



**CORBIN**  
ADVISORS  
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**BUY-SIDE**<sup>®</sup>

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**3Q18 Earnings Primer**  
**Investor Sentiment Survey**

October 12, 2018

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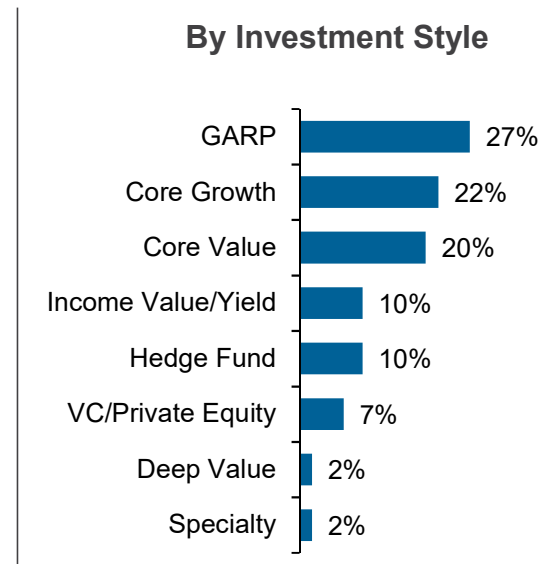
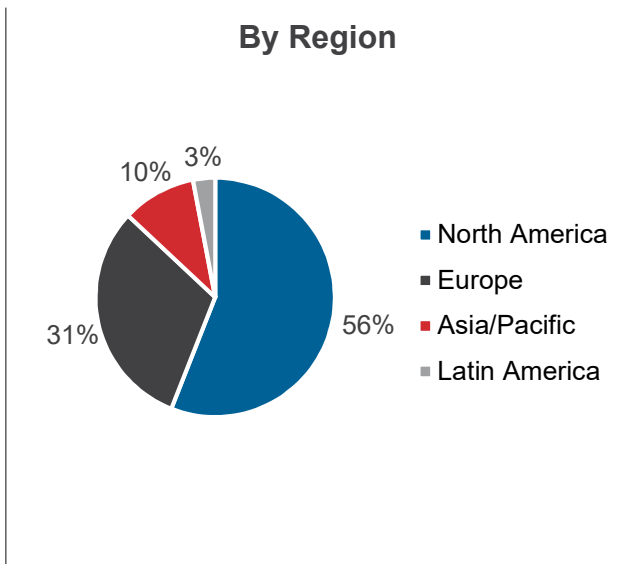
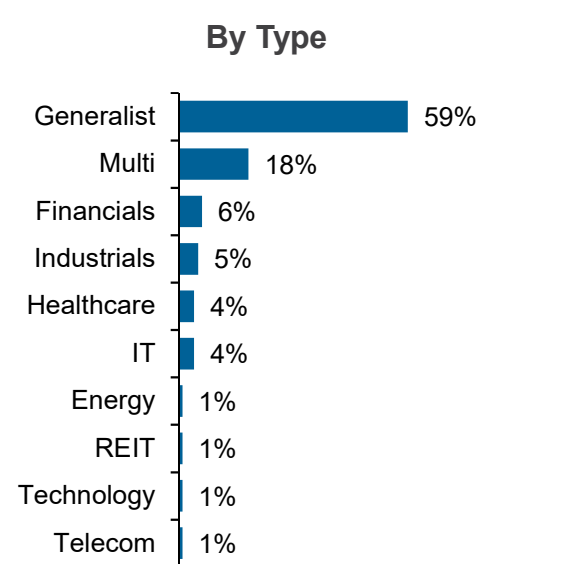
For over a decade, we have surveyed global investors and analysts on the equity markets, world economies and business climate. We share our research broadly with corporate executives, investor relations (IR) professionals and the financial community.

**Survey Scope:** 79 participants globally, comprising 77% buy side and 23% sell side; assets under management total ~\$790 billion

**Survey Timeframe:** September 11 – October 2, 2018

Market Performance*		
	<u>3Q18</u>	<u>YTD</u>
<b>DJIA</b>	9.0%	7.0%
<b>NASDAQ</b>	7.1%	16.6%
<b>S&amp;P 500</b>	7.2%	9.0%
<b>Russell 2000</b>	3.3%	10.5%

\* As of September 28, 2018





## #1 As Companies Battle Major Headwinds, Upbeat Sentiment Tempers and Expectations for Negative Surprises Rise

- Tariffs and rising input costs cited as the most significant factors weighing on sentiment, with nearly 80% expressing *Moderate* to *High* concern
- Those expecting sequential earnings growth falls to 47% from 55% last quarter; 2Q18 seen by many as high-water mark
- While 69% are *Somewhat* to *Very* confident that companies can offset input costs through pricing actions, only 26% expect Margins to *Improve* this quarter, a decrease from 29% last quarter
- EPS and Cash Flow expected to *Improve* QoQ but at muted levels while Organic Growth sees an inflection, with more investors forecasting flat sequential performance
- Investor sentiment and perceived management tone remain elevated but at less bullish levels

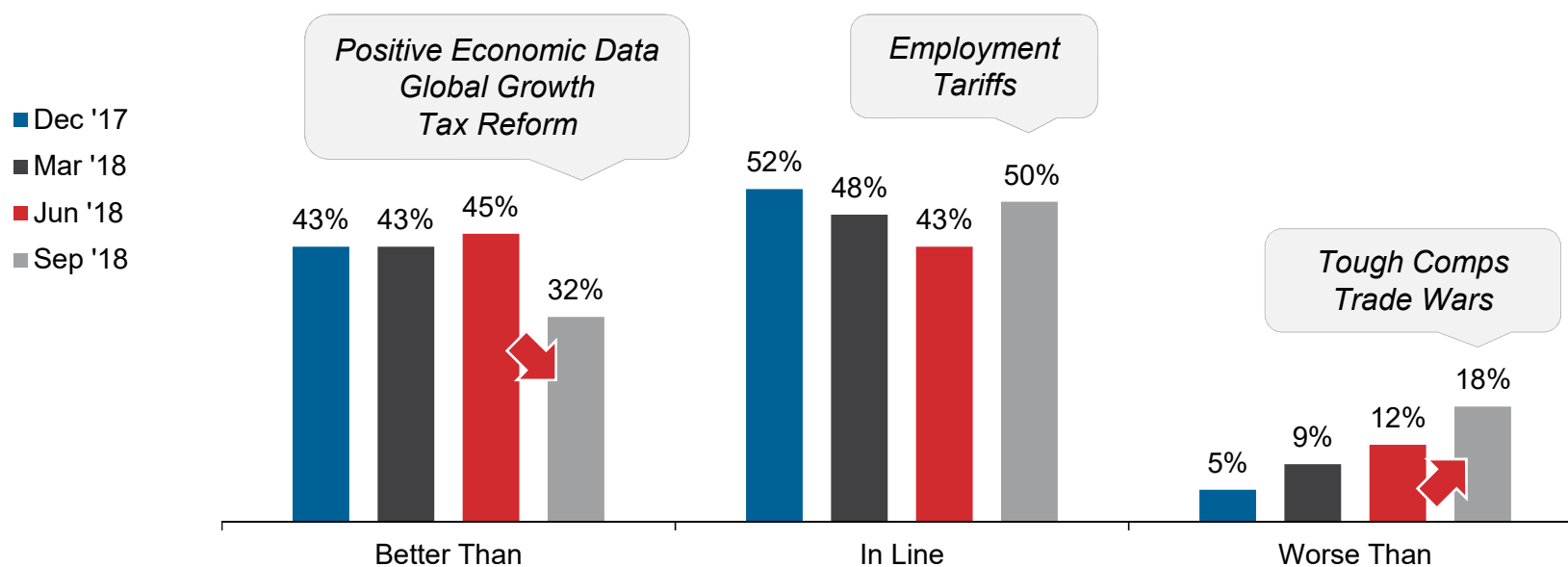
## #2 Despite Growing Concerns, the Prevailing View Is That We Have Not Peaked; A Growing Number of Investors Pulled Cash Out of the Market and Stand at the Ready to Take Advantage of Dislocations

