Financial Markets This Week

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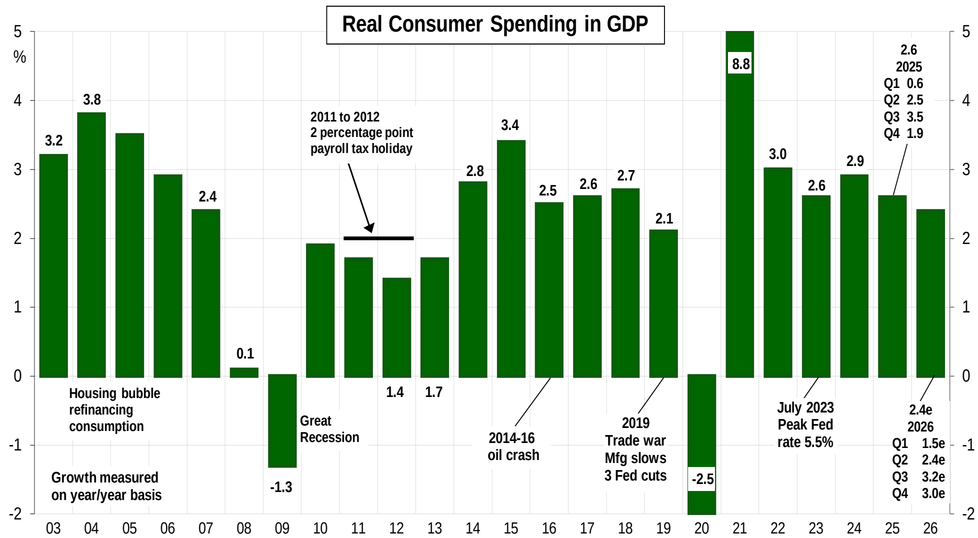
CONSUMERS OK

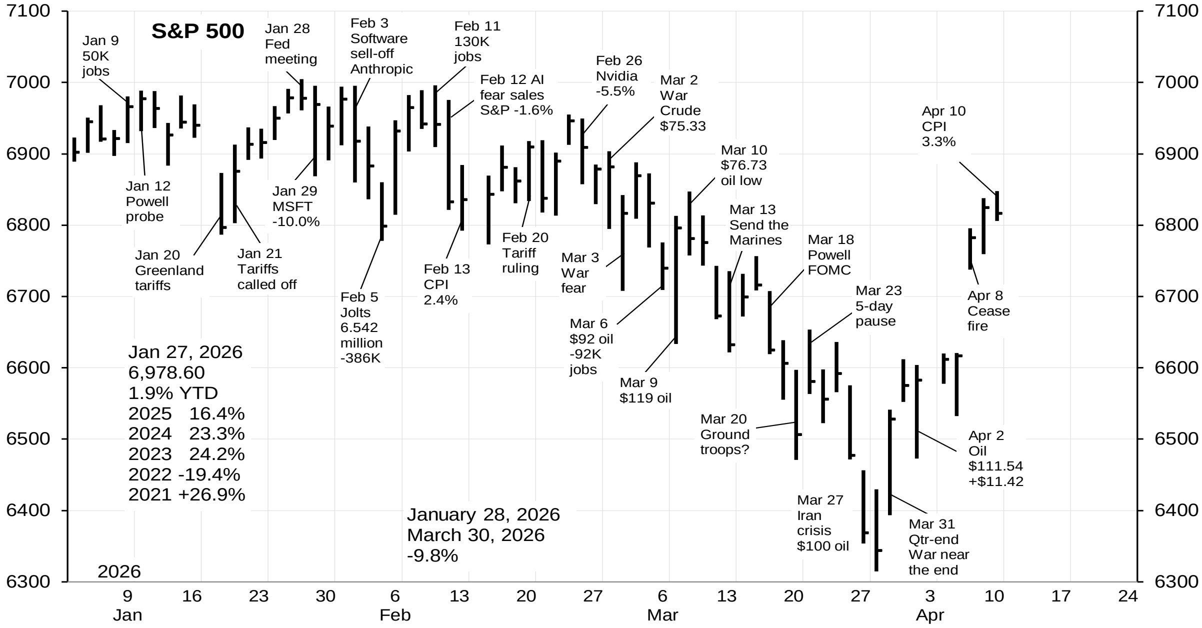


Doesn't look like the 3.75% Fed policy rate is a headwind for the economy. Not if you ask the consumer. Spending goes on. It may be mostly for health care, and financial services and insurance spending, but on it goes. Consumption dipped slightly to 2.6% in 2025 under Trump 2.0 from 2.9% under Biden in 2024. But Q1 2025 had winter weather-related weakness and Q4 2025 had the Federal government shutdown. It may be a stretch but we are guessing real consumption will be 1.5% in Q1 2026. Using February 2026 as "the quarter," Health care is up 4.5% in Q1 2026 and its share of total spending was 17.9%. Financial services and insurance is also up 4.5%. Financial services rose 6.2% and the share of Portfolio management and investment advice under Financial services, which rose 10.9%, is 26.8%.

