

# THE ECONOMY AT A GLANCE

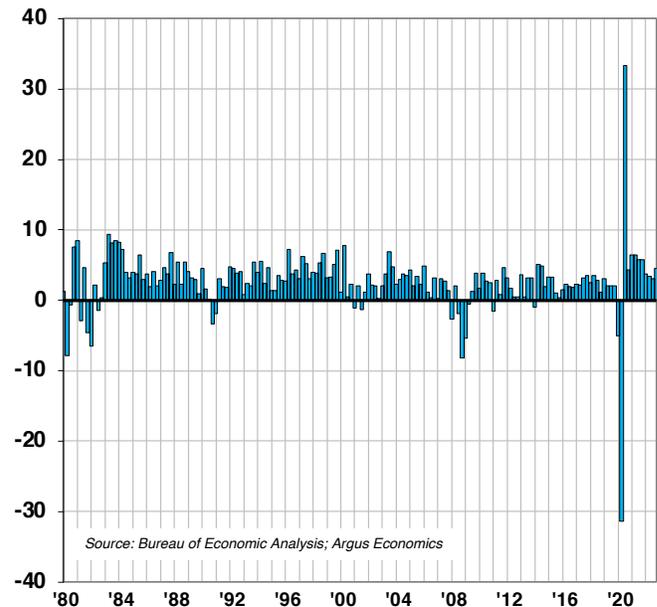
## ECONOMIC HIGHLIGHTS

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### ROUND-TRIP RECOVERY COMPLETE

Recent data illustrates that the economy is still expanding, though some white-hot growth rates in certain sectors are starting to cool. The primary driver of GDP over the next few quarters is likely to be the country's physical health, as the nation recovers from the COVID-19 pandemic. Trends here have turned negative in recent weeks. The employment environment is in better shape than it was a year ago, but still far from full strength. Consumer confidence is mixed. Auto sales have recovered, but inventories are low due to bottle-necks. And the housing market, which had been strong in 1H21, is starting to cool as house prices soar. Rolling the data up, and taking into account rising COVID cases as well as emerging supply chain issues and inventory levels, our model now calls for 5.8% increase in GDP in 3Q21. We also expect good growth in 4Q, before rates fall in 2022. On an annual basis, we look for overall GDP growth of approximately 6.1% in 2021 and 3.7% in 2022. Our estimates are consistent with consensus forecasts and the outlook from the Federal Reserve, which call for growth of 4%-6% in 2021. The GDPNow forecast from the Federal Reserve Bank of Atlanta is 6.3% for 3Q21.

### GDP TRENDS & OUTLOOK (% CHANGE)

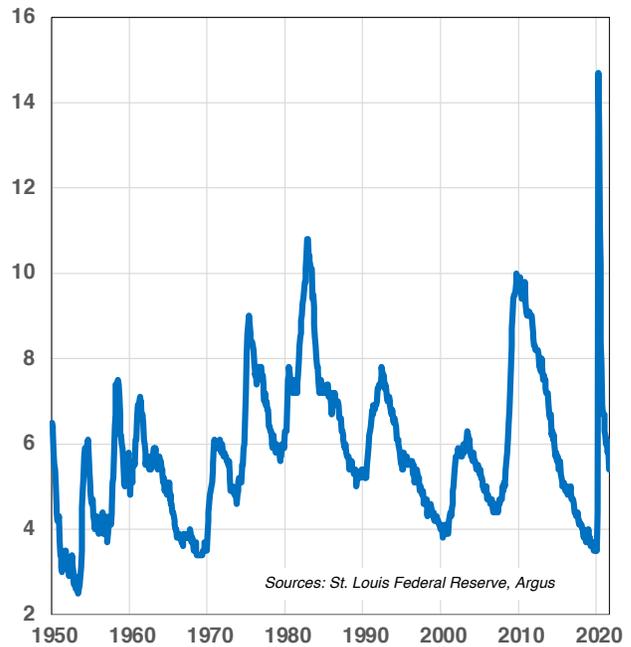


# ECONOMIC HIGHLIGHTS (CONTINUED)

## STRONG GROWTH IN WAGES AND HOURS

The U.S. economy added 943,000 jobs in July, a sign that economic recovery continues despite the Delta variant. Even more impressive were trends in unemployment and overall income. The unemployment rate dropped to 5.4% from 5.9%. Average hourly earnings were up 0.4% and the average workweek rose 0.2%. These gains put money in the pockets of all workers. Jobs gains were led in reopening sectors such as leisure and hospitality (380k) and local government education (221k). Industries including professional and business services also added jobs. The prior two months featured strong upward revisions, with May growth at 583,000 jobs and June at 938,000. Heading into the payrolls report, the number of jobs was approximately 7 million lower than the pre-COVID level. Still, the economy added 1.9 million jobs in the past 60 days, a positive trajectory. The labor force participation rate remains low at 61.7%, edging up from 61.6% in June; the historical average is 65%. The number of people filing initial unemployment claims each week remains above 350K. Though trending in the right direction, the data indicates that the employment environment is still under stress. We expect the unemployment rate will remain above 5.0% -- and the Fed will keep interest rates low -- into 2022.

