

MOODY'S

Economic Q&A

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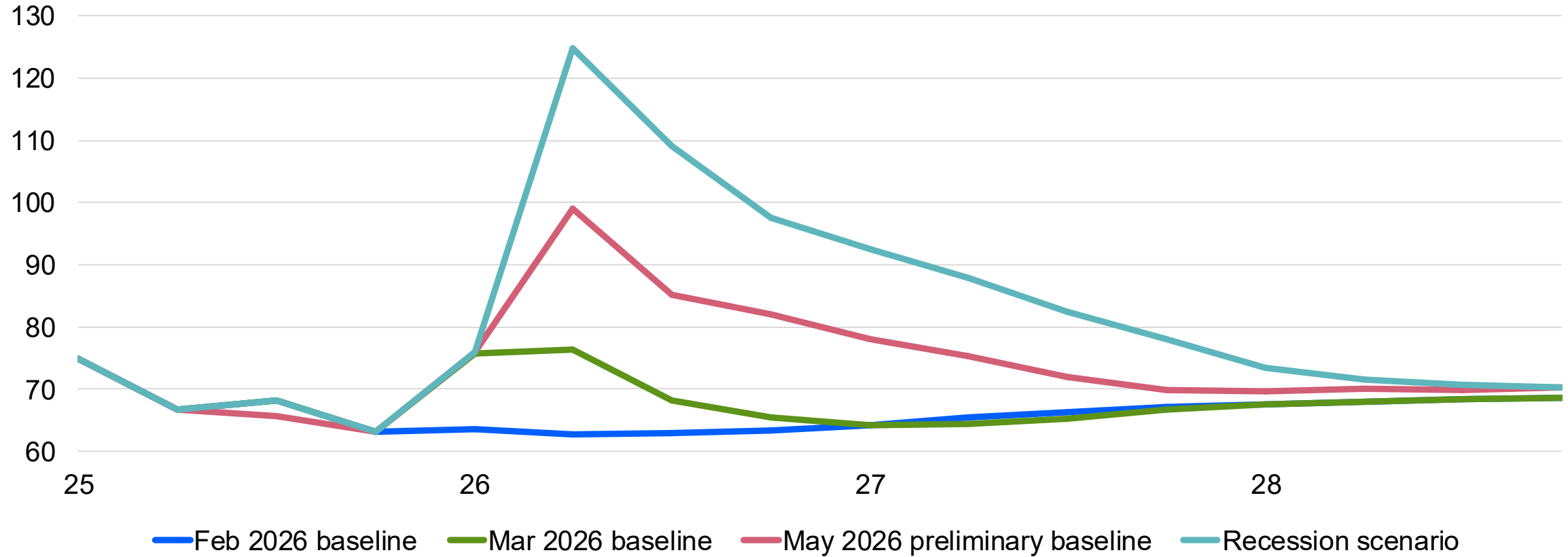
May 2026

Iran War Update

What is your latest forecast for how the Iran war will play out? When will it end? Have you changed your forecast at all since your last update?

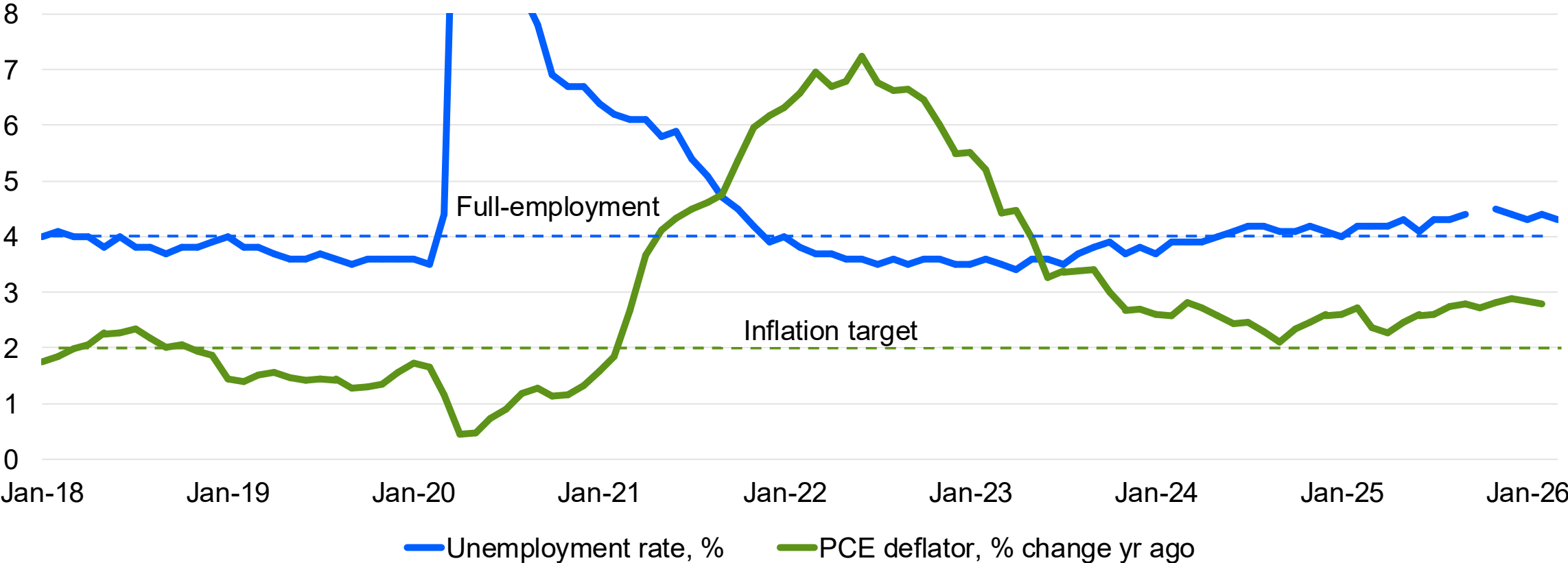
Iran War Does Economic Damage...

Brent crude price, \$/bbl



Source: Moody's Analytics

...And Complicates Things for the Federal Reserve



Sources: BLS, BEA, Moody's Analytics

Economic Headwinds and Tailwinds

Contribution to real GDP growth, Q4 to Q4, ppt

	2025	2026
Real GDP growth, %	2.03	2.04
<i>Change in real GDP growth</i>	<i>-0.37</i>	<i>0.01</i>
Iran war	0.00	-0.31
Deglobalization	-0.98	-0.59
Tariffs and trade restrictions	-0.59	-0.26
Restrictive immigration policy	-0.39	-0.33
Artificial intelligence	0.52	0.50
Capital investment	0.18	0.26
Stock wealth effects	0.34	0.24
Economic policy	0.09	0.41
Monetary policy	0.18	0.03
Fiscal policy	-0.09	0.38

Note: Based on the preliminary May 2026 baseline forecast.

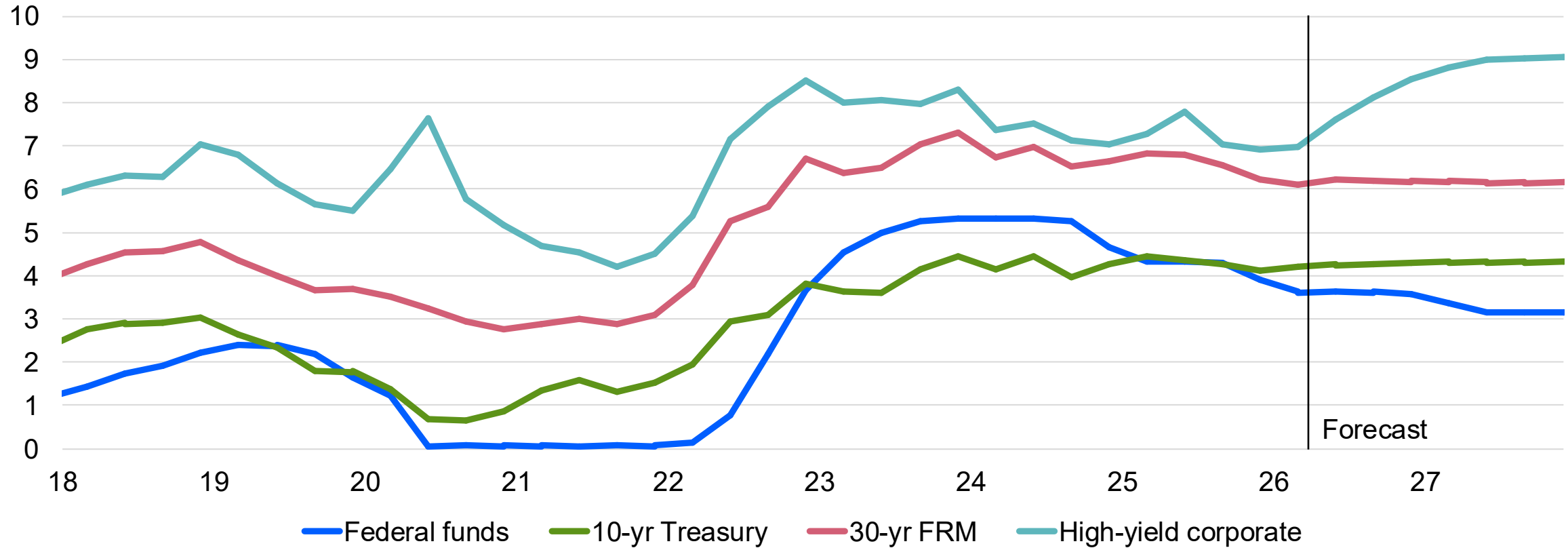
Sources: BEA, Moody's Analytics

Monetary Policy and the Federal Reserve

Kevin Warsh is all but certain to be the next Fed Chair starting May 15, and Jerome Powell has indicated that he will stay on the board “for some time” until he’s certain that Fed independence is secure. What does this mean for monetary policy over the next couple of years? Does this increase the likelihood of more attacks on the Fed from the administration? Will Warsh stick to his guns?

