Daiwa Capital Markets

U.S. Economic Comment

- FOMC: on hold in March amid heighted risks to both sides of the dual mandate; modest changes anticipated in new Summary of Economic Projections
- Friday data: Q4 growth revised lower, as are our expectations for Q1

Lawrence Werther
lawrence.werther@us.daiwacm.com
+1-212-612-6393
Brendan Stuart
brendan.stuart@us.daiwacm.com
+1-212-612-6172

March FOMC Preview

In all likelihood, there has been little shift amongst members of the FOMC from the collective position noted in the January meeting minutes, where "almost all participants supported maintaining the current target range for the federal funds rate" at 3-1/2 to 3-3/4 percent. At the time, policymakers assessed that "inflation had remained somewhat elevated" and that "the unemployment rate had shown some signs of stabilization." One could perhaps quibble with the aforementioned characterization of the labor market given that payrolls contracted in February and the unemployment rate ticked up to 4.4 percent, but at the same time today's reading on the price index for personal consumption expenditures – which indicated that headline inflation advanced 2.8 percent year-over-year and the core measure by 3.1 percent in January – ratified that inflation risks remain skewed to the upside. Moreover, the recent flaring of conflict in the Middle East and associated surge in energy prices has exacerbated risks to the inflation outlook. Thus, we expect the Committee to again adopt a wait-and-see approach at the March 17-18 meeting, leaving unchanged the federal funds rate and reiterating conditional language about potential future shifts in monetary policy: "In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks."

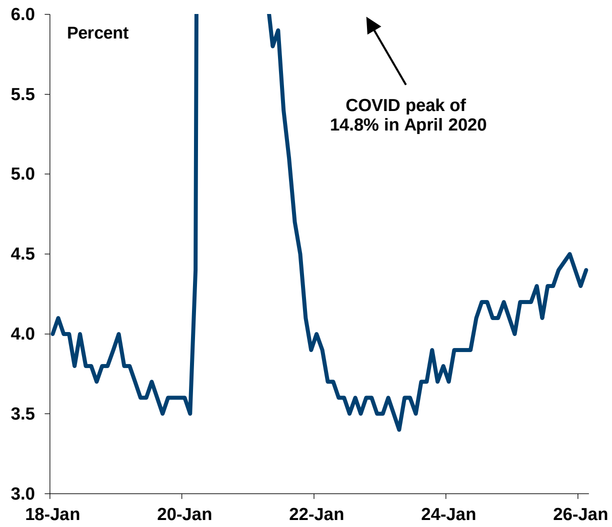
The Labor Market and Inflation

Parsing the latest data on the employment situation and inflation leaves us more concerned than in January about the possible threat of stagflation, although we remain hopeful that emergent risks subside in the back half of 2026 and the economy maintains its current solid underlying growth rate and inflation subsides toward 2 percent.

Turning first to the labor market, we viewed as disappointing the February 2026 Employment Situation report published on March 6. Total nonfarm payroll employment fell by 92,000 and job growth in the prior two months was revised lower by a combined 69,000. All told, payrolls contracted by an average 1,000 in the six months ended January versus already paltry average growth of 27,000 in the prior six-month period concluding in August 2025. At the same time, the unemployment rate ticked 0.1 percentage point higher to 4.4 percent (chart, next page, left).

