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THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

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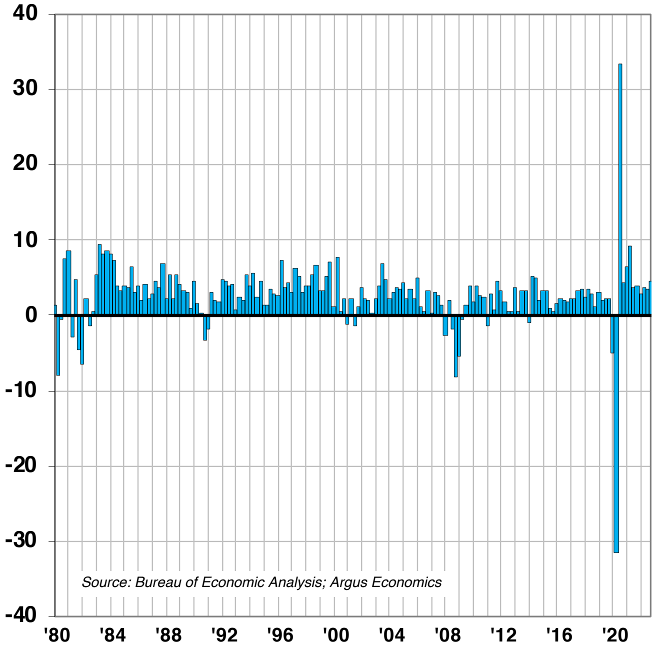
ROUND-TRIP RECOVERY ON TRACK

Recent economic data shows that conditions are improving, but that serious risks remain. The primary driver of U.S. GDP over the next few quarters is likely to be public health. Right now, the country has moved beyond the "third wave" of cases. The employment environment is in better shape than it was a year ago, though still far from full strength, and consumer confidence is improving. We expect rising confidence levels to lead to continued growth in consumer spending. Auto sales have recovered, and the housing market remains strong, even as interest rates tick higher. Businesses are again expanding. Our model now calls for a 2.1% increase in absolute GDP in 2Q21 from 1Q21, which translates to an annualized gain of 9.1%, up from our prior forecast of 8.9%. We expect improvement into 2H21. On an annual basis, we look for overall GDP growth of 5.7% in 2021 and 3.6% in 2022. Our estimates are consistent with consensus forecasts and the outlook from the Federal Reserve, which calls for growth of 4%-6% in 2021. The GDPNow Forecast from the Federal Reserve Bank of Atlanta is 8.6% for 2Q21.

GDP TRENDS & OUTLOOK (% CHANGE)



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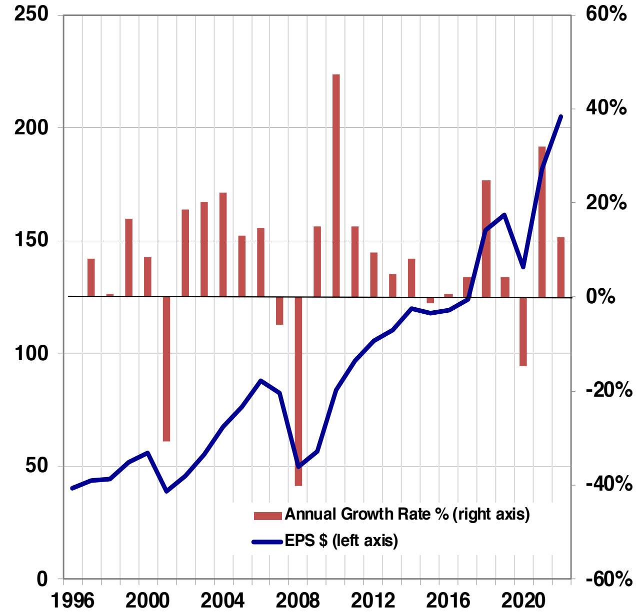
SECOND-QUARTER EPS SEASON

The increase in vaccinations, the passage of the Biden administration's $1.9 trillion stimulus package, and prospects for increased infrastructure spending are pushing consensus earnings expectations higher. Meanwhile, the economy has undergone fundamental changes as a result of the pandemic, with work and education shifting to a hybrid model that blends on-premises and remote participation. The digitization of the economy has also accelerated and is likely to continue at a rapid pace. In 2021, we look for a reversal in 2020's "deadweight" sectors (such as Industrials and Energy) that lowered index earnings last year. In May, we raised our 2021 estimate of S&P 500 earnings from continuing operations to $182 from $177. Our revised 2021 EPS model assumes 32% growth from our 2020 estimate of $138. Off the higher 2021 base, and on the assumption that positive economic momentum can be carried forward, we have also raised our 2022 EPS estimate to $205 from $201. Our revised 2022 forecast assumes 13% growth in S&P 500 earnings next year. With analysts ratcheting up their estimates, and given the higher-than-average percentage of earnings beats in 1Q21, we expect to raise both our 2021 and 2022 EPS forecasts meaningfully after the 2Q21 earnings season.

