



A P O L L O N  

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F I N A N C I A L

## **Market Recap**

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*March 2026*



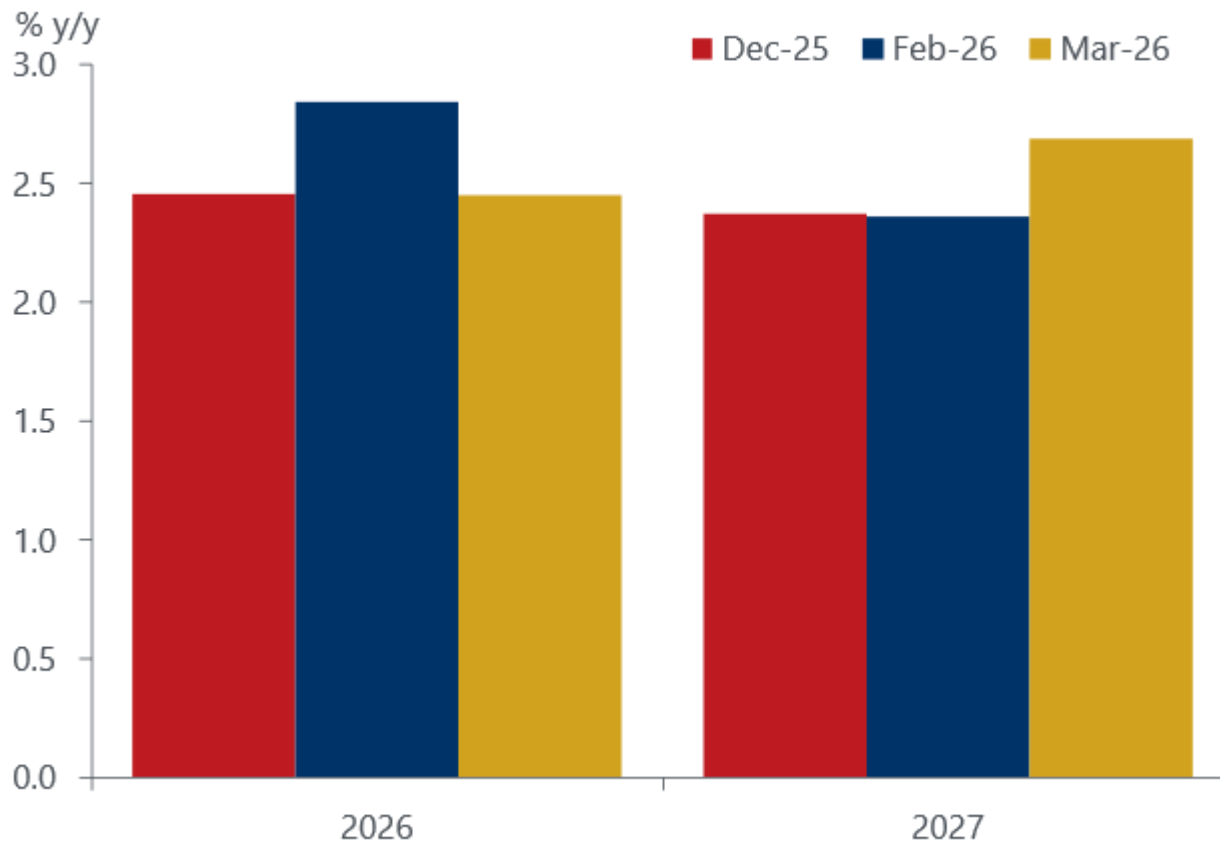


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# Weaker consumption to slow growth

US: GDP growth by forecast vintage



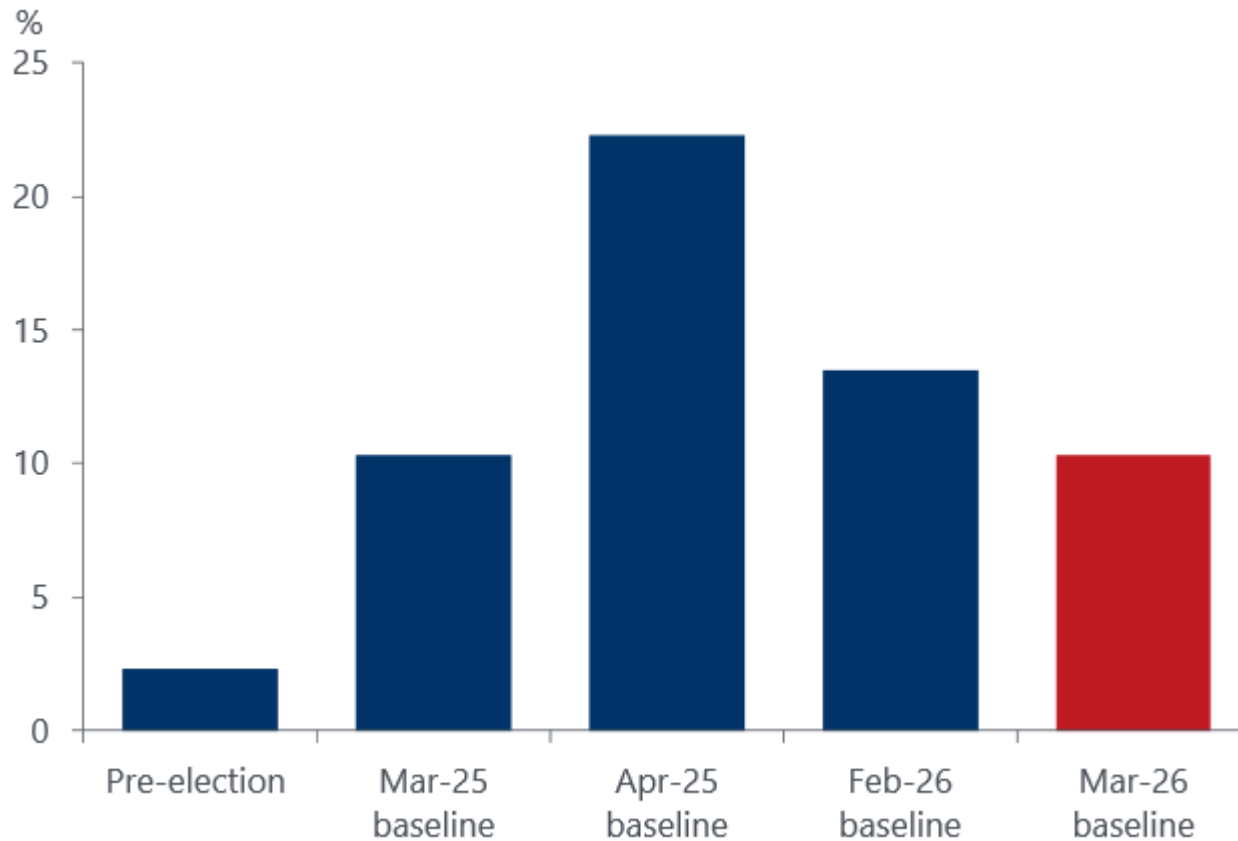
Sources: Oxford Economics, Haver Analytics

## Key takeaways

- We revised down US real GDP growth by 0.4ppt to 2.4% due to weaker consumer spending. Higher oil prices from the US/Israel-Iran war will boost inflation and weigh on real incomes, putting a drag on spending in the near term.
- Our baseline assumes the war is resolved in the coming months, but a prolonged conflict would damage spending even more via reduced wealth effects and a higher unemployment rate.
- Increased uncertainty will weigh on business investment, though the impacts will be uneven across sectors. AI-related spending, which is a key driver of GDP growth, is unlikely to be materially affected.

# Effective tariff rate down to 10%

US: Effective tariff rate by forecast vintage



Sources: Oxford Economics, Haver Analytics

## Key takeaways

- Incorporating new data on the 2025 mix of imports lowered our estimate of the US effective tariff rate to 10.3%. The flow of imports away from China and toward other Asian countries explains much of the drop.
- In addition to the ongoing Section 232 product investigations, the administration launched two new sets of Section 301 investigations this month, covering around 60 economies.
- To maintain current tariff levels, the White House is likely to use Section 301 and 232 tariffs to replace the time-limited Section 122 tariffs imposed in the wake of the Supreme Court decision.

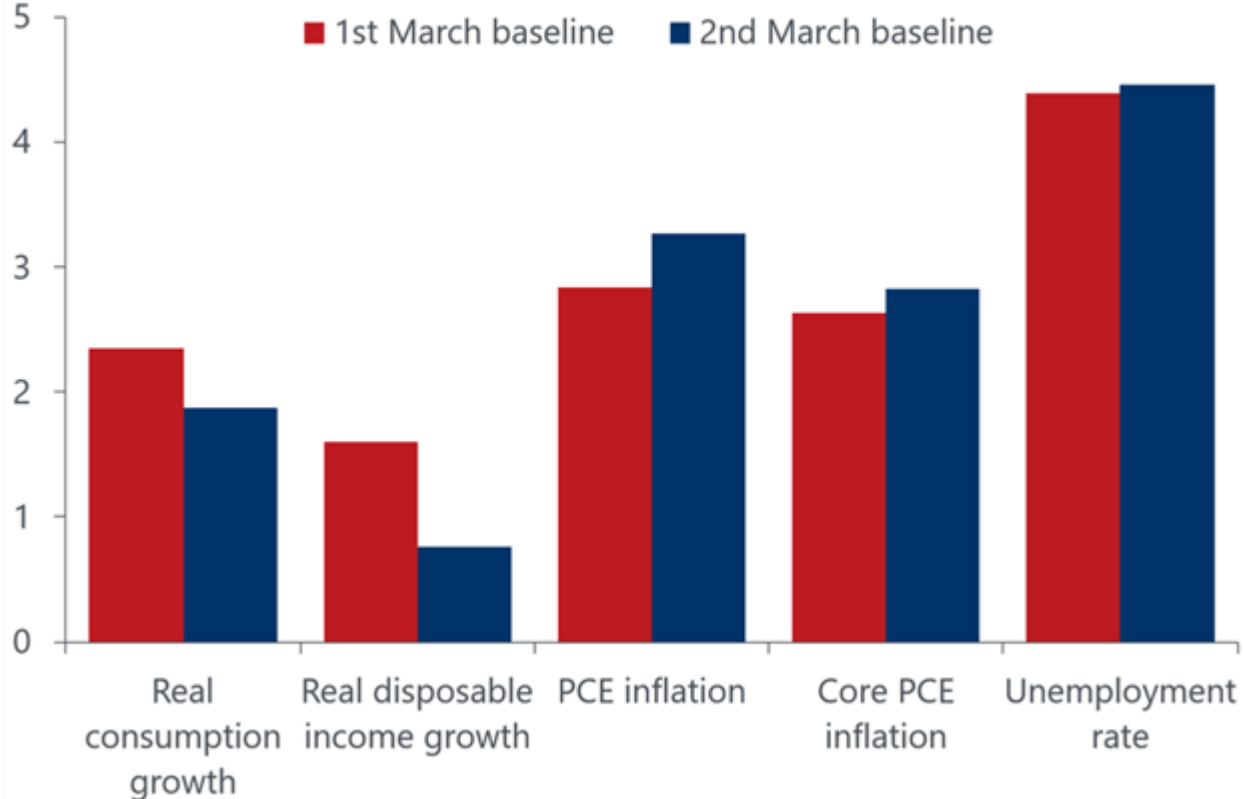


# **Focus: Economic impact of US/Israel-Iran war**

# Lower growth, higher inflation due to war

## US: Forecast changes due to unfolding US/Israel-Iran war

Annual averages, %

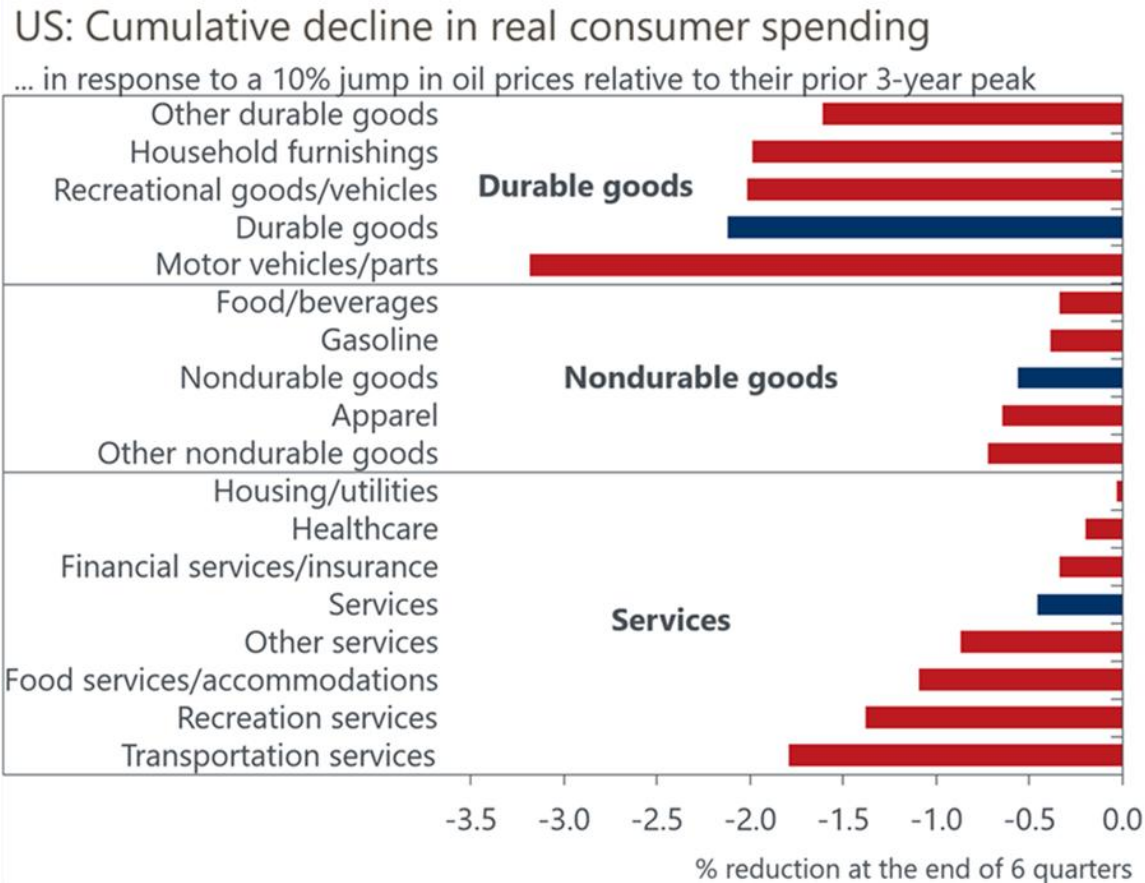


Sources: Oxford Economics, Haver Analytics

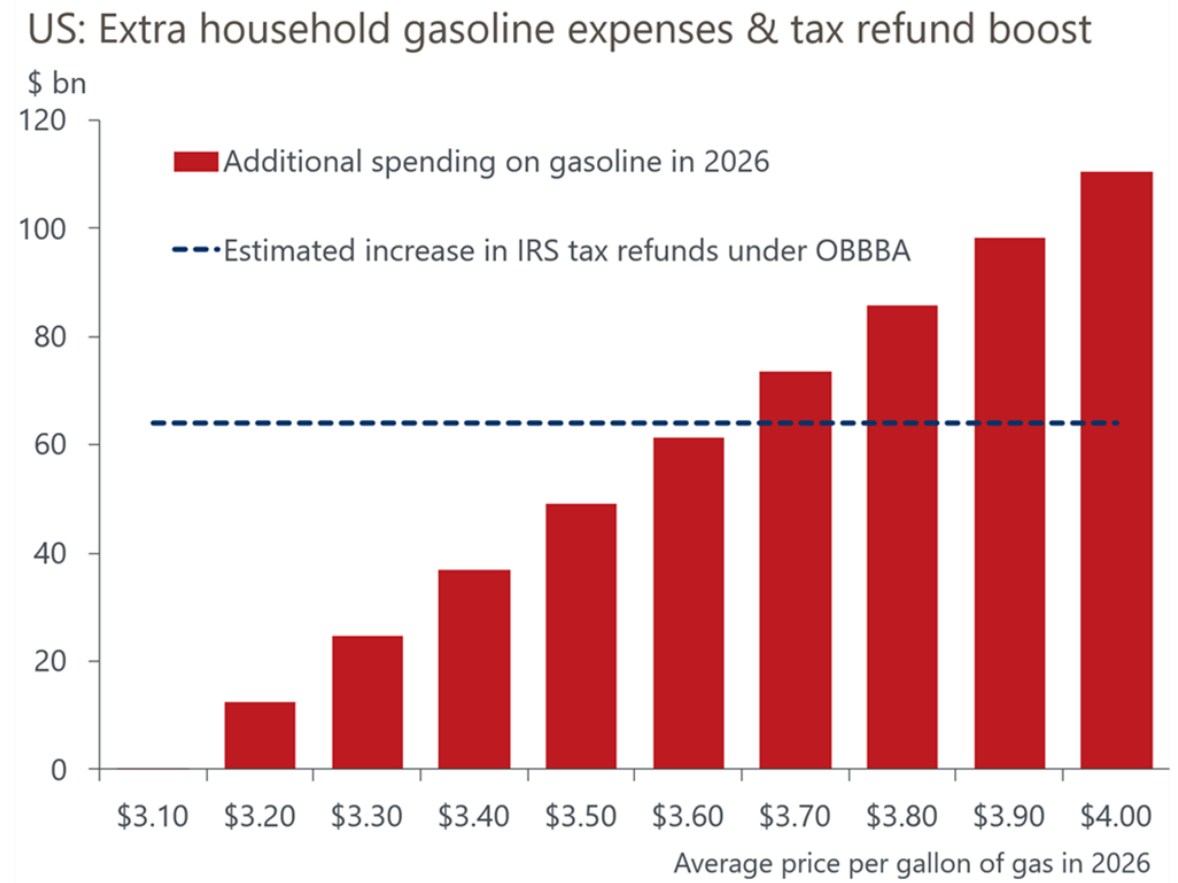
## Key takeaways

- To reflect the rapidly evolving economic consequences of the US/Israel-Iran war, we published a second March baseline forecast.
- Our new baseline assumes global oil prices average above \$100 per barrel in Q2. The energy supply shock will push consumer prices markedly higher and weigh on consumption. Spending on durables and discretionary services are most at risk.
- We had anticipated a lift in spending from the larger-than-average tax refund season but a sustained rise in gas prices could more than offset that boost. Low- and middle-income consumers will be most impacted.