Real Consumer Expenditures & GDP SAAR Percent change: Q1 2026e is February over Q4 avg	Q1 2026e	Q4 2025	Q3 2025	Q2 2025	Level $bln Q4 2025
Gross domestic product (GDP)	--	0.5	4.4	3.8	24,055.7
Personal consumption expenditures (PCE)	0.8	1.9	3.5	2.5	16,665.2
Goods	-2.6	0.3	3.0	2.2	5,675.1
Durable goods	-2.7	0.1	1.5	2.3	2,141.2
Motor vehicles and parts	2.1	-8.1	-6.6	9.7	587.0
Furnishings and durable household equipment	-3.1	0.4	-4.3	-2.0	450.2
Recreational goods and vehicles	-10.7	9.4	15.4	-2.5	846.8
Other durable goods	7.2	0.5	3.3	3.1	309.9
Nondurable goods	-2.6	0.4	3.9	2.2	3,544.8
Food and beverages for off-premises	-3.2	-1.2	1.9	0.2	1,182.5
Clothing and footwear	-3.2	4.5	6.6	5.8	551.6
Gasoline and other energy goods	0.0	-3.0	1.5	-2.8	316.9
Other nondurable goods	-2.5	1.3	5.3	4.2	1,514.7
Services	2.4	2.7	3.6	2.6	11,011.7
Household consumption expenditures (for services)	2.1	2.5	3.6	3.1	10,603.2
Housing and utilities	1.8	1.9	0.3	-0.2	2,716.0
Health care	4.5	2.9	6.7	4.8	2,984.3
Transportation services	-0.4	2.3	3.6	7.0	523.4
Recreation services	-0.5	4.0	6.6	3.9	637.9
Food services and accommodations	-2.4	-1.2	1.3	5.9	1,086.6
Financial services and insurance	4.5	4.6	2.7	4.8	1,195.1
Other services	1.6	3.2	6.2	1.4	1,488.1
Final consumption nonprofit institutions	8.6	7.5	4.8	-9.2	414.6

Q1 2026 weak spots include food-related purchases either dining out or at home. The largest decline was 10.7% for Recreational goods and vehicles. This was not ATVs or motorcycles or pleasure boats, the drag was all computer software and accessories. Stay tuned. We expect 2.4% real consumption for all of 2026 which is good enough. When economists go recession hunting, retail spending does not usually lead the way. Consumer spending tends to fall less in recessions as people still need to eat and pay for needed services like rent and health care, even if they delay purchases of goods. Energy prices are rising due to the Iran war; while these nondurable goods purchases fell 3.0% in Q4 2025, Gasoline and other energy goods are 0.0% in Q1 2026.

INTEREST RATES



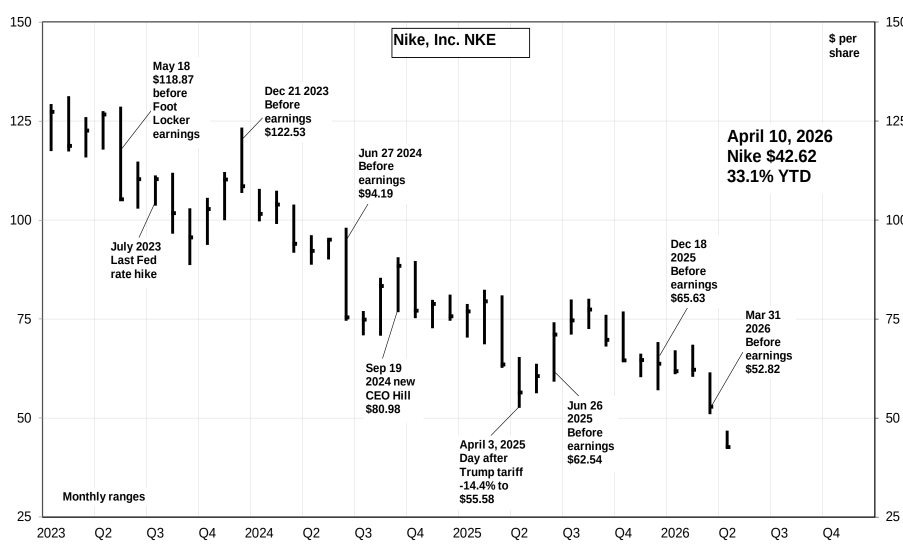
For stocks, another week, another Trump announcement pausing his threat to bomb energy infrastructure. There was a Tuesday 8pm ET deadline for Iran to respond which ended with a temporary cease-fire. Markets must wait again for the highest level talks in Islamabad this weekend between Iran and the U.S. since the 70s. The 10-year yield closed the week at 4.34% and the S&P 500 closed -0.4% YTD. If you are looking for the wealth-effect and its effect on high-end consumers, the S&P 500 was down as much as 7.3% YTD on March 30, before the end is near talk on the Iran war. 7.3% is probably not enough of a loss to curb spending. Energy is though, potentially, even if $5 gasoline after Russia invaded Ukraine did not bring down the economy's house. Last trade Friday for May crude oil futures was $95.63. The high was $117.63 on Tuesday April 7. [AAA gas $4.15](#).

