



Dudack Research Group

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November 20, 2019

DJIA: 27934.02  
SPX: 3120.18  
NASDAQ: 8570.66

# US Strategy Weekly

## Initiating an SPX target for 2020

### LOWERING EPS ESTIMATES BUT VALUATIONS REMAIN HEALTHY

The market hit our 2019 target of SPX 3110 this week and this inspired us to review our price targets, earnings and assumptions for 2019 and 2020. With third quarter earnings results for the SP500 now 90% complete, our second half EPS estimates appear high. Bringing our third and fourth quarter estimates more in line with the S&P Dow Jones consensus benchmark, our calendar 2019 earnings forecast falls from \$167 to \$160 and our 2020 earnings estimate for the SP500 eases slightly from \$186 to \$184.

Next, we put our new estimates into our valuation model which is stress-tested for 2020 inflation of 2.6% and a 10-year Treasury bond yield of 3.8%. Despite newly lowered earnings estimates and inflation and interest rates well above our expectations, our valuation model suggests an SPX 2020 range of SPX 2800 to 3450. We prefer to remain on the conservative side and are initiating a new 2020 SPX target of 3300. Should a trade agreement materialize in the next six months, this target would likely be revised. See page 11.

It is worth pointing out that the SPX has been hugging the upper end of our model's projected fair value range since late 2016. This does not surprise us since an environment of low and steady inflation supports a higher PE multiple. Assuming inflation remains benign, one could expect the SPX to continue to trade in the upper half of the fair value range. The top of this range in late 2020 implies a move to SPX 3450.

Conversely, if the UK fails to solve its Brexit issues, if impeachment investigations wear on investor sentiment, or if unexpected events shock the market, our model suggests equities have substantial valuation support at the SPX 2800 in 2020.

### QUARTERLY EPS RESULTS

IBES Refinitiv is currently forecasting third quarter SP500 earnings to decline 0.4%. However, excluding the energy sector, the earnings growth estimate increases to 2.2%. Of the 461 companies in the SP500 that have reported earnings to date for 3Q19, 74.6% have reported earnings above analyst estimates and 18% missed estimates. This is comfortably above the long-term average of 64.8% and the average of 74.1% seen in the prior four quarters. In a typical quarter, 65% of companies beat estimates and 20% miss estimates. Third quarter revenue is expected to increase 3.8% from a year ago and excluding the energy sector, the revenue growth estimate rises to 5.2%. The healthcare and utilities sectors have the highest earnings growth rates for the quarter at 9.4% and 6.7%, respectively; and the energy sector has the weakest anticipated growth rate at negative 37.8%. Third quarter earnings comparisons for energy help to explain the sector's underperformance in 2019. However, the good earnings performance by both healthcare and utilities make their price performance less understandable. Both sectors rank just above energy on a year-to-date basis. See page 16.

### ECONOMIC REPORTS SUPPORT A DOVISH FED

A medley of data was reported this week on retail sales, inflation and trade and overall, it supports a dovish Fed, in our view. Retail sales rebounded modestly in October after falling in September. More

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**For important disclosures and analyst certification please refer to the last page of this report.**

specifically, sales rose 0.3% after declining 0.3% the previous month. On a year-over-year basis, total retail sales rose 3.1% in October versus a 4.1% gain in September; however, October sales could have been hurt by Hurricane Dorian, weak iPhone sales and the General Motors (GM - \$36.38) strike. October's sales, excluding motor vehicles, rose 2.8% YOY. See page 3. On the whole, this report was neutral in our view.

The US-China trade conflict has been a major topic of concern for investors, yet it has only made a small dent in the total US trade. The trade deficit is running at an annualized \$862.7 billion as of September versus \$874.8 billion in 2018. Department of Commerce data shows the trade deficit is currently at an estimated 4% of current GDP, while the Census BOP basis, shows the 12-month running ratio to be 3.1% of GDP. Merchandise trade data is available on both custom-based trade statistics and on a balance of payments (BOP) basis. Note that data on services is only available on a BOP basis, which means the real trade deficit is apt to be closer to the BOP 3.1% of GDP which includes services. See page 4.

While headline trade numbers have not changed dramatically, trade is changing beneath the surface. China is no longer our top trading partner and as of September 2019 fell to third place behind Mexico and Canada. Nevertheless, China continues to have the largest trade deficit with the US at \$263 billion year-to-date, which is 3 ½ times larger than Mexico which ranks second with a \$76 billion deficit. Ironically, the trading partner with the largest surplus with the US is Hong Kong at \$20.3 billion. See page 5.

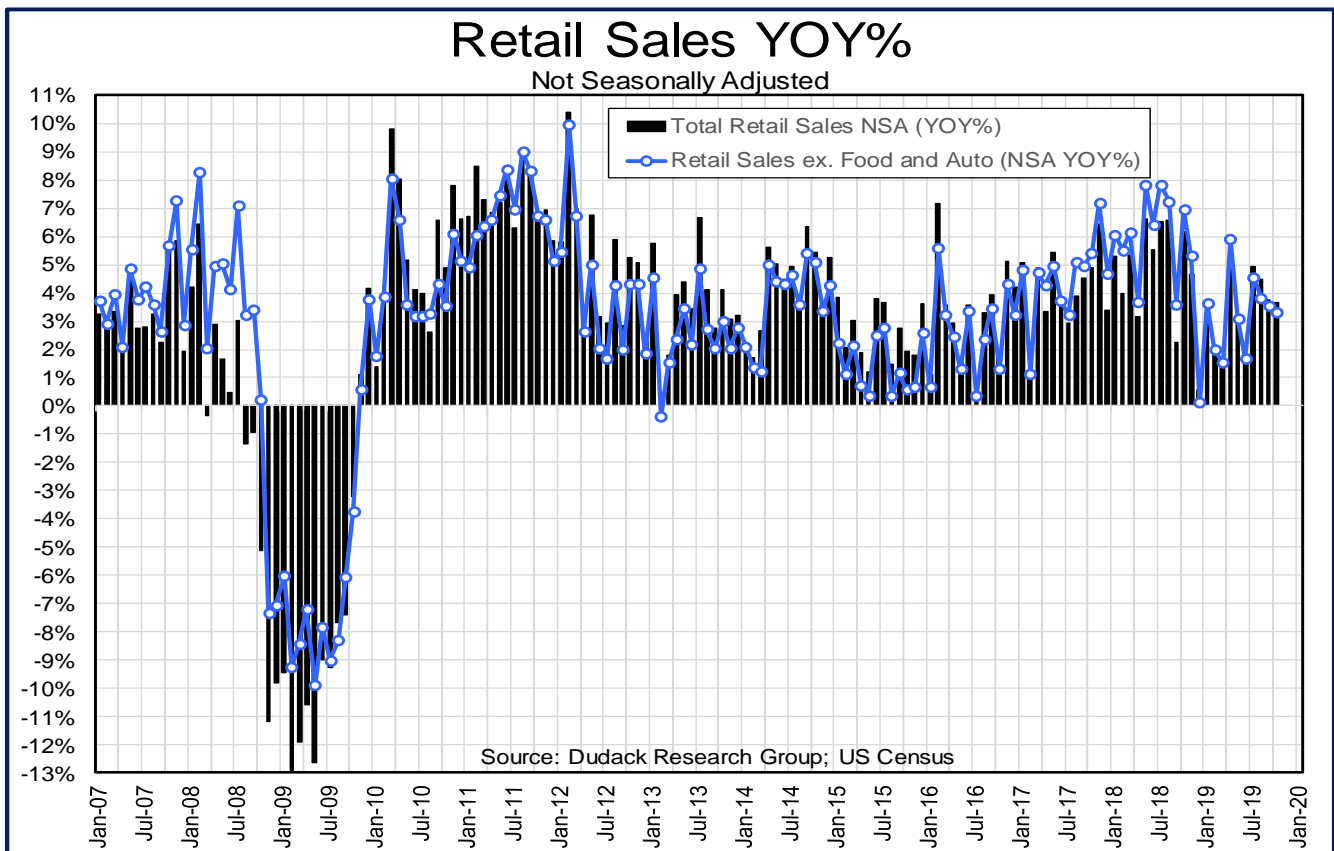
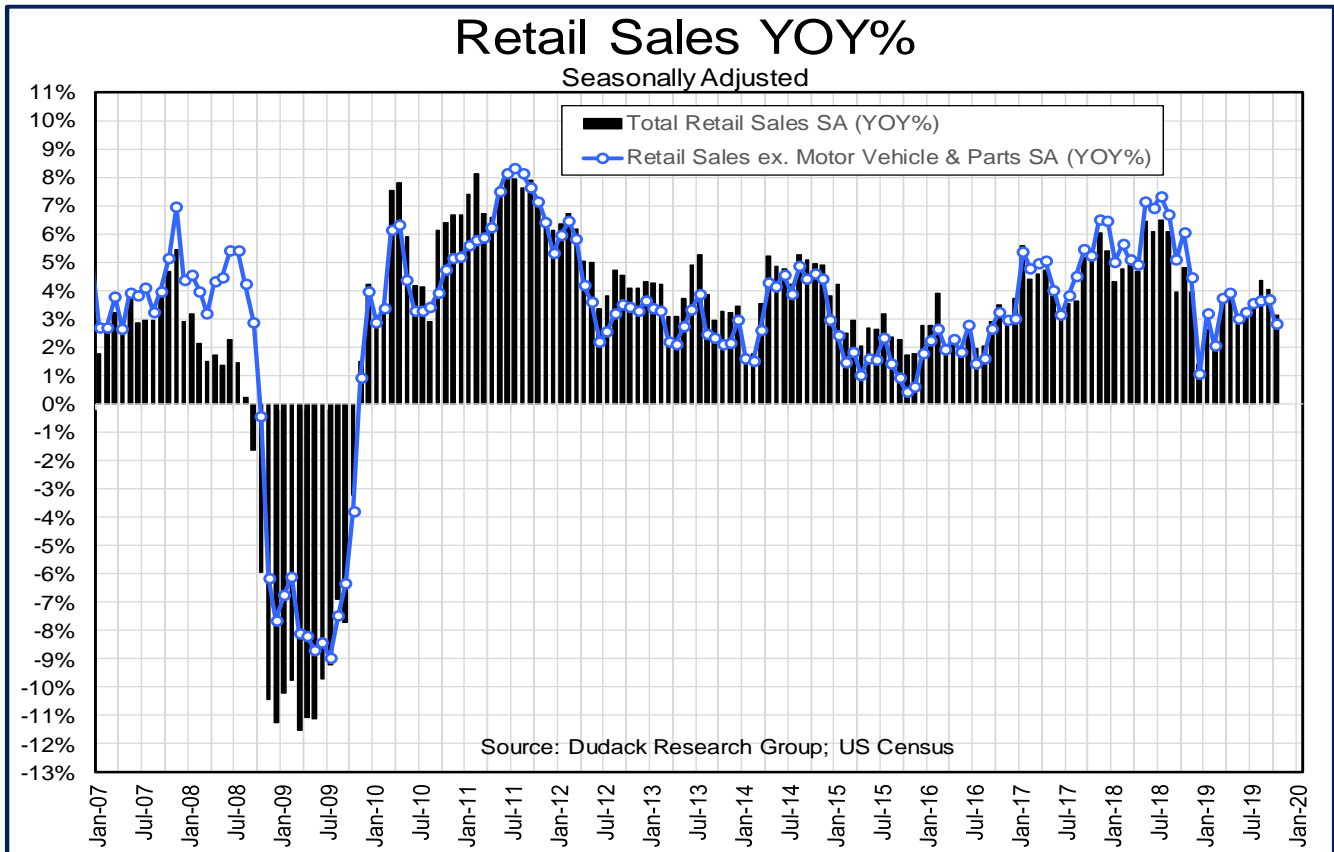
The inflation backdrop is favorable for monetary policy. PPI final demand prices rose 1.0% YOY in October, while intermediate processed goods prices fell 3.7% YOY. CPI rose a benign 1.8% YOY in October however core CPI rose 2.3% YOY. The rise in core prices was due primarily to services. See page 6. The trade war has not generated the rise in consumer prices most economists predicted for 2019. In fact, import prices, excluding petroleum products, fell 1.5% YOY. The effective fed funds rate of 1.55% is comfortably above September's PCE index of 1.3% YOY. See page 7.

But we remain bothered by the pace of inflation seen in the medical care sector where prices rose 4.3% YOY in October. All components of healthcare rose, but the 20.1% YOY jump in health insurance is most disturbing. See page 8. This could be a cyclical pricing cycle for insurers, or it could be in anticipation of a new rule requiring more transparency in hospital and insurance pricing. In a new executive order, the Trump administration is requiring hospitals to disclose for the first time the prices they negotiated with health insurers for a wide range of services, as well as the prices they charge patients who are paying with their own money. Hospitals will also be asked to create a list of 300 so-called "shoppable" services that patients can use, targeted to more elective services where customers could have the opportunity to shop around. The Trump administration is hoping a little bit of sunlight could help disinfect the high costs of US healthcare.

