



Dudack Research Group

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Gail M. Dudack, CMT • Chief Investment Strategist • gail@dudackresearchgroup.com • 212-320-2045

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DJIA: 34297.73

SPX: 4356.45

NASDAQ: 13539.30

# US Strategy Weekly

## Understanding the Correction and Market Risk

In our January 5, 2022, weekly “*On the Verge of a Bubble?*” we stated that we thought 2022 would be a decisive year for the equity market. In our view, stocks would either see a significant correction this year, or if a rally continued, it meant an equity bubble, driven purely by liquidity and momentum, was in place. Fortunately, the first few weeks of the year have been decisive. We say fortunately because we believe a correction is a much healthier option for investors. But this means our focus shifts from technical divergences and the risk of an impending top to measuring the potential downside based upon a variety of fundamental benchmarks. We do not believe equities have made their final lows and fundamentals can provide guidance on measuring downside risk.

### VALUATION MODEL: THE INPUTS

Most valuation models rely on similar inputs. The inputs to our model are our earnings estimates, the rate of inflation and forecasts for short- and long-term rates. For 2022, we estimate SPX earnings will be \$220, inflation will fall to 4.4%, short-term interest rates rise to 0.8% and the 10-year Treasury note yield increases to 2.2%. These inputs give us a projected range as well as a midpoint of the range for the SPX.

In 2015 the SPX shot to the top of our model's projected fair value range and continued to trade there until 2020. However, trading at the top of the fair value range is acceptable with inflation at, or below, 2% YOY, which it was at that time. Low inflation supports a higher PE multiple. However, in early 2020 the index began to trade well above the fair value range and by the end of the year the disparity between the actual SPX price and the top of the projected range grew to a level last seen during the 2000 bubble. See page 5. Still, with inflation relatively low one might see this as the equity market discounting the economic rebound that was widely expected to materialize in 2021.

Indeed, earnings rebounded strongly after the earnings trough of December 2020, but inflation also began to rise. Earnings growth is worth less in an inflationary environment and as a result, PE multiples slowly began to fall in 2021. However, inflation did not just increase in 2021, it soared to 40- year highs and this is the crux of the market's problem this year. Inflation of 7% YOY implies much lower multiples and at the same time monetary policy is apt to be aggressively tight in 2022 to control inflation. This combination makes it a hostile environment for equities.

### VALUATION MODEL: INFLATION

Our model demonstrates the pressure inflation places on equities. For example, in 2020 when inflation was 1.4%, our model indicated that the average PE should be 17.7 times. However, at the end of 2021, with inflation at 7%, the model forecasted an average multiple of 14.5 times. In 2022, we estimate inflation will fall to 4.4% -- which is still above the long-term average inflation rate of 3.6% -- and our valuation model suggests the average PE multiple should rise to 15.8 times. The high end of the PE range lifts to 18.4 times by December. Nonetheless, the current trailing SPX PE multiple is 21.4 times.

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

The impact of inflation on PE multiples can be seen in the chart on page 8. Although the trailing PE multiple has been declining toward 20 times in recent months, the rise in inflation has lowered the forecast for the high-end PE from roughly 20 times to 18 times. In short, more multiple compression lies ahead.

#### CALCULATING DOWNSIDE RISK

One way of measuring downside market risk is to see what the trailing PE has been at previous market troughs. Although the PE at the end of a major decline is also impacted by inflation, we noticed that the last two market troughs occurred with a trailing PE multiple of 16.5 times. Applying this to our \$220 earnings estimate for this year yields a downside market risk to SPX 3630. Similarly, if we applied an 18 multiple to our earnings estimate, the downside risk for the SPX is 3960. These two scenarios imply that the market begins to find “value” below SPX 4000. Note that a drop to SPX 3960 is the equivalent of a 17% decline from the record high of 4796.56 made on January 3, 2022. See page 4. This does not appear unreasonable, particularly since the Russell 2000 index has already declined 18.6% from its record high.

In our view, the worst-case scenario would be a decline to the midpoint of our model's projected range. This means a PE of 15.8 with our \$220 earnings estimate or the equivalent of SPX 3475. This midpoint would be a bear market decline of 28%. We cannot rule this out, but we would also point out that the pandemic decline in 2020 produced an even greater 34% decline in the SPX. Yet earnings and stocks rebounded smartly after the pandemic-driven recession of 2020. To insulate portfolios from risk, we continue to focus on stocks and sectors that can weather the inflationary environment of 2022. This includes energy, staples, and financials. Nevertheless, as we have been indicating, technology stocks are expected to bear the brunt of the correction, but this decline will also create an excellent opportunity for growth stocks. A break below SPX 4000 may create such an opportunity.

#### OH, MY RUSSELL

The popular indices exhibit surprisingly different chart characteristics this week. The SPX looks best since it is trading modestly below its 200-day moving average, but all of its moving averages are rising. The DJIA appears second best. It is trading below its 200-day moving average and the moving averages have not crossed below each other. The Nasdaq Composite index is the weakest of this grouping, trading below all its moving averages and the 50-day moving average is at risk of falling below the 100-day moving average. See page 11.

The Russell 2000 index has been our bellwether index for the market since early 2021 and as we noted last week, this chart is very bearish. The 50-day moving average has broken below all other moving averages and this “death cross” configuration is attracting attention. More importantly, the Russell 2000 broke below the 8-month trading range last week that contained most of 2021's trading action. This consolidation range has become a large top and there is no support in the chart prior to 1700. What is also surprising is how much the chart of Amazon (AMZN - \$2799.72) looks like the Russell 2000 index. Note, AMZN is not in the Russell 2000 index yet ironically the chart patterns are very similar, and worrisome.

Despite all the media buzz about the market being oversold, we find our 25-day up/down volume oscillator at a modest negative 0.21 reading this week. Typically, major market troughs are characterized by panic, and this is measured by extreme levels of breadth, for example days with 90% or more of the daily volume in declining stocks. The huge intra-day swings this week and the rebounds from early session lows have kept breadth data fairly moderate at the end of each session. We do not see this as a good thing. It implies that the panic may still lie ahead; therefore, we would be cautious in coming weeks. But danger equates to opportunity, so we are also looking to acquire technology stocks at lower levels.

### DJIA Peaks & Troughs - Using 10% as a Minimum Decline

DJIA Peaks			DJIA Troughs			Peak to Trough	Trough to Peak	Trough to Trough
Date	Price	Increase	Date	Price	Decline	Months	Months	Months
<b>Mar 20, 1923</b>	105.38	64.9%	<b>Aug 24, 1921</b>	63.90	-46.6%		18.8	
<b>Sep 3, 1929</b>	381.17	344.5%	<b>Oct 27, 1923</b>	85.76	-18.6%	7.3	70.3	26.1
Apr 17, 1930	294.07	48.0%	Nov 13, 1929	198.69	-47.9%	2.3	5.1	72.6
Sep 7, 1932	79.93	93.9%	<b>Jul 8, 1932</b>	41.22	<b>-86.0%</b>	34.2	2.0	31.8
<b>Feb 5, 1934</b>	110.74	120.8%	Feb 27, 1933	50.16	-37.2%	5.7	11.3	7.7
<b>Mar 10, 1937</b>	194.40	127.3%	<b>Jul 26, 1934</b>	85.51	-22.8%	5.6	31.5	16.9
Nov 12, 1938	158.41	60.1%	<b>Mar 31, 1938</b>	98.95	-49.1%	12.7	7.4	44.2
<b>Sep 12, 1939</b>	155.92	28.4%	Apr 8, 1939	121.44	-23.3%	4.8	5.2	12.3
<b>May 29, 1946</b>	212.50	128.7%	<b>Apr 28, 1942</b>	92.92	-40.4%	31.5	49.1	36.7
Jun 15, 1948	193.16	18.4%	<b>May 17, 1947</b>	163.21	-23.2%	11.6	13.0	60.7
Jan 5, 1953	293.79	81.8%	<b>Jun 13, 1949</b>	161.60	-16.3%	11.9	42.8	24.9
<b>Apr 6, 1956</b>	521.05	103.9%	<b>Sep 14, 1953</b>	255.49	-13.0%	8.3	30.7	51.1
Jan 5, 1960	685.47	63.3%	<b>Oct 22, 1957</b>	419.79	-19.4%	18.5	26.5	49.3
<b>Dec 13, 1961</b>	734.91	29.8%	<b>Oct 25, 1960</b>	566.05	-17.4%	9.7	13.6	36.1
<b>Feb 9, 1966</b>	995.15	85.7%	<b>Jun 26, 1962</b>	535.76	-27.1%	6.4	43.5	20.0
<b>Nov 29, 1968</b>	985.08	32.3%	<b>Oct 7, 1966</b>	744.32	-25.2%	7.9	25.8	51.4
Apr 28, 1971	950.82	50.6%	<b>May 26, 1970</b>	631.16	-35.9%	17.9	11.1	43.6
<b>Jan 11, 1973</b>	1,051.70	31.8%	Nov 23, 1971	797.97	-16.1%	6.9	13.6	18.0
<b>Sep 21, 1976</b>	1,014.79	75.7%	<b>Dec 6, 1974</b>	577.60	-45.1%	22.8	21.5	36.5
Sep 8, 1978	907.74	22.3%	<b>Feb 28, 1978</b>	742.12	-26.9%	17.3	6.3	38.8
<b>Apr 27, 1981</b>	1,024.05	38.0%	Apr 21, 1980	759.13	-16.4%	19.4	12.2	25.7
Nov 29, 1983	1,287.20	65.7%	<b>Aug 12, 1982</b>	776.92	-24.1%	15.5	15.6	27.7
<b>Aug 25, 1987</b>	2,722.42	250.4%	Jul 24, 1984	1,086.57	-15.6%	7.8	37.1	23.4
<b>Jul 16, 1990</b>	2,999.75	72.5%	<b>Oct 19, 1987</b>	1,738.74	-36.1%	1.8	32.9	38.9
<b>Jul 17, 1998</b>	9,337.96	294.8%	<b>Oct 11, 1990</b>	2,365.10	-21.2%	2.9	93.2	35.8
<b>Jan 14, 2000</b>	11,722.98	55.5%	<b>Aug 31, 1998</b>	7,539.07	-19.3%	1.5	16.5	94.7
Nov 27, 2002	8,931.68	22.6%	<b>Oct 9, 2002</b>	7,286.27	-37.8%	32.8	1.6	49.3
<b>Oct 9, 2007</b>	14,164.53	88.3%	Mar 11, 2003	7,524.06	-15.8%	3.4	55.0	5.0
Apr 23, 2010	11,204.28	71.1%	<b>Mar 9, 2009</b>	6,547.05	<b>-53.8%</b>	17.0	13.5	72.0
Apr 29, 2011	12,810.54	31.6%	Jul 1, 2010	9,732.53	-13.1%	2.3	9.9	15.7
May 19, 2015	18,312.39	71.9%	<b>Oct 3, 2011</b>	10,655.30	-16.8%	5.2	43.5	15.1
Jan 26, 2018	26,616.71	70.0%	<b>Feb 11, 2016</b>	15,660.18	-14.5%	8.8	23.5	52.3
<b>Oct 3, 2018</b>	26,828.39	12.4%	<b>Feb 8, 2018</b>	23,860.46	-10.4%	0.4	7.8	23.9
<b>Feb 12, 2020</b>	29,551.42	35.6%	<b>Dec 24, 2018</b>	21,792.20	-18.8%	2.7	13.6	10.5
<b>Jan 4, 2022</b>	36,799.65	97.9%	Mar 23, 2020	18,591.93	-37.1%	1.3	21.4	15.0
<b>Average</b>		<b>82.1%</b>	<b>Average</b>		<b>-27.7%</b>	<b>10.8</b>	<b>24.3</b>	<b>34.8</b>
<b>Median</b>		<b>65.3%</b>	<b>Median</b>		<b>-23.0%</b>	<b>7.9</b>	<b>16.0</b>	<b>33.8</b>
<b>Minimum</b>		<b>12.4%</b>	<b>Minimum</b>		<b>-10.4%</b>	<b>0.4</b>	<b>1.6</b>	<b>5.0</b>
<b>Maximum</b>		<b>344.5%</b>	<b>Maximum</b>		<b>-86.0%</b>	<b>34.2</b>	<b>93.2</b>	<b>94.7</b>
<b>Selected Average</b>		<b>97.7%</b>	<b>Selected Average</b>		<b>-32.1%</b>			

Source: Dudack Research Group; Thomson Reuters \*Trough lower than previous trough  
 Selected peaks & troughs = levels noted by other strategists as bull/bear turning points

The last market decline was a 37% drop which ended on March 23, 2020. Since then, the DJIA has had a 98% advance without an intervening correction of 10% or more. This is well above the average bullish advance of 82%.

