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THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

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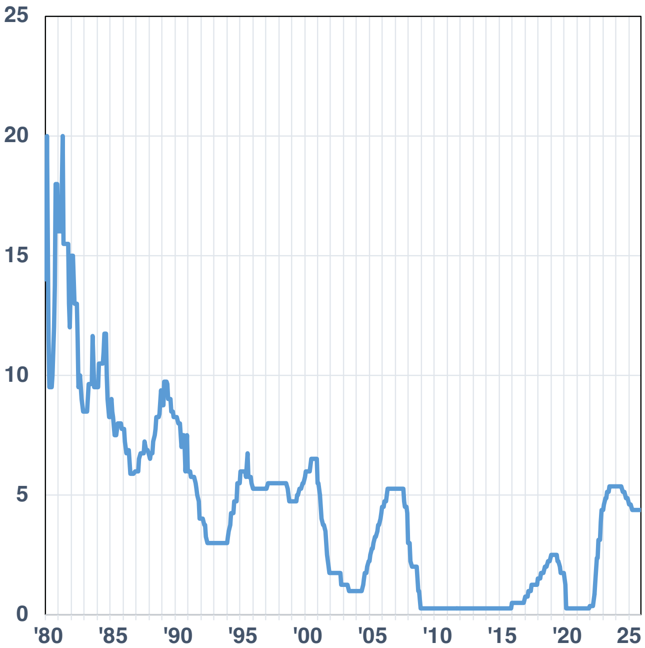
VIGILANT FED FOCUSED ON INFLATION

The Federal Reserve wrapped up its latest Open Market Committee meeting and, as expected, held the current federal funds rate steady at 5.25%-5.50%. The rate remains at its highest level since 2000 and is above the long-term average of 4.4%. This is the Fed's plan, of course: keep rates high to push inflation lower. Despite recent progress on CPI and core CPI, both measures are still above the Fed's target of 2.0%. Those are potential problems for a central bank that watched while inflation got out of hand in 2020-2021 and wants to rebuild its reputation as an effective inflation fighter. Here are our key takeaways from the Fed meeting and the follow-up press conference. 1) Investors liked what was missing from the meeting, namely a discussion of a potential additional rate hike. 2) The Fed's lament of "a lack of progress" on inflation in recent months seemingly has eliminated the prospects for rate cuts in June and July. 3) The central bank's decision to reduce its monthly balance sheet is a "dovish" decision that should still keep the securities lending markets operating smoothly.

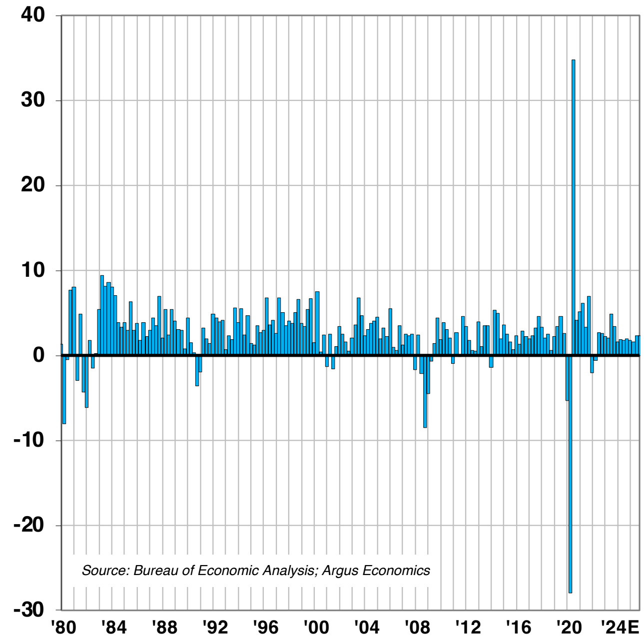
FEDERAL FUNDS TARGET RATE & FORECASTS (%)



