

PaineWebber

Investment Policy

March 14, 1993

More of America's Euro-Industrials

Edward M. Kerschner

One of our key themes for 1993 has been "America's Euro-industrials" -- a focus on the stocks of those U.S. companies that have significant European exposure. Over the next few months these stocks should continue to reflect the likelihood of better earnings from European operations in 1994. As we pointed out last week (see "*BuBa Helps Euro-Industrials*," March 5, 1993), the signal of an easing in interest rates by the Bundesbank on March 5 (dropping their 14 day repo rate) was yet another step in a gradual process that should lead to significantly lower interest rates in Europe this year. With continuing signs of a very weak German economy, it is quite possible that the Bundesbank will ease rates further, maybe as early as this Thursday's meeting of the central bank. The success this past weekend in the Solidarity talks on German fiscal policy are one further factor that should move the Bundesbank from its already established policy of *gradual* easing to a more rapid one. Further rate cuts will give investors good reason to look beyond the trough year of 1993 with confidence that 1994 will see economic recovery in Europe.

Among our favorite Euro-industrials are **Allied-Signal** (18% of total 1991 sales in Europe, all foreign sales 25% of 1991 total), **Continental Can** (95%, 95%), **Ford** (27%, 39%), **Goodyear Tire** (21%, 41%) and **Owens-Corning** (19%, 28%), all of which are currently recommended by PaineWebber analysts. The table below shows a list of other *possible* Euro-industrials. It is based on a screen of the 1991 sales of S&P 500 companies rated "buy," "attractive" or "neutral" by PaineWebber analysts, sorted by European exposure.

More of America's Euro-Industrials

	European Sales as % Total	Foreign Sales as % Total	PW Rating
FOSTER WHEELER CORP	57.4%	62.3%	3
DIGITAL EQUIPMENT	44.7	59.8	2
HEWLETT-PACKARD CO	37.1	55.9	3
AMP INC	34.7	60.5	3
DATA GENERAL CORP	34.0	47.3	3
DUPONT (E.I.) DE NEMOURS	33.7	44.2	2
TANDEM COMPUTERS INC	32.1	53.8	3
THOMAS & BETTS CORP	31.7	46.7	3
TRINOVA CORP	31.3	38.0	3
DOW CHEMICAL	31.3	51.7	2
SUN MICROSYSTEMS INC	29.9	50.8	3
APPLE COMPUTER INC	28.9	44.8	3
EMERSON ELECTRIC CO	28.3	34.8	3
ITT CORP	26.5	30.9	2

