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THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

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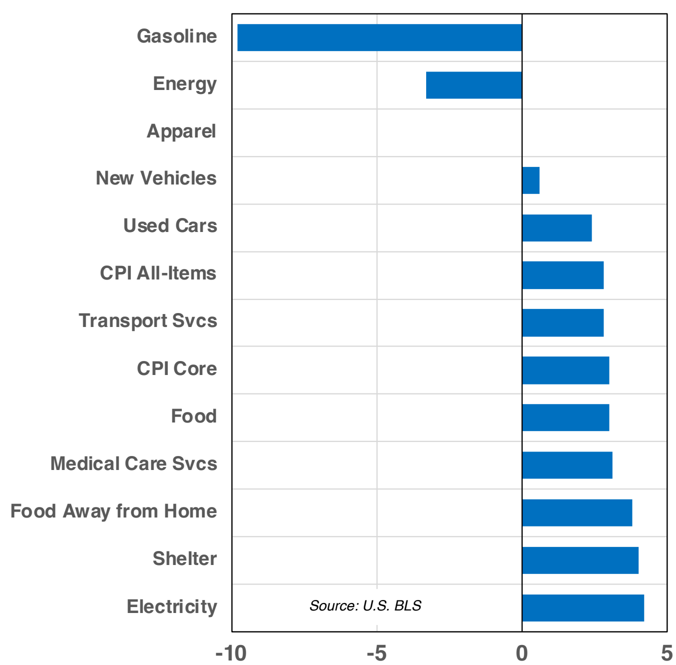
LOWER INFLATION TREND INTACT

Two recent inflation reports -- the Consumer Price Index (CPI) and the Producer Price Index (PPI) signaled that pricing pressures are easing, at least for now. But both also confirmed that inflation remains above the Fed's target of 2.0%, and it may take a while to get to that level. Let's first take a deeper dive into the CPI. The news here was good, as the month-to-month headline number increased only one-tenth of a percent from the previous month; the annualized rate was 2.4%. Meanwhile, the core inflation rate (ex-food and energy) also rose only one-tenth of a percent month to month, and was steady at 2.8%. The two wild cards in this report are costs for Transportation Services and Shelter. In those sticky categories, recent news has been good, as year-over-year rates have declined meaningfully. Next up is the PPI, which measures pricing trends farther up the supply chain, at the manufacturing level. Here, the news was also generally positive. The PPI final demand annual rate through May was 2.6%, compared to 3.7% in January. Based on the fundamentals, we expect pricing pressures to continue easing as the housing market cools due to high mortgage rates and the price of oil stays below $90 per barrel. But that low price of oil reflects a new wild card that has entered the forecasting picture: Trump's trade wars. Tariffs (should they ever go into effect) will almost certainly raise prices, sending inflation higher again. That will put new pressure on the Fed, which we think should be in position to lower rates in the second half of the year.

CONSUMER INFLATION FACTORS (% CHANGE Y/Y)



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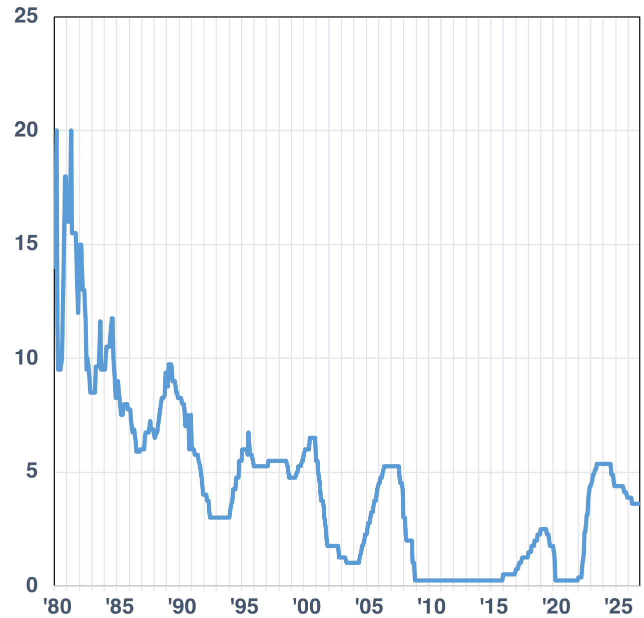
FED FINE WITH LEVEL OF RATES

The Fed wrapped up its latest Open Market Committee meeting and maintained its fed-funds target rate at the 4.25-4.50% level. The non-decision indicates the Fed still has concerns over lingering -- and potentially future – inflation, and is keeping an eye on the overall economy. Further, the central bankers, like the rest of the country, are wary over the potential impact on prices and on GDP from tariff initiatives. CPI inflation has fallen from readings above 9.0% in 2022 to readings below 3.0% -- but lately has struggled to extend its downward trend. Yet unemployment remains historically low even as GDP growth dipped into negative territory last quarter (due to a quirky import number). Based on the healthy employment environment, the economy is not in dire need of lower rates. Yet. The Fed meeting also included the central bank's current projection data points. These call for economic growth in the 1.4%-1.8% range through 2027 and an inflation rate moving down to 2.0% by 2027. Over the next two years, the Fed anticipates its federal-funds target rate will decline to 3.25-3.55%, implying a real yield of about 1.25%.

