

SESSION 5 · 2:55 — 3:55 PM



*Archimedes Enterprise Solutions*

# **A Small Business Leader's** *Economic Briefing*

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*CE Credit Approved*

# Ten Topics

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**I** Corporate Earnings

**VI** Interest Rates

**II** US Consumer Spending

**VII** Recession Risk

**III** Labor Market

**VIII** National Debt

**IV** Artificial Intelligence

**IX** Geopolitics

**V** Inflation

**X** The Boogeymen

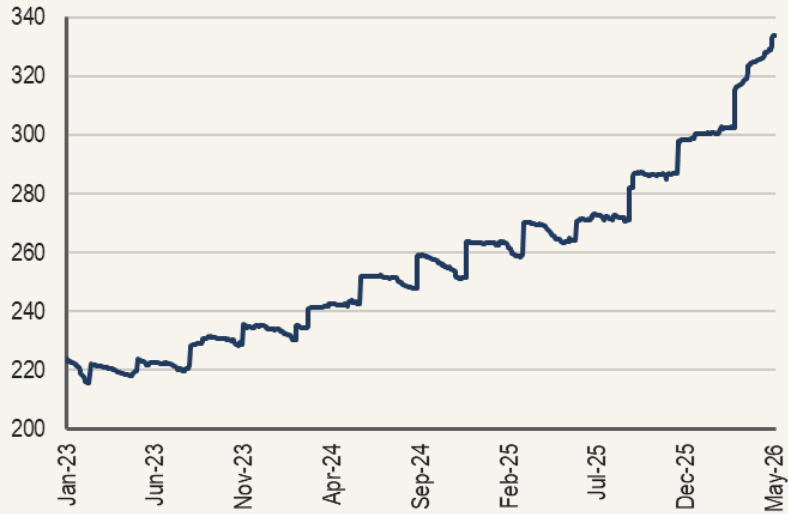


CORPORATE EARNINGS

# The Magician's Choice

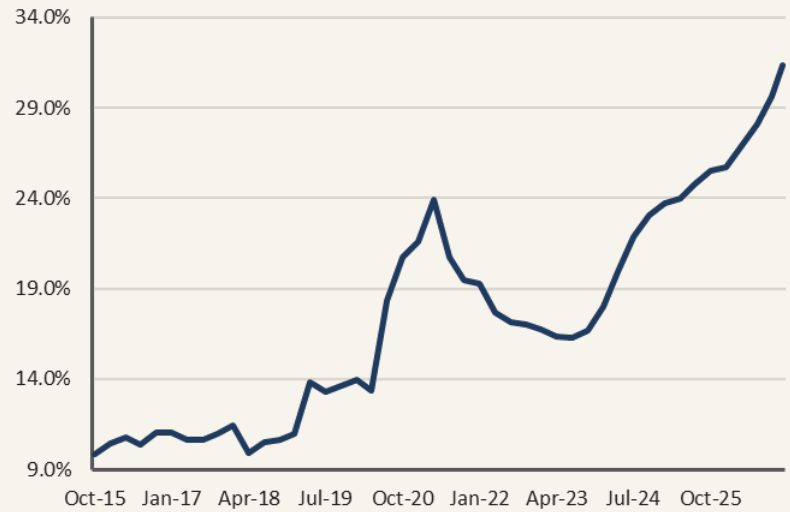
*Equivoque — the bar isn't being beaten, it's being lowered.*

