

# The Leuthold Group

# Sowing The Seeds For The Next Bull Market

Douglas Ramsey, CMT, CFA  
February 18, 2023



[Funds.LeutholdGroup.com](http://Funds.LeutholdGroup.com)

[info@LeutholdGroup.com](mailto:info@LeutholdGroup.com)

612.332.1567

FOR PROFESSIONAL USE ONLY. FURTHER DISTRIBUTION OF THE INFORMATION CONTAINED HEREIN IS PROHIBITED WITHOUT PRIOR PERMISSION.



---

# Disclosures

This report is not a solicitation or offer to buy or sell securities. The Leuthold Group, LLC provides research to institutional investors. It is also a registered investment advisor that uses its own research, along with other data, in making investment decisions for its managed accounts. As a result, The Leuthold Group, LLC may have executed transactions for its managed accounts in securities mentioned prior to this publication. The information contained in The Leuthold Group, LLC research is not, without additional data and analysis, sufficient to form the basis of an investment decision regarding any one security. The research reflects The Leuthold Group, LLC's views as of the date of publication, which are subject to change without notice. The Leuthold Group, LLC does not undertake to give notice of any change in its views regarding a particular industry prior to publication of their next research report covering that industry in the normal course of business. The Leuthold Group, LLC may make investment decisions for its managed accounts that are inconsistent with, or contrary to, the views expressed in current Leuthold Group, LLC reports.

- MTI:  
Sharp improvement in January  
after spending almost all of  
2022 in bear territory

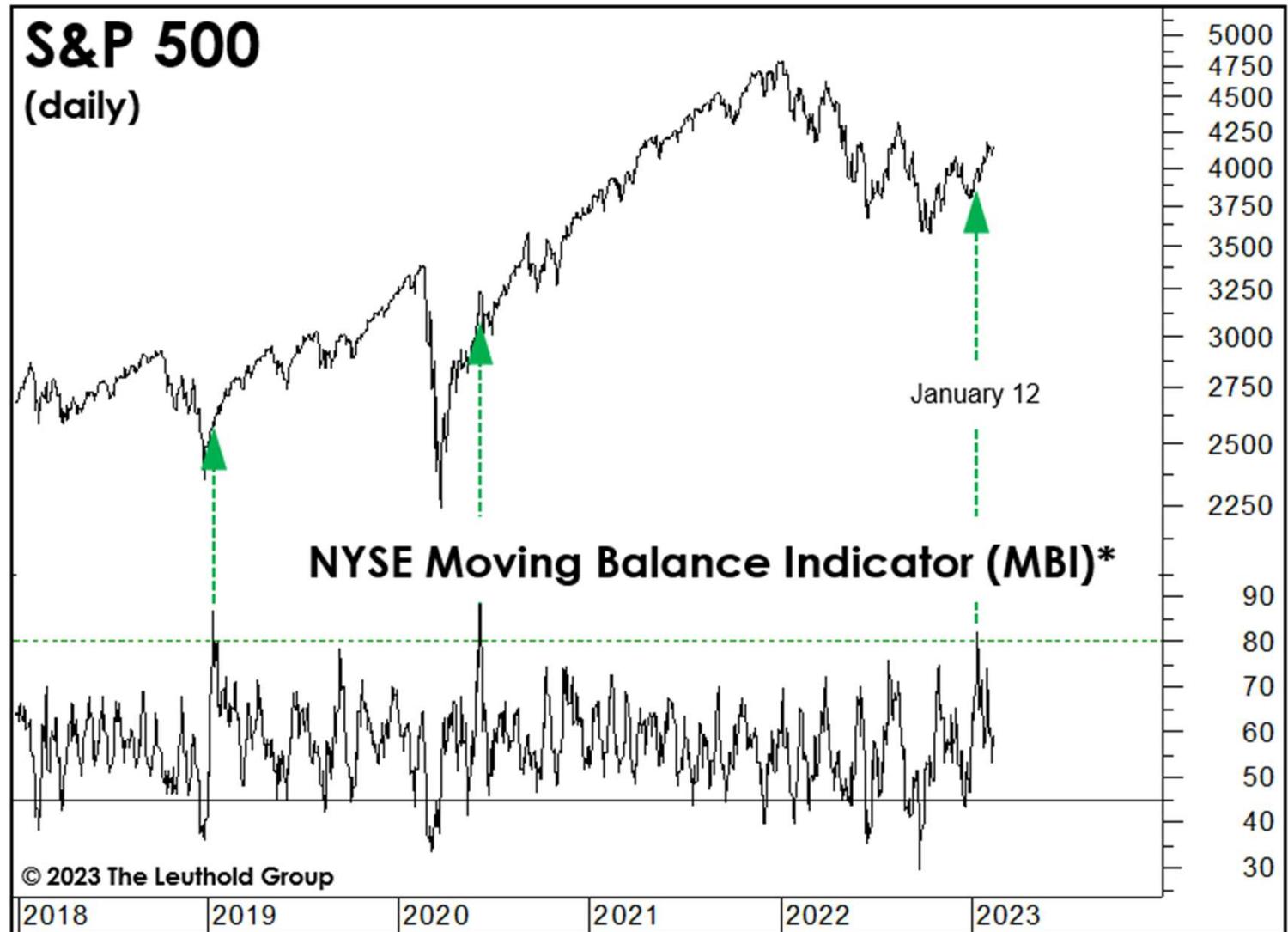
## Major Trend Index

February 10, 2023

| Category  | - | Reading | + | Comments   |
|-----------|---|---------|---|--|
| Valuation |   | ♦♦♦     |   | -Large Cap valuations near levels of pre-COVID market peak |
| Cyclical  |   | ♦♦♦♦    |   | -Market rally might actually "cause" more Fed tightening   |
| Sentiment |   | ♦♦♦     |   | -Sudden enthusiasm for the old leadership                  |
| Technical |   | ♦♦♦♦    |   | -Technical work has done an about-face since year-end      |
| TOTAL     |   | ♦♦      |   | -High Neutral for last three readings                      |

© 2023 The Leuthold Group (High Neutral)

- Why the current rally could be “thrust-worthy”



\*Combination of 10-Day NYSE Advance/Decline Ratio, 10-Day Up/Down Volume and 10-Day Arms Index (TRIN).

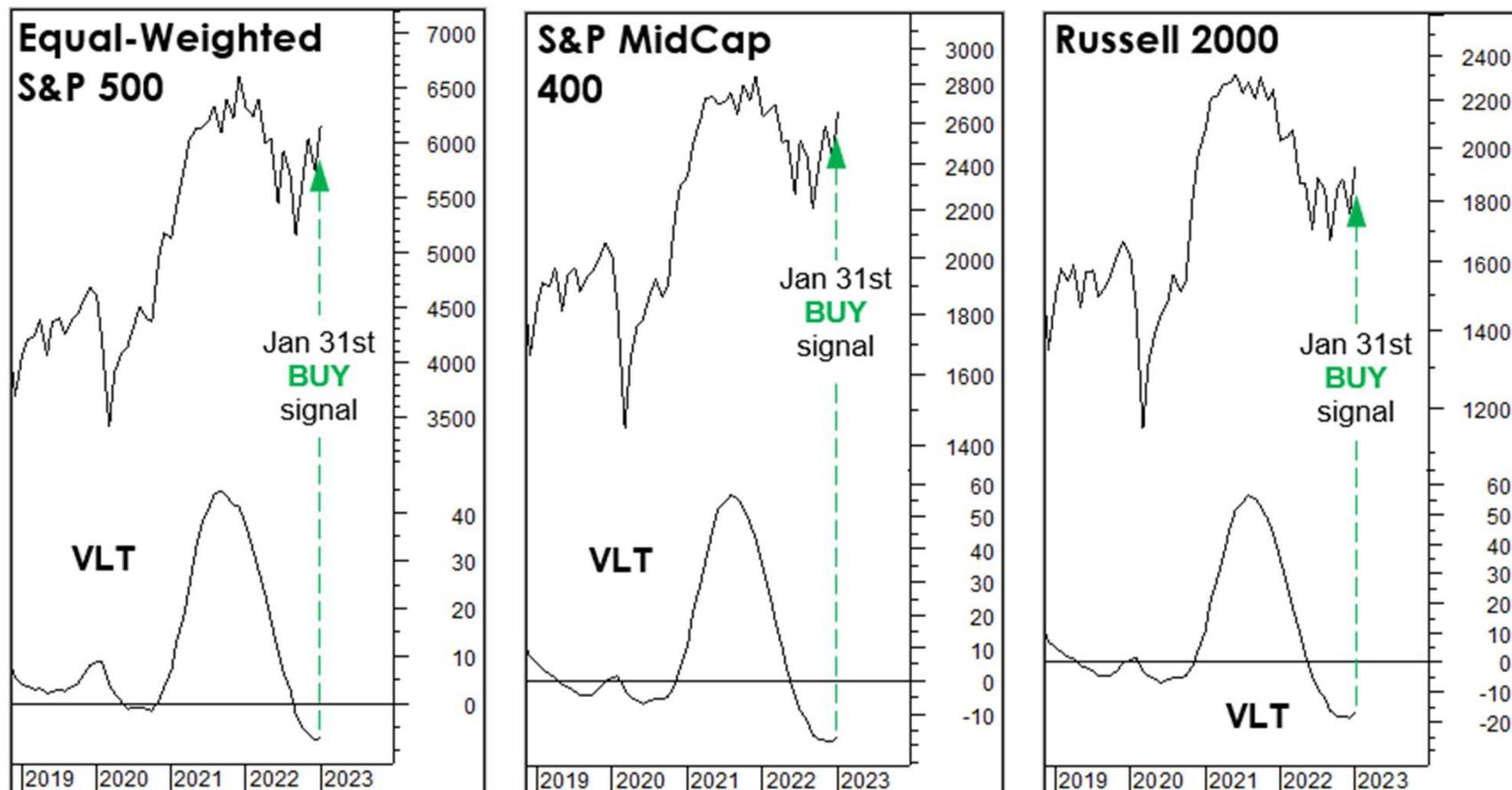
- Super-overbought MBI readings are usually followed by big stock market gains

## Track Record Of Super-Overbought MBI Readings

| © 2023 The Leuthold Group<br>Date Of Super<br>Overbought MBI<br>Reading (80 or higher) | S&P 500 % Gain/Loss... |                 |                 |                  |
|--|------------------------|-----------------|-----------------|------------------|
|  | 1 Mo.<br>Later         | 3 Mos.<br>Later | 6 Mos.<br>Later | 12 Mos.<br>Later |
| January 16, 1967   | 4.6 %                  | 8.0 %           | 10.0 %          | 13.7 %           |
| August 31, 1970  | 3.3                    | 7.0             | 19.0            | 22.1             |
| January 13, 1975   | 8.7                    | 18.4            | 31.6            | 33.2             |
| January 6, 1976  | 9.0                    | 10.7            | 10.7            | 13.0             |
| August 24, 1982  | 7.3                    | 16.4            | 26.1            | 42.5             |
| January 14, 1987   | 4.9                    | 6.3             | 18.2            | -6.4             |
| February 5, 1991   | 7.0                    | 7.4             | 11.2            | 17.8             |
| January 3, 1992  | -2.3                   | -4.5            | -1.8            | 3.9              |
| March 23, 2009   | 2.5                    | 8.5             | 29.4            | 42.7             |
| July 12, 2016  | 1.1                    | 0.5             | 5.4             | 13.5             |
| January 9, 2019  | 4.8                    | 11.7            | 16.1            | 26.7             |
| June 5, 2020   | -1.5                   | 8.2             | 14.8            | 32.3             |
| <i>January 12, 2023</i>  |                        |                 |                 |                  |
| <b>Average (ex. 2023)</b>  | <b>4.1 %</b>           | <b>8.2 %</b>    | <b>15.9 %</b>   | <b>21.2 %</b>    |

Repeat signals occurring within six months of the initial one are omitted.

- Our Very Long Term (VLT) Momentum algorithm triggered BUY signals on several indexes in January...



Arrows denote long-term, low-risk BUY signals occurring when VLT turns up from oversold levels (i.e., from below zero).

