



MONTHLY RESEARCH WEBINAR

ARGUS INVESTMENT STRATEGY: THE YEAR AHEAD

Moderator:

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Director of Research

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

- Jim Kelleher, CFA, Director of Research
- John Eade, Argus President
- Kevin Heal, Senior Analyst

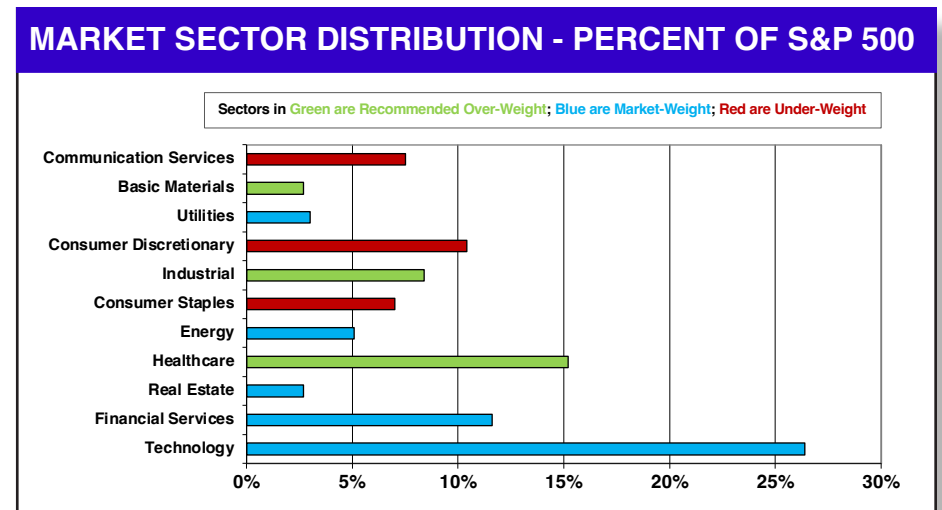
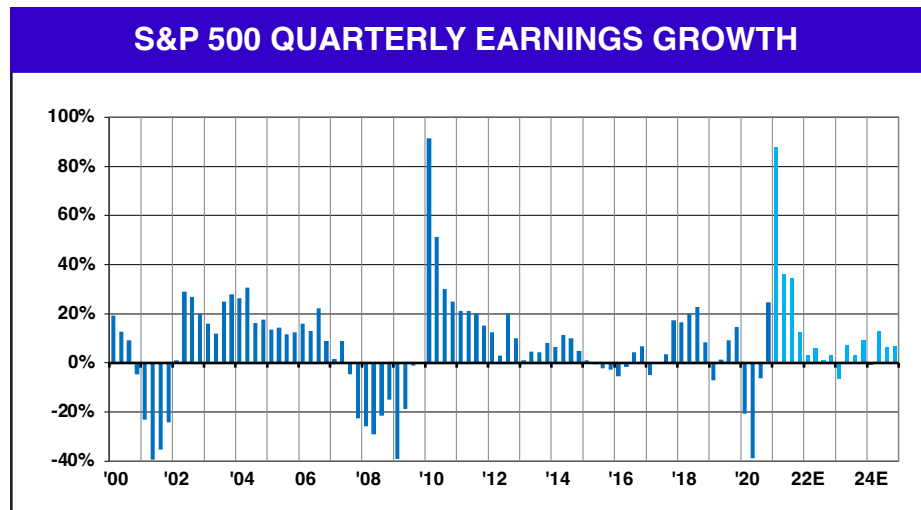
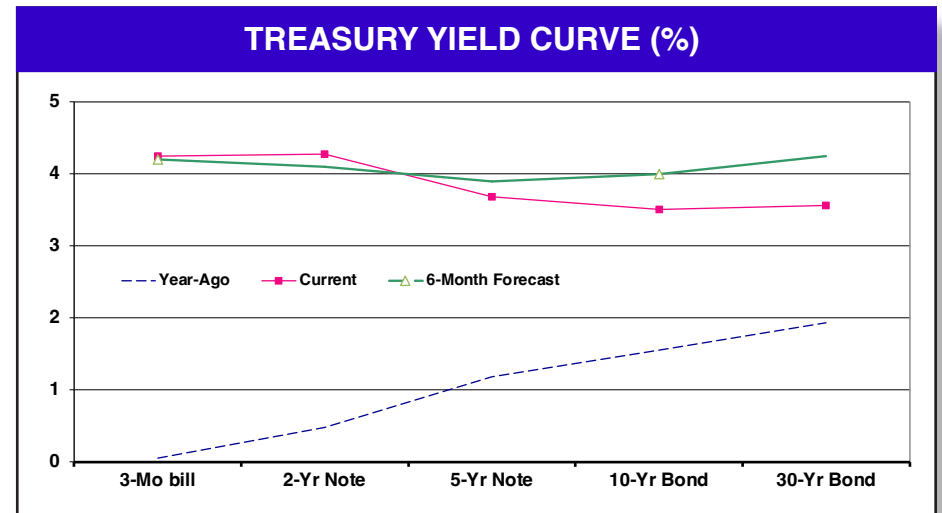
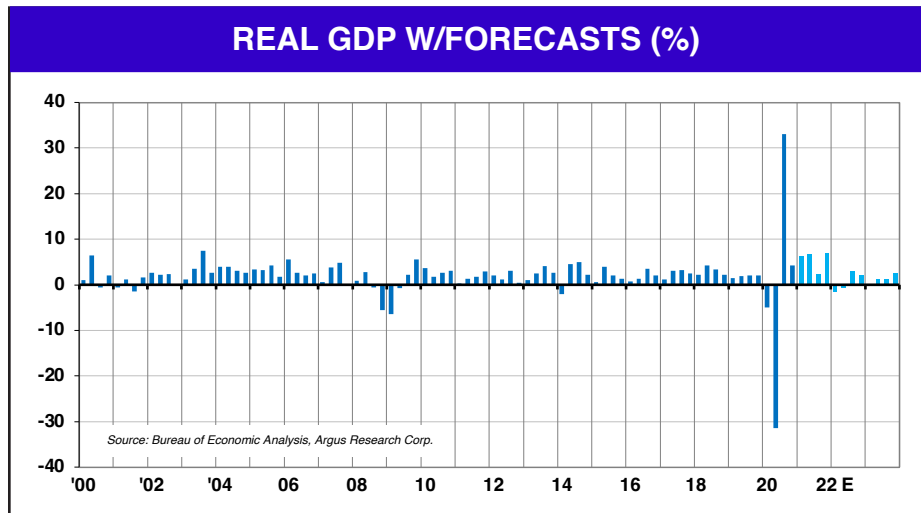
■ **Argus Quick Notes**

