April 2026

Monthly Market Update

Quarterly Economic Update

Executive summary

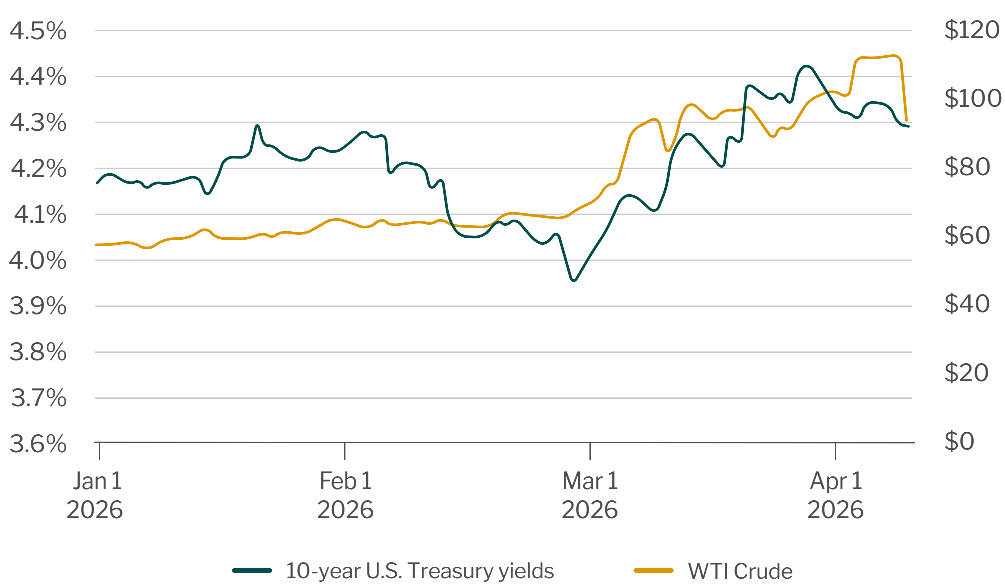
U.S. and global markets are contending with an environment of heightened geopolitical risk, elevated inflation pressures and shifting monetary policy expectations. The resilience of the U.S. economy will once again be challenged as the economy is expected to grow modestly while central bankers balance the risks of rising inflation and unemployment. Elevated energy prices tied to U.S.-Iran war, trade uncertainty and structural inflationary forces are expected to keep policy rates, which are administered by the Federal Open Market Committee, on hold longer than previously anticipated.

Economic drivers

Conflict in Iran drives volatility and uncertainty.

The conflict in Iran has broad implications. Disruptions to shipments in the Strait of Hormuz resulted in a spike in oil prices. This drove interest rates higher as investors prepared for rising inflation (see chart below). The U.S. dollar also rose, while equities and gold prices fell. These trends began to reverse on the announcement of a ceasefire on April 8.

10-year treasury yields and crude oil prices



Source: U.S. Department of the Treasury. Bloomberg. WTI: West Texas Intermediate.

If the conflict resumes, the impacts could be significant and complex. Increased federal deficits to fund military action increases Treasury bond issuance, which would exert upward pressure on interest rates. Rising oil prices increase inflationary pressures, and this would incentivize the Fed to keep short-term rates steady and investors to demand higher yields on long-dated bonds. Over time, lower discretionary income could result in demand destruction and a global recession. This would weigh on equity prices and further slow consumption levels due to the weaker wealth effect (consumers spend more as their asset values rise, and vice –versa.) Faced with a potential recession, the Fed would likely cut rates. The weaker outlook could also lower longer term rates and place downward pressure on rates overall. Increased geopolitical risk may incentivize investors to seek safe harbor as they move capital into low-risk assets. This typically exerts downward pressure on U.S. Treasury yields. How these factors would balance out is not yet clear.

Please see this month's **Spotlight** for background information on the conflict in Iran.

