

March 9, 2026

Tariff Turmoil: Our Monthly Survey of the Economy, Interest Rates, and Stocks

The longest federal government shutdown in U.S. history was an annoyance in real time for investors reliant on key economic data. Two months later, investors are leaning that the shutdown had repercussions for the broad economy. Fourth-quarter 2025 GDP, delayed to late-February from its normal late-January release, missed expectations and showed that the shutdown and possibly tariffs took a toll on economic activity.

The Supreme Court on February 20, 2026, struck down a large portion of the tariffs that have become a key element of President Trump's economic agenda. By a six-to-three majority, the court ruled that the law cited by the administration to levy trade duties "does not authorize the president to impose tariffs."

Many, though not all, tariffs during the second Trump administration have been imposed under the International Emergency Economic Powers Act (IEEPA). The IEEPA, which makes no mention of tariffs, gives the president the power to regulate imports of foreign property, but only after declaration of a national emergency to deal with tangible threats. The administration's use of IEEPA was considered unconventional. The court's ruling relates to reciprocal tariffs as well as those imposed to impede illegal drug flows. It does not relate to Section 232 tariffs on products deemed to harm national security, currently including steel, aluminum, and copper, or Section 301 tariffs to address unfair trade practices, such as Chinese government subsidies of private industries.

Fourth-quarter GDP data, released the same day, highlighted the impacts of the government shutdown. Some economists also noted the possible impact of tariffs on business and particularly consumer spending. The administration plans to work around the ruling by using another statute, but its use is limited to 150 days before its continuation

goes before Congress. On the final trading day of February, a stunning spike in producer prices further raised concerns about the impact of tariffs on prices. In the intermediate term, the uncertain future of tariff policy may overhang the market.

The Economy, Interest Rates, and Earnings

The advance 4Q25 GDP report from the Bureau of Economic Analysis (BEA) indicated annualized growth of 1.4%, meaningfully below the consensus forecast of 3.0% and down from 4.4% in the third quarter. For the full 2025 year, gross domestic product expanded at a 2.2% rate, following 2.8% growth in 2024. GDP was hill-shaped in 2025, with a 0.6% decline in 1Q26, increases of 3.8% and 4.4% in the second and third quarters, and the step down to 1.4% in 4Q25. The economy remained healthy in 2025, despite challenges from tariffs, reduced immigration, the government shutdown, and other factors, but was less vigorous than it appeared in the middle quarters of the year.

Increases in consumer spending and investment drove growth in fourth-quarter 2025 GDP. These positives were offset partly by decreases in government spending and exports. Imports, which are subtractive to GDP, decreased.

Fourth-quarter 2025 personal consumption expenditures (PCE) increased 2.4%, down from 3.5 in 3Q25. Total spending on goods surprised with a 0.1% decline in 4Q25, compared with 3.0% growth in 3Q25. Durable goods spending decreased 0.9% in 4Q, while non-durable goods spending rose 0.4%. Both durable and non-durable goods spending were down from 3Q, with non-durable falling by 350 basis points (bps). In the K-shaped economy, lower-income consumers have focused spending on necessities; even that spending may have been pressured in the year's final quarter.

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Services spending, the biggest part of GDP, rose by 3.4% in 4Q25 (after a 3.6% gain in 3Q25) and contributed 1.59 percentage points to GDP. Consumer spending on services constituted 51% of total 2025 GDP, compared with 49% in 2024 and 47% in 2023.

Non-residential fixed investment, the proxy for corporate capital spending, grew 3.7% in 4Q25, up from a 3.2% annualized rate in 3Q25. The AI boom drove mid-3% growth in both equipment and intellectual property products, while corporate spending on structures declined 2.4%. PCE and non-residential fixed investment normally constitute 80%-85% of GDP. These two categories contributed 2.7 percentage points to 4Q25 GDP growth. Residential investment declined 7.1% in 3Q25, its fifth decline in the past six quarters.

