

THE ECONOMY AT A GLANCE

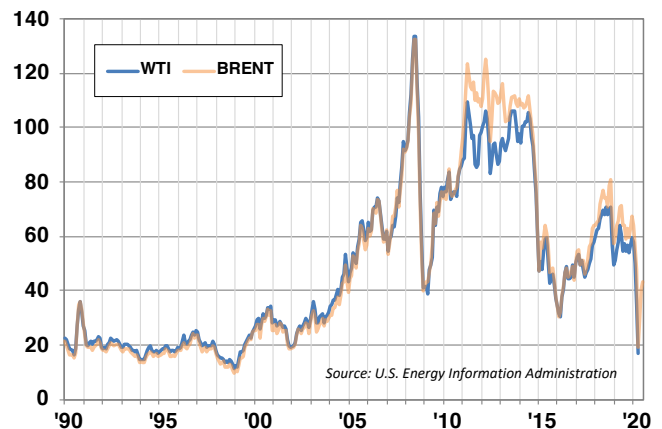
ECONOMIC HIGHLIGHTS

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ARGUS RAISES OIL PRICE FORECAST

Argus Research has changed their 2020 forecast for the average price of a barrel of oil to \$38 for West Texas Intermediate crude, up from \$30 per barrel. The revised estimate assumes that OPEC and OPEC+ members coordinate on production cuts and that economic activity gradually improves over the remainder of 2020. The new target also reflects the long-term downtrend for crude prices as “peak oil” approaches. Their forecast range through 2021 is now \$30-\$50 per barrel. Given the volatility in oil prices, their investment recommendation on the Energy sector is Under-Weight. Within the group, they favor companies with strong balance sheets and a history of growing dividends.

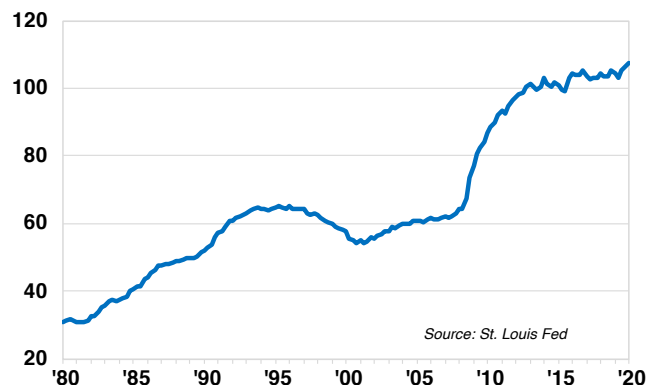
OIL PRICE TRENDS (\$/BBL)



DEBT LOFTY LEVEL OF GDP

Total U.S. debt is now more than 100% of GDP -- the highest level since World War II. In the 1980s, the debt/GDP ratio was solidly in the 40% range, and moved up toward the 60% level by 2000. Debt soared around 2010, as the government spent aggressively to stop the recession and rekindle growth. Still, despite more than 10 years of economic growth, debt has only grown as a percentage of GDP. This is not a problem that has to be fixed today. After all, interest rates are low and policies to change the trajectory could push the economy deeper into recession. But politicians should establish a plan to address the issue in the next 10-15 years. If not, the situation could result in hyperinflation or in the inability of the government to address long-term problems.

U.S. DEBT/GDP RATIO (%)

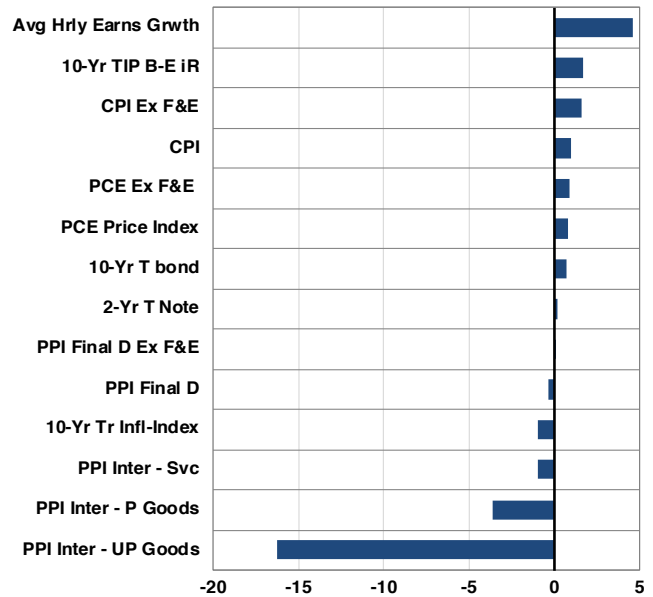


ECONOMIC HIGHLIGHTS (CONTINUED)

PRICING PRESSURES MUTED

The Federal Reserve is backstopping mortgage markets, money-market mutual funds, small businesses, mid-sized businesses, corporate debt, and some state and local governments. As such, the central bank is likely to more than double the \$4.1 trillion in assets on its balance sheet at year-end 2019. Meanwhile, most inflation measures remain below the Fed's target of 2.0%, and some are even pointing toward deflation. We track 14 inflation measures on a monthly basis. On average, they indicate that deflation is present, with a reading of -0.8%. If we drop the outlier number from the PPI for unprocessed goods for intermediate demand, the reading is still only 0.42%. Looking at core inflation, our reading is 1.4%, up slightly from 1.2% last month but still low. With this inflation backdrop, we expect the Federal Reserve to keep short-term rates close to zero until at least 2022.

