

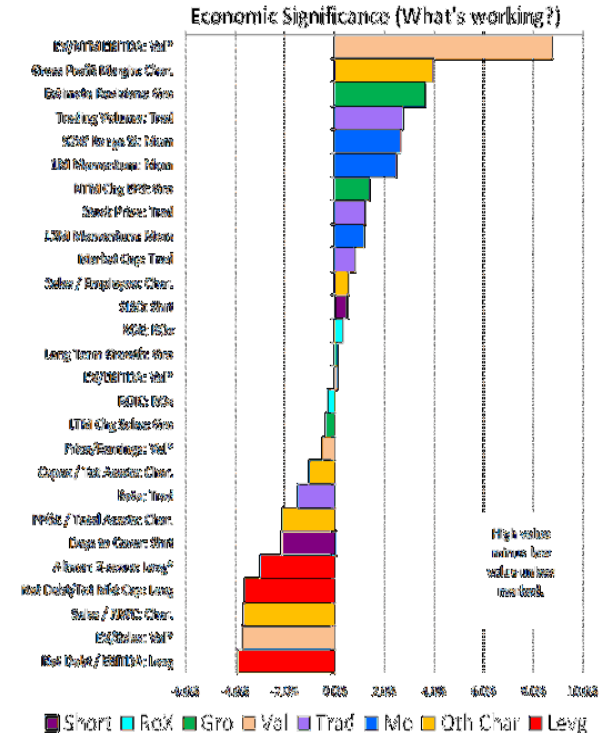
September 1, 2021

## US Equities: “What’s working?”: Larger caps, momentum, growth.

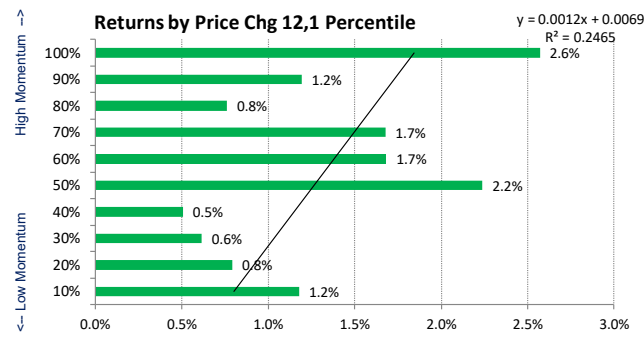
Takeaways for August:

- Managers **leaned up-cap**, mostly, with an exception for the megacaps, which underperformed. Beta, tied lately to megacap tech, faltered as well.
- **Momentum is back, but inconsistent.** After struggling since early July, the past year’s winners (even the past month’s winners) continued to gain. Stock near 52 week highs were strong performers as well.
- Growth stocks continue to perform well. Among growth stocks, those with concrete near-term EPS growth prospects and those with positive estimate revisions performed the best. Near term sales growth forecasts were less valued in August.
- **Aggressive industries** are trouncing defensives. Cyclical have pulled back relative to non-cyclicals. Both are pro-risk attitudes, yet profitable and cash flow positive company stocks are outperforming. Investors still appear somewhat cautious.
- Low multiple/value strategies continue to struggle overall, but investors tilted sharply towards the “show me” of low EV/EBITDA, over the more speculative EV/S. The worst of the low multiple metrics was high EV/S. The most expensive ten percent of EV/S stocks gained 540bps last month.
- Shorts are underperforming the inverse of the market returns. The most heavily shorted stocks (on a SISO basis) are outperforming. There are no signs of widespread panic covering, though, despite sporadic “meme-stock” runs.

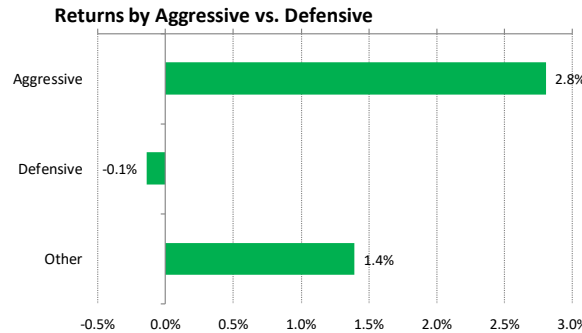
Key to chart: Short: Short interest characteristics; ROx: ROE/ROIC; Gro: growth characteristics; Val: Valuations; Trad: Beta, market cap, liquidity & stock price; Mo: Momentum; Char: Business characteristics; Levg: Leverage. Definitions are available at the end of this file.



