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THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

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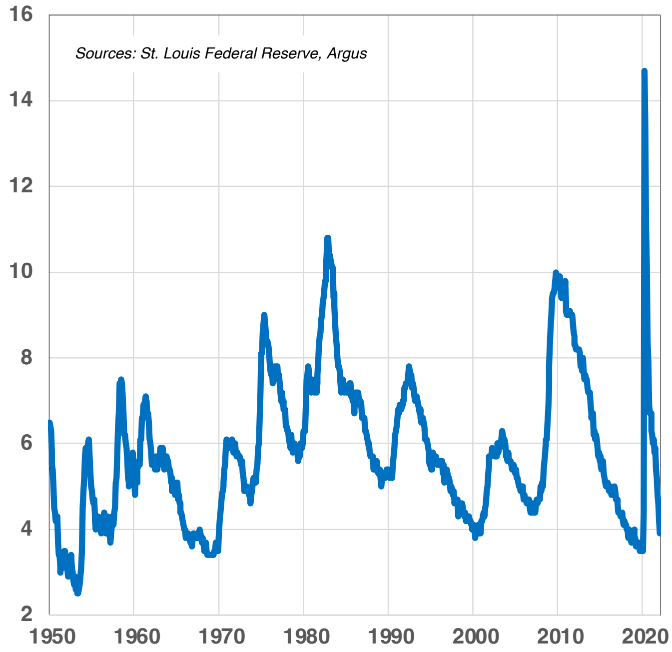
JOBS GROWTH SURPRISINGLY WEAK AGAIN IN DECEMBER

The U.S. economy added 199,000 jobs in December, well below the consensus expectation of 450,000 new jobs. At the same time, the unemployment rate dropped three-tenths of a percent to 3.9%, and the number of unemployed persons fell to 6.3 million from 6.9 million in November. Average hourly earnings increased by $0.19 from the prior month and by 4.7% from the prior year. Revisions for October and November added another 141,000 jobs. In December, job gains occurred in leisure and hospitality, professional and business services, transportation and warehousing, construction, and manufacturing. Yet again, the report surprised Wall Street, which had expected the economy to build on previous gains as the impact of the Delta variant faded prior to the Omicron surge. Indeed, there are some inconsistencies. How does the number of unemployed people decline by more than 600,000 when only 200,000 new jobs were created? And why (as the ADP private employment report indicated) were there average jobs gains of 650,000 over the past two months? We expect these issues to clear up over the next few months as the economy continues to recover from the pandemic.

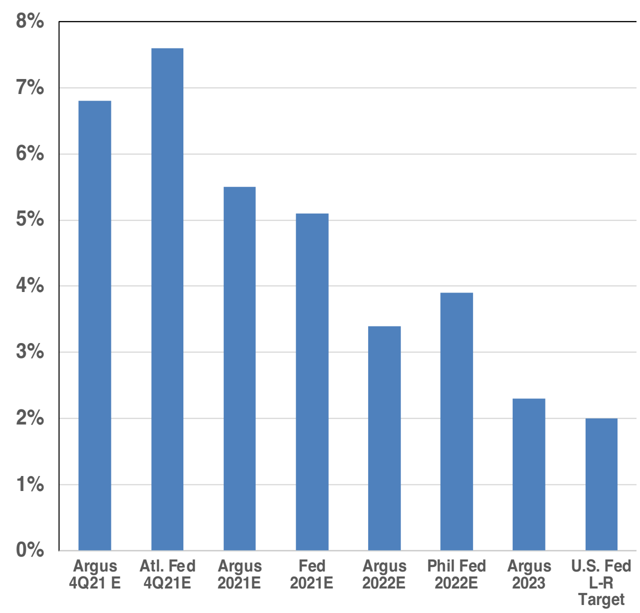
U.S. UNEMPLOYMENT RATE (%)



WE LOOK FOR 6.8% 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 expanding, though 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 population's recovery from the pandemic. Trends have been negative in recent weeks, as the Omicron variant is approaching a peak. However, the domestic employment environment is in better shape than it was a year ago, and consumer confidence trends are starting to stabilize. Auto sales have recovered from pandemic lows but growth has slowed due to supply-chain issues. Businesses are again expanding. But the housing market, which had been strong in 1H21, has started to cool amid soaring home prices. Rolling the data up, and taking into account diminished inventories that will need to be replenished, our GDP model calls for a 6.8% increase in GDP in 4Q21, down from our prior forecast of 7.1%. On an annual basis, we look for overall GDP growth of 5.5% in 2021 and 3.4% in 2022. Our estimates are consistent with consensus forecasts and the outlook from the Federal Reserve.

