# Equity Intelligence Report
February 2023

GAMMA INVESTMENT CONSULTING

## Gamma Equity Model Highlights

- **The S&P 500 and Nasdaq Models remained neutral (in cash) for February**. Several shorter-term components of the Model turned positive, but liquidity continues to worsen with all measures now solidly negative. Most of the 19 international stock index Models are neutral, though the Models for Japan, China, and India remained positive for February and the Mexican IPC Model went long after being neutral since March 2022.

- **Energy was again forecasted to be the top performing sector for February**. The sector held the top spot due to earnings growth that is far outstripping any of the other sectors. Gold Mining shares jumped into the second spot supported by excellent valuation and a big improvement in earnings growth. Consumer Staples held the third spot largely due to defensive positioning ahead of a likely recession later this year. For the opposite reason, Consumer Discretionary claimed the bottom spot among the major sectors.

- **All of our recommendations from last month remain on our "long" list for February including Las Vegas Sands (LVS), AES Corporation (AES), Skyworks (SWKS), Diamondback Energy (FANG), Kroger (KR), and Altria Group (MO)**. The expected return forecasts for these seven stocks remain above the 0.19% average for all the stocks in the S&P 500, though the positive earnings momentum for Diamondback slowed significantly. In addition to these seven, the Gamma Stock Model is also adding Pulte Group (PHM), SVB Financial Group (SIVB), Celanese (CE), and Oneok (OKE), all of which have well-above-average expected returns for February and strong, positive factor momentum.

## I. Equity Index Outlook

US equities posted a solid January with the S&P 500 rallying 4.4% and the Nasdaq jumping an aggressive 10.7%. The slowing pace of interest rate increases caused several of the Model's short-term indicators to turn neutral to slightly bullish for February. The longer-term indicators remained bearish, however, as all the major liquidity indicators deteriorated further and earnings growth continued to slow. Our Composite Liquidity Indicator (CLI) put in a new low in January and is now at its lowest level since August 1981 (Chart 2). Valuation also remained problematic, with the January rally pushing the S&P 500 to 18% overvalued. For these reasons, both the S&P 500 and Nasdaq Models remained neutral for February (Chart 1).

***Negative Factors***

- Short-term interest rates continue to rise. The Federal Reserve raised its Fed Funds rate 25 basis points at its meeting last week. That marks a 475 basis point increase in short-term interest rates since their March 2022 lows, the largest 12-month rate hike since 1980. A 5% peak in the Fed Funds rate would also be the highest interest rate level since 2007 when a 400 basis point increase led to the collapse of the real estate bubble. The increase marked the second slowing in the pace of interest rate hikes. In December, the Fed Funds rate rose 50 basis points after four consecutive 75 basis point increases. The Fed has suggested that two more 25 basis point hikes are in order. The CME FedWatch Tool currently indicates with 85% confidence that rates will be raised another 25 basis points at the March meeting. Despite the Fed's comments, however, the FedWatch Tool also indicates at best a 35% chance of an additional increase in any month the rest of the year. In fact, the odds begin to favor a rate cut by year-end as inflation subsides. This may encourage equity bulls, but they should also be aware that since 1960 after a major bear market (>20% peak-to-trough decline), stock prices did not bottom until an average of 9.7 months after the Fed stopped raising rates. The lag has ranged from as short as zero to as long as 29 months. The implication is that a Fed pause does not automatically translate into a new bull market.

- The yield curve has inverted further. After steepening in December, both the 3-30 and 2-10 Treasury yield curves flattened sharply in January (Chart 3). While long term interest rates dropped during the month, short term rates continued to march higher. As a result, **the 3-30 curve inverted to -0.91%, its most extreme inversion since -1.21% in August 1981**. The inversion in 1981, incidentally, was followed by a 19% drop in the S&P 500. The 2-10 yield curve also flattened to a near-record -0.69%. **Both curves remain at their most inverted levels since 1981 and remain indicative of a very restrictive monetary policy.** Such extreme inversion will put a damper on bank lending which should further slow money growth which, on an inflation-adjusted basis, is already negative. The longer and more extreme the inversion, the greater the risk of another major leg down in equity prices. Since 1960, inversions in the 3-30 curve have invariably been followed by much lower stock prices. **The bottom in stock prices has occurred on average 13.5 months after the curve inverts.** Assuming that this cycle plays out similar to others, stock prices are not likely to bottom until mid-to-late 2023 which is consistent with the 9.7-month interest rate lag noted above.
- Every measure of real money growth has turned strongly negative. After holding out the last three months, the last major measure of money growth, real True Money Supply (TMS) turned negative last month. Real (inflation-adjusted) TMS growth was down -3.8% yr/yr in January. TMS joins real M1 and M2 growth whose growth has been negative for months (Chart 4). Real M1 fell -10.8% yr/yr last month. Real M2 was down -8.4% yr/yr. Both measures have been negative for eight months in a row. The decline in real M2 is the most extreme on record. The next most extreme decline, -7.4%

