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THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

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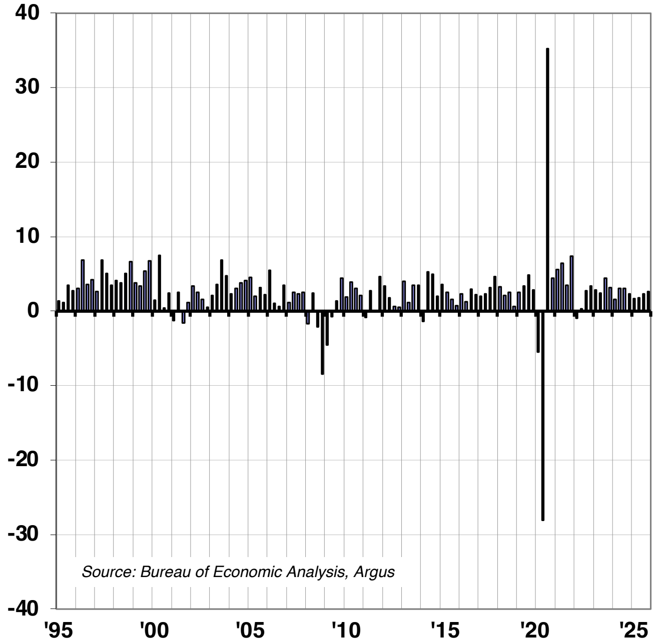
GDP GROWS 2.3%

According to the advance estimate released by the Bureau of Economic Analysis, U.S. Gross Domestic Product (GDP) expanded in the fourth quarter at an annualized rate of 2.3%. That's below the 2.6% consensus and 3.1% growth in the third quarter. Spending by consumers drove the expansion with a 4.2% increase, but private investment was a significant drag, down 5.6%. Consumer spending on goods rose a whopping 6.6%. Within goods, durables jumped 12.1%, showing that some consumers had the confidence to make big-ticket purchases. Nondurables were up 3.8%. The huge services category was up a very solid 3.1%. The report also contains data on inflation, which accelerated in 4Q. The PCE Price Index increased 2.3% in the fourth quarter, compared with an increase of 1.5% in the third quarter. Excluding food and energy, the index increased 2.5%, compared with an increase of 2.2% in the previous quarter. Private domestic investment declined 5.6% in 4Q. Spending on equipment declined 7.8% after rising 10.8% in 3Q%. Intellectual property products increased 2.6%. Residential fixed investment (housing) managed a 5.3% increase in 4Q. While mortgage rates are elevated and affordability stretched, a shortage of homes has sent prospective buyers to the new-construction market. In our view, the report supports the Federal Reserve's decision to leave its policy target unchanged at 4.25%-4.5%. Jerome Powell commented that "the economy is strong overall" and that inflation "remains somewhat elevated."

REAL GDP (% GROWTH/QTR)



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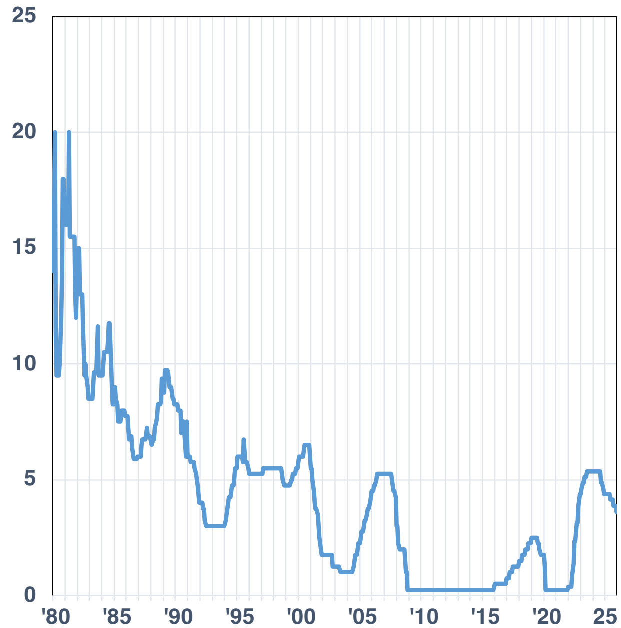
FED NOW ON PAUSE

