THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

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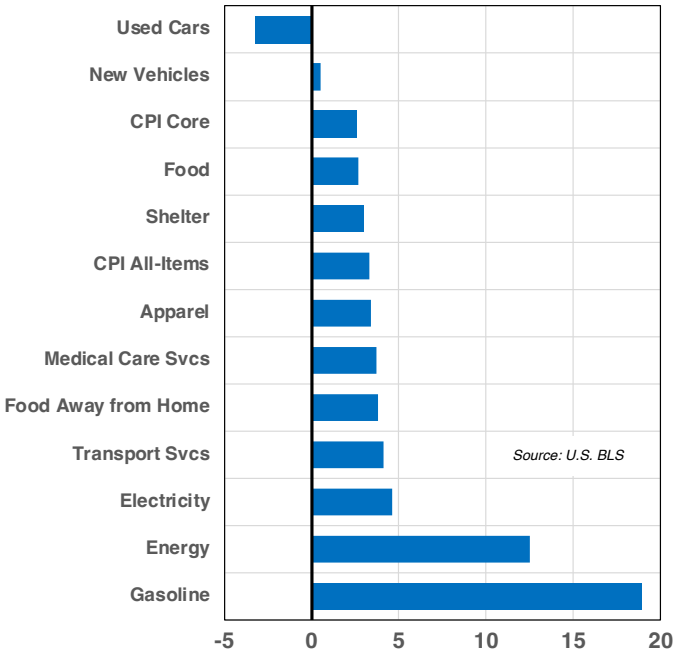
EVERYTHING'S MORE EXPENSIVE

Wars -- particularly in the oil-rich Mideast -- have a way of worrying inflation watchers. In the current situation, oil prices have jumped sharply since the fighting began, and we are now seeing the impact of higher energy prices spreading to almost every sector of the economy. Let's take a look at the numbers. First, according to the recent CPI report from the Bureau of Labor Statistics (BLS), gasoline prices are up almost 30% over the past year as the price of a barrel of crude oil has soared this spring to above $100 from a low of $55 late last year. Prices in the broad energy category are up 18% in the past year, including a 6% climb in electricity prices. Moving along the value chain, transport prices are higher by 4.3%, which is an increase from the 4.1% inflation rate a month ago; and apparel prices are rising at a 4.2% pace compared to the prior month's 3.4% increase. Hungry? Food prices are going up, too. Food prices last month rose at a 3.2% rate compared to a 2.7% rate a month ago. Is anything lower? Not much, but we do note that prices for medical care services rose at "only" a 3.2% rate last month, down from 3.7% a month earlier. Maybe that's because consumers are starting to tighten their belts and are cutting back on visits to the doctor. One bright spot: used car prices are down 2.7% year over year. But it will cost you more to fill that clunker's tank.

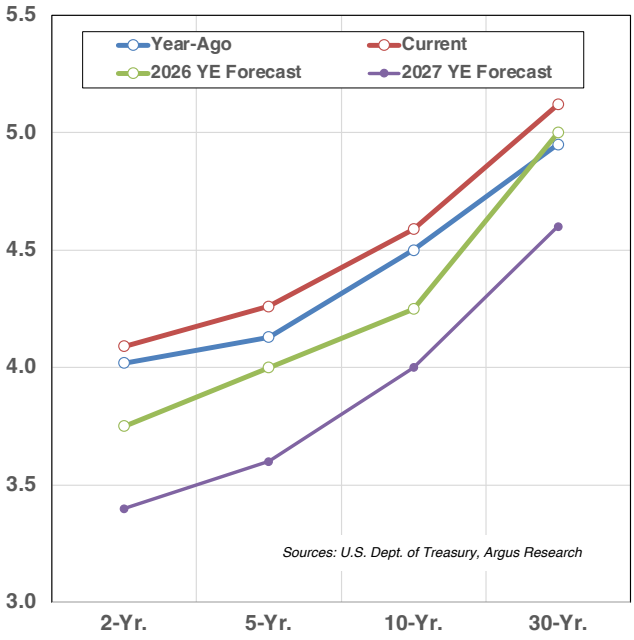
CONSUMER INFLATION FACTORS (% CHANGE Y/Y)



RATES CONTINUE TO CLIMB

Since the onset of the war in Iran, the U.S. Treasury yield curve has maintained an upward slope, signaling economic growth in the quarters ahead. But it also has shifted a bit, with a few implications for economic and interest rate outlooks. First, the curve has pushed higher. Back in late February, the 2-year Treasury note yield was 3.4% and the 10-year yield was 4.0%. Now, those rates are 4.1% and 4.6%, respectively. At current levels, these rates are as high as they have been for a year. This shift higher in the yield curve implies that inflation may be poised to make a comeback, likely driven by higher energy prices as the cost for oil skyrocketed. Second, the upward slope of the yield curve has flattened out a bit. In late February, the spread between the 2-year and 10-year bonds was 60 basis points. Now, the spread is down to 50 basis points. This tightening of the yield curve points toward a potential slowdown in the rate of economic growth (though we note that the curve is nowhere near an inverted state, which has long been associated with economic weakness). Looking ahead, we anticipate that the yield curve will maintain its upward slope through 2027. This assumes that the war in Iran ends in the not-too-distant future, oil prices come down off their highs, and the Federal Reserve, with a new chairman at the helm, can be in position to lower short-term interest rates within the next few quarters.