**Forward EPS Consensus Estimates — Quarterly Revision Pattern**



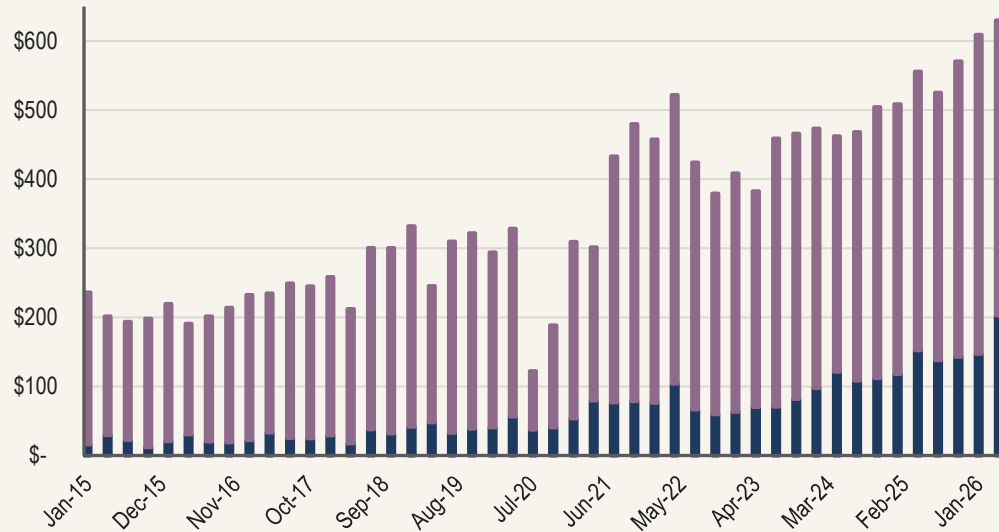
(Source: Bloomberg)

**Mag 7 Percent of Total S&P 500 Earnings**



(Source: Bloomberg)

Total S&P 500 Earnings (Billions USD), Mag 7 (Blue) v S&P 493 (Purple)



(Source: Bloomberg)

CURRENT STATE

## Profits Are Beating Expectations — Again

S&P 500 earnings grew roughly 27% YoY in Q1 2026 — on track to be the strongest quarter since late 2021, with 84% of companies beating estimates. Tech and communication services lead. AI infrastructure investment is both driving results and raising questions about when spending converts to profits. Analysts project a potential third consecutive year of double-digit earnings growth.

A DIFFERENT LENS

## Big Earnings Don't Always Mean Your Business Is Winning

Corporate profit records largely reflect the Magnificent Seven, not the broader economy. Nearly 44% of Russell 2000 small-caps still report negative earnings. For small business leaders, the more useful signal is: are your customers still spending? Are your suppliers raising prices? Track your own margins, not the S&P.

*The magician's choice works on Wall Street. Don't let it work on your P&L.*



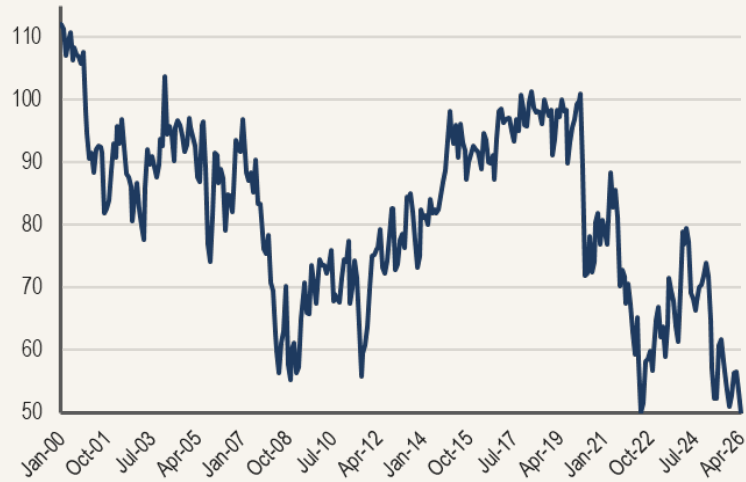
US CONSUMER SPENDING

# The Cockpit That Fit Nobody

*Lt. Daniels measured 4,063 pilots. Zero were average.*

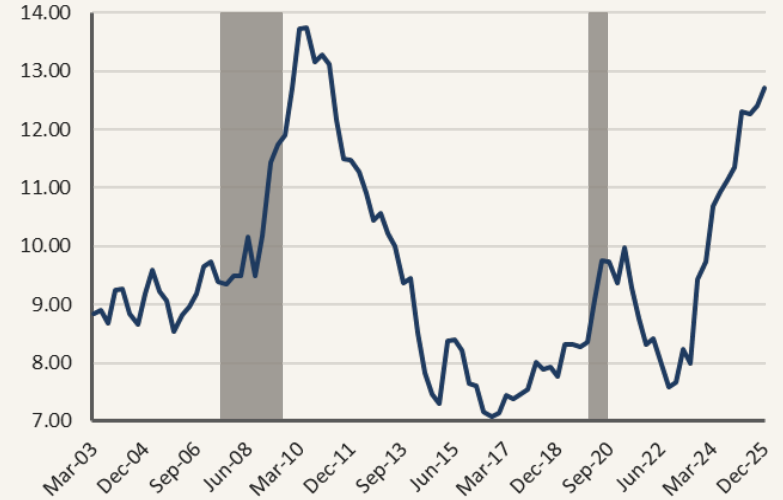
## II US CONSUMER SPENDING

### University of Michigan Consumer Sentiment Index



(Source: Bloomberg)

