



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
- Chris Graja, CFA, Director of Economic Research
- Kevin Heal, Senior Analyst

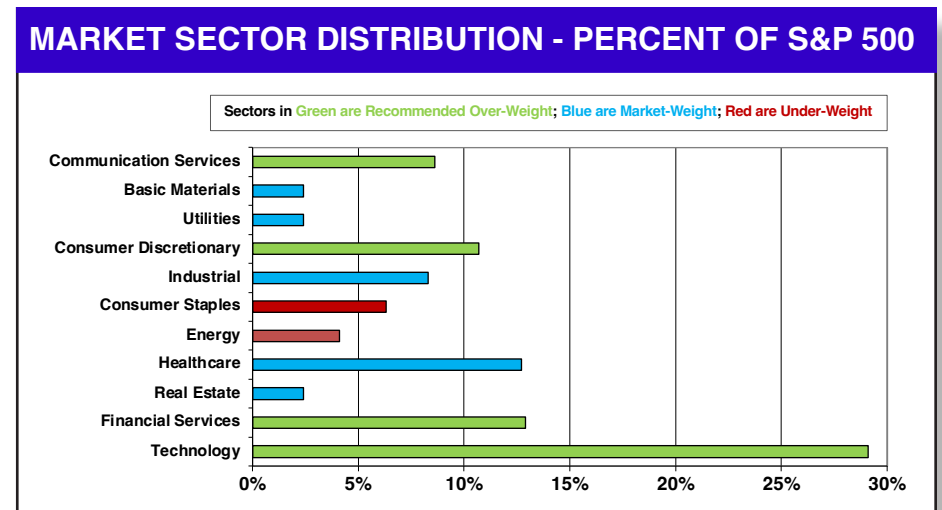
