

JANUARY 2016

GLOBAL
SECTOR VIEW



JANUS CAPITAL®
Group

Global Sector Views Report

A sector-by-sector outlook from the Janus Equity Team

For four decades, fundamental, bottom-up research has been at the core of the Janus investment process. Our deep team of analysts covers approximately 1,500 stocks around the globe. Each takes a do-it-yourself, unconstrained approach to research. We believe this differentiates us from our peers and drives results for our clients and the investors they serve.

Every quarter, our seven global sector teams share their bottom-up perspective on key themes in the equity markets and how those themes impact their sectors and areas of coverage.

TABLE OF CONTENTS

> Communications	4
> Consumer	6
> Energy + Utilities	8
> Financials	10
> Health Care	12
> Industrials + Materials	14
> Technology	16

The opinions are those of the authors as of December 2015 and are subject to change at any time due to changes in market or economic conditions. The comments should not be construed as a recommendation of individual holdings or market sectors, but as an illustration of broader themes.

1Q16: Man vs. Machine

What was good is now bad, what worried us is now all right, and signals of strength are warning lights. What is the year coming to? And where will 2016 take us?

Investors can be forgiven for not knowing which way is up as we pull out of 2015. The low oil price that was a boon to the U.S. consumer is now so low that markets are spooked. The Federal Reserve (Fed) is raising rates, but, once anticipated as a sign of economic strength, some now see lift-off as negative for the equity markets.

It is not whether the glass is half full or half empty. It is that there are two glasses. There's an abundance of conflicting economic data but nowhere is the contrast as stark as in the varying directions of the consumer and industrial sectors. Man vs. machine. Earlier this year, in America, falling oil was seen as a boon to the consumer. We are seeing signs that the consumer is using the savings from the pump to increase spending. Retail sales are holding up and consumer activity is fairly strong.

Unfortunately, the U.S. industrial sector is suffering. China, the dollar and especially lower oil field investment are hurting the sector, even for companies without large direct energy exposures. Competitors with oil exposure, it seems, are turning to other market segments to generate cash and gain share. If the U.S. industrial sector is not in recession, it is close. Economic measures and our own company discussions tell us so. Industrial and material stocks were the most likely to disappoint in third quarter results.

The question for U.S. markets, however, is whether the slowdown will transfer to the consumer and ultimately to the equity markets. The consumer is standing on a platform that could prove to be fragile if an economic turndown saps confidence. The Fed could help with a slow pace of rate increases but its power is limited from here.

In the consumer vs. industrial war, the largest battlefield is in China. So far, we see that the consumer is holding up despite weakness on the manufacturing side. The Chinese government is trying to help, with measures promoting consumer purchases. A pick up in auto sales this month shows some success.

The weak industrial sector is just one concern, however. The junk bond market also is worrying investors. Spreads are blowing out, liquidity is scarce, and the market is under pressure. If an investor recalls 2007, the concern is understandable. Fixed income market turmoil was the canary in the coal mine in the financial crisis. There are differences, however, including that the weakness in high yield today comes from energy and not from financials.

Corporate and household balance sheets are far healthier than in 2007.

Adjusting for the outperformance of a narrow group of stocks and for the different energy weights in the S&P 500® Index and the high yield index, the two indices have fallen about the same amount this quarter. In other words, equities to some extent are already reflecting the high-yield market.

Investors, still looking for canaries however, can consider commodities. Commodities can sometimes signal a bear market for equities but commodities have been weak for three years and equities are holding up. For the last five years, China represented more than 50% of the demand for many commodities and producers expanded to accommodate what was seen as always expanding appetite. Commodities are suffering now but the signal may be more about prior over-optimism in the sector than about equity markets.

The push-me pull-you markets of the fourth quarter reflect the risks and opportunities investors are weighing and the return of volatility after a period of doldrums. We reflect on those risks and opportunities within each sector in the following pages.

In the end, we think the opportunities matter more. With markets at 16 times earnings in the U.S. and cheaper in Europe, we don't think markets are stretched. China and Japan too offer stock picking chances. While the market may offer modest earnings growth (more if you take out industrials and energy), the range of outcomes should be wide, making the stock markets around the world places that should fundamental analysis. Earnings growth and strong balance sheets will be rewarded.

Man vs. machine makes for good movies but we do not think the theme will hold the attention of markets much into 2016. We expect to see encouraging signs from the consumer and moderating pain in the industrial sector, especially if our base case holds true that China is resilient and that oil eventually moves higher.

If that is where 2016 takes us, the canaries will be fine.



Carmel Wellso
Director of Research



Adam Schor, CFA
Director of Global Equity Strategies



Advertising is quickly shifting to digital platforms that offer new interactions and transaction opportunities with consumers.

