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THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

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WHAT TO EXPECT IN A RECESSION

The U.S. is not currently in a recession, but many economists are forecasting a contraction in GDP in coming quarters due to the fallout from Donald Trump's tariff plan. The argument is that companies in just about every industry will face rising costs and, in order to protect margins, will have to either raise prices (rekindling inflation) or lay off employees (pushing the unemployment rate toward 5.0%). We have studied the six recessions that have occurred in the U.S. since 1980. Five of them are more "normal" pullbacks, while the sixth was the recent pandemic-induced decline. Averaging the results of those first five, we find that recessions typically last 3-4 quarters and the average peak-to-trough decline in output is 5.6%. Unemployment typically rises 250 basis points, which would lift the current rate back above 6.0%. Treasury yields typically fall during recessions, as often the Federal Reserve begins to lower rates in an attempt to revive the economy. On average, the change in the 10-year Treasury yield from start to finish during a recession is 60 basis points. So those are averages. Is the current economy an "average" economy? In many ways, it is not. Unemployment is lower than at the start of previous recessions, so the consumer sector is in pretty good shape. Treasury yields are lower than average as well, which could provide some relief for households and home buyers. We are not yet officially forecasting a recession in 2025-2026, but if one does occur, based on the current fundamentals, we would expect it to cause less-than-average damage to the economy.

RECORDS OF RECENT RECESSIONS

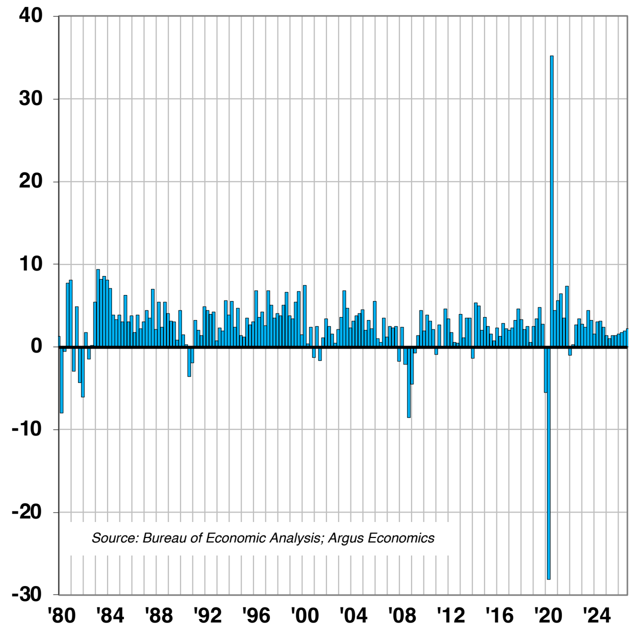
Recession Period	Duration (Quarters)	Depth of Decline ($BIL)	Depth of Decline (%)	Onset Unem Rate (%)	Peak Unem Rate (%)	Unem Change (%)	10 Yr Tr. Yld. Reces Start (%)	10 Yr Tr. Yld. Reces End (%)	10 Yr Yield Change (BPs)
1Q80-3Q80	2	149	8.0	6.3	7.8	1.5	12.0	12.4	40
3Q81-4Q82	5	179	6.1	7.2	10.8	3.6	14.9	13.9	-100
3Q90-2Q91	3	129	3.6	5.2	6.8	1.6	8.7	8.1	-65
2Q01-1Q02	2	17	1.6	4.3	5.5	1.2	6.2	5.1	-110
4Q07-3Q09	7	486	8.5	5.0	9.5	4.5	4.3	3.5	-80
1Q20	1	1693	31.5	3.5	14.7	11.2	1.1	0.6	-49
AVERAGES	*3.8*	*192*	*5.6*	*5.6*	*8.1*	*2.5*	*9.2*	*8.6*	*-63*

Sources: Dept. of Labor, St. Louis Fed, and U.S. Bureau of Economic Analysis (BEA)

