



JUNE 23, 2021

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Favor stocks with improving earnings expectations

Key Takeaways

- Earnings revisions has been one of the top-performing factors over time.
- Select companies based on cash position, long-term eps growth/eps stability, price momentum, earnings revisions, and free cash flow/enterprise value.
- Favored stocks include: Facebook, UnitedHealth Group, Accenture, Lowe's, Applied Materials, Target, Deere, Lam Research, Emerson Electric.

Additions: A, ACN, CRL, ETSY, FB, FTNT, GRMN, HPQ, HSY, LEN, LRCX, NDAQ, NTAP, ODFL, PPG, RL, SNA, UNH, VMC

Deletions: AAPL, ALXN, CBRE, CDW, CE, DHR, EXPD, KEYS, MAS, PHM, PKI, RF, SYF, TER, TPR, TROW, TSCO, WAT, XLNX

U.S. Portfolio Strategy: via the [NDR Stock Screener](#)

Ticker	Company Name	GICS Sector*	Short-Term DFR Rank	Intermediate-Term EFR Rank	Long-Term FFR Rank
FB	Facebook Inc -Class A	Communication Services	28.66	93.93	87.47
LOW	Lowe's Cos Inc	Consumer Discretionary	66.32	91.19	95.89
TGT	Target Corporation	Consumer Discretionary	73.50	95.30	98.11
APTV	Aptiv PLC	Consumer Discretionary	75.59	63.84	48.83
DHI	D R Horton Inc	Consumer Discretionary	65.21	94.58	97.39
LEN	Lennar Corporation -CL A	Consumer Discretionary	40.14	95.76	98.30
BBY	Best Buy Co Inc	Consumer Discretionary	99.22	98.96	99.61
GRMN	Garmin Ltd	Consumer Discretionary	68.02	80.48	80.29
ETSY	Etsy Inc	Consumer Discretionary	33.36	93.02	80.61
BWA	BorgWarner Inc.	Consumer Discretionary	87.99	70.17	76.83
RL	Ralph Lauren Corporation	Consumer Discretionary	93.73	76.96	64.23
HSY	Hershey Company	Consumer Staples	47.39	36.75	72.00
NDAQ	Nasdaq Inc	Financials	8.09	29.77	45.82
AJG	Arthur J Gallagher & Co	Financials	63.19	23.37	45.95
RJF	Raymond James Financial Inc	Financials	82.96	83.62	81.14
UNH	UnitedHealth Group Inc	Health Care	76.57	56.72	82.70
A	Agilent Technologies Inc	Health Care	25.85	63.05	51.57
CRL	Charles Riv Labs Intl Inc	Health Care	19.84	70.56	54.11
DE	Deere & Company	Industrials	99.09	96.28	94.39
EMR	Emerson Electric Co	Industrials	63.64	93.54	90.54
AME	AMETEK Inc	Industrials	73.11	83.36	66.58
ODFL	Old Dominion Freight Line Inc	Industrials	72.00	74.02	75.39
GNRC	Generac Holdings Inc	Industrials	2.87	92.82	79.50
J	Jacobs Engr Group Inc	Industrials	90.54	61.95	76.04
IEX	IDEX Corp	Industrials	68.47	66.32	64.03
SNA	Snap-on Inc	Industrials	89.36	93.21	96.21
AOS	A O Smith Corporation	Industrials	64.23	73.96	88.32
ACN	Accenture plc -Class A	Information Technology	46.02	59.60	78.72
AMAT	Applied Materials Inc	Information Technology	43.73	94.32	89.30
LRCX	Lam Research Corporation	Information Technology	60.31	93.15	85.44
KLAC	KLA Corporation	Information Technology	66.97	90.86	84.01
SNPS	Synopsys Inc	Information Technology	21.74	68.99	62.21
APH	Amphenol Corporation -CL A	Information Technology	77.22	52.94	66.06
FTNT	Fortinet Inc	Information Technology	2.68	69.26	46.74
MSI	Motorola Solutions Inc	Information Technology	37.99	67.43	62.08
HPQ	HP Inc	Information Technology	99.54	96.54	97.85
ANET	Arista Networks Inc	Information Technology	9.46	71.41	64.62
NTAP	NetApp Inc	Information Technology	63.45	91.32	87.01
PPG	PPG Industries Inc	Materials	85.70	79.77	81.46
VMC	Vulcan Materials Company	Materials	92.10	83.81	76.17

