MONTHLY RESEARCH WEBINAR

ARGUS ANALYST TOP PICKS & 2024 OUTLOOK DECK

Moderator:

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WHAT'S NEW AT ARGUS?

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Argus Analysts' Top Picks for 2024

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

Argus Quick Notes

- 2023 Year-End Gifts
- Activist Stocks
- Global Dividend Investing
- Black Friday Stock Deals
- 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

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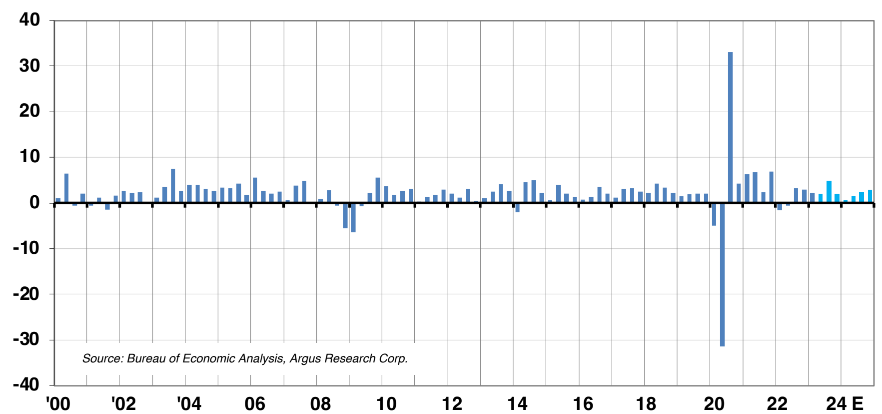
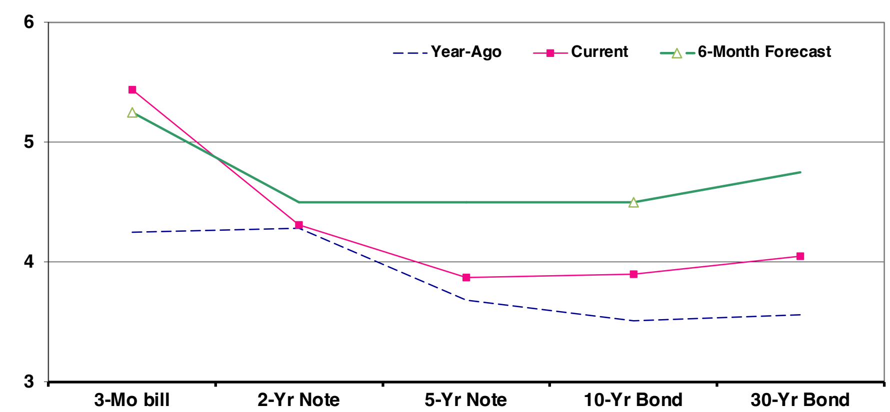
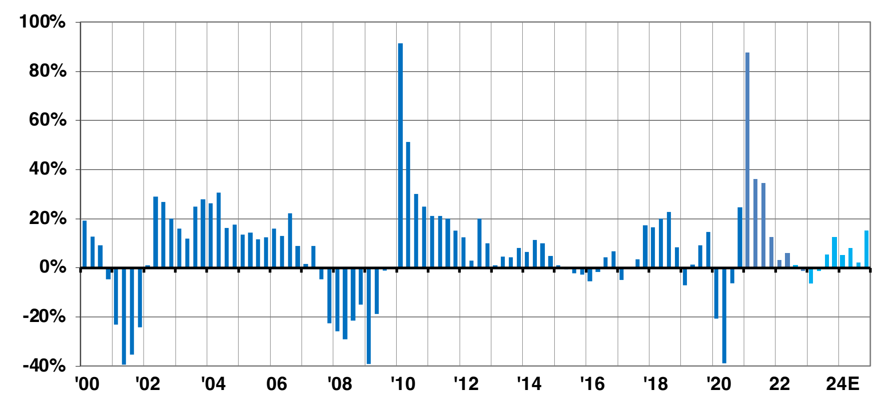
REAL GDP W/FORECASTS (%)



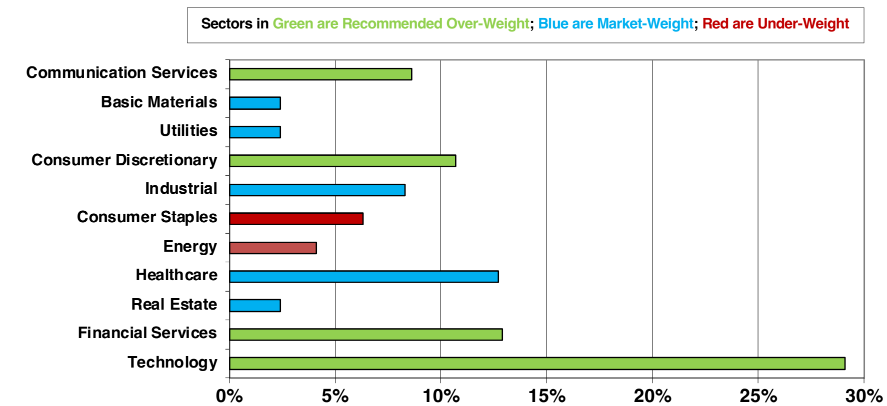
TREASURY YIELD CURVE (%)



