



MONTHLY RESEARCH WEBINAR

ARGUS RESEARCH 2025 OUTLOOK

Moderator:

Jim Kelleher, CFA

Director of Research

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■ **Argus Research 2025 Outlook**

- Jim Kelleher, CFA, Director of Research
- John Eade, Argus President
- Chris Graja, CFA, Director of Economic Research
- Kevin Heal, Fixed Income Strategist & Senior Analyst

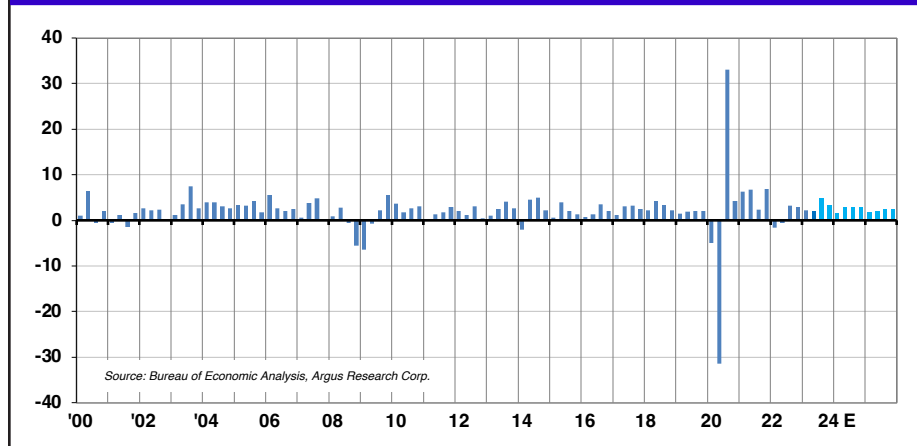
■ **Argus Quick Notes**

- Black Friday Deals in Retail
- 13Fs: What the Institutions are Buying
- Companies Raising Guidance
- Find these on the homepage of our website

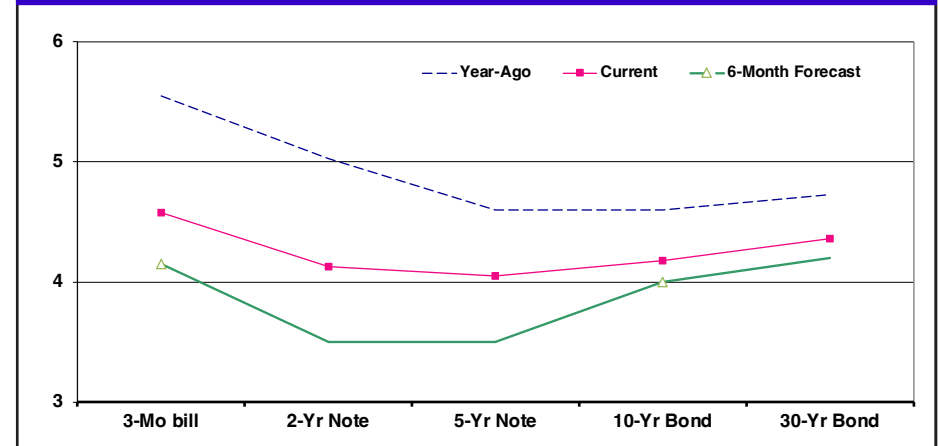
■ **Portfolio Update: the Argus Innovation Model Portfolio**

- Innovation a vital necessity for U.S. companies
- Low value manufacturing has moved overseas
- U.S. companies now focus on high-value-added products & services
- Innovation draws global fund flows to U.S. markets.
- Find the Argus Innovation MP on the homepage of our website

