Economic Review - First Quarter 2026

The state of the general economy can help or hinder a business' prospects by influencing the demand for its goods and services. The economy also affects the availability and price of inputs such as capital and labor. The prevailing economic conditions, therefore, directly affect the value of a business at a specific point in time. The 128 month economic expansion from June 2009 to February 2020 was the longest since the 1850s. The COVID 19 pandemic suddenly and severely affected economies and markets worldwide, causing the U.S. economy to lose nearly 22 million jobs and enter a recession from February 2020 to April 2020, the shortest recession in U.S. history. After returning to growth in May 2020, the U.S. economy rapidly recovered by adding over 12 million jobs during the last 8 months of 2020. Since the beginning of 2021, the U.S. economy has added back more than 16 million jobs through the first quarter of 2026, representing a cumulative gain of over 28 million jobs in the 71 months following April 2020.

Summary

The state of the general economy can help or hinder a business' prospects by influencing the demand for its goods and services. The economy also affects the availability and price of inputs such as capital and labor. The prevailing economic conditions, therefore, directly affect the value of a business at a specific point in time. The 128 month economic expansion from June 2009 to February 2020 was the longest since the 1850s.[1] The COVID 19 pandemic suddenly and severely affected economies and markets worldwide, causing the U.S. economy to lose nearly 22 million jobs and enter a recession from February 2020 to April 2020, the shortest recession in U.S. history.[2] After returning to growth in May 2020, the U.S. economy rapidly recovered by adding over 12 million jobs during the last 8 months of 2020. Since the beginning of 2021, the U.S. economy has added back more than 16 million jobs through the first quarter of 2026, representing a cumulative gain of over 28 million jobs in the 71 months following April 2020.

The Federal Open Market Committee (the "Committee") of the Federal Reserve held two meetings during the first quarter of 2026: one in January and one in March to discuss the additional measures being taken to support the economy, which include:

- Maintaining the target range for the federal funds at 3.50 to 3.75 percent through the first quarter of 2026. The Committee noted that while the labor market has stabilized in recent months, inflation has risen amid recent geopolitical events.

- Assessing the current and incoming economic data when determining the appropriateness of future policy decisions.

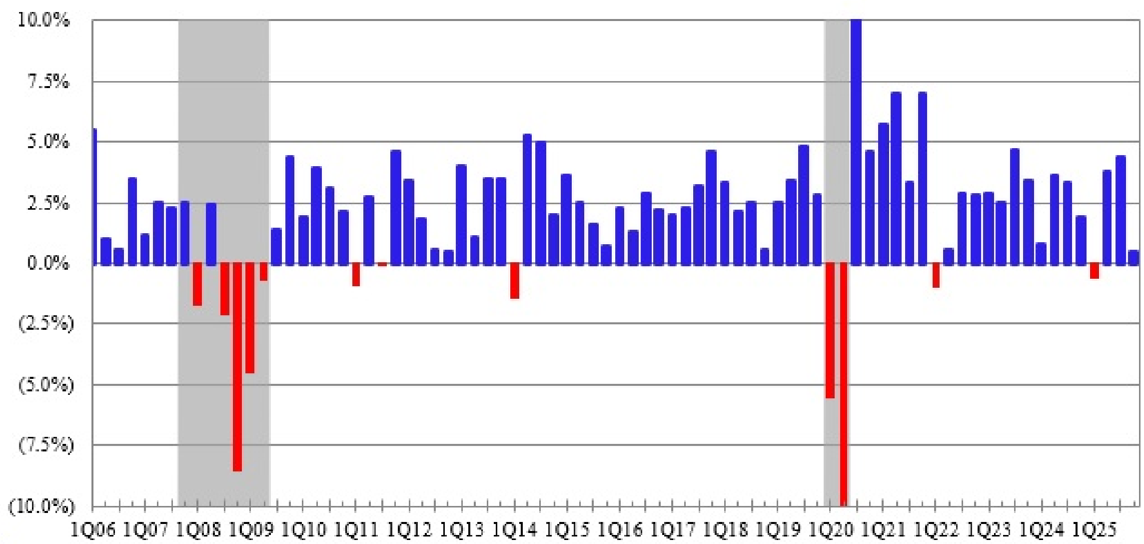
- Monitoring recent developments in the Middle East, which the Committee specifically noted has made the economic outlook less clear, while the exact implications on the U.S. economy are currently unclear.

Gross Domestic Product

The U.S. Bureau of Economic Analysis estimates that real gross domestic product (GDP) the output of goods and services produced by labor and capital located in the United States - increased at an annual rate of 0.5 percent in the fourth quarter of 2025, following increases of 4.4 percent and 3.8 percent in the third and second quarters of 2025, respectively, which was preceded by the first quarterly contraction in real GDP in nearly three years of 0.6 percent during the first quarter of 2025.

