

THE ECONOMY AT A GLANCE

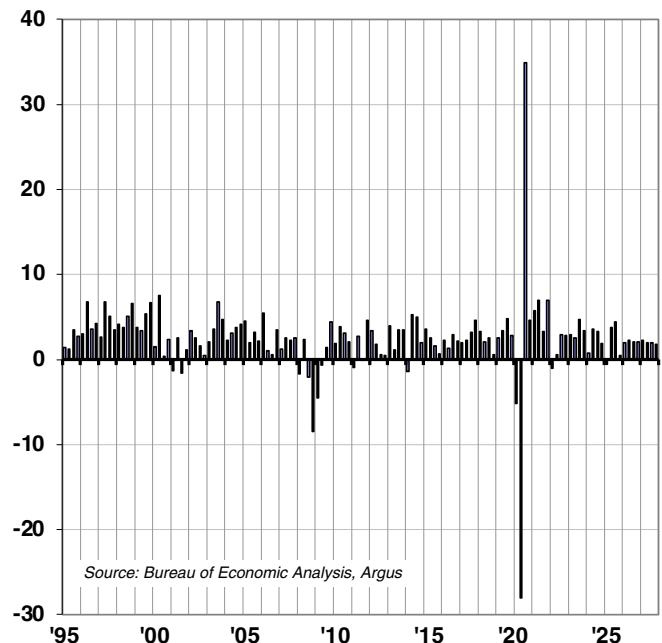
ECONOMIC HIGHLIGHTS

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AI INVESTMENT LIFTS 1Q GDP

According to the advance estimate released by the Bureau of Economic Analysis (BEA), U.S. Gross Domestic Product (GDP) rose in the first quarter at an annualized rate of 2.0%. That's an acceleration from 0.5% growth in the fourth quarter. A strong business investment in Artificial Intelligence for computers, software, and research and development added about 1.3 points to GDP growth, while personal consumption added 1.08 points. Excluding healthcare, consumer spending added just 0.57 points to growth. Why has the stock market has been performing so well when there is so much uncertainty? Strong business investment with the potential to raise productivity across the economy is a good reason. Spending by consumers rose 1.6% in 1Q, a slight slowdown from the 1.9% increase in 4Q. Spending on goods declined 0.1%. Within goods, nondurables were down 0.2%, which was weaker than we expected. Durables were flat, better than we expected. Motor vehicles and parts grew 5.2% following an 8.1% decline in 4Q. The huge services category grew 2.4%, a slight deceleration from 2.7% in 4Q. The category added about 1.1 points of growth, with 0.51 points coming from healthcare. Food services (restaurants) and accommodations (hotels) were a slightly bigger drag than in 4Q. Private investment grew 8.7%. Equipment grew 17.2%, with computer gear up 67%. Intellectual property products grew 13%, with software up 23%. Nonresidential construction declined 6.7% and residential construction (housing) declined 8.0%. Real final sales to private domestic purchasers, (which focuses on core consumer spending and business investment) was up 2.5%, versus a 1.8% increase in 4Q. The GDP report also contains data on inflation, which remained elevated. The PCE Price Index increased 4.5% in the quarter. Excluding food and energy, the index increased 4.3%.

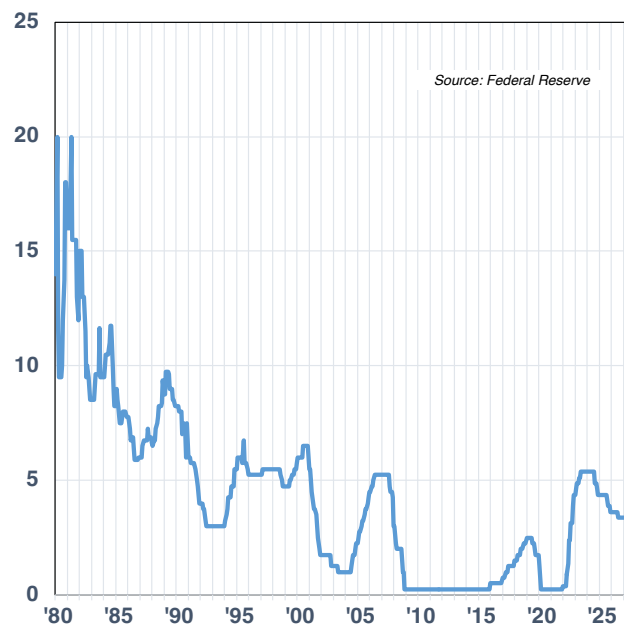
REAL GDP (% GROWTH/QTR)



