MONTHLY RESEARCH WEBINAR

ARGUS RESEARCH 2026 OUTLOOK

Moderator:

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WHAT'S NEW AT ARGUS?

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Argus Research 2026 Outlook

- Jim Kelleher, CFA, Director of Research
- John Eade, Argus President
- Chris Graja, CFA, Director of Economic Strategy
- Kevin Heal, Fixed Income Strategist

New A6 Ratings Methodology

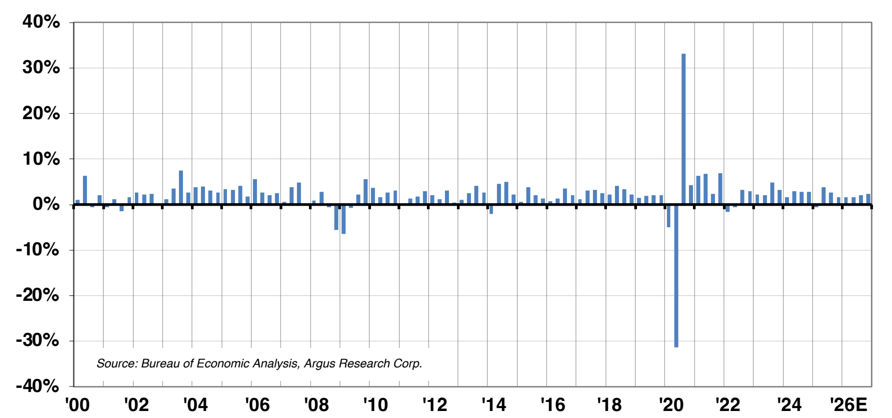
- New proprietary data, revised equations & sector weights
- Quantitative A6 research more aligned with analyst ratings
- New A6 Methodology is now live

New Argus Investors' Counsel Website

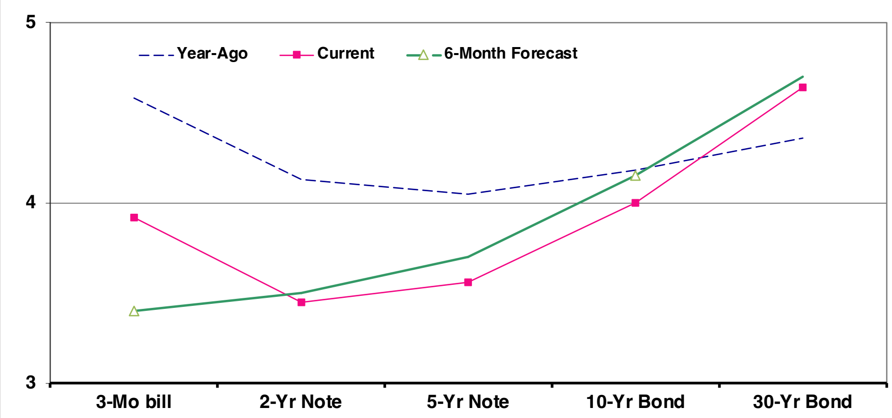
- Updated information on all 18 AIC strategies
- New AIC Site (ArgusInvest.com) is now live

MACRO FORECASTS

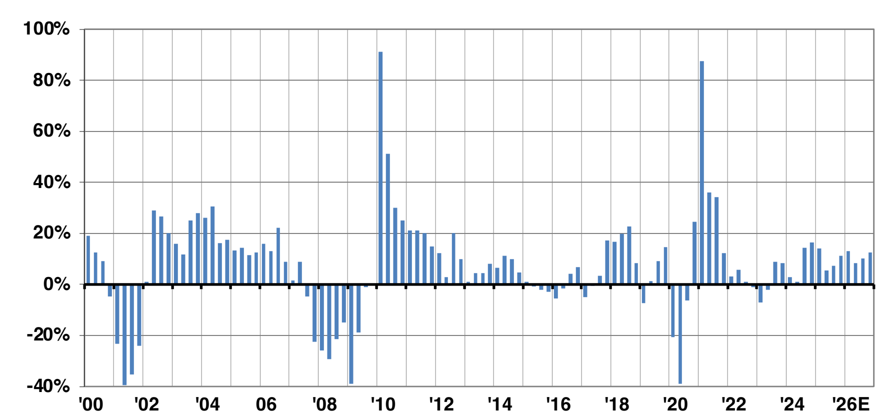
REAL GDP W/FORECASTS (%)



