



MONTHLY RESEARCH WEBINAR

ARGUS SECOND-HALF 2022 OUTLOOK

Moderator:

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■ **Argus Second-Half 2022 Outlook**

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

■ **Argus Quick Notes**

- Shooting Stars and Fallen Angels 2Q22
- Double-Digit Dividend Growers
- Travel Stocks on the BUY List
- Activist Stocks
- Find these on the homepage of our website

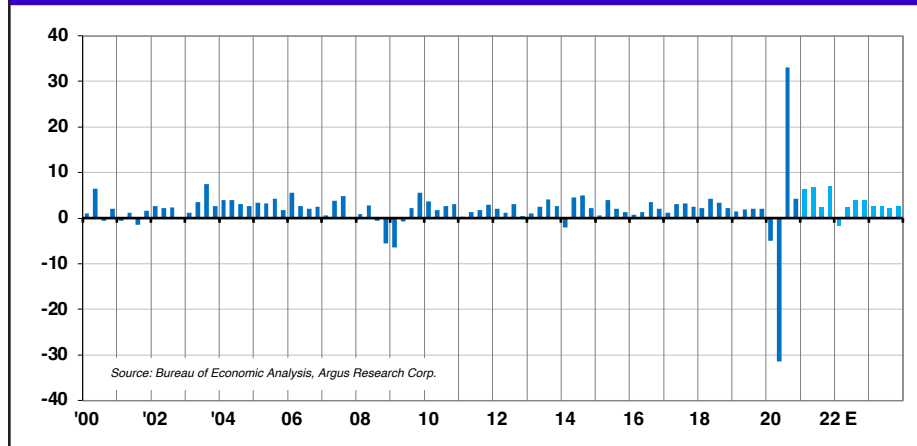
■ **New Feature: Streaming Commentary on the Website**

- Clients can now stream commentary from Argus Analysts
- Currently on the site: John Eade, Investing in a Challenging Market
- Currently on the site: Christine Dooley, Reading the Tea Leaves on Consumers
- Find and stream these clips on the homepage of our website

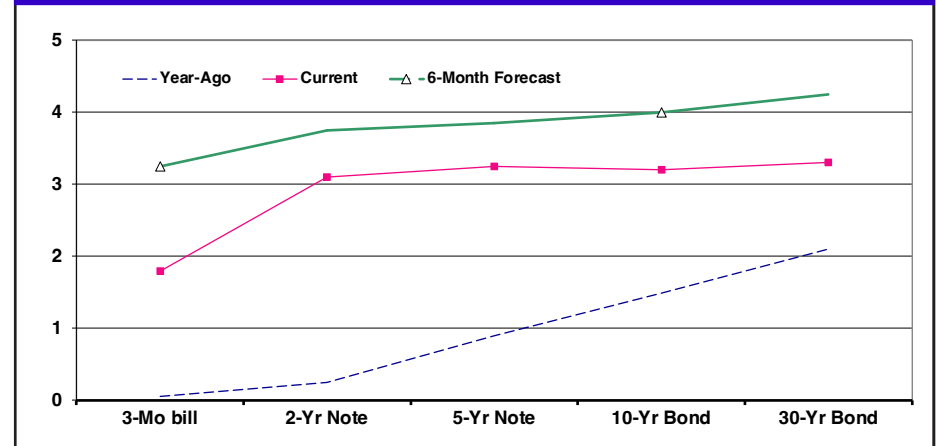
MACRO FORECASTS



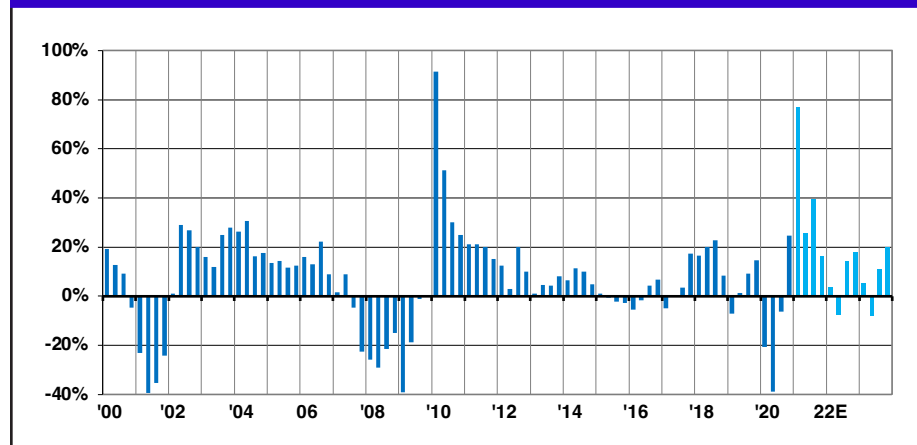
REAL GDP W/FORECASTS (%)



