



MONTHLY RESEARCH WEBINAR

ARGUS SECOND-HALF 2024 OUTLOOK

Moderator:

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■ **Argus Second-Half 2024 Outlook**

- Jim Kelleher, CFA, Director of Research
- John Eade, Argus President

■ **Argus Quick Notes**

- Clean Energy Utilities
- ESG Stocks
- Financial Sector Stocks
- Activist Stocks
- Find these on the homepage of our website

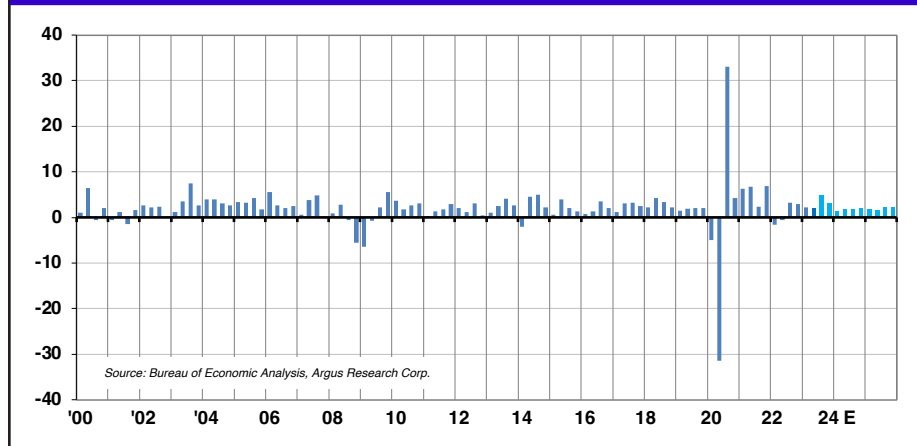
■ **Portfolio Update: the Argus Dividend Growth Model Portfolio**

- Dividends are an important element of total return
- Dividend growth stocks: lower yields, but faster payout growth
- strong cash flows, monetizing new product development
- Find the Argus Dividend Growth MP on the homepage of our website

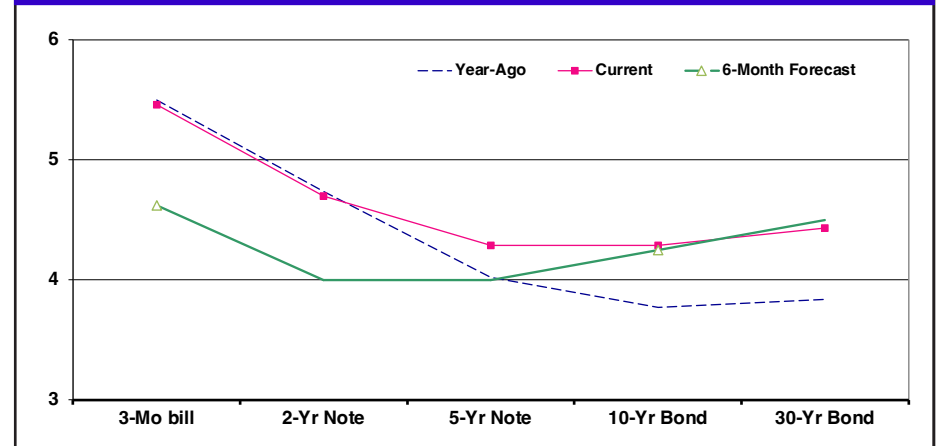
MACRO FORECASTS



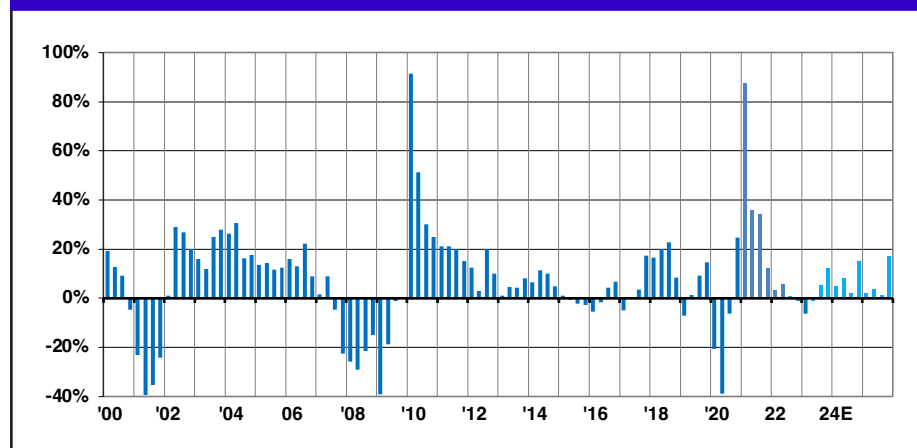
REAL GDP W/FORECASTS (%)



