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THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

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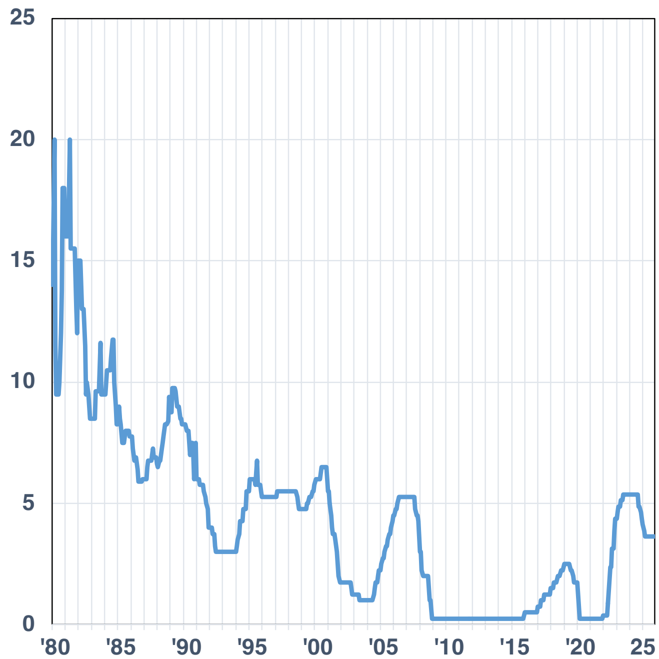
FED'S FIRST CUT IS 50 BASIS POINTS

The Federal Reserve wrapped up its recent Open Market Committee meeting and, as expected, lowered the current federal funds rate for the first time since 2020. But the central bank surprised some by taking the rather extraordinary step of reducing the rate by 50 basis points (bps), as opposed to the normal 25-basis-point move. Why the big cut? In our opinion, the Federal Reserve is clearly shifting its focus from fighting inflation to protecting the employment environment. Since the Fed started raising rates in 2021, CPI inflation has fallen from readings above 9.0% to readings below 3.0% -- and continues to edge toward the central bank's goal of 2.0%. Meanwhile, the unemployment rate has increased from 3.4% to 4.1% and monthly payrolls gains have slowed from 300k to 100k. Indeed, the Fed has lifted its current year-end target for the unemployment rate to 4.4% from 4.0% last June. Based on the Fed's decision, its commentary, and the forecasts of its governors, we are making adjustments to our interest-rate outlook. We are maintaining our forecast for two more rate cuts in 2024 -- both of which we think will be 25 basis points in size. We are adding a forecast for an additional rate cut in 2025, bringing our estimate to three cuts for that year. Those cuts would bring the fed funds rate down toward 3.5%, which, assuming inflation continues to drop toward 2.0%, will return real, inflation-adjusted rates back toward historical averages.

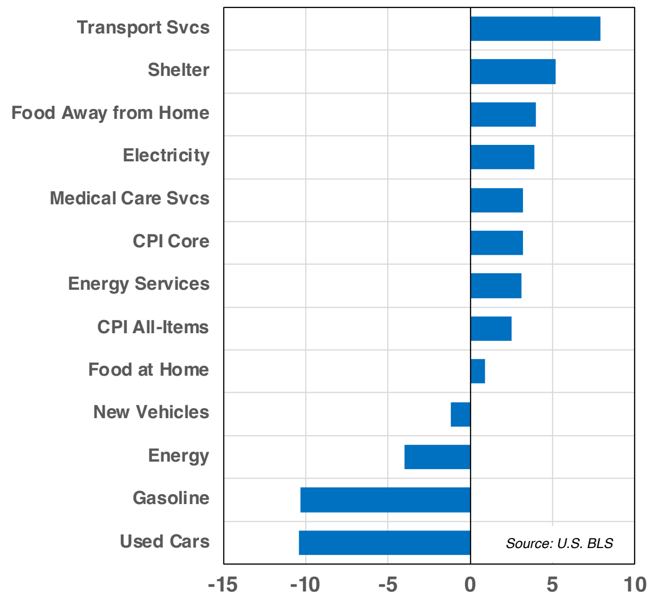
FEDERAL FUNDS TARGET RATE & FORECASTS (%)



