Dudack Research Group
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March 17, 2021

DJIA: 32825.95
SPX: 3962.71
NASDAQ: 13471.57

# US Strategy Weekly
## Does the Market Believe the Fed?

The financial media is asking whether the stock market believes the Fed in terms of its future plans for monetary policy, and we feel the only answer to this question is yes. In fact, the answer is obvious since the indices would not have made all-time highs earlier this week if investors did not believe Chairman Jerome Powell and the Fed. Based upon the unprecedented fiscal and monetary stimulus promised by the federal government and the Federal Reserve, we believe investors should maintain a bullish bias. But at the same time, we remain very alert to anything that could jeopardize the consensus view that the economy will remain strong, interest rates will remain low, and earnings growth will continue to be solid in 2021 and 2022. In our opinion, there are risks to this view and they include the 9.5 million people unemployed, rising crude oil prices and margin pressure threats. So, the better question would be ***should*** the market believe the Fed?

The Fed will be meeting this week and reporting on Wednesday when it will release both economic and interest rate forecasts as well as its statement. These will be closely analyzed by economists. Most expect the Fed's statement will imply that interest rates are not likely to be raised until 2023. However, the consensus view regarding the end of quantitative easing has shifted to this November from November 2022. We do not expect the Fed will upset the consensus this week, particularly with a new administration in office for barely two months. But recent data shows there could be a growing inflation scare materializing in coming months. In sum, be bullish, but stay on high alert.

### Inflation Can Bite

February's inflation data was comfortably benign on the surface with headline CPI rising 1.7% YOY and core CPI rising a subdued 1.3% YOY. However, as seen in the table on page 3, February's inflation was restrained by the 3.6% decline in apparel. Meanwhile most components of the CPI rose faster than the headline level. Fuel and utility prices rose 3.4% YOY while food and beverage prices rose 3.5% YOY. This means that prices of household necessities were increasing at a 3.5% YOY pace, well above the headline rate. In February, the PPI for finished goods rose 2.4% YOY and PPI for final demand rose 2.8% YOY. However, all inflation measures are impacted by the price of oil, which at the end of February was up 27% year-to-date and 37% YOY. In fact, at the current crude oil price of $64.97, oil prices are up 34% year-to-date and possibly up 220% YOY at the end of March. This will have a significant impact on March inflation data. In fact, even if the PPI for finished goods remains unchanged in March it will still be up 4.1% YOY. In our view, inflation comparisons will become very unfriendly as we approach the anniversary of the lows of March and April 2020.

Economists focus on core CPI due to the fact that food and energy prices can be erratic. Food prices are often impacted by droughts, storms, and other natural disasters but prices usually recover in a new planting season. Fuel prices can be influenced by politics and other temporary factors that change the short-term supply/demand balance. And as seen in the charts on page 4, energy prices have been extremely volatile since OPEC's oil embargo of October 1973.

Energy prices dropped dramatically in response to the shutdown of the global economy last year, and this has kept Inflation subdued. However, that benefit is fading and could clearly reverse with vaccines becoming more plentiful and with an administration that is unfriendly to the energy sector. See page 5.

Rising fuel costs will have many repercussions; and in 2021, the trend in crude oil may be a key driver of interest rates. We previously pointed out the strong connection oil and interest rates have had since 2015. At present both appear to be moving higher in tandem. See page 6. The consensus view is that a 10-year Treasury yield above 2.4% could negatively impact Fed policy and rates of 2.8% or more will hurt the economy. Rising inflation will also decrease the buying power of consumers and thereby lower corporate profits. Note that for most of the last eight years, average weekly earnings have grown well above the rate of inflation. But as inflation rises, this could shift and thereby restrain consumption. All in all, rising crude oil prices threaten monetary policy, interest rates, household consumption, the economy, and earnings. <u>We see rising crude oil prices as the number one threat of the year</u>.

The chart of the 10-year Treasury yield shows it has broken above resistance at 1.45% and technically this points to a new higher trend for interest rates. The first range of resistance is seen at the 1.75% to 1.85% level and secondarily at 2.1%. However, the more substantial resistance is noted at 2.4% which is the level that most economists believe would threaten the Fed's current easy monetary policy. The chart suggests this is possible. See page 7.

Retail sales fell a disappointing 3.0% in February, but still rose 6.3% YOY. As seen on page 8, February's 6.3% increase was down from a 9.5% gain in January. Declines were substantial and broadly based with only gas stations rising 3.6% and grocery store sales rising 0.1% for the month. Year-over-year changes were diverse, ranging from negative 17% at restaurants to positive 25.9% at nonstore retailers. These sales declines were the result of fading federal stimulus, but February should be a one-off statistic since another round of stimulus checks will begin to reach consumers in March.

The NFIB small business optimism index ticked up from 95.0 in January to 95.8 in February, but the report was fairly glum with sales expectations, the outlook for expansion, and inventory plans all falling two points apiece. Capital expenditure plans and hiring plans each rose one point. The outlook for business conditions rose from -23 to -19 and credit expectations fell from -3 to -6. In general, the NFIB survey report was uninspiring. See page 10.

### New 2022 S&P Earnings Estimates

<u>This week S&P Dow Jones initiated a 2022 S&P 500 earnings estimate of $199.50 which joins the Refinitiv IBES estimate of $201.64. We are also initiating a 2022 earnings estimate this week at of $200</u>. This represents an 18.6% gain over our 2021 estimate of $168.60. <u>Note that a 20 PE multiple to earnings of $200 equate to an SPX target of 4000.</u> See page 12 and 19.

### Technical Update

The 25-day up/down volume oscillator is currently 1.55 (preliminary) and neutral this week despite the March 15 highs in all the indices. However, if the indices continue to move into new high ground, we should see this indicator attain another overbought reading to demonstrate that volume is confirming price moves. This oscillator was last in overbought territory for five consecutive trading days between February 4 and February 10 when several momentum indicators peaked. Five days overbought is a minimum confirmation for any bull market advance. See page 14.

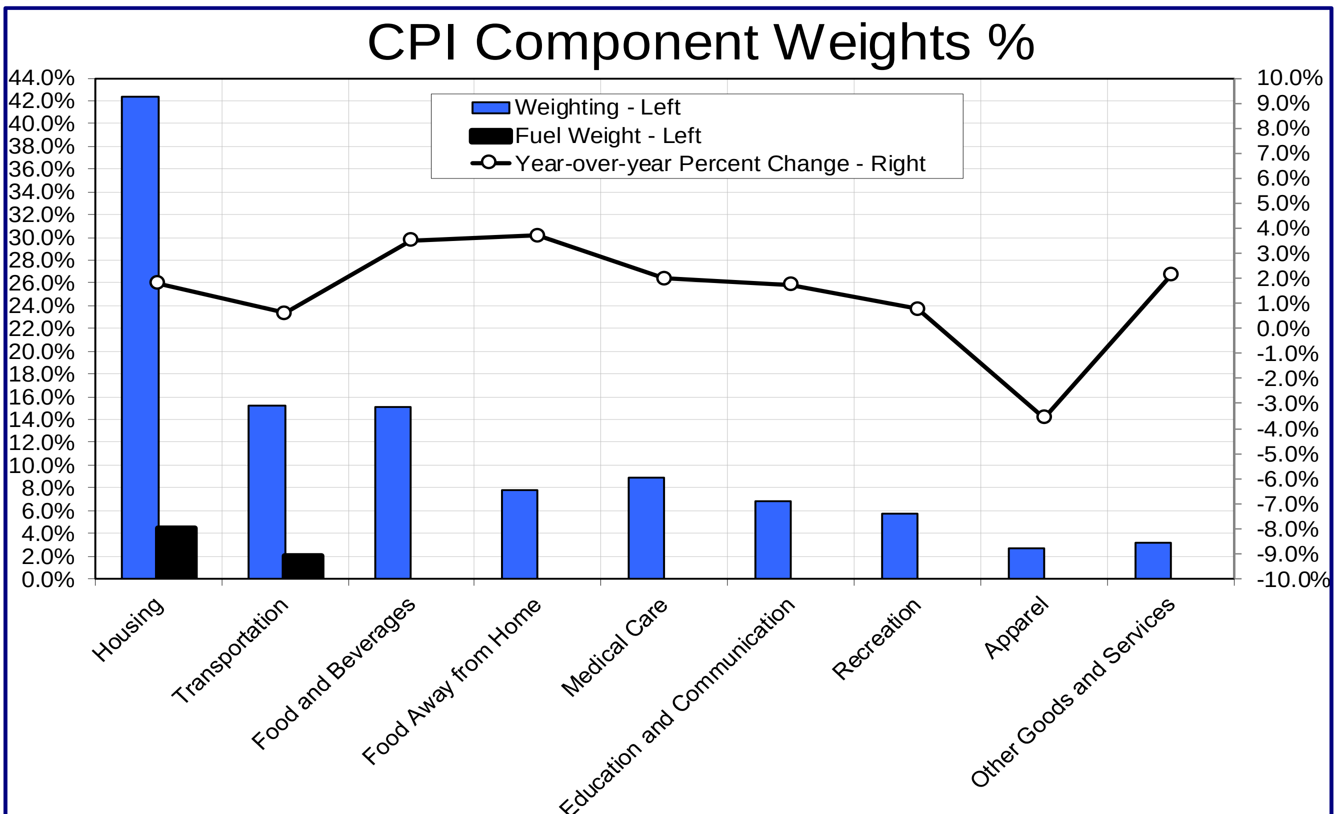
The 10-day average of daily new highs is 496, well above the bullish 100 which defines a bull market. The 10-day average of daily new lows (68) is below the 100 that defines a bear market, yet it is well above the 10 or less that signals an extreme in a bull market advance. <u>The 10-day new high average reached 521 on February 17, exceeding the 489 recorded January 22, 2000. We view this as a potential yellow flag since the 2000 advance peaked in March</u>. The A/D line made its last confirming record high on March 15, 2021, which is positive.

AAII bullish sentiment for March 11 rose 9.1 points to 49.4%, a 16-week high, and has been above average for 15 of the last 17 weeks. Bearishness fell 1.8 points to 23.5% and is below its historical average of 30.5% for the fifth consecutive week. The 8-week spread remains neutral. <u>In sum, the lack of extremes in all the technical indicators is positive for the bulls</u>.

February's inflation data was benign on the surface with headline CPI rising 1.7% YOY and core CPI rising a subdued 1.3% YOY. However, as seen in the table below, inflation was moderated by the 3.6% decline in apparel while most components of the CPI rose more than the headline level. Fuel & utility prices rose 3.4% YOY and food & beverage prices rose 3.5% YOY. In other words, necessities were increasing at a 3.5% YOY pace in February – a negative in view of the fact that 9.5 million Americans remain unemployed.

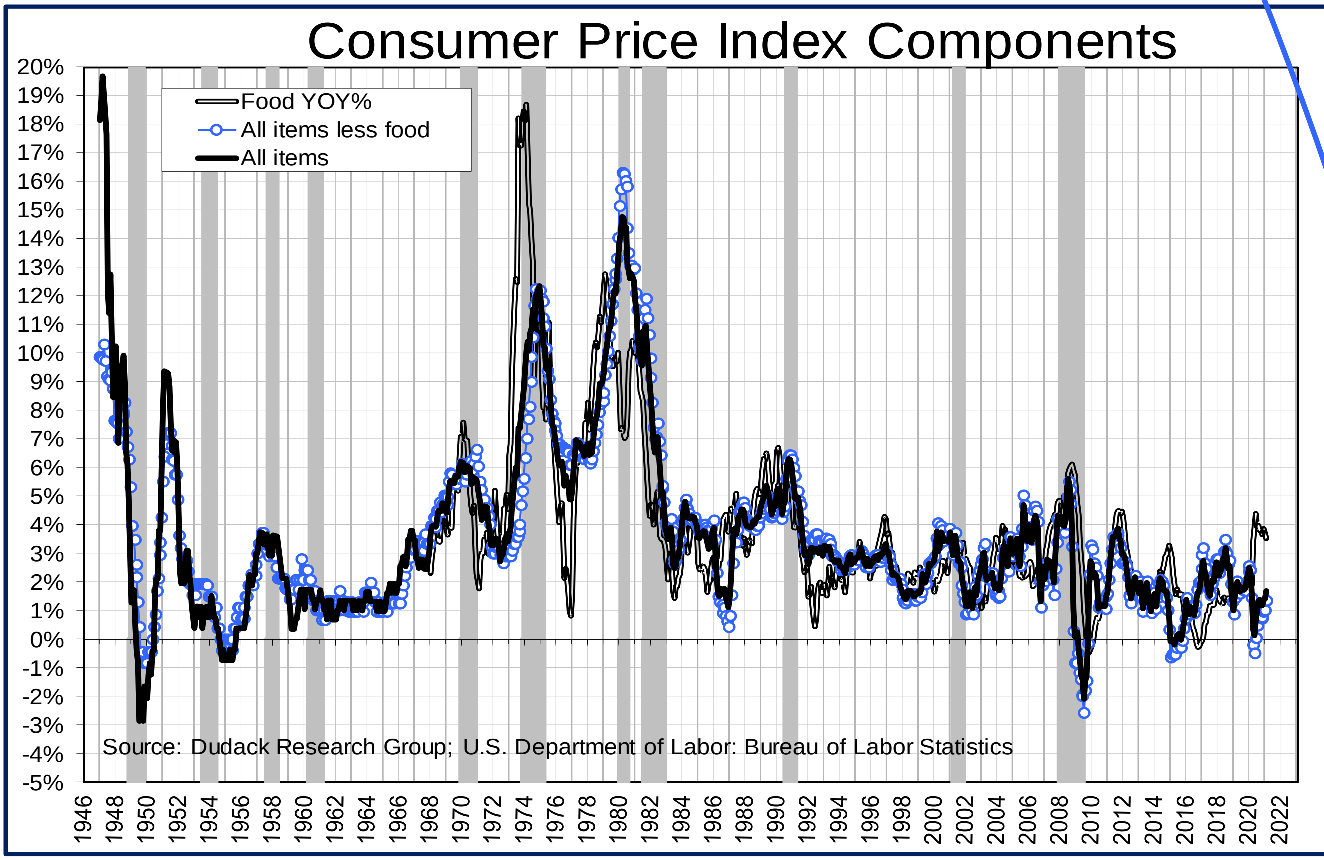
| CPI Components<br>Heavy Weights - Not Seasonally Adjusted Data | Component Weight* | Fuel Weight | Price Chg YOY% | Price Chg MOM% |
|---|---|---|---|---|
| **Housing** | **42.3%** | **4.4%** | **1.8%** | **0.3%** |
| *Owners' equivalent rent of residences* | *24.2%* | | *2.0%* | 0.2% |
| **Fuels and utilities** | **4.4%** | | **3.4%** | **1.0%** |
| **Transportation** | **15.3%** | **2.0%** | **0.6%** | **1.7%** |
| **Food and beverages** | 15.1% | | 3.5% | 0.3% |
| *Food at home* | *7.8%* | | *3.5%* | 0.2% |
| *Food away from home* | *6.3%* | | *3.7%* | 0.1% |
| *Alcoholic beverages* | *1.0%* | | *2.0%* | 0.1% |
| **Medical care** | **8.9%** | | **2.0%** | **0.4%** |
| **Education and communication** | **6.8%** | | **1.7%** | **0.1%** |
| **Recreation** | **5.7%** | | **0.8%** | **0.7%** |
| **Apparel** | **2.7%** | | **-3.6%** | **1.9%** |
| **Other goods and services** | **3.2%** | | **2.1%** | **0.4%** |
| Special groups: | | | | |
| Energy | 6.3% | | 2.4% | **3.9%** |
| All items less food and energy | 79.5% | | 1.3% | 0.3% |
| **All items** | **100.0%** | | **1.7%** | **0.5%** |