- Sustainable Impact Stocks
- Black Friday Stock Deals
- Activist Stocks
- Find these on the homepage of our website

■ **Portfolio Update: the Argus ESG Model Portfolio**

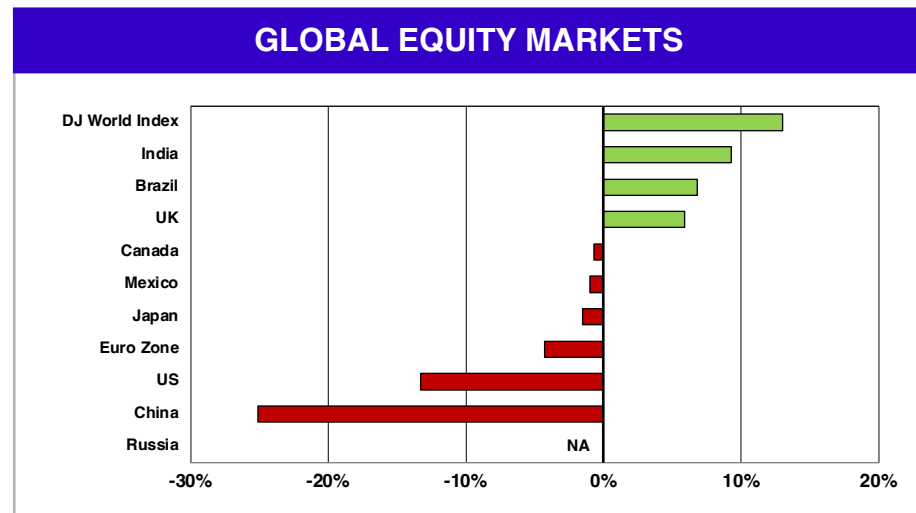
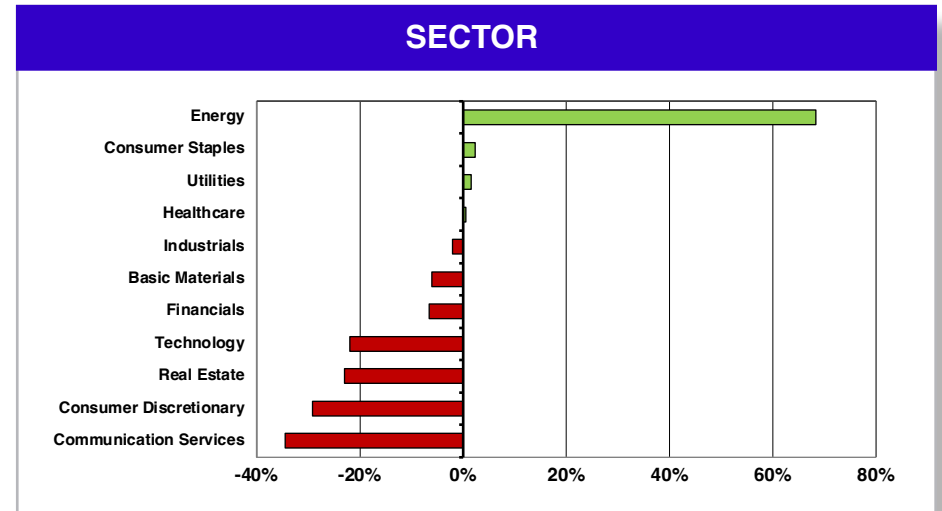
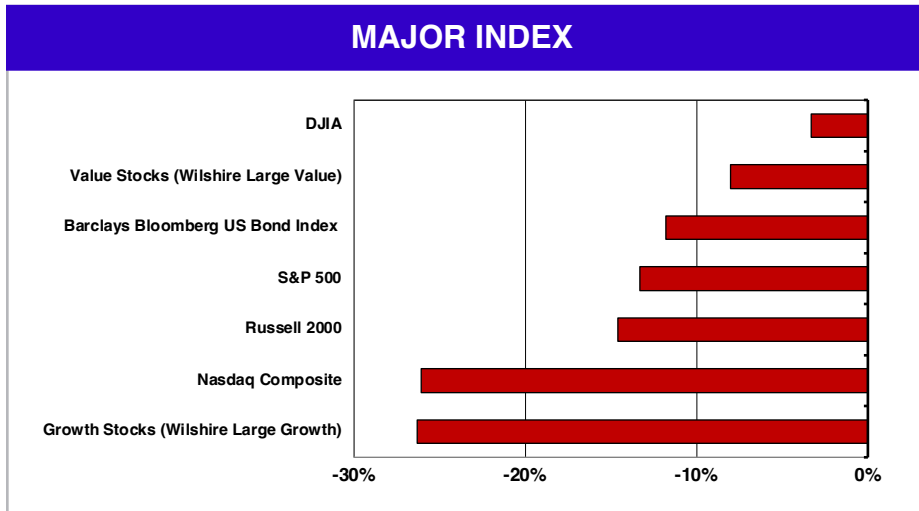
- Sustainable Impact investing gaining traction globally
- ESG investing has evolved, from exclusion to proactive
- Sustainable practices can impact climate, poverty, rights, etc.
- Find the Argus ESG MP on the homepage of our website