### Credit Card Balances 90+ Days Delinquent (Percent); w/ Recession Bars



(Source: NY Federal Reserve)

CURRENT STATE

## Spending Holds — But the Foundation Is Uneven

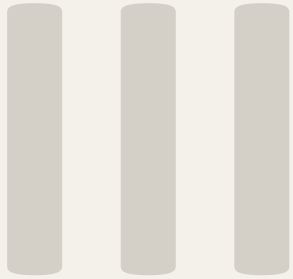
Consumer spending hit \$19.7T in Q4 2025, accounting for roughly 68% of GDP. Financial well-being sentiment reached near a six-year high. However, the top 20% of households control 72% of all wealth and drive most spending growth. One in four households lives paycheck to paycheck. Discretionary spending is shifting toward 'cheap thrills' while brand loyalty softens.

A DIFFERENT LENS

## Consumers Are Honest With Their Wallets, Not Their Mouths

Sentiment surveys flag pessimism, yet actual spending has consistently beaten expectations. Your customers' anxiety is real, but it doesn't necessarily predict their behavior. What it predicts is their need for value, trust, and a reason to choose you. Squeezed shoppers are switching brands, not stopping spending.

*There is no average consumer — and no average customer. Design for the one you actually serve.*

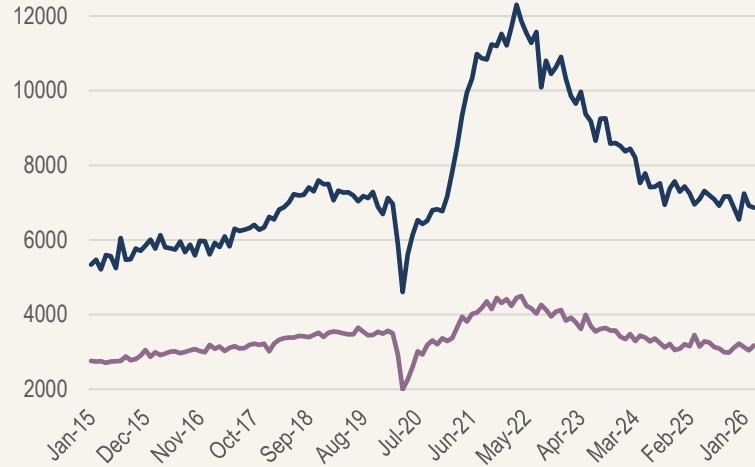


LABOR MARKET

# The Medieval Scribes

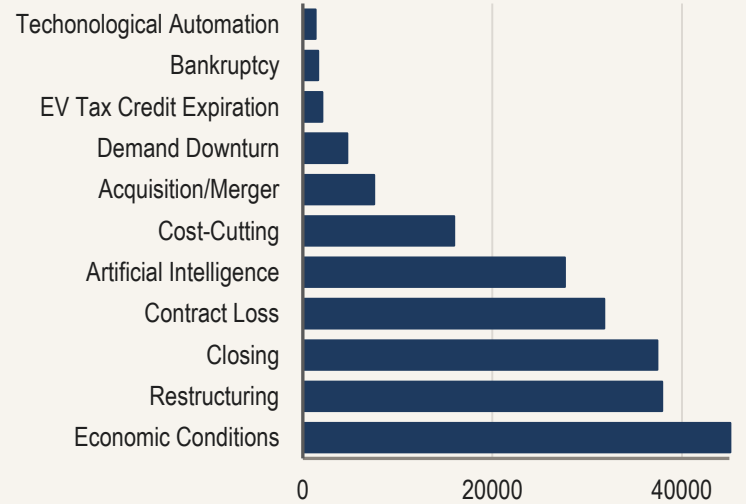
*Nobody got fired. The jobs just went away.*

JOLTS Hires Rate (Blue) v JOLTS Quits Rate (Purple)



(Source: Bloomberg)

Challenger Announced Cuts by Reason



(Source: Challenger, Gray & Christmas)

CURRENT STATE

## Low Unemployment, Low Hiring — A Strange Calm

Unemployment sits at 4.3% as of March 2026. Long-term unemployment rose 322,000 over the year to 1.8M. LFP slipped to 61.9%, near November 2021 lows. Average hourly earnings rose just 3.5% YoY — the smallest annual gain since May 2021. The labor market is best described as 'low-hire, low-fire': stable, but with almost no net hiring momentum since early 2025.

