Dudack Research Group
A Division of Wellington Shields & Co. LLC Member NYSE, FINRA & SIPC
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DJIA: 34946.39
SPX: 4437.86
NASDAQ: 13631.05

US Strategy Weekly

Global Banking Sector Angst

In last week's US STRATEGY WEEKLY (*Things to Ponder*; August 8, 2023), we wrote "*we do believe the recent rally is fragile since it has been driven by the new consensus view that the economy will have a soft landing or no landing. This view is coupled with the belief that there is no interest rate hike in September. We think the Fed will hike in September, unless economic data becomes very weak in the interim. What is clear is that this week's CPI and PPI reports will be center stage and could be market moving*." In truth, there was not a big reaction to last week's CPI report. See page 3. But the PPI report, which showed intermediate service sector inflation rose from June's 4.4% YOY to 4.6% YOY, seemed to make investors anxious. And in a market priced for perfection, any unpleasant or unexpected news will make equities vulnerable.

There were a few other developments this week. Chinese economic reports for industrial production, retail sales, and property investment were weaker than expected. More importantly, the combination of this data reflected an economy that is potentially faltering. The PBOC responded by lowering key interest rates by 15 basis points. Yet the real concern is China's real estate sector, which is estimated to represent as much as 30% of China's GDP, and which has already weathered a string of defaults by residential property developers. This week the focus is on Country Garden Holdings Co. Ltd. (2007.HK: 0.81), a giant Chinese real estate developer that is expected to deliver nearly a million apartments in hundreds of cities throughout China. Unfortunately, Country Garden has not been paying its bills, indicated it would report a loss of as much as $7.6 billion in the first six months of the year, and in August skipped two interest payments on loans. A default is possible in September. The big concern is the exposure of China's $3 trillion shadow banking sector to this potential real estate risk, as well as the risk to the broader Chinese economy.

Separately, Russia's central bank raised its key interest rate from 8.5% to 12% to help stop the slide in its currency which has lost more than a third of its value since the beginning of the year. The ruble passed 101 to the US dollar earlier this week and continues to weaken due to capital outflows, big government spending on the Ukraine war, and a shrinking current account surplus as a result of Western sanctions on Russian oil and gas. Inflation reached 7.6% over the past three months, and according to Russia's central bank, inflation is expected to keep rising, noting that the fall in the ruble is adding to the inflation risk.

Closer to home the Fitch Ratings service warned that the agency could downgrade more than a dozen banks, including some major Wall Street lenders. Fitch already lowered the score of the "operating environment" for banks to AA- from AA at the end of June – although this went largely unnoticed. And Fitch's warning comes weeks after Moody's cut the ratings of 10 mid-sized lenders, citing funding risks, weaker profitability, and increased risk from the commercial real estate sector.

RETAIL SALES

Advance estimates for July retail sales showed a month-to-month gain of 0.7% and the May and June estimates were revised from up 0.2% to up 0.3%. This acceleration in retail sales concerned investors who had been expecting a Fed pause, since economic momentum opens the door for a rate hike in September. On a seasonally adjusted basis, retail sales rose 3.2% YOY in July; on a non-seasonally adjusted basis, sales were up 2.5% YOY. However, when adjusting for inflation, real retail & food service sales, based on 1982 dollars, fell 0.1% YOY. See page 5. In other words, despite a month-to-month acceleration in sales, real YOY retail sales declined and have been negative for nine of the last 10 months. This pattern is a classic sign of an economic recession, not strength. See page 6.

Historically, a negative trend in retail sales is tied in with a decline in nominal GDP and that is true in this cycle as well. On page 7 we show a table that highlights, in red, all the months since January 1968 that have experienced below average retail sales. This table is important because a string of below average sales has always defined a recession and negative real retail sales in any year has also characterized recessions. The current string of "red" is the longest since 2008-2009, and to date, real retail sales are averaging negative 1.3% in 2023. Nonetheless, GDP continues to grow. It is uncanny. Still, we would not describe July's retail sales report as strong.

However, one reason to believe the Fed will keep interest rates higher for longer is that they were so late to address the inflation problem. As seen on page 4, the fed funds rate typically increases ahead of, or in line with, the level of inflation. In this cycle, the Fed was 12 to 18 months behind the inflationary trend. This suggests more work needs to be done. Moreover, while the real fed funds rate has increased to 200+ basis points, it usually reaches 400 basis points in a tightening cycle.

Earnings

The second quarter earnings season is close to ending and as is usual, retail stocks are the last to report. Home Depot Inc. (HD - $332.14) beat the consensus estimate for quarterly earnings per share, and though same-store sales fell 2% YOY this was less than the expected 3.5% decline. The company announced a $15 billion share repurchase program and it reiterated its muted forecast for the year. The company noted caution on the part of consumers towards big-ticket items. Walmart Inc. (WMT - $159.18) is expected to raise its full-year earnings forecast this week when it reports quarterly results. A research report by Stifel, Nicolaus & Company estimates more people plan to shop at Walmart compared to Costco and Target, even though they expect to spend 16% less on back-to-school purchases compared to a year ago. Retail is a sector of winners and losers in this environment.

All in all, earnings season has gone better than expected and the S&P Dow Jones consensus estimates for 2023 and 2024 are currently $219.41 and $244.06, up $2.31, and $1.00, respectively. Refinitiv IBES estimates for 2023 and 2024 are $219.09 and $245.55 up $0.41, and down $0.25, respectively. What is notable is that S&P Dow Jones and Refinitiv IBES are both showing a $219 estimate for this year. These two surveys tend to diverge in the second half of the year. Nevertheless, based on this year's earnings estimate of $219.41, equities remain overvalued with a PE of 20.2 times. The 12-month forward operating earnings PE is 19.0 times, and the December 2024 PE is 18.1 times. When we add inflation of 3.2% to these PE multiples, we get 23.2, 22.2, and 21.2. All of these sums hover just under the 23.8 range that defines an extremely overvalued equity market. This is what explains the market's nervousness.

Technicals are Slipping

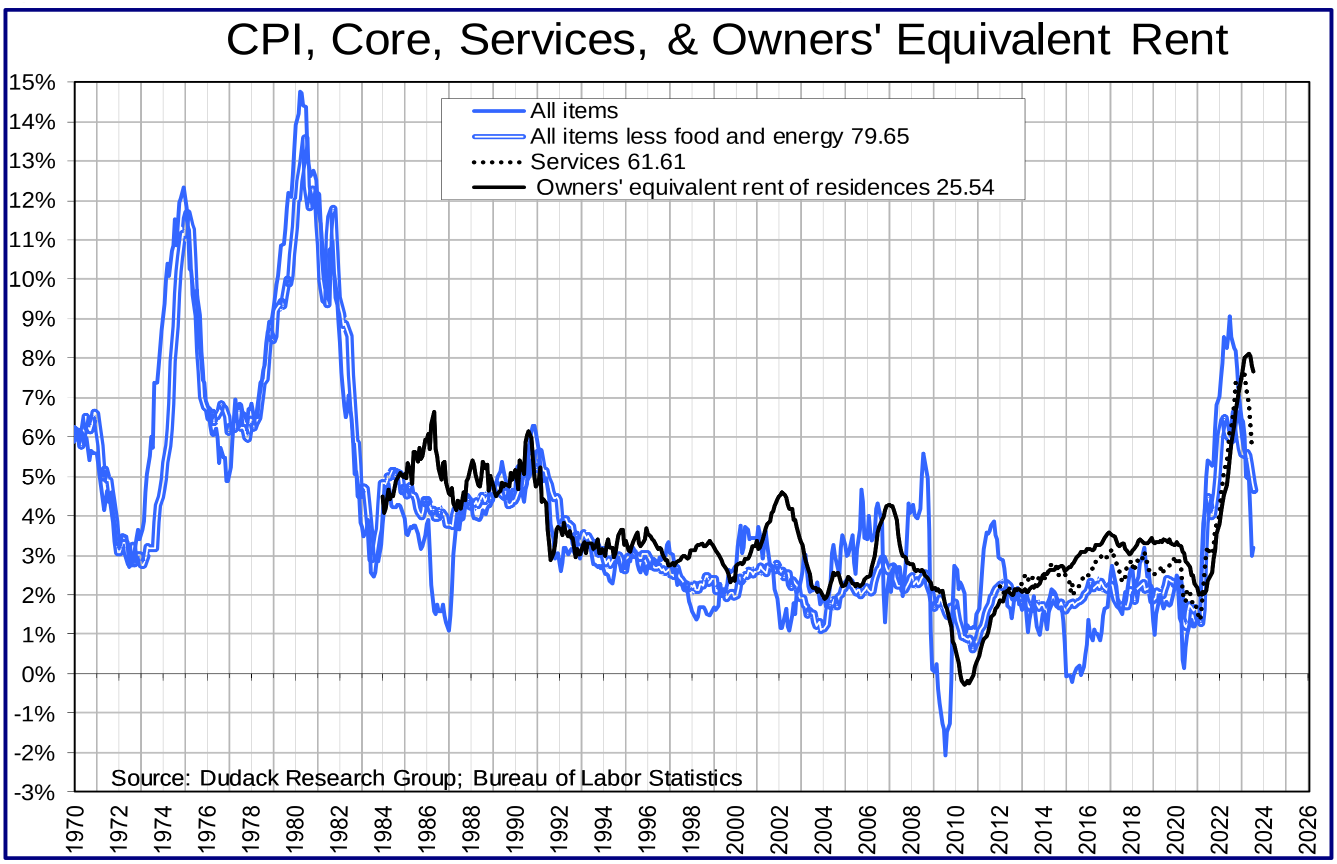
The S&P 500, Nasdaq Composite, and Russell 2000 are all trading below their 50-day moving averages, a key level for some traders. However, the RUT, a useful benchmark for the last 18 months, failed to break above the 2000 resistance level in July, implying that the recent rally was simply part of a much larger neutral trading range. See page 9.

The 25-day up/down volume oscillator is at a negative 0.51 reading this week and neutral. The oscillator generated overbought readings in 10 of 22 trading sessions ending August 1, but failed to remain overbought for the minimum of five consecutive trading days required to confirm the advance. This week the 10-day average of daily new highs fell to 88 and new lows rose to 75. This combination turned positive on June 8 when new highs rose above 100 and new lows fell below 100 but it turned neutral this week with both averages now below 100. In short, upside momentum appears broken.

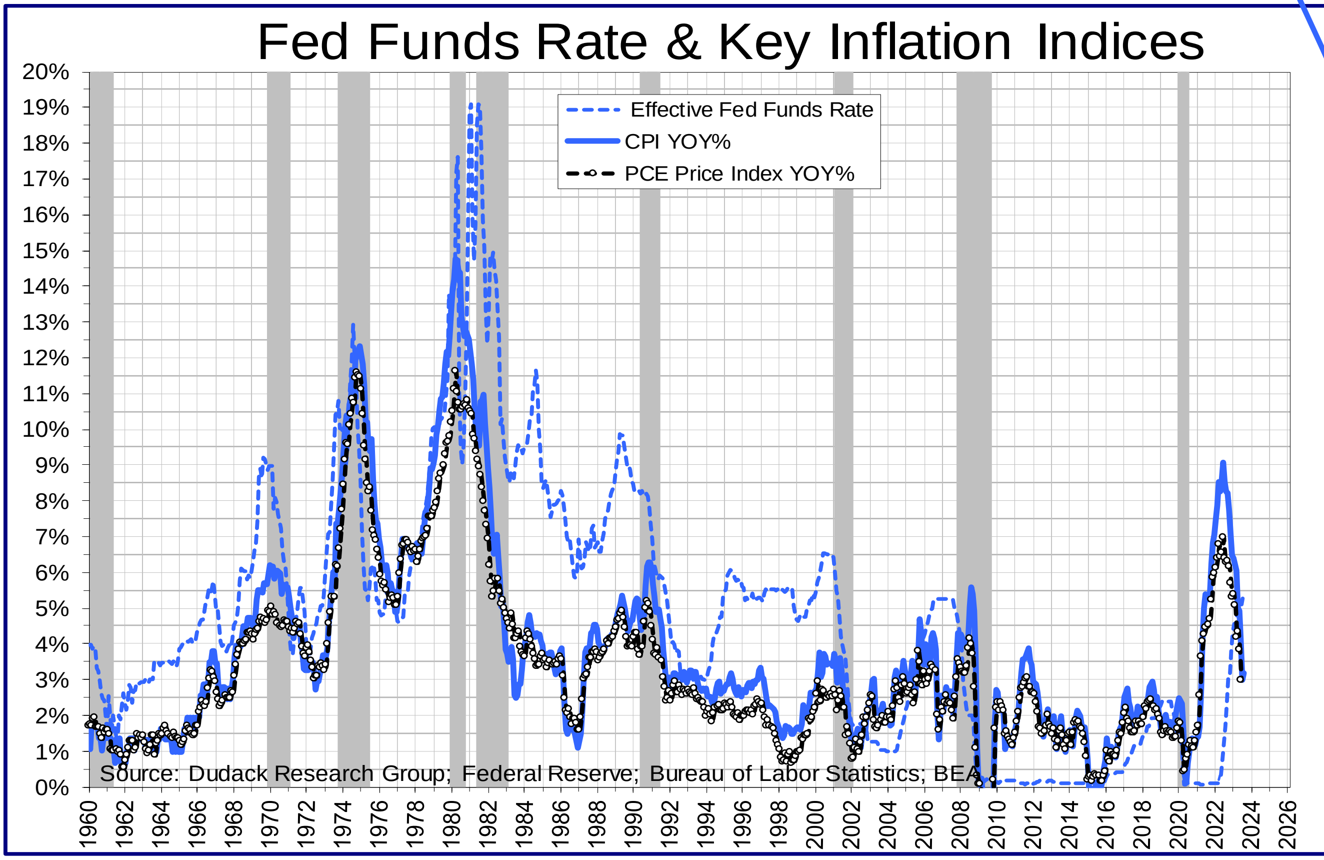
In July, headline inflation increased from June's 3.0% YOY to 3.2% YOY, while core inflation fell 0.1% to 4.7% YOY. The owners' equivalent rent index eased from 7.8% to 7.7% and service sector inflation was essentially unchanged at 5.7% YOY. This data suggests that the Fed is apt to raise the fed funds in September.