Interest Rates Flatline as Fed Expected to Pause for Rest of the Year

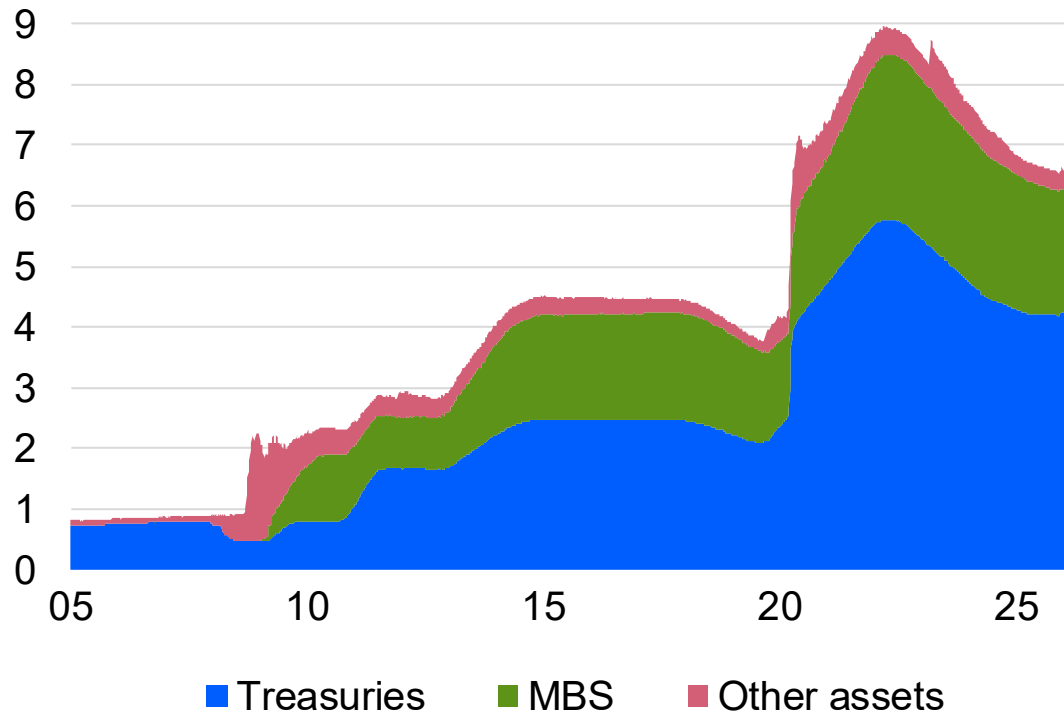
U.S. interest rates, %, Apr 2026 baseline economic outlook



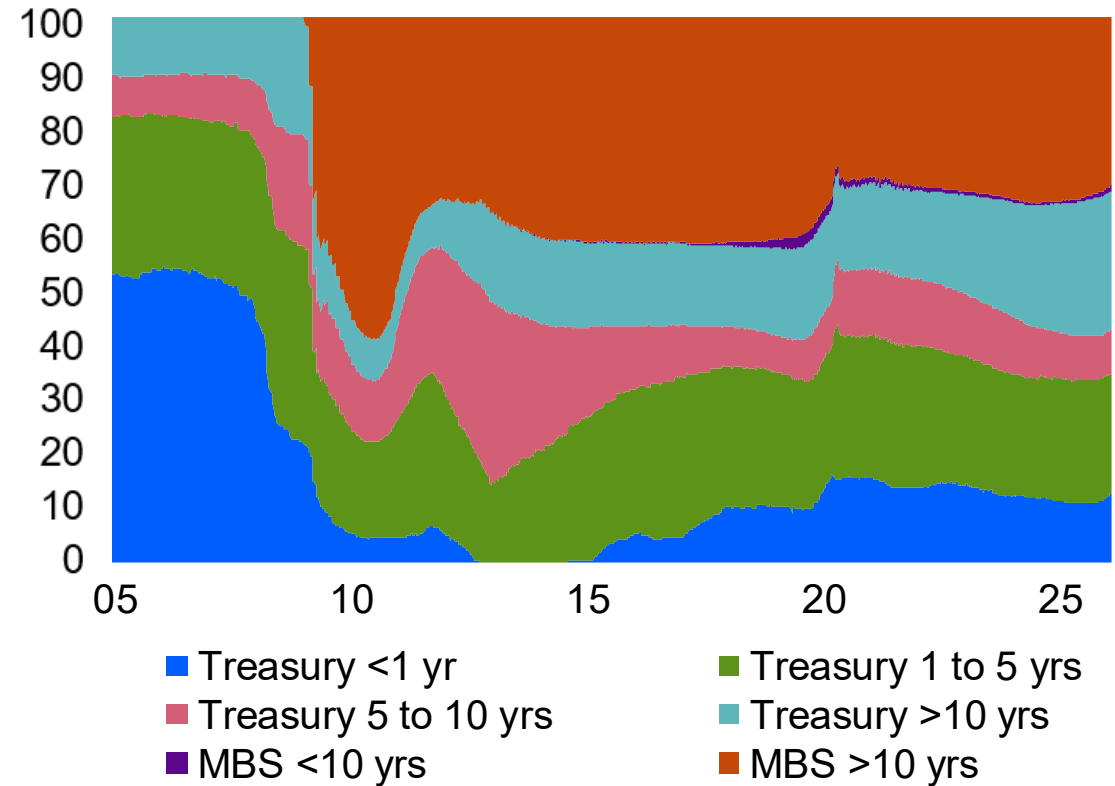
Sources: Federal Reserve, Freddie Mac, ICE, Moody's Analytics

Balance Sheet Reduction May Be Difficult

Fed assets, \$ tril



Maturity composition, %



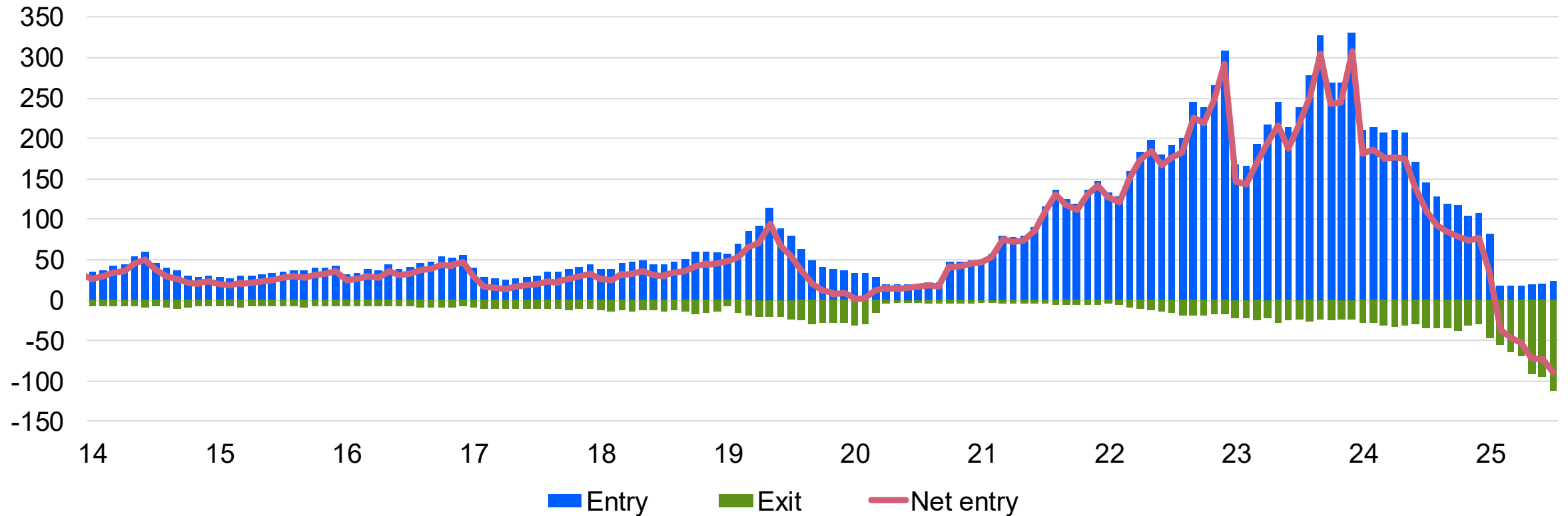
Sources: Federal Reserve, Moody's Analytics

Job Market and Immigration

Since President Trump entered office, he has dramatically curtailed both legal and illegal immigration into the U.S. What has been the impact on the U.S. economy so far? How is this affecting the labor market, if at all? Do we see this policy change reflected in other segments of the economy?

