

Economic Outlook

JANUARY 2026

Stronger Growth and Cooler Inflation Expected in 2026

HIGHLIGHTS

- Fiscal stimulus, additional Fed easing, and continued AI investments should contribute to stronger economic growth in 2026.
- Slower shelter and services inflation should help cool overall inflation.
- The Federal Reserve is expected to deliver one to two 25 basis point rate cuts this year.

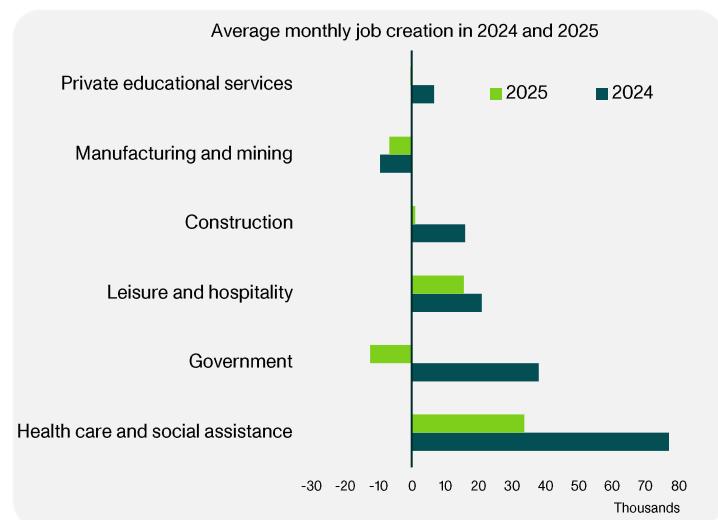
The U.S. economy continues to grow in early 2026. Economic growth in the third quarter of 2025 surprised to the upside, driven by strong consumer spending on services and an improved trade balance. Real (adjusted for inflation) gross domestic product (GDP) rose at an annual rate of 4.4% in Q3 2025, following growth of 3.8% in Q2. Real domestic income, which measures the income earned from producing goods and services, increased 2.4% in Q3, following growth of 2.6% in Q2.

While economic growth was resilient last year, the U.S. labor market experienced a notable slowdown. Job growth fell from a monthly pace of around 170,000 in 2024 to roughly 50,000 in 2025. With the U.S. labor force increasing faster than job creation, the unemployment rate rose from 4% in January 2025 to 4.4% in December. Several other labor market indicators also point to deteriorating conditions. First, nearly 280,000 federal government jobs were lost last year due to cuts made for efficiency. Also, the labor force participation rate dipped to 62.4% in December, below the 2024 average of 62.6%, due to an aging population and declining immigration.

Consumer price index (CPI) inflation cooled last year, thanks to disinflation in shelter and services. The headline CPI rose 2.7% in December 2025 from a year ago, down from 2.9% a year earlier. Core goods inflation, which is more sensitive to tariffs, accelerated through the first nine months of 2025, but moderated later in the year. Shelter inflation, which accounts

FIGURE 1. U.S. JOB MARKET

The U.S. Labor Market Softened in 2025



Source: Bureau of Labor Statistics

for about one-third of the CPI, slowed from 4.6% in December 2024 to 3.2% in December 2025, thanks to better balance in the housing market. Housing inventory levels increased last year while elevated home prices and elevated mortgage rates limited potential homebuyers.

The Chief Investment Office expects inflation to continue its gradual decline through 2026 as tariff shocks fade and shelter and services disinflation continues. Also, continued investment in new technologies such as artificial intelligence (AI) should boost productivity, limiting inflation.