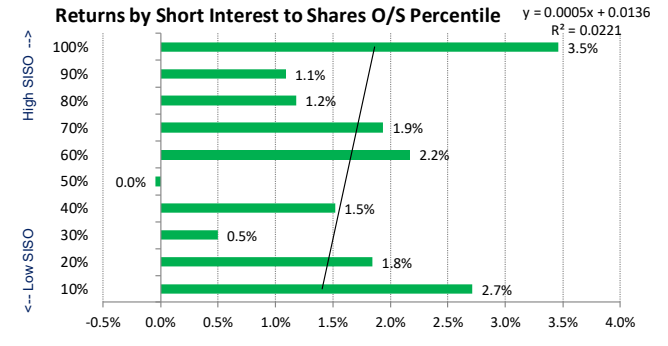
### Momentum is back,



### as are Aggressive Industries.



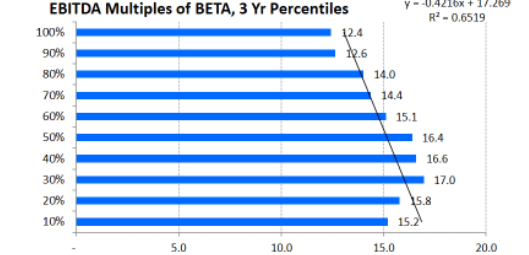
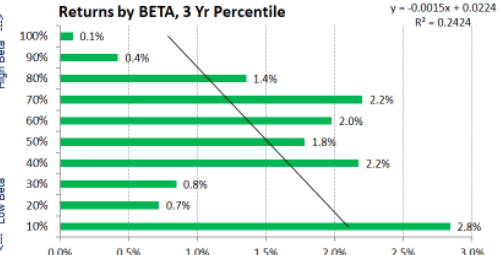
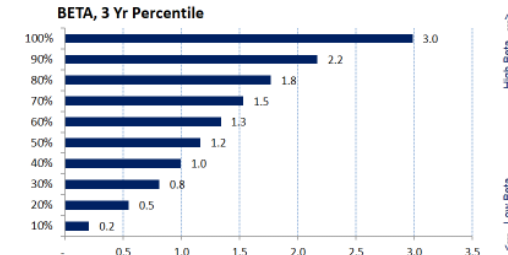
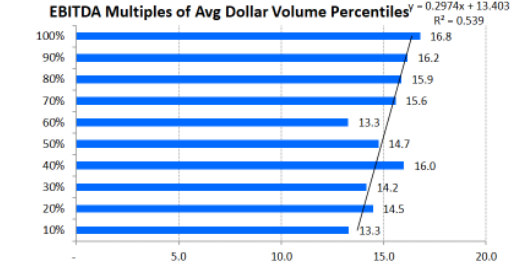
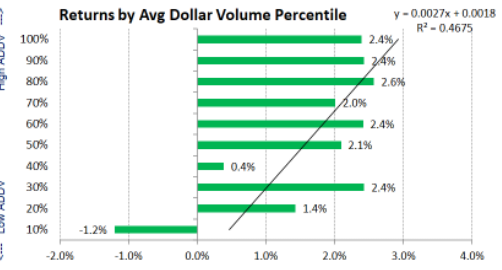
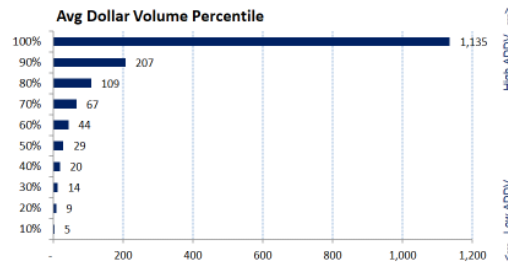
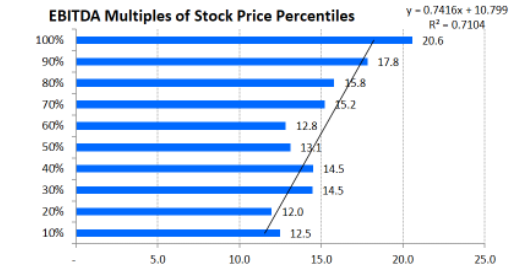
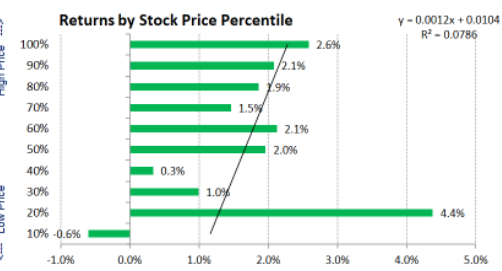
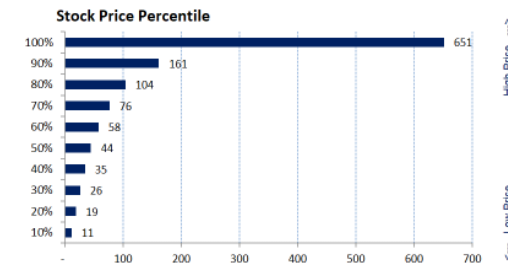
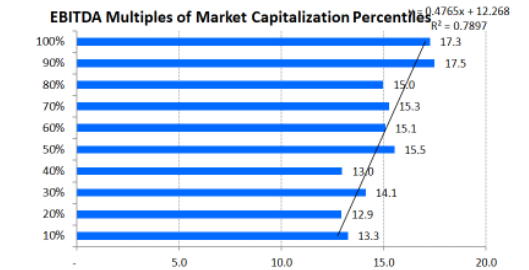
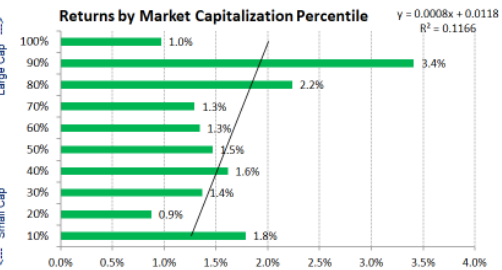
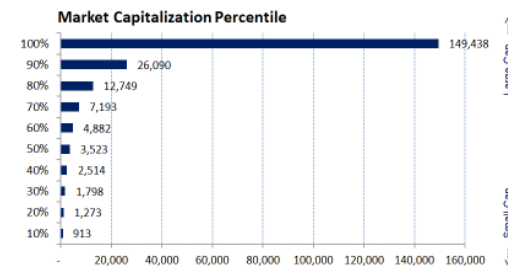
### Shorts are underperforming.



Absolute Returns for Uncertain Markets™

Market Characteristics  
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Returns Date: 7/30/2021 to 8/31/2021  
Rebalance Date: 7/30/2021

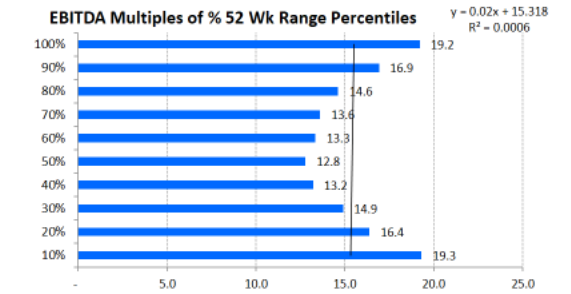
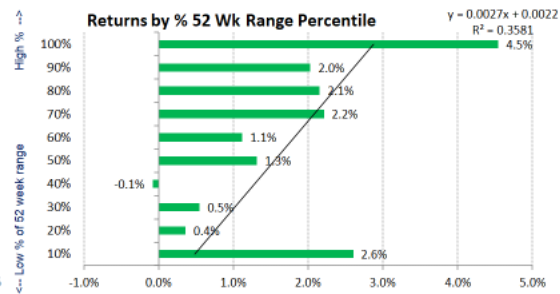
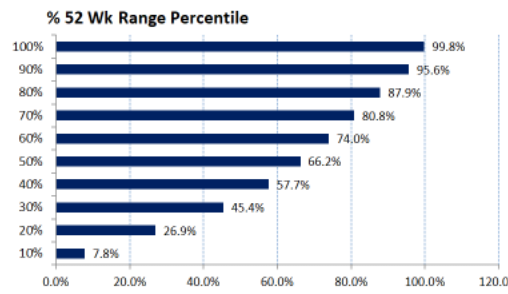
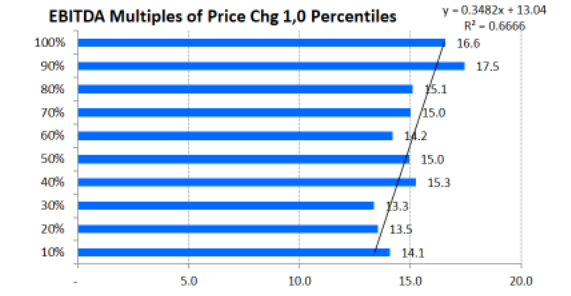
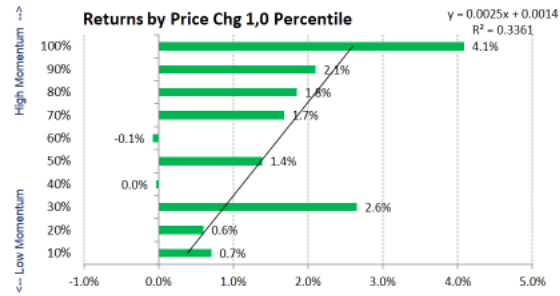
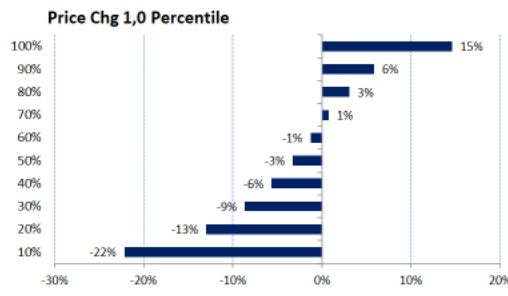
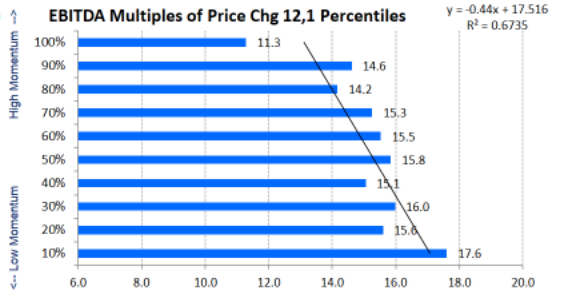
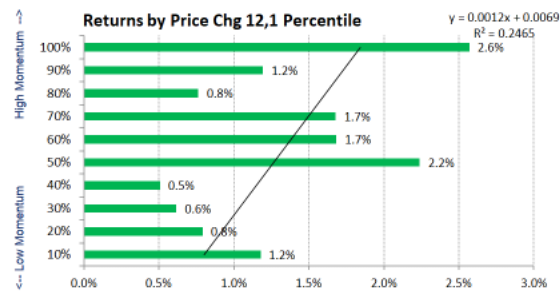
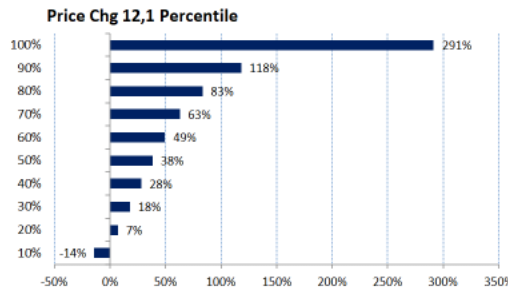