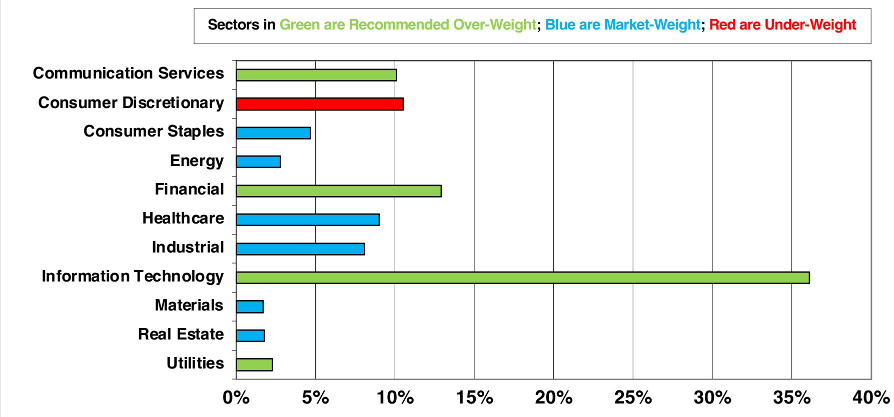
TREASURY YIELD CURVE (%)



S&P 500 QUARTERLY EARNINGS GROWTH



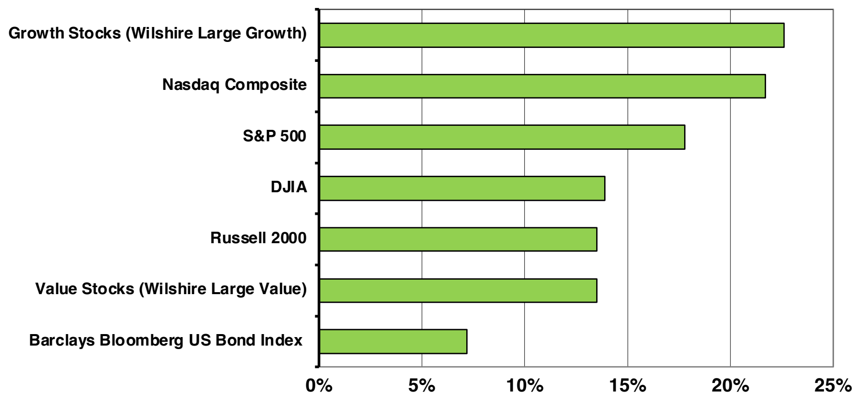
MARKET SECTOR DISTRIBUTION - PERCENT OF S&P 500