FED DISSENTS PUT RATE CUTS IN DOUBT

The Federal Open Market Committee (FOMC) left its fed funds target unchanged at 3.5%-3.75% for a third consecutive meeting. The policy statement once again included the following. “Job gains have remained low, on average, and the unemployment rate has been little changed in recent months.” But that was about all that went according to script on a day when Jerome Powell was expected to ride into the sunset. The market-moving news from the Fed was that four of the 12 voting members dissented, the most since 1992. That sent the yield on the policy-sensitive two-year note higher and cast doubt on the prospect for lower rates under President Trump’s nominee for Fed chairman, Kevin Warsh. Mr. Warsh’s path to become the next chair was virtually assured in a vote by the Senate Banking Committee. Governor Stephen Miran, who chaired the President’s Council of Economic Advisors before joining the Fed, continued to dissent in favor of a quarter-point cut in the funds rate (which was not a surprise). Three regional bank presidents who are voting members of the FOMC (Beth Hammack of the Cleveland Fed; Neel Kashkari, of the Minneapolis Fed; and Lorie Logan of the Dallas Fed) did not support the statement’s inclusion of an easing bias, although they did support maintaining the target range. The 10-year Treasury yield, which has a greater effect on the economy than the funds rate, has climbed by 50 basis points to 4.43% since the war with Iran sent oil prices higher. Mr. Powell announced yesterday that he would remain on the board “for a period of time to be determined” after his term as chairman ends on May 15. His term as a governor would allow him to remain until early 2028. He offered the following. “My concern is really about the series of legal attacks on the Fed, which threaten our ability to conduct monetary policy without considering political factors.” He added that he intended to maintain “a low profile” as a governor and has no desire to interfere with Mr. Warsh’s leadership. Powell’s decision to stay means that there is not a vacant seat for Mr. Warsh. One possibility is that Mr. Miran could return to a senior position in the administration.

FEDERAL FUNDS TARGET RATE & FORECASTS (%)

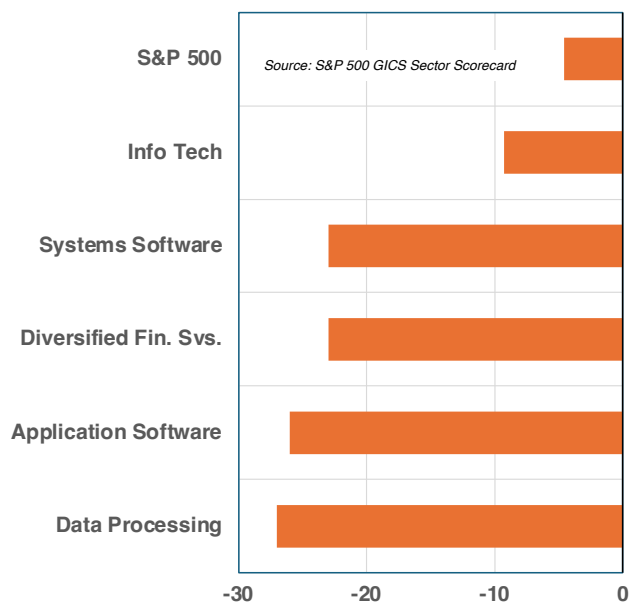


FINANCIAL MARKET HIGHLIGHTS

MARKET CALMER AS EARNINGS TAKE CENTER STAGE

In our 2026 Market Outlook, we noted that investor complacency was high, the upcoming Fed chairman transition could be rocky, the AI innovation revolution may stall, and that stock valuations were susceptible in the event of a sell-off in the Information Technology sector. That was our Bearish Case. Our Base Case called for another year of growth in the U.S. economy (and no recession), a modest decline in interest rates, and double-digit EPS growth. Since each of the planks in the Base Case are in place, there's reason to expect that equity prices can continue to push higher. The fear index (VIX) reading has been under 19.0 of late, below the historical average of 20 and consistent with a period of equity market strength. Indeed, during the long bull market in the 2010s, the VIX averaged 18 and even touched lows below 10 in 2017. We continue to think that the S&P 500 is in the mid-stage of a bull run that dates to October 2022. And while the path for equities won't be straight up, we suggest investors favor domestic large-cap growth stocks at the current market and economic juncture.

