

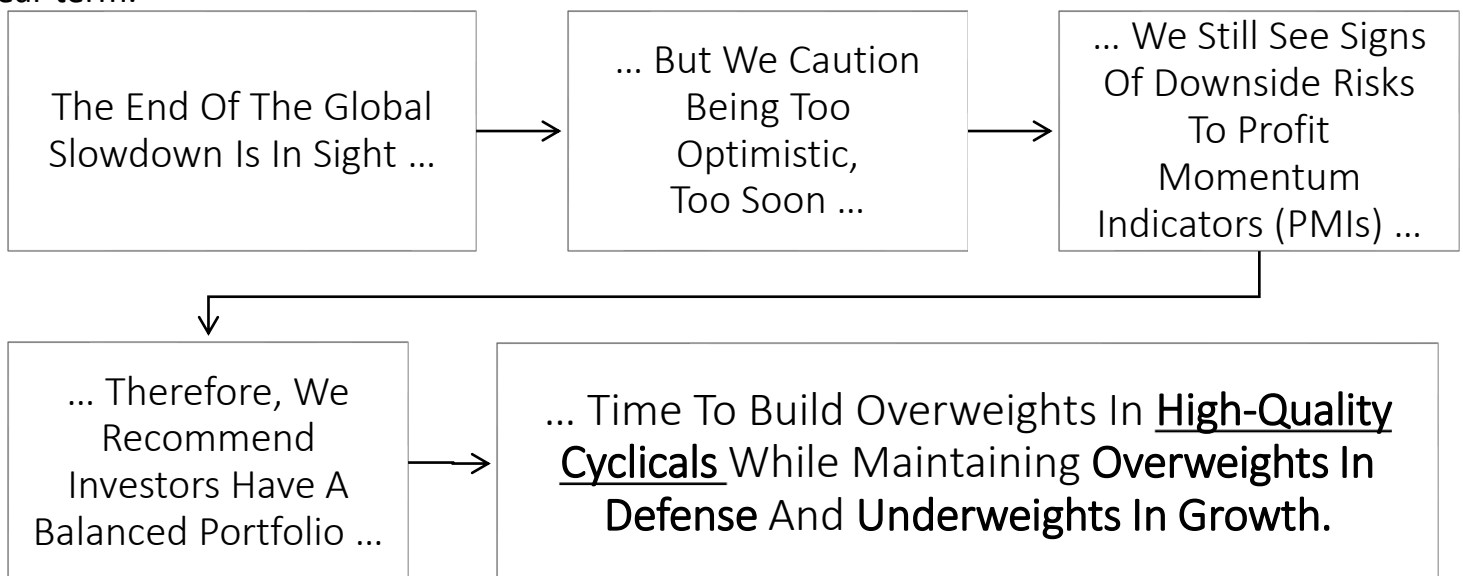
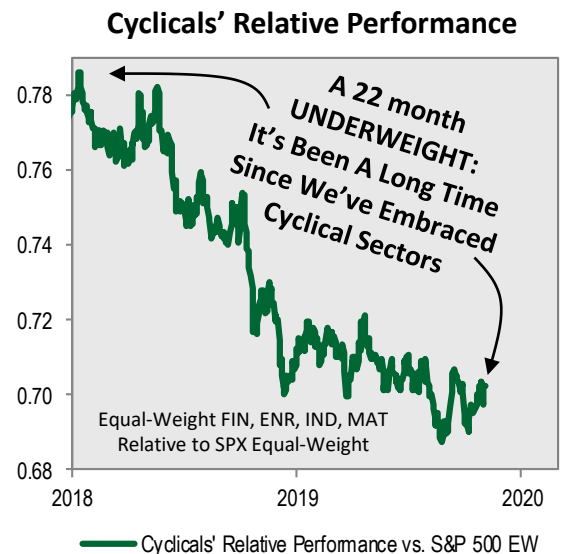
# CORNERSTONE MACRO

Economics, Policy, Strategy & Technicals

## Portfolio Strategy

### METHODICALLY MOVING CYCLICALS BACK TO OVERWEIGHT: WHICH HIGH-QUALITY CYCLICALS DO WE LIKE?

How do you move cyclical stocks up the preference ladder after being underweight these sectors for nearly 2 years when, as a client recently said to us, “we’re **bottoming at the top**”? The answer is, with a lot of patience and caution! While it admittedly “feels” risky to be upgrading cyclical stocks here with the S&P 500 at all-time highs, emotion is NOT an input to our process. We see the macro backdrop improving in 2020, which should translate into improving earnings expectations and the return of investors’ appetite for riskier equities. Last week’s move to dip our toes into higher-quality cyclical/Value stocks is our way of acknowledging the upside in 2020 but remaining aware of the risks in the near term.



