

THE ECONOMY AT A GLANCE

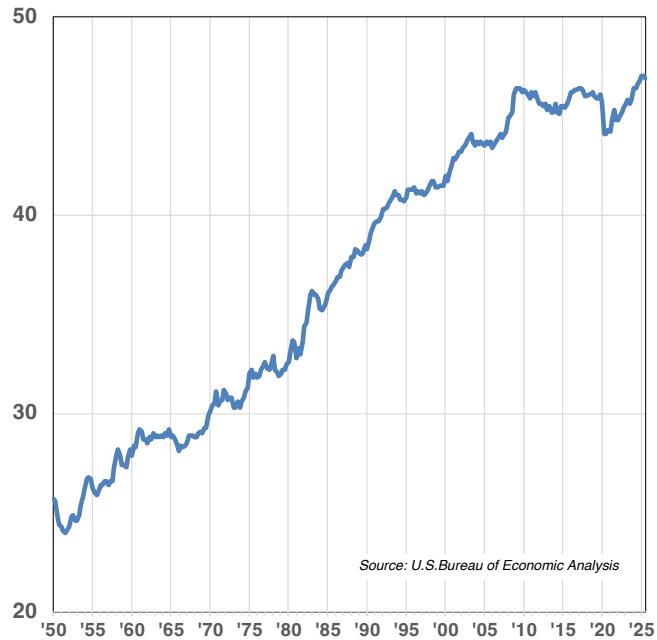
ECONOMIC HIGHLIGHTS

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AT YOUR SERVICE

The services category in the recent GDP report delivered a big upside surprise, helping stoke the stronger-than-consensus 4.3% increase in third-quarter GDP. Tariffs -- and the efforts of consumers and businesses to front-run them -- made it difficult to gauge underlying growth in the first half of the year. But services sent a clear message of strength in 3Q, growing 3.7% on a seasonally adjusted annual basis. The result was the category's strongest performance since the third quarter of 2022. It also marked an encouraging rebound from 1Q, when services eked out a gain of just 0.8%. The category's performance has extra significance because the U.S. truly is a service economy. The category represents almost 47% of GDP and contributed 1.74 points of the quarter's growth. That was a major reason why we boosted our estimate for 4Q25 GDP growth to 2.5% from 1.7% and lifted our forecast for 2025 growth to 2.5% from 1.9%. Within services, healthcare was the biggest contributor, adding 0.76 points to GDP. Outpatient services as well as hospital and nursing home services increased. Meanwhile, exports of professional and management consulting services helped the trade balance. In the GDP report, we analyze growth in real final sales to private domestic purchasers to assess the underlying strength of the economy. This measure excludes the recently noisy trade balance, inventories, and government categories and focuses on core categories of consumer spending and gross private fixed investment. This measure grew a sturdy 3.0% in 3Q, up from 2.9% in 2Q.

SERVICES CONSUMPTION: PERCENTAGE OF GDP



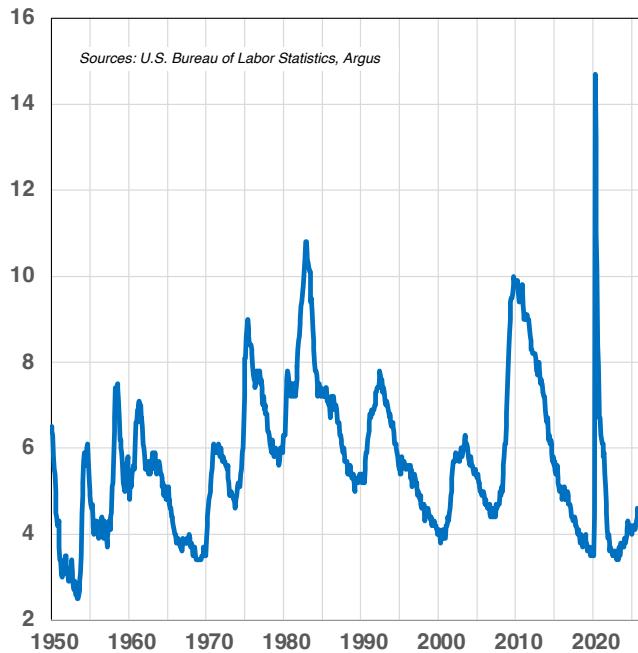
Source: U.S. Bureau of Economic Analysis

ECONOMIC HIGHLIGHTS (CONTINUED)

