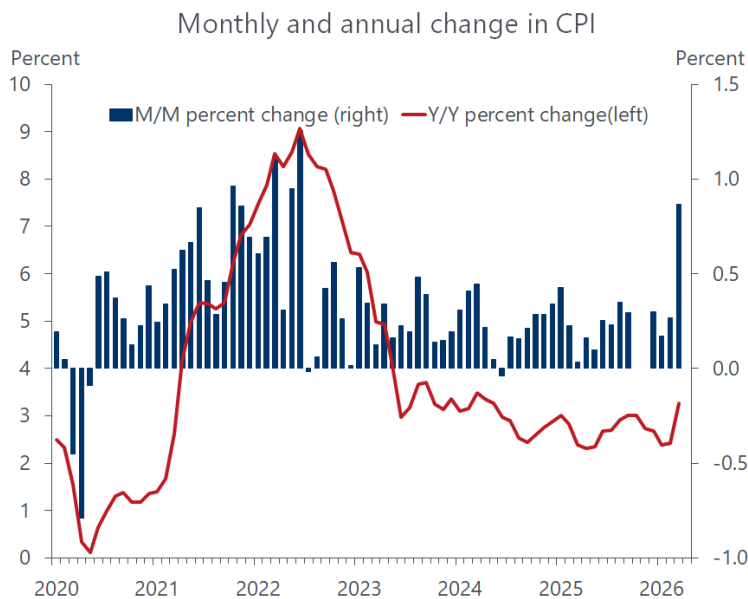


Weekly Economic Update—April 13<sup>th</sup>, 2026

With a tenuous cease fire in effect hopes are running high that the unwinding of the oil surge will continue and return a sense of calm to the financial markets. So far, the price of crude is about one-third back towards its prewar level, and further progress will depend on negotiations planned over the weekend. Assuming positive headway is made, and oil continues to retreat, the old adage “gas prices go up like a rocket but falls like a feather” will be tested. As of Friday, prices at the pump have not budged from their peaks reached before crude started to descend, so drivers are still waiting for relief.

Meanwhile, the knock-on effects of higher energy costs are just starting to bleed into a broader swath of goods and services, piggybacking on tariffs as an inflationary tailwind. The tariff increases are in the rearview mirror, although some may still be passed on to consumers. But the spike in energy prices is having an eye-opening impact on headline inflation. The consumer



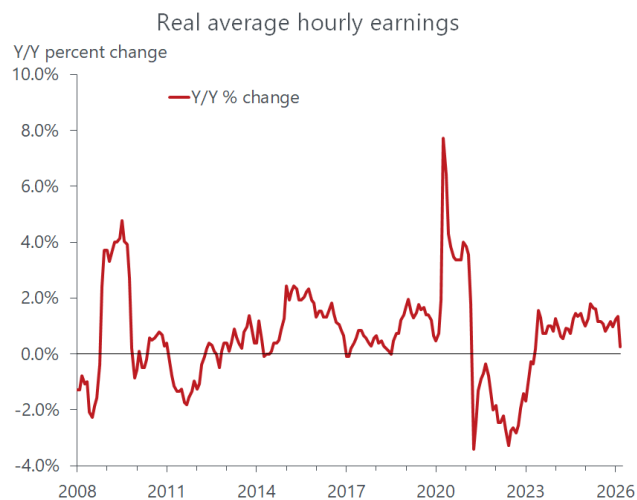
price index surged 0.9 percent in March, the biggest monthly increase since June 2022, when the oil surge following the Russian invasion of Ukraine sent the CPI up by 1.3 percent. However, the current oil spike has yet to reverberate meaningfully into broader inflation. Excluding energy, the overall price index increased by a muted 0.2 percent last month and the core CPI that strips out both energy and food prices, also came in at a subdued 0.2 percent.

With gas prices still hovering at their highs, the April CPI is likely to stage another sizeable increase. What’s more, the lagged impact of higher energy prices on other goods and services is poised to kick in. Food prices were unchanged in March, but that will not repeat in April as the increased cost of transportation and fertilizer is about to feed through to the grocery aisles.

Transportation service prices leaped 0.6 percent in March and 4.1 percent over the past year. What's more, the subdued reading of the core CPI in March masks a more worrisome 2.9 percent annual increase over the past 3 months. The good news is that housing costs, a major component of the CPI, are largely insulated from the oil spike and showed little reaction in March, as rents on primary residences increased by a tame 0.2 percent.

With pressure on inflation from higher energy prices building, the odds of the Federal Reserve cutting rates soon have diminished, something that the financial markets have firmly priced in. We agree that the upside risks to inflation have increased and may well keep the Fed on the sidelines beyond mid-year. But it would be a mistake to underestimate the demand destruction from higher prices that also heightens recession risks. A forward-looking Fed must take both risks into account; assuming the Mideast conflict is resolved within the next few weeks, we believe the Fed will see through the inflation flareup as a temporary oil induced shock that will fade as hostilities cease, and the oil spigot reopens. Indeed, the potential drag on consumption – the economy's main growth driver – is already highly visible

Until recently, household purchasing power has held up quite well despite slowing job and wage growth, as real earnings continued to increase at a decent rate. But the price spike in March marks a dramatic inflection point, as it took a major bite out of worker paychecks. The annual increase in real earnings last month plunged from 1.3 percent to 0.3 percent, meaning workers are barely keeping abreast of inflation.