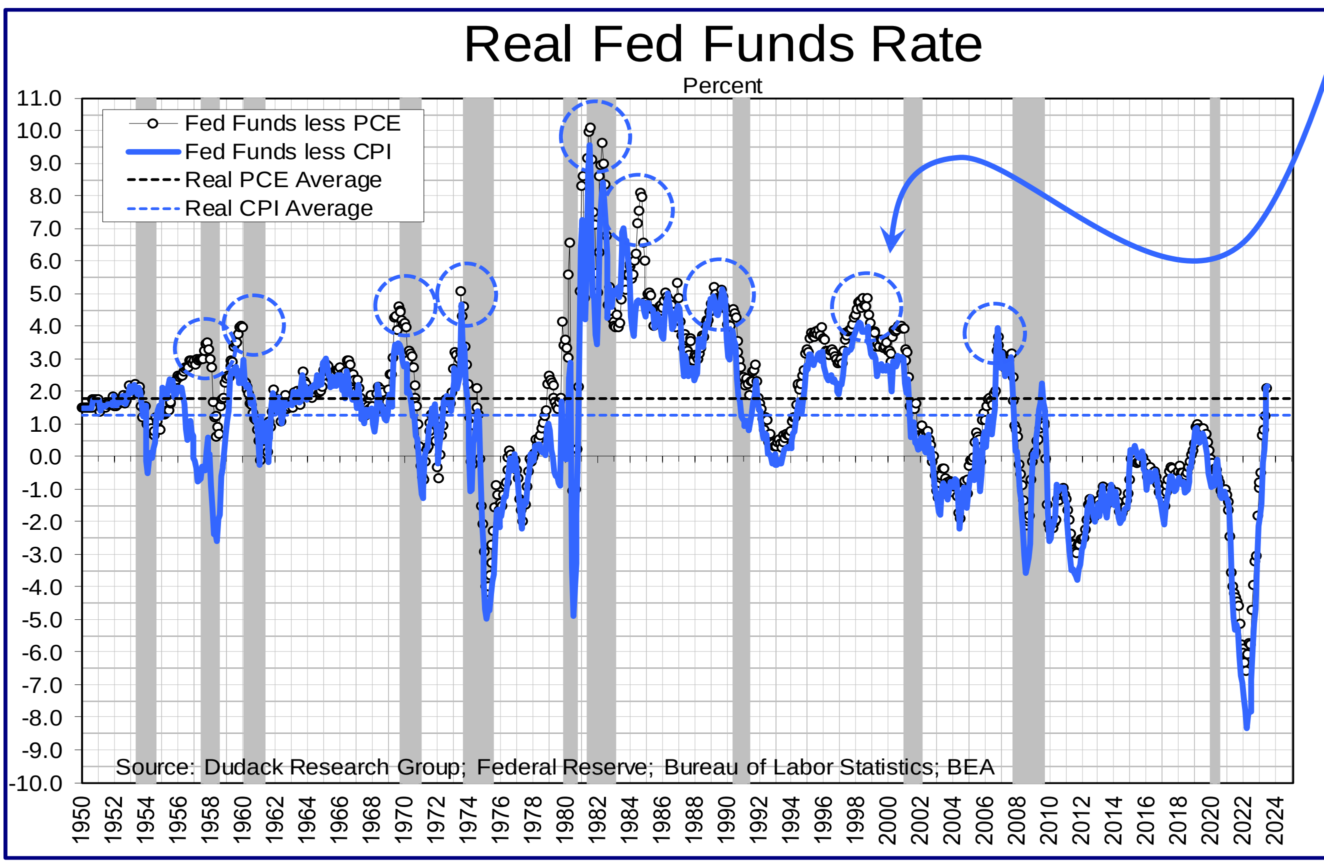
CPI Components Heavy Weights - Not Seasonally Adjusted Data	Component Weight*	Fuel Weight	Price Chg YOY%	Price Chg MOM%
Housing	**44.5%**	**4.5%**	**6.2%**	**0.3%**
Owners' equivalent rent of residences	**25.5%**		*7.7%*	0.5%
Fuels and utilities	**4.5%**		**-0.6%**	**0.2%**
Transportation	**17.2%**	**2.4%**	**-3.0%**	**0.2%**
Food and beverages	**14.2%**		**4.8%**	**0.5%**
Food at home	**8.6%**		*3.6%*	0.4%
Food away from home	**4.8%**		*7.1%*	0.2%
Alcoholic beverages	**0.8%**		*4.1%*	0.0%
Medical care	**7.8%**		**-0.5%**	**-0.1%**
Education and communication	**5.7%**		**1.2%**	**0.0%**
Recreation	**5.4%**		**4.1%**	**0.1%**
Apparel	**2.5%**		**3.2%**	**-1.0%**
Other goods and services	**2.7%**		**6.1%**	**0.1%**
Special groups:				
Energy	7.0%		-12.5%	0.3%
All items less food and energy	79.6%		4.7%	0.2%
All items	**100.0%**		**3.2%**	**0.2%**

Source: Dudack Research Group; BLS; *June 2023 weightings; Italics=sub-component; blue>headline

