

# THE MONTHLY RESEARCH CONFERENCE CALL

## SECTOR OUTLOOKS: RISKS AND OPPORTUNITIES



### MODERATORS

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Director of Research

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&

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*Wednesday, April 1, 2020*  
*11:00 a.m. ET*

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ARGUS RESEARCH COMPANY



# WHAT'S NEW AT ARGUS

APRIL 2020

## ■ Argus Revises Economic & Market Assumptions

- New podcast on the Argus website
- Argus now looks for mid-2020 recession
- Revised outlook for Interest rates and fed policy
- Revised earnings estimates, fair value, and S&P 500 target
- Find it on the site: Homepage, left column, Podcasts

## ■ Argus Quick Notes

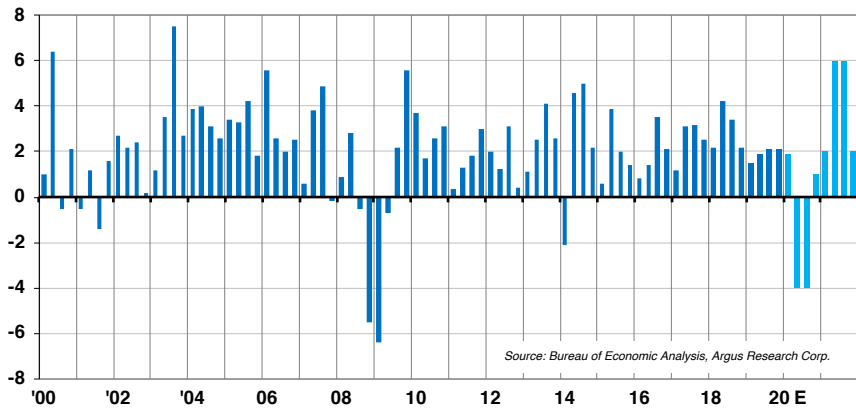
- Quick Note: Healthcare on the Front Lines
- Quick Note: Clean Balance sheets, Low Beta, Dividends
- Quick Note: Min Vol Stocks
- Special Note on the Fed's policy response, from Kevin Heal
- Find it on the site: Homepage, center column, Quick Notes

## ■ Argus Quality Study Shows Market-Beating Performance

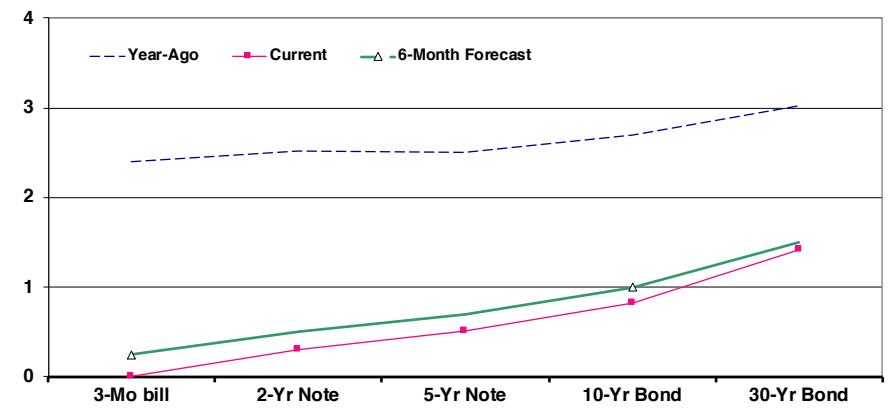
- Argus published its semi-annual quality study in February
- Consistent #1 rating on Investars broker performance platform
- Argus BUY-rated stocks consistently beat market, lead peer group
- Bloomberg BARR: senior analysts in top ranks
- Model Portfolios: 3 of 4 MPs beat S&P 500 benchmark on trailing 3-years
- Portfolio Selector-Focus List: 220 bps premium to benchmark
- Argus will remain focused on delivering high-value research