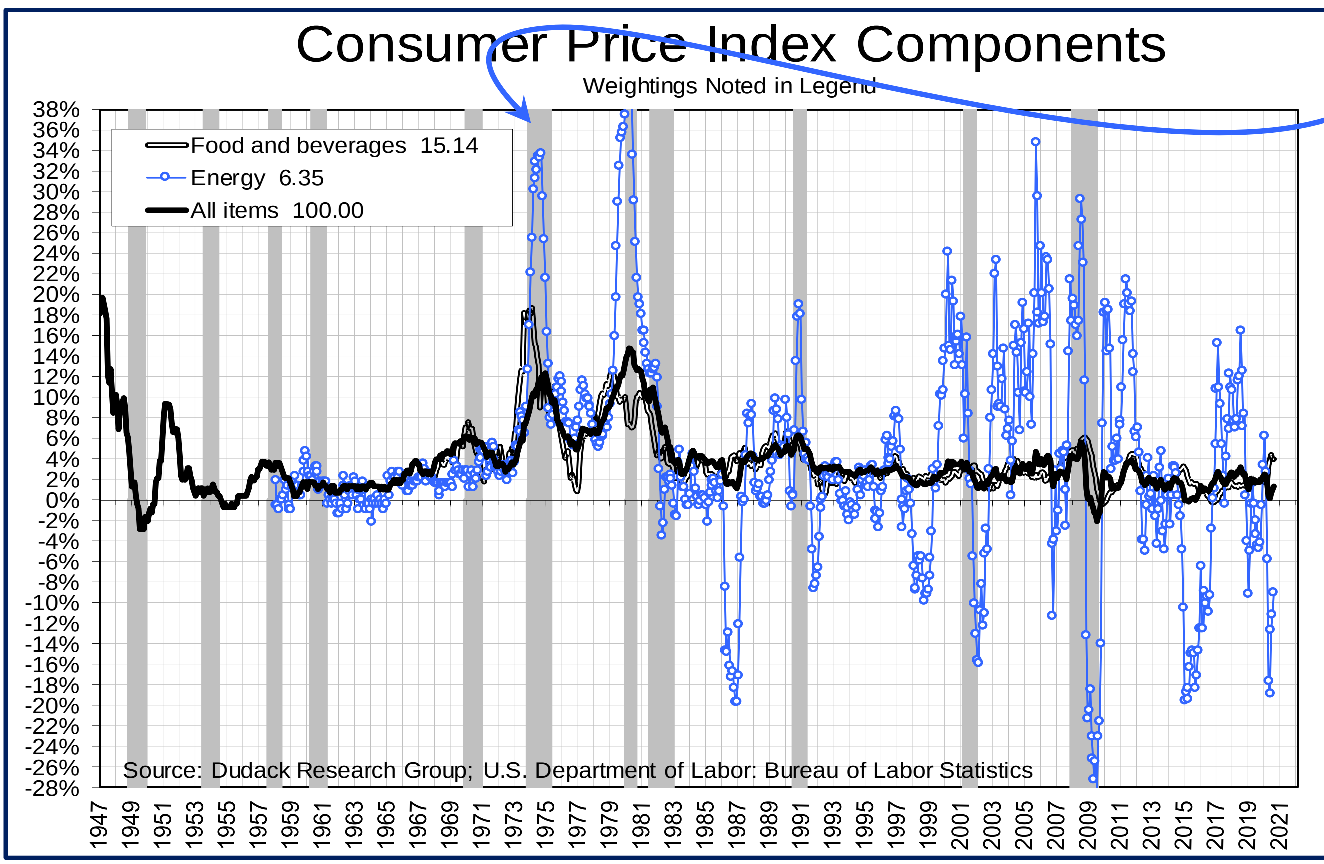
Source: Dudack Research Group; BLS; *Jan 2021 w eightings; Italics=sub-component; bold = headline/blue>headline



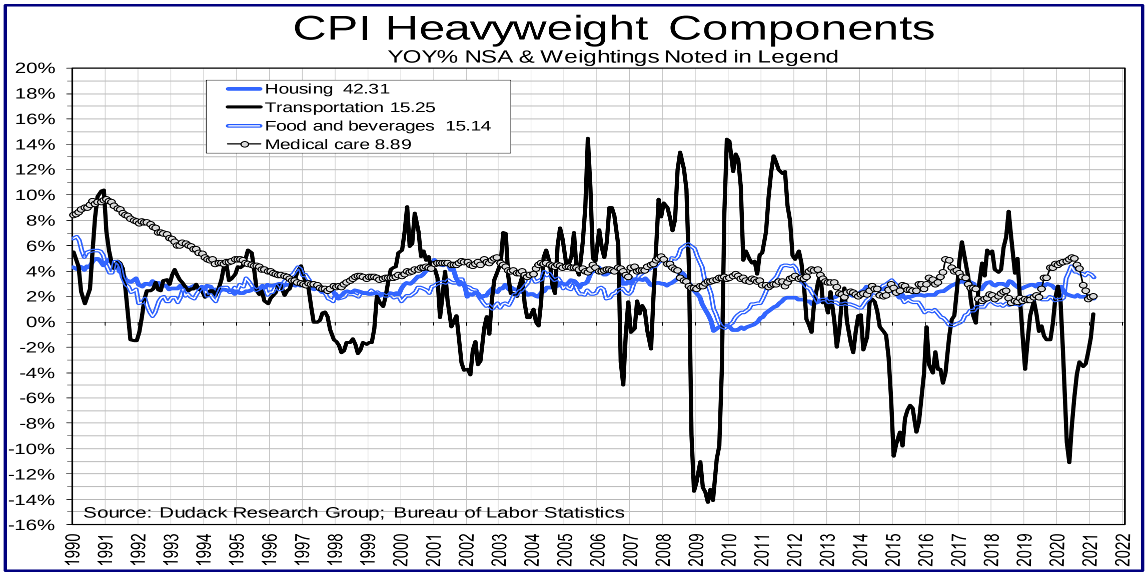
Source: Dudack Research Group; U.S. Department of Labor: Bureau of Labor Statistics

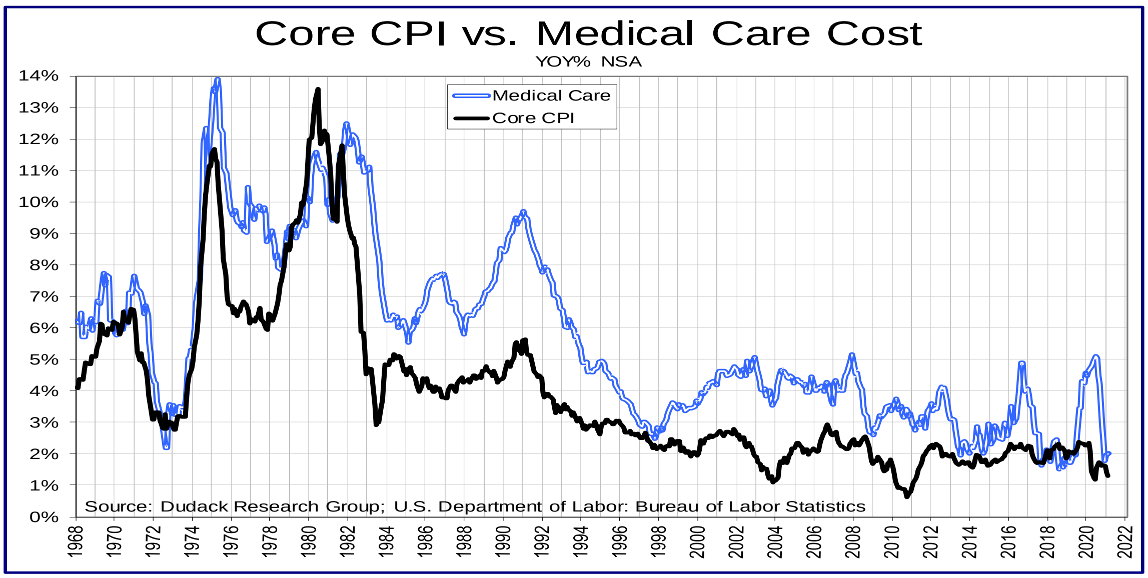
Economists focus on core CPI because food and energy prices can be quite volatile. For example, food prices can be impacted by draughts, storms, and other natural disasters and then recover. Fuel prices can be influenced by politics and other factors that change the supply/demand balance. Plus, energy prices have been extremely volatile since OPEC's oil embargo of October 1973.

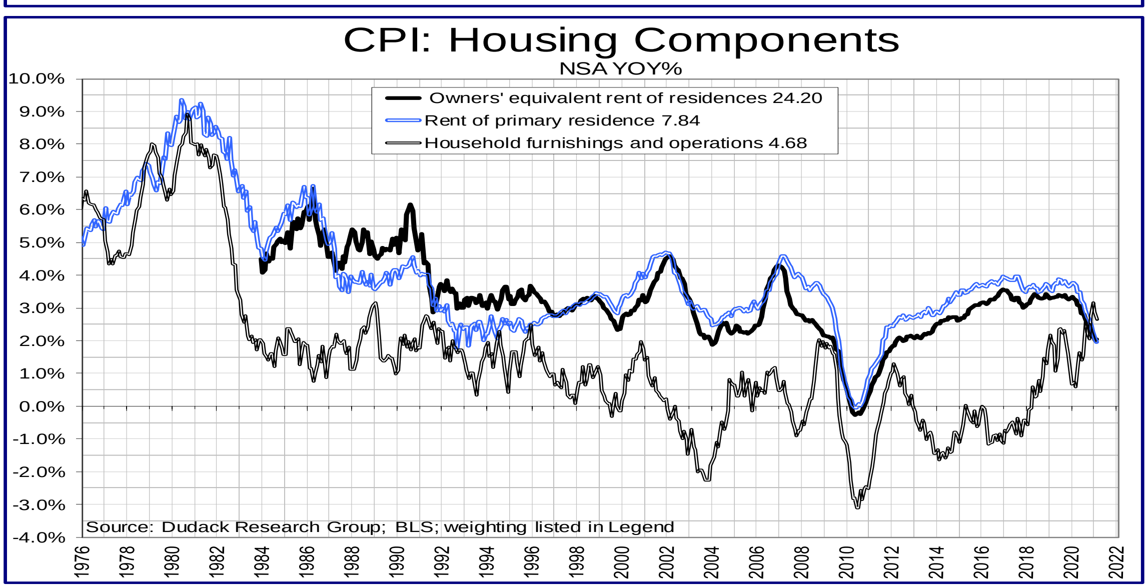


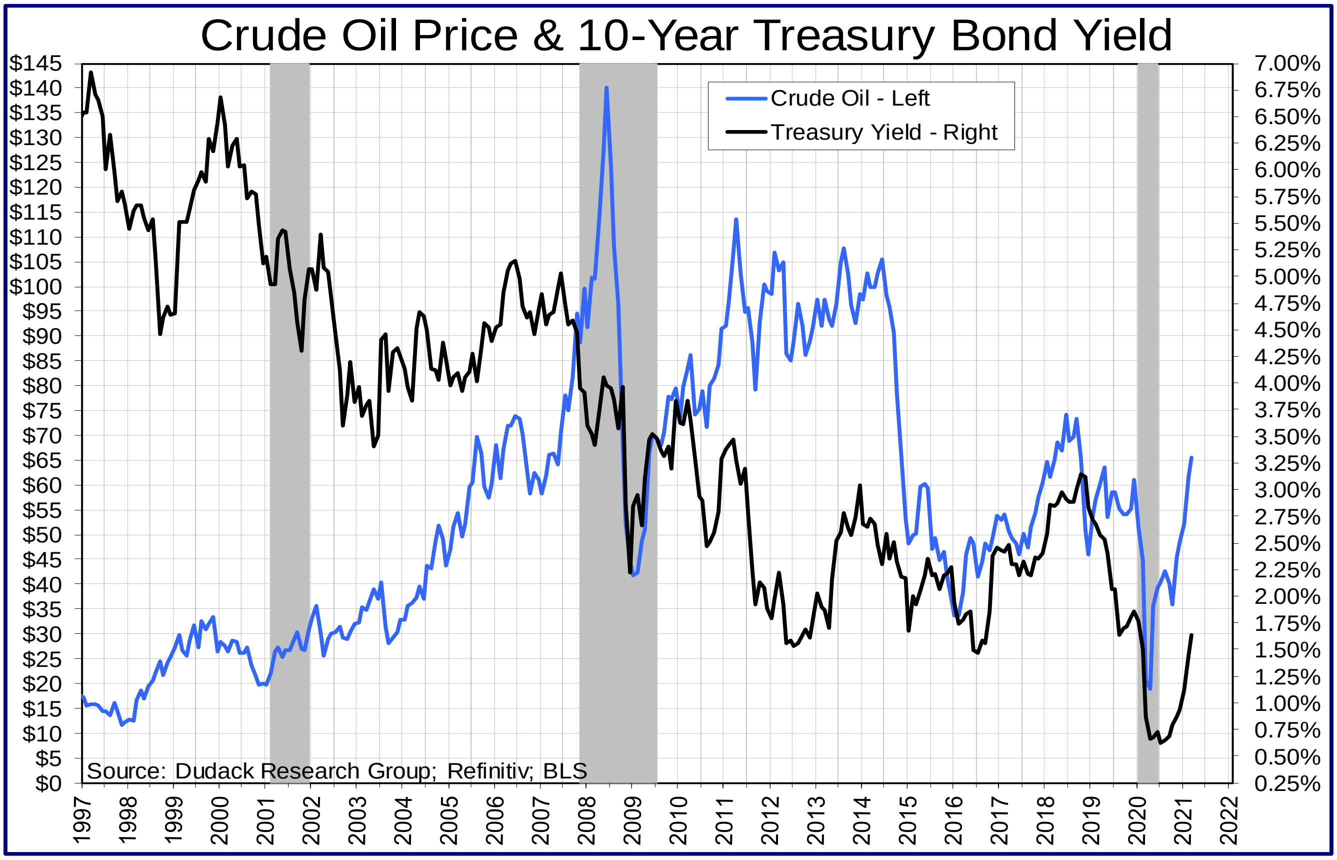
A big decline in energy prices -- a reaction to the shutdown of the global economy last March – has kept Inflation subdued. However, that benefit is now fading. Medical care costs can also be erratic and influenced by political factors, but these costs appear to be moderating. Rent inflation fell during the quarantine but household furnishings and operations have been accelerating over the last twelve months.

