

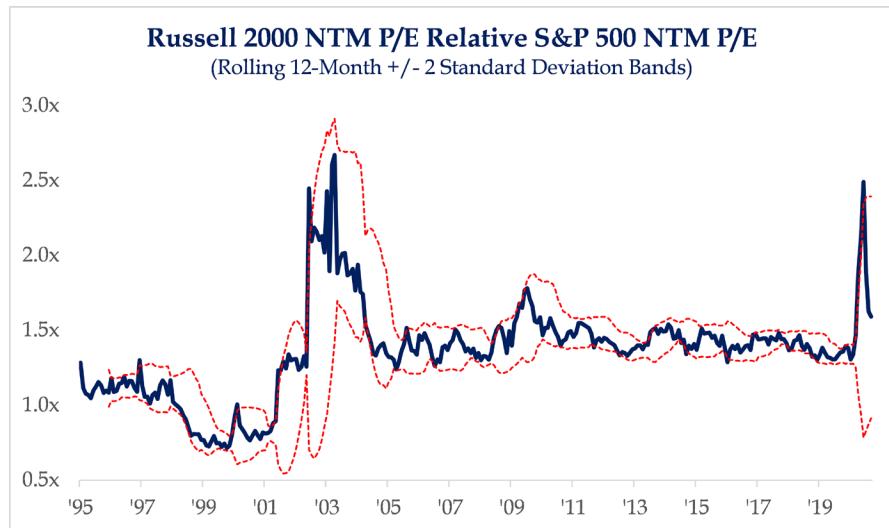
Strategas Daily Macro Brief

October 16, 2020

Prepared by Strategas Securities, a Baird Company

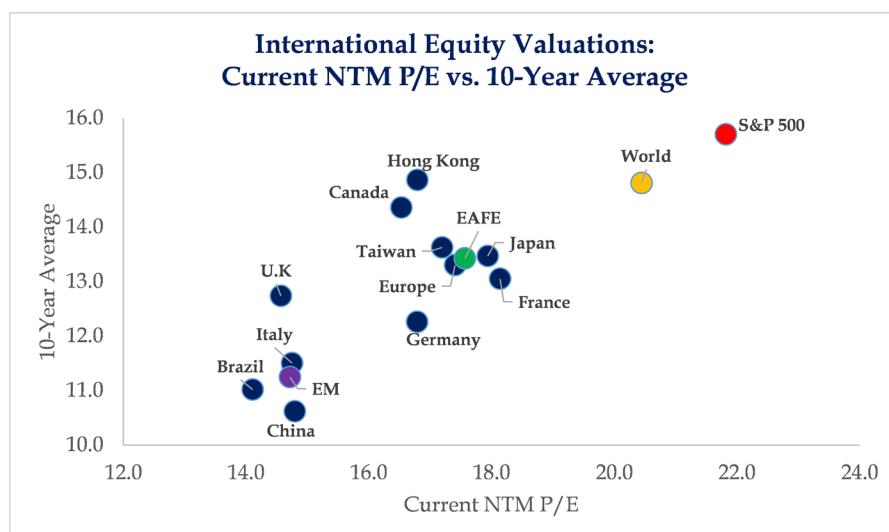
SMALL-CAPS TRADE AT PREMIUM TO LARGE-CAPS

Following a recent small-cap focus, we concluded that while price action from the small-cap space was notable, the asset class remains burdened by fundamental issues. Valuations also support this conclusion, with small-caps trading at a significant premium compared to their large-cap counterparts. While the relative ratio has come in recently, it is clear that small-caps remain scarred from the ongoing recession as EBITDA falls, and roughly 50% of the index is unable to turn a profit.



U.S. EXPENSIVE COMPARED TO INTERNATIONAL EQUITIES

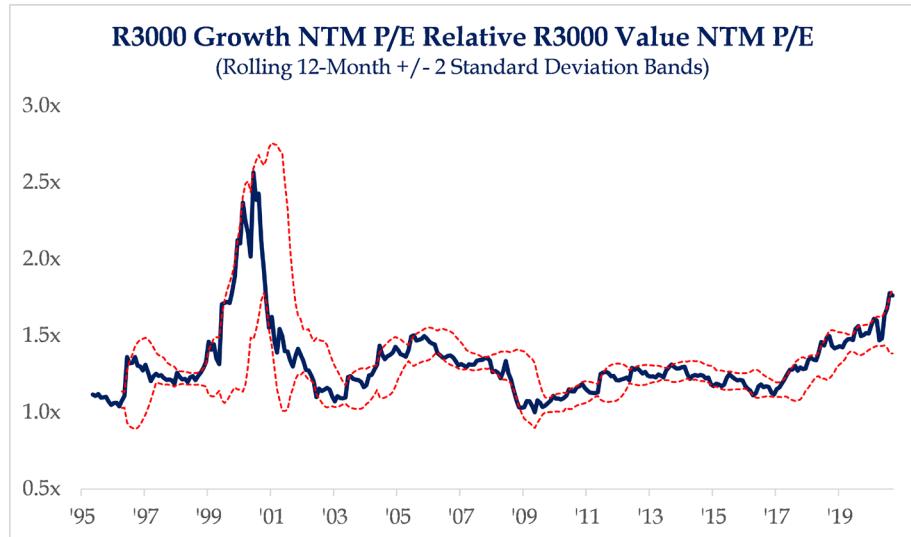
Currently, the S&P 500 remains one of the most expensive global markets. The perceived economic resilience of the U.S. (as well as its significant Technology exposure) are likely contributors to this phenomenon. However, in combination with a notably weaker U.S. dollar, investors may find attractive opportunities abroad to put money to work over the coming months as the jagged global economic recovery progresses.



Please see the Appendix on page 3 for important disclosures.

GROWTH REMAINS WELL BID RELATIVE TO VALUE

Following a decade of easy money, it may not be surprising to learn that Growth equities continue to command a valuation premium over their Value counterparts. In an uncertain world and economic environment where growth is scarce, investors have been willing to pay up for growth, contributing to the statistically extreme relative return over Value. Relative valuations recently hit the +2 standard deviation extreme, but as evidenced by history, the extremes can persist for some time before reverting.



TOP FIVE DRIVING MULTIPLE EXPANSION

Headline inflation indexes are likely not going to show any meaningful pickup in inflation since shelter is such a large component. Still, management from companies will be able to provide clues on where they see rising prices. Two areas of focus for us this earnings season are raw materials (because of supply chain issues) and freight. More and more packages are being delivered daily, and there are only so many trucks.



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