

2Q 2026 Economic Outlook

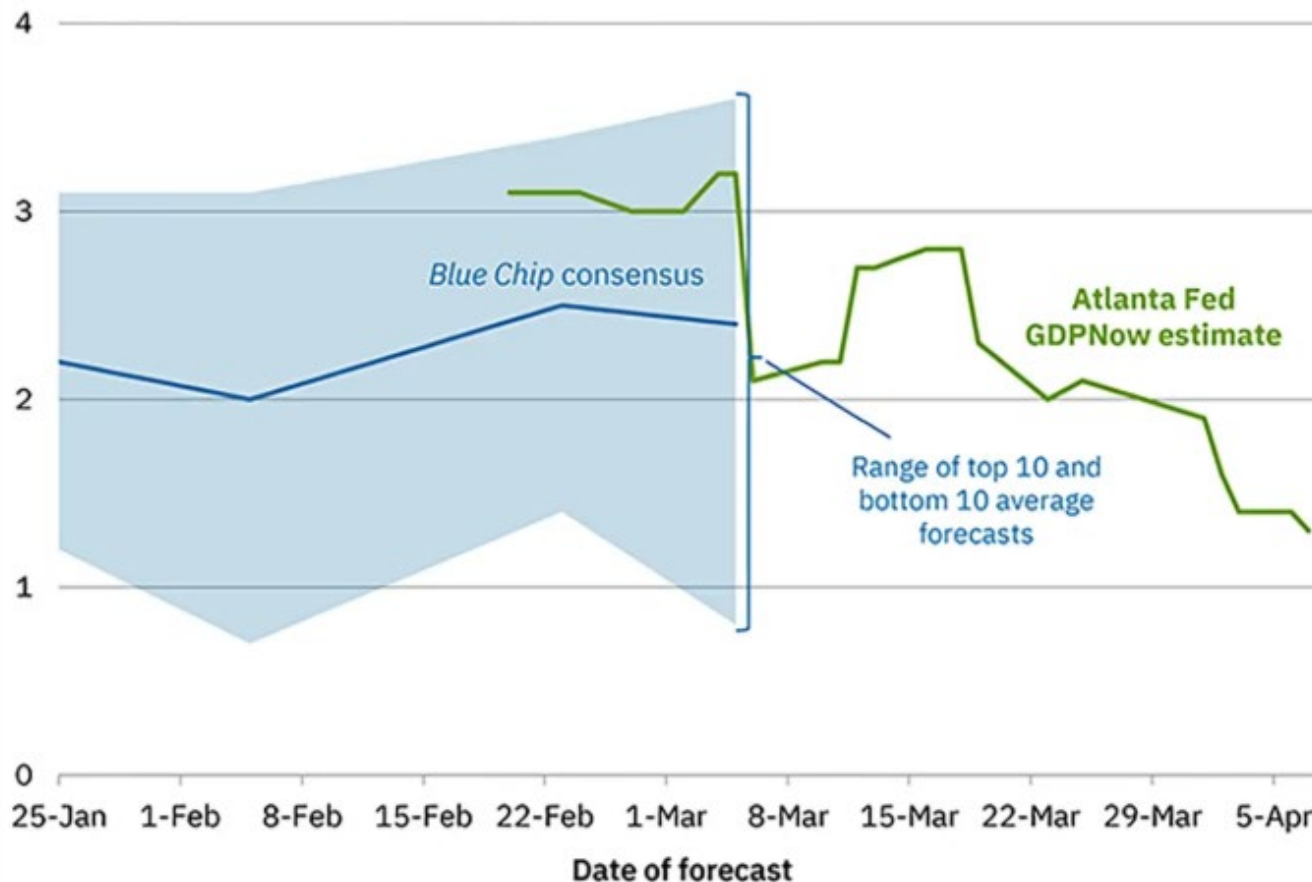
The Economy

- The U.S. economy expanded at a rate of ~2.5% in 2024 and 2025. We expect similar growth rates in 2026. We believe a recession is unlikely, but we cannot completely rule it out given the military conflict in Iran and the increase in inflation.
- Forward-looking indicators, such as the Leading Economic Index (LEI), ISM Manufacturing and ISM Services, are all pointing to moderate near-term GDP growth.
- The tariffs announced by the Trump Administration are likely to increase inflation and reduce economic growth. The odds of stagflation have increased given the conflict in Iran, although we are not in the recession camp. A sharp rise in unemployment or a significant drop in ISM figures may change our outlook.
- Home affordability remains near a multi-year low due to mortgage rates of approximately 6.3% and the constrained supply of homes for sale, keeping existing prices relatively high.
- The rollback of business regulations and BBB tax cut / extension, as well as secular changes such as the proliferation of artificial intelligence (AI), provide an underpinning for continued growth.
- Also on the positive side, the unemployment rate remains near 50-year lows at 4.3% despite risk of job displacement from the growth in artificial intelligence, and the Fed seems poised to continue lower short-term interest rates in the back half of 2026.