**CHART 1**

**USA: S&P 500 Model Forecast**

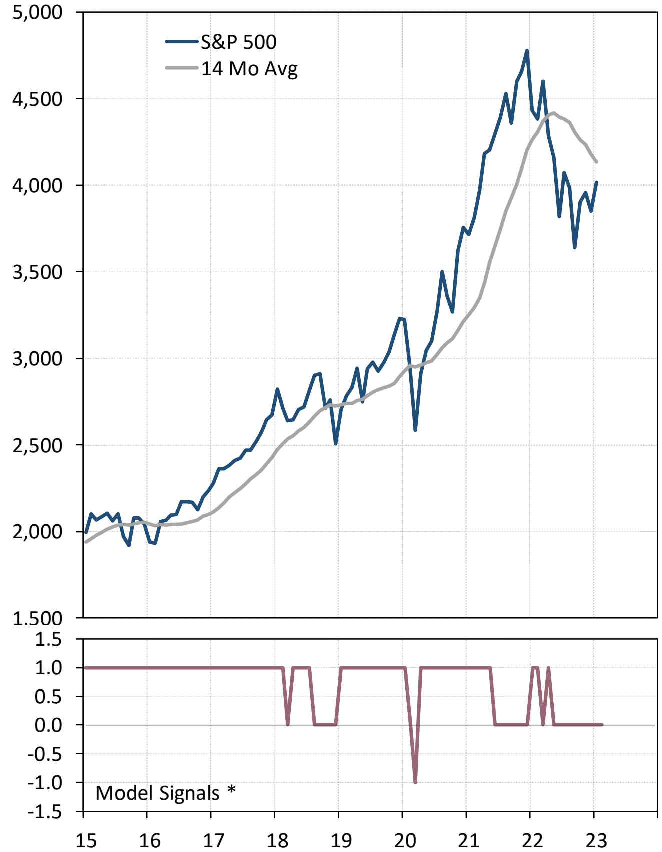



**CHART 2**

**Composite Liquidity Indicator**

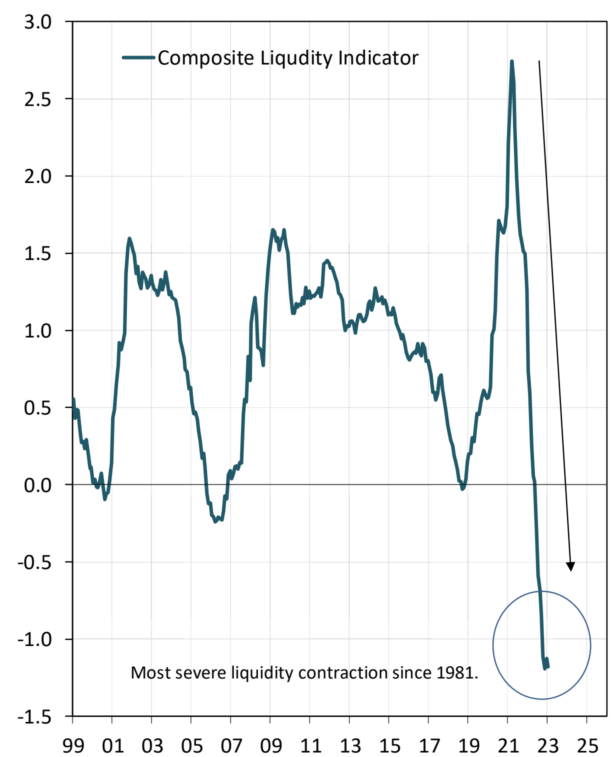
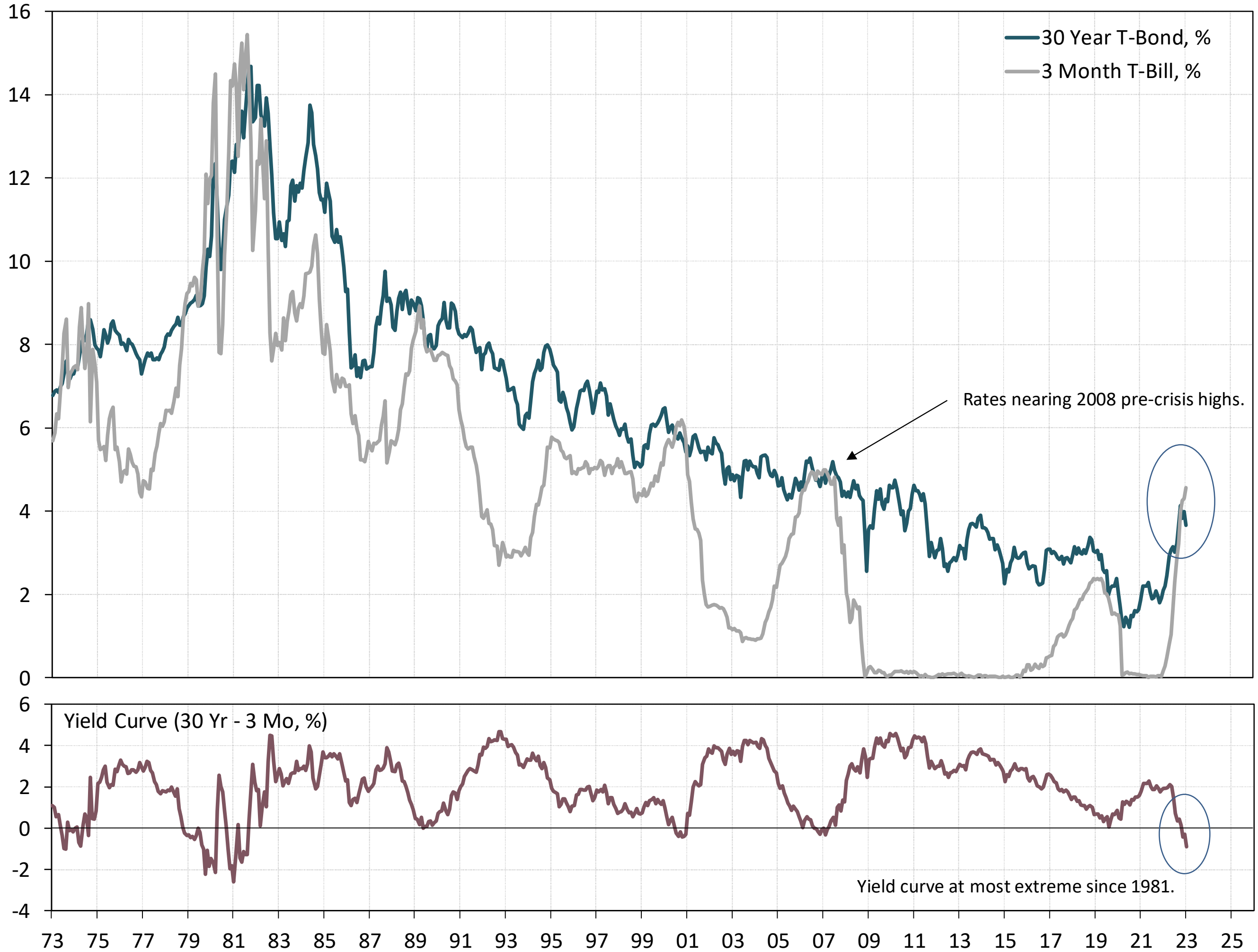


CHART 3

**Interest Rates: United States**




yr/yr, occurred in 1980. A peak in interest rates in March may potentially ease some of the downward pressure on money growth. The Gamma Economic Model predicts that real money growth will bottom in the first half of the year. Because of the lag between money growth and economic activity, stronger money growth is not likely to provide any meaningful support to equities until late 2023.

- The Federal Reserve's portfolio continues to contract. The Federal Reserve continues to drain liquidity from the banking system by reducing the size of its securities portfolio. The Fed's portfolio has contracted eight months in a row for a total drawdown of $337 billion since May 2022 (Chart 5). Total bank reserves, while still well above their already inflated pre-Covid levels, are down over $500 billion over the same period. These numbers show no inclination on the part of the Fed to end its tightening. The numbers bear close watching, however, as a slower rate of liquidation will indicate that the Fed is satisfied that it's done enough to bring inflation back to its 2% target.
- Stocks are still overvalued. Last month's stock rally in the face of rising interest rates and rapidly slowing earnings growth helped push overvaluation to 18% (0.90 standard deviations) for the S&P 500 and to 26% for the Nasdaq (Table 1). 12-month earnings for the S&P 500 were unchanged last month compared to a 60% yr/yr increase a year ago. Nasdaq earnings were down -8% compared to a 45% yr/yr increase last January. Earnings momentum also

