

A photograph of a rowing team in a boat, with several oars visible. The image is slightly blurred and has a dark overlay. The text is centered over the image.

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Inside^{The}
BUY-SIDE[®]

4Q18 Earnings Primer
Investor Sentiment Survey

January 11, 2019

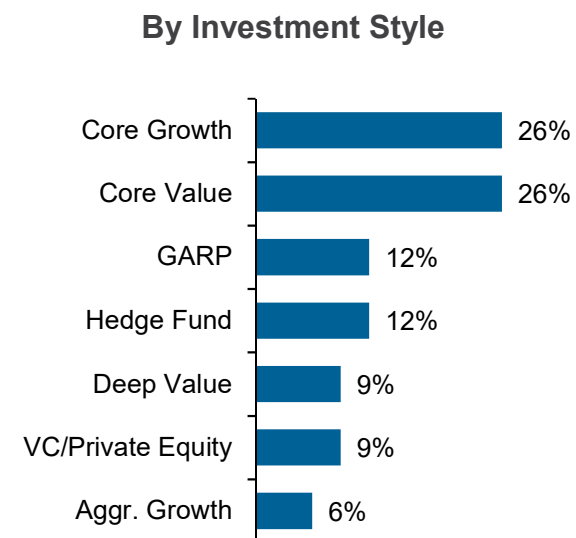
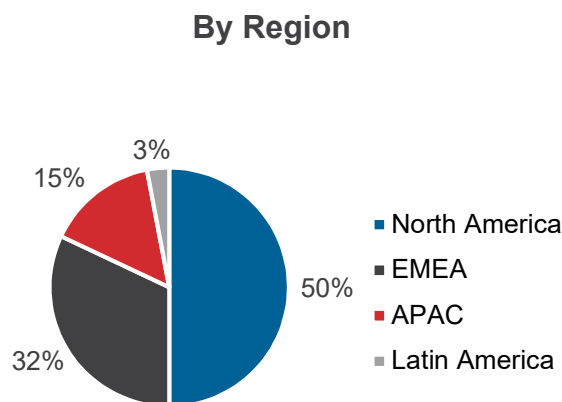
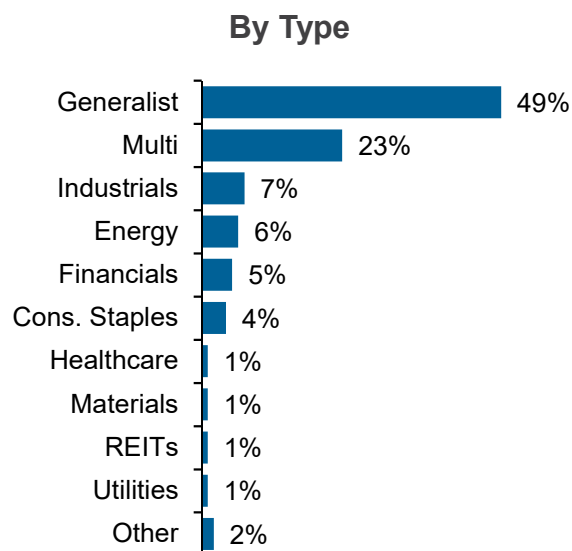
CORBINADVISORS.COM

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: 85 participants globally, comprising 65% buy side and 35% sell side; assets under management total ~\$595 billion

Survey Timeframe: December 5 – 26, 2018

Market Performance		
	<u>4Q18</u>	<u>2018</u>
DJIA	(10.2%)	(5.6%)
NASDAQ	(18.2%)	(3.9%)
S&P 500	(13.6%)	(6.2%)
Russell 2000	(22.5%)	(12.2%)



3Q 2018

4Q 2018



Key: Underlying Sentiment

- Positive
- Neutral
- Negative

#1 Following Nearly a Decade-long Bull Market, Investors Now Believe the Best Days are Behind Us

- Over half of surveyed respondents, or 51%, believe we are *Late* cycle, a significant increase from 31% last quarter; 40% now suggest we peaked in 2018, more than quadrupling QoQ
- 59% express *Continued* or *More* concern with a potential recession versus one year ago, an increase from 47% last quarter
- Expectations for key performance metrics register at the most pessimistic levels since Dec. 2015, with all KPIs forecasted to *Worsen*; looking back, recession concerns heightened in our Dec. 2015 survey as well, due largely to China growth fears
- Investor sentiment and perceived management tone have significantly deteriorated; those reporting a *Neutral to Bearish* or *Bearish* stance nearly double sequentially, while close to 60% expect 2019 corporate outlooks to be *Weaker* than 2018
- Approximately half expect U.S. and Europe economies to *Worsen* over the next six months, a drastic decline for both

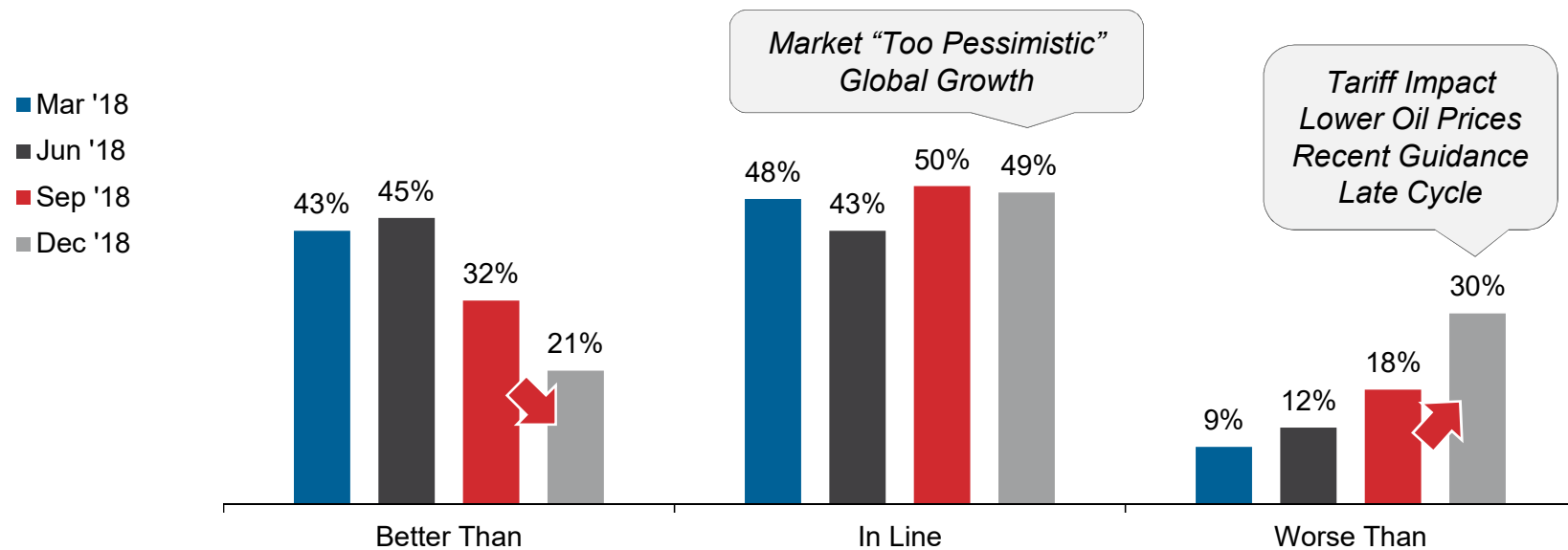
#2 Amid Excruciating Uncertainty, Investors Look for Executives to Address Risk Management Strategies on Earnings Calls

- Tariffs, rising input costs, interest rates and leverage levels are identified as the leading concerns heading into the quarter; 85%+ note they are placing *More* emphasis on operational excellence and balance sheet strength versus one year ago
- Our proprietary research indicates Net Debt-to-EBITDA thresholds continue to grow more conservative, with a preferred range of 5.0x-5.5x for REITs, a shift from 6.0x in 2016, and 2.0x for nearly all other sectors, down from 2.5x over the same period
- In line with the Fed's outlook, investors expect fewer interest rate hikes in 2019, though rates are still identified (unaided) as a top concern

#3 More Investors Sitting on Cash and Looking for Defensive Investments

- 50% report their portfolio cash holding increased QoQ, up from 35% last quarter
- Despite the pullback, over 50% classify U.S. equities as *Overvalued* and expect further contraction in 1H 2019; nearly 60% report *Holding* or *Rotating*
- Consumer Staples and Utilities bulls nearly doubled following 4Q18 price outperformance (+1.33% and -4.96%, respectively); most remaining sectors saw significant increases in bearish sentiment

