CANNATA & COMPANY
COMPREHENSIVE FINANCIAL STRATEGIES

THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

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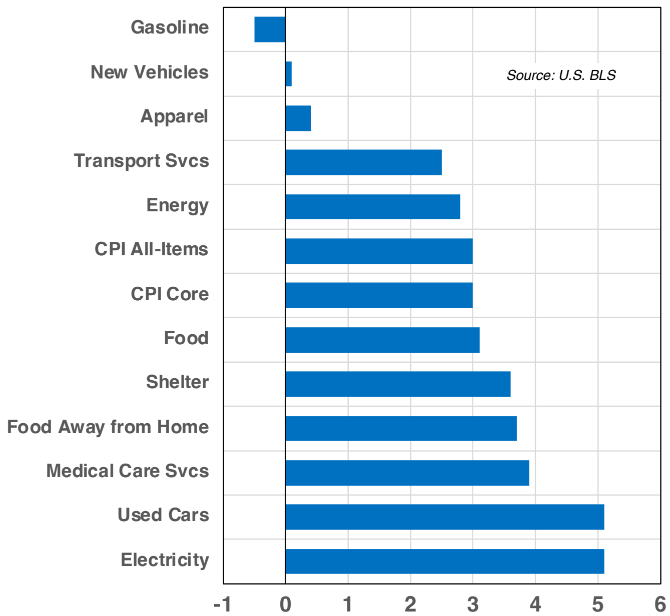
PLEASANT INFLATION SURPRISE

The Department of Labor recently published inflation data that indicated pricing pressures remain under control. First off, the report itself was remarkable, as the U.S. government remains shut down and has not published economic data for weeks. The feds got this report out because the data was critical in determining cost-of-living adjustments for social security recipients (who vote). It likely will be the last government economic report published for a while, and the content of the report was well received by investors. Overall, inflation was stable month to month through September and, on a core basis, prices ticked slightly lower. Drilling down, the CPI declined 0.1% month over month in September and was running at an annual rate of 3.0%. Excluding the volatile categories of food and energy, the core CPI rate increased only 0.1% for the month and also was running at a 3.0% rate. That's lower than the rate from the previous monthly report. Both rates are above the Federal Reserve's target inflation rate of 2.0%, and continue to be propped up by costs for shelter and transportation. Medical care services costs are also on the rise. All that said, the report was likely tame enough to allow the Federal Reserve to focus on its other mandate -- maintaining a healthy employment environment.

CONSUMER INFLATION FACTORS (% CHANGE Y/Y)



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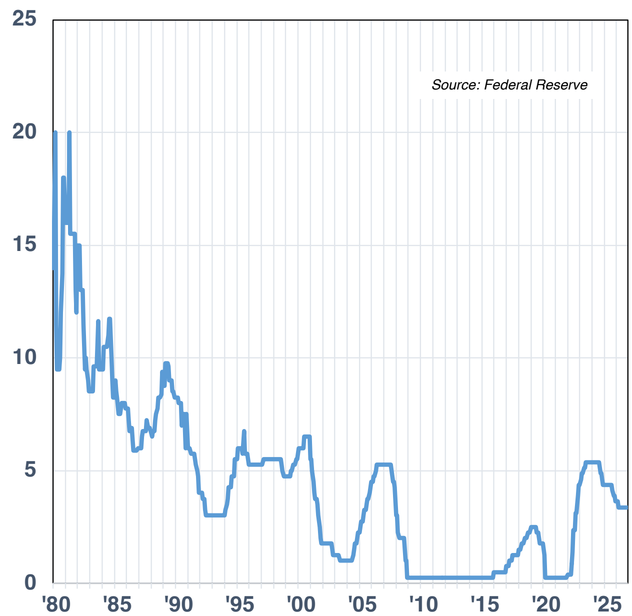
FED CUTS RATES FOR A SECOND TIME IN 2025

The Federal Reserve wrapped up its Federal Open Market Committee meeting and, as expected, lowered its fed funds target rate 25 basis points. The decision reinforces the notion that the Fed is now less concerned about the impact of tariffs on inflation and is more concerned about the employment segment of the economy. The Trump administration has been extraordinarily vocal with its opinions on interest rates, blurring a clear line of independence that has long existed between the White House and the Fed. The White House wants lower rates and the central bank is now headed in that direction. That said, in his press conference after the Fed meeting, Chairman Jerome Powell said that another rate cut in 2025 is hardly a certainty -- which we view as an attempt by the Fed to maintain at least some appearance of independence during the Mr. Powell's last few months on the job. The Fed did announce that it will end its quantitative tightening balance-sheet reduction program in December. We view this as less of a dovish move on rates and more of a tactic to reduce recent in the repo market. We still look for two more rate cuts during Mr. Powell's term, which ends in May, this as the central bank hones in on that elusive "neutral rate."

