

Outlook 2025: Good Times Roll but with Risks Lurking

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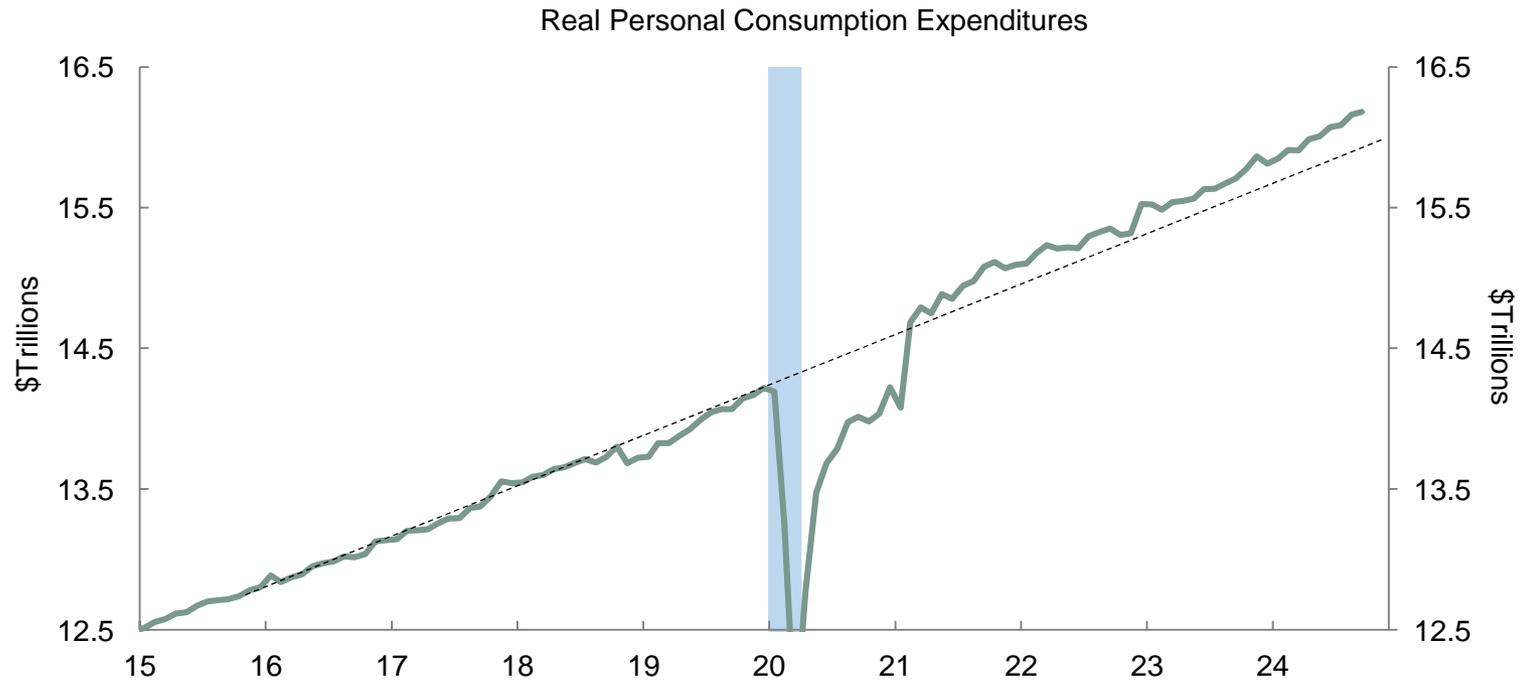
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House Views