MACRO FORECASTS

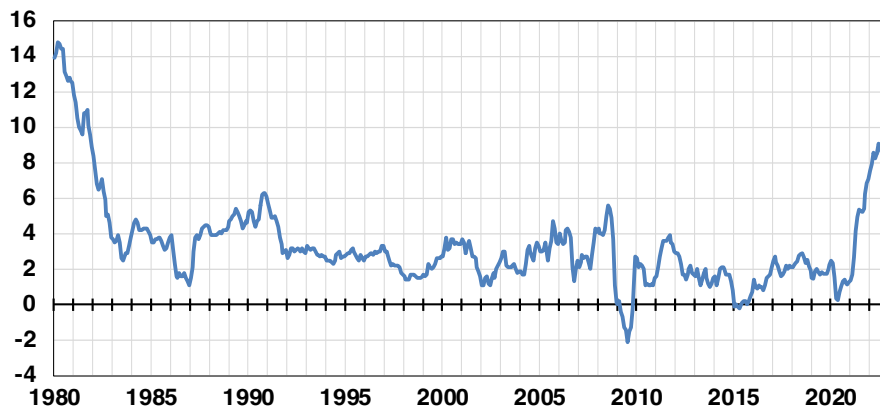


MARKET PERFORMANCE

DATA AS NOVEMBER 30, 2022



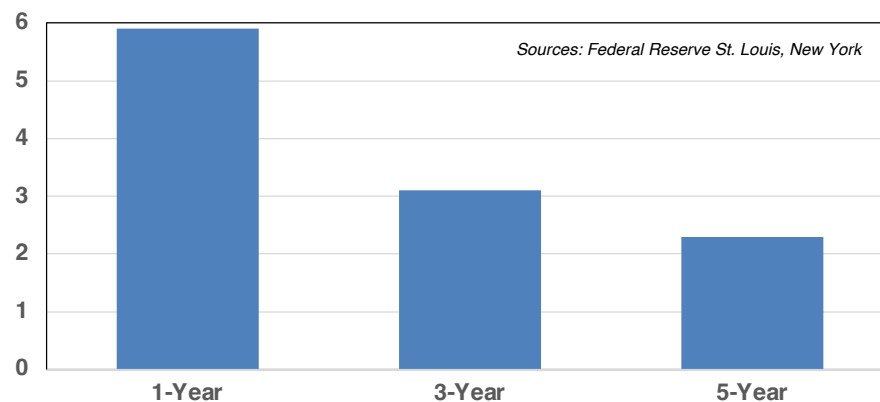
CPI TREND (% CHANGE, Y/Y)



Keep Your Eye on the CPI

- There may be better indicators
- But CPI is most visible
- 40-year High in 2022
- Summer Inflection Point
- Slow Slide

INFLATION EXPECTATIONS (%)



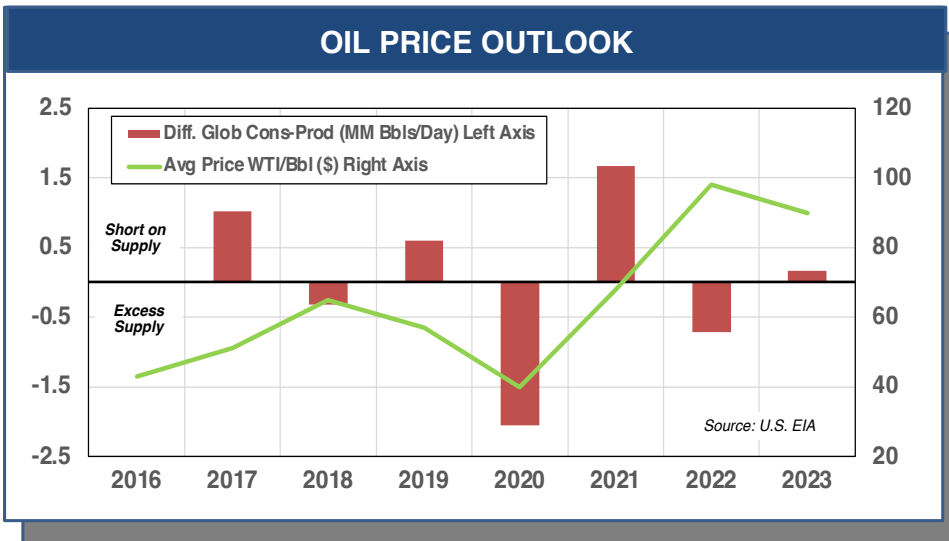
What's Next?

- Outlook is for gradual decline
- In 5 years, back down toward 2.0%
- Are Markets Expecting too Much?



