

THE ECONOMY AT A GLANCE

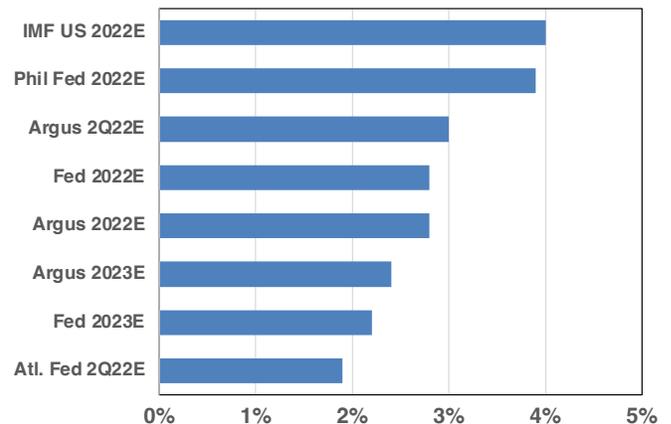
ECONOMIC HIGHLIGHTS

May 23, 2022
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CORE OF U.S. ECONOMY STILL ON GROWTH PATH

We don't anticipate a U.S. recession in the near term, based on strength in the consumer and investment sectors of the economy. Yet there are risks (especially if the Fed acts too fast, stalling the consumer sector). U.S. employment is near full strength, but consumer confidence trends are mixed. Auto sales have recovered, but at an uneven pace. Housing aided the economic recovery from the pandemic, but high prices have cooled the market. Businesses are expanding, but growth is slowing. Exports are under pressure from geopolitics and the rising dollar. But import growth will not continue at the recent high-teens pace. Government spending trends should smooth as well. Our GDP growth forecast in 2022 is now 2.2%, down from 2.8%.

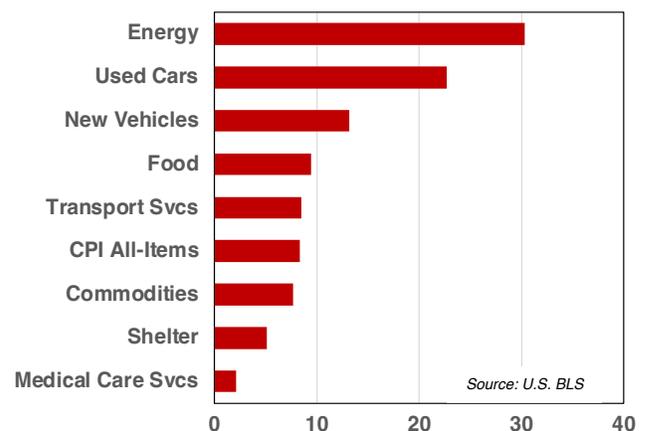
GDP ESTIMATES



INFLATION RATE STABILIZING?

There was an 8.3% year-over-year increase in overall inflation in April, driven by 30% higher energy prices, 23% higher used car prices, 8% higher commodity prices, and 9% higher food prices. That said, rates of change are starting to slow on a number of goods and services, including food at home (up 1.0% in April after a 1.5% rise in March), gasoline (-6.1% versus 18.3%), electricity (0.7% versus 2.2%) and apparel (-0.8% versus 0.6%). Rates of change in categories such as shelter and medical care services were essentially stable. Indeed, the All-Items Index increased 0.3% on a month-to-month basis in April versus an average increase of 1.0% in the previous two months. Still, the Fed has a lot of work ahead to bring core inflation down to its 2.0% target rate. We look for a series of 50-basis-point interest-rate hikes at upcoming Fed meetings.

INFLATION FACTORS (% CHANGE Y/Y)

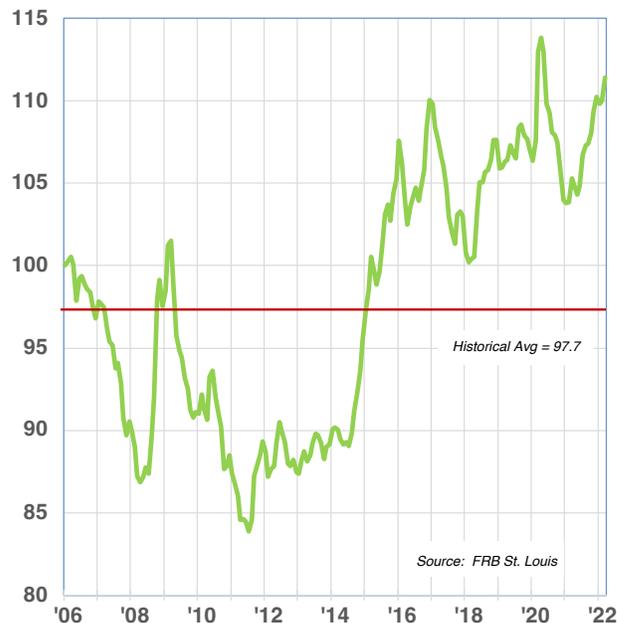


ECONOMIC HIGHLIGHTS (CONTINUED)