# Higher gas prices to slow spending, could offset refund boost



Sources: Oxford Economics, Haver Analytics



Sources: Oxford Economics, Haver Analytics

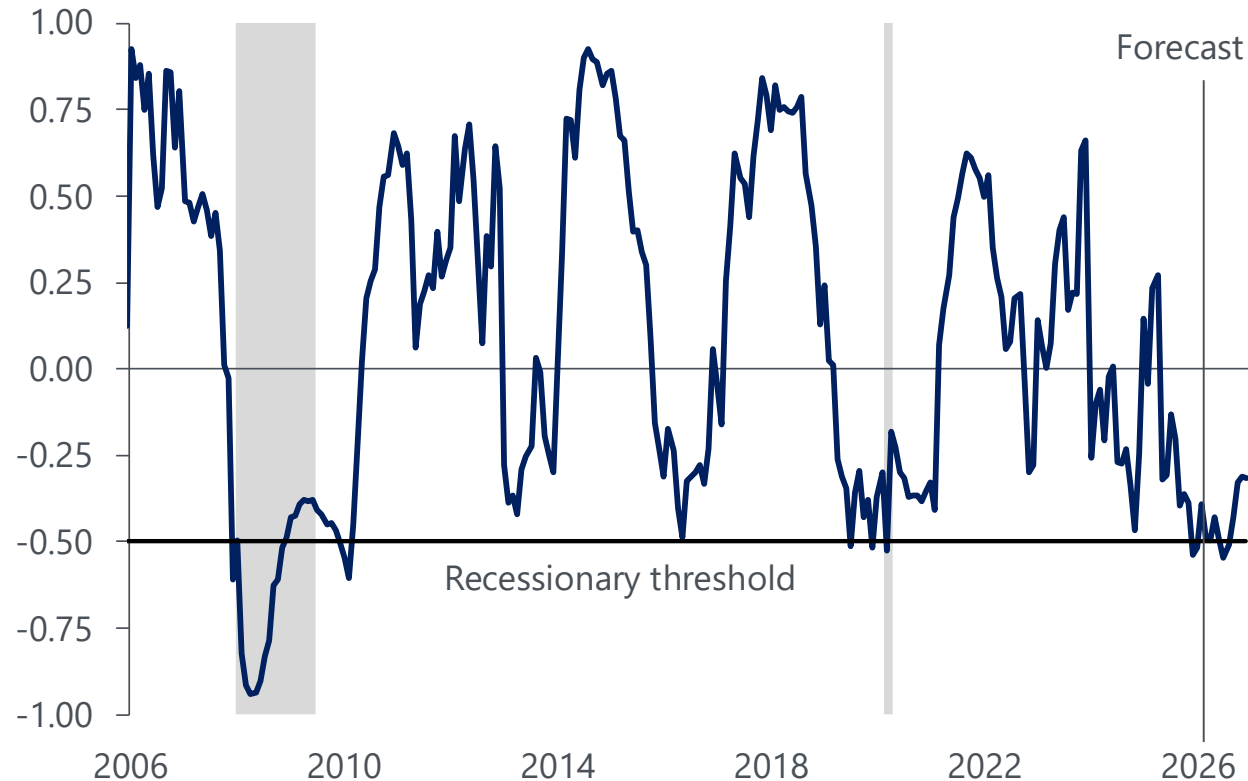


# Health check on the economy

# Continued expansion, but with new risks

## US: Oxford Economics' US Business Cycle Indicator

Index, -1 to +1



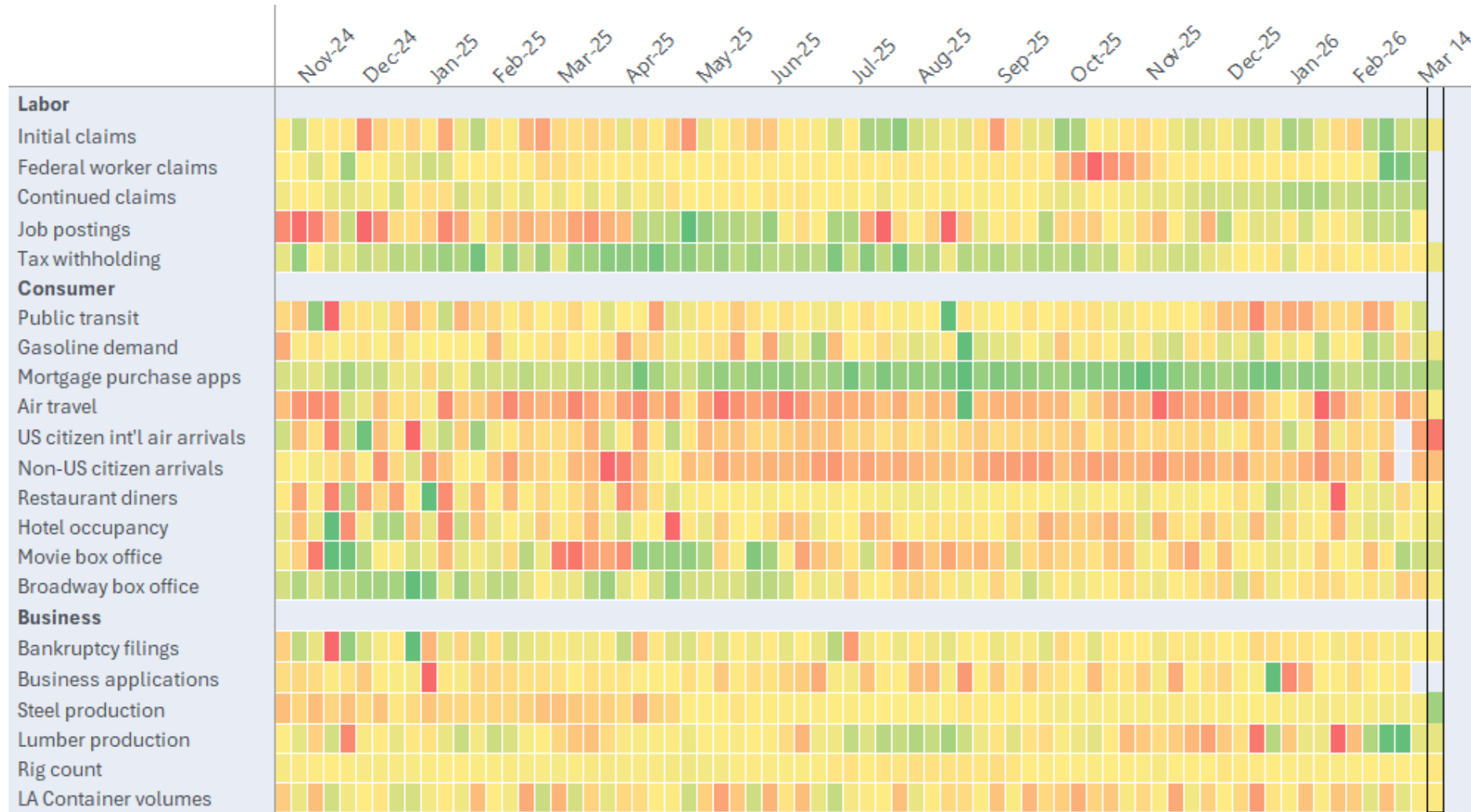
Note: Latest month is estimated due to lagging datapoints and is subject to revisions

Source: Oxford Economics

## Key takeaways

- The US/Israel-Iran war introduced new downside risks to our forecast, with the duration of the war being the key variable in question.
- Our baseline is for a continued expansion even as consumers bear the brunt of higher energy prices and thinner savings buffers. The biggest downside risk runs through equity prices and the labor market.
- Our Business Cycle Indicator (BCI) shows the index flirting with the recessionary threshold but not falling below it on a sustained basis. We estimate a prolonged period of oil prices above \$140pb could be enough to tip the economy into recession, but we are not at that level.

# High frequency indicators point to stability

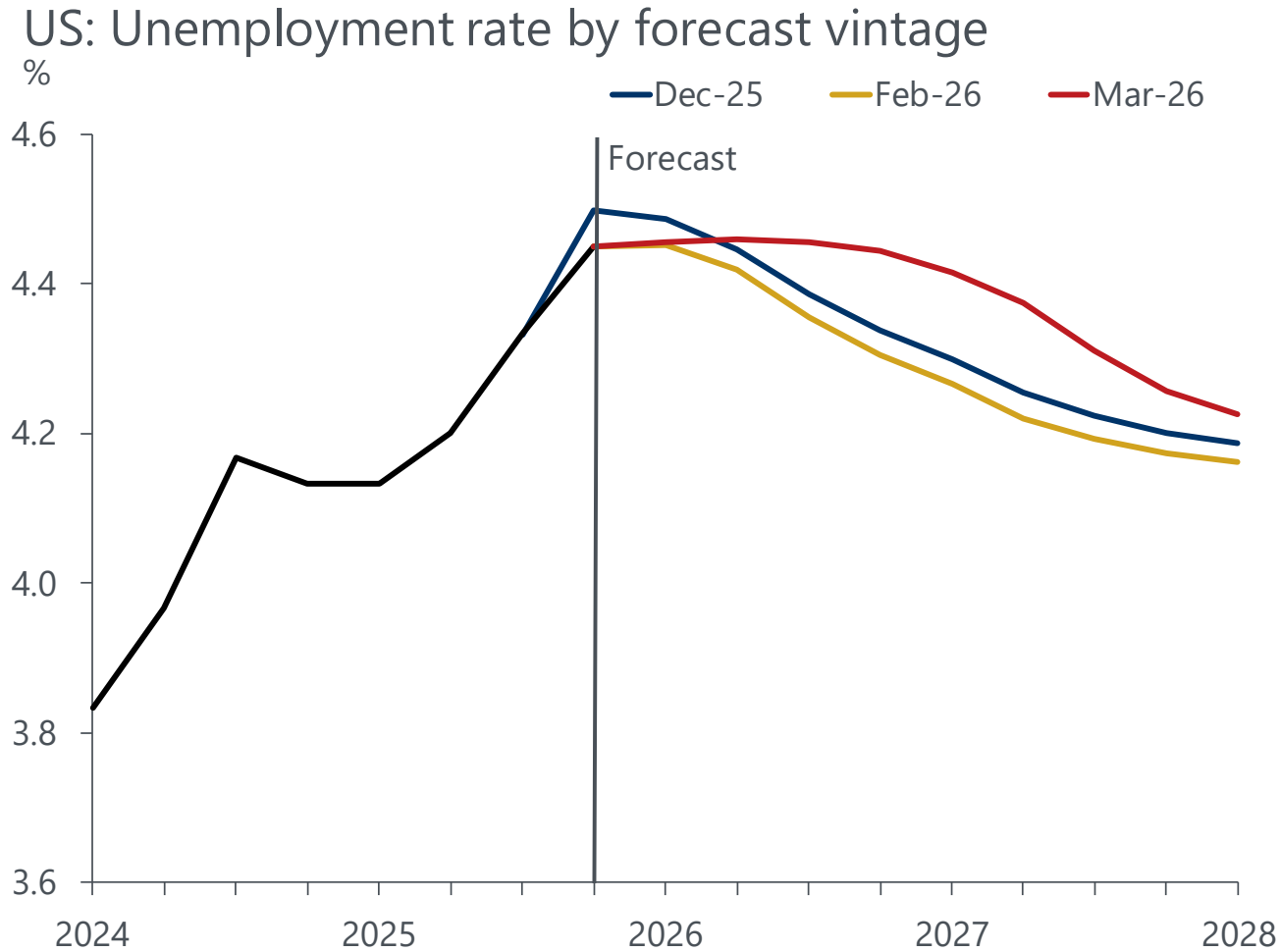


Sources: Oxford Economics, Haver Analytics



**Labor market is stabilizing**

# Unemployment will stay elevated in 2026



Sources: Oxford Economics, Haver Analytics

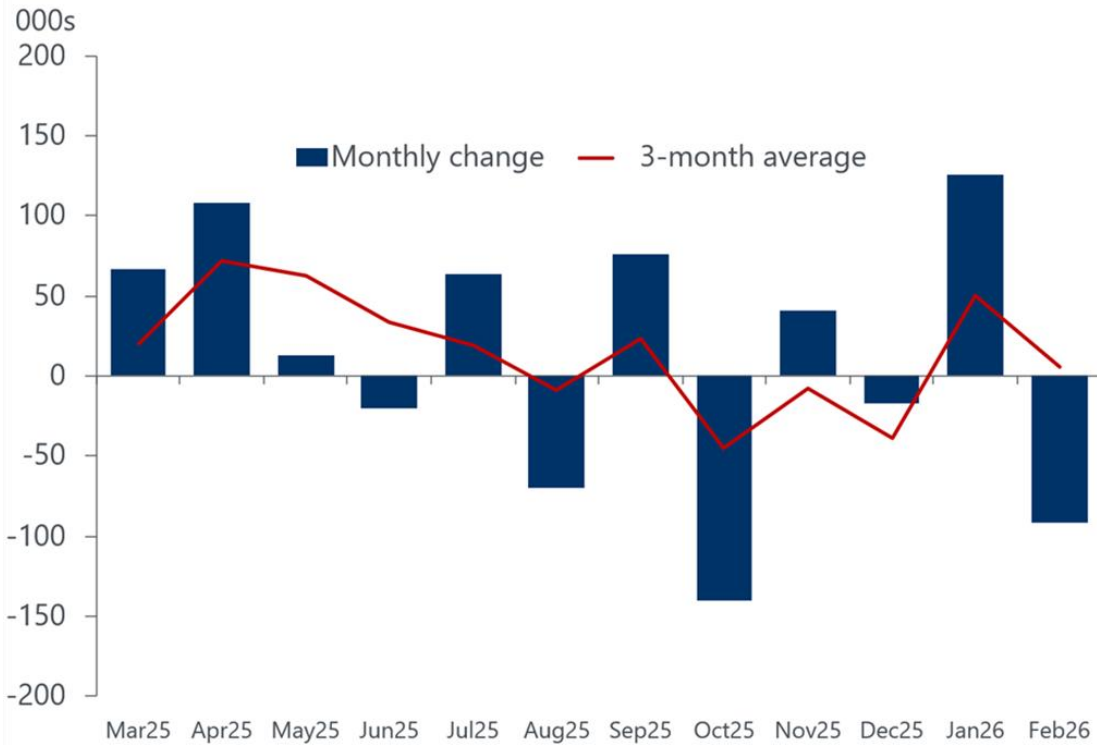
## Key takeaways

- Despite February's 92k decline in nonfarm payrolls, trend job growth is positive and remains close to our estimate of the breakeven rate. We expect job growth to turn positive as winter impacts fade and striking healthcare workers return to work.
- Still, increased uncertainty and softer demand will delay labor market improvement, keeping unemployment higher for longer.
- The updated annual population controls showed an increase of those aged 65 years or older. An aging population will weigh on labor supply growth leaving the economy more reliant on productivity gains to boost growth.

