

THE ECONOMY AT A GLANCE

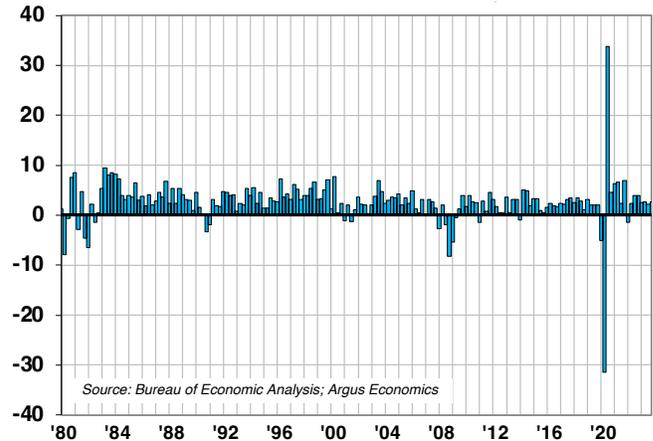
ECONOMIC HIGHLIGHTS

June 20, 2022
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WE LOOK FOR A 2Q RETURN TO GDP GROWTH

Key components of U.S. GDP are still expanding, though growth is not consistent across the economy. We don't anticipate a recession in the near term, but there are risks. The employment environment is nearing full strength, but consumer confidence trends are mixed. Auto sales have recovered from their pandemic lows, but at an uneven pace. In the housing market, high prices have cooled the market a bit but many metrics remain positive. The risk is that the Fed moves too fast and the consumer sector stalls. Businesses are expanding, but growth is slowing. Exports are under pressure from geopolitical tensions and a rising dollar. But import growth will not continue at the recent high-teens pace. Government spending trends should smooth as well. Our GDP growth forecast in 2022 is now 2.2%, which is also our forecast for 2Q22.

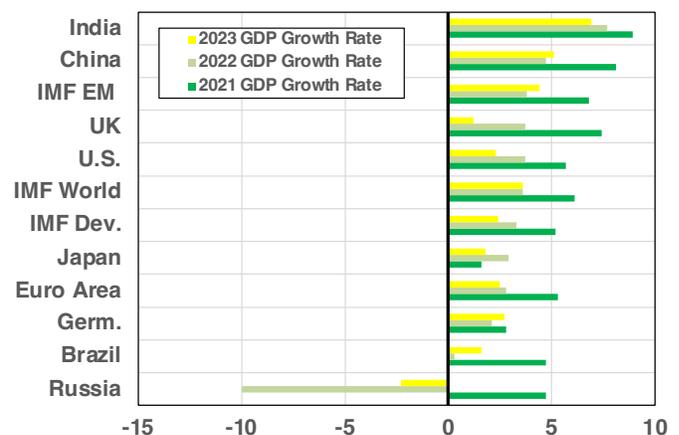
GDP TRENDS & OUTLOOK (% CHANGE)



GLOBAL GROWTH FORECAST DIALED DOWN

Expectations for global economic growth in 2022 have been lowered in the wake of supply-chain problems, earlier-than-expected changes in monetary policy, and cutbacks in government spending. Late last year, the International Monetary Fund projected global GDP growth of 4.9% in 2022. In its latest update, the IMF projects 3.6% growth, with industrialized economies growing 3.3% and emerging economies 3.8%. The IMF expects U.S. GDP to grow 3.7%, while European GDP expands 2.8%, and Japan's economy increases at a 2.9% rate. The outlook for China has been cut to 4.7%. India is among the few nations for which forecasts remain relatively intact, with a growth rate of 7.7%.

GLOBAL GDP GROWTH RATES & FORECASTS (%)



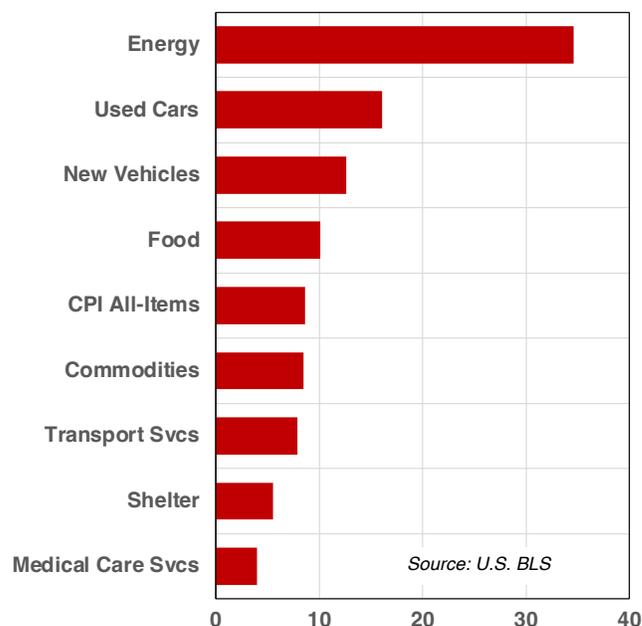
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ECONOMIC HIGHLIGHTS (CONTINUED)

