

# Social Undistancing. Shifting from Covid-19 leaders to laggards.

**Pat Tschosik, CFA, CMT**

U.S. Sector Strategist



**NDR**  
NED DAVIS RESEARCH

June 2020

This virus is not fair. It has devastated the Leisure industry.

<b>Payrolls (millions)</b>	<b>Feb-20</b>	<b>May-20</b>	<b>Decrease</b>	<b>% of Total</b>
Financial Activities	8.8	8.6	-0.2	1.5%
Information	2.9	2.6	-0.3	2.0%
Other Services	5.9	4.9	-1.1	6.7%
Business and Professional Services	21.6	19.4	-2.2	13.3%
Education and Health Care	24.6	22.2	-2.3	14.5%
<b>Trade</b>	<b>27.8</b>	<b>24.9</b>	<b>-3.0</b>	<b>18.3%</b>
<b>Leisure</b>	<b>16.9</b>	<b>9.8</b>	<b>-7.0</b>	<b>43.6%</b>
Total Private Services Payrolls	108.5	92.4	-16.2	100.0%

Source: U.S. Bureau of Labor Statistics

Ned Davis Research

T\_GEH20\_091

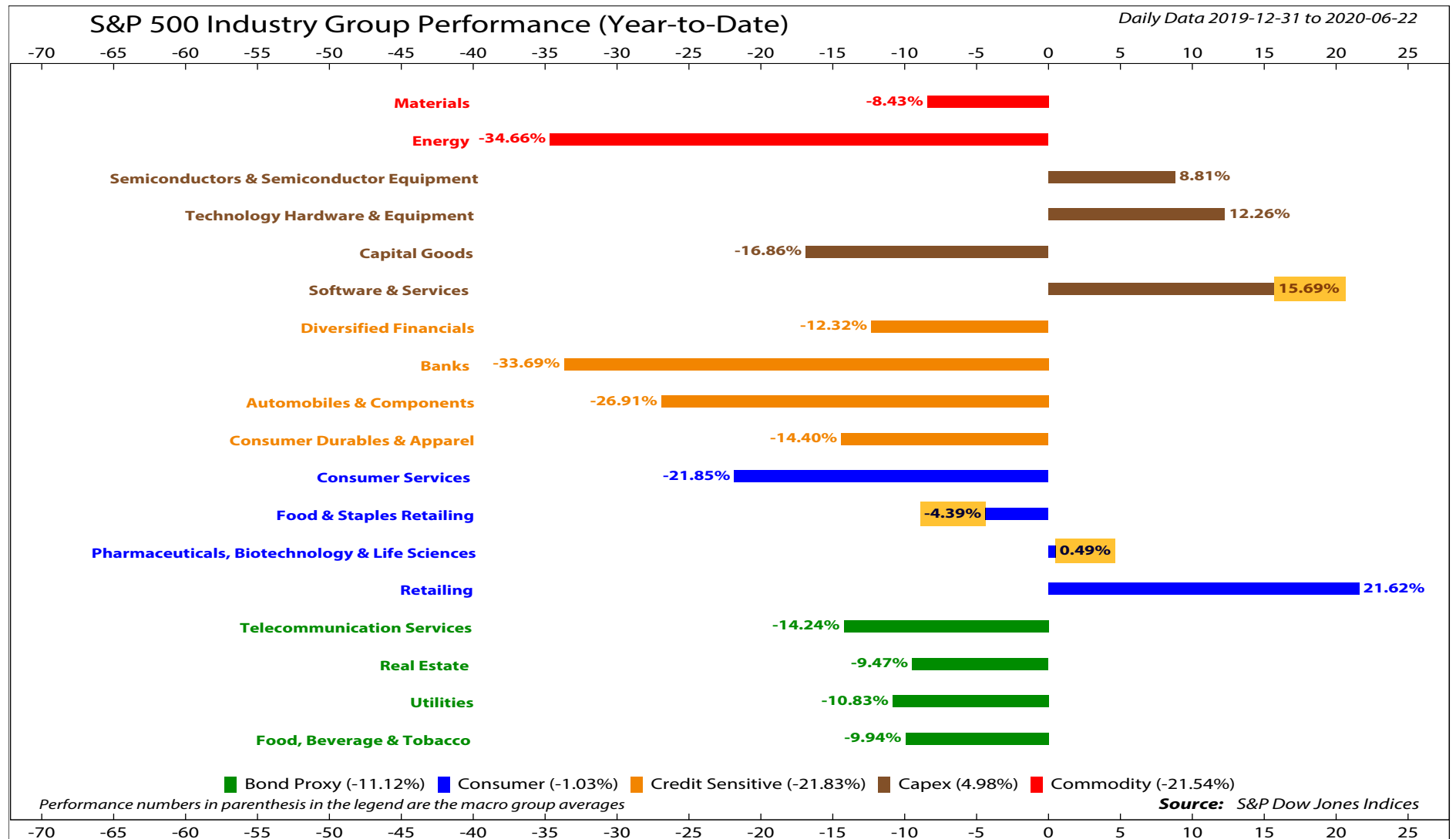
It has hurt the less educated more than the highly educated.

<b>Unemployment Rate by Education Level</b>			
<b>Education</b>	<b>Feb-20</b>	<b>May-20</b>	<b>Inc (% pt.)</b>
< HS Diploma	5.7%	19.9%	14.2
HS Diploma	3.6%	15.3%	11.7
Some College	3.0%	13.3%	10.3
College Grad	1.9%	7.4%	5.5
<b>&lt; HS Diploma vs. College</b>	<b>3.8%</b>	<b>12.5%</b>	<b>8.7</b>
Seasonally Adjusted. Source: Bureau of Labor Statistics.			
Source: U.S. Bureau of Labor Statistics.			
Ned Davis Research		T_GEH20_09.2	

It has greatly impacted young and female.

<b>Employment-Population Ratio</b>	<b>Feb-20</b>	<b>May-20</b>	<b>Dec (% pt)</b>
<b>Women Aged 16-24</b>	<b>52.0%</b>	<b>37.9%</b>	<b>-14.1</b>
<b>Women Aged 25-54</b>	<b>74.7%</b>	<b>65.0%</b>	<b>-9.7</b>
Women Aged 55+	34.0%	28.9%	-5.1
<b>Men Aged 16-24</b>	<b>52.8%</b>	<b>39.7%</b>	<b>-13.1</b>
Men Aged 25-54	86.5%	77.9%	-8.6
Men Aged 55+	45.3%	39.8%	-5.5
Ned Davis Research			T_GEH20_09.3

