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THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

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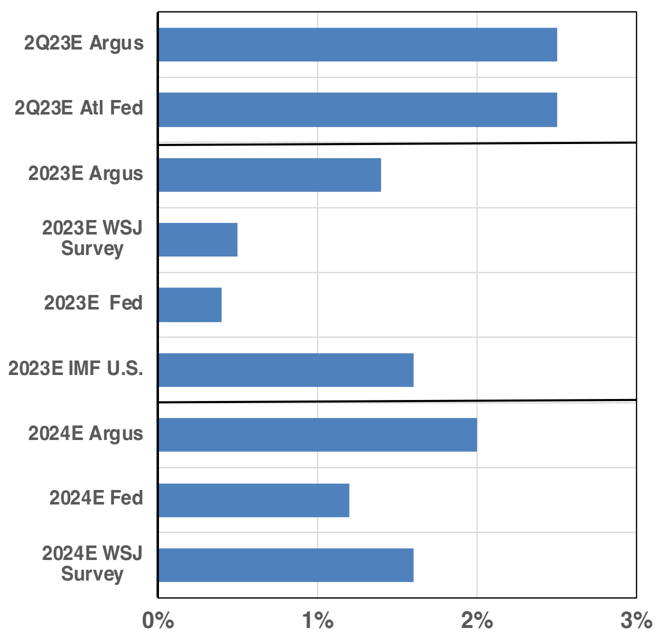
SECOND-QUARTER GDP GROWTH FORECAST: 2.5%

Recent data indicates that key components of U.S. GDP are still expanding, despite the impact of higher interest rates, inflation, and geopolitical developments. That said, growth is not consistent across all segments of the economy and, in many cases, growth rates are slowing. The risk of recession is real -- but a U.S. recession is not a foregone conclusion. We look for uneven growth in 2023, with the high possibility of a negative quarter or two. After reviewing the latest economic fundamentals, we are maintaining our 2Q23 GDP growth forecast of 2.5%. We believe that 2Q could be the strongest quarter of the year, before higher rates dampen consumer spending in the second half. Our full-year GDP growth forecast is 1.4%. Our GDP growth forecast for 2024 is now 2.0%, as the Federal Reserve, with its tool chest again full after its rate hike campaign, can contemplate lowering interest rates to recharge economic growth. Our estimates are generally within the range of other forecasters, though perhaps a bit higher than the consensus. The Wall Street Journal Economic Survey calls for GDP growth of 0.5% in 2023 and 1.6% in 2024. The Federal Reserve projects GDP growth of 0.4% in 2023 and 1.2% in 2024. Meanwhile, the IMF looks for 2023 growth of 1.6%, and the Philadelphia Fed's Survey of Professional Forecasters calls for growth of 1.3% in 2023 and 1.4% in 2024.

GDP ESTIMATES



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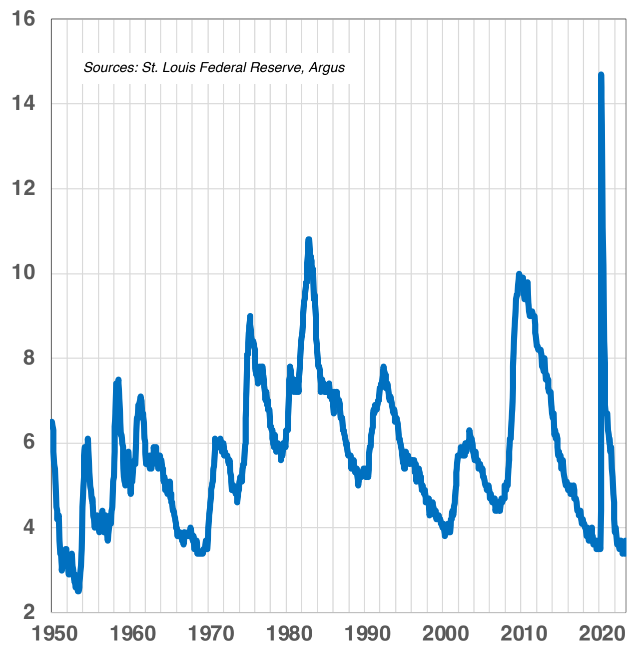
UNEMPLOYMENT RATE RISES TO 3.7%

The U.S. economy generated 339,000 new jobs in May, topping consensus expectations of 190,000 and our forecast of 175,000. The unemployment rate rose to 3.7% from 3.4% in April, which had been a 54-year low. In recent weeks, Fed Chair Jerome Powell and other central bank officials have suggested that they may hold rates steady at the June 13-14 meeting to assess the lagging effects of 10 rate hikes since March 2022. Average hourly earnings increased $0.11 from the prior month and 4.3% from the prior year, down slightly from 4.4% growth in April. The labor force participation rate was unchanged at 62.6%. In May, job gains occurred in professional and business services, government, health care, construction, transportation and warehousing, and social assistance. Employment was little changed in mining, quarrying, and oil and gas extraction; manufacturing; wholesale trade; retail trade; information; financial activities; and other services. Job gains in March and April were revised higher by 93,000 jobs. The number of job openings in April increased by 358,000, according a separate report. Demand for workers is still strong, with 10.1 million openings, but the number of unemployed rose by 440,000 to 6.1 million. Before the employment report, futures contracts suggested an 80% probability that the Fed would hold the fed funds range at 5.0%-5.25% at its June meeting. After the release, the probability of the Fed standing pat in June dropped to 66%.