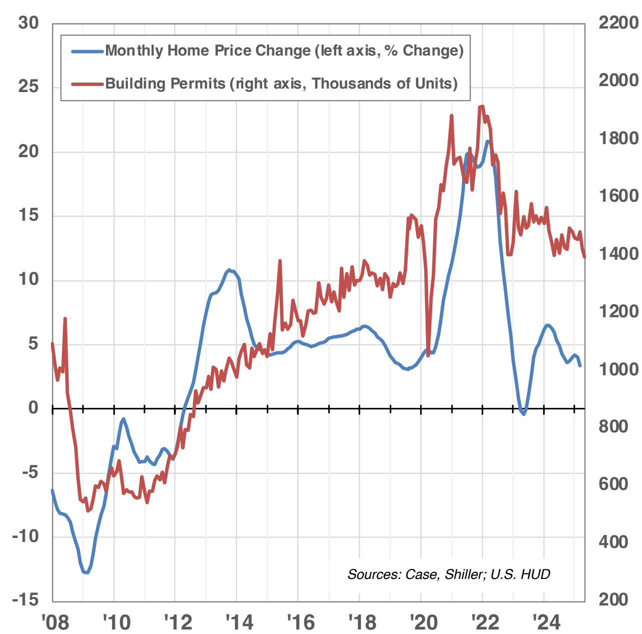
FEDERAL FUNDS TARGET RATE & FORECASTS (%)



HOME PRICES SHOULD CONTINUE TO RISE

U.S. home prices should continue to grow, according to a panel of more than 100 housing experts surveyed by Fannie Mae in the mortgage giant's 2Q 2025 Home Price Expectations Survey. The panelists expect national home prices to grow 2.9% this year, 2.8% in 2026, and 3.4% in 2027, this after a 5.3% increase in 2024. We believe the prospect for moderate increases in home prices is positive for consumers, lenders, homebuilders, and retailers that sell everything from bath fixtures to big-screen televisions. We have watched the housing market for many years and note that rising home prices typically mean that homeowners are willing to spend on improvement projects because they see them as investments that will pay off in the future. When prices are falling, homeowners spend grudgingly because they see outlays as expenses with no significant payoff. The Leading Indicator of Remodeling Activity (LIRA) from the Harvard University Joint Center for Housing Studies has projected a 2.5% increase in remodeling activity to a record $526 billion by the end of 1Q26. The LIRA provides a projection of U.S. repair and remodeling activity for the current quarter and the subsequent four quarters. Near term, housing is treading water.

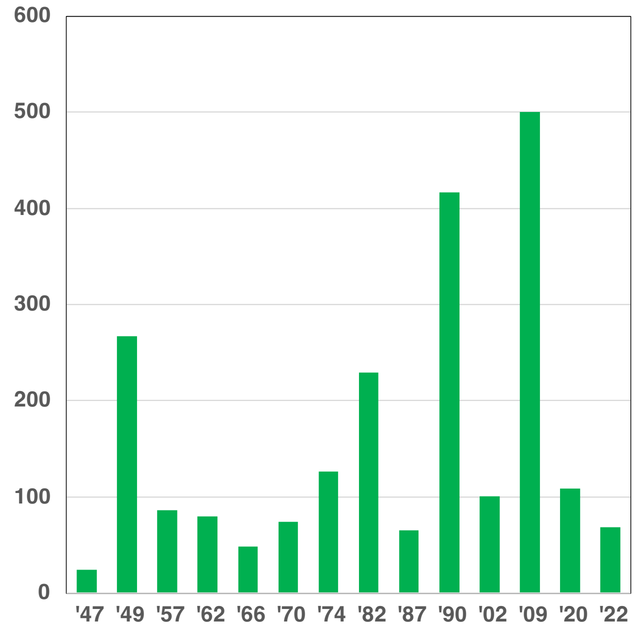
HOUSING MARKET TRENDS



A NEW TEST FOR THE BULL MARKET

The current bull market, which started in October 2022, has endured high inflation, economic uncertainty, a credit rating downgrade of the U.S. Treasury, a hard-fought election, and the onset of new tariffs and trade wars. Now, a military conflict in the Middle East has erupted. As for equities over the intermediate term, the sustainability of the current bull market may depend on how quickly the Mideast conflict is resolved. In the near term, the U.S. employment environment is healthy, earnings growth is solid, and there is room for interest rates to continue lower. Those are important fundamental factors. Investors have been complacent, as the VIX Volatility Index is below its historical average of 20. Were the fear index to jump above 30 (its standard deviation is 9), we expect the bull market to wobble but not collapse. We suggest investors focus on financially strong companies with clear earnings trajectories and seasoned management teams that have guided their firms through uncertain conditions in the past.

