

# SIGN (Sector & Industry Group Navigator)

A Sunnier SIGN  
U.S. Equity Strategy

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**See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures**

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13 July 2012



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# Outlook

- A constructive equity market view for 2H12 is appropriate given attractive valuation and depressed sentiment. The relatively benign credit environment argues for US GDP progress this year and the present value of flat earning held into perpetuity also is signaling a strong rally opportunity despite some likely margin pressures. Employment growth and commodity price weakness are likely to impact corporate margins negatively, while fixed overhead cost underabsorption in Europe will also eat into profitability. Election outcome and fiscal cliff uncertainty may limit stock price trends though a plausible bottoming already in Citi's Economic Surprise Index could signal higher stock prices this summer alongside a positive inflection point. The Panic/Euphoria Model is signaling panic readings after having recorded complacency in March just about when markets topped out. Further, intra-stock price correlation has become extended, which also indicates market strength could be imminent.
- Upgrades: Diversified Financials lifted to Overweight from Market Weight.
- Downgrades: Media reduced to Underweight from Market Weight and Food & Staples Retailing lowered to Market Weight from Overweight.
- We are maintaining Overweights on Food, Beverage & Tobacco, Household & Personal Products, Semis & Semi Equipment, Tech Hardware & Equipment, Insurance, Telecom Services, and Utilities. Underweights on Autos & Components, Consumer Durables & Apparel, Consumer Services, Retailing, Capital Goods, Materials, and Software & Services are sustained.

## Price Targets

Index	2009A	2010A	2011A	2012E
<b>S&amp;P 500</b>	<b>1,115</b>	<b>1,258</b>	<b>1,258</b>	<b>1,425</b>
<b>DJIA</b>	<b>10,428</b>	<b>11,578</b>	<b>12,218</b>	<b>13,550</b>

Source: Citi Research – US Equity Strategy

## S&P 500 EPS Estimates

	2010A	2011A	2012E	2013E
<b>S&amp;P 500 Operating EPS Estimate</b>	<b>\$85.49</b>	<b>\$97.84</b>	<b>\$103.25</b>	<b>\$108.00</b>
<b>Y/Y % Change</b>	<b>37.8%</b>	<b>14.4%</b>	<b>5.5%</b>	<b>4.6%</b>

Source: Citi Research – US Economics

# Sector and Industry Group Recommendation Methodology

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- The Citi Research - US Equity Strategy team's recommendations are modeled on the S&P 500 GICS classification structure, which contains four levels of detail (sector, industry group, industry, and subindustry).
- We begin by assessing the 24 industry groups. Sector views are then established using a bottom-up, mathematical derivation of our recommended weights for industry groups.
- On the industry group level, our investment process incorporates:
  - **Earnings** – We review sell-side earnings expectations, a comparison of earnings and market contribution of the group to the overall S&P 500, and industry group EPS estimate trends in order to identify potential gaps between perception and reality.
  - **Sentiment** – For each of the industry groups, we review short interest (as a gauge for investor sentiment), and the distribution of (as well as shifts in) sell-side buy, hold, and sell ratings. Keep in mind that a positive score for this factor can sometimes reflect a contrarian call on deeply negative sentiment.
  - **Trading Places** – We review beta, seasonality, and whether the industry group has generally outperformed or underperformed the broader market in the trading rallies and pullbacks that have occurred since 2001.
  - **Valuation** – For the 24 industry groups (and many of their subgroups) we blend together the four valuation metrics that have had the best correlations with 12 month forward stock price performance since the late 1980's. In an effort to keep the models proprietary, we do not release the precise methodology or the weighting for the four valuation inputs.
  - **Fundamentals** – Uses of cash (including share buyback trends, M&A, and dividends) are something we look at closely; additionally, we search for industry group-specific drivers including pricing, sales trends, input costs, and demand drivers that have shown a relationship with the stock prices of particular industry groups over time.
- We rate each of these categories positive, negative, or neutral. Then, we look at the collective scores for each industry group to determine our Overweight, Underweight, or Market Weight postures.
- A final point – our methodology is not static. As we find new tools that fit within these categories, we will incorporate them into *SIGN*.

# “Trading Places” Thesis Remains Intact

## Industry Group Recommendations

<i>Overweight</i>	<i>Market Weight</i>	<i>Underweight</i>
Food, Beverage & Tobacco	Banks	Autos & Components
Household & Personal Products	Commercial Services & Supplies	Consumer Durables & Apparel
Insurance	Energy	Capital Goods
Semis & Semi Equipment	Health Care Equipment & Services	Retailing
Tech Hardware & Equipment	Pharma & Biotechnology	Materials
Telecom Services	Real Estate	Software & Services
Utilities	Transportation	Consumer Services
Diversified Financials	Food & Staples Retailing	Media

## Sector Recommendations (Based on Industry Group Recommendations)

<i>Overweight</i>	<i>Market Weight</i>	<i>Underweight</i>
Consumer Staples	Energy	Consumer Discretionary
Financials	Health Care	Industrials
Information Technology		Materials
Telecom Services		
Utilities		

## Recent Changes

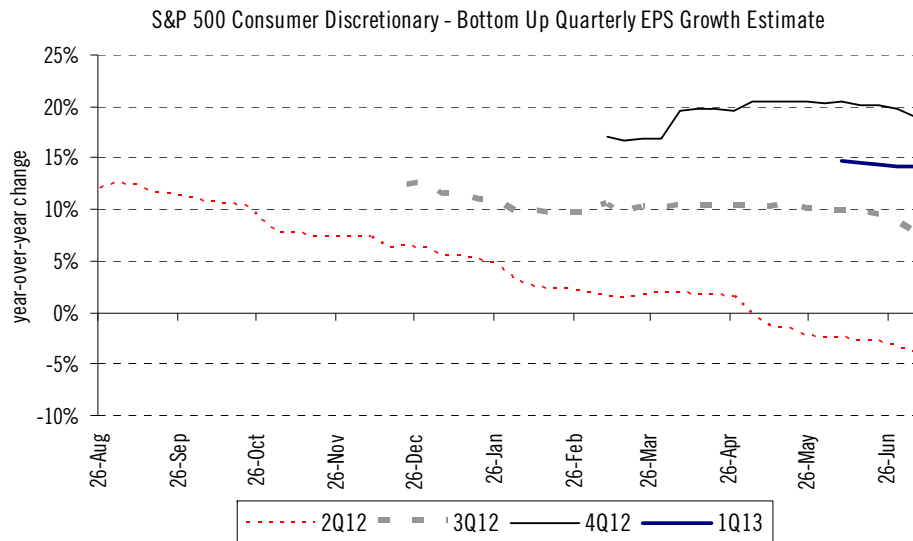
- On July 13<sup>th</sup>, we lifted Diversified Financials to Overweight from Market Weight, reduced Food & Staples Retailing to Market Weight from Overweight, and downgraded Media to Underweight from Market Weight.
- On May 11<sup>th</sup>, we raised Household & Personal Products to Overweight from Market Weight, lifted Pharma & Biotech to Market Weight from Underweight, reduced Diversified Financials to Market Weight from Overweight, and lowered Consumer Services to Underweight from Market Weight.
- On March 9<sup>th</sup>, we lifted Food & Staples Retailing to Overweight from Market Weight, raised Utilities to Overweight from Market Weight, upgraded Real Estate to Market Weight from Underweight, and reduced Materials to Underweight from Market Weight.
- On November 11<sup>th</sup>, we raised Health Care Equipment & Services to Market Weight from Underweight, upgraded Media to Market Weight from Underweight, lifted Materials to Market Weight from Underweight, and lowered Software & Services to Underweight from Market Weight.
- On September 9<sup>th</sup>, we raised Household & Personal Products to Market Weight from Underweight, lifted Transportation to Market Weight from Underweight, upgraded Telecom Services to Overweight from Market Weight, and lowered Energy to Market Weight from Overweight.

Source: Citi Research - US Equity Strategy

# Consumer Discretionary Sector Performance and Recommendation Overview

(7/12/12)		Actual Weight	Rating	Rec'd	Performance Over Last					YTD
Sector	Industry Group	(% of S&P 500)		Weight	1 Week	1 Month	3 Months	6 Months	52 Weeks	2012
<b>S&amp;P 500</b>		100.0%			-2.40%	0.80%	-3.81%	3.03%	1.61%	6.14%
<b>Consumer Discretionary</b>		11.3%	-	9.0%	-2.37%	-0.44%	-3.95%	6.09%	6.36%	9.96%
	Autos & Components	0.6%	-	0.5%	-5.20%	-10.24%	-20.21%	-20.50%	-28.09%	-11.41%
	Consumer Durables & Apparel	1.1%	-	0.9%	-3.29%	-5.50%	-14.00%	-2.17%	0.52%	2.08%
	Consumer Services	2.1%	-	1.6%	-1.07%	0.91%	-8.22%	-3.08%	5.34%	-0.42%
	Media	3.4%	-	2.7%	-2.46%	2.99%	3.90%	13.09%	12.27%	18.14%
	Retailing	4.2%	-	3.3%	-2.27%	-0.99%	-2.17%	13.56%	11.19%	15.59%

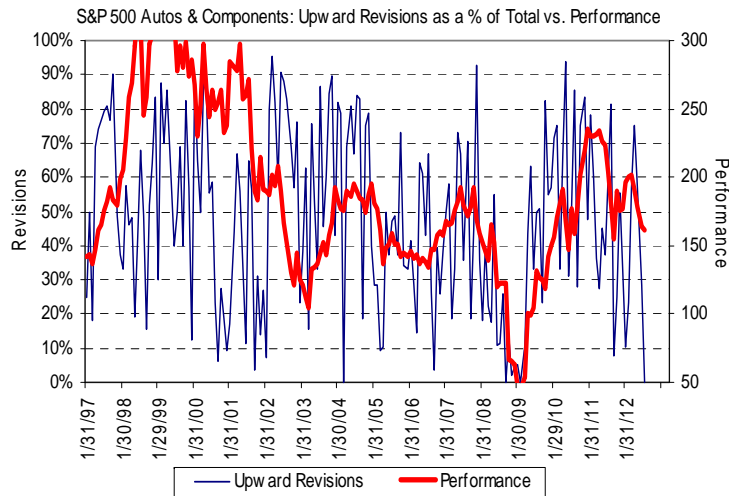
## Shifts in Sector EPS Expectations



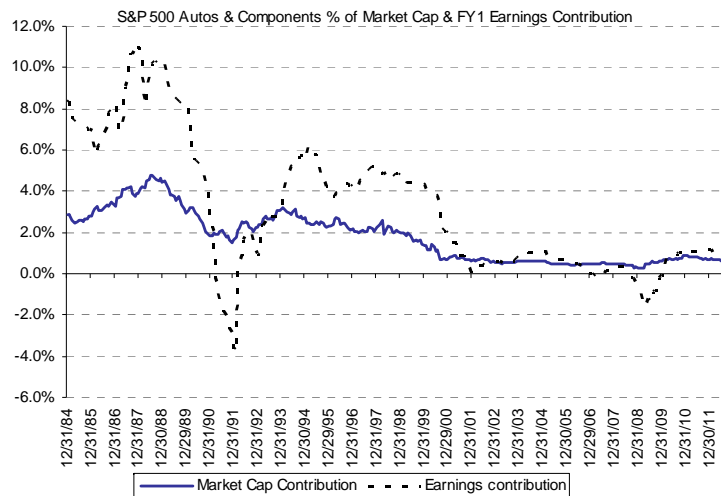
Source: Citi Research - US Equity Strategy, FactSet, Thomson Financial, and Bloomberg

# Autos & Components – Underweight

## Industry Group Earnings Expectations

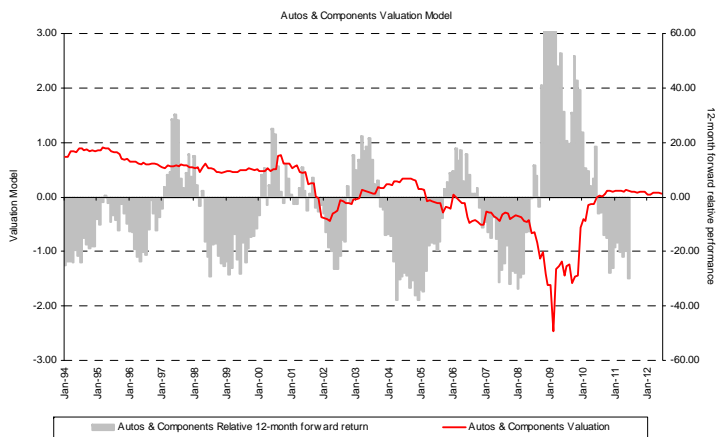


## Industry Group EPS & Mkt Cap Contribution



- **Earnings: Positive**
- Upward earnings estimate revisions have plunged, any rise in upward revisions could send stock prices higher.
- Anticipated earnings contribution is slightly ahead of market cap contribution.
- **Valuation score: Negative**
- Overall, the group remains in negative territory.

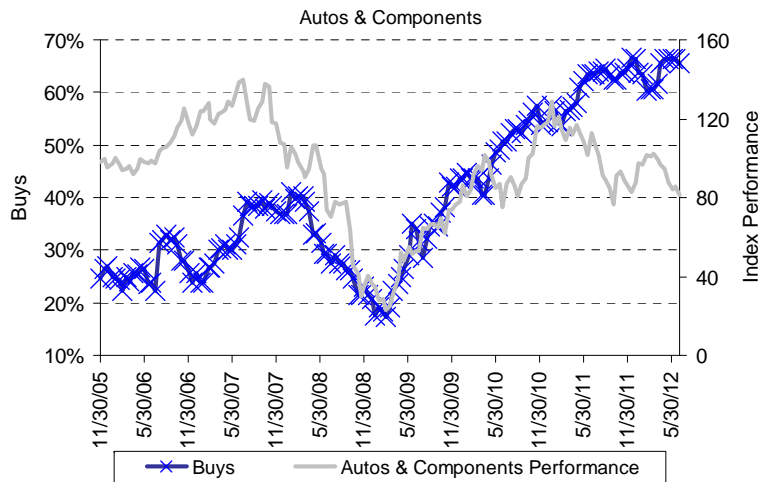
## Industry Group Valuation



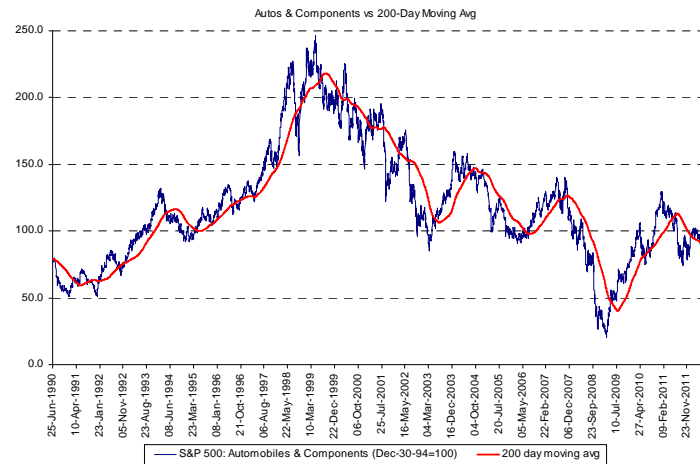
Based on Price/EBITDA, PE, Price to sales, Index Weighted Earnings, Enterprise Value, EV/EBITDA, Debt to EBITDA

# Autos & Components – Underweight

## Industry Group Sell-Side Sentiment

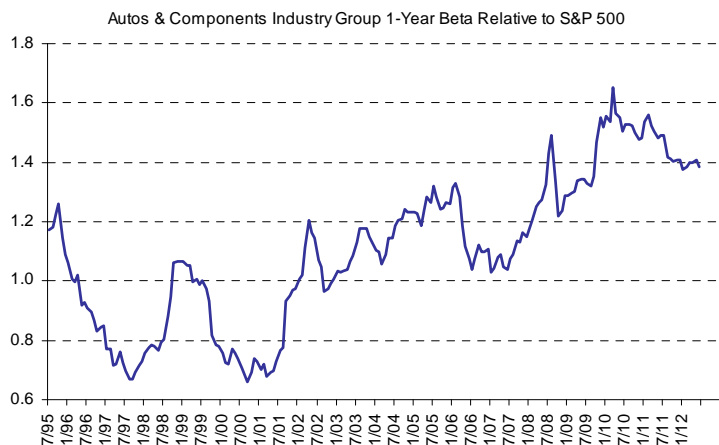


## Industry Group Sentiment

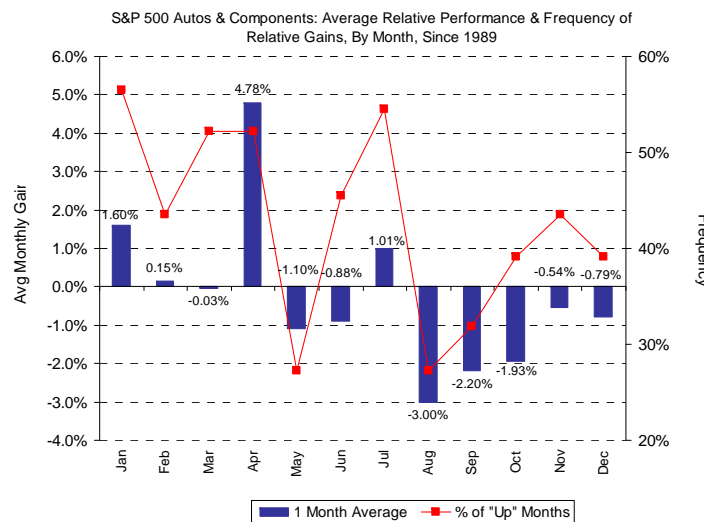


- **Sentiment score: Negative**
- Sell-side analysts bullishness has accelerated to its highest level in over five years and this group is still the most liked in the S&P 500, signaling potentially excess excitement.
- The group is trading below its 200-day moving average.
- Concerns have increased regarding European auto industry demand sustainability.

## Industry Group Beta



## Industry Group Seasonality



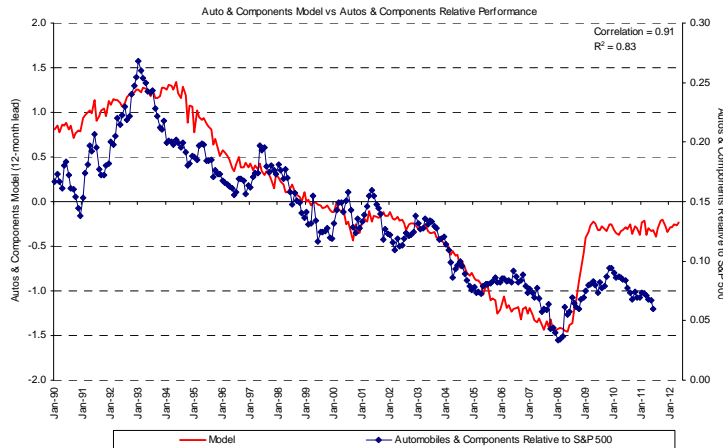
- **Trading Places score: Negative**
- Beta ticked down slightly.
- An upside turn in the CESI should benefit this group.
- Seasonality/relative performance analysis suggests that these names typically underperform during the second half of the year.

Source: Haver Analytics, FactSet, and Citi Research - US Equity Strategy

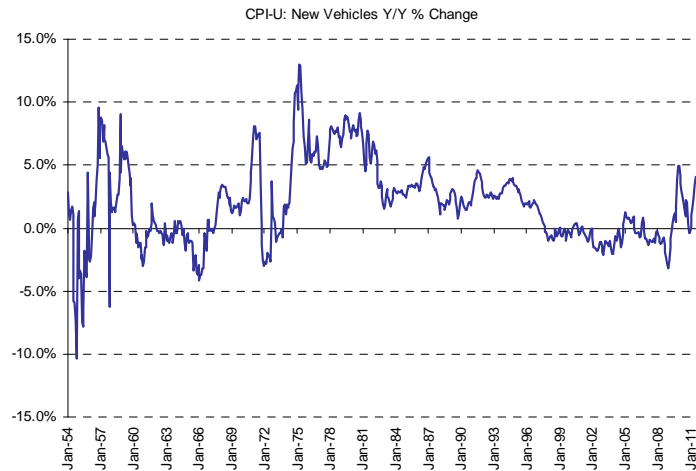


# Autos & Components – Underweight

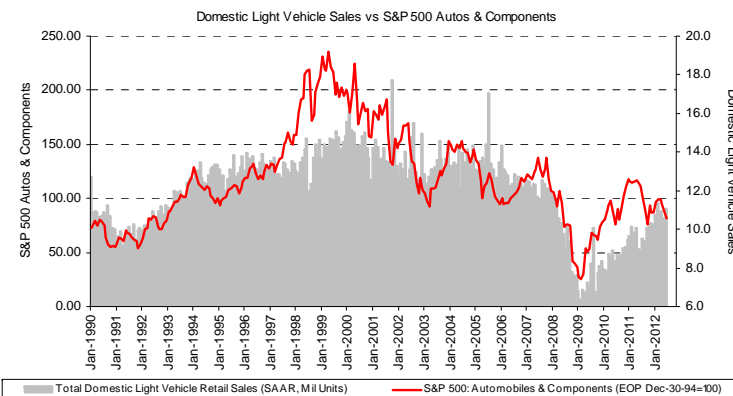
## Industry Group Fundamentals



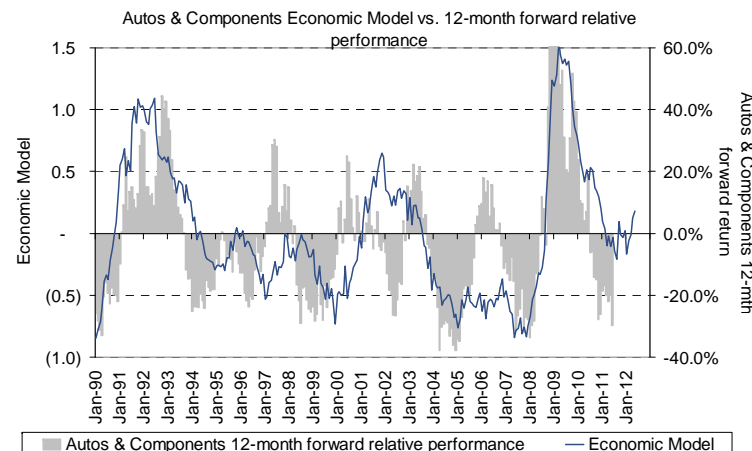
## Industry Group Fundamentals



## Industry Group Fundamentals



## Industry Group Fundamentals



- **Fundamentals/Catalysts score: Negative**
- Our 12-month lead indicator model is arguing that the group will be range bound for the next 12 months.
- Pricing power remains intact.
- A decline in US consumer confidence levels and European economic woes could be a significant drag, plus gas prices could hurt.
- Automotive sales tend to grow in line with real gross domestic product and GDP alone can explain much of the variance in automotive sales – Citi expects 2H12 moderation in GDP trends.
- Our Autos & Components economic model climbed into positive territory.

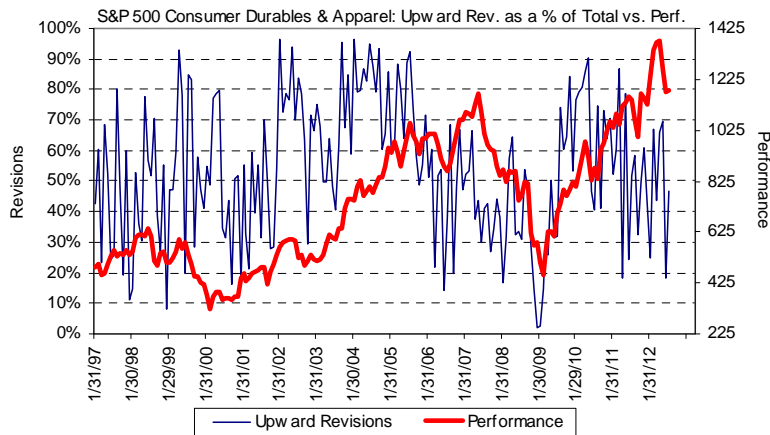
• **Bottom Line: Remain Underweight.**

Source: Haver Analytics, FactSet, and Citi Research - US Equity Strategy

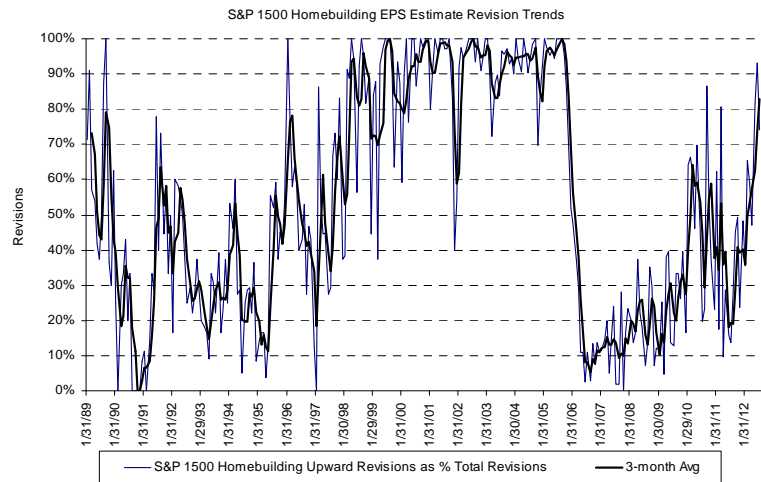
Note: components are listed on page 101

# Consumer Durables & Apparel – Underweight

## Industry Group Earnings Expectations

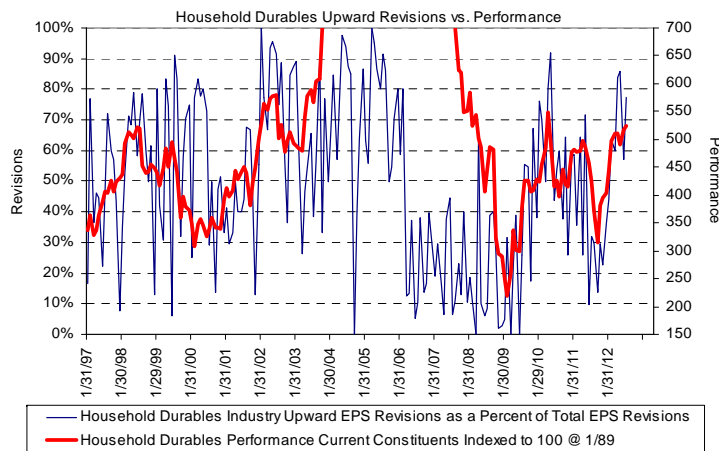


## Industry Group Earnings Expectations

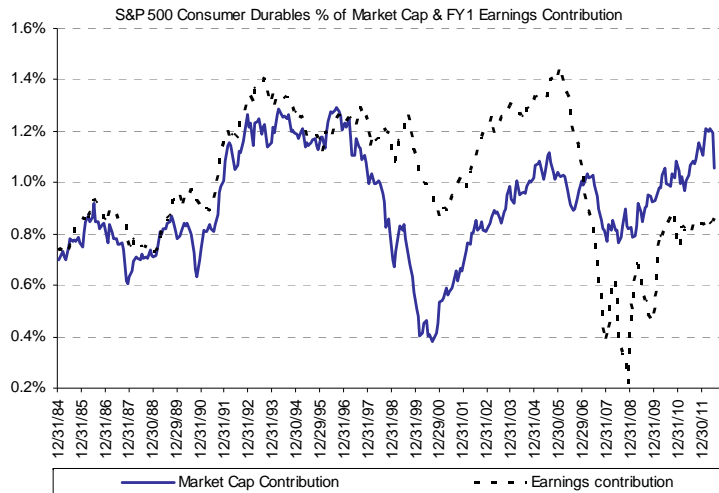


- **Earnings score: Positive**
- Overall, upward revisions have been climbing off a recent bottom.
- Homebuilding and Household Durables revisions have climbed near peak levels while Textiles, Apparel & Luxury Goods are sitting at trough-like levels.
- The gap between market cap contribution and projected earnings contribution has narrowed.

## Industry Group Earnings Expectations

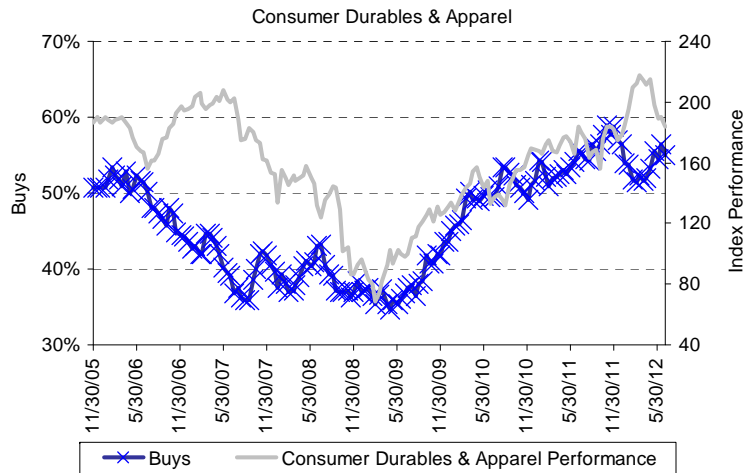


## Industry Group EPS & Mkt Cap Contribution

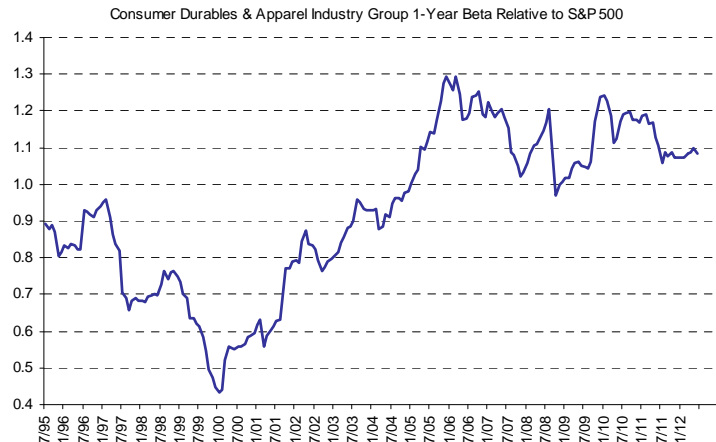


# Consumer Durables & Apparel – Underweight

## Industry Group Sell-Side Sentiment

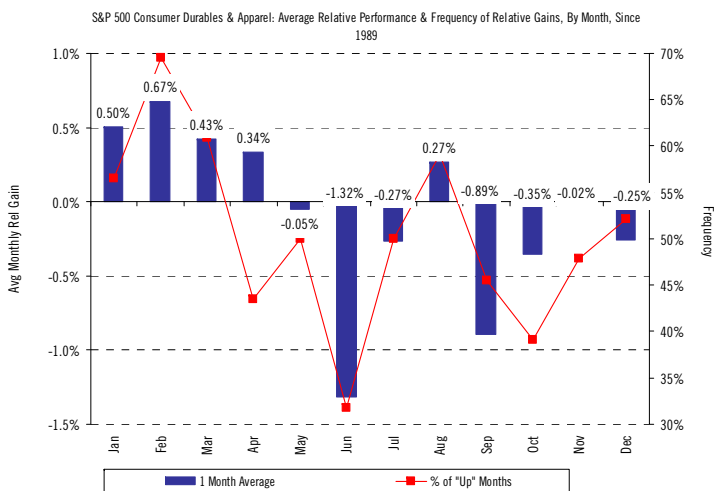


## Industry Group Beta

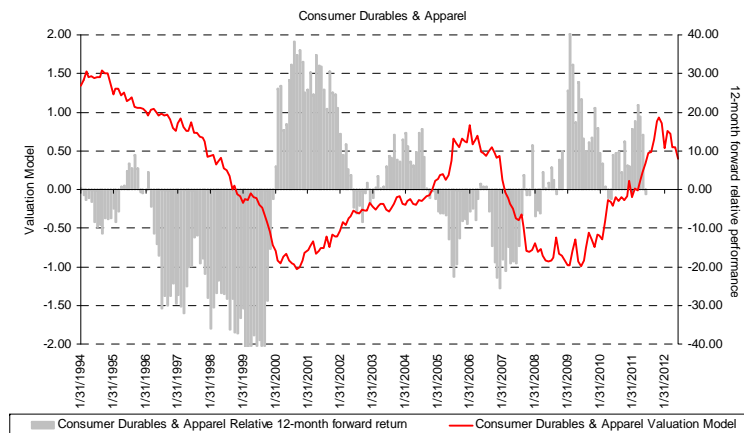


- **Sentiment score: Neutral**
- Analyst bearish ratings were climbing since mid-2009 while bullishness accelerated to five-year highs in-line with the group's performance, before falling off since the end of November and bottoming in March.
- **Trading Places score: Negative**

## Industry Group Seasonality



## Industry Group Valuation



- Beta has been flat.
- Seasonal underperformance from May through year-end, according to history.
- **Valuation score: Negative**
- Our relative valuation model for the industry group remained in unattractive territory.

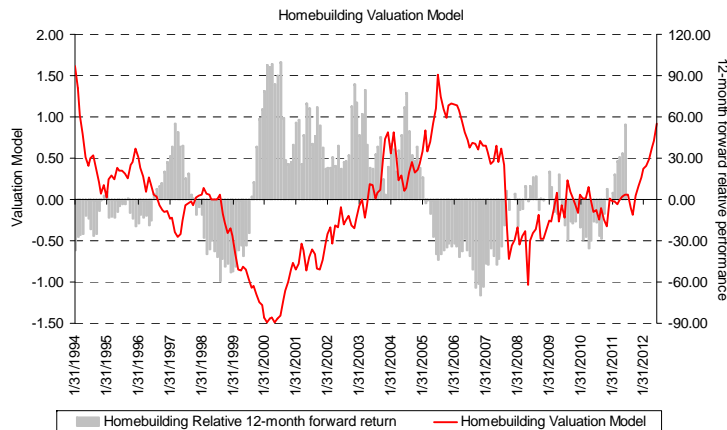
Source: Bloomberg, Haver Analytics, FactSet and Citi Research - US Equity Strategy

Based on Price/Cash Flow, Book Value, T12\_EPS\_AGGTE, Price/Sales, Enterprise Value, FY1 Earnings, Dividend Yield

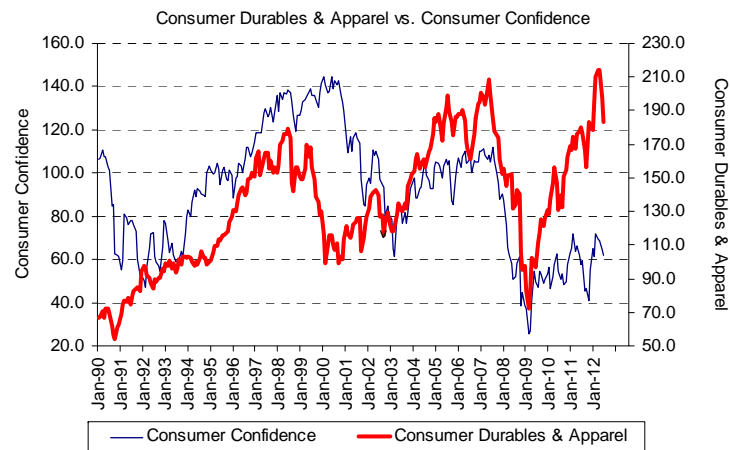


# Consumer Durables & Apparel – Underweight

## Sub-Industry Valuation

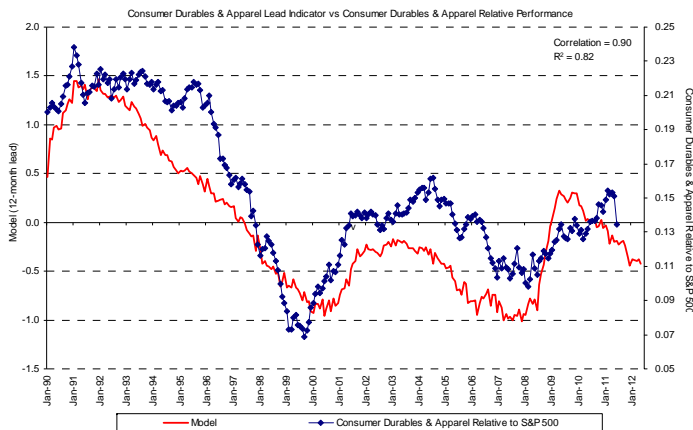


## Industry Group Fundamentals

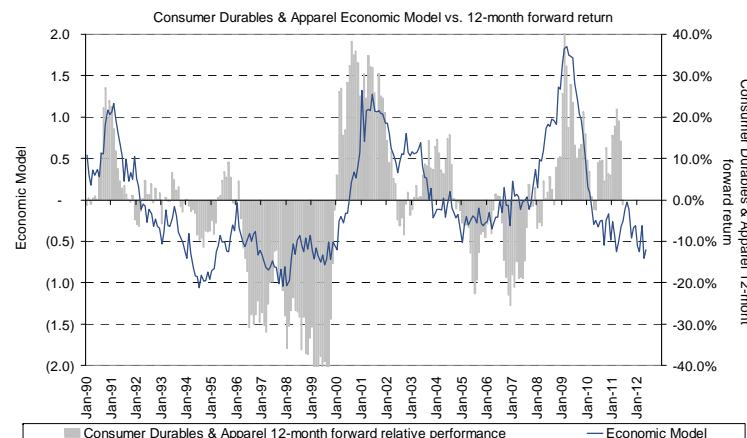


- **Valuation score: Negative**
- At the sub-industry level, Homebuilding looks stretched as well.
- **Fundamentals/Catalysts score: Negative**
- The group has traded higher alongside falling consumer confidence.
- Our 12-month lead indicator model is arguing for relative weakness.
- Credit turmoil has weighed heavily on the crucial homebuilding segment, hurting share price trends, though the number of excess homes appears to be shrinking rapidly.

## Industry Group Fundamentals



## Industry Group Fundamentals



Our Consumer Durables & Apparel economic model contends for relative underperformance.

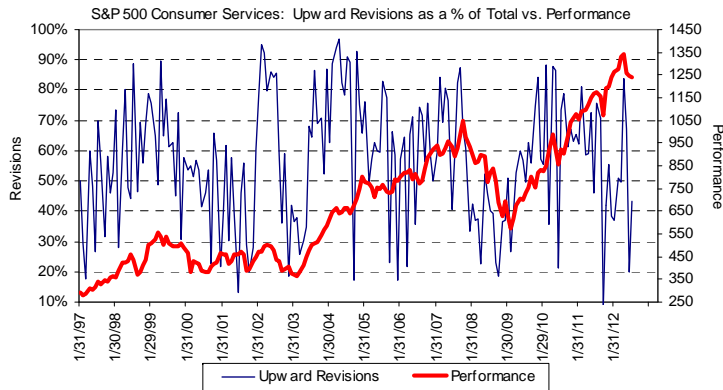
- **Bottom Line: Remain Underweight.**

Source: Bloomberg, Haver Analytics, FactSet, and Citi Research - US Equity Strategy

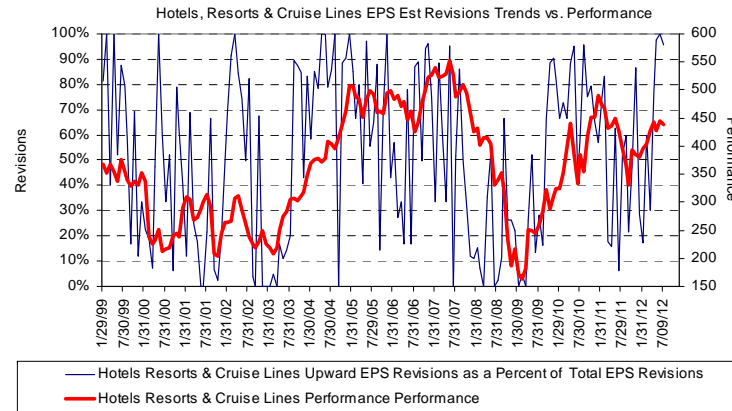
Note: components are listed on page 101

# Consumer Services – Underweight

## Industry Group Earnings Expectations

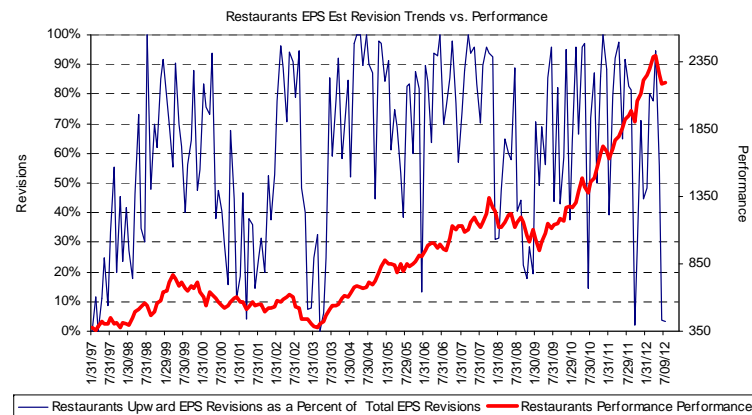


## Industry Group Earnings Expectations

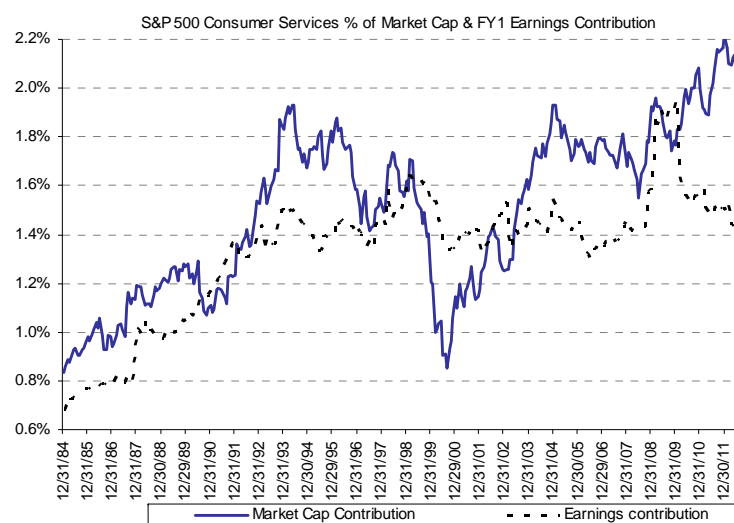


- **Earnings score: Positive**
- Overall, upward revisions have started to climb off bottom.
- Hotel, Resorts & Cruise Lines upward EPS revisions look stretched while Restaurants upward revisions have plunged.
- The gap between the expected earnings contribution and market cap contribution remains wider than prior gaps seen in 1992/93 and 2002/03.

## Industry Group Earnings Expectations

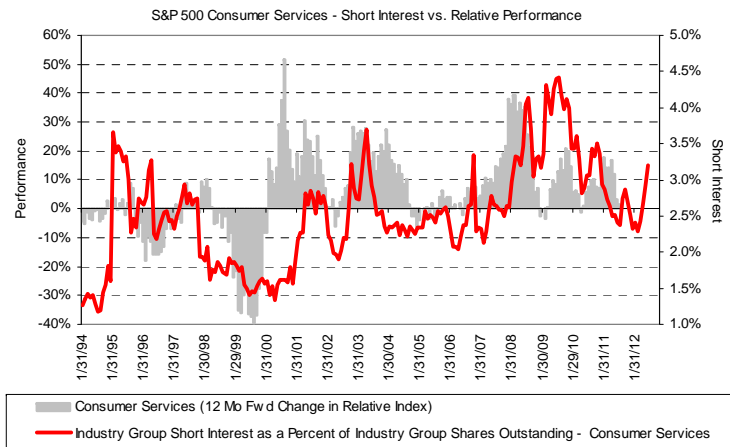


## Industry Group EPS & Mkt Cap Contribution

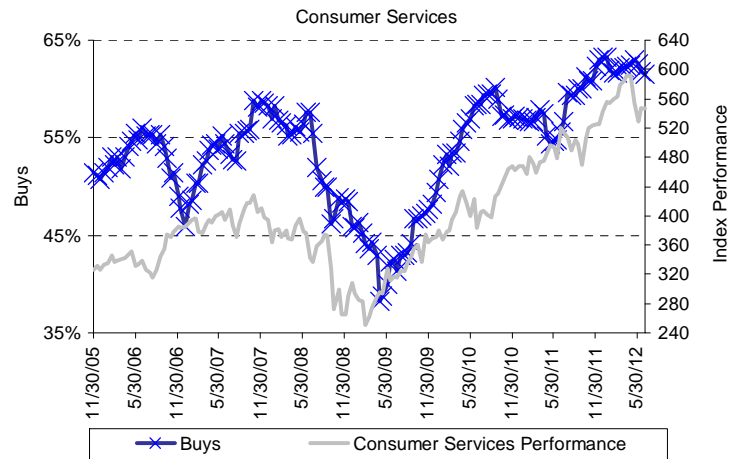


# Consumer Services – Underweight

## Industry Group Sell-Side Sentiment

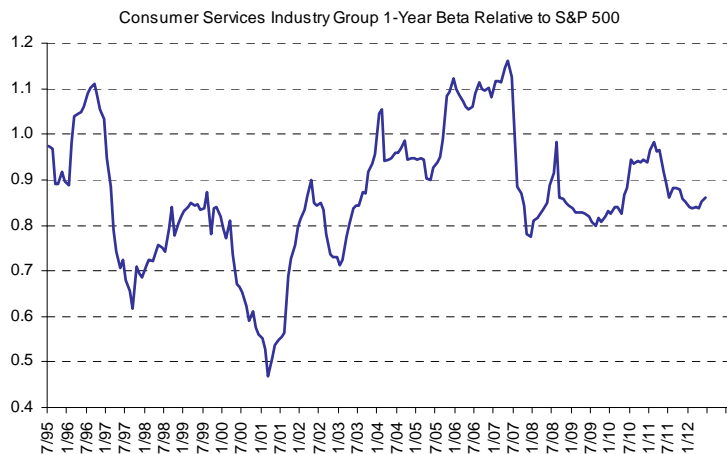


## Industry Group Sell-Side Sentiment

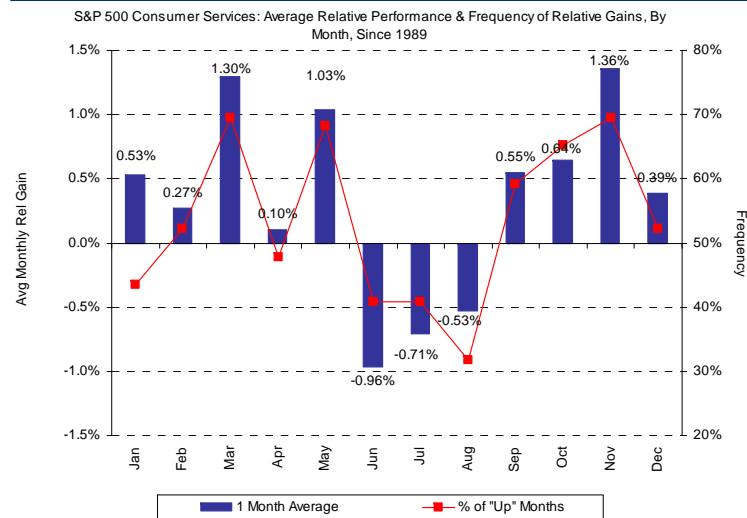


- **Sentiment score: Negative**
- The relationship between short interest and forward relative stock price performance is relatively strong and current readings indicate there may be stock price strength ahead.
- Buy ratings have spiked to five-year highs, during which time, sell ratings have declined to near record lows.

## Industry Group Beta



## Industry Group Seasonality



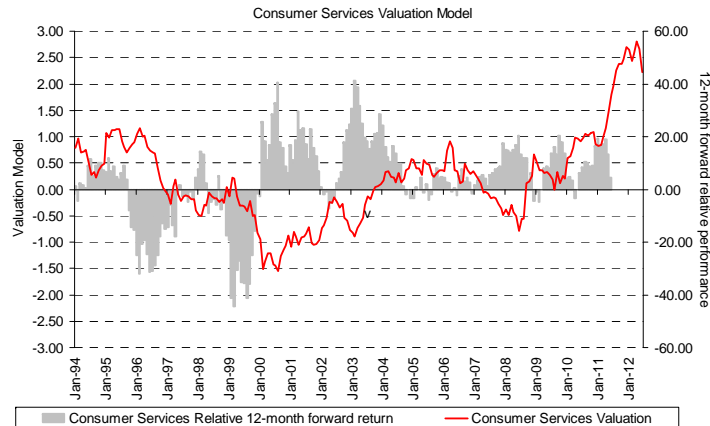
- **Trading Places score: Negative**
- Beta inched higher.
- Tends to underperform from June through August.
- A bottoming of the CESI should benefit this group.

Source: Bloomberg, Haver Analytics, FactSet and Citi Research - US Equity Strategy



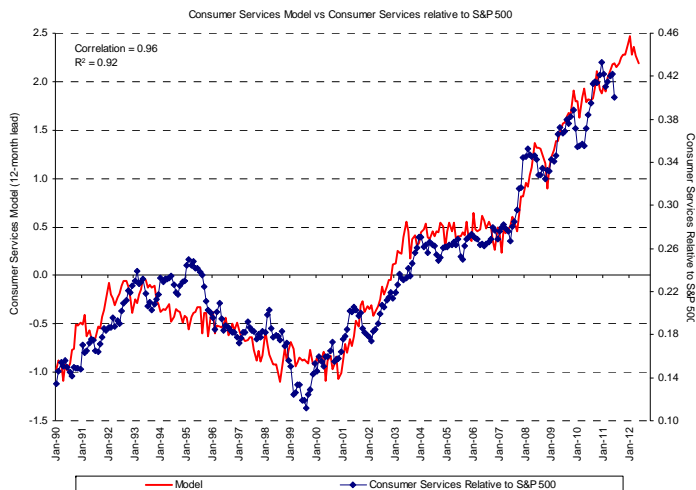
# Consumer Services – Underweight

## Industry Group Valuation



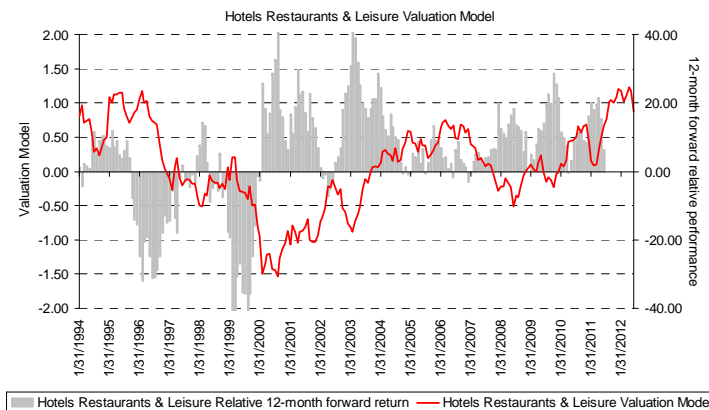
Based on Price/EBITDA, Price/Cash Flow, PE, Price/Sales, Enterprise Value, Dividend Yield, Ev/EBITDA, EV/Sales

## Industry Group Fundamentals



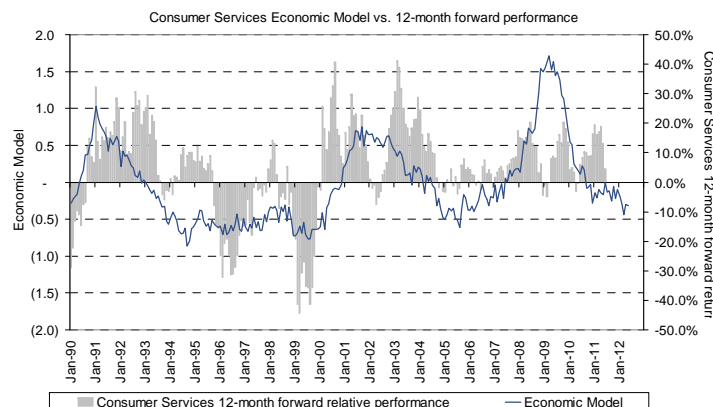
Source: Bloomberg, Haver Analytics, FactSet, and Citi Research - US Equity Strategy

## Sub-Industry Valuation



Based on Price/EBITDA, Price/Cash Flow, PE, Price/Sales, Enterprise Value, Book Value, Dividend Yield

## Industry Group Fundamentals



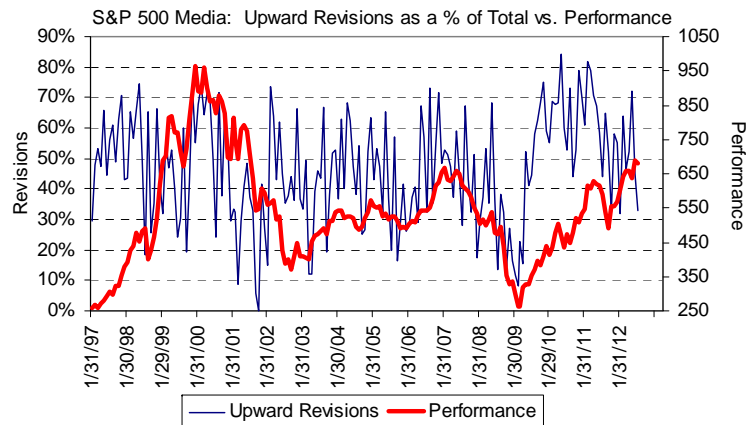
- **Valuation score: Negative**
- Valuation remains in unattractive territory suggesting likely relative price underperformance.
- Hotels, Restaurants & Leisure also looks unappealing.
- **Fundamentals/Catalysts score: Neutral**
- Our 12-month lead indicator suggests near-term relative outperformance for the group.
- Our Consumer Services economic model remained in negative territory supporting continued caution for these names.
- A decline in corporate profit pace could hurt this group, specifically the Hotels group.