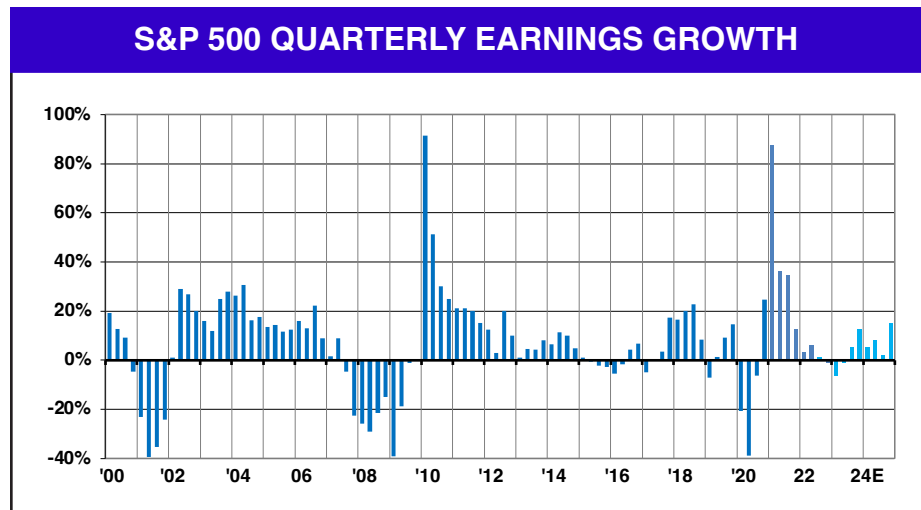
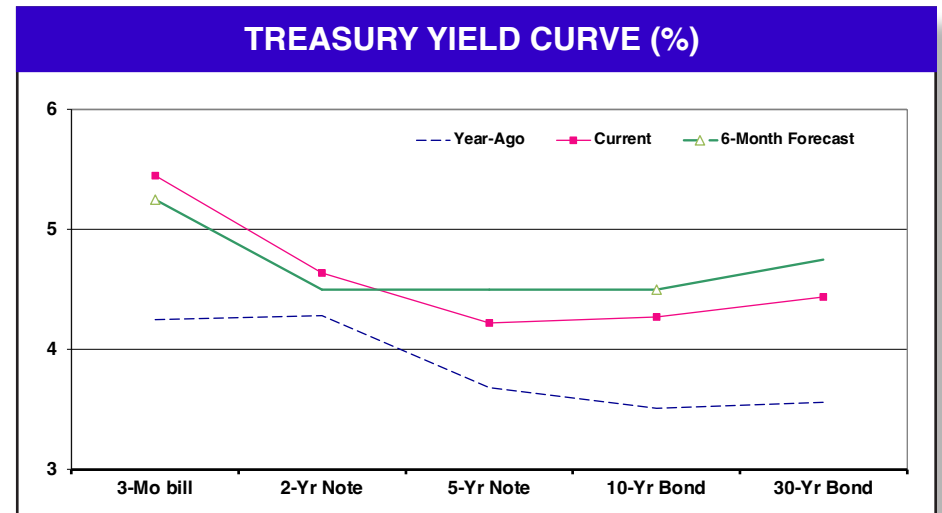
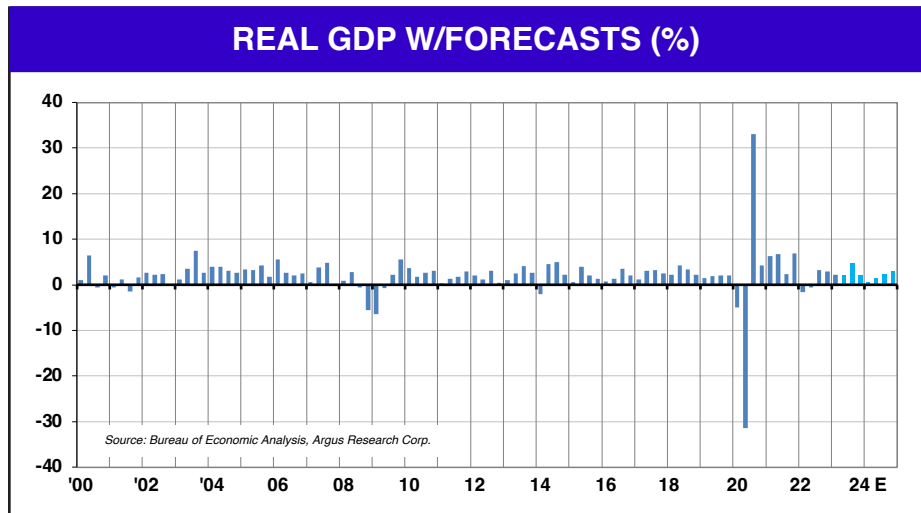
■ **Argus Quick Notes**

