



THE MONTHLY RESEARCH CONFERENCE CALL

ARGUS INVESTMENT STRATEGY: THE YEAR AHEAD

Moderator:

Jim Kelleher, CFA

Director of Research

December 1, 2021

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■ **Argus Investment Strategy: The Year Ahead**

- Jim Kelleher, CFA, Director of Research
- Argus President John Eade
- Fixed-Income Strategist Kevin Heal

■ **Argus Quick Notes**

- Activist Stocks
- General Electric
- Infrastructure Spending-Plan Stocks
- Bank Stocks We Like
- Find these on the homepage of our website

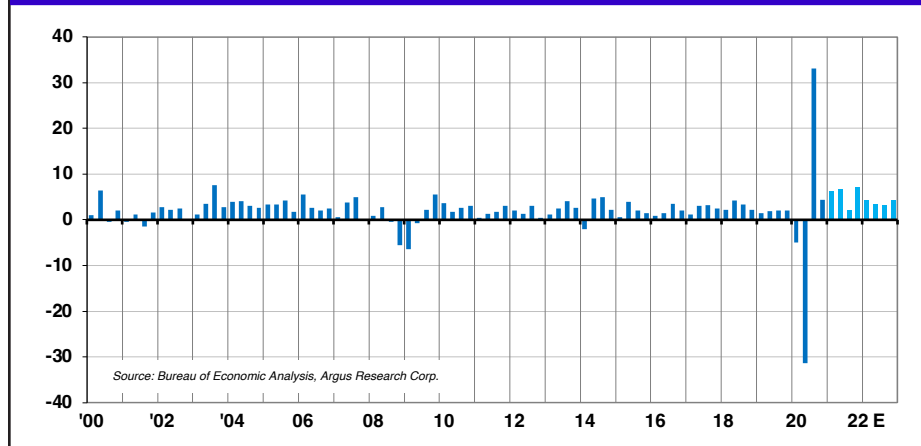
■ **Argus Innovators Strategy awarded third straight “Top Gun” designation**

- Informa Financial awards AIC a PSN Top Gun distinction
- Third consecutive award in Masters Large Cap Core Equity Category
- Selected from peer group of over 150 companies
- Find information on the homepage of our website

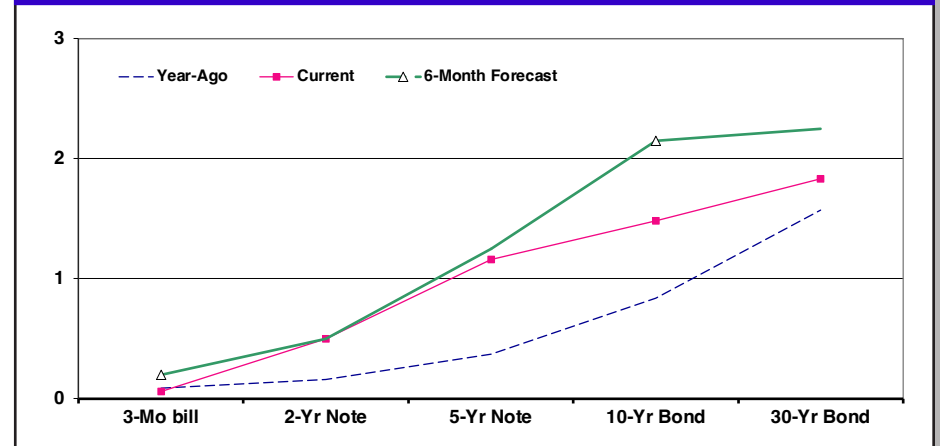
MACRO FORECASTS



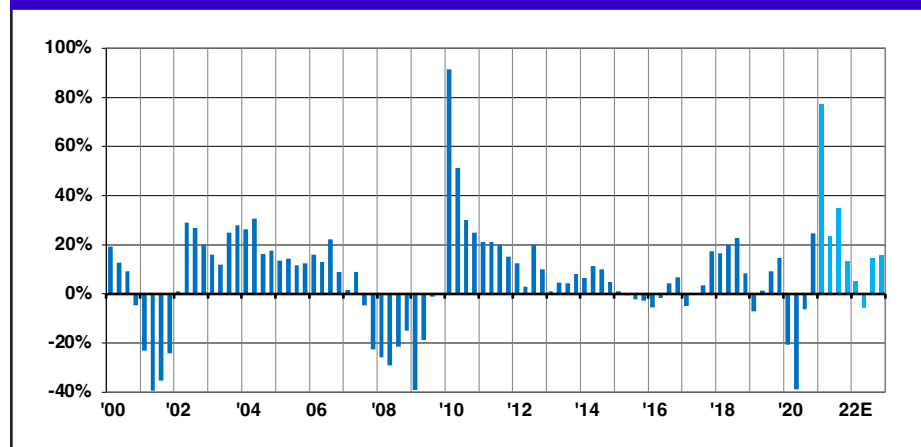
REAL GDP W/FORECASTS (%)



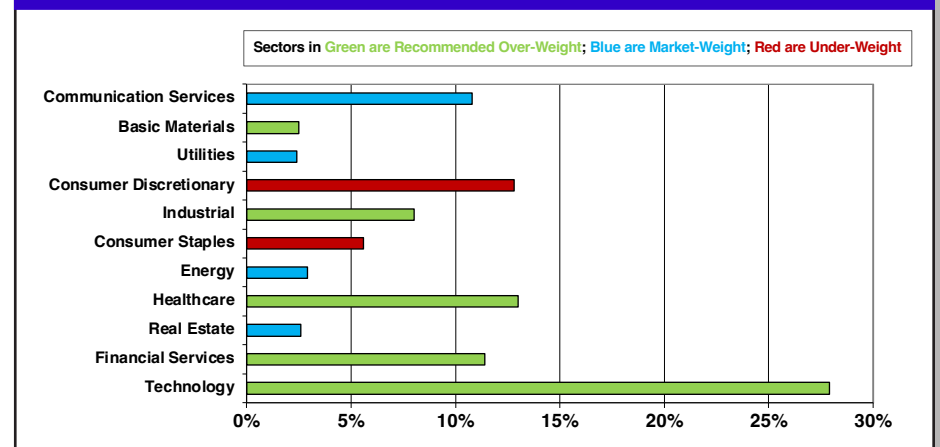
TREASURY YIELD CURVE (%)



