INVEST FINANCIAL CORPORATION

THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

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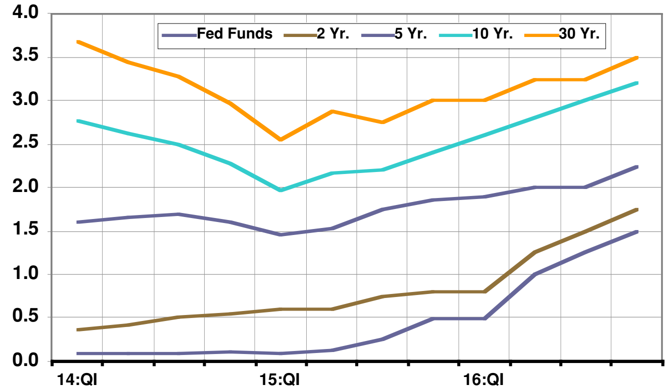
YIELD CURVE EXPECTED TO SHIFT HIGHER

Many expect the Fed to boost short-term rates later this year, and have been purchasing notes due to mature within the next 3-24 months. At the long end of the curve, though, investors may be expressing concern that the central bank has fallen behind the inflation curve. We anticipate the yield curve will move higher, given 1) our expectations that the Fed will raise the fed funds rate in 3Q; 2) the narrow gap between current 10-year bond yields and inflation; and 3) our forecast for stronger U.S. GDP growth. We believe bonds are fully valued and recommend that fixed-income securities account for a relatively low 25% of diversified Moderate Account portfolios. We see more value in corporates than Treasuries, particularly if investors can hold them to term.

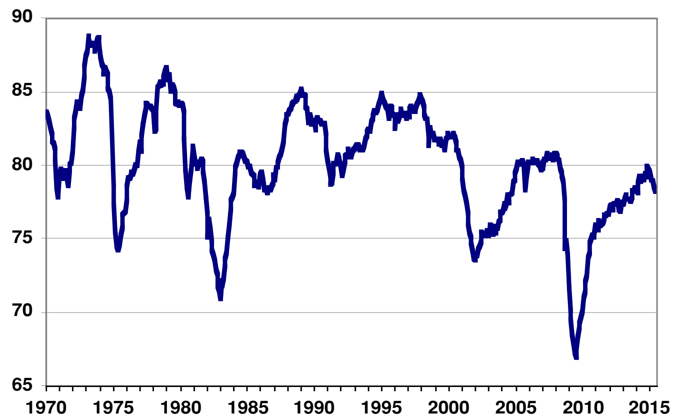
ARGUS INTEREST RATE OUTLOOK (%)



INDUSTRIAL FUNDAMENTALS SLIP

The current trajectory of the Fed's Capacity Utilization metric signals a multi-year recovery may have stalled. The latest reading was 78.4%, 170 basis points below the monthly average since 1970 and down 130 basis points over the past six months. The reading is still up sharply from the latest recession low of 67.1% and we are not expecting a sharp decline. Over the long term, the cycle highs for capacity utilization have been declining since 1970, when the metric almost reached 90% (and inflation became rampant). In the 1990s, the cycle highs were typically around 85%, while the in the past 15 years the cycle highs have been closer to 81%. We expect Industrial companies to achieve a higher degree of pricing power as capacity utilization breaks 80%, but the recent trend has been in other direction. Industrials accounts for about 12% of the U.S. stock-market capitalization. We recommend that diversified investors Market-Weight the sector.

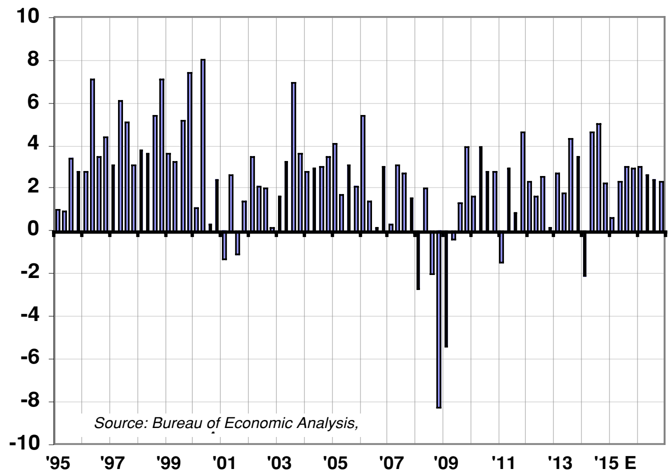
CAPACITY UTILIZATION TRENDS (%)



