

# THE ECONOMY AT A GLANCE

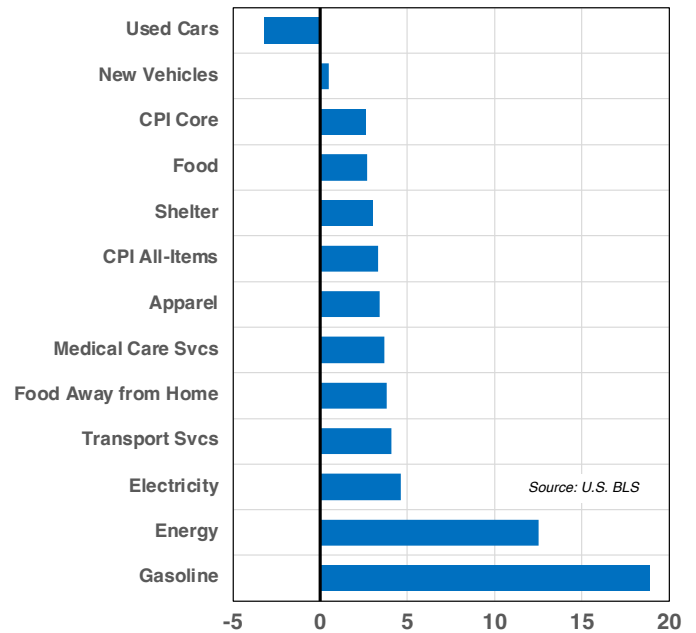
## ECONOMIC HIGHLIGHTS

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### IRAN WAR IMPACTS INFLATION

Wall Street recently got important and timely news on inflation, first from the Consumer Price Index (CPI). The report signaled that the Iran War is starting to impact prices and measured pricing trends through March. Here, the news was as expected: the annualized headline number of 3.3% jumped 90 basis points month over month and the core rate was essentially steady at 2.6%. The overall consumer-pricing environment included a 10.9% month-over-month surge in energy prices, with gasoline soaring 21% and fuel oil jumping 31%. This is what happens when the price of a barrel of oil jumps from \$55 to \$100. Other pricing categories were less volatile (food was up at a 2.7% rate and shelter increased at a 3.0% rate), but it likely is only a matter of time before high energy prices make an impact. Also released was the PCE Price Index, the Federal Reserve’s preferred inflation gauge. PCE prices were steady, with the overall index at 2.8% and the ex-food and energy index at 3.0%. But due to the government shutdown last year, the data analyzed was through February -- before the bombing began. The next versions of the report likely will reflect renewed pricing pressure. While the war is now in a ceasefire phase, there is no certainty that hostilities are over. Crude oil near \$100 is still much closer to the 52-week high than the 52-week low, and should remain elevated for months as the global energy supply chain is relinked. As a new Federal Reserve chairman prepares to take charge later this spring, high inflation reports may delay any downward movement in the fed funds rate until later in 2026.