Expectations Regarding 4Q18 Earnings Performance Relative to Consensus



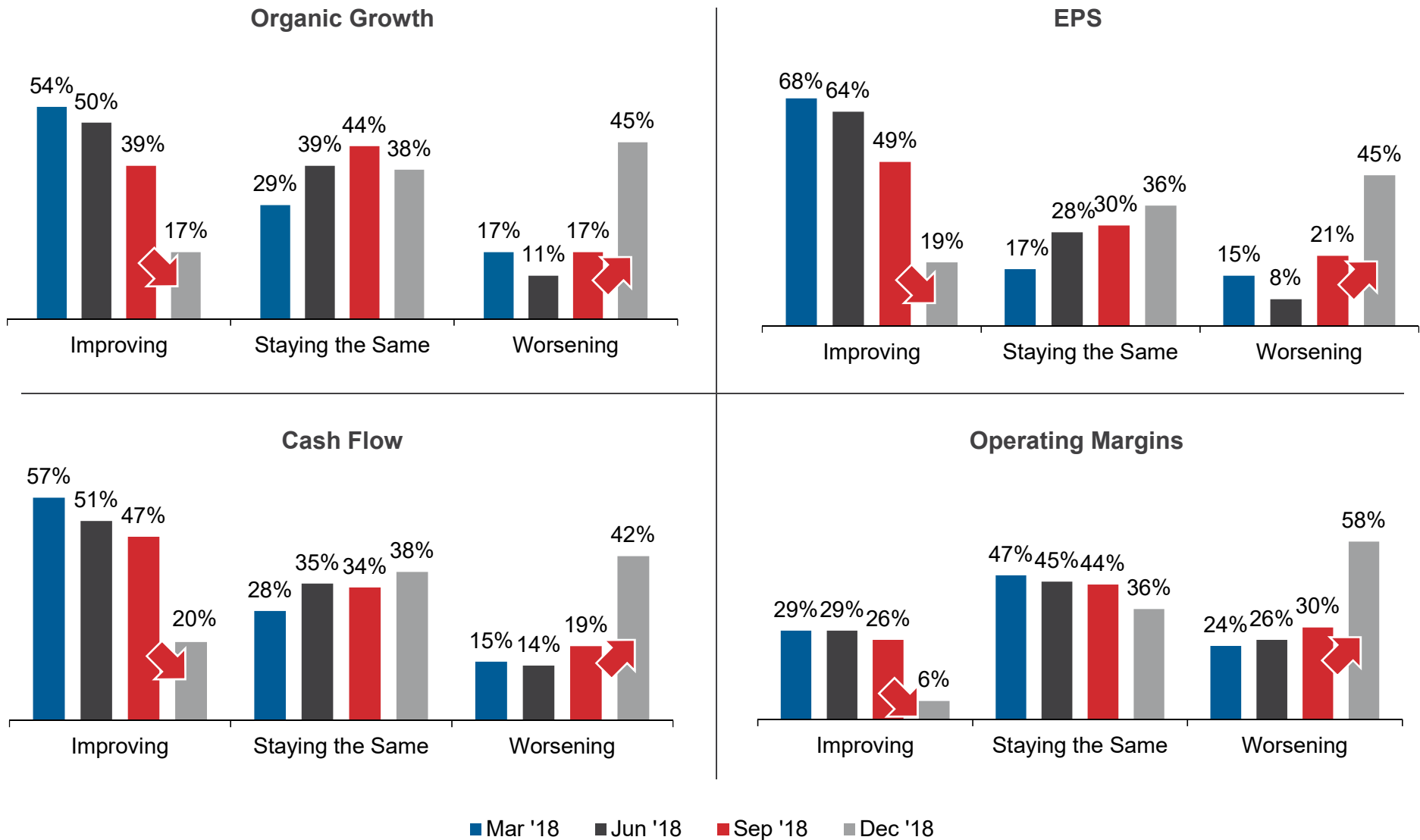
20% Expect Sequential Improvement vs. 47% Last Quarter

58% Expect Weaker FY 2019 Guidance Outlooks vs. 2018

At Play: Precipitous Fall in Confidence Identified

Note: S&P 500 average revenue growth for 3Q18 was 8.6%¹

KPI Trends – Expectations



¹ Source: Thomson Reuters

Better Than – 21%

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

“Current environment is very favorable. The future outlook in 2019+ has increased uncertainty on both the growth and cost sides (e.g., raw material, transportation cost, wage inflation).” **Sell Side, Industrials, N. America**

In Line – 49%

“While we expect tariffs to remain a talking point for companies, I believe the consensus outlook is too pessimistic.” **Buy Side, Generalist, N. America**

“Raw materials cheaper, economic growth still present.” **Buy Side, Generalist, Europe**

“Economies are still improving and some emerging economies in 4Q18 will be better.” **Sell Side, Financials, Europe**

“Impact of trade tensions will feed through, negative market sentiment may have been overblown.” **Sell Side, Generalist, Europe**

“Softening U.S./China trade war tension and capital inflow to emerging markets, improving retail sector sales.” **Sell Side, Multi, Asia**

“Strong festive season would lead to sequential improvement but rural growth may not be as strong as expected, which could probably lead to some disappointment vs. consensus.” **Sell Side, Consumer Staples, Asia**

“Market overly bearish on U.S. consumer. Jobs/wages growth should lead to a strong finish to the year.” **Sell Side, Generalist, Australia**

Worse Than – 30%

“Energy slide and tariffs/trade will have more of an impact.” **Buy Side, Generalist, N. America**

“Primarily recent guidance, which has been weaker, mixed economic data (both statistical and survey data) and analyst revisions.” **Buy Side, Generalist, N. America**

“Late biz cycle.” **Buy Side, Generalist, N. America**

“Negative revisions on energy side, flattening of yield curve for banks.” **Buy Side, Multi, N. America**

“Many companies have reduced their guidance for 4Q across multiple industries.” **Sell Side, Multi, N. America**

“Balance sheet deleveraging and customer weakness.” **Sell Side, REIT, N. America**

“Banks will be hit hard by weaker financial markets.” **Sell Side, Financials, Europe**

“Lower oil prices.” **Sell Side, Energy, Europe**

Stronger – 16%

“The scenario investors now expect for 2019 is too negative.” **Buy Side, Generalist, Europe**

“Continued growth, though at a slower rate than 2018.” **Buy Side, Multi, N. America**

“Benefit from buybacks.” **Buy Side, Multi, N. America**

“An in-line guide will be considered a miss (i.e., peak corporate sentiment).” **Sell Side, Industrials, N. America**

“Top-line growth offset by margin decline.” **Sell Side, Generalist, Australia**

In Line – 26%

“Companies will not take the risk to be bullish, whereas investors’ sentiment is doubtful.” **Buy Side, Generalist, Europe**

“It will be a year with the same macro evolution.” **Buy Side, Financials, Europe**

“A mild slowdown is already discounted.” **Sell Side, Financials, Europe**

Weaker – 58%

“Trade, rising interest rates and a slowing consumer.” **Buy Side, Generalist, N. America**

“Global economy is slowing following massive fiscal stimulus.” **Buy Side, Generalist, N. America**