NO INFLATION RELIEF

The May Consumer Price Index report again showed broad-based inflation pressures in the U.S. The Bureau of Labor Statistics reported an 8.6% year-over-year increase in overall inflation last month, up from 8.3% in April — driven by 35% higher energy prices, 16% higher used-car prices, 9% higher commodity prices, and 10% higher food prices. The only category below recent historical trends was medical care commodities and services, where prices rose at a 3.2% rate. Rates of change picked up in a number of categories, such as food at home, gasoline, fuel oil, electricity, and apparel. That is very broad-based, even as the core all-items less food and energy index rose at a stable 0.6% rate from the prior month and 6.0% from the prior year. The Federal Reserve has significant work ahead as it tries to bring core inflation down to its target of 2.0%.

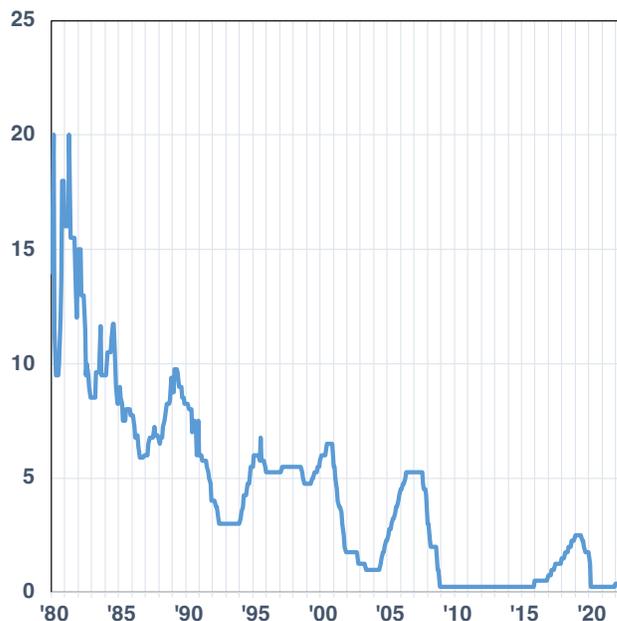
INFLATION FACTORS (% CHANGE Y/Y)



FED HIKES 75 BASIS POINTS

The Federal Reserve wrapped up its latest Open Market Committee meeting and, as expected in the wake of the alarming May CPI report, raised the fed funds rate by 75 basis points to 1.50%-1.75%. This is the third 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 75-basis-point hike by the Fed since 1994. Eight of the nine voting governors voted in favor of the hike, as inflation remains elevated. Indeed, the Fed now expects PCE inflation to rise at a 5.2% rate in 2022, up from its 4.3% projection a month ago. Of note, Fed Chairman Jerome Powell stated only last month that a 75-basis-point rate hike was not yet on the table. So we are now in a period in which it seems the bond market is the “wagger” and the central bank is the “tail.” But it is also worth pointing out that Chairman Powell has consistently said that the Fed would be “data dependent” -- and that the May CPI report was an important data point. As such, the Fed is accelerating the pace of rate hikes. While the U.S. economy is in fairly good shape and likely can continue to grow for another quarter or two, the odds of a recession in 2023 are rapidly increasing.

FEDERAL FUNDS TARGET RATE & FORECASTS (%)

