

## STATE OF THE ECONOMY CALL TRANSCRIPT

APRIL 15, 2026

**Jean McGowan:** Good morning, everyone. I want to welcome everybody to our latest State of the Economy call. It seems like every year, particularly in the spring calls, something unexpected always happens that throws a little bit of uncertainty over our outlook for the year. It certainly makes it a challenge for us to put together materials to talk about what's happening. But the positive side of that is it gives us a chance to get in front of you and let you know what we're thinking and how we're dealing with the uncertainty that we're seeing today. Hopefully, when we go through this call and the slides, it will give you a little bit of peace of mind about what's going on in the world today.

With that, I'm going to share my screen, and we'll go through the State of the Economy slides. As I alluded to, there have been significant events that have occurred this year so far, namely the conflict in Iran. When we go through events like this, the key for us is to focus on what we know and think about how what is happening might or will affect our longer-term outlook.

There are a lot of different data we're looking at today more closely than we might have been at the beginning of the year. We're certainly following supply chain disruptions, looking at the pace or lack of activity coming through the Strait of Hormuz. We're following very closely energy prices and thinking about how those might impact global economic growth and the U.S. consumer. We're looking at inflation expectations, and we're closely monitoring tax refund activity, as that can provide some ballast for consumers in these more difficult times.

Today, we're going to focus a little more on what we know, and we'll weave in our thoughts about how the conflict in Iran could impact that. We'll talk about the rising geopolitical risk and uncertainty and how that might impact the economy. We'll talk about our outlook for inflation and interest rates, the Fed, and the longer-term trend in inflation. Lastly, we'll look at market volatility and what our expectations are for the market for the rest of the year. We have a packed agenda, so we'll get started.

What we expected coming into the year was solid economic growth, probably an acceleration from last year. The pillars that supported that outlook were a healthy consumer, a solid labor market, and the positive impacts for both businesses and consumers from the One Big Beautiful Bill Act that passed last year. Those pillars are still intact.

The question that we're dealing with today is, does the conflict in Iran change those? Does it change them in the short run or for the long term? We really don't know the answer to that today. Will higher energy prices slow consumer spending? Will it slow business investment? This will largely depend on how long the conflict lasts and how quickly we can return traffic through the Strait of Hormuz and get the oil and energy markets back into a balance between supply and demand. Clearly, the sooner we get a resolution, the better it would be for global growth. If it's resolved sooner, we could see growth closer to what we expected at the beginning of the year, which is an acceleration from last year. If it takes longer, we might see growth being closer to trend or maybe slightly below trend. The level of

uncertainty has increased inflation risks, and that's something we're monitoring very closely, but our base case is still positive economic growth.

In the last few days, we've seen a little bit of a shift in the strategy in Iran, focusing more on economic versus military activities. The blockade of the Strait of Hormuz is intended to cause more economic damage in Iran in the hopes that it will bring them to the table. But we don't know what's going to happen, and it really is changing from day to day, so we're going to focus on what we think is going to happen and what we can control.

With that, I'm going to move to slide 4, which I know you're all familiar with. This is U.S. GDP growth, the green bars are quarterly GDP growth looking backward and the gray bars are expectations going forward. Looking back to 2025, I would note that it was a year of solid economic growth. We saw a lot of volatility quarter-over-quarter, mostly driven by trade activity, particularly net exports and increasing inventories ahead of expected tariffs, which then worked their way through the system over time. But overall, we had stable growth for the year.

We can see that the fourth quarter of 2025 looks relatively weak, with economic growth at just half a percent. That was in large part due to the government shutdown at the beginning of the quarter which subtracted about 1 percentage point from fourth-quarter GDP. Outside of that, consumer spending was up year-over-year and contributed about 1.3 percentage points to GDP. Business investment was also positive, adding about half a percentage point to GDP. However, the backward-looking data doesn't tell us a lot about what's happening going forward.

In the first quarter, we still see consumer spending being the main driver of GDP growth. We have had some signs of weakness throughout the quarter. We had weather-related effects, particularly on the East Coast earlier in the year, which impacted spending slightly. Overall, we are expecting about 1.5% annualized GDP growth in the first quarter, mostly driven by the consumer, and we're still seeing good business investment. Last year, business spending was primarily related to AI infrastructure. Going forward, we still expect AI to be the main driver of business investment, but we do believe that we'll see more broad-based growth across sectors. This is driven in large part by the benefits for corporate investment that were built into the tax changes last year.

