PMI | 55.2 | 56 | 54.8 | 54.4 | 53.4 | 53.4 | 52.9 | 53 | 51.4 | 51.8 | 52.6 | 51.1 | 52.4 | 49.9 | 50.9 | 51.8 | 50.1 | 47.9 | 48.2 | 48.8 | 47.7 | 46.8 | 47.5 | 47.4 | 48.5 | 50.4 | 45.7 | 30.8 |
| Services PMI | 56.9 | 57.3 | 56.2 | 55.6 | 56.4 | 55.4 | 52.6 | 52.7 | 52.5 | 54 | 54 | 54 | 54.7 | 54.5 | 56.8 | 53.1 | 52.8 | 53.6 | 52.9 | 54.3 | 53.3 | 52.7 | 53.2 | 54.9 | 52.3 | 52.1 | 23 | |
| Consumer Confidence | -2.8 | -2.9 | -5.9 | -4.9 | -3.2 | -0.8 | -1.4 | -3.3 | -6.4 | -6.5 | -4.9 | -7.2 | -6.9 | -5.4 | -2.0 | -6.1 | -3.7 | -2.1 | -4.9 | -6.2 | -6.2 | -9.1 | -10.3 | -12.1 | -11.5 | -7.9 | -11.6 | -29.2 |

Source: Datastream, Bloomberg, Barclays Research

# UK

| | Jan-18 | Feb-18 | Mar-18 | Apr-18 | May-18 | Jun-18 | Jul-18 | Aug-18 | Sep-18 | Oct-18 | Nov-18 | Dec-18 | Jan-19 | Feb-19 | Mar-19 | Apr-19 | May-19 | Jun-19 | Jul-19 | Aug-19 | Sep-19 | Oct-19 | Nov-19 | Dec-19 | Jan-20 | Feb-20 | Mar-20 | Apr-20 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Macro** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Composite PMI | 53.4 | 54.5 | 52.4 | 53.2 | 54.4 | 55.1 | 53.5 | 54.2 | 54.1 | 52.1 | 50.8 | 51.4 | 50.3 | 51.5 | 50 | 50.9 | 50.9 | 49.7 | 50.7 | 50.2 | 49.3 | 50 | 49.3 | 49.3 | 53.3 | 53 | 36 | 12.9 |
| Mfg PMI | 55.2 | 55.3 | 54.8 | 53.8 | 54.3 | 54 | 53.9 | 52.9 | 53.7 | 51.1 | 53.3 | 54.3 | 52.8 | 52.1 | 55.1 | 53.1 | 49.4 | 48 | 48 | 47.4 | 48.3 | 49.6 | 48.9 | 47.5 | 50 | 51.7 | 47.8 | 32.9 |
| Services PMI | 53 | 54.5 | 51.7 | 52.8 | 54 | 55.1 | 53.5 | 54.3 | 53.9 | 52.2 | 50.4 | 51.2 | 50.1 | 51.3 | 48.9 | 50.4 | 51 | 50.2 | 51.4 | 50.6 | 49.5 | 50 | 49.3 | 50 | 53.9 | 53.2 | 34.5 | 12.3 |
| Construction PMI | 50.2 | 51.4 | 47 | 52.5 | 52.5 | 53.1 | 55.8 | 52.9 | 52.1 | 53.2 | 53.4 | 52.8 | 50.6 | 49.5 | 49.7 | 50.5 | 48.6 | 43.1 | 45.3 | 45 | 43.3 | 44.2 | 45.3 | 44.4 | 48.4 | 52.6 | 39.3 | |
| Industrial confidence | 12.3 | 6.7 | -1.4 | 4.2 | 3.8 | 7.4 | 8 | 9.1 | 5.2 | -3.0 | 3.8 | 8.1 | 3.4 | 0.9 | -1.4 | -5.9 | -11.1 | -8.7 | -16.2 | -9.7 | -25.3 | -22 | -15.3 | -20.2 | -16 | -8.9 | -20.9 | |
| Lloyds business confidence | 35 | 33 | 32 | 32 | 35 | 29 | 29 | 23 | 29 | 19 | 24 | 17 | 19 | 4 | 10 | 14 | 10 | 13 | 13 | 1 | 2 | 6 | 9 | 10 | 23 | 23 | 6 | |
| **Inflation** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| CPI | 3.0% | 2.7% | 2.5% | 2.4% | 2.4% | 2.4% | 2.5% | 2.7% | 2.4% | 2.4% | 2.3% | 2.1% | 1.8% | 1.9% | 1.9% | 2.1% | 2.0% | 2.0% | 2.1% | 1.7% | 1.7% | 1.5% | 1.5% | 1.3% | 1.8% | 1.7% | 1.5% | |
