

THE ECONOMY AT A GLANCE

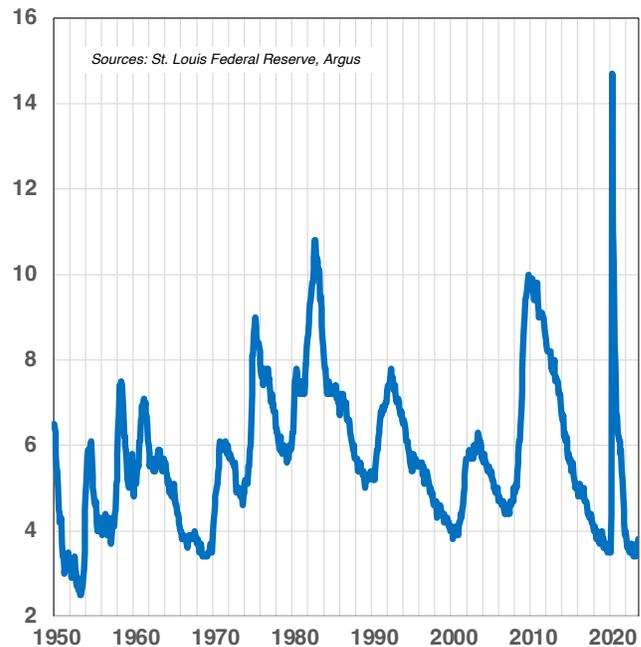
ECONOMIC HIGHLIGHTS

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STRONG JOB GAINS KEEP RATE HIKE ON THE TABLE

The U.S. economy generated 336,000 new jobs in September, well above our forecast and consensus expectations. August's 187,000 result was revised higher to 227,000. The unemployment rate was unchanged at 3.8%. The report from the Bureau of Labor Statistics (BLS) raised concerns that the Fed's 5.25%-5.5% policy rate may not be high enough to cool the economy and that the central bank may need to raise rates when it meets on October 31 and November 1. Average hourly earnings increased seven cents month-to-month and are now 4.2% higher year-over-year, just below the 4.3% rise in August. The average workweek was unchanged at 34.4 hours in September. Employment continued to trend up in leisure and hospitality; government; healthcare; professional, scientific, and technical services; and social assistance. Employment was little changed in transportation and warehousing; mining, quarrying, and oil and gas extraction; construction; manufacturing; wholesale trade; retail trade; financial activities; and other services. Employment in the information sector has declined by 45,000 since May because of labor disputes in the motion picture and recording industries. Job gains in July and August were revised higher by 119,000. According a separate report from the BLS, the number of job openings in August increased to 9.6 million from 8.9 million a month earlier. Before the jobs release, futures suggested a 21% probability that the Fed will raise the funds rate on November 1. After the release, that probability rose to 30%.

U.S. UNEMPLOYMENT RATE (%)

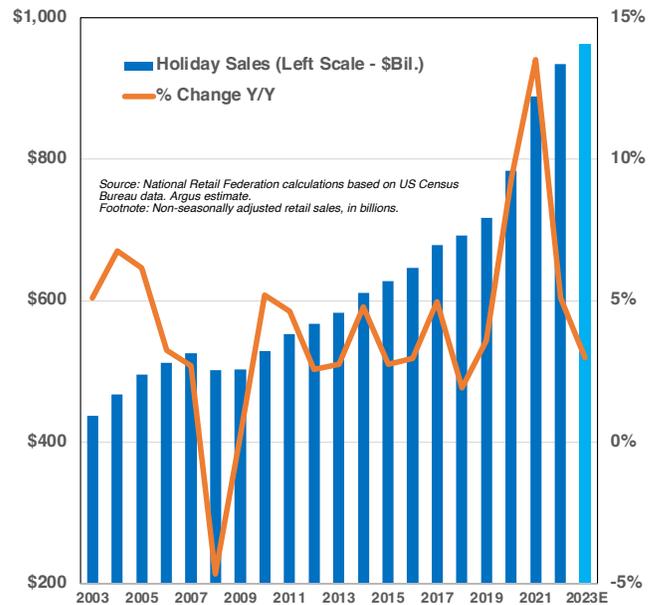


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CHECKING OUR LIST: HOLIDAY SALES MAY RISE 3%

