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# US EQUITY MARKET

## Taking on the market narratives

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# AGENDA



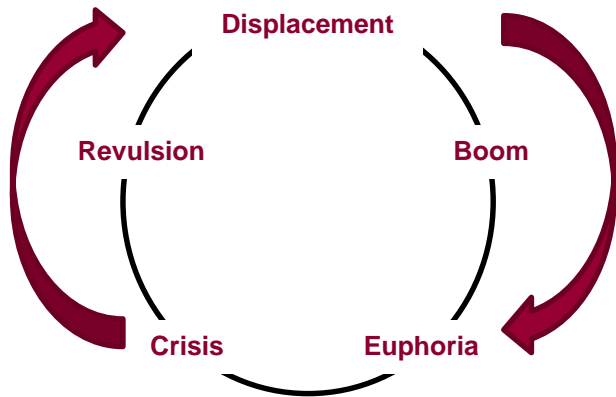
- Current market narratives
  - Market at all-time highs = Bubble
  - GDP = Equity returns
- Technology creating shifts in multiple profit pools
  - e-commerce
  - Advertising
  - Over-the-top
- Conclusions

# CURRENT MARKET NARRATIVES

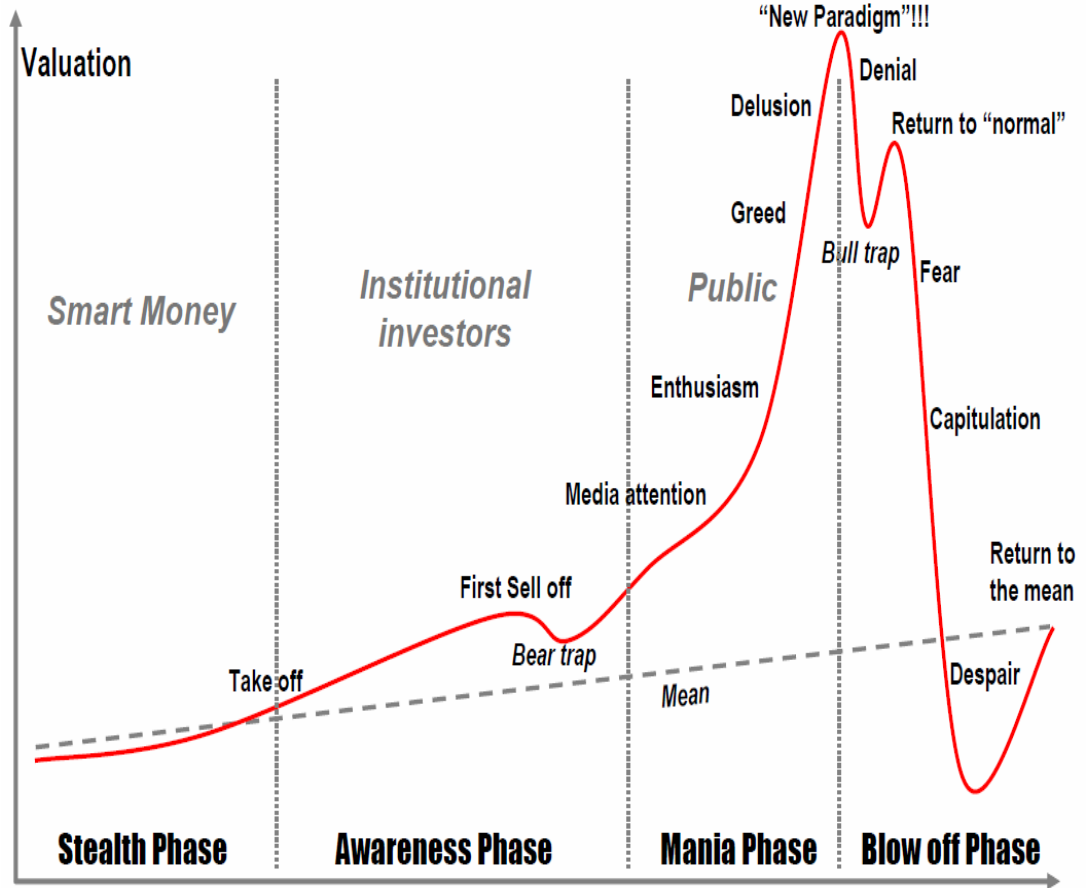
Market at all-time highs = Bubble



Historical view of a bubble<sup>1</sup>



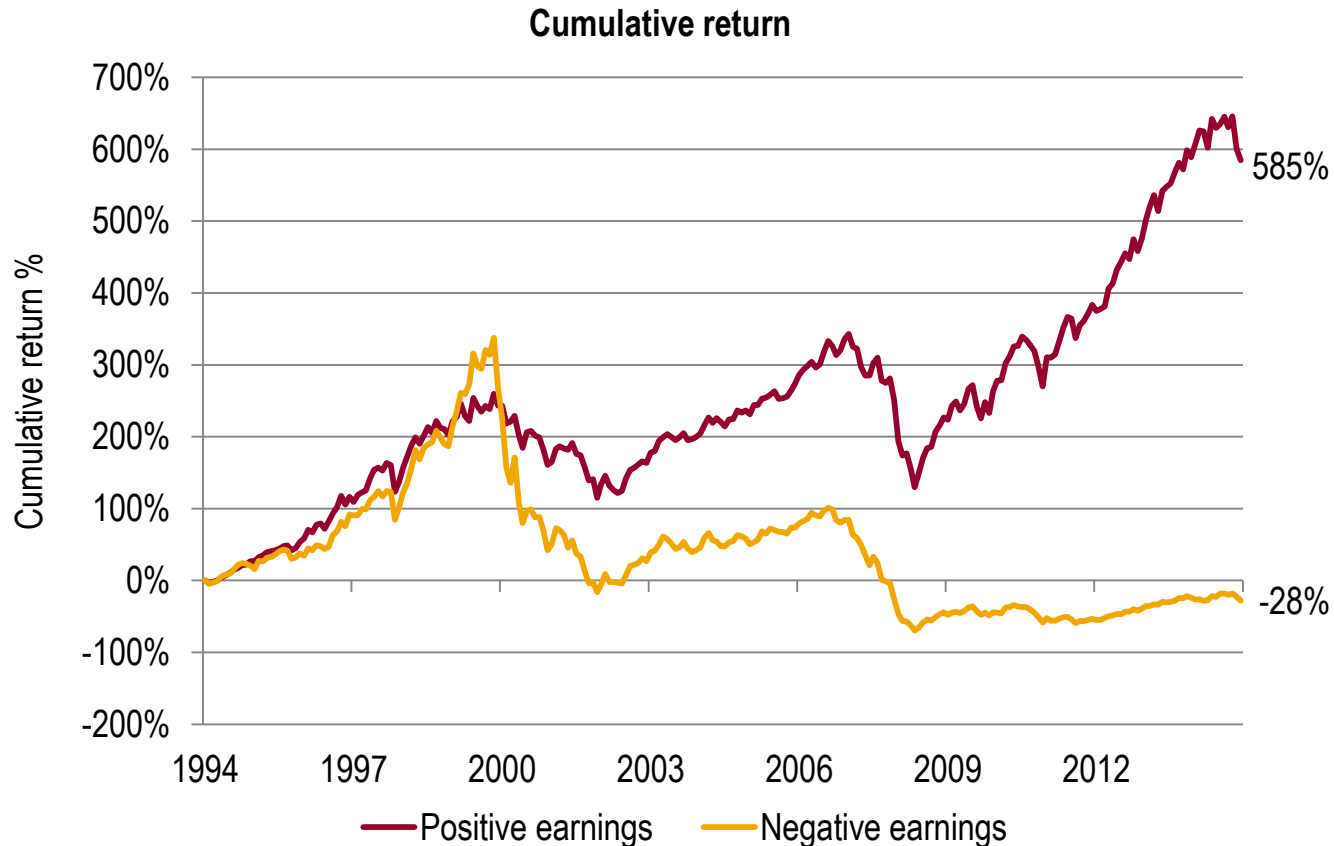
Today's view of a bubble<sup>2</sup>



Sources : <sup>1</sup> Kindleberger-Minsky model stems from writing by Hyman Minsky (1975-1982) and Kindleberger in *Manias, Panics, and Crashes: A History of Financial Crises* (1996). <sup>2</sup> Dr. Jean-Paul Rodrigue, Dept. of Economics & Geography, Hofstra University. February 2008.

# CURRENT MARKET NARRATIVES

GDP = Equity returns...GDP ≠ Equity returns



Source: Compustat earnings per share (EPS) data, as of 9/30/15. Each portfolio of positive and negative earnings companies is rebalanced monthly and market cap weighted.

