Market Review & Outlook

Q1 2026

vectors
asset
management llc

Market Review
Executive Summary

- After a long period of robust performance, equity markets became concerned over excessive AI investment and valuations of associated companies, and come March, the war with Iran began, injecting additional market volatility and rising oil prices.
- While the equity market traded in a high range for much of the quarter, touching the 7,000 threshold for the first time, it failed to close above this level and subsequently retreated sharply through the end of March. The S&P 500 declined -4.4% in Q1 2026. The heavyweight "Magnificent 7" membership led the decline, with all seven stocks posting negative returns for the quarter. In contrast, the equal weighted S&P 500 actually posted a positive +.7% return in Q1. Small and mid cap stocks also saw positive returns.
- Interest rates rose pushing bond prices down, with the 10-year Treasury yield rising 15 basis points in Q1, climbing from 4.17% to 4.32%, but with notable volatility in between as it fell below 4% at the end of February. Volatility in US Treasuries jumped to a nine-month high as the Iran war fanned inflation concerns associated with the significant rise in oil prices, and upended expectations on the Federal Reserve's policy path, removing expected interest rate cuts. The rise in Treasury market rates also pushed mortgage rates higher after dropping below 6% during the quarter that had sparked a glimpse of activity in the otherwise dormant housing market.

Market Review
Market Scoreboard

- The rise in interest rates caused bond prices to fall, generating negative returns in March, however income offset the negative prices for the quarter, producing some positive returns. Mortgage-Backed Securities were the best performing fixed rate sector for the quarter and were just behind Floating rate notes.
- Gold retreated in March after spending time above $5,000, while the dollar gained. The war in Iran pushed oil above $100 barrel.
- Stocks fell broadly in March turning Large Cap and Growth negative for the quarter. International Stocks and bonds also lost ground.

Market Summary - March 31st, 2026					
Bond Market	**March**	**Q1**	**YTD**	**1 Year**	**Yield**
Total Bond Market	-1.8%	0.0%	0.0%	4.3%	4.6%
US Treasuries	-1.8%	0.1%	0.1%	3.2%	4.2%
US MBS Index	-1.6%	0.6%	0.6%	5.8%	4.8%
Corporate Bonds	-2.0%	-0.4%	-0.4%	4.8%	5.1%
High Yield Corporates	-1.2%	-0.6%	-0.6%	6.9%	7.3%
US TIPS (Inflation Prot.)	-1.4%	0.4%	0.4%	2.8%	1.6%
Merrill Muni Index	-2.2%	-0.2%	-0.2%	4.3%	3.6%
Floating Rate Corp	0.2%	0.8%	0.8%	4.6%	4.1%
International Bonds	-4.8%	-2.7%	-2.7%	0.9%	3.1%
Commodities/Other	**March**	**Q1**	**YTD**	**1 Year**	**End Value**
Gold	-11.6%	8.1%	8.1%	49.4%	$4,668
Dollar Index	2.4%	1.7%	1.7%	-4.1%	$99.96
Oil (WTI)	51.6%	77.9%	77.9%	53.7%	$101.38

Market Summary - March 31st, 2026					
Stock Market Indices	**March**	**Q1**	**YTD**	**1 Year**	**End Value**
DOW Jones Avg.	-5.2%	-3.2%	-3.2%	12.2%	$46,342
NASDAQ Composite	-4.7%	-7.0%	-7.0%	25.6%	$21,591
Large Cap Core (S&P 500)	-5.0%	-4.4%	-4.4%	17.8%	$6,529
Equal Weight S&P 500	-6.0%	0.7%	0.7%	12.8%	$7,779
Large Cap Growth	-5.3%	-8.1%	-8.1%	22.6%	$4,561
Large Cap Value	-4.6%	0.0%	0.0%	12.9%	$2,084
Mid Cap Core	-5.4%	2.5%	2.5%	17.3%	$3,376
Mid Cap Growth	-5.5%	3.9%	3.9%	21.8%	$1,631
Mid Cap Value	-5.2%	1.0%	1.0%	12.8%	$1,060
Small Cap Core	-5.0%	0.9%	0.9%	25.8%	$2,496
Small Cap Growth	-6.3%	-2.8%	-2.8%	23.6%	$11,848
Small Cap Value	-3.6%	5.0%	5.0%	28.1%	$20,763
Europe	-10.5%	-4.0%	-4.0%	21.0%	$596
England	-7.9%	1.6%	1.6%	25.5%	$10,176
Japan	-14.3%	0.5%	0.5%	37.5%	$51,064
Shanghi 300	-6.0%	-2.4%	-2.4%	23.8%	$4,450
International	-10.2%	-1.1%	-1.1%	21.9%	$2,839
MSCI China	-7.7%	-8.9%	-8.9%	3.8%	$606
Emerging Markets	-9.3%	3.8%	3.8%	33.1%	$57

Market Review
S&P 500 Top 10

- All ten of the largest S&P 500 stocks, making up 36% of the index, posted negative returns during Q1, reflecting a challenging period for mega-cap technology and growth stocks. The YTD declines ranged from -4.7% to -23.3%.
- The equal weight S&P 500 was positive .7% in the first quarter while market weighted was -4.4%
- Microsoft experienced the worst performance, with shares dropping 11% in a single day on January 29, and -23.3% for the quarter.
- Another strong earnings beat was not enough to maintain momentum for Nvidia shares.
- Tesla declined -17.3% during the quarter. Risk-off sentiment disproportionately affected the company due to their extreme, premium valuation.
- Alphabet declined approximately 8% which we saw as a buying opportunity. On March 31, Google announced Veo 3.1 Lite, a cheaper AI video-generation model.

Top 10 Holdings vs. Rest of S&P 500

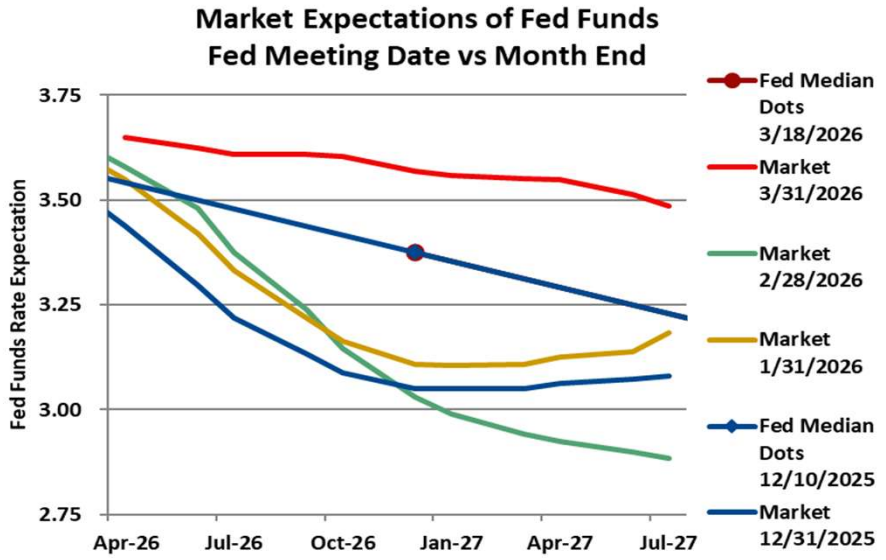
Company	Name	3-31-2026 % Weight	MTD Return	YTD Return	1 Year Return
NVDA	NVIDIA Corp	7.56%	-1.6%	-6.5%	61.0%
AAPL	Apple Inc	6.65%	-3.9%	-6.6%	14.7%
MSFT	Microsoft Corp	4.91%	-5.7%	-23.3%	-0.6%
AMZN	Amazon.com Inc	3.63%	-0.8%	-9.8%	9.5%
GOOGL	Alphabet Inc	2.99%	-7.7%	-8.1%	86.6%
AVGO	Broadcom Inc	2.62%	-2.9%	-10.4%	86.3%
GOOG	Alphabet Inc	2.39%	-7.8%	-8.5%	84.2%
META	Meta Platforms Inc	2.23%	-11.7%	-13.3%	-0.4%
TSLA	Tesla Inc	1.87%	-7.6%	-17.3%	43.4%
BRK/B	Berkshire Hathaway Inc	1.57%	-5.1%	-4.7%	-10.0%
Top 10 of SPX	Top 10 S&P 500	36.42%	-4.7%	-10.9%	28.4%
Rest of SPX	Bottom 490 S&P 500	63.58%	-5.2%	-0.1%	12.4%
SPX Index	Market Weight S&P 500		-5.0%	-4.4%	17.8%
SPW Index	Equal Weight S&P 500		-6.0%	0.7%	12.8%

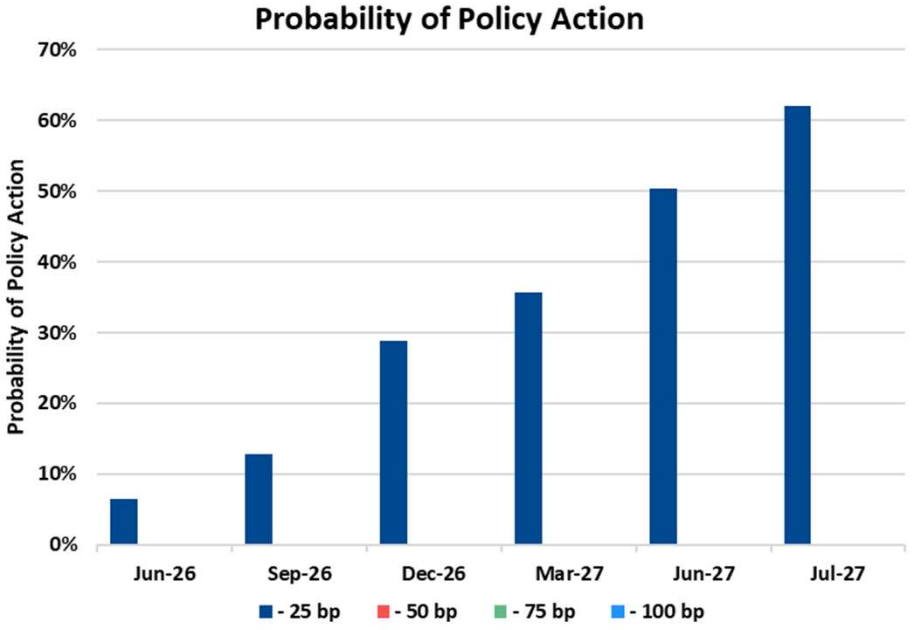
Top 10 Holdings vs. Rest of S&P 500

Company	Name	Price	Last 12M P/E Ratio	Next 12M P/E Ratio	Last 12M EPS Growth	Next 12M EPS Growth
NVDA	NVIDIA Corp	$174.40	36.2	20.9	59.5%	75.4%
AAPL	Apple Inc	$253.79	31.6	29.5	13.5%	9.7%
MSFT	Microsoft Corp	$370.17	23.0	21.0	23.8%	14.3%
AMZN	Amazon.com Inc	$208.27	28.8	26.6	29.7%	7.7%
AVGO	Broadcom Inc	$309.51	41.8	22.6	35.7%	80.4%
GOOGL	Alphabet Inc Class A	$287.56	26.3	24.6	34.5%	7.5%
META	Meta Platforms Inc	$572.13	23.9	18.9	-1.6%	26.1%
GOOG	Alphabet Inc Class C	$286.86	26.3	24.6	34.5%	7.5%
TSLA	Tesla Inc	$371.75	238.1	209.2	-31.4%	18.1%
BRK/B	Berkshire Hathaway Inc	$479.20	23.2	22.9	-6.3%	-1.0%

Market Review
Fed Policy

- Market expectations for Federal Reserve rate cuts from the current 3.625% were erased due to escalating geopolitical tensions, surging energy prices, and rising inflation expectations. At the start of the year, the market anticipated multiple rate cuts in 2026, with market futures pricing in approximately 60 basis points of easing. By mid-March, the market no longer priced in any chance of an interest-rate cut for the year, with some even hedging for a potential hike.
- The Federal Reserve maintained its projection for one rate cut to 3.375% in 2026 to, another to 3.125% in 2027, and holding at that level for the foreseeable future, though the path forward remains highly uncertain with a wide dispersion of opinions within the Fed. The labor market has stabilized, while the inflation picture is of great debate, depending on how high and for how long oil prices remain elevated, and the potential pass through to final prices.
- Looking through current oil prices, we see continued core disinflation that may provide for an interest rate cut later in the year, although renewed strength in the manufacturing and construction labor markets may temper those expectation as domestic growth strengthens later this year.





