



# ARGUS UPDATE

June 2023

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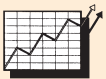
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## DIRECTOR'S PERSPECTIVE

# Debt Ceiling Deal Spurs the Market

BY JIM KELLEHER, CFA, DIRECTOR OF RESEARCH

Previously, the debt ceiling was raised 78 times -- and any future failure to raise it is perceived as likely having catastrophic global economic consequences. But we can now say that the debt ceiling has been raised 79 times. Passage of the bipartisan bill, along with a positive nonfarm payrolls report, sent the stock market to fresh highs for 2023.

Debt-ceiling brinkmanship between the GOP and Democrats is common and has recently been most intense following election of a Democrat to the White House and, two years later, the GOP flipping control of the House. The fact that these two events happened in 2020 and 2022 added to the current round of negotiations.

In the 1994 midterms, two years into President Clinton's first term, the GOP flipped the House and Senate. In 1995, the House GOP, led by Newt Gingrich, promised a balanced budget as part of their "Contract with America." House Republicans sent President Clinton a budget that cut spending on social safety net and other programs, but the president vetoed it; he also vetoed a second proposed budget. During a stand-off that lasted 21 days, federal government programs shut down, but no Treasury payments were missed. Eventually, the two sides came to agreement after polling showed more Americans blaming the GOP for the standoff.

Following President Obama's election in 2008 and the GOP victory in the midterms in 2010, another debt-ceiling crisis emerged in summer 2011. The House wanted significant debt reduction in exchange for raising the debt ceiling. As the deadline approached and neither side relented, the S&P 500 crashed more than 17% in July 2011, barely missing the technical definition of a bear market. On 7/31/11, two days before the government was set to run out of money, the two sides reached a deal. This included the Budget Control Act of 2011, which cut spending by about \$1 trillion over 10 years while also raising the debt ceiling by \$2.1 billion.

In 2020, a Democrat was elected to the White House; and in 2022, the GOP regained control of the House. This time around, however, leadership from both parties reached agreement in principal on a deal well before the actual target default date.

Ultimately, it was little surprise that the bill passed, even in a divided Congress. Both parties have a dedicated core of true believers who will support their party regardless of day-to-day maneuverings. Both Democrats and Republicans are also aware that presidential elections are won or lost based on which party does the best job winning uncommitted voters. This bloc likely would punish a party if it allowed its hardliners to scuttle a deal and risk recession, or worse.

We have adjusted our recommended sector allocations this month, as we do each quarter at the beginning of March, June, September, and December. The following reflects our guidance for the calendar third quarter of 2023. Although these changes were determined by a quantitative, six-part, "blind" sector model, they align with qualitative and fundamental dynamics in the market outlook.

We raised Consumer Discretionary to Over-Weight from Market-Weight. Employment remains high, and wages are still rising. Consumers are still taking over-due vacations, benefiting leisure, hospitality, gaming and restaurants. Retail inventories are normalizing, and automotive demand is brisk.

We raised Communication Services to Market-Weight from Under-Weight. Social media stocks such as Meta and Alphabet, which struggled in 2022, are now riding the AI wave. Also in this sector, telecom stocks are likely near the end of mobile device weakness, and improved customer ARPU lies ahead, in our view.

We lowered Industrials to Market-Weight from Over-Weight. Although valuations are attractive, that mainly reflects weak share prices. In a high-interest-rate environment, enterprise demand for industrial solutions has softened and may take some time to recover.

Finally, we lowered Energy to Under-Weight from Market-Weight. Petroleum prices have come down from peak due to slow recovery in China from COVID lockdowns and widespread development of renewable resources. Energy earnings are expected to decline sharply in 2023.

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## New Selections

Canadian Pacific Kansas City Ltd.  
Intuitive Surgical Inc.  
Royal Caribbean Cruises Ltd.  
Salesforce Inc.

See comments on this page.

## Deletions

Danaher Corp.

Since inclusion in August 2022, the DHR shares have declined 19% while underperforming the benchmark S&P 500 by 21%.

Honeywell International Inc.

Since inclusion in November 2022, the HON shares have declined 5% while underperforming the benchmark S&P 500 by 19%.

Palo Alto Networks Inc.

Since inclusion in May 2022, the PANW shares have advanced 25% while outperforming the benchmark S&P 500 by 26%.

Skechers U.S.A. Inc

Since inclusion in January 2023, the SKX shares have advanced 17% while outperforming the benchmark S&P 500 by 6%.