© 2023 The Leuthold Group

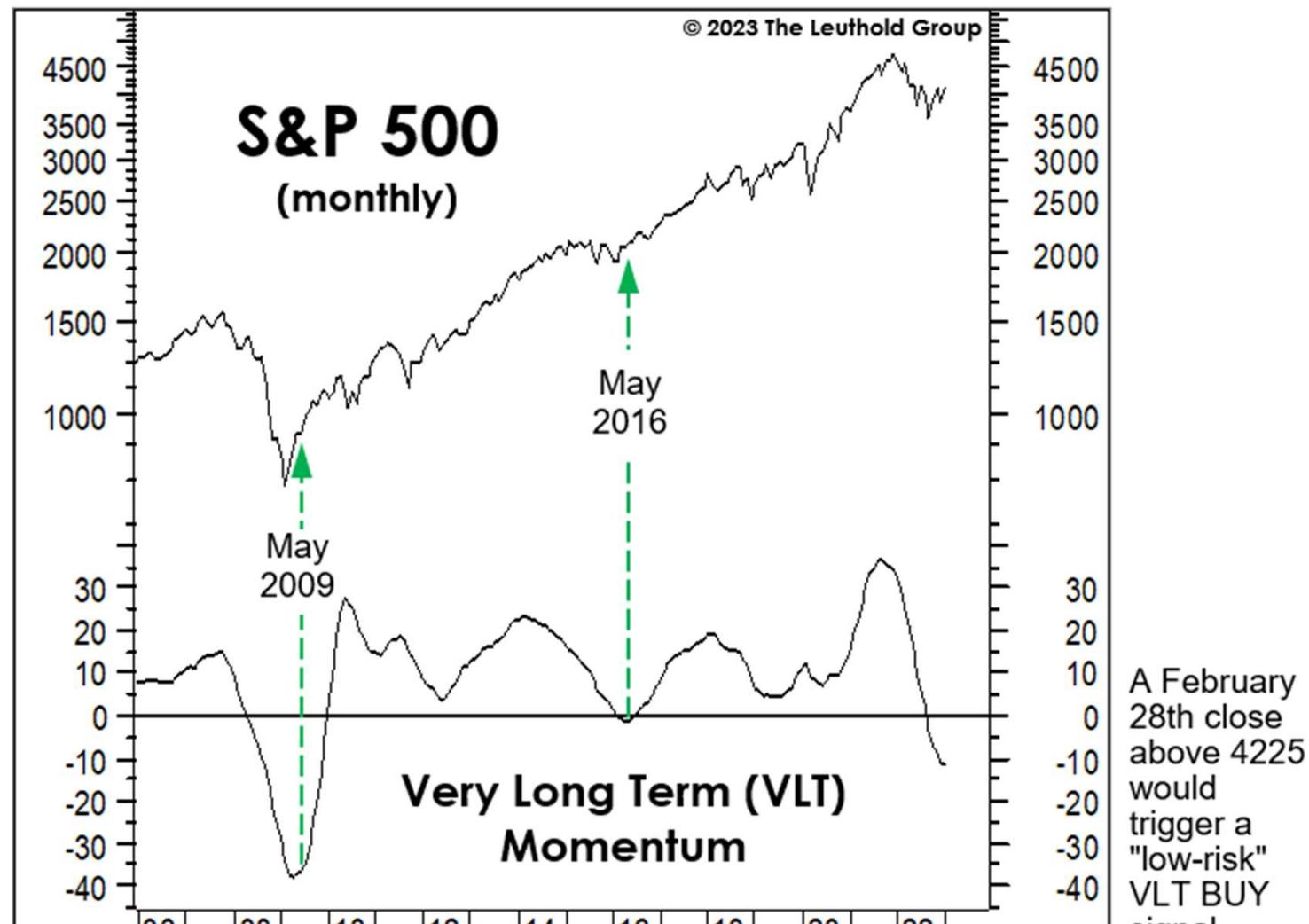
- VLT track record on Small Cap stocks

## VLT Momentum On The Russell 2000: From Buy Signal To Next Downturn In VLT

| Date of Buy Signal<br>(Upturn In VLT<br>From Below Zero) | Gain From BUY<br>Signal To Next<br>Decline In VLT | # Mos. From<br>BUY To Next<br>Decline In VLT |
|--|---|--|
| August 31, 1982  | 59.7  | 14   |
| December 30, 1984  | 37.6  | 19   |
| September 29, 1988                                       | 12.3  | 13   |
| January 31, 1991   | 36.1  | 15   |
| April 30, 1995   | 30.2  | 14   |
| April 30, 1999   | 10.0  | 13   |
| December 31, 2001  | -5.3  | 6  |
| April 30, 2003   | 48.4  | 14   |
| May 29, 2009   | 21.5  | 13   |
| July 31, 2012  | 49.1  | 20   |
| July 29, 2016  | 16.8  | 12   |
| October 31, 2019   | -26.2   | 5  |
| July 31, 2020  | 1.8   | 2  |
| October 30, 2020   | 43.3  | 11   |
| <i>January 31, 2023</i>                                  | ?   | ?  |
| <b>Average</b>   | <b>24.0</b>                                       | <b>12</b>                                    |

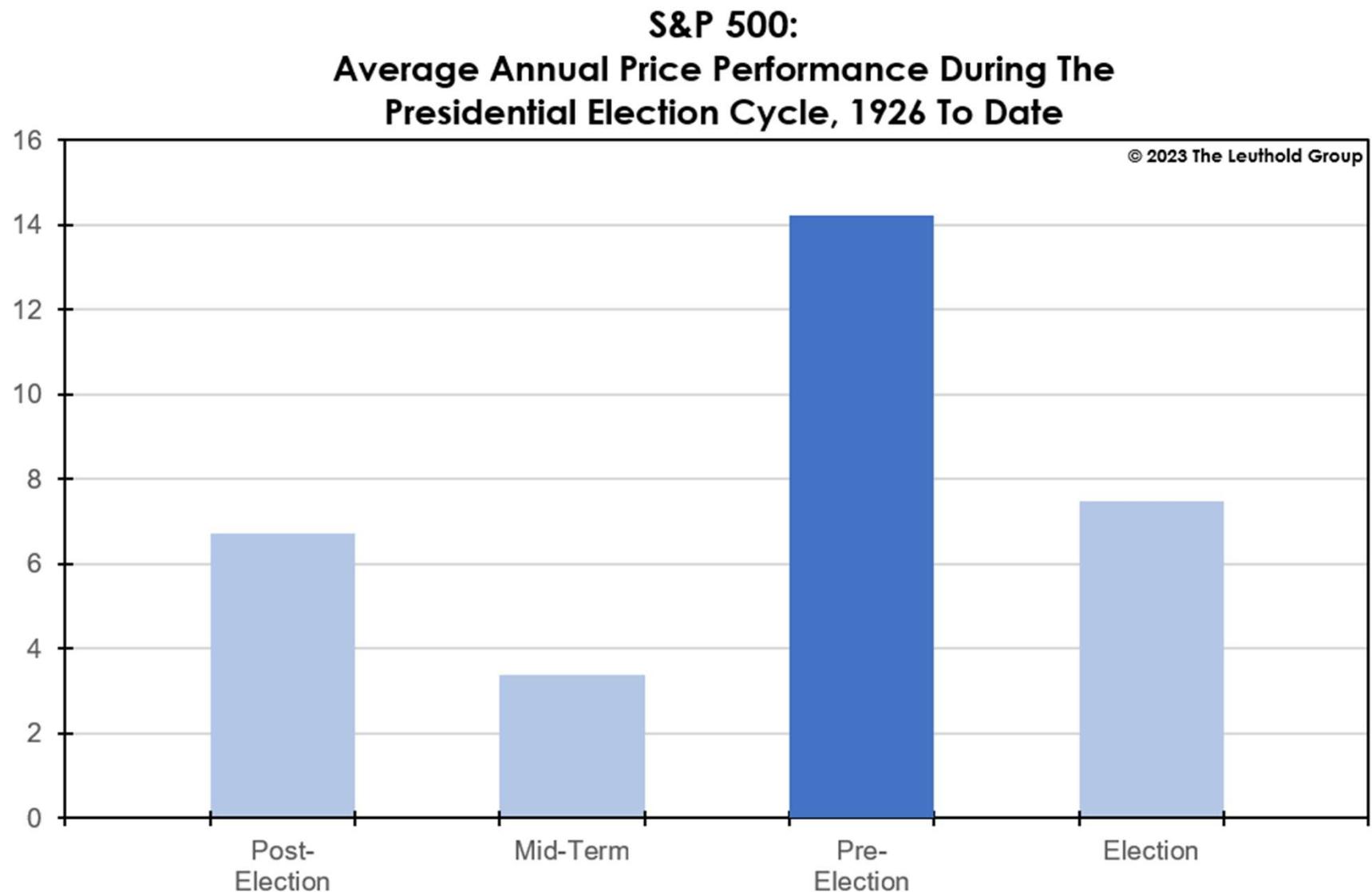
© 2023 The Leuthold Group

- Still waiting for Very Long Term (VLT) Momentum to turn up on the S&P 500



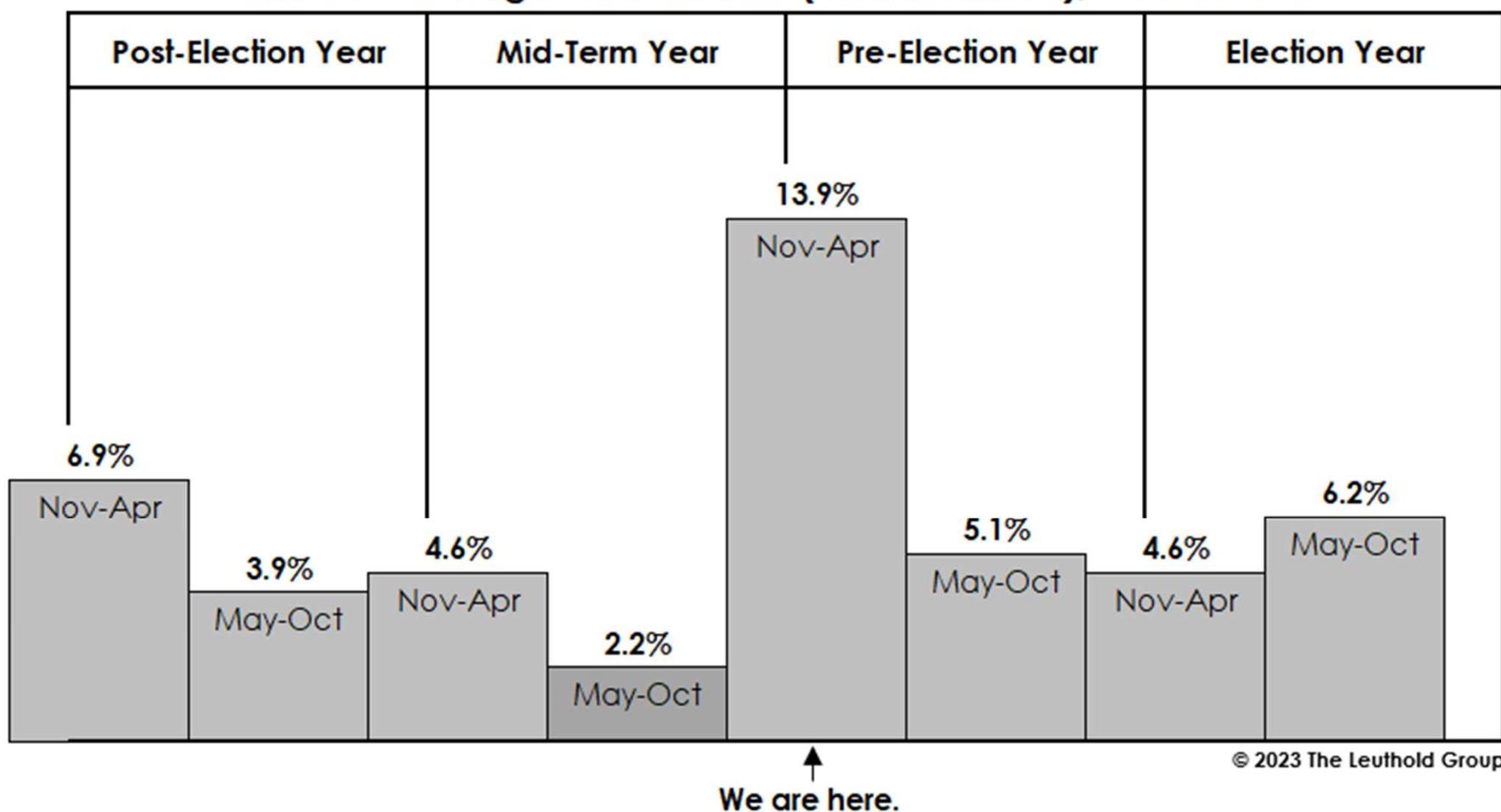
Arrows denote long-term, low-risk BUY signals occurring when VLT Momentum turns up from below zero.