Market Review
Fed Policy

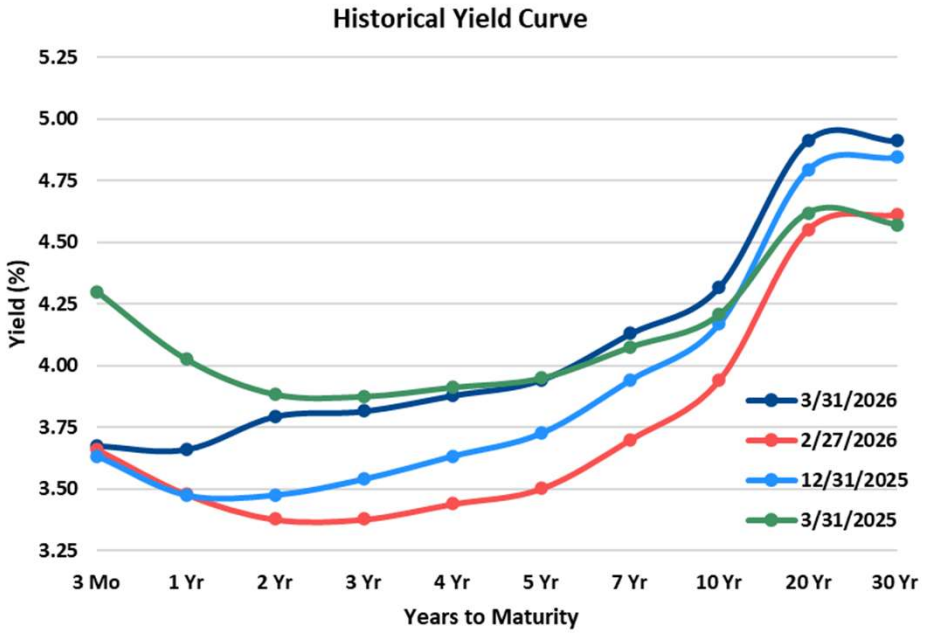
- The Fed has raised real GDP growth forecasts again in March for 2026 through 2028 as well as the longer run. This would be a reversal of the current trend of downward revisions to GDP in the 4th quarter of 2025.
- Their expectations of unemployment remain the same at 4.4%, near full employment. This projection would support the idea that additional rate cuts are not needed in the near term.
- The Fed's expectations of PCE Inflation were raised materially from 2.4% to 2.7%. The supply shock to oil and other energy caused by the conflicts ongoing in the Middle East have raised concerns for stickier inflation.
- Core PCE Inflation expectations were also raised. This demonstrates an expectation for the higher energy prices to flow through the economy, raising core inflation indicators as well and not just the already volatile energy component.
- The Fed had similar concerns about tariffs flowing through to inflation in 2025; however, those concerns did not materialize, at least not to their degree.

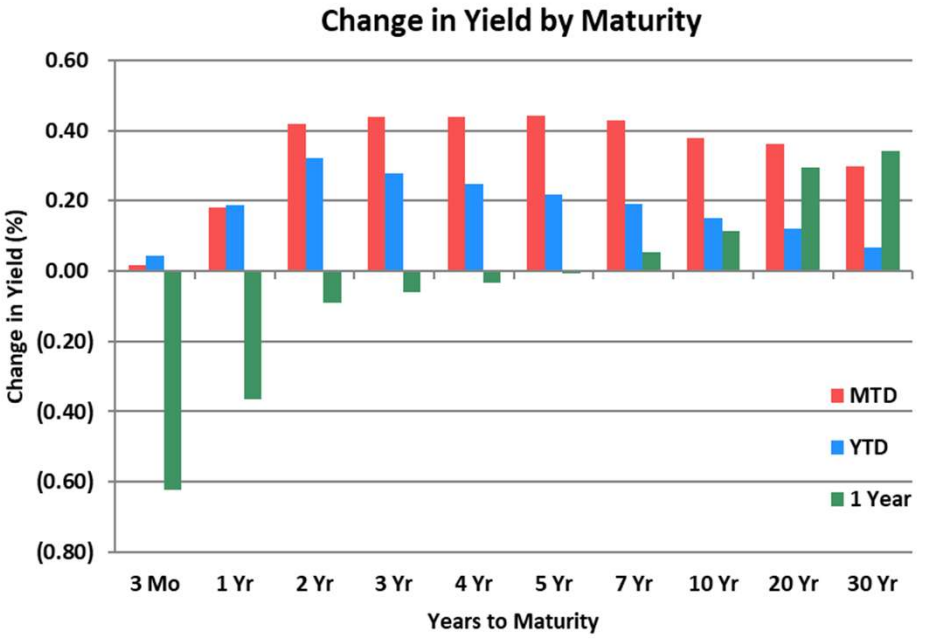
Federal Reserve Median Economic Projections
As of 3/18/2026

Change in GDP	**Actual**	**2026**	**2027**	**2028**	**Longer Run**
March 2026 Projection		2.4	2.3	2.1	2.0
December 2025 Projection		2.3	2.0	1.9	1.8
September 2025 Projection		1.8	1.9	1.8	1.8
Actual Q4 2025	**0.5%**				
Unemployment Rate					
March 2026 Projection		4.4	4.3	4.2	4.2
December 2025 Projection		4.4	4.2	4.2	4.2
September 2025 Projection		4.4	4.3	4.2	4.2
Actual March 2026	**4.3%**				
PCE Inflation					
March 2026 Projection		2.7	2.2	2.0	2.0
December 2025 Projection		2.4	2.1	2.0	2.0
September 2025 Projection		2.6	2.1	2.0	2.0
Actual January 2026	**2.8%**				
Core PCE Inflation					
March 2026 Projection		2.7	2.2	2.0	
December 2025 Projection		2.5	2.1	2.0	
September 2025 Projection		2.6	2.1	2.0	
Actual January 2026	**3.0%**				
Projected Policy Path- Fed Funds					
March 2026 Projection		3.4	3.1	3.1	3.1
December 2025 Projection		3.4	3.1	3.1	3.0
September 2025 Projection		3.4	3.1	3.1	3.0
Actual March 2026	3.6%				

Market Review
Yield Curve

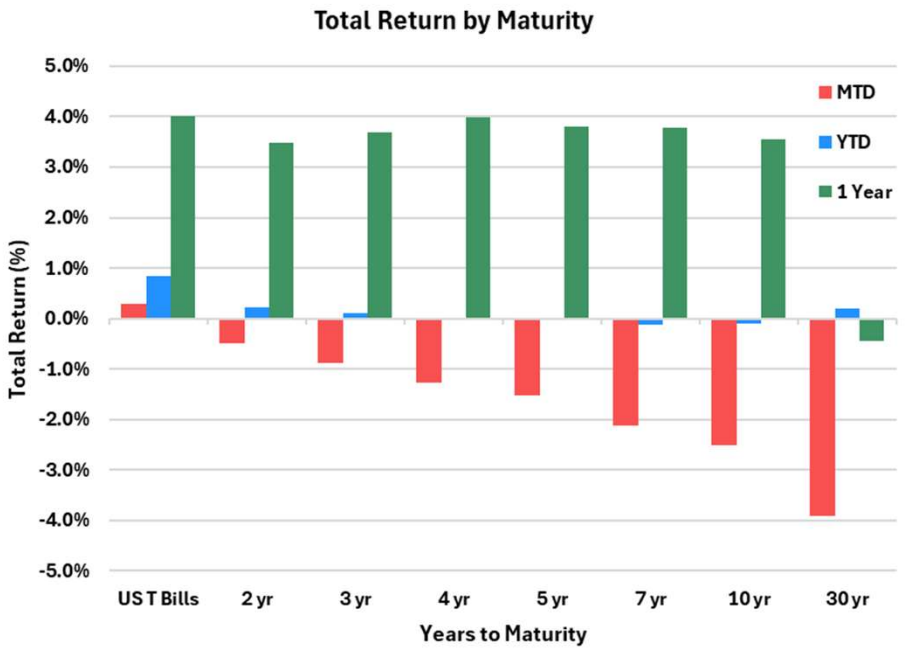
- Rates rose across maturities from their February lows, led by a more than .40% rise in intermediate rates as the market removed Fed rate cut expectations following the surge in energy prices.
- The past year has seen rates inside 5 years fall due to monetary policy easing, while longer term rates have risen as fiscal policy has led to continued significant debt issuance.
- The overall interest rate environment has normalized over the past year with the steeper yield curve. The absolute level of interest rates is about .50% below long-term averages since 1984, which seems justified given current level of moderate inflation and economic growth; however, continued debt issuance is a risk.
- The overall level of interest rates seems to be in equilibrium with the economy and near long term averages. Rates may likely remain in a volatile, but relatively narrow range for 2026.