S&P 500 QUARTERLY EARNINGS GROWTH



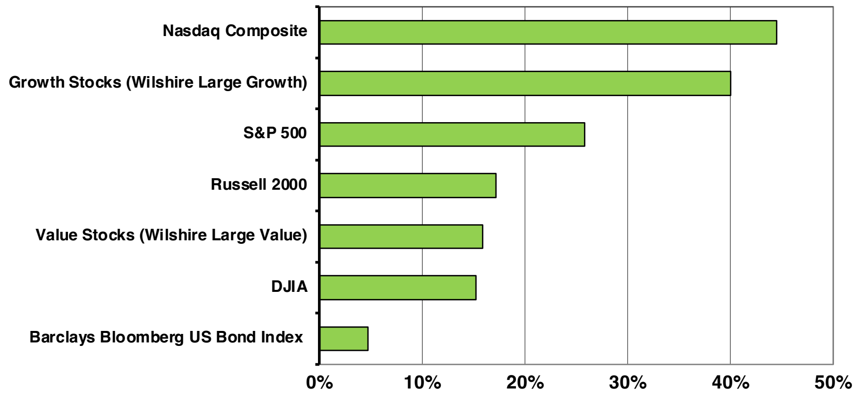
MARKET SECTOR DISTRIBUTION - PERCENT OF S&P 500



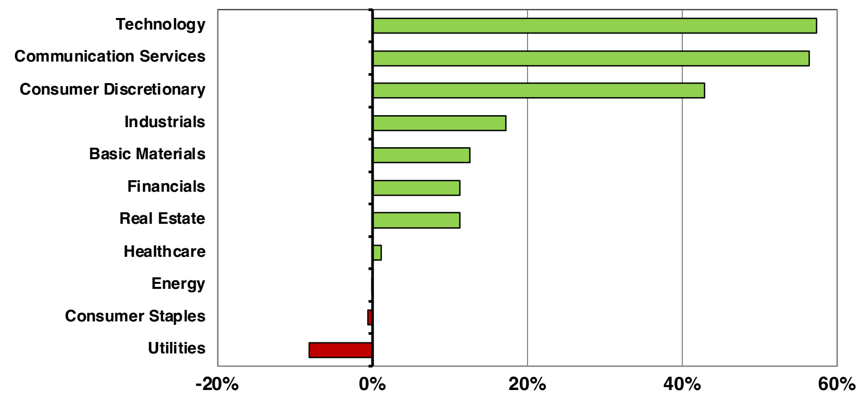
MARKET PERFORMANCE

DATA AS OF DECEMBER 26, 2023

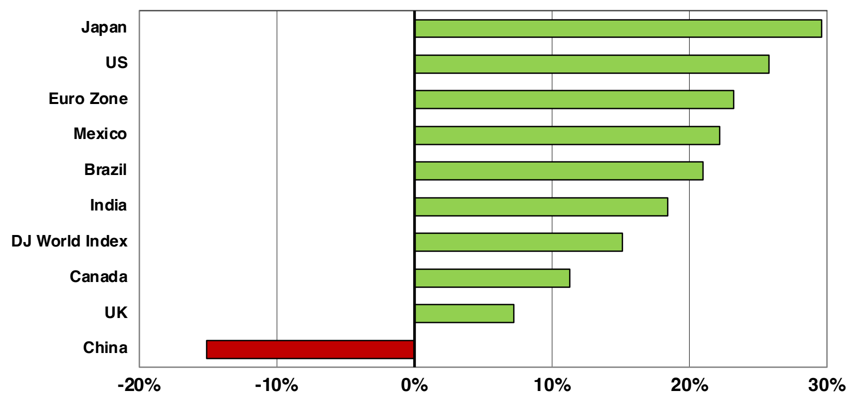
MAJOR INDEX



SECTOR



GLOBAL EQUITY MARKETS



FUNDAMENTAL FORECASTS FOR 2024

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US Economy

- We expect the U.S. economy to continue expanding in 2024, remaining on a narrow growth path and only a wrong turn or two away from a recession. By our reckoning, the U.S. economy recorded a cycle peak growth rate in 3Q23 of 5.2%; it is unlikely that GDP growth will be even half of that rate in the first six months of 2024. That's because money stashed away during the pandemic by the Consumer has now been spent, and the unemployment rate is likely to continue to head higher from the recent low of 3.5% due to the Federal Reserve's restrictive interest rate policy. The Fed's rate hikes in 2022-23 have already slowed the housing market, the manufacturing sector and exporters. At least government spending, led by Defense spending, is once again growing despite the higher rates. By mid-year the central bank should be in position to lower rates, boosting economic output somewhat in 2H24. Our forecast calls for economic growth to fall below 1.0% in 1Q24 before improving as the year progresses. Our estimate for GDP growth in 2024 is 1.8%, compared to 2.8% in 2023. Our preliminary forecast for 2025 is also close to 2.0%.