“Companies want to start 2019 cautiously.” **Buy Side, Generalist, Europe**

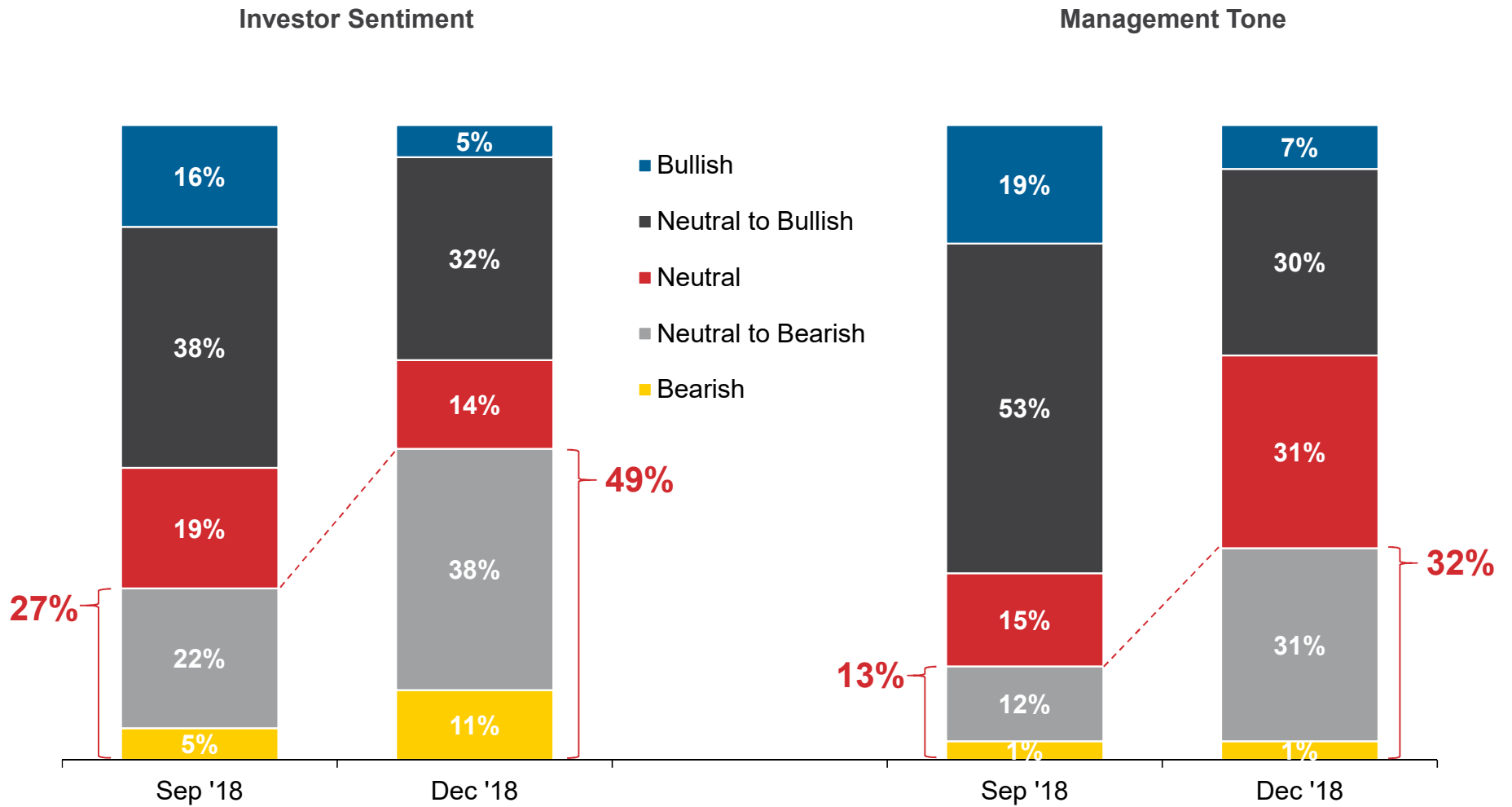
“Much higher levels of uncertainty looking into next year.” **Sell Side, Financials, Europe**

“Mixed; some better, some worse but accounting headwinds an issue YoY.” **Sell Side, REIT, N. America**

Assumptions: **77%** Expect 2019 U.S. GDP of $\leq 2.5\%$

88% Expect a *Lower Pace* of Interest Rate Hikes in 2019 vs. 2018, In Line with Fed Outlook

Increase in Bearish Sentiment Registered; Most Cautious Levels Since Sep. 2016
 (When Concerns Centered on Global Growth/China and Consumer Confidence)



Bullish – 5%

“Fundamentals are still okay.” **Buy Side, Generalist, Europe**

Neutral to Bullish – 32%

“Believe growth will be stronger than expectations.” **Buy Side, Generalist, N. America**

“Trade war may not settle.” **Buy Side, Financials, Europe**

“Economic growth.” **Buy Side, Healthcare, Europe**

“U.S. consumer.” **Sell Side, Generalist, Australia**

“Fundamentals feel less bad and businesses are better positioned.” **Sell Side, REIT, N. America**

“Clearly the confidence on demand sustaining is much higher with crude deflation.” **Sell Side, Consumer Staples, Asia**

Neutral – 14%

“Leadership is broken; no real catalysts before a trade deal.” **Buy Side, Generalist, N. America**

“Negative market sentiment was clearly overdone, market ready for some correction, uncertainty remains.” **Sell Side, Generalist, Europe**

“Some positive news in Latin America and growth prospects positive in Spain and the U.S.” **Sell Side, Financials, Europe**

Neutral to Bearish – 38%

“Market sentiment is a bit disconnected from the economic environment.” **Buy Side, Generalist, N. America**

“There is a general sentiment that demand is beginning to weaken, compounded by a vague worry that, in the event of any sort of shock, the U.S. will be challenged to provide coherent leadership.” **Buy Side, Generalist, N. America**

“Tariffs.” **Buy Side, Industrials, N. America**

“China, Trump attacks, geopolitical, Russia, recession, Democrats, impeachment, uncertainty, inflation, interest rates.” **Buy Side, Multi, N. America**

“High debt levels and minimal FCF yield/return of value to shareholders.” **Buy Side, Multi, N. America**

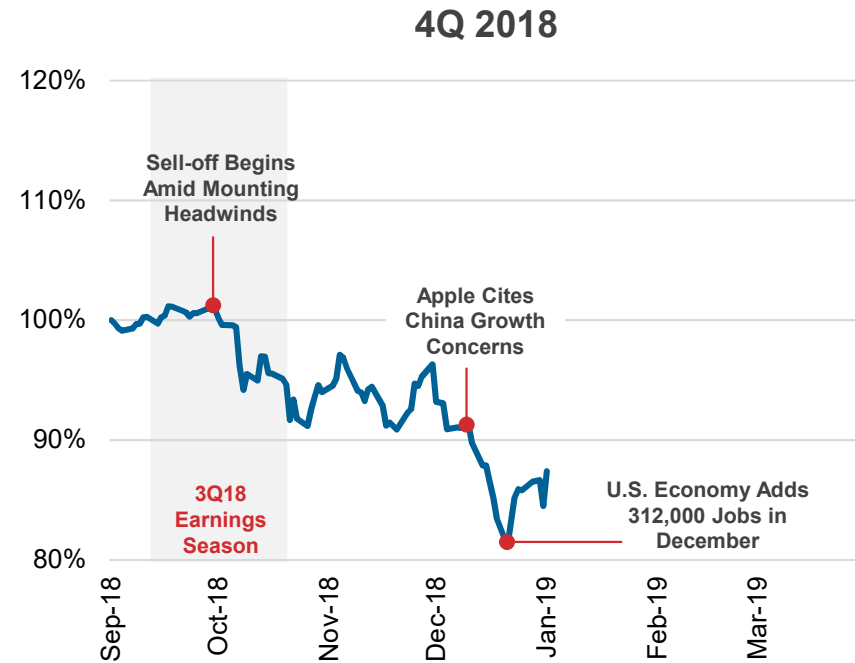
“Tariffs, budget deal, China.” **Sell Side, Generalist, N. America**

“Global slowdown. Market sentiment has soured significantly.” **Sell Side, Multi, Asia**

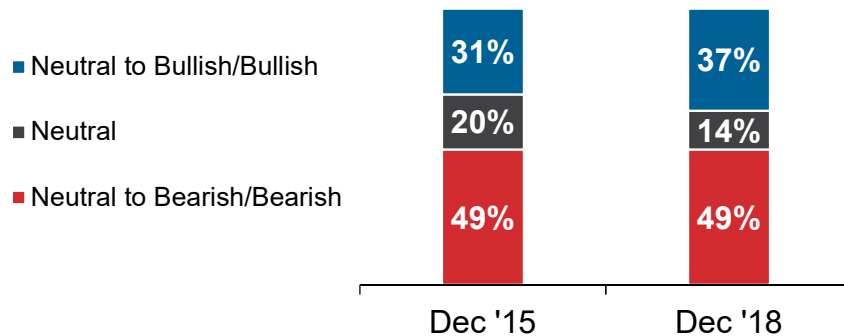
“Industrials strong, oil negative near term, ag uncertain with upside risk, muni solid.” **Sell Side, Industrials, N. America**