Managers leaned up-cap, mostly, with an exception for the megacaps, which they avoided. Beta, tied lately to megacap tech, faltered in sympathy. In fact, the lowest beta shares rallied the most, on recovery expectations.

**Price Momentum**  
Two Rivers Universe

Returns Date: 7/30/2021 to 8/31/2022  
Rebalance Date: 7/30/2022

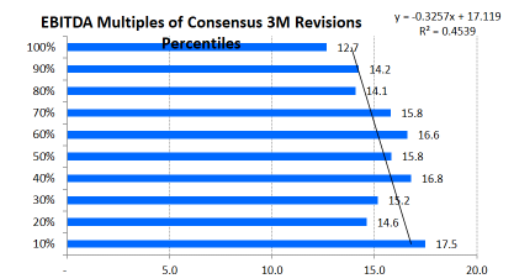
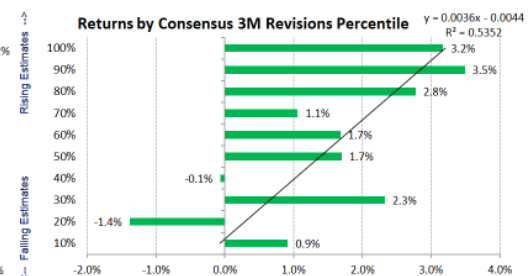
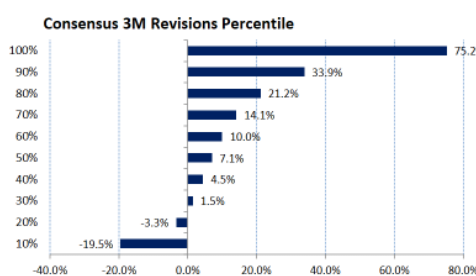
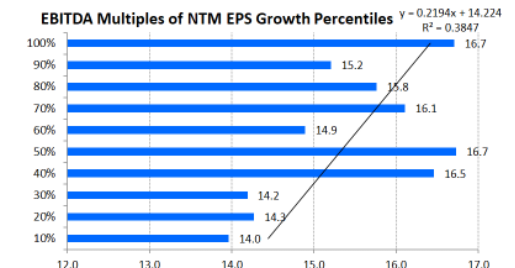
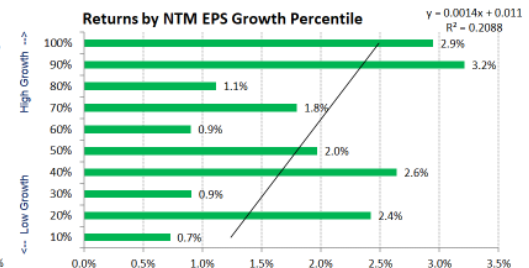
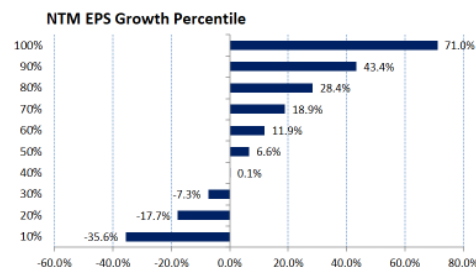
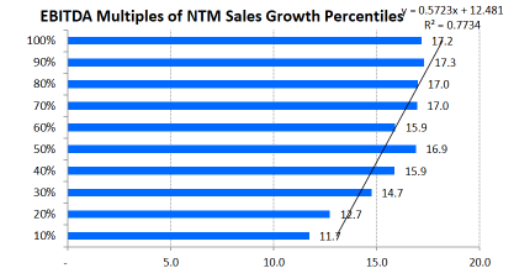
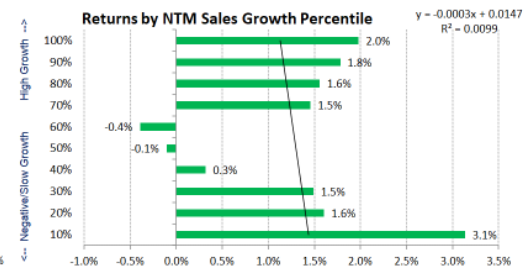
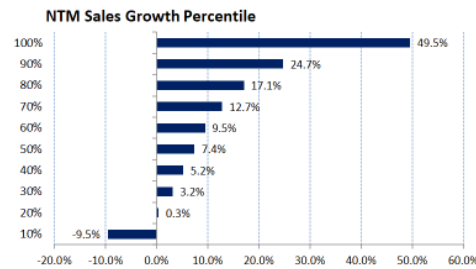
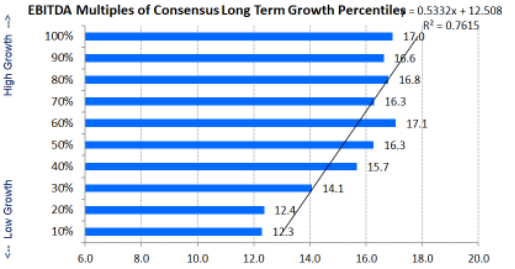
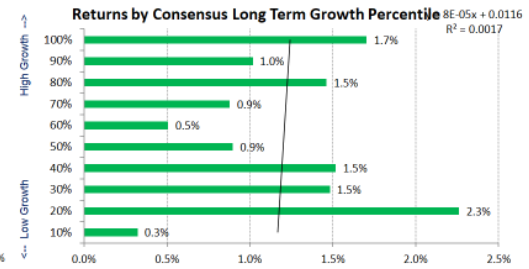
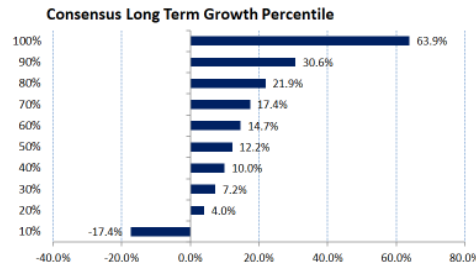
Momentum is back, if inconsistently. After struggling since early July, the past year's winners (even the past month's winners) continued to gain. Stock near 52 week highs were strong performers as well.