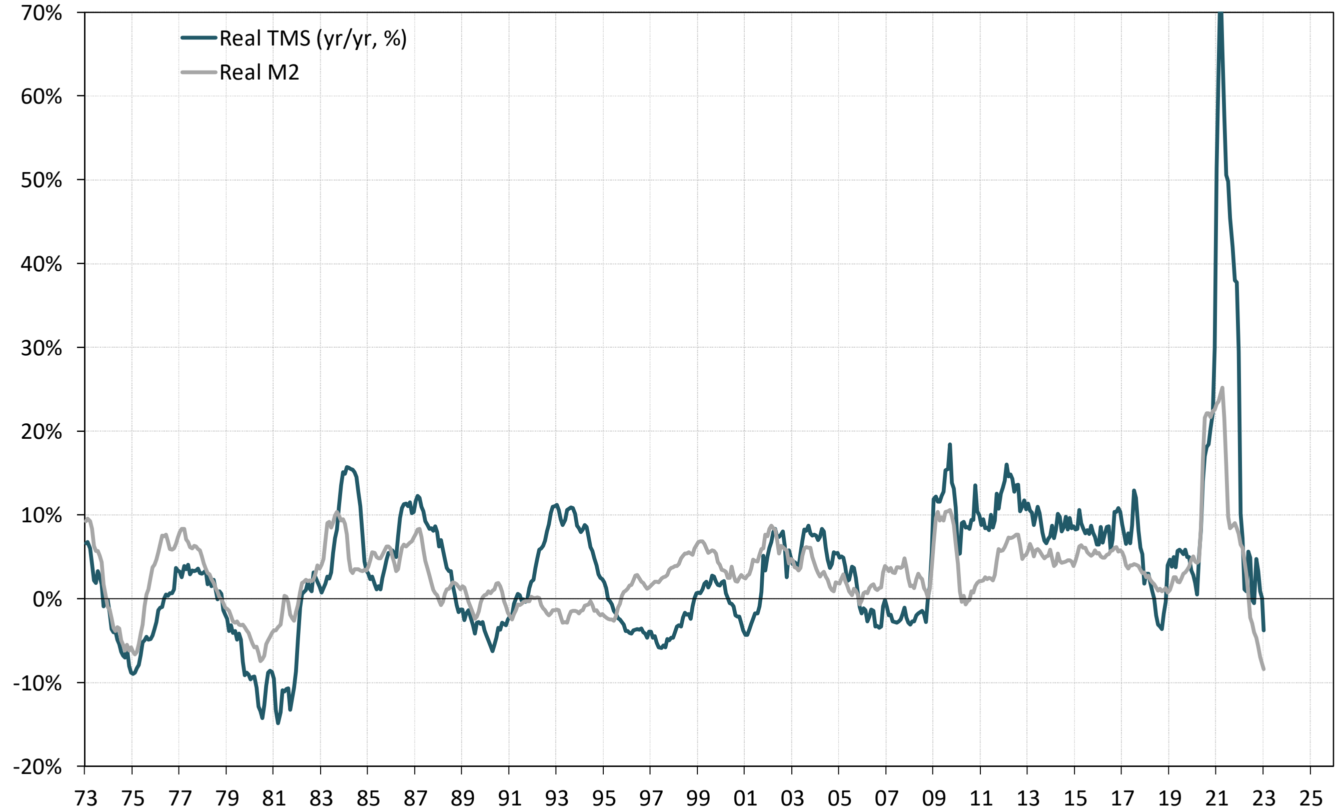
TABLE 1

**EQUITY INDEX VALUATION**

| Country | Valuation (σ) | Valuation (%) |
|---|---|---|
| United States | +0.90 | +18% |
| S&P 500 | +0.79 | +17% |
| Nasdaq | +0.93 | +26% |
| S&P 600 Small Cap | -0.88 | -15% |

CHART 4

## Real True Money Supply and M2




deteriorated further indicating that the collapse in earnings growth is not close to being over. In fact, earnings could worsen further as the economy slows later this year. As we have noted in previous issues, **no recovery from a major bear market low has occurred in the last 60 years when stocks were not at least fairly valued. On average, new bull markets launched when stocks were 25% undervalued.** At current valuation, the S&P 500 would need to fall below 3,500 just to reach fair value; a decline to 25% undervaluation would see the S&P 500 fall near to its Covid-low of 2,200. While interest rates may be near their peak, it would take an actual sharp drop in rates combined with resurgent earnings growth for valuation to improve substantially without a further drop in stock prices.

- <u>Corporate earnings growth is rapidly slowing</u>. As noted above, 12-month trailing earnings for the S&P 500 were unchanged in January (Chart 6). Earnings were growing at a 26% annual rate as recently as six months ago (Table 2). The Nasdaq shows even worse performance with 12-month earnings down -8% yr/yr last month. Earnings are now well below

CHART 5

## Federal Reserve Balance Sheet (Trillion $)

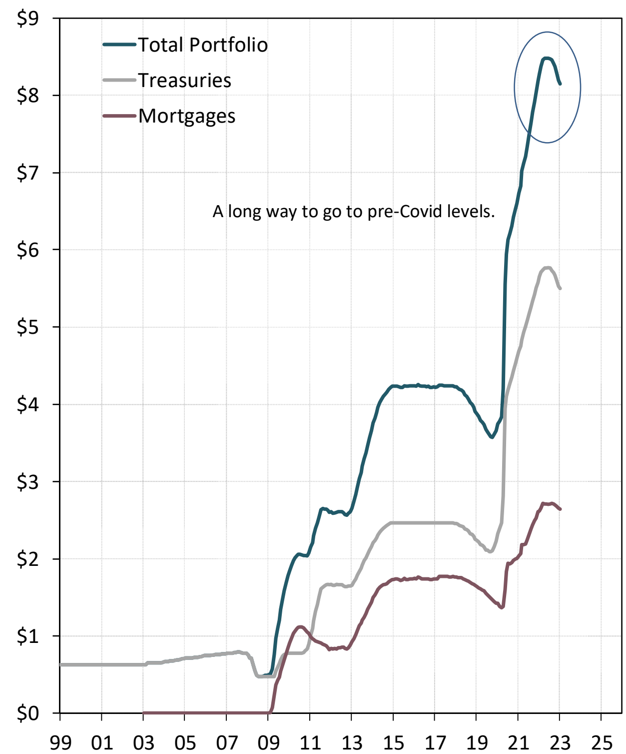
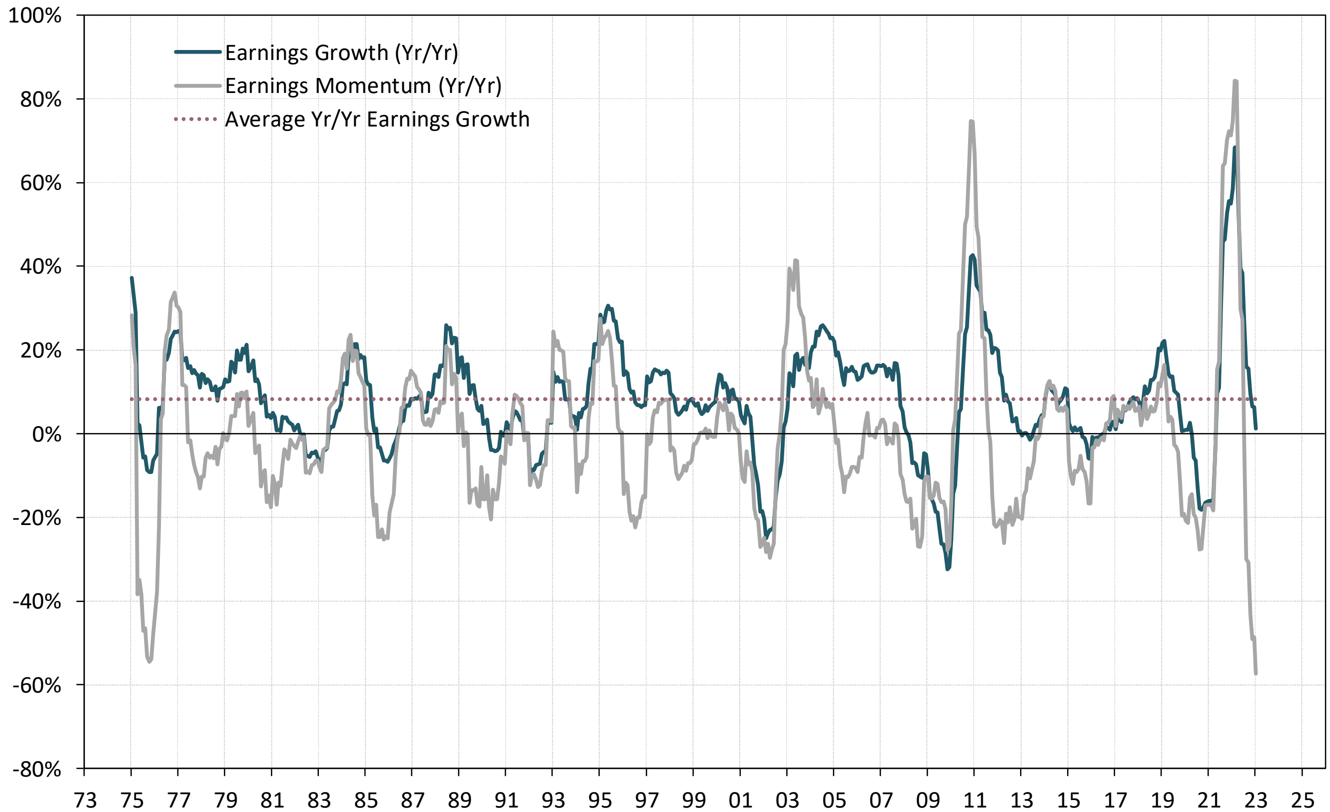


