THE ECONOMY AT A GLANCE

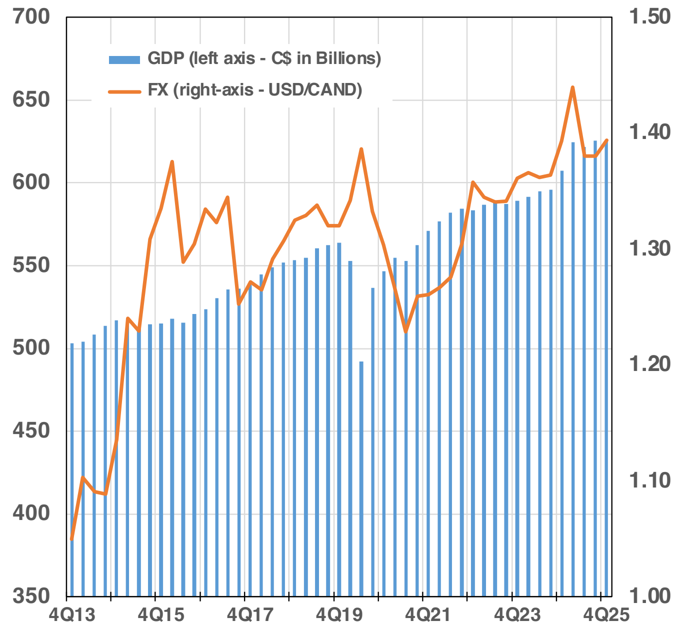
ECONOMIC HIGHLIGHTS

March 23, 2026
Vol. 93, No. 39

CANADA'S GDP FALTERS IN 4Q

Canada's 4Q25 GDP recently surprised on the downside, contracting by 0.6% (compared to a revised 2.4% gain in 3Q) and bringing the full-year 2025 figure down to growth of only 1.7%. Inventories were a major culprit in the decline, as manufacturers drew down their stockpiles rather that producing new goods. Household spending and government investment rose in the quarter, but not enough to offset the inventory reduction. Lower exports to the U.S., Canada's largest export partner, remain an economic drag, while residential investment has also been weak. The Canadian/U.S. trade situation remains precarious, with U.S.-imposed tariffs dating to early 2025 looking to solve issues from border security to drug flows to trade deficits, with Canada placing reciprocal tariffs on U.S. goods, including steel and aluminum. Canada continues to pursue diversification efforts, but these will take time to have a positive impact on its economy. A recent surge in oil prices following the U.S./Israel attack of Iran likely will have an unexpected positive impact on Canada's energy-dominant economy. And while not currently the base case of most economists, the surprise lower growth in GDP could push Canada's central bank into reducing interest rates, which could help the Financial sector. We continue to favor select companies in the Canadian market for country diversification and growth opportunities.