Net import-exports and private inventories were highly volatile in 2025 as companies sought to position their overseas goods flows around the “Liberation Day” announcements in April and actual tariff implementation in August. Exports declined 0.9% in 4Q25 after jumping 9.6% in 3Q25. Imports contracted 1.3% in 4Q25. The net of exports and imports added 0.08 points to GDP growth. For all of 2025, exports rose 1.7% and imports rose 2.7%. The net export-import contribution to 2025 GDP was a negative 20 basis points.

Government spending contracted by 5.1% in 4Q25 after rising 2.2% in 3Q25. With the federal government shut down from October 1 to November 12, 2025, federal spending declined 16.6% in 4Q25. That included declines of 10.8% in national defense spending and 24.1% in non-defense spending. The steep decline in federal spending subtracted 1.15 points from GDP in 4Q25 and 0.08 points for all of 2025. State and local spending increased 2.4% in 4Q.

The all-items PCE price index was up 2.9%, as higher food costs offset lower energy prices. The core PCE price index (excluding food and energy) rose 2.7% in 4Q25, down from 2.9% in 3Q25. Core PCE increased 2.8% for all of 2025, stubbornly close to 3%. This metric is monitored by the Fed as part of its rate-setting deliberations.

Outside the GDP accounts, the U.S. employment economy showed surprising strength in January 2026 after slowing in the third and fourth quarters of 2025. The U.S. economy generated 133,000 non-farm jobs in January, far ahead of the consensus estimate of 70,000. The gain was fueled by healthcare employment in particular, along with social assistance and construction. Even with slight reductions in December and November data, three-month average non-farm payrolls swung to growth of 73,000 from an average decline of 22,000 for the October-December 2015 period.

The unemployment rate eased to 4.3% in January from 4.4% in December and 4.5% in November. The breakeven level of jobs growth, required to hold the unemployment

rate steady, was below the 50,000 level as of October 2025 vs. more than 200K in recent years, according to the Dallas Fed. The decline was led by a dramatic reversal in immigration flows combined with cyclical shifts in labor force participation. Job gains above the breakeven level may be contributing to recent reductions in the unemployment rate.

Federal employment is now relatively stable, and the total employment picture is less likely to see outsized impacts from policy changes such as the DOGE cuts of winter 2025. Average hourly earnings grew 3.7% annually for January, a tick down from December. Wage growth is still running ahead of inflation growth, but the delta has narrowed.

The January all-items consumer price index (CPI) rose by 2.4% annually, while the core CPI increased by 2.5% from a year earlier. The all-items CPI rose 0.2% month over month, while the core CPI was up 0.3%. The index for shelter (rent and equivalents) increased 0.2% and was the largest factor in the all-items increase. The trend in shelter, at about one-third of CPI, continues to pressure prices. The favorable trend in inflation may give the Fed more room to cut rates as 2026 progresses.

Late in February, the January producer price index (PPI) stunned investors with a monthly increase of 0.5% in the all-items index and a 0.8% increase in the core index. For the preceding 12 months, the PPI rose 2.9% on an all-items basis and 3.4% on a core basis.

Industrial production rose 0.7% month over month in January, fueled by a 2.1% increase at utilities as bitter cold blanketed much of the U.S. during the month. Industrial production increased 2.3% over the past 12 months, with particular strength in business equipment. Capacity utilization improved to 76.2% in January 2026 from 75.7 in December 2025, but it still more than three percentage points below its long-run (1975-2025) average.

Based on sentiment surveys and diffusion indices, the business community appears guardedly optimistic while consumers remain worried about affordability and new jobs availability. The ISM’s manufacturing purchasing managers’ index (PMI) rebounded to 52.6% in January from 47.9% in December, breaking a 10-month string of contraction. ISM’s services PMI moderated to 53.8% in January from 54.4% for December, which was the highest reading of 2025. ISM services has indicated 19 straight months of expansion.

The Conference Board’s consumer confidence index fell to 85.5 in January from an upwardly revised 94.2% in December. The Present Situation and Expectations indices both fell more than nine points month over month. The University of Michigan consumer sentiment survey reading of 56.6% in February was little changed from 55.4% in January, while remaining down from 64.7% in February 2025.