Nike, Inc. (NKE) down 33.1% YTD even with Supreme Court tariff ruling

Nike announced earnings on Tuesday, March 31 after the close of $52.82 and dropped 15.5% the next day, when the broader market was still rallying thinking the war was nearing the end. The high of $68.49 was set initially on the news of the Supreme Court tariff ruling given the company has incurred considerable tariff related costs, but it could not hold the gains. After earnings, some Wall Street analysts cut their Nike stock price forecasts based on the company saying, "the comeback is longer than we would like."

Nike Footwear Sales ($millions)

Fiscal		North	Europe	Greater	Asia Pac
Quarter	Quarter	America	(EMEA)	China	LatAm
Q3 2026	2.28.2026	3326	1789	1187	1051
Q2 2026	11.30.2025	3542	2012	954	1151
Q1 2026	8.31.2025	3219	2021	1109	1061
Q4 2025	5.31.2025	3104	1893	1074	1114
Q3 2025	2.28.2025	3132	1742	1282	1052
Q2 2025	11.30.2024	3236	1982	1203	1234
Q1 2025	8.31.2024	3212	1952	1246	1052
Q4 2024	5.31.2024	3587	2067	1357	1226
Q3 2024	2.29.2024	3460	1960	1547	1195

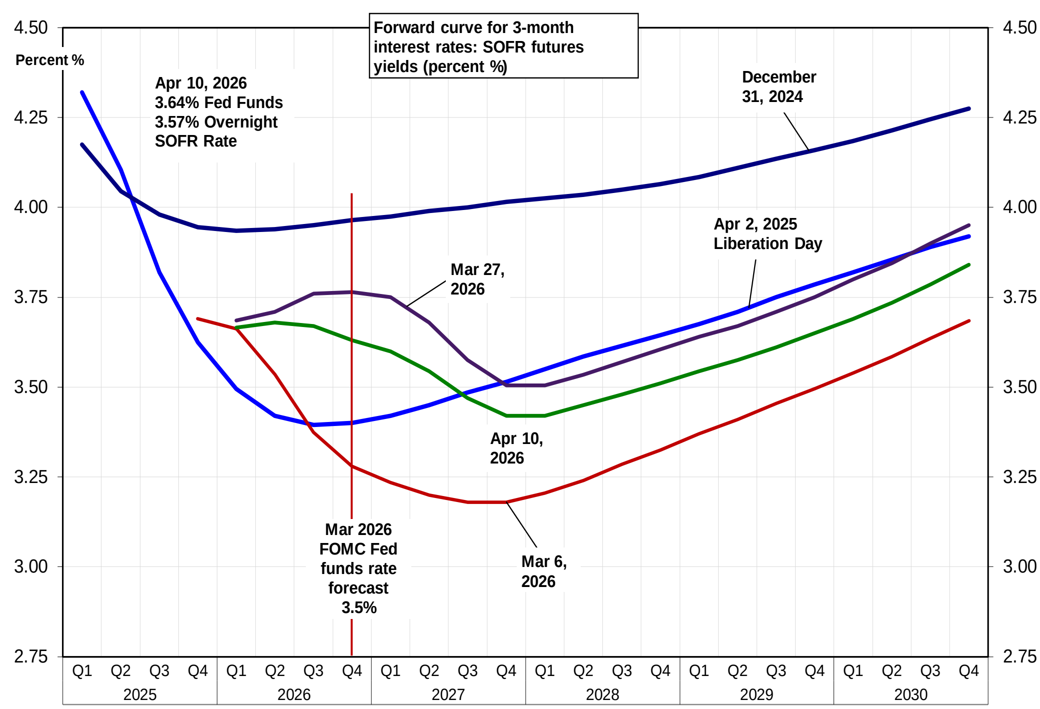


FEDERAL RESERVE POLICY

The Fed meets April 28-29, 2026 to consider its monetary policy. Before the week's inflation news, Fed Vice Chair [Jefferson spoke Tuesday]() evening. The Vice Chair is thought to reflect the Chairman's views on monetary policy normally. He downplayed the need for rate cuts or at least he said the labor market was "stabilizing." The unemployment rate had crept up from 4.0% in January 2025 to 4.5% in November 2025, but now the jobs market is getting over the trade tariffs and Federal government shutdown shocks, with the unemployment rate edging lower in March to 4.3%. For monthly payroll jobs, despite the 178K jump in March, he cited [Fed research]() saying, essentially that monthly average jobs growth could fall to zero this year because of outward migration. Lies, damnable lies and statistics. It is getting harder to trust the monthly economic statistics, which makes it harder to trade markets than it used to be. At least Jefferson got the February core PCE inflation forecast right, right on the money at 3.0% year-on-year. The confusion being core CPI was 2.6% in March year-on-year as reported the next day.

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	8-Apr	1-Apr	25-Mar	18-Mar	3/11/20*	3/11/20
Factors adding reserves						to Apr 8
U.S. Treasury securities	4406.779	4390.204	4375.064	4358.597	2523.031	1883.748
