Value Stock Selection in an Era of Aging Millennials

Presented by:
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Value Stock Selection in an Era of Aging Millennials

Demographics explain business cycles

Figure: Total World Population divided by age groups
2017. Data provided by the DESA UN Data sets.

<table>
<thead>
<tr>
<th>Generation...</th>
<th>Years of birth</th>
<th>Average age</th>
<th>Current population</th>
<th>At peak (year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greatest Generation</td>
<td>1910-1927</td>
<td>92.9</td>
<td>2.6</td>
<td>43.2</td>
</tr>
<tr>
<td>Silent Generation</td>
<td>1928-1945</td>
<td>78.5</td>
<td>25.8</td>
<td>44.1</td>
</tr>
<tr>
<td>Baby Boomers</td>
<td>1946-1964</td>
<td>61.3</td>
<td>73.8</td>
<td>79.5</td>
</tr>
<tr>
<td>GenX</td>
<td>1965-1980</td>
<td>44.5</td>
<td>65.8</td>
<td>65.8</td>
</tr>
<tr>
<td>Millennials</td>
<td>1981-2000</td>
<td>26.5</td>
<td>89.2</td>
<td>95.8</td>
</tr>
<tr>
<td>Generation Z</td>
<td>2001-2018</td>
<td>8.3</td>
<td>73.8</td>
<td>96.2</td>
</tr>
</tbody>
</table>

Source: Fundstrat. Peak population figures above include immigration. **Reduced immigration will lead to a smaller overall size of GenZ.**

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Expanding use of debt

Source: Fundstrat, Bloomberg. https://www.urban.org
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Millennials are moving life stages

Average Household Spending by Life Stage

- Under 25 Single: $33,629
- 25-34 Young Married: $55,325
- 35-44 Young Family: $69,034
- 45-54 High School/College Family: $73,905
- 55-64 Empty Nesters: $64,972
- 65-Plus Pre-retirement/Retired: $49,542

Concept courtesy Harry S. Dent

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Housing supply is inadequate

[Graph showing the supply of new U.S. housing from 1968 to 2017. The graph indicates a low historical supply, with 1982 being the only year before 2008 with fewer units than 2017 (1.2 million).]

Source: U.S. Census Bureau and Department of Housing and Urban Development, Institute for Building Technology & Safety.

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Ownership desires remain unchanged

Millennials have ownership desires similar to other generations

- **Car Ownership**: Millennial (2016) 82.6, Gen-X (2001) 82.5, Baby Boom (1989) 84.3

For households under the age of 35

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Homeownership is rising

After 12 years of decline, homeownership is on the rise

Homeownership Rate = Owner Occupied Housing / Total Occupied Housing

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Households can more easily handle mortgages
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Interest rates and home buying demand are non-correlated

Past performance is no guarantee of future results. Source: Bloomberg.
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Growth and momentum are long in the tooth

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Key moment in value stocks

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Recency bias and equity bubbles

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Forward returns in S&P 500 look anemic

S&P 500 Forward P/E

- Lowest Quintile: 10.5x
- Second Quintile: 15.8x
- Third Quintile: 20.5x
- Fourth Quintile: 25.0x
- Highest Quintile: 45.8x

S&P Average Trailing P/E (17.2x)


Past performance is no guarantee of future results. Source: FactSet. Calculations are made using GAAP (generally accepted accounting principles) and each quintile is calculated on a weighted average basis. The S&P Average Trailing P/E Ratio is based on public sources provided by Bloomberg.
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Rising rates and value outperformance

Figure: Interest rates and the comparative returns of Value vs Growth Since 1926

Rising Interest Rates: Value beats 1938-1981

Falling Interest Rates: Growth leads 1981 to today

Source: Fundstrat, Bloomberg

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Millennial spending outpaces boomers

