

# THE ECONOMY AT A GLANCE

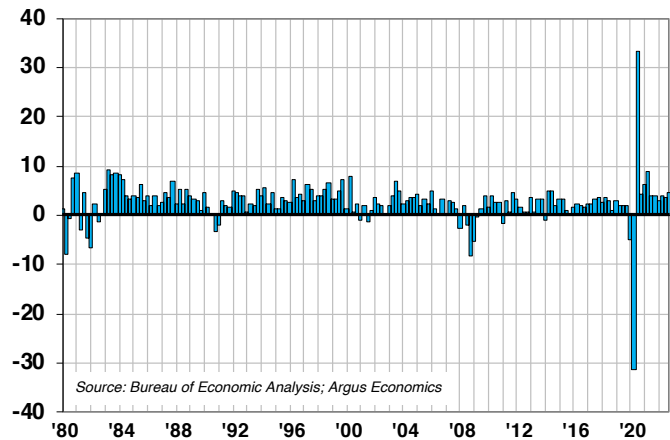
## ECONOMIC HIGHLIGHTS

May 24, 2021  
Vol. 88, No. 74

### 2Q GDP FORECAST: 8.8% ANNUALIZED GROWTH

Recent economic data shows that conditions are improving, though serious risks remain. The primary driver of GDP over the next few quarters is likely to be public health, as the nation battles COVID-19. The employment environment is in better shape than a year ago, consumer confidence is improving, auto sales have recovered, the housing market remains strong, and businesses are expanding. Our GDP model now calls for a 2.1% increase in absolute GDP in 2Q21 from 1Q21, which translates to an annualized gain of 8.8%. We expect further improvement in 2H21. On an annual basis, we look for overall GDP growth of 5.7% in 2021 and 3.7% in 2022. Our estimates are consistent with consensus forecasts.

### GDP TRENDS & OUTLOOK (% CHANGE)



### GOLD STABILIZING

As long as global economic uncertainty and virus fears are part of the market conversation, gold is likely to remain in demand. Last year, as the pandemic took hold, the spot price for an ounce of gold broke through the \$2,000 level. Fundamental factors that drove that uptrend (in addition to the virus) included the global economic recession, increased volatility in U.S. stock markets, uncommon negative interest rates in certain countries, and multi-trillions of dollars of U.S. federal government spending. As virus cases declined, gold pulled back and seems to have found a base near \$1,700 as the dollar weakened. Our forecast trading range for gold in 2021 is \$1,700-\$2,000, and our average for the year is \$1,800.

### GOLD PRICES (\$/OZ)



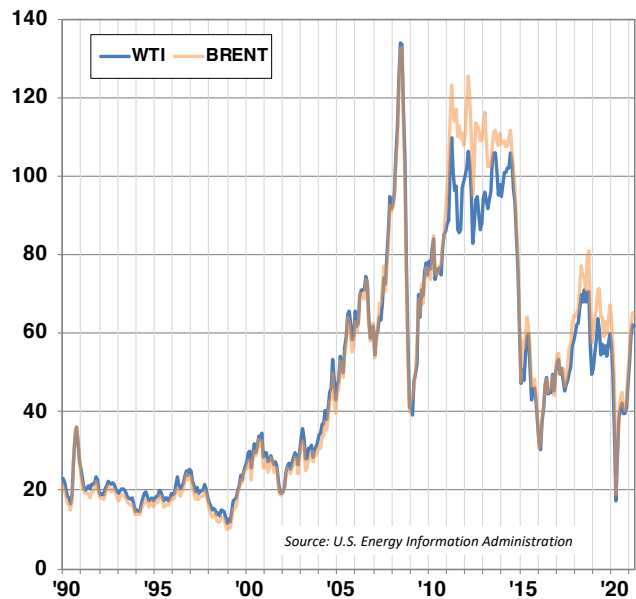
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# ECONOMIC HIGHLIGHTS (CONTINUED)