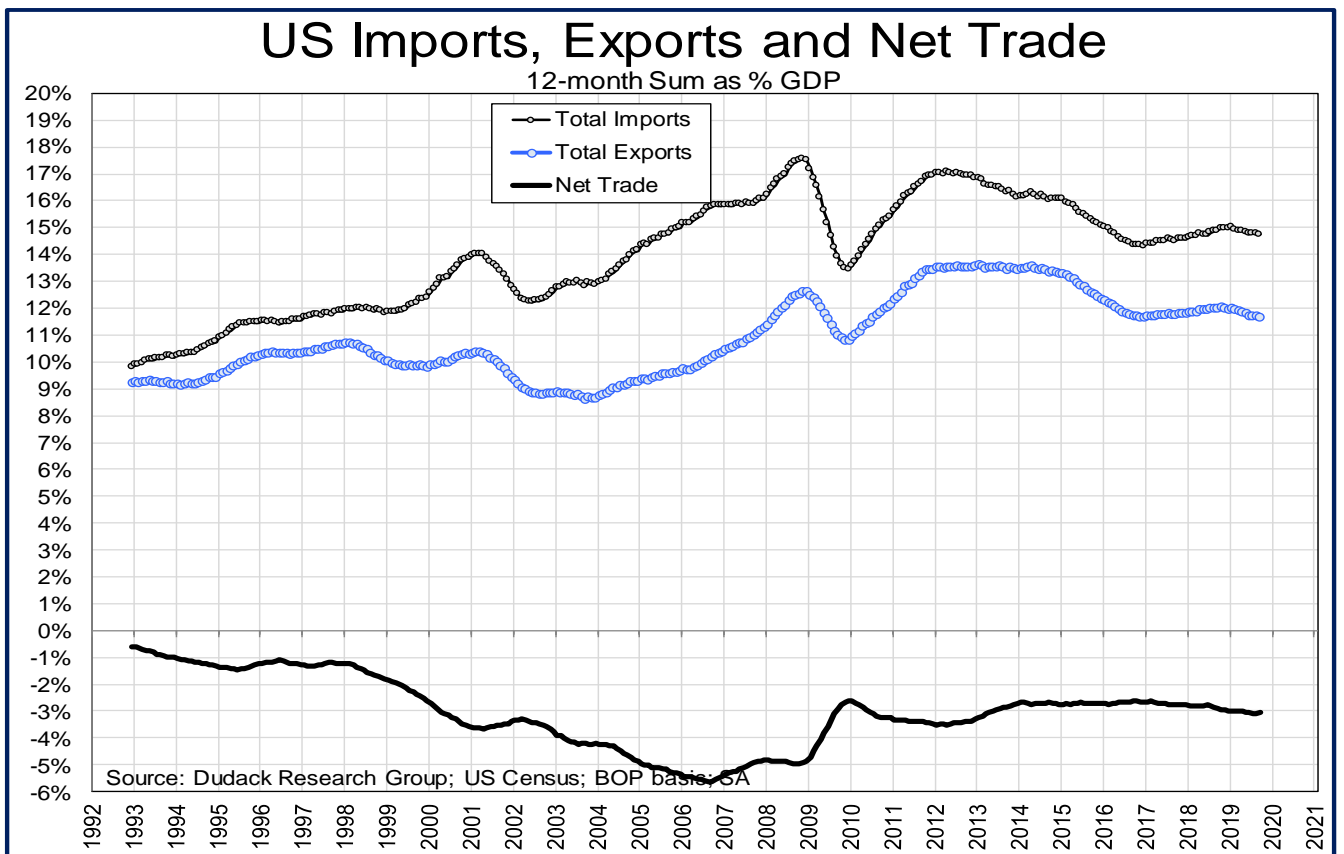
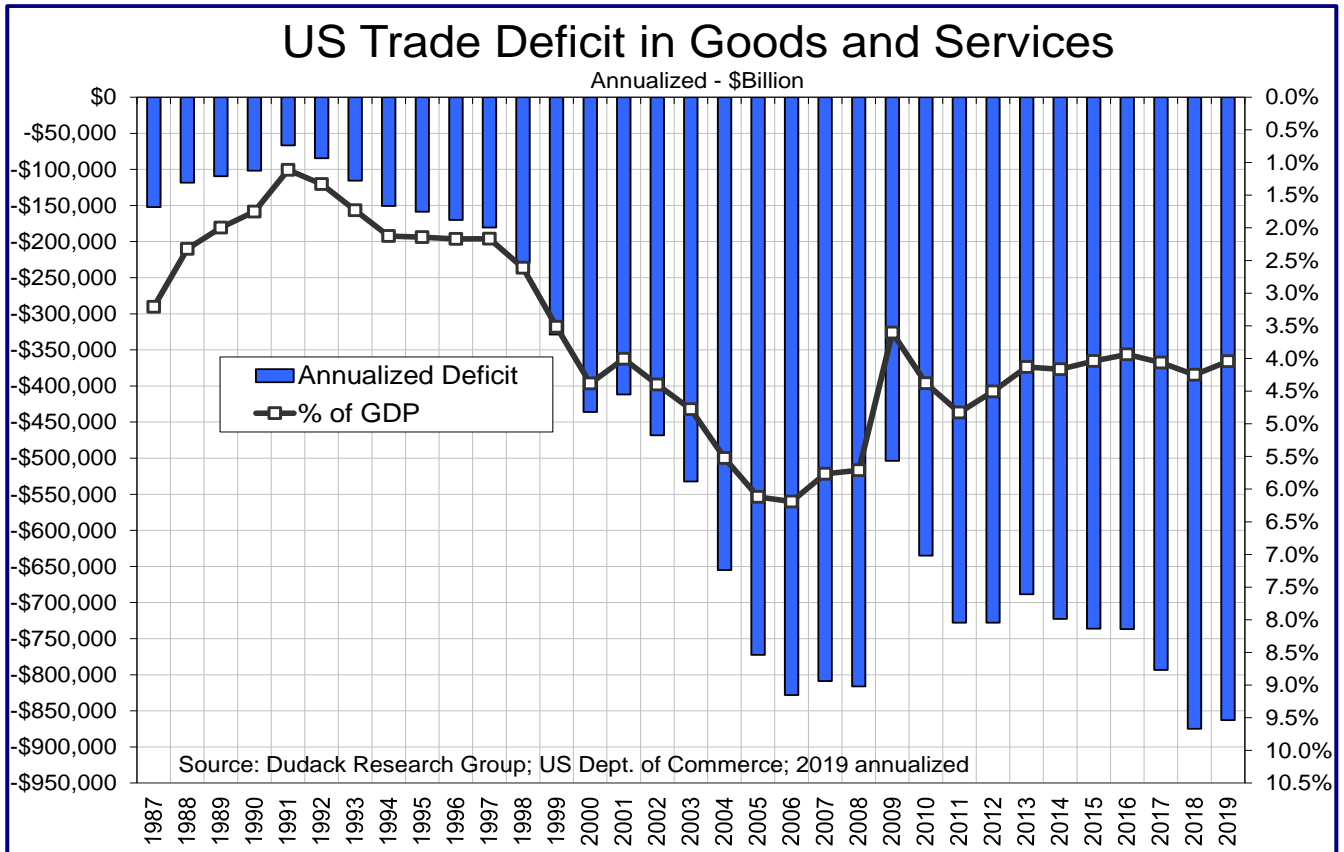
#### TECHNICALS CONTINUE TO SUPPORT EQUITIES

The technical scoreboard has not changed much in the last week, although the NYSE cumulative advance decline line made a new high on November 15 which now confirms the ongoing advance in the popular indices. The Russell 2000 index continues to lag behind the popular indices, but like last week, it is close, but has not yet broken above the top of its recent trading band of 1450-1600. A breakout would be bullish. An uptrend line that has supported the DJIA since the 2016 low was recently tested successfully and this strengthens the longer-term bullish trend. See page 12. The 25-day up/down volume oscillator is 1.76 and neutral after being in overbought territory for five of six trading sessions last week. This was the fifth consecutive overbought reading of 2019 and it followed an overbought condition that lasted for eight of ten trading sessions between September 10 and September 23. Consecutive overbought readings denote steady buying pressure and only appear in a bull market cycle. In sum, this is a positive sequence in this indicator.

Hurricane Dorian, weak iPhone sales, and the General Motors strike had a minimal impact on October's retail sales which grew 0.3% MOM; but this did not fully reverse a 0.3% slide in September. Nonetheless, total sales were up 3.1% YOY in October (2.8% YOY ex. autos) versus 4.1% YOY in September.



The US-China trade conflict has only made a small dent in the total US trade deficit which is running at an annualized \$862.7 billion as of September versus \$874.8 billion in 2018. Department of Commerce data shows the trade deficit running at an estimated 4% of current GDP, while the Census BOP basis, shows the 12-month running percentage to be 3.1% of GDP.



Trade is changing beneath the surface as countries move in and out of favor due to tariffs. China is no longer our top trading partner and falls to third place after Mexico and Canada. However, China does have the largest trade deficit with the US at \$263 billion YTD, which is 3 ½ times larger than Mexico which ranks second with a \$76 billion deficit. Ironically, the trading partner with the largest surplus with the US is Hong Kong at \$20.3 billion.

Top 20 Countries by 2019 US Trading Activity

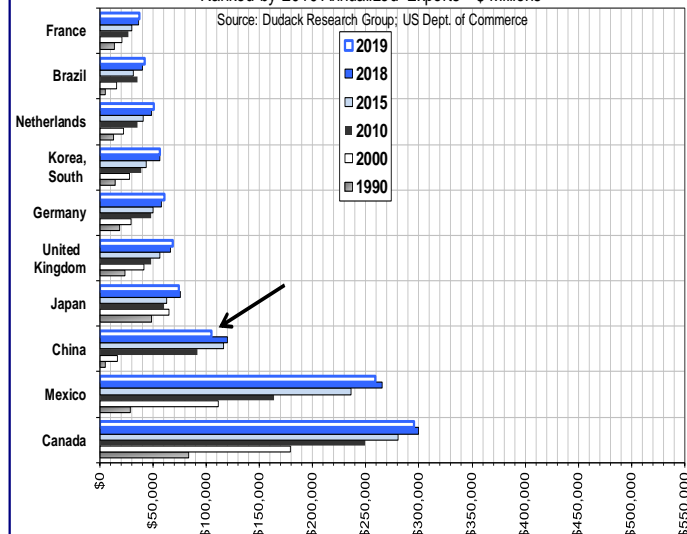
Total Trade		\$ Millions	Deficit	\$ Millions	Surplus	\$ Millions	% of Total Import	%	% of Total Export	%	% of Total	Net Deficit (-) / Surplus (+)	
Mexico	464,357.11	China	263,198.43	Hong Kong	20,266.12	China	18.2%	Canada	18.0%	China	40.7%	Hong Kong	3.1%
Canada	460,290.06	Mexico	76,148.65	Netherlands	15,542.77	Mexico	14.4%	Mexico	15.8%	Mexico	11.8%	Netherlands	2.4%
China	420,722.41	Japan	53,668.28	United Arab Emirate	11,335.40	Canada	12.7%	China	6.4%	Japan	8.3%	United Arab Emi	1.8%
Japan	164,492.57	Germany	50,798.30	Belgium	11,326.84	Japan	5.8%	Japan	4.5%	Germany	7.9%	Belgium	1.8%
Germany	141,337.28	Vietnam	40,958.52	Australia	10,266.76	Germany	5.1%	United Kingdom	4.2%	Vietnam	6.3%	Australia	1.6%
Korea, South	100,252.06	Ireland	38,765.29	Brazil	8,181.72	Korea, South	3.1%	Germany	3.7%	Ireland	6.0%	Brazil	1.3%
United Kingdom	97,933.23	Italy	24,936.23	Panama	5,223.93	Vietnam	2.6%	Korea, South	3.4%	Italy	3.9%	Panama	0.8%
France	71,199.12	Malaysia	19,666.26	United Kingdom	4,371.46	United Kingdom	2.5%	Netherlands	3.1%	Malaysia	3.0%	United Kingdom	0.7%
India	69,845.51	Switzerland	19,189.50	Chile	3,412.01	Ireland	2.4%	Brazil	2.6%	Switzerland	3.0%	Chile	0.5%
Taiwan	63,002.38	India	17,852.95	Singapore	3,167.63	India	2.3%	France	2.3%	India	2.8%	Singapore	0.5%
Italy	60,987.97	Taiwan	17,425.52	Peru	2,857.56	France	2.3%	Belgium	2.2%	Taiwan	2.7%	Peru	0.4%
Netherlands	59,948.56	Canada	16,955.44	Dominican Republic	2,736.34	Italy	2.3%	India	2.1%	Canada	2.6%	Dominican Repu	0.4%
Vietnam	57,078.27	Korea, South	15,965.65	Qatar	2,631.32	Taiwan	2.1%	Hong Kong	1.9%	Korea, South	2.5%	Qatar	0.4%
Brazil	55,109.66	France	15,360.95	Argentina	2,624.51	Switzerland	1.7%	Singapore	1.9%	France	2.4%	Argentina	0.4%
Ireland	52,200.02	Thailand	14,931.77	Bahamas	2,121.57	Malaysia	1.5%	Taiwan	1.9%	Thailand	2.3%	Bahamas	0.3%
Switzerland	45,780.92	Russia	11,512.15	Guatemala	1,959.20	Thailand	1.3%	Australia	1.5%	Russia	1.8%	Guatemala	0.3%
Singapore	43,660.15	Indonesia	9,063.56	Egypt	1,814.43	Brazil	1.2%	Italy	1.5%	Indonesia	1.4%	Egypt	0.3%
Belgium	41,581.84	Sweden	5,737.24	Jamaica	1,632.06	Netherlands	1.2%	United Arab Err	1.2%	Sweden	0.9%	Jamaica	0.3%
Malaysia	38,521.05	Denmark	5,358.31	Morocco	1,587.36	Singapore	1.1%	Switzerland	1.1%	Denmark	0.8%	Morocco	0.2%
Thailand	34,353.25	Austria	5,037.09	Paraguay	1,487.62	Russia	0.8%	Chile	0.9%	Austria	0.8%	Paraguay	0.2%

Source: U.S. Census Bureau; Dudack Research Group

### Destination of US Exports

Ranked by 2019 Annualized Exports - \$ Millions

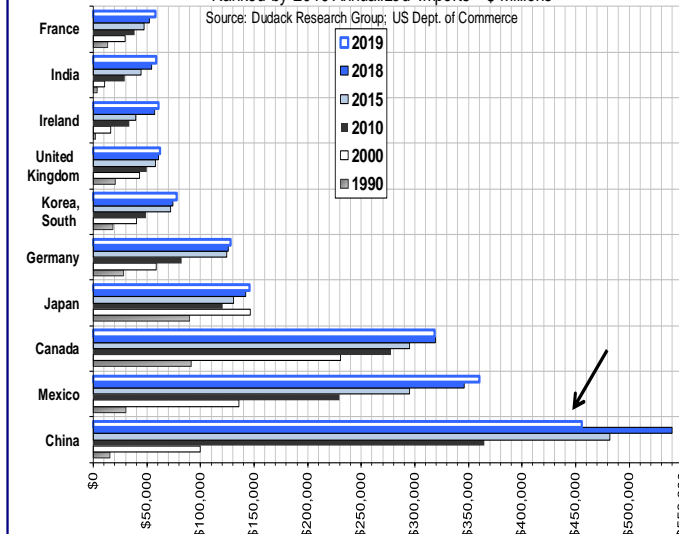
Source: Dudack Research Group; US Dept. of Commerce