• **Bottom Line: Remain Underweight.**

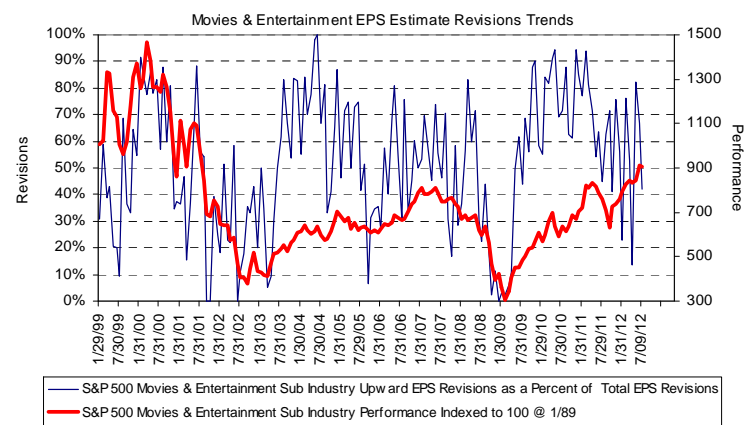
Note: components are listed on page 101

# Media – lowered to Underweight

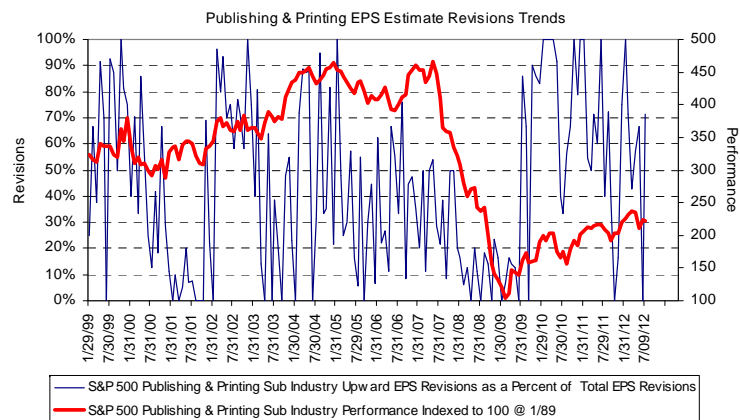
## Industry Group Earnings Expectations



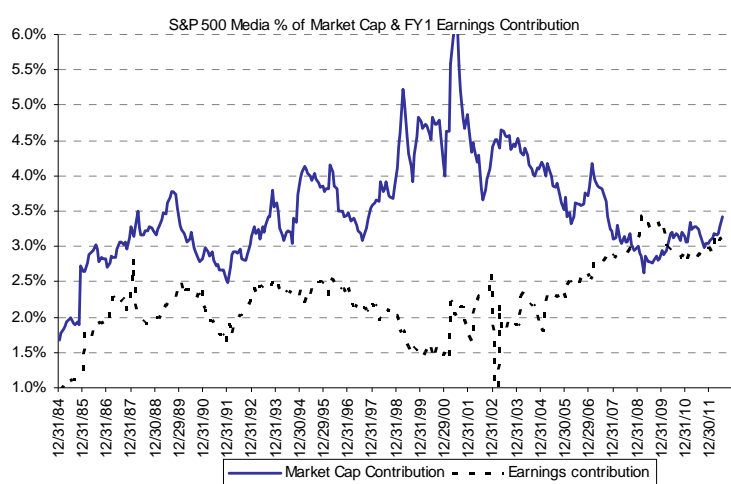
## Industry Group Earnings Expectations



## Industry Group Earnings Expectations



## Industry Group EPS & Mkt Cap Contribution

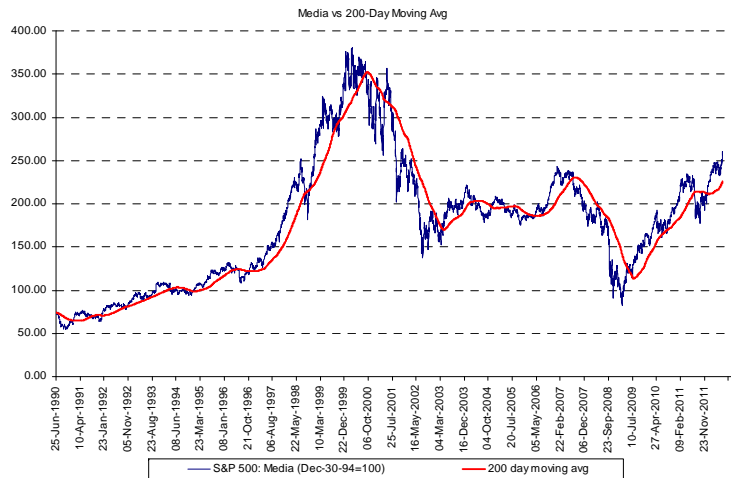


- **Earnings score: Negative**
- Upward EPS revisions for the Media group appear to be in a downward trend.
- Broadcasting & Cable TV and Movies & Entertainment revisions are pulling back from prior peaks while Publishing & Printing has been climbing off a bottom.
- Market cap contribution moved sharply ahead of anticipated earnings contribution.

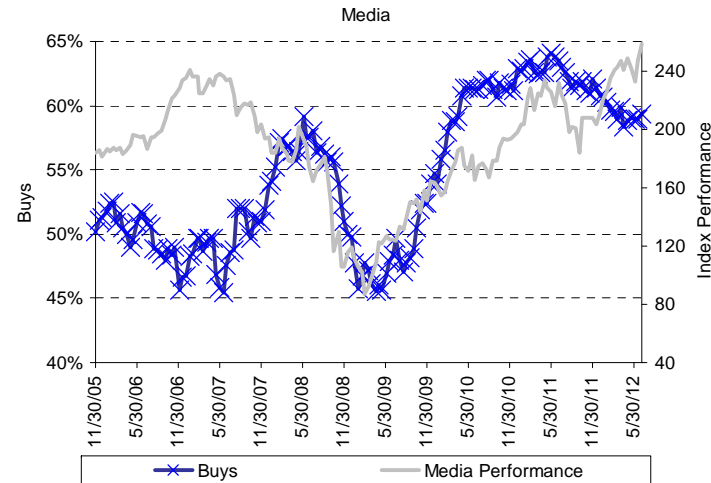


# Media – lowered to Underweight

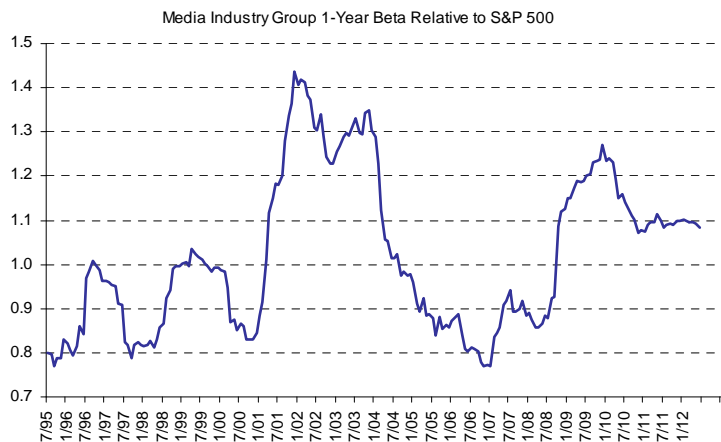
## Industry Group Sell-Side Sentiment



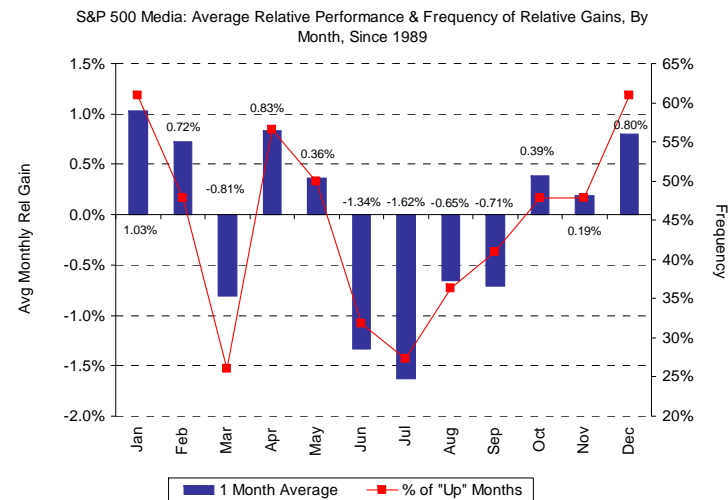
## Industry Group Sell-Side Sentiment



## Industry Group Beta



## Industry Group Seasonality

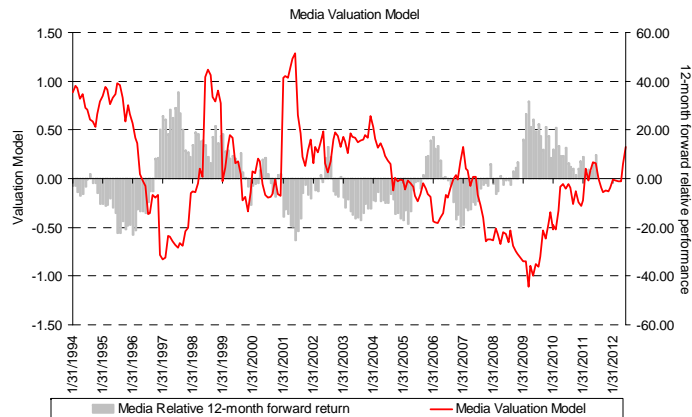


- **Sentiment score: Neutral**
- Media is trading sharply above its 200-day moving average.
- Sell ratings had been roughly flat since mid-2010, until spiking in November 2011, while Buy ratings increased sharply since the middle of September 2009 to the highest level in five years in June 2011, but have pulled back since.
- **Trading Places score: Negative**
- Beta has been relatively steady.
- A turnaround in the CESI should support stock prices.
- From a relative performance/seasonality perspective, June through September is the worst time to own these names.

Source: Bloomberg, Haver Analytics, FactSet and Citi Research  
- US Equity Strategy

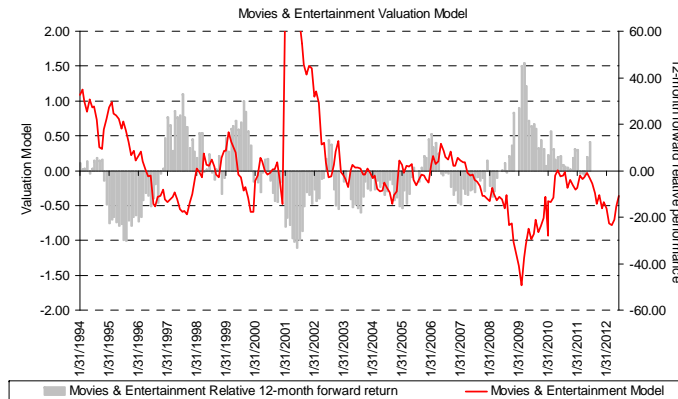
# Media – lowered to Underweight

## Industry Group Valuation



Based on Price/EBITDA, Price/Cash Flow, PE, Price/Sales, Price/Book, Dividend Yield

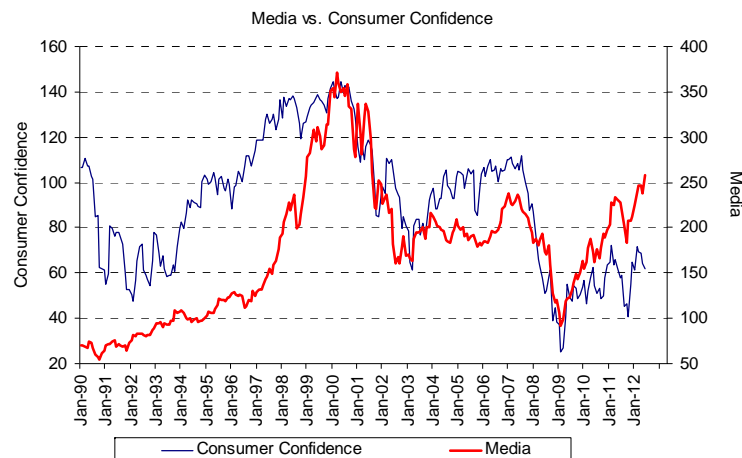
## Sub-Industry Valuation



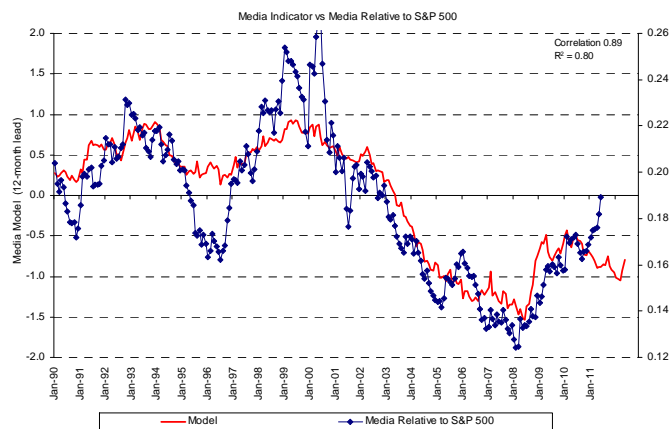
Based on PE, Price/Sales, Price/Book, Dividend Yield, Enterprise Value, est. Price/Cash Flow, Debt/EBITDA

- **Valuation score: Negative**
- Overall the group has climbed into unattractive territory.
- Movies & Entertainment still look appealing.
- **Fundamentals/Catalyst score: Negative**
- A decline in consumer confidence readings could affect the group.
- Our Media lead indicator model is suggesting near-term caution for the group.

## Industry Group Fundamentals



## Industry Group Fundamentals

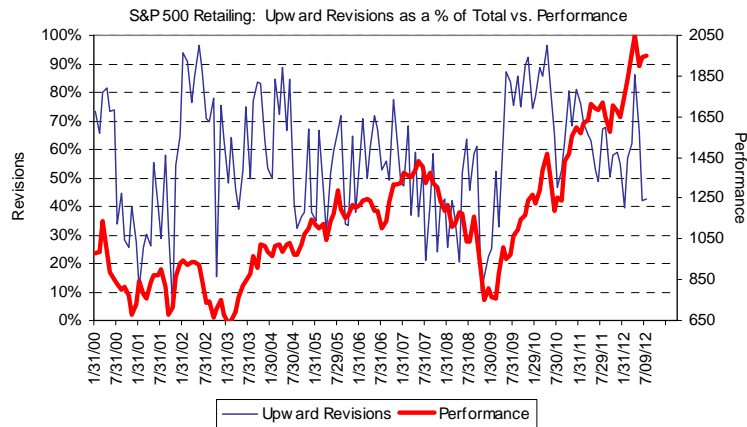


- **Bottom Line: Downgraded to Underweight.**

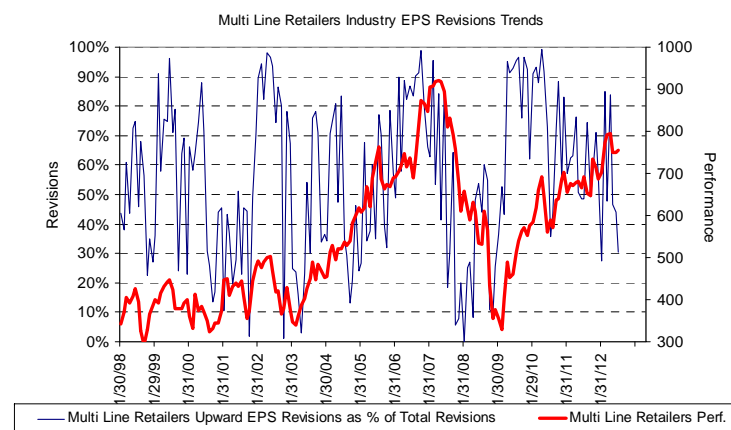
Source: Bloomberg, Haver Analytics, FactSet, and Citi Research

# Retailing – Underweight

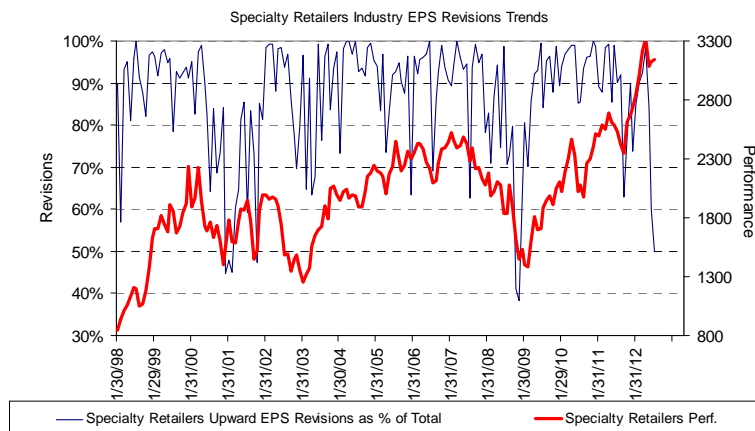
## Industry Group Earnings Expectations



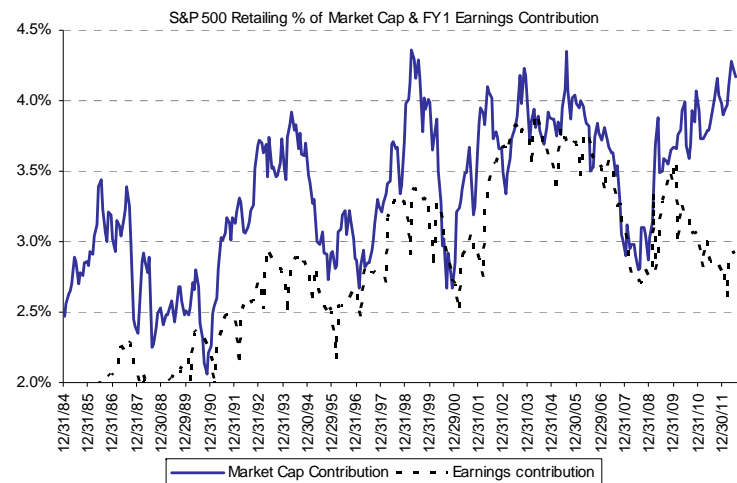
## Industry Group Earnings Expectations



## Industry Group Earnings Expectations



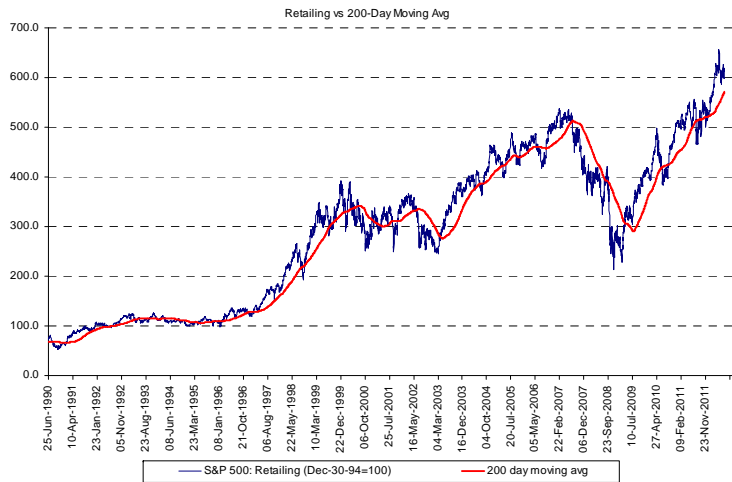
## Industry Group EPS & Mkt Cap Contribution



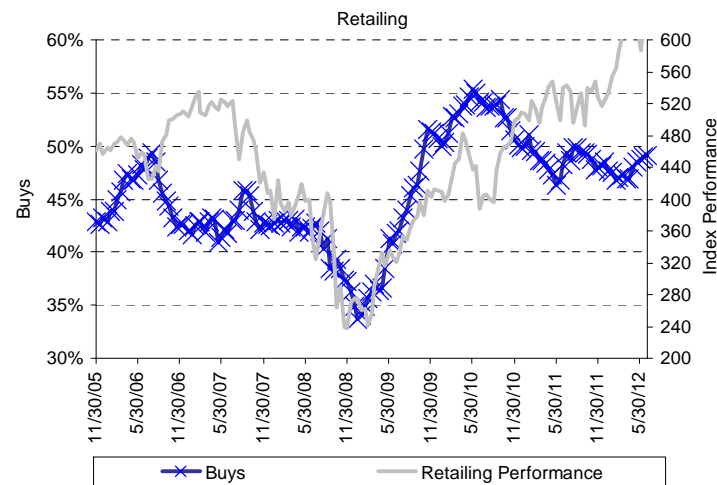
- **Earnings score: Negative**
- Overall, Retailing upward EPS estimate revisions are retreating from prior peak levels.
- Both Multi-line Retailing and Specialty Retailers revisions are pulling back and thus, caution may be warranted; though Specialty Retailers are getting close to a trough.
- Market-cap contribution remains well ahead of projected earnings contribution and appears unsustainable.

# Retailing – Underweight

## Industry Group Sell-Side Sentiment

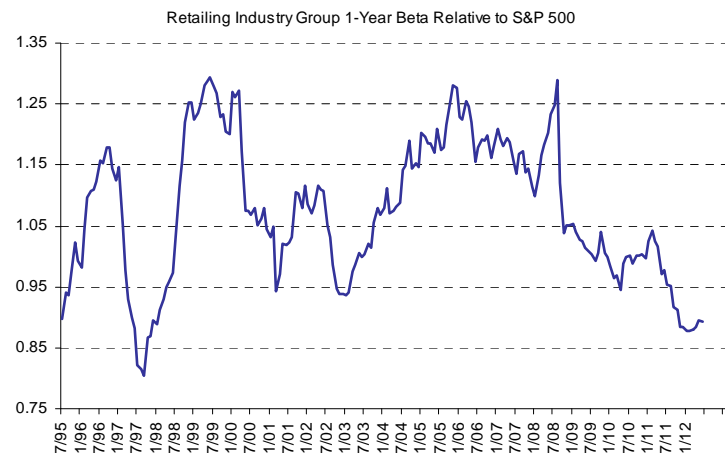


## Industry Group Sell-Side Sentiment

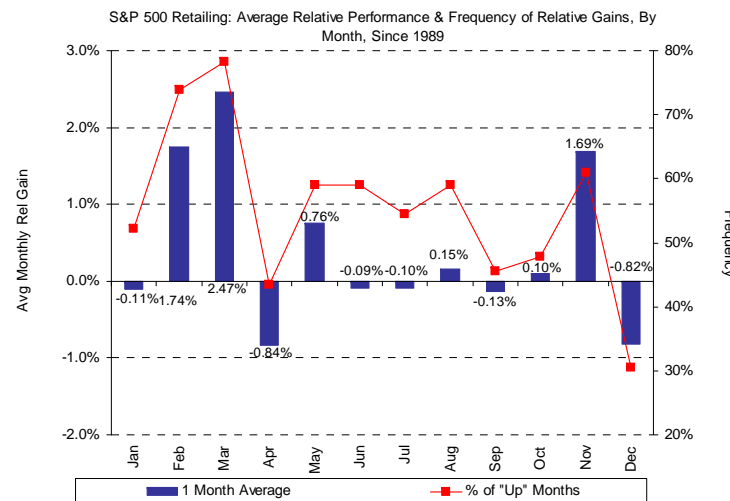


- **Sentiment score: Neutral**
- Buy ratings have pulled back since 2010, while sell ratings spiked since October 2011, but have pulled back since March.
- Although Retailing has been pulling back, it is still trading above its 200-day moving average.

## Industry Group Beta



## Industry Group Seasonality

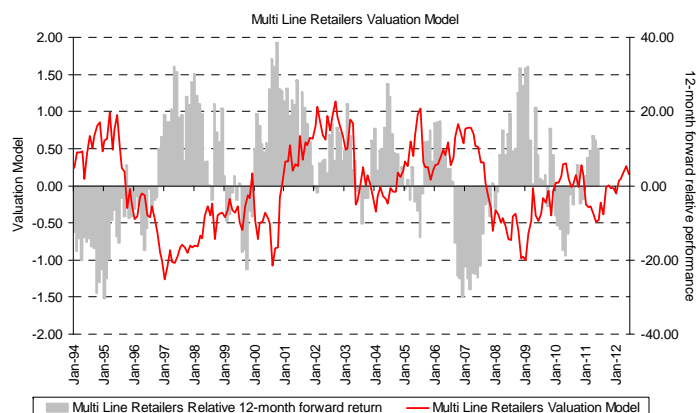


- Beta appears to have bottomed.
- From a seasonality/relative performance perspective, the group tends to experience choppy trading patterns in the second and third quarters.
- A rebound in the Citi Economic Surprise Index should lead to group outperformance.

Source: Bloomberg, Haver Analytics, FactSet and Citi Research - US Equity Strategy

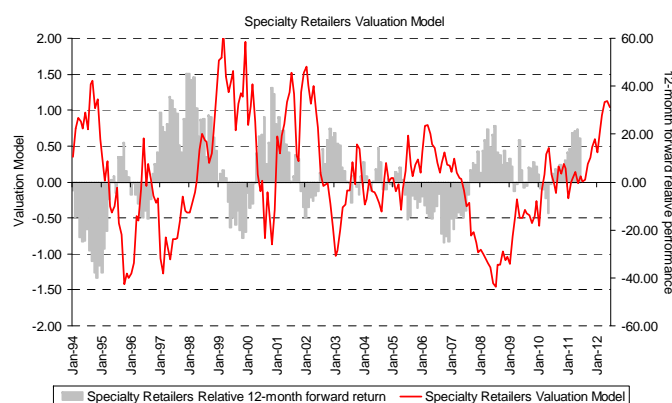
# Retailing – Underweight

## Sub-Industry Valuation



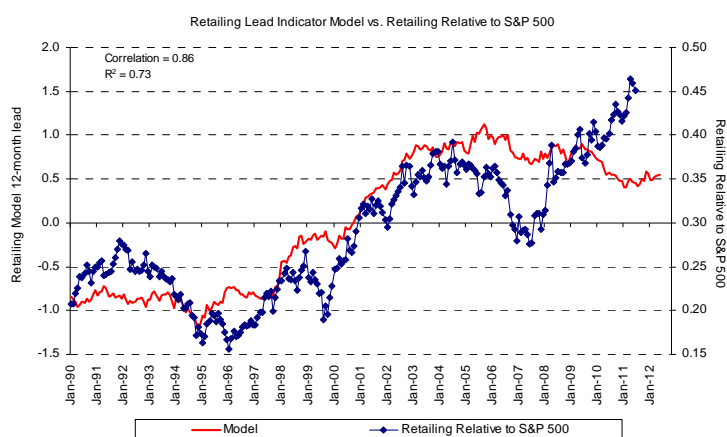
Based on Price/EBITDA, Price/Cash Flow, PE, Price/Sales, Enterprise Value, FY1 Debt/EBITDA, Dividends/Share

## Sub-Industry Valuation

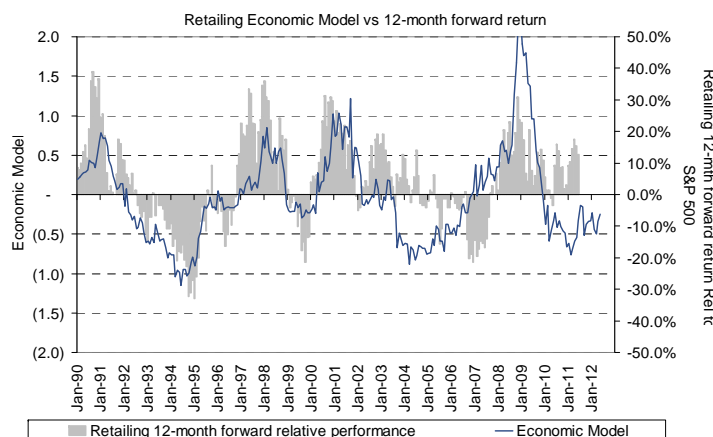


Based on Price/EBITDA, Price/Cash Flow, PE, P/Sales, Enterprise Value, FY1 Debt/EBITDA, Weighted estimated earnings

## Industry Group Fundamentals



## Industry Group Fundamentals



- Valuation score: **Negative**
- Overall, Retailing looks unattractive. Multi-Line Retailers and Specialty Retailers appear overvalued.
- Fundamentals/Catalysts score: **Negative**
- Our Retailing lead indicator model is arguing for likely flat performance for the group in the next 12 months, though its predictive power of late has been poor.
- Our Retailing economic model remains in negative territory and argues for relative underperformance in the Retailing industry group over the next 12 months.

**Bottom Line:** Remain Underweight.

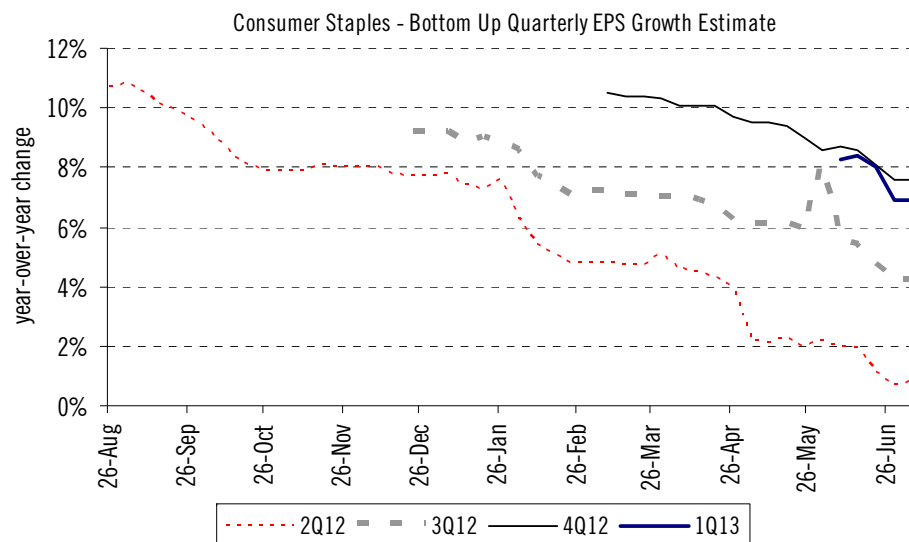
# Consumer Discretionary Constituents

Automobiles & Components		Media		Retailing	
<b>Auto Components</b>		<b>Media</b>		<b>Distributors</b>	
JCI	Johnson Controls Inc	DIS	Walt Disney Co	GPC	Genuine Parts Co
BWA	Borgwarner Inc	CMCSA	Comcast Corp		
GT	Goodyear Tire & Rubber Co	NWSA	News Corporation		<b>Internet &amp; Catalog Retail</b>
		TWX	Time Warner Inc	AMZN	Amazon.com Inc
		DTV	DIRECTV Class A	PCLN	Priceline.com Inc
	<b>Automobiles</b>	TWC	Time Warner Cable Inc	EXPE	Expedia
F	Ford Motor Co	VIAB	Viacom Inc B	TRIP	TripAdvisor Inc.
HOG	Harley-Davidson Inc	CBS	CBS Corp B	NFLX	NetFlx Inc
		DISCA	Discovery Communications Inc		
	<b>Consumer Durables &amp; Apparel</b>	OMC	Omnicom Group		<b>Multiline Retail</b>
	<b>Household Durables</b>	MHP	McGraw-Hill Cos Inc	TGT	Target Corp
NWL	Newell Rubbermaid Inc	SNI	Scripps Networks Interactive	M	Macy's Inc
DHI	Horton, D.R. Inc	IPG	Interpublic Group Cos	DLTR	Dollar Tree Inc
LEN	Lennar Corp	GCI	Gannett Co Inc	KSS	Kohl's Corp
WHR	Whirlpool Corp	CVC	Cablevision Systems Co A	JWN	Nordstrom Inc
PHM	Pulte Group Inc	WPO	Washington Post Co B	FDO	Family Dollar Stores Inc
LEG	Leggett & Platt			JCP	Penney, J.C. Inc
HAR	Harman Intl Industries Inc			BIG	Big Lots Inc
				SHLD	Sears Holdings Corp
	<b>Leisure Equipment &amp; Products</b>				<b>Specialty Retail</b>
MAT	Mattel Inc			HD	Home Depot Inc
HAS	Hasbro Inc			LOW	Lowe's Cos Inc
				TJX	TJX Cos Inc
	<b>Textiles Apparel &amp; Luxury Goods</b>			BBBY	Bed Bath & Beyond Inc
NKE	NIKE Inc B			ROST	Ross Stores Inc
COH	Coach Inc			ORLY	O'Reilly Automotive
VFC	VF Corp			LTD	Limited Brands Inc
RL	Ralph Lauren Corp			AZO	AutoZone Inc
FOSL	Fossil Inc			GPS	Gap Inc
				SPLS	Staples Inc
	<b>Consumer Services</b>			TIF	Tiffany & Co
	<b>Diversified Consumer Services</b>			KMX	Carmax Inc
HRB	Block H & R Inc			BBY	Best Buy Co Inc
APOL	Apollo Group Inc			URBN	Urban Outfitters
DV	DeVry Inc			ANF	Abercrombie & Fitch Company A
				GME	GameStop Corp A
	<b>Hotels Restaurants &amp; Leisure</b>			AN	AutoNation Inc
MCD	McDonald's Corp				
SBUX	Starbucks Corp				
YUM	Yum! Brands Inc				
CCL	Carnival Corp				
CMG	Chipotle Mexican Grill Inc.				
HOT	Starwood Hotel & Resort World				
MAR	Marriott Intl A				
WYNN	Wynn Resorts Ltd				
WYN	Wyndham Worldwide Corp				
DRI	Darden Restaurants Inc				
IGT	Intl Game Technology				

# Consumer Staples Sector Performance and Recommendation Overview

(7/12/12)		Actual Weight		Rec'd	Performance Over Last					YTD
Sector	Industry Group	(% of S&P 500)	Rating	Weight	1 Week	1 Month	3 Months	6 Months	52 Weeks	2012
<b>S&amp;P 500</b>		100.0%			-2.40%	0.80%	-3.81%	3.03%	1.61%	6.14%
<b>Consumer Staples</b>		12.4%	+	13.8%	-0.15%	2.84%	4.03%	8.81%	11.29%	7.53%
	Food & Staples Retailing	3.3%	0	3.3%	-0.03%	4.20%	9.05%	12.21%	14.41%	12.19%
	Food Beverage & Tobacco	6.7%	+	7.8%	-0.78%	2.83%	4.44%	10.38%	13.65%	8.74%
	Household & Personal Products	2.3%	+	2.7%	1.53%	1.47%	-1.84%	1.45%	2.37%	-0.05%

## Shifts in Sector EPS Expectations

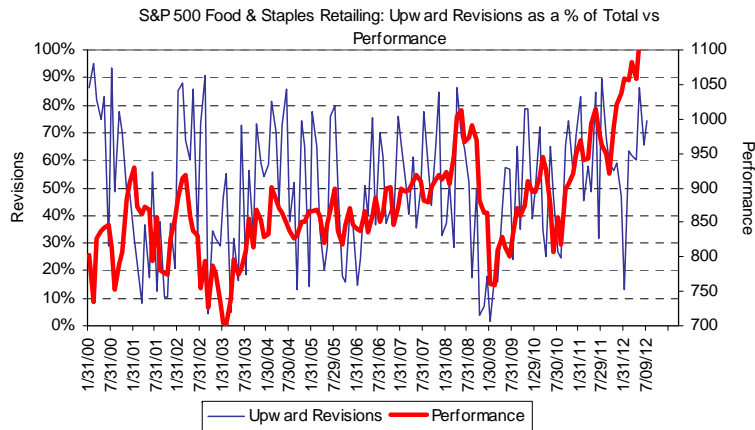


Source: Citi Research - US Equity Strategy, FactSet, Thomson Financial, and Bloomberg

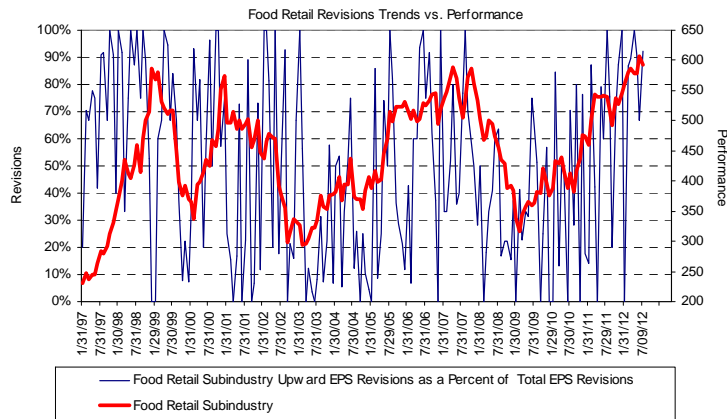


# Food & Staples Retailing – lowered to Market Weight

## Industry Group Earnings Expectations

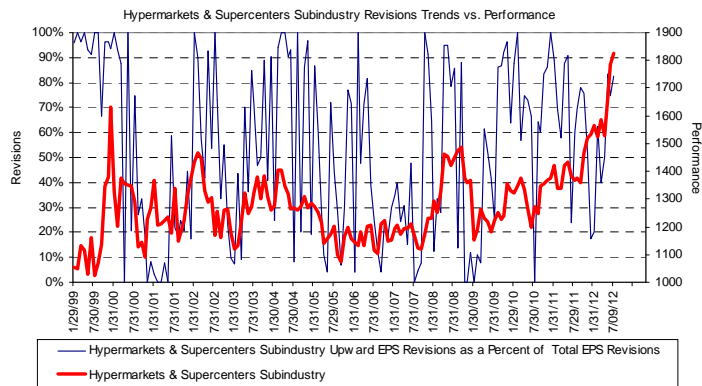


## Industry Group Earnings Expectations

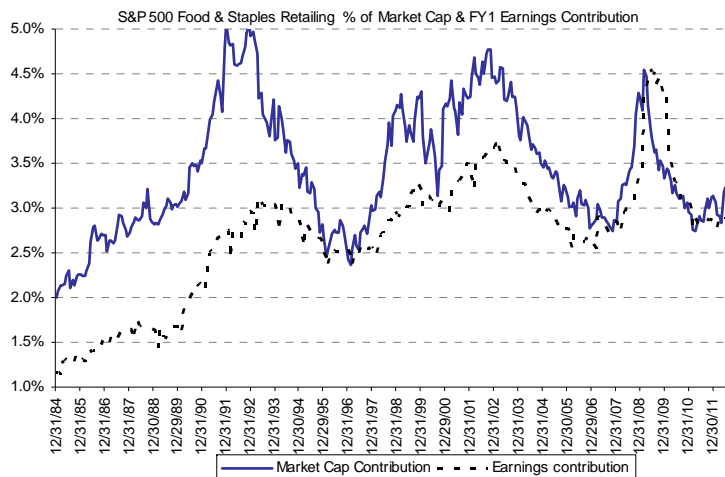


- **Earnings score: Negative**
- Overall, EPS upward estimate revisions look stretched.
- Food Retail and Hypermarkets & Supercenters upward revisions are both sitting near peak levels.
- Market cap contribution climbed ahead of expected earnings contribution.

## Industry Group Earnings Expectations



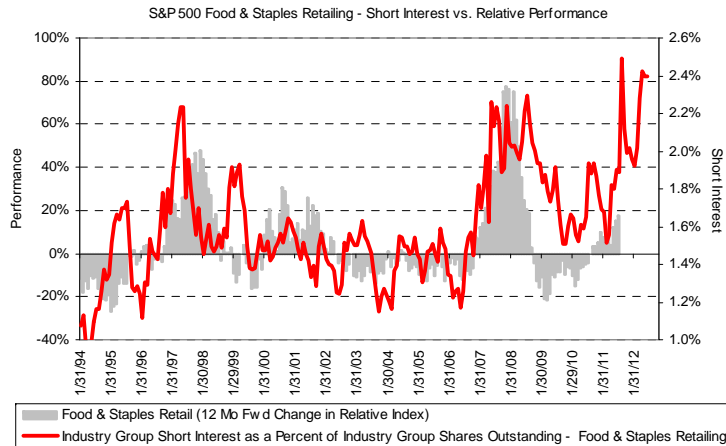
## Industry Group EPS & Mkt Cap Contribution



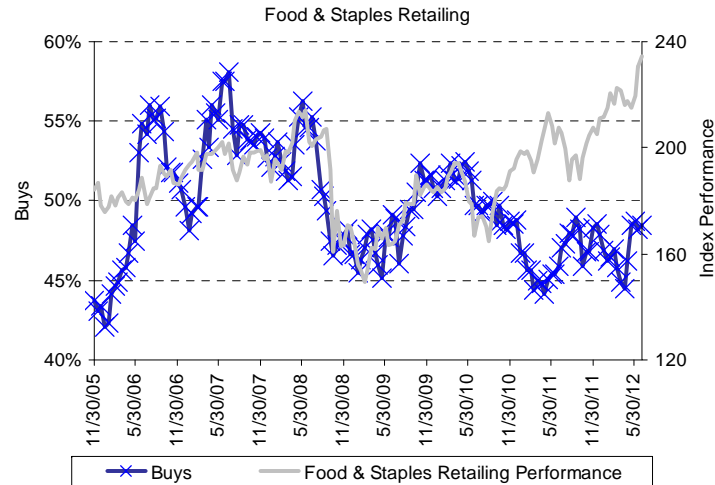


# Food & Staples Retailing – lowered to Market Weight

## Industry Group Sell-Side Sentiment

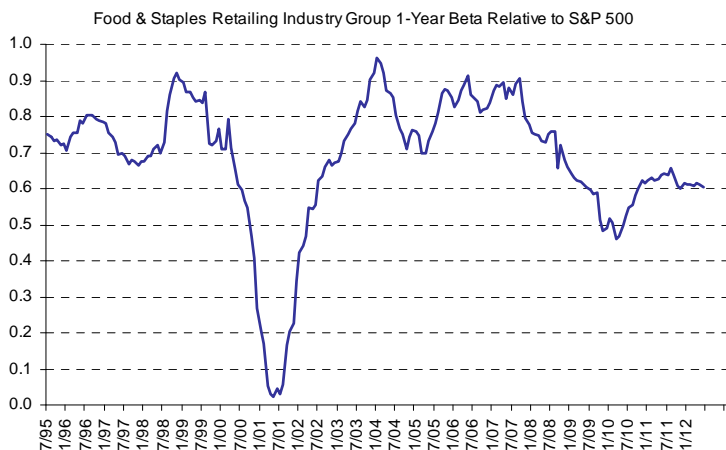


## Industry Group Sell-Side Sentiment

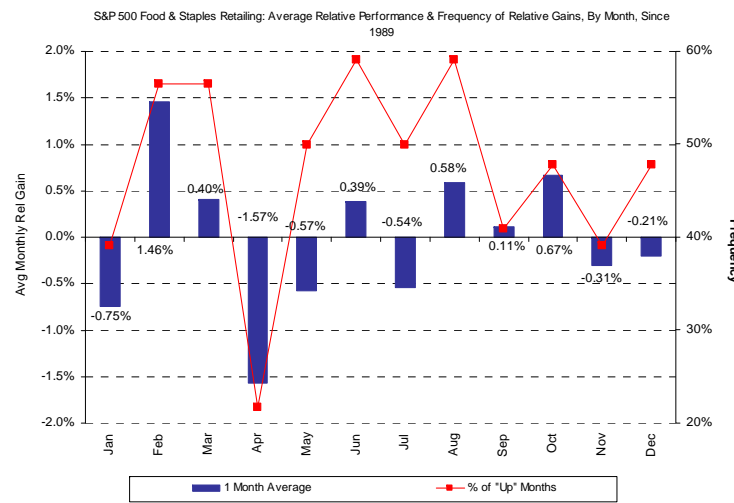


- **Sentiment score: Positive**
- Short interest has been rising and remains elevated but is an inconsistent indicator.
- Buy ratings are about 470 bps below the percentage of buy-ratings for the S&P 500.
- **Trading Places score: Neutral**
- Mixed seasonal trends.
- Beta has been flat over the past six months.
- A turnaround in the CESI could pressure the group.

## Industry Group Beta



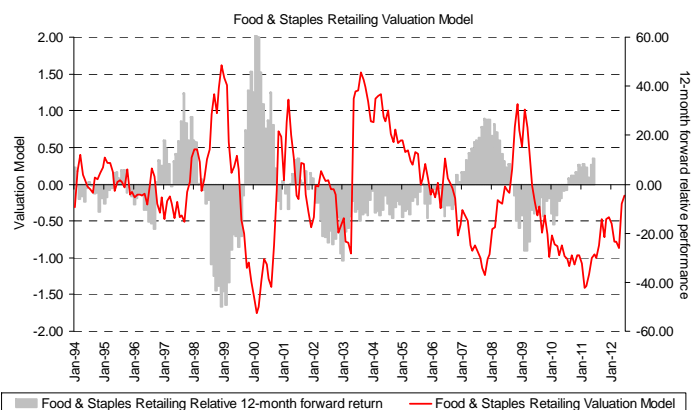
## Industry Group Seasonality



Source: Bloomberg, Haver Analytics, FactSet and Citi Research  
 - US Equity Strategy

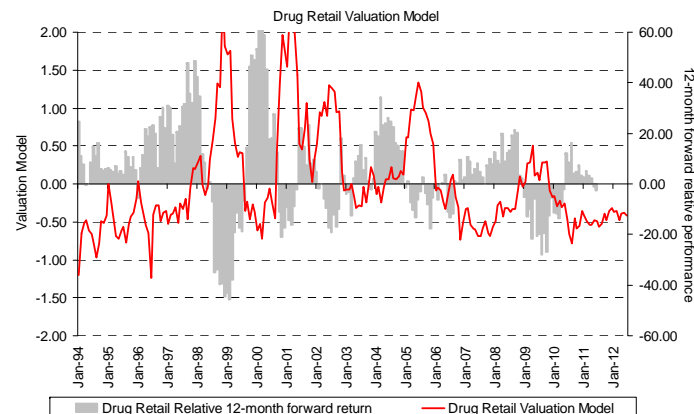
# Food & Staples Retailing – lowered to Market Weight

## Industry Group Valuation



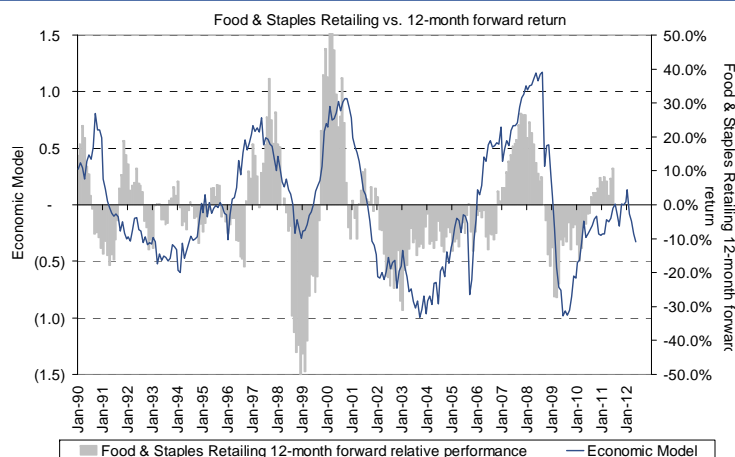
Based on Price/EBITDA, Price/Cash Flow, PE, Price/Sales, Enterprise Value, FY1 Debt/EBITDA, Dividends/Share

## Sub-Industry Valuation

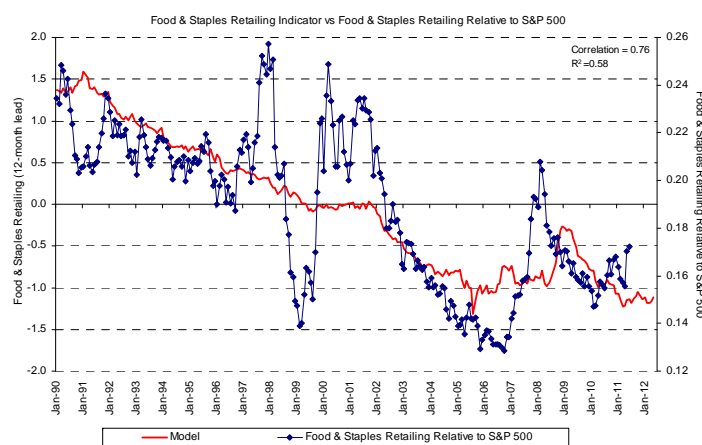


- **Valuation score: Positive**
- The overall industry group remains in attractive territory.
- Drug Retail is appealing while Hypermarkets & Super Centers and Food Retail look overvalued.
- **Fundamentals/Catalysts score: Negative**
- Our Food & Staples Retailing economic model remained in negative territory.
- Our lead indicator is indicating near-term price stabilizing.