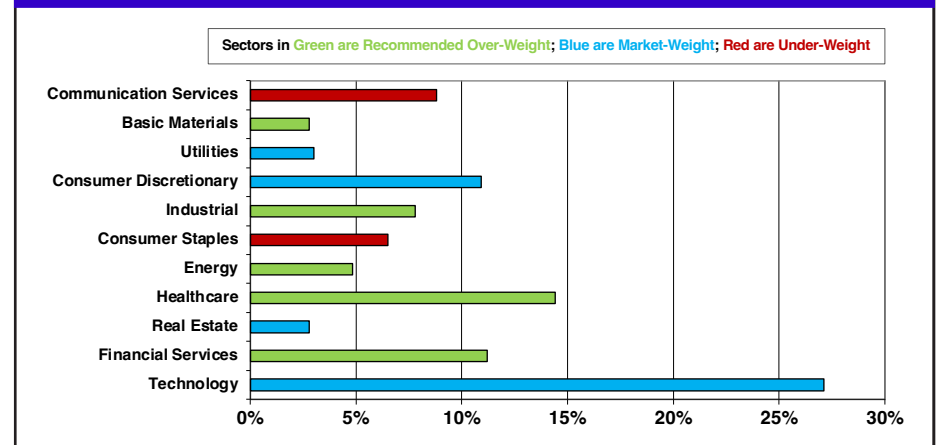
TREASURY YIELD CURVE (%)



S&P 500 QUARTERLY EARNINGS GROWTH

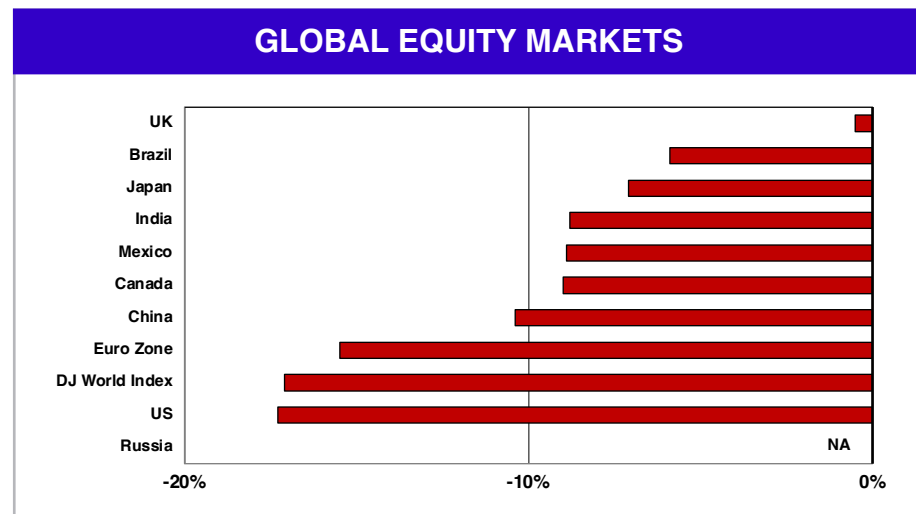
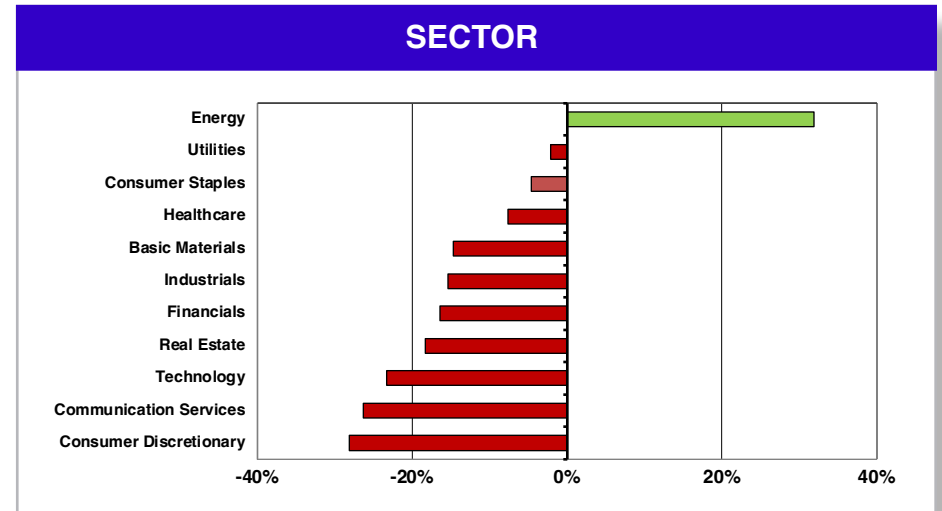
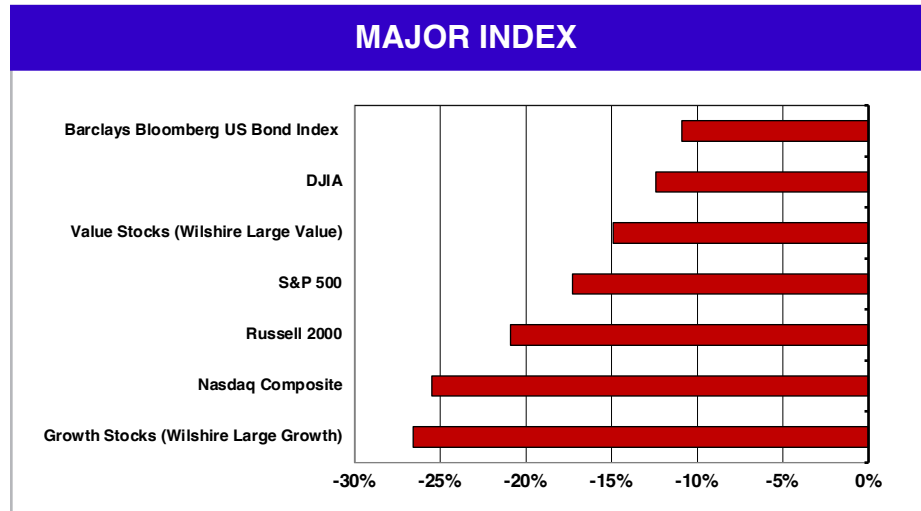