- Black Friday Stock Deals
- Companies Raising Guidance in 3Q23
- Energy: Acquisition Candidates
- Investing in the Cloud
- Find these on the homepage of our website

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

- ESG investing gaining traction worldwide, led by big banks
- As assets have grown, ESG investing has evolved
- Less about excluding tobacco, firearms, etc.
- More about positive impacts on climate, hunger, disease, workers' rights
- Find the Argus ESG MP on the homepage of our website

MACRO FORECASTS

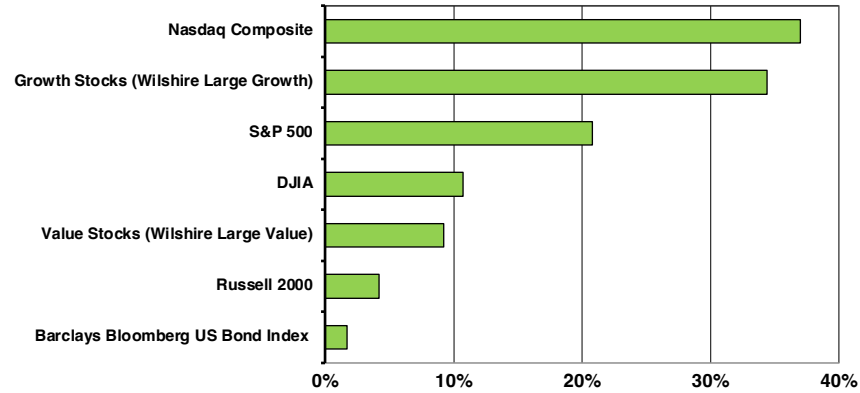


MARKET PERFORMANCE

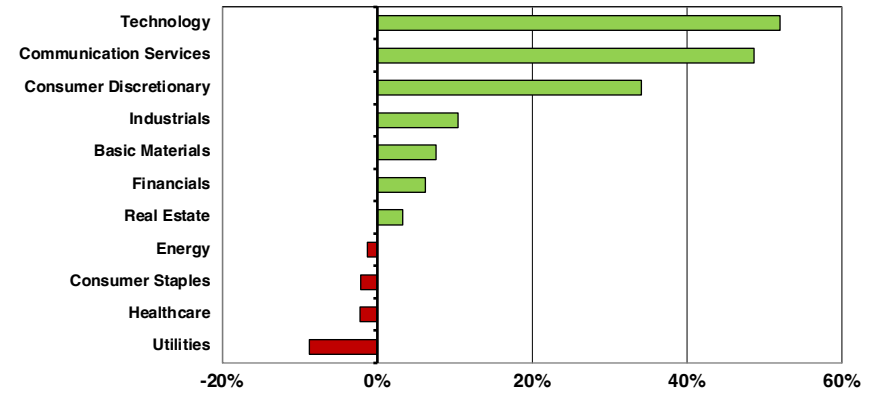
DATA AS NOVEMBER 30, 2023



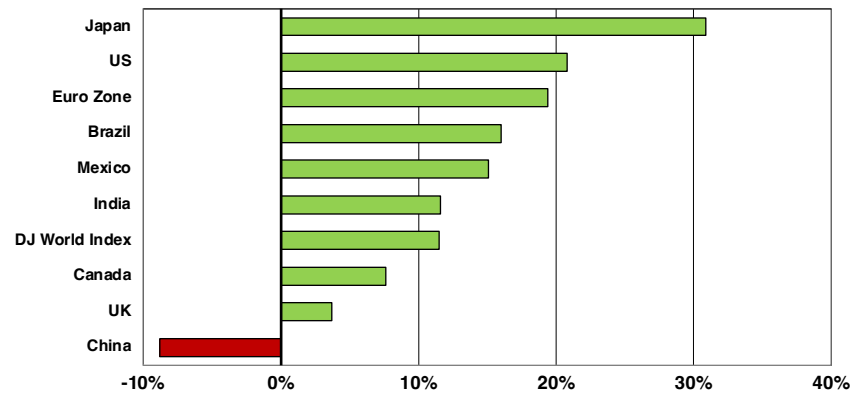
MAJOR INDEX



SECTOR



GLOBAL EQUITY MARKETS



BASE CASE

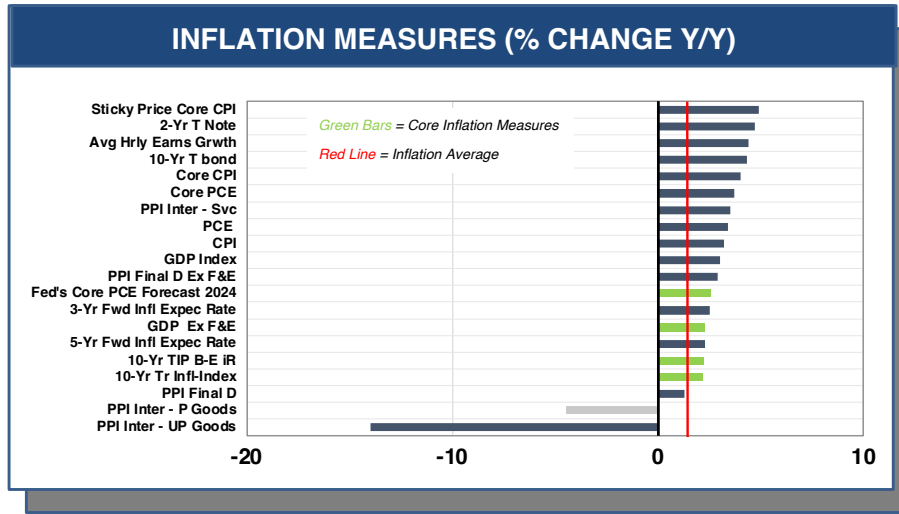
- Fed ends rate hikes early 2023
- Core CPI falls toward 5.0% by year-end – currently at 3.3%
- GDP growth averages 1.0% in 2023, outlook improves for 2024
- Fed has replenished its tool kit
- S&P 500 rises 8-12%, with strong 2H as margins stabilize/widen

BULLISH CASE

- Inflation falls faster than expected
- Geopolitical issues resolve/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%