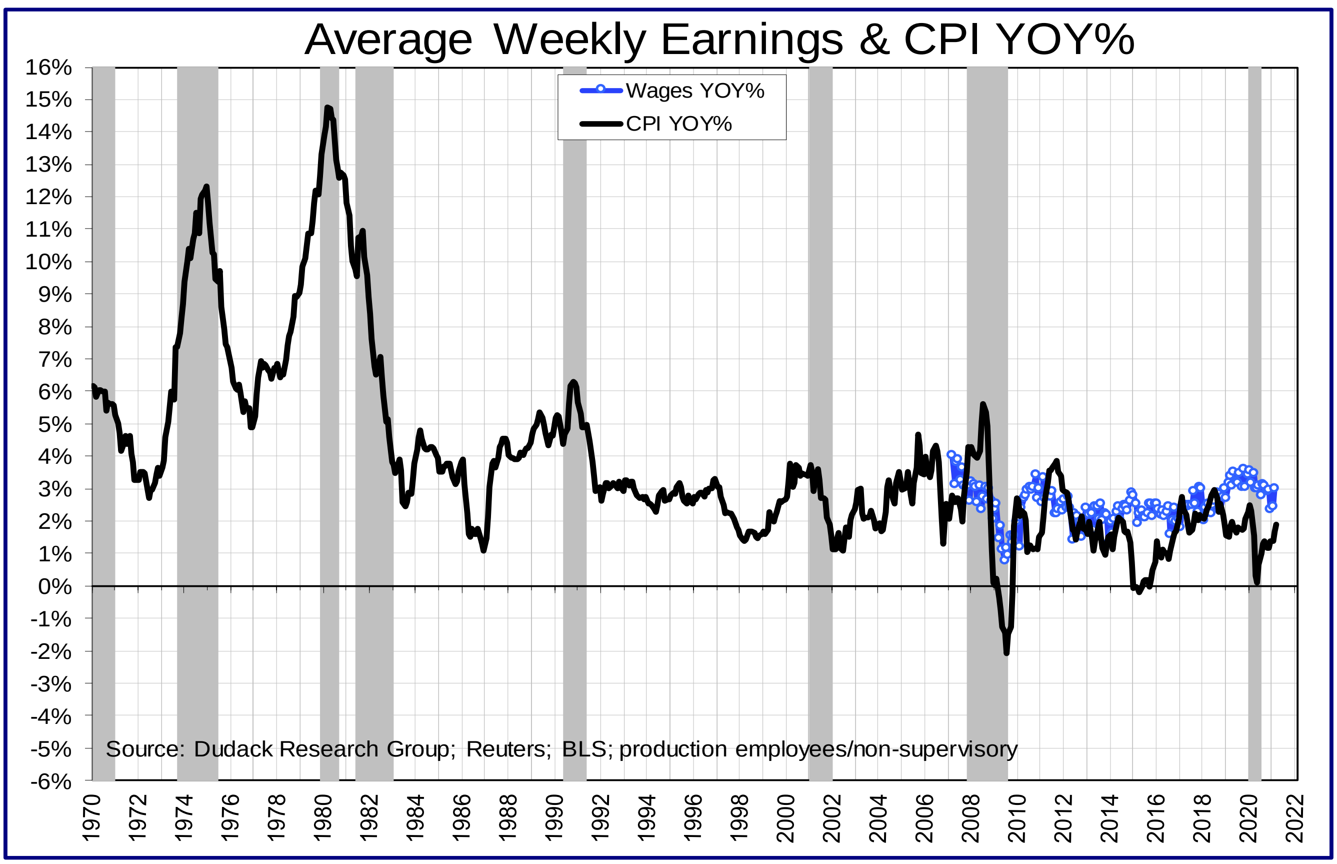


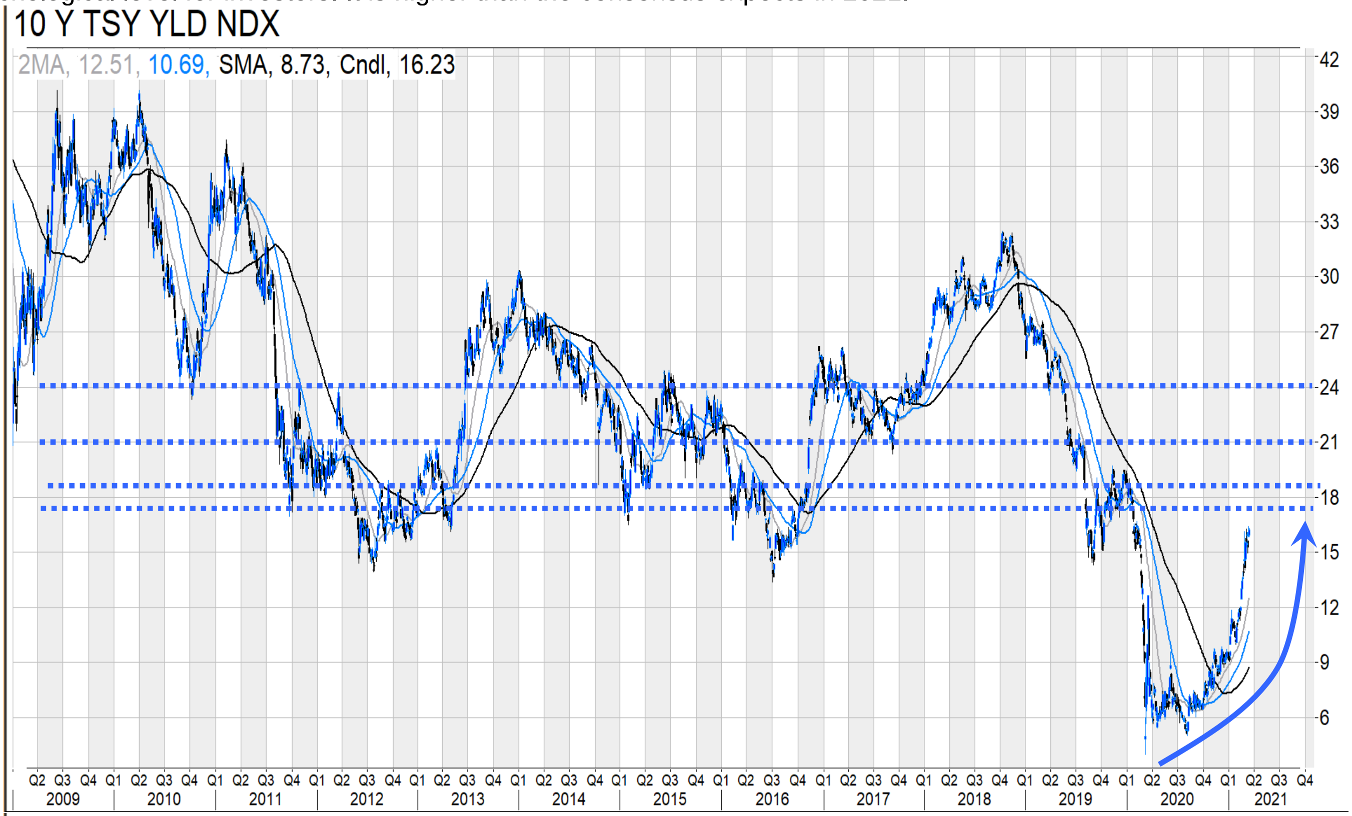



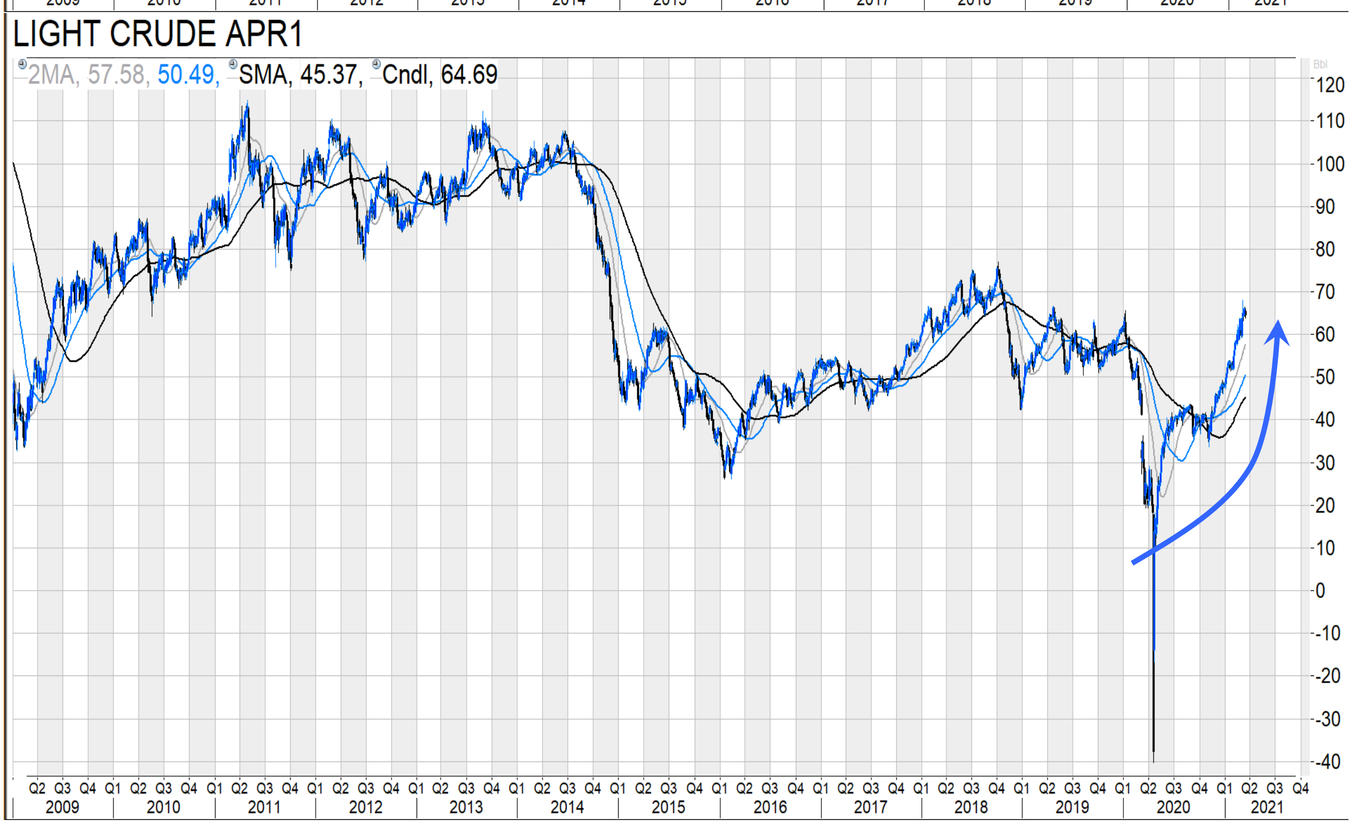
Rising fuel costs have many repercussions; and in 2021, crude oil prices may be a key driver of interest rates. Note the strong correlation between the two since 2015. The consensus believes a 10-year Treasury yield above 2.4% could impact Fed policy and rates of 2.8% or more will hurt the economy. Rising inflation also hurts the buying power of consumers. Despite the pandemic, wages have been growing faster than CPI for most of the last 8 years. As inflation rises, real wages fall, and this could negatively impact consumption.



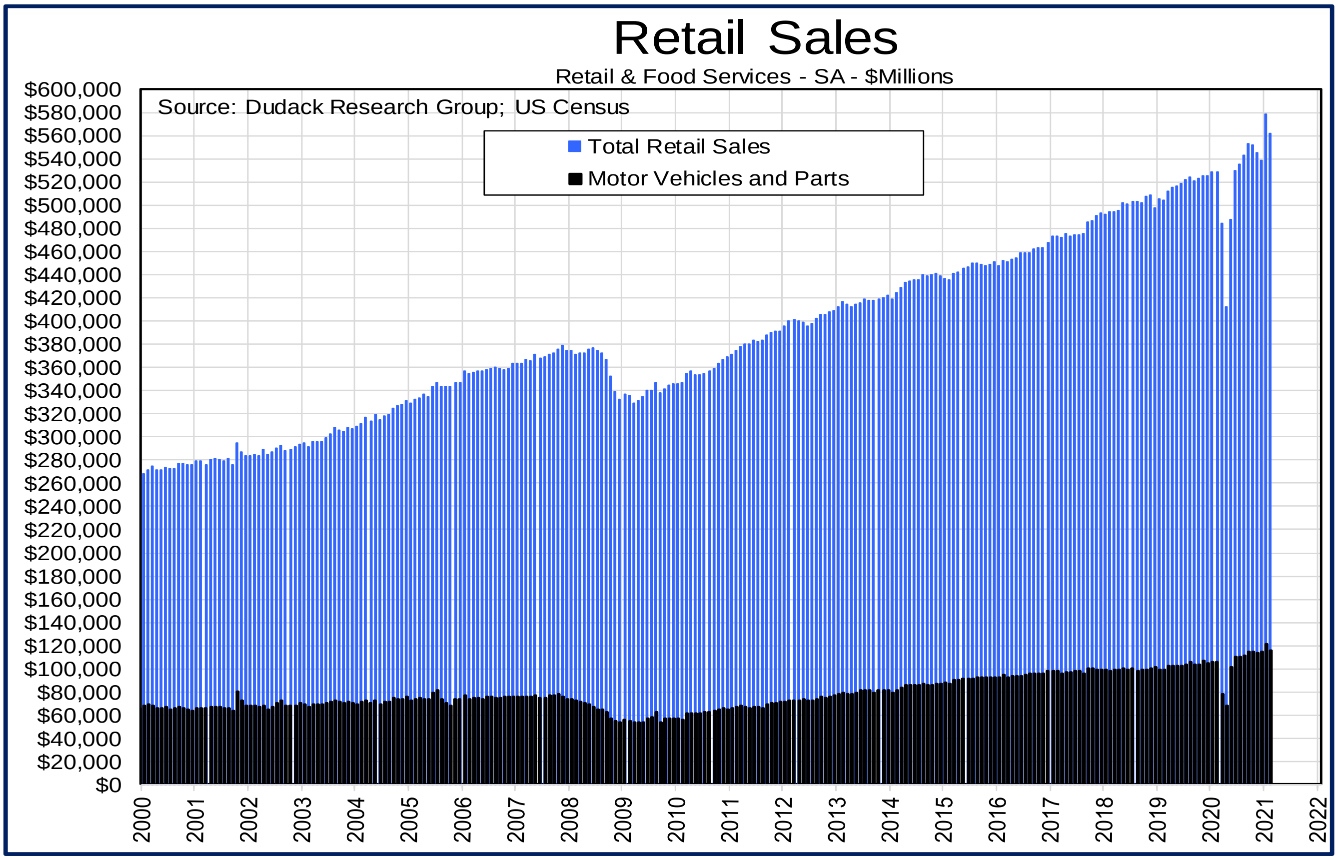
These charts of the crude oil future and the 10-year Treasury note yield index reveal the strong correlation these two have had over the last 12 to 18 months. Note the resistance at the 1.45% yield level in the 10-year Treasury note has been breached, and technically this points to a new higher trend for interest rates. The next range of resistance is found in the 1.75% to 1.85% level and secondarily at 2.1%. The most substantial resistance is found at 2.4% which could prove to be a psychological level for investors. It is higher than the consensus expects in 2021.