Looking at the rest of the year, we can see above-trend growth. We haven't changed these forecasts based on what happened recently, so they could change a little bit depending on how long the impact on energy markets continues. Overall, we're looking at moderate economic growth this year. Yes, recession risk is higher because of the uncertainty, but we still believe that we can see positive GDP growth for the year.

Moving to slide 5, one of the keys to positive GDP growth for the year is the labor market. Because the consumer is such an important part of our economy, the labor market is critical to continued positive economic growth. We would describe the labor market as okay and steady. We're not gaining a lot of new jobs, but we're not losing jobs. So, it's not robust, but it's good enough for the environment that we're in.

The left side of the slide is the non-farm payroll report, which gives us growth in new jobs on a month-over-month basis. It's been quite volatile over the last year on a month-over-month basis, we've seen some months where jobs were lost, with jobs coming back in the next month. In general, over the last 12 months, we've added about 260,000 new jobs, which is quite low, but it's enough to keep the unemployment rate steady. You may notice that in February we had a large decline in jobs, and that was mostly due to a strike in the healthcare sector in California at Kaiser Permanente that reversed itself this quarter. Overall, we're showing a little bit of job growth, not a lot.

On the right side of the slide is new applications for unemployment insurance. This is a great measure because it's timely, weekly data, and it's based on actual applications for unemployment. This graph is a smooth four-week average, and the data shows that we're not seeing an increase in people applying for unemployment insurance.

So, the left side indicates that we're not gaining a lot of jobs, and the right side indicates that we're not losing a lot of jobs currently. If we can reduce some of the uncertainty and get the things that we were expecting at the beginning of the year, in terms of benefits from business investment, we could see a pickup in the labor market. For now, a steady labor market is okay. It supports wages, supports consumer health, and provides a backdrop for consumer spending.

On slide 6, looking deeper into the labor market, we have the unemployment rate on the left side. The unemployment rate has been relatively steady. It's currently around 4.3%. This is up from the lows that we've seen more recently, but on a historical basis, it's still relatively low.

An important point as we look deeper into the labor market is on the right side of the slide. The dark line is the labor force participation rate, which is the number of working age people that are either currently employed or actively seeking employment. The labor force participation rate has been declining over several years and this is due to several factors and is sort of a structural change that we've seen. With the aging of the baby boomer population, we're seeing more retirements coming out of the labor market, and we're not replacing them with younger workers. More recently, we've also seen a slight impact from less immigration. The overall labor force participation rate has been modestly shrinking, and that has allowed the unemployment rate to stay relatively steady, even though we're not adding a lot of jobs. This means that we don't need to add as many jobs to keep the unemployment rate steady.

The important part of this chart is the light green line which is the prime-age labor force participation rate. Those are people in the labor force, either employed or actively looking, that are between the ages of 25 and 54. This is the core of our labor market as it's the largest in terms of numbers, the largest in terms of contribution to spending, and to all the great economic activity that we're looking for. There has been no change in the prime-age labor force participation rate. It's been relatively steady and that's good news for the labor market going forward.

Before we leave the labor market, I thought it would be helpful to make a couple of comments on productivity growth and its impact on the labor market. We've seen productivity increase dramatically for most of last year. In fact, the last three quarters of last year, U.S. worker productivity increased 4.1% on an annualized basis. This is important because, when workers are more productive, it means the cost of labor is lower for businesses, which allows them to increase investments in other areas. The

investment that we have seen in technology, and particularly AI, has been driving some of these productivity gains.

Higher productivity means that companies can expand their businesses without necessarily adding new employees, or they can also add new employees without significantly increasing their unit costs. This has been particularly helpful for small businesses, which over the last three years have noted that they are struggling to find quality workers. They can now utilize technology and AI investments to not have to add that extra worker which they are struggling to find. The broader benefit for the economy is that productivity allows for growth in the labor force, it allows for growth in the economy, and it tends to lead to increasing living standards over time, all of which happen without any impact to inflation.