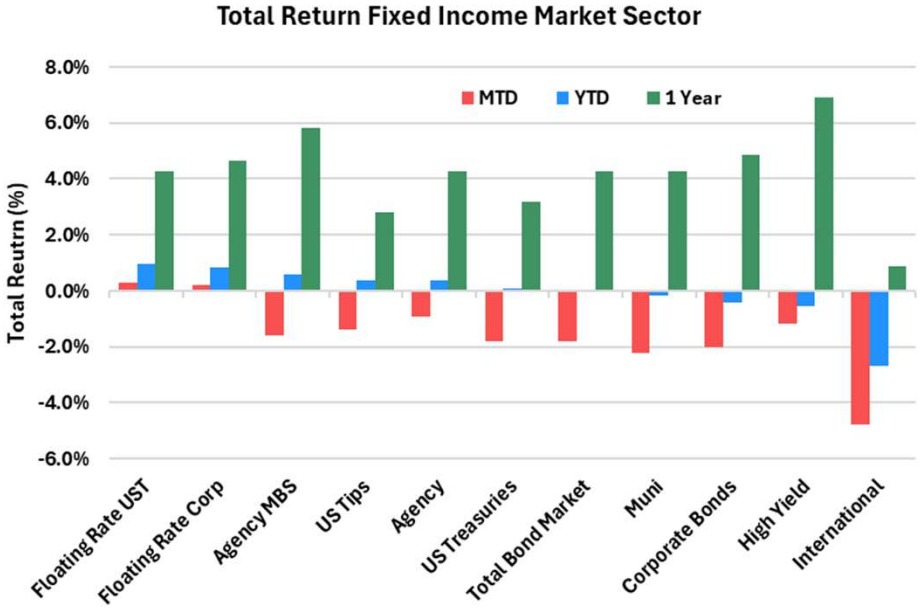




Market Review
Fixed Income Returns

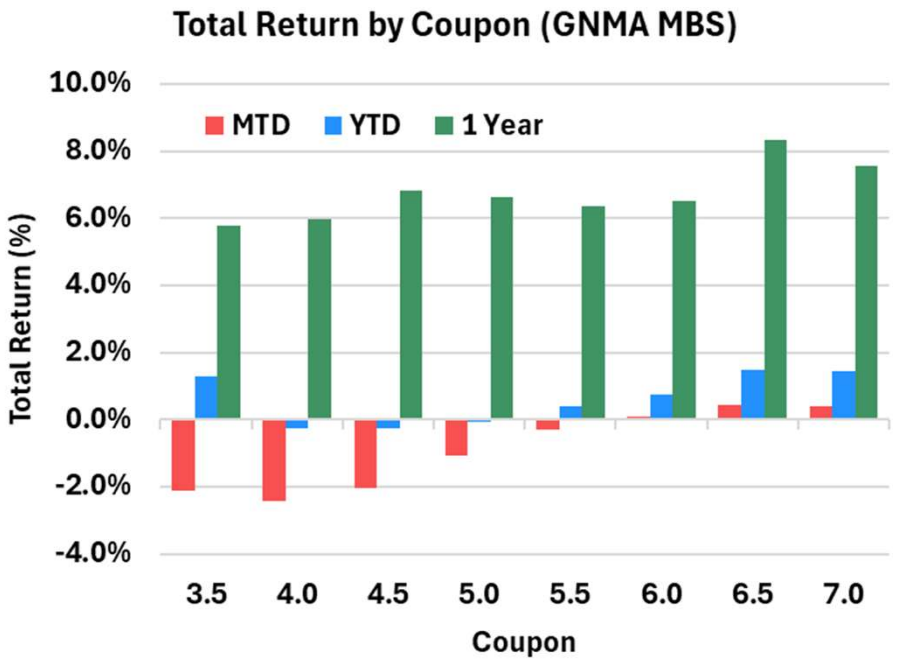
- Total returns across maturities were relatively flat YTD as income offset negative price movement across maturities, a benefit of the current higher rate environment. Over the past year, returns have been positive across maturities except for the longest 30 year as long rates have risen due to debt issuance.
- Due to the rise in rates, floating rate notes performed the best in Q1.
- Mortgage-Backed Securities continued their strong performance, and TIPs got a boost from the rise in oil prices and resulting inflation expectations.
- Municipals, Corporates, and High Yield all underperformed as their spreads widened. Losses in private credit significantly contributed to the widening of corporate spreads. The dollar recovery in Q1 together with rising rates caused International bonds to heavily underperform.
- Vectors strategy has continued to focus on high quality Mortgages and intermediate Treasury maturities and have continued to reinvest into longer term maturities opportunistically out a steeper yield curve.

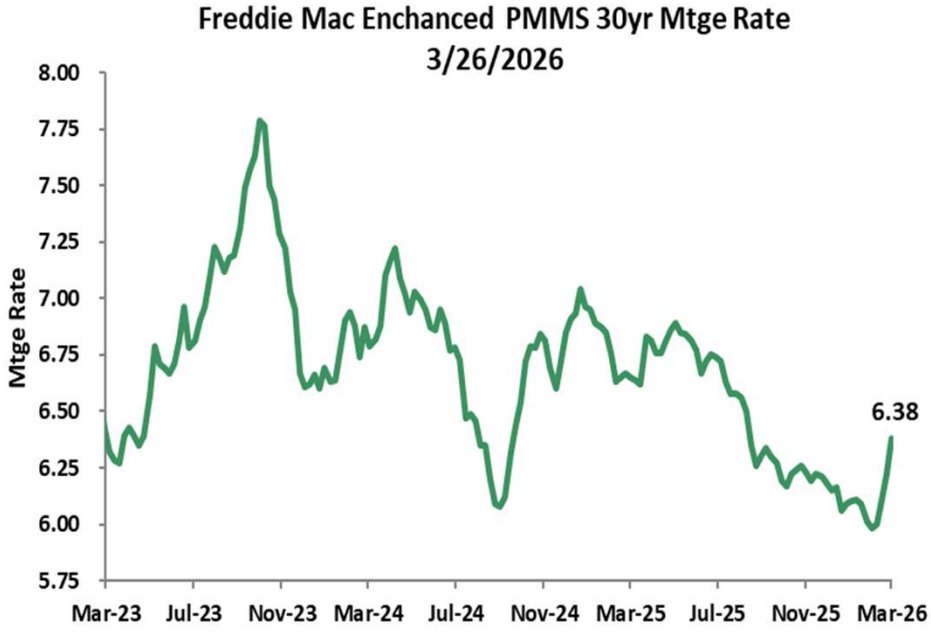




Market Review
Fixed Income Returns

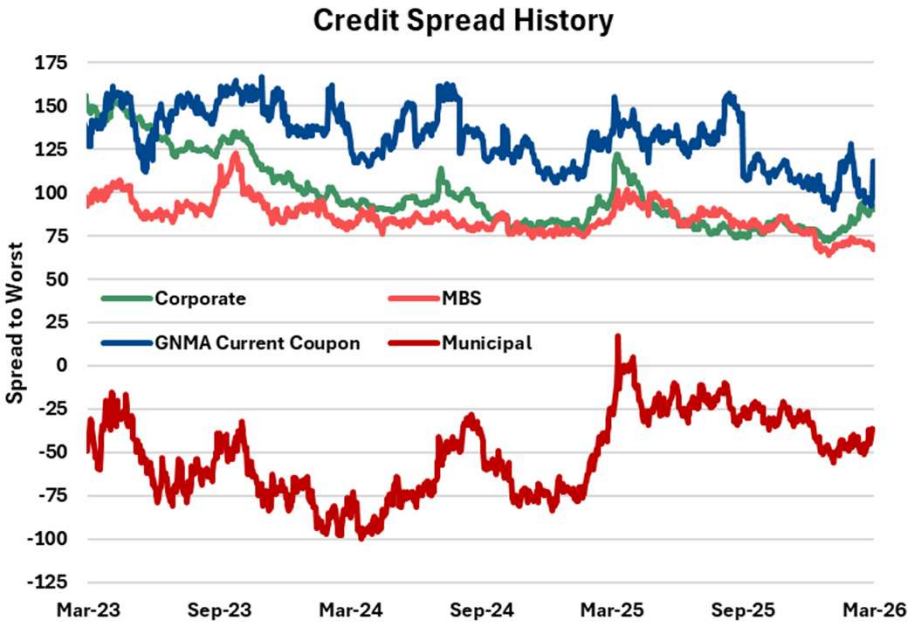
- Mortgages continue to perform well.
- Housing affordability due to high home prices has been an issue stifling the housing market with rates stuck above 6%. Part of the issue is that mortgage spreads in the market remain wide, which makes for good investment that generates high income.
- As spreads narrow and rates dip below 6% amid lower rate volatility, prepayment and housing turnover will incrementally increase prepayment activity on higher coupons.
- Vectors has maintained a focus on 4.5% - 6% coupons while shifted our bias toward lower coupons as a further drop-in rates will increase prepayments on high coupons as seen when rates dipped briefly below 6% in February.
- 5.5% to 6% mortgage rates are historically "normal", 3% is not. We do not expect mortgage rates to dip below 5.5%.

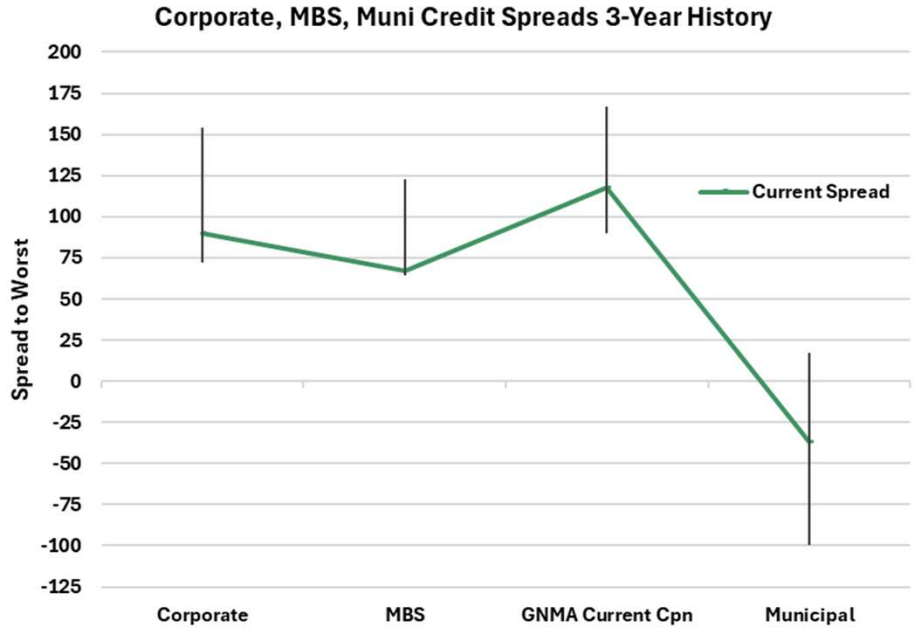




Market Review
Credit Spreads

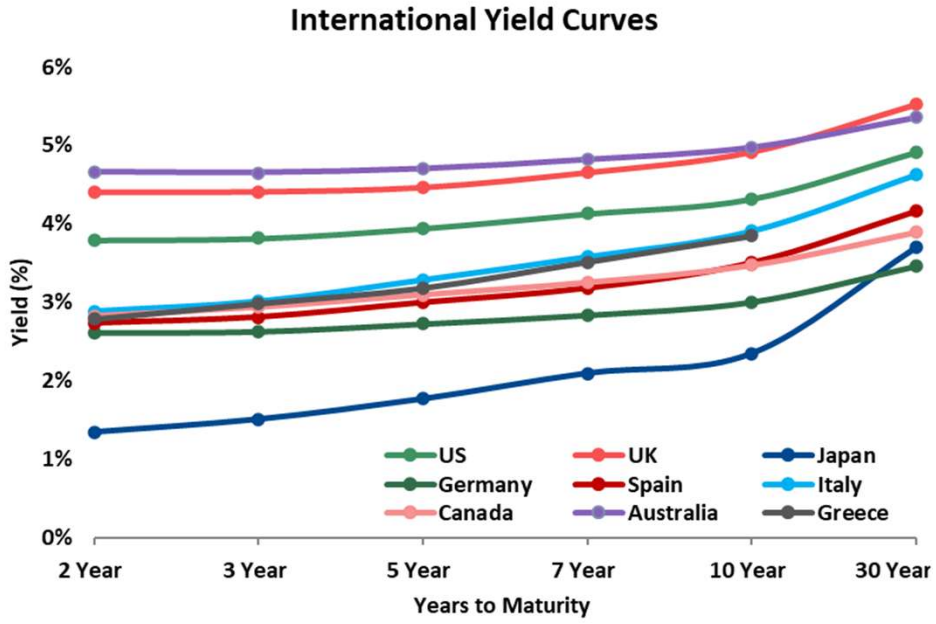
- Q1 saw corporate and municipal spreads widen, while MBS tightened.
- Credit concerns have begun to rise in the private credit market, with some defaults and funds refusing to redeem investors.
- High Yield and Corporate credit spreads have widened in sympathy with private credit concerns as well as increased issuance.
- Current Coupon MBS with no credit risk remain better relative value than corporates, particularly in GNMA's.
- Despite the recent increase in market volatility, overall interest rate volatility should decline with rates staying in a range, bringing further tightening to Mortgage spreads, pulling absolute level of mortgage rates lower, and helping the housing market.
- Municipals begin to offer marginal relative value for higher tax brackets but are in lower quality and less liquid.