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Argus Chief Economist Chris Graja, CFA, has raised his GDP growth forecast for 2026 to 2.5% from a prior 2.2%. The increase primarily reflects an easier comparison against lower-than-expected 2025 growth, brought down by the weak 4Q25 GDP number. The Argus preliminary GDP forecast for 2027 is for growth of 1.8%, nudged up from 1.7%.

The U.S. Federal Reserve is tasked with the dual mandate of optimizing employment while keeping inflation in check. After raising rates aggressively throughout 2022 and early 2023, the Fed maintained its policy rate at 5.25%-5.50% from September 2023 until August 2024. Beginning in August 2024, the Fed cut rates by a cumulative 100 bps over the next three FOMC meetings.

After remaining on the sidelines for the first nine months of 2025, the central bank cut the fed funds rate in September, October, and December 2025, by a quarter point each. In January 2026, the Fed as expected left the fed funds rate unchanged. Two voting members, Stephen Mirren and Christopher Waller, voted for a quarter-point cut.

The Fed earlier appeared to signal that the balance of risks had shifted away from rising prices and toward the employment economy. Given the strong January 2026 payrolls report and the higher-than-anticipated January PPI, that balance may again be in flux.

Argus, along with many investors, continue to believe the December 2025 rate cut will be the last under Jerome Powell, whose term as Fed chairman ends in May 2026. Late in January, President Trump nominated Kevin Warsh as the new chairman of the Federal Reserve; he would take over when Powell's tenure as chairman ends.

U.S. Treasury yields began to move lower late in 2025 in anticipation of a December rate cut. Rates rose modestly in January 2026 and then moved sharply lower across February as weak existing home sales data, below-consensus 4Q25 GDP, and worsening consumer spending raised concerns about economic growth. Global holders of U.S. Treasury debt continue to reduce positions, which may be preventing a deeper decline in rates.

The 10-year Treasury yield was 3.97% as of the end of February 2026, compared with 4.24% as of the end of January 2026 and 4.14% at year-end 2025. The 10-year yield was last below 4% in September 2024. The two-year Treasury yield was 3.39% as of the end of January 2026, vs. 3.53% as of the end of January 2026 and 3.45% as of year-end 2025.

The twos-10s slope in the yield curve was 69 basis points at year-end 2025, the most positive since year-end 2021 before the Fed began its fight against inflation. The spread moderated to 60 bps as of the end of February 2026.

Argus expects short-term and long-term yields to move lower from current levels, although the pace of decline

could moderate if the Fed stands pat through the end of Powell's term. Long yields over time are expected to widen their relative premium to short yields.

Argus Fixed Income Strategist Kevin Heal continues to model one quarter-point rate cut in 2026 and one in 2027. We see little likelihood of a first-half rate cut and an increased likelihood of a second-half 2026 rate cut as a new chairman takes over at the Fed.

Argus estimates that the final tally of 4Q25 S&P 500 earnings could show growth at a mid-teens percentage rate, better than our earlier expectations for high-single-digit to low-double-digit growth. Among companies that grew earnings, about three-quarters have reported earnings above the pre-reporting consensus; that is that is in line with the long-term 75% average. The magnitude of the EPS beat against expectations, in the high-single-digit range, has been above the midpoint of the long-term range of 5%-9%. Other highlights in the quarter include revenue growth in high-single-digit percentages as companies successfully navigate around tariffs and in many cases shift emphasis to overseas markets.

Companies have also been able to expand their margins as volume leverage supersedes higher costs and tariffs and as they begin to incorporate AI-based efficiencies into their operating models. Blended operating margin from continuing operations is on track to reach or exceed the 13% level for 4Q25 calendar earnings, which would be at least a point above the long-term average of 12%.

The strongest contributors to S&P 500 earnings growth for 4Q25 have been Information Technology, Communication Services, Financial, and Industrial. The weakest sectors for EPS growth include Energy, Consumer Staples, and Consumer Discretionary. In mid-February, we raised our forecast for S&P 500 earnings from continuing operations for 2025 to \$274 from a prior \$270. Our 2025 forecast now assumes annual EPS growth of 10.5% from 2024, raised from 9.3%.