- Political cycle is bullish for stocks in 2023

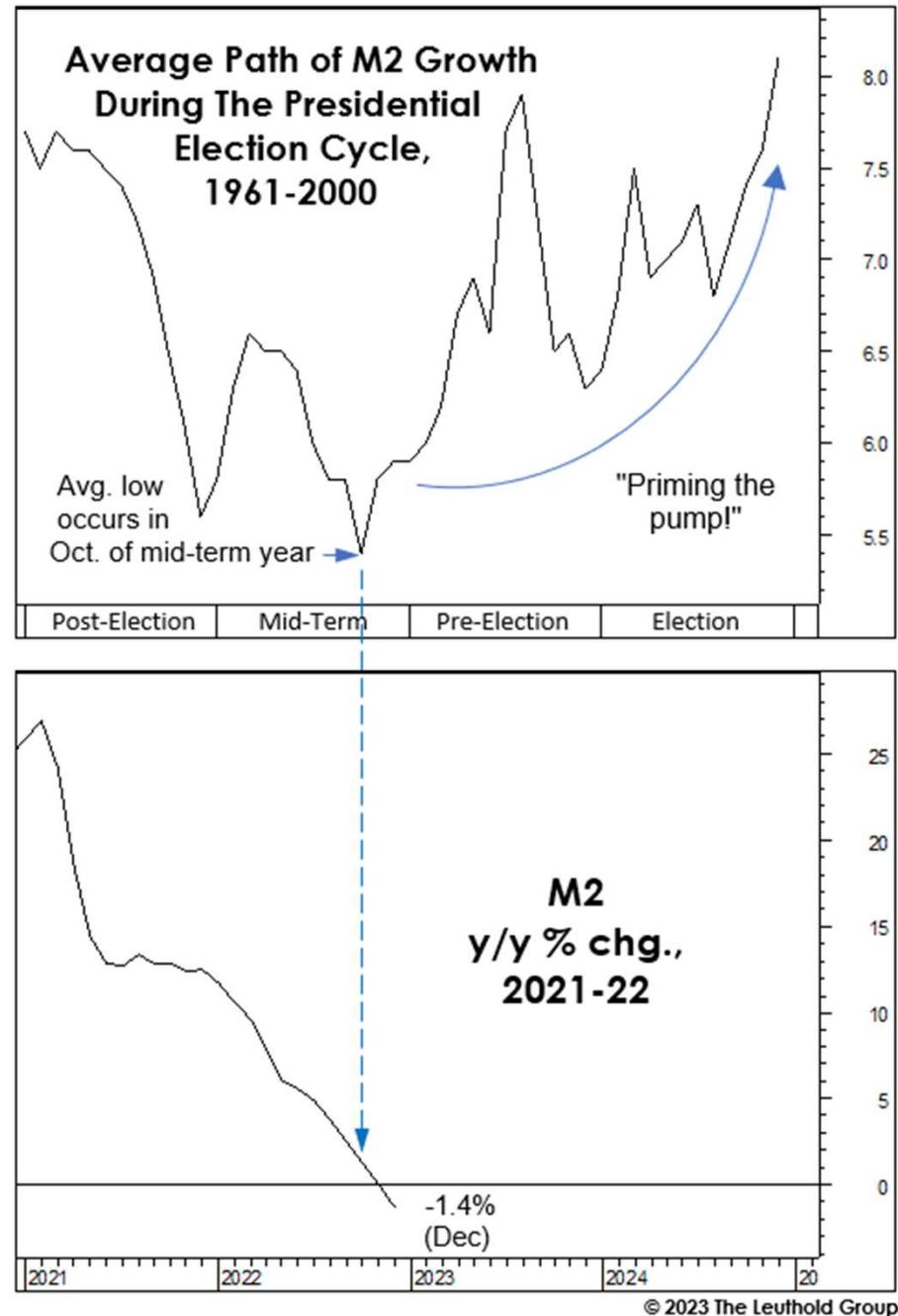


- Combination of cycles is exceptionally bullish through April

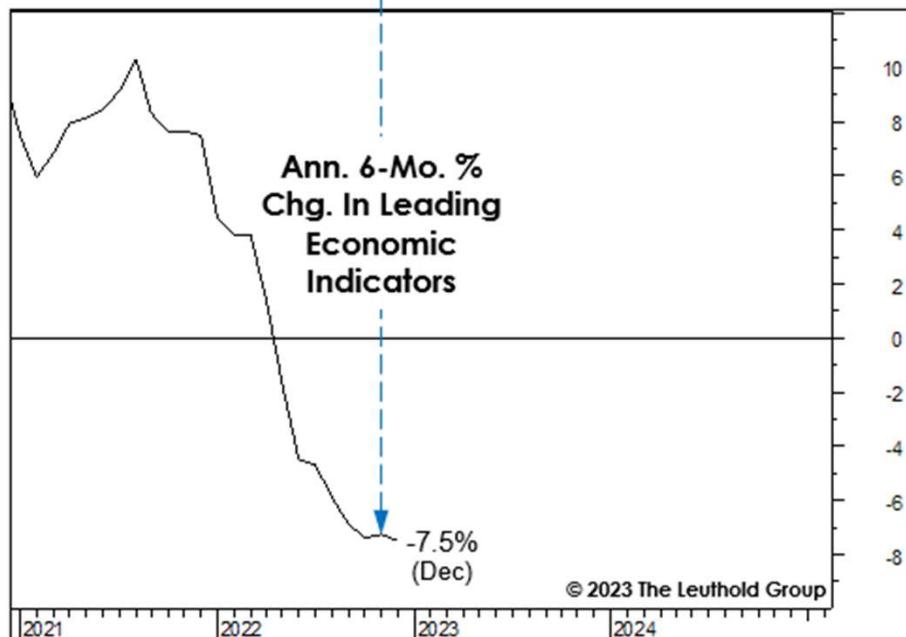
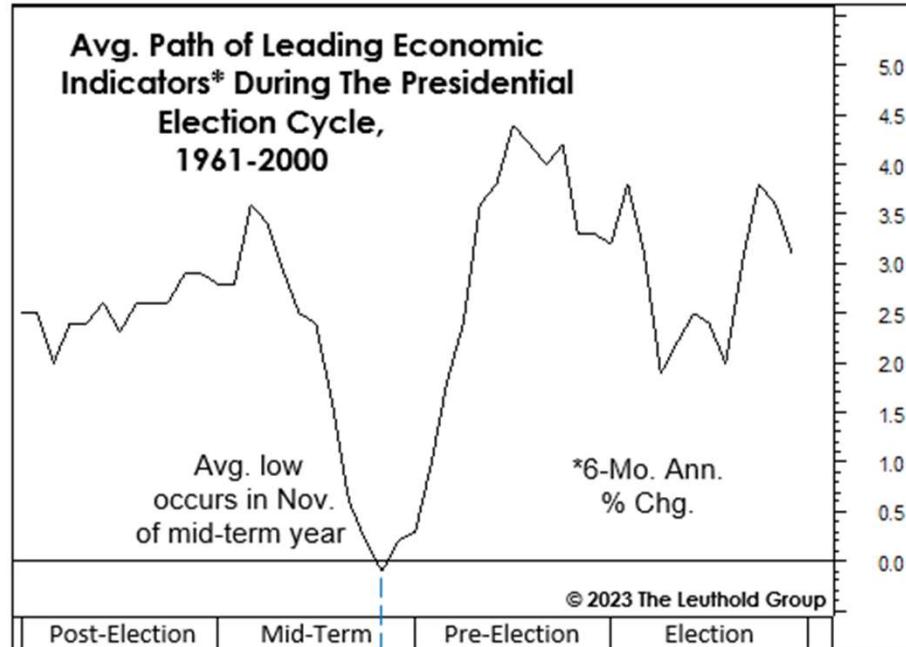
**The Stock Market's Annual & Presidential Cycles Combined:  
S&P 500 Average Total Returns (Unannualized), 1926 To Date**



- Monetary policy has had an accommodative bias in pre-election years

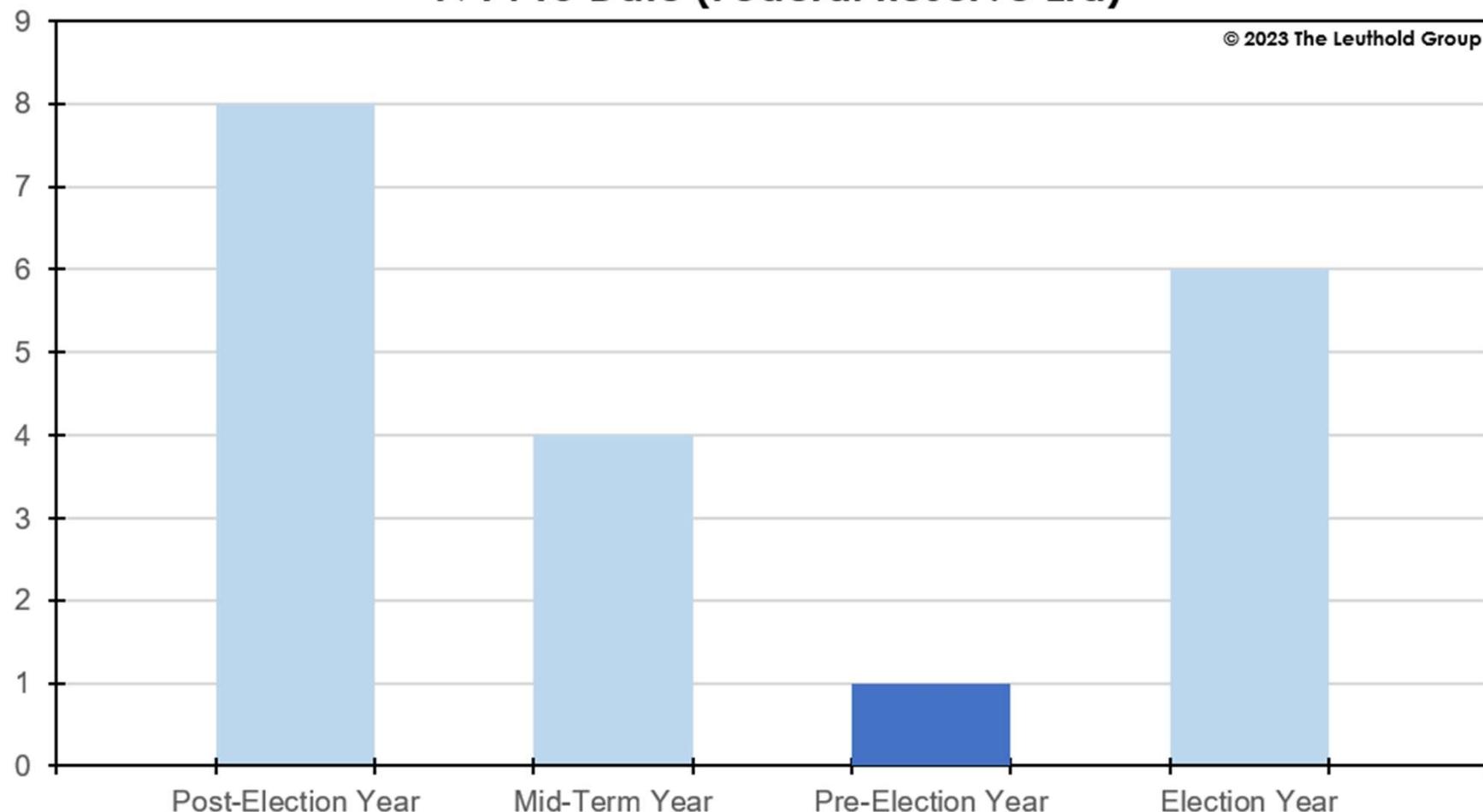


- The Leading Economic Indicators have followed a politically-inspired path



- The last time a recession started in a pre-election year was 1923

### **When Have Recessions Started? 1914 To Date (Federal Reserve Era)**



- Election cycle—one final “coincidence?”