Source: [S&P Capital IQ](#) and [MSCI Inc.\(GICS\)](#). NDR [Focus Ranks](#) range from 0 - 100, where a higher ranking is better.

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Factor Regime Update

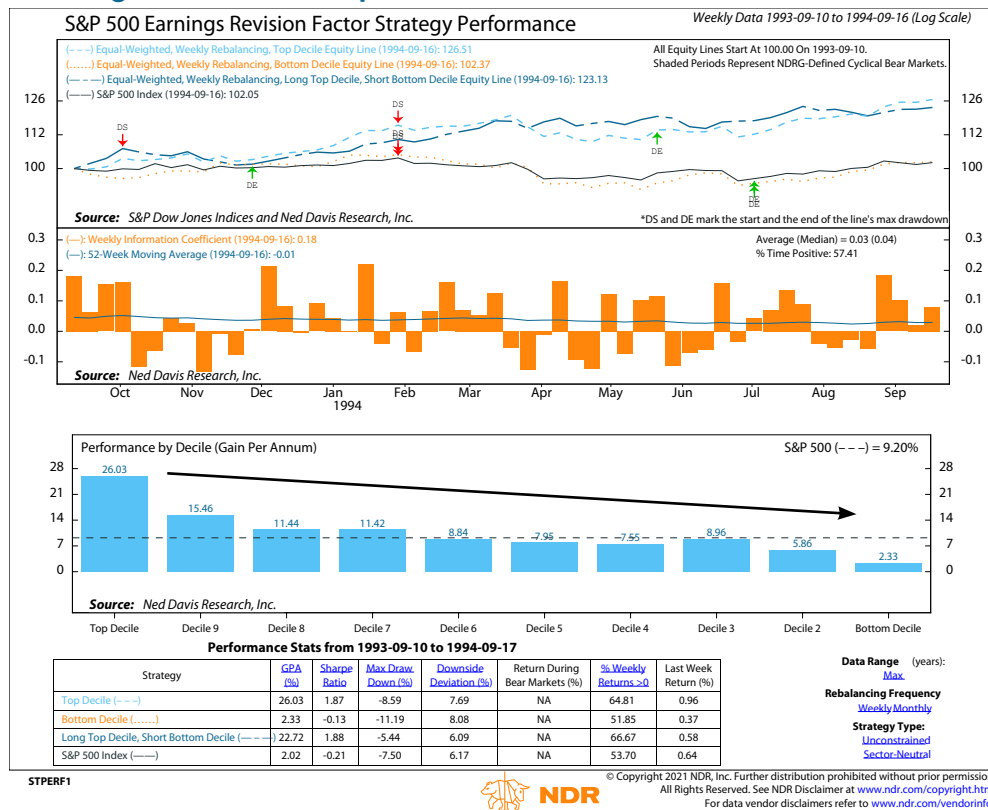
The S&P 500 Index recently hit all-time high. The index continues to trade above its [200-day moving average](#) with favorable, but weakening [breadth](#).

NDR's U.S. [Recession](#) Probability Model shows low recession risk, as the [indicators](#) reflect a rapidly recovering economy.

