Economic overview and forecast for 2026 Q1

Robert J. Leibfried, CPA, ABV, CDFA | Shareholder | Honkamp, P.C.

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I. General Economic Overview

Summary of General Economic Overview – United States[1]

The U.S. economy showed mixed performance in the first quarter of 2026, with moderate GDP growth, a broadly stable labor market, rising energy-driven inflation, and the Federal Reserve maintaining its benchmark interest rate unchanged amid geopolitical risks and inflationary pressures.

Domestic production expanded during the quarter. Consumer spending, private investment, exports, and government spending contributed positively to GDP, while imports (a subtraction in GDP calculations) partially offset these gains. Government expenditures increased following the fourth quarter of 2025 decline related to the government shutdown, supporting overall growth.

Inflation picked up during the first quarter, with energy prices rising sharply in March. Crude oil prices rose late in the quarter amid supply concerns stemming from developments in the Middle East. The Federal Reserve cited geopolitical risks and elevated inflation in maintaining a cautious policy stance.

The labor market remained broadly stable in the first quarter of 2026. The unemployment rate held around 4.3%, consistent with full employment. Nonfarm payroll growth remained positive but was concentrated in a limited number of industries. The labor force declined during the quarter, with labor participation inching lower.

Capital markets posted losses in the first quarter, reflecting concerns about inflationary expectations and a shifting interest rate outlook. The tech-heavy NASDAQ indexes, the broader S&P 500, and the Dow Jones Industrial Average registered losses, while the Dow Jones Utility and Dow Jones Transportation indexes posted gains. The Dow Jones Composite remained practically unchanged.

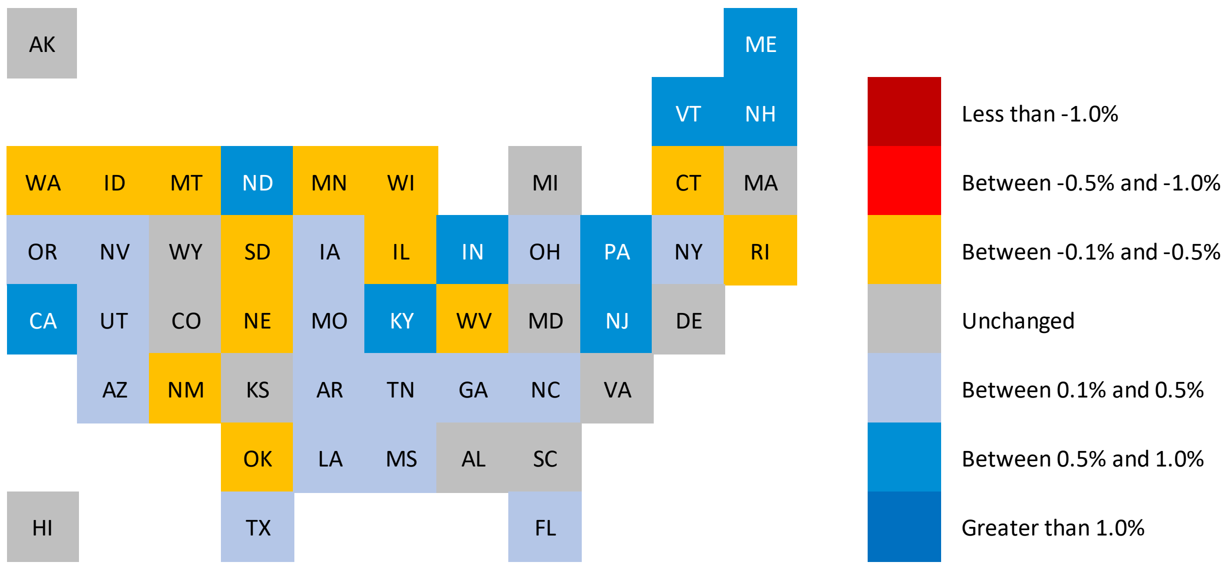
Housing market conditions softened, with home prices declining year-over-year in more than half of the metro areas tracked by the S&P Case-Shiller Home Price Index (20-city). Elevated mortgage rates and affordability constraints continued to weigh on demand.

The Fed revised the short-term inflation outlook upward and modestly increased the GDP growth projections, while the unemployment forecast remained unchanged. Longer-term inflation and growth projections were revised slightly upward, though the changes were limited.

[1] Economic Outlook Update™ Q1 2026 published by TagniFi, LLC, © 2026.

A multifactor indicator of economic strength, the Philadelphia Fed's coincident index[2] of economic activity in the U.S. rose 0.1% in February 2026 and 0.5% during the three-month period. For the three months, the index increased in 25 states, decreased in 13, and remained unchanged in 12 states, reflecting modest economic expansion. Coincident indexes reflect unemployment, payroll employment, manufacturing hours, and wages and salaries.

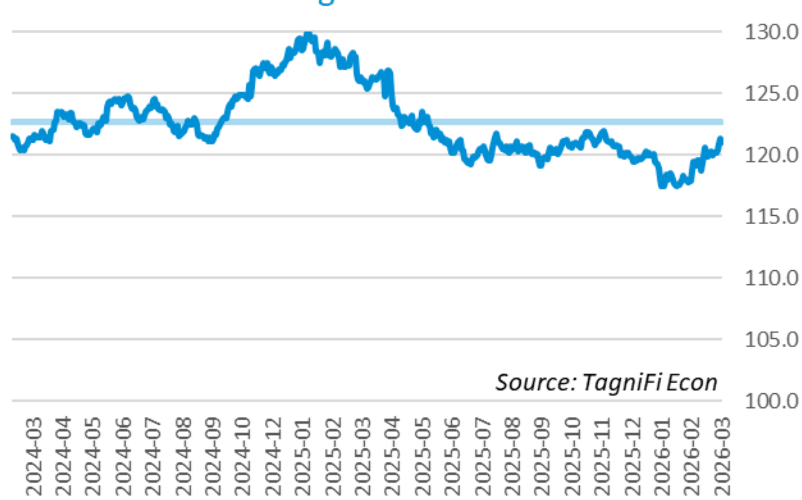
March 2026 State Coincident Indexes: 3-Month Change



Source: TagniFi Econ

The U.S. dollar index for goods and services[3] increased by 1.1% during the first quarter of 2026, reflecting expectations of stronger growth in the U.S. economy compared to other developed markets. In January and February 2026, the index continued its 2025 decline. However, the index rebounded in March 2026, driven by safe-haven demand amid geopolitical tension, a surge in oil prices, and a repricing of Federal Reserve interest rate expectations, which strengthened the U.S. dollar against other currencies.[4] On a year-over-year basis, the index was down 4.5%.

Trade Weighted U.S. Dollar Index



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[2] Federal Reserve Bank of Philadelphia, Coincident Economic Activity Index for the United States [USPHCI], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/USPHCI, May 4, 2026.*

[3] Board of Governors of the Federal Reserve System (US), Trade Weighted U.S. Dollar Index: Broad, Goods and Services [DTWEXBGS], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/DTWEXBGS, May 4, 2026.*

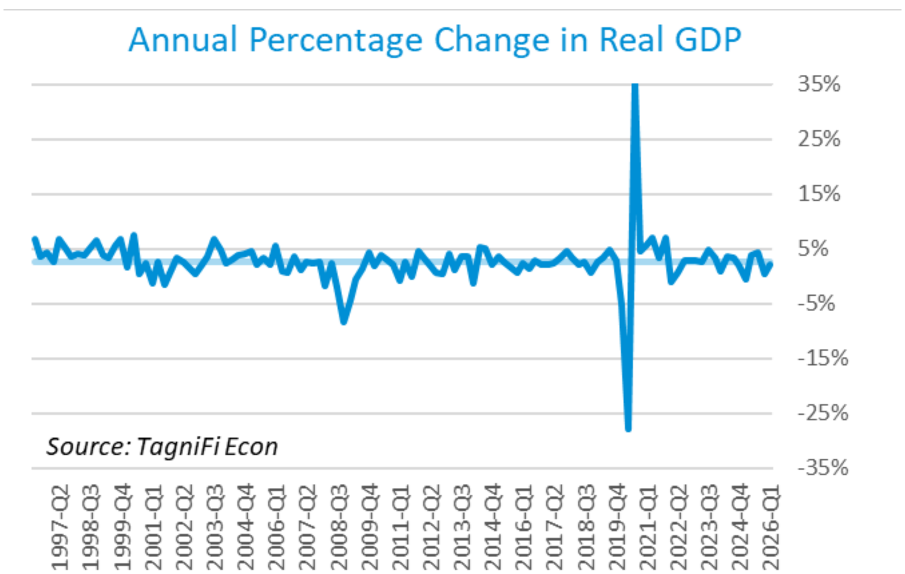
[4] Morgan Stanley; "Shock, Then Repricing", *retrieved from https://www.morganstanley.com/im/en-us/individual-investor/insights/global-fixed-income-bulletin/shock-then-repricing.html?, May 4, 2026.*

