5 February 2015 | 19 pages

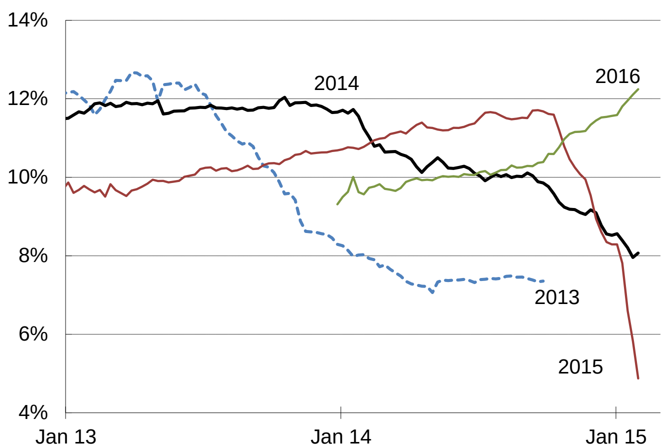
Strategy
Global

Global Equity Strategist

Big EPS Downgrades. What Next?

- **EPS Forecasts Cut** — Last September the analyst consensus was forecasting 2015 global EPS growth of 12%. That prediction is now 5%.
- **Commodity Sectors/Markets Hit Hardest** — The global Energy sector has seen its 2015 EPS forecast cut by 46%. Materials have been downgraded by 14%. Energy-heavy Brazil, Canada and Italy have all seen 15%+ cuts.
- **FX Impact** — Big FX moves have also had an impact. A strong CHF has driven 2015E Swiss EPS forecasts down by 11%. A weak yen has helped boost Japan EPS by 4%.
- **Downgrades Should Reverse** — Citi strategists are now more optimistic on EPS than analysts. Top-down, we expect 9% global EPS growth in 2015. A lower oil price should boost Consumer sector forecasts later in the year.
- **Energy? No Thanks** — The global Energy sector now trades at a juicy dividend yield of 3.8%, a 50% premium to the global index. However, payout ratios look high and dividends could be at threat. Those looking for the highest yields should stick to the lower risk Telecom sector.
- **Canary In The Coal Mine?** — Is the plunge in oil telling us something more worrying about the world economy? We are not convinced. We find that oil is not an especially good predictor of future global EPS. Other, better, forecasters give less cause for concern.

Figure 1. Global Consensus Bottom-up EPS Growth Forecasts



Source: Citi Research, Factset

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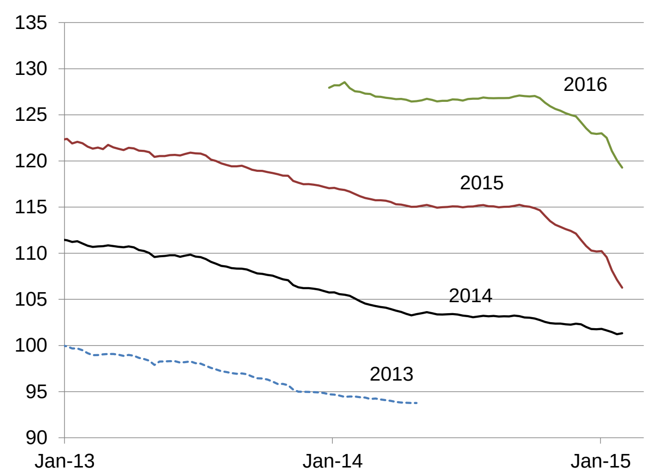
Big EPS Downgrades. What Next?

The analyst consensus was forecasting 2015 global EPS growth of 12% back in September. That number is now down to 5%. Most of the downgrades can be attributed to commodity stocks. For once, Citi strategists are now more bullish on EPS than analysts – we expect 9% growth. We expect the positive impact of a lower oil price to feed through into upgrades outside the commodity sectors later in the year. With payout ratios still conservative, ongoing dividend growth should support global equities. Barring a sustained rally in the oil price (which Citi commodity experts do not expect), we are not yet tempted by the high dividend yields currently available in the Energy sector.

Downgrades

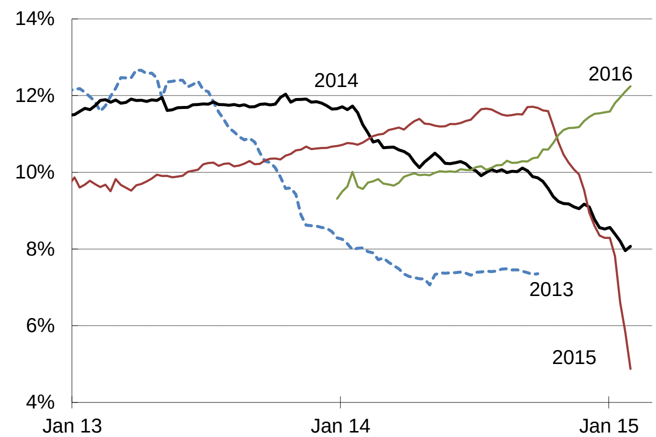
Global EPS forecasts are under pressure. The bottom-up consensus forecast for 2015 is now 8% lower than the level predicted back in September last year (Figure 2). The 2016 forecast is 6% lower. In fact, analysts have been in consistent downgrade mode since the start of 2012. The 2013 outcome was 6% less than the estimate made in January 2013. It looks like the 2014 outcome will be around 4% below. This helps to explain why our global earnings revision indicator, which measures the number of analyst upgrades against downgrades, has languished in negative territory for the whole period.

Figure 2. Global Consensus Bottom-up EPS Forecasts*



Source: Citi Research, Factset. *100= First 2013E EPS

Figure 3. Global Consensus Bottom-up EPS Growth Forecasts

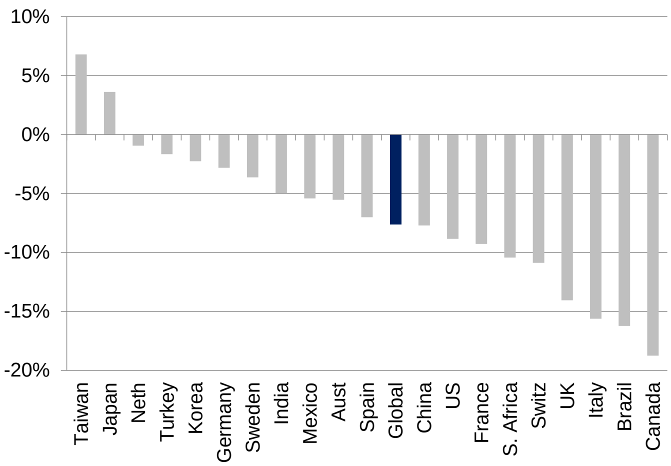


Source: Citi Research, Factset

These cuts have moved consensus growth expectations sharply (Figure 3). Back in September last year, analysts were forecasting a 12% increase in EPS for 2015. That Figure is now down to 5%. Somewhat bizarrely, the 2016 growth forecast has actually risen from 10% to 12% over the period. This reflects base effects (2015 has been downgraded more than 2016) rather any intentionally bullish signal for next year.