Yellow Metal

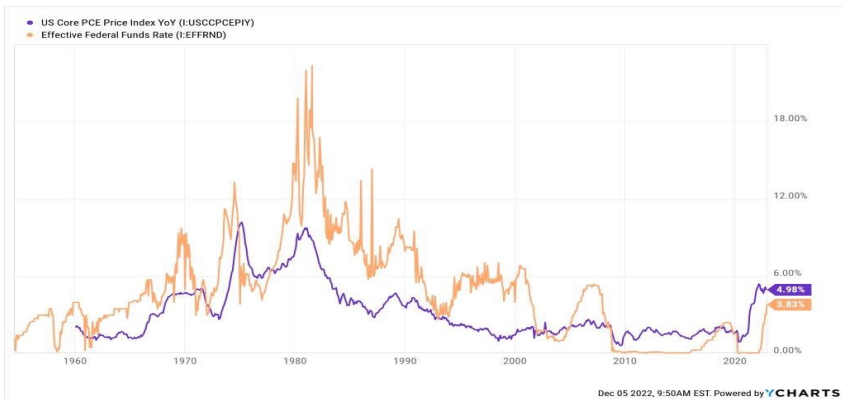
- Depressed prices in slow-growth period
- Sharp spike higher in 2020
- Latest peak: February 2022
- Now on Downtrend



Black Gold

- Econ 101: Supply & Demand
- Consumption plummeted in 2020
- Production cuts
- Consumption recovered in 2021 – along with prices
- Looks stable/lower in 2022/23

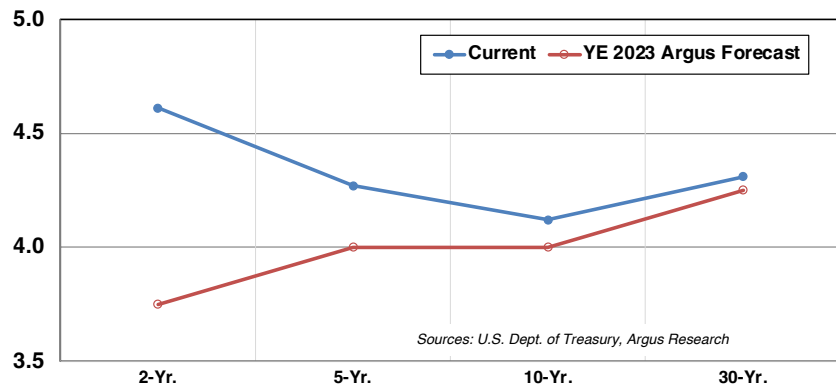
FEDERAL FUNDS RATE & CORE PCE INFLATION



Fed Hikes Main Story of 2022

- Rapid Rise toward 5.0%
- 1 more in Dec; 1 in 2023
- Then to sidelines, to monitor data
- Fed passively letting assets mature

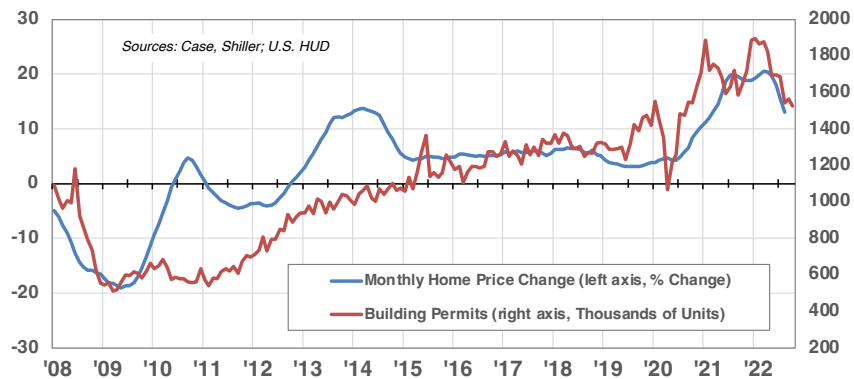
YIELD CURVE & OUTLOOK (%)



Back to Normal?

- Current 2-10 spread inverted
- Points toward slowdown/recession
- As investors anticipate Fed will cut in future, short-term rates may fall
- Long end already declining
- Foreign demand for Treasuries remains solid, given low/negative global rates

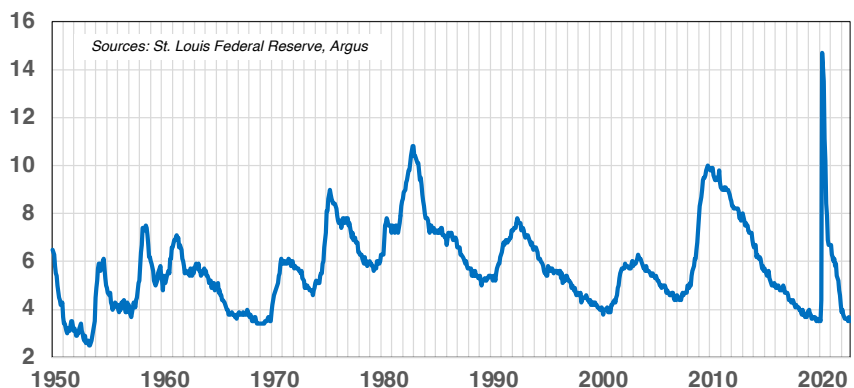
HOUSING MARKET TREND



Early Victim of Higher Rates

- Numerous metrics peaked in early 2022
- Permits, Starts, Sales, Inventory
- Pricing trends last to turn lower
- Residential investment -6% in 3Q

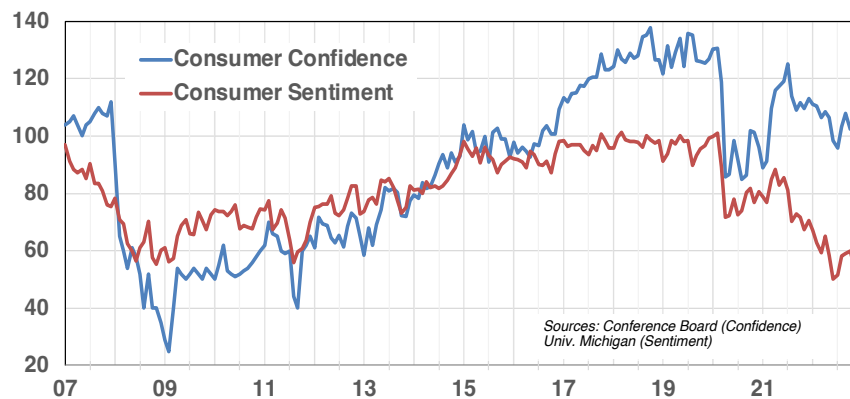
U.S. UNEMPLOYMENT RATE (%)



Consumer Not Yet Affected...