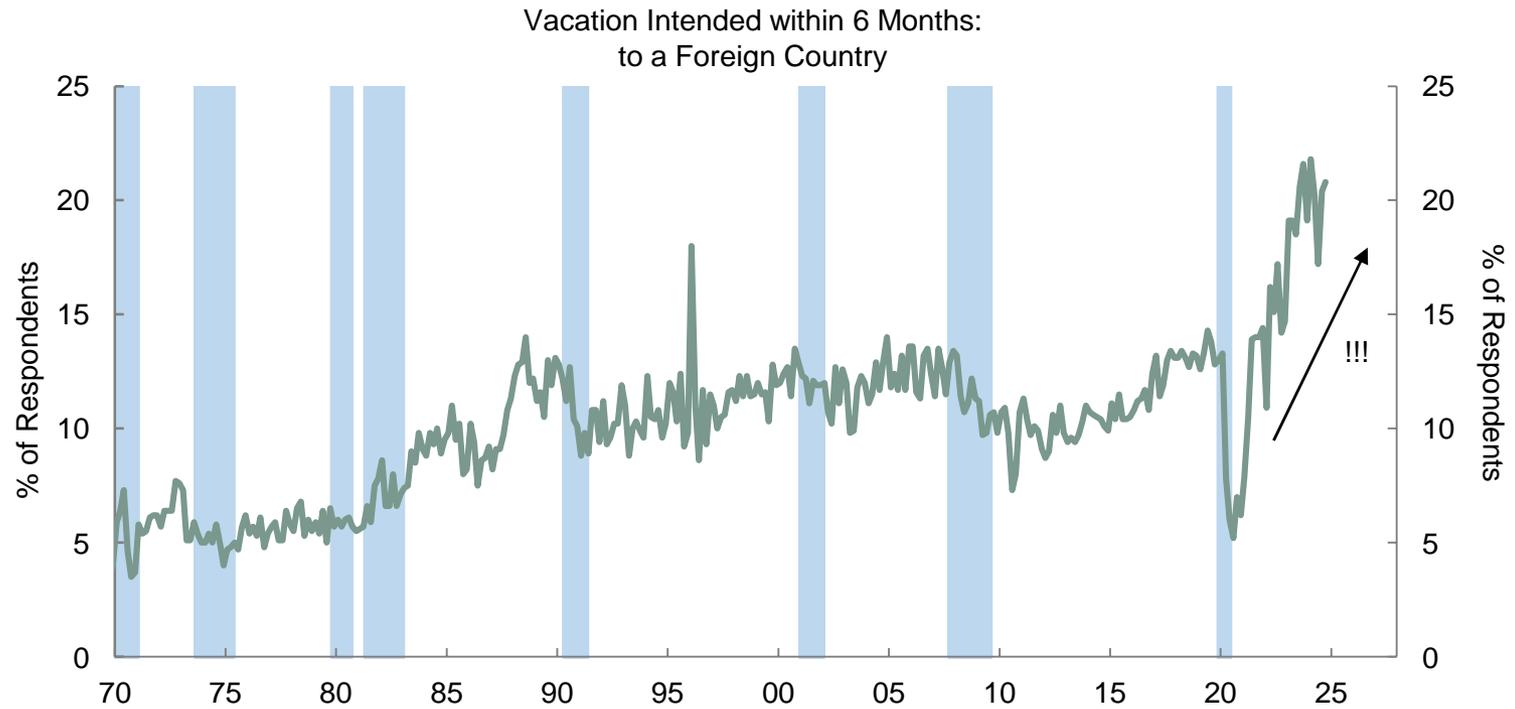
- At 2.7% YoY, US economic growth is robust due to an ebullient consumer and an exceptional fiscal deficit. We expect GDP to pickup to 3.1% and PCE to 3.5%.
- Despite this, inflation is on a 2% glidepath by yearend 2025 and possibly lower, if certain conditions are met.
- There are notable pockets of weakness in the US, detailed here. Leading indicators, especially those pertaining to the labor market, are flashing warning signs. The Fed will need to contend with these dynamics.
- Monetary policy is restrictive and is being dialed back. We expect -75 bps in Fed cuts in 2025 and -75 bps in 2026. We estimate neutral at ~3.0%.
- The Fed's inflation fighting mandate has morphed into an employment stabilizing mandate. The deteriorating labor market requires interest rate cuts. A soft landing is possible because 1) the Fed has plenty of rate cutting firepower and 2) the new administration's tax cutting and regulatory slashing aims are expected to be growth accretive for the US.
- The slowing labor market, rising delinquencies, looming maturity walls (~\$2T by yearend 2026) and unrealized losses in the banking system are top *domestic* risks. Widening geopolitical conflict and the foreign sector (China, Europe) are top macro risks.