QUARTERLY U.S. GDP GROWTH

Seasonally Adjusted Annualized Rates; Shaded Bar Indicates Recession



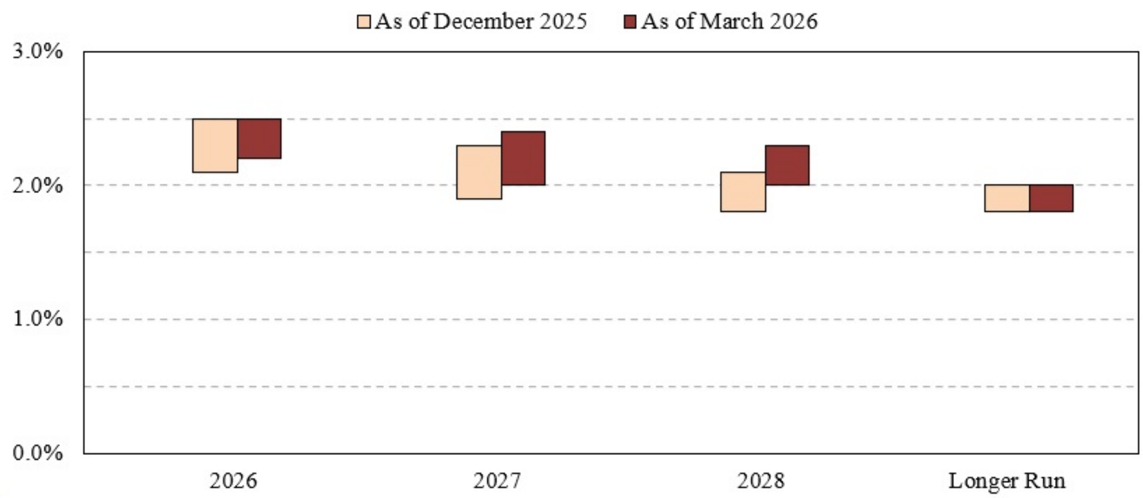
Sources: U.S. Bureau of Economic Analysis and National Bureau of Economic Research. GDP percent change is based on chained 2017 dollars.

Note: For 2Q20 and 3Q20, we note the percentage changes in GDP were (28.1%) and 35.2%, respectively. We keep our range for the figure between (10.0%) and 10.0% in order to maintain an appropriate scale for the remaining quarters over the last 20 years.

The Federal Reserve projects GDP growth to be 2.4 percent for 2026, followed by 2.3 percent in 2027, and 2.1 percent in 2028, before settling at 2.0 percent for the longer run.

The current projected GDP growth rates for the next three years are all slightly higher than the December 2025 projections, likely due to the positive employment data in the first quarter of 2026, following uncertainty in the labor market in the prior months. The Committee's projections for GDP growth are presented in the following figure.

U.S. GDP GROWTH ESTIMATES



Sources: Federal Reserve.

Employment

From March 2010 (the end of the 2008 2009 recession) to February 2020, 23.2 million net non farm jobs were created.[3] After the brief recession caused by the coronavirus pandemic eliminated 10 years of job growth in just a few months, the economy returned to its pre pandemic levels of employment in June 2022. After losing more than 110,000 jobs in the fourth quarter of 2025, employment rebounded in the first quarter of 2026, adding back nearly 190,000 jobs. The addition of 190,000 jobs in the first quarter outpaced the net job growth of less than 120,000 jobs during all of 2025.

The lack of job growth in 2025 led the unemployment rate to increase from 4.0 percent in January to as high as 4.5 percent in October and November, before ending the year at 4.4 percent. Due to positive employment data in the first quarter of 2026, the unemployment rate reversed course and declined to 4.3 percent as of March.

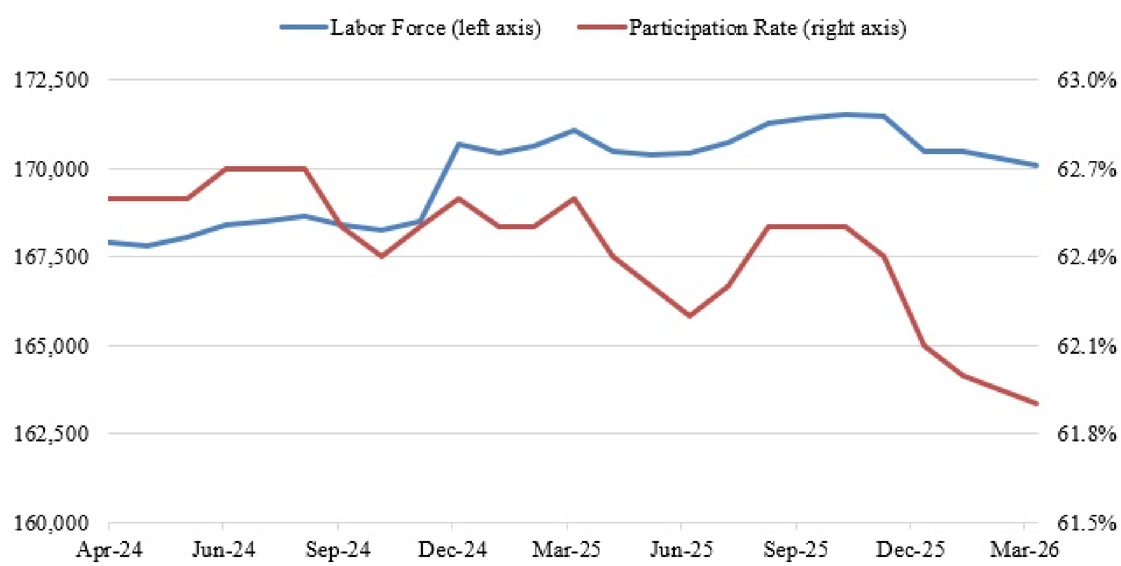
After spiking in 2020 due to the coronavirus pandemic, the unemployment rate has remained below 5.0 percent since September 2021. The current unemployment rate of 4.3 percent is just below the Federal Reserve's estimate of the non cyclical (or "structural") unemployment rate of 4.4 percent for the first quarter of 2026, suggesting that the labor market is effectively operating at full employment.[4]