Inflation

- Inflation trends were more important than GDP trends for the stock market in 2023, but their impact may fade a bit in 2024. That's because the Fed is now ahead of the inflation curve, having raised the federal funds rate from 0.0% in early 2022 to 5.25-5.50% by year-end 2023, while the core PCE Inflation Index has declined from 5.5% in March 2022 to the latest reading of 3.5%. The current FF/PCE gap for the Fed is now 180 basis points. We expect core inflation to edge slowly toward 3.0% in 2025. While producer prices way up the pipeline are actually falling, sticky prices such as shelter and transportation remain high. Wage growth has lately declined to around 4% year over year. We think that the Fed is likely to wait until theFF/PCE gap is 250 basis points before moving to lower rates.

FUNDAMENTAL FORECASTS FOR 2024

Dollar/Gold/Oil

- We look for the dollar to continue to ease in 2024 from the cycle-high levels set in 2022. The trend is not straight downward, however. In 2023, in fact, the greenback increased 2%, yet still remains 400 basis points from that 2002 cycle high and has been trending lower since October. The dollar is still about 15% above the average valuation over the past 20 years as the U.S. economy has been in better shape than the economies of trading partners such as Japan, Europe and even China. Should recoveries in those countries begin to pick up, we would expect foreign investors to repatriate funds out of U.S. Treasuries -- which are falling in price already as the outlook for economic growth slows -- and back into their own sovereign debt. A weaker dollar supports commodities such as gold, which are priced in dollars, and we expect the yellow metal to average $2,000 per ounce in 2024, up from $1,950 in 2023 and $1,800 in 2022. Oil prices may be headed the other direction, though they too benefit to a degree from a falling dollar. More important to oil is the supply-and-demand equation, which looks to favor supply over the next two years. Our forecast average price for West Texas Intermediate crude oil in 2024 is $80, in line with the 2023 average and down from $95 per barrel in 2022.

Yield Curve

- The yield curve was inverted for the full year 2023, but we expect it to return to its normal upward slope by year-end 2024. The curve has remained inverted as fixed income investors expect the Federal Reserve to keep short-term rates at lofty levels for at least the first half of 2024. Meanwhile, yields at the long end of the yield curve have dropped more than 80 basis points since October, as prospects for an economic slowdown have emerged. At this point, the Fed has replenished its tool kit on interest rates and has made progress on reducing its balance sheet. Soon it will be in position to increase its focus on keeping unemployment low by lowering rates. Investors will anticipate a reduced fed funds rate in 2024 by pushing shorter-term interest rates lower, at the same time returning the yield curve to its normal upward slope.

FUNDAMENTAL FORECASTS FOR 2024

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Earnings & Valuations

- Corporate earnings grew in 2023, but only barely. In fact, S&P 500 profits declined for three consecutive quarters – from 4Q22 to 1Q23 – establishing an earnings recession. Overall, S&P 500 earnings grew 2% in 2023, led by recoveries in the Communication Services and Consumer Discretionary sectors, as well as building strength in the Tech sector. Part of the problem has been the level of operating margins, which peaked in 2021 at 13.5% and have yet to recover. No doubt, higher input prices and higher interest costs have cut into profitability in recent quarters. Supply chain snags have started to loosen, however, and if volumes pick up in 2024, as we expect, then margins can once again start to widen more consistently. Our current call for 2024 EPS growth is 9%. Meantime, stock valuations have improved during 2023 despite the start of a new bull market. At times last year, our Stock/Bond Barometer was signaling that stock prices were more than one standard deviation above normal, due to slowing earnings growth, and high inflation and interest rates. Currently, however, the Barometer is indicating that stocks are as close to fair value as they have been since 1Q22. On more traditional valuation measures, the current forward P/E ratio on the S&P 500 of 16.7x is below the recent peak of 22x; the current price/sales ratio of 2.3x is below the 1Q22 ratio of 3.0x; and the current dividend yield of 1.6% is higher than the 1Q23 yield of 1.3%. We look for stock valuation multiples to widen modestly in 2024, aiding equity market returns.

Segments & Sectors

- In terms of market segments, we look for Growth to set the pace in 2024 as interest rates decline and EPS growth picks up. We expect U.S. stocks to continue to outperform Global stocks, based on risk profiles and growth outlooks, tempered by valuation. Small-cap stocks also offer relatively low valuations compared to Large-caps, but we recommend an overweight on Large-Caps due to the segment's superior growth prospects, particularly out of the Tech sector, as well as its financial strength. Our sector rating model takes into account sector earnings momentum, price action, valuations and analyst conviction, among other factors. Based on the model, which we run quarterly, our current Overweight market sectors are: Communication Services, Consumer Discretionary, Financial and Information Technology. Our Underweight sectors are: Consumer Staples and Energy. Our Market Weight sectors are: Healthcare, Industrials, Materials, Real Estate, and Utilities.

