



## A Steady Economy in an Uncertain World

As the curtain rises on 2026, we thought that the gusher of uncertainty that grabbed headlines last year would fade and eliminate a major headwind from this year's prospects. Unfortunately, that's not in the cards. Barely a month into the new year, geopolitical tensions have flared, highlighted by events in Venezuela, Iran and Greenland, tariffs are once again front and center, and domestic unrest related to ICE has erupted. Meanwhile, the administration is launching an unprecedented assault on the Fed, starting a criminal investigation against the chairman that has injected a good deal of angst into the financial markets.

The one brouhaha from last year that has been put to rest is the government shutdown, which was resolved six weeks before the new year started. That said, the data blackout during the shutdown left a void that is only slowly being filled. What incoming reports suggest so far is that the economy hardly lost a beat; consumers did not stop spending during the shutdown, AI-related investments continued apace, and even a housing market that languished throughout the year showed more vigor, as lower mortgage rates drove a rebound in home sales in the fall. The cherry on top of the resilient economy is a stock market that continued to notch gains in the fourth quarter, burnishing the portfolios of older and wealthier households.

Hence, despite the fog overhanging the statistical landscape, the economy is entering the new year on a solid footing. Whether the ongoing uncertainty over new disruptions short-circuits the progress remains to be seen. Over the near term, a number of influences stoking growth will be coming on stream, including most importantly, a good deal of fiscal stimulus (i.e., tax refunds and breaks stemming from last year's One Big Beautiful Bill Act) that should provide considerable impetus to spending over the first half of the year. Corporate earnings are solid, and businesses are still investing in AI technology. Even if stocks falter, the more affluent households are sitting on a formidable cushion of appreciated assets that will sustain consumption over the near term. These positive influences should override the cracks that opened up last year, particularly an increasingly fragile labor market. But while the chaos and uncertainty generated more bark than bite last year, that outcome could flip if a volatile backdrop persists for much longer.

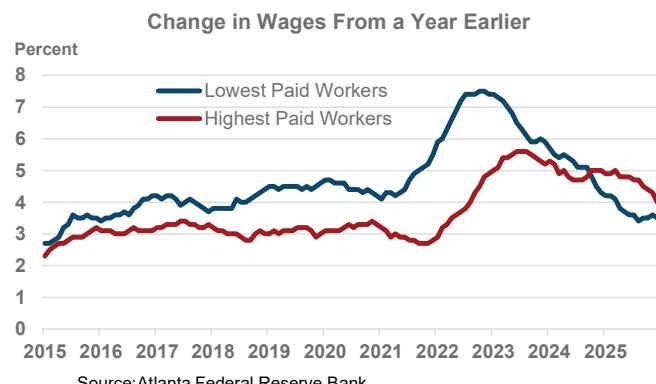
### Prices Are Still Too High

Affordability has been a major topic of conversation in the political space this year, with Democrats hoping it will work in their favor in the midterm elections and Republicans hoping it will fade as households get relief from rising incomes and tamer prices. So far, high consumer prices, particularly for politically sensitive groceries and

utilities, remain a sore spot for lower and middle-income Americans. While price gains are easing compared to the virulent post pandemic surge in 2022 and 2023, people care more about price levels that are still elevated due to the strong increases from that period.

We think overall inflation has peaked for now, as most of the passthrough from tariffs is behind us. Indeed, the passthrough has been much less than feared – or projected by most economists -- as the tariffs were mostly absorbed by businesses. The key going forward is whether personal incomes rise faster than prices and enable households to grow into the high price levels resulting from the previous years increases. The jury is still out on that verdict. Over the past year, consumers have been winning the race, as the increase in worker earnings has exceeded overall inflation by about 1 percent – 3.8 percent versus 2.7 percent.

But the gap narrowed late in the year, as wage growth slowed amid sticky inflation. What's more, lower-paid workers experienced the biggest setback, as their wage gains trailed that of upper income workers for more than a year. The bad news for them is that little relief on the inflation front is expected right away. Two big risks stand in the way. First, more of the tariffs will enter prices in the first quarter, as businesses will no longer be selling the goods they front-loaded earlier in the year before tariffs kicked in. Sales are now being made from restocked inventory that included the tariffs, and it is unlikely that businesses will continue to absorb the cost. For another, President Trump recently threatened to impose more tariffs as leverage in his pursuit of acquiring Greenland. While he walked back that threat, it would be premature to believe the tariff uncertainty that



headlined 2025 has been put to bed. Finally, health care costs are poised to soar for millions of Americans, as Congress let subsidies expire.

## Good News On Housing Costs

Among the prices that are the most politically sensitive, housing, groceries and energy top the list. As is the case for overall inflation, price increases for groceries and energy have slowed over the past year but far too slowly for households to forget the steep increase in previous years. What's more, the trend has been mixed within categories: egg prices are down sharply thanks to the end of the bird flu, but coffee prices are spiking. Likewise, gasoline prices have fallen sharply but electricity prices are rising thanks, in good part, to the energy hogging increase in data center construction.

