

# THE ECONOMY AT A GLANCE

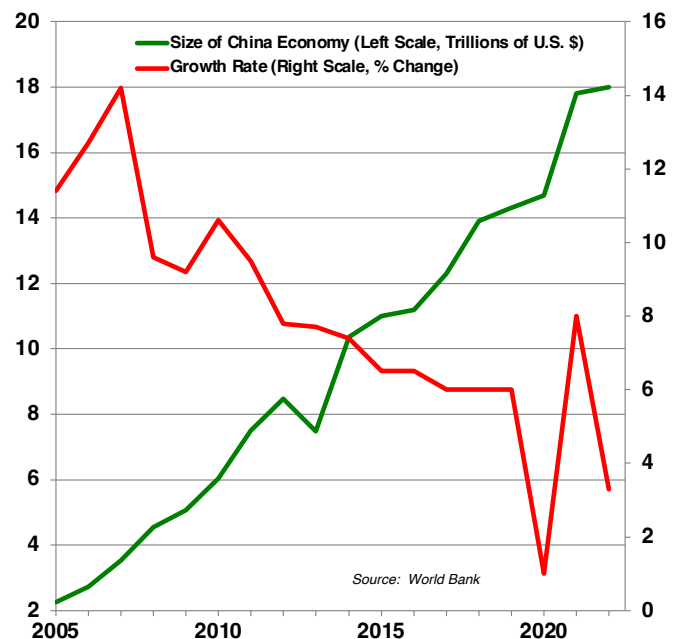
## ECONOMIC HIGHLIGHTS

September 11, 2023  
 Vol. 90, No. 130

### CHINESE ECONOMY HITS SPEED BUMP

As we see it, economic trends in China bear watching closely -- for many reasons. China is an \$18 trillion economy and represents about 19% of the \$94 trillion global economy. Thus, China is a critical contributor to overall global economic growth, even if it “only” grows 5%-6% per year. But this year, global forecasters are expecting a slowdown in growth to 3% -- a rare below-emerging-market-average rate. Why? For one thing, China has stopped aggressively investing in housing and infrastructure. While the new infrastructure isn’t likely needed, the spending is missed, particularly given the lack of pension and welfare spending as the government seeks to keep deficit spending at a low 3.0% of GDP. In the industrial segment of the economy, supply chains have been disrupted, but China’s export business continues to expand. Still, there is concern down the road among export partners that China may borrow a page from Vladimir Putin’s playbook and look to take over Taiwan. Over the long run, China appears to be an important growth market, with a population that is growing wealthier year-over-year. U.S. companies and investors want access to this market on fair terms. We group China in the international segment of the equity asset class. In our asset-allocation models, we target 2%-5% exposure to this group. That exposure can be achieved through regional ETFs, as well as through U.S.-based companies that depend on China for growth.