FUNDAMENTAL FORECASTS FOR 2024

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Risks

- There are risks to our outlook, including first and foremost that the Fed has raised interest rates too far and too fast, and the U.S. economy will head into recession. If that's the case, corporate earnings could tumble, taking stock prices along for the ride. Global risks include potential geopolitical developments in the Middle East and Russia/Ukraine, as well as simmering tensions in China. Energy prices are always a wild card, though current supply/demand trends point to a steady oil market in 2024. Oh, and there's a U.S. Presidential election this coming November. The fourth year of the Presidential cycle is historically the worst-performing year of the four, and this upcoming election is certain to be close and controversial. A positive outcome would be a clear-cut decision on election night. The odds are probably against that right now..

Stock Market Outlook

- Our base case outlook for U.S. markets calls for a more normal year of S&P 500 returns in the 8-12% range. We note that the U.S. market has not had a "normal" year since 2016, with five years of above average market returns (2017, 2019, 2020, 2021 and 2023) and two negative years (2018 and 2022). Domestic investors have also endured two bear markets and one pandemic-induced recession during this period. We expect a slow start in 1H23, as interest rates remain high and the economy flirts with a recession. But as the year progresses and inflation continues to fall, the Federal Reserve can start to lower the federal funds rate. Lower interest can help corporate profit margins begin to widen more consistently, and can support higher stock market valuation multiples. We anticipate that these factors – an expanding economy, growing earnings and declining inflation and interest rates -- can offset the U.S. Presidential political uncertainty, resulting in the S&P 500 establishing a new all-time high in 2024 and stocks ending the year in the black.

2024 SCENARIOS

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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; 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

ARGUS ANALYSTS' TOP PICKS 2024

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BASIC MATERIALS

» Sherwin-Williams Co. (SHW)

COMMUNICATION SERVICES

» Netflix Inc. (NFLX)

CONSUMER DISCRETIONARY

» AutoZone, Inc. (AZO)
» Expedia Group (EXPE)
» Marriott International Inc. (MAR)
» Tesla Inc. (TSLA)
» Toll Brothers Inc. (TOL)
» TJX Companies Inc. (TJX)

CONSUMER STAPLES

» Coca-Cola Co. (KO)
» International Flavors & Fragrances Inc. (IFF)

ENERGY

» ConocoPhillips (COP)

FINANCIAL SERVICES

» American International Group (AIG)
» Apollo Global Management Inc.(APO)
» Lazard Ltd. (LAZ)

HEALTHCARE

» Bio-Techne Inc. (TECH)
» Humana Inc. (HUM)
» Eli Lilly & Co. (LLY)
» Vertex Pharmaceuticals Inc. (VRTX)

INDUSTRIALS

» United Rentals Inc. (URI)
» Roper Technologies Inc. (ROP)
» Itron Inc. (ITRI)

REAL ESTATE

» Equinix Inc. (EQIX)

TECHNOLOGY

» Arista Networks Inc. (ANET)
» ASML Holding N.V. (ASML)
» Nvidia Inc. (NVDA)
» CrowdStrike Holdings Inc. (CRWD)

UTILITIES

» Southern Co. (SO)

SHERWIN-WILLIAMS CO. (SHW)

12-month target price: $378

(Bill Selesky)

- This industry-leading paint provider should benefit in 2024 from rebounding demand and volume growth in category segments such as new residential, residential repaint, and commercial construction businesses; we are also expecting market share growth during 2024.

- Margin-expansion opportunities are trending significantly higher on lower-trending raw material costs (inputs), which should provide a “tailwind” through all of 2024; positive pricing should be a modest benefit as well.

- Interest rates in the U.S. appear to have peaked, with the opportunity for rate cuts in the near future. That should be a positive catalyst for home buying and paint sales.

- Wall Street expectations for the company are abnormally low; we see a positive risk/reward scenario based on revenue, margins, and EPS for 2024 that we believe will exceed Street consensus.

NETFLIX INC. (NFLX)

12-month target price: $575

(Joseph Bonner, CFA)

- Netflix provides on-demand media content over the internet worldwide (excluding China and a few other countries) for a fixed monthly subscription fee. Netflix derives almost 60% of its revenue from outside the U.S.

- In the face of slowing subscriber additions, Netflix launched its low-priced, advertising-supported subscriber plan in November 2022, and followed that up with a crackdown on password sharing in May 2023.

- While past price increases may have slowed subscriber additions, the combination of the lower priced ad-plan and more-rigorous password-sharing policies has actually been positive for both subscriber and revenue growth.

- Netflix remains the “anchor tenant” for consumers in video streaming, though the competition from legacy studio streaming services has greatly intensified. The company may have a content pipeline advantage in 2024, as the Hollywood strikes and production shutdowns impacted competitors much more than they did Netflix.

AUTOZONE INC. (AZO)

12-month target price: $3,016

(Jim Corridore)

- Earnings at this leading retailer and distributor of automotive replacement parts and accessories have rebounded from their pandemic lows and have now topped Street expectations for 14 straight quarters.
- We see opportunities for further growth as the average age of vehicles increases, the company gains share in the commercial segment, and international sales grow.
- We like how management is taking steps to increase commercial sales, including adding new ‘mega-hub’ locations that offer a greater assortment of parts.
- AutoZone is also expanding its presence in Mexico and Brazil, two markets the company considers underpenetrated.