# MACRO FORECASTS

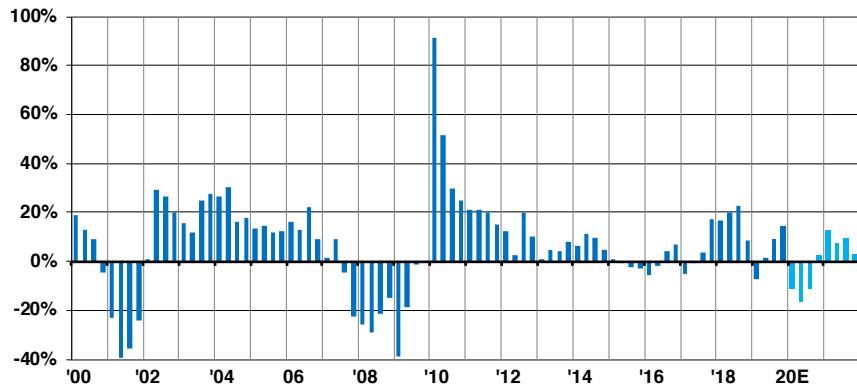
### REAL GDP W/FORECASTS (%)



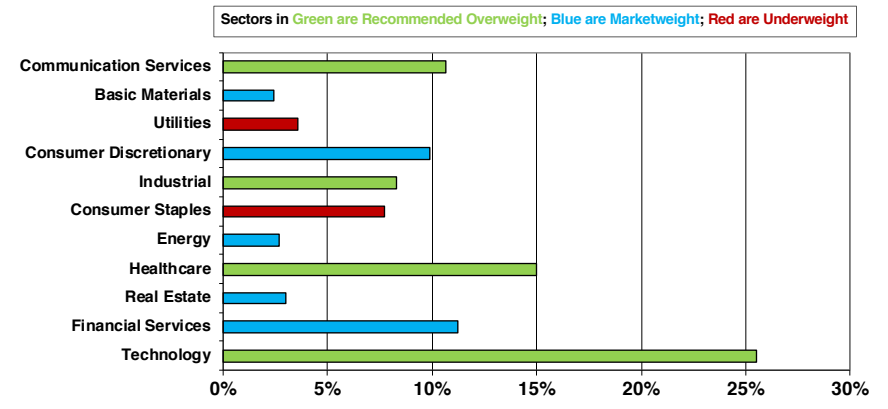
### TREASURY YIELD CURVE (%)



### S&P 500 QUARTERLY EARNINGS GROWTH



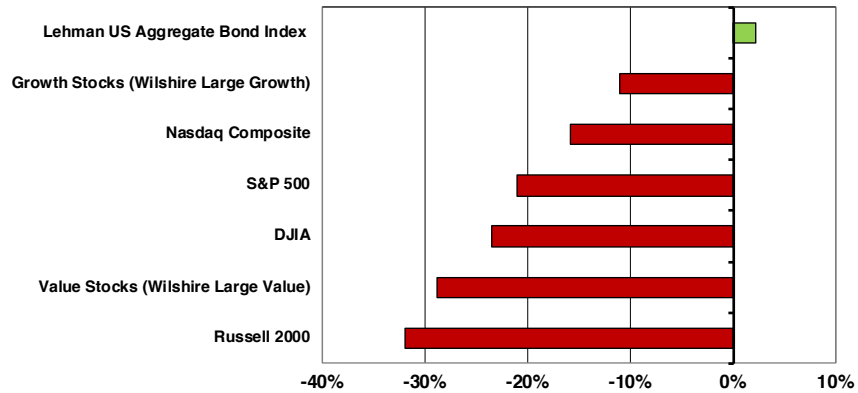
### MARKET SECTOR DISTRIBUTION - PERCENT OF S&P 500