UNEMPLOYMENT RATE DROPS TO 4.4%

The Bureau of Labor Statistics (BLS) released the Employment Situation for December. The report indicated that the U.S. generated 50,000 non-farm jobs in December. Overall, our outlook for employment has improved slightly as a result of this report and recent economic data. Our forecast was for an increase of 50,000 new jobs in December, while the consensus called for 60,000. November's payrolls were revised lower by 8,000 to 56,000 and October was reduced by 68,000 to -173,000. This results reduced the three-month average to -22,000 from +22,000. The BLS Diffusion Index indicated 50.8% of 250 private industries are hiring, down from 55.6% in November. Manufacturing slumped to 38.2% from 43.8%. The December unemployment rate decreased to 4.4%, from a revised-lower 4.5% in November. Average hourly earnings increased \$0.12 month to month and are 3.8% higher year over year. The average workweek ticked down to 34.2 hours. We had expected an unemployment rate of 4.6%. Employment rose in food services and drinking places, health care, and social assistance. Job losses occurred in retail trade. Employment showed little or no change over the month in other major industries, including mining, quarrying, and oil and gas extraction; construction; manufacturing; wholesale trade; transportation and warehousing; information; financial activities; professional and business services; and other services. The manufacturing sector lost 8,000 jobs. Healthcare and social assistance added 38,500. Federal government employment rose by 2,000 in December. Federal employment declined by 277,000, or 9.2% in 2025. After the report, the probability that the Fed will cut the funds target to 3.25% to 3.50% at the conclusion of its meeting on January 28 declined to 5% from 13%.

U.S. UNEMPLOYMENT RATE (%)



FINANCIAL MARKET HIGHLIGHTS

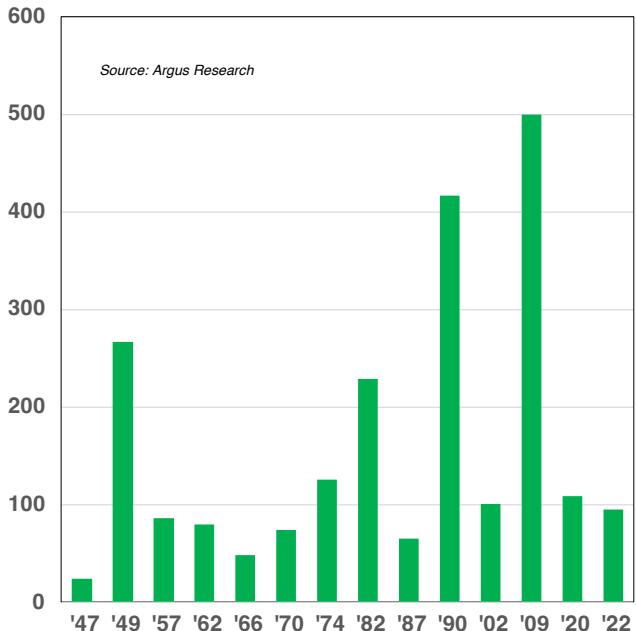
STOCKS START YEAR A BIT ABOVE FAIR VALUE

We have multiple ways of looking at market valuations. Most are signaling that stocks are reasonably valued, though not cheap. Our asset-allocation model, which we call the Stock-Bond Barometer, is indicating that the two major portfolio asset classes are near parity on valuation. This model, our most comprehensive, goes back to 1960. The output is expressed in terms of standard deviations to the mean, or sigma. The mean is a modest premium for stocks, of 0.17 sigma, with a standard deviation of 1.07. So stocks normally sell for a slight premium compared to bonds. The current valuation level is a 0.30 sigma premium for stocks -- not a discount, but easily within the normal range. Other valuation measures also show reasonable multiples for stocks. The current forward P/E ratio for the S&P 500 is about 23, within the normal range of 15-24. On price/book, it is no surprise that stocks are priced at the high end of the historical range of 1.8-5.5, given that tech stocks, which have low capital bases, are the biggest component of the market. The current S&P 500 dividend yield of 1.09% is below the historical average of 2.9%, but the relative reading to the 10-year Treasury bond yield is 26% compared to the long-run average of 39%. On price/sales, the current ratio of 3.3 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 300 basis points, compared to the historical average of 400. Lastly, the ratio of the S&P 500 price to an ounce of gold is 1.6, not far from the midpoint of the historical range of 1-3.

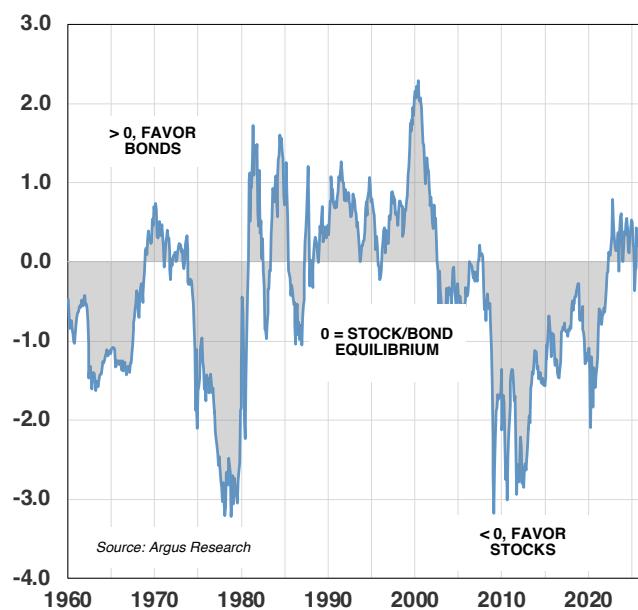
BULL MARKET SET FOR 2026

The current bull market is more than three years old. During that time, the S&P 500 has risen more than 90%. Stocks have been supported by an economy that continues to grow, inflation and interest rates that have been heading lower, and robust profitability from S&P 500 companies. We studied the 13 bull markets that have occurred since the end of World War II. 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%. 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, earnings growth accelerates, and the economy can continue to avoid a recession, then the current bull market, driven by disruptive innovation from the Information Technology sector, may have more room to run.