- Boosted by jobs environment
- Back down to 3.7%
- Solid wage growth
- But claims picking up
- More layoff announcements
- Next direction likely higher for UR

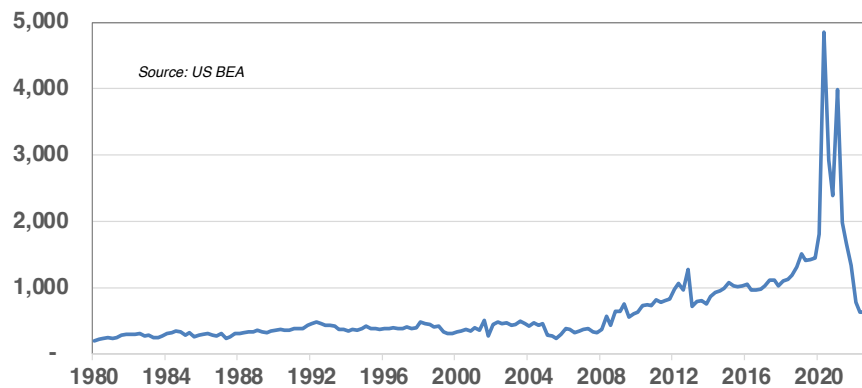
CONSUMER CONFIDENCE & SENTIMENT



... But Outlook Concerning

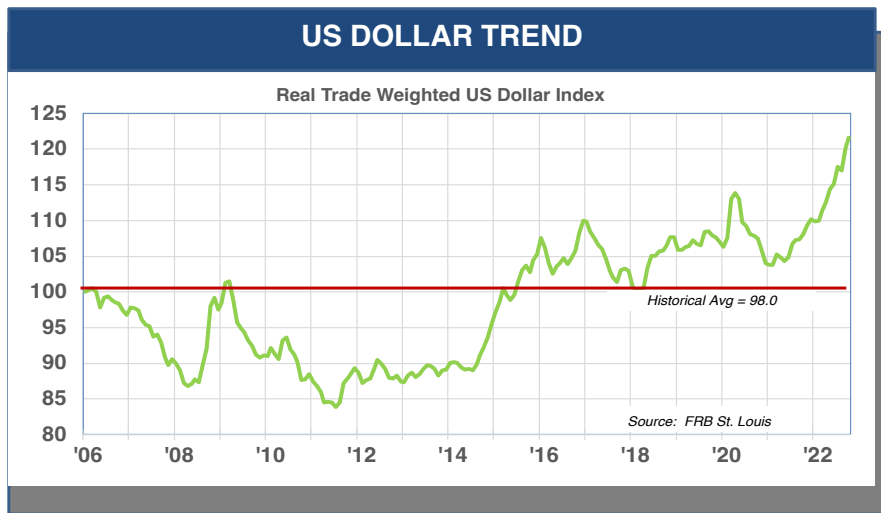
- Sentiment affected by Inflation, War
- Pattern different from 2007-2009
- Never fell as deeply
- But not consistently recovering
- UM Gauge near 50-year low

PERSONAL SAVINGS (\$BIL)



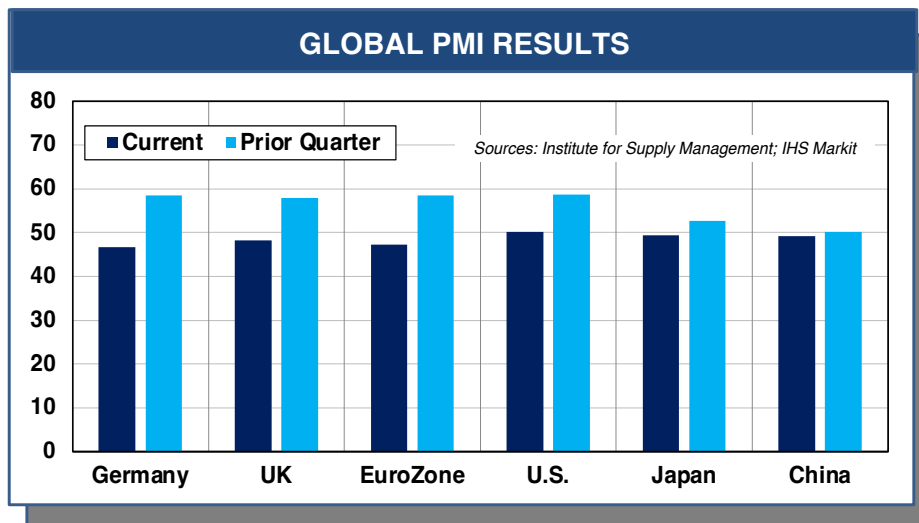
... And Aid Has Been Spent

- Personal savings peaked at \$5T
- Housing, Stocks, Goods at first
- Then Services, Travel
- Now savings at \$625B, vs \$1T average from 2010-2020