The Consumer

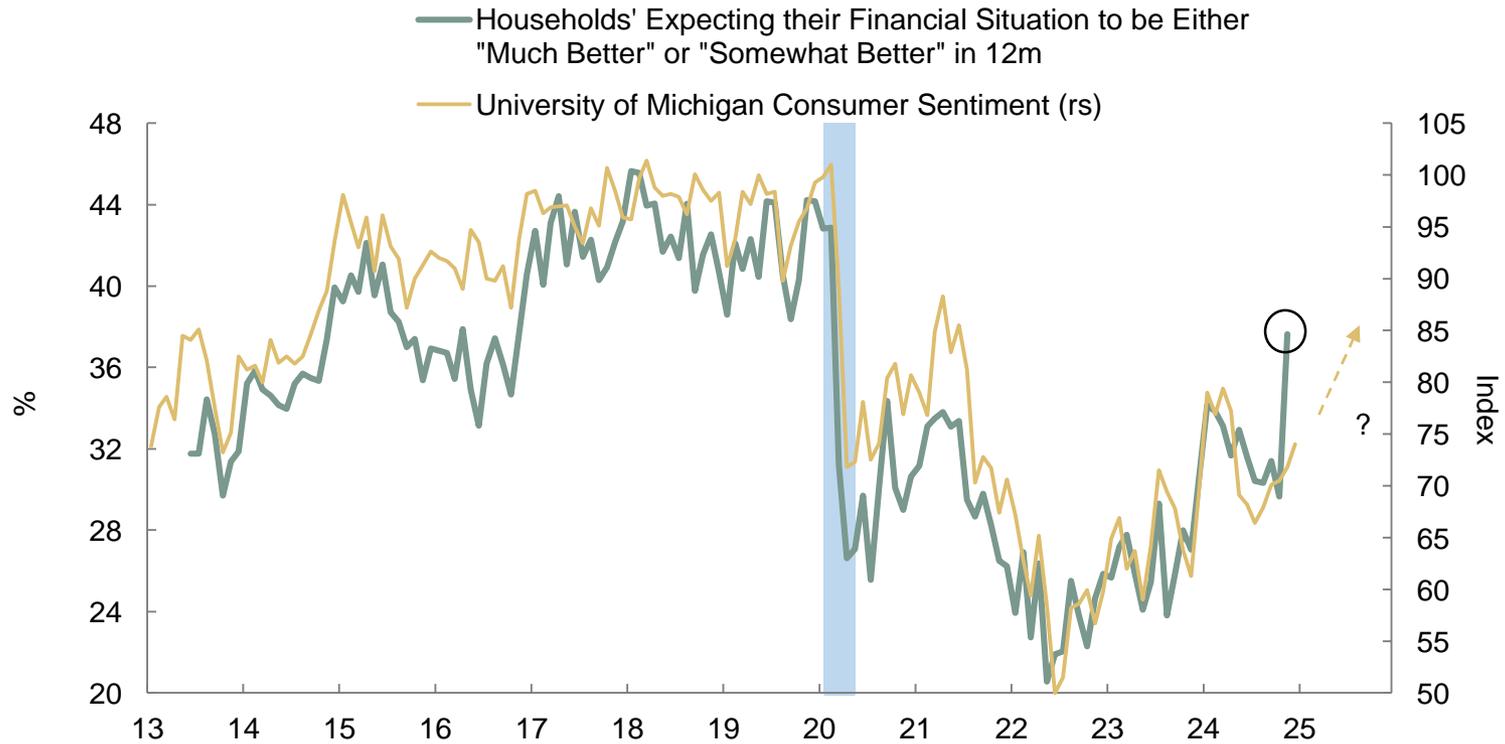
Above Trend Consumption



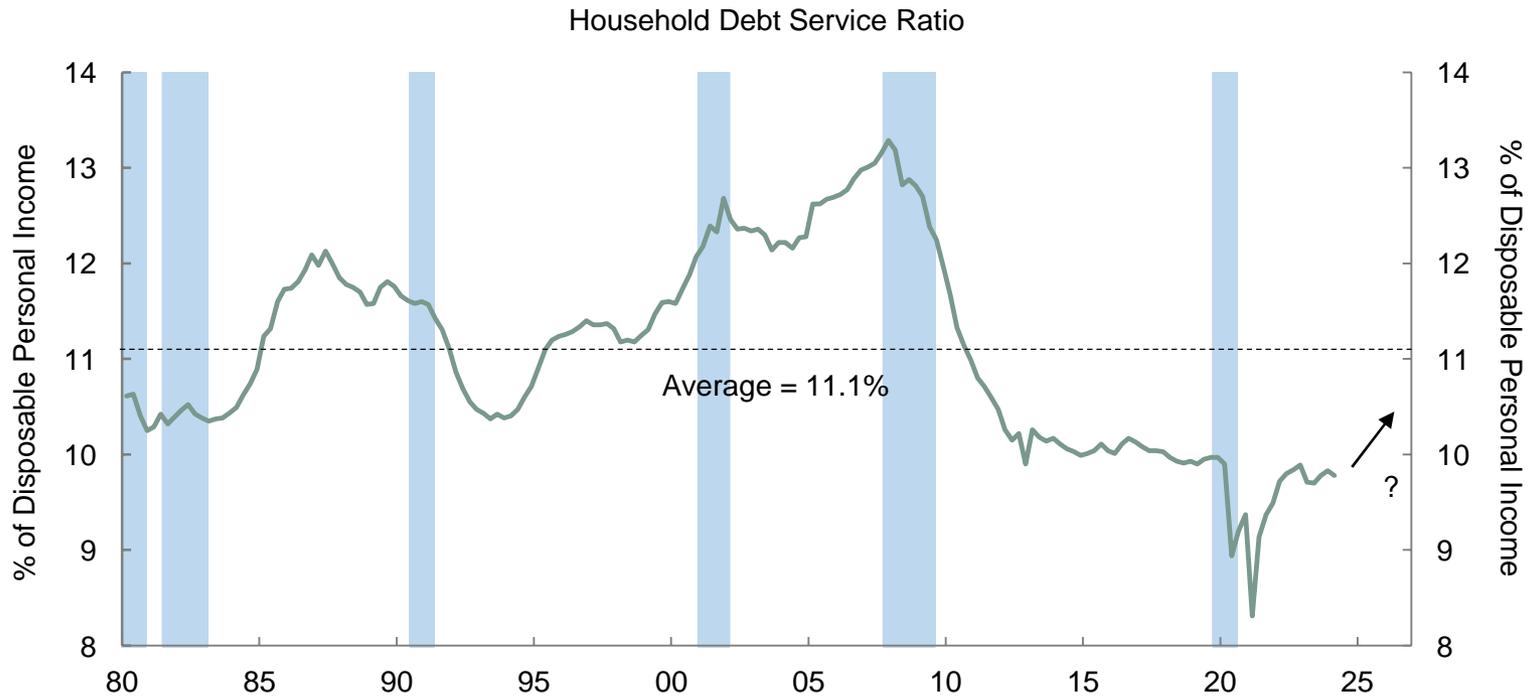
Vacation Anyone?