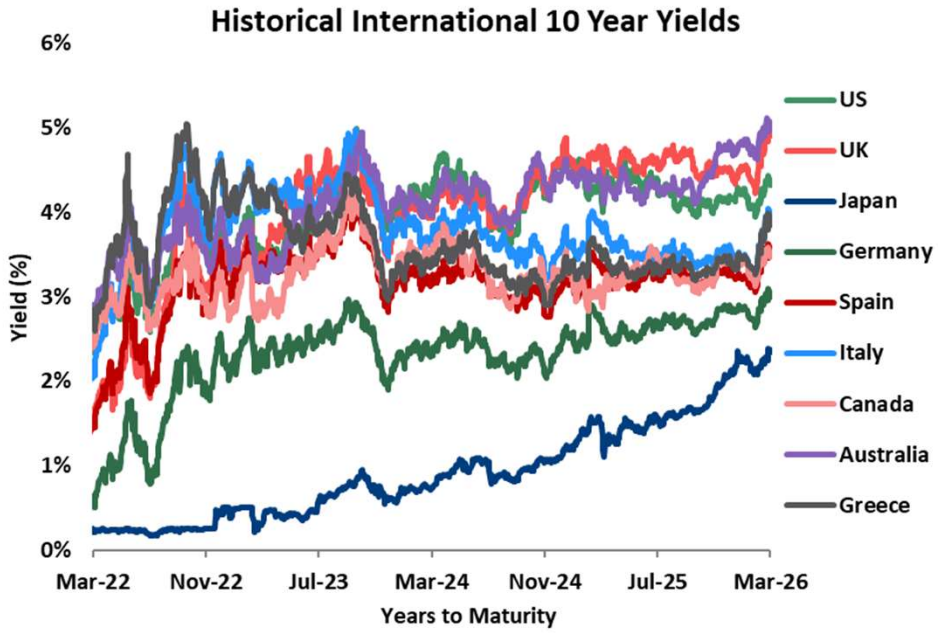




Market Review
International Yield Curve

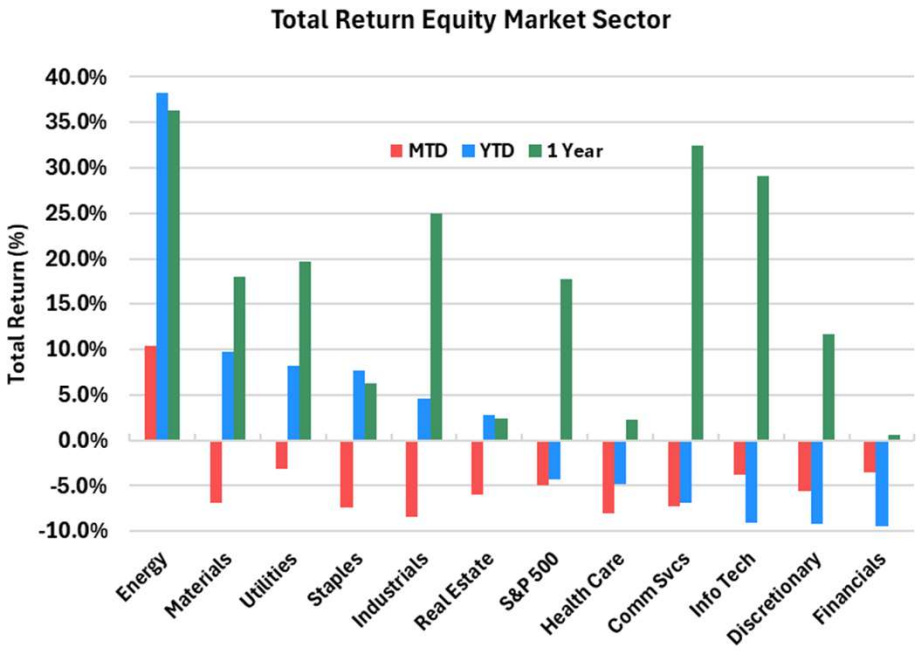
- The shift in expectations for Federal Reserve rate cuts makes a heavier international allocation less attractive as the US Dollar strengthens.
- Long term interest rates rose across most major countries due to significant current and expected debt issuance to fund expanding deficit spending.
- Markets now anticipate less divergence in central bank policy, but some remains.
- Easier US monetary policy should still contrast with slightly tighter policies in other major currency jurisdictions, which will compress the US dollar's yield advantage, but much less so than before.

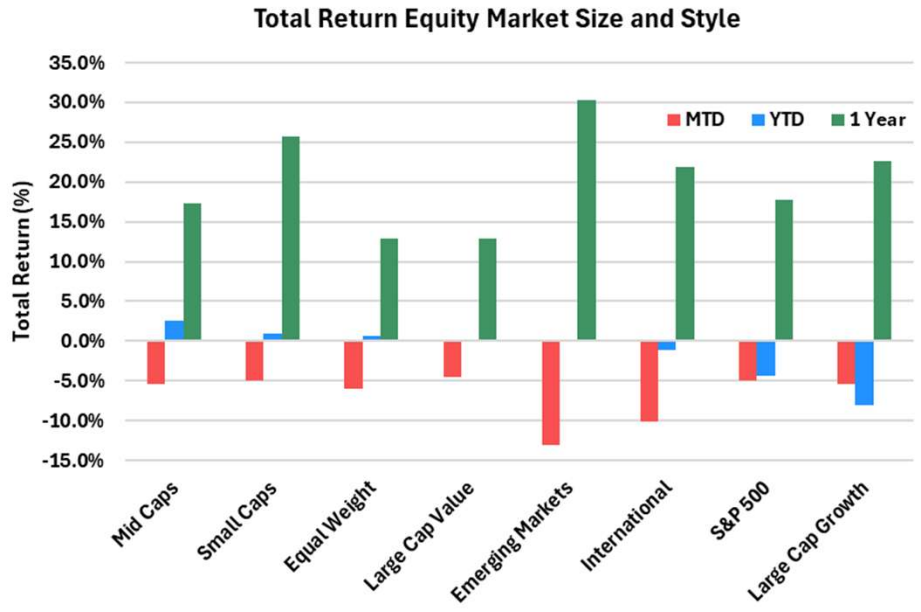




Market Review
Equity Returns

- Energy was the best performing sector for the past month, quarter, and year to date.
- There has been a large rotation within equity sectors, with cash flowing out of Technology, Financials, Discretionary, Communications, and Health Care, and into Energy, Materials, Utilities, Consumer Staples, and Industrials.
- Info Tech led markets for the past year(s) but has pulled back amid stretched valuations and divergence among the "Magnificent 7" and was surpassed by Communication Services and Energy on a trailing 1-year performance.
- The AI momentum was interrupted by growing concerns over excess spending with doubts growing on the return on those investments and how to pay for them.
- The equal weight S&P 500, as well as small and mid caps, and international equities all outperformed the S&P 500 in Q1 due to better relative value. The heavy weighted large cap growth stocks dragged the total index down.





Market Review
Equity Relative Valuation

- The S&P 500 traded at a forward P/E multiple of 20.1x at the end of Q1, a significant pullback from its highs, but still well above its long-term average and median.
- Expectations of 16.9% earnings growth is priced into the market, but those will likely be revised down as higher energy prices may pressure margins with many companies struggling to fully pass through prices.
- The Equal Weight S&P 500 trades at a more reasonable forward P/E multiple of 16.2x, now below its long-term average and median.
- The geopolitical conflicts in the Middle East will continue to be a headwind for equity markets due to the uncertainty and potential hit to earnings that higher energy prices may cause.

SPX Index	Act. Growth		Est. Growth			
Headline EPS	Last 12M	**12.2%**	Next 12M	**16.9%**	8.4%	0.0%
S&P 500 Market Weight	Act. EPS	**$277.7**	Est. EPS	**$324.5**	$301.1	$277.7
Scenario	Last 12M P/E	Price	Next 12M P/E	Price		
(+1 Std Dev)	23.4	$6,506	20.3	$6,598	$6,122	$5,646
3/31/2026	**23.5**	**$6,529**	**20.1**	**$6,529**	$6,057	$5,586
LT Average	19.4	$5,382	17.0	$5,531	$5,132	$4,733
LT Median	18.5	$5,150	16.3	$5,276	$4,895	$4,515
(-1 Std Dev)	15.3	$4,258	13.8	$4,465	$4,142	$3,820

SPW Index	Act. Growth		Est. Growth			
Headline EPS	Last 12M	**8.7%**	Next 12M	**12.0%**	6.0%	0.0%
S&P 500 Equal Weight	Act. EPS	**$427.9**	Est. EPS	**$479.1**	$453.5	$427.9
Scenario	Last 12M P/E	Price	Next 12M P/E	Price		
(+1 Std Dev)	20.4	$8,749	18.7	$8,939	$8,462	$7,984
LT Median	17.5	$7,495	16.5	$7,895	$7,473	$7,051
LT Average	17.7	$7,575	16.5	$7,883	$7,462	$7,040
3/31/2026	**18.2**	**$7,779**	**16.2**	**$7,779**	$7,363	$6,947
(-1 Std Dev)	15.0	$6,401	14.2	$6,827	$6,462	$6,097

Market Review
Equity Relative Valuation

- The S&P MidCap 400 Index traded at a forward P/E multiple of 16.0x at the end of Q1.
- The S&P SmallCap 600 Index traded at a forward P/E multiple of 14.7x.
- Large-cap multiples have remained steady and elevated compared to historical data, while mid and small cap stocks have begun to recover from low multiples in 2025, they remain at an attractive discount to large caps.
- Small-cap and mid-cap stocks continued their momentum in the first quarter of 2026, supported by relatively attractive valuations and an improving economic outlook, despite the geopolitical overhang.

	Act.		Est.			
MID Index	Growth		Growth			
Headline EPS	Last 12M	**-0.1%**	Next 12M	**17.7%**	8.9%	0.0%
S&P 400						
Mid Cap	Act. EPS	**$179.5**	Est. EPS	**$211.3**	$195.4	$179.5
	Last		Next			
Scenario	12M P/E	Price	12M P/E		Price	
(+1 Std Dev)	22.9	$4,116	18.4	$3,894	$3,601	$3,308
LT Median	19.5	$3,493	16.5	$3,486	$3,224	$2,962
LT Average	19.5	$3,497	16.4	$3,464	$3,204	$2,943
3/31/2026	**18.8**	**$3,376**	**16.0**	**$3,376**	$3,122	$2,868
(-1 Std Dev)	16.0	$2,878	14.4	$3,034	$2,806	$2,578
	Act.		Est.			
SML Index	Growth		Growth			
Headline EPS	Last 12M	**7.2%**	Next 12M	**17.4%**	8.7%	0.0%
S&P 600						
Small Cap	Act. EPS	**$87.8**	Est. EPS	**$103.1**	$95.4	$87.8
	Last		Next			
Scenario	12M P/E	Price	12M P/E		Price	
(+1 Std Dev)	29.5	$2,587	19.1	$1,966	$1,820	$1,674
LT Average	21.5	$1,887	16.6	$1,713	$1,586	$1,459
LT Median	20.6	$1,809	16.5	$1,701	$1,574	$1,448
3/31/2026	**17.2**	**$1,513**	**14.7**	**$1,513**	$1,401	$1,289
(-1 Std Dev)	13.5	$1,187	14.2	$1,461	$1,353	$1,244

Market Review
Equity Relative Valuation

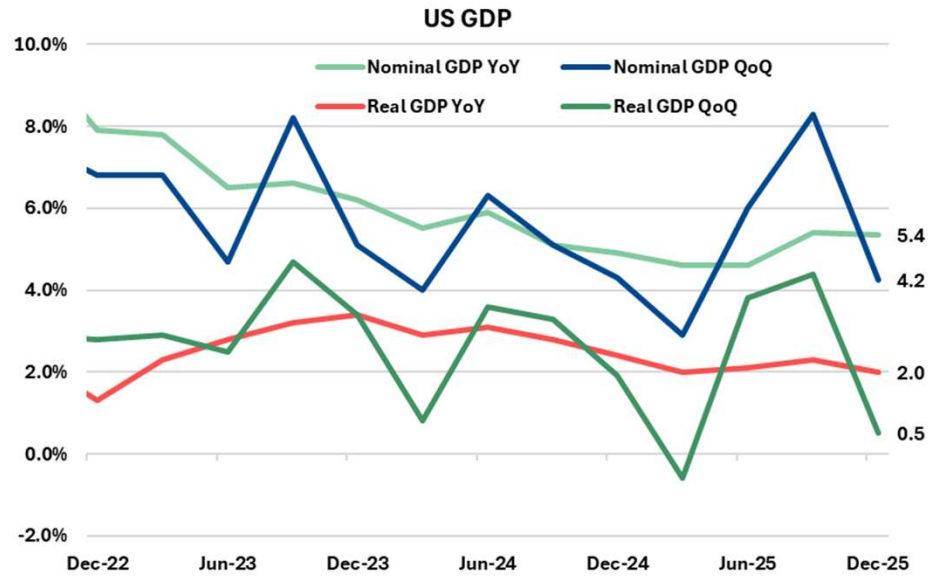
- The FTSE Developed ex US Index traded at a forward P/E multiple of 14.5x at the end of Q1.
- The MSCI Emerging Index traded at a forward P/E multiple of 11.7x.
- These International Indices trade at a deep discount to the favored S&P 500 index and offer a similar growth profile with a potential currency tailwind.