We expect holiday sales to rise 3% this year to almost \$1 trillion. With the unemployment rate below 4%, this should be another festive season despite elevated inflation, tight monetary policy, and the end of financial assistance programs enacted during the pandemic. Recently, Walmart CEO Doug McMillon noted the back-to-school season started strong and that normally means the holiday season is going to be “good.” The average annual sales gain during the past 20 holidays has been 4%, with a 5% increase last year and a high of 14% in the pandemic-recovery year of 2021. The period’s only decline, of 5%, came as the economy entered a deep recession in 2008. We calculate holiday sales in the same manner as the National Retail Federation, based on the year-over-year change in the Commerce Department’s Retail Sales data for the combined months of November and December. Like the NRF, we exclude sales at gas stations, car dealers, and restaurants -- and focus on core retail. There are three big categories that represent two-thirds of holiday sales and drive our forecast: grocery stores, general merchandise stores, and e-commerce. Our forecasts for those categories are up 2%, up 2.5%, and up 6.6%, respectively. E-commerce is the toughest call. The category must lap 9.5% growth during the 2022 season on top of 11.3% in 2021, but online spending has remained strong, growing 7.6% year-over-year in August and 11.8% (aided by Amazon Prime Days) in July. The exclusion of restaurants boosted our tally during the pandemic because people didn’t eat out, and spent more of their food budget at grocery stores. We expect that spending trend to reverse this year. For the first eight months of 2023, groceries were up 3.3% and restaurants were up 12%. Mastercard expects retail sales to grow 3.7% from November 1 through December 24, helped by 6.7% growth in e-commerce and 5.4% growth at restaurants.

HOLIDAY SHOPPING TRENDS

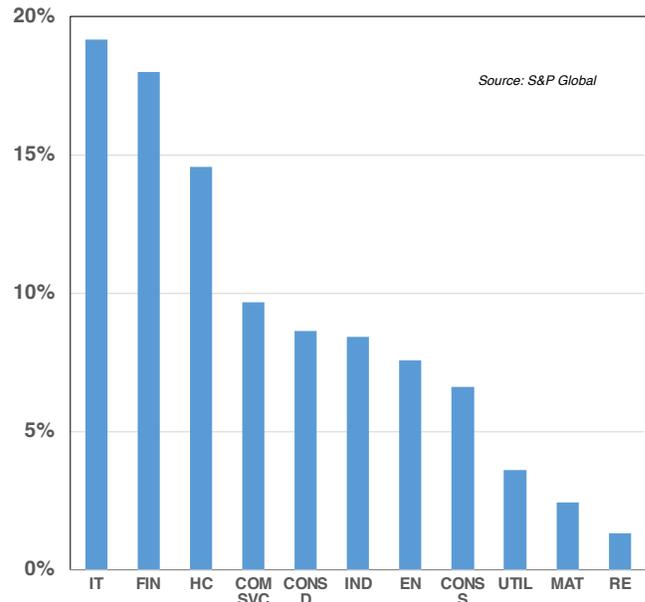


FINANCIAL MARKET HIGHLIGHTS

NOT ALL SECTORS ARE EQUAL

When it comes to generating earnings for the S&P 500, we think it makes sense to focus primarily on a few key sectors that can actually make a difference. The Real Estate sector accounts for about 2% of S&P 500 capitalization and is expected to contribute 1% of S&P 500 EPS during the upcoming 3Q EPS period. Basic Materials is another 2% market weight that may generate 2% of total earnings. The groups that really make a difference are Technology, which is expected to account for 19% of the upcoming earnings, and Financial Services and Healthcare, which are expected to account for 18% and 15%, respectively. Overall, the consensus is forecasting another negative quarter for earnings, with preliminary estimates calling for a year-over-year decline of 3%. Drilling deeper and excluding Energy, which contributes about 8% of EPS, growth should be around 4%. What are the forecasts for the Big 3? Financial earnings are expected to grow 12% year-over-year, while Technology earnings are forecast to expand at a 6% rate. Healthcare remains under pressure, and profits are forecast to decline about 10%.