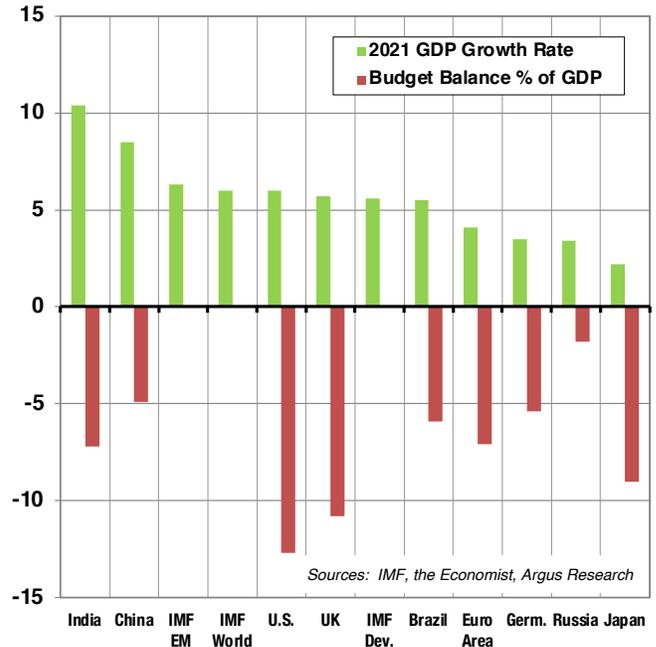
U.S. UNEMPLOYMENT RATE (%)



## GLOBAL GDP GROWTH IN RECOVERY MODE

The IMF is now forecasting global economic growth of 6.0% in 2021, as the world recovers from COVID-19 (which resulted in a global GDP contraction of 4.7% in 2020). Growth in 2022 is estimated at 4.9%, upwardly revised by 50 basis points since 2Q21. These are certainly outlier rates. Recent global growth rates include 2.9% in 2019, 3.6% in 2018, and 3.7% in 2017, as well as 3.1%-3.2% growth rates in 2015 and 2016. The rates in 2015-2016 were perceived as low -- but nothing compares to 2020, when world output contracted 3.2%. Looking out to 2021-2022, the IMF expects that emerging markets will grow at the fastest rates and is expecting a GDP increase of 6.3% in 2021 for these countries. Advanced economies are not expected to grow that fast, and the IMF is expecting a gain of 5.6% this year. India is expected to be the top grower, at 9.5%; China is expected to grow 8.1%. There are risks to these forecasts. For example, growth prospects have weakened somewhat for emerging markets, which are lagging in vaccine availability and vaccination rates. The Japanese 10-year Treasury bond continues to yield 0% and rates are negative in Europe. But the general direction for the global economy is higher well into 2022.

GLOBAL GDP FORECASTS (%)