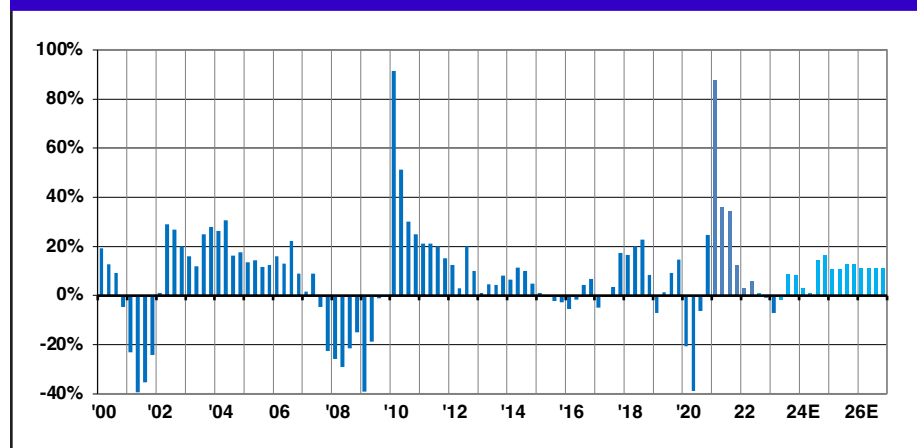
REAL GDP W/FORECASTS (%)



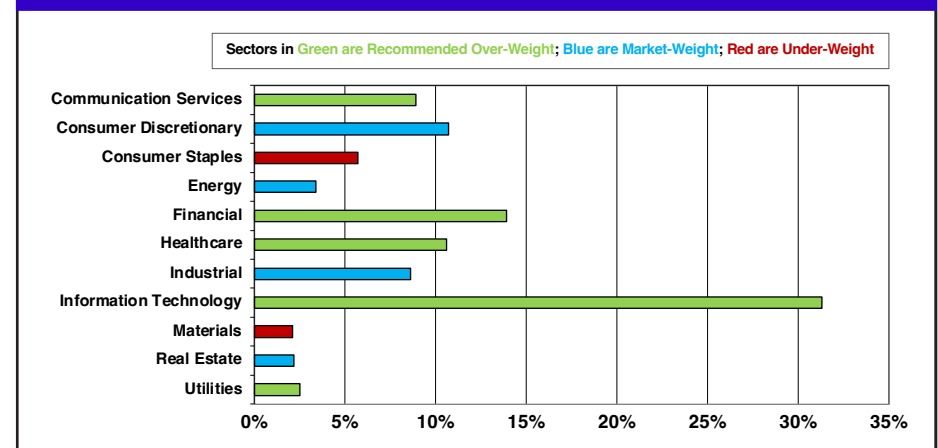
TREASURY YIELD CURVE (%)