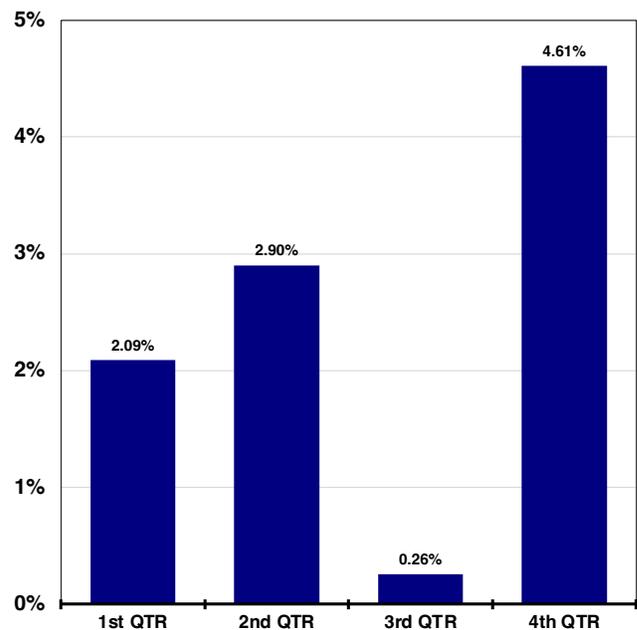
OPERATING EARNINGS CONTRIBUTION



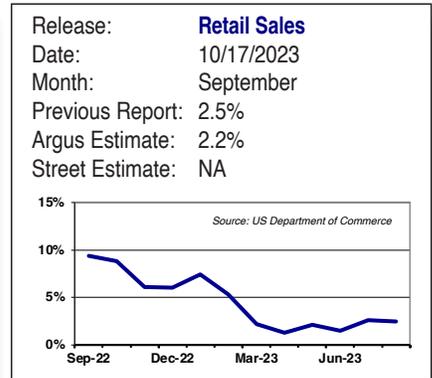
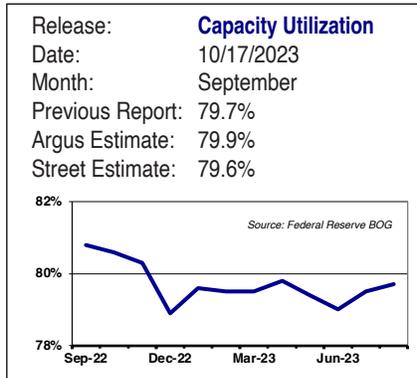
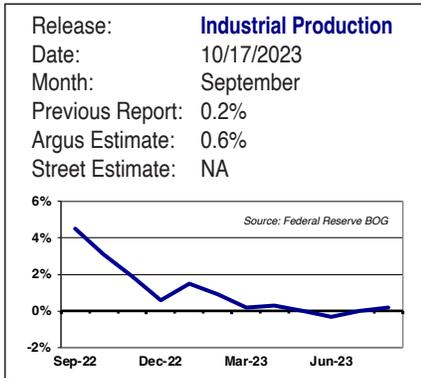
FOURTH QUARTER TYPICALLY POSITIVE FOR STOCKS

We analyzed data collected on S&P 500 performance from 1980 through 2022. By our calculations, the fourth quarter has generated average gains of 4.6%, compared to gains of 2.1%, 2.9%, and 0.3% for 1Q, 2Q and 3Q, respectively. The quarter is consistent as well, with a “win percentage” of 81%. This means that stock returns are positive in the fourth quarter in four years out of five, and compares to winning percentages of 66% in 1Q, 66% in 2Q, and 61% in 3Q. To be sure, the fourth quarter has had its share of clunkers. In 1987, which included Black Friday, stocks fell 23% during the period; in 2008, stocks sold off 18% after the collapse of Lehman Brothers and as the U.S. economy plunged into a deep recession. In 2018, stocks slid 14% in the final quarter, when trade wars intensified and the Fed raised rates. But last year, when stocks were in a bear market, 4Q was the only quarter of the year with a positive performance (up 7%). This time around, it is not unreasonable to expect a slow start, given U.S. government dysfunction, labor strikes, oil that had been above \$90 per barrel, and high interest rates. In this environment, we recommend investors focus on quality companies with clean balance sheets and experienced management teams.

AVERAGE QUARTERLY STOCK-MARKET APPRECIATION



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 |
|--------|--------------------------|-----------|-----------------|----------------|-----------------|--------|
| 10-Oct | Wholesale Inventories | August | 0.5% | -0.9% | NA | NA |
| 11-Oct | PPI Final Demand | September | 1.6% | 1.8% | NA | NA |
| | PPI ex-Food & Energy | September | 2.2% | 2.2% | NA | NA |
| 12-Oct | Consumer Price Index | September | 3.7% | 3.7% | 3.6% | NA |
| | CPI ex-Food & Energy | September | 4.3% | 4.2% | 4.1% | NA |
| 13-Oct | Import Price Index | September | -3.0% | -1.5% | NA | NA |
| | U. of Michigan Sentiment | October | 68.1 | 67.0 | NA | NA |

Next Week's Releases

| Date | Release | Month | Previous Report | Argus Estimate | Street Estimate | Actual |
|--------|----------------------|-----------|-----------------|----------------|-----------------|--------|
| 25-Oct | New Home Sales | September | 675000 | NA | NA | NA |
| 26-Oct | GDP Annualized QoQ | 3Q | 2.1% | NA | NA | NA |
| | GDP Price Index | 3Q | 1.7% | NA | NA | NA |
| | Durable Goods Orders | September | 3.0% | NA | NA | NA |
| 27-Oct | PCE Deflator | September | 3.5% | NA | NA | NA |
| | PCE Core Deflator | September | 3.9% | NA | NA | NA |
| | Personal Income | September | 4.8% | NA | NA | NA |
| | Personal Spending | September | 5.8% | NA | NA | NA |

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