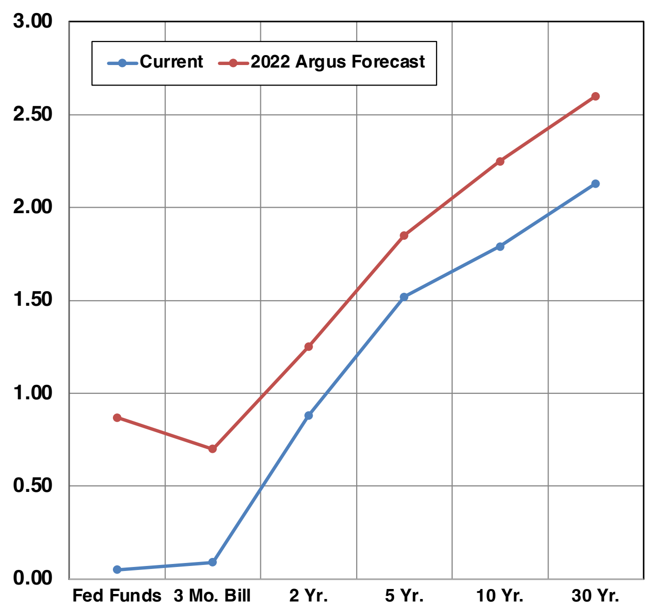
GDP ESTIMATES



YIELD CURVE FLATTENS AS FED SPEAKS

At the Federal Reserve meeting last month, Chairman Powell and other Fed officials hinted at a faster pace of interest-rate increases amid record-high 40-year inflation rates. Since then, short-term interest rates have moved higher -- but the long end of the curve has hardly budged on growth concerns due to Omicron. The yield curve (two-year/10-year spread) has flattened from 91 basis points on December 1 to 71 basis points at month-end. For 2022, the market is pricing in at least three rate hikes beginning in the spring. Meanwhile, the central bank's balance sheet continues to grow, topping the $8.76 trillion mark at the end of December, up from $7.3 trillion at the beginning of the year and $4 trillion pre-pandemic. We expect the balance sheet to be under $8.9 trillion once tapering ends. Future balance-sheet reductions may be a proxy for raising rates and intended to keep the yield curve steeper. We expect the benchmark 10-year Treasury yield to range between 1.4% and 2.85% in 2022. We also expect the Fed to hike short-term interest rates three times in 2022 and two or three times in 2023, before moving to the sidelines once the fed funds rate approaches 1.75%-2.00% in 2024.