## ARGUS ADJUSTS OIL PRICE FORECAST

Our 2021 forecast for the average price of a barrel of West Texas Intermediate crude oil is now \$59, up from \$53. Our estimate assumes that OPEC and OPEC+ members coordinate on production cuts and that global economic activity continues to gradually improve. Our forecast also reflects the long-term downward pressure on crude prices as “peak oil” approaches. This trend, though not a smooth decline, may be seen in recent average annual prices: \$40 in 2020, \$57 in 2019, \$65 in 2018, \$51 in 2017, \$43 in 2016, \$49 in 2015, \$93 in 2014 and \$98 in 2013. Further, we anticipate that President Biden’s policies will continue to favor clean energy initiatives rather than carbon-based energy. Our range through 2021 is now \$70 on the upside and \$50 on the downside. Given the recovery in oil prices and the outlook for stability over the next few quarters, our investment recommendation on the Energy sector is Market-Weight. The current weight for the sector in the S&P 500 is approximately 2.9%, down from 7%-8% in 2013-2014. Within the group, we favor companies with strong balance sheets and a history of growing dividends.

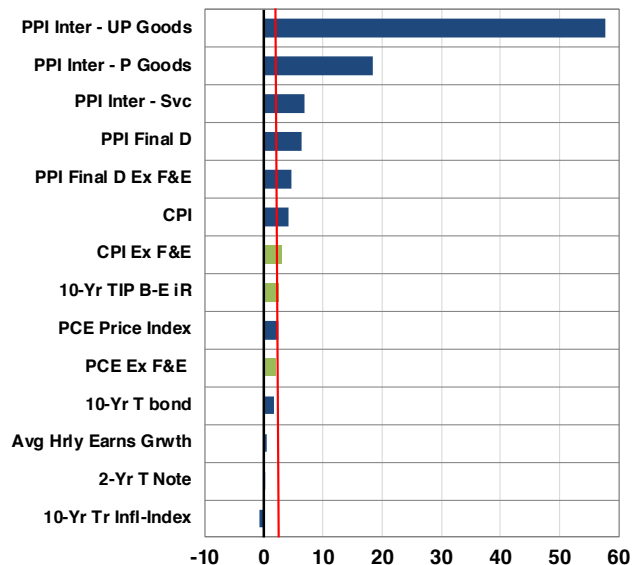
OIL PRICE TRENDS (\$/BBL)



## INFLATION PERCOLATING

Pricing pressures are hot, primarily at the producer level. After months of below-target inflation readings, mainstream measures of inflation are starting to tick higher as well. Even so, we don’t think the U.S. Federal Reserve is planning to change its approach to low interest rates. Chairman Powell has said that the central bank is willing to let inflation rise above its 2% target in exchange for a continued decline in unemployment. We track 14 inflation measures on a monthly basis. On average, they indicate that prices are rising at an 8.4% rate, ahead of last month’s reading, which was 6.2%. But drilling down to core inflation, our reading is 2.1%, only slightly above the Fed’s 2.0% target. The big increases in recent months have come at the producer level. Much of this price activity has been driven by the recovery in commodity prices, including oil. Used car prices are also up. The Federal Reserve’s inflation forecasts call for a core inflation reading of 2.2% in 2021 and a drop back to 2.0% in 2022.

INFLATION MEASURES (% CHANGE Y/Y)

