

March 2, 2026

As Economy Strengthens, Consumers Continue to Worry

Even if you are tired of the proliferation of new words and phrases, many of which require some explaining, “boomcession” is both punchy and self-explanatory. Business leaders and the wealthy may talk up a booming economy -- but for many families, things seems to be worsening if not sliding toward recession.

By several metrics, the economy seems to be growing. Jobs growth, industrial production, and durable goods orders excluding defense are all moving in the right directions. Purchasing managers’ surveys of trends within both manufacturing and services industries are improving. CPI inflation has slipped back to the mid-2% range, signaling that businesses and consumers have so far navigated tariffs and providing the Fed cover for stimulative rate cuts.

Yet consumer sentiment continues to worsen. Both the Conference Board’s consumer confidence index and University of Michigan’s consumer sentiment survey showed deteriorating consumer outlooks based on worsening worries about affordability and ongoing concerns about jobs availability. The housing economy is operating at two-thirds of peak levels, and vehicle ownership also is becoming more challenging.

We do not expect these divergent views to converge any time soon. The Supreme Court’s ban on certain reciprocal tariffs may spell long-term pricing relief, but is unlikely to change much in the intermediate term, given new tariff strategies from the White House. New uncertainties in the political environment echo those in the stock market, which has struggled to find clear direction in the 2026 year to date.

Recent Economic Data

The U.S. employment economy showed surprising strength in January 2026 after slowing in the third and fourth quarters of 2025. The U.S. economy generated 133,000 non-

farm jobs in January, far ahead of the consensus estimate of 70,000. Three-month average non-farm payrolls swung to growth of 73,000 from an average decline of 22,000 for the October-December 2015 period.

The unemployment rate eased to 4.3% in January from 4.4% in December and 4.5% in November. The breakeven level of jobs growth, required to hold the unemployment rate steady, has dropped below the 50,000 level from more than 200K in recent years. Job gains above the breakeven level may be contributing to recent reductions in the unemployment rate. Average hourly earnings grew 3.7% annually for January, a tick down from December. Wage growth is still running ahead of inflation growth, but the delta has narrowed.

Industrial production rose 0.7% month over month in January, fueled by a 2.1% increase at utilities as bitter cold blanketed much of the U.S. during the month. Industrial production increased 2.3% over the past 12 months, with particular strength in business equipment. Capacity utilization improved to 76.2 in January 2026 from 75.7 in December 2025, but is still more than three percentage points below its long-run (1975-2025) average. Durable goods orders declined 1.4% month over month in December 2025. Excluding the volatile automotive business, durable goods orders ex-transportation were up 0.9%; and core capital goods orders advanced 0.6%.

Based on sentiment surveys and diffusion indices, the business community appears guardedly optimistic while consumers remain worried about affordability and new jobs availability. The Institute for Supply Management’s (ISM’s) manufacturing purchasing managers’ index (PMI) rebounded to 52.6% in January from 47.9% in December, breaking a 10-month string of contraction. ISM’s services PMI moder-

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ated to 53.8% in January from 54.4% for December, which was the highest reading of 2025. ISM services has indicated 19 straight months of expansion.

The Conference Board's consumer confidence index fell to 85.5 in January from an upwardly revised 94.2% in December. The present situation and expectations indices both fell more than nine points month over month. The University of Michigan consumer sentiment survey reading of 56.6% in February was little changed from 55.4% in January, while remaining down from 64.7% in February 2025.

One reason for consumer gloom may be the increasingly out-of-reach "American Dream" of owning a home. For all of 2025, new home sales were an estimated 679,000. While that is just 1% below the 2024 level, it is well off pandemic-era levels averaging 800,000 in 2020 and 2021. A look at existing home sales shows seasonally adjusted annual rate (SAAR) sales at 3.91 million as of January 2026, much lower than historical peaks due to high home prices, still-high financing rates, mortgage rates on existing home that are well below available rates, and the K-shaped economy. Pandemic-era SAAR was 6.85 million in 2021-22; SAAR peaked in the 7.4-million range in 2005-06. As home affordability in the U.S. continues to decline, sticker prices and still-high financing rates also are putting new cars out of reach for many Americans.