Q1 GDP Growth Estimate Is ~2%

Evolution of Atlanta Fed GDPNow real GDP estimate for 2026:Q1

Quarterly percent change (SAAR)



We expect GDP growth rates of ~2% in 2026 driven by the expected decline in short-term interest rates, AI productivity improvements, and tax benefits from the One Big Beautiful Bill (OB BB) passed last year.

Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

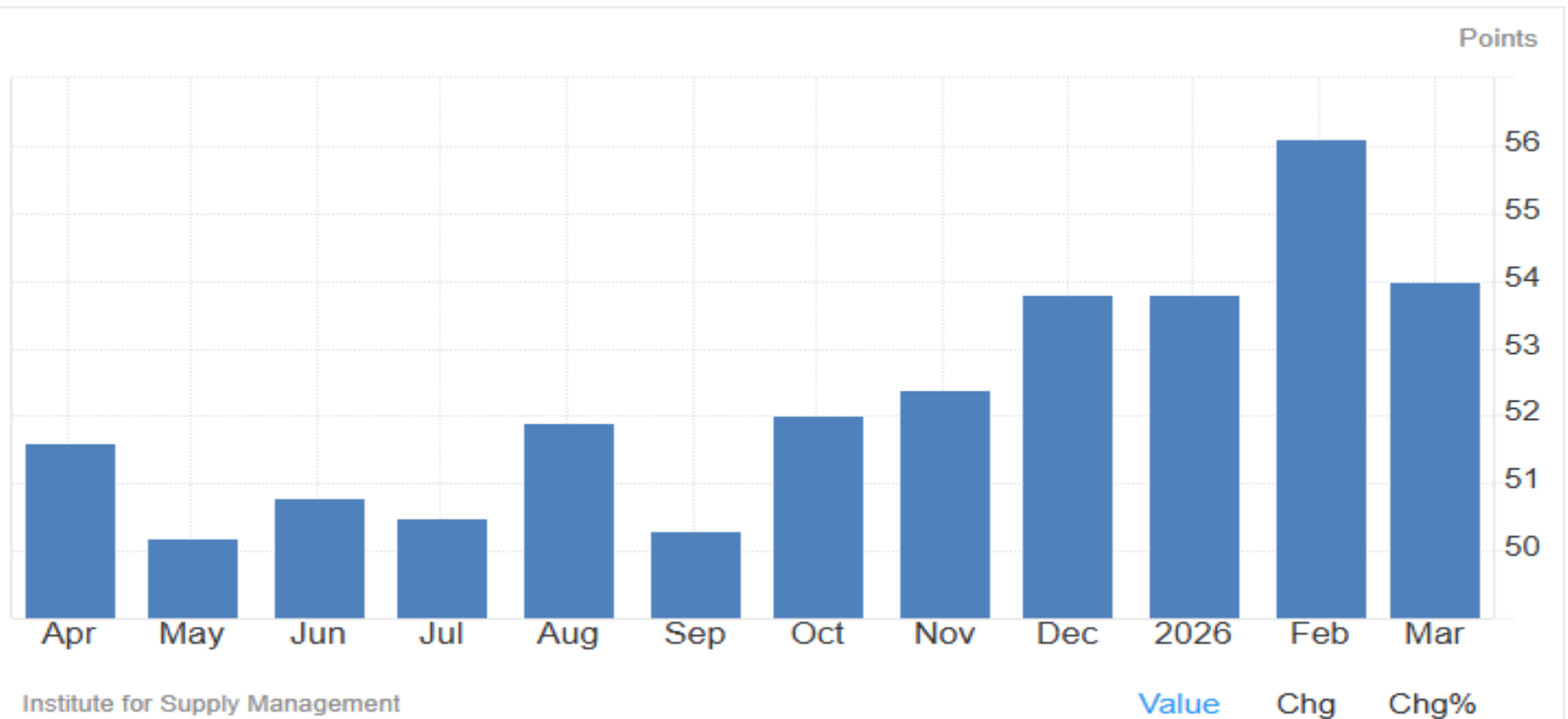
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