But the elephant in the room is housing, where costs account for more than a third of the basket of goods and services that enters the consumer price index. Here the news is more encouraging. Shelter costs in the CPI, which includes rents on apartments and what homeowners would receive if they rented out their homes, have eased dramatically over the past year, increasing by just over 3.0 percent, down from 4.6 percent a year ago. That's three times faster than the decline in overall inflation, as a flood of completed rental units is reaching the market. The apartment vacancy rate, at 7.5 percent, is the highest in more than 10 years.

Of course, a major issue for a big swath of the population, particularly younger and lower paid people, is the prohibitive cost of buying a home. While still out of reach for too many in this cohort, some relief is also unfolding. New home prices have fallen in five of the past six months, and in a break from historical norms they have fallen below prices on existing homes. Home builders have been offering discounts on their properties to move inventory, which has temporarily spiked above normal levels due to the slump in sales last year. However, once inventories are brought into balance with sales, home prices will start to rise again.

## Messaging Problem

Despite the favorable top-line data – low unemployment, strong GDP growth, easing inflation and rising stock prices – the public remains dissatisfied with the direction of the economy, according to most polls. The administration believes this disconnect mainly reflects a messaging problem, as the good news is just not getting through to Main Street. This may be true to some extent, as foreign policy and trade issues have captured more headlines than govern-

ment attempts to deal with the affordability issue.

We suspect that will change as the mid-term election campaign heats up. In recent weeks, the administration has taken measures to improve housing affordability, instructing government agencies to buy billions of mortgage-backed bonds to lower mortgage rates. It has also proposed a 10 percent ceiling on credit card interest charges to ease debt burdens for low-income households. And, as echoed in his legal assault on the Fed chairman, President Trump is arm-twisting the central bank to lower interest rates, both through public criticism and attempts to stock the central bank with like-minded policy makers.

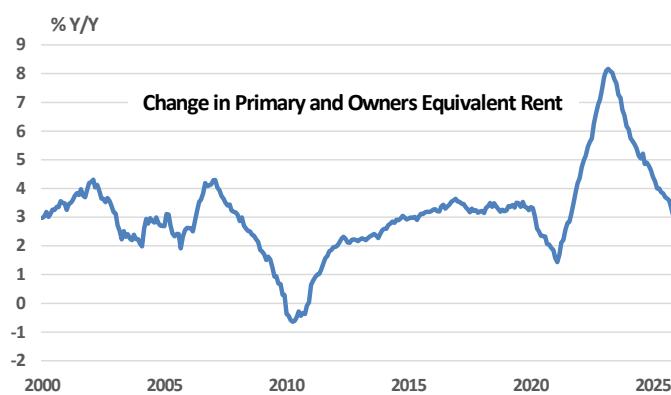
However, aside from deregulation and budget policies, federal efforts to curb inflation and interest rates rarely work out. Attempts to make housing more affordable are even more daunting as the problem is more of a supply than a demand issue. Lower mortgage rates would help lower costs and boost demand, as was the case in October and November. But that cannot be done by government fiat as those rates are linked to bond yields, which are influenced by global market forces. The best way to make housing more affordable is by relieving the nationwide housing shortage, which is the main culprit behind rising home prices. But that too is beyond the purview of Washington, as it would require the easing of land-use restrictions and zoning laws set by 33 thousand different local entities.

## Less Uncertainty Please

Simply put, the economy is still forging ahead, riding the tailwinds of robust business spending on AI technology and solid consumer spending, boosted by wealth gains of upper income households. But the wild swings in stock and bond prices in January as well as depressed public sentiment are time-honored signals that heightened uncertainty is still a driving force overhanging the economy. We suspect that trade tensions will continue to ebb and flow as the year progresses, as tariffs have become the president's favorite negotiating tool in pursuing foreign policy objectives. However, the tariff impact on the real economy has been relatively muted and it's possible that investors and traders will become less responsive to tariff announcements over time, resulting in less market volatility. We also assume that the assault on the Fed's independence will not be successful, and monetary policy will be shaped according to economic needs, not political preferences.

The jury is still out as to what those needs will be. Despite pressure from the White House to lower interest rates sooner rather than later, the Fed is widely expected to keep rate unchanged at least through the spring. At this juncture, the job market is holding up and a jolt from lower rates might do more harm than good by adding fuel to inflation. Keep in mind that the Fed lowered rates in each of the final three meetings last year and those cuts will be adding muscle to the economy early this year even as the stimulus from last year's tax cuts kicks in. Meanwhile, inflation remains stubbornly high, running closer to 3 percent than the Fed's 2 percent target and some passthrough of last year's tariffs might still boost prices. But inflationary pressures should ease as those influences fade over the second half of the year, allowing the Fed to resume its rate cutting campaign and provide support to the economy. That said, sustaining momentum will ultimately require something that has been in short supply so far this year: a little less uncertainty.