Full employment suggests the current unemployment rate is at a level where any additional increases in employment may be inflationary, while any declines in employment could be recessionary.

In the first quarter of 2026, more than 1.4 million people left the labor force, a significant reversal from the more than 230,000 people who entered during the fourth quarter of 2025. The labor force participation rate decreased from 62.4 percent in December 2025 to 61.9 percent in March 2026, its lowest level since November 2021, when the economy was still recovering from the coronavirus pandemic.[5] Prior to 2020, the participation rate of 61.9 percent in March 2026 was the lowest since 1977. The labor force participation rate gradually trended downward from its peak of over 67 percent in the late 1990s and early 2000s, as the U.S. population continues to age.

The labor force participation rate has trended downward in recent years from as high as 62.7 percent in the third quarter of 2024 to 61.9 percent by the end of the first quarter of 2026. The labor force and labor force participation rate for the last two years are shown in the following figure.

U.S. LABOR FORCE AND PARTICIPATION RATE
(Amounts in Thousands and Percentages)



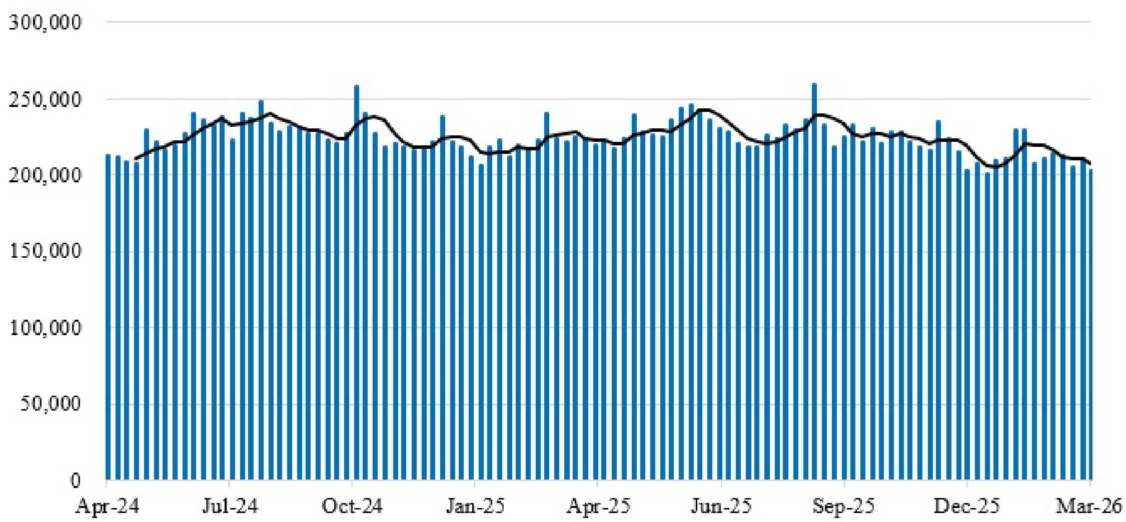
Source: Federal Reserve Bank of St. Louis.

A more expansive measure of labor underutilization, including discouraged workers who have left the workforce and part time workers who would prefer full time work, has decreased from its four year high of 8.7 percent in November 2025 to 8.0 percent by the end of the first quarter of 2026. The falling unemployment and labor underutilization rates during the first quarter of 2026 reflect the improvement of the labor market relative to recent quarters.[6 7]

Initial unemployment claims are considered a good proxy for the level of layoffs within the labor market. As the data is published on a weekly basis, it is one of the few sources of economic data that can quickly provide updates on labor market conditions in real time. After spiking to their highest recorded levels due to the effects of the coronavirus pandemic in 2020, initial claims have retreated in recent years and remain historically low. Initial unemployment claims fell during the first quarter of 2026 to an average of 212,000, compared to an average of 223,000 during the fourth quarter of 2025.[8]

Outside of two consecutive weeks in late January and early February, when initial claims reached 230,000, initial claims stayed within a narrow range during the first quarter between 201,000 and 214,000, and stood at 203,000 for the final week of the first quarter (the week ending March 28, 2026). Initial claims have been stable and historically low over the past two years, as indicated by the four week moving average remaining between approximately 200,000 and 250,000 during that time (since data started being collected in 1967, weekly initial claims had averaged approximately 350,000 through 2019). Weekly initial unemployment claims and the four week moving average for the past two years are shown in the following figure.