Chart 6

## US Total Market Earnings Growth




the 8.8% average annual growth in US corporate earnings since 1974. The problem is that earnings are still likely to fall further which is why major bear market bottoms have typically not occurred until the economy is well into recession. Corporate earnings have historically not begun to recover until, on average, four months after the Conference Board's Index of Leading Economic Indicators (LEI) starts to rise. The LEI has fallen nine months in a row, and the pace of decline is actually accelerating. The Index fell -0.1% in October, -0.5% in November, -1.0% in December, and -1.1% in January. Corporate earnings have historically turned negative ten months after the LEI turns down and have remained negative for four months after the LEI has turned positive. **Given the worsening outlook for the US economy, the odds still strongly favor further deterioration in earnings.**

TABLE 2

**Earnings Growth (12-Month Trailing)**

| Sector | Yr/Yr % Change | Yr/Yr Moment |
|---|---|---|
| Energy | +302% | -51% |
| Utilities | +26% | +34% |
| Real Estate | +21% | -18% |
| Materials | +8% | -193% |
| Health Care | +8% | -30% |
| Industrials | +6% | -48% |
| Consumer Staples | +1% | -18% |
| Technology | -6% | -54% |
| Consumer Discretionary | -10% | -68% |
| Communication Services | -12% | -64% |
| Gold Mining Shares | -22% | -45% |
| Financials | -33% | -123% |
| USA (Total Market) | +1% | -57% |
| USA (S&P 500) | +2% | -55% |
| USA (Nasdaq Composite) | -8% | -53% |

*Positive Factors*

- Seasonals. Despite the generally bearish outlook based on fundamentals, US equities remain in a strongly positive seasonal period. February has historically been the weakest of the bullish October-May stretch but it has still has averaged a 0.3% gain.
- Is all the bad news already discounted? The Fed is nearing the end of its tightening cycle regardless of whether rates go up another 25 or 50 bps. Some forecasters have predicted that last week's 517,000 increase in payrolls (plus upward revisions to the three previous months) will force the Fed to raise rates

more than its announced 25-50 basis points. The argument is that wage inflation emanating from an overheated labor market will prevent inflation from returning to the Fed's 2% annual target rate. Our belief is that this is unlikely as such an additional increase in rates, given the inverted yield curve and negative money growth, could unexpectedly plunge the economy to slide into a severe recession History is filled with examples where the Fed tightened too aggressively only to have the economy plunge completely unexpectedly into recession. For example, former Fed Chairman Ben Bernanke stated in 2008, **when the economy was already three months into recession**, that the Fed did not anticipate a recession. I think the Fed, given the size of the Federal budget deficit, is likely to at least pause for an extended period of time after another 25-50 basis point rate hike. In that case, it is possible that markets have fully discounted all the bad news and are already looking forward to the positive effects of a lower inflation and stable/lower interest environment. Our belief is that such optimism is premature given the preponderance of bearish fundamentals. Historical relationships provide guidance to future events, but experience indicates the future rarely fully from the past. But there is always a risk that "this time really is different."

***Neutral Factors***

- Non-US equity valuation. We have noted this in previous reports, but non-US equities are much more attractively priced than US stocks (Table 3). Equity Models for India, China, and Japan went long in December largely based on attractive valuations. Japan rose 4.4%, China rose 10.7%, but India dropped -3.3% in January. Eurozone stock prices rose 6.1%. We expect that non-US equities will continue to outperform the US. Our indicators show that the average non-US stock index is still 24% (1.05 σ) undervalued even after their January rally. In contrast to the US, that level of valuation is very much consistent with the average valuation historically seen at major equity bottoms. This suggests that when the end of this tightening cycle arrives, countries like Australia, China, Brazil, and most of Europe will dramatically outperform the US. This extreme non-US undervaluation may effectively put a floor under global equity prices, since these markets may have already discounted very bearish fundamentals. Cheap foreign stocks may help cushion a further sharp drop in US equity prices. The risk is that the undervaluation of non-US markets could trigger a movement out of US equities into cheaper non-US markets that could result in additional selling pressure on US stocks when the US economy weakens later in the year.

**TABLE 3**
**NON-US EQUITY INDEX VALUATION**

| Country | Valuation (σ) | Valuation (%) |
|---|---|---|
| Canada | -1.38 | -23% |
| Brazil | -2.26 | -48% |
| Mexico | -1.28 | -19% |
| Australia | -1.74 | -41% |
| Japan | -0.00 | -0% |
| China | -0.71 | -26% |
| S. Korea | -0.93 | -21% |
| India | -0.67 | -12% |
| Europe | -1.42 | -32% |
| Germany | -1.64 | -35% |
| France | -0.31 | -7% |
| Italy | -1.38 | -34% |
| Switzerland | -1.72 | -34% |
| UK | +0.01 | +0% |
| Russia | -1.80 | -69% |
| S. Africa | -1.45 | -24% |

## II. Equity Sector Outlook

The Energy sector is forecasted to be the top performer for February (Table 4). Energy has had the highest monthly expected return of all the major sectors every month since June 2022. Over that period of time, the total return to the Energy sector stocks has been over 27%. The sector struggled in January, falling -4.2% as crude oil prices dropped -2% and natural gas prices plummeted -38%. Despite that, the sector continues to dominate due to a huge edge in earnings growth (Table 5). Energy sector earnings were up 302% yr/yr in January compared to an average of -1% for all the other sectors. That edge may start to narrow over the coming months as yr/yr earnings momentum has swung from +51% in December to -51% last month. That still compares favorably to the average -57% rate on the other sectors but is still an indication that the strong outperformance of the sector may start to wind down over the coming months. There is some evidence of this in our individual stock picks. Only two of our top company picks for February are in the Energy sector compared to the last several months when as many as half of our top picks came from that sector. The other factor likely to provide support to the sector is very favorable valuation. Despite the sector's 27% return since last June, the Gamma Model indicates that Energy stocks are still 2.47 standard deviations (-48%) undervalued (Table 6). Such extreme undervaluation is likely to provide significant price support even if earnings growth continues to slow.

