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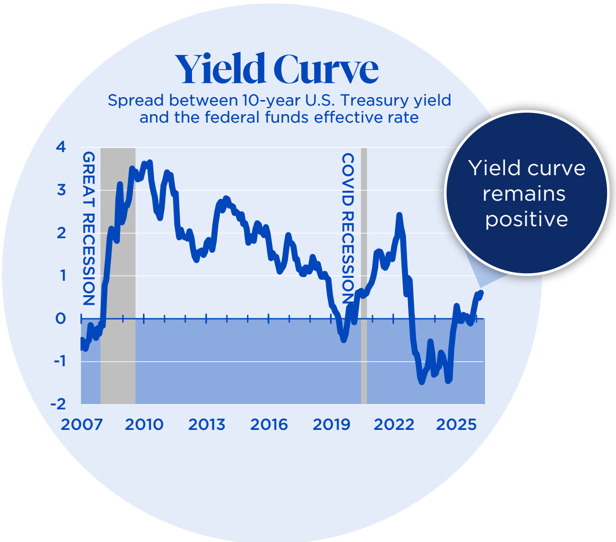
Economic & Financial Markets Monthly Review | April 2026

Slower growth expected as war impacts linger

Economic Overview

Where is the economy now?

Sharply higher energy prices hang over the near-term outlook and are expected to weigh on spending and growth in the second quarter. But the odds of a deeper slowdown for the economy remain low with tax incentives likely to support hiring and activity in the second half of 2026. Interest rates have shifted higher with the Fed on track to hold policy steady until at least mid-year, but we still see modest rate cuts later in the year.



Softer near-term economic growth

While growth should be solid in the first quarter, headwinds from higher energy costs will slow activity in the second quarter with sub-1.0 percent GDP growth expected. Interest rates have also increased, adding to costs for consumers and businesses, while the Fed is likely to remain on pause until at least mid-year.

Higher yields across the curve

Financial markets are now unsure if the Fed will lower rates in 2026 in response to a much higher near-term inflation outlook. Short and long-term interest rates have shot higher over the past month as investors reset expectations for the rest of the year. The spread between the 2- and 10-year yields held steady even as rates have climbed higher.

Spike in rates hurts housing

The average 30-year fixed mortgage rate jumped above 6.5 percent in late March, mirroring the increase in long-term interest rates. The mortgage spread to the 10-year Treasury rate has also widened in recent weeks, reflecting a risk off move by banks. The combined push up in rates unwound the steady decline in mortgage rates from over the past six months.

What does this mean for the economic outlook?

Sluggish near-term growth could still turn into a more positive stance over the second half of 2026 if the shipping traffic normalizes in the Strait of Hormuz. But for now, higher energy costs, elevated uncertainty, and the hit to confidence is offsetting much of the boost from fiscal stimulus efforts.

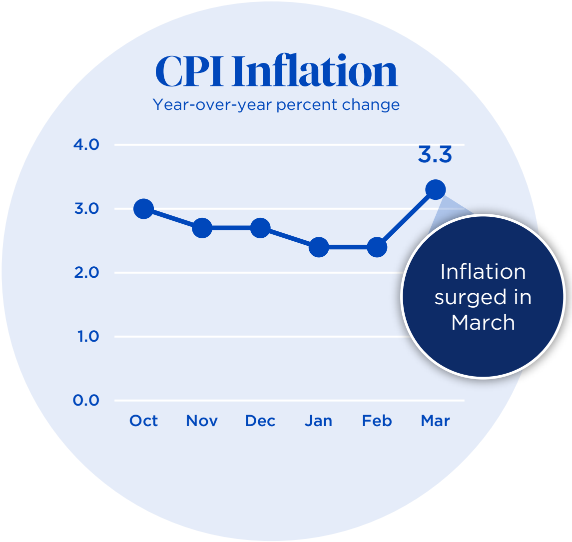
We still expect the Fed to pursue modest rate cuts totaling 0.5 percent in the second half of 2026, although recent events add some uncertainty around Fed actions. The yield curve is likely to be little changed in the near term but should steepen later in 2026 as the Fed resumes its easing cycle.

Higher mortgage rates should weigh on home sales and housing starts this spring as affordability concerns are renewed for potential home buyers. With sellers already outpacing buyers within many local markets, this should place further downward pressure on home prices across the country.

Economic Review

Resilient economy faces new inflation shock

Headline inflation surged in March as the Iranian conflict and closure of the Strait of Hormuz pushed global energy prices higher. At the same time, the broader economy remains resilient, with job growth rebounding and the unemployment rate edging lower even as firms face higher costs and uncertainty. Air travel has also held up despite policy-driven disruptions, with TSA wait times up but passenger volumes near recent highs as discretionary spending continues.