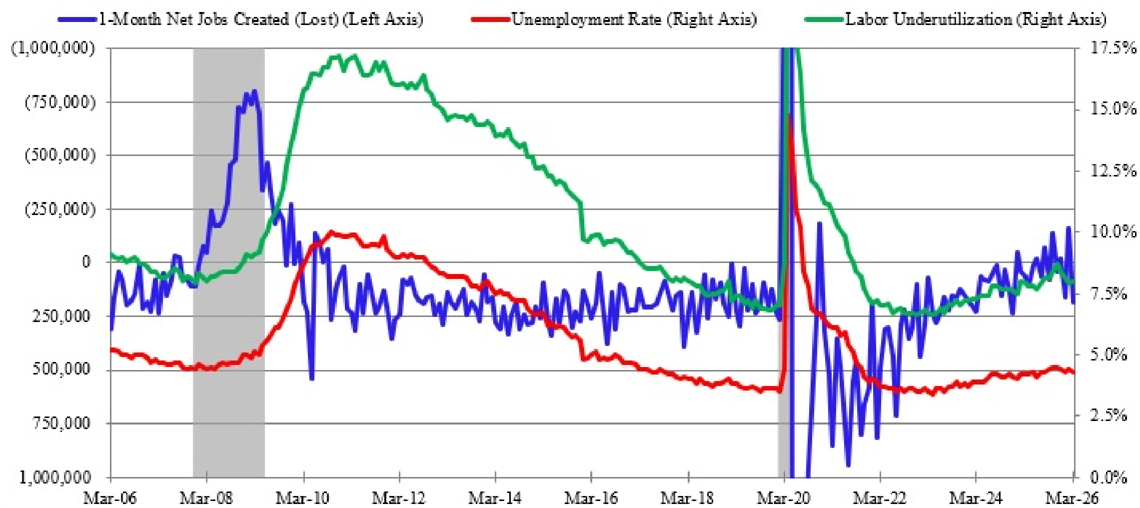
WEEKLY INITIAL UNEMPLOYMENT CLAIMS



Source: Federal Reserve Bank of St. Louis.

Unemployment and underemployment restrain economic growth as consumers are unable or hesitant to spend. The past 20 years of job creation, employment, and underemployment data are presented in the following figure.

MEASURES OF STRESS IN THE LABOR MARKET
Shaded Bar Indicates Recession



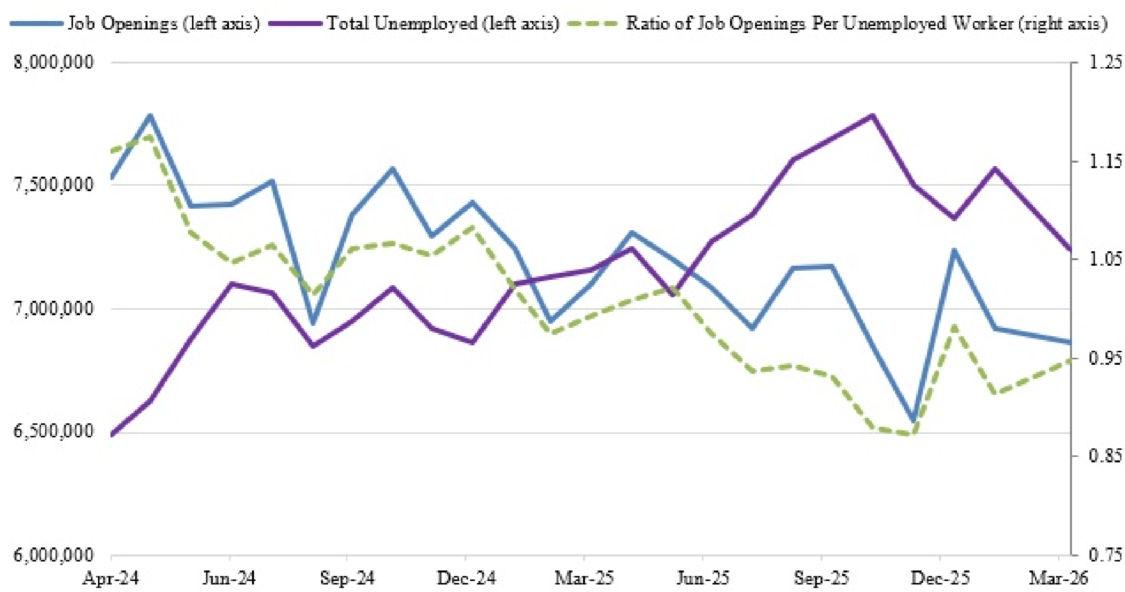
Sources: Department of Labor, Bureau of Labor Statistics, and National Bureau of Economic Research. Data represents non-farm payrolls.

