UBS

US Consumer Discretionary

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Sector view: Neutral

Strategy: Our equity strategy team recommends a Neutral allocation to the sector as important segments of the consumer discretionary sector such as autos, housing, and lodging tend to perform best early in the cycle. Also, the Federal Reserve's interest rate increases could become more of a headwind for these interest-rate sensitive industries.

Our positioning within the sector: We are attracted to strong brands/content with pricing power and companies that are aligned to the needs of the millennial consumer given the outsized impact that this demographic will have on consumption trends for years to come. In addition, we look for companies with leading e-commerce and omni-channel capabilities and international exposure, particularly within the emerging markets.

Sector Benchmark: S&P US Consumer Discretionary Index

Consumer durables & apparel: Most Preferred
Prefer to own global brands in the athletic category that are not overexposed to the US department store sector.

Consumer services: Most Preferred
Macro tailwinds should help support consumer spending and commodity deflation is largely helping to offset rising wage inflation at restaurants.

Retailing: Neutral
We prefer off-pricers and companies that are tied to home improvement spending. Upcoming holiday season should once again be very competitive.

Automobiles & Components: Neutral
Economic conditions, age of fleet supportive of continued solid demand at or near current levels. Sub-sector unlikely to outperform benchmark at this stage of the cycle.

Name	Ticker	Price
Most Preferred		
Amazon.com Inc.	AMZN	1723.86
D.R. Horton Inc.	DHI	43.08
Home Depot Inc.	HD	199.67
Hyatt Hotels Corp	H	83.00
Lowe's Cos.	LOW	99.16
McDonald's Corp.	MCD	167.05
Meritage Homes Corp.	MTH	46.00
Nike Inc.	NKE	74.70
Pulte Homes Inc.	PHM	30.80
Walt Disney Co.	DIS	108.75
Bellwether List		
Comcast Corp. (Cl A)	CMCSA	33.82
Dick's Sporting Goods Inc.	DKS	37.40
Ford Motor Co	F	11.89
Gap Inc.	GPS	31.33
General Motors	GM	43.57
Hilton Worldwide	HLT	82.93
Lennar Corp. (Cl A)	LEN	53.07
Lions Gate Ent Class A	LGF.A	25.04
Lululemon Athletica	LULU	125.88
Macy's Inc.	M	37.56
Marriott International Inc.	MAR	138.75
Nordstrom	JWN	49.87
Starbucks Corp.	SBUX	57.02
Toll Brothers Inc.	TOL	39.05
Under Armour Inc.	UA	21.73
VF Corp	VFC	84.03
Viacom Inc. (Cl B)	VIA.B	28.91
Williams-Sonoma	WSM	60.85
Yum! Brands Inc.	YUM	83.38

Source: Bloomberg, UBS as of 14 June 2018

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Media: Neutral
Investors continue to be very bearish on the pace of cord-cutting, the migration to skinny bundles and the shift in advertising dollars from TV to online. We prefer to own large-cap companies that possess "must-have" content and live sports programming.

Consumer Durables & Apparel

Have you ever wondered what is the fastest growing spectator sport in the world? The NFL? No. NBA? No. Premier League Football? Wrong again. eSports, or competitive video gaming, has taken the world by storm and is now the fastest growing spectator sports in the world. Given the demographics that eSports cater to millennials and gen Z — and the global reach of gaming, we are likely still in the very early innings of growth.

Let's dig a little bit deeper into the numbers. According to a recent report by Newzoo, a market intelligence firm in eSports, games and mobile intelligence, the global eSports audience will reach 380 million in 2018. This number comprises 165 million enthusiasts and 215 million occasional viewers. Already, eSports have a larger audience than two of the major sports leagues in the United States (MLB and NHL). And eSports revenues are growing alongside viewership. According to Newzoo, the global eSports economy will grow to over USD 900 million this year, or year-over year growth of almost 40%. The majority of these dollars come from advertising, sponsorship, media rights and content licenses.

People are watching these events both in-person and streaming online. eSports arenas in California, Las Vegas and Seoul, South Korea have all hosted sold out tournaments and events. However, the big viewership numbers come online where several million people watch through streaming services such as Amazon's Twitch. Just recently, 628,000 viewers tuned in to watch the musician Drake play the game Fortnite with several of his friends. And if you think that number is big, it's nothing compared to the almost 74 million viewers who watched the League of Legends World Championship 2017.

So what are the most popular eSports games? Blizzard's Overwatch League (owned by Activision) is at the top of the list with 12 teams competing for a total prize pool of USD 3.5 million. Interestingly, these teams are branded and localized to a geographic area with team ownership ranging from Bob Kraft (owner of the New England Patriots) to Kroenke Sports and Entertainment (owners of the Los Angeles Rams, Denver Nuggets and Arsenal FC). Players have to be at least 18 years old and salaries range from USD 50,000 to USD 150,000 — not too shabby for playing video games for a living. Other popular games include Call of Duty and League of Legends.

If you have kids that play video games, there is a very good chance that they are playing Fortnite. In February, a record 3.4 million people played the game all at once and the overall user base has surpassed 45 million. While the game itself is free to download, its developer, Epic Games, is raking in the cash earning more than USD 100 million a month through in-game purchases. While Fortnite is not an eSports

game yet, we can envision a league sometime in the near future given the game's popularity.

For now, it is in the very early stages of eSports growth but the future is very bright. Investment implications range from video game publishers and technology companies to media conglomerates looking to latch on to this new form of entertainment.

So if you happen to have a 13-year old child at home who can't get away from playing video games, perhaps it's not such a bad thing at all. Just look at Tyler Blevins, a.k.a. Ninja, who is currently making USD 500,000 a month by being the most popular Fortnite player on the Twitch platform. Video games are no longer a giant waste of time.

Consumer Services

Within the fast food space, top-line results were somewhat mixed during the first quarter as unseasonably cool and wet weather greatly impacted results. Value continues to lead the way following McDonald's launch of its USD 1, USD 2, and USD 3 value campaign but others were quick to follow suit, which may have limited the impact from MCD's aggressive promotions. Nevertheless, customer awareness of the new menu is high and the company is excited about its prospects. Interestingly, the average check for transactions with this new dollar menu is higher than for people who don't use it.

Speaking of McDonald's, the company has rolled out new fresh beef quarter pounders to all of its stores across the country. A national advertising campaign began in May and early customer feedback is positive with management noting that fresh beef cook times are faster compared to frozen beef. It will be interesting to watch how competitors react but we are already seeing some chains tout that their beef is always fresh.

Labor pressures continue to be an important topic for restaurant management teams and commentary from 1Q earnings calls made it clear that it is likely to persist throughout 2018. Commodity costs remain relatively tame with most companies continuing to guide to low single digits inflation with pockets of higher inflation in beef and potatoes/fries.

Technology and delivery remain key differentiators between the haves and have-nots within the restaurant sector. Digital loyalty programs are becoming much more sophisticated and new ordering technology is making the in-store experience that much more appealing. We highlight McDonald's, Panera and Wendy's as chains that have recently added kiosks. Finally, the benefits from delivery are actually beginning to show up in the numbers, with MCD suggesting that almost 1% of its fourth quarter US comp came from delivery sales. YUM even made a USD 200 million investment in Grubhub to expand its delivery capabilities for both Kentucky Fried Chicken and Taco Bell.

Retailing

With the CPI rising 0.2% in April, and now up 2.5% in the past 12 months, consumers are paying more for everything from groceries and home furnishings to clothing and rent. While it may appear that prices are rising for everything these days, there are several examples where we actually see pricing coming down.

Across consumer packaged goods, as many as nine categories are experiencing lower retail prices over the past 12 months. These include razor blades, fresh milk, single-serve coffee and diapers; in each case, prices are down low-to-mid single digits. Overall, pricing at Proctor & Gamble and Kimberly-Clark was down by 2% and 1%, respectively, in the first quarter. Heightened competition and the cost of underlying commodities are the two primary reasons for these declines.

Within consumer discretionary, its been reported that Amazon is developing additional perks for its Prime members at Whole Foods, including a 10% discount on products that are already discounted and cash back rewards when customers use their Amazon Visa rewards card. And if the cost of your cable bill has you at wits end, cheaper options are available such as skinny bundles and new live TV streaming services like YouTube TV. In fact, the growth of these two options will likely lead to a decline in cable revenues over time. Just this past quarter, video revenue at Comcast fell 0.8% given smaller price increases.

So while it may feel like you are paying more for everything, we are here to tell you that there are opportunities to spend less. With regards to our sector preferences, our equity strategy team currently has a neutral exposure to consumer discretionary and is underweight consumer staples.

Housing & Homebuilders

Tax reform - Perhaps not as negative as originally feared

When the Tax Cuts and Jobs Act (the Act) became law, current potential homeowners in high tax states sounded the alarm over several provisions of the Act. Specifically, the focus was on the deduction limits for state and local taxes (SALT) — including real estate taxes — at USD 10,000 and the reduction from USD 1 million to USD 750,000 in the maximum amount that was eligible for a mortgage interest deduction (MID) for homes purchased after 15 December 2017. Homeowner concerns in these states were exacerbated by the fact that a number of these high tax states (including California, New York and New Jersey) have submarkets with home prices that far exceeded the national median prices for new and existing homes. Although we recognize that the limitations on SALT and MID will likely lead to higher tax payments for higher income earners that own more expensive homes, particularly in higher tax jurisdictions, the impact may not be quite as severe as some fear, at least as it pertains to home prices.

Based on our analysis, we made several high level conclusions. We extrapolated the increase in one's tax bill under the Act as the basis for estimating the impact to home prices.

- For median priced home in this country, there is likely to be little to no negative impact on home prices as the increase in the standard deduction (discussed below) is likely to offset other limitations.
- Homes valued between USD 1-2 million, particularly those purchased pursuant to the Act becoming law, could see values negatively impacted by 2-3% on average. This will clearly vary by income level and state of residence (among other things).
- For homes valued > USD 4 million, the negative impact to prices could be as much as 4-5% on average. It is crucial for investors to understand that this is a broad average and will be highly sensitive to the individual state tax rates. This is particularly true for real estate taxes. For example someone earning USD 1 million who buys a USD 5 million home in California could see their federal tax bill increase by approximately 4.7% between 2017 and 2018. That same homeowner in New York and New Jersey could see their federal tax bill increase by approximately 5.6% and 9.5%, respectively, over the same period — all else being equal.

One potential wild card that is not currently able to be analyzed is the risk of mass exodus from higher tax states to lower tax states. Although this is certainly not a new phenomenon, the potential certainly exists for an increase in migration. If this were to occur it could certainly exacerbate some of the negative impacts discussed in the report.

In our analysis, we assumed an interest only mortgage. Under this scenario, a 50 basis point (one half of a percentage point) increase in interest rates would equate to an increase of 12.5% in one's monthly mortgage payment. We estimate the tax law changes would equate to an increase in mortgage rates of 10-40 basis points from current levels, depending on home price. We wish to emphasize that housing is a hyper-local business and that the extrapolation of this analysis to a specific home's value is challenging in that each situation has its unique characteristics that could impact value beyond the metrics discussed in our report. These include, but are not limited to, emotion (a very large factor in the home buying process), the lack of understanding of the true impacts of the Act on one's personal tax situation (this will hopefully evolve with time as more people put pen to paper and confer with their tax advisors), state of residence, locality within a state, condition of the home, and quality of the school system in a given locality.

We also recognize that a number of home buyers will opt to utilize cash for their purchase and potentially refinance post purchase with a more tax efficient vehicle such as a securities backed loan. This could help mitigate some of the potential negative impacts of the Act on home prices, particularly at the higher end. Further it is important to consider that for many home buyers, the decision to purchase a home is based on factors unrelated to taxes. Although tax deductibility could potentially influence the size/location/cost of a home purchase we do not believe the vast majority of potential homebuyers are factoring

in the tax implications of their purchase. Rather, they are focused on what the monthly payment will be and how that fits into their budget.

It's not all negative

One of the key aspects of the Act as it pertains to housing resides in changes to the standard deduction and the alternative minimum tax (AMT) calculation. For the 2017 tax year, the maximum standard deduction for married couples filing jointly was USD 12,700. That has been increased to USD 24,000 for the 2018 tax year. As such many homeowners, particularly those that represent the U.S median in terms of income and home prices, would likely not be negatively effected by tax law changes with some actually seeing their tax burden decrease.

Changes to the AMT are likely to be more significant (and positive) for many taxpayers than originally understood. For the 2017 tax year the AMT exemption was USD 84,500 but began to phase out at taxable income levels greater than USD 160,900. For the 2018 tax year, the AMT exemption is USD 109,400. However the taxable income phase out level begins at income levels in excess of USD 1,000,000 (for married couples filing jointly). As such it is likely that many fewer taxpayers will be subject to the AMT, thus somewhat softening the blow of the limitations of SALT and MID.

What about rising interest rates?

The increase in 30-year conforming fixed-rate mortgage rates – from the 2016 and 2017 lows of 3.44% and 3.81%, respectively, to a current level of 4.6% – has a number of investors, market pundits, and potential homebuyers concerned that increasing rates will derail the housing recovery. We believe that it is important to put current mortgage rates in context – in terms of history, what the absolute levels are, and how an increase from current rates impacts affordability. A longer view of mortgage rates provides some interesting perspective. 30-year conforming mortgage rates are substantially below the long-term average of 8% and are only fractionally above the 4.13% average since 2010.