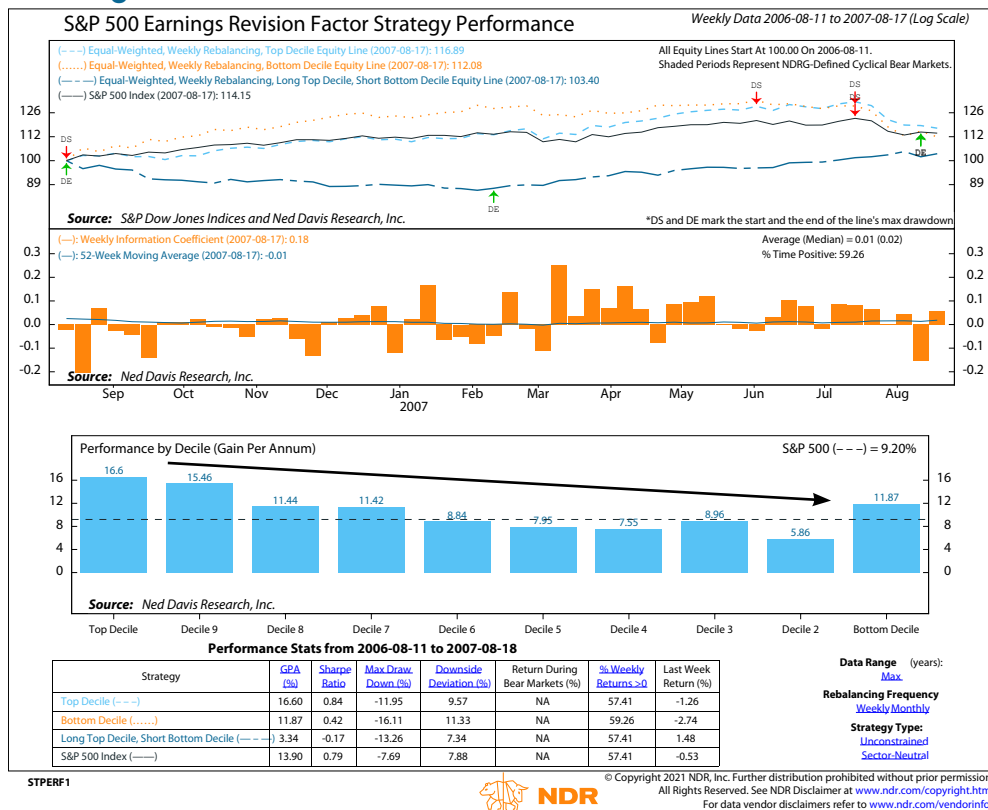
The [NDR earnings model](#) has been trending higher, indicating an improving earnings outlook.

However, [sentiment](#) resides at optimistic levels and [valuations](#) are at all-time highs.

Earnings revisions outperformed in late 1993



Earnings revisions rallied in 2006



This month we are not making any factor recommendation changes.

Earnings revisions has been one of the top-performing strategies over time. As the market outlook improves, investors reward the companies with improving earnings growth expectations.

Earnings revisions was one of the top factors following strong periods of Value relative strength compared to Growth as in 1993 (chart at top) and 2006 (chart at bottom). This strategy has also excelled after all-time market highs and sentiment peaks.

This earnings revisions factor measures the one-month change in analysts' one-year forward (perpetual) earnings outlook. Higher revisions indicate an improving earnings outlook.

