

THE ECONOMY AT A GLANCE

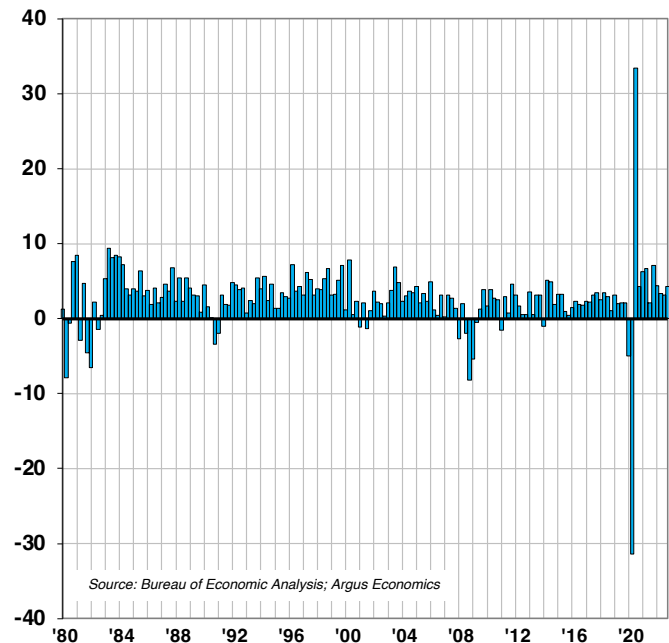
ECONOMIC HIGHLIGHTS

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WE LOOK FOR 7.1% GROWTH IN 4Q GDP

We anticipate a rebound in economic growth in 4Q21 and into 2022, despite the latest COVID-19 developments. Recent data indicates 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 public health as the nation recovers from the pandemic. Trends here had been more positive prior to the emergence of the Omicron variant, and cases may well surge once again. That said, the country is taking steps to battle the new variant, and the pharmaceutical industry continues to develop new treatments. The domestic employment environment is also in better shape than it was a year ago, and consumer confidence trends are starting to stabilize. Auto sales have recovered from their pandemic lows, and supply-chain issues that have slowed growth are beginning to abate. Businesses are again expanding. But the housing market has started to cool as home prices soar. Rolling all the data up, and taking into account diminished inventories that will need to be replenished, our GDP model now calls for a 7.1% increase in GDP in 4Q21. On an annual basis, we look for GDP growth of approximately 5.5% 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 8.6% for 4Q21.

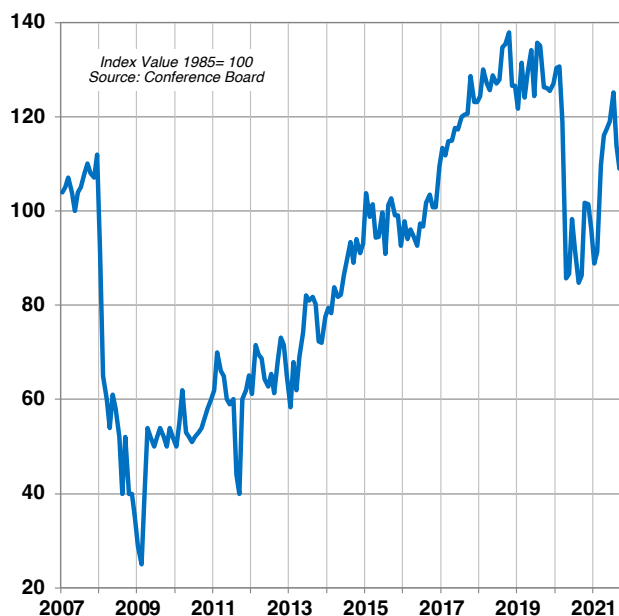
GDP TRENDS & OUTLOOK (% CHANGE)



CONSUMER CONFIDENCE STALLS ON INFLATION, COVID

The rebound in consumer confidence has stalled as inflation has surged and new variants of the coronavirus have emerged. Prior to COVID-19, the index was near cycle highs at 133 in February 2020 but then plunged to 92.6 in May 2020 and to 84.8 in August 2020. As COVID cases moderated in the summer of 2021, the index climbed to 125. But it never fully recovered as the Delta variant and then the Omicron variant increased daily case numbers. The reading for November was 109.5. It's worth reviewing the experience during the financial crisis in 2007-2009. In 2007, confidence peaked at 112 in November before falling sharply and consistently over the next year to a low of 25 in February 2009 as the bear market was bottoming. The index did not reclaim prior highs for another eight years. This time around, the recovery has been quicker, though the durability of the turnaround will depend on continued progress in controlling the pandemic, the effectiveness of government stimulus programs, and post-pandemic behavioral changes in the population. From an investment standpoint, we have found that the bottom of the consumer confidence cycle -- when everybody has given up on a recovery -- has been a good time to buy. In other words, consumer confidence is often a contrarian indicator.