**Growth Characteristics**  
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Returns Date: 7/30/2021 to 8/31/2021  
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Growth stocks continue their outperformance overall, but less consistently. Among growth stocks, those with concrete near-term EPS growth prospects and those with positive estimate revisions performed the best. Near term sales growth forecasts were less valued in August.



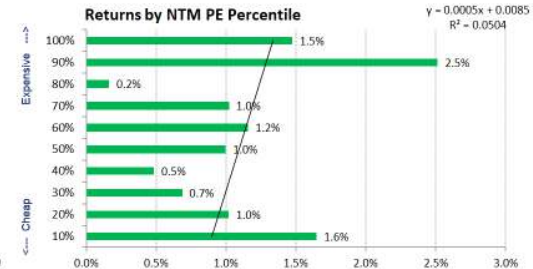
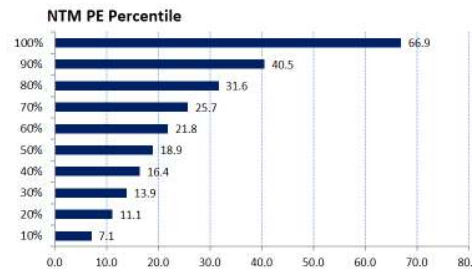
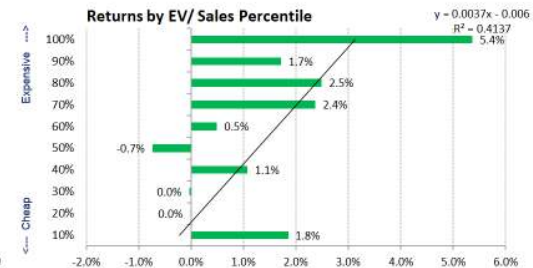
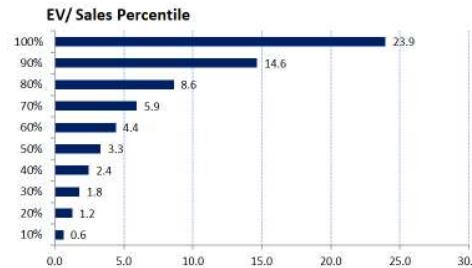
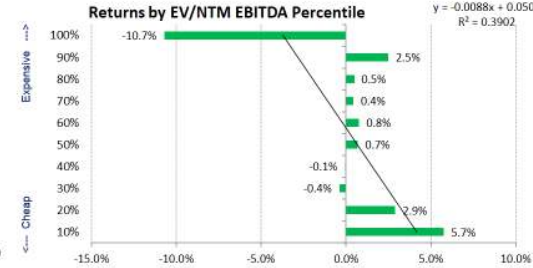
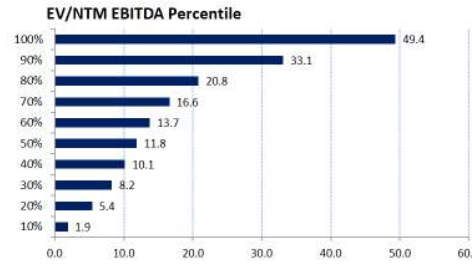
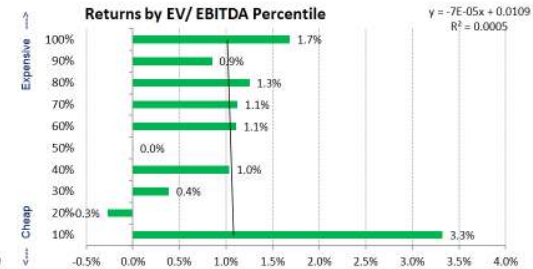
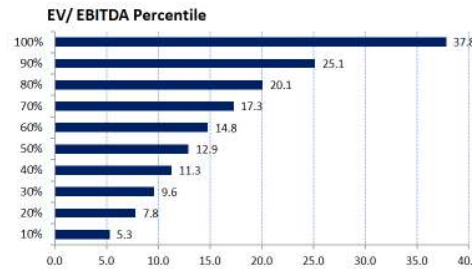
**Valuation Characteristics**