Unauthorized Immigration Declined Sharply in 2025...

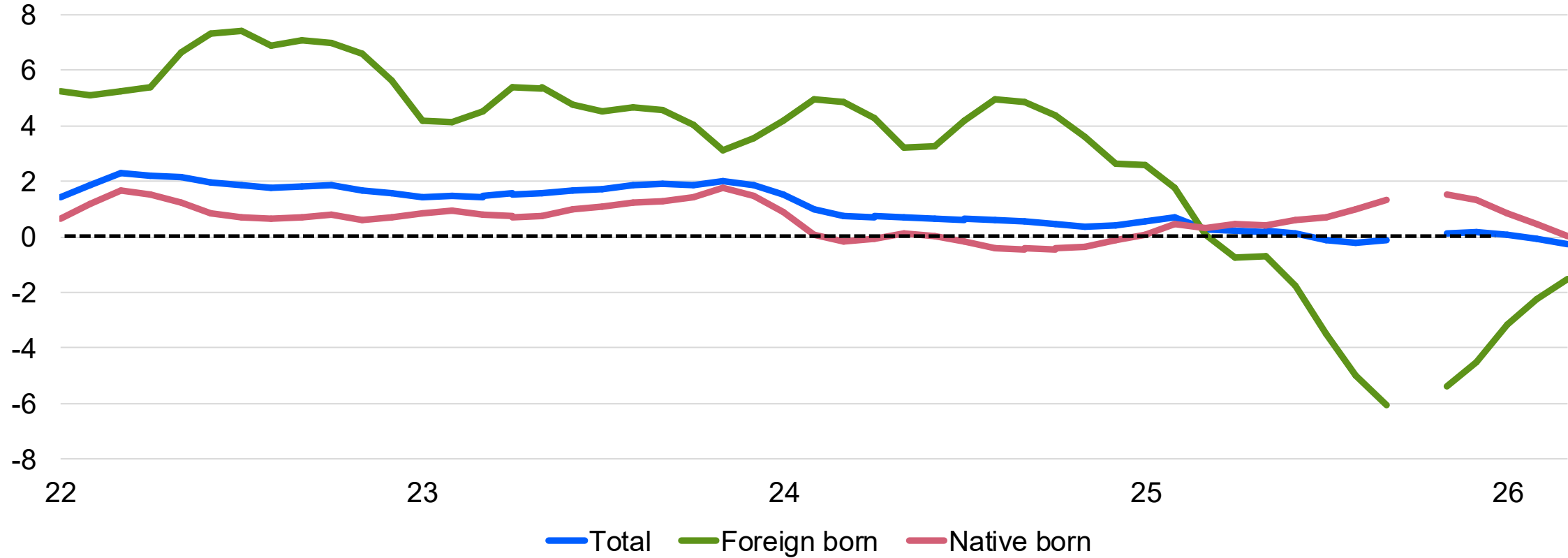
Monthly entries and exits, ths



Sources: Dallas Fed, Moody's Analytics

...Slamming the Job Market

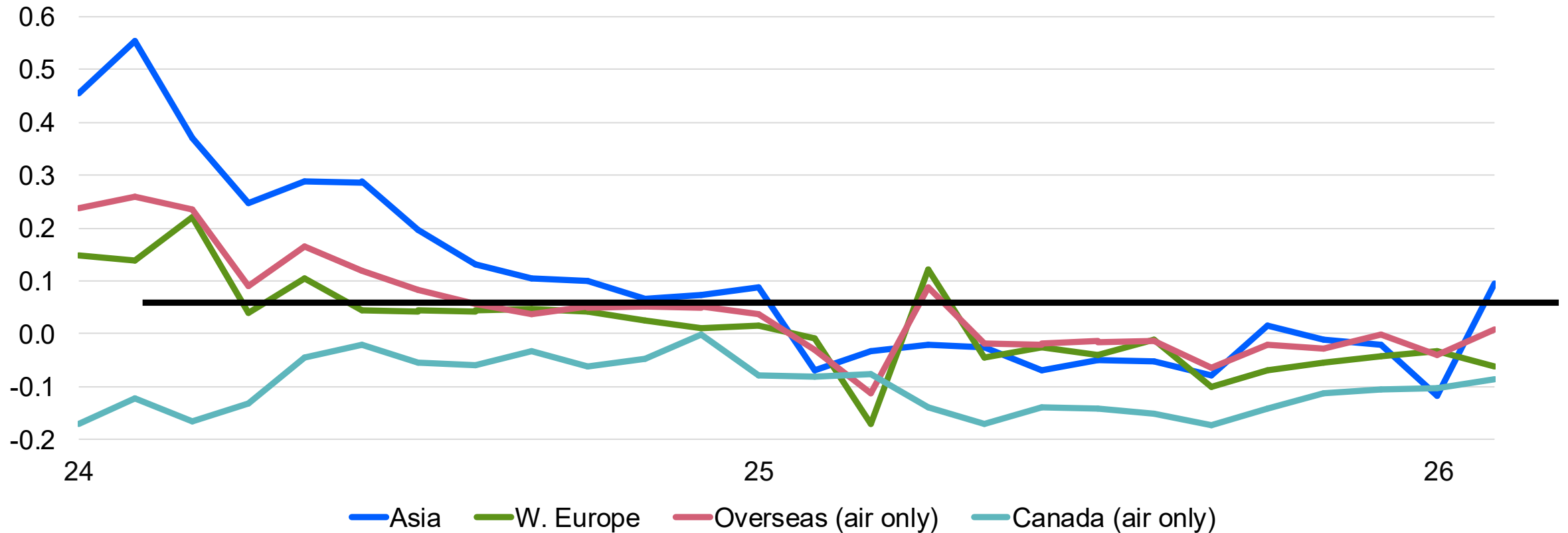
Labor force, % change yr ago, 3-mo MA, adjusted for Jan 2025 population controls



Sources: BLS, Moody's Analytics

International Travel Has Weakened, Especially Among Canadians

Labor force, % change yr ago, 3-mo MA, adjusted for Jan 2025 population controls

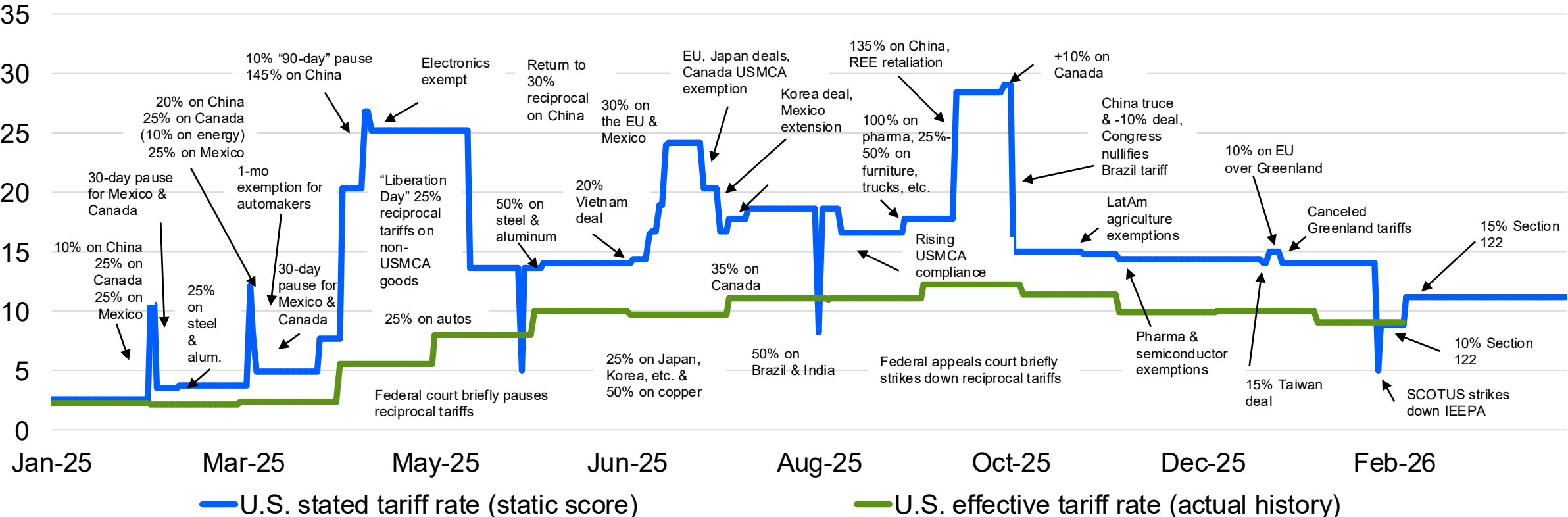


Sources: International Trade Administration, Moody's Analytics

Tariffs

The Supreme Court ruled that President Trump's Liberation Day tariffs were illegal, negating the tariffs put in place under the International Emergency Economic Powers Act. Now the federal government must repay importers for those illegal tariffs. How will this work? Will it have any significant economic impact? What does this mean for the federal budget?