## Industry Group Fundamentals



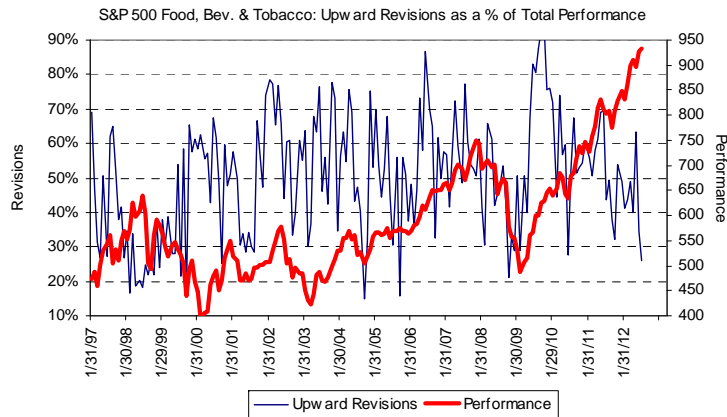
## Industry Group Fundamentals



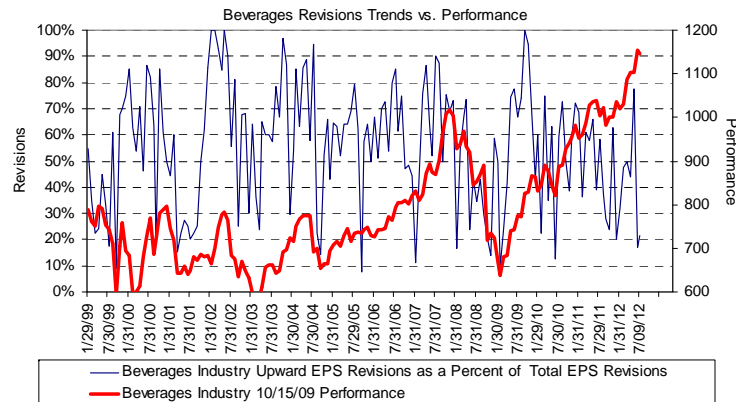
- **Bottom Line: Reduced to Market Weight.**

# Food, Beverage & Tobacco – Overweight

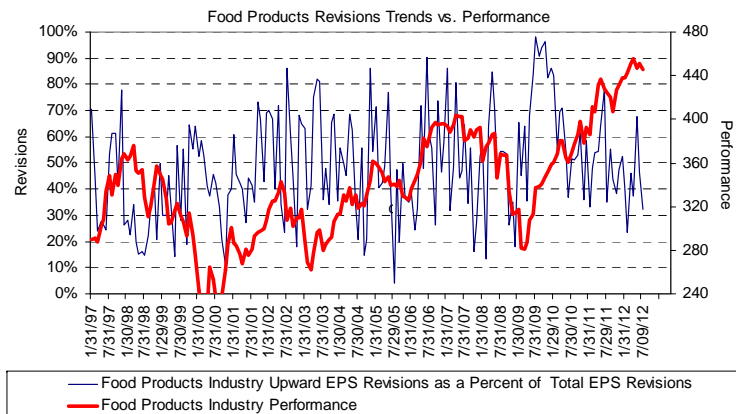
## Industry Group Earnings Expectations



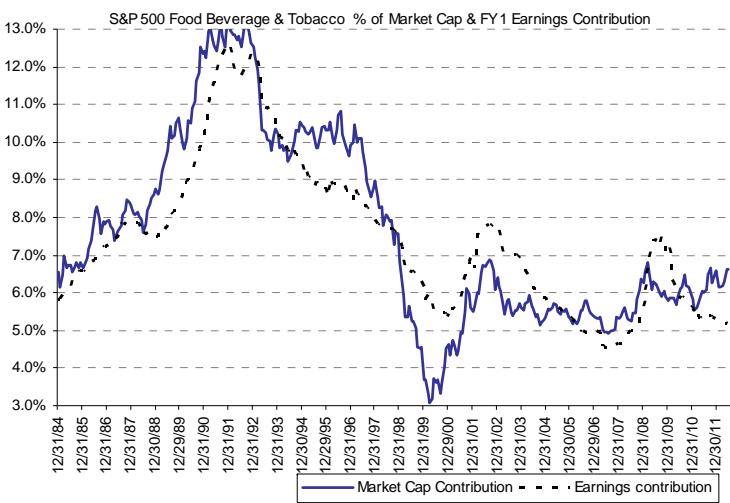
## Industry Group Earnings Expectations



## Industry Group Earnings Expectations



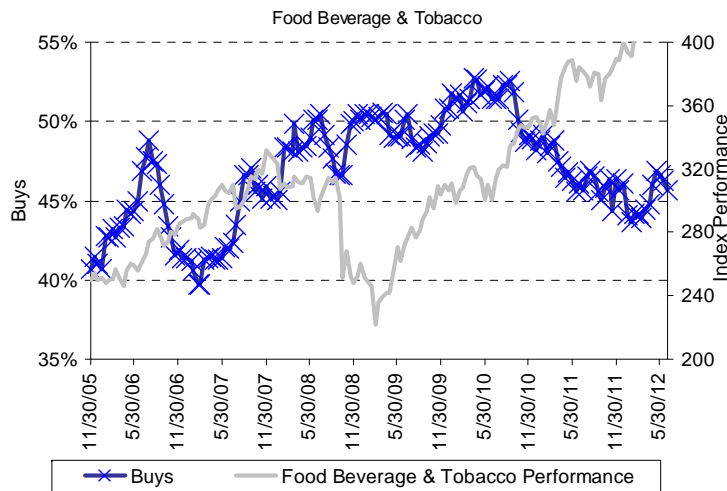
## Industry Group EPS & Mkt Cap Contribution



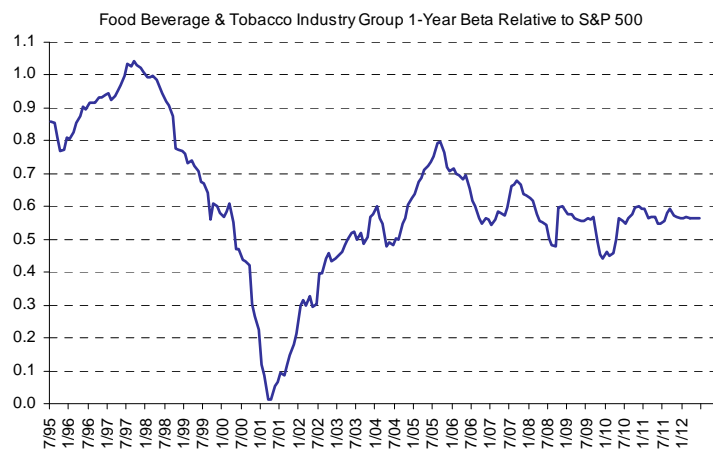
- **Earnings score: Positive**
- Overall, Food, Beverage & Tobacco upward revisions appear to be close to a bottom.
- Revisions for Tobacco, Beverages and Food Products look similar to the overall industry group.
- The gap between market cap and earnings contribution continued to widen.

# Food, Beverage & Tobacco – Overweight

## Industry Group Sell-Side Sentiment

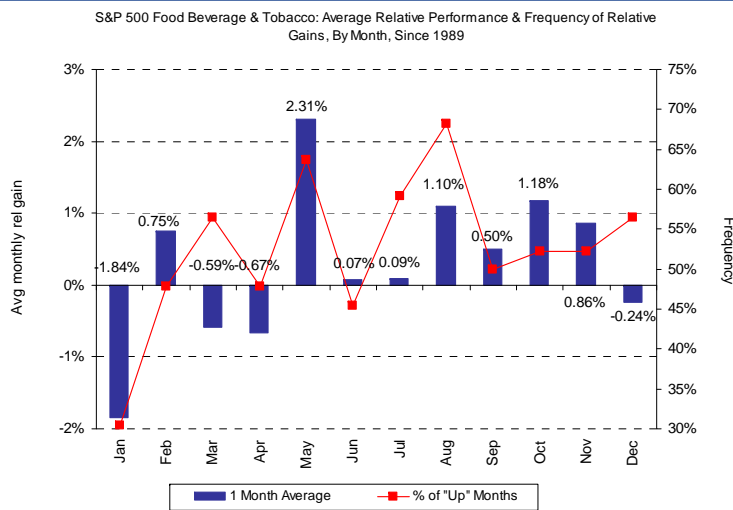


## Industry Group Sell-Side Sentiment

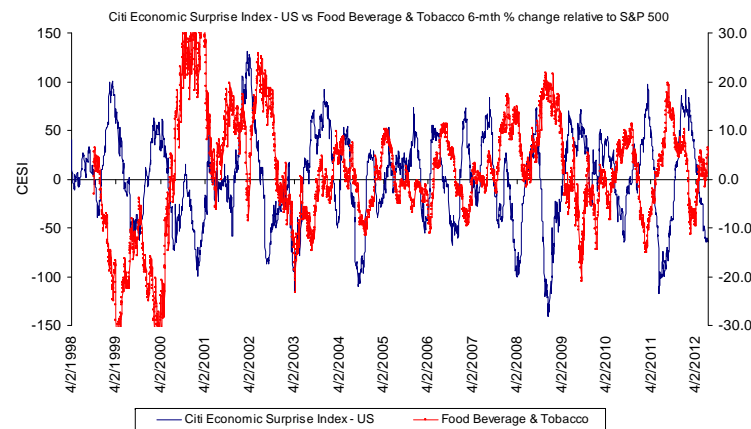


- **Sentiment score: Positive**
- Bullish ratings are about 750 bps below the mark for the S&P 500.
- **Trading Places score: Positive**
- Remains a low beta group.
- A shift in CESI would argue for relative underperformance.

## Industry Group Seasonality



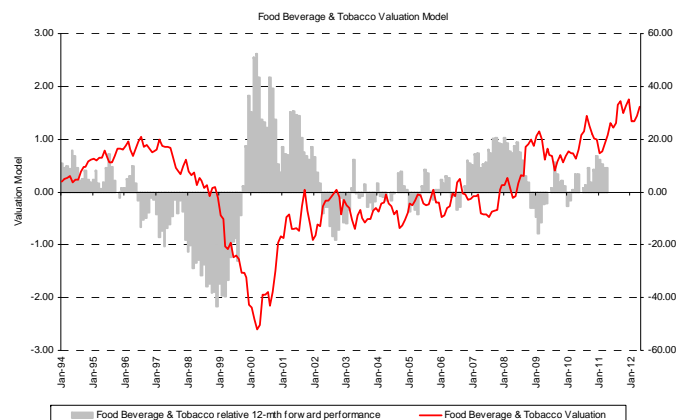
## Industry Group Trading Places



- History suggests that May through November is usually a good time to own these names.

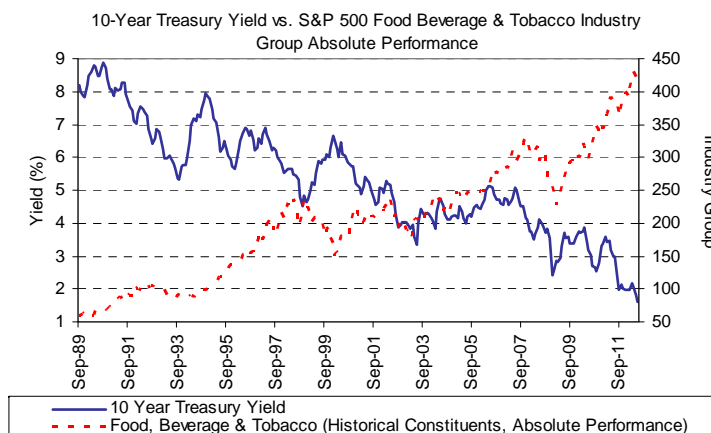
# Food, Beverage & Tobacco – Overweight

## Industry Group Valuation



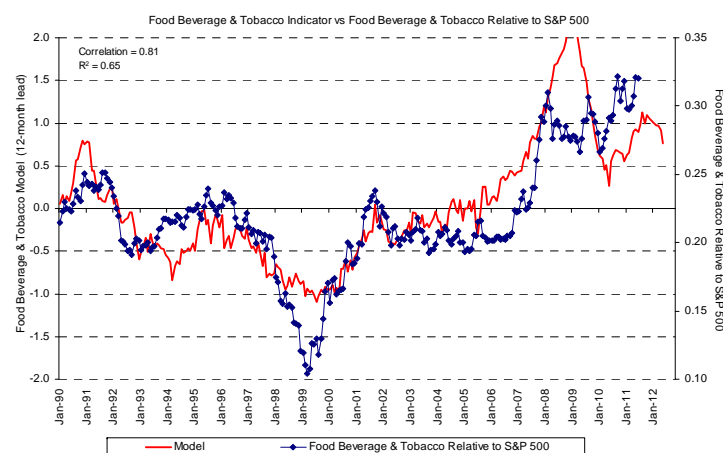
Based on Price/EBITDA, Price/Cash Flow, PE, Price/Sales, Enterprise Value

## Industry Group Fundamentals

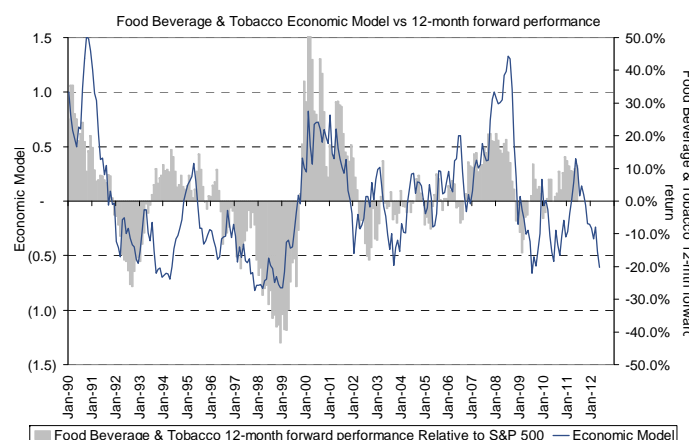


- **Valuation score: Negative**
- Our relative performance/valuation model for the overall industry group looks risky.
- Food Products, Tobacco, and Beverages all appear stretched.
- **Fundamentals/Catalysts score: Negative**
- Inverse relationship with interest rates.

## Industry Group Fundamentals



## Industry Group Fundamentals

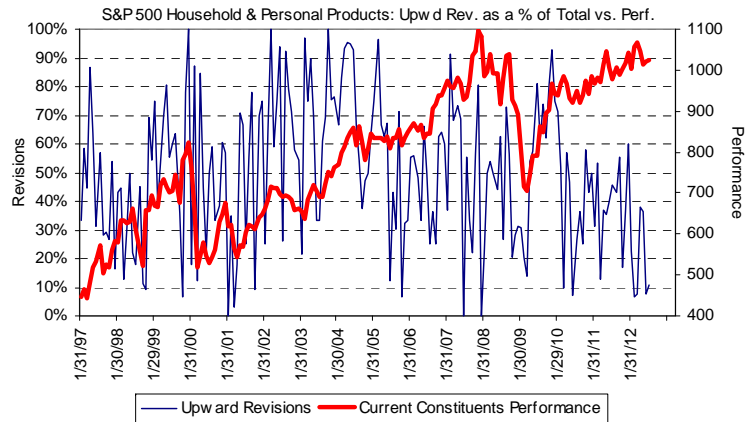


- Our 12-month lead indicator argues that the group will start to underperform.
- Our Food, Beverage & Tobacco economic model continues to argue for underperformance.
- Pricing for branded goods is challenging.

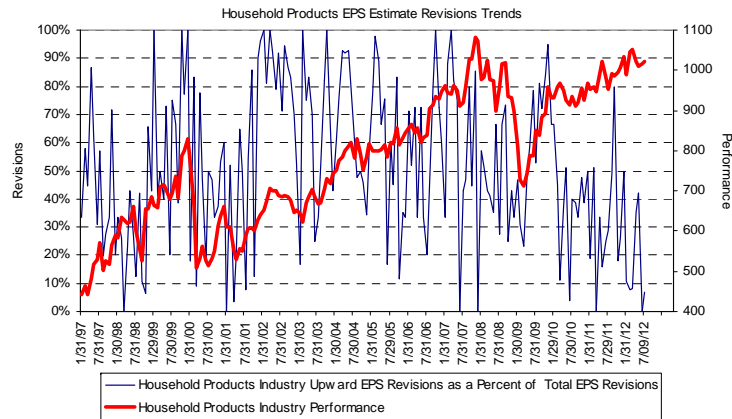
• **Bottom Line: Remain Overweight but on "Downgrade Watch."**

# Household & Personal Products – Overweight

## Industry Group Earnings Expectations

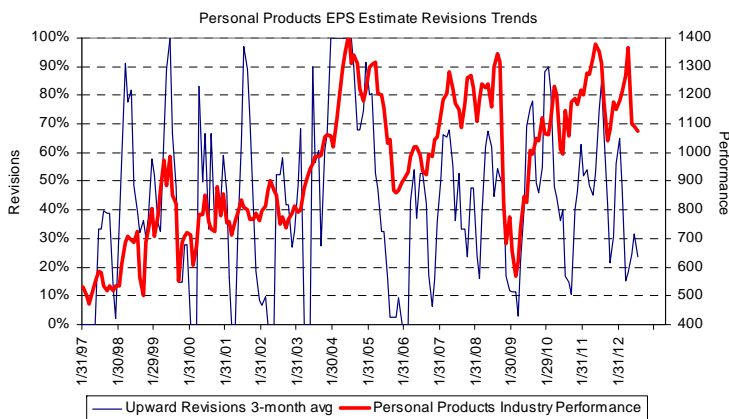


## Industry Group Earnings Expectations

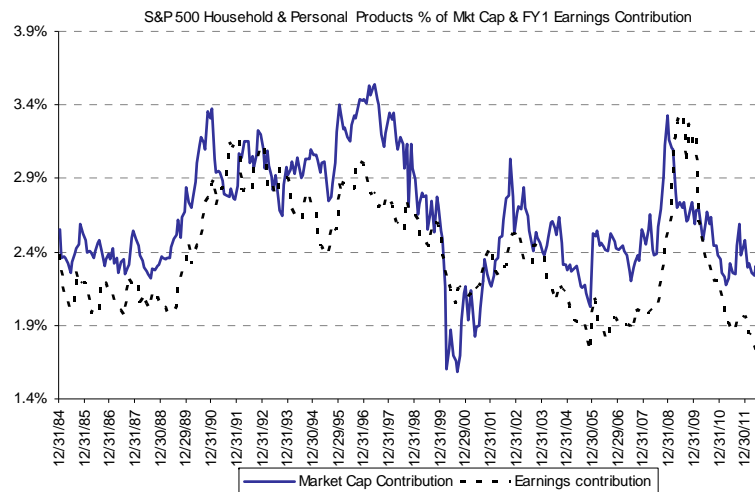


- **Earnings score: Positive**
- The overall industry group upward revisions have fallen to trough-like levels, any rise to the upside could send stock prices higher.
- The gap between market cap contribution and anticipated earnings contribution remains.

## Industry Group Earnings Expectations

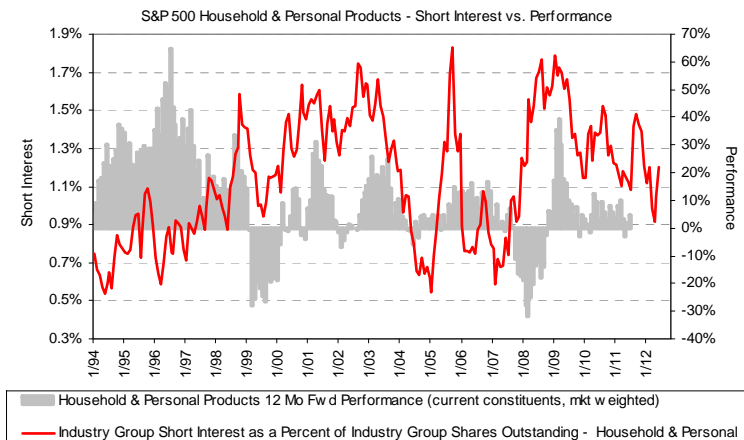


## Industry Group EPS & Mkt Cap Contribution

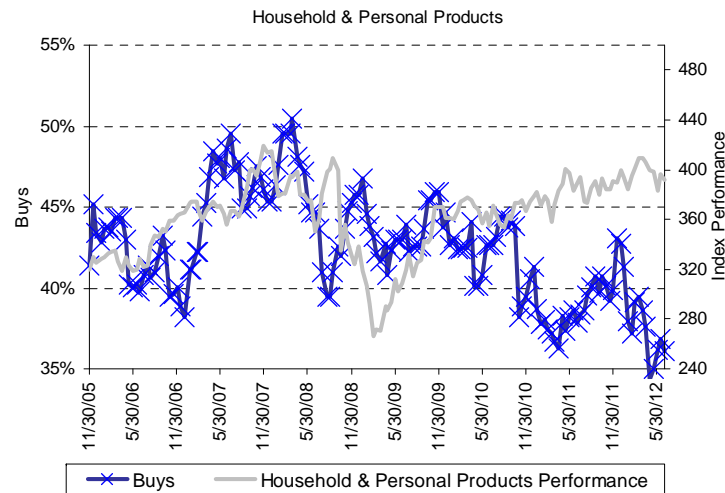


# Household & Personal Products – Overweight

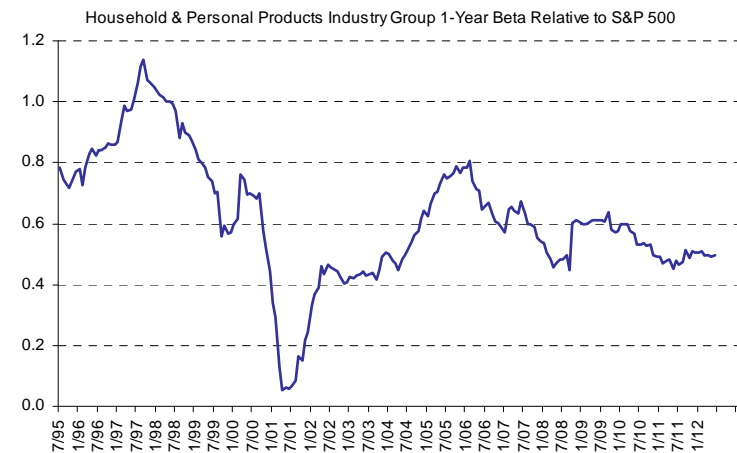
## Industry Group Sell-Side Sentiment



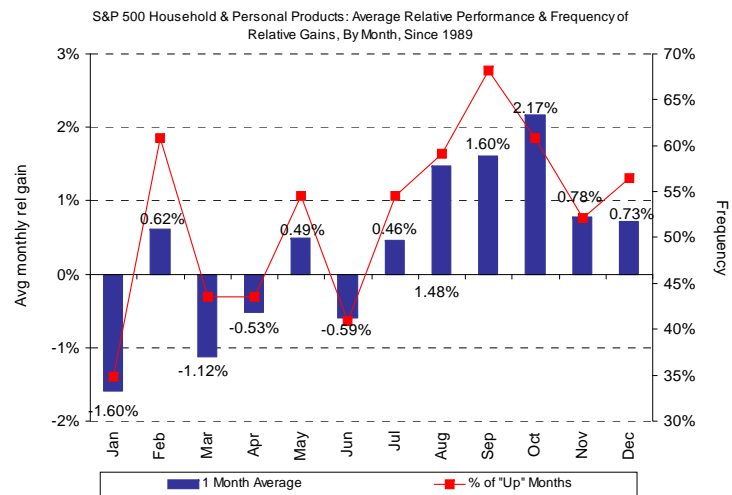
## Industry Group Sell-Side Sentiment



## Industry Group Beta



## Industry Group Seasonality



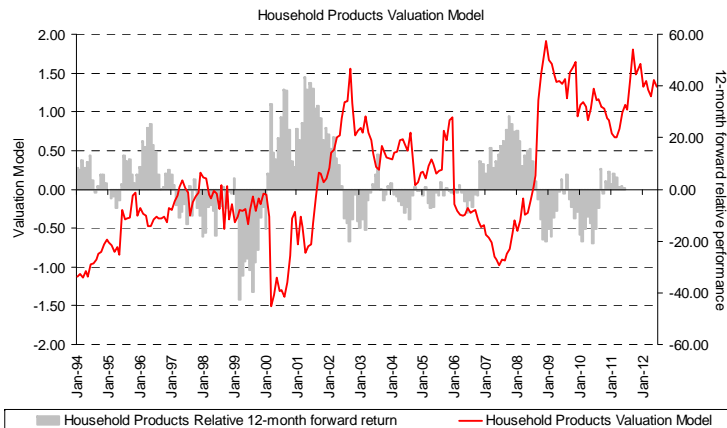
- **Sentiment score: Positive**
- Short interest as a percent of shares outstanding has been rising recently. Based on the uneven relationship between short interest and 12-month forward stock performance, the ramifications are uncertain.
- Analysts are the second most bearish on the group with buy-ratings 1,700 bps below the overall S&P 500 level.
- Anecdotal perceived as "defensive" but a lack of pricing power has been problematic.
- **Trading Places score: Positive**
- The second half of the year is traditionally a good time to own these names.
- A low beta group.
- A turnaround in the CESI would argue for relative underperformance.

Source: Bloomberg, Haver Analytics, FactSet and Citi Research  
 - US Equity Strategy



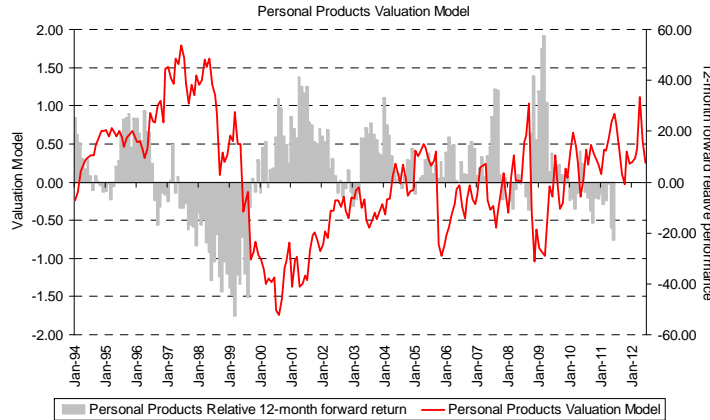
# Household & Personal Products – Overweight

## Sub-Industry Group Valuation



Based on Price/Cash Flow, Trailing Weighted EPS, Price/Sales, Price/Book, Enterprise Value, Debt/EBITDA

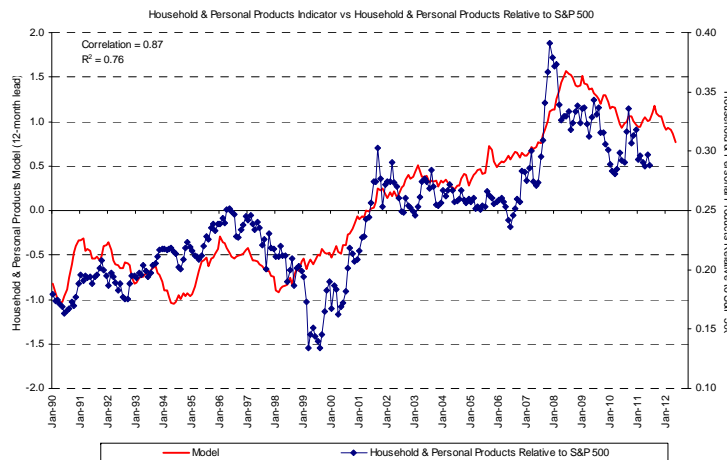
## Sub-Industry Valuation



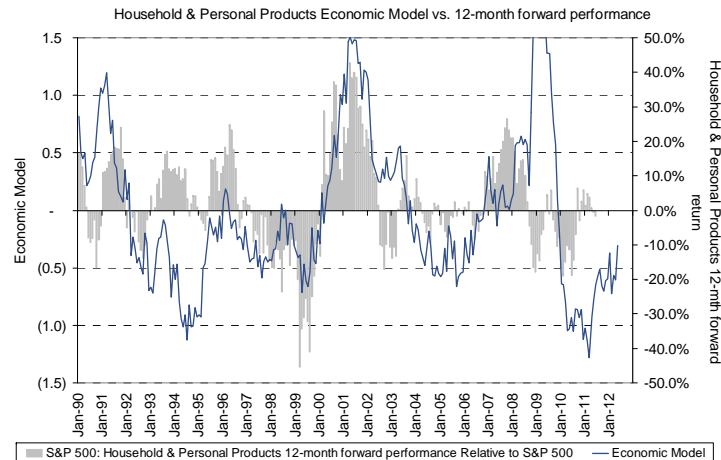
Based on Price/EBITDA, Price/Cash Flow, PE, Price/Book, Enterprise Value, estimated Price/Sales, Dividend Yield

- Valuation score: **Negative**
- Overall, the industry group looks overvalued. Both Household Products and Personal Products look stretched.
- Fundamentals/Catalysts score: **Negative**
- Overall, our 12-month lead indicator model is arguing for relative underperformance potential.

## Industry Group Fundamentals



## Industry Group Fundamentals



- Our Household & Personal Products economic model remains in negative territory, suggesting 12-month forward relative underperformance potential.

**Bottom Line:** Stay Overweight but on "Downgrade Watch."

Source: Bloomberg, Haver Analytics, FactSet, and Citi Research - US Equity Strategy

Note: components are listed on page 101





# Consumer Staples Constituents

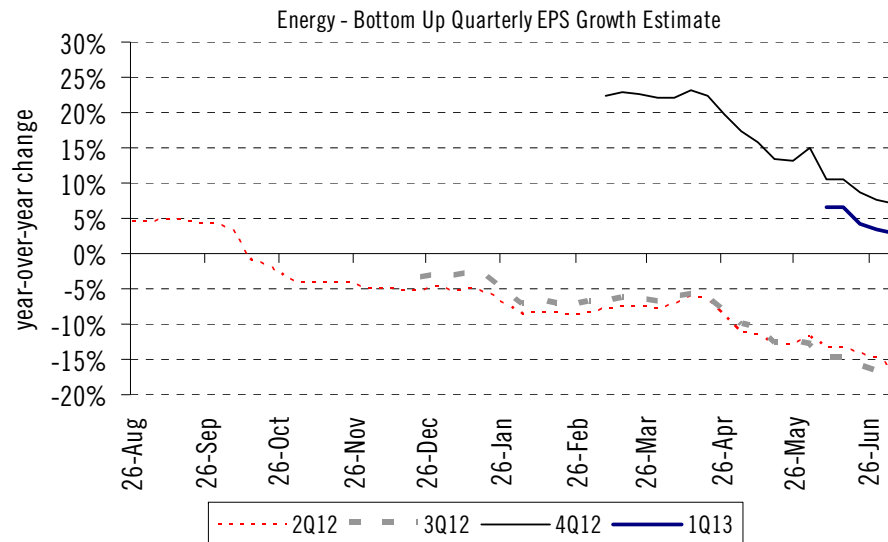
Food & Staples Retailing		Food Beverage & Tobacco		Household & Personal Products	
<b>Drug Retail</b>		<b>Beverages</b>		<b>Household Products</b>	
CVS	CVS Caremark Corp.	KO	Coca-Cola Co	PG	Procter & Gamble
WAG	Walgreen Co	PEP	PepsiCo Inc	CL	Colgate-Palmolive Co
<b>Food Distributors</b>		MNST	Monster Beverage Corp	KMB	Kimberly-Clark
SYN	Sysco Corp	BEAM	Beam Inc	CLX	Clorox Co
<b>Food Retail</b>		BF.B	Brown-Forman Corp B	<b>Personal Products</b>	
WFM	Whole Foods Market Inc	DPS	Dr Pepper Snapple Group	EL	Estee Lauder Cos.
KR	Kroger Co	CCE	Coca-Cola Enterprises	AVP	Avon Products
SWY	Safeway Inc	TAP	Molson Coors Brewing Co B		
<b>Hypermarkets &amp; Super Centers</b>		STZ	Constellation Brands Inc A		
WMT	Wal-Mart Stores	<b>Food Products</b>			
COST	Costco Wholesale Corp	KFT	Kraft Foods Inc A		
		GIS	General Mills Inc		
		ADM	Archer-Daniels-Midland Co		
		HNZ	Heinz, H.J. Co		
		MJN	Mead Johnson Nutrition Co		
		K	Kellogg Co		
		HSY	Hershey Foods Corp		
		CAG	ConAgra Foods Inc		
		SJM	Smucker, J.M. Co		
		MKC	McCormick & Co		
		CPB	Campbell Soup Co		
		TSN	Tyson Foods Inc A		
		HRL	Hormel Foods Corp		
		DF	Dean Foods Co		
		<b>Tobacco</b>			
		PM	Philip Morris International		
		MO	Altria Group Inc		
		LO	Lorillard Inc		
		RAI	Reynolds American Inc		

# Energy Sector Performance and Recommendation Overview

(7/12/12)

Sector	Industry Group	Industry	Actual Weight (% of S&P 500)	Rating	Rec'd Weight	1 Week	1 Month	3 Months	6 Months	52 Weeks	YTD 2012
<b>S&amp;P 500</b>			100.0%			-2.40%	0.80%	-3.81%	3.03%	1.61%	6.14%
<b>Energy</b>			10.5%	0	10.5%	-2.07%	2.31%	-5.00%	-5.31%	-10.83%	-4.67%
	Energy		10.5%	0	10.5%	-2.07%	2.31%	-5.00%	-5.31%	-10.83%	-4.67%
		Energy Equip & Svcs	1.6%	NA	NA	-1.95%	-0.04%	-11.36%	-11.40%	-27.97%	-9.05%
		Oil & Gas	8.8%	NA	NA	-2.09%	2.76%	-3.73%	-4.10%	-6.82%	-3.81%

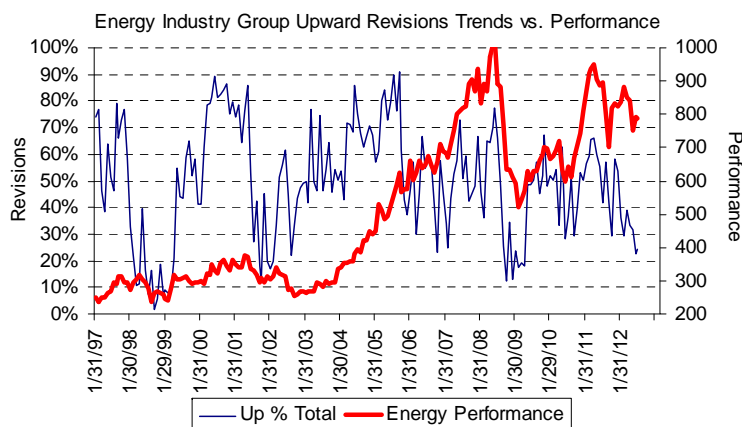
## Shifts in Sector EPS Expectations



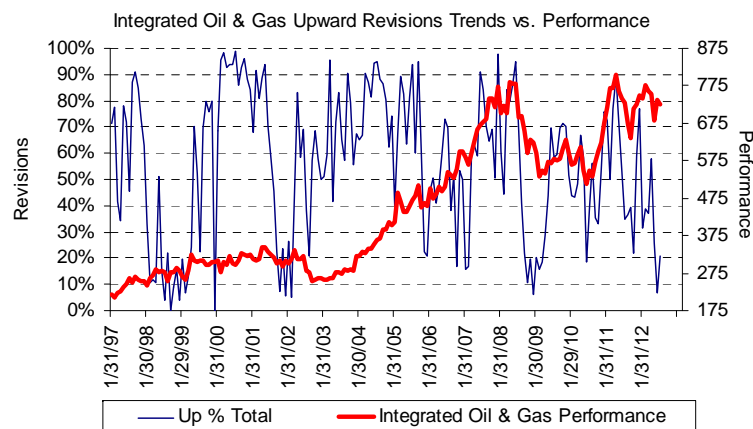
Source: Citi Research - US Equity Strategy, FactSet, Thomson Financial, and Bloomberg

# Energy – Market Weight

## Industry Group Earnings Expectations

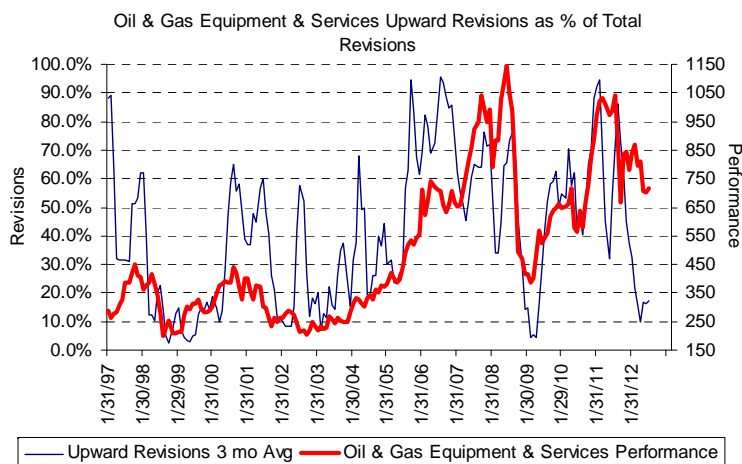


## Industry Group Earnings Expectations

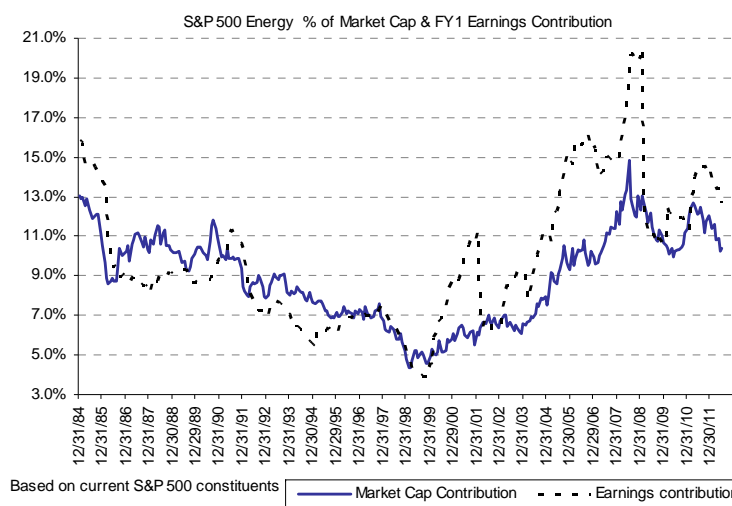


- **Earnings score: Positive**
- Overall, Energy upward earnings estimate revisions appear to be close to a bottom.
- Integrated Oil & Gas, Drillers, Equipment & Services, and Exploration and Production all seem to be coming off trough-like levels, while Refining & Marketing have been slipping.

## Industry Group Earnings Expectations



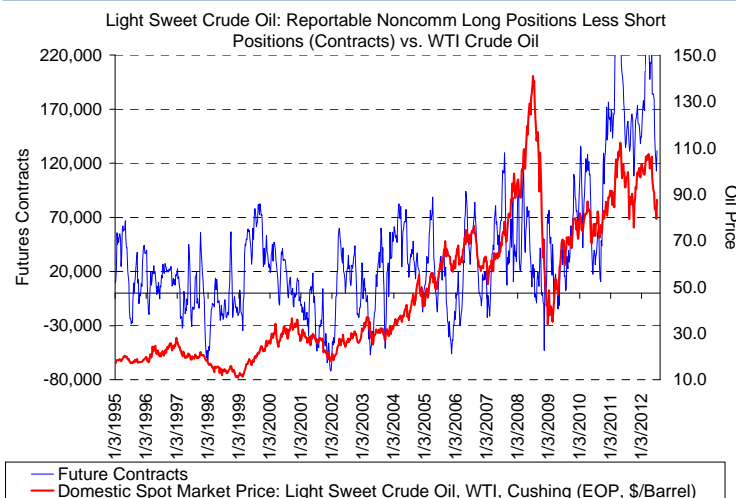
## Industry Group EPS & Mkt Cap Contribution



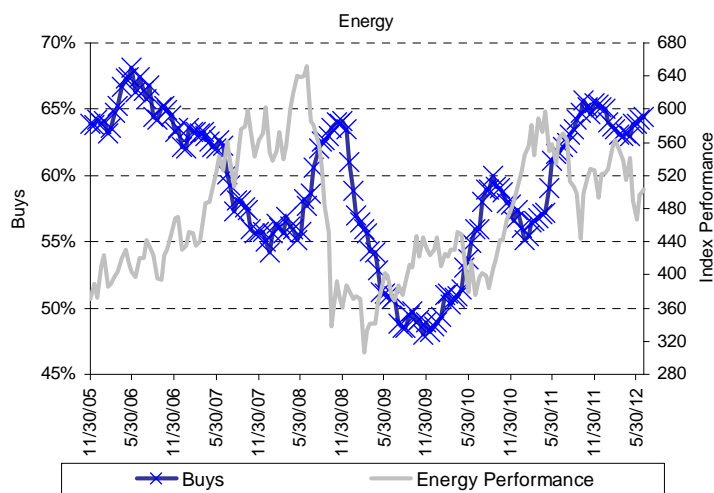
- Anticipated earnings contribution remains ahead of market cap representation.

# Energy – Market Weight

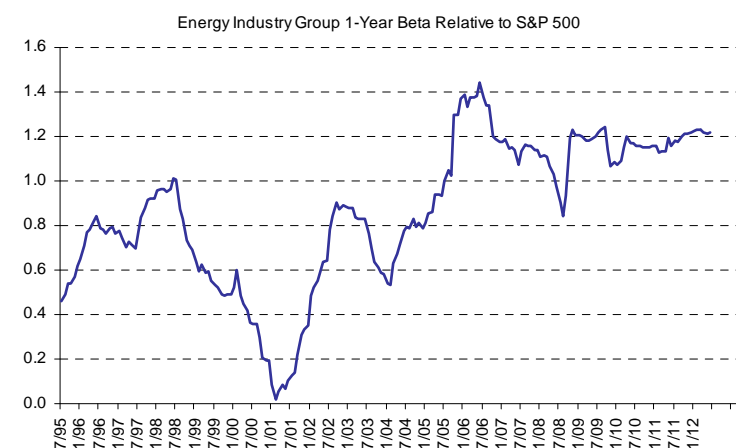
## Industry Group Sell-Side Sentiment



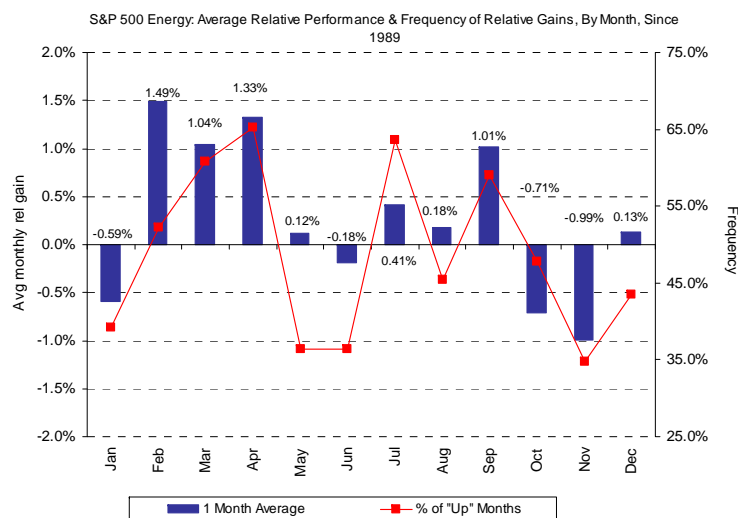
## Industry Group Sell-Side Sentiment



## Industry Group Beta



## Industry Group Seasonality

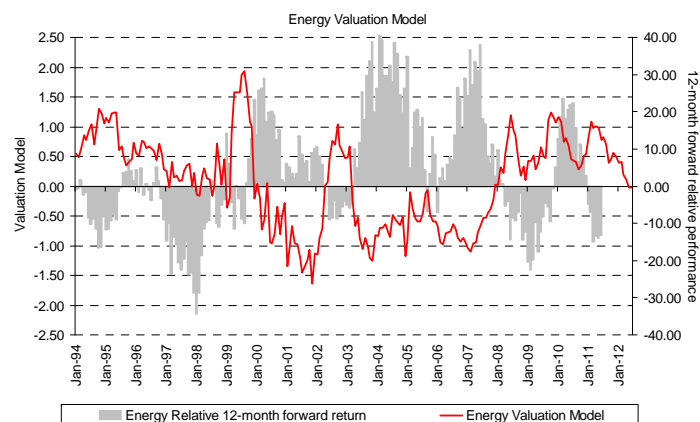


- **Sentiment score: Negative**
- Speculators have been cutting their net long sweet crude positions.
- Out of all 24 industry groups, analysts are the second most bullish on Energy.
- Recent survey work shows a more neutral buy-side.
- Dollar direction has contributed to energy price swings.
- **Trading Places score: Neutral**
- Beta had been rising.
- February through September is typically a good time to own these names.

Source: Bloomberg, Haver Analytics, FactSet and Citi Research - US Equity Strategy

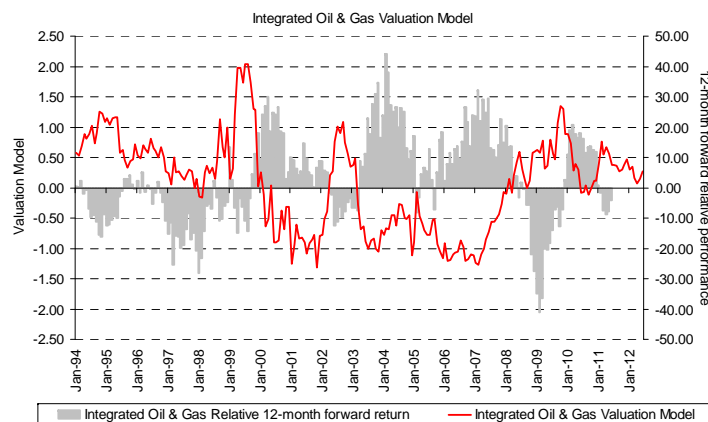
# Energy – Market Weight

## Industry Group Valuation



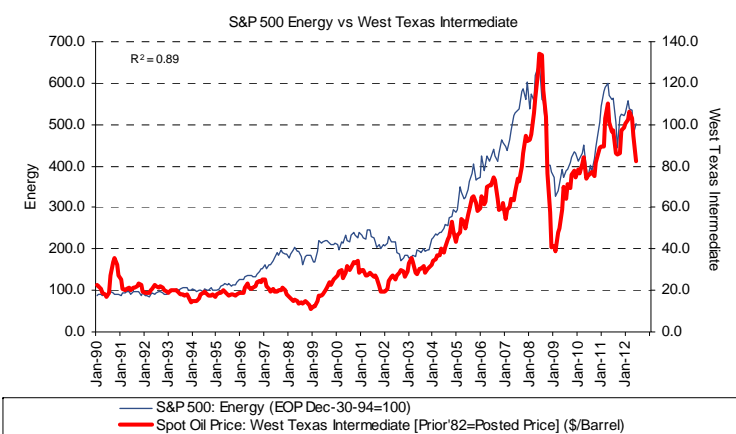
Based on Price/EBITDA, Price/Cash Flow, P/E, Price/Sales, Estimated FY1 earnings, Estimated Book Value, Estimated Dividend Yield

## Sub-Industry Valuation

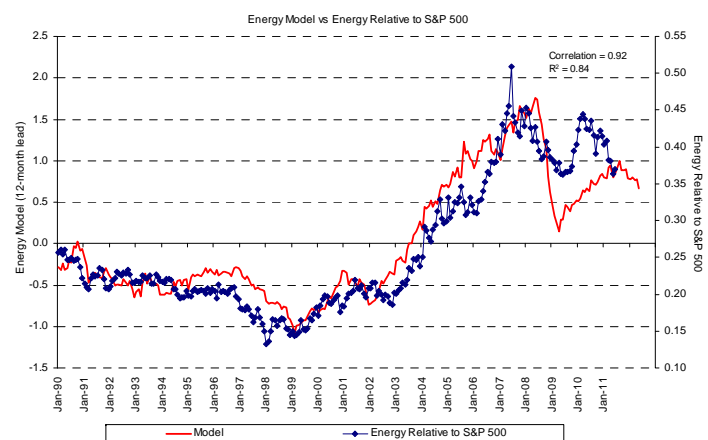


- **Valuation score: Neutral**
- Overall, Energy valuation looks neutral.
- Drillers valuation has moved into neutral territory, while Exploration & Production looks appealing, and Integrated Oil & Gas looks overvalued.
- **Fundamentals/Catalysts score: Negative**
- Our highly correlated lead indicator model is suggesting overall relative weakness for Energy.
- Stock price performance continues to move in lockstep with oil prices.

## Industry Group Fundamentals



## Industry Group Fundamentals



- **Bottom Line: Remain Market Weight.**

# Energy Constituents

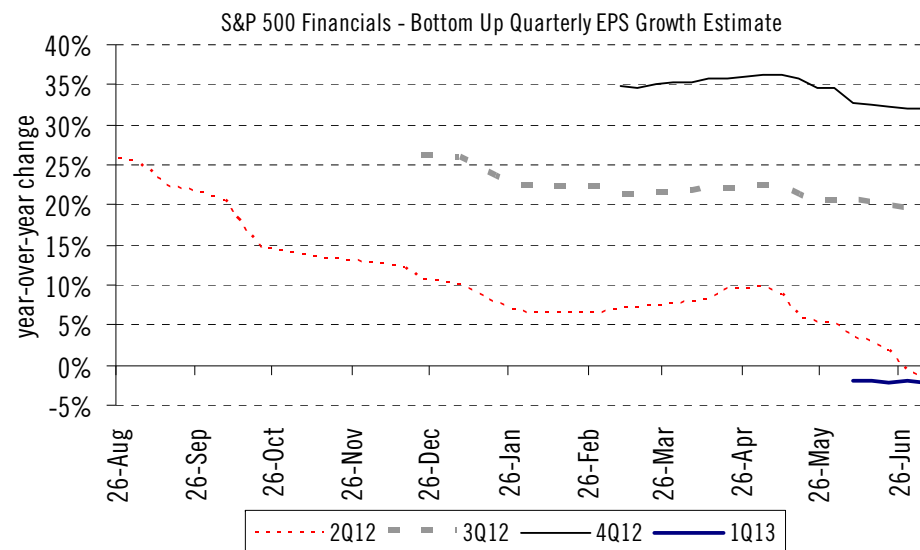
Energy			
	<b>Energy Equipment &amp; Services</b>		<b>Oil Gas &amp; Consumable Fuels</b>
	<b>Oil &amp; Gas Drilling</b>		<b>Coal &amp; Consumable Fuels</b>
NE	Noble Corp	CNX	CONSOL Energy Inc
HP	Helmerich & Payne Inc	BTU	Peabody Energy Corp
NBR	Nabors Industries Ltd	ANR	Alpha Natural Resources
DO	Diamond Offshore Drilling		
RDC	Rowan Cos Plc		
	<b>Oil &amp; Gas Equipment &amp; Services</b>		<b>Integrated Oil &amp; Gas</b>
SLB	Schlumberger Ltd	XOM	Exxon Mobil Corp
NOV	National Oilwell Varco Inc	CVX	Chevron Corp
HAL	Halliburton Co	OXY	Occidental Petroleum
BHI	Baker Hughes Inc	HES	Hess Corp
CAM	Cameron International Corp	MUR	Murphy Oil Corp
FTI	FMC Technologies Inc		
			<b>Oil &amp; Gas Exploration &amp; Production</b>
		COP	ConocoPhillips
		APA	Apache Corp
		APC	Anadarko Petroleum Corp
		EOG	EOG Resources
		DEV	Devon Energy Corp
		MRO	Marathon Oil Corp
		NBL	Noble Energy Inc
		CHK	Chesapeake Energy Corp
		SWN	Southwestern Energy Co
		PXD	Pioneer Natural Resources
		RRC	Range Resources Corp
		COG	Cabot Oil & Gas A
		EQT	EQT Corporation
		DNR	Denbury Resources Inc
		QEP	QEP Resources
		NFX	Newfield Exploration Co
		WPX	WPX Energy Inc.
			<b>Oil &amp; Gas Refining &amp; Marketing</b>
		PSX	Phillips 66
		MPC	Marathon Petroleum Corp.
		VLO	Valero Energy Corp
		SUN	Sunoco Inc
		TSO	Tesoro Corp
			<b>Oil &amp; Gas Storage &amp; Transportation</b>
		SE	Spectra Energy Corp
		WMB	The Williams Companies Inc
		KMI	Kinder Morgan Inc

# Financials Sector Performance and Recommendation Overview

(7/12/12)

Sector	Industry Group	Actual Weight (% of S&P 500)	Rating	Rec'd Weight	1 Week	1 Month	Performance Over Last				YTD 2012
S&P 500		100.0%			-2.40%	0.80%	3 Months	6 Months	52 Weeks		6.14%
Financials		14.8%	+	16.5%	-1.85%	1.87%	-7.62%	2.70%	-4.42%		9.99%
	Banks	2.9%	0	2.9%	-1.15%	4.86%	-2.90%	8.01%	13.71%		16.53%
	Diversified Financials	5.6%	+	6.5%	-3.00%	-0.41%	-16.27%	-2.18%	-16.53%		8.74%
	Insurance	4.2%	+	4.9%	-1.77%	0.82%	-3.93%	0.72%	-2.05%		4.94%
	Real Estate	2.2%	0	2.2%	-0.01%	5.50%	5.67%	12.52%	7.79%		13.38%

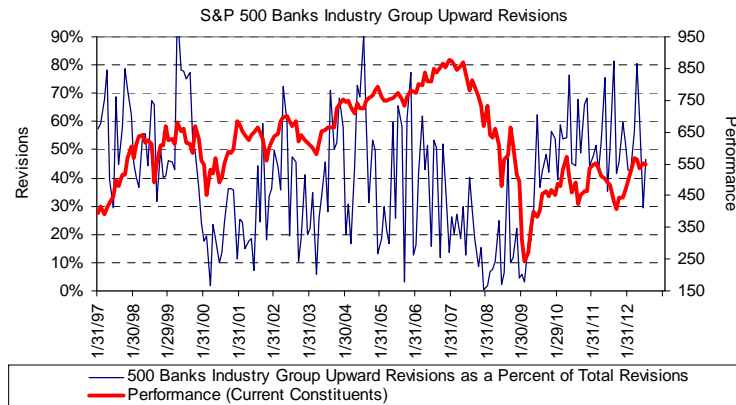
## Shifts in Sector EPS Expectations



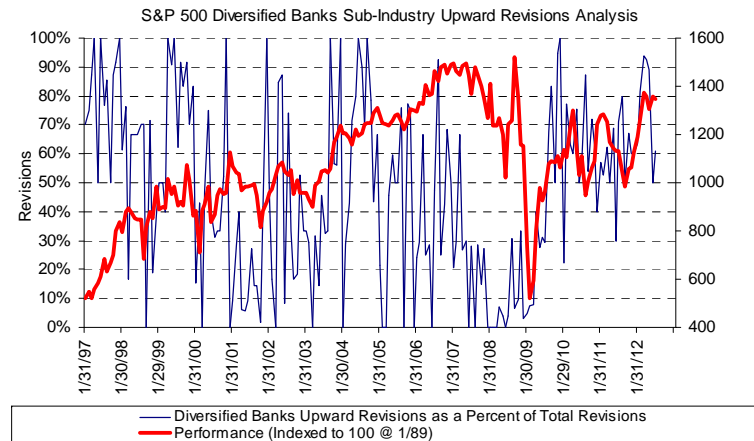
Source: Citi Research - US Equity Strategy, FactSet, Thomson Financial, and Bloomberg

# Banks – Market Weight

## Industry Group Earnings Expectations

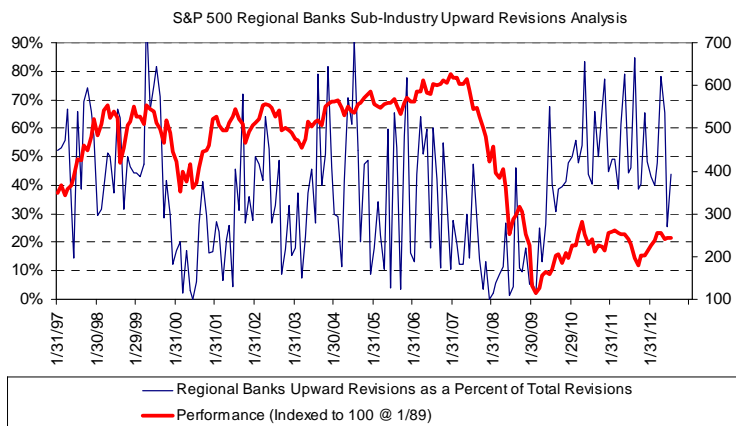


## Industry Group Earnings Expectations

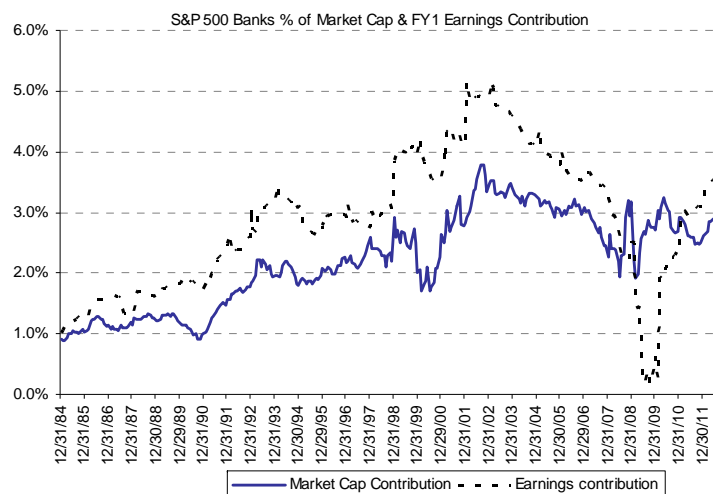


- **Earnings score: Neutral**
- Overall, upward revisions have recently climbed but no overall clear trend.
- Earnings contribution remains ahead of market cap contribution.

