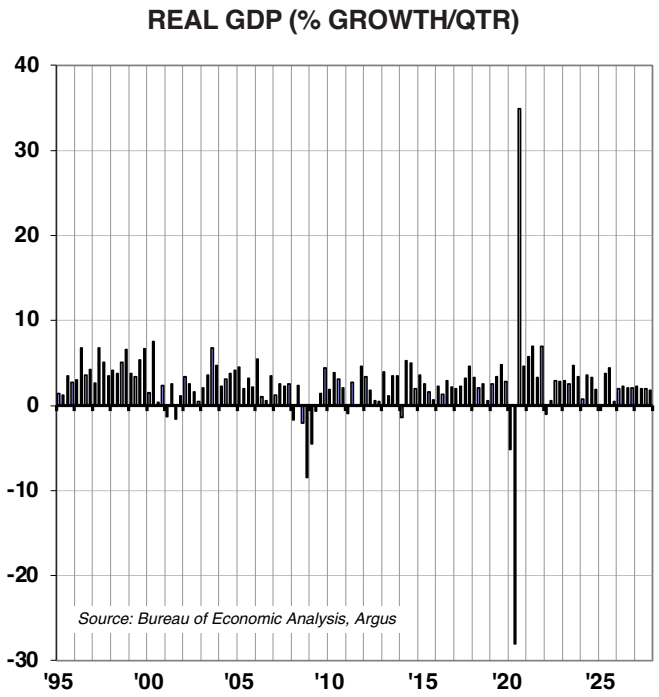
THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

May 4, 2026
Vol. 93, No. 63

AI INVESTMENT LIFTS 1Q GDP

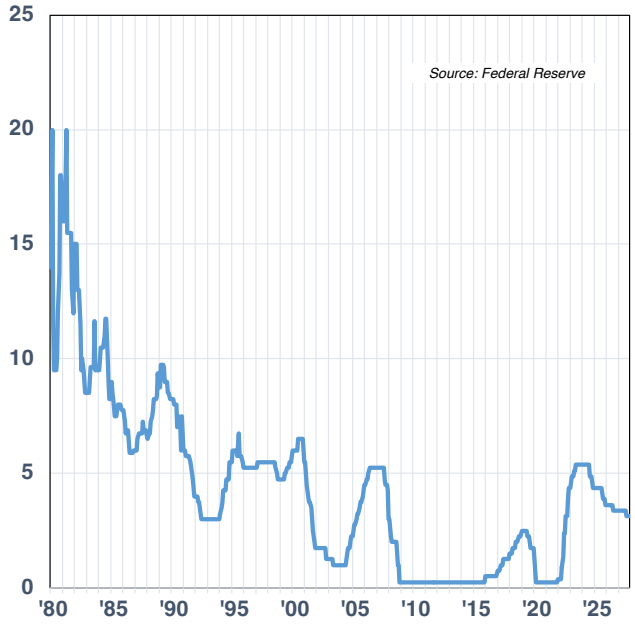
According to the advance estimate released by the Bureau of Economic Analysis (BEA), U.S. Gross Domestic Product (GDP) rose in the first quarter at an annualized rate of 2.0%. That's an acceleration from 0.5% growth in the fourth quarter. A strong business investment in Artificial Intelligence for computers, software, and research and development added about 1.3 points to GDP growth, while personal consumption added 1.08 points. Excluding healthcare, consumer spending added just 0.57 points to growth. Why has the stock market has been performing so well when there is so much uncertainty? Strong business investment with the potential to raise productivity across the economy is a good reason. Spending by consumers rose 1.6% in 1Q, a slight slowdown from the 1.9% increase in 4Q. Spending on goods declined 0.1%. Within goods, nondurables were down 0.2%, which was weaker than we expected. Durables were flat, better than we expected. Motor vehicles and parts grew 5.2% following an 8.1% decline in 4Q. The huge services category grew 2.4%, a slight deceleration from 2.7% in 4Q. The category added about 1.1 points of growth, with 0.51 points coming from healthcare. Food services (restaurants) and accommodations (hotels) were a slightly bigger drag than in 4Q. Private investment grew 8.7%. Equipment grew 17.2%, with computer gear up 67%. Intellectual property products grew 13%, with software up 23%. Nonresidential construction declined 6.7% and residential construction (housing) declined 8.0%. Real final sales to private domestic purchasers, (which focuses on core consumer spending and business investment) was up 2.5%, versus a 1.8% increase in 4Q. The GDP report also contains data on inflation, which remained elevated. The PCE Price Index increased 4.5% in the quarter. Excluding food and energy, the index increased 4.3%.