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



STOCK BOND BAROMETER (STANDARD DEVIATIONS)



KEY ECONOMIC FORECASTS

- The \$31 trillion U.S. economy remains on course for modest growth, powered by corporate investments in AI and outsized spending by the wealthiest households. Nvidia CEO Jensen Huang estimated, in November, that \$3 - \$4 trillion will be spent on AI infrastructure in the next 5 years.
- We recently raised our 2026 forecast for GDP growth to 2.2% from 2.0%. Unemployment remains low, the Fed has been stimulating growth by reducing the funds rate, and last year's tax legislation should result in healthy rebates for most families. We are initiating a 2027 estimate for 1.7% growth. We still expect full-year GDP growth for 2025 to come in at 2.5%.
- U.S. consumers have been the engine of economic growth. That should continue with unemployment at 4.4%. We expect the jobless rate to remain between 4.3% - 5.0% in 2026. Fewer job openings and slower hiring may reduce wage growth.
- Inflation's downward progress has stalled above the Fed's 2% target. Core PCE has exceeded 2.5% since March 2022, rising to 2.9% in 3Q25. The median projection of Federal Reserve officials does not return to 2% until 2028.
- Argus expects S&P 500 EPS to come in at \$270 in 2025 and increase by 11% to \$300 in 2026. EPS is helped by an increase in operating margins to 18.0%, well above 13.9% in pre-pandemic 2019. Growing tech giants such as MSFT and NVDA have operating margins of 46% and 59% respectively while Dow stalwarts Walmart and Caterpillar earn 4% and 18%, respectively.
- Argus Fixed Income Strategist Kevin Heal expects the Fed to reduce the funds rate by 25 basis points in 2026 and by another 25 basis points in 2027 taking the target range to 3%-3.25%. We expect the dollar to be flat or slightly stronger in 2026 as foreign demand for shares of innovative U.S. companies and economic resilience offset monetary easing.
- Despite last year's economic-and-policy "uncertainty," the Misery Index, which is the Consumer Price Index (CPI) inflation rate plus the unemployment rate, is 7.1%, well below the average of 9.2% since 1949. "Misery" could peak at 7.6% in 2Q26 with CPI at 3.1% and Unemployment at 4.5%. This is a consideration ahead of midterm elections.
- What could go right? Monetary easing, big tax refunds, spending by wealthy consumers, strong S&P earnings, capital investment, productivity gains, and ongoing innovation.
- Risks: Elevated Inflation, slow hiring, housing, and manufacturing are stalled, low income consumers are struggling, spending by affluent may be dependent on stock market gains.

CURRENT ECONOMIC RELEASES

Current Economic Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
9-Jan	Nonfarm Payrolls	December	56K	50K	60K	50K
	Unemployment Rate	December	4.5%	4.6%	4.5%	4.4%
	Average Weekly Hours	December	34.3	34.3	34.3	34.2
	Average Hourly Earnings	December	3.6%	3.5%	3.6%	3.8%
	Housing Starts	October	1,306K	1,300K	1,325K	1,246K
	U. Michigan Sentiment	January	52.9	53.0	53.5	54.0
13-Jan	Consumer Price Index	December	2.7%	2.8%	2.7%	2.7%
	CPI ex-Food & Energy	December	2.6%	2.8%	2.7%	2.6%
	New Home Sales	October	738K	700K	705K	737K
14-Jan	Retail Sales	November	3.3%	3.3%	NA	3.3%
	Retail Sales ex-autos	November	3.7%	4.3%	NA	4.3%
	PPI Final Demand	November	2.8%	2.7%	2.7%	3.0%
	PPI ex-Food & Energy	November	2.9%	2.6%	2.7%	3.0%
	Existing Home Sales	December	4.14 Mln.	4.10 Mln.	4.18 Mln.	4.35 Mln.
	Business Inventories	October	1.3%	1.2%	NA	1.4%
15-Jan	Import Price Index	November	0.3%	0.1%	NA	NA
16-Jan	Industrial Production	December	2.5%	1.7%	NA	NA
	Capacity Utilization	December	76.0%	77.0%	76.0%	NA
21-Jan	Construction Spending	September	-1.6%	1.2%	NA	NA
22-Dec	GDP Annualized QoQ	3Q "Updated"	4.3%	4.3%	NA	NA
	GDP Price Index	3Q "Updated"	3.8%	3.8%	NA	NA
	PCE Deflator	November	2.8%	2.7%	NA	NA
	PCE Core Deflator	November	2.8%	2.7%	NA	NA
	Personal Income	November	4.8%	4.7%	NA	NA
	Personal Spending	November	5.3%	5.4%	NA	NA

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