

THE ECONOMY AT A GLANCE

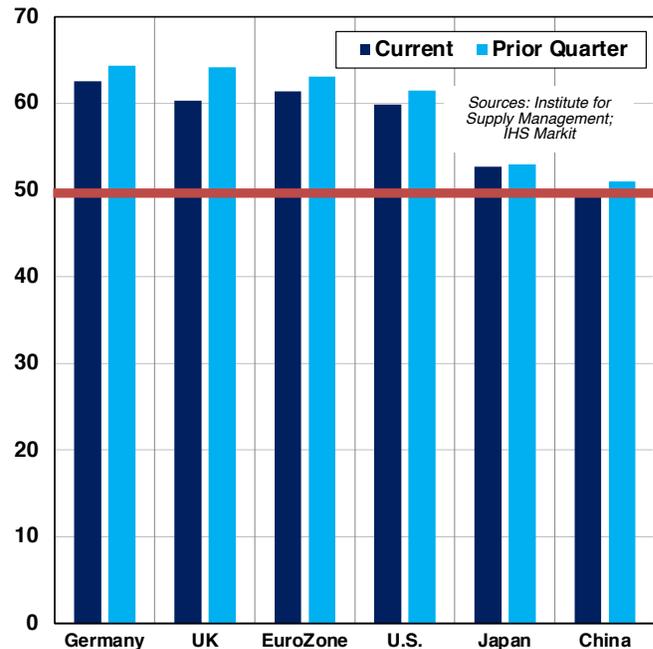
ECONOMIC HIGHLIGHTS

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MANUFACTURING SECTOR GROWING OUTSIDE OF CHINA

Businesses are again expanding. Economic activity in the U.S. manufacturing sector grew in August, as the Institute for Supply Management Index came in at 59.9%, up from 59.5% in July. Any reading above 50 signals expansion. The August reading also indicates expansion in the overall economy for the 15th straight month after a contraction in April 2020, which ended a period of 131 consecutive months of growth, according to the Institute for Supply Management. The New Orders Index also has been robust (66.7% in August), but backlogs are rising (68.2%) as not all orders can be completed. Other domestic industrial indicators remain mostly positive as well. Manufacturers' orders rose 1.4% month-to-month in June to \$505 billion. Durable goods orders were flat month-to-month in July at \$257 billion, but are up 6% since January. Capacity utilization is running at 76.1%, compared to the 20-year average of 76.8%. Supply-chain problems are leading to a reduction in inventories (down for the past two quarters) that we expect will be replenished in the quarters ahead. Around the globe, manufacturing sectors are mostly expanding, except in China.

PMI SURVEY RESULTS

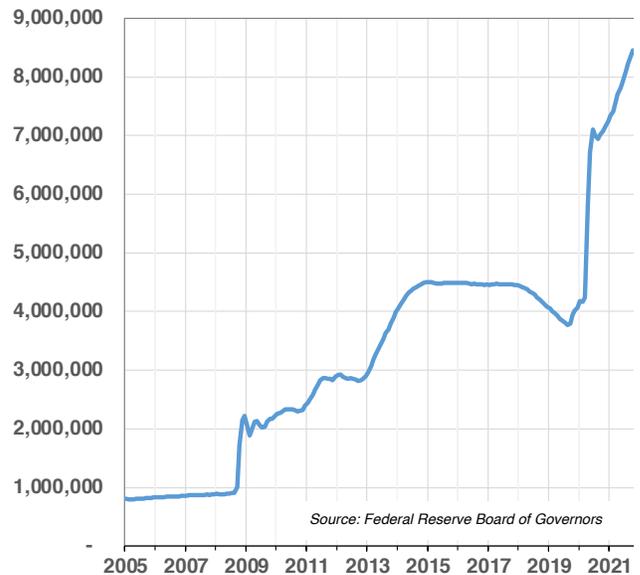


ECONOMIC HIGHLIGHTS (CONTINUED)

FED NEARS TAPERING DECISION

The Federal Reserve wrapped up its Open Market Committee meeting and, as expected, made no changes to its current accommodative stance. But change may be coming soon. Fed Chairman Powell commented that the central bank has met its goal of lifting inflation above its former 2.0% target, at least temporarily, and that it is 50%-60% toward its goal of restoring pre-COVID employment levels. At its next meeting in early November, the Fed may be in position to announce that it will slow the pace of the asset purchases that it has made for the past 18 months in order to keep long-term rates low and credit markets functioning. Whether or not the Fed starts tapering at the November or December meeting, we expect the program to be over by mid-2022, leaving the Fed's balance sheet above \$8 trillion. As for the Fed's other recession-fighting tool (the currently low federal funds rate), Fed governors are indicating that the first fed funds rate hike may occur in late 2022, depending, of course, on the state of the economy. The Fed's dot-plot forecasts call for as many as 6-7 rate hikes by the end of 2024.