# Despite rocky job growth, the labor market has not collapsed

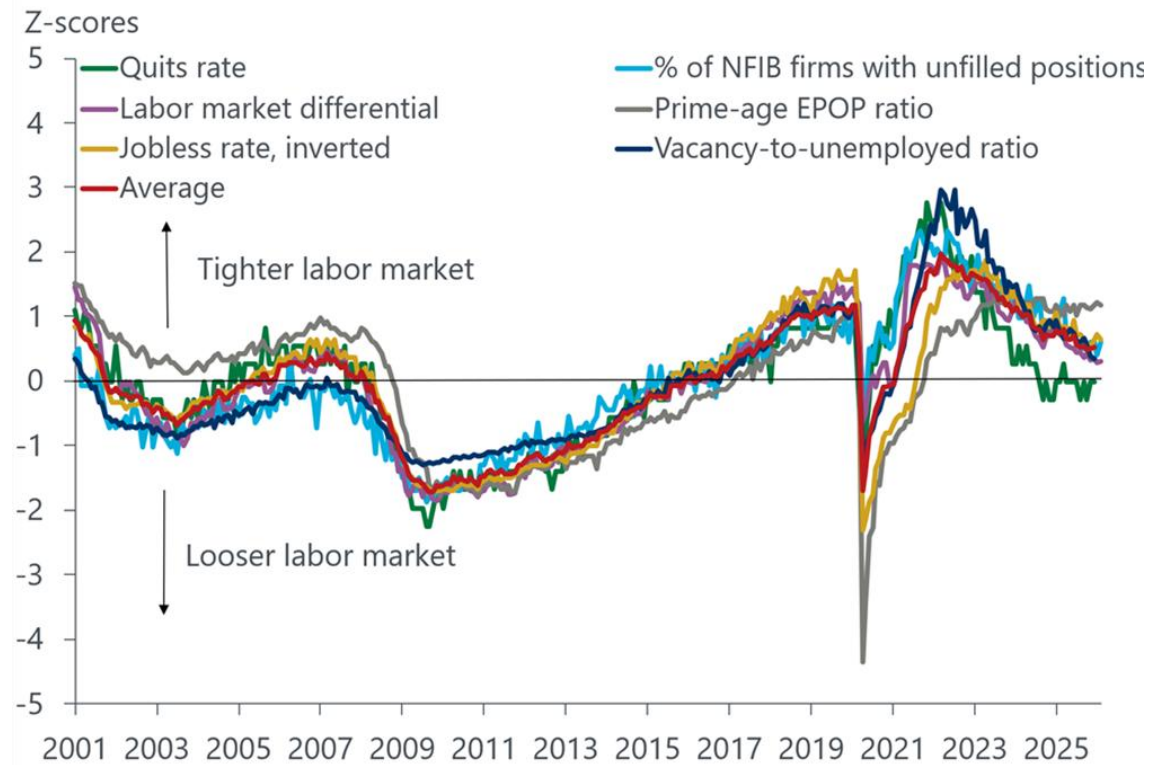


US: Nonfarm payroll employment



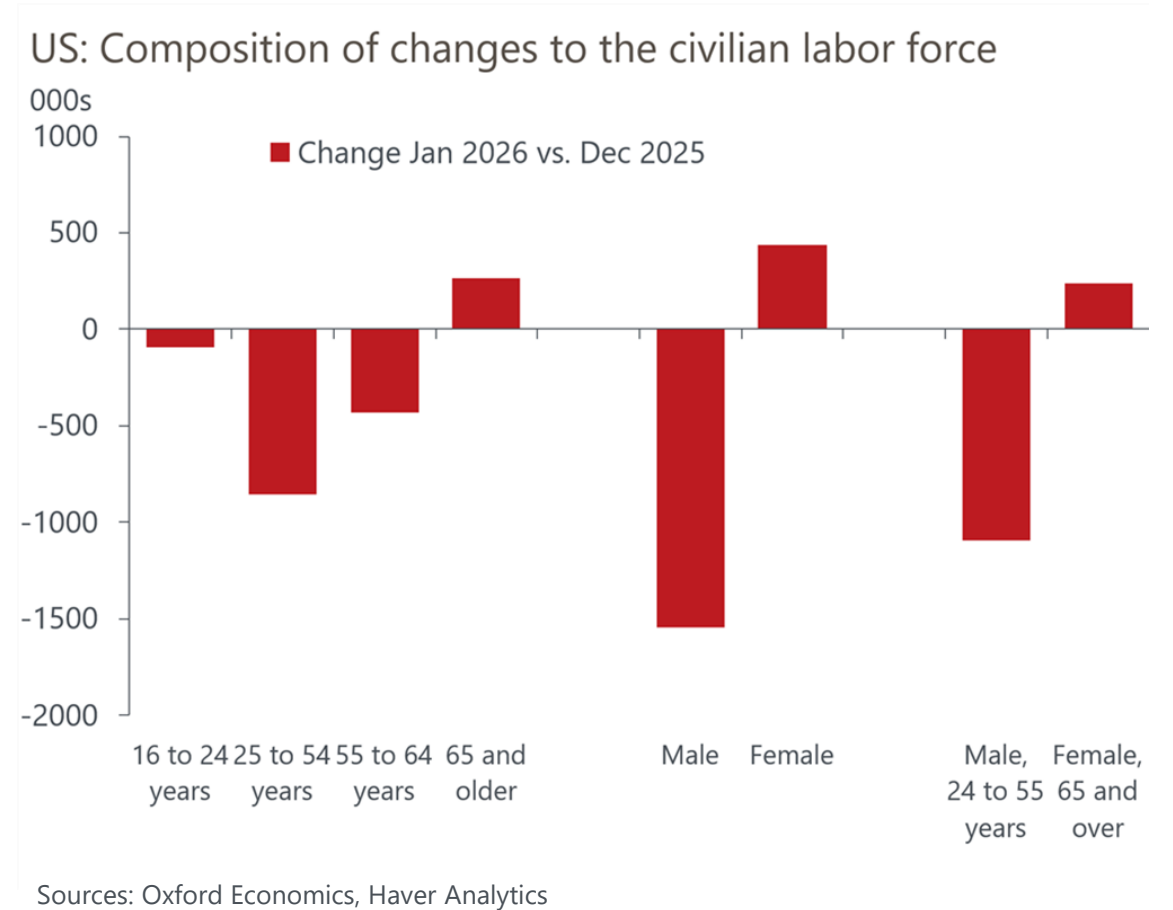
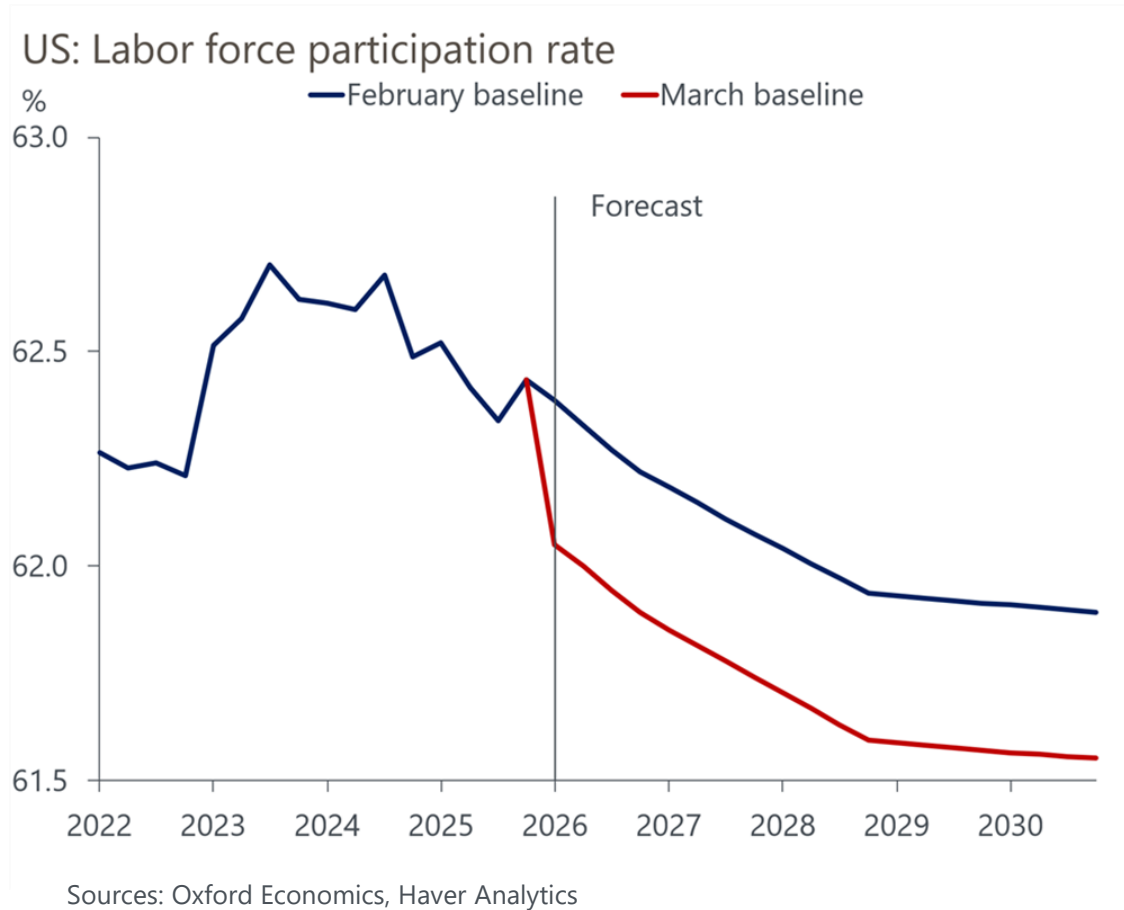
Sources: Oxford Economics, Haver Analytics

US: Barometer of labor market conditions



Sources: Oxford Economics, Haver Analytics, Bloomberg

# An aging population will weigh on labor supply growth

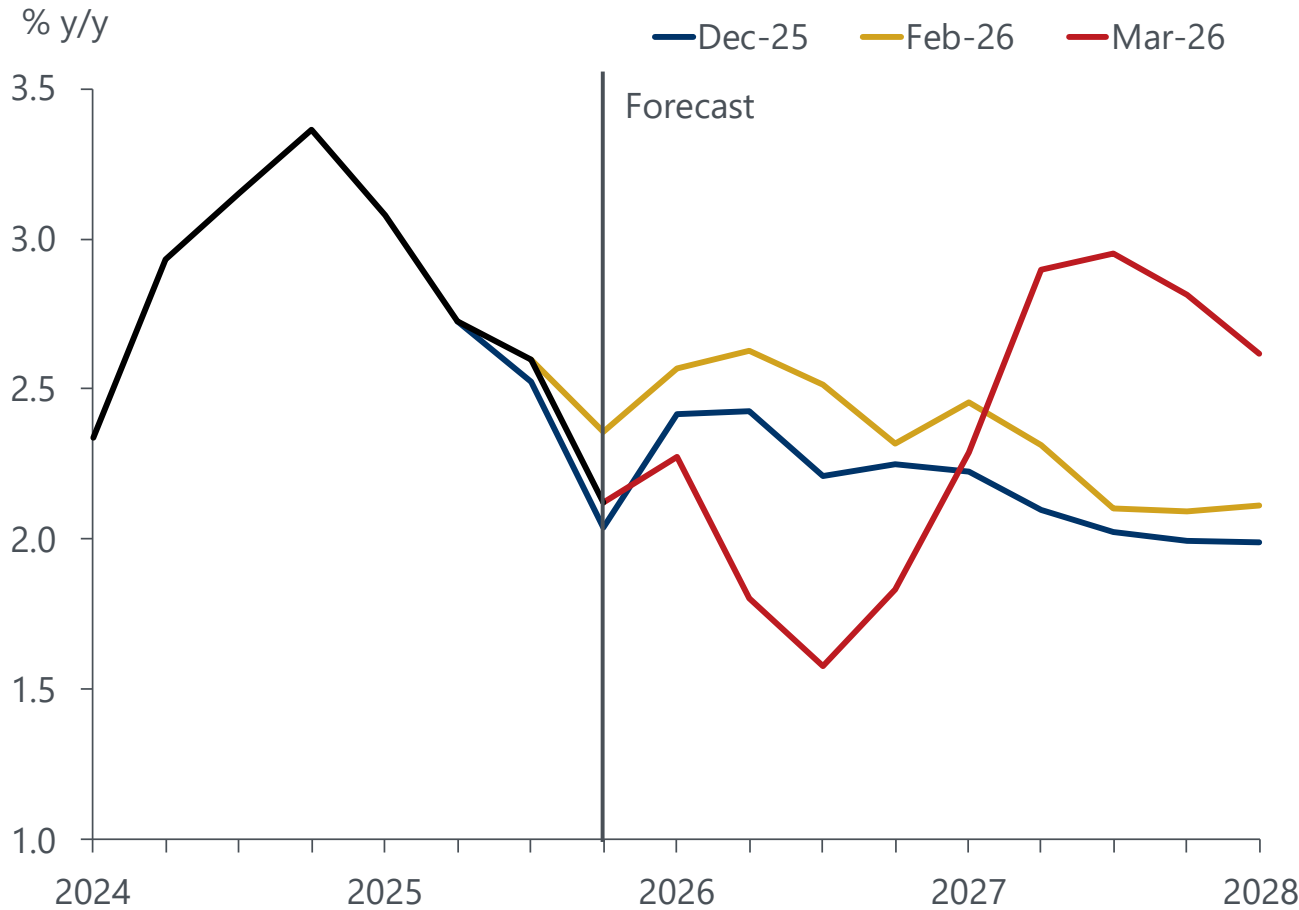




# Consumer spending weakened by war

# High oil prices will weigh on spending

US: Consumer spending by forecast vintage

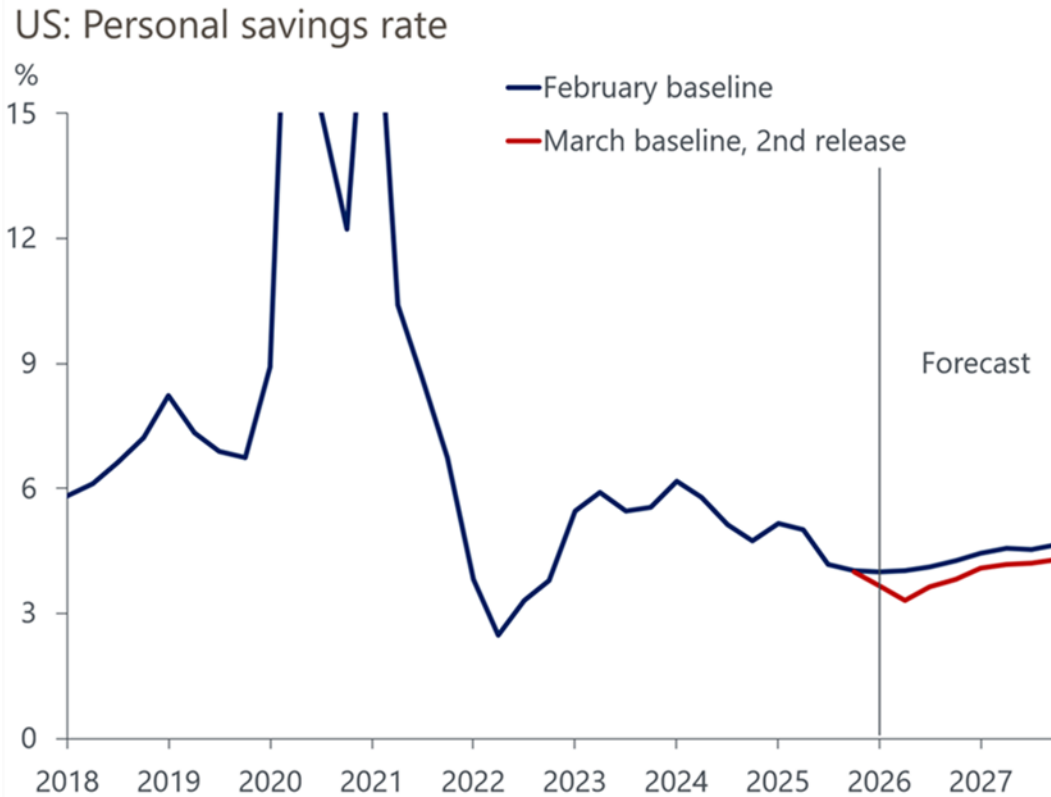


Sources: Oxford Economics, Haver Analytics

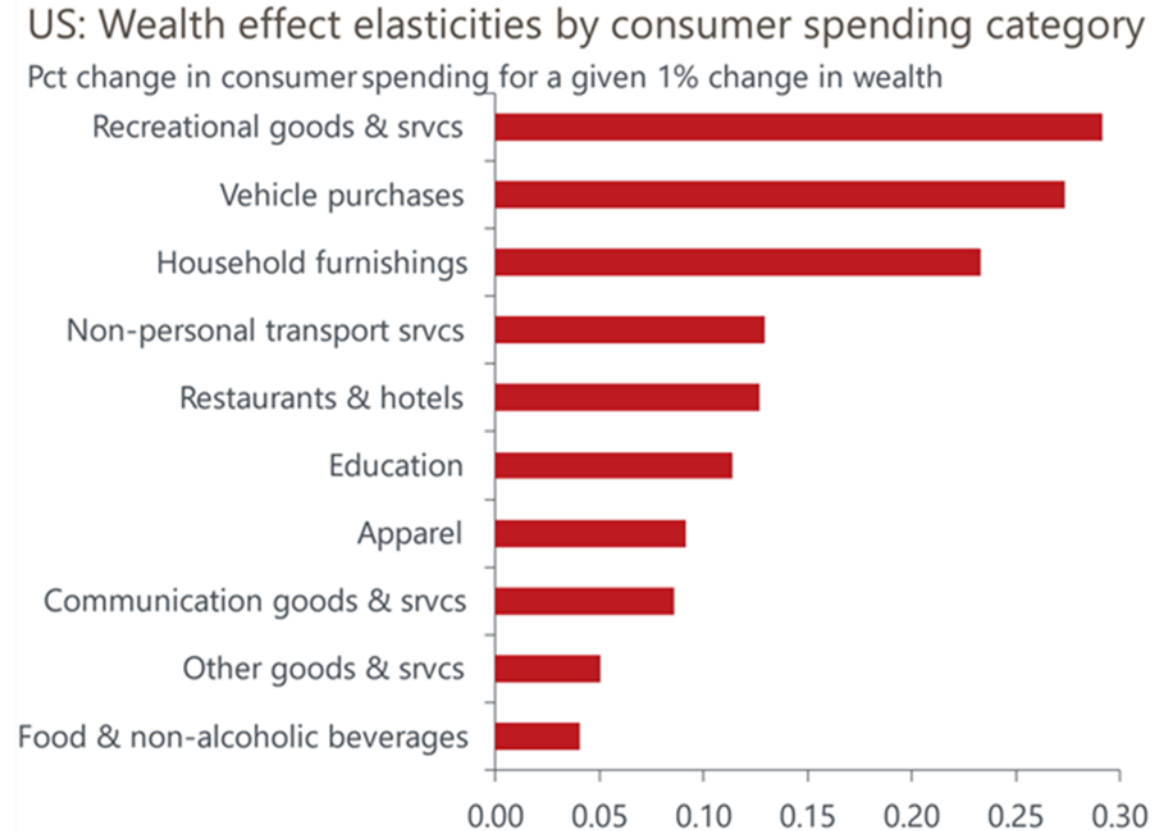
## Key takeaways

- Due to the economic impact of the war, we now expect consumption growth to slow to just 1.9% this year, down from 2.5% in our February baseline. This would be the slowest pace of growth since 2013, excluding the pandemic.
- Higher fuel prices will force consumers to dig deeper into savings. But with personal savings rates already at historically low levels, those buffers are thin.
- The war is also weighing on consumer sentiment. Higher prices at the pump could put upward pressure on inflation expectations, which have been gradually falling over the last six months.