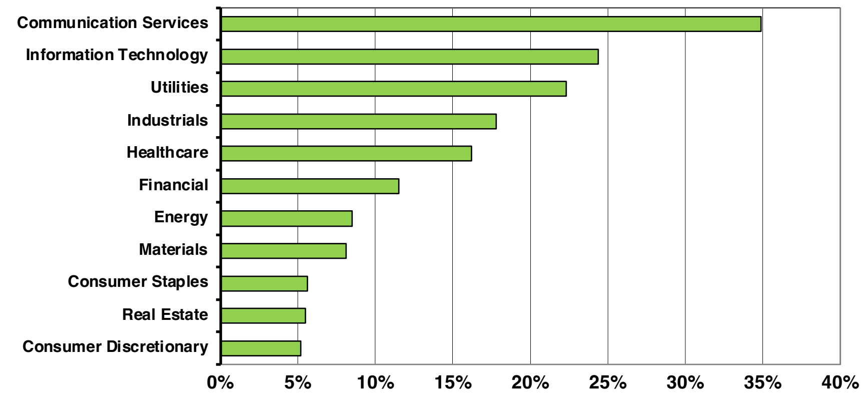
MARKET PERFORMANCE

DATA AS NOVEMBER 28, 2025

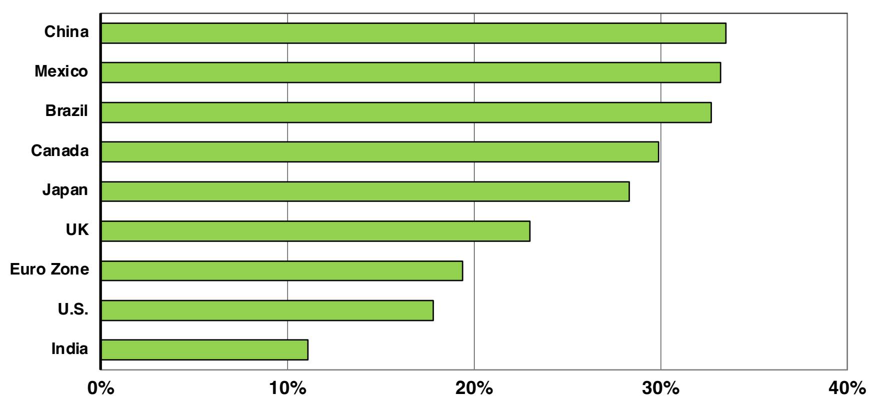
MAJOR INDEX



SECTOR



GLOBAL EQUITY MARKETS



2025 SCENARIO REVIEW

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BASE CASE

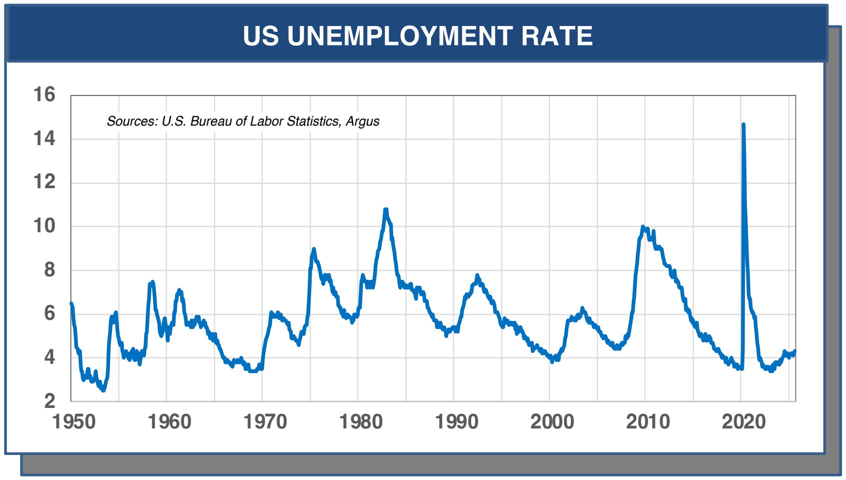
- GDP growth averages 2.0% in 2025, recession avoided
- Core PCE falls toward 2.0% by year-end – currently at 2.8%
- Fed maintains rate-cutting program
- Corporate earnings rise low double-digits
- S&P 500 advances 10-15% for year

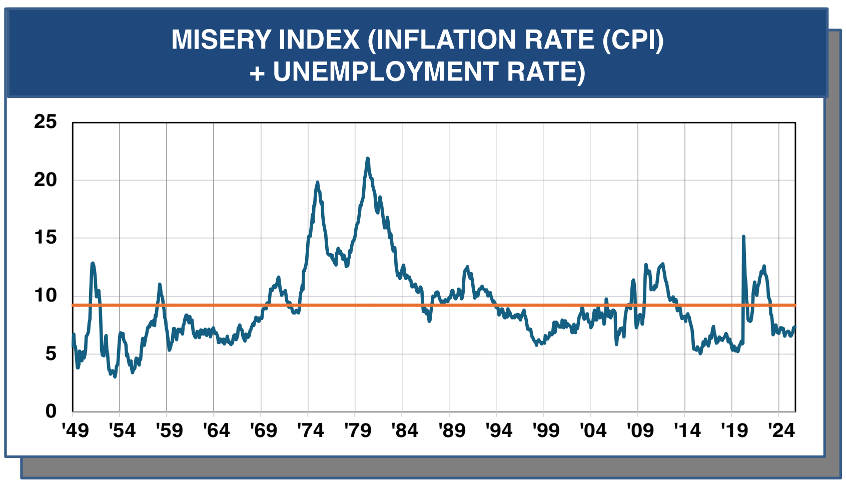
BULLISH CASE

- Lower taxes, deregulation offset impact of tariffs on rates and EPS grows mid-teens
- Fiscal plan generates higher tax revenues and government expenditures decline; LT rates drift lower
- Geopolitical issues wind down
- Global economy grows faster than expected
- S&P 500 rises 20%

BEARISH CASE

- Tariffs lead to trade wars and inflation heads back up
- Fed puts rate cuts on hold
- High rates stall US economic expansion and unemployment heads toward 5.0%
- Bubble Watch: Tech sector sell-off
- Market endures pronounced correction phase





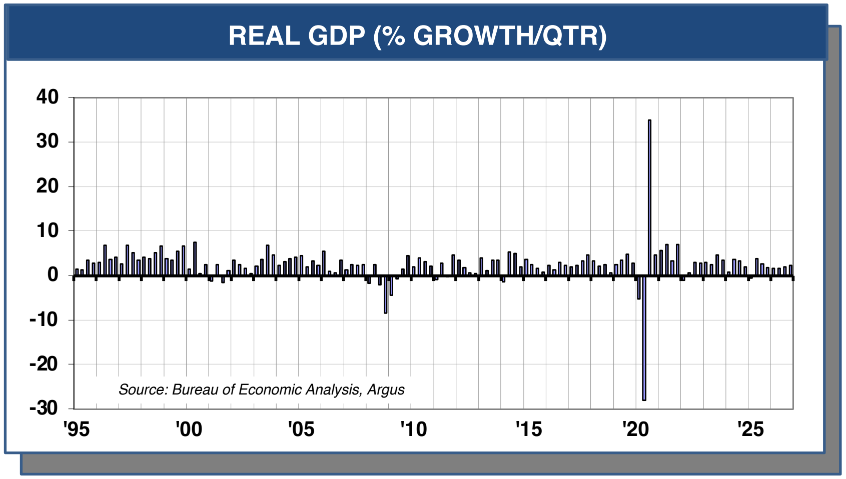
Data Suggests Healthy Consumer

- Unemployment rate low at 4.4%, though up from 3.4%
- 4.0-4.5% unemployment rate is near “full,” non-inflationary rate
- Jobless claims of 220k-240k are still below 300k recession flag
- Layoffs rising, with number almost double vs. 2024
- Immigration trends impacting labor force
- Monthly payrolls of 50k needed for steady unemployment rate