Two Rivers Universe

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Rebalance Date: 7/30/2021

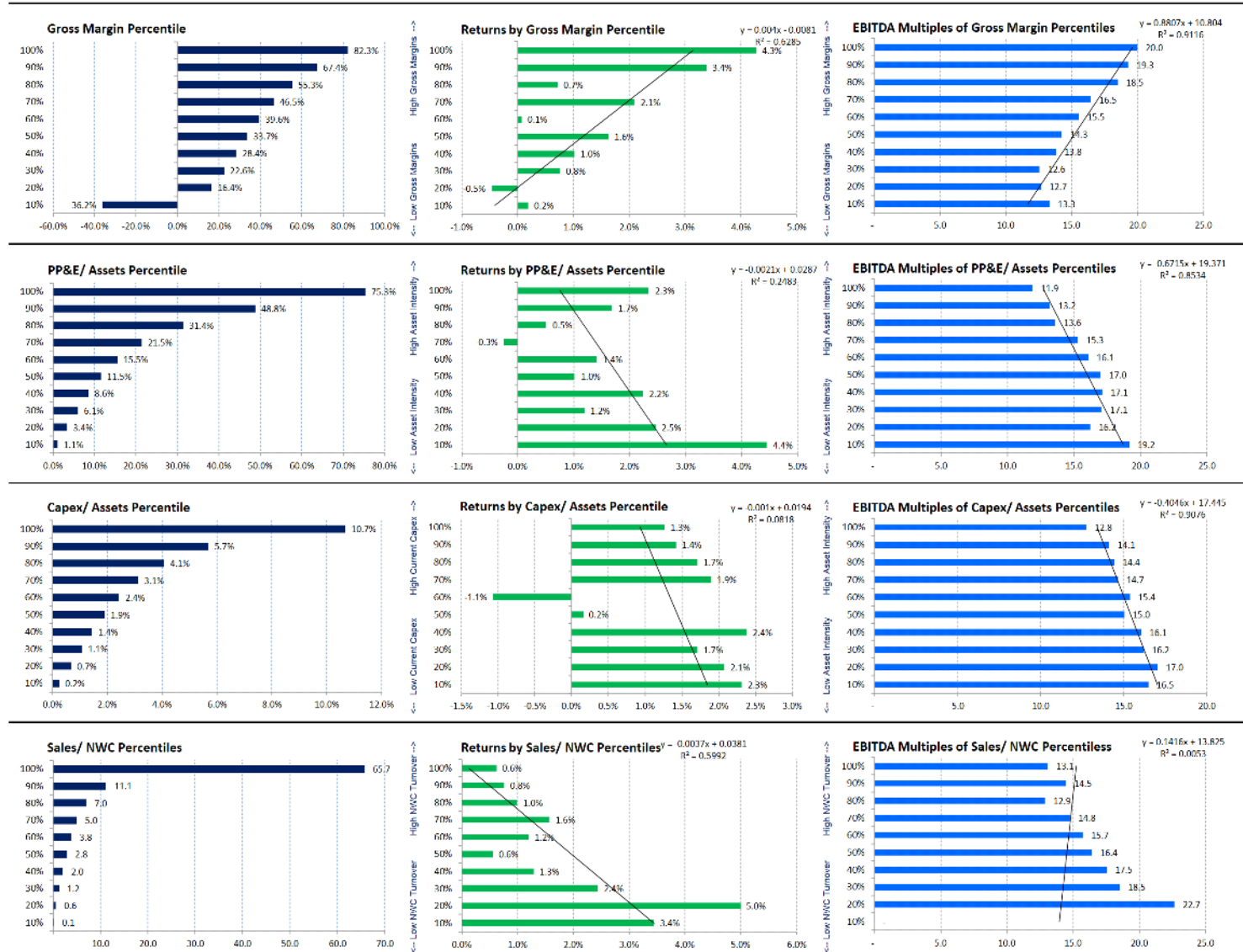
Low multiple/value strategies continue to struggle overall, but investors tilted sharply towards the “show me” of low EV/EBITDA, over the more speculative EV/S. The worst of the low multiple metrics was high EV/S. The most expensive ten percent of EV/S stocks gained 540bps last month.



**Value Add and Capital Intensity**  
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Rebalance Date: 7/30/2021

Capital intensives lagged while high value-added company stocks gained. This is consistent with growth/MO outperformance.

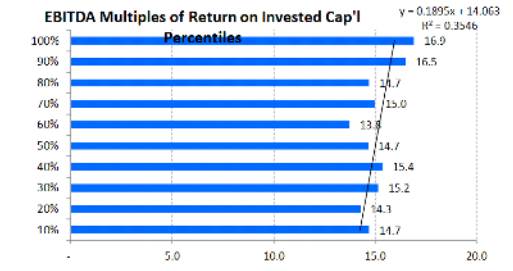
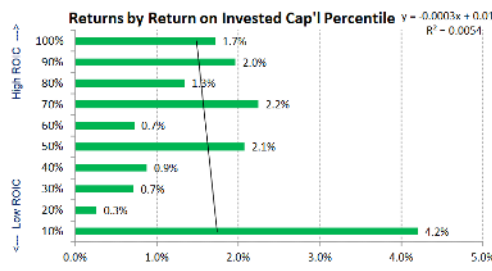
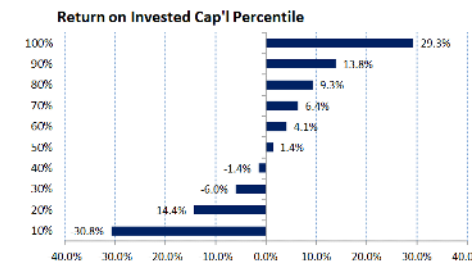
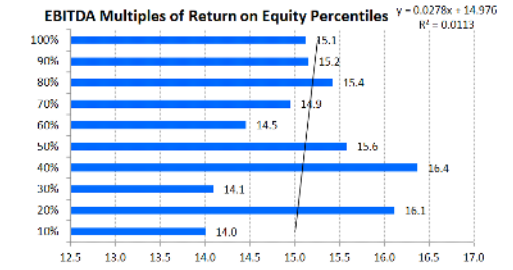
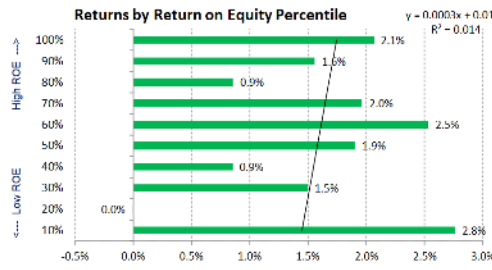
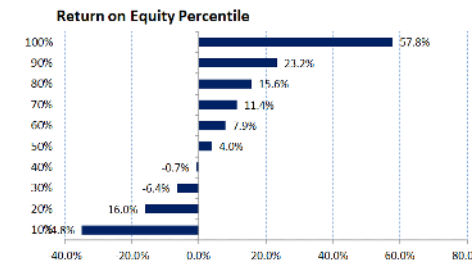
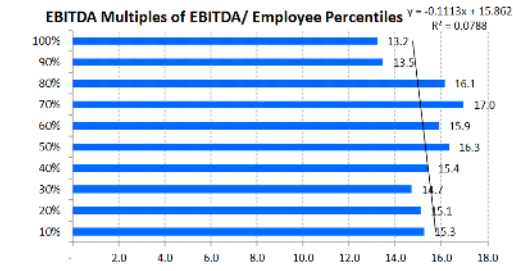
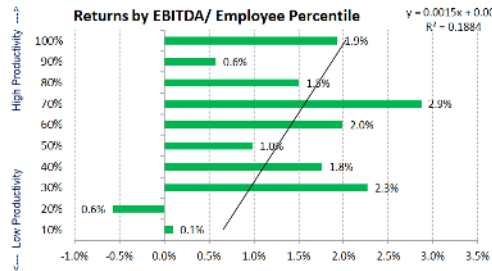
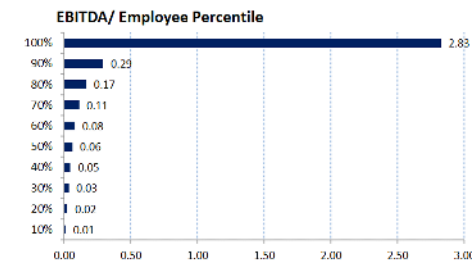
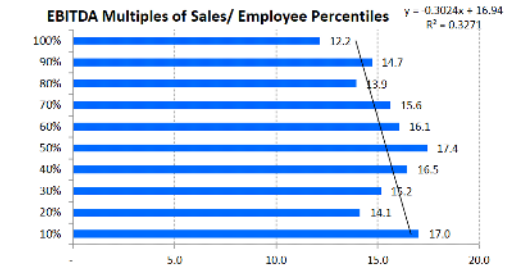
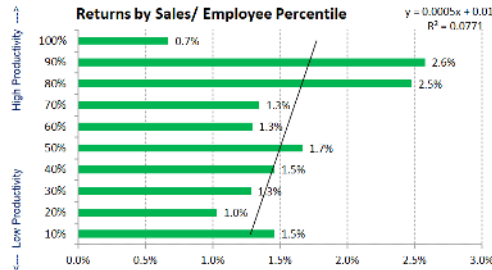
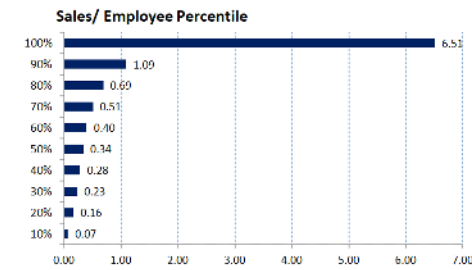


