



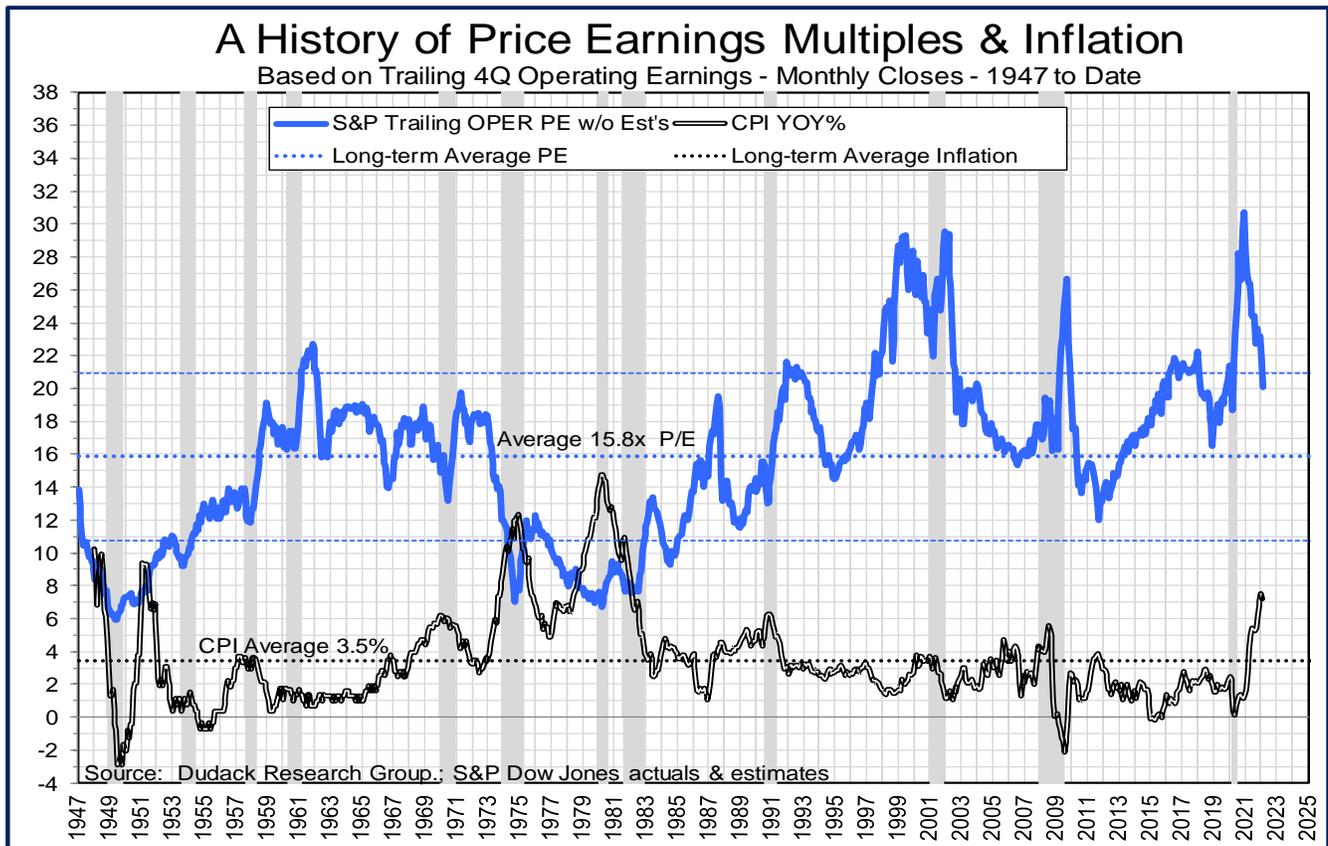
Direct from Dudack Downside Risk Guidance