Factor Valuation Update

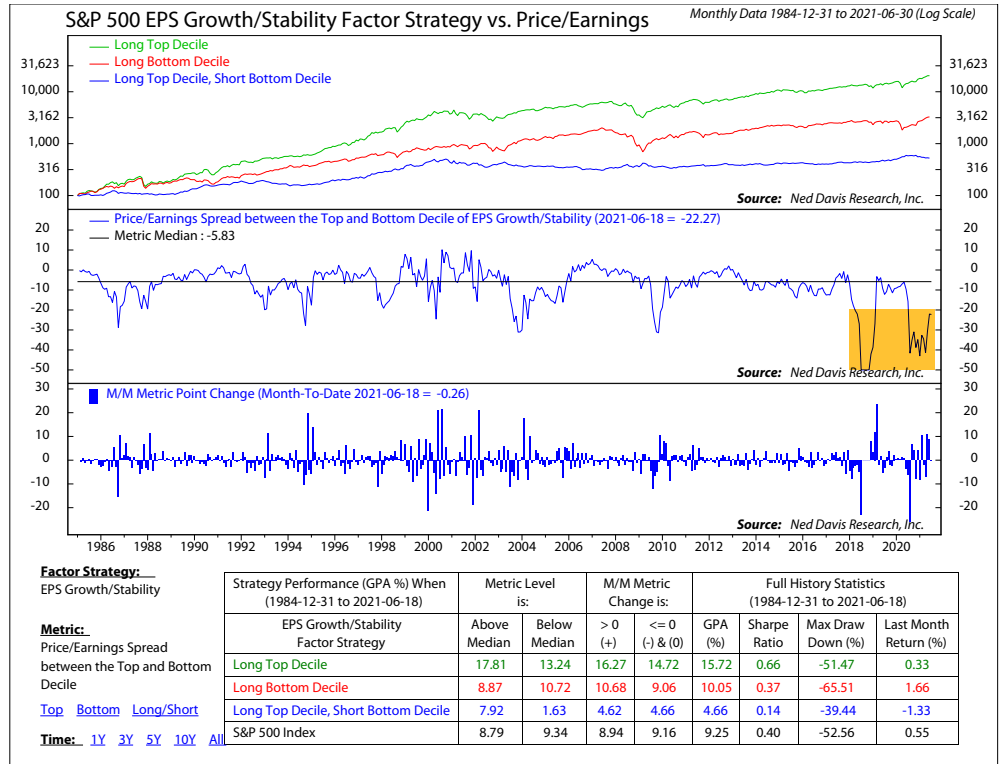
Strategies such as commodity sensitivity, price momentum, and lower financial leverage trade at [cheaper relative valuations](#).

The long-term eps growth/earnings volatility (stability) strategy's valuations remain at inexpensive levels (chart at right).

Companies with higher long-term eps growth/eps stability values consistently have been delivering growth over multiple years.

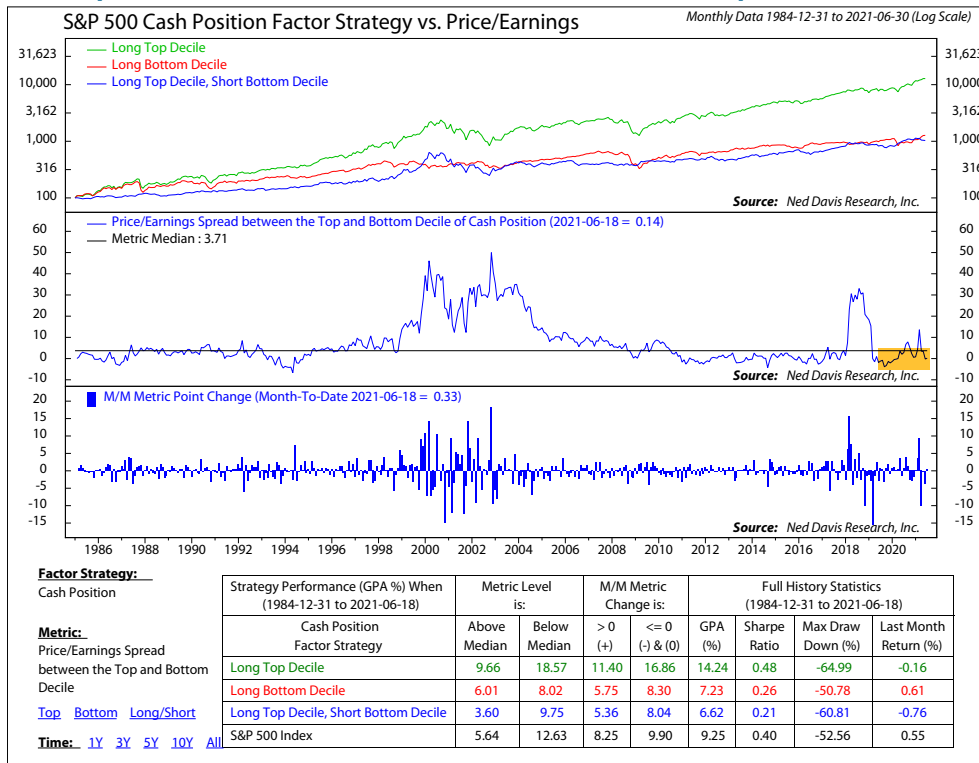
Long-term eps growth/eps stability has been a top ten (out of 200) factor strategy over time.