# Consumers to dig into already low savings to sustain spending



Sources: Oxford Economics, Haver Analytics

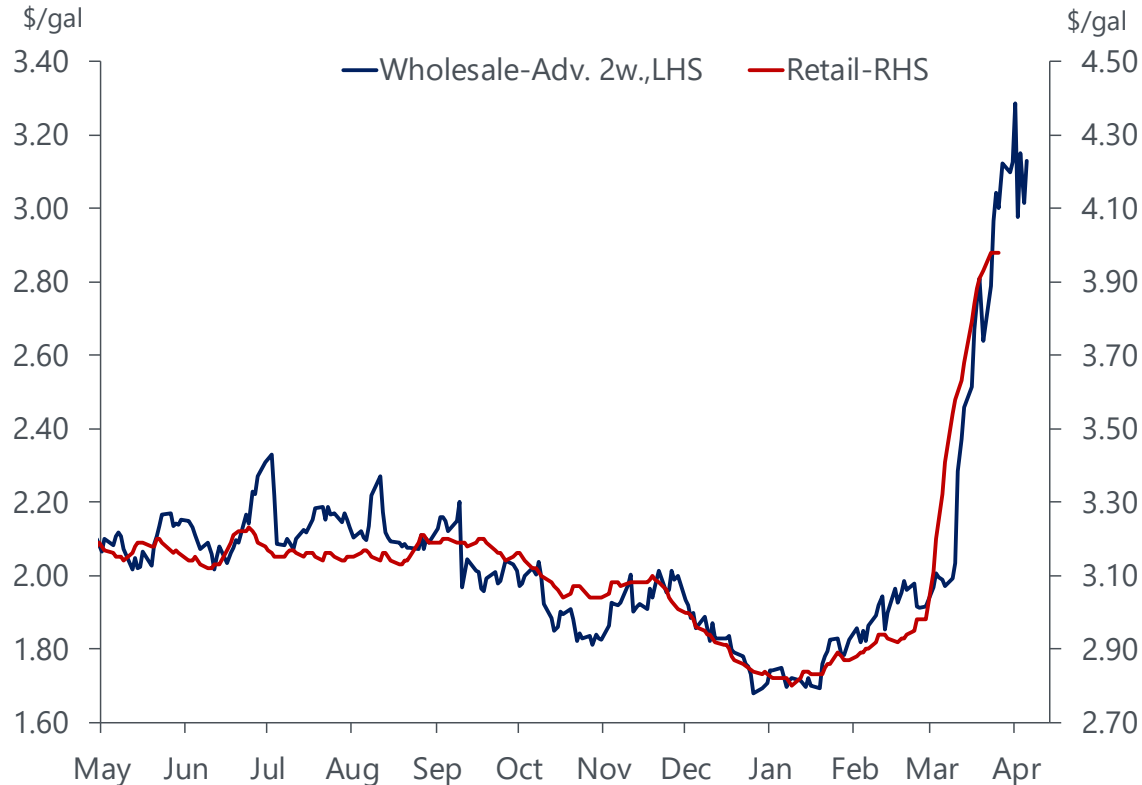


Sources: Oxford Economics, Haver Analytics

# Higher gas prices will deepen consumer bifurcation

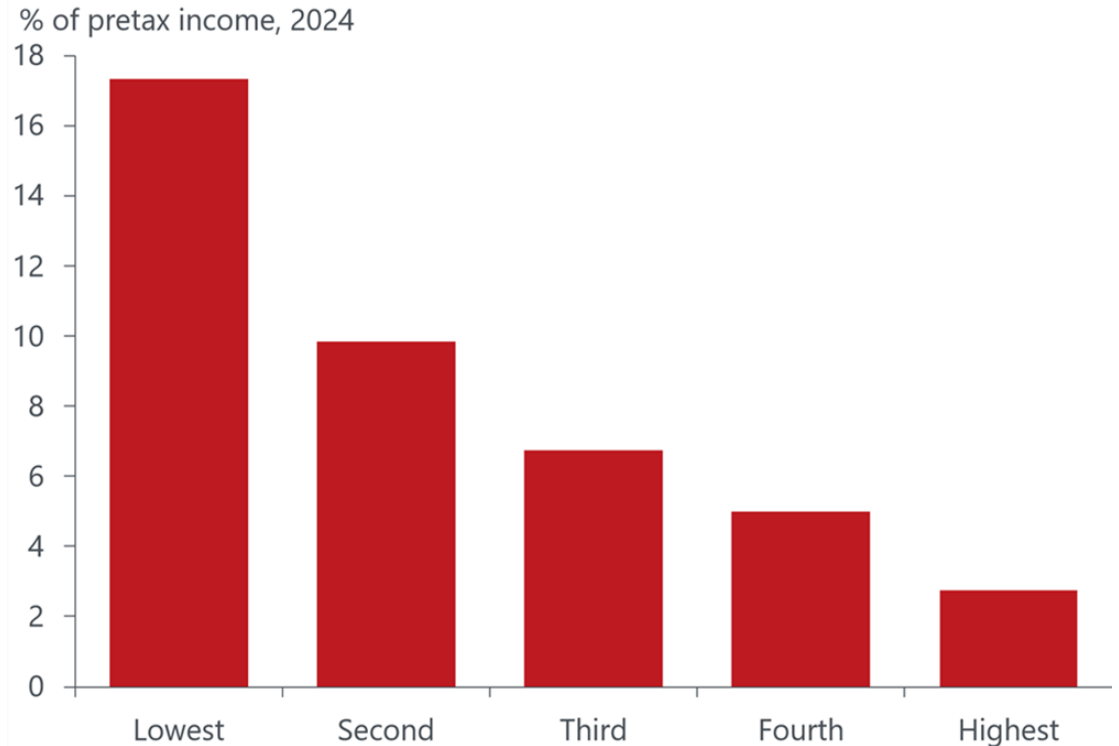


US: Gasoline prices



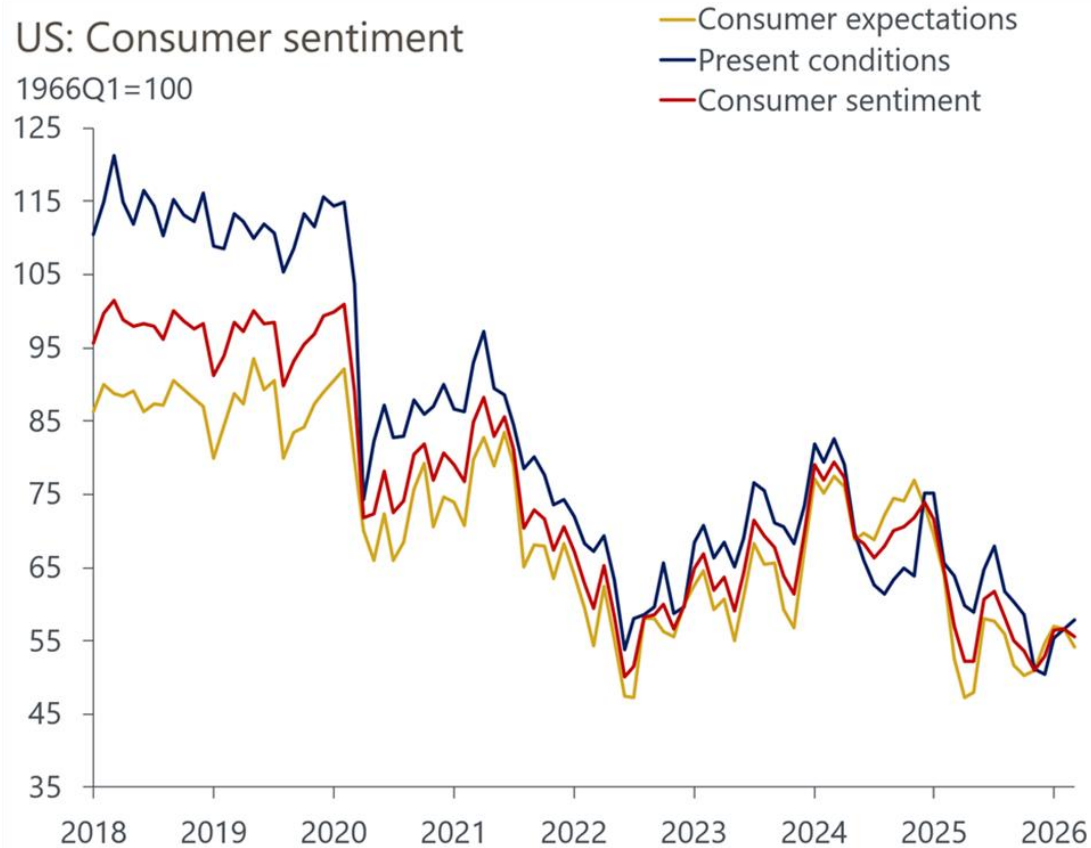
Source: Oxford Economics, Haver Analytics

US: Household energy expenditures by quintile of income

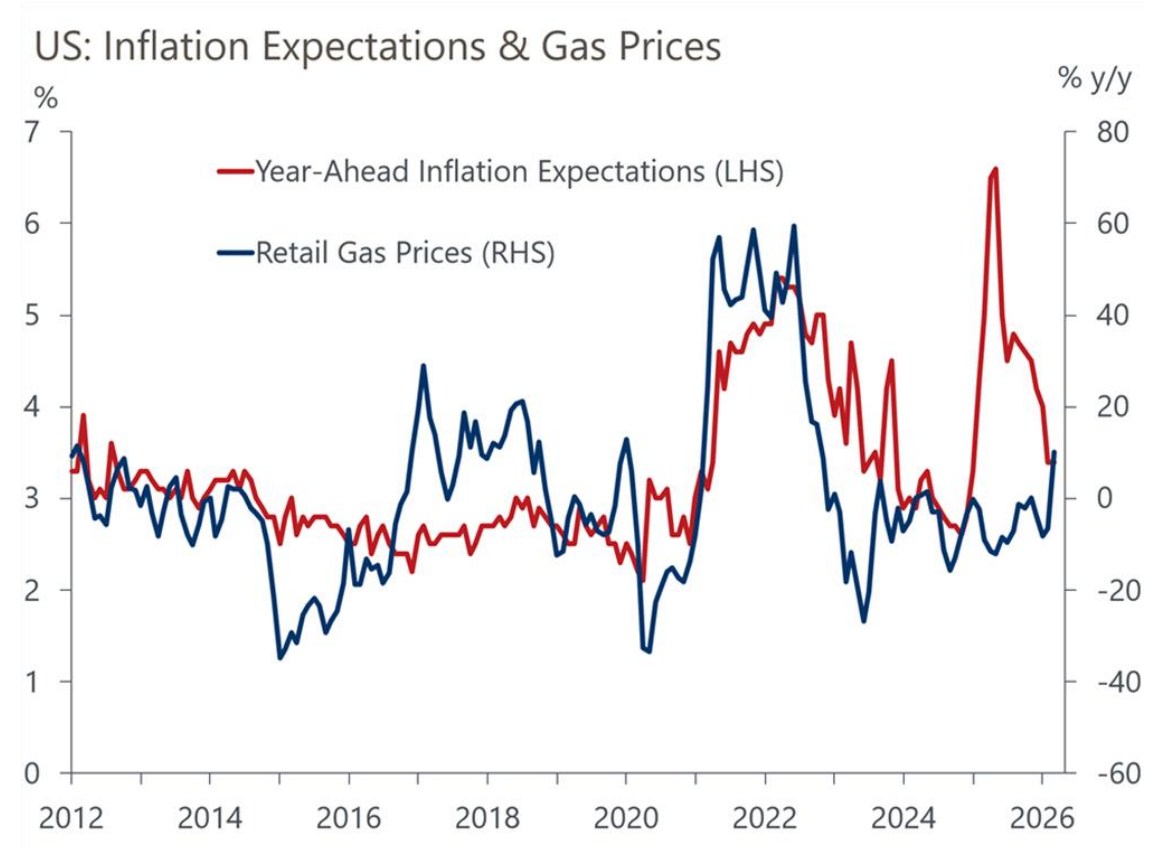


Sources: Oxford Economics, Haver Analytics

# War weighs on sentiment, risks rise in inflation expectations



Sources: Oxford Economics, Haver Analytics



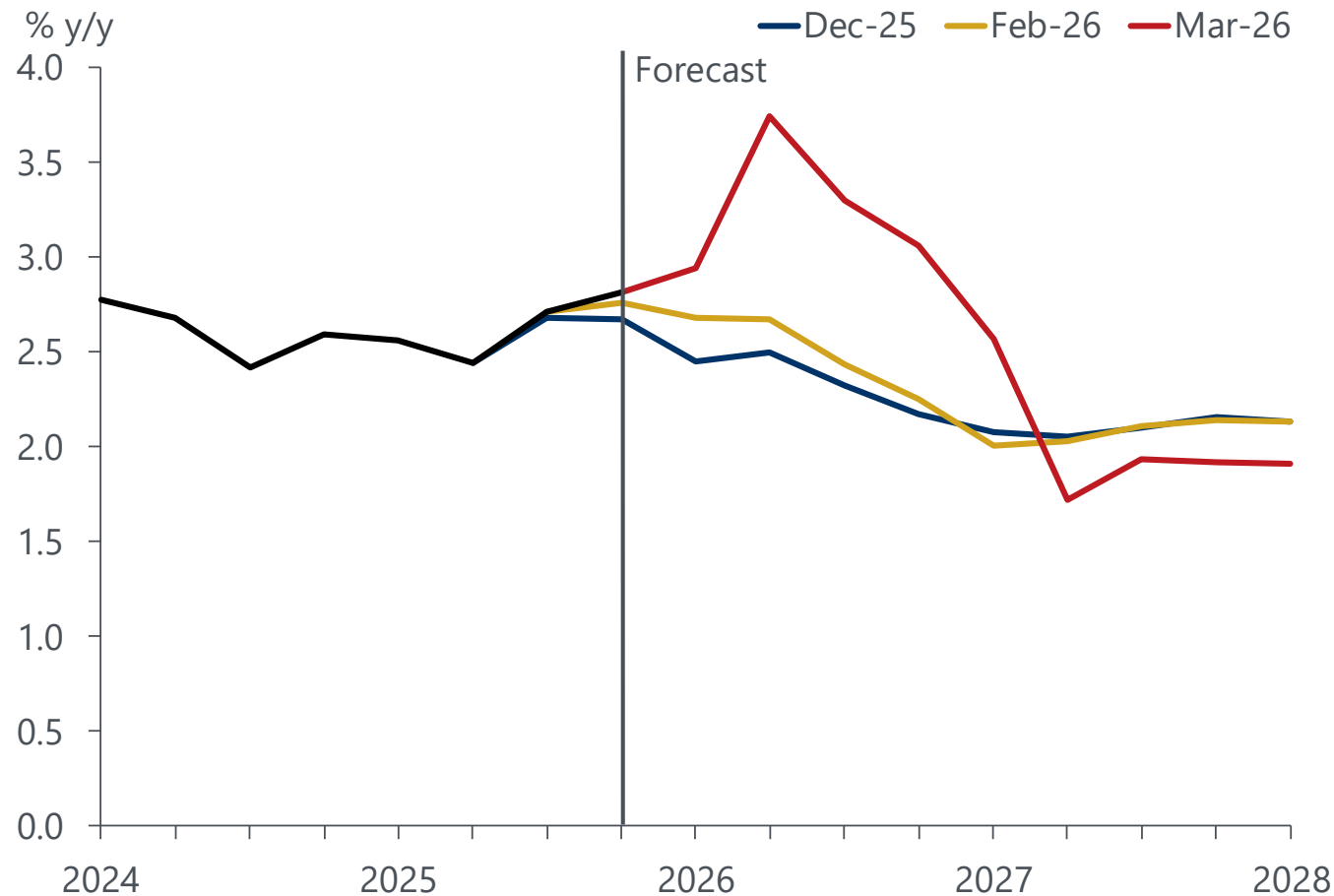
Sources: Oxford Economics, Haver Analytics



# Headline inflation to rise in the near term

# Inflation will heat up in this year

US: Headline PCE by forecast vintage



Sources: Oxford Economics, Haver Analytics

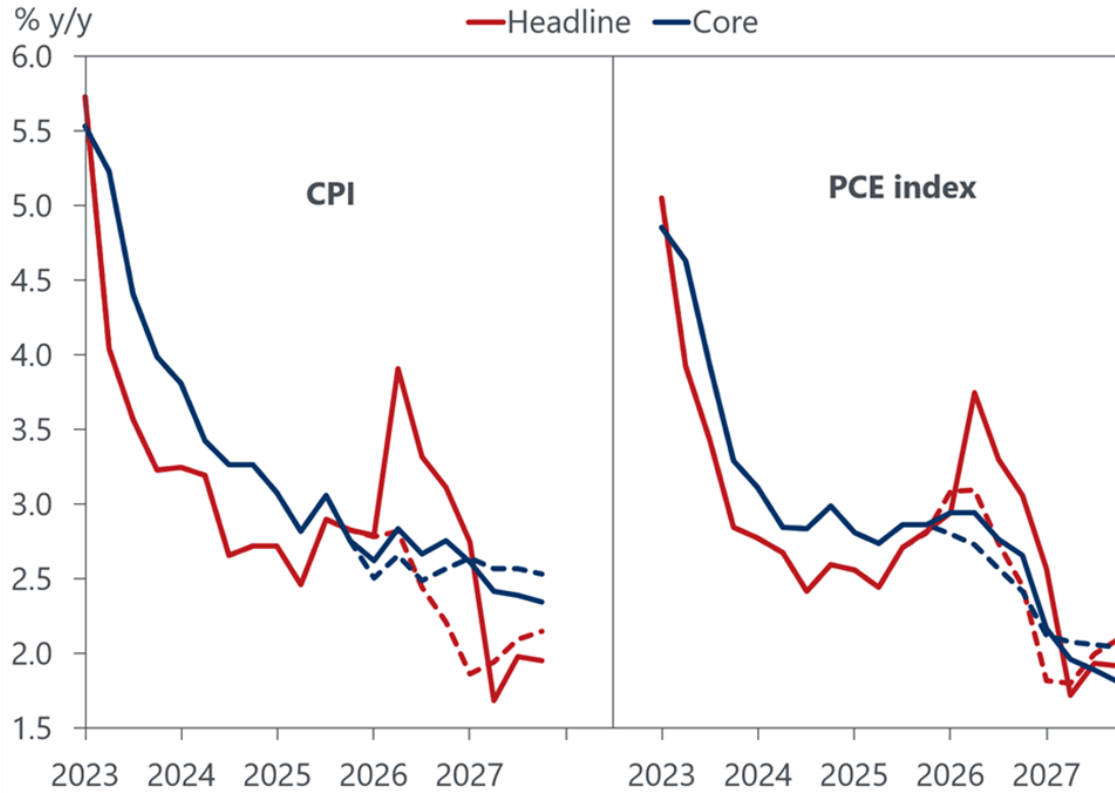
## Key takeaways

- We've raised our 2026 headline PCE inflation forecast by 0.3ppts to 2.8% to reflect higher oil price assumptions. However, we expect any inflationary impacts from higher oil prices to be short-lived.
- Import prices are up 1.3% YoY, posting their largest monthly gain since March 2022. The risks are tilted toward upside in 2026 thanks to higher global oil prices, strong demand for capital goods imports, and past dollar depreciation.
- AI demand has driven up the cost of electronic components which could keep core goods and producer price inflation elevated, even as tariff passthrough fades.

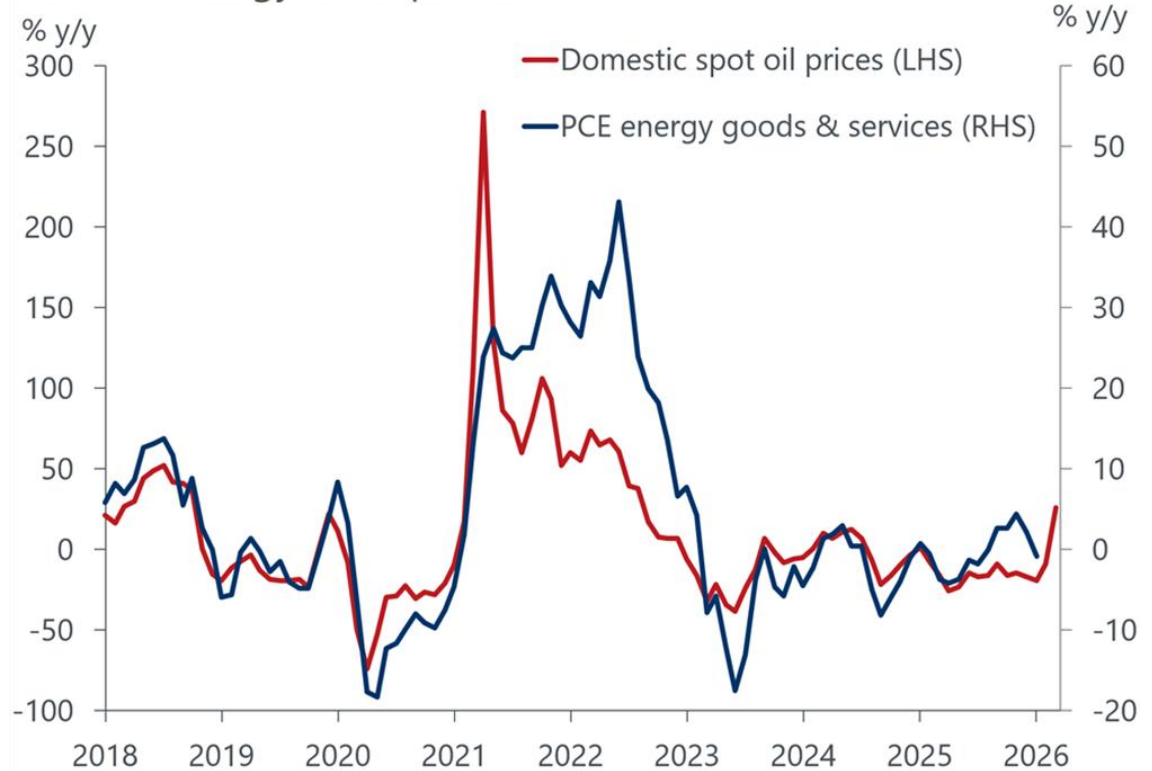
# Spike in oil prices will add to inflation in March and April