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**Productivity**  
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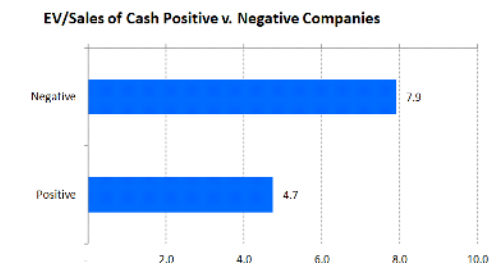
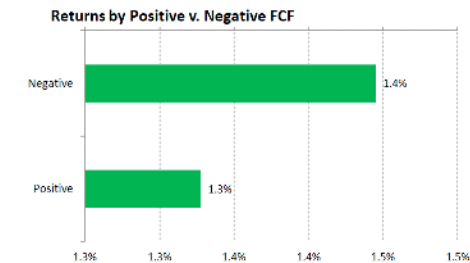
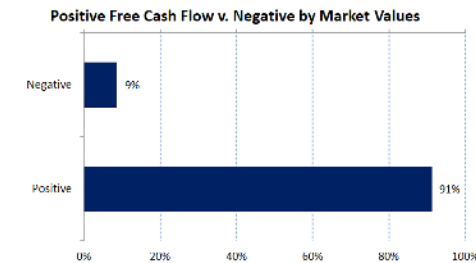
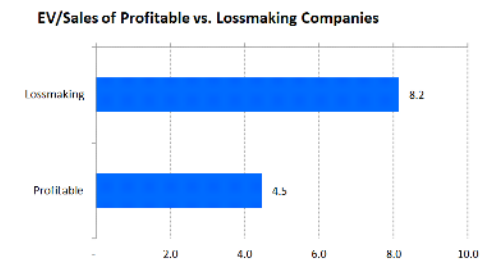
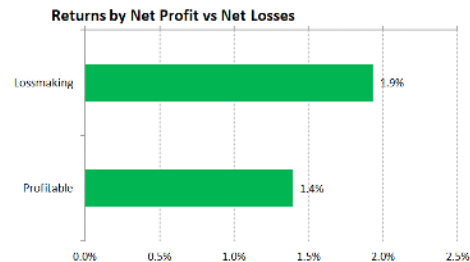
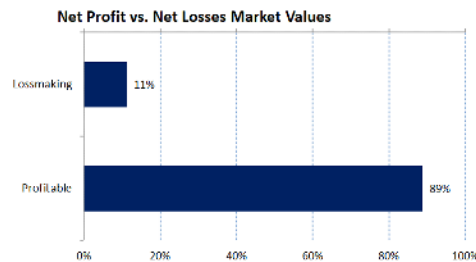
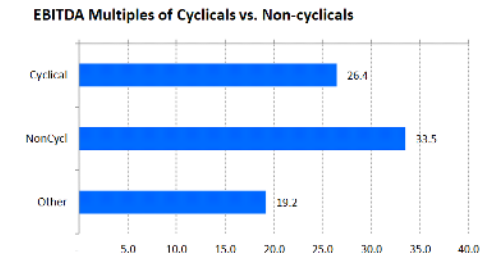
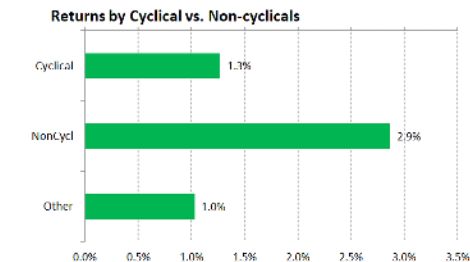
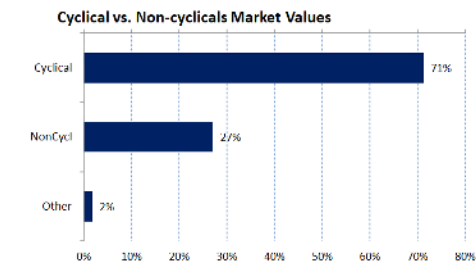
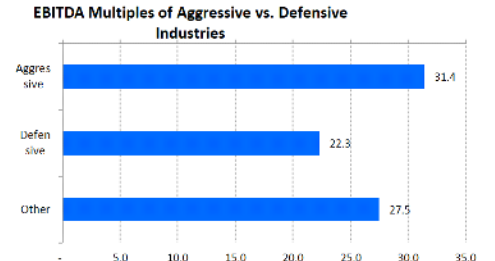
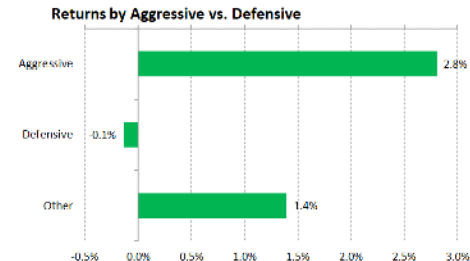
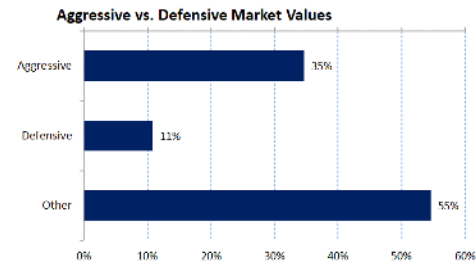
Returns Date: 7/30/2021 to 8/31/2021  
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Most measures of productivity were positive for returns. This current market run appears to be of higher quality on average.