Trends & Opportunities

- > **Brands are rethinking their entire go-to-market strategy in a digital environment that offers new touchpoints, interactions and transaction opportunities with consumers.** We expect advertising spending will shift dramatically toward digital and mobile advertising as companies rethink how they reach customers.
- > **A “content anywhere” environment is creating growing bandwidth demands.**
- > **While consumers are viewing content at higher rates than ever, viewing habits are shifting.** More viewing is taking place in the on-demand setting. Younger audiences are also gravitating toward short-form, digital-native content.

Risks & Headwinds

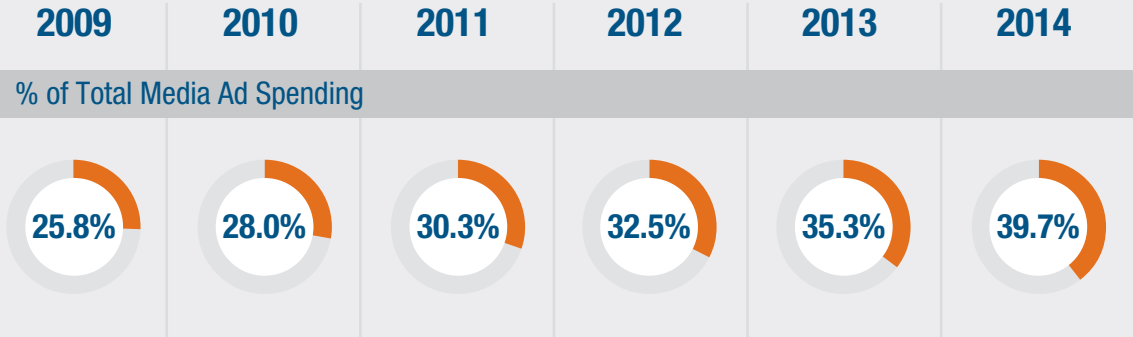
- > **The shift in television viewing has happened faster than distributors and content companies can develop advertising and measurement models around it.** This makes future advertising revenues for content companies harder to predict.
- > **There is risk that a slow decline in subscriptions for the traditional cable bundle could accelerate** as audiences turn to Internet services such as Netflix or skinnier content packages.

Investment Implications

- > **We like Internet service companies offering digital advertising platforms.** Large digital platforms benefit from a positive feedback loop. The scale of their platforms creates enriched customer data that is more useful for both the consumer and the advertiser seeking information about them.
- > **We are investing in mobile tower companies.** Such companies provide the backbone that allows more video viewing on smartphones and tablets.
- > **We see less opportunity in media companies.** Changing advertising models and alternative content packages outside the traditional cable bundle make revenue streams for these companies harder to predict.
- > **We are investing in a limited number of cable distributors that can offer video services bundled with robust broadband offerings.** These companies are more insulated from the risk of substitute video services because those services require strong broadband capabilities.

Digital Reach

Digital's Share of U.S. Advertising Agency Revenue



Brands are seeking help to rethink their go-to-market strategy in a digital environment that offers new touchpoints with consumers.

Source: Ad Age Agency Reports.

CONSUMER



U.S. home
improvement
spending
remains strong.

Trends & Opportunities

- > **The outlook for the U.S. consumer is improving.** Better employment levels and modest wage growth are benefiting the consumer. However, the savings rate has ticked up and consumers still aren't spending their savings from lower gas prices. This should lead to healthier spending in 2016.
- > **U.S. home improvement spending continues to grow at a strong pace.** Rising home values are encouraging households to invest in more home improvement projects.
- > **While slower, Chinese consumer spending has been resilient.** Chinese spending on many discretionary products is now taking place in Europe, instead of Hong Kong, due to increased tourism and a weaker euro, but Chinese consumers are still spending.
- > **Sales volumes for multinational consumer staples companies are holding up amid emerging market weakness.** Results vary, but many staples companies have seen emerging market volumes continue to grow, despite substantial price increases that are being taken to help offset currency weakness. However, reported revenue remains weak due to currency translation.