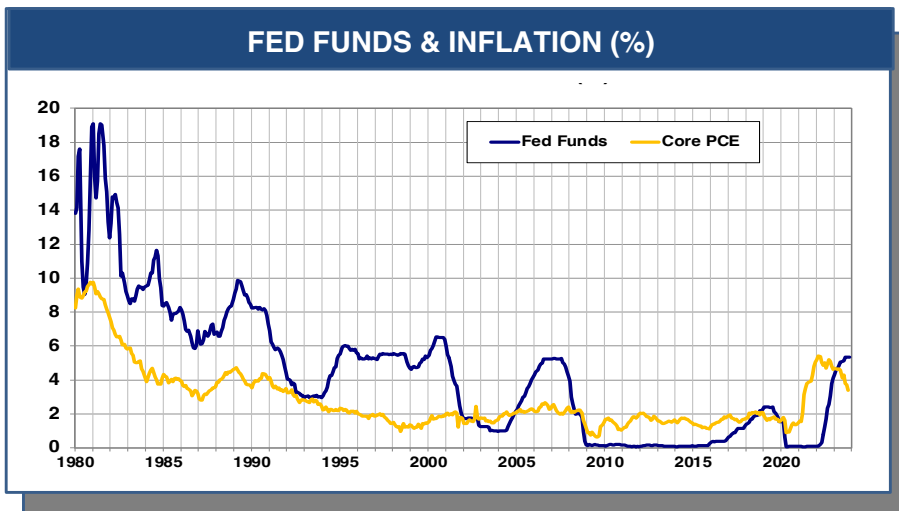
BEARISH CASE

- Inflation accelerates (Ukraine/Energy, 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



Inflation Rates Falling

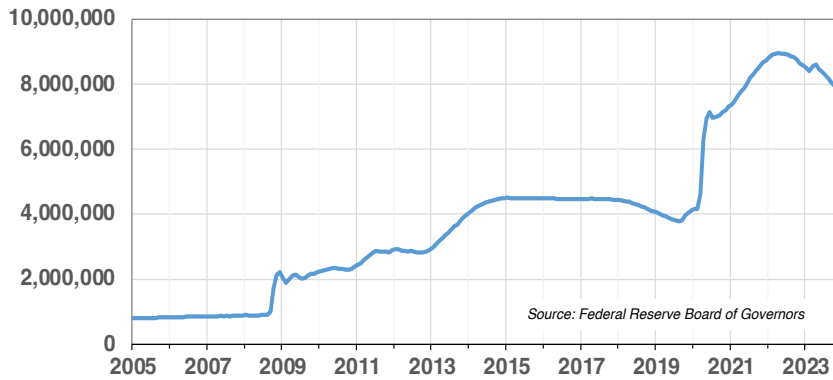
- Headline figures down but around mid-3%, still well above the Fed long-stated 2% goal.
- Core measures in both CPI and PCE remain elevated due to shelter component. Rents still rising.
- Need inflation to at least have consistent 2% “handle” for the Fed to begin to think about a rate cut.



Fed is Now Ahead of the Curve

- Expect no more rate hikes with the potential for rate cuts in 2H24.
- Real rates (5.37%) above current inflation (3.7%).
- Fed funds market beginning to price in rate cuts starting in May.
- Can the Fed thread the needle and avoid a recession?

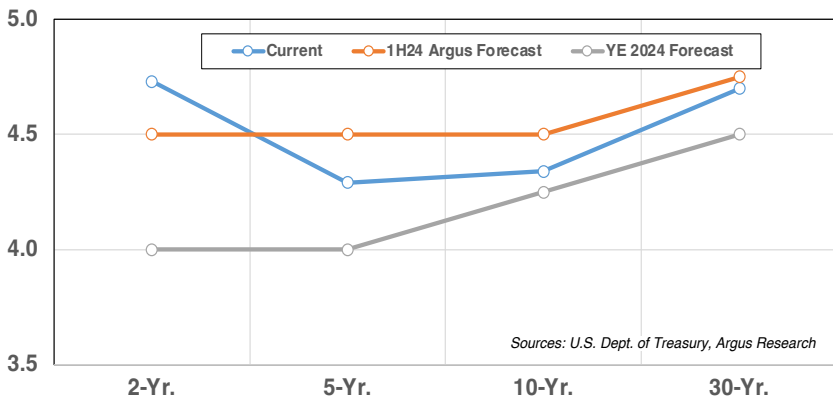
FEDERAL RESERVE BALANCE SHEET (FED ASSETS, \$ MIL)



Fed Still Selling

- Balance sheet at \$7.8 trillion, down from peak of \$9.0 trillion in June 2022.
- USTs total \$4.8 trillion, MBS total \$2.5 trillion and LOANS of \$154 billion.
- BTFP stands at \$114 billion. FDIC failed bank portfolio at \$34 billion down from \$135 billion.
- Y-T-D Fed reported a loss of \$88 billion. Earning 2.2% and paying 5.2%.