## Highlights

Canadian Pacific Kansas City Ltd.  
(NYSE: CP)

Canadian Pacific operates a transcontinental railway in Canada and in the Northeast and Midwest U.S. It recently acquired Kansas City Southern. The company transports products ranging from bulk commodities to merchandise freight and has nearly 20,000 employees. It is among the most efficient operators in the rail industry, which has been in a secular growth trend compared to other transport options. Having won the bidding war for Kansas City Southern, management is expected to focus on earnings and dividend growth. On valuation, CP is trading at 21-times our 2024 EPS estimate, above the midpoint of the five-year historical range of 14-24 and above the North American peer average of 19. We think this is an attractive valuation.

Royal Caribbean Cruises Ltd. (NYSE: RCL)

Royal Caribbean is the owner and operator of four global cruise vacation brands: Royal Caribbean International, Celebrity Cruises, Silversea Cruises, and Azamara. Royal Caribbean is also a 50% owner of a joint venture that operates TUI Cruises

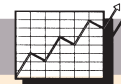
## Highlights

and Hapag-Lloyd Cruises. We recently raised our rating on RCL to BUY. The company's recently reported 1Q23 results were well above consensus estimates, and we raised our 2023 and 2024 EPS estimates. We think that high cruise occupancy in 1Q23 points to a demand recovery and is likely to result in stronger-than-anticipated revenue and earnings. We also look for margins to strengthen and expect new ships to launch over the next 12 months

Salesforce Inc. (NYSE: CRM)

Salesforce is a cloud-based software-as-a-service customer relationship management or CRM software company. The company has expanded its offerings into the mobile, social networking, analytics, and artificial intelligence areas. About one-third of revenue comes from outside the U.S. We recently raised our 12-month target price on CRM to \$250. Amid macroeconomic pressure that has cut into revenue growth, management is focused on improving cost leverage and profitability. Responding to activist pressures, CRM has welcomed new board members and announced a restructuring plan. In our view, Salesforce is well positioned to exploit the long-term secular trends.

## DIRECTOR'S CHOICE



## Intuitive Surgical Inc.

Intuitive designs, manufactures, and markets da Vinci robotic surgical systems, and related instruments and accessories. The system enables surgeons to perform a wide range of surgical procedures with shorter recovery periods and higher patient comfort. We are encouraged by the recovery in procedural volume on the da Vinci surgical system. Notably, utilization grew in 1Q23 and 2022, a positive sign for future purchases of capital

equipment by hospitals and surgery centers. These trends have continued in April. In all, the number of procedures conducted on the da Vinci rose 26% in 1Q, with an increase of 13% in procedures per system. The company continues to conduct studies demonstrating the positive impact of the system on surgical outcomes. Management's plans to slow new hiring should also help margins and earnings going forward.



*We are encouraged by the recovery in procedural volume on the da Vinci surgical system.*