S&P 500 QUARTERLY EARNINGS GROWTH



MARKET SECTOR DISTRIBUTION - PERCENT OF S&P 500

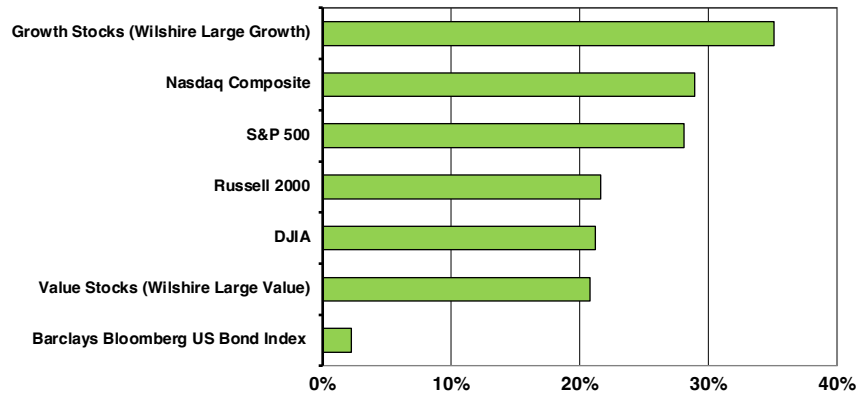


MARKET PERFORMANCE

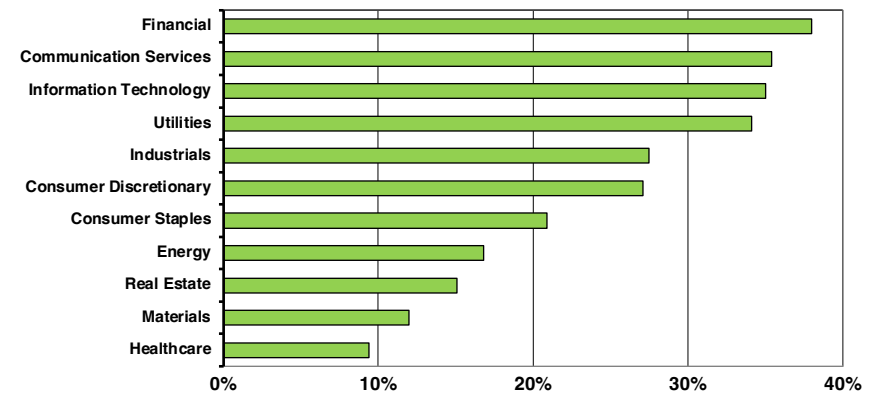
DATA AS NOVEMBER 29, 2024



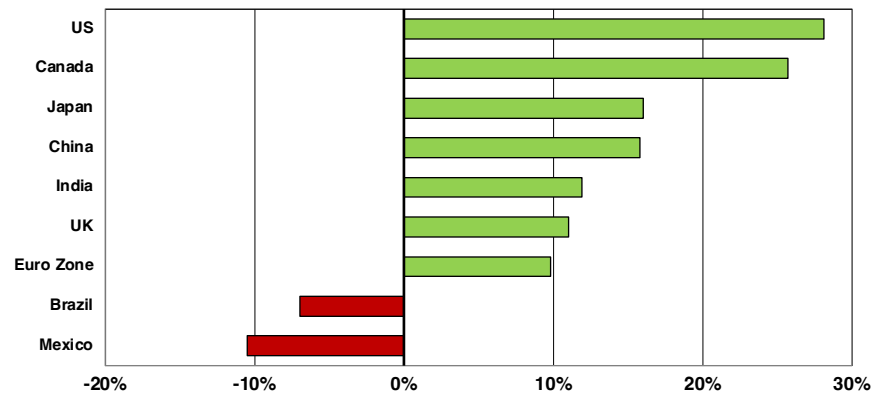
MAJOR INDEX



SECTOR



GLOBAL EQUITY MARKETS



■ **BASE CASE**

- Core PCE falls sub 3.0% by year-end – currently at 3.7%
- 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