- U.S. and Mexico economies see increases in positive sentiment and are expected to improve over the next six months; global PMI forecasted to remain strong over the same period
- 86% believe we are *Mid-to-Late* to *Late* in the economic cycle, an increase from 80% last quarter; the majority, 58%, believe we will peak in 2019 or 2020, a 3pt increase sequentially
- Even as markets hit all-time highs, fewer than 50% classify U.S. equities as *Overvalued*, in line with last quarter
- Net Buyers continue to outnumber Net Sellers by more than 2x with 41% expecting U.S. equity valuations to *Expand*, up from 35% last quarter

## #3 Healthcare Remains Hot, Tech Short-circuiting and Consumer Discretionary Sees Declines

- Healthcare records its highest level of positive sentiment since June 2015, with nearly 60% taking a bullish stance while Tech bears more than triple to 34%, registering the highest level of negative sentiment since March 2015
- Amid corporate cost actions in play since 1Q, Consumer Discretionary sees pressure from both ends – fewer bulls and more bears QoQ
- Bears continue to overpower bulls in Building Products, Utilities, Telecom and REIT sentiment; Materials experiences an inflection and joins this beleaguered group

### Expectations Regarding 3Q18 Earnings Performance Relative to Consensus

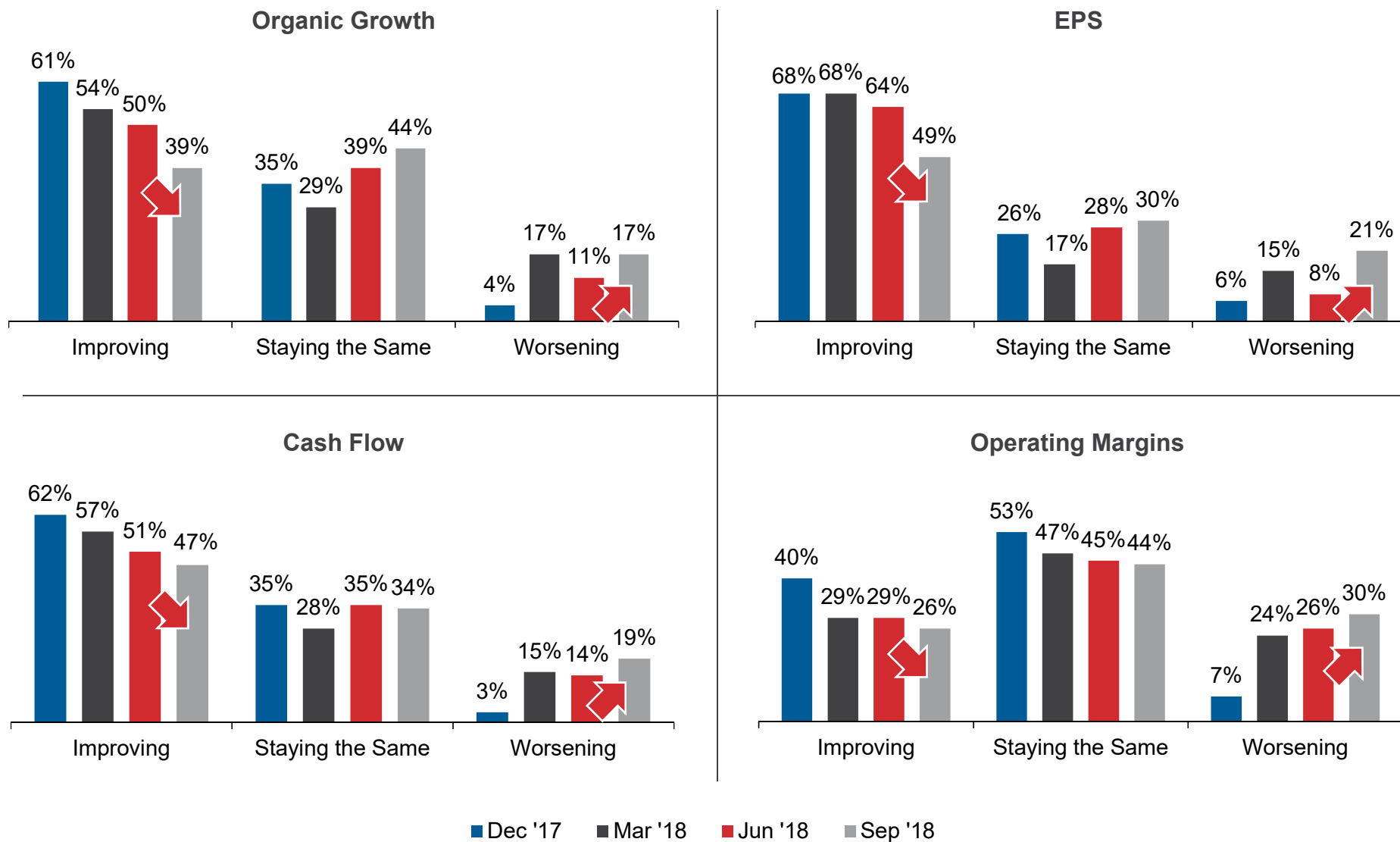


**47%** Expect Sequential Improvement  
vs. 55% Last Quarter

**82%** Expect *In Line* to *Better Than* Consensus Results  
vs. 88% Last Quarter

# The Trend Is Not Your Friend...Organic Growth Sees Inflection; More Now Expect Flat Sequential Performance but Earnings Should Continue to Impress

## KPI Trends – Expectations



## Better Than – 32%

*“Tax cuts.”* Buy Side, Generalist, N. America

*“Strong economy.”* Buy Side, Generalist, N. America

*“Organic growth.”* Buy Side, Multi, N. America

*“Inflation is here but so is pricing power.”* Buy Side, Multi, N. America

*“Volume growth.”* Buy Side, Multi, N. America

*“Global and regional growth, consumer strength.”* Buy Side, Generalist, Europe

*“Growth in the U.S. and better positive impact on Euro/dollar for European cites.”* Buy Side, Multi, Europe

*“Strong economic data.”* Sell Side, Generalist, N. America

*“Economy is still strong. It’s next year I’m worried about.”* Sell Side, Telecom, Europe

*“Capex picking up.”* Sell Side, Generalist, Australia

## In Line – 50%

*“Business trends.”* Buy Side, Generalist, N. America

*“USD strength and negative impact on foreign EPS.”* Buy Side, Multi, N. America

*“Global growth.”* Buy Side, Generalist, Europe

*“Recovery of the economy and employment creation.”* Buy Side, Financials, Europe

*“Growth and employment data both in the U.S. and Europe.”* Buy Side, Financials, Europe

*“Inflation, op costs, trade war effects.”* Buy Side, Multi, Latin America

*“Q2 earnings were simply stellar, so I find it hard to believe companies will be able to improve upon Q2 performance.”* Sell Side, Healthcare, N. America