# Covid Staples, Consumer Staples, Computer Staples have been our core.

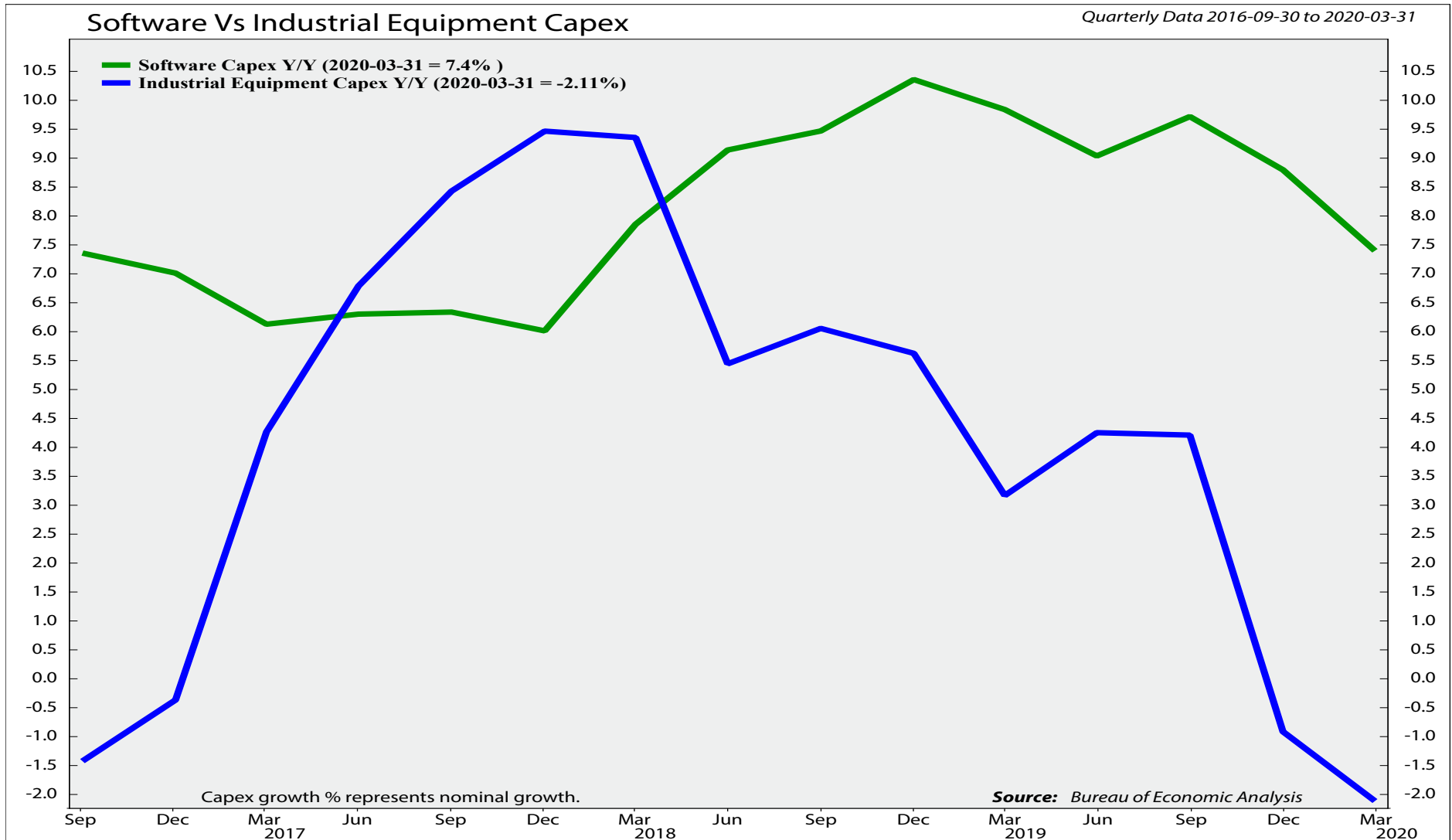


BA552D



© Copyright 2020 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at [www.ndr.com/copyright.html](http://www.ndr.com/copyright.html)  
For data vendor disclaimers refer to [www.ndr.com/vendorinfo/](http://www.ndr.com/vendorinfo/)

# Software has become a defensive industry.



ESX4584



© Copyright 2020 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at [www.ndr.com/copyright.html](http://www.ndr.com/copyright.html)  
 For data vendor disclaimers refer to [www.ndr.com/vendorinfo/](http://www.ndr.com/vendorinfo/)

## Where are the Covid-19 laggards?

<b>S&amp;P 500 Sector</b>	<b>% in Bear Market</b>
<b>Energy</b>	<b>96.2</b>
<b>Financials</b>	<b>72.7</b>
<b>Real Estate</b>	<b>71.0</b>
<b>Consumer Discretionary</b>	<b>65.1</b>
Communication Services	57.7
Utilities	53.6
Materials	50.0
Industrials	37.5
Information Technology	29.6
Consumer Staples	24.2
Health Care	18.0

As of 6/15/2020. % in bear market is the percent of companies in the sector that are down more than 20% from their one-year high. Source: S&P Dow Jones Indices.

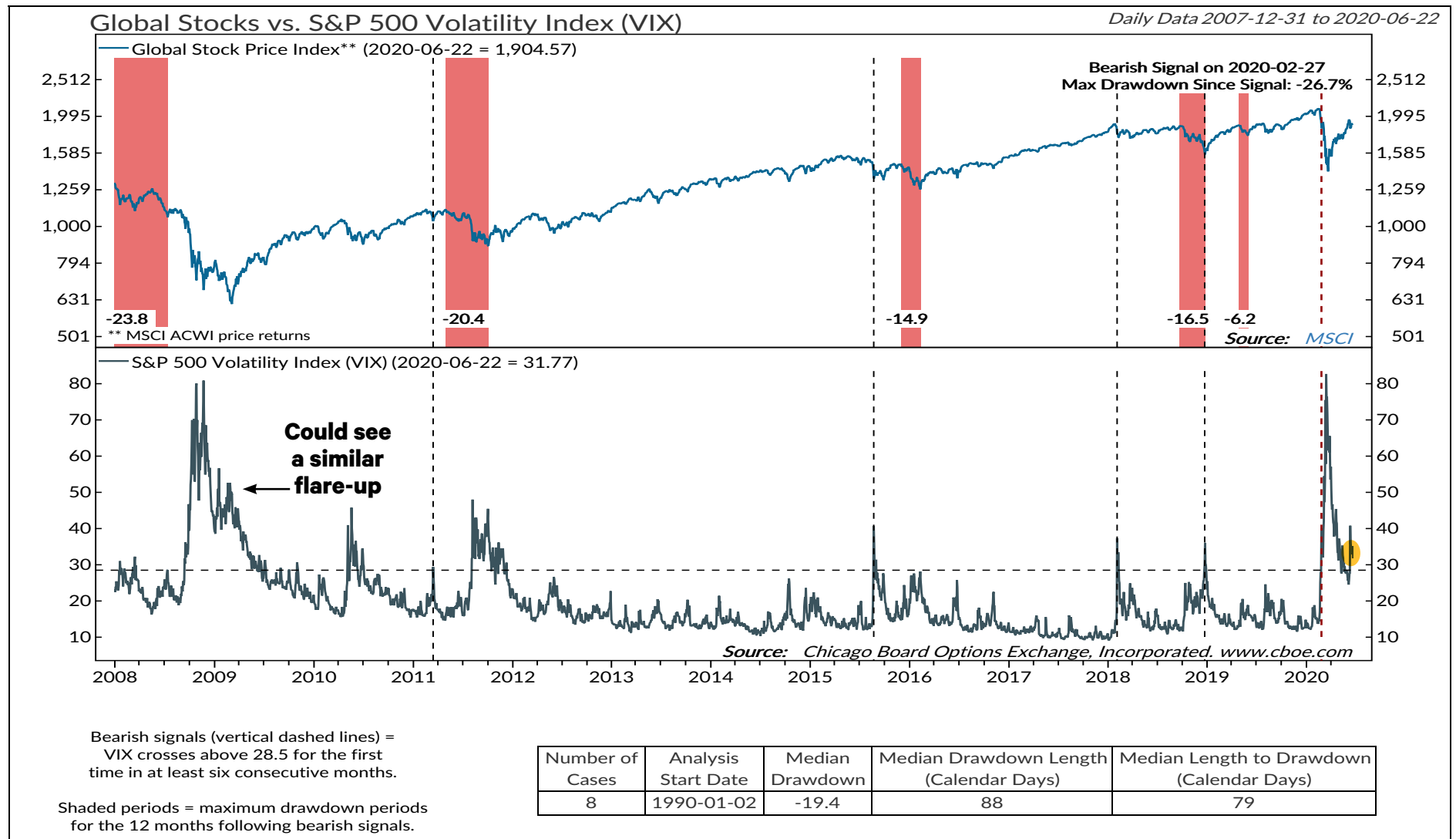
Ned Davis Research T\_GEH20\_09.4

## The laggards come with strings attached.

<b>Sub-Industry</b>	<b>100-day volatility (%)</b>	<b>Y/Y % Return</b>
Oil & Gas Drilling	5.7	-53.3
<b>Department Stores</b>	<b>5.5</b>	<b>-56.7</b>
Tires & Rubber	5.1	-39.5
Motorcycle Manufacturers	4.9	-27.8
<b>Airlines</b>	<b>4.9</b>	<b>-43.7</b>
Aluminum	4.8	-47.5
Oil & Gas Equipment & Services	4.6	-40.9
Food Distributors	4.5	-28.2
Security & Alarm Services	4.4	-42.7
Airport Services	4.4	-23.6
Real Estate Development	4.4	-41.9
<b>Casinos &amp; Gaming</b>	<b>4.4</b>	<b>-12.0</b>
Forest Products	4.3	-6.5
Oil & Gas Refining & Marketing	4.3	-17.7
Home Furnishings	4.3	-22.6
<b>Hotel &amp; Resort REITs</b>	<b>4.3</b>	<b>-36.6</b>
NDR Multi-cap Sub-industries as of 6/15/2020. Source: Ned Davis Research.		
Ned Davis Research		T_GEH20_09.5