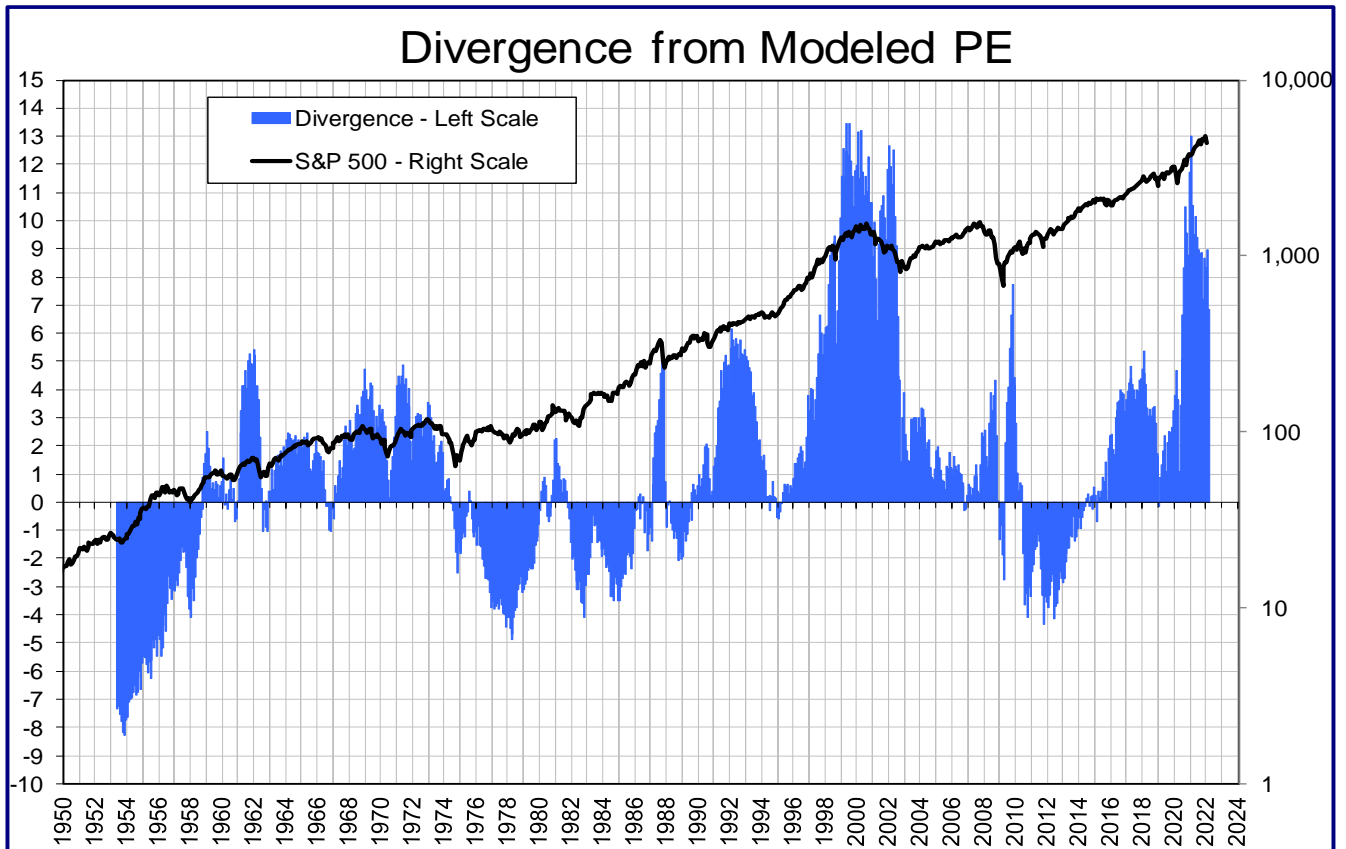
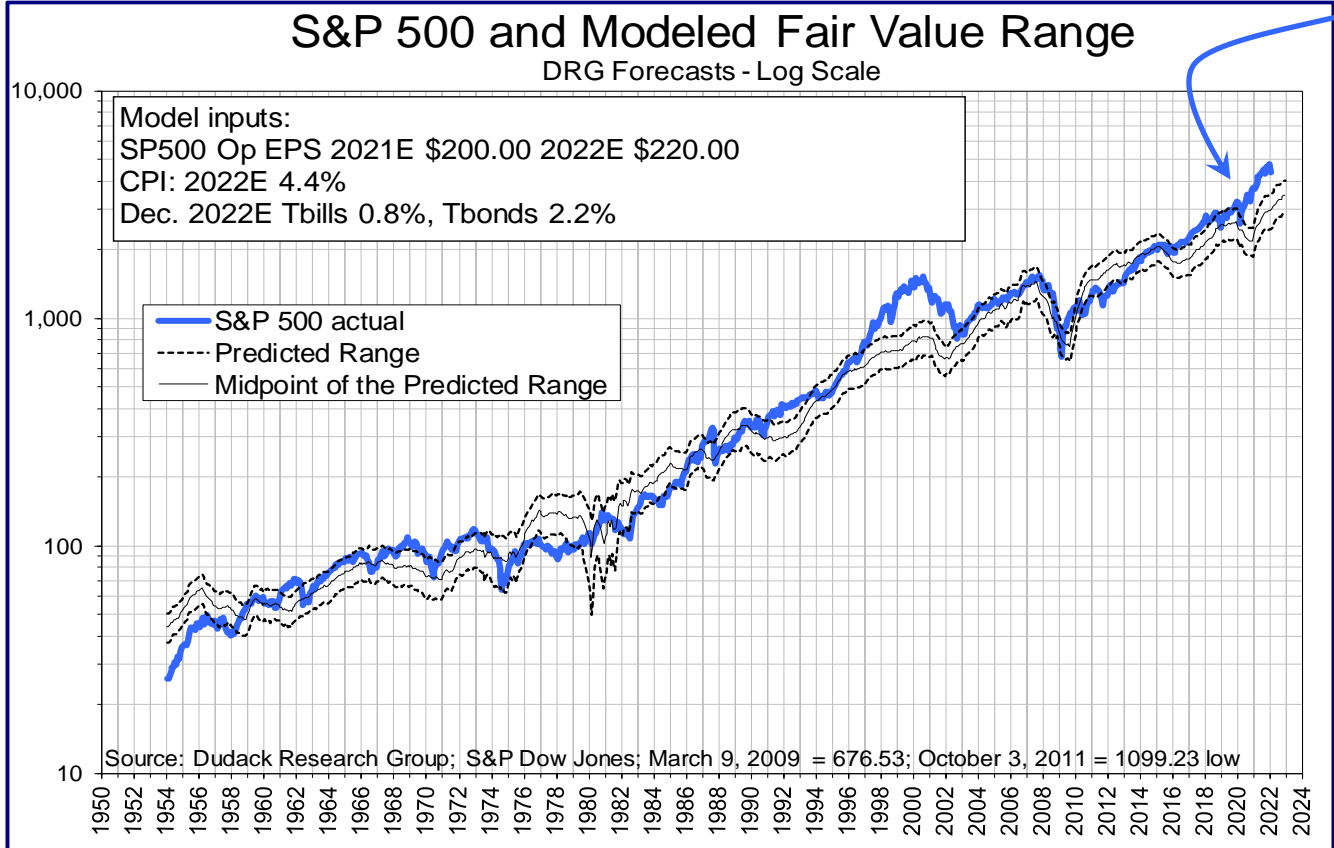
The SPX is up 114% from its March 2020 low. Again, the percentage and length of this advance is well above the norm.

SPX Peaks & Troughs (Using 10% as a Minimum Decline)								
SPX Peaks			SPX Troughs			Peak to Trough	Trough to Peak	Trough to Trough
Date	Price	%Increase	Date	Price	%Decline	Months	Months	Months
Feb 24, 1931	18.17	17.5%	Jan 19, 1931	15.46	-4.7%			
Nov 9, 1931	11.52	30.6%	Oct 5, 1931	8.82	-51.5%*	7.3		8.5
Sep 7, 1932	9.31	111.6%	Jun 1, 1932	4.40	-61.8%*	6.7	1.2	7.9
Mar 16, 1933	6.93	25.3%	Feb 27, 1933	5.53	-40.6%	5.7	3.2	8.9
Jun 12, 1933	10.89	86.2%	Mar 31, 1933	5.85	-15.6%	0.5	0.6	1.1
Jul 18, 1933	12.20	25.3%	Jun 15, 1933	9.74	-10.6%	0.1	2.4	2.5
Aug 25, 1933	11.28	16.9%	Jul 21, 1933	9.65	-20.9%*	0.1	1.1	1.2
Feb 6, 1934	11.82	37.9%	Oct 21, 1933	8.57	-24.0%*	1.9	1.2	3.0
Jun 18, 1934	10.37	10.9%	Jun 2, 1934	9.35	-20.9%	3.8	3.6	7.4
Apr 6, 1936	15.51	92.4%	Mar 14, 1935	8.06	-22.3%*	8.8	0.5	9.4
Mar 6, 1937	18.68	91.8%	Apr 29, 1936	13.53	-12.8%	0.8	12.8	13.5
Nov 9, 1938	13.79	42.9%	Mar 31, 1938	8.50	-54.5%*	12.8	10.2	23.0
Nov 9, 1940	11.40	33.0%	Jun 10, 1940	8.99	-34.8%	19.0	7.3	26.4
Jul 14, 1943	12.64	35.2%	Apr 28, 1942	7.47	-60.0%*	17.6	5.0	22.6
Feb 2, 1946	18.71	150.5%	Nov 29, 1943	10.99	-20.3%	4.5	14.5	19.1
May 29, 1946	19.25	14.5%	Feb 26, 1946	16.81	-10.2%	0.8	26.2	27.0
Jun 12, 1950	19.40	43.2%	Jun 13, 1949	13.55	-29.6%*	36.5	3.0	39.6
Jan 5, 1953	26.66	59.8%	Jul 17, 1950	16.68	-14.0%	1.2	12.0	13.1
Sep 23, 1955	45.63	100.9%	Sep 14, 1953	22.71	-14.8%	8.3	29.7	38.0
Aug 2, 1956	49.74	21.9%	Oct 11, 1955	40.80	-10.6%	0.6	24.3	24.9
Aug 3, 1959	60.71	55.7%	Oct 22, 1957	38.98	-21.6%*	14.7	9.7	24.4
Dec 12, 1961	72.64	38.9%	Oct 25, 1960	52.30	-13.9%	14.8	21.4	36.1
Feb 9, 1966	94.06	79.8%	Jun 26, 1962	52.32	-28.0%	6.4	13.6	20.0
Sep 25, 1967	97.59	33.3%	Oct 7, 1966	73.20	-22.2%	7.9	43.5	51.4
Nov 29, 1968	108.37	23.5%	Mar 5, 1968	87.72	-10.1%	5.3	11.6	16.9
Apr 28, 1971	104.77	51.2%	May 26, 1970	69.29	-36.1%*	17.9	8.8	26.7
Jan 11, 1973	120.24	33.4%	Nov 23, 1971	90.16	-13.9%	6.9	11.1	18.0
Sep 21, 1976	107.83	73.1%	Oct 3, 1974	62.28	-48.2%*	20.7	13.6	34.4
Feb 13, 1980	118.44	36.3%	Mar 6, 1978	86.90	-19.4%	17.5	23.6	41.1
Nov 28, 1980	140.52	125.6%	Mar 27, 1980	98.22	-17.1%	1.4	23.3	24.7
Oct 10, 1983	172.65	68.6%	Aug 12, 1982	102.42	-27.1%	20.4	8.1	28.5
Aug 25, 1987	336.78	127.8%	Jul 24, 1984	147.82	-14.4%	9.5	13.9	23.4
Oct 9, 1989	359.81	60.7%	Dec 4, 1987	223.91	-33.5%	3.3	37.1	40.4
Jul 16, 1990	368.94	14.2%	Jan 30, 1990	322.97	-10.2%	3.7	22.2	25.9
Oct 7, 1997	983.12	232.7%	Oct 11, 1990	295.47	-19.9%*	2.9	5.5	8.4
Jul 17, 1998	1186.75	35.3%	Oct 27, 1997	876.99	-10.8%	0.7	83.9	84.6
Jul 16, 1999	1418.78	48.2%	Aug 31, 1998	957.28	-19.3%	1.5	8.6	10.1
Mar 24, 2000	1527.46	22.5%	Oct 15, 1999	1247.41	-12.1%	3.0	10.5	13.5
Apr 16, 2002	1128.37	16.8%	Sep 21, 2001	965.80	-36.8%*	18.0	5.3	23.2
Oct 9, 2007	1565.15	101.5%	Oct 9, 2002	776.76	-31.2%*	5.8	6.8	12.6
Apr 23, 2010	1217.28	79.9%	Mar 9, 2009	676.53	-56.8%*	17.0	60.0	77.0
Apr 29, 2011	1363.61	33.3%	Jul 2, 2010	1022.58	-16.0%	2.3	13.5	15.8
Apr 2, 2012	1419.04	29.1%	Oct 3, 2011	1099.23	-19.4%	5.2	9.9	15.1
May 21, 2015	2130.82	66.7%	Jun 1, 2012	1278.04	-9.9%	2.0	6.0	8.0
Jan 26, 2018	2872.87	57.1%	Feb 11, 2016	1829.08	-14.2%	8.7	35.6	44.4
Sep 20, 2018	2930.75	13.6%	Feb 8, 2018	2581.00	-10.2%	0.4	23.5	23.9
Feb 19, 2020	3386.15	44.0%	Dec 24, 2018	2351.10	-19.8%	3.1	7.4	10.5
Jan 3, 2022	4796.56	114.4%	Mar 23, 2020	2237.40	-33.9%	1.1	13.9	15.0
Average		57.6%			-24.1%	8.1	15.7	23.2
Median		42.9%			-19.7%	5.7	10.8	21.3
Minimum		10.9%			-61.8%	0.1	0.5	1.1
Maximum		232.7%			-4.7%	36.5	83.9	84.6