Economic Highlights

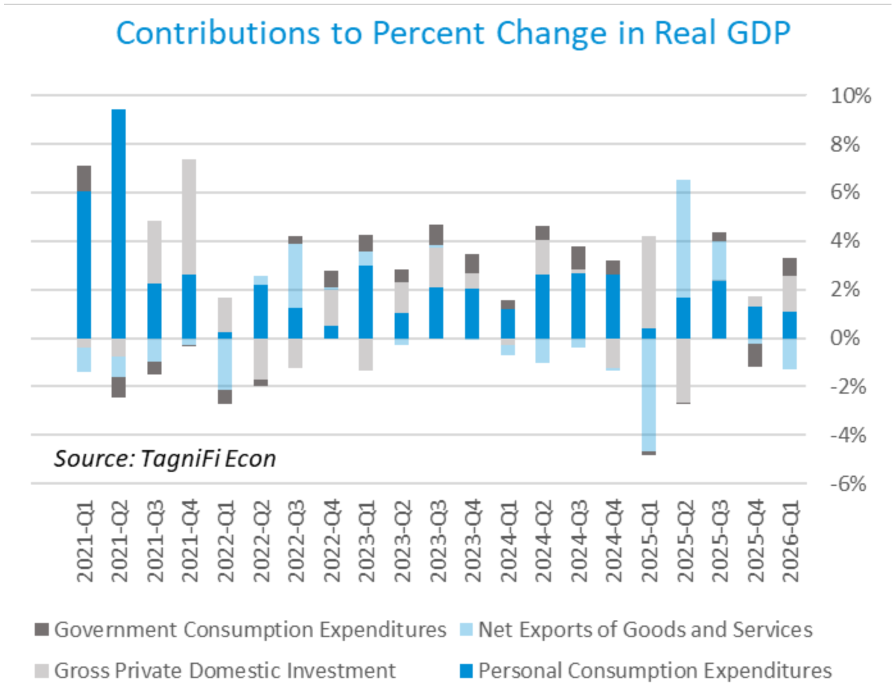
- The Philadelphia Fed's coincident index of economic activity in the U.S. rose 0.1% in February 2026 and 0.5% during the three-month period.
- The U.S. dollar index increased by 1.1% during the first quarter of 2026 and was down 4.5% over the prior year.
- Real GDP expanded at an annualized rate of 2.0% during the first quarter of 2026.
- The effective federal funds rate remained unchanged at 3.75% in the first quarter.
- The 1-year and 2-year annual treasury yields ended the first quarter at 3.68% and 3.79%, respectively. The benchmark 10-year treasury yielded 4.30% at the end of the quarter, while the 30-year treasury yielded 4.88%.
- The unemployment rate ended the first quarter at 4.3%, practically unchanged from 4.4% in the prior quarter. Nonfarm payrolls inched up by 0.2 million jobs in the first quarter.
- The Consumer Price Index for all items rose 3.3% for the year ended March 2026. Excluding volatile energy prices, the annual increase was 2.6%.
- Crude oil prices ended the first quarter at $102.86 per barrel, up 79.6% from the prior quarter and up 43.1% year-over-year.
- New home starts increased 9.4% between December 2025 and March 2026, reaching 1.5 million in March 2026. Total new home starts were up 10.9% year-over-year.
- The NASDAQ Composite lost 7.1% during the first quarter. The S&P 500 and Dow Jones Industrial Average lost 4.6% and 3.6%, respectively. The Dow Jones Transportation and Dow Jones Utility Average were up 7.1% and 8.5%, respectively, while the Dow Jones Composite Average was practically unchanged during the quarter.

Business Activity

Real gross domestic product (GDP)[5] increased at a weaker-than-expected annualized rate of 2.0% during the first quarter of 2026, up from 0.5% in the fourth quarter of 2025. The increase in the first quarter GDP reflects higher consumer spending, investment, government spending, and exports. Imports, which are a subtraction in the calculation of GDP, also increased during the quarter. The rebound in government spending follows a sharp decline in the fourth quarter of 2025 amid the government shutdown, which reversed in the first quarter of 2026. The increase in private investments during the quarter was significantly affected by AI-related investment. However, the improved GDP growth might be short-lived if geopolitical tension and rising inflation weigh on consumer spending down the road.



[5] U.S. Bureau of Economic Analysis, Real Gross Domestic Product [GDPC1], *retrieved from FRED, Federal Reserve Bank of St. Louis;* https://fred.stlouisfed.org/series/GDPC1, *May 4, 2026.*



Personal consumption expenditures[6] (PCE) had a positive 1.1% effect on real GDP in the first quarter of 2026, down from 1.3% in the fourth quarter of 2025. A rise in spending on services, especially health care (including hospital and nursing home and outpatient services), housing and utilities, and financial services and insurance contributed to PCE growth. The spending on both durable and nondurable goods remained practically flat during the quarter. Within the durable goods category, the spending on motor vehicles and parts increased, while spending on recreational goods and vehicles edged lower during the quarter.

Gross domestic private investment[7] had a positive impact on GDP, increasing the first quarter real GDP estimate by 1.5%. Investment in inventories increased during the quarter, reflecting an increase in both retail and wholesale inventories. The increase in nonresidential fixed investment reflected robust growth in information processing equipment (primarily computers and peripheral equipment) and intellectual property products (such as software). Residential fixed structures investment declined in the first quarter, driven by a decline in the construction of new single-family units and brokers' commissions. The decline in nonresidential structures was attributed primarily to manufacturing structures.

Government expenditures[8] increased in the first quarter, adding 0.7% to real GDP. The increase in government spending was primarily attributed to a rebound in federal non-defense consumption following the sharp decline in the fourth quarter of 2025 amid the government shutdown. State and local government spending also increased during the first quarter of 2026.

Net exports[9] decreased in the first quarter, subtracting 1.3% from real GDP, as an increase in imports (which have a negative impact on GDP) outweighed the increasing exports. The increase in both exports and imports was largely attributed to an increase in goods (led by computers, peripherals, and parts).

[6] U.S. Bureau of Economic Analysis, Contributions to percent change in real gross domestic product: Personal consumption expenditures [DPCERY2Q224SBEA], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/DPCERY2Q224SBEA, May 4, 2026.*

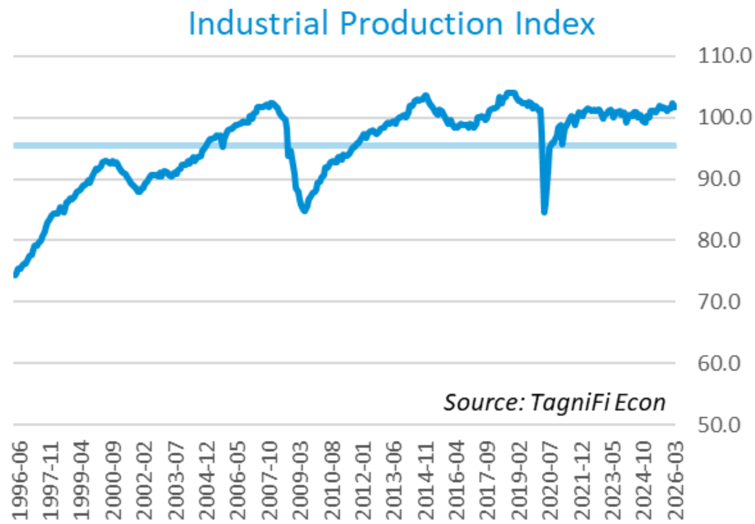
[7] U.S. Bureau of Economic Analysis, Contributions to percent change in real gross domestic product: Gross private domestic investment [A006RY2Q224SBEA], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/A006RY2Q224SBEA, May 4, 2026.*

[8] U.S. Bureau of Economic Analysis, Contributions to percent change in real gross domestic product: Government consumption expenditures and gross investment [A822RY2Q224SBEA], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/A822RY2Q224SBEA, May 4, 2026.*

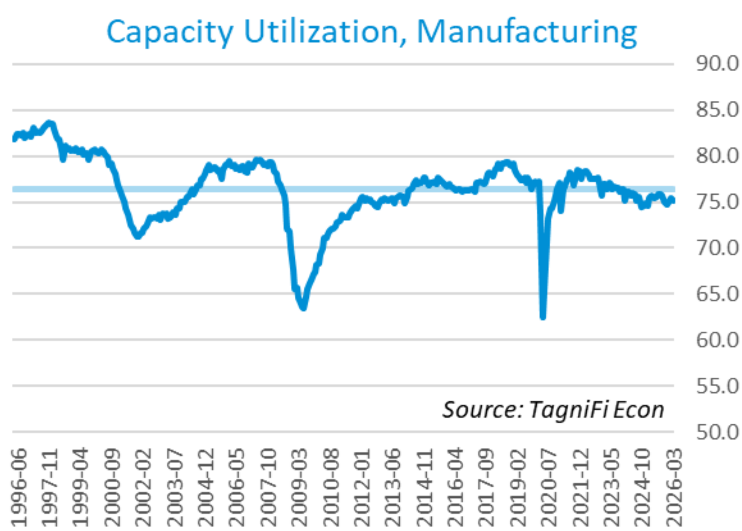
[9] U.S. Bureau of Economic Analysis, Contributions to percent change in real gross domestic product: Net exports of goods and services [A019RY2Q224SBEA], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/A019RY2Q224SBEA, May 4, 2026.*

Economists polled by the Livingston Survey[10] in December 2025 projected real GDP to rise to an annual rate of 2.0% in the second half of 2025, remain at an annual rate of 2.0% in the first half of 2026, and continue to grow at an annual rate of 1.9% in the second half of 2026.