The Federal Reserve maintained its fed funds target rate at the 4.25-4.50% level. The non-decision indicates that the Fed still has concerns over lingering inflation as well as its eye on the overall economy. CPI inflation has indeed fallen from readings above 9.0% in 2022 to readings below 3.0% -- but lately has failed to continue its downward trend toward the 2.0% goal. Meanwhile, though, the unemployment rate is still historically low and GDP growth has risen at a rate faster than the long-run average of 2.0% for nine of the past 10 quarters. The economy is not in dire need of lower rates (yet). The Fed will keep a close eye on economic data and will be monitoring potential impacts from upcoming policy changes related to tariffs, immigration, fiscal stimulus, and regulations. Going into the Fed's first meeting of the year, our forecast for 2025 was that the Fed would cut rates three times. We are holding on to that forecast, and think the Fed make those cuts over the second half of 2025. Three 25-basis-point cuts would bring the fed funds rate down toward 3.5%, which, assuming inflation resumes its trek toward 2.0%, will return real, inflation-adjusted rates back toward historical averages.

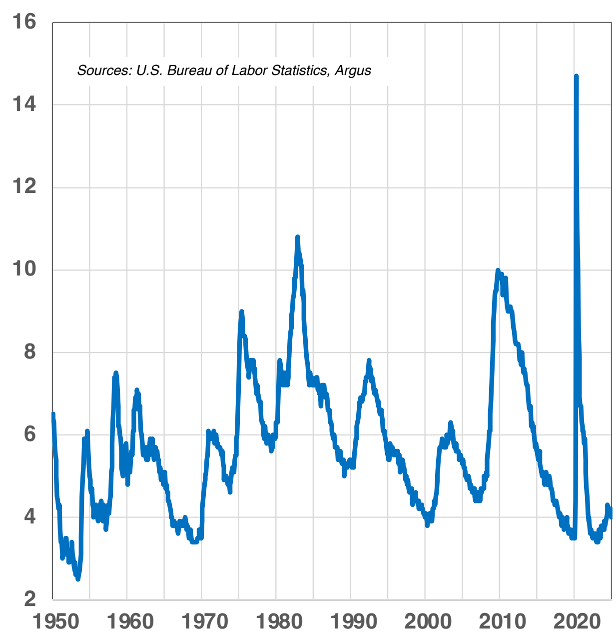
FEDERAL FUNDS TARGET RATE & FORECASTS (%)



JOBS REPORT KEEPS FED ON HOLD

The job market remains healthy. The Bureau of Labor Statistics (BLS) reported that the U.S. economy generated 143,000 new jobs in January, below the consensus of 170,000 and our forecast of 160,000 -- but the previous two months were revised higher. December's payrolls were revised higher by 51,000 to 307,000 and November was up by 49,000 to 261,000. January's result and overall revisions to past results boosted the three-month average to 237,000 from 170,000. The January unemployment rate declined to 4.0%, which ticked below our estimate and the consensus. The number of people unemployed was little changed, but the jobless rate was impacted by annual population adjustments in the Household Survey. Average hourly earnings increased 17 cents month to month and are 4.1% higher year over year (compared to 3.9% in December). The average workweek ticked down to 34.1 hours, which was below our estimate of 34.2 and the consensus of 34.3. Employment increased in healthcare, retail trade, and social assistance. Employment showed little change in construction, manufacturing, wholesale trade, transportation and warehousing, information, financial activities, professional and business services, leisure and hospitality, and other. The closely watched manufacturing sector added 3,000 jobs.