Energy shock drives inflation spike

Consumer prices rose 0.9 percent in March as the Iranian conflict and effective closure of the Strait of Hormuz sent gasoline up about 21 percent, resulting in the year-on-year rate for CPI surging to 3.3 percent. Core CPI increased a modest 0.2 percent with softer goods prices partly offset by firmer travel and shelter prices.

Labor market remains resilient

March's employment report showcased a resilient labor market, with nonfarm payrolls rebounding by 178,000 and private payrolls rising 186,000. March's gain lifted the three-month average to a solid 70,000 for total employment and 80,000 for the private sector while the jobless rate edged down to 4.3 percent.

Travel demand withstands TSA delays

Following the lapse in Department of Homeland Security funding, TSA officers were required to work without pay and staffing strains led to sharply longer security wait times at major airports this spring, effectively raising the time cost of air travel for many passengers.

What does this mean for the economic outlook?

Headline inflation should remain elevated in April with another energy led gain and a temporary lift from rent normalization after shutdown distortions. Thereafter, if bottlenecks ease along the Strait of Hormuz, broader inflation should resume its downward trend later this year.

Looking ahead, higher energy and input costs add greater economic uncertainty which could leave businesses more cautious on hiring. But we do not expect a material softening in labor demand or a notable pickup in layoffs given still-low jobless claims.

TSA checkpoint data indicate that air travel demand has been resilient. Passenger air travel throughout ran near a six-month high in early April and modestly above last year's spring break levels. The test going forward will be when higher jet fuel prices raise airline fares.

Financial Market Review

Investors wrestle with fast-moving Iran headlines

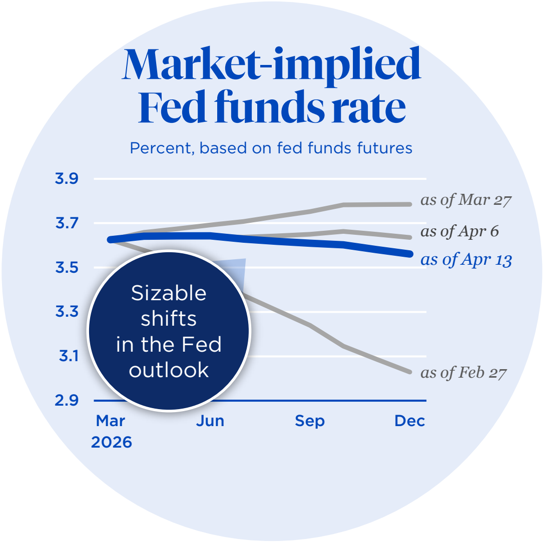
Stocks are lower, interest rates are higher and volatility remains elevated as the Iran conflict keeps investors in a guarded stance. The overall mood is understandably cautious as a durable peaceful resolution is not yet reached. We continue to anticipate relatively limited near-term economic impacts from the conflict and foresee higher equities and a steeper Treasury curve later this year once the Fed resumes rate cuts. However, uncertainty runs high.

Equities give up some ground

The Iranian conflict and the restriction of shipping traffic in the Strait of Hormuz spurred a selloff and increased volatility in the benchmark equity indices. Still, the S&P 500 Index is only marginally off its all-time high and credit spreads remain tight. Risk assets will continue to take their cues from changes in oil prices and the conflict.

Inflation fears push interest rates higher

Long-term Treasury yields are higher on expectations of higher inflation and less Fed easing than previously anticipated. Short-end yields have also increased on expectations of diminished Fed rate cuts. The spread between the 2- and 10-year has held generally steady.



Investors revert to a looser Fed view

Investor expectations for Fed policy have shifted quite meaningfully since the start of the conflict, from anticipating lower interest rates, to a policy hold and back to easing. This has occurred as financial conditions in aggregate are currently much less accommodative compared to the start of the conflict.

What does this mean for the economic outlook?

It will take time for the war's ripple effects to fully work their way through corporate supply chains and customer demand. Downside risks persist but it's encouraging that corporations generally maintain positive outlooks. Last year's fiscal stimulus package should mitigate conflict-driven headwinds for U.S. corporations.

Treasury yields will continue to trade in tandem with oil prices – higher oil prices drive up yields and vice-versa. We continue to anticipate 50 basis points of total Fed easing in 2026, with some risk it may be pushed back. The prospect and extent of Fed easing will depend in large part on the future course of inflation.