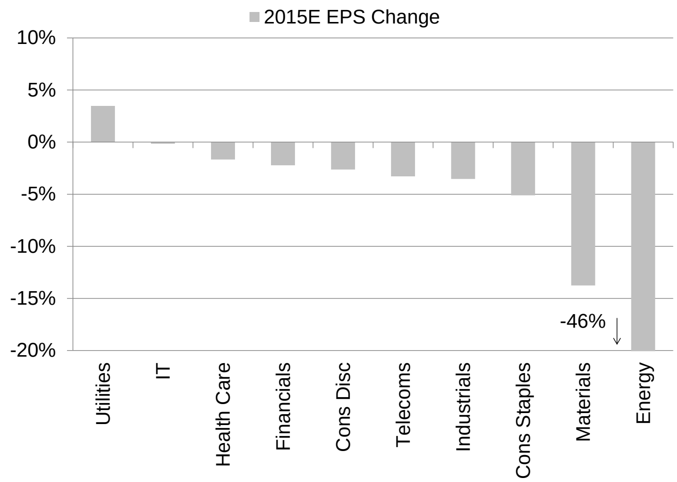
What has been driving these downgrades? Figure 4 shows the changes across the major markets since September. Only Taiwan and Japan have seen EPS revised upwards. South Africa, the UK, Italy, Brazil and Canada have all seen 10% plus downgrades.

Figure 4. 2015E Consensus EPS Forecast Change Since Sep'14



Source: Citi Research, Factset

Figure 5. 2015E Consensus EPS Forecast Change Since Sep'14



Source: Citi Research, Factset

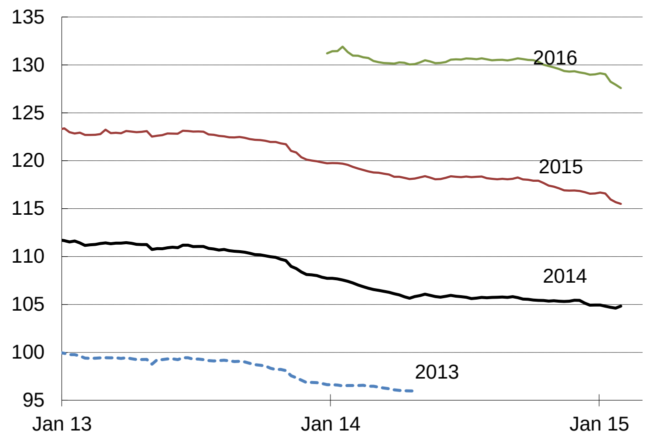
We can see two themes at work here – commodities and FX. Canada, Brazil and the UK all have heavy weightings in Materials and Energy stocks so would have suffered from sharp falls in commodity prices. Alternatively, the likes of Taiwan, Japan, the Netherlands and Turkey have minimal commodity stock weightings so will have suffered much less. Also Japan will have benefited from a weak yen while Swiss EPS will have been hit by the recent strength in the CHF.

Of course, the biggest downgrades have been in the commodity sectors (Figure 5). Energy has seen a 46% reduction in 2015 forecasts since last September. Materials forecasts have been cut by 14%. Elsewhere, the changes have been less dramatic, although the general direction of forecasts has been downwards. Only Utilities has seen upgrades.

Ex Commodities: Downgraded Less

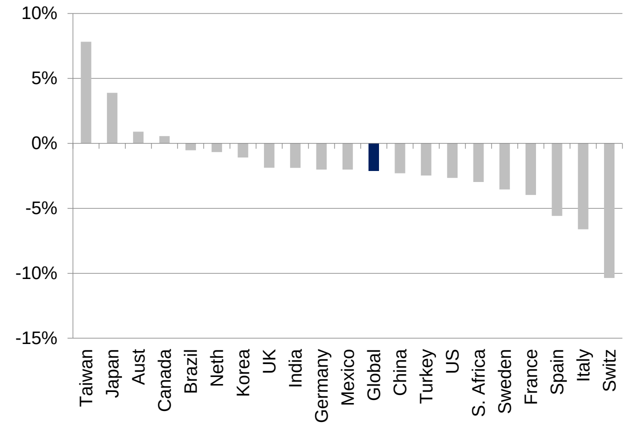
Obviously, the downgrades will look less dramatic if we strip out commodities. Figure 6 shows global EPS ex Energy and Materials. Together, these two sectors account for 17% of global earnings. Whilst global 2015E EPS have been downgraded by 8% since September last year, ex commodities the reduction has been a less worrying 2%.

Figure 6. Global ex Commodity Sectors: Bottom-up EPS Forecasts*



Source: Citi Research, Factset consensus. *100= First 2013E EPS

Figure 7. Ex Commodity Sectors: Changes To 2015E EPS



Source: Citi Research, Factset consensus.

This implies that the 2015 consensus global EPS growth forecast (ie including commodity stocks) has dropped from 12% last September to 5% now, the fall ex Energy and Materials has been less dramatic (from 12% to 10%).

Stripping out Energy and Materials also gives a different perspective on shifts in country EPS forecasts (Figure 7). This seems to reflect more clearly the impact of currencies. Switzerland has seen downgrades while Japan has seen upgrades. Non commodity stocks in commodity-exposed countries like Canada and Australia have actually seen upgrades. They have benefited from lower commodity prices (through a weaker currency) without suffering so directly from the negative impact, although that may come in time if their economies weaken. This is a good time to be a non-commodity stock in a commodity-driven stock market.

GDP Upgrades, EPS Downgrades

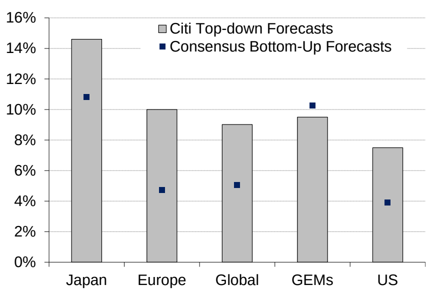
This all defies the general message from most economists that the fall in the oil price should provide a boost to global GDP. Sure, commodity-dependent economies may suffer but the positive effect elsewhere should help to outweigh any negative impact on the overall economy. For example, over the last three months Citi's economists raised their US 2015 real GDP forecast from 3.2% to 3.6% partly to reflect the positive impact of a lower oil price.

This is generally consistent with an oil-price sensitivity analysis we ran recently using the OEF model (Citi View On Falling Oil). Holding everything else constant (which it never is, of course) this suggests that a $10 drop in the oil price should boost global real GDP by 7bp. Therefore, the $60 fall since last June should add 0.4% to global GDP. Not dramatic, but helpful nonetheless.

