

UBS Tactical Q-Trades

The Positives and Negatives of Slowing Globalization for US Stocks

Equity Strategy

Americas

Q: What are the US opportunities from a continued 'globalization slowdown' scenario?

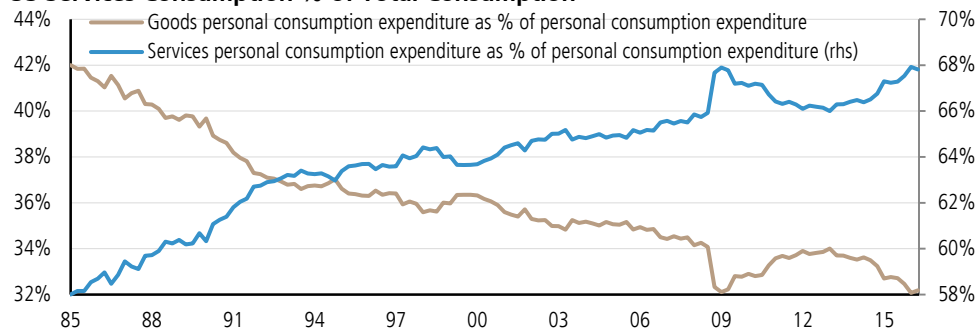
HYPOTHESIS

Potential headwinds from the trend toward slowing Globalization are largely mitigated by the composition of the US equity market given a higher degree of leverage to the US consumer (~70% of revenues sourced domestically) and greater proportion of services-focused businesses. Many of the non-cyclical (i.e., structural) drivers behind the slowdown in globalization – China, shrinking global value chains, greater protectionism, the dematerialization of the economy, lower interest rates – are unlikely to materially impact domestic-focused US companies (see [Big Macro 08: The What, Why and So-What of Globalisation – III. Asset Implications](#)).

SUPPORTING ANALYSIS

The impact of slowing globalization on US equities is likely to be more moderate for companies with greater exposure to the domestic economy. As a result, a continued slowdown in global trade within the context of a slower growth global economy (see [Big Macro 04: Secular stagnation and equities: the new normal](#)) would favor higher quality (see [Investing in Quality](#)), businesses with an above-average exposure to domestic revenue (>70%) – which, by definition tend to be more service-focused. On the other hand, a continuation of the trend towards slowing globalization would adversely impact lower quality companies with an above-average proportion of foreign revenue.

US Services Consumption % of Total Consumption



Source: Haver, UBS

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Figure 1: UBS Tactical Q-Trades – Slowing Global Trade

Ticker	Name	Sector	UBS Analyst	UBS Rating	UBS Price Target	Current Price
Positively Impacted by Theme						
UNH	UnitedHealth Group Inc	Health Care	A J Rice	Buy	\$165.00	\$140.35
HCA	HCA Holdings Inc	Health Care	A J Rice	Buy	\$90.00	\$77.31
INTU	Intuit Inc	Information Technology	Brent Thill	Buy	\$134.00	\$108.17
PGR	Progressive Corp	Financials	Brian Meredith	Buy	\$38.00	\$31.46
ALK	Alaska Air Group Inc	Industrials	Darryl Genovesi	Buy	\$74.00	\$71.78
LUV	Southwest Airlines Co	Industrials	Darryl Genovesi	Buy	\$50.00	\$39.18
GD	General Dynamics Corp	Industrials	David E Strauss	Buy	\$186.00	\$151.50
FITB	Fifth Third Bancorp	Financials	David Eads	Buy	\$24.00	\$21.61
VIAB	Viacom Inc	Consumer Discretionary	Douglas Mitchelson	Buy	\$48.00	\$37.60
CBS	CBS Corp	Consumer Discretionary	Douglas Mitchelson	Buy	\$66.00	\$56.54
JWN	Nordstrom Inc	Consumer Discretionary	Michael Binetti	Buy	\$58.00	\$52.70
TJX	TJX Cos Inc	Consumer Discretionary	Michael Binetti	Buy	\$85.00	\$73.48
WBA	Walgreens Boots Alliance Inc	Consumer Staples	Michael Cherny	Buy	\$95.00	\$81.10
CVS	CVS Health Corp	Consumer Staples	Michael Cherny	Buy	\$107.00	\$83.36
DG	Dollar General Corp	Consumer Discretionary	Michael Lasser	Buy	\$80.00	\$68.34
AAP	Advance Auto Parts Inc	Consumer Discretionary	Michael Lasser	Buy	\$175.00	\$140.20
HD	Home Depot Inc	Consumer Discretionary	Michael Lasser	Buy	\$145.00	\$123.58
AZO	AutoZone Inc	Consumer Discretionary	Michael Lasser	Buy	\$825.00	\$735.37
LOW	Lowe's Cos Inc	Consumer Discretionary	Michael Lasser	Buy	\$80.00	\$67.03
ORLY	O'Reilly Automotive Inc	Consumer Discretionary	Michael Lasser	Buy	\$300.00	\$263.50
TSCO	Tractor Supply Co	Consumer Discretionary	Michael Lasser	Buy	\$76.00	\$61.92
NSC	Norfolk Southern Corp	Industrials	Thomas Wadewitz	Buy	\$101.00	\$92.27