### Sources of US Imports

Ranked by 2019 Annualized Imports - \$ Millions

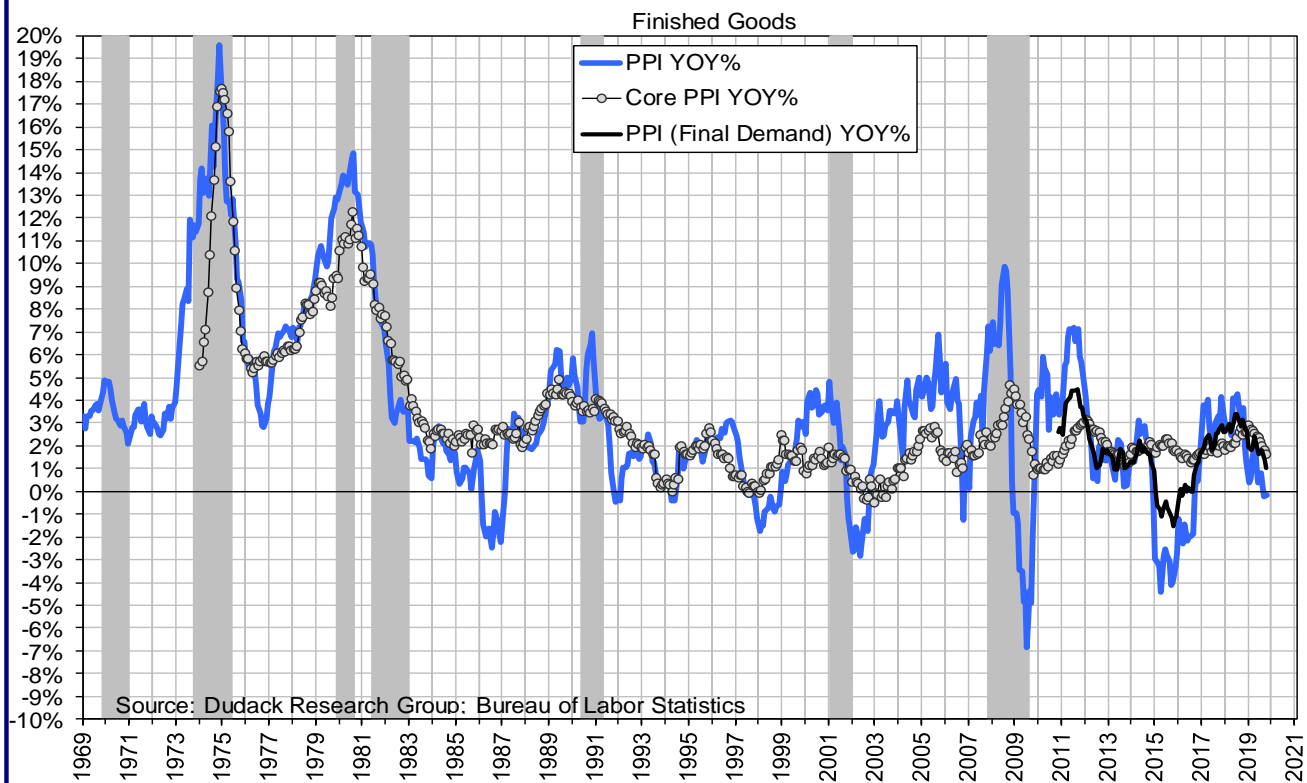
Source: Dudack Research Group; US Dept. of Commerce



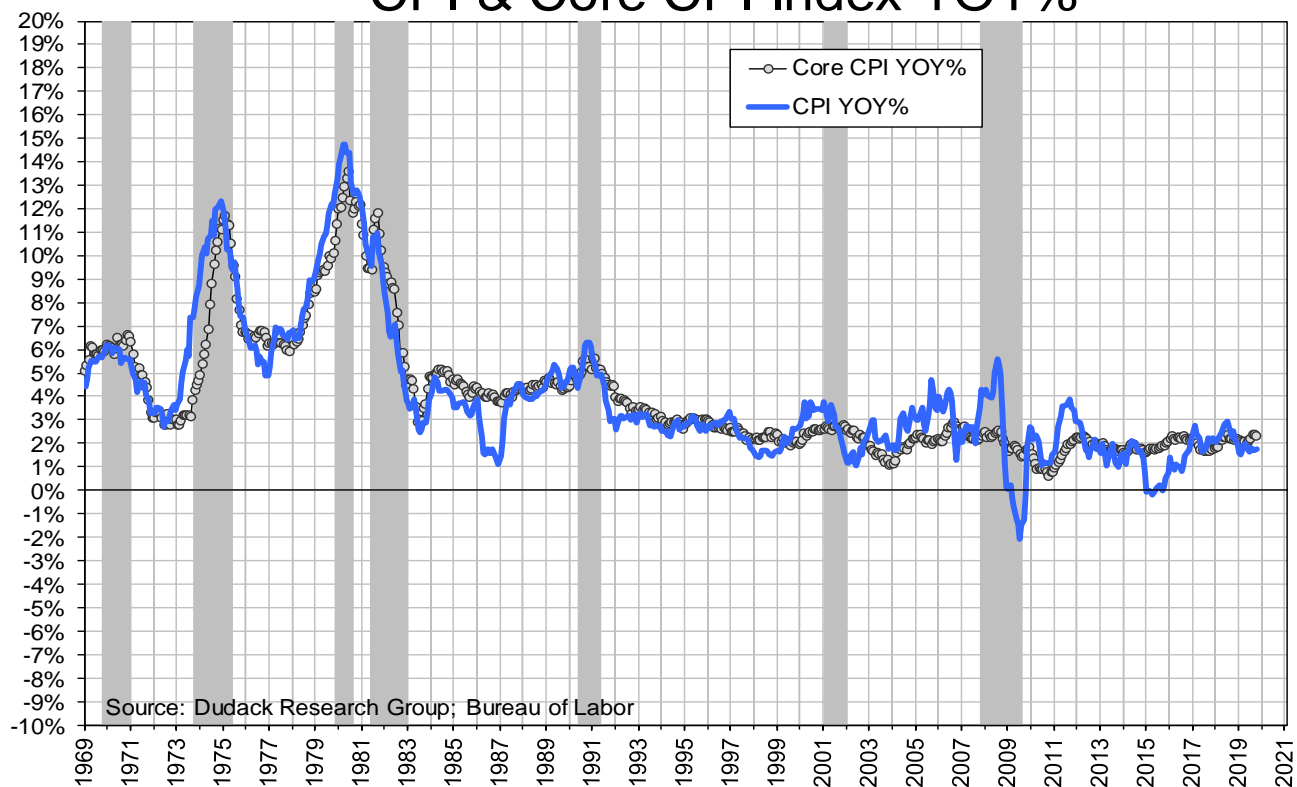


PPI final demand prices rose 1.0% YOY in October, while intermediate processed goods prices fell 3.7% YOY. CPI rose a benign 1.8% YOY in October however core CPI rose 2.3% YOY. The rise in core prices was due primarily to services. Overall, the inflation backdrop is favorable for monetary policy.

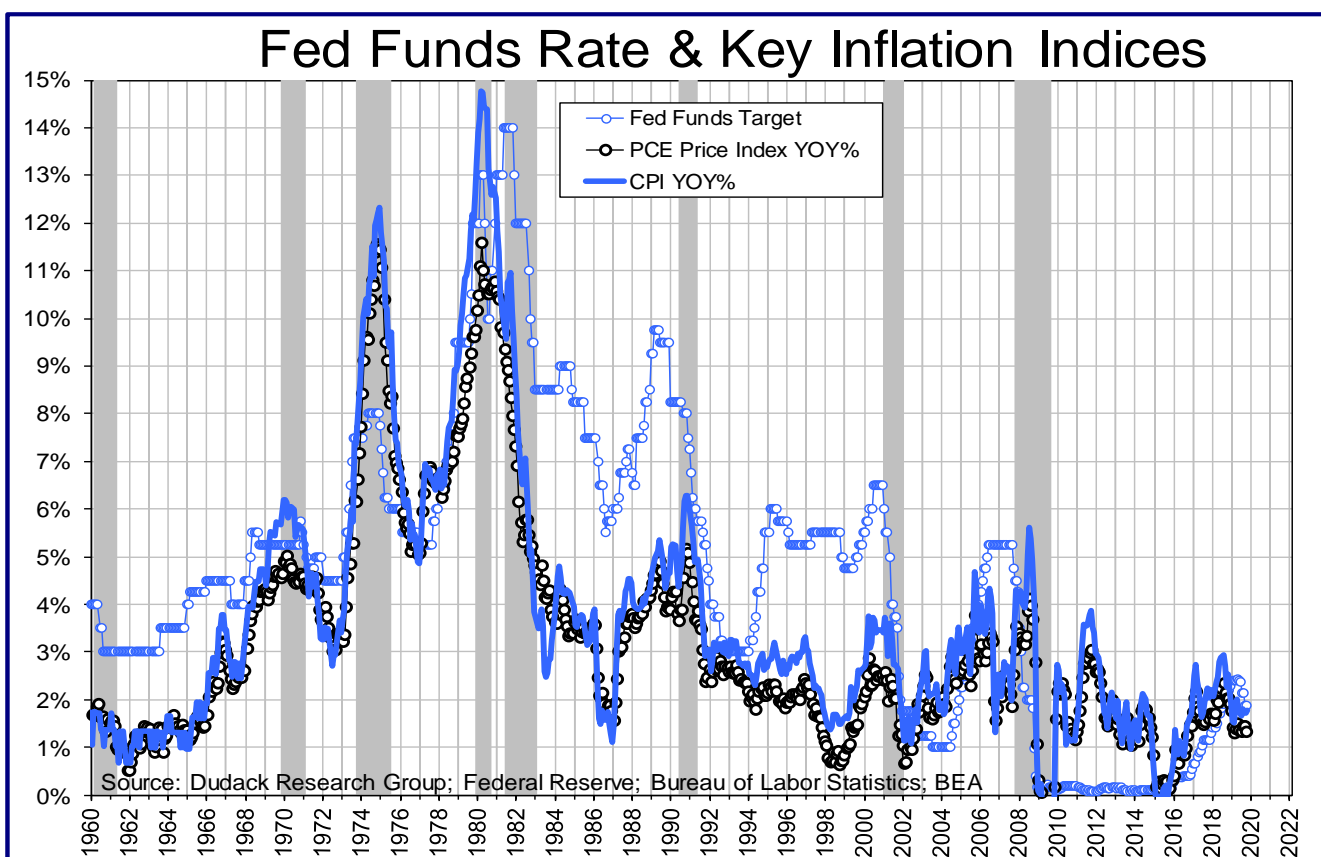
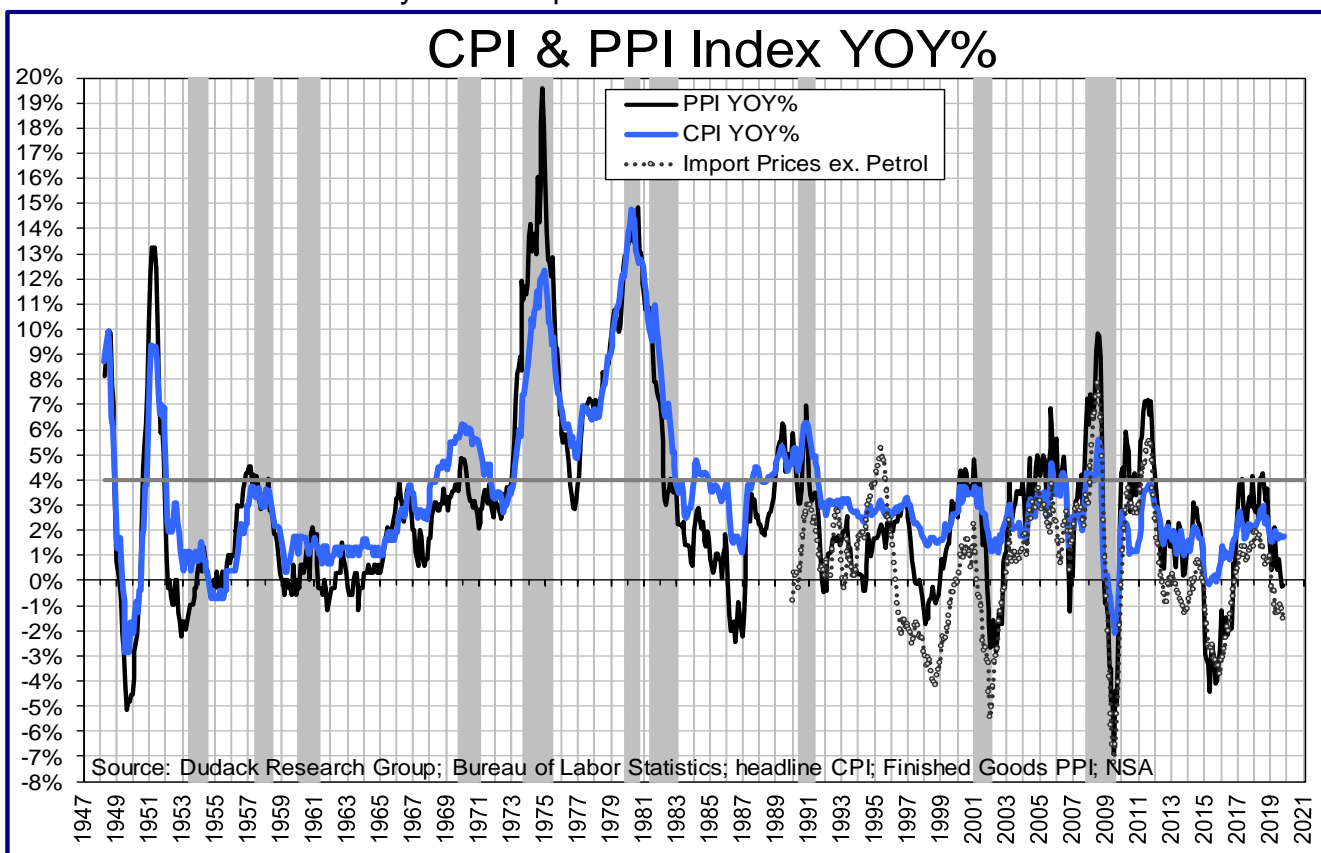
## PPI & Core PPI Index YOY%