Michael Kantrowitz, CFA  
(212)257-4971  
mkantrowitz@cornacteam.com

Stephen Gregory  
(212)257-4972  
sgregory@cornacteam.com

Emily Needell, CFA  
(212)257-4974  
eneedell@cornacteam.com

Justin Brant  
(212)257-4973  
jbrant@cornacteam.com

Copyright 2019 Cornerstone Macro. All rights reserved. This report is prepared exclusively for the use of Cornerstone Macro clients and may not be redistributed, retransmitted or disclosed, in whole or part, or in any form or manner, without the express written consent of Cornerstone Macro.

# Conclusion: It's Time To Dip A Toe Into High-Quality Cyclicals

Starting Point

Overweight Defense



What We Recommend Today

Add High-Quality Stocks In Cyclical Areas

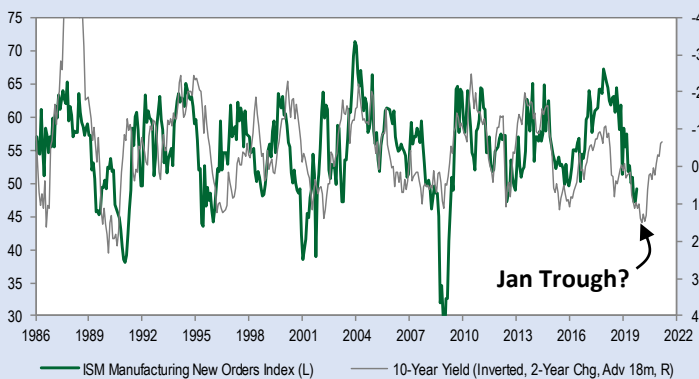
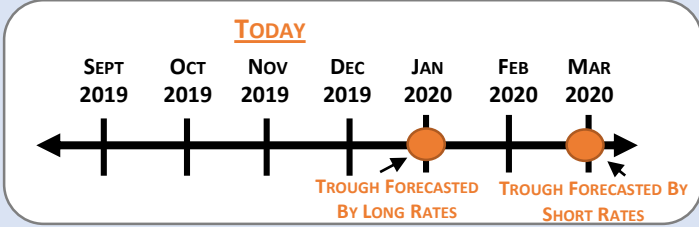


Where You Want To Be In Q1/2020

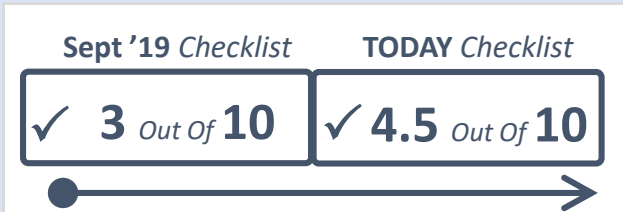
Overweight Cyclicals

## Why Are We Dipping A Toe Into High-Quality Cyclicals?

- We are nearing the forecasted trough in PMIs
- An increasing # of items on our recovery checklist are checked
- Getting Close To The Forecasted Low In PMIs

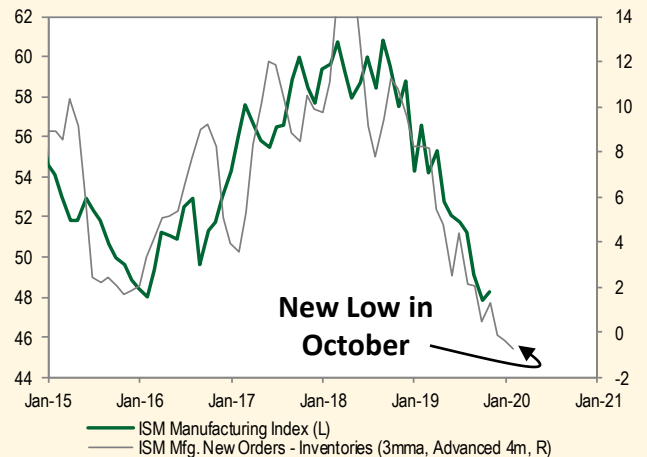


- Are We There Yet (Cyclical Trough Checklist)?