Source: Dudack Research Group; Thomson Reuters \*Trough lower than previous trough

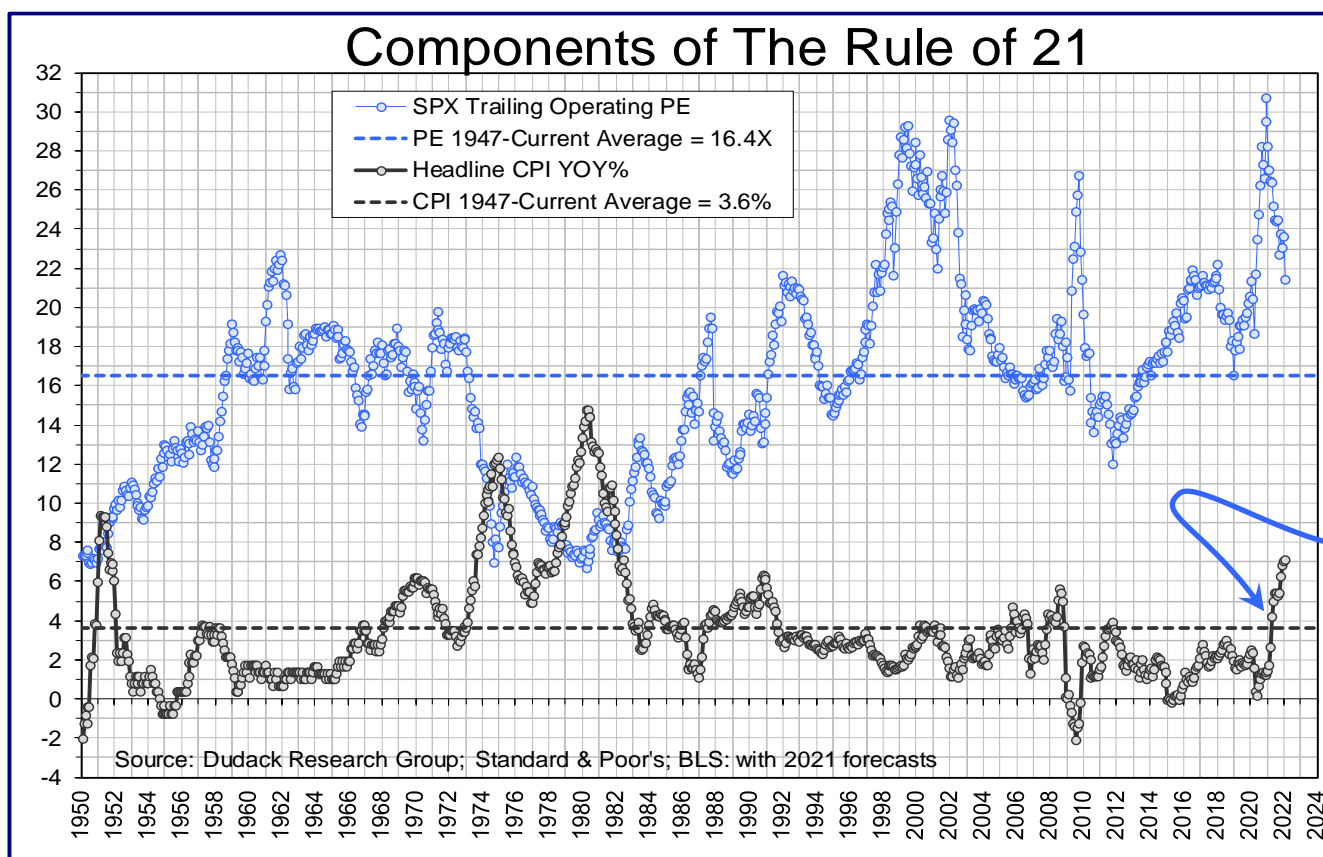
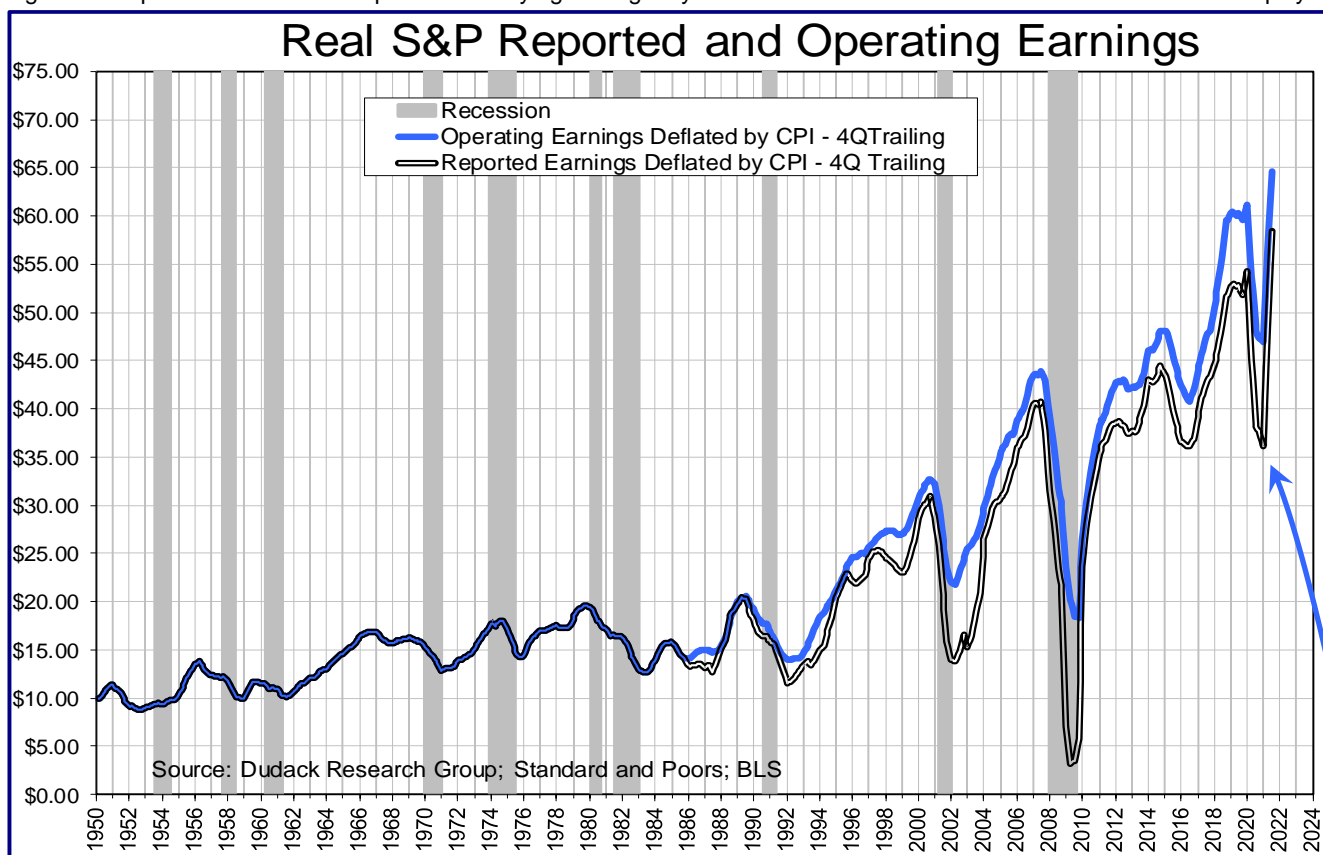
Blue peaks= highest of cycle; Yellow highlight = low is below previous trough; Green = October lows

The SPX began trading at the top of the projected fair value range in 2015, but in early 2020 the index began trading well in excess of the fair value range, practically matching the disparity seen during the 2000 bubble. To a large extent, this was the equity market discounting, or over-discounting, a rebound after the pandemic low.