Maybe the current weakness of global EPS is merely reflecting timing effects. Oil company analysts will always downgrade their forecasts quickly in response to a plunging oil price. However, those who follow companies that benefit from lower input costs or wealthier customers will be slower to upgrade. This is an argument made by Tobias Levkovich in his recent analysis of US EPS. He points out that there have been few upgrades in the US Consumer Discretionary stocks, which should be best placed to benefit from the positive impact of lower oil prices on the US/global consumer. Alternatively, there have been savage downgrades in US Energy EPS forecasts.

Tobias has a rule of thumb that a 1% gain in US real GDP turns into a 4% gain in EPS. With Citi forecasting GDP growth of 3.6% in 2015, that would suggest 14% EPS growth this year, well above the current 3.9% consensus. Of course, US$ strength will be a drag on profits, but Tobias argues that US analyst forecasts have moved too far to the downside and sticks with his top-down prediction of 7.5% US EPS growth in 2015. He expects US analysts to shift towards upgrades later in the year.

Figure 8. 2015 EPS Growth Forecasts



Source: Citi Research, Factset Estimates

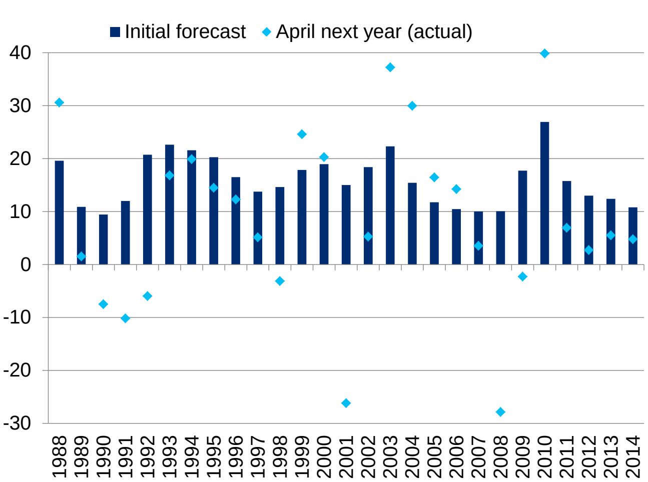
There is a similar message from other Citi strategists. For once, their top-down forecasts are generally higher than the analyst consensus (Figure 8). Kenji Abe is currently forecasting 15% Japan EPS growth in 2015 compared to the analyst consensus at 11%. Jonathan Stubbs is expecting 10% EPS growth in Europe compared to analysts at 5%. Both Kenji and Jonathan think that bottom-up forecasts are underestimating the impact of QE. This should provide an immediate boost to Japanese and European EPS as currencies fall. More gradually, the positive impact of QE on their respective economies should also help to improve company profits.

Overall, Citi strategists now expect global EPS to grow by 9% in 2015. This was below the bottom-up consensus back in September, but is now above. In the shorter term, the negative impact of a lower oil price may continue to depress overall market forecasts, but we expect to see more signs of the positive impact of lower commodity prices later in the year. We would be more concerned if global GDP *and* EPS forecasts were being downgraded. For now at least, that is not the case.

Analysts Are Usually Too Bullish On EPS

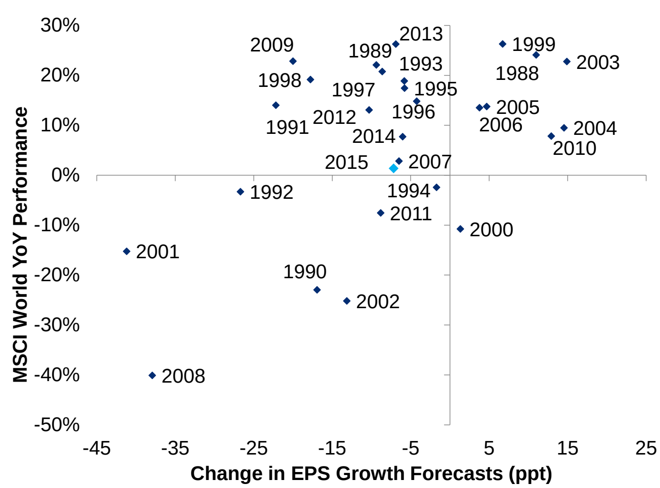
Another point to remember is that analysts are usually too bullish on corporate profits. Figure 9 shows initial estimates and eventual outcomes for consensus global EPS growth forecasts going back to 1988. In only five years (1988, 1999, 2003, 2004 and 2010) were analyst forecasts too low. In every other year they were too high. In fact, the "median miss" was 7%. Since underestimating the EPS rebound of 2010, the average annual miss has been 8%. Given that analysts started forecasting 12% EPS growth for 2015, this would suggest a reduction to 5% is perfectly normal.

Figure 9. Initial Bottom-up EPS Growth Forecasts* Vs. Actual Outcome



Source: Citi Research, IBES. *MSCI World Consensus from IBES

Figure 10. Changes To EPS Growth Forecasts Vs. Market Performance



Source: Citi Research, IBES, MSCI.

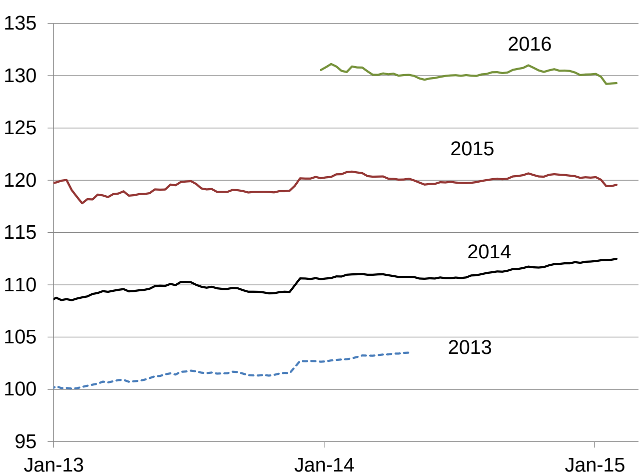
The market seems to understand that analyst downgrades are not necessarily a reason to turn bearish. Figure 10 plots the annual forecast miss against global equity performance since 1988. Positive misses (ie analyst forecasts are too low) are always associated with positive returns from global equities. And sure, very big EPS misses like 2001 and 2008 have been associated with big drops in the global equity market. But negative misses do not always mean negative returns – of the 19 years since 1988 when analyst forecasts have been too high, 12 have seen a rising stock market.

This may question the popular view that, given EPS disappointments, the only thing propping up equity markets right now is QE. While it obviously helps, there were plenty of pre-QE years when stock markets did well despite companies missing analyst EPS expectations.