EXPEDIA GROUP (EXPE)

12-month target price: $171

(John Staszak, CFA)

- To drive revenue growth, Expedia has introduced its One Key loyalty program and improved its technology platform.
- We expect travel demand to remain strong, as consumers continue to choose experiences over products.
- The company reported third-quarter revenue and earnings that were above expectations and we project just over 10% revenue growth in 2023.
- Trading at 11.7 times our 2024 earnings estimate, the shares' risk/reward profile appears more favorable than that of other leisure companies we cover.

MARRIOTT INTERNATIONAL INC. (MAR)

12-month target price $255

(John Staszak, CFA)

- We expect Marriott to benefit from its emphasis on its luxury brands, entry into the midscale lodging market, and strong loyalty program.
- Driven by new construction and conversion by owners of existing units, we expect unit growth to exceed expectations.
- Marriott's base management fees provide a reliable revenue stream and are less impacted by inflation and the state of the economy.
- Marriott also benefits from its growth in international markets.

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TESLA INC. (TSLA)

12-month target price: $316

(Bill Selesky)

- Recently, Tesla has been challenged by a sluggish environment for electric vehicles (EVs), as rising interest rates, elevated inflation, and supply-chain disruptions have pushed demand lower. However, in 2024, we see these factors turning positive, as interest rates trend lower (benefitting customer affordability), inflation deaccelerates (benefitting vehicle manufacturing costs) and supply chains improve (benefitting car availability). We expect Tesla's sales, margins, and EPS to reaccelerate in 2024.

- A growing dependence on Artificial Intelligence (AI) in manufacturing capability and factory utilization has given Tesla a significant competitive advantage, in our view. Additionally, we believe AI is an undervalued component of the future growth at Tesla and expect its value to be recognized soon on Wall Street, as FSD (full self-drive), battery cell production, and AI-enabled robots become a bigger part of the future at Tesla.

- We see Tesla as the leader in the electric vehicle industry. Despite an increase in competition, Tesla accounts for roughly 50% of the EV market in the U.S. and almost 20% of global shipments. With recent entrants to the EV market (Ford, GM, Toyota, and Volkswagen, along with brand new entrants, such as Nio, Lucid Motors and Rivian) now struggling to "right-size" their future capex budgets, we believe TSLA has an opportunity to grow market share in 2024.

TOLL BROTHERS INC. (TOL)

12-month target price: $120

(Chris Graja, CFA)

We expect the housing market to benefit from favorable demographics and years of underproduction. We are particularly bullish on Toll Brothers' leading position in the luxury segment. Even after doubling in 2023, the shares trade at just 8-times earnings.

The company has significant growth potential, in our opinion. There are 26 million households that earn over $150,000 a year. Toll sells approximately 10,000 homes per year. It reaches just 0.04% of its addressable market annually.

Some 25% of the company's buyers paid with cash in 4Q. The age-qualified business, which is aimed at Baby Boomers who want a new, lower-maintenance home with excellent amenities, represented 19% of deliveries in FY23, up from 1% in 2000.

In the recent 4Q earnings release, CEO Doug Yearley said that management was encouraged by the recent 75-basis-point drop in mortgage rates. He added the following: "With resale inventories at historic lows, buyers continue to be drawn to new homes, and we expect lower rates with lower inflation to add to this already solid demand."

TJX COMPANIES INC. (TJX)

12-month target price: $105

(Chris Graja, CFA)

- This off-price retailer's edge is that its more-than 1,200 buyers offer customers a treasure hunt of unique, brand-name products at bargain prices.

- TJX has a lean cost structure, and the ability to satisfy value-conscious shoppers who may decide to save money by making a purchase at TJX rather than at a department or specialty store. This could be a real advantage if still-tight monetary policy weighs on discretionary spending in the first half of 2024.

- The company's store locations also may be an advantage. Many are in shopping centers that are also occupied by grocery stores. Shoppers who are trying to be frugal and avoid the mall can browse through T.J. Maxx or Marshall's while they are on normal errands to buy basic supplies.

- Our five-year EPS growth rate forecast is 12% based on traffic-driven increases in comparable sales, attractive opportunities to increase square footage (with other retailers closing stores), and share repurchases.

COCA-COLA CO. (KO)

12-month target price: $67

(Taylor Conrad)

- **Coca-Cola has raised its dividend for 61 consecutive years, and at an average rate of 3.4% over the last five years. The most-recent increase came in February, at 5%. The shares are currently yielding about 3.1%.**
- **Volume has remained strong despite headwinds from rising prices, and management is guiding for 7%-8% adjusted EPS growth in 2024.**
- **Management is employing targeted advertising in an effort to boost earnings.**
- **The company eliminated more than 600 unproductive products in 2019 and worked to reposition the business with changes in core products, pack and serving sizes, as well as through deals like the acquisition of coffee company Costa.**

INTERNATIONAL FLAVORS & FRAGRANCES INC.