| Halifax House Px y/y% | 3.5% | 4.2% | 3.3% | 3.0% | 3.2% | 3.5% | 3.3% | 2.6% | 2.1% | 2.8% | 2.5% | 2.0% | 1.9% | 2.5% | 2.8% | 2.4% | 1.6% | 1.2% | 1.5% | 1.8% | 1.1% | 0.8% | 2.2% | 4.0% | 4.0% | 2.7% | 3.0% | |
| Nationwide House Px y/y% | 3.2% | 2.2% | 2.1% | 2.6% | 2.4% | 2.0% | 2.5% | 2.0% | 2.0% | 1.6% | 1.9% | 0.5% | 0.1% | 0.4% | 0.7% | 0.9% | 0.6% | 0.5% | 0.3% | 0.6% | 0.2% | 0.4% | 0.8% | 1.4% | 1.9% | 2.3% | 3.0% | |
| **Labour** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Unemployment | 4.3% | 4.2% | 4.2% | 4.2% | 4.2% | 4.0% | 4.0% | 4.0% | 4.1% | 4.1% | 4.0% | 4.0% | 3.9% | 3.9% | 3.8% | 3.8% | 3.8% | 3.9% | 3.8% | 3.9% | 3.8% | 3.8% | 3.8% | 3.8% | 3.9% | 4.0% | | |
| REC Wage survey | 62.3 | 61.5 | 60 | 60.5 | 63.4 | 61.8 | 60.2 | 62.4 | 64.5 | 64.3 | 63.2 | 62.6 | 63.4 | 61.5 | 59.3 | 59.2 | 58.9 | 59.1 | 58.8 | 55.5 | 58.6 | 57.9 | 55.2 | 57.5 | | | | |
| Avg Wkly Earnings y/y%, whole econ (3ma) | 2.7% | 2.8% | 2.9% | 2.7% | 2.6% | 2.2% | 2.6% | 2.8% | 3.0% | 3.4% | 3.4% | 3.6% | 3.4% | 3.5% | 3.2% | 3.4% | 3.5% | 4.0% | 3.9% | 3.7% | 3.7% | 3.2% | 3.2% | 2.9% | 3.1% | 2.8% | | |
| **Consumer** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| GFK consumer conf | -9 | -10 | -7 | -9 | -7 | -9 | -10 | -7 | -9 | -10 | -13 | -14 | -14 | -13 | -13 | -13 | -10 | -13 | -11 | -14 | -12 | -14 | -14 | -11 | -9 | -7 | -34 | |
| Retail sales ex fuel y/y% | 4.8% | 4.3% | 3.3% | 2.8% | 6.4% | 4.5% | 5.0% | 4.6% | 4.1% | 3.5% | 4.2% | 3.8% | 4.5% | 4.6% | 6.7% | 4.6% | 2.0% | 4.0% | 3.6% | 2.9% | 3.2% | 3.3% | 1.1% | 1.0% | 2.2% | 1.0% | | |
| Barclaycard spending growth y/y% | 3.9% | 3.8% | 2.0% | 3.4% | 5.1% | 5.1% | 5.0% | 4.5% | 3.9% | 4.4% | 3.3% | 1.8% | 2.9% | 1.2% | 3.1% | 2.5% | | | | | | | | | | | | |
| **Lending** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Mortgage lending y/y% | 3.5% | 3.5% | 3.4% | 3.5% | 3.5% | 3.4% | 3.4% | 3.3% | 3.3% | 3.4% | 3.3% | 3.3% | 3.3% | 3.3% | 3.2% | 3.3% | 3.2% | 3.2% | 3.3% | 3.3% | 3.3% | 3.4% | 3.4% | 3.4% | 3.4% | 3.5% | | |
| Unsecured Lending y/y% | 10.1% | 10.2% | 9.6% | 9.8% | 9.7% | 9.8% | 9.4% | 9.1% | 8.8% | 8.3% | 8.1% | 7.5% | 7.5% | 7.3% | 7.2% | 6.8% | 6.5% | 6.3% | 6.4% | 6.2% | 6.0% | 6.2% | 5.9% | 6.1% | 6.0% | 5.7% | | |
| Credit card lending y/y% | 9.4% | 9.5% | 8.8% | 8.8% | 9.3% | 9.4% | 8.9% | 8.9% | 8.6% | 8.2% | 7.8% | 7.0% | 6.5% | 6.4% | 6.6% | 5.8% | 5.5% | 5.1% | 5.2% | 4.9% | 4.4% | 4.7% | 3.9% | 4.5% | 4.3% | 3.5% | | |