### US: Revisions to inflation forecasts



### US: PCE energy vs oil prices

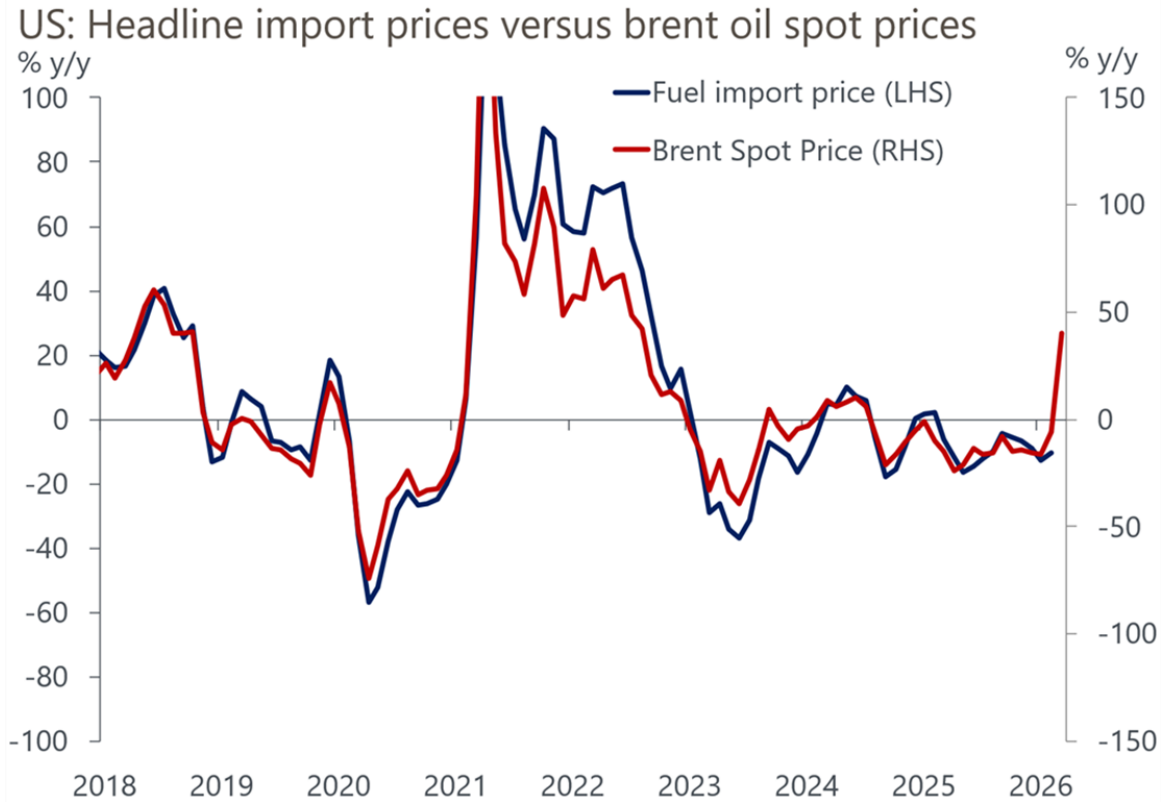


Note: Solid lines reflect 2nd March baseline; dotted lines are 1st March baseline

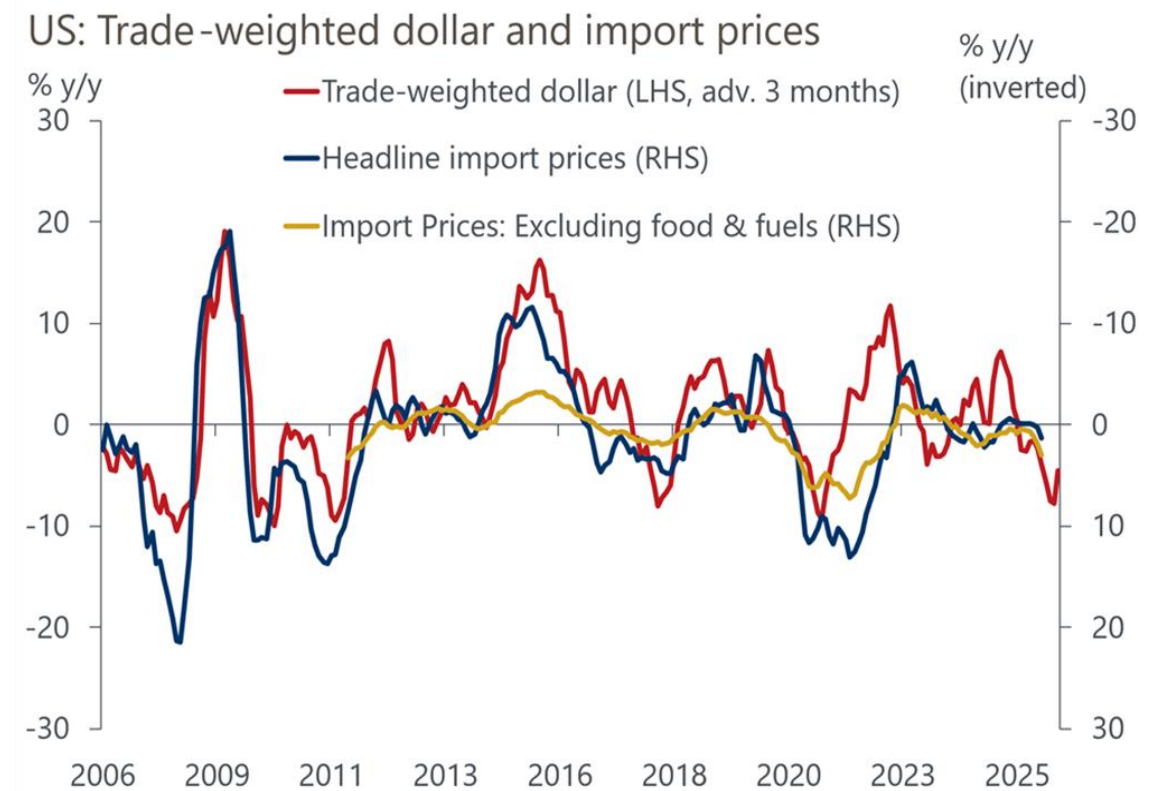
Sources: Oxford Economics, Haver Analytics

Sources: Oxford Economics, Haver Analytics

# Import prices pushed higher on several fronts



Sources: Oxford Economics, Haver Analytics

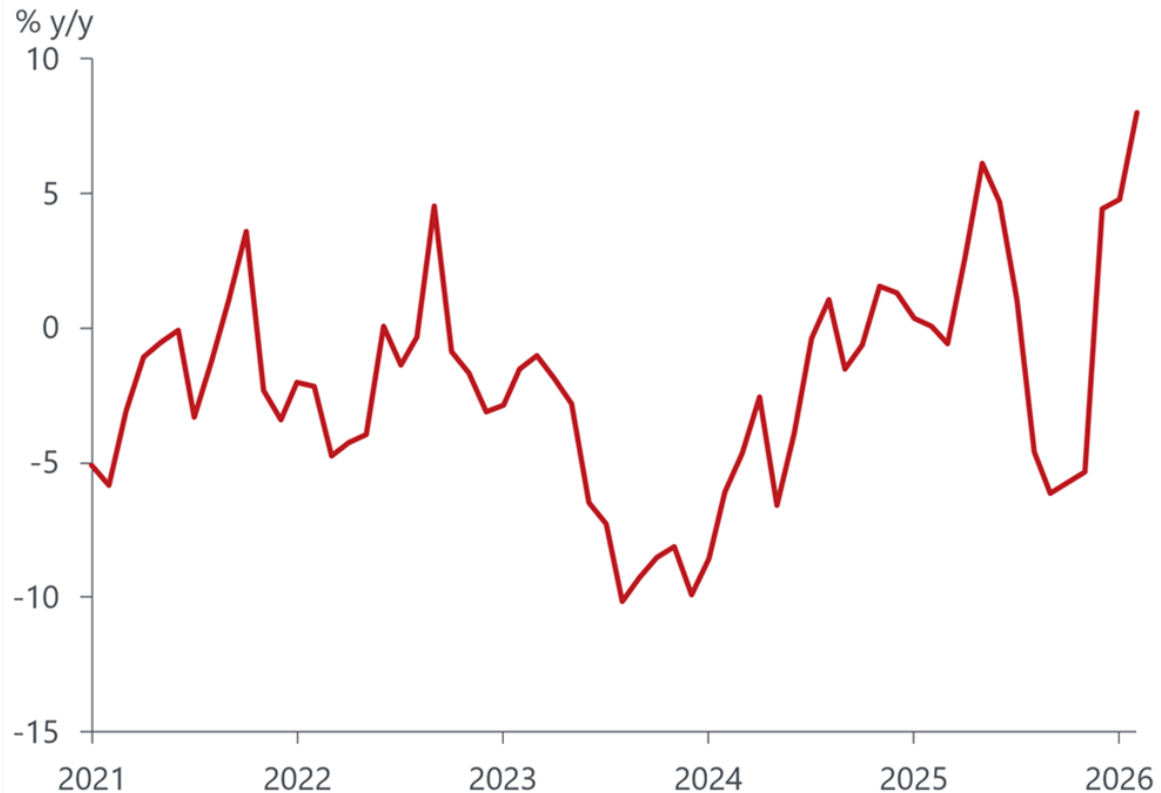


Sources: Oxford Economics, Haver Analytics

# Electronics prices becoming a key risk for goods inflation



US: CPI for computer software and accessories



Sources: Oxford Economics, Haver Analytics

US: PPI for electronic components & accessories



Sources: Oxford Economics, Haver Analytics



# **Housing market recovery further delayed**

# Slow recovery ahead for housing



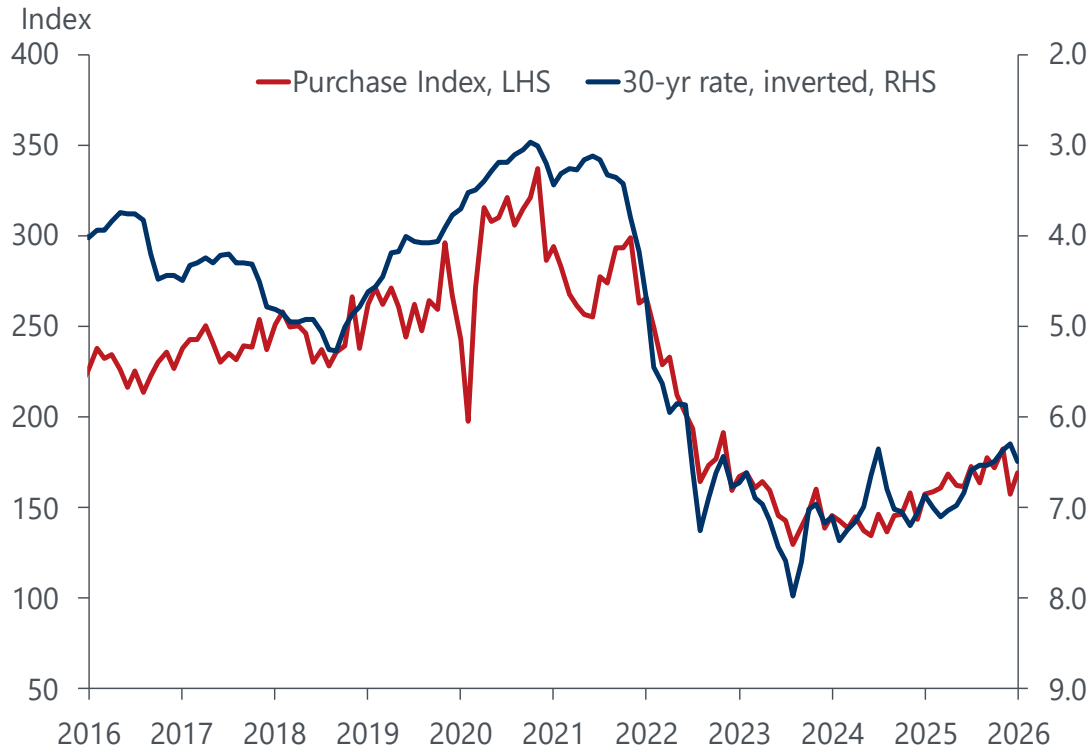
## Key takeaways

- The war with Iran adds fresh headwinds to the housing market. Widening mortgage-backed securities spreads to Treasuries due to increased market volatility and uncertainty have pushed mortgage rates back above 6%, further delaying recovery.
- New home sales fell in January, most likely due to the harsh winter weather. Prices also continued to drift lower as builders offer incentives to clear out the highest level of inventories since 2009.
- The NAHB homebuilder index edged higher in March but is still consistent with a subdued pace of housing starts, suggesting construction activity will lag this year.

# Upward pressure on rates could delay housing recovery

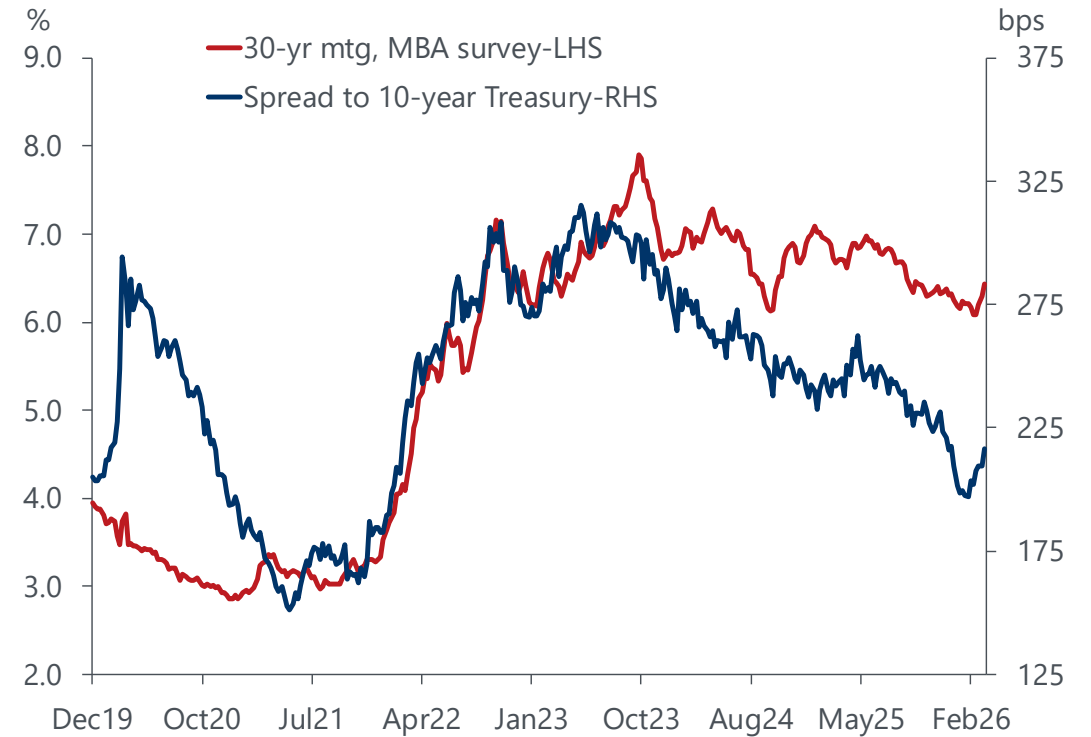


US: Mortgage purchase applications and mortgage rates



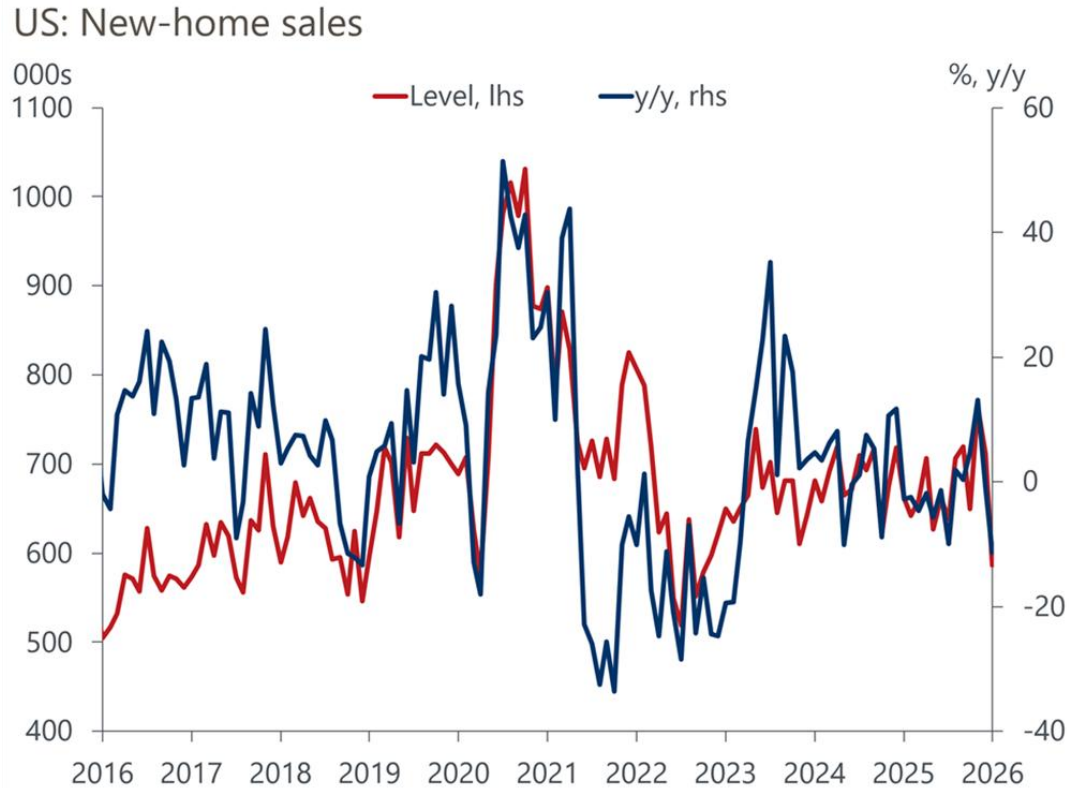
Sources: Oxford Economics, Haver Analytics

