

9 market themes for 2013

Euro-zone equities will outperform U.S. stocks in 2013. That is one of J.P. Morgan Cazenove's predictions for 2013, appearing in a note to investors. The argument holds that the fiscal drag could be bigger for the U.S. in 2013 than Europe, where much of the worst is already built in.

Here are the nine market themes identified by J.P. Morgan Cazenove strategists for 2013:

- ✓ Improved risk-reward in European periphery. Look for these stocks to perform in peripheral spread tightening: Enel , Fiat , Telefonica and others.
- ✓ Improving risk-reward for financials: BNP Paribas Banco Santander and Commerzbank are among those that are most sensitive to bank credit spreads and still trade below book value.
- ✓ Caution on cyclical U.S. top-line plays. The analysts expect a slowdown in U.S. activity in the first half of 2013 and advise a rotation to euro-zone exposure. That's away from stocks like ARM Holdings .
- ✓ Stay cautious on China infrastructure plays. Even if these stocks are underperforming, they liken trying to buy these stocks to trying to buy tech names in 2002. Rio Tinto and BHP Billiton are among these.
- ✓ Stay positive on consumer plays into China/EM: Danone , Coca-Cola Hellenic and Carrefour , to name a few.
- ✓ Free cash flow yield to be a winning factor again in 2013. The best performing factor in 2012 and the only one that worked in each quarter of this year. Business services, durables, food and beverages, healthcare and software among the sectors in favor. Imperial Tobacco Group and Anheuser-Busch, InBev are on this list.
- ✓ Sustained earnings growth to be rewarded. They are cautious on the earnings outlook for 2013 and see downside risk to current consensus estimates. Again, Anheuser-Busch is on the list of those likely to increase earnings per share by more than 5% next year. Diageo is another.
- ✓ Search-for-yield theme supports sustainable dividend payers. Most assets in Europe offer income yield, but equities offer higher dividend yield. AstraZeneca , Total and Roche Holding are on this list.
- ✓ Caution on global cyclical plays with elevated margins. "We are cautious on the outlook for profit margins and see downside risks to global cyclical plays with high margins expectations." Among those on the caution list: ARM Holdings, Inditex and Michelin .