GOOD NEWS ON INFLATION

Two recent inflation reports indicated that overall pricing pressures continue their downward trek, yet inflation remains above the Fed's target of 2.0%. According to the latest CPI report, the overall inflation rate in August of 2.5% was lower than the prior month's 2.9%. That good news was supported by a low reading in the monthly core CPI rate. The core CPI excludes the impact of food and energy and rose 0.3% from July to August, consistent with subdued readings for the past six months. What's propping up core CPI? Transportation services and shelter, which have "sticky" prices. In contrast, prices for gasoline and new and used cars are lower year over year. The other inflation report was the Producer Price Index, which measures pricing trends farther up the supply chain, at the manufacturing level. Here, we also saw a decline in the rate of inflation. The PPI final demand annual rate through August was 1.7%, compared to 2.1% in July. We expect pricing pressures to continue to ease as the housing market cools, supplies of new vehicles are replenished, and the price of oil stays below $90 per barrel.

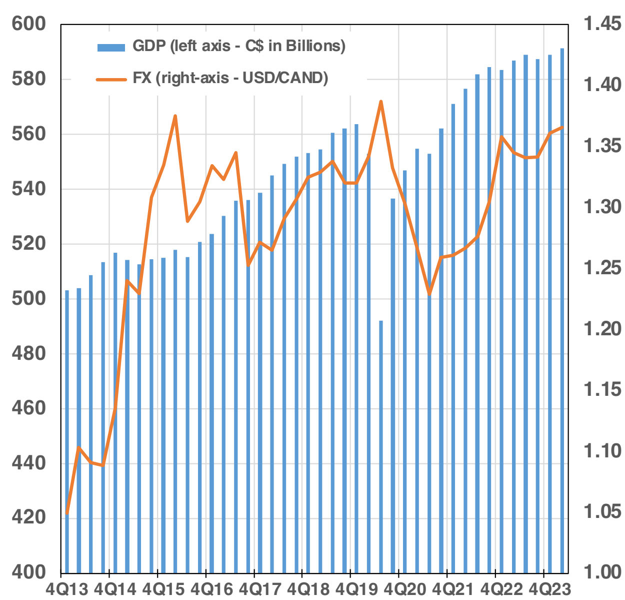
INFLATION FACTORS (% CHANGE Y/Y)



BANK OF CANADA LOWERS TARGET RATE AGAIN

In early September, the Bank of Canada lowered its benchmark interest rate by 25 basis points to 4.25%, the third consecutive drop since June. The central bank noted overall weakness in the economy and progress on inflation. Canadian unemployment rose to 6.6% in August from 6.4% the month before, with population growth outpacing jobs growth. Meanwhile, GDP growth averaged only about 2% in the first and second quarters of 2024, and the Canadian economy added a modest 22,000 jobs in August, down from a much higher 90,000 in April. Consumer price inflation eased to 2.5% in July, closer to the central bank's 2% target. Similar to the U.S., shelter inflation in Canada remains elevated, though lower interest rates have started to help as mortgages renew at better levels and rent increases ease. The governor of the Bank of Canada remarked as follows: "With inflation getting closer to the target, we need to increasingly guard against the risk that the economy is too weak and inflation falls too much." Consensus expectations call for an additional rate cut in October.