On the Tariff Roller Coaster

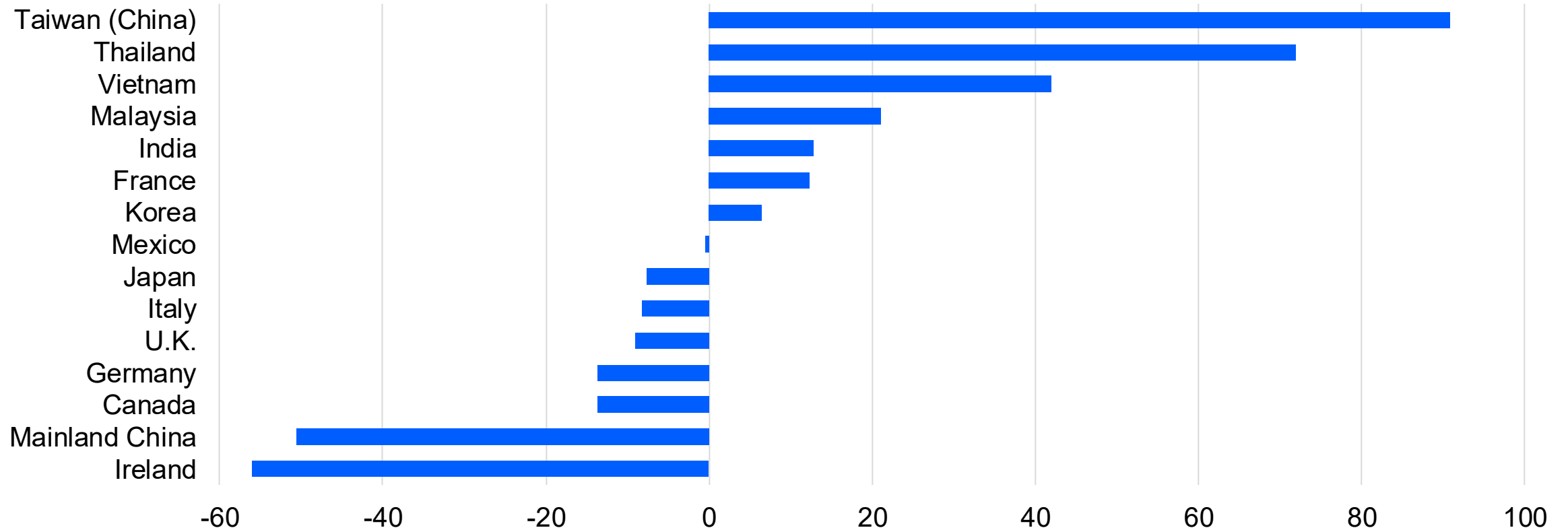


Sources: BEA, Census Bureau, AP News, Moody's Analytics

Note: Timing is based on tariff announcements, not implementation.

Extreme Trade Diversion

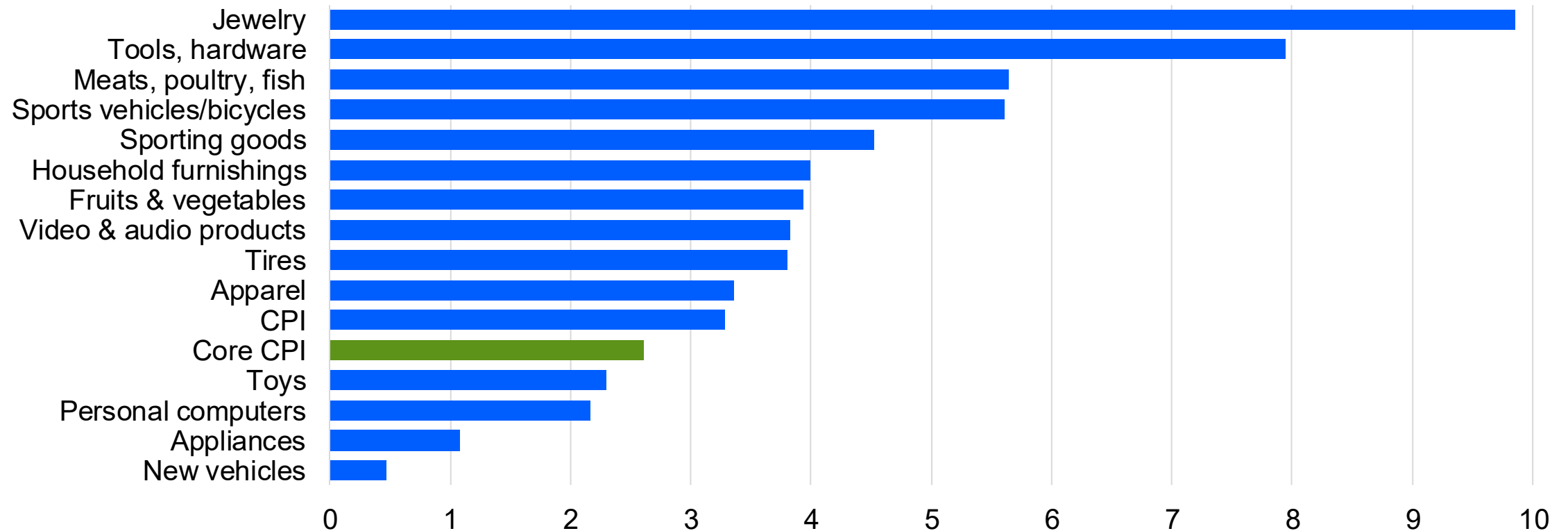
U.S. goods imports by country, top 15 trading partners, 3-mo MA, Feb 2026, % change from 2024Q3



Sources: Census Bureau, Moody's Analytics

Prices are Rising Faster for Goods Subject to Higher Tariffs

Consumer price inflation for tariff-sensitive goods, % change from Mar 2025



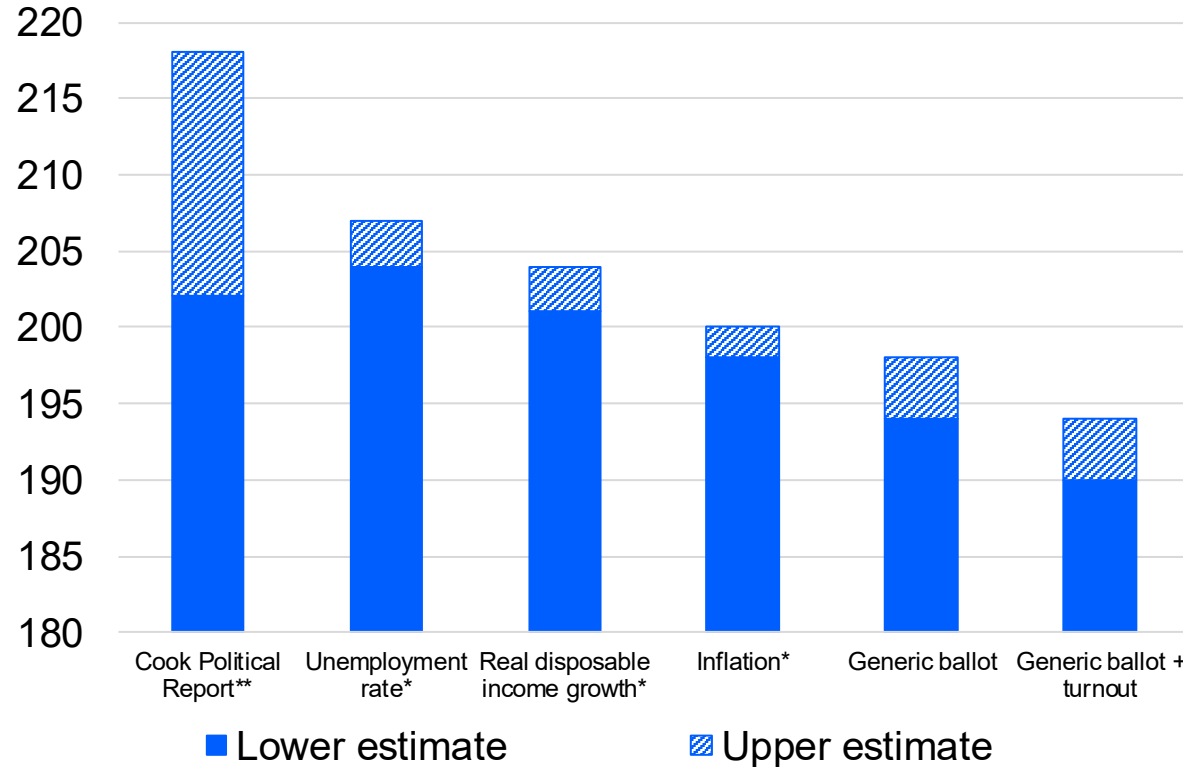
Sources: BLS, Moody's Analytics

Midterm Elections

Midterm elections will happen this fall. What is your forecast for the midterms for both the House and Senate? Will that have any material effect on policy for the last two years of the current administration? How are you thinking about the forecast after the midterms?