## Industry Group Earnings Expectations



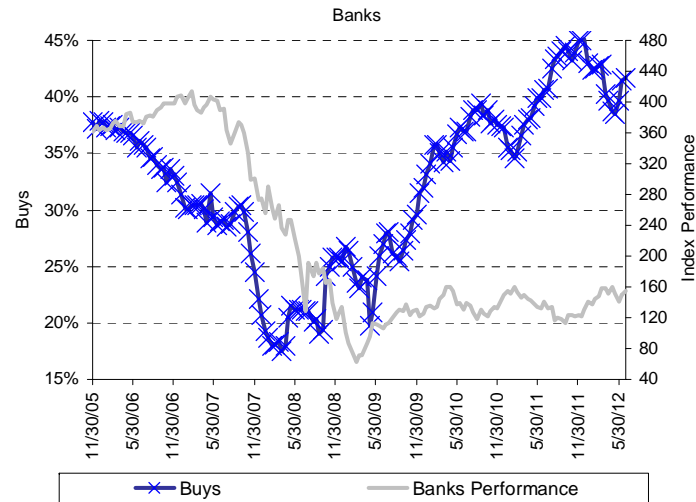
## Industry Group EPS & Mkt Cap Contribution



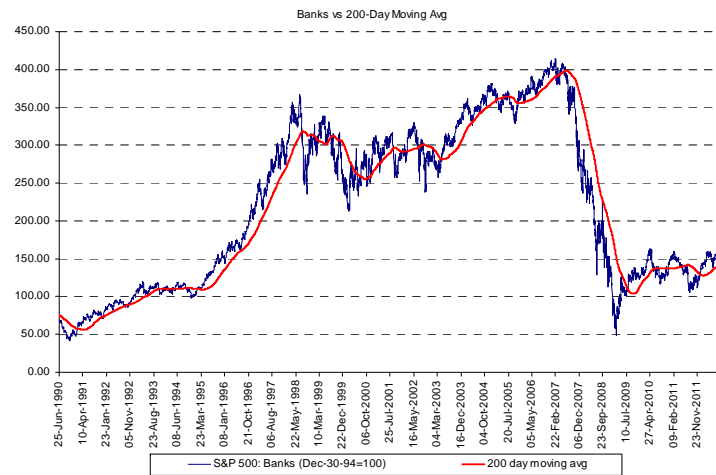


# Banks – Market Weight

## Industry Group Sell-Side Sentiment

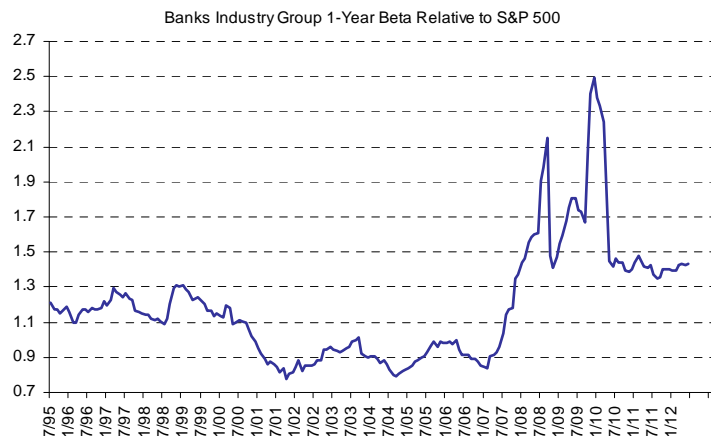


## Industry Group Sell-Side Sentiment

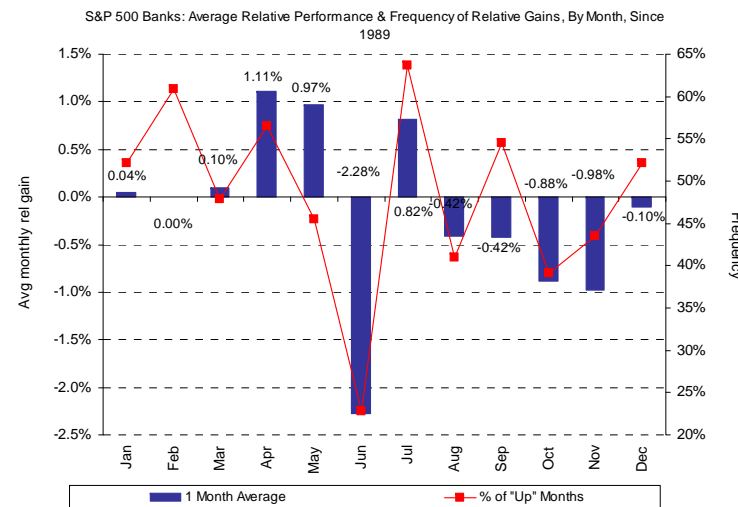


- **Sentiment score: Positive**
- Buy-ratings have fallen back to 41.7% of total analyst recommendations and remain 11.5% below the S&P 500 average 53.2% of buy ratings; the fourth least liked group.
- Anecdotally, investors remain wary due to legislative issues.
- The industry group is trading above its 200-day moving average.

## Industry Group Beta



## Industry Group Seasonality

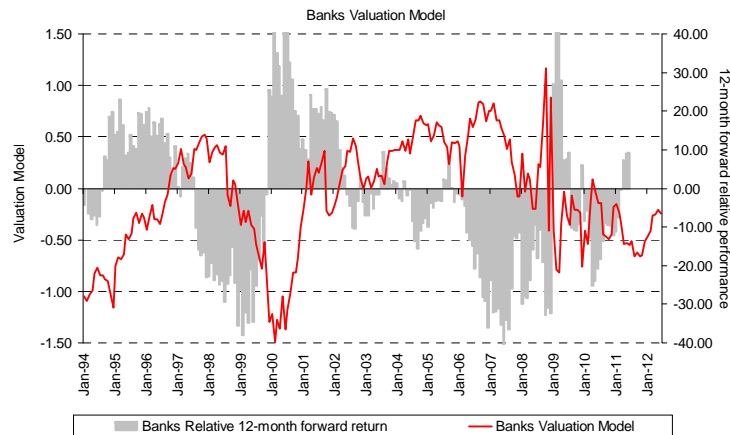


- **Trading Places score: Negative**
- Banks beta has been steady.
- The second half of the year is usually not a good time for bank stock performance.

Source: Bloomberg, Haver Analytics, FactSet and Citi Research - US Equity Strategy

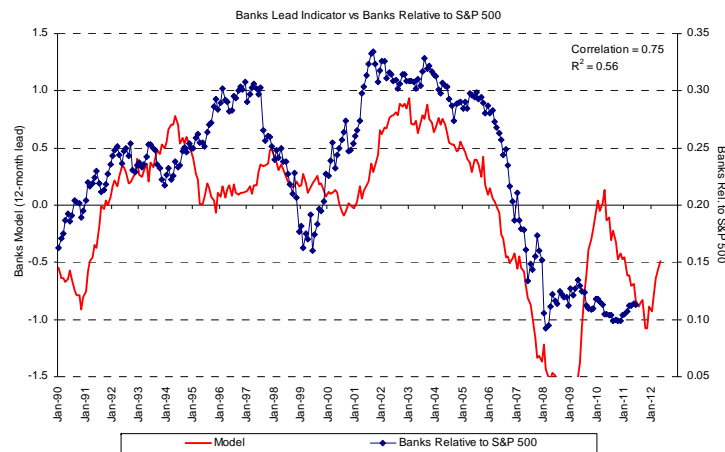
# Banks – Market Weight

## Industry Group Valuation



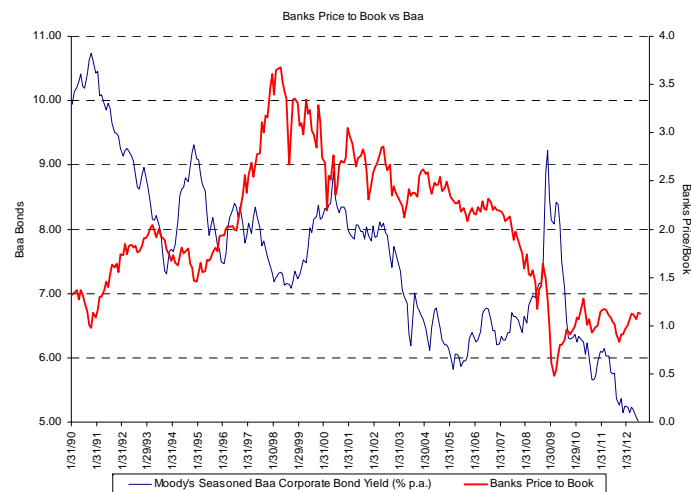
Based on Trailing 12-month EPS aggregate, P/E, Price/Sales, Enterprise Value, Estimated Price/Book Value, Dividend Yield

## Industry Group Fundamentals

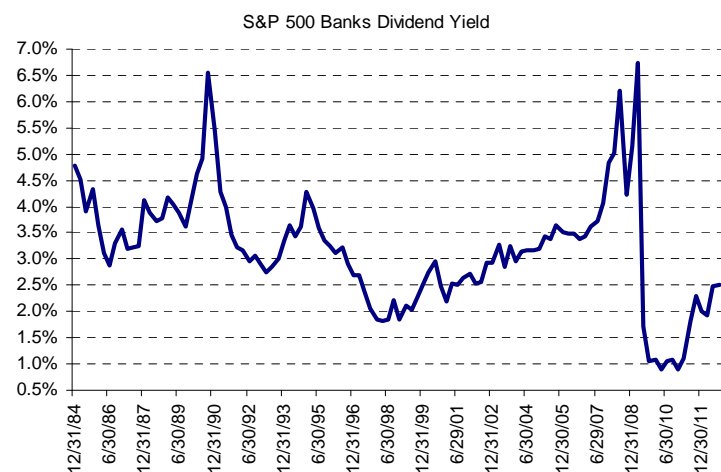


- **Valuation score: Positive**
- Valuation level for the overall group looks appealing.

## Industry Group Fundamentals



## Industry Group Fundamentals



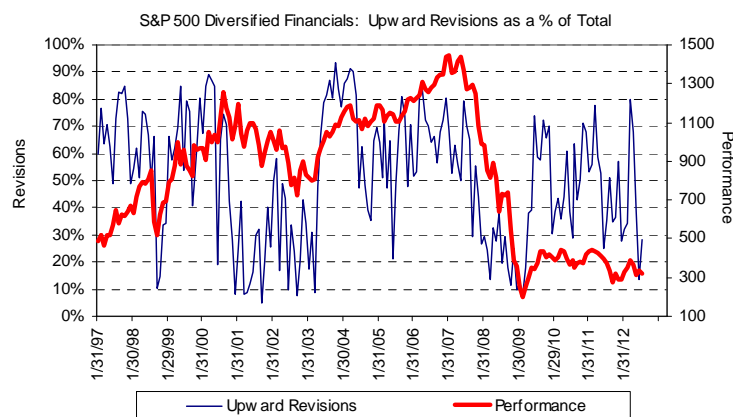
- **Fundamentals/Catalysts score: Neutral**
- Our lead indicator model is arguing for relative underperformance into the fall.
- Some banks have announced the intention to resume dividend payments.

- **Bottom Line: Remain Market Weight.**

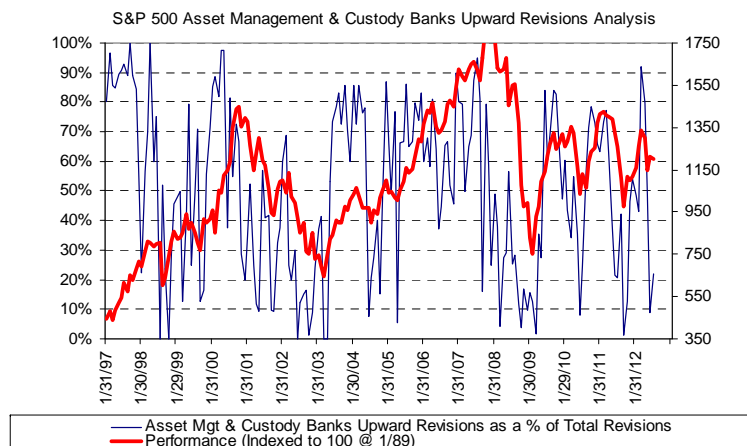
Source: Bloomberg, Haver Analytics, FactSet, and Citi Research - US Equity Strategy

# Diversified Financials – Raised to Overweight

## Industry Group Earnings Expectations

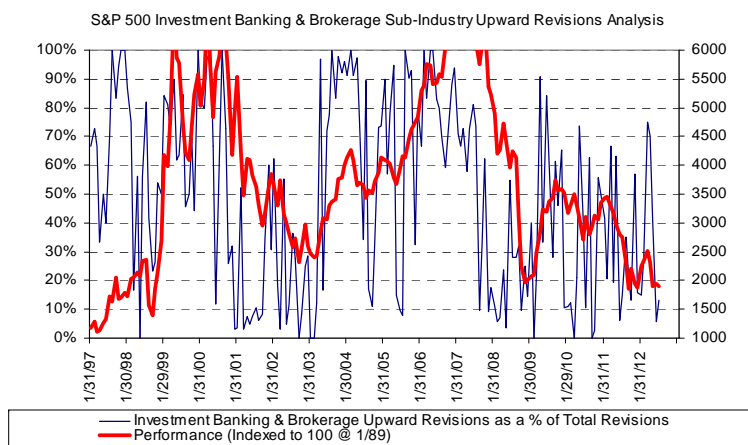


## Industry Group Earnings Expectations

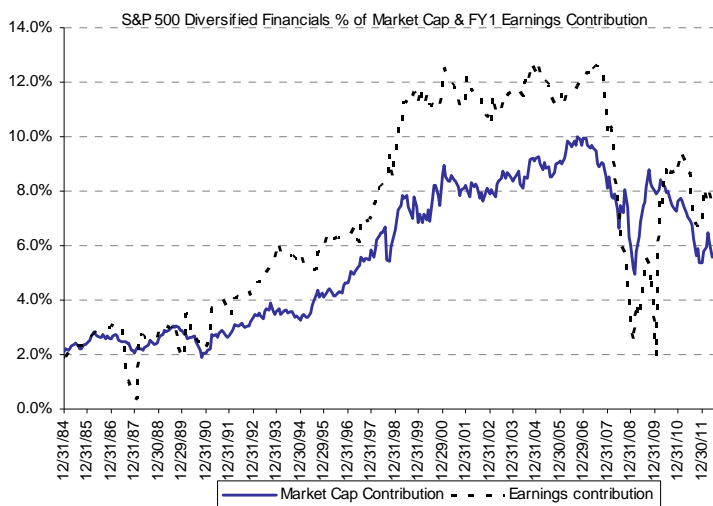


- **Earnings score: Positive**
- Upward earnings estimate revisions have plunged to trough levels.
- Revisions for Asset Managers and Investment Banking & Brokerage have bottomed.
- Anticipated earnings contribution stayed ahead of market cap representation.

## Industry Group Earnings Expectations

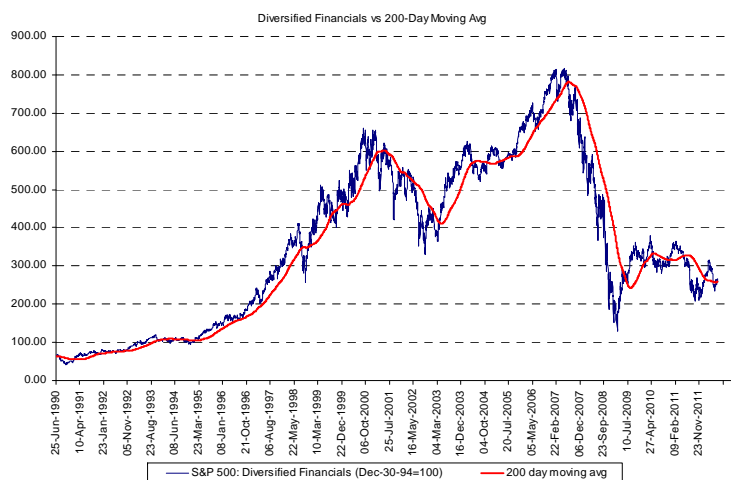


## Industry Group EPS & Mkt Cap Contribution

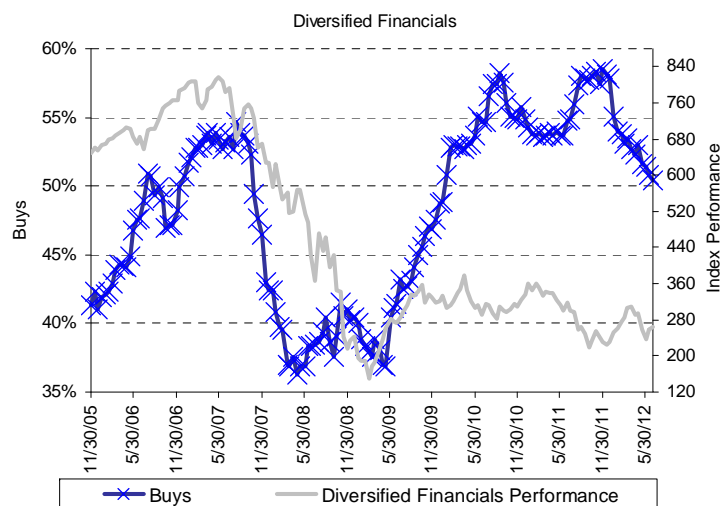


# Diversified Financials – Raised to Overweight

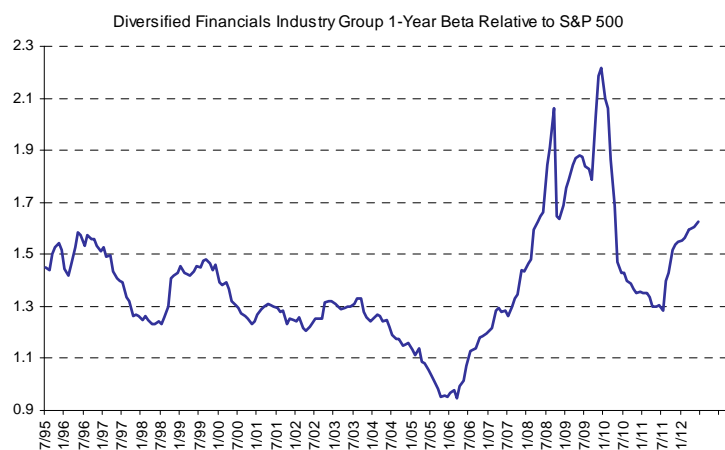
## Industry Group Sell-Side Sentiment



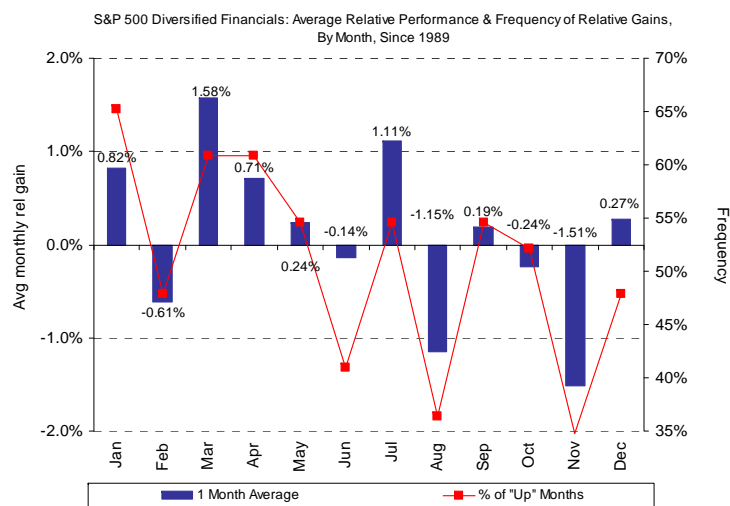
## Industry Group Sell-Side Sentiment



## Industry Group Beta



## Industry Group Seasonality

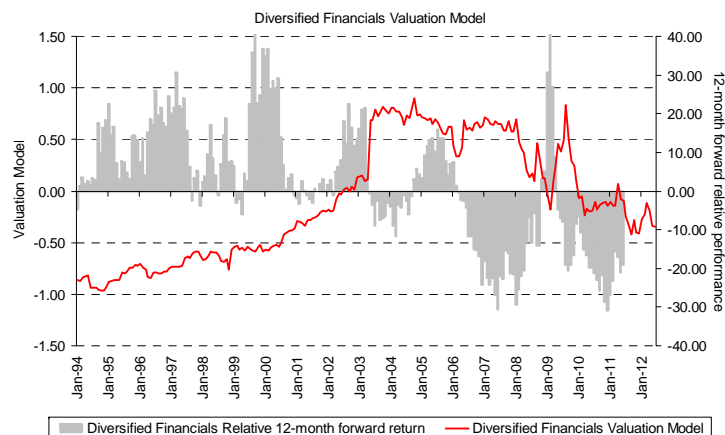


- **Sentiment score: Neutral**
- Sell-side analysts buy ratings for this group had recently spiked to levels in-line with five-year highs, but have fallen back significantly since the end of November, 2011; now 280 bps below the level for the S&P 500.
- Diversified Financials is trading in-line with its 200-day moving average.
- **Trading Places score: Neutral**
- Diversified Financials beta has been moving higher.
- The latter seven months of the year show a mixed trading environment.

Source: Bloomberg, Haver Analytics, FactSet and Citi Research - US Equity Strategy

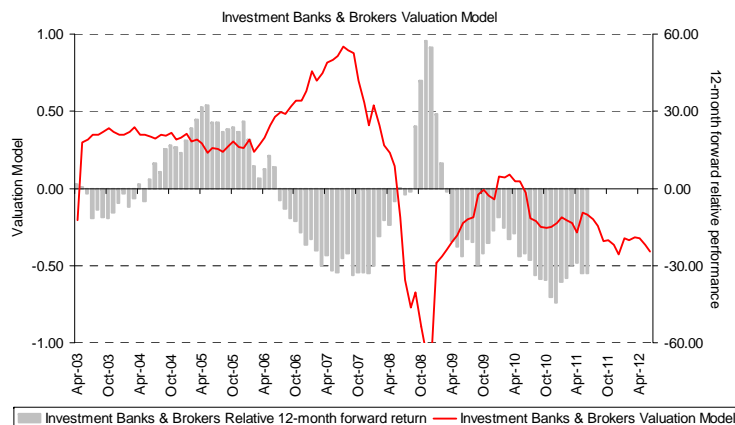
# Diversified Financials – Raised to Overweight

## Industry Group Valuation



Based on Index weighted earnings, P/E, Price/Sales, Enterprise Value, Estimated Price/Book Value, estimated Cash Flow

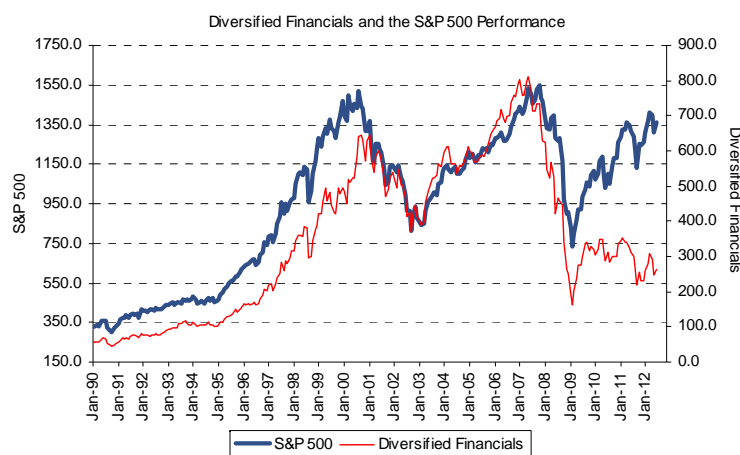
## Sub-Industry Group Valuation



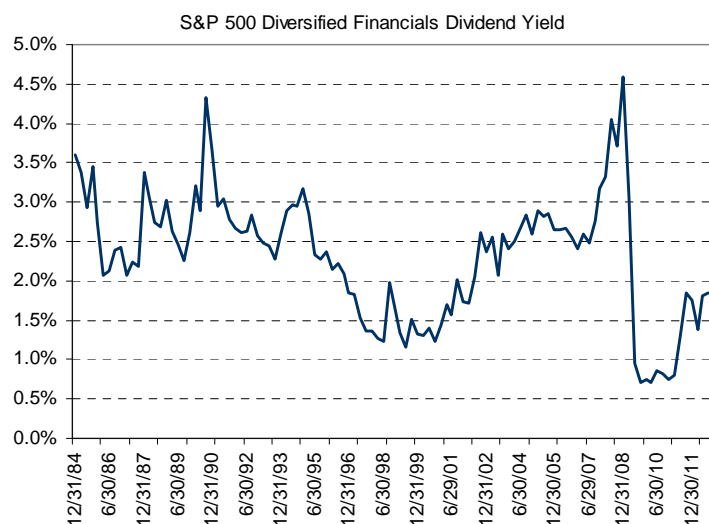
Based on Price/EBITDA, Index weighted earnings, P/B, Price/Sales, Estimated Price/Book Value, estimated Cash Flow

- **Valuation score: Positive**
- Our relative valuation model is in modestly attractive territory.
- Investment Banking & Brokerage looks undervalued.

## Industry Group Fundamentals



## Industry Group Fundamentals

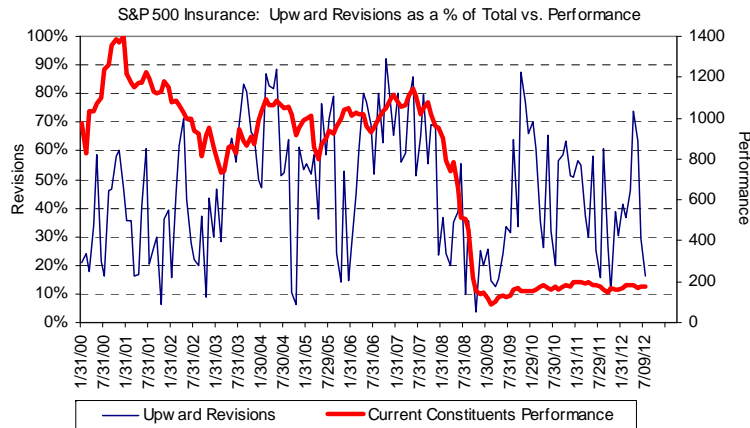


- **Fundamentals/Catalysts score: Positive**
- Tends to trade in lockstep with the broader market and our expectations for a market rally could benefit this group.
- Dividend yield has started to climb.

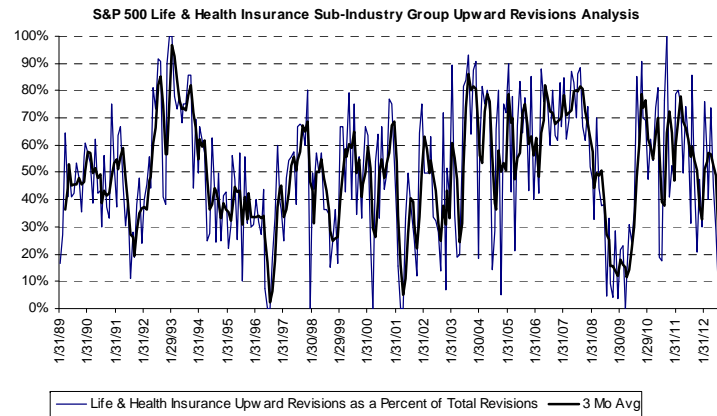
• **Bottom Line: Upgrading to Overweight.**

# Insurance – Overweight

## Industry Group Earnings Expectations

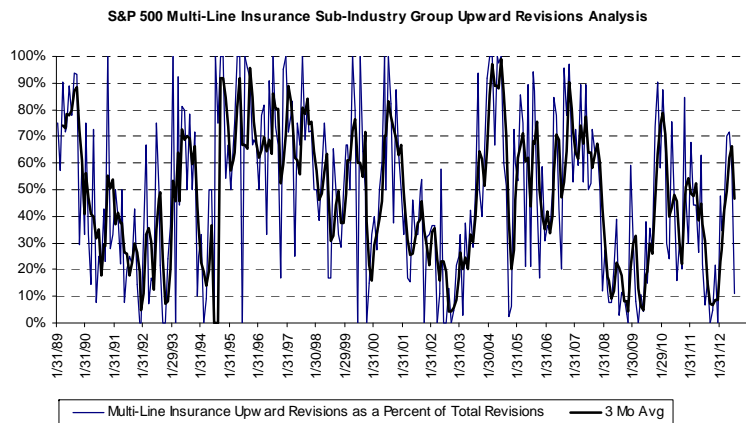


## Industry Group Earnings Expectations

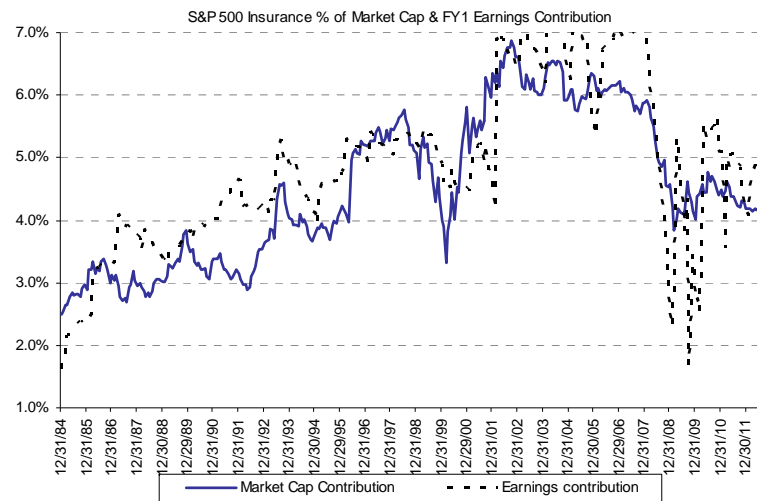


- **Earnings score: Positive**
- Overall, Insurance upward EPS estimate revisions have fallen to trough-like levels.
- Life and Health, Multi Line, and P&C Insurers upward revisions appear to be in the process of bottoming.
- Earnings contribution remains ahead of market cap contribution.

## Industry Group Earnings Expectations

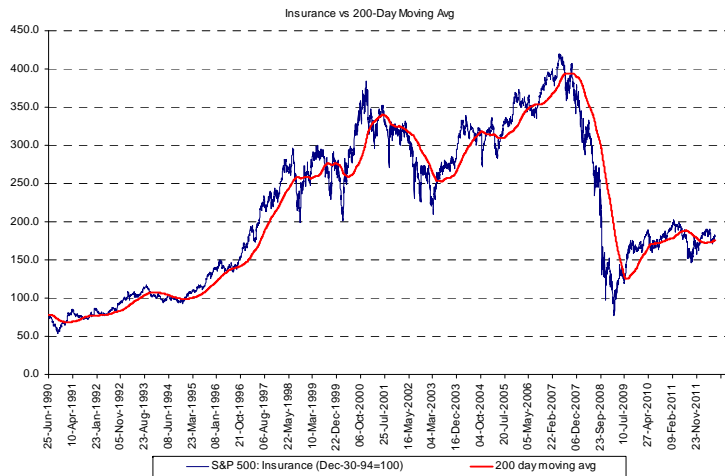


## Industry Group EPS & Mkt Cap Contribution

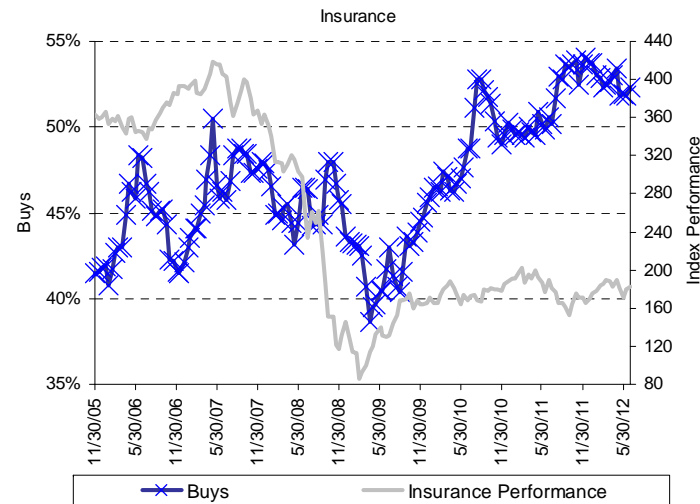


# Insurance – Overweight

## Industry Group Sell-Side Sentiment

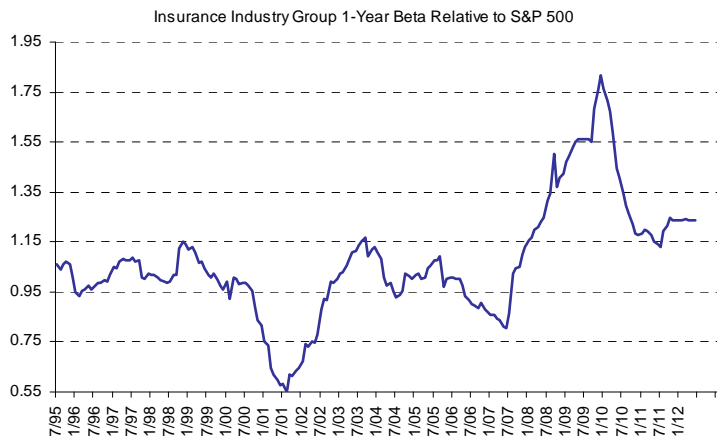


## Industry Group Sell-Side Sentiment

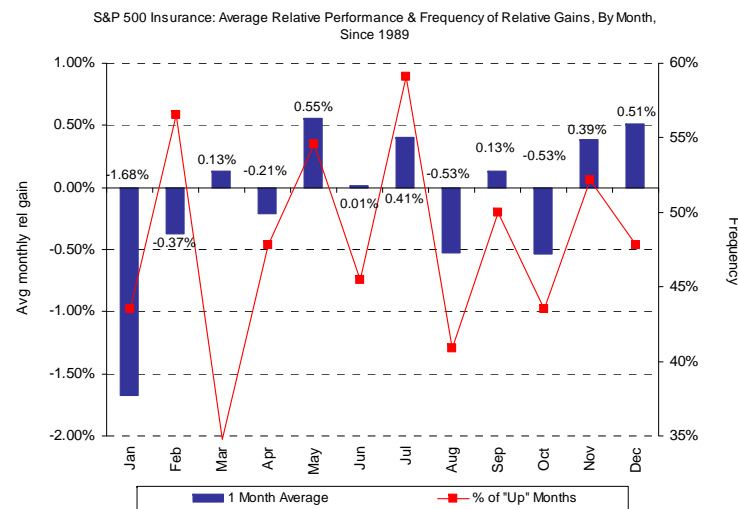


- **Sentiment score: Neutral**
- Buy ratings had rebounded off historically low levels to five-year highs in 2010, but pulled back later in the year. They are now relatively in-line with previous highs, while sell ratings have spiked slightly in recent weeks.
- Insurance is trading slightly above its 200-day moving average.
- **Trading Places score: Neutral**
- Beta has been flat since October 2011.
- Uneven seasonal performance trends.

## Industry Group Beta



## Industry Group Seasonality

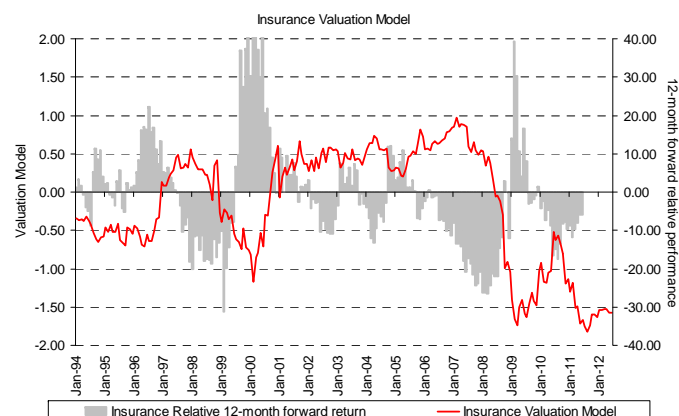


Source: Bloomberg, Haver Analytics, FactSet and Citi Research - US Equity Strategy



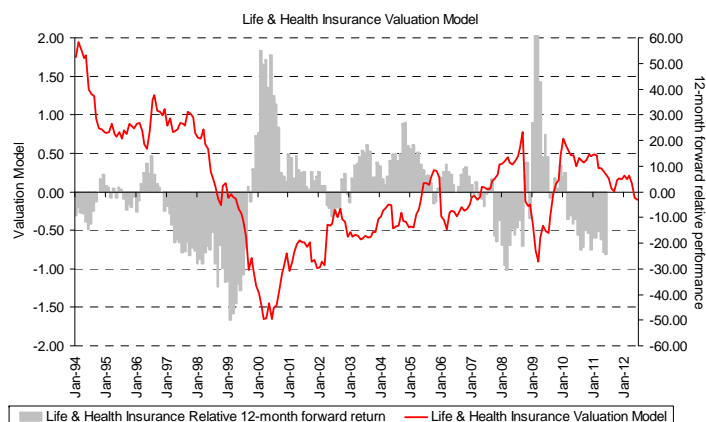
# Insurance – Overweight

## Industry Group Valuation



Based on Price/Sales, Enterprise Value, Index Weighted Book Value, Dividend/Share, Estimated Sales

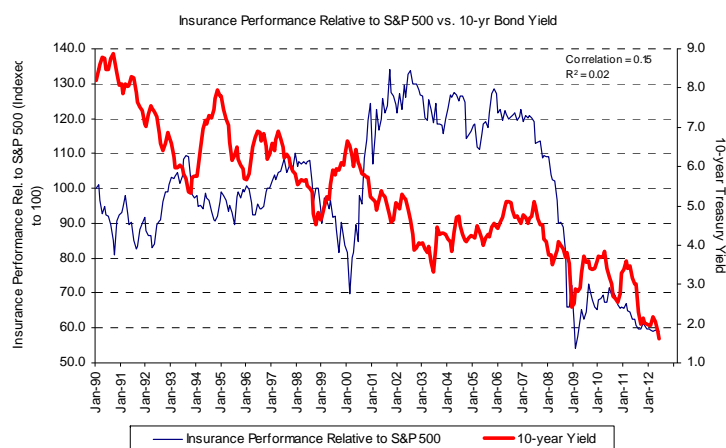
## Sub-Industry Group Valuation



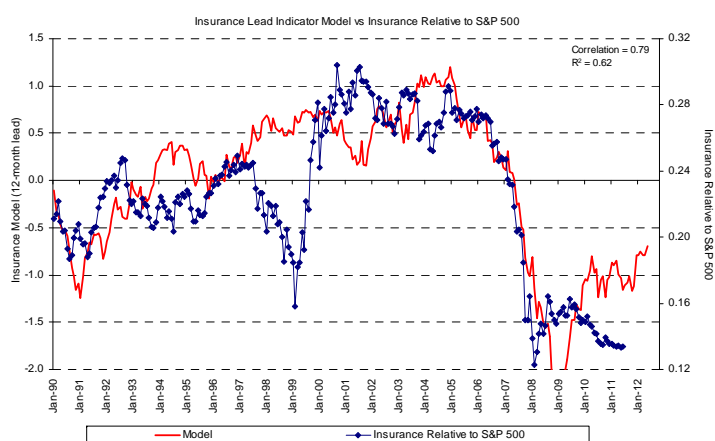
Based on Price/Cash Flow, Trailing 12-mth EPS Aggregate, Index weighted book value, Price/Sales, Enterprise Value, Estimated Price/Book Value, Debt/EBITDA

- **Valuation score: Positive**
- Our relative valuation model for the overall industry group is deep in attractive territory.
- In terms of subindustries, Life & Health Insurance dipped modestly into attractive territory while Multi Line names look appealing.
- **Fundamentals/Catalysts score: Positive**
- Lower bond yields should benefit this group, but the relationship seems to have broken down recently.
- Our 12-month lead indicator is arguing for relative outperformance over the next several months.
- Pricing power is returning to the P&C industry.

## Industry Group Fundamentals



## Industry Group Fundamentals

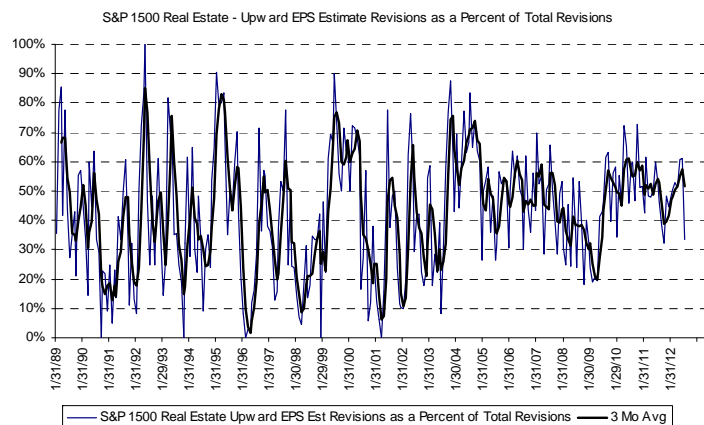


- **Bottom Line: Remain Overweight.**

Source: Bloomberg, Haver Analytics, FactSet, and Citi Research - US Equity Strategy

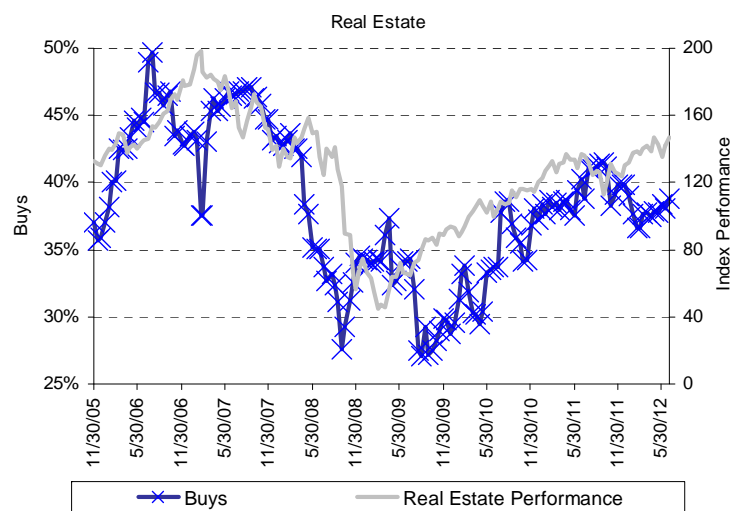
# Real Estate – Market Weight

## Industry Group Earnings Expectations

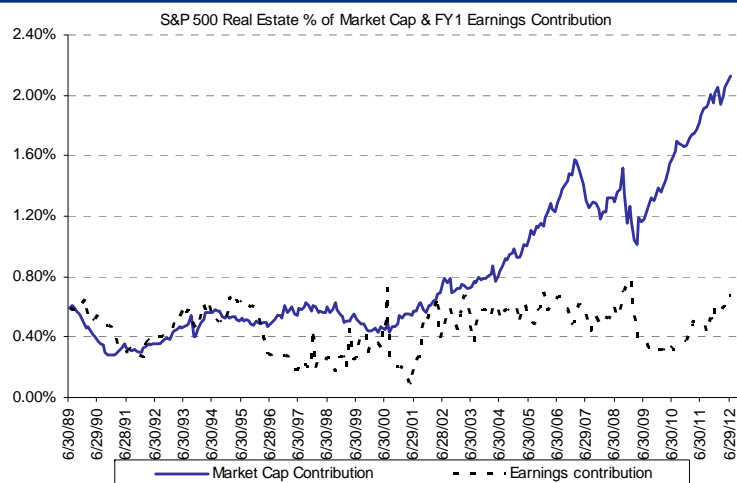


Note: S&P 1500 group used, given that S&P 500 Real Estate Industry Group has insufficient data to identify trends.

## Industry Group Sell-Side Sentiment

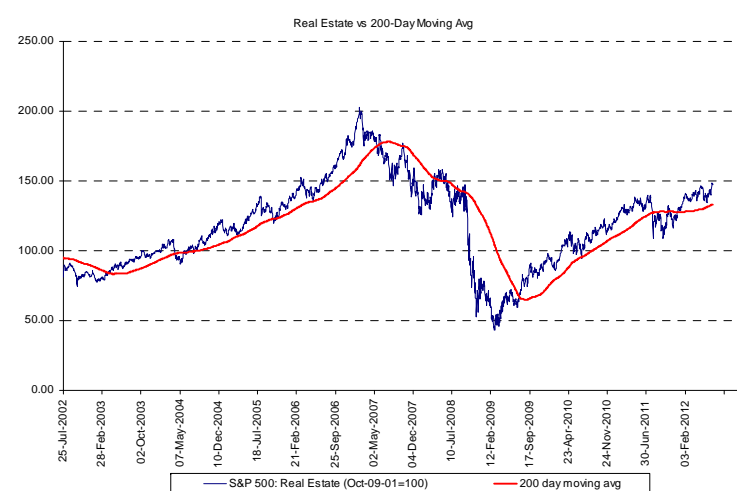


## Industry Group EPS & Mkt Cap Contribution



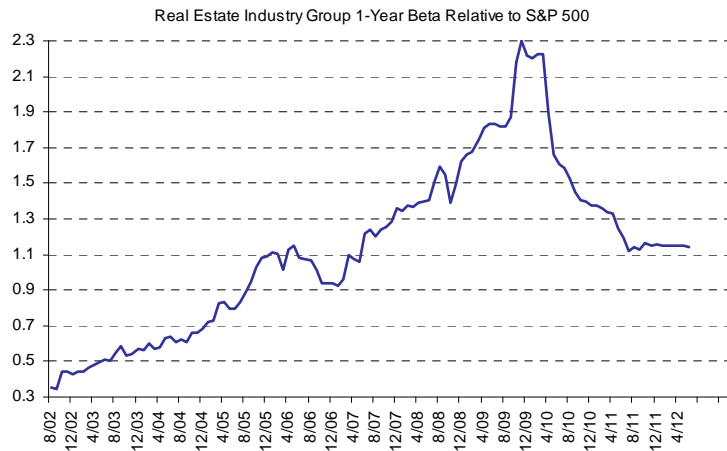
- **Earnings score: Neutral**
- Earnings revisions have dipped.
- Extraordinary gap between estimated earnings contribution and market cap representation remains.
- **Sentiment score: Neutral**
- The percentage of Buy ratings had trended around 25-40% since early-2008, but recently broke out to 41.5% before falling back to 38.8%; the third least liked group.
- Real Estate is trading above its 200-day moving average.
- Yield opportunities continue to attract income hungry investors.

## Industry Group Sentiment

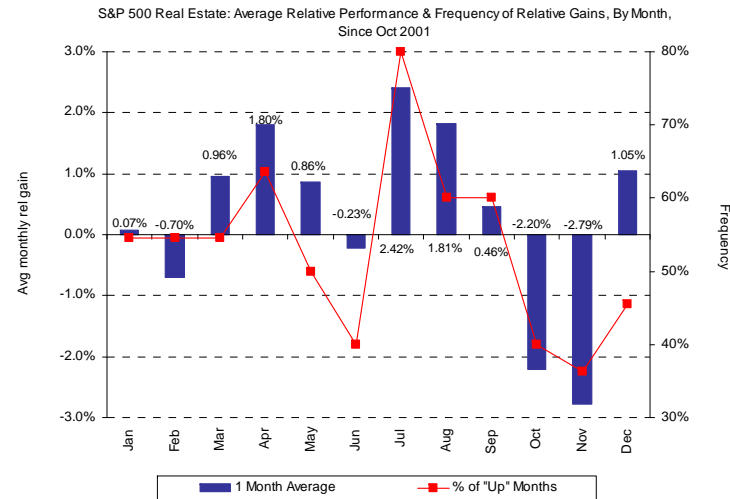


# Real Estate – Market Weight

## Industry Group Beta

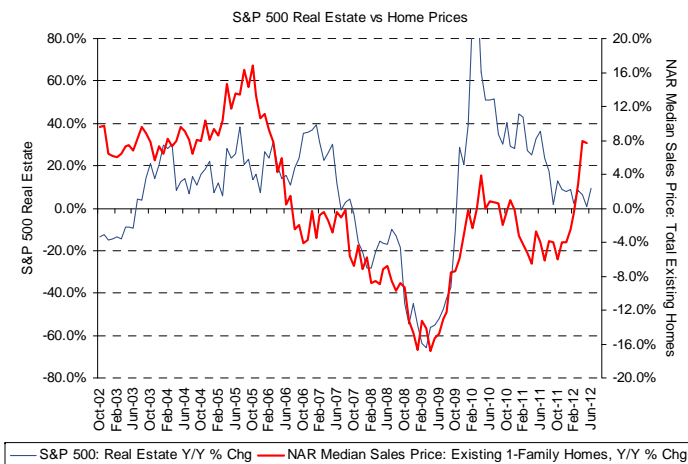


## Industry Group Seasonality

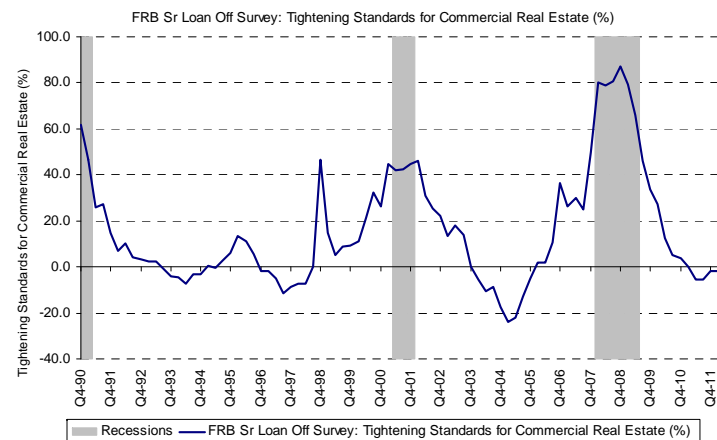


- **Trading Places score: Neutral**
- Group's beta appears to be stabilizing.
- March through September tend to be a good time to own these names.
- **Fundamentals/Catalysts score: Positive**
- Little build activity and better occupancy has put a floor under the industry.

