CANNATA & COMPANY
COMPREHENSIVE FINANCIAL STRATEGIES

THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

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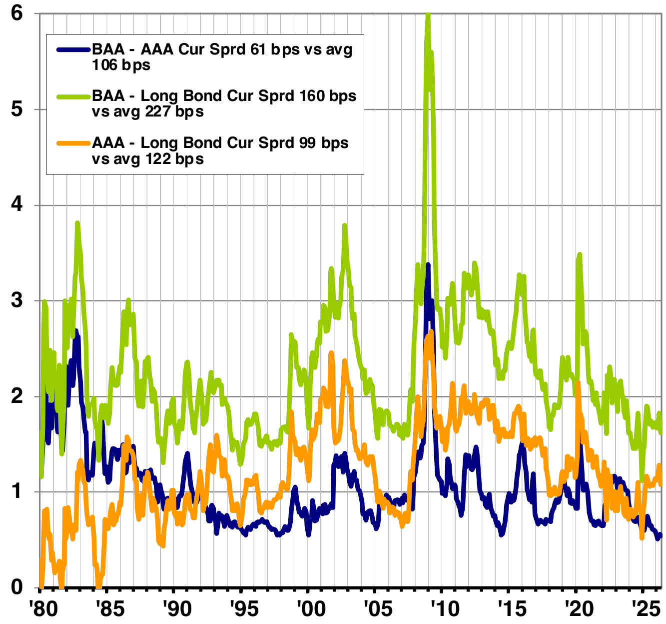
BOND SPREADS NARROW

Treasury bond yields have backed up on fears of oil-price driven inflation in the months ahead, this as the war in Iran remains unresolved. Corporate bond yields have risen as well -- but at a slower rate as bondholders are now less concerned over the risks of recession, given positive trends in employment. As a consequence, spreads between corporate and Treasury bond yields have narrowed over the past quarter, and they remain below historical averages. For example, the spread between AAA-rated corporate bonds and 10-year government bonds in early June was 108 basis points (bps), down from 117 bps in March and below the historical average of 122. The gap between the government 10-year bond yield and a BAA-rated bond (still investment grade) in early June was 162 basis points, below the historical average spread of 227 bps and the spread of 168 basis points a quarter ago. We watch these spreads closely for several reasons. From an asset-allocation standpoint, wider corporate bond spreads signal that corporate bond valuations may be improving and fixed-income securities could be suitable in our diversified asset-allocation models. As well, and from an economic outlook standpoint, the changes in the spreads offer clues to the bond market's view of corporate financial strength and potential recession risk, which at the current time is relatively low.

CORPORATE/GOVERNMENT BOND SPREADS (%)



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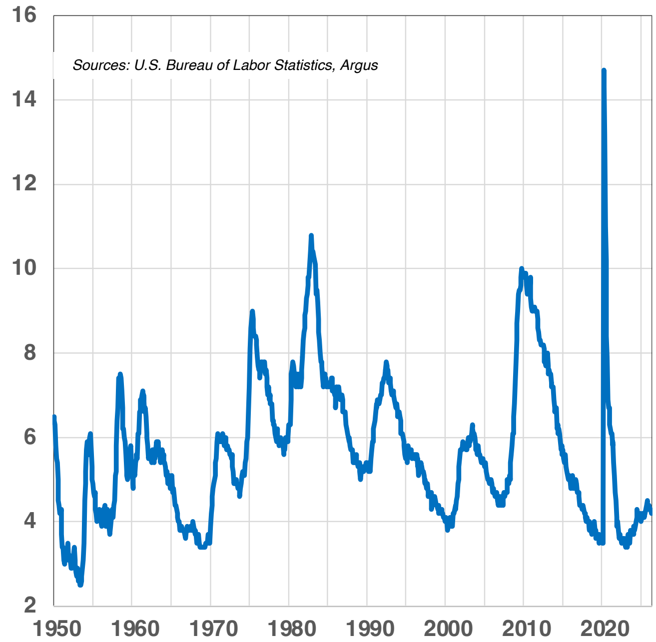
PAYROLLS RISE 57,000