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	1996.680	1996.680	1996.680	2010.370	1371.846	624.834
Repurchase agreements	0.101	0.750	0.007	0.006	242.375	-242.274
Primary credit (Discount Window)	5.873	6.012	5.216	4.884	0.011	5.862
Bank Term Funding Program	0.000	0.000	0.000	0.000		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	0.042	0.043	0.043	0.045		
Main Street Lending Program	1.333	1.331	1.325	1.325		
Term Asset-Backed Facility (TALF II)	0.000	0.000	0.000	0.000		
Gold stock	11.041	11.041	11.041	11.041	11.041	0.000
Central bank liquidity swaps	0.105	0.180	0.028	0.018	0.058	0.047
Federal Reserve Total Assets	6745.1	6726.0	6708.4	6707.1	4360.0	2385.110
~~3-month Libor %~~ SOFR %	3.59	3.65	3.64	3.62	1.15	2.440
Factors draining reserves						
Currency in circulation	2452.773	2450.588	2446.604	2443.928	1818.957	633.816
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	697.079	803.553	837.412	875.833	372.337	324.742
Treasury credit facilities contribution	0.821	0.821	0.821	0.821		
Reverse repurchases w/others	0.177	2.107	0.777	0.698	1.325	-1.148
Federal Reserve Liabilities	3561.603	3661.557	3672.286	3708.295	2580.036	981.567
Reserve Balances (Net Liquidity)	3183.533	3064.460	3036.073	2998.809	1779.990	1403.543
Treasuries within 15 days	70.676	66.965	68.978	76.381	21.427	49.249
Treasuries 16 to 90 days	329.923	328.018	304.017	291.434	221.961	107.962
Treasuries 91 days to 1 year	526.978	516.388	520.514	509.503	378.403	148.575
Treasuries over 1-yr to 5 years	1380.331	1380.156	1390.885	1390.753	915.101	465.230
Treasuries over 5-yrs to 10 years	502.894	502.855	496.314	496.286	327.906	174.988
Treasuries over 10-years	1595.977	1595.823	1594.357	1594.240	658.232	937.745
Note: QT starts June 1, 2022	Change	4/8/2026	6/1/2022			
U.S. Treasury securities	-1364.000	4406.779	5770.779			
Mortgage-backed securities (MBS)	-710.766	1996.680	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

Fed Policy-key variables	2026	2027	2028	Long Term
Fed funds	3.4	3.1	3.1	3.1
PCE inflation	2.7	2.2	2.0	2.0
Core inflation	2.7	2.2	2.0	
Unemployed	4.4	4.3	4.2	4.2
GDP	2.4	2.3	2.1	2.0
March 2026 median Fed forecasts				



No change in rates seen through the September 2026 meeting.

Fed funds futures call Fed policy	
Current target: April 10 -- 3.75%	
Rate+0.11 Contract	Fed decision dates
3.745 Jul 2026	Apr 29, Jun 17*
3.730 Oct 2026	Adds Jul 29, Sep 16*
*July 2026 could be two days at a new rate	
*Oct 2026 could be 3 days at a new rate	