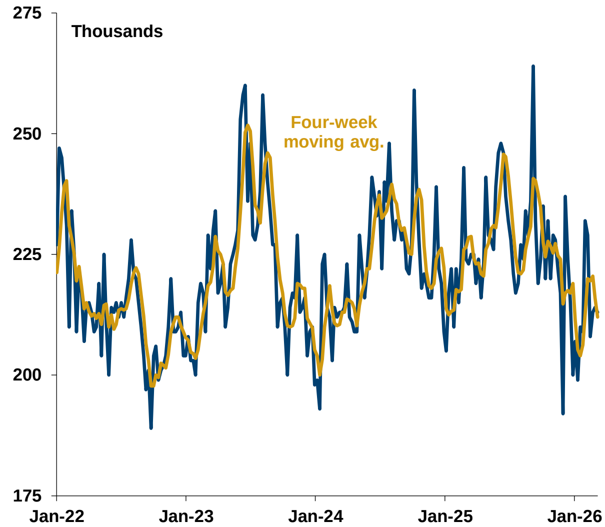
Despite our assessment of the employment situation, available data do appear to ratify the views of Fed officials that the labor market continues to operate in a low-hire, low-fire paradigm that warrants vigilance rather than additional policy accommodation – especially when inflation continues to track above the price stability objective. First, despite ticking higher in February, the unemployment rate has held within the range of 4.1 to 4.5 percent since mid-2025 – essentially moving sideways and still within striking distance of officials longer-run median view of 4.2 percent (as of the December 2025 Summary of Economic Projections). Additionally, the latest reading on unemployment claims suggests that layoffs have stayed contained in early March, with initial claims for the week ended March 7 totaling 213,000 (nearly matching the four-week moving average of 212,000), which is in the low end of the range of the past several years (chart, next page, right). Furthermore, continuing claims of 1.850 million are below recent highs in the fall and are trending sideways from a longer-term perspective. All this to say, with the claims data suggesting that layoffs are contained, prospects for a near-term surge in the unemployment rate are limited.

Unemployment Rate



Source: Bureau of Labor Statistics via Haver Analytics

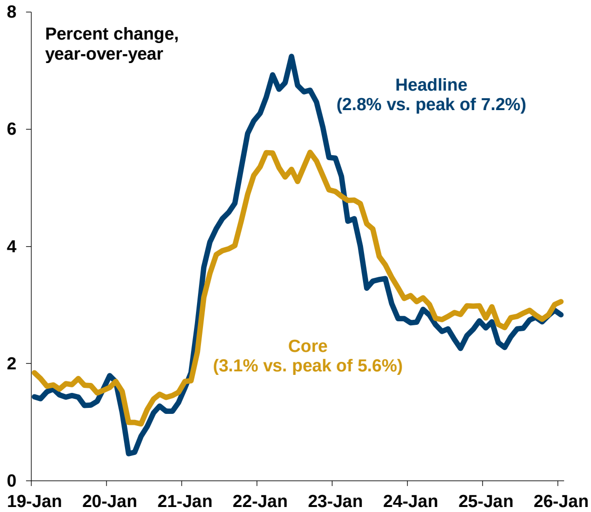
Initial Claims for Unemployment Insurance



Source: U.S. Department of Labor via Haver Analytics

Contrastingly, risks to the inflation side of the dual mandate appear to have increased recently – even before the surge in oil prices (the West Texas Intermediate crude spot price had surged by almost 43 percent as of Thursday close versus the February 27 close, according to quotes from the Department of Energy). On the point, the price index for personal consumption expenditures for January, released earlier today in the Bureau of Economic Analysis' Personal Income and Outlays report, rose 0.3 percent while the core index jumped 0.4 percent (year-over-year advances of 2.8 percent and 3.1 percent, respectively, versus 2.9 percent and 3.0 percent in December 2025; chart). The results were anticipated by market participants given prior insights gleaned from CPI and PPI data, but they were no less impactful. Inflation has shown little near-term progress toward the Federal Reserve's target. In addition, CPI results for February released earlier this week (an increase of 0.3 percent in the headline measure and 0.2 percent in core) imply another firm advance in the PCE index (see footnote in chart for PCE price index).

PCE Price Index*

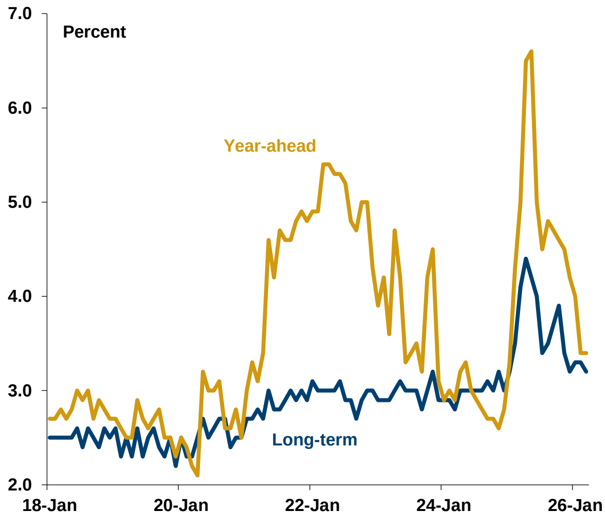


** Data through January 2026. Assuming month-to-month growth of 0.3 percent for both the headline and core PCE price indexes in February (which we infer from the latest CPI data), the year-over-year advances would come in at 2.7 and 2.9 percent, respectively.*