Not So Miserable

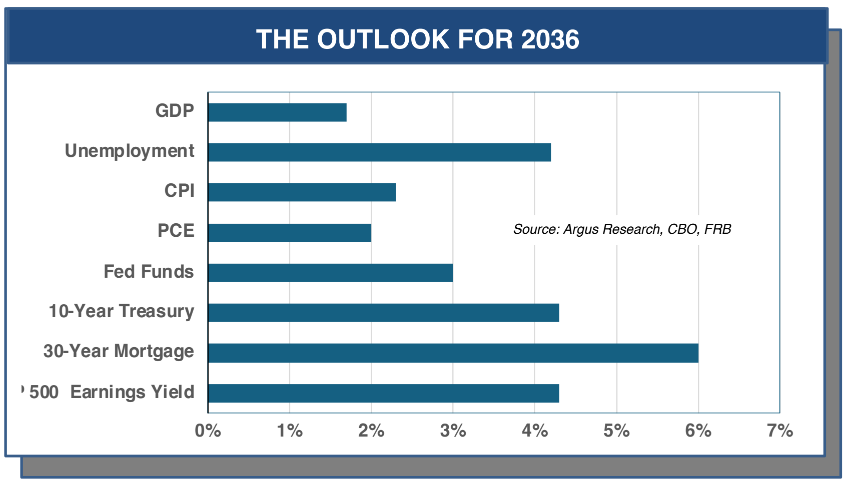
- “Misery” is low despite significant “uncertainty.”
- The Misery Index, is the Consumer Price Index (CPI) inflation rate plus the unemployment rate.
- About 7.4%, compared with average of 9.2% since 1949
- Based on consensus, “Misery” will peak near 7.6% in 2Q26.
- The Misery Index may be an objective indicator to watch ahead of mid-term elections.

ECONOMIC OUTLOOK



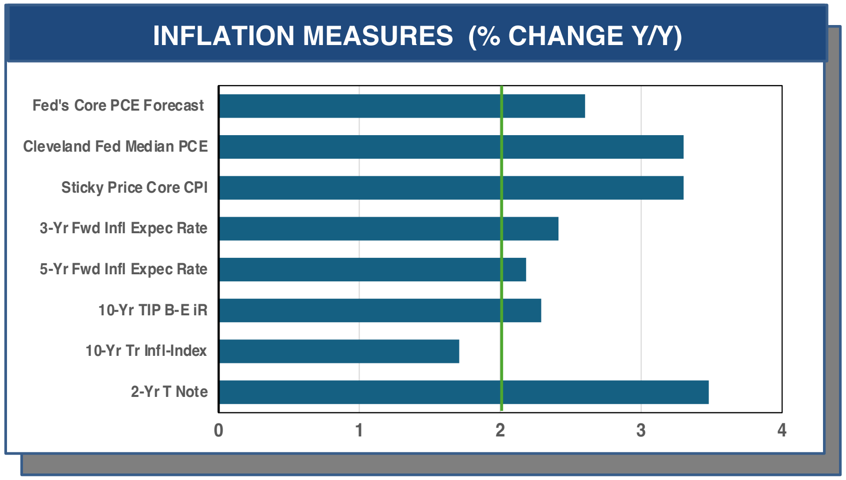
Strong Foundation ‘26 & Beyond

- Capital is funding productive innovation
- Management deploying innovation to drive productivity
- CEOs already discussing AI benefits in 3Q calls
- Healthcare can innovate to boost employment, outcomes
- Disruptions create a profit opportunity that drives innovation
- Our 2025-2026 GDP estimates are both 1.9%