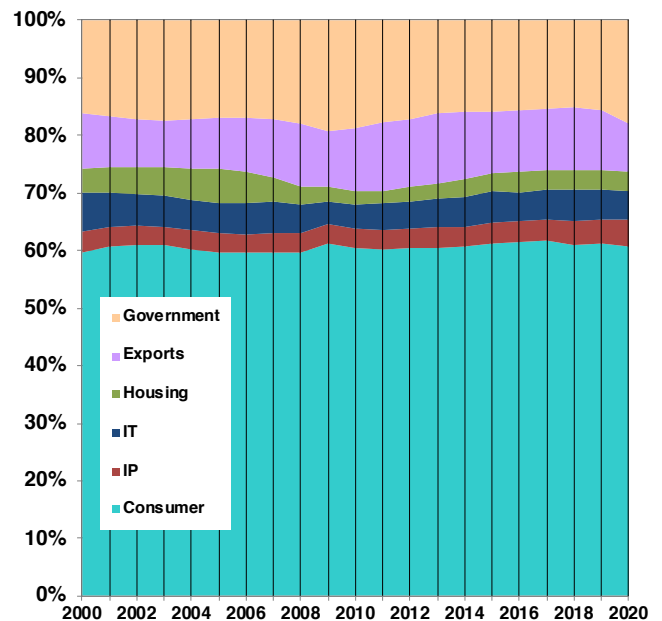
INFLATION MEASURES (% CHANGE Y/Y)



SWINGS IN GDP CONTRIBUTORS

The Commerce Department reported that 2Q20 GDP declined at a 31.7% rate. That's better than the 32.9% rate of decline that was announced last month. During 2Q, Personal Consumption Expenditures declined at a 34% pace and contributed 60.6% of core demand. This is below the 10-year average, as the consumer sector, the most important component of the economy, has been hit hard by COVID-19. Capital Investments into Equipment plunged 36% and accounted for a consistent 4.9% of total GDP, while Capital Investments into Intellectual Property fell a lesser 8% and accounted for a high 4.7% of total GDP (compared to the historical average of 3.6%). The other swing was between Exports (down 66% and accounting for 8.4% of total demand compared to a historical average of 11.1%) and Government (up 3% and accounting for 17.8% of total demand compared to a historical average of 16.6%). We believe that U.S. GDP will recover to pre-COVID-19 levels by the end of 2021, but that sectors will recover at different rates. We look for investments into IP and government spending to be among the leading contributors to recovery.

GDP CONTRIBUTORS

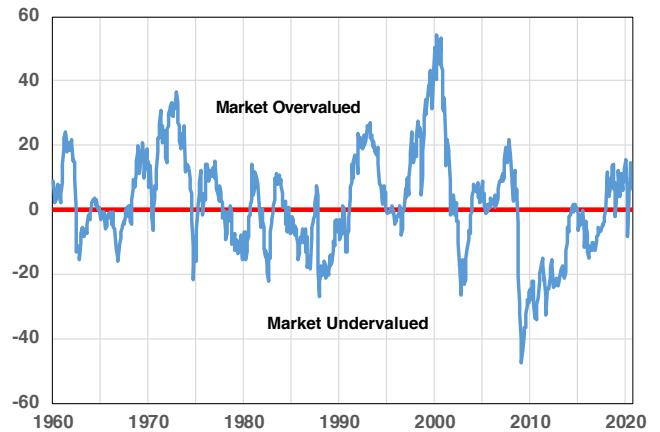


FINANCIAL MARKET HIGHLIGHTS

STOCKS MOVE AHEAD OF FAIR VALUE

Stock prices, as expressed by the S&P 500, are above fair value, which our model pegs at closer to 3000. Not to worry, though. Stocks rarely trade right at fair value. Since 1960, on average, the index has traded at a tight 0.2% above fair value, but the standard deviation to the mean is 17%. That means we expect the S&P 500 to trade between 17% undervalued and 17% overvalued. At recent prices, the market is about 12% above fair value, implying room on the upside before valuation becomes more of a concern. What is driving this premium, during a pandemic? Investors are optimistic that companies saw the worst of the COVID-19 impact on earnings during the second quarter, and that outlooks will improve. Given the current overvalued level of the market, though, disappointments could be painful.

