SPRING 2025 OUTLOOK

Current Forecast					
	2023	2024	2025 Est	2026 Est	2027 Est
GDP Growth	3.2%	2.5%	0.7%	1.1%	1.5%
Change in Consumer Prices	3.3%	2.9%	3.3%	3.2%	3.2%
Fed Funds Target Rate	5.50%	4.50%	4.25%	4.00%	4.00%
5-Year Treasury Yield	3.85%	4.38%	4.25%	4.50%	4.50%
10-Year Treasury Yield	3.84%	4.57%	4.50%	5.00%	5.50%
S&P 500 EPS	$217	$240	$246	$269	$284

President Trump's Administration's trade policies are expected to lead to higher inflation and lower economic growth over the next several years. We have adjusted our economic outlook to reflect the significant tax increase. The risk of a recession has substantially increased. The FRB may delay cutting the FFR until December due to higher inflation. We expect one cut next year. We expect the 10-year Treasury to finish 2025 at 4.5%. Lower economic growth will likely result in lower growth for the S&P 500.

Last Month's Rates and Total Returns				
March 31, 2025	Value	One Month	Year to Date	1 Year
Fed Funds Target (Upper)	4.50%	----	----	-100 bp
3-Month Treasury Yield	4.29%	-1 bp	-3 bp	-106 bp
2-Year Treasury Yield	3.89%	-9 bp	-35 bp	-73 bp
5-Year Treasury Yield	3.95%	-5 bp	-43 bp	-27 bp
10-Year Treasury Yield	4.21%	+2 bp	-36 bp	+1 bp
Mortgage News 30-Year	6.76%	+2 bp	-31 bp	-3 bp
S&P SuperComposite 1500	1,257	-5.64%	-4.49%	7.33%
S&P 500 Index	5,592	-5.63%	-4.27%	8.25%
S&P 500 Equal Weight Index	7,024	-3.38%	-0.61%	4.09%
S&P Midcap 400	2,919	-5.47%	-6.10%	-2.71%
S&P SmallCap 600	1,268	-6.14%	-8.93%	-3.38%
S&P 500 Growth	3,742	-8.19%	-8.47%	10.46%
S&P 500 Value	1,882	-2.96%	0.28%	4.21%
World ex-US, USD	341	-0.23%	5.23%	6.09%
Wilshire Liquid Alts	194	-1.07%	0.65%	1.89%
BB U.S. Aggregate	92	0.04%	2.78%	4.88%
Crude Oil – WTI Near Term	$71	2.47%	-0.33%	-14.06%
Gold – Near Term	$3,123	10.08%	18.77%	40.83%
U.S. Dollar Index	104	-3.16%	-3.94%	-0.32%

Security National Bank's Investment Services team within its Private Client Services division authors a monthly economic forecast that provides our Investment Committee and the Bank's Funds Management Committee with background assumptions for use in investment decisions. We are pleased to share our economic outlook with you. Please be advised that our crystal ball is just as cloudy as other prognosticators and that all forecasters have poor track records. Our Investment Services team bases projections on what

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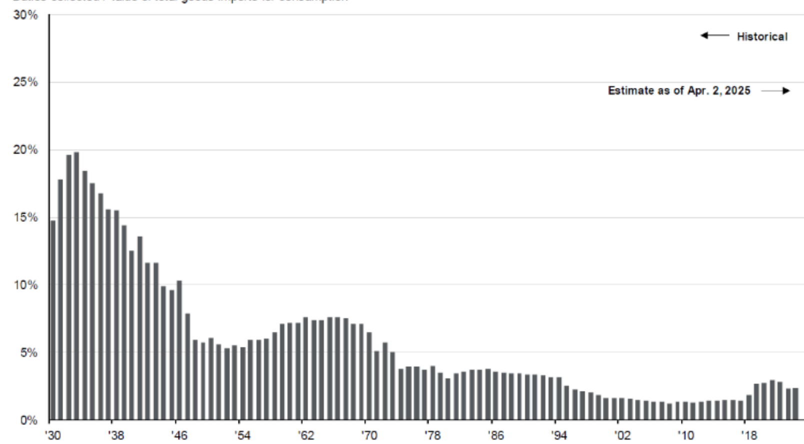
we think monetary and fiscal policymakers will do, not what they should do. Commonly used abbreviations and terms are listed at the end of the report.

Liberation Day was More Aggressive than Anticipated

President Trump's Administration imposed a massive tax on the U.S. on April 2, declaring it "Liberation Day" and describing it as the day to declare economic independence while unveiling its tariff structure and mandating all U.S. imports will be subject to a 10% tariff, effective April 5. The Administration imposed even higher reciprocal tariffs on other nations that the White House considers bad actors. For example, Japan faces a 24% duty, and the European Union faces a 20% levy effective April 9. China will face a new 34% tariff in addition to the previous duties, including the 20% tariff imposed by President Trump on fentanyl. This announcement did not impact Mexico and Canada, as earlier announcements covered those countries.



Before the announcement, the U.S. had a dutiable rate of 3% on all imported goods and an average tariff rate of 7-8% on goods subject to tariffs. The effective rate for Chinese goods was 11%, while the rest of the world faced a 1% effective tariff rate. Economists estimate the effective tariff rate will rise from 3% to 24%, an eightfold increase. Mexico and Canada face an effective tariff rate of 16%. China will face an effective tariff rate of 54%. As a candidate, President Trump promised to raise Chinese tariffs to 60%. He also eliminated the de minimus exemption.

Strategas Research Partners (report, April 3, 2025) estimates that the latest round of tariffs will cost $500 billion in addition to the $150 billion already enacted, equating to 2.2% of GDP and is twice the size of modern history's most significant tax increase. Such a substantial tax increase will have a considerable impact on the economy. The U.S. is starting from a strong position and may avoid slipping into a recession, especially if the Administration negotiates lower reciprocal tariffs. Unemployment is likely to rise. Tariffs raise the cost for domestic importers. Businesses will cut expenses wherever possible to mitigate the additional costs, including labor.

The Administration has taken pains to remind us that these levels are the ceiling, reiterating its willingness to negotiate on reciprocal tariffs, implying that the levels could be lowered. Major trading partners have signaled a desire to start negotiations. Negotiations will be messy, adding to policy uncertainty. Europe is likely to erect trade barriers to keep excess capacity from flooding into Europe from Asia, further reducing global growth.

The Administration may face court challenges over the President's authority to invoke broad-based tariffs. The President is acting under the International Emergency Economic Powers Act (IEEPA). The courts will

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have to determine whether IEEPA can be used for such comprehensive action. Congressional Republicans, facing potential mid-term losses, may also move to blunt the impact.

We lowered our economic growth and raised our inflation forecast to incorporate Liberation Day. Slower growth and higher inflation will lead to higher unemployment. We expect the unemployment rate to increase to 5% by year-end, up from its current level of 4.2%. The FRB will face the dilemma of higher inflation, slower growth, and rising unemployment. We believe they will choose to do nothing until December.

It is also worth noting that our estimates for economic growth, inflation, and employment are based on the information currently available to us. If the Trump Administration successfully brings other countries' leaders to the negotiating table to discuss a more favorable global tariff construct, our economic estimates could prove to be too pessimistic.

