

THE ECONOMY AT A GLANCE

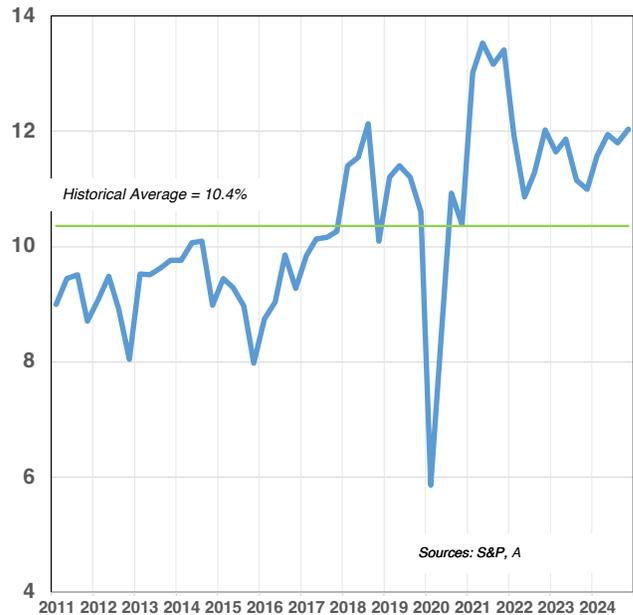
ECONOMIC HIGHLIGHTS

June 2, 2025
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PROFIT MARGINS WIDENING

There are three drivers to EPS growth: higher sales, a wider operating margin, and a reduced share count. A decline in shares outstanding, the result of corporate share buybacks, is the lowest-quality driver. Higher sales -- as customers demand and pay for more products -- is the highest quality, especially when sales totals are driven by an increase in volume. Margin management is in the middle. Consistently wider margins are often a sign of a good management team, which should, over time, be able to grow revenues faster than costs. That's a tall order in periods of high inflation (which raises the prices of cost of goods sold) and of high interest rates (which result in higher financing costs). What's more, there's a cap to margins and they don't rise indefinitely. (This is one of those statistics for which the concept "reversion to the mean" is relevant.) In 4Q, the S&P 500 operating margin widened by more than 100 basis points year over year to 12.0%, which means there's still room before margins peak at around 13.5-14.0%. This trend fits into our outlook for a modest widening for the S&P 500 operating margin in 2025, taking into account an expected negative drag from tariffs, and for EPS growth in the 12% range for the year.

S&P OPERATING MARGIN TRENDS (%)

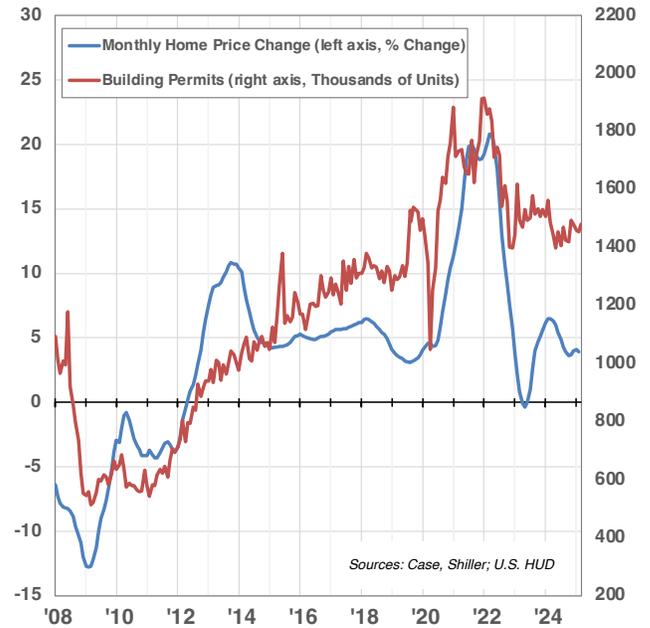


ECONOMIC HIGHLIGHTS (CONTINUED)

HOME PRICES MAY FALL THIS FALL

U.S. home prices have risen at a compound annual rate of almost 7% over the last 10 years. Along the way, homeowners have become richer, with collective equity in real estate nearly tripling to \$35 trillion. But with mortgage rates back up to 7% and more homes on the market, the pace of appreciation is slowing. Indeed, the S&P/Case-Shiller National Home Price Index could soon be declining on a year-over-year basis. Strong home prices are important to the economy. They provide security for lenders. As well, homeowners often are willing to spend on upgrades and renovations based on the belief that they will see a payoff down the road. We don't expect a significant drop in prices because the big Millennial generation is starting households and others are on the sidelines hoping to buy a piece of the American Dream. Recently, the National Association of Realtors reported Existing Home Sales for April that were near the consensus pace of 4.0 million at a seasonally adjusted annual rate. The median home price hit a record of \$414,000, but the annual increase slowed to 1.8% as the inventory of existing homes increased by 9% to 4.4 months (from 4 months in March).