FIGURE 2. INFLATION

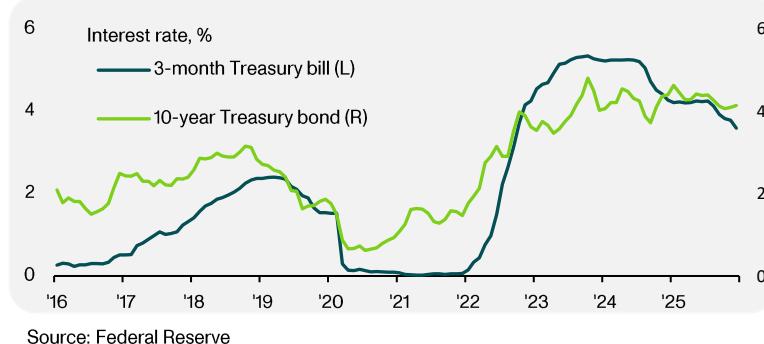
Shelter Inflation Is Finally Cooling



The U.S. economic expansion is expected to continue through 2026, driven by solid consumer spending, AI investments, and stimulative monetary and fiscal policies. Several provisions from the H.R. 1, One Big Beautiful Bill (OBBA) should support the economy in the first half of 2026. With increased deductions and more generous child tax credits, larger tax refunds are expected to lift consumer spending. OBBBA provisions such as the 100% permanent bonus depreciation deduction would also benefit businesses, particularly small businesses. The economic burden from higher tariffs and restrictive immigration policies has been limited thus far, and more tariff policy certainty should also be positive for the U.S. economy.

The “low-hire, low-fire” labor market is expected to persist. Labor demand should improve slightly as the Federal Reserve (Fed) continues its easing cycle, while a slower growing labor force should keep the unemployment rate low. After lowering the federal funds rate by 75 basis points last year, the Chief Investment Office expects the Fed to cut rates by 25 to 50 basis points this year, with the first cut most likely around mid-year. The risk to this outlook remains tilted towards the downside,

FIGURE 3. FEDERAL RESERVE
More Fed Rate Cuts Expected This Year



which would generate additional rate cuts during 2026.

A lingering concern for the U.S. economy is the aggregate level of inflation consumers have experienced, particularly lower income households. Additionally, changes in immigration policies could pose challenges for sectors heavily reliant on immigrant labor, such as construction, agriculture, and leisure and hospitality.

Fed policy mistakes, tariff policy adjustment, and heightened global uncertainty remain on our radar as factors which could result in slower growth in 2026.

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*Forecast
Historical data sources: Federal Reserve, BLS, BEA and Bloomberg

FIGURE 4: BASELINE ECONOMIC OUTLOOK

	2020	2021	2022	2023	2024	2025*	2026*
Real GDP Annual Growth Rates, 2017 Chained Prices							
Pers. Consumption Expenditures	-2.5	8.8	3.0	2.5	2.8	3.0	2.9
Government Expenditures	3.4	-0.3	-1.1	3.9	3.4	0.9	1.2
Private Investment	-4.5	8.8	6.0	0.1	4.0	3.0	3.5
Exports	-13.1	6.5	7.5	2.8	3.2	1.2	1.5
Imports	-9.0	14.7	8.6	-1.2	5.4	2.0	0.5
Total Real GDP	-2.2	6.1	2.5	2.9	2.8	2.2	2.3
CPI (1982-1984=100), % Change Annualized	1.2	4.7	8.0	4.1	3.0	2.7	2.6
Core CPI (1982-1984 = 100), % Change Annualized	1.7	3.6	6.2	4.8	3.4	2.8	2.7
PCE Price Index (2017=100), % Change Annualized	1.1	4.2	6.5	3.8	2.5	2.6	2.5
Core PCE Price Index (2017=100), % Change Annualized	1.3	3.6	5.2	4.1	2.8	2.8	2.7
Crude Oil WTI, (\$/barrel)	\$39	\$68	\$95	\$78	\$76	\$65	\$55
Effective Federal Funds Rate, % (Average)	0.37	0.08	1.68	5.02	5.14	4.21	3.27
10-Yr. Treasury Rate, % (Average)	0.92	1.51	3.88	3.88	4.21	4.30	4.10
30-Yr. Fixed Rate Mortgage, %	2.87	3.27	6.66	6.99	6.72	6.60	6.20
Industrial Production (YoY%)	-7.0	4.9	3.4	0.2	0.2	2.0	2.5
Payroll Jobs, Average Monthly Difference, Thousands	-774	606	399	225	168	49	60
Unemployment Rate, Annual Average	8.1	5.4	3.6	3.6	4.0	4.3	4.4
DXY Dollar Index	89.9	95.7	103.5	101.3	104.2	100.8	98.0

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