Greenback Reaches New Peak

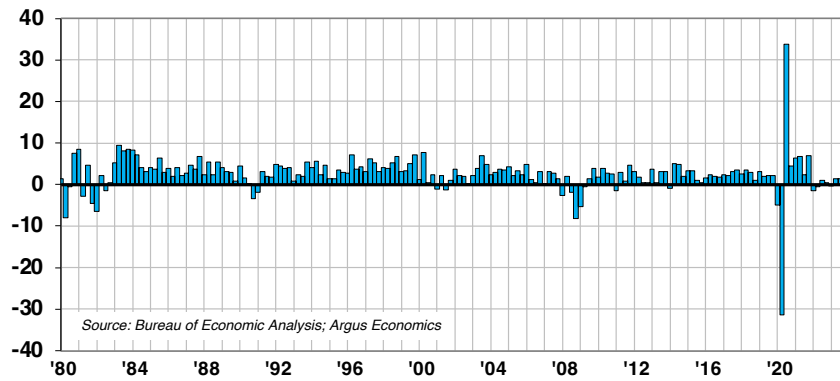
- Up sharply, even from 2020 levels
- 20% above historical average
- Reflects China/Covid, Europe/War
- U.S. goods expensive in global markets
- Will slow energy-driven export growth



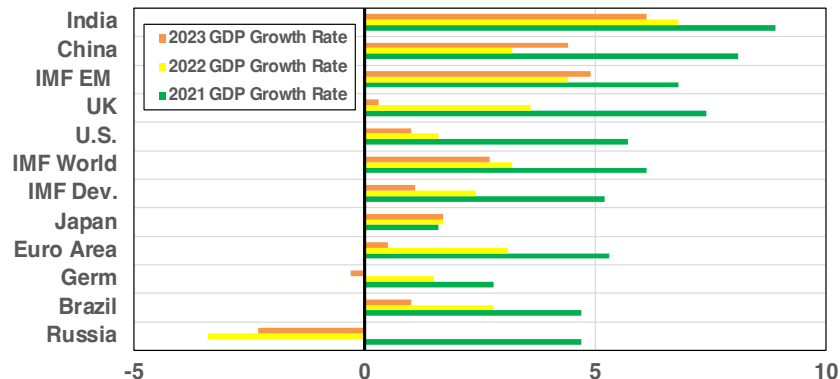
Manufacturing Slows

- US now under 50
- New orders: 47.2
- Supply chain problems improving
- Cap Inv into Software has been bright spot through/since pandemic
- Equipment follows Oil Prices

GDP TRENDS & OUTLOOK (% CHANGE)



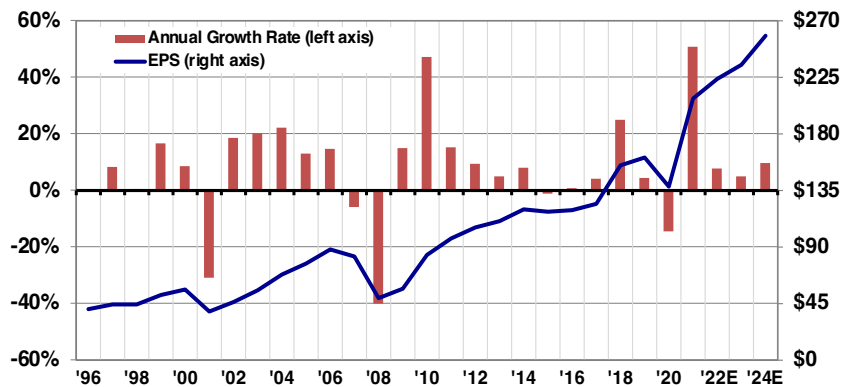
GLOBAL GDP GROWTH RATES & FORECASTS (%)



Very Close to Recession

- High interest rates, weak housing market, slowing jobs growth all point to slowdown in 1H23
- Not to mention bear market, inverted yield curve
- Even though 2 negative GDP quarters in 2022, probably not a technical recession, given strength in jobs
- Our forecasts call for slow start in 2023, but then a pick-up as rates come down
- Overall expectation is 1.3%, compared to 0.7% in 2022
- Consensus ranges from 1%-2%.
- Likely better than peers.

