

THE ECONOMY AT A GLANCE

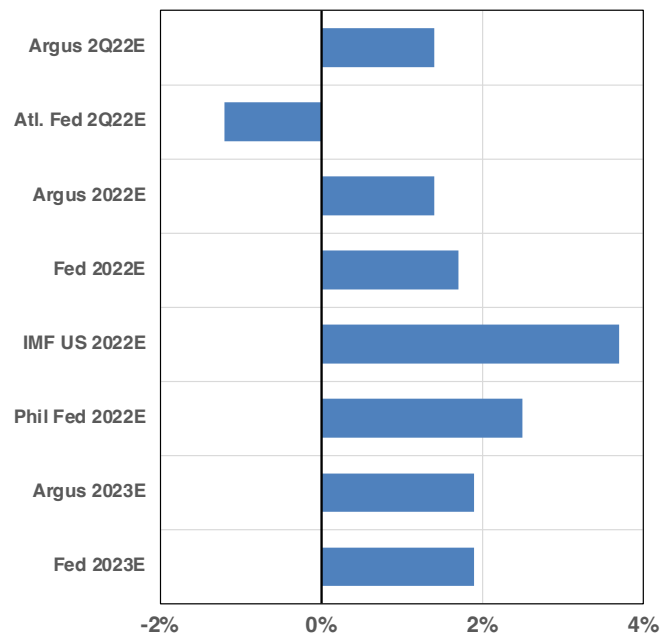
ECONOMIC HIGHLIGHTS

July 18, 2022
 Vol. 89, No. 101

LOWERING GDP ESTIMATES

Recent data suggests that key parts of U.S. GDP are still expanding, despite the impact of inflation, the pandemic, and geopolitical developments. But growth is not consistent across all segments of the economy. Based on our review of the latest economic fundamentals, our forecast for GDP growth in 2022 is now 1.4%, down from 2.2%. Our preliminary forecast for 2023 is now 1.9%, down from 2.5%, as we think some of the quirks from 1Q will smooth out over time. Our forecasts do not call for a recession, despite the negative reading in 1Q22. But they do call for below-trend GDP growth, largely due to the impact of higher interest rates. The domestic employment environment is nearing full strength, although consumer confidence trends are mixed. Auto sales have recovered from pandemic lows, but are uneven. The U.S. housing market has been a positive contributor to the economic recovery from the pandemic, but high prices are cooling the market. Businesses are expanding, but growth is slowing. Exports are under pressure from geopolitical tensions in Europe and the rising dollar. But import growth will not proceed at the recent high-teens pace. And government spending trends should smooth out. Rolling all the data up, our GDP growth forecast in 2022 is now 1.4%. The Federal Reserve projects GDP growth of 1.7% in 2022, while the IMF is calling for 3.7% growth. The Philadelphia Federal Reserve's Survey of Professional Forecasters calls for growth of 2.5% in 2022. A recent 2Q22 GDPNow forecast from the Federal Reserve Bank of Atlanta was negative 1.2%.

GDP ESTIMATES

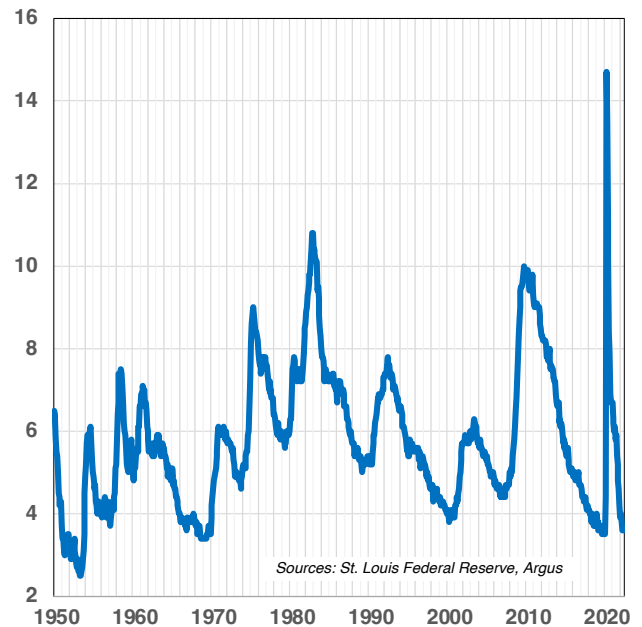


ECONOMIC HIGHLIGHTS (CONTINUED)

372,000 NEW JOBS IN JUNE

The U.S. economy generated 372,000 new jobs in June, ahead of consensus expectations in the 250,000 range. The unemployment rate held steady at 3.6%, and the number of unemployed persons was 5.9 million, down from 6.0 million a month earlier. Average hourly earnings increased \$0.10 from May. Hourly earnings were also up 5.1% from the prior year, moderating from 5.2% growth in May and 5.5% in April. Revisions to the totals from April and May reduced nonfarm payrolls by 74,000 jobs. In June, jobs gains occurred in leisure and hospitality, professional and business services, healthcare, and transportation and warehousing. Given still solid employment, we expect the consumer segment of the economy to remain on a growth track, despite the impact of Fed rate hikes, the war in Ukraine, and higher prices at the pump.