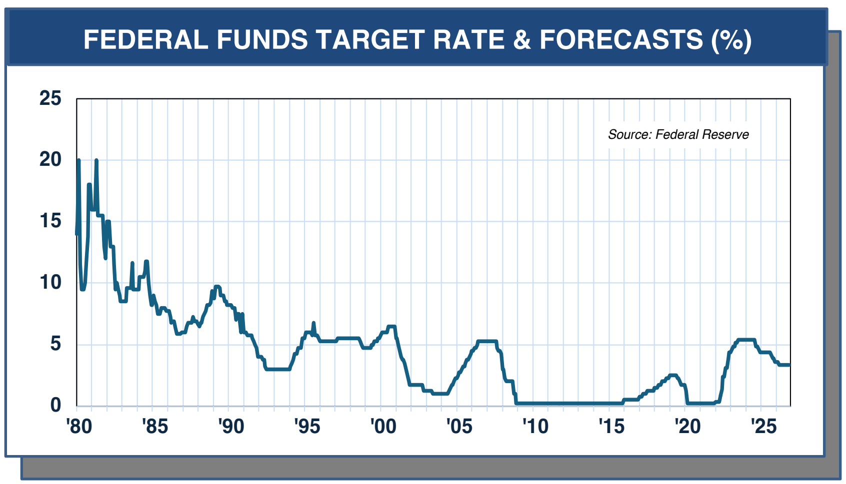
What 2036 May Look Like

- GDP Growth rate 1.7%.
- Unemployment rate 4.2%.
- Fed Funds rate 3.0% / 10-year T-bond rate 4.3%
- CPI 2.3% / PCE 2.0%
- 30-year mortgage rate 6.0%
- S&P 500 P/E 23.3x based on the Fed Model.
- Sources: CBO, Federal Reserve, Philadelphia Fed, Argus Research



Inflation Steady

- Fewer factors since government shutdown.
- But enough to get sense that prices under control.
- Fed Figures
- Inflation expectations
- Inflation-linked securities
- Average inflation rate 2.7-3.0%.

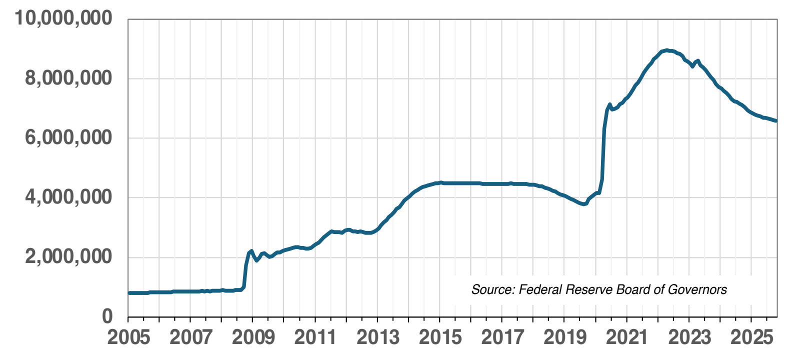


2 Fed Cuts Expected by Mid-2026

- December meeting, plus 1 more in 1H.
- Powell term over in May.
- 2 more cuts can set neutral rate at 3.0%.
- Fed's independence critical on global stage.
- Risk that new appointee may be under pressure to cut right away.

INTEREST RATE OUTLOOK

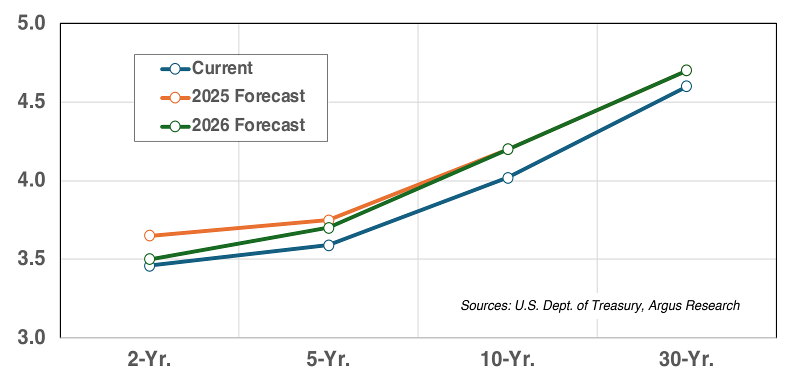
FEDERAL RESERVE BALANCE SHEET (FED ASSETS, $ MIL)



Factors Affecting Treasury Curve

- Deficit spending par for the course.
- Total US Debt is now 120% of GDP, $108k/citizen and $323k/taxpayer.
- Too High? Switzerland = 37%; Japan = 250%.
- On the other hand, QT wrapped up, should provide some support for longer-term bonds.
- Emergence of stablecoins creates demand at short end of curve.

YIELD CURVE & OUTLOOK (%)



Maintaining an Upward Slope

- 2s-10s was inverted for 2022-2024.
- But lower inflation & ongoing economic growth has returned curve to normal upward slope
- Look for upward slope in 2026 as Fed cuts rates.
- Positive implications for economic growth.

