We Need to Start Thinking E*x*p*o*n*e*r*t*h*x*i*a*l*y

A mere three years ago, the World Economic Forum surveyed nearly 1,000 executives and experts from the IT and Communications sector to predict the Technology Tipping Points of the next 20 years. The report attempted to identify some of the shifts occurring as a result of the explosion of software and services.*

But some of the predictions are already outdated – revealing how rapidly, and exponentially our world is changing. The technology that is the lifeblood of progress and shift is materially impacting how we live, invest and manage our businesses, and our mindsets need to adapt accordingly. Among the highlights of the 2015 report, and what’s already evolved since then:

1. **Storage prices have dropped exponentially.** The basic infrastructure required to house the explosion of data has become commoditized, with researchers noting the price of storage has dropped by a factor of 10 approximately every 5 years. Makes me wonder why some of us still have to “clean out our Inboxes to make room” every few months...

2. **Sensors connecting home, office, the internet and you have grown exponentially.** About 75% of respondents expected 1 trillion sensors connected to the internet by 2022. But given the number of relatives who received Alexa or other IoT or smart devices for the holidays…it seems we’re poised to “tip” sooner than that.

3. **Your next accountant may be an A.I.-accountant.** A.I.’s strengths include identifying patterns (or anomalies) and automating processes, making accounting and audit functions particularly susceptible to computerization. Over 75% of respondents believed 30% of audits would be conducted by A.I. rather than humans by 2025 – but KPMG, PWC and Ernst & Young were all in the news this year piloting A.I. technologies for use in audit.

4. **Respondents expected 10% of all U.S. cars on the road to be driverless in 2026**…but this month GM announced plans to mass-produce self-driving cars in 2019. A growing number of hedge fund managers are launching new vehicles (no pun intended) to take advantage of this trend.

The report itself is fascinating, and the rapid shifts since its publication in the last three years only make questions about the future of work and productivity in the coming decade even more pressing.

As William Gibson noted, the future is already here – it’s just not evenly distributed.

*All information drawn from The World Economic Forum’s Technological Tipping Points Report, 2015. The report is available here.

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**Investors’ 2018 Priorities**

While resolutions get all the headlines in January, *priorities* are often what actually get completed – at least from a business perspective. We decided to kick off 2018 by checking in with 75 of our investors, to gauge their top priorities for the coming year (*besides performance*).

Responses ranged from a heightened focus on insurance related products to building a standardized system for gathering and updating manager information, and much in between. Some of what we expected, we heard (looking at you, blockchain) – but we also heard from investors who are using the relative calm of the markets to get into the weeds on things like retaining and training their employees or exploring differentiated product opportunities for the next 3 years.

Sentiment was overall highly positive, and a number of investors mentioned now is the time to be adding hedge funds ahead of potential future periods of stress when they expect these firms to outperform their long-only investments.

Source: Jefferies Prime Services

**Leor Shapiro**
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**Capital Consulting Spotlight on Florida**

Given many will be heading south for the upcoming MFA, Battlefin and Context summits in Miami, a few thoughts on our recent travel to the Sunshine State.

- **They’re not in Florida just for the sun and Vitamin D.** Many investors are deep in the weeds on tax implications for specific investments. Given the recent tax legislation – the subject continues to be a focus for residents and non-residents alike.

- **Considerable appetite for scaling funds** – those between $100 – 500 MM of AuM, and

- **A 2018 focus on non-correlated investment options,** whether managers, vehicles or specific co-investments.

**Dave Katona**
Prime Services Capital Consulting
dkatona@jefferies.com
Top Jefferies Research Reads in recent weeks

Leaders of the Pack:
• JEF's Macro Weekly: Further on up the road; Bulls on parade
• 2018 Outlook: Still Room for Appreciation Despite Rich Valuations
• PYPL: PayPal 'Pulse' – Expect Robust Q4 Results
• VIDEO: The Most Important Things in Just 25 Minutes for You
• CELG: More Deals Likely to Come – Consistent w/Our Comments Last Week

Other Notable Reads
• 2018 Outlook Report Compendium: US and Global Macro
• LW: Favorable Environment Expected to Last For a While

Jefferies Franchise Picks
ABBV (Holford), ATVI (O'Shea), BA (Kahyaoglu), CASY (Mandeville), CVX (Gammel), DISH (Goldman), DLPH (Kelley), DXC (El-Assal), FANG (Lear), FLT (El-Assal), GPS (Konik) GOOGL (Thill), HAIN (Jagdale), IR (Volkmann), KEY (Usdin), NVDA (Lipacis), OC (Ng), PX (Alexander), SC (Hecht), TXT (Kahyaoglu), UAA (Konik).