Next up: March PCE inflation Thursday, April 30 830am ET

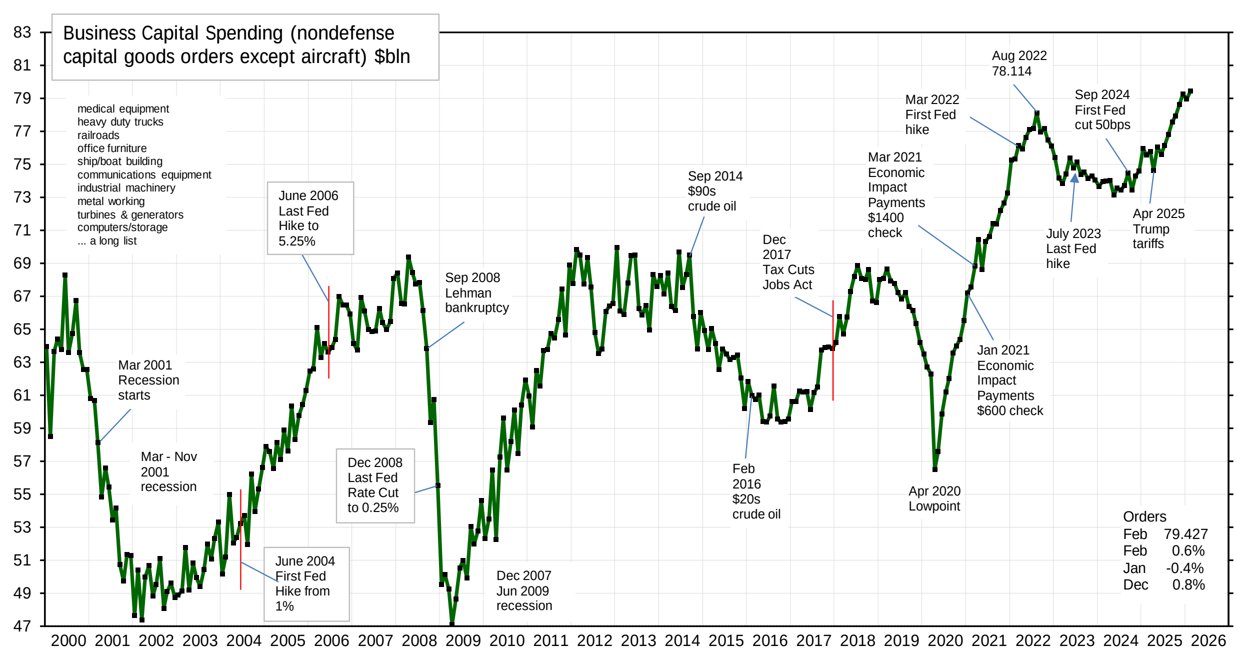
Monthly	2026			2025										2025
% Changes	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan
Core CPI inflation	0.2	0.2	0.3	0.2	na	na	0.2	0.3	0.3	0.2	0.1	0.2	0.1	0.3	0.4
Core PCE inflation		0.4	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.1	0.4	0.3
Core PCE YOY		3.0	3.1	3.0	2.8	2.8	2.8	2.9	2.9	2.8	2.8	2.6	2.7	3.0	2.8
Core CPI YOY	2.6	2.5	2.5	2.6	2.6	na	3.0	3.1	3.1	2.9	2.8	2.8	2.8	3.1	3.3

OTHER ECONOMIC NEWS

Durable goods record (Tuesday)

Breaking economy news. Advance durable goods orders and shipments for February. Our proxy for monthly investment spending by companies is nondefense capital goods orders within the report. These were revised in January from +0.1% to -0.4%, and then rose 0.6% to a record (barely). The Commerce Department is out of money or economists or both as they say there will be no benchmark revision this year “due to schedule and resource constraints.” These annual adjustments have been huge in many years, and changed the trend dramatically of orders.