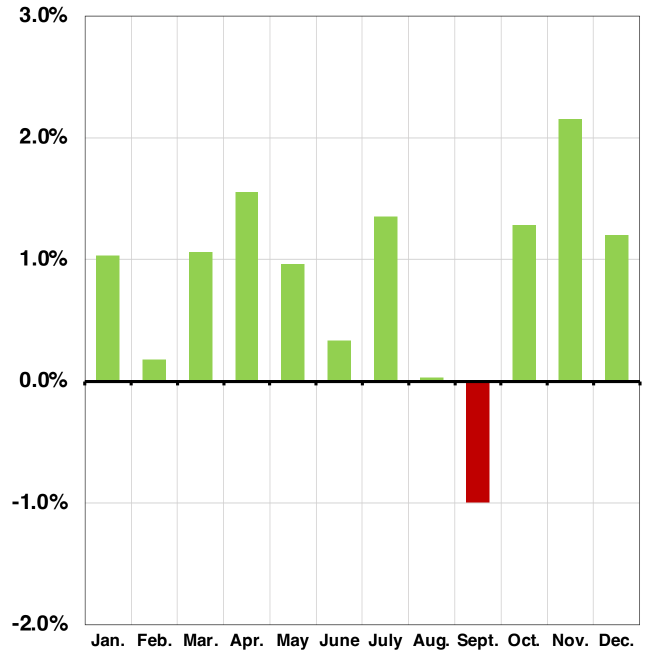
U.S. UNEMPLOYMENT RATE (%)



FEBRUARY CAN BE A TOUGH MONTH

We have studied the monthly, quarterly, and annual returns in the stock market since 1980. February is not one of the best months. On average, stocks rise less than 0.2% in the shortest month of the year. Only the months of August and September have generated weaker average returns. There have been some strong Februarys, but there have been some clunkers as well. This time around, February is starting off with a bit of positive momentum, as January's returns were strong. Earnings season continues and, as usual, companies are outperforming expectations. However, equity investors got a surprise recently from the DeepSeek news that the domestic artificial intelligence industry may face some challenging competition. While we continue to think that the general fundamentals for stocks are positive, we still suggest that equity investors focus on well-managed companies with clear growth prospects and clean balance sheets -- especially in February.