DOLLAR BACK NEAR PEAK

The dollar spiked early in the pandemic, as global investors flocked to the security of assets denominated in greenbacks. Indeed, the dollar in 2020 surpassed the cycle highs set in 2001-2002 and then again in late 2016. After peaking in April 2020, the greenback declined until 2021. But in 2022 -- in the wake of the Russian invasion of Ukraine and renewed COVID concerns in China and Europe -- the dollar has again approached cycle highs. Currently, on a real trade-weighted basis, the dollar is 15% above its average valuation over the past 20 years, down only slightly from a 17% overvaluation at the April 2020 peak. The fully valued U.S. currency reflects several factors, but primarily the relative strength of the U.S. economy and investor confidence in the U.S. Federal Reserve and Department of Treasury. We anticipate a trading range around current levels for the greenback for the balance this year. That's because we think U.S. GDP growth will cool from the white-hot rate of 2021. What's more, with interest rates headed higher as the Fed addresses inflation, investors may be selling dollar-denominated Treasuries. Lastly, the lofty current valuation of the greenback implies that other currencies -- and even gold or other commodities -- are possibly undervalued. Traders can be expected to bid up those values over time.

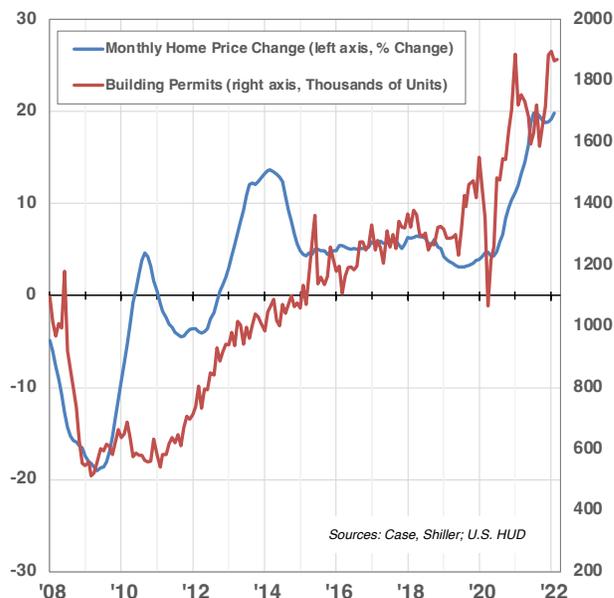
U.S. DOLLAR TREND
REAL TRADE-WEIGHTED U.S. DOLLAR INDEX



HOUSING PRICES HEAD HIGHER

The housing market has been an important contributor to the U.S. economic recovery from the pandemic, but high prices have lately cooled the market. The National Association of Realtors reported that existing home sales in March 2022 totaled 5.77 million at a seasonally adjusted annual rate, down 3% from the prior month. The Commerce Department reported that new single-family homes sold at a 763,000 annualized rate in March, down from 835,000 in February. Meanwhile, a leading indicator for the industry, housing permits, has plateaued. Permits were issued at a 1.9 million annualized rate in March, a pandemic-era high but flat with December 2021. Housing prices remain hot. The S&P/Case-Shiller National Home Price Index for February 2022 showed that prices were up 20% from the prior year. The high prices have boosted housing inventories: currently there is a 6.4-month supply of existing homes for sale, compared to an average range of 4.5-7.5 months. Until pricing pressures start to ease, we look for modest growth (at best) in the housing sector.