Fed holds interest rates steady.
The Federal Reserve remains in a difficult position. Higher energy prices are rekindling inflation concerns just as employment data show signs of softening (see sections below for more information on employment and inflation.) At the March FOMC meeting, policymakers held the federal funds target range unchanged at 3.50–3.75%, signaling a cautious "wait-and-see" stance. Fed Chair Powell emphasized that supply shocks, such as oil price surges, are largely outside the Fed's control, reducing the likelihood of near-term rate hikes while also limiting justification for rate cuts.

Market expectations have shifted decisively. Futures markets now reflect a high probability that the Fed will keep rates on hold for the remainder of 2026, with little expectation of easing despite slower employment growth. Treasury yields have adjusted upward accordingly, with the 2-year yield nearing 4% and the 10-year yield moving into the mid-4% range. Despite higher rates, liquidity in the banking system remains ample, and Farm Credit spreads to Treasuries have been relatively stable.

Economic stress increases for lower-income households.
The divergence among lower and higher income households is growing. A recent Moody's Analytics analysis shows the top 10% of earners now account for about 50% of consumer spending, the continuance of a multi-decade trend. This trend is supported by the wealth effect given rising asset values among high-income earners, and falling real incomes among low-wage earners. With 70% of Gross Domestic Product (GDP) driven by consumer spending, a drop in equity and/or home values could have a significant impact on the U.S. economy. Stress among lower-income earners appears to be increasing, with household debt on the rise along with increasing delinquencies on credit cards, student loans and auto loans.

Risks to the economy

The following points describe how current and potential events/trends could negatively impact the economy.

- The conflict in Iran restarts and results in regional instability, engagement from other military powers such as Russia and China, persistently high oil prices and a global recession.
- Rising inflation incentivizes the Fed to raise interest rates in 2026, which could lead to deeper selloffs in equity markets and a drop in consumer demand.
- Credit headwinds intensify due to monetary policy and economic uncertainty, further tightening lending standards, pressuring collateral values lower and increasing maturing debt concentrations.
- Trade tensions, due to the Supreme Court ruling on the administration's tariff authority under the International Emergency Economic Powers Act (IEEPA), keep volatility and business investment uncertainty elevated.
- Labor market cooling continues and unemployment moves higher, possibly to 5%, as global geopolitical tensions and trade uncertainty slow economic growth.
- The Supreme Court clarifies the extent of presidential authority over the Federal Reserve, raising concerns about the central bank's independence. Any erosion of Fed autonomy could have significant implications for monetary policy, financial market stability and long-term economic growth.

- Rising federal debt levels increase inflation and Treasury yields, weaken the U.S. dollar and reduce the capacity of the U.S. government to respond to an economic crisis and war. Sustained growth in debt could lead to a fiscal debt crisis and subsequent hardship for the American people.
- Rising prices and consumer debt loads lead to greater financial stress, particularly among low-wage earners who spend more of their income on essentials. Coupled with a weaker equity market and deterioration in the wealth effect, this may eventually slow consumer spending and pressure home affordability.

Economic data and trends

Fed updates and Treasury yields

The Fed released its latest forecast for the economy as part of its monetary policy statement on March 18, 2026. Real GDP growth projections were revised higher as consumer spending was expected to remain solid on higher tax refunds. A minor increase in unemployment was likely due to recent weakness in job growth. Inflation is projected to trend higher as energy prices respond to weaker supplies due to the war in Iran.

Federal Reserve projections as of March 2026

Indicator	2026	2027	2028	*Longer run
Real GDP growth *December 2025 projection*	2.4% *2.3%*	2.3% *2.0%*	2.1% *1.9%*	2.0% *1.8%*
Unemployment rate *December 2025 projection*	4.4% *4.4%*	4.3% *4.2%*	4.2% *4.2%*	4.2% *4.2%*
PCE inflation *December 2025 projection*	2.7% *2.4%*	2.2% *2.1%*	2.0% *2.0%*	2.0% *2.0%*
Core PCE inflation *December 2025 projection*	2.7% *2.5%*	2.2% *2.1%*	2.0% *2.0%*	
Federal funds rate *December 2025 projection*	3.4% *3.4%*	3.1% *3.1%*	3.1% *3.1%*	3.1% *3.0%*

**Longer run projections for core-PCE are not collected.*
Source: Federal Reserve Board.

The Fed will likely remain in the headlines as Jerome Powell transitions out of his chairmanship on May 15, 2026. He will have two more years remaining as a Fed governor, but it remains unclear if he will stay on the board after his chairmanship ends.