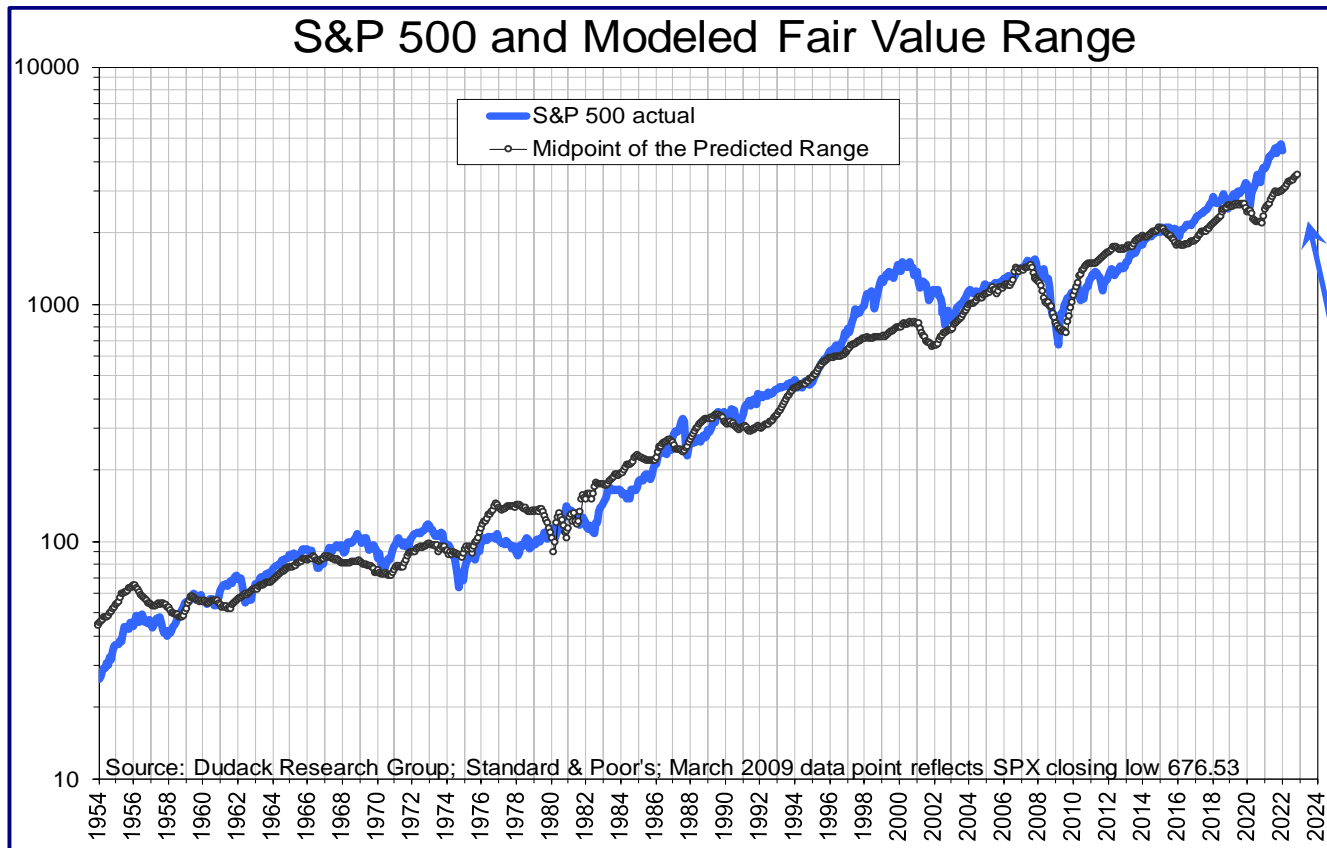
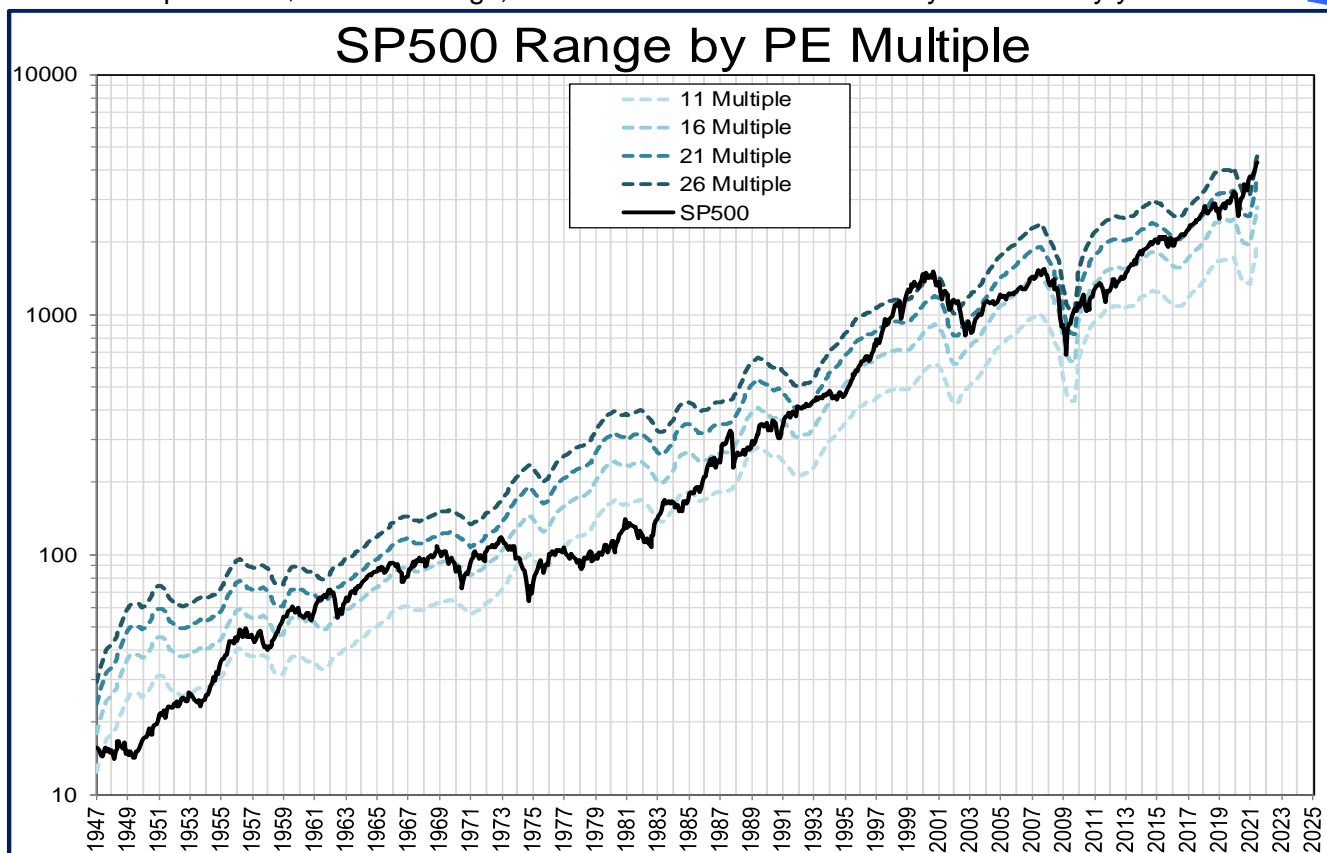




While earnings had a strong rebound off the December 2020 earnings low, inflation also began to rise. Earnings growth is worth less in an inflationary environment and as a result PE multiples should contract. A PE reduction began in 2021; however, inflation soared to 40-year highs and implies much lower multiples. Monetary tightening may escalate. This creates a hostile environment for the equity market.

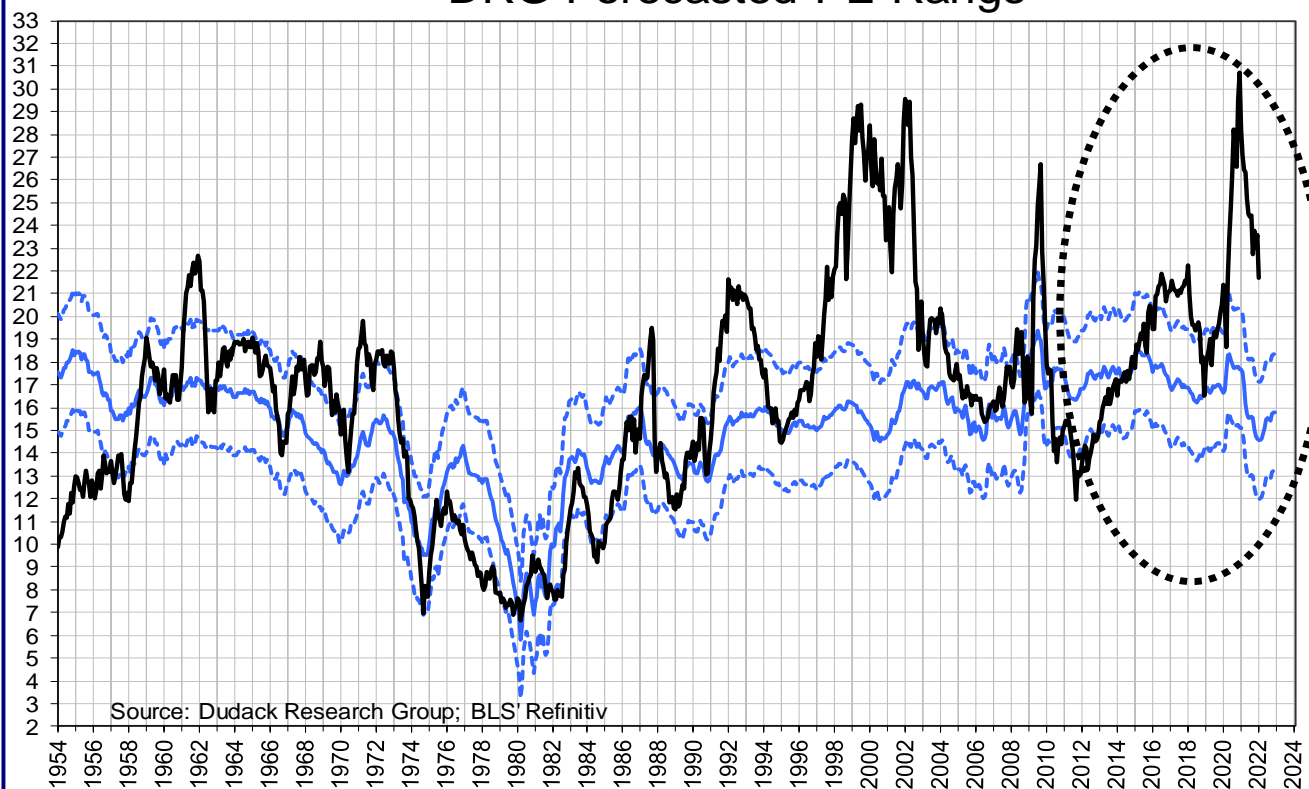


The top chart shows that the trailing PE multiple for the SPX moved well above 26 times for the first time since the 2000 bubble. At present, our model's fair value PE is 15.8 times suggesting a target of SPX 3280 based upon our assumptions of \$220 in earnings, inflation of 4.4% YOY and a 10-year Treasury yield of 2.2%.

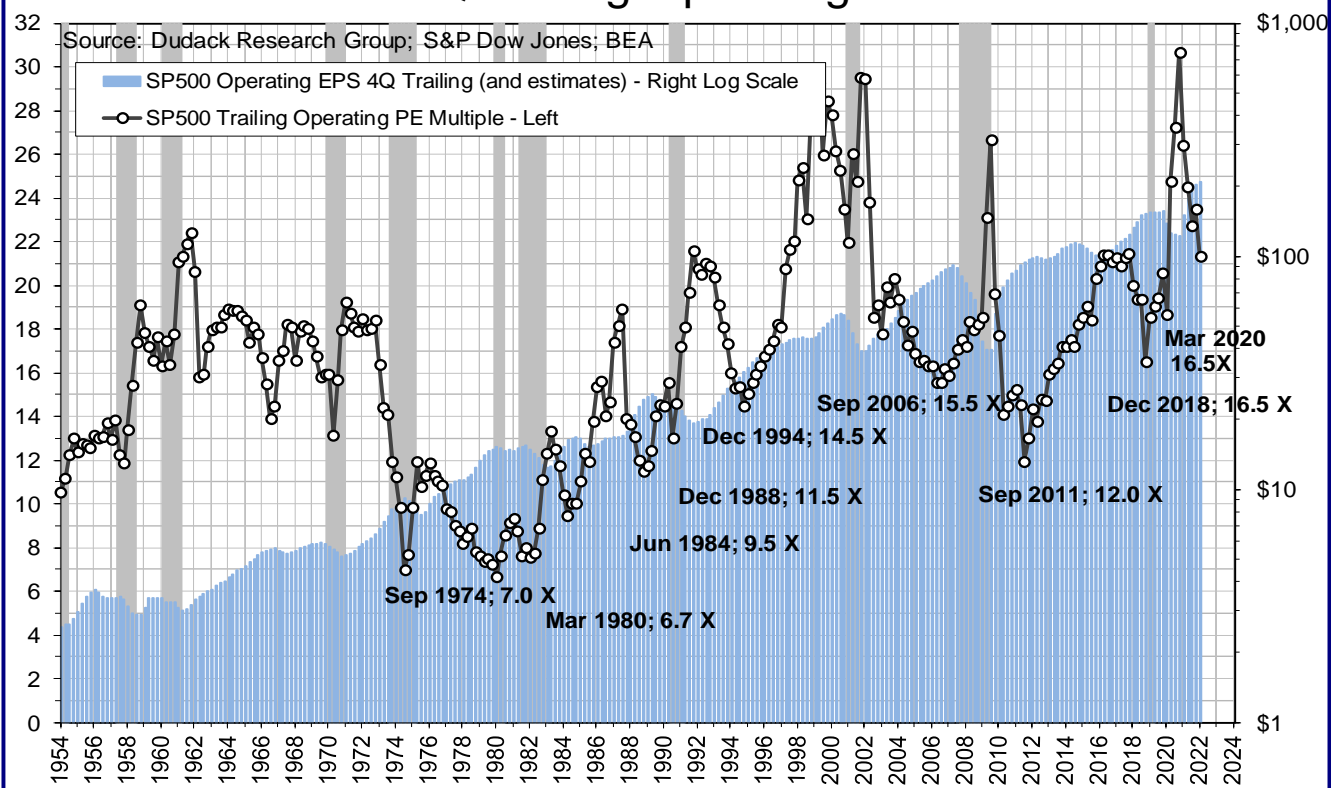


In recent months the trailing PE multiple has been declining and trending toward 20 times, but the rise in inflation has lowered the forecast for the high-end PE from roughly 20 times to 18 times. Note that recent market troughs have materialized with a trailing PE multiple of 16.5 times. Valuation helps to define downside risk.