TABLE 4

**1 Mo Stock Sector Index Forecasts (%)**

| Sector | Ticker | 1 Mo Forecast | Previous Forecast | Change |
|---|---|---|---|---|
| Energy | XLE | 1.69% | 1.39% | 0.30% |
| Gold Miners | | 1.32% | -0.02% | 1.34% |
| Consumer Staples | XLP | 0.66% | 0.12% | 0.54% |
| Real Estate | XLRE | 0.61% | -0.97% | 1.57% |
| Health Care | XLV | 0.56% | 0.09% | 0.47% |
| Materials | XLB | 0.26% | -0.13% | 0.40% |
| Technology | XLK | 0.14% | -1.31% | 1.45% |
| Industrials | XLI | 0.11% | -0.58% | 0.69% |
| Utilities | XLU | 0.10% | -0.44% | 0.54% |
| Financials | XLF | 0.03% | -1.26% | 1.29% |
| Communications Services | XLC | -0.03% | -1.08% | 1.05% |
| Consumer Discretionary | XLY | -0.28% | -1.79% | 1.50% |

While the Energy sector continues to dominate, Gold Mining shares jumped to number two on the outlook for February. Gold shares have languished at or near the bottom of the sector rankings for at least the last year. The sharpest rise in in interest rates since the early 1980s effectively kept a lid on precious metals prices. The Gamma Gold Model, however, has remained long for the third month in a row, and the other precious metals Models (silver, platinum, and palladium) all covered their short positions and went long. Gold has risen three months in a row and is now up 17% from its October low. The precious metals complex continues to benefit from very favorable valuation even after the recent rally. Gold prices remain 37 % undervalued (1.6 σ) (Table 5). Silver is 1.5 standard deviations undervalued (-51%), and platinum is 2 standard deviations below fair value (-58%). All three metals had hit 40-year valuation lows in October. They have since recovered somewhat but all still have ample upside potential based on valuation. In addition, the prospect of an end to Fed rate hikes would effectively remove the major headwind that has prevented gold from moving higher despite the most attractive valuation in 40 years.

TABLE 5

**Earnings Growth (12-Month Trailing)**

| Sector | Yr/Yr % Change | Yr/Yr Moment |
|---|---|---|
| Energy | +302% | -51% |
| Utilities | +26% | +34% |
| Real Estate | +21% | -18% |
| Materials | +8% | -193% |
| Health Care | +8% | -30% |
| Industrials | +6% | -48% |
| Consumer Staples | +1% | |
| Technology | -6% | -54% |
| Consumer Discretionary | -10% | -68% |
| Communication Services | -12% | -64% |
| Gold Mining Shares | -22% | -45% |
| Financials | -33% | -123% |
| USA (Total Market) | +1% | -57% |
| USA (S&P 500) | +2% | -55% |
| USA (Nasdaq Composite) | -8% | -53% |

Growth in Gold Mining earnings is still the major obstacle to further gains. Yr/yr earnings were down -22% in January, but that was still an improvement from -28% in December. Annual earnings momentum also improved from -65% to -45%. Negative, though improving, earnings are offset by extremely attractive valuation. The Gamma Model indicates that Gold Mining sector is the second cheapest sector after energy. Gold Mining stocks are 1.26 standard deviation or 37% undervalued. This will likely provide support to the sector until earnings growth accelerates.

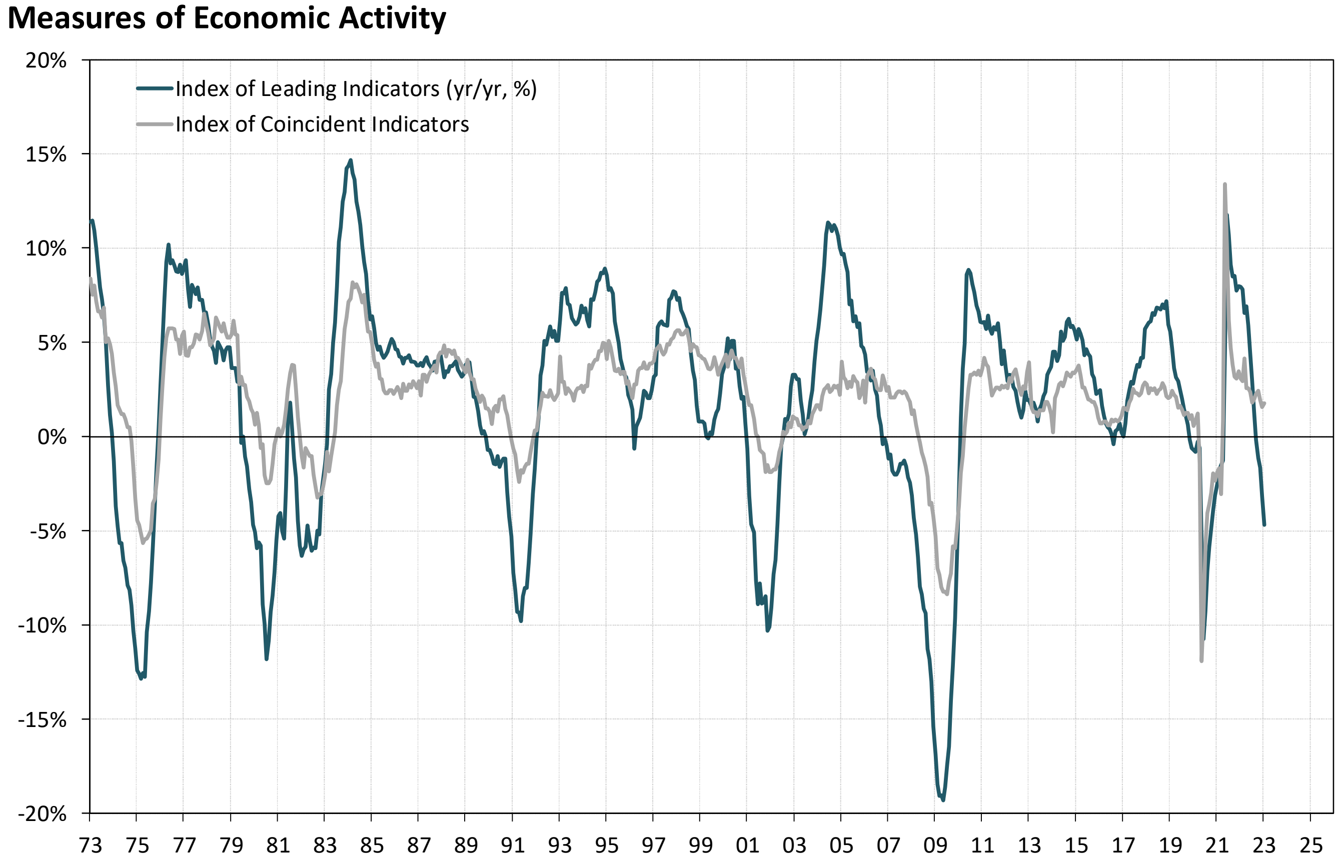
TABLE 6

**Sector Valuation Analysis**

| Sector | Valuation (σ) | Valuation (%) |
|---|---|---|
| Energy | -2.47 | -48% |
| Gold Mining Shares | -1.26 | -37% |
| Real Estate | -0.67 | -20% |
| Consumer Staples | -0.06 | -1% |
| Financials | -0.05 | -1% |
| Industrials | +0.68 | +15% |
| Technology | +0.81 | +27% |
| Materials | +0.97 | +15% |
| Communication Services | +1.12 | +31% |
| Health Care | +1.29 | +29% |
| Consumer Discretionary | +1.90 | +46% |
| Utilities | +1.98 | +29% |

Behind the Energy and Gold Mining sectors is Consumer Staples. This is purely a defensive play, as signs of a substantial slowing in economic activity later this year continue to pile up. The Conference Board's index of leading economic indicators (LEI) fell again in January, the ninth consecutive decline since peaking in April 2022 (Chart 7). The index is now down -4.7% yr/yr. The index has never been down over 2% yr/yr without being followed by a recession. Optimists will point out that fourth quarter 2022 GDP rose 2.9%. Half of that increase, however, was due to a buildup of inventories which effectively borrows from future growth. Also

CHART 7




contributing to the number was an improvement in net exports. The problem is that this gain resulted from a slowdown in international trade; imports simply fell faster than exports. Our Gamma Economic Model projects that the LEI will not bottom until the third quarter 2023 with GDP growth bottoming in the fourth quarter. Earnings in this sector also continue to hold up. Yr/yr earnings were up 1% in January. Earnings momentum, while negative, was -10% compared to an average of -60% across all the other sectors.