Also early in February, we raised our forecast for S&P 500 continuing operations earnings for 2026 to \$315 per share from a prior \$300. Our 2026 forecast now assumes annual EPS growth of 15.6% from 2025, raised from 11.1%. Based on 2025 performance, revisions to our 2026 model, and forecast inputs for 2027, we are now formally modeling S&P 500 earnings from continuing operations for 2027 of \$363 per share. Our formal 2027 forecast now assumes annual EPS growth of 14.9% from 2026.

Domestic and Global Markets

The performance discussed herein captures the market status as of end of February 2026. This data does not reflect what has happened in the market in recent days.

The major indices began to shift away from growth and toward defensive, cyclical and rate sensitive in the second

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half of 2025. The 2026 trading year is two months old, and that shift has continued to intensify.

The biggest change in 2026 to date continues to be that value is beating growth. The Wilshire Large-Cap Value index is up 5.7%, while Wilshire Large-Cap Growth index is down 3.4% for the year. Another major change is that investors are finally rotating into smaller-cap names. The Russell 2000 is up 6.1% as of February-end, although it was higher at the end of January. The S&P 500 is above break-even only due to dividends, while the Nasdaq is down 2.2%. The DJIA is the best, with a 2.0% gain.

The Barclays Bloomberg U.S. Bond Index, which was little changed at the end of January, was up 1.6% as of February-end, reflecting the decline in bond yields. Bond returns could continue higher in 2026 particularly if a new Fed chair adopts a more accommodative monetary stance.

During the recent calendar 4Q25 earnings season, the numbers coming out of the AI economy – deal sizes, revenue growth and projections, and margin expansion – pushed to ever-more-dazzling heights. AI growth fundamentals appear to be real and solid, unlike the internet bubble in 2001 or the housing bubble in 2008. Many of the leaders in the AI trade are substantially cheaper than they were a year ago. But investors are not yet willing to step in front of the rotation freight train, meaning it could continue to chug.

Cracks in the foundation of the AI trade, which emerged during the fourth quarter of 2025, have widened in 2026. Investors first warned of an “AI bubble” in which the reality of AI would be revealed to be much less than promised. More recently, the negative reaction in technology stocks reflects concerns that AI will eat the economy and everyone’s jobs. Plainly, these two fears are at odds, but both have worked to hurt growth sectors and push investors into perceived safer parts of the equity market.

The sector leaderboard in 2026 has completely flipped from that in 2025. Energy leads with a 23% year to date gain, reflecting both the bitter winter in most of the nation as well as a “wealth in the ground” defense against newly recurring inflation. The Materials sector is up 17% as of February-end. Nearly all commodities are priced in dollars, so dollar weakness has been positive for those two sectors. Reflecting the rotation toward value, the defensive Consumer Staples sector is up nearly 16% in 2026. Industrials are up 13% as the long-dormant defense stocks rotate back into favor. Utilities, a leadership sector in 2025, is up 11%.

Despite these double-digit sector gains, the overall market is barely changed year to date. That’s because about 50% of the market is in negative territory. Information Technology, with a 33.4% weighting, is down 4.6% year to date; and Financial, with a close to 15% weighting, is down 6%. Both these sectors were at the top of the leaderboard in 2025.

Communication Services is positive in 2026, but most of that momentum is in the slow-growth telco giants such as Verizon and AT&T. Consumer Discretionary, which struggled in 2025, is down slightly as affordability issues eat into consumer spending on durable goods.

Redeployment of AI winnings during 4Q25 had the effect of smoothing the overall sector map for full-year 2025. As of the end of 2025, all sectors were positive. New leadership is in place for now. More diversity in sector leadership is positive for sustaining the bull market, in our view, even if the new sector leaders are slower-growing groups.

Market performance in 2026 to date has featured rotation out of traditional growth sector leaders such as Information Technology, Communication Services, and Consumer Discretionary, and into defensive, rate-sensitive, cyclical, and inflation-sensitive sectors. This has caused a shift in S&P 500 market weightings in the year-to-date compared to sector weights as of year-end 2025.

Sectors that have gained weight in 2026 include Energy and Industrials, both up more than 40 basis points year-to-date. Another sector that is up 40 bps year to date is Communication Services, but not because of AI leaders from 2025 such as Alphabet and Meta Platforms. Instead, the old telcos Verizon and AT&T are leading this sector. The weighting in Consumer Staples is up 30 bps year to date, while the Materials weighting is up 20 bps. Real Estate is up 10 bps.

