

THE ECONOMY AT A GLANCE

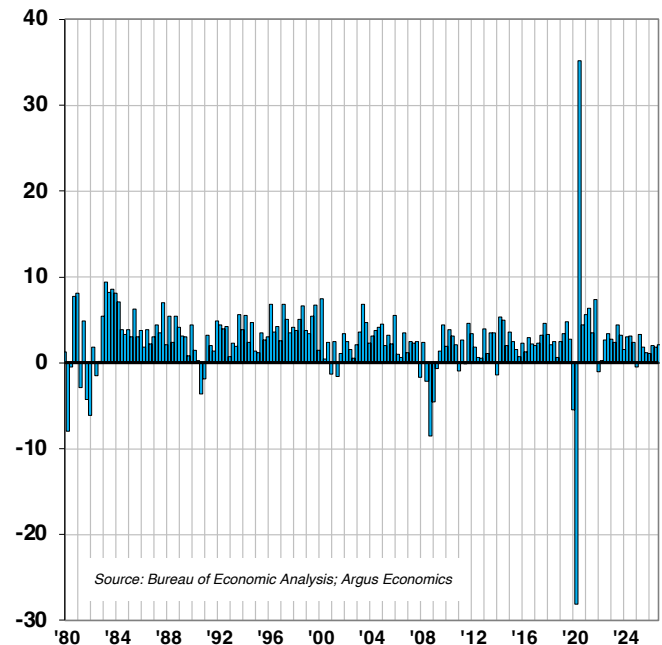
ECONOMIC HIGHLIGHTS

September 22, 2025
Vol. 92, No. 135

RAISING 2026 GDP FORECAST

We have increased our 2026 GDP estimate to 1.8% from 1.7%. The main change is that we expect lower interest rates to help housing and consumer durables in the second half of next year. Our full-year 2025 estimate is still 1.4%, but we made minor changes to our model. For the second half of 2025, we are reducing our estimates for both non-residential construction and housing. We are raising our estimates for intellectual property and information processing equipment based on investments in artificial intelligence. We are reducing our 3Q25 estimate to 1.8% from 2.2% and raising our 4Q estimate to 1.2% from 0.8%. We are trying to minimize some of the “uncertainty” in the economy by doing our forecast line by line as we would with a company earnings model. We would be remiss if we did not acknowledge slower hiring, six consecutive months of contraction in the important ISM manufacturing index, and six months of declining construction spending. But we believe that still-low unemployment, solid consumer spending, and strong corporate profits supporting stock prices will sustain the economy until lower interest rates and potentially bigger tax returns give the economy a boost. Based on the Federal Reserve Bank of Philadelphia’s Survey of Professional Forecasters, which was released on August 15, GDP is expected to grow 1.7% in 2025, 1.6% in 2026, and 2.1% in 2027.

GDP TRENDS & OUTLOOK (% CHANGE)

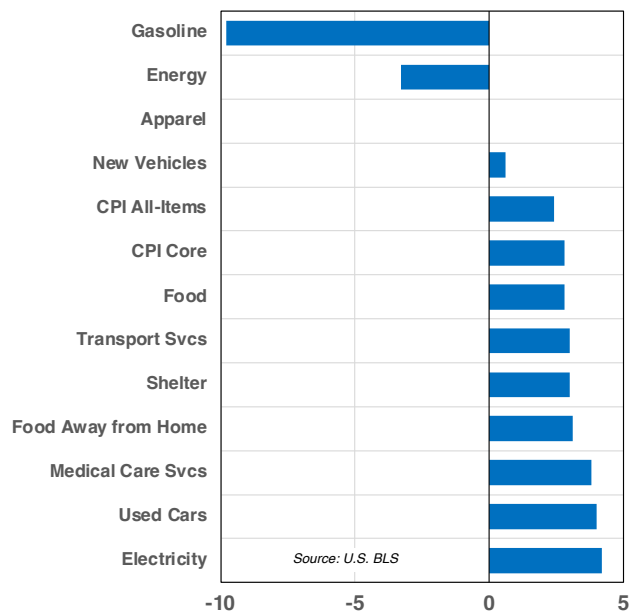


ECONOMIC HIGHLIGHTS (CONTINUED)