Bringing up the rear is the Consumer Discretionary sector for the exact opposite reasons as Consumer Staples. Consumer Discretionary stocks are forecast to drop -0.28% in February. The sector suffers from weak earnings growth (-10% yr/yr) and even weaker earnings momentum (-68%). Also putting downward pressure on the sector is very high valuation. The Gamma Model estimates that Consumer Discretionary stocks are a whopping 46% overvalued (1.90 standard deviations), the highest level of overvaluation of all the sectors.

## III. Stock Recommendations and Reviews

The Gamma Company Model entered January with only a very short list of "long" candidates for January due to the poor outlook for the overall market. There were few stocks with both attractive expected returns and positive factor momentum. Table 7 shows the performance of these stocks in both absolute returns and relative to the S&P 500 through the end of January. LVS posted the best absolute performance, but top performance relative to the S&P 500 benchmark was captured by Skywork Solutions (SWKS). All of these remain on our "hold long" list as the expected return for all the companies is still well above the average for the S&P 500. Diamondback (FANG), the one energy sector stock, remained on the list but also suffered the largest drop in earnings and factor momentum of the group.

**TABLE 7**

**GAMMA COMPANY MODEL - Recommended List Performance as of 1.31.23**

| Sector | Ticker | Entry Price | Closing Price 1.31.23 | % Change | Trade Date | S&P 500 % Change | Excess Return |
|---|---|---|---|---|---|---|---|
| McKesson Corp | MCK | $313.34 | $378.68 | 20.9% | 6.10.22 | 4.5% | 16.3% |
| AES Corp. | AES | $28.67 | $27.41 | -4.4% | 12.2.22 | 0.1% | -4.5% |
| Skywork Solutions Inc. | SWKS | $93.96 | $109.67 | 16.7% | 12.2.22 | 0.1% | 16.6% |
| Diamondback Energy, Inc. | FANG | $145.46 | $146.12 | 0.5% | 12.2.22 | 0.1% | 0.3% |
| Kroger Co. | KR | $47.57 | $44.63 | -6.2% | 12.2.22 | 0.1% | -6.3% |
| Altria Group, Inc. | MO | $47.63 | $45.04 | -5.4% | 12.2.22 | 0.1% | -5.6% |
| Las Vegas Sands Corp. | LVS | $48.07 | $59.00 | 22.7% | 1.3.23 | 6.6% | 16.1% |
| | | | | | | AVERAGE | 4.7% |

A number of short-term indicators of the broad market improved in January despite the overall negative liquidity outlook. As a result, the Gamma Company Model generated a significantly larger number of "buy" recommendations for February than what we've seen in recent months. Additions to the portfolio this month include Pulte Group (PHM), SVB Financial Group (SIVB), Celanese (CE), and Oneok (OKE) all of which have well-above-average expected returns for February and strong, positive factor momentum (Table 8).

**TABLE 8**

**1 Month Company Stock Price Forecasts (%)** — **Updated: Jan 31, 2023**

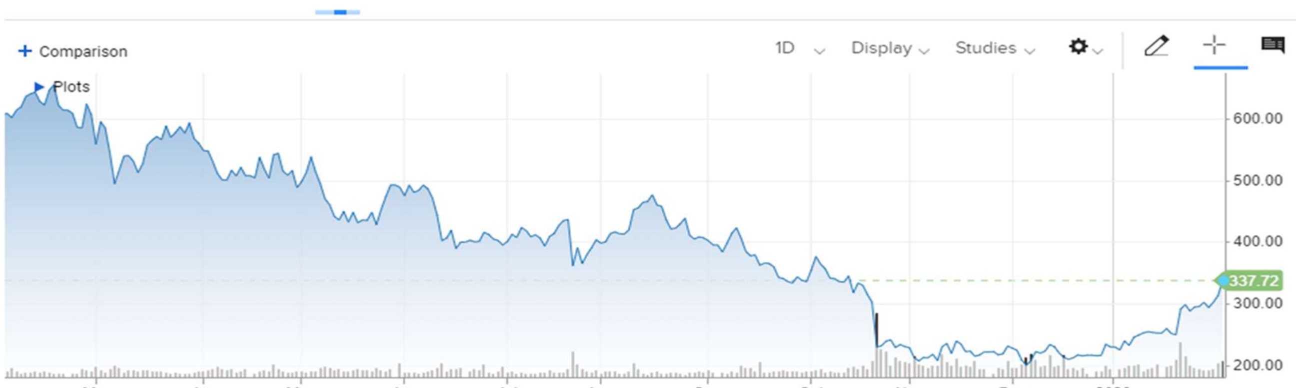
| Company | Ticker | Closing Price | 1 Mo Forecast | Previous Forecast | Change | % Off 52 Wk High | Forward P/E | Dividend Yield | Factor Momentum |
|---|---|---|---|---|---|---|---|---|---|
| PULTEGROUP | PHM | $56.89 | 5.45% | 4.91% | 0.54% | 0.0% | 7.43 | 1.12% | Positive |
| SVB FINANCIAL GROUP | SIVB | $302.44 | 4.59% | 0.46% | 4.13% | -50.1% | 14.90 | 0.00% | Positive |
| CELANESE | CE | $123.20 | 2.74% | 0.92% | 1.83% | -21.3% | 9.31 | 2.27% | Positive |
| ONEOK | OKE | $68.48 | 2.24% | 1.68% | 0.56% | -3.0% | 14.32 | 5.58% | Positive |

**PulteGroup Inc. (PHM: $57.48)**


- PulteGroup Inc. is one of the largest homebuilders in the US. It is also involved in mortgage banking, and title and insurance brokerage operations. It operates homebuilding under brand names Centex, Pulte Homes, Del Webb, DiVosta Homes, John Wieland Homes and Neighborhoods, and America West. Its core business is its homebuilding segment, which is engaged in the acquisition and development of land primarily for residential purposes within the US and construction of homes.
- Trades at a Forward P/E (TTM) of 6.96 and a -5.6% discount to its 52-week high.
- PHM is the highest rated stocks for February from our Gamma Company Model Forecast for the S&P 500, with a forecasted one-month price gain of +5.45% and a previous month (January) forecast gain of +4.91%. These are the strongest #s the model has generated in quite some time.
- Analyst coverage: 17 analysts cover PHM and the recommendations are 4 strong buys, 6 buys and 7 holds. The price target ranges from $50.00 - $83.00.
- Oppenheimer initiated PHM as outperform and stated the homebuilder has one of the best balance sheets in the sector.

