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Economic Update

APRIL 2026

Commentary

Equity markets came storming back in April with the largest monthly gain since 2020. The S&P 500 gained 10% during the month and stands at an all-time high. The index is now up by over 5% for the year. Despite the war with Iran reaching 60 days, markets appear convinced that the ultimate outcome will not cause substantial damage to the U.S. economy. We see an economy and the markets with elevated potential tail outcomes on both the upside and the downside.

The initial estimate of gross domestic product (GDP) growth for Q1 was released today. It showed an economy that bounced back from the federal shutdown induced weakness of the previous quarter, albeit slightly less growth than expected. GDP growth rose to 2.0% in Q1 from 0.5% in Q4 of 2025. A large driver of growth was from business investment, reflecting mostly artificial intelligence (AI) related spending. Consumer spending came in slightly higher than expected but is running at its slowest pace in a year.

The large concern is how the consumer will weather the energy price shock. Gasoline prices are 50% higher than they were prior to the war and getting close to \$4.50 per gallon. Fortunately, consumers were already benefitting from the fiscal stimulus driven by the One Big Beautiful Bill Act (OBBBA). Tax refunds have been approximately \$40 billion higher than last year.

Unfortunately, the elevated gas prices have eaten about half of that benefit so far. The longer the price shock persists, the more it will negatively impact consumer spending. However, an increasing equity market could provide stimulus, especially as a higher percentage of spending is coming from the higher earning households.

The path is now clear for Kevin Warsh to assume the Fed chairmanship at the next Fed meeting as he has cleared the Senate Banking Committee. According to his recent testimony, he will steer the Fed to be less communicative. We think that he will have a hard time garnering enough support to shift rates lower in the near term as the current Fed voters were close to removing their easing bias. In a surprise to some, current Chairman Powell has elected to stay on as a Fed governor "for a period of time to be determined." He is clearly concerned about the threat to the Fed's independence, and we see him staying at least through the midterm election cycle.

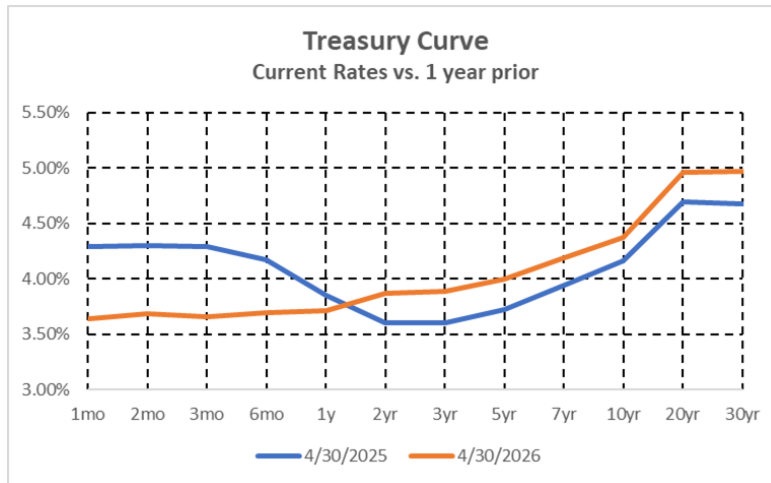
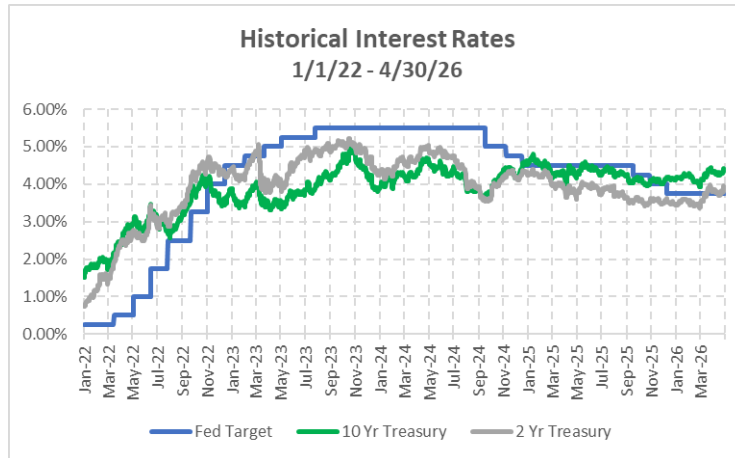
Despite a better-than-expected labor report in March, we remain concerned about its current uneasy balance. Job creation is almost nonexistent, which increases the risk of a quick downturn. With inflation levels rising, the Fed cannot execute any more "insurance" rate cuts to help to stave off a downturn. We think that the odds of a recession remain elevated but still don't see one developing this year.

