

THE ECONOMY AT A GLANCE

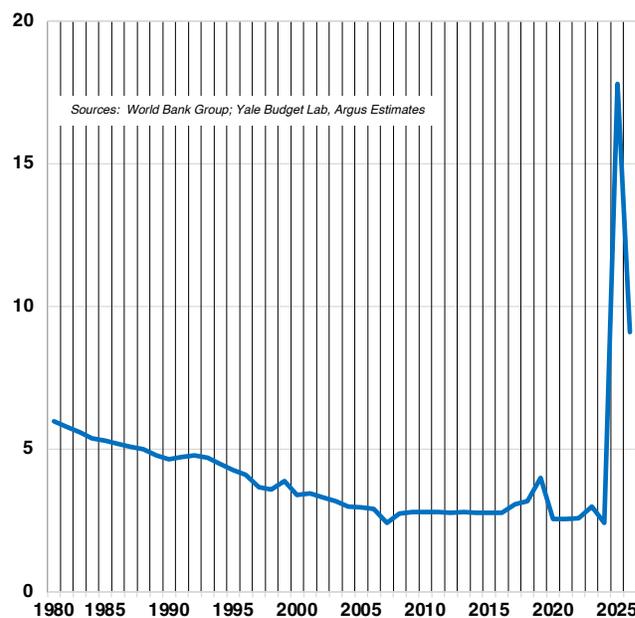
ECONOMIC HIGHLIGHTS

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PLAN B FOR TARIFFS

The U.S. Supreme Court has struck down a large portion of the tariffs that have become a key element of President Trump's economic agenda. Many, though not all, tariffs during the second Trump administration have been imposed under the International Emergency Economic Powers Act (IEEPA). The IEEPA gives the president the power to regulate imports of foreign property, but only after the declaration of a national emergency to deal with tangible threats; it makes no mention of tariffs. By way of a six-to-three majority, the Supreme Court ruled that the IEEPA "does not authorize the president to impose tariffs." So what's next? Well, for one thing, the overall average effective tariff rate is likely to come down. The Yale Budget Lab now estimates that consumers will face an average tariff rate of 9.1%, lower than the prior mean tariff rate of 17.8%. Even so, these are the highest rates since 1946. For another, President Trump is certain to pursue other paths to reinstate tariffs. On Friday, he announced a 10% global tariff under a different authority (Section 122 of the Trade Act of 1974), and on Saturday, he raised that rate to 15%. The financial markets had a guardedly optimistic response to the Supreme Court's ruling, as investors prefer to have economic principles such as supply, demand, and comparative advantage establish prices in global markets. Fourth-quarter GDP data, released the same day, highlighted the negative effect of the government shutdown on the U.S. economy, though the impact of tariffs appears to have cut into growth in consumer and business spending. In the intermediate term, the uncertain future of tariff policy is likely to overhang the market.

USA MEAN TARIFF RATE (%)

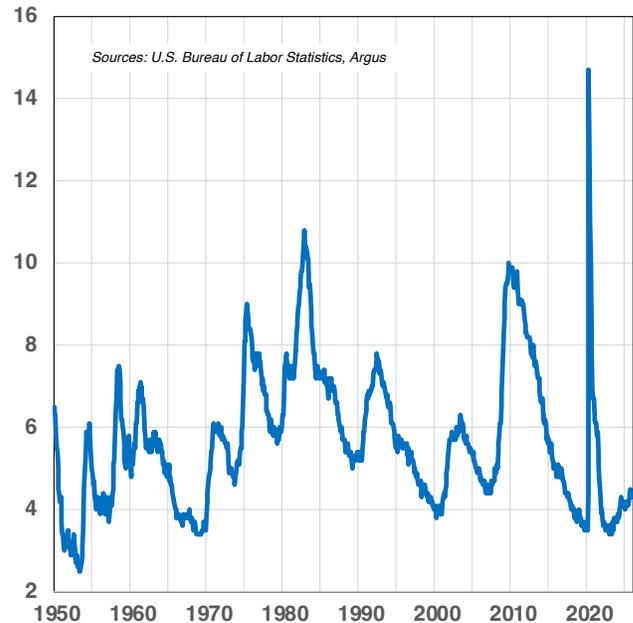


ECONOMIC HIGHLIGHTS (CONTINUED)