One related side note, we've had a lot of questions about whether AI will replace workers and whether this is going to have a negative impact on the labor market over the long term. Historically, innovations, whether it's AI, the internet, or going back to the Industrial Revolution, tend to not have a significant impact on the current labor market. They certainly change the types of skills that people need to compete in the labor market, but over time as their cost is reduced and we expand the number of uses and access to that innovation, it actually leads to more jobs and better economic activity. We're very early in the stages of this technology evolution, and we don't know where it will end up, but we don't have concerns about a major disruption to the labor market and we think that, over the long term, this increase in productivity benefits earnings growth, it benefits employees, and it benefits the economy as a whole.

Moving on to the consumer on slide 7. Consumer confidence, on the left side of the slide, historically had a very strong correlation to consumer activity. This makes sense because if we feel good about the outlook for the economy and for the future then we're more willing to spend today and if we feel worse about the outlook going forward then we might not spend as much and start to save. What we've seen is that consumer confidence has been weak for several years. We start to see a slight improvement, and then it trails off. So, the consumer is not expressing that they feel good. However, consumer spending is still relatively strong as shown on the right side of the slide. This is real personal consumption expenditure, which is the overall level of consumer spending in our economy. The green line represents the dollar amount of spending, and the dotted line represents the longer-term trend.

Although people are saying they don't feel good about the future, they're still spending. It's an interesting dichotomy, and I think we could have a whole discussion just on the internals of the Consumer Confidence Index. We're seeing significant gaps in how people feel depending on their age group, depending on geography, and depending on political affiliation that are a lot different than what we've seen in the past. Hopefully, it will begin to be more of an indicator on future spending. The key takeaway from this chart is that consumers are doing okay, they keep spending, and we don't expect to see a significant decline in consumer spending going forward.

Slide 8 is our first slide which covers recent events. Of course, when I talk about the impacts of the conflict in Iran, I'm talking about it from an economic standpoint and certainly not a human standpoint. The most immediate impact we are seeing is the increase in energy prices. On the left side, we have the price per barrel of oil going back to 2004. Since the start of the conflict, oil has almost doubled, reaching

a high of about \$114 per barrel last week. This is not shown on the chart, but prices have since come down. As of this morning, oil was around \$92 per barrel. It certainly remains elevated relative to where oil has been more recently and relative to the recent trend of lower prices.

This is completely driven by a supply shock as 20% of global oil shipments pass through the Strait of Hormuz. In addition to the strait being closed and that supply not reaching the market, some infrastructure in the Middle East has been impacted, and it may take time to repair and bring back online. As a result, even if the strait reopens soon, it will likely take longer for supply to return to the levels seen prior to the start of the war.

For the U.S., this is less of a supply issue since we receive about 2% of our oil through the Strait of Hormuz. Prices in the energy markets are global, so we're being impacted by the higher prices, but our supply of oil remains strong and is not creating issues for our economy.

That said, supply is certainly an issue for the global economy. China, India, Japan, and South Korea account for about 70% of the oil flows through the Strait of Hormuz. China and Japan have historically maintained very high oil reserves, which are helping them in the near term. However, the longer the strait remains closed, the greater the impact will be not just from a price standpoint but also from a supply standpoint. Across Europe, countries are dealing with both supply and price issues. So, this represents a global disruption.

For the U.S., it's a price disruption and not a direct supply disruption but that price impact is significant, and we can see that on the right side of the slide. This chart shows the average annual cost of driving a car, and it's based on an assumption that the car is driven 12,000 miles a year and gets 25 miles per gallon in efficiency. The long-term average is about \$1,400 a year to drive 12,000 miles. Since the start of the year, the annual cost of driving a car has moved up by about \$625 to just below \$2,000 a year, which is a significant real impact on consumers.

In the short run, consumers can offset this impact with savings and higher tax refunds, which have also been significantly important. Tax refunds are up about 10% year-over-year, which is a benefit for the consumer, but it doesn't last forever. Consumers can work through the near term, but the question is, if this continues and high prices persist, at what point is consumer behavior impacted? We don't have an answer to this yet, but it's something we're very closely paying attention to.