S&P 500 QUARTERLY EARNINGS GROWTH

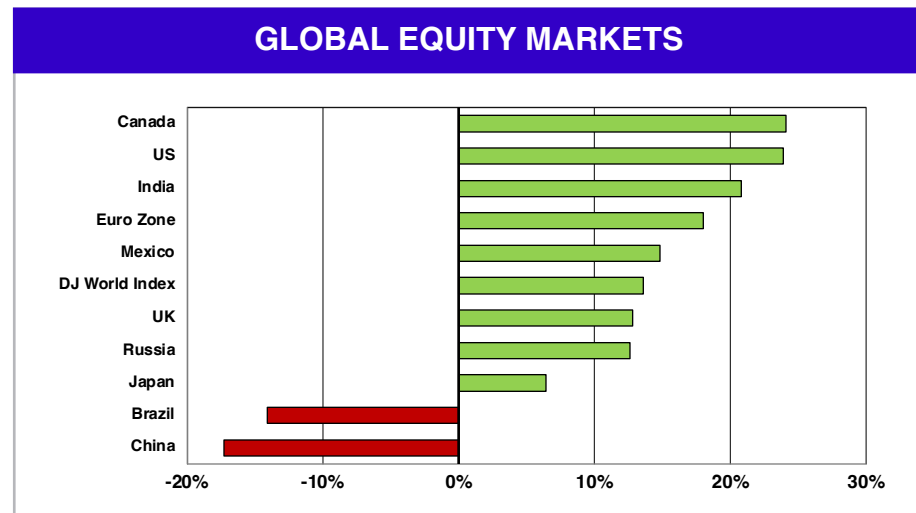
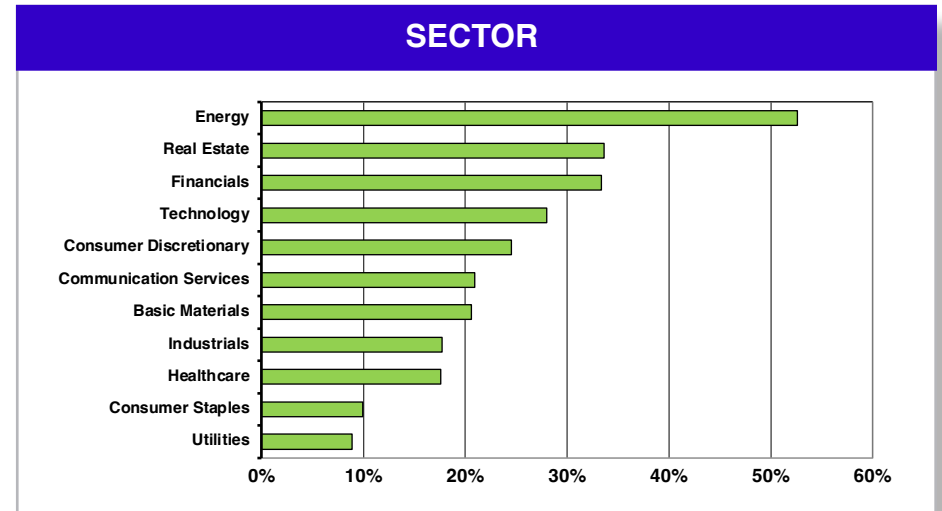
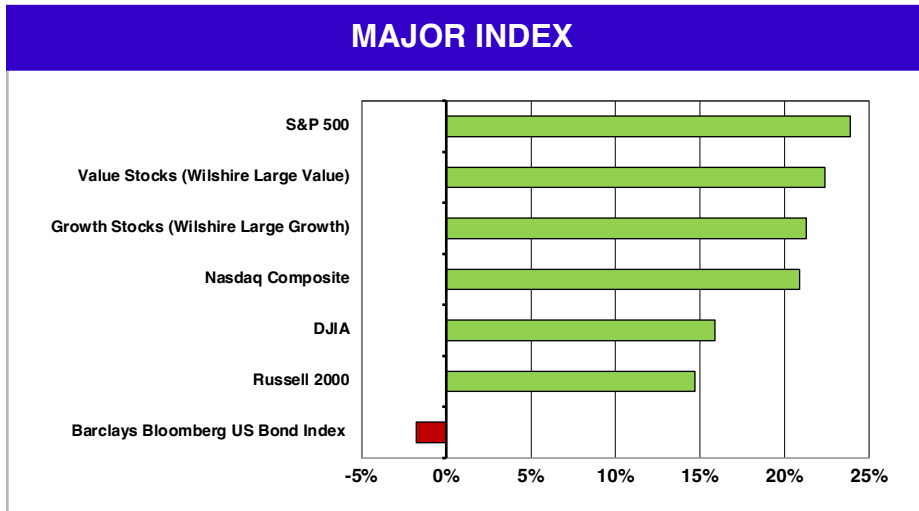