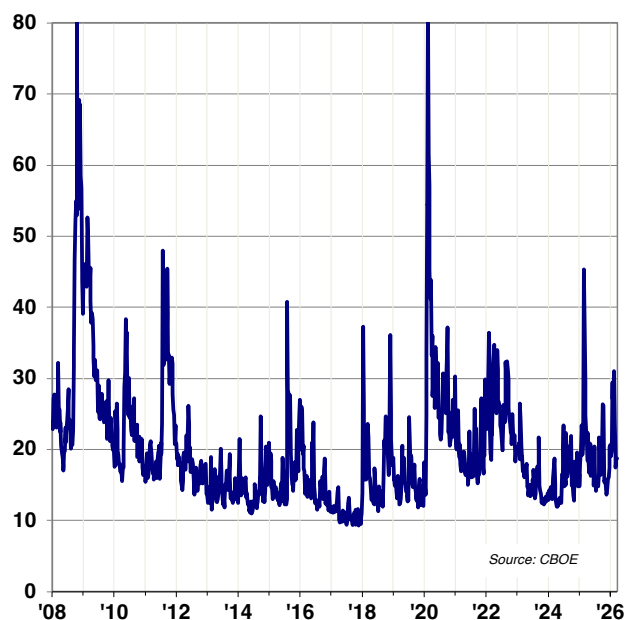
AI CARNAGE (1Q RETURNS %)



HAS SOFTWARE BEEN OVERSOLD?

Market sentiment has turned against enterprise software stocks over concerns about the potential for client cannibalization due to AI. In the first quarter, application software stocks plummeted 26% and systems software stocks tanked 23%. The carnage was not confined to the IT sector, as the Industrial group data processing & outsourced services dropped 27% and the diversified financial services industry fell 23%. We think these fears may be overblown, at least for some software companies that have become deeply embedded systems of record for their enterprise clients (who may not wish to take on the costs and risks of switching platforms and engaging in do-it-yourself AI vibe coded software). The disruption thesis also does not take into account that software companies are themselves also extensively developing agentic AI tools and applications, powered by both third-party frontier and proprietary models. Just the latest example of software/frontier model collaboration is Anthropic's Project Glasswing, with cybersecurity firms CrowdStrike and Palo Alto Networks participating in a select group of firms testing Anthropic's new Mythos model. There is no doubt that AI will be disrupting numerous industries. But companies with long-time client relationships and who provide systems and services that are tightly integrated with mission critical workflows should be able to weather the storm.

VOLATILITY INDEX (WEEKLY CLOSE)