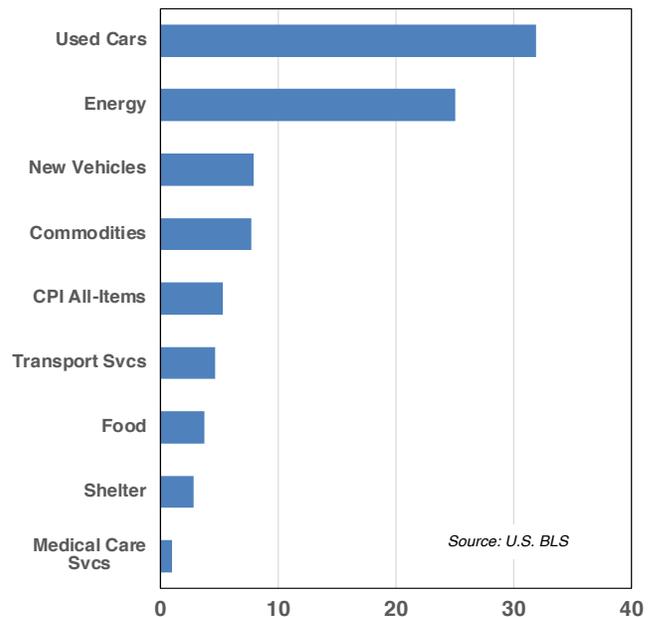
**FEDERAL RESERVE BALANCE SHEET
FED ASSETS, \$ MIL**



WHAT IS DRIVING OVERALL PRICES HIGHER?

Consumer inflation is elevated. The CPI was running at a 5.3% rate in August, according to the U.S. Bureau of Labor Statistics. But pricing pressures are not consistent across the economy. Do you want to buy a car? You're going to have a hard time saving money, as prices for used cars are up 32% year-over-year, and prices for new vehicles are up 8%. And that's before you fill the tank; gasoline prices have jumped 25% since last summer. Meanwhile, an Uber ride isn't going to be cheap either, as Transportation Services prices have risen almost 5%. Those are some of the outliers that are driving prices higher this year. Commodity prices are also up almost 8%, and that has contributed to food prices that have risen 4%. The price for shelter has climbed only 3%, while prices for medical care services have risen only 1%.

INFLATION FACTORS (% CHANGE Y/Y)

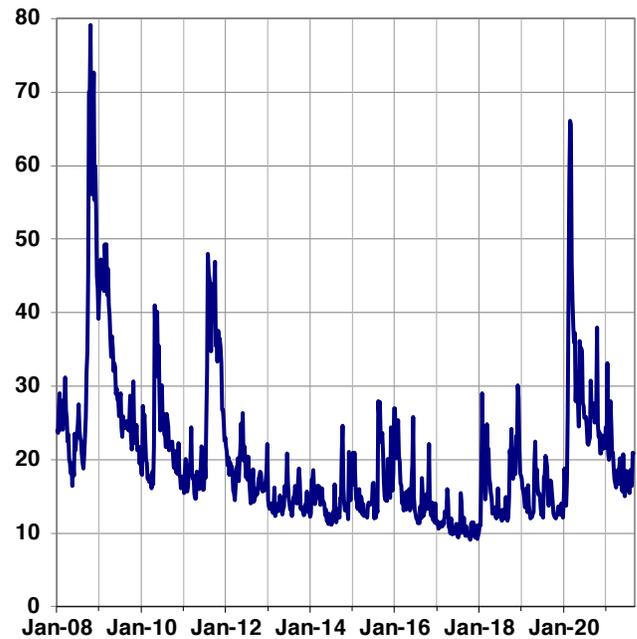


FINANCIAL MARKET HIGHLIGHTS

IS THIS A 5% PULLBACK?