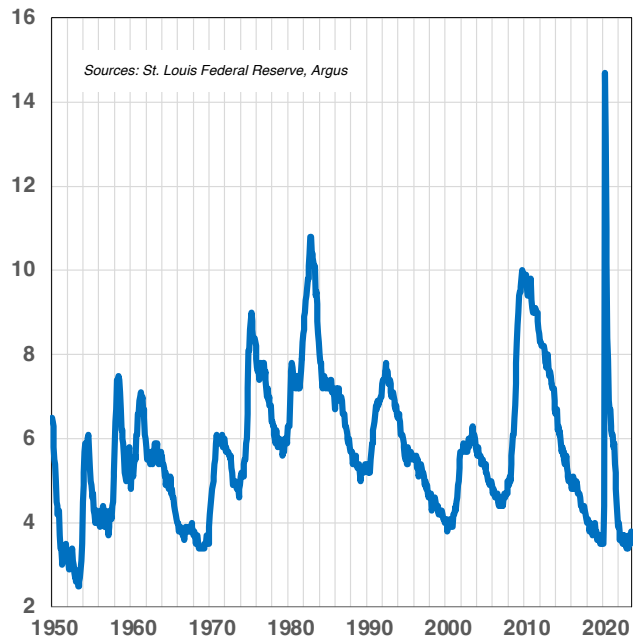
CHINESE ECONOMIC TRENDS



## HIGHER UNEMPLOYMENT RATE ALLOWS FOR A FED PAUSE

The U.S. economy generated 187,000 new jobs in August. July's 157,000 was revised lower from 187,000. The unemployment rate jumped to 3.8% from 3.5% in July, a mixed blessing. The report suggests that the highest fed funds rate in 22 years is cooling the labor market and might allow the central bank to hold its policy rate at 5.25%-5.5% when it meets on September 19 and 20. Average hourly earnings increased eight cents month-to-month and are now 4.3% higher year-over-year, which is a just below the 4.4% rise in July. The average workweek ticked higher to 34.4 hours in August. Job gains in June and July were revised lower by 110,000. Some economists warned that August payrolls could be distorted by the labor strikes in Hollywood. The number of job openings in July decreased to 8.8 million in July from 11.4 million a year earlier according a separate report. Demand for workers is still solid, with 1.5 job openings for every person unemployed -- but the ratio has eased from two jobs last July. Before the jobs, futures suggested an 89% probability that the Fed will pause at its September meeting. After the release, that probability rose to 93%.

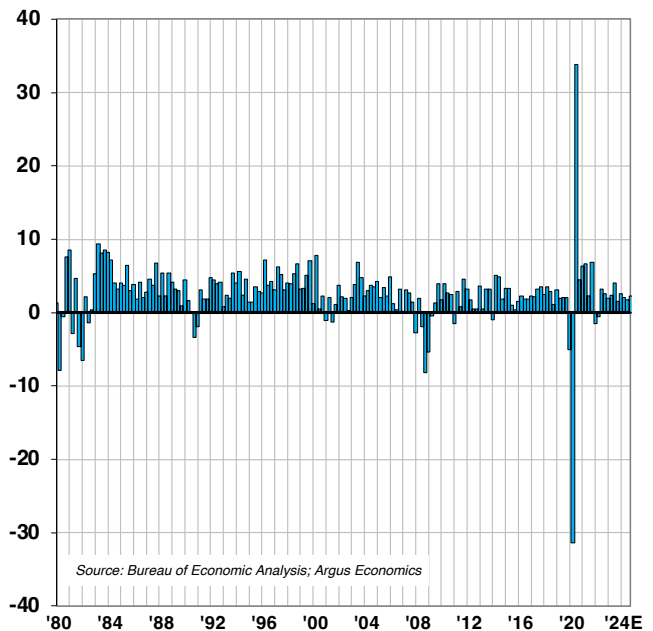
### U.S. UNEMPLOYMENT RATE (%)



## RAISING FORECAST FOR 3Q GDP

Our analysis of recent data leads us to conclude that key parts of U.S. GDP are still expanding, despite the impact of inflation, high interest rates, and geopolitical developments. But growth is not consistent across all segments of the economy, and, in many cases, growth rates are slowing. While the Fed is on track to engineer a soft landing for the economy, a recession in 2023-2034 remains a possibility. After reviewing the latest economic data points, we have raised our 3Q23 GDP estimate to 4.0%. We anticipate that the current third quarter could be the strongest quarter of the year, before higher rates dampen consumer spending into 2024. Our estimate for the full year 2023 is now 2.3%. Our preliminary forecast for GDP growth in 2024 is 2.2%, as the Fed, with its tool chest again full after hiking rates, can contemplate lowering interest rates to recharge economic growth. The Wall Street Journal Economic Survey calls for GDP growth of 1.0% in 2023 and 1.3% in 2024. The Fed is now anticipating GDP growth of 1.0% for 2023 and 1.1% in 2024. The IMF is calling for 2023 growth of 1.8%, and the Philadelphia Federal Reserve's Survey of Professional Forecasters is calling for growth of 1.3% in 2023 and 1.4% in 2024.