FED DISSENTS PUT RATE CUTS IN DOUBT

The Federal Open Market Committee (FOMS) left its fed funds target unchanged at 3.5%-3.75% for a third consecutive meeting. The policy statement once again included the following. "Job gains have remained low, on average, and the unemployment rate has been little changed in recent months." But that was about all that went according to script on a day when Jerome Powell was expected to ride into the sunset. The market-moving news from the Fed was that four of the 12 voting members dissented, the most since 1992. That sent the yield on the policy-sensitive two-year note higher and cast doubt on the prospect for lower rates under President Trump's nominee for Fed chairman, Kevin Warsh. Mr. Warsh's path to become the next chair was virtually assured in a vote by the Senate Banking Committee. Governor Stephen Miran, who chaired the President's Council of Economic Advisors before joining the Fed, continued to dissent in favor of a quarter-point cut in the funds rate (which was not a surprise). Three regional bank presidents who are voting members of the FOMC (Beth Hammack of the Cleveland Fed; Neel Kashkari, of the Minneapolis Fed; and Lorie Logan of the Dallas Fed) did not support the statement's inclusion of an easing bias, although they did support maintaining the target range. The 10-year Treasury yield, which has a greater effect on the economy than the funds rate, has climbed by 50 basis points to 4.43% since the war with Iran sent oil prices higher. Mr. Powell announced yesterday that he would remain on the board "for a period of time to be determined" after his term as chairman ends on May 15. His term as a governor would allow him to remain until early 2028. He offered the following. "My concern is really about the series of legal attacks on the Fed, which threaten our ability to conduct monetary policy without considering political factors." He added that he intended to maintain "a low profile" as a governor and has no desire to interfere with Mr. Warsh's leadership. Powell's decision to stay means that there is not a vacant seat for Mr. Warsh. One possibility is that Mr. Miran could return to a senior position in the administration.

FEDERAL FUNDS TARGET RATE & FORECASTS (%)