CUTTING 2025 GDP GROWTH TO 1.3%

We are reducing our 2025 estimate for GDP growth to 1.3% from 2.0%. Higher tariffs, lower spending by the federal government, and extreme market volatility may all weigh on consumer spending and business investment. We now expect GDP to grow 1.4% in 1Q25, 1.0% in 2Q, 1.4% in 3Q, and 1.4% in 4Q. Our 2026 growth estimate is 1.9%, down from 2.1%. We expect federal non-defense spending will decline through 1Q26 before settling at about 1% growth. This may pinch state and local spending and crimp employment at universities and government contractors. Unemployment is low at 4.2%. We expect consumer spending to grow, but at 1.4% compared with our previous estimate of 2.3%. Potentially higher inflation may reduce spending on durable and discretionary goods. Spending on services, such as rent and healthcare, historically is stable. But the stock market's volatility may curtail travel, recreation, and dining out. Indicators driven by a broad array of timely data point to 1Q growth, but the message is less emphatic and many of our concerns are not yet reflected in the numbers.

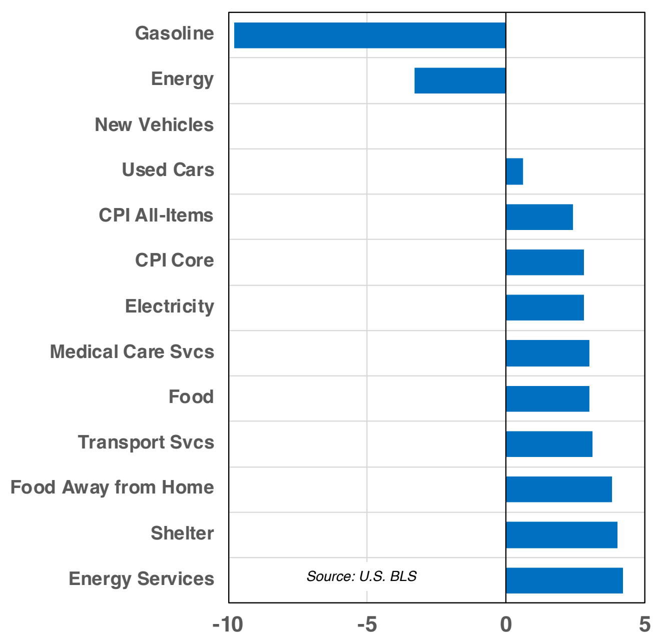
GDP TRENDS & OUTLOOK (% CHANGE)



MORE POSITIVE INFLATION READINGS

Two important inflation reports -- the Consumer Price Index (CPI) and the Producer Price Index (PPI) -- were released recently and both signaled that pricing pressures are again easing. For now. Both indicated that overall pricing pressures remain well below peak rates in summer 2022 but that inflation remains above the Fed's target of 2.0%. The news on CPI was surprisingly good, as the annualized headline number ticked lower from the previous month (2.4% versus 2.8%). According to the latest CPI report, the core inflation rate (ex-food and energy) also declined, to 2.8% from 3.1% the prior month. Meanwhile, PPI measures pricing trends farther up the supply chain, at the manufacturing level. Here, the news also was generally positive. For example, the PPI final demand annual rate through March was 2.7%, compared to 3.2% a month ago and 3.7% in January. Based on the fundamentals, we expect pricing pressures to continue easing as the housing market cools due to high mortgage rates, supplies of new vehicles are replenished, and the price of oil stays below $90 per barrel (current price is $62). But that low price of oil reflects a new wild card that has entered the forecasting picture: Trump's trade wars. His tariffs -- should they ever go into effect -- almost certainly will raise prices, sending the inflation rate higher again. That will put new pressure on the Fed.