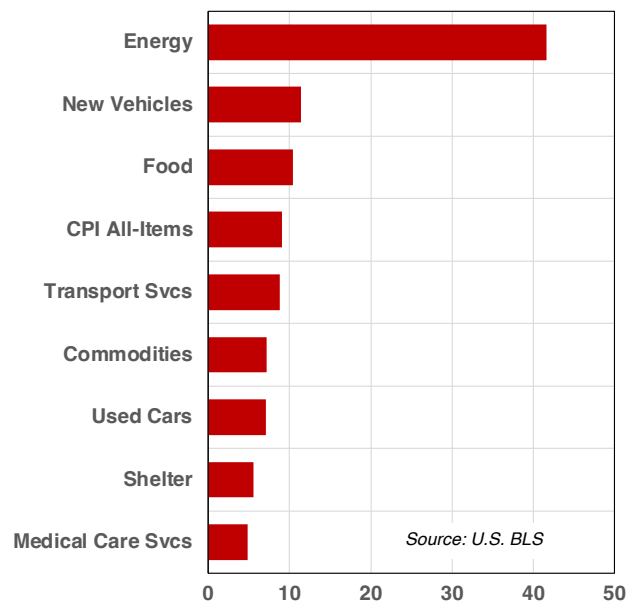
U.S. UNEMPLOYMENT RATE (%)



INFLATION IS BURNING

The latest Consumer Price Index report again showed broad-based inflation pressures in the U.S. The Bureau of Labor Statistics reported a 9.1% increase in overall inflation (year-over-year) in June, up from 8.6% in May. The increase was driven by energy prices that were 42% higher, new car prices that were 11% higher, food prices that were 10% higher, and transportation prices that jumped 9%. The only category that has not spiked higher this year has been Medical Care Commodities and Services, where prices are increasing at a still rapid but more normal 4.8% rate. Outside of Energy, rates of change moderated last month for a handful of categories. Indeed, the core all-items less food and energy index rose at a 5.9% pace, down from 6.0% a month earlier. Crude oil prices have fallen 20% from early-year highs and should decline further in the weeks and months ahead. Even so, the Fed meets later this month and still has substantial work ahead as it tries to bring core inflation down to its target rate of 2.0%. We look for another 75-basis-point rate hike by the central bank in July, and further hikes at future meetings.

INFLATION FACTORS (% CHANGE Y/Y)