Analysts Better At Forecasting DPS

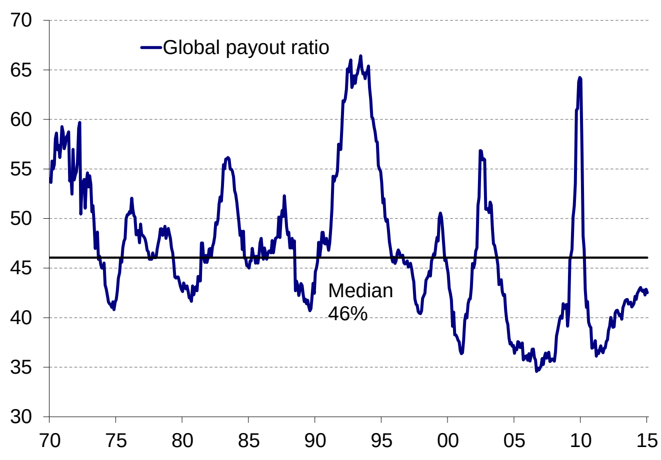
Analysts seem to be better at forecasting dividends. Figure 11 shows the progression of global DPS forecasts since 2012. The eventual outcomes have been much closer to the original forecast than for EPS. This makes sense given that EPS are more volatile than DPS. If anything, analysts have tended to underestimate dividends in recent years. We also looked at global dividend growth forecasts back to 2005. While analysts have been consistently overoptimistic on EPS, the median miss on DPS has been zero. This does not mean that they aren't too bullish or bearish in individual years, but, unlike EPS estimates, there is no consistent bullish bias. This will have been an important support to global market in recent years. EPS estimates may have been under pressure, but DPS expectations have been met or even exceeded.

Figure 11. Global Consensus Bottom-up DPS Forecasts*



Source: Citi Research, Factset. *100= First 2013E DPS

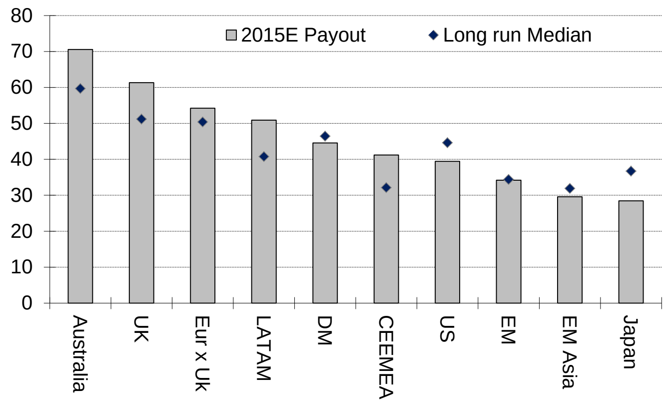
Figure 12. MSCI World Payout Ratio



Source: Citi Research, MSCI, Factset

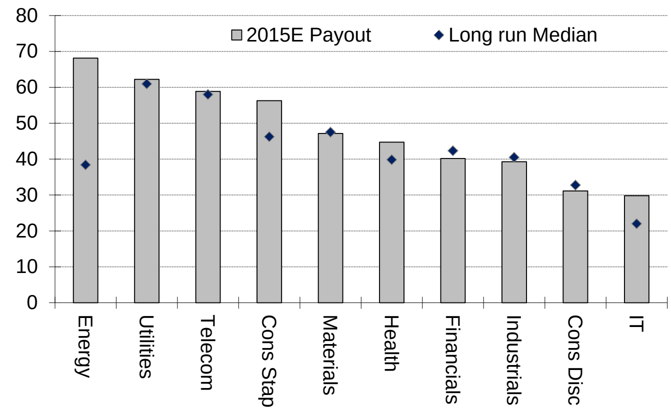
The 2015 forecast looks no different. Global EPS are being downgraded but DPS are rock solid. This implies 6% forecast DPS growth in 2015 followed by 8% in 2016. Should we take reassurance from this, or are dividends looking increasingly vulnerable? The global payout ratio suggests this is not the case. Current 2015 consensus EPS and DPS estimates imply a payout ratio for the year of 43%, well below the long-term median of 46% (Figure 12). There is still plenty of scope for global equities to hit or even exceed analyst dividend forecasts even if EPS disappoint.

Figure 13. Payout Ratio By Regions



Source: Citi Research, Datastream

Figure 14. Payout Ratio By Sectors



Source: Citi Research, Datastream

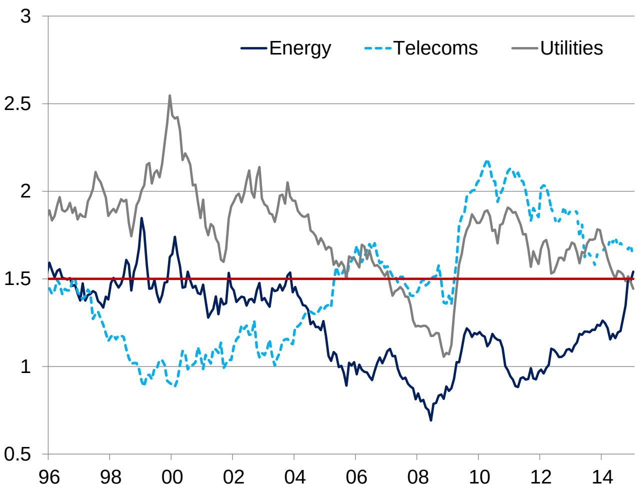
Where might the scope for future positive dividend surprises be greatest? Figure 13 shows global payout ratios embedded in analysts' current 2015 forecasts. Japan and EM Asia (we are Overweight both) have low payout ratios both relative to the rest of the world and compared to their history. The US also may have scope to surprise positively. Alternatively, Australia and the UK (two of the world's highest yielding markets) already have high payout ratios well ahead of their long run medians. We are Underweight both markets right now. At a sector level (Figure 14), the standout opportunity continues to be IT where we are currently Overweight. Dividends are already rising fast in this sector (growth of 11% is predicted in 2015) but there looks like plenty of scope for more.

Energy Temptation

That brings us to the Energy sector. With government bond yields hitting unprecedented lows across the world, its dividend yield of 3.8% based on consensus 2015 forecasts looks very tempting. And although Energy analysts have slashed their global EPS forecast by 46% since last September, their DPS forecast is down only 5% (which implies flat dividends YoY).

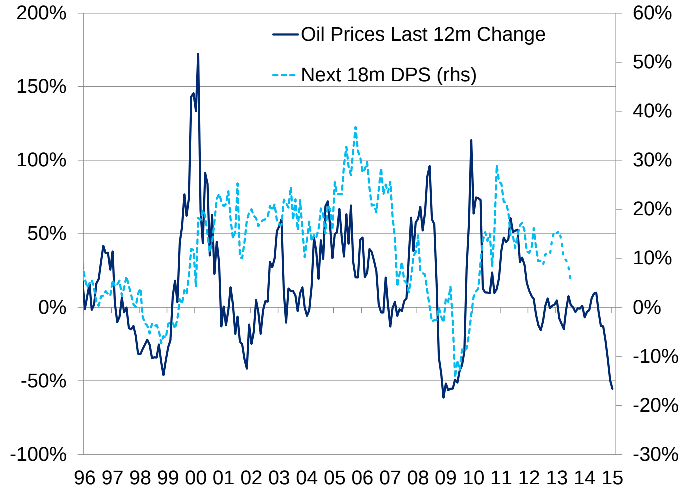
For the first time in 12 years, the Energy sector now trades at a 50% dividend yield premium to the global equity market (Figure 15). This is now above Utilities. Only global Telecoms trade on a higher yield. Does this mean that equity investors should shut their eyes and buy? We would be wary.