## DRG Forecasted PE Range

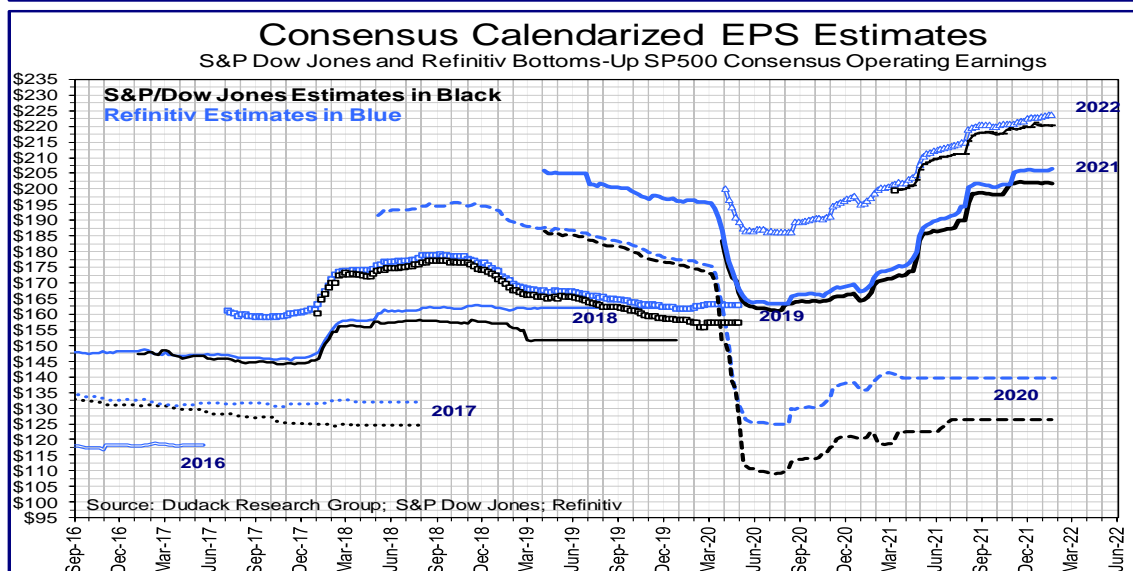
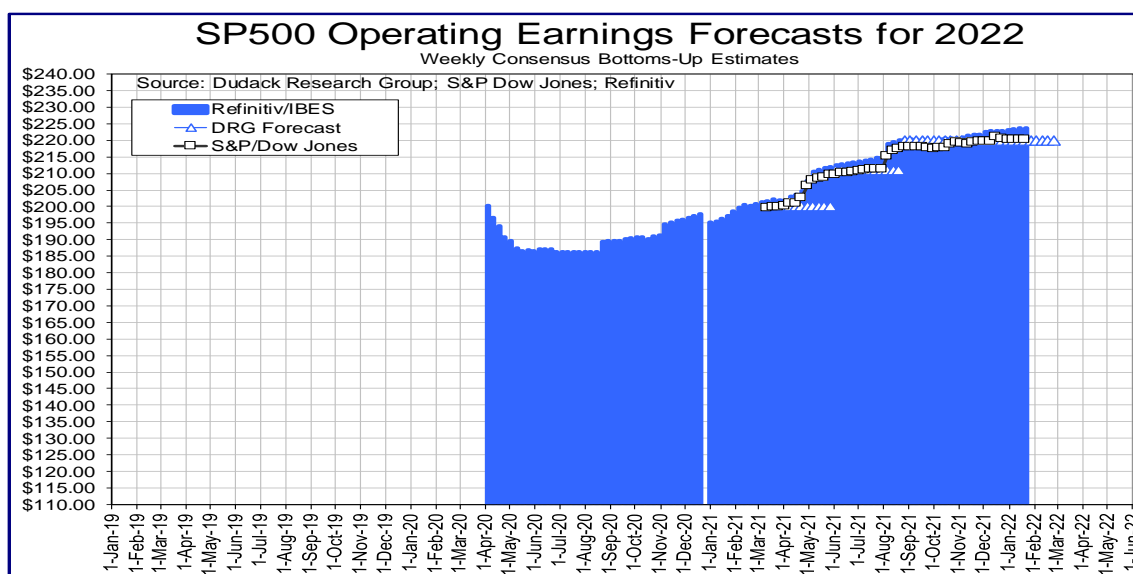
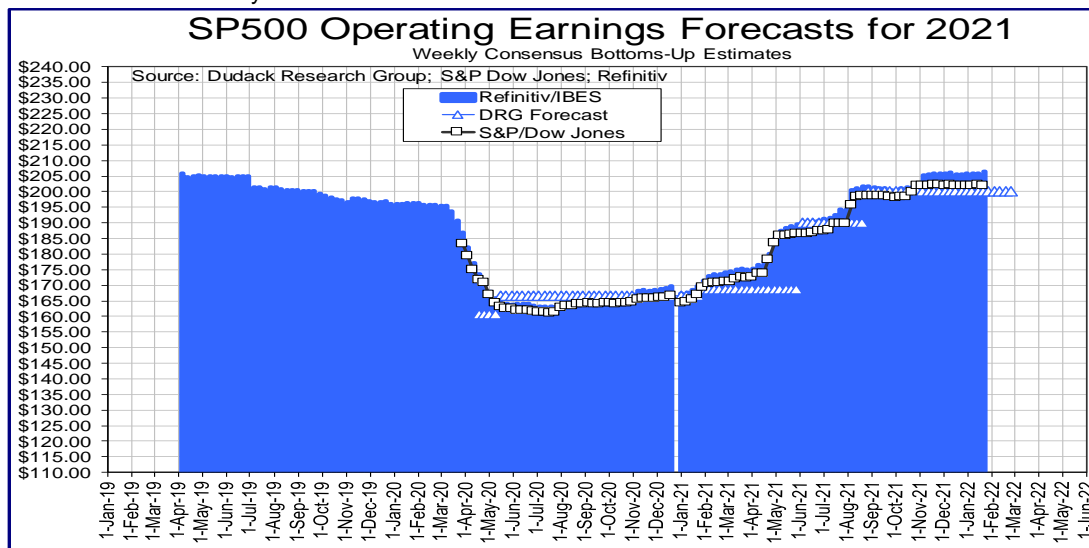


## SP500 4Q Trailing Operating EPS and PE



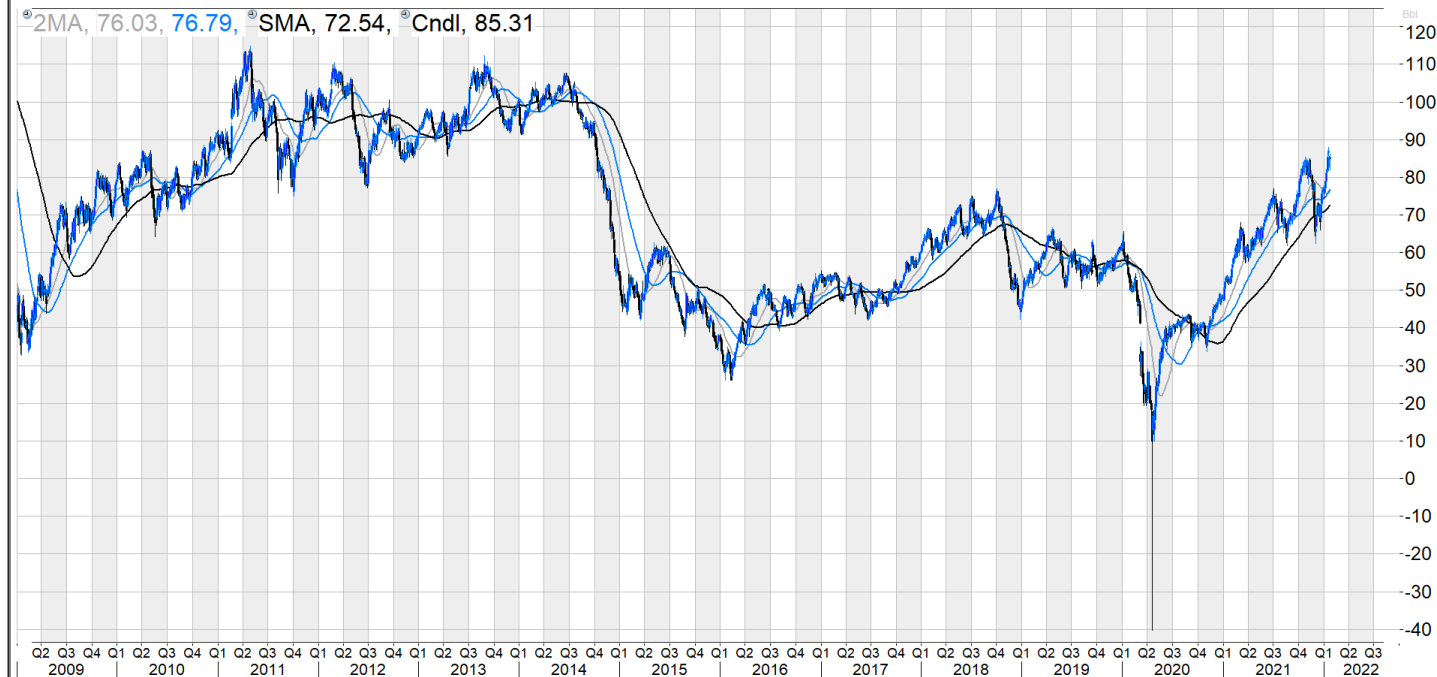


IBES Refinitiv and S&P Dow Jones earnings estimates for 2021 did not move much but moved in opposite directions this week. The IBES estimate of \$206.41 is up \$0.43 and the S&P estimate of \$201.85 fell \$0.29. For 2022, estimates fell to \$223.61 and \$220.11, respectively. The IBES and S&P Dow Jones earnings growth rates for 2022 are 8.3% YOY and 9.0% YOY, respectively. Our DRG estimate for 2022 is \$220, a 10% YOY increase but only because our 2021 estimate is lower than consensus.



The media continues to focus on the Fed, but the real problem for 2022 is inflation and the fact that higher prices are not going to disappear quickly. WTI crude futures recently broke out to an 8-year high and gasoline futures are apt to be next in line. This is a bullish breakout with upside targets of \$90, \$100, and \$110. In sum, inflation will be higher in the months ahead.

### LIGHT CRUDE MAR2



### NY RBOB FEB2



Source: Refinitiv

The popular indices have different chart characteristics this week, with the SPX looking best since it remains above its 200-day moving average. The DJIA is second best, and though it is below its 200-day MA, the moving averages have not crossed each other. The IXIC is the weakest of this grouping and the 50-day MA is at risk of falling below the 100-day MA, but still well above the 200-day MA. However, we are not comforted by this.

