

THE ECONOMY AT A GLANCE

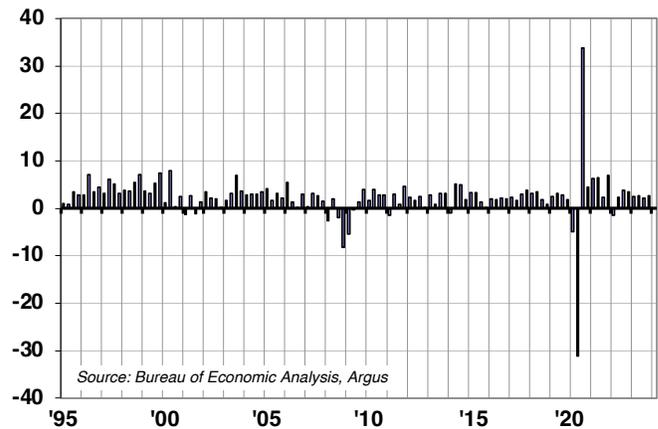
ECONOMIC HIGHLIGHTS

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GDP TUMBLES 1.4% IN 1Q

U.S. GDP unexpectedly contracted at a 1.4% annualized rate in 1Q22, well below the consensus forecast of 1.5% growth and the 6.9% growth recorded in 4Q21. Segments of the economy that struggled included PCE-nondurable goods (-2.5%), export goods (-9.6%), and government spending (-2.7%). The PCE price index rose 6.5% following a 5.3% increase in 4Q. Excluding food and energy prices, the PCE price index increased 5.2%, compared to an increase of 5.0% in 4Q. In our view, the data reflects the impact on exports from the war in Ukraine and the strong dollar. The recent core drivers of the economy — consumer spending and IP investment — remain in solid shape.

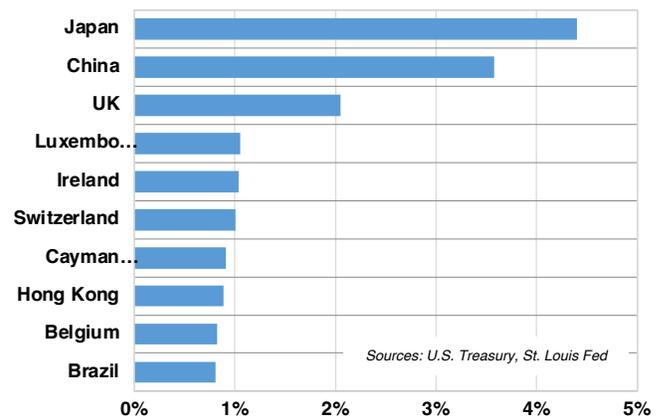
REAL GDP (% GROWTH/QTR)



CHINA AND JAPAN: LARGEST OWNERS OF U.S. DEBT

Outside of U.S. investors, the two largest holders of U.S. public debt are Japan (which owns 4%) and China (also 4%). Other nations among the top 10 own 9%, so the top-10 holders collectively own 17%. The total of U.S. debt owned by foreign holders is \$7.7 trillion, or about 26%. We suspect that these holders are unlikely to push the U.S. government to reduce debt; nor will they dump their holdings. Japan's holders are long-term in nature and China has no reason to sell a large portion of its holdings (as the increase in supply would merely depress the price of the balance of its holdings, and may even weaken the dollar, creating trade repercussions). Local U.S. holders can rest (relatively) assured that the government's printing presses will pump out money until all are paid. We expect to see continued demand for the safety and security of U.S. fixed-income securities.

LARGEST FOREIGN HOLDERS OF U.S. DEBT



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ECONOMIC HIGHLIGHTS (CONTINUED)

