

## Not So Bad

You don't have to go very far to find lots of negative commentary in the popular press about the current state of the US economy. High gas prices (due to a "war of choice") are squeezing consumers' budgets, and so the economy is headed for a ditch. Many economists look back at history and blame lots of recessions on oil prices alone.

In terms of the official inflation reports, the popular narrative has a point. Over time, inflation is a monetary phenomenon, but in the very short term an oil price spike can change *measured* inflation because consumers (and businesses) dip into savings temporarily to spend more and the basket of goods and services used to measure inflation doesn't immediately change.

As a result, the Consumer Price Index is up 3.8% from a year ago, which is well above the Federal Reserve's 2.0% target. This will likely keep the Fed from cutting short-term interest rates for at least the next few months. However, an oil price shock is typically a temporary issue. And the impact on the economy has been muted. After adjusting for inflation – things appear not much different than before the war with Iran started.

While events in the Middle East are dramatic, we look at broader macro trends. To us, it's surprising the economy has not paid more of a price for the reversal of massive COVID stimulus. Deficits have been relatively stable and the money supply has slowed dramatically. If the economy slowed, it would be because of this, not an oil price supply shock.

We also think US stocks are overvalued, although saying that repeatedly doesn't mean they will fall, no matter what our official forecast is. We are math and model driven, we are not traders and we have no way to judge pure momentum trades.

We also don't think we're on the verge of a 1980s-90s style economic boom, in spite of advances in Artificial Intelligence and technological innovation more generally.

The size of government is substantially larger than it has been anytime during the age of the Internet. For the past 20-25 years average real growth in the US has been just about 2% per year. This is less than half the growth the US experienced in the

20 years post-WWII, and it is happening in spite of incredible new technologies that should raise productivity. More resources being allocated by politicians rather than market forces always slows growth.

So, while we see what some might call malaise because government is such a drain on the economy, the evidence of the economy being on the verge of a recession simply isn't there, at least not yet. We appear to still be in the Plow Horse economy phase, where our thoroughbred technological race horse must carry an overweight bloated jockey.

Real GDP grew at a 2.0% annual rate in the first quarter, and we think is growing at about a 3.0% annual rate so far in the second quarter. The Atlanta Federal Reserve Bank's GDP Now Model is even more optimistic for Q2, now projecting growth at a 4.3% rate.

In the meantime, initial claims for jobless benefits have averaged a very low 203,000 the last four weeks, lower than they were a year ago, six months ago, and three months ago. Yes, job growth has slowed, but we think this is largely related to the shift to roughly net zero immigration over the past year or so.

Manufacturing production is up 1.2% from a year ago, which is not great, but not a sign of recession, either. For comparison, manufacturing was down at a 0.4% annual rate in the ten years that ended in April 2025.

We get a report on April durable goods orders on Thursday and expect a big number, led by more aircraft orders. Yes, aircraft orders are volatile from month to month, but airlines ordering more planes suggest they see through the fog of the recent conflict and all is not gloomy ahead.

Yes, much of recent economic growth is being led by AI and data centers, so a case can be made that economic growth is not very broad. But at least the limited boom in AI and data centers is coming primarily from market forces, not government-directed malinvestment like housing in the early 2000s, or government-sponsored "green energy" of recent years.

All is not well with the US economy, but the narrative of doom and gloom is being oversold as well.

| Date/Time (CST) | U.S. Economic Data             | Consensus | First Trust  | Actual | Previous  |
|-----------------|--------------------------------|-----------|--------------|--------|-----------|
| 5-28 / 7:30 am  | Initial Claims – May 23        | 211K      | <b>206K</b>  |        | 211K      |
| 7:30 am         | Personal Income – Apr          | +0.4%     | <b>+0.4%</b> |        | +0.6%     |
| 7:30 am         | Personal Spending – Apr        | +0.5%     | <b>+0.5%</b> |        | +0.9%     |
| 7:30 am         | Durable Goods – Apr            | +3.9%     | <b>+5.3%</b> |        | +0.8%     |
| 7:30 am         | Durable Goods (Ex-Trans) – Apr | +0.5%     | <b>+0.4%</b> |        | +0.9%     |
| 7:30 am         | Q1 GDP Second Report           | +2.0%     | <b>+2.0%</b> |        | +2.0%     |
| 7:30 am         | Q1 GDP Chain Price Index       | +3.6%     | <b>+3.6%</b> |        | +3.6%     |
| 9:00 am         | New Home Sales – Apr           | 0.660 Mil | <b>NA</b>    |        | 0.682 Mil |
| 5-29 / 8:45 am  | Chicago PMI                    | 50.5      | <b>49.7</b>  |        | 49.2      |

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