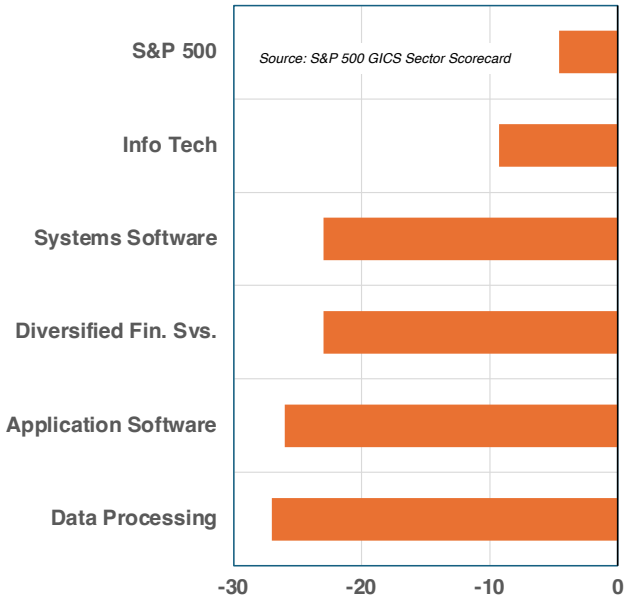


FINANCIAL MARKET HIGHLIGHTS

MARKET CALMER AS EARNINGS TAKE CENTER STAGE

In our 2026 Market Outlook, we noted that investor complacency was high, the upcoming Fed chairman transition could be rocky, the AI innovation revolution may stall, and that stock valuations were susceptible in the event of a sell-off in the Information Technology sector. That was our Bearish Case. Our Base Case called for another year of growth in the U.S. economy (and no recession), a modest decline in interest rates, and double-digit EPS growth. Since each of the planks in the Base Case are in place, there's reason to expect that equity prices can continue to push higher. The fear index (VIX) reading has been under 19.0 of late, below the historical average of 20 and consistent with a period of equity market strength. Indeed, during the long bull market in the 2010s, the VIX averaged 18 and even touched lows below 10 in 2017. We continue to think that the S&P 500 is in the mid-stage of a bull run that dates to October 2022. And while the path for equities won't be straight up, we suggest investors favor domestic large-cap growth stocks at the current market and economic juncture.

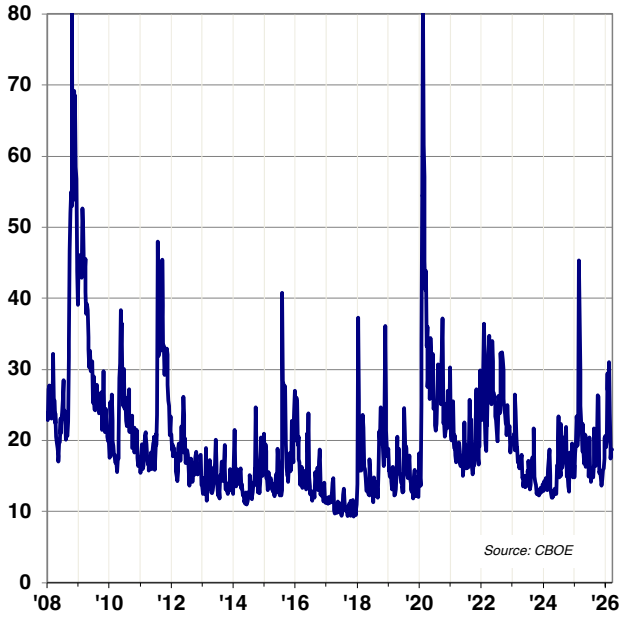
AI CARNAGE (1Q RETURNS %)



HAS SOFTWARE BEEN OVERSOLD?

Market sentiment has turned against enterprise software stocks over concerns about the potential for client cannibalization due to AI. In the first quarter, application software stocks plummeted 26% and systems software stocks tanked 23%. The carnage was not confined to the IT sector, as the Industrial group data processing & outsourced services dropped 27% and the diversified financial services industry fell 23%. We think these fears may be overblown, at least for some software companies that have become deeply embedded systems of record for their enterprise clients (who may not wish to take on the costs and risks of switching platforms and engaging in do-it-yourself AI vibe coded software). The disruption thesis also does not take into account that software companies are themselves also extensively developing agentic AI tools and applications, powered by both third-party frontier and proprietary models. Just the latest example of software/frontier model collaboration is Anthropic's Project Glasswing, with cybersecurity firms CrowdStrike and Palo Alto Networks participating in a select group of firms testing Anthropic's new Mythos model. There is no doubt that AI will be disrupting numerous industries. But companies with long-time client relationships and who provide systems and services that are tightly integrated with mission critical workflows should be able to weather the storm.

VOLATILITY INDEX (WEEKLY CLOSE)