GDP GROWTH PICKS UP IN 2Q

The U.S. economy grew at a 2.3% rate in the second quarter, according to the first estimate published by the Department of Commerce. That was higher than the upwardly revised 0.9% rate in 1Q15. Growth in Real Personal Consumption Expenditures rose to 2.9% in the quarter from 1.8% in 1Q, while expenditures on Housing rose 6.6% versus 10.1% growth in 1Q. Investment in Intellectual Property rose a solid 5.5%. Exports rebounded. On the negative side, Investment in Equipment fell 4.1%, Federal Government spending dropped 1.1% and Inventories declined. Pricing pressures remain muted. We anticipate a repeat of 2014, when GDP strengthened throughout the year after a weak 1Q. Jobs growth and consumer spending are likely to lead to improvement as the year progresses.

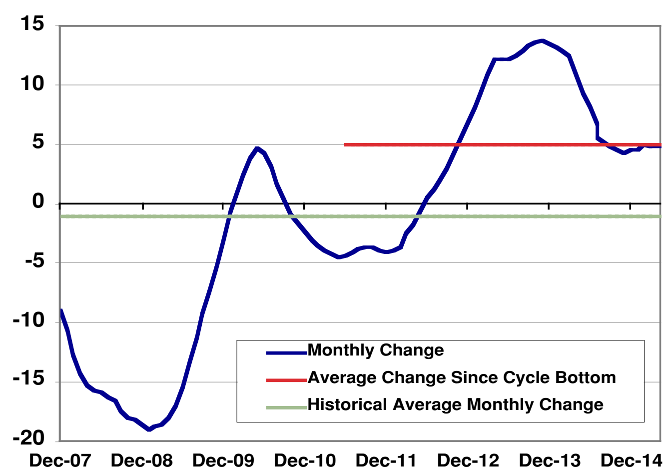
REAL GDP



HOME PRICES EXTEND UPSWING

The S&P/Case-Shiller Home Price Index of 20 major U.S. markets for May showed that prices gained 4.9% year-over-year. We expect price hikes to remain in the 4.5%-5.0% range. Many market observers are pointing to low inventories as a driver of price trends, and this metric implies mid-single-digit price gains going forward, in line with the average since the recovery. The risk is that these gains may draw "shadow inventory" owned by the banks into the market. Excess supply will likely prevent house prices from soaring at a double-digit rate any time soon, but we note those conditions aren't always the best for long-term growth. The average price change since 2008 has been -1.2%. Against that benchmark, the current reading should contribute to positive consumer sentiment.

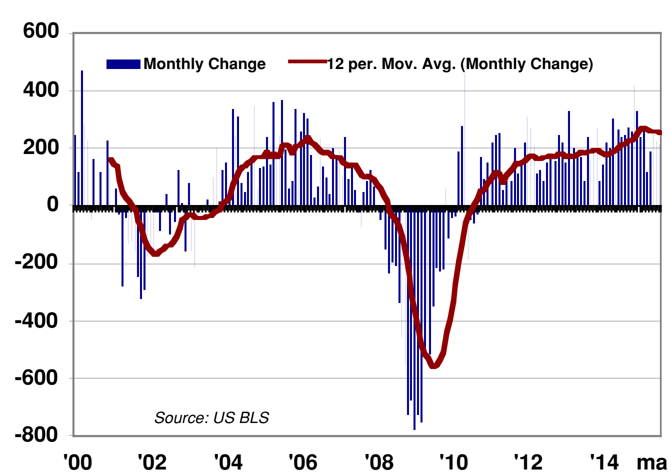
S&P CASE/SHILLER 20-CITY COMPOSITE (%)



PAYROLLS SIGNAL SOLID GROWTH

The U.S. economy generated 215,000 jobs in July. The Unemployment Rate was steady 5.3%. Wages were up 2.1% on an annual basis, slightly ahead of inflation. Revisions added 14,000 jobs to the May-June total. Drilling deeper, numerous industries posted strong growth, including retail, healthcare, professional and technical services and financial activities. Manufacturing also rose. Mining was weak for the seventh month in a row. According to Household survey data, the U6 unemployment rate declined 10 bps to 10.4% in July and is down by 220 basis points over the past year. Over the past six months, monthly employment gains have averaged 235,000, and the three-month trend is 213,000. The report sets the stage for a Federal Reserve rate hike in the next 2-3 months.