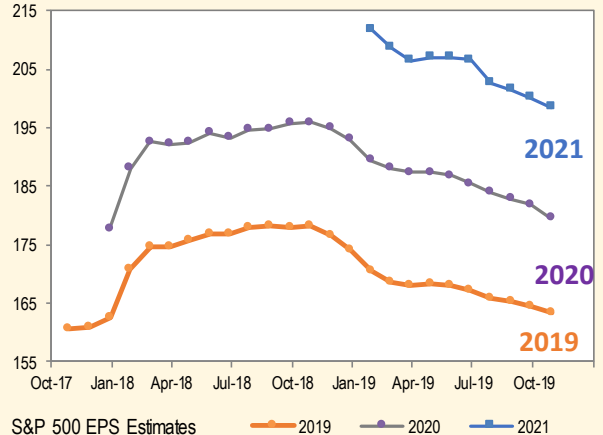


## Why Are We Not Getting More Cyclical?

- Short-term indicators have not picked up yet
- Earnings estimates continue to be under pressure
- Near-Term Indicators Haven't Turned Up Yet

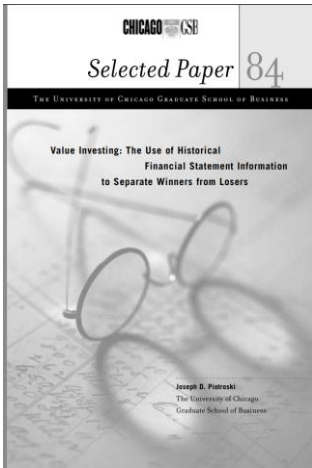


- Earnings Estimates Still Falling



## USE THE F-SCORE TO FIND QUALITY NAMES WITHIN CYCLICALS

When dipping a toe into Cyclical, it is paramount that investors focus on quality names within that universe. To achieve this objective, we recommend utilizing the F-Score, which is a classic value stock selection model that focuses on quality. Below are the top-ranked stocks within the more cyclical sectors of the S&P 1500 Value Index.



**Value Investing: The Use of Historical Financial Statement Information to Separate Winners from Losers**

**Joseph D. Piotroski**  
January 2002

### 2.3.4 Composite score

As indicated earlier, I define F\_SCORE as the sum of the individual binary signals, or

$$F\_SCORE = \underset{F1}{F\_ROA} + \underset{F2}{F\_ΔROA} + \underset{F3}{F\_CFO} + \underset{F4}{F\_ACCRUAL} + \underset{F5}{F\_ΔMARGIN} + \underset{F6}{F\_ΔTURN} + \underset{F7}{F\_ΔLEVER} + \underset{F8}{F\_ΔLIQUID} + \underset{F9}{EQ\_OFFER}$$

## Top-Ranked Stocks In The S&P 1500 Value Index (Cyclical Sectors)

### Financials

Symbol	Company Name	F1 ROA	F2 ROA Growth	F3 CFROA	F4 Accruals	F8 Margin Chg	F5 Asset Turn Chg	F5 Leverage Chg	F6 Liquidity Chg	F9 Equity Issuance	F-Score Rank
BXS	Bancorsouth Bk Tupelo Miss	1	1	1	1	0	1	1	1	1	1
BRK.B	Berkshire Hathaway Inc Del	1	0	1	1	1	1	1	1	1	1
BHF	Brighthouse Finl Inc	1	1	1	1	1	1	0	1	1	1
ETFC	E Trade Financial Corp	1	1	1	1	1	1	1	1	1	1
EIG	Employers Holdings Inc	1	1	1	0	1	1	1	1	1	1
EVR	Evercore Inc	1	1	1	1	1	1	0	1	1	1
FBP	First Bancorp P R	1	1	1	1	1	1	1	1	1	1
HFWA	Heritage Finl Corp Wash	1	1	1	1	1	1	1	1	1	1
IBKR	Interactive Brokers Group I	1	1	1	1	1	1	1	1	1	1
MCY	Mercury Genl Corp New	1	1	1	1	1	1	1	1	1	1
MET	Metlife Inc	1	1	1	1	1	1	0	1	1	1
NAVI	Navent Corporation	1	1	1	1	1	1	1	1	1	1
NMIH	Nmi Hldgs Inc	1	1	1	1	1	1	1	1	1	1
OFG	Ofg Bancorp	1	1	1	1	1	1	1	1	1	1
ORI	Old Rep Intl Corp	1	1	1	1	1	1	1	1	1	1
PJC	Piper Jaffray Cos	1	1	1	1	1	1	1	1	1	1
PFS	Provident Finl Svcs Inc	1	1	1	1	1	1	1	1	1	1
RNR	Renaissancere Holdings Ltd	1	1	1	1	1	1	1	0	1	1
TRV	Travelers Companies Inc	1	1	1	1	1	1	1	0	1	1