## Figure: Industries where Millennial will transform sectors as their spending dwarfs that of the Boomers 2018-2028

<table>
<thead>
<tr>
<th>Category</th>
<th>Millennials</th>
<th>Boomers</th>
<th>Total</th>
<th>Millennial share of Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage interest and charges</td>
<td>163.4%</td>
<td>(32.4%)</td>
<td>43.9%</td>
<td>93%</td>
</tr>
<tr>
<td>Kids Apparel</td>
<td>110.9%</td>
<td>(27.3%)</td>
<td>47.3%</td>
<td>87%</td>
</tr>
<tr>
<td>Other apparel products and services</td>
<td>155.4%</td>
<td>(18.3%)</td>
<td>46.2%</td>
<td>86%</td>
</tr>
<tr>
<td>Footwear</td>
<td>148.2%</td>
<td>(18.6%)</td>
<td>46.2%</td>
<td>85%</td>
</tr>
<tr>
<td>Apparel and services</td>
<td>130.7%</td>
<td>(16.5%)</td>
<td>48.6%</td>
<td>77%</td>
</tr>
<tr>
<td>Vehicle finance charges</td>
<td>106.3%</td>
<td>(28.5%)</td>
<td>44.9%</td>
<td>68%</td>
</tr>
<tr>
<td>Other entertainment supplies, equipment, and services</td>
<td>124.6%</td>
<td>(34.7%)</td>
<td>42.8%</td>
<td>67%</td>
</tr>
<tr>
<td>Furniture</td>
<td>116.4%</td>
<td>(16.9%)</td>
<td>46.2%</td>
<td>67%</td>
</tr>
<tr>
<td>Toys, hobbies, and playground equipment</td>
<td>98.6%</td>
<td>(4.7%)</td>
<td>48.3%</td>
<td>66%</td>
</tr>
<tr>
<td>Cellular phone service</td>
<td>105.2%</td>
<td>(18.9%)</td>
<td>46.1%</td>
<td>63%</td>
</tr>
<tr>
<td>Gasoline and motor oil</td>
<td>107.6%</td>
<td>(9.0%)</td>
<td>47.6%</td>
<td>59%</td>
</tr>
<tr>
<td>Household furnishings and equipment</td>
<td>126.9%</td>
<td>(3.9%)</td>
<td>48.2%</td>
<td>59%</td>
</tr>
<tr>
<td>Tobacco products and smoking supplies</td>
<td>102.1%</td>
<td>(21.1%)</td>
<td>45.3%</td>
<td>58%</td>
</tr>
<tr>
<td>Vehicle purchases (net outlay)</td>
<td>95.4%</td>
<td>(12.6%)</td>
<td>46.9%</td>
<td>56%</td>
</tr>
<tr>
<td>Vehicle rental, leases, licenses, and other charges</td>
<td>102.5%</td>
<td>(12.0%)</td>
<td>46.9%</td>
<td>55%</td>
</tr>
<tr>
<td>Maintenance and repairs</td>
<td>115.5%</td>
<td>(7.8%)</td>
<td>47.3%</td>
<td>55%</td>
</tr>
<tr>
<td>Pets</td>
<td>125.4%</td>
<td>(9.8%)</td>
<td>47.3%</td>
<td>54%</td>
</tr>
<tr>
<td>Alcoholic beverages</td>
<td>98.6%</td>
<td>(8.0%)</td>
<td>47.6%</td>
<td>52%</td>
</tr>
<tr>
<td>Vehicle insurance</td>
<td>118.7%</td>
<td>(11.7%)</td>
<td>47.0%</td>
<td>51%</td>
</tr>
<tr>
<td>Small appliances, miscellaneous housewares</td>
<td>101.3%</td>
<td>(12.7%)</td>
<td>47.1%</td>
<td>50%</td>
</tr>
</tbody>
</table>

Source: Fundstrat

To be **transformed** by Millennials…

These industries will see a big substitution of consumer spending—Millennials replace Boomers.
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American Express

Figure 6: U.S. Spend Per Card by Network


Past performance is no guarantee of future results. Source: Figure 6 - D.A. Davidson for the time period 1/1/1999 – 6/30/2010; American Express – Bloomberg, data for the time period 1/1/2004 – 12/31/2016.
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American Express

$100 Payment Card Transaction Breakdown

Revenue Mix versus Bank Issuing Peers

% of Revenue, FY'17

Source: AmEx Investor Day, March 7, 2018

Note: Total company results for Discover. Card results for Chase. Consumer Lending segment for BAC. U.S. business for COF and North America branded business for Citi. Issuing competitors reflect rewards costs as a contra revenue item whereas the majority of AXP rewards costs are reported as expenses.

Questions & Answers

Email info@smeadcap.com or call 877.701.2883
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Definitions:

**Forward Price/Earnings (P/E):** the ratio of a firm’s closing stock price & its forward 12 months’ earnings/share.