YIELD CURVE & OUTLOOK (%)

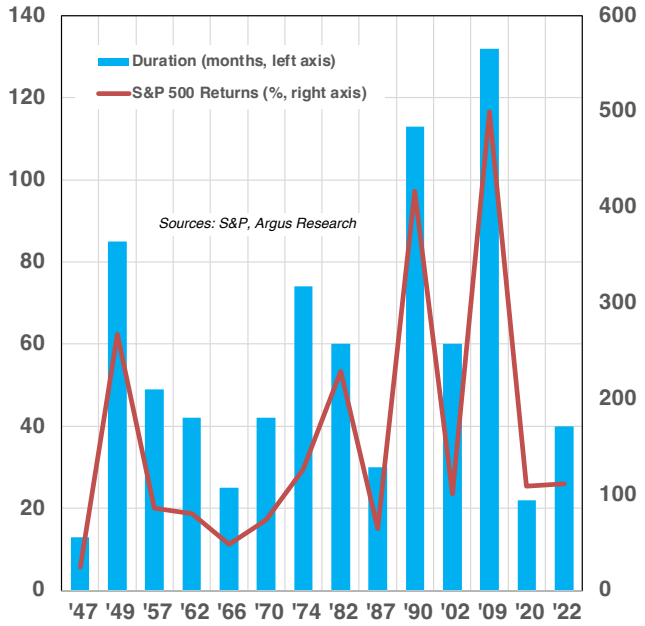


FINANCIAL MARKET HIGHLIGHTS

HOW LONG CAN THE BULL MARKET GO?

The current bull market is more than 3.5 years old. How much farther can it go? We studied the 13 other bull markets that have occurred since the end of World War II. On average, the S&P 500 gained 164% during these periods, which averaged 57 months in duration, or just about five years. So the current rally is approaching average thresholds. But recent bull markets have generated higher returns over longer periods of time, as economic growth has been more consistent and inflation generally has been tame. On average, the five bull markets since 1980 have seen stocks advance about 240% over a period of almost six years. And the bull market prior to the pandemic carried on for 11 years, during which stocks rose 500%. So while we are not in the early innings of the ball game, there is no reason to think that this is the bottom of the ninth. Of note, though, the 2009-2020 bull market began with stocks deeply depressed on valuation, whereas stocks are already near fair value in the current market environment. Further, the second year of the four-year presidential cycle consistently has delivered the weakest equity-market performance. We remain optimistic that stocks can post gains in 2026, but our base case outlook calls for only single-digit returns.