In the past we have witnessed periods of rising mortgage rates and rising home prices. Examining the relationship between the Case-Shiller (CS) National Home Price Index and the 30-year conforming mortgage rate since the beginning of 1990 yields some interesting observations. Despite rising interest rates in the 2003–2006 and 2013 time periods, the CS Index managed to log steady increases. We recognize that the 2005–2006 period coincided with very lax underwriting standards that contributed to the rapid rise in homebuilding, home buying, and home prices. However, even during the taper tantrum of 2013 that saw 30-year fixed conforming mortgage rates rise from 3.41% to an August 2013 high of 4.66%, the CS Index continued to register increasing prices.

We recognize that there is no such thing as a national housing market. In addition, we recognize the limitations of the CS Index. We thus examined the impact of rising interest rates on a range of home

prices and incomes. In Fig. 4, we examined the impact of rising mortgage rates on incomes of USD 60,000 (the national median household income), USD 100,000, and USD 250,000. We assumed a home price of four times the income level (approximately the national average) and a 10% down payment. As the data in Fig. 4 indicate, an increase in mortgage rates of one full percentage point from current levels would represent an incremental monthly payment of only 2.6% of income levels. A 2-percentage-point increase from current levels would represent an incremental monthly payment of only 5.4% of income levels. In addition, the debt-to-income ratios remain in a range that would likely be satisfactory to a majority of lenders.

Assessing the impact on rising mortgage rates is somewhat akin to solving simultaneous equations. Although we are of the belief that the vast majority of the market can withstand rising mortgage rates (at least from an economic point of view), we recognize that there are a number of markets where the median home price is well in excess of the current national median price of USD 240,000. For those markets where the median home price is 8x–12x household incomes (as exists in many coastal California markets as well as Manhattan), rising mortgage rates could pose a larger risk than for the majority of the interior of the US.

To round all of this out, despite all the hand wringing about rising interest rates, tax law changes and declining affordability, the spring selling season was generally very strong and it appears this strength is carrying forward. The dearth of available inventory, decreasing unemployment, the older portion of millennial generation entering the purchase market, increased consumer confidence and some wage growth have been key drivers of this strength

Lodging

A funny thing happened on the way to the "end of the lodging cycle." RevPAR continues to accelerate in 2018 from 4Q 2017, group bookings are beginning to strengthen, corporate transient travel has so far performed better than expected, leisure travel is gaining steam, and last, but certainly not least, was the successful completion of tax reform. CIO estimates that tax reform could add 25-50bps to GDP growth and an additional 8+% to S&P 500 EPS growth in 2018. Improving economic activity and improving corporate earnings are an essential component of stronger RevPAR performance.

Another tailwind for the lodging industry has been the weaker dollar. After several years of a very strong dollar, the greenback's weakness against other major currencies has enhanced the affordability for global travelers to visit the U.S. It is estimated the in-bound travel to the US represent some 20% of lodging demand.

Another interesting phenomenon has been the success of the major lodging companies in migrating bookings away from online travel agencies (OTAs) directly to company websites. A direct booking is significantly higher margin business. In addition direct booking help build brand loyalty and help keep travelers in the hotel's ecosystem due to

the loyalty rewards programs each company maintains. The loyalty programs strong competitive advantage for the lodging companies.

Alas it is not all sunshine and puppies for the industry. New capacity remains an issue, particularly in a number of larger, gateway business cities. Although construction financing is more difficult to come by, there remains a fair amount of new capacity that will hit the system in 2018 and 2019. Another risk is the omnipresent AirBNB (AB). Although AB has suffered some legislative setback in several cities and the large majority of AB clients appear to be more budget leisure-based as opposed to business based (hence lower profit customers), in our view, the industry cannot afford to be complacent as it pertains to AB. A combination of loyalty programs and more upscale and safer accommodations/locations/amenities combined with a vigorous lobbying campaign at the local, state and federal level will likely be key for the industry to successfully defend their franchises.

Automobiles & Components

We have a neutral view of the US automobiles & components sub sector. We think the industry is in the later stages of its current economic cycle, and note that the sub-sector does not tend to outperform the consumer discretionary sector at this point in the cycle.

Thus far in 2018, US auto industry SAAR is tracking a little over 17 million units, roughly in line with total US production in 2017 of 17.2 million. Although last year's SAAR was down modestly from the prior year, it ended on a high note, with SAAR climbing to 18+ million units in three of the last four months of the year. Some of the strength in late 2017 was likely hurricane-related, reflecting pent-up demand as well as some initial replacement demand. So 2018 has moderated somewhat sequentially but is still solid. Our base case calls for production to plateau at about 17 million units in 2018, and at or near this level in 2019. We don't foresee a sharp downturn in this time frame, although we acknowledge that downside risks are building. On the positive side, key drivers supporting demand include:

1. consumer confidence buoyed by wage growth and low unemployment;
2. a boost from tax reform for individuals resulting in more disposable income in the hands of low-and middle income consumers;
3. the age of vehicles in operation, which currently exceeds 11 years on average;
4. gradual increases in housing starts;
5. continued availability of prime auto financing, with credit quality measures generally consistent with historical trends at this stage in the cycle. Although subprime credit metrics have worsened, the vast majority of new cars are financed in the prime credit market.
6. a potential benefit to pickup truck demand if infrastructure initiatives are passed.

On the other hand, signs we are watching to determine whether the current cycle may be ready to roll over include:

1. used vehicle prices, which may affect affordability given that most buyers depend on trading in their current vehicle. As more cars come off leases, used vehicle prices could be pressured. That said, used car prices have firmed in the aftermath of the late 2017 natural disasters.
2. increasing incentives, although year-to-date they seem to be rising at a slower pace than in 2017;
3. Rising inventories, especially sedans (recent data show more reasonable levels);
4. an increase in the number of existing auto loans with "negative equity;"
5. moderate tightening of credit standards in the auto loan market.
6. rising interest rates, which could increase the cost of vehicle ownership. Note that OEMs could offset this by extending the length of loan term to keep monthly payments from rising;
7. higher gas prices, which could also affect disposable income and hence affordability, especially for lower-income consumers. Also, a sharp, sustained spike in gas prices could alter the appeal of pick-up trucks and SUVs, although this is not our House View.

Beneficial mix shift

Pickup trucks and SUVs continue to gain share at the expense of small and mid-size cars, which has created excess supply in cars. OEMs so far have been rational, cutting production to keep inventories in check. And average transaction prices (ATPs) continue to rise. Higher ATPs most likely reflect the favorable mix shift to pickups and SUVs; note that these larger vehicles tend to be more profitable. OEM profit margins should be supported by this favorable mix; margins should also aided by savings from restructuring and productivity programs.

On the other hand, rising raw material and regulatory costs, as well as increased investment in shared mobility, electrification and autonomous driving initiatives, could keep margin expansion in check. In addition, the recently enacted tariffs on steel and aluminum are likely to cause a modest increase in input costs for OEMs which they may not be able to recoup in the form of higher prices to consumers.

Trade policy an overhang

As noted above, the auto industry will feel the brunt of the new steel and aluminum tariffs. Although likely a modest headwind in terms of increased cost, it is up for debate whether OEMs can raise prices to compensate. And if the NAFTA agreement were to be terminated, it could mean higher tariffs will be levied on parts and vehicles imported from Mexico and Canada. A little-known provision could result in even steeper tariffs on pickup trucks imported to the US from Mexico. This could also result in higher prices and, possibly, lower demand if the OEMs were to attempt to pass the higher costs through to consumers. It's tough to predict just how increased protectionism will affect the industry, as outcomes differ depending on the responses

of our trading partners and the US response, in turn, to their actions. But the specter of a trade war is clearly an overhang on the stocks.

Smart mobility
Smart mobility - driving, ride-sharing and electrification - is a key area of focus for auto industry investors, made even more so by the recent announcement that the prominent tech investor Softbank has taken a nearly 20% stake in General Motors' (GM) smart mobility arm. In addition, several parts suppliers have spun off their more advanced technologies into separate companies, which has increased investor interest in the topic. Still, most launch targets, at scale, are generally 4-5 years away. While we agree that the prospect of technological disruption to the industry is truly exciting, we believe it is unlikely to cause the OEM stocks to outperform the consumer discretionary sector benchmark in the near term. And recent news about a tragic pedestrian fatality caused by an autonomous vehicle in test mode may cause the industry to slow down its efforts. For a more in-depth discussion on the long term implications of smart mobility, please see our report Longer Term Investments: Smart Mobility, published 19 October 2017.

Impact of US tax reform
We noted above the potential boost to US demand as consumers benefit from individual tax rate reduction. At a company level, the benefits are more mixed. The reduction in corporate tax rate benefits earnings, but many companies have net loss carry forwards (NOLs) and so the cash tax impact is less. The multinationals benefit from the ability to repatriate trapped foreign cash at a less onerous tax rate than under current law. But more highly-levered companies lose their ability to fully deduct their interest expense. Of course, the loss of state and local individual tax deductions could pinch luxury demand in high tax states such as California and New York.

Media

Did you know that the average millennial now subscribes to at least three streaming services while the average person over 60 has at least one? We recently had an opportunity to meet with all of the major studios in Hollywood and walked away with an even greater appreciation for how quickly things are changing in the media world. In fact, the pace of change is extraordinary as millennials, in particular, continue to move away from ad-supported, linear television viewing even as people are now watching more hours of content than ever before.

In 2017, Netflix alone added over 5 million new subscribers in the US while pay television (cable) lost roughly 3.5 million viewers (versus just over 2 million in 2016). We've always believed that content is king but after sitting down with the heads of Disney, Lionsgate, Paramount, Sony and United Talent Agency it became even more apparent how the power structure within the industry has shifted towards creators and away from the studios. People with track records in developing content are, and will be, highly sought after.

The move of talent towards Netflix only accents the current media landscape. According to the executives we met, the company seems

to have an unending thirst for content and, with its current stock price, an unending amount of money. However, many people we spoke to questioned the long-term experience that an artist has with Netflix as the company has not done a very good job promoting its shows. Most shows on Netflix seem to be popular for a week or two and then seem to evaporate. Anyone remember Ozark? Yes, there are exceptions such as Stranger Things but shows seem to be getting lost in the company's huge library of content. It will be interesting to watch how the company transforms itself through marketing from a distribution platform to a real Hollywood brand.

While Netflix continues to pour money into all types of content, the feeling within Hollywood is that Amazon's focus seems to be on television. Also, video is only one part of Amazon's strategy to acquire new Prime users so anything the company is likely to do will be with the growth of Prime in mind. We would not be surprised to see the company acquire a library of content as the more it can offer to its Prime customers, the better.

The rise of platforms such as Netflix and Amazon Video has changed the playing field for traditional media and the competitive threat that they pose is a primary catalyst behind Disney's recent agreement to purchase 21st Century Fox's film and television studios. With the launch of a Disney branded direct-to-consumer offering next year, the company intends to build a curated, brand driven experience based on quality entertainment from the likes of Disney-owned Lucasfilm, Marvel and Pixar. The addition of Fox assets such as Avatar, Fantastic Four, National Geographic and X-Men, to name just a few, will only help to provide Disney with an even larger back catalog of content that it could offer exclusively on its new service.

We are only in the early innings with regards to the current transformation of the media business and it will be fascinating to watch how the streaming market plays out over time. That said, we believe the winners will be those companies that are able to provide quality branded content on a user friendly platform. The race has just begun.

Key Themes

e-Commerce/Omni-channel: We believe opportunities around the e-Commerce theme extend beyond just owning pure-play online shopping or e-Commerce companies. US-based companies in consumer focused industries such as retail, apparel, consumer packaged goods and restaurants will benefit as they take an omni-channel approach to the business and more consumers shift their spending online.

Improving consumer environment: Lower unemployment, rising wages and cheap gas should help to provide a tailwind for consumer spending as we head into the fall/holiday season.

Connected car and disruptive mobility: Content per vehicle rising as consumers increasingly demand connectivity and "infotainment" packages. More vehicles now include advanced drive assistance systems ("ADAS") such as autonomous emergency braking, lane assis-

Required Disclosure

Additional Company Disclosure for Amazon, Lowe's, Nike and Starbucks: UBS AG, its affiliates or subsidiaries held other significant financial interests in this company/entity as of last month's end (or the prior month's end if this report is dated less than 10 working days after the most recent month's end).

tance, etc., paving the way for eventual launch of driverless car. OEMs have also invested in shared riding services.

Amazon.com Inc.: Most Preferred

Robert Samuels, Consumer Discretionary Equity Sector Strategist Americas

Amazon.com provides online retail shopping services. It offers new, refurbished, and used products in categories such as books; movies; music and games; digital downloads; electronics and computers; home and garden; toys; kids and baby; grocery; apparel; shoes and jewelry; health and beauty; sports and outdoors; and tools, auto, and industrial. The company was founded in 1994 and is headquartered in Seattle, WA.

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	0.00	716,697	131,310.0	690,845
Consensus Forecasts (FY end)		**Dec 2017**	**Dec 2018E**	**Dec 2019E**
Sales ($M)		177,866	233,476	284,109
EPS (adj.)		4.56	8.32	15.39
P/E (x)		312.9	171.6	92.7
Consensus Rating Distribution	Buy	Hold	Sell	
	39	2	0	

Source: Factset, UBS, as of 6 June 2018

What drives our opinion

We added AMZN to our Most Preferred list following the pullback in shares after President Trump's Twitter attacks. We don't believe there is much truth behind his tweets and used the opportunity to get more constructive on the name. We are strong believers in the future growth of e-commerce, both domestically and abroad, and believe that AMZN will increase its market share of online and total retail sales. AMZN now has almost 90 million Prime members who spend almost double than nonmembers, and its AWS business is highly profitable and growing. The risks to our view include government regulation, slowdown in consumer spending, increased online competition, and execution missteps.
In our opinion, most of President Trump's concerns are not accurate or are grossly exaggerated. We are strong believers in the future growth of e-commerce and cloud computing and believe that AMZN will continue to increase its share of online sales. At almost 90 million today, Amazon Prime members in the United States now outnumber landline and gun owners.