Source: Datastream, Bloomberg, Barclaycard.

# China

| | Jan-18 | Feb-18 | Mar-18 | Apr-18 | May-18 | Jun-18 | Jul-18 | Aug-18 | Sep-18 | Oct-18 | Nov-18 | Dec-18 | Jan-19 | Feb-19 | Mar-19 | Apr-19 | May-19 | Jun-19 | Jul-19 | Aug-19 | Sep-19 | Oct-19 | Nov-19 | Dec-19 | Jan-20 | Feb-20 | Mar-20 | Apr-20 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **PMI mfg** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Caixan | 51.5 | 51.6 | 51.0 | 51.1 | 51.1 | 51.0 | 50.8 | 50.6 | 50.0 | 50.1 | 50.2 | 49.7 | 48.3 | 49.9 | 50.8 | 50.2 | 50.2 | 49.4 | 49.9 | 50.4 | 51.4 | 51.7 | 51.8 | 51.5 | 51.1 | 40.3 | 50.1 | 49.4 |
| NBS | 51.3 | 50.3 | 51.5 | 51.4 | 51.9 | 51.5 | 51.2 | 51.3 | 50.8 | 50.2 | 50.0 | 49.4 | 49.5 | 49.2 | 50.5 | 50.1 | 49.4 | 49.4 | 49.7 | 49.5 | 49.8 | 49.3 | 50.2 | 50.2 | 50.0 | 35.7 | 52.0 | 50.8 |
| **PMI Services** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Caixan | 54.7 | 54.2 | 52.3 | 52.9 | 52.9 | 53.9 | 52.8 | 51.5 | 53.1 | 50.8 | 53.8 | 53.9 | 53.6 | 51.1 | 54.4 | 54.5 | 52.7 | 52.0 | 51.6 | 52.1 | 51.3 | 51.1 | 53.5 | 52.5 | 51.8 | 26.5 | 43.0 | |
| NBS | 55.3 | 54.4 | 54.6 | 54.8 | 54.9 | 55.0 | 54.0 | 54.2 | 54.9 | 53.9 | 53.4 | 53.8 | 54.7 | 54.3 | 54.8 | 54.3 | 54.3 | 54.2 | 53.7 | 53.8 | 53.7 | 52.8 | 54.4 | 53.5 | 54.1 | 29.6 | 52.3 | 53.2 |
| **PMI Composite** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Caixan | 53.7 | 53.3 | 51.8 | 52.3 | 52.3 | 53.0 | 52.3 | 52.0 | 52.1 | 50.5 | 51.9 | 52.2 | 50.9 | 50.7 | 52.9 | 52.7 | 51.5 | 50.6 | 50.9 | 51.6 | 51.9 | 52.0 | 53.2 | 52.6 | 51.9 | 27.5 | 46.7 | |
| **Industry** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| FAI, y/y% | 7.2% | 7.9% | 7.5% | 7.0% | 6.1% | 6.0% | 5.5% | 5.3% | 5.4% | 5.7% | 5.9% | 5.9% | 5.9% | 6.1% | 6.3% | 6.1% | 5.6% | 5.8% | 5.7% | 5.5% | 5.4% | 5.2% | 5.2% | 5.4% | 5.4% | -24.5% | -16.1% | |