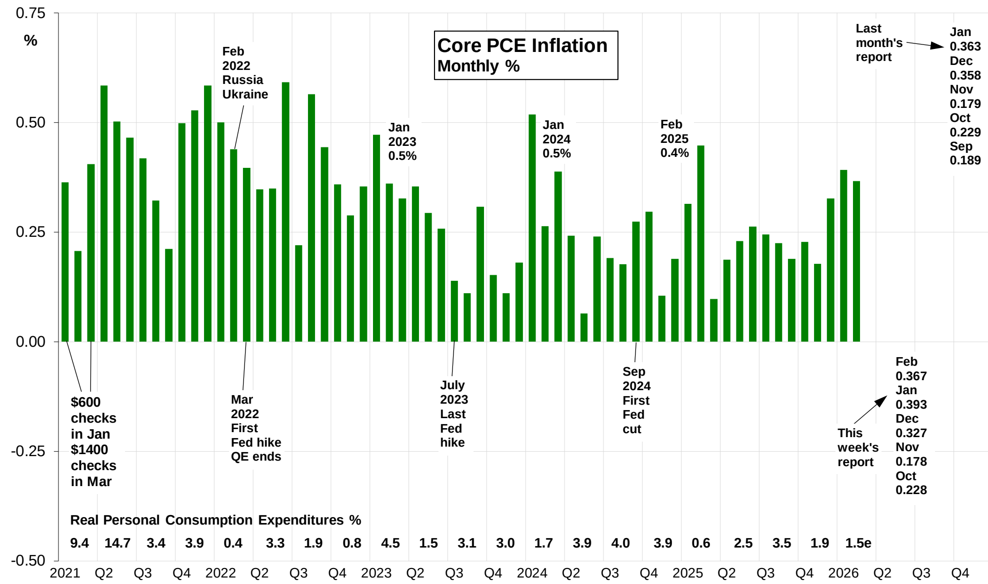
Net, net, core durable goods orders bounced in February following the cold weather January start to the year, which shows manufacturers, whether AI driven or not, have solid demand for new equipment to build final products here or export the finished products overseas. The Iran war started on February 28 so we still do not know what companies will do when faced with this latest dramatic headwind to economic growth which has sent energy prices and business costs soaring. Computers and machinery orders were very strong in the first two months of the year where these purchases may have been bolstered by the construction of data centers. Consumers were more uncertain in the first quarter of 2026, so the economy may need the boost from business capital investment. Stay tuned. Nondefense capital goods orders increased 0.6% in February to record highs after a 0.4% decline in January with no hint of recession if companies have anything to say about the outlook.



Slow growth, more inflation (Thursday)

	Q3 24	Q4 24	Q1 25	Q2 25	Q3 25	Q4 25p	Q4 25r	Q4 25f
REAL GDP	3.3	1.9	-0.6	3.8	4.4	1.4	0.7	0.5
REAL CONSUMPTION	4.0	3.9	0.6	2.5	3.5	2.4	2.0	1.9
CONSUMPTION	2.7	2.6	0.4	1.7	2.3	1.6	1.3	1.3
Durables	0.6	0.9	-0.3	0.2	0.1	-0.1	0.0	0.0
Nondurables	0.7	0.5	0.3	0.3	0.5	0.1	0.1	0.1
Services	1.4	1.2	0.4	1.2	1.7	1.6	1.3	1.2
INVESTMENT	0.2	-1.3	3.8	-2.7	0.0	0.7	0.6	0.4
Business Plant	-0.1	-0.3	-0.1	-0.2	-0.2	-0.1	-0.2	-0.2
& Equipment and	0.4	-0.2	1.0	0.4	0.3	0.2	0.2	0.2
Intellectual Property	0.1	0.0	0.3	0.8	0.3	0.4	0.3	0.3
Homes	-0.2	0.2	0.0	-0.2	-0.3	-0.1	0.0	-0.1
Inventories	-0.1	-0.9	2.6	-3.4	-0.1	0.2	0.3	0.1
EXPORTS	1.0	-0.1	0.0	-0.2	1.0	-0.1	-0.4	-0.4
IMPORTS	-1.4	0.0	-4.7	5.0	0.6	0.2	0.2	0.1
GOVERNMENT	0.9	0.6	-0.2	0.0	0.4	-0.9	-1.0	-1.0
Federal defense	0.5	0.2	-0.3	0.0	0.2	-0.4	-0.4	-0.4
Fed nondefense	0.1	0.1	-0.1	-0.4	0.0	-0.7	-0.7	-0.7
State and local	0.4	0.3	0.2	0.3	0.2	0.3	0.1	0.2
Below line: Percentage point contributions to Q4 2025 0.5% real GDP								
First estimate for Q1 is Thursday, April 30								

Breaking economy news. Third look at Q4 2025 GDP and February PCE spending and inflation data. Weekly jobless claims rose 16K to 219K in the April 4 week which includes Good Friday and is often difficult to adjust for. Schools were out for Spring Break in our town as well. Continuing claims fell 38K to 1.794 million in the March 28 week meaning no higher unemployment rate is coming which could signal a downturn in the economy. Real GDP is now 0.5% in Q4 2025 where the second estimate was 0.7%. Inventories and housing starts added slightly less. The Federal government shutdown effect remains at a 1.1 percentage point drag.



Net, net, economic growth is sinking like a stone and if the economy is going the way the downward revisions go, then the country is in real trouble before we get to the headwinds of war and sky-high gasoline prices in the new year. The three estimates keep getting pushed lower to the stall speed for growth, first it was 1.4% in the fourth quarter of 2025, then 0.7%, then, no, no, no, today's third and final estimate is just 0.5%.

Meanwhile, core consumer inflation is literally exploding with two gigantic increases of 0.4% in January and in February to start the year. No Fed official worth his salt is going to vote for interest rate cuts as the inflation data is red hot even before the Iran War started. Real consumer spending was weaker in February than we thought as well with a slight increase of 0.1%. The economy was on the road to ruin with more inflation and less growth even before the Iran War which seems to stretch on and on.

