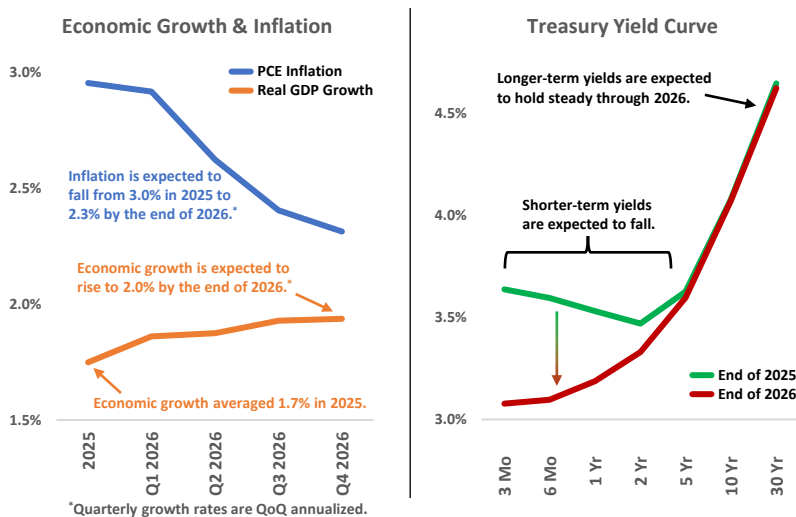


Economic & Market Watch Intelligence Brief: Outlook 2026

Briefing

- As in 2024, the Federal Reserve spent the latter half of 2025 cutting short-term rates. The two cuts in Q4 brought the Fed Funds rate below 4% for the first time since November 2022. Both the Blue Chip panel of forecasters and the Fed Funds futures market anticipate two more 25-basis point cuts in 2026, though Blue Chip places them earlier in the year (**Figure 1**).
- As of Q2 2025, regulators classified over 99% of U.S. banks as well-capitalized. The Common Equity Tier 1 (CET1) ratio averaged 13% for large banks, meaning banks could suffer losses equal to 13% of their assets and still have enough equity to remain solvent. This is well above the regulatory minimum of 4.5%, indicating that large banks are well positioned to weather a potential recession (**Figure 2**).
- The Blue Chip forecasters' consensus is that the unemployment rate will rise from 2025's average of 4.3% to 4.6% in Q2 of 2026. It is then expected to decline to 4.5% by year-end. Moody's Analytics projects that the average growth in real median household income across the 50 states is expected to fall from 0.6% in 2025 to 0.4% in Q1 and Q2 and then to accelerate to 1.9% by Q4 (**Figure 3**). Along with other metrics shown on this page, this points to the economy picking up in the second half of 2026.

Chart of the Week: Outlook 2026



Commentary

The consensus among Blue Chip forecasters is that economic growth will pick up in 2026, with a slight slowing in Q2. At the same time, inflation is expected to continue to decline (**Chart of the Week, left panel**). Combined with Moody's forecast of slowed growth in real median household income for Q1 and Q2 and a slight uptick in unemployment in Q2, forecasters see the economy beginning to pick up in earnest in the second half of 2026 (**Figure 3**).

The Fed is expected to continue to put downward pressure on short-term rates through 2026 (**Figure 1**). Blue Chip forecasters anticipate that long-term rates will be largely unchanged through 2026 and that the yield curve will return to normal by the end of 2026 (**Chart of the Week, right panel**). This will mark the first time since late 2021 that no portion of the yield curve was inverted. With an inverted yield curve, term premiums disappear, forcing investors to accept lower yields when incurring lending risk for greater durations.

With financial markets strong, the yield curve normal, the economy growing, inflation falling and real household income rising, the Fed will turn its attention to unemployment. The Fed's goal is to get to around 4.1% unemployment with inflation at 2%. Forecasters have inflation 0.3 percentage points (pp) and unemployment 0.4 pp above the Fed's targets by the end of 2026.