MARKET SECTOR DISTRIBUTION - PERCENT OF S&P 500

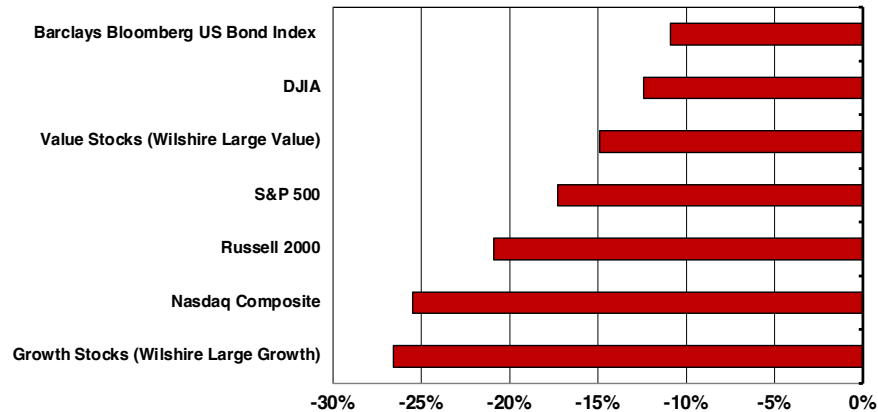


MARKET PERFORMANCE

DATA AS JUNE 28, 2022



MAJOR INDEX RETURNS YTD



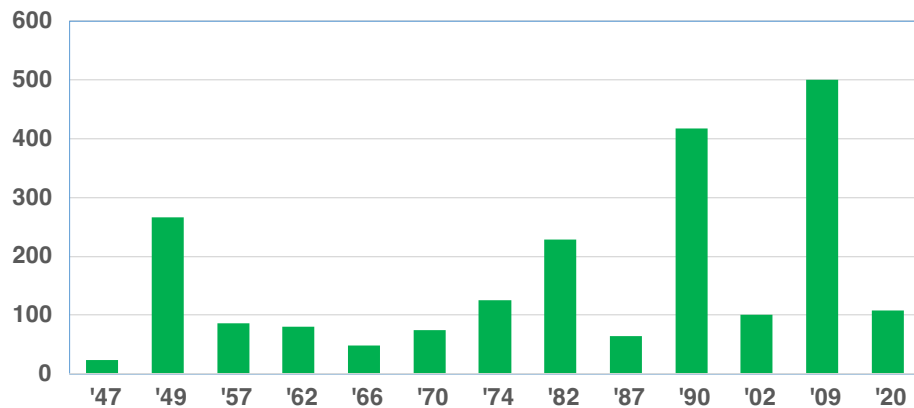
NOWHERE TO HIDE IN 2022

- Stocks, bonds both lower YTD
- Growth stocks hit hard
- Volatility Elevated
 - Inflation
 - Fed uncertainty
 - Ukraine
 - Rising oil prices
 - COVID in China
 - Potential recession
 - Mid-year elections

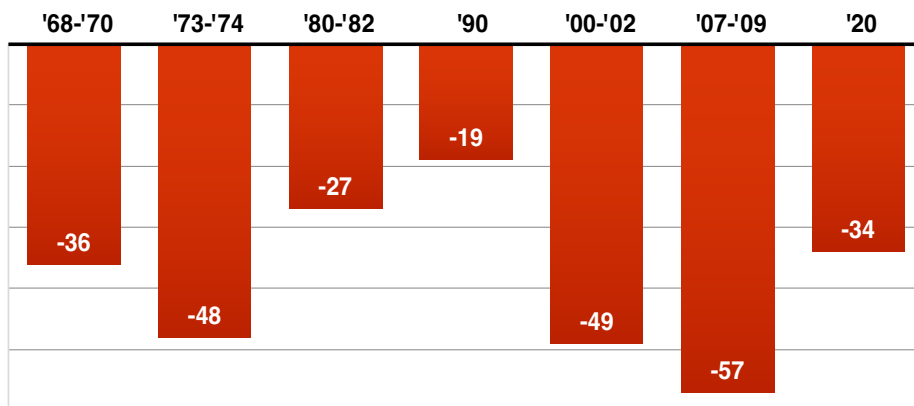
VOLATILITY INDEX (WEEKLY CLOSE)