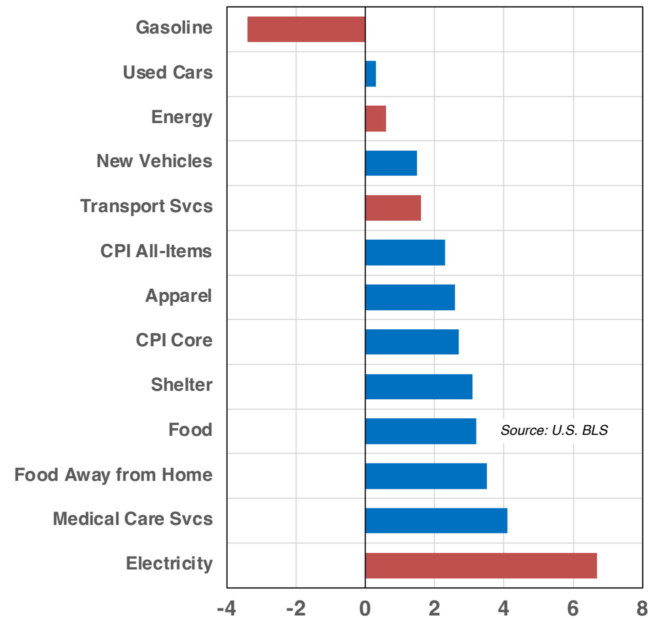
CANADIAN ECONOMIC TRENDS



NEAR-TERM INFLATION FEARS PICKING UP

Wars -- particularly in the oil-rich Mideast -- impact inflation. In the current situation, oil prices have jumped sharply since fighting began, and we likely will see the effects of that in several price factors in the months ahead. Crude oil prices are up almost 60% in the past month from a low of $55, with a barrel of the U.S. benchmark West Texas Intermediate changing hands at about $100. Meanwhile, the inflation-related Consumer Price Index (CPI) report indicated that gasoline prices were up 0.8% month over month but still down 5.6% year over year. That's going to change fast. Other elements of the CPI likely are headed higher in the near term as well. Ultimately, higher energy prices may well filter through to every CPI category. From an historical standpoint, we note that a $10 increase in the price of oil generally lifts the overall inflation rate by 20 basis points. Doing the math, the conflict in Iran may raise the core inflation rate of 2.5% to above 3.0%, depending on how long the fighting lasts.

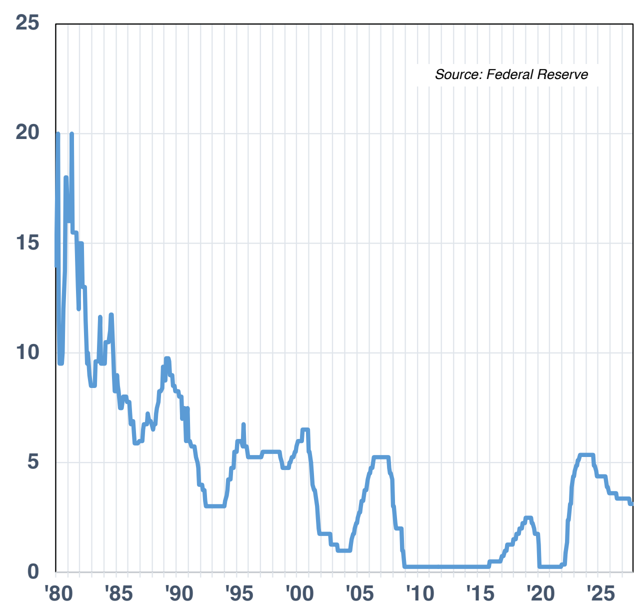
CONSUMER INFLATION FACTORS (% CHANGE Y/Y)



NO SURPRISES FROM FED

As expected, the Federal Reserve left its fed funds target unchanged at 3.5%-3.75%. We think this level -- down 175 basis points (bps) from the summer of 2024 but up from the 0% level during the pandemic -- will prevail at least until the next Fed chairman, Kevin Warsh, takes over in May. Economic conditions have changed since the last time the central bank got together, back in January. The war in Iran has sent oil prices skyrocketing, and inflation expectations are on the rise. So, too, is the other element of the Fed's dual mandate: the unemployment rate. This puts new pressure on the Federal Reserve to balance its competing interests -- inflation and employment -- and keep the economy on a growth path. So far, so good. While the risk of an economic slowdown is rising, our GDP model is still calling for 2026 growth in the 2.0%-2.5% range. The Fed also updated its economic forecasts, tweaking most outlooks up slightly. As for the fed funds forecast, the central bankers are currently expecting one 25-basis-point cut in 2026 and another in 2027. That's pretty steady. In a press conference after the meeting, Chairman Powell was asked about the potential extent of energy inflation because of the war. His answer? "We don't know the effects. No one does."

FEDERAL FUNDS TARGET RATE & FORECASTS (%)