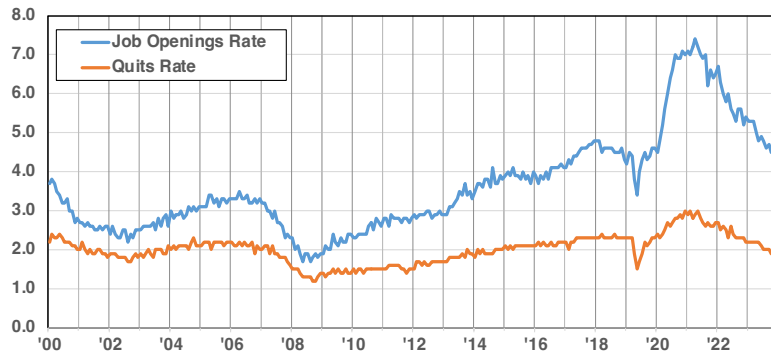
■ **BULLISH CASE**

- 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%

■ **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

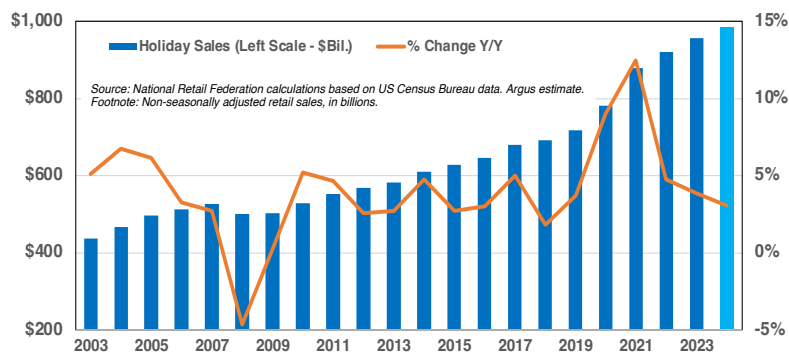
JOB MARKET NEAR EQUILIBRIUM



Employment Environment Solid

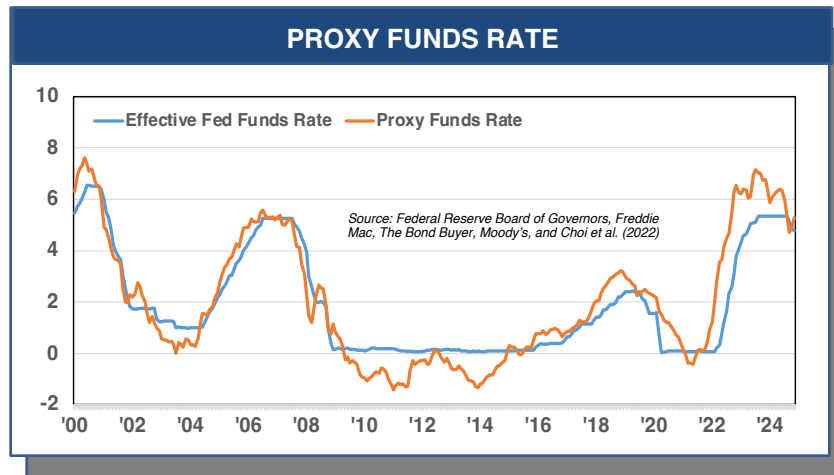
- The job market is balanced to support the “Dual Mandate”
- 4% - 4.5% unemployment is near “full,” non-inflationary rate
- Jobless Claims near 220k are well below 300K recession flag
- Fed unemployment forecast is 4.4% in 2025, 4.2% long run
- Monthly payrolls of 100K needed for 4.2% unemployment
- Thesis: With skilled workers scarce, severance expensive and GDP growth on the horizon we don’t expect notable layoffs.

HOLIDAY SHOPPING TRENDS



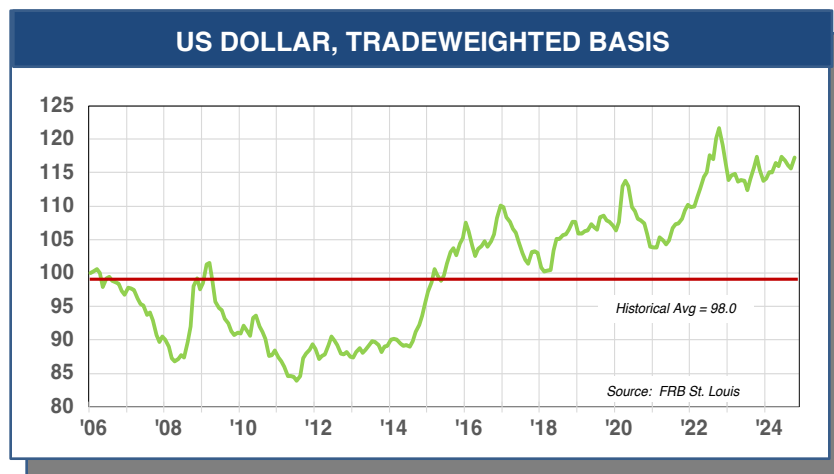
Don’t Bet Against the Consumer

- Holiday sales to rise about 3% this year to nearly \$1 trillion
- Consumers are employed, the election is settled
- Momentum from 3Q GDP, real disposable income growing
- Grocery +2, Gen Merch +3, Online +6.5 (key to my forecast)
- Outlook: Don’t worry about a repeat of temporarily muted spending in January as shoppers pay-off credit cards.



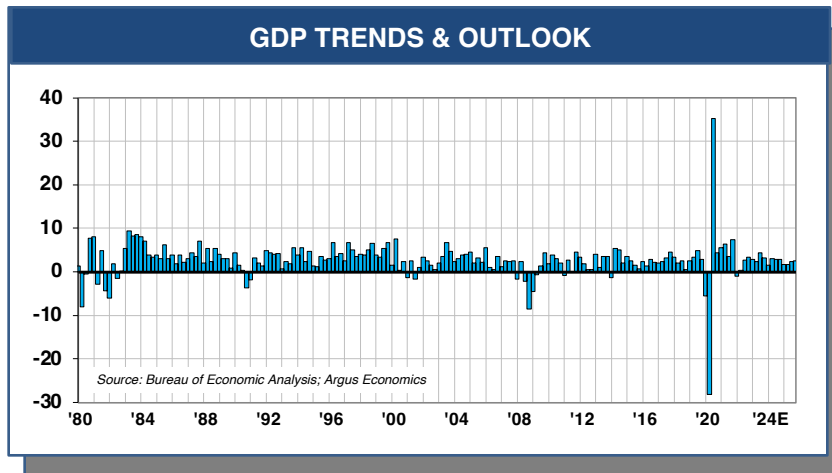
Market Eased Ahead of the Fed

- Proxy Funds Rate from the SF Fed uses 12 financial variables (yields & spreads) to translate full range of Fed policy actions into an analogous level of the funds rate.
- Proxy declined 270bp from 7.2% in July 2023 to 4.5% in September, substantially easing financial conditions.
- Up 80bp since mid-September, recalibrating as market pivoted from recession fear to “last mille” of Inflation. Higher Proxy rate may temper growth and remaining inflation.