# The Argus Top 30

Recent Price (\$)	Company Name	Industry	Stock Symbol	Current EPS	Current PE	*5-Yr. Growth%	PEG Ratio	Div. Rate	Annual Yield%	Fin. Strength	Beta
56	Corteva Inc	B	CTVA	2.90	19.3	3	6.4	0.60	1.1	M	0.88
102	Cracker Barrel Old Country Sto	C	CBRL	5.90	17.3	11	1.6	5.20	5.1	ML	1.11
25	DraftKings Inc.	C	DKNG	(1.70)	-14.7	25	-0.6	0.00	0.0	M	2.07
<b>86</b>	<b>Royal Caribbean Group</b>	<b>C</b>	<b>RCL</b>	<b>4.88</b>	<b>17.7</b>	<b>14</b>	<b>1.3</b>	<b>0.00</b>	<b>0.0</b>	<b>M</b>	<b>1.53</b>
422	Ulta Beauty Inc	C	ULTA	25.24	16.7	12	1.4	0.00	0.0	MH	0.93
39	Comcast Corp	CS	CMCSA	3.75	10.5	8	1.3	1.16	3.0	M	0.81
400	Netflix Inc	CS	NFLX	10.65	37.6	15	2.5	0.00	0.0	ML	1.48
61	Coca-Cola Co	S	KO	2.59	23.6	8	3.0	1.84	3.0	MH	0.71
149	J.M. Smucker Co.	S	SJM	8.75	17.0	4	4.3	4.08	2.7	MH	0.42
106	Exxon Mobil Corp.	E	XOM	10.64	9.9	6	1.7	3.64	3.4	MH	0.72
169	American Express Co.	F	AXP	11.11	15.2	12	1.3	2.40	1.4	H	1.17
206	Arthur J. Gallagher & Co.	F	AJG	9.14	22.5	12	1.9	2.20	1.1	M	0.90
84	Morgan Stanley	F	MS	6.89	12.2	13	0.9	3.10	3.7	H	1.00
94	Raymond James Financial, Inc.	F	RJF	9.05	10.4	8	1.2	1.68	1.8	MH	1.11
79	Alcon Inc.	H	ALC	2.60	30.6	10	3.1	0.24	0.3	MH	0.95
300	Biogen Inc	H	BIIB	15.60	19.2	12	1.6	0.00	0.0	MH	0.67
<b>312</b>	<b>Intuitive Surgical Inc</b>	<b>H</b>	<b>ISRG</b>	<b>5.50</b>	<b>56.8</b>	<b>12</b>	<b>4.7</b>	<b>0.00</b>	<b>0.0</b>	<b>H</b>	<b>1.28</b>
442	Lilly(Eli) & Co	H	LLY	8.70	50.8	12	4.2	4.52	1.0	M	0.72
520	Thermo Fisher Scientific Inc.	H	TMO	23.80	21.9	10	2.2	1.40	0.3	MH	0.93
<b>79</b>	<b>Canadian Pac Kansas City Ltd</b>	<b>I</b>	<b>CP</b>	<b>3.50</b>	<b>22.5</b>	<b>12</b>	<b>1.9</b>	<b>0.57</b>	<b>0.7</b>	<b>M</b>	<b>0.85</b>
96	Raytheon Teches Corporatio	I	RTX	5.05	19.0	9	2.1	2.36	2.5	M	0.78
62	Sonoco Products Co.	I	SON	5.85	10.5	6	1.8	2.04	3.3	MH	0.89
125	ProLogis	R	PLD	5.48	22.8	14	1.6	3.48	2.8	M	1.15
163	Arista Networks Inc	X	ANET	5.74	28.3	14	2.0	0.00	0.0	H	1.18
47	Dell Technologies Inc	X	DELL	5.58	8.5	8	1.1	1.48	3.1	M	1.15
31	Intel Corp.	X	INTC	0.29	108.0	9	12.0	0.50	1.6	MH	1.01
<b>213</b>	<b>Salesforce Inc</b>	<b>X</b>	<b>CRM</b>	<b>7.43</b>	<b>28.7</b>	<b>18</b>	<b>1.6</b>	<b>0.00</b>	<b>0.0</b>	<b>H</b>	<b>1.39</b>
62	Seagate Tech Hldgs PI	X	STX	0.33	188.5	10	18.9	2.80	4.5	M	1.22
58	Shopify Inc	X	SHOP	0.13	448.4	18	24.9	0.00	0.0	H	2.10
145	Sempra Energy	U	SRE	9.00	16.1	6	2.7	4.76	3.3	M	0.74
	<b>Portfolio Average</b>				<b>16.1</b>	<b>6.0</b>	<b>2.7</b>		<b>3.3</b>		<b>0.74</b>
<b>4180</b>	<b>S&amp;P 500</b>			<b>\$226.00</b>	<b>18.5</b>	<b>8.0</b>	<b>2.3</b>	<b>\$68.34</b>	<b>1.6%</b>	<b>NM</b>	<b>1.00</b>

**THE ARGUS TOP 30 STOCKS: Prices as of 5/31/23. New additions are highlighted 5-Yr. Growth is Argus' estimate of compound annual EPS growth.**

**INDUSTRY LEGEND: B, Basic Materials; CS, Communication Services; C, Consumer Cyclical; E, Energy; F, Financial Services; H, Healthcare; I, Industrial; R, Real Estate; S, Consumer Staples; TU, Utility/Income; X, Technology.**

## Research Methodology

Argus Research Co. applies a top-down framework to investment selection. Argus' Economics Department models the economy and determines GDP growth and interest rate forecasts. The Director of Research uses this information, as well as performance models, to identify favored industries. Argus industry analysts then determine the top companies in each industry in terms of

financial strength, earnings and valuation. Every month, Argus publishes its list of top selections, grouping these companies into categories according to their risk levels. 12-month target prices are set by individual analysts. Once a stock approaches its target price, Argus either reaffirms the rating and adjusts the target price, or changes the rating.