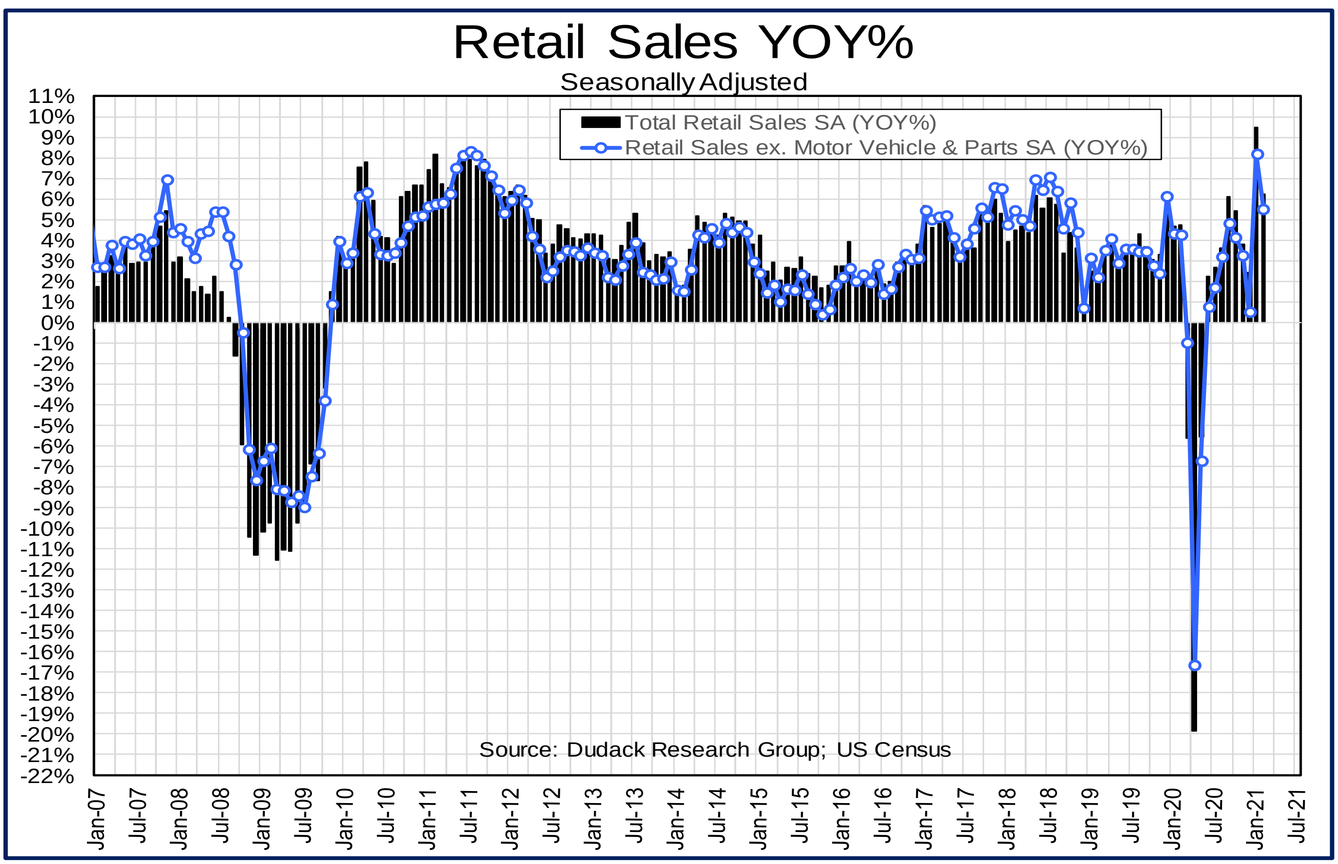


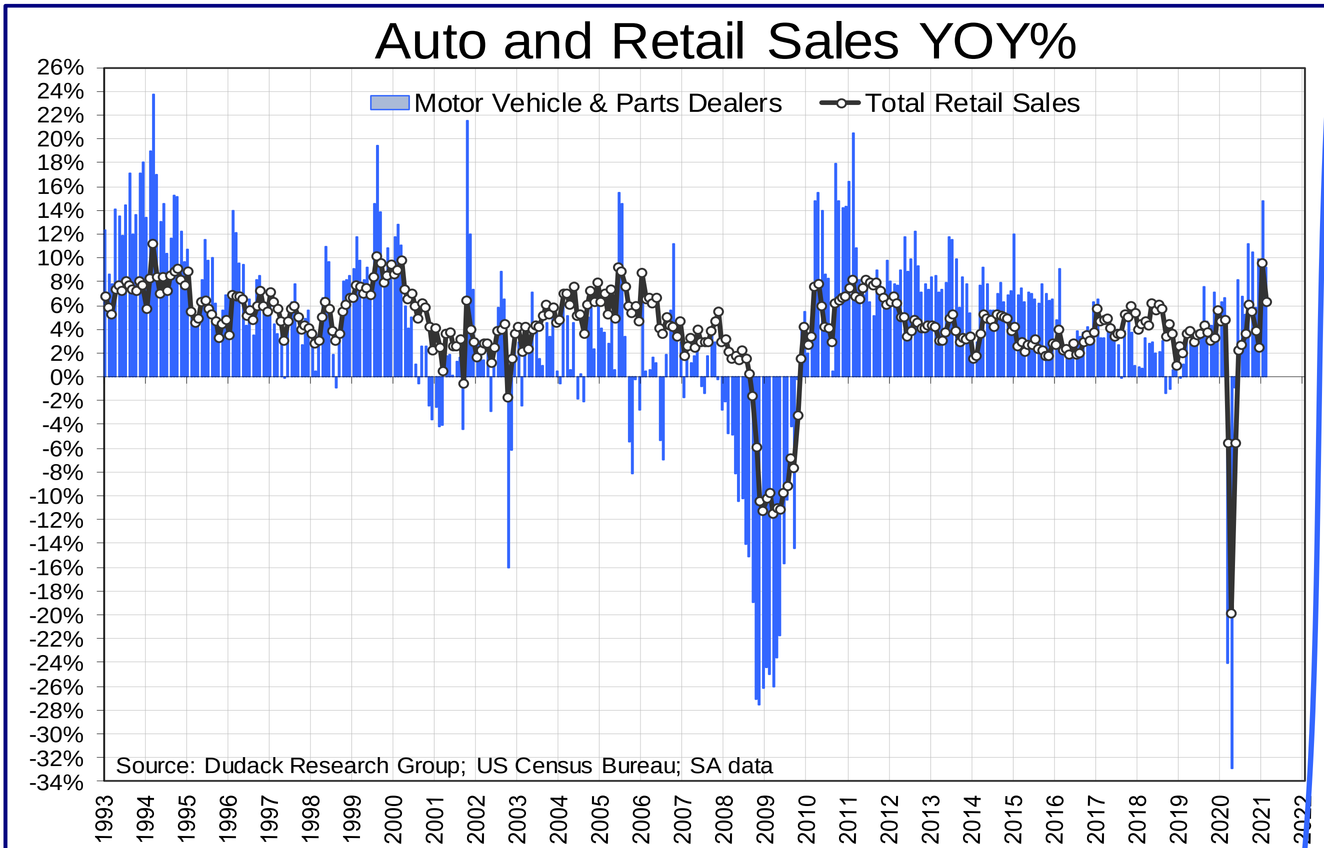

Source: Refinitiv

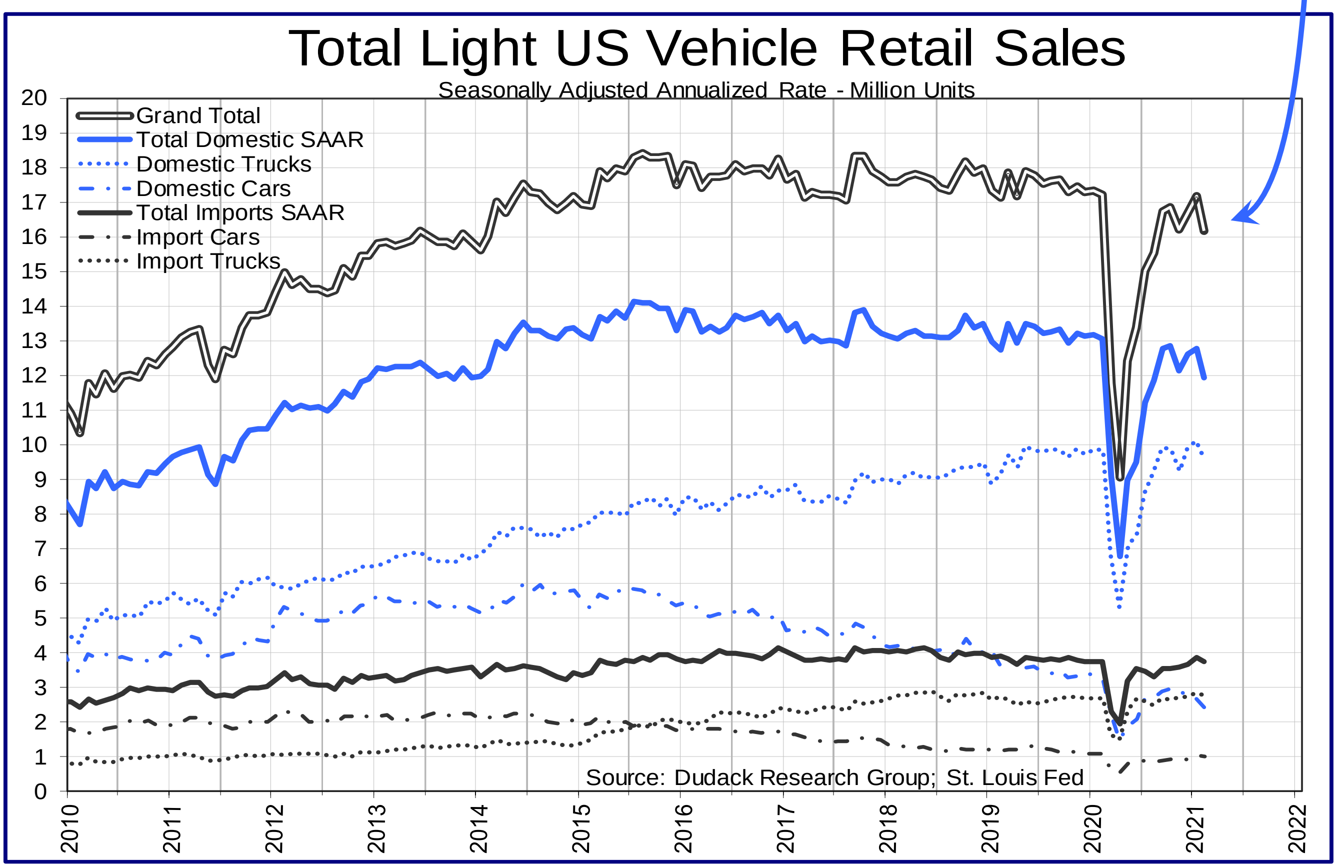
Retail sales fell 3.0% in February, but still rose 6.3% YOY; however, February was down from a 9.5% gain in January. Declines were substantial and broadly based with only gas stations rising 3.6% and grocery store sales rising 0.1% for the month. Year-over-year changes were diverse, ranging from negative 17% at restaurants to positive 25.9% at nonstore retailers. The sales decline shows the impact of fading federal stimulus, but February should be a one-off since another round of stimulus checks begin in March.



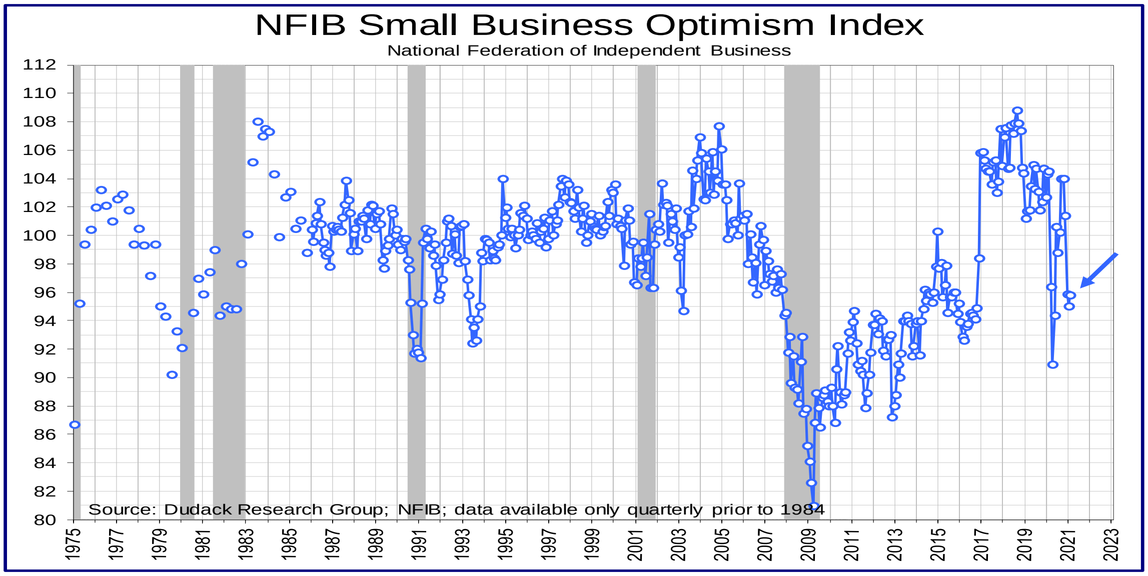



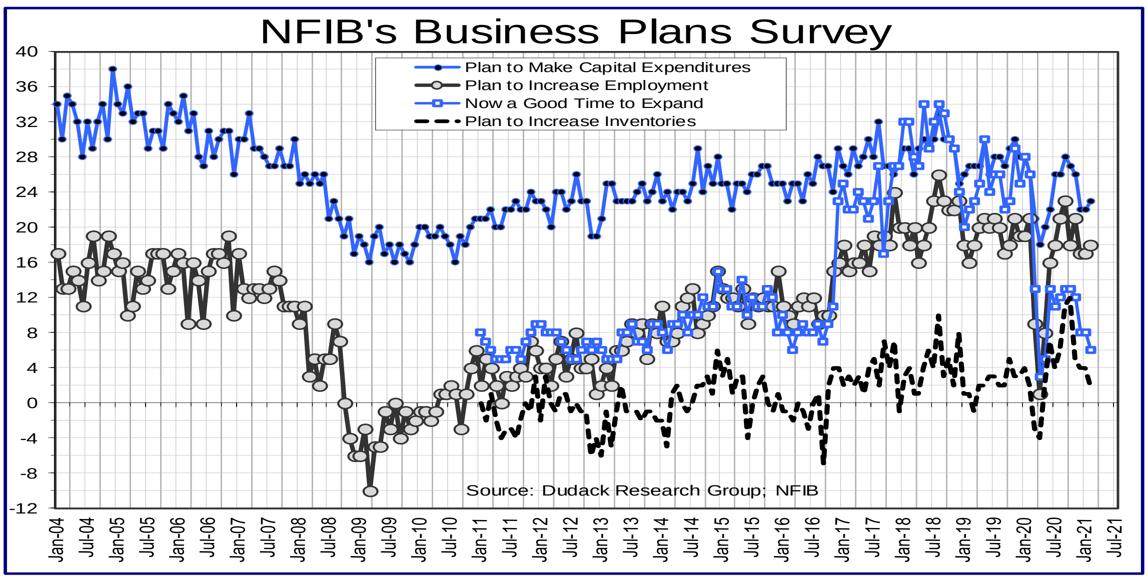
Retail sales excluding motor vehicle and parts dealers rose 5.5% YOY in February and 6.0% if gas stations are also excluded. Motor vehicle and parts sales rose 9.2% in February, down from the 14.7% YOY recorded in January. This was impressive in view of the fact that the seasonally adjusted annualized rate of auto vehicle sales fell 6.2% YOY in February.