MARKET SECTOR DISTRIBUTION - PERCENT OF S&P 500



MARKET PERFORMANCE

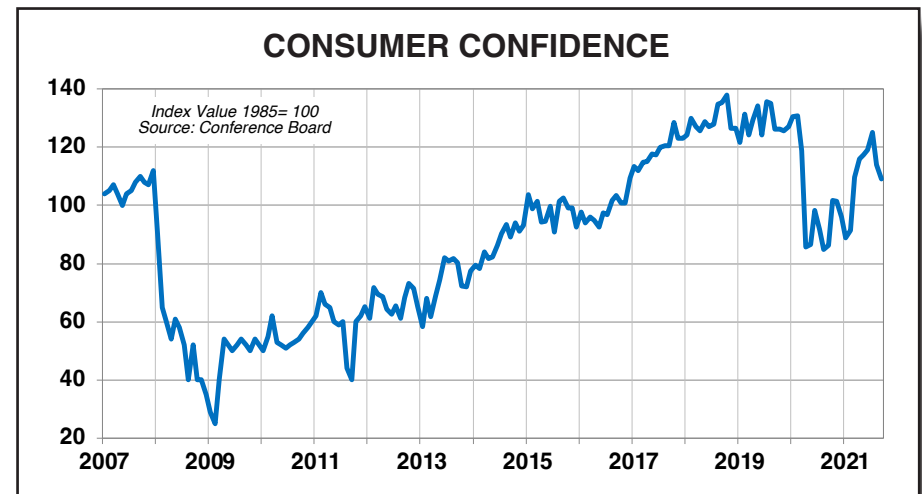
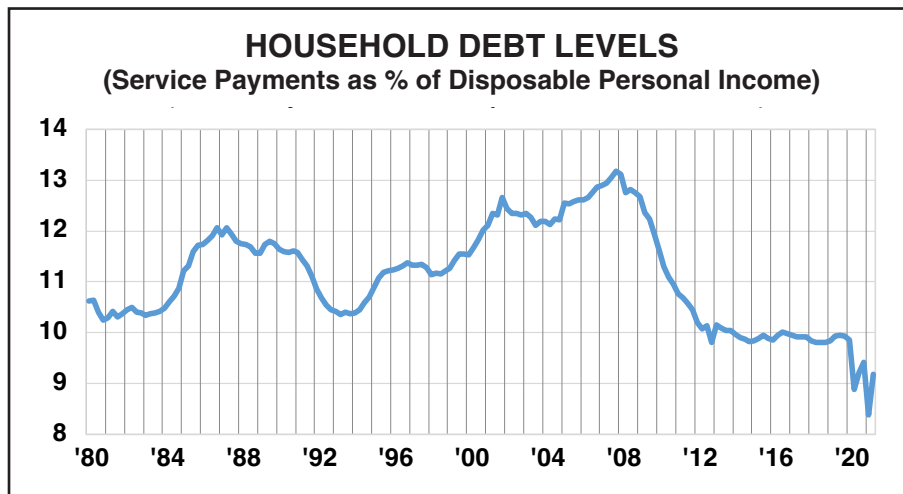
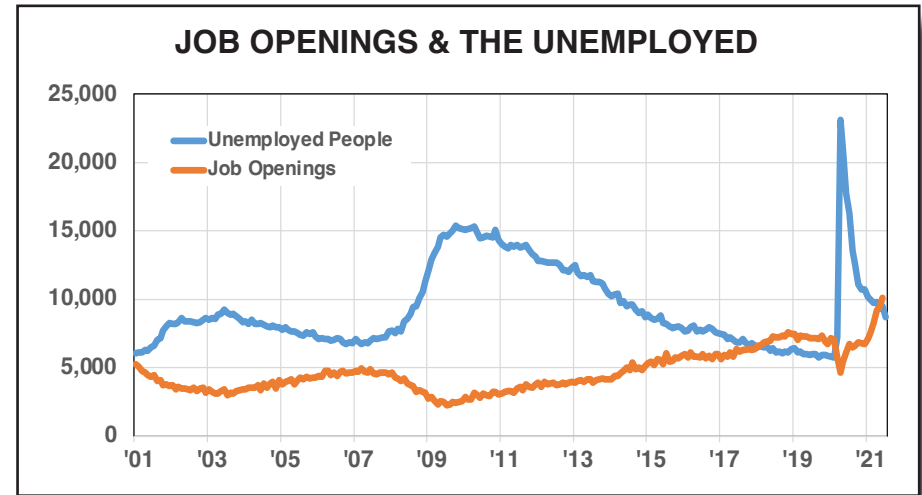
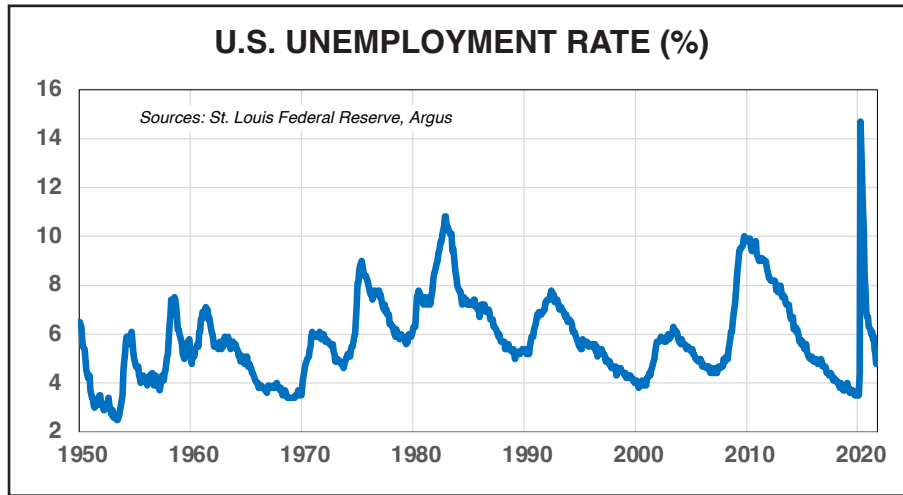
DATA AS NOVEMBER 26, 2021