Risks & Headwinds

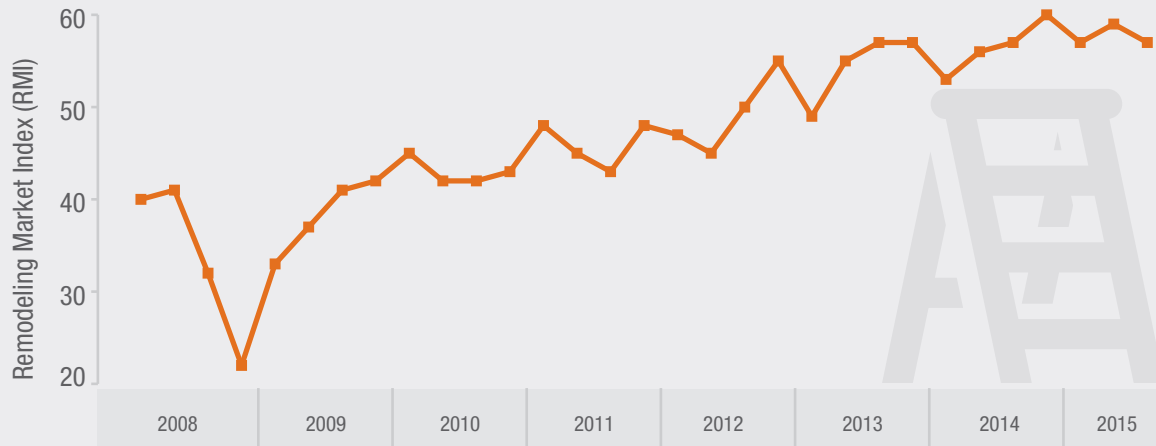
- > **A strong dollar is beginning to impact U.S. companies that cater to international tourists.**
- > **The shift toward e-commerce sales is accelerating.** Price transparency from mobile and online shopping hurts a number of apparel and retail companies. These companies must also make large investments to improve the multi-channel shopping experience, which will impact margins.
- > **Sales remain volatile for luxury products.** A weak global economy and the recent terrorist attack in Paris, a strong area for luxury spending, are both headwinds for many luxury categories.

Investment Implications

- > **Our consumer discretionary holdings are less impacted by the migration toward online and mobile sales.** Many of our companies sell products that either require a consultative sale, or sell products that are too large to ship or have a low price point that makes shipping less feasible.
- > **We also hold off-price retailers that benefit from many of the inventory dislocations that other retailers have experienced due in large part to the online sales transition.**
- > **We continue to hold home improvement retailers.**
- > **We are investing in consumer staples companies whose management teams have a track record of navigating weaker economic environments and have pricing power to offset margin pressures.**
- > **Our luxury holdings are limited to companies selling more resilient high-end luxury products, as opposed to more aspirational luxury goods.** While most luxury products are not immune to global economic weakness, the long-term demand for higher-end evergreen accessory products tends to be more resilient.

Renovation Revival

NAHB Remodeling Market Index*



Spending on home improvement projects remains strong as U.S. rising home values encourage U.S. consumers to reinvest in their homes.

**The National Association of Homebuilders' Remodeling Market Index (RMI) is based on a quarterly survey of NAHB remodeler members that provides insight on current market conditions for the home remodeling market.*

Source: NAHB Economics Group: Remodeling Market Index Quarterly Survey of Remodelers.



The low pricing environment that has plagued the sector is likely to continue into 2017.

Trends & Opportunities

- > **Growth opportunities in the energy sector remain limited against the backdrop of low oil and natural gas prices.**
- > **We expect oil prices to remain low until 2017.** We expect a substantial rollover in U.S. oil production in 2016, as production companies enter the year with lower capital expenditure budgets. However, given current storage levels and increased output from OPEC, it will take time for pricing to improve.
- > **Industry consolidation could benefit larger energy service companies.** The price concessions that service companies have been forced to take will force smaller competitors out of business. The remaining large service companies could see considerable pricing power when oil prices rebound.