U.S. UNEMPLOYMENT RATE (%)



FINANCIAL MARKET HIGHLIGHTS

STOCKS MAY TAKE OFF AFTER RATE HIKES

One positive from past rate hike cycles is that when they are over, the stock market is usually in a good mood. We have studied market performance during the seven periods of rising fed funds rates since 1980. These occurred in 1983-1984, 1988-1989, 1993-1995, 1999-2000, 2004-2006, 2016-2019, and 2022-2023. On average, these periods lasted about 18 months. The average change over the cycle was a cumulative hike of 320 basis points. The fed funds rate at the end of the cycle averaged 6.7%, well above the 4.5% overall average fed funds rate since 1980. So then what happens? Our study found that stocks generally perform well once the rate cycle ends. In the six cycles prior to 2022-2023, the average gain in the S&P 500 in the six months after the end of the cycle was 11.6%, which translates to an annualized return of 23.0%. After those cycles, stocks declined only once in the following six months; that was in 1999-2000 ahead of the "dot-com" implosion. The big sigh of relief when the Fed is finished, it seems, puts powerful wind in the sails of the stock market.

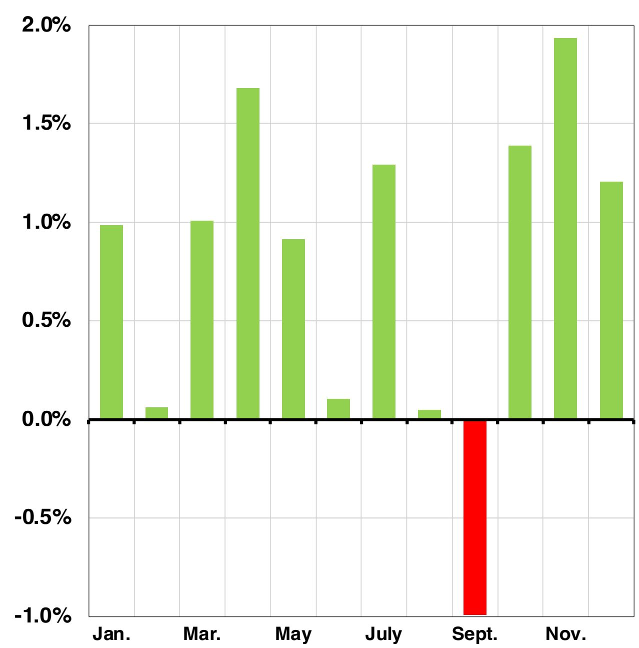
STOCKS & FED RATE CYCLES, 1980 TO NOW

Number of cycles	7
Average duration of cyles (months)	18
Average increase of rates during cycle	320 bps
Average fed funds rate at cycle end	6.7%
S&P 500 performance pre cycle start (6-month period)	6.3%
S&P 500 performance post cycle start (6-month period)	4.8%
Average S&P 500 performance across rate-hike cycle	10.7%
Annualized S&P 500 return across rate-hike cycle	9.4%
S&P 500 performance post cycle end (6-month period)	11.6%
Annualized S&P 500 6-mo. return post rate-hike cycle	23.0%
Annualized S&P 500 return all years	10.0%

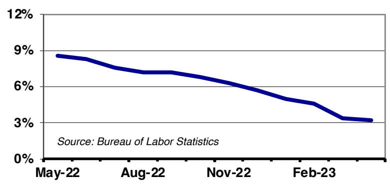
JUNE JINX?

June is not one of the better months for stocks, according to our analysis of market returns since 1980. We note that market returns in June have exceeded 5% only twice in the past 37 years: a 5.4% increase in 1999 and a 6.9% gain in 2019. Clunkers? We have seen a few, including 2008 (-8.6%), 2002 (-7.2%), 2010 (-6.1%), and 1991 (-4.8%). Last year, the S&P 500 skidded 8.4% in the month of June, while inflation was taking off. June is typically a quiet month for earnings as the second quarter draws to a close. The Federal Reserve meets and could raise the fed funds rate another 25 basis points. But our view is that the central bank will stand pat. Inflation data in mid-June should show continued easing from last year's peak. The slowdown in inflation has spurred a year-to-date rally in stocks of almost 10%. We'll see whether these returns can withstand the June jinx.