RAISING 2Q GDP GROWTH FORECAST TO 1.9%

We have raised our 2Q24 GDP forecast to 1.9% from 1.5% and reduced our full-year 2024 GDP forecast to 1.8% from 2%. The U.S. economy is chugging along, but persistent inflation is delaying the interest-rate relief that many consumers need. GDP expanded in 1Q at an annualized rate of 1.6%. That was well below the 2.5% consensus and 3.4% growth in the fourth quarter of 2023. The all-important consumer economy is "mixed," but it is still driving the train. Consumer spending, designated as Personal Consumption Expenditures (PCE) in the GDP report, contributed 1.68 points of the 1.6% growth in 1Q (offset by lower inventory investment and the trade deficit). PCE grew 2.5%, but the consumer category was carried by the huge services component, which was up 4.0%. Consumer spending on goods declined 0.4%. Our 3Q GDP estimate remains at 1.8%. Our 4Q estimate is now 2.0%, down from 2.3%. One potential headwind to our 4Q estimate is that the Purchasing Managers Index for services came in at a contractionary 49.4 in April, ending a run of 15 months above 50. Our forecast is for GDP to grow 2.0% in 2025, with an acceleration to 2.3% in the second half of the year. While economic growth may be uneven in 2024 and 2025, we believe the Fed has the ability to bolster growth if needed.

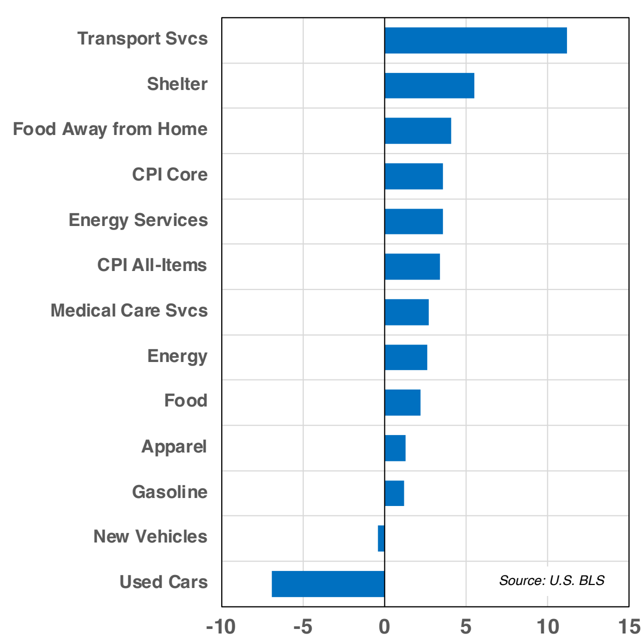
GDP TRENDS & OUTLOOK (% CHANGE)



SOME PROGRESS ON INFLATION

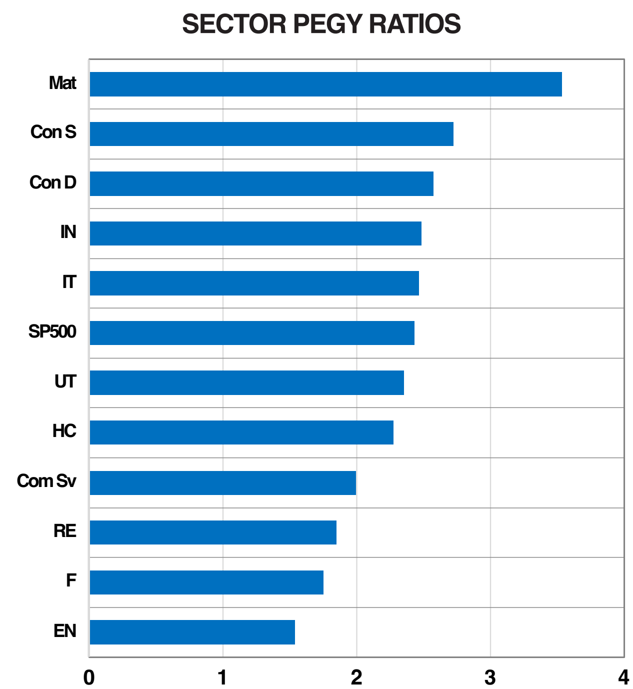
Two important inflation reports indicated that overall pricing pressures have retreated, but also confirmed that inflation remains above the Fed's target of 2.0%. According to the recent CPI report, the overall inflation rate in April of 3.4% was lower than the prior-month's rate of 3.5%. The core CPI rate, which excludes the impact of food and energy, rose at an annual pace of 3.6% over the past year (which was lower by 20 basis points). What's propping up core CPI? Transportation Services and Shelter, which have prices that don't typically fall sharply. Meanwhile, the Producer Price Index was not as good. The PPI measures pricing trends farther up the supply chain, and showed a modest increase in the rate of inflation. Still, nothing was terribly alarming about either of the reports. We look for the U.S. central bank to be lowering rates in 2H24 and 1H25 as their concern shifts toward economic growth.