## CPI & Core CPI Index YOY%



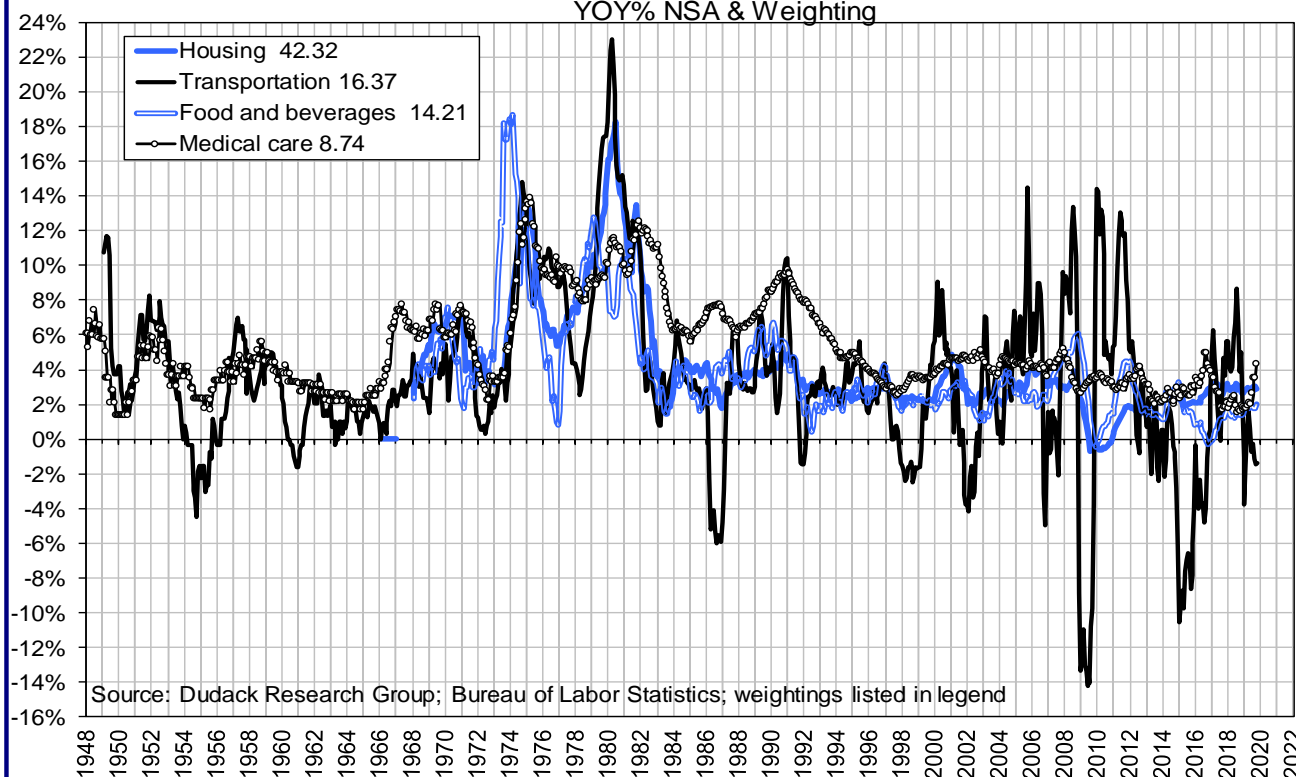
Inflation data shows that the trade war has not generated the rise in consumer prices most economists predicted for 2019. In fact, import prices, excluding petroleum products, fell 1.5% YOY. The effective fed funds rate of 1.55% is comfortably above September's PCE index of 1.3% YOY.



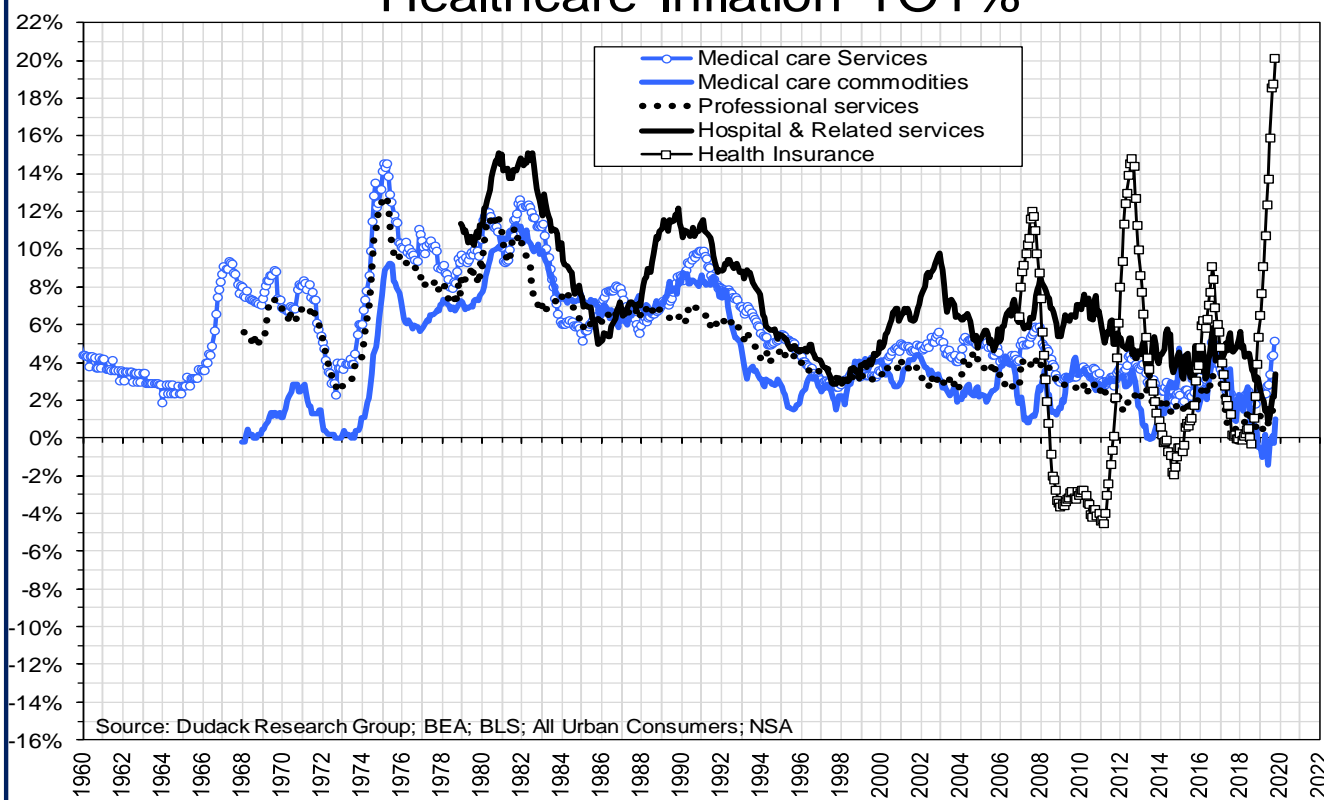
But we remain bothered by the inflation pace seen in medical care which rose 4.3% YOY in October. All components of healthcare rose, but the 20.1% YOY jump in health insurance is most disturbing. This could be in anticipation of a new executive order requiring more transparency in hospital and insurance pricing.

## CPI Heavyweight Components

YOY% NSA & Weighting

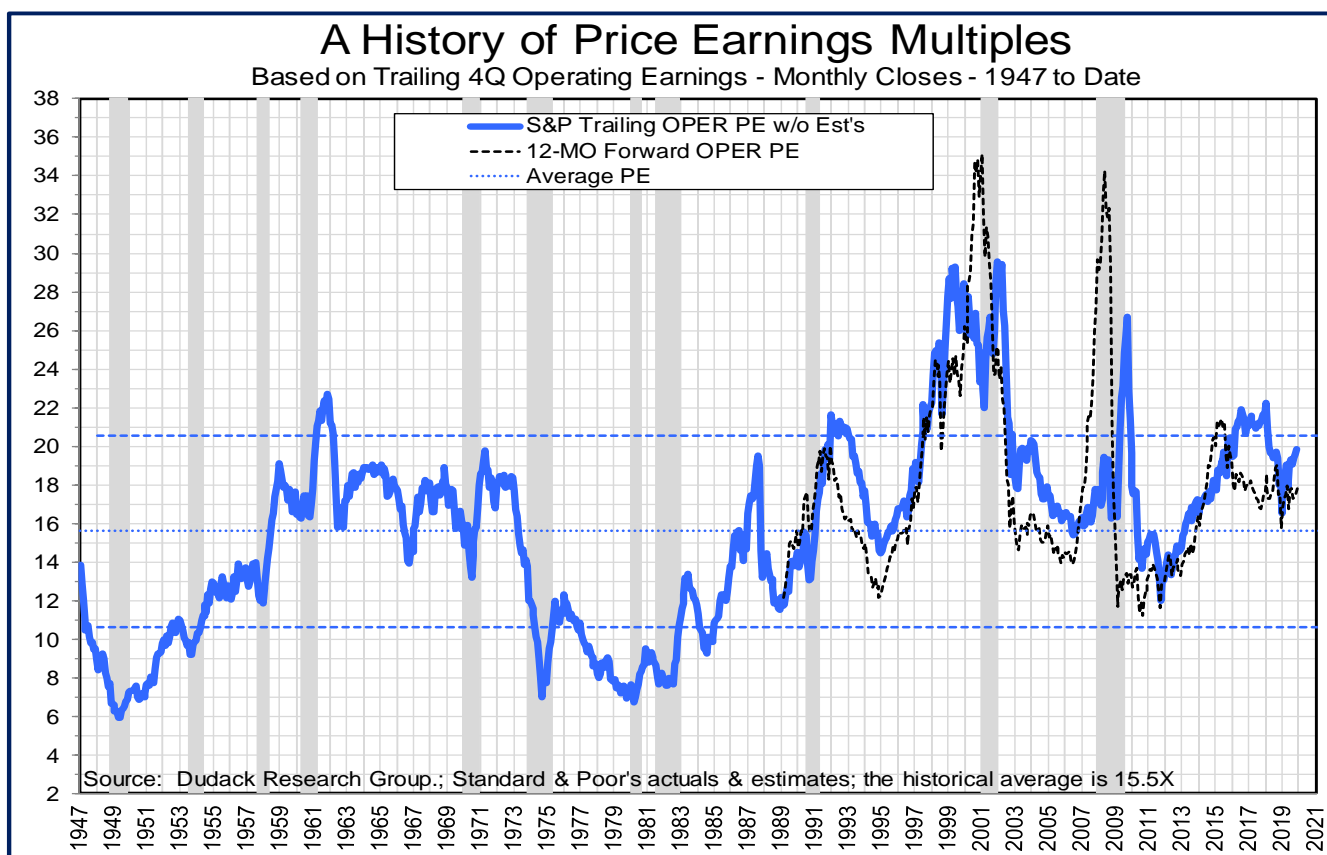
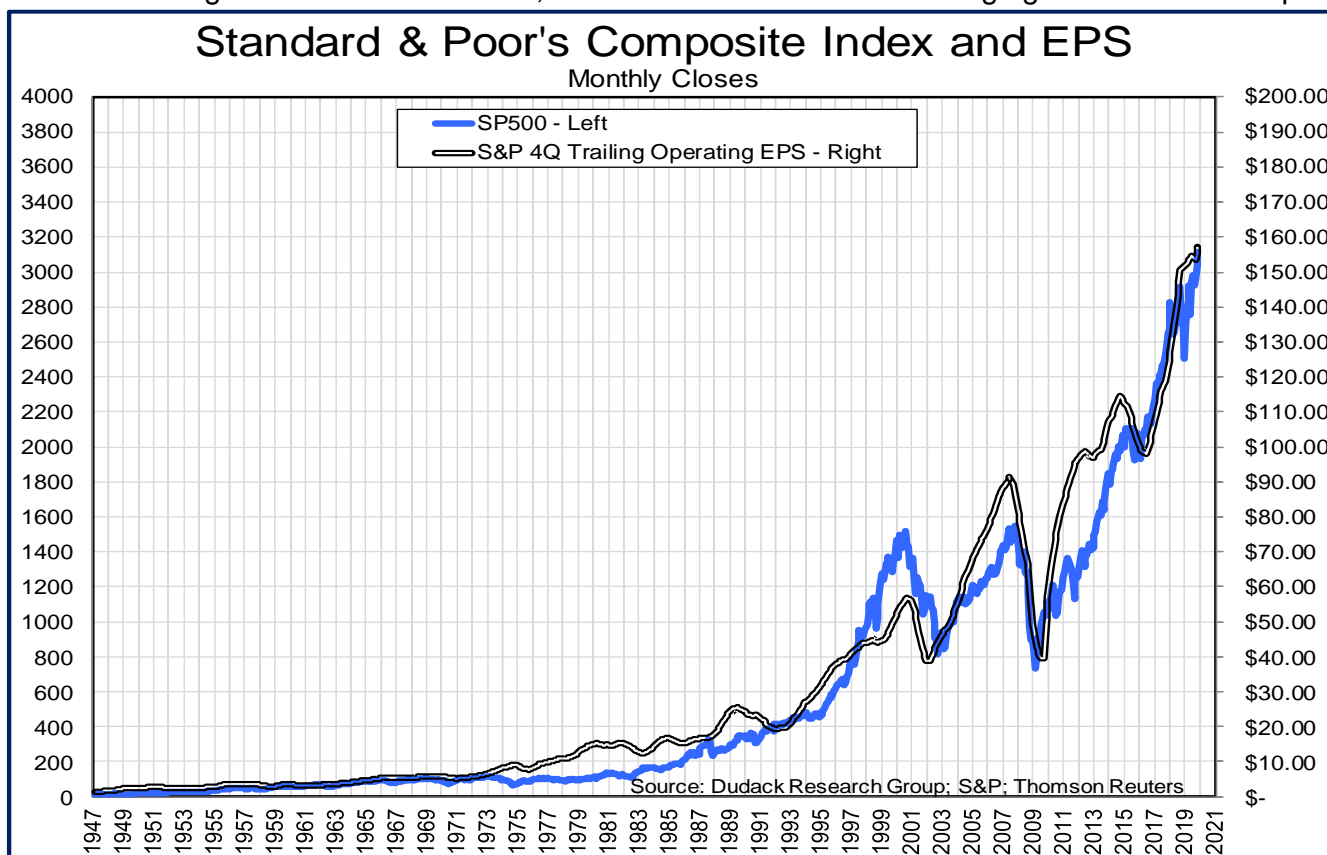