STOCKS: EARNINGS OUTLOOK

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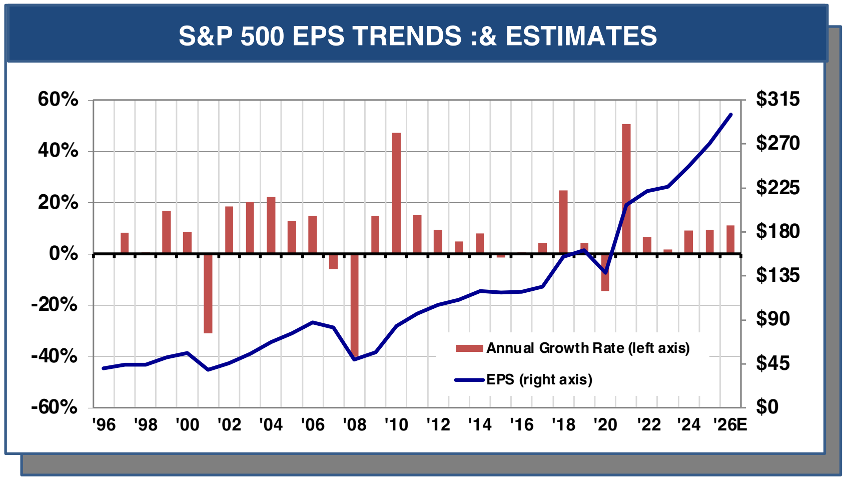
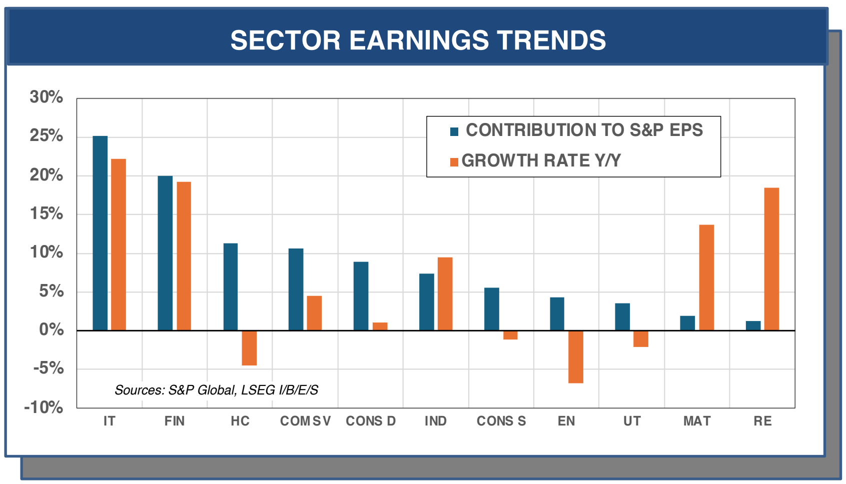


Earnings in Upward Direction

- 3Q EPS season now over: 16% growth
- High quality: 83% of companies top expectations; 8% top-line growth
- Operating profit margin around 12%, in range of 9-14%
- But change in composition of S&P 500 points toward higher margins going forward: NVDA/MSFT vs. XOM/WMT
- Risks include eonomic concerns, uncertain impact from tariffs
- But still look for HSD/LDD growth over next two years

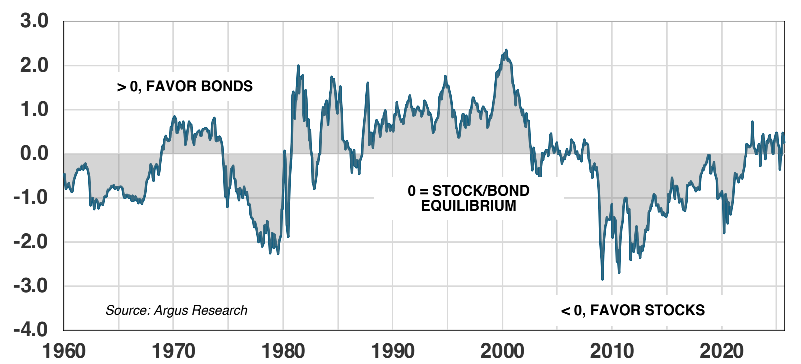


Key Sectors Contributing

- Prices may be high, but supported by real earnings power.
- Tech sector is 30% of market, 25% of EPS and growing 29% y/y
- Financials = 25% growth
- Industrials = 23%
- Turnaround in HC EPS?
- Smaller sectors less relevant
- Focus on the market drivers

STOCKS: VALUATION & RISKS

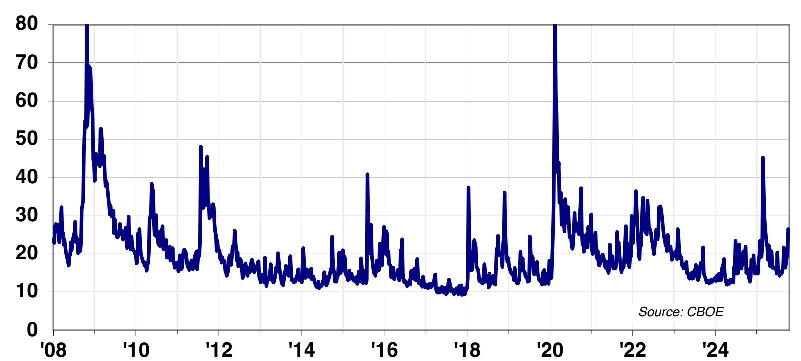
STOCK BOND BAROMETER



Valuations Reasonable

- Our most comprehensive valuation measure, our stock/bond model, slightly favors bonds but is within normal range.
- It is true that S&P 500 P/E, P/S and P/B multiples are above historical averages.
- But these multiples reflect a change in the make-up of the S&P 500
- Falling rates, inflation good for valuation
- Risks: EPS fails to grow as expected, or rates rise