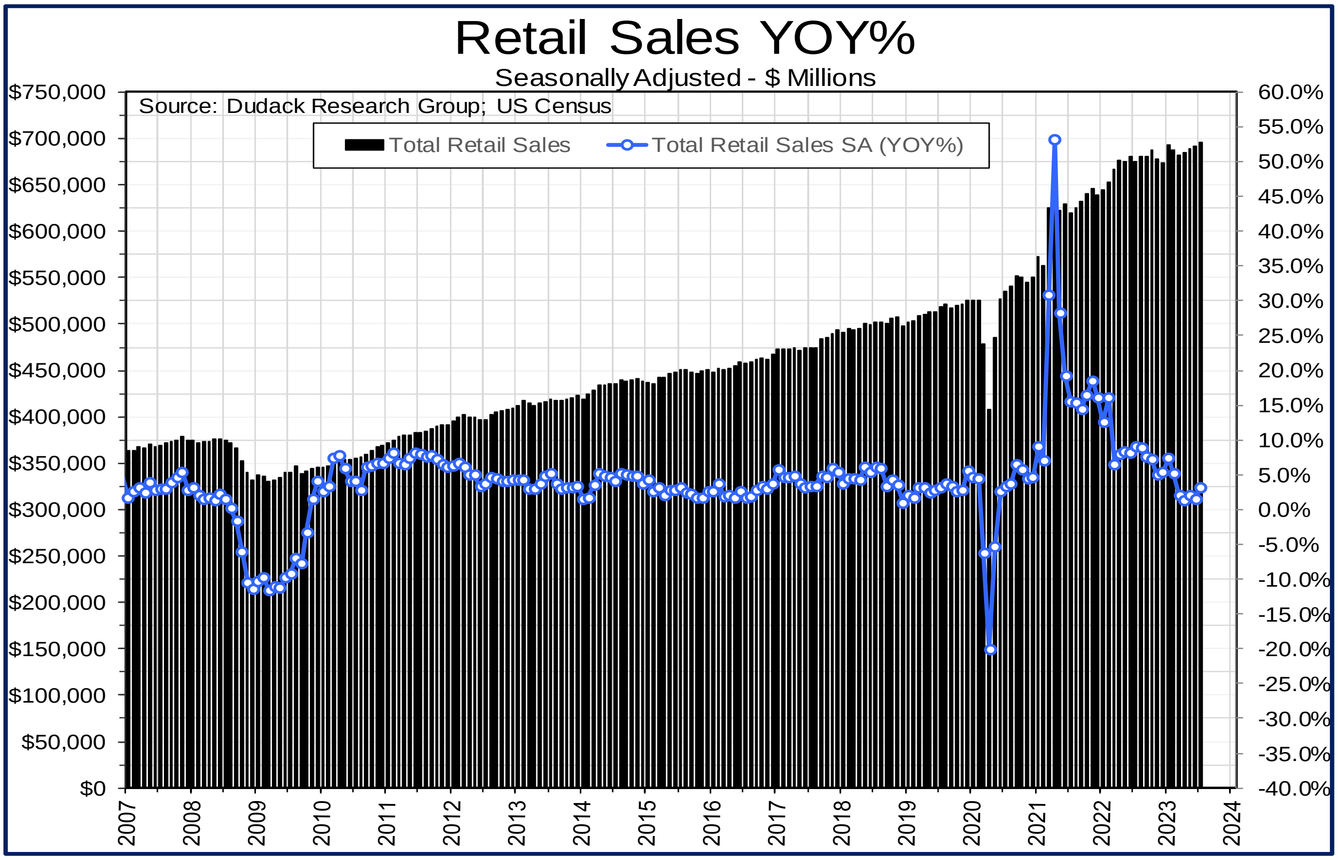


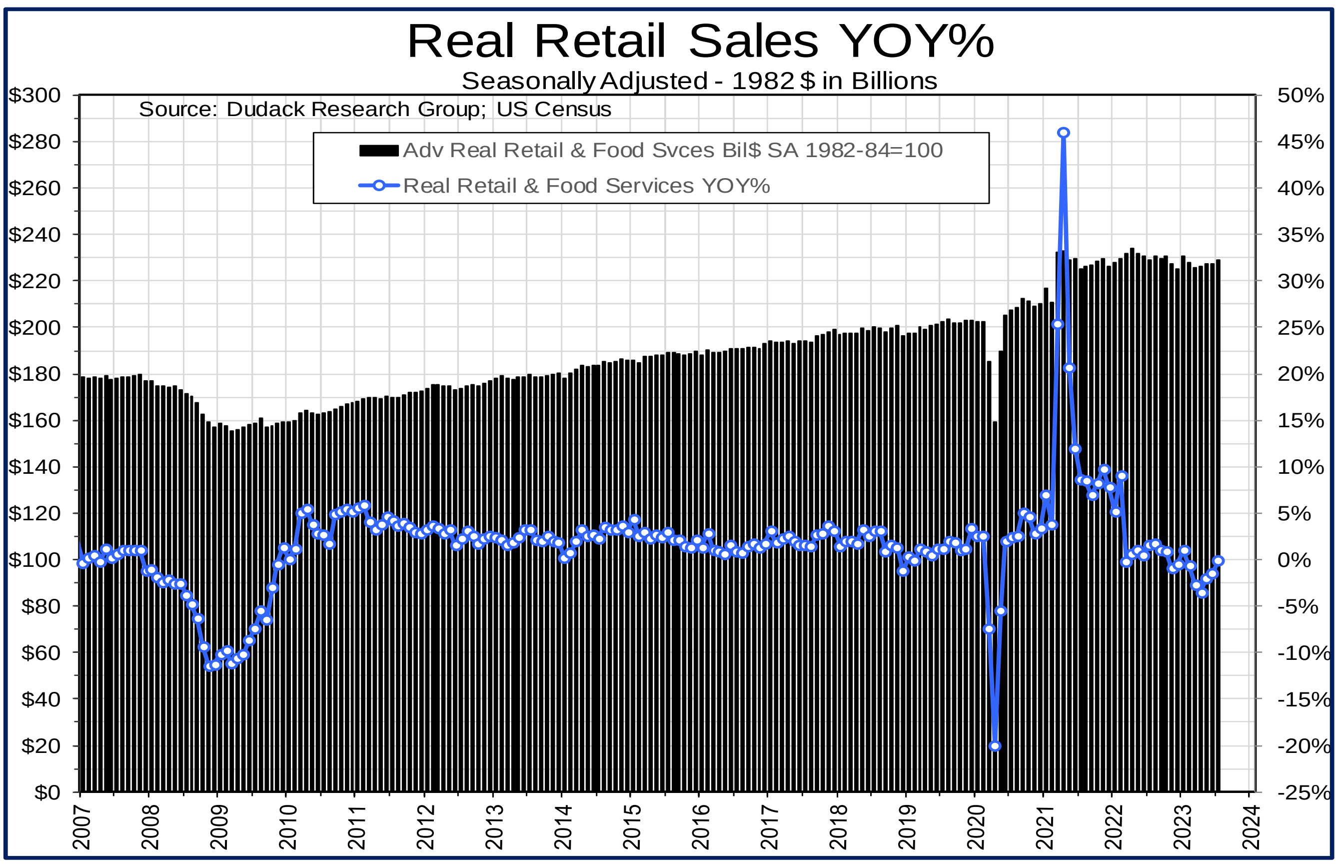
One reason to believe the Fed will keep interest rates higher for longer is that they were so late to address the inflation problem. As seen below, the fed funds rate typically increases ahead of, or in line with, the level of inflation. In this cycle, the Fed was 12 to 18 months behind the inflationary trend. Moreover, the real fed funds rate usually reaches 400 basis points in a tightening cycle.



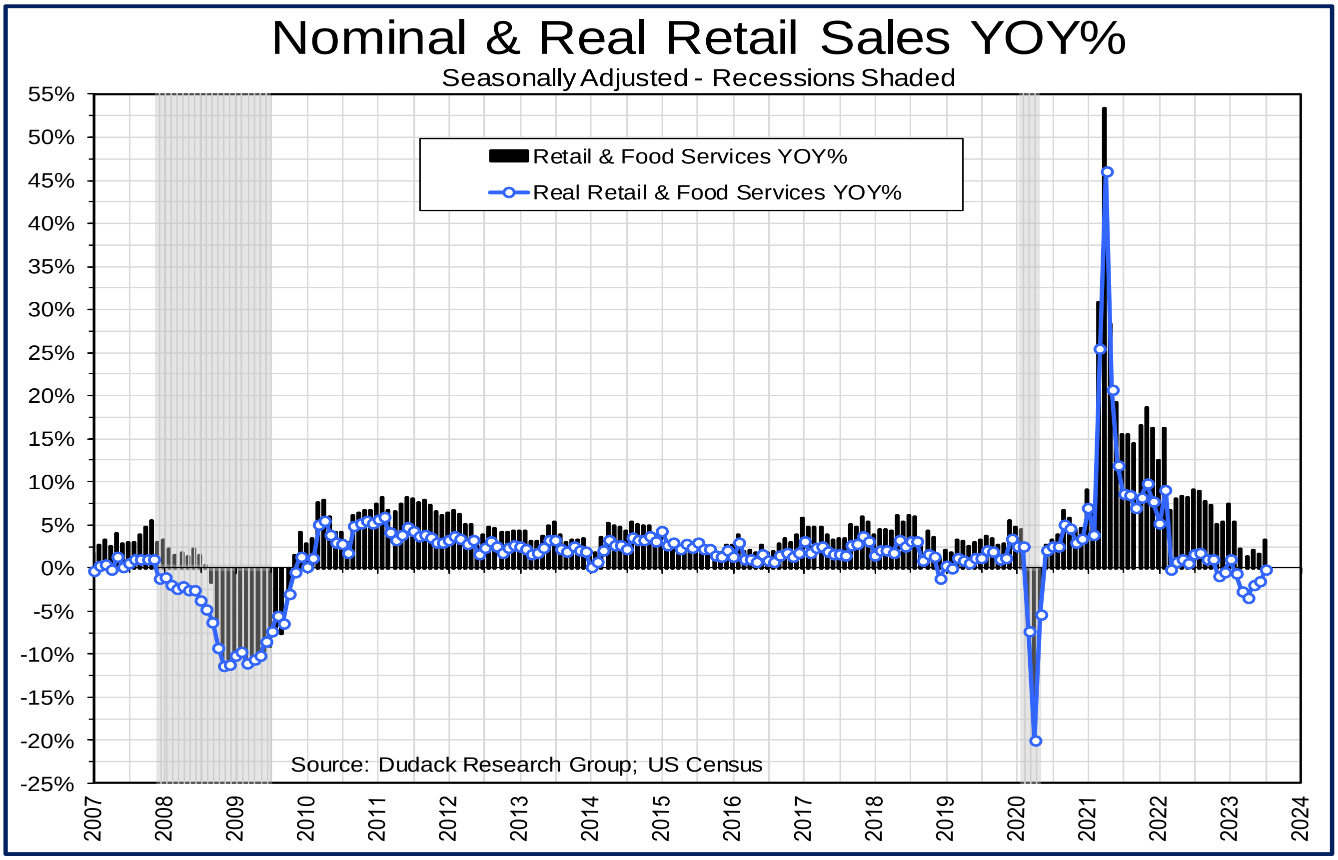


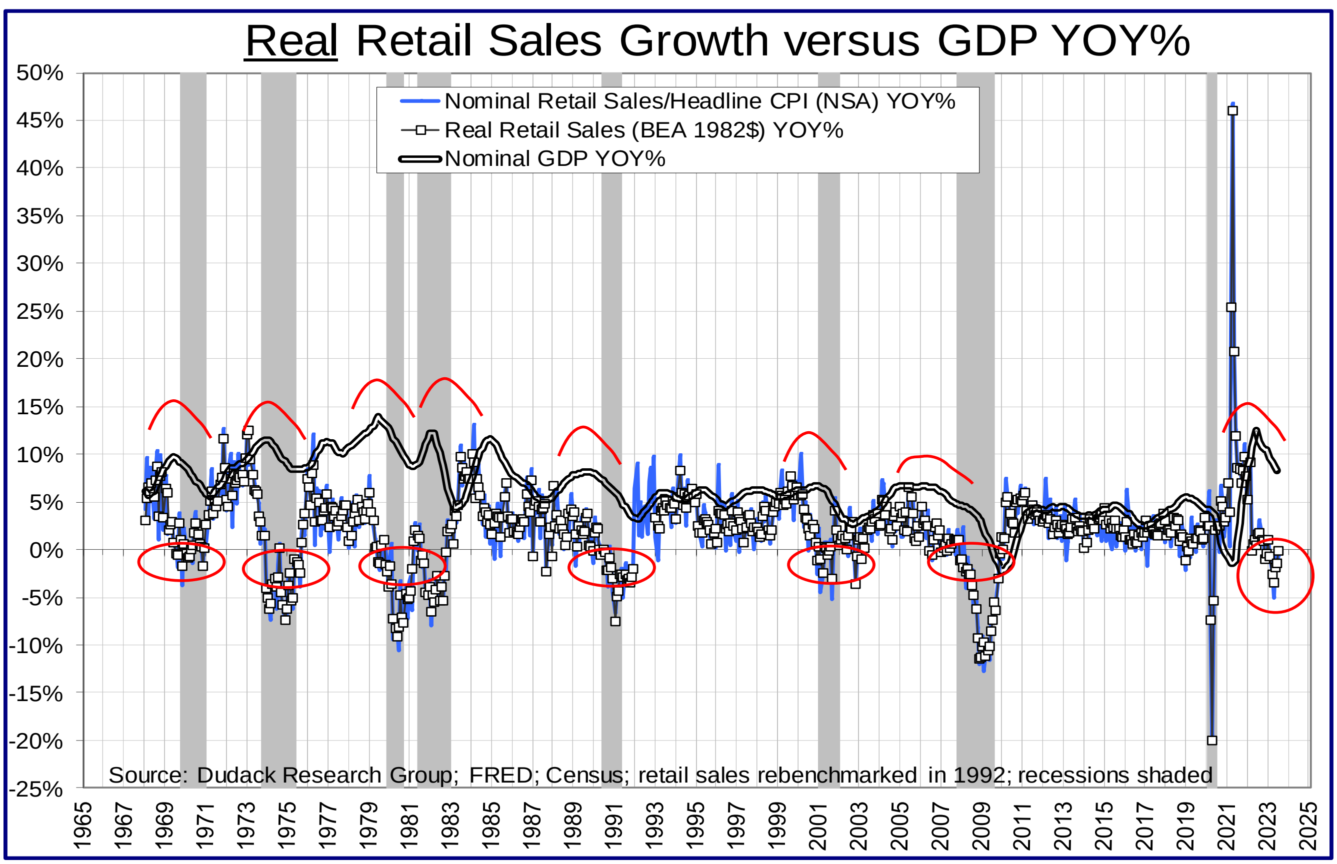
On a seasonally adjusted basis, retail sales rose 3.2% YOY in July, almost matching the rate of inflation. On a non-seasonally adjusted basis, sales were up 2.5% YOY. However, when adjusting for inflation, real retail & food service sales, based on 1982 dollars, fell 0.1% YOY.





Despite a month-to-month acceleration in sales, real YOY retail sales declined and have been negative for nine of the last 10 months. This pattern is characteristic of an economic recession. Historically, (see the chart below), a negative trend in retail sales is accompanied by a decline in nominal GDP. The table on the next page highlights in red all the months that have experienced below average retail sales. Typically, a string of below average sales defines a recession. The current string of "red" is the longest since 2008-2009.





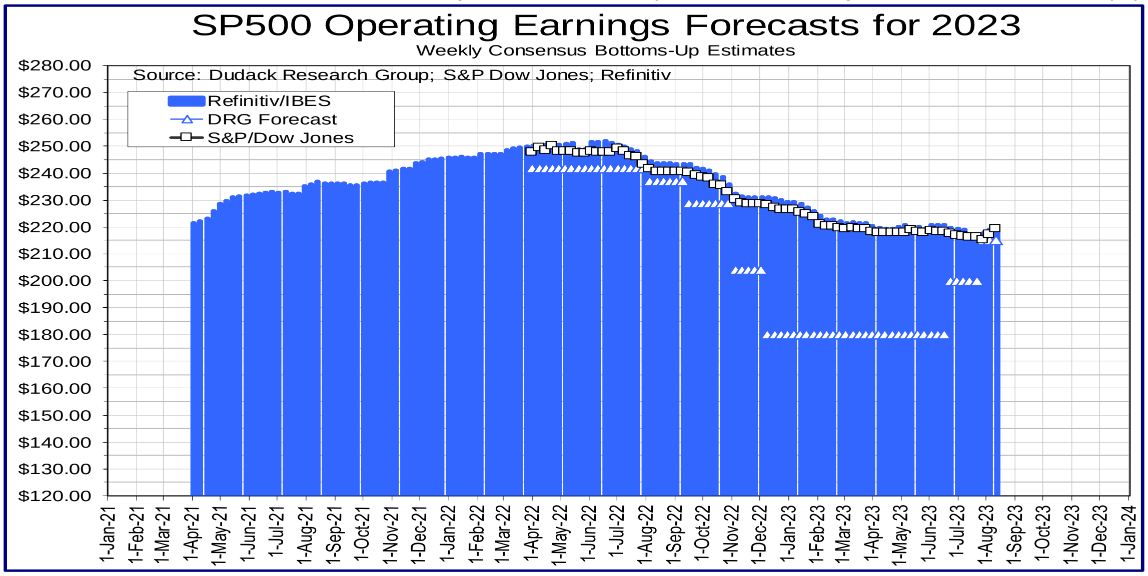
Total Retail & Food Service Sales YOY% (adjusted for inflation)