| IP, y/y% | | 7.2% | 6.0% | 7.0% | 6.8% | 6.0% | 6.0% | 6.1% | 5.8% | 5.9% | 5.4% | 5.7% | 5.3% | 5.3% | 8.5% | 5.4% | 5.0% | 6.3% | 4.8% | 4.4% | 5.8% | 4.7% | 6.2% | 6.9% | | -13.5% | -1.1% | |
| Rail freight, y/y% | 7.6% | 0.7% | 2.3% | 1.5% | 10.9% | 10.2% | 9.6% | 7.1% | 8.9% | 7.9% | 8.7% | 7.1% | 6.2% | -1.6% | 0.7% | 9.1% | 4.9% | 2.6% | 4.2% | 3.2% | 3.3% | 4.4% | | | | | | |
| Electicity consumtion y/y% | 12.8% | 12.8% | 4.3% | 7.6% | 11.7% | 8.0% | 6.8% | 8.8% | 8.4% | 7.0% | 6.3% | 8.8% | 4.8% | 4.8% | 7.6% | 6.1% | 2.3% | 5.7% | 2.9% | 3.8% | 4.4% | 5.4% | 4.7% | 13.8% | -7.8% | -7.8% | -4.1% | |
| Steel PMI | 48.0 | 34.1 | 64.9 | 58.3 | 51.0 | 46.6 | 46.6 | 49.8 | 56.5 | 55.8 | 48.6 | 45.4 | 48.8 | 35.3 | 61.8 | 59.0 | 51.1 | 46.5 | 48.3 | 50.9 | 52.9 | 51.2 | 51.2 | 50.1 | 39.4 | 38.0 | 56.9 | 57.7 |
| Li Keqiang index | 11.2 | 9.7 | 6.4 | 8.2 | 11.2 | 9.8 | 9.5 | 9.6 | 8.9 | 8.8 | 8.4 | 9.3 | 7.8 | 6.2 | 7.8 | 8.7 | 6.4 | 6.9 | 6.1 | 6.3 | 7.5 | 7.4 | 7.4 | 8.4 | 0.9 | 2.3 | | |
| **Housing & Real estate** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 70 city house price index, y/y% | 5.4% | 5.8% | 5.5% | 5.3% | 5.4% | 5.8% | 6.6% | 8.0% | 8.9% | 9.7% | 10.3% | 10.6% | 10.8% | 11.1% | 11.3% | 11.4% | 11.3% | 10.8% | 10.1% | 9.1% | 8.6% | 8.0% | 7.3% | 6.8% | 6.5% | 5.9% | 5.4% | |
| 100 city house price index, y/y% | 7.0% | 6.9% | 6.3% | 5.9% | 5.7% | 5.6% | 5.4% | 5.3% | 5.3% | 5.4% | 5.2% | 5.1% | 4.9% | 4.6% | 4.4% | 4.3% | 4.0% | 3.9% | 3.8% | 3.7% | 3.6% | 3.2% | 3.2% | 3.3% | 3.4% | 3.1% | 3.0% | |
| Residential Floor space started | 15.1% | 6.4% | 12.9% | 10.0% | 16.4% | 16.3% | 27.0% | 29.3% | 28.3% | 21.1% | 18.2% | 20.1% | 23.0% | 13.9% | 11.6% | 13.9% | 14.2% | 10.5% | 6.1% | 5.9% | 6.0% | 13.4% | 11.6% | 11.6% | 3.5% | -18.2% | -27.7% | |
| Residential Floor space sold | 4.0% | 3.3% | 2.5% | 0.1% | 2.2% | 3.2% | 8.4% | 6.5% | 4.3% | 0.0% | -2.0% | -0.8% | -0.2% | -0.3% | -0.6% | 0.5% | 0.3% | -1.0% | -0.9% | 3.1% | 5.0% | 5.6% | 3.9% | 2.8% | 1.6% | -19.2% | -26.5% | |