INFLATION IN LINE WITH EXPECTATIONS

The Consumer Price Index (CPI) and the Producer Price Index (PPI) were released recently. The news for CPI was generally positive, as the annualized headline rate through August was 2.9%, in line with consensus, while the month-to-month number increased four-tenths of a percent. Meanwhile, the core inflation rate (ex-food and energy) rose three-tenths of a percent month to month, and was steady at an annual rate of 3.1%. The two wild cards in the report in recent months have been Transportation Services and Shelter costs, which were both up around 3.5% year over year. The PPI measures pricing trends at the manufacturing level. Here, the news was better compared to the prior month. In particular, the PPI final demand monthly rate in August was -0.4%, compared to a hot reading of 0.9% in July. The annualized change in the final demand rate was 2.6%, down from 3.1% a month ago. We continue to expect pricing pressures to ease into 2026 as the housing market cools due to high mortgage rates and the price of oil stays below \$90 per barrel. But that low price of oil reflects a new wild card: President Trump's trade wars. His tariffs -- should they ever go into full effect -- will almost certainly raise prices, sending the inflation rate higher. That will put new pressure on the Fed.

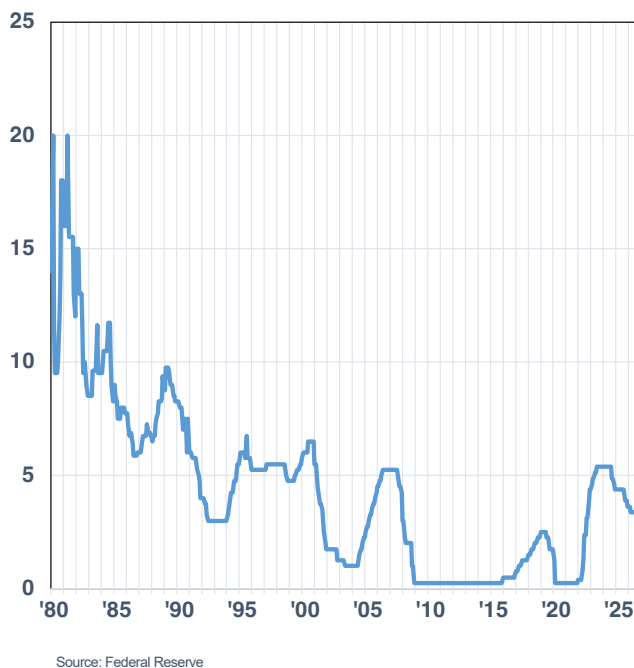
CONSUMER INFLATION FACTORS (% CHANGE Y/Y)



FED BACK ON THE REDUCTION TRACK

The Federal Reserve wrapped up its latest Federal Open Market Committee meeting yesterday and, as expected, lowered its fed funds target rate by 25 basis points (bps) to the 4.00-4.25% level. This was the first cut in 2025, following five meetings in a row at which the central bank held policy steady after cutting rates three times in late 2024. The decision indicates that the Fed is now less concerned about the impact of tariffs on inflation and more concerned about the employment situation. We think that the Fed will step up its rate-cutting program and reduce the federal funds rate two more times in 2025 in order to keep the economy expanding. We think both cuts will be 25 basis points. We also look for a fourth 25-basis-point cut in the first half of 2026. Over the next two years, according to the latest dot-plot forecasting chart from the Fed that was released along with the rate cut, the governors now anticipate that the federal funds target rate will decline even more sharply to the 2.50% level.

FEDERAL FUNDS TARGET RATE & FORECASTS (%)