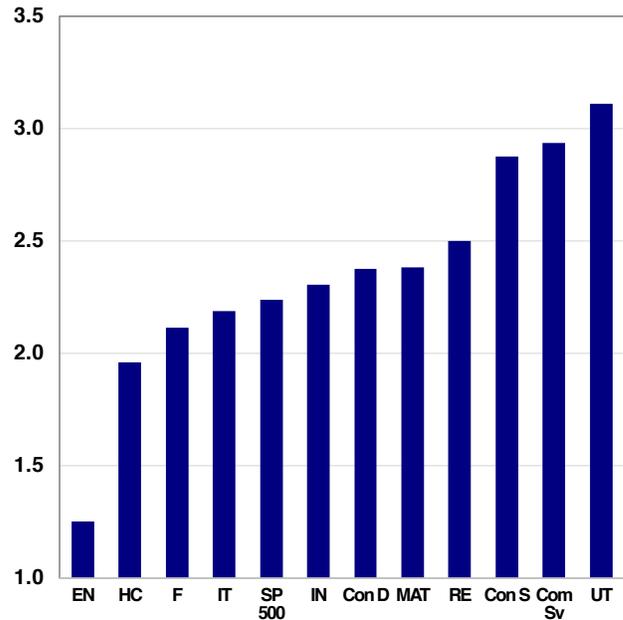


# FINANCIAL MARKET HIGHLIGHTS

## VALUES IN HEALTHCARE, FINANCIAL, TECH

Investors hunting for stocks that reasonably balance long-term growth and current value characteristics might want to look at companies in the Financial Services, Technology, and Healthcare sectors. These are among the industry groups that currently are selling for PEGY ratios -- (price/earnings)/(growth+yield)-- at or below the S&P 500's ratio of 2.4-times. To generate the PEGY ratios, we use the P/E ratio for each sector based on forward earnings for the numerator. For the denominator, we average the growth rates for the past three years, along with two years of forward estimates, in order to achieve a smoother and less-volatile earnings trend. Then we add the current yield, to approximate total return. Premium-valued sectors with low growth rates include Consumer Staples and Utilities. Our Over-Weight sectors include Healthcare, Financial Services, Industrial, Communication Services, and Technology. Our Under-Weight sectors include Energy and Consumer Discretionary.

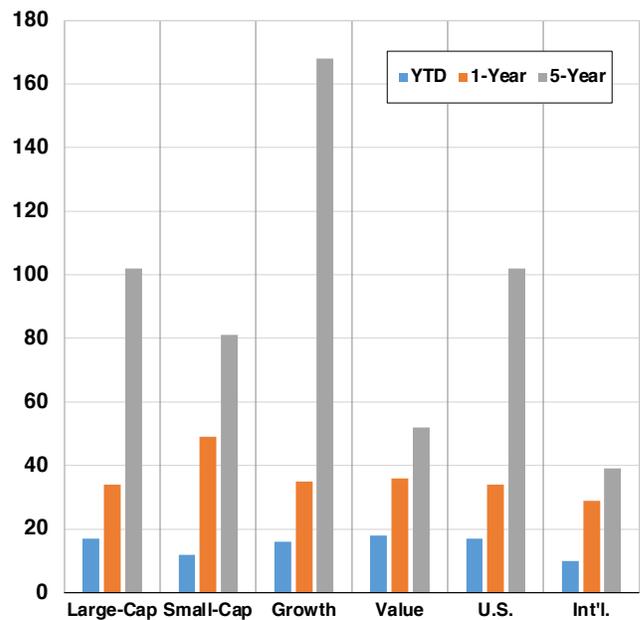
SECTOR PEGY RATIOS



## ARGUS' FAVORED CLASSES AND SEGMENTS

Stocks picked up momentum in July and maintained the performance lead over bonds heading into a challenging part of the year (the back half of 3Q). Our Stock-Bond Barometer Model is close to equally balanced between stocks and bonds for long-term investors. In other words, these asset classes should be near their normal weights in diversified portfolios. We have looked for large-cap companies with strong balance sheets and experienced management teams to be the leaders during the eventual recovery from COVID-19. This played well, and now (with vaccines being distributed) small-cap risks are reduced. Our recommended exposure to small- and mid-caps is now 15% 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 to continue over the long term, given volatile global economic, and currency conditions. That said, international stocks offer favorable near-term valuations, and we target 15%-18% of equity exposure to the group. Value has been a surprise leader in 2021. We anticipate that growth, led by Tech and Healthcare, will recover and outperform value, led by Energy and Materials, as long as interest rates remain low.

MARKET SEGMENT RETURNS 2021 (% THROUGH 7/30/21)



# ECONOMIC CALENDAR

## Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
17-Aug	Retail Sales	July	0.6%	0.0%	-0.2%	NA
	Retail Sales; ex-autos	July	1.3%	0.2%	0.0%	NA
	Business Inventories	June	0.5%	0.6%	0.6%	NA
	Industrial Production	July	0.4%	0.4%	0.4%	NA
	Capacity Utilization	July	75.4%	75.5%	75.7%	NA
18-Aug	Housing Starts	July	1643 K	1550 K	1600 K	NA
19-Aug	Leading Economic Indicators	July	0.7%	0.7%	0.7%	NA

## Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
31-Aug	Consumer Confidence	August	129.1	NA	NA	NA
1-Sep	ISM Manufacturing	August	59.5	NA	NA	NA
	Construction Spending	July	0.1%	NA	NA	NA
2-Sep	Trade Balance	July	-\$75.7 Bln.	NA	NA	NA
	Factory Orders	July	1.5%	NA	NA	NA
	Non-farm Productivity	2Q	4.3%	NA	NA	NA
	Unit Labor Costs	2Q	-2.8%	NA	NA	NA
3-Sep	ISM Non-Manufacturing	August	64.1	NA	NA	NA
	Non-farm Payrolls	August	943 K	NA	NA	NA
	Average Weekly Hours	August	34.8	NA	NA	NA
	Average Hourly Earnings	August	0.4%	NA	NA	NA
	Unemployment Rate	August	5.4%	NA	NA	NA

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