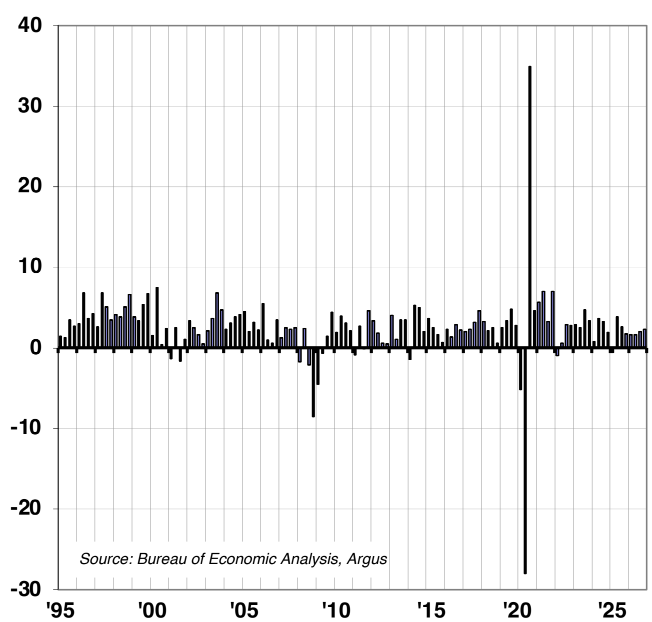
FEDERAL FUNDS TARGET RATE & FORECASTS (%)



GDP IS STRONG

In the absence of a report from the Bureau of Economic Analysis (BEA) because of the month-long closure of the U.S. government, we will provide our own assessment of Gross Domestic Product (GDP) for the third quarter. In 3Q, the $30 trillion U.S. economy found a way to grow as enterprising businesses and consumers invested in the technologies that are likely to drive future productivity and growth. By our reckoning, U.S. output grew about 2.6% -- and our estimate may be conservative. Consensus is for the BEA to report 3% growth, with estimates ranging from 1.7% to 3.8%. The old economy drivers of the business cycle (housing and manufacturing) were stuck in the mud, but business investments in intellectual property and equipment may have added seven-tenths of a point to 3Q growth, this as companies raced to build their Artificial Intelligence capabilities. Consumer spending may have risen 2% despite the possibility that the big services sector ran slower than overall GDP. Walmart CEO Doug McMillon, whose company serves about 150 million U.S. shoppers every week, offered the following at the end of 3Q. "If you look at the middle to upper income levels, we are seeing strong demand. And if you look at middle to lower, there's been a little bit of stress."

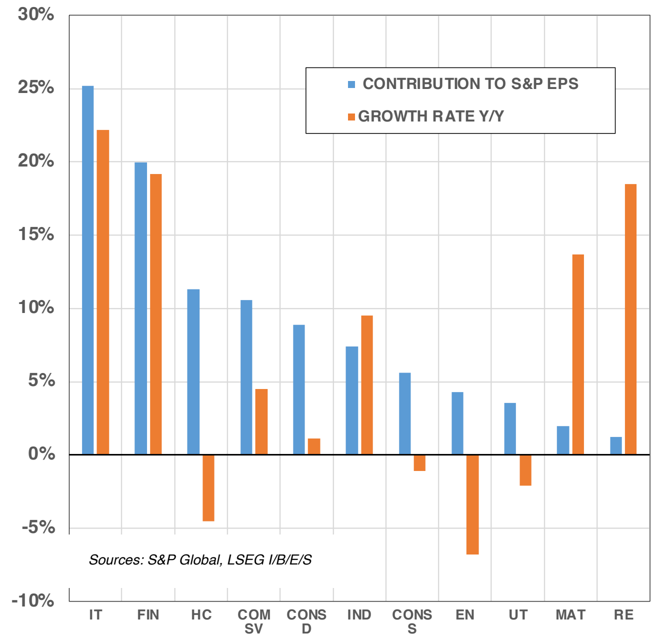
REAL GDP (% GROWTH/QTR)