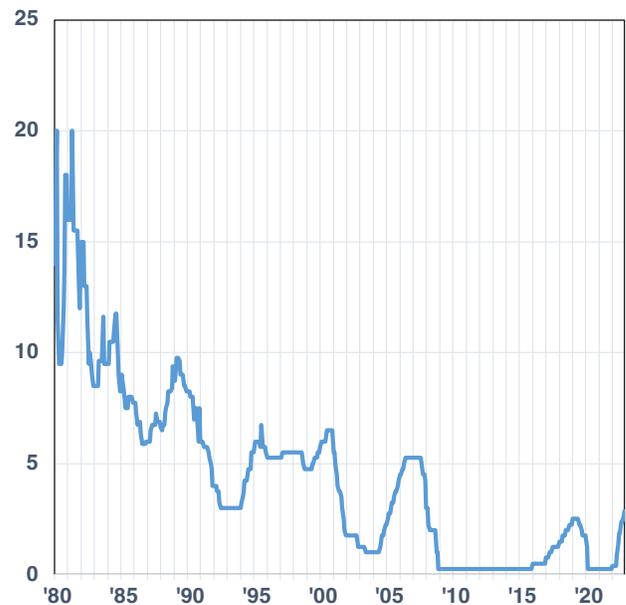
FED HIKES 50 BASIS POINTS

As expected, the Federal Reserve raised the federal funds rate by 50 basis points to 0.75%-1.00%. This is the second increase since the central bank lowered the rate to the rock-bottom level of 0.00%-0.25% early in the pandemic, and the first 50-basis-point hike since 2000. All nine voting governors were in agreement as inflation remains elevated. The Fed now expects PCE inflation to rise at a 4.4% rate in 2022. Chairman Jerome Powell indicated that the Fed would move “expeditiously” to control inflation, and that more 50-basis-point moves were on the table for at least the next couple of meetings, which is in line with our forecast. Additionally, the Fed outlined plans to reduce its balance sheet. The central bank, employing a “Goldilocks” strategy, will reduce assets by \$95 billion, or 1%, per month. This is likely “just right,” as anything more might further unnerve the markets. In fact, stocks surged more than 2% during Powell’s post-meeting press conference, while the 10-year T-note yield dropped 10 basis points to 2.92%. We believe that these moves were also a response to Powell’s remarks that a future 75-basis-point rate hike was “not something that (the) committee is actively considering,” that the core PCE inflation index likely peaked in March, and that he believes the Fed has a “good chance to have a soft, or soft-ish, landing.” Our 2022 GDP forecast is currently at 2.2%, down from 5.5% in 2021.

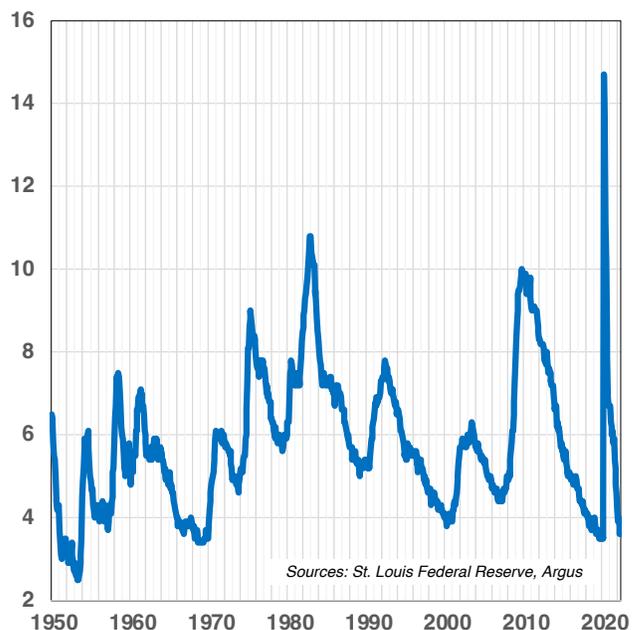
428,000 NEW JOBS IN APRIL

The U.S. economy added 428,000 jobs in April, in line with the March reading and near the Argus forecast of 425,000. On other data points, the unemployment rate held steady at 3.6%, and the number of unemployed persons fell to 5.9 million from 6.0 million in March. Average hourly earnings rose \$0.10 from the prior month and are now up 5.5% from the prior year, down slightly from 5.6% a month earlier. Revised estimates for the previous two months subtracted 39,000 jobs. In April, jobs gains occurred in leisure and hospitality as well as in retail, which points to strength in consumer spending, professional and business services, manufacturing, and construction. The report indicates that the economy remains on a growth track, despite the impact of the new COVID variants, the Russian invasion of Ukraine, and higher gas prices.

FEDERAL FUNDS TARGET RATE & FORECASTS (%)



U.S. UNEMPLOYMENT RATE (%)

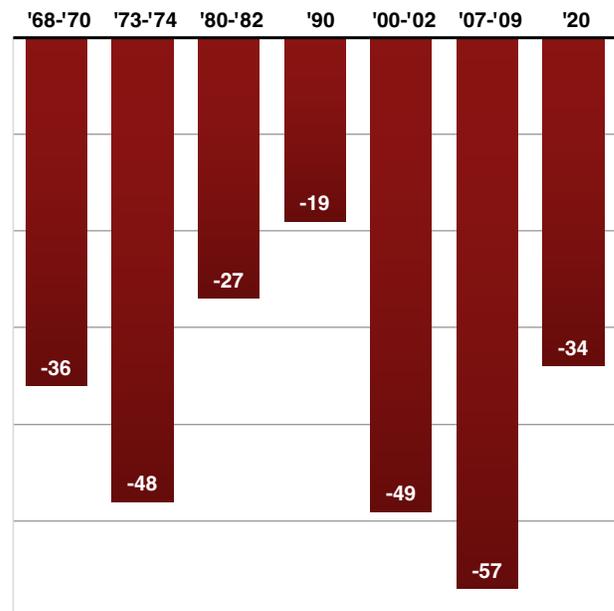


FINANCIAL MARKET HIGHLIGHTS

IS THIS A BEAR MARKET?