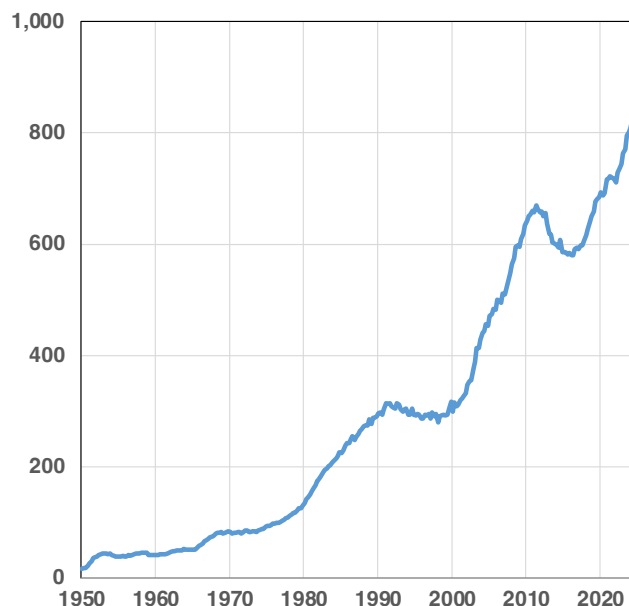


FINANCIAL MARKET HIGHLIGHTS

HEALTHY OUTLOOK FOR AEROSPACE & DEFENSE

Aerospace & defense design and manufacturing is one of the core competencies of the U.S. economy, along with innovative technology, allocating capital, and pharmaceutical R&D. In our view, the sector is positioned for solid growth over the next few years. During 2025, global revenues for the total aerospace & defense industry are expected to grow by 6% from 2024 and reach \$950 billion, as tracked by The Business Research Company. Looking ahead, industry forecasts call for the sector to grow at a CAGR of 5.8% and top \$1.1 trillion by 2028. Drilling down, the recovering global airline industry bodes well for commercial aerospace demand over the next several years. Airline passenger levels and airline revenues are once again growing at a healthy pace, and with international markets reopened, we believe that the industry will be able to recover a substantial amount of its pre-COVID-19 revenues and profitability into 2026. We also expect solid military spending over the next few years. According to the U.S. Bureau of Economic Analysis, annualized federal spending on national defense was running at an \$871 billion rate in 2Q25. That's up 6% year over year. On top of the country's typical strong commitment to defense spending, the budget has been influenced by the ongoing Russian invasion of Ukraine, the bombing in Iran, rising inflation, and other factors. We expect the current geopolitical environment to keep this type of spending high for some time to come.

GOV'T. EXPENDITURES ON DEFENSE (\$BIL)

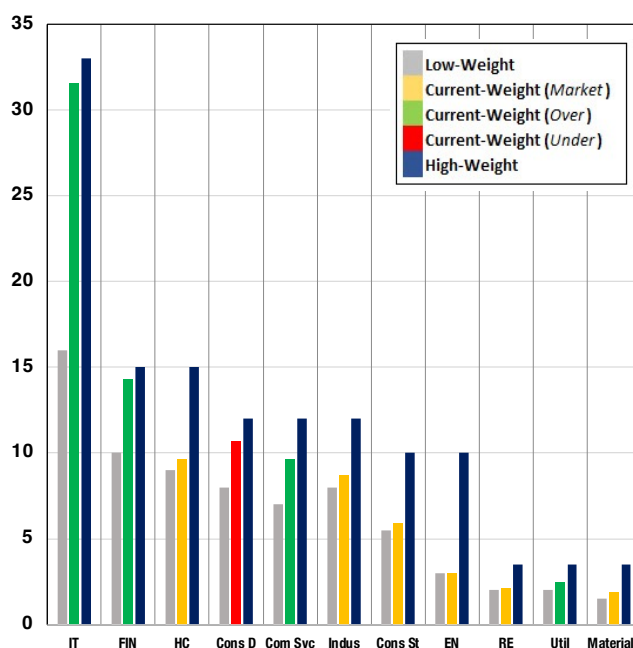


Source: Bureau of Economic Analysis (BEA)

ARGUS ADJUSTS SECTOR RATINGS

We have reviewed our recommended sector allocations this month, and based on the analysis we have adjusted our current sector Over-Weight, Under-Weight, and Market-Weight recommendations for the calendar fourth quarter of 2025. Our process led to an upgrade of the Communication Services sector to Over-Weight from Market-Weight. We lowered Consumer Staples to Market-Weight from Over-Weight. Our rebalancing process takes place four times a year, early in the months of March, June, September, and December. Our current Over-Weight sectors are Communication Services, Financial, Utilities, and Information Technology. Our current Market-Weight sectors are Consumer Staples, Energy, Healthcare, Industrials, and Materials. Our Under-Weight sector is Consumer Discretionary. The Argus Research Investment Policy Committee suggests that advisors and investors leverage this consistent and comprehensive process to adjust sector weightings within their diversified equity portfolios, with a primary focus on the largest sectors.

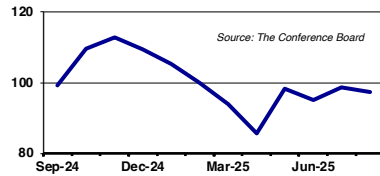
SECTOR WEIGHTS (% OF S&P 500, 5-YR. RANGE)



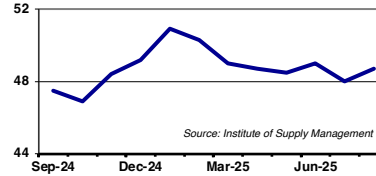
Source: S&P Global & Argus Research

ECONOMIC TRADING CHARTS & CALENDAR

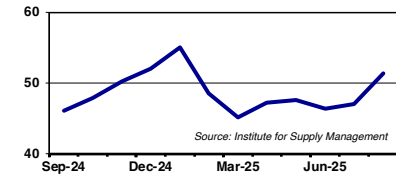
Release: **Consumer Confidence**
 Date: 9/30/2025
 Month: September
 Previous Report: 97.4
 Argus Estimate: 98.0
 Street Estimate: 95.8