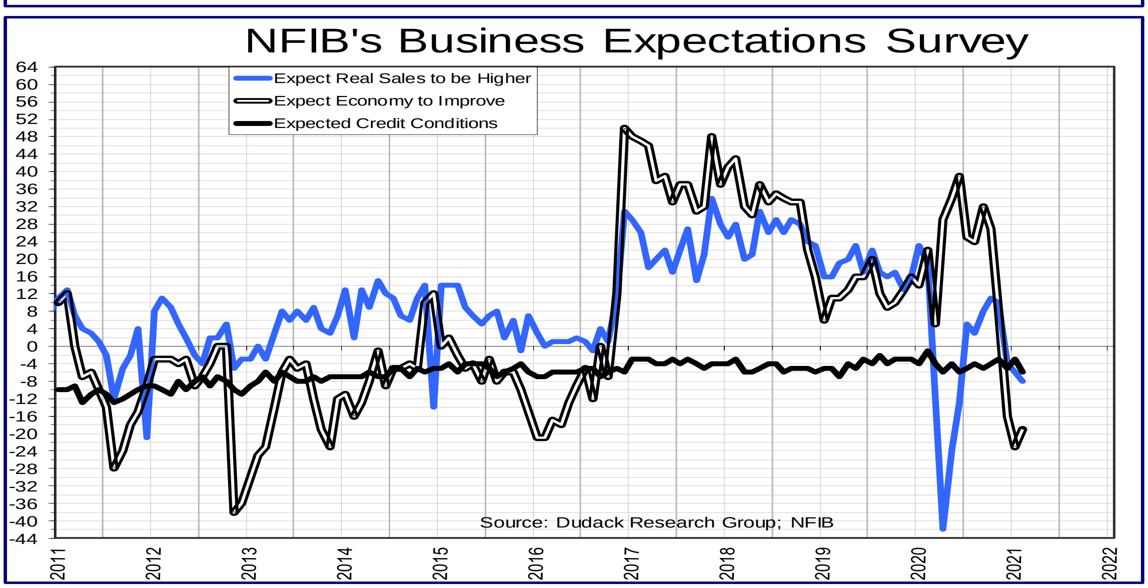


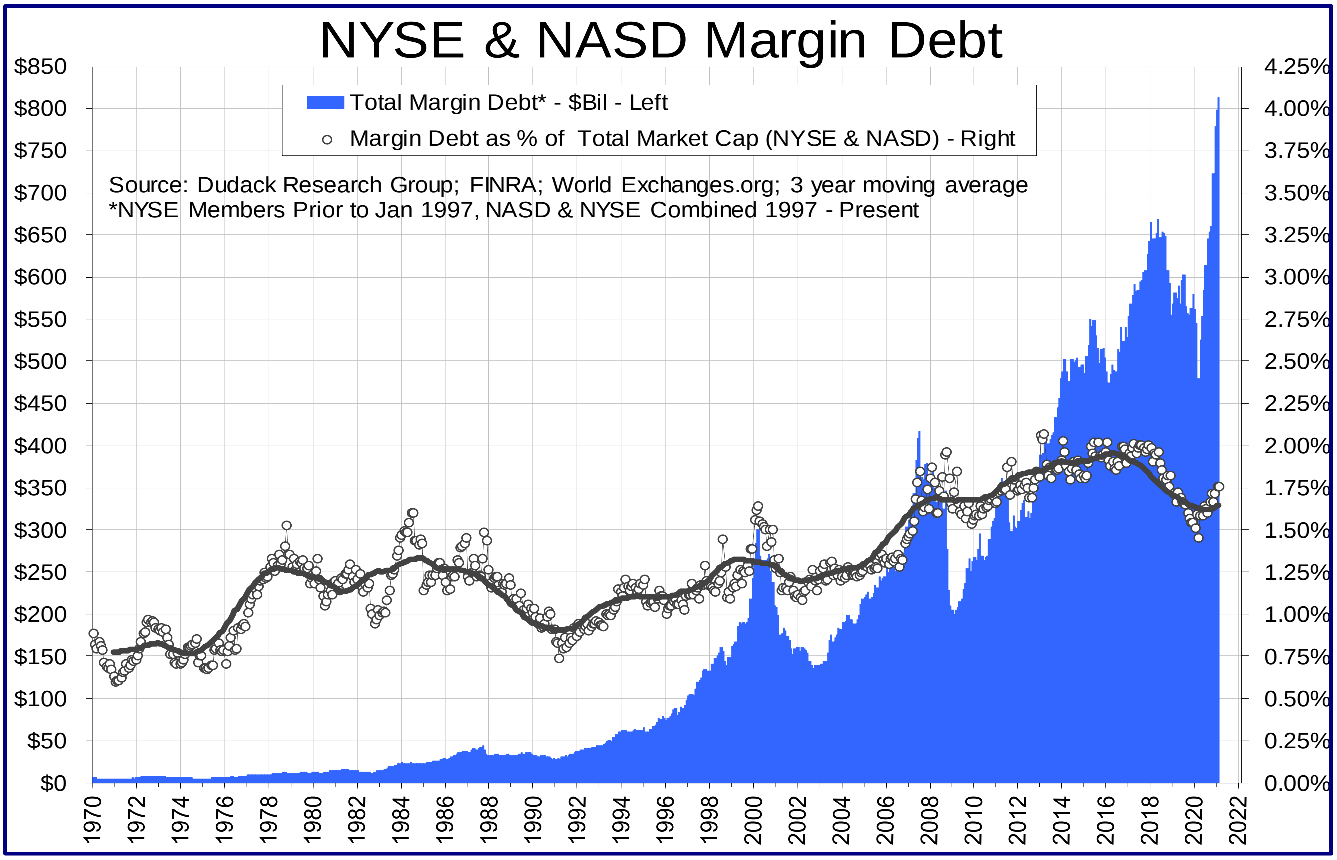
The NFIB small business optimism index rose modestly from 95.0 in January to 95.8 in February. Expectations remained glum with sales expectations, the outlook for expansion, and inventory plans all falling 2 points. Capital expenditure plans and hiring plans each rose one point. The outlook for business conditions rose from -23 to -19 and credit expectations fell from -3 to -6. It was an uninspiring report.

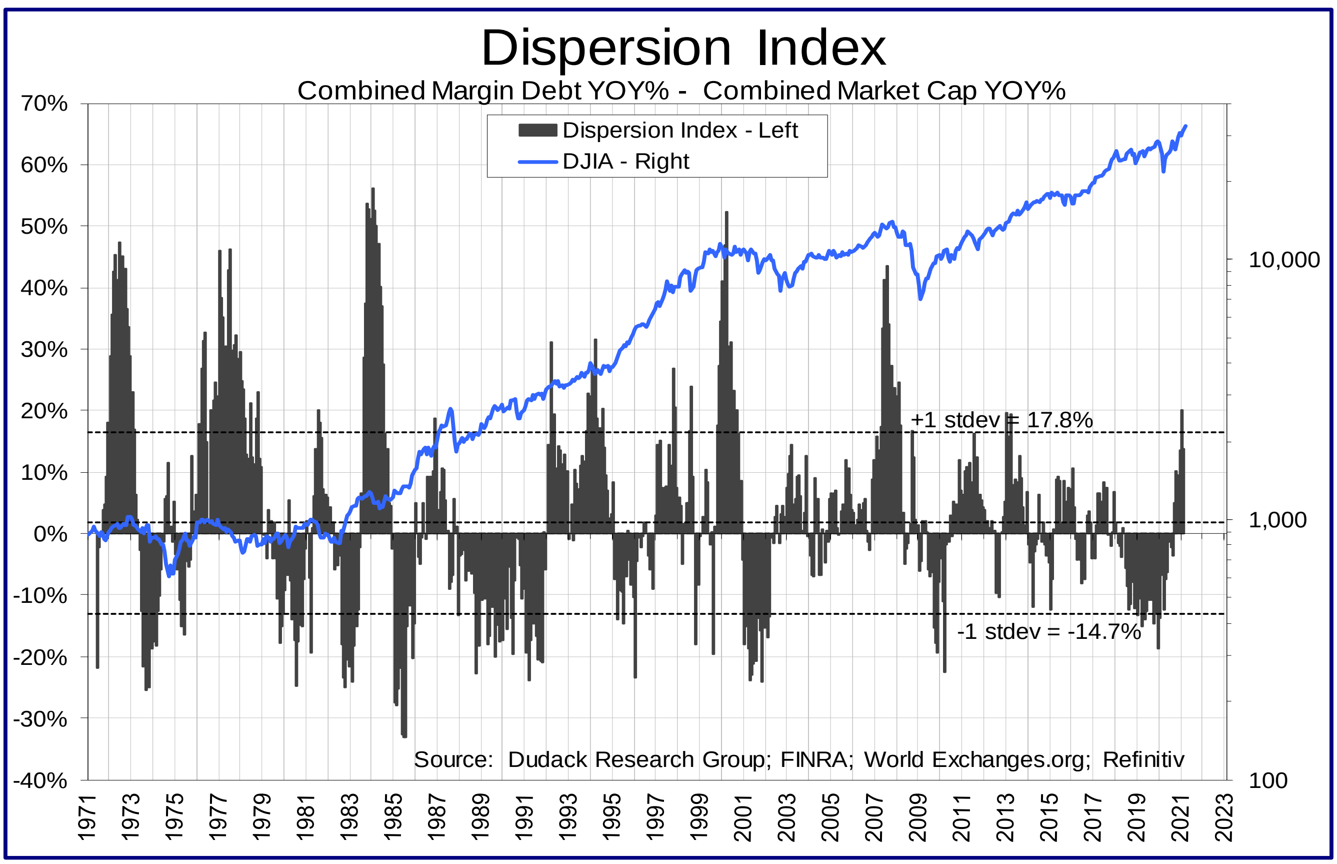


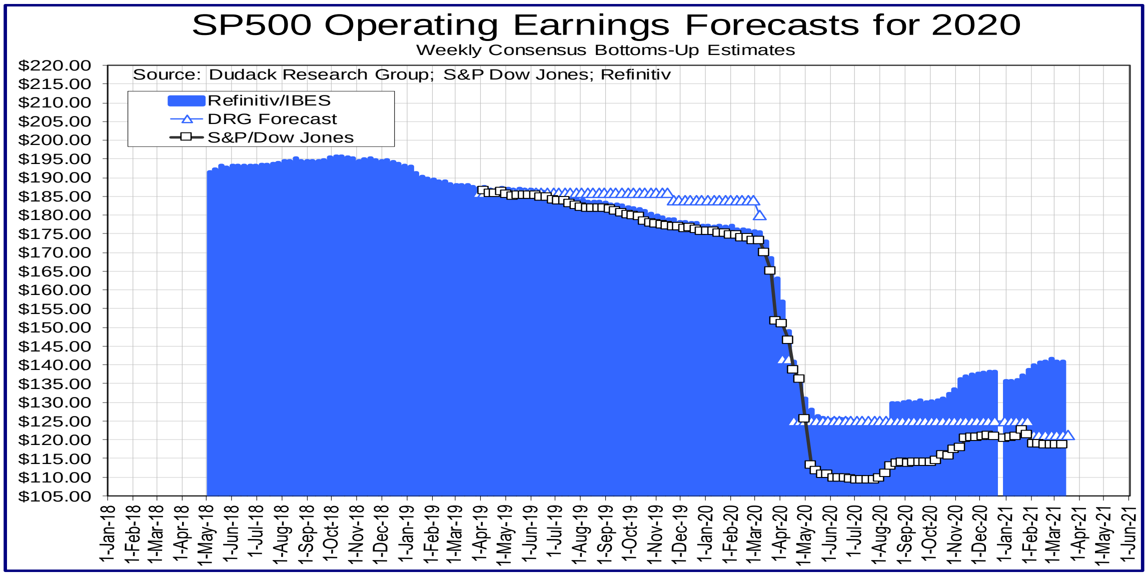



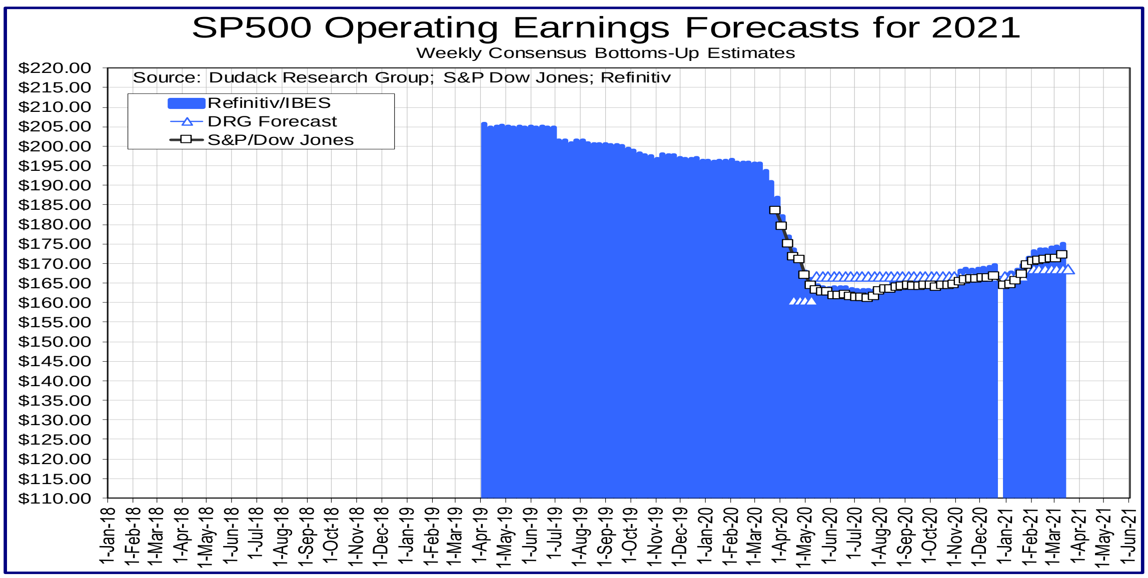
Combined margin debt in NYSE and NASD accounts rose 1.9% in February to $813.7 billion. This represented 1.75% of our estimate for February total market capitalization and was unchanged from January. The Dispersion Index was 13.7% in February, down from 20.1% in January, and back below the one standard deviation range. Although the standard deviation level is 17.8%, major peaks usually see this dispersion peak above 40%. In sum, January's 20.1% reading was a brief yellow flag, but not a major sell signal.

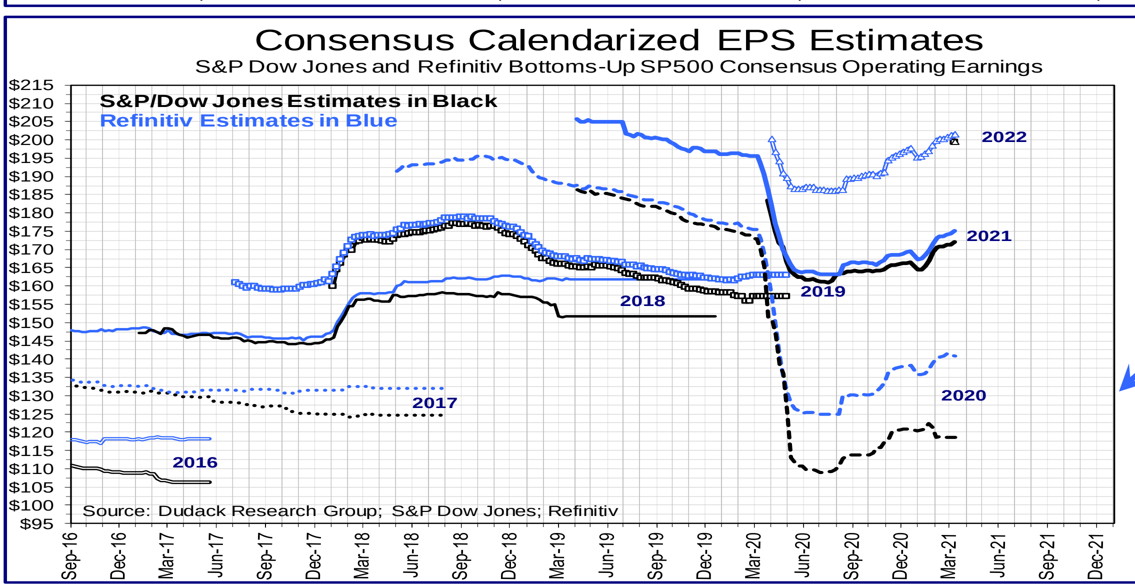


S&P Dow Jones EPS estimates for 4Q20 were unavailable this week and we left 2020 unchanged in the charts below. For 2020 and 2021, the IBES estimates fell $0.04 and rose $0.58, respectively. This week's full year 2021 & 2022 EPS estimates from S&P Dow Jones and IBES are $172.00 & $175.02, and $199.50 & $201.64, respectively.