### Track Record Of Super-Overbought MBI Readings

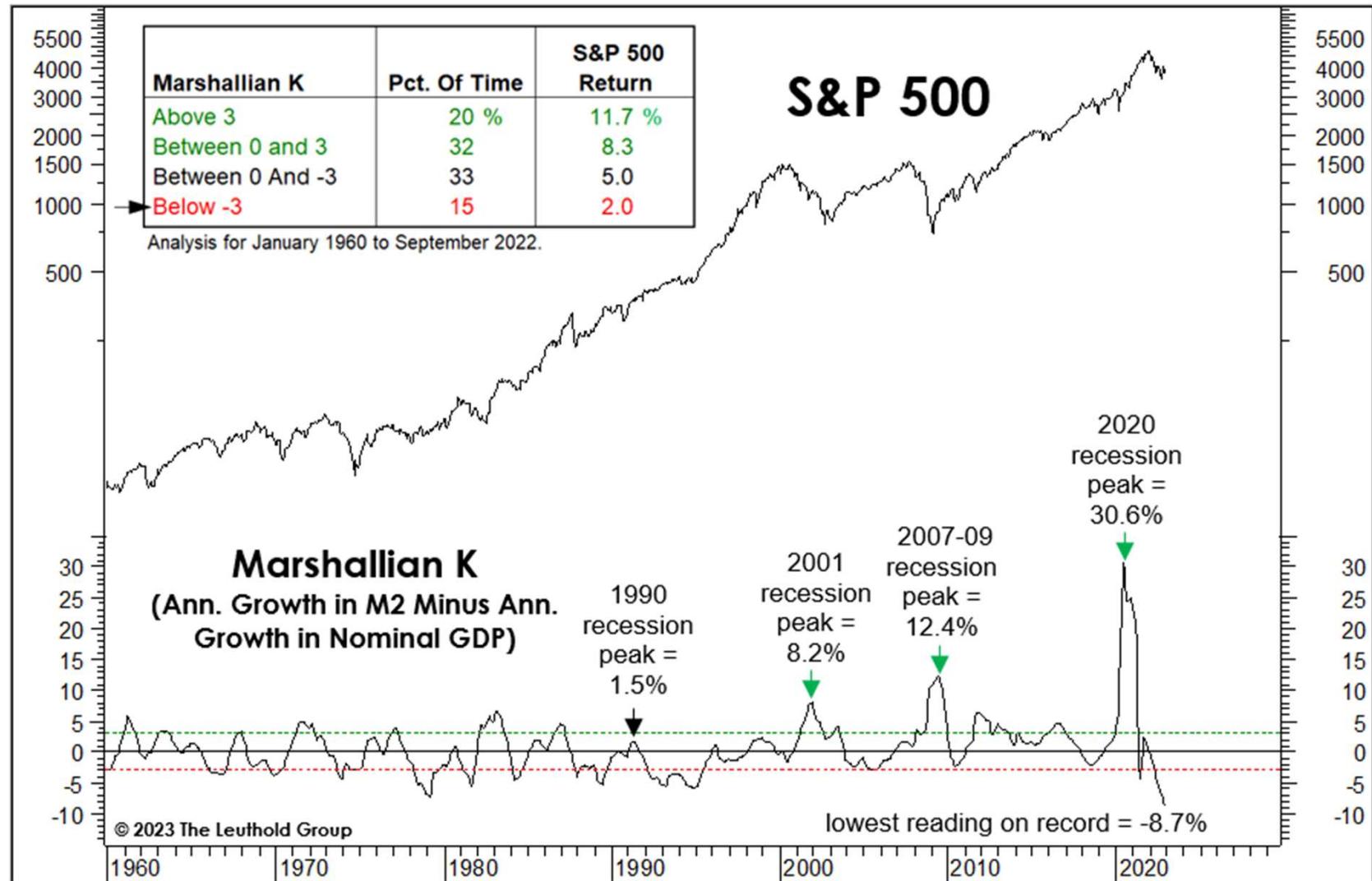
| © 2023 The Leuthold Group | Date Of Super<br>Overbought MBI<br>Reading (80 or higher) | S&P 500 % Gain/Loss... |                 |                 |                  |
|---------------------------|---|------------------------|-----------------|-----------------|------------------|
|                           |   | 1 Mo.<br>Later         | 3 Mos.<br>Later | 6 Mos.<br>Later | 12 Mos.<br>Later |
| January of Year 3 →       | January 16, 1967  | 4.6 %                  | 8.0 %           | 10.0 %          | 13.7 %           |
|                           | August 31, 1970   | 3.3                    | 7.0             | 19.0            | 22.1             |
| January of Year 3 →       | January 13, 1975  | 8.7                    | 18.4            | 31.6            | 33.2             |
|                           | January 6, 1976   | 9.0                    | 10.7            | 10.7            | 13.0             |
| January of Year 3 →       | August 24, 1982   | 7.3                    | 16.4            | 26.1            | 42.5             |
|                           | January 14, 1987  | 4.9                    | 6.3             | 18.2            | -6.4             |
| February of Year 3 →      | February 5, 1991  | 7.0                    | 7.4             | 11.2            | 17.8             |
|                           | January 3, 1992   | -2.3                   | -4.5            | -1.8            | 3.9              |
| January of Year 3 →       | March 23, 2009  | 2.5                    | 8.5             | 29.4            | 42.7             |
|                           | July 12, 2016   | 1.1                    | 0.5             | 5.4             | 13.5             |
| January of Year 3 →       | January 9, 2019   | 4.8                    | 11.7            | 16.1            | 26.7             |
|                           | June 5, 2020  | -1.5                   | 8.2             | 14.8            | 32.3             |
| January of Year 3 →       | January 12, 2023  |                        |                 |                 |                  |
|                           | Average (ex. 2023)  | 4.1 %                  | 8.2 %           | 15.9 %          | 21.2 %           |

Repeat signals occurring within six months of the initial one are omitted.

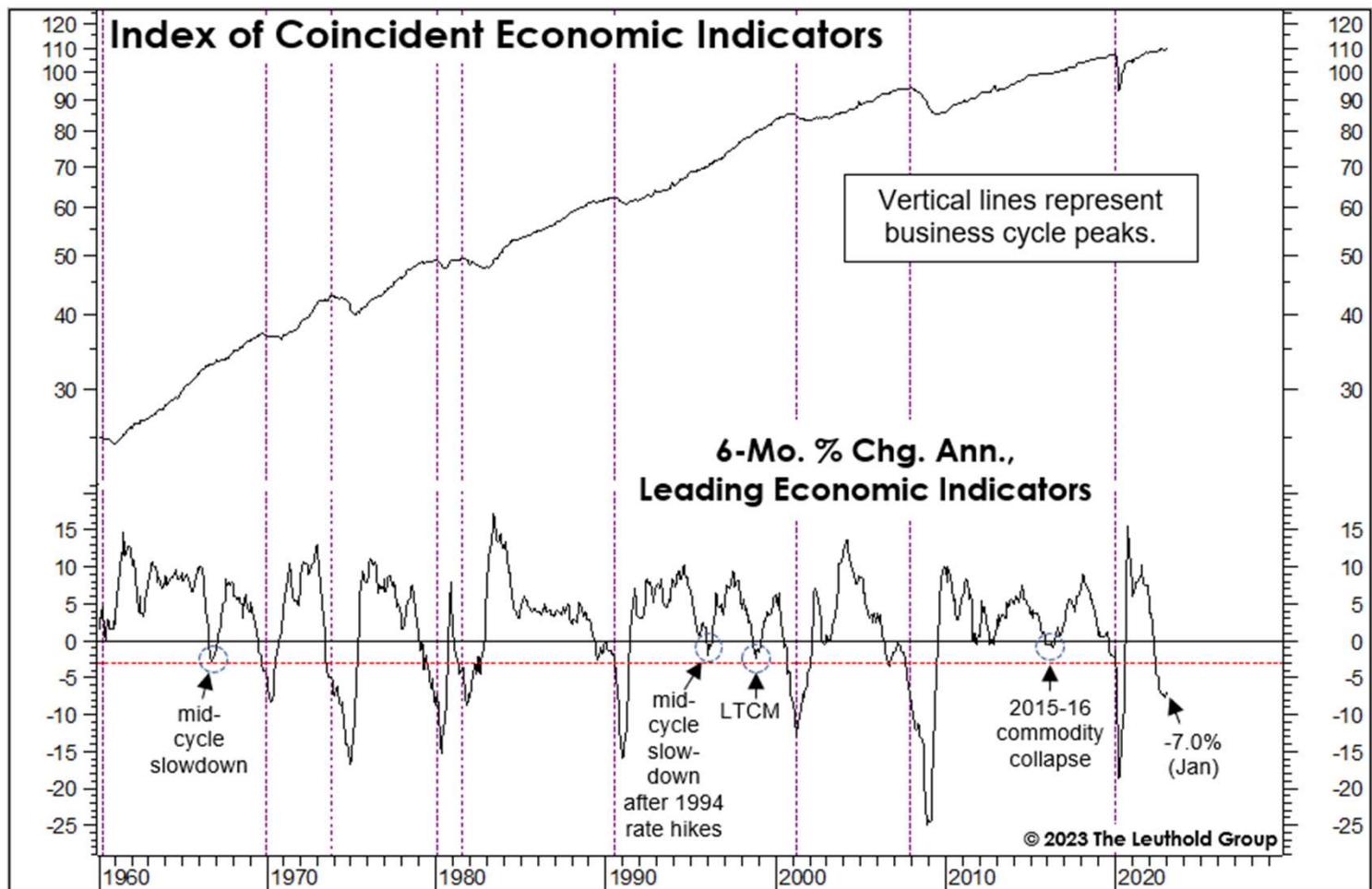
- Liquidity:  
From feast to famine!



- The Marshallian K:  
A measure of “excess” liquidity



- The size of the LEI's recent drop has led to recession in eight of the last eight cases...



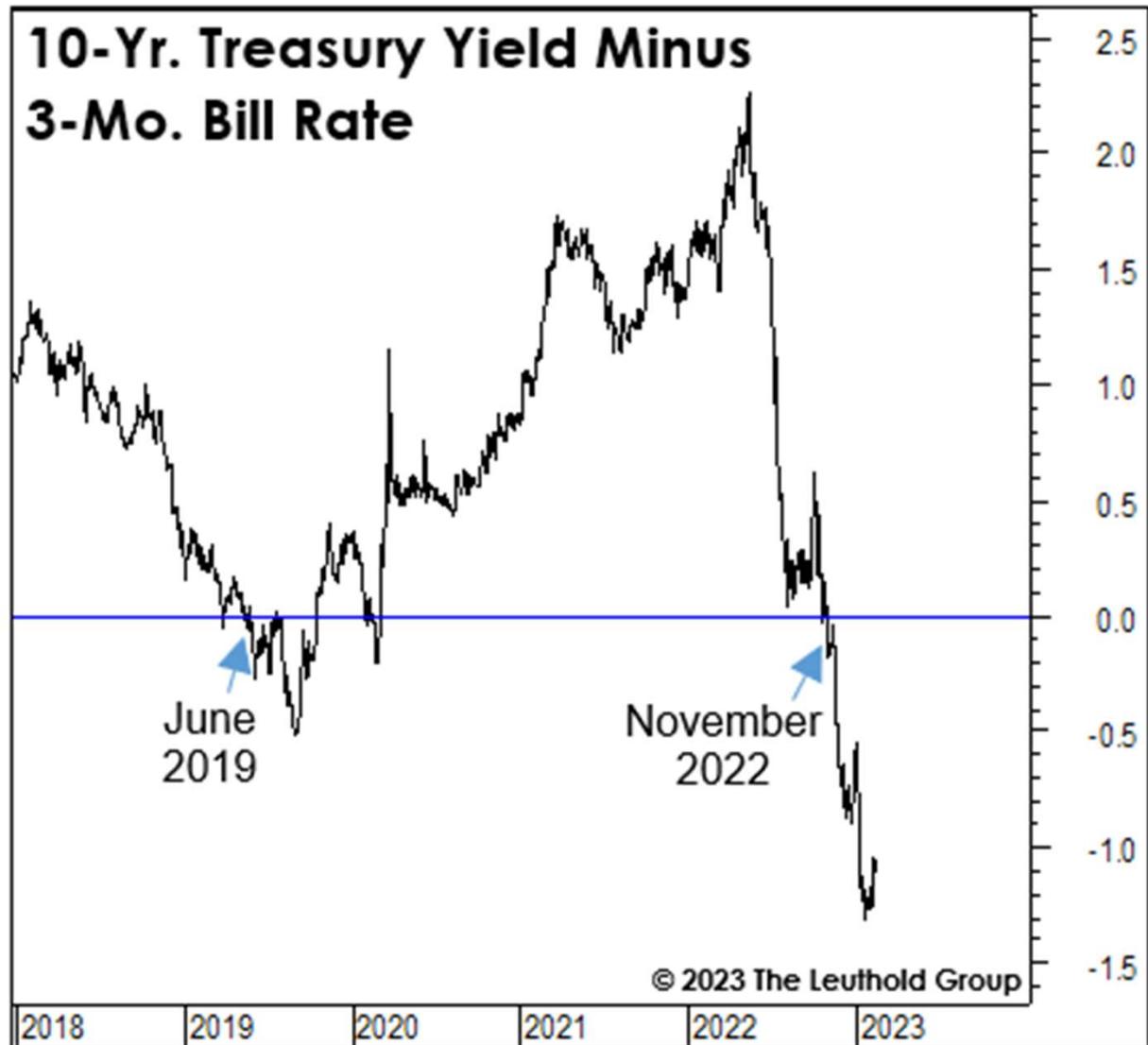
- ... but the economy has already held up longer than the LEI might have predicted