## S&P 500 Real Estate vs. Home Prices



## Credit Standards

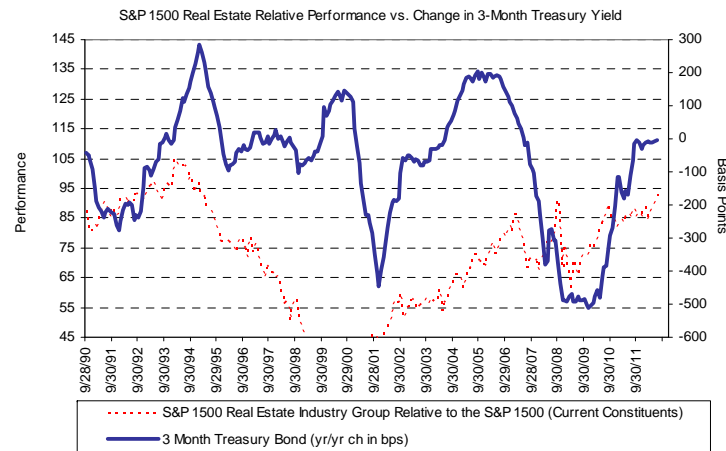


- A bottoming in home prices could present a more positive view of the real estate sector.
- Credit conditions are highly supportive.

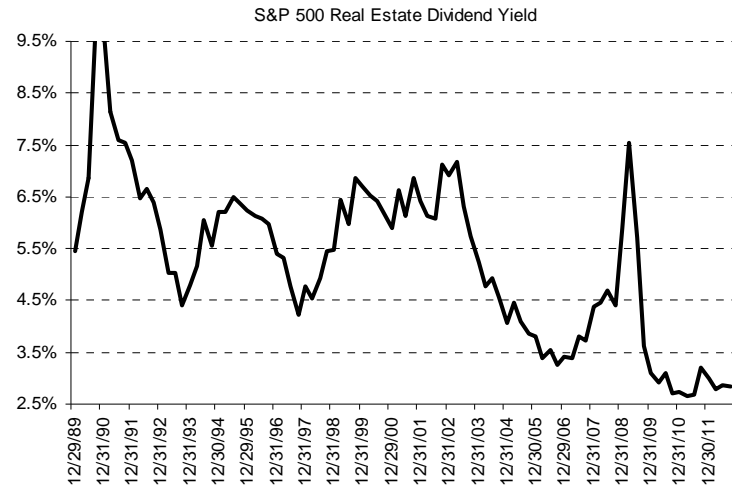
Source: Bloomberg, Haver Analytics, FactSet and Citi Research - US Equity Strategy

# Real Estate – Market Weight

## Industry Group Fundamentals

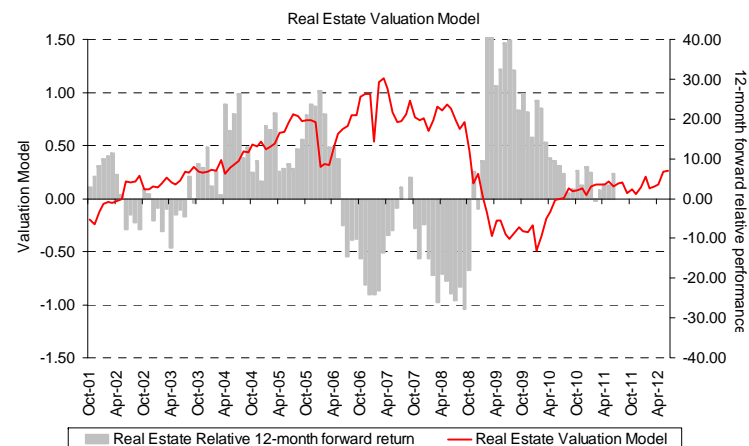


## Industry Group Fundamentals



- **Fundamentals/Catalysts score: Positive**
- Dividend yield has dropped sharply from prior highs, but cap rates look more intriguing.
- **Valuation score: Negative**
- Group looks unattractive based on our proprietary valuation model.

## Industry Group Valuation



- **Bottom Line:** Remain Market Weight.

Based on Price/EBITDA, Price/Cash Flow, Price/Book, Dividend Yield

Source: Bloomberg, Haver Analytics, FactSet, and Citi

# Financials Constituents

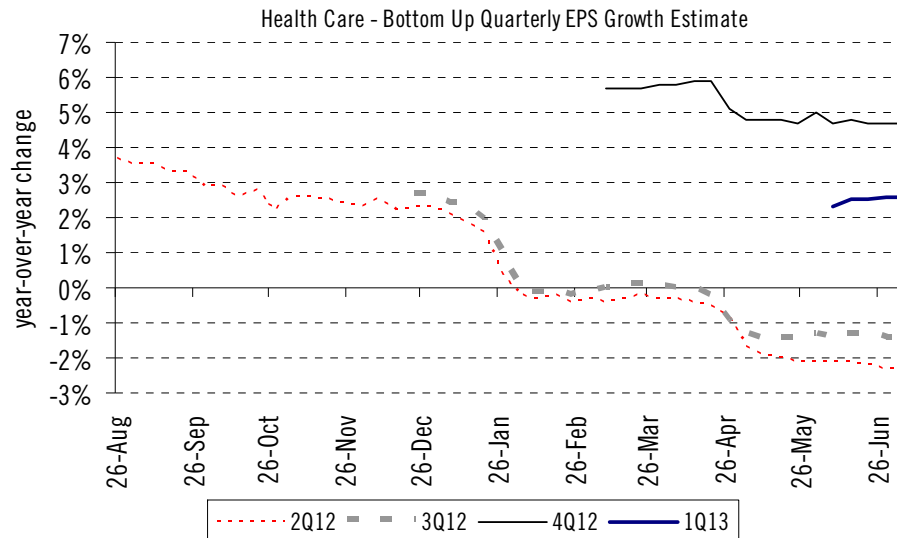
Banks		Diversified Financials		Insurance		Real Estate	
<b>Diversified Banks</b>		<b>Asset Management &amp; Custody Banks</b>		<b>Insurance Brokers</b>		<b>Real Estate Investment Trusts (REITs)</b>	
WFC	Wells Fargo & Co	BK	The Bank of New York Mellon Corp	MMC	Marsh & McLennan Companies	SPG	Simon Property Group
USB	US Bancorp	STT	State Street Corp	AON	Aon plc	AMT	American Tower Corp A
CMA	C Comerica Inc (MI)	BLK	BlackRock Inc			PSA	Public Storage
		TROW	T Rowe Price Group Inc		<b>Life &amp; Health Insurance</b>	EQR	Equity Residential
	<b>Regional Banks</b>	BEN	Franklin Resources Inc	MET	Metlife Inc	HCP	HCP Inc
PNC	PNC Finl Services Group	AMP	Ameriprise Financial Inc	PRU	Prudential Financial Inc	VTR	Ventas Inc
BBT	BB&T Corp	NTRS	Northern Trust Corp (IL)	AFL	AFLAC Inc	BXP	Boston Properties Inc
STI	SunTrust Banks Inc (GA)	IVZ	Invesco Ltd	PFG	Principal Financial Group	VNO	Vornado Realty Trust
FITB	Fifth Third Bancorp (OH)	LM	Legg Mason Inc	LNC	Lincoln National Corp	PLD	ProLogis, Inc
MTB	M&T Bank Corp	FII	Federated Investors Inc B	UNM	Unum Group	AVB	AvalonBay Communities Inc
RF	Regions Financial Corp			TMK	Torchmark Corp	HCN	Health Care REIT Inc
KEY	KeyCorp		<b>Consumer Finance</b>			WY	Weyerhaeuser Co
HBAN	Huntington Bancshares (OH)	AXP	American Express Co		<b>Multi-line Insurance</b>	HST	Host Hotels & Resorts Inc
ZION	Zions Bancorp (UT)	COF	Capital One Financial	AIG	American Intl Group Inc	KIM	Kimco Realty Corp
FHN	First Horizon National Corp	DFS	Discover Financial Services	L	Loews Corp	PCL	Plum Creek Timber Co
		SLM	SLM Corp	HIG	Hartford Finl Services Group	AIV	Apartment Investment & Mgmt
	<b>Thriffs &amp; Mortgage Finance</b>			AIZ	Assurant Inc		
PBCT	People's United Financial Inc		<b>Investment Banking &amp; Brokerage</b>	GNW	Genworth Financial Inc		<b>Real Estate Management &amp; Development</b>
HCBK	Hudson City Bancorp	GS	Goldman Sachs Group Inc			CBG	CBRE Group, Inc.
		MS	Morgan Stanley		<b>Property &amp; Casualty Insurance</b>		
		SCHW	Schwab, Charles Corp	BRK.B	Berkshire Hathaway B		
		ETFC	E*TRADE Financial Corp	ACE	ACE Limited		
				TRV	Travelers Cos Inc		
			<b>Multi-Sector Holdings</b>	CB	Chubb Corp		
		LUK	Leucadia National Corp (NY)	ALL	Allstate Corp		
				PGR	Progressive Corp		
			<b>Other Diversified Financial Services</b>	XL	XL Group Plc		
		JPM	JP Morgan Chase & Co	CINF	Cincinnati Financial Corp		
		BAC	Bank of America Corp				
		C	Citigroup Inc				
			<b>Specialized Finance</b>				
		CME	Chicago Mercantile Exchange				
		ICE	IntercontinentalExchange				
		MCO	Moody's Corp				
		NYX	NYSE Euronext				
		NDAQ	Nasdaq OMX Group/The				

Source: FactSet

# Health Care Sector Performance and Recommendation Overview

(7/12/12)		Actual Weight		Rec'd	Performance Over Last					YTD
Sector	Industry Group	(% of S&P 500)	Rating	Weight	1 Week	1 Month	3 Months	6 Months	52 Weeks	2012
<b>S&amp;P 500</b>		100.0%			-2.40%	0.80%	-3.81%	3.03%	1.61%	6.14%
<b>Health Care</b>		11.5%	0	11.5%	-0.58%	3.39%	2.15%	6.08%	6.93%	8.65%
	Healthcare Equipment & Services	3.6%	0	3.6%	-1.40%	0.49%	-3.61%	4.71%	-0.90%	8.63%
	Pharmaceuticals & Biotechnology	7.9%	0	7.9%	-0.19%	4.82%	5.18%	6.66%	11.22%	8.55%

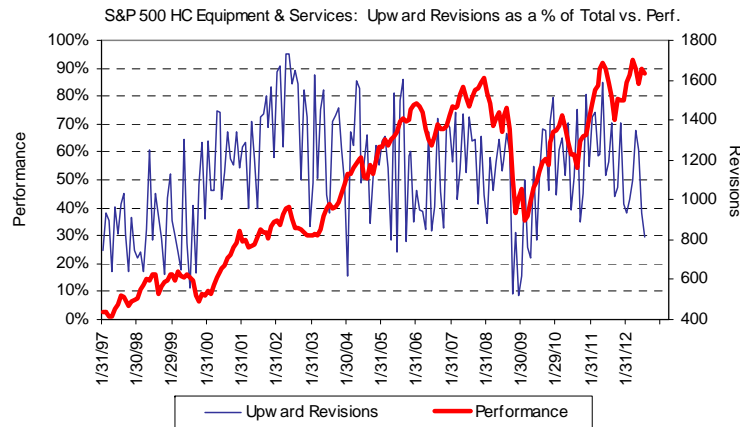
## Shifts in Sector EPS Expectations



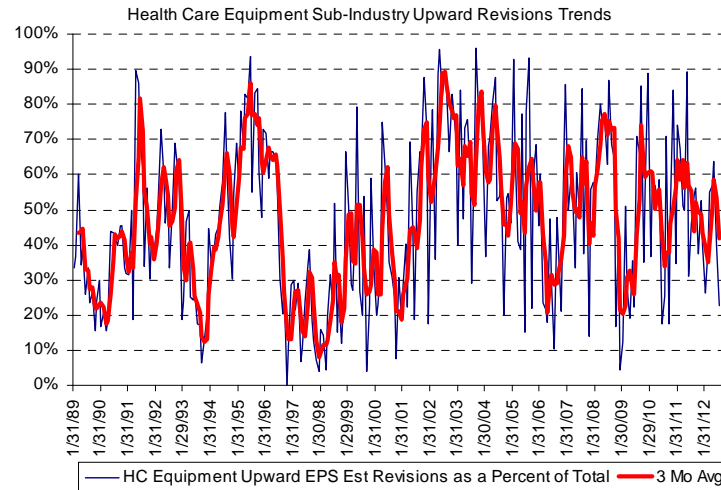
Source: Citi Research - US Equity Strategy, FactSet, Thomson Financial, and Bloomberg

# Health Care Equipment & Services – Market Weight

## Industry Group Earnings Expectations

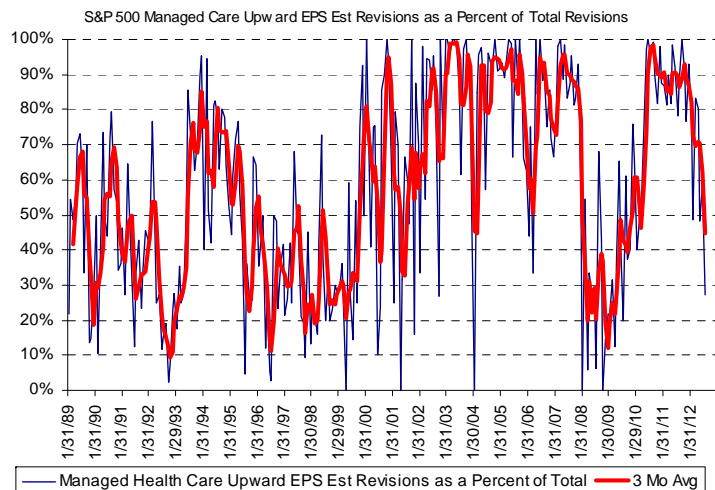


## Industry Group Earnings Expectations

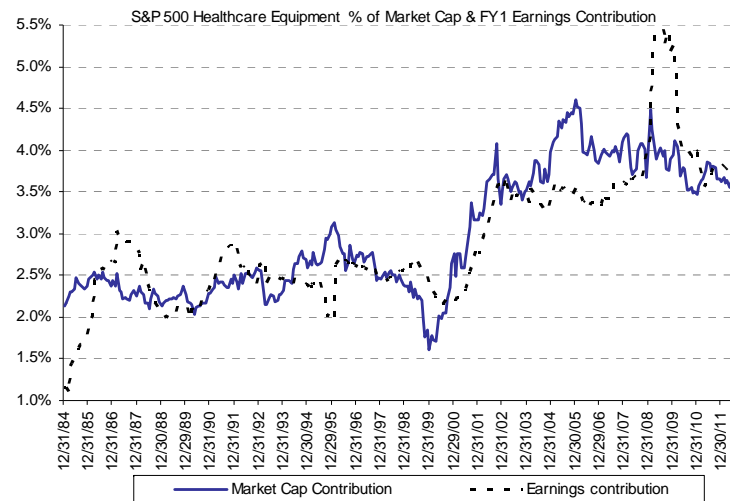


- **Earnings score: Neutral**
- Overall, upward revisions appear to be in a downward trend for this group, though close to prior non-recession bottoms.
- Health Care Equipment and Managed Care upward revisions have been declining and thus caution is still warranted.

## Industry Group Earnings Expectations



## Industry Group EPS & Mkt Cap Contribution

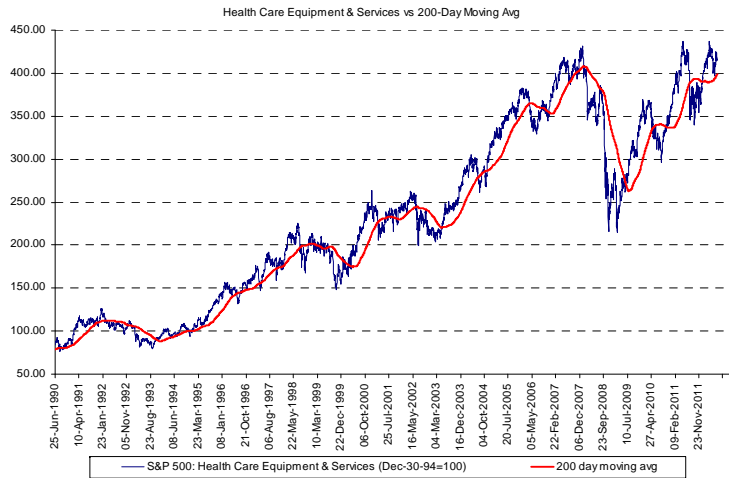


- Expected earnings contribution remains ahead of market cap representation.

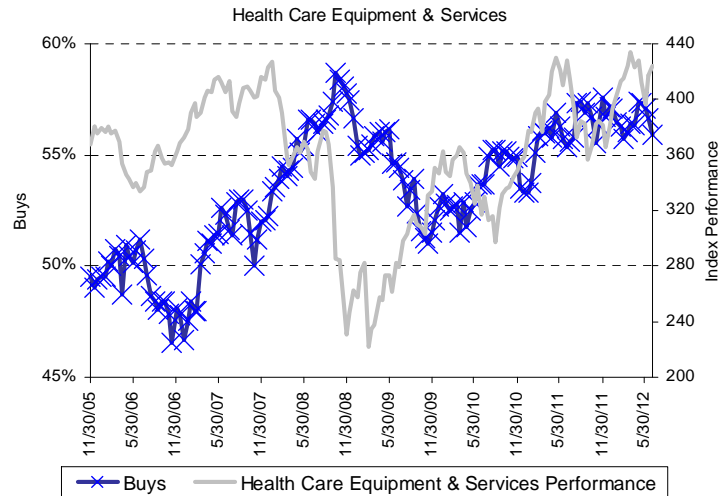


# Health Care Equipment & Services – Market Weight

## Industry Group Sell-Side Sentiment

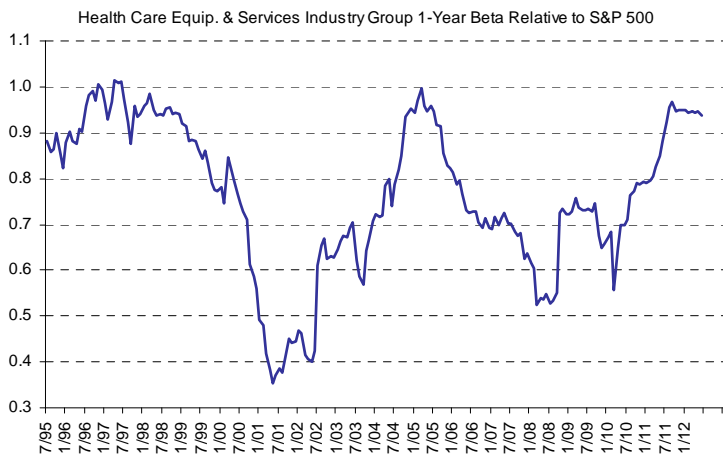


## Industry Group Sell-Side Sentiment

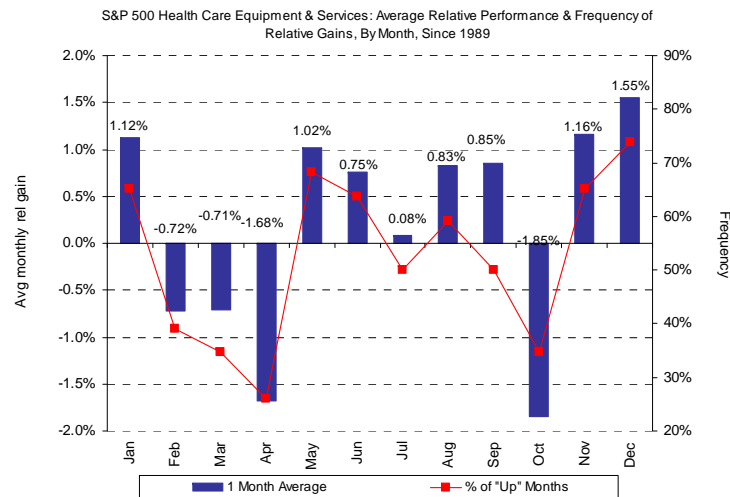


- **Sentiment score: Neutral**
- The group is trading above its 200-day moving average.
- Analysts became steadily less bullish since October 2008, but have slowly trended higher since mid-2009, meanwhile analysts have become modestly more bearish since the end of November, 2011.

## Industry Group Beta



## Industry Group Seasonality

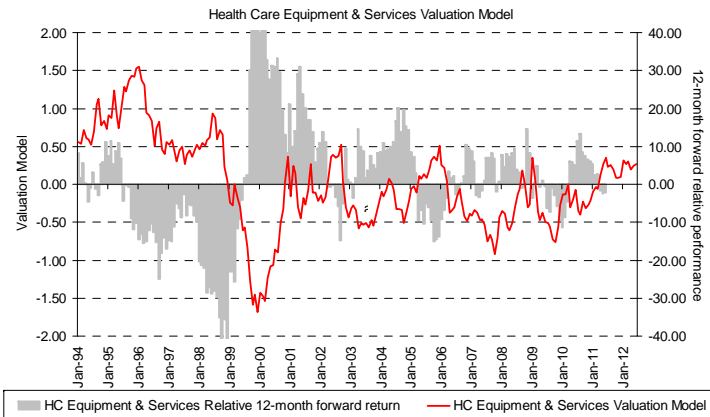


- **Trading Places score: Positive**
- Beta has recently started to decline.
- This group tends to outperform from May through year-end, if history is any guide.

Source: Bloomberg, Haver Analytics, FactSet and Citi Research - US Equity Strategy

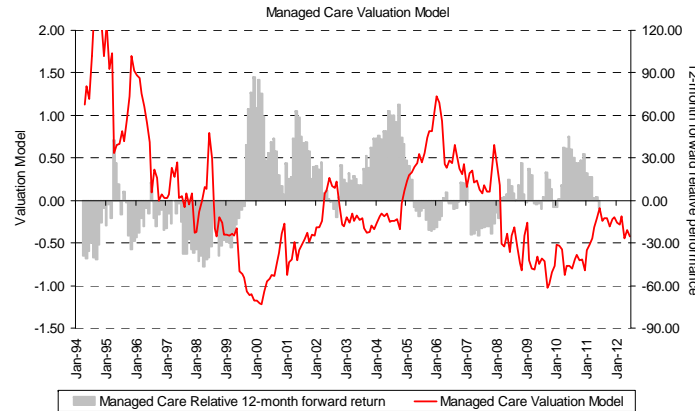
# Health Care Equipment & Services – Market Weight

## Industry Group Valuation



Based on Price/Sales, Enterprise Value, Index Weighted Book Value, Dividend/Share, Estimated Sales

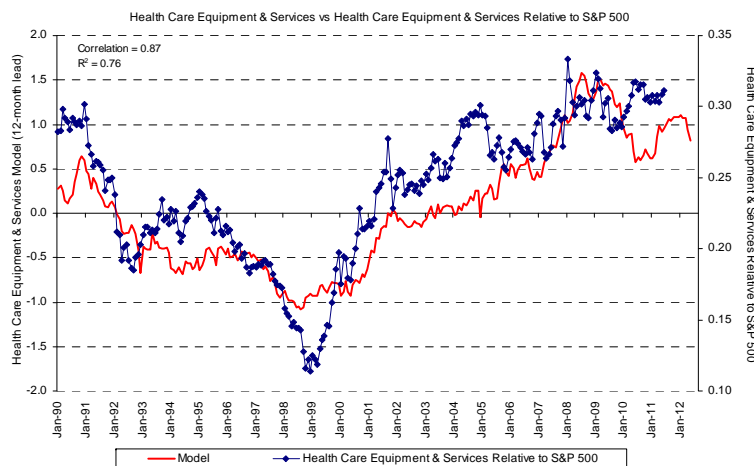
## Sub-Industry Group Valuation



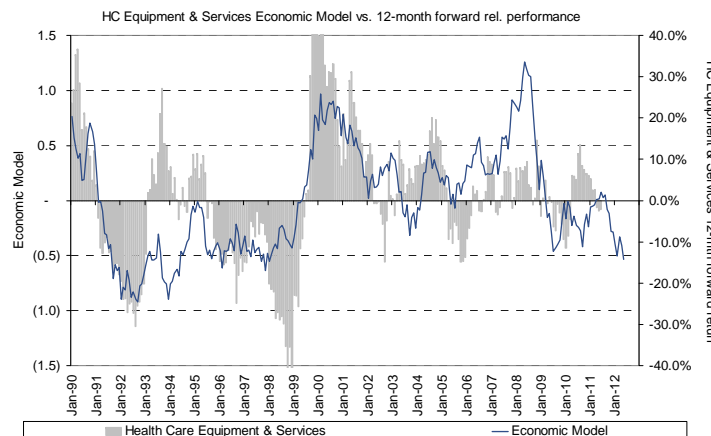
Based on Price/Cash Flow, Trailing 12-mth EPS Aggregate, Index weighted book value, Price/Sales, Enterprise Value, Estimated Price/Book Value, Debt/EBITDA

- **Valuation score: Negative**
- Valuation for the overall industry group remained in unattractive territory.
- Managed Care stills looks appealing.
- **Fundamentals/Catalysts score: Neutral**
- Our 12-month lead indicator model is suggesting 12-month forward outperformance for the group.

## Industry Group Fundamentals



## Industry Group Fundamentals

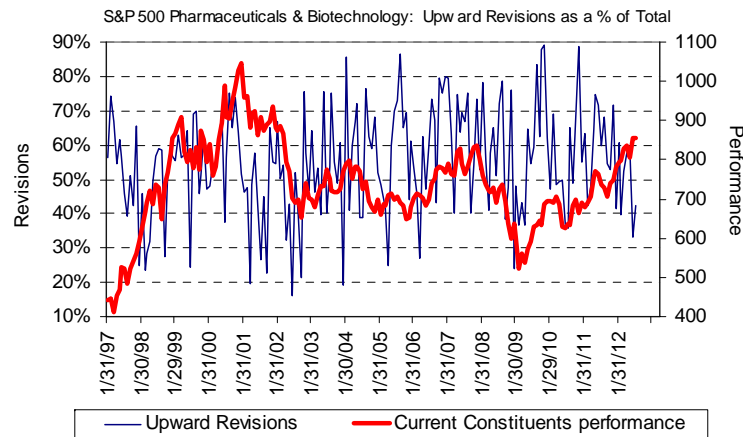


- Our Health Care Equipment & Services economic model remained in negative territory, which argues for relative price underperformance over the next year.
- **Bottom Line: Stay Market Weight.**

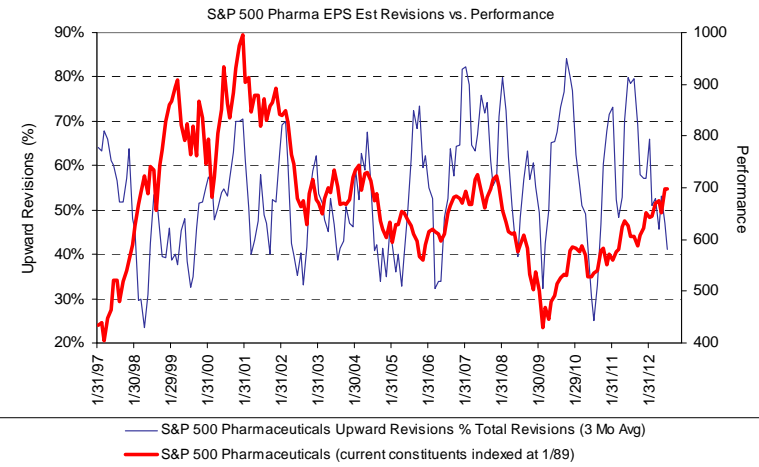
Source: Bloomberg, Haver Analytics, FactSet, and Citi Research - US Equity Strategy

# Pharma & Biotech – Market Weight

## Industry Group Earnings Expectations

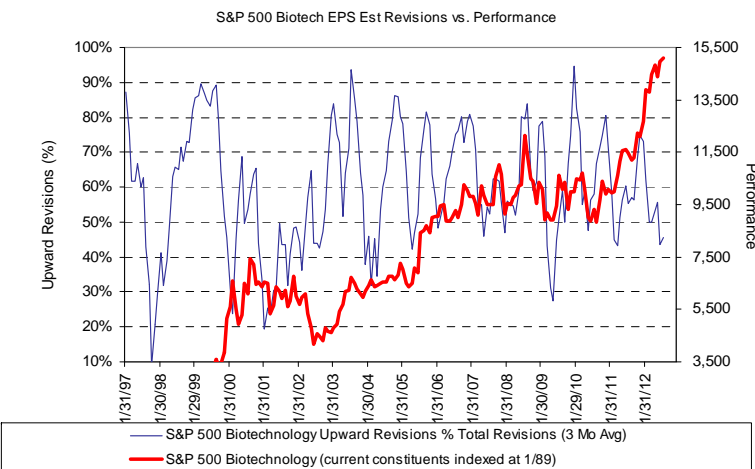


## Industry Group Earnings Expectations

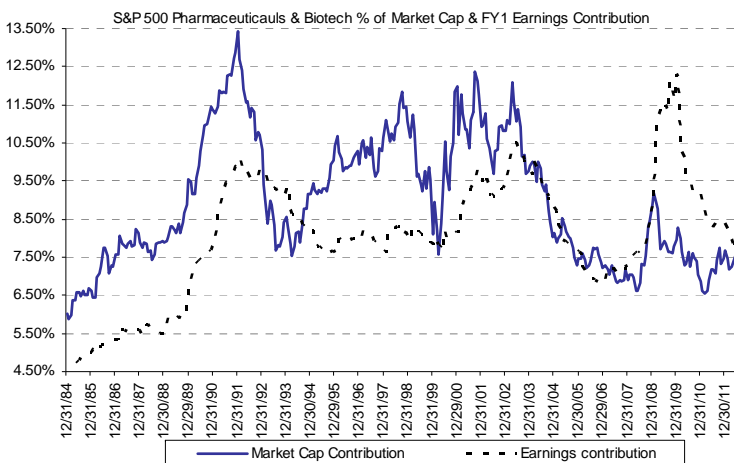


- **Earnings score: Negative**
- Both Pharma and Biotech upward revisions appear to be trending lower.
- The gap between earnings contribution and market cap contribution has closed.

## Industry Group Earnings Expectations



## Industry Group EPS & Mkt Cap Contribution

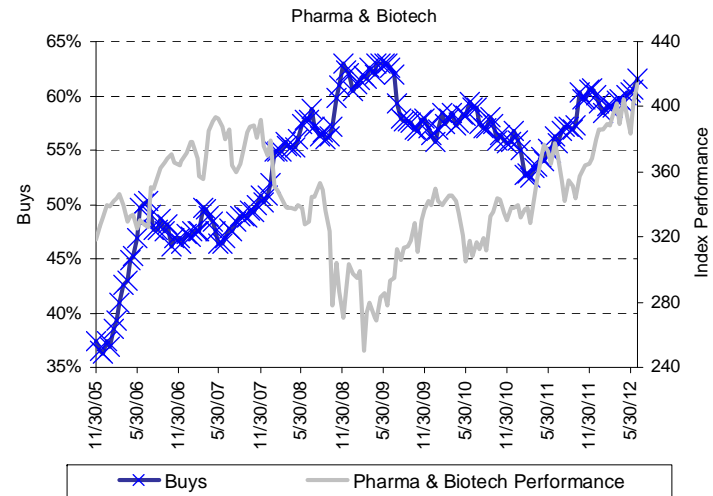


# Pharma & Biotech – Market Weight

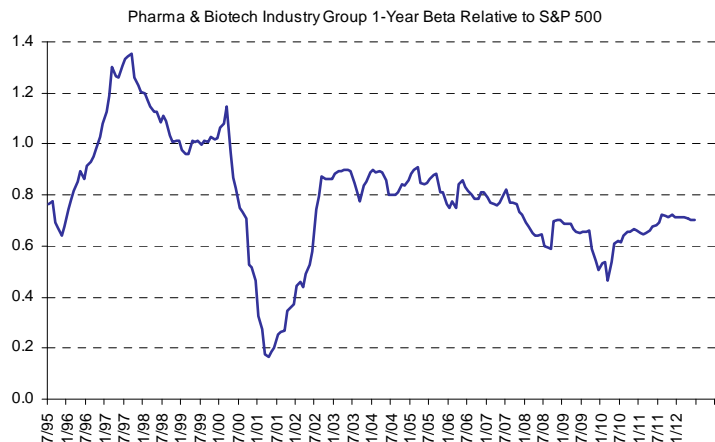
## Industry Group Sell-Side Sentiment



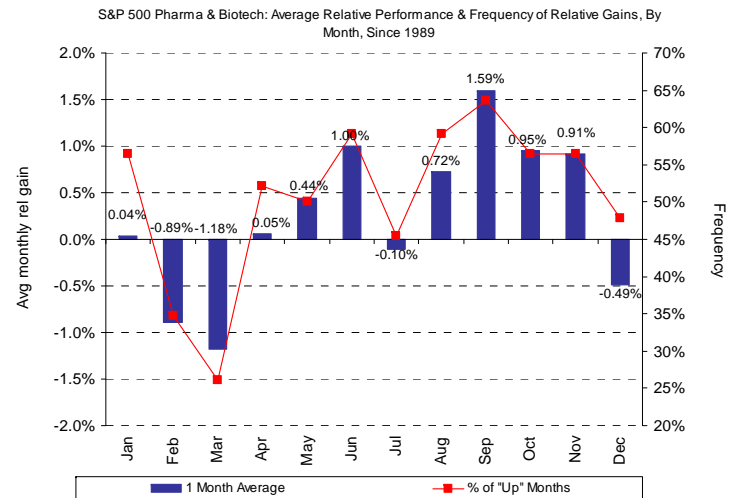
## Industry Group Sell-Side Sentiment



## Industry Group Beta



## Industry Group Seasonality

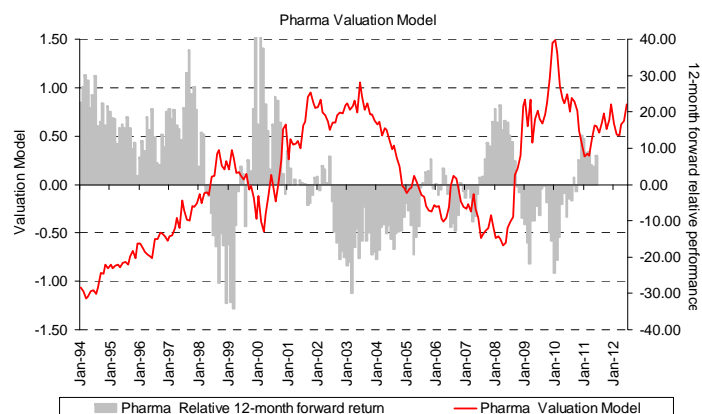


- **Sentiment score: Neutral**
- Pharma & Biotech is trading ahead of its 200-day moving average.
- The proportion of Buy ratings for Pharma & Biotech names has held steady around 55-60% since mid-2009, but recently broke out to 61.6% as of the most recent reading.
- Currency exposure may be under-appreciated.
- **Trading Places score: Positive**
- A low beta group.
- Seasonal trends suggest that best outperformance tends to be in the May-November time frame while December through April is a difficult time for these names.
- An inflection of the CESI would hurt these names.

Source: Bloomberg, Haver Analytics, FactSet and Citi Research - US Equity Strategy

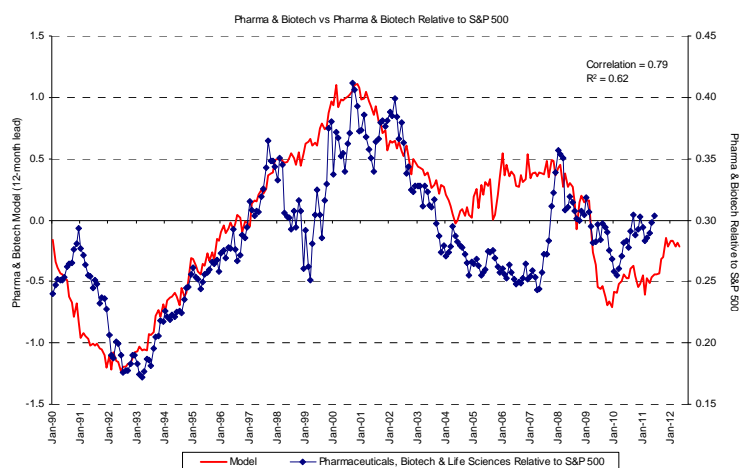
# Pharma & Biotech – Market Weight

## Industry Group Valuation

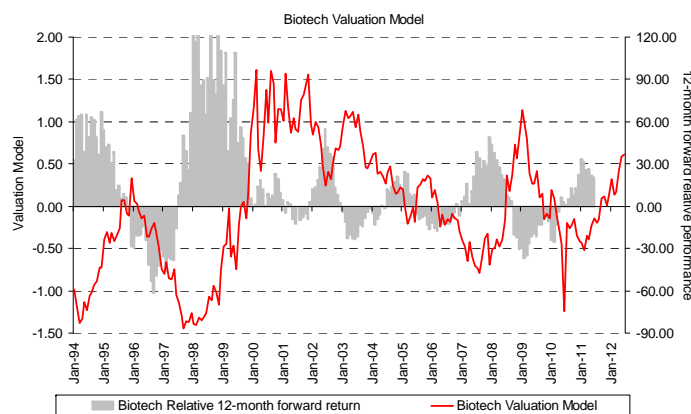


Based on Trailing 12-mth EPS aggregate, Index weighted Book Value, PE, Price/Sales, Enterprise Value, Gross dividends/share aggregate 12 month, Est. Price/Book, Est. Price/EBITDA

## Industry Group Fundamentals

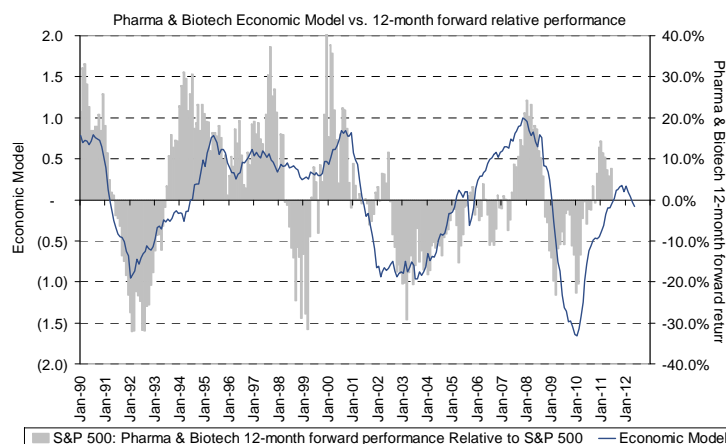


## Sub-Industry Group Valuation



Based on Price/EBITDA, Price/Cash Flow, Index weighted Book Value, PE, Price/Sales, Enterprise Value, Est. Sales, FY1 Price/EBITDA

## Industry Group Fundamentals



- **Valuation score: Negative**
- Pharma and Biotech valuation are both in unattractive territory.
- **Fundamentals/Catalysts score: Neutral**
- Our 12-month lead indicator model is arguing that the group should outperform through 3Q12.
- Our Pharma & Biotech economic model has dipped into negative territory.
- The political environment could hold back outperformance potential specifically for large pharma companies, especially given government's needs to cut back expenditures.

• **Bottom Line: Remain Market Weight.**

Source: Bloomberg, Haver Analytics, FactSet, and Citi Research - US Equity Strategy

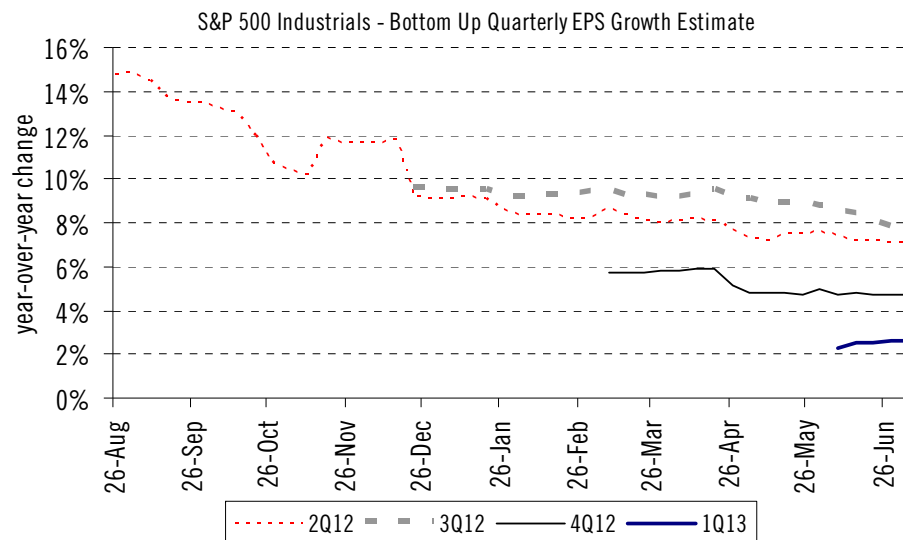
# Health Care Constituents

Health Care Equipment & Services		Pharmaceuticals Biotechnology & Life Sciences	
<b>Health Care Equipment</b>		<b>Biotechnology</b>	
MDT	Medtronic Inc	AMGN	Amgen Inc
BAX	Baxter Intl Inc	GILD	Gilead Sciences Inc
COV	Covidien Plc	BIIB	Biogen Idec Inc
ISRG	Intuitive Surgical Inc	CELG	Celgene Corp
SYK	Stryker Corp	ALXN	Alexion Pharmaceuticals Inc
BDX	Becton, Dickinson & Co		
STJ	St Jude Medical Inc		
EW	Edwards Lifesciences Corp		
ZMH	Zimmer Holdings Inc		
BCR	Bard, C.R. Inc		
BSX	Boston Scientific Corp		
VAR	Varian Medical Systems Inc		
CFN	CareFusion Corp.		
<b>Health Care Supplies</b>		<b>Life Sciences Tools &amp; Services</b>	
XRAY	Dentsply Intl	TMO	Thermo Fisher Scientific
		A	Agilent Technologies Inc
		LIFE	Life Technologies Corp
		WAT	Waters Corp
		PKI	PerkinElmer Inc
<b>Health Care Providers &amp; Services</b>		<b>Pharmaceuticals</b>	
<b>Health Care Distributors</b>		JNJ	Johnson & Johnson
MCK	McKesson Corp	PFE	Pfizer Inc
CAH	Cardinal Health Inc	MRK	Merck & Co Inc
ABC	AmerisourceBergen Corp	ABT	Abbott Laboratories
PDCO	Patterson Cos Inc	BMJ	Bristol-Myers Squibb
		LLY	Lilly, Eli & Co
		AGN	Allergan Inc
		PRGO	Perrigo Co
		WPI	Watson Pharmaceuticals
		FRX	Forest Laboratories
		MYL	Mylan Inc.
		HSP	Hospira, Inc
<b>Health Care Facilities</b>			
THC	Tenet Healthcare		
<b>Health Care Services</b>			
ESRX	Express Scripts Holding Co.		
DGX	Quest Diagnostics		
DVA	Davita Inc		
LH	Lab Corp of America Hldgs		
<b>Health Care Technology</b>			
CERN	Cerner Corp		
<b>Managed Health Care</b>			
UNH	Unitedhealth Group Inc		
WLP	WellPoint Inc		
AET	Aetna Inc		
CI	Cigna Corporation		
HUM	Humana Inc		
CVH	Coventry Health Care Inc		

# Industrials Sector Performance and Recommendation Overview

(7/12/12)		Actual Weight		Rec'd	Performance Over Last					YTD
Sector	Industry Group	(% of S&P 500)	Rating	Weight	1 Week	1 Month	3 Months	6 Months	52 Weeks	2012
<b>S&amp;P 500</b>		100.0%			-2.40%	0.80%	-3.81%	3.03%	1.61%	6.14%
<b>Industrials</b>		9.9%	-	8.3%	-4.06%	-1.51%	-6.39%	-3.94%	-6.32%	1.70%
	Capital Goods	7.5%	-	6.0%	-4.74%	-2.67%	-7.98%	-4.76%	-7.39%	1.17%
	Commercial Services & Supplies	0.5%	0	0.5%	-2.01%	1.12%	-5.65%	-3.17%	-8.72%	0.33%
	Transportation	1.8%	0	1.8%	-1.75%	2.74%	0.41%	-0.62%	-0.99%	4.34%

## Shifts in Sector EPS Expectations

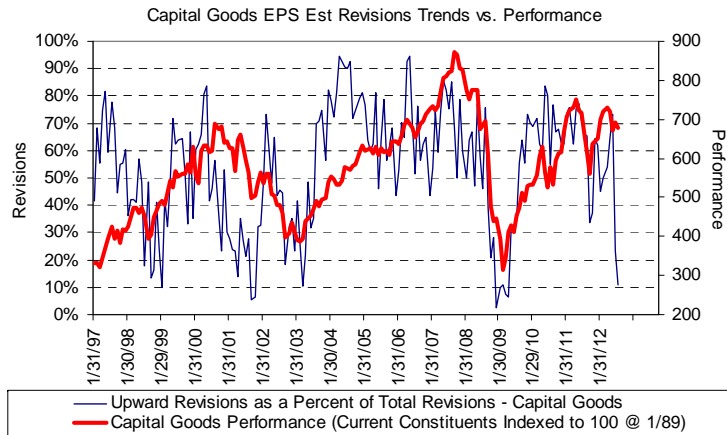


Source: Citi Research - US Equity Strategy, FactSet, Thomson Financial, and Bloomberg

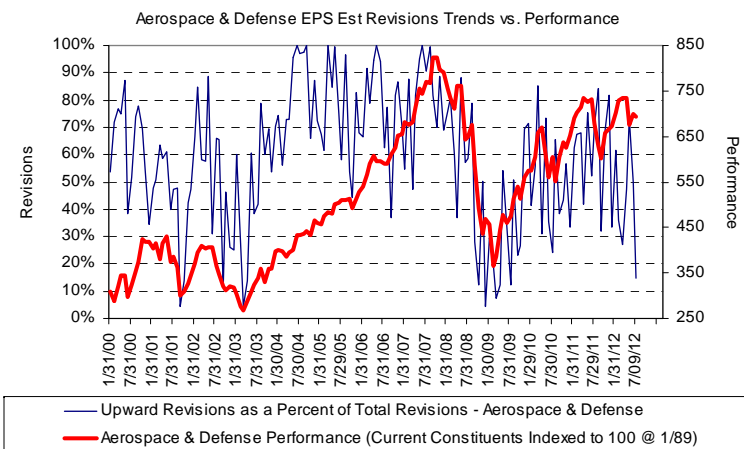


# Capital Goods – Underweight

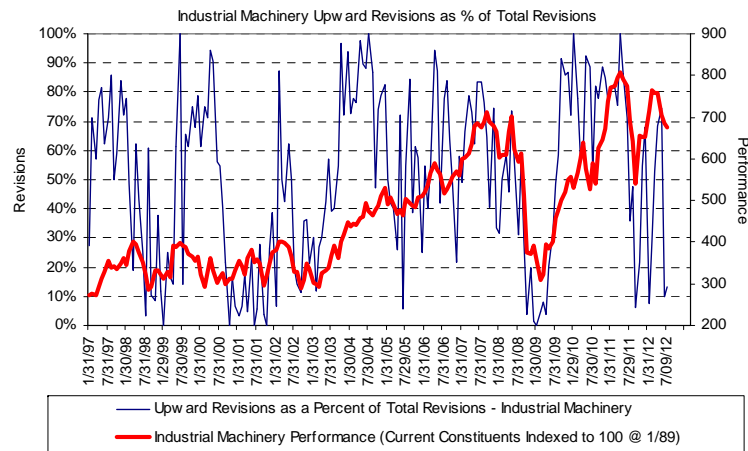
## Industry Group EPS Expectations



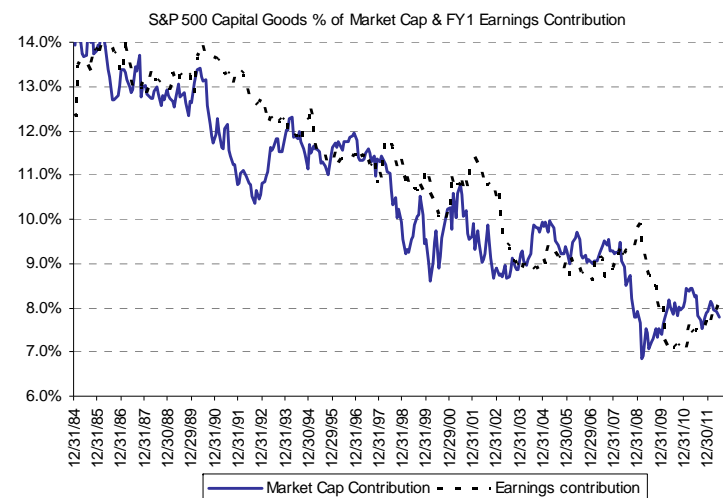
## Industry Group EPS Expectations



## Industry Group EPS Expectations



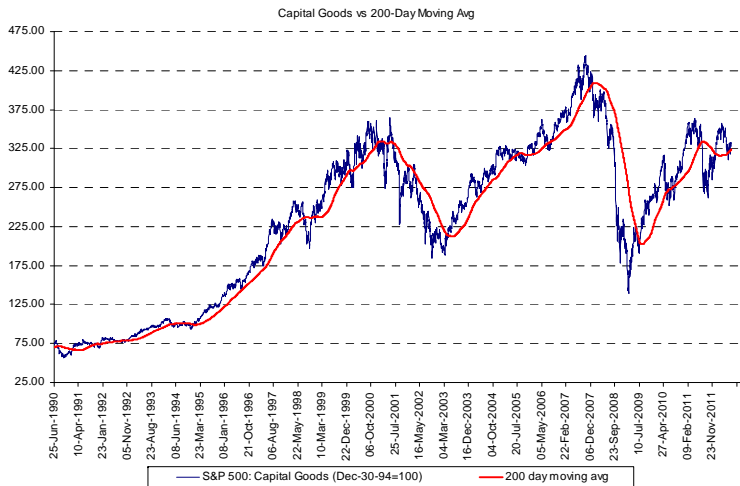
## Industry Group EPS & Mkt Cap Contribution



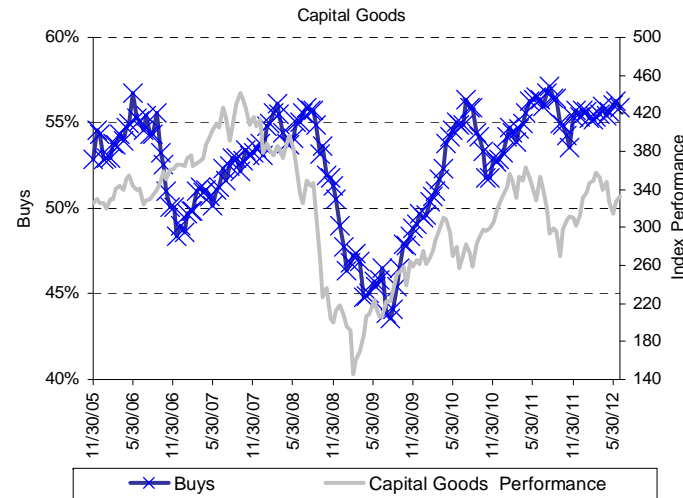
- **Earnings score: Positive**
- Overall, industry group upward revisions have fallen and seem to be close to a bottom.
- Industrial Machinery, Aerospace & Defense, and Industrial Conglomerates upward revisions all are sitting at trough levels.
- Anticipated earnings is slightly ahead of market cap contribution.