### CONSUMER INFLATION FACTORS (% CHANGE Y/Y)

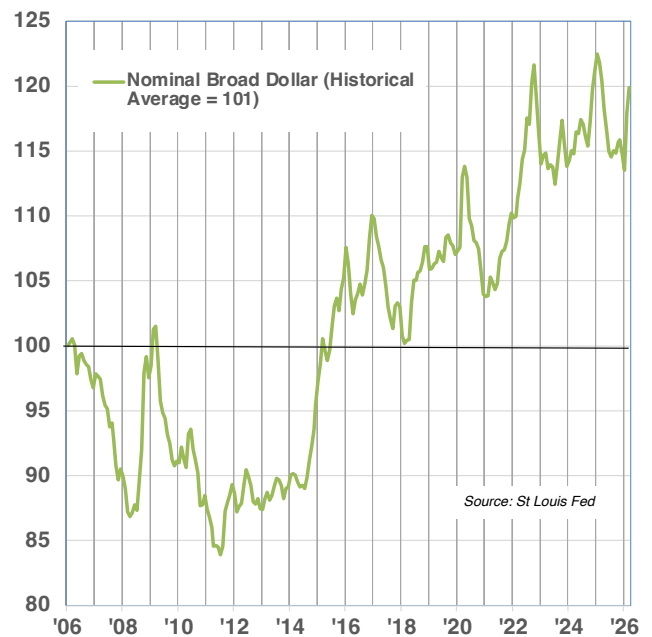


## ECONOMIC HIGHLIGHTS (CONTINUED)

### DOLLAR SURGES AMID IRAN WAR

Trends in the dollar, the world's dominant currency, offer clues about the confidence investors have in the U.S. economy and financial system. The greenback generally has been in high demand since the start of the pandemic. At the beginning of 2025, it was 21% above its long-run average. Why? When global uncertainty increases, investors seek a safe haven for their assets. But the hot-dollar trend had started to unwind a bit: in 2025, the greenback declined 5% on a global, trade-weighted basis. There were several reasons, including economic uncertainty caused by President Trump's tariff policies, swelling U.S. federal debt, a recovery in the European economy, and simple value investing. In recent weeks, all of the dollar angst has moved to the back burner and the greenback again is ascendant. The move is in response to the war in Iran, which triggered another flight-to-quality move into dollar-denominated assets. Indeed, since hostilities commenced, the greenback is up 5% and near cycle highs. This latest rally reaffirms our view that the dollar is far from at risk of losing its status as the global currency of choice. At current levels, the dollar is about 19% -- more than one standard deviation -- above its 20-year average value. It more than held up when the U.S. government temporarily shut down. The greenback is supported by the depth of a \$27 trillion market, not to mention by the Fed's and the country's time-tested political/economic system of democratic capitalism. The alternatives (euro, yen or yuan, or some combination baskets) have flaws as well. We view the dollar as one of the main checks and balances to the U.S.'s status as the leader of the global economy. So far, so good. But we would be concerned that the country could risk losing this status if the greenback plunged 20% in a short period of time. A dollar back at 2011 levels would almost certainly mean higher interest rates, a drag on the economy, and intense pressure on major market indices.

DOLLAR TREND

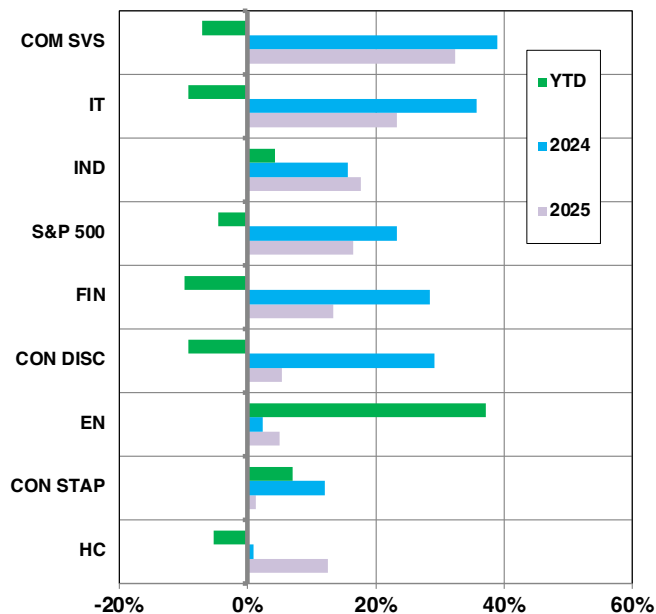


# FINANCIAL MARKET HIGHLIGHTS

## SECTOR LEADERS & LAGGARDS IN 1Q26

Based on closing prices as of March 31, 2026, the Energy sector (XLE) is leading the market, with a 37% gain for the year to date. Every part of the Energy sector is up in double digits. The second-best sector year to date is Materials (XLB), which was up 9% as of the end of March. Most of the rest of the U.S. stock market is struggling, including some sectors that were leading at the two-month mark. Industrial (XLI), up in high-single-digit percentages at the end of February, has retraced nearly all of its earlier gains. One of the top three sectors in 2025, Financial (XLF), is now down in low-double digits. Consumer Discretionary (XLY), which did not have a great 2025, is down 7% in 2026 as the affordability crisis strains more budgets. The two best sectors in 2025 were Information Technology and Communication Services. In 2026 to date, Information Technology (XLK) is down 6% and Communication Services (XLC) is down about 3%. The rotation away from growth leadership and toward defensive, cyclical, and inflation hedges began at mid-year 2025 and has strengthened across the subsequent nine months. While cyclical sectors such as Industrial have lost some of their luster, the sheltering in inflation hedges (Energy, Materials) and in defensive sectors (Utilities, which are up 8%, and Consumer Staples, which are up 7%) has only intensified since the war began.

