

THE U.S. ECONOMY IS STILL GROWING

BUT THE CONSUMER IS CARRYING MORE OF THE LOAD THAN IT MAY APPEAR

The latest reading on U.S. economic growth was steady, even if it came in slightly below expectations. First-quarter GDP expanded at a 2.0% annualized rate. That is not a weak number. It remains above what many economists view as the economy's long-term trend.

But as is often the case, the headline does not tell the full story. To understand where the economy may be headed next, it helps to look beneath the surface, especially at the U.S. consumer.

A SLOWER, BUT STILL CRITICAL, CONSUMER

Consumer spending, which drives roughly two-thirds of U.S. economic activity, continued to grow, but at a more modest pace. Spending increased at a 1.6% annual rate, down from 1.9% in the prior quarter.

That is not alarming by itself. The more important question is whether the current pace of spending is sustainable. The personal saving rate declined during the quarter. That suggests

some households may be relying more on savings, or potentially credit, to maintain their current spending. If energy prices rise in the near term, that pressure could increase. In practical terms, consumers are still supporting the economy, but with less cushion than before.

BUSINESS INVESTMENT IS SURGING, BUT IT IS NOT A SUBSTITUTE

At the same time, business investment, particularly in technology, has accelerated. Spending on digital equipment and software has climbed sharply, reflecting continued momentum in artificial intelligence and related infrastructure.

That is a positive development. Business investment can support productivity, innovation, and longer-term economic growth. Still, it is important not to overstate its ability to offset a slowing consumer.

Consumer spending remains such a large share of GDP that even modest growth can make a meaningful contribution to overall economic activity. Investment is

rising quickly, but it starts from a smaller base.

There is also a technical point worth noting. Some inputs needed for this investment, such as imported technology components, are counted as imports. Imports subtract from GDP. As a result, the net boost to growth may be smaller than some headlines suggest.

A SHIFTING DYNAMIC WORTH WATCHING

Historically, strong business investment and strong consumer spending have often moved together. In prior economic cycles, including the technology expansion of the 1990s, consumer demand helped justify and sustain corporate investment.

Today, that relationship appears to be changing. Investment, particularly in AI-related infrastructure, may be running ahead of consumer demand rather than responding to it. That is not necessarily negative, but it does add uncertainty. If consumer spending continues to soften, businesses may eventually reassess the pace of their investment.

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*“The big money is
not in the buying
and selling, but
in the waiting.”*

- CHARLIE MUNGER

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(continued)

WHAT THIS MEANS FOR INVESTORS

For investors, the takeaway is not that the economy is weakening dramatically. It is not. Growth remains positive, and key areas of investment are strong. But the balance within the economy is changing.

The consumer remains resilient, but households appear more sensitive to higher costs. Business investment is strong, but it cannot fully offset shifts in consumer spending. External factors, including energy prices, could influence both consumers and businesses in the months ahead.

A useful way to think about the current environment is this: the economy is still expanding, but with less margin for error.

That does not call for dramatic changes in long-term investment strategy. It does reinforce the

importance of diversification and a portfolio aligned with your goals, time horizon, and risk tolerance, particularly when different parts of the economy are moving at different speeds.

As always, we will continue to monitor these trends and keep you informed as the picture evolves.

Sources: U.S. Bureau of Economic Analysis & Consumer Spending / Personal Income & Outlays, Trading Economics

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IN OBSERVANCE OF MEMORIAL DAY.**