US: Mortgage rates and spreads to Treasuries

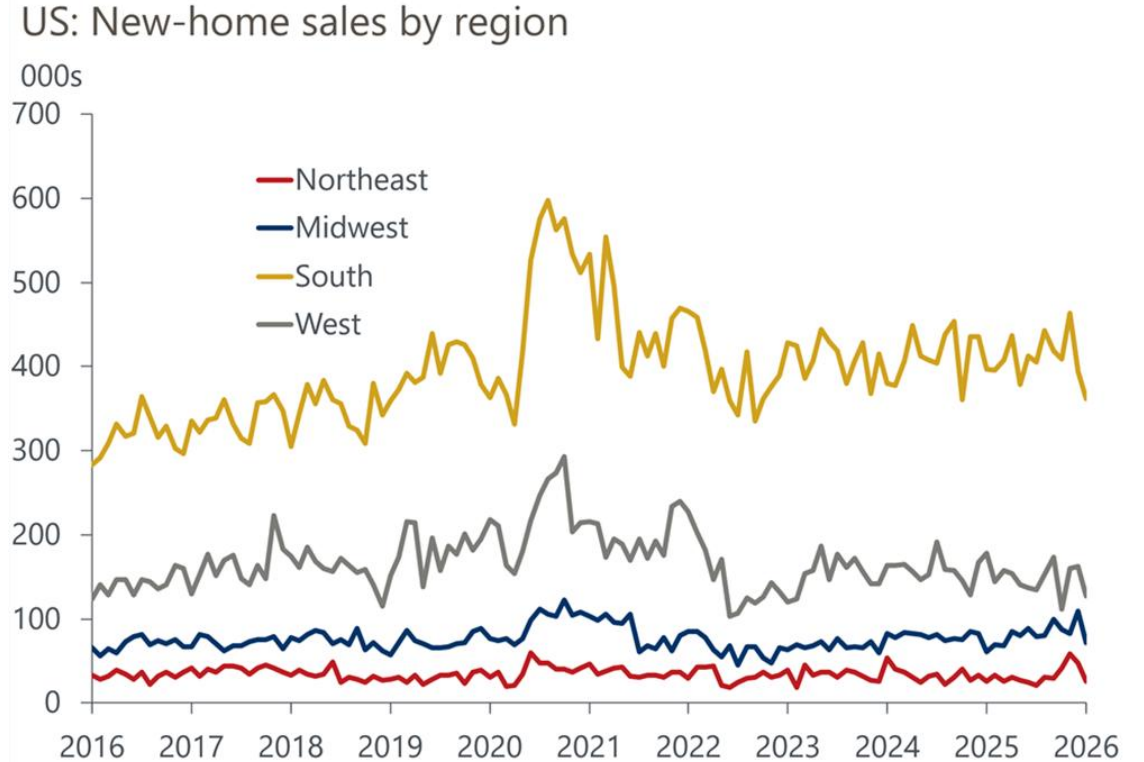


Sources: Oxford Economics, Haver Analytics

# Winter weather depressed home sales across all regions



Sources: Oxford Economics, Haver Analytics

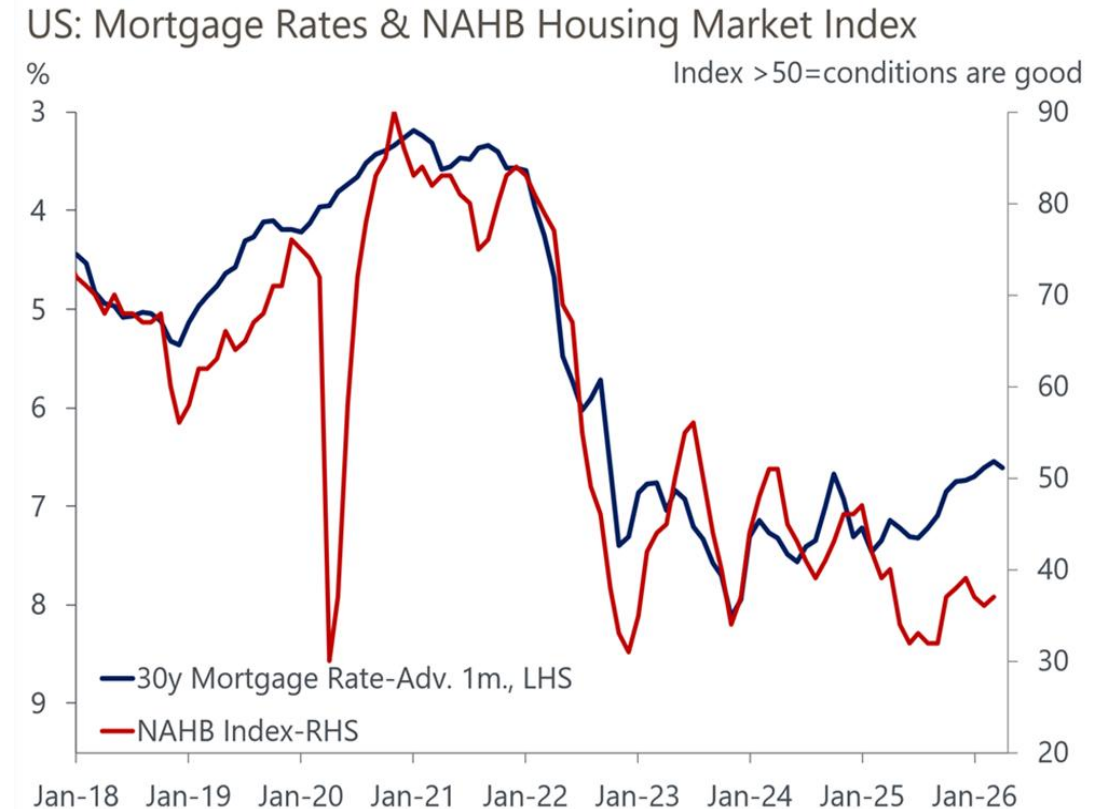


Sources: Oxford Economics, Haver Analytics

# Inventory backlog is also a concern for homebuilders



Sources: Oxford Economics, Haver Analytics



Sources: Oxford Economics, Haver Analytics



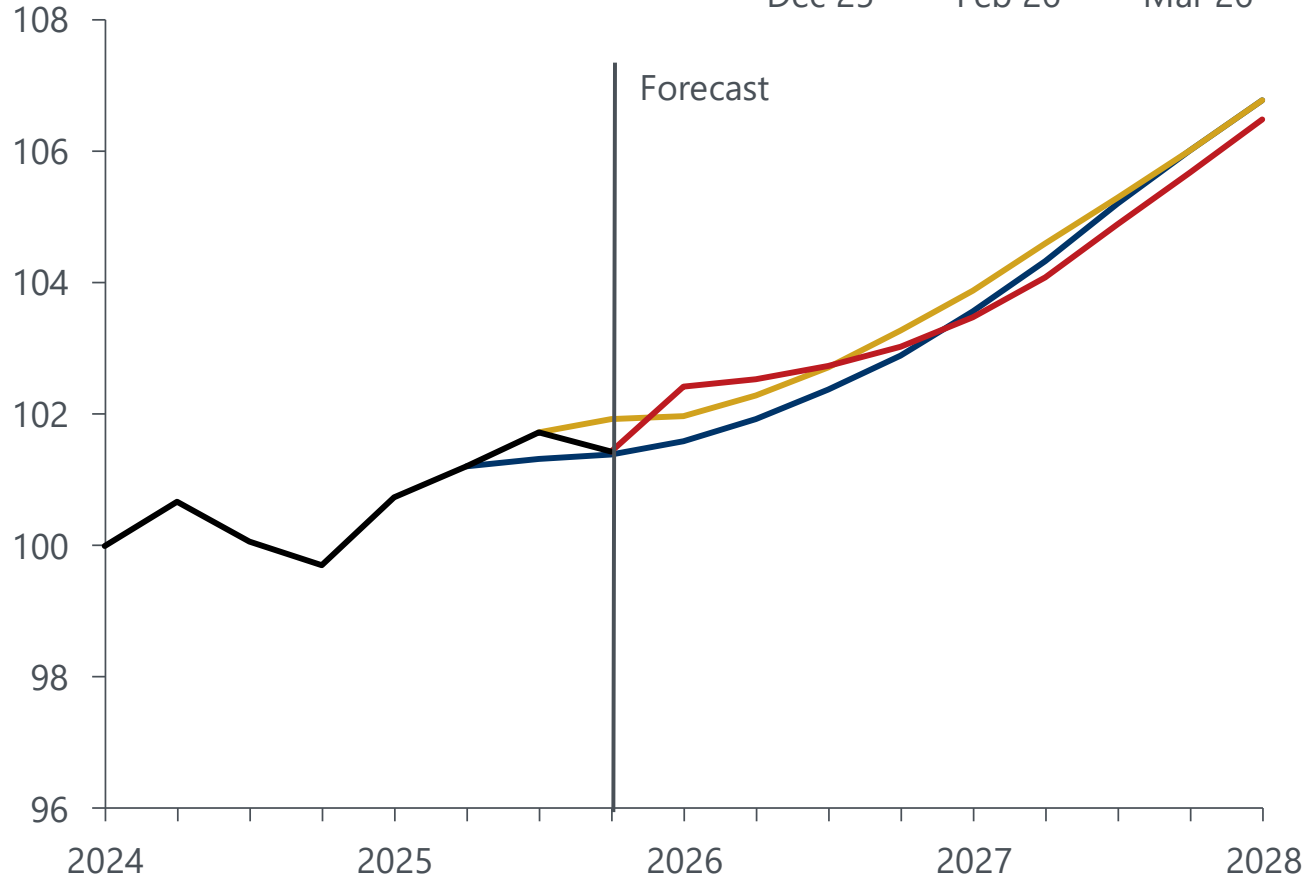
# **Manufacturing sector faces new headwinds**

# Oil shock has mixed impacts on industry

## US: Industrial production by forecast vintage

Index, 2017=100

— Dec 25 — Feb 26 — Mar 26



Sources: Oxford Economics, Haver Analytics

## Key takeaways

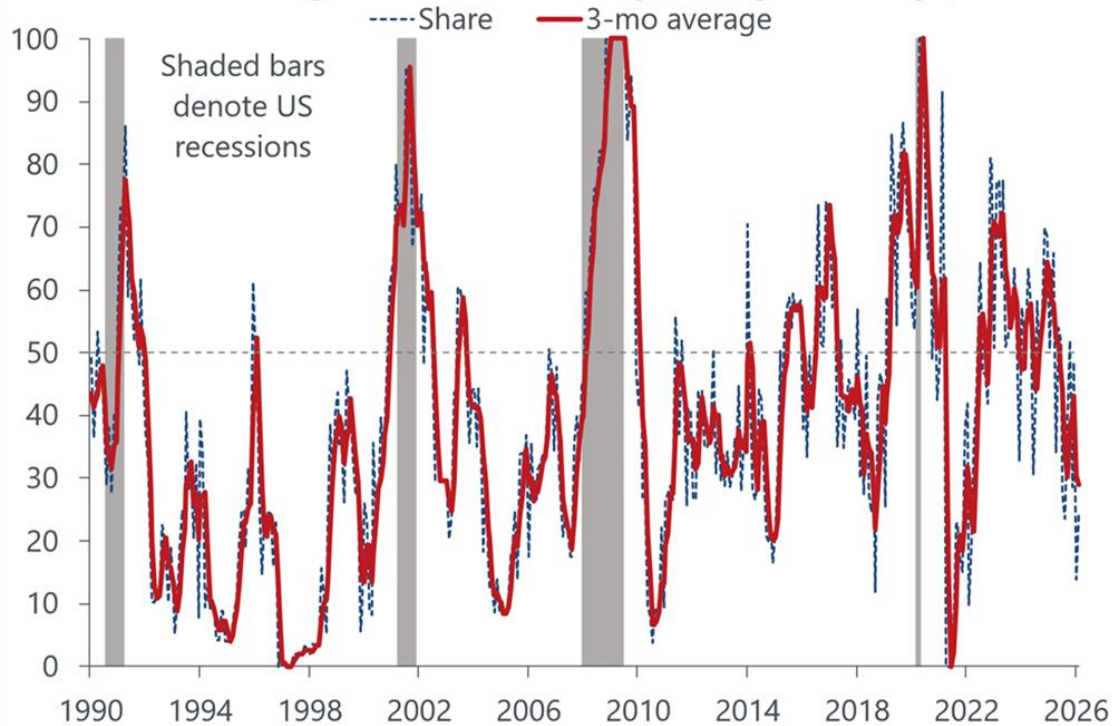
- Industrial production was performing well prior the US/Israel-Iran war, rising to its highest level since summer 2019.
- The oil supply shock lends upside risk to business investment in structures via mining exploration, shafts, and wells. Oil and gas firms have raised their capex plans in response to higher prices.
- Manufacturing factory output will face headwinds, which will increase costs and reduce goods demand by firms. Nonmetallic, minerals, paper, and primary metals factories are most at risk, as energy makes up a larger share of the cost structure in these subsectors.

# Industrial production was solid prior to the war



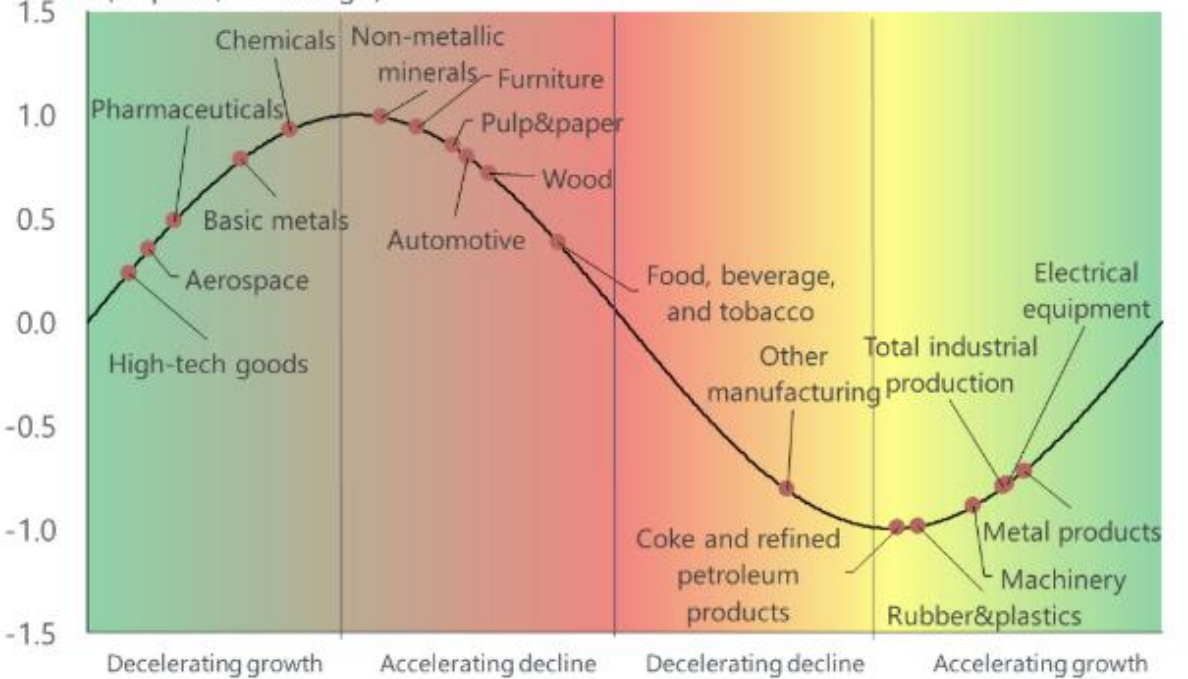
## US: Recessionary manufacturing activity

Share of manufacturing sub-sectors contracting (% weighted average)