INFLATION FACTORS (% CHANGE Y/Y)



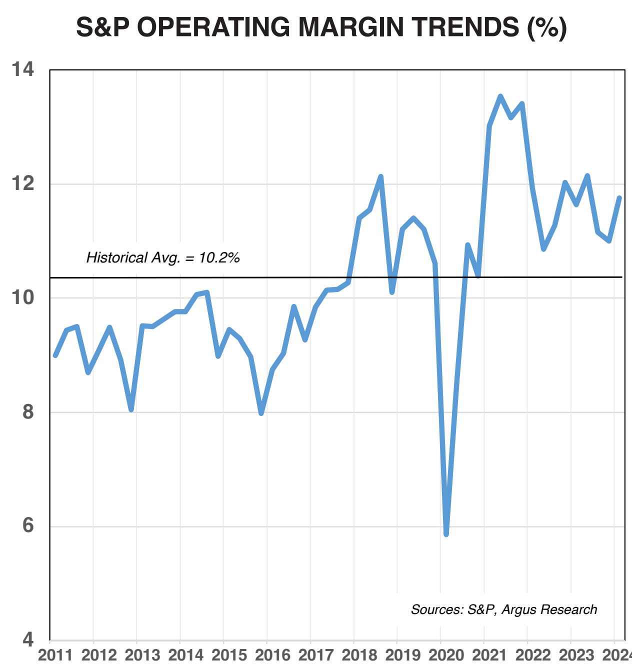
LOOK FOR VALUES IN FINANCIAL AND HEALTHCARE

Investors hunting for stocks that reasonably balance long-term growth prospects and current value characteristics might want to look at companies in the Financial, Communication Services, and Healthcare sectors. These are among the groups that are currently selling for PEGY ratios -- (price/earnings)/(growth+yield) -- at or below the S&P 500's ratio of 2.4. To generate the 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, this in order to achieve a less-volatile trend of earnings growth. Then we add the current yield to approximate total return. Sectors with favorable growth and valuation characteristics, in addition to the three listed above, include Energy, Real Estate, and Utilities. Premium-valued sectors with low growth rates include Consumer Staples and Materials. Our current over-weight sectors as Technology, Financial, Healthcare, and Communication Services. Our under-weight sectors are Energy, Materials and Consumer Staples. Our Market-Weight sectors are Consumer Discretionary, Utilities, Real Estate, and Industrial.

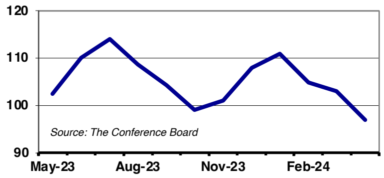


PROFIT MARGINS WIDENED IN 1Q

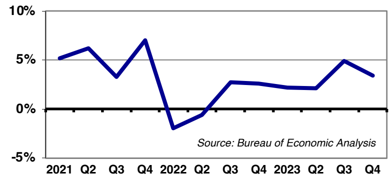
First-quarter earnings season is winding down and the overall growth rate is set to land in the 7%-8% range. That's not bad -- and the rate would be higher (above 10%) if pharmaceutical company Bristol-Myers Squibb didn't take a substantial charge related to an acquisition. There are three drivers to EPS growth: higher sales, a wider operating margin, and a reduced share count. A decline in shares outstanding is the lowest-quality driver of growth. Higher sales -- as customers demand and pay for more products -- is the highest quality, especially when sales totals are driven by an increase in volume. Margin management is in the middle. Consistently wider margins, quarter after quarter, are often a sign of a management team is able to grow revenues faster than it grows costs. But that's a tall order in periods of high inflation and of high interest rates. What's more, margins don't rise indefinitely. In 1Q, the S&P 500 operating margin widened by some 20 basis points year over year to 11.8%. That fits into our outlook calling for a modest widening for the S&P 500 operating margin in 2024, and for EPS growth in the 9%-10% range for the year.