## Healthcare Inflation YOY%

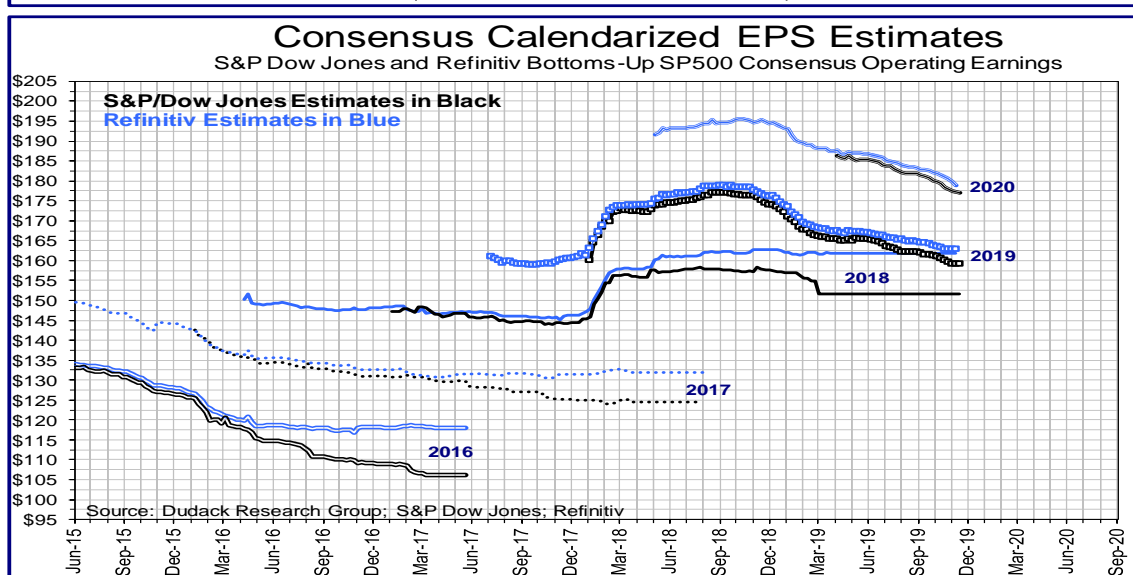
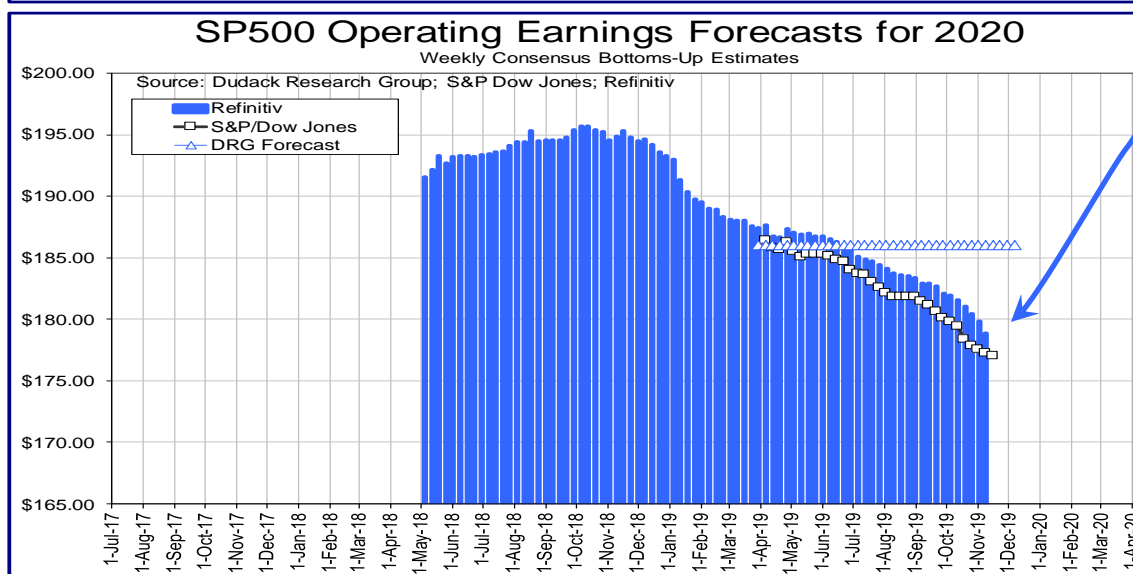
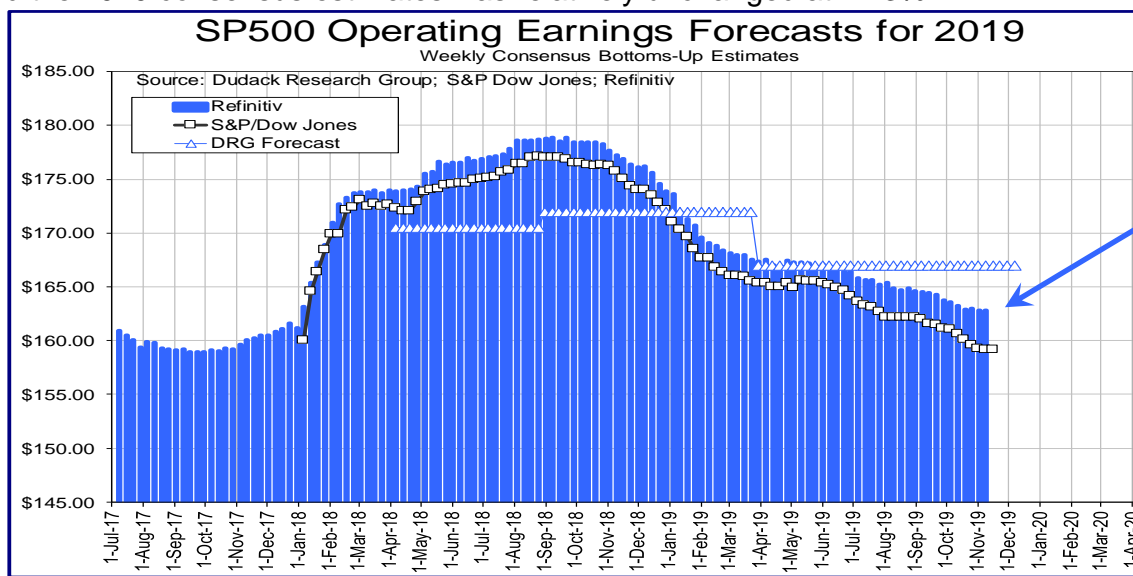




In our view, recent market gains are in response to better than expected earnings reported in the third quarter. As seen in the chart below, SPX prices and trailing operating earnings are keeping in step with each other. But to get a sustained advance, we believe confidence in earnings growth needs to improve.



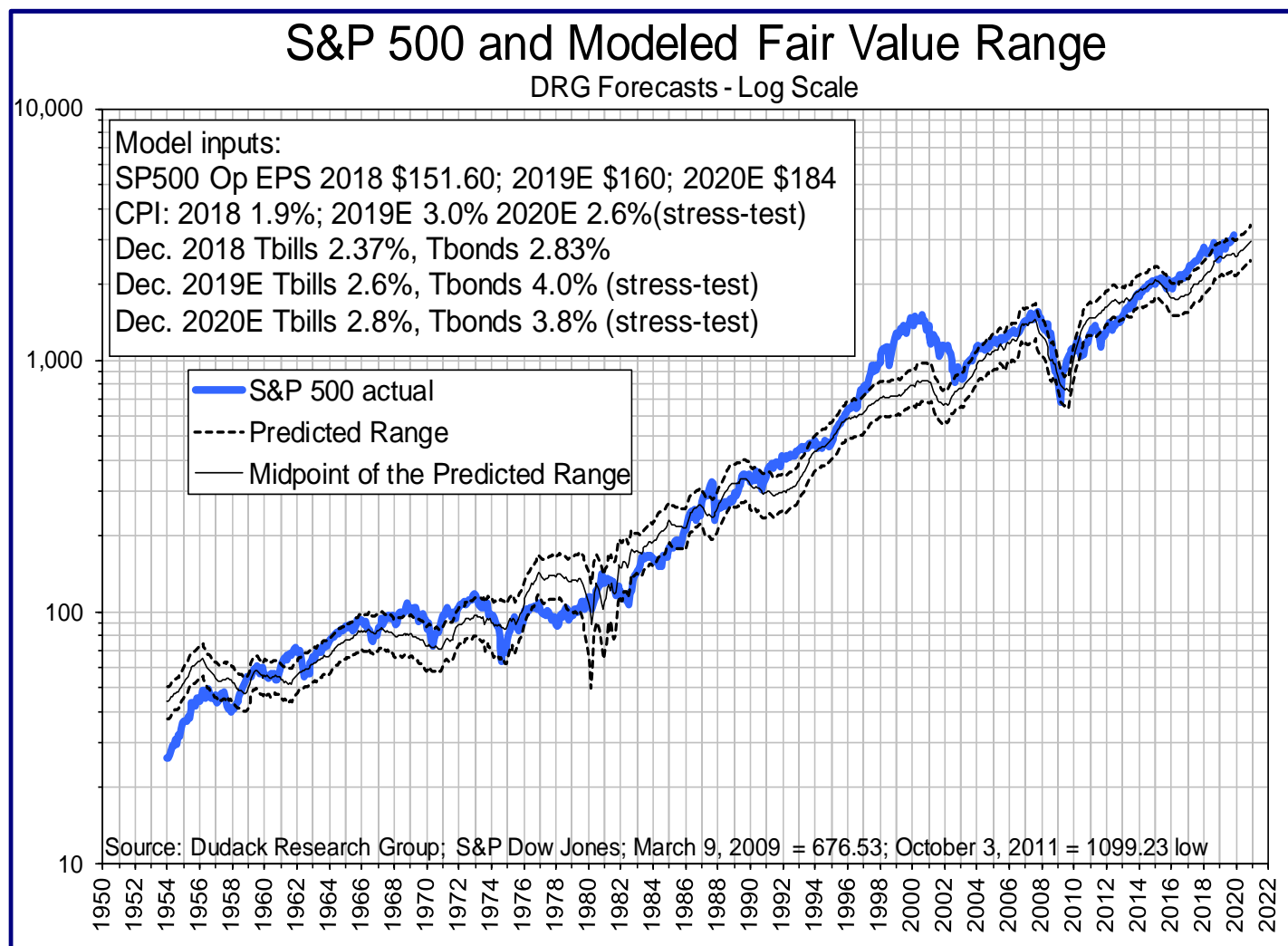
For the week ended November 15, the Refinitiv consensus 2019 EPS growth estimate was unchanged at 0.5% but the 2020 estimate fell from 10.5% to 9.9%. The S&P Dow Jones 2019 estimate was unchanged at 5.0% and the 2020 consensus estimates was relatively unchanged at 11.3%.



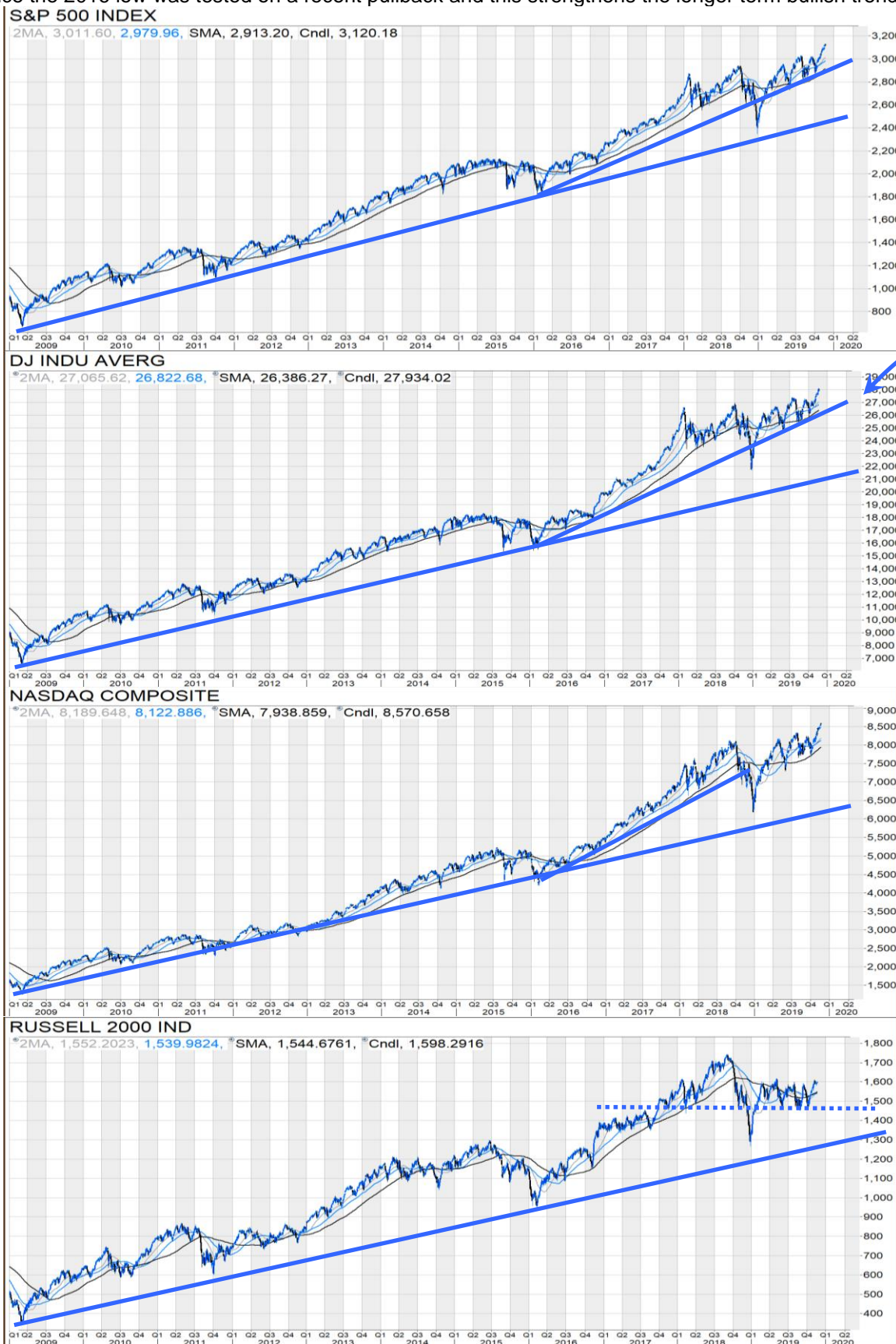
Despite the fact that we lowered our 2019 SP500 EPS estimate from \$167 to \$160 and our 2020 estimate from \$186 to \$184, and stress-tested our valuation model with inflation of 2.6% and a 10-year Treasury bond yield of 3.8% in 2020, our model shows a fair value range for the SPX of 2800 to 3450 for 2020.

