

Stocks See Troubles Brewing

The US economy grew a pedestrian 2.0% last year and the Atlanta Fed’s GDP Now is currently projecting real GDP growth at a 2.0% annual rate in the first quarter. If anything, we think there is more downside risk than up to the first quarter projection.

Yes, we are well aware of the ongoing revolution in AI and the benefits this could have for productivity growth. But the federal government remains substantially larger than it was pre-COVID and even more so than it was prior to the Global Financial Crisis. This remains an albatross around the economy’s neck...holding back investment and reducing potential growth.

Meanwhile, there are numerous reasons to be concerned with the economy. What many call the “K-Shaped Economy,” which is just a cute way of talking about inequality, may no longer be providing support for economic growth. The Federal Reserve’s extremely loose monetary policy of 2020-21 artificially held down interest rates and lifted asset prices, which helped those who owned assets. Meanwhile, those who held few assets had their budgets hit hard by the inflation caused by easy money.

Moody’s Analytics estimates that the top 20% of earners are driving a “luxury economy” and are responsible for 63% of total US spending. Stock and home prices are up sharply in recent years, which has likely driven “wealth effect” spending.

But at the Friday close, the S&P 500 is back to where it was eight months ago. If this continues, it could have a negative impact on the consumer spending growth that’s been happening on the upper end of the income spectrum.

This is worrisome because we already see stress at the lower end. The New York Fed says that 5.21% of auto loan balances are 90+ days delinquent, the second highest level going back to at least 1999, even higher than for most of the so-called Global Financial

Crisis in 2008-09. The share of credit card balances that are 90+ days delinquent is 12.70%, the highest since 2011. Meanwhile, student loan delinquencies have soared now that COVID-era repayment amnesties are over. If both limbs of the “K” sag, the economy could be in trouble.

Add to this, the fact that Iran seems unwilling to capitulate. If the Fed isn’t on hold, and cuts rates, this risks inflation. Both are bad for the market. We hope that the war ends soon, but President Trump may now be caught between his natural inclination to avoid a prolonged conflict and a desire to show that fear of the TACO trade (“Trump Always Chickens Out”) can’t bully him. This is especially true if the Trump team thinks Iran is counting on rising oil prices and falling stocks to force the US to back off.

The US is now a net petroleum exporter and gets only a small share of its oil from the Middle East. But there are many other countries, especially western advanced economies, that are highly dependent on Middle East oil and other raw materials. These countries are already under stress with the Strait of Hormuz essentially closed. If war continues, this pain will intensify and growth will slow. If western trading partners suffer, that’s an additional headwind for US growth.

And don’t forget troubles in private credit markets. We don’t see a systemic crisis, but clearly this is a problem, and could further diminish investment flows.

The recent drop in US stocks is nothing like the “Liberation Day” mini-panic in early 2025. This time around, it’s less panic and more of a measured reassessment of the headwinds facing the US economy. The market needs a lot of things to go right to find its footing again. Including a smaller government. The odds of that happening in the near-term seem less than stellar.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
3-31 / 8:45 am	Chicago PMI – Mar	54.6	58.4		57.7
4-1 / 7:30 am	Retail Sales – Feb	+0.5%	+0.7%		-0.2%
7:30 am	Retail Sales Ex-Auto – Feb	+0.3%	+0.5%		0.0%
9:00 am	ISM Index – Mar	52.4	52.5		52.4
9:00 am	Business Inventories – Jan	0.0%	0.0%		+0.1%
afternoon	Total Car/Truck Sales – Mar	15.9 Mil	15.9 Mil		15.8 Mil
4-2 / 7:30 am	Initial Claims – Mar 28	212K	211K		210K
7:30 am	Int’l Trade Balance – Feb	-\$59.4 Bil	NA		-\$54.5 Bil
4-3 / 7:30 am	Non-Farm Payrolls – Mar	60K	67K		-92K
7:30 am	Private Payrolls – Mar	75K	84K		-86K
7:30 am	Manufacturing Payrolls – Mar	-4K	-7K		-12K
7:30 am	Unemployment Rate – Mar	4.4%	4.4%		4.4%
7:30 am	Average Hourly Earnings – Mar	+0.3%	+0.4%		+0.4%
7:30 am	Average Weekly Hours – Mar	34.3	34.3		34.3