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[Software Still Has Room To Run](#)

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Software Still Has Room To Run

Overweight (High-Conviction)

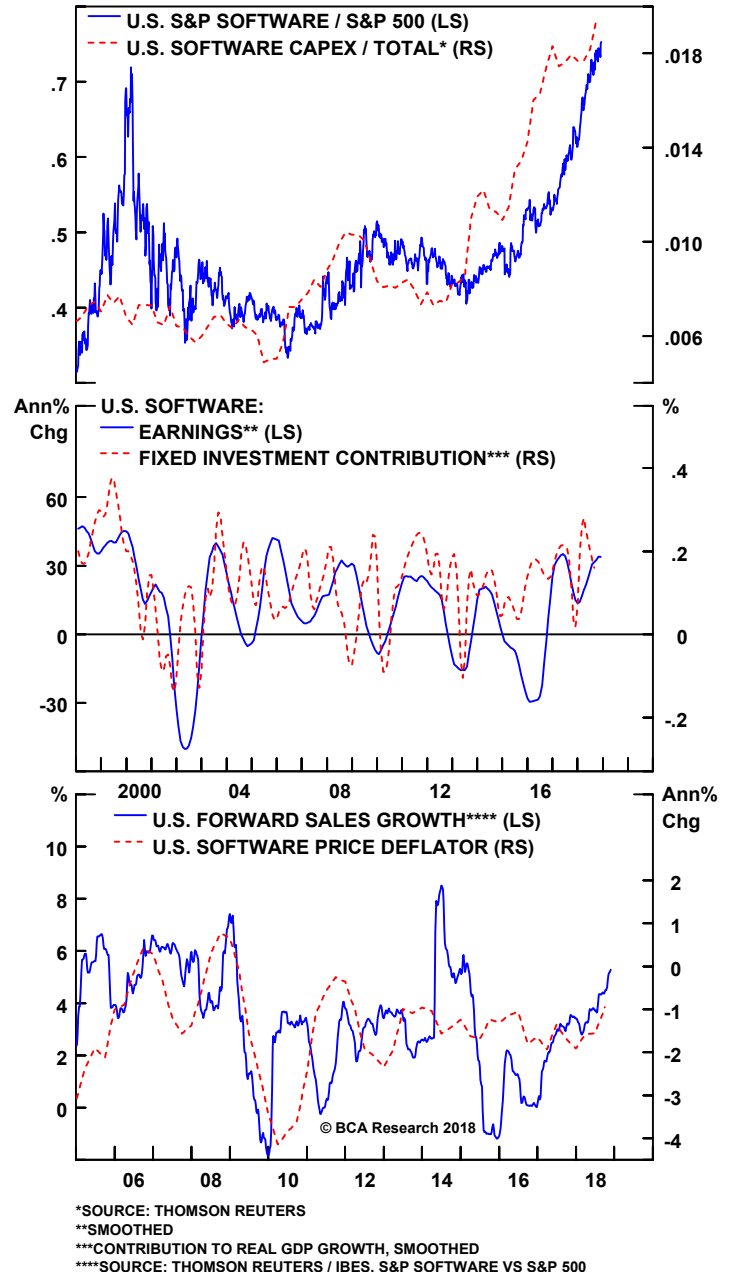
One of the key themes for 2019 we noted in Monday's *Weekly Report* is the later stages of the U.S. capex upcycle; we highlight our high-conviction overweight recommendation on the S&P software index, a hold-over from last year, which is levered to this theme.

As shown in the top panel, relative capital outlays and the share price ratio are joined at the hip. Software upgrades offer the simplest, quickest and most effective capital deployment, especially when productivity gains ground to a halt. Importantly, leading indicators of overall capex remain upbeat and should continue to underpin software profits (second panel). The recovery in the software price deflator (bottom panel), a proxy for industry pricing power, corroborates the upbeat demand backdrop.

With regard to financial statements, software stocks have pristine balance sheets with more cash on hand than debt, which sustains the net debt-to-EBITDA ratio in negative territory. Interest coverage is great at 10x and free cash flow generation is expanding smartly.

Bottom Line: Software stocks should remain core tech holdings in equity portfolios; we reiterate our high-conviction overweight recommendation. Please see Monday's *Weekly Report* for more details.

The ticker symbols for the stocks in this index are: BLBG: S5SOFT - MSFT, ORCL, ADBE, CRM, INTU, RHT, ADSK, SNPS, CTXS, ANSS, CDNS, FTNT and SYMC.



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