PAYROLLS DECLINE ON HEALTHCARE STRIKES

The Bureau of Labor Statistics (BLS) has released the Employment Situation for February. The report indicated that the U.S. lost 92,000 non-farm jobs in February, hurt by strike activity in the usually strong Healthcare sector. The report generally was weaker than expected. Our forecast was for an increase of 65,000 new jobs in February, while the consensus was 60,000. The results reduced the three-month average to 6,000 from 70,000 before the report. January's payrolls were revised lower by 4,000 to 130,000 and December was reduced by 65,000, to -17,000. The BLS Diffusion Index indicated 50.8% of 250 private industries are hiring, down from 54.6% in January. Manufacturing slipped to 45.1% from 47.9%. The February unemployment rate rose to 4.4% from 4.3% in January. Average hourly earnings increased \$0.15 month to month and are 3.8% higher year over year. The average workweek was unchanged at 34.3 hours. We had expected an unemployment rate of 4.3%. Employment in information and federal government continued to trend down. The manufacturing sector lost 12,000 jobs. Healthcare declined by 28,000, as offices of physicians lost 37,000 jobs due to strike activity. Social assistance added 9,000 jobs. Federal government employment fell by 10,000 in February and has declined by 330,000, or 11.0%, since its peak in October 2024. After the report, the yield on the 10-year Treasury eased by two basis points to 4.15%. Based on futures trading, the probability that the Fed will reduce the funds target to 3.25% to 3.50% at the conclusion of its meeting on March 18 dropped to 4% from 5% before the release. June is the first month when the probability of a rate cut is greater than 50%. Before the release, the first probable cut was expected in July.

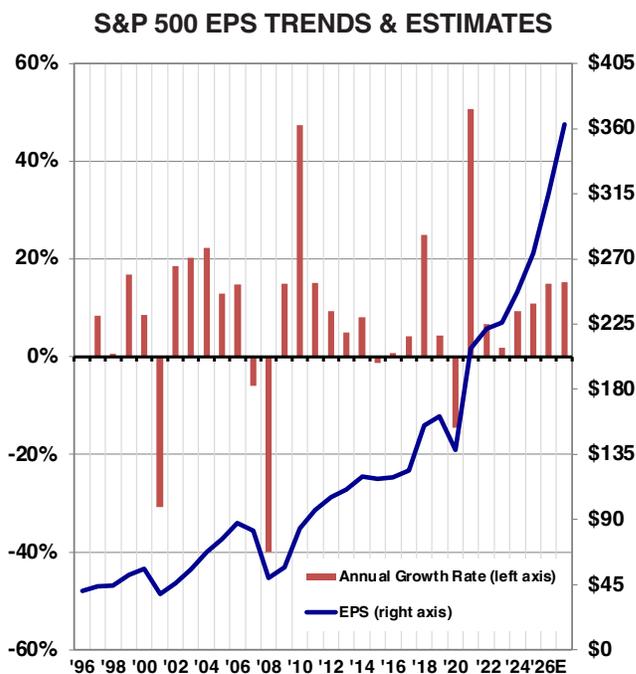
U.S. UNEMPLOYMENT RATE (%)