Risks & Headwinds

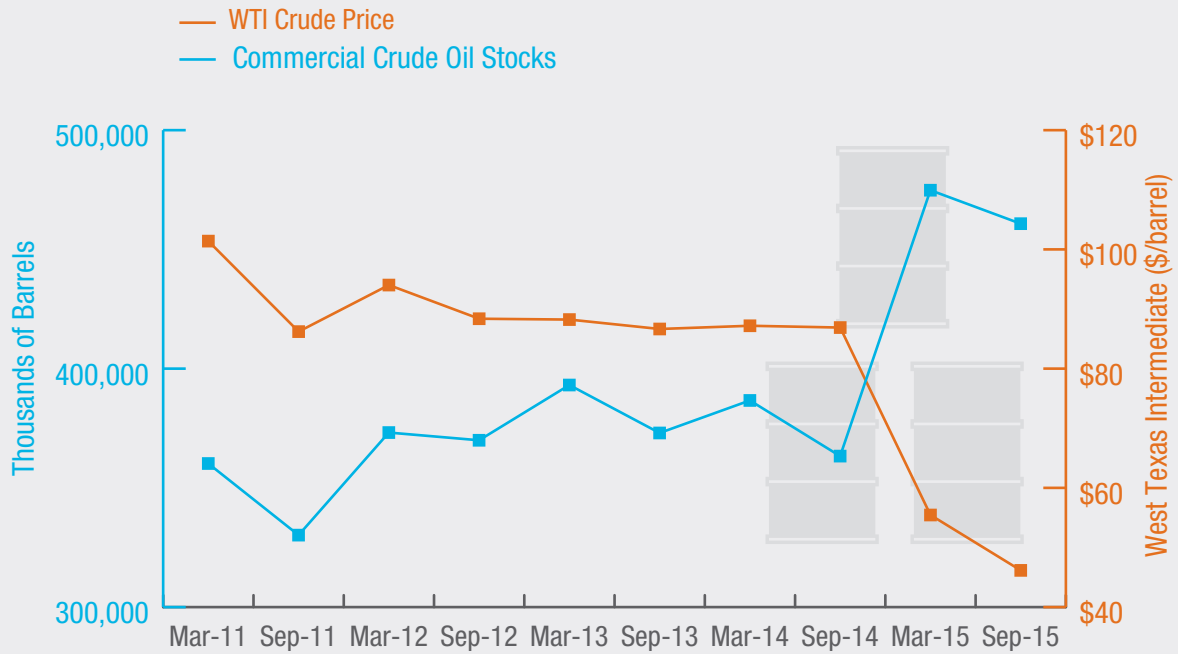
- > **OPEC has shown no signs it will decrease production.** Current oil prices are too low to support national budgets of most OPEC nations, but Saudi Arabia, in particular, seems intent on increasing supply to win market share.
- > **Iran's production potential is hard to predict.** With sanctions against Iran lifted, it is unknown how quickly the country can ramp up its oil production and add barrels to an already oversupplied market.

Investment Implications

- > **We are generally avoiding exploration and production companies.** We own a few companies with stronger balance sheets, or attractive land assets that allow them to continue drilling in a low price environment. However, we generally do not see the recent sell-off in energy companies as a buying opportunity.
- > **We have invested in select, dominant service companies.** As smaller companies go bankrupt or struggle to stay in business, equipment is not being maintained. Production companies should gravitate toward the larger service companies that can respond faster with better equipment when prices rebound.
- > **We still see opportunity in select pipeline companies.** Stocks for some of these companies have been overly punished in the oil market downturn. Even in a weaker pricing environment, we believe these companies will be able to maintain steady cash flow due to the minimum volume commitments associated with their contracts and volume growth from drilled, but uncompleted, wells.

Oil Glut Continues

U.S. Commercial Crude Stocks and Storage Capacity



After more than a year of lower oil prices, the market remains oversupplied.

Source: Energy Information Administration. As of 9/30/2015.

FINANCIALS



The environment
for European
banks is improving.

Trends & Opportunities

- > **The migration from cash to plastic and electronic payments remains one of the strongest long-term secular growth trends within the sector.**
- > **A growing number of corporations are outsourcing the real estate management of their properties.**
- > **Rising household wealth in Asia is creating demand for insurance products that preserve that wealth.**
- > **Credit demand is starting to pick up from the bottom in Europe.** We are finally seeing increasing demand from the corporate sector.
- > **The regulatory environment for European banks is moderating.** After government backlash against banks following the financial crisis, political leaders are now more cognizant of banks' role as a finance transmission mechanism vital to strengthening the economy.

Risks & Headwinds

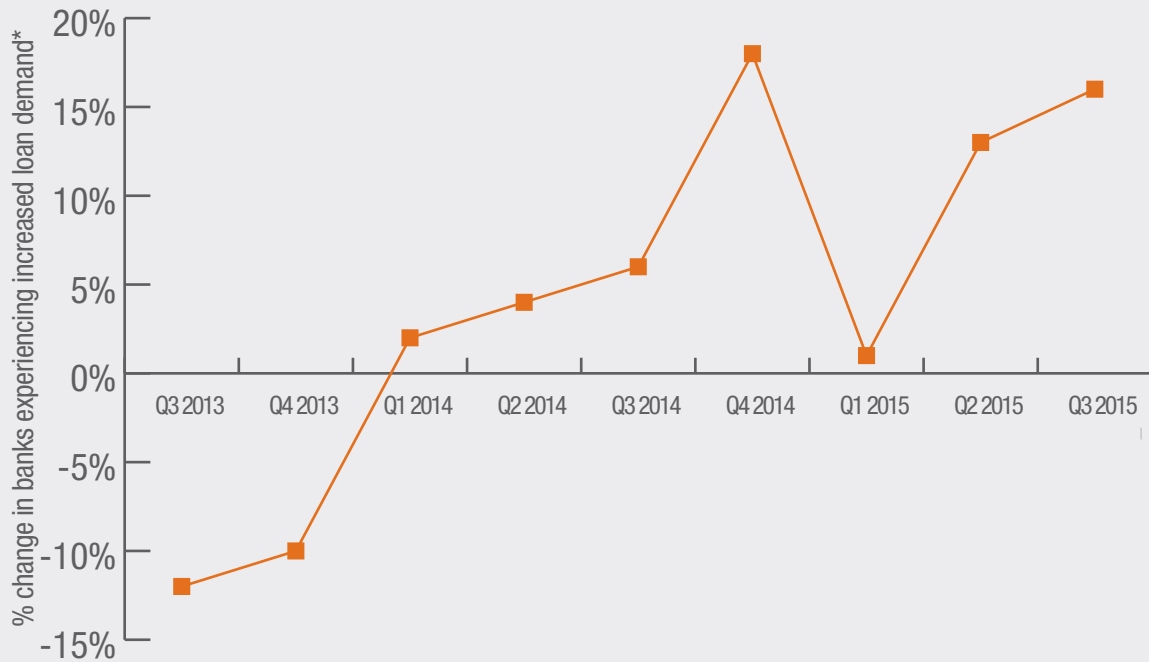
- > **Low interest rates in Europe are a headwind for a number of financial companies and create incentives for credit risk taking to offset yield compression, particularly in insurance companies.**
- > **Rising interest rates in the U.S. are positive for companies earning a spread on the U.S. dollar, but will threaten heightened volatility in emerging markets.** The reaction to rising rates will vary and commodity-sensitive economies will be susceptible. We are more cautious about countries such as Brazil, Turkey, Indonesia and Thailand, which have limited fiscal and monetary policy flexibility to stem capital outflows.