### GDP TRENDS & OUTLOOK (% CHANGE)

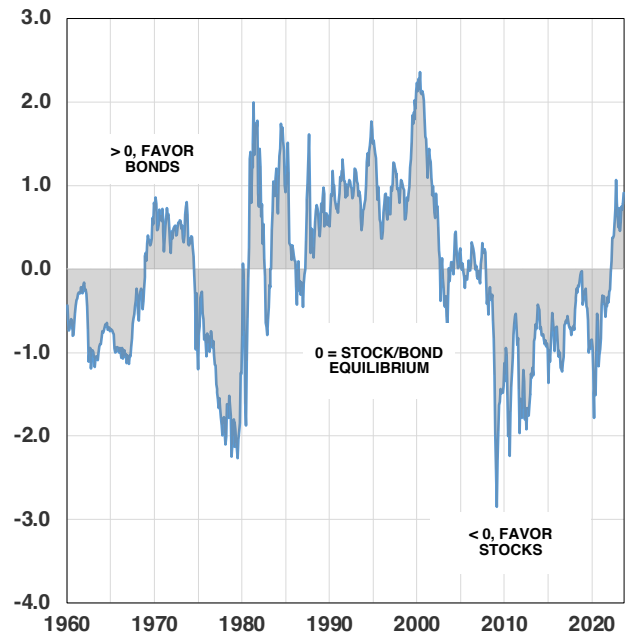


# FINANCIAL MARKET HIGHLIGHTS

## STOCK VALUATIONS RISE ALONG WITH RATES

Our Stock-Bond asset allocation model is indicating that bonds are the asset class offering the most value at this market juncture, as interest rates have risen. But stocks are not seriously overvalued. The output of our model is expressed in terms of standard deviations to the mean, or sigma. The mean reading from the model, going back to 1960, is a modest premium for stocks, of 0.15 sigma, with a standard deviation of 1.0. The current valuation level is a 0.90 sigma premium for stocks, which is inside the normal range but up from the 0.50% sigma premium at the beginning of the year. Other measures also show reasonable valuations for stocks. The current forward P/E ratio for the S&P 500 is 18, within the normal range of 10-21 and down from 22 a year ago. The current S&P 500 dividend yield of 1.6%, while below the historical average of 2.9%, is up from an ultralow 1.2% as recently as 2021. Based on the current valuation levels, as well as our interest-rate and earnings forecasts, we are maintaining our year-end S&P 500 target of 4,600. Our recommended asset-allocation model for moderate accounts is 68% growth assets, including 64% equities and 4% alternatives; and 32% fixed income, with a focus on opportunistic segments of the bond market.

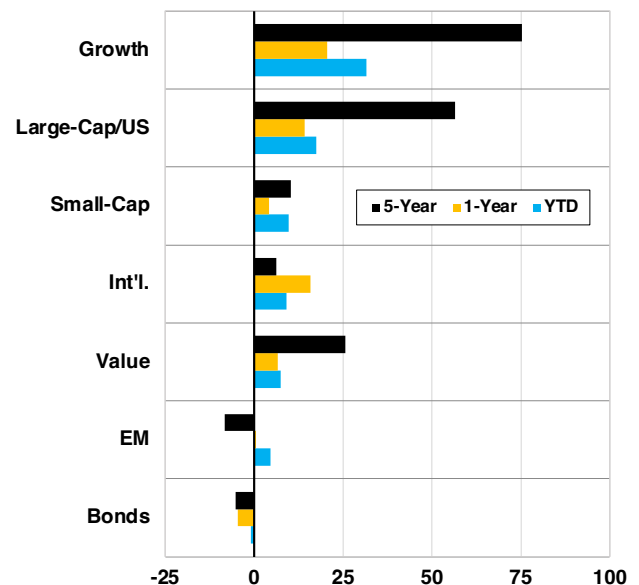
**BOND V STOCK BAROMETER  
(STANDARD DEVIATIONS)**