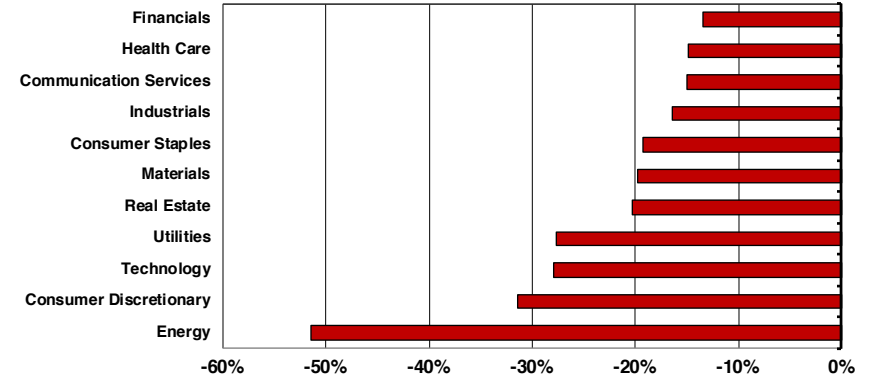
# MARKET PERFORMANCE

DATA AS MARCH 26, 2020

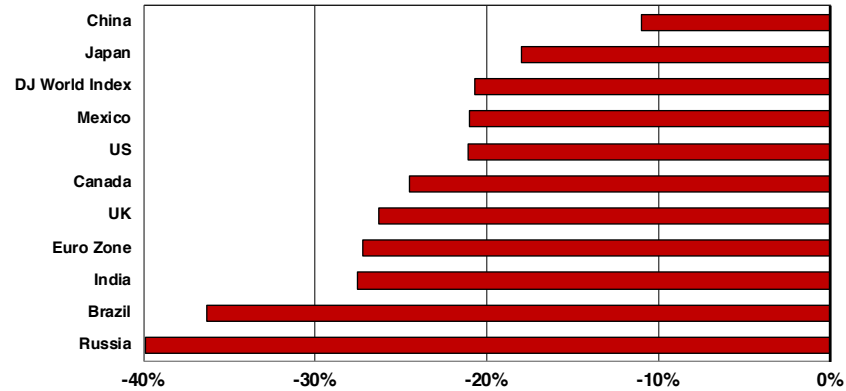
## MAJOR INDEX



## SECTOR



## GLOBAL EQUITY MARKETS



# FINANCIAL SERVICES: THIS IS NOT 2008/09

- **Banks not holding toxic securities, little exposure to leveraged loans**
- **Largest 7 banks have suspended share buybacks, saving \$40 billion in capital**
- **Vastly better capital levels built over the 10 years since the financial crisis**
- **All banks subjects to stress tests passed for the 2019/20 planning year. Severe adverse scenario included:**
  - Recession where U.S. unemployment rate rises to 10%
  - U.S. GDP falls 8% from the pre-recession peak
  - Consumer price inflation declines to 1.25%
  - Short-term interest rates fall to near zero
  - Equity prices fall 50%
  - Home prices drop 25%
- **Banks still able to lend under above scenarios**

# FINANCIAL SERVICES: CORONAVIRUS IS IMPACTING BANKS LARGE AND SMALL

- **Lower interest rates will hurt net interest margins (asset sensitivity)**
- **Reduced loan growth as consumers and businesses pull back spending**
- **Credit quality is historically closely correlated to unemployment**
- **Reduced level of capital market activities (M&A, IPOs, underwriting)**
- **The Positives:**
  - Better trading revenues and expected cost reductions
  - S&P has indicated no change in bank credit ratings if economy rebounds in 2H

# **FINANCIAL SERVICES: WHILE WE ARE NEGATIVE ON BANKS OVERALL, THE STRONG WILL SURVIVE THE CORONAVIRUS IMPACT**

- **Focus on banks with strong capital, a diverse business mix, and good credit quality going into the downturn**
  - **JPMorgan Chase (JPM)**
  - **Bank of America (BAC)**
  - **Truist Financial (TFC)**
  - **PNC Financial Services (PNC)**