NOT ALL SECTORS ARE EQUAL

When it comes to investing in sectors of the S&P 500, we think it makes sense to focus primarily on a few key groups that can actually make a difference in terms of earnings and portfolio performance. For example, the Real Estate sector, which accounts for about 2% of S&P 500 capitalization, is expected to contribute only 1% of S&P 500 EPS during the during the current EPS period. Meanwhile, the groups that really make a difference include Information Technology, which is expected to account for 25% of the S&P 500 earnings and for which earnings are expected to grow 22% year over year. Financial is another likely winner, expected to kick in 20% of 3Q S&P 500 profits, growing at a 19% clip. The Industrial group should deliver a solid performance, with earnings expected to increase 10%. The Communication Services group has been a leader in recent quarters, delivering 20% growth. That sector is expected to cool off a bit in 3Q, as expectations are for mid-single-digit growth. We note that the Utilities sector punches above its weight, accounting for 2.5% of total market capitalization but generating 4% of S&P 500 profits. Energy is typically a wild card for earnings.

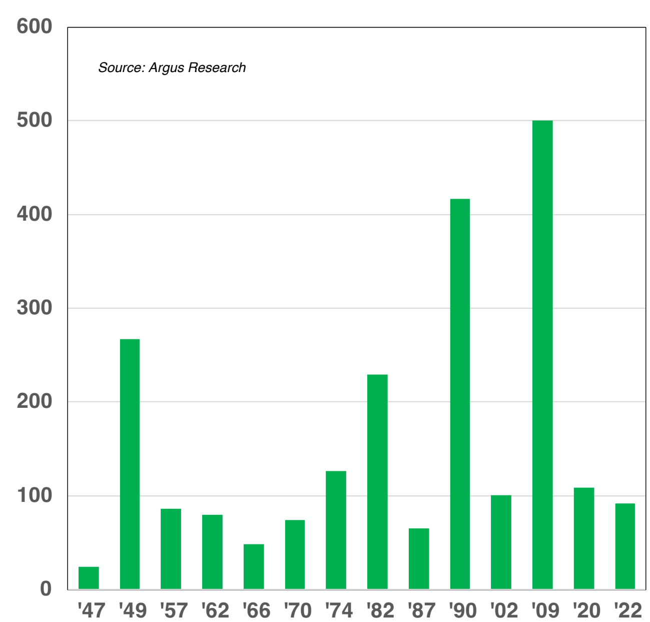
SECTOR EARNINGS TRENDS



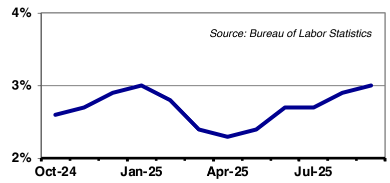
BULL MARKET CELEBRATES BIRTHDAY

The current bull market is now more than three years old and has weathered crises with support from an economy that continues to grow, inflation and interest rates that have been heading lower, and robust profitability from S&P 500 companies. How much farther can this bull market go? We studied the 13 bull markets that have occurred since the end of World War II. On average, the S&P 500 gained 164% during these 13 periods, which averaged 57 months in duration, or just about five years. We note that the recent bull markets have generated higher returns over longer periods of time. 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%. Still, it is worth pointing out that the 2009-2020 bull market began with stocks deeply depressed on valuation, whereas stocks are already near fair value in the current market environment. Even so, if rates continue to head lower on mild inflation news, if earnings growth accelerates, and if the economy can continue to avoid a recession, then the current bull market might still have room to run.

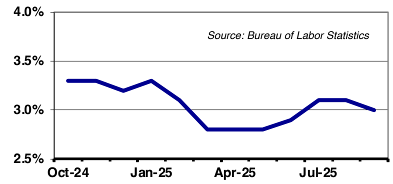
BULL MARKET RALLIES (% CHANGE IN S&P 500)



Release:	**Consumer Price Index**
Date:	11/13/2025
Month:	October
Previous Report:	3.0%
Argus Estimate:	3.0%
Street Estimate:	NA



Release:	**CPI ex-Food & Energy**
Date:	11/13/2025
Month:	October
Previous Report:	3.0%
Argus Estimate:	3.0%
Street Estimate:	NA



Previous Week's Releases and Next Week's Releases on next page.

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
3-Nov	ISM Manufacturing	October	49.1	50.1	49.0	**48.7**
	ISM New Orders	October	48.9	50.0	NA	**49.4**
5-Nov	ISM Services Index	October	50.0	51.0	50.7	NA
7-Nov	U. Michigan Sentiment	November	53.6	55.0	54.0	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
20-Nov	Existing Home Sales	October	4.06 Mln.	NA	NA	NA

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