This leads to our outlook for inflation on slide 9. In the near term, we expect inflation will increase as the price increase in the energy sector will feed into inflation measures. On the left side is the core Personal Consumption Expenditures (PCE) Price Index which is the Fed's preferred inflation measure. It's a core measure, so it doesn't include food and energy and therefore doesn't pick up on the increase in oil prices most recently. It focuses more on longer-term inflation trends. However, we note that even headline inflation numbers haven't fully reflected the increase in energy prices because of the timing of the data.

We have seen a modest increase in core prices recently, driven primarily by services such as insurance and healthcare. However, we do not expect this to continue significantly if we get a resolution on energy prices and the situation in Iran. Core prices will pick up higher energy costs over time, even though they

are not directly tied to energy prices. That said, there are trends toward lower inflation that remain in place even with higher energy prices expected over the short run.

One reason we believe inflation, despite a short-term increase, should continue to trend lower in the back half of the year is the impact of tariffs. Tariffs are a one-time price adjustment, much of which occurred in the second and third quarters of last year. As we begin to move past those price increases, it will have the effect of lowering inflation on a year-over-year basis. In addition, tariff rates have moved lower as we reached more trade deals with countries. Even before the Supreme Court decision on the IEPA tariffs, the effective tariff rate had moved down to around 10%. Moving forward, we are going to lap the initial price increases, and tariffs are lower than we expected initially, which is a positive for the inflation outlook.

The second reason is shown on the right side of the slide, which is the shelter component of the Consumer Price Index (CPI). The green line represents the shelter component of the Consumer Price Index, and the gray line is the Zillow Rent Index, which reflects current pricing in the rental market. The Zillow Rent Index provides us with a current look at how rent prices are changing, whereas CPI captures actual changes in rental prices. When prices are rising or falling, it takes much longer for those changes to be reflected in the CPI because rents are set through contracts, which don't reprice frequently. As a result, shelter costs enter the inflation data with a lag and leave with a lag.

The key takeaway from this chart is that rental price increases (the gray line) have been declining from the peak reached a few years ago. Currently, average rents across the country are rising by 1% year-over-year and we expect the shelter component of the CPI to continue to move closer to what Zillow data is indicating about current inflation. This is very important because the shelter component accounts for about one-third of the CPI.

So, all else being equal, tariffs rolling off and getting current rent inflation into the CPI will push inflation lower. This is assuming we get a resolution in Iran and get energy prices coming down to a more normalized level. Our long-term outlook remains that inflation can move lower going forward. We may not get to the Fed's 2% target, but we do believe inflation can come down to the 2% to 3% range that we've talked about for some time.

Moving to slide 10. When we talk about inflation, the key in the short run is inflation expectations which is what impacts consumer behavior. If consumers are concerned about inflation, they might stop spending, wait to see where prices go, or delay large-ticket purchases if they believe prices are too high now but may come down later. For that reason, we monitor inflation expectations very closely. This chart shows two-year and 10-year inflation expectations, based on pricing in the Treasury Inflation-Protected Securities market, or the TIPS market. The lime green line represents investor expectations for average inflation over the next two years, and the dark green line represents expectations for average inflation over the next 10 years.

Recently, short-term expectations have risen quite significantly along with energy prices, reaching about 3.5% in mid-March before moving back down slightly since. More importantly are longer-term inflation expectations, which have remained relatively steady at around 2.3%. So, the market expects prices to be

higher over the near term and, over time, come down to a more stable inflation rate that is closer to 2.3% over the long term.

As a side note, one-year inflation expectations went up much more dramatically, reaching about 5.5% in mid-March. They have moved down since then to about 3.5% as of today. Again, these are short-term inflation expectations, and we'd like to see long-term inflation expectations remain anchored as that's what's best for consumer activity.

Moving to interest rates on slide 11. The conflict in Iran has certainly impacted the interest rate market, particularly short-maturity bonds. On the left side of the slide is the yield of the two-year Treasury note, which has risen about 50 basis points over the past several weeks. This reflects uncertainty over how short-term price increases and expected inflation might impact the Fed's ability to continue lowering rates. So, the market has removed any expectation of Fed rate cuts in the near term.

The yield on the 10-year Treasury moved slightly higher, but not nearly as much as the two-year yield. Again, this reflects the longer-term outlook that inflation should stabilize once we get through this period. On a related note, mortgage rates tend to be correlated with the 10-year Treasury. So, the increase in 10-year Treasury rates has also moved mortgage rates up and this has been pushing off any potential recovery in the housing market, at least over the near term.