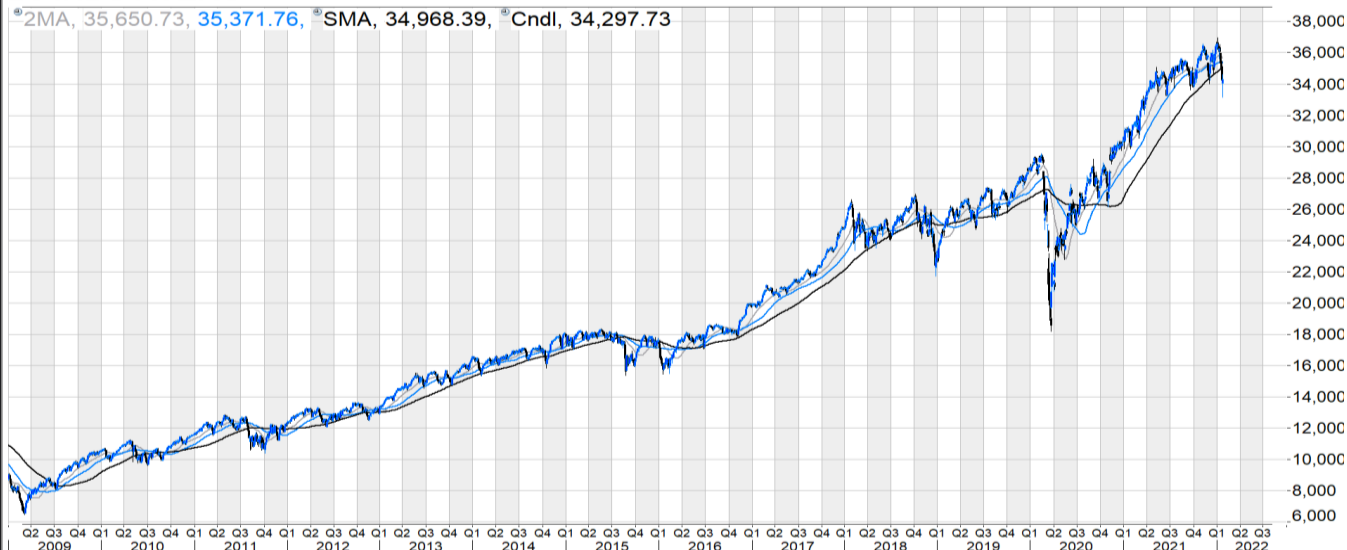
### S&P 500 INDEX

\*2MA, 4,654.94, **4,572.20**, \*SMA, 4,431.69, \*CndI, 4,356.45



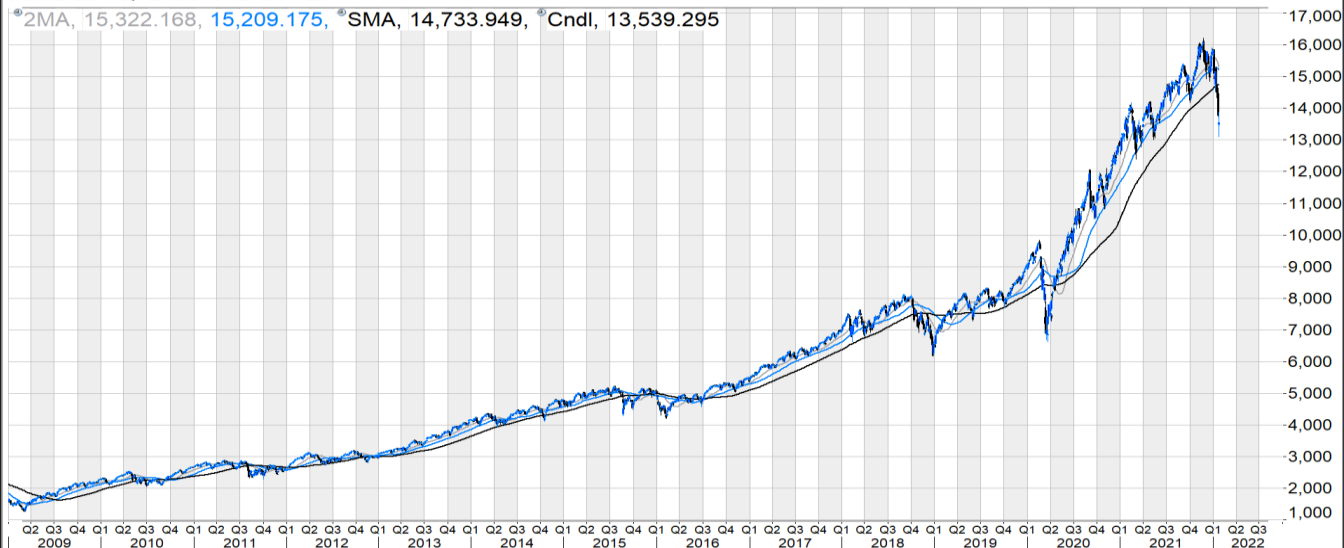
### DJ INDU AVERG

\*2MA, 35,650.73, **35,371.76**, \*SMA, 34,968.39, \*CndI, 34,297.73



### NASDAQ COMPOSITE

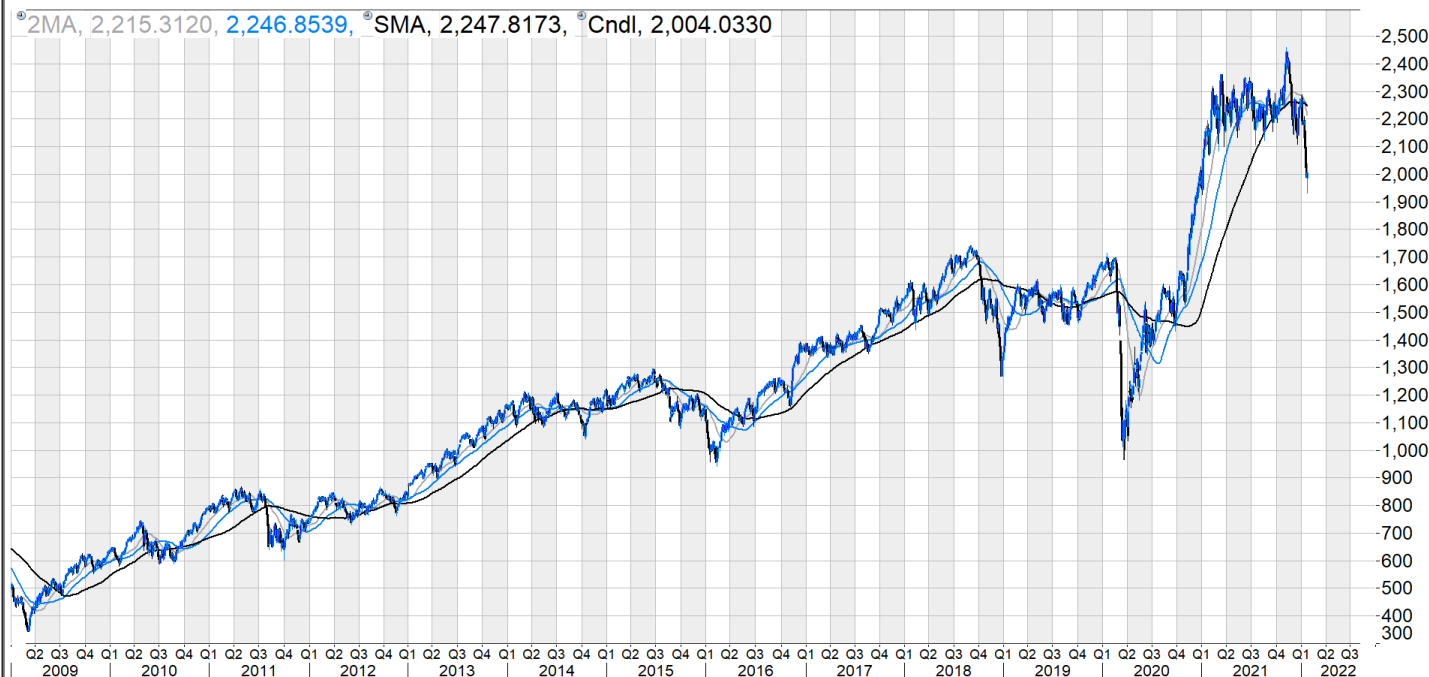
\*2MA, 15,322.168, **15,209.175**, \*SMA, 14,733.949, \*CndI, 13,539.295



Source: Refinitiv

The Russell 2000 index has been our bellwether index for the market and as we noted last week, its chart is very bearish. The 50-day MA has broken below all other moving averages and more importantly, the RUT broke below the 8-month trading range that contained most of 2021 trading action. There is no support in the chart prior to 1700. Ironically, AMZN, which is not in the RUT index, has a very similar negative chart pattern.

### RUSSELL 2000 IND



### AMAZON COM



Source: Refinitiv

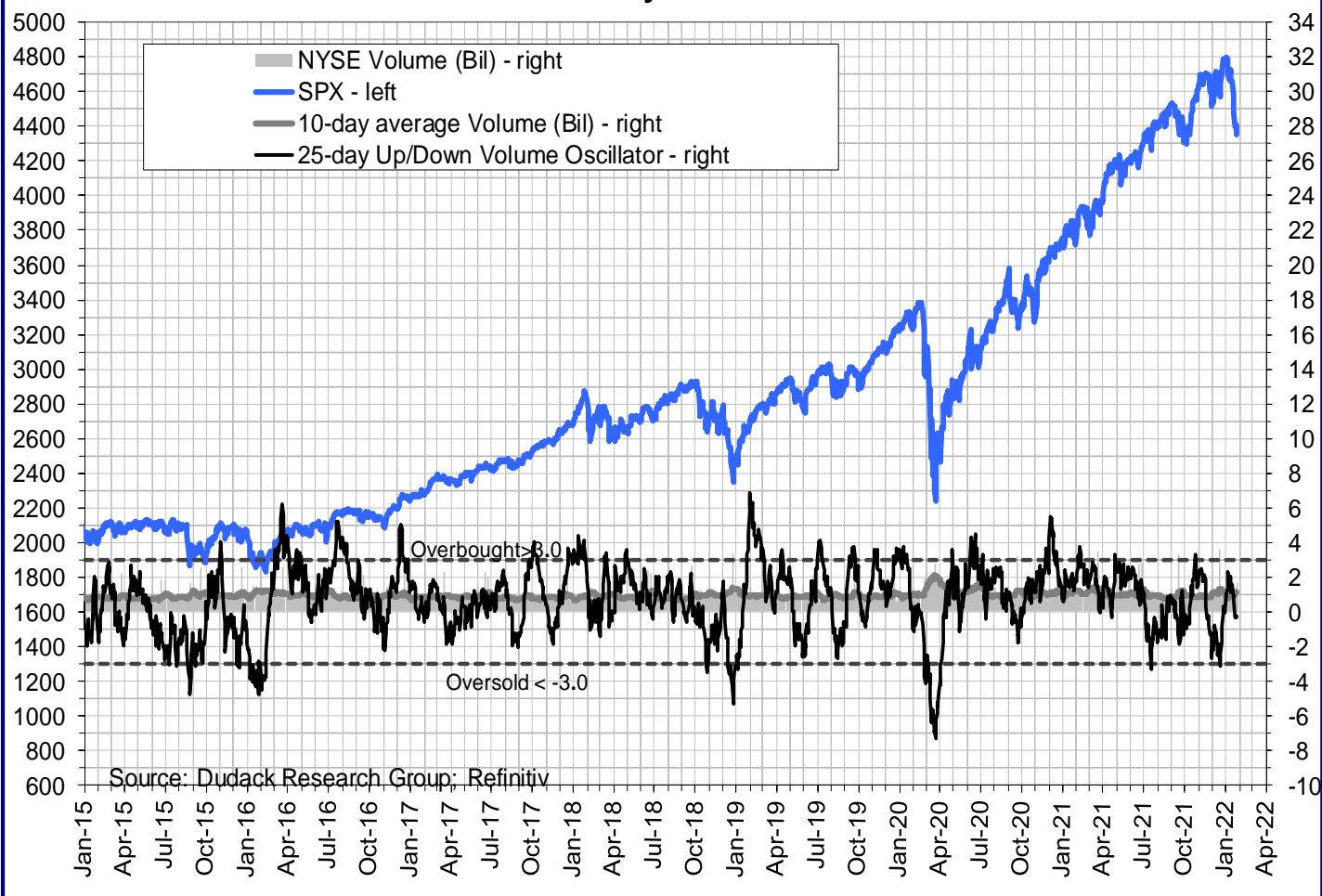
The 25-day up/down volume oscillator is negative 0.21 this week and below the midpoint of the neutral range.

This oscillator had a one-day oversold reading on December 20. Had this indicator recorded five consecutive days in oversold, after failing to record overbought readings at recent record highs, it would have signaled a major shift in trend. This signal was avoided; but the oscillator did not confirm the recent highs in the indices.

The absence of overbought readings since February 2021, coupled with a one-day oversold reading on July 19 revealed that the advance has not been supported by solid or consistent buying pressure between February and November.