Global Asset Allocation*
• The new highs being made by the S&P 500 Transports and MSCI World Airfreight indices are supported by expanding global manufacturing PMIs, improving global trade and a weakening dollar. With higher fuel charges on the horizon, the sector provides one of the most important conduits for inflation to pass into the global economy.
• While the central banks in the G7 have experienced real negative interest rates in most cases and firming macro data, marginal global growth is actually determined by the Emerging markets. According to the IMF, after the global financial crisis, emerging market and developing economies' contribution to global growth rose to about 80 percent of output growth and 85 percent of consumption growth. In market exchange-rate terms, emerging market and developing economies accounted for close to 70 percent of global output growth and just over 70 percent of global consumption growth during 2010-15. It should be noted that the IMF estimated in October’17 the global economy would grow by 3.7% (EM 4.9%, Advanced 2%) in 2018.

Full note: Global Asset Allocation: Low PE, PB & Ship Ahoy!

Source: Bloomberg, EPFR, Jefferies. All references to mutual funds and ETFs

Sean Darby
Chief Global Equity Strategist
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Gaming & Casinos
David Katz initiated coverage on the Gaming sector – with a new note out explaining why the casino industry reflects the best operating environment in many years:
"...with solid top line expectations, heightened cost management and stable capital structures. The benefits of the advent of Opco/Propco structures are higher asset values and increased cash returns for Opcos, albeit with accounting complexity. In this context we initiate coverage on 11 casino stocks with a broadly positive stance."

Among the top picks: WYNN, ERI and PENN.

Full note available here.

David Katz
Equity Analyst
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The China Effect: The Consumption Commodity Supercycle?
Laban Yu (Equity Research, China) is out with a new note: “With diesel demand stabilizing, we believe we are finally witnessing China’s oil demand inflection. Jefferies Global Energy Team has also revised oil price forecasts partially based on China demand growth.

Oil demand inflection will be driven by accelerating gasoline demand which we believe has been outgrowing China’s passenger vehicle fleet since 2015. This is a reversal of a decade-plus trend where China’s installed base of passenger vehicles increased at +20% CAGR while gasoline demand increased at less than 10% CAGR. This discrepancy was the result of a massive increase in private passenger vehicles, which are rarely driven, while high mileage commercial vehicles like taxis barely increased.

Full note available here.

Source: World Bank, BP, Jefferies

Source: Bloomberg, EPFR, Jefferies. All references to mutual funds and ETFs

Sean Darby
Chief Global Equity Strategist
sdarby@Jefferies.com

Full note: Global Asset Allocation: Low PE, PB & Ship Ahoy!
**U.S. Equity Strategy: Made in America (III)**

With the US considering to leave NAFTA, new tax incentives to repatriate profits in place and the dollar weak, the ingredients for a domestic investment boom are in place. Capex intentions are strong. This should be good news for the materials sector (steel) and some lateral plays in the industrials sector.

While the corporate sector is obviously euphoric over the tax changes, it is not often highlighted that it has improved US’s competitive position. Although the tax changes are designed to encourage company investment, the lowering of the headline tax rate is equally an incentive for foreign companies to base their operations in the US.

The NAFTA trade agreement encouraged ‘off-shoring’ or the placement of US manufacturing in its neighbors due to better labor laws, cheaper exchange rates and/or lower wages. The incentives for investing overseas are beginning to diminish.

Coincidentally, next Tuesday, the US DOC is expected to provide formal recommendations to the President regarding possible action to combat US steel imports on national security grounds through Section 232. The government has several potential tools including: tariffs, quotas, tariff-rate quotas and Voluntary Restraint Agreement (VRA) – a form of import cap.