CONSUMER INFLATION FACTORS
(% CHANGE Y/Y)

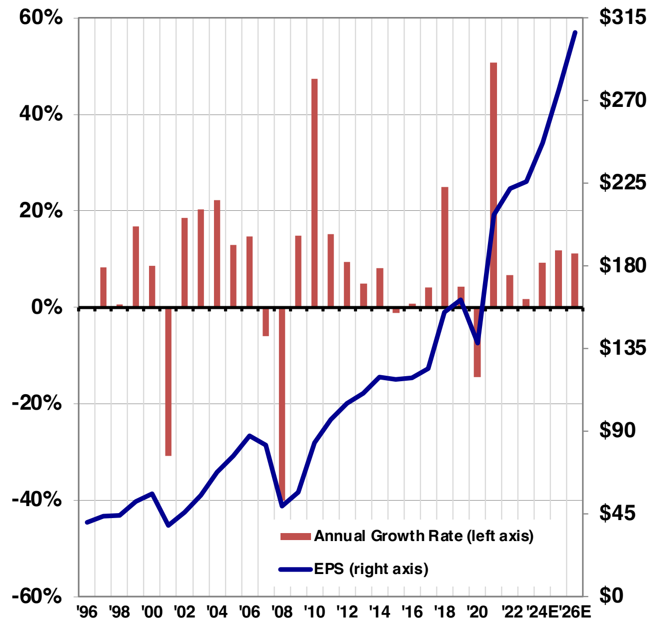


FINANCIAL MARKET HIGHLIGHTS

AN IMPORTANT EARNINGS SEASON COMMENCES

Consensus EPS estimates for 1Q25 growth range from low-single-digits to high-single-digits. This follows 17% growth in 4Q24 EPS and 9% growth in 3Q24, according to LSEG I/B/E/S. Leading sectors for 1Q25 are expected to be Healthcare (+38% EPS growth year over year) and Information Technology (+16%). Growth from the so-called Magnificent 7 is expected to outpace overall growth, as the group's earnings are forecast to grow 18%. On the downside, earnings from the Energy sector are expected to decline 15% and Materials 7%. Drilling down, revenue is expected to increase 4%, led by IT (+11%) and Healthcare (+4%). The balance of earnings growth will come from margin improvement and share buybacks. For 2025, our full-year earnings estimate is $276, implying low double-digit growth from 2024 level. Remember, companies generally exceed earnings expectations. Some complain that the U.S. SEC, by forcing companies to report quarterly profits, places too much emphasis on short-term results. But the system generates the most-transparent market in the world, as companies not only report results, but management teams also discuss those results and the outlook ahead. That's important today, when there is so much uncertainty.

