THE MONTHLY RESEARCH CONFERENCE CALL

ENERGY & MATERIALS: WEALTH IN THE GROUND ASSETS

ARGUS®

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11:00 a.m. ET

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New to the Portfolio Selector Focus List

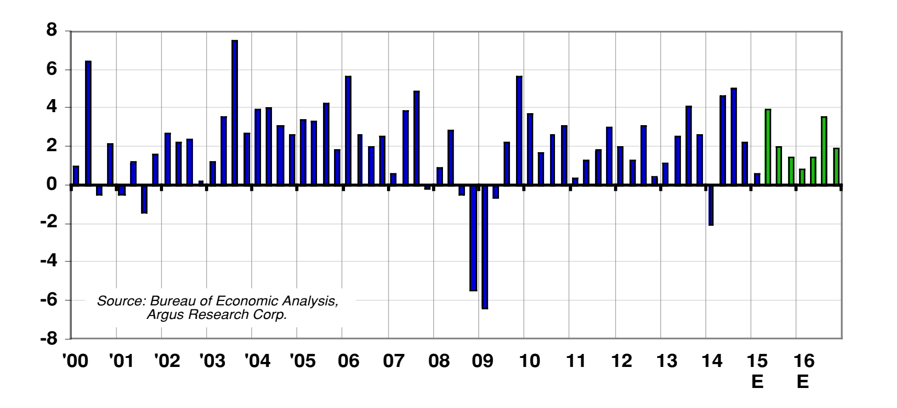
- Packaging Corp. of America - aided by price hikes and asset integration
- Amazon.com: Prime, Alexa, AWS firing on all cyclinders
- NutriSystems - play on growth in nutrition awareness
- Procter & Gamble - leaner and more profitable

Enhanced Features on the Argus Website

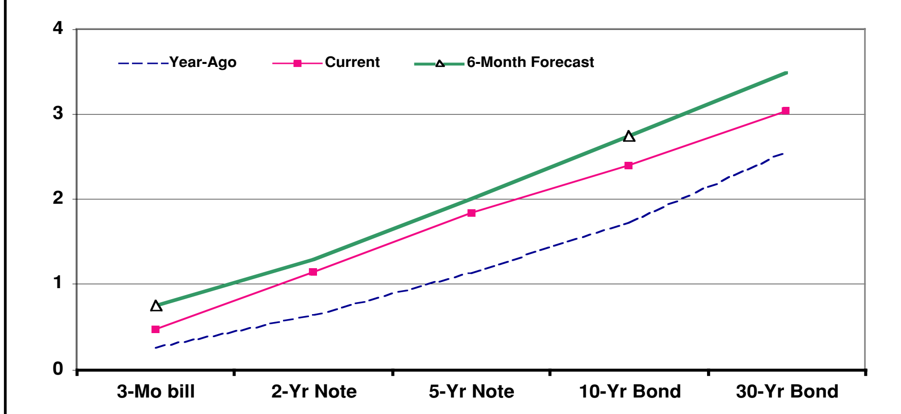
- Once again responding to client & salesforce input
- Weekly Stock Ideas List
  A best-ideas product
- Weekly Podcast
  Our latest thinking on the economy, markets, rates, etc.
- The A6 Reports Universe
  Our quant rankings on 1500 stocks
- Look for these features to be rolled out in coming months
- Still early days in exploiting the technological capabilities of our platform

MACRO FORECASTS

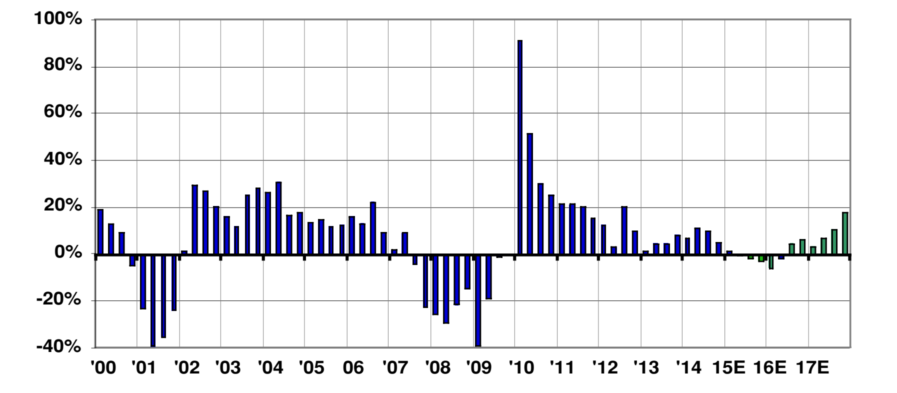
REAL GDP W/FORECASTS (%)



TREASURY YIELD CURVE (%)