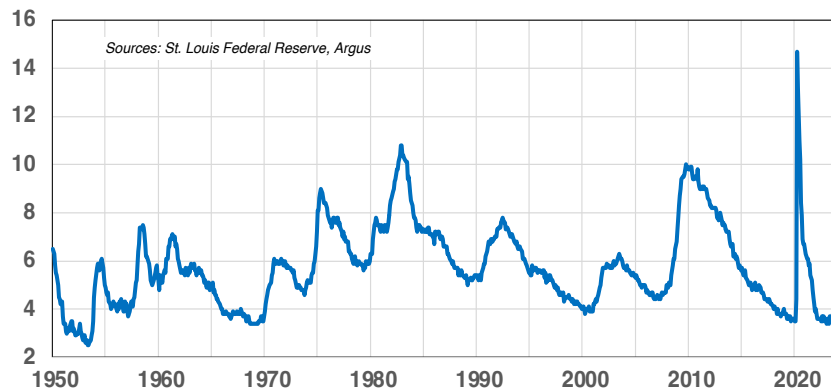
YIELD CURVE & OUTLOOK (%)



Expect Upward Slope in 2024

- 2-10 year inversion near -45 bps. Off the -108 bps level in July. 3m bill – 10yr negative at -110 bps.
- Extended inversion has been an indicator of a future recession.
- In 2024, expect two year rates to come down to around 4% with 10 year to range between 4.25%-4.50%

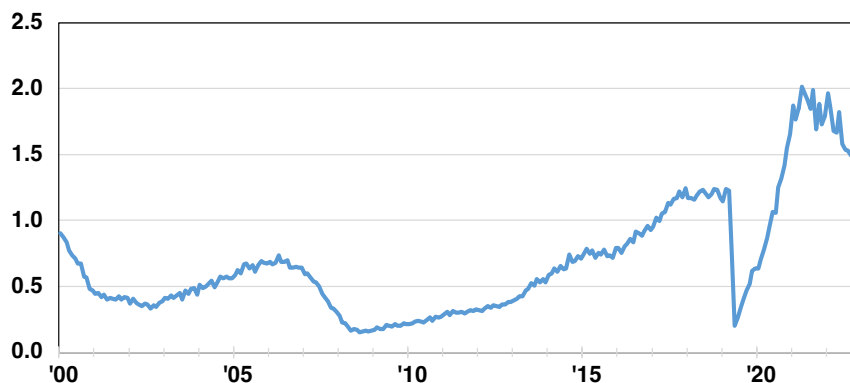
UNEMPLOYMENT RATE



Miraculous – So Far

- The Fed has raised the funds rate by 500bp since March 2022.
- The CPI has declined from 9.1% to 3.2%
- Unemployment has risen by just 30bp to 3.9% from 3.6% in March 2022 .

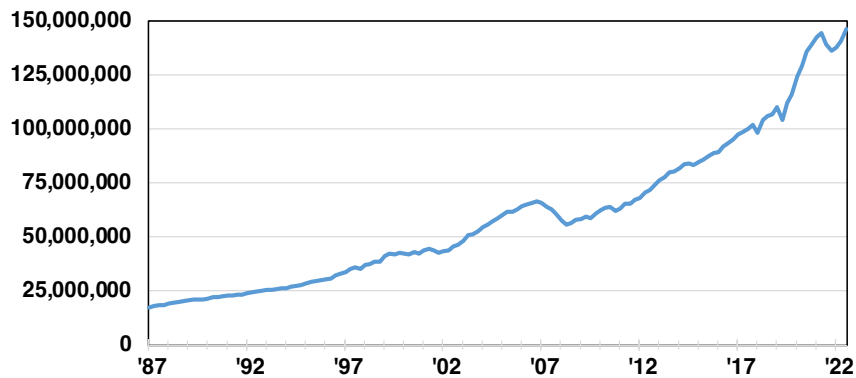
JOB OPENINGS TO UNEMPLOYED (RATIO)



But the Job Market is Cooling

- Employment conditions have been very “tight.”
- They are “easing,” which has allowed the Fed to “pause.”
- A 4.1% unemployment rate at the end of 2024 = monthly payrolls of 81,000.