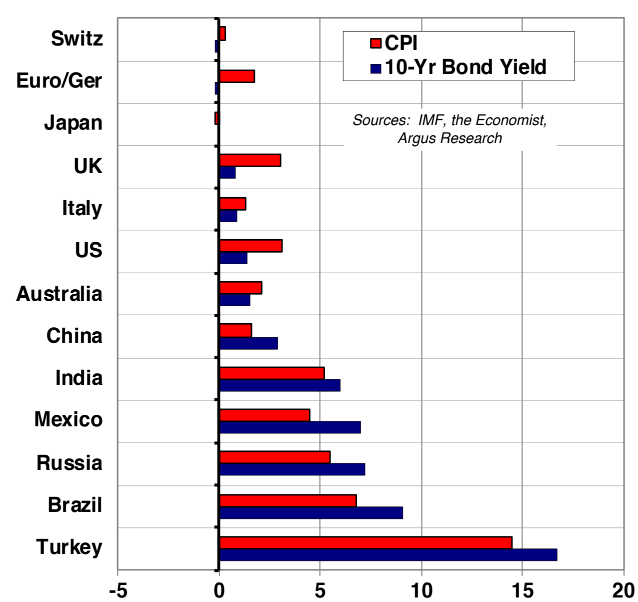
S&P 500 EPS TRENDS & ESTIMATES



GLOBAL INTEREST RATES TICK LOWER

Long-term interest rates in many countries have declined modestly in recent weeks, as global market participants expect GDP growth to slow into 2H21. Rates are at zero or negative in Europe and Japan. At the other end of the spectrum, spiraling inflation has lifted Turkish 10-year bond yields to 16.7%. In Brazil, where prices are also rising fast, the 10-year government bond yield is 9.1%. Long-term rates in many industrialized regions are in the 0.5%-1.5% range. Inflation expectations also are modest in these areas, averaging around 2.5%. On the economic forecasting front, the relatively higher rates in the United States indicate that its economic recovery could lead the way for industrialized nations over the next few quarters. From an investment standpoint, we see little attraction in global bonds, as rates are negative in the safer zones of Europe and Japan, and risks are elevated in higher-yielding markets such as Turkey, South Africa, and Brazil.

GLOBAL INTEREST RATES & INFLATION (%)