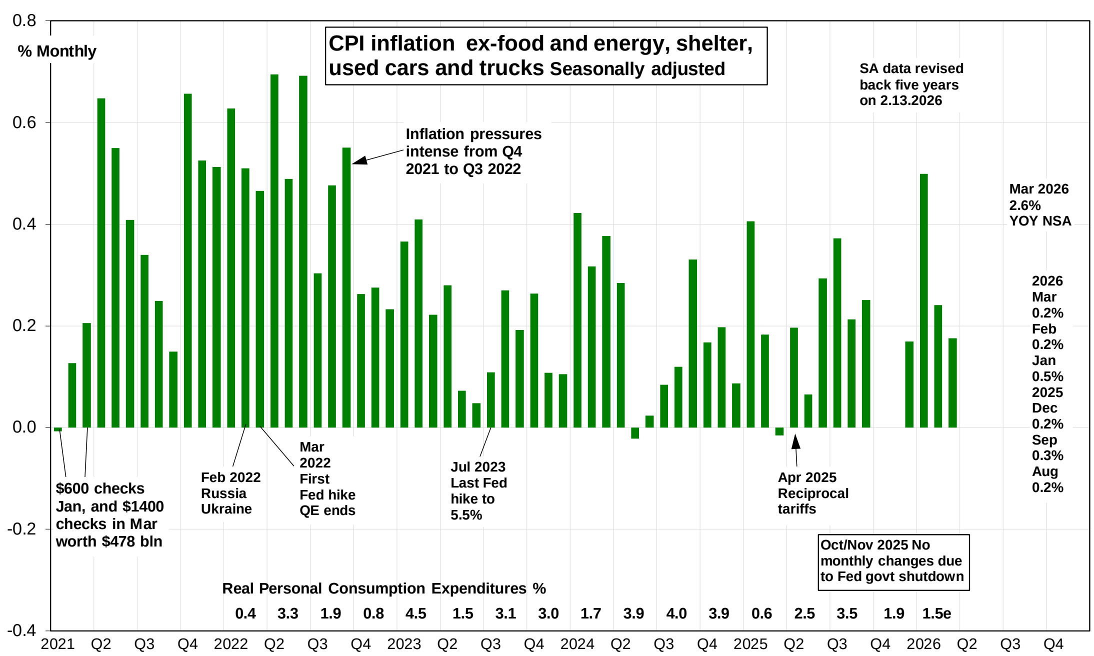
Finally the Federal government is not working for economists either that is for sure as the lazy Commerce Department statisticians pulled the PDF and Excel tables and spreadsheets, which used to be included with the GDP/Personal Income data releases, making it twice as hard to read the economic tea leaves in a timely manner. As Washington pulls back resources for measuring the economy, we wonder if the short cuts to save money are harming the actual economic results they present and whether the data can be trusted to be an accurate read on which way growth and inflation go next.

Incoming inflation threat (Friday)

Breaking economy news. Headline CPI jumped 0.9% in March to 3.3% year-on-year thanks to gasoline prices at the pump that soared 21.2% to 18.9% from year earlier levels. Food at home is just 1.9% the last year which runs counter to our grocery shopping experience. Inflation minus food/energy, shelter, used cars and trucks jumped in January the last few years, but has settled down this year at 0.2% in February and March.

Dec 25 Weight	CPI inflation	Jan 2026	Feb 2026	Mar 2026	YOY % Mar 2026
		Monthly Percent Changes			
100.0	Total	0.2	0.3	0.9	3.3
13.698	Food	0.2	0.4	0.0	2.7
8.325	Food at home	0.2	0.4	-0.2	1.9
5.373	Food away from home	0.1	0.3	0.2	3.8
6.383	Energy	-1.5	0.6	10.9	12.5
2.895	Gasoline	-3.2	0.8	21.2	18.9
79.919	Ex-food & energy	0.3	0.2	0.2	2.6
3.838	New vehicles	0.1	0.0	0.1	0.5
2.759	Used cars/trucks	-1.8	-0.4	-0.4	-3.2
2.368	Clothing	0.3	1.3	1.0	3.4
1.489	Medical care goods	-0.1	0.0	-1.0	0.3
35.625	Shelter	0.2	0.2	0.3	3.1
26.204	Owner equiv. rent	0.2	0.2	0.2	3.3
6.315	Transportation	1.4	0.2	0.6	4.1
6.935	Medical care services	0.3	0.6	0.0	3.7
	Special: Where inflation might come back down to				
60.744	Services ex-energy	0.4	0.3	0.2	3.0
19.176	Commodities (core)	0.0	0.1	0.1	1.2