# To gain confidence, we would like volatility to fall.

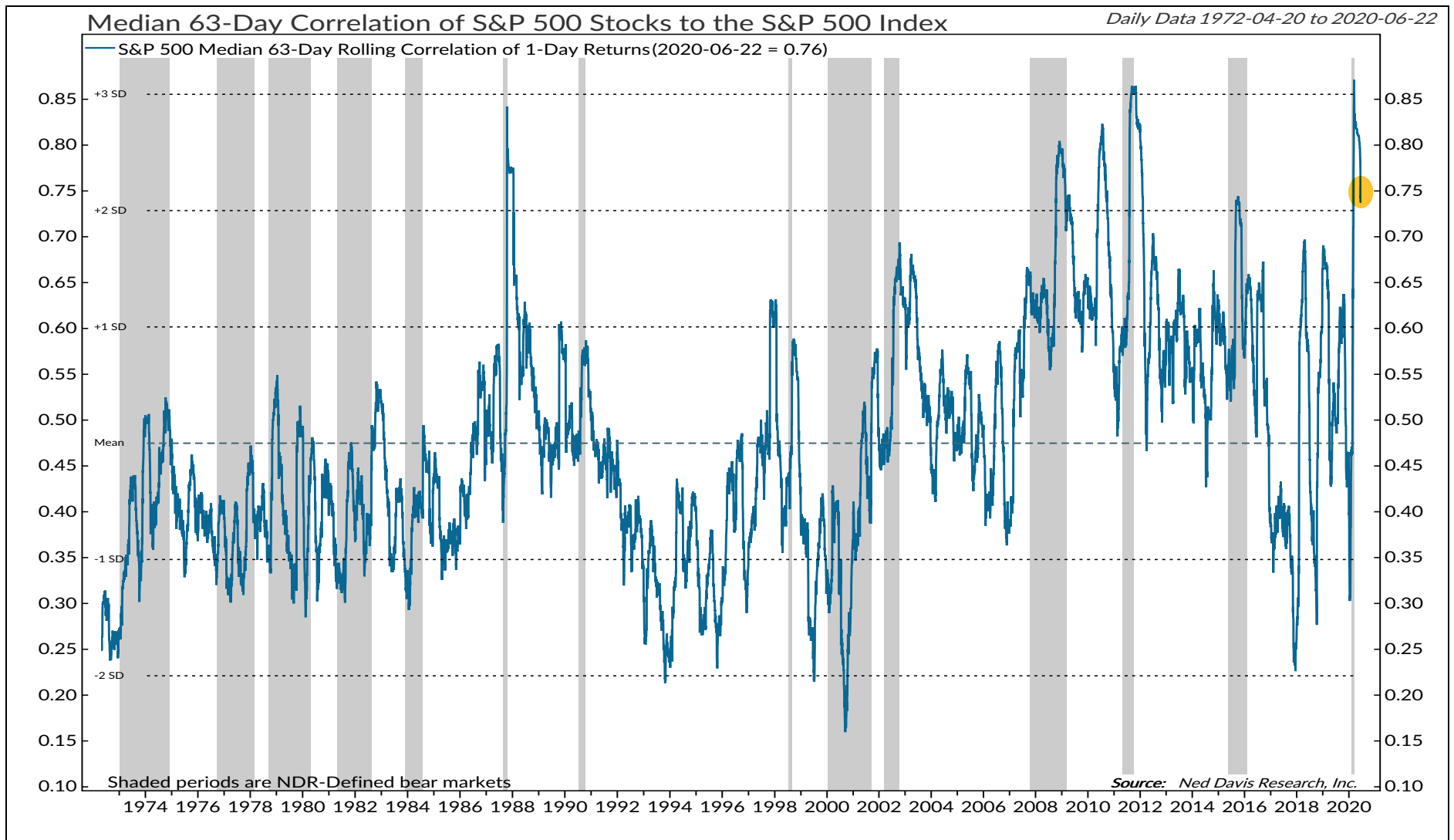


Customized version of [IBZ](#)



© Copyright 2020 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at [www.ndr.com/copyright.html](http://www.ndr.com/copyright.html). For data vendor disclaimers refer to [www.ndr.com/vendorinfo/](http://www.ndr.com/vendorinfo/)

