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THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

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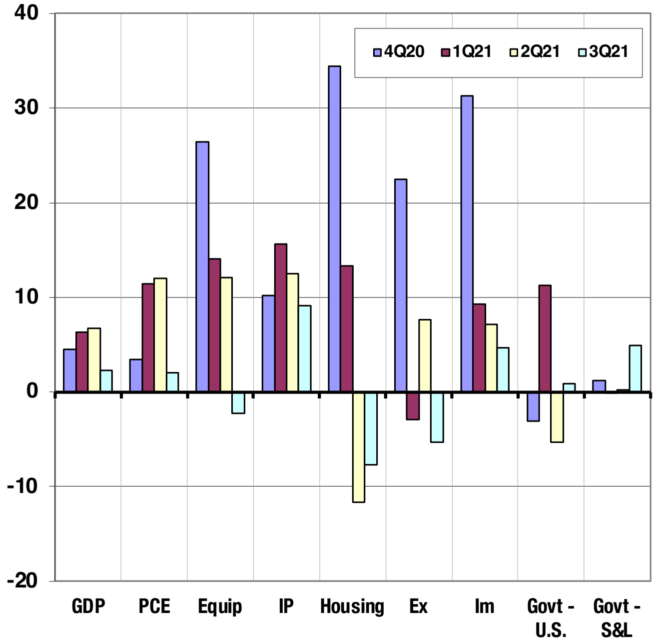
FINAL 3Q GDP READING: +2.3%

The U.S. Department of Commerce announced that its third estimate of 3Q21 GDP growth was 2.3%. This was slightly above previous estimates, but in line with the consensus outlook. The growth rate, while positive, was more than 400 basis points below the 1H21 average of 6.5% due to the emergence of the Delta variant. (The Omicron variant is also likely to have a negative impact on GDP in 2022, but we don't expect the impact to be as severe.) The GDP report also includes an inflation gauge, the PCE price index. This index, excluding food and energy, rose at a 4.6% pace, well ahead of the Federal Reserve's inflation target of 2.0%, but down from the 6.1% rate recorded in 2Q21. Looking ahead, we expect above-trend GDP growth for the next few quarters. But there may be bumps along the way, including the impact of the Omicron variant on jobs and consumer spending on services, as well as supply-chain bottlenecks. Our forecast for 2022 GDP growth is 3.7%, down from our 2021 GDP growth forecast of 5.5%.

GDP GROWTH DRIVERS (%)



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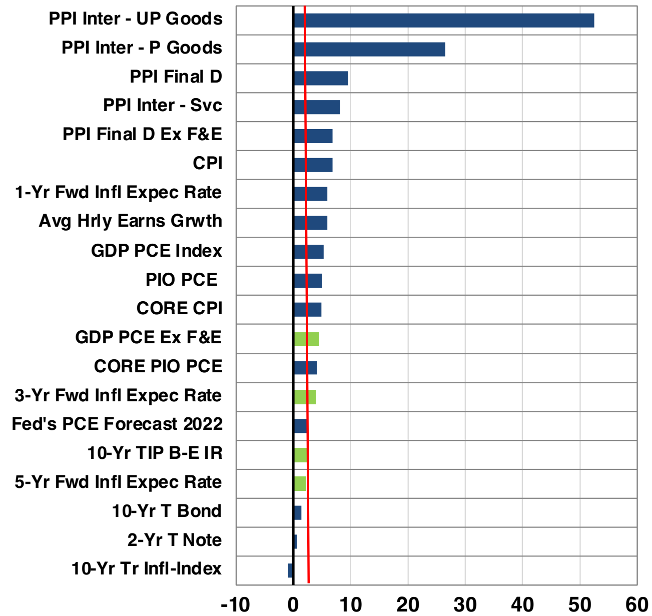
INFLATION STILL RUNNING HOT

Pricing pressures are percolating -- especially at the producer level -- and mainstream measures of inflation are rising as well. To address the issue, the Federal Reserve is pulling back the economic support it provided during the pandemic. We track 20 inflation measures on a monthly basis. On average, they indicate that prices are rising at a 7.9% rate, above last month's 7.8%. But drilling down to core inflation -- which we obtain by averaging core CPI, market-based PCE ex-food and energy, the five-year forward inflation expectation rate, and the 10-year TIPs break-even interest rate -- our reading is 3.4%, with the all-important five-year target rate at 2.1%. Even if the Federal Reserve has let near-term inflation escalate, the markets still seem to have confidence that the central bank can bring prices under control over time. The Fed's inflation forecasts now call for a core inflation reading of 5.3% in 2021 and 2.6% in 2022. Right now, the market does not expect the Fed to hit its 2022 target; the one-year forward expected inflation rate, according to the Federal Reserve Bank of New York survey, is 6.0%.