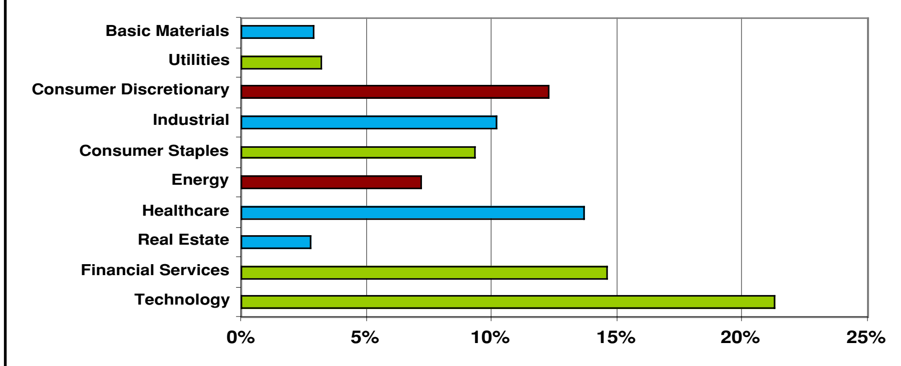


S&P 500 QUARTERLY EARNINGS GROWTH



MARKET SECTOR DISTRIBUTION - PERCENT OF S&P 500

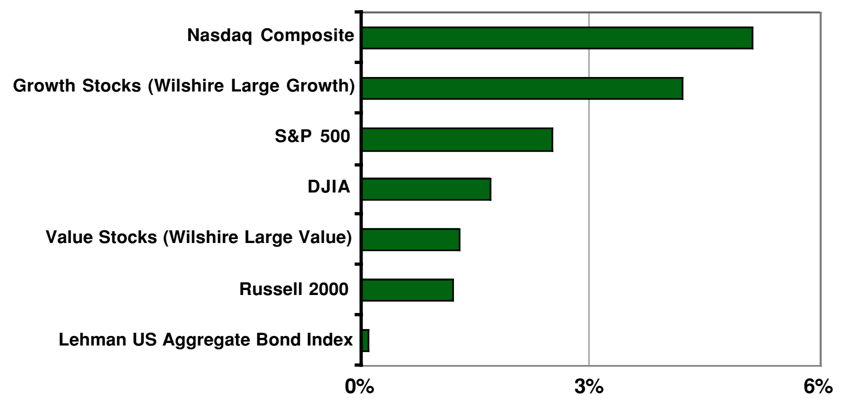
Sectors in Green are Recommended Overweight; Blue are Marketweight; Red are Underweight



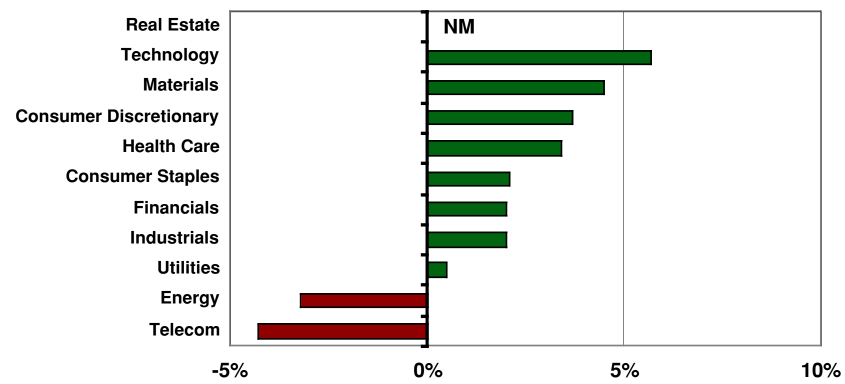
MARKET PERFORMANCE

DATA AS FEBRUARY 6, 2017

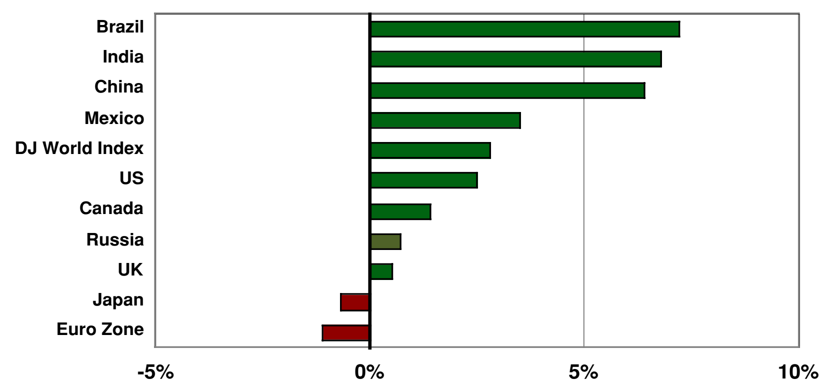
MAJOR INDEX



SECTOR



GLOBAL EQUITY MARKETS



OUTLOOK FOR ENERGY STOCKS

Our Rating on the Energy Sector is currently Market-Weight.