Figure 15. DY Relative Above 1.5



Source: Citi Research, Datastream

Figure 16. Oil Price Change Vs. Future DPS Change



Source: Citi Research, Datastream

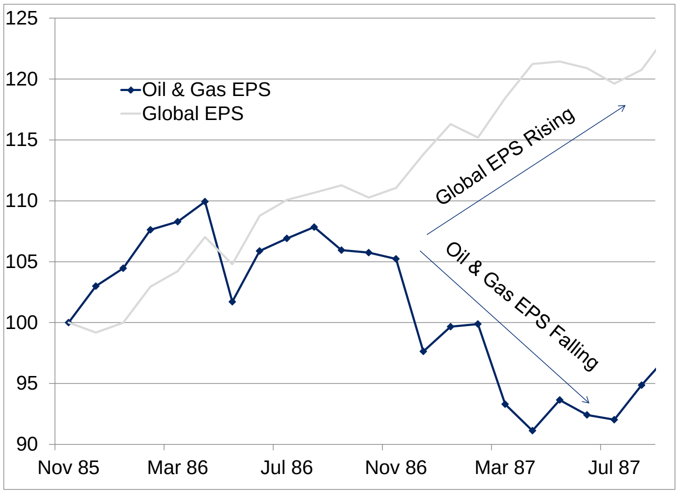
Only 6 (out of 10 in total) global sectors have traded on a 50% yield premium in the last 20 years. Sometimes it has been great buy signal (Energy in 2000), but sometimes it has been a sign of impending disaster (Financials in 2007). We looked at the 16 incidents since 1995 when one of these sectors moved above a 50% yield premium (ie where Energy is now). Unsurprisingly, the success of a strategy which buys at this relative valuation is dictated by the future direction of dividends. In the 9 cases where a global sector held or increased its dividend, the median gain was 2% in the next 12 months which represented outperformance of 17%. In the 7 cases where the dividend was cut, the median loss was 2% which represented underperformance of 10%.

The big question here is can Energy companies hold their dividends? The current analyst consensus suggests they can, but we would be more wary. Payout ratios are already high (Figure 14) while previous 50% plus drops in the oil price have often been followed by dividend cuts from Energy stocks (Figure 16). We remain Underweight and would point investors towards the lower-risk Telecom sector instead. Compared to Energy, the Telecom sector trades on a higher yield (4.1%) and has a less stretched payout ratio. Of course, a sustained rebound in the oil price would allow Energy stocks to pay their dividends but this outcome is not forecast by Citi commodity experts.

Just Like 1986?

That brings us to the 1985-86 precedent. This was a classic supply-side shock to the oil price. Saudi Arabia raised production and Brent plunged by 70% in just 9 months. As a result, global Oil and Gas EPS fell by almost 20% in the following 2 years. By contrast, other sectors continued to prosper. Despite the pain in the Energy sector, global EPS rose by 20%.

Figure 17. Oil & Gas Sector and Global EPS



Source: Citi Research, Datastream

Figure 18. Global Oil & Gas Sector DY Relative

Source: Citi Research, Datastream

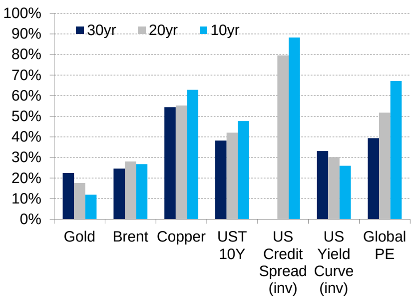
1986 suggests that a supply-driven sharply fall in oil prices in the middle of the global economic cycle will hit the Energy sector hard, but need not drag down the rest of the market. Those investors tempted by the juicy yields currently available in the Energy sector should take note that the yield premium peaked at 120% (currently 50%) back then.

Canaries In The Coal Mine?

Our analysis is all based on the premise that this is largely a supply-driven collapse in the oil price. It is not telling us something more profound about the world economy – much more like 1986 than 2008.

But could we be wrong? To examine this, we looked at the predictive power of the oil price when compared to global EPS. We also compared it to some other classic lead indicators such as copper, US credit spreads, the shape of the yield curve or equity market PEs. This was featured in a recent report by our global commodity analysts.

Figure 19. Correlations: Next 12M Change in Global EPS and Last 12M Change Of Factors



Source: Citi Research, Datastream

Figure 19 looks at the correlations between 12-month changes in these “canaries in the coal mine” and the next 12-month move in global EPS. We look at these variables over various time periods. The relationships are clearly unstable, but some lessons can be drawn. The first lesson is that oil is not an especially good forecaster of future EPS. In fact it is almost as bad as gold.

Copper, US HY credit spreads and the global equity market PE are much better canaries. It does seem that Dr Copper gives a more accurate diagnosis of the world economy than Dr Oil. A derating stock market would also seem to be a good indicator of significant EPS problems to come. But credit spreads seem to work best of all.

What are these better canaries (copper, US HY credit spreads, Global Equity PE) saying? If we replicate the historic relationship, copper is suggesting that global EPS will fall by 2% over the next 12 months. US HY credit spreads (which are themselves being driven up by the lower oil price) predict +3%. The global PE (which has been relatively stable) predicts +10%. On average, our three canaries predict +4% global EPS over the next 12 months, close to the analysts’ consensus of +5% and not too far away from our top-down forecast of +9%. These three variables are not especially accurate forecasters of future EPS, especially at their current levels, but they have a much better track record than oil. It is generally reassuring that they are not saying anything hugely different to current bottom-up or top-down EPS forecasts. In our opinion, a collapsing oil price is not a good enough reason to turn bearish on global EPS and hence the global stock market. Further big drops in copper or big increases in US credit spreads would be more of a concern.