The Industrial Production Index[11] is an economic indicator that measures real output for all facilities located in the United States manufacturing, mining, and electric and gas utility sectors. The index stood at 101.8 at the end of the first quarter of 2026, up 0.2% from the fourth quarter of 2025.



The Capacity Utilization Index[12], which attempts to capture industrial output as a percentage of the economy's maximum production capacity, ended the first quarter of 2026 at 75.2%. March's level was below the 30-year average of 76.4% for this metric and up slightly from the previous quarter.



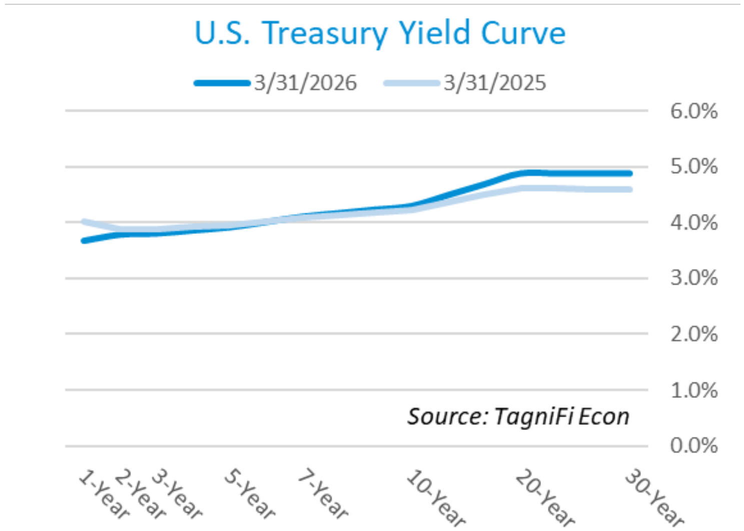
[10] Federal Reserve Bank of Philadelphia, The Livingston Survey December 2025, [economic release], retrieved from https://www.philadelphiafed.org/surveys-and-data/real-time-data-research/livingston-2025-12, *May 4, 2026.*

[11] Board of Governors of the Federal Reserve System (US), Industrial Production Index [INDPRO], *retrieved from FRED, Federal Reserve Bank of St. Louis;* https://fred.stlouisfed.org/series/INDPRO, *May 4, 2026.*

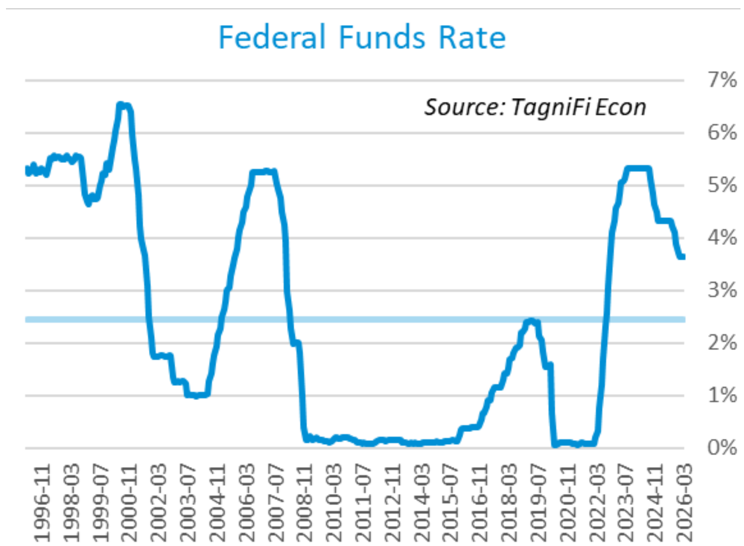
[12] Board of Governors of the Federal Reserve System (US), Capacity Utilization, Manufacturing (NAICS), *retrieved from FRED, Federal Reserve Bank of St. Louis;* https://fred.stlouisfed.org/series/MCUMFN, *May 4, 2026.*

Interest Rates

Treasury yields[13] for periods of longer than one year increased during the first quarter, with 1-year through 10-year, and 20-year yields edging up, and 30-year yield slightly higher. The closely watched two-year yield remained below the ten-year rate for the seventh consecutive quarter. The 1-year and 2-year annual treasury yields ended the first quarter at 3.68% and 3.79%, respectively. The benchmark 10-year treasury yielded 4.30% at the end of the quarter, while the 30-year treasury yielded 4.88%.



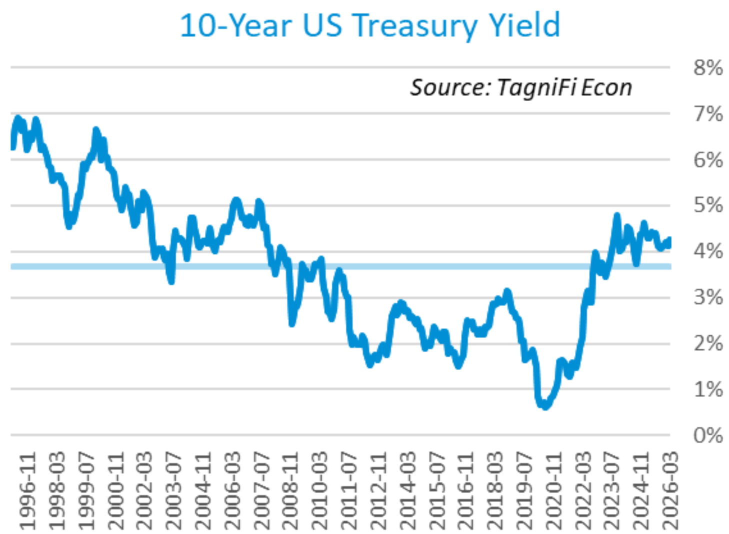
In the first quarter of 2026, the Federal Reserve adopted a "wait-and-see" policy approach, holding the benchmark interest rate steady and maintaining the target outlook of 3.50% to 3.75%.[14] The effective federal funds rate remained at 3.75% during the quarter. The Federal Reserve noted the elevated inflation outlook and the risks posed by Middle East geopolitical tension in its decision to keep the benchmark interest rate unchanged. Overall, the first quarter interest rate range reflects a decline from the 23-year high of 5.25% to 5.50%.



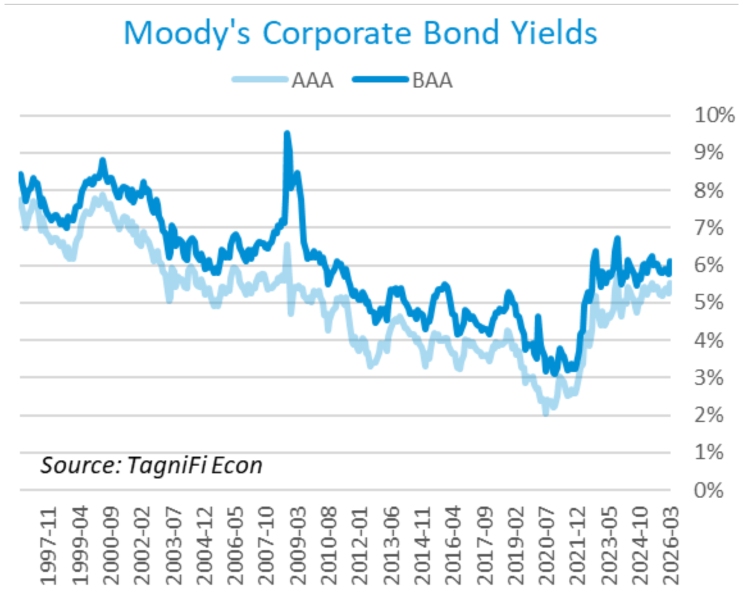
[13] Selected Interest Rates Instruments, Yields in percent per annum, *retrieved from FRED, Federal Reserve Bank of St. Louis;* *https://fred.stlouisfed.org/release/tables?rid=18&eid=289&od=2026-03-31#, May 4, 2026.*

[14] Board of Governors of the Federal Reserve System (US), Federal Funds Target Range - Upper Limit [DFEDTARU], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/DFEDTARU, May 4, 2026.*

The yield on the benchmark 10-year U.S. treasury[15] ended the first quarter at 4.30%, up 0.12% from the previous quarter and above the average yield of 3.66% over the last 30 years.