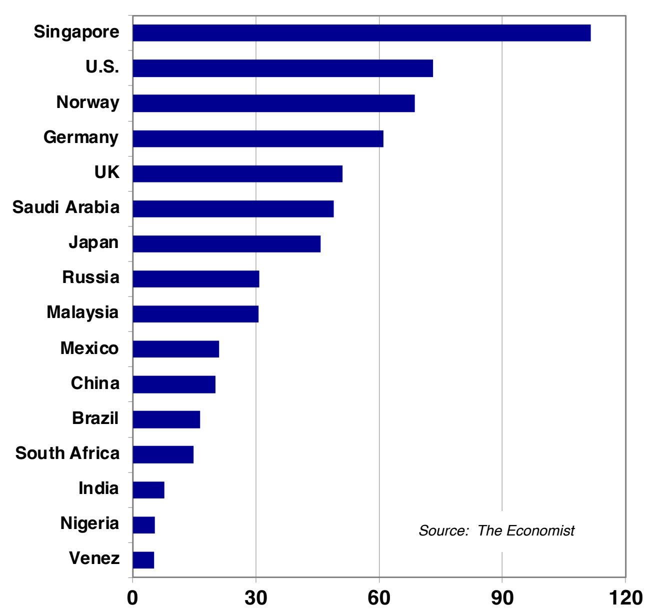
INFLATION MEASURES (% CHANGE Y/Y)



CHINA LAGS ON GDP PER CAPITA

China is the second-largest economy in the world in terms of total GDP. However, on a GDP per capita basis, the mighty nation remains a fraction of the size of the United States and trails a number of other countries. We expect solid GDP growth (a 5%-7% rate) to resume in China post-pandemic for at least the next decade. But the growth will be different from that seen over the past decade. We look for less investment by China in domestic infrastructure (such as dams, roads, airports, rail systems, and cities). Instead, we think the Chinese government will focus on raising the living standards of its 1.43 billion people, investing to lift citizens out of rural poverty, lengthening life expectancy, and protecting the environment, among other initiatives. This will favor business and consumer services, as well as financial services and healthcare. China is on track to overtake the U.S. based on the overall size of its economy within the next decade. It will take more than a generation, though, for China to approach the U.S. in terms of GDP per capita. Meanwhile, we will be keeping a close eye on the emerging nations of Nigeria and India for new infrastructure growth opportunities.

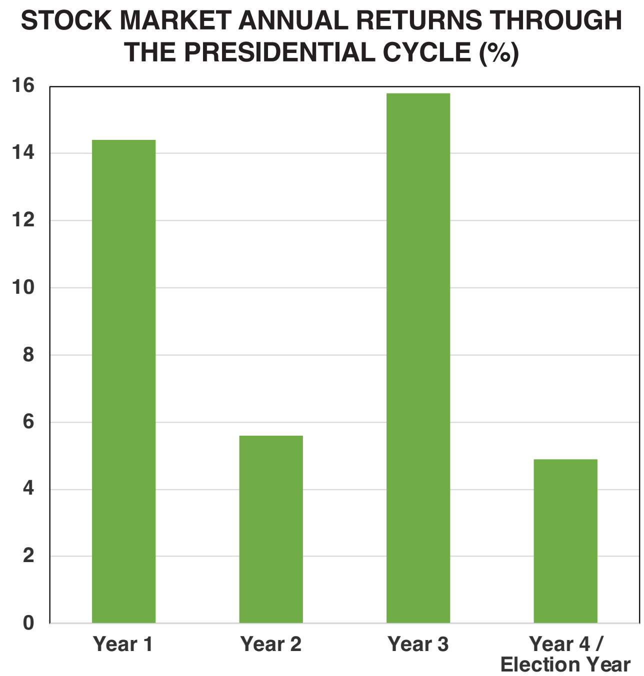
GDP/CAPITA ($U.S., 000)