At its core, AMZN is the e-commerce bellwether; however, it has evolved into so much more. Its growing media business continues to invest aggressively in securing new digital content, while the profitable Amazon Web Services (AWS) could be a USD 100 billion business over time. The company's Alexa-powered Echo devices are now highly popular and Amazon is building an ecosystem around Alexa that is giving it a leg up in the embryonic smart-home/personal-assistant market.

Valuation is always a sticking point when it comes to Amazon. Traditional metrics such as P/E are not useful given the company's depressed earnings as they invest heavily in the business. As such, we looked at several discounted cash flow and sum-of-the-parts models on the Street, which take a much longer-term view when valuing the stock.

D.R. Horton Inc.: Most Preferred

Jonathan Woloshin, CFA, Head Americas Equities

D.R. Horton, Inc. is a homebuilding company in the United States. It constructs and sells single-family homes through its operating divisions in 26 states and 79 metropolitan markets in the country, under the name of D.R. Horton, America's Builder. The company's homes range in size from 1,000 to 5,000 square feet. The company was founded in 1978 by Donald R. Horton and is headquartered in Fort Worth, TX.

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	1.03	19,168	12,184.6	16,368
Consensus Forecasts (FY end)		**Sep 2017**	**Sep 2018E**	**Sep 2019E**
Sales ($M)		14,091	16,233	18,165
Net Income ($M)		1,038.4	1,390.3	1,690.9
First Call EPS ($)		2.73	3.60	4.33
P/E (x)		15.8	12.0	9.9
Consensus Rating Distribution		Buy	Hold	Sell
		12	10	0

Source: UBS, Factset as of 14 June 2018

What drives our opinion

We believe DHI is one of the best positioned homebuilders based on its geographic footprint, strong financial position, the size and scale to manage rising material and labor costs and very strong SG&A control. In addition, DHI's focus on the more moderate price point (48% of home sales < USD 250K) positions the company to capture the growing base of entry level buyers as the oldest portion of the millennials begin to migrate to buying from renting. In addition, DHI recently introduced an active adult line in 22 markets, thus expanding their product offering. Risks include rising interest rates, decreasing affordability and decreased access to mortgage financing.

Approximately 38% of DHI's communities are located in Texas and Florida. The recent tax law changes are more favorable to home ownership in low tax states. As TX and FL have no state income tax we believe this provides DHI with a competitive advantage. In addition, the reduction in corporate tax rates will allow DHI to realize stronger earnings growth. Further, DHI's acquisition of 75% of Forestar (Not Rated), a land development company, will significantly increase DHI's capital efficiency by optioning a greater percentage of its developed lots. The increased capital efficiency has led DHI to reduce debt, increase its dividend (+25% YoY in fiscal 1Q 2018) and repurchase shares. DHI has an additional USD 175 million remaining on it current share repurchase program. In our view DHI's myriad investment attributes combined with an attractive valuation provide a favorable risk/rewards profile for the shares.

Home Depot Inc.: Most Preferred

Robert Samuels, Consumer Discretionary Equity Sector Strategist Americas

The Home Depot operates as a home improvement retailer in the United States, Canada, and Mexico. The company provides its products and services through Home Depot and EXPO Design Center stores. Its Home Depot stores sell a range of building materials, home improvement products, and lawn and garden products. They also provide various installation services. The company was founded by Bernie Marcus and Arthur Blank in 1978 and is headquartered in Atlanta, GA.

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	2.01	233,486	44,529.0	207,171
Consensus Forecasts (FY end)		**Jan 2018**	**Jan 2019E**	**Jan 2020E**
Sales ($M)		100,904	107,887	112,100
EPS (adj.)		7.45	9.45	10.19
P/E (x)		27.0	20.4	18.9
Consensus Rating Distribution		Buy	Hold	Sell
		21	9	0

Source: Factset, UBS, as of 6 June 2018

What drives our opinion

We view Home Depot as Most Preferred due to its exposure to the US housing market, continued opportunity for gains in productivity and supply chain enhancements, and further share gains with the pro consumer. However, we are watching mortgage rates as their recent rise has impacted stock performance even though the company argued that affordability remains very high. The risks to HD's inclusion on our Most Preferred list include competition, the macro environment, and performance of the US housing sector.

Home Depot has grown earnings on average by roughly 25% over the last 10 quarters. During this time period, the company has been a market-share gainer over Lowe's. We attribute this not only to management's top-line execution but also to their quick reaction to halt square-footage growth during the housing slowdown and rather invest in the business to enhance customer experience. This included initiatives to improve merchandise management and inventory turnover through an overhauling of its supply chain, better service for the pro customer (roughly 35% of sales), and an expanded online presence and offering. In addition, trends in the home improvement category continue to be positive, supported by macro tailwinds and a better consumer environment. Even with the recent rise in mortgage rates, management remains positive on the housing cycle and is quick to remind investors that the historical 30-year rate is 5.6% and that they could go to 7% before there is any risk to affordability (we have our doubts). Also, the sector is somewhat insulated from online competition. Management continues to aggressively buy back stock, and Home Depot has one of the highest dividend payout ratios in the hardlines sector and targeted to rise over time.

Hyatt Hotels Corp: Most Preferred

Jonathan Woloshin, CFA, Head Americas Equities

Hyatt Hotels Corp. owns, operates, manages, and franchises hotels and resorts. The company offers deluxe hotels with meeting facilities and special services. The firm's subsidiaries operate hotels and resorts, including Hyatt, Hyatt Regency, Hyatt Resorts, Grand Hyatt, Park Hyatt, Hyatt Place, Hyatt Summerfield Suites, and Andaz. Hyatt Hotels was founded in 1957 and is headquartered in Chicago, IL.

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	0.19	10,527	7,672.0	9,227
Consensus Forecasts (FY end)		**Dec 2017**	**Dec 2018E**	**Dec 2019E**
Sales ($M)		4,482	4,682	4,884
Net Income ($M)		249.0	190.6	221.1
First Call EPS ($)		1.75	1.57	1.88
EBITDA ($M)		1,019.0	789.5	831.5
EV/EBITDA (x)		9.6	12.4	11.8
Consensus Rating Distribution		Buy	Hold	Sell
		7	12	0

Source: FactSet, UBS, as of 14 June 2018

What drives our opinion

Hyatt shares have outperformed its C Corp peers YTD as the company has raised its RevPAR guidance for 2018, announced its desire to sell USD 1.5bn in assets over the next three years and increase capital returns to shareholders. The significant valuation gap with its peers have contributed to the outperformance as well. Despite this outperformance H continues to trade at a sizable valuation discount to its C Corp. peers. Risks include slower-than-expected RevPAR growth, rapidly rising interest rates, excess new capacity, declining corporate EPS, and a sub-optimal ownership structure.

H's management continues to deliver on its commitment to further monetize owned assets and joint ventures, thus becoming more asset-light. To this point, H recently announced the sale of several large assets (while maintaining long-term management contracts). Management has indicated they have received significant investor interest in individual assets and has stated there are no sacred cows in the portfolio. In addition, H has a very strong balance sheet with access to significant liquidity and the lowest debt-to-capital and debt-to-EBITDA ratios among its C Corp peers.

Although H's dual-class share structure is sub-optimal, we recognize that H continues to trade at a discount to its C Corp peers on forward EV/EBITDA multiples based on consensus estimates. In a rising RevPAR environment driven by stronger economic growth and corporate earnings, H's large owned portfolio would likely drive significant operating leverage. In our view, investors would be willing to look beyond the corporate governance issues and focus on the earnings growth potential.

Lowe's Cos.: Most Preferred

Robert Samuels, Consumer Discretionary Equity Sector Strategist Americas

Lowe's Cos. retails home improvement products. It offers products and services for home decorating, maintenance, repair, remodeling, and property maintenance. The company was founded in 1946 and is headquartered in Mooresville, NC.

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	1.85	88,083	35,291.0	70,920
Consensus Forecasts (FY end)		**Jan 2018**	**Jan 2019E**	**Jan 2020E**
Sales ($M)		68,619	71,870	74,610
EPS (adj.)		4.39	5.45	6.10
P/E (x)		21.3	18.2	16.1
Consensus Rating Distribution		Buy	Hold	Sell
		19	8	0

Source: Factset, UBS, as of 6 June 2018

What drives our opinion

We recently added LOW to our Most Preferred list following the announcement of the CEO's retirement and a search for his successor. The company has significantly underperformed Home Depot over the last several years and new leadership could help reinvigorate the business. We also note that an activist investor is currently involved in the name and the company recently announced the appointment of a new CEO and is searching for a CFO. The risk to our view is an unexpected worsening outlook for the housing sector and slowdown in consumer spending.

Housing momentum appears to be on track as existing home sales are strong even as supply, especially at the lower end of the market, remains an issue. The environment for consumer spending is good, supported by job growth, and the recent tax cuts should put more money into people's pockets. Also, home improvement is somewhat insulated from online competition given the need for service, and recent tariff actions by China are unlikely to impact LOW. LOW has struggled with weaker sales growth than Home Depot and has been trying to improve profitability by streamlining its supply chain and inventory management. New CEO Marvin Ellison should bring operational expertise to Lowe's given his years at Home Depot, and the company is currently searching for a new CFO. While 1Q sales were negatively impacted by the weather, sales have picked up dramatically over the past several weeks. From a valuation standpoint, LOW's 2019E consensus P/E of 16x is among the lowest relative to earnings growth compared to almost all other large-cap retailers.

McDonald's Corp.: Most Preferred

Robert Samuels, Consumer Discretionary Equity Sector Strategist Americas

McDonald's operates and franchises a food restaurant chain. Its food products include World Famous French Fries, Big Mac, Quarter Pounder, Chicken McNuggets, and Egg McMuffin. McDonald's is a food service retailer with local restaurants serving nearly 50 million people in more than 118 countries each day. The company was founded in 1948 and is headquartered in Oak Brook, IL.

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	2.46	156,117	33,803.7	126,147
Consensus Forecasts (FY end)		**Dec 2017**	**Dec 2018E**	**Dec 2019E**
Sales ($M)		22,820	21,217	21,127
First Call EPS ($)		6.66	7.67	8.28
P/E (x)		25.1	21.8	20.2
Consensus Rating Distribution		Buy	Hold	Sell
		19	10	0

Source: Factset, UBS, as of 6 June 2018

What drives our opinion

We view McDonald's as Most Preferred given the turnaround of the US business and the company's defensive nature and stable dividend. Domestic market-share gains were the key driver behind stock price appreciation over the past year. The risks to MCD's inclusion on our Most Preferred list include increased competition and the potential that trends in the US do not continue to improve.

McDonald's continues to look for ways to innovate its menu through limited-time offers and upgrades on core menu items. The recent launch of USD 1, USD 2, and USD 3 value meals seems to have gone well, and the company is quick to point out that this is not a short-term promotion but rather a long-term sustainable platform. Management has laid out several initiatives to return the US business to sustainable traffic growth, including store reimages, a simplified food offering, and mobile order and pay. Also, the company is quickly getting on board with the use of technology in its stores, such as self-ordering kiosks, in order to improve the customer experience and attract the Millennial consumer. Other strategic initiatives include domestic/international delivery programs, national value campaign, and asset upgrades/"Experience of the Future" progress. Finally, McDonald's continues to have a very attractive dividend yield, and when combined with share repurchases, the company plans to return USD 30 billion to shareholders by the end of next year.

Meritage Homes Corp.: Most Preferred

Jonathan Woloshin, CFA, Head Americas Equities

Meritage Homes Corp. engages in the designing and building of single-family attached and detached homes. It offers homes for a range of homebuyers, including first-time, move-up, luxury, and active. It has operations in three regions: West, Central, and East, which are located in nine states. The company was founded by Steven J. Hilton in 1985 and is headquartered in Scottsdale, AZ.

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	0.00	3,013	3,255.5	1,815
Consensus Forecasts (FY end)		**Dec 2017**	**Dec 2018E**	**Dec 2019E**
Sales ($M)		3,241	3,565	3,918
Net Income ($M)		143.3	207.7	237.8
First Call EPS ($)		3.80	5.01	5.70
P/E (x)		12.1	9.2	8.1
Consensus Rating Distribution	Buy		Hold	Sell
	5		7	0

Source: FactSet, UBS as of 14 June 2018

What drives our opinion

We see Meritage Homes (MTH) as a well-run mid-cap home builder exposed to states seeing significant population inflows and job growth in the U.S. After many years of focusing on the move up buyer MTH has made a substantial push into the entry level (EL) market. the EL segment is the fastest growing portion of the housing sector and should allow MTH to significantly increase volumes and better leverage its fixed costs. MTH has a solid balance sheet with manageable debt maturities and has sufficient land holdings to capitalize on projected growth. Risks include rising interest rates, declining affordability, overbuilding of spec homes and rising input costs.

MTH's strategic shift to the EL market, particularly in the Eastern and Central regions, has led to increased gross and operating margins as home costs are generally lower in these regions, fixed cost leverage has improved with increased deliveries and MTH's larger footprint has provided more scale in terms of labor and material costs. In addition, MTH has increased its spec construction activity which has further enhanced margins. MTH's EL active community count has grown 50% YOY in 2017 and 70% of lots contracted in 2017 were oriented towards the EL segment. MTH's focus in Colorado, Texas, Florida, Arizona, North & South Carolina, Tennessee, Georgia and California positions the company in some of the best population, job and income growth markets in the country. In addition, MTHs cancellation rate has consistently been below its homebuilding peers. Despite these attributes MTH trades roughly in line both its SMID and large cap peers based on book value and consensus EPS estimates for 2018 and 2019.