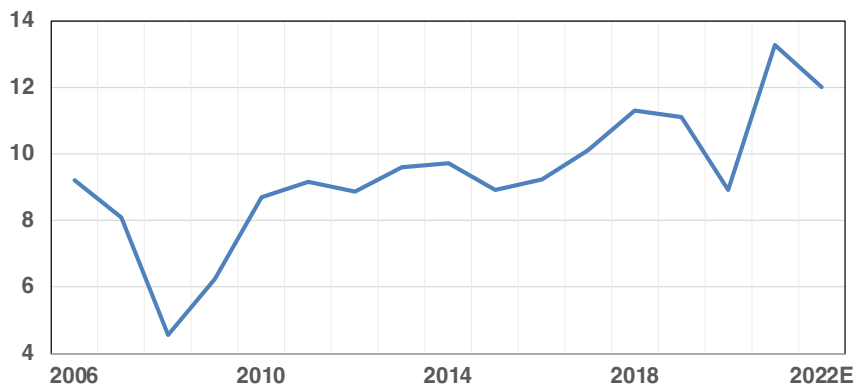
S&P 500 EPS TRENDS & ESTIMATES



Earnings Growth Slowing

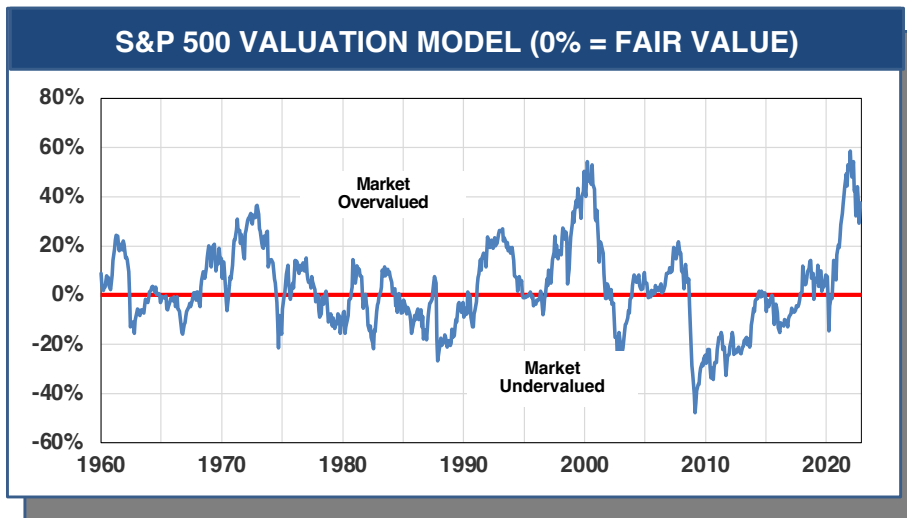
- Slowdown in EPS, similar to GDP
- 8% growth in 2022, led by Energy
- 3% in 2023
- Still at record levels
- Leading growth sectors: IN, F, UT, CD
- Lagging growth sectors: EN, MAT, CS

S&P OPERATING MARGIN TRENDS (%)



Margins Under Pressure

- 3 Drivers to EPS growth: Margins #2
- Cap to margins; they don't rise forever
- 13.3% in 2022; long-run average of 9.2%
- Impact of inflation, higher interest rates
- Volume growth leads to sales leverage



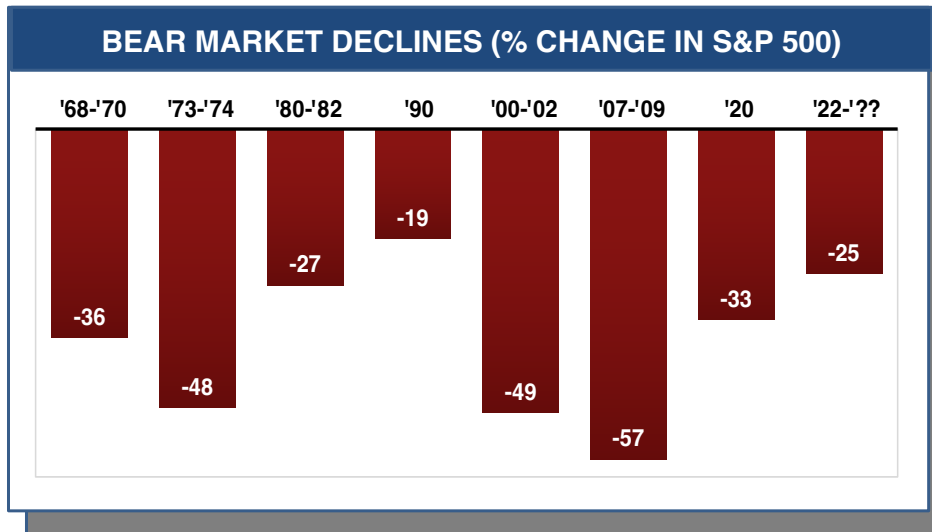
Stock Valuations Improving

- Modest premium on S/B model
- Down from highs earlier in year
- Factors: higher rates, lower stock prices, slower GDP & EPS growth
- P/E also declined in 2022



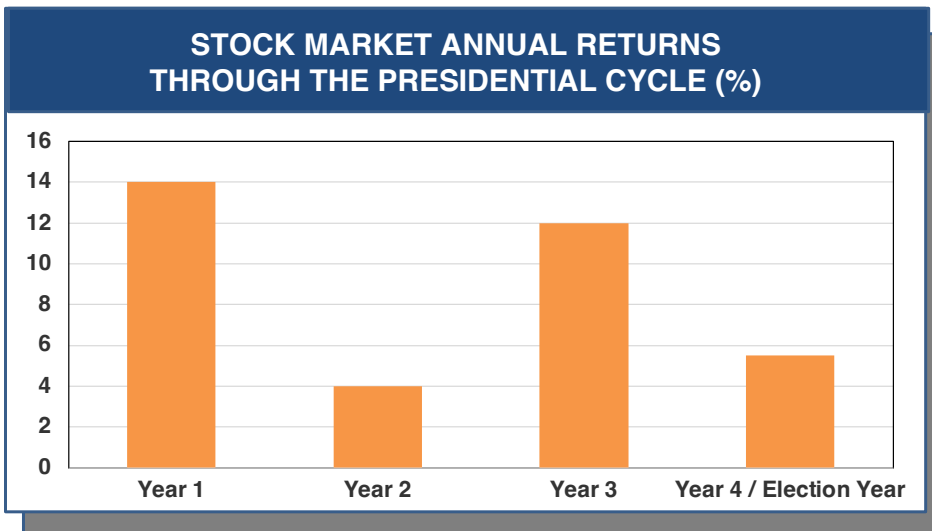
High Risk Environment

- VIX > 20 for past 2 years
- Reflecting inflation, war, Fed, rates, energy prices, potential U.S. recession



Bulls & Bears

- Average Bear Market
 - 7 since 1960s
 - Down 38%
 - 16 Month duration
- Current Bear Market
 - Down 25%/11 Months
- Stocks typically lead out of Recession



Presidential Cycle

- 3rd year the 2nd best
- (2nd year the worst)
- Midterms result: Gridlock
- Administration focuses on programs to set stage for voting in Year 4

