U.S. ECONOMIC RECAP

FIRST QUARTER 2026

CURRENT ECONOMIC CONDITIONS COMMENTARY

The Federal Reserve publishes a report (known as the Beige Book) eight times per year that summarizes current economic conditions throughout the 12 U.S. Federal Reserve Districts. The second 2026 *Beige Book* publication, which was released on March 4, 2026, highlighted:

- Economic activity increased at a slight to moderate pace in seven of the twelve Federal Reserve Districts;
- Many Districts noted that sales were dampened by economic uncertainty and weather, immigration enforcement and price sensitivities affected consumer spending in urban areas;
- Auto sales and residential real estate & construction were mostly down, with many Districts citing continuing affordability issues and low inventories;
- Manufacturing activity improved overall since the previous reporting period, with increases in new orders, and boosts in demand from data centers and, relatedly, energy infrastructure;
- Transportation and nonresidential construction activity was mixed across Districts; and
- Financial services activity was reported as stable to up.

CONSUMER CONFIDENCE – THE BACKBONE OF THE U.S. ECONOMY

Consumers influence the U.S. economy immensely through their spending and savings decisions. As such, measures of consumer confidence may provide valuable information in discerning the economic outlook.

In the University of Michigan's March 2026 Survey of Consumer Confidence, Chief Economist, Joanne Hsu opined:

"Consumer sentiment fell back 6% this month to its lowest level since December 2025. Declines were seen across age and political party. Consumers with middle and higher incomes and stock wealth, buffeted both by escalating gas prices and volatile financial markets in the wake of the Iran conflict, exhibited particularly large drops in sentiment. Overall, the short-run economic outlook plunged 14%, and year-ahead expected personal finances sank 10%, while declines in long-run expectations were more subdued. These patterns suggest that, at this time, consumers may not expect recent negative developments to persist far into the future. These views are subject to change, however, if the Iran conflict becomes protracted or if higher energy prices pass through to overall inflation. Interviews for this release were collected between February 17 and March 23, with about two-thirds completed after the start of the US military conflict in Iran."

CONSUMER PRICE INDEX (CPI)

The March 2026 Consumer Price Index (CPI) rose 0.9% month-over-month to 3.3%. An EY Chief Economist stated:

"The conflict in the Middle East is adding another layer of inflationary pressure on top of the tariff shock, while increasing uncertainty around the inflation outlook. With WTI crude oil prices briefly surpassing $110 per barrel in March and a rapid passthrough to gasoline prices, prices at the pump posted their largest monthly increase on record (data back to the late 1960s). Encouragingly, core inflation remained relatively subdued, with no clear evidence of passthrough at this stage, and food prices were contained. Both are likely to face upward pressure in the coming months from higher transportation and logistics costs, rising input prices, and increased fertilizer costs"

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MONETARY POLICY

Determined by the Federal Reserve's Federal Open Market Committee (FOMC):

In the *March 2026 Statement*, the FOMC noted:

- Available indicators suggest that economic activity has been expanding at a solid pace
- Job gains have remained low, and the unemployment rate has been little changed in recent months
- Inflation remains somewhat elevated

The Committee seeks to achieve maximum employment and inflation at the rate of 2% over the longer run. Uncertainty about the economic outlook remains elevated. The implications of developments in the Middle East for the U.S. economy are uncertain.

The FOMC is attentive to risks to both sides of its dual mandate. In support of its goals, the Committee decided to maintain the target range for the federal funds rate at 3.50% to 3.75%.

INTEREST RATES (PRIME RATE)

The prime rate is often used as a base rate to price short-term business loans

In Q1 2026, the prime rate was 6.75%, holding steady since mid-December 2025. The Federal Reserve does not control the prime rate, but many banks base their prime rates partly on the target level of the federal funds rate.

PUBLIC MARKETS

In public markets, asset prices fluctuate with changes in future expectations.

Stock indices contracted over the first quarter of 2026:

- *S&P 500* closed on March 31, 2026 down 4.8% (329.95 points) from Q4 2025.
- *Dow* followed suit with a 4.2% (2,040.88 points) decline as compared to the prior quarter end.
- NASDAQ experienced the largest contract, falling by 7.1% (1,645 points).

FORECAST BASED ON ECONOMIC INDICATORS

In March 2026, members of the FOMC submitted projections of the most likely outcomes for real gross domestic product (GDP) growth, the unemployment rate, and inflation for each year from 2026-2028 and over the longer run. These projections were based on information available at the time, assessment of appropriate monetary policy, and assumptions about other factors likely to affect economic outcomes.