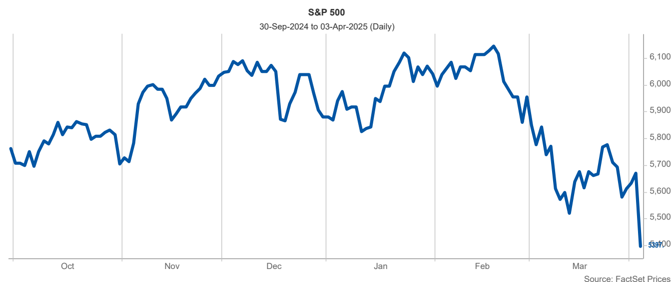
Stock Market

It is often said that the market hates uncertainty. Currently, there is considerable uncertainty, as tariff policy and the DOGE have raised the prospect of a recession or, at the very least, a slowdown in growth.

The broad market, as measured by the S&P 1500, declined 5.6% in March. Large capitalization stocks were down 5.6%. During periods of slowing growth, growth stocks tend to fall more than value stocks. Growth stocks ended the month down 8.2%, while value stocks were down 3.0%.

As is typical for growth scares, small and mid-cap stocks saw even more significant market declines. The mid-cap stock index was down 5.5%, and the small-cap index was down 6.1.%.

The "average" stock, as represented by the equally weighted S&P 500 Index, posted slightly smaller losses of 3.4%.



Energy stocks were the best performers, with the sector Exchange Traded Funds (ETF) gaining 3.5%, followed by utilities, which rose 0.2%. The Consumer Discretionary sector ETF was the worst-performing sector, down 8.3%, followed by the Technology sector, also down 8.3%.

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International Stock Returns

Last month, international stocks outperformed U.S. markets. International stocks fell by 1.8% in local currencies and 0.2% when translated into U.S. dollars. The U.S. dollar fell by 3.2%. Year-to-date, international stocks are down 1.8% in local currencies and 5.2% in U.S. dollars.

The initial reaction to the new tariff policy is a sharp decline in the dollar's value.

Fixed Income Returns

The yield curve steepened slightly, with the long end rising by two basis points and the short end falling by five to nine basis points. The timing of interest rate cuts significantly impacts the short end of the yield curve. When projected rate cuts are moved forward, the short end of the curve eases. When projected rate cuts are pushed back, short-term rates rise.

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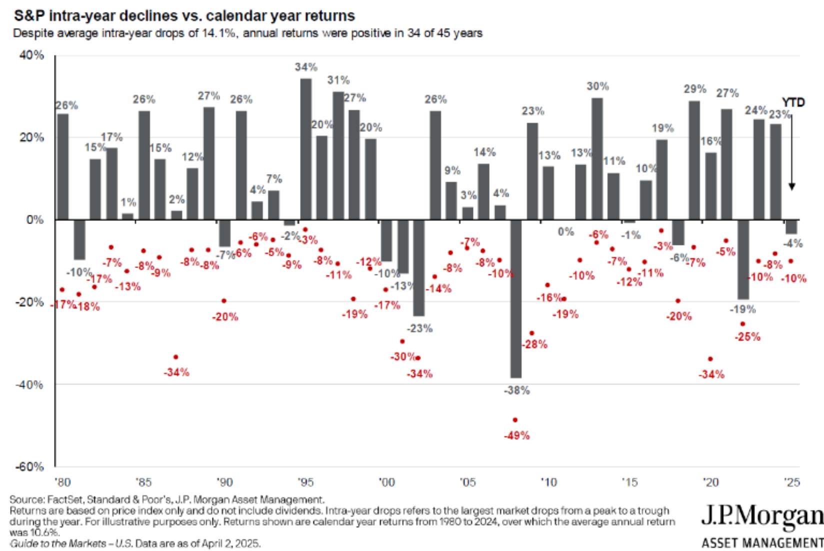
Current Correction

On February 19, 2025, the S&P 500 closed at 6144.15, an all-time high. From then till March 13, it has retreated 10.0%. It had been bouncing along the bottom until Liberation Day.



The market's reaction to the new tariff regime was intense, with the S&P 1500 down 5.0% on April 3 and down a further 3.3% on April 4. This is the immediate reaction, and the intermediate impact is yet to be seen.

We are not bold enough to call a bottom in this correction. There are too many uncertainties. We remind our readers that intra-year pullbacks are common and that the stock market ends the year up 76% of the time.

The Long View

Over the last thirty years, the U.S. experienced a terrorist attack, presidential impeachments, a global financial crisis, a pandemic, bouts of inflation, trade wars, and multiple bear markets. Stock market returns

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have shown consistency over the longer term. Each report lists the long-term returns for the broad stock and bond markets. This table reminds us to focus on the long term.

	Five Years	Ten Years	Twenty Years	Thirty Years	Forty Years
Stocks	18.4%	12.1%	10.2%	10.5%	10.7%
Bonds	-0.4%	1.5%	3.2%	4.5%	5.9%

Interest Rate Policy

The FOMC voted to keep rates unchanged at its March meeting, as broadly expected. The significant change to their statement was to add "uncertainty around the economic outlook has increased. "

Meeting Date	Futures Market 04/04/2025	SNB Forecast
May 7	4.50%	4.50%
June 18	4.25%	4.50%
July 30	4.00%	4.50%
September 17	3.75%	4.50%
October 29	3.50%	4.50%
December 10	3.25%	4.25%
January 28	3.50%	4.25%
March 18	3.50%	4.25%
April 29	3.50%	4.25%
June 17	3.00%	4.00%

The FOMC announced it would slow its balance-sheet run-off beginning in April, cutting monthly redemptions of Treasuries to $5 billion from the prior $25 billion. The reduced pace of balance sheet run-off was earlier than expected. Most market participants took it as a dovish sign.

Chair of the Federal Reserve of the United States Jerome Powell's commentary mentioned uncertainty multiple times, noting that the lack of change to the median dot-plot projections reflected some inertia in the face of still-uncertain tariff impacts. Nevertheless, Chairman Powell reiterated that the economy is solid, and policy remains appropriate. The FRB has the luxury of waiting and watching developments. This was before the tariff announcements, and it is unclear how recent developments will impact monetary policy.

The futures market is assuming significant easing. Currently, the futures market is pricing in five rate cuts by year-end. These are recession-level cuts. This assumes the FRB shifts its focus from inflation to employment, looking through the higher tariff-induced inflation and reducing rates to offset a pending recession. We are not there yet. The FRB risks restarting a more dangerous wave of inflation. We expect FRB governors and Chairman Powell to give further guidance through speeches prior to the May 7 meeting.

Indeed, during public comments on April 4, Chairman Powell noted, "Our obligation is to keep longer-term inflation expectations well anchored and to make certain that a one-time increase in the price level does not become an ongoing inflation problem," Powell said in prepared remarks. "We are well positioned to wait for greater clarity before considering any adjustments to our policy stance. It is too soon to say what will be the appropriate path for monetary policy."

We will adjust our forecast as needed.