A DIFFERENT LENS

## Stability Is an Opportunity, Not a Guarantee

In a market where big employers have frozen hiring, small businesses can actually win the talent competition. The best candidates aren't unemployed — they're stuck at companies that aren't growing. Build a workplace culture that makes your best people choose you. This labor market rewards employers who treat workers as assets, not overhead.

*The apprentice rung is gone from corporate America. Small business can still offer it.*

# IV

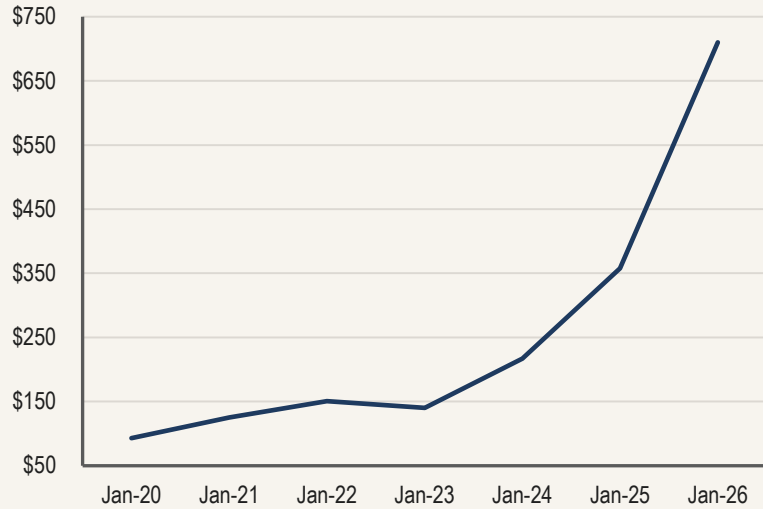
ARTIFICIAL INTELLIGENCE

## The Erie Canal

*The canal that worked produced a frenzy in canals that didn't.*

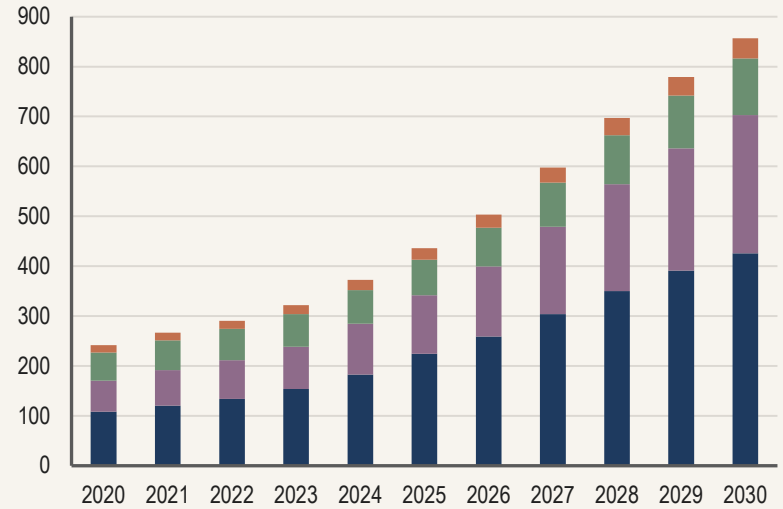
## IV ARTIFICIAL INTELLIGENCE

### Hyperscaler Capex 2020–2026E (In Billions, USD)



(Source: Bloomberg)

### Forecasted Data Center Energy Demand (TWh); US (Blue), China (Purple), Europe (Green), Rest of World (Orange)



(Source: International Energy Agency)

CURRENT STATE

## AI Goes From Hype to Infrastructure

AI capital investment is projected to hit \$650B in 2026. Worker access to AI tools rose 50% in 2025. SMB employees save an average of 5.6 hours per week using AI tools. Agentic AI — systems that plan and execute multi-step tasks autonomously — is the next frontier. Two-thirds of organizations report AI-driven productivity gains. The skills gap remains the #1 barrier to adoption.