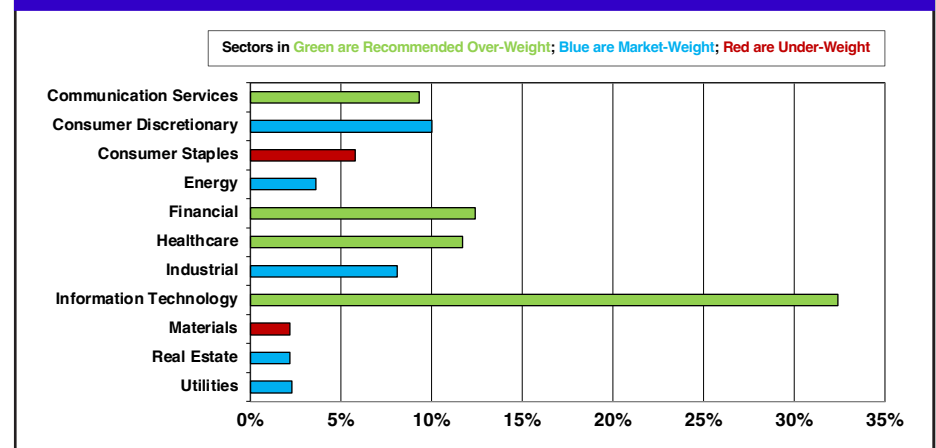
TREASURY YIELD CURVE (%)