# The Argus ESG Model Portfolio

SecurityName	Symbol	Sector	JC SCORE	Price/Share	DivYield	Beta	MarketCap (Mil)
Ecolab, Inc.	ECL	Basic Materials	78	173	1.2%	1.15	\$49,214
Corteva Inc	CTVA	Basic Materials	52	57	1.1%	0.89	\$40,580
Alphabet Inc	GOOG	Communication Services	80	120	0.0%	1.15	\$637,766
T-Mobile US Inc	TMUS	Communication Services	78	144	0.0%	0.77	\$170,421
Home Depot, Inc.	HD	Consumer Discretionary	63	282	2.9%	0.96	\$294,261
Walmart Inc	WMT	Consumer Staples	73	150	1.5%	0.77	\$412,640
Pepsico Inc.	PEP	Consumer Staples	68	193	2.6%	0.65	\$267,465
Conoco Phillips	COP	Energy	62	98	0.6%	0.82	\$122,857
JPMorgan Chase & Co.	JPM	Financial	82	134	2.9%	0.99	\$398,629
S&P Global Inc	SPGI	Financial	79	359	1.0%	1.09	\$113,971
Mastercard Incorporated	MA	Financial	78	380	0.6%	0.97	\$360,033
Travelers Companies Inc.	TRV	Financial	63	182	2.2%	0.68	\$42,442
Elevance Health Inc	ELV	Healthcare	76	446	1.3%	0.73	\$109,159
Biogen Inc	BIIB	Healthcare	74	308	0.0%	0.67	\$45,449
Johnson & Johnson	JNJ	Healthcare	66	159	3.0%	0.55	\$418,526
Boston Scientific Corp.	BSX	Healthcare	65	54	0.0%	0.88	\$76,327
Abbott Laboratories	ABT	Healthcare	64	109	1.9%	0.84	\$191,719
Trane Technologies plc	TT	Industrials	79	173	1.7%	1.05	\$40,550
Raytheon Teches Corporatio	RTX	Industrials	71	95	2.5%	0.79	\$140,664
Cintas Corporation	CTAS	Industrials	58	466	1.0%	1.09	\$46,939
Automatic Data Processing Inc.	ADP	Industrials	56	212	2.3%	0.96	\$88,268
Deere & Co.	DE	Industrials	55	363	1.3%	0.99	\$113,029
Microsoft Corporation	MSFT	Technology	87	312	0.9%	1.12	\$2,282,695
Apple Inc	AAPL	Technology	83	172	0.6%	1.15	\$2,701,719
Salesforce Inc	CRM	Technology	80	205	0.0%	1.39	\$201,180
Broadcom Inc	AVGO	Technology	55	641	3.0%	1.13	\$257,871
Motorola Solutions Inc	MSI	Technology	53	291	1.2%	0.94	\$48,063
KLA Corp.	KLAC	Technology	52	409	1.4%	1.42	\$51,552
Arista Networks Inc	ANET	Technology	51	136	0.0%	1.18	\$42,703
Sempra Energy	SRE	Utility	68	146	3.1%	0.74	\$48,994

## Argus Screen Analysis

Sustainable Impact Investing, or ESG investing, is gaining traction not only with Argus Research clients but also with the global investment community. BlackRock CEO Lawrence Fink, who oversees approximately \$9 trillion in assets, announced in January 2020 that his firm would be investing in companies that are making progress on sustainability. He doubled down in his January 2021 letter, calling on company managements to disclose their plans for making their businesses “compatible with a net-zero economy” by 2050. As assets have flowed in over the past 40 years, Sustainable Impact Investing

has evolved. The discipline, originally known as Socially Responsible Investing, focused at first on excluding companies that conducted business in South Africa, or participated in industries such as tobacco, alcohol, and firearms. Performance of these initial strategies lagged, and the approach has been modified. Now, instead of merely identifying industries to avoid, the discipline promotes “sustainable” business practices across all industries that can have an “impact” on global issues such as climate, hunger, poverty, disease, shelter, and workers’ rights.



Each month, Argus Research “screens” the broader markets seeking stocks with favorable investment characteristics. The database used in the screen contains financial information on more than 8,800 companies that trade on the New York and American stock exchanges, as well as on the FINRA National Market System. The Argus Stock Screen is designed as a starting point for further research.