Moving to the Fed on slide 12. This chart shows how the two-year Treasury, represented by the gray line, is highly correlated with expected changes in the Fed funds rate, represented by the dark green line. As the Fed was cutting rates, the two-year Treasury moved down to about 3.5%, which is where the Fed was expected to stop cutting rates. The two-year rate has since moved higher as the market isn't sure that the Fed can cut rates in the current environment. The lime green line extending from the Fed funds rate is the Federal Reserve's forecast for rates, and we can see that they are not expecting a lot of cuts. They are only pricing in one rate cut at the end of this year and one in 2027. Market expectations are for no rate cuts this year or next year.

The Fed's dual mandate, to maintain price stability and full employment, should keep it on hold. Because of this mandate, the Fed is less likely to act based on near-term inflation pressures as raising rates in response to the current inflation concerns could impact longer-term growth and the labor market. There has been discussion about whether the Fed should or would raise rates, but we don't believe it will. Fed Chair Powell has indicated that the Fed intends to look through the current increase in energy costs and continue to monitor the data, without reacting to the short-term. We believe if they did, it would be a mistake.

Most global central banks operate under a single mandate which is to maintain price stability, rather than a dual mandate. This makes decisions more challenging for them in environments like the current one, so there is certainly some risk that central banks may raise rates to offset the impact of near-term higher prices. For the U.S. Fed, however, we believe it will remain on hold for a while, and we take Chair Powell at his word. While we will have a new chair, potentially in May, we don't think that will change the outlook for interest rates anytime soon.

Moving to the equity markets on slide 13. The returns shown on this slide are through April 10. On the left side, we can see the year-to-date returns. The S&P was largely flat over this period, although it was down as much as 9% throughout the course of the first quarter, but had a rally more recently.

Importantly, different sectors participated, with a significant portion of the market performing better than the S&P and making positive contributions during the first quarter and into the second quarter. Energy was the best-performing sector, while materials came in second place, primarily driven by higher commodity prices. Industrials were also strong while utilities and consumer staples, which are more defensive, benefited from the uncertainty of the environment. On the downside, technology, healthcare, discretionary, and finance were the underperformers through that period.

On the right side are the trailing 12-months returns through April 10, which are very high given they include the earlier parts of last year. The S&P over the trailing 12 months is up 31%, with energy still the top-performing sector, and technology among other sectors which we've talked a lot about also outperforming.

The key takeaway is that we are seeing more companies participating and more sectors participating. Prior to the second half of last year, the previous year and a half or two years, returns in the market were driven by a narrow set of technology and communications companies. This is a much healthier market, with contributions from a broader range of companies and where diversification across sectors really matters. We expect this is going to continue going forward.

Given the high returns in the last couple of years, we don't expect market returns to be in the same high double-digits that we have experienced. We still think that we can see positive market returns this year, but perhaps more muted. Corporate earnings are expected to grow at a double-digit rate this year, which will support the market. However, it's possible that market prices may not rise as fast as earnings, whereas in the past couple of years prices have risen faster than earnings, so we may see a rebalance here. Overall, the health of the S&P 500 and the underlying companies remains strong as we move through the year.

That's not to say we will not experience heightened volatility. We have already discussed the situation in Iran and the uncertainty and volatility it is creating. In addition, it's not unusual to see increased volatility in a midterm election year and slide 14 shows this.

On the left side, average S&P 500 returns are broken down by the year within an administration. Year one is strong, year two tends to have positive but lower returns, year three often sees a recovery in the market, and year four is positive but more moderate. So, we're in a year that is historically a little bit weaker for market returns, and that is due to the uncertainty that midterm election cycles can bring. Election-related volatility has increased over the past several cycles. In fact, there has been a leadership change in Congress in every midterm election over the last five cycles or so.

When political volatility is elevated, market volatility and uncertainty tend to rise as well. We can see that on the right side of the slide. This chart shows the average drawdown, or intra-year market decline, broken out by the first, second, third, and fourth year of an administration. On average, the market experiences a drawdown of about 13% annually. In midterm election years, that drawdown tends to be

closer to 19%. This doesn't mean that outcome is certain, but it does indicate that markets have historically experienced greater uncertainty during those years. The good news is that once the election passes and uncertainty dissipates, the market has historically responded strongly in the 12 months following the election. The key takeaway is to expect volatility, but it doesn't mean that we're in a bad market environment.