# Capital Goods – Underweight

## Industry Group Sell-Side Sentiment

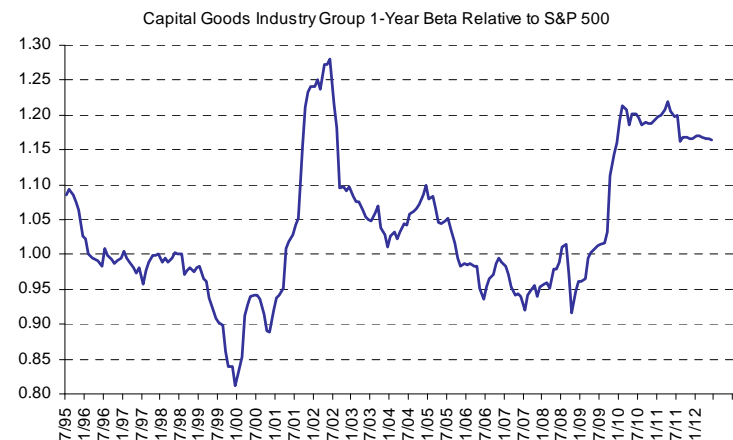


## Industry Group Sell-Side Sentiment

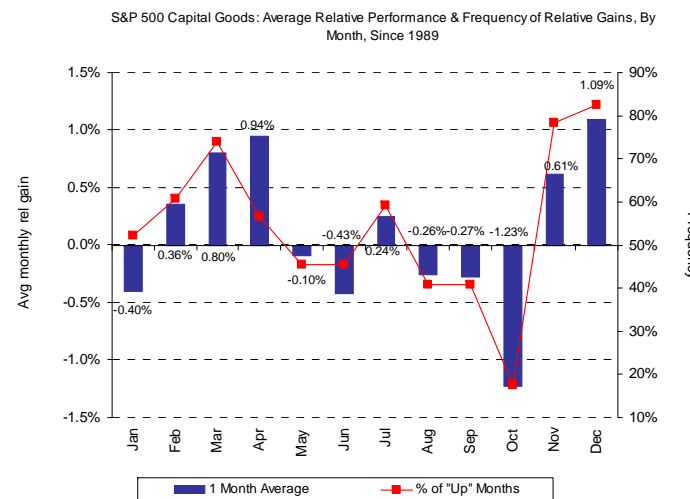


- **Sentiment score: Neutral**
- Capital Goods is trading slightly above its 200-day moving average.
- Bullish ratings had recently climbed to historical highs, but are now at 270bps above the S&P 500 and have held relatively steady since the end of November 2011.
- Bearishness had been trending flat since mid-2010 at five-year lows before spiking since the end of October, 2011, but have held steady since the beginning of 2012.

## Industry Group Beta



## Industry Group Seasonality

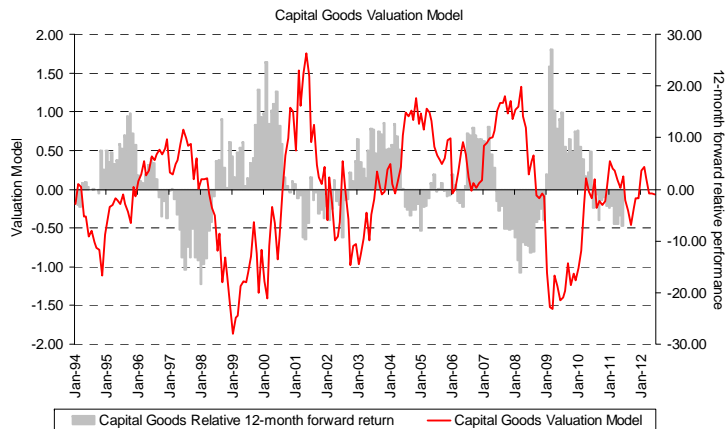


- **Trading Places score: Negative**
- Beta has held steady since 3Q11.
- Our relative performance/seasonality analysis indicates that May through October is typically a difficult time for these names.

Source: Bloomberg, Haver Analytics, FactSet and Citi Research - US Equity Strategy

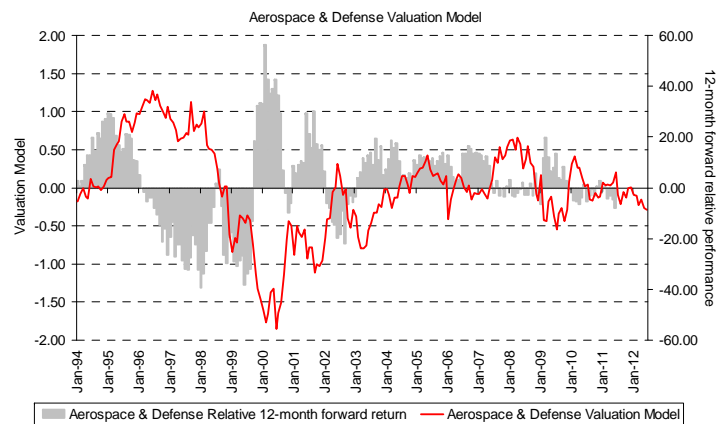
# Capital Goods – Underweight

## Industry Group Valuation



Based on Price/EBITDA, Price/Book, Price/Sales, Enterprise Value, FY1 estimated earnings, estimated Cash Flow/Share

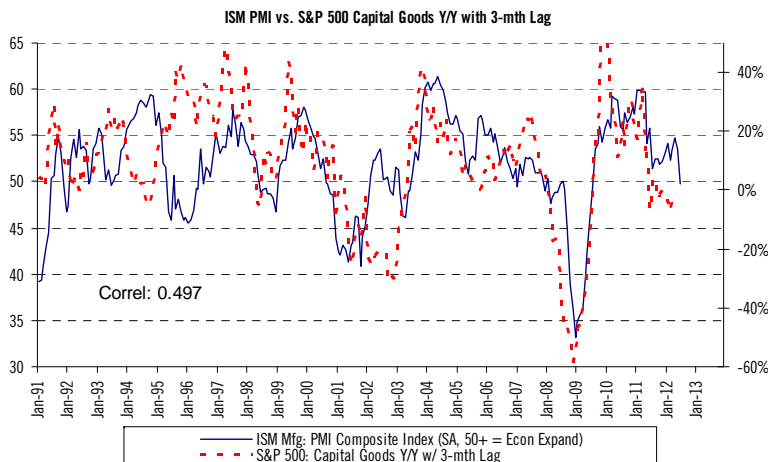
## Sub-Industry Group Valuation



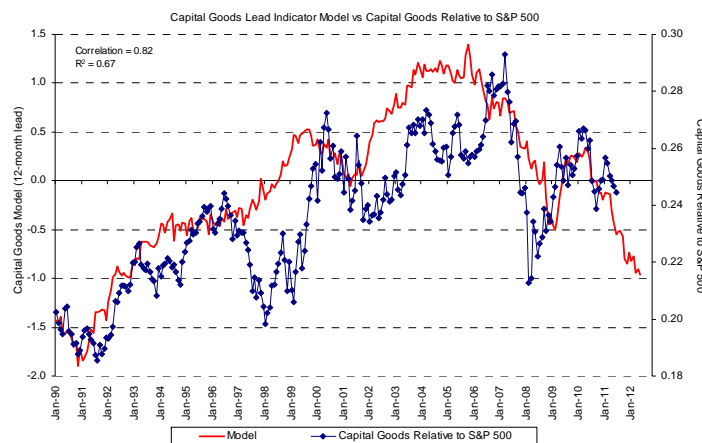
Based on Price/Cash Flow, Index Weighted Book Value, Enterprise Value, Dividend Yield, Est. Price/Sales, Debt/EBITDA

- **Valuation score: Neutral**
- Valuation is still hovering around neutral territory.
- **Fundamentals/Catalysts score: Negative**
- Stocks have fallen three months after a decline in the ISM, a proxy for industrial activity, however, credit conditions continue to argue for no collapse of industrial activity over the next 6-9 months.

## Industry Group Fundamentals



## Industry Group Fundamentals



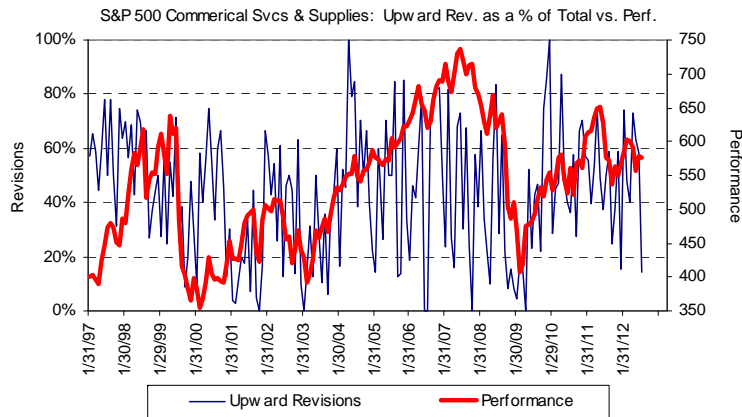
- European exposure could generate new challenges.
- Our Capital Goods 12-month lead indicator model is arguing for relative price underperformance to continue.

• **Bottom Line: Remain Underweight.**

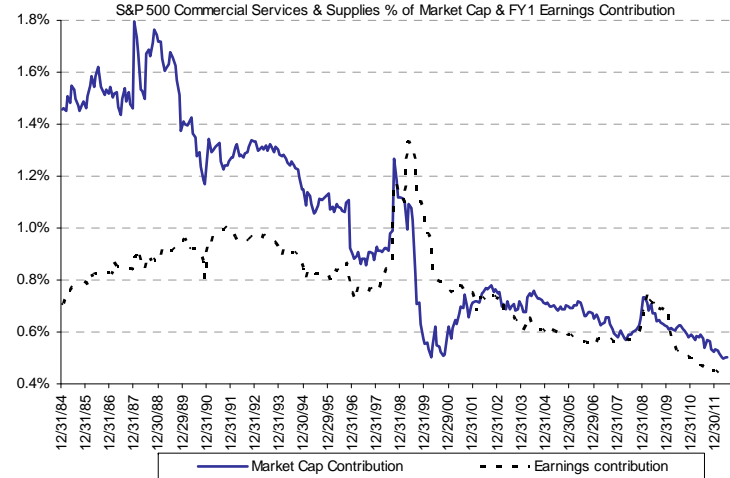
Source: Bloomberg, Haver Analytics, FactSet, and Citi Research - US Equity Strategy

# Commercial Services & Supplies – Market Weight

## Industry Group EPS Expectations

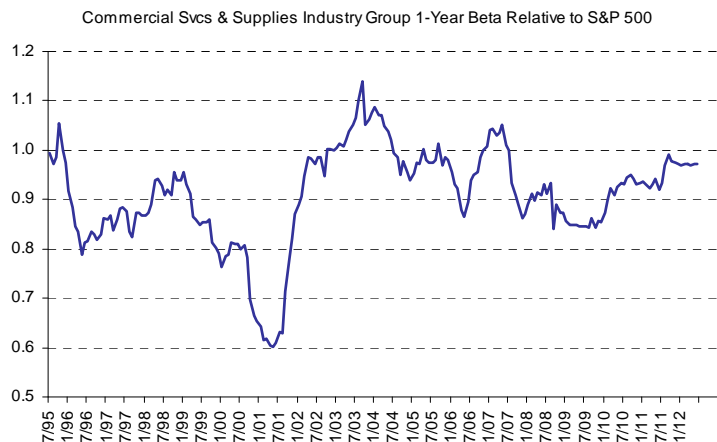


## Industry Group EPS & Mkt Cap Contribution

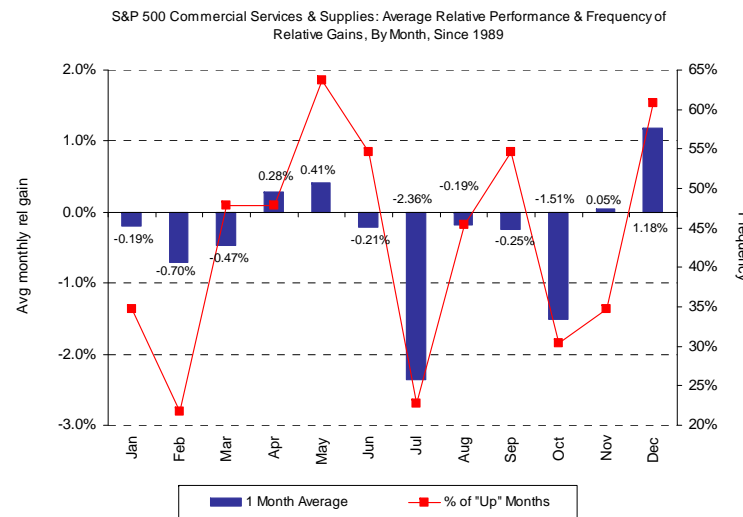


- **Earnings score: Positive**
- Overall, upward EPS estimate revisions appear to be near a trough.
- Market cap contribution is above projected earnings contribution, but the relationship is fairly consistent with history.
- **Trading Places score: Neutral**
- Beta remained flat.
- Tends to underperform from June through October.

## Industry Group Beta

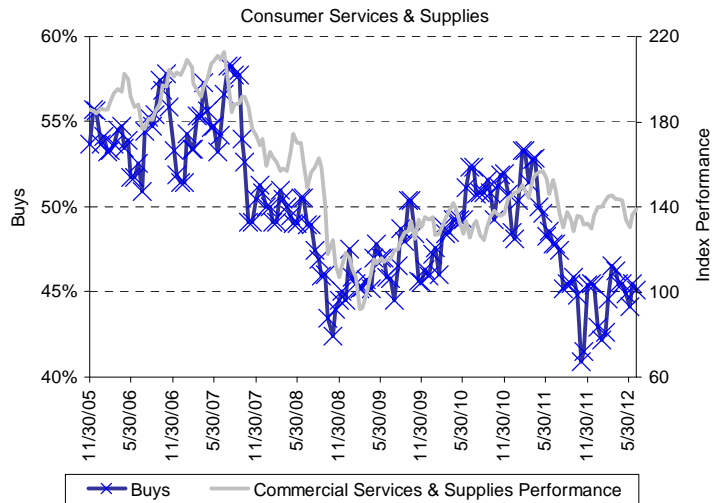


## Industry Group Seasonality

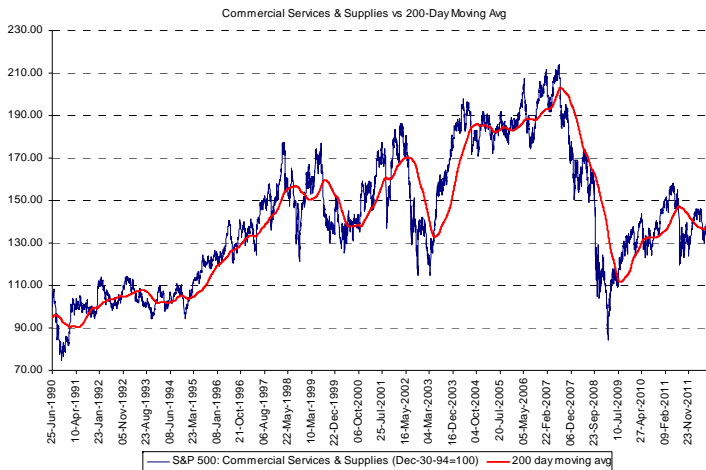


# Commercial Services & Supplies – Market Weight

## Industry Group Sell-Side Sentiment

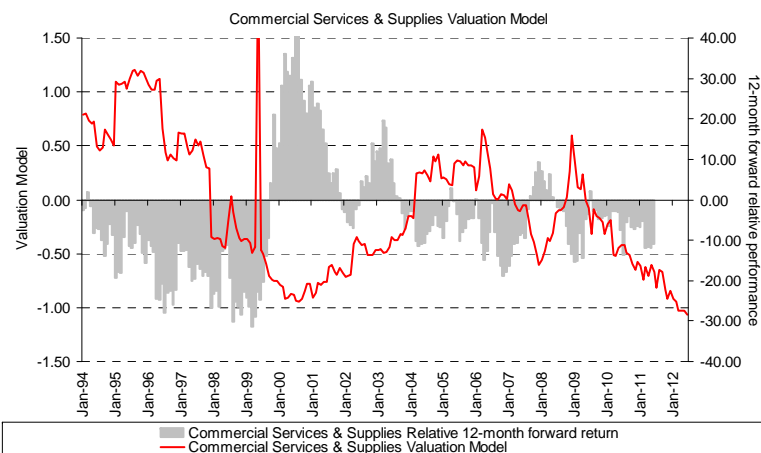


## Industry Group Sell-Side Sentiment



- **Sentiment score: Neutral**
- The group is trading slightly above its 200-day moving average.
- Bullish ratings for this group slowly trended higher from lows in November 2008, but has plummeted since early 2011 to historical lows, making it the sixth least liked group in the S&P 500.
- **Valuation score: Positive**
- Overall, the group looks intriguing.

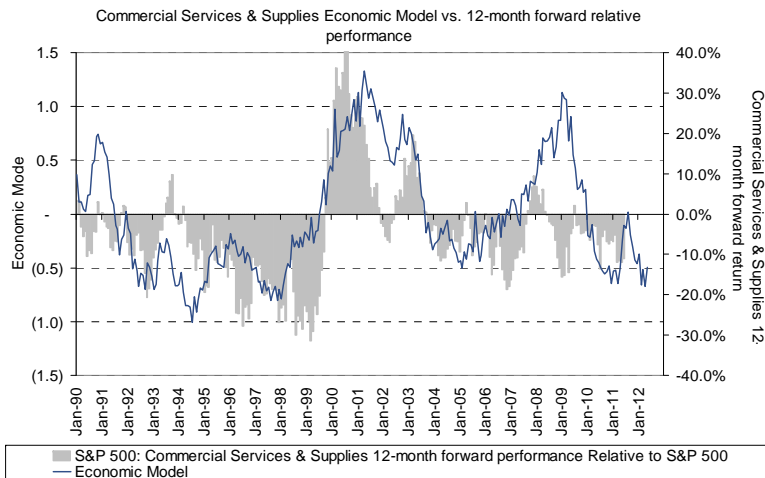
## Industry Group Valuation



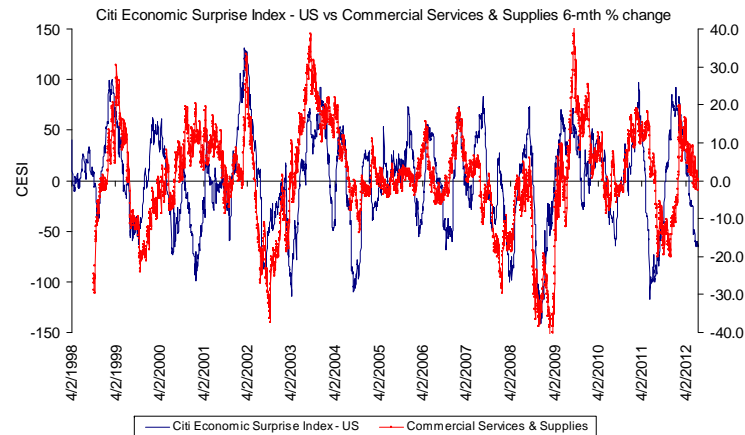
Based on Trailing 12-mth EPS aggregate, PE, Price/Book, Enterprise Value, est, Price/Sales, Dividend Yield

# Commercial Services & Supplies – Market Weight

## Industry Group Fundamentals

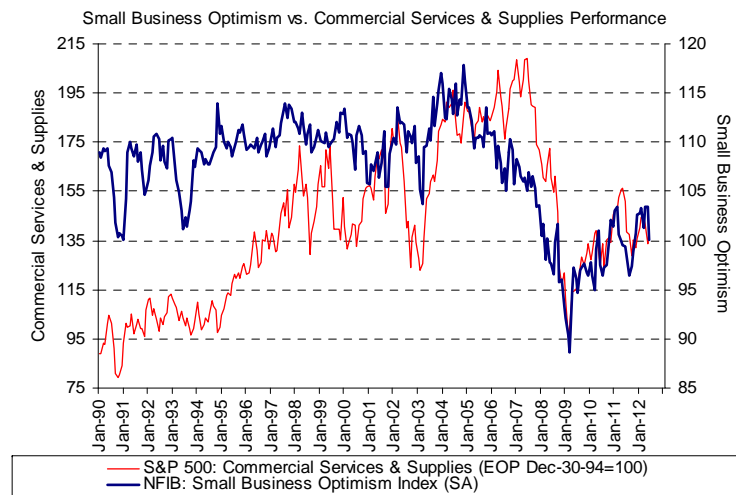


## Industry Group Fundamentals

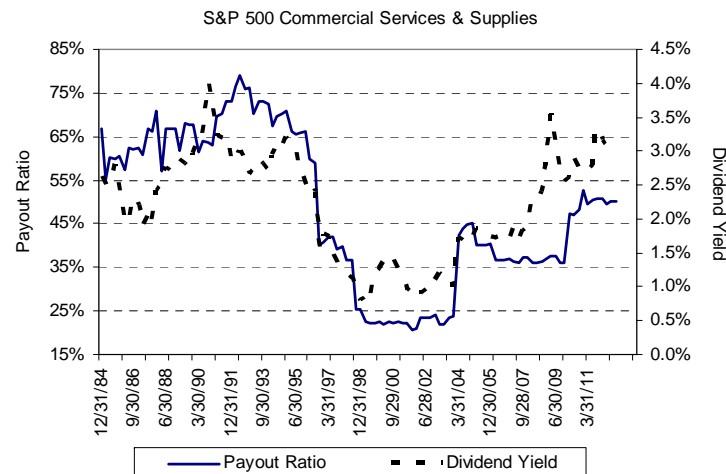


- **Fundamentals/Catalysts score: Negative**
- Our Commercial Services & Supplies economic model is indicating that the group should underperform in the next 12 months.
- Perceptions of the economy's health tend to drive this group.
- Payout ratio has been rising, and dividend yield ticked up as well.

## Industry Group Fundamentals



## Industry Group Fundamentals

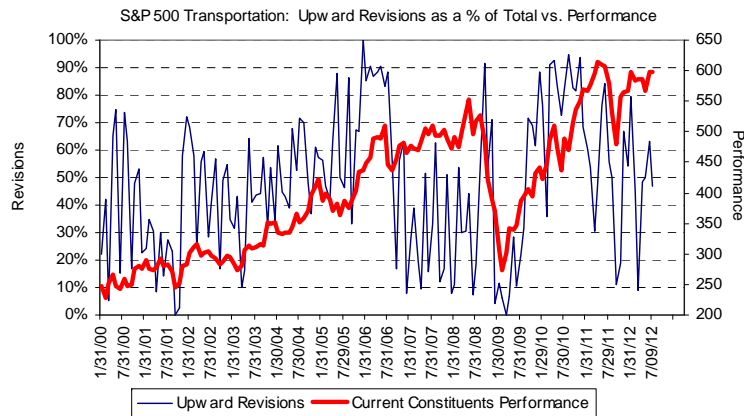


- **Bottom Line: Remain Market Weight.**

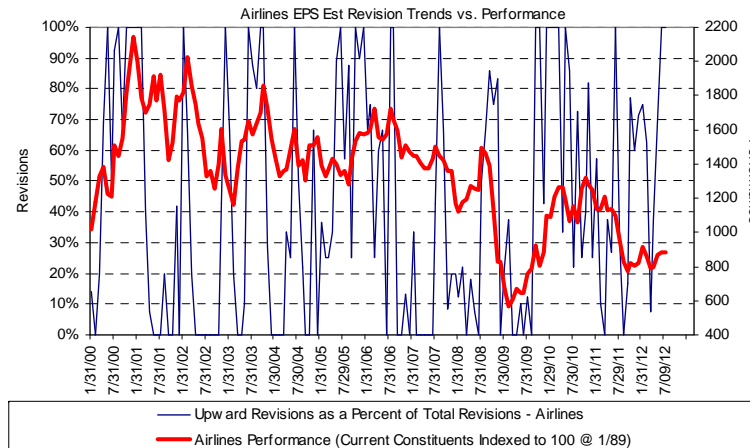
Source: Bloomberg, Haver Analytics, FactSet, and Citi Research - US Equity Strategy

# Transportation – Market Weight

## Industry Group EPS Expectations

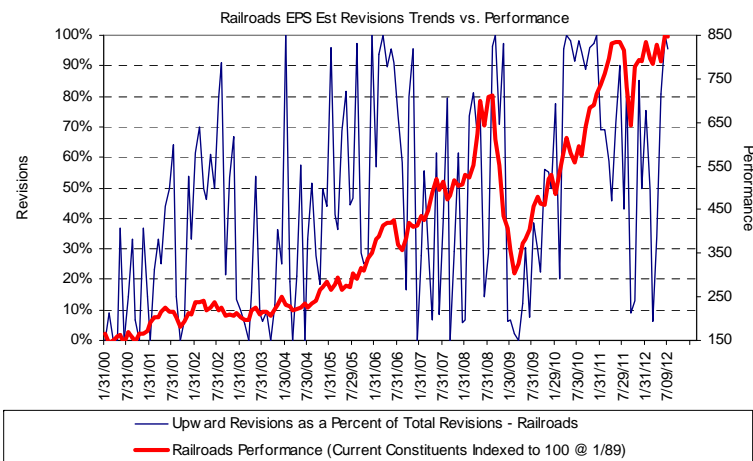


## Industry Group EPS Expectations

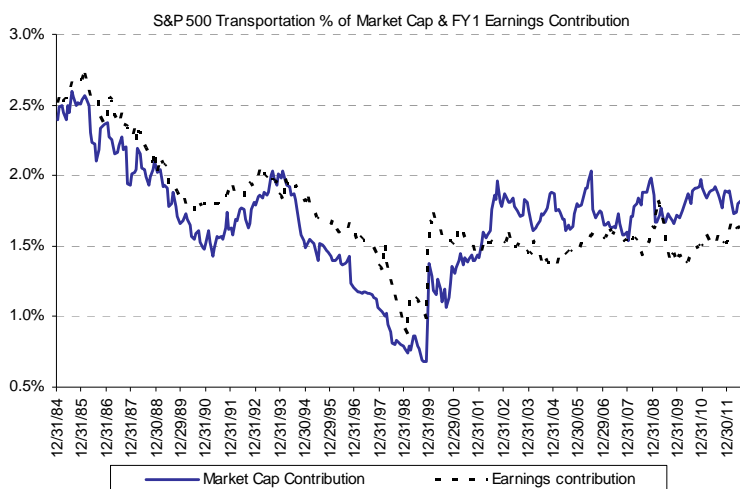


- **Earnings score: Neutral**
- Overall, upward EPS estimate revisions have retreated of late.
- Airlines and Railroads upward revisions are both sitting at peak levels while Air Freight and Logistics upward revisions have tumbled.
- Market cap contribution is ahead of anticipated earnings representation.

## Industry Group EPS Expectations



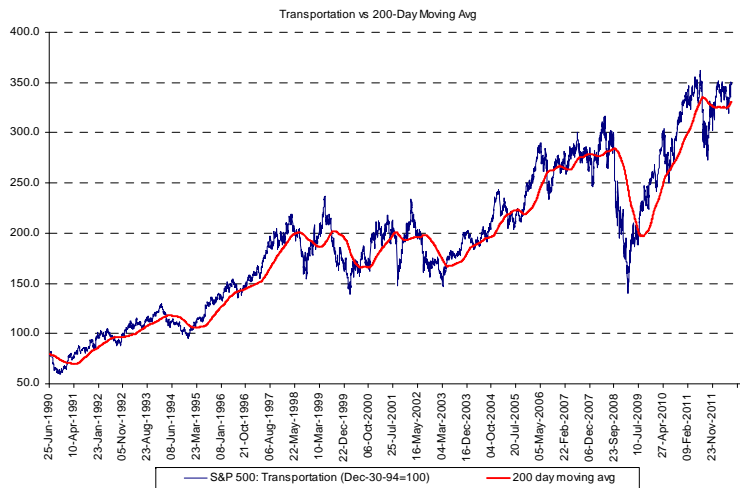
## Industry Group EPS & Mkt Cap Contribution



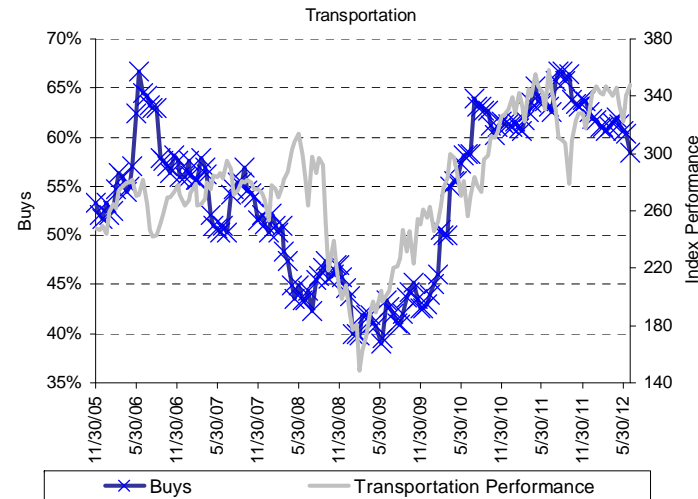


# Transportation – Market Weight

## Industry Group Sell-Side Sentiment

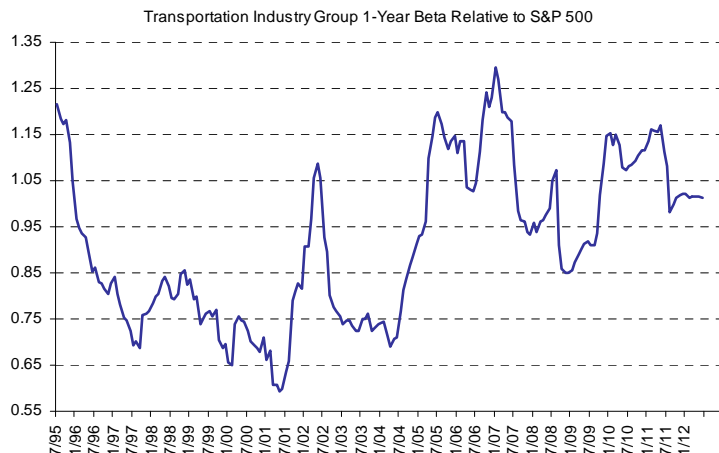


## Industry Group Sell-Side Sentiment

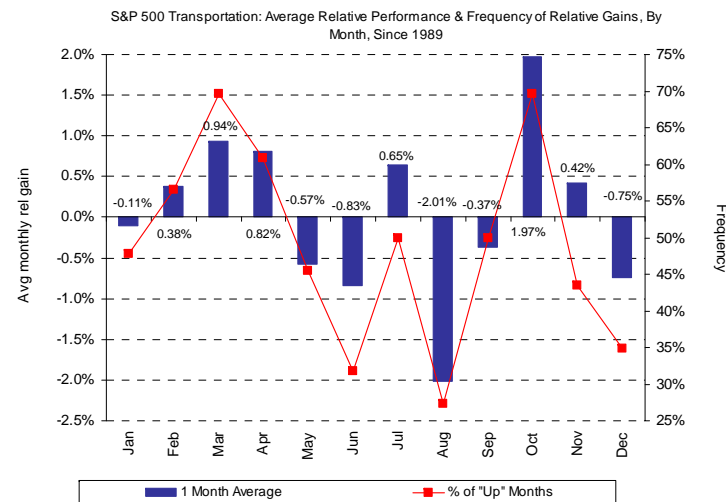


- **Sentiment score: Neutral**
- Transportation is trading above its 200-day moving average.
- Sell ratings increased sharply in 2H08, but have retreated from highs in February 2009, while Buy ratings had slowly trended higher to near 2006 highs in-line with stock trends, but have pulled back since mid-2011. This group is now the fifth most liked in the S&P 500.

## Industry Group Beta



## Industry Group Seasonality

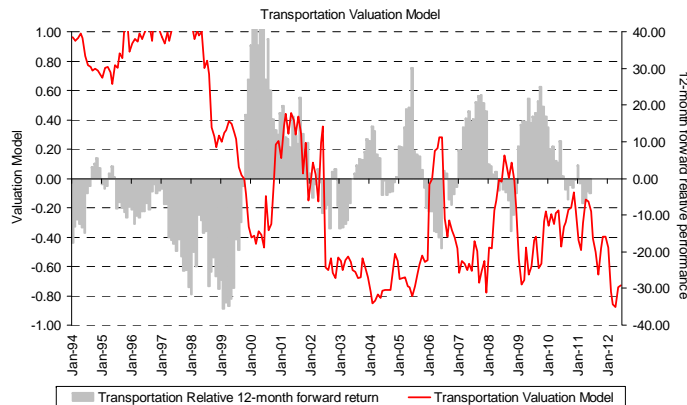


- **Trading Places score: Negative**
- Beta held steady.
- From a relative performance/seasonality perspective, May through September is not a good time to own these names.

Source: Bloomberg, Haver Analytics, FactSet and Citi Research - US Equity Strategy

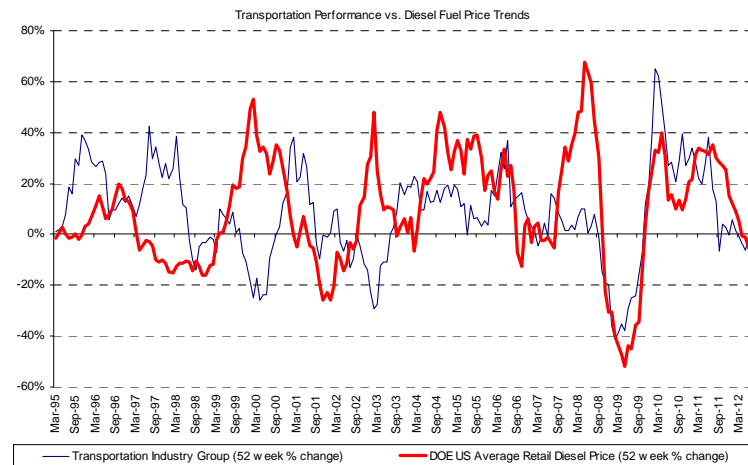
# Transportation – Market Weight

## Industry Group Valuation

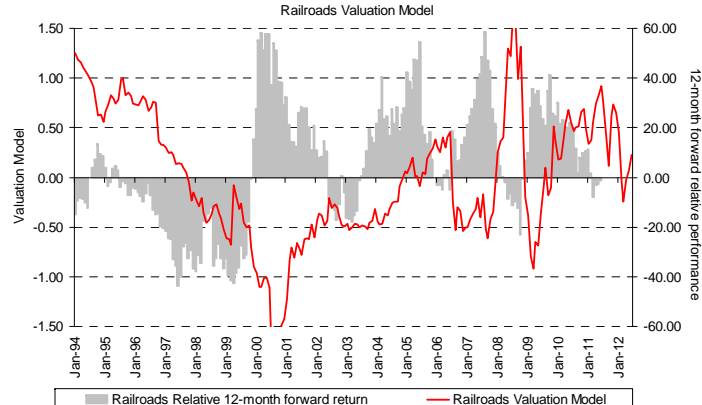


Based on Price/Cash Flow, Trailing 12-mth EPS aggregate, PE, Index weighted Book Value, Enterprise Value, Dividend Yield, FY1 Price/EBITDA

## Industry Group Fundamentals

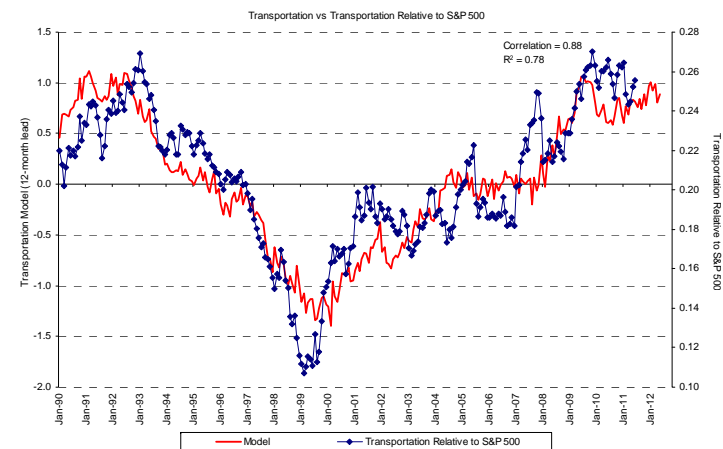


## Sub-Industry Group Valuation



Based on Price/Cash Flow, PE, Est. Price/Book, Enterprise Value, FY1 Price/EBITDA

## Industry Group Fundamentals



- **Valuation score: Positive**
- Overall, the group looks appealing, while Railroads climbed into unattractive territory.
- **Fundamentals/Catalysts score: Neutral**
- Interestingly, the group recently has been trading in-line with diesel fuel price trends.
- Our Transportation lead indicator model is arguing for slight relative outperformance for the group.
- **Bottom Line: Remain Market Weight.**

Source: Bloomberg, Haver Analytics, FactSet, and Citi Research - US Equity Strategy

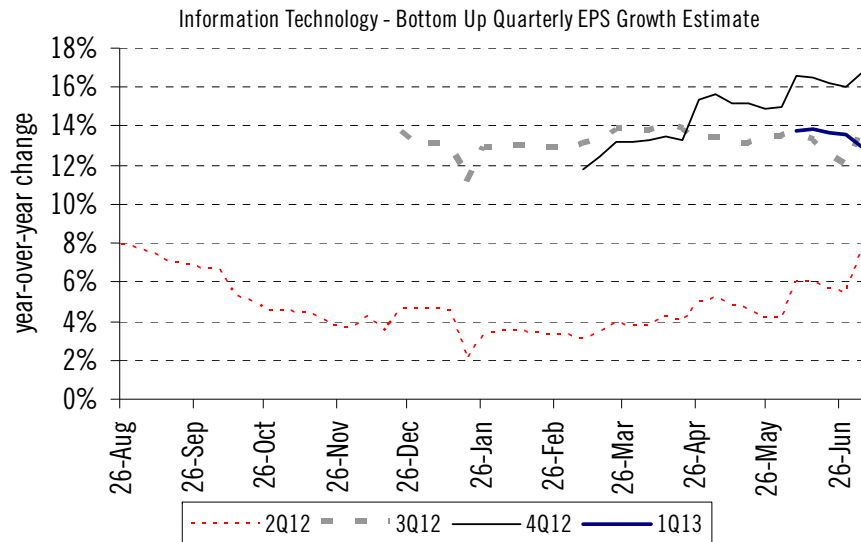
# Industrials Constituents

Capital Goods		Commercial & Professional Services	
<b>Aerospace &amp; Defense</b>		<b>Commercial Services &amp; Supplies</b>	
UTX	United Technologies Corp	WM	Waste Management Inc
BA	Boeing Co	RSG	Republic Services Inc
HON	Honeywell Intl Inc	SRCL	Stericycle Inc
PCP	Precision Castparts Corp	IRM	Iron Mountain Inc
GD	General Dynamics	CTAS	Cintas Corp
LMT	Lockheed Martin	PBI	Pitney Bowes Inc
RTN	Raytheon Co	AVY	Avery Dennison Corp
NOC	Northrop Grumman Corp	RRD	Donnelley, R.R. & Sons
GR	Goodrich Corp		
LLL	L-3 Communications Holdings		<b>Professional Services</b>
COL	Rockwell Collins	EFX	Equifax Inc
TXT	Textron Inc	RHI	Robert Half Intl Inc
		DNB	Dun & Bradstreet Corp
<b>Building Products</b>			
MAS	Masco Corp		<b>Transportation</b>
<b>Construction &amp; Engineering</b>			<b>Air Freight &amp; Logistics</b>
FLR	Fluor Corp	UPS	United Parcel Service Inc B
PWR	Quanta Services Inc	FDX	FedEx Corp
JEC	Jacobs Engineering Group Inc	CHRW	CH Robinson Worldwide Inc
		EXPD	Expeditors Intl of WA Inc
<b>Electrical Equipment</b>			
EMR	Emerson Electric Co		<b>Airlines</b>
CBE	Cooper Industries Plc	LUV	Southwest Airlines Co
ROP	Roper Industries Inc		
ROK	Rockwell Automation Inc		<b>Road &amp; Rail</b>
<b>Industrial Conglomerates</b>		UNP	Union Pacific Corp
GE	General Electric Co	NSC	Norfolk Southern Corp
MMM	3M Co	CSX	CSX Corp
DHR	Danaher Corp	R	Ryder System Inc
TYC	Tyco Intl		
<b>Machinery</b>			
CAT	Caterpillar Inc		
DE	Deere & Co		
ITW	Illinois Tool Works Inc		
CMI	Cummins Inc		
PCAR	PACCAR Inc		
ETN	Eaton Corp		
IR	Ingersoll-Rand Plc		
PH	Parker-Hannifin Corp		
SWK	Stanley Black & Decker		
DOV	Dover Corp		
PLL	Pall Corp		
FLS	Flowserve Corp		
JOY	Joy Global Inc		
XYL	Xylem Inc		
SNA	Snap On Inc		
<b>Trading Companies &amp; Distributors</b>			
FAST	Fastenal Co		
GWW	Grainger, W.W. Inc		

# Information Technology Sector Performance and Recommendation Overview

(7/12/12)		Actual Weight		Rec'd	Performance Over Last					YTD
Sector	Industry Group	(% of S&P 500)	Rating	Weight	1 Week	1 Month	3 Months	6 Months	52 Weeks	2012
<b>S&amp;P 500</b>		100.0%			-2.40%	0.80%	-3.81%	3.03%	1.61%	6.14%
<b>Information Technology</b>		19.8%	+	20.0%	-4.80%	-1.51%	-9.98%	5.14%	7.87%	8.72%
	Semiconductors & Semi Equipment	2.1%	+	2.5%	-7.19%	-6.07%	-15.15%	-8.63%	-4.99%	-2.63%
	Software & Services	9.9%	-	8.1%	-5.38%	-1.09%	-7.44%	3.19%	3.64%	5.06%
	Technology Hardware & Equipment	7.8%	+	9.4%	-3.46%	-0.70%	-11.32%	12.10%	17.71%	17.07%

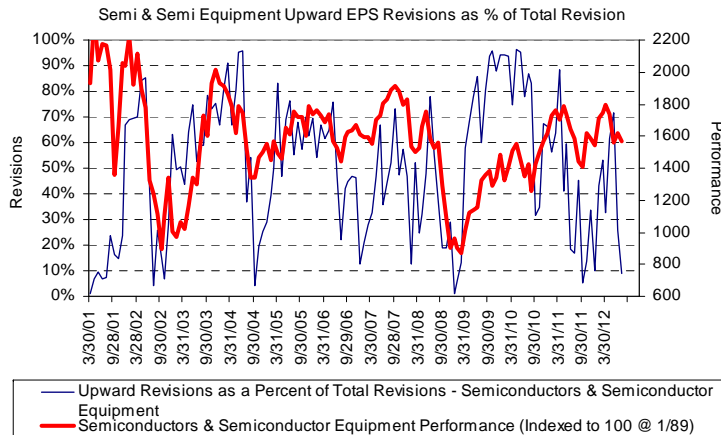
## Shifts in Sector EPS Expectations



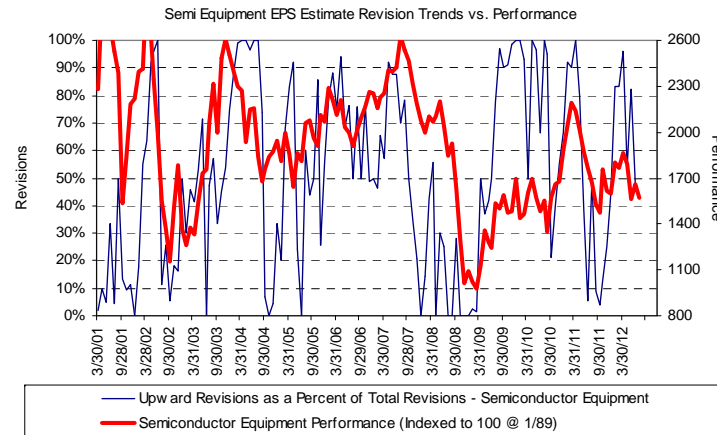
Source: Citi Research - US Equity Strategy, FactSet, Thomson Financial, and Bloomberg

# Semis & Semi Equipment – Overweight

## Industry Group EPS Expectations

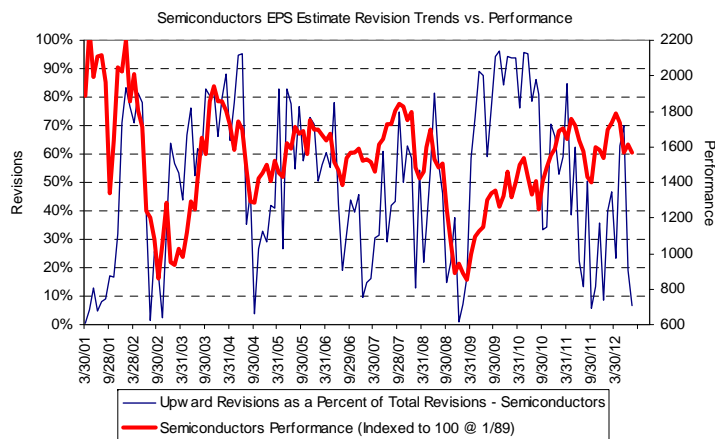


## Industry Group EPS Expectations

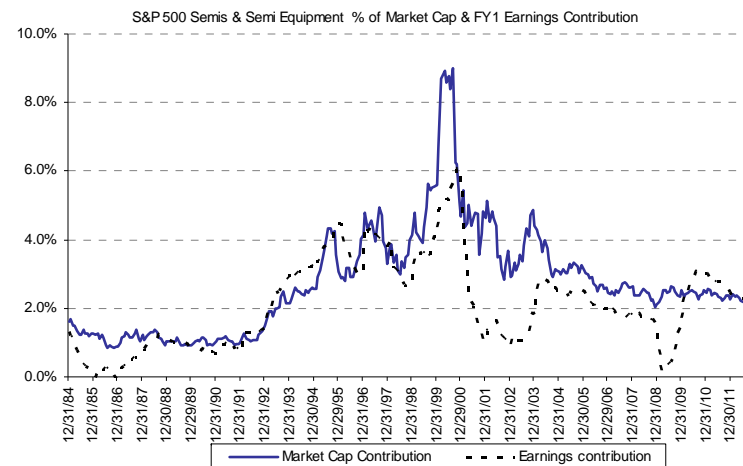


- **Earnings score: Positive**
- Semi Equipment and Semiconductor upward revisions have been falling alongside stock prices.
- Market cap contribution is in-line with anticipated earnings contribution.

## Industry Group EPS Expectations

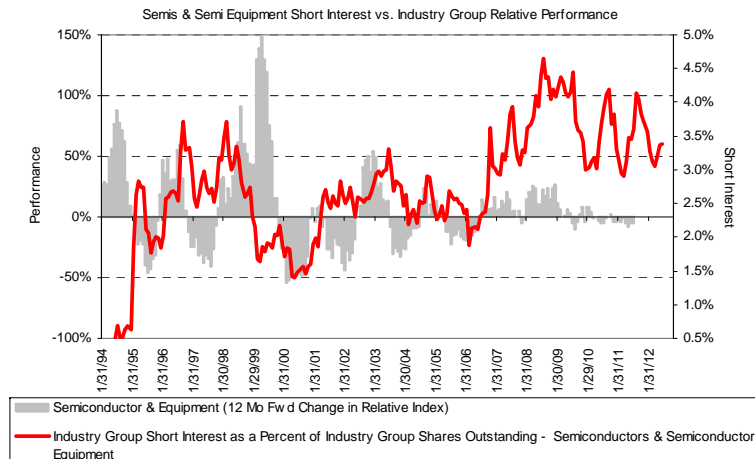


## Industry Group EPS & Mkt Cap Contribution

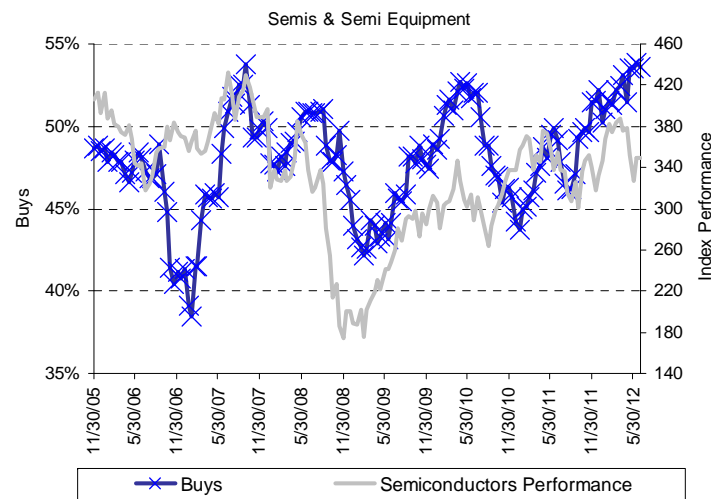


# Semis & Semi Equipment – Overweight

## Industry Group Sell-Side Sentiment

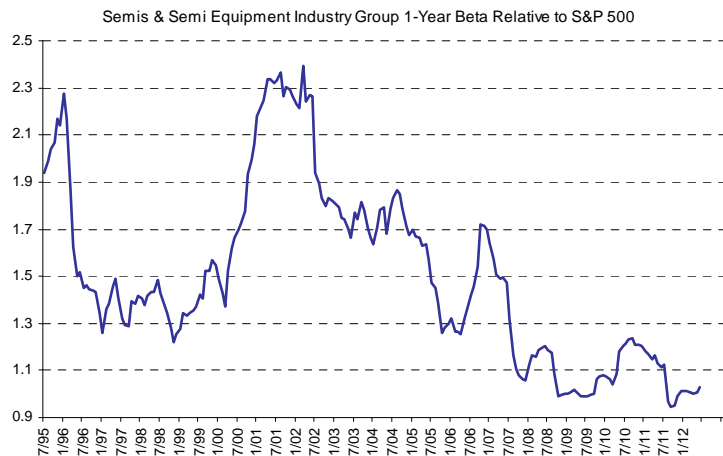


## Industry Group Sell-Side Sentiment

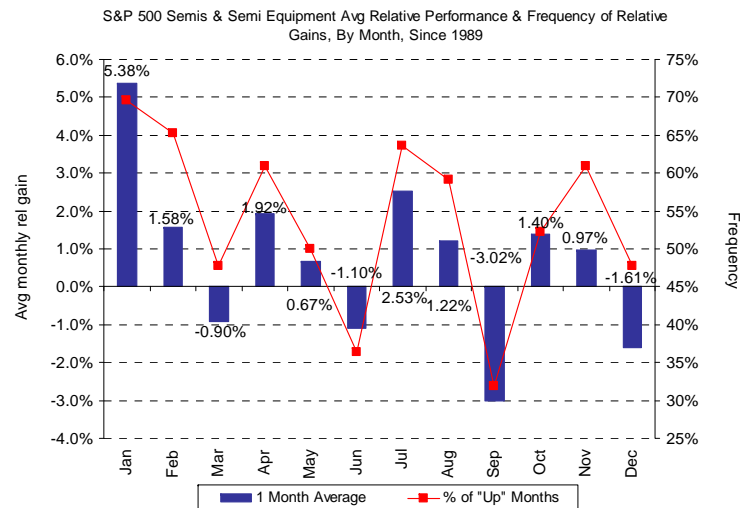


- **Sentiment score: Neutral**
- Overall, short interest has inched higher. However, the historical relationship has not been consistent with forward stock price performance trends.
- Buy ratings as a percent of total ratings have been trending higher and are now at record high levels for the group. Buy-ratings are now 40 bp s below the level for the S&P 500.

## Industry Group Beta



## Industry Group Seasonality

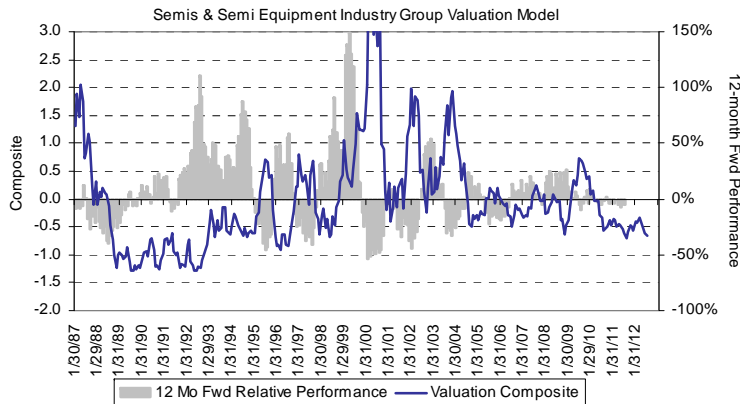


- **Trading Places score: Positive**
- Beta has ticked up recently.
- From a relative performance/seasonal perspective, the group typically outperforms in July & August though September could be challenging.