### **Leading Indicators: Early, Or Wrong?**

| <b>6-Mo. Ann. Pct. Chg. In<br/>LEI Drops Below -3%</b> | <b>Business Cycle Status</b>             |
|--|--|
| October 1969   | Two months before business cycle peak.   |
| August 1973  | Three months before business cycle peak. |
| June 1979  | Seven months before business cycle peak. |
| May 1981   | Two months before business cycle peak.   |
| August 1990  | One month into an 8-month recession.     |
| October 2000   | Five months before business cycle peak.  |
| August 2006  | 16 months before business cycle peak.    |
| March 2020   | One month into a two-month recession.    |
| June 2022  | ?  |
| <b>Average Lead/Lag</b>                                | <b>Average lead time of 4.1 months.</b>  |

© 2023 The Leuthold Group

- The yield curve issued a recession warning last fall...



Recession warnings are triggered when this measure trades below zero for consecutive days.

- ...but the lag time between inversions and recessions has varied

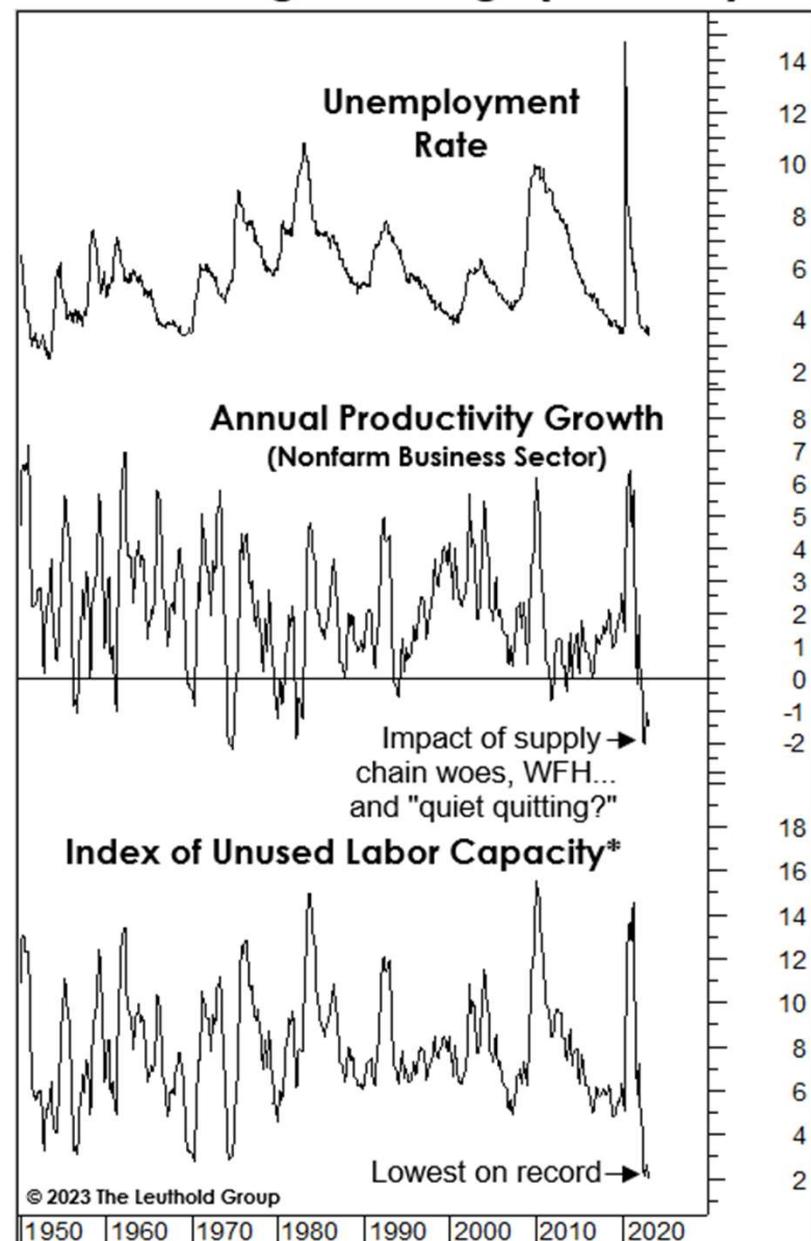
## Inversions & Recessions

| <b>First Month In Which<br/>10-Yr./3-Mo. Spread Inverts<br/>For Ten Consecutive Days</b> | <b>Mos. To<br/>Bus. Cycle<br/>Peak</b> |
|--|--|
| January 1969   | 11                                     |
| June 1973  | 5                                      |
| December 1978  | 13                                     |
| November 1980  | 8                                      |
| June 1989  | 13                                     |
| August 2000  | 7                                      |
| August 2006  | 16                                     |
| June 2019  | 8                                      |
| November 2022  | ?                                      |
| <b>Average Lead Time</b>   | <b>10</b>                              |

© 2023 The Leuthold Group

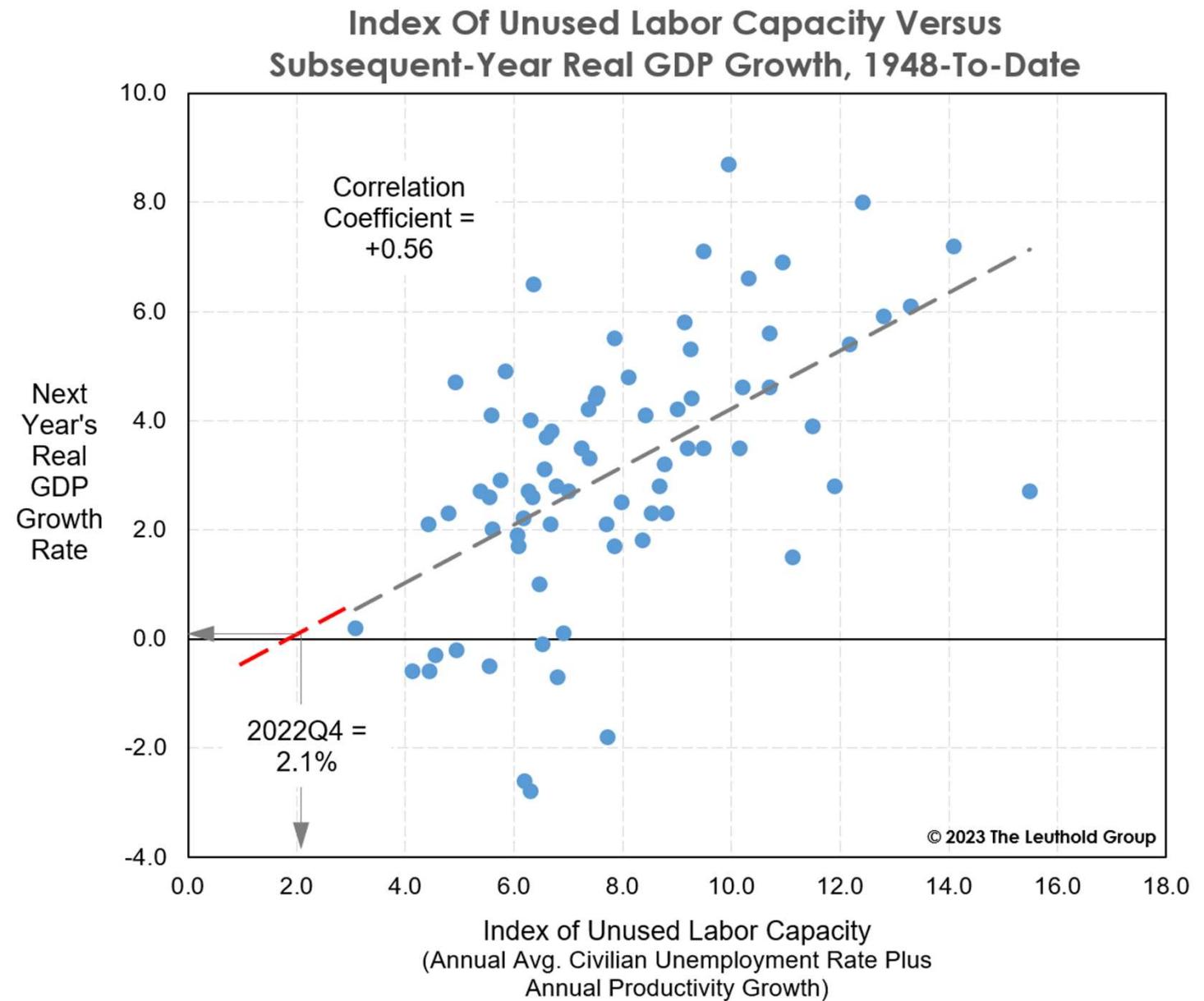
- The outlook for the economy would be challenging *regardless* of Fed action...