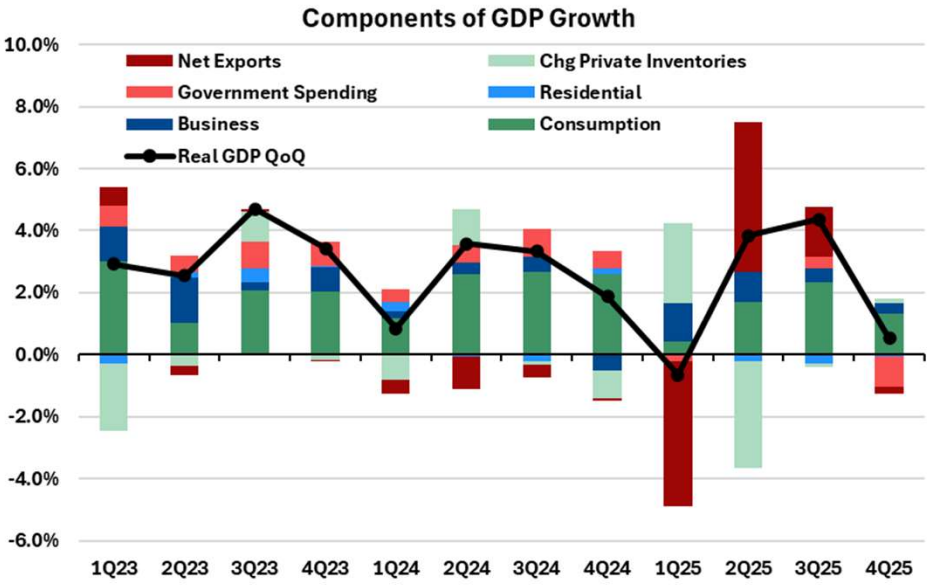
	Act.		Est.			
ACDXUSR Index	Growth		Growth			
Headline EPS	Last 12M	**14.7%**	Next 12M	**18.6%**	9.3%	0.0%
FTSE Developed						
ex US All Cap	Act. EPS	**$153.0**	Est. EPS	**$181.4**	$167.2	$153.0
	Last		Next			
Scenario	12M P/E	Price	12M P/E		Price	
(+1 Std Dev)	19.1	$2,928	16.5	$2,990	$2,756	$2,522
LT Average	16.2	$2,476	14.8	$2,685	$2,475	$2,265
LT Median	15.9	$2,428	14.7	$2,664	$2,455	$2,247
3/31/2026	**17.1**	**$2,623**	**14.5**	**$2,623**	$2,417	$2,212
(-1 Std Dev)	13.2	$2,024	13.1	$2,381	$2,194	$2,008

	Act.		Est.			
NDUEEGF Index	Growth		Growth			
Headline EPS	Last 12M	**14.7%**	Next 12M	**35.0%**	17.5%	0.0%
MSCI Emerging	Act. EPS	**$88.1**	Est. EPS	**$118.9**	$103.5	$88.1
	Last		Next			
Scenario	12M P/E	Price	12M P/E		Price	
(+1 Std Dev)	16.1	$1,420	13.8	$1,636	$1,424	$1,212
LT Median	13.1	$1,154	12.2	$1,449	$1,261	$1,074
LT Average	13.5	$1,193	12.2	$1,449	$1,261	$1,073
3/31/2026	**15.9**	**$1,397**	**11.7**	**$1,397**	$1,216	$1,035
(-1 Std Dev)	11.0	$967	10.6	$1,262	$1,098	$934

Economic Outlook
Economic Activity

- US GDP came in at 2% for 2025, including a lower than expected .5% in the 4th quarter after 2 downward revisions in March and April.
- Nominal GDP was a solid 5.4% in 2025.
- The US economy is projected to grow by 2.4% in 2026, with continued investment in infrastructure, energy, manufacturing, and the data center build out.
- AI-related capital investment has already been committed by mega cap hyper scalers and will continue to support growth in investment, while reshoring of business should support continued growth and investment in manufacturing and construction.
- Consumer spending may get a boost from tax cuts; however, may moderate 2026 amid a cooling labor market, slowing wage growth, and the resumption of federal student loan payments.
- Government spending's contribution to GDP growth was curbed in 2025 due to federal government layoffs and temporary shutdowns, reducing its impact from 0.6% in 2024 to 0.3% in 2025, including a decline in Q4.





Economic Outlook

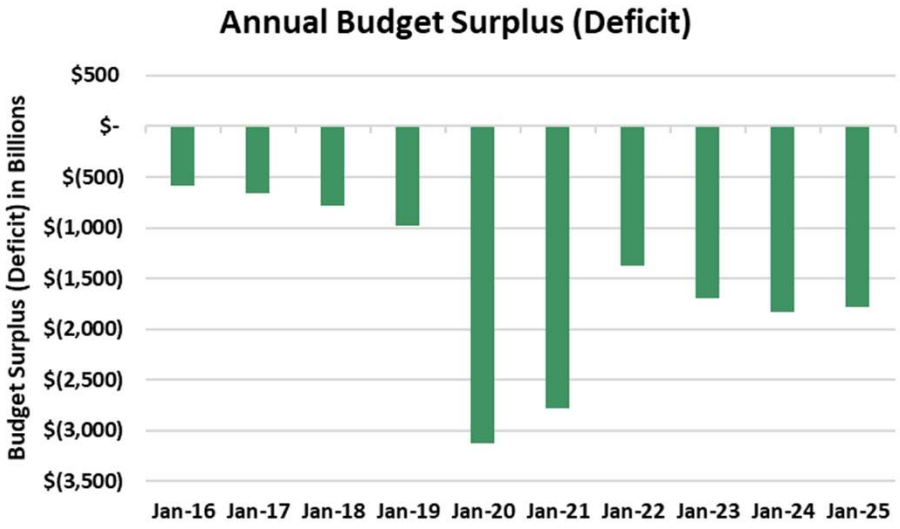
International Economic Activity

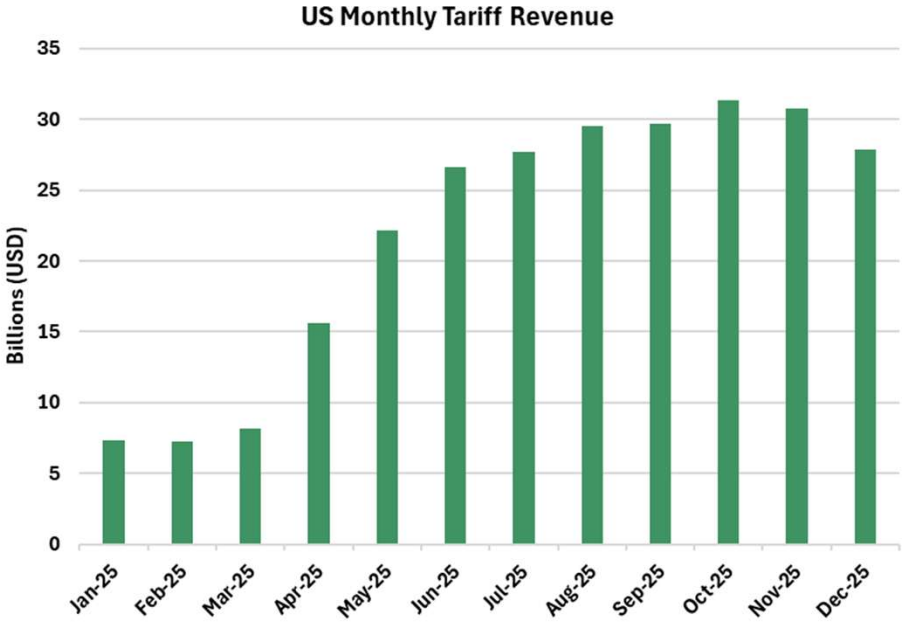
- Central bank rates have fallen around the world over the past year, except in Japan and Brazil, which raised rates, and Australia, which stayed the same
- Global GDP seems to have stabilized at a low rate, while improvement in year over year inflation seems to have stalled, and even up ticked, but still at levels closer to Central bank targets.
- Global trade has been upended with considerable impacts to regional GDP measures and will likely continue to do so for the balance of the year.

Country	Central Bank Rate	Central Bank Rate 1 Year Ago	2025 Debt to GDP %	2024 Debt to GDP %	Real GDP YoY % Change	Real GDP YoY 1 Year Ago	1 Year GDP Trend	Inflation	Inflation 1 Year Ago	Inflation Trend
US	3.63%	4.38%	125.0%	122.3%	2.0%	2.4%	-0.4%	3.3%	2.4%	0.9%
Eurozone	2.15%	2.65%			1.2%	1.3%	-0.1%	2.5%	2.2%	0.3%
Germany			64.4%	63.5%	0.4%	-0.2%	0.6%	2.7%	2.2%	0.5%
France			116.5%	113.1%	1.2%	0.7%	0.5%	1.7%	0.8%	0.9%
Italy			136.8%	135.3%	0.8%	0.5%	0.3%	1.7%	1.9%	-0.2%
UK	3.75%	4.50%	103.4%	101.2%	1.0%	2.0%	-1.0%	3.0%	2.8%	0.2%
Canada	2.25%	2.75%	113.9%	111.3%	0.6%	2.9%	-2.3%	1.8%	2.6%	-0.8%
Mexico	6.75%	9.00%	58.9%	58.3%	1.8%	0.3%	1.5%	4.6%	3.8%	0.8%
Australia	4.10%	4.10%	51.0%	50.7%	2.6%	1.2%	1.4%	2.6%	1.2%	1.4%
Japan	0.75%	0.50%	229.6%	236.1%	0.4%	0.6%	-0.2%	1.3%	3.7%	-2.4%
China	3.00%	3.10%	96.3%	88.3%	4.5%	5.4%	-0.9%	1.0%	-0.1%	1.1%
Russia	15.50%	21.00%	23.1%	20.3%	1.0%	5.2%	-4.2%	5.9%	10.3%	-4.5%
Brazil	14.75%	14.25%	91.4%	87.3%	1.8%	3.6%	-1.7%	4.1%	5.5%	-1.3%

