REVISIONS TO THE ARGUS ECONOMIC & MARKET OUTLOOK

ARGUS®

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Monday, March 23, 2020
11:00 a.m. ET

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8 FORECASTS FOR 2020 (REVISED)

1. **US. GDP growth** will **turn negative** as early as March 2020 but most likely **in 2Q**. We think the **decline could be as steep as 9%** or more, without a fiscal stimulus rescue plan. The current plan of $1.5 trillion could result in two negative quarters in a row – 2Q and 3Q, both down about 4%. We note, though, that **even the Federal Reserve has stopped giving economic forecasts**, due to the **uncertainty** of the country's response in controlling the spread of the virus.

2. **The unemployment rate,** currently historically low at 3.5%, will jump **toward 8%** due to job losses in retail, leisure and manufacturing.

3. The **Federal Reserve** has acted aggressively to **cut rates 2X,** launch a **QE program,** reinstate the **Commercial Paper Funding** and the **Primary Dealer Credit Facilities,** and now **guarantee all money market funds**. Additional steps could include more QE, buying municipal bonds or corporate bonds or equities. We expect the **10-year Treasury yield** to average **1.0%** in 2020.

4. The Federal **stimulus plan** will include **direct checks** to households; **tax, rent** and **mortgage holidays**; and **bailouts** to specific industries, among other steps. There will be **strings tied to the bailouts** , such as a **higher minimum wage** and **restrictions on future stock buybacks.**

5. **U.S. corporate earnings** will decline. Our initial take is **a 10% drop** for the year, but **expect further revisions**.

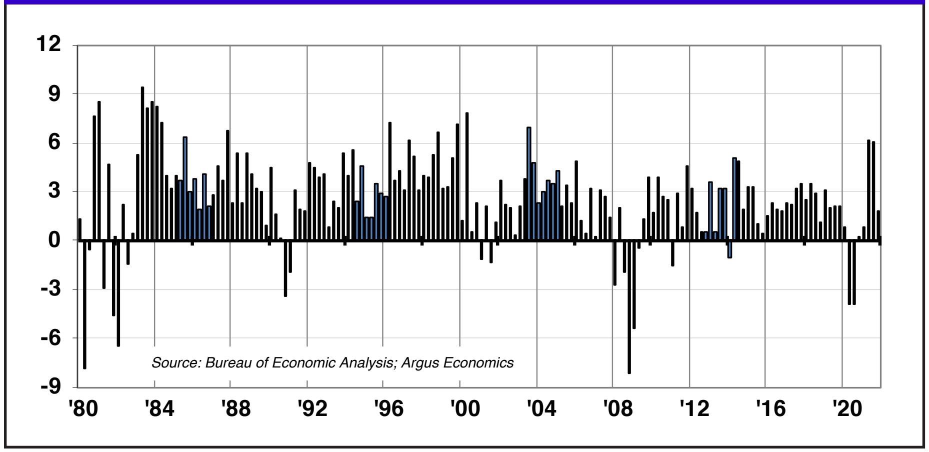
6. **The economic sectors hit the hardest** will be **Energy, Financial Services, Consumer Discretionary, Information Technology and Industrial -- Aerospace.** Of these sectors, **Tech,** which led the economic expansion over the past few years, **will be the first to recover. Energy may never recover.** We think Financial Services will recover, as the banks had much stronger balance sheets in 2019 than they did in 2007.

7. Stock **valuations have plummeted** along with stock prices and interest rates. On our valuation model, stocks had been at a modest premium to fair value into February 2020. Now they are selling at a **9% discount**, assuming our EPS estimate holds. This is about 1.3 standard deviations from normal. During 2008-2009, the discount was 3 standard deviations from normal. Our revised 2020 S&P 500 target price is **2800**.

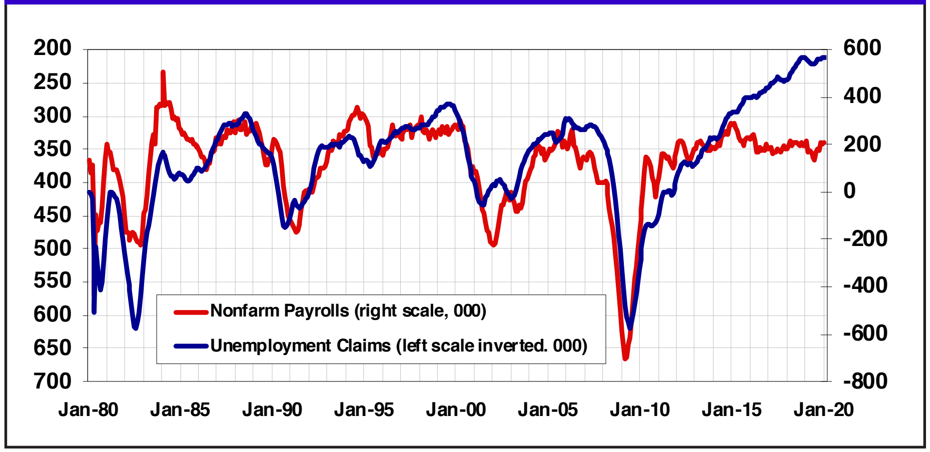
8. Our concern over **stock market returns in an election year** has proven accurate, if not for the exact reason. We noted early in the year that the investors were complacent. That is no longer the case, as the **VIX has soared** from 12 to 80. The **headlines will be negative** – virus cases, political debates over bailouts, job losses, recession – for many more weeks. From a tactical stand-point, look to **reduce stocks of financially weak companies** and pocket the tax-loss carryforwards. Look to **hold onto financially strong companies** with capable management teams that are **innovative**, follow best **ESG** practices and **grow their dividends**. **Stocks will recover before the economy**.