KEY ECONOMIC FORECASTS

- The $31 trillion U.S. economy remains on course for productive long term growth, powered by corporate investments in AI and outsized spending by wealthy households. Nvidia CEO Jensen Huang estimated, in November, that $3 - $4 trillion will be spent on AI infrastructure in the next 5 years.
- Real Potential GDP – the sustainable speed limit of the US economy is poised to increase to 2.1%, on average, through 2030 according to the Congressional Budget Office. AI is likely to raise productivity, offsetting slower growth in the labor force from an aging population and reduced immigration.
- The war in Iran is affecting millions of lives. Oil supply disruptions are a risk to affordability. We recently raised our 2026 oil price forecast to $75 per barrel from $60.
- The U.S. economy has become more resilient, more diversified and less oil dependent, but it is managing additional supply headwinds from tariffs and reduced immigration. This triumvirate could raise inflation, slow growth, and complicate Fed policy. Tax benefits and AI have helped the economy.
- A simple rule of thumb: National gasoline prices above $4.00 begin to hurt consumer spending.
- We are monitoring financial conditions and high-frequency indicators including Nowcasts and weekly jobless claims. We recently reduced our 2026 forecast for GDP growth to 2.1% from 2.3%.
- Argus expects S&P 500 EPS to rise almost 16% to $315 in 2026 and increase about 15% to $363 in 2027. EPS is helped by an increase in operating margins to about 18.8% this year, well above 13.9% in pre-pandemic 2019. Growing tech giants such as MSFT and NVDA have operating margins of 47% and 60% respectively while Dow stalwarts Walmart and Caterpillar earn 4% and 17%, respectively.
- Argus Fixed Income Strategist Kevin Heal expects the Fed to reduce the funds rate by 25 basis points in 2026 and by another 25 basis points in 2027 taking the target range to 3%-3.25%. We expect the dollar to be slightly stronger in 2026 driven by foreign demand for shares of innovative U.S. companies and economic resilience.
- Gold is likely to remain at elevated levels. The ancient safe-haven asset recently reached a record above $5,000 an ounce. We expect gold to trade in a range of $4,000 - $6,000 in 2026.
- Despite economic-and-policy “uncertainty,” the Misery Index, which is the Consumer Price Index (CPI) inflation rate plus the unemployment rate, is well below the average of 9.2% since 1949. Unemployment is low but an energy-driven jump in the March CPI to 3.3% raised the Index to 7.6%.
- What could go right? Big tax refunds, spending by wealthy consumers, strong S&P earnings, capital investment, productivity gains, inflation expectations remaining anchored, and ongoing innovation.
- Risks: Elevated Inflation, high fuel prices, weak housing market, low income consumers are struggling, spending by affluent may depend on stock market gains, AI may reduce entry-level hiring.

CURRENT ECONOMIC RELEASES

Current Economic Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
30-Apr	GDP Annualized QoQ	1Q "Advance"	0.5%	2.0%	2.3%	**2.0%**
	GDP Price Index	1Q "Advance"	3.7%	3.9%	NA	**3.6%**
	PCE Deflator	March	2.8%	3.6%	3.5%	**3.5%**
	PCE Core Deflator	March	3.0%	3.1%	3.2%	**3.2%**
	Personal Income	March	**3.9%**	3.4%	NA	**3.7%**
	Personal Spending	March	**5.6%**	5.2%	NA	**5.7%**
	Leading Index	March	**0.3%**	-0.2%	-0.1%	**-0.6%**
1-May	ISM Manufacturing	April	52.7	52.5	52.9	**52.7**
	ISM New Orders	April	53.5	53.2	NA	**54.1**
4-May	Factory Orders	March	**4.0%**	2.2%	NA	**2.1%**
	Total Vehicle Sales	April	**16.2 Mln.**	16.0 Mln.	NA	**15.9 Mln.**
5-May	ISM Services Index	April	54.0	53.0	54.0	**53.6**
	Trade Balance	March	**-$57.8 Bln.**	-$60.4 Bln.	NA	**-$60.3 Bln.**
	New Home Sales	March	**635K**	600K	NA	**682K**
7-May	Nonfarm Productivity	1Q	1.8%	2.0%	NA	NA
	Unit Labor Costs	1Q	4.4%	3.5%	NA	NA
	Construction Spending	March	1.0%	0.8%	NA	NA
8-May	Nonfarm Payrolls	April	178K	125K	73K	NA
	Unemployment Rate	April	4.3%	4.3%	4.3%	NA
	Average Weekly Hours	April	34.2	34.2	34.2	NA
	Average Hourly Earnings	April	3.5%	3.6%	3.8%	NA
	Wholesale Inventories	March	1.8%	1.4%	1.5%	NA
	U. Michigan Sentiment	April	49.8	50.0	49.40	NA
11-May	Existing Home Sales	April	3.98 Mln.	4.10 Mln.	NA	NA
12-May	Consumer Price Index	April	3.3%	3.6%	NA	NA
	CPI ex-Food & Energy	April	2.6%	2.6%	2.7%	NA
13-May	PPI Final Demand	April	4.0%	3.9%	NA	NA
	PPI ex-Food & Energy	April	3.8%	3.5%	NA	NA
14-May	Retail Sales	April	4.0%	4.2%	NA	NA
	Retail Sales ex-autos	April	5.5%	5.6%	NA	NA
	Import Price Index	April	2.10%	2.40%	NA	NA
	Business Inventories	March	1.30%	1.20%	NA	NA
15-May	Industrial Production	April	0.7%	0.9%	NA	NA
	Capacity Utilization	April	75.7%	75.8%	NA	NA