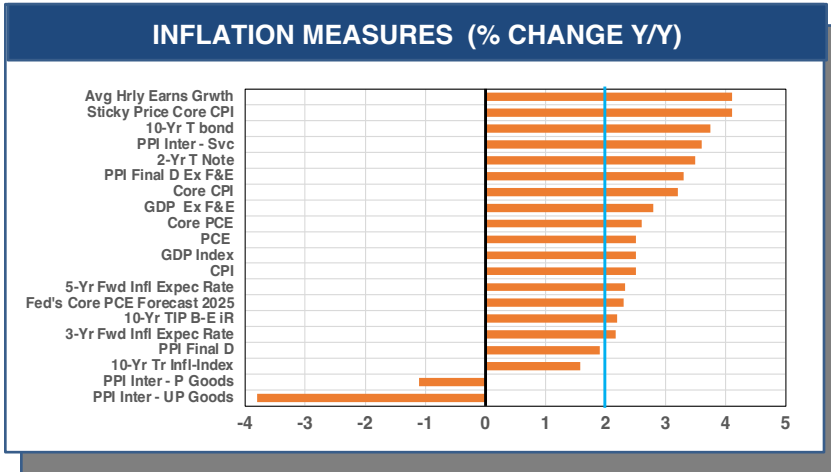
Greenback Reflects US Resilience

- Dollar Index (DXY) up 5.75% this year.
- Current level about 20% above historical averages.
- Dollar has rallied this fall with higher Treasury rates and President-elect Trump’s pro-growth platform.
- The relative strength of the U.S. economy and demand for shares of innovative companies may keep the dollar firm in 2025.



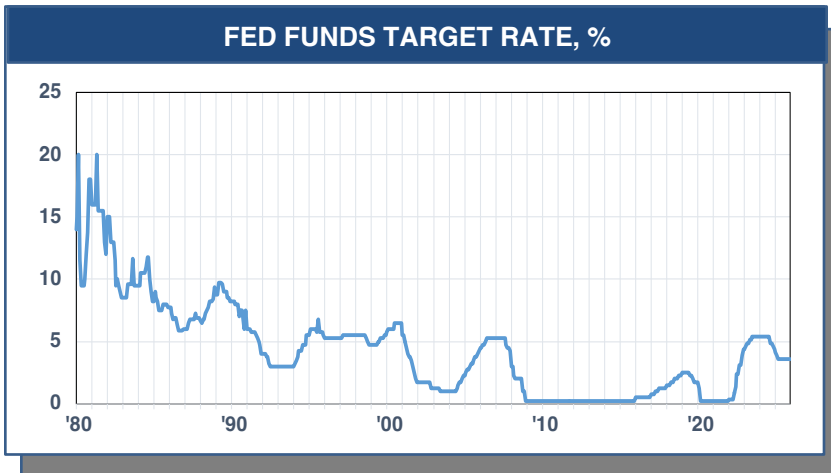
Strong Foundation '25 & Beyond

- Productivity is the key to sustainable growth
- Innovation is driving productivity
- Investment is fueling innovation
- 4Q GDP +2.8%
- 2025 GDP +2.0%:
 - 1Q25 1.7%, Q2 1.7%, 3Q 2.3%, 4Q 2.5%