BULL MARKET RALLIES (% CHANGE IN S&P 500)



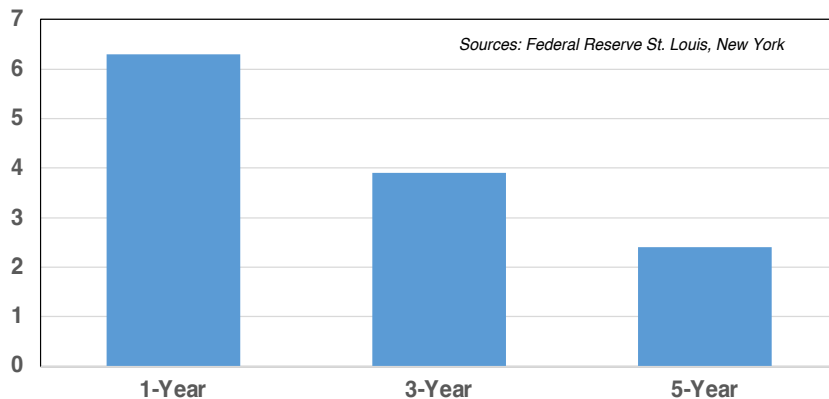
BEAR MARKET DECLINES (% CHANGE IN S&P 500)



BULLS & BEARS

- Average Bull Market
 - 13 since WWII
 - 163% gain
 - 57 month duration
- Most Recent Bull Market
 - Up 108%
 - 24 month duration
 - Defies recent bull trends
- Average Bear Market
 - 7 since 1960s
 - Down 38%
 - 16 Month duration
- New Bear Market
 - Down 25%
 - 6 Months

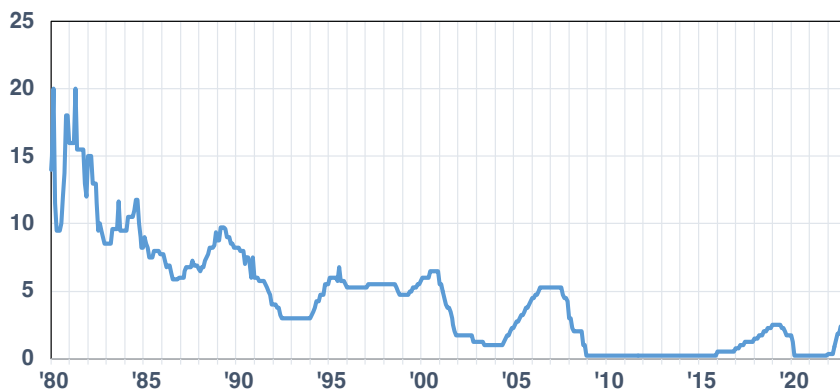
INFLATION EXPECTATIONS (%)



INTENSE PRICING PRESSURE

- We follow 21 indicators
- Average rate of change: 8.2%
- Core: 6.0%
- 5 yr forward: 2.3%

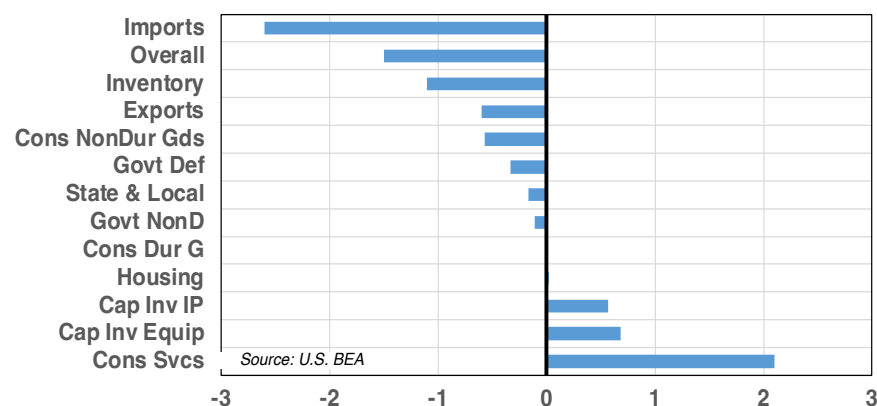
FEDERAL FUNDS TARGET RATE & FORECASTS (%)



RATES HEADED HIGHER IN RESPONSE

- Anticipate 1 more 75 bps hike July
- 50 bps in Sept to 2.75-3.00%
- 2 25 bps hikes Nov-Dec to 3.25-3.50%
- Hike in Feb 2023
- Long end only drift higher in 2022
 - Big move at long end has already occurred
 - Flat yield curve