### Energy

Symbol	Company Name	F1 ROA	F2 ROA Growth	F3 CFROA	F4 Accruals	F8 Margin Chg	F5 Asset Turn Chg	F5 Leverage Chg	F6 Liquidity Chg	F9 Equity Issuance	F-Score Rank
COG	Cabot Oil & Gas Corp	1	1	1	1	1	1	1	0	1	1
CVX	Chevron Corp New	1	1	1	1	1	1	1	1	1	1
ERA	Era Group Inc	1	1	1	1	1	1	1	1	1	1
GPOR	Gulfport Energy Corp	1	1	1	1	1	1	0	1	1	1
MTRX	Matrix Svc Co	1	1	1	1	1	1	1	0	1	1
SWN	Southwestern Energy Co	1	1	1	1	1	1	1	0	1	1
WPX	Wpx Energy Inc	1	1	1	1	1	1	1	1	1	1

## CORNERSTONE MACRO

## ... TOP-RANKED STOCKS WITHIN THE S&amp;P 1500 VALUE INDEX CONTINUED

## Materials

Symbol	Company Name	F1 ROA	F2 ROA Growth	F3 CfROA	F4 Accruals	F8 Margin Chg	F5 Asset Turn Chg	F5 Leverage Chg	F6 Liquidity Chg	F9 Equity Issuance	F-Score Rank
CRS	Carpenter Technology Corp	1	0	1	1	1	1	1	1	1	1
UFS	Domtar Corp	1	1	1	1	1	1	1	0	1	1
GCP	Gcp Applied Technologies In	1	1	1	1	0	0	1	1	1	1
LIN	Linde Plc	1	1	1	1	0	0	1	1	1	1
MOS	Mosaic Co New	1	1	1	1	1	1	0	0	1	1
NUE	Nucor Corp	1	1	1	1	1	1	1	1	1	1
RGLD	Royal Gold Inc	1	1	1	1	1	1	1	1	1	1
STLD	Steel Dynamics Inc	1	0	1	1	1	1	1	1	1	1
SCL	Stepan Co	1	1	1	1	1	0	1	1	1	1

## Tech

Symbol	Company Name	F1 ROA	F2 ROA Growth	F3 CfROA	F4 Accruals	F8 Margin Chg	F5 Asset Turn Chg	F5 Leverage Chg	F6 Liquidity Chg	F9 Equity Issuance	F-Score Rank
ACN	Accenture Plc Ireland	1	1	1	1	1	0	1	1	1	1
BMI	Badger Meter Inc	1	1	1	1	1	0	1	1	1	1
CDNS	Cadence Design System Inc	1	1	1	1	0	1	1	1	1	1
CDW	Cdw Corp	1	1	1	1	1	1	1	0	1	1
DIOD	Diodes Inc	1	1	1	1	1	1	1	0	1	1
EVTC	Evertec Inc	1	1	1	1	1	1	1	1	1	1
FN	Fabrinet	1	1	1	1	1	1	1	1	1	1
KN	Knowles Corp	1	1	1	1	1	1	1	1	1	1
OSIS	Osi Systems Inc	1	1	1	1	1	1	1	0	1	1
QRVO	Qorvo Inc	1	1	1	1	1	1	0	0	1	1
QLYS	Qualys Inc	1	1	1	1	1	1	0	0	1	1
ROG	Rogers Corp	1	1	1	1	0	1	1	1	1	1
SNPS	Synopsys Inc	1	1	1	1	1	1	1	0	1	1
XPER	Xperi Corp	1	1	1	1	1	1	1	1	1	1

