



MONTHLY RESEARCH WEBINAR

CONSUMER DISCRETIONARY: RETAIL OUTLOOK

Moderator:

Jim Kelleher, CFA

Director of Research

April 5, 2023

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■ **Consumer Discretionary: Retail Outlook**

- Jim Kelleher, CFA, Director of Research
- John Eade, Argus President
- Chris Graja, CFA, Senior Analyst
- Steve Biggar, Director of Financial Services Research

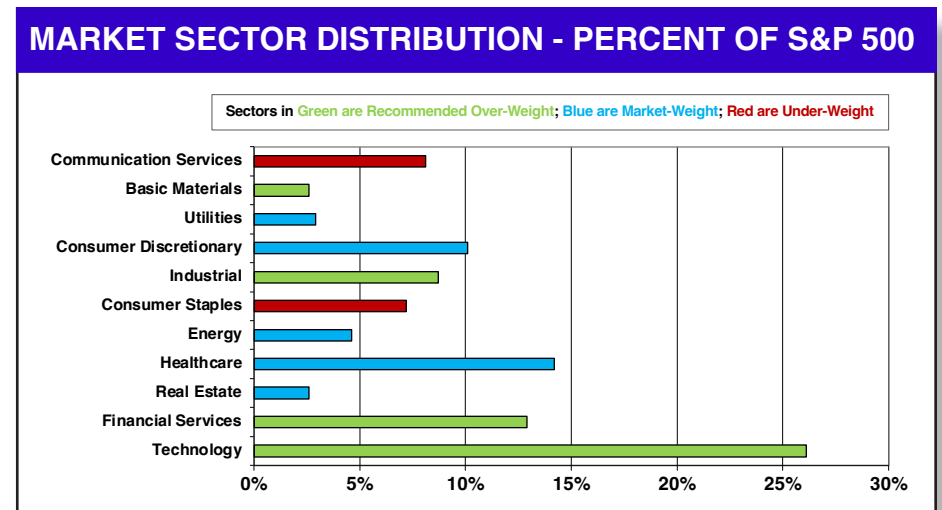
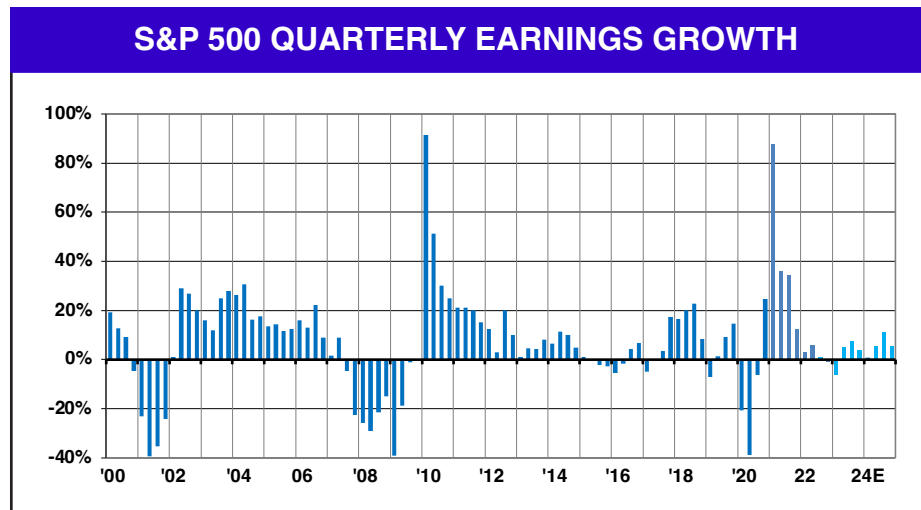
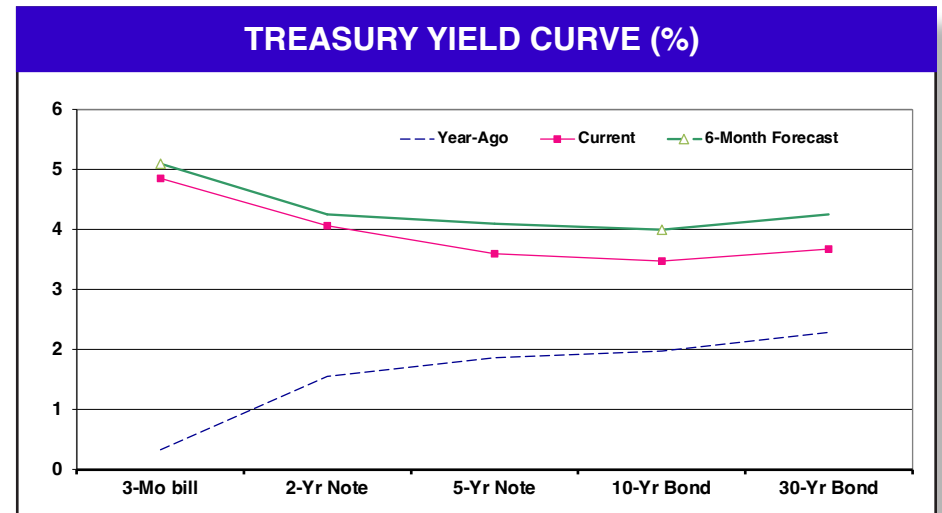
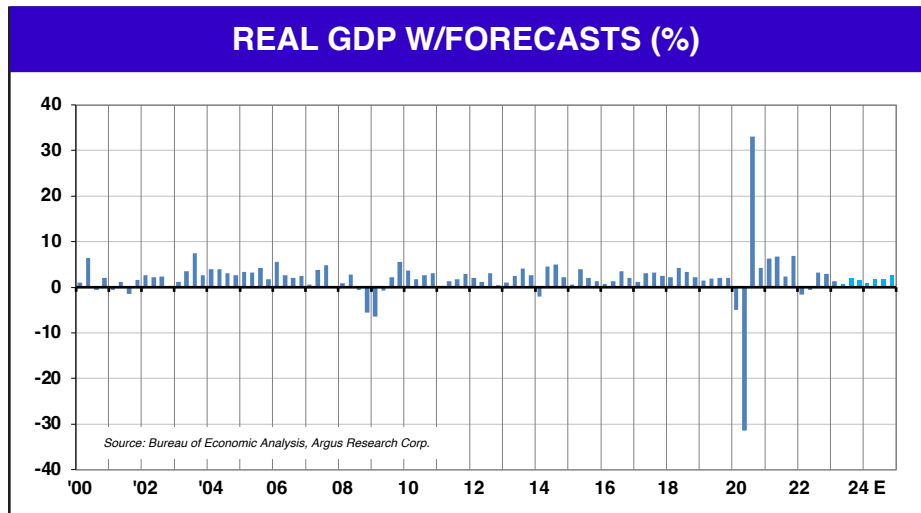
■ **Argus Quick Notes**