# SECTOR OUTLOOK ENERGY: RISKS & OPPORTUNITIES

## ■ **Defensive Posture Recommended: Focus on Quality & Balance Sheet**

- Energy markets have been in bearish territory for the past few years, further exacerbated in 2020 by global oversupply, COVID 19 and OPEC's policy pivot.
- We officially cut our oil price deck (March 11) by 36% to \$35 per barrel West Texas Intermediate (WTI) and remain open to cutting it again in the near term.
- We project oversupply of 3.5 million bbl/per day in 2020, likely keeping WTI oil below \$30 per barrel for the next few months. Only + near-term catalyst? Resolution between OPEC/Russia.
- With this commodity backdrop, a firm's b/s strength and position on the cost curve is critical; Our preference is for more defensive and cash generative stocks that are well positioned.
- Heading into 1Q20, we expect nearly all of our energy companies to cut dividends (except CVX and COP) and capex, reflecting reduced drilling activity.
- Many companies have already started: OXY, MRO, DVN, APA, CVX, RDSA, PSX



# RECOMMENDED STOCK PICKS IN ENERGY

## ■ OIL SERVICES, DRILLING & EQUIPMENT (OFS)

- Schlumberger (SLB)

## ■ INTEGRATED OIL COMPANIES (OIC'S)

- Chevron (CVX)

## ■ OIL & GAS E&P

- EOG Resources (EOG), ConocoPhillips (COP) and Noble Energy (NBL)

## ■ REFINING

- Valero Energy (VLO) and Phillips 66 (PSX)

## ■ MIDSTREAM

- Oneok (OKE)

# OUR CONSUMER HIT LIST

## ■ **Holiday**

- The consumer stocks that perform well during and after the crisis may be the ones that were performing well before the crisis.
- The competitive Holiday season often shows us who is winning.

## ■ **Innovation**

- Companies must do something unique and useful to earn above average returns on capital.

## ■ **Traffic**

- Traffic is a key indicator of which companies are relevant to their customers.
- It will be hard to drive profits without sales growth.
- It will be hard to drive sales without traffic.

# HEALTHCARE COMPANIES: COMBATING THE COVID-19 VIRUS

**Stocks in our healthcare coverage that are working on solutions in combating the Covid-19 virus.**

## ■ **These companies are working on drugs to vaccinate against or to treat Covid-19:**

- Johnson & Johnson (JNJ: BUY)
- Gilead Sciences Inc. (GILD: HOLD)
- AbbVie Inc. (ABBV: HOLD)

## ■ **These companies are developing and scaling up diagnostics tests:**

- Danaher Corp. (DHR: BUY), featured in our Growth, Dividend Growth, and Institutional model portfolios
- Thermo Fisher Scientific Inc. (TMO: BUY), featured in our Institutional model portfolio
- Hologic Inc. (HOLX: BUY)
- Becton, Dickinson & Co. (BDX: BUY), featured in our Growth & Income and Institutional model portfolios
- Abbott (ABT: BUY)

## ■ **Scaling up production of ventilators:**

- Medtronic Plc. (MDT: BUY), featured in our Growth & Income model portfolio

# INDUSTRIAL SECTOR UPDATE

## ■ CURRENT RECOMMENDATION: OVER WEIGHT

## ■ SECTOR WEIGHT OF S&P 500: +8%

## ■ COMPANIES TIED TO DEFENSE SECTOR

- LMT, NOC, GD, RTN/UTX, LHX, LDOS, BA

## ■ LOW-COST TRANSPORTATION COMPANIES FOR THE SUPPLY CHAIN

- ODFL, UNP, CP, UPS

## ■ STRONG BALANCE SHEETS

- CMI, HON, ITW, ROP

## ■ DOUBLE-DIGIT DIVIDEND GROWERS

- GD, FAST, HRS, HON, ITW, LMT, NOC, NSC, ODFL, RTN, ROP, UNP

## ■ ESG LEADERS

- LMT, RTN, NOC, DE, UPS, GE, UNP, ODFL, ITW, LHX, WM

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