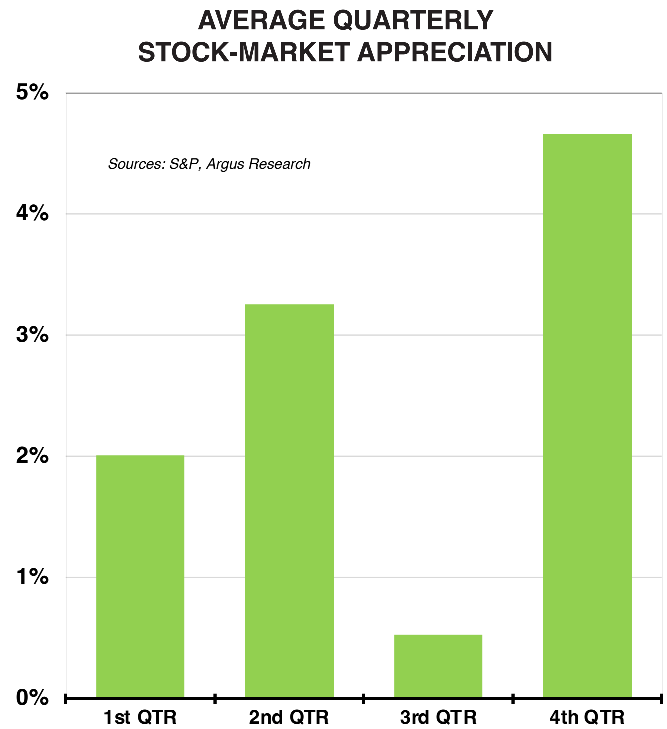
The Bureau of Labor Statistics (BLS) released the Employment Situation for June, showing that the U.S. added 57,000 nonfarm jobs. There was strength in professional and business services; social assistance; and the stalwart Healthcare sector. Employment in leisure and hospitality declined. Our forecast was for an increase of 125,000 new jobs, while the consensus was 110,000. The results reduced the three-month average to 111,000 from 188,000. May's payrolls were revised lower by 43,000 to 129,000 and April was reduced by 31,000 to 148,000. The BLS Diffusion Index indicated 54.4% of 250 private industries are hiring, down from 56.0% in May. Manufacturing rose to 55.6% from 52.8%. The unemployment rate ticked lower to 4.2%, below our estimate and the consensus. Average hourly earnings increased $0.13 month to month and are 3.5% higher year over year. The average workweek was unchanged at 34.3 hours. Employment showed little change in mining, quarrying, and oil and gas extraction; construction; manufacturing; wholesale trade; retail trade; transportation and warehousing; information; financial activities; other services; and government. Employment in professional and business services increased by 36,000 and has added 172,000 jobs since a recent low in October 2025. The manufacturing sector added 3,000 jobs. Stock futures rose after the report and the yield on the 10-year Treasury dropped by four basis points (bps) to 4.47%. The yield on the 2-year Treasury, which is closely tied to expectations for monetary policy, was down by seven basis points to 4.13%. After the report, traders became less hawkish. The probability that the fed funds rate will end the year at the current 3.5%-3.75% target range rose to 24% from 16% before the report. There was no expectation of a rate cut before or after the report. The probability that the funds rate will be 25 bps higher at the end of the year rose to 43% from 38%, but the probably that rates will be higher by 50 bps or more declined to 33% from 46%.