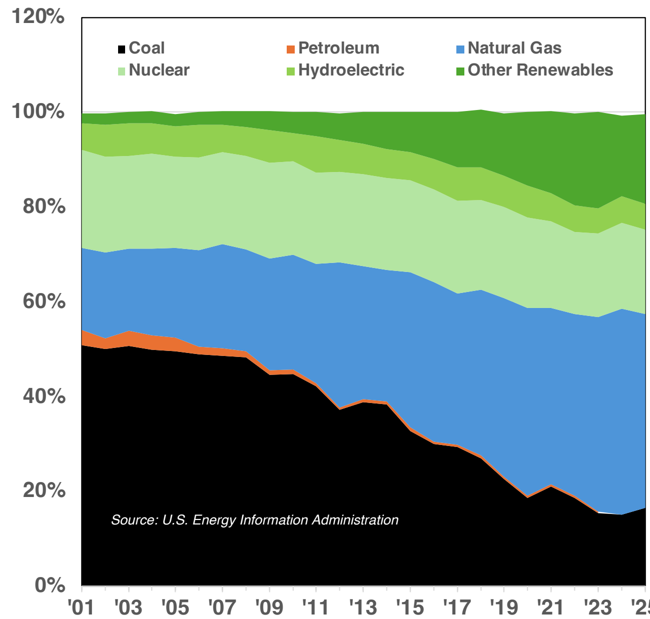


FINANCIAL MARKET HIGHLIGHTS

OPPORTUNITIES IN CLEAN ENERGY

The demand for clean energy in America generally has been increasing over the past two decades. Over the years, government policies and incentives, along with growing environmental awareness, have been driving substantial investments in renewable energy sources and technologies. In the U.S., the Inflation Reduction Act (IRA) of 2022, enacted by the 117th Congress, called for the investment of $391 billion in programs and incentives related to energy security and climate change, including over $120 billion for renewable energy and grid energy storage, tax credits for wind power, solar power, clean energy manufacturing, electric vehicle incentives, and other energy efficiency measures. Though President Trump's One Big Beautiful Bill changed some provisions previously available under the IRA, and the use of coal as a fuel source has increased in the past year, we expect economic factors will keep clean energy on a growth path. As recently as 2001, coal was used to generate more than 50% of the country's electricity. That percentage is now only 17%, due to coal's lower efficiency relative to other sources. Meanwhile, wind power as a percentage of U.S. electricity generation has grown from less than 1% in 1990 to 11% by 2025, according to the U.S. Energy Administration. The global solar power market is large and quickly growing. It generated $235 billion in 2022 revenues, and is projected to rise at a compound annual growth rate of 7% to $293 billion in 2029.

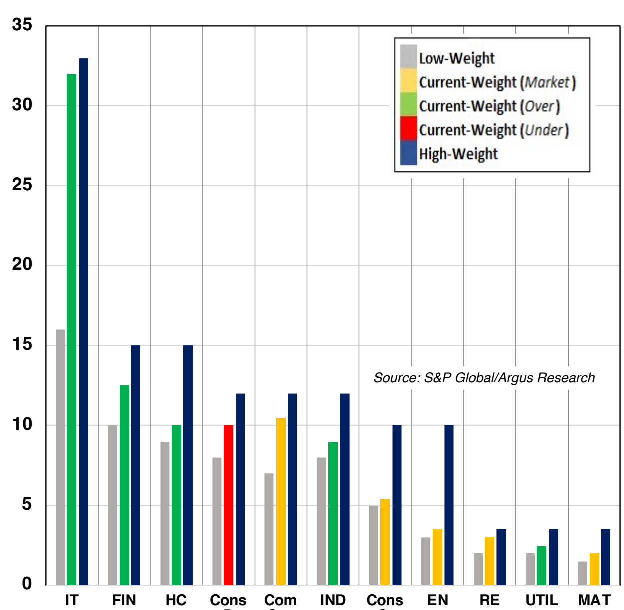
CLEAN ENERGY GROWTH (% OF TOTAL MW HOURS)



ARGUS ADJUSTS SECTOR RATINGS

We reviewed our recommended sector allocations this month, and based on the analysis have adjusted our current sector Over-Weight, Under-Weight, and Market-Weight recommendations for the calendar second quarter of 2026. Our process has led to an upgrade of the Industrial sector to Over-Weight from Market-Weight and a downgrade of the Communication Services sector to Market-Weight from Over-Weight. Our rebalancing process takes place four times a year, early in the months of March, June, September, and December. Our current Over-Weight sectors are Financial, Healthcare, Industrial, Utilities, and Information Technology. Our current Market-Weight sectors are Communication Services, Consumer Staples, Energy, and Materials. Our one Under-Weight sector is Consumer Discretionary. The Argus Research Investment Policy Committee suggests that advisors and investors leverage this consistent and comprehensive process to adjust sector weightings within their diversified equity portfolios, with a primary focus on the largest sectors.