S&P 500 QUARTERLY EARNINGS GROWTH

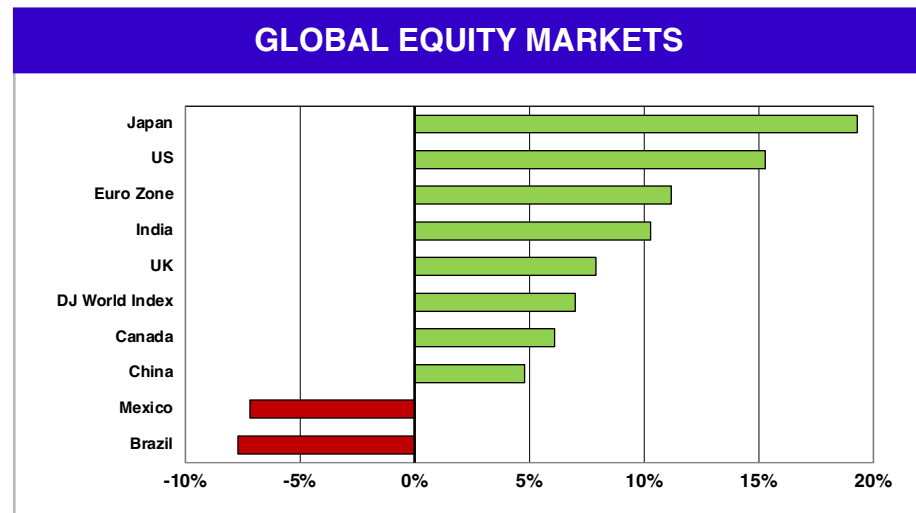
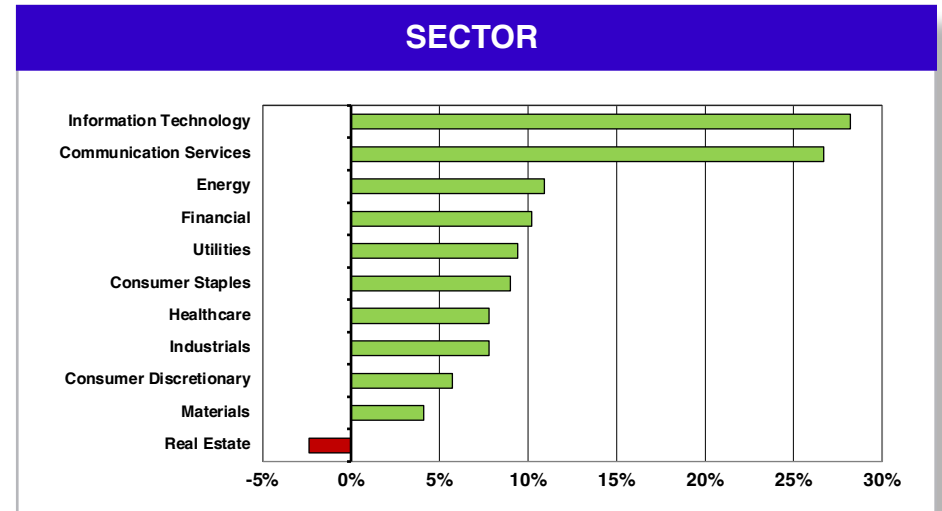
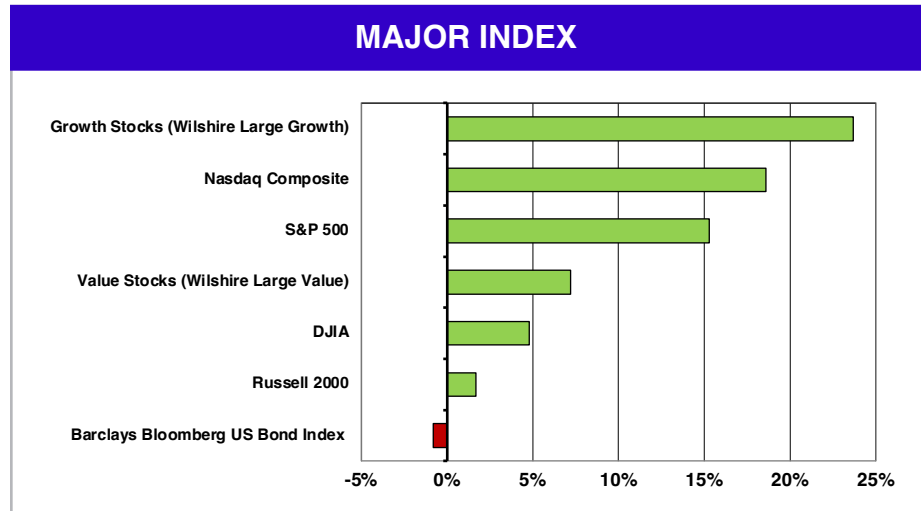


MARKET SECTOR DISTRIBUTION - PERCENT OF S&P 500



MARKET PERFORMANCE

DATA AS JUNE 28, 2024



■ Base Case

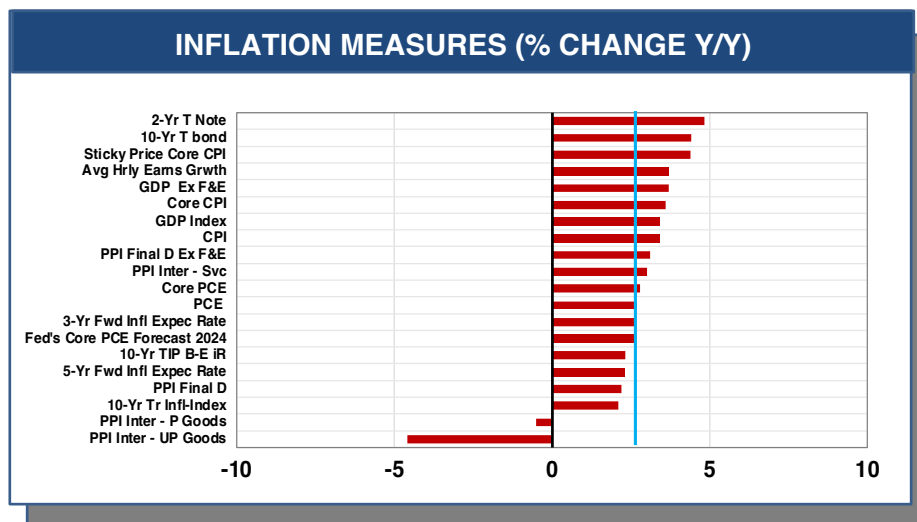
- Core PCE falls sub 3.0% by year-end – currently at 2.6%
- Fed has replenished its tool kit, and in position to cut rates mid-year
- GDP growth averages 1.8% in 2024, recession avoided
- Victor is declared in U.S. Presidential race
- S&P 500 rises 8-12% for year, sets new record high; target 5200

