THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

May 8, 2023
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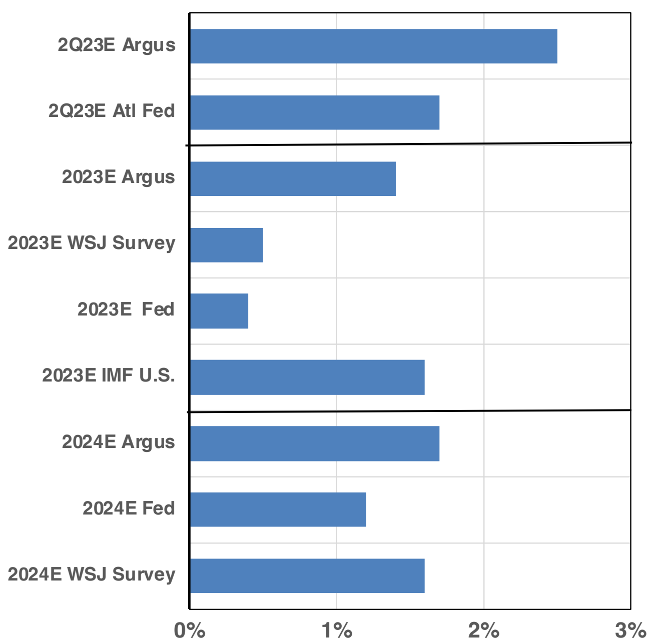
ARGUS 2Q23 GDP FORECAST NOW 2.5%

Our analysis of recent data leads us to conclude that key parts of U.S. GDP are still expanding, despite the impact of higher interest rates, inflation, and geopolitical developments. That said, growth is not consistent across all segments of the economy, and, in many cases, growth rates are slowing. The risk of a U.S. recession is real -- but is not a foregone conclusion. We look for uneven growth in 2023, with the high possibility of a negative quarter or two. After reviewing the latest economic fundamentals, we have raised our 2Q23 GDP growth estimate to 2.5% from our prior forecast of 0.6%. We believe that 2Q could be the strongest quarter of the year, before higher interest rates dampen consumer spending in the second half. Our estimate for 2023 remains 1.4%. Our preliminary forecast for GDP growth in 2024 remains 1.7%, as the Federal Reserve, with its tool chest once again full, can contemplate lowering interest rates to recharge economic growth. Our estimates are in the range of other forecasters, though perhaps a bit higher than the consensus. The Wall Street Journal Economic Survey calls for GDP growth of 0.5% in 2023 and 1.6% in 2024. The Federal Reserve projects GDP growth of 0.4% in 2023 and 1.2% in 2024. Meanwhile, the IMF calls for 2023 growth of 1.6%, and the Philadelphia Fed's Survey of Professional Forecasters calls for growth of 1.3% in 2023 and 1.4% in 2024.

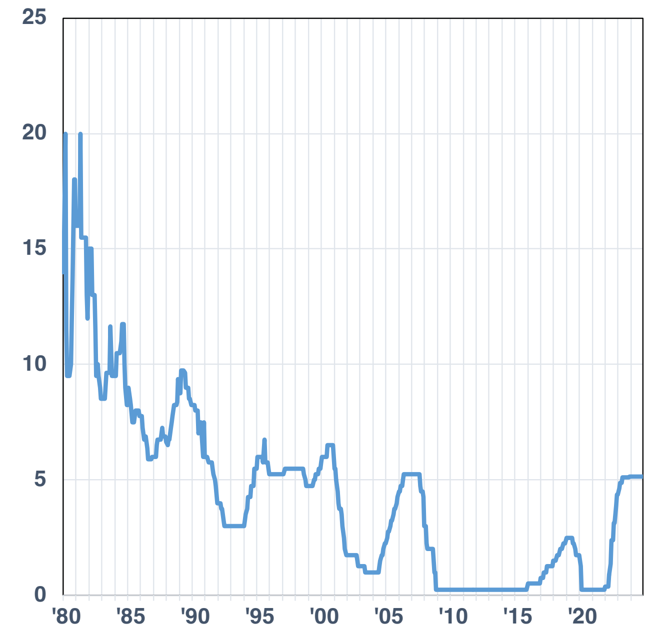
GDP ESTIMATES



THE LAST IN THE CYCLE?