- Bank of America upgraded PHM to buy from neutral citing compelling valuation trading at 1.1x 2023E price-to-book.
- BTIG reiterated a buy on PHM with a price target of $68.00.
- The company announced strong Q4 earnings and beat expectations (adjusted EPS of $3.63 vs. $2.93 consensus) with a 200-basis point increase in gross margin and a 48% increase in earnings per share. PulteGroup has seen buyer demand pick up for four consecutive months. Margins are improving as lumber and other materials' prices have fallen as well as renegotiation of labor & material contracts.
- PulteGroup is focusing on improving affordability programs including lower lot premiums, smaller floor plans, rate buydowns and price reductions. Buyers are responding to lower rates and better pricing.
- PHM only provided guidance for the first quarter, but not the full year, citing market dynamics.
- The company ended the Q4 with a backlog of 12,169 homes with a value of $7.7 billion. This compares to the prior year backlog of 18,003 homes with a value of $9.9 billion. At the end of Q4, 18,103 homes were in production with 43% being spec homes. Full year, production potential is close to approximately 25,000 homes.

**SVB Financial Group (SIVB: $316.13)**




- SVB Financial Group is a financial services company, a bank holding and a financial holding company. It offers commercial and private banking products and services through its principal subsidiary, Silicon Valley Bank and has a focus on startup companies, venture capital, tech and bio-tech.
- Trades at a Forward P/E (TTM) of 16.25 and its stock price trades at a 52% discount to its 52-week high.
- SIVB is the second highest rated stocks for February from our Gamma Company Model Forecast for the S&P 500, with a forecasted one-month price gain of +4.59% and a previous month (January) forecast gain of +0.46%.
- Analyst coverage: 23 analysts cover SIVB and the recommendations are 4 strong buys, 8 buys, 10 holds and 1 underperform. The price target ranges from $190.00 - $500.00.
- The Company missed on analysts' estimates for per-share earnings for the Q4, but still came in slightly ahead of the Street's expectations for net interest income.
- For the first six months of 2022, SIVB struggled as tech valuations declined rapidly, venture capital activity dried up and client cash burn rate accelerated. SVB banks approximately half of all U.S. based, venture capital-backed tech and life-science companies.
- Since March 2022, the company has seen more than $47 billion of NIB deposits either leave the bank or shift into higher-cost, interest-bearing deposits.
- In the second half of 2022, client's business normalized and the bank saw widening margins. Management is hopeful in 2nd half of 2023 investment and client cash burn will stabilize.

- SIVB added a record number of new clients in 2022 and VC/ private equity firms are sitting on more than $2.5 trillion of dry powder.
- SVF Financial has a high quality, lower risk loan portfolio, unique franchise and excellent long-term growth profile. That makes it worth of a higher premium valuation amongst its peers.
- The company is a play on a trough in venture capital business as its earnings are somewhat tied to venture capital market activity, which has been facing a challenging environment.
- Raymond James reiterated an outperform rating on SIVB and raised its price target on the stock to $285 a share from $260 a share.
- SIVB historically has done a good job managing the quality of its loan book, avoiding high exposure to risky investment vehicles and margin loans.



**<u>Celanese Corp. (CE: $122.12)</u>**


- Celanese Corporation is a global chemical and specialty materials company. The Company is a producer of engineered polymers that are used in a variety of applications and develops, produces and supplies a range of specialty polymers for automotive, medical applications, industrial products and consumer electronics. It makes products for aerospace, agriculture, electronics and energy.
- Trades at a Forward P/E (TTM) of 11.2 and its stock price trades at a 24.6% discount to its 52-week high.
- CE is the fifth highest rated stocks for February from our Gamma Company Model Forecast for the S&P 500, with a forecasted one-month price gain of +2.74% and a previous month (January) forecast gain of +0.92%.
- Analyst coverage: 26 analysts cover CE and the recommendations are 2 strong buys, 9 buys, 12 holds and 3 underperforms. The price target ranges from $83.00 - $165.00.
- Celanese stock has rallied 40% since bottoming in September. It had been going through a difficult period including a cyclical slowdown in the global economy, notably in Europe.
- The company has been integrating its acquisition of the majority of DuPont's former mobility and materials segment ($11 billion.) Management has been disappointed with the unit's performance, but this acquisition will add geographic reach to its engineered materials segment and expand CE's leadership in new categories. Celanese is aiming for $500 million of cost reduction synergies within four years of the closing of the deal.
- Warren Buffet has been accumulating Celanese shares since early 2022 and it fits the definition of good long-term business with near-term challenges trading at a cheap valuation (a classic Buffett-like investment.)
- Over the last few years, management has been busy investing in productivity-enhancing technologies and reorganizing its less productive plants while investing in expanding low-cost production plants.
- Celanese is focused on executing its productivity programs including the implementation of numerous cost reduction capital projects. These moves are expected to boost margins.

**ONEOK Inc. (OKE: $68.20)**


- ONEOK, Inc. is an energy company engaged in natural gas and natural gas liquids (NGL) businesses. The Company owns natural gas liquids (NGLs) systems, connecting NGL supply in the Rocky Mountain, Permian and Mid-Continent regions with market centers and a network of natural gas gathering, processing, storage, and transportation assets.
- Trades at a Forward P/E (TTM) of 14.8 and at a 9% discount to its 52-week high.
- OKE is a top ten rated stocks for February from our Gamma Company Model Forecast for the S&P 500, with a forecasted one-month price gain of +2.24% and a previous month (January) forecast gain of +1.68%.
- Analyst coverage: 21 analysts cover OKE and the recommendations are 2 strong buys, 7 buys and 11 holds and 1 sell. The price target ranges from $59.00 - $81.00.
- ONEOK has a solid track record of exceeding earnings estimates (topping estimates by 6.37%, on average for the last two quarters) and its historical EPS growth rate is 10.5%.
- In 2023, analysts project EPS growth of 25% with expected EPS growth rate for three-five years of 8.7%.
- Its annualized cash flow growth rate has been 23.3% over the past 3-5 years versus the industry average of 6%.
- For the most recent quarter, ONEOK was expected to post earnings of $0.93 per share, but it reported $0.96 per share instead, representing a surprise of 3.23%. For the previous quarter, the consensus estimate was $0.84 per share, while it actually produced $0.92 per share, a surprise of 9.52%.
- OKE has grown its dividend at a 13% compound annual rate since 2000. The its dividend is an attractive yield of approximately 5.58%.
- ONEOK has profited from higher thruput in its pipelines and fee-based commitments on higher production volumes.

Karl Chalupa and N. Claude Colabella

Mr. Chalupa is the CEO and Co-Founder of Gamma Investment Consulting and Editor of the Gamma Intelligence Reports. He is also President of Gamma Capital LLC, a quantitative global macro investment firm. Mr. Chalupa developed the Gamma Investment Program used for previously trading the firm's $400 million global macro program. He was previously Director of Risk Management at Titan Advisors LLC, a $4.5 billion alternative investments firm. Mr. Chalupa was also Managing Director of the Currency and Alternative Investment Strategies Groups at State Street Global Advisors (SSGA) where he developed a $9 billion currency overlay program and launched SSGA's first hedge fund based on his Gamma Model. Mr. Chalupa spent 13 years at ABN Amro Bank where he traded interest rate and currency derivatives and was Manager of the Proprietary Trading and Economic Research Desk. He began his career as an economist for the Federal Reserve Bank of Chicago. Mr. Chalupa holds an MA in Economics from Brown University, graduated magna cum laude from Northern Illinois University with BAs in Economics and Political Science, and is Series 3 registered.