As you can see from the chart, the SPX has been hugging the upper end of our projected fair value range since late 2016. This is not surprising since benign inflation supports a higher PE multiple and as a result, one would expect the SPX to trade in the upper half of the fair value range.

With the SPX trading near our 2019 target of 3110 this week we are initiating a 2020 SPX target of 3300. Given the tough stress-tests in our model, we believe our target could prove to be conservative.



The Russell 2000 index continues to lag the popular indices, but like last week, it is close to breaking above the top of its recent trading band of 1450-1600, which is favorable. Note that the uptrend line that has supported the DJIA for most of the advance since the 2016 low was tested on a recent pullback and this strengthens the longer term bullish trend.

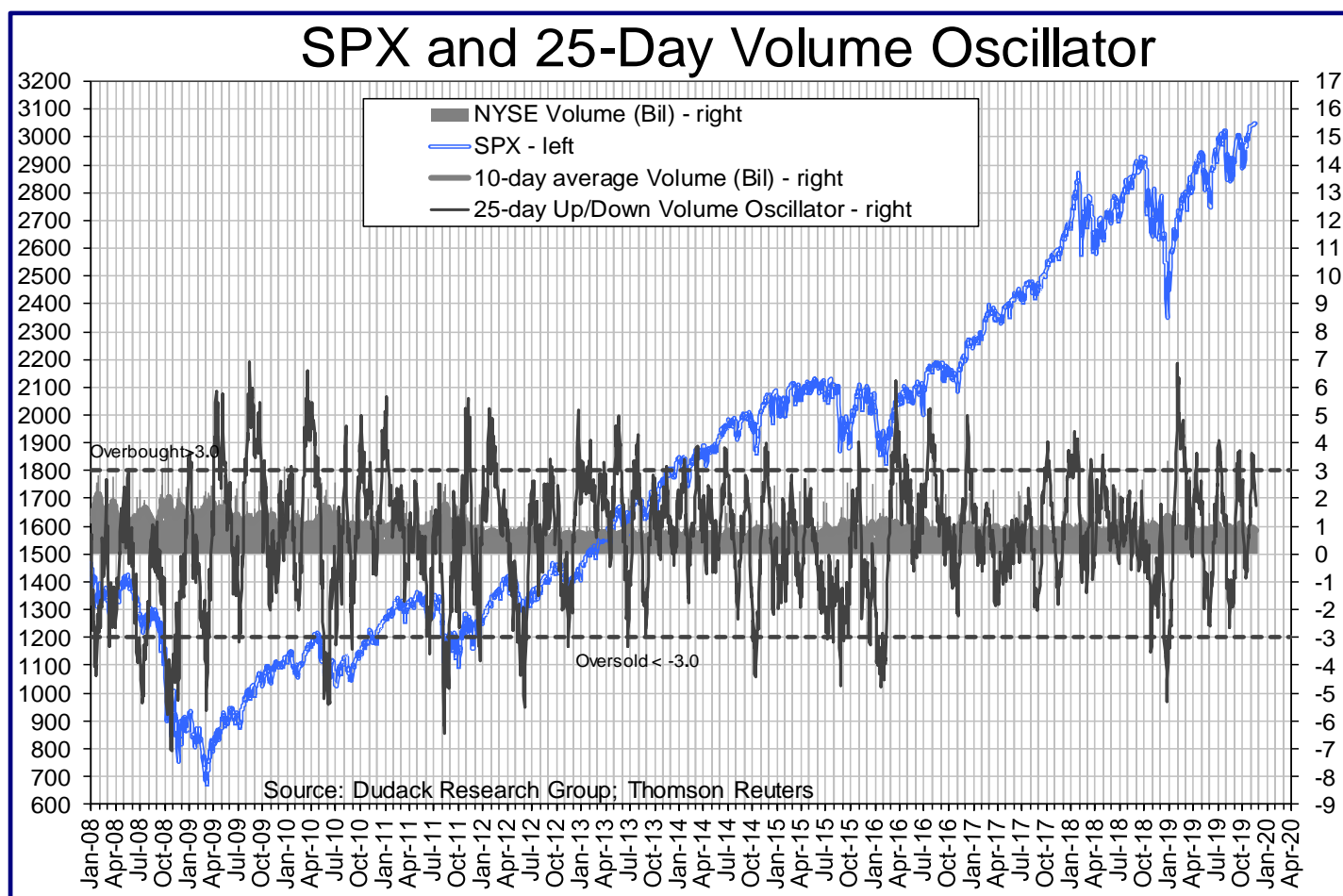


Source: Refinitiv

The 25-day up/down volume oscillator is 1.76 (preliminarily) and neutral after being in overbought territory for five of six trading sessions last week. This was the fifth consecutive overbought reading of 2019 and it followed an overbought condition that lasted for eight of ten trading sessions between September 10 and September 23. Consecutive overbought readings denote steady buying pressure and only appear in a bull market cycle. In sum, this is a positive sequence in this indicator.

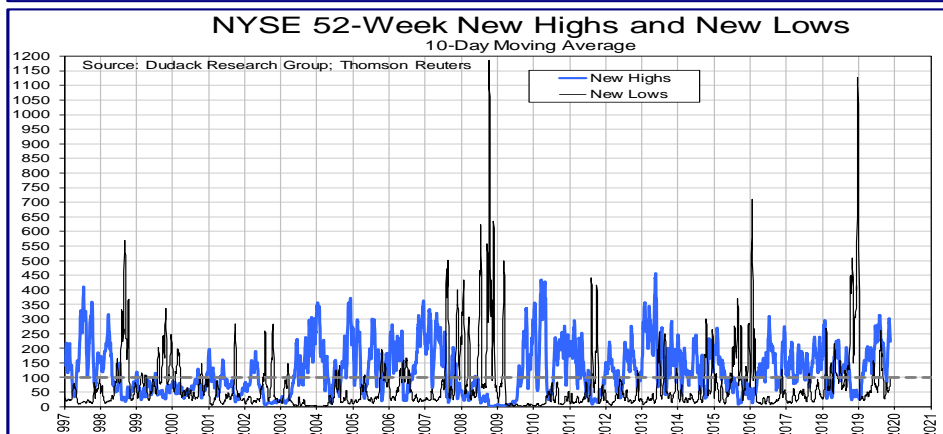
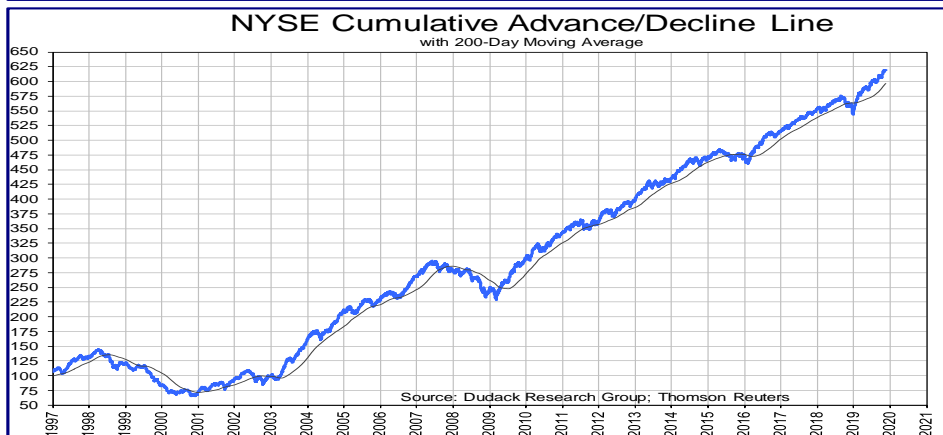
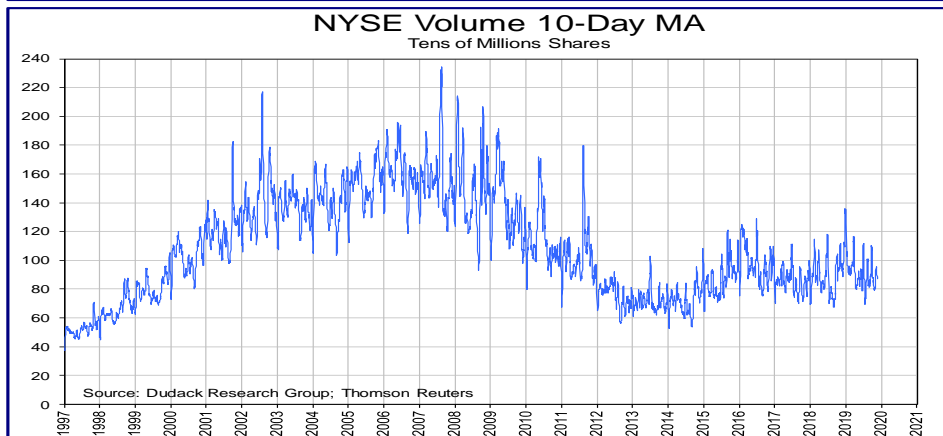
This oscillator's prior signals were July's seven consecutive sessions in overbought territory, which followed a two-day overbought reading on April 11-12. April's reading was preceded by a long 25-consecutive-day overbought reading in January through March. The first quarter 25-day reading was the 4<sup>th</sup> longest overbought signal since 2008 and the lengthiest overbought condition since the 27 out of 29 consecutive-day overbought reading recorded in May 2009. Note that 2008-2009 marked the end of a bear market and the start of the current bull market cycle and multiple and sustained overbought readings occur uniquely in secular bull market cycles. In sum, this indicator remains characteristically bullish.

In August, there were three extreme days with downside volume in excess of 90%: August 5 (91%), August 14 (94%), and August 26 (91%). However, on August 16 the trading session recorded an 89% up volume day with just 10% downside volume. This was just shy of the 90% up-day that typically signals that the lows have been found. September 4 recorded upside volume of 87%. Neither of these sessions were classic 90% up days but we do believe they indicate that the downside risk is minimal beyond the August 14 SPX low of 2840.