As expected, the Federal Reserve has raised the fed funds rate by 25 basis points to 5.00%-5.25%. Are rates now high enough to cool the economy and bring inflation down toward 2.0%? In its announcement, the Fed hinted that it might pause. The committee replaced language that said "some additional policy firming may be appropriate" by saying that it would take into account the cumulative tightening of monetary policy, economic and financial developments, and other incoming data "in determining the extent to which additional policy firming may be appropriate." In the Fed's view, the banking system remains sound and resilient. We think this is the last rate hike in the cycle and that the Fed will now move to the sidelines, likely for at least the balance of the year. As for the economy, we remain concerned that the Fed has tossed its other mandate -- full employment -- out the window in its fight to lower high prices. The hikes already have brought growth in the housing market to a standstill, and manufacturing has now slumped. Will the consumer sector be next? The U.S. economy has been walking a fine line between expansion and contraction for the past four quarters. Substantially higher interest rates could tip the economy into recession this year, and send the unemployment rate up toward 5.0%. We think the central bank may lower rates if the jobless rate rises above 4.0%-4.5%.

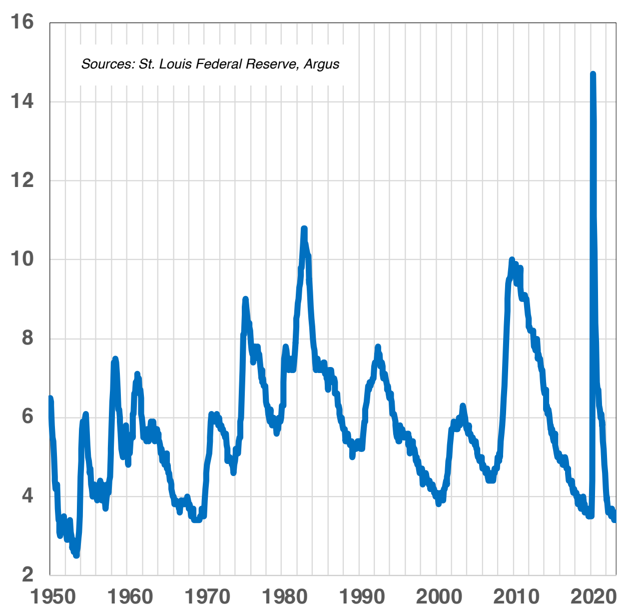
FEDERAL FUNDS TARGET RATE & FORECASTS (%)



UNEMPLOYMENT RATE DROPS TO 3.4%

The U.S. economy generated 253,000 new jobs in April, topping consensus expectations of 180,000. The unemployment rate dropped to 3.4% from 3.5% in March, matching January's 54-year low. Average hourly earnings increased $0.16 from the prior month and 4.4% from the prior year. The labor force participation rate was unchanged at 62.6%. In April, job gains occurred in professional and business services, healthcare, leisure and hospitality, and social assistance. Industries absent from the outsize jobs gains included construction, manufacturing, wholesale trade, retail trade, transportation and warehousing, and information. Gains in February and March were revised lower by 149,000 jobs. The number of job openings in March decreased by 384,000 according a separate report. Demand for workers is still strong, with 9.6 million openings for 5.7 million unemployed.

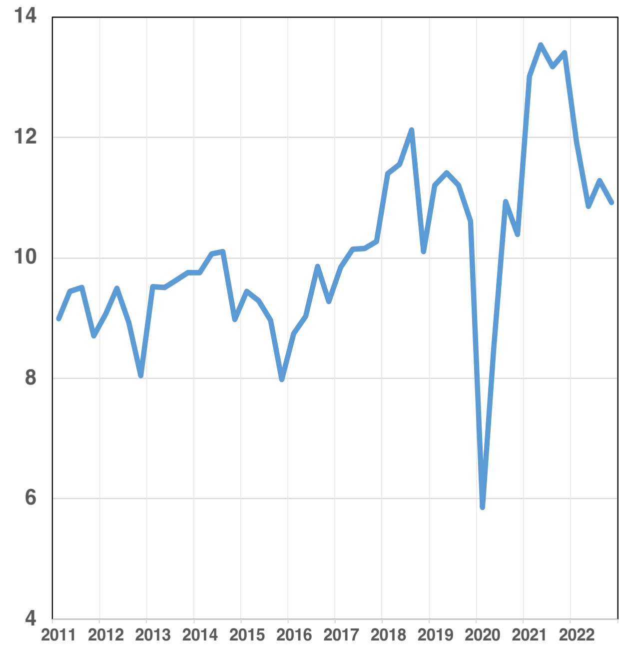
U.S. UNEMPLOYMENT RATE (%)