Global Market Intelligence

Figure 20. Global Market Intelligence by Region

30 Jan 15	Free MC	Wgt	P/E			EPS YoY %			P/B	ROE	Div Yld	CAPE	Perf % (local)		Perf % (USD)	
	US$bn	%	14E	15E	16E	14E	15E	16E	15E	15E	15E	10Yr	Weekly	YTD	Weekly	YTD
Global	36,300	100	16.2	15.4	13.7	8.4	5.1	12.3	2.0	12.6	2.6	20.6	-1.5	-0.4	-1.9	-1.6
Developed World	32,467	89.4	16.7	16.1	14.3	9.0	4.3	12.3	2.0	12.7	2.6	21.3	-1.5	-0.6	-1.8	-1.9
Emerging World	3,833	10.6	12.8	11.6	10.3	4.7	10.3	12.2	1.5	11.8	3.0	16.0	-1.7	1.4	-3.0	0.6
North America	19,949	55.0	17.4	16.8	14.9	8.3	3.3	12.8	2.5	14.8	2.1	24.7	-2.5	-2.7	-2.7	-3.3
USA	18,744	51.6	17.5	16.8	14.9	7.9	3.9	12.6	2.5	15.1	2.1	25.1	-2.7	-2.9	-2.7	-2.9
Canada	1,206	3.3	15.8	16.6	14.4	13.5	-5.6	15.7	1.8	10.8	3.0	20.7	-0.8	0.1	-2.9	-8.5
Europe	8,208	22.6	15.9	15.3	13.6	7.8	4.7	12.7	1.7	11.2	3.6	16.2	-0.1	3.8	-0.7	-0.1
United Kingdom	2,596	7.2	14.4	15.1	13.3	1.8	-4.2	13.6	1.7	11.5	4.2	14.4	-1.3	2.7	-1.3	-1.1
Europe ex UK	5,612	15.5	16.7	15.4	13.7	11.3	9.5	12.3	1.7	11.1	3.3	17.2	0.4	4.3	-0.4	0.4
France	1,218	3.4	16.4	15.4	13.6	10.5	6.5	13.5	1.5	9.5	3.4	16.1	-0.6	8.0	-0.3	0.7
Switzerland	1,167	3.2	16.2	16.4	15.0	4.4	-0.9	9.0	2.4	14.5	3.5	21.2	2.7	-6.8	-2.0	0.7
Germany	1,159	3.2	15.6	14.2	12.8	8.6	10.2	10.9	1.7	11.8	2.9	19.1	0.1	8.9	0.4	1.6
Spain	420	1.2	16.4	14.1	12.1	6.6	15.8	16.9	1.3	9.1	4.2	12.5	-2.0	0.3	-1.7	-6.5
Sweden	392	1.1	19.0	16.8	15.1	-3.2	13.3	11.4	2.3	13.6	3.8	21.9	2.7	8.0	2.6	2.2
Netherlands	340	0.9	19.1	16.0	14.5	8.2	19.2	10.9	2.0	12.4	2.9	19.2	0.0	7.3	0.3	0.1
Italy	282	0.8	16.4	14.3	11.9	165.6	33.2	20.6	1.0	6.9	3.8	10.9	-0.3	7.2	0.1	0.0
Denmark	192	0.5	20.2	17.8	15.6	27.3	13.5	13.7	3.0	16.9	2.4	33.9	0.7	9.2	1.0	1.9
Belgium	169	0.5	21.8	18.5	16.7	15.1	17.8	10.5	2.2	11.9	2.7	19.7	0.9	11.9	1.2	4.4
Finland	113	0.3	18.9	17.6	16.6	23.1	7.3	6.1	2.3	12.9	3.8	17.8	-1.6	8.4	-1.3	1.1
Norway	82	0.2	11.4	11.9	10.9	8.7	-4.3	9.2	1.2	10.3	4.3	12.6	-1.0	4.6	-0.7	1.2
Ireland	40	0.1	23.4	18.1	14.6	381.0	29.2	24.2	1.8	9.7	1.7	13.3	-4.1	3.1	-3.8	-3.9
Austria	23	0.1	31.9	11.2	8.7	-59.6	183.6	29.2	0.8	6.9	3.6	7.9	-2.2	-1.3	-1.9	-7.9
Portugal	18	0.0	19.7	15.1	12.1	280.9	30.8	24.2	1.3	8.8	4.0	7.9	-4.2	6.2	-3.9	-0.9
Japan	2,703	7.4	15.7	14.2	12.9	20.6	10.8	9.7	1.3	9.1	2.0	25.0	0.5	0.3	0.8	2.3
Asia Pac ex Jp	4,128	11.4	13.7	12.7	11.5	5.3	7.9	9.9	1.5	11.8	3.2	18.2	-0.5	2.7	-1.4	1.5
Pacific ex Jp	1,537	4.2	15.5	15.2	13.9	6.4	1.8	8.5	1.6	10.5	4.2	18.7	1.2	3.4	-0.1	0.0
Australia	918	2.5	15.5	15.3	14.2	4.4	1.1	8.2	1.9	12.4	4.8	18.6	1.6	3.2	-0.5	-1.8
Hong Kong	409	1.1	15.9	15.7	13.8	9.6	1.5	8.5	1.3	8.1	2.9	21.8	1.2	5.5	1.2	5.5
Singapore	191	0.5	14.3	13.5	12.3	10.1	5.4	9.8	1.3	9.6	3.7	15.5	-0.3	-0.2	-1.0	-2.2
New Zealand	19	0.1	21.0	20.1	18.7	5.3	4.3	7.8	1.9	9.5	4.7	17.7	1.6	4.8	-1.5	-2.7
Em Asia	2,592	7.1	12.8	11.6	10.5	4.8	10.9	10.5	1.4	12.4	2.7	17.8	-1.6	2.2	-2.1	2.4
China	853	2.3	10.4	10.0	8.8	3.2	4.5	12.9	1.3	13.4	3.2	16.2	-2.9	2.2	-2.9	2.3
Korea	574	1.6	11.7	9.7	9.1	-4.1	21.0	7.3	1.0	9.8	1.6	13.3	-0.4	1.8	-1.3	2.3
Taiwan	486	1.3	14.1	12.7	12.0	27.0	10.9	6.1	1.7	13.5	3.5	21.1	-1.6	0.7	-2.2	1.0
India	294	0.8	20.6	18.0	15.4	8.7	14.0	17.5	2.8	15.7	1.5	30.7	-0.8	5.9	-1.4	7.9
Malaysia	134	0.4	16.5	15.3	14.0	-1.8	7.8	9.6	1.8	12.0	3.3	20.5	-1.4	1.0	-2.1	-2.6
Indonesia	104	0.3	16.6	15.2	13.4	9.9	9.1	13.6	3.0	19.3	2.5	26.7	-1.7	1.1	-3.2	-1.2
Thailand	95	0.3	16.1	14.2	12.4	-3.1	13.8	14.0	2.0	14.2	3.1	18.9	-1.1	2.8	-1.5	3.3
Philippines	52	0.1	22.4	19.9	17.7	6.9	12.6	12.1	3.0	14.8	2.1	32.4	1.8	5.4	1.9	7.0
Latin America	588	1.6	14.1	13.0	10.8	-0.6	8.7	19.5	1.4	10.5	3.4	14.3	-3.3	-4.9	-6.1	-6.3
Brazil	315	0.9	11.4	10.9	9.0	-2.5	4.4	20.9	1.2	10.1	4.5	11.3	-3.6	-5.7	-7.2	-6.6
Mexico	176	0.5	21.7	17.7	15.4	2.4	22.8	14.8	2.3	12.9	1.9	24.7	-4.0	-4.5	-6.2	-6.0
Chile	52	0.1	18.3	15.1	13.0	5.5	21.6	16.2	1.4	9.3	2.9	19.9	-0.6	0.0	-1.9	-4.1
Colombia	28	0.1	15.5	18.6	14.7	-1.2	-16.5	26.7	1.2	6.5	2.6	21.9	-1.7	-7.1	-3.6	-9.3
Peru	17	0.0	13.6	11.8	9.4	14.0	15.1	26.3	1.9	15.8	2.0	15.3	-1.6	-5.1	-1.6	-5.1
CEEMEA	653	1.8	11.9	10.4	9.2	8.5	9.1	13.0	1.5	10.9	3.8	13.5	-0.7	4.2	-3.5	0.1
South Africa	314	0.9	18.2	16.9	14.8	8.1	7.8	14.4	2.5	14.7	3.1	28.0	2.4	5.0	0.3	4.5
Russia	121	0.3	5.4	4.7	4.1	16.4	5.0	11.8	0.8	8.9	5.5	7.1	-4.0	12.9	-11.3	-0.8
Turkey	68	0.2	12.7	11.1	9.6	-1.0	13.8	15.4	1.5	13.2	2.9	17.1	-2.2	3.5	-6.0	-0.8
Poland	58	0.2	17.5	13.2	12.5	-20.4	32.6	5.5	1.3	9.6	4.2	11.4	0.8	0.6	1.7	-3.7
Greece	13	0.0	13.2	10.6	8.8	41.7	25.2	19.6	1.5	8.8	4.7	2.1	-25.5	-24.4	-25.3	-29.5
Egypt	10	0.0	18.5	12.4	9.9	32.3	49.8	24.7	2.0	16.2	2.8	24.4	0.1	12.6	-2.4	6.1
Czech Republic	8	0.0	12.5	13.7	14.1	-15.6	-8.9	-2.5	1.4	10.0	5.5	10.7	1.2	0.2	1.3	-6.6
Hungary	7	0.0	12.1	9.7	7.8	-16.7	23.8	25.3	0.8	7.8	4.0	6.7	-2.2	-1.5	-2.2	-6.7
Israel	71	0.2	10.9	10.5	10.2	12.7	3.1	3.1	1.5	14.7	2.8	16.8	-2.5	-0.4	-0.4	-1.2
Qatar	32	0.1	14.7	13.6	12.4	4.1	8.3	9.3	2.1	15.8	4.5	#N/A	2.2	-4.9	2.2	-4.9
United Arab Emirates	23	0.1	13.3	12.4	10.1	25.8	6.9	22.9	1.5	12.1	3.6	#N/A	-5.8	-5.7	-5.8	-5.7