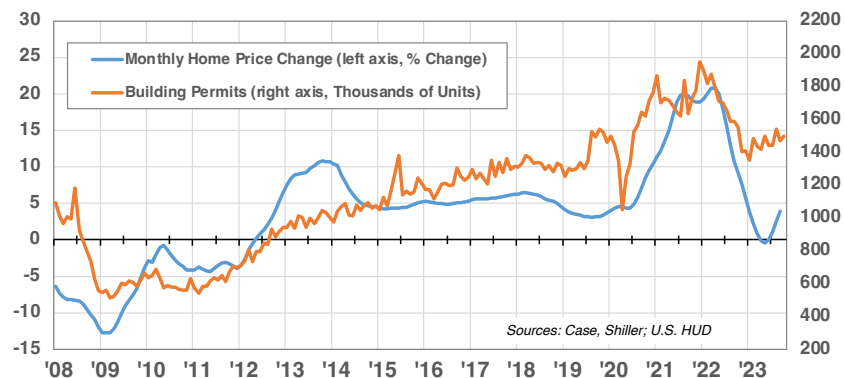
HOUSEHOLD NET WORTH (MILLIONS)



The Consumer: 2/3 of GDP

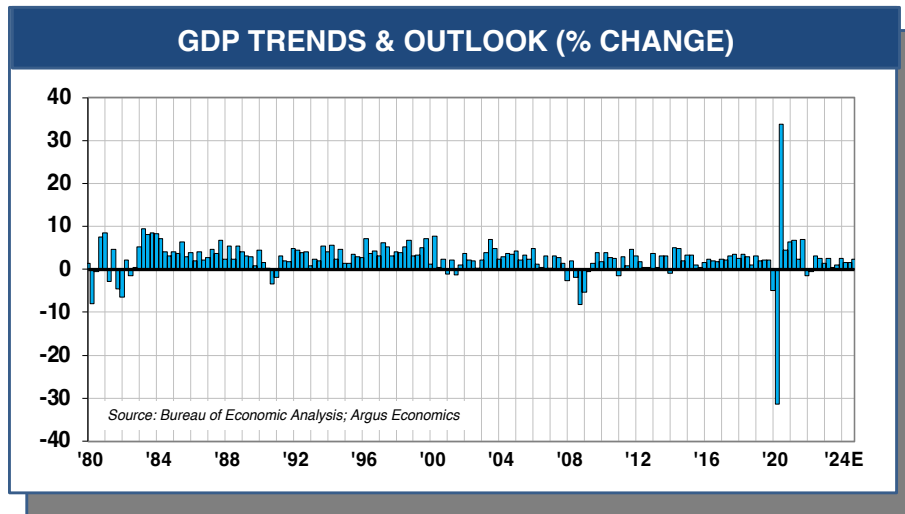
- Household wealth is at record levels.
- Inflation is hurting discretionary spending.
- Consumers are reluctantly tapping credit cards at record high rates.
- Wealthier consumers are spending on services and travel over goods.