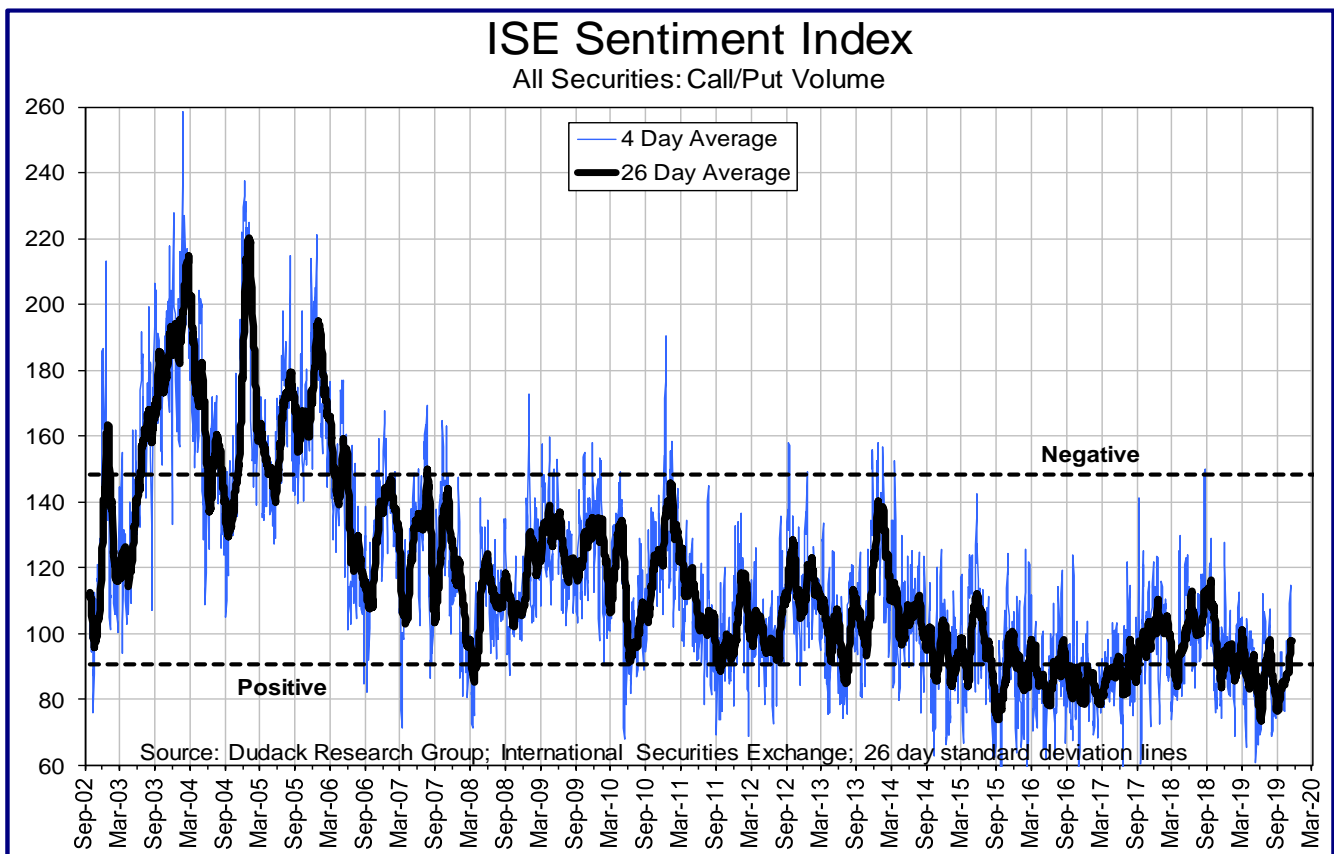
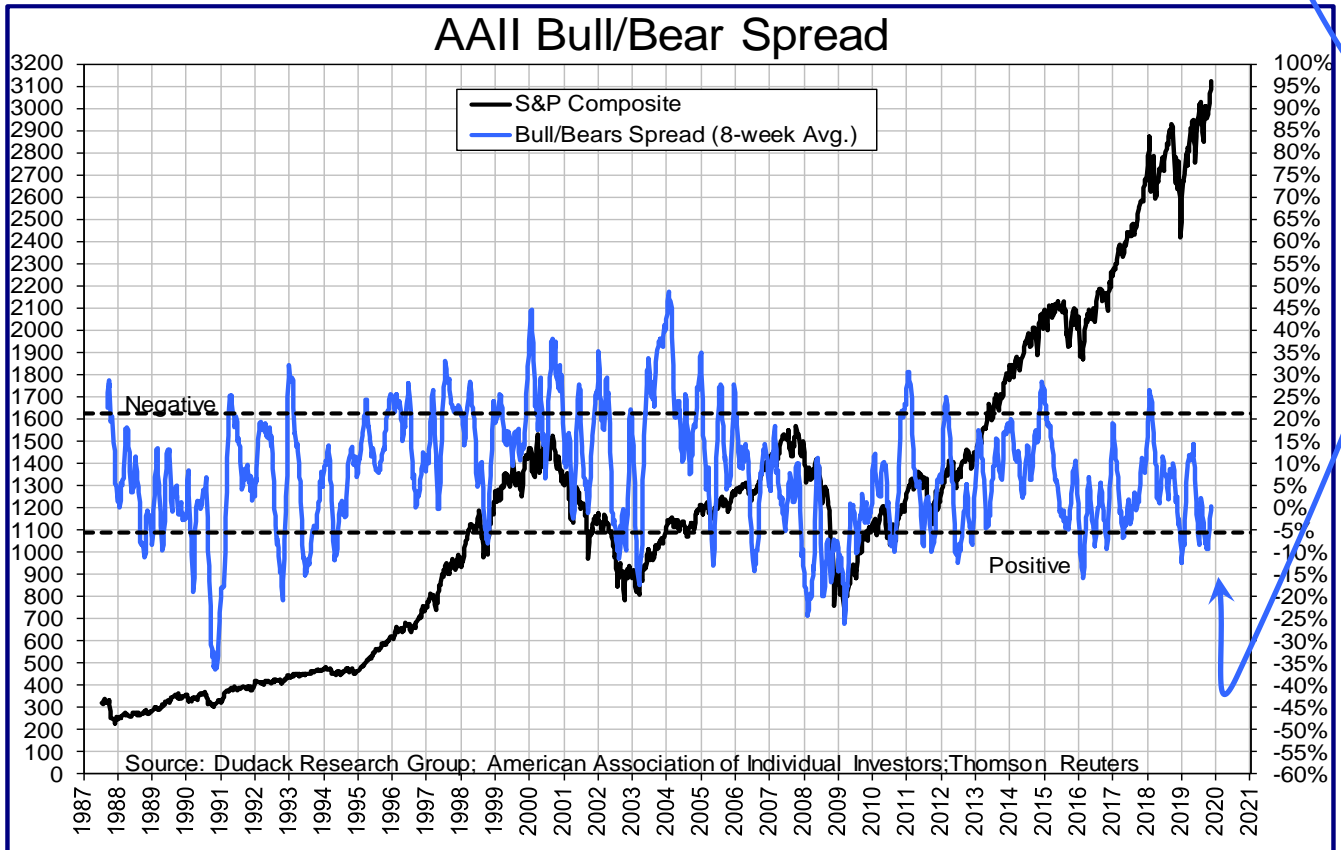




The 10-day average of daily new highs (222) is above the 100 per day level defined as bullish and the average of daily new lows (93) is below the 100 per day defined as bearish; the combination is positive. The A/D line made a new record high on November 15, 2019 and confirmed the new highs in the broad indices this week.



As of November 13, AAI bullish sentiment rose 0.4% to 40.7% and bearish sentiment rose 0.9% to 24.8%. The 8-week bull/bear spread remains neutral. The ISE Sentiment index shifted from positive to neutral last week and is neutral for the first time since early August. However, while both sentiment indicators are neutral, neither is close to negative territory.

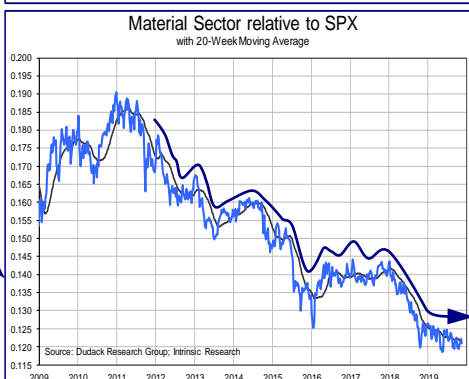
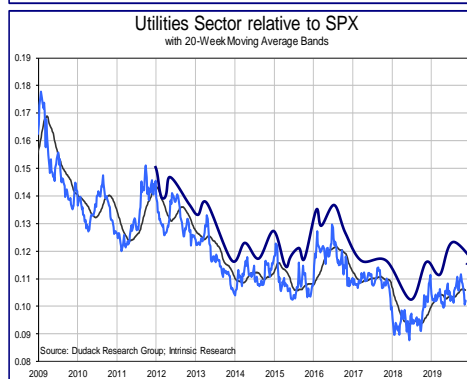
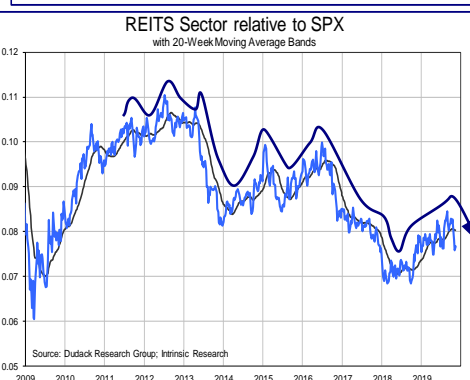
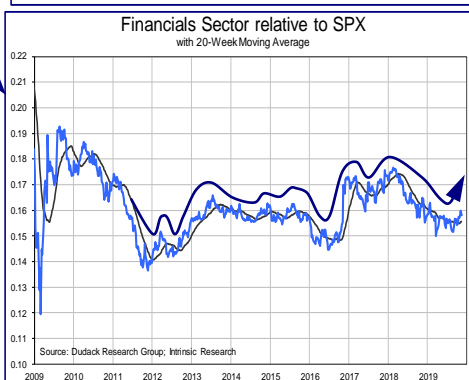
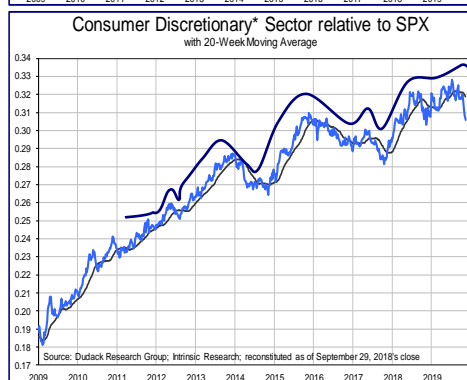
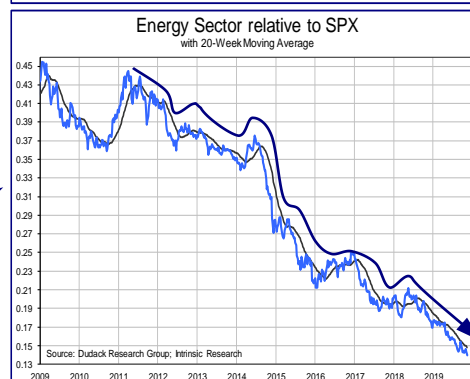
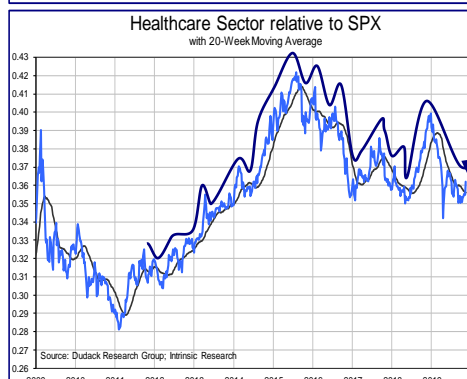
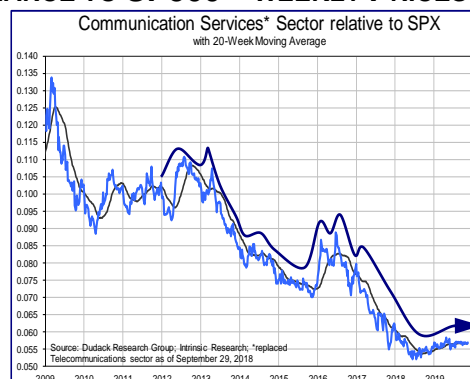
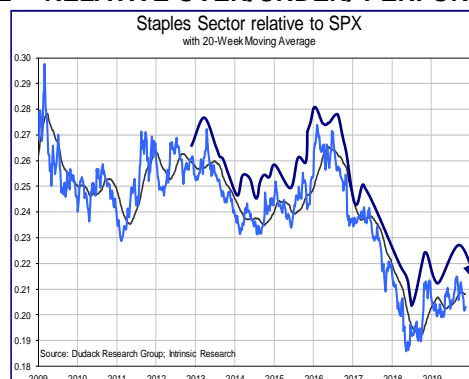
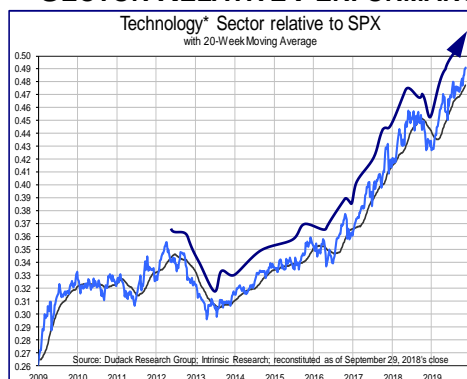


## DRG Recommended Sector Weights

Overweight		Neutral		Underweight
Technology		Staples		Communication Services
Healthcare		Industrials		Energy
Consumer Discretionary		Financials		REITS
Utilities		Materials		

Healthcare, Consumer Discretionary and Utilities upgraded to Overweight; Financials downgraded to Neutral; Energy downgraded to Underweight; Staples upgraded to Neutral 12/13/18

**SECTOR RELATIVE PERFORMANCE – RELATIVE OVER/UNDER/ PERFORMANCE TO SP500 – WEEKLY PRICES**



2019 Performance Year-to-Date - Ranked	
SP500 Sector	% Change
S&P INFORMATION TECH	40.9%
S&P COMMUNICATIONS SERVICES	28.3%
S&P INDUSTRIALS	27.3%
S&P FINANCIAL	24.8%
S&P 500	24.5%
S&P REITS	24.4%
S&P CONSUMER DISCRETIONARY	22.2%
S&P CONSUMER STAPLES	21.2%
S&P MATERIALS	19.2%
S&P UTILITIES	18.5%
S&P HEALTH CARE	12.1%
S&P ENERGY	2.5%

