ANALYST QUICK NOTES

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Five Low-Beta Stocks

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Overview

- The Argus ***Market Movers*** technical team recently lowered its short-term market outlook to Neutral from Bullish, as our technical and strategic market indicators have shifted downward. We expect market weakness until at least the March 15 Federal Reserve meeting, and would not be surprised to see stocks consolidate post-election gains until the 1Q EPS reporting season commences.
- Here are five BUY-rated companies that have exhibited, through low betas, a history of delivering less-volatile returns than the S&P 500:
  - WEC Energy Group Inc. (WEC: BUY). The beta on this large-cap Utility is 0.52. WEC ranks among the nation's largest generators of electricity. The company is well positioned to drive future earnings and dividend growth through its recent merger as well as through investments in its regulated businesses. In addition, WEC is benefiting from recently implemented cost-reduction programs, which, along with favorable rate case decisions, should contribute to stable earnings growth over the next few years. Indeed, management recently raised its long-term EPS growth target to 5%-7% from 4%-6%. The shares yield 3.6%.
  - American Water Works Co. Inc. (AWK: BUY). The beta on this mid-cap Water Utility is 0.61. We expect AWK – the largest publicly traded water utility -- to benefit from favorable water industry fundamentals, which should result in above-average rate base, earnings and dividend growth over time. We expect earnings to be driven by infrastructure investment and subsequent rate recovery, carefully managed expenses, and strategic M&A, and note that regulated operations account for 90% of the company's earnings. The current yield is 2.0%.

- Altria Group Inc. (MO: BUY). The beta on this large-cap Consumer company is 0.67. Altria has a strong balance sheet and pays a solid dividend with a yield of about 3.4%. It also has a range of top-selling brands, such as Marlboro, that are able to command premium pricing, as well as less expensive brands that are less vulnerable to rising cigarette taxes. In addition, the company has reduced its exposure to tobacco-industry risks by expanding into nontobacco-related businesses.
- AT&T Inc. (T: BUY). The beta on this mega-cap Telecom company is 0.68. AT&T provides telecommunications and entertainment services to consumers in the U.S. and Latin America and to businesses worldwide. We see the Time Warner purchase as an effort by AT&T to ensure access to premium branded content for its DirecTV direct satellite video distribution business and, more importantly, for its nascent wireless video business. We note that AT&T once again managed to raise its dividend in October 2016, even in the face of white-hot competition in wireless and major strategic acquisitions. The current yield is 4.7%.
- Public Storage (PSA: BUY). The beta on this large-cap REIT is 0.74. Public Storage benefits from economies of scale (it is by far the largest storage company), strong brand recognition, and assets in locations with high barriers to entry. It also acquires properties owned by other operators, and benefits from their presence in and knowledge of most major U.S. markets. The company has a record of steady dividend growth. Its annualized payout of $8.00 per share yields about 3.5%.

- For more information on these companies, please see our Analyst Reports on the website.

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