A DIFFERENT LENS

## AI Is Not Your Competitor — Inaction Is

For small business, AI is less about robots replacing jobs and more about one person doing the work of three. The tools available in 2026 are built for non-technical operators: AI that transcribes meetings, scores leads, answers customer questions at 2am, and drafts your marketing. The question is not whether AI will affect your industry. It already has.

*The Erie Canal question applies to you too: are you building the canal, or funding someone else's?*

V

INFLATION

# Hemingway's Two Ways

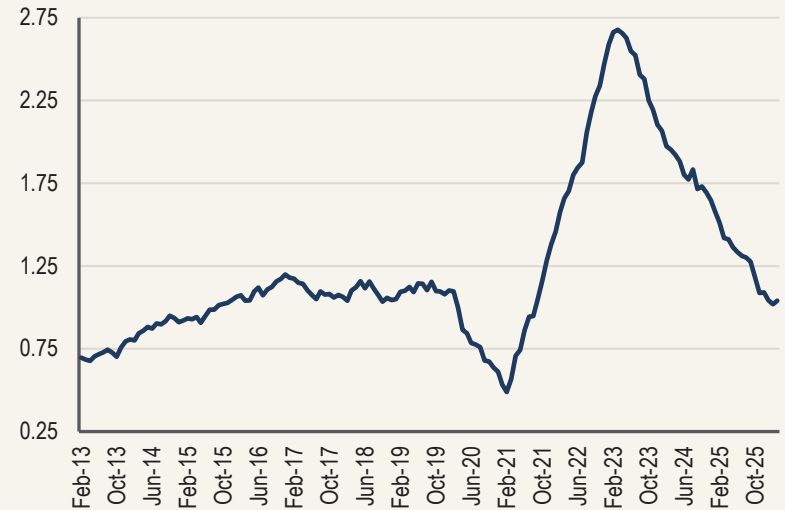
*"Gradually, and then suddenly."*

**West Texas Intermediate Crude Spot Price**



(Source: Bloomberg)

**Owner's Equivalent Rent, Contribution to CPI**



(Source: Bloomberg)

CURRENT STATE

## Stuck Above Target — And Energy Is the Wild Card

CPI inflation rose to 3.3% YoY in March 2026, the highest reading in nearly two years. The Iran war has been the primary driver — gas prices hit \$4.30/gallon nationally. Shelter costs at 3.0% annually are easing but remain elevated. Inflation has been 'stuck' above the Fed's 2% target since late 2023, making it one of the most durable inflation episodes in modern US history.

A DIFFERENT LENS

## Inflation Is a Signal About Your Pricing Power

The businesses that struggled most are those selling commoditized products with no differentiation — price-takers whose customers switch for a dollar. The businesses that thrived have loyal customers, unique offerings, or locked-in contracts. Differentiation, relationships, and brand trust are your inflation hedge. Inflation also reveals which suppliers have pricing power over you.

*The gradually is what you can prepare for. The suddenly is what tests whether you did.*

VI

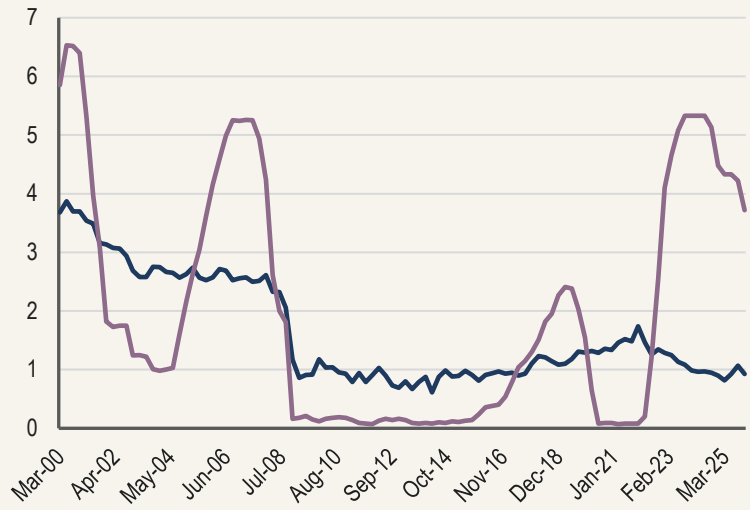
INTEREST RATES

# The Lighthouse That Keeps Moving

*The man who built the model says the model is imprecise.*

## VI INTEREST RATES

R\* Holston Laubach Williams Neutral Rate (Blue) v Federal Funds Effective Rate (Purple)