FINANCIAL MARKET HIGHLIGHTS

ARGUS ADJUSTS S&P 500 EPS ESTIMATES

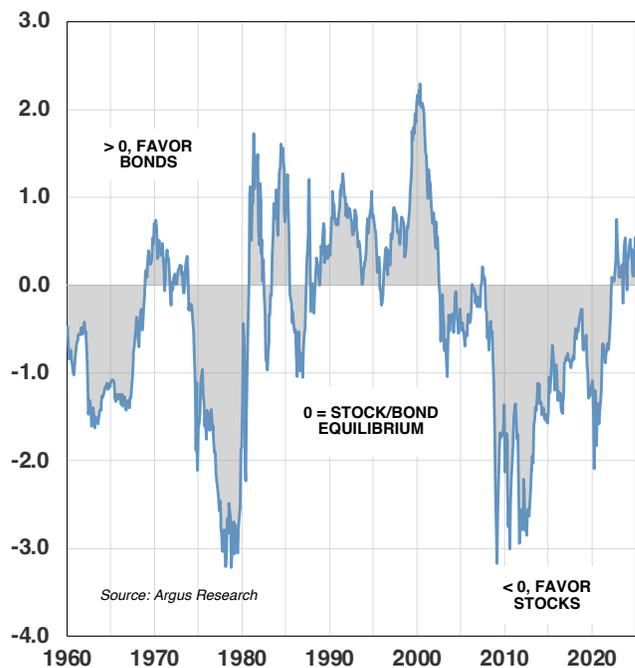
The stock market has had a bumpy ride so far in 2026. In the employment economy, concerns about slowing jobs growth have been exacerbated by signs of increasing layoffs. Mixed signals from the White House also have kept investors on edge. Meanwhile, the on-again, off-again fear of an AI bubble is on again. In the background, consistently strong (and accelerating) corporate earnings have helped ease concerns. Based on a better-than-expected calendar 4Q25 earnings season to date, we raised our final estimate of 2025 S&P 500 earnings from continuing operations. We also raised our estimate of 2026 S&P 500 earnings and implemented a 2027 forecast. Among the companies that have reported to date, over three-quarters have reported earnings above the pre-reporting consensus, in line with the long-term average. The magnitude of the EPS beat against expectations has been above the midpoint of the long-term range of 5%-9%. The blended operating margin from continuing operations is on track to reach or exceed the 13% level for 4Q25 calendar earnings, at least a point above the long-term average. Our 2025 S&P 500 EPS forecast is now \$274 and our 2026 and preliminary 2027 EPS forecasts are \$315 and \$363, respectively.



PULLBACK IMPROVES STOCK VALUATIONS

We have several ways of looking at market valuations, and most are signaling that stocks are reasonably valued, though hardly a bargain. Still, equity valuations are improving as stocks sell off in response to the fighting in Iran. Our Stock Bond Barometer asset-allocation model is indicating that the two major portfolio asset classes are near parity as far as valuation is concerned. This model is our most comprehensive and goes back to 1960. The output is expressed in terms of standard deviations to the mean, or sigma. The mean reading is a modest premium for stocks, of 0.18 sigma, with a standard deviation of 1.07. In other words, stocks normally sell for a slight premium valuation compared to bonds, which has been the case since inflation and bond yields jumped in 2022. The valuation level now is a 0.33 sigma premium for stocks, not a discount but easily within the normal range. Other valuation measures also show reasonable multiples for stocks. These valuation measures suggest to us that the stock market -- which has pulled back from near-record highs -- is not in danger of entering bubble territory at this juncture.

STOCK BOND BAROMETER (STANDARD DEVIATIONS)