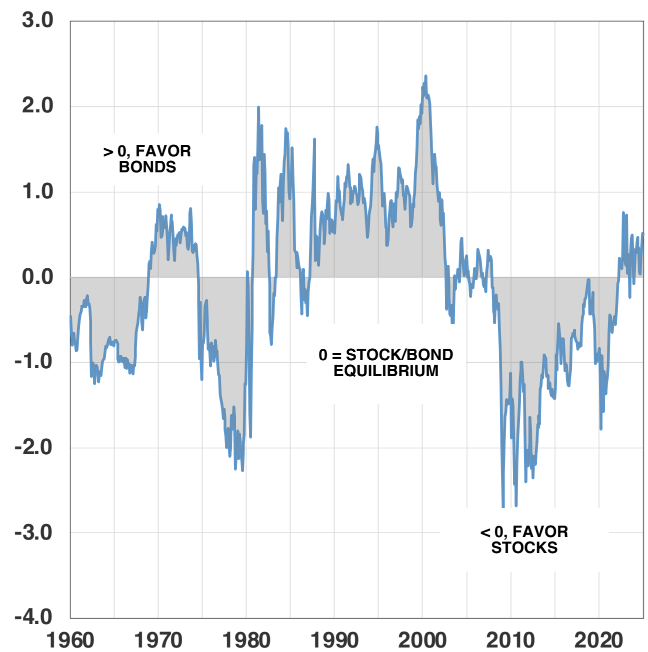
AVERAGE MONTHLY S&P 500 APPRECIATION



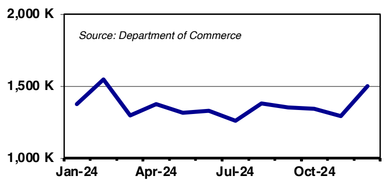
STOCKS A BIT RICH

Our stock/bond asset-allocation model, which we call the Stock-Bond Barometer, is indicating that bonds are the asset class offering the most value at the current market juncture. The output of the model is expressed in terms of standard deviations to the mean, or sigma. The mean reading from the model, going back to 1960, is a modest premium for stocks of 0.09 sigma, with a standard deviation of 1.05. In other words, stocks normally sell for a slight premium, which they have since inflation kicked higher in 2022. The current valuation level now is a 0.5 sigma premium for stocks, reflecting in large part the move higher in long-term interest rates since last fall and the conclusion of the election. Other valuation measures also show reasonable (if not discount) multiples for stocks. The current forward P/E ratio for the S&P 500 is about 21, within the normal range of 15-24. The current dividend yield of 1.2% is below the historical average of 2.9%, but is also 26% of the 10-year Treasury bond yield, compared to the long-run average of 39%. The gap between the S&P 500 earnings yield and the benchmark 10-year government bond yield is about 295 basis points, compared to the historical average of 400. Lastly, the ratio of the S&P 500 price to an ounce of gold is now 2.1, within the historical range of 1-3. We expect our model to tilt more toward stocks, as inflation settles calms, interest rates head lower into 2026, and EPS growth picks up toward a double-digit rate.

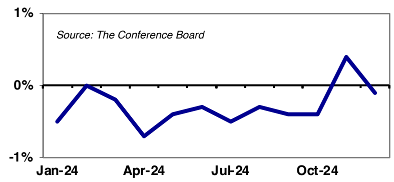
STOCK BOND BAROMETER
(STANDARD DEVIATIONS)



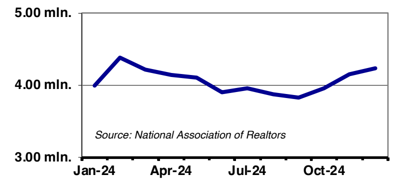
Release:	**Housing Starts**
Date:	2/19/2025
Month:	January
Previous Report:	1,499 K
Argus Estimate:	1,250 K
Street Estimate:	1,397 K



Release:	**Leading Index**
Date:	2/20/2025
Month:	January
Previous Report:	-0.1%
Argus Estimate:	-0.2%
Street Estimate:	0.0%



Release:	**Existing Home Sales**
Date:	2/21/2025
Month:	January
Previous Report:	4.24 mln.
Argus Estimate:	4.05 mln.
Street Estimate:	4.12 mln.



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
12-Feb	Consumer Price Index	January	2.9%	2.9%	2.9%	NA
	CPI ex-Food & Energy	January	3.2%	3.1%	3.1%	NA
13-Feb	PPI Final Demand	January	3.3%	3.0%	NA	NA
	PPI ex-Food & Energy	January	3.5%	3.1%	3.3%	NA
14-Feb	Retail Sales	January	3.9%	3.8%	NA	NA
	Retail Sales ex-autos	January	2.9%	3.2%	NA	NA
	Industrial Production	January	0.5%	1.0%	NA	NA
	Capacity Utilization	January	77.6%	77.7%	77.7%	NA
	Import Price Index	January	2.2%	2.1%	NA	NA
	Business Inventories	December	2.6%	2.1%	NA	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
25-Feb	Consumer Confidence	February	104.1	NA	NA	NA
26-Feb	New Home Sales	January	698K	NA	NA	NA
27-Feb	GDP Annualized QoQ	4Q "2nd est."	2.3%	NA	NA	NA
	GDP Price Index	4Q "2nd est."	2.2%	NA	NA	NA
	Durable Goods Orders	January	-3.7%	NA	NA	NA
28-Feb	PCE Deflator	January	2.6%	NA	NA	NA
	PCE Core Deflator	January	2.8%	NA	NA	NA
	Personal Income	January	5.3%	NA	NA	NA
	Personal Spending	January	5.7%	NA	NA	NA