Source: Bloomberg, Haver Analytics, FactSet and Citi Research  
- US Equity Strategy

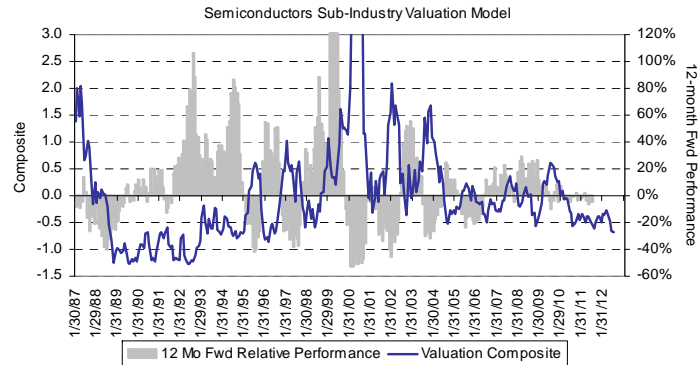
# Semis & Semi Equipment – Overweight

## Industry Group Valuation



Based on the four relative valuation metrics (EV to EBITDA, Price to Gross CF, Price to Book, Price to Sales) that have the best correlation with 12-month forward relative performance

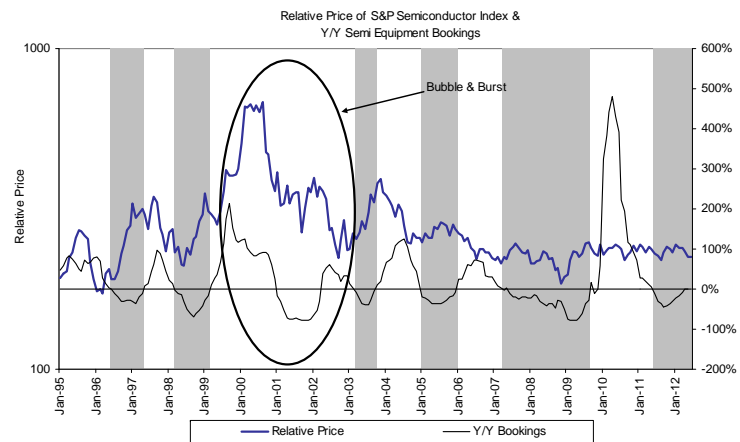
## Sub-Industry Group Valuation



Based on the four relative valuation metrics (EV to EBITDA, Price to Gross Cash Flow, Price to Sales, Price to Book) that have the best correlation with 12-month forward relative performance

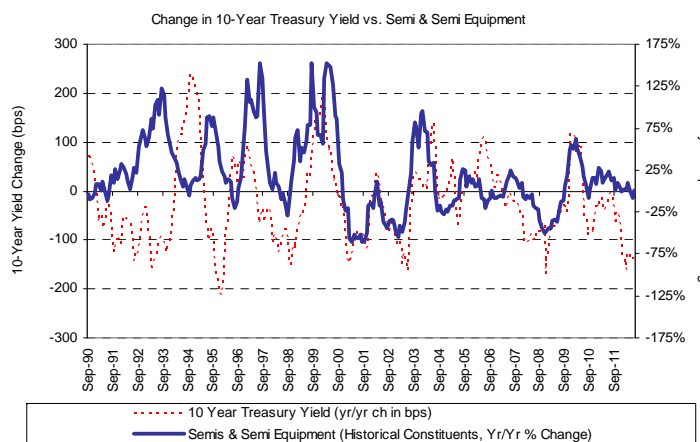
- **Valuation score: Positive**
- The overall industry group remains in attractive territory. Semi Equipment and Semiconductors names look appealing.
- **Fundamentals/Catalysts score: Neutral**
- May equipment bookings declined 0.7% year over year. Semi stocks have historically outperformed when equipment orders drop, capacity growth slows and chip pricing can firm (as capacity utilization climbs) driving earnings expectations higher and propelling stock prices up.
- Interestingly, group has tended to trade in line with changes in 10-year Treasury yields for the past 15 years, more so than any other industry groups examined, underscoring cyclical sensitivity.

## Industry Group Fundamentals



Note: Shaded areas reflect capacity growth slowing (ex bubble period)  
When bookings go negative, relative performance increases and when bookings climb, performance suffers

## Industry Group Fundamentals



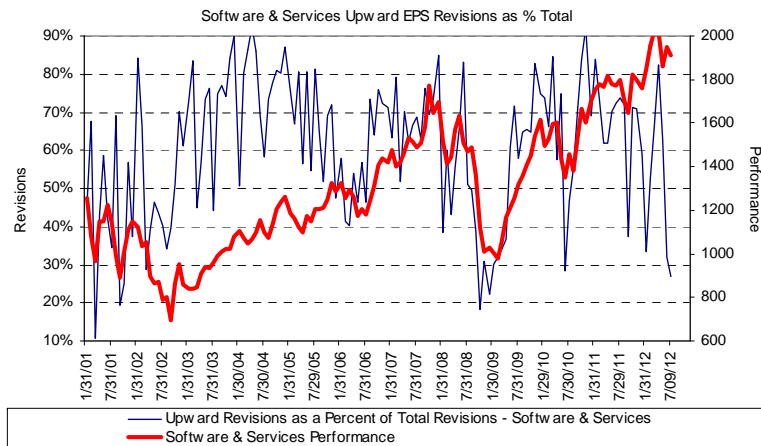
- **Bottom Line: Remain Overweight.**

Source: SIA, Bloomberg, Haver Analytics, FactSet, and Citi Research - US Equity Strategy

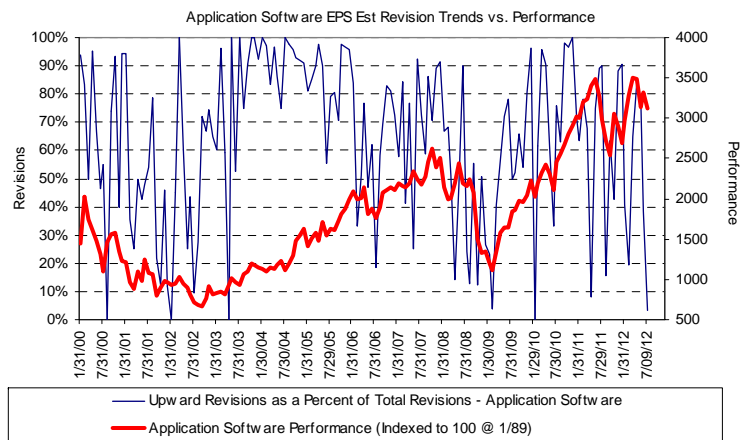


# Software & Services – Underweight

## Industry Group EPS Expectations

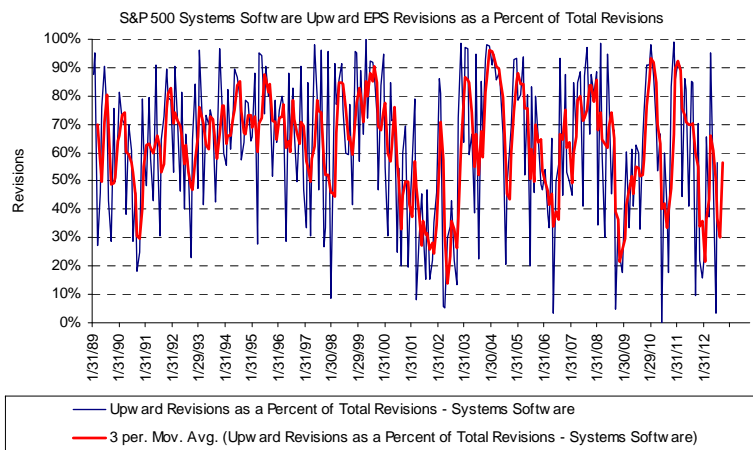


## Industry Group EPS Expectations

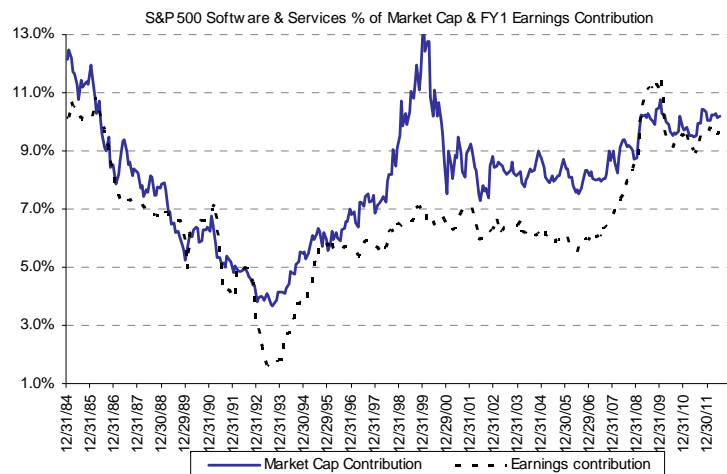


- **Earnings score: Positive**
- Overall EPS estimate revisions are approaching a bottom.
- Market cap contribution is ahead of anticipated earnings contribution.

## Industry Group EPS Expectations

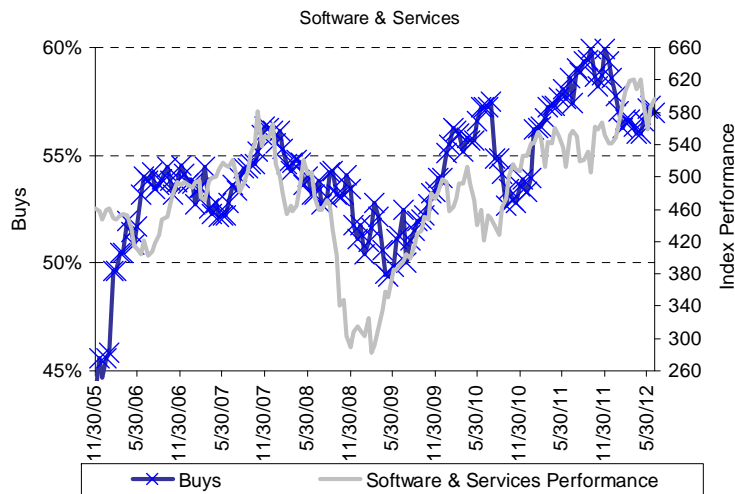


## Industry Group EPS & Mkt Cap Contribution

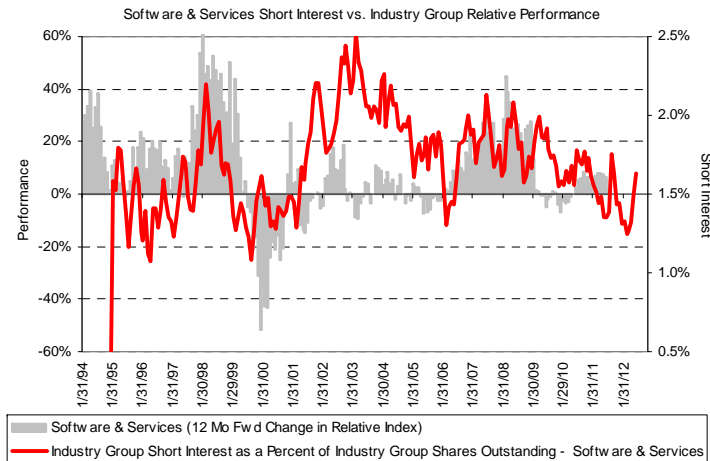


# Software & Services – Underweight

## Industry Group Sell-Side Sentiment

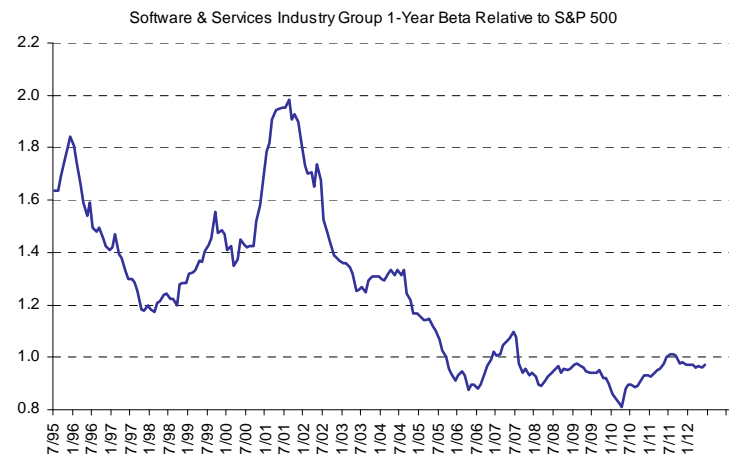


## Industry Group Sell-Side Sentiment

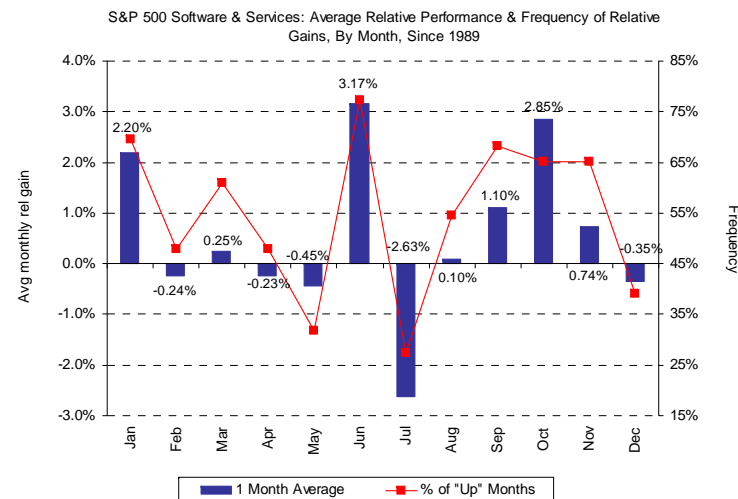


- **Sentiment score: Neutral**
- Short interest has been rising.
- The sell-side is now 380 bps more bullish on Software & Services than the overall S&P 500 after the recent pullback from six-year highs.
- Anecdotally, investors prefer tech equipment names though M&A and dividend policies have brought interest back to Software.

## Industry Group Beta



## Industry Group Seasonality

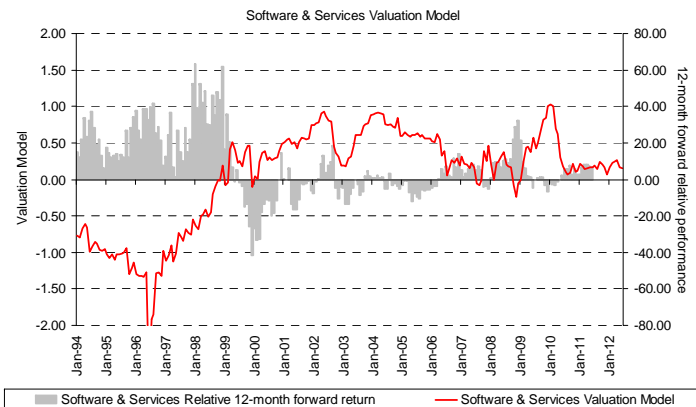


- **Trading Places score: Positive**
- Beta has been relatively flat.
- From a relative performance/seasonality perspective, the stocks tend to outperform from June through November.

Source: Bloomberg, Haver Analytics, FactSet and Citi Research  
- US Equity Strategy

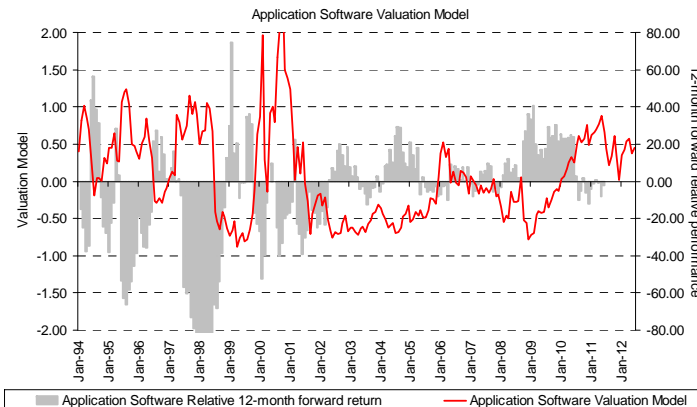
# Software & Services – Underweight

## Industry Group Valuation



Based on Trailing 12-mth EPS aggregate, PE, Index weighted Book Value, Enterprise Value, FY1 Earnings, Est. Cash Flow

## Sub-Industry Group Valuation



Based on Price/Cash Flow, Trailing 12-mth EPS aggregate, PE, Price/Book, Price/Sales, Enterprise Value, estimated Earnings, FY1 Price/EBITDA

• **Valuation score: Negative**

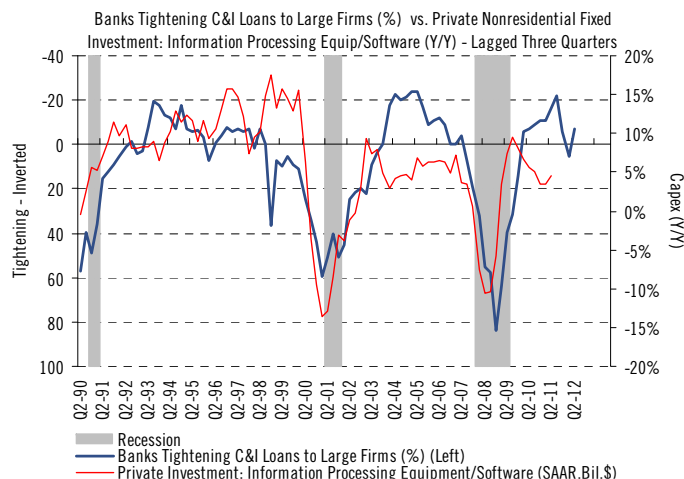
• Our relative valuation model is in unattractive territory.

• **Fundamentals/Catalysts score: Neutral**

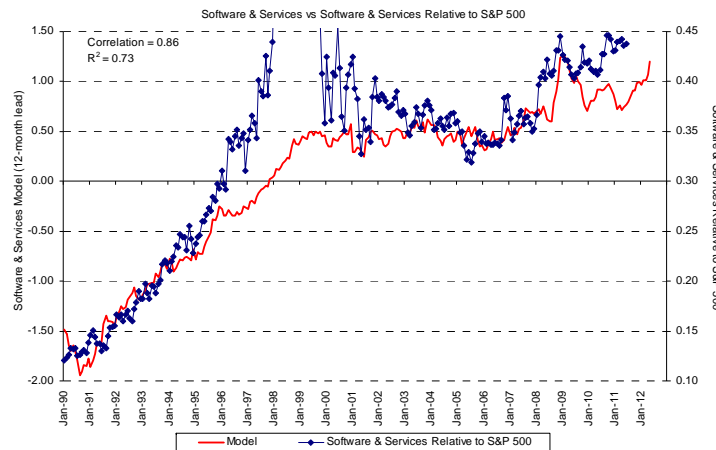
• Capital spending intentions could show signs of softening in 2H12 due to the fiscal cliff at year-end.

• Our proprietary Software & Services lead indicator is suggesting relative outperformance for the group.

## Industry Group Fundamentals



## Industry Group Fundamentals

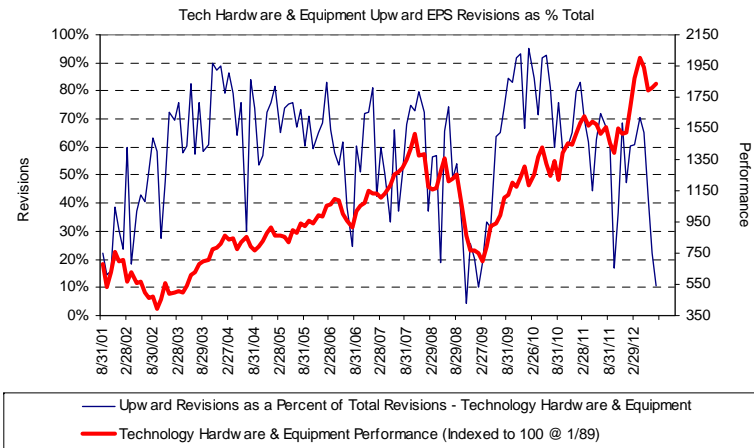


• **Bottom Line:** Remain Market Weight but on "Upgrade Watch."

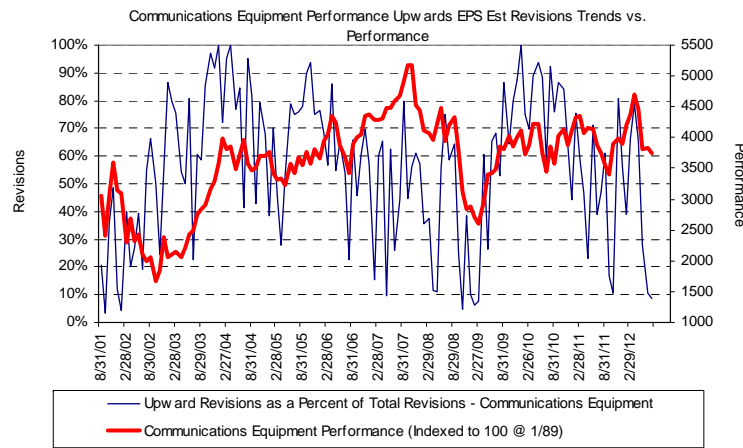
Source: Bloomberg, Haver Analytics, FactSet, and Citi Research - US Equity Strategy

# Tech Hardware & Equipment – Overweight

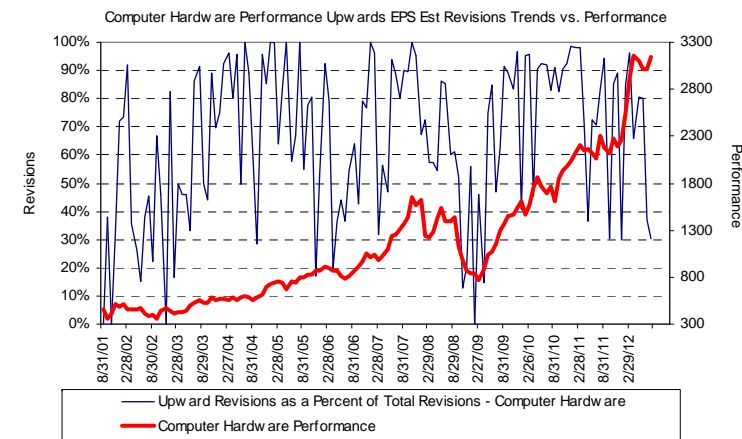
## Industry Group EPS Expectations



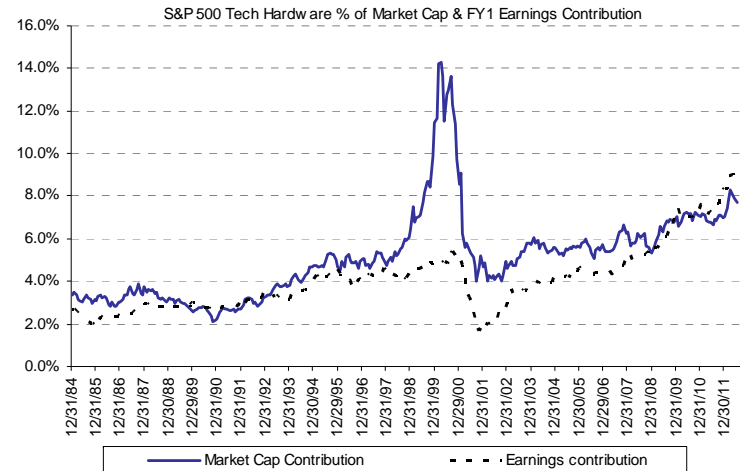
## Industry Group EPS Expectations



## Industry Group EPS Expectations



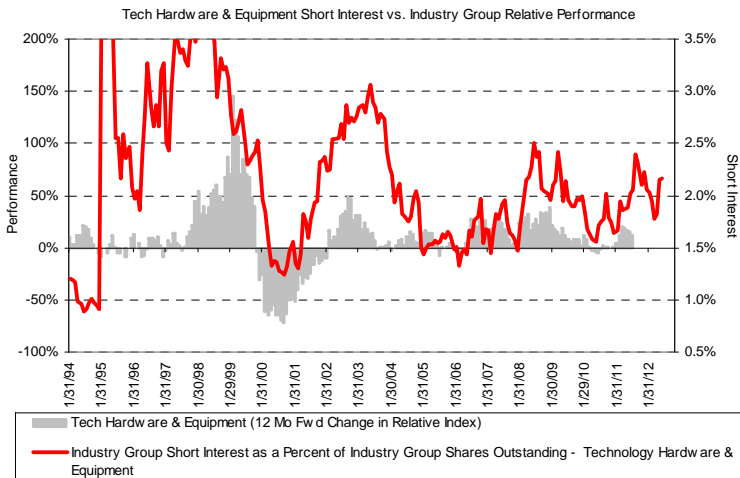
## Industry Group EPS & Mkt Cap Contribution



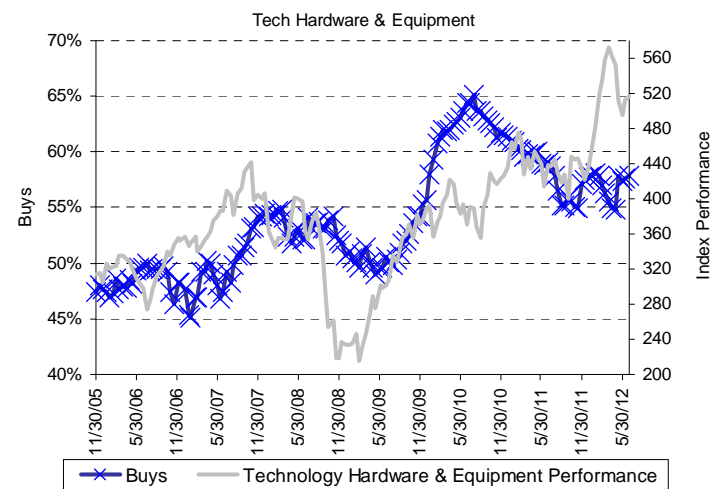
- **Earnings score: Positive**
- Overall, upward EPS estimate revisions are close to a bottom.
- Communications Equipment and Computer Hardware upward revisions are also approaching trough-like levels.
- Anticipated earnings representation is ahead of market cap contribution.

# Tech Hardware & Equipment – Overweight

## Industry Group Sell-Side Sentiment

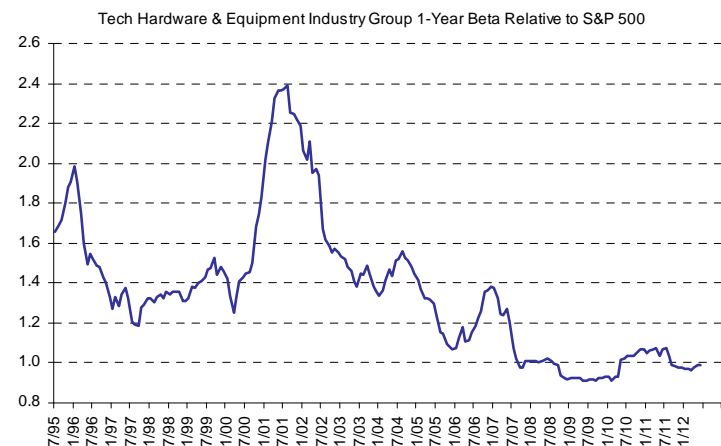


## Industry Group Sell-Side Sentiment

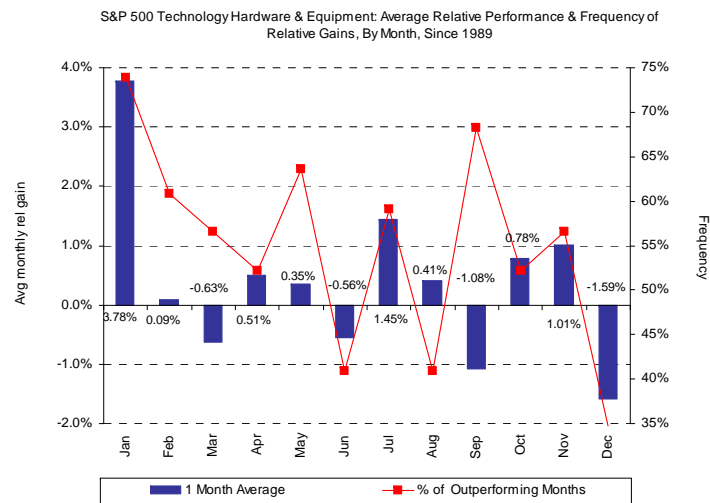


- **Sentiment score: Neutral**
- Short interest rose.
- Analyst Buy ratings as a percent of total had pushed higher since mid-May 2009, yet have pulled back since 2H10, and the group is no longer the most liked in the S&P 500, but still 470 bps more liked than the overall market.

## Industry Group Beta



## Industry Group Seasonality

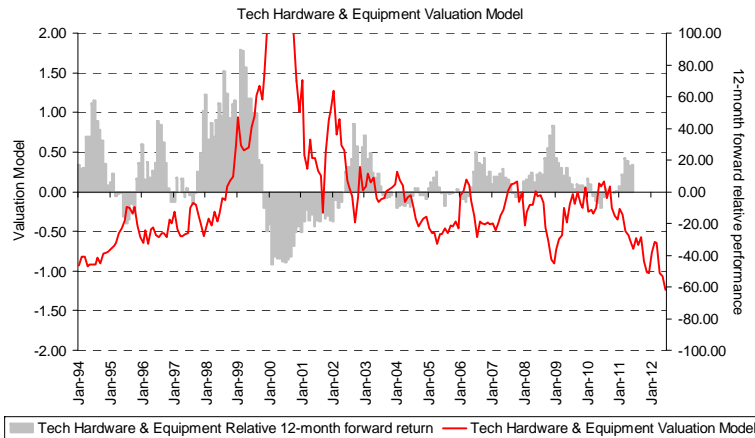


- **Trading Places score: Neutral**
- Beta inched up.
- From a relative performance/seasonal trend perspective, the group has mixed seasonal trends.

Source: Bloomberg, Haver Analytics, FactSet and Citi Research - US Equity Strategy

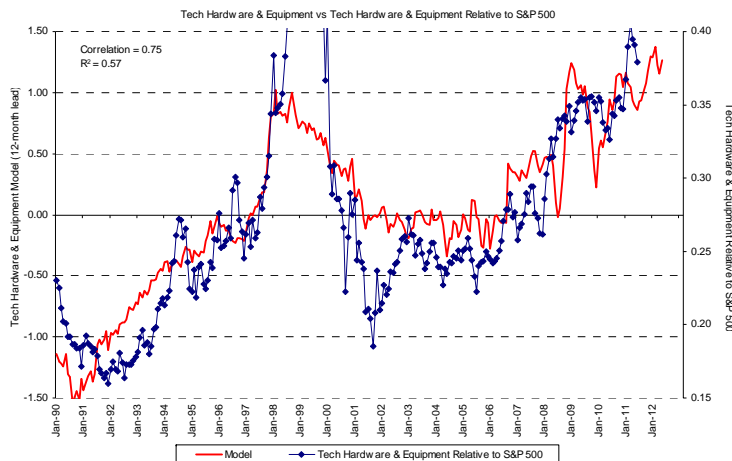
# Tech Hardware & Equipment – Overweight

## Industry Group Valuation



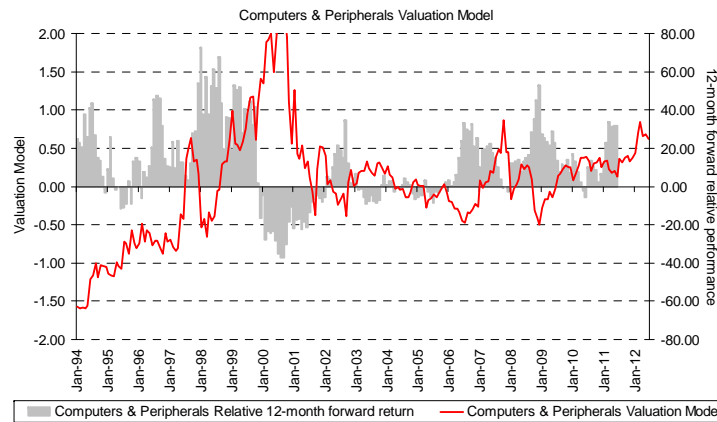
Based on Price/EBITDA, Price/Cash Flow, Index weighted Book Value, Price/Sales, PE, Est. Dividend Yield

## Industry Group Fundamentals



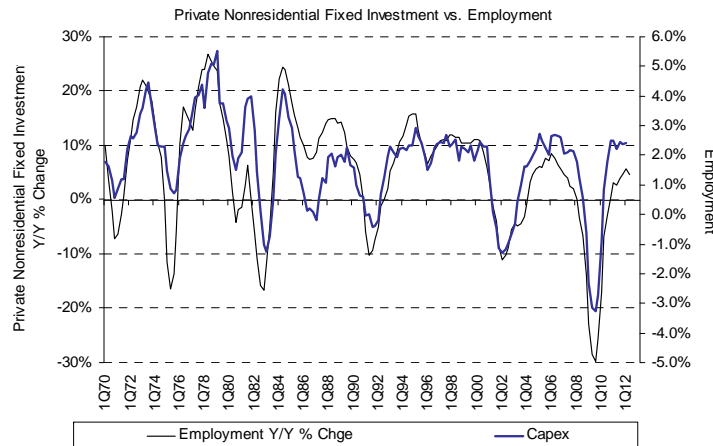
Source: Bloomberg, Haver Analytics, FactSet, and Citi Research - US Equity Strategy

## Sub-Industry Group Valuation



Based on Price/EBITDA, Price/Cash Flow, PE, Price/Sales, Price/Book, Enterprise Value, Dividend Yield, EV/EBITDA, FY1 Price/EBITDA

## Industry Group Fundamentals



- **Valuation score: Positive**
- The overall industry group is in attractive territory.
- However, Computers & Peripherals remains in unattractive territory.
- **Fundamentals/Catalysts score: Positive**
- Our lead indicator is suggesting the group will outperform.
- IT capex environment could show signs of softening in 2H12 due to the fiscal cliff at year-end.

• **Bottom Line: Remain Overweight.**

## Information Technology Constituents

Semiconductors & Semiconductor Equipment		Software & Services		Technology Hardware & Equipment	
Semiconductor Equipment		Application Software		Communications Equipment	
AMAT	Applied Materials Inc	CRM	Salesforce.com	QCOM	QUALCOMM Inc
KLAC	KLA-Tencor Corporation	INTU	Intuit Inc	CSCO	Cisco Systems Inc
LRCX	Lam Research Corp	ADBE	Adobe Systems Inc	MSI	Motorola Solutions, Inc
TER	Teradyne Inc	CTXS	Citrix Systems Inc	JNPR	Juniper Networks Inc
		ADSK	Autodesk Inc	FFIV	F5 Networks Inc
				HRS	Harris Corp
				JDSU	JDS Uniphase Corp
Semiconductors		Data Processing & Outsourced Services			
INTC	Intel Corp	V	Visa Inc		
TXN	Texas Instruments Inc	MA	Mastercard Inc A	Computer Hardware	
BRCM	Broadcom Corp A	ADP	Automatic Data Processing	AAPL	Apple Inc.
ADI	Analog Devices Inc	WU	Western Union Co	HPQ	Hewlett-Packard Co
ALTR	Altera Corp	PAYX	Paychex Inc	DELL	Dell Inc
XLNX	Xilinx Inc	FISV	Fiserv Inc		
NVDA	Nvidia Corp	FIS	Fidelity National Information	Computer Storage & Peripherals	
LLTC	Linear Technology Corp	CSC	Computer Sciences	EMC	EMC Corp
MCHP	Microchip Technology Inc	TSS	Total System Services Inc	NTAP	NetApp Inc
MU	Micron Technology Inc			SNDK	SanDisk Corp
LSI	LSI Corporation			WDC	Western Digital Corp
AMD	Advanced Micro Devices		Home Entertainment Software	LXK	Lexmark International Inc
FSLR	First Solar Inc	EA	Electronic Arts		
				Electronic Components	
			IT Consulting & Other Services	GLW	Corning Inc
		IBM	Intl Business Machines Corp	APH	Amphenol Corp A
		ACN	Accenture plc		
		CTSH	Cognizant Tech Solutions Corp	Electronic Equipment & Instruments	
		TDC	Teradata Corp	FLIR	FLIR Systems Inc
		SAI	SAIC Inc		
				Electronic Manufacturing Services	
			Internet Software & Services	TEL	TE Connectivity Ltd.
		GOOG	Google Inc	JBL	Jabil Circuit Inc
		EBAY	eBay Inc.	MOLX	Molex Inc
		YHOO	Yahoo Inc		
		VRSN	VeriSign Inc	Office Electronics	
		AKAM	Akamai Technologies Inc	XRX	Xerox Corp
			Systems Software		
		MSFT	Microsoft Corp		
		ORCL	Oracle Corp		
		RHT	Red Hat Inc		
		SYMC	Symantec Corp		
		CA	CA Inc		
		BMC	BMC Software Inc		

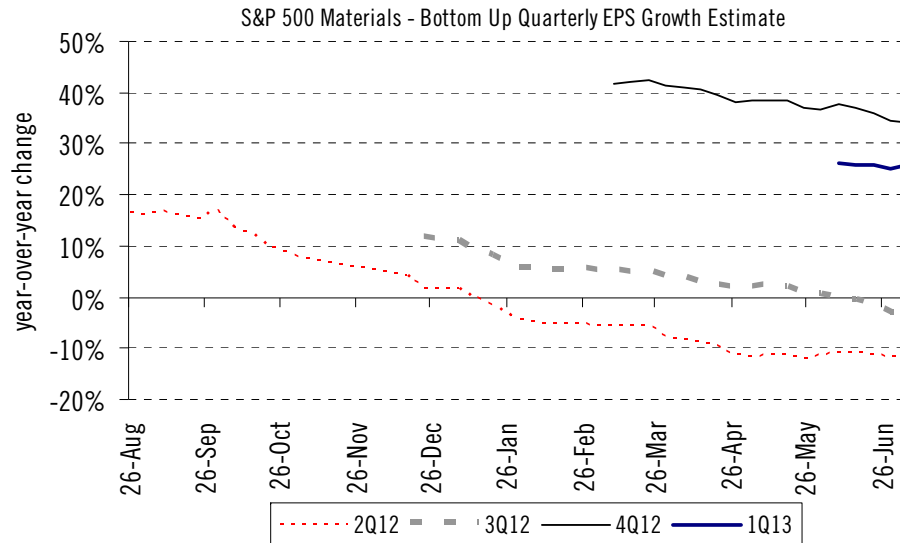


# Materials Sector Performance and Recommendation Overview

(7/12/12)

Sector	Industry Group	Industry	Actual Weight (% of S&P 500)	Rating	Rec'd Weight	1 Week	1 Month	3 Months	6 Months	52 Weeks	YTD 2012
<b>S&amp;P 500</b>			100.0%			-2.40%	0.80%	-3.81%	3.03%	1.61%	6.14%
<b>Materials</b>			3.3%	-	2.6%	-4.12%	-1.18%	-6.69%	-6.29%	-12.19%	1.76%
	Materials		3.3%	-	2.6%	-4.12%	-1.18%	-6.69%	-6.29%	-12.19%	1.76%
		Chemicals	2.3%	NA	NA	-3.57%	-0.87%	-2.95%	1.22%	-1.57%	9.37%
		Construction Materials	0.0%	NA	NA	1.34%	22.77%	-1.02%	2.91%	12.92%	5.92%
		Containers & Packaging	0.1%	NA	NA	-3.93%	-3.32%	-12.22%	-5.34%	-16.39%	0.94%
		Metals & Mining	0.7%	NA	NA	-7.14%	-3.66%	-16.31%	-25.09%	-35.73%	-16.91%
		Paper & Forest Products	0.1%	NA	NA	1.11%	2.63%	-6.72%	-2.95%	-0.19%	2.69%

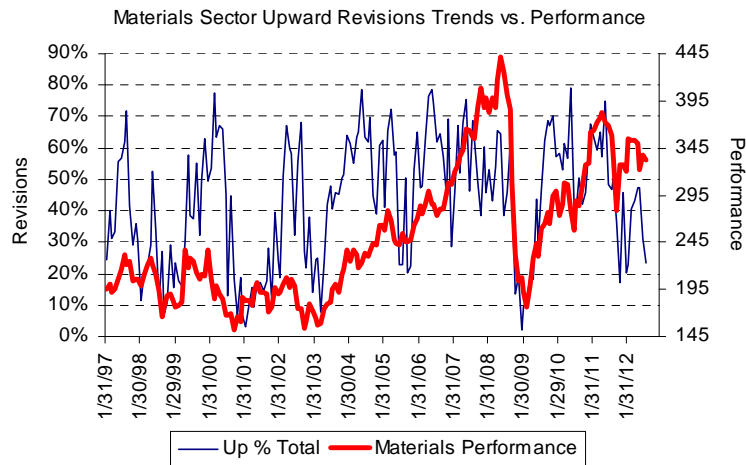
## Shifts in Sector EPS Expectations



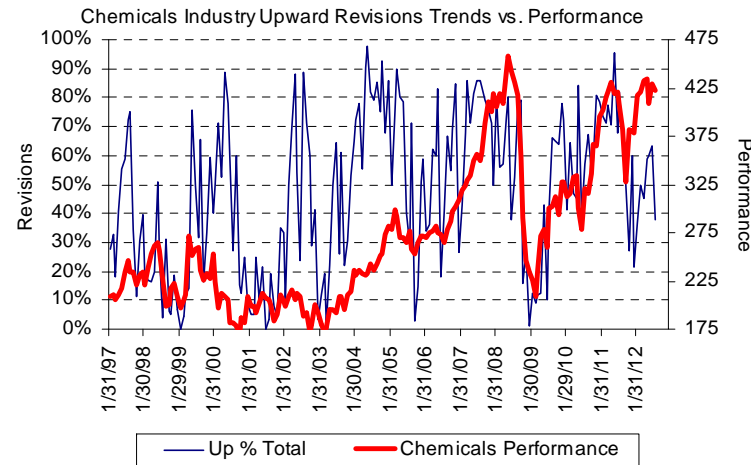
Source: Citi Research - US Equity Strategy, FactSet, Thomson Financial, and Bloomberg

# Materials – Underweight

## Industry Group EPS Expectations

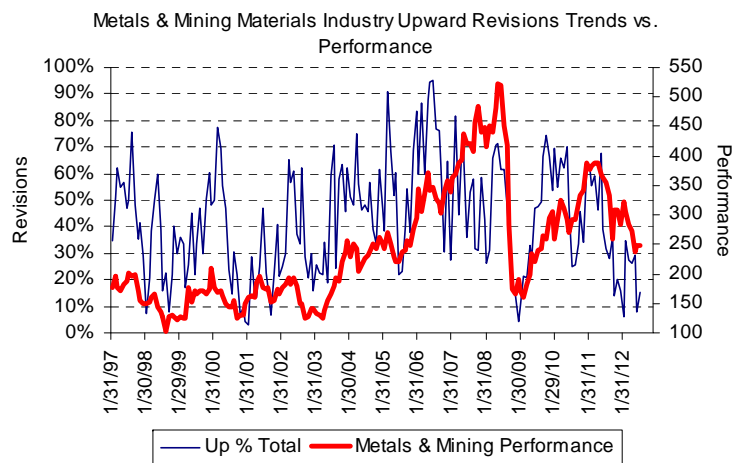


## Industry Group EPS Expectations

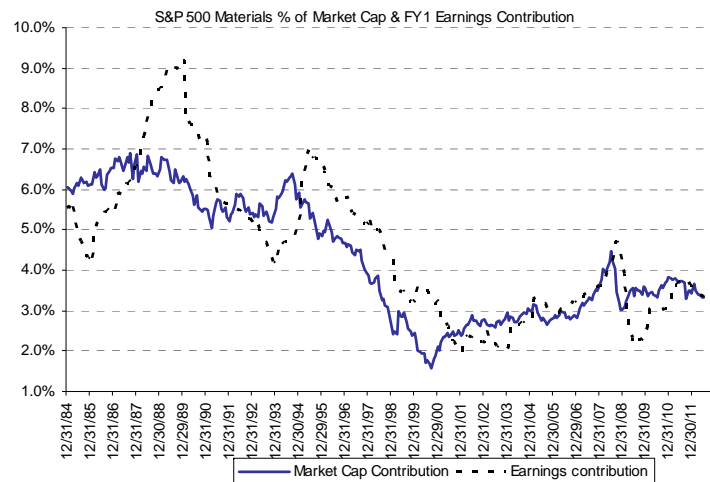


- **Earnings score: Positive**
- Upward earnings revisions have been falling and are close to a trough.
- Chemicals (which account for a bulk of the group's market cap) are still falling, however, Metals & Mining, Containers & Packaging, and Papers & Forest Products have bottomed.

## Industry Group EPS Expectations



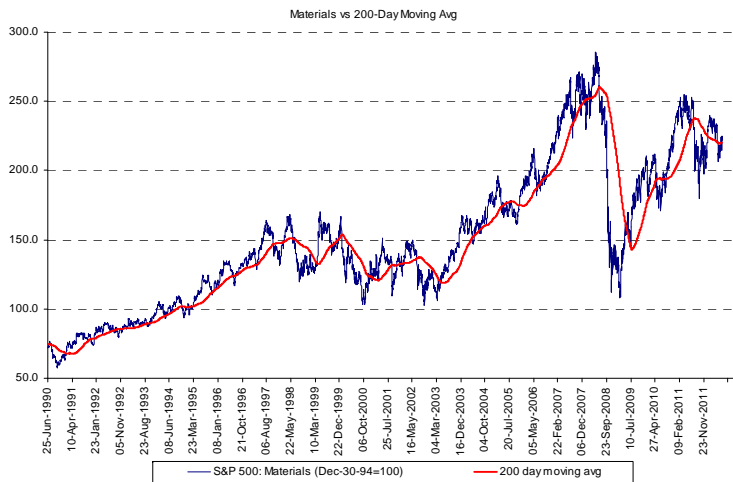
## Industry Group EPS & Mkt Cap Contribution



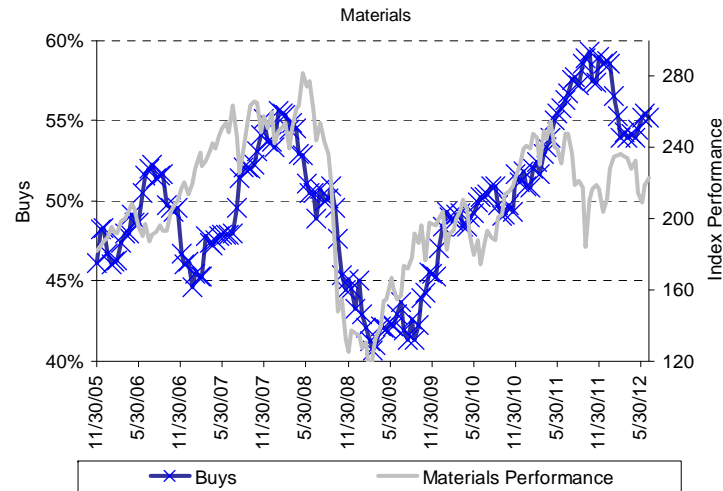
- Earnings contribution remained in-line with market cap contribution.

# Materials – Underweight

## Industry Group Sell-Side Sentiment

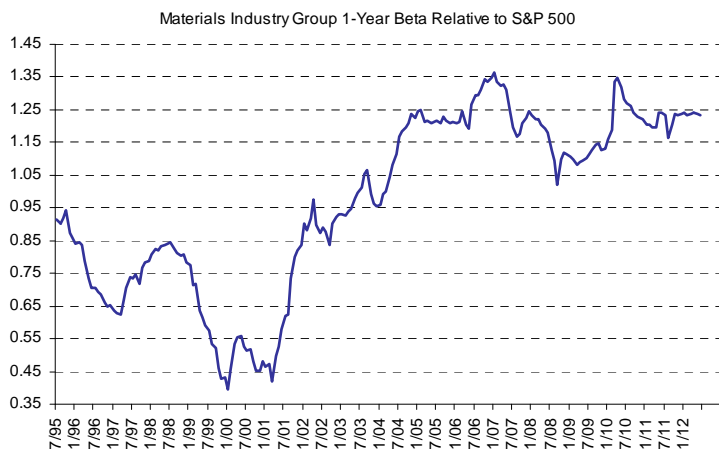


## Industry Group Sell-Side Sentiment

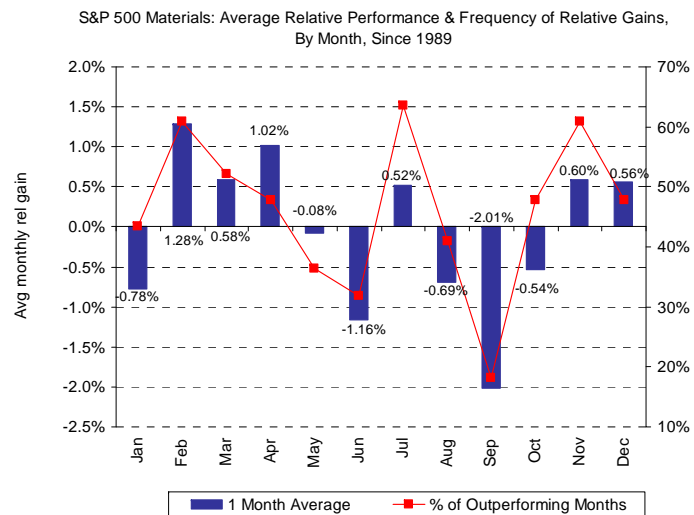


- **Sentiment score: Negative**
- Materials is trading just above its 200-day moving average.
- Sell-side buy ratings for Materials rebounded after falling to a trough at the end of 2008, but have plummeted sharply from six-year highs to relatively in-line with 2007 peaks.
- Based on our recent client survey, the Materials sector is now perceived as being most likely to underperform.

## Industry Group Beta



## Industry Group Seasonality

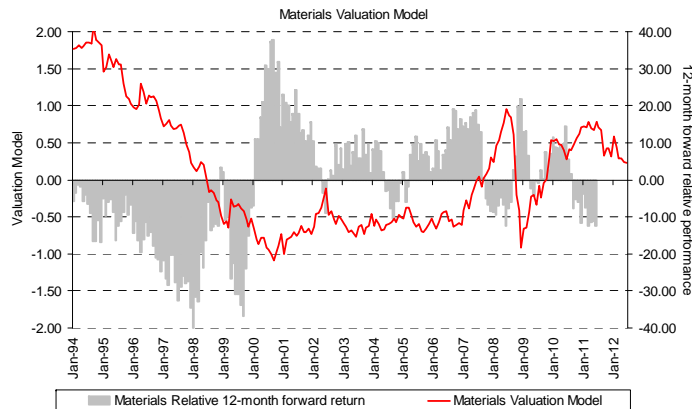


- **Trading Places score: Negative**
- Beta has held steady.
- Our analysis of relative performance on a seasonal basis indicates that November-April is the best time of the year to own these stocks while May through October is the worst time to add positions.

Source: Bloomberg, Haver Analytics, FactSet and Citi Research - US Equity Strategy

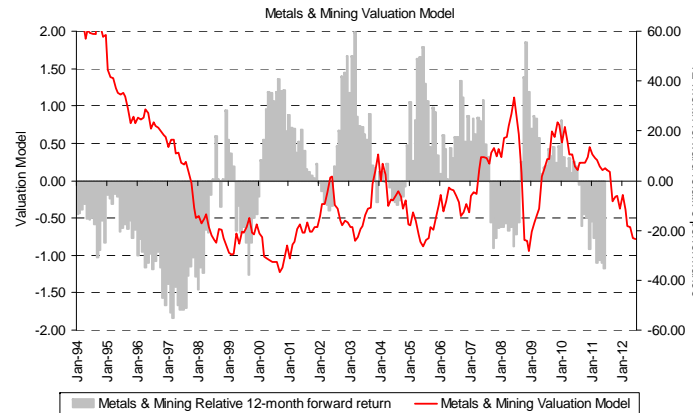
# Materials – Underweight

## Industry Group Valuation



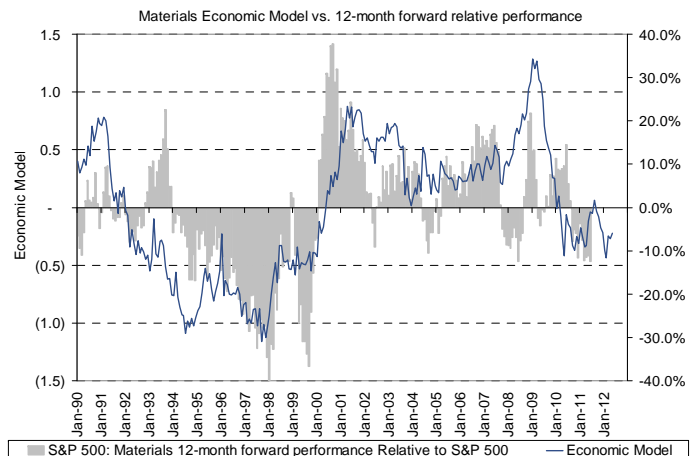
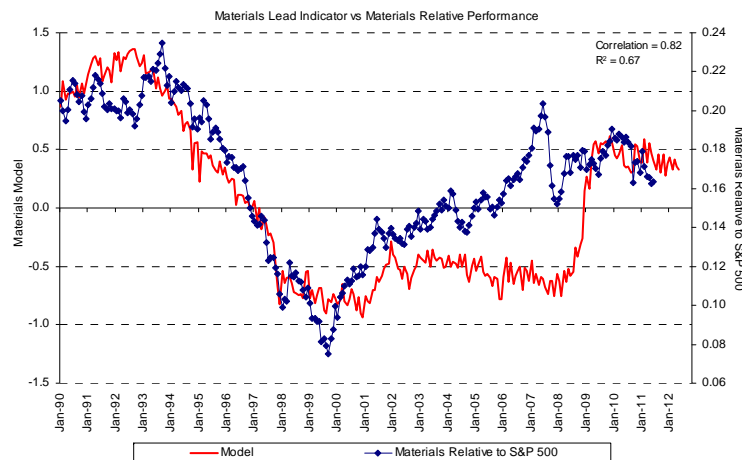
Based on Index weighted book value, Price/Sales, Enterprise Value, FY1 estimated earnings, estimated Dividend Yield

## Sub-Industry Group Valuation



Based on Price/EBITDA, Index weighted book value, Price/Sales, Enterprise Value, FY1 estimated earnings, estimated Dividend Yield

## Industry Group Fundamentals



- **Valuation score: Negative**
- Overall, valuation remains in negative territory.
- Chemicals look poised to underperform while Metals & Mining look appealing.
- **Fundamentals/Catalysts score: Negative**
- Our 12-month lead indicator model for Materials is suggesting a choppy trading pattern over the coming months.
- Our Materials economic model remains in negative territory.
- An ISM composite pullback may pressure this group as might European economic difficulties.