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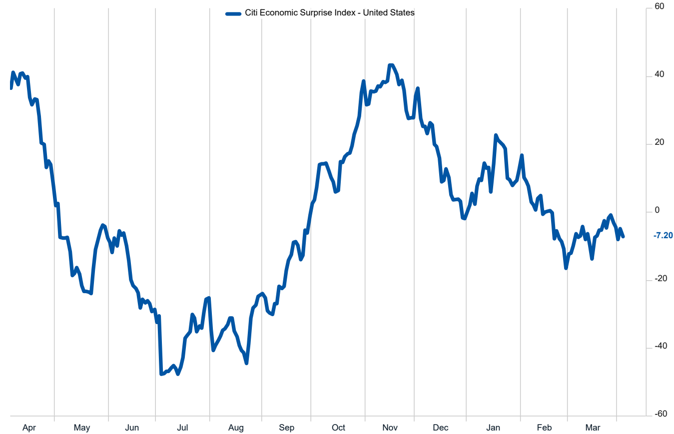
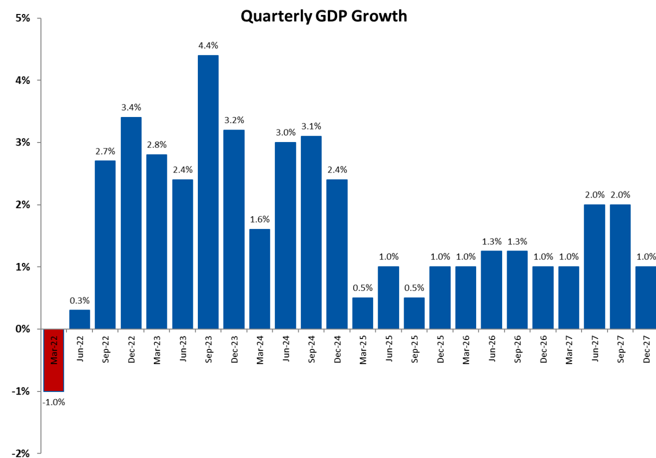
Recent Economic Reports
The chart at the right shows that economic reports continue to disappoint. The Citi Economic Surprise Index compares economic reports with expectations. When the line falls, actual results are less favorable than expectations.



Sources of Job Growth to Change
The healthcare, education, and government sectors have accounted for about 80% of job gains in the last two years. Much of this growth was funded directly and indirectly by increased federal spending. We expect cuts in federal spending to limit job growth in these sectors. Following the recession, these sectors experienced labor shortages. This is no longer the case as the sectors have caught up. Taken together, job growth in the healthcare, education, and government sectors is likely to slow from a monthly pace of 100,000 jobs (over the last three months) to around 25,000. The rest of the economy is expected to add approximately 90,000 jobs per month. Overall payroll growth is likely to slow to 115,000 jobs per month.

Slower Economic Growth
We estimate growth will slow from 2.4% in 4Q2024 to 0.5% in 1Q2025 and 1.0% in 2Q2025. The slower growth reflects weaker consumer spending, as detailed in subsequent sections, as well as the impact of increased tariffs. We have lowered our 1Q25 growth forecast from 1.5% at year-end to 0.5%.



We forecast that growth will slow from 2.5% in 2024 to 0.7% this year. At year-end, our 2025 growth forecast was 2.0%. We reduced our growth rate by 1.3 percentage points. If policymakers negotiate lower reciprocal tariffs sooner rather than later, growth should be higher.

The odds of a recession have risen. Most economists have raised the odds of a recession from 15% in January to 35% to 45% today. The increase is primarily tied to tariff uncertainty and DOGE. The Atlanta Fed's GDPNow model currently estimates that the economy shrank 0.8% in Q1 2025.

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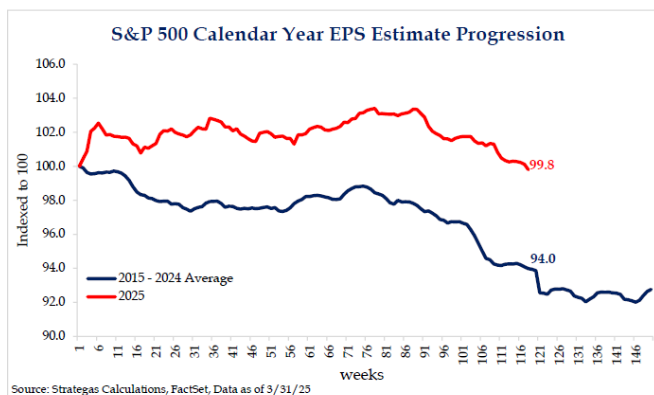
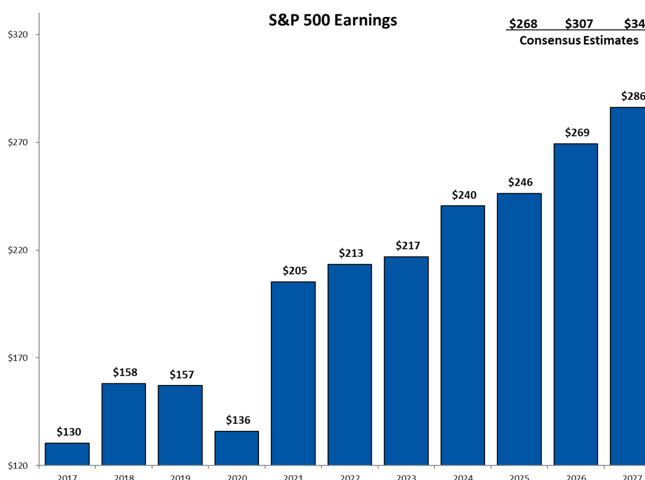
Stock Earnings Forecast

Since year-end, analysts have reduced bottom-up estimates for 2025 S&P 500 earnings by 1.4%. As shown in the chart, it is typical for analysts to reduce their earnings estimates as optimism gives way to reality. The historical pattern is that estimates decline by 8% over a two-year forecasting cycle. The 2025 consensus EPS estimate is still above historical trends. Earnings hold up better than they have historically.



We expect 2025 estimates to fall further during the upcoming earnings season as analyst and CFOs incorporate the impact of new tariffs on their companies' earnings. Our 2025 earning estimate is 8% below the consensus. We lowered our estimate by $16 to incorporate the impact of the new tariff regime.



Based on current interest rates, a fair value P/E for the market is 20.1, placing the December 31, 2025, fair value for the S&P 500 between 5,400 and 6,200. We are currently at the low end of the range.

If you have questions or comments about this Outlook, don't hesitate to contact our Security National Bank Private Client Services team.

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Please see the obligatory disclosures at the bottom of each page and at the end of this report.

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Since 1977, the Federal Reserve has operated under a mandate from Congress to "promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates"—commonly referred to as the Federal Reserve's "dual mandate." For this reason, we always start our economic review with employment, followed by inflation.

Employment

The labor market remains balanced, neither a source of inflation nor deflation. The March report was strong but irrelevant. Investors are focusing on tariffs and the likely impact of higher tariffs on employment. We expect the unemployment rate to rise to 5% or higher by year-end.

Total payrolls increased by 228,000 in March, exceeding the expectations of 130,000 new positions. The BLS revised down the previous two months' payrolls by a combined 48,000. Private sector jobs increased by 209,000, exceeding the expectation of 127,500 positions added. The three-month moving average fell to 152,00 from 183,670 the previous month. Employment increased in healthcare, transportation and warehousing, and social assistance.

Wage growth rose slightly to 0.25% from 0.22% the previous month. The three-month average (TMA) of 3.6% for wage growth is in line with the Federal Reserve Bank's (FRB) target of 3.5%. The aggregate payrolls index rose 0.4% M/M and 4.4% Y/Y.

We begin our employment review by examining the JOLTs (Job Openings and Labor Turnover) report published by the Bureau of Labor Statistics (BLS). This gives us an idea of how big a cushion the economy has before employment is impacted. Generally, companies will first cut open positions before employees.