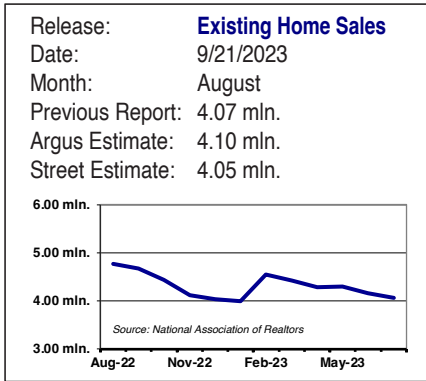
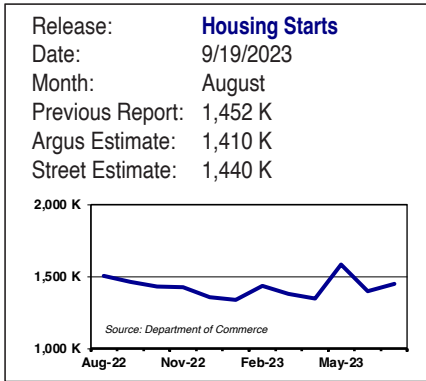
## ARGUS'S FAVORED CLASSES, SEGMENTS

August was a difficult month for investors, as both major asset classes declined by about 1.5%. Year-to-date, stocks still hold the performance lead over bonds, with a 17% gain in the benchmark S&P 500 compared to a 1% decline for fixed income. In stocks, we favor large-caps for growth exposure and financial strength, while small-caps offer value. Our recommended exposure to small- and mid-caps is 12%-13% of equity allocation, below the benchmark weighting. U.S. stocks have outperformed global stocks over the trailing five-year period. We expect the long-term trend favoring U.S. stocks to continue, given volatile and erratic global economic, political, geopolitical, and currency conditions. That said, international stocks offer favorable near-term valuations, and we target 5%-10% of equity exposure to the group. In terms of growth and value, growth has rebounded in 2023, outperforming value as interest rates have stabilized. Over the longer term, we anticipate that growth, led by Technology and Healthcare, will top returns from value, led by Energy and Basic Materials, due to favorable secular, demographic and regulatory trends.

**MARKET SEGMENT RETURNS  
(% THROUGH 8/31/2023)**



# ECONOMIC TRADING CHARTS & CALENDAR



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

## ECONOMIC TRADING CHARTS & CALENDAR (CONTINUED)

### Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
13-Sep	Consumer Price Index	August	3.2%	3.4%	3.5%	NA
	CPI ex-Food & Energy	August	4.7%	4.3%	4.3%	NA
14-Sep	PPI Final Demand	August	0.8%	0.7%	NA	NA
	PPI ex-Food & Energy	August	2.4%	2.2%	NA	NA
	Retail Sales	August	3.2%	2.9%	NA	NA
	Retail Sales ex-autos	August	2.2%	2.0%	NA	NA
	Business Inventories	July	2.0%	1.5%	NA	NA
15-Sep	Industrial Production	August	-0.2%	-0.2%	NA	NA
	Capacity Utilization	August	79.3%	79.0%	79.2%	NA
	Import Price Index	August	-4.4%	-3.0%	NA	NA
	U. of Michigan Sentiment	September	65.9	69.4%	69.8%	NA

### Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
26-Sep	New Home Sales	August	714000	NA	NA	NA
	Consumer Confidence	September	106.1	NA	NA	NA
27-Sep	Durable Goods Orders	August	3.1%	NA	NA	NA
28-Sep	GDP Annualized QoQ	2Q	2.1%	NA	NA	NA
	GDP Price Index	2Q	2.0%	NA	NA	NA
29-Sep	PCE Deflator	August	3.3%	NA	NA	NA
	PCE Core Deflator	August	4.2%	NA	NA	NA
	Personal Income	August	4.6%	NA	NA	NA
	Personal Spending	August	6.4%	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.

---