*“Tariffs.”* Sell Side, Generalist, Europe

## Worse Than – 18%

*“YoY growth in 2Q was 25%. 3Q YoY growth should be closer to 20%. Great but not as good as 2Q.”* Buy Side, Generalist, N. America

*“Analyst revisions to both earnings and revenues indicate lower expectations in light of the 2Q18 upside surprise, the continuing impact of tariffs/trade wars, expectations of the mid-term elections and related uncertainty.”* Buy Side, Generalist, N. America

*“More uncertainty in global trade and emerging countries.”* Buy Side, Financials, Europe

*“Trade war will impact more than expected.”* Buy Side, Generalist, Europe

*“Global slowdown, trade wars.”* Sell Side, Generalist, Europe

*“Salary and benefits inflation.”* Sell Side, Healthcare, N. America

*“Slowing sales in realty.”* Sell Side, Multi, Asia

1

Ability to Offset Rising Input Costs through Pricing and Expand Margins

2

Trade War Impact

3

2019 Outlooks

## Out of N. America

- “Capex outlook, price/cost.”* Buy Side, Industrials
- “2019 outlook.”* Buy Side, Energy
- “Trade impact.”* Buy Side, Generalist
- “EPS growth without tax reform benefit.”* Buy Side, Generalist
- “Quality of earnings and revenue growth.”* Buy Side, Generalist
- “Rising costs, margins sustainability, growth.”* Buy Side, Generalist
- “Investment opportunities.”* Buy Side, Generalist
- “Confidence to make long-term capital investments, impact of tariffs and trade conflicts, tightening labor markets.”* Buy Side, Generalist
- “Cost inflation, ability to get pricing. Are tariffs having a negative impact on growth?”* Buy Side, Generalist
- “Outlook, expectation/trend for margins going forward and what is influencing their outlook, are they discussing tailwinds or headwinds?”* Buy Side, Generalist
- “Trade, tariffs, input costs, global demand.”* Buy Side, Multi
- “Pricing power.”* Buy Side, Multi
- “Orderbook, backlog.”* Buy Side, Multi

## Out of Europe

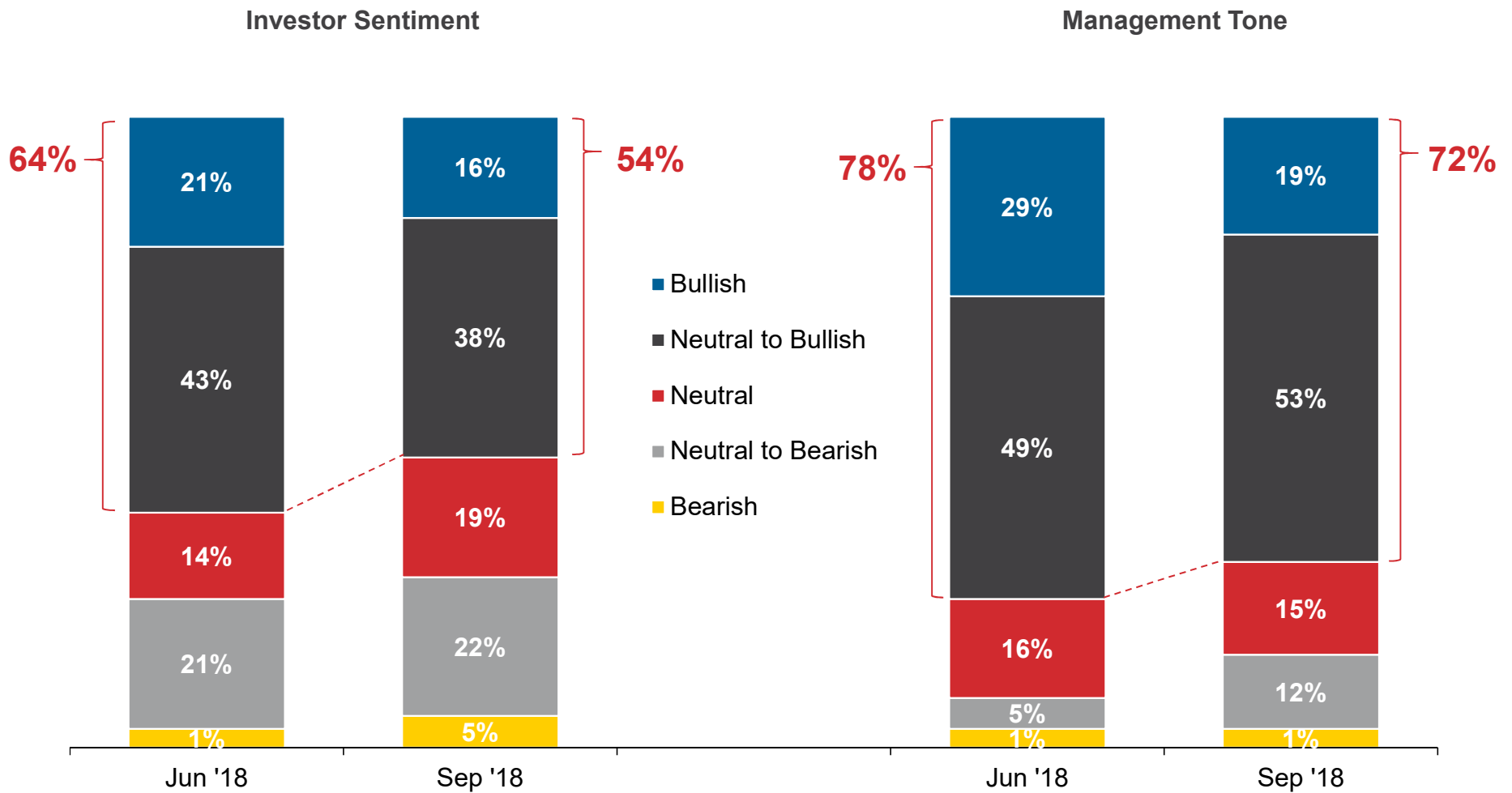
- “2019 guidance.”* Buy Side, Financials
- “How to save 2018 profits.”* Buy Side, Financials
- “USD/EUR.”* Buy Side, Financials
- “Business margins.”* Buy Side, Generalist
- “Input cost inflation.”* Buy Side, Generalist
- “Organic growth.”* Buy Side, Generalist
- “Margins.”* Sell Side, Generalist

## Out of Asia

- “What are their hedging/countering strategies for the next three years?”* Sell Side, Industrials



# Executives Managing Expectations amid Inflation and Tariff Pressures and Investors Picking Up Cues; Sentiment Is Growing More Cautious



### Bullish – 16%

*“Strong data.”* Sell Side, Generalist, N. America

*“Earnings call and conferences.”* Buy Side, Multi, N. America

*“While their overall tone has been positive, most executives have been conservative in their estimates of future sales/earnings growth and seem to be trying to manage expectations. Additionally, some companies I follow would benefit from more aggressive investments, even if it means taking on additional debt, as interest rates are still low from a historical perspective.”* Sell Side, Healthcare, N. America

### Neutral to Bullish – 38%

*“Strong economy.”* Buy Side, Generalist, N. America

*“While executives appear optimistic, this is muted given uncertainty as to the geopolitical outlook and impact of the mid-term elections.”* Buy Side, Generalist, N. America