U.S. UNEMPLOYMENT RATE (%)



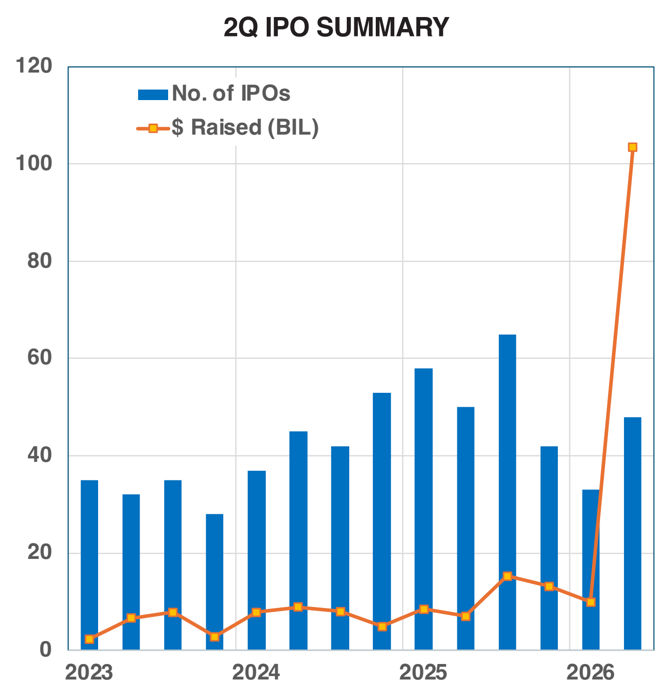
INVESTORS BEWARE, 3Q IS HERE

Stocks are now entering the poorest performing quarter of the year. We analyzed data collected on S&P 500 performance from 1980-2026. The strongest quarter has been the fourth, with average gains of 4.7%. First- and second-quarter returns have averaged 2.0% and 3.0%, respectively. On the other hand, 3Q is barely positive, with an average return of 0.5%. Now not every 3Q is a disaster. In fact, the "win percentage" for the quarter is 63%, which means that markets deliver positive returns in the quarter almost two-thirds of the time. But the actual quarters that are negative can really hurt: -12% in 1981, - 15% in 1990, - 15% in 2000, - 18% in 2001, -14% in 2008 and -14% in 2011. Last year, stocks popped 7.5% in 3Q. Some of the events that occurred in these quarters are random, but the quarter is also when companies better know if they are going to meet their estimates for the year. As such, they may signal if they are poised to fall short. Further, this year features mid-term elections in November, which can add political volatility to the mix. One bit of good news is that about three-quarters of the times during our test period, stocks posted gains in the first half. And during those years, the market has tacked on additional gains by year-end almost 80% of the time.



SPACEX HELPS IPO MARKET REBOUND

Elon Musk's SpaceX helped revive the IPO market in 2Q26 -- and may set the stage for a healthy second half of the year. Led by SpaceX, a total of 48 companies completed initial public offerings in 2Q26, up 45% compared to 33 in the first quarter. In total, 2Q26 IPOs raised $105 billion, compared with $10 billion in 1Q26 and $7 billion in 2Q25. While $75 billion of this came from SpaceX alone, the remaining group still raised $30 billion. The quarter featured 10 IPOs that each raised $1 billion or more, which had not happened since 4Q21. With SpaceX, several notable trends emerged from the offering that could have implications for other mega-cap offerings. These trends included rapid index adoption of new stocks, eased lock-up restrictions, and an IPO price set by the company, not banks. In addition, SpaceX initially planned to allocate as much as 30% of the offering to retail investors, much higher than historical levels that are closer to 10%. Though this ultimately was scaled back to approximately 20%, what is likely the largest retail investors group in history has now been taken on the SPCX ride -- at first up 50% from the open and now back down 33% to the $155 range.