Economic Outlook
Fiscal Policy

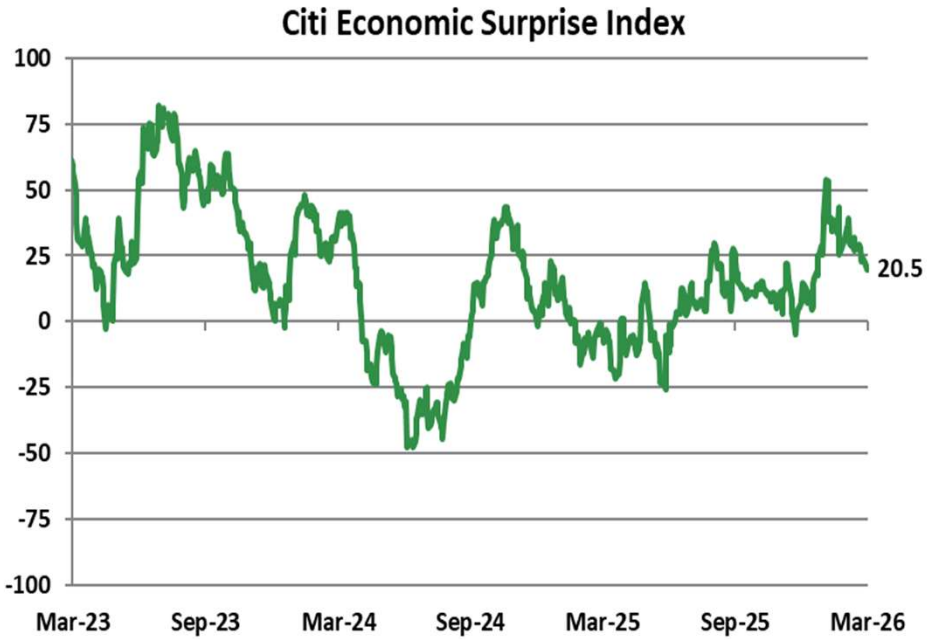
- The US budget deficit has stabilized and continued to work itself lower after a period of massive and excessive borrowing.
- The One Big Beautiful Bill curbed spending growth, which was helpful to the budget in 2025, but will also bring in tax cuts that will reduce tax revenue.
- Trade policy has generated a significant increase in Tariff revenue, up to $30 Billion monthly, that has helped the budget deficit, however some of that will have to be returned due to Supreme Court ruling.
- Tariff income will be volatile as trade deals continue to be worked out, and global flows continue to shift, and all will have a significant impact on overall economic activity.
- The overall budget deficit is still a problem as interest income continues to be a significant component of government spending at more than $1 Trillion per year.
- The defense budget will be expanding.

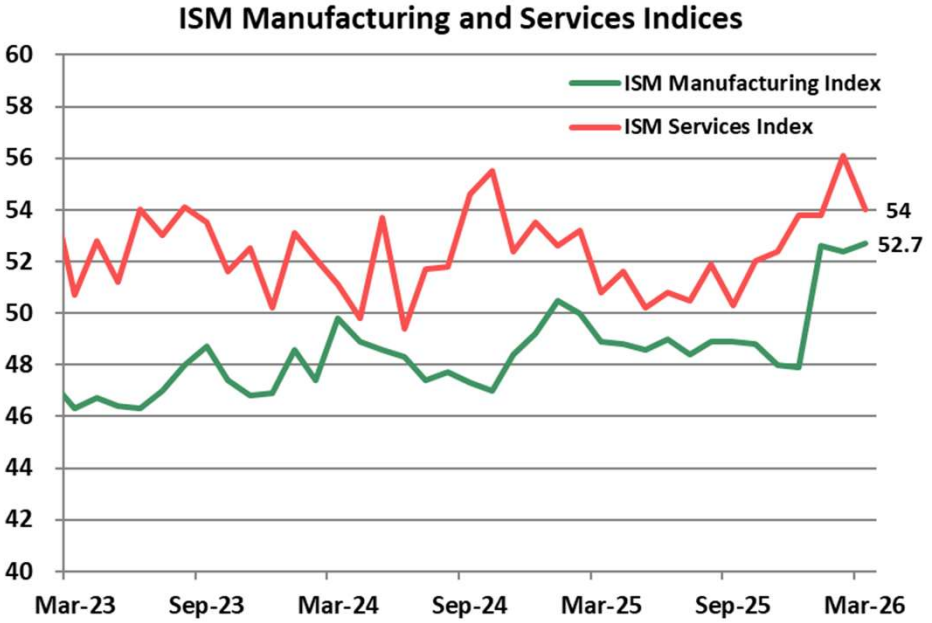




Economic Outlook
Economic Activity

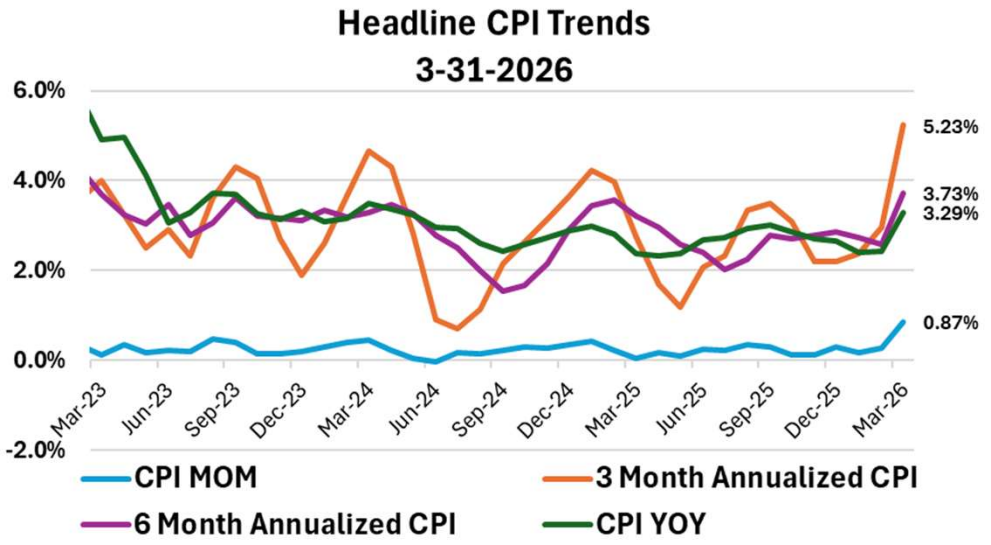
- The Citi Surprise Index started the year rising rapidly to over 50 and has since retreated to around 20. This may continue lower as higher energy prices may cause short-term upticks to inflation and potentially lower growth.
- Better than expected ISM and inflation had been supporting the Surprise index while the overall employment environment has been mixed. Market economic expectations have fallen due to the war with Iran and actual results relative to those expectations may have strong influences on the stock and bond markets.
- ISM Services continues to show strength, while Manufacturing has also seen a significant uptick to above 50, an expansionary indicator.
- Expectations are that reshoring and buildout of manufacturing through trade deals, and the build out of data centers and required energy infrastructure will boost the manufacturing, construction, and production components of the economy.

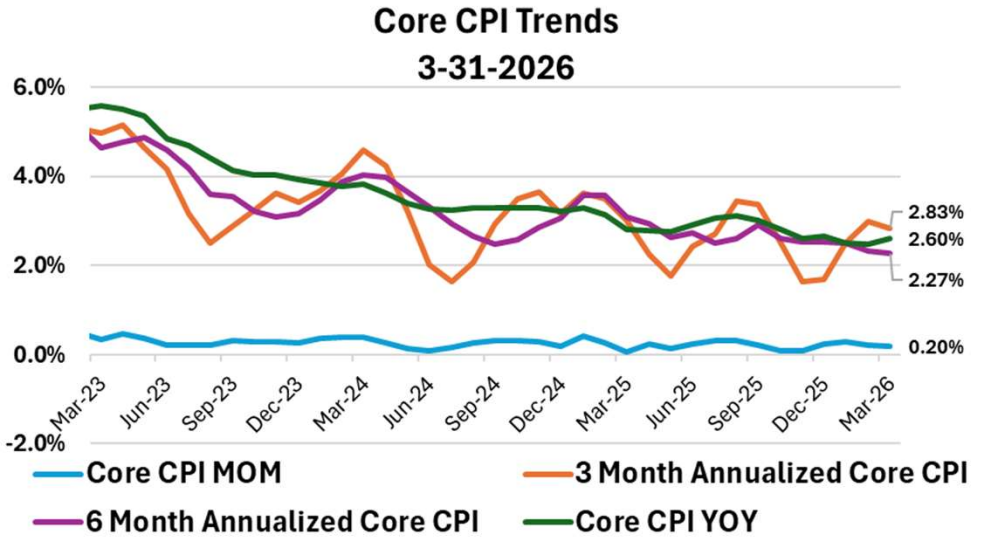




Economic Outlook
Inflation

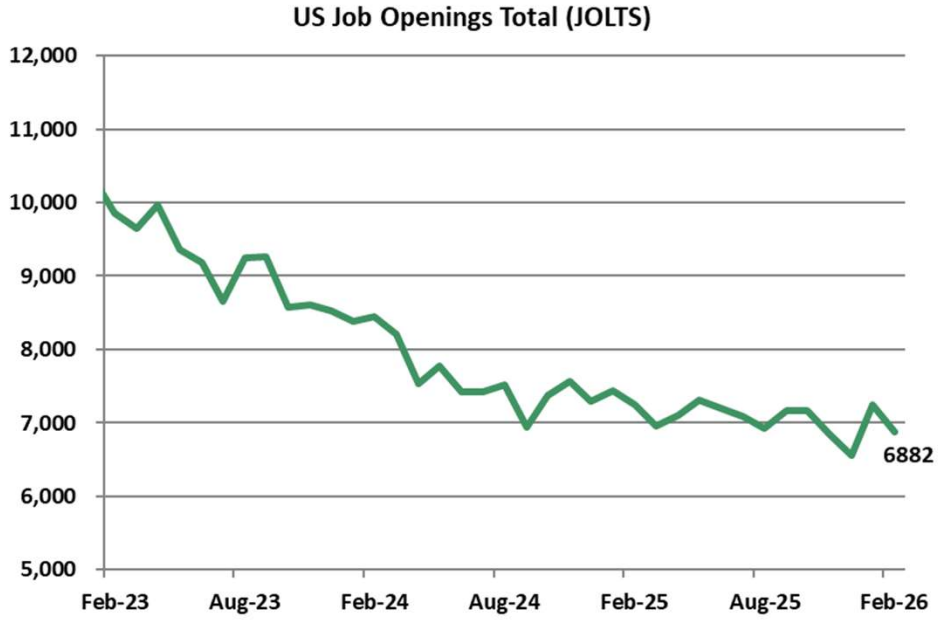
- Headline CPI rose 3.3% year-over-year in March, up from 2.7% in December, with a monthly increase of 0.9% due to the spike in energy prices.
- Core CPI continued to moderate at 2.6% year-over-year in March, down from 2.7% in December, with a monthly rise of 0.2%. The 6 month annualized rate declined to 2.27%.
- The highly sensitive portions of the report were very mixed with Energy prices seeing a 10.9% pop in March, while Food printed a slightly deflationary price change at -0.01%.
- Services CPI excluding energy services increased marginally to 3.0% year-over-year, influenced by increases to shelter, transportation, and utility services.
- These hot energy prices were largely expected in the report and have worked to increase inflation expectations. The combination of these forces has decreased the market implied expectations of Future Fed Easing.