HOUSING MARKET TRENDS



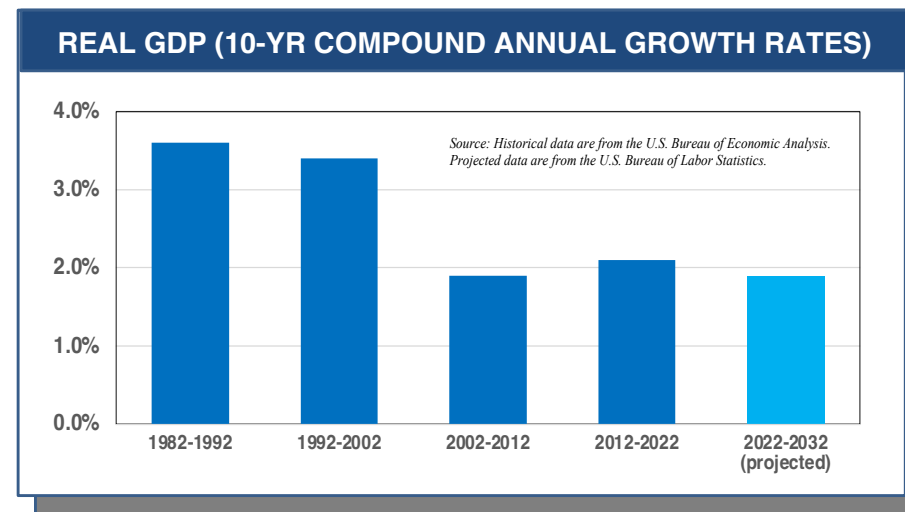
Housing Stable/Recovering

- A record 71% of mortgages are financed 200bp below market rate.
- Strong multi-year demographics.
- Shortage of millions of homes.
- Affordability is strained. Buyers need help from lower interest rates.



Short-Term: 1-2 Years

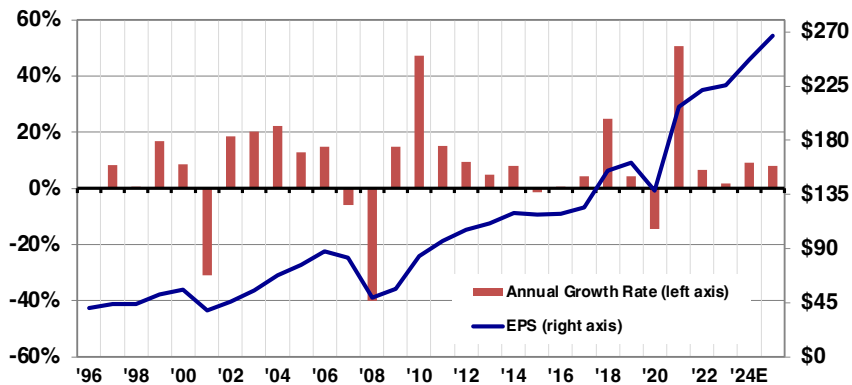
- 3Q robust growth of 5.2%
- 4Q forecast 1.6%
- 2023 Argus GDP forecast: 2.8%
 - 2022 rate of 1.9%
- 2024 forecast: 1.8%



Long-Term: 5-10 Years

- Labor force should grow 0.2% - 0.5%
- Labor productivity +1.2% - +1.5%
- GDP: +1.5% - +2.0%
- Unemployment: About 4%
- Inflation: Approximately 2%
- 30-year mortgage 5.5% - 6.0%

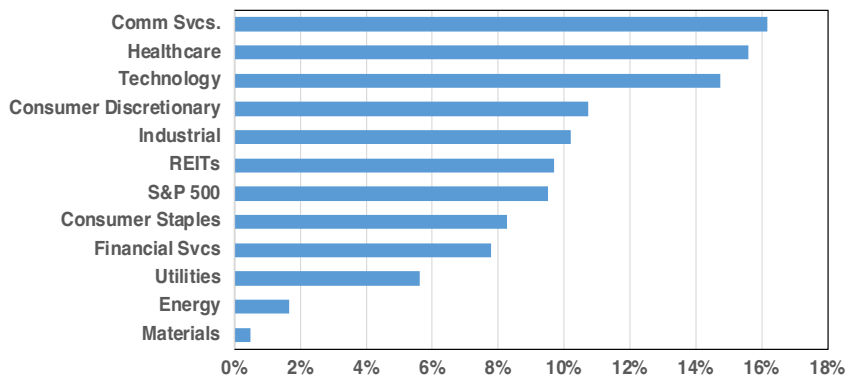
S&P 500 EPS TRENDS & ESTIMATES



Earnings Growth to Accelerate

- 3Q23: first y/y EPS gain since 3Q22
- 2% gain in 2023
- Forecast 9%-10% gain in 2024
- Company Drivers: global, AI, “lean”
- Macro Drivers: lower rates, consumer