Nike Inc.: Most Preferred

Robert Samuels, Consumer Discretionary Equity Sector Strategist Americas

Nike designs and manufactures athletic footwear, apparel, and equipment. The company designs and sells shoes for a variety of sports, including baseball, cheerleading, golf, volleyball, and wrestling. NIKE also sells Cole Haan dress and casual shoes. The company operates NIKETOWN shoe and sportswear stores, NIKE factory outlets, and NIKE Women shops. Nike sells its products throughout the US and in about 200 other countries. Nike was founded by Bill Bowerman and Philip H. Knight in 1964 and is headquartered in Beaverton, OR.

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	1.12	107,606	23,259.0	108,079
Consensus Forecasts (FY end)		**May 2017**	**May 2018E**	**May 2019E**
Sales ($M)		34,350	36,017	38,760
EPS (adj.)		2.51	2.35	2.67
P/E (x)		21.1	30.5	28.0
Consensus Rating Distribution		Buy	Hold	Sell
		16	14	0

Source: Factset, UBS as of 6 June 2018

What drives our opinion

We view Nike as Most Preferred due to its strength in innovative product and premium brand positioning. While the company's US business has struggled, management appears to be making progress on its plan to elevate the customer experience and focus on its digital business. International continues to be a source of strength for Nike, and recent commentary out of DKS suggests that new product innovation is exciting. The risks to NKE's inclusion on our Most Preferred list include a slowdown in consumer spending on athletic footwear, changes in the global macro environment, and increased competition.

In our view, the company's recent performance underscores its strength in innovative product and premium brand positioning. While sales growth, particularly in the US, has been disappointing, we think several drivers are in place for a turnaround. These include strength overseas, a strong product pipeline in running, and better basketball sales aided by the popularity of the NBA. With regards to margins, company-specific drivers include a mix-shift toward direct-to-consumer and further gains in supply chain innovation. Also, we expect the level of promotions to ease, and foreign exchange is now a tailwind. Finally, the company's balance sheet continues to be a clear point of strength with almost USD 4 billion of cash on hand at the end of the year and an additional USD 2 billion in short-term investments.

Pulte Homes Inc.: Most Preferred

Jonathan Woloshin, CFA, Head Americas Equities

Pulte Homes develops and sells residential real estate. It engages in land development and homebuilding in 25 states, also constructing roads, sewers, water and drainage facilities, and other amenities for its communities. Approximately 75% of the units it sells are single-family detached homes. Under its Del Webb Brand, Pulte is the nation's largest builder of active adult communities. Pulte Mortgage LLC originates mortgage loans for more than 70% of the homes sold by Pulte. Pulte Homes was founded in 1950 and is headquartered in Bloomfield Hills, MI.

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	1.21	12,303	9,686.6	8,548
Consensus Forecasts (FY end)		**Dec 2017**	**Dec 2018E**	**Dec 2019E**
Sales ($M)		8,465	9,599	10,605
Net Income ($M)		442.6	884.9	984.2
First Call EPS ($)		2.02	3.09	3.53
P/E (x)		15.2	10.0	8.7
Consensus Rating Distribution		Buy	Hold	Sell
		7	13	1

Source: FactSet, UBS, as of 14 June 2018

What drives our opinion

PHM has had a very strong spring selling season and continues to deliver on its value creation strategy of driving strong risk-adjusted returns and returning capital to shareholders. Since 2013, PHM has repurchased more than 20% of its float and, repurchased USD 1 billion in 2017 and authorized an additional USD 500 million for 2018. The decision to sell excess land could add further firepower to the share repurchase program. Risks include rising interest rates, further pressure on land and labor costs and gross margins, decreasing home affordability, and a lack of pricing power.

PHM is well diversified geographically and has generated strong order growth. The company is judiciously reducing its land spend but still has more than eight years of supply between owned and optioned lots. In addition, PHM has begun increasing its focus on the first-time buyer (a segment that has begun to return to the housing market) while simultaneously reducing the capital intensity of its active adult business. The increased focus on the first-time buyer could be well timed given the potential further reduced regulation and increased mortgage access with the Trump administration. Finally, despite having among the highest projected consensus EPS growth rates for 2018 and 2019, PHM trades at a P/E discount to its large-cap peers.

Walt Disney Co.: Most Preferred

Robert Samuels, Consumer Discretionary Equity Sector Strategist Americas

The Walt Disney Company produces entertainment experiences based on creative content and storytelling. DIS has four business segments: 1) media networks; 2) parks and resorts; 3) studio entertainment; and 4) consumer products and interactive media. The company also engages in retail and online distribution of products through The Disney Store and Disney Shopping.com. Walt Disney was founded in 1923 and is headquartered in Burbank, CA.

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	1.62	178,815	95,789.0	150,728
Consensus Forecasts (FY end)		**Sep 2017**	**Sep 2018E**	**Sep 2019E**
Sales ($M)		55,137	59,098	61,303
EPS (adj.)		5.70	7.09	7.77
P/E (x)		17.3	14.1	12.9
Consensus Rating Distribution		Buy	Hold	Sell
		15	7	2

Source: Factset, UBS, as of 6 June 2018

What drives our opinion

We view Walt Disney as Most Preferred as it possesses what we believe to be the best product pipeline in the media space with numerous upcoming catalysts, including its long-term pipeline of high-profile theatrical releases from Lucasfilm, Pixar, and Marvel, not to mention *Frozen 2*. Aside from the studio business, the company opened its first theme park in Shanghai, China, which should give a substantial boost to the Disney brand in this important market. The risks to Disney's inclusion on our Most Preferred list include the pace of cable cord-cutting and potential subscriber losses at ESPN.

We believe that Disney possesses the best product pipeline in the media space with a robust film lineup upcoming, including four Marvel films, two Star Wars films, and three animated movies. Aside from the studio business, Disney opened its first theme park in Shanghai, China, which should give a substantial boost to the Disney brand in this important market. In addition, major new park attractions are scheduled to open in the US over the next several years, including Toy Story Land in Florida and Shanghai, and Star Wars Land in Florida and California. And while there are some concerns about the pace of cable cord-cutting and potential subscriber losses at ESPN, especially among the younger demographic, we believe this is still one of the most valuable media brands that should be able to manage through whatever happens with the cable TV bundle. New over-the-top streaming services could potentially be accretive to the pay-TV ecosystem by targeting those households that currently do not pay for cable television. Finally, Disney is a big beneficiary of corporate tax reform as it has one of the highest effective corporate tax rates with a very high domestic earnings exposure.

Comcast Corp. (Cl A): Bellwether

Robert Samuels, Consumer Discretionary Equity Sector Strategist Americas

Comcast owns and operates cable TV systems. It offers consumer entertainment, information, and communication products and services to residential and commercial customers. The company operates in the cable and programming segments. The cable segment manages and operates cable systems, including video, internet, phone services, and regional networks, while programming operates consolidated national programming networks. Comcast was founded in 1963 and is headquartered in Philadelphia, PA.

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	1.75	235,720	186,949.0	167,295
Consensus Forecasts (FY end)		**Dec 2017**	**Dec 2018E**	**Dec 2019E**
Sales ($M)		84,526	89,663	91,937
EPS (adj.)		2.06	2.50	2.75
P/E (x)		19.4	12.6	11.4
Consensus Rating Distribution		Buy	Hold	Sell
		18	3	0

Source: Factset, UBS, as of 6 June 2018

What drives our opinion

We believe that Comcast will perform in line with the sector given positive fundamentals in cable and NBCU, offset by the risks of pay TV subscriber declines, increased regulation of broadband pricing, and an inability to pass through programming cost increases to consumers. The company's recent bid for Sky has also created some near-term uncertainty. The risk to our view is an unexpected sustained improvement in outlook or conversely an unexpected worsening outlook.

We believe that Comcast will perform in line with the sector. The company reported decent first-quarter results with good performance across most of its businesses. Cable continues to deliver steady growth through pricing and product differentiation, while revenue at NBCU was solid, with strength coming from cable networks and theme parks offsetting weaker-than-expected broadcast and filmed entertainment results. While cable cord-cutting is potentially an issue, it should be able to offset some of these losses with increased prices for broadband and through the monetization of NBCU content via over-the-top offerings and online video providers. The company's recent bid for the UK's Sky satellite business has created some near-term uncertainty as investors wait to see if a bidding war takes place between the company and Fox/DIS. Recall that Fox currently owns 39% of Sky and Disney has agreed to purchase these assets.

Dick's Sporting Goods Inc.: Bellwether

Robert Samuels, Consumer Discretionary Equity Sector Strategist Americas

Dick's Sporting Goods, Inc. is an authentic full-line sporting goods retailer offering a broad assortment of brand-name sporting goods equipment, apparel, and footwear in a specialty store environment. The company also owns and operates Golf Galaxy, a golf specialty retailer.

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	1.97	3,683	4,203.9	3,713
Consensus Forecasts (FY end)		**Jan 2018**	**Jan 2019E**	**Jan 2020E**
Sales ($M)		8,590	8,682	8,857
EPS (adj.)		3.01	3.06	3.20
P/E (x)		10.5	12.2	11.7
Consensus Rating Distribution		Buy	Hold	Sell
		8	20	3

Source: Factset, UBS, as of 6 June 2018

What drives our opinion

Sales trends continue to be disappointing as colder weather during the first quarter was unable to offset softness in other parts of the business. While innovation from some of the company's key vendors (i.e. Nike, Callaway, and Taylor Made) will help drive some business this year, the stock is likely to remain range-bound until management proves that is can consistently grow sales and earnings. While the stock is cheap, in our view, it's unlikely to get a bigger multiple anytime soon.

While sales trends in the first quarter remained sluggish, margins were much better than expected, which led to a significant earnings beat. Given recent bankruptcies in the sporting goods space, we expected sales trends to accelerate, but this does not seem to be happening. The silver lining here is that earnings are not being impacted as management is implementing some restructuring efforts and EPS guidance is less dependent on sales. Nevertheless, we liked the near-term setup on the name as sales should be improving, but they are not, and continued concerns over the longer-term online threat will remain an overhang. While valuation does not appear demanding, investors will likely focus on the company's ability, or lack thereof, to sustain positive same-store sales.

Ford Motor Co: Bellwether

Sally Dessloch, Head Equity Sector Strategy Americas

Ford Motor manufactures cars and trucks. It operates via two segments: Automotive and Financial Services. The Automotive segment includes the manufacturing and sale of Ford and Lincoln brand vehicles and related service parts in North America, Europe, Asia, and South America. The Financial Services segment includes vehicle-related financing, leasing, and insurance. The company was founded in 1903 and is headquartered in Dearborn, Michigan.

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	4.95	166,801	257,808.0	48,260
Consensus Forecasts (FY end)		**Dec 2017**	**Dec 2018E**	**Dec 2019E**
Sales ($M)		156,776	159,517	158,240
EBIT margin (%)		2.6	4.8	5.1
Net Income ($M)		7,602.0	6,161.4	6,242.0
First Call EPS ($)		1.78	1.55	1.54
P/E (x)		6.7	7.7	7.7
Consensus Rating Distribution		Buy	Hold	Sell
		5	15	1

Source: FactSet, UBS, as of 13 June 2018

What drives our opinion

Ford shares have underperformed the consumer discretionary benchmark reflecting negative investor sentiment toward the company and the auto industry. Ford's new leadership has promised an ambitious turnaround but has not presented its full plans. Guidance for 2018 calls for declining earnings on the back of flattish EPS growth in 2017. We remain on the sidelines as we see risk/reward as balanced given the lack of visibility on when results might improve. Risks to our call include greater success with new products, higher industry sales or exit of loss-making operations; a slowdown in the US economy, higher input costs, more investments in new technology and trade policy are downside risks.

Ford's new CEO Jim Hackett has now been on the job for year. In that time, he has unveiled a new cost-cutting program, originally pegged at USD 14 billion in savings by 2022, but recently upped by USD 11.5 billion. He also announced the exit of virtually all of Ford's North American passenger car line-up, with plans to divert production capacity to SUVs, light trucks and new electric vehicle offerings. But the company has not quantified the costs of these actions, nor has it indicated how much of the savings will be reinvested in electrification, connectivity and autonomous driving. And it still needs to address the profitability of its European and South American operations. While we applaud management's actions to date, the lack of more specifics on these issues, combined with execution risk, lead us to be cautious about the company's outlook. We think the stock is unlikely to outperform until investors have more confidence in management's turnaround plan.

Ford is viewed by the investment community as lagging its peers in autonomous driving and electrification. We think this is a fair assessment, but note that in the aftermath of GM's monetization of a portion of its auto tech subsidiary, it is possible that Ford could take a similar approach, which would be a risk to our call.

Gap Inc.: Bellwether

Robert Samuels, Consumer Discretionary Equity Sector Strategist Americas

Gap is an international specialty retailer offering clothing, accessories, and personal care products for men, women, children, and babies under the Gap, GapKids, babyGap, GapBody, Banana Republic, and Old Navy brand names. Gap operates over 3,100 retail and outlet stores throughout the United States, as well as in Canada, the United Kingdom, France, Ireland, Italy, China, and Japan. The company was founded in 1969 and is headquartered in San Francisco, CA.