Divided Government Is the Baseline...

House seat forecast by model



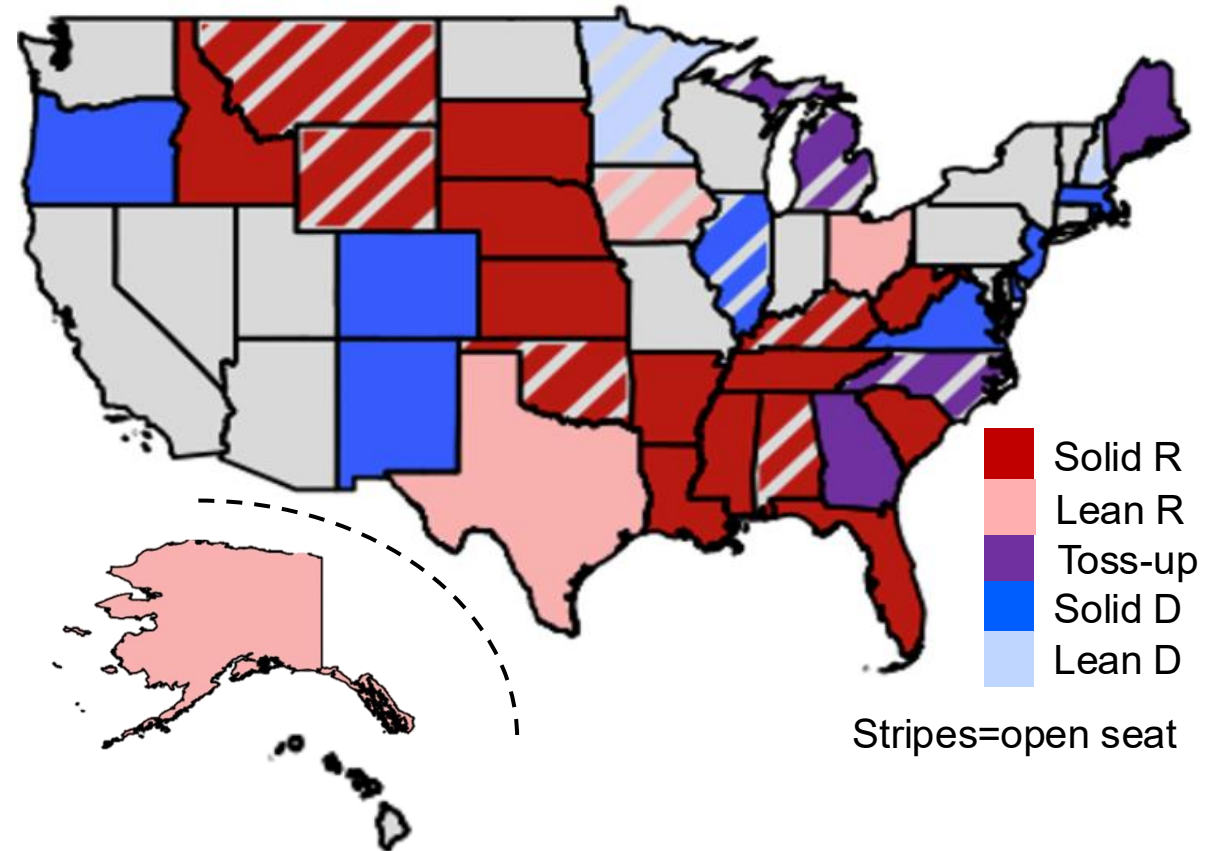
*Models also control for the generic ballot and party turnout.

**The lower estimate assumes Democrats win all toss-ups, and the upper estimate assumes Republicans win all toss-ups.

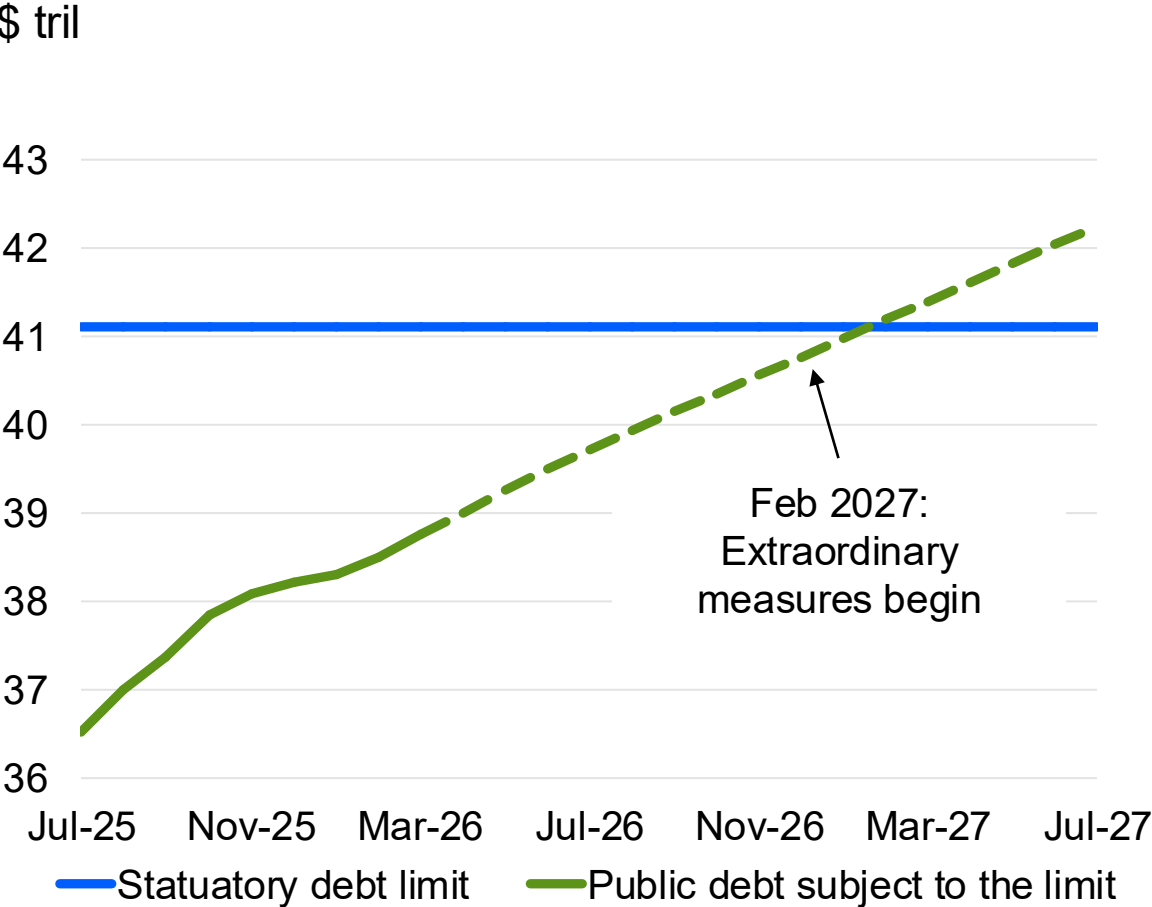
Sources: Cook Political Report, Moody's Analytics