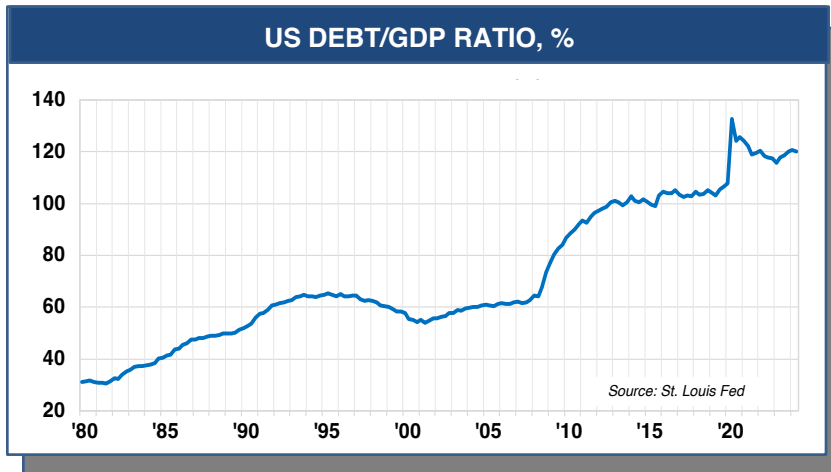
Inflation Pace Slowing

- Inflation measures closer to target 2.0%.
- We look at 20: average is 2.3%, core average 2.4%.
- Energy prices lower; services remain high.
- Look for inflation to continue downward trend in 2024, but at slow pace.



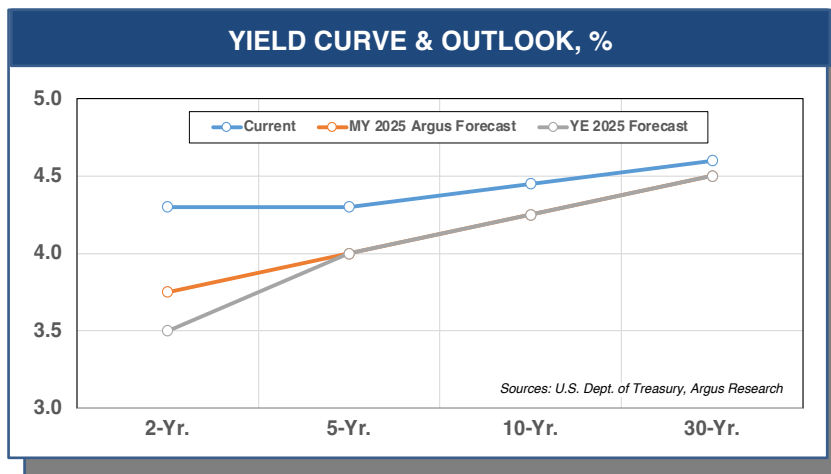
Fed Still on Course

- 2 cuts already in 2024, the first one 50 bps.
- Look for one more this month.
- Then 3 in first half of 2025.
- Fed ahead of inflation curve, will look to narrow gap.



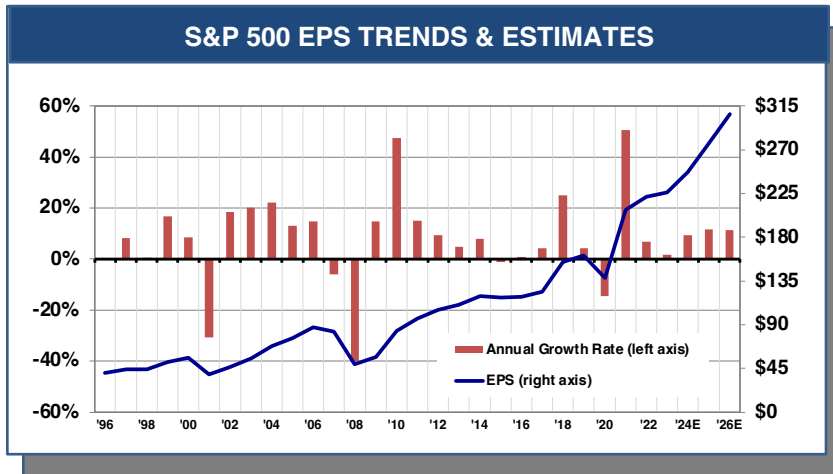
Deficit Spending Par for Course

- Neither candidate focused on balancing budget during Presidential campaign.
- Total US Debt is now 120% of GDP
- Not a problem that has to be fixed today.
- But likely to keep long-term rates elevated, despite global demand.