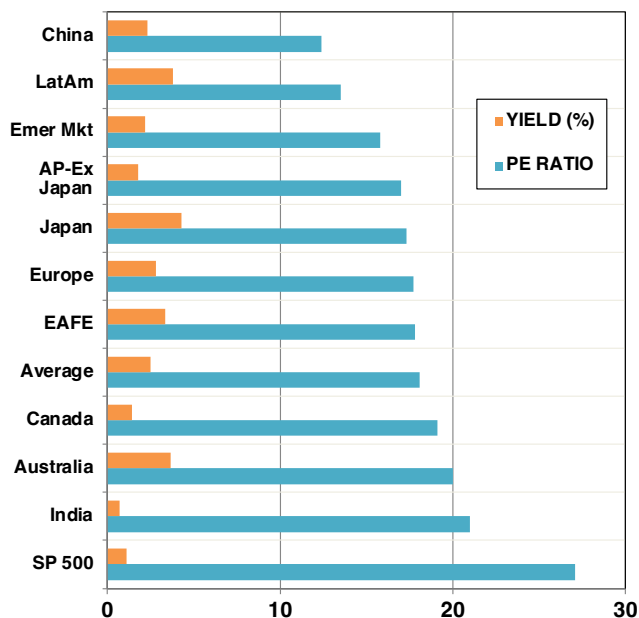
## SECTOR PERFORMANCE (CHANGE PER PERIOD)



## GLOBAL STOCKS STILL OFFER VALUE

As worldwide markets are challenged amid a backdrop of higher interest rates and ongoing conflict in the Middle East and Ukraine, one thing has not changed: U.S. stocks are more expensive than global stocks. The trailing P/E ratio on the S&P 500 is 27, above the global average of 18 and well above the 12-15 average P/Es for emerging markets stocks in China and Latin America. The current dividend yield for the S&P 500 is 1.1%, versus the global average of 2.5% and Australian and Latin American yields of 3%-4%. Investors generally are willing to pay a higher price for North American securities include the transparency of the U.S. financial system as well as the liquidity of U.S. markets. What's more, global returns can be volatile given currency, security, political, and geopolitical risks. Indeed, U.S. stocks (ETF SPY) have outperformed EAFE (ETF EFA) over the past five years. The tide turned in 2025, as global investors responded to the uncertainty over U.S. trade policy and as global central banks lowered rates. The outperformance of global over domestic has continued in 2026. Given expectations for more trade-related volatility, we think diversified investors should have 20%-25% of their equity allocations in international stocks.

## GLOBAL EQUITY VALUATION METRICS



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# KEY ECONOMIC FORECASTS

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- 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%, on average, through 2030 according to the Congressional Budget Office. AI is likely to raise productivity, offsetting slower growth in the labor force from an aging population and reduced immigration.
- The war in Iran is affecting millions of lives. Oil supply disruptions are a risk to affordability. We recently raised our 2026 oil price forecast to \$75 per barrel from \$60.
- The U.S. economy has become 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. We recently reduced our 2026 forecast for GDP growth to 2.3% from 2.5%.
- 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 economic-and-policy “uncertainty,” the Misery Index, which is the Consumer Price Index (CPI) inflation rate plus the unemployment rate, is well below the average of 9.2% since 1949. Unemployment is low but an energy-driven jump in the March CPI to 3.3% raised the Index to 7.6%.
- 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
16-Apr	Industrial Production	March	1.2%	1.8%	NA	0.7%
	Capacity Utilization	March	76.1%	76.4%	76.3%	75.7%
21-Apr	Retail Sales	March	4.0%	4.0%	NA	4.0%
	Retail Sales ex-autos	March	4.0%	3.1%	NA	5.5%
	Business Inventories	February	1.0%	1.2%	NA	1.3%
28-Apr	Consumer Confidence	April	91.8	91.0	90.0	NA
29-Apr	Durable Goods Orders	March	7.2%	-9.0%	NA	NA
	Housing Starts	March	1,487K	1,400K	1,410K	NA
30-Apr	GDP Annualized QoQ	1Q "Advance"	0.5%	2.0%	1.6%	NA
	GDP Price Index	1Q "Advance"	3.7%	3.9%	NA	NA
	PCE Deflator	March	2.8%	3.6%	3.5%	NA
	PCE Core Deflator	March	3.0%	3.1%	3.2%	NA
	Personal Income	March	3.7%	3.4%	NA	NA
	Personal Spending	March	5.3%	5.2%	NA	NA
	Leading Index	February	-0.1%	-0.2%	NA	NA
1-May	ISM Manufacturing	April	52.7	52.5	52.9	NA
	ISM New Orders	April	53.5	53.2	NA	NA

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