| **Consumer** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Auto sales | 11.5% | -11.4% | 4.5% | 11.3% | 9.1% | 4.7% | -4.2% | -3.8% | -11.6% | -12.0% | -13.9% | -13.0% | -15.7% | -13.7% | -5.1% | -14.6% | -16.4% | -9.6% | -4.3% | -6.9% | -5.2% | -4.0% | -3.6% | -0.1% | -18.6% | -79.1% | -43.2% | |
| Retail sales | | 9.7% | 10.1% | 9.4% | 8.5% | 9.0% | 8.8% | 9.0% | 9.2% | 8.6% | 8.1% | 8.2% | | 8.2% | 8.7% | 7.2% | 8.6% | 9.8% | 7.6% | 7.5% | 7.8% | 7.2% | 8.0% | 8.0% | | -20.5% | -15.8% | |
| **Monetary conditions** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Real M1 y/y% | 13.5% | 5.6% | 5.0% | 5.4% | 4.2% | 4.7% | 3.0% | 1.6% | 1.5% | 0.2% | -0.7% | -0.4% | -1.3% | 0.5% | 2.3% | 0.4% | 0.7% | 1.7% | 0.3% | 0.6% | 0.4% | -0.5% | -1.0% | -0.1% | -5.4% | -0.4% | 0.7% | |
| Lending growth y/y% | 13.2% | 12.8% | 12.8% | 12.7% | 12.6% | 12.7% | 13.2% | 13.2% | 13.2% | 13.1% | 13.1% | 13.5% | 13.4% | 13.4% | 13.7% | 13.5% | 13.4% | 13.0% | 12.6% | 12.4% | 12.5% | 12.4% | 12.4% | 12.3% | 12.1% | 12.1% | 12.7% | |
| FX reserves ($bn) | 3,161 | 3,134 | 3,143 | 3,125 | 3,111 | 3,112 | 3,118 | 3,110 | 3,087 | 3,053 | 3,062 | 3,073 | 3,088 | 3,090 | 3,099 | 3,095 | 3,101 | 3,119 | 3,104 | 3,107 | 3,092 | 3,105 | 3,096 | 3,108 | 3,115 | 3,107 | 3,061 | |
| New loan creation (CNY bn) | 2,893 | 839 | 1,117 | 1,177 | 1,152 | 1,842 | 1,453 | 1,275 | 1,384 | 697 | 1,249 | 1,084 | 3,229 | 886 | 1,694 | 1,016 | 1,184 | 1,664 | 1,056 | 1,209 | 1,691 | 661 | 1,388 | 1,140 | 3,340 | 906 | 2,853 | |
| Barclay's Alternative Credit Impulse | -8.1% | -8.3% | -8.5% | -8.0% | -8.5% | -9.5% | -10.7% | -9.9% | -10.6% | -11.0% | -11.3% | -10.7% | -6.0% | -6.0% | -3.2% | -3.5% | -2.4% | -0.4% | -0.7% | -0.8% | -0.1% | 0.5% | 1.7% | 2.0% | 1.8% | 2.3% | | |