CONTRIBUTIONS TO 1Q GDP GROWTH (%)



CURRENT CORE STRENGTH

- PCE Services
- PCE Durable Goods
- Investment in Equip, IP
- Import Impact
- Government Spending

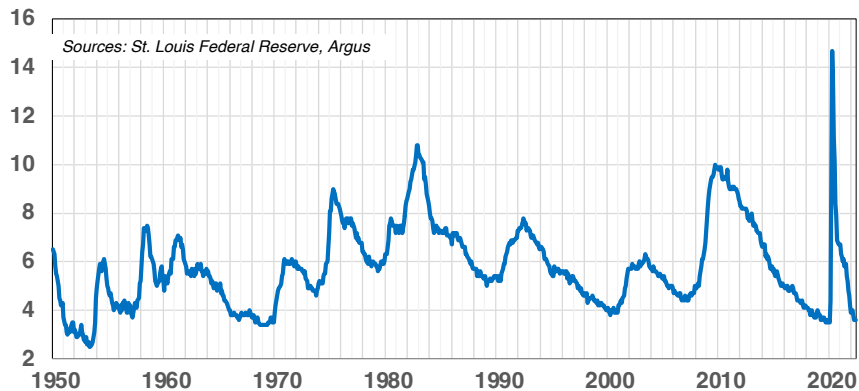
RECORDS OF RECENT RECESSIONS

| Recession Period | Duration (Quarters) | Depth of Decline (\$BIL) | Depth of Decline (%) | Onset Unem Rate (%) | Peak Unem Rate (%) | Unem Change (%) | 10 Yr Tr. Yld. Reces Start (%) | 10 Yr Tr. Yld. Reces End (%) | 10 Yr Yield Change (BPs) |
|------------------|---------------------|--------------------------|----------------------|---------------------|--------------------|-----------------|--------------------------------|------------------------------|--------------------------|
| 1Q80-3Q80 | 2 | 149 | 8.0 | 6.3 | 7.8 | 1.5 | 12.0 | 12.4 | 40 |
| 3Q81-4Q82 | 5 | 179 | 6.1 | 7.2 | 10.8 | 3.6 | 14.9 | 13.9 | -100 |
| 3Q90-2Q91 | 3 | 129 | 3.6 | 5.2 | 6.8 | 1.6 | 8.7 | 8.1 | -65 |
| 2Q01-1Q02 | 2 | 17 | 1.6 | 4.3 | 5.5 | 1.2 | 6.2 | 5.1 | -110 |
| 4Q07-3Q09 | 7 | 486 | 8.5 | 5.0 | 9.5 | 4.5 | 4.3 | 3.5 | -80 |
| 1Q20 | 1 | 1693 | 31.5 | 3.5 | 14.7 | 11.2 | 1.1 | 0.6 | -49 |
| AVERAGES | 3.8 | 192 | 5.6 | 5.6 | 8.1 | 2.5 | 9.2 | 8.6 | -63 |

WHAT IS A TYPICAL RECESSION?

- 6 since 1980
- Duration 3-4 quarters
- GDP decline of 5.6%
- Unemployment rate rises 250 bps
- 10-year yield declines 60 bps

U.S. UNEMPLOYMENT RATE (%)

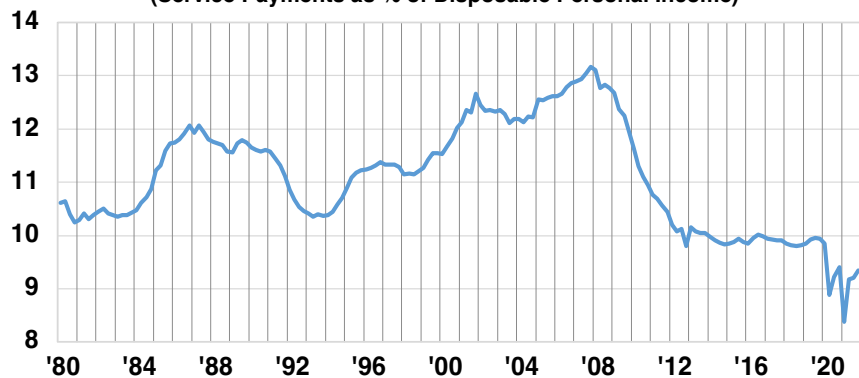


CONSUMER SECTOR STRONG

- Supported by solid jobs environment
- Spending trends still growing y/y
- Services recovering
- Pent-up demand in dur. Goods/autos