JOLTS Report				
	Most Recent	Previous Month	Previous Year	Long-Run
Open Positions	7,568,000	7,762,000	8,445,000	
Open/Unemployed	1.1X	1.1X	1.3X	0.9X
Open Rate *	4.7%	4.8%	5.3%	4.4%
Hire Rate *	3.7%	3.7%	3.9%	4.1%
Lay-Off Rate *	1.2%	1.2%	1.2%	1.4%
Quit Rate *	2.2%	2.3%	2.4%	2.4%

* Private Sector

The December JOLTS report was slightly worse than expected. The BLS reported 7.6 million open positions versus the consensus of 7.7 million. Open positions decreased by 194,000, led by the retail trade sector (down 126,000), the finance and insurance sector (down 80,000), and the healthcare sector (down 46,000). Professional and business services openings increased by 134,000. Despite DOGE's efforts, federal government job openings increased by 6,000.

The open rate is the number of open jobs divided by the total number of jobs (filled and unfilled). FRB research suggests that unemployment rates significantly increase once the unemployment rate falls below 4.5%. The rate decreased to 4.7%. This measure gives job openings room to ease before unemployment rises.

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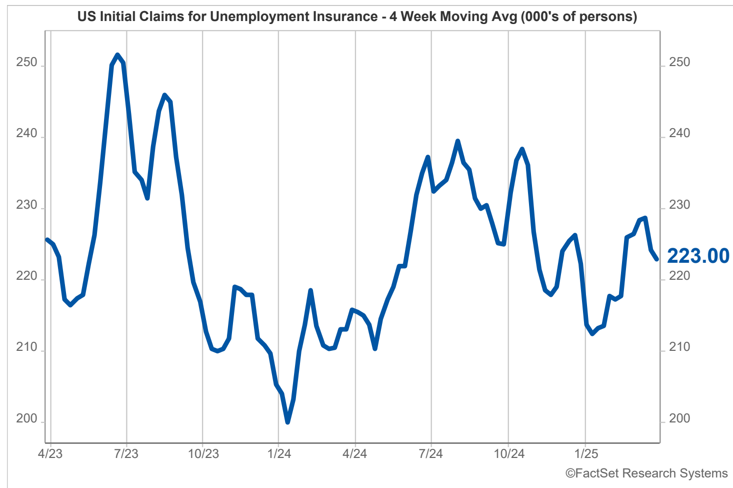
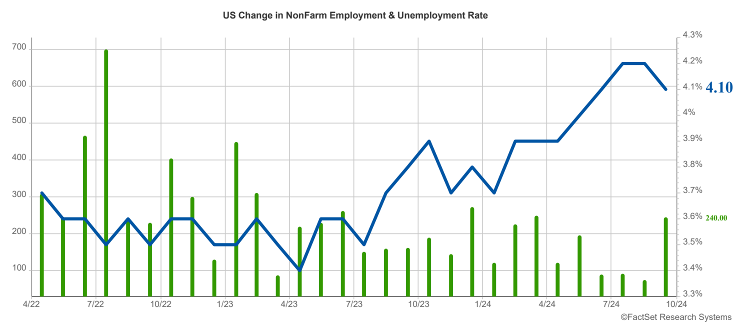
Both the hiring rate and the layoff rate are below the long-term average, suggesting employers are retaining their talent (low layoff rate) but are either unable or unwilling to expand their payrolls (low hiring rate) as they focus on optimizing their workforce.

The quit ratio decreased slightly, remaining below pre-pandemic levels. An elevated quit rate is associated with higher wage growth, as employees usually switch jobs for higher pay. The ratio tends to lead to compensation costs by nine months.

Overall, the JOLTs report suggests that the labor market remains healthy and is not a source of inflation. There is limited evidence that the uncertainty caused by tariff policy and the Department of Government Efficiency (DOGE), an initiative of the second Trump Administration tasked with cutting federal spending which it characterizes as "waste, fraud, and abuse," is impacting job openings.



Initial jobless claims for the week ending March 28, 2025, were 219,000, below the consensus estimate of 228,000, and brought the four-week average to 223,000. Continuing claims decreased by 25,962 to 1,903,000 month-over-month. While up from their January 2024 lows, initial claims are below the two recent peaks and would need to rise above 300,000 before unemployment increases dramatically. The low level of claims continues to support the view of a slowing but healthy labor market. However, the impact of government layoffs and higher tariffs has yet to be reflected in claims data. We anticipate an increase in claims over the coming months.



According to the Establishment survey, the economy added 228,000 jobs, with 209,000 in the private sector. The consensus was for 130,000 and 127,5000 new jobs. Payrolls for the previous two months were revised lower by 48,000. The unemployment rate rose to 4.2% as the number of unemployed people increased by 31,000. On a year-over-year basis, the number of unemployed people increased by 586,000. The participation rate rose to 62.5%. Hourly earnings rose by 0.3%, matching the consensus estimate of 0.3%.

Job gains were concentrated in healthcare (52,000 jobs added), social assistance (24,000 jobs added), retail trade (24,000 jobs added), and transportation and warehousing (23,000 jobs added).

The Federal Government shed 4,000 jobs in March. Despite job losses, employment in the Federal government is 11,400 (0.1%) higher than it was a year ago. Temporary employment services shed 6,400

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jobs, bringing cumulative job losses to 148,400 over the last year. Durable goods manufacturing has shed 87,000 jobs over the previous year.

The unemployment rate rose by 0.1 percentage points to 4.2%, as the number of officially unemployed people increased by 31,000 to 7.1 million, while the labor force grew by 232,000. The unemployment rate has remained in a narrow range of 4.0% to 4.2% since May 2024. The unemployment rate for the 25-year-old and older cohort rose by 0.1% to 3.3%. The broader U-6 unemployment rate fell by 0.1% to 7.9%. The participation rate rose to 62.5%. The employment-to-population ratio remained steady at 59.9%.

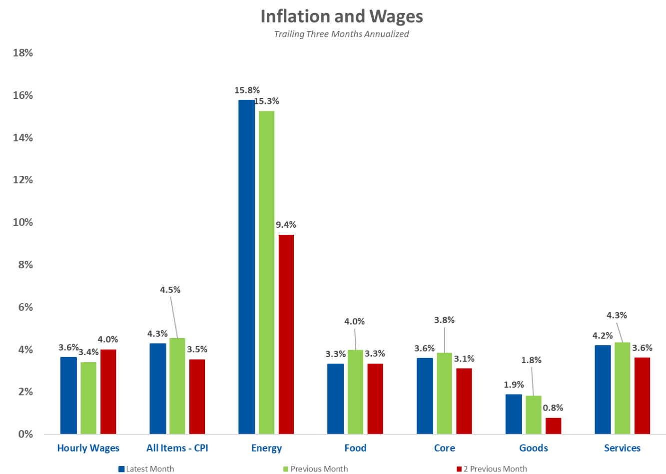
The number of people employed part-time for economic reasons fell by 157,000 to 4.8 million. These individuals would have preferred full-time employment but worked part-time because their hours had been reduced or they could not find full-time jobs.

Last month's average hourly earnings (wages) increased by $0.09 per hour to $36.00, representing a 0.3% rise, in line with the consensus estimate of 0.3%. Average hourly earnings increased by $1.33 per hour, or 3.84% year-over-year. Over the last three months, average hourly earnings grew at a 3.6% pace, accelerating from 3.4% the previous month. The FRB aims for wage growth to remain below 3.5% for an extended period.