SECTOR WEIGHTS (% OF S&P 500, 5-YR. RANGE)



KEY ECONOMIC FORECASTS

- The $31 trillion U.S. economy remains on course for productive long term growth, powered by corporate investments in AI and outsized spending by wealthy households. Nvidia CEO Jensen Huang estimated, in November, that $3 - $4 trillion will be spent on AI infrastructure in the next 5 years.
- Real Potential GDP – the sustainable speed limit of the US economy is poised to increase to 2.1% through 2030 according to the Congressional Budget Office. AI is likely to raise productivity, offsetting slower growth in the potential labor force from an aging population and reduced immigration.
- The war in Iran is affecting millions of lives. Oil supply disruptions are an economic risk to affordability that companies and consumers have faced before.
- The U.S. economy is more resilient, more diversified and less oil dependent, but it is managing additional supply headwinds from tariffs and reduced immigration. This triumvirate could raise inflation, slow growth, and complicate Fed policy. Tax benefits and AI should help the economy.
- A simple rule of thumb: National gasoline prices above $4.00 begin to hurt consumer spending.
- We are monitoring financial conditions and high-frequency indicators including Nowcasts and weekly jobless claims.
- Argus expects S&P 500 EPS to rise almost 16% to $315 in 2026 and increase about 15% to $363 in 2027. EPS is helped by an increase in operating margins to about 18.0% this year, well above 13.9% in pre-pandemic 2019. Growing tech giants such as MSFT and NVDA have operating margins of 47% and 60% respectively while Dow stalwarts Walmart and Caterpillar earn 4% and 17%, respectively.
- Argus Fixed Income Strategist Kevin Heal expects the Fed to reduce the funds rate by 25 basis points in 2026 and by another 25 basis points in 2027 taking the target range to 3%-3.25%. We expect the dollar to be slightly stronger in 2026 driven by foreign demand for shares of innovative U.S. companies and economic resilience.
- Gold is likely to remain at elevated levels. The ancient safe-haven asset recently reached an all-time record above $5,000 an ounce. We expect gold to trade in a range of $4,000 - $6,000 in 2026.
- Despite last year's economic-and-policy "uncertainty," the Misery Index, which is the Consumer Price Index (CPI) inflation rate plus the unemployment rate, is approximately 6.8%, well below the average of 9.2% since 1949.
- What could go right? Big tax refunds, spending by wealthy consumers, strong S&P earnings, capital investment, productivity gains, inflation expectations remaining anchored, and ongoing innovation.
- Risks: Elevated Inflation, high fuel prices, weak housing market, low income consumers are struggling, spending by affluent may depend on stock market gains, AI may reduce entry-level hiring.

CURRENT ECONOMIC RELEASES

Current Economic Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
19-Mar	New Home Sales	January	**712K**	725K	725K	**578K**
	Leading Index	January	-0.2%	0.1%	-0.1%	**-0.1%**
23-Mar	Construction Spending	January	**1.0%**	0.2%	NA	**1.0%**
25-Mar	Import Price Index	February	**0.3%**	-0.1%	NA	**1.3%**
31-Mar	Consumer Confidence	March	91.2%	89.0	89.4	NA
1-Apr	ISM Manufacturing	March	52.4	52.3	52.2	NA
	ISM New Orders	March	55.8	54.0	NA	NA
	Retail Sales	February	3.2%	3.2%	NA	NA
	Retail Sales ex-autos	February	3.9%	3.4%	NA	NA
	Business Inventories	January	1.6%	1.3%	NA	NA
2-Apr	Trade Balance	February	-54.5	-54.0	-55.0	NA
3-Apr	Nonfarm Payrolls	March	-92K	47K	51K	NA
	Unemployment Rate	March	4.4%	4.4%	4.4%	NA
	Average Weekly Hours	March	34.3	34.3	34.3	NA
	Average Hourly Earnings	March	3.8%	3.8%	NA	NA

Disclaimer

Investors