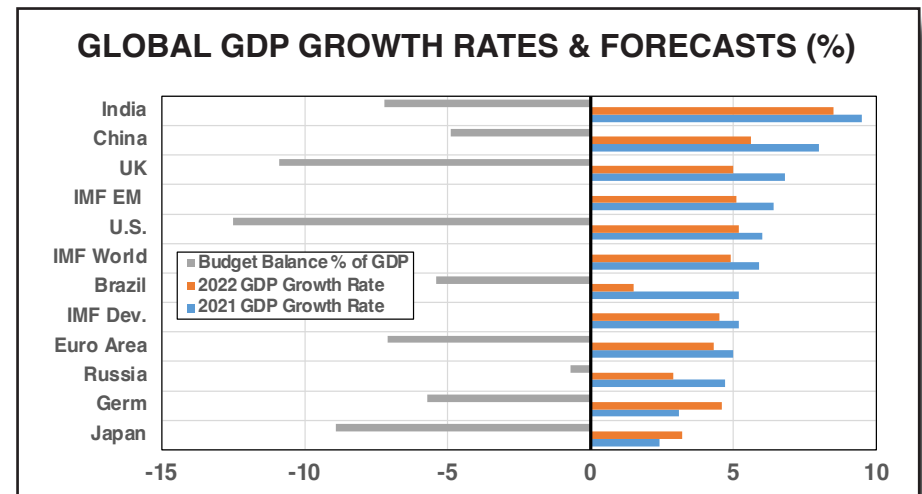
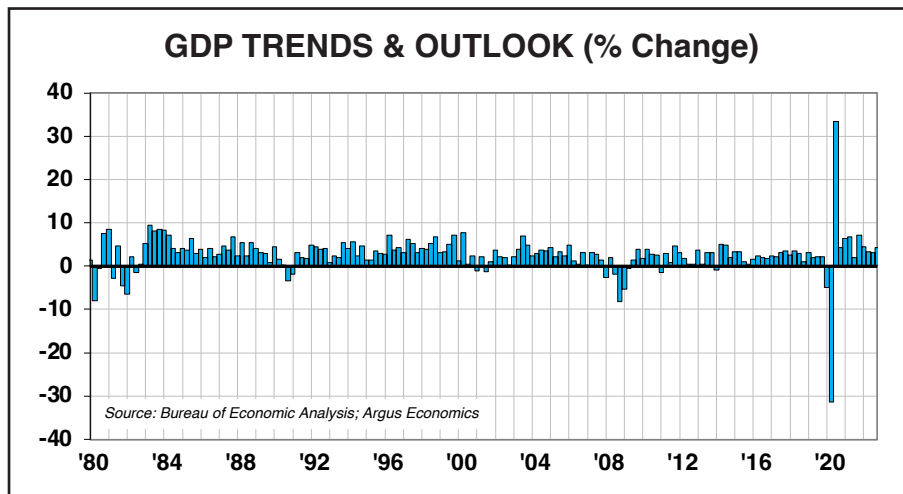
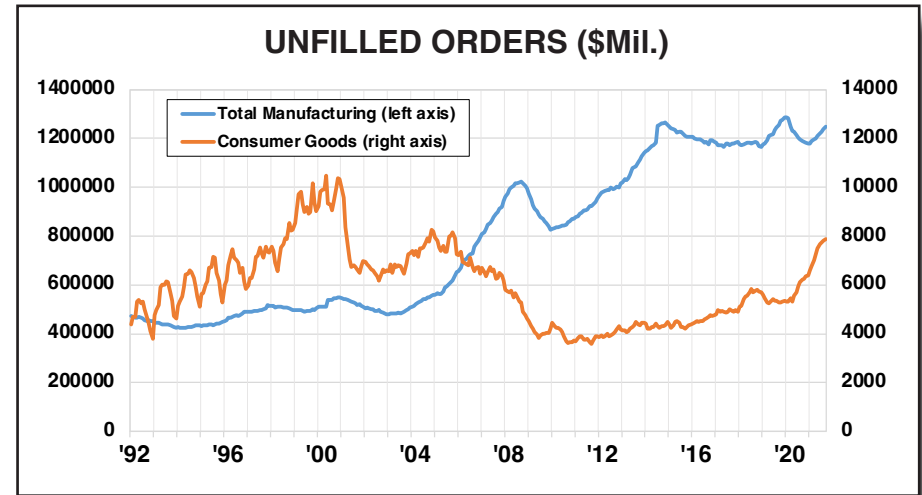
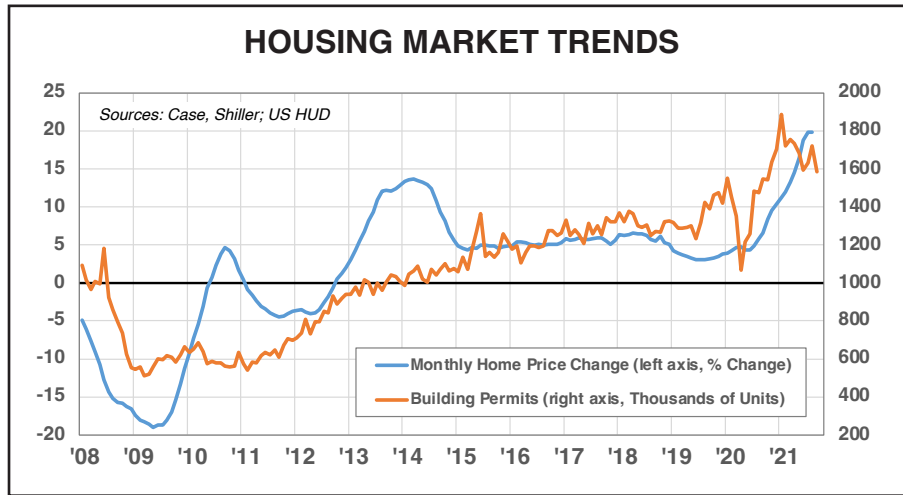