*“Industrial CEOs are overwhelmingly positive.”* Buy Side, Multi, N. America

*“Fear of trade war.”* Buy Side, Multi, N. America

*“Solid loan demand.”* Buy Side, Financials, Europe

*“Uncertainty because of trade tensions.”* Buy Side, Generalist, Europe

### Neutral – 19%

*“Trump and trade.”* Buy Side, Generalist, N. America

*“The government.”* Buy Side, Generalist, N. America

*“Although the economy is performing well, we are waiting to see if this is temporary due to tax law and continued trade direction.”* Buy Side, Generalist, N. America

*“Valuation.”* Sell Side, Healthcare, N. America

### Neutral to Bearish – 22%

*“Valuations.”* Buy Side, Generalist, N. America

*“Overvalued equities and overheating U.S. economy, which will force central banks to tighten faster than expected.”* Buy Side, Generalist, Europe

*“Valuations.”* Buy Side, Multi, Europe

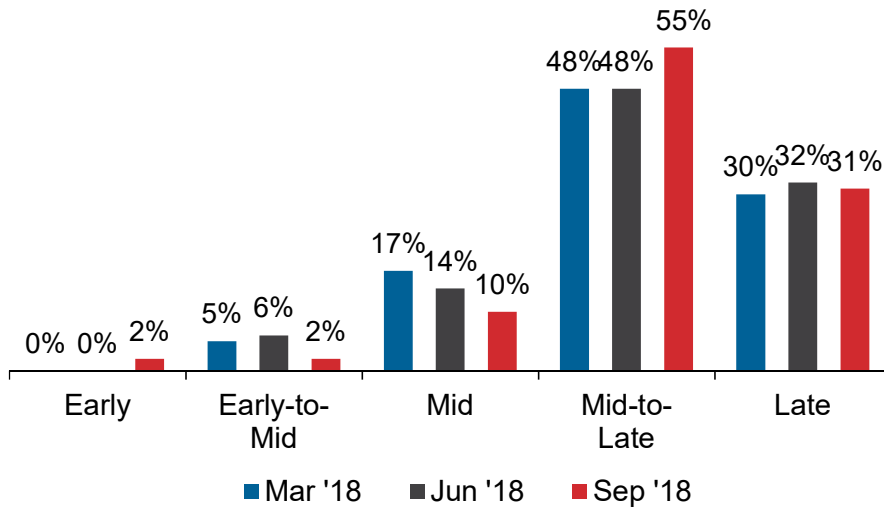
*“High valuations.”* Buy Side, Multi, Australia

*“Trade war, November elections.”* Buy Side, Multi, Latin America

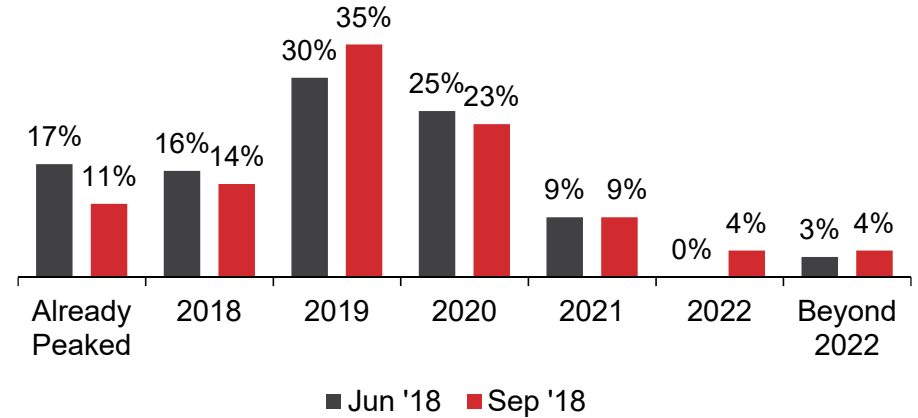
*“Fear of trade war.”* Sell Side, Generalist, Australia

# As We Increasingly Trend *Mid-to-Late* Cycle, Recession Concerns Reemerge

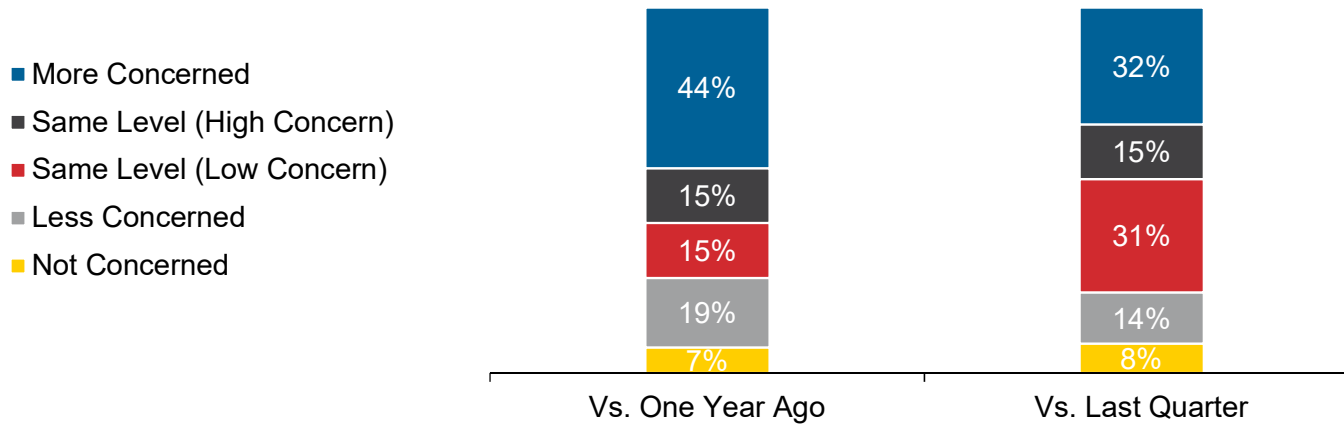
### Where Are We in the Economic Cycle?



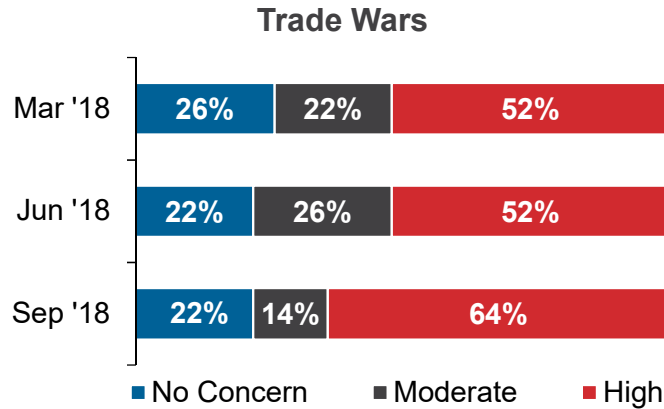
### When Do You Think We Will Peak?



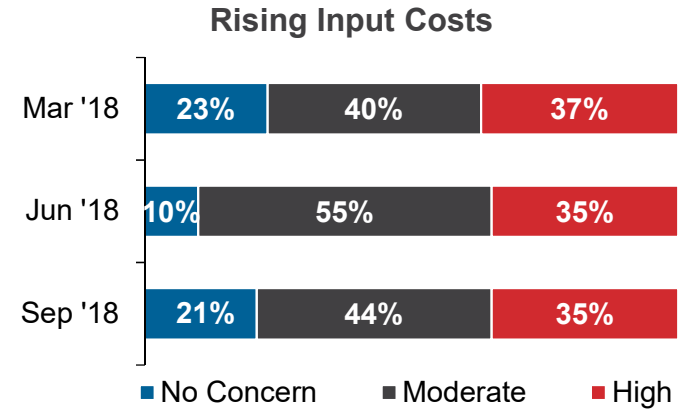
### How Concerned Are You About A Recession?