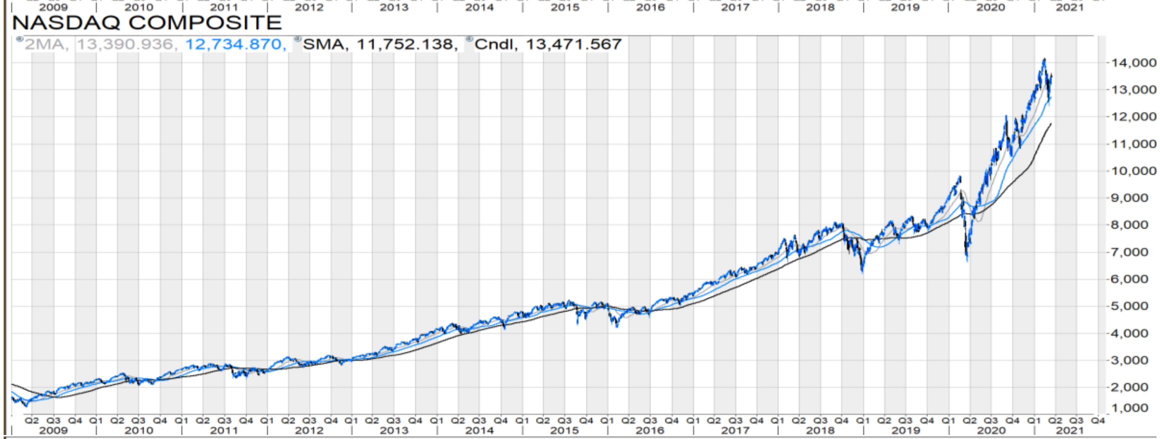


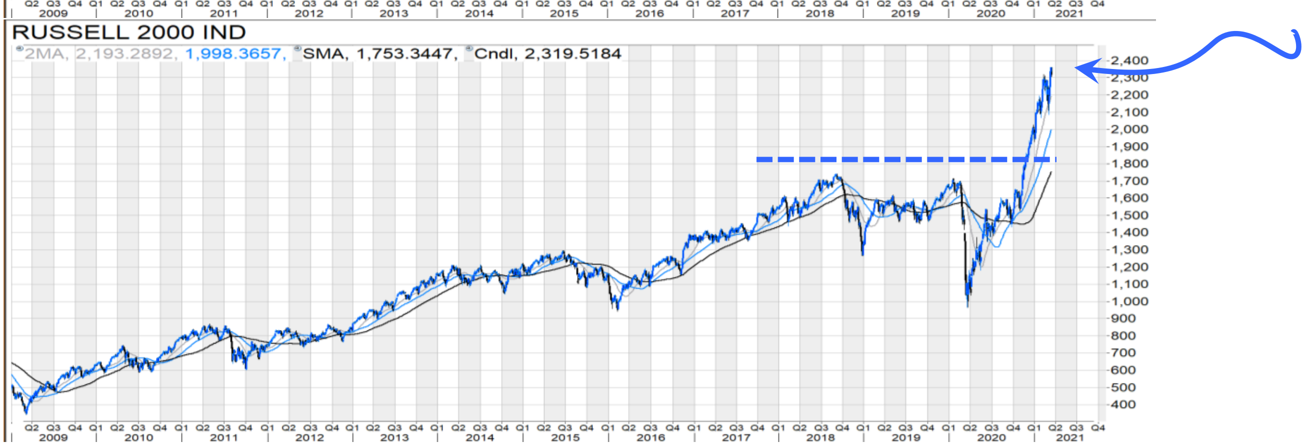



After a late February test of the 50-day moving averages in all the indices, and the 100-day moving average in the IXIC, the popular equity market indices are back to recording new highs. Note the modest differences in the indices with the DJIA now appearing to be leadership.



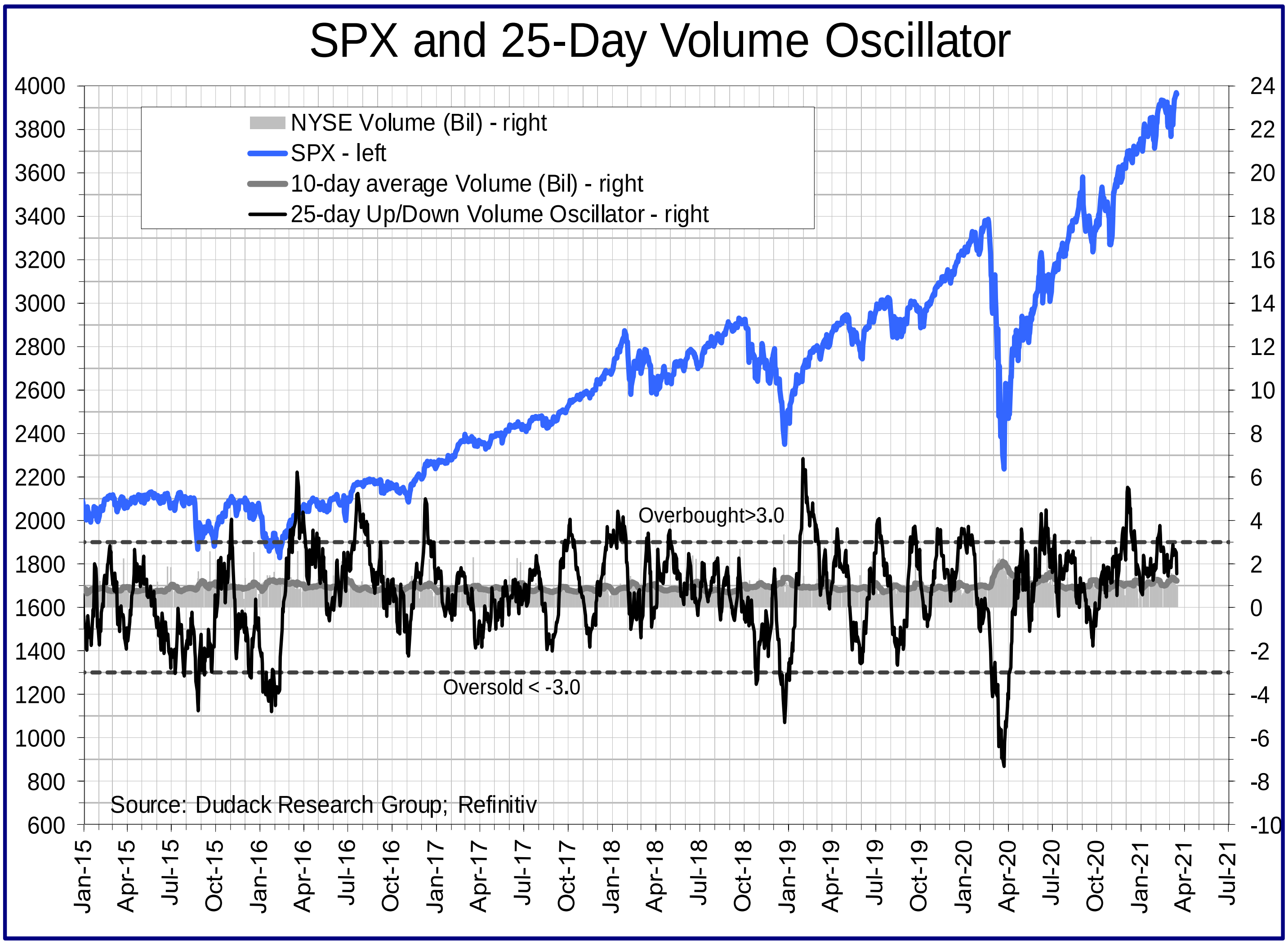


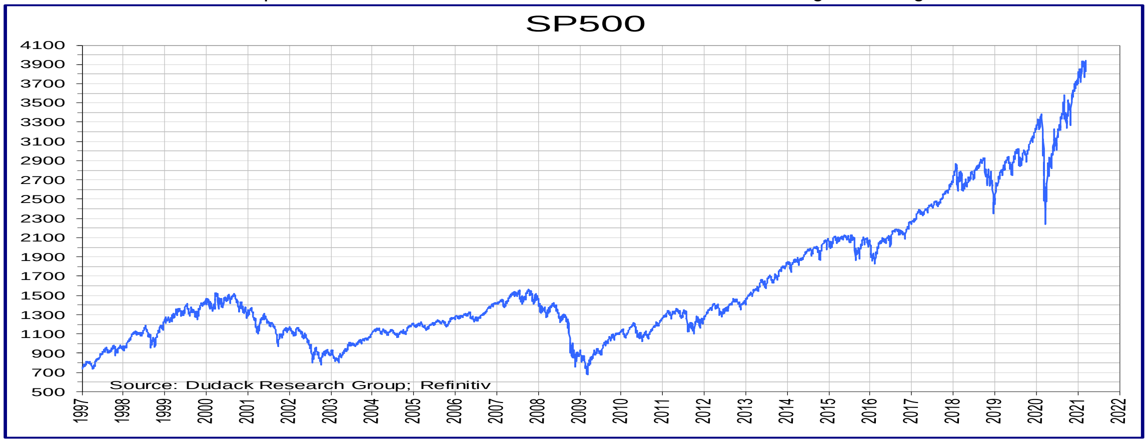

Source: Refinitiv

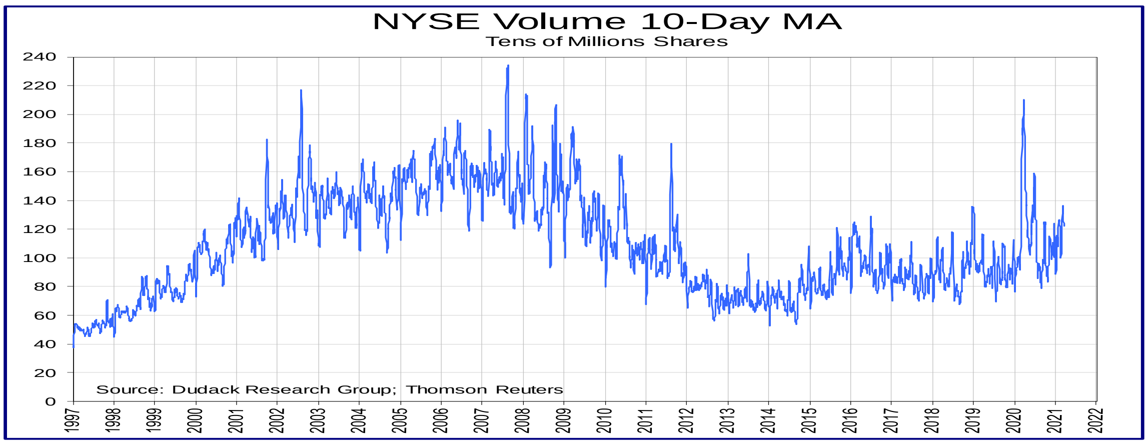
The 25-day up/down volume oscillator is currently 1.55 (preliminary) and neutral this week despite the new highs in all the indices on March 15. This indicator was in overbought territory for five consecutive trading days between February 4 and February 10 which is when many momentum indicators peaked. Whenever the indices make a series of record highs, this oscillator should reach and remain in overbought territory for a minimum of five to ten consecutive days to indicate that the move has been accompanied by convincing buying pressure. Thus, a minimum confirmation of the current advance was made in early February. However, as the indices continue to advance, we would like to see this indicator reach overbought once again to demonstrate that volume is confirming price moves.

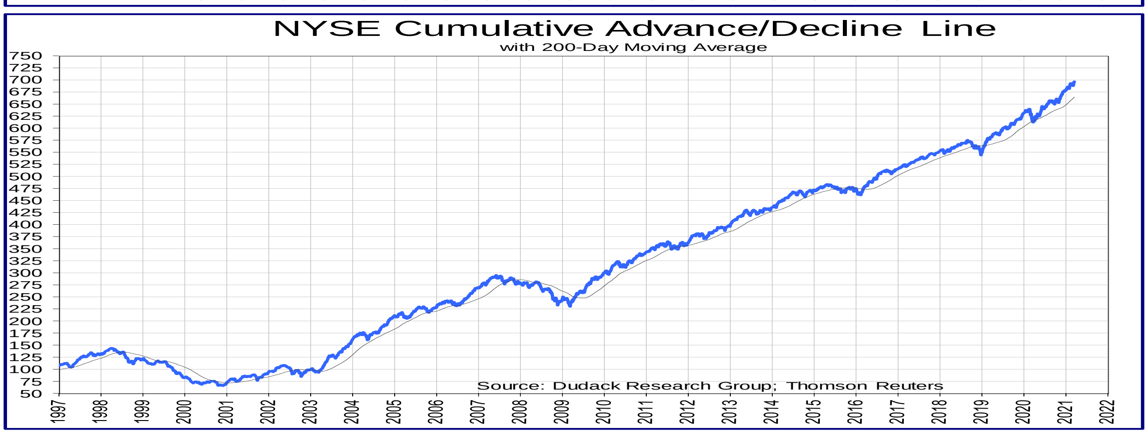
Note, the oscillator was also in overbought territory for a much longer duration -- 16 of 19 consecutive trading days -- between November 23 and December 18. Looking back, the overbought reading of 5.52 on December 4, 2020 was the best reading since February 2019 and this relieved our concern regarding the lack of any overbought reading in November. What has been unusual about the entire recent advance is the lack of a 90% up day in volume to indicate strong buying conviction.

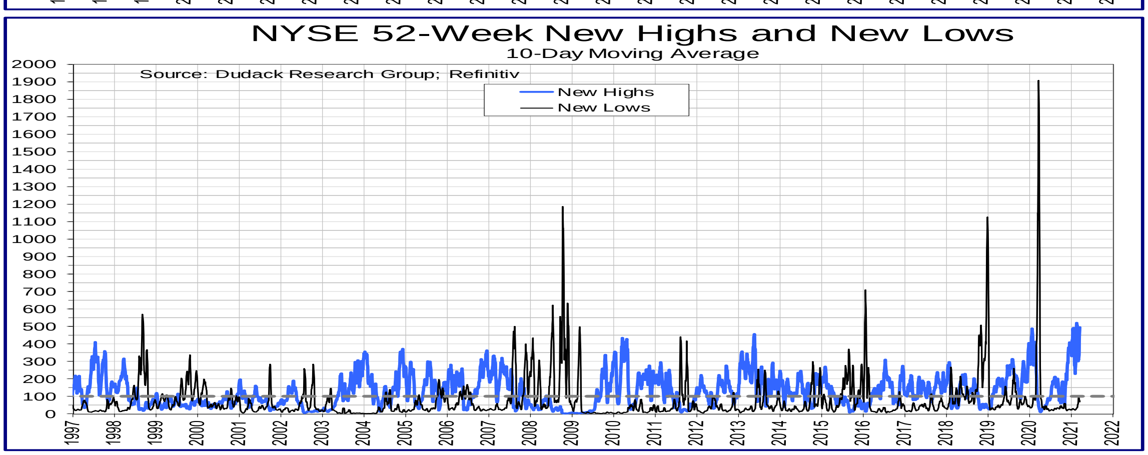


The 10-day average of daily new highs is 496, well above the bullish 100 and the 10-day average of daily new lows (68) is below the 100 that defines a bear market, yet well above the 10 or less that signals an extreme. The 10-day new high average hit 521 on February 17, exceeding the 489 recorded January 22, 2000. Note: the 2000 advance peaked in March. The The A/D line made its last confirming record high on March 15, 2021.