NONFARM PAYROLLS (THOUSANDS OF JOBS)

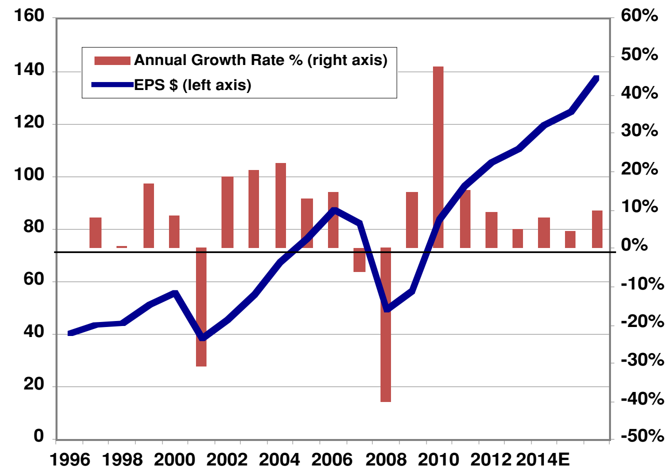


FINANCIAL MARKET HIGHLIGHTS

ADJUSTING EPS ESTIMATES

The Street was looking for a 6% decline in 2Q earnings, according to Bloomberg, but results to date point to growth in the 1%-2% range. Our 2015 S&P 500 EPS estimate was trimmed $1.25 to $125, and implies 4.5% growth for this year (down from 8% growth in 2014). We still see stronger earnings growth in 2016, even though we expect the Fed to begin raising interest rates in September. Tightening should have little negative impact on the U.S. economy as we do not see positive real, inflation-adjusted, interest rates until 2017. Meanwhile, we expect a recovery in the euro and yen to reduce the upward trajectory of the dollar, which should benefit U.S. multinationals. Our estimate for S&P 500 earnings per share in 2016 is $137.50, implying a 10% gain from 2015.

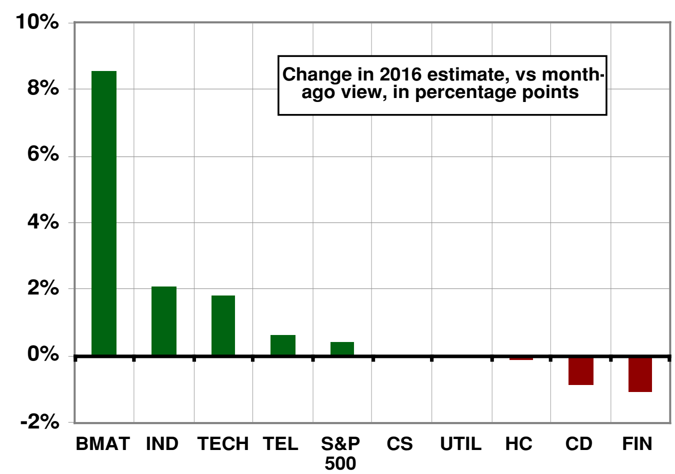
S&P 500 EPS TRENDS & ESTIMATES



REVISIONS FORECAST CYCLICAL PICK-UP

A little-noticed trend has emerged that may bode well for earnings in 2016. Specifically, while analysts have been adjusting downward estimates for 2015, forecasts for cyclical companies in 2016 have been trending higher. We note that revisions are upward for cyclical sectors such as Materials, Industrials and Technology. Even Energy, for which revisions have recently been negative, is still supposed to boost profits by more than 75% next year. These forecasts will depend on a stable-to-falling dollar, which is our outlook, assuming that the Japanese economy begins to pick up and Europe manages its Greek problem. Revision activity in the rest of the sectors is essentially neutral. Overall, S&P 500 earnings are expected to rise 15% next year.

SECTOR ESTIMATE REVISIONS



THE WORST FX DECLINES ARE BEHIND

The expected negative impact on U.S. company earnings has not materialized for several reasons. For one, the U.S. economy has continued to grow, in contrast to the great recession of 2008-2009. For another, this dollar rise was driven by large, simultaneous declines in the euro and the yen, currencies that are effectively and cheaply hedged. Finally, companies are trading less with developed countries and more with emerging markets. After appreciating at rates of 9%, 12.9% and 13.3% in the past three quarters, the dollar rise is expected to subside sharply. At current FX rates, the dollar rise will fall to 11.2%, 6% and 1.4% over the next three quarters. This should provide an improving backdrop for U.S. corporate earnings.

FED'S BROAD US DOLLAR INDEX

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The Economic Calendar that normally appears on this page will return in our next publication.