Moody's Baa Corporate Bond Yield Index[16] ended the first quarter of 2026 at 6.09%, up 0.19% from the previous quarter. Moody's less-risky Aaa[17] Bond Yield Index increased by 0.18% during the quarter to 5.53%.



[15] Board of Governors of the Federal Reserve System (US), 10-Year Treasury Constant Maturity Rate [DGS10], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/DGS10, May 4, 2026.*

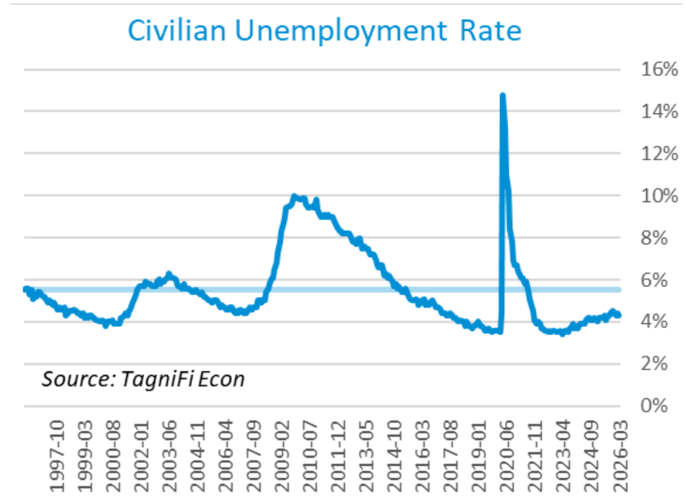
[16] Moody's, Moody's Seasoned Baa Corporate Bond Yield [DBAA], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/DBAA, May 4, 2026.*

[17] Moody's, Moody's Seasoned Aaa Corporate Bond Yield [DAAA], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/DAAA, May 4, 2026.*

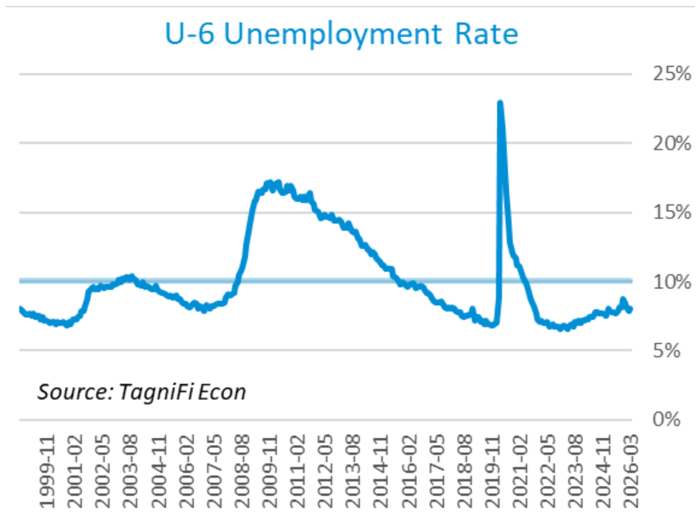
Employment

The jobs market showed mixed results in the first quarter, with the unemployment rate remaining steady and labor force declining. The official unemployment rate[18] ended the quarter at 4.3%, slightly down from the prior quarter's unemployment rate of 4.4% and well below the 30-year historical average of 5.5%. The unemployment rate remained within the 4.0% to 5.0% range accepted as an equilibrium level of "full employment." The labor force[19] declined by 1.4 million workers during the quarter, while the labor force participation rate[20] decreased slightly to 61.9% in March 2026 from 62.4% in December 2025. Economists polled by the Livingston Survey in December 2025 projected the unemployment rate to stand at 4.5% in December 2025 and remain at that level through December 2026.

In March 2026, nonfarm worker quits[21] stood at 3.2 million, up 4.1% over the month and down 8.3% over the year. Job openings[22] totaled 6.9 million in March 2026, 2.2 times the number of resignations. The job openings count decreased by 0.8% from February 2026 and by 1.2% from March 2025.



The U-6 unemployment rate[23] is an alternative measure of unemployment with a broader definition, including groups such as discouraged workers who are not actively searching for jobs but want full-time work and part-time workers who want full-time work. The U-6 unemployment rate has generally followed the same pattern as the official rate and stood at 8.0% in March 2026.



[18] U.S. Bureau of Labor Statistics, Civilian Unemployment Rate [UNRATE], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/UNRATE, May 4, 2026.*

[19] U.S. Bureau of Labor Statistics, Civilian Labor Force Level [CLF16OV], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CLF16OV, May 4, 2026.*

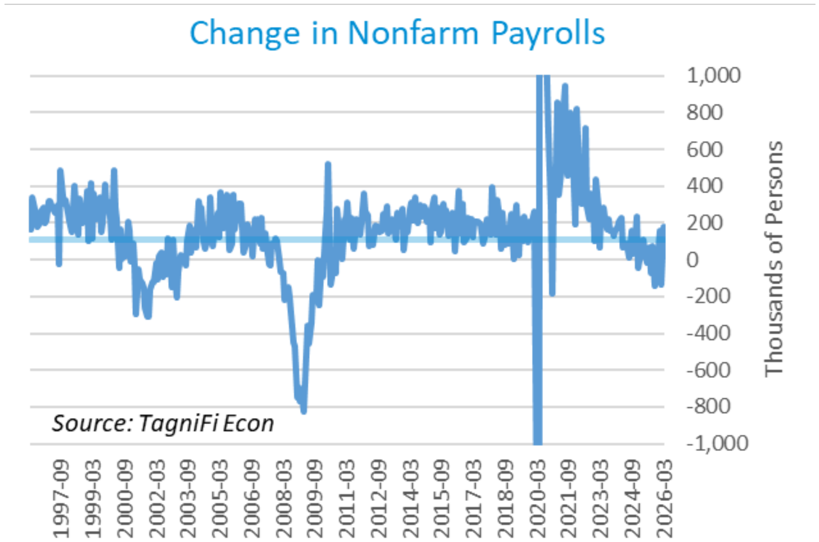
[20] U.S. Bureau of Labor Statistics, Labor Force Participation Rate [CIVPART], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CIVPART, May 4, 2026.*

[21] U.S. Bureau of Labor Statistics, Quits: Total Nonfarm [JTSQUL], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/JTSQUL, May 5, 2026.*

[22] U.S. Bureau of Labor Statistics, Job Openings: Total Nonfarm [JTSJOL], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/JTSJOL, May 5, 2026.*

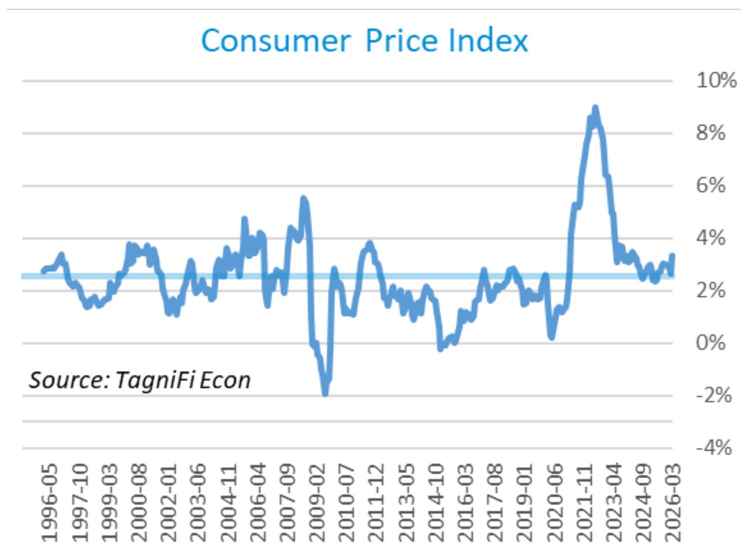
[23] U.S. Bureau of Labor Statistics Total Unemployed, Plus All Persons Marginally Attached to the Labor Force, Plus Total Employed Part Time for Economic Reasons, as a Percent of the Civilian Labor Force Plus All Persons Marginally Attached to the Labor Force (U-6) [U6RATE], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/U6RATE, May 4, 2026.*

Nonfarm payrolls[24] added 0.2 million jobs in the first quarter of 2026 and 0.2 million in the month of March 2026, suggesting a resilient job market. U.S. nonfarm payrolls in March totaled 158.6 million jobs, up 0.3 million from the prior year. Job gains in March were concentrated in health care, construction, and social assistance, while federal government employment continued to decline. Employment in finance and insurance also edged lower, and employment in sectors such as mining, manufacturing, wholesale and retail trade, and information remained largely unchanged.