## Discretionary

Symbol	Company Name	F1 ROA	F2 ROA Growth	F3 CfROA	F4 Accruals	F8 Margin Chg	F5 Asset Turn Chg	F5 Leverage Chg	F6 Liquidity Chg	F9 Equity Issuance	F-Score Rank
BKNG	Booking Hldgs Inc	1	1	1	1	1	1	0	0	1	1
BWA	Borgwarner Inc	1	1	1	1	0	0	1	1	1	1
DRI	Darden Restaurants Inc	1	1	1	1	1	1	1	0	1	1
EXPE	Expedia Group Inc	1	1	1	1	1	0	0	1	1	1
GM	General Mtrs Co	1	1	1	1	1	1	0	1	1	1
GNTX	Gentex Corp	1	1	1	1	0	1	1	1	1	1
HBI	Hanesbrands Inc	1	1	1	1	1	1	1	0	1	1
IBP	Installed Bldg Prods Inc	1	1	1	1	1	1	0	0	1	1
MTH	Meritage Homes Corp	1	1	1	1	1	0	1	1	1	1
NKE	Nike Inc	1	1	1	1	1	1	1	0	1	1
NCLH	Norwegian Cruise Line Hldg	1	1	1	1	1	1	1	1	1	1
PHM	Pulte Group Inc	1	1	1	1	0	1	1	1	1	1
SBH	Sally Beauty Hldgs Inc	1	1	1	1	0	0	1	1	1	1
TPX	Tempur Sealy Intl Inc	1	0	1	1	0	1	1	1	1	1
TOL	Toll Brothers Inc	1	1	1	0	1	1	1	1	1	1
BLD	Topbuild Corp	1	0	1	1	1	1	0	1	1	1
UFI	Unifi Inc	1	0	1	1	0	1	1	1	1	1