HOUSEHOLD DEBT LEVELS

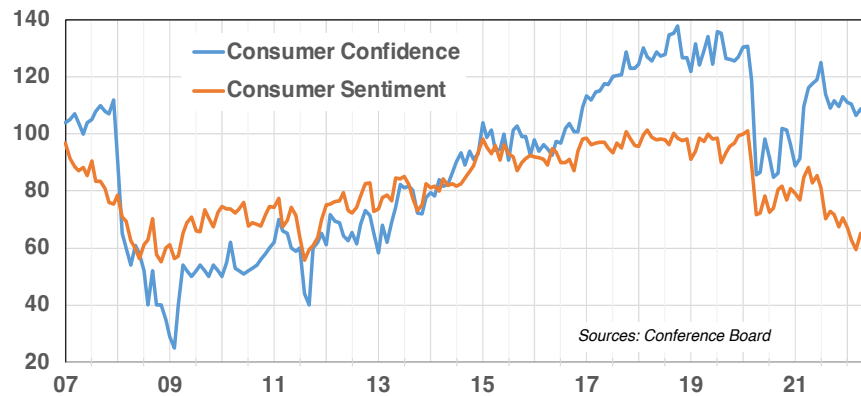
(Service Payments as % of Disposable Personal Income)



HEALTHY HOUSEHOLD FINANCES

- Lower the Better
- Average 9.9%
- Current rate 9.3%
- Low 8.4% in Pandemic
- High 13.2% in Great Recession

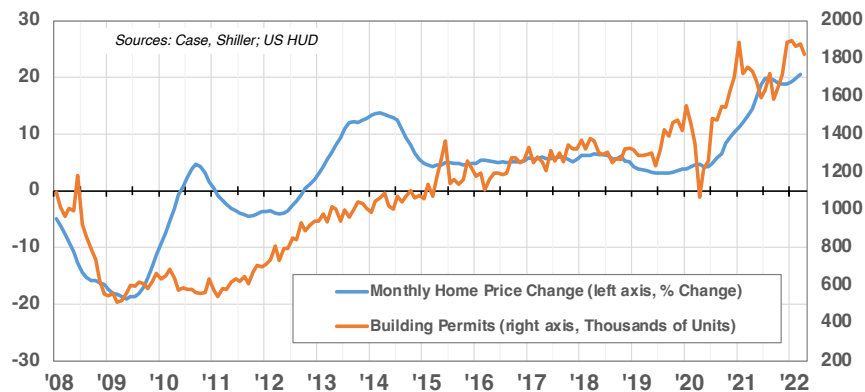
CONSUMER CONFIDENCE & SENTIMENT



CONSUMER OUTLOOK CONCERNING

- Affected by Inflation, War
- Pattern different from 2007-2009
- Never fell as deeply
- Lagging indicator

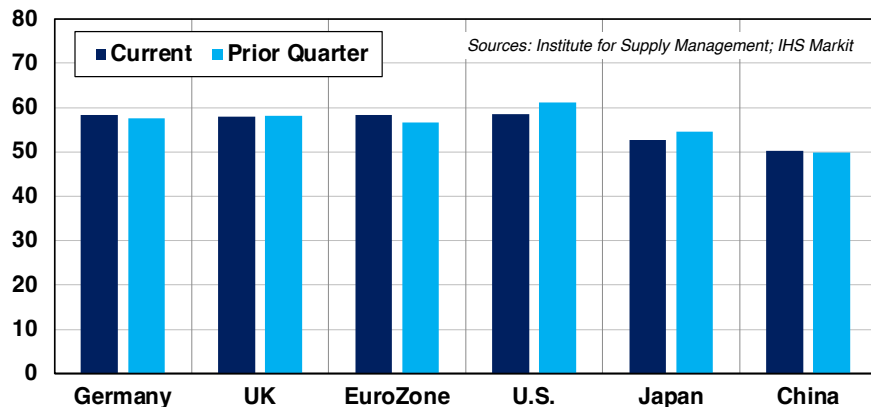
HOUSING MARKET TRENDS



HOUSING SECTOR COOLING OFF

- Prices rising at 20%-plus rate
- Mortgage rates increasing
- Permits turning lower
- Home sales slowing
- Inventories rising

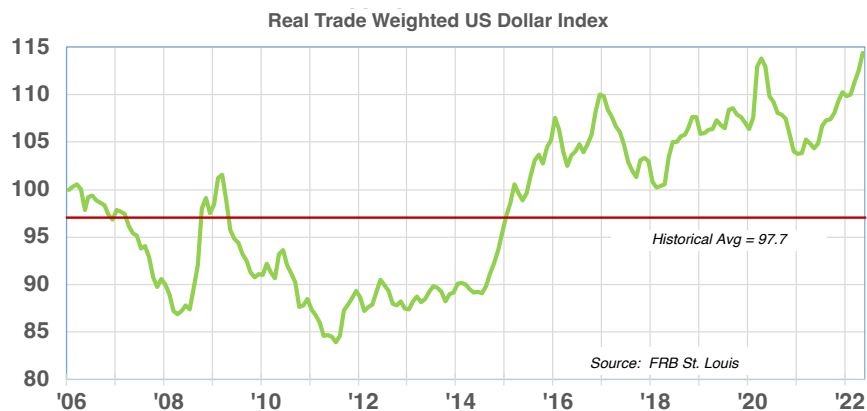
GLOBAL PMI SURVEY RESULTS



INDUSTRIAL SECTOR EXPANDING

- Positive, but starting to slow down
- PMI, New orders > 50 but lower m/m
- Capacity utilization high
- PMI Backlog Index improving
- Positive trends in IP & Eqpmt