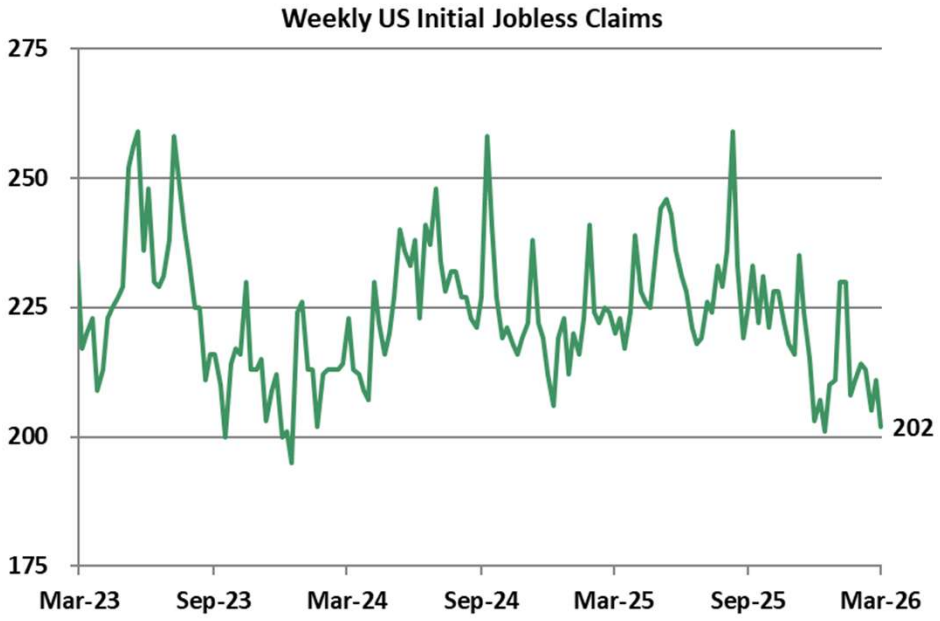




Economic Outlook
Labor Market

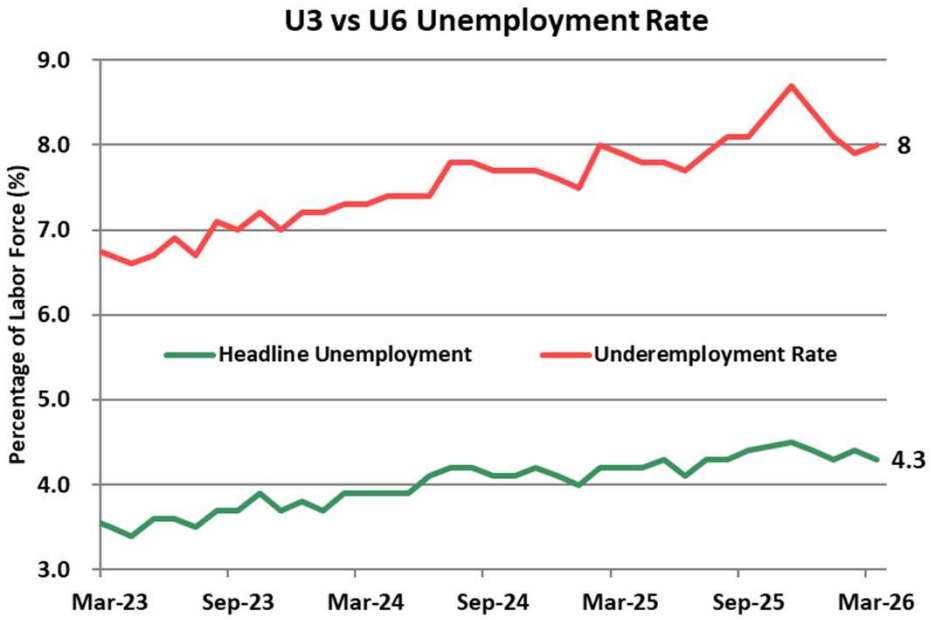
- Job openings fell to 6.882 million in February, keeping the downtrend over the past three years intact.
- The job opening rate ticked up from 4.0% to 4.2% YTD. Notably, trade and transport, manufacturing, and other services all posted 3-month rolling averages that exceeded their 12-month benchmarks
- The job openings-to-unemployed ratio fell to 0.90, indicating continued normalization of labor demand.
- Initial claims ranged from 213,000 to 203,000 throughout Q1, with the lowest reading in the week ended January 10.
- The labor market has moderated significantly with a low level of layoffs and a low level of new job creations. We see the labor market as one transitioning from Government to manufacturing and construction, while health care and services remain solid.

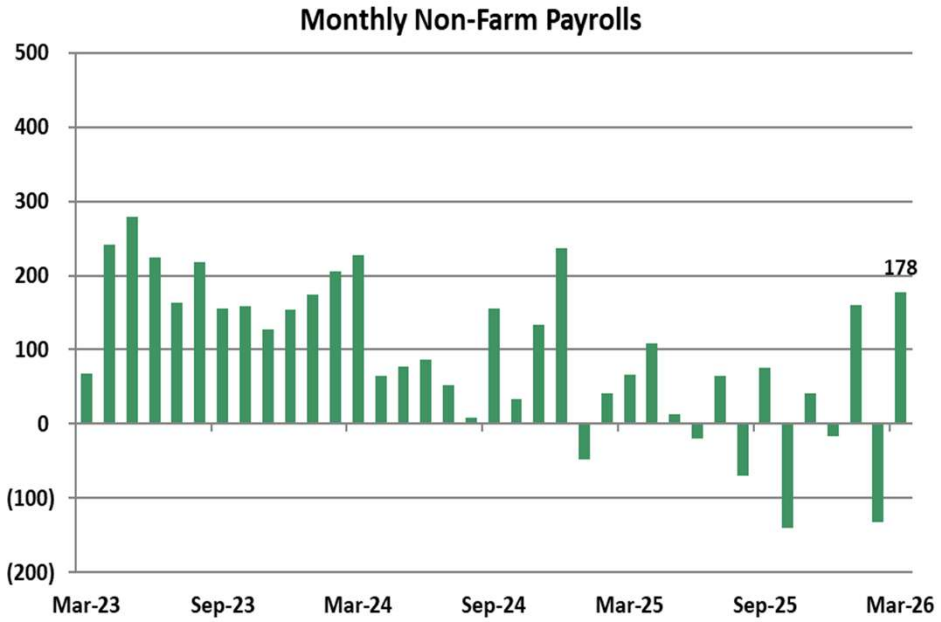




Economic Outlook
Labor Market

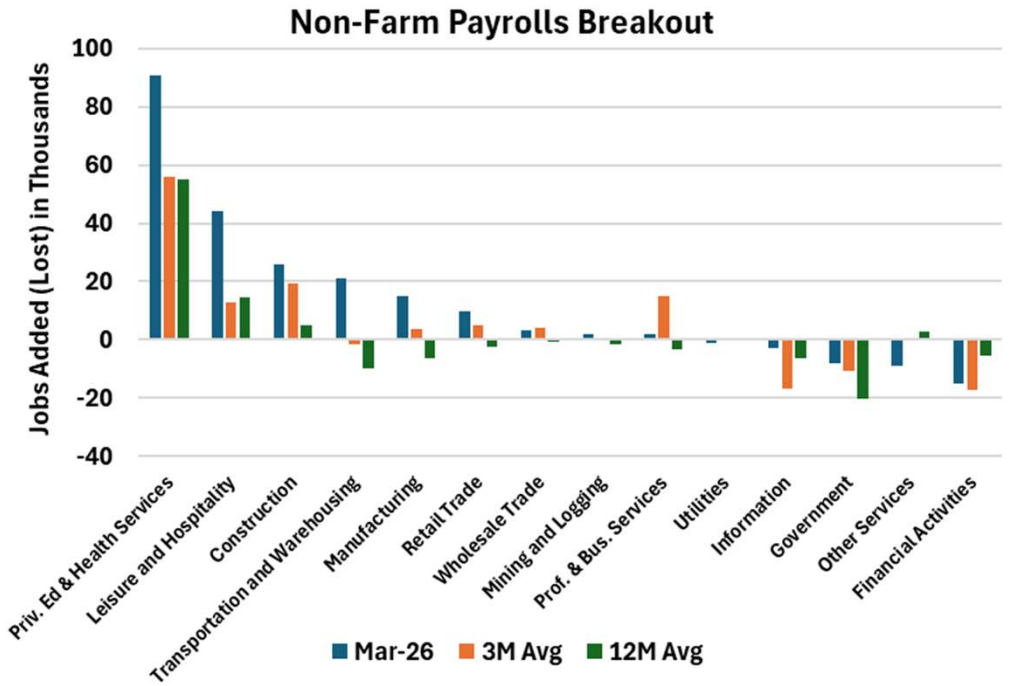
- The labor participation rate has declined to five-year lows due to demographic trends such as an aging population and immigration.
- Monthly Payrolls YTD have been choppy with private education and health services continuing to prop up the headline print, while declines in white collar sectors such as information and finance continue to weigh on overall numbers.
- Government and corporate layoff announcements have begun to flow through the data, totaling 242k jobs lost in the last 12 months.
- We expect that the employment picture will begin to improve as job creation grows in manufacturing and construction amid the next phase of development and buildout of infrastructure, data center, manufacturing reshoring, and energy production.





Economic Outlook
Labor Market

- The trend in non-farm payrolls (NFP) data is improving as March printed 178k new jobs, the highest reading since December 2024 and continued improvement from the 12M and 3M rolling averages.
- The infrastructure and manufacturing expansion is shifting the labor landscape. Goods- producing jobs recently hit a 3M average of 23k, marking a two-year high and signaling a pivot to industrial production.
- In March, the manufacturing sector posted its second consecutive positive contribution in the last 14 months. The sector is currently experiencing a massive surge in demand as unfilled manufacturing orders climb rapidly and backlogs grow.

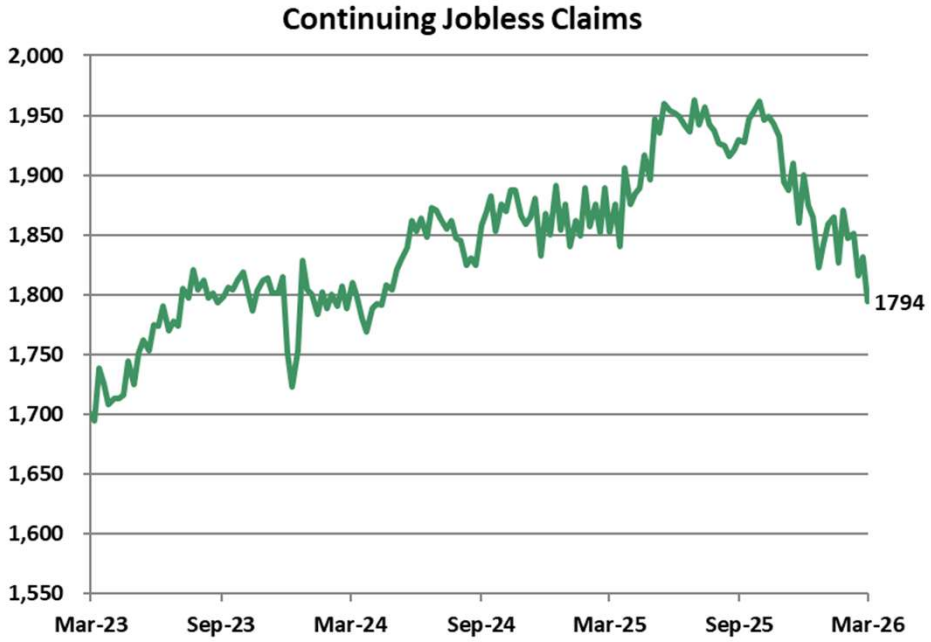


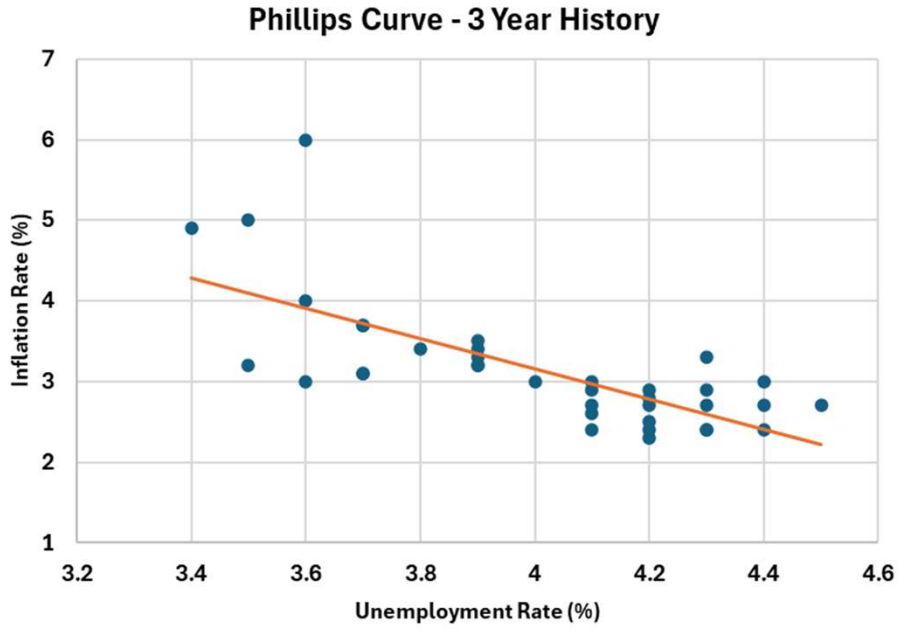
NFP Data	Mar 2026	3M Avg	12M Avg
Total Nonfarm	178	68	22
Total Private	186	79	42
Goods-Producing	43	23	(3)
Mining and Logging	2	(0)	(1)
Construction	26	19	5
Manufacturing	15	4	(6)
Service-Providing	143	56	45
Wholesale Trade	3	4	(1)
Retail Trade	10	5	(2)
Transportation and Warehousing	21	(2)	(10)
Utilities	(1)	0	0
Information	(3)	(17)	(6)
Financial Activities	(15)	(17)	(6)
Professional and Business Services	2	15	(3)
Private Education and Health Services	91	56	55
Leisure and Hospitality	44	13	15
Other Services	(9)	(0)	3
Government	(8)	(11)	(20)