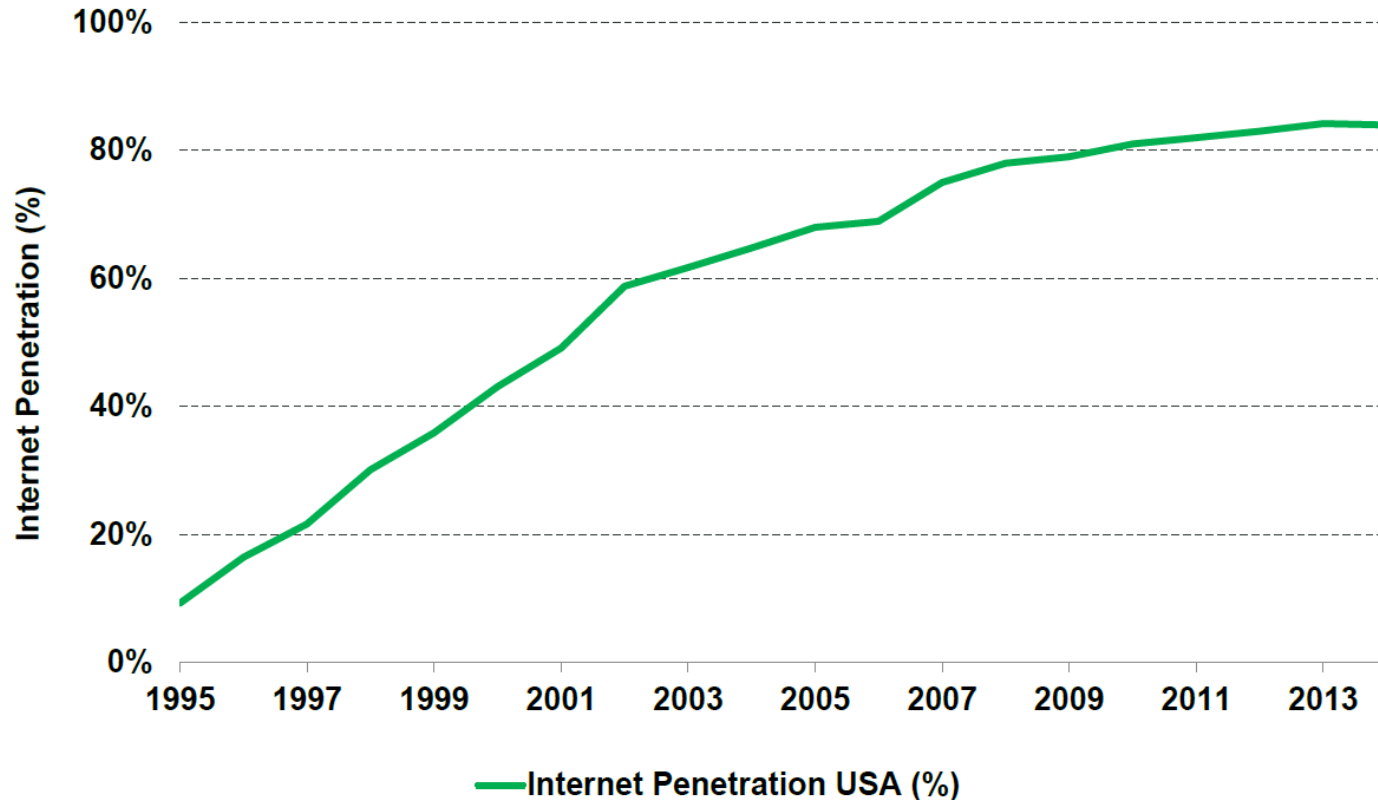
**Profits drive stocks prices**

# PROFIT POOLS

Internet usage



### Percent of Population with Internet Access, USA, 1995 – 2014



@KPCB Source: World Bank, IDC

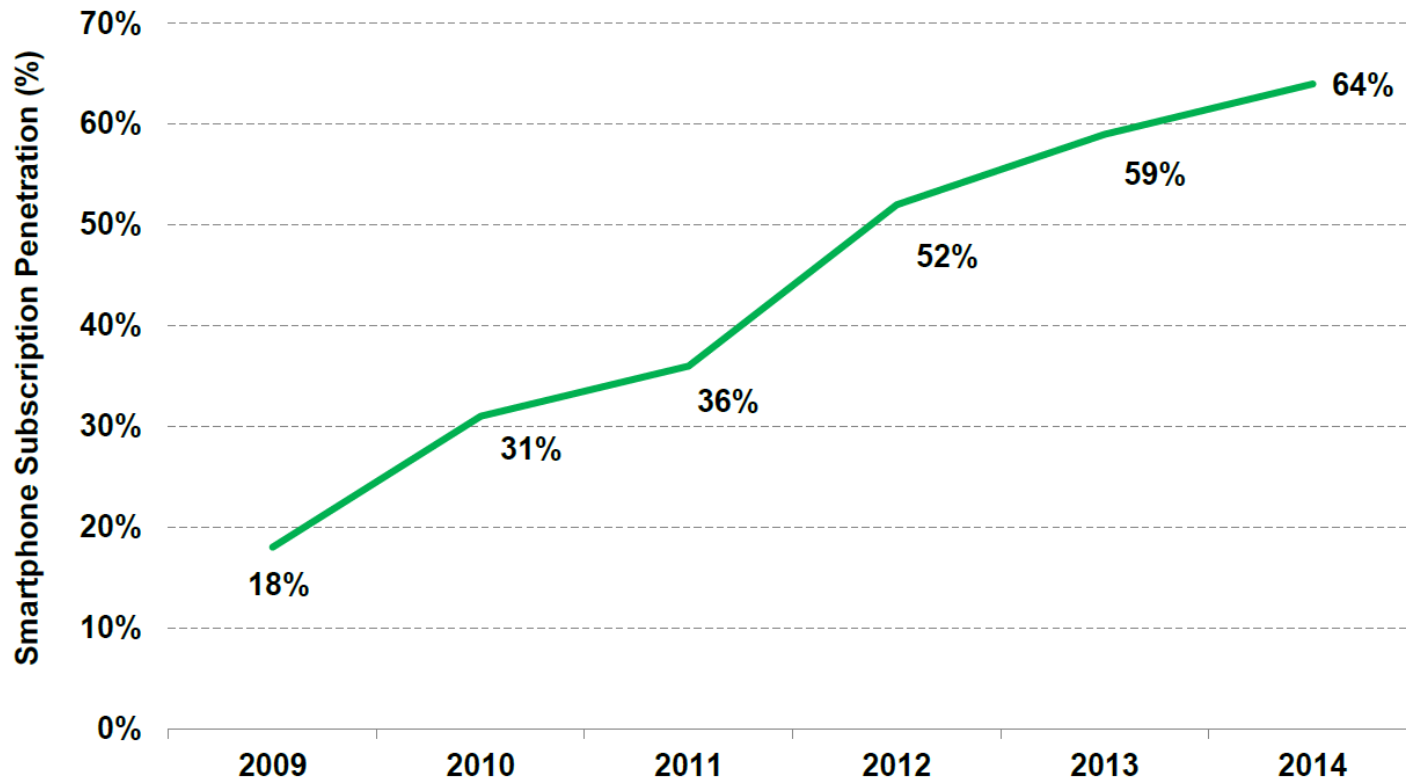
*>80% of Americans use the internet today*

# PROFIT POOLS

## Smartphone usage



### Smartphone Subscription Penetration, USA, 2009 – 2014



Source: Informa, US Census Bureau.

Smartphone penetration data are based on subscriptions (also referred to as connections), which may overstate actual users for those who have multiple devices or connections.