# Lower correlations would increase confidence.

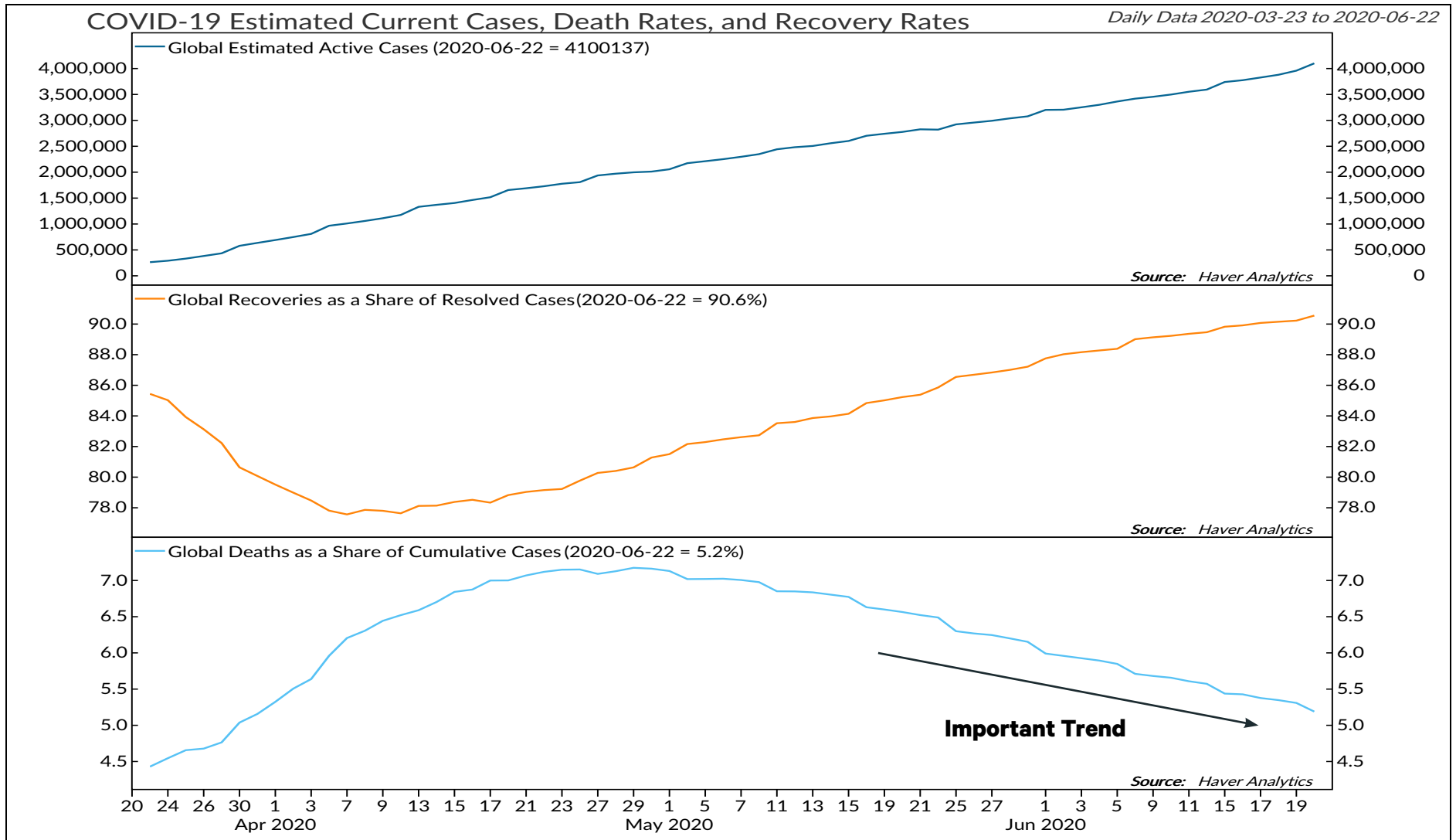


BA0540D



© Copyright 2020 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at [www.ndr.com/copyright.html](http://www.ndr.com/copyright.html). For data vendor disclaimers refer to [www.ndr.com/vendorinfo/](http://www.ndr.com/vendorinfo/)

# A declining death rate would reduce fear.

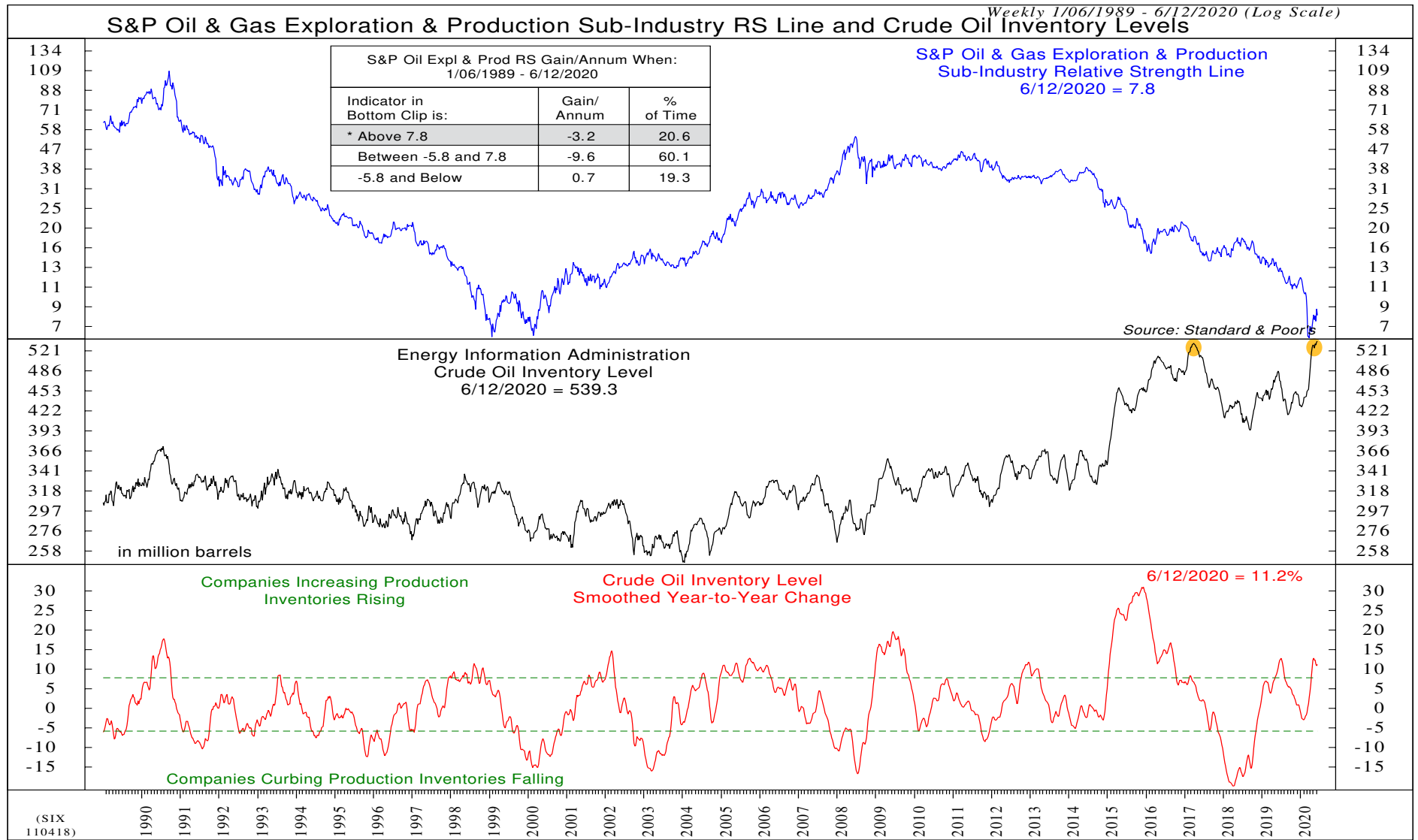


Customized version of IE20D



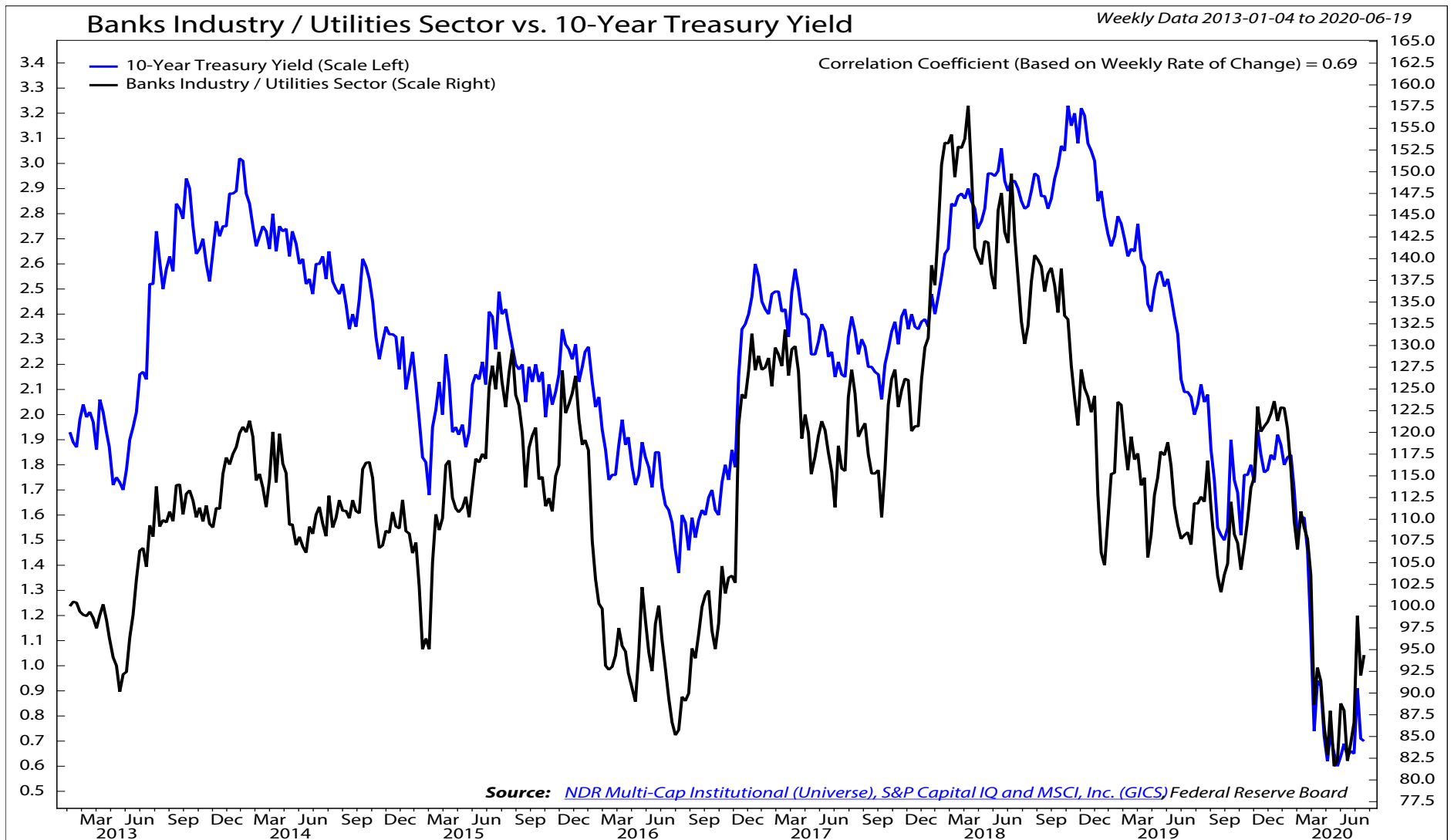
© Copyright 2020 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at [www.ndr.com/copyright.html](http://www.ndr.com/copyright.html). For data vendor disclaimers refer to [www.ndr.com/vendorinfo/](http://www.ndr.com/vendorinfo/)