(Source: Bloomberg)

2-Year v 10-Year US Treasury Spread (Basis Points)



(Source: Bloomberg)



CURRENT STATE

## The Fed Is Frozen — And Leadership Is Changing

The Fed held its benchmark rate at 3.50–3.75% for the third consecutive meeting in April 2026. The vote was unusually fractious: 8-4, the most dissent since October 1992. Powell's term ends May 15; his nominated successor Kevin Warsh has signaled support for lower rates. Markets now price virtually no rate cuts in 2026 and well into 2027.

A DIFFERENT LENS

## Rates Are a Price, Not a Punishment

If you can't justify a loan at 7%, the project probably wasn't worth doing at 3% either. The businesses struggling with high rates are often those that built their model on cheap money rather than real margin. For a disciplined operator who has been running lean, this environment may actually be the filter that removes your weakest competitors.

*When the lighthouse keeps moving, having options matters more than a precise forecast.*

VII

RECESSION RISK

# The Inverse Forecast

*Five conditions that would change our minds.*

## CURRENT STATE

**Not the Base Case — But Genuinely On the Table**

Recession probability estimates range from 25% to 42% depending on the source. The economy narrowly avoided recession in 2025 despite the April tariff shock, government shutdown, and energy surge. The four pillars of resilience — labor, consumer spending, earnings, and AI investment — must hold simultaneously. As one economist put it: 'Nothing else can go wrong.'

## A DIFFERENT LENS

**A Recession Is a Redistribution, Not Just a Contraction**

In downturns, rent drops, competition thins, top talent becomes available, and customers' loyalty shifts. Every major American success story — FedEx, Airbnb, Slack — was born in or hardened by a recession. The companies that fail are those that waited too long to cut costs or were over-leveraged. Prepare not by panicking, but by cleaning up your balance sheet now.

*We're not predicting recession. We're naming what would convince us — so you can watch the same list.*