## Not Enough Workers, Or Not Enough Working? (Or Both?)

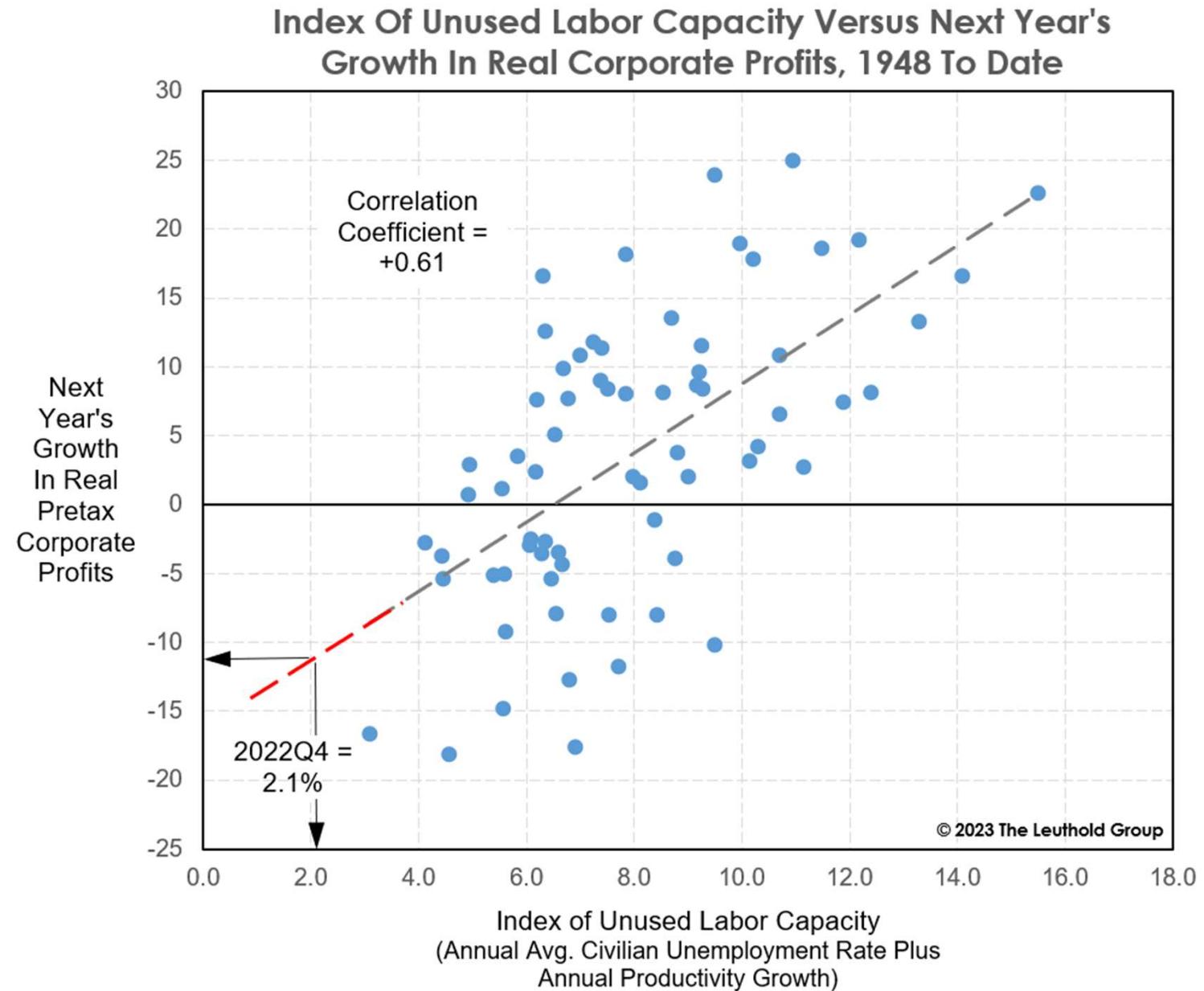


\*12-Mo. Avg. Unemployment Rate plus  
Annual Productivity Growth

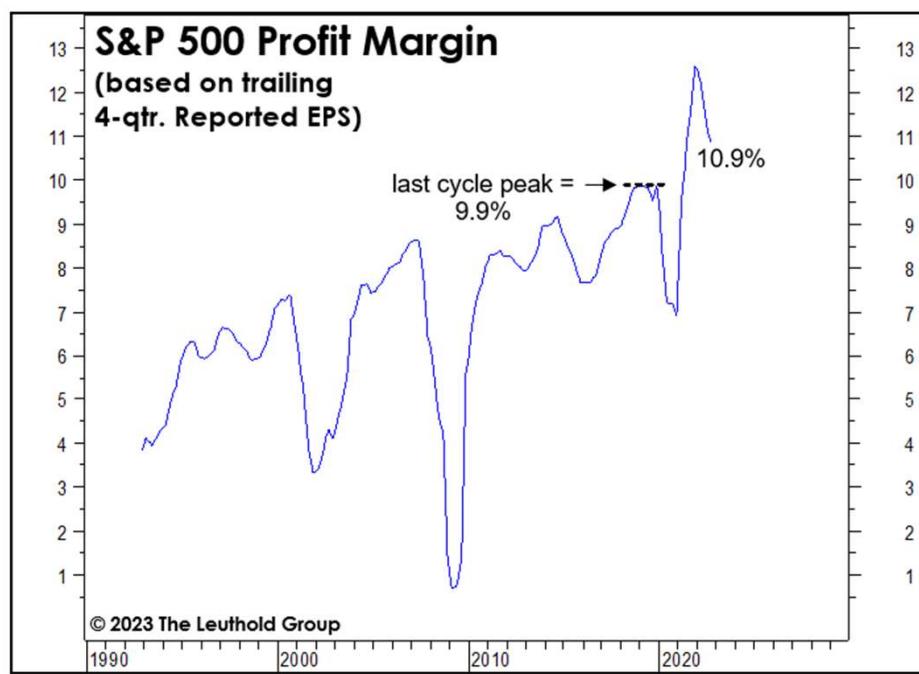
- Tight labor situation suggests real economic growth of near zero in 2023



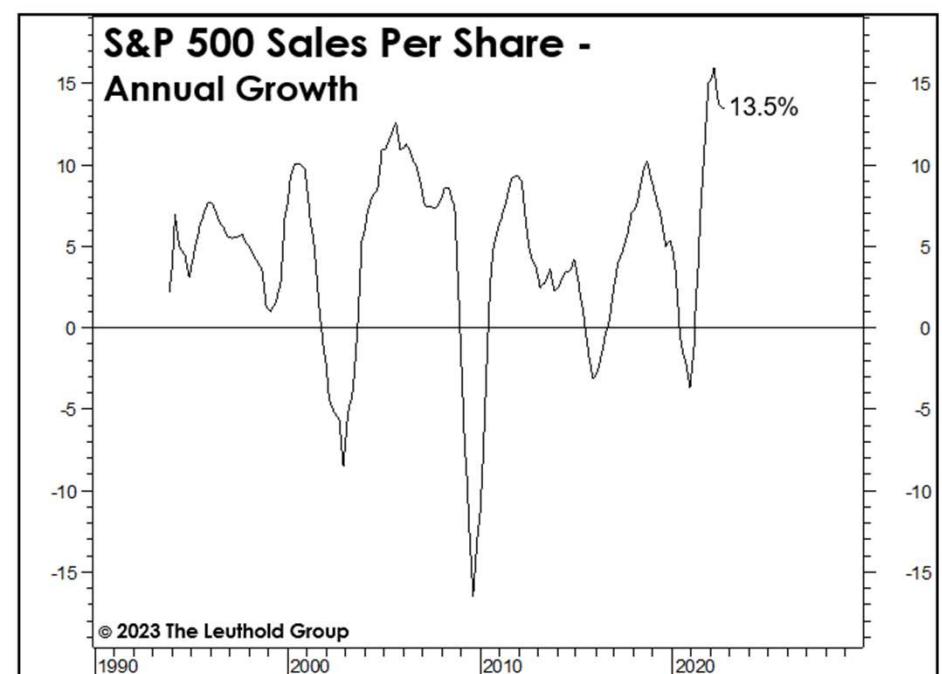
- Tight labor situation is also consistent with a decline in profits this year



- The two drivers of earnings—profit margins & sales growth—remain historically inflated

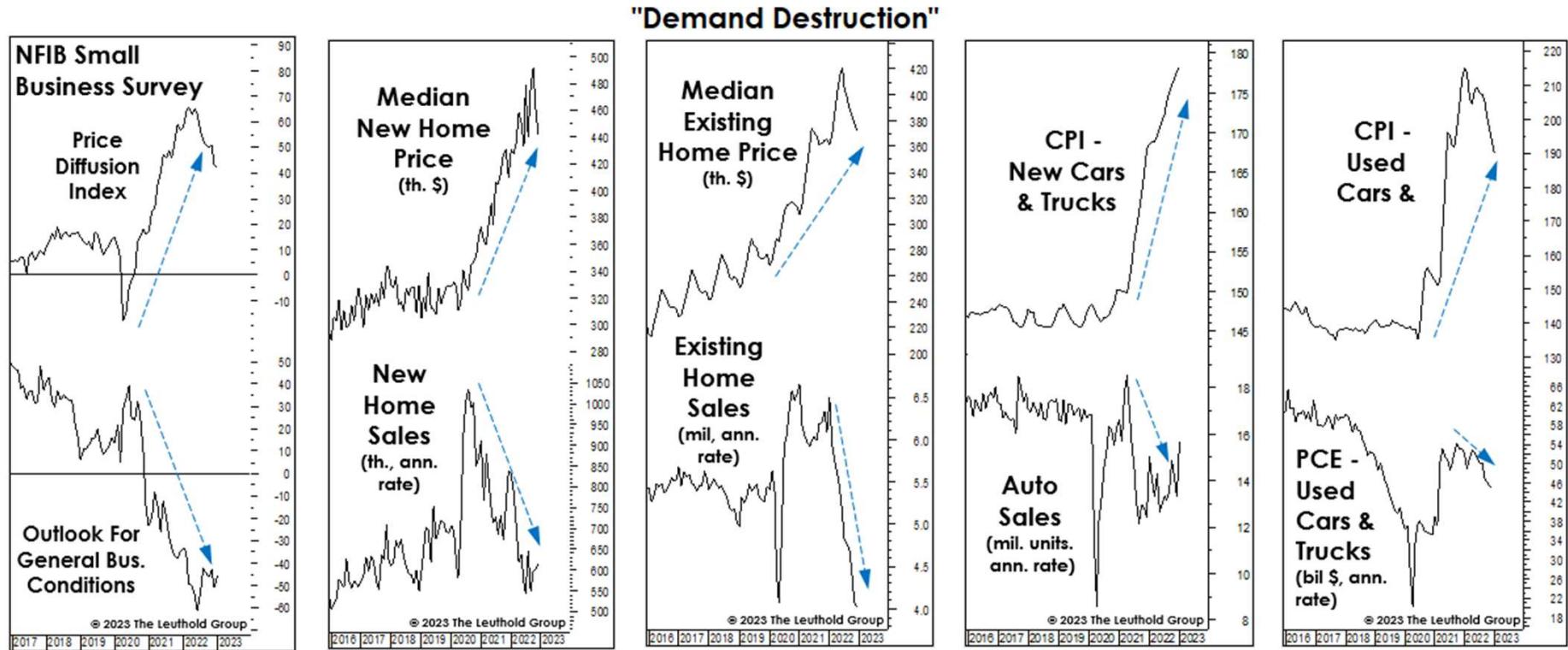


Figures through 2022:Q3

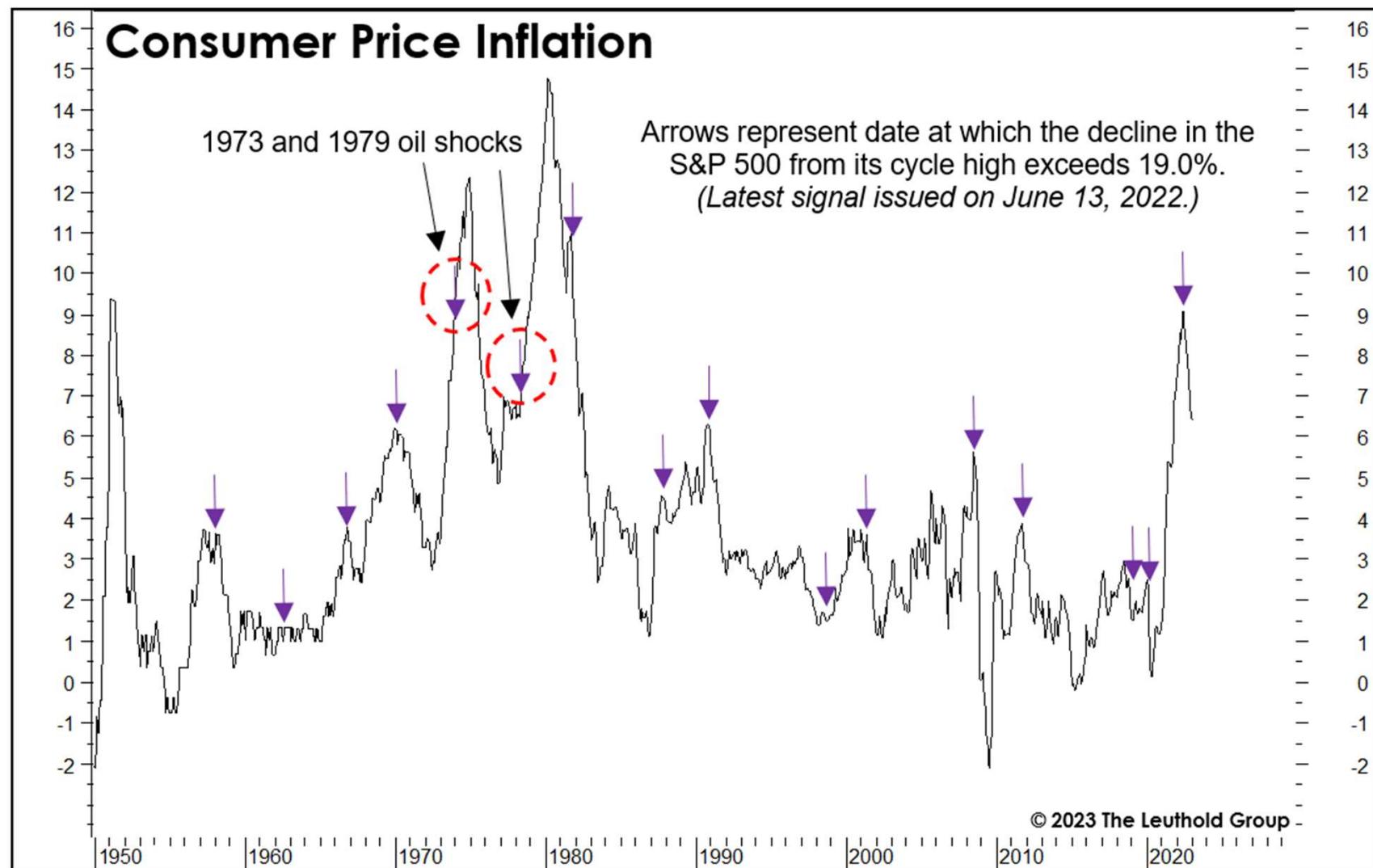


Figures through 2022:Q3

- High inflation is *itself* an underappreciated “rate hike”