■ Bullish Case

- Inflation, including transportation and shelter, falls faster than expected
- Fed in position to cut more aggressively
- Geopolitical issues wind down/Victor is declared in U.S. Presidential Race
- Earnings surprise on the upside; interest rates decline and multiples increase
- S&P 500 rises 15-20%; target 5600

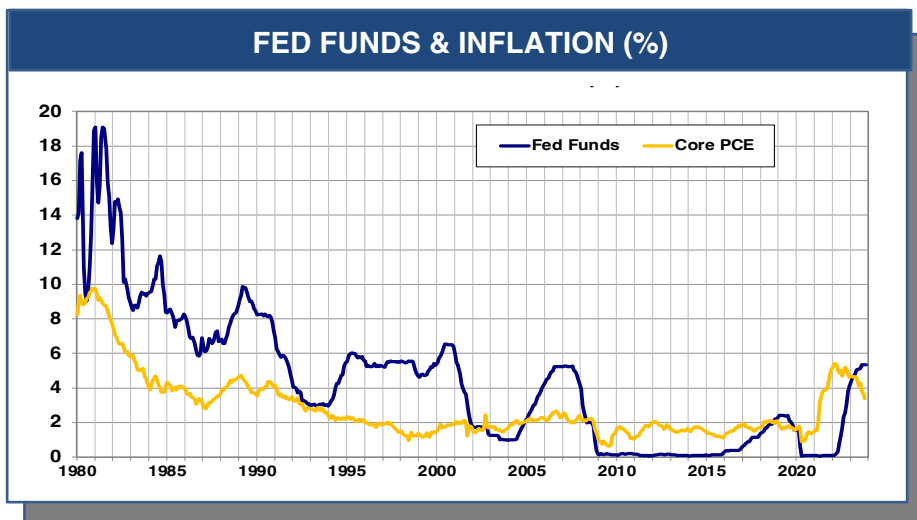
■ Bearish Case

- Inflation remains stubborn (shelter, transportation)
- Fed unable to lower rates
- Higher rates finally hit Consumer sector; Unemployment rate heads toward 5.0%-plus
- U.S. Presidential Election night produces inconclusive outcome; courts brought in to resolve
- Market endures pronounced correction phase; target 4500



Inflation Rates Falling

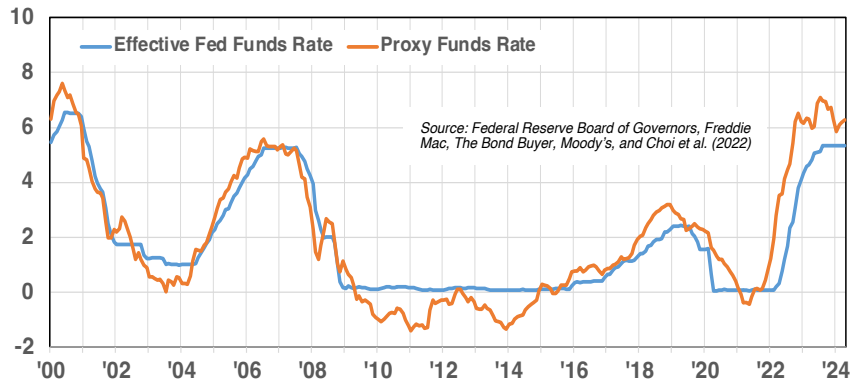
- Headline figures down but around 3.0%, still well above the Fed long-stated 2% goal.
- Core measures in both CPI and PCE remain elevated due to shelter and transport component.
- Need inflation to at least have consistent 2% “handle” for the Fed to begin to execute a rate cut.
- Farther up the pipeline, producer prices falling.