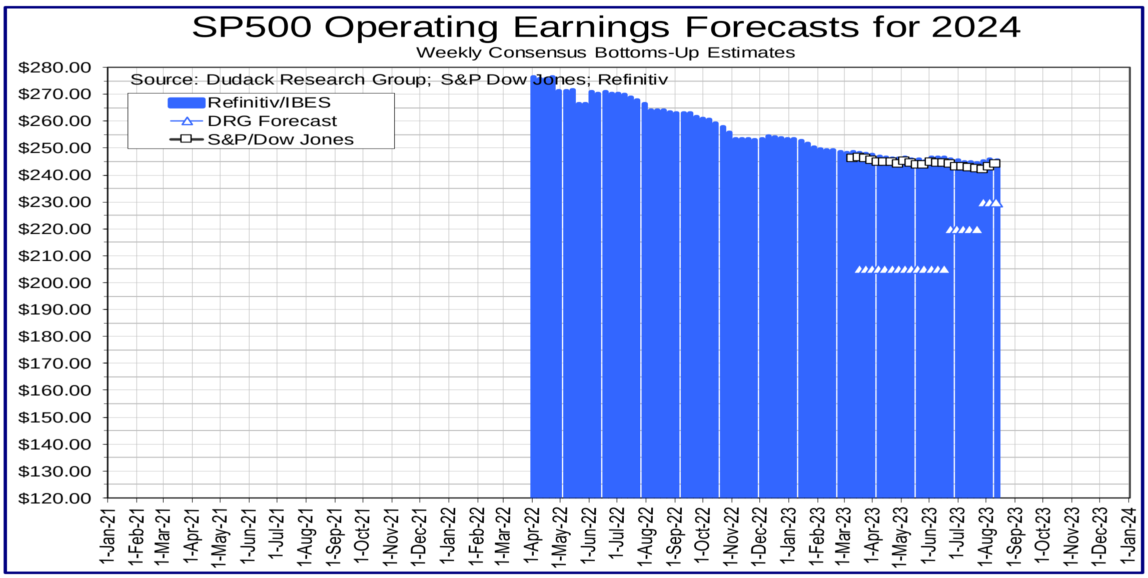
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year Average
1968	4.3%	9.3%	3.7%	8.6%	8.8%	3.2%	8.2%	10.2%	1.0%	9.9%	7.9%	2.0%	**6.4%**
1969	7.9%	1.6%	1.8%	2.3%	3.1%	0.5%	0.0%	-2.2%	3.8%	2.1%	-3.8%	1.9%	**1.6%**
1970	-0.1%	-0.6%	-0.1%	-0.2%	-1.4%	2.8%	3.7%	0.6%	1.5%	0.6%	-1.8%	1.1%	**0.5%**
1971	0.5%	3.4%	5.5%	8.4%	3.2%	4.8%	4.9%	4.6%	7.5%	5.9%	12.9%	7.9%	**5.8%**
1972	4.0%	8.3%	10.0%	2.4%	9.2%	8.9%	4.9%	10.0%	7.7%	6.4%	7.5%	6.9%	**7.2%**
1973	12.8%	8.8%	9.3%	9.6%	6.8%	5.6%	5.6%	4.9%	0.6%	3.1%	2.1%	-3.5%	**5.5%**
1974	-4.3%	-6.1%	-7.6%	-2.8%	-2.6%	-6.2%	-1.6%	0.5%	-4.9%	-5.8%	-7.6%	-6.8%	**-4.7%**
1975	-2.7%	-2.2%	-4.5%	-6.2%	-1.0%	-1.8%	-1.2%	-3.9%	1.5%	3.7%	1.5%	8.6%	**-0.7%**
1976	6.6%	7.1%	8.4%	11.9%	0.5%	6.4%	6.3%	1.5%	4.6%	2.3%	5.7%	6.9%	**5.7%**
1977	-0.2%	2.8%	5.3%	3.0%	3.4%	2.8%	0.9%	5.5%	4.3%	4.0%	5.0%	3.1%	**3.3%**
1978	0.1%	1.4%	4.8%	0.4%	5.9%	5.5%	2.4%	4.8%	3.9%	2.7%	4.7%	3.2%	**3.3%**
1979	7.7%	4.2%	2.4%	1.0%	0.1%	-1.5%	-2.0%	1.4%	-1.7%	-0.2%	-1.3%	-4.2%	**0.5%**
1980	-1.0%	0.6%	-9.6%	-8.3%	-8.5%	-10.7%	-3.3%	-8.2%	-6.4%	-4.0%	-7.2%	-3.6%	**-5.9%**
1981	-2.8%	-6.3%	0.0%	3.0%	-0.2%	2.7%	-0.5%	-1.9%	-0.9%	-4.1%	-5.0%	-3.2%	**-1.6%**
1982	-8.0%	-4.7%	-4.0%	-3.7%	-2.6%	-5.4%	-3.5%	-5.5%	-2.3%	-2.6%	2.9%	2.4%	**-3.1%**
1983	1.8%	0.4%	4.9%	2.9%	4.4%	10.8%	6.6%	9.4%	8.2%	7.4%	7.0%	7.3%	**5.9%**
1984	9.5%	13.2%	5.7%	6.1%	9.0%	6.4%	2.8%	5.8%	1.4%	3.9%	4.6%	0.7%	**5.8%**
1985	3.2%	-1.0%	2.2%	4.7%	4.2%	-0.8%	5.0%	6.0%	7.0%	3.4%	1.7%	2.5%	**3.2%**
1986	3.8%	1.7%	1.8%	0.8%	2.9%	3.0%	3.2%	1.2%	7.5%	5.1%	1.4%	8.5%	**3.4%**
1987	-0.9%	4.5%	3.6%	6.1%	1.0%	5.8%	5.1%	3.8%	-2.0%	1.6%	1.9%	0.4%	**2.6%**
1988	4.6%	6.4%	6.5%	1.7%	2.4%	3.0%	0.0%	2.0%	2.0%	1.2%	5.8%	4.1%	**3.3%**
1989	2.8%	-1.9%	0.8%	0.1%	3.3%	1.8%	1.7%	4.1%	3.7%	0.0%	1.2%	-1.4%	**1.3%**
1990	3.3%	2.2%	1.2%	0.5%	-0.3%	-0.2%	-0.4%	-1.5%	-3.9%	0.4%	-1.2%	-4.1%	**-0.3%**
1991	-6.7%	-4.5%	-4.6%	-3.2%	-2.0%	-5.1%	-1.5%	-3.1%	-3.5%	-2.7%	-3.2%	-2.0%	**-3.5%**
1992*													
1993	1.4%	-1.2%	3.8%	4.4%	3.8%	4.5%	5.2%	4.7%	4.9%	2.4%	6.4%	4.6%	**3.8%**
1994	2.7%	5.8%	10.1%	5.0%	4.6%	6.4%	2.4%	7.3%	6.2%	5.6%	5.2%	4.6%	**5.5%**
1995	5.7%	2.8%	1.8%	0.3%	4.6%	3.9%	2.4%	3.2%	1.6%	0.3%	2.1%	0.1%	**2.4%**
1996	2.7%	8.9%	2.5%	5.0%	4.8%	-0.1%	4.2%	2.6%	0.5%	6.0%	2.2%	0.9%	**3.3%**
1997	5.1%	-0.3%	3.3%	1.5%	0.9%	2.2%	3.8%	1.8%	4.2%	2.2%	0.1%	3.3%	**2.3%**
1998	2.1%	1.7%	0.9%	4.9%	2.9%	5.6%	2.6%	0.6%	2.3%	3.6%	4.0%	4.9%	**3.0%**
1999	3.2%	6.5%	8.2%	4.6%	4.8%	4.8%	6.3%	7.8%	7.0%	3.0%	6.8%	7.1%	**5.8%**
2000	5.5%	10.0%	6.2%	2.3%	4.9%	3.9%	-0.2%	3.6%	2.5%	1.5%	1.2%	-2.6%	**3.2%**
2001	2.2%	-4.5%	-2.5%	0.7%	0.7%	-0.9%	0.2%	1.1%	-5.2%	5.4%	2.1%	0.4%	**0.0%**
2002	0.8%	1.0%	0.2%	1.9%	0.3%	-0.7%	4.3%	2.4%	2.7%	-3.3%	-1.1%	0.9%	**0.8%**
2003	2.3%	-0.6%	-0.1%	1.1%	1.9%	2.1%	2.7%	1.0%	5.1%	3.6%	1.8%	4.2%	**2.1%**
2004	2.9%	7.2%	6.8%	4.7%	2.0%	3.3%	2.8%	0.3%	4.0%	1.9%	4.0%	4.9%	**3.7%**
2005	1.2%	1.4%	3.0%	2.9%	2.3%	6.6%	4.0%	5.2%	1.6%	0.8%	2.5%	1.3%	**2.7%**
2006	4.5%	2.8%	3.3%	1.2%	3.9%	0.2%	-1.1%	1.8%	1.8%	2.5%	1.9%	0.6%	**1.9%**
2007	1.2%	0.5%	0.6%	-0.6%	2.1%	0.1%	0.5%	1.3%	-0.5%	2.1%	1.5%	-2.0%	**0.6%**
2008	0.0%	2.4%	-4.0%	-0.9%	-2.3%	-4.2%	-2.3%	-6.2%	-5.4%	-8.2%	-11.9%	-9.7%	**-4.4%**
2009	-9.3%	-13.0%	-11.4%	-9.8%	-11.4%	-7.6%	-7.3%	-6.2%	-6.1%	-3.0%	-0.7%	1.4%	**-7.0%**
2010	-1.1%	1.8%	7.5%	5.8%	3.2%	3.1%	2.7%	1.5%	5.5%	3.8%	6.7%	5.2%	**3.8%**
2011	5.0%	6.3%	4.7%	3.7%	3.8%	4.8%	2.7%	5.0%	4.5%	3.3%	3.5%	2.9%	**4.2%**
2012	2.8%	7.5%	4.5%	1.2%	5.2%	1.7%	1.8%	4.4%	1.1%	3.3%	3.5%	0.9%	**3.2%**
2013	4.5%	-1.1%	0.7%	3.4%	3.4%	2.2%	5.2%	3.1%	2.0%	3.6%	2.2%	1.9%	**2.6%**
2014	0.6%	0.5%	1.1%	3.4%	2.6%	2.2%	2.8%	1.5%	3.2%	2.4%	0.9%	3.2%	**2.1%**
2015	2.8%	0.9%	1.7%	0.6%	0.0%	2.3%	2.2%	0.3%	2.7%	1.8%	1.3%	3.0%	**1.6%**
2016	-0.1%	6.3%	2.7%	1.8%	0.4%	2.5%	-0.1%	2.2%	2.3%	0.1%	3.4%	2.1%	**2.0%**
2017	2.5%	-1.7%	2.4%	1.1%	3.5%	2.1%	1.2%	1.9%	2.2%	2.6%	3.8%	0.8%	**1.9%**
2018	2.8%	1.3%	2.5%	0.3%	3.4%	2.1%	3.0%	3.2%	-0.7%	3.3%	2.1%	-2.2%	**1.8%**
2019	1.1%	-0.1%	-0.9%	3.3%	1.0%	-0.2%	2.7%	2.1%	1.3%	1.7%	0.3%	2.9%	**1.3%**
2020	2.9%	6.1%	-8.6%	-19.6%	-7.1%	3.0%	3.1%	-0.3%	6.6%	5.1%	1.3%	2.9%	**-0.4%**
2021	5.9%	0.4%	28.4%	46.7%	20.5%	12.5%	9.0%	8.9%	7.4%	7.0%	11.0%	7.1%	**13.7%**
2022	5.1%	9.3%	-0.2%	0.7%	1.2%	0.7%	0.2%	3.1%	1.5%	0.7%	-1.1%	-0.8%	**1.7%**
2023	1.3%	-0.4%	-2.4%	-5.0%	-0.8%	-1.3%	-0.7%						**-1.3%**
Monthly Average**	**2.0%**	**2.1%**	**2.1%**	**2.0%**	**2.1%**	**1.9%**	**2.0%**	**2.1%**	**1.9%**	**1.9%**	**2.0%**	**1.7%**	**2.0%**
Recession Avg	**-4.0%**	**-3.5%**	**-5.4%**	**-3.9%**	**-4.0%**	**-4.6%**	**-1.0%**	**-1.8%**	**-3.0%**	**-2.0%**	**-2.6%**	**-3.9%**	**-1.9%**
Expansion Avg	**3.3%**	**3.2%**	**4.1%**	**3.4%**	**3.2%**	**3.1%**	**2.6%**	**2.8%**	**2.7%**	**2.5%**	**2.9%**	**2.7%**	**2.7%**
Standard Dev Total	**4.1%**	**4.9%**	**4.7%**	**4.0%**	**3.8%**	**4.2%**	**3.1%**	**4.0%**	**3.8%**	**3.4%**	**4.3%**	**3.9%**	**3.2%**
Recession STD	**3.7%**	**4.8%**	**3.5%**	**3.9%**	**4.3%**	**4.4%**	**2.3%**	**3.0%**	**2.6%**	**4.6%**	**5.3%**	**3.6%**	**2.1%**
Expansion STD	**3.2%**	**4.3%**	**3.0%**	**3.1%**	**2.7%**	**3.3%**	**3.1%**	**4.1%**	**3.6%**	**3.0%**	**3.9%**	**3.4%**	**3.2%**