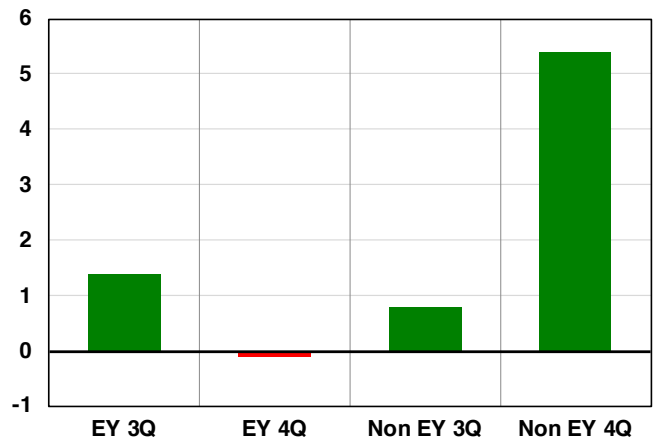
S&P 500 VALUATION MODEL (0% = FAIR VALUE)



ELECTION YEAR RETURNS MIXED

Our study of returns since 1980 found that in the third quarter of election years, stocks rise on average 1.4%. That compares to a nonelection year change of 0.8%. In the fourth quarter of election years, we found that stocks slip 0.1%, compared to gains of 5.4% in nonelection years. Why? Generally, investors favor continuity, and an election year offers a real opportunity for change. At the beginning of 2020, the odds were favoring another term for President Trump. But in the wake of the pandemic and recession, the odds now favor former Vice President Biden. Should Trump win, industries likely to benefit could include Aerospace & Defense (which have done well under his presidency) and Energy (which has not, despite favorable regulations). Should Biden win, sectors such as Clean-Tech, Med-Tech and Business Services may do well as regulations change.

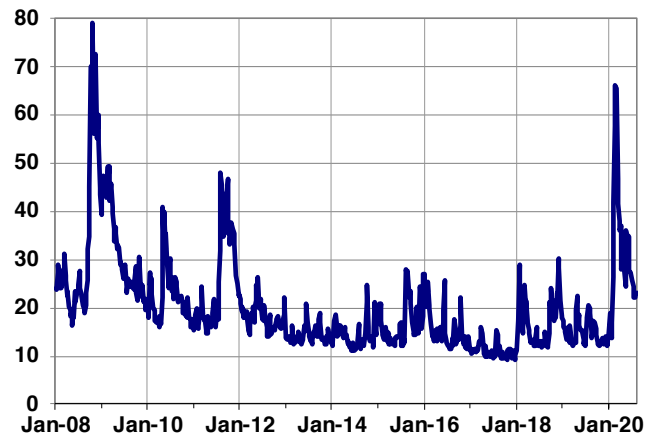
STOCK MARKET RETURNS IN 2H OF ELECTION YEARS (% CHANGE IN S&P 500)



NAVIGATING HIGH VOLATILITY

Investors should expect volatile market conditions through at least the balance of 2020. This forecast fits in with our Three Levels of Recovery Theory. We look for public health to recover first, with widespread COVID-19 testing by midyear (now falling a bit behind this target), treatment options by the fall (on track), and a vaccine in late 2020/early 2021 (not definitive). The second recovery should be in the economy, helped by government stimulus. The third recovery should be in corporate earnings and the stock market. Second-quarter results are pointing to a 30%-35% year-over-year decline in EPS. But investors are focused on the outlook. Here, we expect improvement, with a 20%-25% earnings decline in 3Q. Given headlines on the economy and presidential race, we expect volatility to remain high and recommend that investors focus on high-quality companies with strong balance sheets and experienced management.

VOLATILITY INDEX (WEEKLY CLOSE)



ECONOMIC CALENDAR

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
1-Sep	ISM Manufacturing	August	54.2	54.3	54.3	56.0
	Construction Spending	July	-0.5%	0.5%	0.7%	0.1%
2-Sep	Factory Orders	July	6.2%	6.0%	6.1%	NA
3-Sep	Trade Balance	July	-50.7B	-58.0B	-58.0B	NA
	ISM Non-Manufacturing	August	58.1	58.0	57.6	NA
4-Sep	Non-Farm Payrolls	August	1763k	1700k	1370k	NA
	Manufacturing Payrolls	August	26k	60k	55k	NA
	Average Weekly Hours	August	34.5	34.5	34.5	NA
	Average Hourly Earnings	August	0.2%	0.0%	0.0%	NA
	Unemployment Rate	August	10.2%	10.0%	9.8%	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
15-Sep	Import Price Index	August	0.7%	NA	NA	NA
	Empire Manufacturing	September	3.7	NA	NA	NA
	Industrial Production	August	3.0%	NA	NA	NA
	Capacity Utilization	August	70.6%	NA	NA	NA
16-Sep	Retail Sales	August	1.2%	NA	NA	NA
	Retail Sales Ex Autos	August	1.9%	NA	NA	NA
	Business Inventories	July	-1.1%	NA	NA	NA
17-Sep	Housing Starts	August	1496k	NA	NA	NA
	Philadelphia Fed BOS	September	17.2	NA	NA	NA
18-Sep	Leading Economic Indicators	August	1.4%	NA	NA	NA

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