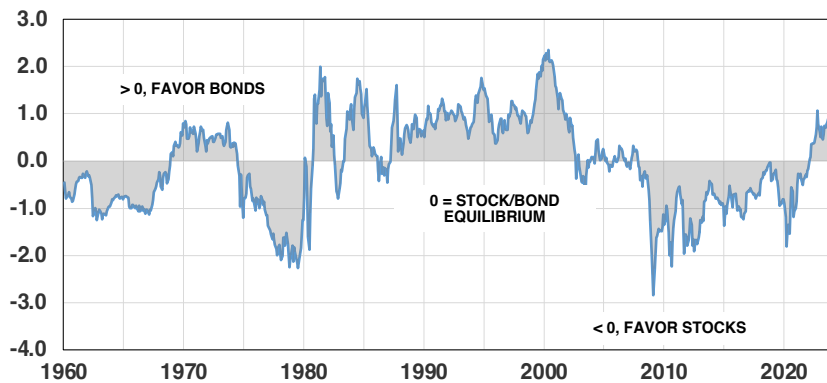
FORECAST SECTOR EPS GROWTH (Y/Y CHANGE)



Sector Earnings Trends

- 2023 sector EPS: Commodities, HC drag
- 2024 leaders: Comm S, HC, IT, Ind
- 2024 laggards: Mat, E, Util
- Drivers: lower rates, consumer spending
- Risks: high prices, low productivity

STOCK BOND BAROMETER



Valuations Reasonable

- Stock/bond model down from highs
- 2024 forward PE: 5% below 5-yr PE
- Yield: 1.6% (1.3%-2.3% 10 yr. range)
- Falling rates, inflation good for valuation
- Risks: EPS fails to grow in low DDs

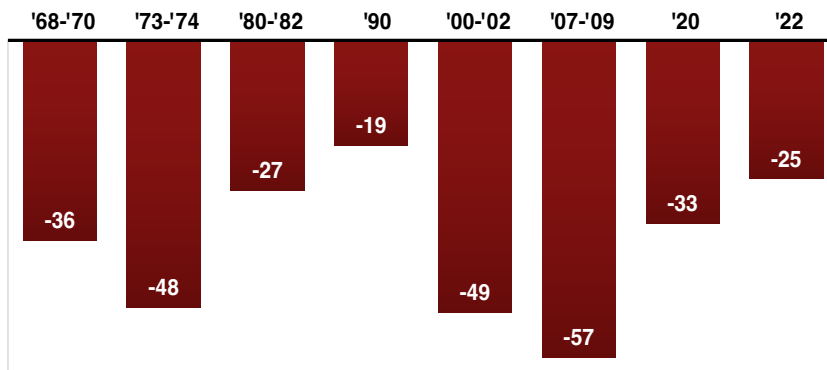
VOLATILITY INDEX (WEEKLY CLOSE)



Risk Environment Improving

- VIX > 20 for 2020-22, now 13
- Consistent with bull markets, which are less volatile
- Old fears: supply chain, inflation, Russia, Fed, recession
- New risks: lingering inflation, recession, China, election, complacency, concentration

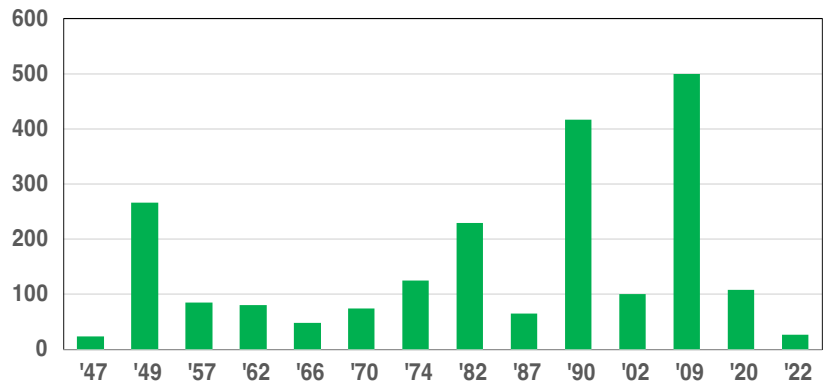
BEAR MARKET DECLINES (% CHANGE IN S&P 500)



Goodbye to the Bear

- S&P 500 now up 20%+ from 10/22 lows
- Bear Market Over
- Not as bad as average
 - Down 25% vs average 38% decline
- A bit longer than average
 - 17 months versus 16 months

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
- New bull drivers can be lower rates, faster earnings growth

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

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

Themes

- Positive Earnings Surprises
- Dividend Growth
- Technology: AI, Cloud Computing & Cybersecurity
- Clean Energy/Infrastructure
- Innovation

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