ECONOMIC AND MARKET OUTLOOK

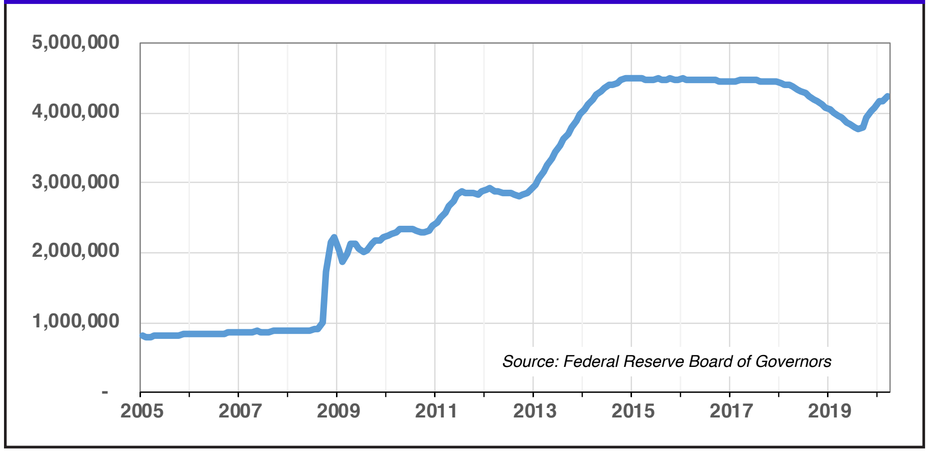
GDP TRENDS & OUTLOOK (% CHANGE)



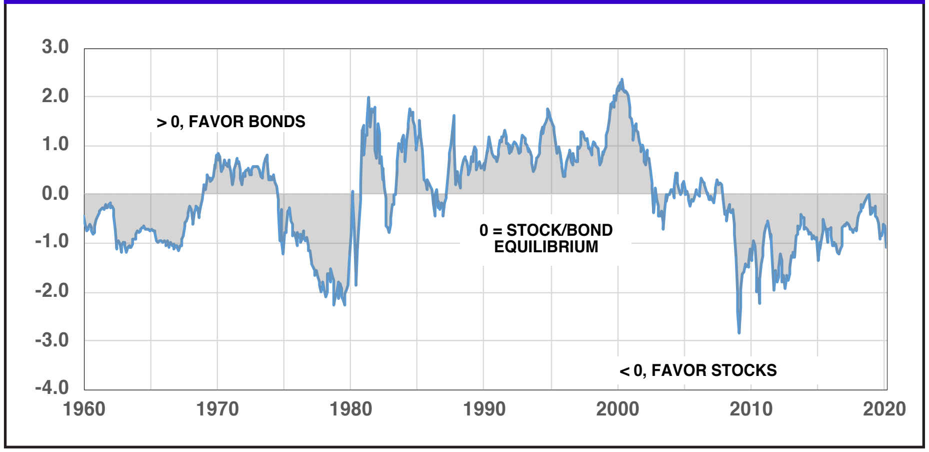
WEEKLY CLAIMS & NONFARM PAYROLLS



FED BALANCE SHEET (FED ASSETS - $ MIL.)



BOND V STOCK BAROMETER (STANDARD DEVIATIONS)



S&P 500 EARNINGS FROM CONTINUING OPERATIONS

We have reduced our 2020 EPS forecast to $146, from $180

- Formerly assuming 10% growth, now assuming 10% decline
- 30%+ EPS declines: Energy, Financials, Discretionary
- Best relative sectors: Staples, REITs
- Quarterly: 1Q tail-off, 2Q & 3Q slammed, 4Q new normal

We have reduced our 2021 EPS forecast to $162, from $196

- Assuming 11% growth, vs. 9% prior
- Potential for rebound growth: 2010 EPS rose 48%
- Assumes significant gov't relief for "sick" sectors:
  - » Energy, Discretionary, Materials, parts of Industrial

CHANGES ARE HIGHLY PRELIMINARY

SECTOR IMPACTS ON EPS

Energy

- Sector will be structurally smaller
- Tightened focus on domestic low-cost extraction (Permian)
- Will require massive government intervention

Materials

- Chemicals: low petro feedstock cost, rebounding China
- Paper: accelerated secular shift to digital
- Mining: dependent on recovery in resource economies