Snapshots

Figure 1. Fed Funds Rate

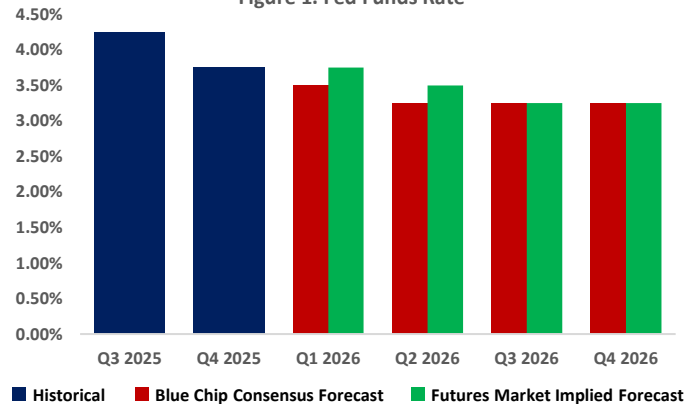


Figure 2. Average CET1 & Tier 1 Ratios for Large Banks

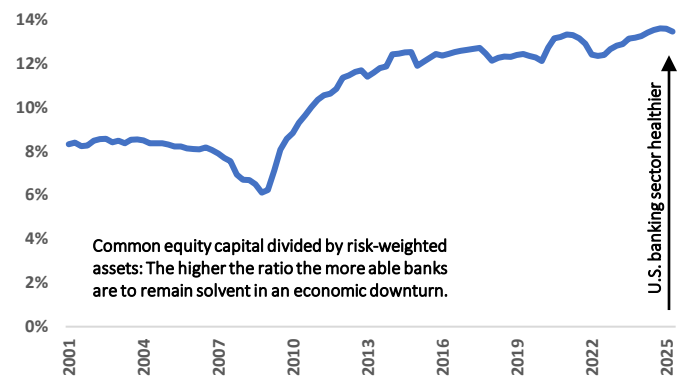
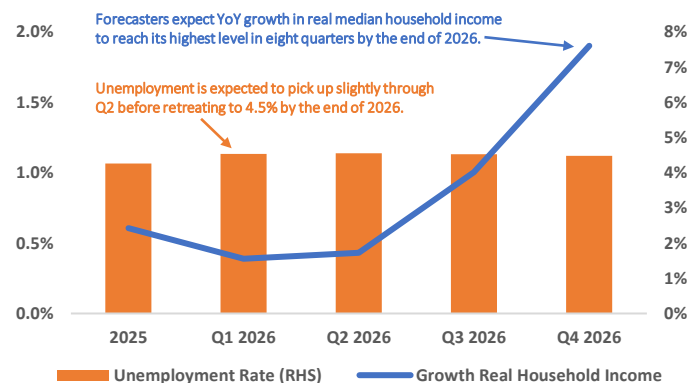


Figure 3. Real Median Household Income & Unemployment



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Economic & Market Watch Dashboard

Key Indicators

INTEREST RATES¹

| | | 2026 | | | | | 2027 |
|-----------------------------------|---------|------|------|------|------|------|------|
| | Current | Q1 | Q2 | Q3 | Q4 | Q1 | |
| Fed Funds Target ² (%) | 4.00 | 3.75 | 3.50 | 3.25 | 3.25 | 3.25 | |
| SOFR (%) | 3.67 | 3.37 | 3.22 | 3.14 | 3.11 | 3.11 | |
| 2Y UST (%) | 3.49 | 3.38 | 3.35 | 3.34 | 3.32 | 3.31 | |
| 5Y UST (%) | 3.71 | 3.60 | 3.60 | 3.60 | 3.60 | 3.59 | |
| 10Y UST (%) | 4.15 | 4.06 | 4.07 | 4.07 | 4.07 | 4.07 | |
| 30Y UST (%) | 4.82 | 4.63 | 4.63 | 4.63 | 4.61 | 4.60 | |

ECONOMY

| | | 2026 | | | | | 2027 |
|-------------------------------|---------|------|-----|-----|-----|-----|------|
| | Current | Q1 | Q2 | Q3 | Q4 | Q1 | |
| PCE Inflation (YoY %) | 2.8 | 2.7 | 2.4 | 2.3 | 2.3 | 2.3 | |
| CPI Inflation (YoY %) | 3.0 | 2.9 | 3.1 | 2.9 | 2.6 | 2.6 | |
| Real GDP (QoQ %) | 3.8 | 1.7 | 1.9 | 2.0 | 2.0 | 2.0 | |
| Unemployment (%) | 4.4 | 4.6 | 4.6 | 4.5 | 4.5 | 4.5 | |
| Consumer Spending (QoQ %) | 2.5 | 1.3 | 1.5 | 1.7 | 1.8 | 2.0 | |
| Industrial Production (YoY %) | 1.6 | 0.9 | 1.0 | 1.2 | 1.5 | 1.5 | |

