

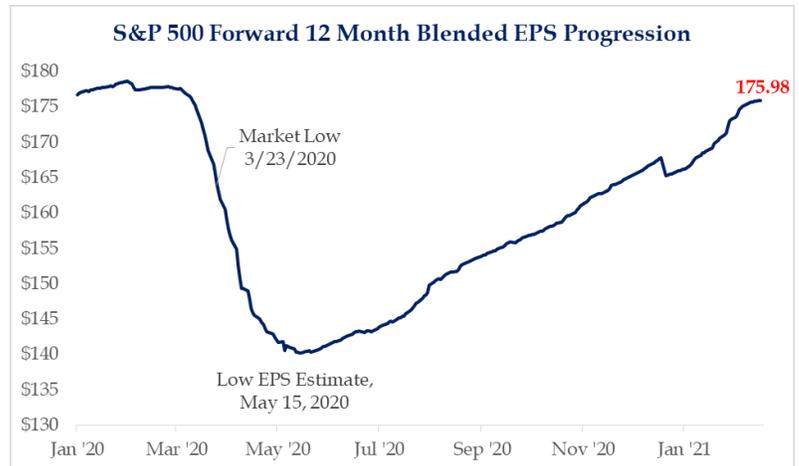
Strategas Daily Macro Brief

Prepared by Strategas Securities, a Baird Company

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NTM EPS IMPROVEMENT LOSING MOMENTUM

After a remarkable recovery back to the highs following the “great lockdown,” the daily NTM EPS progression improvement is beginning to lose momentum. The two sectors that led the recovery -technology and healthcare - are showing signs of slowing. The slack will need to be picked up by the most cyclical industries of industrials and energy.



AND OPERATING MARGINS ARE STALLING

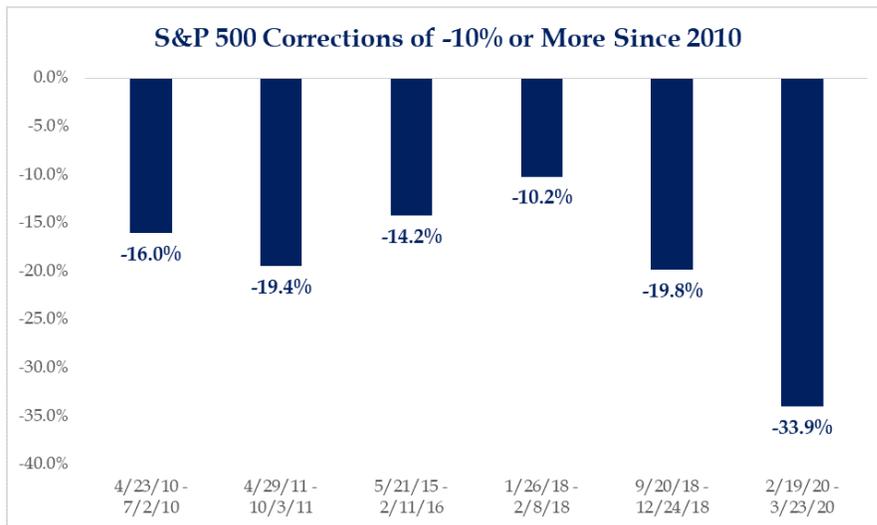
Historically, margins trending higher have been supportive of a rising stock market overall, but over the last two weeks, we have noticed they appear to be stalling out. It is too early to suggest margins are rolling over, but bear watching considering margins have rolled over before previous corrections.



Please see the Appendix on page 3 for important disclosures.

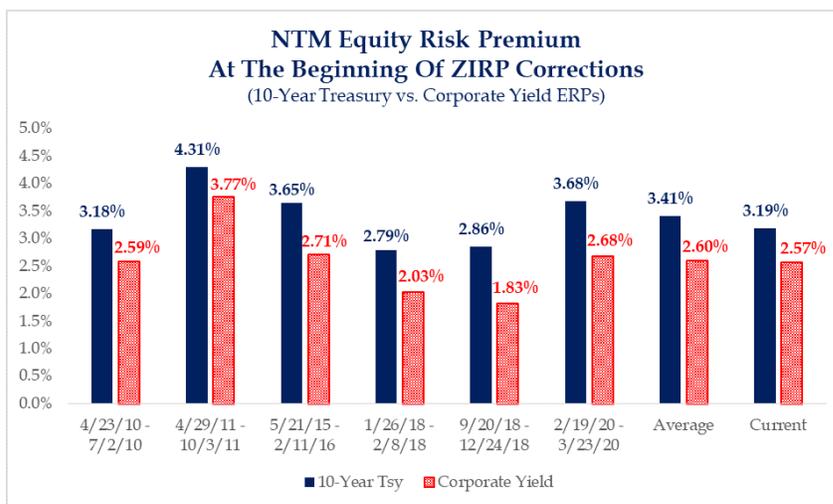
CORRECTIONS IN A ZERO INTEREST RATE POLICY WORLD

Since 2010, there have been six corrections with pullbacks of -10% or more. Several weeks back, we posed the question of re-opening being the catalyst for asset prices to decline. It is looking more and more likely that re-opening is inevitable now with vaccinations well underway, covid cases on the decline, and warmer weather just around the corner.



FORWARD ERP AT LEVELS SEEN DURING PREVIOUS ZIRP CORRECTIONS

With the current equity risk premium trading at 3.19% using treasury bonds, the markets have surpassed the average ERP levels where previous corrections began. The same is true if using corporate bonds for the analysis. With clients asking more and more about the level on the 10-year that equities face some troubles, it's not out of the realm of possibilities that we are already there. From a secular standpoint, we are inclined to remain optimistic given that more fiscal stimulus is on the way, savings are at elevated levels, and the Fed remains accommodative.



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