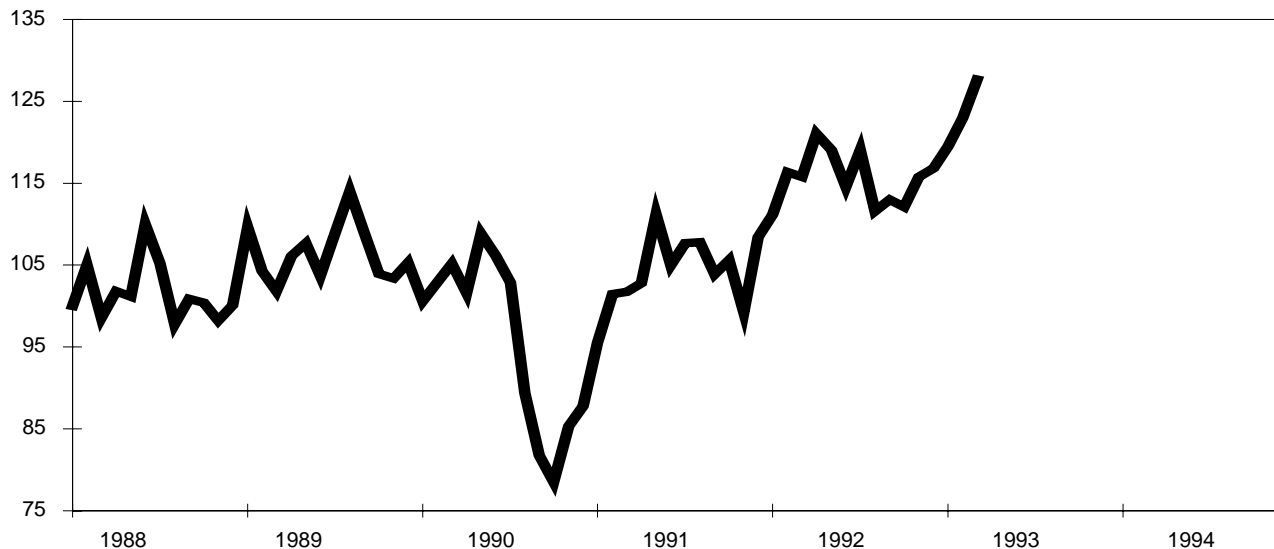
	European Sales as % Total	Foreign Sales as % Total	PW Rating
PPG INDUSTRIES INC	26.4%	36.1%	1
ROHM & HAAS CO	25.7	43.6	1
HARNISCHFEGGER IND	23.5	35.9	3
HONEYWELL INC	23.1	33.8	3
CUMMINS ENGINE	22.2	34.8	3
INTEL CORP	22.1	51.3	2
INTL PAPER CO	21.9	24.3	3
TRW INC	21.8	30.9	3
REYNOLDS METALS CO	20.5	25.4	3
ECHLIN INC	20.5	31.5	3
GENERAL MOTORS CORP	20.3	31.8	2
PARKER-HANNIFIN CORP	20.2	26.4	3
TENNECO INC	20.1	28.9	3

PW Rating: 1= Buy, 2= Attractive, 3= Neutral

Our *American Euro-Industrial* index (of 33 S&P 500 stocks with more than 25% of their total sales going to Europe) has been strong over the past 6 1/3 months -- up 14.4% since August, 1992.