- Shooting Stars and Fallen Angels from 1Q23
- Small and Mid-Cap Favorites
- Financial Stocks on Sale
- High-Yield Stocks
- Find these on the homepage of our website

■ **Portfolio Update: the Argus Mid-Cap Model Portfolio**

- Small and Mid-Caps (SMIDs) has underperformed over past 12 months
- May be in better position to outperform going forward
- Domestic focus insulates SMIDs from geopolitics (Ukraine, Global Inflation)
- Lower prices & valuations relative to large caps
- Find the Argus Mid-Cap MP on the homepage of our website

MACRO FORECASTS

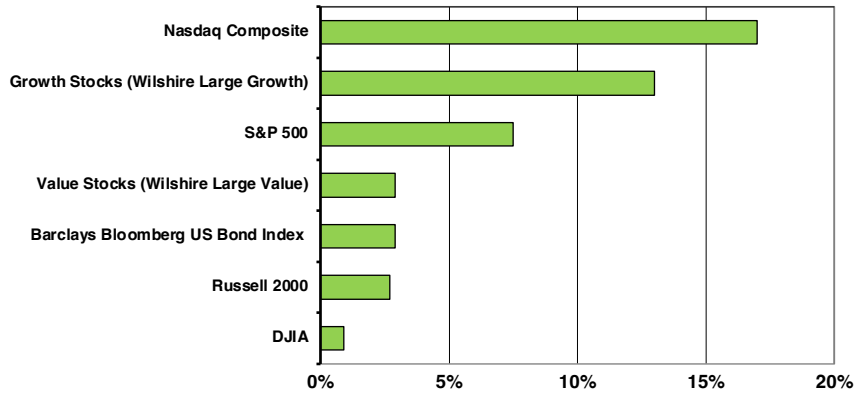


MARKET PERFORMANCE

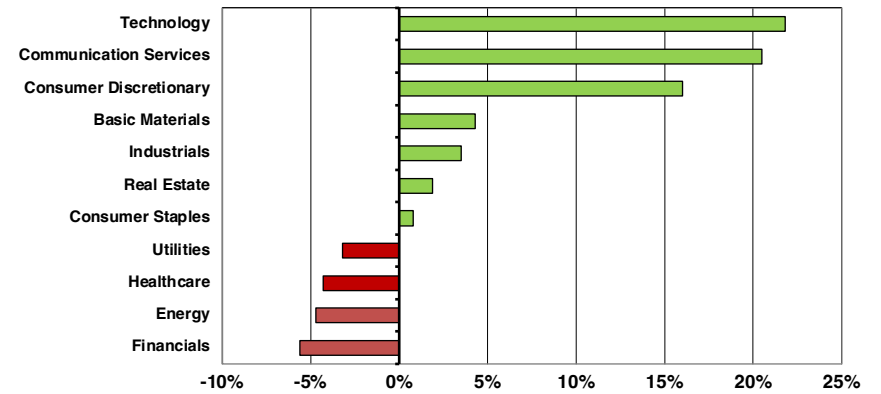
DATA AS MARCH 31, 2023



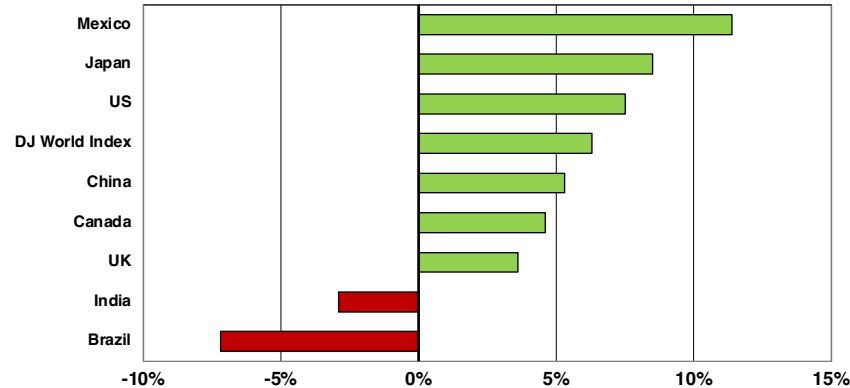
MAJOR INDEX



SECTOR



GLOBAL EQUITY MARKETS



- **Inflation is affecting spending across and within product categories.**
- **People are “prioritizing” their spending – kids, partner, pets - self last.**
- **A (surprisingly) strong job market is currently supporting spending.**
- **Consumers are tapping savings and using credit cards to meet needs.**
- **Companies will need to stay engaged with core customers.**
- **Amid inflation, companies must consider market share as well as margins.**
- **Big data is more important than ever in planning promotions and pricing.**
- **Housing affordability is a major problem – millions priced out of market.**

CATALYSTS FOR STOCK PERFORMANCE:



- **Ability to preserve margins through price increases or cost reductions.**
- **Ability to drive store traffic or unit volume.**
- **Financial strength to keep investing the business.**
- **A well laddered debt structure amid rising interest rates.**

■ Home Depot (HD)

- 12-month Target Price: \$360

■ Lowe's (LOW)

- 12-month target price: \$290

■ TJX (TJX)

- 12-month target price \$92

■ Dick's Sporting Goods (DKS)

- 12-month target price: \$170

- **In mid-March, California-based SVB Financial Group was taken over by regulators due to inadequate liquidity and insolvency. We believe the bank stock reaction to the collapse was overdone. SVB was a special situation in three ways:**
 - **Uninsured deposits at the bank accounted for some 90% of funding (versus the large bank average of 56%), leaving the bank susceptible to a run from a relatively small base of depositors.**
 - **Deposits were deeply concentrated in unprofitable start-ups, which have been unable to access the capital markets and are winding down deposits from prior fund raisings.**
 - **SVB deposit base grew about three-fold during the venture capital surge of 2020/2021. SVB invested in long-dated Treasuries during a very low yielding environment.**

- **We have run several screens of S&P 1500 banks looking at available-for-sale and held-to-maturity portfolios, and uninsured deposits relative to the total. SVB was very much an outlier.**

- **Fed data shows a modest amount of deposits moved from smaller banks (under \$100 billion in assets) to larger banks over the past few weeks. Trend is winding down.**

- **The episode is likely to result in more stringent stress tests that tie up bank capital and/or alter composition of risk-weighted assets, higher deposit insurance costs, greater scrutiny of balance sheets in a rising rate environment, and elevated costs of capital, which could impose a modest burden on industry profitability. Consolidation is also likely.**

- **We favor large and mid-size banks that are best able to withstand an enhanced regulatory environment from a cost perspective, and are likely beneficiaries of deposit inflows:**
 - **JPM, BAC, TFC, PNC and USB.**

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