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	2.89	12,071	7,989.0	12,382
Consensus Forecasts (FY end)		**Jan 2018**	**Jan 2019E**	**Jan 2020E**
Sales ($M)		15,855	16,277	16,605
EPS (adj.)		2.13	2.63	2.77
P/E (x)		14.9	12.1	11.5
Consensus Rating Distribution		Buy	Hold	Sell
		2	22	2

Source: Factset, UBS, as of 6 June 2018

What drives our opinion

We believe Old Navy can remain GPS's growth engine given its exposure to the low-end consumer. Also, the positive tailwinds of lower taxes for consumers and tax rates for retailers will likely continue to outweigh the secular headwinds that continue to challenge all of retail. We think the stock is fairly valued at current levels as the promotional environment remains intense and the Gap brand seems to be in a never-ending turnaround situation. Upside risks include better-than-expected sales results at the Gap brand.

The company has now experienced several quarters of positive same-store sales results driven by solid momentum at Old Navy even as trends at the Gap are weak. Old Navy's 9% same-store-sales growth in the fourth quarter was one of the best results in all of retail as the brand's value offering is resonating well with its core consumer. However, the Gap brand has unsuccessfully tried to reinvigorate itself over the past two years and is now in search of a new leader. While most other apparel retailers saw better performance during the holiday quarter, Gap's result were somewhat disappointing. In fact, inventory levels at the brand were heavy coming out of 4Q and additional promotions are likely in the first half of the year. Until we begin to see improvement at the Gap brand, we believe further stock upside will be limited as strength at Old Navy will likely be offset by persistent weakness at the Gap.

General Motors: Bellwether

Sally Dessloch, Head Equity Sector Strategy Americas

General Motors Company (GM) designs, manufactures, and markets cars, crossovers, trucks, and automobile parts worldwide. The company, through its subsidiary General Motors Financial Company Inc., provides automotive financing services and lease products through GM dealerships.

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	3.44	139,076	212,482.0	62,269
Consensus Forecasts (FY end)		**Dec 2017**	**Dec 2018E**	**Dec 2019E**
Sales ($M)		145,588	145,905	147,826
EBIT margin (%)		8.8	8.2	8.4
Net Income ($M)		348.0	9,042.8	8,950.4
First Call EPS ($)		6.62	6.43	6.50
P/E (x)		6.6	6.8	6.7
Consensus Rating Distribution		Buy	Hold	Sell
		13	7	0

Source: FactSet, UBS, as of 13 June 2018

What drives our opinion

General Motors' sales and profits should be aided by its exposure to pickup trucks and SUVs, which are gaining share and have higher margins than cars. Profits are expected to hold steady in 2018 despite raw material headwinds and product launch costs but should build again in 2019. Margins may continue to benefit from restructuring as GM has been aggressive in fixing underperforming businesses, such as South Korea. However, automaker stocks do not typically outperform the consumer discretionary benchmark at this point in the economic cycle so we remain on the sidelines. Risks to the upside include better industry growth than we have assumed; downside risks include slowing economic growth.

GM's perceived lead versus peers in developing its "smart mobility" portfolio was substantiated with the news that prominent tech investor Softbank has agreed to invest USD 2.3 billion in GM's Cruise subsidiary, which houses its smart mobility activities. Softbank will invest in two phases and upon completion, will own nearly 20% of the segment. GM will now break out the sales and profits of Cruise, leading to increased transparency around its efforts. And the Softbank stake implies a USD 11.5 billion valuation for Cruise, likely well above Street estimates. As a result, GM's stock appreciated by almost 5% on the news. From here, we think the risk/reward appears balanced for GM's shares. We therefore do not expect the stock to outperform the consumer discretionary benchmark over a 12-month investment horizon.

The passage of tariffs on steel and aluminum imports may cause a modest increase in the cost to manufacture vehicles which may not take effect immediately owing to contractual provisions. But it may be difficult for the industry to pass along the costs to consumers, in our opinion. Stiffer sanctions, such as the elimination of NAFTA, could have a more dramatic impact, especially on GM given that it imports trucks from Mexico.

Hilton Worldwide: Bellwether

Jonathan Woloshin, CFA, Head Americas Equities

Hilton Worldwide Holdings Inc., a hospitality company, is engaged in the ownership, leasing, management, development, and franchising of hotels and resorts worldwide. The company operates hotels under the brand names of Hilton Hotels & Resorts, Waldorf Astoria Hotels & Resorts, Conrad Hotels & Resorts, DoubleTree by Hilton, Embassy Suites Hotels, Hilton Garden Inn, Hampton Inn, Homewood Suites by Hilton, and Home2 Suites by Hilton. It was founded in 1919 and is headquartered in McLean, Virginia.

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	0.74	32,520	14,308.0	26,096
Consensus Forecasts (FY end)		**Dec 2017**	**Dec 2018E**	**Dec 2019E**
Sales ($M)		9,140	9,704	10,317
First Call EPS ($)		1.91	2.63	3.13
EV/EBITDA (x)		18.9	15.2	14.1
EBITDA ($M)		1,675.0	2,086.9	2,247.7
Consensus Rating Distribution		Buy	Hold	Sell
		14	8	1

Source: FactSet, UBS as of 14 June 2018

What drives our opinion

The significant recovery in HLT's share price from the 2016 lows has largely been a result of three factors: 1) the completion of the split of the company into three separate entities (effective January 2017); 2) industry RevPAR has been stronger than many market participants feared; and 3) the election of Donald Trump as president has raised the prospects for increased economic growth. Risks include faster (slower) economic and RevPAR growth, a recession, a stronger (weaker) USD, and faster (slower) new capacity growth.

Although we continue to believe HLT has a superior management team and operational platform, we have to balance that against how much potential incremental economic growth is reflected in HLT's valuation. Based on current consensus 2018 EBITDA estimates, HLT is trading at more than 15x EV/EBITDA. This multiple is at the higher end of the group's historical trading range and, given how much later we are in the lodging cycle, limits the potential for multiple expansion, in our opinion. Combining this with the prospect for increased new capacity we see the risk/reward as more fairly balanced. On the positive side one potential complication has been resolved. The 25% stake Anbang Insurance (AI) owns in HLT was successfully sold in April 2018. The shares were readily absorbed by the market, thus removing an overhang on the shares.

Lennar Corp. (Cl A): Bellwether

Jonathan Woloshin, CFA, Head Americas Equities

Lennar builds residential, commercial, and institutional buildings. It also provides residential mortgage, title, and closing services. Lennar builds move-up and retirement homes in communities that cater to almost any lifestyle, such as urban, golf course, active adult, or suburban communities. It was founded in 1954 and is headquartered in Miami, FL.

Key Metrics	**Dividend Yield (%)**	**Enterprise Value ($M)**	**Total Assets ($M)**	**Market Value ($M)**
	0.27	19,399	18,745.0	19,201
Consensus Forecasts (FY end)		**Nov 2017**	**Nov 2018E**	**Nov 2019E**
Sales ($M)		12,651	14,193	23,385
Net Income ($M)		802.7	1,261.3	2,211.1
First Call EPS ($)		3.77	5.33	6.84
P/E (x)		14.1	10.0	7.8
Consensus Rating Distribution		Buy	Hold	Sell
		18	4	0

Source: FactSet, UBS, as of 14 June 2018

What drives our opinion

Despite a strong management team and balance sheet, a geographically well-diversified portfolio, and a favorable land position, the catalysts we believed were going to be drivers of incremental value appear to be significantly further in the future than originally anticipated. These catalysts include the potential monetization of Rialto and the multi-family business. In addition, the public offering of the Five Points venture has had lackluster performance. Risks include rising (falling) interest rates, rising (falling) pressure on land and labor costs, decreasing (increasing) home affordability, and an increase (decrease) in pricing power.

In addition to the lack of catalysts outlined above, LEN has adopted what it refers to as a "soft pivot" strategy. In essence, this "soft pivot" is leading to reduced land purchases and more judicious capital allocation. Although we are always appreciative of companies being good stewards of shareholder capital, the impact of the "soft pivot" has led to slower volume sales and revenue growth. This, combined with the potential pressure on gross margins from rising land and labor costs, is weighing on forward EPS growth. Further adding to LEN's risk profile was their recent acquisition Cal Atlantic Homes. Although we believe there is significant strategic merit in the acquisition, the integration of CAA, which was the combination of two large home builders, enhances LEN's risk profile, particularly given CAA's focus on upper end homes in the higher cost West Coast markets where affordability is very strained.

Lions Gate Ent Class A: Bellwether

Robert Samuels, Consumer Discretionary Equity Sector Strategist Americas

Lionsgate engages in motion picture production and distribution, television programming and syndication, home entertainment, family entertainment, digital distribution, new channel platforms, and international distribution and sales. The company was founded in 1997 and is headquartered in Santa Monica, CA.

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	0.00	8,532	9,196.9	5,703
Consensus Forecasts (FY end)		**Mar 2018**	**Mar 2019E**	**Mar 2020E**
Sales ($M)		4,129	3,971	4,285
EPS (adj.)		2.15	0.47	0.84
P/E (x)		12.0	50.9	28.4
Consensus Rating Distribution		Buy	Hold	Sell
		10	8	0

Source: Factset, UBS, as of 6 June 2018

What drives our opinion

We recently removed Lions Gate from our Most Preferred list and added it to Bellwether. While we continue to believe that the company is a likely takeover target in the media space given its robust content offering, the market appears to have fallen out of love with media names in general and doesn't believe in the M&A story. Upside risks include better-than-expected results in film and television, faster subscriber growth at Starz, and potential consolidation. Downside risks include weak film results and subscriber losses at Starz.

In our opinion, Lions Gate remains favorably positioned in the current media landscape given its lack of exposure to ad-supported television networks, large library of content, and ownership of the premium Starz network. However, the market appears to be fixated on the government's scrutiny around the AT&T/Time Warner deal, which has clouded the M&A picture in the near term. In addition, we believe recent insider selling has also pressured the stock. While we believe that industry consolidation could benefit LGF and the current sell-off in the stock is greatly overdone, we moved to the sidelines until the environment for media investors becomes clearer.

Lululemon Athletica: Bellwether

Robert Samuels, Consumer Discretionary Equity Sector Strategist Americas

Lululemon is a specialty retailer that designs and sells technical athletic apparel under its lululemon athletica (adult) and ivivva athletica (kids) brand names. The company is based in Vancouver, Canada.

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	0.00	7,344	1,657.5	8,011
Consensus Forecasts (FY end)		**Jan 2017**	**Jan 2018E**	**Jan 2019E**
Sales ($M)		2,344	2,632	2,945
EPS (adj.)		2.14	2.53	3.02
P/E (x)		37.2	31.5	26.4
Consensus Rating Distribution		Buy	Hold	Sell
		15	17	2

Source: Factset, UBS, as of 6 June 2018

What drives our opinion

We continue to believe in the margin story at LULU and would look to get involved in the stock again on any significant pullback. Upside risks include better-than-expected sales results and margin performance while downside risks include slow consumer spending trends and competition.

In our view, LULU will perform in line with the sector. Top-line trends are still positive and the brand has managed to avoid steep markdowns and promotions that have plagued other retailers. The company appears to be on track to meet its 2020 target of USD 4 billion in sales with a 20%-plus operating margin. However, mall traffic remains very choppy and the competitive environment does not appear to be easing up at all. Our view has not changed that LULU still has room for additional store growth, and additional margin improvement could come from cost savings and better-than-expected same-store-sales growth. The company's premium brand positioning should enable it to be a market-share gainer in the growing ath-leisure market. Also, we believe LULU is one of the most attractive unit growth stories in the consumer space, with international expansion just beginning to gain steam.

Macy's Inc.: Bellwether

Robert Samuels, Consumer Discretionary Equity Sector Strategist Americas

Macy's Inc. operates department stores and an e-commerce business under two separate brands, Macy's and Bloomingdale's, with about 840 stores in 45 states. Macy's was founded in 1820 and is headquartered in Cincinnati, OH.

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	5.17	13,384	19,381.0	8,909
Consensus Forecasts (FY end)		**Feb 2018**	**Feb 2019E**	**Feb 2020E**
Sales ($M)		24,837	24,895	24,988
EPS (adj.)		3.77	3.84	3.50
P/E (x)		6.9	10.4	11.4
Consensus Rating Distribution		Buy	Hold	Sell
		3	13	2

Source: Factset, UBS, as of 6 June 2018

What drives our opinion

Top-line trends were better than expected in 1Q and the company appears to be getting a boost from healthy consumer fundamentals. However, we don't believe the structural issues facing US department stores have abated, and more difficult comparisons in the back-half of the year are a concern. Continued speculation around potential monetization of the company's real estate portfolio does limit the stock's downside. The greatest risk to our view would likely involve either better- or worse-than-expected same-store sales trends.

In our view, Macy's will perform in line with the sector. While valuation is not demanding, we aren't likely to see much in the way of near-term multiple expansion given headwinds facing the department store channel, including up-and-down sales trends and changing consumer spending habits. However, the company continues to discuss potential opportunities to monetize its real estate assets, and we think this provides a floor for the stock. Accordingly, we see the risk/reward as balanced at current levels.

Marriott International Inc.: Bellwether

Jonathan Woloshin, CFA, Head Americas Equities

Marriott International, Inc., is a global leading lodging company with more than 5,500 properties in 100 countries and territories. Founded by J. Willard and Alice Marriott and guided by Marriott family leadership for nearly 90 years, the company is headquartered in Bethesda, Maryland.

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	0.94	60,973	23,948.0	49,902
Consensus Forecasts (FY end)		**Dec 2017**	**Dec 2018E**	**Dec 2019E**
Net Income ($M)		1,372.0	1,917.6	2,117.3
First Call EPS ($)		4.24	5.36	6.20
EBITDA ($M)		3,414.0	3,416.6	3,736.8
EV/EBITDA (x)		17.1	17.1	15.6
Consensus Rating Distribution		Buy	Hold	Sell
		11	13	0

Source: FactSet, UBS, as of 14 June 2018

What drives our opinion

We believe MAR has a best-in-class management team and asset base. In addition, MAR returns significant capital to shareholders. These attributes are counterbalanced by what will likely be a long and complex integration associated with the acquisition of Starwood's lodging assets. We believe the pro forma combined company will likely be a very strong global competitor with unmatched geographic reach, brand diversity, and cash flow generation. That said, the integration complexities combined with an extended valuation will keep the shares range-bound. Risks include a rapidly changing lodging cycle, and a more- or less-favorable-than-anticipated transaction outcome.