- **The S&P 500 Energy Index has modestly underperformed thus far in 2017. The index is down 4.3% for the year, while in 2016, the index was up 24%, aided by a rebound in oil prices coming off a $26 per barrel low in February. Crude oil currently sits at about $54 per barrel (WTI).**

- **Fourth-quarter 2016 earnings in the Energy group, is showing, on average, an 82% year-over-year drop in earnings, with E&P, Oil & Gas Refining and IOC's showing the biggest declines.**

- **The sector accounts for about 7% of the S&P 500. Over the past five years, this weight has ranged from about 7% to 13%.**

- **We forecast that West Texas Intermediate (WTI) will average $56 per barrel in 2017, with an expected range of $43-$66 per barrel. In addition, our Henry Hub natural gas price is $2.50-$3.60 per mmBTU.**

INTEGRATED OIL COMPANIES (IOC'S)

This group (Super Majors) offers modest growth, cash flow and yield.

- Integrated oil companies (IOC's) are present throughout the oil and gas chain. Historically speaking, these companies show little volume growth but generate cash flow for the dividend.
- Performance for the IOC's over the past 12 months has been weak, owing to the range of energy assets they possess.
- In particular, Upstream and Downstream operations, together with Refining, have been exceptionally soft, as low oil and gas prices, falling production rates and contracting margins have combined to hurt profits.
- Fourth-quarter results have continued the weak trend. Year-over-year pricing is still negative and demand is generally tepid. The company's continue to lower capex spending and divest non-core assets.
- More recently, IOC's have begun focusing on high-return, short-cycle plays, which usually involve shale oil & gas. If a part of their asset portfolio, capex is being spent to ramp-up production.
- Top Pick: Chevron Corp. (CVX)
- Other stocks in coverage: XOM, BP, RDSA, COP

EXPLORATION & PRODUCTION (E&P)

This group will experience a 30%+ increase in capex in 2017.

- Historically, the E&P sector is about assets (oil & gas reserves), which represent the future cash flows of the firm.
- The key differentiator among the E&P's is control over capital and operating costs.
- Performance for the E&P's companies over the past year have been on a slow, but steady incline. The key is higher y-o-y oil and gas prices.
- Fourth-quarter results have been encouraging. While pricing is still negative y-o-y, that will change in 1Q17. Long-cycle projects are being diverted in favor of high-return, short-cycle projects. Of late, the focus is on the U.S. land market (shale oil & gas).
- We prefer companies with under-levered balance sheets that have the ability to service their debt & divest marginal assets.
- Top picks: Occidental Petroleum (OXY) and ConocoPhillips (COP)
- Other stocks in coverage: APA, DVN, MRO, NBL, EOG

OILFIELD SERVICES & EQUIPMENT

The segment has seen a huge improvement in rig counts & utilization.

- The Oil Service industry is made up of several segments (Drilling, Completion, Production, Capital Equipment, and Exploration).
- Over the past year, as oil prices have improved from lows set in February 2016, the E&P's are now spending again. That higher spend is driving rig counts higher, utilization rates, and rig margins.
- U.S. land rig counts are now climbing higher. From 437 rigs at the end of April 2016 to 525 at the end of December. Today, the latest rig count is at 590.
- Fourth-quarter 2016 results were higher y-o-y and trending higher on a sequential basis. Strong demand in the U.S. land market, with exceptional strength in shale oil (Permian, Eagle Ford).
- We prefer those companies with balance sheet strength and the ability to materially reduce operating costs.
- Top Pick: Halliburton (HAL)
- Other stocks in coverage: APC, BHI, HP, NOV, SLB

REFINING

The segment has been a big laggard due to high gasoline inventories.

- Refining earnings are driven by refining margins (crack spreads), with the four major determinants of margins being crude cost, end product price, yield, and supply/demand.
- Performance for the group has been weak, as high gasoline inventories and excessively high RIN costs have negatively impacted operating results.
- In addition, lower throughput has also contributed to a weaker margin environment.
- Results for the fourth-quarter were generally mixed and company outlooks were subdued. Commentary suggests that a rebound in margins will happen in 2H17 at the earliest; potential relief coming on RINs costs with a new President.
- We recommend those stocks that offer a reasonable valuation, together with sustainable dividend and superior growth potential.
- Top Pick: Valero Energy (VLO)
- Other companies under coverage: HES, HFC, PSX

ENERGY STOCK PICKS

- Chevron (CVX)
- Occidental Petroleum (OXY)
- ConocoPhillips (COP)
- Halliburton (HAL)
- Valero Energy (VLO)

MATERIALS SECTOR TRENDS, OPPORTUNITIES & RISKS

- Recent performance
- Pricing trends – products and inputs
- M&A
- Valuations

MATERIALS STOCK PICKS

Packaging Corporation of America (PKG)

- Rising EPS estimates and company guidance.
- Continuing acquisitions quickly integrating and having a nearly immediate impact on production.
- Target price: $100

Nucor Corporation (NUE)

- Trade legislation limiting dumping of low cost steel into the US market.
- Strong M&A activity increasing production capacity a positive as capacity utilization rate is rising (74% compared to 68% in year ago quarter).
- Target price: $75 offering a return of over 30%

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