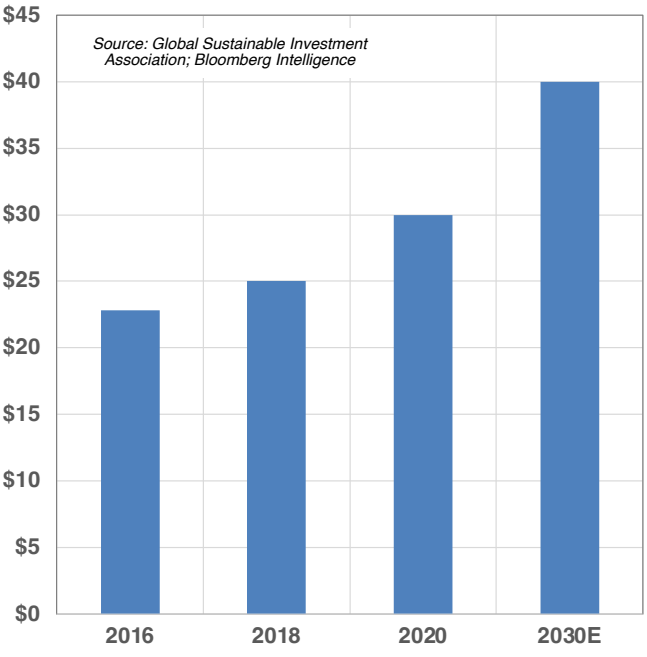
BULL MARKET STATISTICS



INTEREST -- AND ASSETS -- ARE GROWING IN ESG

According to the Global Sustainable Investment Association, global assets under management in Sustainable Investment strategies had grown to $30 trillion in 2022, up from $23 trillion in 2016, despite a pullback of more than $8 trillion in investment in the U.S. in recent years. Europe and Japan are the fastest-growing regions. Meanwhile, the UN Principles for Responsible Investing -- to which Argus Research is a signatory -- now represents more than 5,000 signatories, according to UNPRI.org. Indeed, the UN is targeting global asset growth in the strategy of another $10-$20 trillion in 2024-2027, as outlined in its recent PRI Strategy Plan. As assets flowed in over the past 40 years, Sustainable Impact Investing evolved. The discipline at first focused on excluding companies that conducted business in South Africa, or participated in industries such as tobacco, alcohol, and firearms. Now, the approach has been modified to focus on what companies should do versus things they shouldn't do. So instead of merely identifying industries to avoid, the discipline now 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.

ESG AUM GROWTH ($TRIL)



KEY ECONOMIC FORECASTS

- The $32 trillion U.S. economy remains on course for productive long term growth, powered by corporate investments in Artificial Intelligence. Nvidia CFO Colette Kress estimated, on May 20, that AI infrastructure spending is on track to reach $3 - $4 trillion annually by the end of this decade.
- 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 $83 per barrel from $75.
- 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 have helped the economy.
- A simple rule of thumb: National gasoline prices above $4.00 begin to hurt consumer spending. The current price of $4.50 would be a concern if it persists into the back-to-school shopping season.
- The Misery Index, which is the Consumer Price Index (CPI) inflation rate plus the unemployment rate is below the average of 9.2% since 1949 but it has risen to 8.1% from 6.9% in January. The April unemployment rate is low at 4.3% but the CPI rose to 3.8% in April from 2.4% in January.
- We are monitoring financial conditions and high-frequency indicators. They show ongoing economic resilience. We recently affirmed our GDP forecasts for 2.1% growth in 2026 and 2.0% in 2027.
- Argus expects S&P 500 EPS to rise almost 25% to $340 in 2026 and increase about 15% to $390 in 2027. EPS is helped by an increase in operating margins to about 18.8% this year, well above 13.9% in pre-pandemic 2019. Growing tech giants such as MSFT and NVDA have operating margins of 47% and 64% 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 continuing economic growth.
- Gold is likely to remain at elevated levels. The ancient safe-haven asset recently reached a record above $5,000 an ounce. We expect gold to trade in a range of $4,000 - $6,000 in 2026.
- What could go right? Low unemployment, 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, a rising 10-year Treasury yield, a weak housing market, low income consumers are struggling, spending by affluent may depend on stock market gains.

CURRENT ECONOMIC RELEASES

Current Economic Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
28-May	GDP Annualized QoQ	1Q "Second"	2.0%	2.0%	2.0%	**1.6%**
	GDP Price Index	1Q "Second"	3.6%	3.6%	3.6%	**3.5%**
	PCE Deflator	April	3.5%	3.8%	3.9%	**3.8%**
	PCE Core Deflator	April	3.2%	3.3%	3.3%	**3.3%**
	Personal Income	April	**3.3%**	3.5%	NA	**2.5%**
	Personal Spending	April	5.7%	5.8%	NA	**5.9%**
	Durable Goods Orders	April	2.8%	10.0%	NA	**19.1%**
	New Home Sales	April	**663K**	665K	655K	**622K**
1-Jun	ISM Manufacturing	May	52.7	53.0	NA	**54.0**
	ISM New Orders	May	54.1	54.4	NA	**56.8**
	Construction Spending	April	**0.6%**	1.9%	NA	**0.9%**
3-Jun	ISM Services Index	May	53.6	54.0	NA	**54.5**
	Factory Orders	April	**2.5%**	8.0%	NA	**11.7%**
5-Jun	Nonfarm Payrolls	May	115K	125K	85K	NA
	Unemployment Rate	May	4.3%	4.3%	4.3%	NA
	Average Weekly Hours	May	34.3	34.3	34.3	NA
	Average Hourly Earnings	May	3.6%	3.5%	3.4%	NA
9-Jun	Trade Balance	April	-$60.3 Bln.	-$55.4 Bln.	NA	NA
	Existing Home Sales	May	4.02 Mln.	4.20 Mln.	NA	NA
10-Jun	Consumer Price Index	May	3.8%	4.2%	NA	NA
	CPI ex-Food & Energy	May	2.8%	2.8%	NA	NA
11-Jun	PPI Final Demand	May	6.0%	5.8%	NA	NA
	PPI ex-Food & Energy	May	5.2%	5.1%	NA	NA
12-Jun	U. Michigan Sentiment	May	44.8	43.0	NA	NA

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