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Investment Perspectives - US

Investment Perspectives: US and the Americas

A collection of our most impactful recent research.

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Due to the US Thanksgiving holiday, "Investment Perspectives: US and the Americas" will not be published next week. Our next edition will be on November 30.

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Global Highlights

15-Nov | Morgan Stanley Research

[US Equity Strategy: Key SMID-Cap Overweights and Underweights](#)

SMID cap stocks should be larger relative beneficiaries of tax reform. So SMID caps' lack of meaningful outperformance over the past year suggests the trend may still be our friend for these stocks, as tax reform may not be fully priced in. We provide an update on the SMID microstructure, including an overview of factors that work best for SMID stock performance. To marry our strategists' top-down observations on SMID caps with a bottom-up approach, in this *Morgan Stanley Theme Trade*, we highlight notable Overweight and Underweight recommendations with a market cap between \$500 million and \$10 billion.

13-Nov | [Serena Tang](#)¹, Strategist

[Global Cross-Asset Strategy: Cycle Check-Up - How Will the Bull Market End?](#)

We continue to prefer equities over corporate credit. Our cycle indicators point to continued expansion. But looking at what usually derails our framework, we believe the chance of a signal switch next year is high. Watch USD strength and corporate credit weakness, which have been reliable bellwethers for equity peaks. For macro metrics, focus on manufacturing surveys, durable goods orders and average weekly hours, which tend to lead equity peaks by about 4-6 months.

15-Nov | [Michael Cyprys](#), Equity Analyst and [Nigel Dally](#), Equity Analyst

[US Asset Managers, Brokers & Insurance: Insight -](#)

[What Rothification Means for Retirement Industry Flows](#)

As tax reform moves into high gear, challenging pay-fors may emerge to include a form of Rothification (lowering the cap and catch-up on pretax retirement contributions and shifting them to an after-tax basis.) However, our analysis suggests that investors should not be concerned over a disruption to industry flows. In our base case, we see a ~3% hit to gross industry retirement flows, or \$75 billion in aggregate over 10 years as the pretax contribution limit falls to \$10,000 (~45% reduction from current law) and the cap on total retirement contributions to Roth IRAs is raised to \$24k (on an after-tax basis). Within Asset Managers, we believe T. Rowe Price, LPL, and Waddell & Reed are the most exposed to a change in the pretax contribution rate, with retirement-related assets >50% of their total AUM. Across Insurance, Prudential and Voya Financial are most exposed, in our view.

10-Nov | [Brian Nowak](#), Equity Analyst, [Thomas Allen](#), Equity Analyst,

[Jamie Rollo](#)¹, Equity Analyst et al.

[Global Internet, Lodging, Leisure: Insight - Surprising Airbnb Adoption Slowdown in US/EU, and What It Means for Hotels and OTAs](#)

Our 3rd annual AlphaWise survey suggests Airbnb adoption is slowing in the US/Europe as awareness peaks and privacy/safety issues rise. Hotel cannibalization is up modestly but slower adoption is positive for hotels, so we raise our RevPAR forecasts. We believe OTAs are becoming stronger competitors against Airbnb.

Strategy & Economics

13-Nov | [Michael Wilson](#), Equity Strategist

[US Equity Strategy: Staying Bullish Energy and a Look at Credit Divergence](#)

Tax debates and credit spreads have caused concern recently. We note some quality divergences in credit and provide an update on the market's tax pricing. We think the rally in Energy has room to catch oil's rise with support from earnings, valuation, and positioning.

15-Nov | [Michael Wilson](#), Equity Strategist and the US Consumer Team

[US Equity Strategy: Consumer Discretionary & Consumer Staples - Underweight for US Strategist; Top Picks from Analysts](#)

We have a positive US market outlook but remain underweight Consumer Discretionary and Staples due to poor relative EPS revisions and a mix of structural/cyclical concerns. Our Consumer analysts provide views on their sub-sectors and highlight their top Overweights (CL, LB, NKE, PF, SBUX, WYNN) and Underweights (HRL, TGT, UNFI).