KEY ECONOMIC FORECASTS

- The $32 trillion U.S. economy remains on course for productive long term growth, powered by corporate investments in Artificial Intelligence. Nvidia CFO Colette Kress estimated, on May 20, that AI infrastructure spending is on track to reach $3 - $4 trillion annually by the end of this decade.
- Real Potential GDP – the sustainable speed limit of the US economy is poised to increase to 2.1%, on average, through 2030 according to the Congressional Budget Office. AI is likely to raise productivity, offsetting slower growth in the labor force from an aging population and reduced immigration.
- We recently raised our 2026 gross domestic product (GDP) growth forecast to 2.3% from 2.1%, and our 2027 growth forecast to 2.4% from 2.0%. The major change is that indicators point to even stronger domestic investment. The investment dollars will boost the AI-dominated Equipment and Intellectual property categories in the GDP report.
- National gasoline prices have declined to $3.85 a gallon from more than $4.55 (according to AAA), but prices remain volatile as fighting between the U.S. and Iran continues. Gas prices below $4.00 are important to consumers with the back-to-school shopping underway and the holidays around the corner. Overall inflation will be a key issue in fall elections for control of the House and Senate.
- The Misery Index, which is the Consumer Price Index (CPI) inflation rate plus the unemployment rate is below the average of 9.2% since 1949, but it has risen to 7.7% from 6.9% in January. The June unemployment rate is low at 4.2%. CPI eased to 3.5% in June from 4.2% in May.
- We are monitoring financial conditions and high-frequency indicators. They show ongoing economic resilience and financial system stability that accommodates saving, borrowing and investing.
- Argus expects S&P 500 EPS to rise almost 25% to $340 in 2026 and increase about 15% to $390 in 2027. EPS is helped by an increase in operating margins to about 19% this year, well above 13.9% in pre-pandemic 2019. Growing tech giants such as MSFT and NVDA have operating margins of 47% and 64% respectively while Dow stalwarts Walmart and Caterpillar earn 4% and 17%. Argus expects the S&P 500 to trade in a range of 6,730-8,225 over the next 12 months. Our year-end 2026 price target for the S&P 500 is 8,000 based on a multiple of 20.5-times our 2027 EPS estimate.
- Argus Fixed Income Strategist Kevin Heal expects the Fed to maintain the funds target at 3.50% to 3.75% in 2026 and reduce the target by 25 basis points in the second half of 2027 as inflation is likely to abate. We expect the dollar to be slightly stronger in 2026 driven by foreign demand for shares of innovative U.S. companies and continuing economic growth.
- Gold is likely to remain at elevated levels amid global uncertainty. The safe-haven asset topped $5,000 an ounce in 1Q, but prices may have declined as the Fed stressed its resolve to fight inflation.
- What could go right? Low unemployment, spending by wealthy consumers, strong S&P earnings, strong capital investment in Artificial Intelligence, productivity gains, and ongoing innovation.
- Risks: Strains on affordability from years of elevated inflation, uncertainty related to hostilities with Iran, a lower 10-year Treasury yield could depend on deficit reduction, a weak housing market, low income consumers are struggling, spending by affluent may depend on stock gains.

CURRENT ECONOMIC RELEASES

Current Economic Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
9-Jul	Existing Home Sales	June	**4.19 Mln.**	4.10 Mln.	4.20 Mln.	**4.09 Mln.**
14-Jul	Consumer Price Index	June	4,2%	3.9%	3.9%	**3.5%**
	CPI ex-Food & Energy	June	**2.9%**	2.9%	2.9%	**2.6%**
15-Jul	PPI Final Demand	June	**6.0%**	6.2%	NA	**5.5%**
	PPI ex-Food & Energy	June	**4.6%**	5.2%	NA	**4.7%**
16-Jul	Retail Sales	June	6.9%	6.2%	NA	NA
	Retail Sales ex-autos	June	7.5%	6.0%	NA	NA
	Business Inventories	May	2.7%	3.1%	NA	NA
17-Jul	Housing Starts	June	1,177K	1,400K	1,310K	NA
	Import Price Index	June	6.7%	6.3%	6.7%	NA
	Industrial Production	June	1.7%	1.3%	NA	NA
	Capacity Utilization	June	76.2%	76.1%	76.1%	NA
	U. Michigan Sentiment	July	49.5	50.5	51.0	NA
20-Jul	Leading Index	June	0.1%	0.3%	NA	NA
24-Jul	New Home Sales	June	580K	625K	600K	NA

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