Source: Bureau of Economic Analysis via Haver Analytics

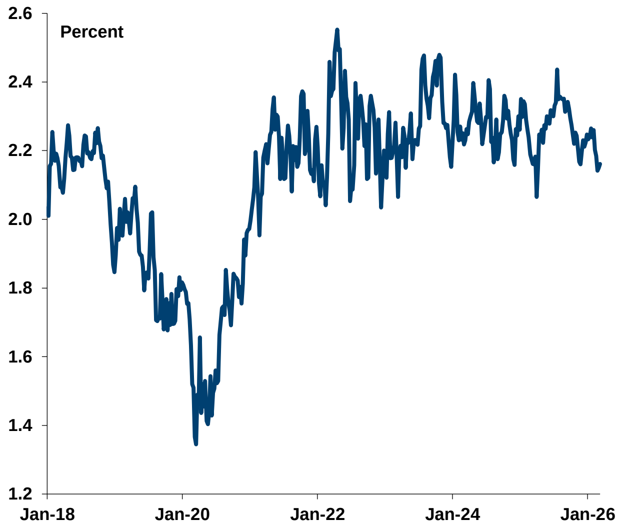
While actual inflation has remained stubbornly above 2 percent, and thus is unlikely to allow for further policy easing at least until the summer, anchored inflation expectations provide assurance that households and market participants have not lost faith in the central bank's credibility. Data on inflation expectations released today in the University of Michigan's Survey of Consumers for March (reflecting responses received between February 17 and March 9) indicated that year-ahead expectations held steady at 3.4 percent despite some responses arriving as oil prices spiked, and the longer-term view eased by 0.1 percentage point to 3.2 percent (chart, next page, left). Furthermore, longer-term views implied by fixed income securities remain in the low end of the range of the past few years (chart, next page, right). In essence, near-term inflation has been sticky, and may pick up given the energy price shock, but the pressure is expected to be transitory.

Consumer Inflation Expectations



Source: University of Michigan via Haver Analytics

US TIPS: 5-Year/5-Year Breakeven Forward*



** A measure of expected inflation derived from nominal and inflation-linked bonds. The five-year, five-year forward rate shows expected inflation per year in the period beginning five years from now. Weekly data.*

Source: Bloomberg

The March Statement and Summary of Economic Projections

At this juncture, we anticipate only modest changes to the FOMC statement and new Summary of Economic Projections. As noted earlier, we could foresee a tweak to language in the first paragraph of the statement with respect to the labor market (the January iteration indicated: "Job gains have remained low, and the unemployment rate has shown some signs of stabilization."), but we expect key guidance on the trajectory of policy to remain unchanged. With that said, some acknowledgement of renewed war in the Middle East could be inserted. In a manner akin to that seen in early 2022 when Russia first invaded Ukraine, the latest statement perhaps could contain a paragraph acknowledging that "implications for the U.S. economy are highly uncertain" but also suggesting that "events are likely to create additional upward pressure on inflation and weigh on economic activity."

Although the fallout of recent military action undertaken by the U.S. will depend heavily on the duration of the conflict, we do expect some changes in the SEP on account of the event. Specifically, the median expectation for GDP growth in 2026 could be adjusted lower from 2.3 percent to closer to 2.0 percent in acknowledgement that elevated energy prices could constrain economic activity. Additionally, the 2026 projection for the unemployment rate could potentially be adjusted slightly higher (possibly +0.1 percentage point to 4.5 percent), as could the median for headline inflation (Daiwa expectation of +0.2 percentage point to 2.6 percent). That said, we see a fairly low probability of changes elsewhere, including core inflation, given the brief duration (thus far) of the event and high degree of uncertainty surrounding its ultimate conclusion (see the December 2025 SEP table).