The FOMC's March 2026 *Summary of Economic Projections* includes the following highlights:

- Real GDP growth is expected to gradually slow from 2.4% in 2026 to 2.1% in 2028, eventually converging toward the longer-run estimate of 1.8%, indicating expectations for moderate but decelerating economic growth;
- The unemployment rate is projected to remain relatively stable between 4.2% and 4.4% over the forecast period, suggesting a balanced but softer labor market compared to recent years;
- Inflation, as measured by PCE inflation, is forecasted to decline from 2.7% in 2026 to the Federal Reserve's long-run target of 2.0% by 2028, reflecting expectations that inflationary pressures will continue easing;
- The Federal Funds Rate is projected to decline from 3.4% in 2026 to 3.1% in later years, implying expectations for modest monetary policy easing as inflation moderates.

MARKET IMPLIED INFLATION

The Federal Reserve Bank of St. Louis posts nominal and inflation-indexed constant maturity treasuries. Taking the difference between nominal yield and inflation-indexed yields provides a market-based estimate for inflation compensation over each maturing period. Below are the March 2026 results:

FEDERAL RESERVE ECONOMIC PROJECTIONS (MEDIAN)				
	2026	**2027**	**2028**	**Longer-Run**
Change in Real GDP	**2.4%**	**2.3%**	**2.1%**	**1.8%**
Unemployment Rate	**4.4%**	**4.3%**	**4.2%**	**4.2%**
PCE Inflation	**2.7%**	**2.2%**	**2.0%**	**2.0%**
Federal Funds	**3.4%**	**3.1%**	**3.1%**	**3.1%**

Source: *FRED: Selected Interest Rates Instruments, March 27, 2026*

NEWS FROM THE WHITE HOUSE

Since the change in administration at the beginning of 2025, several issues have been primary topics of discussion: tariffs, the enactment of the One Big Beautiful Bill Act, and the government shutdown.

Tariffs and trade policy have been a primary discussion topic over the previous year. These policies include broad global duties ranging from 10% to 41% to address trade deficits, alongside sector-specific tariffs of 50% on steel and aluminum, and 25% on automobiles and parts.

While the administration has successfully negotiated bilateral framework agreements with key partners (EU, UK, Japan and South Korea) to provide preferential rates, and has secured a one-year tariff truce with China through November 2026, the trade environment remains characterized by elevated uncertainty and requires cautious treatment. Significant retaliatory measures from trading partners have impacted U.S. exports, and many ongoing investigations into critical sectors like semiconductors, pharmaceuticals, and robotics suggest the potential for further structural shifts in trade costs. As many of these tariffs are cumulative, they represent a persistent headwind to corporate margins and supply chain stability.

The One Big Beautiful Bill Act (OBBBA), which was officially passed on July 4, 2025, includes major changes to tax, healthcare, and social policy. The OBBBA makes many expiring TCJA provisions permanent, eliminates taxes on tips and overtime, expands the child tax credit, and introduces $1,000 Trump savings accounts for children.

The law imposes stricter work requirements for Medicaid and food assistance, which could reduce access to benefits for millions. The OBBBA also repeals student loan forgiveness programs, bans state-level AI regulations for a decade, and ends the IRS Direct File program.

National defense and border security see large investments, including $47B for a border wall and the launch of a "Golden Dome" missile defense system. While it raises the debt ceiling to prevent a default, critics argue that the OBBBA adds to the deficit and disproportionately favors wealthy households.

A 43-day government shutdown, which took effect on October 1, 2025, "after lawmakers failed to resolve a budget deadlock, halting some federal operations and putting approximately 750,000 employees on unpaid leave," marked the longest shutdown in U.S. history. The government reopened on November 13, 2025. "The impasse resulted in the disruption of government services, with an estimated 1.4 million federal employees furloughed or working without pay." As the government focuses on the short-term effects, including addressing the backlog of official data and delayed federal payments, it is unclear what the long-term consequences of the shutdown may be.

ARTIFICIAL INTELLIGENCE

Artificial intelligence (AI) is simultaneously accelerating labor-market disruption and expanding the demand for new skills, creating a complex and often uneasy transition for workers. Experts at the *World Economic Forum* in Davos warned that AI is significantly impacting labor, noting that companies across sectors have already linked nearly 55,000 U.S. layoffs in 2025 to AI adoption. They also noted that worker anxiety over job displacement has surged from 28% in 2024 to 40% in 2026.

Yet, as the *International Monetary Fund* emphasizes, AI is not only eliminating jobs, but reshaping them – new roles are emerging alongside disappearing ones, and 1 in 10 job postings in advanced economies now requires a new skill, especially for positions in technical and managerial fields. This dual impact means workers face heightened uncertainty, but those who acquire emerging digital and AI-complementary skills can benefit from wage premiums and improved employment prospects in regions where skill adoption is high.