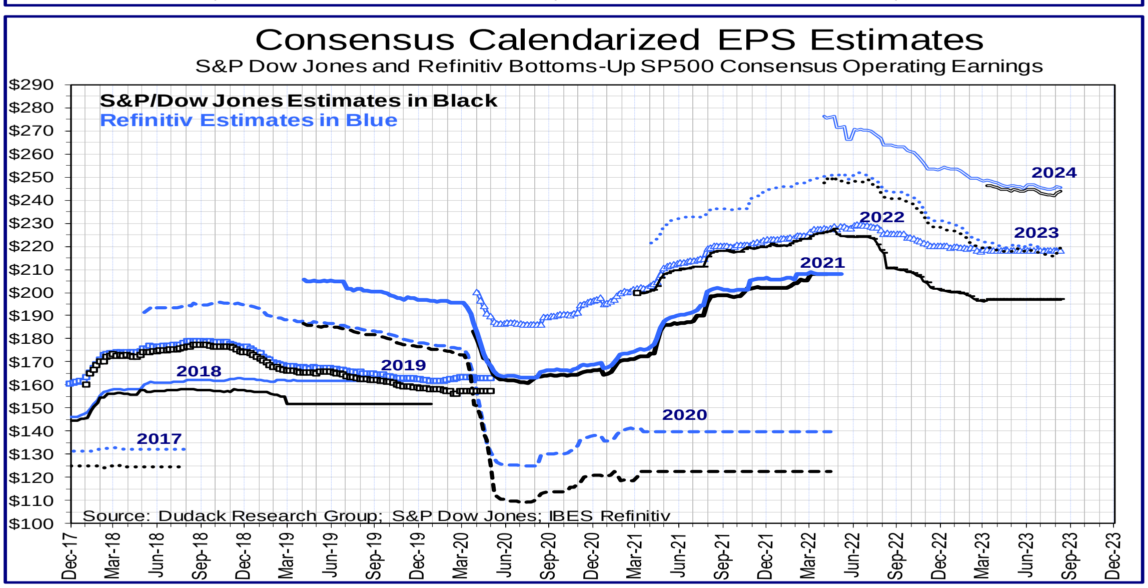
Source: Dudack Research Group; St. Louis Federal Reserve; U.S. Census Department; NSA; blue = recession months

* Changes in the NAICS classification system in 1992 =YOY% change calculations are not meaningful; **1968-2010

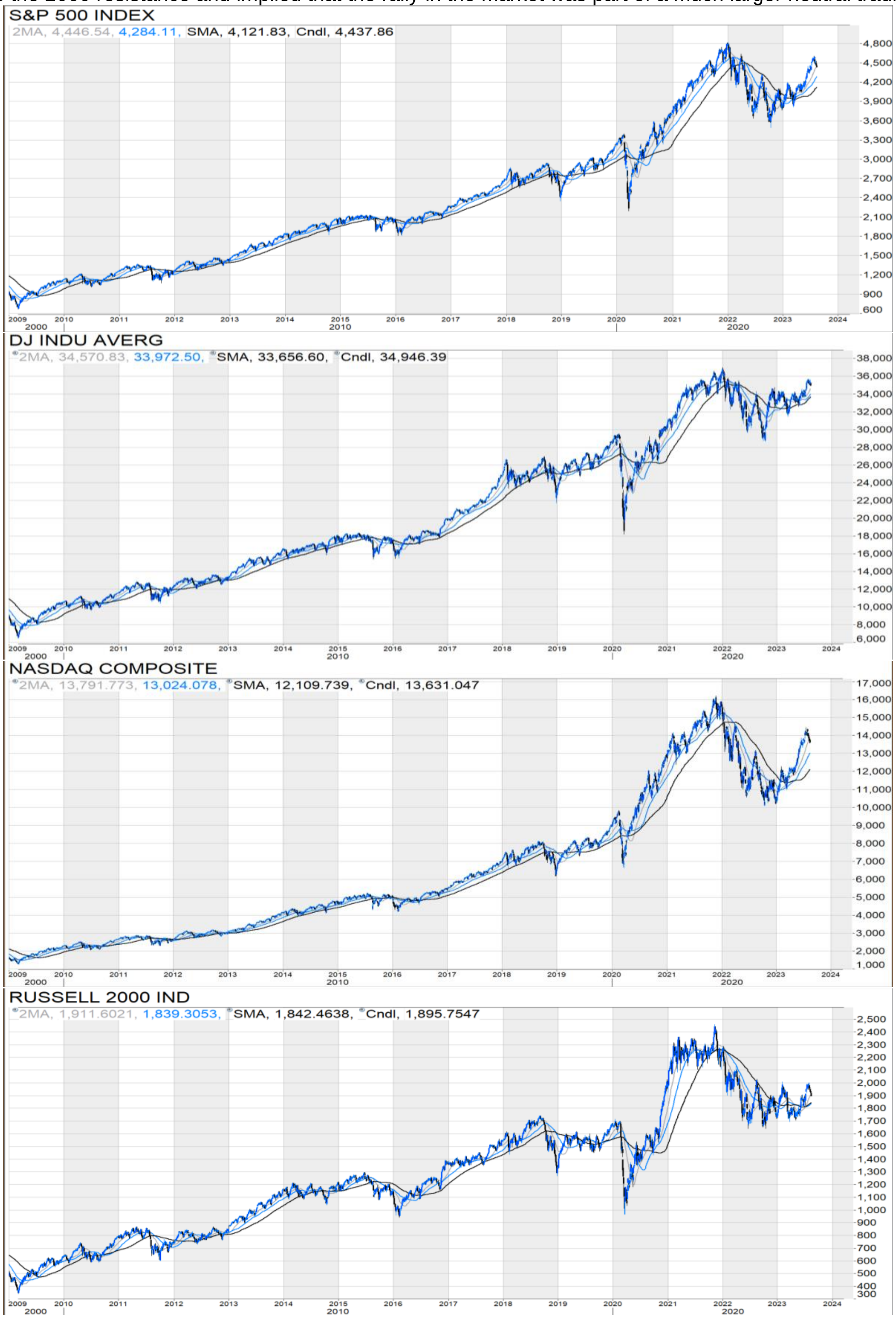
S&P Dow Jones consensus estimates for 2023 and 2024 are $219.41 and $244.06, up $2.31, and $1.00, respectively. Refinitiv IBES estimates for 2023 and 2024 are $219.09 and $245.556 up $0.41, and down $0.25, respectively. Notably, S&P data shows that 18.4% of companies reporting first quarter earnings had a decrease of 4% or more in shares outstanding, which effectively boosted earnings per share, but not overall earnings growth. Nevertheless, based upon the IBES EPS estimate of $219.09 for this year, equities remain overvalued with a PE of 20.3 times and inflation of 3%. Again, this sum of 23.3 is just under the 23.8 range that defines an overvalued equity market.







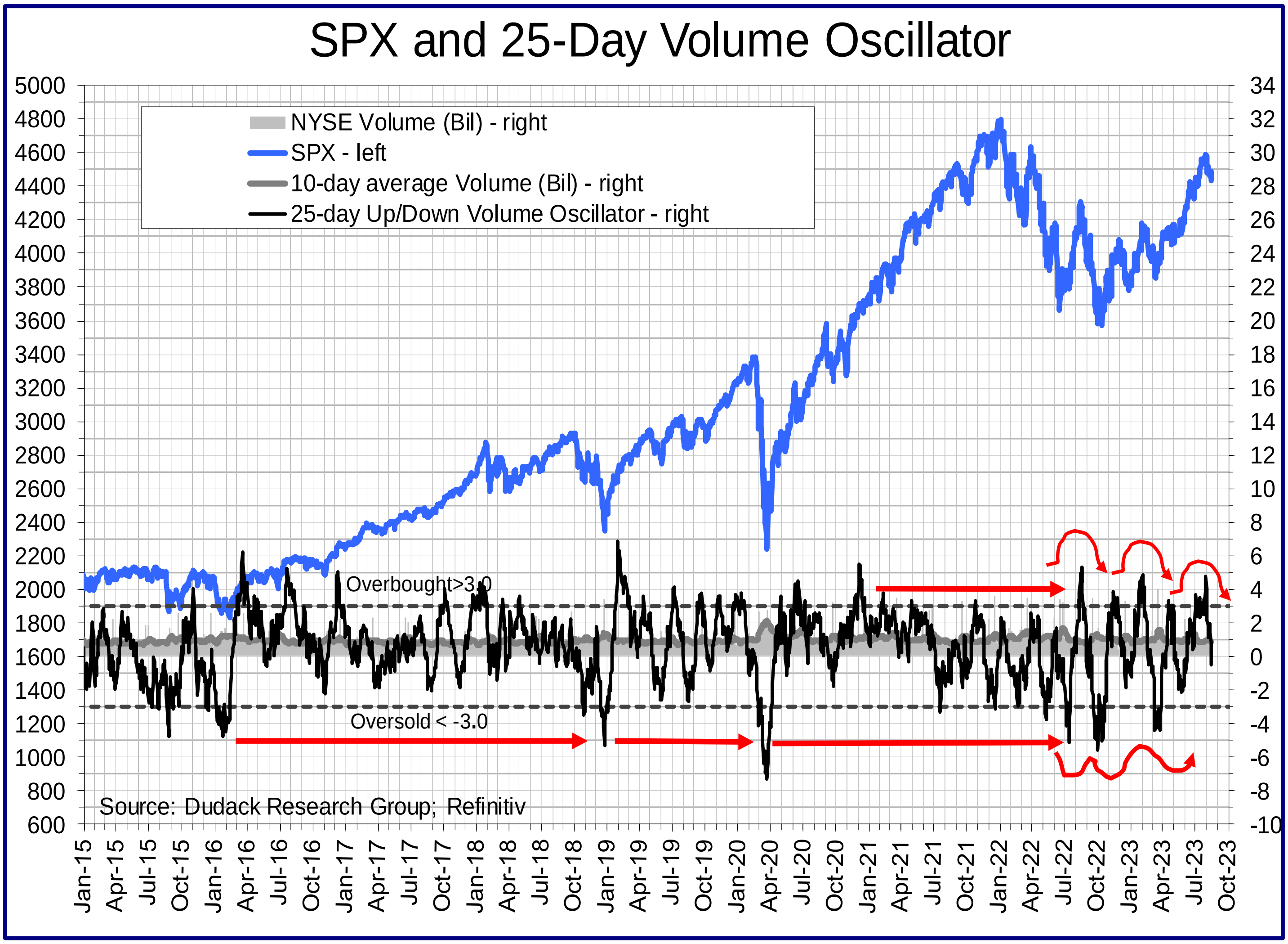
As a result of the recent weakness the SPX, IXIC, and RUT are trading below their 50-day MA's and only the DJIA is trading above all its averages. However, the RUT, which has been a faithful benchmark for the last 18 months, recently failed to break above the 2000 resistance and implied that the rally in the market was part of a much larger neutral trading range.