Inflation

In the first quarter of 2026, inflation accelerated compared to the previous quarter. The Consumer Price Index[25] for all items rose 3.3% for the year ended March 2026. The year-over-year increase was driven by energy prices, led by a sharp rise in gasoline and fuel oil prices. Since last March, notable price increases have included utilities, transportation services, and medical care services. On the other hand, prices of used cars and trucks declined year-over-year. Excluding volatile energy prices[26], the annual increase was 2.6%. The average price of a gallon of gas[27] in the U.S. increased sharply since December 2025 due to tensions with Iran, reaching $3.84 at the end of the first quarter of 2026, an increase of 26.0% quarter-over-quarter and 18.9% year-over-year.



The Consumer Price Index increased by 0.9% in March 2026 compared to February 2026. In the month of March, gasoline and fuel oil prices surged. Other notable price increases included apparel and transportation, while prices of used cars and trucks and medical commodities declined. Prices of food remained practically unchanged.

The Federal Reserve, after raising the federal funds rate by a cumulative 5.25 percentage points from March 2022 through July 2023, began easing policy in late 2024, cutting rates by a total of 1.00 percentage point across

[24] U.S. Bureau of Labor Statistics, All Employees: Total Nonfarm Payrolls [PAYEMS], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/PAYEMS, May 4, 2026.*

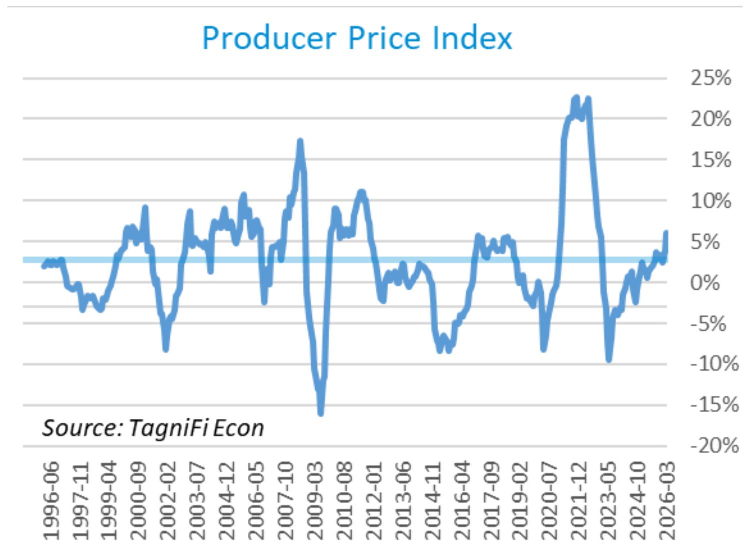
[25] U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items [CPIAUCSL], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CPIAUCSL, May 4, 2026.*

[26] U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items Less Energy in U.S. City Average [CPILEGSL], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CPILEGSL, May 4, 2026.*

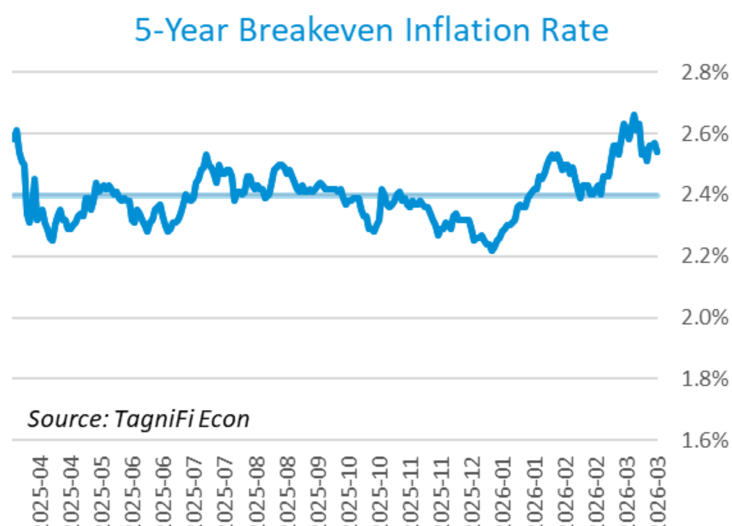
[27] U.S. Bureau of Labor Statistics, Average Price: Gasoline, Unleaded Regular (Cost per Gallon/3.785 Liters) in U.S. City Average [APU000074714], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/APU000074714, May 4, 2026.*

November and December 2024. In 2025, the Fed initially held rates steady in the first half of the year, before resuming gradual easing with a 0.25 percentage point cut in September and additional 0.25 percentage point cuts in both October and December, bringing total rate reductions for 2025 to 0.75 percentage points. As of March 2026, the Fed has paused further adjustments, maintaining the target range while signaling a cautious, data-dependent approach amid persistent inflation and heightened geopolitical uncertainty.

Wholesale inflation increased sharply during the first quarter of 2026. The Producer Price Index[28] increased by 4.9% in the first quarter of 2026 and increased by 6.0% since March 2025. The average annual increase over the last 30 years was 2.7%.



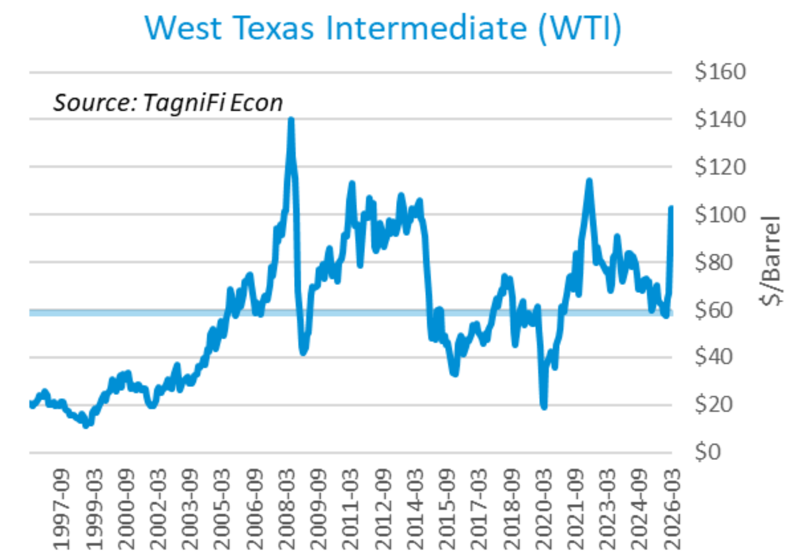
The 5-year breakeven inflation rate[29], an indicator of the market's inflation expectations for the period, increased to 2.5% at the end of the first quarter of 2026 from 2.3% at the end of the fourth quarter of 2025.



[28] U.S. Bureau of Labor Statistics, Producer Price Index for All Commodities [PPIACO], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/PPIACO, May 4, 2026.*

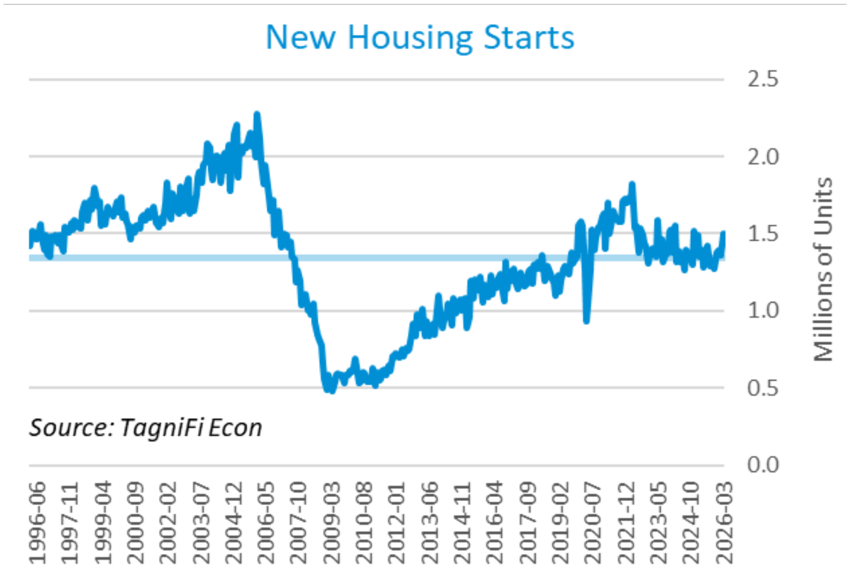
[29] *Federal Reserve Bank of St. Louis, 5-Year Breakeven Inflation Rate [T5YIE], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/T5YIE, May 4, 2026.*

U.S. crude oil[30] prices increased in the first quarter, settling at $102.86 per barrel at the end of the quarter amid Iran tension. Crude prices ended the first quarter up 79.6% from the prior quarter and up 43.1% year-over-year.



Housing

The inventory of unsold homes increased by 3.0% compared to the previous month and increased by 2.3% from March 2025. The median existing home sales price was up 1.4% compared to last year. The median sales price increased year-over-year in the Northeast, Midwest, and South, but declined in the West region.[31] New home starts[32] were off to a strong start in March 2026, increasing 9.4% between December 2025 and March 2026 to stand at 1.5 million. The increase in new home starts reflects higher single-family and multifamily starts during the first quarter of 2026 compared to the fourth quarter of 2025. Total new home starts were up 10.9% year-over-year and registered a slightly higher reading compared to the 30-year average of 1.3 million.

