Economic Update

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

Growth

The U.S. economy grew by a downwardly revised 0.5% saar in 4Q25. A very sharp 17% annualized decline in federal government spending was the main culprit for the weak report, and final sales to private domestic purchasers rose by 1.8%. Consumer spending was revised lower to 1.9% growth, down from 3.5% in 3Q25. Fixed investment rose by a downwardly revised 1.5% as business investment on structures fell sharply. On the other hand, spending on equipment and intellectual property showed solid gains. Fiscal stimulus should lead to stronger growth in 2Q and 3Q26.

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 24.3% of market cap reporting, consensus is currently projecting EPS growth of 13.8% 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 79% 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. Pressure here is set to intensify in April. Food prices were flat this month but are set to rise as higher fertilizer costs feed through. Core inflation also rose, albeit less than expected. 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, even if the conflict ends quickly. Inflation should accelerate through mid-2026 before falling back to 2% during the back half of the year.

Rates

At the March FOMC meeting, the Federal Reserve held the federal funds rate steady at 3.50-3.75% and maintained its outlook for one rate cut this year. Governor Miran dissented in favor of a 0.25% cut. Both the statement and Chairman Powell's press conference made mention that the impact of developments in the Middle East on the U.S. economy remains highly uncertain but likely shifts the outlook for policy rates in a hawkish direction. This was reflected in the Summary of Economic Projections, with growth and inflation revised higher for this year and next, while unemployment forecasts were left unchanged. In our view, the Fed should be able to deliver at least one rate cut later this year, but uncertainty remains.

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 April 27, 2026

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