Source: Datastream, Bloomberg

# Equity Markets Snapshot

| | Performance (local currency) | | | | Performance (U$) | | | | EPS y/y | | | Fwd P/E | | | P/Book | | | DY & ROE | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | -1m | -3m | -12m | Ytd | -1m | -3m | -12m | Ytd | 18 | 19e | 20e | Current | 10Y Median | Current vs Median | Current | 10Y Median | Current vs Median | Dividend Yield | ROE |
| MSCI AC World | 11% | -16% | -8% | -15% | 12% | -16% | -9% | -16% | -2% | -12% | 22% | 16.5 | 14.5 | 14% | 2.1 | 2.1 | 3% | 3.1% | 12.6% |
| Developed | 12% | -16% | -8% | -14% | 12% | -16% | -8% | -15% | -1% | -15% | 23% | 17.4 | 15.0 | 16% | 2.2 | 2.2 | 4% | 3.1% | 12.8% |
| USA | 15% | -14% | -3% | -12% | 15% | -14% | -3% | -12% | 1% | -16% | 24% | 19.6 | 16.0 | 23% | 3.3 | 2.8 | 18% | 2.7% | 15.8% |
| Japan | 7% | -15% | -11% | -17% | 9% | -13% | -7% | -15% | -5% | -17% | 7% | 13.3 | 13.5 | -1% | 1.1 | 1.3 | -11% | 2.8% | 8.6% |
| Europe | 5% | -21% | -17% | -21% | 7% | -23% | -19% | -24% | -2% | -19% | 24% | 14.6 | 13.7 | 7% | 1.5 | 1.7 | -11% | 3.8% | 11.3% |
| Energy | -10% | -34% | -43% | -39% | -9% | -37% | -46% | -42% | -18% | -68% | 128% | 17.2 | 10.8 | 60% | 0.8 | 1.3 | -38% | 10.4% | 9.4% |
| Materials | 6% | -19% | -19% | -22% | 8% | -21% | -22% | -25% | -20% | -20% | 23% | 14.9 | 13.4 | 11% | 1.5 | 1.8 | -14% | 4.1% | 11.0% |
| Industrials | 8% | -28% | -20% | -27% | 9% | -29% | -22% | -29% | 8% | -25% | 31% | 16.4 | 15.1 | 9% | 2.6 | 2.8 | -8% | 2.7% | 17.0% |
| C Discretionary | 12% | -24% | -21% | -26% | 13% | -25% | -23% | -28% | -11% | -35% | 56% | 16.8 | 12.7 | 32% | 1.6 | 2.1 | -24% | 2.5% | 12.1% |
| C Staples | 2% | -12% | -8% | -10% | 3% | -14% | -9% | -13% | 8% | -4% | 9% | 18.1 | 18.0 | 1% | 3.1 | 3.3 | -8% | 3.1% | 18.0% |
| Healthcare | 7% | -4% | 13% | -1% | 8% | -5% | 14% | -3% | 7% | 2% | 12% | 17.0 | 15.5 | 10% | 3.9 | 3.7 | 6% | 2.8% | 17.2% |
| Financials | 6% | -33% | -33% | -34% | 8% | -34% | -35% | -36% | -2% | -22% | 21% | 8.6 | 10.3 | -17% | 0.6 | 0.9 | -29% | 5.6% | 8.4% |
| Technology | 12% | -15% | -4% | -12% | 13% | -17% | -6% | -15% | 11% | -7% | 27% | 21.0 | 18.4 | 14% | 3.8 | 3.2 | 18% | 1.3% | 12.3% |
| Telecom | 3% | -22% | -24% | -23% | 4% | -24% | -27% | -26% | -3% | -4% | 13% | 11.9 | 13.7 | -13% | 1.3 | 1.6 | -20% | 5.6% | 9.8% |
| Utilities | 4% | -19% | 0% | -12% | 5% | -21% | -3% | -16% | 1% | 8% | 8% | 13.5 | 13.5 | 0% | 1.7 | 1.5 | 17% | 4.7% | 11.6% |
| Real Estate | 4% | -30% | -25% | -29% | 6% | -31% | -27% | -32% | 2% | -4% | 7% | 14.0 | 18.1 | -23% | 0.8 | 1.0 | -27% | 5.7% | 4.8% |
| UK | 6% | -23% | -23% | -24% | 7% | -27% | -27% | -29% | -5% | -27% | 25% | 13.0 | 12.7 | 3% | 1.4 | 1.8 | -21% | 5.6% | 11.9% |
| Eurozone | 7% | -24% | -20% | -24% | 8% | -25% | -21% | -26% | -4% | -18% | 26% | 13.9 | 13.2 | 5% | 1.3 | 1.5 | -12% | 3.5% | 9.9% |