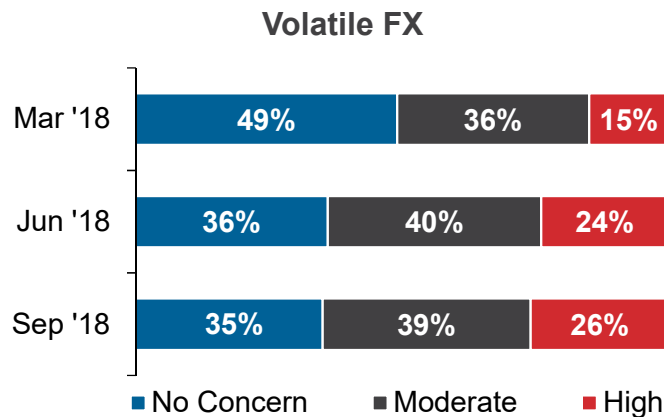
Concern Levels



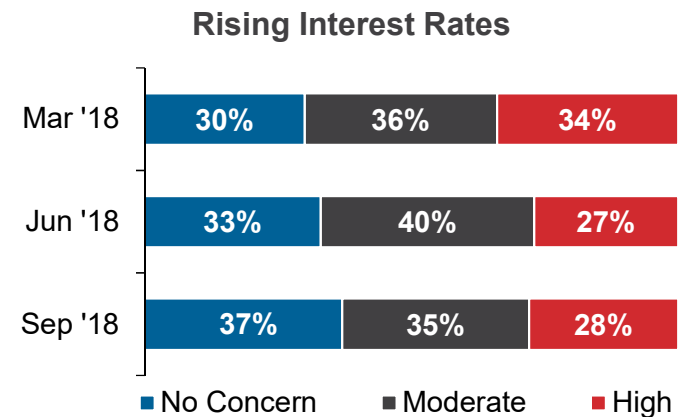
**77%** Express *Moderate to High* Concern about Tariffs vs. 79% Last Quarter



**69%** Are *Somewhat to Very* Confident in Companies' Ability to Largely Offset Cost Inflation and/or Tariff Impacts through Pricing Actions



**65%** Express *Moderate to High* Concern with FX, a 1pt Increase, Sequentially



**83%** Expect YE 2018 Fed Funds Rate to be 2.25% - 2.50%; Target Range Currently 2.00% - 2.25%

1 Trade Wars

2 Inflation

3 Rising Interest Rates

4 Trump

5 Debt Levels

6 Mid-term Elections

## Out of N. America

*“Headline/political risk, sector rotation where Big Tech/FANG no longer leads, BBB bond liquidity bid/ask spread widening.”* **Buy Side, Generalist**

*“Pace of interest rate increases, federal/corporate debt levels, trade direction.”* **Buy Side, Generalist**

*“Significantly high interest rates, China collapse, reversal of momentum and quant strategies.”* **Buy Side, Generalist**

*“Geopolitical risks, trade war escalation and related uncertainty, Democratic Congress.”* **Buy Side, Generalist**

*“Tariffs/trade wars, high government debt levels, high corporate debt levels.”* **Buy Side, Generalist**

*“Trade, rising interest rates and central banks becoming more restrictive, slowing in global growth.”* **Buy Side, Generalist**

*“Geopolitical (mid-term elections, tariffs, trade-wars), increasing interest rates, increasing input costs.”* **Buy Side, Generalist**

*“Excessive Democratic gain in November voting, Republican swamp not responding aggressively enough to pass Trump proposals, labor shortage.”* **Buy Side, Energy**

## Out of Europe

*“U.S. interest rates, emerging markets crash, tariffs.”* **Buy Side, Generalist**

*“A crisis in emerging economies, U.S. recession, Eurozone.”* **Buy Side, Generalist**

*“Overvaluation, inflation, geopolitical risk.”* **Buy Side, Generalist**

*“Trade tensions, fast inflation increase, U.S. recession.”* **Buy Side, Generalist**

*“Global trade uncertainties, emerging economies, sovereign debt.”* **Buy Side, Financials**

*“Inflation in the U.S., more rate hikes than forecasted in the U.S., trade wars.”* **Buy Side, Financials**

*“Late cycle, growing interest rates, protectionism.”* **Sell Side, Generalist**

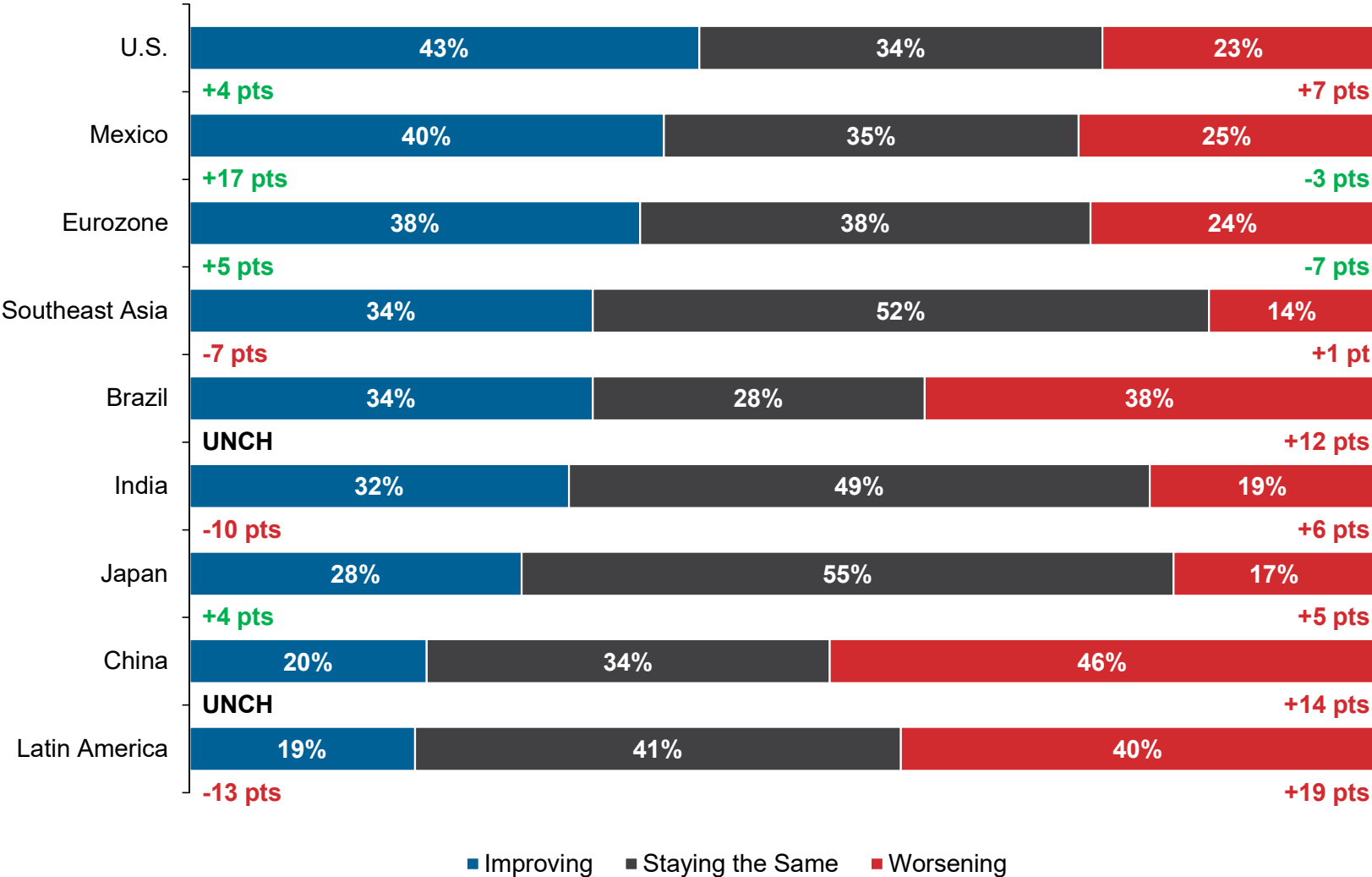
## Out of Asia

*“Fuel prices, interest rates and inflation, globalization.”* **Sell Side, Industrials**