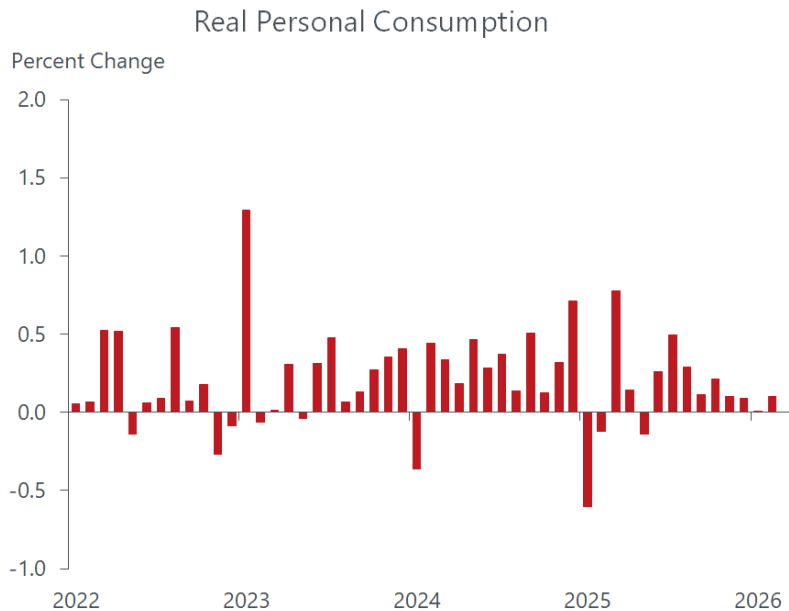


For blue collar workers, the squeeze in purchasing power is even worse, as real earnings for nonmanagement workers inched up by a mere 0.1 percent over the past year. True, the income-sapping price spike was heavily skewed by the oil surge, while most other prices were unaffected. But it's important to remember that energy costs take up a larger share of lower income budgets than they do for better paid workers, so this cohort was hit the hardest and will be facing some difficult trade-offs, including cutting back on discretionary spending.

To be sure, any pullback by lower-income workers could be cushioned by wealthier households, who have powered most of consumption growth in recent years, thanks to booming stock portfolios. But should the Mideast crisis – or any unforeseen shock – prompt a major correction in the stock market, that wealth effect would evaporate and remove a key pillar keeping the economy afloat. So far, the markets have held up reasonably well, with the S&P 500 losing less

than 2 percent since the outbreak in late February. But it weathered some steep daily losses when things looked dire and only a tenuous cease fire is keeping a floor under prices.

As it is, the economy was not riding a wave of momentum even before the oil shock hit the headlines. If consumer behavior over the first two months of the year is any indication, the economy's growth engine will be downshifting markedly in the first quarter, as its main cylinder is sputtering badly. Real personal consumption edged up by a slim 0.1 percent in February following no growth in January. That two-month change translates into a 0.7 percent annual



increase for the first quarter, which would match the weakest quarterly increase in four years. What's more, little help comes from the income side, as real disposable income fell by 0.5 percent in February, almost fully erasing the 0.6 percent gain in January. The savings buffer is also deflating, as the personal savings rate slipped from 4.5 percent to 4.0 percent in February, which is well under the 6 percent average since 2000.

Simply put, the surge in oil prices is heightening inflationary fears and keeping the Fed on the sidelines. But signs of demand destruction are becoming more visible, which will test the Fed's patience the longer the Mideast crisis drags on. Consumer sentiment plunged to an all-time low in early April and, while households do not necessarily act the way they feel, they are already behaving very defensively based on tangible hit to their purchasing power. Assuming the ceasefire holds and leads to a durable solution, we believe the Fed will look through the oil-induced inflation shock and cut rates in coming months to prevent the nascent demand destruction from morphing into a recession.

## FINANCIAL INDICATORS

INTEREST RATES	April 10	Week Ago	Month Ago	Year Ago
3-month Treasury bill	3.68	3.70	3.69	4.33
6-month Treasury bill	3.71	3.71	3.67	4.21
2-year Treasury note	3.81	3.83	3.73	3.98
5-year Treasury note	3.95	3.98	3.86	4.16
10-year Treasury note	4.34	4.32	4.28	4.49
30-year Treasury bond	4.92	4.92	4.90	4.87
30-year fixed mortgage rate	6.37	6.46	6.11	6.62
15-year fixed mortgage rate	5.74	5.77	5.50	5.82

STOCK MARKET	April 10	Week Ago	Month Ago	Year Ago
Dow Jones Industrial Index	47,916.60	46,504.67	46,558.47	40,212.70
S&P 500	6,816.89	6,582.69	6,632.19	5,363.36
NASDAQ	22,902.89	21,879.18	22,105.36	16,724.46

COMMODITIES	April 10	Week Ago	Month Ago	Year Ago
Gold (\$ per troy ounce)	4,771.00	4,702.7	5,023.1	3,255.6
Oil (\$ per barrel) - Crude Futures (WTI)	95.63	112.06	99.30	61.47

ECONOMIC INDICATOR	Latest Month/Quarter	Previous Month/Quarter	Two-Months/ Qtrs Ago	Average-Past Six Months or Quarters
Personal Income (February) - % change	-0.1	0.4	0.3	0.2
Personal Consumption (February) - % change	0.5	0.3	0.4	0.4
Personal Savings Rate (February) - Percent	4.0	4.5	3.9	4.1
Consumer Credit (February) - \$blns	9.5	7.7	15.9	9.6
Consumer Price Index (March) - % change	0.9	0.3	0.2	0.4
Core CPI (March) - % change	0.2	0.2	0.3	0.2

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