Three-year Deferment: Similar Trends to Dec. 2015, With Trade Wars Introduced into the Mix; Despite Downbeat 2016 Outlooks, Investor Certainty and a “New Normal” Led to Appreciation

S&P 500 Price Performance



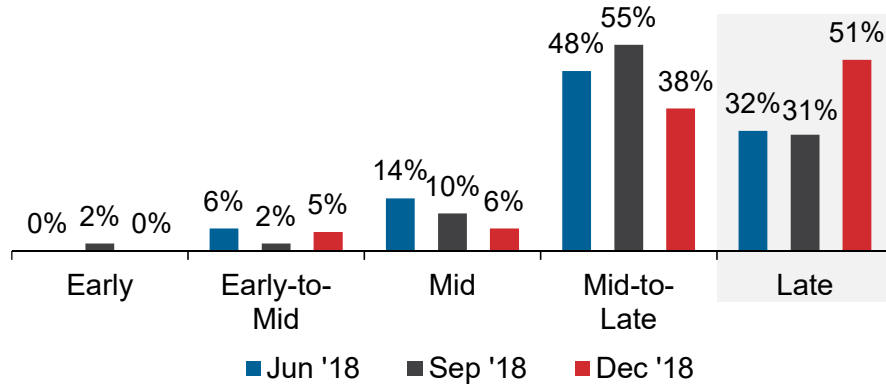
Investor Sentiment



Top Concerns

	Dec '15	Dec '18
Trade Wars		✓
Debt Levels	✓	✓
Interest Rates	✓	✓
Global Growth	✓	✓
Recession	✓	✓
Oil Prices	✓	✓
Global Capex	✓	✓
USD Strength	✓	✓
Consumer Confidence	✓	

Where Are We in the Economic Cycle? ▶▶▶



Mid-to-Late

“Economic data (both statistical and survey data) coupled with corporate guidance and money flows.” Buy Side, Generalist, N. America

“Job growth, spending outlook.” Buy Side, Generalist, N. America

“Growth rates, quantitative tightening, input costs, wage/job numbers.” Sell Side, Industrials, N. America

Late

“Showing some cracks in cyclical industries.” Buy Side, Generalist, N. America

“Longest expansion, longest bull market, unwise fiscal stimulus during expanding economy, possibility of rising rates.” Buy Side, Generalist, N. America

“Contracting liquidity, market euphoria, common sense. It’s all classic.” Buy Side, Generalist, N. America

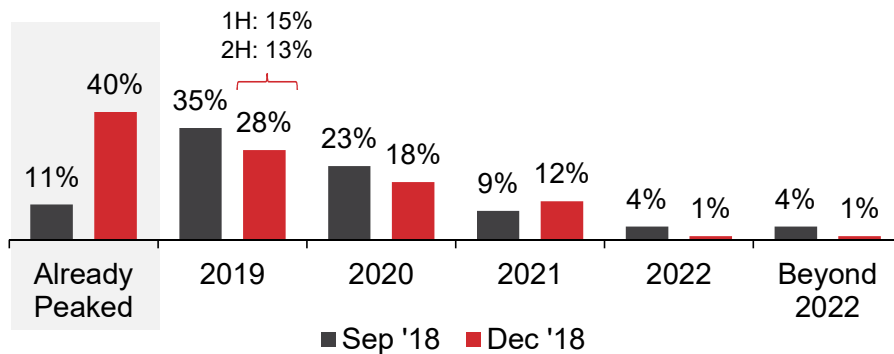
“Yield curve, unemployment rate.” Sell Side, Generalist, Australia

“Rates rising for the first time in 10 years.” Sell Side, Multi, Asia

“16% of corporate America qualify as zombies = too much corporate debt.” Sell Side, Energy, N. America

“Fed actions appear to be contra to market and yield curve flattening.” Sell Side, REIT, N. America

When Do You Think We Will Peak?



59% Express Continued or More Concern with a Recession vs. Last Quarter

1 Risk Management Strategies, Including Plans to De-lever

2 2019 Outlooks

3 Demand Patterns

Out of N. America

"Plans for tax windfall and input costs." **Buy Side, Generalist**

"Effect of trade frictions at accelerating sales/earnings YTD and potential effects next year." **Buy Side, Generalist**

"Earning peak, margins peak." **Buy Side, Generalist**

"Global growth outlook, pricing power." **Buy Side, Generalist**

"Input costs." **Buy Side, Generalist**

"Reducing leverage. Raising hurdle rates for investment. Share buybacks." **Buy Side, Energy**

"Demand changes." **Sell Side, Generalist**

"Plan to mitigate higher interest rates." **Sell Side, Multi**

"How they plan on paying down debt and how much debt matures over the next 24 months." **Sell Side, Energy**

"Risk management - how are they planning to move ahead with plans while mitigating downside risk if market and macro factors weaken dramatically?" **Sell Side, REIT**

Out of Europe

"2019 expectations." **Buy Side, Generalist**

"Level of activity." **Buy Side, Generalist**

"Value for shareholder." **Buy Side, Financials**

"Outlook." **Buy Side, Healthcare**

"Outlook and strategies in front of tariff war and Brexit. Emerging economies outlook." **Sell Side, Financials**

"How they intend to navigate the difficult macroeconomic conditions facing them in 2019." **Sell Side, Financials**

"Interest rate outlook." **Sell Side, Financials**

"Order activity." **Sell Side, Materials**

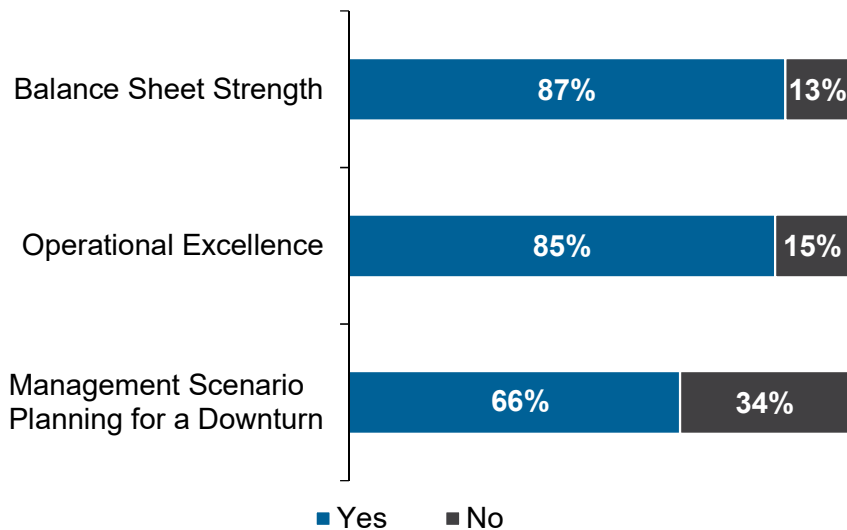
Out of Asia

"Protectionism." **Buy Side, Multi**

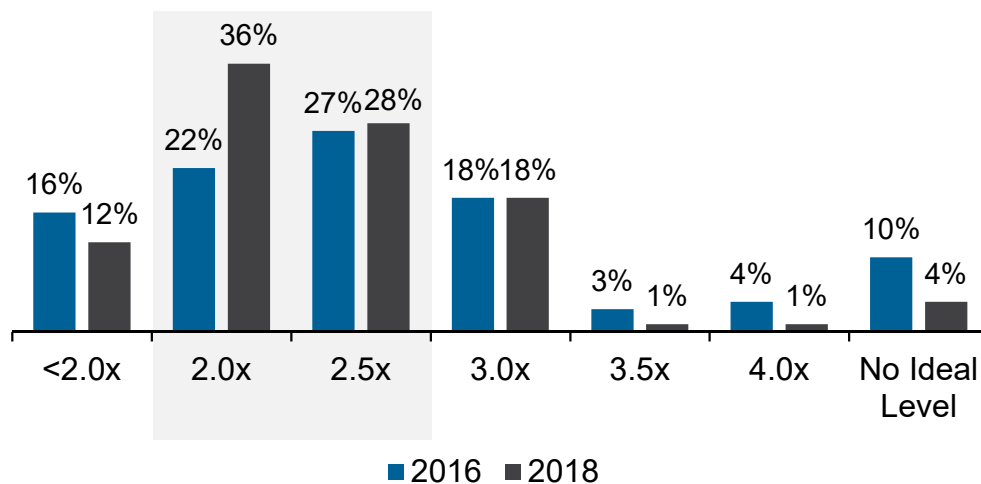
"Future plans." **Sell Side, Generalist**

"FX risk." **Sell Side, Generalist**

When Making an Investment, Are You Placing More Emphasis on the Following Versus One Year Ago?