*“Trade wars, currency panic, international debt.”* **Sell Side, Multi**

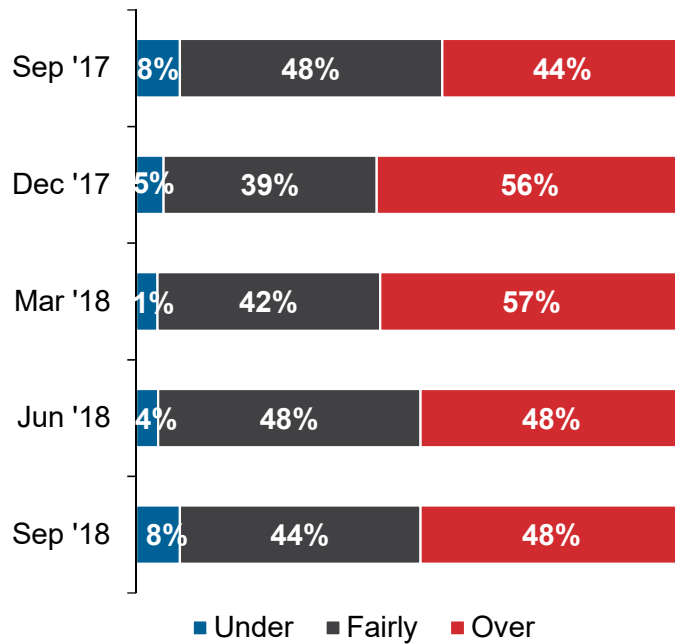
# Views on Emerging Markets Deteriorate While U.S. and Mexico See Positive Sentiment amid USMCA Deal Née NAFTA

## Global Economy Expectations over the Next Six Months

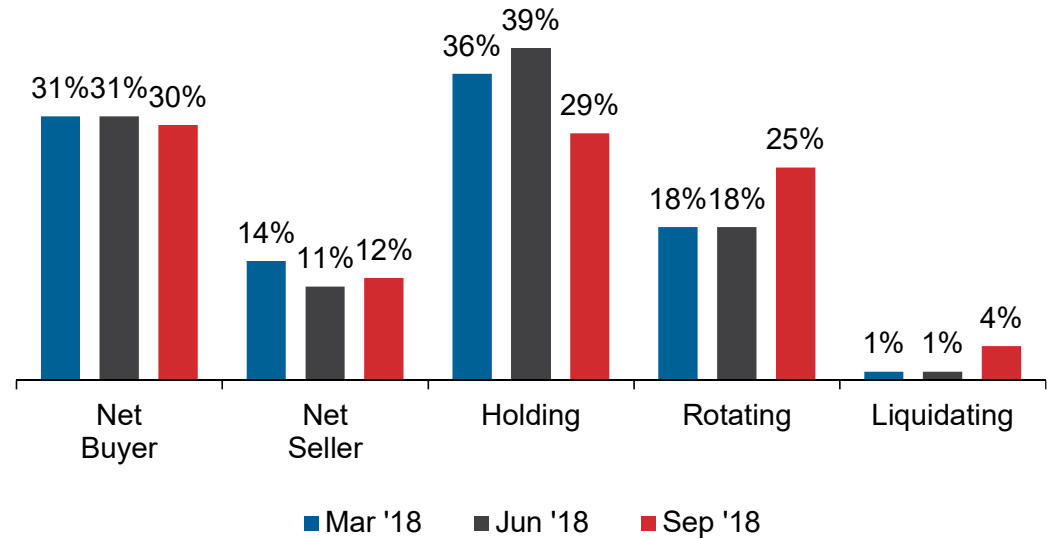


# Despite Record-Setting Equities, Investors Believe There Is More Room to Run; Net Buyers Remain in Place While Cash on the Sidelines Is at the Ready to Invest

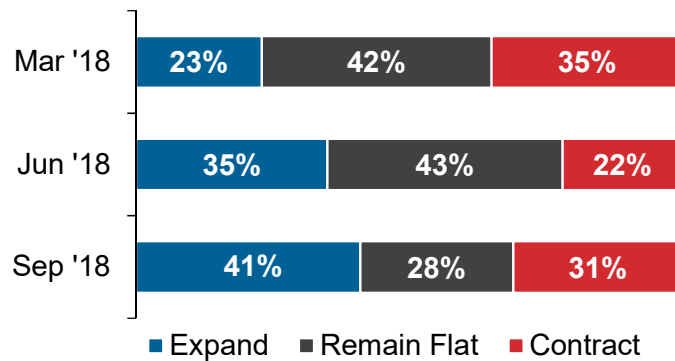
### U.S. Equity Valuation Classification