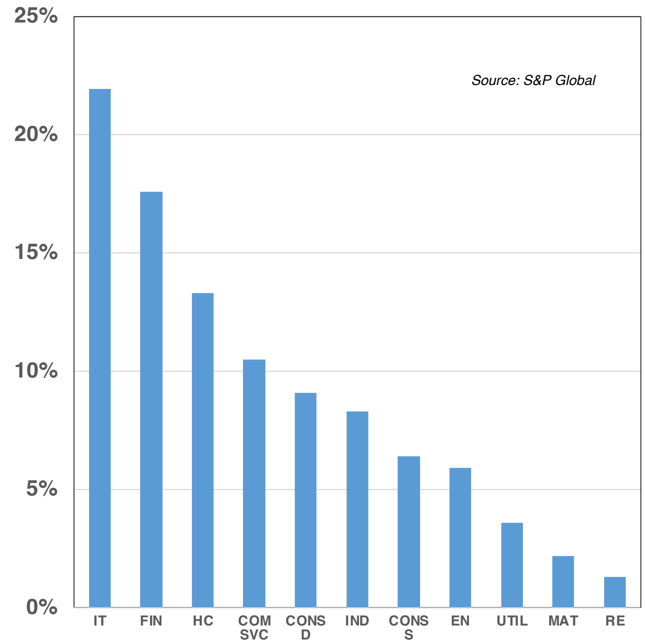
CANADA ECONOMIC TRENDS



NOT ALL SECTORS ARE EQUAL

When it comes to sectors in the S&P 500, we think it makes sense to focus primarily on a few key sectors that actually make a difference in terms of earnings and portfolio performance. The Real Estate sector, which accounts for about 2% of S&P 500 capitalization, is expected to contribute only 1% of S&P 500 EPS during the during the upcoming earnings season. The Materials sector is another 2% market weight that generates a thin 2% of total earnings. The groups that really make a difference are Information Technology, which is expected to account for 22% of the earnings (and grow at a 15% rate year over year); and Financial and Healthcare, which are expected to account for 18% and 13%, respectively. At the next tier, the Industrial, Consumer Discretionary, and Communication Services all appear in line, with market-cap weights and earnings contributions in the 9%-10% range. Energy sector punches above its weight, accounting for less than 4% of total market capitalization but generating 6% of S&P 500 profits.

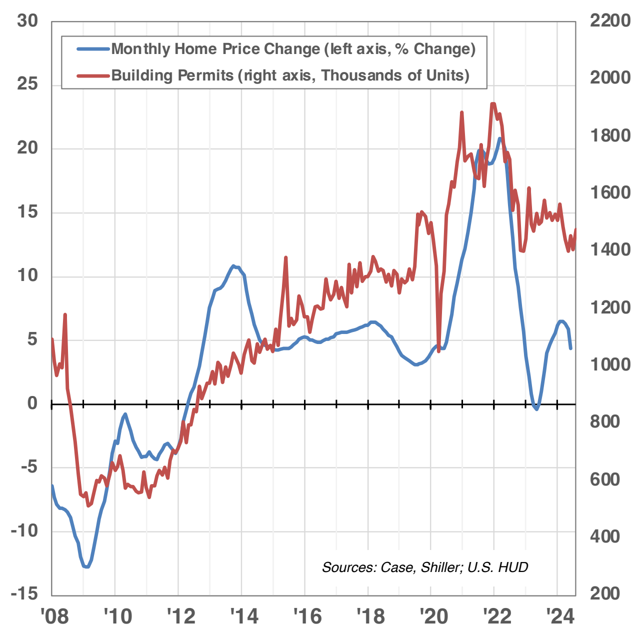
OPERATING EARNINGS CONTRIBUTION



LOWER RATES LIFT BUILDERS' SPIRITS

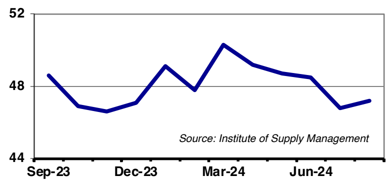
A half-point decline in the 30-year mortgage rate since early August and the prospect for easier money from the Fed boosted builders' confidence after a slow summer. The National Association of Homebuilders/Wells Fargo Housing Market Index rose by two points to 41 in September, ending a run of four monthly declines. A reading below 50 indicates that more builders see conditions as poor than good, so there is plenty of room for improvement. Traffic from prospective buyers and current sales conditions remain weak, but expectations for the next six months rose by four points to 53. "Thanks to lower interest rates, builders now have a positive view for future new home sales for the first time since May 2024," said NAHB Chairman Carl Harris. Housing starts in August rose 9.6% from the four-year low set a month earlier, to an annual rate of 1.36 million (this according to a report from the Department of Housing and Urban Development and the Census Bureau). Starts peaked at 1.8 million in April 2022, just a month after the Fed's first of 11 rate hikes. They may have bottomed in July, in anticipation of the Fed's recent rate reduction.

HOUSING MARKET TRENDS

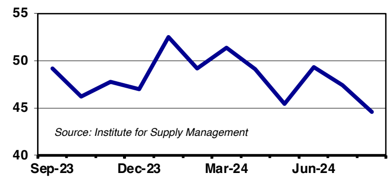


ECONOMIC TRADING CHARTS & CALENDAR

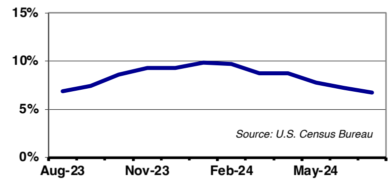
Release: **ISM Manufacturing**
Date: 10/1/2024
Month: September
Previous Report: 47.2
Argus Estimate: 50.0
Street Estimate: 48.0