Note: The 1 month net jobs created and labor underutilization rate both briefly exceeded the scale of the figure following the episodic fluctuations from the coronavirus pandemic. We maintain the range of our figure in order to reasonably view the changes that have occurred in each of the metrics for the remainder of the past 20 years.

As the labor market softened in past years, the relationship between workers and employers has reversed accordingly. This is indicated by the ratio of unfilled job openings per job seeker declining from 1.16 to 0.95 between April 2024 and March 2026. By the end of the first quarter of 2026, the number of people looking for work exceeded the number of job openings by over 370,000, which, although a substantial improvement from the 950,000 gap as of December 2025, is still a sharp reversal from the more than 1.0 million jobs in excess of the number of people looking for work as of April 2024.[9]

After the gap between job openings and job seekers widened during the second half of 2025, the improvement during the first quarter of 2026 suggests the labor market may be finding its level. The existence of effectively one open job per job seeker does not directly suggest the labor market is poised to fuel robust growth, nor does it indicate an imminent recession. However, a resumed expansion of the gap between job seekers and job openings would be indicative of weakening economic conditions. The relationship between job openings and the total number of people unemployed and seeking work over the past two years is shown in the following figure.

JOB OPENINGS COMPARED TO TOTAL UNEMPLOYED
(Amounts in Whole Numbers)



Source: Federal Reserve Bank of St. Louis.

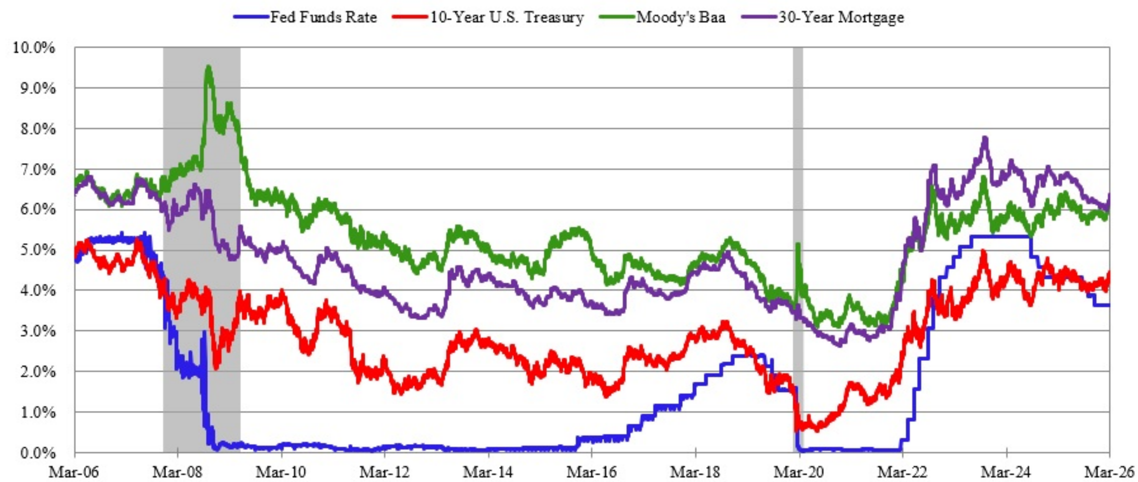
In addition, about 3.2 million workers reportedly quit their jobs in March alone, a level that has remained largely unchanged over the past year and is still considered historically high.[10] The sustained high rate of job quits remains a positive sign for the labor market, as workers usually quit only if they believe they can find (or have already found) a better job. After considering all available data, the Committee notes that although job gains have remained low, the unemployment rate has changed little in recent months, suggesting the labor market is stable.

Interest Rates

While the Committee kept the target range for the federal funds rate unchanged during the first quarter of 2026, interest rates increased moderately amid heightened risks to the economic outlook stemming from the United States' recent involvement in the Middle East. The Committee will continue to weigh developments in the incoming economic data before making additional changes to the target range. As the Committee has repeatedly stated, it will closely monitor incoming data and balance the risks before deciding whether further changes to the target range are necessary.

During the first quarter, the yield on the 10 year U.S. Treasury increased by 12 basis points to 4.30 percent, while the Moody's Baa rate increased by 19 basis points to 6.09 percent, which are both within their general ranges observed in recent years. The 30 year fixed home mortgage rate increased by 23 basis points to 6.38 percent. Interest rates will likely continue to closely follow the Committee's actions and outlook. The past 20 years of historical interest rate data are shown in the following figure.

SELECTED INTEREST RATES
Shaded Bar Indicates Recession



Source: Federal Reserve Statistical Release H.15 (519) Selected Interest Rates.

Stock Market Activity

The major indices were on pace to post broad declines in the first quarter of 2026 before the last day of trading. The major indices were all effectively flat or had gained slightly in the first two months of the quarter, prior to the United States involvement in a conflict with Iran beginning in late February. While investors initially believed the scope and involvement of the United States would be relatively minor, as the conflict continued to escalate without a clear resolution in sight, stock prices began a steep and broad decline. However, losses for the first quarter were buoyed by the Trump administration's announcement on the final day of the first quarter that the conflict may be resolved in the coming weeks.