PaineWebber American Euro-Industrial Index

Price

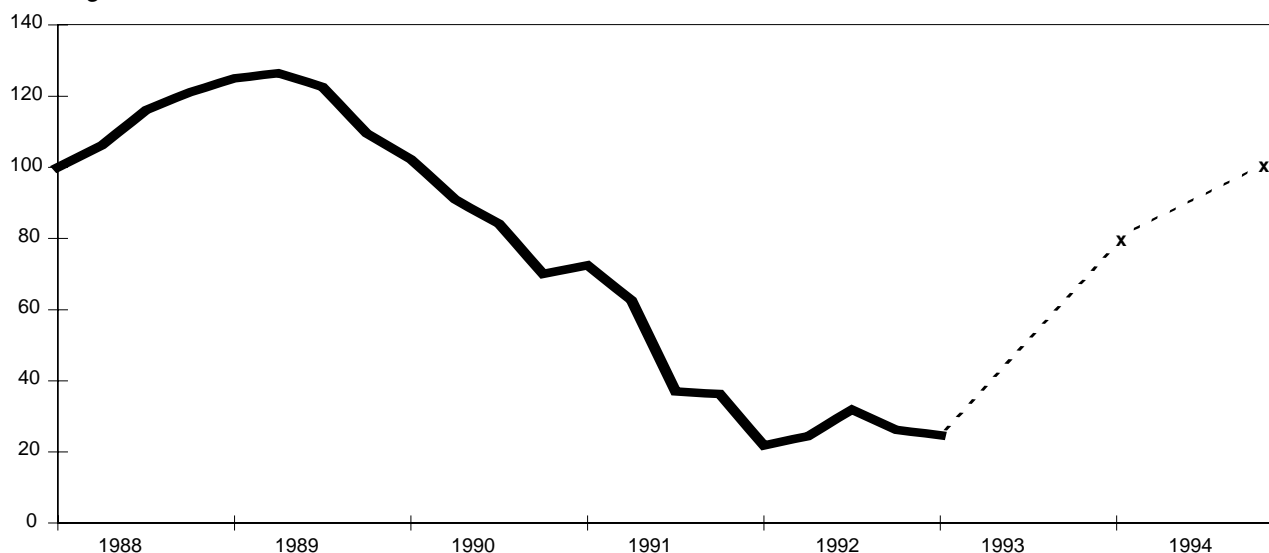


updated thru 3/10/93

Reflecting the confluence of a long U.S profit recession (that began in 1989) and European economies weakening in 1992, the earnings of these stocks have been depressed for four years now. After tumbling 18% in 1989, 30% in 1990 and 70% in 1991, the earnings of the American Euro-Industrial Index rebounded a modest 18% in 1992. Now, with the U.S. in the eighth quarter of recovery and Europe likely to bottom this year and rebound in 1994, earnings are projected to be up 225% in 1993 and continue to advance another 30% in 1994.

PaineWebber American Euro-Industrial Index

Earnings

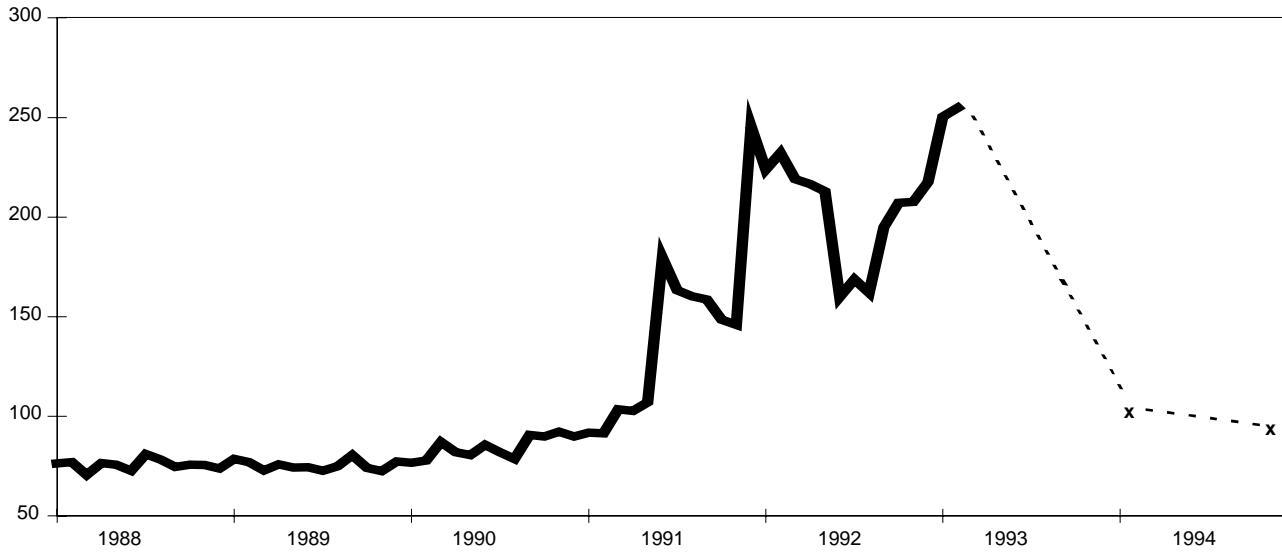


So, while the relative P/E of the AEI on trailing 1992 EPS is a lofty 255%, on 1993 earnings the AEI stocks are selling at a relative P/E of only 99%, and on 1994 EPS they are selling at a relative P/E of 82%. And with 1994 projected earnings still 15% *below* the prior cycles peak, if then in 1995 these stocks were to merely retrace their earnings back to the level of 1988, they would be selling at a relative P/E of just 70%. Obviously, the key to the

success of these stocks is that Europe bottoms late this year and that the U.S. stays out of recession in 1994 and 1995.