12-month target price: $85

(John Eade)

- **The IFF shares have underperformed the market in 2023, falling more than 20% while the S&P 500 has risen 20%. The shares are also down almost 50% from their all-time highs.**
- **We recently upgraded IFF based on seemingly attractive valuations. As well, the business is starting to improve, in our view.**
- **Along with the company's latest results, management commented that pricing is improving relative to inflation, and productivity is improving as well.**
- **We look for EPS to resume a growth path in 2024.**
- **Meanwhile, the P/E ratio is near the bottom of the historical range and the shares offer a current yield of 4%.**

CONOCOPHILLIPS (COP)

12-month target price: $150

(Bill Selesky)

- COP has an average cost-of-supply resource base of $32 per barrel of WTI, one of the lowest in the industry. Being a low-cost provider allows the company, in a highly volatile price environment, to sustain production growth at 4%-5%, pay a competitive dividend, and distribute 30% of CFFO to shareholders.

- The well-diversified resource base is comprised of short-cycle, flexible unconventional (shale) assets, with select longer-cycle, low-decline conventional properties. In addition, Alaska and international holdings round out the overall portfolio. COP uses no hedging.

- On share buybacks, COP currently has a multi-year $45 billion share authorization in effect. We see that as providing downside protection to the shares in a volatile energy environment. Additionally, COP's credit ratings are A (at Fitch) and A2 (at Moody's).

AMERICAN INTERNATIONAL GROUP (AIG)

12-month target price: $74

(Kevin Heal)

- We recently raised our ratings on AIG to BUY based on non-core asset sales, higher investment income, and improving ROE measures.
- In 3Q23, the combined ratio (earned premiums-losses and expenses, with a combined ratio below 100 being profitable) fell to 86.3 from 88.4 in the prior year.
- Investment portfolio returns have improved as lower-yielding assets are replaced. The recent rally in the bond market should improve the pricing of securities.
- We like the company's leading position in global P&C and U.S. life insurance, its geographic diversification, its efforts to cut costs and sell non-core assets, and its strong liquidity.

APOLLO GLOBAL MANAGEMENT INC. (APO)

12-month target price: $107

(Steve Biggar)

- **Our BUY rating on Apollo reflects the company's strong position among alternative-asset managers and its ability to generate cash in a wide variety of market environments.**

- **While the outlook for monetization activity of investments has been challenging, we see strong growth in fee- and spread-related assets as a long-term driver for the APO stock.**

- **We believe that the outlook for monetizations will improve in 2024 given recently improved market valuations.**

- **The company's early 2022 acquisition of Athene also provides several avenues for growth, particularly as a higher interest-rate environment sparks greater activity in fixed-income investments, which are the majority of Apollo's assets.**

LAZARD LTD. (LAZ)

12-month target price: $44

(Steve Biggar)

- **Our BUY rating on Lazard, a leading financial advisory and asset-management firm, reflects expectations for a pickup in M&A activity in 2024.**
- **Management has recently detailed more-constructive dialogue with customers, and we believe the end of Federal Reserve interest-rate hikes could act as a catalyst for pent-up M&A activity.**
- **The company's new CEO has outlined an initiative that includes doubling the company's revenue base by 2030, while achieving average total shareholder returns of 10%-15%.**
- **Lazard also recently announced its intention to convert to C-Corp. status as of January 1, 2024, a move designed to simplify shareholder tax reporting and enhance liquidity for the shares. Newly eligible shareholders could include those unable to invest in partnerships and should provide a catalyst for the shares.**
- **We note that several companies in our coverage, including Apollo Global, Blackstone Inc., and KKR & Co., experienced higher valuations following conversion to C-Corp. status.**

BIO-TECHNE INC. (TECH)

12-month target price: $90

(David Toung)

- TECH provides reagents, instruments, and other tools to accelerate the discovery and development of biotech therapies.
- As the industry pivots from the global COVID-19 pandemic, TECH is focused on solutions to develop new gene and cell therapies and genomics-based diagnostics for early detection of prostate cancer and other disease states.
- With mid-teens topline growth in 1Q24, Europe is leading the post-COVID recovery with the U.S. at mid-single digits. We see a stronger recovery in China in fiscal 2024.
- TECH's solutions help speed-up automation and workflow in the discovery lab and reduce operating costs.

HUMANA INC. (HUM)

12-month target price: $550

(David Toung)

- We recently upgraded HUM to a BUY as we see solid opportunities for growth in the Medicare Advantage, Medicaid, and Healthcare Services markets. Humana is the nation's second-largest underwriter of Medicare Advantage plans.
- The demographics of an aging population will be a tailwind for Humana's growth as this trend expands the addressable market for Medicare Advantage. Some 26 million U.S. Baby Boomers will age into Medicare-eligibility from now through 2030, according to a report from Deloitte.
- Despite a trend of higher medical costs in the near-term, we like Humana's ability to expand organically in Medicare Advantage while improving margins.

ELI LILLY & CO. (LLY)

12-month target price: $665

(Jasper Hellweg)

- Indianapolis-based Eli Lilly develops and manufactures therapies to treat pain, diabetes, cancer, and neurodegenerative diseases.
- The company continues to advance its pipeline, and recently announced detailed Phase 3 results highlighting tirzepatide's effectiveness as a potential weight loss solution for obese or overweight individuals.
- While currently approved under the brand name Mounjaro for the treatment of type 2 diabetes, an expansion of its indication to allow for weight management could significantly boost the sales of this well-performing drug.
- The company has also released positive Phase 3 results from a trial of donanemab, its investigational treatment for Alzheimer's disease.
- We expect these and other developments, as well as pipeline compounds, to boost sales and earnings, and to benefit LLY shares over the next year.