US DOLLAR TREND



EXPORTERS FACE HEADWINDS

- De-Globalization
- Slowdown in Europe
- Covid fears in China
- Rising dollar
- But import growth should revert toward mean

3 POTENTIAL SCENARIOS



BULLISH CASE

- Inflation eases by end of Summer
- Fed finishes rate hike campaign by year-end
- Consumer Confidence recovers
- Better growth in 2023

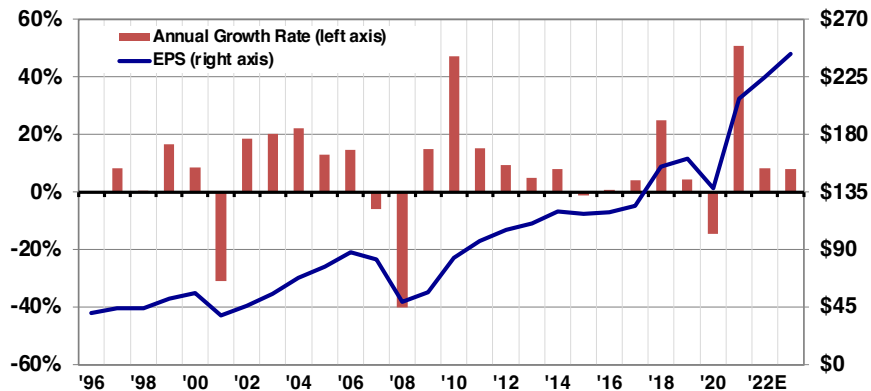
BEARISH CASE

- Inflation accelerates (Ukraine, China)
- Consumer Confidence falls further
- Unemployment rate backs up
- Recession starts in late 2022

BASE CASE

- Core CPI falls toward 5.0% by year-end – currently at 8%
- Fed ends rate hikes early 2023
- Fed starts cutting mid-2023
- GDP growth averages 1.0% in 2023

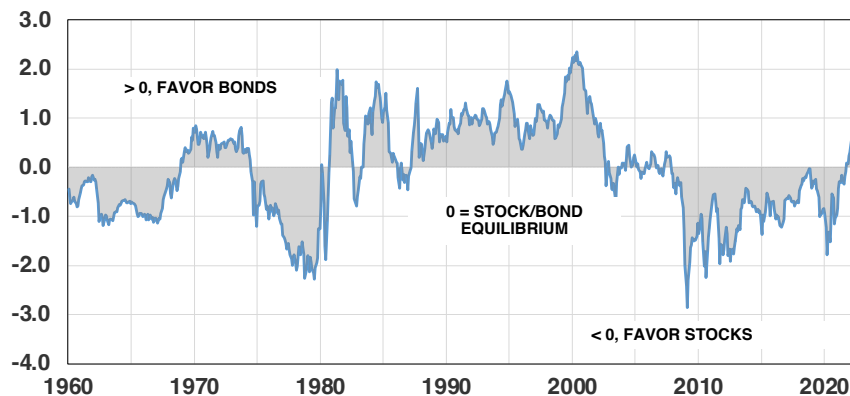
S&P 500 EPS TRENDS & ESTIMATES



EARNINGS GROWTH SLOWING

- Slowdown in EPS, similar to GDP
- 10% for year
- 1Q 11%
- 2Q 6-7%

BOND V STOCK BAROMETER (STANDARD DEVIATIONS)



STOCK PRICES > FAIR VALUE

- Stocks no longer priced below FV
- Near 1 standard deviation OV
- Markets can endure a long time above/below fair value
- Places focus on EPS growth
- Base case YE S&P 500 2022 target: 4100