This sparked a widespread rally, with the major indices posting gains between 2.5 percent and nearly 4.0 percent on the final day of trading, mitigating some of the losses and allowing the small cap indices to turn positive for the quarter. The first quarter 2026 performance was a pullback from the strong gains in 2025.

The S&P 400 was the best performing index in the first quarter after posting a return of 2.5 percent, as it benefited from the lesser degree to which its constituents are exposed to shocks to geopolitical turmoil and ensuing impacts on the global economy. The Russell 2000 index was the only other index to post a positive return, albeit of just 0.9 percent, due to the similar makeup and nature of its constituents. The S&P 400 and Russell 2000 were on track to post losses of 0.4 percent and 2.5 percent, respectively, prior to the rally on the final day of trading for the first quarter.

The NASDAQ Composite index was on pace for a loss of nearly 11 percent, only to gain nearly 4.0 percent on the final day of trading and finished the first quarter with a 7.1 percent loss. The S&P 500 and Dow Jones Industrial Average followed similar trends, as both indices shed losses on the final day of the quarter, but still posted losses of 4.3 percent and 3.2 percent, respectively.

The larger indices were weighed down by concerns about the indirect impact the conflict would have on the trajectory of the federal funds rate. The average price for a regular gallon of gas stood at $2.81 at the end of 2025 and was little changed at $2.94 as of the end of February, before increasing sharply to $3.99 by the end of March, an increase of over 40 percent for the first quarter of 2026 and nearly 36 percent in March alone.[11]

As a result, investors were concerned about the impact a sustained conflict would have on oil prices and consumer spending, especially if overall inflation began rising again due to the ripple effect of high gas and energy prices on the transportation and production of other goods. A meaningful rise in inflation could force the Committee to increase the federal funds rate, rather than holding the range steady or even issuing multiple rate cuts during 2026, as most market participants had anticipated heading into the year.

Total returns for U.S. stock indices for the first quarter of 2026 are shown in the following figure.

TOTAL RETURNS OF MAJOR U.S. STOCK INDICES

Index	**First Quarter 2026**
S&P 500	(4.3%)
Dow Jones Industrial Average	(3.2%)
NASDAQ Composite (1)	(7.1%)
S&P MidCap 400	2.5%
Russell 2000	0.9%

Note:
(1) Return represents principal only.

Inflation[12]

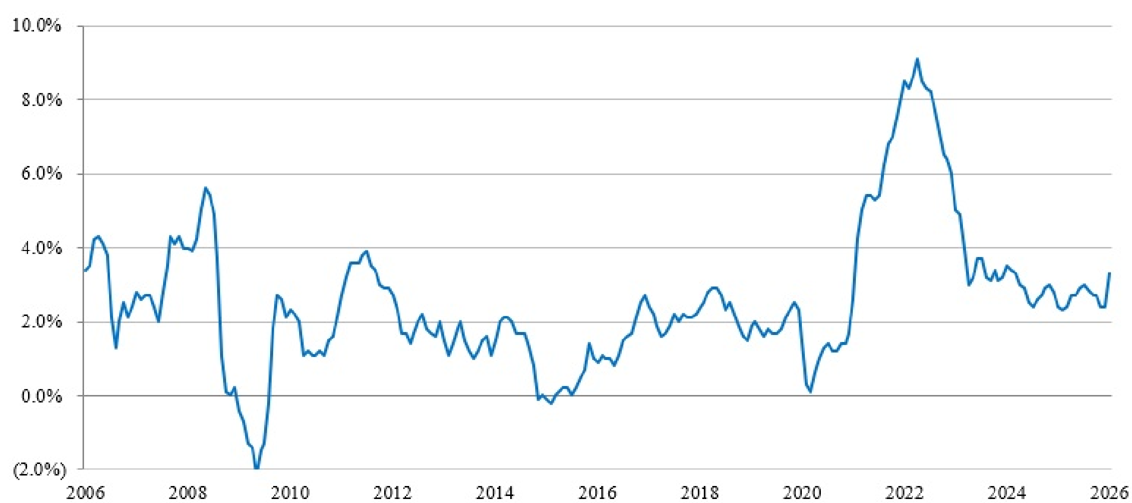
Inflation remained a prevalent topic surrounding the U.S. economy throughout the first quarter of 2026. Chairman Powell has reiterated that the Committee will utilize the appropriate tools to fulfill its dual mandate as directed by Congress, which includes stable prices (defined as 2.0 percent annual inflation) and maximum employment. Inflation had been trending downward in the fourth quarter of 2025 and in January and February of 2026, before rising to a two year high by the end of the first quarter of 2026, due to a spike in energy prices resulting from the conflict between the United States and Iran.