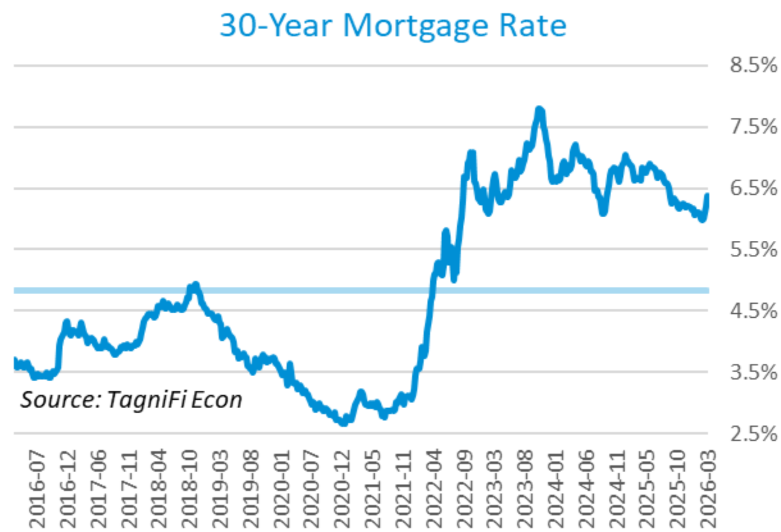


[30] U.S. Energy Information Administration, Crude Oil Prices: West Texas Intermediate (WTI) - Cushing, Oklahoma [DCOILWTICO], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/DCOILWTICO, May 4, 2026.*

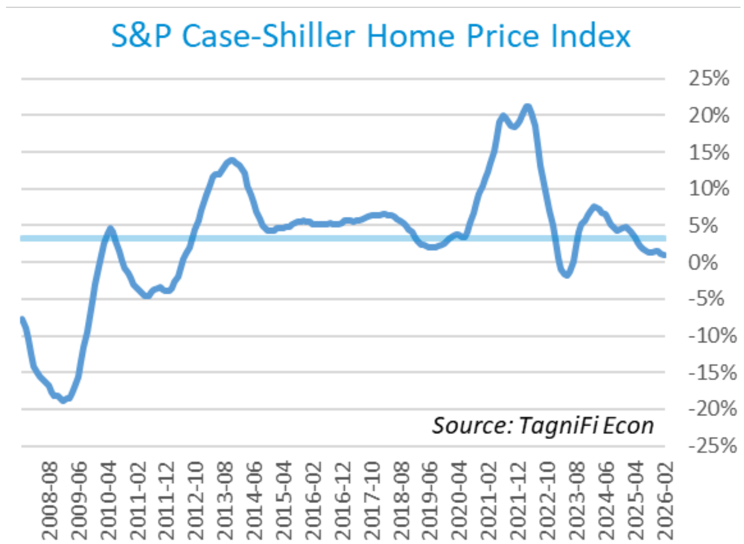
[31] NAR Existing-Home Sales Report Shows 3.6% Decrease in March; *https://www.nar.realtor/newsroom/nar-existing-home-sales-report-shows-3-6-decrease-in-march, May 4, 2026.*

[32] U.S. Bureau of the Census, Housing Starts: Total: New Privately Owned Housing Units Started [HOUST], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/HOUST, May 4, 2026.*

The cost of financing for would-be homebuyers increased during the first quarter, with the 30-year fixed-rate mortgage[33] up 0.23 percentage points to an average of 6.38% at the end of March 2026. The average rate was 1.41% lower than its peak of 7.79% in late October 2023.



The S&P Case-Shiller Home Price Index (20-city)[34] for February 2026 was 0.6% higher compared to November 2025 and 0.9% higher since February 2025. While 7 of the 20 cities recorded year-over-year increases, prices declined in 12 areas. Denver, Tampa, Seattle, Phoenix, and Dallas indexes fell 2.2%, 2.1%, 2.0%, 1.8%, and 1.7% year-over-year, respectively. Chicago, New York, Cleveland, and Minneapolis reported the highest annual gains of 5.0%, 4.7%, 4.2%, and 2.1%, respectively. While the housing data shows significant regional variations, February 2026 readings point to a broad weakening of the housing market, with more than half of the major metro areas now experiencing year-over-year declines.[35]



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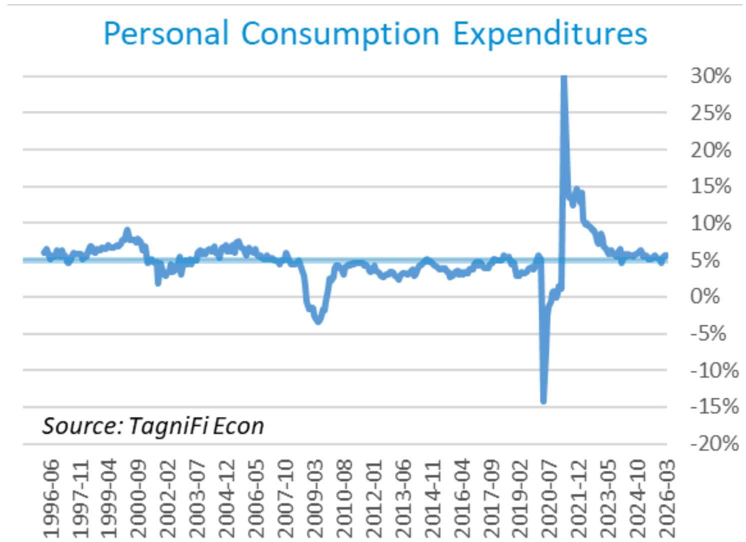
[33] Freddie Mac, 30-Year Fixed Rate Mortgage Average in the United States [MORTGAGE30US], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/MORTGAGE30US, May 4, 2026.*

[34] S&P Dow Jones Indices LLC, S&P/Case-Shiller 20-City Composite Home Price Index [SPCS20RSA], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/SPCS20RSA, May 4, 2026.*

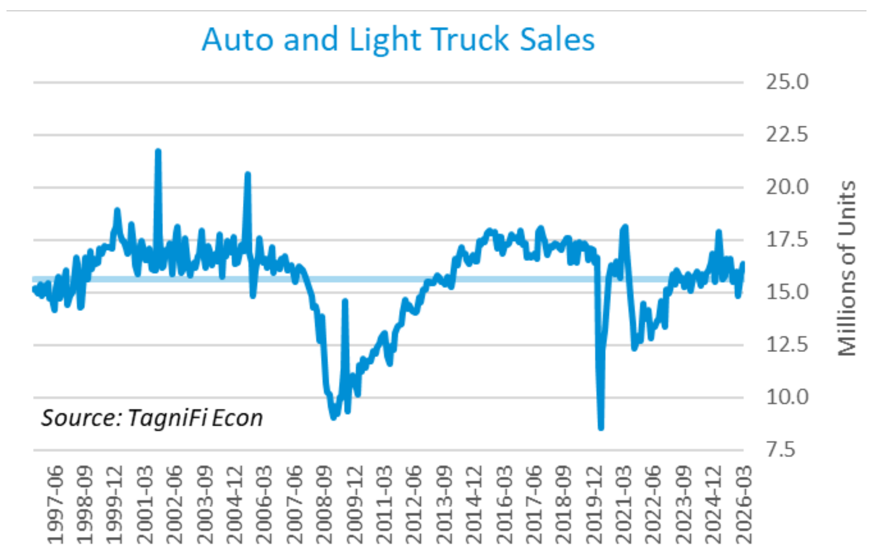
[35] S&P COTALITY CASE-SHILLER INDEX REPORTS ANNUAL GAIN IN February 2026; https://www.spglobal.com/spdji/en/index-announcements/article/sp-cotality-case-shiller-index-reports-annual-gain-in-february-2026/, *May 4, 2026.*

Consumer Spending

Personal Consumption Expenditures (PCE)[36] rose 1.9% in the first quarter of 2026 to $21.9 trillion and 5.7% over the same quarter last year. Spending increased in March for services such as healthcare services, financial services and insurance, and transportation services.[37] Goods spending also increased, led by a sharp increase in spending on gasoline and other energy goods. Other notable categories with increased goods spending included motor vehicles and parts, food and beverages, and recreational goods and vehicles.



Auto manufacturers reported autos and light trucks sold[38] at an annual rate of 16.3 million in March, up 2.0% from December. New vehicle prices[39] increased 0.5% during the first quarter, remaining near their record high. Used car prices[40] decreased 2.6% from December 2025 to January 2026.