Fourth-Quarter 2025 Earnings Wrap-Up

As of 2/19/26, and with over three-quarters of component companies having reported results, the blended annual growth rate for calendar 4Q25 earnings is in the 13%-15% range, based on the average of earnings-growth data compiled by industry analysis firms Bloomberg, FactSet, and Refinitiv. The range reflects slight differences in baseline and definitions of continuing operations earnings. That's a tighter range than normal, and the message of strong growth from all three analysis firms was unequivocal.

The blended growth rate includes actual results for companies that have reported as well as estimated earnings for companies yet to report. As consensus estimates often are based on company guidance that historically has been conservative, actual results tend to exceed estimated results by a few percentage points. Final growth in calendar 4Q25 S&P 500 earnings from continuing operations could be in the 15% range.

Among the companies that have reported to date, around three-quarters have posted earnings above the pre-reporting consensus; that is that is in line with the long-term 75% average. The magnitude of the EPS beat against expectations, in the high-single-digit range, has been above the midpoint of the long-term range of 5%-9%. Other highlights in the quarter include revenue growth in high-single-digit percentages as companies successfully

navigate around ever-shifting tariffs and in many cases shift emphasis to overseas markets.

Companies also have been able to expand margins as volume leverage supersedes higher costs and tariffs and as they begin to incorporate AI-based efficiencies into their operating models. Blended operating margin from continuing operations is on track to reach or exceed the 13% level for 4Q25 calendar earnings, which would be at least a point above the long-term average of 12%.

The strongest contributors of S&P 500 earnings growth for 4Q25 have been Information Technology, Communication Services, Financial, and Industrial. The weakest sectors for EPS growth include Energy, Consumer Staples, and Consumer Discretionary.

Argus estimates that the final tally of 4Q25 S&P 500 earnings could show growth at a mid-teens percentage rate, better than our earlier expectations for high-single-digit to low-double-digit growth. On that basis, earlier in February we raised our forecast for S&P 500 earnings from continuing operations for 2025 to \$274 from a prior \$270. Our 2025 forecast assumes annual EPS growth of 10.5% from 2024, raised from 9.3%.

Also early in February, we raised our forecast for S&P 500 continuing operations earnings for 2026 to \$315 per share from a prior \$300. Our 2026 forecast assumes annual EPS growth of 15.6% from 2025, raised from 11.1%. Based on 2025 performance, revisions to our 2026 model, and forecast inputs for 2027, we are now formally modeling S&P 500 earnings from continuing operations for 2027 of \$363 per share. Our formal 2027 forecast now assumes annual EPS growth of 14.9% from 2026.

Conclusion

February 20, 2026, was a monumental day for the economic environment, particularly if you like volatility. At 8.30 a.m., investors learned that fourth-quarter GDP had grown just 1.4%, much worse than consensus and mainly due to the month-and-a-half government shutdown. A few hours later, the Supreme Court struck down use of the International Economic Emergency Powers Act (IEEPA) to levy tariffs, effectively negating a significant part of the president's tariff infrastructure. The president pivoted with promised 15% tariffs under a different statute, but use of that statute expires after a 150-day period. What had seemed like hard-won tariff certainty has, once again, reverted to tariff uncertainty, and now investors will weigh in on whether that is a good or bad thing.

While the government shutdown drove most of 4Q25 GDP weakness, consumer spending -- particularly on goods -- was surprisingly weak. Stocks rallied moderately on the Supreme Court ruling, with retail stocks lifting on the potential for lower prices at a time when many consumers are feeling stretched. Even as much of

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America digs out from another blizzard, investors know that Memorial Day will be here in a few months, and mid-term campaigning will kick into high gear. The economy

appears to be on good footing and corporate earnings are on the rise, but the stock-market environment is likely to remain choppy.