| Germany | 10% | -21% | -19% | -21% | 11% | -22% | -21% | -24% | -10% | -14% | 33% | 13.4 | 12.4 | 8% | 1.3 | 1.6 | -17% | 3.6% | 8.8% |
| France | 6% | -26% | -21% | -26% | 7% | -27% | -23% | -28% | -3% | -22% | 29% | 14.5 | 13.5 | 8% | 1.4 | 1.5 | -8% | 3.0% | 9.9% |
| Spain | 1% | -30% | -30% | -30% | 2% | -31% | -31% | -32% | -8% | -20% | 17% | 11.2 | 11.8 | -5% | 0.9 | 1.3 | -30% | 6.3% | 10.6% |
| Italy | 2% | -30% | -25% | -29% | 3% | -31% | -27% | -31% | 4% | -27% | 24% | 11.0 | 11.3 | -3% | 0.9 | 1.0 | -8% | 4.5% | 9.5% |
| Netherlands | 9% | -16% | -8% | -15% | 10% | -17% | -10% | -17% | 2% | -7% | 19% | 17.3 | 14.5 | 19% | 2.1 | 2.0 | 9% | 2.3% | 12.3% |
| Switzerland | 2% | -13% | -3% | -11% | 3% | -13% | 2% | -11% | 8% | -5% | 14% | 18.1 | 16.1 | 13% | 2.7 | 2.5 | 8% | 3.0% | 14.9% |
| Sweden | 6% | -18% | -12% | -16% | 10% | -20% | -15% | -20% | 15% | -26% | 27% | 16.2 | 14.9 | 9% | 1.9 | 2.1 | -11% | 3.2% | 17.0% |
| Denmark | 6% | -5% | 14% | -1% | 7% | -6% | 11% | -4% | -3% | -11% | 31% | 24.9 | 17.1 | 45% | 4.1 | 3.5 | 16% | 1.8% | 17.3% |
| Norway | 3% | -16% | -17% | -18% | 4% | -25% | -30% | -30% | -8% | -24% | 31% | 13.8 | 12.0 | 15% | 1.6 | 1.6 | -1% | 6.0% | 10.0% |
| Canada | 13% | -16% | -12% | -14% | 13% | -21% | -16% | -20% | 6% | -23% | 26% | 14.9 | 14.2 | 5% | 1.6 | 1.9 | -14% | 3.7% | 11.8% |
| Australia | 4% | -25% | -17% | -22% | 10% | -28% | -24% | -29% | 0% | -12% | -5% | 15.8 | 14.6 | 8% | 1.7 | 2.0 | -13% | 5.5% | 11.9% |
| EM | 6% | -14% | -13% | -15% | 7% | -18% | -18% | -20% | -3% | 3% | 20% | 11.9 | 11.1 | 7% | 1.5 | 1.6 | -7% | 3.5% | 11.2% |
| Brazil | 13% | -31% | -19% | -31% | 7% | -48% | -43% | -51% | 7% | -12% | 28% | 11.2 | 10.6 | 6% | 1.6 | 1.5 | 4% | 3.3% | 14.8% |
| Mexico | 10% | -19% | -17% | -16% | 11% | -38% | -35% | -35% | -2% | 2% | 17% | 11.6 | 16.4 | -29% | 1.7 | 2.7 | -37% | 4.6% | 12.9% |
| Chile | 4% | -19% | -26% | -18% | 7% | -24% | -40% | -27% | -23% | 10% | 16% | 11.4 | 15.3 | -25% | 1.2 | 1.8 | -33% | 4.5% | 9.1% |
| Russia | 1% | -18% | -4% | -18% | 3% | -30% | -16% | -31% | -9% | -27% | 17% | 5.9 | 5.2 | 13% | 0.8 | 0.8 | -1% | 9.3% | 15.8% |
| India | 16% | -20% | -19% | -21% | 16% | -25% | -26% | -25% | 8% | 12% | 23% | 16.1 | 16.5 | -3% | 2.5 | 3.0 | -16% | 1.6% | 13.0% |
| China | 4% | -7% | -9% | -9% | 3% | -7% | -9% | -9% | 22% | 4% | 18% | 12.2 | 10.5 | 15% | 1.7 | 1.6 | 4% | 3.0% | 12.3% |
| Taiwan | 10% | -9% | -1% | -11% | 11% | -8% | 2% | -11% | -6% | 6% | 14% | 14.7 | 13.5 | 9% | 1.8 | 1.9 | -1% | 4.2% | 11.4% |
| Korea | 8% | -14% | -10% | -14% | 8% | -17% | -15% | -19% | -45% | 29% | 36% | 10.6 | 9.4 | 13% | 0.9 | 1.1 | -19% | 2.7% | 6.3% |
| South Africa | 13% | -14% | -21% | -14% | 14% | -32% | -39% | -36% | 6% | 21% | 17% | 9.5 | 13.6 | -30% | 1.8 | 2.4 | -27% | 3.6% | 12.1% |
| Turkey | 8% | -21% | -2% | -17% | 2% | -33% | -17% | -30% | -10% | 11% | 32% | 5.8 | 8.7 | -33% | 0.9 | 1.5 | -36% | 2.9% | 11.7% |