Sources: Oxford Economics, Haver Analytics

## US: Industrial production cycle phases (data from Jan 2026)

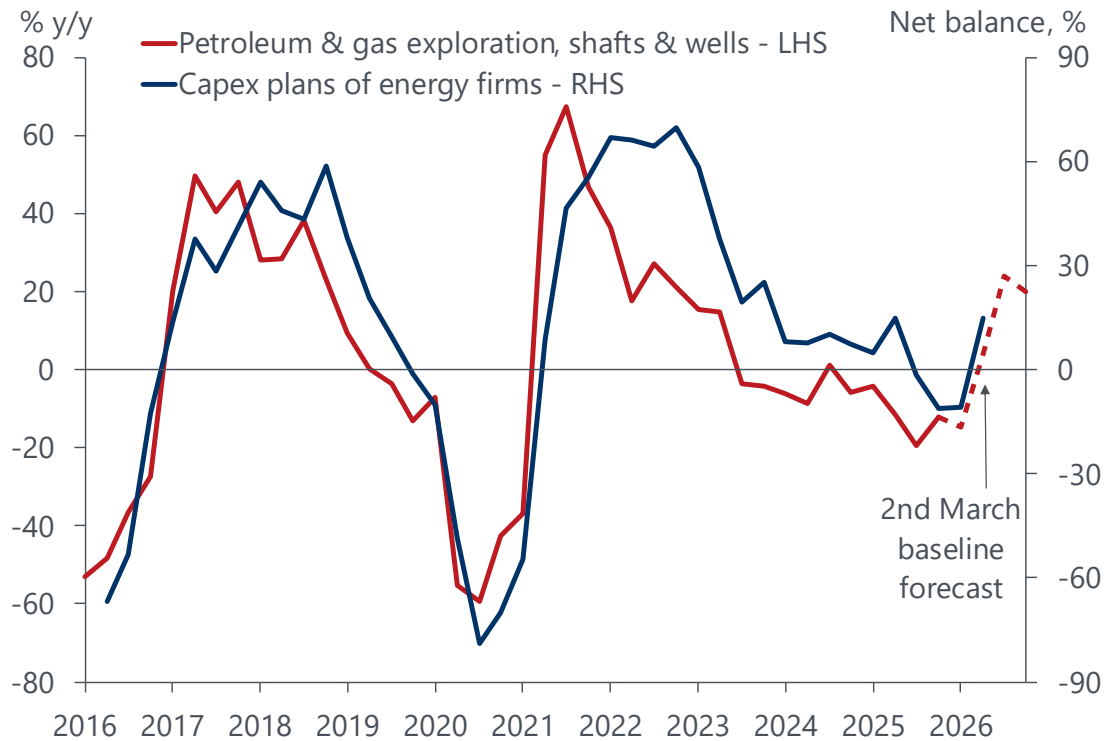


Sources: Oxford Economics, Haver Analytics

# Energy firms raise capex plans, more investment to come

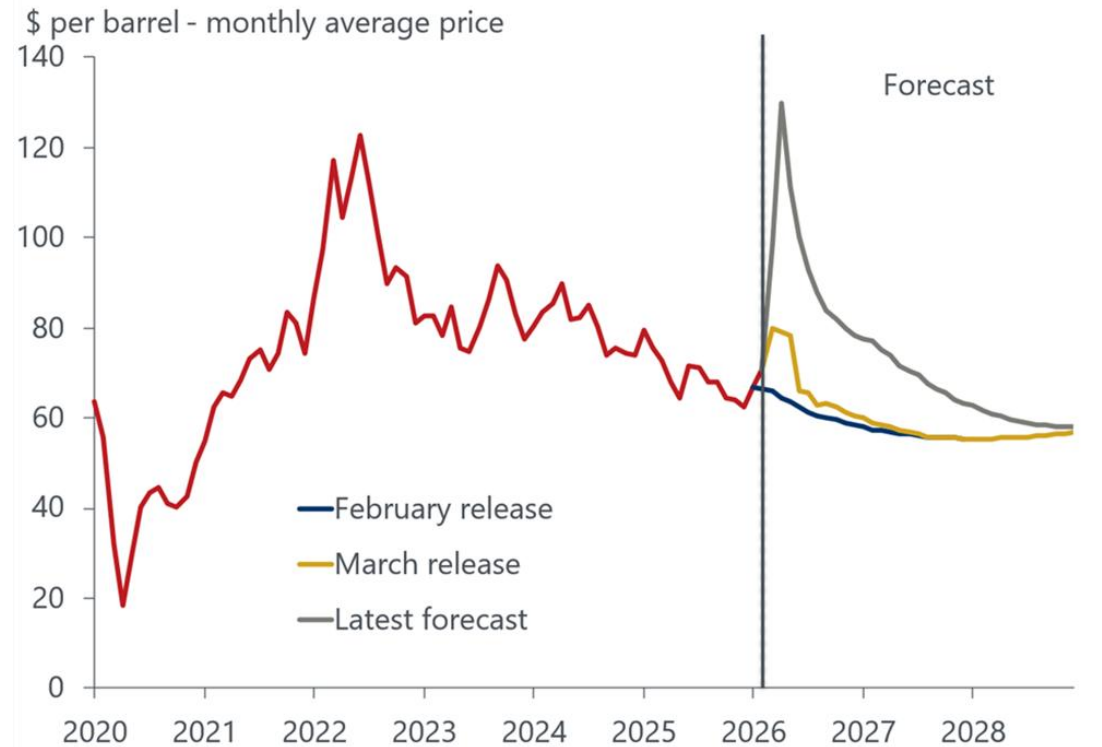


US: Investment & capex intentions of energy companies



Sources: Oxford Economics, Haver Analytics

World: Brent oil price

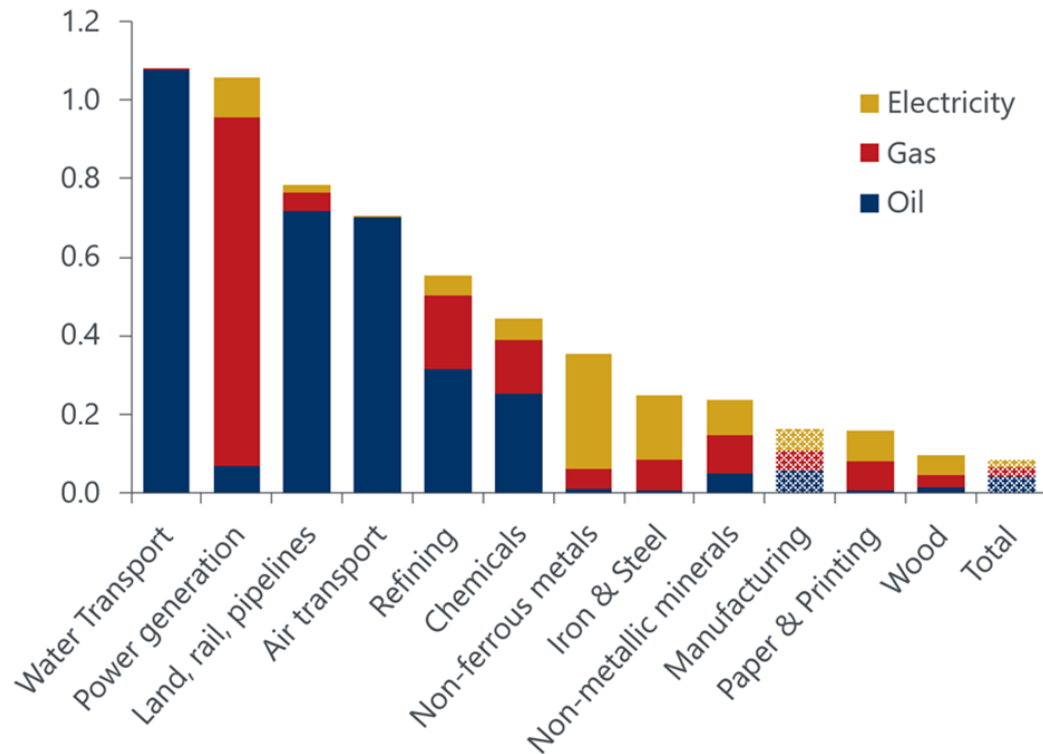


Sources: Oxford Economics, Haver Analytics

# Rising energy costs are a risk to the factory sector

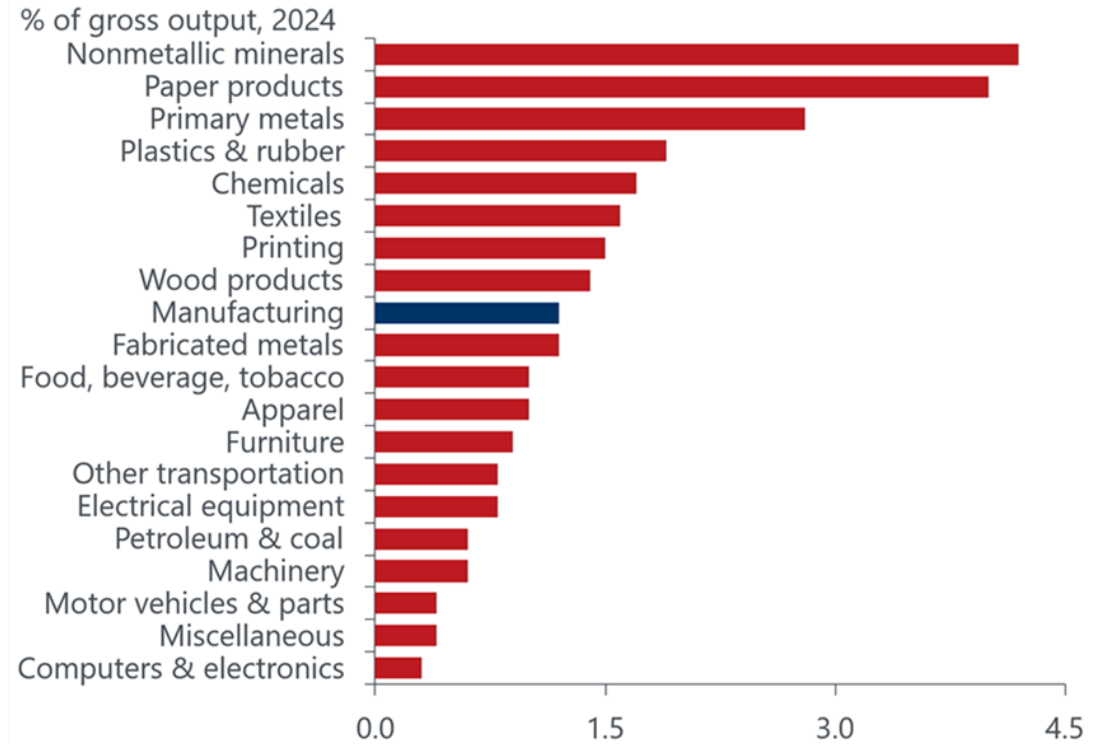


World: Energy intensity across key industries  
mtoe per unit of GVA



Sources: Oxford Economics, Haver Analytics

US: Energy inputs by factory sector



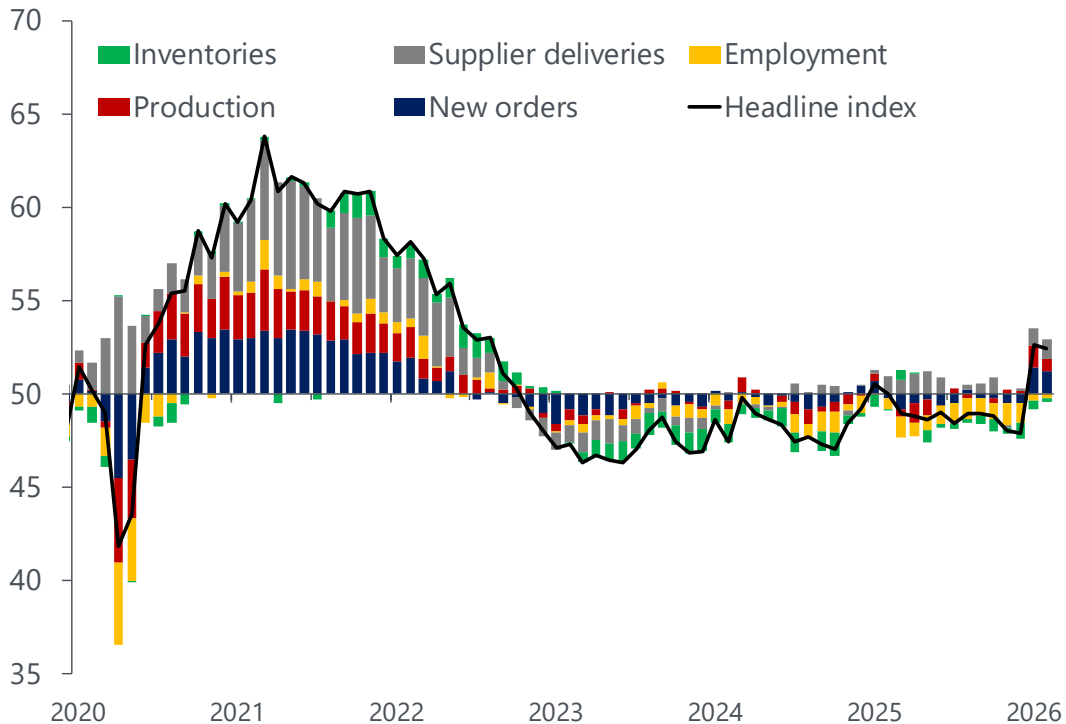
Sources: Oxford Economics, BEA

# ISM manufacturing expanded but employment remains weak



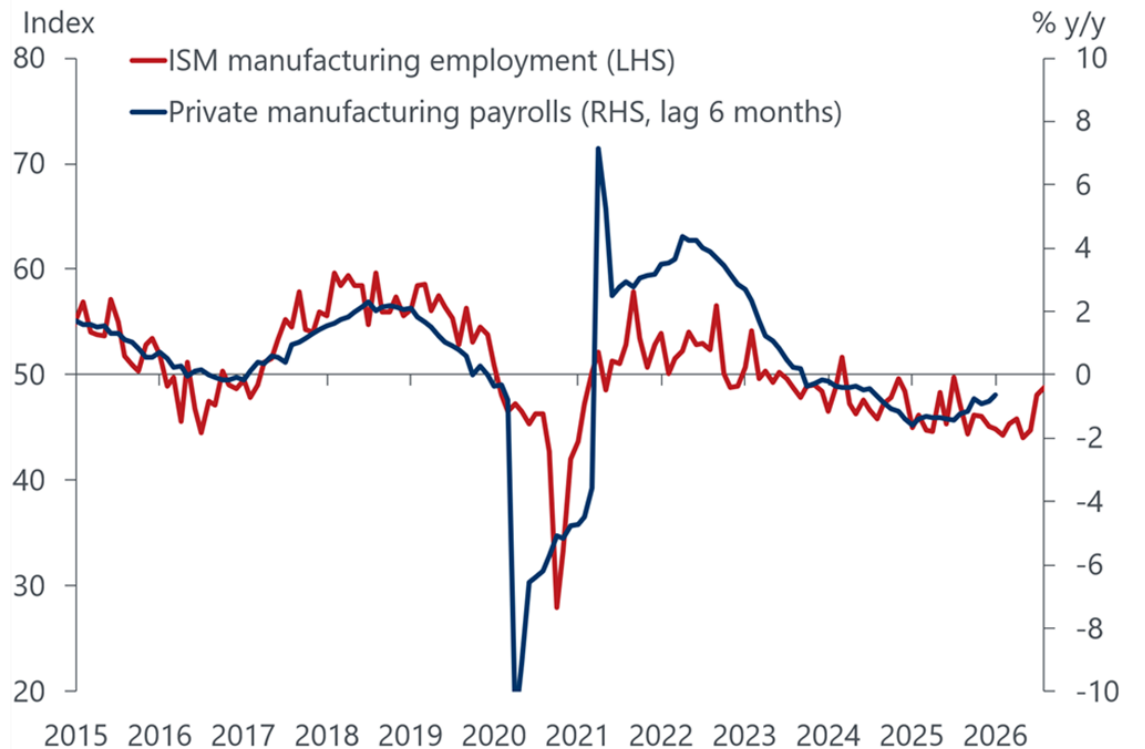
### US: Contribution to ISM Manufacturing

Index; above 50=expansion



Sources: Oxford Economics, Haver Analytics

### US: Manufacturing employment measures



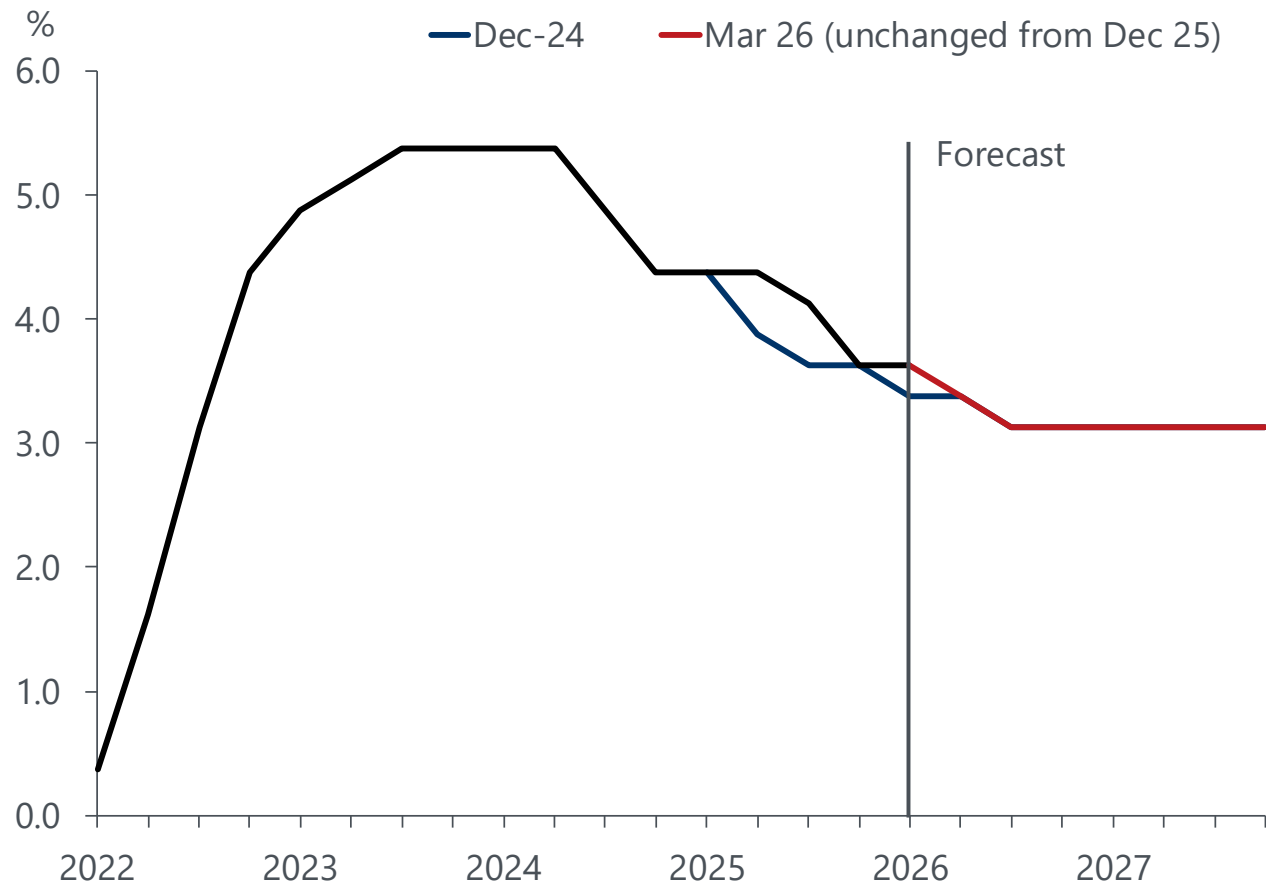
Sources: Oxford Economics, Haver Analytics



# Financial market conditions and the Fed

# Fed to remain on hold in the near term

US: Fed funds rate by forecast vintage



Sources: Oxford Economics, Haver Analytics

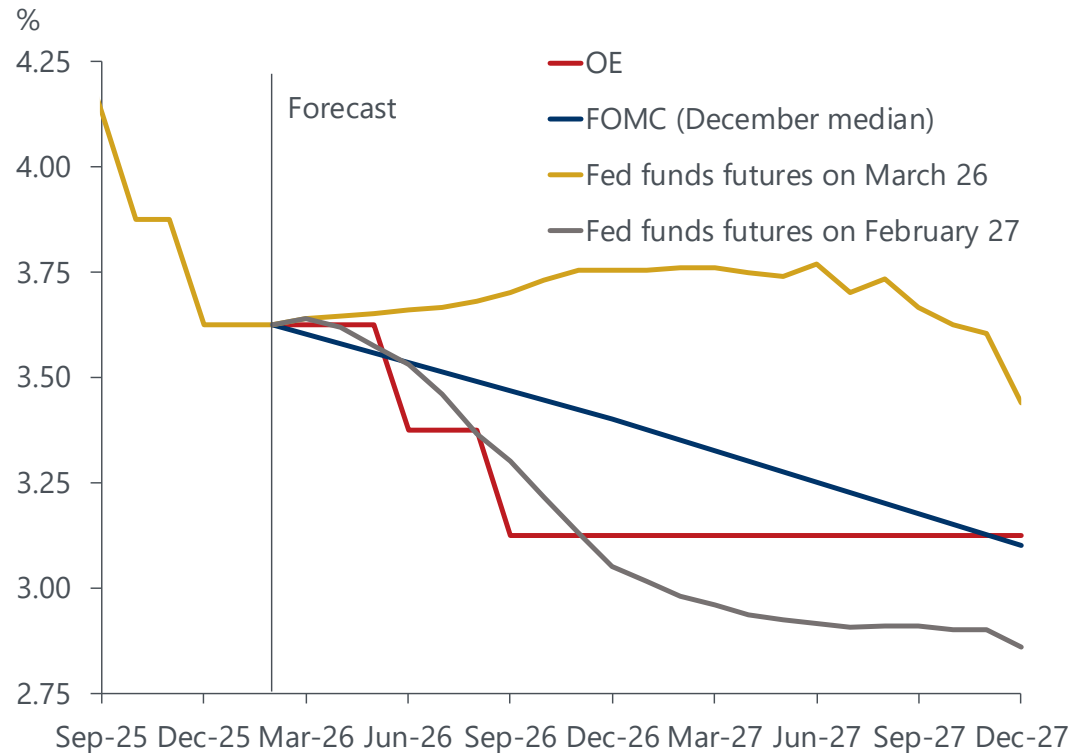
## Key takeaways

- The FOMC left rates unchanged in March. In contrast to market pricing, our forecast is still for the Fed to deliver two 25bps cuts in 2026.
- Assuming inflation expectations remain stable, the Fed is likely to look through any near-term boost to inflation due to increased oil prices. Labor market conditions are far weaker, supply chains less stressed, and housing inflation far lower than during the 2022 energy price shock.
- US equities are well positioned to weather the oil shock and uncertainty from the war. We think the war is unlikely to be the catalyst for a prolonged downturn in stock prices.