KEY ECONOMIC FORECASTS

- The \$31 trillion U.S. economy remains on course for productive long term growth, powered by corporate investments in AI and outsized spending by wealthy households. Nvidia CEO Jensen Huang estimated, in November, that \$3 - \$4 trillion will be spent on AI infrastructure in the next 5 years.
- Real Potential GDP – the sustainable speed limit of the US economy is poised to increase to 2.1% through 2030 according to the Congressional Budget Office. AI is likely to raise productivity, offsetting slower growth in the potential labor force from an aging population and reduced immigration.
- The war in Iran is affecting millions of lives. Oil supply disruptions are an economic risk to affordability that companies and consumers have faced before.
- The U.S. economy is more resilient, more diversified and less oil dependent, but it is managing additional supply headwinds from tariffs and reduced immigration. This triumvirate could raise inflation, slow growth, and complicate Fed policy. Tax benefits and AI should help the economy.
- A simple rule of thumb: National gasoline prices above \$4.00 begin to hurt consumer spending.
- We are monitoring financial conditions and high-frequency indicators including Nowcasts and weekly jobless claims. We will adjust our 2026 forecast for 2.5% GDP growth if necessary.
- Argus expects S&P 500 EPS to rise almost 16% to \$315 in 2026 and increase about 15% to \$363 in 2027. EPS is helped by an increase in operating margins to about 18.0% this year, well above 13.9% in pre-pandemic 2019. Growing tech giants such as MSFT and NVDA have operating margins of 47% and 60% respectively while Dow stalwarts Walmart and Caterpillar earn 4% and 17%, 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 slightly stronger in 2026 as foreign demand for shares of innovative U.S. companies and economic resilience offset monetary easing.
- Gold is likely to remain at elevated levels. The ancient safe-haven asset recently reached an all-time record above \$5,000 an ounce.
- 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 approximately 6.8%, well below the average of 9.2% since 1949.
- What could go right? Big tax refunds, spending by wealthy consumers, strong S&P earnings, capital investment, productivity gains, inflation expectations remaining anchored, and ongoing innovation.
- Risks: Elevated Inflation, high fuel prices, weak housing market, low income consumers are struggling, spending by affluent may depend on stock market gains, AI may reduce entry-level hiring.
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CURRENT ECONOMIC RELEASES

Current Economic Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
6-Mar	Nonfarm Payrolls	February	126K	65K	60K	-92K
	Unemployment Rate	February	4.3%	4.3%	4.4%	4.4%
	Average Weekly Hours	February	34.3	34.3	34.3	34.3
	Average Hourly Earnings	February	3.7%	3.7%	3.7%	3.8%
	Retail Sales	January	2.4%	3.0%	NA	3.2%
	Retail Sales ex-autos	January	3.3%	3.5%	NA	3.9%
	Business Inventories	December	1.2%	1.0%	NA	1.6%
	10-Mar	Existing Home Sales	February	4.02 Mln.	4.00 Mln.	3.88 Mln.
11-Mar	Consumer Price Index	February	2.4%	2.4%	2.4%	2.4%
	CPI ex-Food & Energy	February	2.5%	2.5%	2.5%	2.5%
12-Mar	Trade Balance	January	-\$70.3 Bln.	-\$55.0 Bln.	-\$65.9 Bln.	NA
	Housing Starts	January	1,404K	1,300K	1,340K	NA
13-Mar	GDP Annualized QoQ	4Q "Second"	1.4%	1.4%	1.4%	NA
	GDP Price Index	4Q "Second"	3.6%	3.6%	3.6%	NA
	PCE Deflator	January	2.9%	2.8%	2.9%	NA
	PCE Core Deflator	January	3.0%	3.0%	3.0%	NA
	Personal Income	January	4.3%	4.5%	NA	NA
	Personal Spending	January	4.7%	4.9%	NA	NA
	Durable Goods Orders	January	12.5%	10.0%	NA	NA
	U. Michigan Sentiment	March	56.6	54.0	55.3	NA
16-Mar	Industrial Production	February	2.3%	1.6%	NA	NA
	Capacity Utilization	February	76.2%	76.3%	76.5%	NA
17-Mar	Leading Index	January	-0.2%	0.1%	NA	NA
18-Mar	PPI Final Demand	February	2.9%	2.8%	NA	NA
	PPI ex-Food & Energy	February	3.6%	3.5%	NA	NA
	Factory Orders	January	4.3%	5.5%	NA	NA
19-Mar	New Home Sales	January	745K	725K	725K	NA

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