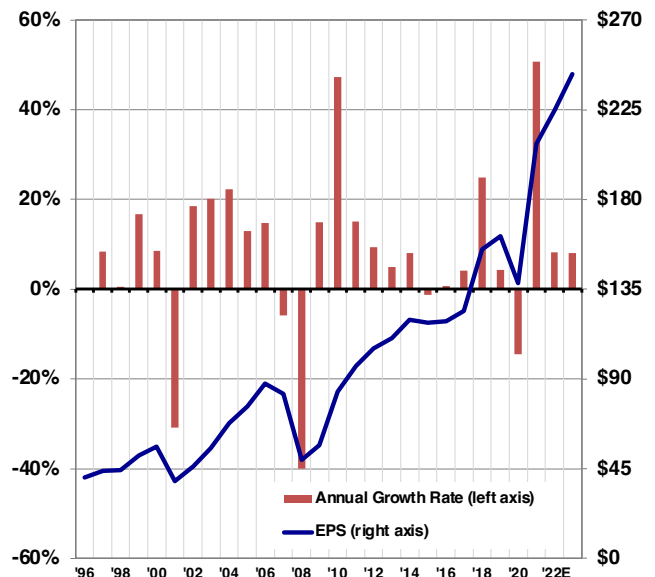


FINANCIAL MARKET HIGHLIGHTS

EARNINGS SEASON GETS UNDERWAY

According to Refinitiv, the consensus has 2Q earnings for S&P 500 companies growing 5.6% year-over-year, although the Energy sector is providing a huge boost. Absent Energy, the consensus falls to negative 2.4%. Percentage changes at the sector level range from negative 20% for Financials to a more-than-200% rise for Energy. Some companies have started to lower analyst expectations, with names in the retail and semiconductor space prominent among them. Important on earnings conference calls will be commentary on how companies are navigating lingering supply-chain issues, handling high inflation, and possibly hiring or laying off employees. Based on our multi-input model, which includes analysis of both sectors and quarters, we are maintaining our estimate of S&P 500 earnings from continuing operations for 2022 at \$224. This is the first time in at least six quarters that we have not raised our EPS expectations. Our 2022 EPS model assumes 9% growth from our 2021 estimate, in line with earlier expectations. Our preliminary 2023 estimate calls for another 9% gain, to \$243.

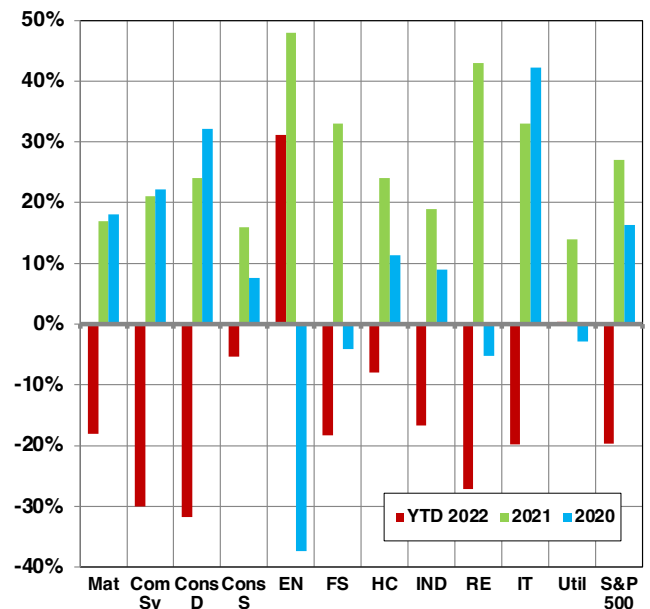
S&P 500 EPS TRENDS & ESTIMATES



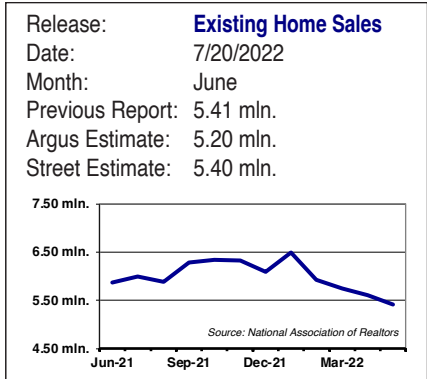
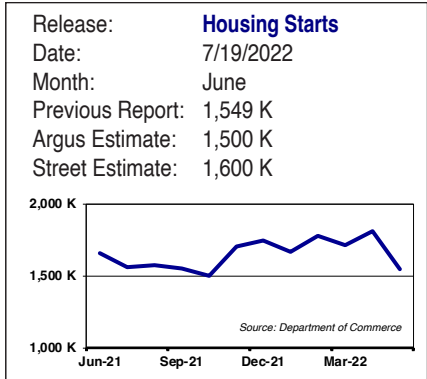
SECTOR LEADERS & LAGGARDS IN 2Q22

The most notable stock market trend in June was in the formerly can-do-no-wrong Energy group. As of the end of May, the sector was up over 60% year-to-date. As of the end of June, that gain had been cut to 32%. Gasoline demand remains strong, helped by the summer driving season, and prices remain high despite a pullback over the last several weeks. So why the selloff? The answer is that recession has replaced inflation as the most feared event on Wall Street. If the economy turns south, current robust demand for gasoline might, pardon the pun, tank. No surprise that the second-worst sector in June was also in the commodities space. Materials stocks are now down 15% year-to-date, in line with the broad market decline after being down just 3% as of the end of May. Utilities, the only other sector to be positive at the end of May, also fell more than the market in June, signaling that investors can run in this market but cannot hide. In the small consolation department, traditional growth sectors -- meaning Consumer Discretionary, Technology, and Communication Services -- did slightly better than the market in June. Still, the growth complex is at the bottom of the sector rankings in 2022 after being in the lead for most of the past decade.

SECTOR PERFORMANCE (CHANGE PER PERIOD)



ECONOMIC TRADING CALENDAR



Previous Week's Releases and Next Week's Releases on next page.