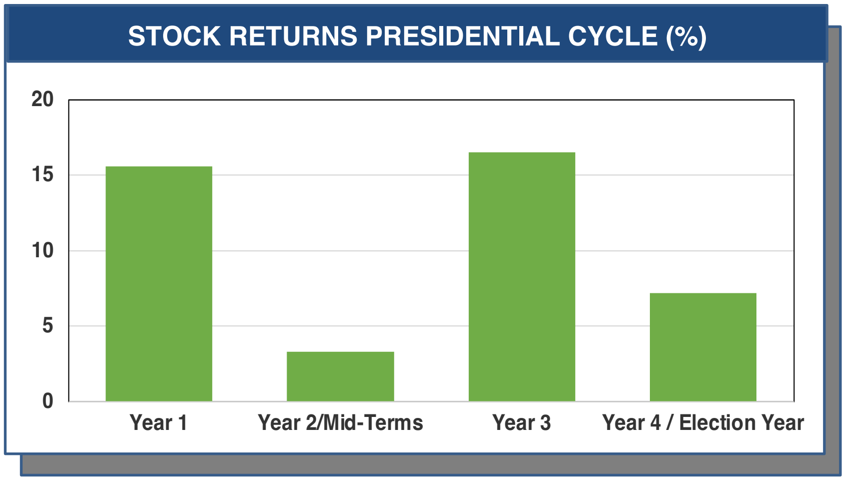
VOLATILITY INDEX (WEEKLY CLOSE)



Bubble Risk?

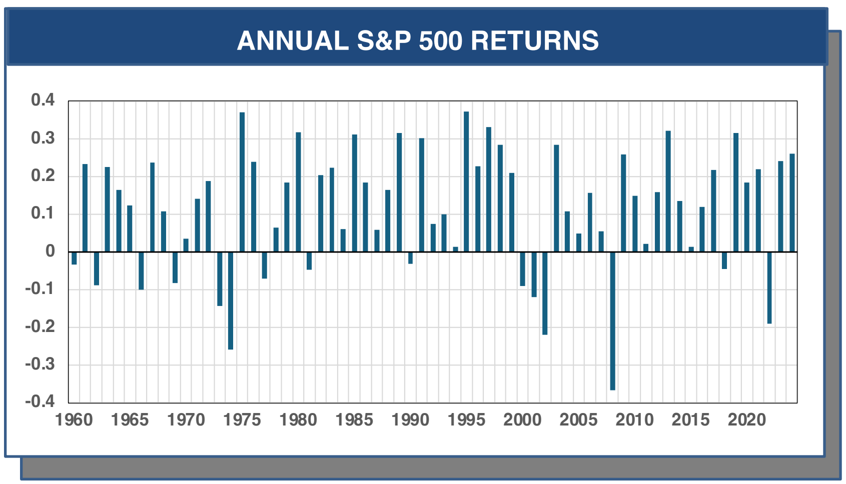
- VIX back above 20, after spending most of 2H at low levels
- Fears include impact of government shutdown on economy, equity valuations
- On valuation, we argue against a bubble
- Current market unlike dot-com era, subprime mortgage period
- Real earnings underpinning valuations
- Better bubble comparison is 10-year T-bond during pandemic

STOCKS: TRENDS & PATTERNS



2nd Year a Challenge for Stocks

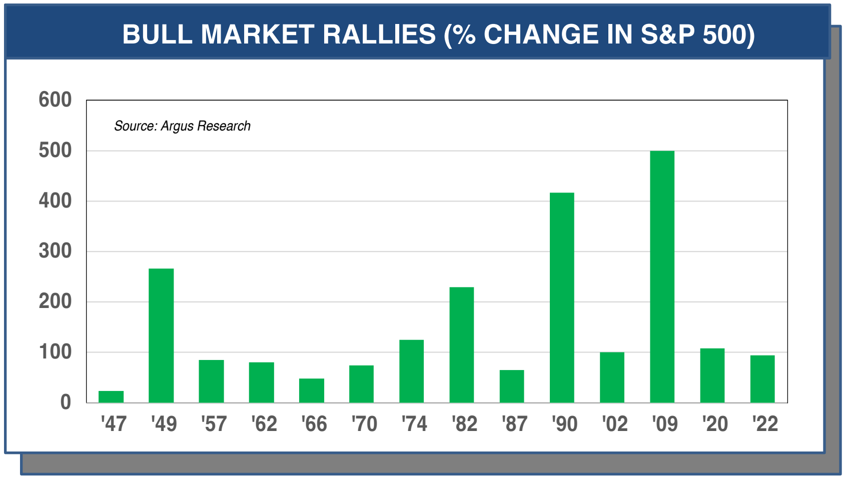
- The worst of the 4 years
- Average gains near 5%
- Honeymoon over; how was Year 1?
- Mid-term elections often a challenge for incumbent party
- Political/economic uncertainty