Goods Producing Data	Mar 2026	3M Avg	12M Avg
Mining and Logging	2	(0)	(1)
Logging	1	0	(0)
Mining, Quarrying, and Oil and Gas Extraction	1	(0)	(1)
Construction	26	19	5
Construction of Buildings	8	7	1
Residential Building Construction	3	2	(0)
Nonresidential Building Construction	5	5	1
Heavy and Civil Engineering Construction	4	3	2
Specialty Trade Contractors	15	10	2
Residential Specialty Trade Contractors	11	2	(2)
Nonresidential Specialty Trade Contractors	4	7	4
Manufacturing	15	4	(6)
Durable Goods	15	7	(3)
Nondurable Goods	0	(4)	(3)

Economic Outlook
Labor Market

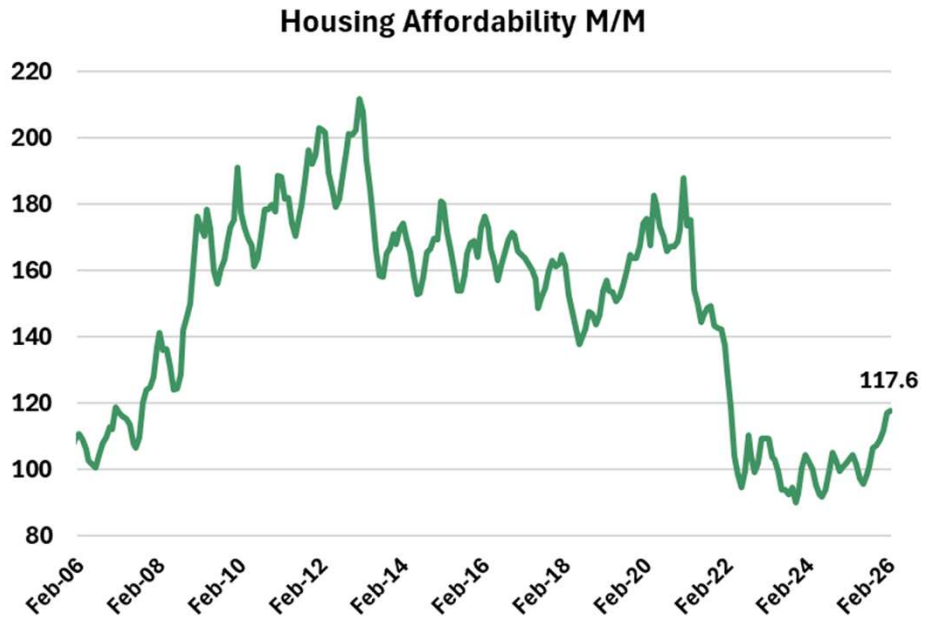
- The decrease in continuing claims and increase in marginally attached workers suggests individuals may be getting removed from their unemployment benefits as they expire.
- Unemployment rate has held steadier than data suggests through a declining labor force, signifying that once we are through these energy shocks, we could see downward pressure on inflation.
- The Phillips Curve seems to be intact over the recent few years as we move on from the high demand for labor period.
- Average Hourly earnings fell to 3.4% in the past year, down from the previous years growth, but still above inflation, which would be net stimulative to the economy.
- Again, we expect that the employment picture will begin to improve as job openings and hiring will increase with the next stage of data center buildout, manufacturing reshoring, and growth in energy production start to take place, which may incrementally increase inflationary pressures again.

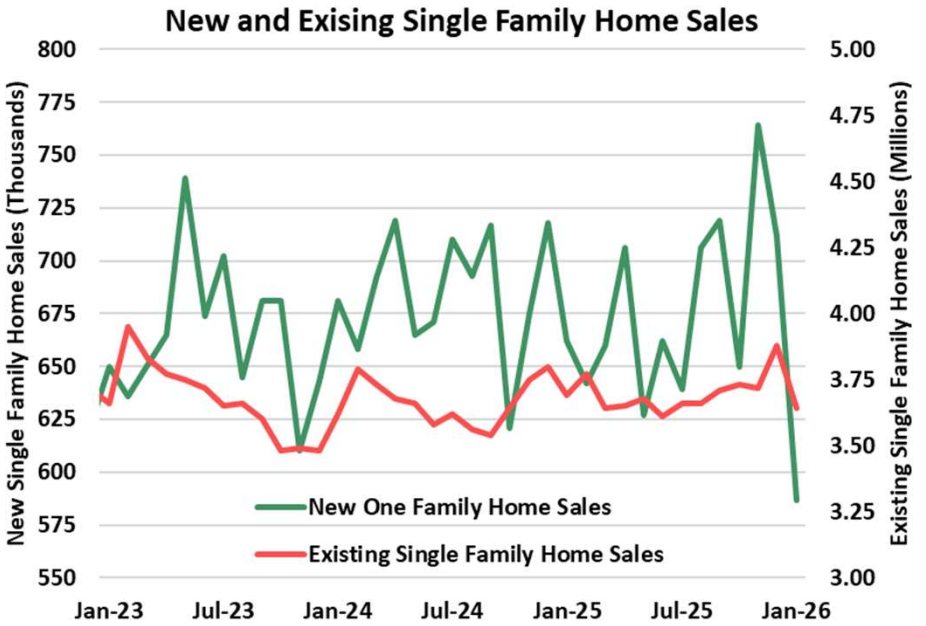




Economic Outlook
Housing

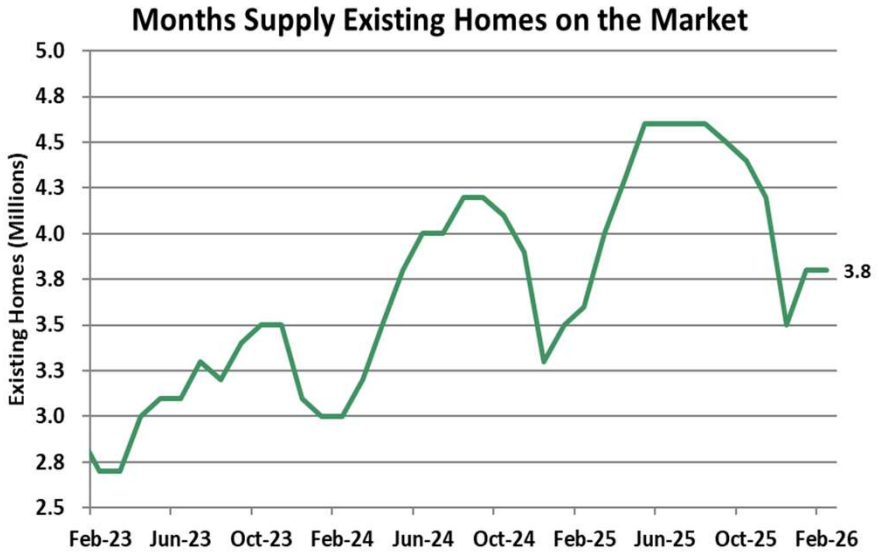
- The housing affordability index has recently ticked up after a few years at depressed levels due to recent decline in home prices and mortgage rates leading to increased home sales.
- Mortgage rates continued lower, aided by lower overall market interest rates, and tightening mortgage spreads in the bond market, until they rose suddenly in March.
- New single family home sales have fallen sharply from recent highs as the mortgage rate has rebounded higher. Home prices remain mixed, with the overall picture showing a continued increase at a slower pace.
- Existing home sales did not see the same degree of rise, as new homes are cheaper with incentives such as builder discounts and rate buydowns, and many existing homeowners do not want to give up their lower-than-market rate to move.

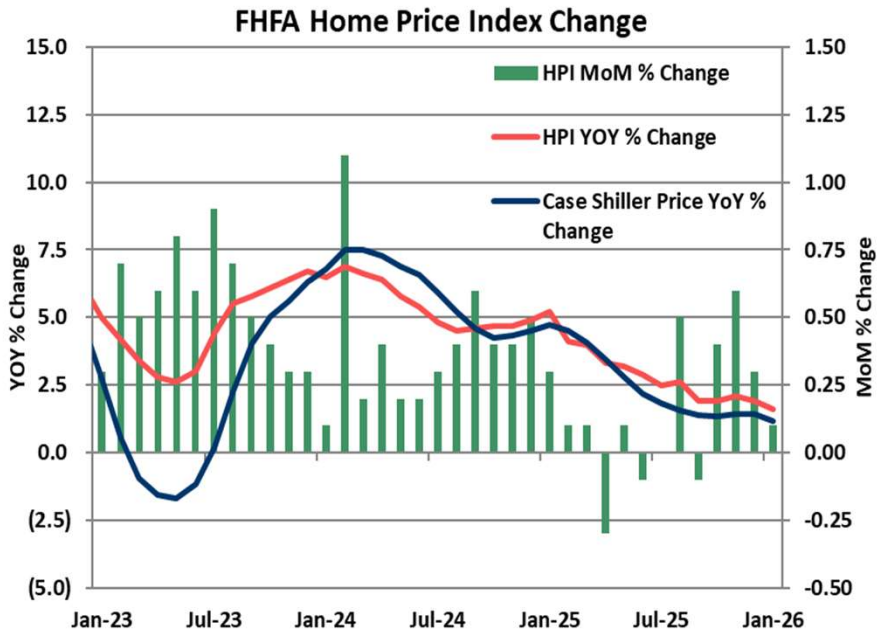




Economic Outlook
Housing

- The housing market is trying to find equilibrium amid price changes, interest rates, and available housing inventory.
- The increase in affordability and sales has taken some inventory off the market.
- Home prices have also been volatile as an overall declining/stabilizing level and have been increasingly divergent across the country.
- If 30-Year Mortgage rates continue to fall, it is very likely that refinances will continue, raising prepayments on higher interest rate mortgages.
- It is to be seen if lower rates can further spur increasing home sales without a further fall in prices.





Economic Outlook
Oil Prices & The Dollar

- WTI crude oil prices surged to over $100 per barrel in Q1 as geopolitical conflicts unfolded in the Middle East. Oil prices were expected to face downward pressure throughout 2026 due to abundant supply from the US and OPEC+ and modest demand growth but will remain elevated until the Strait of Hormuz is fully operational again and geopolitical tensions ease.
- Natural Gas prices stabilized following their supply shock in January.
- Prices were driven by extreme weather patterns that disrupted production and distribution and have not been impacted like oil in the new geopolitical conflicts.
- The US Dollar regained some value as expectations for Federal Reserve rate cuts were eliminated for 2026.