**Business Characteristics**  
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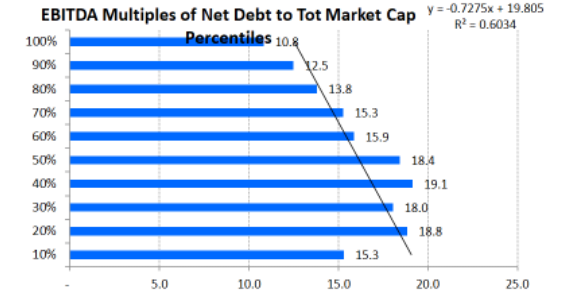
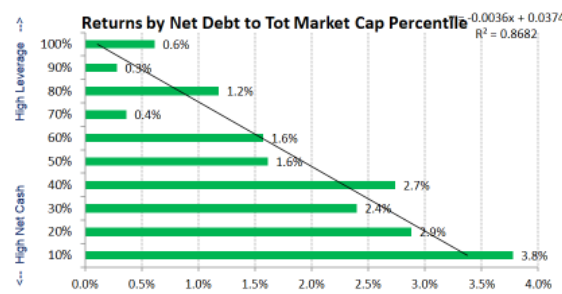
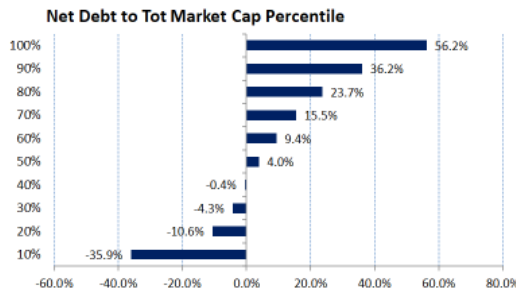


Aggressive industries are trouncing defensives. Cyclical have pulled back relative to non-cyclicals. Both are pro-risk attitudes, yet profitable and cash flow positive company stocks are outperforming. Investors still appear cautious.

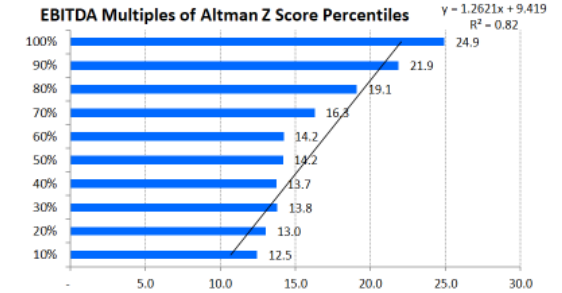
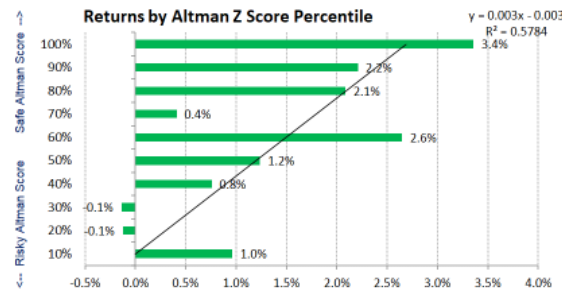
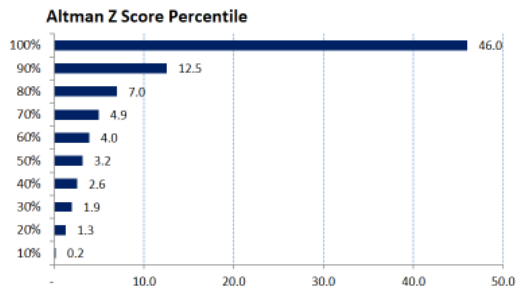
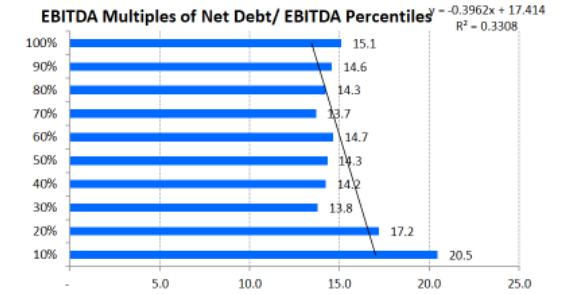
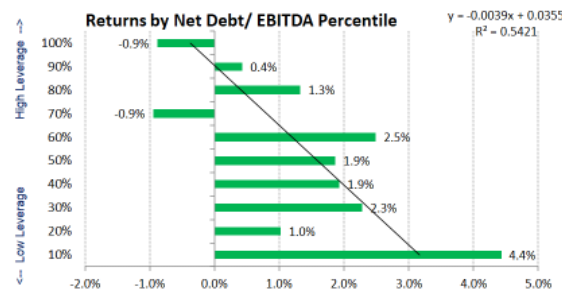
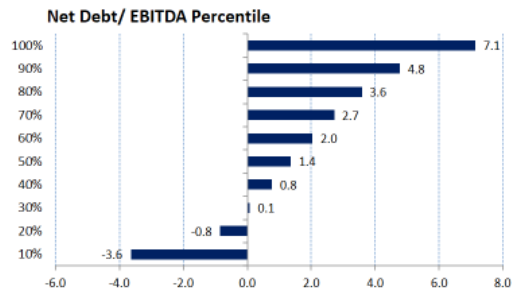


**Capital Structure**  
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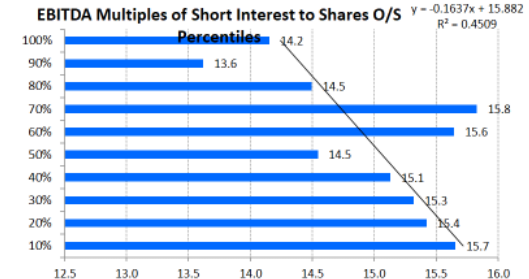
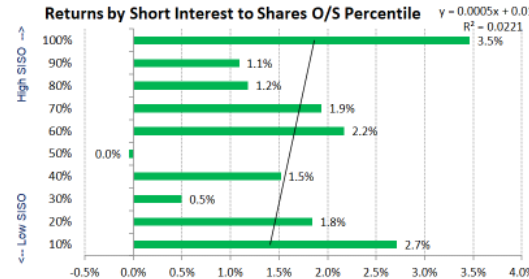
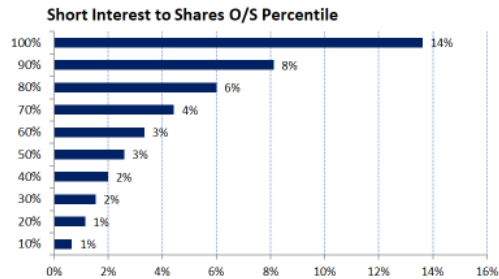
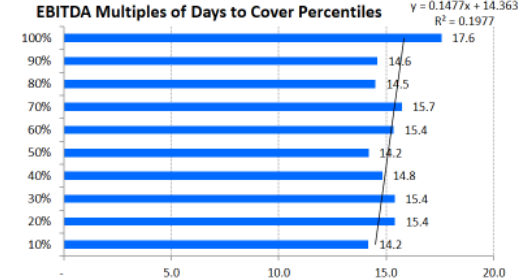
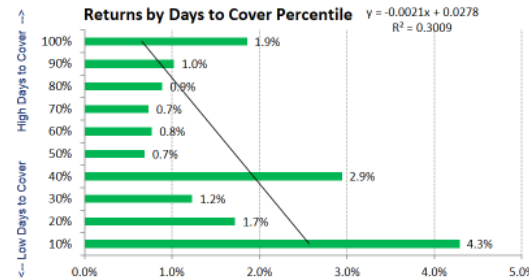
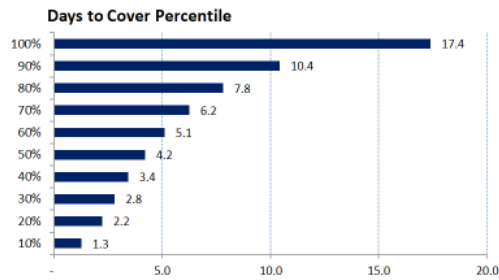