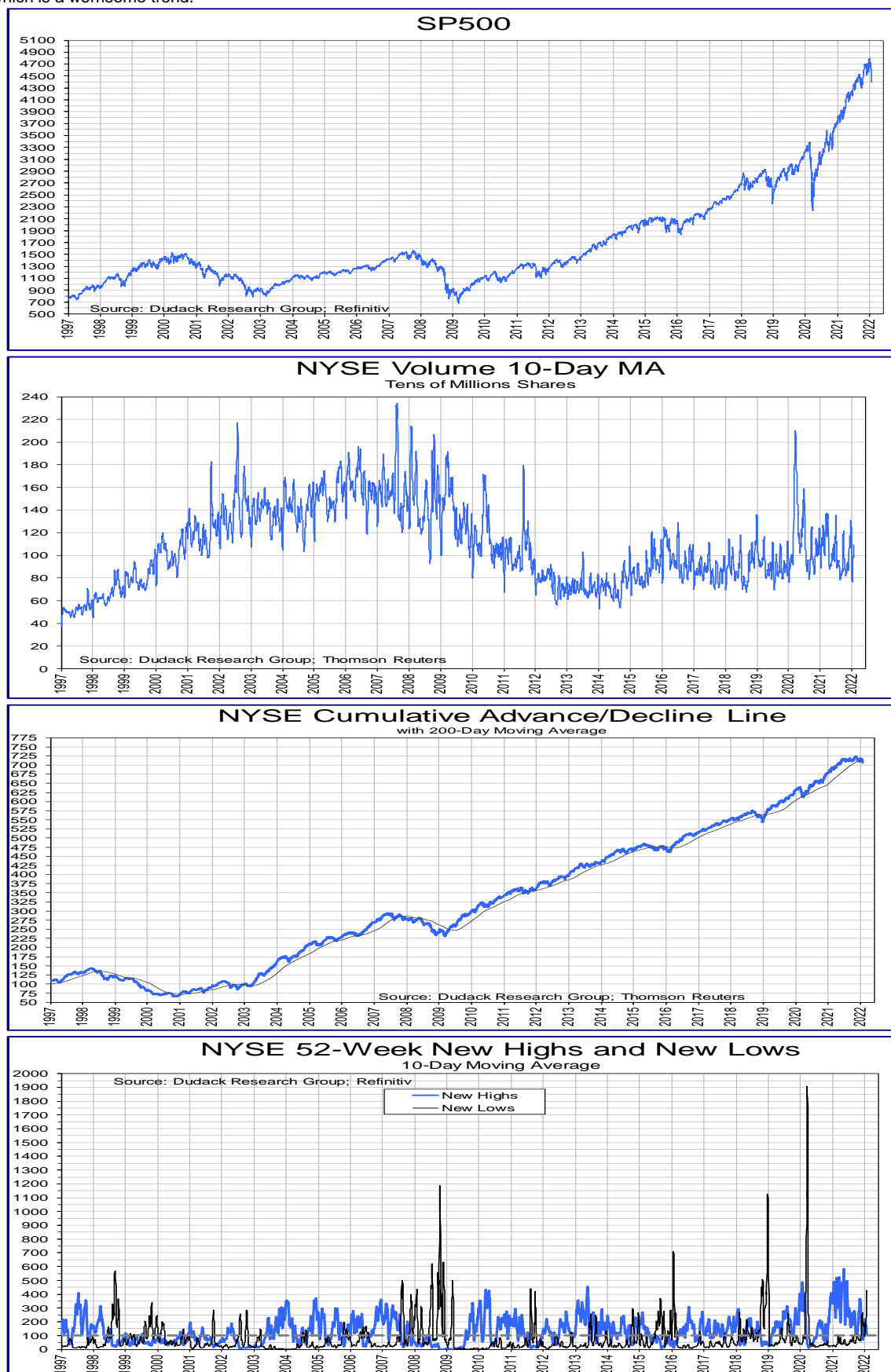
*This 25-day up/down volume oscillator measures buying and selling momentum. New highs should be accompanied by strong and consistent buying pressure which results in long and sometimes extreme overbought readings. An absence of overbought readings at a new high reveals a weakness in the trend and is a sign of waning demand and/or investors selling into strength. Conversely, significant lows are often accompanied by panic selling. For example, an extreme oversold reading in this indicator, followed by a shallower oversold reading despite a new low in price indicates that selling pressure is fading and the lows are likely in place.*

## SPX and 25-Day Volume Oscillator

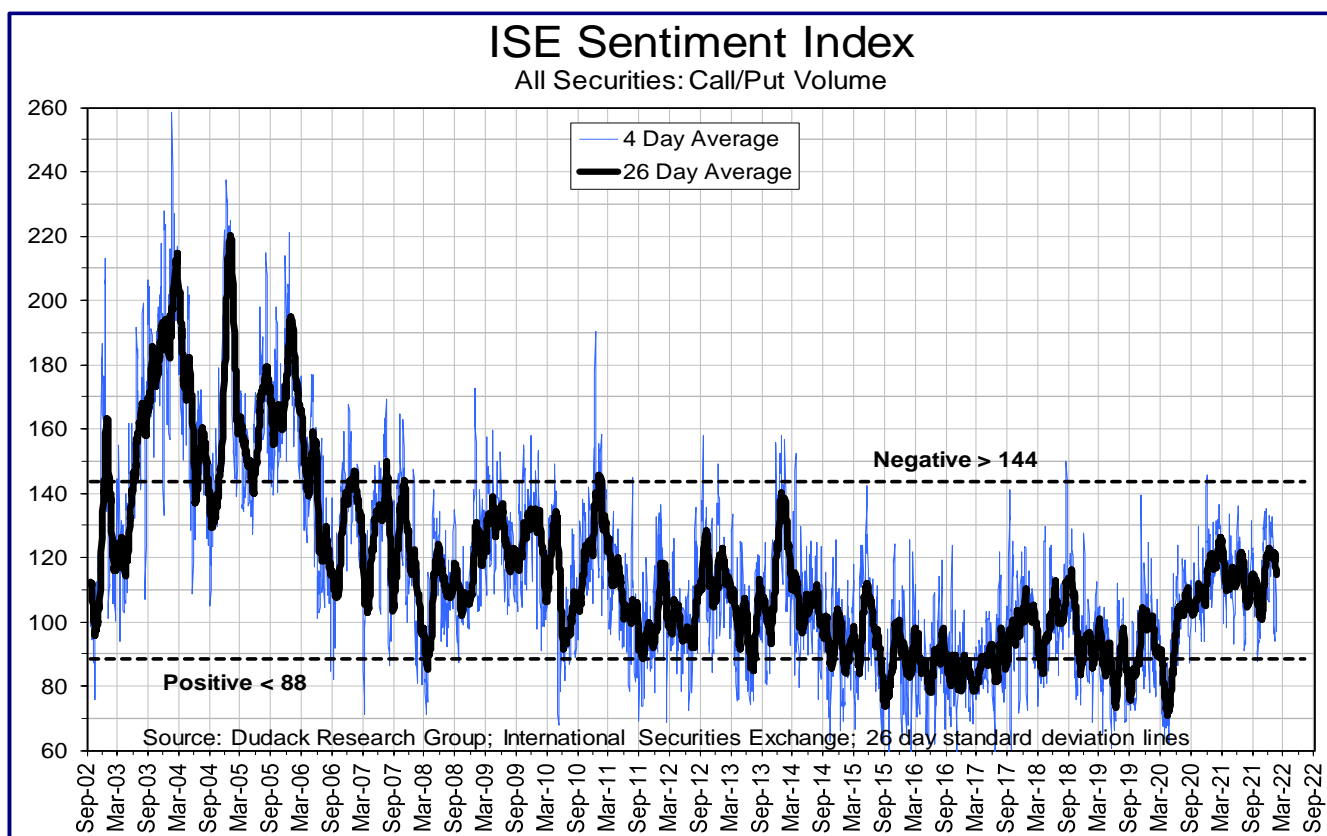
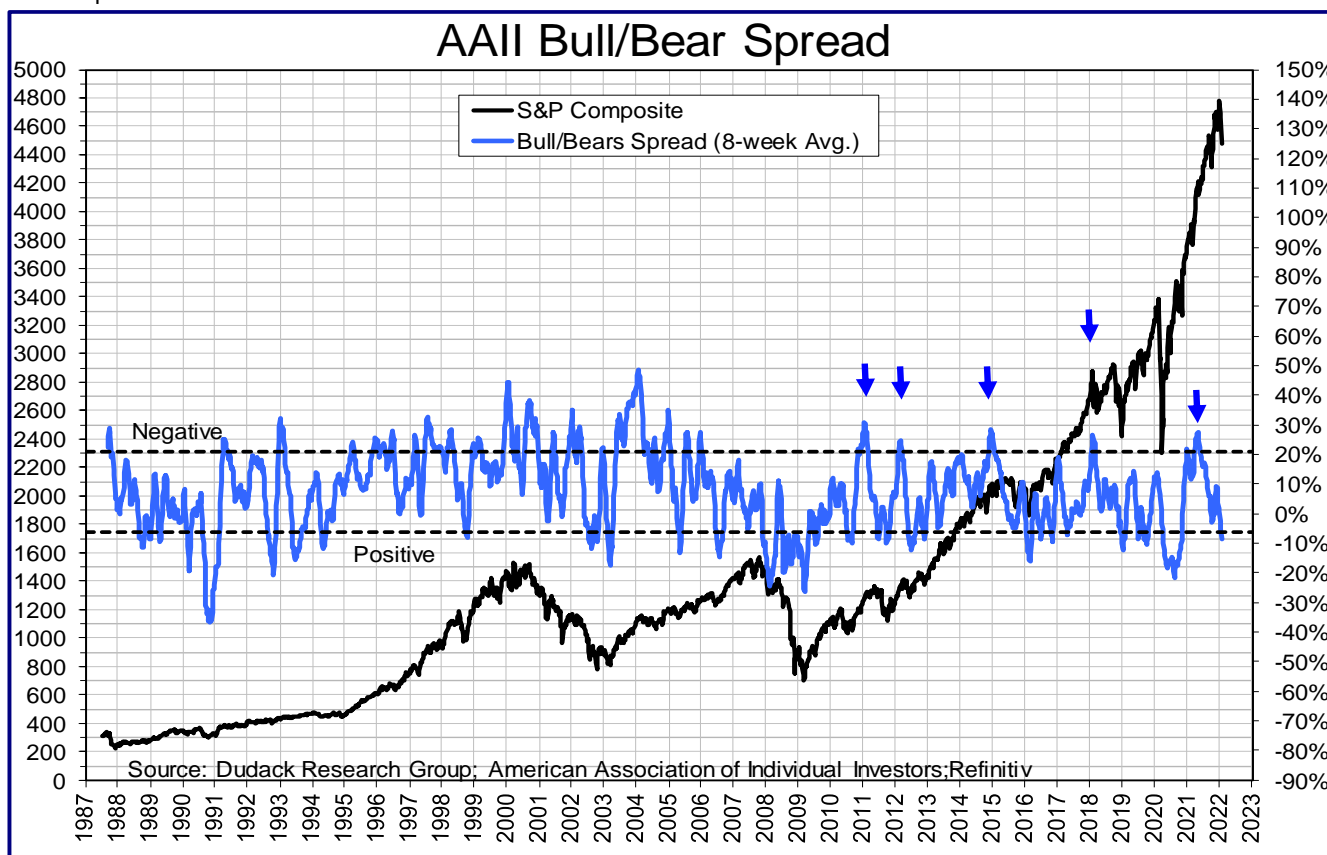




The 10-day average of daily new highs fell to 109 this week and daily new lows rose to 415. This combination of both averages above 100 per day is neutral, but tilts negative. The A/D line's last record high was on November 8, 2021 and it is trading well below this level currently. Volume has not been rising on declines, which is a worrisome trend.



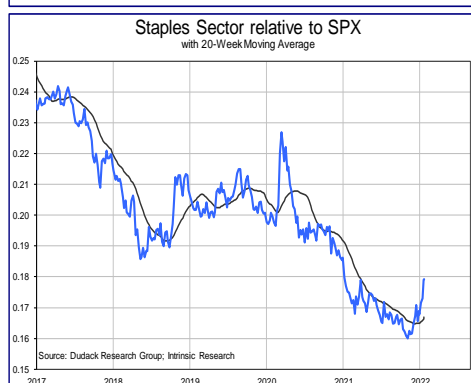
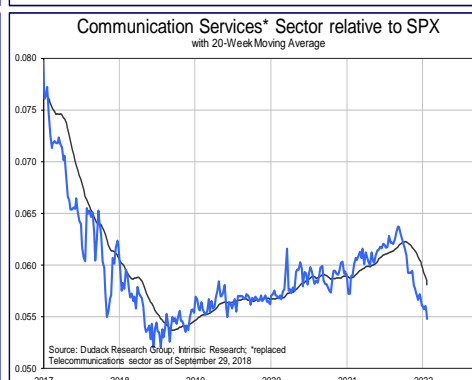
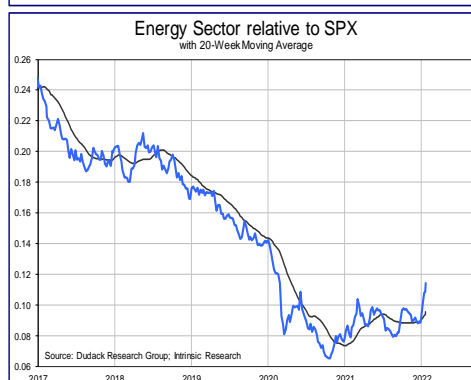
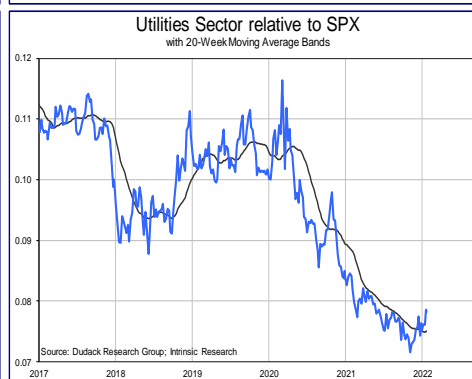
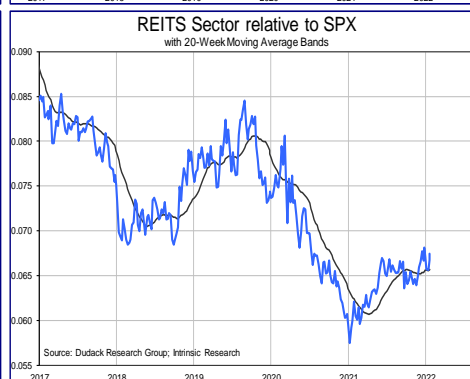
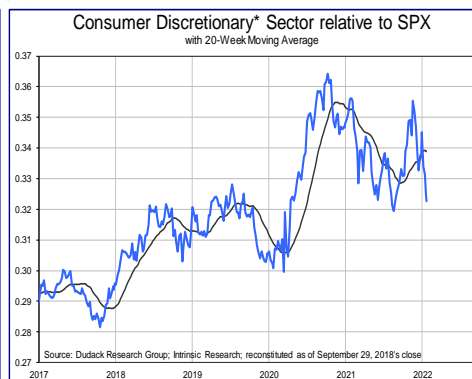
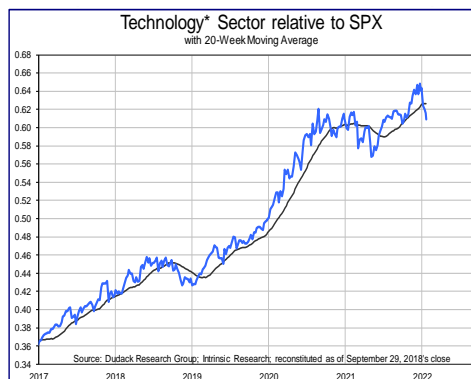
Bullish sentiment declined 3.9 points this week to 21.0% and below the historical average of 38.0% for the 9<sup>th</sup> consecutive week. Bearish sentiment rose 8.4 points to 46.7% and is above the historical average of 30.5% for the 9<sup>th</sup> consecutive week. The AAI bull/bear spread index shifted positive for the first time since October 2020. The ISE Sentiment index remains neutral.