ISM Manufacturing Jumps, > 50 → Growth



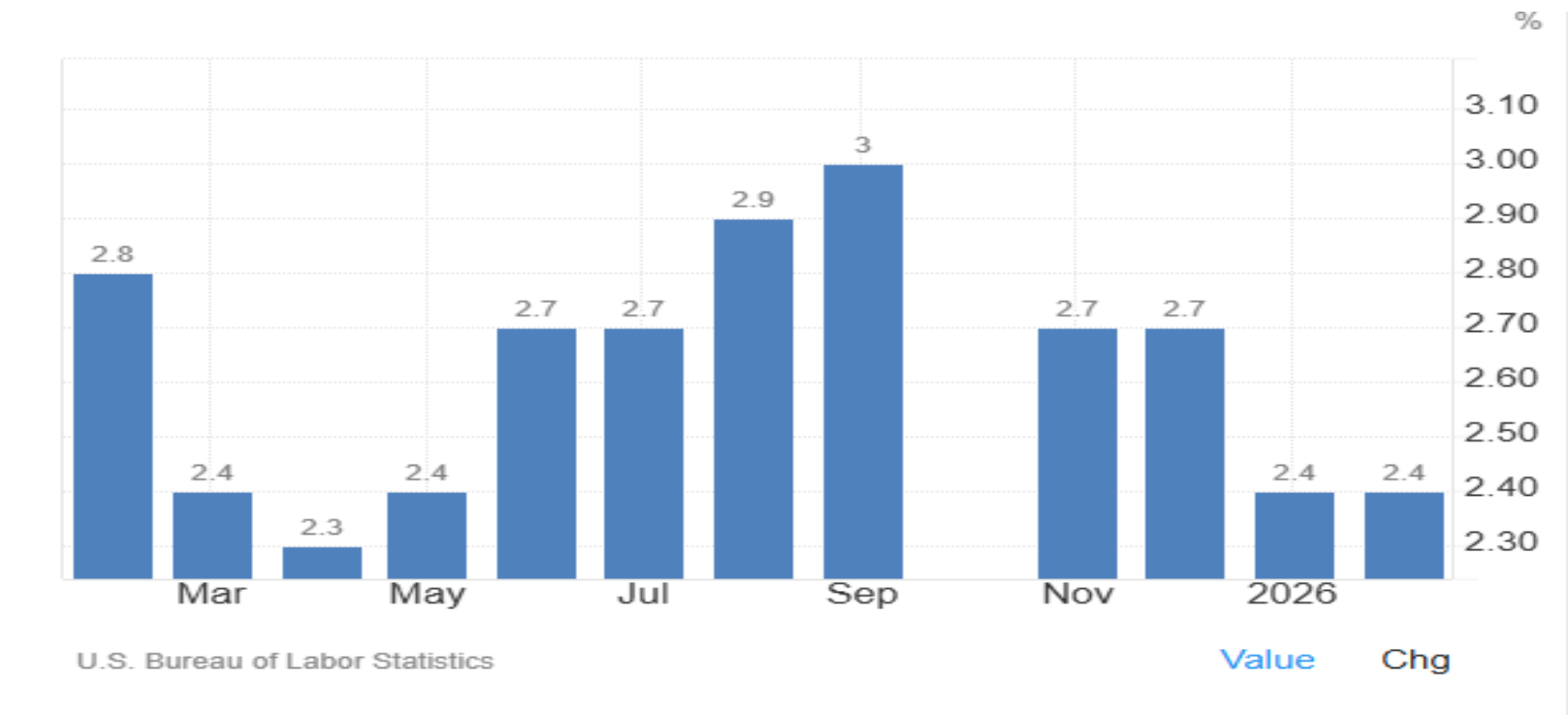
The ISM Manufacturing PMI for the US increased to 52.7 in March 2026 from 52.4 in February and above forecasts of 52.5. The reading pointed to the strongest growth in factory activity since August 2022, led by a faster increase in production (55.1 vs 53.5) while new orders slowed (53.5 vs 55.8) and employment contracted slightly faster (48.7 vs 48.8). Also, the prices index jumped to 78.3, the highest since June 2022, from 70.5. "The Supplier Deliveries Index indicated a further slowing for the fourth month in a row (58.9 vs 55.1). March "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 the negative comments, about 20% cited tariffs and about 40% the war in the Middle East", Susan Spence, Chair of the ISM said. source: Institute for Supply Management

ISM Services Solid → Growth Likely



The ISM Services PMI fell to 54 in March 2026 from 56.1 in February which was the highest since August 2022 and compared to forecasts of 55. The reading pointed to a slowdown in services activity, led by an ease in business activity (53.9 vs 59.9) and the first drop in employment in four months (45.2 vs 51.8). Also, the prices index rose to 70.7, the highest since October 2022 from 63 in February, amid higher oil and fuel costs and the supplier deliveries index indicated slower performance compared to February (56.2 vs 53.9), also unsurprisingly with shipping issues and flight disruptions due to the Middle East conflict and winter weather. Meanwhile, inventories (54.8 vs 56.4) and order backlogs (53.6 vs 55.9) eased while new orders rose faster (60.6 vs 58.6). "The predominant commentary this month was about impacts and adjustments due to the conflict with Iran and the expected flow through of higher oil prices at some point", Steve Miller, Chair of the ISM said. source: Institute for Supply Management