[36] U.S. Bureau of Economic Analysis, Personal Consumption Expenditures [PCE], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/PCE, May 4, 2026.*

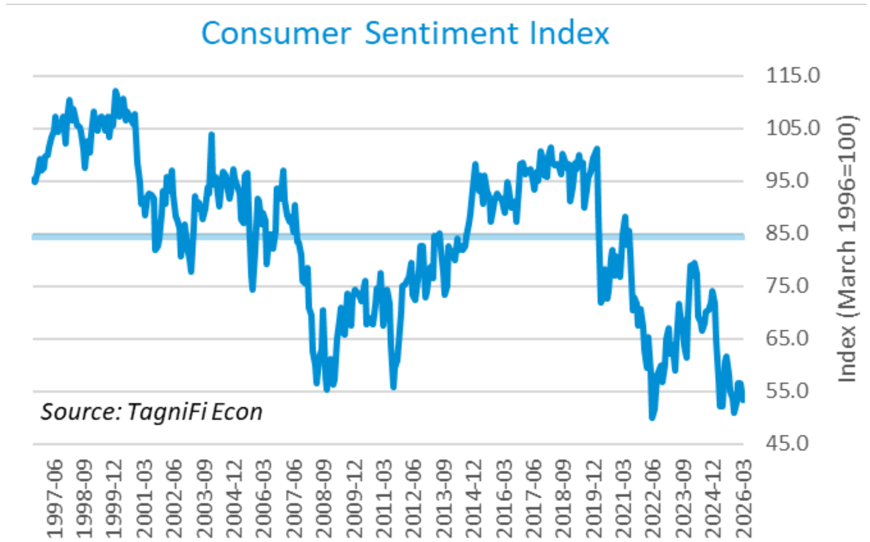
[37] U.S. Bureau of Economic Analysis, Personal Income and Outlays, March 2026; https://www.bea.gov/news/2026/personal-income-and-outlays-march-2026, *May 4, 2026.*

[38] U.S. Bureau of Economic Analysis, Light Weight Vehicle Sales: Autos and Light Trucks [ALTSALES], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/ALTSALES, May 4, 2026.*

[39] U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: New Vehicles in U.S. City Average [CUUR0000SETA01], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CUUR0000SETA01, May 4, 2026.*

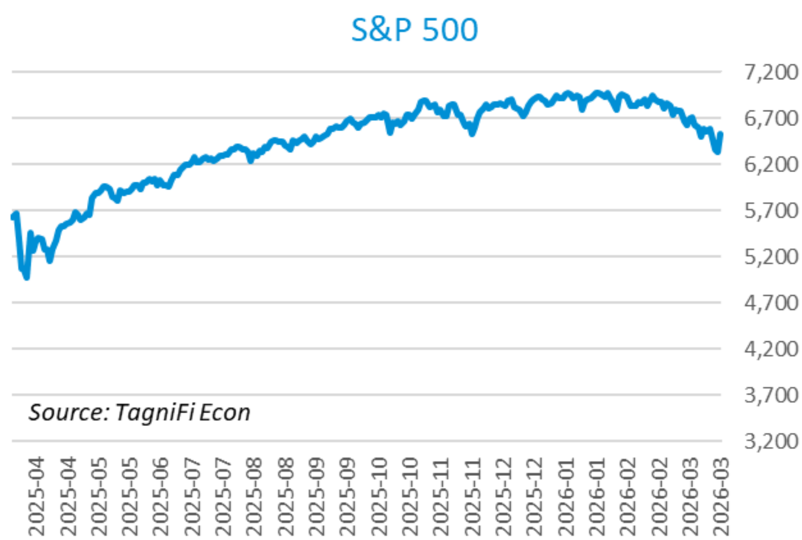
[40] U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: Used Cars and Trucks in U.S. City Average [CUSR0000SETA02], *retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CUSR0000SETA02, May 4, 2026.*

The University of Michigan's consumer sentiment index[41] stood at 53.3 in March 2026, up slightly from 52.9 in December 2025, but still a steep decline from 74.0 recorded in December 2024. The index improved slightly in January and February before receding in March 2026. The index bottomed at its all-time low of 50.0 in June 2022. Rising gasoline prices, geopolitical tension, and a sluggish labor market likely weighed on consumer sentiment. The index was down 6.5% year-over-year and well below its 30-year average of 84.3.



Capital Markets

The table below shows the quarterly, year-to-date, and 12-month performance of the major U.S. equity indices. The stock market declined during the first quarter of 2026, reversing late-2025 gains as increased geopolitical tension, rising energy prices, and shifting interest rate expectations weighed on equities.



[41] *University of Michigan, University of Michigan: Consumer Sentiment [UMCSENT], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/UMCSENT, May 4, 2026.*

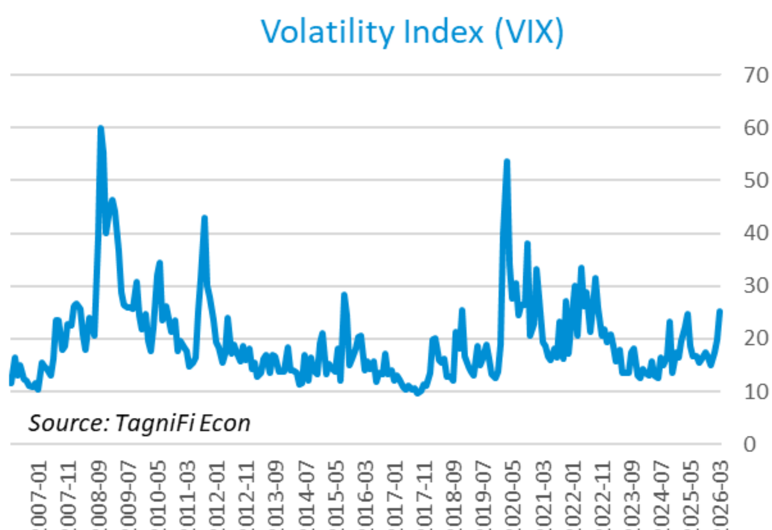
The first-quarter market performance was mixed and uneven across sectors, with most major indexes posting declines from year-end 2025 levels. During the quarter, the NASDAQ Composite and the NASDAQ 100 fell 7.1% and 6.0%, respectively. The broader S&P 500 declined 4.6%, while the Dow Jones Industrial Average decreased 3.6%. In contrast, other blue-chip-focused Dow Jones averages diverged: the Dow Jones Transportation Average and Dow Jones Utility Average rose 7.2% and 8.5%, respectively, while the Dow Jones Composite Average remained essentially flat, increasing by 0.3% during the quarter.

	Closing	% Change		
Equity Index	**Value**	**Quarter**	**YTD**	**12-Mo.**
S&P 500	6,528.52	-4.6%	-4.6%	16.3%
Dow Jones Industrial Average	46,341.51	-3.6%	-3.6%	10.3%
Dow Jones Composite Average	14,984.66	0.3%	0.3%	14.2%
Dow Jones Transportation Average	18,609.55	7.2%	7.2%	26.2%
Dow Jones Utility Average	1,158.92	8.5%	8.5%	13.2%
NASDAQ Composite	21,590.63	-7.1%	-7.1%	24.8%
NASDAQ 100	23,740.19	-6.0%	-6.0%	23.1%

The corporate bond indexes registered slightly negative returns during the first quarter, with the ICE BofA US Corporate Index[42] dropping 0.4% and the ICE BofA US High Yield Index[43] dropping 0.5%.

	Closing	% Change		
Bond Index	**Value**	**Quarter**	**YTD**	**12-Mo.**
ICE BofA US Corporate Bond Index	3,572.07	-0.4%	-0.4%	4.8%
ICE BofA US High Yield Bond Index	1,856.80	-0.5%	-0.5%	6.9%

As measured by the VIX[44], stock market volatility ended the first quarter of 2026 at 25.3, up 68.9% over the prior quarter and up 13.3% year-over-year. The VIX Index experienced high volatility during the quarter, climbing to 31.1 on March 27th before receding to 25.3 at the end of the quarter. The turbulent VIX during the quarter reflected heightened investor uncertainty amid shifting interest rate expectations and geopolitical tensions.



[42] *Ice Data Indices, LLC, ICE BofA US Corporate Index Total Return Index Value [BAMLCC0A0CMTRIV], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/BAMLCC0A0CMTRIV, May 4, 2026.*
[43] *Ice Data Indices, LLC, ICE BofA US High Yield Index Total Return Index Value [BAMLHYH0A0HYM2TRIV], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/BAMLHYH0A0HYM2TRIV, May 4, 2026.*
[44] *Chicago Board Options Exchange, CBOE Volatility Index: VIX [VIXCLS], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/VIXCLS, May 4, 2026.*

Outlook

The Federal Open Market Committee (FOMC) left the interest rate unchanged during the first quarter, noting inflationary pressures amid rising energy prices and a stable labor market. The Fed revised the near-term PCE inflation outlook and real GDP growth forecasts slightly upward. The median unemployment projection remained unchanged. Longer-term GDP and inflation projections were also revised slightly upward, though changes were limited.