Preferred Net Debt-to-EBITDA Levels



Is there Anything Else on Which You Are Placing More Emphasis?

“Sustainable earnings.” Buy Side, Generalist, N. America

“Stability and defensiveness of margins.” Buy Side, Generalist, N. America

“Underweight equity period, especially tech.” Buy Side, Generalist, N. America

“Structural growth.” Buy Side, Generalist, Europe

“Cash management.” Buy Side, Industrials, N. America

“Liquidity - dry powder.” Buy Side, Multi, N. America

“Using their cash to pay down debt ASAP.” Sell Side, Energy, N. America

“Dividend coverage.” Sell Side, Energy, Europe

“Risk management vs. capex-driven growth.” Sell Side, REIT, N. America

“Order activity.” Sell Side, Materials, Europe

Headcount Reduction Announcements (Oct. 2018 – Jan. 2019)

34

Companies Identified

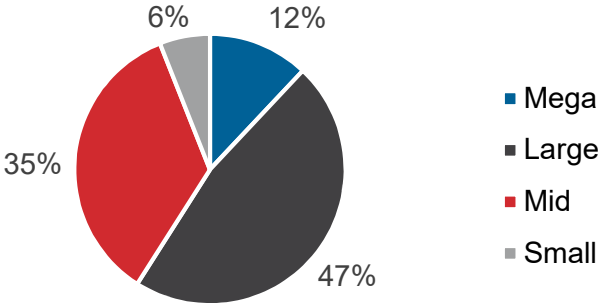
115,000+

Employee Layoffs Announced

~3,400

Average Employee Layoffs per Company

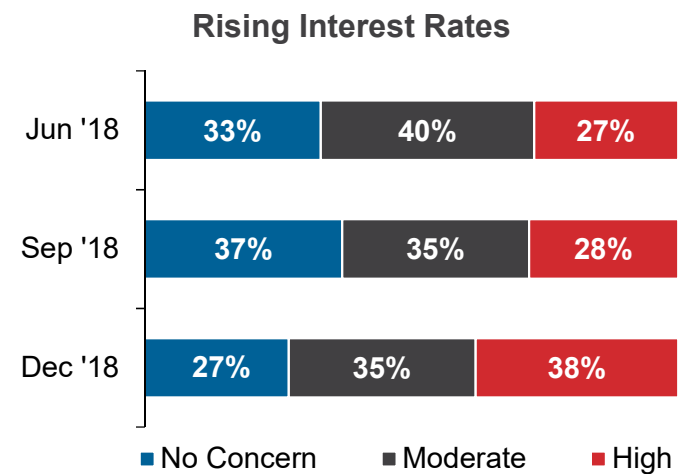
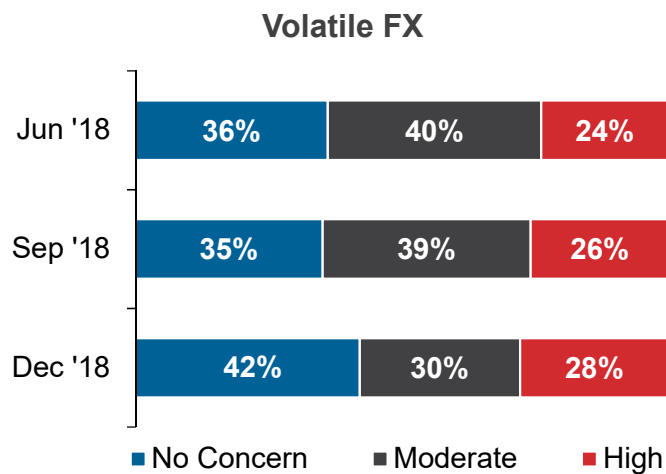
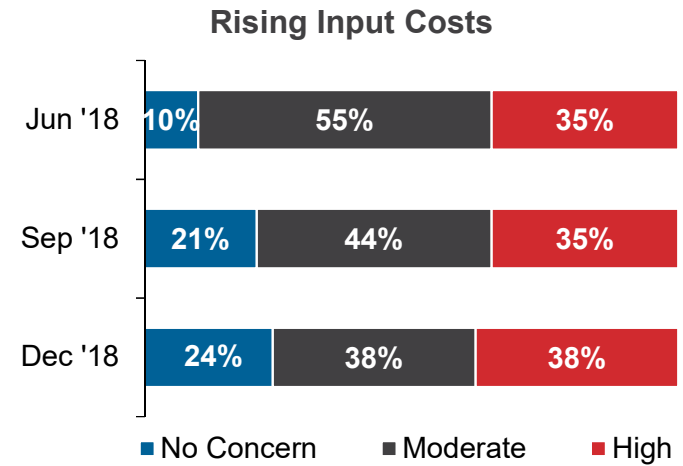
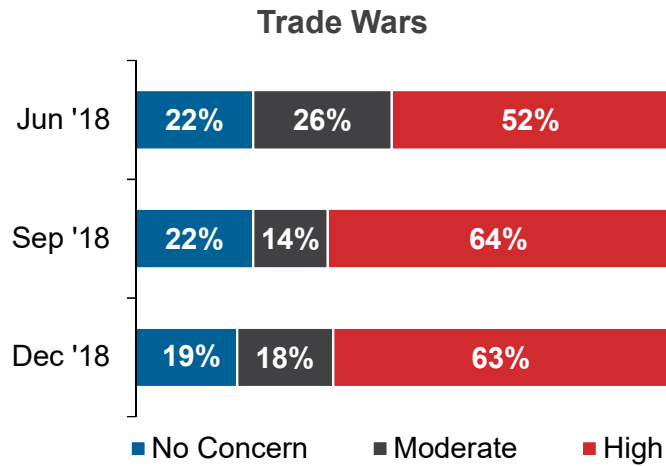
By Market Cap
n = 34



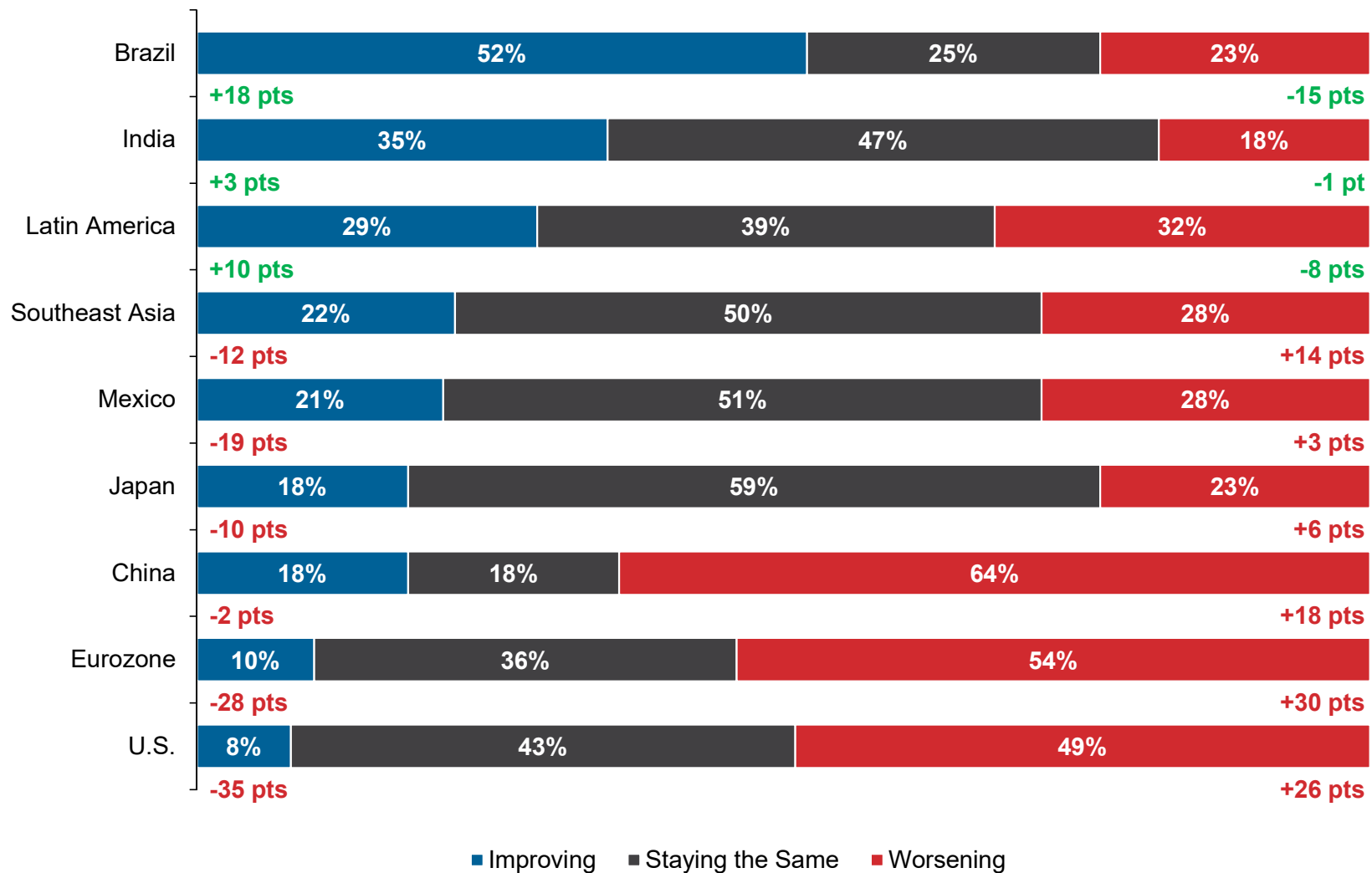
Number of Companies Announcing Headcount Reductions (By Industry)