CPI Remains at 2.4% → Moderate, But Still Elevated



The annual inflation rate in the US held steady at 2.4% in February 2026, unchanged from January, in line with expectations and remaining at its lowest level since May 2025. Energy prices rebounded (0.5% vs -0.1%), led by a smaller decline in gasoline (-5.6% vs -7.5%) and a rise in fuel oil (6.2% vs -4.2%) and natural gas (10.9% vs 9.8%). On the other hand, prices for used cars and trucks declined more (-3.2% vs -2%) while inflation steadied for food (3.1% vs 3.1%) and shelter (3% vs 3%). On a monthly basis, the CPI rose by 0.3%, slightly accelerating from 0.2% in January and in line with forecasts. Shelter prices were up 0.2% and made the largest contribution. Gasoline went up 0.8% and food rose 0.4%. Meanwhile, annual core inflation, which excludes food and energy, remained unchanged at 2.5%, the same as in January and near its lowest level since 2021. On a monthly basis, core CPI increased by 0.2%, less than 0.3% in the previous month. Core figures also matched expectations. source: U.S.

Bureau of Labor Statistics

2Q 2026 Stock Market Outlook Summary

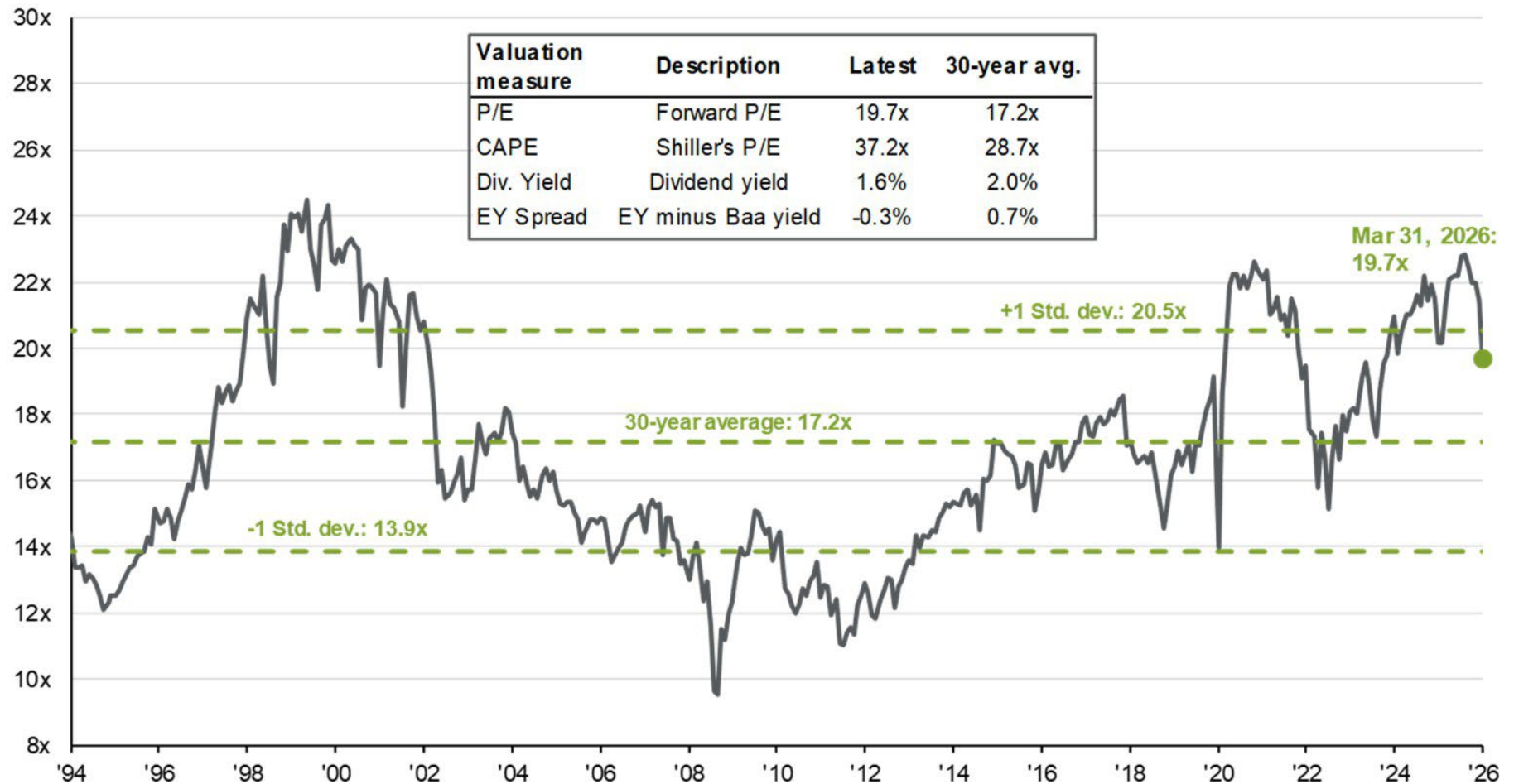
Stocks

- Stocks were up 25%+ 2023 and 2024 and nearly 20% in 2025. We believe gains in 2026 are constrained to annual earnings growth of ~8%-12%. A compression in stock market multiples from the current level of 20 remains a risk. Multiple compression is usually tied to investor psychology and increases in interest rates.