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

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

12/15/2021: Energy upgraded from under to over weight; Staples upgraded from neutral to over weight; Healthcare and Industrials downgraded from over weight to neutral; Materials downgraded from neutral to under weight.



2022 Performance - Ranked	
SP500 Sector	% Change
S&P ENERGY	17.9%
S&P FINANCIAL	-1.6%
S&P CONSUMER STAPLES	-3.0%
S&P INDUSTRIALS	-4.8%
S&P UTILITIES	-6.2%
S&P MATERIALS	-8.1%
S&P 500	-8.6%
S&P HEALTH CARE	-9.1%
S&P REITS	-9.6%
S&P COMMUNICATIONS SERVICES	-10.7%
S&P CONSUMER DISCRETIONARY	-12.7%
S&P INFORMATION TECH	-13.1%

Source: Dudack Research Group; Refinitiv; Monday closes

## GLOBAL MARKETS AND COMMODITIES - RANKED BY 2022 TRADING PERFORMANCE

Index/EFT	Symbol	Price	5-Day%	20-Day%	QTD%	YTD%
iShares DJ US Oil Eqpt & Services ETF	IEZ	15.81	2.1%	21.2%	22.7%	22.7%
Energy Select Sector SPDR	XLE	65.31	0.8%	19.0%	17.7%	17.7%
Oil Future	CLc1	85.60	0.2%	16.0%	13.8%	13.8%
United States Oil Fund, LP	USO	60.97	0.0%	14.8%	12.2%	12.2%
iShares MSCI Brazil Capped ETF	EWZ	30.39	5.2%	9.5%	8.3%	8.3%
iShares MSCI Hong Kong ETF	EWK	24.23	2.7%	4.9%	4.5%	4.5%
iShares China Large Cap ETF	FXI	37.69	0.0%	2.9%	3.0%	3.0%
iShares Silver Trust	SLV	22.96	1.5%	4.1%	2.5%	2.5%
SPDR S&P Bank ETF	KBE	55.82	-5.7%	3.2%	2.3%	2.3%
iShares MSCI United Kingdom ETF	EWU	33.59	-2.4%	2.1%	1.4%	1.4%
SPDR Gold Trust	GLD	172.58	1.9%	2.1%	0.9%	0.9%
Gold Future	GCc1	2229.10	0.2%	1.0%	0.7%	0.7%
SPDR Communication Services ETF	XLC	56.15	0.0%	0.0%	0.0%	0.0%
Silver Future	Slc1	18.54	0.0%	0.0%	0.0%	0.0%
iShares MSCI BRIC ETF	BKF	44.23	-1.3%	-0.8%	-1.2%	-1.2%
iShares MSCI Emerg Mkts ETF	EEM	48.22	-2.0%	-1.0%	-1.3%	-1.3%
Financial Select Sector SPDR	XLF	38.47	-3.6%	-0.9%	-1.5%	-1.5%
iShares MSCI Singapore ETF	EWS	21.05	-1.5%	-0.1%	-1.6%	-1.6%
iShares MSCI India ETF	INDA.K	45.06	-5.0%	-0.1%	-1.7%	-1.7%
iShares MSCI Canada ETF	EWC	37.57	-3.8%	-1.0%	-2.2%	-2.2%
Consumer Staples Select Sector SPDR	XLP	74.87	-1.4%	-0.5%	-2.9%	-2.9%
iShares MSCI Austria Capped ETF	EWO	24.69	-6.1%	-3.1%	-3.0%	-3.0%
iShares iBoxx \$ Invest Grade Corp Bond	LQD	128.14	0.2%	-3.4%	-3.3%	-3.3%
iShares MSCI Taiwan ETF	EWT	64.35	-3.5%	-2.1%	-3.4%	-3.4%
Vanguard FTSE All-World ex-US ETF	VEU	59.19	-3.1%	-3.0%	-3.4%	-3.4%
iShares MSCI Malaysia ETF	EWM	24.08	-2.8%	-0.9%	-3.8%	-3.8%
iShares Russell 1000 Value ETF	IWD	161.35	-3.4%	-2.6%	-3.9%	-3.9%
iShares MSCI Japan ETF	EWJ	64.30	-2.8%	-4.6%	-4.0%	-4.0%
iShares 20+ Year Treas Bond ETF	TLT	142.22	1.5%	-4.2%	-4.0%	-4.0%
iShares MSCI Germany ETF	EWG	31.41	-4.0%	-3.7%	-4.2%	-4.2%
iShares MSCI EAFE ETF	EFA	75.12	-3.5%	-4.3%	-4.5%	-4.5%
Industrial Select Sector SPDR	XLI	100.78	-3.7%	-3.0%	-4.8%	-4.8%
iShares MSCI Mexico Capped ETF	EWX	48.05	-4.9%	-3.4%	-5.0%	-5.0%
SPDR DJIA ETF	DIA	342.96	-3.1%	-4.6%	-5.6%	-5.6%
DJIA	.DJI	34297.73	-3.0%	-4.6%	-5.6%	-5.6%
Shanghai Composite	.SSEC	3433.06	-3.8%	-5.8%	-5.7%	-5.7%
iShares Russell 2000 Value ETF	IWN	156.34	-3.8%	-5.1%	-5.8%	-5.8%
Utilities Select Sector SPDR	XLU	67.11	-2.1%	-3.7%	-6.2%	-6.2%
iShares MSCI Australia ETF	EWA	23.19	-4.1%	-7.2%	-6.6%	-6.6%
iShares US Telecomm ETF	IYZ	30.46	-4.2%	-7.2%	-7.4%	-7.4%
iShares MSCI South Korea Capped ETF	EWY	72.03	-3.9%	-8.6%	-7.5%	-7.5%
Materials Select Sector SPDR	XLB	83.33	-4.9%	-5.6%	-8.0%	-8.0%
<b>SP500</b>	<b>.SPX</b>	<b>4356.45</b>	<b>-4.8%</b>	<b>-7.8%</b>	<b>-8.6%</b>	<b>-8.6%</b>
iShares Russell 1000 ETF	IWB	240.71	-4.8%	-8.3%	-9.0%	-9.0%
Health Care Select Sect SPDR	XLV	128.21	-3.0%	-8.0%	-9.0%	-9.0%
iShares US Real Estate ETF	IYR	105.06	-3.0%	-6.5%	-9.5%	-9.5%
iShares Russell 2000 ETF	IWM	198.84	-4.3%	-10.4%	-10.6%	-10.6%
SPDR S&P Retail ETF	XRT	80.68	-1.4%	-9.1%	-10.6%	-10.6%
Consumer Discretionary Select Sector SPDR	XLY	179.50	-6.9%	-11.7%	-12.2%	-12.2%
Technology Select Sector SPDR	XLK	151.54	-6.3%	-12.4%	-12.8%	-12.8%
Nasdaq Composite Index Tracking Stock	ONEQ.O	52.81	-6.8%	-13.4%	-13.3%	-13.3%
NASDAQ 100	NDX	14149.12	-7.0%	-13.2%	-13.3%	-13.3%
iShares Russell 1000 Growth ETF	IWF	264.03	-6.2%	-13.4%	-13.6%	-13.6%
SPDR Homebuilders ETF	XHB	73.77	-3.7%	-11.5%	-14.0%	-14.0%
PowerShares Water Resources Portfolio	PHO	51.99	-4.6%	-12.3%	-14.5%	-14.5%
iShares Russell 2000 Growth ETF	IWO	247.75	-5.0%	-15.8%	-15.5%	-15.5%
iShares Nasdaq Biotechnology ETF	IBB.O	127.59	-4.4%	-17.5%	-16.4%	-16.4%
SPDR S&P Semiconductor ETF	XSD	194.10	-10.3%	-19.4%	-20.2%	-20.2%

Outperformed SP500  
Underperformed SP500

Source: Dudack Research Group; Thomson Reuters

Priced as of January 25, 2022

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	1.8%	2.2%	\$1,960.10	16.2%
2020	3756.07	\$94.14	\$122.38	\$122.38	-22.1%	\$139.72	-14.2%	30.7X	1.6%	-3.5%	\$1,951.80	-0.4%
2021E	~~~~~	\$193.27	\$202.77	\$202.12	65.2%	\$206.41	47.7%	23.5X	1.3%	NA	\$1,834.70	-6.0%
2022E		\$213.96	\$221.25	\$220.00	8.8%	\$223.61	8.3%	19.7X	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%	-5.1%	\$1,924.00	7.4%
2020 2Q	3100.29	\$17.83	\$26.79	\$26.79	-33.3%	\$27.98	-32.3%	24.7	1.9%	-31.2%	\$1,701.50	-8.4%
2020 3Q	3363.00	\$32.98	\$37.90	\$37.90	-4.8%	\$38.69	-8.2%	27.3	1.7%	33.8%	\$2,135.10	8.7%
2020 4Q	3756.07	\$31.45	\$38.19	\$38.19	-2.5%	\$42.58	1.4%	30.7	1.6%	4.5%	\$2,111.90	5.7%
2021 1Q	3972.89	\$45.95	\$47.41	\$47.41	143.1%	\$49.13	48.3%	26.4	1.5%	6.3%	\$2,207.70	14.7%
2021 2Q	4297.50	\$48.39	\$52.03	\$52.03	94.2%	\$52.58	87.9%	24.5	1.3%	6.7%	\$2,440.60	43.4%
2021 3QP	4307.54	\$49.59	\$52.02	\$52.02	37.3%	\$53.72	38.8%	22.7	1.4%	2.3%	NA	NA
2021 4QE	4766.18	\$49.34	\$51.31	\$50.66	32.7%	\$51.66	21.3%	23.5	1.3%	NA	NA	NA
2022 1QE*	4356.45	\$49.31	\$51.44	\$55.00	16.0%	\$52.19	6.2%	21.1	NA	NA	NA	NA
2022 2QE		\$52.59	\$54.74	\$55.00	5.7%	\$55.27	5.1%	20.8	NA	NA	NA	NA
2022 3QE		\$54.50	\$57.18	\$55.00	5.7%	\$57.76	7.5%	20.3	NA	NA	NA	NA
2022 4QE		\$57.57	\$57.89	\$55.00	8.6%	\$58.45	13.1%	19.7	NA	NA	NA	NA

Source: DRG; S&amp;P Dow Jones; Refinitiv Consensus estimates; \*\*quarterly EPS may not sum to official CY estimates

1/25/2022



### Regulation AC Analyst Certification

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##### **Main Office:**

Wellington Shields & Co. LLC

140 Broadway

New York, NY 10005

212-320-3511

Research Sales: 212-320-2046

##### **Florida office:**

549 Lake Road

Ponte Vedra Beach, FL 32082

212-320-2045