President Trump's nominee to replace Powell is Keven Warsh. His confirmation hearings are set to get underway in mid-April. Warsh has been critical of the Fed, suggesting it has expanded beyond its statutory authorities via mission creep. He expected to have a narrow and disciplined focus with a stronger emphasis on price stability while also working to support maximum employment and moderate long-term interest rates. Nevertheless, he will need to balance the goal of a more restrained Fed and allowing market forces to drive levels for the dollar and long-term rates with the reality that tighter financial conditions may pressure banking system liquidity, exert upward pressure on long-term interest rates and work against the Trump administration's desire for lower interest rates. Warsh is a former Fed governor (2006-2011), the youngest in history. He will face an uncertain economic landscape, which will likely be a difficult environment for the central bank to navigate.

The 2-year Treasury yield is expected to fluctuate in a range of 3.5-4.0% for the next couple of months while 10-year Treasury yields range between 4.1-4.5%. This outlook could change dramatically due to developments in the Middle East and other risks to the outlook.

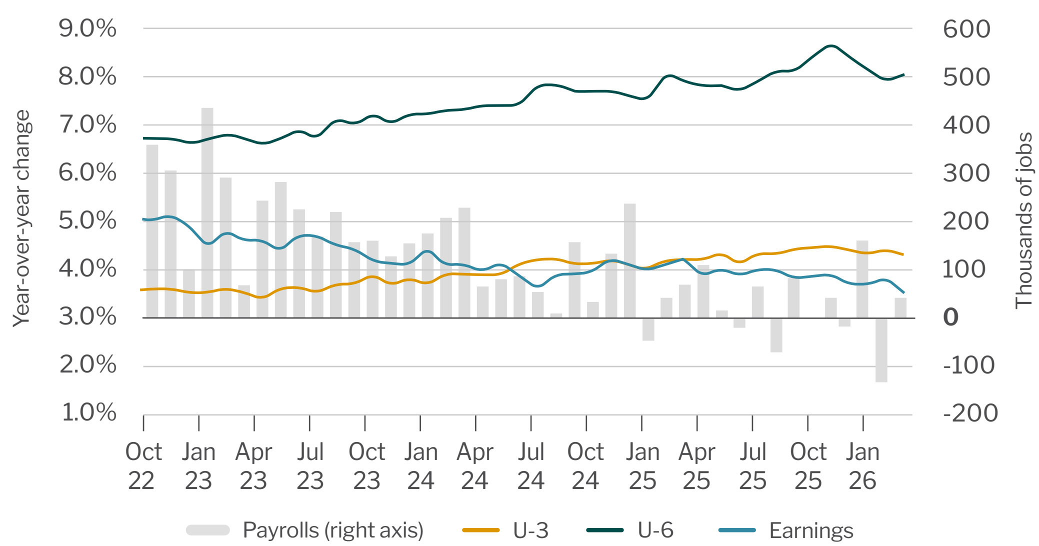
Employment

Labor market data show emerging softness while job growth has been choppy. March payrolls rose by 178,000 compared to a revised decrease of -133,000 for February. The unemployment rate fell to 4.3% from 4.4% for February as a result of the labor force shrinking more than the fall in the number of employment.

Private-sector payrolls gained, particularly in health care, construction, and transportation and warehousing, while federal government employment continued to decline. Job openings data remain near 7 million while unemployed workers total 7.2 million, indicating labor demand has cooled somewhat.

Wage growth remains a key stabilizer for consumer spending, though it is increasing at a slower pace than mid-2022 levels. Average hourly earnings rose 9 cents, or 0.2%, to $37.38, which is up 3.5% from a year ago and roughly in line with the long-term average.

Jobs, unemployment and hourly earnings



Source: U.S. Bureau of Economic Analysis.