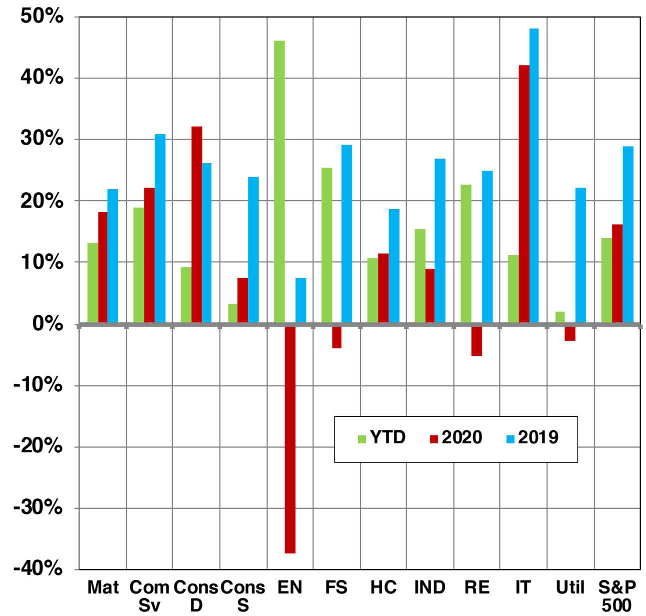


FINANCIAL MARKET HIGHLIGHTS

SECTOR LEADERS & LAGGARDS IN 1H21

Breadth has been impressive so far this year, and every sector turned in a positive performance in 1H21 — though last year's laggards generally were the leaders. Take Energy, for example. The sector fell 37% in 2020 and also lagged the market in 2019. This year, Energy is the leading sector, with a gain of 46%. The Financial Services sector also turned things around in 1H21, rebounding from a 4% slide in 2020 with a 25% advance so far in 2021. Other market-beating sectors in 2021 include Industrials (+16%, after underperforming the market last year), Communication Services (+19%), and Real Estate (+23%). The turnaround in sector performance hints at a shift in the market toward value investing and away from growth. Indeed, the three primary growth sectors — Technology, Healthcare, and Consumer Discretionary — are all up about 10% year-to-date. Our sector Over-Weights reflect a blend of growth and value, and include Technology, Healthcare, Industrials, Financial Services, and Communication Services.

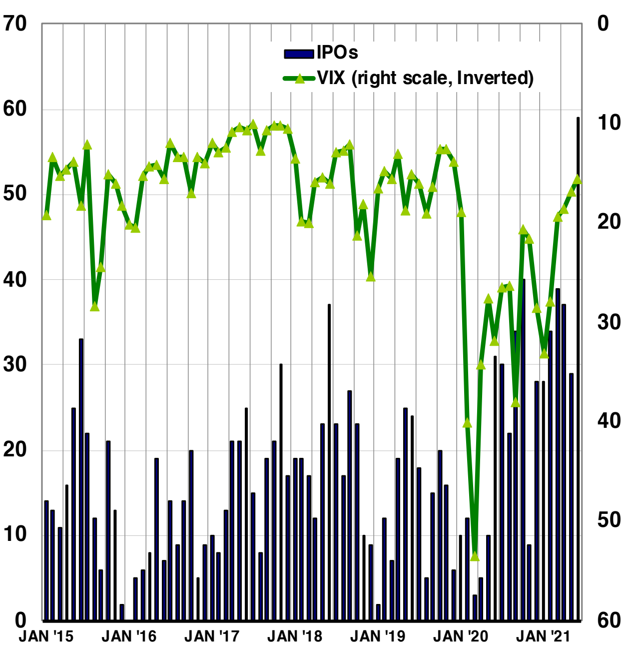
SECTOR PERFORMANCE (CHANGE PER PERIOD)



BUSY MARKET FOR NEW ISSUES

IPO activity jumped 170% year-over-year in 2Q21, and was up 25% from 1Q21. Some 125 operating companies raised funds through IPOs in 2Q21, up from 46 in 2Q20 and 101 in 1Q. Including SPACs, approximately 186 entities raised funds. Secondary offerings declined 28% year-over-year, reflecting a difficult comparison with 2Q20, when many listed companies tapped the public markets to strengthen balance sheets during the pandemic. Investor demand was strong for IPOs, and investors often were rewarded: the average non-SPAC IPO opened 33% above its offering price. Unicorns found conditions favorable, and many firms left the ranks of private ownership to enter the public markets, while demand for SPACs cooled. In another trend, some companies are listing directly with stock exchanges, forgoing the traditional IPO route. We think the market for IPOs will remain strong. The pipeline aligns with recent quarters, with about 138 companies having filed with the SEC (more than 440 including SPACs). In addition, there are promising blockbuster Unicorns in the pipeline. These companies likely have learned from Uber and SmileDirectClub that they should be showing profit projections and offering quality ownership terms during their road shows.

IPO ACTIVITY



ECONOMIC CALENDAR

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
20-Jul	Housing Starts	June	1572 K	1565 K	1587 K	NA
22-Jul	Leading Economic Indicators	June	1.3%	1.0%	1.0%	NA
	Existing Home Sales	June	5.80 mln.	5.85 mln.	5.94 mln.	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
2-Aug	ISM Manufacturing	July	60.6	NA	NA	NA
	Construction Spending	June	-0.3%	NA	NA	NA
3-Aug	Factory Orders	June	1.7%	NA	NA	NA
4-Aug	ISM Non-Manufacturing	July	60.1	NA	NA	NA
5-Aug	Trade Balance	June	-71.2 Bln.	NA	NA	NA
6-Aug	Wholesale Inventories	June	1.3%	NA	NA	NA
	Non-farm Payrolls	July	850 K	NA	NA	NA
	Average Weekly Hours	July	34.7	NA	NA	NA
	Average Hourly Earnings	July	0.3%	NA	NA	NA
	Unemployment Rate	July	5.9%	NA	NA	NA

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