Fed is Ahead of the Curve

- Expect no more rate hikes with the potential for rate cuts in 2H24.
- Nominal rates (5.37%) well above current inflation (2.6%).
- Fed funds market pricing in rate cuts starting in Sept.
- Can the Fed thread the needle and avoid a recession?

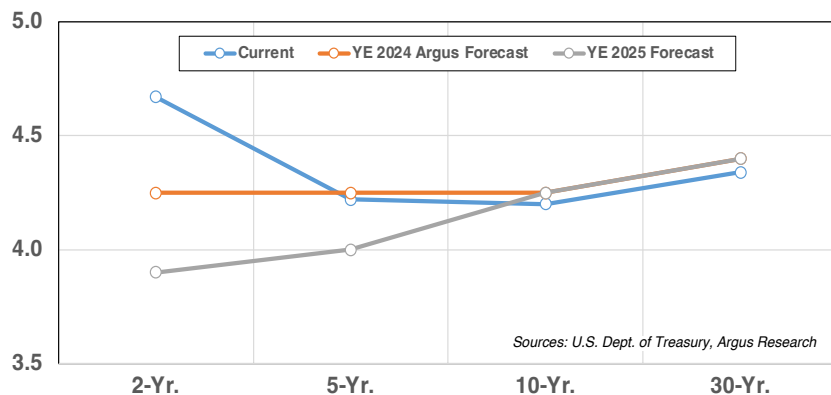
PROXY FUNDS RATE AND EFFECTIVE FED FUNDS RATE (%)



Rates Even Higher Than Seem

- Proxy Funds rate is an analytical tool tracked and updated monthly by the San Francisco Fed.
- Model uses 12 financial variables, including Treasury rates, mortgage rates and borrowing spreads to assess the stance of monetary policy.
- This metric shows that conditions are even tighter than high fed funds rate implies

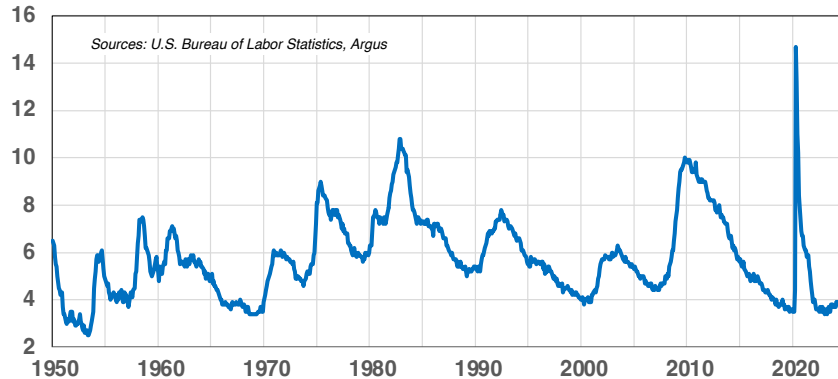
YIELD CURVE & OUTLOOK (%)



Expect Upward Slope in 2024

- 2-10 year inversion near -35 bps. Off the -110 bps level last summer.
- Extended inversion has been an indicator of a future recession. But maybe not this time.
- In 2024-25, expect two year rates to come down to around 3.75% with 10 year to range between 4.00%-4.50%

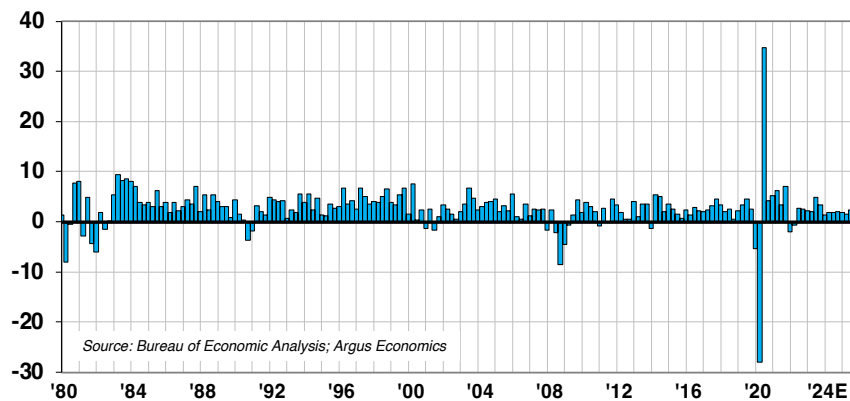
UNEMPLOYMENT RATE



Jobs Environment Strong

- Payrolls Friday: Argus forecasts 175k; unemployment 4.1%.
- Fine record for Fed: the CPI has declined from 9.1% to 3.3%, but unemployment is still historically low.
- Fed Unemployment rate target is 4.2% for 2025.
- Claims still low, at 238k, though up from 200k; worry when claims get to 300k