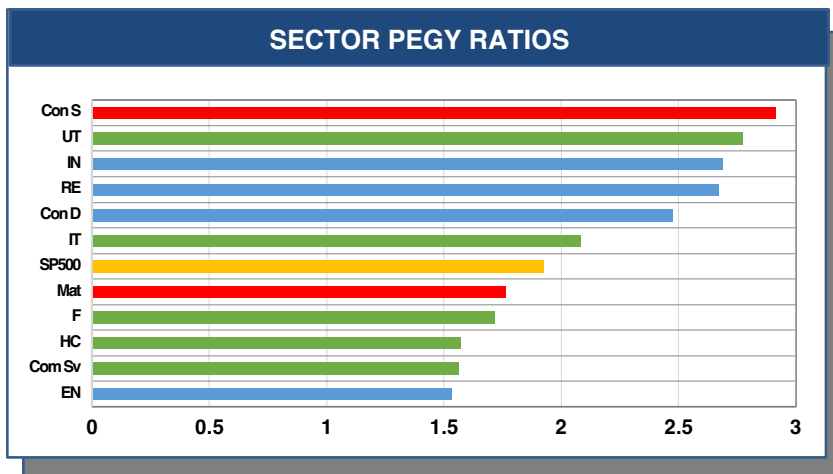
Back to an Upward Slope

- 2s-10s inverted for almost two years
- But lower inflation & ongoing economic growth has returned curve to normal upward slope
- Look for slope to steepen in 2025 as Fed cuts rates.
- Positive implications for economic growth.



Earnings Growth to Accelerate

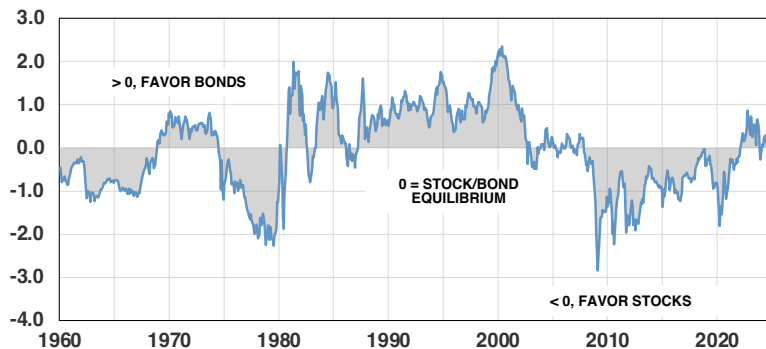
- 3Q24: 9% y/y growth
- Led by Technology, Comm Services
- Full-year forecast a 9-10% gain in 2024
- 2025 outlook a little better
- Macro Drivers: economic growth, operating leverage



Sector Outlook

- Better breadth in 2024.
- Health Care, Financial and Communication Services offer attractive growth/value characteristics
- Consumer Staples at opposite end of spectrum
- Key sector of course is technology. AI, Cloud, cybersecurity expected to lead EPS growth next two years

STOCK BOND BAROMETER



Valuations Reasonable

- Stock/bond model down from highs; slightly favors stocks
- 2025 forward S&P 500 PE 21x in 5-year range of 18-23
- EPS yield vs T-bond real yield of 320 bps lower than normal 400 bps but not at nosebleed 200 bps
- Falling rates, inflation good for valuation
- Risks: EPS fails to grow in low DDs

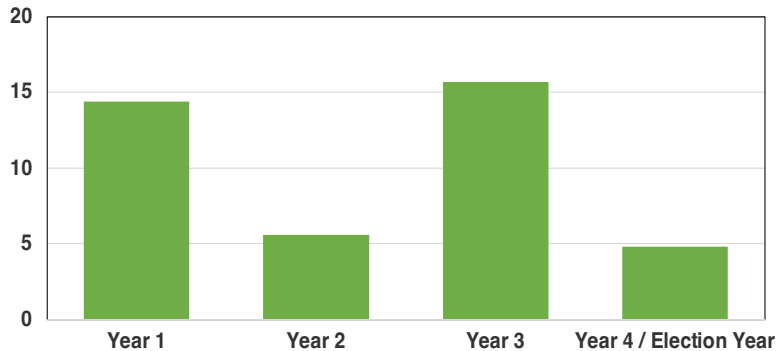
VOLATILITY INDEX (WEEKLY CLOSE)