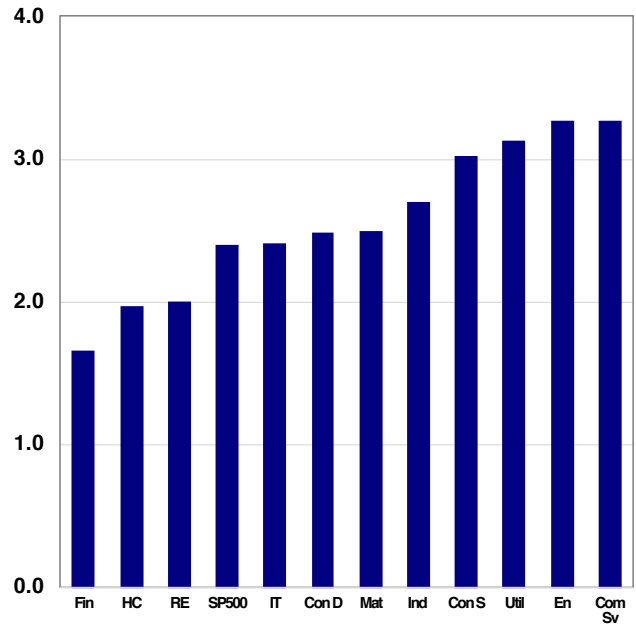


# FINANCIAL MARKET HIGHLIGHTS

## VALUES IN HEALTHCARE, FINANCIALS

Investors hunting for stocks that reasonably balance long-term growth and current value characteristics might want to look at companies in the Financial Services and Healthcare sectors. These are among the industry groups that are currently selling for (price/earnings)/(growth+yield) ratios that are at or below the S&P 500's ratio of 2.4. 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 three years along with two years of forward estimates, this in order to achieve a smoother, less volatile, earnings trend. Then we add the current yield to approximate the total return. Premium-valued sectors with low growth rates include Energy and Utilities. Our Over-Weight sectors include Healthcare, Financial Services, Industrial, Communication Services, and Information Technology. Our Under-Weight sectors include Utilities and Consumer Staples.

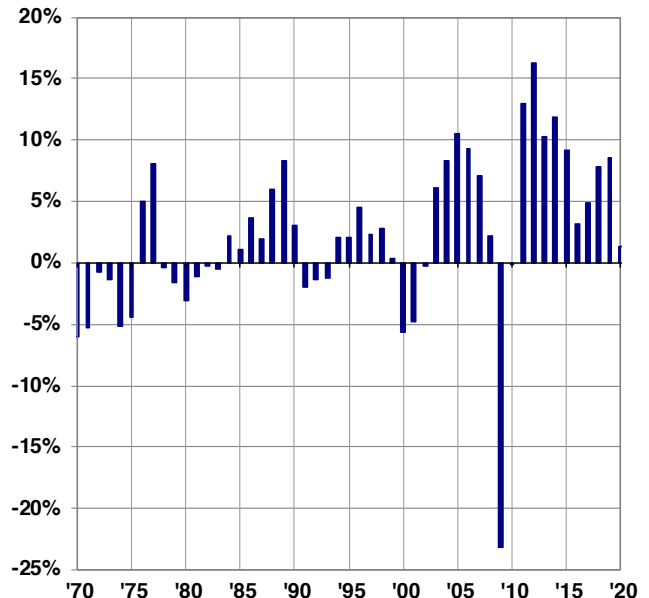
SECTOR PEGY RATIOS



## THE CASE FOR DIVIDEND GROWTH

Since 1970, the dividends of companies in the S&P 500 index have grown 2.1% per year, essentially in line with long-term GDP growth. But rates have varied sharply over the years, and from year to year. At times, the dividend growth rate has been negative -- during economic slowdowns in the early 1970s, 1980s and 1990s, and during the bear markets of 2000, 2008 and 2009. At the other end of the spectrum, the average dividend growth rate has been 10% or more in five of the past 50 years. More recently, dividend growth accelerated to 9% in 2019, which was a good year for stocks. But growth slowed sharply in 2020 due to the pandemic, with the rate falling below 1.0%. Given current market conditions and at this stage of the economic cycle (post-pandemic and entering a higher-growth period), Argus recommends that investors focus on dividend growth instead of dividend yield. Specifically, we are bullish on companies that have consistently boosted their dividend at a high rate for many years. Dividend growers, in our view, feature boards who are committed to shareholder returns, and consistent dividend hikes are a bullish signal for individual companies.

S&P 500 ANNUAL DIVIDEND GROWTH



# ECONOMIC CALENDAR

## Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
25-May	New Home Sales	April	1021000	980000	960000	NA
	Consumer Confidence	May	121.7	122.0	120.0	NA
27-May	Real GDP	1Q	6.4%	6.4%	6.4%	NA
	GDP Price Index	1Q	4.1%	4.1%	4.1%	NA
28-May	Personal Income	April	21.1%	NA	-15.0%	NA
	Personal Spending	April	4.2%	1.0%	0.5%	NA

## Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
8-Jun	Trade Balance	April	\$74.4 Bil.	NA	NA	NA
9-Jun	Wholesale Inventories	April	1.3%	NA	NA	NA
10-Jun	Consumer Price Index	May	0.8%	NA	NA	NA
	CPI ex-Food & Energy	May	0.9%	NA	NA	NA

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