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THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

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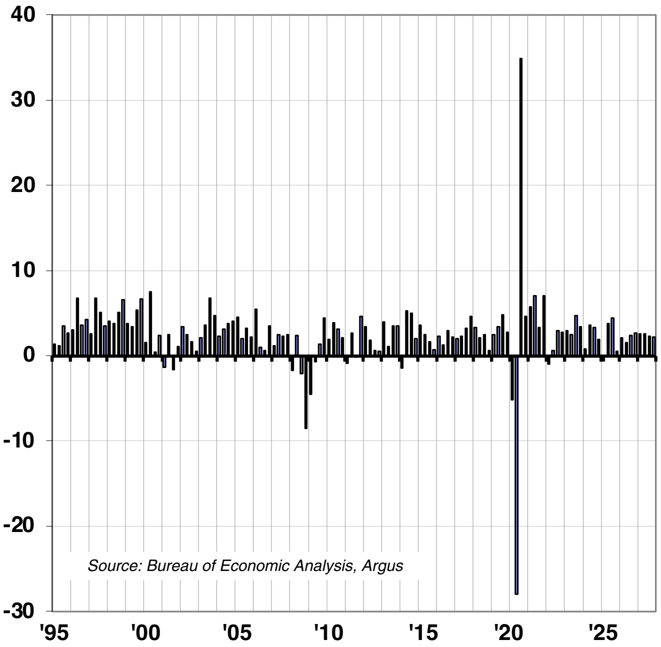
CONSUMERS AND INVESTMENT LIFT 2Q GDP

According to the advance estimate released by the Bureau of Economic Analysis, U.S. Gross Domestic Product (GDP) rose in the second quarter at an annualized rate of 1.5%. That's below the 2.1% consensus and a deceleration from 2.1% growth in the fourth quarter. Spending and investment by the federal government was down 4.1%, with nondefense down 12.9%. Real final sales to private domestic purchasers, which focuses on the core consumer spending and business investment, were up a strong 3.9%. These results are consistent with the Federal Open Market Committee's comments that economic activity is expanding at a solid pace and inflation remains elevated. The committee voted 9-3 to maintain the fed funds target at 3.5%-3.75%. As well, Argus reiterated expectation for the Fed to maintain the current funds target in 2026 and cut rates by 25 basis points in 2H27. Elevated mortgage rates are weighing on home prices, which should be an important factor in cooling "core" inflation. Spending by consumers rose 3.2% in 2Q, an acceleration from 0.5% in 1Q, with durable goods up 6.8%. The huge services category was up a solid 2.2%, and added about a point of growth. Private investment grew 3.0%. Spending on Artificial Intelligence continued to be an important driver of growth. Intellectual property products grew by 8.8%. Equipment grew 15.2%. Net exports of goods and services, aka the trade balance, reduced 2Q GDP by a percentage point. Imports increased 11.5%. The report also contains data on inflation, which remains elevated. The PCE Price Index increased 5.1% in the second quarter. Excluding food and energy, the index increased 3.4%.

REAL GDP (% GROWTH/QTR)



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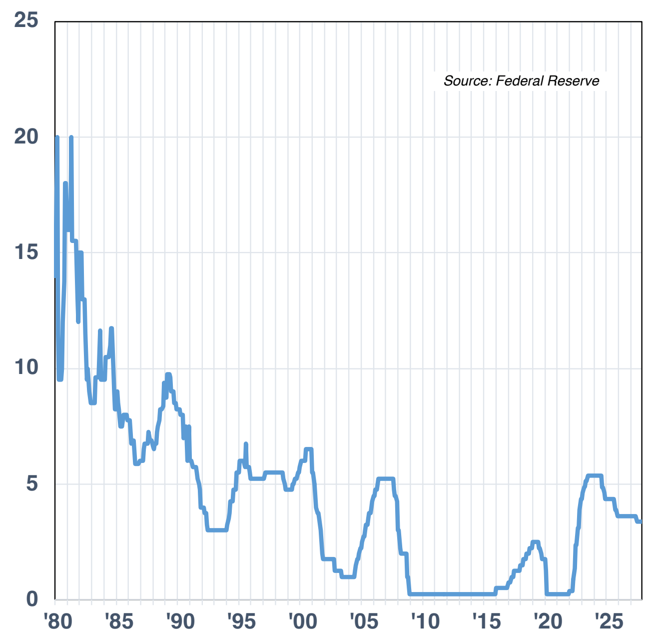
FED ON HOLD FOR NOW