PROFIT MARGINS UNDER PRESSURE

There are three drivers of EPS growth: higher sales, wider margins, and lower shares outstanding. The reduction in shares outstanding, caused by share buybacks, is the lowest-quality driver of EPS growth. Higher sales -- as customers demand more products and services -- is the highest quality. Consistently wider margins are often a sign of good management, as revenues grow faster than costs. But that's a tall order in periods of high inflation (which raises the cost of goods sold) and rising interest rates (which result in higher financing costs). What's more, there's a cap to margins, as they don't rise indefinitely. Indeed, this is one of those statistics for which "reversion to the mean" is relevant. Last year, operating margins for S&P 500 companies averaged 11.9%. That was high — above the long-run average of 9.3% — but down from a 15-year peak of 13.3% in 2021. It is likely that margins will face pressure in the coming quarters due to inflation and high interest rates, and that investors will have to rely more on revenue growth and share buybacks to drive EPS growth. We think the year will end with a low single-digit growth rate for S&P 500 earnings.

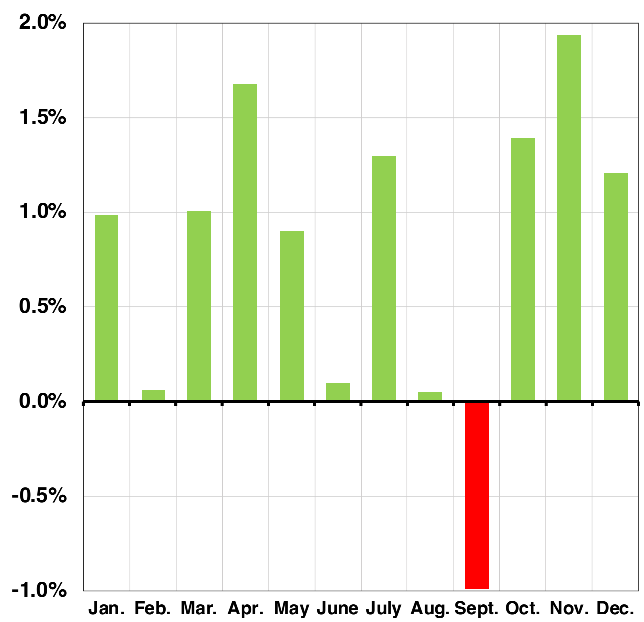
S&P OPERATING MARGIN TRENDS (%)



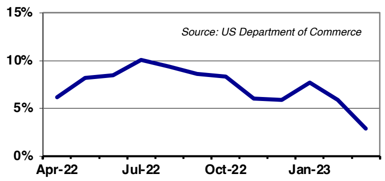
MAY USUALLY OK

The S&P 500 was up 0.9% before dividends in April, thus logging its third monthly gain in 2023. If the historical trend holds, the index could grow further in May. Indeed, the stock market typically rises in May (on average by 0.9%, with a 70% winning percentage). We note that market returns in May have exceeded 5% on six occasions since 1980, including a 9.2% gain in 2000; calendar 2020 was also close, at 4.5%. But there have been some clunkers in May as well, such as 2010 (-8.2%), 2019 (-6.6%), 2012 (-6.0%), and 1984 (-5.9%). May starts as a busy month on Wall Street, as companies report first-quarter earnings, the Federal Reserve meets, and the Labor Department issues its employment report. But once retailers wrap up their results, investors will be left to ponder inflation trends, future Federal Reserve activity, the risk of recession, and the long Memorial Day weekend. We are bullish on stocks for 2023, as we expect interest rates to decline, the consumer sector to grow, valuations to be more reasonable, and earnings to recover in the second half of the year.