YIELD CURVE & OUTLOOK

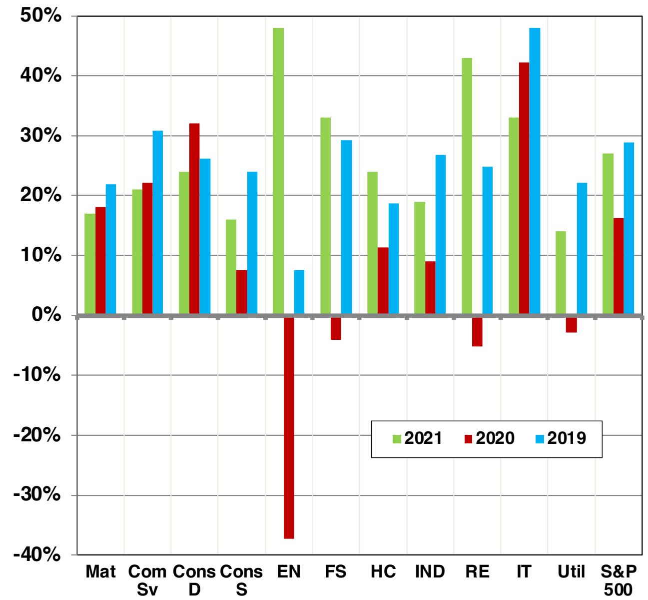


FINANCIAL MARKET HIGHLIGHTS

SECTOR LEADERS & LAGGARDS IN 2021

Sector breadth was impressive in 2021, and every sector was up in the double digits, though 2020's laggards were generally the leaders. Take Energy, for example. This sector fell 37% in 2020 and also lagged the market in 2019. In 2021, it was a different story. Energy was the leading sector, with a gain of 48%. The Financial Services sector also turned things around in 2021, rebounding from a 4% slide in 2020 with a 33% gain. Another example is Real Estate, which dropped 5% in 2020 but jumped 43% in 2021. The other market-beating sector was Information Technology (+33%), which has topped S&P 500 returns for the past three years. The turnaround in sector performance hints at a shift in the market toward value investing and away from growth investing. Our sector Over-Weights reflect a blend of growth and value, and include Information Technology, Healthcare, Industrials, Financial Services, and Materials. Our Under-Weights include Utilities and Consumer Staples.

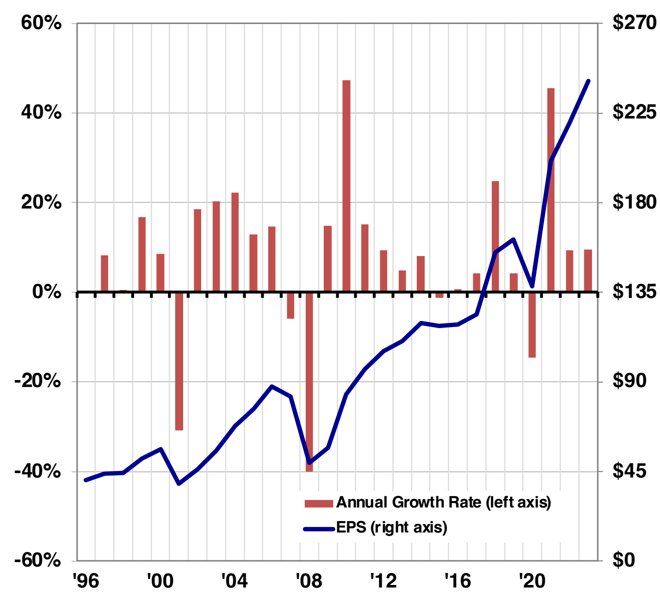
SECTOR PERFORMANCE (CHANGE PER PERIOD)



4Q EARNINGS SEASON GETS UNDERWAY

Third-quarter earnings season was a big success. Consensus results indicated that profits per share grew 32%-33% for S&P 500 companies in 3Q. Looking at Bloomberg data, well over 80% of companies exceeded consensus expectations for 3Q21 earnings; the usual result is in the 75% range. And the magnitude of the earnings beat was significant: companies surpassing expectations posted 10%-plus growth over consensus, versus the usual beat in the 7%-8% range. Looking ahead to 4Q, we expect another strong quarter, though growth may be a bit slower than in 3Q (with our early estimate at 20%-25%). Based on our multi-input model, which includes granular analysis of both sectors and quarters, our estimate of S&P 500 earnings from continuing operations for 2021 is $201. Our model assumes 46% growth from our static 2020 estimate. Off the higher 2021 base -- and on the assumption that positive economic momentum in the pandemic-recovery year of 2021 can be carried forward, along with management's focus on margins -- our estimate of S&P 500 earnings from continuing operations for 2022 is $220. Our model assumes 9% growth from our 2021 estimate. Our preliminary 2023 estimate calls for another 9% gain, to $240.

S&P 500 EPS TRENDS & ESTIMATES



ECONOMIC CALENDAR

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
19-Jan	Housing Starts	December	1679 K	1650 K	1650 K	NA
20-Jan	Existing Home Sales	December	6.46 Mil.	6.40 Mil.	6.45 Mil.	NA
21-Jan	Leading Economic Indicators	December	1.1%	1.0%	0.8%	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
1-Feb	ISM Manufacturing	January	58.7	NA	NA	NA
	Construction Spending	December	0.4%	NA	NA	NA
3-Feb	ISM Non-Manufacturing	January	62.0	NA	NA	NA
	Factory Orders	December	1.6%	NA	NA	NA
	Non-farm Productivity	4Q	-5.2%	NA	NA	NA
	Unit Labor Costs	4Q	9.6%	NA	NA	NA
4-Feb	Non-farm Payrolls	January	199000	NA	NA	NA
	Average Weekly Hours	January	34.7	NA	NA	NA
	Average Hourly Earnings	January	0.6%	NA	NA	NA
	Unemployment Rate	January	3.9%	NA	NA	NA