8 FUNDAMENTAL FORECASTS FOR 2022

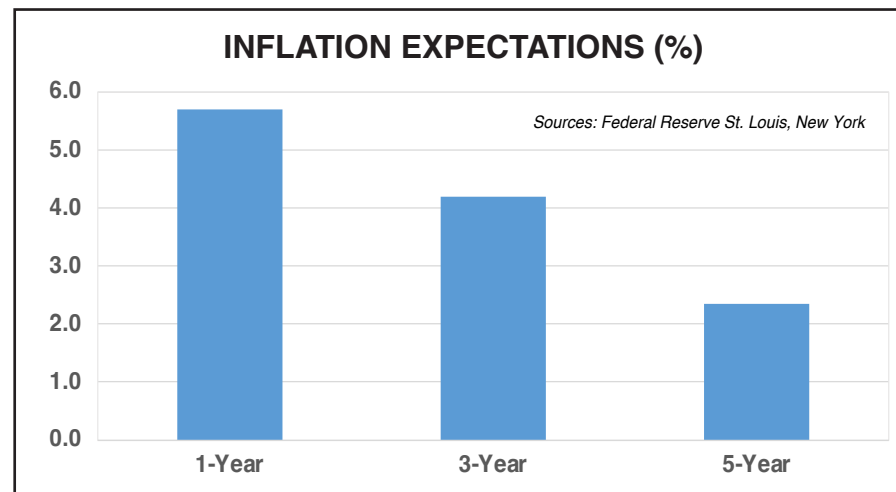
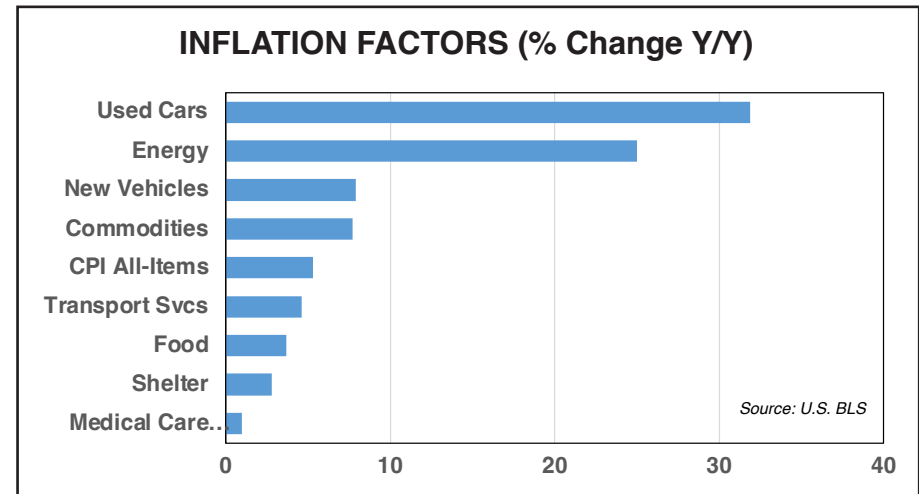
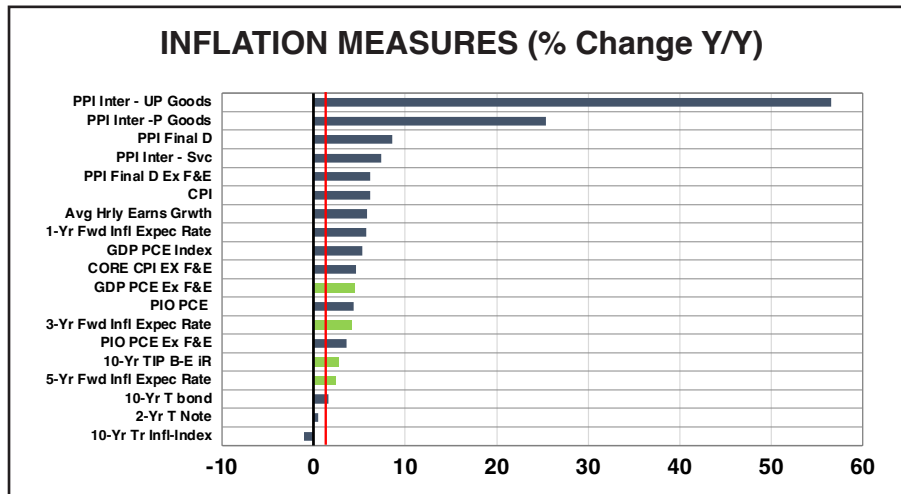


- 1. We expect the U.S. economy to continue to grow at an above-trend rate in 2022. Our forecasts are based on the nation's improving health, as COVID-19 vaccination rates approach 70% and treatments are approved, even as new variants emerge. We are not anticipating new short-term stimulus programs out of Washington, D.C., but note that there are plenty of jobs for workers, and room for consumer confidence – and, by extension, consumer spending – to improve. We look for the unemployment rate to continue to decline toward 4%. We anticipate that the supply chain congestion will begin to ease in 2022, and businesses will focus on restocking inventories. Our forecast calls for 3.7% GDP growth in 2022. Our preliminary forecast for 2023 is closer to 3.0%.**
- 2. We do not expect the global economic recovery to be as strong. Europe and Japan continue to struggle with deflation & negative interest rates. Emerging economies will likely not have the wealth to fund widespread vaccination programs. China will be an outlier, though, and along with India will continue to lead global growth.**
- 3. We look for the dollar to continue stabilize near current levels in 2022. The greenback is down 5% from all-time highs, as the Fed's balance sheet bulges and Total US Debt has approached 125% of GDP. A falling dollar would support commodity and oil prices, and help exporters to recover to pre-pandemic levels.**
- 4. We expect interest rates to remain historically low into 2023, but to move somewhat higher across the curve. At the short end of the yield curve, we expect the Federal Reserve to keep interest rates at zero until the unemployment rate approaches 4%, which could be 2H22. We expect 1 hike in 2022. The Fed is already tapering its asset purchase program, and the loss of central bank demand is expected to lift rates modestly, as we continue to expect foreign investors to bid for U.S. Treasuries. Our forecasts call for the benchmark 10-year Treasury bond rate to drift higher and average 2.25% in 4Q22. That's still historically low. The yield curve should steepen.**
- 5. Corporate earnings have recovered to all-time highs in 2021, similar to U.S. GDP. We expect profit growth to moderate in 2022, but still be in the 10% range, paced by the secular growth sectors – Information Technology and Healthcare – as well as by recovering sectors including Energy, Banks and Industrials. Our revised estimates imply a 45% gain in EPS for 2021, followed by 10% EPS growth for 2022. Our preliminary EPS forecast for 2023 calls for 8-10% growth as post-COVID margins remain high.**
- 6. In terms of market segments, we expect Growth to outperform Value, as long as interest rates stay low and Growth groups include IT & HC, while Value groups include Energy and Materials, which face major secular challenges. We expect U.S. stocks to continue to outperform Global stocks, based on risk profiles and growth outlooks, tempered by valuation. Small-cap stocks offer relatively low valuations compared to Large-caps, and we think they deserve market-weight status in diversified portfolios.**
- 7. There are risks to our outlook. Stocks are priced for perfection, and weak earnings will be punished. Oil prices could climb further, and supply chain problems may take longer than expected to correct. These factors could send inflation higher and force the Federal Reserve to change plan. The U.S. debt-to-GDP level continues to rise. Mid-term elections are later next year. Of course, the biggest risk remains the spread of COVID-19, as new variants emerge and vaccination rates stall. The VIX Volatility Index remains elevated above 25.**
- 8. We expect a positive year for stocks in 2022, based on factors such as above-trend U.S. GDP growth, double-digit EPS growth and low interest rates, offset by current high valuations and expectations for volatility around the mid-term elections. We look for stocks to rise 8-10% in 2022, below the recent average returns of 12%.**