On slide 15, the last market chart really tells the same story but doesn't break it out by administration or election years. The green bars are the annual return of the S&P 500, and the green diamonds are the intra-year drawdown in each one of those years. Again, it's not unusual to see an intra-year decline in the market, and it doesn't mean that we're going to have a negative return when the market sees a large drawdown. So far this year, the market was down as much as 9% earlier in the first quarter. As of April 10, it recovered to be roughly flat, and as of last night, it is up about 2%. Hopefully, this helps put the recent volatility in perspective and provides some reassurance about the potential going forward.

We have a few minutes, so I will briefly shift to a different topic. We often get questions about the dollar, particularly whether it is at risk of collapsing and whether it will continue to be the reserve currency. I will address this briefly in a couple of ways. The recent move in the dollar looks dramatic in isolation, but when viewed in the context of the dollar's longer-term history, it is far less dramatic.

Starting with the right side of the slide, this shows the value of the dollar from the beginning of 2025 through last week. We can see there was a significant decline in the dollar. In fact, from the peak at the beginning of 2025 until the trough, the dollar declined by about 12%. This was primarily due to the impact of the expected tariffs and then the tariffs announced on Liberation Day being much greater than expected. After that initial decline, the dollar moved into a relatively stable range. Although it moved around a lot, it traded within a pretty narrow range.

While the dollar has weakened over the past year, comparing where the dollar is today relative to history, as shown on the left side of the slide, it remains at a reasonable level. What you see on the left side of the slide is that the dollar moves through many cycles over time. These cycles are driven by a range of factors, including geopolitical risk, differentials in growth between the U.S. and the rest of the world, trade flows, as well as other factors. Based on this context, we're not in a position to believe that the dollar is going to stop being the reserve currency or that we will experience a significant collapse.

A couple of data points support that view. There is a common perception that foreign investors don't want to hold U.S. assets, but the data does not show that. Foreign holdings of U.S. Treasuries have remained relatively steady over time. What does change is which countries hold more or less Treasuries, and this is in large part due to trade flows. Over the last several years, we've seen a shifting of supply chains and different countries now transacting with the U.S. which didn't before. For example, to the extent that China holds less Treasuries today than it did five years ago, South Korea holds more. So that change is occurring. About 80% of global trade involves the dollar on at least one side, so it remains the transactor of choice. As a net importer country, that's going to keep the dollar as part of that global trade.

More broadly, global currency reserves have been diversifying away from the dollar. This trend really began around 2000, so we're about 25 years into this diversification. A lot of that shift moved toward

the euro as it became more stable and more of a global currency to be used. In 2000, around 70% of global currency reserves were denominated in dollars, and today that figure is closer to 65%. So over 25 years, we've seen about a 5% decline in global currency reserves in U.S. dollars.

Again, all of these shifts that people discuss are happening on the margin, but they are not something that we think rises to a collapse in the dollar or concern about the dollar going forward.

To conclude, I would like to point out that uncertainty is high right now and reiterate to you that we don't react to the events of the day and the changes which have lately been happening nearly every day. Instead, what we want to do is focus on the things that we know and stick to our fundamental processes, which have helped us through many global events over the years.

We continue to focus, from a bottom-up standpoint, on the companies we own, making sure that they have a business model and flexibility to get through near-term uncertainty and near-term disruptions, but still generate long-term value.

We believe in maintaining diversification in our portfolios across sectors. If you think back to the chart showing returns by sector, that diversification has really helped us throughout the first quarter and it has helped us over time. That's one of the best ways you can protect yourself from the unknown.

We will continue to monitor everything that's happening. Our base-case outlook for the U.S. economy and markets remains intact. If we start to believe that things are going to get worse or that outlook is in jeopardy, we will make changes at that time. But for right now, we think that the outlook for our economy is solid.

With that, I am going to wrap up. If you have any questions, please reach out to your wealth management advisor, and we will provide you with answers as quickly as we can. Thank you all for participating, and we look forward to the next call in the fall.

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