The 12 month change in the consumer price index ("CPI") decreased from 9.1 percent to 3.0 percent between June 2022 and June 2023, and has since oscillated somewhat, but has generally trended downward to 2.3 percent in April 2025, before rising again to 3.0 percent as of September 2025. In the months since, the 12 month change in the CPI fell to 2.4 percent in January and February of 2026, before increasing to a two year high of 3.3 percent in March. For March alone, the CPI increased by 0.9 percent, driven by higher gasoline and energy prices.

Core CPI, which excludes oil and food due to their volatility, increased by 2.6 percent over the 12 month period ending March 2026, matching the 12 month change from December 2025, and reached as low as 2.5 percent in January and February, its lowest level since March 2021. After peaking in September 2022 at 6.6 percent, the increase in Core CPI has gradually declined over the past three years, suggesting that price pressures on goods and services, excluding food and energy, are trending towards the Committee's long run target of 2.0 percent. For March alone, Core CPI rose by 0.2 percent.

Notable items that experienced meaningful price increases in March include fuel oil (30.7 percent), gasoline (21.2 percent), and electricity (0.8 percent). For the 12 months ending March 2026, price increases for fuel oil (44.2 percent), gasoline (18.9 percent), and transportation services (4.1 percent) were noteworthy as well. The annual change in the CPI for the last 20 years is shown in the following figure.

ANNUAL CHANGE IN THE CPI



Source: Bureau of Labor Statistics.

Inflation Expectations

As the 12 month change in the CPI improved in January and February of 2026, inflation expectations among consumers and investors fell in kind for the near term. However, in response to the energy price shocks experienced in March, short term inflation expectations rose, while longer term inflation expectations have remained effectively unchanged since the beginning of 2025.

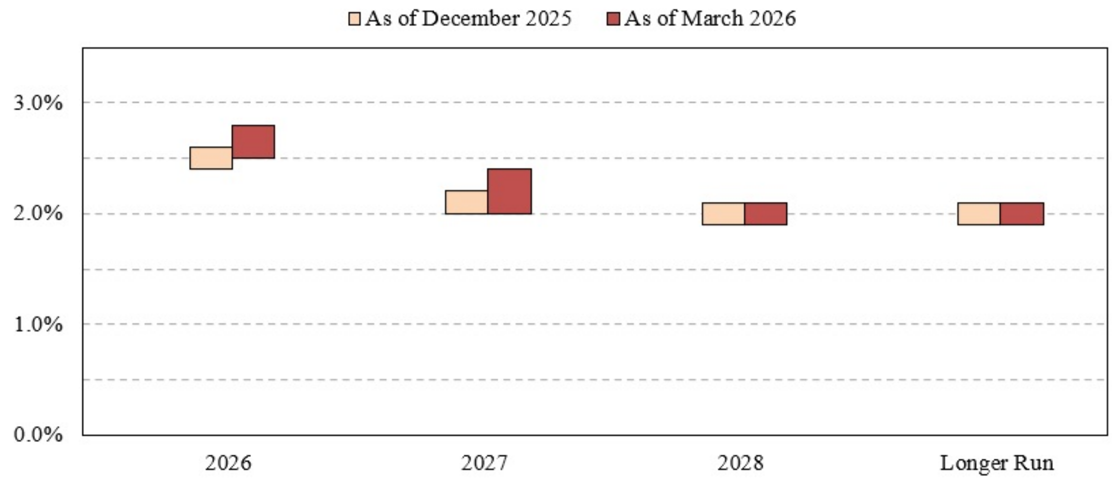
The Federal Reserve monitors inflation expectations because if consumers and businesses anticipate wage and price increases, they can adjust their behavior accordingly, making the expected inflation a reality. Every month, the Federal Reserve Bank of New York publishes expectations of future inflation.[13] Before 2020, one year forward looking inflation expectations generally remained between 2.5 percent and 3.0 percent.

One year forward looking inflation expectations fell from 3.4 percent as of December 2025 to 3.1 percent and 3.0 percent in January and February of 2026, respectively, to coincide with the decline in the 12 month change in the CPI. By the end of the first quarter, one year inflation expectations rose to 3.4 percent, its highest level in six months. Three year forward looking inflation expectations rose slightly from 3.0 percent to 3.1 percent during the first quarter of 2026, which remains above the Committee's longer run target. The lack of improvement in three year inflation expectations over recent years suggests that some pessimism among consumers and businesses has become ingrained about the likelihood of long term inflation reaching the Committee's 2.0 percent target.

Inflation expectations between the one year and three year periods diverged during 2025, but briefly narrowed due to the positive inflation data in January and February of 2026. By the end of March, the gap between the two metrics diverged again due to the spike in inflation driven by energy prices, with one year and three year expectations of future inflation at 3.4 percent and 3.1 percent, respectively.

The Federal Reserve publishes estimates of personal consumption expenditures ("PCE") inflation and Core PCE inflation. For 2026, PCE and Core PCE inflation are projected to be 2.7 percent. Thereafter, it expects inflation to moderate, with projected PCE and Core PCE inflation of 2.2 percent in 2027 and 2.0 percent in 2028 and the longer run. This supports the Committee's belief that its policies will successfully bring inflation towards its 2.0 percent target. The Committee's range of projections of Core PCE inflation is presented in the following figure.