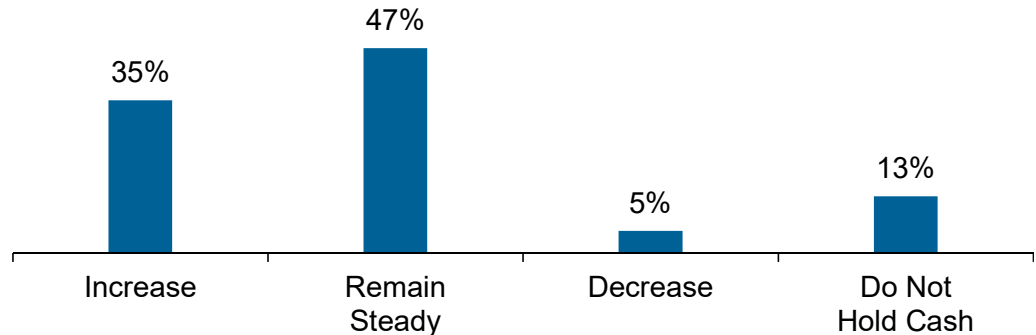
### QoQ Investment Trends



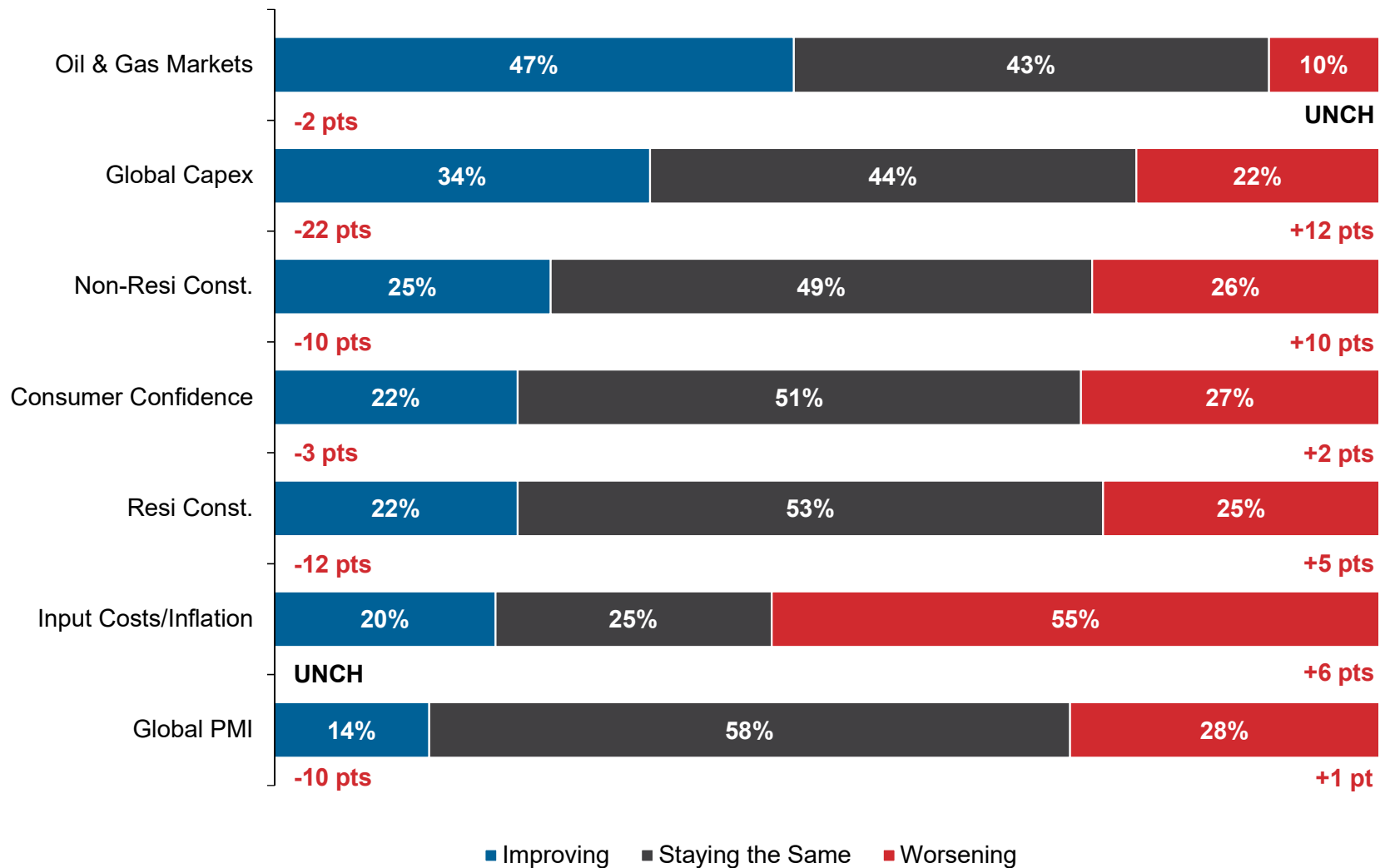
### 2018 U.S. Equity Valuation Expectations