THIS MONTH

- COMMENTARY
- FIXED INCOME OUTLOOK
- LABOR READINGS
- ECONOMIC GROWTH READINGS
- INFLATION READINGS

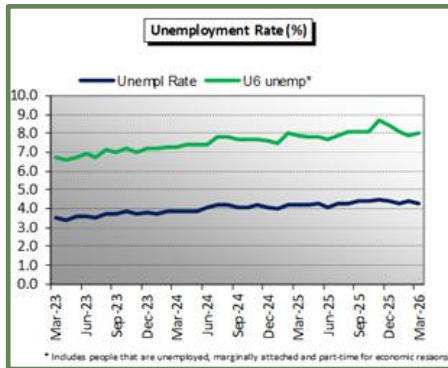
Fixed Income Outlook

Treasury rates moved marginally higher during April as the Iranian conflict continued and economic data was largely better than expected. Market pricing has the Fed on hold for at least the next 12 months. Higher inflation will persist as long as there is no resolution in Iran. We still believe that the next Fed move is a rate cut, but we don't see one occurring until much later in the year.



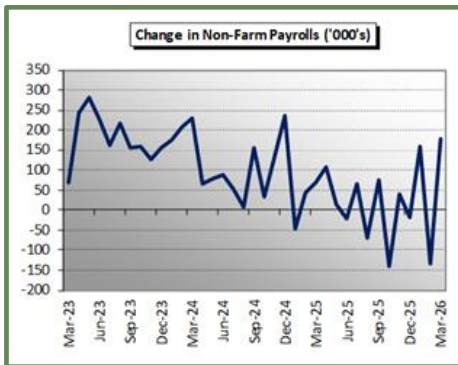
Labor Readings

(Data source: Bloomberg)



Unemployment Rate Declines

The unemployment rate decreased from 4.4% the prior month to 4.3% in March. The market was expecting the rate to remain unchanged. Details of the report were relatively weak. The labor force participation rate fell to 61.9%, which is the lowest level since 2021. In addition, wage gains were lower than expected.

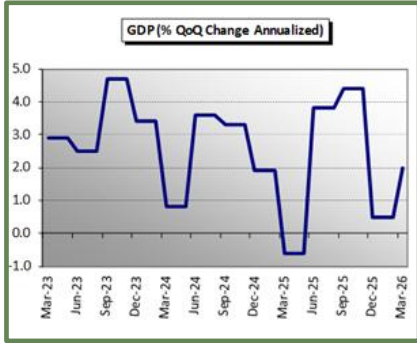


Payrolls Bounce Back

Payrolls rebounded strongly in March, with an increase of 178,000 jobs versus an expected gain of 65,000. It was the highest monthly gain since December 2024. Some of the gain was a recovery of jobs lost the prior month due to a health care strike that was resolved in March. The report did also show more widespread gains across various industries.

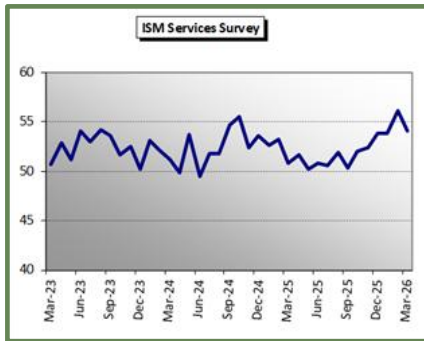
Economic Growth Readings

(Data source: Bloomberg)



GDP Growth Shifts Higher

GDP for Q1 2026 rebounded from the softness of the prior quarter that was largely caused by the federal government shutdown. GDP rose by 2.0% versus .5% the prior quarter. The market expected a larger gain of 2.3%. Business investment (largely driven by AI-related spending) and federal government spending were two of the largest drivers of growth.

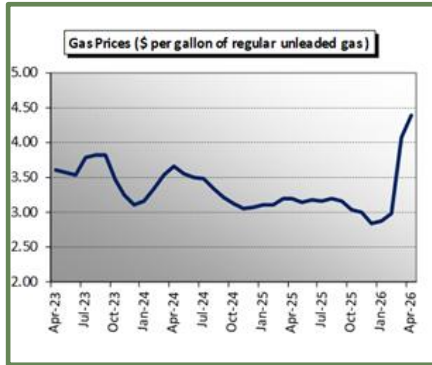


Services Survey Declines

The ISM services industry fell in March to 54 from 56.1 the prior month. The market was expecting a decline to 54.9. The index was dragged down by weaker employment and slower growth in business activity. The price paid component of the index rose to its highest level since October 2022.

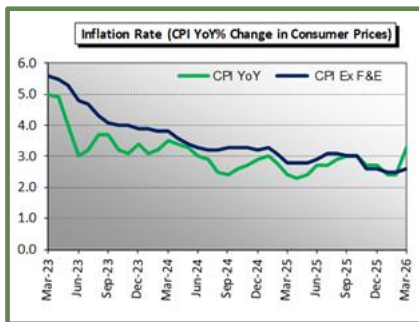
Inflation Readings

(Data source: Bloomberg)



Gasoline Prices Continue to Climb

The war with Iran has now reached 60 days and the Strait of Hormuz has been closed for several weeks, which has caused a spike in oil prices. Gasoline prices in the U.S. are up almost 50% since the end of February and at their highest level since mid-2022.



Consumer Inflation Surges

Consumer inflation in March leapt higher mainly due to higher gas prices. The month-over-month change of .9% was the most in almost four years. The year-over-year increase of 3.3% was the highest level since 2024.