Russia's invasion of Ukraine, skyrocketing inflation, and rate hike concerns are threatening U.S. equity investors with the first bear market since the start of the pandemic. (A bear market is typically defined as a 20% decline from the S&P 500's latest peak.) The S&P 500 set an all-time high on January 3, 2022, at 4797; by March 8, the index was 14% below that level. A 20% decline would be reached at 3838, and that's not too far off given high levels of computer trading and the growth of passive investment vehicles. What can investors expect if stocks do enter bear territory? The record is not pretty. The average peak-to-trough decline during the past six bear markets has been 38%; that would drop the S&P 500 down to 2974. And bear markets tend to persist, with an average duration of 16 months. If January 3 was indeed the start, we are less than four months in. Bear markets typically occur amid rising uncertainty (economic, geopolitical, health-related, etc.) and crumbling market fundamentals. Current events have delivered on the uncertainty, but have also obscured recent positive fundamentals of solid economic growth, record-high corporate profits, and historically low interest rates. We think the Fed will be able to control inflation over the next few quarters without causing a U.S. recession. It is harder to predict Vladimir Putin's next moves.

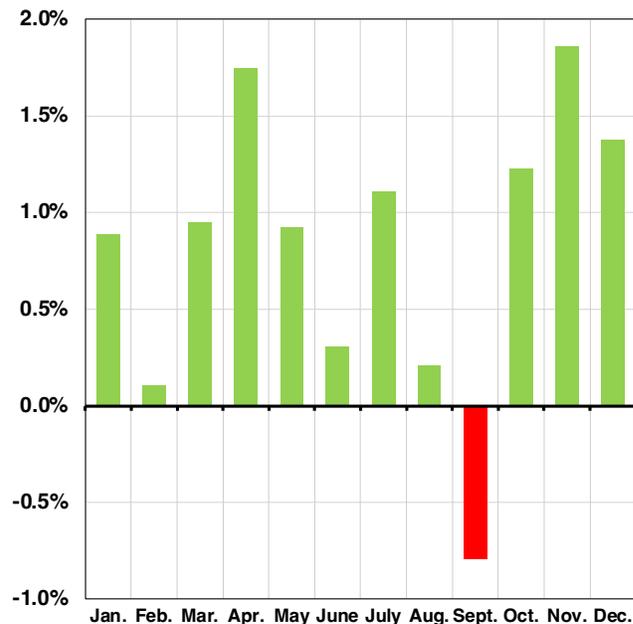
BEAR MARKET DECLINES
(% CHANGE IN S&P 500)



MAY USUALLY OK

The S&P 500, which has historically performed well in April, struggled last month (down almost 9%). The stock market typically rises in May -- on average 0.9%, with a 69% winning percentage. We note that market returns in May have exceeded 5% on six occasions since 1980, including a 9.2% gain in 2000. But there have been some clunkers in May, including 2010 (-8.2%), 2012 (-6.0%), and 1984 (-5.9%). Last year, the S&P 500 was up 0.7% in May. The beginning of the month is busy on Wall Street, as companies report first-quarter earnings, the Federal Reserve holds a meeting, and the nonfarm payrolls report is released. But once retailers wrap up their results around the middle of the month, investors this May will be left to ponder global COVID-19 trends, inflation data, and the Memorial Day weekend. Despite the challenging start to the year, we see upside for stocks and expect the economy to continue its recovery from the pandemic, supporting earnings growth in the 8%-10% range for the year. We recommend a continued focus on quality stocks with strong earnings trends.

AVERAGE MONTHLY STOCK-MARKET APPRECIATION



ECONOMIC CALENDAR

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
9-May	Wholesale Inventories	March	2.3%	1.7%	1.7%	NA
11-May	Consumer Price Index CPI ex-Food & Energy	April	1.2%	0.2%	0.2%	NA
		April	0.3%	0.3%	0.4%	NA
12-May	PPI Final Demand PPI ex-Food & Energy	April	1.4%	0.5%	0.5%	NA
		April	1.0%	0.6%	0.7%	NA
13-May	Import Price Index U. of Michigan Sentiment	April	2.6%	1.0%	0.6%	NA
		May	65.2	64.0	64.0	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
24-May	New Home Sales	April	763000	NA	NA	NA
25-May	Durable Goods Orders	April	1.1%	NA	NA	NA
26-May	Real GDP GDP Price Index	1Q	-1.4%	NA	NA	NA
		1Q	8.0%	NA	NA	NA
27-May	Personal Income Personal Spending	April	0.5%	NA	NA	NA
		April	1.1%	NA	NA	NA

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