# Energy needs lower oil inventories.



© Copyright 2020 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved.  
See NDR Disclaimer at [www.ndr.com/copyright.html](http://www.ndr.com/copyright.html). For data vendor disclaimers refer to [www.ndr.com/vendorinfo/](http://www.ndr.com/vendorinfo/).

# Financials needs loan growth or higher long rates.

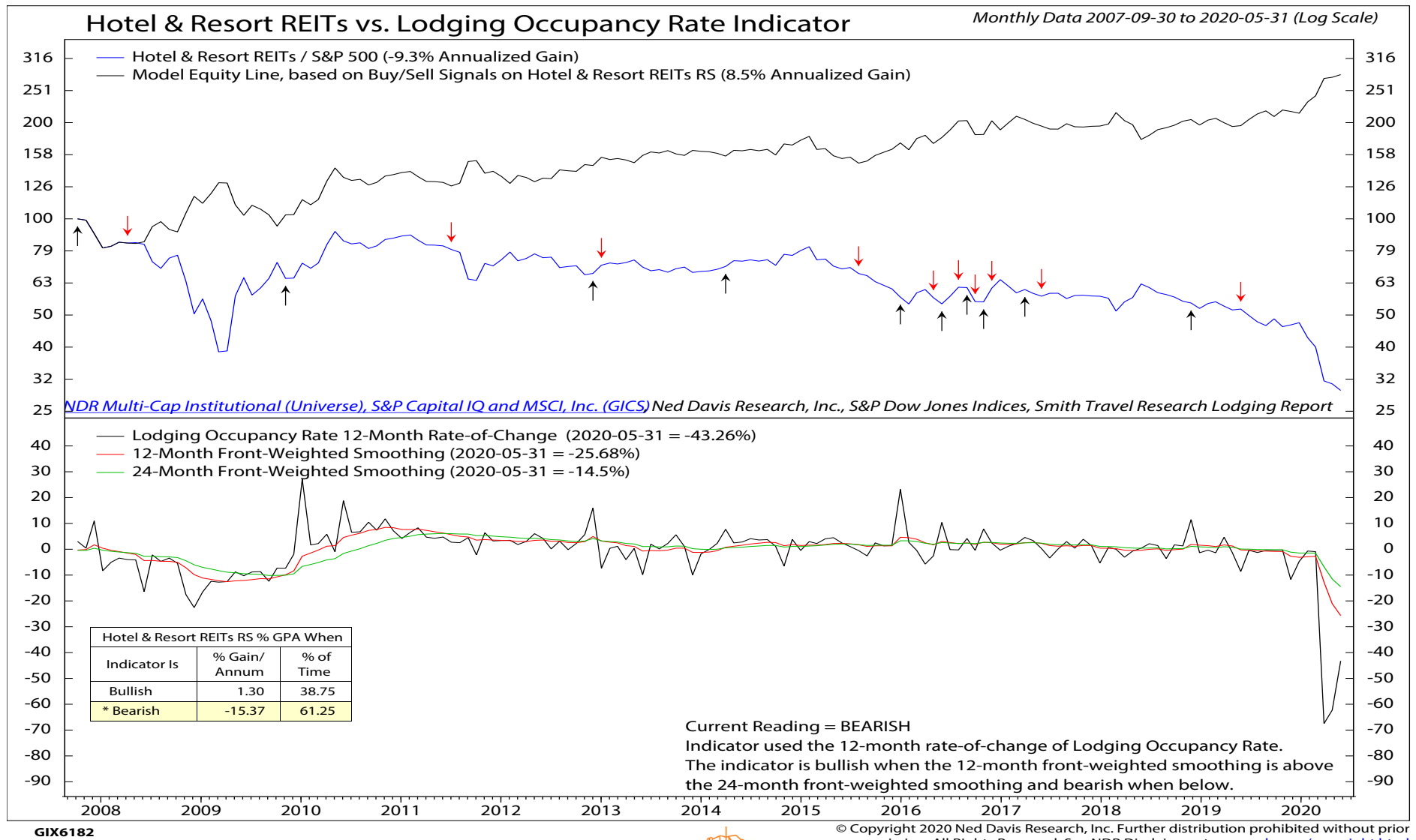


GIX4134



© Copyright 2020 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at [www.ndr.com/copyright.html](http://www.ndr.com/copyright.html)  
 For data vendor disclaimers refer to [www.ndr.com/vendorinfo/](http://www.ndr.com/vendorinfo/)