Investment Implications

- > **We continue to have significant exposure to the theme of plastic and electronic payments growth.** Payments companies remain some of our largest holdings.
- > **We are investing in large real estate service providers.** Larger real estate service providers can continue to gain market share because of the expertise and breadth of services they offer clients.
- > **We are investing in global insurance companies with a large presence in Asia.** Brand recognition should help these companies take share from smaller, local competitors as demand for insurance grows.
- > **We own several European banks.** We see the most opportunity for banks in Ireland, which is enjoying a strong cyclical recovery, and in Belgium and the Netherlands, which are high-profitability banking markets.
- > **Among emerging markets, we favor Indian financials.** Indian policy efforts have focused on taming inflation, encouraging financial transmission of monetary policy to the real economy and growing the private financial sector.

European Loan Recovery

Changes in Demand for Loans or Credit Lines to European Enterprises*



Credit demand from Europe's corporate sector is beginning to pick up again.

**The chart shows the net difference between the sum of the percentage of banks saying loan demand "increased considerably" and "increased somewhat" and the sum of banks responding that loan demand "decreased somewhat" and "decreased considerably."*



Innovation in the sector remains high, and the regulatory environment is supportive.

Trends & Opportunities

- > **Innovation is leading to promising drug pipelines for many biotech and pharmaceutical companies.** New therapies may offer functional cures for many cancers. We also like the potential of newly launched cardiovascular treatments and gene therapies that are poised to address many monogenetic diseases.
- > **The regulatory environment for health care companies has never been more favorable.** Drug approval rates are well above historical norms. The regulatory review process for medical devices has also sped up dramatically.
- > **Merger and acquisition activity remains high.** Going forward, most activity will be driven by the need to improve pipelines or increase scale, rather than arbitraging overseas tax rates.

Risks & Headwinds

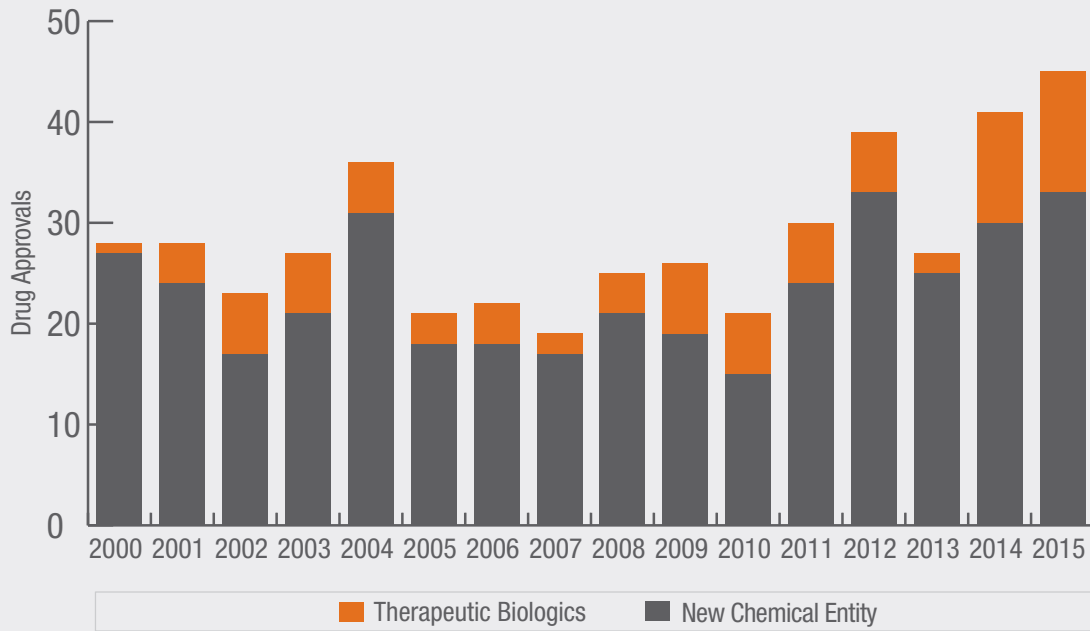
- > **Drug prices will continue to draw attention in an election year.** Increased scrutiny means companies will self-regulate, and avoid taking aggressive price increases on newly acquired drugs. Importantly, we expect free market mechanisms, not government intervention, to ultimately govern drug prices.
- > **Positive trends benefiting insurers over the last four years are abating.** Insurers have benefited from Medicaid and Medicare expansion, industry consolidation and enrollment gains. Future profit growth may be harder to come by.