As expected, the Federal Reserve has left its fed funds target unchanged at 3.5%-3.75%. We think this level will prevail at least through year-end, as the new Fed chairman, Kevin Warsh, settles in. Economic conditions have changed since Warsh's name first came up as a potential central bank leader. The war in Iran has sent oil prices skyrocketing, and general inflation has followed. Meanwhile, the other element of the Fed's dual mandate -- unemployment -- has remained low. Chairman Warsh was appointed by President Trump, who was highly critical of former Fed chair Jerome Powell and aggressively pushed for lower rates. We don't have the sense that Chairman Warsh is under the same pressure, which is a positive development for the critical concept of the Fed's independence. Chairman Warsh has rolled out five new task forces: Communications, Balance Sheet, Data, Productivity & Jobs, and AI. The work of these task forces may well shift the market's focus away from changes to the fed funds rate, at least in the near term. Indeed, the central bank ultimately may come out of these task forces with new priorities, strategies, and targets. We recently altered our fed funds year-end target and no longer anticipate a rate cut in 2026.

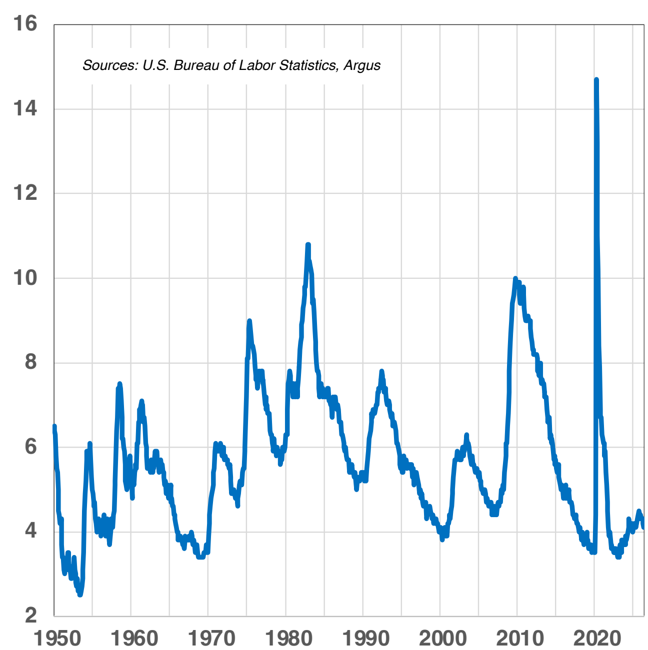
FEDERAL FUNDS TARGET RATE & FORECASTS (%)



PAYROLLS FALL, HIKES LESS LIKELY

The Bureau of Labor Statistics (BLS) released the Employment Situation for July. The U.S. lost 23,000 nonfarm jobs and the three-month average for new jobs fell to 20,000 from 111,000. Employment declined in local government, education, and retail trade. The stalwart Healthcare sector continued to grow, but at a slower pace. Our forecast and the consensus was for 80,000 new jobs. June payrolls were revised lower by 37,000 to 20,000 and May was reduced by 66,000 to 63,000. The BLS Diffusion Index indicated 51.8% of 250 private industries are hiring, down from 53.2% in June. Manufacturing declined to 50.0% from 56.9%. The unemployment rate declined to 4.1%, which was below the consensus of 4.2%, as fewer people were looking for jobs. Average hourly earnings increased $0.02 month to month and are 3.2% higher year over year. The average workweek was unchanged at 34.3 hours. Employment showed little change in mining, quarrying, and oil and gas extraction; construction; manufacturing; wholesale trade; transportation and warehousing; information; professional and business services; social assistance; leisure and hospitality; and other services. Employment in retail trade declined by 19,000. Retail employment is little changed over the last 12 months. The manufacturing sector added 5,000 jobs and construction added 22,000.