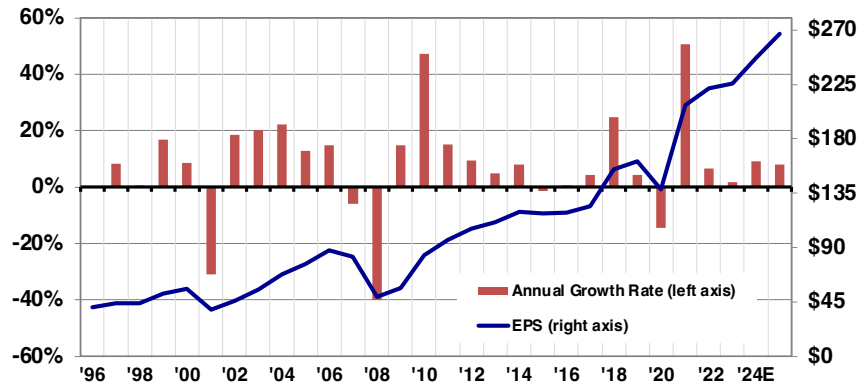
GDP TRENDS & OUTLOOK (% CHANGE)



On Track to Avoid Recession

- 1.9% GDP growth in 2Q24; target for year is 1.7%
- Areas of strength: Consumer Services, Intel Prop, Govt. spending
- Areas of concern: Durables, Housing
- Early forecast for 2025 is 2.0%
- What is a recession? Not two quarters any more?

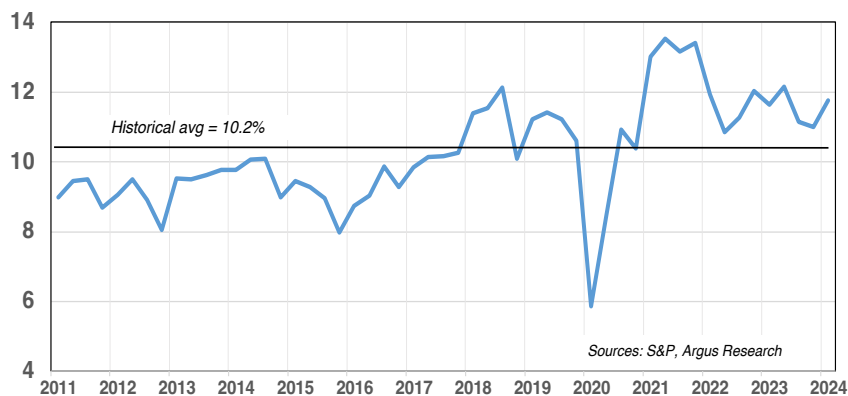
S&P 500 EPS TRENDS & ESTIMATES



Earnings Growth Picking Up

- There was an EPS recession: in 2023
- But 1Q24 was 3rd positive quarter in a row
- Single-digit growth in 1Q; ex-Pharma, up 13%
- Revenue growth of 4%
- Almost 80% of companies top expectations, versus 67% avg.
- Forecast 9%-10% gain in 2024, HSD in 2025