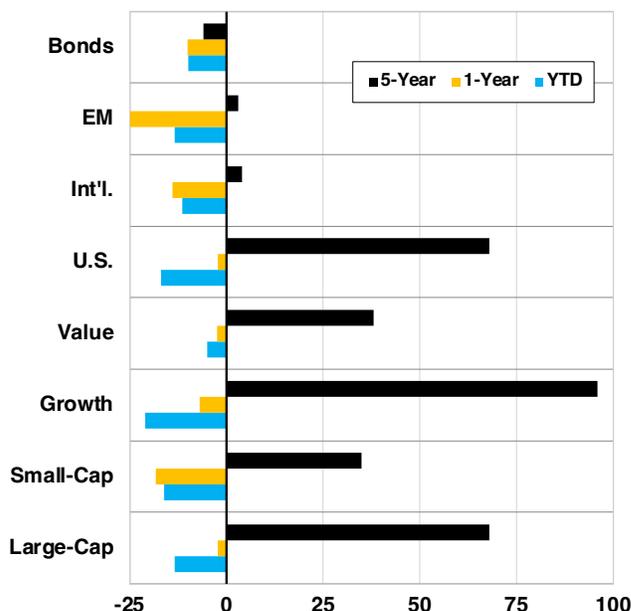


FINANCIAL MARKET HIGHLIGHTS

ARGUS' FAVORED CLASSES, SEGMENTS

Our stock-bond barometer slightly favors bonds over stocks for long-term portfolios. In other words, these asset classes should be near their target weights in diversified portfolios, with a modest tilt toward fixed income. We are balanced on large- and small-caps. We favor large-caps for growth exposure and financial strength, while small-caps are selling at historical discounts relative to large-caps and offer value. Our recommended exposure to small- and mid-caps is 15%-17% of equity allocation, in line with the benchmark weighting. U.S. stocks have outperformed global stocks over the trailing one- and five-year periods. We expect this long-term trend to continue given volatile and difficult-to-predict global economic, political, geopolitical, and currency conditions. That said, international stocks offer favorable near-term valuations, and we recommend 5%-10% of equity exposure to the group. Value stocks have taken an early lead in 2022 due to the negative impact of rising interest rates on Growth stock valuations. Over the long term, we anticipate that growth, led by Tech and Healthcare, will continue to top returns from value, led by Energy and Materials, given favorable secular and demographic trends.

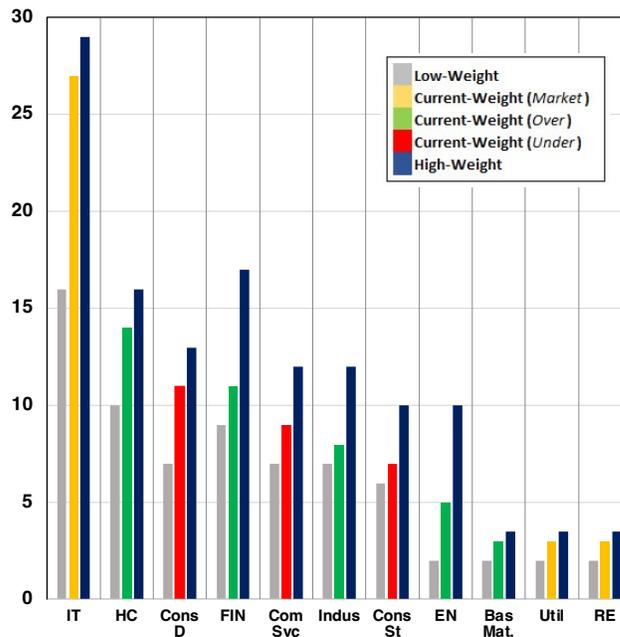
MARKET SEGMENT RETURNS 2022
(% THROUGH 6/1/22)



ARGUS ADJUSTS SECTOR RATINGS

We recently adjusted our recommended sector allocations. The following reflects our guidance for the calendar third quarter of 2022. We have lowered Consumer Discretionary to Under-Weight from Market-Weight. The sector has been hit by scaled-back expectations from retailers, as consumers respond to inflation by limiting discretionary purchases. Automobile availability remains an issue; and consumer & leisure services such as lodging and restaurants are lagging as COVID flares worldwide. With growth slowing, component stock valuations have pushed above their long-term average, making the sector less attractive even after the deep selloff. Our rebalancing process takes place four times a year. Our current Over-Weight sectors are Basic Materials, Energy, Financial Services, Healthcare, and Industrials. Our current Market-Weight sectors are Technology, Real Estate and Utilities. Our Under-Weight sectors are Consumer Discretionary, Communication Services, and Consumer Staples. Argus recommends that advisors and investors leverage this consistent and comprehensive process to tweak weightings within diversified equity portfolios.

SECTOR WEIGHTS (% OF S&P 500)



ECONOMIC CALENDAR

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
21-Jun	Existing Home Sales	May	5.61 Mil.	5.20 Mil.	5.44 Mil.	NA
24-Jun	New Home Sales	May	591K	575K	640K	NA

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Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
5-Jul	Factory Orders	May	0.3%	NA	NA	NA
6-Jul	ISM Non-Manufacturing	June	55.9	NA	NA	NA
7-Jul	Trade Balance	May	-\$87.1 Bln.	NA	NA	NA
8-Jul	Wholesale Inventories	May	2.2%	NA	NA	NA
	Non-farm Payrolls	June	390 K	NA	NA	NA
	Average Weekly Hours	June	34.6	NA	NA	NA
	Average Hourly Earnings	June	0.3%	NA	NA	NA
	Unemployment Rate	June	3.6%	NA	NA	NA

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