Sectors that have lost weight are led by, no surprise, Information Technology. Amid the software sell-off dubbed the “SaaS-pocalypse,” Information Technology has lost over 100 bps of sector weight and is now down nearly 200 bps from its all-time high in fall 2025. Financial has lost 50 bps of market weight in 2026 to date, and Healthcare has lost about 20 bps.

Sectors with weights that are approximately steady in the year to date compared with year-end 2025 include Consumer Discretionary and Utilities. The trend in the stock market in 2026 is rotation away from the AI trade and into those defensive, rate-sensitive, cyclical, and inflation-sensitive sectors that are now leading the market. Given that this trend could persist, we could see further weight shifts in line with the January-February trend on a go-forward basis.

Global stocks mainly did better than the U.S. market in 2025, and that pattern has intensified across the first two months of 2026. All nine global bourses in our tally were positive for 2025, and all but two are positive early in 2026.

In terms of our themes, Resources economies are far ahead year to date with a 12.5% gain. Resources economies also won 2025 with a 32% gain. Asia is in second place in 2026 with an 11% gain. Americas markets are up 9.5% in 2026, fueled by recovery in Mexico and Canada. Mature

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economies are up 8.4% in 2026 to date. BRICs-minus-Russia is up just 3% in 2026, after also being a lagging theme in 2025.

Conclusion

February lived up to its reputation as a poor month for stocks, netting a decline of about 1.3% on the S&P 500. The U.S. and Israel began a war with Iran just as the month wound down, injecting additional uncertainty into an environment already unsettled by the ongoing affordability crisis and signs of worsening inflation.

February's poor stock performance was not reflective of the macro-economic news flow. The jobs economy rebounded in January after a challenging second half of 2025. Another stellar earnings quarter in calendar 4Q25 prompted us to raise our 2026 EPS forecast and institute a strong 2027 outlook. GDP growth did soften in 4Q25 but would have been close to the 2.5% level if not for the steep decline in government spending related to the October 2025 shutdown.

For all that, the stock market spun its wheels in the first two months into 2026, and March has been shadowed by

the war in Iran. The AI trade has become more discerning, punishing software stocks on fears those companies would be made obsolete by advanced AI models. Despite those fears, software earnings were strong, ironically fueled by AI-related demand. Poor housing data earlier in the month fed fears of economic softening, while the surprise spike in PPI at month's end kindled fears of resurgent inflation. Concern about AI's creative destruction potential has broadened out from software to financial services, healthcare, and industrial niches including warehousing and logistics. The tariff situation, seemingly resolved after a year of uncertainty, is unresolved again following the Supreme Court ruling.

On the bright side, valuations become more attractive when the stock market cannot gain traction even while earnings continue to grow, as is now occurring. Despite the "meh" stock market in the year to date, we continue to anticipate a positive year for stocks in 2026. We reiterate our forecast for 5%-10% appreciation in the S&P 500, with leadership continuing to move away from growth sectors toward defensive, cyclical, rate-sensitive, and weak-dollar beneficiaries in the commodities space.