12-Nov | [Andrew Sheets](#)¹, Strategist

[Global Macro: Overstimulated](#)

With rates low and central banks taking great care to avoid surprises, the question, in our view, isn't why many assets are expensive. It's why they aren't richer. Since the financial crisis, easy policy has been balanced by four powerful counterweights - fiscal tightening, regulation, 'scars of the crisis,' and 'low nominal growth.' All now appear to be shifting, opening the door, we believe, to more volatile late-cycle behaviour.

15-Nov | [Graham Secker](#)¹, Equity Strategist

[Europe Equity Strategy: MidCap Matters](#)

The N12M PE for the MSCI Europe SMID index has climbed to 17.5, a level last seen (briefly) in August 2009 and September 2000. Earnings revisions for Europe's SMID Growth index are falling sharply. MSCI EMU SMID stocks have performed in line with their global peers lately despite seeing some of the weakest earnings revisions of any region. UK Small Caps also look to have entered a downgrade cycle.

13-Nov | [Chetan Ahya](#)², Economist, [Jonathan Garner](#)², Equity Strategist et al.

[China BluePaper Revisit: Insight - Why We Are Still Bullish on China](#)

We are more confident that China will be able to achieve a near-stabilization of its debt to GDP by 2H19 and will attain high-income status by 2025, two years earlier than we initially expected. Despite its strong performance year-to-date, we expect MSCI China to continue to outperform EM over the cycle.

09-Nov | [Hans Redeker](#)¹, Strategist

[Currency Strategy: USD - Another Taxing Week](#)

We stick to our USD bearish story, with positive global growth indications and low inflation providing the boost for long carry positions. The recent themes that were driving the USD higher have played out and are priced in: a Fed rate hike in December and greater optimism about US tax reform. US 5y5y inflation expectations remain subdued even as oil prices have rallied further. We think this is because of the weak wage data and provides another reason to expect USD weakness.

Industry Analysis

15-Nov | [Rajeev Lalwani](#), Equity Analyst

[US Airlines: 2018 Global Corporate Travel Survey - Supportive Outlook](#)

Through AlphaWise, we conducted a global survey of 200+ corporate travel managers responsible for airline negotiations. Overall, 2018 budget and pricing growth are expected to step up, with demand following as well, in our view.

13-Nov | [Joseph Moore](#), Equity Analyst

[US Semiconductors: Graphics for Cryptocurrency - A Primer](#)

Despite constant reference to Bitcoin in the press, we believe it is irrelevant to graphics vendors because Bitcoin moved away from graphics chips towards specialty ASIC chips years ago. The primary relevant cryptocurrency driving graphics mining is Ethereum, which in the next 12-18 months will likely shift to a new technology that eliminates mining. We expect this to be a headwind for both Advanced Micro Devices and Nvidia over the next 12 months, though we believe it's only relevant to AMD, where it's a far larger portion of sales and sales growth, and NVDA has budgeted for a decline.

15-Nov | [Jamie Rollo](#)¹, Equity Analyst and [Thomas Allen](#), Equity Analyst

[Global Leisure and Hotels: Global Hotel Corporate Travel Survey - 15th Edition](#)

Our 15th annual Global Hotel Corporate Travel Survey suggests slightly stronger support for RevPAR growth in 2018 in nearly all regions, both on room rate and volume, with particular inflection in Europe and China. We set new country RevPAR forecasts. Our top picks are Accor, Marriott, Hilton.

13-Nov | [Andy Meng](#)², Equity Analyst

[China Energy & Chemicals: Insight - What a Cleaner and Safer China Means for the Refinery and Chemicals Industries](#)

We are turning more positive on Sinofert, Kingenta, Stanley, Tianneng, and Junzheng as we believe they would be the key beneficiaries under China's efforts to make refinery and chemicals industries cleaner and safer.

12-Nov | [John Lam](#)², Equity Analyst

[China Property: Structural Factors to Fuel More Re-Rating; Attractive](#)

We see the near-term share-price correction as a good entry point for the China property industry. We believe consolidation and decline in land supply will be two structural drivers for the industry over the next five years. We see three near-term catalysts. Our top picks include COLI, Sunac, Agile, R&F, CIFI, KWG, and Times.