CORE PCE ESTIMATES



Source: Federal Reserve.

Federal Funds Rate Outlook

The Committee has confirmed its intent to adjust its policies accordingly to achieve stable prices and maximum employment. At its March meeting, the members of the Committee provided their outlook for the target range for the federal funds rate in the coming years. By the end of 2026, all but five members expect the federal funds rate to be between 3.25 to 3.75 percent, suggesting that there will either be one cut of 25 basis points or no changes at all to the federal funds rate during 2026.

For 2027 through 2028 and into the longer run, there is a general consensus that the federal funds rate will settle between 2.75 to 3.75 percent. This suggests that the current target range of 3.50 to 3.75 percent is relatively close to the Committee's long term view, or the "neutral" federal funds rate. A neutral rate is one that suppresses elevated inflation without stifling economic activity to the point of putting upward pressure on unemployment.[14]

While the Committee only publishes its estimates of the target range for the federal funds rate on a quarterly basis, and these estimates apply only to where the target range will be by the end of the respective calendar year, this results in a delayed and rigid outlook for the impact of notable economic events. To analyze changes in expectations in real time, the CME Group publishes estimates of the indicated probabilities for the future target range for the federal funds rate from the perspective of investors, based on the activity of actively traded futures contracts.[15]

As of the end of 2025, the aggregate probability of at least one rate cut of 25 basis points by the end of 2026 to the target range of 3.50 to 3.75 percent was nearly 95 percent, and the implied probability of a target range of 2.75 to 3.00 percent or lower, suggesting rate cuts aggregating at least 75 basis points during the year, was over 40 percent. Those expectations have since completely changed, given the developments in March related to inflation and the conflict in Iran. As of the end of the first quarter, the implied probability is greater than 75 percent that no rate cuts will occur in 2026, with the remainder of investors expecting just one, 25 basis point rate cut between now and the end of the year.

United States - Iran Conflict

Beginning in late February and extending through March, the United States has been engaged in military conflict with Iran. As a result, global oil markets have experienced a significant shock, with the prices Americans pay at the gas pump surging by more than 40 percent.[16] Although the United States' role in the conflict initially appeared to be short lived, as of the end of the first quarter, there is still uncertainty as to when the conflict and ensuing disruption to global energy markets will end.

One point of contention since the conflict began has been control of the Strait of Hormuz, an important waterway near Iran. Prior to 2026, an average of 20 million barrels of oil traveled through the Strait of Hormuz per day, representing approximately one quarter of the global oil trade volume.[17]

This chokepoint of the global oil trade, as well as a key transit point for natural gas, has been driving up energy prices worldwide. It can be expected that, until the conflict is resolved or an agreement is reached to allow traffic in the Strait of Hormuz to resume at normalized levels, there will be sustained upward pressure on energy products in the United States and around the world.

Endnotes:

1. National Bureau of Economic Research. <https://www.nber.org/research/data/us-business-cycle-expansions-and-contractions>.

2. Ibid.

3. Bureau of Labor Statistics. "Employment, Hours, and Earnings from the Current Employment Statistics survey (National)." <http://data.bls.gov/timeseries/CES0000000001?output_view=net_1mth>.

4. FRED Economic Data, Federal Reserve Bank of St. Louis. <https://fred.stlouisfed.org/series/NROU/>. "The natural rate of unemployment (NAIRU) is the rate of unemployment arising from all sources except fluctuations in aggregate demand."

5. FRED Economic Data, Federal Reserve Bank of St. Louis. <https://fred.stlouisfed.org>.

6. Ibid.

7. "U 6 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." Reported on a seasonally adjusted basis.

8. FRED Economic Data, Federal Reserve Bank of St. Louis. <https://fred.stlouisfed.org>.

9. Ibid.

10. Bureau of Labor Statistics, "Job Openings and Labor Turnover - March 2026," May 5, 2026. <https://www.bls.gov/news.release/jolts.nro.htm>.

11. U.S. Energy Information Administration, Weekly US Regular All Formulations Retail Gasoline Prices. <https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=pet&s=emm_epmr_pte_nus_dpg&f=w>.

12. Bureau of Labor Statistics, "Consumer Price Index - March 2026," April 10, 2026. <https://www.bls.gov/news.release/archives/cpi_04102026.htm>.

13. Federal Reserve Bank of New York, "Survey of Consumer Expectations." <https://www.newyorkfed.org/microeconomics/sce#/inflexp-1>.

14. Board of Governors of the Federal Reserve System, "Summary of Economic Projections," March 18, 2026. <https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20260318.htm>.

15. CME Group, FedWatch Tool. <https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html>.

16. U.S. Energy Information Administration, Weekly US Regular All Formulations Retail Gasoline Prices. <https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=pet&s=emm_epmr_pte_nus_dpg&f=w>.

17. International Energy Agency, "Strait of Hormuz - Factsheet". <https://www.iea.org/about/oil-security-and-emergency-response/strait-of-hormuz>.