PaineWebber American Euro-Industrial Index

Relative P/E



This report was written with Michael Geraghty

PaineWebber American Euro-Industrial Index

	1991 European Sales as % Total		1991 European Sales as % Total		1991 European Sales as % Total
NL INDUSTRIES	74.1%	DU PONT	33.7%	UNISYS CORP	29.9%
FOSTER WHEELER CORP	57.4	ILLINOIS TOOL WORKS	33.6	APPLE COMPUTER INC	28.9
RAYCHEM CORP	49.3	INTERGRAPH CORP	33.5	MINNESOTA MINING & MFG	28.9
PERKIN-ELMER CORP	47.6	MILLIPORE CORP	32.1	EMERSON ELECTRIC CO	28.3
DIGITAL EQUIPMENT	44.7	TANDEM COMPUTERS	32.1	INGERSOLL-RAND CO	27.3
AUTODESK INC	37.9	THOMAS & BETTS CORP	31.7	FORD MOTOR CO	27.3
ENGELHARD CORP	37.3	TRINOVA CORP	31.3	ITT CORP	26.5
HEWLETT-PACKARD CO	37.1	DOW CHEMICAL	31.3	PPG INDUSTRIES INC	26.4
INTERLAKE CORP	35.7	GRACE (W.R.) & CO	30.8	AMDAHL CORP	26.3
AMP INC	34.7	POLAROID CORP	30.2	EASTMAN KODAK CO	26.0
DATA GENERAL CORP	34.0	SUN MICROSYSTEMS INC	29.9	ROHM & HAAS CO	25.7

(Note: Not all of the 33 companies in the *PaineWebber American Euro-Industrial Index* are currently followed by PaineWebber research.)

Prices of companies mentioned as of 3/11/93:

Allied-Signal Inc ALD (\$67 1/4)	Foster Wheeler FWC (\$31 1/8)	NL Industries NL (\$4 7/8)
Amdahl Corp AMH (\$7 7/8)	General Motors ^{2,3} GM (\$38 1/2)	Owens-Corning ¹ OCF (\$44)
AMP Inc ³ AMP (\$58 3/4)	Goodyear Tire & Rubber GT (\$75 3/8)	Parker-Hannifin PH (\$32 3/4)
Apple Computer ¹ AAPL (\$56 7/8)	Grace (W.R.) GRA (\$38 5/8)	Perkin-Elmer PKN (\$37)
Autodesk, Inc ACAD (\$46 1/4)	Harnischfeger Indus ² HPH (\$17 7/8)	Polaroid Corp PRD (\$29 3/8)
Continental Can CAN (\$26)	Hewlett-Packard HWP (\$78)	PPG Indus PPG (\$67 7/8)
Cummins Engine ³ CUM (\$90 3/4)	Honeywell, Inc HON (\$32 5/8)	Raychem Corp RYC (\$43 1/2)
Data General DGN (\$13 1/2)	Illinois Tool Works ITW (\$76 7/8)	Reynolds Metals RLM (\$51)
Digital Equipment ³ DEC (\$46 1/8)	Ingersoll-Rand IR (\$33 1/8)	Rohm & Haas ³ ROH (\$58 1/2)
Dow Chemical ³ DOW (\$56)	Intel Corp ¹ INTC (\$116 7/8)	Sun Microsystems ¹ SUNW (\$32 1/4)
duPont(EI)deNemours ³ DD (\$47 1/4)	Intergraph Corp ¹ INGR (\$12)	Tandem Computers TDM (\$13 5/8)
Eastman Kodak ³ EK (\$54 5/8)	Interlake Corp IK (\$4 1/8)	Tenneco Inc TGT (\$47 1/8)
Echlin Inc ³ ECH (\$25 1/4)	Int'l Paper IP (\$64 5/8)	Thomas & Betts TNB (\$67 1/8)
Emerson Electric EMR (\$59)	ITT Corp ITT (\$78 5/8)	TRINOVA Corp TNV (\$26)
Engelhard Corp EC (\$42 7/8)	Millipore Corp MIL (\$27 1/4)	TRW Inc TRW (\$60 1/4)
Ford Motor Co ³ F (\$49)	Minnesota Mng/Mfg MMM (\$109)	Unisys Corp ³ UIS (\$13 1/2)

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