VERTEX PHARMACEUTICALS INC. (VRTX)

12-month target price: $420

(Jasper Hellweg)

- **Vertex develops therapies to address cystic fibrosis (CF) and other diseases. Regulators in Europe and the U.S. recently approved expanded indications for CF products for use in younger age groups.**

- **The FDA has reviewed exa-cel (Casgevy), a potential treatment for sickle cell disease (SCD) developed by Vertex Pharmaceuticals and CRISPR Therapeutics, and on 12/8/23 granted approval of Casgevy. The FDA is also conducting a Standard Review of exa-cel for transfusion-dependent beta thalassemia (TDT), with a target action date of March 30, 2024.**

- **Vertex recently reported positive Phase 2 results for an investigative new drug that could serve as a non-opioid treatment option for acute pain, and presented positive results from its ongoing clinical trial of VX-880, an investigational stem cell-derived islet cell therapy for type 1 diabetes.**

- **Given the company's continued pipeline progress and financial strength, we are reiterating our BUY rating.**

UNITED RENTALS INC. (URI)

12-month target price: $650

(John Eade)

- The URI shares have outperformed the market and the Industrial sector consistently over trailing three-month, one-year and five-year periods. We expect this trend to continue.

- United Rentals is the largest rental equipment company in the world. We are comfortable with this well-managed company's ability to navigate the high-inflation economic environment, and like its adoption of new technology that will help it grow in a post-COVID world.

- Management has a clear strategy to compound shareholder value by balancing growth, margins, returns, free cash flow, and prudent capital allocation. The company is well positioned for strong multiyear demand from public and private investment in infrastructure and industrial manufacturing.

- In a sign of confidence for the future, the board instituted a quarterly dividend this year. The company also has a share-buyback program.

ROPER TECHNOLOGIES INC. (ROP)

12-month target price: $580

(John Eade)

- Roper designs software-as-a-service solutions for a variety of end markets, including health-care, education, transportation, government, water, and energy.

- This well-managed company has a long record of market outperformance and dividend growth. We think the company is well positioned for the post-pandemic future as its products enable work-from-home, environmental testing, and electronic surveillance.

- Management has a history of establishing reasonable financial targets and raising them as the year progresses. Our estimates for the next two years call for double-digit EPS growth, driven by a combination of mid-single-digit top-line growth, margin improvement, and share buybacks.

- In November, the board raised Roper's quarterly payout by 10% to $0.75 per share, or $3.00 annually. This marks the thirty-first consecutive year in which the company has raised its dividend.

ITRON INC. (ITRI)

12-month target price: $120

(Kristina Ruggeri)

- Itron seems to be well positioned for an economy focused on electric grid management, smart water metering, and customized monitoring platforms. It also should benefit from increased infrastructure spending.
- ITRI is seeing strong demand for its higher-margin products and faster-than-expected improvement in component availability.
- The order backlog of $4.3 billion rose 2% from 3Q22 and is comprised of higher-margin products in the Outcomes and Networked Solutions segments. These contracts are long-term in nature and represent several years of revenue.
- The company also is focused on operational efficiencies and is streamlining its manufacturing footprint meaningfully.
- We expect the stock price to rise sharply in 2024 and for earnings to grow 10% from the prior year.

EQUINIX INC. (EQIX)

12-month target price: $842

(Marie Ferguson)

- Equinix is a real estate investment trust focusing on interconnected data centers. It develops data center platforms and architecture for businesses involved in cloud software, IT, financial services, and mobile services.
- The company provides over 443,000 interconnections and operates 239 data centers on six continents, in 70 global metro areas, and 32 countries, with a growing focus on hyperscale centers.
- We believe the data storage business is a good investment, with strong growth prospects in the EMEA and APAC regions offsetting slower growth in North America.
- The Financial Services, Technology, and Healthcare sectors drive data-related spending, and the data center industry is likely to track their growth going forward.
- We believe that Equinix, which has grown both organically and through acquisitions, has strong opportunities in the global colocation market, and we expect AI to help drive increased data center demand over time.

ARISTA NETWORKS INC. (ANET)

12-month target price: $275

(Jim Kelleher, CFA)

- Arista, our top pick in Technology (Communications Networks), is a leading supplier of cloud networking solutions for internet companies, cloud service providers, and next-generation data centers.

- After seeing 100%-plus growth in cloud titan spending in 2022, Arista initially expected this category to slow in 2023. The arrival of generative AIs such as ChatGPT and Bard, however, led to accelerating growth in cloud-based data center networking in support of large language models (LLMs). As the leader in enterprise and data center cloud networking, Arista is positioned uniquely to benefit from this unfolding opportunity.

- Having navigated the supply-chain crisis, Arista is now successfully managing macroeconomic weakness, customer caution, cost inflation, and lingering supply issues. Arista is now seeing strength in most customer verticals, including cloud titans and enterprise data center clients.

