Economic Update

Dr. David Kelly, CFA | Chief Global Strategist for J.P. Morgan Asset Management

This weekly update provides a snapshot of changes in the economy and markets and their implications for investors.

Growth

The U.S. economy grew 2.0% SAAR in 1Q26 as a slowdown in consumer spending was offset by stronger business fixed investment. Consumer spending rose 1.6% while business fixed investment rose 10.4% as spending on equipment and IP products surged due to the AI buildout. Increased business spending also caused imports to spike, and net exports removed 1.3ppts from growth. Government spending rose 4.4% off a low base due to the government shutdown. Real final sales to private domestic purchasers, which excludes trade, inventories and government spending, rose 2.5% after a 1.8% gain in 4Q25, suggesting that underlying economic momentum held strong despite challenges materializing late in the quarter.

Jobs

The March Jobs report came in stronger than expected, with the U.S. economy adding 178k jobs. That said, gains in the prior two months were revised down by 7k, bringing the three-month moving average of payroll gains to 68k. In the details, both goods and services sectors added jobs, with construction (+26k) leading the charge in the former and heath care and social assistance (+90k) leading the latter. Elsewhere, the unemployment rate fell to 4.3% due to a 396k decline in the labor force as the labor force participation rate ticked down to 61.9%. Wage growth eased to 0.2% m/m and 3.5% y/y, suggesting very little additional inflationary pressures coming from the labor market. Overall, this report shows a labor market that remains tight, allowing the Fed to remain on hold for most, if not all, of 2026.

Profits

The 1Q26 earnings season is underway. With 72.2% of market cap reporting, consensus is currently projecting EPS growth of 24.5% y/y, up from the quarter-end estimate of 12.1%. From a sector perspective, technology is once again the largest contributor, on track to drive 45% of this quarter's y/y EPS growth. On the other hand, the health care sector is a meaningful drag as companies continue to contend with cost inflation. Even through the conflict in Iran, estimates for the full year have moved higher, driven by AI and the boost to energy earnings from higher oil prices.

Inflation

The March CPI report showed an expected pop in headline inflation as the conflict in the Middle East caused energy prices to spike. Headline CPI inflation rose 0.9% m/m and 3.3% y/y, up from 2.4% y/y in February. Energy prices jumped due to a 19% y/y gain in gasoline. Food prices were flat this month but are set to rise as higher fertilizer costs feed through. Core goods were well behaved while core services inflation moderated. However, as companies pass on higher jet fuel costs, price pressures could firm here as well. The path back to 2% inflation hinges on energy prices normalizing, a process that could take longer than expected. Inflation should accelerate through mid-2026 before falling back to 2% during the back half of the year.

Rates

At the April FOMC meeting, the FOMC voted to hold the federal funds rate steady at a range of 3.5% to 3.75%. Governor Miran dissented in favor of a rate cut while three other members voted in favor of removing the easing bias from the statement language to acknowledge mounting upside risks to inflation. During the press conference, Powell announced that he will remain on the Board of Governors until he is confident that Fed independence is not at risk. Moving forward, the Fed is likely to remain on hold given a stable unemployment rate and inflation moving away from target. However, the type and frequency of communication from the Fed could immediately change under Kevin Warsh as Chair.

Risks

- Delayed tariff pass-through and fiscal stimulus could put upward pressure on inflation.
- An extended conflict in the Middle East could weigh on growth and pressure inflation higher.
- Elevated geopolitical tensions could spark bouts of volatility, particularly in expensive markets.

Investment Themes

- Solid fundamentals should allow U.S. markets to continue to grind higher.
- Fiscal stimulus, dollar weakness and regional catalysts should support strong international performance.
- Private markets can offer investors more ways to access the AI theme.

● Denotes updated information

Data are as of May 4, 2026

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