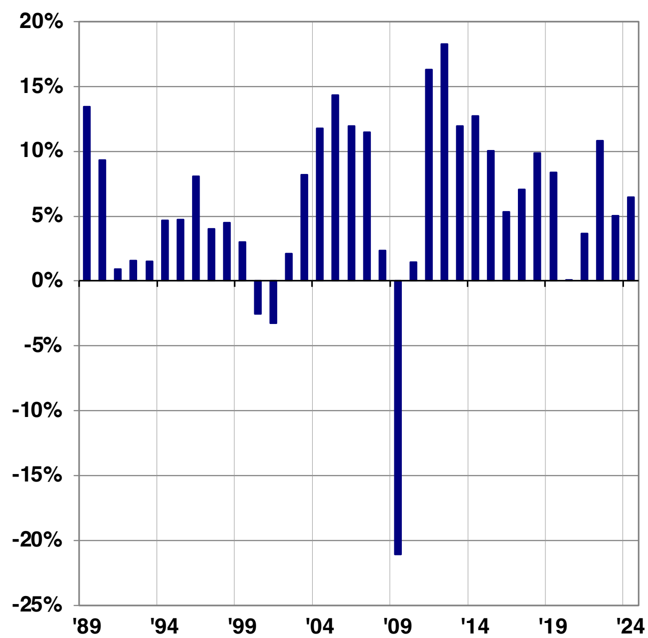
BULL MARKET RALLIES (% CHANGE IN S&P 500)



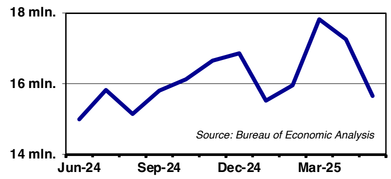
THREE SIGNALS FROM DIVIDEND GROWTH

Since 1988, the dividends of companies in the S&P 500 have grown on average 6% per year, faster than long-term GDP growth and a testament to the fundamental soundness. But rates have varied sharply over the years, and from year to year. At times, the dividend growth rate has been zero or negative, for example, during the "dot-com" implosion in the early 2000s; the bear market of 2008-09; and the COVID-19 pandemic period. At the other end of the spectrum, the average dividend growth rate has been 10% or above in 12 of the past 36 years. More recently, dividend growth accelerated to 9% in 2018-19, which was a good period for stocks as trade wars calmed and the Fed took a dovish stance on interest rates. But dividend growth slowed sharply in 2020 due to the pandemic, and growth has been in the 5%-6% range in the past two years. At this stage of the economic and market cycles, Argus recommends that investors focus on dividend growth instead of dividend yield. Even during the pandemic and the ensuing periods of supply-chain snags and high inflation, high-quality, well-managed companies were regularly able to raise their dividends at double-digit rates. We think this type of consistent -- and accelerated -- dividend growth gives three important signals: a company's balance sheet is strong enough to pay a dividend; management is mindful of shareholder returns, which include dividends; and management is telling investors that the near-term outlook for the company is promising.

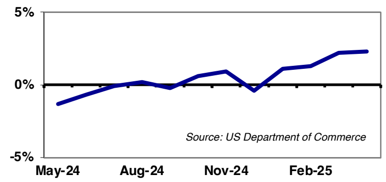
S&P 500 ANNUAL DIVIDEND GROWTH



Release:	**Total Vehicle Sales**
Date:	7/7/2025
Month:	June
Previous Report:	15.65 mln.
Argus Estimate:	15.25 mln.
Street Estimate:	NA



Release:	**Wholesale Inventories**
Date:	7/9/2025
Month:	May
Previous Report:	2.3%
Argus Estimate:	1.4%
Street Estimate:	NA



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

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
1-Jul	ISM Manufacturing	June	48.5	50.0	48.5	**49.0**
	ISM New Orders	June	47.6	49.0	NA	**46.4**
	Construction Spending	May	**-2.8%**	-1.3%	NA	**-3.5%**
3-Jul	Nonfarm Payrolls	June	139K	120K	110K	NA
	Unemployment Rate	June	4.2%	4.2%	4.3%	NA
	Average Weekly Hours	June	34.3	34.3	34.3	NA
	Average Hourly Earnings	June	3.9%	3.8%	NA	NA
	ISM Services Index	June	49.9	50.5	50.4	NA
	Trade Balance	May	-$61.6 Bln.	-$75.0 Bln.	NA	NA
	Factory Orders	May	0.9%	3.5%	NA	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
15-Jul	Consumer Price Index	June	2.4%	NA	NA	NA
	CPI ex-Food & Energy	June	2.8%	NA	NA	NA
16-Jul	PPI Final Demand	June	2.6%	NA	NA	NA
	PPI ex-Food & Energy	June	3.0%	NA	NA	NA
	Industrial Production	June	0.6%	NA	NA	NA
	Capacity Utilization	June	77.4%	NA	NA	NA
17-Jul	Retail Sales	June	3.3%	NA	NA	NA
	Retail Sales ex-autos	June	3.5%	NA	NA	NA
	Import Price Index	June	0.2%	NA	NA	NA
	Business Inventories	May	2.2%	NA	NA	NA
18-Jul	Housing Starts	June	1,256K	NA	NA	NA
	U. Michigan Sentiment	July	60.7	NA	NA	NA