KEY ECONOMIC FORECASTS

- The \$31 trillion U.S. economy remains on course for productive long term growth, powered by corporate investments in AI and outsized spending by wealthy households. Nvidia CEO Jensen Huang estimated, in November, that \$3 - \$4 trillion will be spent on AI infrastructure in the next 5 years.
- Real Potential GDP – the sustainable speed limit of the US economy is poised to increase to 2.1%, on average, through 2030 according to the Congressional Budget Office. AI is likely to raise productivity, offsetting slower growth in the labor force from an aging population and reduced immigration.
- The war in Iran is affecting millions of lives. Oil supply disruptions are a risk to affordability. We recently raised our 2026 oil price forecast to \$75 per barrel from \$60.
- The U.S. economy has become more resilient, more diversified and less oil dependent, but it is managing additional supply headwinds from tariffs and reduced immigration. This triumvirate could raise inflation, slow growth, and complicate Fed policy. Tax benefits and AI have helped the economy.
- A simple rule of thumb: National gasoline prices above \$4.00 begin to hurt consumer spending.
- We are monitoring financial conditions and high-frequency indicators including Nowcasts and weekly jobless claims. We recently reduced our 2026 forecast for GDP growth to 2.1% from 2.3%.
- Argus expects S&P 500 EPS to rise almost 16% to \$315 in 2026 and increase about 15% to \$363 in 2027. EPS is helped by an increase in operating margins to about 18.8% this year, well above 13.9% in pre-pandemic 2019. Growing tech giants such as MSFT and NVDA have operating margins of 47% and 60% respectively while Dow stalwarts Walmart and Caterpillar earn 4% and 17%, respectively.
- Argus Fixed Income Strategist Kevin Heal expects the Fed to reduce the funds rate by 25 basis points in 2026 and by another 25 basis points in 2027 taking the target range to 3%-3.25%. We expect the dollar to be slightly stronger in 2026 driven by foreign demand for shares of innovative U.S. companies and economic resilience.
- Gold is likely to remain at elevated levels. The ancient safe-haven asset recently reached a record above \$5,000 an ounce. We expect gold to trade in a range of \$4,000 - \$6,000 in 2026.
- Despite economic-and-policy “uncertainty,” the Misery Index, which is the Consumer Price Index (CPI) inflation rate plus the unemployment rate, is well below the average of 9.2% since 1949. Unemployment is low but an energy-driven jump in the March CPI to 3.3% raised the Index to 7.6%.
- What could go right? Big tax refunds, spending by wealthy consumers, strong S&P earnings, capital investment, productivity gains, inflation expectations remaining anchored, and ongoing innovation.
- Risks: Elevated Inflation, high fuel prices, weak housing market, low income consumers are struggling, spending by affluent may depend on stock market gains, AI may reduce entry-level hiring.

CURRENT ECONOMIC RELEASES

Current Economic Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
30-Apr	GDP Annualized QoQ	1Q "Advance"	0.5%	2.0%	2.3%	2.0%
	GDP Price Index	1Q "Advance"	3.7%	3.9%	NA	3.6%
	PCE Deflator	March	2.8%	3.6%	3.5%	3.5%
	PCE Core Deflator	March	3.0%	3.1%	3.2%	3.2%
	Personal Income	March	3.9%	3.4%	NA	3.7%
	Personal Spending	March	5.6%	5.2%	NA	5.7%
	Leading Index	March	0.3%	-0.2%	-0.1%	-0.6%
1-May	ISM Manufacturing	April	52.7	52.5	52.9	52.7
	ISM New Orders	April	53.5	53.2	NA	54.1
4-May	Factory Orders	March	4.0%	2.2%	NA	2.1%
	Total Vehicle Sales	April	16.2 Mln.	16.0 Mln.	NA	15.9 Mln.
5-May	ISM Services Index	April	54.0	53.0	54.0	53.6
	Trade Balance	March	-\$57.8 Bln.	-\$60.4 Bln.	NA	-\$60.3 Bln.
	New Home Sales	March	635K	600K	NA	682K
7-May	Nonfarm Productivity	1Q	1.8%	2.0%	NA	NA
	Unit Labor Costs	1Q	4.4%	3.5%	NA	NA
	Construction Spending	March	1.0%	0.8%	NA	NA
8-May	Nonfarm Payrolls	April	178K	125K	73K	NA
	Unemployment Rate	April	4.3%	4.3%	4.3%	NA
	Average Weekly Hours	April	34.2	34.2	34.2	NA
	Average Hourly Earnings	April	3.5%	3.6%	3.8%	NA
	Wholesale Inventories	March	1.8%	1.4%	1.5%	NA
	U. Michigan Sentiment	April	49.8	50.0	49.40	NA
11-May	Existing Home Sales	April	3.98 Mln.	4.10 Mln.	NA	NA
12-May	Consumer Price Index	April	3.3%	3.6%	NA	NA
	CPI ex-Food & Energy	April	2.6%	2.6%	2.7%	NA
13-May	PPI Final Demand	April	4.0%	3.9%	NA	NA
	PPI ex-Food & Energy	April	3.8%	3.5%	NA	NA
14-May	Retail Sales	April	4.0%	4.2%	NA	NA
	Retail Sales ex-autos	April	5.5%	5.6%	NA	NA
	Import Price Index	April	2.10%	2.40%	NA	NA
	Business Inventories	March	1.30%	1.20%	NA	NA
15-May	Industrial Production	April	0.7%	0.9%	NA	NA
	Capacity Utilization	April	75.7%	75.8%	NA	NA

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