The cocktail of tax reform, NAFTA, steel tariffs, and booming investment intentions comes at a time when the ISM manufacturing index is surging and industrial new orders are rising (see US: Contradictory Bulls). It is good news for both industrials and materials.

Steel producers with greatest exposure to niche markets are perhaps the best positioned to benefit from the steel tariffs.

### US Steelmakers We Like

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Company Name</th>
<th>PE (x, 12M)</th>
<th>PB (x, 12M)</th>
<th>DY (%), 12M</th>
<th>FCFY (%), 12M</th>
<th>ROE (%), FY1</th>
<th>FY1 EPS Growth (%)</th>
<th>FY1 EPS Revision (%), 3M</th>
<th>FY2 EPS Revision (%), 3M</th>
<th>Net Debt/Equity (%), FY0</th>
<th>Jef Research Rating</th>
<th>FY1 EPS</th>
<th>FY2 EPS</th>
<th>Net Debt/Equity</th>
<th>PE (x, 12M)</th>
<th>PB (x, 12M)</th>
<th>DY (%), 12M</th>
<th>FCFY (%), 12M</th>
<th>ROE (%), FY1</th>
<th>FY1 EPS Growth (%)</th>
<th>FY1 EPS Revision (%), 3M</th>
<th>FY2 EPS Revision (%), 3M</th>
<th>Net Debt/Equity (%), FY0</th>
<th>Jef Research Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>STLD US</td>
<td>STEEL DYNAMICS</td>
<td>13.8</td>
<td>2.78</td>
<td>1.37</td>
<td>7.3</td>
<td>20.7</td>
<td>67.7</td>
<td>(2.3)</td>
<td>16.1</td>
<td>52.5</td>
<td>BUY</td>
<td>12.1</td>
<td>15.4</td>
<td>26.2</td>
<td>BUY</td>
<td>BUY</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X US</td>
<td>US STEEL CORP</td>
<td>14.1</td>
<td>1.96</td>
<td>0.67</td>
<td>3.0</td>
<td>12.4</td>
<td>167.7</td>
<td>9.6</td>
<td>20.1</td>
<td>66.6</td>
<td>BUY</td>
<td>12.1</td>
<td>15.4</td>
<td>26.2</td>
<td>BUY</td>
<td>BUY</td>
<td></td>
<td></td>
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<tr>
<td>NUE US</td>
<td>NUCOR CORP</td>
<td>14.8</td>
<td>2.30</td>
<td>2.20</td>
<td>6.3</td>
<td>14.0</td>
<td>43.3</td>
<td>(3.8)</td>
<td>8.0</td>
<td>26.2</td>
<td>BUY</td>
<td>12.1</td>
<td>15.4</td>
<td>26.2</td>
<td>BUY</td>
<td>BUY</td>
<td></td>
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<tr>
<td>MT US</td>
<td>ARCELORMITTAL-NY</td>
<td>10.8</td>
<td>0.99</td>
<td>1.36</td>
<td>8.0</td>
<td>11.9</td>
<td>NA</td>
<td>15.4</td>
<td>12.3</td>
<td>31.8</td>
<td>BUY</td>
<td>12.1</td>
<td>15.4</td>
<td>26.2</td>
<td>BUY</td>
<td>BUY</td>
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<tr>
<td>CMC US</td>
<td>COMMERCIAL METAL</td>
<td>15.5</td>
<td>1.85</td>
<td>1.90</td>
<td>7.1</td>
<td>12.1</td>
<td>511.9</td>
<td>(2.7)</td>
<td>19.8</td>
<td>40.8</td>
<td>BUY</td>
<td>12.1</td>
<td>15.4</td>
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</tr>
</tbody>
</table>

Source: Bloomberg, Jefferies

A lateral way to play the domestic investment boom might be through prefab metal building companies. Although these ‘factory shells’ are simple structures that are often used for warehouses and are made from prefabricated steel. Jefferies Industrials team highlight that the overall market size is around US$21.5bn. The industry leader is Butler Manufacturing and its North American business represents about 40% of Bluescope Steel (BSL AU). Number 2 player would be Nucor which has a number of metal building companies, and number three is NCI Building Systems (NCS US), which makes buildings and other similar products and is probably the closest to a pure play.