EPS growth/stability's valuation remains favorable



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Cash position's valuation continues to be cheap



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The cash position strategy's valuation has returned to favorable levels (chart at left).

Cash position measures balance sheet liquidity by comparing cash plus short-term investments to total assets.

A large amount of liquid assets relative to total assets indicates greater financial strength.

The cash position factor has been a top ten strategy over the [last thirty years](#).

Factor Technical Update

The factor strategies with favorable technicals include Value, smaller size, and commodity sensitivity.

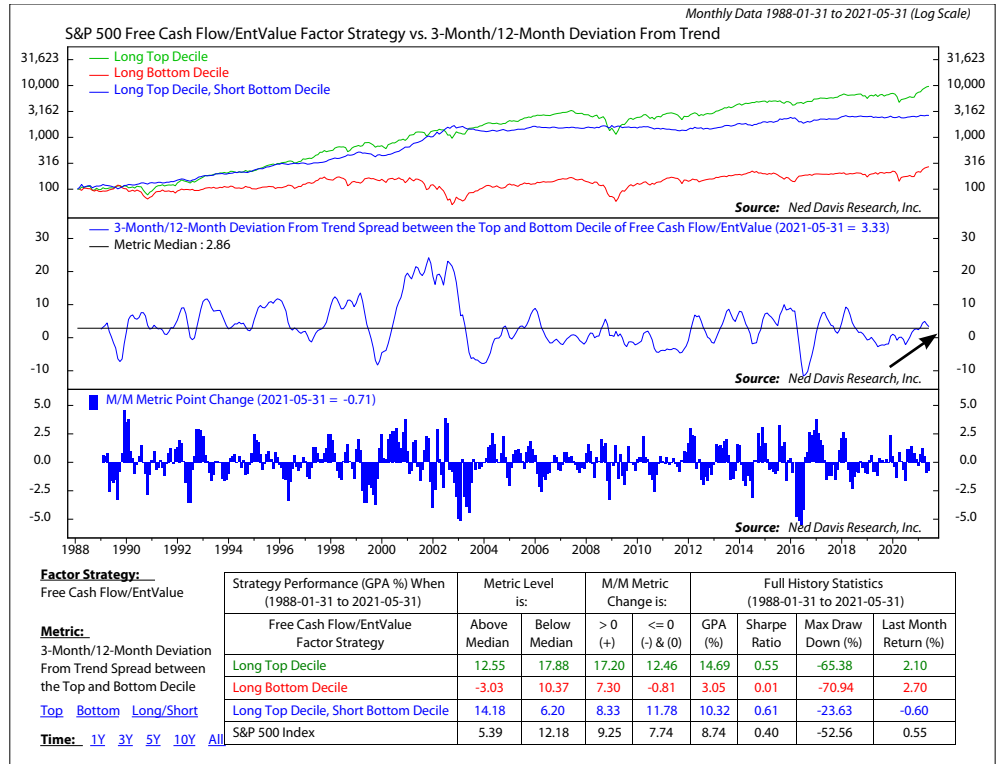
The free cash flow/enterprise value (fcf/ev) strategy also has a positive trend (chart at top).

Free cash flow measures the cash available for dividends, stock repurchases, debt reduction, reinvestment, and acquisitions.