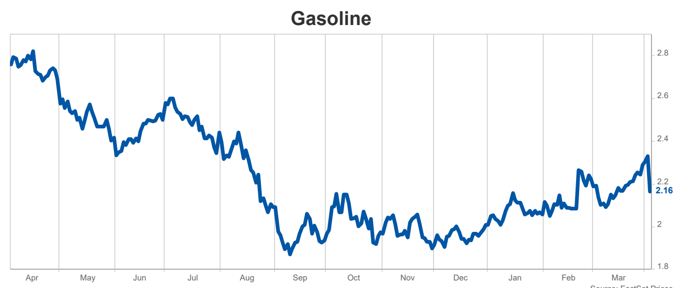
The average workweek remained steady at 34.1 hours. Average weekly earnings rose by $3.08 (0.3%) from the previous month. Average weekly earnings increased by $38.55 (3.2%) Y/Y.

Inflation

The FOMC will release the next CPI report on April 10 and one additional CPI report when setting monetary policy on May 7.



Egg prices increased by 58% year-over-year in February, with the rise traced to the resurgence of bird flu. More than 30 million egg layers have been culled to contain the bird flu virus. The USDA reports that wholesale egg prices peaked at $8.168 per dozen on March 3 and are now trading at $3.004, representing a 63% decrease. Eggs make up 0.2% of consumers' total purchases. Egg inflation caused an increase in inflation expectations of more than 0.2%, and we will see if lower egg prices lead to lower inflation expectations.



The FRB aims to achieve 2.0% long-term inflation, as measured by the core Personal Consumption Expenditures (PCE) Price Index. Due to differences in various weightings, the PCE measures tend to be 0.3% lower than the more common Consumer Price Index (CPI). The PCE deflator includes goods and services bought on behalf of households, not just those

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directly purchased by households, which results in smaller weights for housing and car insurance in this index compared to the CPI.

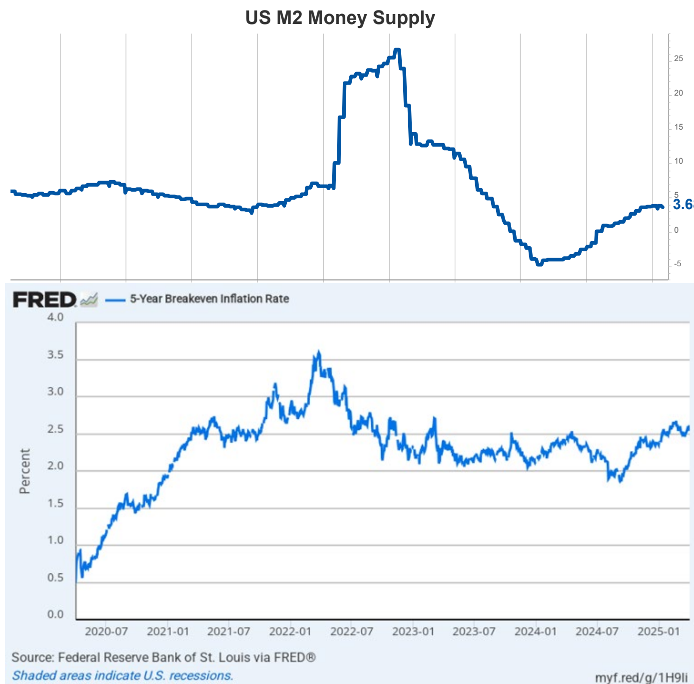
The Consumer Price Index (CPI) rose 0.2% in February and 4.3% (TMA). Core prices rose 0.2% and 3.6% TMA. All items, excluding food, energy, and shelter (super core), increased by 0.2% and 3.4% in TMA. All these measures are significantly above the FRB's target and the rate of wage growth. Real wages have fallen over the last two months.

Food prices increased by 0.2% month-over-month (M/M) and 3.3% year-over-year (Y/Y), while energy prices rose 0.2% M/M and 3.6% Y/Y. Following the tariff announcement, energy prices are declining, providing some offset to the tariff-induced inflation.

Goods prices rose 0.2% M/M and 1.9% TMA. The Manheim Used Vehicle Value Index decreased by 1.6% in March but remained 2.4% higher than its low point in June. We shall see if used vehicle prices reaccelerate if higher tariffs increase the cost of new vehicles, increasing the demand for used vehicles.

Service prices rose 0.3% M/M and 4.2% TMA. Owners' Equivalent Rent (OER) was up 0.3% M/M and 3.7% TMA. After many false starts, OER may moderate and begin to reflect other market-based measures. Homeowners insurance premiums rose by 0.3% M/M and 3.7% TMA. Motor vehicle insurance rose 0.3% M/M and 11.4% TMA. Natural disasters will continue to pressure insurance premiums. We do not look for relief anytime soon.

Milton Friedman famously said, "Inflation is always and everywhere a monetary phenomenon, in the sense that it is and can be produced only by a more rapid increase in the quantity of money than in output." Much of the inflation in 2022 and 2023 was caused by the rapid growth of the monetary supply in 2020 and early 2021. At its peak growth, the money supply expanded at an annual rate of over 27%. The money supply increased faster than output for three consecutive years, resulting in inflation. The FRB slammed on the brakes in 2022. From March 2022 to March 2023, the money supply contracted 3.7%, or $0.8 trillion. It is now growing at a 3.7% Y/Y pace. This is insufficient for a growing economy and will slow economic growth. The money supply should increase by 5% year-over-year (Y/Y) to promote stable, low-inflationary growth.



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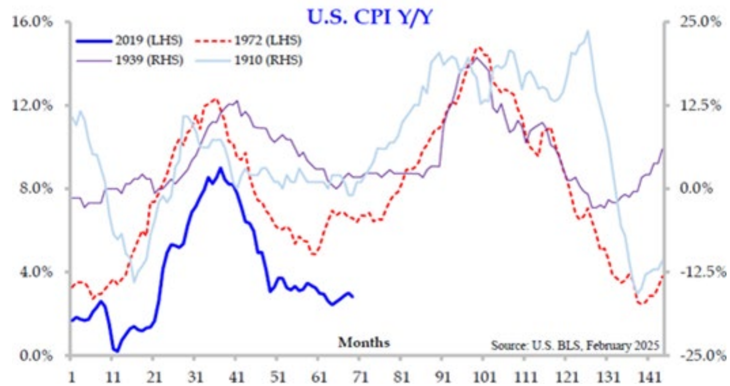
The FRB employs very few Friedman acolytes, so the money supply is ignored when setting monetary policy.

Because inflation statistics are lagging indicators, economists use forward-looking inflation expectations. The breakeven inflation rate represents what financial market participants expect to be, on average, over the next five years. The 5-year breakeven inflation rate reached a peak of 3.6% in March 2022. Inflation expectations have fallen to the current 2.5%. For now, expectations are where we would expect them to be. However, when measuring inflation expectations at the consumer level through surveys, inflation expectations have become unanchored. This will be covered in a later section of this report.

We increased our long-term inflation rate from 2.8% to 3.2% to reflect the most recent tariff increases. If the Administration negotiates lower tariffs, we will lower the base inflation rate.