Source: Bloomberg, UBS (Current Prices as of 10/28/2016)

Figure 2: UBS Tactical Q-Trades – Slowing Global Trade (Continued)

Ticker	Name	Sector	UBS Analyst	UBS Rating	UBS Price Target	Current Price
Negatively Impacted by Theme						
FCX	Freeport-McMoRan Inc	Materials	Andreas Bokkenheuser	Neutral	\$11.00	\$10.93
STX	Seagate Technology PLC	Information Technology	John Roy	Sell	\$25.50	\$34.15
WDC	Western Digital Corp	Information Technology	John Roy	Neutral	\$57.00	\$59.21
AES	AES Corp	Utilities	Julien Dumoulin-Smith	Sell	\$10.00	\$11.65
WYNN	Wynn Resorts Ltd	Consumer Discretionary	Robin Farley	Neutral	\$96.00	\$94.18
CAT	Caterpillar Inc	Industrials	Steven Fisher	Neutral	\$79.00	\$83.88
DE	Deere & Co	Industrials	Steven Fisher	Neutral	\$87.00	\$87.17
FLS	Flowserve Corp	Industrials	Steven Fisher	Neutral	\$47.00	\$42.21
MUR	Murphy Oil Corp	Energy	William Featherston	Neutral	\$29.00	\$26.89
CVX	Chevron Corp	Energy	William Featherston	Neutral	\$108.00	\$103.82
COP	ConocoPhillips	Energy	William Featherston	Neutral	\$46.00	\$44.97
HES	Hess Corp	Energy	William Featherston	Neutral	\$53.00	\$50.30
OXY	Occidental Petroleum Corp	Energy	William Featherston	Neutral	\$74.00	\$73.63
APA	Apache Corp	Energy	William Featherston	Neutral	\$64.00	\$60.72

Source: Bloomberg, UBS (Current prices as of 10/28/2016)

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Buy	FSR is > 6% above the MRA.	45%	28%
Neutral	FSR is between -6% and 6% of the MRA.	39%	25%
Sell	FSR is > 6% below the MRA.	15%	17%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 30 September 2016.

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

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UBS Securities LLC: Julian Emanuel; Omar Elangbawy; Sibi Gnanasundaram.