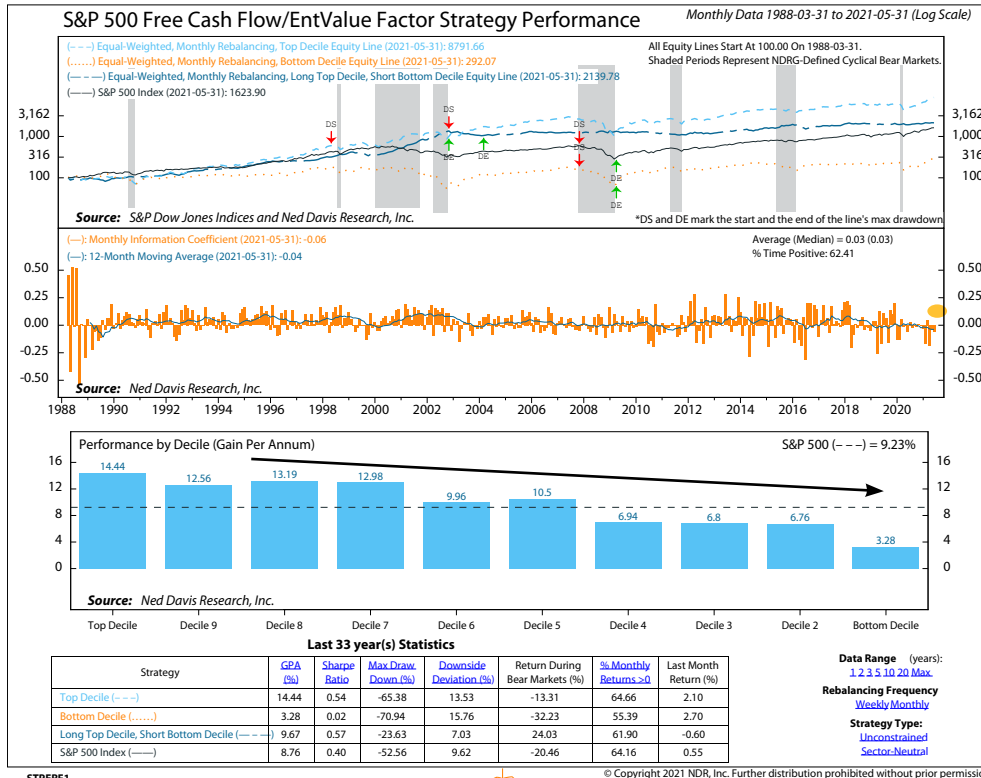
The strategy's factor composite score continues to be positive after recently reaching an all-time high.

Free cash flow/enterprise value has been the [best-performing strategy](#) over time (chart at bottom).

FCF/EV has a positive trend



FCF/EV has been the top-performing strategy over time



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Factor Seasonality Update

Factor strategies such as lower capex, free cash flow/enterprise value, lower volatility, and price momentum have outperformed during [July](#) (chart at bottom).