Hard to Three-Peat

- Average S&P 500 gain = 11% since 1960
- But hard to string 3 good years in a row
- Double-digit back-to-back gains 16x
- But average return in Year 3 was 2%, and 8 years recorded losses

STOCKS: TRENDS & PATTERNS



What to Expect in a Bull Market

- 14 since WWII, including current began 10/22
- Average gain 164%
- Average duration 57 months
- Recent bull markets have been longer, more profitable
- Bull drivers can be lower rates, faster earnings growth

SCENARIOS FOR 2026

ARGUS®

BASE CASE

- GDP growth averages 1.9-2.0% in 2026, recession avoided
- Core PCE falls toward 2.5% by year-end – last reading 2.9%
- Fed cuts rates 1x, dollar stays strong
- Corporate earnings rise low double-digits
- Bull market continues as S&P 500 advances 5-10% for year, more in line with equal-weighted index

BULLISH CASE

- GDP strengthens and EPS grows mid-teens, as sectors outside IT increasingly contribute
- Trade wars settle down, global demand for long-term US Treasuries rekindles, and the benchmark 10-year rate drifts into 3.75% range
- Global markets continue rebound as geopolitical issues wind down
- AI integrated further into economy, reducing market focus on IT bubble
- Bull market continues as S&P 500 rises 15-20% on AI benefits

BEARISH CASE

- AI momentum stalls
- S&P 500 margin expansion trend reverses as expected AI benefits fail to deliver
- New Fed Chairman pushes for lower rates despite low unemployment; dollar sells off
- Bubble Watch: Tech sector slides
- Market endures pronounced correction phase, Bull Market of 2022 turns out to be below average

INVESTMENT THEMES

Segments

- Large-caps favored for Growth, Financial Strength
- Small-caps offer value, but Underweight
- Growth favored over Value as rates decline
- Domestic favored over International, despite recent returns

Sectors

- Over-Weight: IT, Communication Services, Financials, Utilities
- Market-Weight: Consumer Staples, Industrials, Energy, Materials, Real Estate
- Under-Weight: Consumer Discretionary

Themes

- Dividend Growth/Raising Guidance
- Technology: AI reach expands across sectors
- Margin Expansion
- US Core Competitive Advantages: A&D, Drug Development, Capital Allocation, Clean Energy, Supply Chain
- Innovation

KEY FORECASTS

- The $30 trillion U.S. economy remains on course for modest growth, powered by corporate investments in AI and outsized spending by the wealthiest households.

- We recently raised our 2025 estimate for real GDP growth to 1.9% from 1.4% and lifted our 2026 estimate to 1.9% from 1.8% helped by investments in Intellectual Property and computer equipment which are key components of AI spending. Nvidia CEO Jensen Huang estimated, in November, that $3 - $4 trillion will be spent on AI infrastructure in the next 5 years.

- U.S. consumers have been the engine of economic growth. That should continue with unemployment at 4.4%. We expect a small increase in the jobless rate, peaking at 4.5% in 1H26. Fewer job openings and slower hiring may reduce wage growth.

- Inflation's downward progress has stalled well above the Fed's 2% target. Core PCE has exceeded 2.5% since March 2022, rising to 2.9% in August 2025. The median projection of Federal Reserve's officials does not return to 2% until 2028.

- Argus expects S&P 500 EPS of $270 in 2025 and an 11% increase to $300 in 2026. EPS is helped by an increase in operating margins to 16.5%, well above 13.9% in pre-pandemic 2019. Growing tech giants such as MSFT and NVDA have operating margins of 49% and 63% respectively while Dow stalwarts Walmart and Caterpillar earn 4% and 17% respectively.

- Argus Fixed Income Strategist Kevin Heal expects the Fed to ease by 25 basis points in December and once in 1Q 2026. We expect the dollar to be flat as foreign demand for shares of innovative U.S. companies offsets monetary easing.

- Despite economic-and-policy "uncertainty," the Misery Index, which is the Consumer Price Index (CPI) inflation rate plus the unemployment rate, is 7.4%, well below the average of 9.2% since 1949. "Misery" is estimated to peak at 7.6% in 2Q26 with CPI at 3.1% and Unemployment at 4.5%. This is a consideration ahead of midterm elections.

- What could go right? Monetary easing, big tax returns in 2026, spending by wealthy consumers, strong S&P earnings, capital investment, and ongoing innovation.

- Risks: Elevated Inflation, tariff uncertainty, slow hiring, layoffs, housing and manufacturing are stalled, low income consumers are struggling.

DISCLAIMER