Investment Implications

- > **We own many biotech and pharmaceutical companies developing innovative therapies.** We are closely evaluating the science behind therapies to determine their likelihood of clinical success and also conducting our own analysis to determine the potential market size of new drugs, items the market frequently gets wrong.
- > **Attention to drug prices does not change our view of our biotech and pharmaceutical holdings.** We have expected a more moderate pricing environment for some time. Companies with innovative therapies will experience earnings growth primarily from volume increases, not aggressive pricing.
- > **We own several specialty pharmaceutical companies whose management teams have an established track record of making value-enhancing acquisitions.**
- > **We are underweight insurance companies.** We have limited our holdings to select companies that have the most exposure to highly profitable and fast-growing end markets.
- > **We are investing in medical device companies using advanced technology to create differentiated, life-saving products.**

The Innovation Continues

Novel FDA Drug Approvals by Year



Innovation in the biotech and pharmaceutical industries is leading to the development of many new therapies, as evidenced by the high rate of novel drug approvals over the last few years.

Source: Washington Analysis. As of 12/25/2015.



End markets are challenged for many industrial companies.

Trends & Opportunities

- > **The auto industry is a bright spot within the industrial sector.** Sales trends continue to be strong in the U.S. and are improving in Europe. A tax incentive has led to an auto sales recovery in China.
- > **The U.S. construction environment remains strong.** A rebound continues in residential construction, while nonresidential construction is also finally recovering.
- > **With muted growth prospects, M&A activity and share buybacks remain high.**

Risks & Headwinds

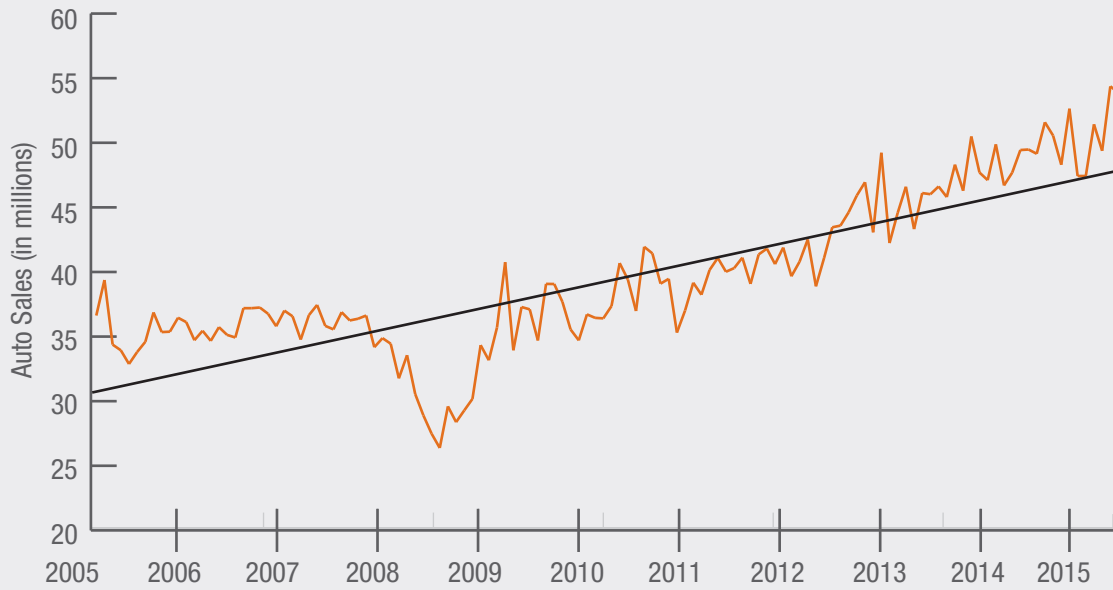
- > **A weak U.S. energy sector will have further impacts on many industrial companies in 2016.** Exploration and production companies slashed capital expenditures soon after oil prices dropped. Midstream and downstream companies are likely to make more cuts in the coming year.
- > **European industrial companies are starting to use their currency to lower prices rather than improve margins.** Price cuts are happening on a company-specific rather than industry-specific basis.
- > **In China, the auto industry has recovered but other industrial subsectors remain weak.** Industrial companies have backed off predictions that a weak third and fourth quarter was due to destocking and have pushed out expectations of a rebound in demand.