SECTOR REVIEW

| 6/24/22 | 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 | | Cap % | | | | | | | YTD | 2021 |
| Basic Materials | Over | 2.8 | 2-4% | 8% | 1.3% | 16 | 2.6 | 1.2 | -15.5% | 25.0% |
| Communication Services | Under | 8.8 | 7-12% | 10% | 1.0% | 18 | 3.6 | 1.1 | -26.6% | 20.5% |
| Consumer Discretionary | Market | 10.9 | 7-13% | 9% | 0.3% | 29 | 1.6 | 1.1 | -28.4% | 23.7% |
| Consumer Staples | Under | 6.5 | 5-10% | 5% | 2.2% | 21 | 2.3 | 0.9 | -6.7% | 15.6% |
| Energy | Over | 4.8 | 2-10% | 6% | 1.5% | 11 | 1.9 | 1.1 | 29.4% | 47.7% |
| Financial Services | Over | 11.2 | 9-17% | 8% | 1.3% | 15 | 3.0 | 1.1 | -17.1% | 32.5% |
| Healthcare | Over | 14.4 | 10-16% | 9% | 1.0% | 16 | 2.2 | 0.8 | -8.3% | 24.2% |
| Industrial | Over | 7.8 | 7-12% | 8% | 0.8% | 21 | 2.7 | 1.1 | -16.0% | 19.4% |
| Real Estate | Market | 2.8 | 2-4% | 6% | 1.8% | 20 | 7.0 | 0.9 | -19.3% | 42.5% |
| Technology | Market | 27.1 | 16-28% | 13% | 0.3% | 24 | 6.4 | 1.1 | -23.7% | 33.4% |
| Utilities | Market | 3.0 | 2-4% | 4% | 2.3% | 21 | 2.6 | 0.5 | -5.1% | 14.0% |
| S&P 500 | | 100 | | 8% | 1.3% | 20 | 3.0 | 1.0 | -17.9% | 26.9% |

ATTRACTIVE VALUE SECTORS

- Energy
- Financial
- Utilities
- Materials

GROWTH UNDER PRESSURE

- Comm Services
- Consumer Discretionary
- Technology

Equity Income

- Mandate is for 50% higher yield than S&P 500: current yield 2.6%
- Low-beta, value portfolio

Growth & Income

- Seeks current income and long-term growth of capital
- Broadly diversified, current yield of 1.5%

Growth

- Seeks capital appreciation, double-digit five-year EPS growth rate
- Focus on innovative companies – new products, better products & processes, new markets, disruptors
- Also an income component, 1.3%

Institutional

- Focus is on world-class companies with leading competitive positions within their industries
- 50 stocks, most core long-term holdings

Dividend Growth

- AAP, HD, TJX, COST, EL, ENB, CBOE, DHR, UNH, CTAS, FAST, PH, AMT, ADP, INTU, MA, MSFT, TXN, NEE

ESG

- DOW, GOOGL, AMZN, ADM, DVN, JPM, SCHW, TFC, CVS, ANTM, JCI, CMI, MSFT, AAPL, TXN, ADP, NEE

Innovation

- GOOGL, AMZN, NVDA, MSFT, AAPL, V, ODFL, LHX, LLY, DHR, CTLT, SPGI, BLK, CVX, COST

Min-Vol

- VZ, MCD, CHD, WMT, UL, PG, PEP, KO, RHHBY, MRK, PFE, JNJ, ABT, WM, UPS, ROP, LMT, TXN, AEE, AEP

Cautious Consumer

- PEP, KO, CL, STZ, COST, WMT, EL, HSY, HRL, K, KR, MKC, PG, TSN, PFE, ABBV, AMGN, MCK, CVS

Infrastructure/Supply Chain

- VZ, T, ODFL, JBHT, UNP, NSC, CSX, URI, CAT, DE, VMC, ECL, ROP, AWK, NEE, SPGI, MCO

High Yield

- ENB, T, NRZ, BCE, PPL, CVX, PRU, GSK, IBM, ABBV, STX, CFG, KEY, SO, NFG, PFE, VZ, AVB, TFC, RIO

- **Vickers Stock Research has been tracking insider transactions since 1974.**
 - The major insider-sentiment gauges from Vickers are its proprietary sell/buy ratios.
 - These ratios are built using both one week of trading data and eight weeks of data.

- **Insiders typically sell stock 2.00- to 2.50-times more often than they purchase stock. As such, the ratios are:**
 - Neutral when they are between 2.00 and 2.50.
 - Bullish when they are below 2.00 (and especially bullish when they are below 1.00, indicating insiders are purchasing more often than they are selling).
 - Bearish when they are above 2.50 (and especially so when they are consistently above 5.00).

■ **Vickers' broad eight-week sell/buy ratios currently are all bullish.**

- **NYSE Eight-Week Sell/Buy Ratio: 1.50**
- **ASE Eight-Week Sell/Buy Ratio: 0.54 ***
- **Nasdaq Eight-Week Sell/Buy Ratio: 1.14**
- **Total Eight-Week Sell/Buy Ratio: 1.25**

* Note: Insider transaction volume on the ASE is much lighter than on the other exchanges.

- **The current sell/buy ratios are “historically” bullish as they include recent weeks when insiders were buying stock more often than they were selling stock – creating rare sell/buy ratios that were under 1.00.**

- **How did stocks behave other times insider sentiment was this bullish? Going back to 2000, we saw similar sentiment in:**
 - **March 2020, and three months later the DJIA was 41% higher.**
 - **December 2018, and three months later the DJIA was 9.5% higher.**
 - **January 2016, and three months later the DJIA was 12.6% higher.**
 - **August 2011, and three months later the DJIA was 13% higher.**
 - **February 2009, and three months later the DJIA was 29% higher.**
 - **July 2002, and three months later the DJIA was 11% higher.**
 - **October 2001, and three months later the DJIA was 12.5% higher.**

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