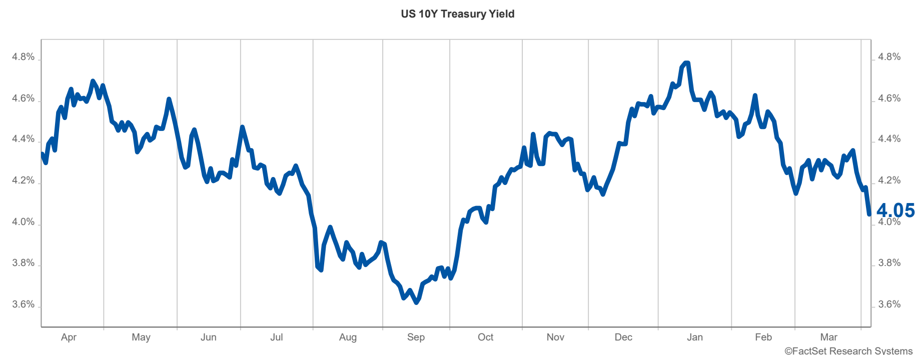


Inflation tends to run through the economy in waves. We are anticipating a second wave of inflation beginning in 2028 and cresting at the end of that year. Until the next wave arrives, CPI inflation is expected to hover around 2.8%, slightly higher than the current rate.

The second wave tends to wreak havoc on bond portfolios. Investors are lulled into the assumption that inflation is dead, thereby lengthening the duration of their bond portfolios. Their fixed-income portfolios suffer when the FRB is forced to raise rates.

Interest Rates and Credit Markets

The 10-year Treasury yield reached its peak on January 14 at 4.8%. The 10-year Treasury ended the month at 4.2%, down 0.6% from its peak, as sentiment figures, retail sales, tariff chaos, and media commentary have turned negative. Treasury rates continue to fall in the wake of the tariff announcements.



The yield curve reinverted as long-term rates fell, but short-term rates remained anchored. The 10-year Treasury closed the month at 4.2%, down 35 basis points, and the 3-month Treasury closed the month at 4.3%, down just one basis point. The yield curve signals slower economic growth.

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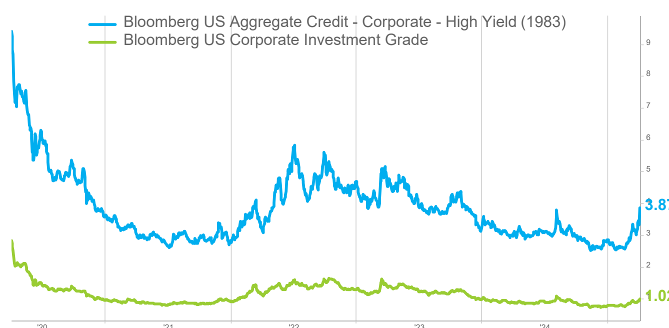
We had expected the yield curve to steepen a bit. However, it narrowed from 0.42% on January 14 to -0.12 % on April 2. Since 1982, the average spread has been 1.6%. The curve has further inverted since the tariff announcements. This is a signal that market participants anticipate lower rates in resonse to slower economic growth.

Real rates remain range bond. The real 10-year interest rate has oscillated between 1.5% and 2.0% for the last two years and is currently 1.9%. We view real rates of 2% plus or minus 0.25% as sustainable. We base our long-term ten-year rate (4.8%) on 2.0% real rates plus 2.8% CPI inflation. We increased the 2026 and 2027 10-year rates by 0.25% yearly to incorporate rate pressure from deficit spending.



During periods of financial stress, investment-grade spreads often widen to more than 200 basis points. During periods of exuberance, they fall below 0.8%. Investment-grade spreads ended the month at 0.9%, seven basis points wider than the previous month. At this level, investment-grade bonds continue to forecast strong economic growth. They are nowhere near signaling a recession or credit stress in large corporate America.

High-yield spreads widened by 67 basis points to 3.5% during the latest month. During periods of economic stress, high-yield spreads often widen to above 8.00%. During periods of exuberance, they fall below 3.5%. We currently classify high-yield spreads as within the normal. High-yield credit spreads have widened by 90 basis points since mid-February. High yield spreads are beginning to reflect a slowing economy. They are very far from recessionary levels.

Credit spreads have widened significantly after the tariff announcement. Investors are anticipating slower economic growth and an increase in credit risk.

The Federal Reserve Bank of New York calculates the Corporate Bond Market Distress Index (CMDI), a unified measure quantifying joint dislocations in the primary and secondary corporate bond markets. The index incorporates various indicators, including primary market issuance and pricing, secondary market pricing and liquidity conditions, and the relative pricing between traded and nontraded bonds. By this measure, the corporate bond market is functioning at a healthy level. The index is below its historical 5th

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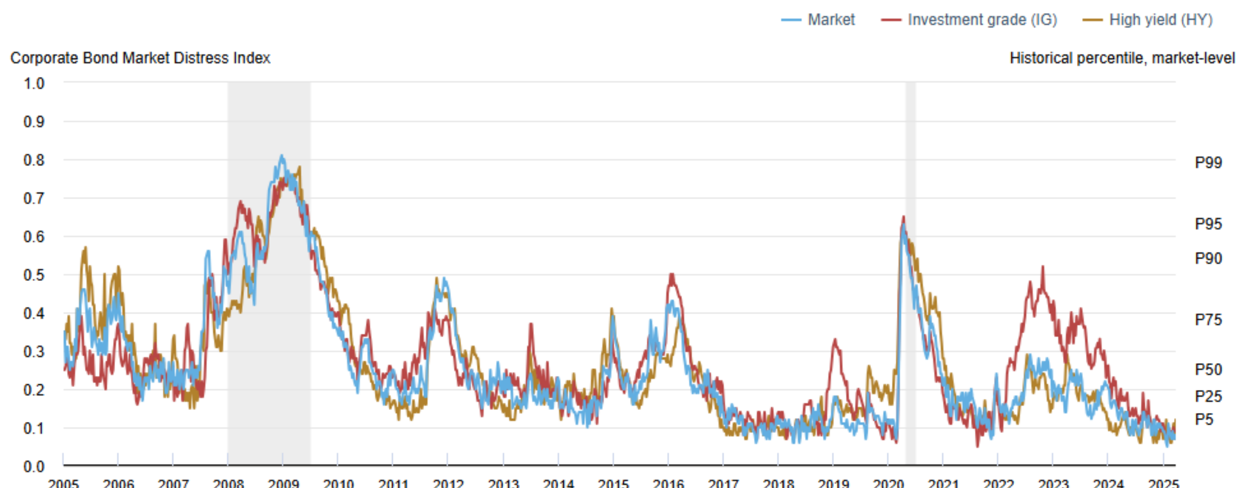
percentile (indicating the least stress) and remains unchanged from the prior month. Overall, credit markets remain strong, and defaults are within historical norms.