- Banks (5)
 - Transportation (4)
 - Aerospace & Defense (2)
 - Capital Markets (2)
 - Chemicals (2)
 - IT Services (2)
 - REITs (2)
 - Retail/Apparel Manufacturing (2)
- One-offs
- Advertising Agencies
 - Auto Manufacturers
 - Business Equipment
 - Communication Equipment
 - Diversified Industrials
 - Drug Manufacturers
 - Healthcare Plans
 - Household & Personal Products
 - Insurance
 - Medical Instruments & Supplies
 - Paper & Paper Products
 - Steel
 - Utilities

Concern Levels



Global Economy Expectations over the Next Six Months



1	Trade Wars	2	Rising Interest Rates	3	Cycle Peak
4	Rising Input Costs	5	Debt Levels	6	Trump

Out of N. America

“Trade, Federal budget deficit and debt, FOMC policy error.”
Buy Side, Generalist

“Geopolitical risk, negative visibility of trade talks, input cost inflation.” **Buy Side, Generalist**

“Trade war, Fed overshoots, 2019 margins.” **Buy Side, Generalist**

“Possibility of avoidable shock through policy error, risk underpriced and subject to rapid repricing given any shock, difficult to see where market leadership can emerge going forward, at least until after a decline.” **Buy Side, Generalist**

“Margin peak, China recession, U.S. recession.” **Buy Side, Generalist**

“War with China, political corruption, higher taxes.” **Buy Side, Generalist**

“Washington politics, China/U.S. trade.” **Buy Side, Generalist**

“Escalation of trade wars, China growth slowing, EU stability.”
Buy Side, Generalist

Out of Europe

“Trade wars, Italy/Eurozone crisis, Brexit.” **Buy Side, Generalist**

“Trade wars, Italy, Brexit.” **Buy Side, Generalist**

“End of cycle, trade wars, Trump.” **Buy Side, Generalist**

“Increasing trade war, political and economic situation in Italy, political problems in France.” **Buy Side, Generalist**

“Declining (or even negative) corporate earnings growth, sharply rising interest rates (and/or bond yields), political issues (trade war, Brexit, Italy).” **Buy Side, Generalist**

Out of Asia

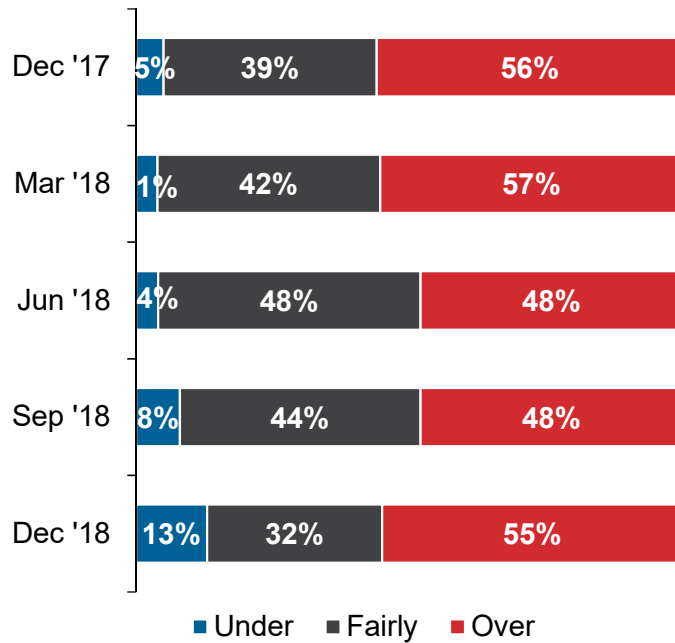
“Forex volatility, trade war, impact of higher interest rates on debt-ridden economies.” **Sell Side, Generalist**

“Central banks’ government bond sale.” **Sell Side, Generalist**

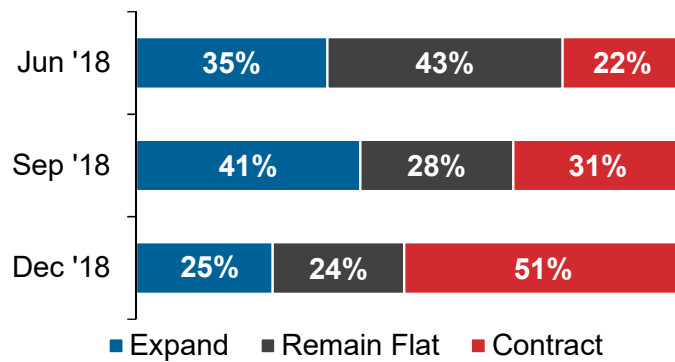
“U.S./China trade war, commodity price, IT risk and cyber-attack.”
Sell Side, Multi

Despite the Pullback, Investors Report U.S. Equities Are Overvalued and Increase Portfolio Cash Holdings; Nearly 60% *Holding* or *Rotating*

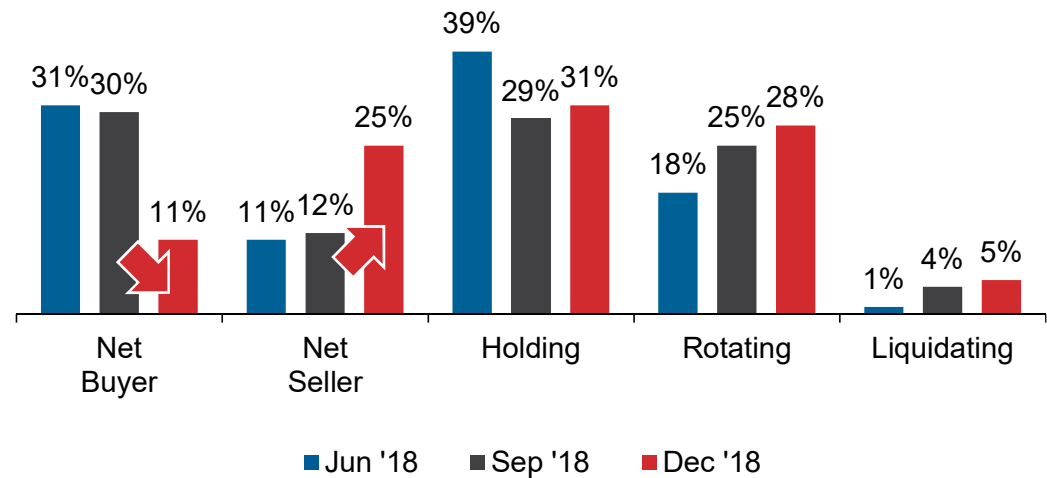
U.S. Equity Valuation Classification



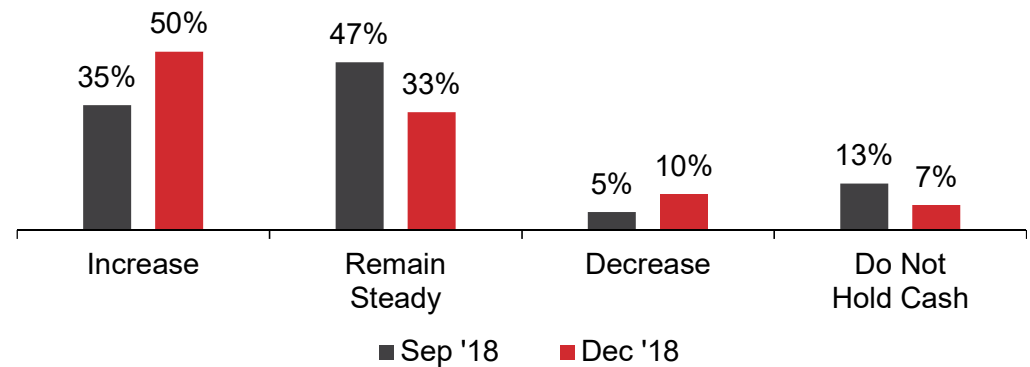
1H 2019 U.S. Equity Valuation Expectations