### Housing Costs Easing



# KEY ECONOMIC AND FINANCIAL INDICATORS

## Financial Indicators \*

	December	November	October	September	August	July	June	12-Month Range
	High	Low						
Prime Rate	6.83	7.00	7.23	7.38	7.50	7.50	7.50	7.50
3-Month Treasury Bill Rate	3.59	3.78	3.82	3.92	4.12	4.25	4.23	4.25
5-Year Treasury Note Rate	3.70	3.67	3.65	3.66	3.79	3.95	3.96	4.43
10-Year Treasury Note Rate	4.14	4.09	4.06	4.12	4.26	4.39	4.38	4.63
30-Year Treasury Bond Rate	4.80	4.70	4.64	4.74	4.87	4.92	4.89	4.92
Tax-Exempt Bond Yield	4.80	4.77	4.77	4.96	5.22	5.27	5.24	5.27
Corporate Bond Yield (AAA)	5.31	5.26	5.13	5.21	5.35	5.45	5.46	5.54
Conventional 30-Year Mortgage Rate	6.19	6.24	6.25	6.35	6.59	6.72	6.82	6.96
Dow Jones Industrial average	48119	47016	46710	45908	44765	44500	42753	48119
S&P 500 Index	6853	6741	6736	6584	6409	6297	6030	6853
Dividend Yield (S&P)	1.15	1.16	1.16	1.19	1.21	1.23	1.28	1.43
P/E Ratio (S&P)	27.3	27.2	28.4	27.8	26.8	26.9	26.3	28.4
Dollar Exchange Rate (vs. Major Currencies)	120.6	121.8	121.2	120.5	121.0	120.5	121.0	129.0
								120.5

\* Monthly Averages

## Economic Indicators

	December	November	October	September	August	July	June	12-Month Range
	High	Low						
Housing Starts (Thousands of Units)			1246	1306	1291	1420	1382	1514
New Home Sales (Thousands of Units)			737	738	711	639	662	738
New Home Prices (Thousands of Dollars)			392	406	420	397	409	431
Retail Sales (% Change Year Ago)		3.3	3.3	4.1	5.0	4.1	4.4	5.10
Industrial Production (% Change Year Ago)	2.0	2.7	2.1	2.0	1.2	1.9	0.6	2.7
Operating Rate (% of Capacity)	76.3	76.0	75.8	76.1	76.1	76.4	76.2	76.4
Inventory Sales Ratio (Months)			1.38	1.37	1.37	1.37	1.38	1.41
Real Gross Domestic Product (Annual % Change)				4.4			3.8	4.4
Unemployment Rate (Percent)	4.4	4.5	4.5	4.4	4.3	4.2	4.1	4.5
Payroll Employment (Change in Thousands)	50	56	-173	108	-26	72	-13	158
Hourly Earnings (% Change Year Ago)	3.8	3.6	3.7	3.7	3.8	3.9	3.7	4.0
Personal Income (% Change Year Ago)		4.2	4.3	4.7	4.7	4.6	4.3	5.6
Savings Rate (Percent of Disposable Income)		3.5	3.7	4	4.1	4.3	4.6	5.5
Consumer Credit (Change in Blns. Of Dollars)			9.2	11.0	4.3	16.9	-4.0	17.4
Consumer Prices (% Change Year Ago)	2.7	2.7	2.7	3.0	2.9	2.7	2.7	3.0
CPI Less Food & Energy (% Change Year Ago)	2.6	2.6	2.6	3.0	3.1	3.1	2.9	3.3
Wholesale Prices (% Change Year Ago)		3.0	2.8	3.0	2.7	3.2	2.4	3.7
								-111.6

SimpliCD is owned and operated by Primary Financial Company LLC, a credit union service organization owned jointly by Louisiana Corporate and corporate credit unions nationwide.

SimpliCD Issuance complements or provides a competitive alternative to FHLB advances and other funding alternatives and is an effective solution for credit unions looking to add a secondary liquidity source.

It's quick. It's easy. It's SimpliCD.

Benefits of issuing through SimpliCD include:

- No subscription, broker, or transaction fees with custodial program
- A centralized way to raise funds and generate liquidity
- Access to the largest network of credit union investors nationwide
- The ability to aggregate investors into one certificate of deposit
- The safety of working with a credit union owned entity
- As easy as opening any other customer account

Please inquire about current rates.

## SimpliCD Issuance

### Share Certificate Program

#### Fourth Quarter 2025 – By the Numbers

\$5.3 billion	Total credit union issuance outstandings.
1,596	Number of credit unions that have issuance agreements in place, prepared to issue share certs, should the need arise.
389	Number of credit unions that currently have custodial share certificate issuance balances through SimpliCD.
\$100 million	Largest issuance in a single transaction to date.

#### Generate Liquidity Quickly and Easily with SimpliCD.

Nearly 70% of the nation's credit unions have an investing relationship with SimpliCD. With one phone call, your credit union can issue up to \$50 million or more in share certificates in a single transaction to our network of more than 3,000 credit union investors across the country. If you are looking for an exceptionally large deposit, are low-income designated, or you are simply interested in a larger audience of investors, access public funds, other institutions, and potentially all US credit unions with SimpliCD DTC Issuance.



For more information on issuing share certificates through SimpliCD, please call or email Erin Byrd at Louisiana Corporate 800-421-7030 [erinb@lacorp.com](mailto:erinb@lacorp.com). You may also visit our website at <https://www.simplicd.org>