Jim Kelleher, CFA,
Director of Research

KEY ECONOMIC FORECASTS

- The \$31 trillion U.S. economy remains on course for growth, powered by corporate investments in AI and outsized spending by the wealthiest households. Nvidia CEO Jensen Huang estimated, in November, that \$3 - \$4 trillion will be spent on AI infrastructure in the next 5 years.
- We recently raised our 2026 forecast for GDP growth to 2.5% from 2.3%. Unemployment remains low, the Fed has been stimulating growth by reducing the funds rate, and last year's tax legislation could boost tax returns by \$600 - \$1,000 for many families. We are maintaining our 2027 GDP estimate at 1.8%.
- Consumers have been the engine of economic growth. That should continue with January unemployment at 4.3%. Demand for healthcare workers, who are hard to replace with AI, is strong in an aging population.
- Inflation's downward progress has stalled above the Fed's 2% target. Core PCE was 2.8% in 2025, down just one tick from 2.9% in 2024. The median projection of Federal Reserve officials does not return to 2% until 2028.
- Argus expects S&P 500 EPS to rise almost 16% to \$315 in 2026 and increase about 15% to \$363 in 2027. EPS is helped by an increase in operating margins to about 18.0% this year, well above 13.9% in pre-pandemic 2019. Growing tech giants such as MSFT and NVDA have operating margins of 47% and 60% respectively while Dow stalwarts Walmart and Caterpillar earn 4% and 17%, respectively.
- Argus Fixed Income Strategist Kevin Heal expects the Fed to reduce the funds rate by 25 basis points in 2026 and by another 25 basis points in 2027 taking the target range to 3%-3.25%. We expect the dollar to be flat or slightly stronger in 2026 as foreign demand for shares of innovative U.S. companies and economic resilience offset monetary easing.
- As long as geopolitics are flaring and the global economy is wobbling, gold is likely to remain at elevated levels. The ancient safe-haven asset recently reached an all-time record above \$5,000 an ounce. Our average target price in 2026 is \$4,500.
- Despite last year's economic-and-policy "uncertainty," the January Misery Index, which is the Consumer Price Index (CPI) inflation rate plus the unemployment rate, was approximately 6.7%, well below the average of 9.2% since 1949.
- What could go right? Monetary easing, big tax refunds, spending by wealthy consumers, strong S&P earnings, capital investment, productivity gains, and ongoing innovation.
- Risks: Elevated Inflation, higher fuel prices, housing is stalled, low income consumers are struggling, spending by affluent may be dependent on stock market gains, AI may reduce entry-level hiring.
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CURRENT ECONOMIC RELEASES

Current Economic Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
27-Feb	PPI Final Demand	January	3.0%	2.4%	2.6%	2.9%
	PPI ex-Food & Energy	January	3.3%	2.8%	3.0%	3.6%
	Construction Spending	December	-1.4%	1.0%	NA	-0.4%
2-Mar	ISM Manufacturing	February	52.6	52.0	51.2	52.4
	ISM New Orders	February	57.1	55.0	NA	55.8
4-Mar	ISM Services Index	February	53.8	53.4	53.8	56.1
	Total Vehicle Sales	February	14.8 Mln.	15.5 Mln.	NA	15.8 Mln.
5-Mar	Import Price Index	January	0.0%	0.2%	NA	NA
	Nonfarm Productivity	4Q	4.9%	2.6%	1.8%	NA
	Unit Labor Costs	4Q	-1.9%	1.0%	2.0%	NA
6-Mar	Nonfarm Payrolls	February	130K	65K	60K	NA
	Unemployment Rate	February	4.3%	4.3%	4.4%	NA
	Average Weekly Hours	February	34.3	34.3	34.3	NA
	Average Hourly Earnings	February	3.7%	3.7%	3.7%	NA
	Retail Sales	January	2.4%	3.0%	NA	NA
	Retail Sales ex-autos	January	3.3%	3.5%	NA	NA
	Business Inventories	December	1.2%	1.0%	NA	NA
10-Mar	Existing Home Sales	February	3.91 Mln.	4.00 Mln.	3.88 Mln.	NA
11-Mar	Consumer Price Index	February	2.4%	2.4%	NA	NA
	CPI ex-Food & Energy	February	2.5%	2.5%	2.4%	NA
12-Mar	Trade Balance	January	-\$70.3 Bln.	-\$55.0 Bln.	NA	NA
	Housing Starts	January	1,404K	1,300K	1,340K	NA
13-Mar	GDP Annualized QoQ	4Q "Second"	1.4%	1.4%	1.4%	NA
	GDP Price Index	4Q "Second"	3.6%	3.6%	NA	NA
	PCE Deflator	January	2.9%	2.8%	NA	NA
	PCE Core Deflator	January	3.0%	3.0%	3.1%	NA
	Personal Income	January	4.3%	4.5%	NA	NA
	Personal Spending	January	4.7%	4.9%	NA	NA
	Durable Goods Orders	January	12.5%	10.0%	NA	NA
	U. Michigan Sentiment	March	56.6	54.0	NA	NA

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