

## Global Roadmaps: 2021 Outlook

### Macro Outlook

#### 2021 Market Outlook [\(report\)](#):

Currently the embedded expectations of the market are elevated signaling that a material recovery and reopening will take place in 2021. These elevated valuation levels are the largest driver of our cautious outlook for 2021. As our research team looks through the EVA lens to identify key drivers, risks, and opportunities, the major concern is related to the recovery taking longer than expected which may in turn lead material downside from today's market.

### Global Roadmaps 2021 Sector Outlooks: We like Financials and Communication Services

**Financials (+) [\(report\)](#):** After lagging broader market indexes in the U.S. and globally, the Financials sector appears poised for outperformance in 2021. The sector and its industry groups all have favorable PRVit averages as they all have strong Quality and relatively cheap Valuations.

**Communication Services (+) [\(report\)](#):** The Communication Services sector looks marginally attractive in the PRVit framework, led by Diversified Telecommunications, Wireless Telecommunications, and Media industries.

**Industrials (+/-) [\(report\)](#):** The Sector is currently neutral in the PRVit Framework given today's trade-off between Quality (P-R) and Valuation. Whilst we are positive on the likely bottoming and recovery in EVA Fundamentals, elevated expectations for future growth in EVA leave us more cautious in the short term.

**Information Technology (+/-) [\(report\)](#):** Heading into 2021 we caution on slowing incremental growth in EVA Momentum at a time when expectations are at elevated levels. Aggregate sector EVA Fundamentals remain positive, leaving a neutral view.

**Consumer Staples (+/-) [\(report\)](#):** The Consumer Staples sector is neutral in our framework. Tobacco, Household Products, Food Products, and Food and Staples Retailing look the most favorable.

**Health Care (-) [\(report\)](#):** The Health Care sector looks unattractive in the PRVit model as high Quality is commanding a price premium that is too expensive. The Pharmaceuticals industry is a bright spot for the sector.

**Consumer Discretionary (-) [\(report\)](#):** The Consumer Discretionary sector is unattractive in our framework as EVA Fundamentals deteriorated into negative territory from the COVID-19 impact on sales growth.

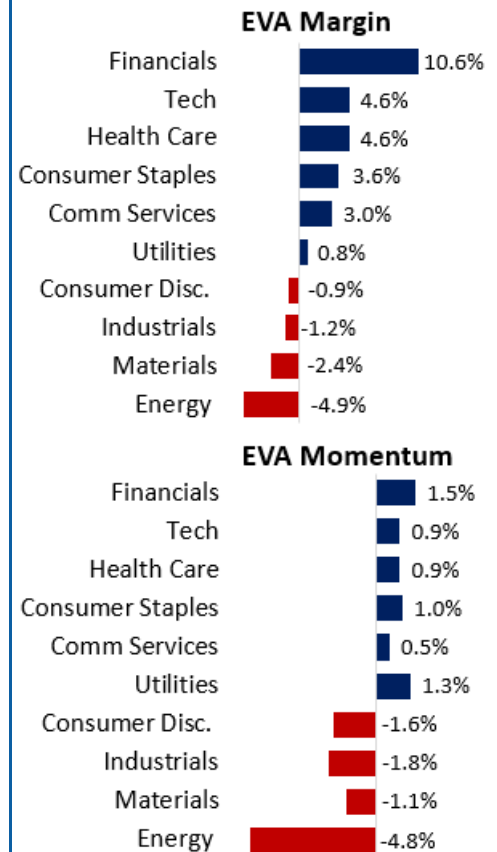
**Energy (-) [\(report\)](#):** Driven by a global collapse in demand for oil, EVA Fundamentals moved sharply lower throughout the year. EVA Margin & EVA Momentum both were pressured from Capital spending and EBITDAR Margin declines as a result, the Sector remains neutral within the framework.

**Materials (-) [\(report\)](#):** The Materials sector remains unfavorable Globally as it moved slightly lower in PRVit in 2020. EVA Fundamentals broadly moved lower in 2020 as EVA Margin remained negative after a strong recovery from 2016-2018.

### PRVit Scores by Sector

Sector Scores 2021	PRVit	Quality (P-R)	Valuation
Financials	64	60	43
Communication Services	51	54	54
Consumer Staples	50	67	58
Information Technology	49	60	68
Materials	49	45	49
Energy	49	31	34
Industrials	48	49	52
Consumer Disc	47	46	56
Health Care	44	59	70

### EVA Margin & EVA Momentum by Sector



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Our experienced team of analysts offers both fundamental and quantitative company analysis through written research, bespoke research, a stock selection model, an online analytical tool offering +19,000 companies as viewed through the EVA framework, custom screening, and portfolio analysis.

## Key EVA Concepts

### **The value of a firm = Capital + Present Value of EVA**

If EVA is increasing then the intrinsic value of the firm is too, suggesting that market value should follow (and vice versa).

### **EVA = Net Operating Profit After Tax (NOPAT) - Capital Charge**

EVA is profit after all costs, including the cost of giving shareholders a decent return.

### **EVA Margin = EVA / Sales**

A true economic profit margin covering income and asset efficiency. Our EVA Income Statement examines EVA's line item drivers and offers key insights into business profitability.

### **EVA Momentum = $\Delta$ EVA / Sales**

An incremental EVA growth rate indicator and key valuation signal and screening measure. The more positive the Momentum, the greater the growth in EVA, and upward pressure on shareholder returns. Inflections in EVA Momentum are an early and more reliable indicator of stock price inflections.

### **EVA Shock = $\Delta$ EVA Momentum**

Changes in EVA Momentum is a powerful signal within our framework, with significant relationship with stock price performance.

### **Market Implied Momentum (MIM)**

The annual EVA improvement required for 10 years to justify the prevailing market enterprise value, expressed as a percent of sales; represents a market implied, long-range EVA margin improvement target.

### **Future Growth Reliance (FGR) = (Market implied value of future EVA growth) / EV**

Measures the % of a company's total enterprise value represented by expectations for future growth in EVA. FGR is key to understanding embedded expectations today and versus history. A low FGR versus history coupled with improving EVA trends indicates that the market is not pricing in the improving business model.

## Additional Resources

evaExpress.com ([link](#)): Our online offering provides a comprehensive suite of fundamental and quantitative tools utilizing the EVA framework

EVA for Investors ([link](#)): A full introduction to the key EVA concepts and metrics

Best Practice EVA ([link](#)): A summary of Bennett Stewart's most recent book on EVA, available for purchase on [Amazon.com](#)

What Determines TSR ([link](#)): Insight into the relationship between EVA and stock prices

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