The completed acquisition of Starwood has created a company of 30 leading brands with 1.1 million rooms in more than 5,500 hotels in over 100 countries. As the combined company has more than USD 1bn in G&A expenses, we believe significant savings could be realized. In addition, we believe there are multiple opportunities for revenue, purchasing, and marketing synergies with the combined company given the dominant global footprint. Further, MAR is targeting asset sales beyond those currently contemplated by Starwood. The USD 1.5–2.0bn in potential after-tax asset-sale proceeds should allow MAR to continue its long-standing tradition of repurchasing shares. These positives are balanced by the fact that the integration will be complex and time-consuming, and invariably incur some challenges. In addition, the prospect for increased new capacity, reduced transient business travel, and slowing group bookings leaves the risk/reward more fairly balanced.

Nordstrom: Bellwether

Robert Samuels, Consumer Discretionary Equity Sector Strategist Americas

Nordstrom, Inc. is one of the leading fashion specialty retailers based in the US. Founded in 1901 as a shoe store in Seattle, today Nordstrom operates 366 stores in 33 states. The company also serves customers through its e-commerce site and catalogs and operates in the online private-sale marketplace through its subsidiary HauteLook.

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	2.99	9,913	8,115.0	8,263
Consensus Forecasts (FY end)		**Jan 2018**	**Jan 2019E**	**Jan 2020E**
Sales ($M)		16,127	16,482	16,127
EPS (adj.)		2.95	3.47	3.59
P/E (x)		13.8	13.0	13.8
Consensus Rating Distribution		Buy	Hold	Sell
		2	17	2

Source: Factset, UBS, as of 14 June 2018

What drives our opinion

Although the company is an online leader (e-commerce represents 25% of sales), the majority of its sales still come from brick-and-mortar, which is challenged with no signs of improvement in sight. While the stock has recovered off the lows from last summer, continued sluggish comp trends are guided for this year. Risks include a rebound or further slowdown in store traffic, and an acceleration or deceleration in consumer spending. Also, the company recently announced that it had rejected the Nordstrom family's offer to take it private for USD 50 per share.

Although we continue to believe JWN has a best-in-class omni-channel strategy (e-commerce represents 25% of sales) and possesses healthy square-footage growth in both its Nordstrom and Rack divisions, we cannot ignore the fact that store traffic remains weak and brick-and-mortar sales are unlikely to accelerate anytime soon. The company did recently announce that it would slow down investment spending going forward after making billions of dollars in investments over the past few years in online, store growth, supply chain, and technology. While we believe JWN is doing a good job keeping inventory levels under control and provides a superior customer experience compared to its department store peers, we don't believe there is much room for multiple expansion, and EPS growth is likely to be lackluster given soft sales growth. We note that the company recently announced that it had rejected the Nordstrom family's offer to take it private for USD 50 per share.

Starbucks Corp.: Bellwether

Robert Samuels, Consumer Discretionary Equity Sector Strategist Americas

Starbucks purchases and roasts high-quality whole bean coffees and sells them through company-operated retail stores. Starbucks also sells coffee and tea products and licenses its trademark through other channels such as licensed retail stores, and, through certain of its equity investees and licensees, Starbucks produces and sells a variety of ready-to-drink beverages. The company was founded in 1985 and is headquartered in Seattle, WA.

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	1.87	85,553	14,365.6	82,674
Consensus Forecasts (FY end)		**Sep 2017**	**Sep 2018E**	**Sep 2019E**
Sales ($M)		22,387	24,879	26,945
EPS (adj.)		2.06	2.50	2.76
P/E (x)		26.1	22.9	20.7
Consensus Rating Distribution		Buy	Hold	Sell
		21	10	0

Source: Factset, UBS, as of 6 June 2018

What drives our opinion

At Starbucks, the fundamental top-line growth story appears to be slowing and unless trends accelerate in the second half, there is likely risk to earnings. The recent resignation of Howard Schultz from the company's board of directors also adds some uncertainty to the story. Furthermore, there are no clear drivers on the horizon to suggest that business will begin to improve, and competitors continue to focus on value while traffic to Starbucks stores is flat. While growth in China is promising, it is not enough to offset weaker trends at home.

The company's most recent quarter was a disappointment as same-store sales in the US came in lower than expectations with weaker trends over the holiday. Even as the demand environment is improving and retailers are cheering about a positive holiday season, SBUX appears to be negatively impacted by a strong value push from existing competitors and the emergence of newer concepts. On the positive side, China grew 6% during the most recent quarter driven by a 6% increase in transactions and is becoming a larger part of the overall profit mix. Longer-term, China will help the Asia Pacific region eventually overtake the Americas in importance. However, until that time, investors will continue to focus on trends in the US, which are lackluster in our view. While valuation is low versus historical averages, it is difficult to argue for multiple expansion given the slowdown in sales and earnings growth. We believe SBUX will perform in line with the sector and, as such, move it to our Bellwether list.

Toll Brothers Inc.: Bellwether

Jonathan Woloshin, CFA, Head Americas Equities

Toll Brothers, based in Horsham, PA, designs, builds, and markets single-family detached and attached homes in luxury residential communities. The company owns and operates golf courses and country clubs associated with master-planned communities.

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	0.72	10,109	9,445.2	6,768
Consensus Forecasts (FY end)		**Oct 2017**	**Oct 2018E**	**Oct 2019E**
Sales ($M)		5,815	6,993	7,958
Net Income ($M)		535.5	703.6	768.4
First Call EPS ($)		3.19	4.43	4.85
P/E (x)		12.2	8.8	8.1
Consensus Rating Distribution		Buy	Hold	Sell
		8	11	1

Source: FactSet, UBS as of 14 June 2018

What drives our opinion

Despite TOL's strong management, land position and operations, we believe this risk profile has worsened based on TOL's focus on very high cost homes, many of which are located in high tax states. Recent tax law changes could disadvantage TOL's product at the expense of lower cost homes. We continue to believe TOL is a well managed company with a solid balance sheet. That said, the company's exposure to higher cost homes could put consensus EPS estimates at risk. Risks to our call include rising (falling) interest rates, faster (slower) order growth, increased (decreased) share repurchase, and a sale of the company.

We believe TOL has a superior management team, a well located land base and among the highest gross margins in the sector. This is somewhat tempered by TOL's exposure to the California and Seattle markets where, despite strong job growth, affordability is a growing challenge. This, combined with the firm's exposure to the high-rise condo business, the risk of softer gross margins, and high investor expectations for the homebuilders, is concerning. The volatility of the City Living business and an extended relative valuation points to a balanced risk/reward profile for the shares.

Under Armour Inc.: Bellwether

Robert Samuels, Consumer Discretionary Equity Sector Strategist Americas

Under Armour is a developer, marketer, and distributor of branded performance products for men, women, and youth. It designs and sells a broad offering of apparel and accessories that utilize a variety of synthetic microfiber fabrications. These technologically advanced products are designed to wick perspiration away from the skin, help regulate body temperature, enhance comfort and mobility, and improve performance regardless of the weather condition. Under Armour is located in Baltimore, MD.

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	0.00	7,691	4,006.4	6,157
Consensus Forecasts (FY end)		**Dec 2017**	**Dec 2018E**	**Dec 2019E**
Sales ($M)		4,977	5,177	5,477
EPS (adj.)		0.19	0.18	0.30
P/E (x)		70.1	122.3	73.6
Consensus Rating Distribution	Buy	Hold	Sell	
	6	15	10	

Source: Factset, UBS, as of 6 June 2018

What drives our opinion

We believe UA will perform in line with the sector given its already rich valuation and the lack of material EPS upside. We have a high regard for the Under Armour brand and believe that it has multiple growth opportunities moving forward. However, the athletic category is much more competitive than just a few years ago and the UA brand is overexposed in North America. We think shares are fairly valued given the stock's current P/E multiple. The risk to our Bellwether view is an unexpected sustained improvement in outlook or conversely an unexpected worsening outlook.

We believe UA will perform in line with the sector given its already rich valuation. We have a high regard for the Under Armour brand and believe that it has multiple future growth opportunities. These include an expansion of its core apparel line through innovation, category expansion (particularly footwear), women's business, direct-to-consumer, and international. That said, 2017 was very difficult for Under Armour as the brand became over-distributed in the US without much differentiation in product. 2018 will likely be another challenging year as the company works to better segment its brand among various distribution channels. All of this comes as the athletic space has become increasingly competitive, with growth leveling off following several years of outperformance. While we are believers in the brand longer term, we believe the stock is richly valued at 65x consensus 2018E EPS of USD 0.21 even as earnings are expected to decline. As such, we await a better entry point to revisit our stance.

VF Corp: Bellwether

Robert Samuels, Consumer Discretionary Equity Sector Strategist Americas

VF Corporation, headquartered in Greensboro, NC, is a global branded lifestyle apparel company with more than 30 brands. The company's top five brands are North Face, Wrangler, Timberland, Vans, and Lee. Other brands include JanSport, Eastpak, and Kipling. VFC distributes its products through direct-to-consumer, specialty stores, department stores, national chains, and mass merchants.

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	2.30	32,523	9,958.5	29,653
Consensus Forecasts (FY end)		**Dec 2017**	**Dec 2018E**	**Dec 2019E**
Sales ($M)		12,019	12,332	13,544
EPS (adj.)		3.11	3.13	3.54
P/E (x)		17.2	23.7	23.8
Consensus Rating Distribution		Buy	Hold	Sell
		10	11	0

Source: Factset, UBS, as of 6 June 2018

What drives our opinion

VFC continues to shift its focus toward higher-margin businesses, and its diverse business model helps to insulate it somewhat from challenges in any one particular category or market. However, the US apparel market remains challenged from the online shift, weak mall traffic, and deflationary trends. Risks to our Bellwether view include a rebound or further slowdown in store traffic and an acceleration or deceleration in consumer spending.

While we continue to view VF as a "mutual fund" of brands with one of the best-in-class portfolios of outdoor, lifestyle brands in the sector, we cannot ignore the fact that the US apparel market remains under pressure from the shift to online spending, weak mall traffic, and deflationary trends. That said, the company continues to shift its focus toward higher-margin businesses (particularly international and direct-to-consumer), and its diverse business model does help to insulate it somewhat from challenges in any one particular category or market. Inventories at North Face were clean coming out of the first quarter, and the divestiture of Nautica lowers the company's exposure to the US department store channel to a low-single-digit percentage of sales (an underappreciated competitive advantage). We expect the company will continue to be acquisitive and highlight its recent deal to acquire the Altra footwear brand from ICON Health & Fitness.

Viacom Inc. (Cl B): Bellwether

Robert Samuels, Consumer Discretionary Equity Sector Strategist Americas

Viacom operates cable networks and entertainment brands. It owns and operates advertiser-supported basic cable television program services. The company through Paramount Pictures produces, finances and distributes feature motion pictures. Viacom is engaged in music publishing business. Viacom was founded in 1971 and is headquartered in New York, NY.

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	2.45	23,266	23,698.0	13,132
Consensus Forecasts (FY end)		**Sep 2017**	**Sep 2018E**	**Sep 2019E**
Sales ($M)		13,242	13,515	13,242
EPS (adj.)		2.14	2.53	3.02
P/E (x)		34.2	31.5	26.4
Consensus Rating Distribution		Buy	Hold	Sell
		7	19	1

Source: Factset, UBS as of 14 June 2017

What drives our opinion

Although valuation appears attractive and likely limits current potential downside, we are concerned about a continued slowdown in advertising and additional ratings declines for ad-supported television. Also, Viacom is overexposed to a younger demographic that is moving away from television viewing. The risk to our Bellwether view is an unexpected sustained improvement in outlook or conversely an unexpected worsening outlook.

In our opinion, Viacom finds itself in a difficult position in a world where younger consumers are quickly moving away from traditional television networks and instead opting for streaming video services (SVOD) like Netflix and YouTube Kids or over-the-top (OTT) offerings such as HBO Now. Ratings declines for linear ad-supported kids networks continue to outpace overall television viewing. And while Viacom does possess some of the most well-known children's networks, including Nickelodeon and MTV, they are very hit-driven (with no big hits recently) and marketers continue to shift spending toward online and away from television.

Williams-Sonoma: Bellwether

Robert Samuels, Consumer Discretionary Equity Sector Strategist Americas

Founded in 1956, Williams-Sonoma, Inc. is the premier specialty retailer of home furnishings and gourmet cookware in the United States. Furniture represents roughly 30% of the company's total merchandise volume. The company currently operates more than 600 stores in the United States and Canada under the names Williams-Sonoma, Pottery Barn, Pottery Barn Kids, West Elm, and Williams-Sonoma Home, as well as six e-commerce websites and seven direct mail catalogs. WSM is located in San Francisco, CA.

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	2.91	4,532	2,785.7	4,520
Consensus Forecasts (FY end)		**Jan 2018**	**Jan 2019E**	**Jan 2020E**
Sales ($M)		5,639	5,843	5,639
EPS (adj.)		3.61	4.24	4.39
P/E (x)		12.9	12.7	12.7
Consensus Rating Distribution	Buy	Hold	Sell	
	3	21	4	

Source: Factset, UBS, as of 14 June 2018

What drives our opinion

While 1Q sales growth was better than expected, margins remain under pressure largely due to online competition and promotional intensity. That said, we still think WSM is an omni-channel leader and worthy for inclusion in our e-commerce theme. The greatest risk to our view would likely involve either better- or worse-than-expected same-store sales trends.