Source: Citi Research, MSCI, Worldscope, Factset Consensus estimates

Figure 21. Global Market Intelligence by Sector

30 Jan 15	Free MC	Wgt	P/E			EPS YoY %			P/B	ROE	Div Yld	CAPE	Perf % (local)		Perf % (USD)	
	US$bn	%	14E	15E	16E	14E	15E	16E	15E	15E	15E	10Yr	Weekly	YTD	Weekly	YTD
Global	36,300	100	16.2	15.4	13.7	8.4	5.1	12.3	2.0	12.6	2.6	20.6	-1.5	-0.4	-1.9	-1.6
Sectors - Level 1																
Energy	2,793	7.7	11.7	18.0	13.9	2.9	-35.4	29.7	1.3	6.8	3.8	11.3	-2.1	-2.8	-2.7	-5.0
Materials	1,964	5.4	16.5	15.4	13.0	1.3	7.2	18.2	1.6	10.6	3.0	15.4	0.2	1.4	-0.5	-0.9
Industrials	3,805	10.5	17.3	15.5	14.0	9.2	11.5	10.3	2.3	14.7	2.4	22.3	-1.4	-0.7	-1.6	-1.9
Consumer Disc.	4,410	12.1	18.6	16.1	14.1	9.9	15.7	14.2	2.6	16.4	1.9	28.9	-0.6	-0.1	-0.8	-1.0
Consumer Staples	3,621	10.0	20.8	19.7	18.0	1.9	5.4	9.5	3.6	18.6	2.7	27.7	-1.1	2.3	-1.7	1.3
Health Care	4,366	12.0	19.7	18.3	16.4	12.3	7.6	11.7	3.6	19.9	1.9	32.2	-1.0	2.6	-1.5	2.3
Financials	7,671	21.1	13.3	12.1	10.9	10.8	10.6	10.5	1.2	9.7	3.3	15.1	-2.0	-2.9	-2.5	-4.7
IT	5,013	13.8	17.0	15.4	13.9	14.2	10.7	10.6	2.9	19.0	1.7	29.2	-3.1	-1.9	-3.2	-2.2
Telecoms	1,401	3.9	16.8	16.0	14.7	-0.8	4.6	8.3	2.2	13.7	4.1	18.2	-1.6	3.1	-1.9	1.2
Utilities	1,256	3.5	16.5	15.5	15.4	9.5	6.5	1.1	1.5	9.9	3.6	17.9	-0.3	2.6	-0.4	0.7
Sectors - Level 2																
Energy	2,793	7.7	11.7	18.0	13.9	2.9	-35.4	29.7	1.3	6.8	3.8	11.3	-2.1	-2.8	-2.7	-5.0
Materials	1,964	5.4	16.5	15.4	13.0	1.3	7.2	18.2	1.6	10.6	3.0	15.4	0.2	1.4	-0.5	-0.9
Capital Goods	2,661	7.3	16.3	14.9	13.6	7.3	9.4	10.0	2.1	14.3	2.6	20.6	-1.8	-1.2	-1.9	-2.2
Comm Svc & Supp	300	0.8	20.4	18.7	16.9	9.0	9.2	10.4	3.1	16.9	2.2	25.3	-0.1	0.7	-0.6	-0.1
Transport	844	2.3	19.9	16.5	14.8	17.4	20.4	11.4	2.5	15.2	2.0	28.5	-0.7	0.4	-1.1	-1.4
Autos	1,062	2.9	11.8	10.1	9.1	12.2	16.2	12.0	1.4	13.8	2.5	21.4	-0.8	2.8	-0.7	1.6
Consumer Durables	652	1.8	21.3	17.8	15.4	6.7	19.5	16.0	2.5	14.0	1.9	30.4	0.2	-0.9	-0.2	-1.5
Consumer Services	554	1.5	22.1	20.1	17.6	6.7	9.9	14.3	4.3	21.5	2.5	29.9	-0.4	0.1	-0.6	-0.9
Media	1,002	2.8	21.9	18.8	16.1	7.8	16.8	16.3	3.4	18.7	1.6	34.1	-2.3	-3.0	-2.5	-4.2
Retailing	1,140	3.1	24.9	21.7	18.9	11.6	14.3	14.9	4.8	21.9	1.3	34.3	0.4	0.3	0.3	-0.3
Food & Staples	785	2.2	20.0	18.5	16.6	-1.6	8.0	11.5	2.6	13.8	2.2	25.7	-1.6	1.7	-2.0	0.1
Food Bev & Tobac.	2,204	6.1	20.6	19.6	18.0	3.0	5.0	8.9	4.0	20.6	3.0	28.0	-0.7	3.0	-1.4	2.3
Household Products	632	1.7	22.5	21.8	20.1	2.8	3.3	8.8	4.8	21.2	2.4	29.9	-1.9	0.4	-1.9	-0.8
Health Care	1,106	3.0	19.7	18.1	16.3	9.4	8.8	11.4	3.0	16.5	1.2	31.9	-2.1	1.6	-2.2	1.0
Pharma & Biotech	3,260	9.0	19.7	18.4	16.4	13.4	7.2	11.8	3.9	21.4	2.1	32.3	-0.6	2.9	-1.3	2.8
Banks	3,662	10.1	11.5	10.2	9.2	10.7	13.9	10.8	1.0	10.1	3.8	12.2	-2.3	-4.6	-2.8	-7.2
Div Financials	1,337	3.7	15.5	13.9	12.2	11.1	11.2	13.6	1.4	9.8	2.2	16.7	-2.2	-6.4	-2.7	-6.5
Insurance	1,490	4.1	12.2	11.7	10.7	11.5	4.5	7.6	1.2	10.3	3.1	17.1	-1.4	-1.2	-2.0	-3.0
Real Estate	1,182	3.3	24.1	23.2	21.0	9.5	4.0	9.9	1.6	6.7	3.2	26.3	-1.4	5.2	-1.7	4.2
Software & Services	2,331	6.4	20.1	18.6	16.3	10.5	7.9	13.7	3.8	20.5	1.2	34.3	-4.2	-3.1	-4.3	-3.5
Tech	1,913	5.3	14.7	13.1	12.1	9.9	11.8	8.3	2.3	17.6	2.0	27.0	-1.4	-0.2	-1.4	-0.2
Semi & Semi Equip	769	2.1	16.2	14.2	13.0	40.7	14.0	9.4	2.9	20.1	2.3	25.4	-3.7	-2.6	-3.9	-3.0
Telecom	1,401	3.9	16.8	16.0	14.7	-0.8	4.6	8.3	2.2	13.7	4.1	18.2	-1.6	3.1	-1.9	1.2
Utilities	1,256	3.5	16.5	15.5	15.4	9.5	6.5	1.1	1.5	9.9	3.6	17.9	-0.3	2.6	-0.4	0.7