Jim Kelleher, CFA,
Director of Research

KEY ECONOMIC FORECASTS

- The \$31 trillion U.S. economy remains on course for growth, powered by corporate investments in AI and outsized spending by the wealthiest households. Nvidia CEO Jensen Huang estimated, in November, that \$3 - \$4 trillion will be spent on AI infrastructure in the next 5 years.
- We recently raised our 2026 forecast for GDP growth to 2.5% from 2.3%. Unemployment remains low, the Fed has been stimulating growth by reducing the funds rate, and last year's tax legislation could boost tax returns by \$600 - \$1,000 for many families. We are maintaining our 2027 GDP estimate at 1.8%.
- Consumers have been the engine of economic growth. That should continue with unemployment at 4.3%. Demand for healthcare workers, who are hard to replace with AI, is strong in an aging population.
- Inflation's downward progress has stalled above the Fed's 2% target. Core PCE was 2.8% in 2025, down just one tick from 2.9% in 2024. The median projection of Federal Reserve officials does not return to 2% until 2028.
- Argus expects S&P 500 EPS to rise almost 16% to \$315 in 2026 and increase about 15% to \$363 in 2027. EPS is helped by an increase in operating margins to about 18.0% this year, well above 13.9% in pre-pandemic 2019. Growing tech giants such as MSFT and NVDA have operating margins of 47% and 59% respectively while Dow stalwarts Walmart and Caterpillar earn 4% and 17%, respectively.
- Argus Fixed Income Strategist Kevin Heal expects the Fed to reduce the funds rate by 25 basis points in 2026 and by another 25 basis points in 2027 taking the target range to 3%-3.25%. We expect the dollar to be flat or slightly stronger in 2026 as foreign demand for shares of innovative U.S. companies and economic resilience offset monetary easing.
- As long as geopolitics are flaring and the global economy is wobbling, gold is likely to remain at elevated levels. The ancient safe-haven asset recently reached an all-time record above \$5,000 an ounce. Our average target price in 2026 is \$4,500.
- Despite last year's economic-and-policy "uncertainty," the Misery Index, which is the Consumer Price Index (CPI) inflation rate plus the unemployment rate, is approximately 6.7%, well below the average of 9.2% since 1949.
- What could go right? Monetary easing, big tax refunds, spending by wealthy consumers, strong S&P earnings, capital investment, productivity gains, and ongoing innovation.
- Risks: Elevated Inflation, housing is stalled, low income consumers are struggling, spending by affluent may be dependent on stock market gains, AI may reduce entry-level hiring.

CURRENT ECONOMIC RELEASES

Current Economic Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
19-Feb	Trade Balance	December	-\$53.0 Bln.	-\$55.0 Bln.	-\$55.5 Bln.	-\$70.3 Bln.
20-Feb	GDP Annualized QoQ	4Q "Advance"	4.4%	3.1%	2.9%	1.4%
	GDP Price Index	4Q "Advance"	3.8%	3.5%	NA	3.6%
	PCE Deflator	December	2.8%	2.8%	NA	2.9%
	PCE Core Deflator	December	2.8%	2.8%	3.0%	3.0%
	Personal Income	December	4.4%	4.4%	NA	4.3%
	Personal Spending	December	5.3%	4.7%	NA	4.7%
	New Home Sales	December	758K	725K	738K	745K
23-Feb	Factory Orders	December	5.4%	5.0%	NA	4.3%
24-Feb	Wholesale Inventories	December	1.9%	1.6%	NA	2.9%
	Consumer Confidence	February	89.0	88.0	88.0	91.2%
27-Feb	PPI Final Demand	January	3.0%	2.4%	2.6%	NA
	PPI ex-Food & Energy	January	3.3%	2.8%	3.0%	NA
	Construction Spending	December	-1.0%	1.0%	NA	NA
2-Mar	ISM Manufacturing	February	52.6	52.0	51.2	NA
	ISM New Orders	February	57.1	55.0	NA	NA
4-Mar	ISM Services Index	February	53.8	53.4	53.8	NA
5-Mar	Import Price Index	January	0.0%	0.2%	NA	NA
	Nonfarm Productivity	4Q	4.9%	2.6%	NA	NA
	Unit Labor Costs	4Q	-1.9%	1.0%	NA	NA
6-Mar	Nonfarm Payrolls	February	130K	65K	60K	NA
	Unemployment Rate	February	4.3%	4.3%	4.4%	NA
	Average Weekly Hours	February	34.3	34.3	NA	NA
	Average Hourly Earnings	February	3.7%	3.7%	NA	NA
	Retail Sales	January	2.4%	3.0%	NA	NA
	Retail Sales ex-autos	January	3.3%	3.5%	NA	NA
	Business Inventories	November	1.2%	1.0%	NA	NA
	Total Vehicle Sales	February	14.8 Mln.	15.5 Mln.	NA	NA

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