Mr. Colabella is the Chief Operating Officer, Co-Founder of Gamma Investment Consulting and Co-Editor of the Gamma Equity Intelligence Report. He was previously Director of Communications and Investor Relations at Titan Advisors, LLC, a $4.5 billion alternative assets solutions firm. Mr. Colabella has equity research experience with working at Petroleum Research Group, Inc. (Rye, NY), an independent energy equity research boutique and at John S. Herold, Inc., a leading petroleum research and consulting firm. He was a Managing Partner at Alpha Beta Alternative Investments, Inc., an alternative investment boutique that managed Alpha Beta Partners, LP, a multi-strategy "fund of funds". Mr. Colabella holds an MBA in Finance from Duke University, Fuqua School of Business. He graduated magna cum laude from Manhattan College, with a BS BA in Economics.

GAMMA

# Gamma Equity Model Forecasts for February 2023 (as of 1/31/2023)



TABLE 1

## 1 MONTH STOCK INDEX MODEL FORECASTS (%)

| Country | Stock Index | Price | 1 Mo Forecast | Previous Forecast | Position | Trade | Updated |
|---|---|---|---|---|---|---|---|
| USA | S&P 500 | 4,017.77 | 0.00% | 0.00% | Neutral | Hold | 1/31/23 |
| USA | Nadaq | 11,454.26 | 0.00% | 0.00% | Neutral | Hold | 1/31/23 |
| Canada | S&P/TSX 60 | 1,242.98 | 0.00% | 0.00% | Neutral | Hold | 1/31/23 |
| Mexico | IPC | 54,371.60 | 1.76% | 0.00% | Long | Buy | 1/31/23 |

TABLE 2

## 1 MONTH STOCK SECTOR MODEL FORECASTS (%)

| Sector | Ticker | 1 Mo Forecast | Previous Forecast | Updated |
|---|---|---|---|---|
| Energy | XLE | 1.69% | 1.39% | 1/31/23 |
| Gold Miners | --- | 1.32% | -0.02% | 1/31/23 |
| Consumer Staples | XLP | 0.66% | 0.12% | 1/31/23 |
| Real Estate | XLRE | 0.61% | -0.97% | 1/31/23 |
| Health Care | XLV | 0.56% | 0.09% | 1/31/23 |
| Materials | XLB | 0.26% | -0.13% | 1/31/23 |
| Technology | XLK | 0.14% | -1.31% | 1/31/23 |
| Industrials | XLI | 0.11% | -0.58% | 1/31/23 |
| Utilities | XLU | 0.10% | -0.44% | 1/31/23 |
| Financials | XLF | 0.03% | -1.26% | 1/31/23 |
| Communications Services | XLC | -0.03% | -1.08% | 1/31/23 |
| Consumer Discretionary | XLY | -0.28% | -1.79% | 1/31/23 |

TABLE 3

**S&P 500: LARGE CAP STOCKS** — **Top 25 Picks Based on Expected Return and Factor Momentum** — **Forecast for: Feb 2023**

**1 Month Company Stock Price Forecasts (%)** — **Updated: Jan 31, 2023**

| Company | Ticker | Closing Price | 1 Mo Forecast | Previous Forecast | Change | % Off 52 Wk High | Forward P/E | Dividend Yield | Factor Momentum |
|---|---|---|---|---|---|---|---|---|---|
| PULTEGROUP | PHM | $56.89 | 5.45% | 4.91% | 0.54% | 0.0% | 7.43 | 1.12% | Positive |
| SVB FINANCIAL GROUP | SIVB | $302.44 | 4.59% | 0.46% | 4.13% | -50.1% | 14.90 | 0.00% | Positive |
| LAS VEGAS SANDS | LVS | $59.00 | 2.87% | 1.38% | 1.49% | 0.0% | 39.88 | 0.00% | Positive |
| SKYWORKS SOLUTIONS | SWKS | $109.67 | 2.86% | 0.80% | 2.06% | -25.2% | 10.60 | 2.26% | Positive |
| CELANESE | CE | $123.20 | 2.74% | 0.92% | 1.83% | -21.3% | 9.31 | 2.27% | Positive |
| BATH AND BODY WORKS | BBWI | $46.01 | 2.33% | 0.81% | 1.52% | -17.9% | 11.98 | 1.74% | Positive |
| ONEOK | OKE | $68.48 | 2.24% | 1.68% | 0.56% | -3.0% | 14.32 | 5.58% | Positive |
| TAPESTRY | TPR | $45.57 | 2.10% | 1.28% | 0.82% | 0.0% | 11.18 | 2.63% | Positive |
| NETFLIX | NFLX | $353.86 | 2.04% | 0.47% | 1.57% | -17.2% | 30.23 | 0.00% | Positive |
| AES | AES | $27.41 | 1.88% | 1.58% | 0.30% | -5.2% | 15.02 | 2.42% | Positive |
| SEAGATE TECHNOLOGY HOLDINGS | STX | $67.78 | 1.86% | 0.54% | 1.32% | -36.7% | 18.78 | 4.13% | Positive |
| LINCOLN NATIONAL | LNC | $35.43 | 1.81% | 0.10% | 1.71% | -49.4% | 3.88 | 5.08% | Positive |
| AMERISOURCEBERGEN | ABC | $168.96 | 1.73% | 1.60% | 0.13% | -1.0% | 13.90 | 1.15% | Positive |
| WHIRLPOOL | WHR | $155.59 | 1.66% | 0.21% | 1.45% | -26.0% | 9.56 | 4.50% | Positive |
| ALTRIA GROUP | MO | $45.04 | 1.42% | 0.92% | 0.49% | -18.9% | 8.76 | 8.35% | Positive |
| EXPEDIA GROUP | EXPE | $114.30 | 1.34% | 0.64% | 0.71% | -41.7% | 12.12 | 0.00% | Positive |
| BOOKING HOLDINGS | BKNG | $2,434.10 | 1.34% | 0.20% | 1.14% | -0.9% | 19.19 | 0.00% | Positive |
| TRACTOR SUPPLY | TSCO | $227.99 | 1.18% | 0.38% | 0.80% | -2.3% | 20.98 | 1.61% | Positive |
| MOHAWK INDUSTRIES | MHK | $120.06 | 1.15% | 0.40% | 0.75% | -24.0% | 11.78 | 0.00% | Positive |
| ULTA BEAUTY | ULTA | $513.96 | 1.14% | 0.87% | 0.27% | 0.0% | 21.04 | 0.00% | Positive |
| EVEREST RE GP. | RE | $349.69 | 1.06% | 1.00% | 0.06% | 0.0% | 7.97 | 1.89% | Positive |
| ARCH CAP.GP. | ACGL | $64.35 | 1.06% | 0.40% | 0.66% | 0.0% | 11.24 | 0.00% | Positive |
| FIRST SOLAR | FSLR | $177.60 | 1.00% | 0.37% | 0.63% | 0.0% | 31.93 | 0.00% | Positive |
| CHAS.RVR.LABS.INTL. | CRL | $243.25 | 0.99% | 0.05% | 0.93% | -26.2% | 20.79 | 0.00% | Positive |
| MONDELEZ INTERNATIONAL CL.A | MDLZ | $65.44 | 0.96% | 0.04% | 0.93% | -3.2% | 20.71 | 2.35% | Positive |

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