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**APRIL 2026 ECONOMIC COMMENTARY** by Colton Krueger, Economic Analyst **APRIL 20, 2026**

The U.S. economy enters the spring in a much different position than it held last fall. A solid third quarter 2025 gave way to stalling growth in the fourth quarter and the first quarter of 2026 has been shaped by two shocks: the longest federal government shutdown on record and the outbreak of war with Iran. Growth has slowed, energy-driven inflation has re-accelerated, the labor market remains stable yet stuck, and consumer sentiment has collapsed to a record low. The soft-landing narrative is still alive, but it has grown noticeably more fragile.

Growth through the back half of 2025 was a story of two different quarters. Real GDP grew at a 4.4% annualized rate in the third quarter, but the final fourth quarter reading was revised down to just 0.5%, held back by a 5.6% contraction in government spending tied to the shutdown, which alone subtracted roughly a full percentage point from growth. For the full year, the economy expanded 2.1%, down from 2.8% in 2024. The first quarter 2026 advance estimate is not released, but points to another subdued print.

The labor market remains in a holding pattern. Nonfarm payrolls rose 178,000 in March and unemployment was little changed at 4.3%. Average hourly earnings rose 3.5% year-over-year, the lowest annual pace since 2021. The March gain looks better than the underlying trend: net job creation has been minimal for more than a year. Unemployment is holding in healthy territory not because hiring is strong, but because labor supply has contracted alongside it. The labor force participation rate slipped to 61.9% in March, the lowest reading since late 2021 during the Covid pandemic.

Fed policy has been on pause since the turn of the year. After cutting last fall, the FOMC voted in March to keep the federal funds target range at 3.50%–3.75%, the second consecutive hold. Officials signaled one 25 basis-point cut this year, however, Chair Powell called it “too soon to know” the impact of the war. The Fed has effectively adopted a wait-and-see posture.

Inflation has reaccelerated, driven almost entirely by the oil shock. Headline CPI rose 0.9%

in March and 3.3% over the last 12 months, the highest annual reading since May 2024 and a sharp jump from 2.4% in February. Energy rose 10.9% for the month, led by a 21.2% surge in gasoline that accounted for nearly three-quarters of the increase. Encouragingly, core CPI rose just 0.2% for the month and 2.6% over the year, suggesting underlying services disinflation is still intact. Economists expect core inflation to drift upward as tariff effects and energy pass-through costs build through supply chains.

Treasury yields have shifted modestly this year, with most of the move concentrated at the front end. As of April 10, the 2-year stood at 3.81%, up roughly 30 basis points since the start of the year, while the 10-year (4.31%) and 30-year (4.91%) are little changed. The curve has flattened as investors pulled back expectations for 2026 rate cuts amid sticky inflation, while the long end has been anchored by softer growth expectations. Mortgage rates remain elevated, continuing to constrain housing.

Sentiment has fractured along consumer and business lines. The University of Michigan’s preliminary April survey showed sentiment falling 11% to a record low of 47.6, lower than any recording in the post-World War II era, including the Great Recession. Business surveys are more resilient: the ISM Manufacturing PMI registered 52.7 in March, a third straight month of expansion, while Services held at 54.0, the 21st consecutive month in expansion.

Overall, the economy has absorbed a great deal in a short span — a shutdown, a war, an energy shock, a sentiment collapse, and is still working through tariffs — yet headline GDP is still expanding and unemployment is still contained. That resilience is real, but there are cracks in the economy: growth is below trend, while inflation is back above 3%. A gradual disinflation that allows the Fed to cut rates is still reachable, but the path now requires the Iran situation to de-escalate, tariff effects to fade, and the labor market to hold.



# ECONOMIC CHARTS