Source: Datastream, IBES, Barclays Research, as of May 4, 2020

# European Index year-end targets

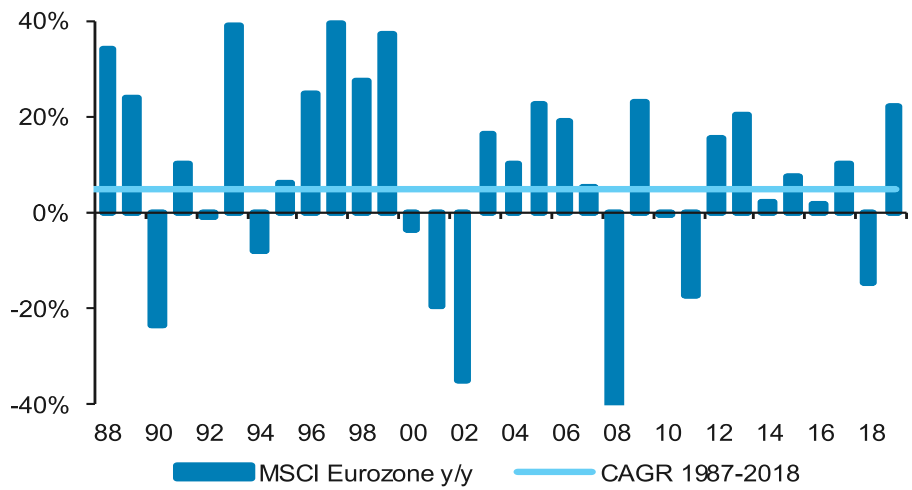
- We set our index targets using our earnings growth and P/E forecast models. These use as inputs the house views on growth, inflation, FX rates, bond yields, and commodity prices.
- The single-digit upside to our price targets is a combination of low single-digit earnings growth and a small amount of P/E expansion, as we believe P/Es have contracted too far given the slowing-but-still-resilient growth environment we expect over the coming year.

**Barclays' Dec-20 Index targets**

| | FTSE 100 | SXXE | SXXP |
|---|---|---|---|
| IBES 20e EPS growth | -28% | -18% | -18% |
| IBES 21e EPS growth | 27% | 26% | 24% |
| Barclays 20e EPS growth | -33% | -23% | -28% |
| Barclays 21e EPS growth | 15% | 25% | 20% |
| Barclays Forecast Dec 20e P/E | 14.5 | 15.5 | 17.0 |
| Current Price | 5,754 | 310 | 328 |
| Barclays Dec 20e Target | **6,300** | **345** | **365** |
| %Up/downside | 9% | 11% | 11% |

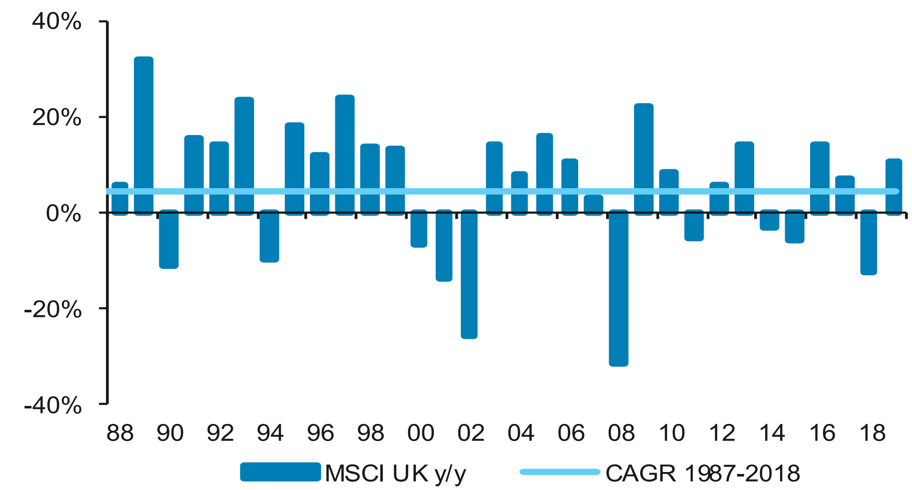
Source: Barclays Research, Bloomberg. Current price as at market close on Apr 4, 2020

**MSCI Eurozone long-term CAGR is 5%**




Source: Datastream

**MSCI UK long-term CAGR is 4%**




Source: Datastream

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