- 2023 through 2025 performance was driven by a small number of Large Cap Technology stocks, informally known as “The Magnificent 7.” However, we believe areas that have lagged, such as Small Cap and Value stocks, have the potential to have better relative performance moving ahead. Year-to-date, this market rotation has been the case.
- Consumer sentiment is near a multi-year low but may improve since the Fed restarted its rate cutting cycle in September. A rate cut is generally bullish for Small Cap and Value since it lowers the cost of financing for these firms which may be relatively financially challenged. We expect further short-term rate cuts by the Fed in the back half of 2026.
- Stock picking is always important but may be as pertinent as ever. We favor companies that have pricing power in an inflationary environment as well as those companies that may perform relatively well in a modest growth economic environment.

Elevated Equity Valuations (03/31/26)

The heightened valuation levels may place limits on future gains

S&P 500 index: Forward P/E ratio



S&P 500 Concentration Risk ~ Highest Ever

Weight of the top 10 companies in the S&P 500

% of market capitalization, % of last 12 months' earnings



Large companies, such as the “Magnificent 7” will continue to drive S&P 500 returns.

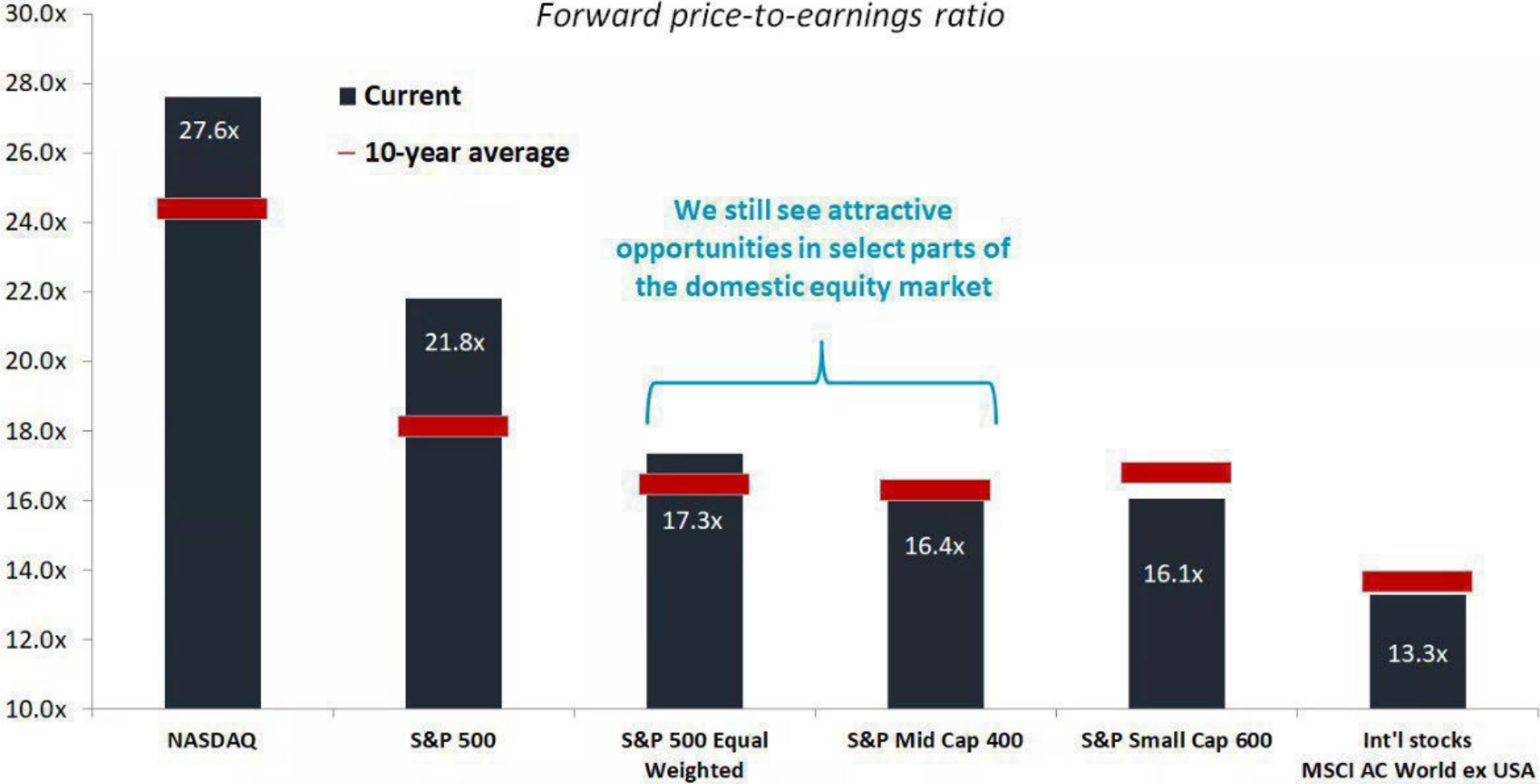
Magnificent 7 Stocks

- Microsoft
- Apple
- Google / Alphabet
- NVIDIA
- Amazon
- Meta / Facebook
- Tesla