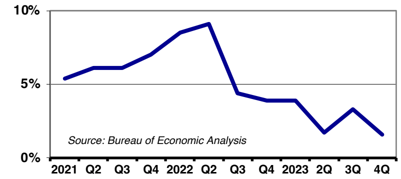
Release:	Consumer Confidence
Date:	5/28/2024
Month:	May
Previous Report:	97.0
Argus Estimate:	88.0
Street Estimate:	96.5



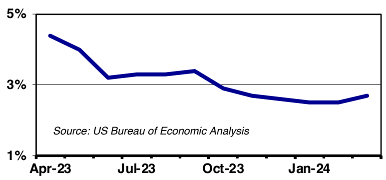
Release:	GDP Annualized QoQ
Date:	5/30/2024
Month:	1Q
Previous Report:	1.6%
Argus Estimate:	1.6%
Street Estimate:	1.2%



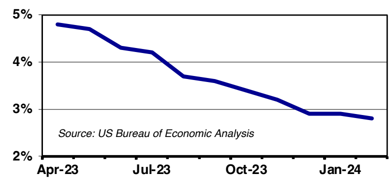
Release:	GDP Price Index
Date:	5/30/2024
Month:	1Q
Previous Report:	3.1%
Argus Estimate:	3.1%
Street Estimate:	3.1%



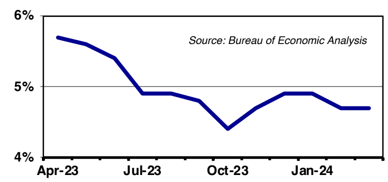
Release:	PCE Deflator
Date:	5/31/2024
Month:	April
Previous Report:	2.7%
Argus Estimate:	2.7%
Street Estimate:	2.7%



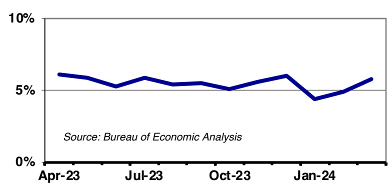
Release:	PCE Core Deflator
Date:	5/31/2024
Month:	April
Previous Report:	2.8%
Argus Estimate:	2.7%
Street Estimate:	2.8%



Release:	Personal Income
Date:	5/31/2024
Month:	April
Previous Report:	4.7%
Argus Estimate:	4.5%
Street Estimate:	NA



Release:	Personal Spending
Date:	5/31/2024
Month:	April
Previous Report:	5.8%
Argus Estimate:	5.7%
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
22-May	Existing Home Sales	April	4.19 Mln.	4.20 Mln.	NA	NA
23-May	New Home Sales	April	693 K	675 K	NA	NA
24-May	Durable Goods Orders	April	-2.3%	0.4%	NA	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
3-Jun	ISM Manufacturing	May	49.2	NA	NA	NA
	ISM New Orders	May	49.1	NA	NA	NA
	Construction Spending	April	9.6%	NA	NA	NA
4-Jun	Factory Orders	April	1.5%	NA	NA	NA
5-Jun	ISM Services Index	May	49.4	NA	NA	NA
6-Jun	Trade Balance	April	-$69.4 Bil.	NA	NA	NA
7-Jun	Nonfarm Payrolls	May	175 K	NA	NA	NA
	Unemployment Rate	May	3.9%	NA	NA	NA
	Average Weekly Hours	May	34.3	NA	NA	NA
	Average Hourly Earnings	May	3.9%	NA	NA	NA
	Wholesale Inventories	April	-2.3%	NA	NA	NA
	Total Vehicle Sales	May	15.74 mln.	NA	NA	NA

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