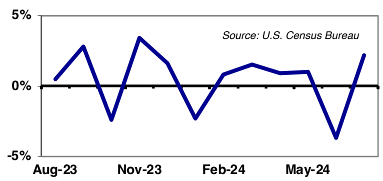
Release: **ISM New Orders**
Date: 10/1/2024
Month: September
Previous Report: 44.6
Argus Estimate: 48.0
Street Estimate: NA



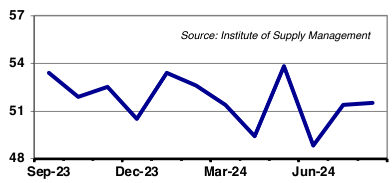
Release: **Construction Spending**
Date: 10/1/2024
Month: August
Previous Report: 6.7%
Argus Estimate: 6.0%
Street Estimate: NA



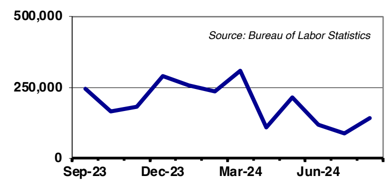
Release: **Factory Orders**
Date: 10/3/2024
Month: August
Previous Report: 2.2%
Argus Estimate: 1.3%
Street Estimate: NA



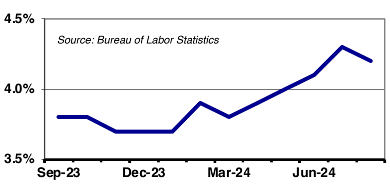
Release: **ISM Services Index**
Date: 10/3/2024
Month: September
Previous Report: 51.5
Argus Estimate: 52.5
Street Estimate: 51.7



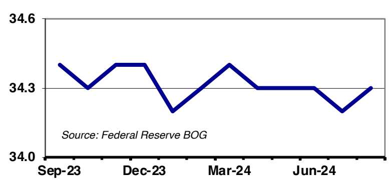
Release: **Nonfarm Payrolls**
Date: 10/4/2024
Month: September
Previous Report: 142000
Argus Estimate: 135000
Street Estimate: 133000



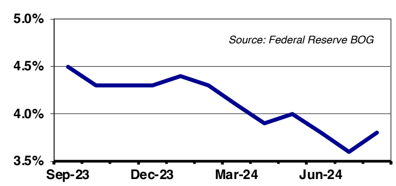
Release: **Unemployment Rate**
Date: 10/4/2024
Month: September
Previous Report: 4.2%
Argus Estimate: 4.2%
Street Estimate: 4.2%



Release: **Average Weekly Hours**
Date: 10/4/2024
Month: September
Previous Report: 34.3
Argus Estimate: 34.2
Street Estimate: NA

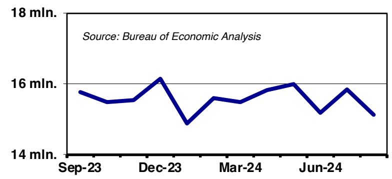


Release: **Average Hourly Earnings**
Date: 10/4/2024
Month: September
Previous Report: 3.8%
Argus Estimate: 3.8%
Street Estimate: NA



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

Release: **Total Vehicle Sales**
Date: 10/4/2024
Month: September
Previous Report: 15.13 mln.
Argus Estimate: 15.40 mln.
Street Estimate: NA



Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
24-Sep	Consumer Confidence	September	**105.6**	104.0	102.7	**98.7**
25-Sep	New Home Sales	August	739 K	650 K	698 K	NA
26-Sep	GDP Annualized QoQ	2Q "3rd est."	3.0%	3.0%	2.9%	NA
	GDP Price Index	2Q "3rd est."	2.5%	2.5%	2.5%	NA
	Durable Goods Orders	August	2.9%	-4.0%	NA	NA
27-Sep	PCE Deflator	August	2.5%	2.3%	2.3%	NA
	PCE Core Deflator	August	2.6%	2.8%	2.7%	NA
	Personal Income	August	4.5%	4.4%	NA	NA
	Personal Spending	August	5.3%	5.2%	NA	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
8-Oct	Trade Balance	August	-$78.8 Bil.	NA	NA	NA
9-Oct	Wholesale Inventories	August	0.4%	NA	NA	NA
10-Oct	Consumer Price Index	September	2.5%	NA	NA	NA
	CPI ex-Food & Energy	September	3.2%	NA	NA	NA
11-Oct	PPI Final Demand	September	1.7%	NA	NA	NA
	PPI ex-Food & Energy	September	2.4%	NA	NA	NA
	U. of Michigan Sentiment	October	69.0	NA	NA	NA

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