The bottom line is that the backdrop for the US materials sector is improving. Corporate investment spending plans are surging while the lower headline tax rate ought to encourage some reshoring. Investors seeking beneficiaries of automation should see US: Made In America (II) and US: Does What Goes On In Philly, Stay In Philly? (IV) for those companies benefiting from the capex boom.

Full note available here or click here to watch the video.

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### Upcoming Conferences & Events

- **January 31**: SINGAPORE  
  Jefferies India & ASEAN Internet Day in Singapore
- **February 1**: HONG KONG  
  Jefferies India & ASEAN Internet Day in Hong Kong
- **February 21-22**: DALLAS  
  Jefferies 2018 Cybersecurity Summit & NSS Labs Visit
- **March 6**: NEW YORK  
  Jefferies Payments & IT Services Investor Relations Summit
- **March 14**: LONDON  
  Jefferies 2018 Paper & Packaging Summit
- **March 15**: NEW YORK  
  Jefferies brands Still Matter Conference Series
- **April 3**: NEW YORK  
  Jefferies Healthcare REIT Summit
- **April 9-10**: LAS VEGAS  
  Jefferies 3rd Annual Broadcast Roundtable at the NAB Show
- **May 9-10**: BEVERLY HILLS  
  Jefferies 2018 Global Technology Conference
- **June 3-6**: ISRAEL  
  Jefferies Israel Tech Trek
- **June 5-8**: NEW YORK  
  Jefferies 2018 Global Healthcare Conference
- **June 19-20**: NANTUCKET  
  Jefferies 2018 Global Consumer Conference
The composition of shorts have held steady from December to January with a marginal increase of short exposure to Industrials. Tech continues to be the most shorted sector as a percentage of short interest versus float.

We saw supply volatility on a few equity ETFs as yearend trades unwound in January. IWM saw considerable outflows with assets down 11% (~$5 billion in MV) over the past few weeks. XRT float was reduced by more than half by a large redemption in the first week of January – followed by more redemptions as trading desks reduced their long positions to avoid being classified as an affiliate. We also saw similar redemption activity in the fixed income ETFs, specifically HYG and JNK, as we have seen material outflows from both of these funds that is still continuing. HYG assets are at its lowest point since June 2017.

High To Borrows of High Interest
Orange highlighted rows reflect Bitcoin/blockchain related securities

<table>
<thead>
<tr>
<th>Security</th>
<th>Utilization</th>
<th>Indicative Rate</th>
<th>Days to Cover</th>
<th>SI % of Float</th>
<th>Market Cap</th>
</tr>
</thead>
<tbody>
<tr>
<td>RIOT</td>
<td>97.26%</td>
<td>-105</td>
<td>0.19</td>
<td>28%</td>
<td>$206,408,709</td>
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<tr>
<td>KODK</td>
<td>100.00%</td>
<td>-150</td>
<td>12.65</td>
<td>9%*</td>
<td>$402,299,352</td>
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<tr>
<td>OSTK</td>
<td>82.16%</td>
<td>-16</td>
<td>1.49</td>
<td>42%</td>
<td>$1,893,014,763</td>
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<tr>
<td>GBTC</td>
<td>42.61%</td>
<td>-7</td>
<td>0.14</td>
<td>3%</td>
<td>$3,139,647,705</td>
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<td>ROKU</td>
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<td>-27</td>
<td>0.95</td>
<td>37%</td>
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<td>SHLD</td>
<td>83.02%</td>
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<td>9.51</td>
<td>38%</td>
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<td>MBI</td>
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<td>DO</td>
<td>85.76%</td>
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<td>23.51</td>
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<td>$2,711,620,972</td>
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<td>QD</td>
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<td>RDFN</td>
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<td>-100</td>
<td>10.92</td>
<td>42%</td>
<td>$2,130,962,830</td>
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