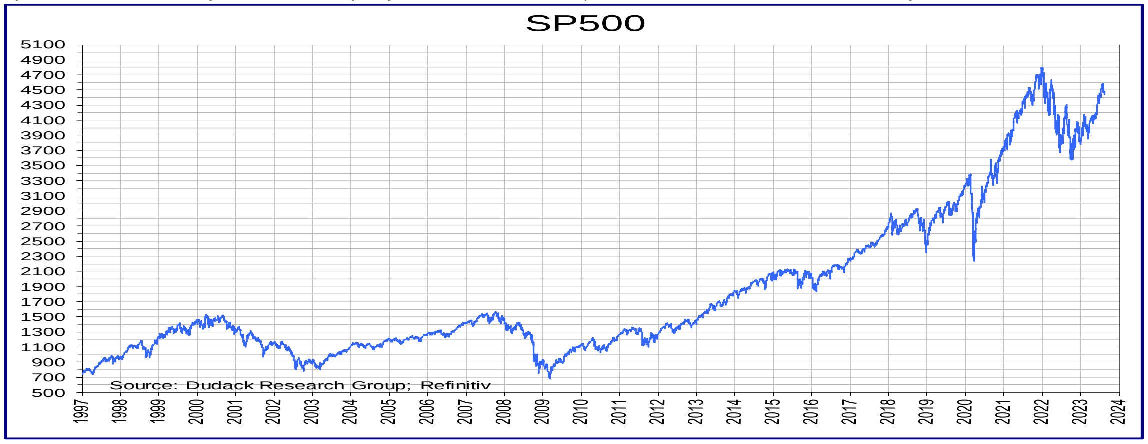
Source: Refinitiv

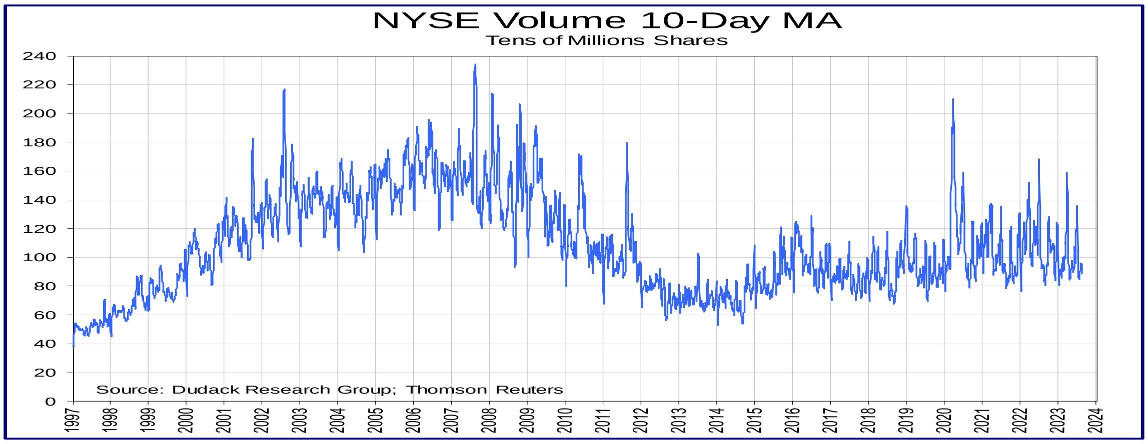
The 25-day up/down volume oscillator is at a negative 0.51 reading this week and neutral. The oscillator generated overbought readings in 10 of 22 trading sessions ending August 1. However, none of these overbought readings lasted the minimum of five consecutive trading days required to confirm the advance in the averages. Strong rallies should also include at least one extremely overbought day which was also missing.

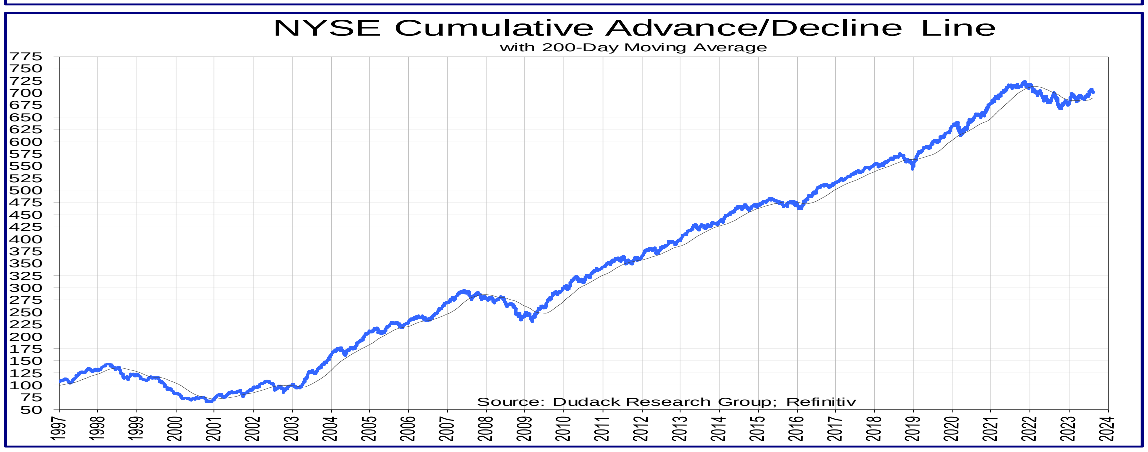
Nonetheless, these requirements are what should be seen at a new market high and none of the indices have yet recorded new record highs. The rally has produced new "cyclical" highs in some indices which could translate as a very broad trading range; but the oscillator is not showing signs that the recent rally was the beginning of a new bull market cycle.

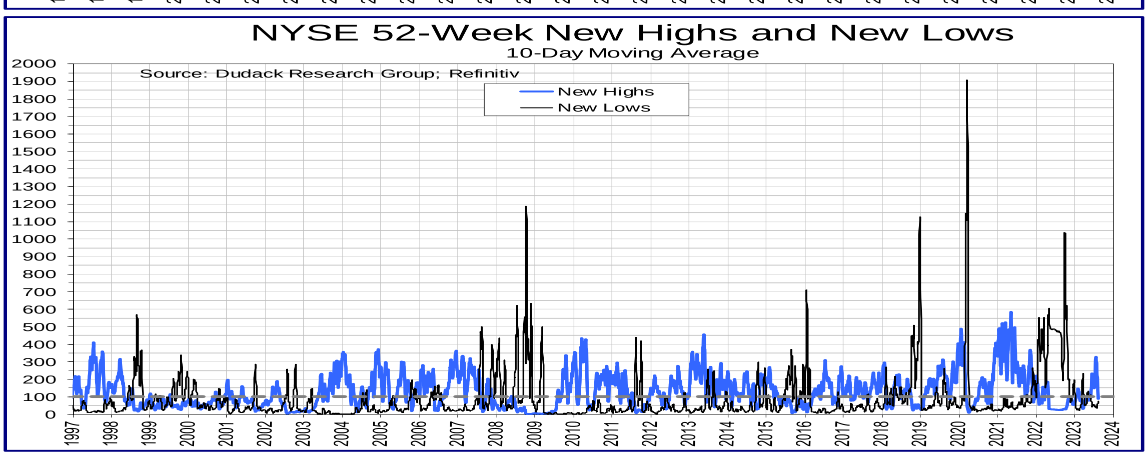


The 10-day average of daily new highs is 88 and new lows are 75. This combination turned positive on June 8 when new highs rose above 100 and new lows fell below 100 but it turns neutral this week with both averages now below 100. The NYSE advance/decline line fell below the June low on September 22 and is 21,643 net advancing issues from its 11/8/21 high. July is the first time in two years that the disparity between the AD lines peak and current levels was consistently less than 30,000 net advancing issues.

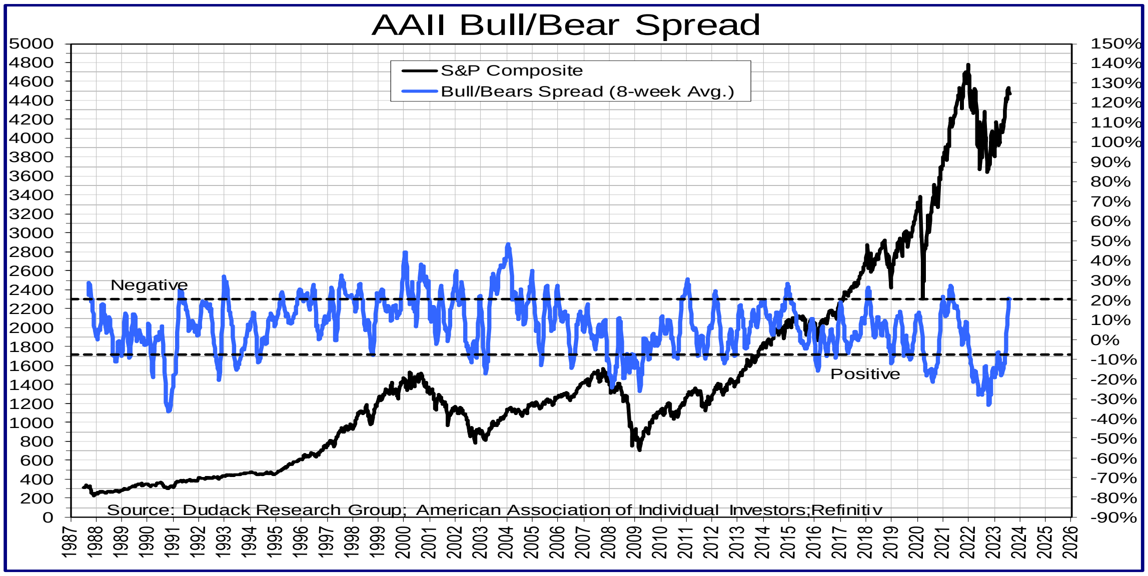


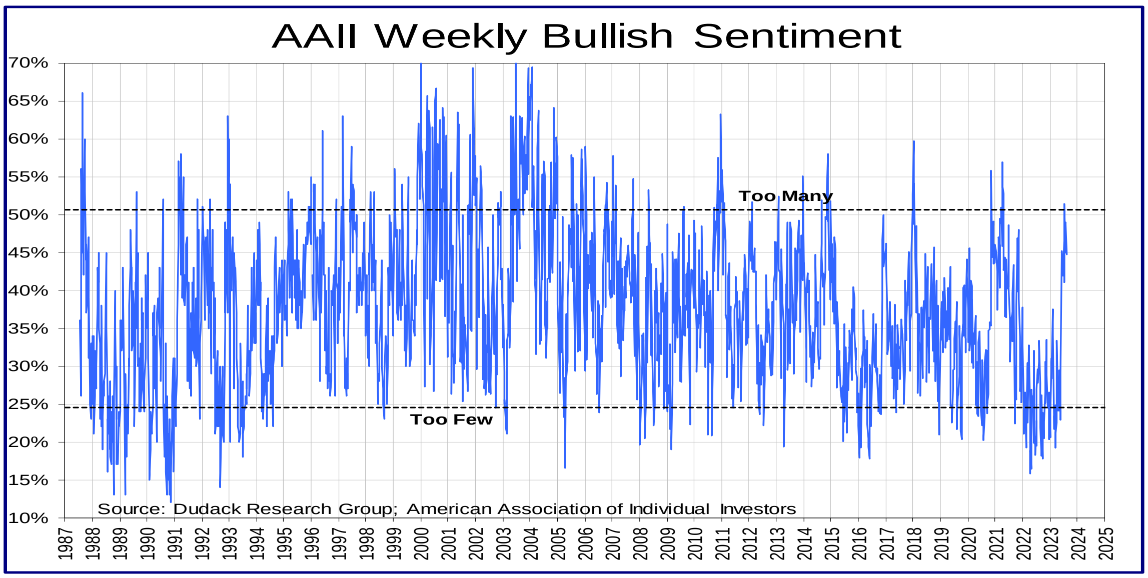


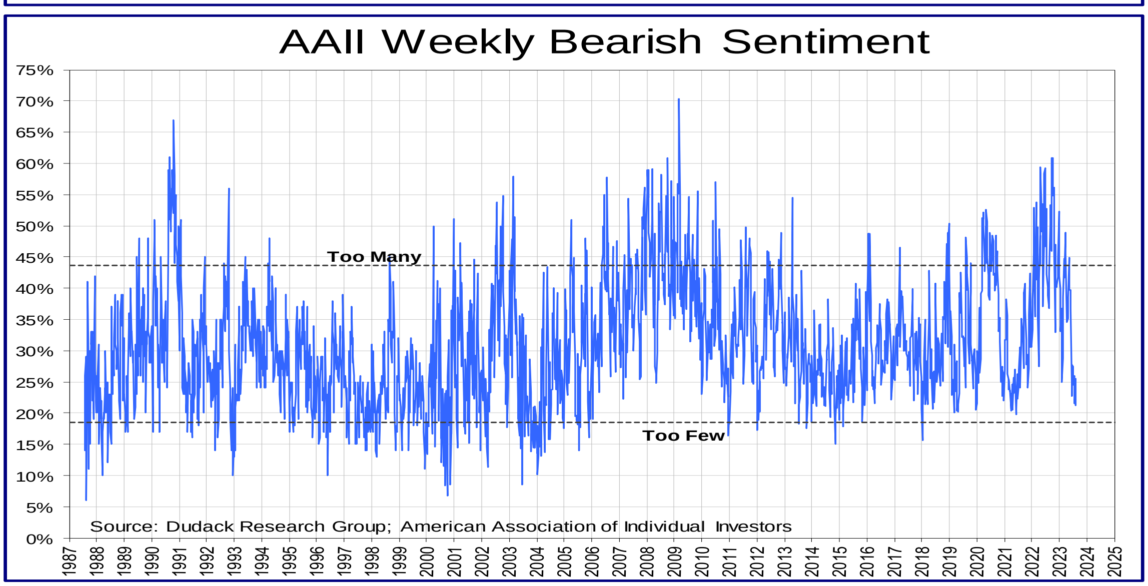




Last week's AAII readings had a 4.3% decline in bullishness to 44.7%, and a 4.2% increase in bearishness to 25.5%. This is the tenth consecutive week that bullishness remained above average, and bearishness remained below average – the longest combined stretch since February to May of 2021. Note that the market peaked in January 2022. The 8-week bull/bear spread returned to neutral after inching into a negative reading last week, the first time since May 2021.