Economic Projections of the FOMC, December 2025*

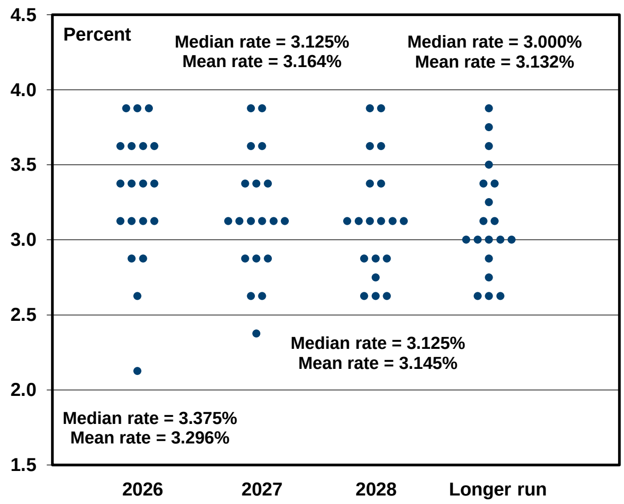
	2026	2027	2028	Longer Run
Change in Real GDP	2.3	2.0	1.9	1.8
Unemployment Rate	4.4	4.2	4.2	4.2
PCE Inflation	2.4	2.1	2.0	2.0
Core PCE Inflation	2.5	2.1	2.0	--
Federal Funds Rate	3.4	3.1	3.1	3.0

** Median projections*

Source: Summary of Economic Projections, Federal Open Market Committee, December 2025

Given that we only expect minor tweaks to the SEP, we project that the March dot plot could remain broadly consistent with that in December (chart, right). We suspect that projections at the tails of the distribution could shift a bit, including the three at 3.875 percent in 2026 (which will be lower by virtue of the prior reduction in rates), although we look for the 2026 median to still show one cut of 25 basis points and for the 2027 median to remain at 3.125 percent. Thus, given the fluid outlook, the broad contours of the projected path of policy could remain similar to those at recent meetings. (Note, we still expect the Committee to reduce the target range for the federal funds rate by 50 basis points this year – reductions of 25 basis points each at the June and September meetings – although recent geopolitical developments have led us to hold less confidence in this projection.)

FOMC Rate View, December 2025*



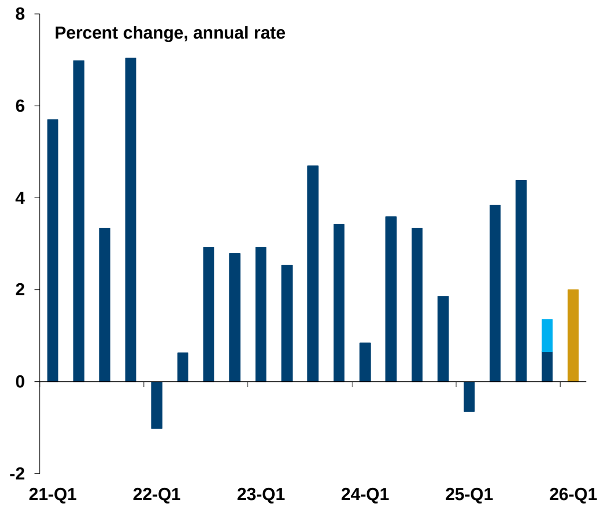
** Each dot represents the expected federal funds rate of a Fed official at the end of the year.*

Source: Summary of Economic Projections, Federal Open Market Committee, December 2025

A Near Term Slowing in Growth – and Downgraded Expectations for Q1

Revised GDP for the fourth quarter of last year fell well shy of expectations, with growth adjusted from 1.4 percent, annual rate, to only 0.7 percent (versus the range of expectations from the Bloomberg economist survey spanning from 1.0 percent to 1.6 percent; chart, right). Growth in consumer spending was slower than first reported (+2.0 percent, annual rate, versus +2.4 percent previously; a contribution of 1.33 percentage points to growth versus 1.58 percentage points), as was that for business fixed investment (growth of 2.2 percent versus 3.7 percent; contribution of 0.31 percentage point, 0.2 percentage point less than first believed). Also notable was the adjustment to government spending (a contraction of 5.8 percent versus 5.1 percent; -1.03 percentage points contribution versus -0.09) – although much of the adjustment came at the state and local level (versus at the federal level where activity slumped on account of the shutdown; an annualized contraction of 16.7 percent versus a preliminary estimate of -16.6 percent). Moreover, net exports subtracted 0.22 percentage point from growth rather than contributing 0.08 percentage point, with exports dropping 3.3 percent versus 0.9 percent.