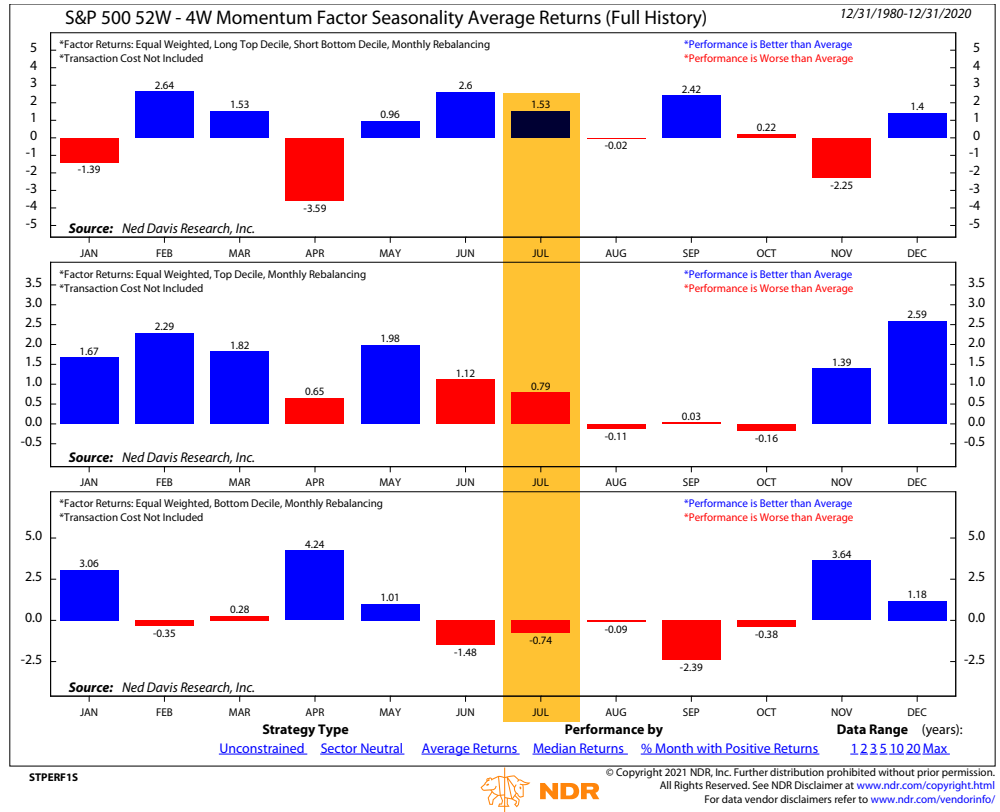
Historically, companies with stronger price momentum have outperformed until mid-summer (chart at top).

Price momentum measures the rate of change of a stock's price.

It has benefited from behavioral biases such as anchoring and the bandwagon effect.

Momentum has been a top quartile strategy over the last ten years and it typically outperforms as a bull market matures.

July favors companies with stronger price momentum



July favors lower capex, free cash flow/ev, lower volatility, and price momentum



NDRG Monthly Factor Seasonality Heat Map for the S&P 500 Universe

- Report Code: **STHEAT_1S**.
- Universe: **S&P 500**.
- Report Date & Frequency: **2021-06-21 (Monthly)**.
- Portfolios are Rebalanced: **Monthly**.
- Strategy Type: **Unconstrained**.
- Title: **Top - Bottom Title**.
- Performance Month: **July**.
- Performance Type: **Mean Returns**.
- Performance Period: **Full History**.
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Analyst Estimates	Commodity Sensitivity	Efficiency	Liquidity and Size	Economic Sensitivity	Momentum	Payout	Profitability	Quality	Risk	Style Sensitivity	Trend	Valuation
-0.18	-0.94	0.47	-0.8	-0.76	0.46	0.48	0.35	0.08	0.32	-0.21	0.58	0.16
Earnings Revision ⓘ 0.53	Steel Beta ⓘ 0.49	Capex/ Assets ⓘ 1.4	4W On-Balance Vol ⓘ 0.54	U.S./World Beta ⓘ 1.61	Vol Weighted 52W Mo ⓘ 1.71	Net Payout/Assets ⓘ 1.07	Net Profit Margin ⓘ 1.03	Accruals Volatility ⓘ 1.47	26W Semivariance ⓘ 1.8	High v. Low Quality Beta ⓘ 1.97	13W/52W Deviation ⓘ 1.59	Free Cash Flow/Price ⓘ 1.63
Analyst Buys/Total Recommendations ⓘ 0.48	Shipping Rates Beta ⓘ -0.16	Capex/ Sales ⓘ 1.35	Short Interest Ratio ⓘ 0.43	10-Yr Gov't Bond Beta ⓘ 0.69	52W - 4W Momentum ⓘ 1.53	Net Payout/Current Assets ⓘ 1.07	Pretax Margin ⓘ 0.85	Tax Paid/Sales ⓘ 0.72	Realized Volatility ⓘ 1.55	Value v. Growth Beta ⓘ 0.24	4W/26W Deviation ⓘ 1.22	Free Cash Flow/EntValue ⓘ 1.92
Net Revisions ⓘ 0.26	Silver Beta ⓘ -0.55	Capex/Cash Flow ⓘ 1.13	Volume Turnover ⓘ -0.83	Yield Curve Slope Beta ⓘ 0.68	43W Momentum ⓘ 1.5	Net Payout Ratio ⓘ 0.84	Return On Investment ⓘ 0.78	R&D/ Sales ⓘ 0.71	Residual Reversal ⓘ 0.96	Cyclical v. Consumer Beta ⓘ -0.76	52W RSI ⓘ 0.81	Net Payout Yield ⓘ 1.27
Analyst (Buys-Sells)/Total Recommendations ⓘ 0.04	Copper Beta ⓘ -0.7	Operating Cash Flow/Assets ⓘ 0.96	Market Cap ⓘ -1.15	US Dollar Beta ⓘ 0.64	52W Momentum ⓘ 1.4	Dividend Payout ⓘ 0.62	Foreign/Total Pretax Income ⓘ 0.73	EPS Stability ⓘ 0.68	4W Mean Reversion ⓘ 0.87	Small v. Large Beta ⓘ -2.29	26W RSI ⓘ 0.65	Median Projected Earnings Yield ⓘ 0.86