Moody's Analytics

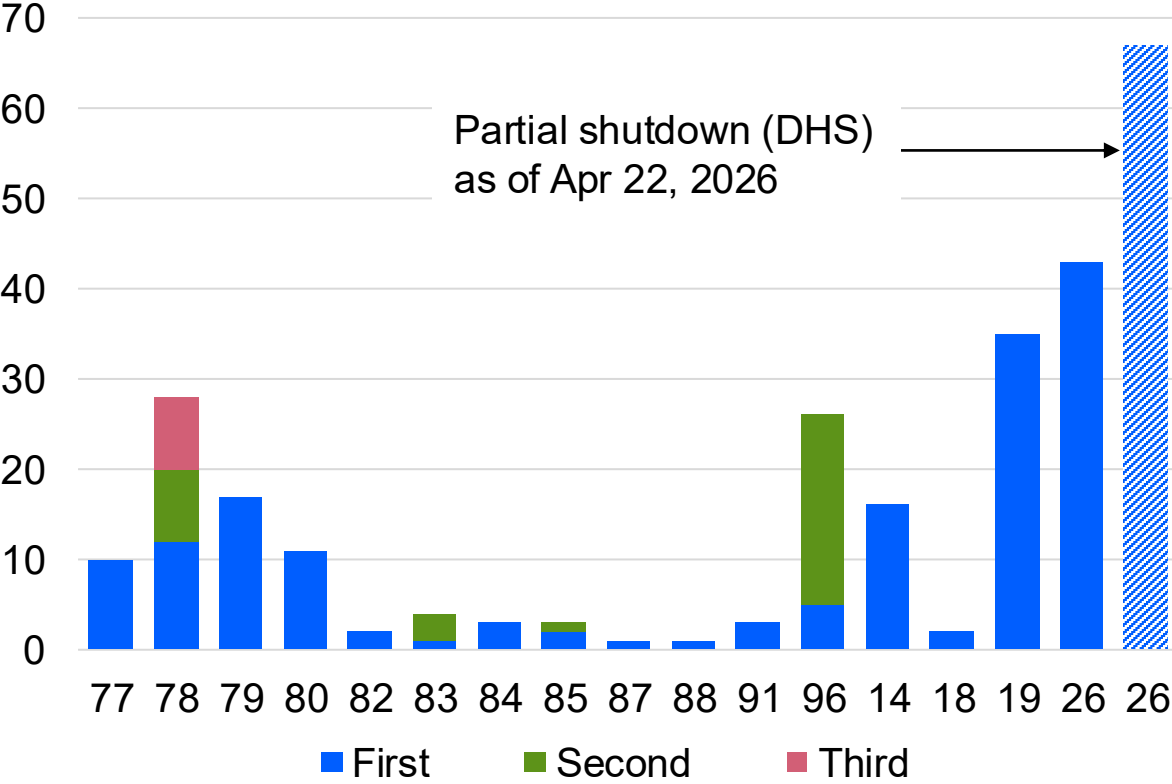
Likely outcomes for Senate elections



...Risking More Political Dysfunction



Full government shutdowns by fiscal yr, # of days



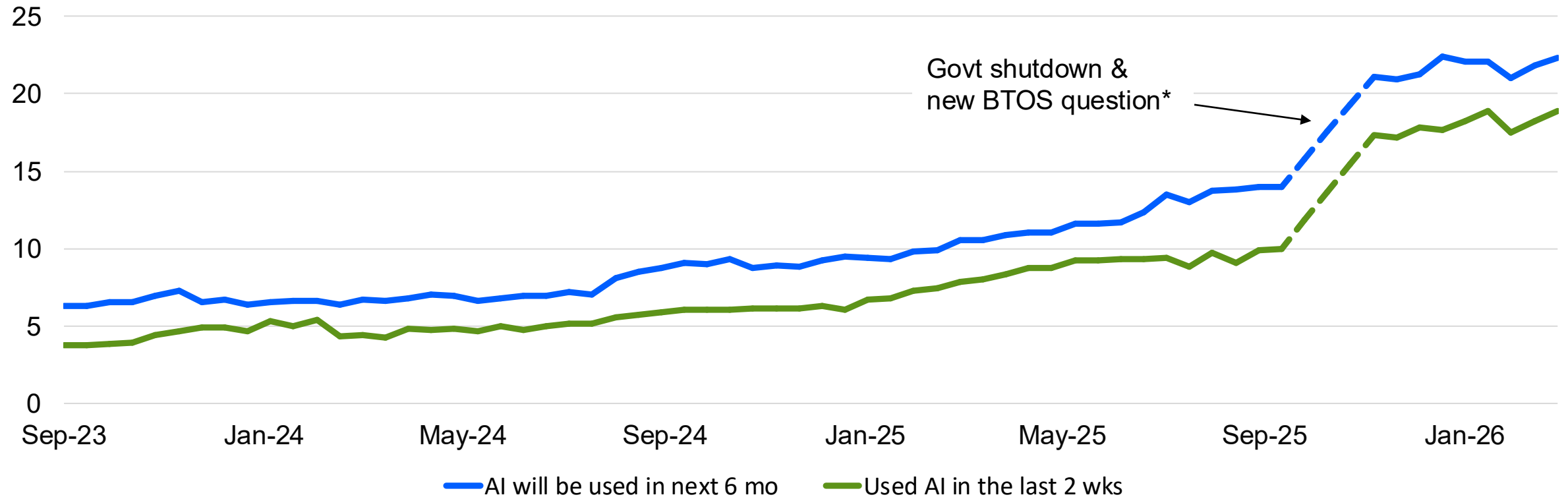
Sources: U.S. Treasury, Congressional Research Service, Moody's Analytics

Artificial Intelligence

Turning to artificial intelligence, you put out a white paper and three scenarios around your baseline. Can you remind us what you're assuming about AI in your baseline forecast? Have your views on how AI may play out over the next few years changed at all? How are you personally using AI in your work at Moody's?

AI Adoption Still Relatively Low but Growing

% of firms using AI

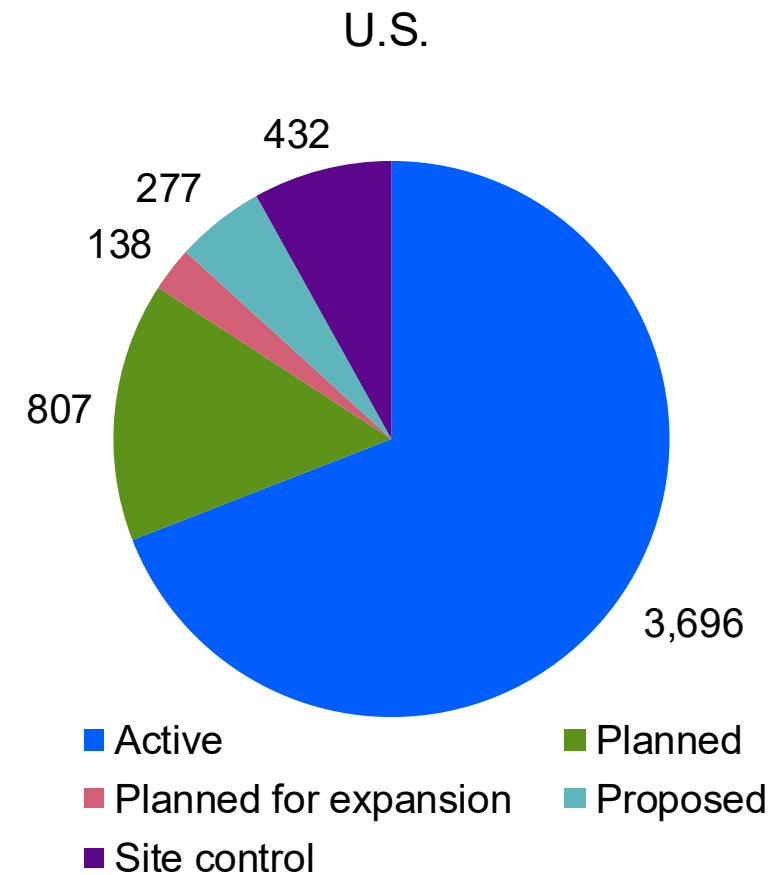
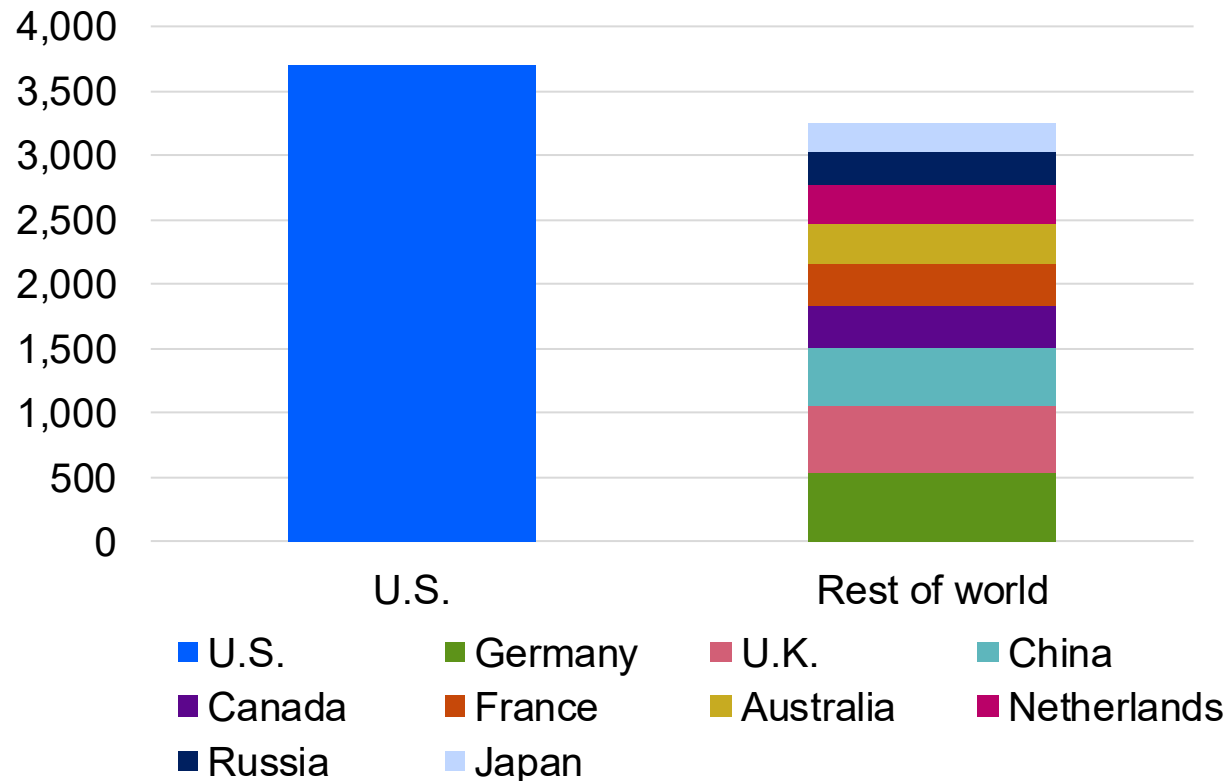


*The Census Bureau introduced a new question in the Dec 4, 2025 BTOS that allows firms to identify a broader use of AI beyond the production of goods and services to any business function.