Risk Environment Improving

- VIX > 20 for 2020-22, now 14
- Consistent with bull markets, which are less volatile
- Old fears: supply chain, inflation, Russia, Fed, recession, election, concentration
- New risks: lingering inflation, bond rates, China, complacency

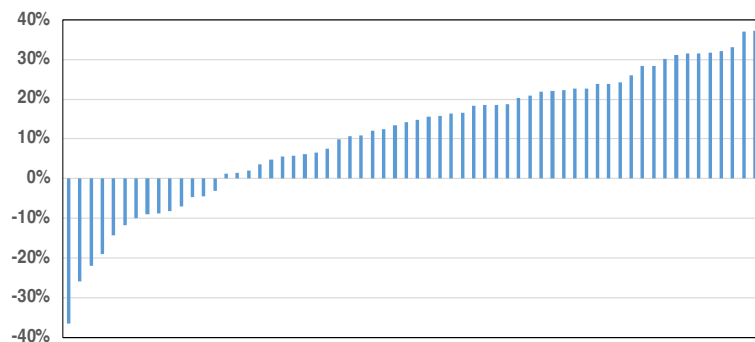
STOCK RETURNS PRESIDENTIAL CYCLE



1st Year Good for Stocks

- Average gains near 15%
- Honeymoon, economic spillover from campaigns
- Trump had good track record
- GOP sweep to impact agenda
- Deregulation, lower taxes could help economy, EPS

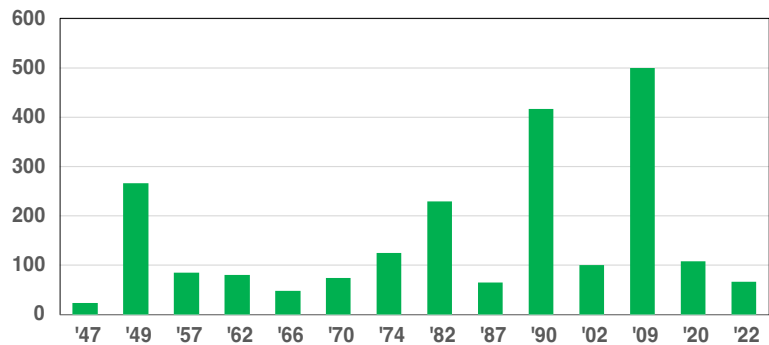
ANNUAL S&P 500 RETURNS



Years Usually Positive

- S&P 500 has posted gains almost 75% of time
- Average gain 11%, standard deviation of 17%
- 2024 good, but not exceptional year
- Best gain 37%, worst decline 37%
- 8 times since 1960 to have 3 positive years in a row
- Fundamentals more important, of course

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



What to Expect in a Bull Market

- 14 since WWII, including current began 10/22
- Average gain 164%
- Average duration 57 months
- Recent bull markets have been longer, more profitable
- New bull drivers can be lower rates, faster earnings growth

■ **BASE CASE**

- GDP growth averages 2.0% in 2025, recession avoided
- Core PCE falls toward 2.0% by year-end – currently at 2.8%
- Fed maintains rate-cutting program
- Corporate earnings rise low double-digits
- S&P 500 advances 10-15% for year

■ **BULLISH CASE**

- Lower taxes, deregulation offset impact of tariffs on rates and EPS grows mid-teens
- Fiscal plan generates higher tax revenues and government expenditures decline; LT rates drift lower
- Geopolitical issues wind down
- Global economy grows faster than expected
- S&P 500 rises 20%

■ **BEARISH CASE**

- Tariffs lead to trade wars and inflation heads back up
- Fed puts rate cuts on hold
- High rates stall US economic expansion and unemployment heads toward 5.0%
- Bubble Watch: Tech sector sell-off
- Market endures pronounced correction phase

■ Segments

- Large-caps favored for Growth, Financial Strength
- Small-caps offer value
- Growth favored over Value as rates decline
- Domestic favored over International

■ Sectors

- Over-Weight: IT, Communication Services, Financials, Healthcare, Utilities
- Market-Weight: Industrials, Energy, Consumer Discretionary, Real Estate
- Under-Weight: Materials, Consumer Staples

■ Themes

- Dividend Growth
- Raising Guidance
- Innovation
- Confident Consumer
- Aerospace & Defense
- Technology: AI, Cloud Computing & Cybersecurity

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