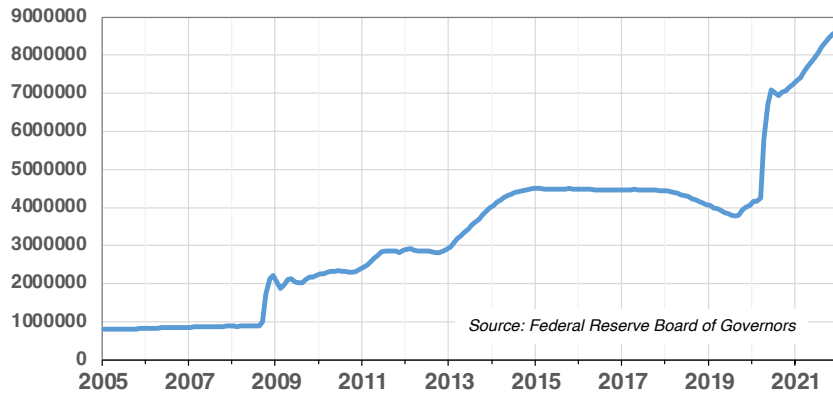
INTEREST RATE OUTLOOK



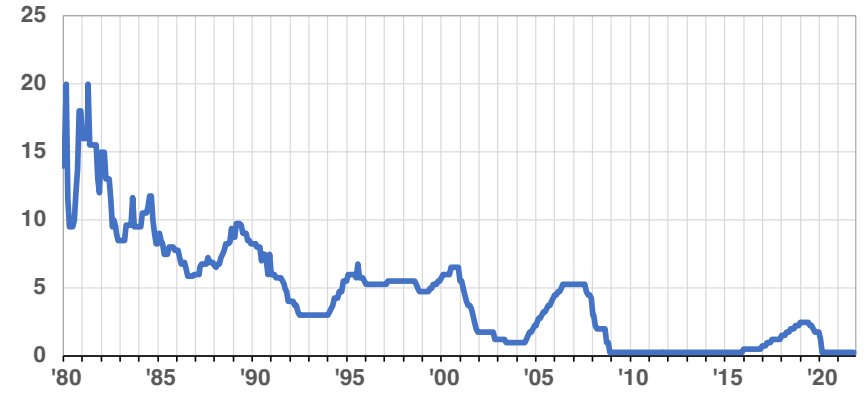
INTEREST RATE OUTLOOK



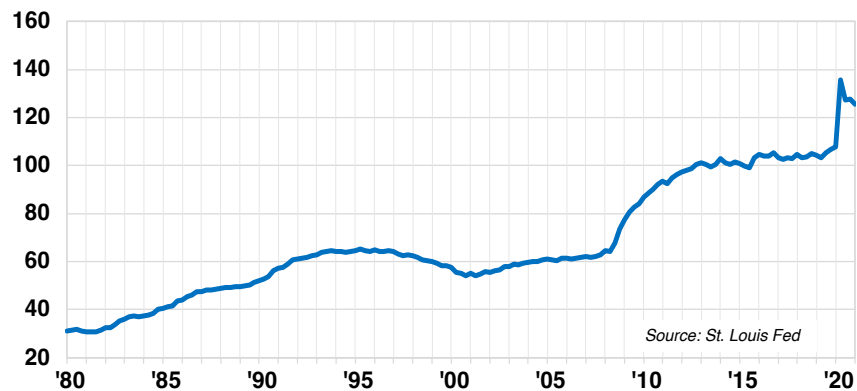
FEDERAL RESERVE BALANCE SHEET (Fed Assets, \$ MIL)



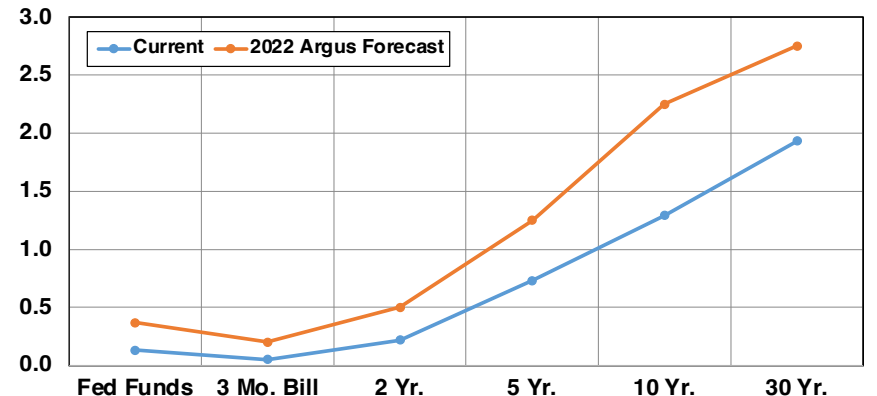
FEDERAL FUNDS TARGET RATE (%)