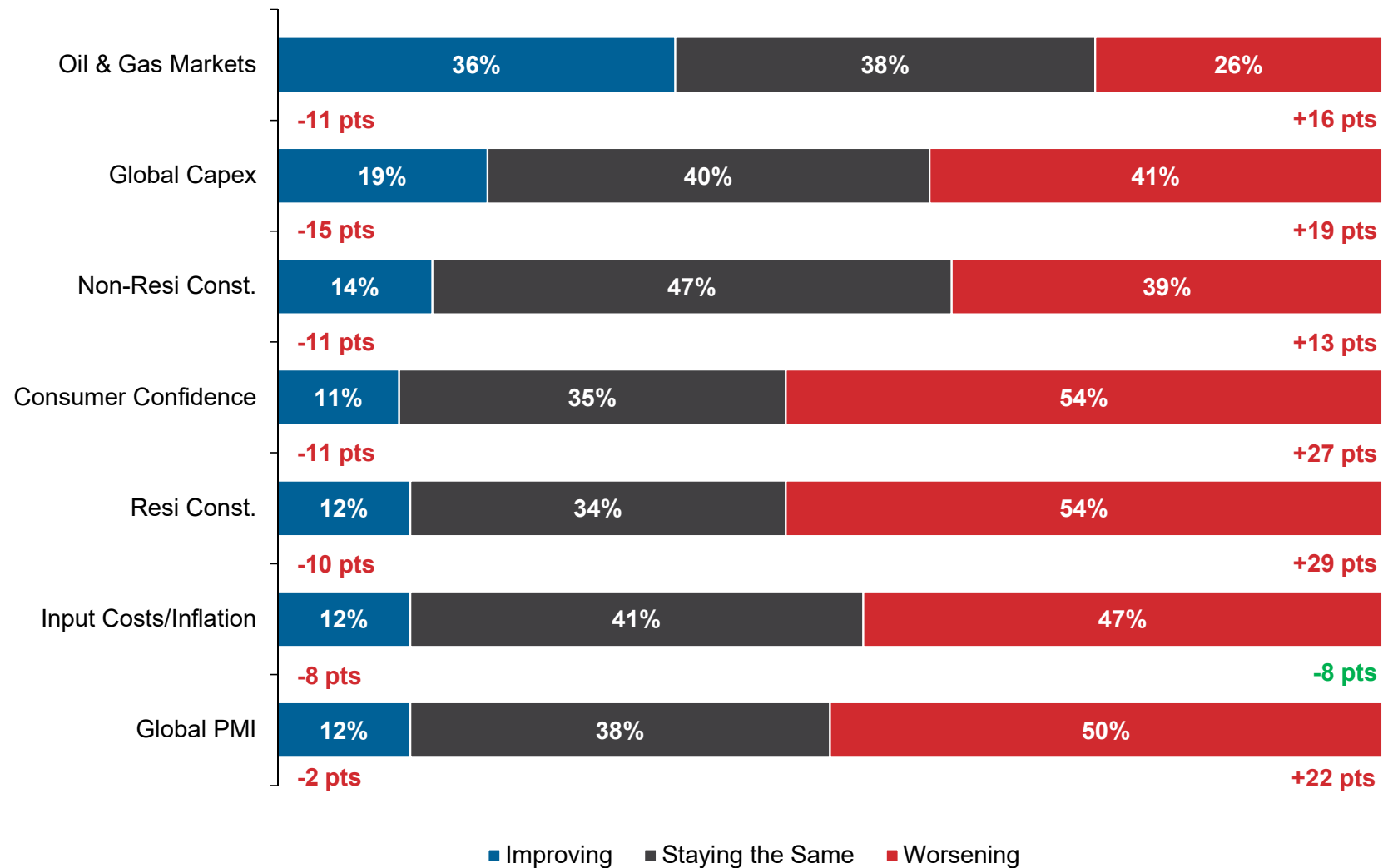
QoQ Investment Trends



QoQ Portfolio Cash Holding



Expectations over the Next Six Months



Oil & Gas Markets

“Can’t get much worse; cure for low prices is low prices.”
Buy Side, Multi, N. America

“Given the recent lows in energy, I anticipate flattish markets until supply-side of the equation retracts.”
Buy Side, Generalist, N. America

“U.S. shale will always balance the market.”
Sell Side, Generalist, Europe

“Upstream: Permian capacity constraints won’t alleviate until 2H19 and growth concerns on the demand side. Midstream component manufacturers should be solid given planned build out. Downstream should be solid with IMO 2020 looming and chemical positive due to feedstock prices.”
Sell Side, Industrials, N. America

Global Capex

“Global capex anticipated to remain the same as companies continue to seek production enhancements; at least maintain current productivity rates.”
Buy Side, Generalist, N. America

“Longer-term projects should move forward given under-investment in past years.”
Sell Side, Industrials, N. America

Non-Resi Construction

“Infrastructure development continues to increase.”
Sell Side, Multi, Asia

“Need government spending to get going.”
Sell Side, Generalist, Australia

Consumer Confidence

“At robust levels already.”
Buy Side, Multi, N. America

“It is at a pretty high level; might drift lower.”
Sell Side, Generalist, Australia

Resi Construction

“While the recent move in interest rates, employment and wages would be expected to bolster overall housing formation, existing home prices remain inflated. Housing formation in general is weaker. Competition from rents and multi-family development.”
Buy Side, Generalist, N. America

“Demand impacted by rising rates.”
Sell Side, Generalist, Australia

Input Costs/Inflation

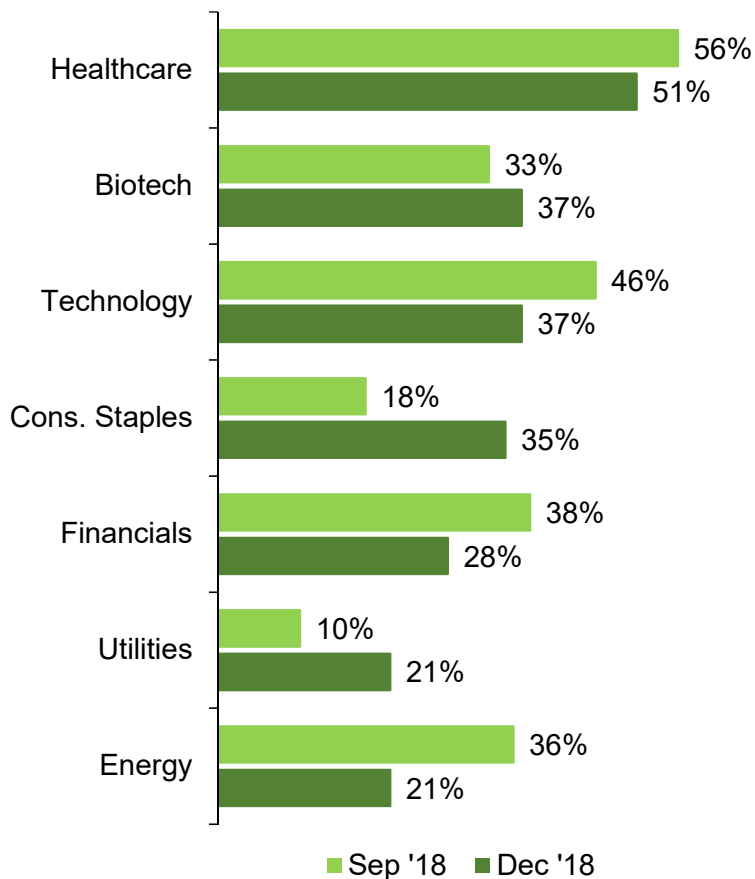
“Labor cost inflation, input costs resulting from the trade war(s) and tariffs, will adversely impact input costs in 1H 2019.”
Buy Side, Generalist, N. America