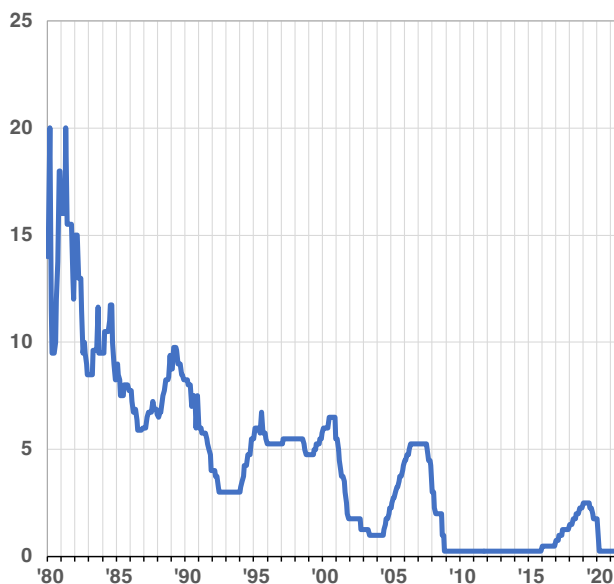
CONSUMER CONFIDENCE



FED TAKES STEPS TO TACKLE INFLATION

The Federal Reserve wrapped up its latest Open Market Committee meeting and, as expected, decided to accelerate its asset-purchase tapering program in an effort to bring inflation under control. What was unexpected was the news that the majority of committee members now think that the fed funds rate will be raised three times next year. Prior to the meeting, the Fed's consensus was for only one rate hike in 2022. Fed Chairman Powell announced that the central bank would begin to reduce monthly net asset purchases by \$30 billion in January, up from its previous rate of \$15 billion. At the new accelerated pace, the asset-purchasing program will be wound down in the spring. And that's when the fed funds rate hikes may begin. In its recent summary of economic projections, the Fed pointed toward a 2022 year-end federal funds rate of 0.9%, compared to the current 0.15%. That's three 25-basis-point increases. In 2023, the Fed anticipates three more increases, with the federal funds rate reaching 2.1% in 2024. It expects PCE inflation to run at a 5.3%-5.4% rate in 2021, before cooling to 2.2%-3.0% in 2022.

FEDERAL FUNDS TARGET RATE (%)

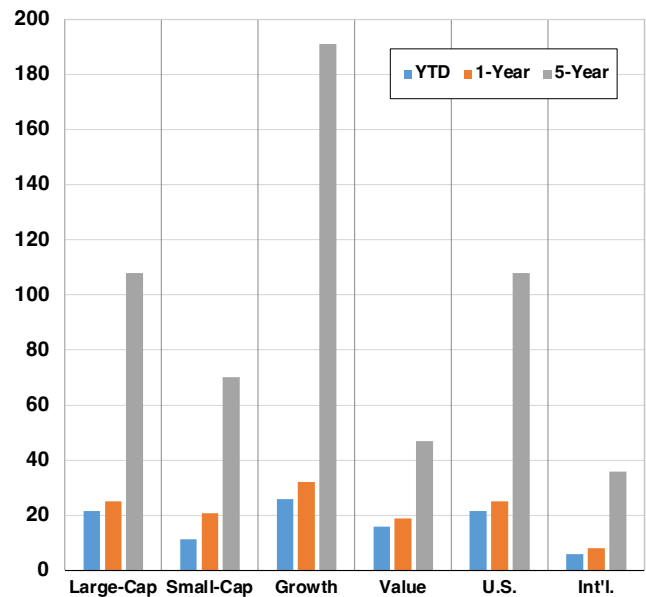


FINANCIAL MARKET HIGHLIGHTS

ARGUS'S FAVORED CLASSES, SEGMENTS

Stocks slumped in late November due to the emergence of the Omicron variant. But heading into the homestretch for 2021, stocks maintain a sizable performance lead over bonds. Our Stock-Bond Barometer 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 managements to lead during the recovery from COVID-19. This played well, and now, with vaccines being distributed, small-cap risks are reduced and valuations are attractive. 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 conditions and exchange rates. But international stocks offer favorable near-term valuations, and we recommend 15%-18% of equity exposure to the group. Value stocks took an early lead in 2021, but recently growth stocks have outperformed. We anticipate that growth, led by Tech and Healthcare, will again outperform value, led by Energy and Materials, as long as interest rates remain low.