In our view, Williams-Sonoma will perform in line with the sector. While valuation is not demanding and all of its store concepts grew sales in the fourth quarter, we aren't likely to see much in the way of near-term multiple expansion given headwinds facing the home-furnishings business, including increased online competition. However, with direct-to-consumer (DTC) revenues accounting for almost 50% of WSM's business and e-commerce representing almost 90% of this number, the company has wholeheartedly jumped on board the omni-channel train. WSM's DTC business is highly profitable with almost 22.5% operating margins, and continued channel mix toward e-commerce should help drive this higher. However, the promotional environment has intensified given more competitors in the space (i.e. Wayfair, Homegoods).

Yum! Brands Inc.: Bellwether

Robert Samuels, Consumer Discretionary Equity Sector Strategist Americas

YUM! Brands is a fast-food franchiser, trailing only McDonald's in overall sales. It outnumbers the burger giant, however, in store locations, with more than 37,000 units in 100 countries. The company's flagship brands include KFC, Pizza Hut, and Taco Bell.

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	1.17	37,287	5,311.0	27,356
Consensus Forecasts (FY end)		**Dec 2017**	**Dec 2018E**	**Dec 2019E**
Sales ($M)		5,878	5,596	5,496
EPS (adj.)		2.96	3.41	3.83
P/E (x)		27.6	24.4	21.7
Consensus Rating Distribution		Buy	Hold	Sell
		9	13	0

Source: Factset, UBS, as of 6 June 2018

What drives our opinion

After its separation with Yum China, YUM is a roughly 93% franchised business, moving to almost 98% by the end of 2018. The company's China division has now transitioned to a franchisee model from its prior company-operated segment. Without the volatility of the Chinese business, "New YUM" is a more stable operating model with significant free cash flow generation. In fact, the company is targeting approximately USD 6.5–7 billion of returns from 2017–19. Risks include changes in consumer spending habits, increased competition, and commodity and labor cost pressures.

In our view, YUM will perform in line with the sector. Valuation at current levels appears full, with the stock already trading at similar levels on EBITDA to other highly franchised restaurant names, including DNKN and DPZ. Nevertheless, the company now has a much more stable franchise business model with a geographically diverse store base and additional international growth prospects.

Sector financial highlights - Consumer Discretionary

Name	Ticker	Rec	Price	Industry Group	52 week		Market	Market	P/E 1 year	Dividend
					High	Low	Cap*	Cap USD bn	forward	Yield (%)
Aptiv	APTV	NR	102.61	Automobiles & Components	104.99	80.62	Large	27167.95	18.2	0.99
BorgWarner Inc.	BWA	NR	48.82	Automobiles & Components	58.22	40.00	Large	10257.18	10.6	1.33
Ford Motor Company	F	Bellwether	11.89	Automobiles & Components	13.48	10.14	Large	47382.84	7.8	5.05
General Motors Company	GM	Bellwether	43.57	Automobiles & Components	46.76	33.86	Large	61409.30	6.9	3.49
Goodyear Tire & Rubber Company	GT	NR	25.10	Automobiles & Components	36.52	24.12	Mid	6019.71	6.5	2.07
Harley-Davidson, Inc.	HOG	NR	44.20	Automobiles & Components	56.95	39.34	Mid	7356.52	11.8	3.33
Coach, Inc.	COH	NR	45.53	Consumer Durables & Apparel	55.50	38.70	Large	13104.35	16.2	2.97
D.R. Horton, Inc.	DHI	Most Preferred	43.08	Consumer Durables & Apparel	53.32	33.25	Large	16259.04	10.1	1.10
Dick's Sporting Goods	DKS	Bellwether	37.40	Consumer Durables & Apparel	41.61	23.88	Mid	3834.02	12.2	1.97
Garmin Ltd.	GRMN	NA	61.94	Consumer Durables & Apparel	65.96	49.80	Large	11677.05	19.1	3.29
Hanesbrands Inc.	HBI	NR	20.17	Consumer Durables & Apparel	25.73	16.38	Mid	7268.66	11.1	2.97
Hasbro, Inc.	HAS	NR	91.61	Consumer Durables & Apparel	116.20	79.00	Large	11445.57	18.0	2.55
KB Home	KBH	NR	26.21	Consumer Durables & Apparel	38.80	20.68	Mid	2293.53	10.7	0.38
Leggett & Platt, Incorporated	LEG	NR	44.25	Consumer Durables & Apparel	53.96	39.57	Mid	5808.70	15.6	3.25
Lennar Corporation	LEN	Bellwether	53.07	Consumer Durables & Apparel	72.17	49.52	Large	17284.10	9.1	0.30
Mattel, Inc.	MAT	NR	17.92	Consumer Durables & Apparel	21.67	12.21	Mid	6164.78	#N/A	2.96
MDC	MDC	Not Rated	31.79	Consumer Durables & Apparel	35.18	26.45	Small	1787.36	8.8	3.34
Michael Kors	KORS	NR	65.85	Consumer Durables & Apparel	70.00	32.81	Mid	9870.39	14.0	0.00
Mohawk Industries, Inc.	MHK	NR	214.11	Consumer Durables & Apparel	286.85	202.75	Large	15972.39	13.2	0.00
Newell Rubbermaid Inc.	NWL	NR	26.39	Consumer Durables & Apparel	55.08	22.60	Large	12817.62	9.5	3.49
NIKE, Inc. Class B	NKE	Most Preferred	74.70	Consumer Durables & Apparel	75.91	50.35	Large	120393.24	28.1	1.02
PulteGroup, Inc.	PHM	Most Preferred	30.80	Consumer Durables & Apparel	35.21	23.21	Mid	8794.17	8.7	1.17
PVH Corp.	PVH	NR	160.24	Consumer Durables & Apparel	169.22	102.81	Large	12352.26	16.8	0.09
Ralph Lauren Corporation	RL	NR	139.09	Consumer Durables & Apparel	145.94	68.50	Large	11345.99	21.7	1.44
Toll Brothers	TOL	Bellwether	39.05	Consumer Durables & Apparel	52.73	36.55	Mid	5930.33	8.1	0.90
Under Armour, Inc.	UA	Bellwether	21.73	Consumer Durables & Apparel	22.58	10.36	Mid	9662.29	91.6	0.00
V.F. Corporation	VFC	Bellwether	84.03	Consumer Durables & Apparel	84.56	53.57	Large	33146.31	23.3	2.09
Whirlpool Corporation	WHR	NR	155.47	Consumer Durables & Apparel	200.61	143.11	Large	11006.50	9.2	2.86
Carnival Corporation	CCL	NR	64.20	Consumer Services	72.70	60.30	Large	47545.75	13.8	2.80
Chipotle Mexican Grill, Inc.	CMG	NR	460.44	Consumer Services	470.00	247.52	Large	12797.01	46.5	0.00
Darden Restaurants, Inc.	DRI	NR	92.19	Consumer Services	100.11	76.27	Large	11412.20	17.2	2.73
H&R Block, Inc.	HRB	NR	23.77	Consumer Services	31.80	23.59	Mid	4972.73	12.3	4.04
Marriott International, Inc.	MAR	Bellwether	138.75	Consumer Services	149.21	96.90	Large	49028.01	23.3	1.01
MGM Resorts	MGM	NR	31.43	Consumer Services	38.41	29.53	Large	17499.78	20.5	1.43
McDonald's Corporation	MCD	Most Preferred	167.05	Consumer Services	178.70	146.84	Large	131163.82	20.9	2.33
Hilton	HLT	Bellwether	82.93	Consumer Services	88.11	60.54	Large	24913.58	28.6	0.72
Hyatt	H	Most Preferred	83.00	Consumer Services	84.89	54.38	Mid	9504.30	49.4	0.18
Norwegian Cruise Line Holdings	NCLH	NR	54.45	Consumer Services	61.48	49.52	Large	12234.32	11.2	0.00

Sector financial highlights - Consumer Discretionary

Name	Ticker	Rec	Price	Industry Group	52 week		Market	Market	P/E 1 year	Dividend
					High	Low	Cap*	Cap USD bn	forward	Yield (%)
Royal Caribbean Cruises Ltd.	RCL	NR	113.50	Consumer Services	135.65	101.20	Large	24033.28	12.1	2.01
Starbucks Corporation	SBUX	Bellwether	57.02	Consumer Services	61.94	52.58	Large	78687.60	21.2	2.02
Wyndham Worldwide Corporation	WYN	NR	48.28	Consumer Services	127.96	47.21	Mid	4804.44	9.4	4.97
Wynn Resorts, Limited	WYNN	NR	176.25	Consumer Services	203.63	124.11	Large	19138.46	19.4	1.28
YUM! Brands, Inc.	YUM	Bellwether	83.38	Consumer Services	88.07	70.90	Large	26949.83	22.9	1.22
CBS Corporation	CBS	NR	55.12	Media	68.75	47.54	Large	20889.87	10.1	1.31
Comcast Corporation	CMCSA	Bellwether	33.82	Media	44.00	30.43	Large	155627.61	12.9	1.96
Discovery Communications, Inc.	DISCA	NR	25.50	Media	27.92	15.99	Large	12347.64	9.8	0.00
Discovery Communications, Inc.	DISCK	NR	24.15	Media	27.15	14.99	Large	11693.94	9.3	0.00
DISH Network Corp	DISH	NR	34.08	Media	66.50	28.80	Large	15928.32	14.5	0.00
Gannett Co., Inc.	GCI	NR	10.35	Media	12.38	7.94	Mid	1168.15	10.2	6.18
Interpublic Group of Companies, Inc.	IPG	NR	23.58	Media	26.01	18.30	Mid	9090.56	13.1	3.18
Lions Gate Entertainment class A	LGF/A	Bellwether	25.04	Media	36.48	21.54	Mid	5293.36	48.5	0.36
Lions Gate Entertainment class B	LGF/B	Not Rated	23.69	Media	34.41	19.97	Mid	5007.97	45.7	0.38
News Corporation	NWSA	NR	16.02	Media	17.29	12.84	Mid	9338.03	31.3	1.25
Omnicom Group Inc	OMC	NR	75.37	Media	84.16	65.32	Large	17130.85	13.0	3.05
Scripps Networks Interactive, Inc.	SNI	NR	90.04	Media	93.58	65.05	#N/A	#N/A	15.7	#N/A
TEGNA	TGNA	NR	11.38	Media	15.60	10.00	Mid	2454.44	7.0	2.46
Time Warner Inc.	TWX	NR	98.77	Media	103.90	85.88	Large	77269.65	12.1	1.63
Twenty-First Century Fox, Inc.	FOXA	NR	44.58	Media	44.70	24.81	Large	82586.72	20.1	0.81
Viacom Inc.	VIAB	Bellwether	28.91	Media	36.77	22.13	Large	11633.53	6.8	2.77
Walt Disney Company	DIS	Most Preferred	108.75	Media	113.19	96.20	Large	161684.06	14.4	1.49
Amazon.com, Inc.	AMZN	Most Preferred	1723.86	Retailing	1724.80	927.00	Large	836463.42	109.6	0.00
Advance Auto Parts	AAP	NR	133.50	Retailing	134.75	78.81	Mid	9883.14	18.9	0.18
AutoZone, Inc.	AZO	NR	682.99	Retailing	797.89	491.13	Large	18055.52	12.6	0.00
Bed Bath & Beyond Inc.	BBBY	NR	19.82	Retailing	36.49	16.52	Mid	2775.63	9.2	3.03
Best Buy Co., Inc.	BBY	NR	73.32	Retailing	79.90	51.61	Large	20485.02	14.5	2.00
CarMax, Inc.	KMX	NR	73.22	Retailing	77.64	57.05	Large	13038.29	16.0	0.00
Dollar General Corporation	DG	NR	96.33	Retailing	105.82	65.97	Large	25773.86	15.4	1.11
Dollar Tree, Inc.	DLTR	NR	88.34	Retailing	116.65	65.63	Large	21005.13	15.1	0.00
Expedia, Inc.	EXPE	NR	123.58	Retailing	161.00	98.52	Large	18555.29	22.4	0.97
Foot Locker	FL	NR	57.65	Retailing	59.40	28.42	Mid	6739.80	12.3	2.21
Gap, Inc.	GPS	Bellwether	31.33	Retailing	35.68	21.02	Large	12139.44	12.0	2.98
Genuine Parts Company	GPC	NR	94.07	Retailing	107.75	79.86	Large	13803.64	16.4	2.92
Home Depot, Inc.	HD	Most Preferred	199.67	Retailing	207.61	144.25	Large	230327.33	20.6	1.92
Kohl's Corporation	KSS	NR	73.28	Retailing	79.92	35.27	Large	12244.79	13.5	3.08
L Brands, Inc.	LB	NR	35.99	Retailing	63.10	30.70	Mid	9976.57	12.7	6.67
LKQ Corp	LKQ	NR	33.15	Retailing	43.86	29.60	Large	10266.92	13.7	0.00