APPENDIX

Selecting and Tracking the Favored Factors and Stocks

Please see our [Explanation Guide](#) for details on the methodology.

Clients can track the stock list daily ([ST_1000](#)). The report contains a chart ([ST1001](#)), which shows real-time gross performance.

The table **at right** shows the favored factors along with links to performance, valuation, technical, and seasonal charts.

Favored factors & supporting chart links

Factor	Regime (Page 2)	Valuation (Page 3)	Technical (Page 4)	Seasonality (Page 5)
Cash Position	+	+	+	+
Earnings Revisions	+	+	+	+
L-T EPS Growth/EPS Stability	+	+	+	+
Free Cash Flow/Enterprise Value	+	+	+	+
52-Week – 4-Week Price Momentum	+	+	+	+

Factor definitions

Cash Position: Cash plus short-term investments divided by total assets. A large amount of liquid assets relative to total assets indicates greater financial strength. However, too large of a ratio can indicate management's failure to invest in the company's future growth.

Earnings Revision: 1-month change in perpetual FY1 mean earnings estimate divided by weekend price. A higher number indicates an upward revision, which signals an improved analyst outlook for the stock going forward.

L-T EPS Growth/EPS Stability: Projected long-term EPS growth based on a 5-year trend divided by the 20Q standard deviation of trailing 4Q EPS. A higher number indicates higher EPS growth per unit of EPS volatility, and tends to drive higher stock returns.

Free Cash Flow/Enterprise Value: Operating cash flow minus (cash dividends plus capital expenditures) divided by market value of equity plus debt plus preferred stock minus cash and cash equivalents (Enterprise Value).

52-Week - 4-Week Momentum: The difference between the 52- and four-week price rates of change. As a technical factor, it can be used in either a trend following or a contrarian way depending on the universe and macro environment.

NED DAVIS RESEARCH

NDRsales@ndr.com
www.ndr.com
(800) 241-0621

VENICE

2520 North Tamiami Trail
Nokomis, FL 34275
(941) 412-2300

NEW YORK

1120 Avenue of the Americas
6th Floor
New York, NY 10036
(646) 810-7270

MONTREAL

1002 Shebrooke St. W.
Suite 1600
Montreal, Canada H3A 3L6

LONDON

8 Bouverie Street
Temple, London
EC4Y 8AX
+44 (0) 20 7779-8682

HONG KONG

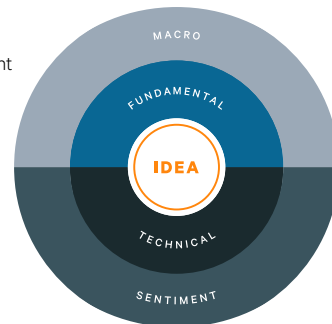
12/F, V-Point, 18 Tang Lung Street,
Causeway Bay
Hong Kong
+852 3416 6676

AUSTRALIA

19/1 O'Connell Street
Sydney, Australia
+61282491867

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