- Arista has supplemented its focus on cloud, carrier, and large-enterprise customers with products for the campus and mainstream switching market, which is now evolving to a distributed workplace environment. Early in 2023, the company offered its first WAN routing solution, which further expands the available TAM.

- The company is financially strong, and cash is growing rapidly. In our view, Arista appears positioned for sustained annual revenue and EPS growth in 2024 and beyond.

■ ASML HOLDINGS N.V. (ASML)

12-month target price: $850

(Jim Kelleher, CFA)

- Netherlands-based ASML Holdings, our top pick in Technology (Semiconductor Capital Equipment), has unmatched leadership in extreme ultraviolet (EUV) and deep ultraviolet lithography tools critical to the production of the most in-demand integrated circuits.

- ASML shares were pressured by reduced demand for personal electronics, U.S. prohibitions on shipping high-technology products to China, and delayed revenue recognition from "fast-shipment" systems (operational systems shipped but not fully tested).

- As supply scarcity continues to moderate, additions to productive capacity and the company's improved ability to fulfill orders have lessened the need for "fast-shipping" and are driving stronger and more-predictable revenue growth.

- We expect ASML to benefit from accelerating demand for its advanced tools for memory and logic applications from major semiconductor and foundry customers.

- Prohibitions on advanced technology sales to China are being reallocated worldwide, reflecting increasing global demand for onshore semiconductor manufacturing capacity as a component of national security.

- ASML has blue-chip finances and a strong commitment to shareholder returns. The U.S.-traded ASML shares remain below cycle highs near $870 in September 2021. We believe that the U.S.-traded ASML shares are favorably valued at current prices.

NVIDIA CORP. (NVDA)

12-month target price: $600

(Jim Kelleher, CFA)

- Nvidia, our top pick in Technology (Semiconductors), has long been well known among technology investors -- but burst into new prominence as the key supplier of the CPU-based computing architecture behind ChatGPT. As the key supplier of "picks and shovels" in the generative AI gold rush, Nvidia has seen its revenue and profit soar.
- Nvidia's blockbuster GPU Technology Conference (GTC) in March 2023 cemented the company's leadership in the fast-developing world of generative AI. At GTC 2023 and subsequent events, Nvidia introduced multiple new and updated product iterations. The newly launched the DGX H200 is its fastest AI supercomputer ever.
- These products and solutions span hardware (GPUs, CPUs, clusters, and supercomputers); multiple new software products and inference platforms; acceleration libraries; and new cloud services and AI foundations.
- Based on the company's amazing traction in AI, Nvidia is rapidly becoming the global number-one semiconductor company by revenue, after barely making it into the top 10 only two years ago. NVDA is one the "magnificent seven" of AI beneficiaries that collectively comprise over 25% of S&P 500 market capitalization.
- We recommend establishing or adding to positions in this preeminent vehicle for participation in the AI economy. We believe that most technology investors should own NVDA in the age of deep learning, AI, and GPU-driven applications acceleration levels.

CROWDSTRIKE HOLDINGS INC. (CRWD)

12-month target price: $315

(Joseph Bonner, CFA)

- **CrowdStrike offers a simple, next-generation integrated platform of cybersecurity tools to protect both internal and cloud data flows for both larger enterprises and smaller SMB clients.**
- **The company has an opportunity to expand its business to the nearly 50% of companies that have not yet upgraded from traditional antivirus software, and to take advantage of the secular growth in cloud workloads.**
- **CrowdStrike has pivoted toward significantly improved profitability and cash flow in an uncertain macroeconomic environment.**
- **Our long-term growth rate forecast for CrowdStrike is 28%.**

SOUTHERN CO. (SO)

12-month target price: $75

(Marie Ferguson)

- Atlanta-based Southern Co. is an electric and gas utility and wholesaler, with nine million customers and 41,000 megawatts of generating capacity. The company provides natural gas to customers in Illinois, Georgia, Virginia, and Tennessee, and owns regulated electric utilities serving Georgia, Alabama, and Mississippi.

- One of the largest U.S. utilities, Southern has a well-run base of regulated assets and a presence in states with favorable population trends.

- The company is retiring coal-fired plants and increasing its use of renewables -- a shift in the generation mix that regulators tend to view favorably. We think the company's platform for growth is solid.

- We expect earnings will benefit from the reduction and gradual elimination of Vogtle construction costs, as well as from the lower operating costs of the new nuclear plants.

- The current yield of about 4.0% is above the peer average.

10 INVESTMENT THEMES FOR 2024

- **Confidence Signals**
  - PKG, MSI, TJX, AMGN, CTAS, FAST, J, AVGO, ROP, BMI
- **Capital Markets Recovery Phase II**
  - MS, RJF, SCHW, CBOE, STT, ICE, MCO, AMP, NDAQ, BK
- **Election Year – Political Spending**
  - VMC, CCL, CAT, DE, VNT, RSG, TXN, INTC, MU, TSM
- **AI**
  - AMZN, MSFT, IBM, GOOGL, CRM, NVDA, QCOM, BABA, HON, ROK
- **Clean Energy**
  - ALB, AES,FSLR, F, GNRC, GM, GE, XYL
- **International Dividend**
  - BCE, 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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