Global Markets and Commodities - Ranked by 2023 Trading Performance

Index/EFT	Symbol	Price	5-Day%	20-Day%	QTD%	YTD%
Communication Services Select Sector SPDR Fund	XLC	67.01	-1.4%	-0.2%	3.0%	39.6%
SPDR Homebuilders ETF	XHB	83.48	-1.4%	0.0%	4.0%	38.4%
NASDAQ 100	NDX	15037.65	-1.5%	-3.4%	-0.9%	37.5%
Technology Select Sector SPDR	XLK	167.89	-1.4%	-4.6%	-3.4%	34.9%
Nasdaq Composite Index Tracking Stock	ONEQ.O	53.51	-1.8%	-3.4%	-1.1%	30.6%
Consumer Discretionary Select Sector SPDR	XLY	167.92	-2.3%	-4.0%	-1.1%	30.0%
iShares Russell 1000 Growth ETF	IWF	273.60	-1.2%	-2.6%	-0.6%	27.7%
iShares MSCI Mexico Capped ETF	EWW	62.11	-0.4%	-2.8%	-0.1%	25.6%
SPDR S&P Semiconductor ETF	XSD	208.17	-3.7%	-7.8%	-5.9%	24.5%
iShares Russell 1000 ETF	IWB	243.64	-1.3%	-1.5%	0.0%	15.7%
SP500	.SPX	4437.86	-1.4%	-1.5%	-0.3%	15.6%
iShares MSCI Germany ETF	EWG	27.80	-1.0%	-4.8%	-2.7%	12.4%
iShares MSCI Taiwan ETF	EWT	45.12	-2.8%	-7.4%	-4.0%	12.4%
iShares Russell 2000 Growth ETF	IWO	238.90	-2.0%	-3.6%	-1.5%	11.4%
iShares DJ US Oil Eqpt & Services ETF	IEZ	23.60	-1.0%	5.3%	17.3%	11.3%
iShares MSCI Japan ETF	EWJ	60.17	-2.6%	-3.6%	-2.8%	10.5%
PowerShares Water Resources Portfolio	PHO	56.74	-1.5%	-0.3%	0.6%	10.1%
iShares MSCI South Korea Capped ETF	EWY	62.01	-2.8%	-7.7%	-2.2%	9.8%
Industrial Select Sector SPDR	XLI	107.54	-1.4%	-1.0%	0.2%	9.5%
iShares MSCI Brazil Capped ETF	EWZ	30.62	-4.0%	-5.1%	-5.6%	9.5%
SPDR S&P Retail ETF	XRT	65.42	-1.2%	0.3%	2.6%	8.2%
iShares MSCI EAFE ETF	EFA	70.92	-1.9%	-4.0%	-2.2%	8.0%
iShares Russell 2000 ETF	IWM	188.14	-2.6%	-1.8%	0.5%	7.9%
Vanguard FTSE All-World ex-US ETF	VEU	53.53	-2.0%	-3.9%	-1.6%	6.8%
iShares MSCI Austria Capped ETF	EWO	20.25	-2.0%	-3.3%	-0.2%	6.6%
Gold Future	GCc1	2626.10	0.2%	0.8%	1.2%	6.5%
SPDR DJIA ETF	DIA	349.61	-1.0%	1.3%	1.7%	5.5%
DJIA	.DJI	34946.39	-1.0%	1.3%	1.6%	5.4%
Materials Select Sector SPDR	XLB	81.55	-2.0%	-2.1%	-1.6%	5.0%
iShares Russell 1000 Value ETF	IWD	158.60	-1.5%	-0.3%	0.5%	4.6%
SPDR Gold Trust	GLD	176.59	-1.1%	-2.7%	-0.9%	4.1%
iShares Russell 2000 Value ETF	IWN	144.27	-3.1%	0.0%	2.5%	4.0%
iShares MSCI United Kingdom ETF	EWU	31.87	-2.0%	-2.6%	-1.5%	3.9%
iShares MSCI Canada ETF	EWC	34.00	-2.1%	-3.5%	-2.8%	3.9%
United States Oil Fund, LP	USO	72.62	-1.9%	7.6%	14.3%	3.6%
iShares MSCI India ETF	INDA.K	43.23	-1.6%	-2.3%	-1.1%	3.6%
Shanghai Composite	.SSEC	3176.18	-2.6%	-1.9%	-0.8%	2.8%
iShares MSCI Emerg Mkts ETF	EEM	38.92	-2.7%	-5.1%	-1.6%	2.7%
Oil Future	CLc1	80.99	-2.3%	7.4%	14.7%	0.9%
iShares US Real Estate ETF	IYR	84.47	-2.0%	-5.2%	-2.4%	0.3%
Energy Select Sector SPDR	XLE	87.66	0.2%	7.6%	8.0%	0.2%
Financial Select Sector SPDR	XLF	34.21	-2.5%	-0.1%	1.5%	0.0%
Health Care Select Sect SPDR	XLV	135.58	0.5%	2.9%	2.1%	-0.2%
iShares US Telecomm ETF	IYZ	22.35	0.1%	4.1%	1.1%	-0.4%
iShares MSCI BRIC ETF	BKF	34.14	-3.3%	-3.1%	-0.2%	-0.6%
iShares iBoxx $ Invest Grade Corp Bond	LQD	104.46	-1.5%	-2.8%	-3.4%	-0.9%
Consumer Staples Select Sector SPDR	XLP	73.63	-1.5%	-0.9%	-0.7%	-1.2%
iShares MSCI Australia ETF	EWA	21.87	-2.4%	-6.1%	-3.0%	-1.6%
iShares MSCI Singapore ETF	EWS	18.36	-4.7%	-4.8%	-0.8%	-2.4%
iShares Nasdaq Biotechnology ETF	IBB.O	128.01	0.5%	-0.2%	0.8%	-2.5%
iShares China Large Cap ETF	FXI	27.21	-4.5%	-3.8%	0.1%	-3.9%
iShares 20+ Year Treas Bond ETF	TLT	94.58	-2.2%	-6.6%	-8.1%	-5.0%
Silver Future	SIc1	22.60	-0.5%	-9.7%	-0.9%	-5.3%
iShares Silver Trust	SLV	21.62	-1.0%	-9.5%	-1.1%	-5.9%
iShares MSCI Malaysia ETF	EWM	21.24	-0.4%	0.8%	6.1%	-7.0%
Utilities Select Sector SPDR	XLU	63.02	-2.0%	-5.7%	-3.7%	-10.6%
SPDR S&P Bank ETF	KBE	39.43	-5.6%	4.6%	9.5%	-12.7%
iShares MSCI Hong Kong ETF	EWH	18.17	-3.6%	-6.5%	-6.0%	-13.5%

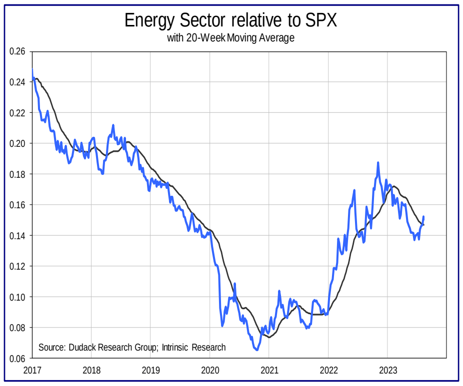
Outperformed SP500
Underperformed SP500

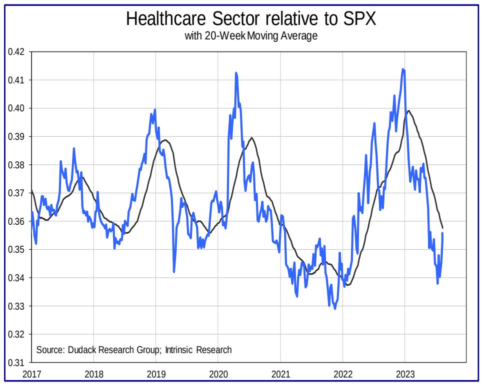
Source: Dudack Research Group; Refinitiv   Priced as of August 15, 2023

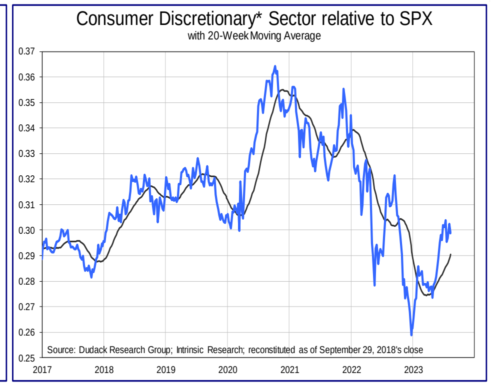
SECTOR RELATIVE PERFORMANCE – RELATIVE OVER/UNDER/ PERFORMANCE TO S&P 500

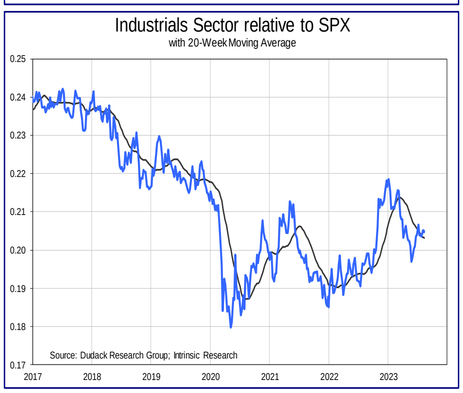
DRG Recommended Sector Weights				
Overweight		**Neutral**		**Underweight**
Energy Industrials Staples Utililties		Healthcare Technology Materials Financials		Consumer Discretionary REITS Communication Services

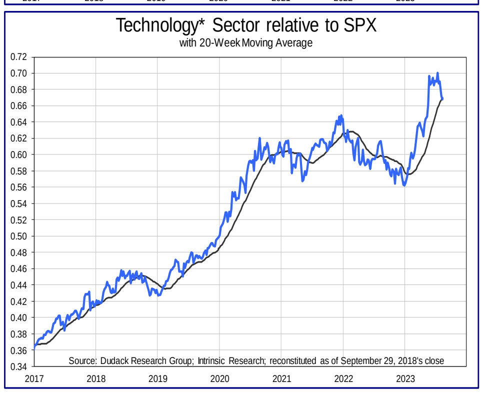
3/8/2022:Materials upgraded from underw eight to neutral/communication service dow ngraded from neutral to underw eight. 3/1/2022 Financials dow ngraded to neutral and Industrials upgraded to overw eight.