GDP Growth*



** The light blue bar indicates the size of the downward revision for 2025-Q4 while the gold bar is a forecast for 2026-Q1.*

Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

Economic growth for the year was ultimately still favorable (+2.0 percent Q4/Q4), but potential signs of softening also emerged for 2026-Q1. Real consumer spending growth of 0.1 percent reported in today's income and spending data suggests that real household outlays for the quarter as a whole – assuming moderate growth in February and March – could be closer to 1.5 percent versus our initial estimate of 1.8 percent, with overall growth tracking at 2.0 percent versus 2.2 percent in our previous forecast. And, the aforementioned ongoing conflict in the Middle East could weigh on domestic activity by dampening the expectations of business and consumers and through constraining expenditures to compensate for higher energy costs. Much remains to be seen, but we recall only recently talk of an acceleration in economic activity in 2026 with GDP growth possibly exceeding 2.5 percent.

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The Week Ahead

Industrial Production (February) (Monday)
Forecast: +0.1%

An increase in production hours points to a pickup in the manufacturing component of industrial production in February, a result which would augment the ongoing upward drift in this series since early 2025. Additionally, with hours up and the rotary rig count higher, the mining component could register its first advance since November 2025. Utility output is often volatile (range of -3.1 to +3.0 percent in the past six months), influenced by swings in weather rather than economic fundamentals. On the point, following jumps in December and January (likely reflective of severe winter storms), milder weather in February could leave the utility component modestly lower.

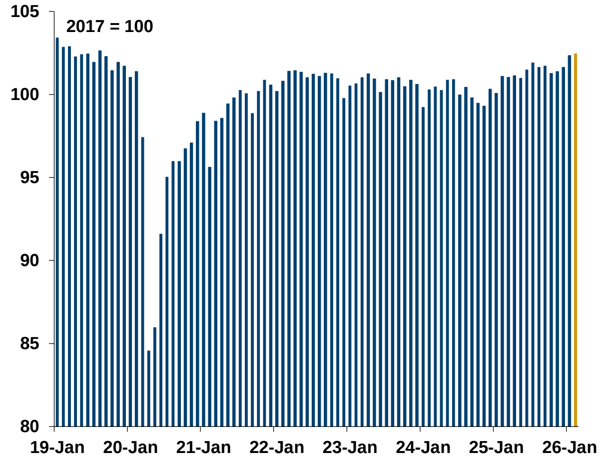
PPI (February) (Wednesday)
Forecast: +0.3% final demand, +0.3% ex. food & energy

Following declines of 1.5 and 2.7 percent in December and January, respectively, available quotes suggest that wholesale energy prices could pick up in February. Food prices at the producer level, meanwhile, have been tame on balance in recent months (trailing 12-month average of-0.1 percent). Goods prices excluding food and energy have advanced 0.3 percent on average in the 12-month period ending January 2026, a performance approximately in line with that for the broad services category. Similarly, the construction area also registered an average gain of 0.3 percent in the past 12 months (inclusive of jumps of 1.7 and 1.2 percent in October 2025 and January 2026, respectively).

Factory Orders (January) (Wednesday)
Forecast: +0.2%

Recent shifts in total manufacturers' bookings have often reflected erratic swings in the volatile transportation category (monthly range of -22.7 to +48.5 percent in 2025), though that trend is likely to take a breather in the first month of 2026 with this area easing a more modest 0.9 percent. Excluding transportation, factory orders have titled higher on balance over the 12 months ended December 2025 (+4.5 percent year-over-year). Preliminary shipments data released with the Advance Report on Durable Goods on March 13 indicate an increase of 0.4 percent for nondurables.