14-Nov | [Nikolaj Lippmann](#)³, Equity Analyst

[LatAm Malls: Insight - The Internet Could Speed Mall Divergence; Buy Top-Tier Portfolios Like PARAUCO, IGTA; FUNO to UW](#)

We see rent growth diverging between Top- & Mid-/Bottom-tier malls, and we believe the internet could accelerate this trend. Beating inflation is key for value, in our view, and top-tier malls can do that. We tier 200+ malls and identify inflation-beating portfolios. We see this as a potential positive for Parque Arauco and Iguatemi but likely a tough road for BRMalls (which we downgrade to Equal-weight) and Fibra Uno (downgrade to Underweight).

14-Nov | [Danny Anson-Jones](#)¹, Equity Analyst

[EEMEA Banks: Insight - Averting the Eye of the IFRS9 Storm](#)

Our new IFRS9 analysis points to a 7% day 1 adjustment on average to EEMEA bank book values; a 95bps capital hit is manageable, we estimate, given phasing-in over 5 years. Our work confirms the income profile of select EEMEA stocks, yet our key concern is the implications for bank business models. Our analysis underpins our conviction in stocks where we see a sustainable or progressive dividend policy – Akbank, Garanti, Sberbank – and in South Africa, where forecast yields are relatively high and the CET1 impact appears modest.

Company Analysis

16-Nov | [Rajeev Lalwani](#), Equity Analyst

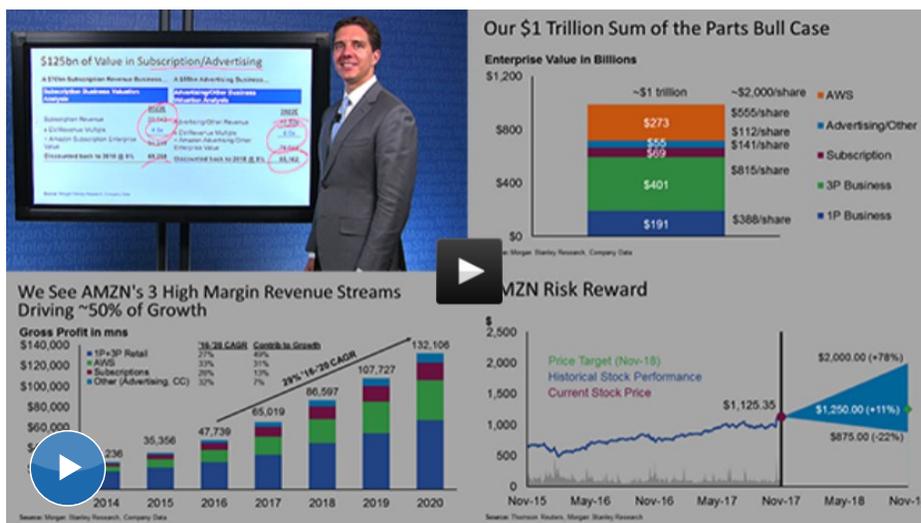
[Alaska Air: Best Value Play in US Airlines; Move to Top Pick](#)

Post the recent selloff, we are more bullish on ALK shares given they trade at below-average valuation multiples despite above-average margins and growth prospects. ALK screens as the best value play within US Airlines as it trades closer to lower-quality Legacy peers. We believe near-term pressures on both the unit revenue and cost sides create a buying opportunity as trends start to bottom, while Alaska Air's 4Q17 commentary remains supportive of the long-term outlook.

12-Nov | [Brian Nowak](#), Equity Analyst

[Amazon.com Inc: The Math Behind the Trillion Dollar Bull Case](#)

We believe Amazon's high margin revenue disclosure speaks to the \$1 trillion (\$2,000/sh) sum-of-parts bull case. We value core retail at \$600 billion based on 1P reaching 5.5% '22 operating margins and 3P reaching a 25% EBITDA margin. We value AWS (conservatively, in our view) at \$270 billion, Prime subscription revenue at \$70 billion, and Amazon's ad business at \$55 billion.