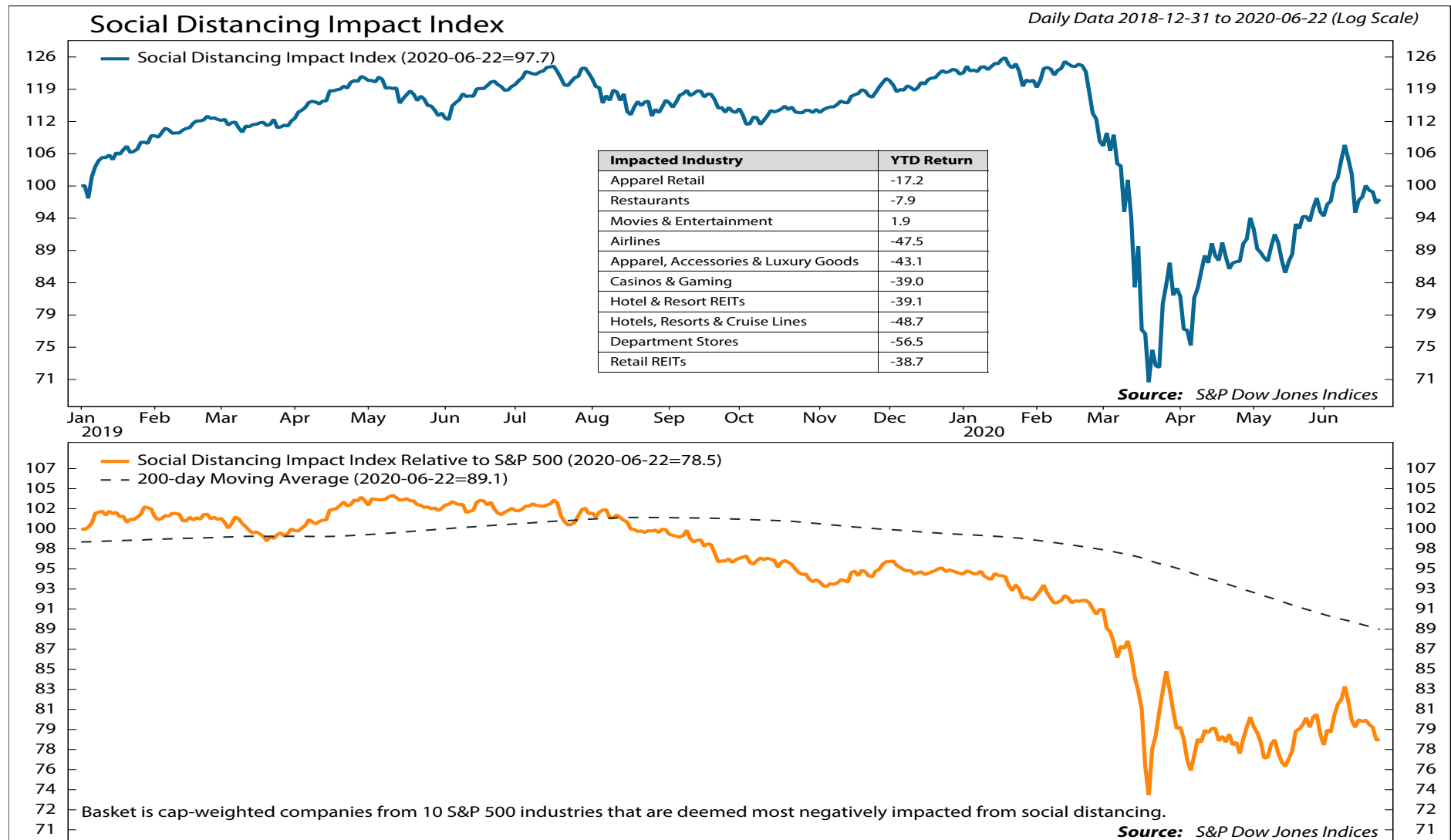
# Real Estate needs social undistancing.



GIX6182



# Consumer Discretionary needs social undistancing.



UIP118B



© Copyright 2020 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at [www.ndr.com/copyright.html](http://www.ndr.com/copyright.html)  
 For data vendor disclaimers refer to [www.ndr.com/vendorinfo/](http://www.ndr.com/vendorinfo/)

# Social distancing has impacted retail sales.

---

Not driving into the office...		
	Gas Stations	-31%
	Auto & Other Motor Vehicles	-5%
	Motor Vehicle & Parts Dealers	-4%
<hr/>		
...no need to dress up		
	Clothing & Clothing Accessories	-63%
	Department Stores	-26%
<hr/>		
Not eating out or going to bars...		
	Food Services & Drinking Places	-39%
<hr/>		
...eating and drinking at home		
	Grocery Stores	14%
	Beer, Wine & Liquor Stores	13%
	Other General Merch. Stores	4%
	Warehouse Clubs & Supercenters	3%
<hr/>		
E-tailers and Drug stores help avoid the big crowds		
	Nonstore Retailers	31%
	Pharmacies & Drug Stores	0%
<hr/>		
Sprucing up the home is OK...		
	Building Materials & Supplies	1%

---

Based on Year-over-year changes in seasonally adjusted retail sales for most recent month as of 6/16/2020.  
Source: U.S. Census Bureau

Ned Davis Research

T\_GEH20\_09.6



## Social distancing created leaders and laggards.

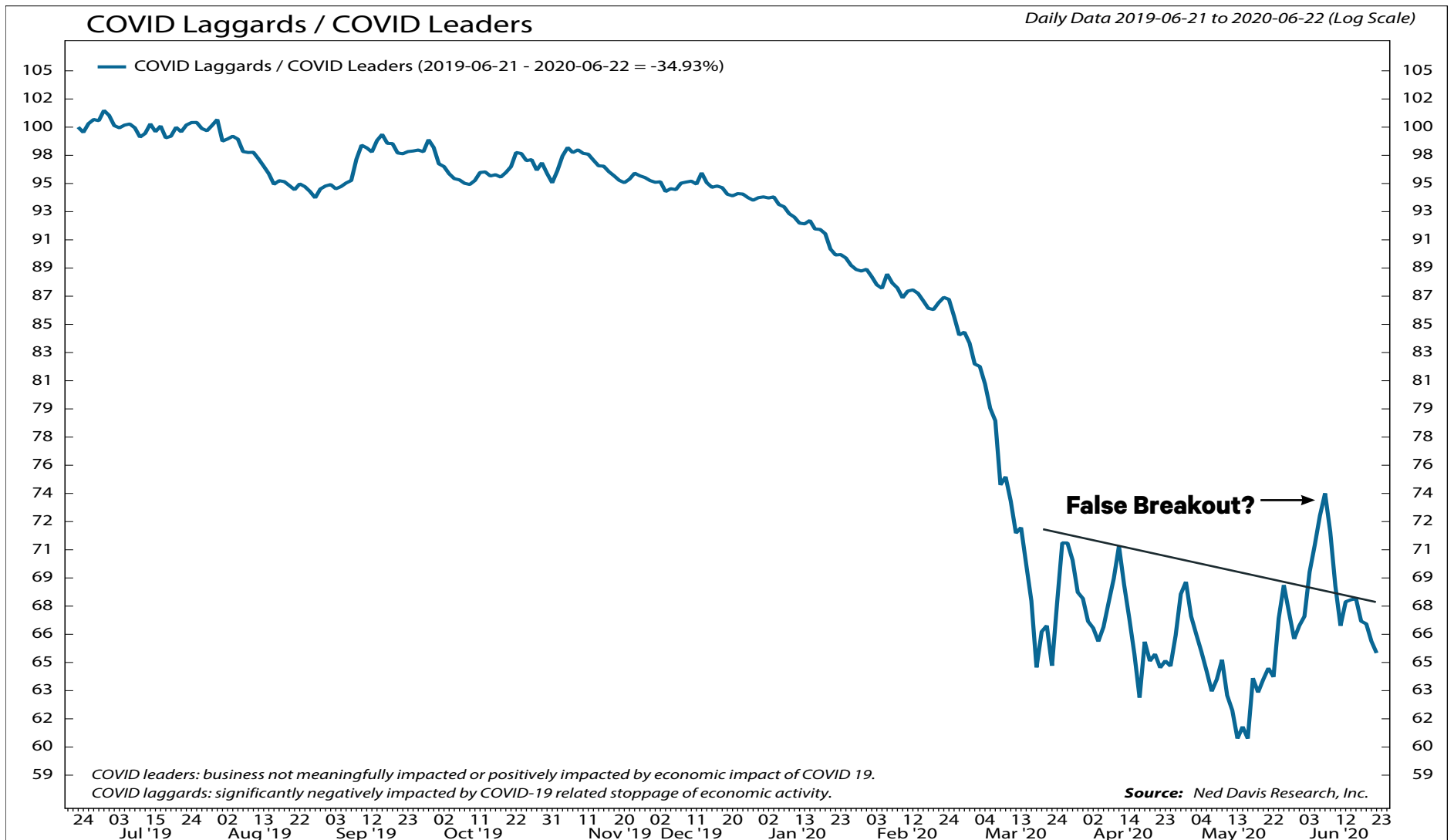
<b>Not going to the gym...</b>			<b>...working out at home</b>	
	PLNT	-15.2		PTON
				93.9
				POOL
				36.1
<b>Not staying in a hotel...</b>			<b>...staying in an RV</b>	
	HLT	-16.9		THO
				106.2
	H	-25.5		WGO
				84.1
<b>Not taking risk at a blackjack table...</b>			<b>...taking risk in the market</b>	
	MGM	-29.4		NDAQ
				23.3
	WYNN	-20.5		ICE
				11.6
<b>Not going to a theater...</b>			<b>...streaming online</b>	
	AMC	-48.1		NFLX
				21.4
	CNK	-60.0		CMCSA
				-6.4
<b>Not working in the office...</b>			<b>...working from home</b>	
	BXP	-30.6		MSFT
				42.2
	CIO	-16.8		ZM
				143.6
<b>Not going to a mall...</b>			<b>...ordering from home</b>	
	SPG	-55.3		W
				21.9
	MAC	-72.8		CHWY
				38.8

Year over Year price changes as of 6/16/2020.