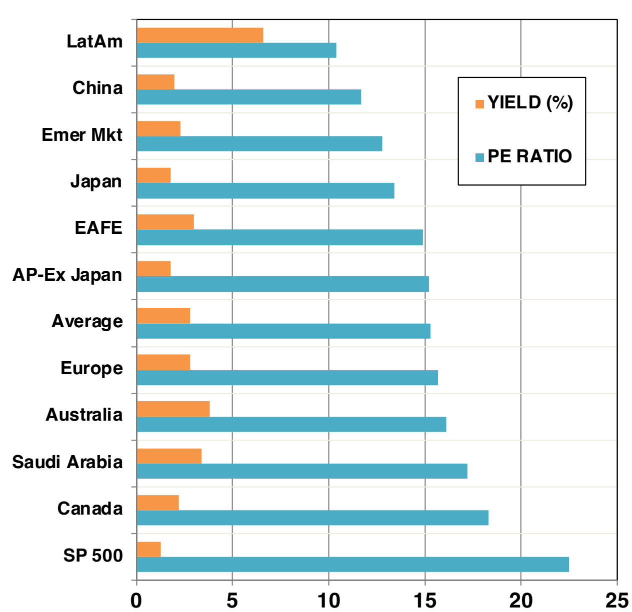
S&P 500 EPS TRENDS & ESTIMATES



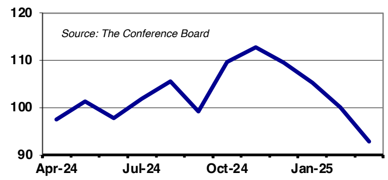
GLOBAL STOCKS OFFER VALUE

U.S. stocks are more expensive than global stocks. And with the run-up in stock prices in 2023 and 2024, U.S. stocks became even more expensive. The trailing P/E ratio on the S&P 500 is 22.5, above the global average of 15 and well above the 10-14 average P/Es for emerging market stocks in China and Latin America. The current dividend yield for the S&P 500 is 1.3%, versus the global average of 2.8%, and European, Australian and Latin American yields of 3%-6%. Investors generally are willing to pay a higher price for North American securities because of the transparency of the U.S. financial system as well as the liquidity of U.S. markets. What's more, global returns can be volatile across individual countries, given currency, security, political, and geopolitical risks. Indeed, U.S. stocks (ETF SPY) have outperformed EAFE shares (ETF EFA) over the past year as well as over the past five years. The tide is turning a bit in 2025, as global investors respond to the erratic economic declarations from the Trump administration. Given expectations for trade-related volatility in the months ahead, we think diversified investors should have 20%-25% of their equity allocations in international stocks.

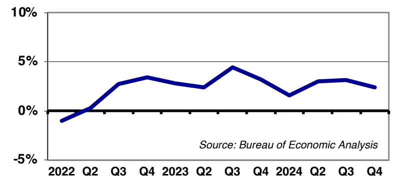
GLOBAL EQUITY VALUATION METRICS



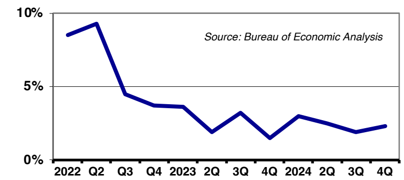
Release: **Consumer Confidence**
Date: 4/29/2025
Month: April
Previous Report: 92.9
Argus Estimate: 86.0
Street Estimate: 87.0



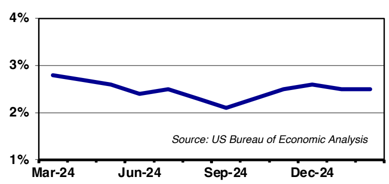
Release: **GDP Annualized QoQ**
Date: 4/30/2025
Month: 1Q
Previous Report: 2.4%
Argus Estimate: 1.4%
Street Estimate: 0.4%



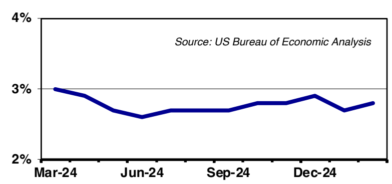
Release: **GDP Price Index**
Date: 4/30/2025
Month: 1Q
Previous Report: 2.3%
Argus Estimate: 2.4%
Street Estimate: NA



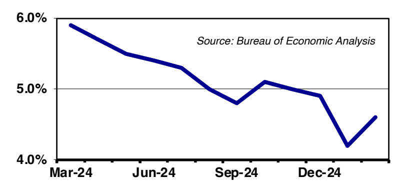
Release: **PCE Deflator**
Date: 4/30/2025
Month: March
Previous Report: 2.5%
Argus Estimate: 2.2%
Street Estimate: 2.2%



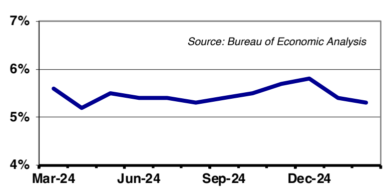
Release: **PCE Core Deflator**
Date: 4/30/2025
Month: March
Previous Report: 2.8%
Argus Estimate: 2.5%
Street Estimate: 2.6%



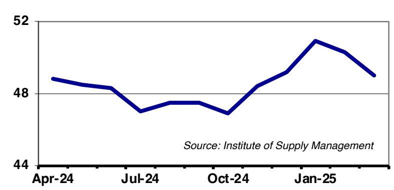
Release: **Personal Income**
Date: 4/30/2025
Month: March
Previous Report: 4.6%
Argus Estimate: 4.4%
Street Estimate: NA