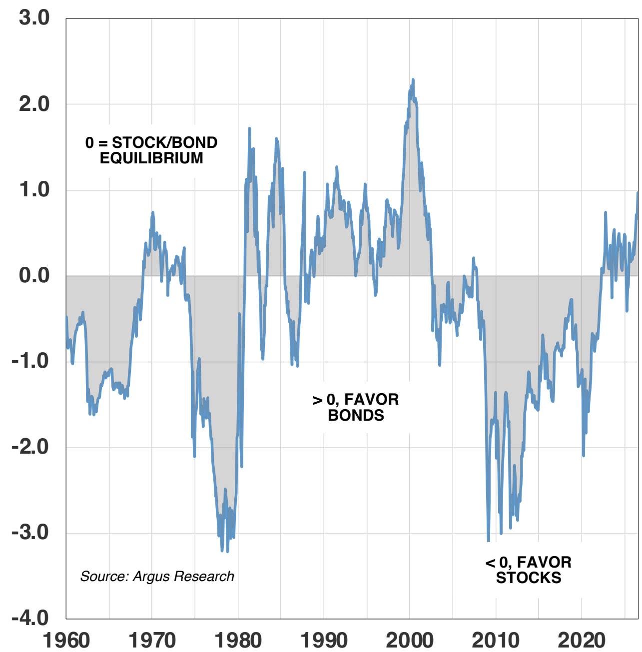
U.S. UNEMPLOYMENT RATE (%)



STOCK MARKET VALUATION AT EDGE OF NORMAL

Our Stock/Bond Barometer asset-allocation model is indicating that stocks are reasonably valued but bonds are a better value. The model goes back to 1960 and its output is expressed in standard deviations to the mean, or sigma. The mean reading is a modest premium for stocks of 0.17 sigma, with a standard deviation of 1.06. So stocks normally sell for a slight premium valuation compared to bonds. The valuation level is a 0.97 sigma premium for stocks, at the high end of the normal (+/- 1 sigma) range. Other measures also show reasonable multiples for stocks. The forward P/E ratio for the S&P 500 is about 21, within the range of 15-24. On price/book, stocks are priced at the high end of the historical range of 5.5-1.8, given that tech stocks, with low capital bases, are the biggest component of the market. The S&P 500 dividend yield of 1.03% is below the historical average of 2.9%, but the relative reading to the 10-year Treasury bond yield is 22% compared to the long-run average of 39%. On price/sales, the current ratio of 3.5 is above the historical average of 1.8, but well below the 4.0 multiple at the peak of the dot-com bubble. Further, the gap between the S&P 500 earnings yield and the benchmark 10-year government bond yield is 340 basis points, in line with the historical average. Lastly, the ratio of the S&P 500 price to an ounce of gold is 1.7, within the normal range of 1-3. Valuation measures suggest to us that the stock market is not in danger of entering bubble territory.

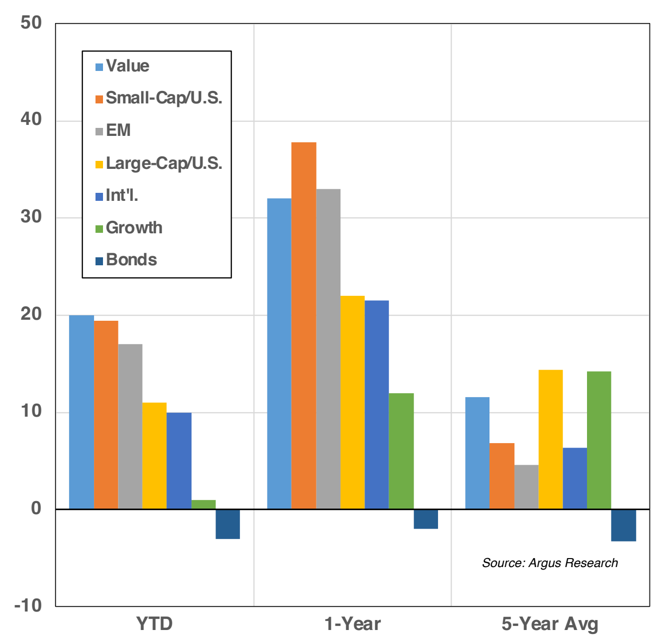
STOCK/BOND BAROMETER (STANDARD DEVIATIONS)



VALUE STOCKS SURGE

We have three strategic asset-allocation models, targeting risk-tolerance: Conservative, Growth, and Aggressive. We make tactical adjustments to the models based on our outlooks for the various segments of the capital markets. Through July, stocks have the performance lead over bonds as long-term interest rates have risen. Our Stock-Bond Barometer model still sees both asset classes near fair value, so portfolio weights will depend on strategic goals. Currently, we are market-weight on large-cap stocks and favor them for growth exposure and financial strength, as well as exposure to the IT sector. Small- and mid-caps offer better valuation and our recommended exposure is 12%-15% of equity allocation. One of the surprises in recent quarters has been the performance of global stocks, and we target 15%-20% of equity exposure to the group. We anticipate that growth will top returns from value over the longer term, due to favorable secular and demographic trends. Value has taken the lead in 2026, and appears positioned for performance in the near term with longer-term interest rates elevated.