Median and Non-U.S. Stocks More Reasonably Valued

Valuations are full, but not across the board

Forward price-to-earnings ratio

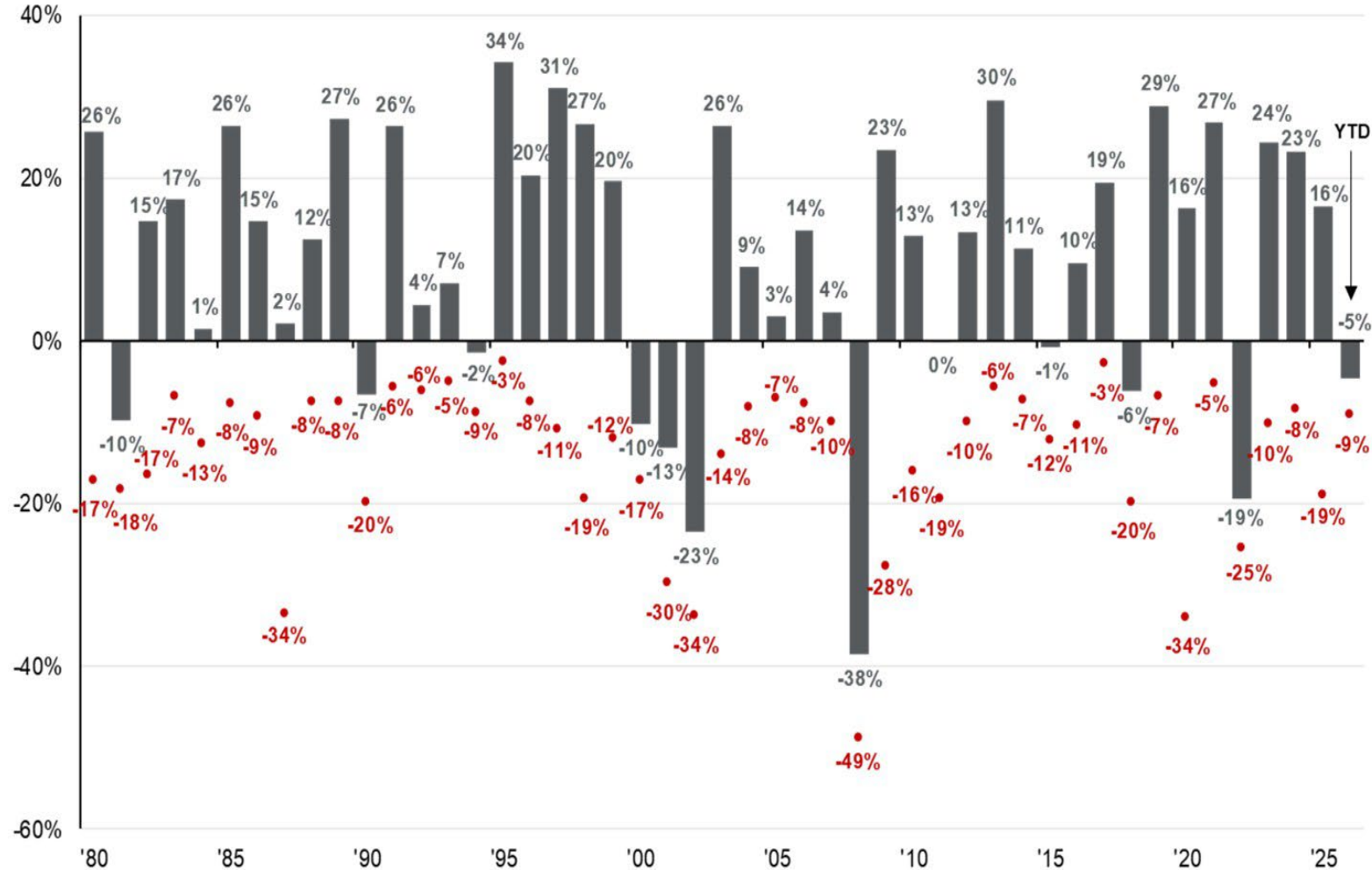


Source: FactSet, Edward Jones.