Global PMI

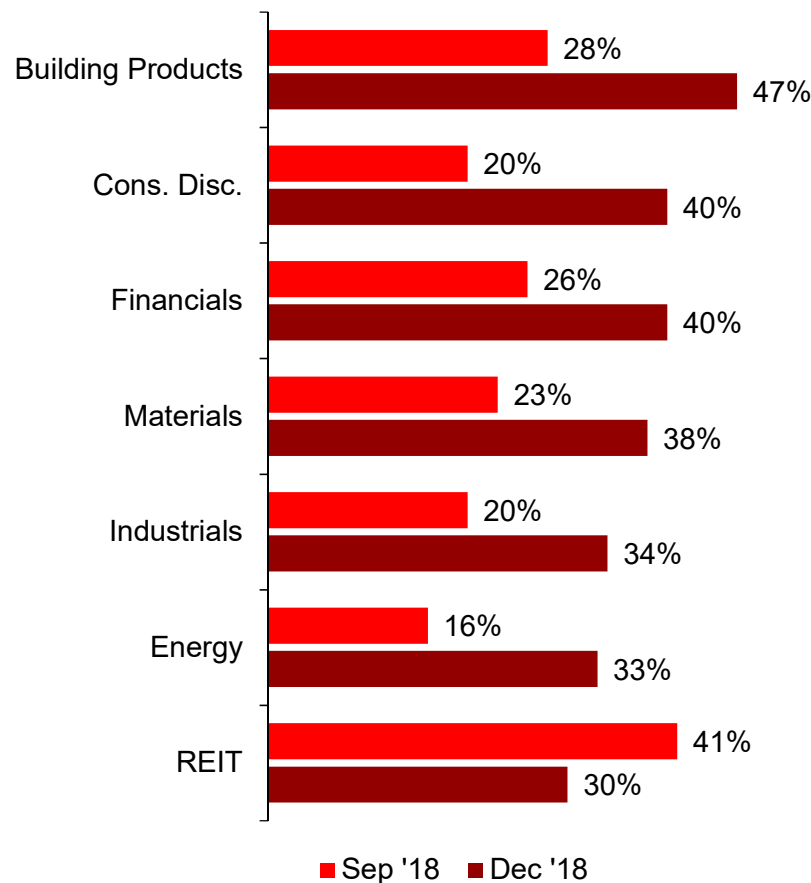
“Remain the same, possibly worsen as PMs attempt to navigate through the turbulence (economic and geopolitical) that is anticipated for 1H 2019.”
Buy Side, Generalist, N. America

“U.S. should remain solid, Europe and APAC negative.”
Sell Side, Industrials, N. America

Bears Bare Their Teeth; Investors Flock to Defensive Stocks with Consumer Staples and Utilities Seeing Nearly Double Bulls



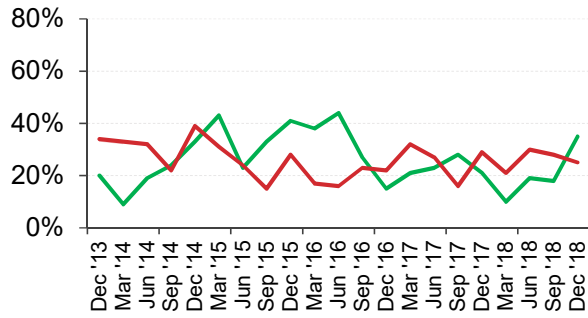
Healthcare Remains Strong Following Outperformance in 2018; Less Positive Sentiment Pervasive throughout Most Sectors



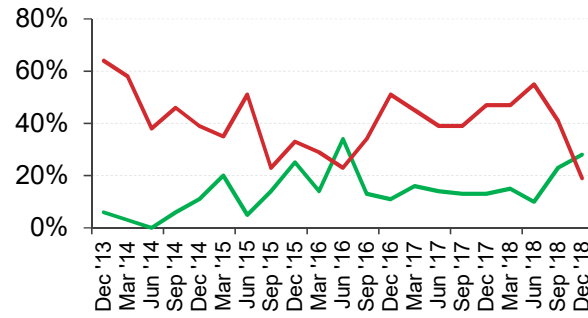
Utilities and REITs No Longer the Most Out-of-favor Sectors for the First Time in Over Two Years

Sector Trends: Inflection Points Abound

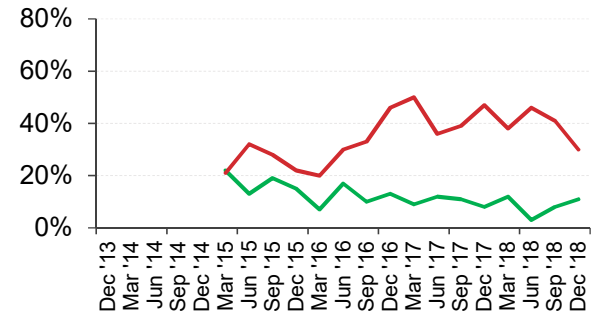
Cons. Staples



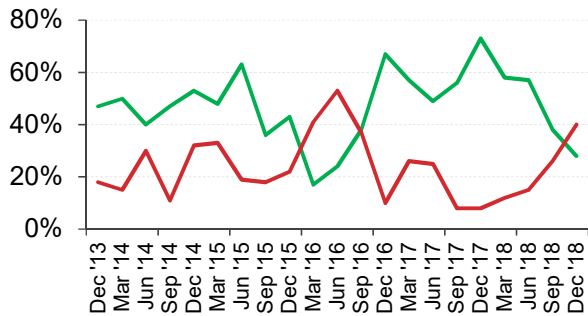
Utilities



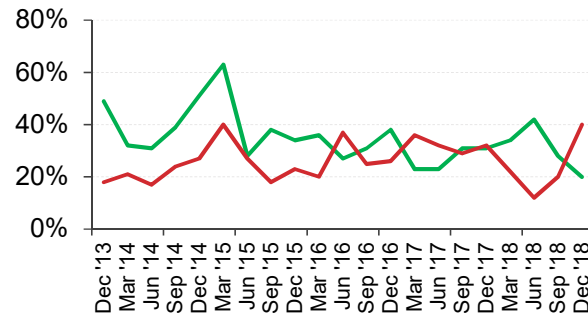
REITs¹



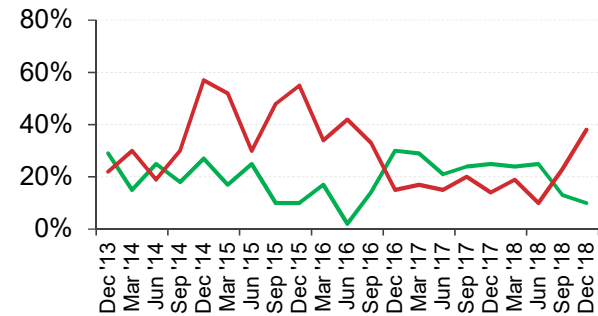
Financials



Cons. Disc.



Materials



— Bullish — Bearish

¹ Not included in survey prior to Mar. 15

A rowing team in a boat on water, with oars and rowers visible. The image is dimmed and serves as a background for the text.

ABOUT US

CORBIN ADVISORS

Deep Experience. Deeply Committed.

Founded	2007 by Rebecca Corbin
Sr. Team Experience	175+ Years Combined in Capital Markets
Location	Hartford, CT (US)
Client Size	\$250M to \$360B+

- Leading investor relations research and advisory firm
- Track record of value creation and committed to the highest quality standards and client satisfaction
- Extensive C-suite and board-level advisory experience
- Thought leaders: Leading-edge research on investor sentiment and best practices; quarterly surveys regularly featured on CNBC



Not pictured:
Catherine Hazzard
Evan Honeyman