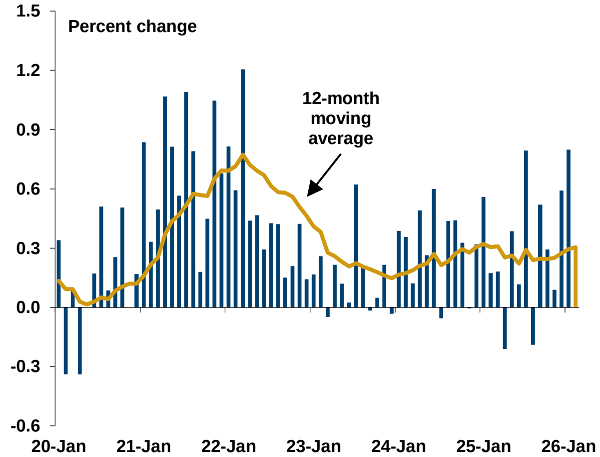
Industrial Production*



** The gold bar is a forecast for February 2026.*

Sources: Federal Reserve Board via Haver Analytics; Daiwa Capital Markets America

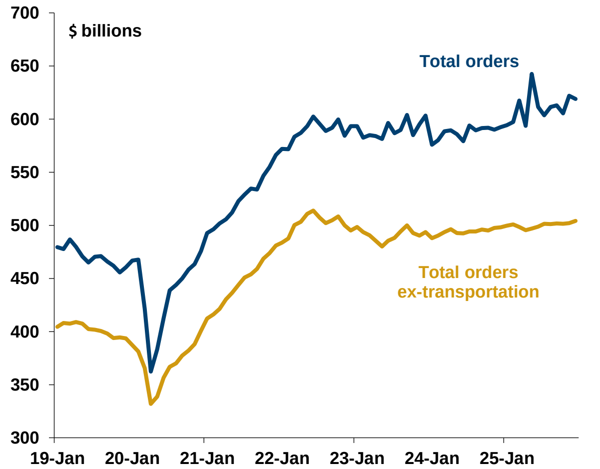
PPI Ex. Food & Energy*



** The gold bar is a forecast for February 2026.*

Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

Manufacturers' New Orders

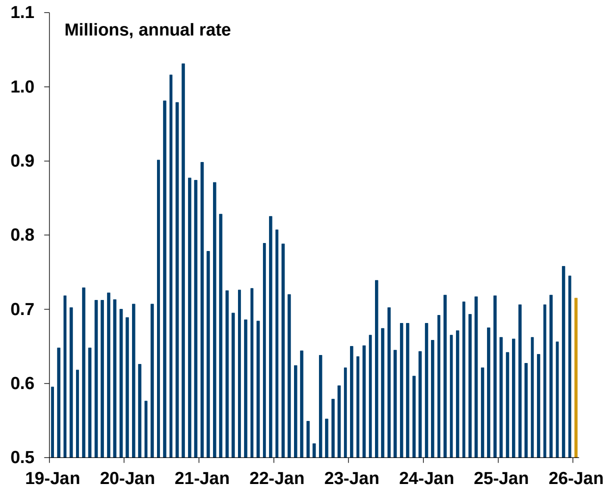


Source: U.S. Census Bureau via Haver Analytics

New Home Sales (January) (Thursday)
Forecast: 0.715 million (-4.0%)

Housing-related data from the Census Bureau often exhibits marked volatility, with monthly reports regularly indicating sizable standard errors (±14.5 percent in December, for example). That aside, given subdued buyer traffic, muted loan applications for a home purchase, and severe winter weather affecting large swathes of the country, an easing could be in store for new residential sales in the first month of 2026. The projection, if realized, would return the pace of sales to within the range in place since the spring of 2023 and comparable to the pre-pandemic performance. Please note that this release was originally scheduled to publish on February 25 but was delayed due to the prior government shutdown.