Sources: Census Bureau, Moody's Analytics

AI Drives Investment

of data centers, yr-end 2025



Sources: Cloudscene, Moody's Analytics

AI Scenarios

AI-Empowered Baseline (40%)

- Adoption of AI is similar in pace to previous technological adoption cycles.
- The productivity impact is meaningful, adding about 0.5 percentage point to growth in the coming years.
- The pace of adoption is slow enough that the labor market can adjust gracefully; some jobs are lost, but new additions offset losses.

AI Falls Flat (25%)

- The AI equity market bubble bursts, sending stock prices down by ~25% from peak to trough.
- AI companies have difficulty raising new capital and managing debt. Increasing defaults strain the financial system.
- A relatively short, shallow recession ensues, followed by a jobless recovery.
- Productivity gains are much smaller and more diffuse than initial expectations.

Productivity Boon (15%)

- AI is rapidly adopted and implemented. There are profound impacts on productivity and economic growth.
- Any jobs lost due to AI are more than offset by new jobs created by increased demand for other goods and services.
- The late-1990s internet boom is an apt, albeit imperfect, historical analog, given the period of rapid productivity gains and a strong job market.

Job Market Upheaval (20%)

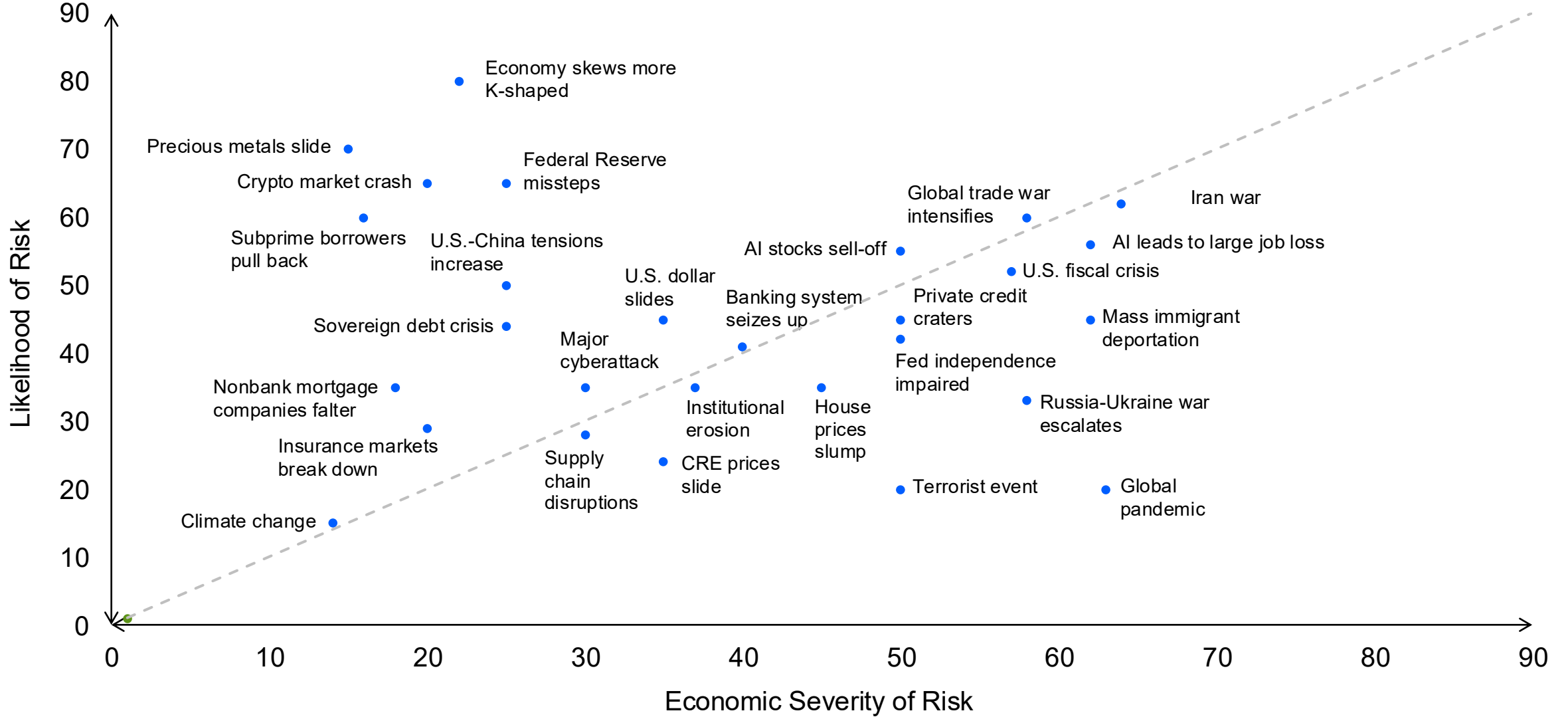
- AI is rapidly adopted and implemented. AI capabilities improve quickly; there are no signs of diminishing returns to technological improvements.
- The benefits of AI are not widely distributed, as gains remain controlled by a handful of firms.
- Large job losses are realized quickly from strong productivity gains with little offset from new job growth.
- The economy suffers a recession.



Most Pressing Economic Issues

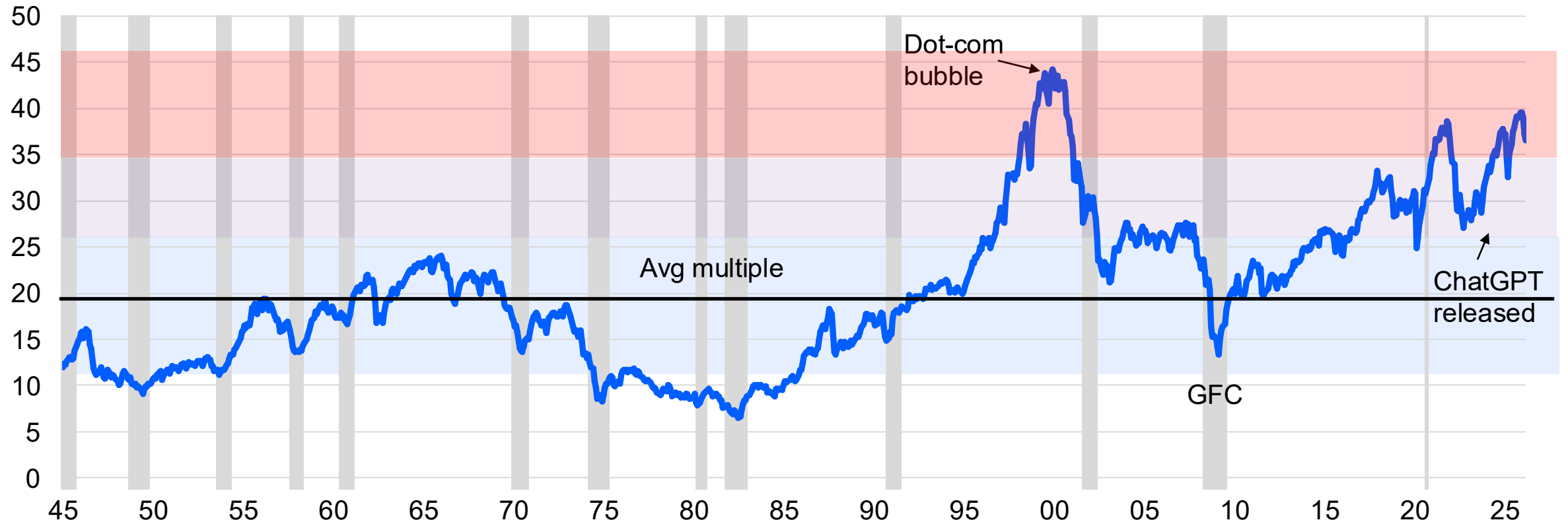
Finally, what is the most pressing economic issue facing the country now? What about over the next five years? Over the next 10 years? If you were king for a day, which three economic policies would you enact or repeal immediately?

