



Economic & Market Analysis from MarketDesk Research

Reviewing 4Q19 Friday Strategist Ideas

- Quarterly reflection and update on ideas and themes; Click below to open any of the full reports
- Average 4Q19 Friday Strategist Idea Performance Relative to Benchmark: +2.4%

Quarterly Review

At the end of each quarter, our team reviews the prior quarter's Friday Strategist ideas. Fig. 1 list each idea, provides a link to the full report, highlights the investment action and impacted tickers, and calculates relative performance against a benchmark. The remainder of this report provides a quick update on each Friday Strategist idea.

Quick Updates

Cybersecurity & Data Regulation (25-Oct): Since this Friday Strategist was published, top Senate Democrats released a proposed bill to punish companies that mishandle their user data. The legislation would “establish privacy rights, outlaw harmful and deceptive practices, and improve data security safeguards”. The bill is likely to face stiff resistance ►

Figure 1
Quarterly Performance Review — 4Q 2019

Date	Report Idea (Click to Open Report)	Action	Tickers	Relative Performance*
25-Oct	Cybersecurity Industry Poised to Benefit From Data Regulation	BUY ETF	HACK	+2.4% Benchmark: SPY
25-Oct	Avoid BBB; Wait for BBB Credit Downgrades	BUY ETF	FALN, QLTA	+2.2% Benchmark: IGEB
1-Nov	EM is Attractive, but Avoid China	BUY ETF	EMXC	-1.5% Benchmark: EEM
8-Nov	Managed Care Oversold due to Medicare for All fears	BUY ETF	IHF	+4.3% Benchmark: SPY
15-Nov	Boeing Supply Chain Oversold; Avoid Boeing	BUY Stocks	SPR, CIT-SE, TGI, ATI, HXL	-1.3% Benchmark: BA
15-Nov	Mexico is attractive due to USMCA potential & rate cuts	Monitor ETF	EWX	-0.1% Benchmark: VEU
22-Nov	Buy Shale Drilling Producers	BUY ETF	XOP	+8.0% Benchmark: SPY
6-Dec	U.S. Gov't Leads Global Campaign Against Chinese Telecom	BUY Stocks	NOK, ERIC, CSCO, CIEN, INFN	+8.1% Benchmark: SPY
13-Dec	Low Volatility Expensive. Time to Look at Other Factors	BUY Stocks	QUAL, DGRO, IVE	-0.1% Benchmark: SPLV, USMV

* Performance as of 12/19/2019. Each report is benchmarked to the most relative index (equity or credit).



from Republicans and tech companies. However, the trend of increased data regulation will continue to advance.

Avoid BBB Credit ETFs (25-Oct): The BBB credit segment continues to concern investors. Last week, the famed bond investor Jeffrey Gundlach highlighted the increased “fallen angel” risk of the BBB credit segment. In our view, BBB credit spreads are too narrow for the credit risks investors are assuming. The topic of BBB credit will continue to be a significant 2020 market risk.

EM Attractive but Avoid China (1-Nov): While Emerging markets (EM) underperformed in the first half of November 2019, recent positive trade sentiment led EM to outperform developed markets (DM). In our view, EM continues to remain attractive relative to DM in 2020 due to synchronized global interest rate cuts, improving macro sentiment, and attractive valuations.

Managed Care Undervalued & Oversold (8-Nov): The managed care industry outperformed the S&P 500 by 4.3% since this Friday Strategist was published. The reality and complexity of passing Medicare for All is becoming more apparent to both candidates and investors. Health care was barely mentioned at the Nov. 21 Democratic debate in Atlanta compared to prior debates. In addition, Elizabeth Warren, a big proponent of Medicare for All, has dropped in the polls. Managed care will continue to be subject to headline risk due to 2020 elections, but peak Medicare for All risk and negative sentiment have already occurred in our view.

Buy Oversold Boeing Supply Chain, Avoid Boeing (15-Nov): Boeing's fortunes have deteriorated since this Friday Strategist was published. Last week, Southwest Airlines announced it reached a \$125 million deal with Boeing to compensate the airline for financial damages related to the 737 Max grounding. The Federal Aviation Administration also recently told Boeing to stop pushing for a deadline for 737 Max recertification. American Airlines removed the 737 Max from its schedule through April 2020, while both United and Quanta selected Airbus jets over Boeing. While both Boeing and its supply have declined, until this

week Boeing has been underperforming its supply chain by 3%. We expect Boeing to continue underperforming its supply chain.

Mexico Looking Attractive (15-Nov): Since this Friday Strategist was published, the White House and Democrats agreed to an updated USMCA draft. USMCA ratification will remove significant uncertainty in the North America supply chain, which should help provide certainty for business investment in Mexico. On the negative side, recent data showed Mexico's economy entered a mild recession during 1H19. In our view, accommodative monetary policy and USMCA ratification will support economic growth in Mexico going forward.

Buy Shale Drilling Producers (22-Nov): OPEC agreed to extend production cuts since this Friday Strategist was published. The production cuts should help support global prices. Last week, IHS Markit released a report predicting Permian producers will need to drill significantly more wells to maintain current production. In our view, the U.S. exploration and production development industry continues to be undervalued. The Permian Basin will continue to be more attractive than other U.S. regions, as demonstrated by Chevron's write down of Appalachia natural gas assets last week.

U.S. Gov't Campaign vs China Telecom (6-Dec): Huawei was not mentioned in the recent “Phase One” trade deal, meaning the Chinese entity still remains blacklisted. In Europe, Norway's biggest wireless carrier dropped Huawei for Ericsson, while a top German wireless carrier picked Huawei to work with Nokia on its network. However, the German selection is not final and could still be overturned if German lawmakers are successful in fully banning Huawei from domestic networks. In the U.S., Ciena surged higher despite missing earnings forecast. The company said it continues to hold conversations with European carriers that are concerned about an overdependence on Huawei, but reiterated the numbers will take time to show up in revenue. In our view, the campaign to blacklist Chinese telecom infrastructure remains an opportunity for non-Chinese providers.



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