SUMMARY

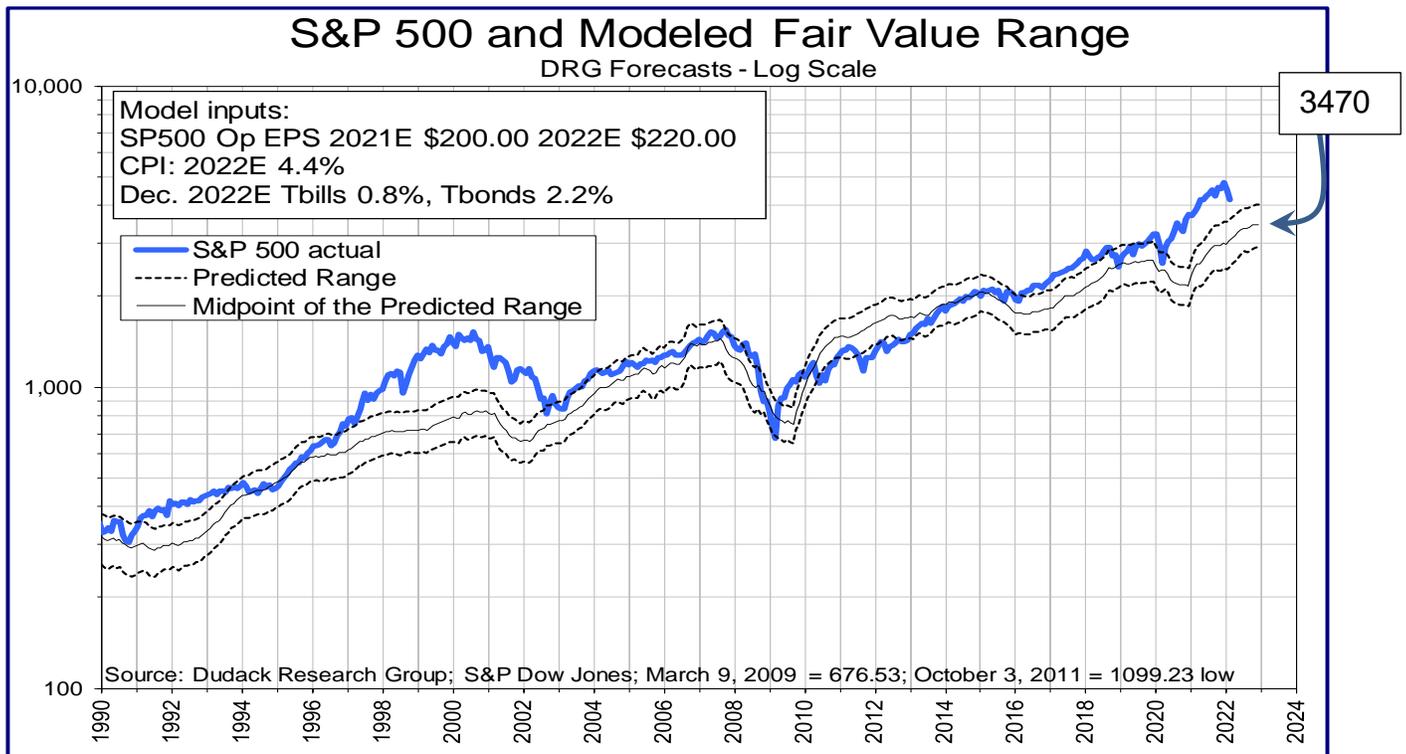
From both a technical and fundamental perspective there are two areas of downside risk/support for the equity market. The first of these is roughly the SPX 4000 area which is being challenged this week. However, all lows tend to be retested and are often broken temporarily. The second area of support identified by fundamental and technical measures falls within a range of SPX 3470-3700. This implies a fall below SPX 3700 would be a favorable/low risk entry point. The fallout of the Russian invasion of Ukraine could be known within a matter of days, however there is also the possibility that China may take advantage of the geopolitical scene to make moves on Taiwan. Therefore, identifying these short and longer-term entry points in advance is prudent. In the near-term the energy, financial, and staples sectors are favored. Defense stocks are also apt to do well given the risk of war in Europe. Longer term we see this sell-off as a great opportunity to buy technology at “value” levels.

VALUATION

When inflation is above its long-term average of 3.5%, it is normal for PE multiples to fall to their long-term average of 15.8 times or lower. Applying a 15.8 multiple to our \$220 earnings estimate for 2022 equates to a downside of **SPX 3476**, or the SPX 3500 area.



Our valuation model suggests an average PE of 15.8 for 2022 and a range of 13.2 to 18.3 times, assuming inflation falls to 4.4% this year. Inflation is questionable with crude oil at \$100 a barrel. However, these PE multiples couple with our \$220 earnings forecast equate to an SPX low, mid, and high range of **2905, 3470, and 4035**.



The head and shoulders top has broken the neckline support and now generates downside targets of roughly **SPX 4000 and 3700**. More specifically, the neckline at SPX 4222, less the 574 points to the record high of SPX 4796.56 yields a full downside count of **SPX 3648** and a midpoint count of **SPX 3844**.



Regulation AC Analyst Certification

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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

Other Disclosures

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