BASE CASE

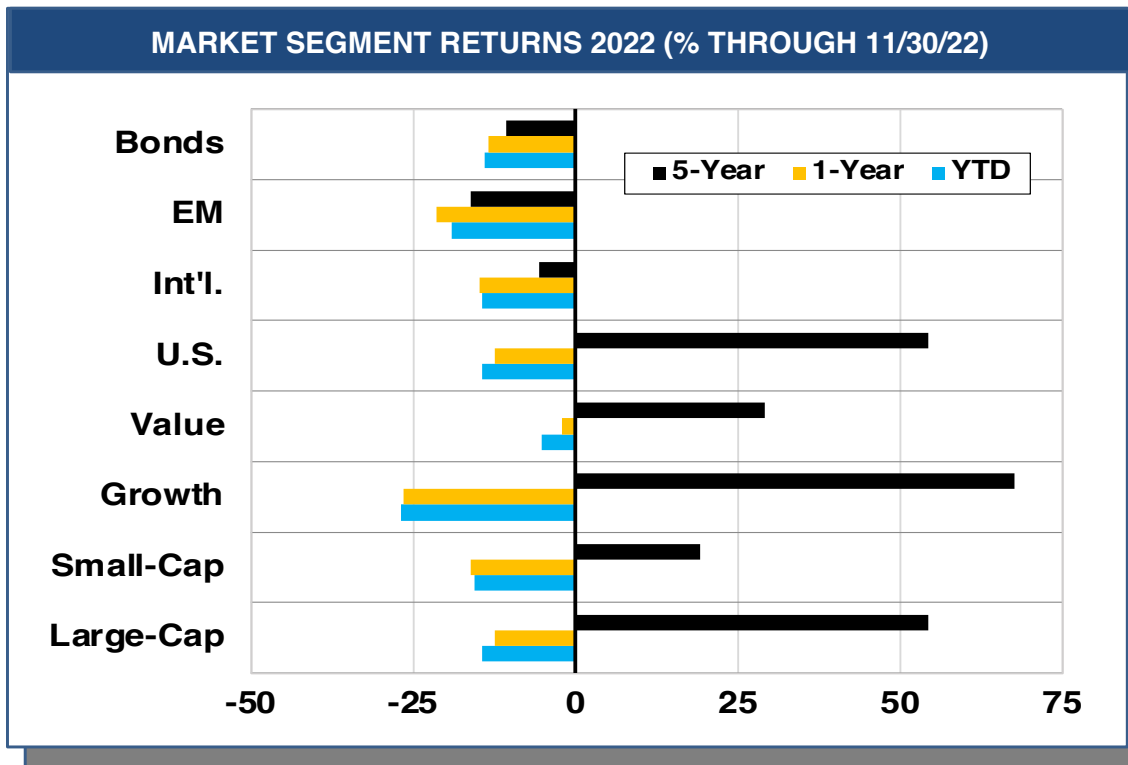
- Fed ends rate hikes early 2023
- Core CPI falls toward 5.0% by year-end – currently at 6.2%
- GDP growth averages 1.0% in 2023, outlook improves for 2024
- Fed has replenished its tool kit
- S&P 500 rises 8-12%, with strong 2H

BULLISH CASE

- Inflation falls faster than expected
- Geopolitical issues ease/dollar retreats from highs
- Consumer Confidence recovers and spending continues
- Earnings surprise on the upside; rates decline and multiples increase
- S&P 500 rises 15-20%

BEARISH CASE

- Inflation accelerates (Ukraine, China)
- Multiple Fed hikes in 2023
- Consumer spending slump extends into 2H23; Unemployment rate heads toward 6.0%
- Recession declared in 1Q23, lasts for year
- Bear market continues



Large vs. Small

- Large offers better growth exposure, financial strength
- Small caps offer better value
- SMID stocks 15-17% of equity market

Growth vs. Value

- Equal
- Value in 1H as rates are high
- Growth as rates start to fall

Domestic vs. International

- Favor U.S. for market transparency, financial system
- International plagued by volatile economic, geopolitical & currency conditions
- Intl does offer better value

SECTOR REVIEW

12/2/22	12-Month Portfolio Strategy	Market Cap %	Market Cap %	Market Cap %	EPS Growth Rate	Div Yield (%)	P/E on 2023 EPS	Price/Sales Ratio	Beta	Performance	
Industry			5-Year Range							YTD	2021
Basic Materials	Over	2.7	2-3%		5%	2.3%	15	1.0	1.2	-8.8%	17.0%
Communication Services	Under	7.5	2-12%		8%	1.2%	14	3.6	1.1	-35.3%	20.5%
Consumer Discretionary	Under	10.4	9-13%		9%	0.5%	22	1.2	1.2	-29.6%	23.7%
Consumer Staples	Under	7.0	5-10%		5%	2.1%	20	0.9	0.8	-0.1%	15.6%
Energy	Market	5.1	2-7%		6%	3.0%	10	0.9	1.6	64.2%	47.7%
Financial Services	Market	11.6	9-15%		9%	1.7%	12	1.9	1.1	-7.3%	32.5%
Healthcare	Over	15.2	12-16%		8%	1.1%	16	1.9	0.7	-1.5%	24.2%
Industrial	Over	8.4	7-11%		8%	1.0%	17	1.9	1.2	-4.1%	19.4%
Real Estate	Market	2.7	2-4%		9%	3.3%	16	4.6	1.0	-24.3%	42.5%
Technology	Market	26.4	19-30%		12%	0.5%	20	3.5	1.2	-22.4%	33.4%
Utilities	Market	3.0	2-4%		5%	2.4%	18	2.2	0.6	-0.7%	14.0%
S&P 500		100			7%	1.7%	16	2.3	1.0	-14.4%	26.9%

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