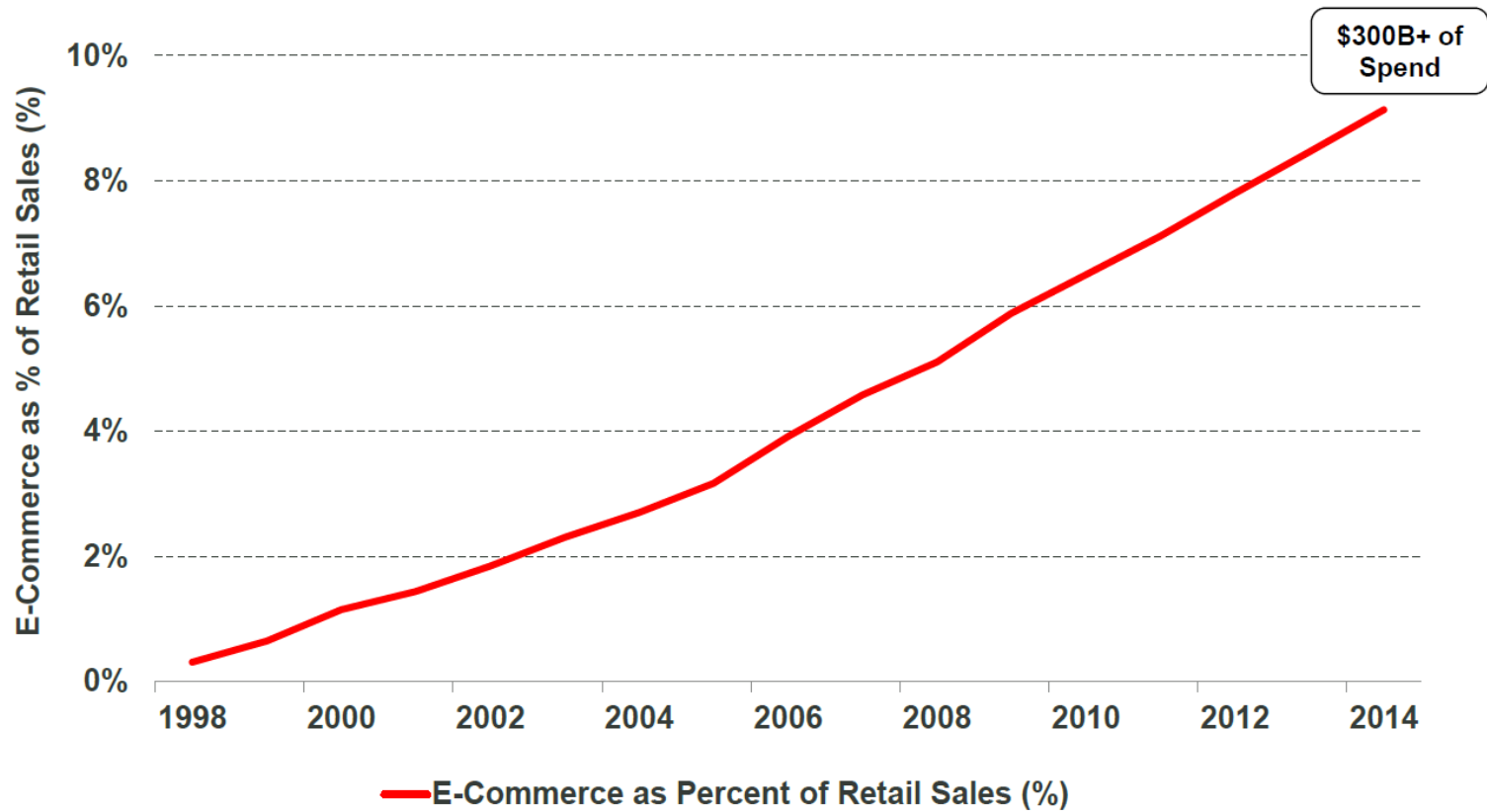
**>60% of Americans use a smartphone**

# PROFIT POOLS

## E-commerce



### E-Commerce as % of Total Retail Sales, USA, 1998 – 2014



# PROFIT POOLS

## Advertising



| Global average media consumption in mins per day | 2012  | 2013  | 2014  | 2015  |
|--|-------|-------|-------|-------|
| Internet   | 80.5  | 87.8  | 109.5 | 122.4 |
| Newspapers                                       | 17.8  | 16.9  | 16.3  | 15.2  |
| Magazines  | 9.5   | 8.9   | 8.3   | 7.9   |
| TV   | 190.7 | 186.5 | 183.9 | 179.5 |
| Radio  | 62.2  | 59.2  | 58.4  | 56.8  |
| Cinema   | 1.8   | 2.0   | 1.7   | 1.7   |

Sources: CLSA and ZenithOptimedia, 6/30/15.

*Time spent by consumers online increasing*



# PROFIT POOLS

Over-the-top

| Era          | Content Creation   | Content Packaging   | Content Distribution                    | User Interface             | End User              |
|--------------|--|---|---|----------------------------|-----------------------|
| 1950-1970    | Hollywood Studios<br>Independent Producers   | Broadcast Networks  | Movie Theaters<br>Broadcast TV Stations | Movie Screen<br>Television | Viewers/<br>Consumers |
| 1970-1990    |  | Cable Networks<br>(Including HBO)                                     | Cable MSO's<br>Blockbuster/VCR          | PC                         |                       |
| 1990-2000    |  |   | DBS<br>DVD/Retailers                    |                            |                       |
| Today/Future | User Generated Content<br>Semi-Professional Content<br>Other Traditional Media Content | Google<br>Amazon<br>Apple<br>Facebook<br>Netflix<br>Microsoft<br>Hulu | RBOC's<br>The Internet                  | Mobile Devices             |                       |

*Content getting unbundled*

# CONCLUSIONS



- Where is the investor euphoria?
- Investors anchor to the wrong things
  - It's profits, not economic growth, that drives stock prices
- Technology, directly and indirectly, creating huge share shifts in major profit pools
  - Following market cycle of triple digit returns, selectivity will matter
  - Share shift in markets between winners and losers

THANK YOU