Source: Dudack Research Group; Thomson Reuters; Monday closes

## GLOBAL MARKETS - RANKED BY LAST 20-DAY TRADING PERFORMANCE

Index/EFT	Symbol	Price	5-Day%	20-Day%	QTD%	YTD%
Silver Future	SLc1	91.35	5.8%	31.7%	65.0%	491.9%
SPDR Communication Services ETF	XLC	113.74	4.6%	24.0%	46.3%	175.5%
iShares Nasdaq Biotechnology ETF	IBB.O	113.45	2.8%	10.9%	14.0%	17.7%
SPDR S&P Semiconductor ETF	XSD	98.92	-1.0%	9.5%	10.1%	52.9%
Technology Select Sector SPDR	XLK	87.67	1.4%	8.4%	9.9%	41.4%
Health Care Select Sect SPDR	XLV	97.79	2.6%	6.6%	9.6%	13.0%
Industrial Select Sector SPDR	XLI	81.93	0.2%	6.5%	8.1%	27.2%
Financial Select Sector SPDR	XLF	29.87	0.2%	6.3%	9.0%	25.4%
NASDAQ 100	NDX	8338.74	0.9%	6.0%	7.6%	31.7%
Nasdaq Composite Index Tracking Stock	ONEQ.O	337.29	0.9%	5.9%	7.4%	29.7%
iShares MSCI Taiwan ETF	EWT	40.10	1.3%	5.6%	10.3%	26.8%
SPDR S&P Bank ETF	KBE	45.94	-0.9%	5.5%	6.4%	23.0%
iShares MSCI South Korea Capped ETF	EWY	60.73	0.7%	5.5%	7.8%	3.2%
iShares Russell 1000 Growth ETF	IWF	169.74	1.6%	5.4%	6.3%	29.7%
iShares Russell 2000 Growth ETF	IWO	205.01	1.0%	5.3%	6.4%	22.0%
iShares MSCI Singapore ETF	EWS	24.61	0.0%	5.2%	6.1%	11.4%
iShares Russell 1000 ETF	IWB	173.03	1.1%	4.8%	5.2%	24.8%
<b>SP500</b>	<b>.SPX</b>	<b>3120.18</b>	<b>0.9%</b>	<b>4.5%</b>	<b>4.8%</b>	<b>24.5%</b>
Materials Select Sector SPDR	XLB	60.08	-0.5%	4.5%	3.2%	18.9%
SPDR DJIA ETF	DIA	279.33	0.7%	4.4%	3.8%	19.8%
DJIA	.DJI	27934.02	0.9%	4.3%	3.8%	19.7%
iShares Russell 2000 ETF	IWM	159.11	0.2%	4.3%	7.2%	18.8%
Guggenheim BRIC ETF	IEB	37.10	-1.4%	4.2%	5.9%	15.6%
iShares Russell 1000 Value ETF	IWD	133.26	0.4%	4.1%	3.9%	20.0%
iShares MSCI Japan ETF	EWJ	59.65	-0.4%	4.0%	5.1%	17.7%
iShares MSCI Canada ETF	EWC	29.59	0.4%	3.5%	3.7%	23.5%
iShares MSCI Germany ETF	EWG	29.04	0.3%	3.4%	7.9%	14.6%
Vanguard FTSE All-World ex-US ETF	VEU	52.42	0.2%	3.2%	5.1%	15.0%
United States Oil Fund, LP	USO	11.57	-2.5%	3.1%	2.0%	19.8%
iShares Russell 2000 Value ETF	IWN	124.10	-0.6%	3.1%	3.9%	15.4%
iShares MSCI EAFE ETF	EFA	68.31	0.0%	3.1%	4.8%	16.2%
iShares MSCI Hong Kong ETF	EWH	23.81	-0.5%	2.9%	4.9%	5.5%
SPDR S&P Retail ETF	XRT	43.95	-0.9%	2.9%	3.6%	7.2%
iShares MSCI Emerg Mkts ETF	EEM	43.15	0.1%	2.8%	6.3%	10.5%
iShares MSCI Austria Capped ETF	EWO	20.49	-1.6%	2.7%	6.4%	11.6%
Oil Future	CLc1	55.15	-2.9%	2.5%	2.9%	21.4%
Energy Select Sector SPDR	XLE	58.47	-2.6%	2.5%	1.1%	2.0%
iShares MSCI United Kingdom ETF	EWU	32.77	0.3%	2.4%	4.3%	11.7%
iShares MSCI Australia ETF	EWA	22.85	0.0%	2.4%	2.7%	18.7%
iShares MSCI Malaysia ETF	EWM	28.42	-0.7%	2.2%	2.0%	-4.5%
iShares DJ US Oil Eqpt & Services ETF	IEZ	16.92	-5.4%	1.4%	-3.9%	-17.1%
Consumer Staples Select Sector SPDR	XLP	61.57	1.1%	1.4%	0.2%	21.2%
iShares China Large Cap ETF	FXI	41.68	-0.1%	1.1%	5.2%	6.7%
iShares MSCI India ETF	INDA.K	34.23	0.3%	0.6%	2.0%	2.7%
PowerShares Water Resources Portfolio	PHO	36.90	0.5%	0.5%	0.8%	30.8%
iShares US Telecomm ETF	IYZ	29.64	-0.6%	0.2%	1.5%	12.5%
iShares iBoxx \$ Invest Grade Corp Bond	LQD	127.24	1.1%	0.1%	-0.2%	12.8%
iShares MSCI Mexico Capped ETF	EWZ	44.36	0.8%	0.1%	3.8%	7.7%
SPDR Homebuilders ETF	XHB	45.38	-0.8%	-0.1%	2.9%	39.5%
Shanghai Composite	.SSEC	2933.99	0.7%	-0.1%	-1.7%	17.6%
iShares 20+ Year Treas Bond ETF	TLT	139.16	2.6%	-0.3%	-2.7%	14.5%
Gold Future	GCc1	1474.00	1.5%	-1.0%	-0.5%	15.3%
iShares MSCI Brazil Capped ETF	EWZ	42.00	-1.8%	-1.0%	-0.3%	9.9%
SPDR Gold Trust	GLD	138.69	0.9%	-1.3%	-0.1%	14.4%
Consumer Discretionary Select Sector SPDR	XLY	120.45	-0.5%	-1.4%	-0.2%	21.7%
iShares US Real Estate ETF	IYR	93.29	2.8%	-1.5%	-0.3%	24.5%
Utilities Select Sector SPDR	XLU	62.82	2.1%	-1.6%	-3.0%	18.7%
iShares Silver Trust	SLV	16.63	2.0%	-2.4%	-0.7%	10.6%

Outperformed SP500

Underperformed SP500

Source: Dudack Research Group; Thomson Reuters

Priced as of close November 18, 2019

Blue shading represents non-US and yellow shading represents commodities

## US Asset Allocation

	Benchmark	DRG %	Recommendation
Equities	60%	70%	Overweight
Treasury Bonds	30%	20%	Underweight
Cash	10%	10%	Neutral
	100%	100%	

Source: Dudack Research Group; raised equity and lowered cash 5% on November 9, 2016

## DRG Earnings and Economic Forecasts

	S&P 500 Price	S&P Reported EPS	S&P Operating EPS	DRG Operating EPS Forecast	DRG EPS YOY %	Thomson Consensus Bottom-Up \$ EPS**	Thomson Consensus Bottom-Up EPS YOY%	DRG's Op PE Ratio	S&P Divd Yield	GDP Annual Rate	GDP Profits post-tax w/ IVA & CC	YOY %
2002	879.82	\$27.59	\$46.04	\$46.04	18.5%	\$46.89	NA	19.1X	1.8%	1.7%	\$714.80	29.8%
2003	1111.92	\$48.74	\$54.69	\$54.69	18.8%	\$55.44	18.4%	20.3X	1.6%	2.9%	\$812.60	13.7%
2004	1211.92	\$58.55	\$67.68	\$67.68	23.8%	\$67.10	20.9%	17.9X	1.8%	3.8%	\$977.30	20.3%
2005	1248.29	\$69.93	\$76.45	\$76.45	13.0%	\$76.28	13.7%	16.3X	1.8%	3.5%	\$1,065.30	9.0%
2006	1418.30	\$81.51	\$87.72	\$87.72	14.7%	\$88.18	15.6%	16.2X	1.8%	2.9%	\$1,173.10	10.1%
2007	1468.36	\$66.18	\$82.54	\$82.54	-5.9%	\$85.12	-3.5%	17.8X	1.8%	1.9%	\$1,083.50	-7.6%
2008	903.25	\$14.88	\$49.51	\$49.51	-40.0%	\$65.47	-23.1%	18.2X	2.5%	-0.1%	\$976.00	-9.9%
2009	1115.10	\$50.97	\$56.86	\$56.86	14.8%	\$60.80	-7.1%	19.6X	2.6%	-2.5%	\$1,182.60	14.8%
2010	1257.64	\$77.35	\$83.77	\$83.77	47.3%	\$85.28	40.3%	15.0X	1.9%	2.6%	\$1,456.20	23.1%
2011	1257.60	\$86.95	\$96.44	\$96.44	15.1%	\$97.82	14.7%	13.0X	2.0%	1.6%	\$1,528.70	5.0%
2012	1426.19	\$86.51	\$96.82	\$96.82	0.4%	\$103.80	6.1%	14.7X	2.1%	2.2%	\$1,662.50	8.8%
2013	1848.36	\$100.20	\$107.30	\$107.30	10.8%	\$109.68	5.7%	17.2X	2.0%	1.8%	\$1,647.90	-0.9%
2014	2127.83	\$102.31	\$113.01	\$113.01	5.3%	\$118.78	8.3%	18.8X	1.9%	2.5%	\$1,712.90	3.9%
2015	2043.94	\$86.53	\$100.45	\$100.45	-11.1%	\$118.20	-0.5%	20.3X	2.1%	2.9%	\$1,664.90	-2.8%
2016	2238.83	\$94.55	\$106.26	\$106.26	5.8%	\$118.10	-0.1%	21.1X	2.0%	1.6%	\$1,633.90	-1.9%
2017	2673.61	\$109.88	\$124.51	\$124.51	17.2%	\$132.00	11.8%	21.5X	1.8%	2.4%	\$1,686.50	3.2%
2018	2506.85	\$132.39	\$151.60	\$151.60	21.8%	\$161.93	22.7%	16.5X	2.1%	2.9%	\$1,854.90	10.0%
2019E	~~~~~	\$142.58	\$159.18	\$160.00	5.5%	\$162.77	0.5%	19.5X	1.9%	NA	NA	NA
2020E		\$165.15	\$177.27	\$184.00	15.0%	\$178.88	9.9%	17.0X	NA	NA	NA	NA
2013 1Q	1569.19	\$24.22	\$25.77	\$25.77	6.3%	\$26.74	4.5%	16.0	2.0%	3.6%	\$1,622.70	-4.9%
2013 2Q	1606.28	\$24.87	\$26.36	\$26.36	3.7%	\$27.40	6.0%	16.2	2.1%	0.5%	\$1,642.90	-1.8%
2013 3Q	1681.55	\$24.63	\$26.92	\$26.92	12.2%	\$27.63	6.3%	16.5	2.0%	3.2%	\$1,646.20	0.2%
2013 4Q	1848.36	\$26.48	\$28.25	\$28.25	22.0%	\$28.62	8.7%	17.2	1.9%	3.2%	\$1,679.80	3.1%
2014 1Q	1872.34	\$24.87	\$27.32	\$27.32	6.0%	\$28.18	5.4%	17.2	1.9%	-1.1%	\$1,563.80	-3.6%
2014 2Q	1960.23	\$27.14	\$29.34	\$29.34	11.3%	\$30.07	9.7%	17.5	1.9%	5.5%	\$1,712.40	4.2%
2014 3Q	1972.29	\$27.47	\$29.60	\$29.60	10.0%	\$30.04	8.7%	17.2	2.0%	5.0%	\$1,792.70	8.9%
2014 4Q	2058.90	\$22.83	\$26.75	\$26.75	-5.3%	\$30.54	6.7%	18.2	1.9%	2.3%	\$1,782.70	6.1%
2015 1Q	2108.88	\$21.81	\$25.81	\$25.81	-5.5%	\$28.60	1.5%	18.9	2.0%	3.2%	\$1,713.10	9.5%
2015 2Q	2166.05	\$22.80	\$26.14	\$26.14	-10.9%	\$30.09	0.1%	20.0	2.0%	3.0%	\$1,683.70	-1.7%
2015 3Q	1920.03	\$23.22	\$25.44	\$25.44	-14.1%	\$29.99	-0.2%	18.4	2.2%	1.3%	\$1,673.20	-6.7%
2015 4Q	2043.94	\$18.70	\$23.06	\$23.06	-13.8%	\$29.52	-3.3%	20.3	2.1%	0.1%	\$1,589.70	-10.8%
2016 1Q	2059.74	\$21.72	\$23.97	\$23.97	-7.1%	\$26.96	-5.7%	20.9	2.1%	2.0%	\$1,649.00	-3.7%
2016 2Q	2098.86	\$23.28	\$25.70	\$25.70	-1.7%	\$29.61	-1.6%	21.4	2.1%	1.9%	\$1,624.30	-3.5%
2016 3Q	2168.27	\$25.39	\$28.69	\$28.69	12.8%	\$31.21	4.1%	21.4	2.1%	2.2%	\$1,621.30	-3.1%
2016 4Q	2238.83	\$24.16	\$27.90	\$27.90	21.0%	\$31.30	6.0%	21.1	2.0%	2.0%	\$1,641.00	3.2%
2017 1Q	2362.72	\$27.46	\$28.82	\$28.82	20.2%	\$30.90	14.6%	21.3	2.0%	2.3%	\$1,672.50	1.4%
2017 2Q	2423.41	\$27.01	\$30.51	\$30.51	18.7%	\$32.58	10.0%	20.9	1.9%	2.2%	\$1,693.90	4.3%
2017 3Q	2519.36	\$28.45	\$31.33	\$31.33	9.2%	\$33.45	7.2%	21.2	1.9%	3.2%	\$1,683.70	3.8%
2017 4Q	2673.61	\$26.96	\$33.85	\$33.85	21.3%	\$36.02	15.1%	21.5	1.8%	3.5%	\$1,696.00	3.4%
2018 1Q	2640.87	\$33.02	\$36.54	\$36.54	26.8%	\$38.07	23.2%	20.0	1.9%	2.5%	\$1,844.70	10.3%
2018 2Q	2718.37	\$34.05	\$38.65	\$38.65	26.7%	\$41.00	25.8%	19.4	1.9%	3.5%	\$1,833.80	8.3%
2018 3Q	2913.98	\$36.36	\$41.38	\$41.38	32.1%	\$42.66	27.5%	19.4	1.8%	2.9%	\$1,873.90	11.3%
2018 4Q	2506.85	\$28.96	\$35.03	\$35.03	3.5%	\$41.18	14.3%	16.5	2.1%	1.1%	\$1,867.10	10.1%
2019 1Q	2834.40	\$35.02	\$37.99	\$37.99	4.0%	\$39.15	2.8%	18.5	1.9%	3.1%	\$1,791.40	-2.9%
2019 2Q	2941.76	\$34.93	\$40.14	\$40.14	3.9%	\$41.31	0.8%	19.0	1.9%	2.0%	\$1,857.50	1.3%
2019 3QP	2976.74	\$35.04	\$40.29	\$40.15	-3.0%	\$42.28	-0.9%	19.4	1.9%	1.9%	NA	NA
2019 4QE*	3120.18	\$37.59	\$40.76	\$41.72	19.1%	\$41.08	-0.2%	19.6	NA	NA	NA	NA
2020 1QE		\$38.70	\$40.82	\$41.00	7.9%	\$41.00	4.7%	19.3	NA	NA	NA	NA
2020 2QE		\$40.74	\$43.85	\$44.00	9.6%	\$44.09	6.7%	18.8	NA	NA	NA	NA
2020 3QE		\$42.75	\$45.92	\$50.00	24.5%	\$46.34	9.6%	18.2	NA	NA	NA	NA
2020 4QE		\$42.96	\$46.68	\$49.00	17.4%	\$46.58	13.4%	17.6	NA	NA	NA	NA

Source: Dudack Research Group; Standard &amp; Poors; Thomson Reuters Consensus estimates; \*\*Thomson quarters may not sum to CY \*11/19/2019



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