- A “negative wealth effect” has helped stem the rise in inflation



- The stock market wasn't especially cheap at last October's low



Latest reading (February 17, 2023) = 25.5x (90th percentile)

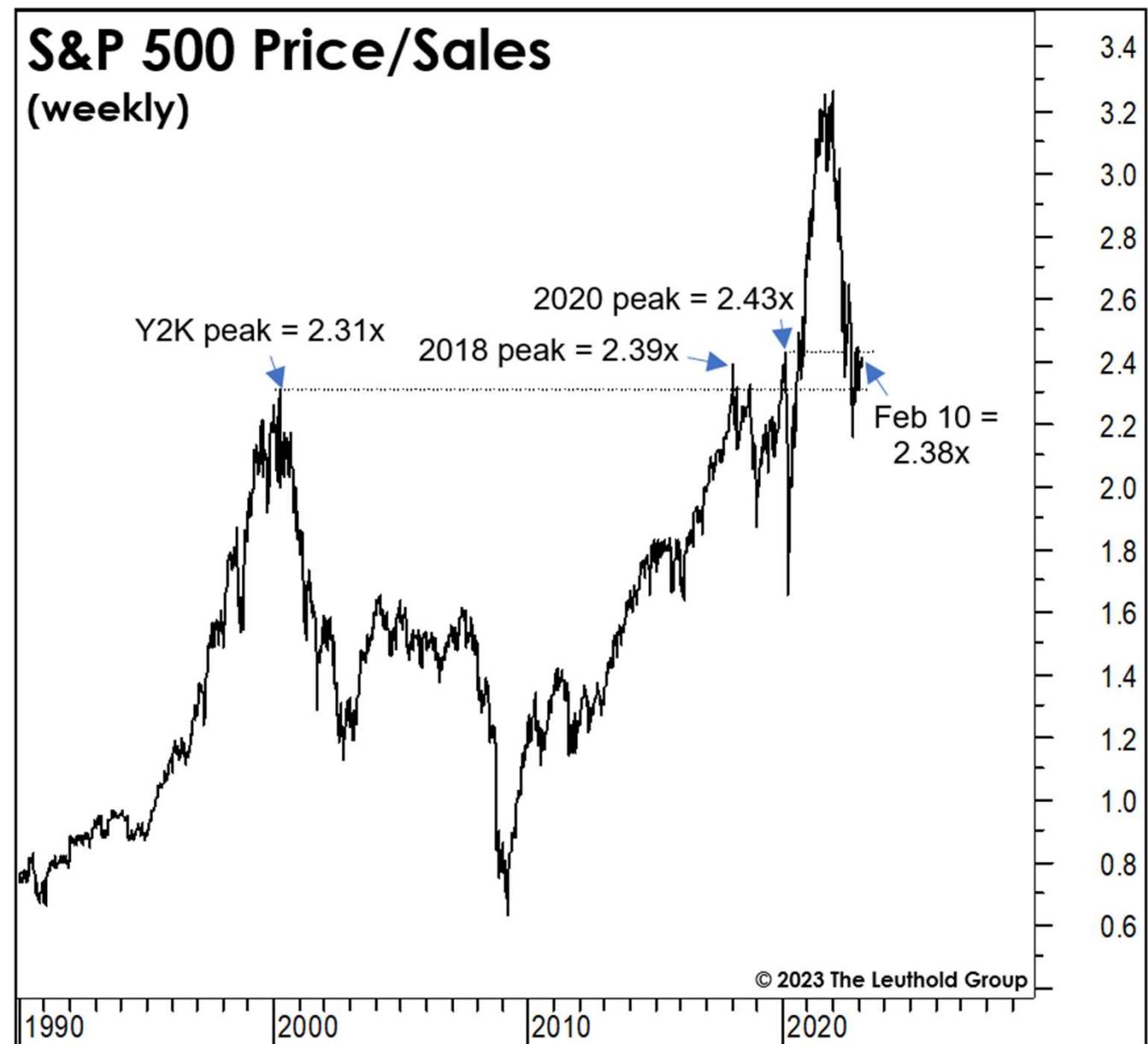
Reading at October 12, 2022 bear market low = 22.7x (80th percentile)

- If it holds, last October's low would become the “priciest” bear market low in history!

## P/E At Bear Market Lows

| © 2023 The Leuthold Group          | <b>S&amp;P 500 P/E<br/>on 5-Yr.<br/>Nrml EPS</b> |
|------------------------------------|--|
| <b>Date of<br/>S&amp;P 500 Low</b> |  |
| October 22, 1957                   | 12.5   |
| June 26, 1962                      | 16.2   |
| October 7, 1966                    | 16.3   |
| May 26, 1970                       | 12.5   |
| October 3, 1974                    | 9.3  |
| March 6, 1978                      | 9.4  |
| August 12, 1982                    | 7.4  |
| December 4, 1987                   | 14.6   |
| October 11, 1990                   | 14.7   |
| October 9, 2002                    | 17.0   |
| March 9, 2009                      | 9.9  |
| March 23, 2020                     | 18.1   |
| <b>Median</b>                      | <b>13.6 x</b>                                    |
| → October 12, 2022                 | 22.7 x   |
| February 17, 2023                  | 25.5 x   |

- Valuations are in the vicinity of their 2000, 2018, and 2020 market peaks

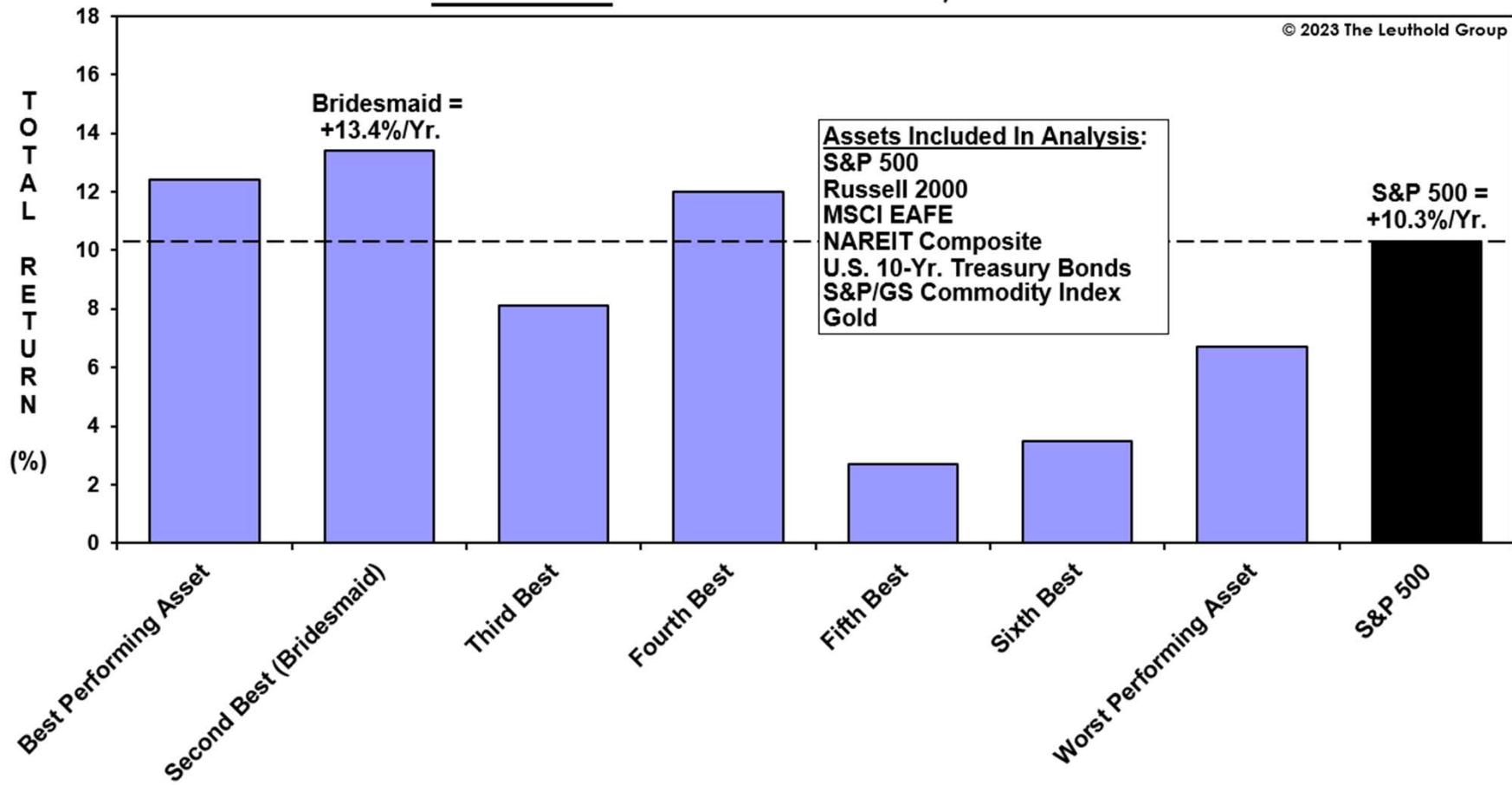


- Small Caps are in line with their average valuations over the last 28 years

| © 2023 The Leuthold Group   | estimated downside/upside to<br>1995-to-date "New Era" medians<br>(as of <u>January 31, 2023</u> ) |               |                 |
|-----------------------------|--|---------------|-----------------|
| Median<br>valuation measure | S&P 500  | MidCap<br>400 | SmallCap<br>600 |
| Normalized P/E              | -9 %   | 3 %           | 9 %             |
| Price/Cash Flow             | -25  | -12           | 1               |
| Price/Sales                 | -39  | -26           | -14             |
| Price-to-Book               | -15  | -13           | 8               |
| <b>Average</b>              | <b>-22 %</b>   | <b>-12 %</b>  | <b>1 %</b>      |

- Asset allocation:  
A little momentum is not  
a bad thing...