• **Bottom Line: Stay Underweight.**

Source: Bloomberg, Haver Analytics, FactSet, and Citi Research - US Equity Strategy

# Materials Constituents

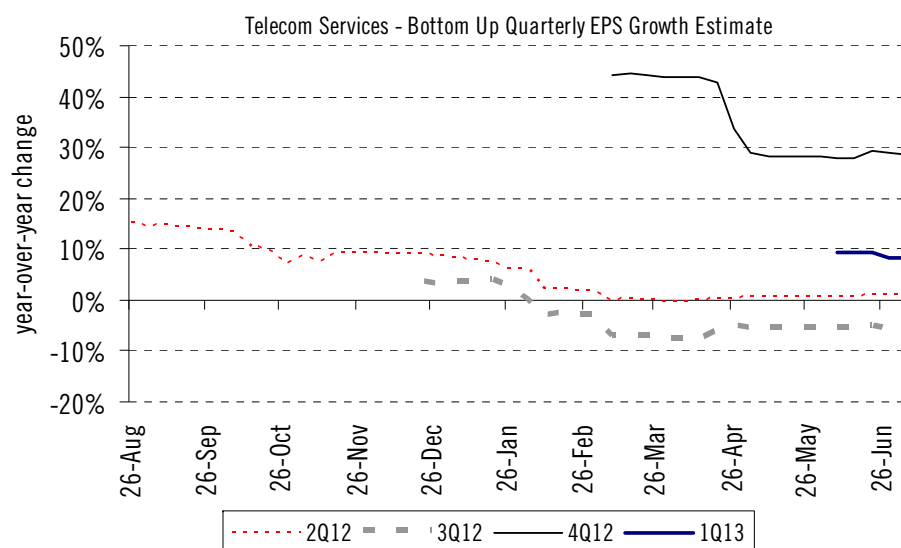
Materials			
Chemicals		Containers & Packaging	
DD	DuPont, E.I. de Nemours	BLL	Ball Corp
MON	Monsanto Co.	BMS	Bemis Co Inc
DOW	Dow Chemical	OI	Owens-Illinois Inc
PX	Praxair Inc	SEE	Sealed Air Corp
ECL	Ecolab Inc		
APD	Air Products & Chemicals Inc		<b>Metals &amp; Mining</b>
MOS	Mosaic Co	FCX	Freeport McMoRan Copper & Gold
PPG	PPG Industries Inc	NEM	Newmont Mining Corp
CF	CF Industries Holdings	NUE	Nucor Corp
SHW	Sherwin-Williams Co	AA	Alcoa Inc
SIAL	Sigma-Aldrich Corp	CLF	Cliffs Natural Resources Inc
FMC	FMC Corp	ATI	Allegheny Technologies Inc
EMN	Eastman Chemical Co	X	United States Steel Corp
ARG	Airgas Inc	TIE	Titanium Metals Corp
IFF	Intl Flavors & Fragrances		
	<b>Construction Materials</b>		<b>Paper &amp; Forest Products</b>
VMC	Vulcan Materials Co	IP	Intl Paper Co
		MWV	MeadWestvaco Corp

# Telecom Services Sector Performance and Recommendation Overview

(7/12/12)

Sector	Industry Group	Industry	Actual Weight (% of S&P 500)	Rating	Rec'd Weight	1 Week	1 Month	3 Months	6 Months	52 Weeks	YTD 2012
<b>S&amp;P 500</b>			100.0%			-2.40%	0.80%	-3.81%	3.03%	1.61%	6.14%
<b>Telecom Services</b>			3.1%	+	3.7%	-1.48%	2.10%	13.19%	13.94%	10.02%	12.40%
	Telecom Services		3.1%	+	3.7%	-1.48%	2.10%	13.19%	13.94%	10.02%	12.40%
		Diversified	2.9%	NA	NA	-1.49%	1.78%	13.57%	13.69%	12.40%	12.15%
		Wireless	0.2%	NA	NA	-1.36%	6.70%	8.08%	26.76%	-0.14%	25.50%

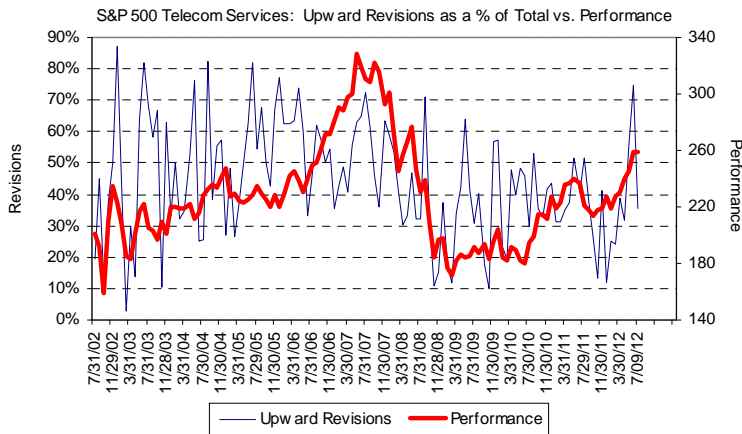
## Shifts in Sector EPS Expectations



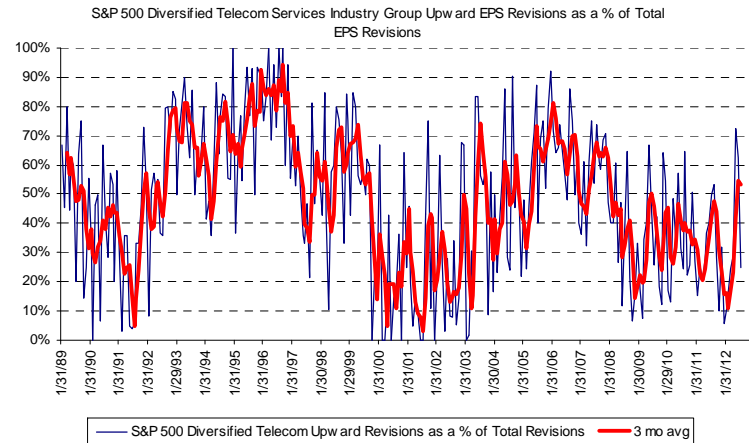
Source: Citi Research - US Equity Strategy, FactSet, Thomson Financial, and Bloomberg

# Telecom Services – Overweight

## Industry Group EPS Expectations

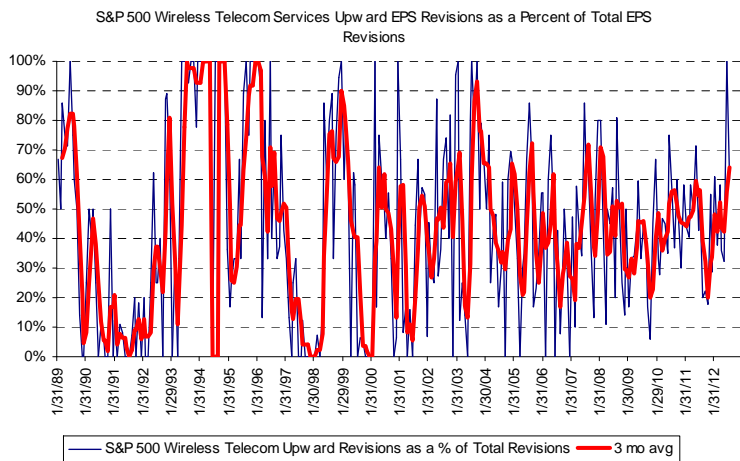


## Industry Group EPS Expectations

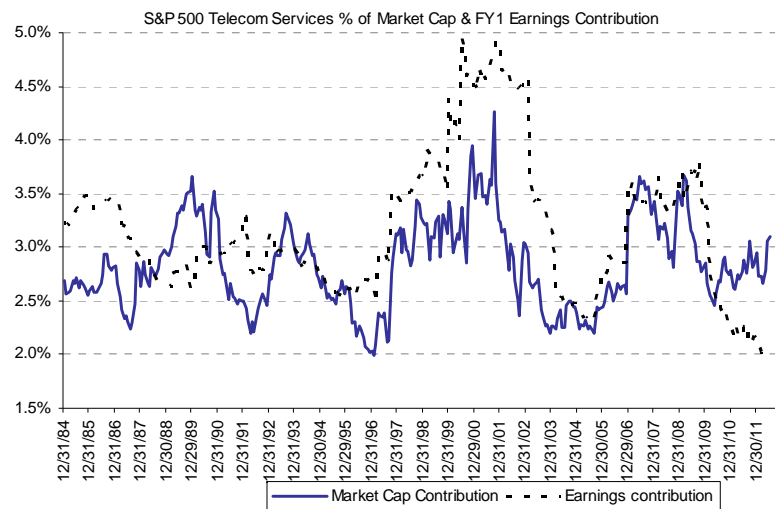


- **Earnings score: Negative**
- Telecom Services upward revisions are trending lower.
- The gap between forecasted earnings contribution and market cap contribution widened.

## Industry Group EPS Expectations



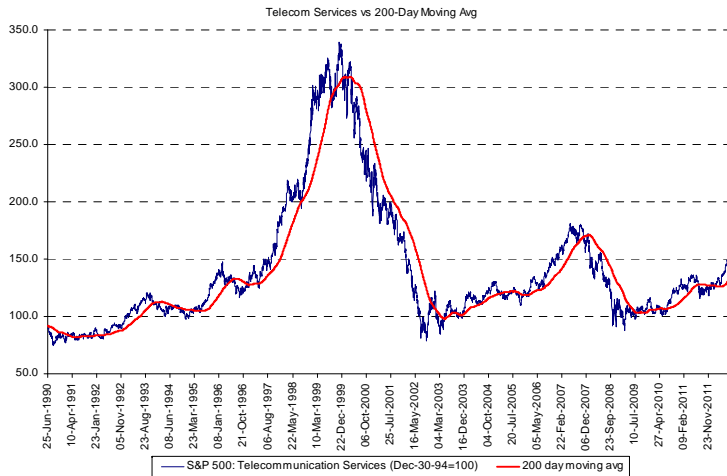
## Industry Group EPS & Mkt Cap Contribution



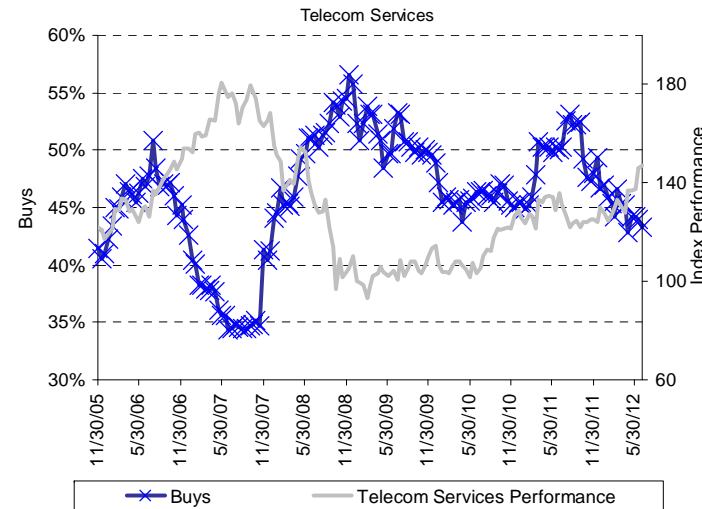


# Telecom Services – Overweight

## Industry Group Sell-Side Sentiment

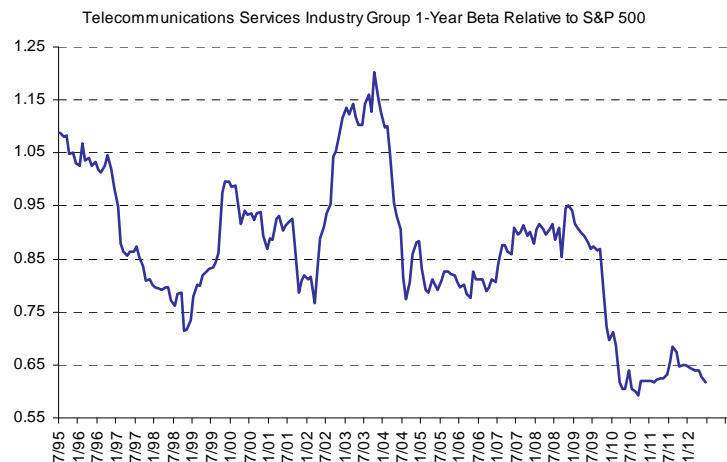


## Industry Group Sell-Side Sentiment

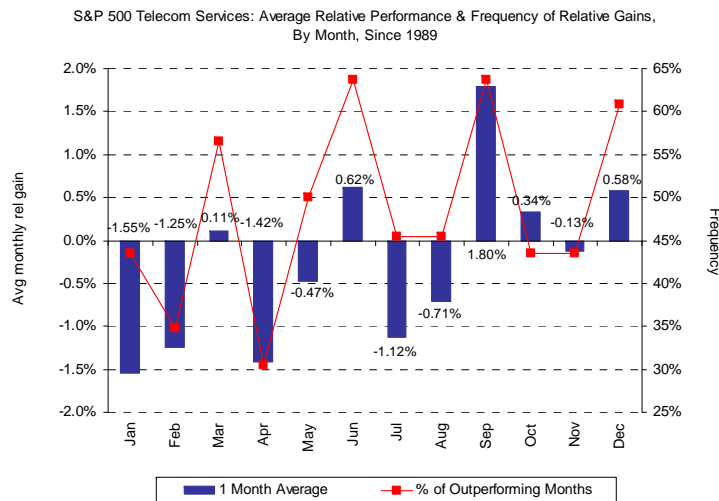


- **Sentiment score: Neutral**
- Telecom Services is trading sharply above its 200-day moving average.
- Sell-side ratings show that bullishness for the group had trended lower since the end of 2008, but spiked higher in early 2011. The group has rolled over from recent high to 980bps below the level for the S&P 500.

## Industry Group Beta



## Industry Group Seasonality

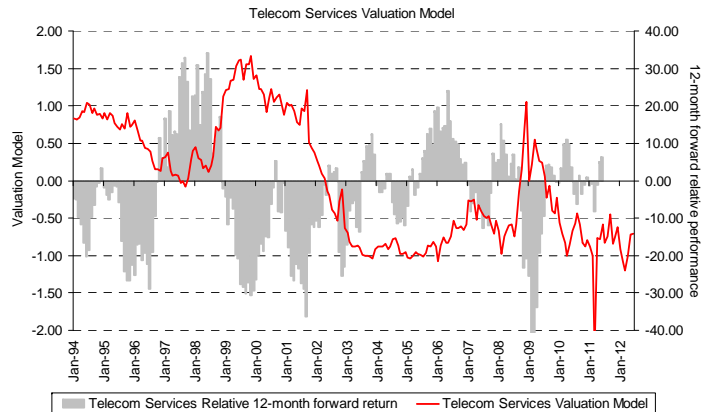


- **Trading Places score: Neutral**
- Beta has been retreating for this low beta group.
- From a seasonality/relative performance perspective, the first eight months of the year is generally not a good time to own these names, but the group does well late in the year.

Source: Bloomberg, Haver Analytics, FactSet and Citi Research - US Equity Strategy

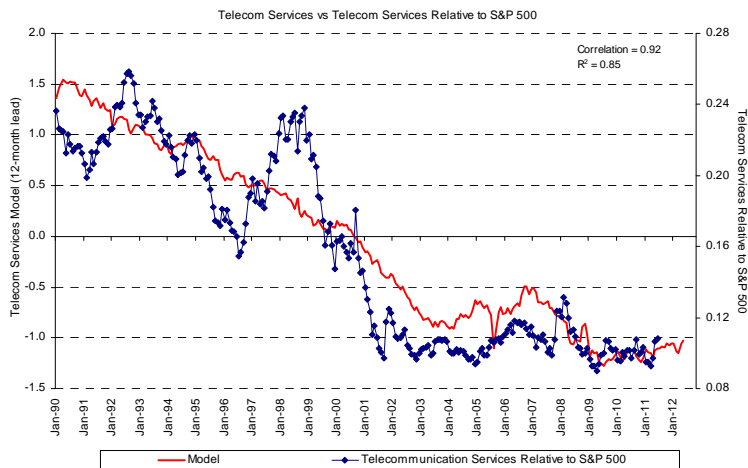
# Telecom Services – Overweight

## Industry Group Valuation



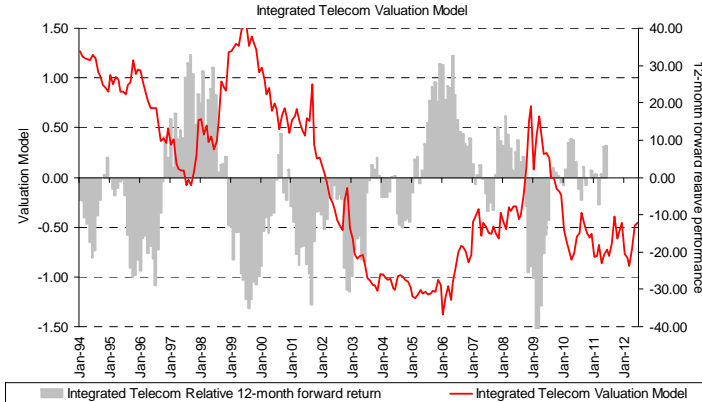
Based on Price/Cash Flow, Index weighted Earnings, Index weighted book value, Enterprise Value, FY1 estimated earnings, estimated EV/EBITDA

## Industry Group Fundamentals



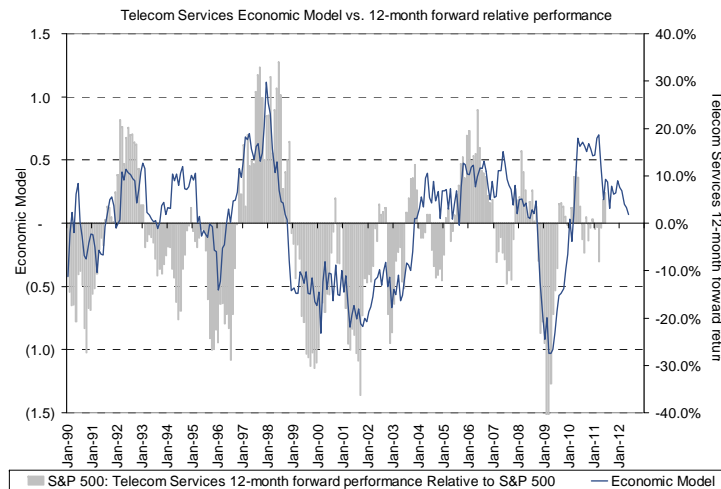
Source: Bloomberg, Haver Analytics, FactSet, and Citi Research - US Equity Strategy

## Sub-Industry Group Valuation



Based on Price/Cash Flow, Trailing 12-mth EPS aggregate, Index weighted Book Value, Price/Sales, Enterprise Value, Dividend Yield, FY3 EV//Sales

## Industry Group Fundamentals



- **Valuation score: Positive**
- Overall, valuation looks appealing.
- **Fundamentals/Catalysts score: Positive**
- Our 12-month lead indicator is suggesting relative outperformance in the next 12 months.
- Our Telecom Services economic model continues to argue for relative outperformance in the near term.
- This group's dividend yield is the highest in the S&P 500 and is thereby appealing to income-oriented investors.

• **Bottom Line: Remain Overweight.**

Note: components are listed on page 101

# Telecom Services Constituents

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## **Telecommunication Services**

### **Integrated Telecommunication Services**

T	AT&T Inc
VZ	Verizon Communications Inc
CTL	CenturyLink Inc
WIN	Windstream Corp
FTR	Frontier Communications Corp

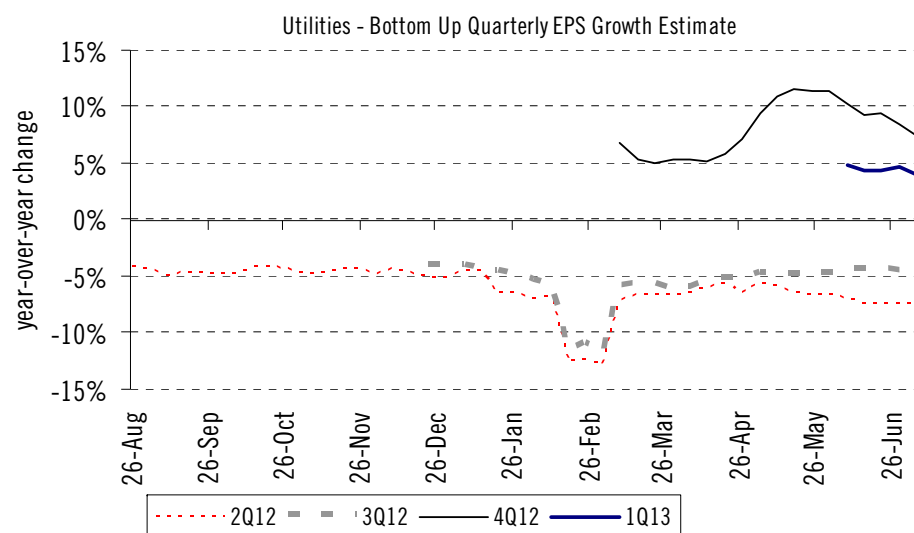
### **Wireless Telecommunication Services**

CCI	Crown Castle Intl Corp
S	Sprint Nextel Corp
PCS	Metropcs Communications Inc

# Utilities Sector Performance and Recommendation Overview

(7/12/12)			Actual Weight		Rec'd	Performance Over Last					YTD
Sector	Industry Group	Industry	(% of S&P 500)	Rating	Weight	1 Week	1 Month	3 Months	6 Months	52 Weeks	2012
<b>S&amp;P 500</b>			100.0%			-2.40%	0.80%	-3.81%	3.03%	1.61%	6.14%
<b>Utilities</b>	Utilities		3.5%	+	4.1%	0.14%	1.15%	7.36%	5.80%	10.33%	2.69%
			3.5%	+	4.1%	0.14%	1.15%	7.36%	5.80%	10.33%	2.69%
		Electric Utilities	2.0%	NA	NA	0.09%	0.75%	6.97%	4.80%	9.51%	1.30%
		Gas Utilities	0.1%	NA	NA	0.20%	2.09%	5.03%	-3.15%	10.17%	-3.42%
		Multi-Utilities & Unregulated Power	1.3%	NA	NA	0.32%	1.45%	8.29%	8.50%	14.11%	5.49%
		Independent Power Producers & Energy Tra	0.1%	NA	NA	-1.36%	5.36%	4.59%	-1.27%	-10.06%	-2.52%

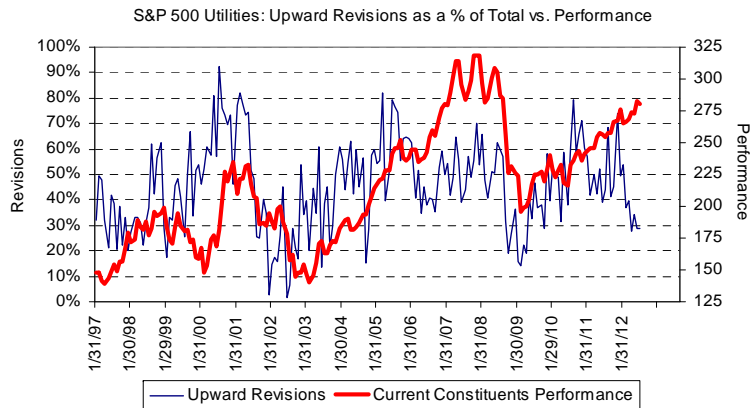
## Shifts in Sector EPS Expectations



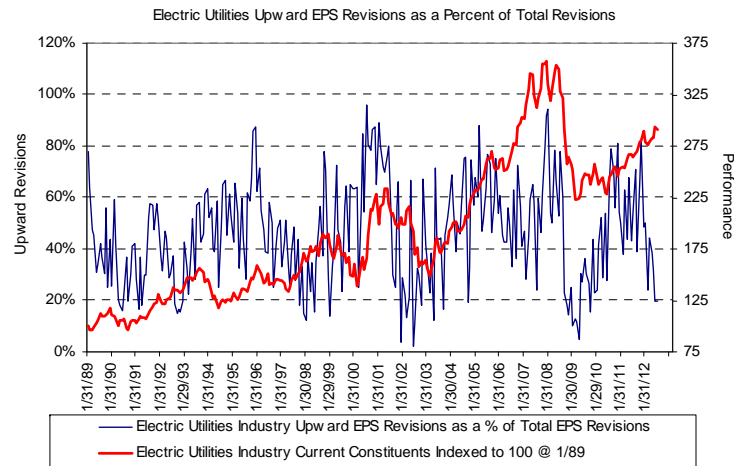
Source: Citi Research - US Equity Strategy, FactSet, Thomson Financial, and Bloomberg

# Utilities – Overweight

## Industry Group EPS Expectations

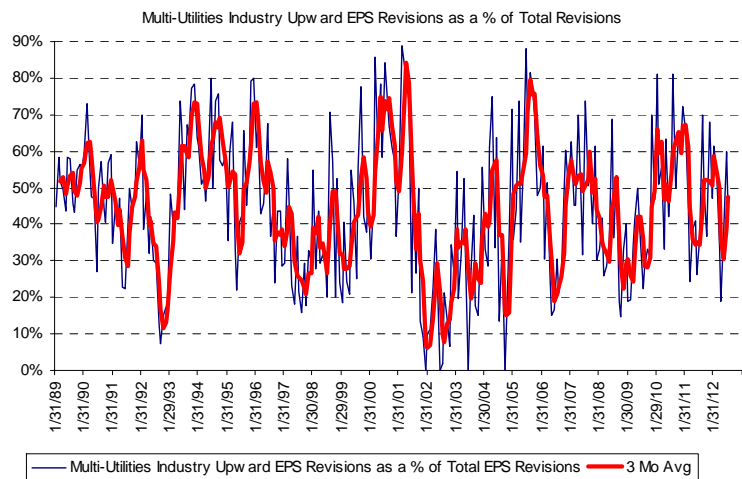


## Industry Group EPS Expectations

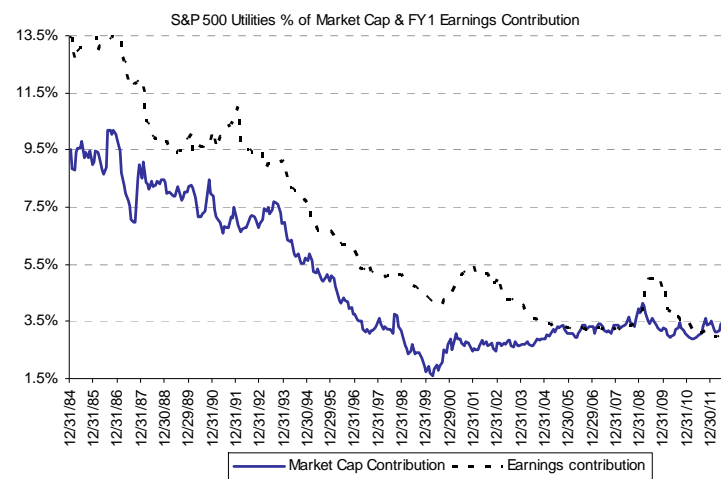


- **Earnings score: Neutral**
- Overall, upward earnings estimates revisions (as a percentage of total revisions) have been trending lower.
- Market cap representation is ahead of earnings contribution.

## Industry Group EPS Expectations

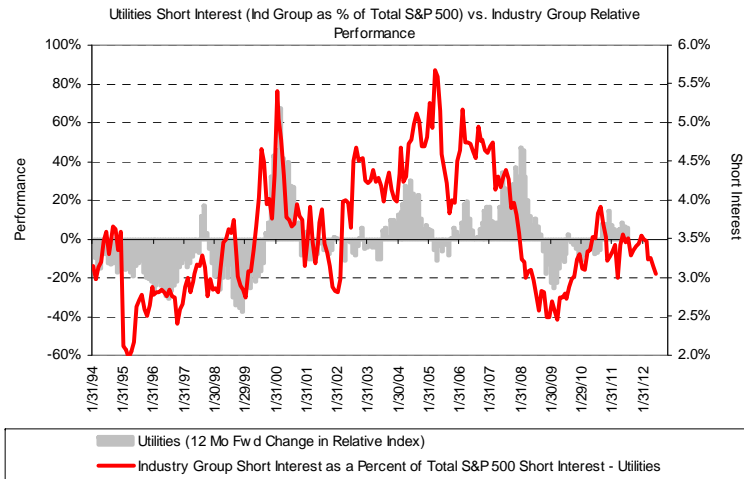


## Industry Group EPS & Mkt Cap Contribution

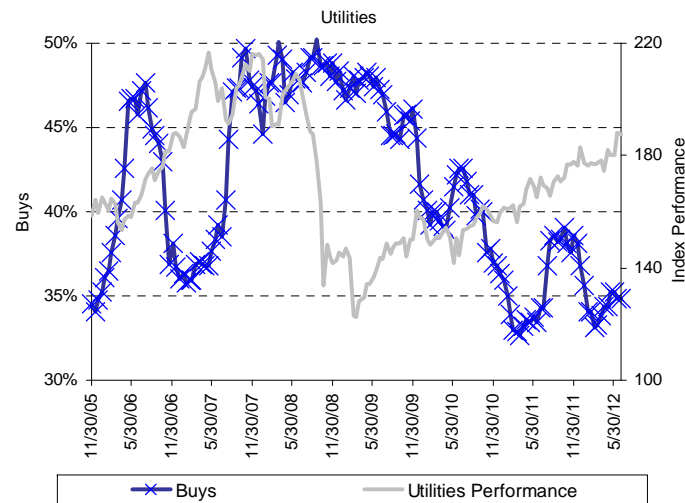


# Utilities – Overweight

## Industry Group Sell-Side Sentiment

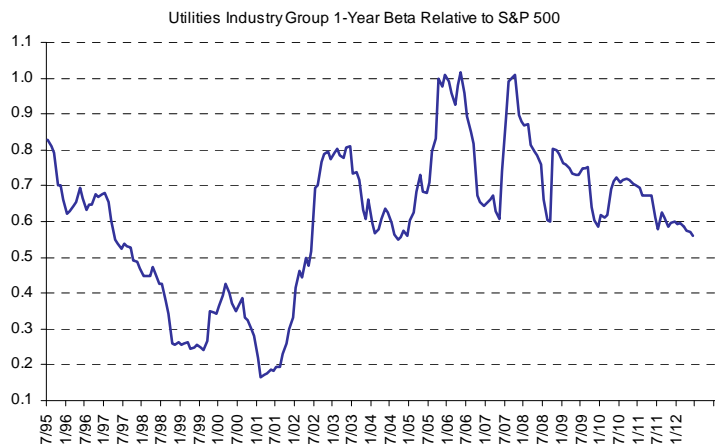


## Industry Group Sell-Side Sentiment

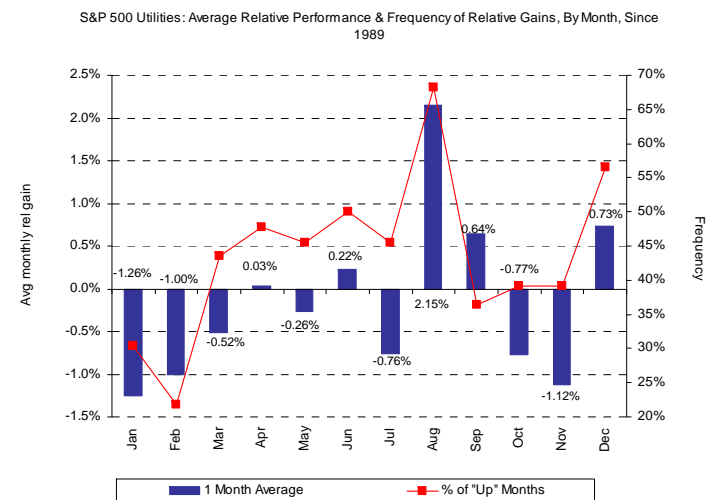


- **Sentiment score: Neutral**
- Short interest has been declining and is suggesting relative price underperformance for the group.
- Analysts are the least bullish on Utilities versus all industry groups in the S&P 500 with Utilities bullishness 18.3% below the overall S&P 500 after registering as the second least liked group last SIGN.

## Industry Group Beta



## Industry Group Seasonality

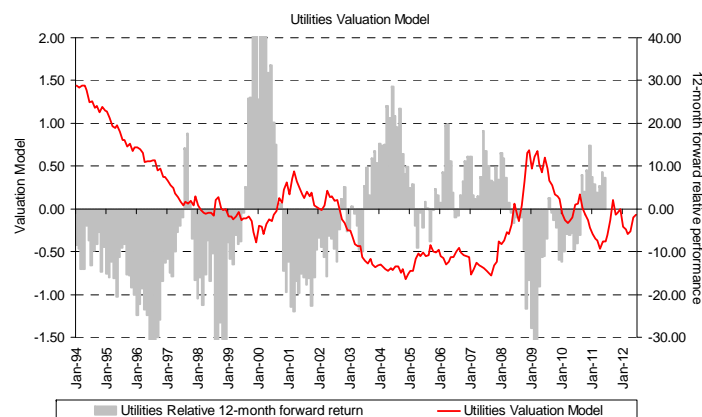


- Buy side surveys also show lack of interest though retail investors like the dividend yield.
- **Trading Places score: Positive**
- A low beta group.
- August and September is typically a good time to own these names.
- An inflection of the CESI would not support this group.

Source: Bloomberg, Haver Analytics, FactSet and Citi Research - US Equity Strategy

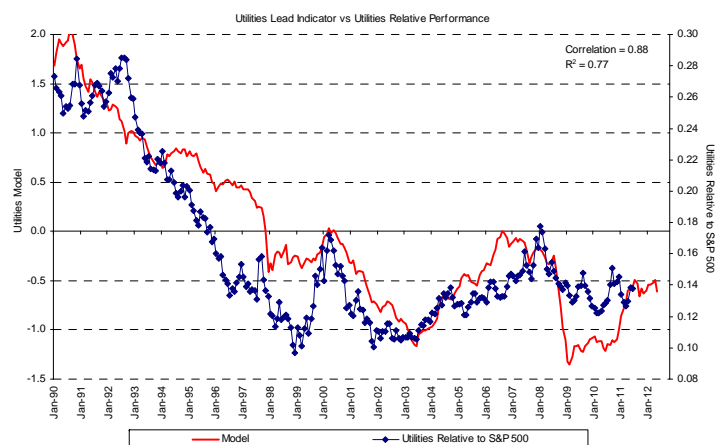
# Utilities – Overweight

## Industry Group Valuation

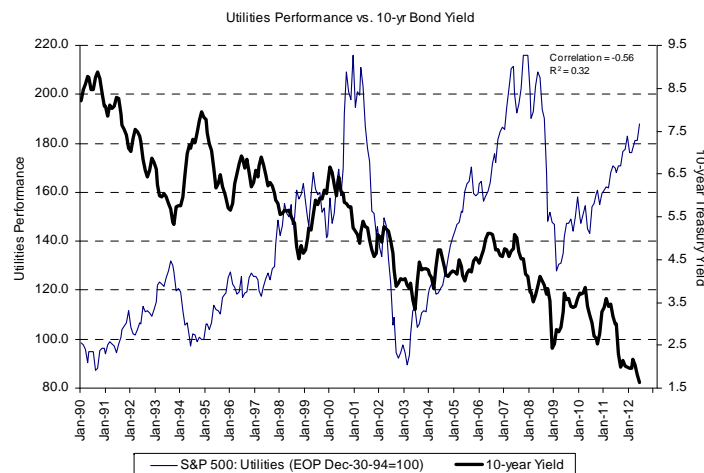


Based on Price/Cash Flow, Trailing 12-mth EPS aggregate, Index weighted book value, PE, Enterprise Value, FY1 EBITDA, Gross Dividend/Share

## Industry Group Fundamentals

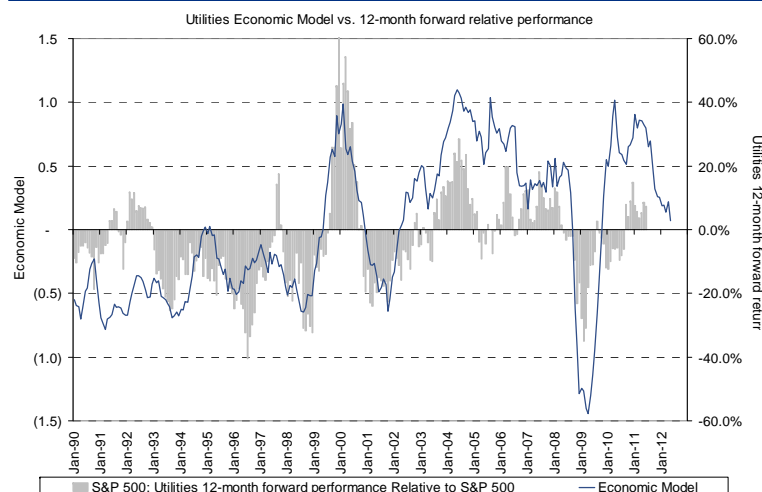


## Industry Group Fundamentals



- **Valuation score: Positive**
- Overall, the industry group remains modestly in attractive territory.
- **Fundamentals/Catalysts score: Positive**
- Higher bond yields in the future could be challenging.
- Our proprietary lead indicator is suggesting relative outperformance for the group through the summer.
- Our Utilities economic model indicating outperformance potential for these names in the near term.

## Industry Group Fundamentals



- **Bottom Line: Stay Overweight.**



## Utilities Constituents

Utilities			
Electric Utilities		Independent Power Producers & Energy Traders	
SO	Southern Co	AES	AES Corp
EXC	Exelon Corp	NRG	NRG Energy
DUK	Duke Energy Corp		
NEE	NextEra Energy Inc		<b>Multi-Utilities</b>
FE	FirstEnergy Corp	D	Dominion Resources Inc
AEP	American Electric Power	PCG	PG&E Corporation
PGN	Progress Energy Inc	ED	Consolidated Edison Inc
PPL	PPL Corp	SRE	Sempra Energy
EIX	Edison Intl	PEG	Public Service Enterprise Grp
XEL	Xcel Energy Inc	DTE	DTE Energy Co
NU	Northeast Utilities	WEC	Wisconsin Energy Corp
ETR	Entergy Corp	CNP	Centerpoint Energy Inc
PNW	Pinnacle West Capital (AZ)	AEE	Ameren Corp
POM	Pepco Holdings Inc	NI	Nisource Inc
		CMS	CMS Energy Corp
	<b>Gas Utilities</b>	SCG	SCANA Corp
OKE	ONEOK Inc	TEG	Integrys Energy Group Inc
GAS	AGL Resources	TE	TECO Energy Inc

# Industry Group Attribute Comparison

Industry Group	Earnings	Sentiment	Trading Places	Valuation	Fundamentals / Catalysts	Recommendation
Autos & Components	+	-	-	-	-	Underweight
Consumer Durables & Apparel	+	=	-	-	-	Underweight
Consumer Services	+	-	-	-	=	Underweight
Media	-	=	-	-	-	Reduced to Underweight
Retailing	-	=	=	-	-	Underweight
Food & Staples Retailing	-	+	=	+	-	Lowered to Market Weight
Food, Beverage & Tobacco	+	+	+	-	-	Overweight
Household & Personal Products	+	+	+	-	-	Overweight
Energy	+	-	=	=	-	Market Weight
Banks	=	+	-	+	=	Market Weight
Diversified Financials	+	=	=	+	+	Raised to Overweight
Insurance	+	=	=	+	+	Overweight
Real Estate	=	=	=	-	+	Market Weight

Source: Citi Research - US Equity Strategy

# Industry Group Attribute Comparison

Industry Group	Earnings	Sentiment	Trading Places	Valuation	Fundamentals / Catalysts	Recommendation
Health Care Equipment & Services	=	=	+	-	=	Market Weight
Pharmaceuticals & Biotechnology	-	=	+	-	=	Market Weight
Capital Goods	+	=	-	=	-	Underweight
Commercial Services & Supplies	+	=	=	+	-	Market Weight
Transportation	=	=	-	+	=	Market Weight
Semiconductors & Semi Equipment	+	=	+	+	=	Overweight
Software & Services	+	=	+	-	=	Underweight
Technology Hardware & Equipment	+	=	=	+	+	Overweight
Materials	+	-	-	-	-	Underweight
Telecom Services	-	=	=	+	+	Overweight
Utilities	=	=	+	+	+	Overweight

Source: Citi Research - US Equity Strategy

# 2009-2012 Weighting Recommendation Changes

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- On May 11th, we raised Household & Personal Products to Overweight from Market Weight, lifted Pharma & Biotech to Market Weight from Underweight, reduced Diversified Financials to Market Weight from Overweight, and lowered Consumer Services to Underweight from Market Weight.
- On March 9th, 2012, we lifted Food & Staples Retailing to Overweight from Market Weight, raised Utilities to Overweight from Market Weight, upgraded Real Estate to Market Weight from Underweight, and reduced Materials to Underweight from Market Weight.
- On November 11th, 2011, we raised Health Care Equipment & Services to Market Weight from Underweight, upgraded Media to Market Weight from Underweight, lifted Materials to Market Weight from Underweight, and lowered Software & Services to Underweight from Market Weight.
- On September 9th, 2011, we raised Household & Personal Products to Market Weight from Underweight, lifted Transportation to Market Weight from Underweight, upgraded Telecom Services to Overweight from Market Weight, and lowered Energy to Market Weight from Overweight.
- On June 10th, 2011, we raised Semis & Semi Equipment to Overweight from Market Weight, lifted Food, Beverage & Tobacco to Overweight from Market Weight, lowered Consumer Services to Market Weight from Overweight, and reduced Capital Goods to Underweight from Market Weight.
- On April 8th, 2011, we lifted Food, Beverage & Tobacco to Market Weight from Underweight, lowered Capital Goods to Market Weight from Overweight, and reduced Media to Underweight from Market Weight.
- On February 4th, 2011, we raised Tech Hardware & Equipment to Overweight from Underweight and lowered both Pharma & Biotech and Health Care Equipment & Services to Underweight from Market Weight.
- On December 3rd, 2010, we raised Media to Market Weight from Underweight, lifted Semis & Semi Equipment to Market Weight from Underweight, lowered Banks to Market Weight from Overweight, reduced Pharma & Biotech to Market Weight from Overweight, and downgraded Retailing to Underweight from Market Weight.
- On September 24th, 2010, we lifted Diversified Financials to Overweight from Market Weight, raised Retailing to Market Weight from Underweight, lowered Consumer Durables & Apparel to Underweight from Market Weight, and reduced Tech Hardware & Equipment to Underweight from Market Weight.
- On July 2nd, 2010, we lifted Pharma and Biotech to Overweight from Market Weight, lowered Consumer Durables & Apparel to Market Weight from Overweight, and reduced Media, Transportation and Autos & Components to Underweight from Market Weight.
- On April 23rd, 2010, we lifted Banks and Insurance to Overweight from Market Weight, raised Pharma & Biotech to Market Weight from Underweight, lowered Retailing and Materials to Underweight from Market Weight.
- On February 12th, 2010 we raised Telecom Services to Market Weight from Underweight, and lowered Household & Personal Products to Underweight from Market Weight.
- On November 19th, 2009 we lifted Consumer Durables & Apparel to Overweight from Market Weight, raised Utilities to Market Weight from Underweight, lowered Insurance to Market Weight from Overweight, downgraded Materials to Market Weight from Overweight, and reduced Transportation to Market Weight from Overweight.

# Economic Model Components

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- **Autos & Components:** Housing Authorized, Not Started, CPI-U: Food, Retail Sales & Food Services Excl Motor Vehicles & Parts Dealers, Conference Board: Consumer Confidence Present Situation, Real Commercial and Industrial Loans Outstanding, Manufacturers' Inventories: Durable Goods, Civilian Unemployment Rate, Foreign Exchange Rate: India (EOP, Rupee/US\$), Leading Index: Six-Month Percent Change, Merchant Wholesalers: Inventory/Sales Ratio
- **Consumer Durables & Apparel:** Real Manufacturing & Trade Sales: All Industries, Average Weekly Hours: Manufacturing, ISM-Chicago: Employment Index, Capacity Utilization: Manufacturing, Manufacturers' Shipments: Durable Goods, Diffusion Index of Leading Indicators, University of Michigan: Current Economic Conditions, Real Commercial and Industrial Loans Outstanding, CPI for Services, Foreign Exchange Rate: Hong Kong (EOP, HK\$/US\$)
- **Consumer Services:** University of Michigan: Current Economic Conditions, All Employees: Total Nonfarm, Capacity Utilization, Retail Sales: Total, ISM-Chicago: Inventories Index, Housing Authorized, Not Started: US, Yield Curve, Diffusion Index of Leading Indicators, CPI for Services, Real Trade-Weighted Exchange Value of US\$
- **Media:** New 1-Family Houses For Sale, Foreign Exchange Rate: New Zealand (EOP, US\$/N.Z.Dollar), Ratio: Consumer Installment Credit to Personal Income, Inventories: Total Business, Foreign Exchange Rate: Switzerland (EOP, Franc/US\$), Average Weekly Earnings: Total Private Industries, Capacity Utilization: Finished Stage of Processing, Real Manufacturing & Trade Sales: All Industries, Diffusion Index of Leading Indicators, Manufacturers' Shipments: Durable Goods
- **Retailing:** New 1-Family Houses For Sale, LME: Aluminum Warehouse Stocks, Retail Sales: Total, ISM-Chicago: Inventories Index, ISM Mfg: PMI Composite Index, Coincident Composite Index/Lagging Composite Index Ratio, Real Money Stock: M2, Real Commercial and Industrial Loans Outstanding, Average Hourly Earnings: Total Private Industries, Foreign Exchange Rate: South Korea
- **Food & Staples Retailing:** Housing Authorized, Not Started: 1 Unit, Real Trade-Weighted Exchange Value of US\$, Leading Index: Six-Month Percent Change, LME: Zinc Warehouse Stocks, Capacity Utilization: Crude Stage of Processing, Capacity Utilization: Mining, Average Weekly Earnings: Total Private Industries, Bank Prime Loan Rate, Real Commercial and Industrial Loans Outstanding, Light Sweet Crude Oil Futures Price: 1st Expiring Contract Settlement (EOP,\$/bbl)
- **Food Beverage & Tobacco:** Diffusion Index of Leading Indicators, Existing 1-Family Home Sales, Real Average Hourly Earnings, Real Manufacturing & Trade Sales: All Industries, Manufacturers' Shipments: Durable Goods, CPI-U: All Items, Foreign Exchange Rate: Hong Kong (EOP, HK\$/US\$), FHLMC: 1-Year Adjustable Rate Mortgages, Unleaded Gasoline Price, Non-oxygenated Regular, N.Y. (EOP, \$/Gal), ISM-Chicago: Prices Paid Index
- **Household & Personal Products:** ISM-Chicago: Employment Index, Manufacturers' Shipments: Durable Goods, Real Manufacturing & Trade Sales: All Industries, ISM-Chicago: Order Backlog Index, ISM-Chicago: Business Barometer Index, ISM-Chicago: Inventories Index, Mfrs' Shipments: All Manufacturing Industries, CPI for Services, Foreign Exchange Rate: Hong Kong (EOP, HK\$/US\$), Capacity Utilization: Mining

# Economic Model Components

- **Health Care Equipment & Services:** Diffusion Index of Leading Indicators, New 1-Family Houses Sold, Civilian Unemployment Rate, Manufacturers' Shipments: Durable Goods, Capacity Utilization: Finished Stage of Processing, Foreign Exchange Rate: Hong Kong (EOP, HK\$/US\$), Light Sweet Crude Oil Futures Price: 1st Expiring Contract Settlement (EOP,\$/bbl), Real Commercial and Industrial Loans Outstanding, ISM-Chicago: Prices Paid Index, Retail Sales & Food Services Excl Motor Vehicles & Parts Dealers
- **Pharma & Biotech:** Real Trade-Weighted Exchange Value of US\$, Housing Starts: 1 Unit, Interest Rate Spread: 10-Year Treasury Bond Less Fed Funds Rate, Leading Index: Six-Month Percent Change, Capacity Utilization: Crude Stage of Processing, Bank Prime Loan Rate, All Employees: Total Nonfarm, Real Commercial and Industrial Loans Outstanding, Conference Board: Consumer Confidence Present Situation, CPI-U: Food
- **Capital Goods:** CPI-U: Food, Foreign Exchange Rate: South Korea (EOP, Won/US\$), Average Hourly Earnings: Total Private Industries, New York Harbor No 2 Heating Oil Spot Price, FRB Cleveland Median CPI, Retail Inventories: Total, New 1-Family Houses For Sale, Coincident Composite Index/Lagging Composite Index Ratio, LME: Lead Warehouse Stocks, Retail Sales: Total
- **Commercial Services & Supplies:** Capacity Utilization: Finished Stage of Processing, Diffusion Index of Leading Indicators , ISM-Chicago: Employment Index, Manufacturers' Shipments: Durable Goods, ISM-Chicago: Order Backlog Index, Foreign Exchange Rate: Hong Kong (EOP, HK\$/US\$), Real Commercial and Industrial Loans Outstanding, Unleaded Gasoline Price, Non-oxygenated Regular, N.Y. (EOP, \$/Gal), CPI for Services: Change from 6-Mos Previous, LME: Copper Warehouse Stocks
- **Transportation:** Real Average Hourly Earnings, Existing 1-Family Home Sales, LME: Nickel Warehouse Stocks, Real Manufacturing & Trade Sales: All Industries, Diffusion Index of Leading Indicators, Foreign Exchange Rate: Hong Kong, Unleaded Gasoline Price, Non-oxygenated Regular, CPI-U: All Items, Real Commercial and Industrial Loans Outstanding, ISM-Chicago: Prices Paid Index
- **Materials:** Capacity Utilization: Manufacturing, Average Weekly Hours: Manufacturing, Manufacturers' Shipments: Durable Goods, Diffusion Index of Leading Indicators, All Employees: Total Nonfarm, FHLMC: 30-Year Fixed-Rate Mortgages, Foreign Exchange Rate: Hong Kong (HK\$/US\$), Real Money Stock: M2, Housing Authorized, Not Started: 1 Unit, CPI for Services: Change from 6-Mos Previous
- **Telecom Services:** LME: Copper Warehouse Stocks, Real Commercial and Industrial Loans Outstanding, Housing Authorized, Not Started: US, Light Sweet Crude Oil Futures Price: 1st Expiring Contract Settlement (EOP,\$/bbl), Merchant Wholesalers: Inventory/Sales Ratio, Foreign Exchange Rate: South Korea (EOP, Won/US\$), Manufacturers' Shipments: Durable Goods, Mfrs' Shipments: All Manufacturing Industries, Average Weekly Earnings: Total Private Industries, ISM-Chicago: Business Barometer Index
- **Utilities:** Nominal Broad Trade-Weighted Exchange Value of the US\$, Composite Housing Affordability Index, FHLMC: 30-Year Fixed-Rate Mortgages: Fees & Points, FRB Cleveland Median CPI, LME: Nickel Warehouse Stocks, Unleaded Gasoline Price, Non-oxygenated Regular, NY, ISM Mfg: PMI Composite Index, Chicago Purchasing Mgrs Assn: Index, Real Average Hourly Earnings, Merchant Wholesalers: Sales

# Appendix A-1

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