VIII

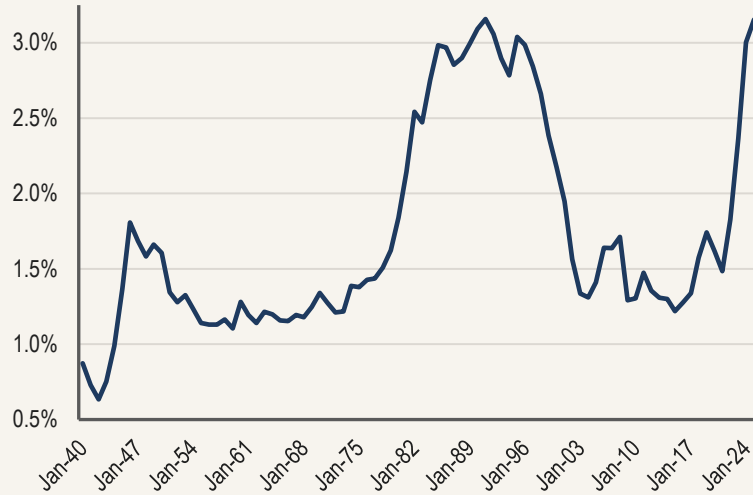
NATIONAL DEBT

# The US as a Median Household

*\$557,000 mortgage on an \$80,000 salary.*

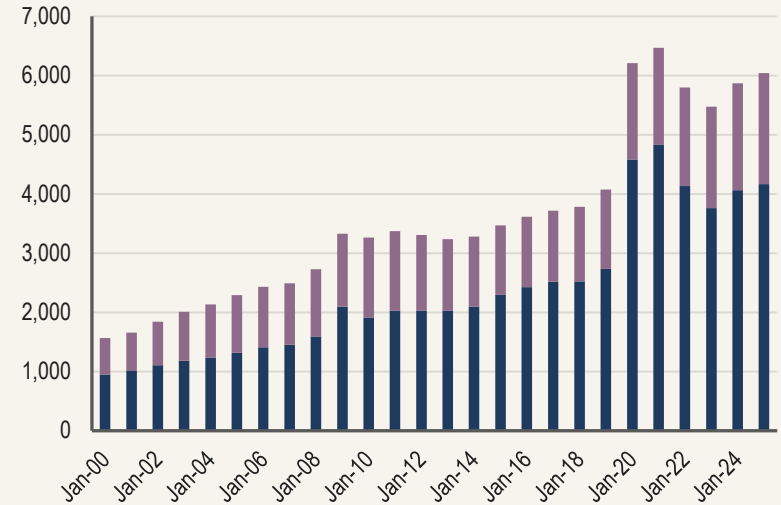
## VIII NATIONAL DEBT

### Federal Interest Expense as a Percent of GDP



(Source: Bloomberg)

### Federal Outlays (Billions USD); Mandatory (Blue) v Discretionary (Purple)



(Source: Bloomberg)

CURRENT STATE

## \$39 Trillion — And Climbing Faster

The US national debt crossed \$39T on March 18, 2026. The CBO projects the 2026 deficit at \$1.85T — the government spending 33% more than it collects. The Iran war is estimated at \$800M–\$1B per day. The US has now received credit downgrades from all three major agencies. Interest on the debt is on track to become the fastest-growing line item in the federal budget.

A DIFFERENT LENS

## Debt Is Everyone's Problem Until It Isn't — Then It's Your Problem

The federal government can print money; you cannot. The behaviors that should alarm you in Washington — spending more than you earn, using debt to fund operations rather than investment, ignoring compounding interest — are fatal for a small business. Use the federal debt as a cautionary parable. Get your own balance sheet right: reduce revolving debt, build a cash reserve, and know exactly what you owe and when.

*If this household came to Keeler Thomas, we'd advise them through bankruptcy. Don't be this household.*

IX

GEOPOLITICS

# The Founding Partner

*The founder is renegotiating the deal that built the firm.*

CURRENT STATE

## The Iran War Is Reshaping Global Economics

The US-Israel campaign has closed the Strait of Hormuz — through which roughly 20% of global oil trade flows. Oil spiked above \$120/barrel before retreating to ~\$87. Japan and South Korea depend on the Gulf for 80% of their oil. European gas storage is at critical lows. Global trade fragmentation continues as major blocs impose new tariffs. The IMF cut 2026 global growth to 3.1%.

A DIFFERENT LENS

## Local Businesses Are Connected to the World Whether They Know It or Not

When oil prices spike, your delivery costs, your suppliers' input costs, and your customers' gas bills all rise simultaneously. When shipping routes are disrupted, your inventory timelines slip. Build in supply chain redundancy, know where your critical inputs come from, and don't confuse a low price from a single foreign supplier with a resilient supply chain.

*The founding partner's renegotiation affects your supply chain, your costs, and your customers.*

# X

THE BOOGEYMEN

## The Sneaker Wave

*We don't know which wave is which until it arrives.*

CURRENT STATE

## The Fears That Dominate Headlines

Every era has its economic boogeymen. In 2026: the Iran war spiraling broader, AI displacing workers faster than jobs emerge, national debt triggering a bond crisis, a Fed policy mistake, China-Taiwan disruption, the petrodollar system fraying, and the possibility the AI boom proves overhyped. These are real risks — but history shows most feared scenarios either don't materialize or arrive differently than predicted.

A DIFFERENT LENS

## Fear Is a Business Model — Resilience Is a Strategy

What specifically are you afraid of, and what specifically would you do if it happened? A business that has a plan for a 20% revenue drop, a 40% energy cost increase, or a 90-day supply disruption is not a frightened business — it is a resilient business. Stop doom-scrolling. Start scenario-planning. The best hedge against every boogeyman is strong cash flow, loyal customers, and an adaptable team.

*The calm waves are the base case. But we are not standing where the pattern says we are safe.*

## KEY TAKEAWAYS

# The Economy Is Complex. Your Response Doesn't Have to Be.

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1. Earnings are strong, but they don't tell your whole story.
2. Consumers are spending, but they want value and trust.
3. AI is here, adopt it or forfeit someone else's advantage.
4. Rates and inflation are elevated; plan for your real margins.
5. Geopolitics and debt are real. Focus on building resilience, not anxiety.



*Archimedes Enterprise Solutions*