FINANCIAL MARKET HIGHLIGHTS

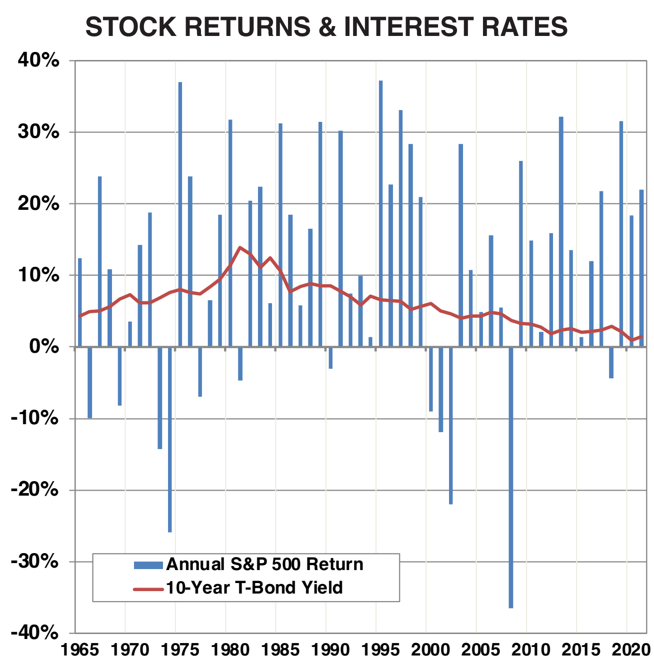
MIDTERM ELECTIONS A CHALLENGE FOR STOCKS

Of the four years in a presidential term, the second year (the midterm election year) has been one the worst for investors. Since 1980, returns in the second year of a presidential term have averaged 5.6%, compared to average returns of 14.4% and 15.8%, respectively, in years one and three. Why? The likely reason is uncertainty. Investors favor continuity, and a midterm election offers a real opportunity for a change in direction, whether in fiscal policy, antitrust philosophy, or regulatory focus. We note that incumbent parties typically lose seats in midterm elections, and that the loss of even a few Democratic seats in either the Senate or the House could tip control to the Republicans. Currently, President Biden's approval rating is low. According to the latest CNN/SSRS poll, President Biden has a net negative approval rating of -9 points on the economy, which is lower than the corresponding -4 point ratings for both President Obama and President Trump. The odds for a Republican-controlled House are currently 5 to 1. But a lot can happen over the next 12 months.



ARGUS MARKET OUTLOOK FOR 2022

Since 1980, stocks have turned in a positive performance almost 85% of the time. The average annual gain has been 13%. In 2021, results were better than average. As we look to 2022, we see a market that is likely to generate more normal returns. There are several positive factors: interest rates are low, GDP is expected to continue rebounding, and earnings are poised to grow at a double-digit rate. But some challenging, or negative, factors exist as well. Stocks are no longer priced at a discount to fair value, so the market will be more dependent on earnings than on higher valuation multiples for returns; coronavirus cases continue to rise in the U.S., with new strains emerging around the world; and stocks tend to struggle during the second year of a presidential cycle. In all, our economic, earnings, and valuation models point to another positive year for stocks, but with gains below the recent three-year average of 23%. We expect earnings to grow 10%, after a 45% increase in 2021; interest rates to remain historically low, even as the Fed removes more of the support it has provided to the economy; and valuations to hold steady. Our target price for the S&P 500 is 5200, or about 10% above current levels.



ECONOMIC CALENDAR

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
3-Jan	Construction Spending	November	0.2%	0.6%	0.6%	NA
4-Jan	ISM Manufacturing	December	61.1	61.2	60.4	NA
6-Jan	Trade Balance	November	-$67.1 Bln.	-$69.0 Bln.	-$69.2 Bln.	NA
	ISM Non-Manufacturing	December	69.1	69.0	67.3	NA
	Factory Orders	November	1.0%	1.2%	1.2%	NA
7-Jan	Non-farm Payrolls	December	210000	475000	450000	NA
	Average Weekly Hours	December	34.8	34.8	34.8	NA
	Average Hourly Earnings	December	0.3%	0.4%	0.4%	NA
	Unemployment Rate	December	4.2	4.3	4.1	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
19-Jan	Housing Starts	December	1679 K	NA	NA	NA
20-Jan	Existing Home Sales	December	6.46 Mil.	NA	NA	NA
21-Jan	Leading Economic Indicators	December	1.1%	NA	NA	NA