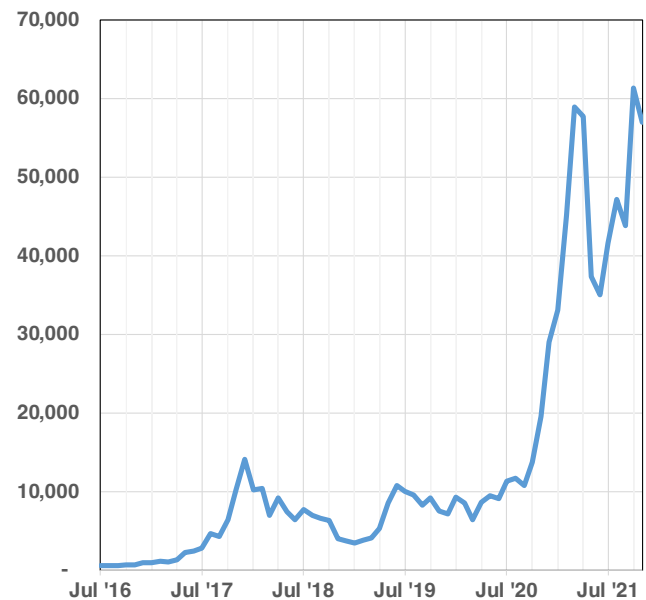
MARKET SEGMENT RETURNS 2021
(% THROUGH 11/30/21)



MORE VOLATILITY IN CRYPTO MARKETS

The cryptocurrency market is about \$3.1 trillion, but has been tumbling from the \$3.7 trillion level. But even with the selloff, Bitcoin is up more than 50% year-to-date. In theory, consumers, investors, and traders can all be attracted to Bitcoin. For consumers, cryptocurrency can cut out the middleman in a transaction. That said, we think that crypto volatility is too high to consider paying for a tank of gas (or even a Tesla) with Bitcoin. For traders, the ups and downs of cryptocurrencies are an opportunity -- as long as they are on the right side of Elon Musk's tweets and rapidly changing Chinese regulations. For investors, the goal is to determine when crypto will become a more mainstream security. We estimate the global equity market capitalization is approximately \$110 trillion. Gold is about \$10 trillion. For crypto to make it into the asset-allocation models of most investment managers, we think it needs to approximately double in value, to \$5-\$6 trillion. It could then account for 2%-3% of total portfolio assets and be used as a growth alternative. By then, there may also be more uses for, and regulations governing, the asset class, and more fundamentals to support valuation.

BITCOIN PRICE TRENDS (USD)



ECONOMIC CALENDAR

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
20-Dec	Leading Economic Indicators	November	0.9%	1.0%	0.9%	NA
22-Dec	Real GDP	3Q	2.1%	2.1%	2.1%	NA
	Consumer Confidence	December	109.5	109.5	110.2	NA
	Existing Home Sales	November	6.34 Mln.	6.30 Mln.	6.46 Mln.	NA
	GDP Price Index	3Q	5.9%	5.5%	5.9%	NA
23-Dec	Durable Goods Orders	November	-0.4%	1.5%	1.5%	NA
	Personal Income	November	0.5%	0.6%	0.5%	NA
	Personal Spending	November	1.3%	1.0%	0.6%	NA
	U. of Michigan Sentiment	November	70.4	70.0	70.2	NA
	New Home Sales	November	745000	740000	765000	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
3-Jan	Construction Spending	November	0.2%	NA	NA	NA
4-Jan	ISM Manufacturing	December	61.1	NA	NA	NA
6-Jan	Trade Balance	November	-\$67.1 Bln.	NA	NA	NA
	ISM Non-Manufacturing	December	69.1	NA	NA	NA
	Factory Orders	November	1.0%	NA	NA	NA
7-Jan	Non-farm Payrolls	December	210000	NA	NA	NA
	Average Weekly Hours	December	34.8	NA	NA	NA
	Average Hourly Earnings	December	0.3%	NA	NA	NA
	Unemployment Rate	December	4.2	NA	NA	NA

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