Annual Market Drawdowns(04/02/26)

S&P 500 intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.2%, annual returns were positive in 35 of 46 years

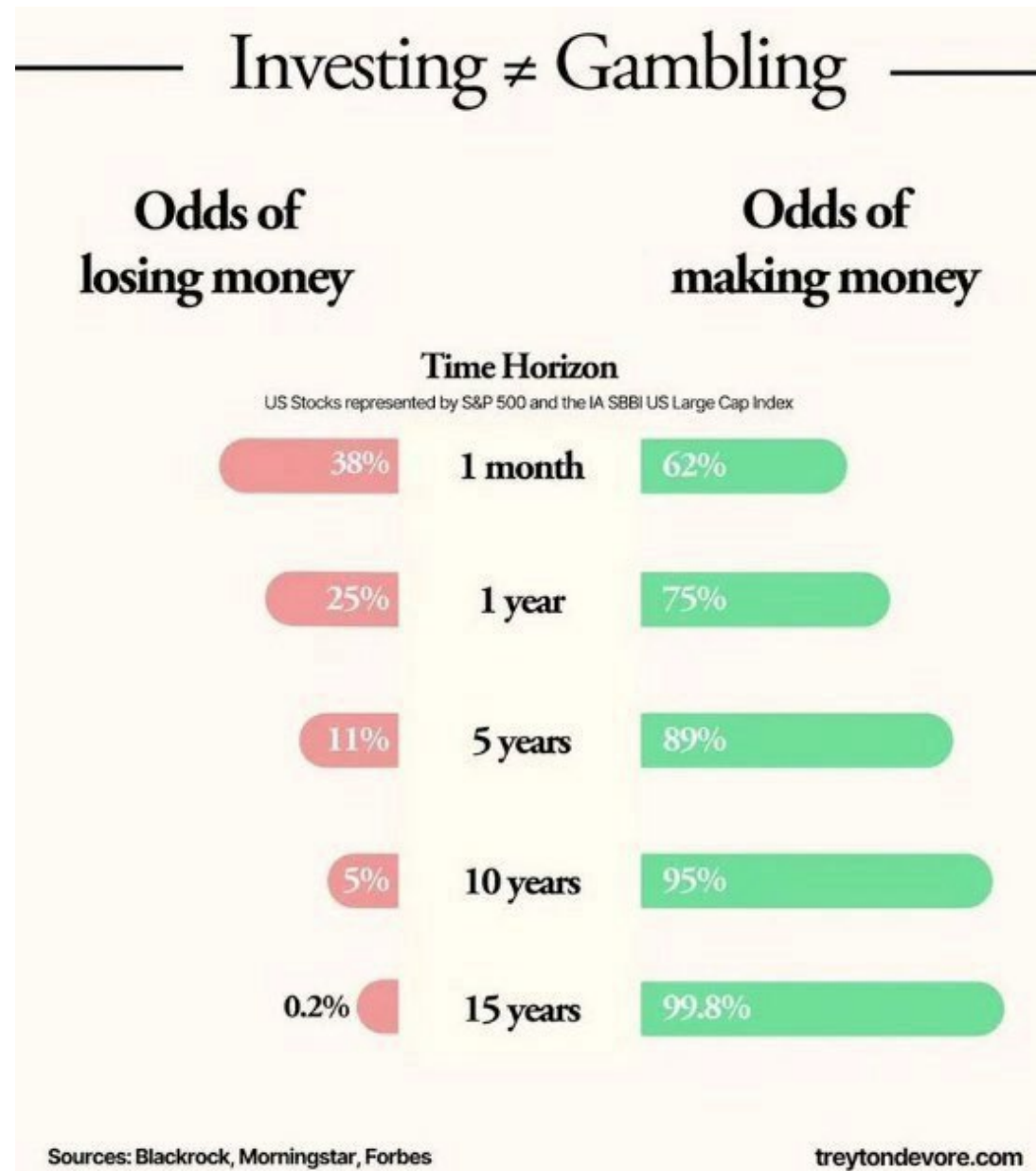


Stocks are volatile by their nature.

The average top-to-bottom intra-year drawdown is 14.2%.

Yet stocks finished in positive territory >75% of the time.

Benefits of Focus on Long-Term Investing



2Q 2026 Bond Market & Fed Outlook

Bonds

- The Fed lowered short-term interest rates after its September, October, and December meetings. Our team expects further rate cuts of 0.25% in 2026 despite the current pause.
- Inflation measures, such as the CPI and PCE, remain elevated in the range of 2.5% to 3.0%. The military conflict in Iran implementation of tariffs places further upward pressure on inflation measures.
- In general, we prefer high-quality, intermediate-duration debt, since we believe it provides the best balance of return versus risk.
- We believe it is appropriate to have a neutral duration target at this time due to continued uncertainty surrounding tariffs, problems in the private credit market, and the large Federal debt burden.
- We expect long-term U.S. Treasuries to be largely rangebound in the 4.00%- 4.5% range for the next quarter or two. We are locking into investment- grade debt at attractive yield levels that are in the range of 4% to 5% at this time.

10-Year Treasury Historical Yield Chart

As of 04/02/26

4.3090 -0.0100 (-0.23%)

As of 1:26:34 PM CDT. Market Open.



