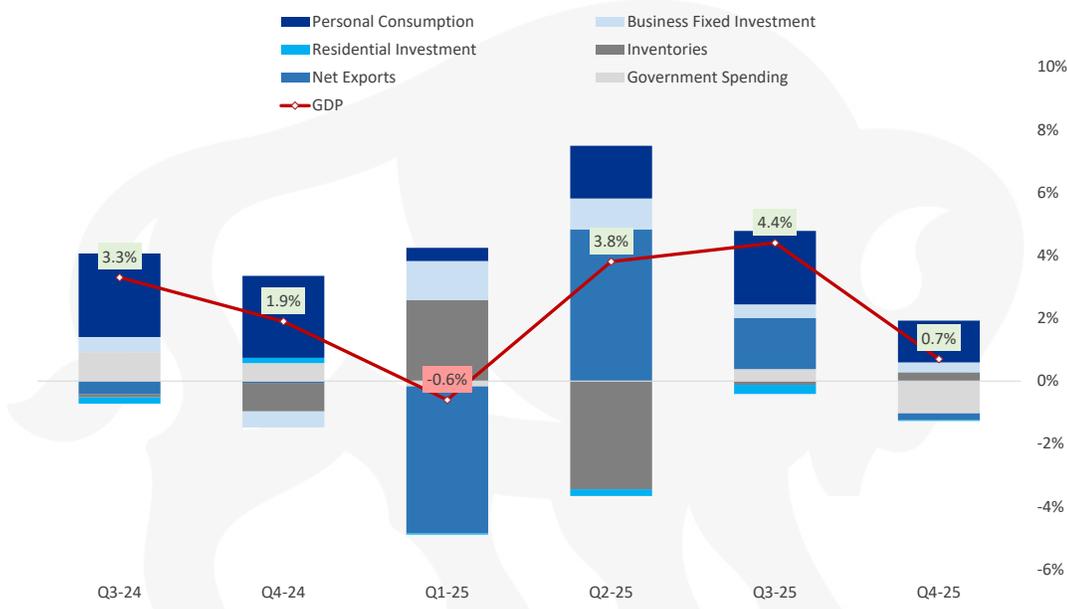


Growth Continues to Slow, While Inflation Remains Sticky

It's Friday the 13th, and with that comes a flurry of economic data to close out a volatile week in the markets. Beginning with growth, the BEA's second estimate of fourth quarter GDP was revised down to a 0.7% annualized pace from the initial 1.4%, a steep drop from the early 2.8% expectation just weeks ago and well below the 5% plus tracking measure from earlier in the year. The revised Q4 growth marks the slowest pace in three quarters and pulls full year 2025 growth down to 2.1% from 2.4%, the weakest since 2020. Government spending continued to weigh on the headline, but the bigger story was a meaningful cooling in consumption. Personal consumption was revised down 0.4% to 2.0% for Q4. Some of that softness could rebound in Q1, with the Atlanta Fed's GDP Now measure currently tracking 2.7%, though three weeks remain in the quarter, plenty of time for shifting data and new headlines.

Turning to inflation, the January Personal Income & Outlays report showed core PCE, the Fed's preferred measure, ticking up to 3.1% year over year, well above the 2% target. Headline PCE eased slightly to 2.8%, but both measures are somewhat stale considering the recent jump in energy prices. While the Fed emphasizes PCE, it also monitors CPI, which has been running cooler (2.5% headline and 2.4% core), and this divergence has been increasingly watched by markets. Looking ahead to March, headline inflation is likely to firm further as oil prices rise and Middle East supply concerns build, with some of those pressures potentially filtering into core via transportation, goods, and broader pass through effects.

Gross Domestic Product (Quarter-over-Quarter Annualized Percent Change)



Source: Bureau of Economic Analysis

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Meanwhile in the Middle East, the Strait of Hormuz remains closed. West Texas Intermediate is trading between \$90 to \$100 a barrel, and the U.S. has temporarily lifted certain sanctions on Russian oil. Higher gasoline prices will erode purchasing power and put downward pressure on consumer spending forecasts. Equity and bond markets remain volatile alongside energy markets, and that instability is likely to persist as long as the conflict continues.

The Federal Open Market Committee (FOMC) meets next week (March 17-18) and is expected to hold rates steady. Looking ahead, the path for rate cuts in 2026 has grown increasingly uncertain. Economists maintain forecasts for two quarter-point cuts by December, with the first now expected in June. Yet market pricing tells a more pessimistic story. Traders now see barely one cut this year, down from two cuts priced in just two weeks ago. Several major banks have already delayed their rate-cut calls to September or later, and Fed Chair Powell is expected to acknowledge stagflation risks while emphasizing a wait-and-see approach.

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Market Indications as of 11:54 A.M. Central Time

DOW	Up 29 to 46,706 (HIGH: 50,188)
NASDAQ	Down -131 to 22,181 (HIGH: 23,958)
S&P 500	Down -19 to 6,654 (HIGH: 6,979)
1-Yr T-bill	current yield 3.64%; opening yield 3.63%
2-Yr T-note	current yield 3.73%; opening yield 3.73%
3-Yr T-note	current yield 3.75%; opening yield 3.75%
5-Yr T-note	current yield 3.87%; opening yield 3.86%
10-Yr T-note	current yield 4.28%; opening yield 4.26%
30-Yr T-bond	current yield 4.91%; opening yield 4.88%

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