HOUSING MARKET TRENDS

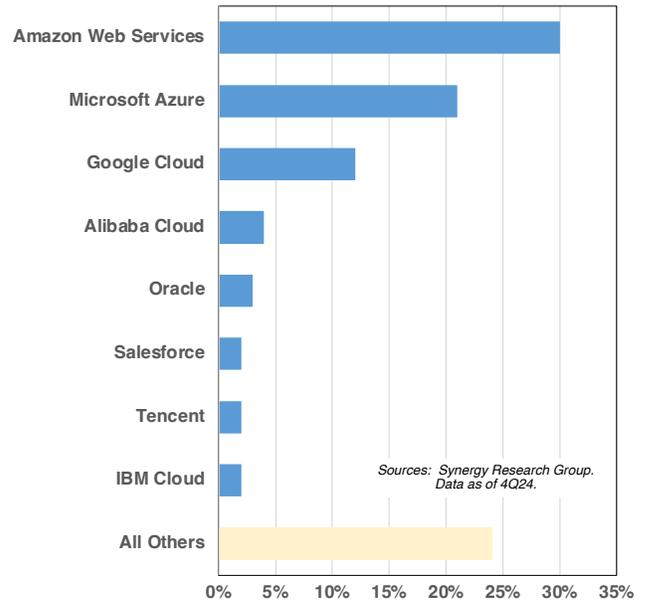


FINANCIAL MARKET HIGHLIGHTS

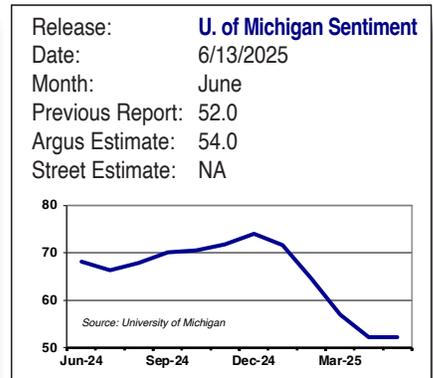
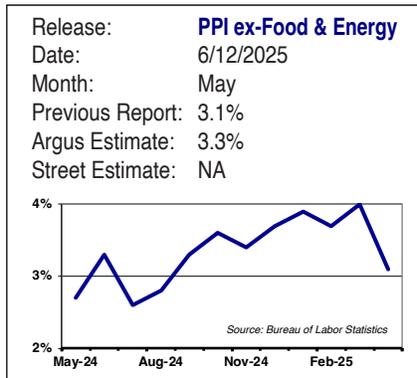
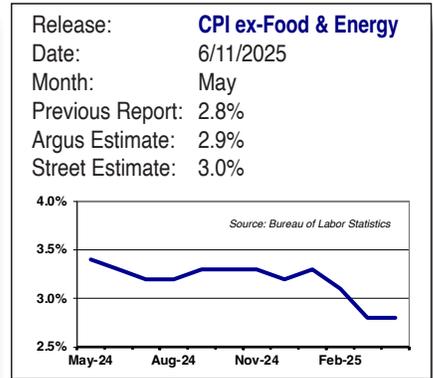
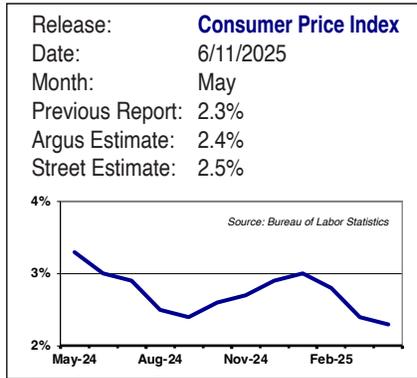
INVESTING IN THE CLOUD

Cloud computing has transformed the technology landscape over the past decade. Given that delivery of AI will mainly occur within a hybrid cloud environment, the emergence of AI-as-a-Service represents a difficult-to-quantify, but undoubtedly positive, driver of cloud service revenues in the coming years. The leading providers of cloud services tend to be large technology and communication services companies that provide goods and services distinct from or adjacent to their cloud businesses. These include Amazon.com, Microsoft, Alphabet, and others in the United States, along with Alibaba, Baidu, Tencent, and others in China. Collectively, participants in the cloud eco-system grew revenue at a high-teens compound annual rate from 2016 to 2024. In our view, the positive long-term tailwinds from enterprise digital and cloud transformation are powerful enough to offset any near-term economic or tariff uncertainty. We expect rising device demand and enterprise IT spending to drive cloud investment in 2025-26 and beyond.

GLOBAL CLOUD MARKET SHARES



ECONOMIC TRADING CHARTS & CALENDAR



Previous Week's Releases and Next Week's Releases on next page.

ECONOMIC TRADING CHARTS & CALENDAR (CONTINUED)

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
2-Jun	ISM Manufacturing	May	48.7	49.0	48.4	48.5
	ISM New Orders	May	47.2	47.4	NA	47.6
	Construction Spending	April	1.2%	1.6%	NA	-0.5%
3-Jun	Factory Orders	April	4.9%	1.5%	NA	0.9%
4-Jun	ISM Services Index	May	51.6	52.0	52.0	NA
5-Jun	Trade Balance	April	-\$140.5 Bln.	-\$110.0 Bln.	-\$117.3 Bln.	NA
	Total Vehicle Sales	May	17.27 Mln.	17.10 Mln.	NA	NA
6-Jun	Nonfarm Payrolls	May	177K	140K	130K	NA
	Unemployment Rate	May	4.2%	4.2%	4.2%	NA
	Average Weekly Hours	May	34.3	34.3	34.3	NA
	Average Hourly Earnings	May	3.8%	3.8%	NA	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
17-Jun	Retail Sales	May	5.2%	NA	NA	NA
	Retail Sales ex-autos	May	4.2%	NA	NA	NA
	Industrial Production	May	1.5%	NA	NA	NA
	Capacity Utilization	May	77.7%	NA	NA	NA
	Import Price Index	May	0.1%	NA	NA	NA
	Business Inventories	April	2.2%	NA	NA	NA
18-Jun	Housing Starts	May	1,361K	NA	NA	NA
20-Jun	Leading Index	May	-1.0%	NA	NA	NA

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