Discretionary

- Travel, lodging, leisure crushed; 4Q recovery earliest
- Housing & auto: potential for 2H growth
- B&M retail permanently downsized; online replacement

SECTOR IMPACTS ON EPS

Financial Services

- Not a replay of 2008, when banks caught holding toxic assets
- "Hunker down" mode; consolidate weak players
- Insurance: better combined ratios

Industrial

- Aerospace: echo of 9/11, w/o defense build-up
- Rails, shippers: volumes will come back

Healthcare

- Carte blanche & funding to develop treatments, vaccines
- Sharply lower elective procedures & lifestyle

SECTOR IMPACTS ON EPS

Staples

- Stay-at-home a lifeline to fading grocery chains
- Over time, online further erodes the power of brands

REITS & Utilities

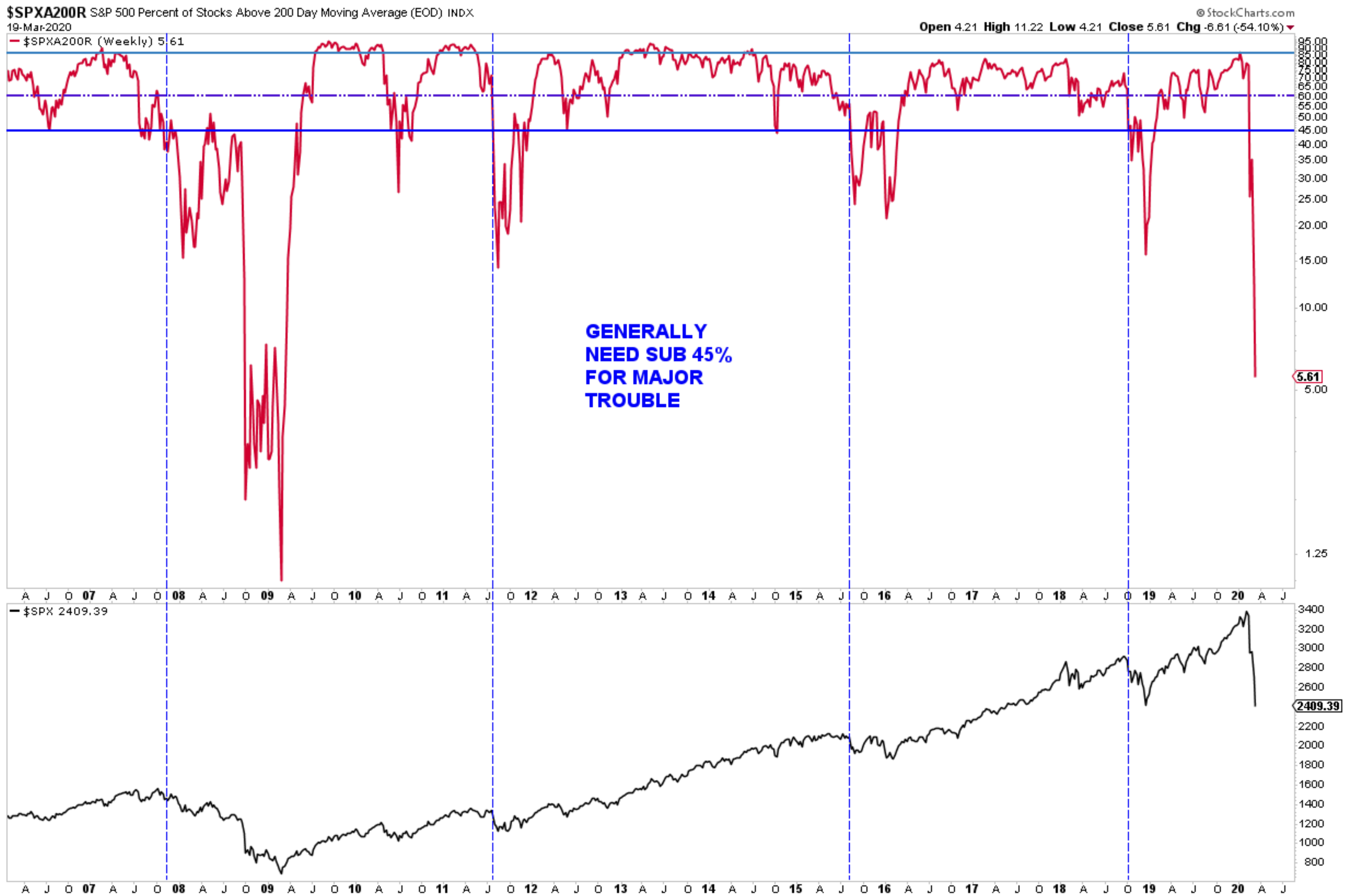
- Income amid crash in fixed income yields
- Utilities lowest risk; REITs need 2H win over disease

Technology & Comm Services

- Pandemic accelerates shift to digital
- The technology factory (China) stabilizing

S&P 500 WEEKLY CHART

S&P 500 STOCKS
ABOVE THEIR 200-DAY AVERAGE



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