15-Nov | [Fotis Giannakoulis](#), Equity Analyst

[Cheniere Energy: Moving Closer to a Major Positive Catalyst](#)

Higher oil prices have improved the competitiveness of US LNG and the prospects of a new wave of liquefaction projects, with Cheniere likely to lead the way. Although such expansion is not in our base case, we think any long-term offtake that leads to Final Investment Decision could add 20-40% upside to our \$50 price target.

10-Nov | [Dara Mohsenian](#), Equity Analyst

[Colgate-Palmolive: Visibility on a Return to ~4% Organic Sales Growth Rises Post Q3; Expect Lower LT Targets with Q4 EPS](#)

Q3 provided us with six key reasons why we see increased visibility into a return to ~4% organic sales growth. In the context of worsening US, as well as overall CPG revenue growth, we do think a return to 4% organic sales growth at Colgate over the next year would drive absolute and relative stock outperformance.

10-Nov | [Magdalena Stoklosa](#)¹, Equity Analyst

[Deutsche Bank: DBK + Postbank - Patience Required](#)

We expect market debate to shift away from the i-bank to the retail and commercial bank as we get details of the merger by early 2018. Our work suggests that synergies, albeit material, may be long-dated.

13-Nov | [Rafael Shin Chang](#), Equity Analyst

[FEMSA: Selling Beer, Buying Health](#)

FEMSA's sale of 5% of Heineken added US\$3 billion in cash. The share price suffered (down 12%) on capital deployment uncertainty, but we view this positively as we believe it holds potential for faster growth in higher-return businesses and dividends. We reiterate our Overweight on FEMSA, our top pick in the sector.

14-Nov | [Grace Chen](#)², Equity Analyst

[JD.com: Cut to EW – Tapering GMV Growth; Wait for a Better Re-entry Point](#)

JD stock is up 63% year-to-date in response to upside surprise from margins. We see good potential for continued margin expansion in the long term, but think the stock is likely to take a breather as apparel headwinds temper near-term GMV growth. Our new US\$45 price target (down from US\$53) implies 1.0x 2018e P/S.

13-Nov | [Andrea Ferraz](#)¹, Equity Analyst

[Naspers: A Step in the Right Direction](#)

Naspers is hosting its first Capital Markets Day since 2014. We expect FCF to start improving at key core verticals and better disclosure. Positive surprises would include clearly defined targets and an intention to implement some (minor) technical changes. Bullish on Tencent (covered by Grace Chen²), we are Overweight Naspers.

14-Nov | [Sheng Zhong](#)², Equity Analyst

[Rise Education: Leading Junior English Language Tutor](#)

Fueled by a strong industry tailwind, we believe Rise can easily duplicate its teaching model across cities, and achieve growth at a high margin through both self-operated and franchised outlets. We initiate at Overweight with a \$15.50 price target.

14-Nov | [Nicholas Ashworth](#)¹, Equity Analyst

[SSE: SSE 2.0 - Back to the Future](#)

SSE's spin-off of its GB retail business leaves the rump as an infrastructure / regulated play. We believe the rump can sustain attractive DPS and EPS to 2025, justifying today's price (and more) alone. Thus SSE-Innogy MergeCo is a free option, in our view, with recent utility spin-outs a positive backdrop.

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1 – Serena Tang, Jamie Rollo, Andrew Sheets, Graham Secker, Hans Redeker, Danny Anson-Jones, Magdalena Stoklosa, Andrea Ferraz, Nicholas Ashworth: Morgan Stanley & Co. International plc+

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STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
Overweight/Buy	1154	36%	293	39%	25%	562	38%
Equal-weight/Hold	1413	44%	359	48%	25%	682	46%
Not-Rated/Hold	56	2%	6	1%	11%	9	1%
Underweight/Sell	606	19%	92	12%	15%	237	16%
TOTAL	3,229		750			1490	

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Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

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