The VIX Volatility Index had been averaging in the mid-teens for five years before spiking to an average of 29 in 2020. And, of course, that average masked the worst readings of last year, when the index was as high as 85 in March as the U.S. economy started to shut down in response to the pandemic. The VIX has been slowly pushing down toward mid-teen readings, enduring speed bumps along the way such as a recession, second and third COVID waves, and a divisive U.S. presidential election. Now there are fears of inflation and new COVID variants. Indeed, on September 20, the VIX jumped 20% due to inflation and variant scares, and the S&P 500 dropped more than 75 points. While the S&P is up almost 15% for the year, investors are cautioned to be alert. Since 1920, the index has recorded a 5% pullback three times a year on average and a 10% correction once every year and a half. On our S&P 500 valuation model, stocks are priced for perfection. In this environment, we recommend that investors focus on high-quality stocks, with strong balance sheets and experienced management teams.

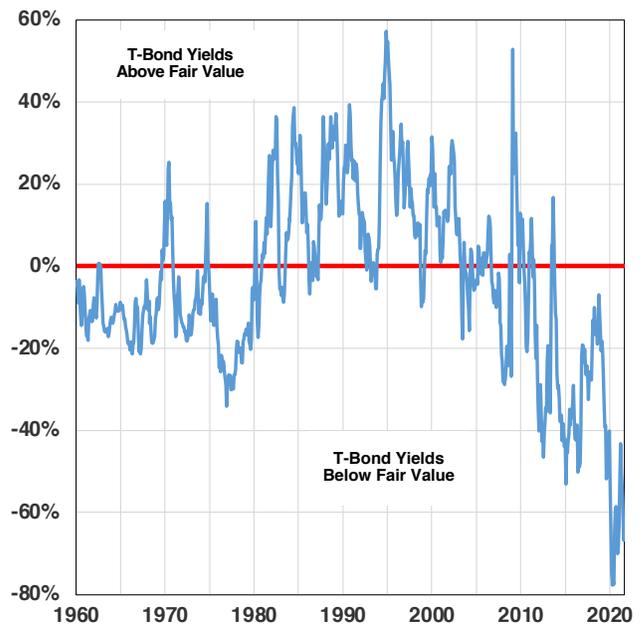
VOLATILITY INDEX (WEEKLY CLOSE)



BOND PRICES ABOVE FAIR VALUE

The Argus Treasury Bond Yield Model is signaling that bond yields, which have declined more than 40 basis since late March, are too low based on investment fundamentals. The model takes into account factors such as current yields, GDP growth, and long-term inflation, as well as stock prices and earnings, in order to make an asset-allocation recommendation between stocks and bonds. Trends are smoothed over a five-year period to avoid short-term momentum swings. The current 10-year T-bond fair value yield is 3.4%. The normal valuation range has a floor of 2.1% and a ceiling of 4.7%. The current 10-year bond yield is around 1.35%, below the low end of the fundamental range and about 60% below fair value. Why is this the case (especially given recent GDP growth and inflation trends, not to mention aggressive fiscal stimulus spending from Washington during the pandemic)? Low U.S. yields currently reflect technical factors such as heavy buying from overseas investors seeking safety (or at least, yields that are not below zero), rather than the economic fundamentals. From an asset-allocation standpoint, we think bonds remain fully valued compared to stocks and recommend that long-term investors modestly favor equity securities in their diversified portfolios.

TREASURY BOND VALUATION MODEL



ECONOMIC CALENDAR

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
28-Sep	Consumer Confidence	September	113.8	110	115	NA
30-Sep	Real GDP	2Q	6.6%	6.6%	6.7%	NA
	GDP Price Index	2Q	6.1%	4.5%	6.1%	NA
1-Oct	Personal Income	August	1.1%	0.3%	0.2%	NA
	Personal Spending	August	0.3%	0.6%	0.7%	NA
	U. of Michigan Sentiment	September	71	70	71	NA
	ISM Manufacturing	September	59.9	59.5	59.7	NA
	Construction Spending	August	0.3%	0.3%	0.3%	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
13-Oct	Consumer Price Index	September	0.3%	NA	NA	NA
	CPI ex-Food & Energy	September	0.1%	NA	NA	NA
	PPI Final Demand	September	0.7%	NA	NA	NA
	PPI ex-Food & Energy	September	0.6%	NA	NA	NA
15-Oct	Retail Sales	September	0.7%	NA	NA	NA
	Retail Sales; ex-autos	September	1.8%	NA	NA	NA
	Business Inventories	August	0.5%	NA	NA	NA
	Import Price Index	September	-0.3%	NA	NA	NA

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