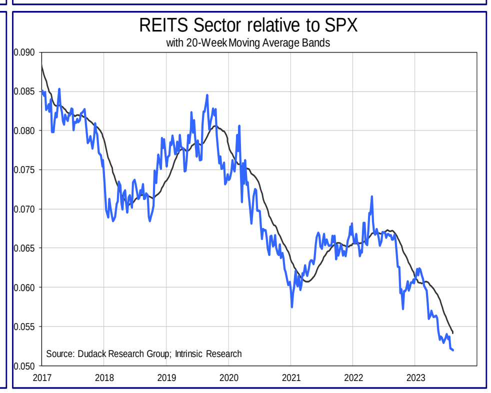


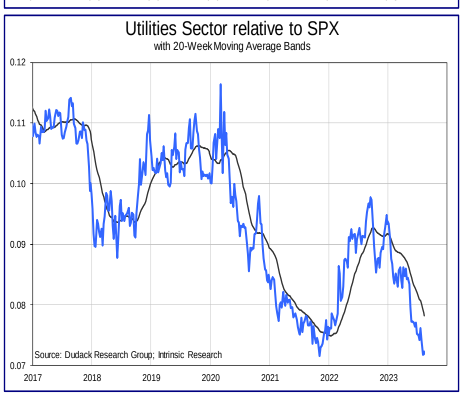


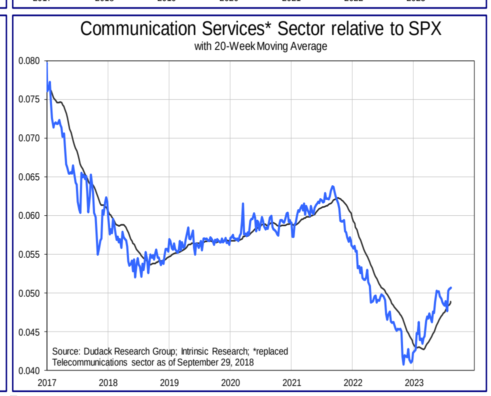


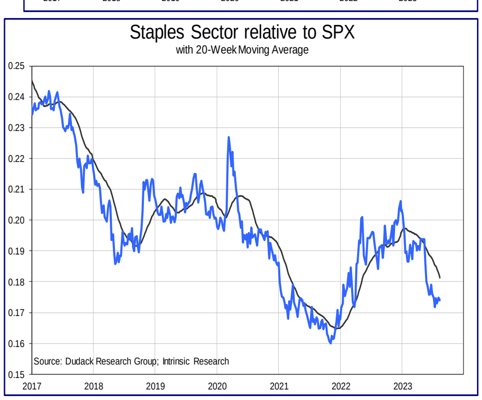


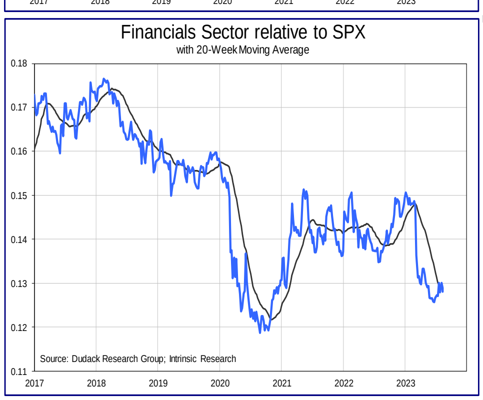












2023 Performance - Ranked	
SP500 Sector	% Change
S&P COMMUNICATIONS SERVICES	41.1%
S&P CONSUMER DISCRETIONARY	31.8%
S&P INFORMATION TECH	36.8%
S&P MATERIALS	4.8%
S&P REITS	-0.7%
S&P 500	15.6%
S&P FINANCIAL	-0.2%
S&P ENERGY	-0.7%
S&P INDUSTRIALS	9.3%
S&P HEALTH CARE	-0.4%
S&P UTILITIES	-11.0%
S&P CONSUMER STAPLES	-0.8%

Source: Dudack Research Group; Refinitiv; Monday closes

US Asset Allocation

	Benchmark	DRG %	Recommendation
Equities	60%	55%	Neutral
Treasury Bonds	30%	20%	Underweight
Cash	10%	25%	Overweight
	100%	100%	

Source: Dudack Research Group; raised cash and lowered equity 15% on December 21, 2022

DRG Earnings and Economic Forecasts

	S&P 500 Price	S&P Dow Jones Reported EPS**	S&P Dow Jones Operating EPS**	DRG Operating EPS Forecast	DRG EPS YOY %	IBES 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 %
2006	1418.30	$81.51	**$87.72**	$87.72	14.7%	**$88.18**	15.6%	16.2X	1.8%	2.8%	$1,216.10	9.7%
2007	1468.36	$66.18	**$82.54**	$82.54	-5.9%	**$85.12**	-3.5%	17.8X	1.8%	2.0%	$1,141.40	-6.1%
2008	903.25	$14.88	**$49.51**	$49.51	-40.0%	**$65.47**	-23.1%	18.2X	2.5%	0.1%	$1,029.90	-9.8%
2009	1115.10	$50.97	**$56.86**	$56.86	14.8%	**$60.80**	-7.1%	19.6X	2.6%	-2.6%	$1,182.90	14.9%
2010	1257.64	$77.35	**$83.77**	$83.77	47.3%	**$85.28**	40.3%	15.0X	1.9%	2.7%	$1,456.50	23.1%
2011	1257.60	$86.95	**$96.44**	$96.44	15.1%	**$97.82**	14.7%	13.0X	2.0%	1.5%	$1,529.00	5.0%
2012	1426.19	$86.51	**$96.82**	$96.82	0.4%	**$103.80**	6.1%	14.7X	2.1%	2.3%	$1,662.80	8.8%
2013	1848.36	$100.20	**$107.30**	$107.30	10.8%	**$109.68**	5.7%	17.2X	2.0%	1.8%	$1,648.10	-0.9%
2014	2127.83	$102.31	**$113.01**	$113.01	5.3%	**$118.78**	8.3%	18.8X	2.2%	2.3%	$1,713.10	3.9%
2015	2043.94	$86.53	**$100.45**	$100.45	-11.1%	**$118.20**	-0.5%	20.3X	2.1%	2.7%	$1,664.20	-2.9%
2016	2238.83	$94.55	**$106.26**	$96.82	-3.6%	**$118.10**	-0.1%	21.1X	1.9%	1.7%	$1,661.50	-0.2%
2017	2673.61	$109.88	**$124.51**	$124.51	28.6%	**$132.00**	11.8%	21.5X	1.8%	2.3%	$1,816.60	9.3%
2018	2506.85	$132.39	**$151.60**	$151.60	21.8%	**$161.93**	22.7%	16.5X	1.9%	2.9%	$2,023.40	11.4%
2019	3230.78	$139.47	**$157.12**	$157.12	3.6%	**$162.93**	0.6%	20.6X	1.8%	2.3%	$2,065.60	2.1%
2020	3756.07	$94.14	**$122.38**	$122.38	-22.1%	**$139.72**	-14.2%	30.7X	1.6%	-2.8%	$1,968.10	-4.7%
2021	4766.18	$197.87	**$208.17**	$208.17	70.1%	**$208.12**	49.0%	22.9X	1.3%	5.9%	$2,382.80	21.1%
2022	3839.50	$172.75	**$196.95**	$196.95	-5.4%	**$218.09**	4.8%	19.5X	1.4%	2.1%	$2,478.80	4.0%
2023E	~~~~~	$200.48	**$219.42**	$212.00	7.6%	**$219.43**	0.6%	20.3X	NA	NA	NA	NA
2024E	~~~~~	$222.15	**$244.06**	$230.00	8.5%	**$245.55**	11.9%	18.2X	NA	NA	NA	NA
2016 1Q	2059.74	$21.72	**$23.97**	$23.97	-7.1%	**$26.96**	-5.7%	20.9	2.1%	2.4%	$1,664.90	-2.5%
2016 2Q	2098.86	$23.28	**$25.70**	$25.70	-1.7%	**$29.61**	-1.6%	21.4	2.1%	1.2%	$1,624.20	-3.8%
2016 3Q	2168.27	$25.39	**$28.69**	$28.69	12.8%	**$31.21**	4.1%	21.4	2.1%	2.4%	$1,649.90	-1.5%
2016 4Q	2238.83	$24.16	**$27.90**	$27.90	21.0%	**$31.30**	6.0%	21.1	2.0%	2.0%	$1,707.00	7.7%
2017 1Q	2362.72	$27.46	**$28.82**	$28.82	20.2%	**$30.90**	14.6%	21.3	2.0%	1.7%	$1,791.40	7.6%
2017 2Q	2423.41	$27.01	**$30.51**	$30.51	18.7%	**$32.58**	10.0%	20.9	1.9%	2.0%	$1,803.70	11.1%
2017 3Q	2519.36	$28.45	**$31.33**	$31.33	9.2%	**$33.45**	7.2%	21.2	1.9%	3.4%	$1,845.10	11.8%
2017 4Q	2673.61	$26.96	**$33.85**	$33.85	21.3%	**$36.02**	15.1%	21.5	1.8%	4.1%	$1,884.60	10.4%
2018 1Q	2640.87	$33.02	**$36.54**	$36.54	26.8%	**$38.07**	23.2%	20.0	1.9%	2.8%	$1,968.30	9.9%
2018 2Q	2718.37	$34.05	**$38.65**	$38.65	26.7%	**$41.00**	25.8%	19.4	1.9%	2.8%	$1,972.70	9.4%
2018 3Q	2913.98	$36.36	**$41.38**	$41.38	32.1%	**$42.66**	27.5%	19.4	1.8%	2.9%	$2,028.40	9.9%
2018 4Q	2506.85	$28.96	**$35.03**	$35.03	3.5%	**$41.18**	14.3%	16.5	2.1%	0.7%	$2,087.60	10.8%
2019 1Q	2834.40	$35.02	**$37.99**	$37.99	4.0%	**$39.15**	2.8%	18.5	1.9%	2.2%	$2,051.00	4.2%
2019 2Q	2941.76	$34.93	**$40.14**	$40.14	3.9%	**$41.31**	0.8%	19.0	1.9%	2.7%	$2,115.30	7.2%
2019 3Q	2976.74	$33.99	**$39.81**	$39.81	-3.8%	**$42.14**	-1.2%	19.5	1.9%	3.6%	$2,130.00	5.0%
2019 4Q	3230.78	$35.53	**$39.18**	$39.18	11.8%	**$41.98**	1.9%	20.6	1.8%	1.8%	$2,122.70	1.7%
2020 1Q	2584.59	$11.88	**$19.50**	$19.50	-48.7%	**$33.13**	-15.4%	18.6	2.3%	-4.6%	$1,965.90	-4.1%
2020 2Q	4397.35	$17.83	**$26.79**	$26.79	-33.3%	**$27.98**	-32.3%	35.1	1.9%	-29.9%	$1,746.10	-17.5%
2020 3Q	3363.00	$32.98	**$37.90**	$37.90	-4.8%	**$38.69**	-8.2%	27.3	1.7%	35.3%	$2,154.30	1.1%
2020 4Q	3756.07	$31.45	**$38.19**	$38.19	-2.5%	**$42.58**	1.4%	30.7	1.6%	3.9%	$2,018.50	-4.9%
2021 1Q	3972.89	$45.95	**$47.41**	$47.41	143.1%	**$49.13**	48.3%	26.4	1.5%	6.3%	$2,237.40	13.8%
2021 2Q	4297.50	$48.39	**$52.03**	$52.03	94.2%	**$52.58**	87.9%	24.5	1.3%	7.0%	$2,401.70	37.5%
2021 3Q	4307.54	$49.59	**$52.02**	$52.02	37.3%	**$53.72**	38.8%	22.7	1.4%	2.7%	$2,456.40	14.0%
2021 4Q	4766.18	$53.94	**$56.71**	$56.71	48.5%	**$53.95**	26.7%	22.9	1.3%	7.0%	$2,435.90	20.7%
2022 1Q	4530.41	$45.99	**$49.36**	$49.36	4.1%	**$54.80**	11.5%	21.6	1.4%	-1.6%	$2,374.60	6.1%
2022 2Q	3785.38	$42.74	**$46.87**	$46.87	-9.9%	**$57.62**	9.6%	18.5	1.7%	-0.6%	$2,522.60	5.0%
2022 3Q	3585.62	$44.41	**$50.35**	$50.35	-3.2%	**$56.02**	4.3%	17.6	1.8%	3.2%	$2,543.00	3.5%
2022 4Q	3839.50	$39.61	**$50.37**	$50.37	-11.2%	**$53.15**	-1.5%	19.5	1.7%	2.6%	$2,475.20	1.6%
2023 1QE	4109.31	$48.41	**$52.54**	$52.54	6.4%	**$53.08**	-3.1%	20.5	1.7%	2.0%	$2,307.00	-2.8%
2023 2QE	4450.38	$49.52	**$54.80**	$52.46	11.9%	**$54.09**	-6.1%	21.4	NA	2.4%	NA	NA
2023 3QE*	4437.86	$50.44	**$55.20**	$54.00	7.2%	**$55.87**	-0.3%	20.8	NA	NA	NA	NA
20244QE	~~~~~	$52.11	**$56.88**	$53.00	5.2%	**$57.74**	8.6%	20.3	NA	NA	NA	NA

Source: DRG; S&P Dow Jones; Refinitiv Consensus estimates; **quarterly EPS may not sum to official CY estimates *8/15/2023

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