Source: Citi Research, MSCI, Worldscope, Factset Consensus estimates

Figure 22. 2015 P/E Estimates by Region & Sector

30 Jan 15 P/E 15E	Global	DM	GEM	US	Eur ex UK	UK	Jap	Dev Asia	Em Asia	Lat Am	CEEMEA
Region	15.4	16.1	11.6	16.8	15.4	15.1	14.2	15.2	11.6	13.0	10.4
Sectors - Level 1											
Energy	18.0	21.7	7.3	24.7	14.5	15.3	12.6	18.7	12.4	7.8	4.5
Materials	15.4	15.7	13.4	16.4	16.7	13.2	13.5	14.0	12.8	17.0	11.0
Industrials	15.5	15.6	14.5	15.9	16.0	15.1	13.9	15.8	14.4	16.5	13.2
Consumer Disc.	16.1	16.5	12.3	18.7	14.5	16.9	12.6	16.5	9.4	17.8	24.1
Consumer Staples	19.7	19.5	21.6	19.2	20.7	19.3	22.1	16.1	23.6	19.7	20.4
Health Care	18.3	18.2	23.1	17.9	18.7	17.3	28.5	22.2	23.6	17.3	23.2
Financials	12.1	12.7	9.3	13.7	11.4	11.1	11.8	14.4	8.6	9.6	12.1
IT	15.4	15.9	13.0	15.6	18.8	28.6	16.5	14.0	13.0	16.6	
Telecom Services	16.0	16.2	15.3	14.2	18.3	23.2	14.4	17.5	16.7	14.5	12.6
Utilities	15.5	16.7	9.7	17.9	14.7	16.1	12.8	18.7	9.0	12.2	10.0
Sectors - Level 2											
Energy	18.0	21.7	7.3	24.7	14.5	15.3	12.6	18.7	12.4	7.8	4.5
Materials	15.4	15.7	13.4	16.4	16.7	13.2	13.5	14.0	12.8	17.0	11.0
Capital Goods	14.9	15.0	13.8	15.7	16.1	14.6	12.6	11.5	13.4	17.2	13.4
Comm Svc & Supp	18.7	18.6	21.3	18.9	17.8	17.0	21.7	19.3	21.3		
Transport	16.5	16.5	16.5	15.5	15.0	13.5	17.4	22.2	17.6	15.7	12.7
Autos & Components	10.1	10.6	7.6	11.1	10.5	13.3	10.5		7.6		14.2
Consumer Durables	17.8	18.3	13.6	18.4	18.3	15.5	19.0	15.5	14.0	5.8	14.1
Consumer Services	20.1	20.5	14.9	21.1	22.8	19.4	35.2	16.6	18.2	11.4	12.4
Media	18.8	18.0	34.5	17.8	20.3	16.5	28.8	23.7	24.0	25.5	42.1
Retailing	21.7	22.1	16.6	22.4	26.6	15.6	24.2	12.8	14.2	19.9	16.7
Food & Staples Retailing	18.5	18.4	20.0	19.1	15.9	16.9	19.7	16.8	21.5	18.6	20.4
Food Bev & Tobacco	19.6	19.5	20.6	18.8	21.1	19.1	21.1	13.4	21.1	20.1	20.4
Household Products	21.8	21.3	30.3	20.1	22.8	23.3	30.0		33.2	19.7	
Health Care Equip & Svc	18.1	18.0	22.5	17.4	22.6	20.0	25.4	24.1	24.0	21.9	20.8
Pharma & Biotech	18.4	18.3	23.4	18.2	18.4	17.1	29.3	21.2	23.5	11.5	25.3
Banks	10.2	10.8	8.3	10.9	11.0	9.4	9.0	13.1	7.6	8.7	11.1
Div Financials	13.9	14.0	12.9	14.5	12.3	14.0	11.2	20.1	11.7	17.0	13.4
Insurance	11.7	11.5	14.0	10.6	10.6	13.5	12.8	16.6	14.0	12.9	14.6
Real Estate	23.2	26.2	9.8	39.0	21.2	26.4	25.9	15.3	8.1	19.9	14.2
Software & Services	18.6	18.2	24.2	18.3	17.4	18.8	17.1	14.1	24.9	16.6	
Tech Hardware & Equip	13.1	13.7	10.8	13.0	18.6		15.9		10.8		
Semi & Semi Equip	14.2	15.6	11.3	14.5	23.1	35.3	22.9	13.9	11.3		
Telecom	16.0	16.2	15.3	14.2	18.3	23.2	14.4	17.5	16.7	14.5	12.6
Utilities	15.5	16.7	9.7	17.9	14.7	16.1	12.8	18.7	9.0	12.2	10.0

Source: Citi Research, MSCI, Worldscope, Factset Consensus estimates

Appendix A-1

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