Disclaimer

Argus Research Co. (ARC) is an independent investment research provider whose parent company, Argus Investors' Counsel, Inc. (AIC), is registered with the U.S. Securities and Exchange Commission. Argus Investors' Counsel is a subsidiary of The Argus Research Group, Inc. Neither The Argus Research Group nor any affiliate is a member of the FINRA or the SIPC. Argus Research is not a registered broker dealer and does not have investment banking operations. The Argus trademark, service mark and logo are the intellectual property of The Argus Research Group, Inc. The information contained in this research report is produced and copyrighted by Argus Research Co., and any unauthorized use, duplication, redistribution or disclosure is prohibited by law and can result in prosecution. The content of this report may be derived from Argus research reports, notes, or analyses. The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but Argus makes no representation as to their timeliness, accuracy or completeness or for their fitness for any particular purpose. In addition, this content is not prepared subject to Canadian disclosure requirements. This report is not an offer to sell or a solicitation of an offer to buy any security. The information and material presented in this report are for general information only and do not specifically address individual investment objectives, financial situations or the particular needs of any specific person who may receive this report. Investing in any security or investment strategies discussed may not be suitable for you and it is recommended that you consult an independent investment advisor. Nothing in this report constitutes individual investment, legal or tax advice. Argus may issue or may have issued other reports that are inconsistent with or may reach different conclusions than those represented in this report, and all opinions are reflective of judgments made on the original date of publication. Argus is under no obligation to ensure that other reports are brought to the attention of any recipient of this report. Argus shall accept no liability for any loss arising from the use of this report, nor shall Argus treat all recipients of this report as customers simply by virtue of their receipt of this material. Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance. Argus has provided independent research since 1934. Argus officers, employees, agents and/or affiliates may have positions in stocks discussed in this report. No Argus officers, employees, agents and/or affiliates may serve as officers or directors of covered companies, or may own more than one percent of a covered company's stock. Argus Investors' Counsel (AIC), a portfolio management business based in New York, NY, is a customer of Argus Research Co. (ARC), also based in New York. Argus Investors' Counsel pays Argus Research Co. for research used in the management of the AIC core equity strategy and model portfolio and UIT products, and has the same access to Argus Research Co. reports as other customers. However, clients and prospective clients should note that Argus Investors' Counsel and Argus Research Co., as units of The Argus Research Group, have certain employees in common, including those with both research and portfolio management responsibilities, and that Argus Research Co. employees participate in the management and marketing of the AIC core equity strategy and UIT and model portfolio products. Recipients of the Research reports in Singapore should contact the Intermediary of the Research Reports in respect to any matters arising from, or in connection with, the analysis of the report. Where the recipient is not an accredited, expert or institutional investor as defined by the Securities and Futures Act, the Intermediary accepts legal responsibility for the contents of Research Reports in respect of such recipient in accordance with applicable law. When reports are distributed by Intermediaries in Singapore, the Intermediary, and not Argus Research, is solely responsible for ensuring that the recipients of the Research Reports understand the information contained in the Research Reports and that such information is suitable based on the customer's profile and investment objectives. Laws and regulations of other countries may also restrict the distribution of this report. Persons in possession of this document should inform themselves about possible legal restrictions and observe them accordingly. This content is not prepared subject to Canadian disclosure requirements.