Ned Davis Research

T\_GEH20\_09.7

# Watch laggards relative to leaders.

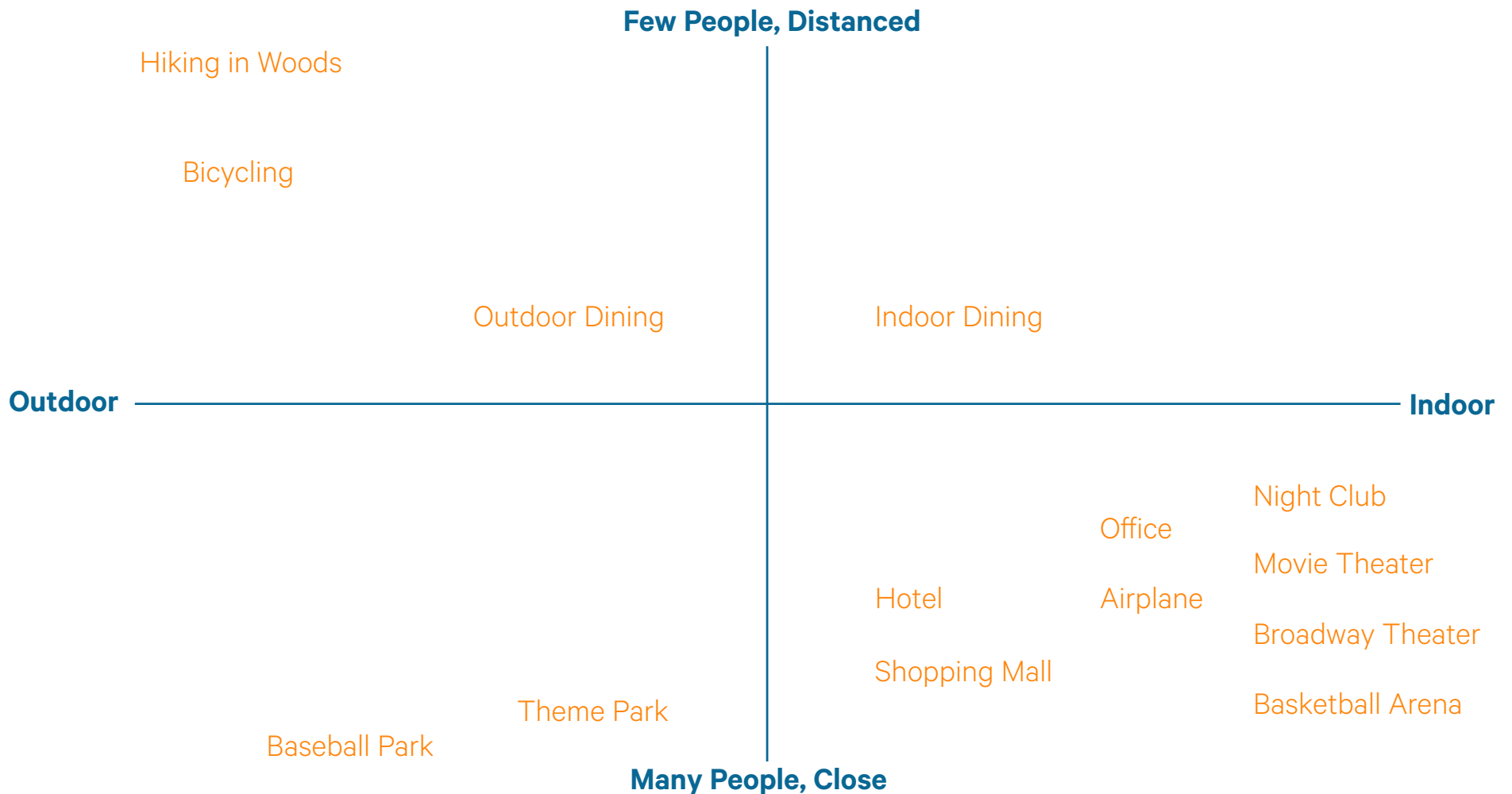


SSF20\_22A\_C



© Copyright 2020 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at [www.ndr.com/copyright.html](http://www.ndr.com/copyright.html)  
 For data vendor disclaimers refer to [www.ndr.com/vendorinfo/](http://www.ndr.com/vendorinfo/)

# The social undistancing continuum.



# Bottom Line

- Opportunity, Risk in Energy, Financials, Real Estate, Discretionary
- Understand the social distancing impact before you buy
- Continuum: Outdoor/few people/distanced => Indoor/many people/close.
- Favorite Industries: Home-related, e-commerce, recreational
- Least favorite: Office/Hotel/Retail REITs, airlines, large crowd indoor entertainment

NDR recommends marketweight allocation to equities. We are overweight bonds and underweight cash. If coronavirus worries continue to subside and global economic activity starts returning to normal, we will likely see stock prices continue to move higher with rising bond yields. We are watching long-term trend indicators for confirmation that the secular bull market in equities remains intact.

## Equity Allocation

**U.S. |** We are overweight the U.S. relative to other regions and neutral on an absolute basis. The rally from the March 23 low has met the NDR criteria for a cyclical bull market, and we are shifting to risk-on assets as models confirm. We favor small-caps over large-caps and favor Value over Growth.

**INTERNATIONAL |** We are overweight the U.S., underweight Emerging Markets and Pacific ex. Japan, and neutral on all other regions within our seven-way regional allocation framework.

## Macro

**ECONOMY |** The global economy is in a sustained slowdown. Recession probability in the U.S. has increased, due to the spread of COVID-19. Other major risks include heightened trade war tensions, a sharp slowdown in China, and political dysfunction in the U.S. and Europe.

**FIXED INCOME |** We reduced our bond exposure by 10% to 100% of benchmark duration. We are positioned for a steeper yield curve. We are marketweight Treasurys, IG and HY corporates, agencies, agency MBS, CMBS, and ABS. .

**ENERGY |** The combination of a flattening oil futures curve and production cuts support a neutral outlook.

**GOLD |** Long-term uptrend intact. We are bullish.

**DOLLAR |** We see limited upside potential.

## Economic Summary

June 22, 2020



**Global Economy**  
Below Trend  
(-3.5% to -4.0%)



**U.S. Economy**  
Below Trend  
(-5.0% to -5.5%)



**U.S. Inflation**  
Moderate  
(2.2%)

● Overweight ● Marketweight ● Underweight

### GLOBAL ASSET ALLOCATION

- Bonds (45%)
- Stocks (55%)
- Cash (0%)

Benchmark: Stocks (55%), Bonds (35%), Cash (10%)

### Equities — Regional Relative Allocation

- U.S. (59%)
- Europe ex. U.K. (15%) | Japan (7%) | U.K. (5%) | Canada (3%)
- Emerging Markets (9%) | Pacific ex. Japan (2%)

Benchmark – U.S. (56.4%), Europe ex. U.K. (13.5%), Emerging Markets (11.8%), Japan (7.2%), U.K. (4.6%), Pacific ex. Japan (3.5%), Canada (3%)

### Global Bond Allocation

- U.S. (55%) | U.K. (8%)
- Europe (27%)
- Japan (10%)

Benchmark: U.S. (51%), Europe (26%), Japan (18%), U.K. (5%)