Inflation

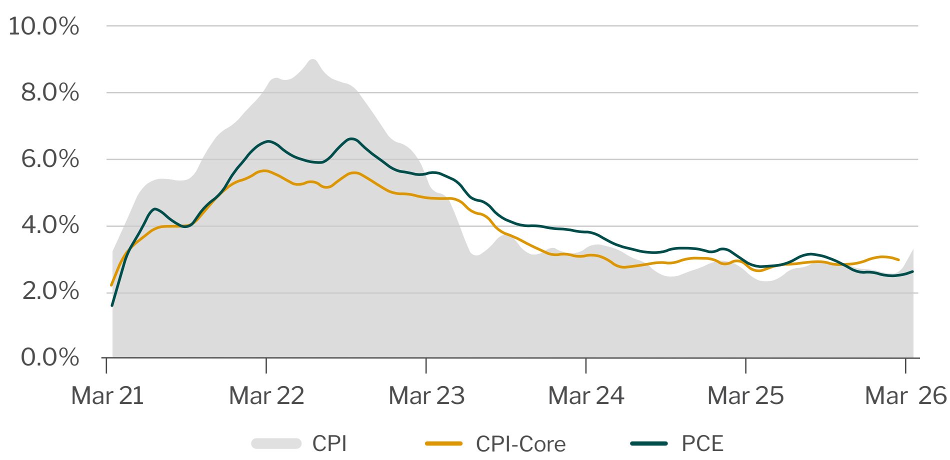
The threat of rising inflation due to developments in the Middle East is a significant concern for the markets and economy. February CPI rose 2.4% year over year, while core CPI increased 2.5%. Core PCE inflation, the Fed's preferred measure, remains higher at just over 3%, reflecting differences in weighting and methodology between CPI and PCE indices.

Key sources of inflation include:

- Higher oil, fuel and fertilizer prices as they feed through the supply chain
- Tariff pass-through and trade uncertainty
- Seasonality and services inflation
- Structural forces such as deglobalization and supply chain realignment

Housing continues to play an outsized role in inflation measures. Owners' Equivalent Rent (OER), which captures the imputed cost of housing services, remains sticky and contributes significantly to core inflation. While the U.S. methodology for housing inflation is considered more comprehensive than those used in many other countries, it may overstate "true" inflation during periods of market adjustment.

Consumer Price Index



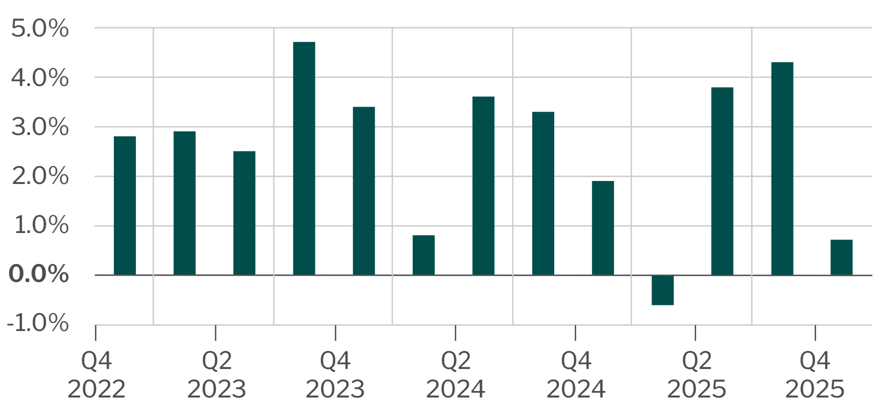
Source: U.S. Bureau of Labor Statistics. U.S. Bureau of Economic Analysis.

Gross Domestic Product

The final reading of Q4 real GDP was 0.5%. This was lower than earlier estimates due to slower growth in consumer spending, deceleration in private investment and sharp contraction in government expenditures.

Looking ahead, economic activity is projected to grow around 2.5% during 2026, supported by wage growth and service-sector strength. Growth is constrained by higher interest rates, elevated consumer debt and geopolitical uncertainty. The probability of recession within the next 12 months is estimated at approximately 30%, reflecting a meaningful but not dominant downside risk.

Real Gross Domestic Product (GDP)



Source: U.S. Bureau of Economic Analysis.