New Home Sales*



** The gold bar is a forecast for January 2026.*

Sources: U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

Economic Indicators

March/April 2026

Monday	Tuesday	Wednesday	Thursday	Friday
9	10	11	12	13
	NFIB SMALL BUSINESS OPTIMISM INDEX Dec 99.5 Jan 99.3 Feb 98.8 **EXISTING HOME SALES** Dec 4.270 million Jan 4.020 million Feb 4.090 million	**CPI** Total / Core Dec 0.3% 0.2% Jan 0.2% 0.3% Feb 0.3% 0.2% **FEDERAL BUDGET** FY2026 / FY2025 Dec -$144.8B -$86.7B Jan -$94.6B -$128.6B Feb -$307.5B -$307.0B	**UNEMPLOYMENT CLAIMS** Initial / Continuing (millions) Feb 14 0.208 1.822 Feb 21 0.213 1.871 Feb 28 0.214 1.850 Mar 7 0.213 N/A **TRADE BALANCE** Nov -$56.0 billion Dec -$72.9 billion Jan -$54.5 billion **HOUSING STARTS** Nov 1.324 million Dec 1.387 million Jan 1.487 million	**GDP** GDP / Chained Price 25-Q3 4.4% 3.8% 25-Q4(a) 1.4% 3.6% 25-Q4(p) 0.7% 3.8% **PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX** Inc. / Cons. / Core Nov 0.4% 0.3% 0.2% Dec 0.3% 0.4% 0.4% Jan 0.4% 0.4% 0.4% **DURABLE GOODS ORDERS** Nov 5.4% Dec -0.9% Jan 0.0% **CONSUMER SENTIMENT** Jan 56.4 Feb 56.6 Mar 55.5 **JOLTS DATA** Openings (000) / Quit Rate Nov 6,846 2.0% Dec 6,550 2.0% Jan 6,946 2.0%
16	17	18	19	20
EMPIRE MFG (8:30) Jan 7.7 Feb 7.1 Mar -- **IP & CAP-U (9:15)** IP / Cap.Util. Dec 0.2% 75.7% Jan 0.7% 76.2% **Feb 0.1% 76.0%** **NAHB HOUSING INDEX (10:00)** Jan 37 Feb 36 Mar --	**PENDING HOME SALES (10:00)** Dec -7.4% Jan -0.8% Feb -- **FOMC MEETING (FIRST DAY)**	**PPI (8:30)** Final Demand / Ex. Food & Energy Dec 0.4% 0.6% Jan 0.5% 0.8% **Feb 0.3% 0.3%** **FACTORY ORDERS (10:00)** Nov 2.7% Dec -0.5% **Jan 0.2%** **FOMC RATE DECISION (2:00)** **TIC FLOWS (4:00)** Long-Term / Total Nov $206.6B $204.4B Dec $28.0B $44.9B Jan -- --	**UNEMP. CLAIMS (8:30)** **PHILADELPHIA FED MFG BUSINESS OUTLOOK (8:30)** Jan 12.6 Feb 16.3 Mar -- **NEW HOME SALES (10:00)** Nov 0.758 million Dec 0.745 million **Jan 0.715 million** **WHOLESALE TRADE (10:00)** Inventories / Sales Nov 0.2% 1.4% Dec 0.2% 1.0% **Jan 0.2% 0.7%**	
23	24	25	26	27
CHICAGO FED NATIONAL ACTIVITY INDEX **CONSTRUCTION**	**REVISED PRODUCTIVITY & COSTS**	**IMPORT/EXPORT PRICES** **CURRENT ACCOUNT**	**UNEMP. CLAIMS**	**REVISED CONSUMER SENTIMENT**
30	31	1	2	3
	FHFA HOUSE PRICE INDEX **S&P COTALITY CASE-SHILLER 20-CITY HOME PRICE INDEX** **MNI CHICAGO BUSINESS BAROMETER** **CONFERENCE BOARD CONSUMER CONFIDENCE** **JOLTS DATA**	**ADP EMPLOYMENT** **ISM MFG. INDEX** **VEHICLE SALES**	**UNEMP. CLAIMS** **TRADE BALANCE** **FACTORY ORDERS**	***GOOD FRIDAY*** **EMPLOYMENT REPORT** **ISM SERVICES INDEX**

(a) = advance (1st estimate of GDP), (p) = preliminary (2nd estimate of GDP)

Forecasts in bold. Despite an end to the government shutdown, some economic data are still delayed. We have made best efforts to incorporate revised release schedules from various statistical agencies, although some changes may not be reflected.