### U.S. ALLOCATION

- Bonds (45%) | Small-Cap | Value
- Mid-Cap | Stocks (55%)
- Cash (0%) | Large-Cap | Growth

Benchmark: Stocks (55%), Bonds (35%), Cash (10%)

### Sectors

- Technology (27%) | Financials (15%)
- Consumer Staples (5%) | Real Estate (2%) | Utilities (1%)

Benchmark: Technology (23.2%), Health Care (14.0%), Financials (11.9%), Consumer Discretionary (10.5%), Consumer Staples (8.1%), Industrials (8.9%), Energy (3.9%), Utilities (3.3%), Real Estate (3.0%), Materials (2.6%), Communication Services (10.7%)

### U.S. Bonds — 100% of Benchmark Duration



E-mail: [pat.tschosik@ndr.com](mailto:pat.tschosik@ndr.com)

# Pat Tschosik, CFA, CMT

## U.S. Sector Strategist

**Pat Tschosik, CFA, CMT**, is Ned Davis Research's U.S. Sector Strategist. Pat authors U.S. Equity Sector Strategy publications, which provide insights on U.S. sector and industry leadership trends and themes based on macro, fundamental, valuation, quantitative, and technical analysis. Pat also makes overweight and underweight recommendations on all 11 GICS sectors relative to an S&P 500 benchmark. Given the top-down approach, Pat works closely with Chief U.S. Strategist Ed Clissold to incorporate firm market views and Chief Global Macro Strategist Joe Kalish to incorporate macro views into his analysis.

Prior to the U.S. Sector strategist role, Pat served as NDR's Consumer Strategist for nearly 10 years. Pat began his investment career covering Consumer Staples for Banc of America Capital Management in St. Louis, MO. Subsequently, Pat worked as a Senior Equity Analyst at RCM Capital Management in San Francisco, CA, covering Consumer Discretionary and Consumer Staples industries. He joined Ned Davis Research in 2006.

Pat has been featured as a guest on **CNBC** and **Bloomberg** television in addition to being quoted by **The Wall Street Journal**. Pat earned his Master of Business Administration from the University of Chicago Booth School of Business and has a Bachelor of Science in Computer Science from Illinois State University. Pat is a CFA charterholder and is a member of the CFA Institute. He is also a Chartered Market Technician and a member of the Market Technicians Association.



**NDR**  
NED DAVIS RESEARCH

## NED DAVIS RESEARCH

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

### VENICE

600 Bird Bay Drive West  
Venice, FL 34285  
(941) 412-2300

### NEW YORK

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

### BOSTON

711 Atlantic Ave  
6<sup>th</sup> Floor  
Boston, MA 02110  
(617) 279-4860

### ATLANTA

7000 Central Parkway  
Suite 1100  
Atlanta, GA 30328  
(678) 303-0097

### SAN FRANCISCO

50 California Street  
Suite 1500  
San Francisco, CA 94111  
(415) 277-5477

### LONDON

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

### HONG KONG

38/F Hopewell Centre  
183 Queen's Road East  
Wanchai  
+852 3416 6676

### AUSTRALIA

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

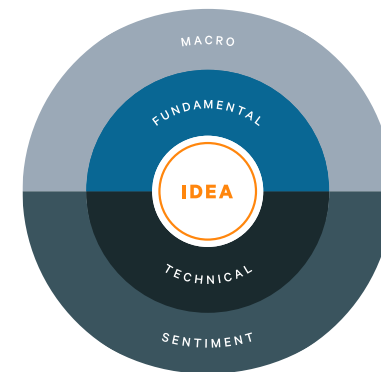


**NDR**

NED DAVIS RESEARCH

## See the signals. Avoid mistakes.

Founded in 1980, Ned Davis Research Group is a leading independent research firm with clients around the globe. With a range of products and services utilizing a 360° methodology, we deliver award-winning solutions to the world's leading investment management companies. Our clients include professionals from global investment firms, banks, insurance companies, mutual funds, hedge funds, pension and endowment funds, and registered investment advisors.



## Important Information and Disclaimers

Ned Davis Research, Inc. (NDR), any NDR affiliates or employees, or any third-party data provider, shall not have any liability for any loss sustained by anyone who has relied on the information contained in any NDR publication. In no event shall NDR, any NDR affiliates or employees, or any third-party data provider, be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the information contained in this document even if advised of the possibility of such damages.

The data and analysis contained in NDR's publications are provided "as is" and without warranty of any kind, either expressed or implied. The information is based on data believed to be reliable, but it is not guaranteed. **NDR DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE.**

NDR's reports reflect opinions of our analysts as of the date of each report, and they will not necessarily be updated as views or information change. All opinions expressed therein are subject to change without notice, and you should always obtain current information and perform due diligence before trading. NDR or its affiliated companies or their respective shareholders, directors, officers and/or employees, may have long or short positions in the securities discussed in NDR's publications and may purchase or sell such securities without notice.

NDR uses and has historically used various methods to evaluate investments which may, at times, produce contradictory recommendations with respect to the same securities. When evaluating the results of prior NDR recommendations or NDR performance rankings, one should also consider that **NDR may modify the methods it uses to evaluate investment opportunities from time to time, that model results do not impute or show the compounded adverse effect of transaction costs or management fees or reflect actual investment results, that other less successful recommendations made by NDR are not included with these model performance reports, that some model results do not reflect actual historical recommendations, and that investment models are necessarily constructed with the benefit of hindsight. Unless specifically noted on a chart, report, or other device, all performance measures are purely hypothetical, and are the results of back-tested methodologies using data and analysis over time periods that pre-dated the creation of the analysis and do not reflect tax consequences, execution, commissions, and other trading costs. For these and for many other reasons, the performance of NDR's past recommendations and model results are not a guarantee of future results.**

Using any graph, chart, formula, model, or other device to assist in deciding which securities to trade or when to trade them presents many difficulties and their effectiveness has significant limitations, including that prior patterns may not repeat themselves continuously or on any particular occasion. In addition, market participants using such devices can impact the market in a way that changes the effectiveness of such devices. NDR believes no individual graph, chart, formula, model, or other device should be used as the sole basis for any investment decision and suggests that all market participants consider differing viewpoints and use a weight of the evidence approach that fits their investment needs. Any particular piece of content or commentary may or may not be representative of the NDR House View, and may not align with any of the other content or commentary that is provided in the service. Performance measures on any chart or report are not intended to represent the performance of an investment account or portfolio, as some formulas or models may have superior or inferior results over differing time periods based upon macro-economic or investment market regimes. NDR generally provides a full history of a formula or model's hypothetical performance, which often reflects an "all in" investment of the represented market or security during "buy", "bullish", or similar recommendations. This approach is not indicative of the intended usage of the recommendation in a client's portfolio, and for this reason NDR does not typically display returns as would be commonly stated when reporting portfolio performance. Clients seeking the usage of any NDR content in a simulated portfolio back-test should contact their account representative to discuss testing that NDR can perform using the client's specific risk tolerances, fees, and other constraints.

NDR's reports are not intended to be the primary basis for investment decisions and are not designed to meet the particular investment needs of any investor. The reports do not address the suitability of any particular investment for any particular investor. The reports do not address the tax consequences of securities, investments, or strategies, and investors should consult their tax advisors before making investment decisions. Investors should seek professional advice before making investment decisions. The reports are not an offer or the solicitation of an offer to buy or to sell a security.

Further distribution prohibited without prior permission. Full terms of service, including copyrights, terms of use, and disclaimers are available at <https://www.ndr.com/web/ndr/terms-of-service>. For data vendor disclaimers, refer to [www.ndr.com/vendorinfo](http://www.ndr.com/vendorinfo).

Copyright 2020 (c) Ned Davis Research, Inc. All rights reserved.

Ned Davis Research, Inc. is not affiliated with Interactive Brokers LLC, or any other FINRA broker-dealer.