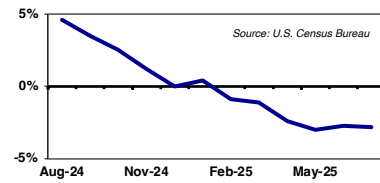
Release: **ISM Manufacturing**
 Date: 10/1/2025
 Month: September
 Previous Report: 48.7
 Argus Estimate: 49.0
 Street Estimate: 49.3



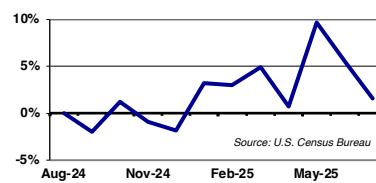
Release: **ISM New Orders**
 Date: 10/1/2025
 Month: September
 Previous Report: 51.4
 Argus Estimate: 51.0
 Street Estimate: NA



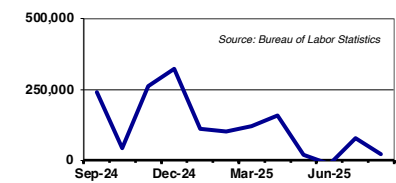
Release: **Construction Spending**
 Date: 10/1/2025
 Month: August
 Previous Report: -2.8%
 Argus Estimate: -3.0%
 Street Estimate: NA



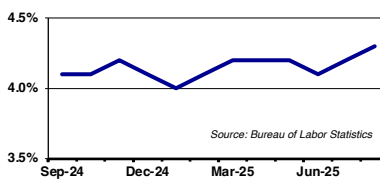
Release: **Factory Orders**
 Date: 10/2/2025
 Month: August
 Previous Report: 1.6%
 Argus Estimate: 1.4%
 Street Estimate: NA



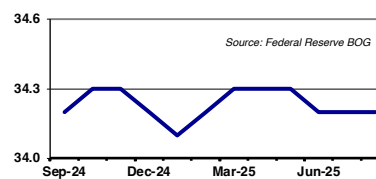
Release: **Nonfarm Payrolls**
 Date: 10/3/2025
 Month: September
 Previous Report: 22000
 Argus Estimate: 56000
 Street Estimate: 42000



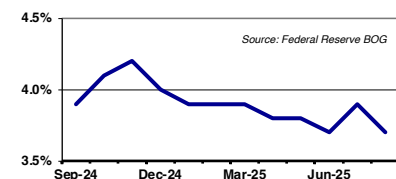
Release: **Unemployment Rate**
 Date: 10/3/2025
 Month: September
 Previous Report: 4.3%
 Argus Estimate: 4.3%
 Street Estimate: 4.3%



Release: **Average Weekly Hours**
 Date: 10/3/2025
 Month: September
 Previous Report: 34.2
 Argus Estimate: 34.2
 Street Estimate: 34.2

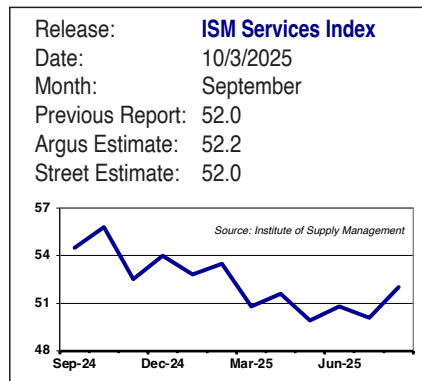


Release: **Average Hourly Earnings**
 Date: 10/3/2025
 Month: September
 Previous Report: 3.7%
 Argus Estimate: 3.7%
 Street Estimate: NA



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
24-Sep	New Home Sales	August	652K	640K	658K	NA
25-Sep	GDP Annualized QoQ	2Q "3rd est."	3.3%	3.3%	3.3%	NA
	GDP Price Index	2Q "3rd est."	2.0%	2.0%	2.0%	NA
	Durable Goods Orders	August	3.7%	-4.0%	NA	NA
	Existing Home Sales	August	4.01 Mln.	4.10 Mln.	3.98 Mln.	NA
26-Sep	PCE Deflator	August	2.6%	2.8%	2.7%	NA
	PCE Core Deflator	August	2.9%	3.0%	2.9%	NA
	Personal Income	August	5.0%	5.1%	NA	NA
	Personal Spending	August	4.7%	4.8%	NA	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
7-Oct	Trade Balance	August	-\$78.3 Bln.	NA	NA	NA
	Total Vehicle Sales	September	16.07 Mln.	NA	NA	NA
9-Oct	Wholesale Inventories	August	1.3%	NA	NA	NA
10-Oct	U. Michigan Sentiment	October	55.4	NA	NA	NA

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