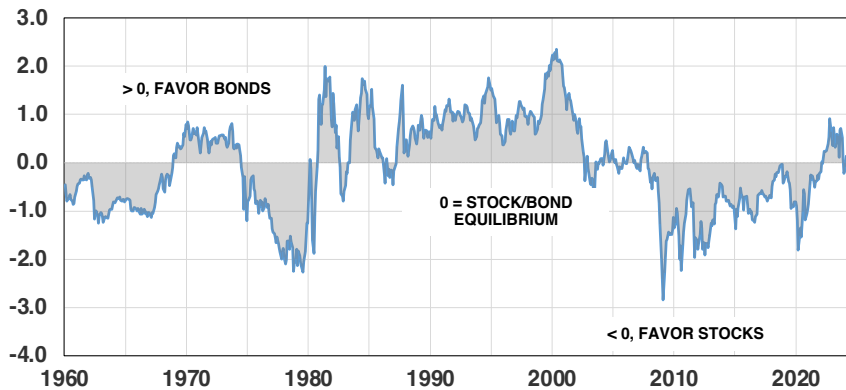
S&P OPERATING MARGIN TRENDS (%)



Margins Have Room to Grow

- 1Q24 S&P 500 Operating Margin of 11.8%
- Higher than long-term average of 10-11%
- But below highs of 13.5% in pandemic
- Supply Chains improving, PPI easing, wage growth moderating
- Plus companies are buying back record amounts of stock

STOCK BOND BAROMETER



Valuations Reasonable

- Stock/bond model stock premium down from highs
- Forward PE: 20, with range of 15-24
- Yield: 1.3% (1.3%-2.3% 10 yr. range)
- Falling rates, inflation good for valuation
- Risks: EPS fails to grow in low DDs

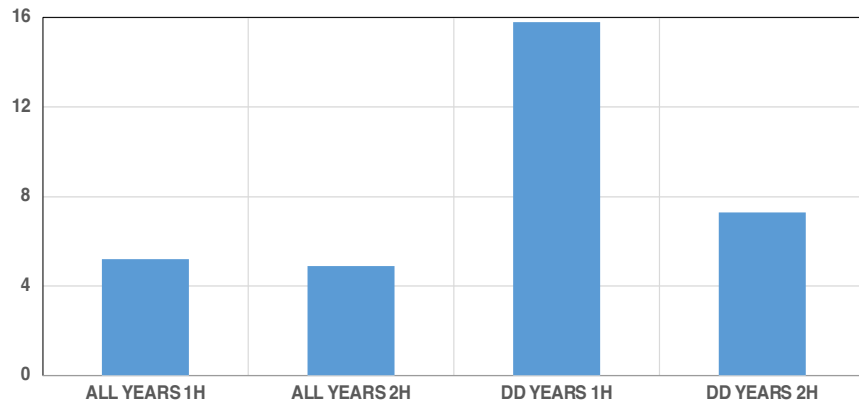
VOLATILITY INDEX (WEEKLY CLOSE)



Risk Environment Improving

- VIX > 20 for 2020-22, now 12
- Consistent with bull markets, which are less volatile
- Old fears: Pandemic, supply chain, inflation, Russia, Fed, recession
- New risks: Lingering inflation, recession, China, election, complacency, concentration, bubble?

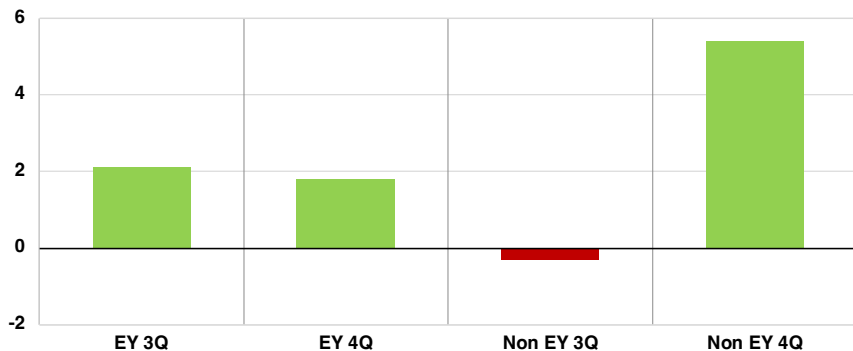
STOCK MARKET RETURNS (% CHANGE IN S&P 500)



Good Start to 2024

- Double-digit first-half leads to 2H gains 80% time
- 16 DD 1Hs since 1980, average gain 15.8%
- For those 16, 13 had positive 2Hs as well
- Full measurement set: 1H, up 5.2%, 2H, up 4.9%

