Reopening America stock list

US equities

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- As we describe in our Year Ahead: A Year of Renewal publication, we expect economic activity to further normalize in 2021 on the heels of effective vaccines and therapeutics, along with continued monetary and fiscal stimulus. As a result, cyclicals and some of the 2020 market laggards look poised for outperformance in 2021.
- Our Reopening America stock list—which we launched on 21 May—is leveraged to these trends. As a result of recent vaccine developments, we now have higher conviction in the economic normalization and tilt the stock list to be more cyclical and more leveraged to reopening trends.

A version of this report is available with specific security recommendations for the US onshore investors. For a copy, please consult your UBS Financial Advisor.

Reopening America–a refresh

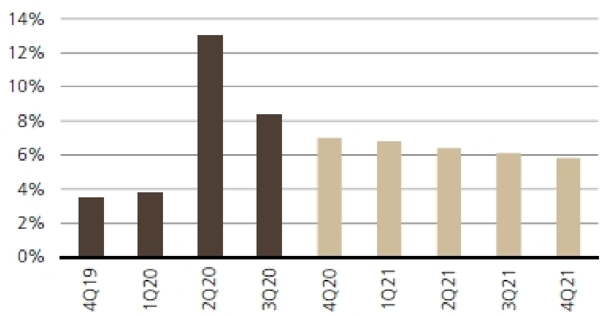
As we highlight in our 2021 Year Ahead publication, we believe next year will be a "Year of Renewal" as the pandemic finally begins to wind down and economic activity further normalizes. The initial data from two phase 3 vaccine trials is especially encouraging and gives us greater conviction that there is some light at the end of the pandemic tunnel. We expect continued progress on additional vaccine candidates and therapeutics in the weeks and months ahead. In addition, we believe governments around the world will continue to provide the requisite fiscal and monetary support to ensure that economic activity can get back to pre-pandemic levels.

On 21 May, we launched our Reopening America theme as lockdowns eased in the wake of the first wave of COVID-19 infections. Our initial stock list included companies that were adversely affected by the lockdowns, as well as companies that looked poised to continue to benefit from some stay at home trends. Our Reopening America theme is aligned with many of the trends that we identified in our Year Ahead publication. We now tilt the list to include more companies that are leveraged to reopening trends and remove some companies that have performed well during the pandemic.

We have increased our exposure to financials through companies highly levered to consumer spending. Our expectations for a continued decline in the unemployment rate (Fig. 1) should further bolster consumer spending and lower the risk of adverse credit expenses.

Fig. 1: The unemployment rate has scope to improve

US unemployment rate, actual (brown) and consensus estimates (tan)

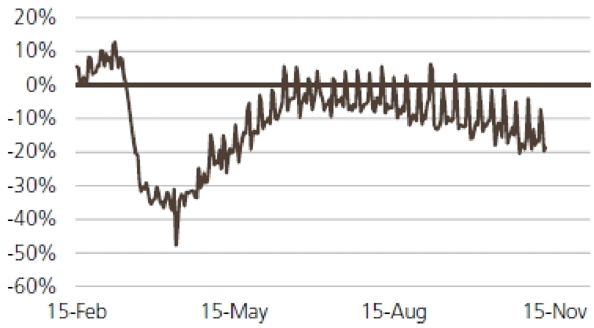


Source: Bloomberg, UBS, as of 16 November 2020

When economic activity normalizes and consumers visit stores more frequently, companies with exposure to e-commerce may not have as many tailwinds at their backs. We still believe e-commerce remains a strong secular trend, but we prefer to keep exposure through companies with a dominant position.

Fig. 2: US mobility activity remains below prepandemic levels

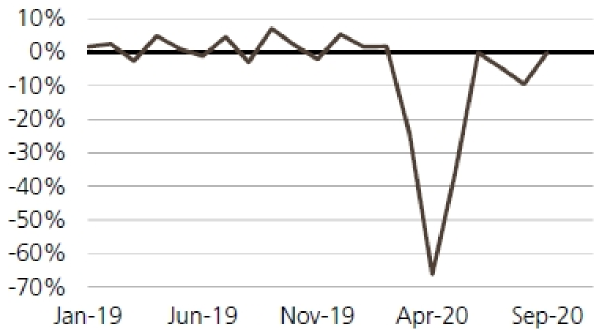
Google mobility data relative to pre-pandemic baseline



Source: Google, UBS, as of 10 November 2020

Fig. 3: Surgical procedure volumes have rebounded sharply

Year-over-year change in US surgeries



Source: UBS Evidence Lab, Colorado Hospital Association's Databank Program, UBS, as of 30 September 2020

Risks

While we believe that the US economy will continue to recover as economic activity normalizes over the next several months, there are several risks worth monitoring. First, a slower-than-expected recovery could lead to a delay of our thesis and near-term underperformance for this theme. Second, recent pandemic trends are worrisome and it may take some time for investors to price in our expectations for a more complete economic recovery. Finally, the theme's sector exposure deviates from its benchmark, most notably with an underweight to secular growth stocks that have been strong performers this past year.

Methodology

To create our stock list, we selected companies that had exposure to the post-pandemic economic recovery. We started with a universe of companies that were rated either Buy or Neutral by UBS Investment Bank or on Most Preferred or Bellwether lists from the GWM Chief Investment Office. We then applied qualitative and quantitative metrics to assess thematic relevance and attractiveness of fundamentals. Finally, we had a preference for companies that were trading at attractive valuations relative to their two-year forward consensus earnings estimates.

Appendix

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Number 01/2020. CIO82652744