Net cash company stocks are outperforming. These are the growth stocks, generally.



**Short Interest**  
Two Rivers Universe

Returns Date: 7/30/2021 to 8/31/2021  
Rebalance Date: 7/30/2021



Shorts are underperforming the inverse of the market returns. The most heavily shorted stocks (on a SISO basis) are outperforming. There are no signs of widespread panic covering, though, despite sporadic “meme-stock” runs.

## Definitions:

### Market Characteristics

- Market capitalization: market value of equity down to a minimum market cap of \$750mn.
- Stock price: down to our minimum price of \$7.50/share. Low price outperformance is correlated to high risk taking.
- Average dollar volume: price \* volume traded over 30 days. Minimum of \$1.5mn/day.
- Beta: Stock beta measured as 3 years of weekly betas.

### Valuation Characteristics

- EV/EBITDA: Enterprise value to LTM (last 12 months) EBITDA. Is a capital-structure neutral valuation metric.
- EV / NTM EBITDA: Enterprise value to NTM (next 12 months consensus) EBITDA. Is a capital-structure neutral valuation metric.
- EV/Sales: Enterprise value to LTM (last 12 months) Sales. Is a capital-structure neutral valuation metric, but ignores margins. Speculative investors look further up the income statement.
- NTM P/E: Stock price to NTM (next 12 months consensus) EPS.

### Growth Characteristics

- Long Term Growth: Consensus long term growth forecasts, usually defined as 3-5 year EPS growth.
- NTM Sales Growth: Consensus growth in sales over the next 12 months.
- NTM EPS Growth: Consensus growth in EPS over the next 12 months.
- Consensus 3M Revisions: Change in consensus EPS from three months ago.

### Other Business Characteristics

- Gross margin is a proxy for value added by a business. Intellectual property or proprietary processes earn high GM's. Commodity and distribution businesses usually don't.
- PP&E / Assets & Capex/Assets: Measures Capital Intensity. High PP&E business usually require high continued capex to stay competitive.
- Sales/NWC: Measures working capital productivity.
- Return on Equity: ROE over the past year. A measure of equity efficiency.
- Return on Invested Cap'l: LTM Return on invested capital - a capital structure neutral measure of productivity.
- Aggressive vs. Defensive: Outperformance of aggressive sectors indicates risk taking among investors. Aggressive sectors include Technology, Energy, Health Tech, Industrial Services and Mining. Defensives include Staples, Health Services and Utilities.

- Cyclical vs. Non-cyclicals: Cyclical outperformance indicates increasing confidence in economic growth going forward. Also associated with risk-taking.
- Net Profits vs. Net Losses: Outperformance of unprofitable companies indicates increasing risk-taking among investors. Investors are willing to look further into the future for a young company to prove itself or a mature company to recover.
- Positive Free Cash Flow v. Negative: Outperformance of companies burning cash indicates increasing risk-taking among investors. Investors are willing to look further into the future for a young company to prove itself or a mature company to recover.

### Capital Structure

- Net Debt to Tot Market Cap: Funded debt less cash & equivalents (net debt) divided by net debt plus equity market cap. Outperformance of highly levered companies signals increasing risk-taking and confidence in future capital market conditions. Correlated with asset intensive and mature industries.
- Net Debt / EBITDA: Only shown for companies with positive LTM EBITDA. Outperformance of highly levered companies signals increasing risk-taking and confidence in future capital market conditions.
- Altman Z: Altman's indicator of financial distress/probability of bankruptcy within 24 months. Values below 1.1 indicate high risk of bankruptcy.

### Momentum

- Price Chg 12,1: Intermediate term momentum, defined as the price return from 12 months ago to 1 month ago. (Excludes the most recent month.) This momentum tends to continue.
- Price Chg 1,0: Near term momentum defined as price return over the past month. This momentum tends to reverse the following month, especially if volume is lower than usual.
- %52 Wk Range: The percentage within the 52 week range where the stock sits currently. A new 52 week high would yield 100% on this metric. Measures whether investors are buying dips for bounces or are following winners.

### Short Interest

- Days to Cover: Short interest divided by 30 days average trading volume. Outperformance of shares with high days to cover indicates shorts are covering positions. Sharp outperformance, it could indicate a short squeeze.
- Short Interest to Shares O/S: Short interest divided by shares outstanding (SISO). Outperformance of high SISO indicates short covering is underway.

**About Two Rivers Analytics:**

Two Rivers is dedicated to providing actionable, high quality investment ideas, with an emphasis on short ideas, to institutional investors.

Our work uses a hybrid quantitative/qualitative process to identify companies at high risk of a declining equity price. Our quantitative screening process identifies multiple categories of risk to create this Stock at Risk ranking. The ranking is vetted further through a timing/catalyst analysis and a shortability assessment. The best short ideas are analyzed fundamentally and presented to clients. The Stock at Risk ranking is also the basis for our Long/Short model portfolio.

For more information, including our process, influences and biographies, please visit [TwoRiversAnalytics.com](https://TwoRiversAnalytics.com).

**Analyst Certification**

*I, Eric Fernandez, hereby certify that the views expressed in the foregoing research report accurately reflect my personal views about the subject securities and issuer(s) as of the date of this report. I further certify that no part of my compensation was, is or will be directly, or indirectly, related to the specific recommendations or views contained in this report. Neither I, nor a member of my household is an officer, director, or advisory board member of the issuer(s) or has another significant affiliation with the issuer(s) that is/are the subject of this research report. I do not know or have reason to know at the time of this publication of any other material conflict of interest.*

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