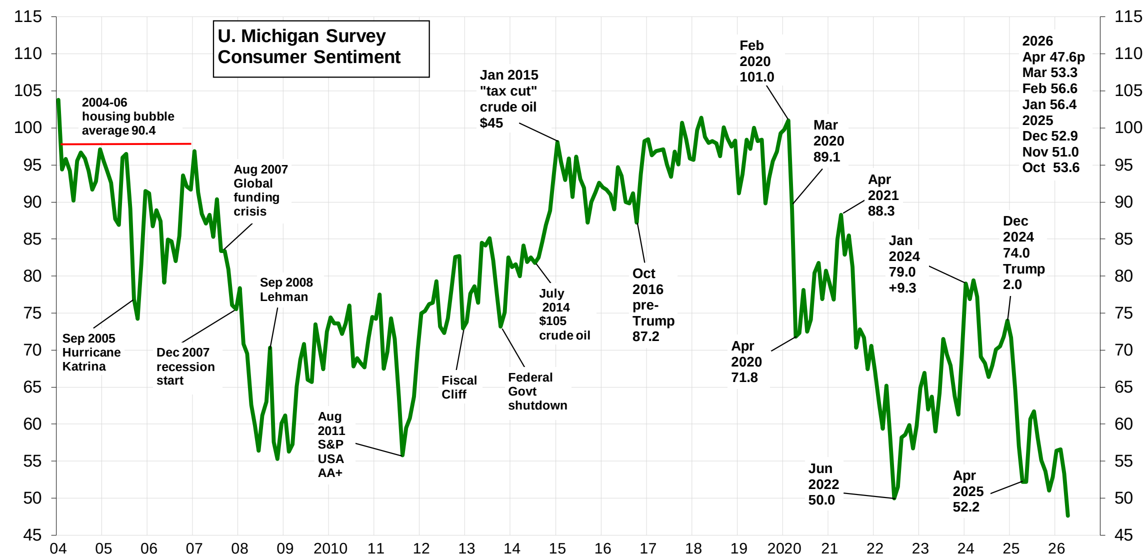
Net, net, the economy has just taken a direct inflation hit as a result of the war in the Middle East and it is an open question whether the seeds of its own destruction have not been layed. Every recession since the 70s has been preceded by an energy price shock and if consumers thought there was a cost of living crisis before, get ready, as you haven't seen nothing yet. The bond market is holding up as traders for now as they are unsure how transitory this inflation surge is, but one thing is for sure and that is the longer Fed officials sit on the sidelines and do nothing, the worse inflation is going to get. Stay tuned. The silver lining is that the energy shock has not pushed up the prices of core commodities yet, and ditto for services less energy services. The lesson of history however is that core consumer inflation will be moving higher soon however, if gasoline prices at the pump don't come back down. Bet on it.



Consumers hit the panic button (Friday)

Breaking economy news. Later on Friday morning at 10am ET, the Michigan consumer sentiment index fell to a record low. Sounds bad, doesn’t look good. Hard to know how to take this February 56.6 before the war, 53.3 in March, and now preliminary 47.6 in April. As the war goes on, the consumer’s outlook (and the stock market, until this week) gets worse. The report said 98% of the responses were in before the April 7 cease-fire.

Net, net, nothing like the news headline of consumer sentiment falling to a record low to wake market participants up. Consumers have not stopped shopping online or taking trips to the shops and malls yet, but that may change if this latest hit to confidence causes consumers to retreat into their foxholes until the war is over. The survey was all but completed before the ceasefire was announced, but it still shows how worried Americans are about the economy, and the soaring cost-of-living in particular, even before gasoline prices busted through the $4 a gallon ceiling. Economists say once the inflation genie is out of the bottle, it is nearly impossible to cancel the price increases and return costs back down to where they were. Time will tell if fed-up consumers go on strike. Stay tuned. Hopefully, the worst is still not to come.



The report also said buying conditions for durables and motor vehicles worsened.

Cars & Light Trucks SAAR millions											
2025									2026		
Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
17.1	15.6	15.8	16.6	16.5	16.6	15.5	15.7	16.0	14.8	15.8	16.3
	Q2 25	16.2		Q3 25	16.6		Q4 25	15.7		Q1 26	15.6

These buying conditions don’t always predict the future. Car & light truck sales were 16.3 million at an annual rate in March and so back to normal. That is why we thought consumer spending in real dollars might make it to 1.5% in Q1 2026. Sales were knocked down a few times over the last year but recovered. First drop was May 2025 after the Trump tariffs, the second was the October Federal government shutdown, and the third was the colder than seasonal winter temps in January this year.

Analyst Certification

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