



## Relative Value Report 7/17/2020

The Relative Value Report provides guidance on which sectors, factors, indexes, and bond classes are likely to outperform or underperform its appropriate benchmark.

Click on the [Users Guide](#) for details on the model's relative value calculations as well as guidance on how to read the graphs.

*This report is just one of many tools that we use to assess our holdings and decide on potential trades. Just because this report may send a strong buy or sell signal, we may not take any action if it is not affirmed in the other research and models we use.*

### Commentary

- Materials are grossly overbought versus the S&P 500 at nearly 2.5 standard deviations above fair value. Communications and Discretionary remain overbought, but not to the same degree.
- Healthcare moved back to fair value. The only cheap sector versus the S&P 500 is Real estate. We exited real estate recently as we are very uncomfortable with the fundamental underpinnings of the sector.
- Most sectors are close to fair value.
- In the Factor/Index (renamed) analysis, the laggards are finally catching up. For instance, Value versus Growth finally moved higher. Equal weighted and Mid-caps also moved back towards fair value. Conversely, the "go-go" sectors moved down toward fair value. These include Momentum, NASDAQ, and Emerging Markets.
- Like the sectors, most factors and indexes are bunched around fair value.
- Quite frankly, with bond yields barely moving, the fixed income analysis is boring. Note that little changed versus last week. Mortgages remain oversold.
- The R-squared on the sigma/20 day excess return (Sectors) scatter plot is .43. XLE is significantly reducing the correlation as its score is not reflective of recent performance versus the S&P 500. We ran the graph without XLE, and the correlation rose to nearly .70.

### Graphs (Click on the graphs to expand)



The ETFs used in the model are as follows:

- Staples XLP
- Utilities XLU
- Health Care XLV
- Real Estate XLRE
- Materials XLB
- Industrials XLI
- Communications XLC
- Banking XLF
- Transportation XTN
- Energy XLE
- Discretionary XLY
- S&P 500 SPY
- Value IVE

- Growth IVW
- Small Cap SLY
- Mid Cap MDY
- Momentum MTUM
- Equal Weighted S&P 500 RSP
- NASDAQ QQQ
- Dow Jones DIA
- Emerg. Markets EEM
- Foreign Markets EFA
- IG Corp Bonds LQD
- High Yield Bonds HYG
- Long Tsy Bonds TLT
- Med Term Tsy IEI
- Mortgages MBB
- Inflation TIP