Sector financial highlights - Consumer Discretionary

Name	Ticker	Rec	Price	Industry Group	52 week		Market Cap*	Market Cap USD bn	P/E 1 year forward	Dividend Yield (%)
					High	Low				
Lowe's Companies, Inc.	LOW	Most Preferred	99.16	Retailing	108.98	70.76	Large	80929.83	17.4	1.65
LuLulemon Athletica	LULU	Bellwether	125.88	Retailing	127.34	51.30	Large	17080.66	37.7	0.00
Macy's Inc	M	Bellwether	37.56	Retailing	41.33	17.41	Large	11507.29	10.4	4.02
Netflix, Inc.	NFLX	NR	392.87	Retailing	395.03	144.25	Large	170777.84	107.1	0.00
Nordstrom, Inc.	JWN	Bellwether	49.87	Retailing	54.00	37.79	Mid	8347.64	14.4	2.97
O'Reilly Automotive, Inc.	ORLY	NR	281.89	Retailing	287.66	169.43	Large	23090.17	17.5	0.00
Priceline Group Inc	PCLN	NR	2123.06	Retailing	2228.99	1630.56	Large	102278.42	22.6	0.00
Ross Stores, Inc.	ROST	NR	84.50	Retailing	86.33	52.85	Large	31817.71	20.0	0.83
Signet	SIG	NR	55.51	Retailing	77.94	33.11	Mid	3286.36	13.8	2.34
Target Corporation	TGT	NR	77.22	Retailing	79.59	48.56	Large	41168.68	14.4	3.21
Tiffany & Co.	TIF	NR	135.67	Retailing	137.97	86.15	Large	16855.78	27.5	1.47
TJX Companies, Inc.	TJX	NR	94.56	Retailing	95.91	66.44	Large	59295.93	18.9	1.40
Tractor Supply Company	TSCO	NR	74.32	Retailing	82.68	49.87	Mid	9070.76	17.4	1.51
TripAdvisor, Inc.	TRIP	NR	57.73	Retailing	58.80	29.50	Mid	7932.33	40.7	0.00
Williams-Sonoma	WSM	Bellwether	60.85	Retailing	62.48	42.68	Mid	5056.94	14.4	2.63
Ulta Beauty	ULTA	NR	246.60	Retailing	300.74	187.96	Large	14840.39	21.3	0.00

*Small (<USD 2bn), Mid (USD 2-10bn), Large (>USD 10bn)

Source: Factset, UBS as of 14 Jun 2018

Sector Snapshot - Consumer Discretionary

	Autos & Components	Cons Durables & Apparel	Consumer Services	Media	Retail	Sector
Weighting	Neutral	Most Preferred	Most Preferred	Neutral	Neutral	
Key Themes	Connected Car	e-Commerce	Millenials	Millenials	e-Commerce	
	Disruptive Mobility	Millenials	Health and Wellness		Millenials	
		Health and Wellness				
Performance (%)						
Absolute						
1 month	10.1%	6.5%	0.8%	6.6%	8.2%	6.8%
3 months	10.7%	5.8%	0.6%	0.4%	10.3%	6.5%
6 months	4.5%	6.1%	0.8%	-1.3%	31.8%	15.5%
12 months	19.5%	13.1%	9.0%	-2.0%	49.5%	25.3%
Relative						
1 month	3.3%	-0.2%	-6.0%	-0.2%	1.4%	
3 months	4.2%	-0.7%	-5.9%	-6.2%	3.8%	
6 months	-11.0%	-9.4%	-14.7%	-16.8%	16.3%	
12 months	-5.8%	-12.1%	-16.3%	-27.3%	24.2%	
No of companies in subsector	6	19	13	15	28	81
Subsector market cap (USD m)	151,834.63	286,187.06	421,472.06	602,502.82	1,681,072.27	3,143,068.84
Subsector weightings	4.83%	9.11%	13.41%	19.17%	53.49%	100.00%
			Top subsector weights (%)			
	GM 36.2%	NKE 33.9%	MCD 31.6%	DIS 27.1%	AMZN 41.2%	AMZN 22.0%
	F 30.6%	VFC 9.7%	SBUX 19.0%	CMCSA 26.0%	NFLX 10.1%	HD 7.4%
	APTV 18.0%	DHI 5.1%	MAR 9.9%	TWX 12.8%	BKNG 6.2%	NFLX 5.4%
	BWA 6.4%	LEN 5.1%	YUM 6.6%	CHTR 9.1%	LOW 4.9%	DIS 5.2%
	HOG 4.9%	MHK 4.7%	CCL.U 6.2%	FOXA 7.8%	TJX 3.6%	CMCSA 5.0%
	GT 4.0%	TPR 4.5%	HLT 5.6%	FOX 3.2%	TGT 2.5%	MCD 4.2%
	0.0%	NWL 4.5%	RCL 4.6%	CBS 3.2%	ROST 1.9%	BKNG 3.3%
		PVH 4.3%	MGM 3.8%	OMC 2.9%	DG 1.5%	NKE 3.1%
		HAS 3.6%	WYNN 3.5%	VIAB 1.7%	ORLY 1.4%	LOW 2.6%
		WHR 3.5%	DRI 2.7%	IPG 1.5%	DLTR 1.2%	SBUX 2.5%

Weighting definitions -- Most Preferred: The subsector is expected to outperform the sector benchmark in the next 12 months. Neutral: The subsector is expected to perform broadly in line with the sector benchmark in the next 12 months. Least Preferred: The subsector is expected to underperform the sector benchmark in the next 12 months.

Source: Factset, UBS as of 14 Jun 2018

Recent recommendations

Company	Change	Comment
Amazon.com Inc.	Most Preferred	We believe the recent pullback in the stock provides us an opportunity for us to get more positive on the e-commerce bellwether. We are strong believers in the future growth of e-commerce and cloud computing and believe that Amazon will continue to increase its share of online sales.
D.R. Horton Inc.	Most Preferred	Well diversified geographically, strong operating leverage, attractive valuation, best positioned to capture the entry level buyer, a strong balance sheet and increasing capital efficiency.
Home Depot Inc.	Most Preferred	HD continues to take share in the home improvement category, is much better positioned with the pro consumer, and is somewhat insulated from online competition.
Hyatt Hotels Corp	Most Preferred	H trades at a significant forward EV/EBITDA discount to peers, is seeking to monetize more owned assets, and is committed to returning more capital to shareholders in the form of share repurchases. In addition, improved economic growth and corporate earnings could lead to better-than-forecast RevPAR growth. This, in turn, should lead to better operating leverage given H's owned hotel profile.
Lowe's Cos.	Most Preferred	New leadership is likely to reinvigorate the business and help close the performance gap with Home Depot. We believe valuation looks attractive.
McDonald's Corp.	Most Preferred	We believe that MCD will outperform the sector as the US business has begun to show signs of improvement, and management is taking an aggressive approach to revitalize the business.
Meritage Homes Corp.	Most Preferred	Exposure to strong job, income and population growth markets, attractive absolute and relative valuation, significant increase in exposure to the entry level buyer (the fastest growth portion of the housing market) and improving gross and operating margins.
Nike Inc.	Most Preferred	Nike provides best-in-class exposure to the athletic business, which continues to be the best-performing apparel and footwear category. The company still has a long run ahead of it with respect to sales growth and margin opportunity, in our view.
Pulte Homes Inc.	Most Preferred	PHM's value creation strategy, combined with solid order growth rates, an increasing focus on first-time buyers, and a significant capital return program, is a significant positive for shareholders. In addition,.despite having the highest projected consensus EPS growth rates for 2017 and 2018, PHM trades at a P/E discount to its large-cap peers. We believe these factors lead to a favorable risk/reward profile.
Walt Disney Co.	Most Preferred	We believe Disney has the best product and content lineup in the media sector with numerous upcoming catalysts, including Star Wars and the opening of Disney Shanghai. We think cable cord-cutting will be a slow bleed and manageable for the company.
Comcast Corp. (Cl A)	Bellwether	We believe that Comcast will perform in line with the sector given positive fundamentals in cable and NBCU, offset by the risks of pay TV subscriber declines, increased regulation of broadband pricing, and an inability to pass through programming cost increases to consumers.
Dick's Sporting Goods Inc.	Bellwether	Unfortunately, the top-line bull case on DKS is evaporating with a weaker-than-expected 1Q comp, light 2018 sales guidance, and disappointing full-year comp guidance. Given the recent bankruptcies in the sporting goods space, we expected sales trends to accelerate, but this does not seem to be happening.

Ford Motor Co	Bellwether	Ford 's new CEO has taken a number of steps to improve profitability over time but has yet to address the company's international operations. We prefer to wait on the sidelines as risk/reward seems balanced and it is late in the auto cycle, when automaker stocks tend not to outperform the consumer discretionary benchmark.
Gap Inc.	Bellwether	Sales at Old Navy have improved but persistent weakness at the core Gap brand likely limits additional stock upside.
General Motors	Bellwether	General Motors' sales and profit growth should be aided by its exposure to pickups and SUVs, Margins may improve. However, auto stocks do not typically outperform the consumer discretionary benchmark at this point in the economic cycle, so we remain on the sidelines.
Hilton Worldwide	Bellwether	We see the risk/reward fairly balanced at current levels.
Lennar Corp. (Cl A)	Bellwether	We see risk/reward fairly balanced at current levels.
Lions Gate Ent Class A	Bellwether	While we continue to believe that the company is a likely takeover target in the media space given its robust content offering, the market appears to have fallen out of love with media names in general and doesn't believe in the M&A story.
Lululemon Athletica	Bellwether	We believe expectations heading into 4Q earnings may be ahead of themselves given the recent run-up in the stock price. In addition, valuation is no longer as compelling with the stock currently trading at almost 1.5x its growth rate from less than 1x late last year. That said, we continue to believe in the margin turnaround story at LULU and would look to review the shares again on any significant pullback.
Macy's Inc.	Bellwether	We don't believe the structural issues facing US department stores have abated, and more difficult comparisons in the back-half of the year are a concern. Also, in our view, continued speculation around potential monetization of the company's real estate portfolio limits the stock's downside.
Marriott International Inc.	Bellwether	We see the risk/reward fairly balanced at current levels.
Nordstrom	Bellwether	Lackluster store sales are likely to persist as the shift online continues to accelerate.
Starbucks Corp.	Bellwether	Concerns around a slowdown in growth in the US, largely due to new competitors and a value push from existing competition, could lead to negative EPS revisions.
Toll Brothers Inc.	Bellwether	We see the risk/reward fairly balanced at current levels.
Under Armour Inc.	Bellwether	We believe that UA will perform in line with the sector given its already rich valuation. However, we are big fans of the Under Armour brand and believe that it has multiple growth opportunities moving forward.
VF Corp	Bellwether	The US apparel market remains challenged from the online shift, weak mall traffic, and deflationary trends.
Viacom Inc. (Cl B)	Bellwether	Although valuation appears very attractive and likely limits current downside, we are concerned about a continued slowdown in advertising and additional ratings declines for ad-supported television. Also, VIAB is overexposed to a younger demographic that is moving away from television viewing.
Williams-Sonoma	Bellwether	While WSM continues be an omni-channel leader and has some of the best-in-class e-commerce technologies, sales growth remains sluggish and the competitive environment has intensified. While the company recently lowered its full-year guidance, it's difficult to assume that trends will improve in the near term given heightened promotional activity.

Yum! Brands Inc.	Bellwether	In our view, YUM will perform in line with the sector. Valuation at current levels appears full, with the stock already trading at similar levels on EBITDA to other highly franchised restaurant names, including DNKN and DPZ. Nevertheless, the company now has a much more stable franchise business model with a geographically diverse store base and additional international growth prospects.

Appendix

Appendix

Asset allocation model

US equity sector allocation, in %

For US equity subsector recommendations please see the "Equity Preference List" for each sector. These reports are published on a monthly basis and can be found on the Online Services website in the Research > Equities section.

	S&P 500 Benchmark allocation[1]	CIO Americas, WM tactical deviation[2]				Current allocation[3]
		Numeric		Symbol		
		Previous	Current	Previous	Current	
Consumer Discretionary	12.8	+0.0	+0.0	n	n	12.8
Consumer Staples	7.6	-1.0	-1.0	–	–	6.6
Energy	5.6	+2.0	+1.0	++	+	6.6
Financials	15.1	+1.0	+1.0	+	+	16.1
Healthcare	13.8	-1.0	-1.0	–	–	12.8
Industrials	10.3	+0.0	+0.0	n	n	10.3
Information Technology	24.8	+1.0	+1.0	+	+	25.8
Materials	2.9	+0.0	+1.0	n	+	3.9
Real Estate	2.6	+0.0	+0.0	n	n	2.6
Telecom	1.9	+0.0	+0.0	n	n	1.9
Utilities	2.7	-2.0	-2.0	– –	– –	0.7

NOTE: The benchmark allocations, as well as the tactical deviations, are intended to be applicable to the US equity portion of a portfolio across investor risk profiles.
Source: UBS CIO WMR, as of 21 February 2018.

Footnotes
[1]For the first table on this page, the benchmark allocation is based on S&P 500 weights. For the second and third tables on this page, the benchmark allocation refers to a moderate risk profile and represents the relative market capitalization weights of each country or region.
[2]See "Deviations from strategic asset allocation or benchmark allocation" in the appendix for an explanation regarding the interpretation of the suggested tactical deviations from benchmark. The "current" column refers to the tactical deviation that applies as of the date of this publication. The "previous" column refers to the tactical deviation that was in place at the date of the previous edition of UBS House View or the last UBS House View Update.
[3]The current allocation column is the sum of the CIO Americas, WM tactical deviation columns and (the S&P 500 benchmark allocation for the first table on this page) (the benchmark allocation for the second and third tables on this page).

Scale for tactical deviation charts

Symbol	Description/Defintion	Symbol	Description/Defintion	Symbol	Description/Defintion
+	moderate overweight vs. benchmark	–	moderate underweight vs. benchmark	n	neutral, i.e., on benchmark
++	overweight vs. benchmark	– –	underweight vs. benchmark	n/a	not applicable
+++	strong overweight vs. benchmark	– – –	strong underweight vs. benchmark		

Source: UBS

Disclosures (15 June 2018)

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