MARKET PERSPECTIVE

MAY, 2026

IN FOCUS:

The Bureau of Labor Statistics reported that the unemployment rate fell by one tenth of a point in March to 4.3%, due in part to a decline in the labor participation rate. U.S. payroll employment increased by 178,000 jobs, up from a decline of -133,000 during the prior month. The uptick was supported by healthcare, construction, and transportation & warehousing employment gains. Federal employment continued to decline. This comes as wage growth decelerated to .2% and 3.5% month-over-month and year-over-year, respectively. The Job Openings and Labor Turnover Report (JOLTS) for February decelerated from the prior month in openings, hires and quits. The March JOLTS report is due out in early May. Layoff announcements so far in 2026 from companies such as META, Citibank, Nike, and Amazon, span multiple sectors and highlight the shifting of resources because of AI as well as evolving trade policies and economic conditions.

Consumer prices climbed 0.9% in March, led by a significant rise in energy prices, as the war in Iran raises concerns over the supply of oil. Year-over-year prices jumped 3.3% up from 2.4% the prior month. Core prices, excluding food and energy, rose 0.2% in March, led by increases in airline fares, apparel, and household furnishings and operations. Medical care, personal care and used cars and truck prices declined during the month. On the other hand, producer prices (PPI) in March came in lower than expected, unchanged from the prior month. The PPI report provided some immediate relief to higher inflation expectations and the market immediately traded up on the news, as oil futures sold off. The strike down of tariffs under IEEPA brings about at least some relief to higher prices. Customs duties collected, according to JP Morgan, show tariffs down 20% in the first three months of this year. The blanket tariff of 10% reinstated afterwards is relatively lower, plus inflationary pressures from the oil and commodity shocks may incentivize the administration to settle for much lower tariff rates going forward. Consequently, inflation is likely to rise from here but has the potential to come down with a moderation in tariffs and a swift end to the war with Iran.

The final estimate for Q4 GDP came in at 0.5%, down from the prior estimate of 0.7%. This also follows a robust 4.4% in Q3. Increases in consumer spending and investment were positive contributors against declining government spending and exports. The Bureau of Economic Analysis calculated a 1% hit to GDP, as a result of the government shutdown last quarter. The current forecast of the Congressional Budget Office calls for 2.2% real GDP growth in 2026. This takes into account fiscal support outlined in the reconciliation act of 2025 also known as the OBBBA, which includes several new tax breaks. That being said, tax refunds are trending lower than initially anticipated by the White House. According to its own publication, in January 26, 2026, it projected the average refund to be $1,000 or more. As of April 3rd, the IRS calculates the average return thus far as $346. This refund shortfall undercuts its expectations to stimulate consumer spending in 2026, a significant component of GDP growth.

Economic momentum is expected to increase in the back half of the year, bolstered by an investment boom for AI that continues to surge. In addition, consumption continues to post gains, spurred on by the wealth effects of a robust stock market and imminent tax refunds. We expect this positive momentum will overshadow the negative effects of the Iran War and the subsequent effects of higher energy prices. We would expect the higher-than-expected CPI inflation to be shrugged off as a temporary phenomenon once the Strait of Hormuz crisis gets pushed off the front page.

We would expect the Fed to remain on the sidelines with respect to interest rate easing, as a new Fed chair takes over and sentiment shifts to a more hawkish stance offsetting sticky inflationary pressures. The earnings picture looks particularly positive bolstered by the AI capex buildout but has yet to result in an accelerating or overheated economy. As the U.S. economy begins to accelerate from the 1.1% real GDP growth, closer to 3.0% in the back half of the year, we would expect that this resilience will bolster investor interest in late cycle or the cyclical sectors. This should expand industry participation outside the heavy tech sector in the second half of the year.

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