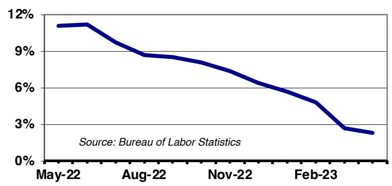
AVERAGE MONTHLY S&P 500 APPRECIATION



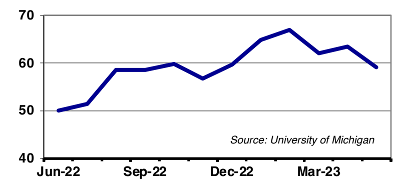
Release: **PPI ex-Food & Energy**
Date: 6/14/2023
Month: May
Previous Report: 3.2%
Argus Estimate: 2.5%
Street Estimate: NA



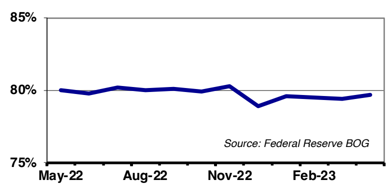
Release: **PPI Final Demand**
Date: 6/14/2023
Month: May
Previous Report: 2.3%
Argus Estimate: 1.5%
Street Estimate: 1.5%



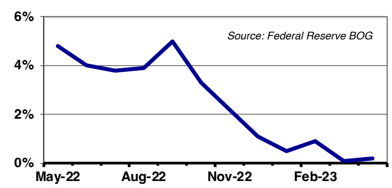
Release: **U. of Michigan Sentiment**
Date: 6/16/2023
Month: June
Previous Report: 59.2
Argus Estimate: 60.0
Street Estimate: 60.1



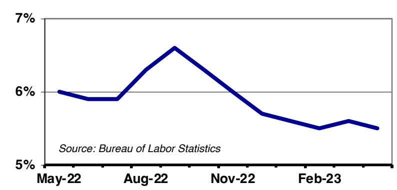
Release: **Capacity Utilization**
Date: 6/15/2023
Month: May
Previous Report: 79.7%
Argus Estimate: 79.5%
Street Estimate: 79.7%



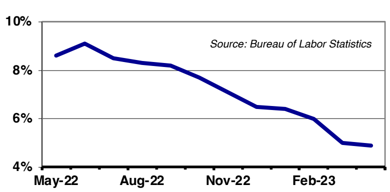
Release: **Industrial Production**
Date: 6/15/2023
Month: May
Previous Report: 0.2%
Argus Estimate: 0.0%
Street Estimate: NA



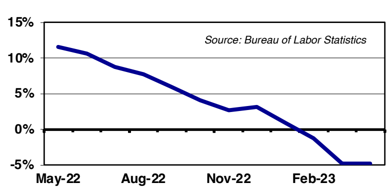
Release: **CPI ex-Food & Energy**
Date: 6/13/2023
Month: May
Previous Report: 5.5%
Argus Estimate: 5.2%
Street Estimate: 5.2%



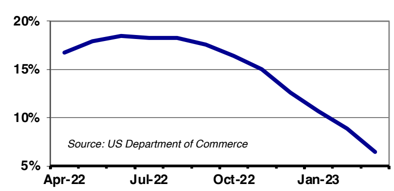
Release: **Consumer Price Index**
Date: 6/13/2023
Month: May
Previous Report: 4.9%
Argus Estimate: 4.5%
Street Estimate: 4.1%



Release: **Import Price Index**
Date: 6/15/2023
Month: May
Previous Report: -4.8%
Argus Estimate: -4.0%
Street Estimate: NA

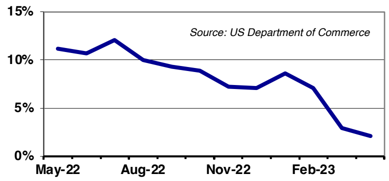


Release: **Business Inventories**
Date: 6/15/2023
Month: April
Previous Report: 6.5%
Argus Estimate: 5.5%
Street Estimate: NA

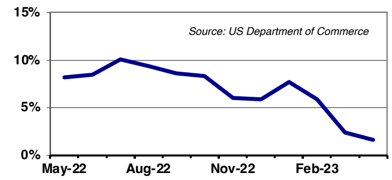


Previous Week's Releases and Next Week's Releases on next page.

Release: **Retail Sales ex-autos**
Date: 6/15/2023
Month: May
Previous Report: 2.1%
Argus Estimate: 1.8%
Street Estimate: NA



Release: **Retail Sales**
Date: 6/15/2023
Month: May
Previous Report: 1.6%
Argus Estimate: 1.5%
Street Estimate: NA



Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
5-Jun	ISM Services Index	May	51.9	52.0	52.5	**50.3%**
	Factory Orders	April	0.5%	0.0%	NA	**0.2%**
7-Jun	Trade Balance	April	-$64.2 Bil.	-$63.0 Bil.	-$75.0 Bil.	NA
8-Jun	Wholesale Inventories	April	6.2%	4.5%	NA	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
20-Jun	Housing Starts	May	1401 K	NA	NA	NA
22-Jun	Leading Index	May	-0.6%	NA	NA	NA
	Existing Home Sales	May	4.28 Mil.	NA	NA	NA