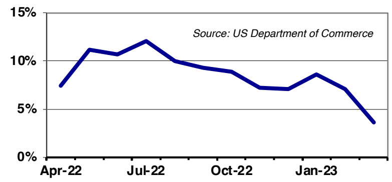
AVERAGE MONTHLY S&P 500 APPRECIATION



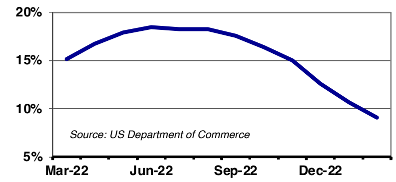
Release: **Retail Sales**
Date: 5/16/2023
Month: April
Previous Report: 2.9%
Argus Estimate: 1.5%
Street Estimate: NA



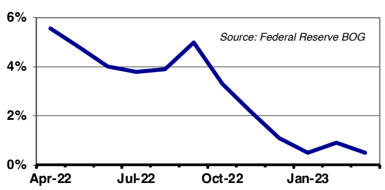
Release: **Retail Sales ex-autos**
Date: 5/16/2023
Month: April
Previous Report: 3.6%
Argus Estimate: 2.0%
Street Estimate: NA



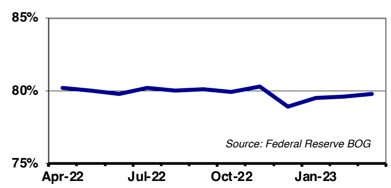
Release: **Business Inventories**
Date: 5/16/2023
Month: March
Previous Report: 9.1%
Argus Estimate: 8.5%
Street Estimate: NA



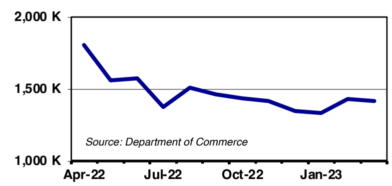
Release: **Industrial Production**
Date: 5/16/2023
Month: April
Previous Report: 0.5%
Argus Estimate: 0.5%
Street Estimate: NA



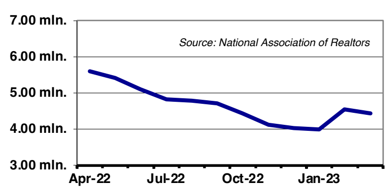
Release: **Capacity Utilization**
Date: 5/16/2023
Month: April
Previous Report: 79.8%
Argus Estimate: 79.5%
Street Estimate: 79.7%



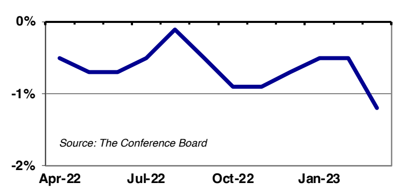
Release: **Housing Starts**
Date: 5/17/2023
Month: April
Previous Report: 1,420 K
Argus Estimate: 1,430 K
Street Estimate: 1,398 K



Release: **Existing Home Sales**
Date: 5/18/2023
Month: April
Previous Report: 4.44 mln.
Argus Estimate: 4.30 mln.
Street Estimate: 4.25 mln.



Release: **Leading Index**
Date: 5/18/2023
Month: April
Previous Report: -1.2%
Argus Estimate: -0.5%
Street Estimate: -0.5%



Previous Week's Releases and Next Week's Releases on next page.

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
10-May	Consumer Price Index	April	5.0%	4.8%	5.0%	NA
	CPI ex-Food & Energy	April	5.6%	5.3%	5.4%	NA
11-May	PPI Final Demand	April	2.7%	0.5%	2.4%	NA
	PPI ex-Food & Energy	April	3.4%	3.0%	3.3%	NA
12-May	Import Price Index	April	-4.6%	-5.0%	NA	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
23-May	New Home Sales	April	683 K	NA	NA	NA
25-May	GDP Annualized QoQ	1Q	1.1%	NA	NA	NA
	GDP Price Index	1Q	4.0%	NA	NA	NA
26-May	Durable Goods Orders	April	3.2%	NA	NA	NA
	Personal Income	April	6.0%	NA	NA	NA
	Personal Spending	April	6.2	NA	NA	NA
	U. of Michigan Sentiment	May	63.5	NA	NA	NA
	PCE Deflator	April	4.2%	NA	NA	NA
	PCE Core Deflator	April	4.6%	NA	NA	NA

Investors