ECONOMIC TRADING CALENDAR

Previous Week's Releases

| Date | Release | Month | Previous Report | Argus Estimate | Street Estimate | Actual |
|--------|--------------------------|-------|-----------------|----------------|-----------------|--------|
| 13-Jul | Consumer Price Index | June | 1.0% | 0.8% | 1.1% | NA |
| | CPI ex-Food & Energy | June | 0.6% | 0.5% | 0.6% | NA |
| 14-Jul | PPI Final Demand | June | 0.8% | 0.7% | 0.8% | NA |
| | PPI ex-Food & Energy | June | 0.5% | 0.4% | 0.5% | NA |
| 15-Jul | Retail Sales | June | -0.3% | 0.9% | 0.9% | NA |
| | Retail Sales; ex-autos | June | 0.5% | 0.5% | 0.5% | NA |
| | Business Inventories | May | 1.2% | 0.9% | 1.1% | NA |
| | Import Price Index | June | 0.6% | 0.4% | 0.7% | NA |
| | Industrial Production | June | 0.1% | 0.1% | 0.0% | NA |
| | Capacity Utilization | June | 80.8% | 79.5% | 79.2% | NA |
| | U. of Michigan Sentiment | July | 50.0 | 50.5 | 50.1 | NA |

Next Week's Releases

| Date | Release | Month | Previous Report | Argus Estimate | Street Estimate | Actual |
|--------|----------------------|-------|-----------------|----------------|-----------------|--------|
| 26-Jul | New Home Sales | June | 696 K | NA | NA | NA |
| | Consumer Confidence | July | 98.7 | NA | NA | NA |
| 27-Jul | Durable Goods Orders | June | 0.8% | NA | NA | NA |
| 28-Jul | Real GDP | 2Q | -1.6% | NA | NA | NA |
| | GDP Price Index | 2Q | 8.2% | NA | NA | NA |
| 29-Jul | Personal Income | June | 0.5% | NA | NA | NA |
| | Personal Spending | June | 0.2% | NA | NA | NA |

Argus Research Co. (ARC) is an independent investment research provider whose parent company, Argus Investors' Counsel, Inc. (AIC), is registered with the U.S. Securities and Exchange Commission. Argus Investors' Counsel is a subsidiary of The Argus Research Group, Inc. Neither The Argus Research Group nor any affiliate is a member of the FINRA or the SIPC. Argus Research is not a registered broker dealer and does not have investment banking operations. The Argus trademark, service mark and logo are the intellectual property of The Argus Research Group, Inc. The information contained in this research report is produced and copyrighted by Argus Research Co., and any unauthorized use, duplication, redistribution or disclosure is prohibited by law and can result in prosecution. The content of this report may be derived from Argus research reports, notes, or analyses. The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but Argus makes no representation as to their timeliness, accuracy or completeness or for their fitness for any particular purpose. In addition, this content is not prepared subject to Canadian disclosure requirements. This report is not an offer to sell or a solicitation of an offer to buy any security. The information and material presented in this report are for general information only and do not specifically address individual investment objectives, financial situations or the particular needs of any specific person who may receive this report. Investing in any security or investment strategies discussed may not be suitable for you and it is recommended that you consult an independent investment advisor. Nothing in this report constitutes individual investment, legal or tax advice. Argus may issue or may have issued other reports that are inconsistent with or may reach different conclusions than those represented in this report, and all opinions are reflective of judgments made on the original date of publication. Argus is under no obligation to ensure that other reports are brought to the attention of any recipient of this report. Argus shall accept no liability for any loss arising from the use of this report, nor shall Argus treat all recipients of this report as customers simply by virtue of their receipt of this material. Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance. Argus has provided independent research since 1934. Argus officers, employees, agents and/or affiliates may have positions in stocks discussed in this report. No Argus officers, employees, agents and/or affiliates may serve as officers or directors of covered companies, or may own more than one percent of a covered company's stock. Argus Investors' Counsel (AIC), a portfolio management business based in Stamford, Connecticut, is a customer of Argus Research Co. (ARC), based in New York. Argus Investors' Counsel pays Argus Research Co. for research used in the management of the AIC core equity strategy and model portfolio and UIT products, and has the same access to Argus Research Co. reports as other customers. However, clients and prospective clients should note that Argus Investors' Counsel and Argus Research Co., as units of The Argus Research Group, have certain employees in common, including those with both research and portfolio management responsibilities, and that Argus Research Co. employees participate in the management and marketing of the AIC core equity strategy and UIT and model portfolio products.