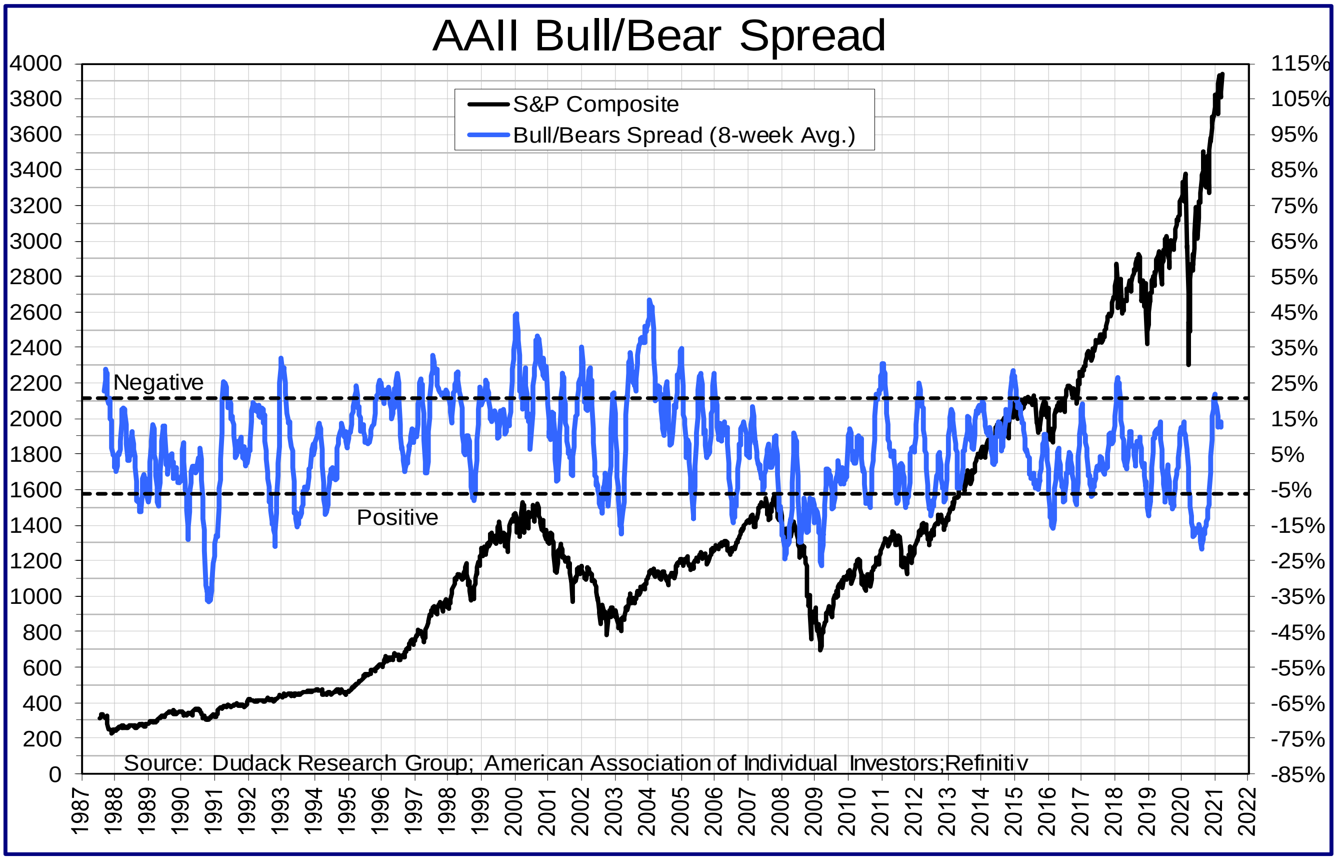


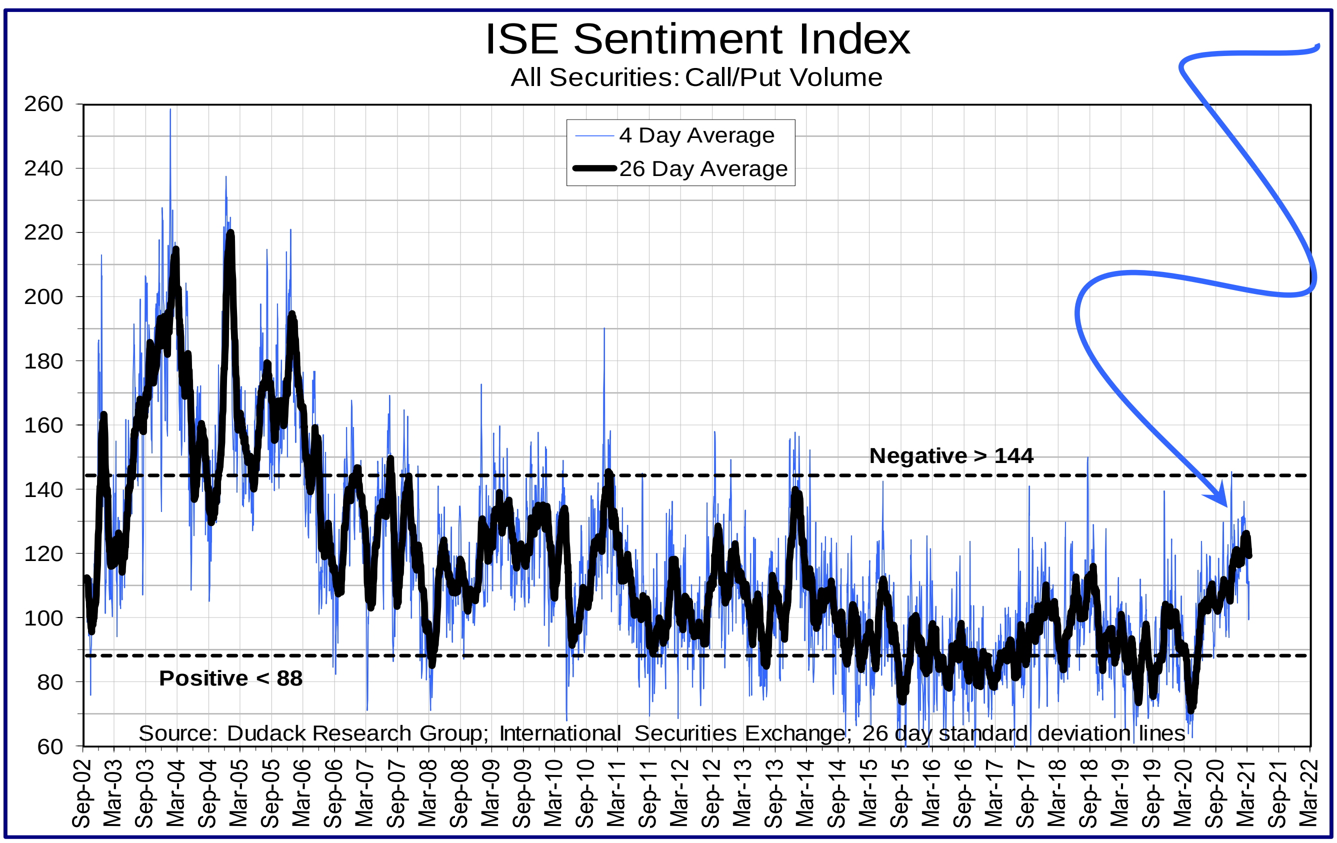



AAII bullish sentiment for March 11 rose 9.1 points to 49.4%, a 16-week high, and has been above average for 15 of the last 17 weeks. Bearishness fell 1.8 points to 23.5% and is below its historical average of 30.5% for the fifth consecutive week. The 8-week spread remains neutral. The ISE Sentiment index shifted from positive to neutral on June 1 and has been erratically moving upward. The ISE sentiment index is neutral but continues to ratchet toward the negative 144 level.



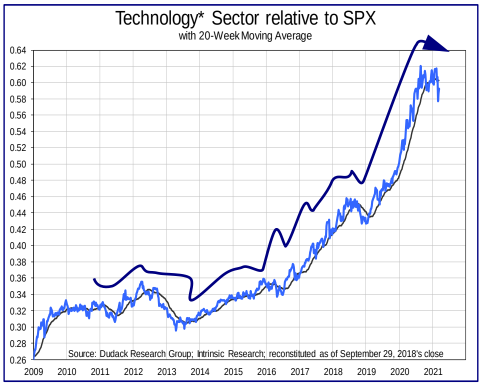



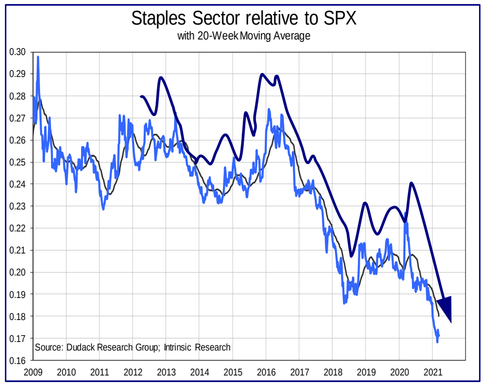
## DRG Recommended Sector Weights

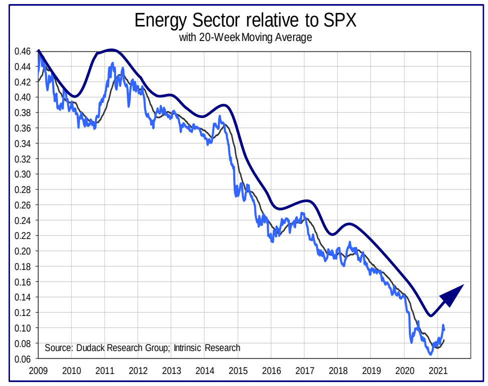
| Overweight | Neutral | Underweight |
|---|---|---|
| Technology | Staples | Consumer Discretionary |
| Financials | Utililties | Energy |
| Healthcare | Communication Services | REITS |
| Industrials | Materials | |

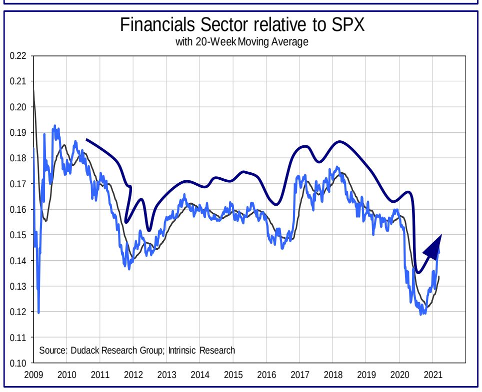
Healthcare upgraded from underw eight to overw eight; Consumer Discretionary dow ngraded from overw eight to underw eight April 14, 2020

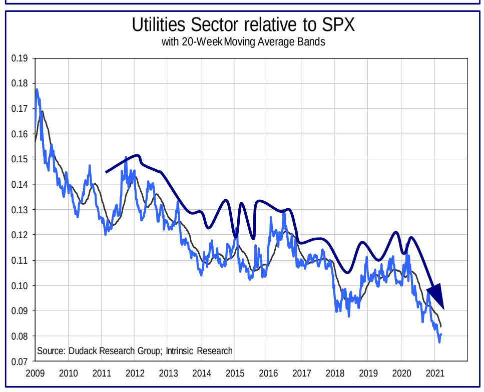
## SECTOR RELATIVE PERFORMANCE – RELATIVE OVER/UNDER/ PERFORMANCE TO S&P 500

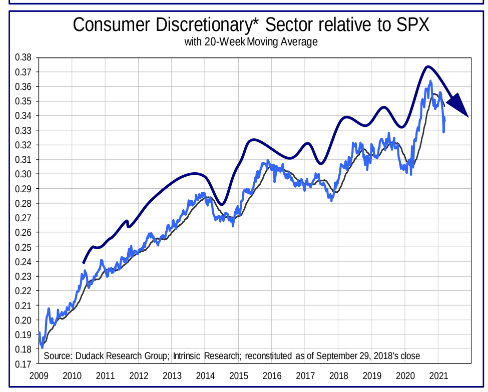


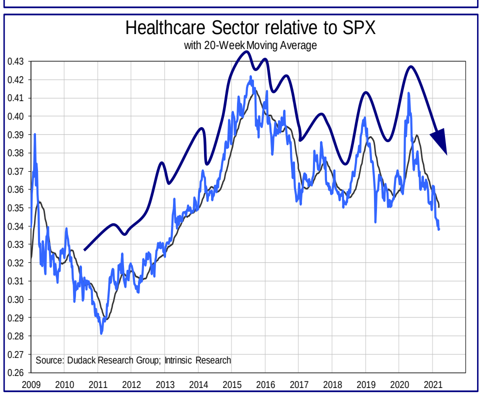



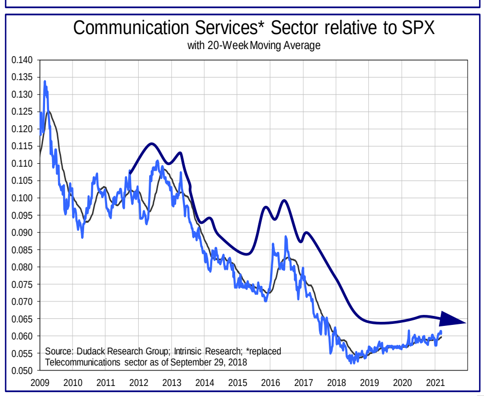



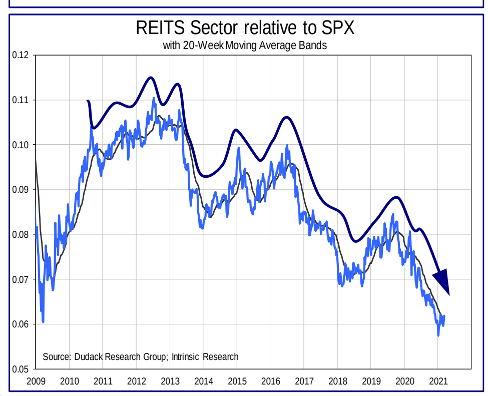



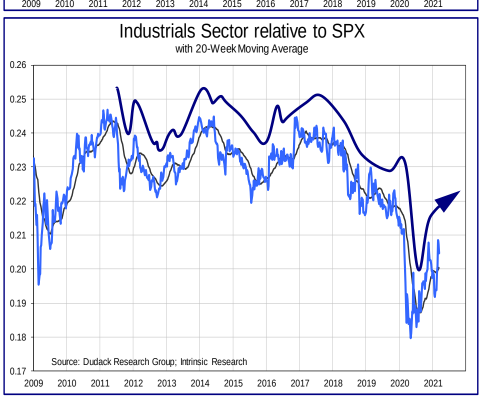



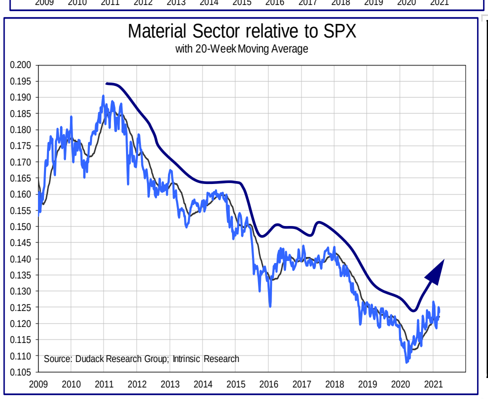




**2021 Performance - Ranked**

| SP500 Sector | % Change |
|---|---|
| S&P ENERGY | 34.4% |
| S&P FINANCIAL | 15.5% |
| S&P COMMUNICATIONS SERVICES | 9.5% |
| S&P INDUSTRIALS | 8.2% |
| S&P REITS | 7.5% |
| S&P MATERIALS | 7.3% |
| S&P 500 | 5.5% |
| S&P INFORMATION TECH | 2.5% |
| S&P CONSUMER DISCRETIONARY | 2.4% |
| S&P HEALTH CARE | 1.3% |
| S&P UTILITIES | 0.1% |
| S&P CONSUMER STAPLES | -2.5% |