Equities & Currency

| | Current | Year ago |
|-----------------|------------|------------|
| DJIA | 48,619 | 43,828 |
| Nasdaq | 23,260 | 19,927 |
| S&P 500 | 6,827 | 6,051 |
| US Dollar Index | \$1,204.94 | \$1,288.83 |

Commodities

| | Current | Year ago |
|-------------------------|------------|------------|
| Crude Oil (Per Barrel) | \$57.17 | \$71.29 |
| Natural Gas (Per MMBtu) | \$4.06 | \$3.28 |
| Coal (Per Short Ton) | \$15.00 | \$14.20 |
| Gold (Per Ounce) | \$4,346.50 | \$2,656.00 |
| Corn (Per Bushel) | \$4.38 | \$4.30 |
| Soybean (Per Bushel) | \$10.75 | \$9.88 |

Industry

| | Current | Year ago |
|--|------------|------------|
| Natural Gas Storage (Billion Cubic Feet) | 3,746 | 3,622 |
| U.S. Daily Power Consumption (MWh) | 12,412,079 | 10,948,941 |
| World Container Index (Per 40ft) | \$1,957 | \$3,529 |

¹ Unless otherwise indicated, forecasts are from the Blue Chip Professional Forecasters.

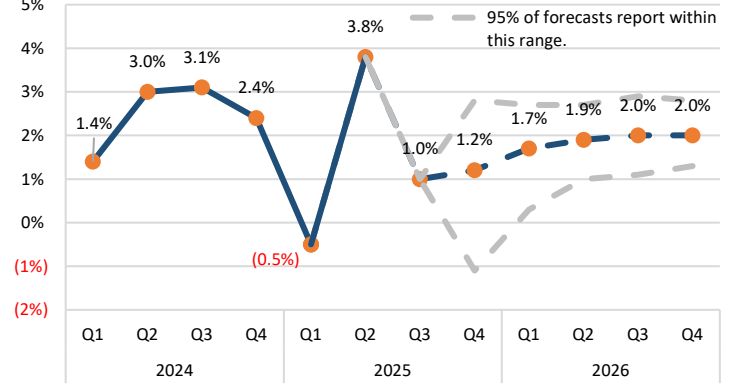
² Target rate forecast is based on futures market contracts.

Source: Blue Chip Financial Forecasts, Trading Economics, Moody's Analytics, Statista, Trading Economics, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, U.S. Energy Information Administration, U.S. Treasury Department, Federal Reserve Bank of Atlanta, Federal Reserve Bank of New York, Federal Reserve Bank of St. Louis, International Monetary Fund, World Bank, University of Michigan, The Conference Board.

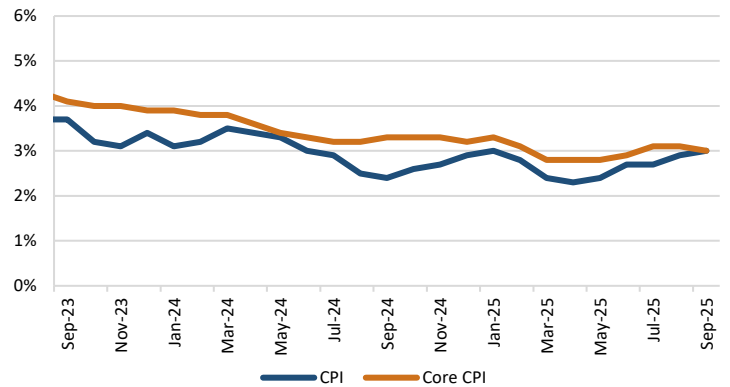
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Forecasts

Real GDP Growth Trend



Headline vs. Core Inflation



10-Year US Treasury vs. Fed Funds Trend