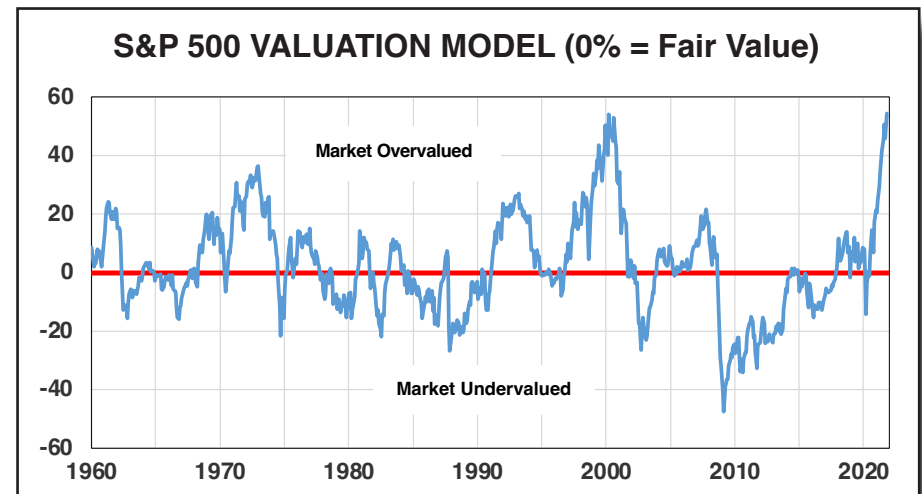
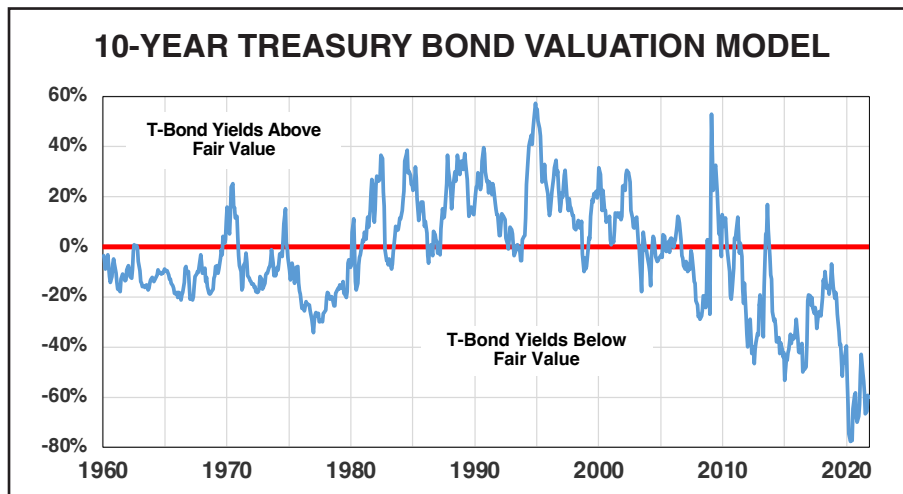
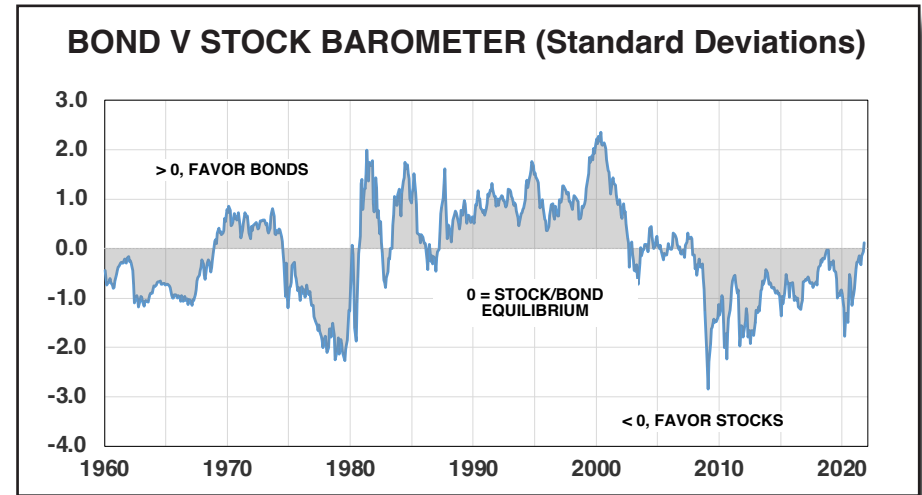
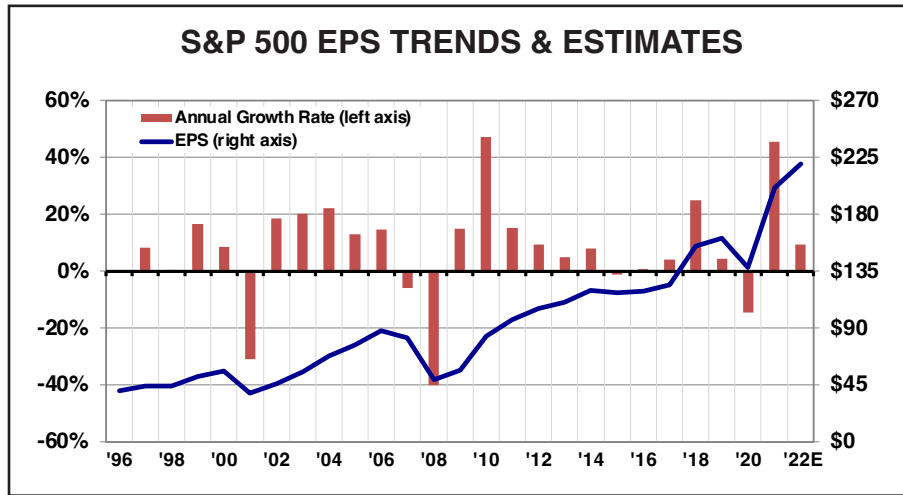
U.S. DEBT/GDP RATIO (%)



YIELD CURVE & OUTLOOK



EARNINGS & VALUATION



VIX Volatility Index above 20

- Still has not pushed back to low double-digits
- Potential for 5% pullback – 3x/year
- Potential for 10% correction – 1x/18 months