Source: Dudack Research Group; Refinitiv; Monday closes

# Global Markets - Ranked by 2021 Trading Performance

| Index/EFT | Symbol | Price | 5-Day% | 20-Day% | QTD% | YTD% |
|---|---|---|---|---|---|---|
| SPDR S&P Retail ETF | XRT | 91.55 | 1.6% | 14.9% | 44.1% | 44.1% |
| Oil Future | CLc1 | 64.80 | 1.2% | 7.9% | 36.1% | 36.1% |
| Energy Select Sector SPDR | XLE | 51.45 | -1.3% | 12.4% | 35.5% | 35.5% |
| United States Oil Fund, LP | USO | 43.83 | 1.7% | 8.4% | 35.4% | 35.4% |
| SPDR S&P Bank ETF | KBE | 53.92 | 2.5% | 11.0% | 30.2% | 30.2% |
| iShares DJ US Oil Eqpt & Services ETF | IEZ | 14.77 | -3.1% | 10.1% | 29.8% | 29.8% |
| iShares Russell 2000 Value ETF | IWN | 166.27 | 3.1% | 9.2% | 27.9% | 27.9% |
| iShares Russell 2000 ETF | IWM | 230.50 | 3.2% | 2.1% | 19.1% | 19.1% |
| SPDR Homebuilders ETF | XHB | 66.81 | 3.9% | 5.2% | 17.7% | 17.7% |
| Financial Select Sector SPDR | XLF | 34.21 | 1.1% | 6.7% | 17.6% | 17.6% |
| iShares Russell 1000 Value ETF | IWD | 151.95 | 2.3% | 4.9% | 12.6% | 12.6% |
| iShares MSCI Canada ETF | EWC | 34.65 | 3.4% | 4.9% | 12.0% | 12.0% |
| Industrial Select Sector SPDR | XLI | 96.19 | 2.3% | 6.6% | 11.3% | 11.3% |
| iShares Russell 2000 Growth ETF | IWO | 314.29 | 3.6% | -4.5% | 11.3% | 11.3% |
| iShares US Real Estate ETF | IYR | 91.92 | 4.9% | 3.7% | 11.1% | 11.1% |
| iShares MSCI Austria Capped ETF | EWO | 22.25 | 1.8% | 3.2% | 11.0% | 11.0% |
| SPDR S&P Semiconductor ETF | XSD | 186.79 | 5.7% | -7.0% | 10.0% | 10.0% |
| iShares MSCI Taiwan ETF | EWT | 59.06 | 2.6% | -1.4% | 9.8% | 9.8% |
| Materials Select Sector SPDR | XLB | 78.13 | 1.7% | 5.3% | 9.0% | 9.0% |
| DJIA | .DJI | 32825.95 | 3.1% | 4.1% | 8.6% | 8.6% |
| iShares MSCI Hong Kong ETF | EWH | 26.91 | 1.1% | 0.0% | 8.1% | 8.1% |
| SPDR DJIA ETF | DIA | 328.86 | 3.2% | 4.2% | 7.5% | 7.5% |
| iShares Russell 1000 ETF | IWB | 224.53 | 2.4% | 0.4% | 7.5% | 7.5% |
| iShares US Telecomm ETF | IYZ | 32.43 | 2.4% | 1.4% | 7.4% | 7.4% |
| iShares MSCI United Kingdom ETF | EWU | 31.79 | 1.1% | 1.6% | 7.1% | 7.1% |
| **SP500** | .SPX | 3962.71 | 2.3% | 0.8% | 7.1% | 7.1% |
| iShares MSCI India ETF | INDA.K | 43.08 | 0.0% | 0.4% | 6.9% | 6.9% |
| PowerShares Water Resources Portfolio | PHO | 48.74 | 1.7% | -0.4% | 6.5% | 6.5% |
| Nasdaq Composite Index Tracking Stock | ONEQ.O | 523.03 | 3.1% | -4.0% | 5.9% | 5.9% |
| iShares MSCI Singapore ETF | EWS | 22.81 | -0.4% | 3.2% | 5.8% | 5.8% |
| Consumer Discretionary Select Sector SPDR | XLY | 167.26 | 2.7% | -1.4% | 4.9% | 4.9% |
| Vanguard FTSE All-World ex-US ETF | VEU | 61.51 | 1.6% | -2.0% | 4.9% | 4.9% |
| iShares MSCI Australia ETF | EWA | 25.18 | -0.1% | -0.6% | 4.8% | 4.8% |
| iShares China Large Cap ETF | FXI | 48.44 | 0.6% | -9.6% | 4.6% | 4.6% |
| Technology Select Sector SPDR | XLK | 133.81 | 2.8% | -3.1% | 4.6% | 4.6% |
| iShares MSCI Emerg Mkts ETF | EEM | 54.35 | 1.5% | -6.2% | 4.5% | 4.5% |
| iShares Nasdaq Biotechnology ETF | IBB.O | 157.09 | 3.6% | -5.9% | 4.4% | 4.4% |
| iShares MSCI EAFE ETF | EFA | 76.47 | 1.5% | -0.5% | 4.3% | 4.3% |
| iShares MSCI Japan ETF | EWJ | 69.54 | 2.1% | -3.2% | 4.2% | 4.2% |
| iShares MSCI BRIC ETF | BKF | 54.57 | 1.2% | -8.9% | 4.1% | 4.1% |
| NASDAQ 100 | NDX | 13152.28 | 2.8% | -4.5% | 3.6% | 3.6% |
| Utilities Select Sector SPDR | XLU | 63.29 | 3.2% | 2.2% | 3.6% | 3.6% |
| iShares MSCI Mexico Capped ETF | EWW | 44.71 | 5.6% | 5.4% | 3.2% | 3.2% |
| iShares MSCI Germany ETF | EWG | 33.08 | 0.9% | 0.3% | 2.9% | 2.9% |
| iShares Russell 1000 Growth ETF | IWF | 243.95 | 2.7% | -3.8% | 2.6% | 2.6% |
| Gold Future | GCc1 | 2011.10 | 0.2% | 1.0% | 2.5% | 2.5% |
| Health Care Select Sect SPDR | XLV | 115.32 | 1.7% | -0.7% | 2.1% | 2.1% |
| iShares MSCI South Korea Capped ETF | EWY | 89.44 | 2.3% | -4.5% | 1.3% | 1.3% |
| SPDR Communication Services ETF | XLC | 56.15 | 0.0% | 0.0% | 0.0% | 0.0% |
| Silver Future | SIc1 | 18.54 | 0.0% | 0.0% | 0.0% | 0.0% |
| Consumer Staples Select Sector SPDR | XLP | 66.52 | 2.5% | 1.4% | -0.3% | -0.3% |
| iShares MSCI Malaysia ETF | EWM | 28.02 | 0.5% | -0.4% | -1.4% | -1.4% |
| Shanghai Composite | .SSEC | 3446.73 | 2.6% | -4.4% | -2.3% | -2.3% |
| iShares Silver Trust | SLV | 25.07 | 0.2% | -4.6% | -4.9% | -4.9% |
| iShares iBoxx $ Invest Grade Corp Bond | LQD | 129.06 | -0.4% | -3.5% | -6.1% | -6.1% |
| iShares MSCI Brazil Capped ETF | EWZ | 32.90 | 5.2% | -9.2% | -10.0% | -10.0% |
| SPDR Gold Trust | GLD | 162.35 | 0.9% | -3.5% | -11.0% | -11.0% |
| iShares 20+ Year Treas Bond ETF | TLT | 136.31 | -2.5% | -5.9% | -13.5% | -13.5% |

**Outperformed SP500**
Underperformed SP500

Source: Dudack Research Group; Thomson Reuters    Priced as of close March 16, 2021

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 % | Refinitiv Consensus Bottom-Up $ EPS** | Refinitiv Consensus Bottom-Up EPS YOY% | S&P Op PE Ratio | S&P Divd Yield | GDP Annual Rate | GDP Profits post-tax w/ IVA & CC | YOY % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2004** | 1211.92 | $58.55 | **$67.68** | $67.68 | 23.8% | **$67.10** | 20.9% | 17.9X | 1.8% | 2.9% | $977.30 | 20.3% |
| **2005** | 1248.29 | $69.93 | **$76.45** | $76.45 | 13.0% | **$76.28** | 13.7% | 16.3X | 1.8% | 3.8% | $1,065.30 | 9.0% |
| **2006** | 1418.30 | $81.51 | **$87.72** | $87.72 | 14.7% | **$88.18** | 15.6% | 16.2X | 1.8% | 3.5% | $1,173.10 | 10.1% |
| **2007** | 1468.36 | $66.18 | **$82.54** | $82.54 | -5.9% | **$85.12** | -3.5% | 17.8X | 1.8% | 2.9% | $1,083.50 | -7.6% |
| **2008** | 903.25 | $14.88 | **$49.51** | $49.51 | -40.0% | **$65.47** | -23.1% | 18.2X | 2.5% | 1.9% | $976.00 | -9.9% |
| **2009** | 1115.10 | $50.97 | **$56.86** | $56.86 | 14.8% | **$60.80** | -7.1% | 19.6X | 2.6% | -0.1% | $1,029.70 | -9.8% |
| **2010** | 1257.64 | $77.35 | **$83.77** | $83.77 | 47.3% | **$85.28** | 40.3% | 15.0X | 1.9% | -2.5% | $1,182.60 | 14.8% |
| **2011** | 1257.60 | $86.95 | **$96.44** | $96.44 | 15.1% | **$97.82** | 14.7% | 13.0X | 2.0% | 2.6% | $1,456.20 | 23.1% |
| **2012** | 1426.19 | $86.51 | **$96.82** | $96.82 | 0.4% | **$103.80** | 6.1% | 14.7X | 2.1% | 1.6% | $1,528.70 | 5.0% |
| **2013** | 1848.36 | $100.20 | **$107.30** | $107.30 | 10.8% | **$109.68** | 5.7% | 17.2X | 2.0% | 2.2% | $1,662.50 | 8.8% |
| **2014** | 2127.83 | $102.31 | **$113.01** | $113.01 | 5.3% | **$118.78** | 8.3% | 18.8X | 2.2% | 1.8% | $1,647.90 | -0.9% |
| **2015** | 2043.94 | $86.53 | **$100.45** | $100.45 | -11.1% | **$118.20** | -0.5% | 20.3X | 2.1% | 2.5% | $1,712.90 | 3.9% |
| **2016** | 2238.83 | $94.55 | **$106.26** | $96.82 | -3.6% | **$118.10** | -0.1% | 21.1X | 1.9% | 3.1% | $1,664.90 | -2.8% |
| **2017** | 2673.61 | $109.88 | **$124.51** | $124.51 | 28.6% | **$132.00** | 11.8% | 21.5X | 1.8% | 1.7% | $1,633.90 | -1.9% |
| **2018** | 2506.85 | $132.39 | **$151.60** | $151.60 | 21.8% | **$161.93** | 22.7% | 16.5X | 1.9% | 2.3% | $1,686.50 | 3.2% |
| **2019** | 3230.78 | $139.47 | **$157.12** | $157.12 | 3.6% | **$162.93** | 0.6% | 20.6X | 2.3% | 2.4% | $1,854.90 | 10.0% |
| **2020P** | ~~~~~~~ | $90.74 | **$118.53** | $118.53 | -24.6% | **$140.94** | -13.5% | 31.7X | NA | NA | NA | NA |
| **2021E** | ~~~~~~~ | $157.12 | **$172.00** | $168.60 | 42.2% | **$175.02** | 24.2% | 23.0X | NA | NA | NA | NA |
| **2022E** | | $182.51 | **$199.50** | $200.00 | 18.6% | **$201.64** | 15.2% | 19.9X | NA | NA | NA | NA |
| **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 3Q** | 2976.74 | $33.99 | $39.81 | $39.81 | -3.8% | $42.14 | -1.2% | 19.5 | 1.9% | 2.6% | $1,963.40 | 4.8% |
| **2019 4Q** | 3230.78 | $35.53 | $39.18 | $39.18 | 11.8% | $41.98 | 1.9% | 20.6 | 1.8% | 2.4% | $1,998.90 | 7.1% |
| **2020 1Q** | 2584.59 | $11.88 | $19.50 | $19.50 | -48.7% | $33.13 | -15.4% | 18.6 | 2.3% | -5.0% | $1,779.50 | -0.7% |
| **2020 2Q** | 3100.29 | $17.83 | $26.79 | $26.79 | -33.3% | $27.98 | -32.3% | 24.7 | 1.9% | -31.4% | $1,589.40 | -14.4% |
| **2020 3Q** | 3363.00 | $32.98 | $37.90 | $37.90 | -4.8% | $38.69 | -8.2% | 27.3 | 1.7% | 33.4% | $2,018.50 | 2.8% |
| **2020 4QP** | 3756.07 | $28.05 | $34.34 | $34.34 | -12.4% | $42.84 | 2.0% | 31.7 | 1.6% | 4.0% | NA | NA |
| **2021 1QE*** | 3962.71 | $35.30 | $38.92 | $38.00 | 94.9% | $39.62 | 19.6% | 28.7 | 1.6% | NA | NA | NA |
| **2021 2QE** | | $37.02 | $41.03 | $34.83 | 30.0% | $41.76 | 49.2% | 26.0 | NA | NA | NA | NA |
| **2021 3QE** | | $41.16 | $44.72 | $46.25 | 22.0% | $45.48 | 17.5% | 24.9 | NA | NA | NA | NA |
| **2021 4QE** | | $43.64 | $47.33 | $49.52 | 44.2% | $48.06 | 12.2% | 23.0 | NA | NA | NA | NA |
| **2022 1QE** | | $40.35 | $45.72 | $44.00 | 15.8% | NA | NA | 22.2 | NA | NA | NA | NA |
| **2022 2QE** | | $44.19 | $48.14 | $46.00 | 32.1% | NA | NA | 21.3 | NA | NA | NA | NA |
| **2022 3QE** | | $48.08 | $51.76 | $54.00 | 16.8% | NA | NA | 20.5 | NA | NA | NA | NA |
| **2022 4QE** | | $49.90 | $53.88 | $56.00 | 13.1% | NA | NA | 19.9 | NA | NA | NA | NA |

Source: Dudack Research Group; S&P Dow Jones; Refinitiv Consensus estimates; **Refinitiv quarters may not sum to CY *3/16/2021

## Regulation AC Analyst Certification

I, Gail Dudack, hereby certify that all the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly related to the specific views contained in this report.

**IMPORTANT DISCLOSURES**

### RATINGS DEFINITIONS:

**Sectors/Industries:**
"Overweight": Overweight relative to S&P Index weighting
"Neutral": Neutral relative to S&P Index weighting
"Underweight": Underweight relative to S&P Index weighting

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Prices as of March 16, 2021 close