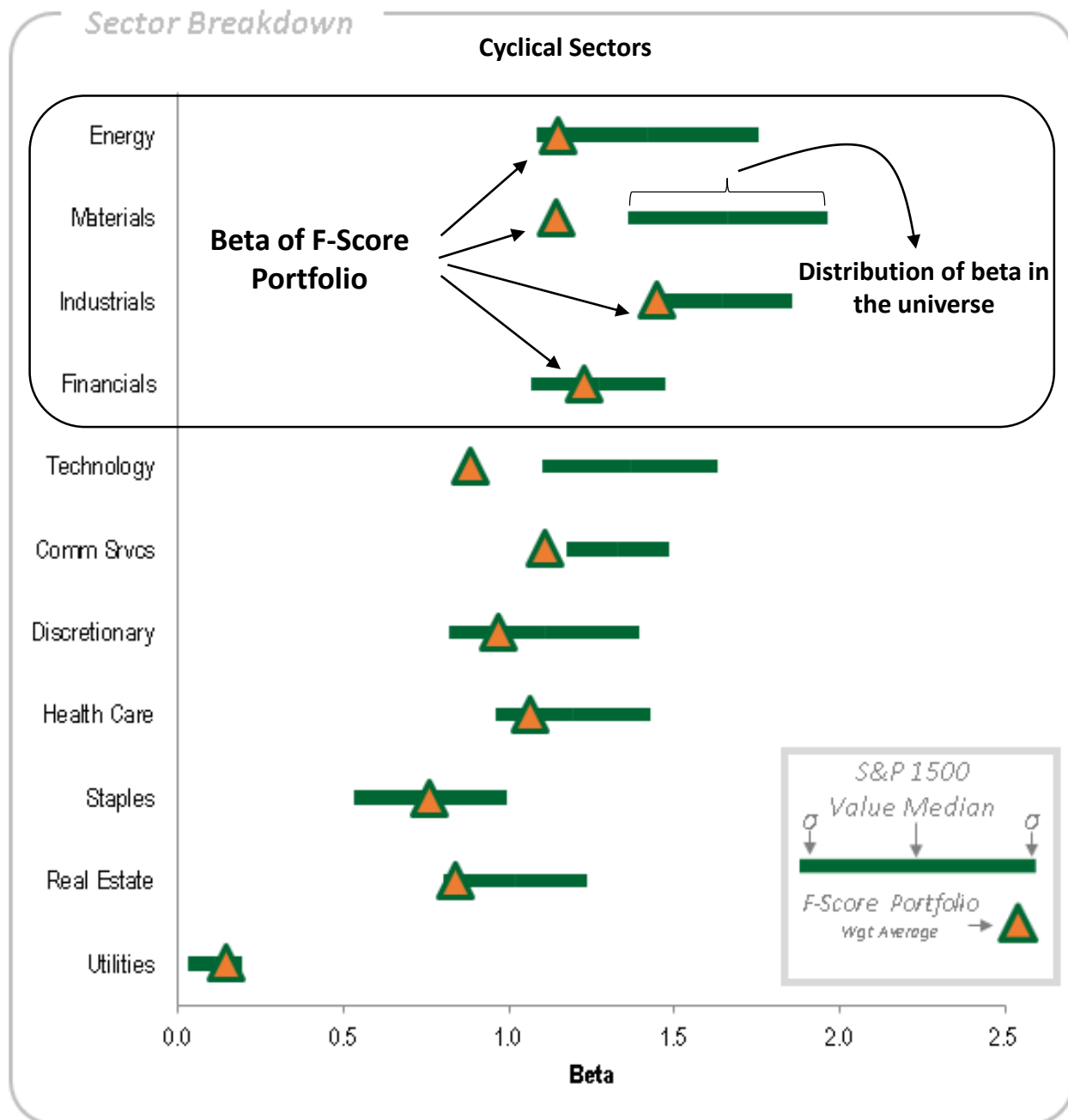
## Industrials

Symbol	Company Name	F1 ROA	F2 ROA Growth	F3 CfROA	F4 Accruals	F8 Margin Chg	F5 Asset Turn Chg	F5 Leverage Chg	F6 Liquidity Chg	F9 Equity Issuance	F-Score Rank
ACM	Aecom	1	1	1	1	1	0	1	1	1	1
AZZ	Azz Inc	1	1	1	1	1	1	0	1	1	1
CHRW	C H Robinson Worldwide Inc	1	1	1	1	1	0	1	1	1	1
CAT	Caterpillar Inc Del	1	1	1	1	0	1	1	1	1	1
ETN	Eaton Corp Plc	1	0	1	1	1	1	1	1	1	1
LHX	L3Harris Technologies Inc	1	1	1	1	1	1	1	1	1	1
MOGA	Moog Inc	1	1	1	1	0	1	1	1	1	1
MLI	Mueller Inds Inc	1	1	1	1	1	1	1	0	1	1
DNOW	Now Inc	1	1	1	1	1	1	1	0	1	1
OSK	Oshkosh Corp	1	1	0	1	1	1	1	1	1	1
PCAR	Paccar Inc	1	1	1	1	1	1	0	1	1	1
POWL	Powell Inds Inc	1	1	1	1	1	1	1	0	1	1
RBC	Regal Beloit Corp	1	1	1	1	1	0	1	1	1	1
RECN	Resources Connection Inc	1	1	1	1	1	1	1	0	1	1
TDY	Teledyne Technologies Inc	1	1	1	1	1	1	1	0	1	1
TBI	Trueblue Inc	1	1	1	1	1	0	1	1	1	1
UFPI	Universal Fst Prods Inc	1	1	1	1	1	0	1	1	1	1
WTS	Watts Water Technologies In	1	1	1	1	1	1	1	0	1	1

## THE F-SCORE IS A WAY TO ISOLATE HIGH-QUALITY NAMES IN CYCLICALS

Below we show sector/beta analytics for the F-score portfolio within the S&P 1500 Value Universe. This sector-neutral portfolio consists of the stocks that rank in the top decile according to the F-score. **While the F-score targets quality metrics and not low beta directly, the portfolio of top-ranked F-score names tends to be less cyclically sensitive than the benchmark.** Below we show, across each sector, where the beta of the F-score portfolio falls in comparison to the range of betas for the overall benchmark.

### S&P 1500 Value Universe vs. Top Ranked Stocks According to F-Score



# How Cyclical Is YOUR PORTFOLIO? – TRY OUR CYCLICALITY BAROMETER

Below is a step-by-step guide for how to use our Cyclicality Barometer. To start, enter your tickers and weights into the input columns to the left. Next, determine which benchmark you would like to compare your portfolio to. Last, select which variable you would like to see for your portfolio. The charts and gauge update automatically after your inputs are selected.