Investment Implications

- > **We are investing more heavily in auto suppliers than automakers.** Many auto suppliers have higher margins, less competition and more product differentiation than automakers. Auto suppliers benefit not only from strong auto demand, but content growth within the car.
- > **We are not chasing M&A activity by making isolated calls on a particular future takeout target.** Instead, we are investing with companies whose management teams have shown a history of making strategic acquisitions that consolidate a fragmented industry.
- > **We own a number of multi-industrial companies that have large parts of their business exposed to the construction industry.**
- > **We have reduced our exposure to the energy sector.** While we do still hold companies that directly or indirectly serve energy end markets, we have reduced positions in companies whose primary businesses are focused on the sector.

Reving Up

Total Auto Sales for the U.S., Western Europe and China



Strong auto sales remain one of the few bright spots within the industrial sector.

Source: Janus, Bureau of Economic Analysis, European Automobile Manufacturers Association, China Association of Automobile Manufacturers.



Several factors are speeding companies' transition to the cloud.

Trends & Opportunities

- > **Businesses are quickly transitioning hardware, servers and on-premises data centers to the cloud.** Security concerns about on-premises data centers and the quick adoption and success of Microsoft Office 365, which is critical to many business functions, is hastening cloud adoption of more IT functions.
- > **IT costs and spending are shifting from broad IT departments to individual business units.** As cloud applications proliferate, lines of business such as marketing are becoming more important buyers of technology.
- > **The semiconductor industry continues to consolidate.** As the industry matures and growth rates slow, companies are looking to build economies of scale and focus on growth areas.

Risks & Headwinds

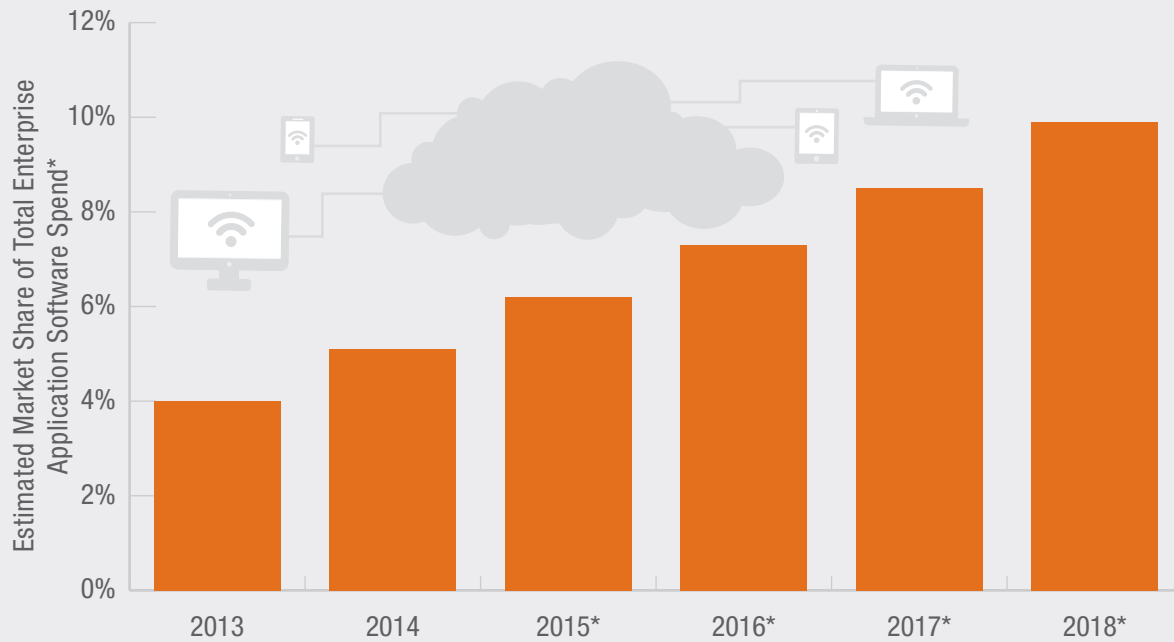
- > **A bubble has popped in the private sector.** Some startup companies are burning through cash and suddenly finding it hard to raise more money in private markets. Other startups are going public with lower-than-expected valuations.
- > **The smartphone market has matured.** Slower smartphone growth rates will impact a number of semiconductor companies and other suppliers.
- > **We believe the market is underestimating risks for legacy tech companies.** Many companies tied to desktop computing or enterprise hardware trade at high valuations due to the perceived safety of large cash reserves or high dividend payments. However, profit pools for these companies are eroding and we believe there is a limit to how long financial engineering can hold up valuations.