What Else Could Go Wrong



Not Y2K, but Getting There

Cyclically adjusted price-to-earnings ratio

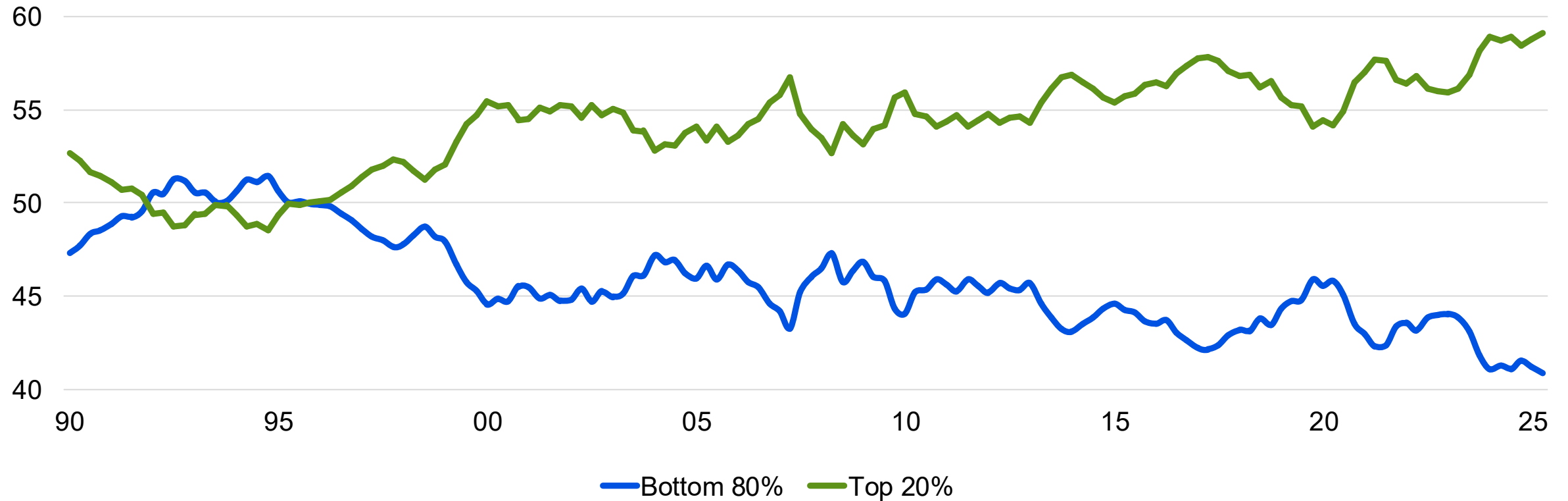


The blue-shaded area represents fair value, purple is overvalued, and red is frothy. The gray bars are NBER-dated U.S. economic recessions.

Sources: BLS, Yale Department of Economics, Moody's Analytics

The K-Shaped Economy Becomes More K-Shaped

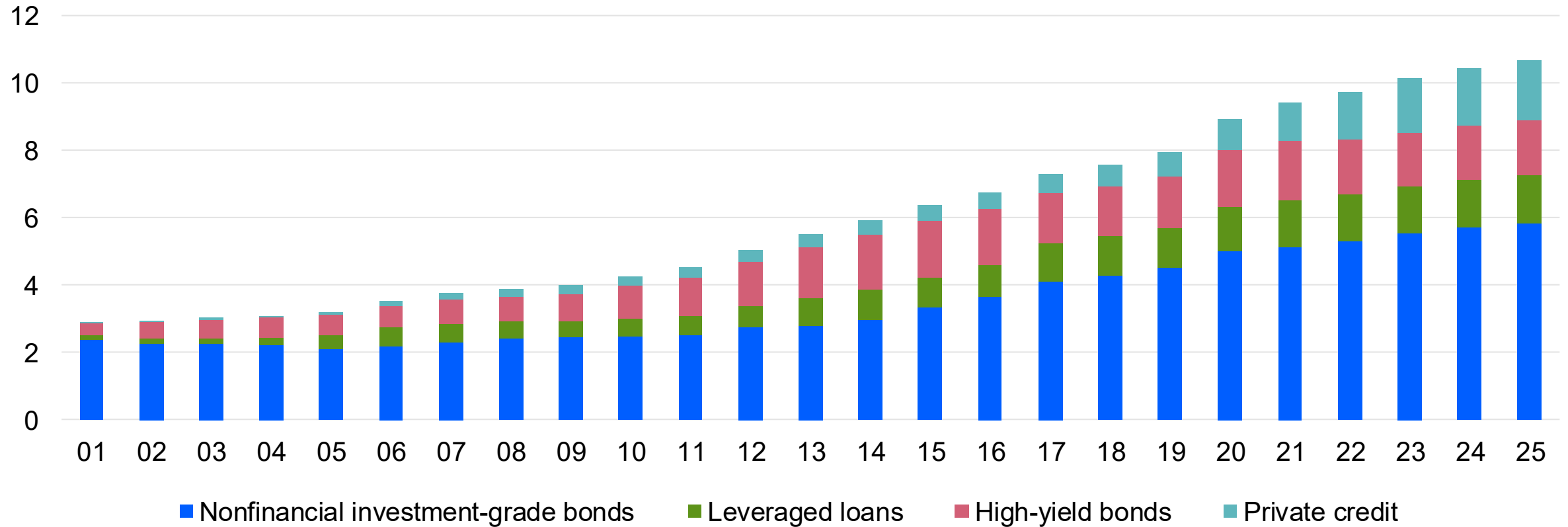
Share of personal outlays by income group, %



Sources: Federal Reserve, Moody's Analytics

Nonbank Credit Is on the Rise...Led by Private Credit

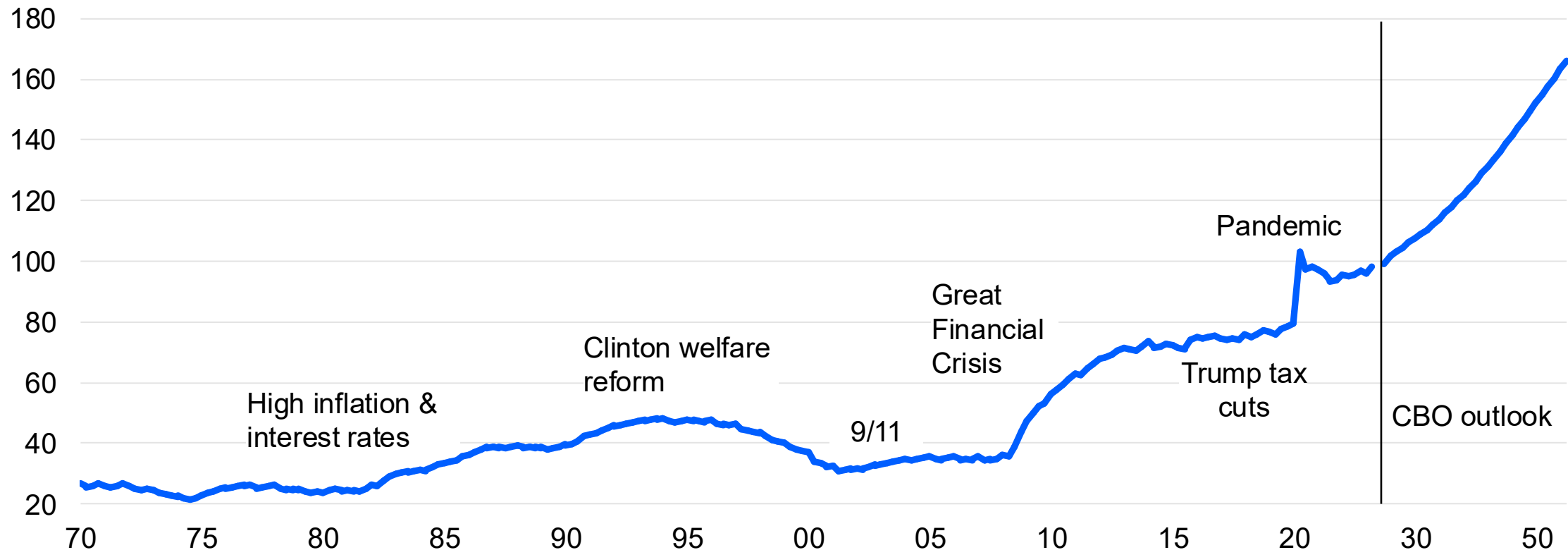
U.S. corporate debt outstanding, \$ tril



Sources: IMF, Federal Reserve, Moody's Analytics

The Nation Is on an Unsustainable Fiscal Trajectory

Federal government debt held by the public as a share of GDP, %



Sources: U.S. Treasury, BEA, Moody's Analytics

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