# Despite market pricing, FOMC is still likely to cut in 2026



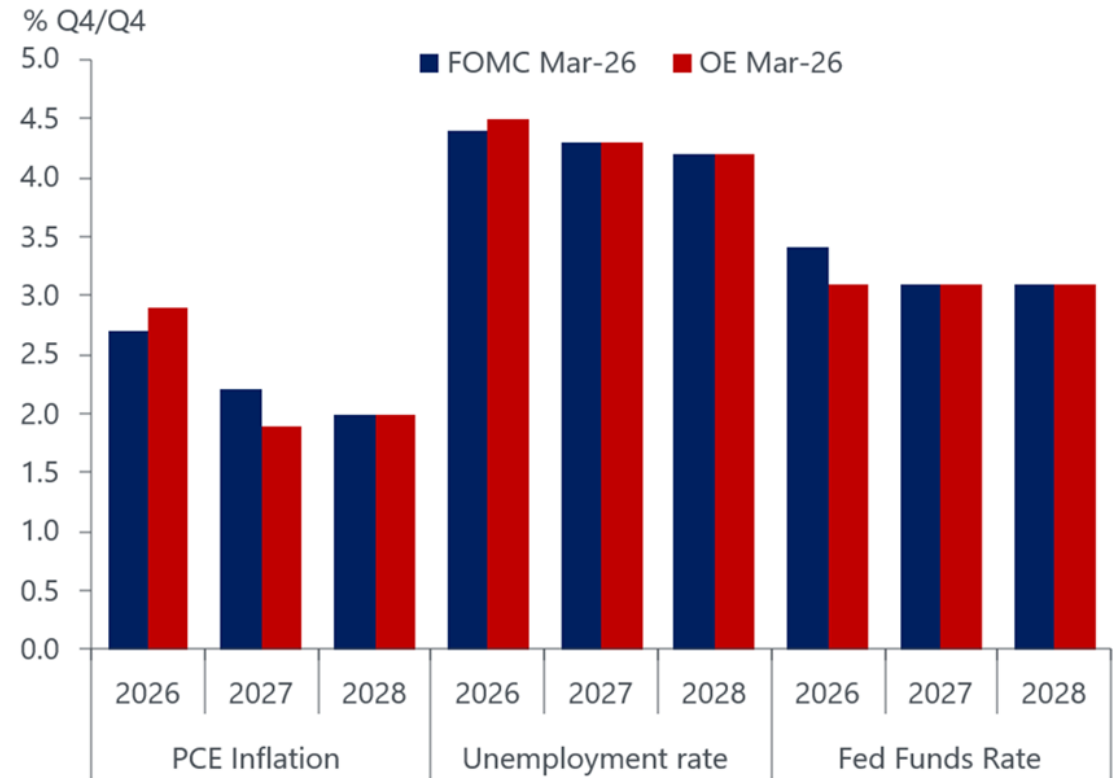
US: Fed funds rate projections



Sources: Oxford Economics, Federal Reserve, Bloomberg

Sources: Oxford Economics, Haver Analytics, Bloomberg

US: Economic Projections

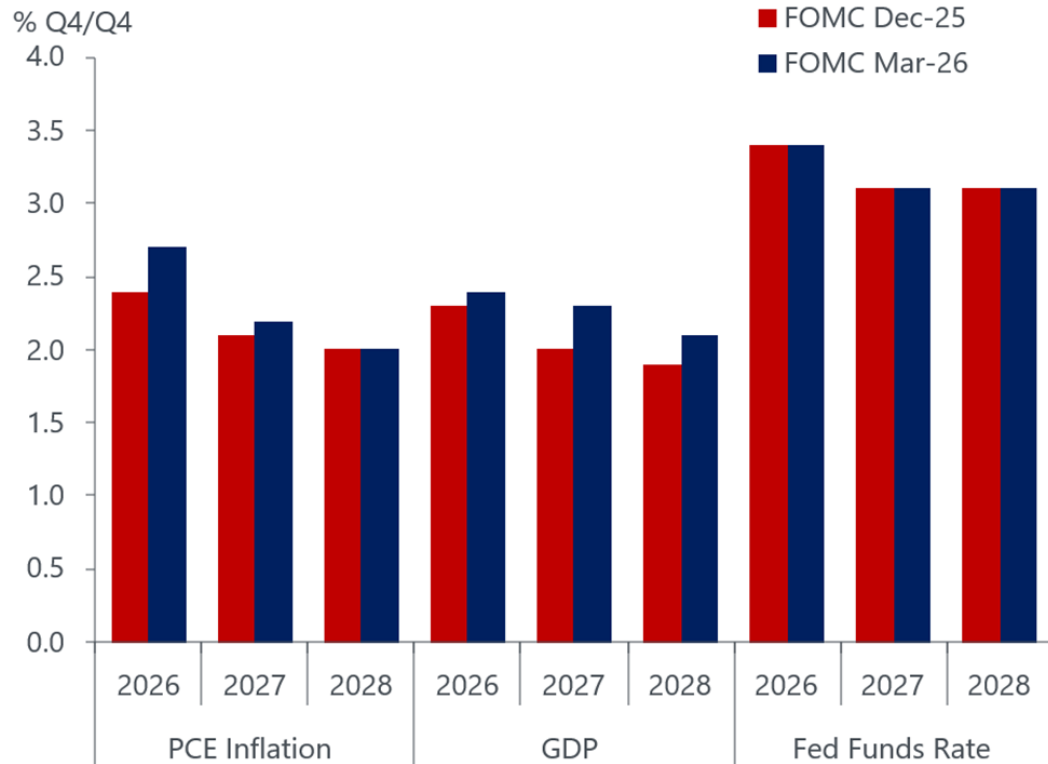


Sources: Oxford Economics, Haver Analytics

# FOMC projects increased inflation and GDP in 2026

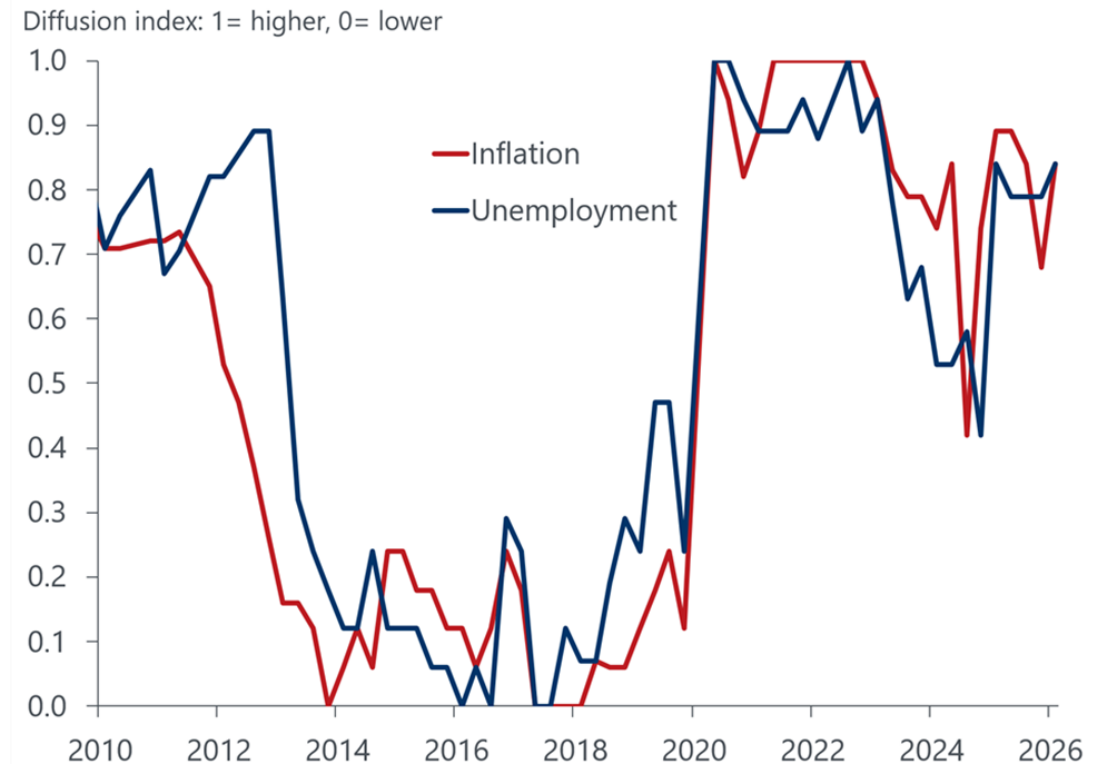


## US: Economic Projections



Sources: Oxford Economics, Haver Analytics

## US: FOMC assessment of forecast uncertainty

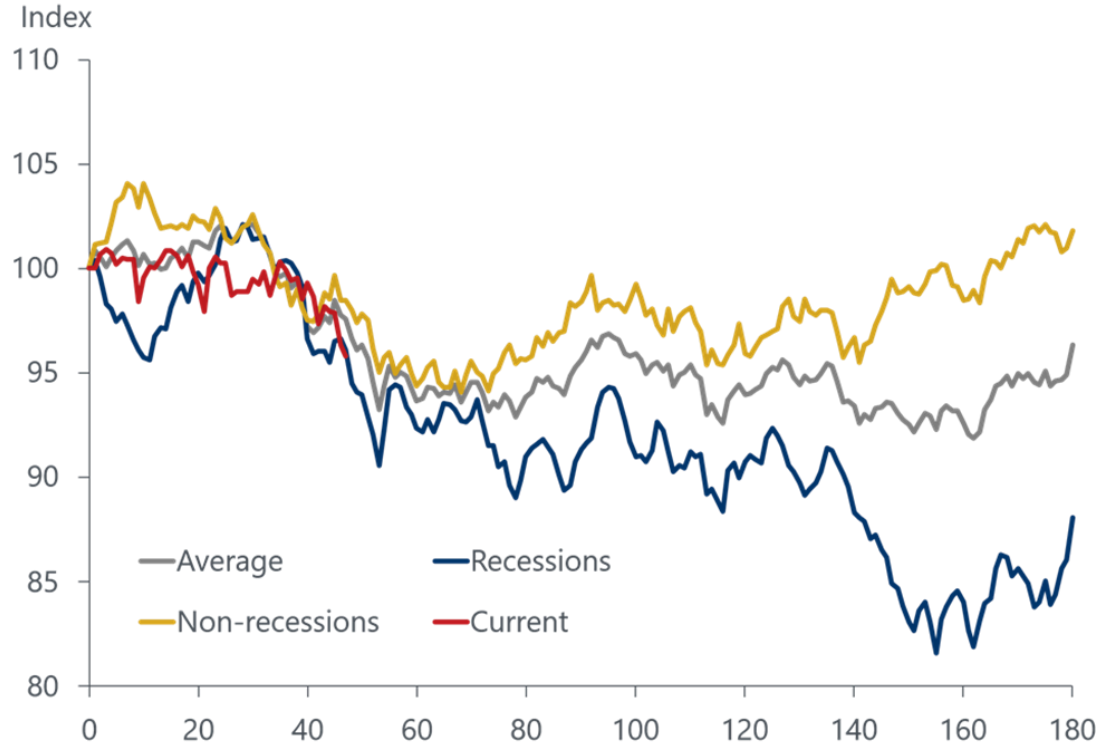


Sources: Oxford Economics, Haver Analytics

# US equities should stay resilient despite ongoing conflict



### US equity returns during significant oil supply shocks



Note: Oil supply shocks = 1974, 1979, 1990, 2003, 2022

Sources: Oxford Economics, LSEG Datastream

### US: Bloomberg Corporate OAS



Sources: Oxford Economics, Bloomberg



# Forecast summary

# US yearly outlook table



<b>Forecast for United States</b>						
<b>(Annual percentage changes unless specified)</b>						
	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>
<b>GDP</b>	2.9	2.8	2.1	2.4	2.7	2.4
<b>Private consumption</b>	2.6	2.9	2.6	1.9	2.7	2.3
<b>Fixed investment</b>	3.8	3.5	2.7	3.4	3.8	3.8
<b>Government consumption</b>	3.0	3.3	0.6	1.9	1.4	1.0
<b>Exports of goods and services</b>	2.8	3.6	1.6	2.3	2.0	2.1
<b>Imports of goods and services</b>	-0.9	5.8	2.7	-0.9	4.0	3.0
<b>Industrial production</b>	-0.2	-0.6	1.2	1.4	1.8	3.0
<b>Consumer price index</b>	4.1	3.0	2.7	3.3	2.1	1.9
<b>Unemployment rate (%)</b>	3.6	4.0	4.3	4.5	4.3	4.2
<b>Current a/c balance (% of GDP)</b>	-3.3	-4.0	-3.7	-3.1	-3.3	-3.3
<b>Government balance (% of GDP)</b>	-6.1	-6.2	-5.8	-6.5	-6.3	-6.1
<b>Central bank policy rate (% EOP)</b>	5.375	4.375	3.625	3.125	3.125	3.125
<b>10yr government. bond yield (% EOP)</b>	3.88	4.58	4.18	4.18	4.20	4.20
<b>Exchange rate (Yen per US\$, EOP)</b>	141.91	156.65	156.43	156.35	151.67	147.13
<b>Exchange rate (US\$ per euro, EOP)</b>	1.11	1.04	1.18	1.17	1.18	1.18

Source: Oxford Economics

# US quarterly outlook table



Quarterly forecasts for US								
	2025	2025	2026	2026	2026	2026	2027	2027
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
<b>GDP (% chg, saar)</b>	4.4	0.7	3.7	1.1	2.0	2.6	3.2	3.0
<b>CPI inflation (% year)</b>	2.9	2.8	2.8	3.9	3.3	3.1	2.8	1.7
<b>Core CPI inflation (% year)</b>	3.1	2.8	2.6	2.8	2.7	2.8	2.6	2.4
<b>PCE inflation (% year)</b>	2.7	2.8	2.9	3.7	3.3	3.1	2.6	1.7
<b>Core PCE inflation (% year)</b>	2.9	2.9	2.9	2.9	2.8	2.7	2.2	2.0
<b>10-year Treasury yield (% EOP)</b>	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
<b>Federal funds rate (% EOP)</b>	4.125	3.625	3.625	3.375	3.125	3.125	3.125	3.125

Source: Oxford Economics

# Fiscal Policy Assumptions



<b>Permanent Version in the One Big Beautiful Bill Act as Assumed in the Baseline Forecast</b>												
<i>Estimated Budgetary Effects Relative Current Policy</i>												
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2025-2029	2025-2034
<b>Net Deficit Impact</b>	<b>-46,962</b>	<b>270,653</b>	<b>153,507</b>	<b>134,089</b>	<b>73,542</b>	<b>14,477</b>	<b>-29,525</b>	<b>-55,489</b>	<b>-29,925</b>	<b>-19,544</b>	<b>584,828</b>	<b>464,819</b>
TCJA Expansions	21,878	89,657	82,395	87,036	82,709	87,131	91,987	95,447	100,226	103,535	363,677	842,003
Campaign Tax Proposals	2,663	54,773	44,970	44,603	48,447	51,633	53,645	55,045	56,624	58,380	195,456	470,783
Investment Incentives	100,034	128,307	100,156	83,070	61,882	40,132	22,144	15,018	13,118	12,703	473,449	576,564
Defense	2,020	41,864	44,677	45,741	47,868	48,932	51,059	52,123	54,251	55,314	182,170	443,850
Border Security/Immigration	0	13,683	25,455	35,890	37,966	38,533	41,349	41,490	42,902	44,281	112,994	321,549
IRA Recissions (Outlays)	-857	-1,027	-1,316	-937	-607	-360	-112	0	0	0	-4,744	-5,216
IRA Recissions (Tax Credits)	138	-11,276	-36,791	-53,755	-67,749	-79,073	-86,370	-94,397	-60,658	-52,728	-169,433	-542,659
Social Benefits Cuts (Medicaid)	-835	-21,813	-54,248	-73,117	-106,367	-127,074	-146,220	-156,518	-170,171	-186,243	-256,380	-1,042,606
Social Benefits Cuts (SNAP)	0	-7,961	-16,116	-21,645	-21,744	-21,748	-21,565	-24,743	-25,150	-25,268	-67,466	-185,940
Social Benefits Cuts (Other health)	4	-4,047	-11,992	-16,518	-12,543	-9,233	-10,715	-12,274	-14,706	-16,533	-45,096	-108,555
Other (Spending)	-171,940	-9,411	1,144	-7,304	-11,174	-23,155	-31,933	-33,690	-28,685	-19,642	-198,685	-335,790
Other (Revenue)	-68	-2,097	-24,828	11,024	14,853	8,759	7,206	7,009	2,324	6,656	-1,114	30,836

Source: Oxford Economics

# Major tariff assumptions



Tariff assumptions in our baseline		
Tariffed countries	US tariffs	Retaliation measures
<b>US / Canada</b>	50% tariffs on steel, aluminium, and copper, 10% on lumber, 25% on furniture, 25% on the non-US content of USMCA-compliant autos and trucks, 10% on non-USMCA-compliant energy and potash, and 15% on many other non-USMCA-compliant products. USMCA compliance is high, so the effective tariff rate peaks at just 4.5%. We assume most tariffs are removed by Q3 2026 as the USMCA is renegotiated, but smaller 10% targeted tariffs remain in place permanently for metals and select agricultural products.	25% counter tariffs on C\$15.6bn of US steel and aluminum products and C\$36bn of US autos. We estimate that C\$31.6bn of US auto imports are eligible for tariff relief under the auto remission framework until mid-2026. Most tariffs are assumed to be removed by Q3 2026 as the USMCA is renegotiated, but smaller 10% targeted tariffs remain in place permanently for steel and aluminium products.
<b>US / Mexico</b>	Tariffs of 50% on steel, aluminium, and copper, 10% on lumber, 25% on furniture, 10% on non-USMCA-compliant potash, 15% on non-USMCA goods and 25% on the non-US content of autos and trucks. As with Canada, USMCA compliance has risen sharply. As a result, the average tariff rate on Mexico is estimated to peak at 8.4% this year. We assume these tariff hikes are largely reversed in mid-2026 when a new USMCA trade deal is agreed.	Mexico does not retaliate and instead concedes to US demands on border security, hoping to secure a reduction in the current tariff on non-USMCA-compliant exports and autos.
<b>US / EU</b>	The 50% tariff on steel, aluminium, and copper apply to the EU. However, the EU-US trade deal imposes a 15% tariff ceiling for EU goods subject to reciprocal tariffs. The 15% flat rate also applies to autos, auto parts, and furniture, not to mention additional product categories such as pharmaceuticals and semiconductors that are subject to Section 232 trade investigations. For now, the baseline is holding off from assuming a 15% tariff on pharma and chips until more details are known. The US cut tariffs on aircraft and parts to zero as part of the deal.	We assume no retaliation from EU countries, even if the trade deal with the US signed in July 2025 is now under question and ratification has been postponed.
<b>US / China</b>	We estimate the Supreme Court ruling helped push the effective tariff rate on China down to 20%, from closer to 30% previously. The administration has authority to increase or widen the scope of existing Section 301 tariffs on most imports from China, but has so far not opted to do so.	Revised bilateral trade terms in October brought China tariffs on US goods down to around 18%, from around 30% previously. Under those terms China would also suspend retaliatory non-tariff countermeasures taken against the US since March - including restrictions on export licenses valid for critical minerals and the listing of certain American companies on China's unreliable entity lists. We expect the effective tariff rate to stay at the new current level, despite still-meaningful risks that a re-escalation of bilateral tensions could drive tariffs back up again.

Source: Oxford Economics



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