The Consumer Sector

Personal Consumption Expenditures				
	M/M		Y/Y	
	Nominal	Real	Nominal	Real
Private Sector Wages	0.5%	0.1%	3.2%	0.6%
Disposable Personal Income	0.9%	0.5%	4.4%	1.9%
Durable Goods	1.4%	1.0%	3.5%	5.3%
- Motor Vehicles and Parts	1.7%	1.6%	3.6%	6.7%
- Computers and Tech	2.2%	-0.2%	5.4%	5.5%
Non-Durables	0.6%	0.5%	4.2%	2.0%
- Gas and Other Energy	-1.4%	-0.6%	1.2%	2.8%
Services	0.2%	-0.1%	5.9%	2.6%
- Utilities	-1.2%	-2.4%	8.4%	4.9%
- Health Care	0.4%	0.1%	6.1%	4.4%
- Food Service & hotels	-1.0%	-1.4%	2.5%	1.8%
Total	**0.4%**	**0.1%**	**5.3%**	**3.0%**

Personal income increased by 0.8% M/M, 4.4% TMA, and 4.6% Y/Y. Private sector wages and salaries increased by 0.5% M/M, 3.9% Y/Y, and 3.2% total annual (T/A). Government transfer payments increased 1.8% M/M, 16.6% TMA, and 7.9% Y/Y. Disposable personal income (DPI) increased by 0.9% M/M, 7.8% TMA, and 4.4% Y/Y. DPI rose at its fastest pace in thirteen months. The increase in transfer payments (7.9% year-over-year) is unsustainable and is contributing to our deficit

Consumption rose 0.4% M/M, 4.1% TMA, and 5.3% Y/Y. As expected, consumption growth has slowed to below DPI. Consumers are saving more. The savings rate rose 0.3 percentage points month-over-month to 4.6%. The savings rate remains significantly below the pre-pandemic level of 7.0% to 7.5%. We expect consumption to trail earnings growth until the savings rate approaches 7.0%.

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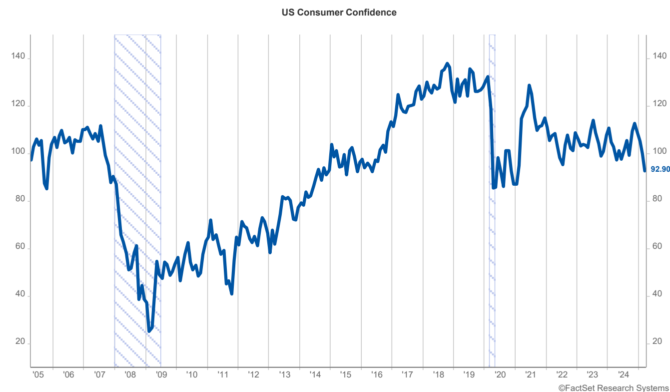
SECURITY NATIONAL BANK
PRIVATE CLIENT SERVICES

Personal Consumption Expenditures (PCE) grew 0.4% for the month. This was significantly higher than the 0.3% drop in January. After adjusting for inflation, expenditures increased by 0.1%. Motor vehicle sales have rebounded. We shall see what the proposed 20% tariff does for sales. New light vehicle sales rose from 15.5 million SAAR to 16.0 million SAAR in February. Consumers got a break from cold weather as real utility usage was down 2.4% M/M. The drop was significant enough to cause services consumption to fall on a real basis, a rare event.

While the rise in the savings rate heartens us, it remains too low. We look for the savings rate to rise to 7%, implying that consumption growth trails income growth.

Confidence

Consumer confidence declined for the fourth consecutive month in March, as consumers expressed a broad deterioration in their assessment of inflation and business conditions.



The Consumer Confidence Index fell by 7.2 points to 92.9. February's reading was revised higher by 1.7 points.

The present situation index, based on current business and labor market conditions, fell by 3.6 points to 134.5. The February present situations index was revised higher by 1.6 points.

The forward-looking expectation index, based on a short-term outlook for business and labor market conditions, fell by 9.6 points to 65.2. The February expectations index was revised higher by 1.9 points. March's report marked the second consecutive reading below 80, a traditional signal for a pending recession.

According to the Conference Board, "Consumers' expectations were especially gloomy, with pessimism about future business conditions deepening and confidence about future employment prospects falling to a 12-year low. Meanwhile, consumers' optimism about future income—which had held up quite strongly in the past few months—largely vanished, suggesting worries about the economy and labor market have started to spread into consumers' assessments of their personal situations."

Employment Confidence is Mixed

The current conditions net employment sub-index (plentiful minus hard to get) rose slightly to 17.9 from 19.6 the previous month. Consumers' outlook for future employment worsened as the net sub-index (the difference between more jobs and fewer jobs) fell to -11.8 from -7.8 the previous month. Consumers remain confident that the labor market is solid but have significant trepidation in the job market over the next six months.

Business Confidence Collapses

Consumers' perception of current business conditions worsened, as the net sub-index (good minus bad) fell to 1.1 from 4.3 the previous month. Consumers' outlook for future business conditions plummeted, as the net sub-index (better minus worse) fell to -10.2 from -4.7 last month.

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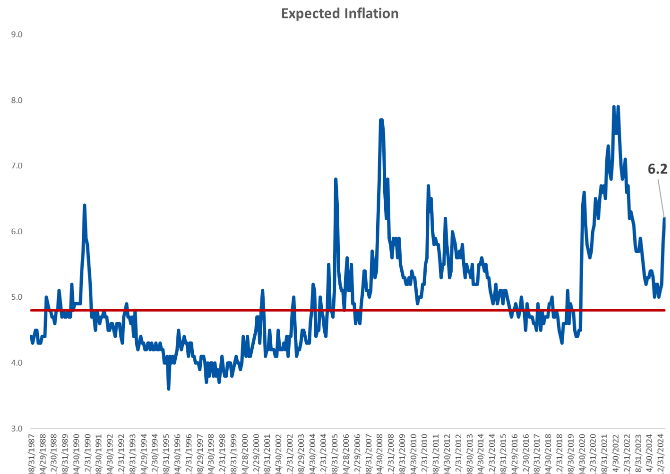
Inflation Expectations are Rising

The Conference Board started asking consumers about inflation expectations in 1987. Last month, consumers' expectations for inflation for the next 12 months soared. Consumers forecast inflation will be 6.2% in 12 months, up from 5.1% at year's end.

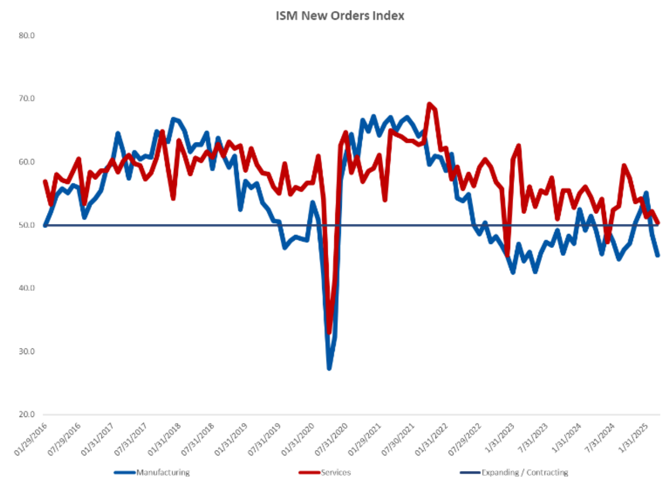


Inflation expectations are becoming unanchored. Sky-high egg prices and tariff talk have soured consumers' inflation experience. The Trump Administration is quickly losing consumer confidence in its ability to bring inflation under control.

The Business Sector

The Institute for Supply Management (ISM) reports monthly on manufacturing and non-manufacturing (service) sector activity. The reports are sentiment-driven and can be influenced by current events. Nonetheless, they do provide real-time clues to what is happening.