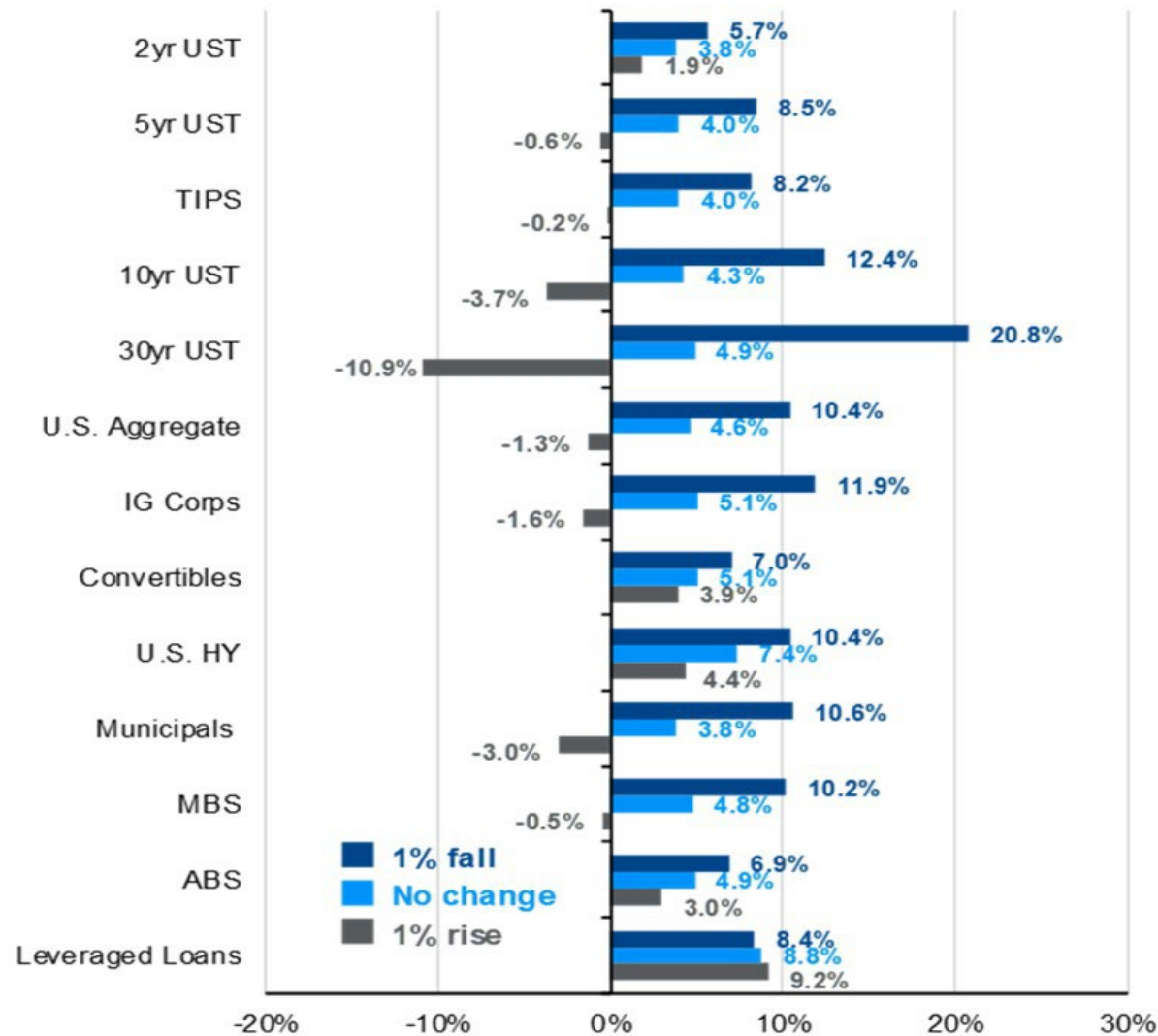
The economy will eventually adjust to higher interest rates. We have been here before, and the economy still thrived.

Source: Yahoo! Finance

How Interest Rate Changes May Impact Bond Returns

Fixed income returns in different interest rate scenarios

Total return, assumes a parallel shift in the yield curve



2Q 2026 Risks Summary

Risks

- Risk of an extended war with Iran, which increases the risk of stagflation.
- Further compression in stock valuation multiples due to investor fear and geopolitical tensions.
- Projected earnings may be reduced as companies update guidance during earnings season.
- Risk that U.S. operations in Venezuela go worse than expected.
- Risk that U.S. actions in Greenland further negatively impact relations with NATO allies.
- A worsening of political and trade tensions between the U.S. and China, as well as a spillover effect from problems with property-related firms in China, such as Evergrande.
- Geopolitical risks in Russia/Ukraine, the Middle East, and North Korea may increase further.
- The large federal budget deficit is a problem that must eventually be faced, in the form of higher taxes and/or less spending. The regularly occurring debt ceiling and government shutdown threats are symptoms of a structural problem of spending in excess of tax receipts.

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