HOUSING MARKET TRENDS

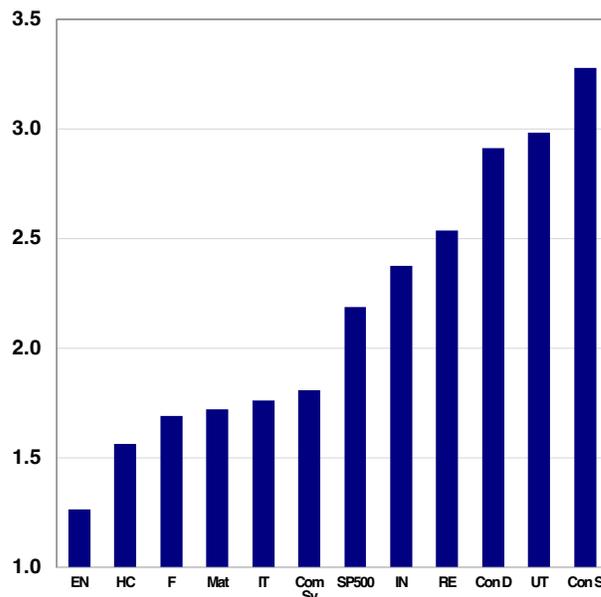


FINANCIAL MARKET HIGHLIGHTS

FAVORABLY VALUED SECTORS

Investors hunting for stocks that reasonably balance long-term growth prospects and current value characteristics might want to look at companies in the Financial Services, Healthcare, and Basic Materials sectors. These are among the groups currently selling for (price/earnings)/(growth+yield) ratios at or below the S&P 500's ratio of 2.2. To generate PEGY ratios, we use the P/E ratio for each sector based on forward earnings for the numerator. For the denominator, we average the growth rates for the past five years along with two years of forward estimates, in order to achieve a smoother, less volatile earnings trend. Then we add the current yield to approximate the total return. On a PEGY basis, premium-valued sectors with low growth rates include Consumer Staples and Utilities. Our Over-Weight sectors include Healthcare, Financial Services, Industrial, Basic Materials, and Energy. Our Under-Weight sectors include Consumer Staples and Communication Services.

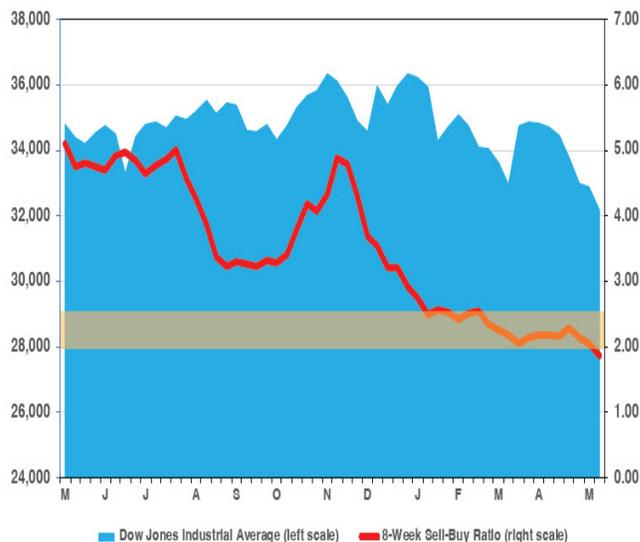
SECTOR PEGY RATIOS



INSIDER POUNCE ON OPPORTUNITY

According to data from Vickers Stock Research, corporate insiders have reacted with increasing optimism in recent weeks as stocks have found new lows. Vickers' most-recent Total One-Week Sell/Buy Ratio, which looks at insider transactions across the NYSE, Nasdaq, and ASE, is 0.96 and marks a very rare period with more insider-purchase transactions than sales transactions (resulting in a sell/buy ratio below 1.00). This last happened during the initial pandemic selloff, when the sell/buy ratio fell below 1.00 from March 16, 2020 until March 30, 2020. The DJIA had dropped to 18,591 back then -- but a mere three months later (by June 2020), the index was back above 27,000. Vickers' broader data is also resoundingly positive. For the first time since May 2020, Vickers' Total Eight-Week Sell/Buy Ratio has entered bullish territory, coming in this week at 1.87 on a scale where any reading below 2.00 is bullish, readings between 2.00 and 2.50 are neutral, and readings above 2.50 are bearish.

TOTAL 8-WEEK SELL/BUY RATIO VS. DOW INDUSTRIALS



ECONOMIC CALENDAR

Previous Week's Releases

| Date | Release | Month | Previous Report | Argus Estimate | Street Estimate | Actual |
|--------|----------------------|-------|-----------------|----------------|-----------------|--------|
| 24-May | New Home Sales | April | 763000 | 750000 | 755000 | NA |
| 25-May | Durable Goods Orders | April | 1.1% | 0.9% | 0.8% | NA |
| 26-May | Real GDP | 1Q | -1.4% | -1.4% | -1.4% | NA |
| | GDP Price Index | 1Q | 8.0% | 8.0% | 8.0% | NA |
| 27-May | Personal Income | April | 0.5% | 0.5% | 0.6% | NA |
| | Personal Spending | April | 1.1% | 1.0% | 0.6% | NA |

Next Week's Releases

| Date | Release | Month | Previous Report | Argus Estimate | Street Estimate | Actual |
|--------|----------------------|-------|-----------------|----------------|-----------------|--------|
| 7-Jun | Trade Balance | April | -\$109.8 Bil. | NA | NA | NA |
| 10-Jun | Consumer Price Index | May | 0.3% | NA | NA | NA |
| | CPI ex-Food & Energy | May | 0.6% | NA | NA | NA |

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