Investment Implications

- > **Many of our holdings in cloud-based companies offer an array of solutions to a specific business department, rather than offering a single, cloud-based solution.**
- > **We have generally avoided investing in private tech companies.** As private market funding dries up, we expect more innovative tech companies to go public at reasonable valuations, which should provide new opportunities in 2016.
- > **We own semiconductor manufacturers that are less dependent on smartphone growth.** While smart phones make up a portion of business for nearly any semiconductor company, the companies we hold serve growing end markets such as health care, communications or auto industries.
- > **We remain underweight large, legacy tech companies.** We believe risk for these companies is underpriced.

To the Clouds

Pure-Play Cloud Leaders, Projected Share of Total Enterprise Application Software Spend



Businesses are quickly migrating to the cloud from on-premises data centers.

**Estimates based on revenue projections for the four largest Software as a Service (SaaS) companies by market capitalization.*

Source: Janus estimates. As of 9/1/2015.

GUIDING PRINCIPLES OF JANUS RESEARCH

- > Invest with our clients' interests first.
- > Develop a deep understanding of the companies we research.
- > Employ a strong valuation discipline focused on quality growth.
- > Develop independent and differentiated views on our companies, supported by in-depth primary research.
- > Spend as much time thinking about what could go wrong as about what could go right.
- > Take a long-term view.
- > Seek to anticipate change, don't just analyze it.
- > Attract the best and brightest analysts in the business, and foster an environment in which they can succeed on behalf of our investors.



JANUS GLOBAL EQUITY SECTOR TEAM LEADERS



COMMUNICATIONS
Jean Barnard, CFA



CONSUMER
Jeremiah Buckley, CFA



ENERGY + UTILITIES
Kris Kelley, CFA



FINANCIALS
John Jordan



HEALTH CARE
Andy Acker, CFA



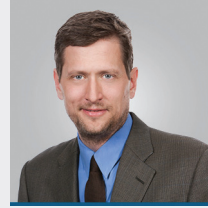
HEALTH CARE
Ethan Lovell



INDUSTRIALS + MATERIALS
David Chung, CFA



TECHNOLOGY
Brinton Johns



TECHNOLOGY
Garth Yettick, CFA



JANUS CAPITAL[®]
Group



Follow us on Twitter for up-to-the-minute market and investment insights. [Twitter.com/JanusCapital](https://twitter.com/JanusCapital)

Past performance is no guarantee of future results.

Investing involves market risk. Investment return and value will fluctuate, and it is possible to lose money by investing.

The value of equity securities fluctuates in response to issuer, political, market and economic developments. In the short term, equity prices can fluctuate dramatically in response to these developments, which can also affect a single issuer, issuers within an industry or economic sector or geographic region, or the market as a whole.

Foreign securities are subject to additional risks including currency fluctuations, political and economic uncertainty, increased volatility, lower liquidity and differing financial and information reporting standards, all of which are magnified in emerging markets.

There is no assurance that the investment process will consistently lead to successful investing.

In preparing this document, Janus has relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources.

Statements in this piece that reflect projections or expectations of future financial or economic performance of the markets in general are forward-looking statements. Actual results or events may differ materially from those projected, estimated, assumed or anticipated in any such forward-looking statements. Important factors that could result in such differences, in addition to the other factors noted with such forward-looking statements, include general economic conditions such as inflation, recession and interest rates.

Janus makes no representation as to whether any illustration/example mentioned in this document is now or was ever held in any Janus portfolio. Illustrations are only for the limited purpose of analyzing general market or economic conditions and demonstrating the Janus research process. They are not recommendations to buy or sell a security, or an indication of holdings.

Investment products offered are: **NOT FDIC-INSURED** | **MAY LOSE VALUE** | **NO BANK GUARANTEE**

Janus Capital Group Inc. is a global asset manager offering individual investors and institutional clients complementary asset management disciplines. Janus Capital Management LLC serves as investment adviser. Janus is a registered trademark of Janus International Holding LLC. © Janus International Holding LLC.

FOR MORE INFORMATION CONTACT JANUS

151 Detroit Street, Denver, CO 80206 | 800.668.0434 | www.janus.com