Treasury Financing

March/April 2026

Monday	Tuesday	Wednesday	Thursday	Friday
9	10	11	12	13
AUCTION RESULTS: Rate / Cover 13-week bills 3.605% 2.92 26-week bills 3.535% 3.09	**AUCTION RESULTS:** Rate / Cover 6-week bills 3.635% 2.98 3-yr notes 3.579% 2.55 **ANNOUNCE:** $69 billion 17-week bills for auction on Mar 11 $100 billion 4-week bills for auction on Mar 12 $90 billion 8-week bills for auction on Mar 12 **SETTLE:** $69 billion 17-week bills $105 billion 4-week bills $95 billion 8-week bills	**AUCTION RESULTS:** Rate / Cover 17-week bills 3.600% 3.19 10-yr notes 4.217% 2.45	**AUCTION RESULTS:** Rate / Cover 4-week bills 3.640% 2.77 8-week bills 3.625% 3.10 30-yr bonds 4.871% 2.45 **ANNOUNCE:** $166 billion 13-,26-week bills for auction on Mar 16 $85 billion 6-week bills for auction on Mar 17 $50 billion 52-week bills for auction on Mar 17 $13 billion 20-year bonds for auction on Mar 17 $19 billion 10-year TIPS for auction on Mar 19	**SETTLE:** $166 billion 13-,26-week bills $90 billion 6-week bills
16	17	18	19	20
AUCTION: $166 billion 13-,26-week bills **SETTLE:** $58 billion 3-year notes $39 billion 10-year notes $22 billion 30-year bonds	**AUCTION:** $85 billion 6-week bills $50 billion 52-week bills $13 billion 20-year bonds **ANNOUNCE:** $69 billion* 17-week bills for auction on Mar 18 $100 billion* 4-week bills for auction on Mar 19 $90 billion* 8-week bills for auction on Mar 19 **SETTLE:** $69 billion 17-week bills $100 billion 4-week bills $90 billion 8-week bills	**AUCTION:** $69 billion* 17-week bills	**AUCTION:** $100 billion* 4-week bills $90 billion* 8-week bills $19 billion 10-year TIPS **ANNOUNCE:** $166 billion* 13-,26-week bills for auction on Mar 23 $85 billion* 6-week bills for auction on Mar 24 $69 billion* 2-year notes for auction on Mar 24 $70 billion* 5-year notes for auction on Mar 25 $44 billion* 7-year notes for auction on Mar 26 $28 billion* 2-year FRNs for auction on Mar 25	**SETTLE:** $166 billion 13-,26-week bills $85 billion 6-week bills $50 billion 52-week bills
23	24	25	26	27
AUCTION: $166 billion* 13-,26-week bills	**AUCTION:** $85 billion* 6-week bills $69 billion* 2-year notes **ANNOUNCE:** $69 billion* 17-week bills for auction on Mar 25 $100 billion* 4-week bills for auction on Mar 26 $90 billion* 8-week bills for auction on Mar 26 **SETTLE:** $69 billion* 17-week bills $100 billion* 4-week bills $90 billion* 8-week bills	**AUCTION:** $69 billion* 17-week bills $70 billion* 5-year notes $28 billion* 2-year FRNs	**AUCTION:** $100 billion* 4-week bills $90 billion* 8-week bills $44 billion* 7-year notes **ANNOUNCE:** $166 billion* 13-,26-week bills for auction on Mar 30 $85 billion* 6-week bills for auction on Mar 31 **SETTLE:** $166 billion* 13-,26-week bills $85 billion* 6-week bills	**SETTLE:** $28 billion* 2-year FRNs
30	31	1	2	3
AUCTION: $166 billion* 13-,26-week bills	**AUCTION:** $85 billion* 6-week bills **ANNOUNCE:** $69 billion* 17-week bills for auction on Apr 1 $100 billion* 4-week bills for auction on Apr 2 $90 billion* 8-week bills for auction on Apr 2 **SETTLE:** $69 billion* 17-week bills $100 billion* 4-week bills $90 billion* 8-week bills $13 billion 20-year bonds $19 billion 10-year TIPS $69 billion* 2-year notes $70 billion* 5-year notes $44 billion* 7-year notes	**AUCTION:** $69 billion* 17-week bills	**AUCTION:** $100 billion* 4-week bills $90 billion* 8-week bills **ANNOUNCE:** $166 billion* 13-,26-week bills for auction on Apr 6 $85 billion* 6-week bills for auction on Apr 7 $58 billion* 3-year notes for auction on Apr 7 $39 billion* 10-year notes for auction on Apr 8 $22 billion* 30-year bonds for auction on Apr 9 **SETTLE:** $166 billion* 13-,26-week bills $85 billion* 6-week bills	***GOOD FRIDAY***

**Estimate*