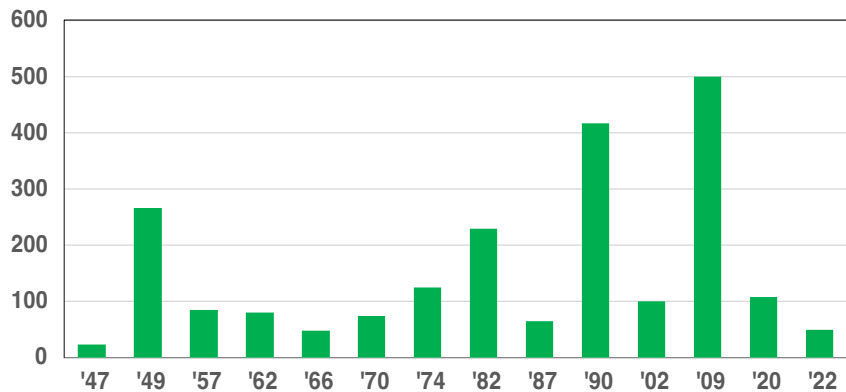
STOCK MARKET RETURNS IN 2H OF ELECTION YEARS (% CHANGE IN S&P 500)



This is an Election Year

- Buy the Rumor, sell the News?
- 3Q in Election Year surprisingly strong
- It is 4Q that is softer
- Certainly compared to strong 4Qs in other years
- Many elections this year: India, Mexico, South Africa, France, UK
- Results often surprising, but elections are finalized

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



What to Expect in a Bull Market

- 13 since WWII
- Average gain 164%
- Average duration 57 months
- Recent bull markets have been longer, more profitable for investors
- There will be a Wall of Worry
- New bull drivers can be lower rates, faster, more durable EPS growth

■ Base Case

- Core PCE falls toward 2.0% by year-end – currently at 2.6%
- Fed has replenished its tool kit, and cuts rates at least 1x
- GDP growth averages 1.8% in 2024, recession avoided
- Victor is declared in U.S. Presidential race
- S&P 500 rises another 5%; target 5800

■ Bullish Case

- Inflation, including transportation and shelter, start to come down
- Fed signals more cuts into 2026
- Geopolitical issues wind down/Victor is declared in U.S. Presidential Race
- Earnings surprise on the upside; interest rates decline and multiples increase
- S&P 500 rises 10%; target 6000

■ Bearish Case

- Inflation remains stubborn (shelter, transportation)
- Fed signals fewer rate cuts into 2025
- Higher rates finally hit Consumer sector; claims go to 300k, unemployment > 4.5%
- U.S. Presidential Election night produces inconclusive outcome; courts brought in to resolve
- Market endures pronounced correction phase; target 5000

Segments

Large-caps favored for Growth, Financial Strength

Small-caps offer value

Growth favored over Value as rates decline

Domestic favored over International

Sectors

Overweight: Communication Services, Financials, IT, Healthcare

Market Weight: Energy, Industrials, Consumer Discretionary, Utilities, Real Estate

Under Weight: Materials, Consumer Staples

■ Confidence Signals – Dividend Growth & Guidance

• ACM, ETN, ECL, FIS, FI, GE, GPC, HWM, OMC, PG, PWR

■ Capital Markets Recovery Phase II

• GS, MS, CBOE, NDAQ, BLK, STT, IVZ, MCO, SPGI

■ Election Year – Political Spending

• VMC, CAT, DE, URI, RSG, PWR, CCL, TXN, INTC, MU, TSM

■ AI Integrates Further

• NVDA, MU, MSFT, GOOGL, AVGO, QCOM, BABA,

■ Clean Energy

• XYL, BMI, GEV, FSLR, GNRC, TSLA, GM, F,

■ International Dividend

• DEO, ENB, RY, NVO, SNY, CP, BHP, NXP, RHHBY

■ Investing in the Cloud

• IBM, DELL, NTAP, NOW, META

■ Cybersecurity

• MSFT, CSCO, PANW, AVGO, CHKP, CRWD, LMT, NOC, GD

■ Sustainable Impact Investing

• ECL, TMUS, WMT, COP, JPM, SPGI, TRV, TT, ETN, LRXC, KLAC

■ Innovation

• ADBE, ADI, LLY, HOLX, MKC, ODFL, AAPL, PWR, MSCI, SCHW, COST

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