WAR IN THE MIDDLE EAST

The *war involving Iran* has created major disruptions to global energy, food, and supply chain systems, with persisting effects expected even if a cease-fire is reached. The conflict has severely reduced traffic through the Strait of Hormuz, a critical shipping route for oil, natural gas, fertilizer, and other commodities, causing higher energy prices and increasing inflation risks worldwide.

Weakening consumer confidence, rising interest rate pressures, and shortages of key industrial materials such as helium, have also affected some sectors, including healthcare and semiconductor manufacturing. Fertilizer shortages and rising fuel costs have negatively impacted agriculture, creating concerns about future food supply disruptions and higher food prices.

These issues and other economic consequences of the conflict are likely to create prolonged strain on global growth, trade, and inflation.

CURRENT EMPLOYMENT CONDITIONS – ALL INDUSTRIES

The U.S. labor market, a key indicator of the strength of the economy, has remained relatively unchanged. The FOMC will keep an eye on these trends to review economic conditions.

The Bureau of Labor Statistics (BLS) reported that the March 2026 unemployment rate (4.3%), as well as the number of unemployed persons (7.2 million), changed little from February 2026. The number of people not in the labor force who wanted a job increased by 325,000. BLS data showed notable gains in health care, construction and transportation, and warehousing while federal government jobs continued to edge downward.

Federal Reserve data indicated flat growth:

"Employment levels were generally stable in recent weeks as seven of the twelve Districts reported no change in hiring. Contacts in several Districts cited rising nonlabor input costs, softer demand, or uncertainty about overall economic conditions as reasons for flat or lower employment levels. Firms in some Districts and in various sectors looked to AI or other forms of automation to gain efficiencies, with most emphasizing the goal of productivity enhancement rather than worker replacement. Wages rose at a modest or moderate pace in most Districts as firms competed for talent in select areas, including the skilled trades. Several Districts continued to report upward pressure on total compensation due to rising health insurance premiums."

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INDUSTRIAL PRODUCTION & MANUFACTURING

The Institute for Supply Management's (ISM) Purchasing Managers Index (PMI) can be used to determine whether the manufacturing sector of the economy is expanding or contracting. A 52.7% PMI in March 2026, marked a 0.3% increase from the prior month's reading. A reading above 47.5% generally indicates an expanding manufacturing economy, while a PMI below 47.5% denotes contraction.

"In March, U.S. manufacturing activity remained in expansion territory, growing at a slightly faster pace than the month before. Of the five subindexes that make up the PMI, the New Orders Index indicated slower growth compared to the previous month, the Production Index grew at a faster rate, and the Employment & Inventories indexes remained in contraction. This month also marks the first report with panelists citing the Iran war as a new impact to their business, along with ongoing uncertainty with U.S. economic policy, despite the recent Supreme Court ruling striking down International Emergency Economic Powers Act (IEEPA) tariffs. In March, 64% of comments overall were negative. Among negative comments, about 20% cited tariffs and about 40% the war in the Middle East."

HOUSING & NONRESIDENTIAL CONSTRUCTION

The Dodge Momentum Index (DMI) is issued monthly by Dodge Data & Analytics to measure the initial report for nonresidential building projects in planning, which have been shown to lead non-residential construction spending. Highlights through February of 2026 include:

- The DMI was 25% higher than in March 2025
- Commercial was up 29% from year-ago levels
- Institutional increased 20% over the same period
- The DMI includes 54 projects valued at $100M+

A total of 54 projects valued at $100 million or more entered planning throughout February. The largest commercial project was a $500 million 17-building Amazon Data Center Campus in Hamlet, NC. The largest institutional projects to enter planning were the $245 million MCLJ Outpatient Pavilion in San Diego, CA, the $183 million Orlando Health Viera Hospital in Viera West, FL and the $175 million Bachelor Enlisted Quarters renovation a Camp Pendleton North in San Diego, CA.

SUPPLY CHAIN ACTIVITY

The Global Supply Chain Pressure Index (GSCPI), gauges issues by integrating transportation cost data and manufacturing indicators. A high GSCPI indicates a tightening of the global supply chain, while a lower number shows relaxation. Despite relatively stable readings in 2024 and 2025, the GSCPI is showing immense tightening, of 0.68, which can be attributed to the ongoing war in Iran.

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As an Analyst with GYF's Business Valuation & Litigation Support Services team, Allison performs risk identification, financial statement analysis, economic and industry research, and financial modeling. She is involved in the process of valuing privately held companies for various purposes. Allison graduated from Robert Morris University's Honors Program with a BS/BA in Finance and Accounting in May 2024 and has since obtained her Certified Valuation Analyst credential.