COVID-19/New variants

Inflation/supply chains

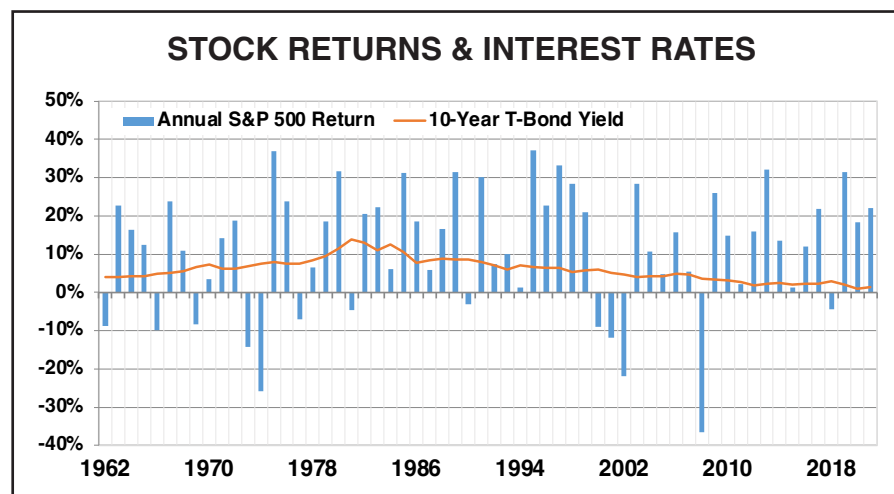
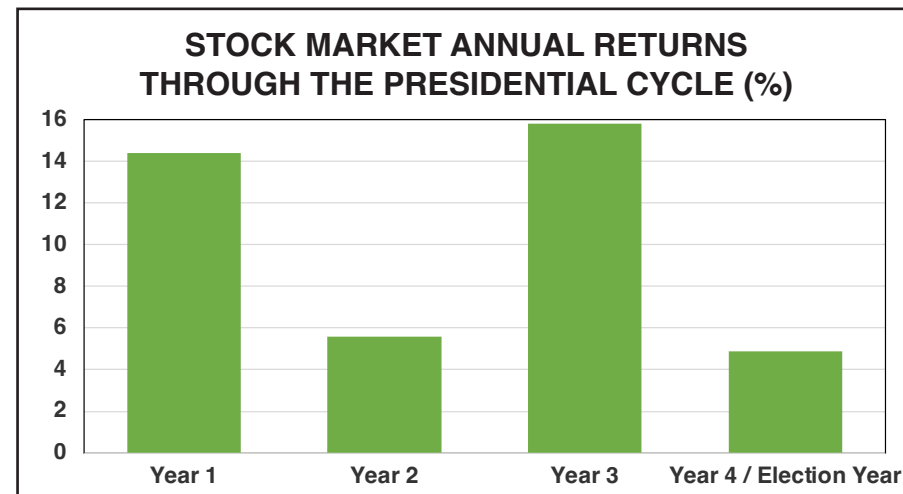
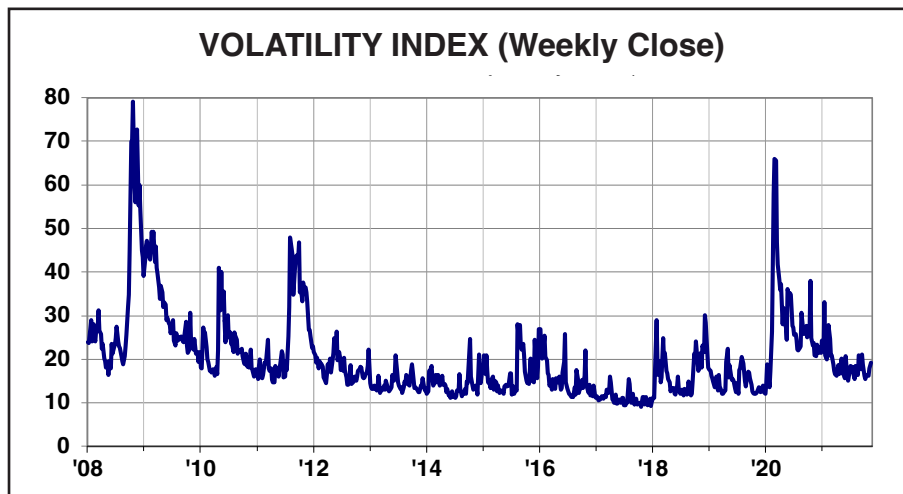
Further oil spike

US Debt/GDP

Deficit spending/tax hikes

Stock Valuation levels/Earnings disappointments

Federal Reserve Uncertainty



SECTOR SHARES & PERFORMANCE



1-Nov-21	12-Month Portfolio Strategy	Market Cap %	Market Cap % 5-Year Range	EPS Growth Rate	Div Yield (%)	P/E on 2022 EPS	Price/Sales Ratio	Beta	Performance	
Industry									YTD	2020
Basic Materials	Over	3%	2-4%	7%	1.3%	17	2.6	1.2	10.7%	18.1%
Communication Services	Market	11%	7-12%	10%	0.6%	21	3.6	1.0	24.0%	22.2%
Consumer Discretionary	Under	13%	7-13%	11%	0.5%	30	1.6	1.1	21.7%	32.1%
Consumer Staples	Under	6%	5-10%	5%	1.3%	20	2.3	1.0	6.4%	7.6%
Energy	Market	3%	2-10%	5%	2.7%	12	1.9	2.0	52.4%	-37.3%
Financial Services	Over	11%	9-17%	8%	1.3%	15	3.0	1.2	36.4%	-4.1%
Healthcare	Over	13%	10-16%	8%	1.0%	17	2.2	0.7	17.8%	11.4%
Industrial	Over	8%	7-12%	8%	0.8%	20	2.7	1.2	17.8%	9.0%
Real Estate	Market	3%	2-4%	3%	1.9%	20	7.0	0.9	31.1%	-5.2%
Technology	Over	28%	16-28%	13%	0.4%	26	6.4	1.1	23.8%	42.2%
Utilities	Market	2%	2-4%	4%	2.8%	20	2.6	0.4	6.5%	-2.8%
S&P 500		100%		8%	1.3%	21	3.0	1.0	22.6%	16.3%

Confident Consumer

- LULU, HLT, WSM, AMZN, TSLA, F, GM, HD, NKE, CMG, MAR, APTV, V, MA, PYPL

5G Goes Mainstream

- AAPL, QCOM, AVGO, SWKS, JBL, GLW, VIAV, MU, WDC, MRVL, TSM, T, VZ, TMUS

AI Data Center

- CIEN, VIAV, AVGO, MU, TXN, NVDA, AMD

Health Care: Life Sciences

- ILMN, RHHBY, TMO, TECH, DHR, CTLT, CRL, IQV, LH, UTHR

Breaking Up Isn't Hard to Do

- GE, JNJ, EMR, BA, MMM, FB, CBS, TEVA, XOM, UL, LMT

High Yield

- DOW, IP, BCE, VZ, DRI, UL, CVX, ENB, AGNC, PRU, SLF, ABBV, AMGN, PFE, DUK, IBM

Steeper Yield Curve

- JPM, WFC, MS, C, USB, PNC, TFC, ALL, RF, KEY, CFG

Sustainable Impact Investing

- NFLX, TGT, ADM, DVN, SCHW, BLK, CVS, ANTM, UPS, JCI, CMI, ADBE, MSI

Innovation

- GOOGL, TMUS, AMZN, COST, CVX, ALL, LLY, TMO, ODFL, AMT, AAPL, NVDA, V

Dividend Growth

- HD, COST, EL, BLK, CFG, SPGI, ZTS, FAST, ITW, ODFL, MA, MSFT, AMT, SHW, NEE

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