**A Simple, Single-Asset Annual Allocation Strategy:  
Select From Among Seven Asset Classes Using  
Last Year's Performance Rank, 1973 To 2022**



- Bridesmaid long-term performance

## Performance Summary, 1973-2022

|                                       | Bridesmaid | S&P 500 |
|---------------------------------------|------------|---------|
| Annualized Total Return               | 13.4 %     | 10.3 %  |
| Std Deviation of Annual Returns       | 18.7 %     | 17.7 %  |
| # Yrs. Matching or Exceeding S&P 500: | 31/50      |         |
| Correlation With S&P 500 Ann. Ret.    | 0.02       |         |

© 2023 The Leuthold Group

- Year-by-year performance

Bridesmaid Asset Allocation Strategy, 1973-2022

| Year       | Bridesmaid Asset Class (Previous Year's Runner-Up) | Bridesmaid Asset Allocation Strategy Total Return | S&P 500 Total Return |
|------------|--|---|----------------------|
| 1973       | Commodities  | 75.0 %  | -14.7                |
| 1974       | Gold   | 66.3  | -26.5                |
| 1975       | Commodities  | -17.2   | 37.2                 |
| 1976       | Large Caps   | 23.8  | 23.8                 |
| 1977       | REITs  | 19.1  | -7.2                 |
| 1978       | Gold   | 37.0  | 6.6                  |
| 1979       | EAFE   | 6.2   | 18.4                 |
| 1980       | Small Caps   | 38.6  | 32.4                 |
| 1981       | Large Caps   | -4.9  | -4.9                 |
| 1982       | Govt. Bonds  | 39.3  | 21.4                 |
| 1983       | REITs  | 25.5  | 22.5                 |
| 1984       | REITs  | 14.8  | 6.3                  |
| 1985       | REITs  | 5.9   | 32.2                 |
| 1986       | Large Caps   | 18.5  | 18.5                 |
| 1987       | Govt. Bonds  | -2.2  | 5.2                  |
| 1988       | Commodities  | 27.9  | 16.8                 |
| 1989       | Commodities  | 38.3  | 31.5                 |
| 1990       | Large Caps   | -3.2  | -3.2                 |
| 1991       | Govt. Bonds  | 18.8  | 30.5                 |
| 1992       | REITs  | 12.2  | 7.7                  |
| 1993       | REITs  | 18.5  | 10.0                 |
| 1994       | Small Caps   | -1.8  | 1.3                  |
| 1995       | Commodities  | 20.3  | 37.4                 |
| 1996       | Small Caps   | 16.5  | 23.1                 |
| 1997       | Commodities  | -14.1   | 33.4                 |
| 1998       | Small Caps   | -2.5  | 28.6                 |
| 1999       | EAFE   | 27.4  | 21.0                 |
| 2000       | EAFE   | -14.0   | -9.1                 |
| 2001       | REITs  | 15.5  | -11.9                |
| 2002       | Govt. Bonds  | 15.4  | -22.1                |
| 2003       | Gold   | 20.9  | 28.7                 |
| 2004       | EAFE   | 20.7  | 10.9                 |
| 2005       | EAFE   | 14.0  | 4.9                  |
| 2006       | Gold   | 22.5  | 15.8                 |
| 2007       | EAFE   | 11.6  | 5.5                  |
| 2008       | Gold   | 4.3   | -37.0                |
| 2009       | Gold   | 26.5  | 26.5                 |
| 2010       | REITs  | 27.6  | 15.1                 |
| 2011       | REITs  | 7.3   | 2.1                  |
| 2012       | Gold   | 5.9   | 16.0                 |
| 2013       | EAFE   | 23.3  | 32.4                 |
| 2014       | Large Caps   | 13.7  | 13.7                 |
| 2015       | Large Caps   | 1.4   | 1.4                  |
| 2016       | Govt. Bonds  | 1.0   | 12.0                 |
| 2017       | Large Caps   | 21.8  | 21.8                 |
| 2018       | Large Caps   | -4.4  | -4.4                 |
| 2019       | Gold   | 18.8  | 31.5                 |
| 2020       | REITs  | -5.9  | 18.4                 |
| 2021       | Small Caps   | 14.8  | 28.7                 |
| 2022       | REITs  | -25.1   | -18.1                |
| 2023-----► | Gold   | ?   | ?                    |

© 2023 The Leuthold Group

- Gold is the Bridesmaid asset class for 2023

2023 Bridesmaid →

|                       | <b>2022<br/>Total<br/>Return</b> |
|-----------------------|----------------------------------|
| S&P/GS Commodity      | 26.0 %                           |
| <b>Gold</b>           | -0.4                             |
| EAFE                  | -14.0                            |
| U.S. 10-Yr. Treasurys | -14.8                            |
| S&P 500               | -18.1                            |
| Russell 2000          | -20.4                            |
| REITs (NAREIT Index)  | -25.1                            |

© 2023 The Leuthold Group

- The Bridesmaid strategy has also performed well using stock market sectors...

The Bridesmaid Sector Strategy, 1991-2022

| Year                                       | Bridesmaid Sector (Last Year's Second Best Sector) | S&P 500 Sector Bridesmaid Strategy Total Return | S&P 500 Total Return |
|--|--|---|----------------------|
| 1991                                       | Consumer Staples                                   | 41.7 %  | 30.5 %               |
| 1992                                       | Financials   | 23.3  | 7.7                  |
| 1993                                       | Consumer Discretionary                             | 14.6  | 10.0                 |
| 1994                                       | Industrials  | -2.4  | 1.3                  |
| 1995                                       | Health Care  | 58.0  | 37.4                 |
| 1996                                       | Financials   | 35.2  | 23.1                 |
| 1997                                       | Financials   | 48.2  | 33.4                 |
| 1998                                       | Health Care  | 43.9  | 28.6                 |
| 1999                                       | Telecom Services                                   | 19.1  | 21.0                 |
| 2000                                       | Materials  | -15.7   | -9.1                 |
| 2001                                       | Health Care  | -11.9   | -11.9                |
| 2002                                       | Consumer Discretionary                             | -23.8   | -22.1                |
| 2003                                       | Materials  | 38.2  | 28.7                 |
| 2004                                       | Materials  | 13.2  | 10.9                 |
| 2005                                       | Utilities  | 16.8  | 4.9                  |
| 2006                                       | Utilities  | 21.0  | 15.8                 |
| 2007                                       | Energy   | 34.4  | 5.5                  |
| 2008                                       | Materials  | -45.7   | -37.0                |
| 2009                                       | Health Care  | 19.7  | 26.5                 |
| 2010                                       | Materials  | 22.2  | 15.1                 |
| 2011                                       | Industrials  | -0.6  | 2.1                  |
| 2012                                       | Consumer Staples                                   | 10.8  | 16.0                 |
| 2013                                       | Consumer Discretionary                             | 42.9  | 32.4                 |
| 2014                                       | Health Care  | 25.3  | 13.7                 |
| 2015                                       | Health Care  | 6.9   | 1.4                  |
| 2016                                       | Health Care  | -2.7  | 12.0                 |
| 2017                                       | Telecom Services                                   | -1.3  | 21.8                 |
| 2018                                       | Materials  | -14.7   | -4.4                 |
| 2019                                       | Utilities  | 26.3  | 31.5                 |
| 2020                                       | Communication Services                             | 23.6  | 18.4                 |
| 2021                                       | Consumer Discretionary                             | 24.4  | 28.7                 |
| 2022                                       | Financials   | -10.5   | -18.1                |
| 2023                                       | Utilities  | ?   | ?                    |
| <b>1991-2022:</b>                          |  |   |                      |
| <b>Annualized Total Return</b>             |  | <b>12.4 %</b>                                   | <b>10.2 %</b>        |
| Standard Deviation of Annual Returns       |  | 23.3 %  | 17.8 %               |
| No. Yrs. Outperforming S&P 500:            |  | 18/32   |                      |
| Correlation With S&P 500 (Annual Returns): |  | 0.89  |                      |
| © 2023 The Leuthold Group                  |  |   |                      |

- Utilities are the Bridesmaid sector for 2023

2023 Bridesmaid →

| <b>S&amp;P 500 Sectors<br/>(Ex. Real Estate)</b> | <b>2002<br/>Total Return</b> |
|--|------------------------------|
| Energy   | 65.7 %                       |
| <b>Utilities</b>                                 | 1.6                          |
| Consumer Staples                                 | -0.6                         |
| Health Care                                      | -2.0                         |
| Industrials                                      | -5.5                         |
| Financials                                       | -10.5                        |
| Materials  | -12.3                        |
| Information Technology                           | -28.2                        |
| Consumer Discretionary                           | -37.0                        |
| Communication Services                           | -39.9                        |
| <b>S&amp;P 500</b>                               | <b>-18.1 %</b>               |

© 2023 The Leuthold Group

- For those uncomfortable chasing momentum, don't buy weakness—buy *value*

**The Cheapskate Sector Strategy, 1991-2022**

| Year                                  | Cheapskate Sector<br>(sector with lowest<br>median Trailing P/E<br>at end of prior year) | Cheapskate<br>Sector<br>Total<br>Return | S&P 500<br>Total<br>Return |
|---------------------------------------|--|---|----------------------------|
| 1991                                  | Financials   | 49.1 %                                  | 30.5 %                     |
| 1992                                  | Financials   | 23.3                                    | 7.7                        |
| 1993                                  | Financials   | 10.6                                    | 10.0                       |
| 1994                                  | Financials   | -3.5                                    | 1.3                        |
| 1995                                  | Financials   | 54.1                                    | 37.4                       |
| 1996                                  | Financials   | 35.2                                    | 23.1                       |
| 1997                                  | Utilities  | 24.7                                    | 33.4                       |
| 1998                                  | Utilities  | 14.8                                    | 28.6                       |
| 1999                                  | Materials  | 25.3                                    | 21.0                       |
| 2000                                  | Utilities  | 57.2                                    | -9.1                       |
| 2001                                  | Telecom Services   | -12.2                                   | -11.9                      |
| 2002                                  | Energy   | -11.1                                   | -22.1                      |
| 2003                                  | Utilities  | 26.3                                    | 28.7                       |
| 2004                                  | Energy   | 31.5                                    | 10.9                       |
| 2005                                  | Energy   | 31.4                                    | 4.9                        |
| 2006                                  | Financials   | 19.2                                    | 15.8                       |
| 2007                                  | Energy   | 34.4                                    | 5.5                        |
| 2008                                  | Financials   | -55.3                                   | -37.0                      |
| 2009                                  | Energy   | 13.8                                    | 26.5                       |
| 2010                                  | Utilities  | 5.5                                     | 15.1                       |
| 2011                                  | Utilities  | 19.9                                    | 2.1                        |
| 2012                                  | Financials   | 28.8                                    | 16.0                       |
| 2013                                  | Industrials  | 40.7                                    | 32.4                       |
| 2014                                  | Financials   | 15.2                                    | 13.7                       |
| 2015                                  | Energy   | -21.1                                   | 1.4                        |
| 2016                                  | Financials   | 22.8                                    | 12.0                       |
| 2017                                  | Telecom Services   | -1.3                                    | 21.8                       |
| 2018                                  | Financials   | -13.0                                   | -4.4                       |
| 2019                                  | Financials   | 32.1                                    | 31.5                       |
| 2020                                  | Financials   | -1.7                                    | 18.4                       |
| 2021                                  | Financials   | 35.0                                    | 28.7                       |
| 2022                                  | Financials   | -10.5                                   | -18.1                      |
| 2023 -----► Energy                    |  | ?                                       | ?                          |
| <b>1991-2021:</b>                     |  |   |                            |
| <b>Annualized Total Return:</b>       |  | <b>13.3 %</b>                           | <b>10.2 %</b>              |
| Standard Deviation of Annual Returns: |  | 24.0 %                                  | 17.8 %                     |
| No. Yrs. Outperforming S&P 500:       |  | 20/32                                   |                            |
| Correlation With S&P 500 Ann. Return: |  | 0.67                                    |                            |
| © 2023 The Leuthold Group             |  |   |                            |

- Energy is by far the cheapest sector in the S&P 500

Cheapskate →  
Sector

| S&P 500 Sectors<br>(Ex. Real Estate) | Dec 2022<br>Median P/E |
|--------------------------------------|------------------------|
| Consumer Discretionary               | 20.5 x                 |
| Consumer Staples                     | 27.5                   |
| <b>Energy</b>                        | <b>8.3</b>             |
| Financials                           | 13.2                   |
| Health Care                          | 24.8                   |
| Industrials                          | 24.2                   |
| Information Technology               | 27.3                   |
| Materials                            | 16.9                   |
| Communication Services               | 17.8                   |
| Utilities                            | 20.5                   |
| S&P 500                              | 21.5 x                 |

© 2023 The Leuthold Group

- The Cheapskate strategy has beaten even the Technology sector on a long-term basis

The Cheapskate strategy has been parked in either Financials, Energy or Utilities in 28 out of 32 years. The key has been to own these sectors only when they are the cheapest one available.

### Cheapskate Vs. All Sectors

| S&P 500 Sectors<br>(Ex. Real Estate) | Annualized<br>Total Return,<br>1991-2022 |
|--------------------------------------|--|
| <b>Cheapest Sector</b>               | <b>13.3 %</b>                            |
| Information Technology               | 12.7                                     |
| Health Care                          | 11.7                                     |
| Consumer Discretionary               | 10.7                                     |
| Consumer Staples                     | 10.5                                     |
| Industrials                          | 10.4                                     |
| → Financials                         | 9.9                                      |
| → Energy                             | 9.6                                      |
| Materials                            | 8.8                                      |
| → Utilities                          | 8.7                                      |
| Communications Services              | 5.8                                      |

© 2023 The Leuthold Group