### QoQ Portfolio Cash Holding

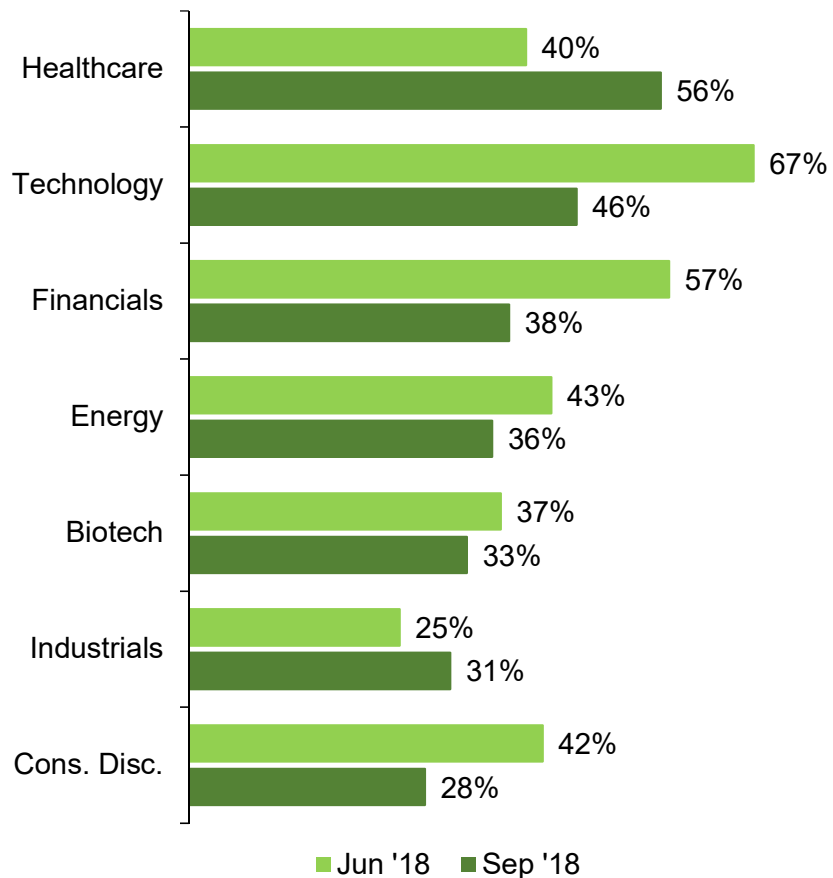


Expectations over the Next Six Months

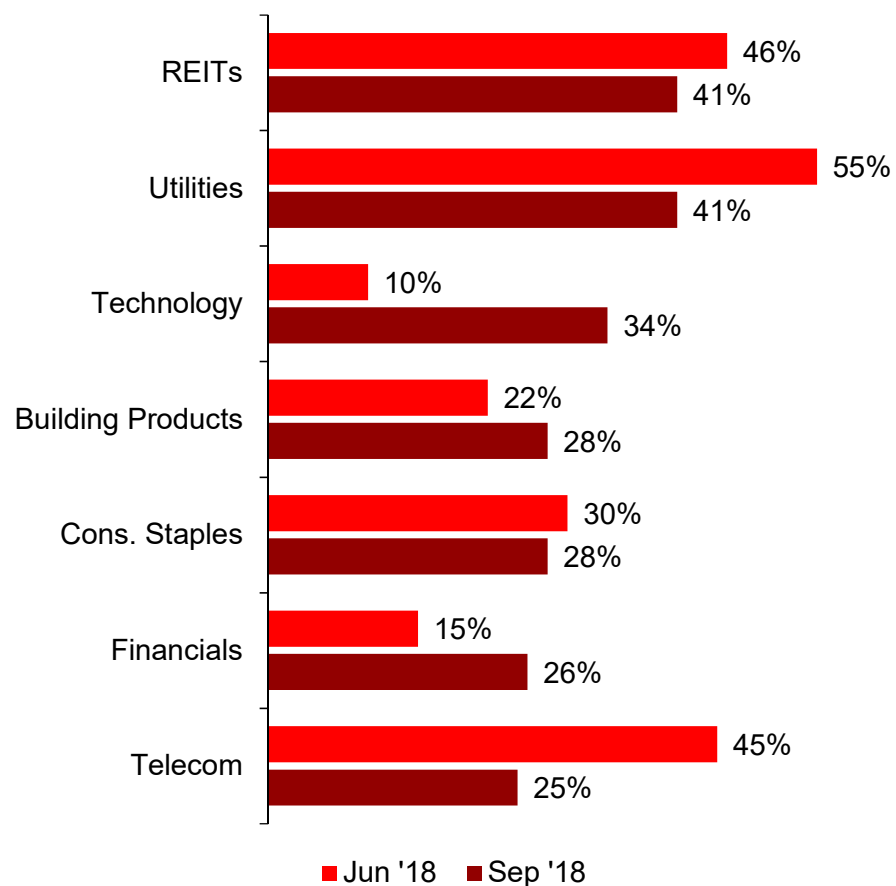




# Significant Shifts in Sentiment Identified; Investors Hail Healthcare While Tech Takes it on the Chin



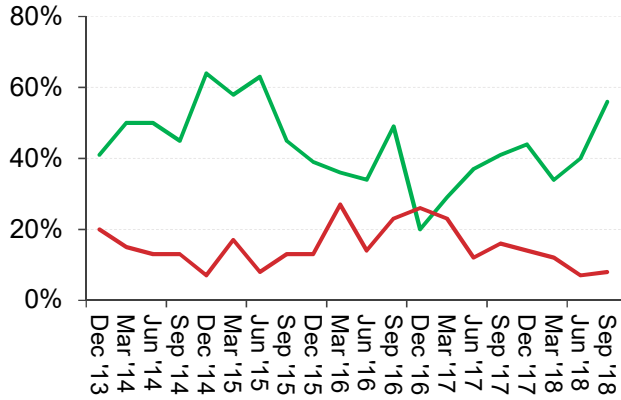
Nearly All Sectors See Pullback in Bullish Sentiment but Healthcare and Industrials Buck That Trend



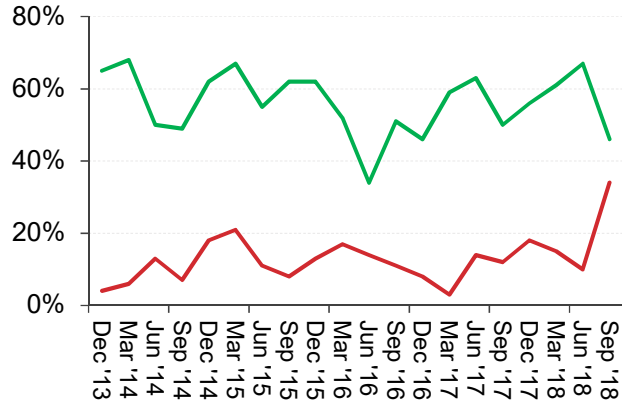
Utilities and REITs Remain Most Out of Favor for Nearly Two Years; Technology Sees Record Negative Sentiment

# Sector Trends

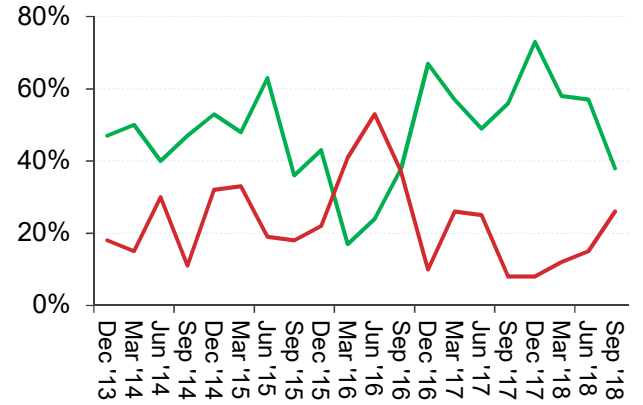
### Healthcare



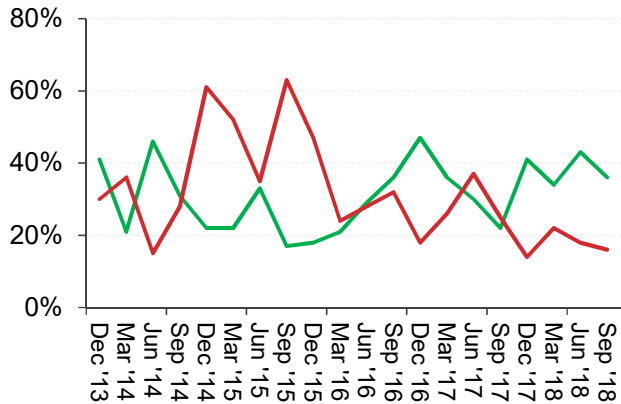
### Technology



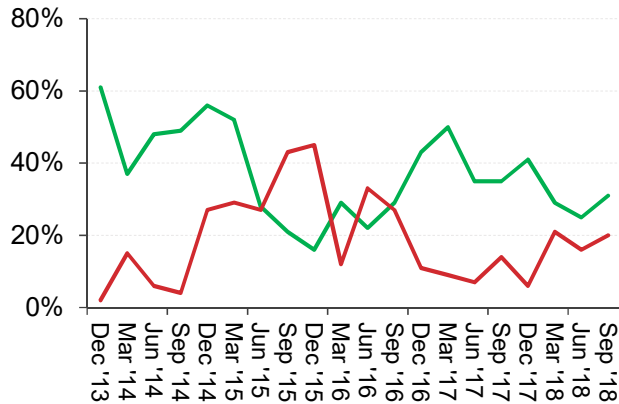
### Financials



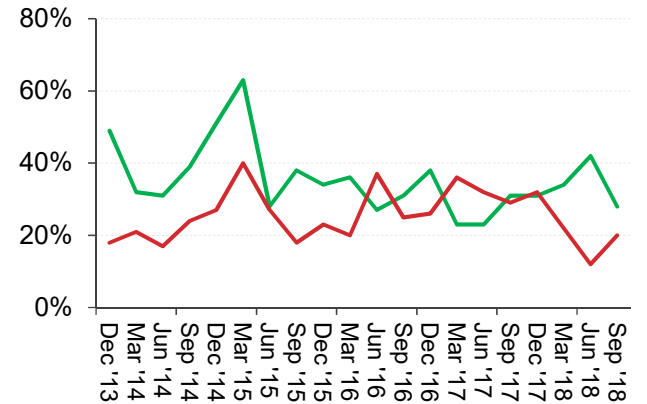
### Energy



### Industrials



### Cons. Disc.



A photograph of a rowing team in a boat on water, with the text "ABOUT US" overlaid in the center. The image is dimmed and serves as a background for the text.

# ABOUT US

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CORBIN ADVISORS

## Our **Passion** Is Creating Value for Public Companies

We are a catalyst – an investor relations (IR) research and advisory firm that partners with management teams to drive long-term shareholder value. We bring third-party objectivity as well as best practice knowledge and collaborate with our clients to execute sound, effective investor communication and engagement strategies.

Our proven methodology, proprietary analytics database, trusted reputation and in-depth experience generate unique insights. This marriage of research and rigor delivers comprehensive, actionable recommendations for internal and external value creation. We tailor strategies that enable high-impact decision making, secure maximum investor mindshare and ultimately create long-term shareholder value.

From research-based insights to actionable strategies that differentiate our clients, we enable thoughtful, positive change. We start by asking the right questions and end with providing actionable counsel that drives results.

If it's **Corbin**, it's **Actionable**.