The FOMC revised the projections for Personal Consumption Expenditures (PCE) inflation[45] to 2.85% in 2026. The updated 2027 and 2028 projections stood at 2.15% and 2.00%, respectively. Real GDP[46] projections stood at 2.35%, 2.20%, and 2.15% for 2026, 2027, and 2028, respectively. The forecast unemployment rate[47] stood at 4.4%, 4.3%, and 4.2% for 2026, 2027, and 2028. The Board revised projections of future target rates[48] to stand at 3.35% in 2026 and additional easing to bring the rates to 3.25% by the end of 2027. The committee emphasized its long-term goal of maximal employment and 2% inflation, with future cuts dependent on the economic readings.

FOMC Summary of Economic Projections

Year	Real GDP	PCE	Unemployment	Fed Funds
2026	2.35%	2.85%	4.40%	3.35%
2027	2.20%	2.15%	4.30%	3.25%
2028	2.15%	2.00%	4.20%	3.25%
2029	2.15%	2.00%	4.20%	3.25%

[45] *Federal Reserve Bank of St. Louis, FOMC Summary of Economic Projections for the Personal Consumption Expenditures Inflation Rate, Central Tendency, Midpoint [PCECTPICTM], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/PCECTPICTM, May 4, 2026.*

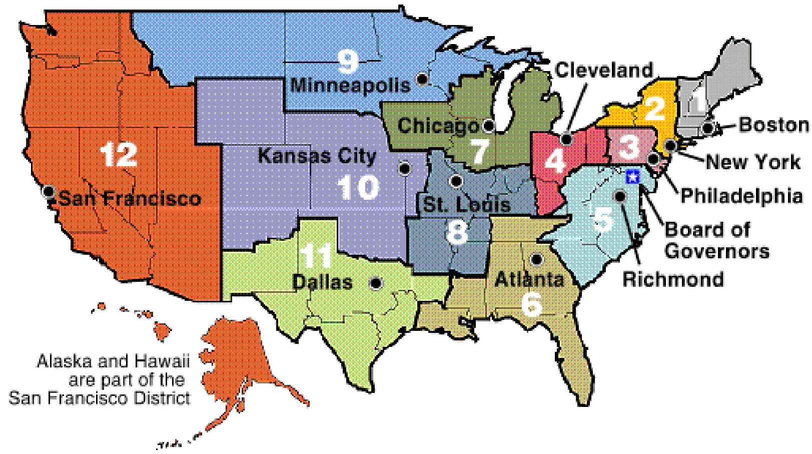
[46] *Federal Reserve Bank of St. Louis, FOMC Summary of Economic Projections for the Growth Rate of Real Gross Domestic Product [GDPC1CTM], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/GDPC1CTM, May 4, 2026.*

[47] *Federal Reserve Bank of St. Louis, FOMC Summary of Economic Projections for the Civilian Unemployment Rate, Central Tendency, Midpoint [UNRATECTM], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/UNRATECTM, May 4, 2026.*

[48] *U.S. Federal Open Market Committee and Federal Reserve Bank of St. Louis, FOMC Summary of Economic Projections for the Fed Funds Rate, Range, Midpoint [FEDTARCTM], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/FEDTARCTM, May 4, 2026.*

Midwest Economy[49]

Economic activity in the Seventh District increased slightly over the reporting period, though contacts expected no change in activity in the coming year. Manufacturing demand rose modestly; consumer spending increased slightly; employment, business spending, and construction and real estate were flat on balance; and nonbusiness contacts saw no change in economic activity. Prices rose moderately, wages rose modestly, and financial conditions tightened modestly. Farm income expectations for 2026 declined some.



Labor Markets

Employment was unchanged over the reporting period and contacts expected a slight increase in hiring over the next 12 months. Contacts overwhelmingly reported stable labor market conditions, with low turnover and a wait-and-see approach to hiring. A contact at a temporary employment agency said demand was up as companies hesitated to hire long-term employees amidst elevated uncertainty. A manufacturer said they had instituted a hiring freeze in anticipation of higher input costs related to the conflict in the Middle East. That said, a few contacts continued to report interest in hiring and some had challenges finding skilled workers. In addition, a contact at a state economic agency noted fewer layoff notices compared with the same time last year. Wages rose modestly and benefits costs were up moderately.

Prices

Prices rose moderately overall in late February and March and contacts expected a similar pace of growth over the next 12 months. Producer prices increased at a moderate rate. Nonlabor input costs rose moderately, with manufacturing contacts highlighting higher prices for raw materials, including steel, copper, and chemicals. Contacts across industries noted higher energy and shipping costs and attributed the increases to the conflict in the Middle East. One contact said that some (typically larger) retailers had not yet seen shipping costs go up because they had locked in prices in prior months. Consumer prices rose moderately. Several contacts noted that gas prices had risen significantly since the start of the conflict in the Middle East.

Consumer Spending

Consumer spending increased slightly over the reporting period. Contacts largely indicated that so far, the conflict in the Middle East had not had a noticeable effect on consumer spending. Non-auto retail spending rose modestly overall. Consumers continued to favor off-price apparel and accessories and increased their share of spending on groceries and personal care items. Durable goods sales were steady, with one analyst noting that replacement demand is present, but there is not much discretionary demand. Leisure and hospitality spending declined slightly on balance. Contacts reported weaker spending at entertainment venues and restaurants. Hotel occupancy was up modestly, but growth cooled from the prior reporting period. New and used light vehicle sales picked up but fell short of expectations for the beginning of tax refund season.

Business Spending

Business spending was unchanged in late February and March. Capital expenditures were flat, but contacts expected a slight increase in spending over the coming year. Demand for truck transportation was steady, and rates increased as higher fuel costs were passed through to customers. Retail inventories were lean overall, including stocks of new and used vehicles, which moved lower. Manufacturing inventories were a little high. A few manufacturers reported shortages of tungsten and some expressed concerns about the potential for chemical shortages due to the conflict in the Middle East.

[49] Primary Source: Federal Reserve, Beige Book – April 15, 2026, "Summary of Commentary on Current Economic Conditions" Extracted wholly or largely verbatim and/or substantially paraphrased.

Construction and Real Estate

Construction and real estate activity was flat on balance over the reporting period. Residential construction decreased slightly. Contacts noted that it was difficult to start new projects in the multifamily space because of high costs for a range of items, including property management services. Residential real estate activity was down slightly and fell short of expectations. Prices and rents were unchanged. Nonresidential construction edged up, led by growth in select industrial categories, like warehouse and distribution, and interior buildouts of existing space. Project pricing increased slightly. One contact reported greater wage pressures for electricians, who were being offered substantially higher wages by data center developers. Commercial real estate activity was unchanged. Many office tenants signing new leases were opting for smaller spaces. Prices increased slightly, while rents and vacancy rates were unchanged.

Manufacturing

Manufacturing demand rose modestly in late February and March. Chemicals, plastics, and rubber production increased modestly, driven by greater demand from the pharmaceutical and semiconductor industries. Primary metals manufacturers reported a slight increase in demand, highlighting growth from the defense sector. Fabricated metals sales grew modestly, with contacts reporting stronger orders from the construction and defense industries. Machinery sales also increased slightly. Auto production edged down, while heavy truck production grew moderately. Many manufacturers reported their businesses hadn't been affected by the conflict in the Middle East to date, but some expected increased orders from the defense industry and some predicted cost increases and shipping delays.

Banking and Finance

Financial conditions tightened modestly overall in late February and March. Bond values decreased modestly, equity values fell moderately, and volatility rose noticeably. In contrast, business loan demand increased moderately on net and several contacts reported a healthy M&A market. One contact noted higher lending to the trucking sector and a few others saw growth from the construction industry. Business loan quality was flat overall, rates fell slightly across the board, and terms were unchanged. In the consumer sector, loan demand was flat overall, and one contact noted that borrowing for discretionary items like RVs was unchanged despite stronger promotions. A few contacts noted higher refinancing and HELOC activity, though the growth rate slowed. Loan quality decreased slightly while rates and terms were unchanged.

Agriculture

Expectations for 2026 District farm income declined overall during the reporting period as input costs rose faster than agricultural product prices. Fertilizer and fuel prices increased, though a substantial share of farmers had preordered fertilizers and locked in pricing prior to the reporting period. Contacts said that some farmers would plant more soybeans and less corn than originally planned because soybeans require less fertilizer. Corn, soybean, and wheat prices increased over the reporting period as did cattle, hog, egg, and dairy prices. Sales of used farm machinery increased. Specialty crop producers that hire H-2A workers expected greater profitability in 2026 after policy adjustments lowered H-2A wage rates.

Community Conditions

Community, nonprofit, government, and other nonbusiness contacts reported stable economic conditions over the reporting period. Some contacts saw signs of softening in the labor market as indicated by significant increases in applicants for open positions. Comments from state government and municipal contacts reflected concerns about rising prices and a weaker job market, as well as uncertainty in light of the conflict in the Middle East. Small businesses continued to observe lower foot traffic along commercial corridors in immigrant communities. For low-income consumers, contacts reported that the higher cost of gas had further stretched household budgets, putting added pressure on other community supports, such as food pantries.