Expectations have moved around as investors debate whether Fed policymakers will prioritize the inflation or employment part of their dual mandate. The minutes of the March policy meeting suggest the Fed retains an easing bias, supporting our forecast for looser policy by year end assuming inflation eases later this year.

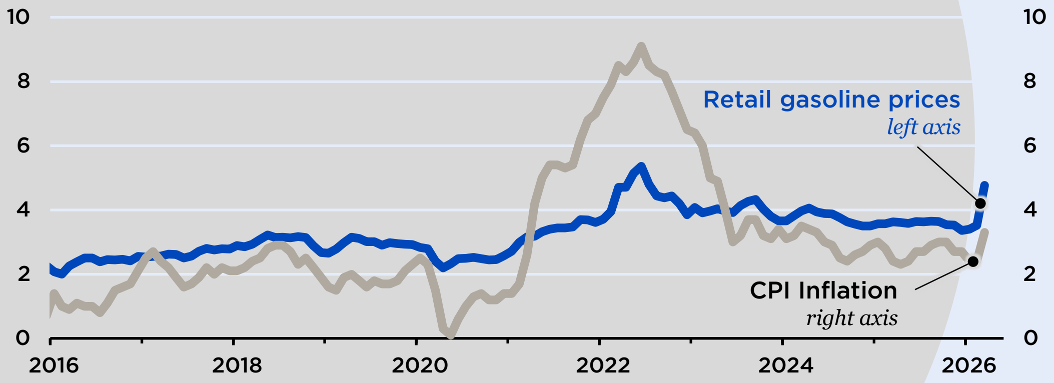
Outlook

Inflation surge expected in the near-term

The spike in energy prices in response to the conflict in the Middle East is reverberating across the economy. The added gasoline expenses for consumers are poised to use up all the income boost from higher tax refunds while businesses are facing another production cost shock. From an inflationary standpoint, we expect annual CPI inflation to spike to overall 4 percent this spring as the immediate price impacts flow into consumer costs. Higher food prices are a further concern with global fertilizer costs jumping during the Strait of Hormuz closure. Increased transportation costs caused by elevated fuel prices should push up core prices as well, although not to the same degree.

Even if the conflict does not extend for several more months, supply chains will need some time to normalize. In our base case we have been expecting that disinflation trends will take hold again over the second half of the year as supply bottlenecks unwind, but with inflation starting at a higher level. As a result, the CPI is now projected to rise about 3.0 percent over 2026, faster than our pre-war estimate of 2.5 percent. Of course, there is upside risk to this outlook if the Strait of Hormuz shipping traffic remains constrained.

Inflation and gasoline prices



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Forecast

Data as of April 2026

	2025 ACTUAL	2026 ESTIMATE	2027 FORECAST	2028 FORECAST	2029 FORECAST
REAL GDP [1]	2.2%	**2.0%**	**2.3%**	2.3%	2.3%
UNEMPLOYMENT RATE [3]	4.5%	4.2%	4.2%	4.2%	4.2%
INFLATION [1] (CPI)	2.8%	3.0%	2.0%	2.0%	2.0%
TOTAL HOME SALES	4.74	4.88	5.36	5.77	5.86
S&P/COTALITY HOME PRICE INDEX	1.3%	2.2%	2.9%	3.0%	3.0%
LIGHT VEHICLE SALES	16.2	15.8	16.5	16.5	16.5
FEDERAL FUNDS RATE [2]	3.50%	**3.00%**	**3.00%**	3.00%	3.00%
5-YEAR TREASURY NOTE [2]	3.73%	3.60%	3.55%	3.55%	3.55%
10-YEAR TREASURY NOTE [2]	4.18%	4.10%	4.00%	4.00%	4.00%
30-YEAR FIXED-RATE MORTGAGE [2]	6.18%	5.90%	5.40%	5.25%	5.25%
MONEY MARKET FUNDS	4.03%	3.22%	3.03%	3.03%	3.03%

Downside risks for growth in 2026

The drag from higher energy prices on consumer spending and business investment is expected to slow real GDP growth below 1.0 percent in the second quarter. Sustained elevated energy costs are a risk for further weakness over the second half of 2026.

Fed rate cuts still expected this year

The upside for inflation from increased energy costs may delay rate cuts from the Fed until later in the year. But we still expect the incoming Fed Chair to maintain an easing bias and push for further accommodation from the FOMC before year-end.

[1] *Percent change Q4-to-Q4*
[2] *Year end*
[3] *Q4 average*

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