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Advance Auto Parts, Inc. ¹⁶	AAP.N	Buy	N/A	US\$140.20	28 Oct 2016
AES Corporation ¹⁶	AES.N	Sell	N/A	US\$11.65	28 Oct 2016
Alaska Air Group ^{3b, 4, 6a, 16}	ALK.N	Buy	N/A	US\$71.78	28 Oct 2016
Apache Corporation ¹⁶	APA.N	Neutral	N/A	US\$60.72	28 Oct 2016
AutoZone Inc. ¹⁶	AZO.N	Buy	N/A	US\$735.37	28 Oct 2016
Caterpillar Inc. ^{8, 16, 18a}	CAT.N	Neutral	N/A	US\$83.88	28 Oct 2016
CBS Corporation ^{7, 16}	CBS.N	Buy	N/A	US\$56.54	28 Oct 2016
Chevron Corp. ^{6b, 7, 16}	CVX.N	Neutral	N/A	US\$103.82	28 Oct 2016
ConocoPhillips ¹⁶	COP.N	Neutral	N/A	US\$44.97	28 Oct 2016
CVS Health Corp ^{7, 16}	CVS.N	Buy	N/A	US\$83.36	28 Oct 2016
Deere & Co. ^{7, 8, 16}	DE.N	Neutral	N/A	US\$87.17	28 Oct 2016
Dollar General Corp ¹⁶	DG.N	Buy	N/A	US\$68.34	28 Oct 2016
Fifth Third Bancorp ^{2, 4, 6a, 6b, 6c, 7, 16}	FITB.O	Buy	N/A	US\$21.61	28 Oct 2016
Flowserve Corp. ¹⁶	FLS.N	Neutral	N/A	US\$42.21	28 Oct 2016
Freeport-McMoRan ^{7, 16, 18b, 20}	FCX.N	Neutral (CBE)	N/A	US\$10.93	28 Oct 2016
General Dynamics Corp. ¹⁶	GD.N	Buy	N/A	US\$151.50	28 Oct 2016
HCA Holdings ^{2, 4, 5, 6a, 7, 16}	HCA.N	Buy	N/A	US\$77.31	28 Oct 2016
Hess Corp. ¹⁶	HES.N	Neutral	N/A	US\$50.30	28 Oct 2016
Home Depot Inc. ¹⁶	HD.N	Buy	N/A	US\$123.58	28 Oct 2016
Intuit Inc. ¹⁶	INTU.O	Buy	N/A	US\$108.17	28 Oct 2016
Lowe's Companies, Inc. ¹⁶	LOW.N	Buy	N/A	US\$67.03	28 Oct 2016
Murphy Oil Corporation ¹⁶	MUR.N	Neutral	N/A	US\$26.89	28 Oct 2016
Nordstrom Inc. ^{13, 16}	JWN.N	Buy	N/A	US\$52.70	28 Oct 2016
Norfolk Southern Corporation ^{6b, 7, 16}	NSC.N	Buy	N/A	US\$92.27	28 Oct 2016
Occidental Petroleum Corp. ^{7, 16}	OXY.N	Neutral	N/A	US\$73.63	28 Oct 2016

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
O'Reilly Automotive, Inc. ^{4, 6a, 6b, 7, 16}	ORLY.O	Buy	N/A	US\$263.50	28 Oct 2016
Progressive Corporation ^{6b, 7, 16}	PGR.N	Buy	N/A	US\$31.46	28 Oct 2016
Seagate Technology PLC ^{6b, 7, 16, 18c}	STX.O	Sell	N/A	US\$34.15	28 Oct 2016
Southwest Airlines ^{6c, 7, 16}	LUV.N	Buy	N/A	US\$39.18	28 Oct 2016
The TJX Companies, Inc. ¹⁶	TJX.N	Buy	N/A	US\$73.48	28 Oct 2016
Tractor Supply Company ¹⁶	TSCO.O	Buy	N/A	US\$61.92	28 Oct 2016
UnitedHealth Group ^{2, 4, 6a, 6b, 7, 16, 18d}	UNH.N	Buy	N/A	US\$140.35	28 Oct 2016
Viacom Inc ¹⁶	VIAB.O	Buy	N/A	US\$37.60	28 Oct 2016
Walgreens Boots Alliance Inc ^{2, 3a, 4, 6a, 7, 16, 18e}	WBA.O	Buy	N/A	US\$81.10	28 Oct 2016
Western Digital Corp ¹⁶	WDC.O	Neutral	N/A	US\$59.21	28 Oct 2016
Wynn Resorts Limited ^{4, 6a, 7, 16}	WYNN.O	Neutral	N/A	US\$94.18	28 Oct 2016

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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