The New Orders Index is a leading indicator for the ISM Activities Index and the economy. This chart suggests that tariff chaos is impacting both the service and manufacturing sectors. Increased uncertainty is causing customers to pull back and wait, indicating lower economic activity this year.



As a frame of reference, readings above 50 indicate expansion; readings below 50 indicate contraction. Readings approximating 50 indicate the same level of activity. A Manufacturing PMI above 42.5 generally indicates an expansion of the overall economy.

Activity in the service sector expanded at a slower pace in March. The Services Index fell 2.7 points to 50.8. The breadth of growth narrowed, as ten industries reported growth while seven reported contraction. Comments from the Institute for Supply Management (ISM) included, "There has been a significant increase this month in the number of respondents reporting cost increases due to tariff activity. Despite an increase in comments on tariff impacts and continuing concerns over potential tariffs and declining governmental spending, there was a close balance in near-term sentiment between panelists with good outlooks and those seeing or expecting declines."

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Employment contracted after five consecutive months of contraction. The employment index fell by 7.7 points to 46.2. Nineteen percent of respondents reported reducing their employment, while 14% reported increasing their employment. Employment in the service sector is contracting. Comments from respondents include: "Have been able to hire high-quality employees to fill open positions" and "Conservative view of the job market and economy; not adding headcount or resources."

Non-Manufacturing Sector	Direction	Rate of Change
Business Activity / Production	Growing	Slower
New Orders	Growing	Faster
Backlog of Orders	Contracting	From Growing
Employment	Contracting	From Growing
Prices Paid	Increasing	Slower
Supplier Deliveries	Slowing	Slower
Service Sector	**Growing**	**Slower**
Industries Expanding	10	-4
Industries Contracting	7	+4

Prices paid for materials and services rose at a slower pace. Prices have risen for 94 consecutive months. The price component fell by 1.7 points to 60.9. 29% of respondents reported higher prices, while only 4% reported lower prices. Inflationary pressures remain a concern. Tariffs will likely increase inflationary pressures.

Activity in the manufacturing sector contracted in March. The manufacturing index fell by 1.3 points to 49.0 points. Growth dispersion narrowed as nine industries reported growth and seven reported economic contraction.

Comments from the ISM included, "Demand and production retreated and destaffing continued, as panelists' companies responded to demand confusion. Prices growth accelerated due to tariffs, causing new order placement backlogs, supplier delivery slowdowns and manufacturing inventory growth. Forty-six percent of manufacturing gross domestic product (GDP) contracted in March, up from 24 percent in February. The share of manufacturing sector GDP registering a composite PMI® calculation at or below 45 percent (a good barometer of overall manufacturing weakness) was 7 percent in March, a 5-percentage point increase compared to the 2 percent reported in February. Of the six largest manufacturing industries, three (Petroleum & Coal Products; Computer & Electronic Products; and Transportation Equipment) expanded in March, one fewer than in February,"

Manufacturing Sector	Direction	Rate of Change
Production	Contracting	From Growing
New Orders	Contracting	Faster
Backlog of Orders	Contracting	Faster
Employment	Contracting	Faster
Prices Paid	Increasing	Faster
Supplier Deliveries	Slowing	Slower
Manufacturing Sector	**Contracting**	**From Growing**
Industries Expanding	9	-1
Industries Contracting	7	+2

The employment index has contracted by 2.9 points to 44.7. Eighteen percent of respondents reduced their employment, while eight percent increased their employment.

Prices paid for materials and services rose again. The Prices Index rose by seven percentage points to 69.4. 7% of respondents reported paying lower prices, while 46% reported paying higher prices.

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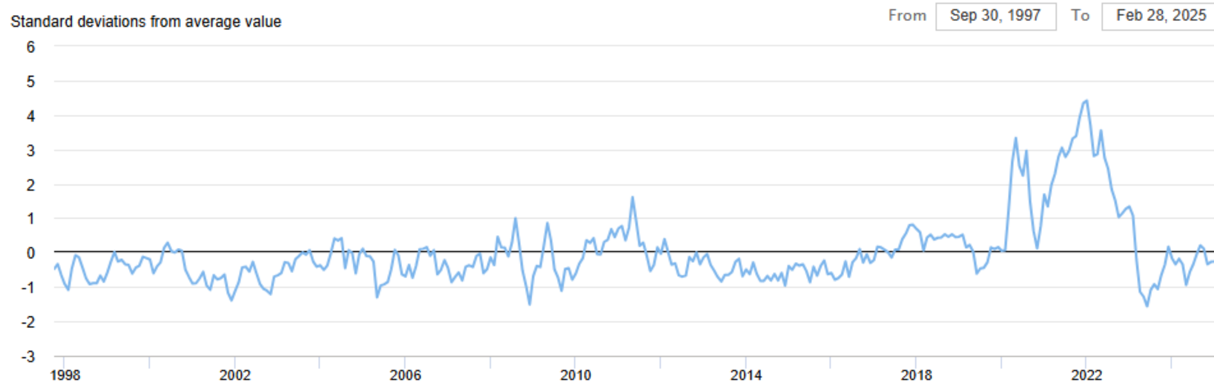
The nascent expansion in manufacturing has stalled. Tariff chaos has a significantly more significant impact on manufacturing than on the service sector. Until clarity is reached, manufacturers will likely continue to struggle.

The Federal Reserve Bank of New York tracks supply chain disruptions with its Global Supply Chain Pressure Index (GSCPI). Supply chain pressures have eased slightly and remain within normal ranges; any supply chain issues are modest and isolated.



Do Not Count Out Renewable Energy

We continue to expect renewables to capture a growing market share in electricity generation. The cost of building a new combined cycle gas turbine (CCGT) power plant has increased by 200% since 2021. This has made renewables relatively more attractive. The Levelized Cost of Energy (LCOE) for renewables, at $25-$50/MWh for onshore wind and $35-$75/MWh for new solar (top end of ranges include storage adder) versus $85-$115/MWh for gas CCGTs and $130-$150/MWh for Small modular reactors (SMRs). LCOE is a metric that calculates the average cost of electricity generation over the lifetime of an energy asset, encompassing all costs from construction to decommissioning, expressed as a cost per unit of electricity produced.

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Abbreviations and Other Terms Used

This report will utilize the following acronyms: FRB for the Federal Reserve Bank, FOMC for the Federal Open Market Committee, and BLS for the Bureau of Labor Statistics. The FOMC is part of the Federal Reserve Board (FRB), which meets eight times a year to set monetary policy. The primary tool for monetary policy is the Federal Funds Rate (FFR). FFR is the rate set by the FOMC and is the rate at which banks borrow and lend their excess reserves to each other overnight. It forms a floor for short-term interest rates.

We will use the following abbreviations for various governmental agencies.
BEA = U.S. Bureau of Economic Analysis
BLS = U.S. Bureau of Labor Statistics

We will use the terms nominal and real. Nominal values are measured in terms of money or things that are counted in the real world. Retail sales, personal income, expenditures, and corporate earnings are usually reported in nominal dollars. Real values are adjusted for inflation (nominal less inflation). Real values enable comparisons that are not distorted by inflation. GDP numbers are usually reported as real growth.
Other abbreviations are commonly used.

QTD = Quarter-to-date
YTD = Year-to-Date
M/M = Month Over Month
TMA = Trailing Three-Month Annualized
Y/Y = Year Over Year
MBPD = Million Barrels per Day

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