## CSM Portfolio Strategy's Cyclicality Barometer

### Step 1

**Enter U.S. Tickers With Min Three Years Of History Here**  
(Up To 250 Standard OR Bloomberg Accepted)

**Enter Wgt Or Leave Blank For Equal Wgt**  
(Whole Numbers Accepted)

Tickers	Weight
JNJ	1.37
CVX	1.37
NKE	1.37
CHTR	1.37
BKNG	1.37
GILD	1.37
CAT	1.37
MS	1.37
GM	1.37
BIIB	1.37
WBA	1.37
LHX	1.37
MET	1.37
ATVI	1.37
SYN	1.37
ETN	1.37
TRV	1.37
EA	1.37

Enter Your Tickers And Weights Into These Columns

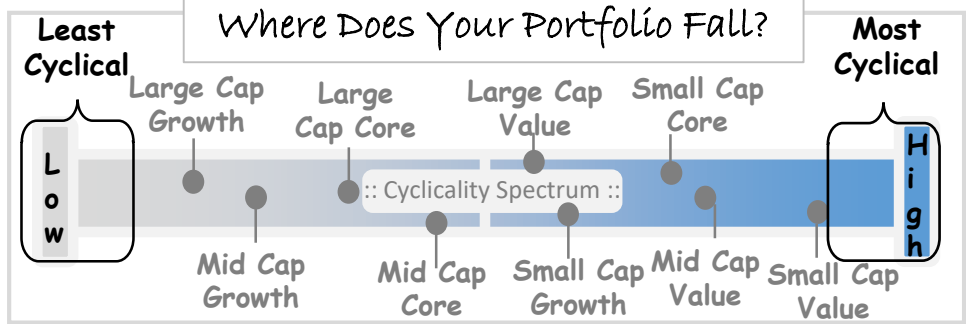
### Step 2

Select Which Universe You'd Like To Compare Against And Which Factor You'd Like To See

Select Universe

S&P 1500 Value

Beta

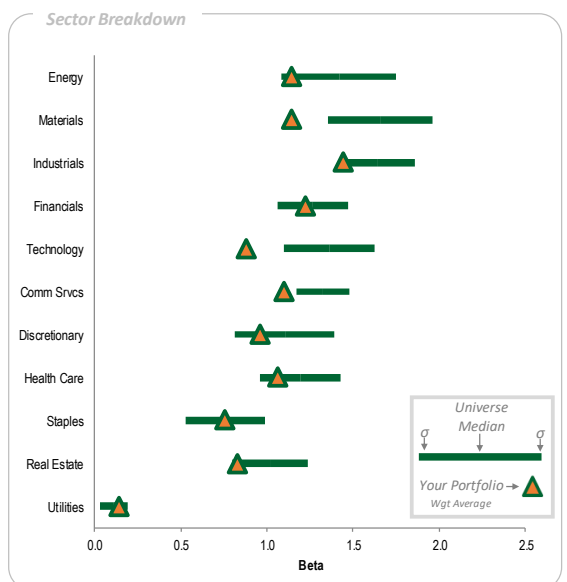
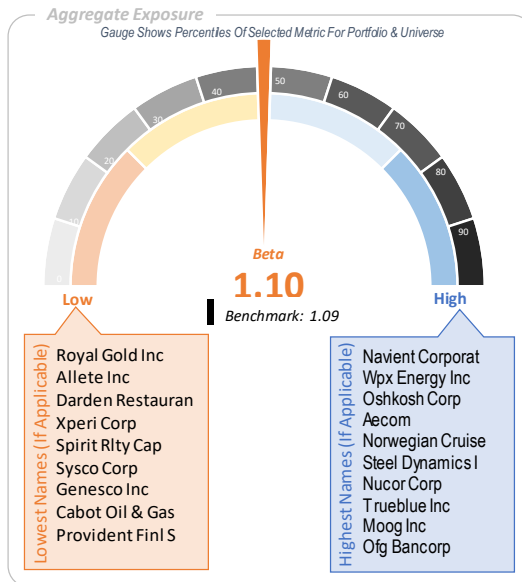


Enter your tickers & weights into our Cyclicality Barometer to see how your portfolio stacks up!



For A Copy Email us at [Quant@cormacteam.com](mailto:Quant@cormacteam.com)

Once Your Portfolio Information Is Entered, You Can See Where Your Portfolio Stacks Up When Compared To Your Benchmark



## CORNERSTONE MACRO