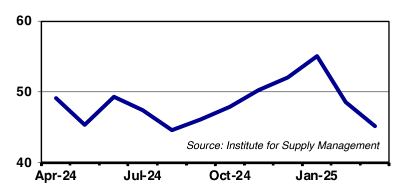
Release: **Personal Spending**
Date: 4/30/2025
Month: March
Previous Report: 5.3%
Argus Estimate: 5.4%
Street Estimate: NA



Release: **ISM Manufacturing**
Date: 5/1/2025
Month: April
Previous Report: 49.0
Argus Estimate: 48..6
Street Estimate: NA

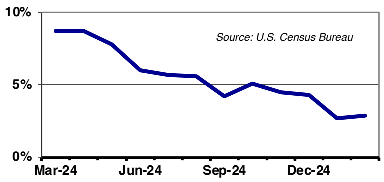


Release: **ISM New Orders**
Date: 5/1/2025
Month: April
Previous Report: 45.2
Argus Estimate: 44.0
Street Estimate: NA

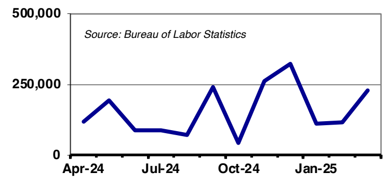


Previous Week's Releases and Next Week's Releases on next page.

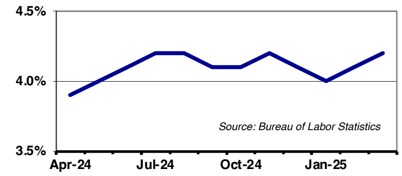
Release: **Construction Spending**
Date: 5/1/2025
Month: March
Previous Report: 2.9%
Argus Estimate: 3.2%
Street Estimate: NA



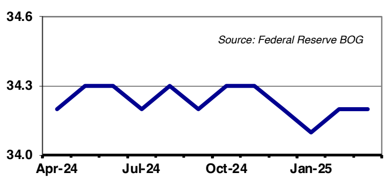
Release: **Nonfarm Payrolls**
Date: 5/2/2025
Month: April
Previous Report: 228000
Argus Estimate: 130000
Street Estimate: 128000



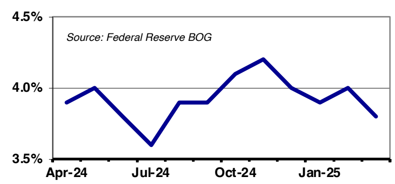
Release: **Unemployment Rate**
Date: 5/2/2025
Month: April
Previous Report: 4.2%
Argus Estimate: 4.3%
Street Estimate: 4.2%



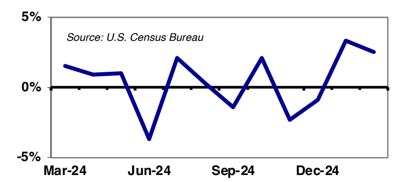
Release: **Average Weekly Hours**
Date: 5/2/2025
Month: April
Previous Report: 34.2
Argus Estimate: 34.2
Street Estimate: 34.2



Release: **Average Hourly Earnings**
Date: 5/2/2025
Month: April
Previous Report: 3.8%
Argus Estimate: 3.8%
Street Estimate: NA



Release: **Factory Orders**
Date: 5/2/2025
Month: March
Previous Report: 2.5%
Argus Estimate: 2.2%
Street Estimate: NA



Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
21-Apr	Leading Index	March	**-0.2%**	-0.3%	-0.4%	**-0.7%**
23-Apr	New Home Sales	March	676K	680K	683K	NA
24-Apr	Durable Goods Orders	March	0.5%	-5.0%	NA	NA
	Existing Home Sales	March	4.26 Mln.	4.10 Mln.	4.12 Mln.	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
5-May	ISM Services Index	April	50.8	NA	NA	NA
6-May	Trade Balance	March	-$122.7 Bln.	NA	NA	NA
7-May	Total Vehicle Sales	April	17.8 mln.	NA	NA	NA
8-May	Nonfarm Productivity	1Q	1.5%	NA	NA	NA
	Unit Labor Costs	1Q	2.2%	NA	NA	NA
	Wholesale Inventories	March	1.1%	NA	NA	NA

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