MARKET SEGMENT RETURNS (% THROUGH 7/31/2026)



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.
- Our 2026 gross domestic product growth forecast is 2.3%. Our 2027 forecast is 2.4% In the Monetary Policy Report to Congress, the Federal Reserve said, "Overall, economic activity is expanding at a solid pace despite elevated uncertainty that owes, in part, to the conflict in the Middle East."
- National gasoline prices once again exceed $4.00 a gallon as tensions between the U.S. and Iran remain. Gas prices below $4.00 are important to consumers with the holidays around the corner. Inflation is likely to be a key issue in fall elections for control of the House and Senate.
- 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 7.5% from 6.9% in January. Unemployment is low at 4.1%. Inflation remains elevated, but CPI eased to 3.4% in July from 3.5% in June.
- We are monitoring financial conditions and high-frequency indicators. They show ongoing economic resilience and financial system stability that accommodates saving, borrowing, and investing.
- 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 19% 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 19%. Argus expects the S&P 500 to trade in a range of 6,730-8,225 over the next 12 months. Our year-end 2026 price target for the S&P 500 is 8,000 based on a multiple of 20.5-times our 2027 EPS estimate.
- The Federal Open Market Committee voted 9-3 in July to maintain the federal funds target at 3.5%-3.75%. Following the meeting, Argus Fixed Income Strategist Kevin Heal reiterated his expectation for the Fed to maintain the current funds target in 2026 and cut rates by 25 basis points in the second half of 2027. We expect the dollar to be slightly stronger in 2026 driven by foreign demand for shares of innovative U.S. companies, continuing economic growth, and elevated interest rates.
- Gold is likely to remain at high levels amid global uncertainty. The safe-haven asset topped $5,000 an ounce in 1Q. It has fluctuated on prospects for a deal with Iran and the probability of rate hikes by the Fed. Higher interest rates raise the opportunity cost for holding gold, which doesn't pay interest.
- What could go right? Low unemployment, spending by wealthy consumers, strong S&P earnings, strong capital investment in Artificial Intelligence, productivity gains, and ongoing innovation.
- Risks: Strains on affordability from years of elevated inflation, uncertainty related to hostilities with Iran, a lower 10-year Treasury yield could depend on deficit reduction, 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
6-Aug	Nonfarm Productivity	2Q	**0.8%**	0.7%	0.6%	**1.4%**
	Unit Labor Costs	2Q	**1.3%**	1.4%	2.1%	**1.3%**
	Wholesale Inventories	June	**4.2%**	4.4%	NA	**4.2%**
7-Aug	Nonfarm Payrolls	July	**20K**	80K	83K	**-23K**
	Unemployment Rate	July	4.2%	4.2%	4.2%	**4.1%**
	Average Weekly Hours	July	34.3	34.3	34.3	**34.3**
	Average Hourly Earnings	July	**3.4%**	3.5%	3.5%	**3.2%**
11-Aug	Existing Home Sales	July	**4.13 Mln.**	4.10 Mln.	NA	**4.06 Mln.**
12-Aug	Consumer Price Index	July	3.5%	3.4%	3.4%	**3.4%**
	CPI ex-Food & Energy	July	2.6%	2.5%	2.5%	**2.5%**
13-Aug	PPI Final Demand	July	5.5%	4.9%	4.9%	NA
	PPI ex-Food & Energy	July	4.7%	4.2%	4.1%	NA
14-Aug	Retail Sales	July	6.7%	6.1%	NA	NA
	Retail Sales ex-autos	July	6.9%	6.6%	NA	NA
	Business Inventories	June	3.1%	3.0%	NA	NA
	U. Michigan Sentiment	August	55.2	54.5	54.6	NA
18-Aug	Industrial Production	July	1.1%	1.3%	NA	NA
	Capacity Utilization	July	76.1%	76.2%	NA	NA
	Housing Starts	July	1,427K	1,325K	1,342K	NA
	Import Price Index	July	7.1%	7.2%	NA	NA
20-Aug	Leading Index	July	-0.2%	0.2%	NA	NA