Animal Spirits Unleashed

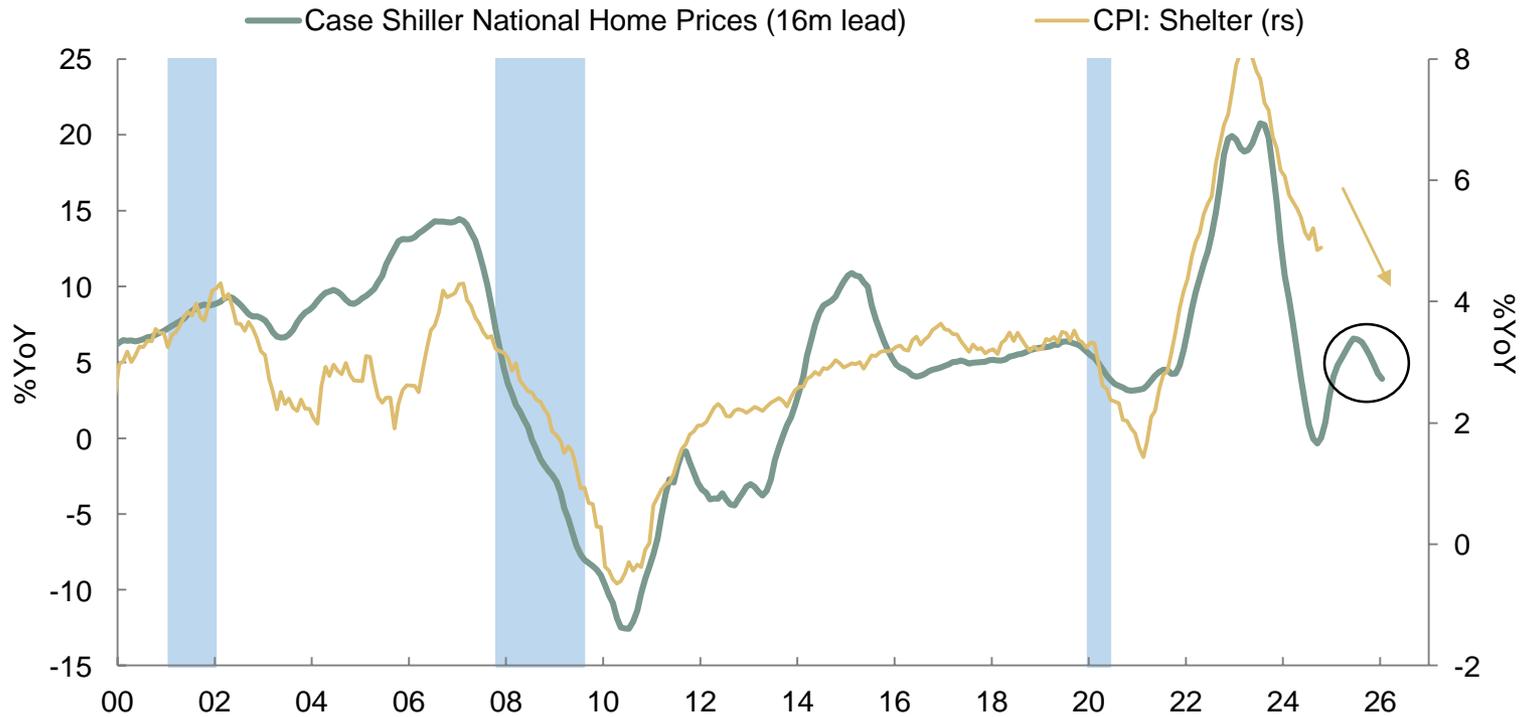


Propelled by Low Debt

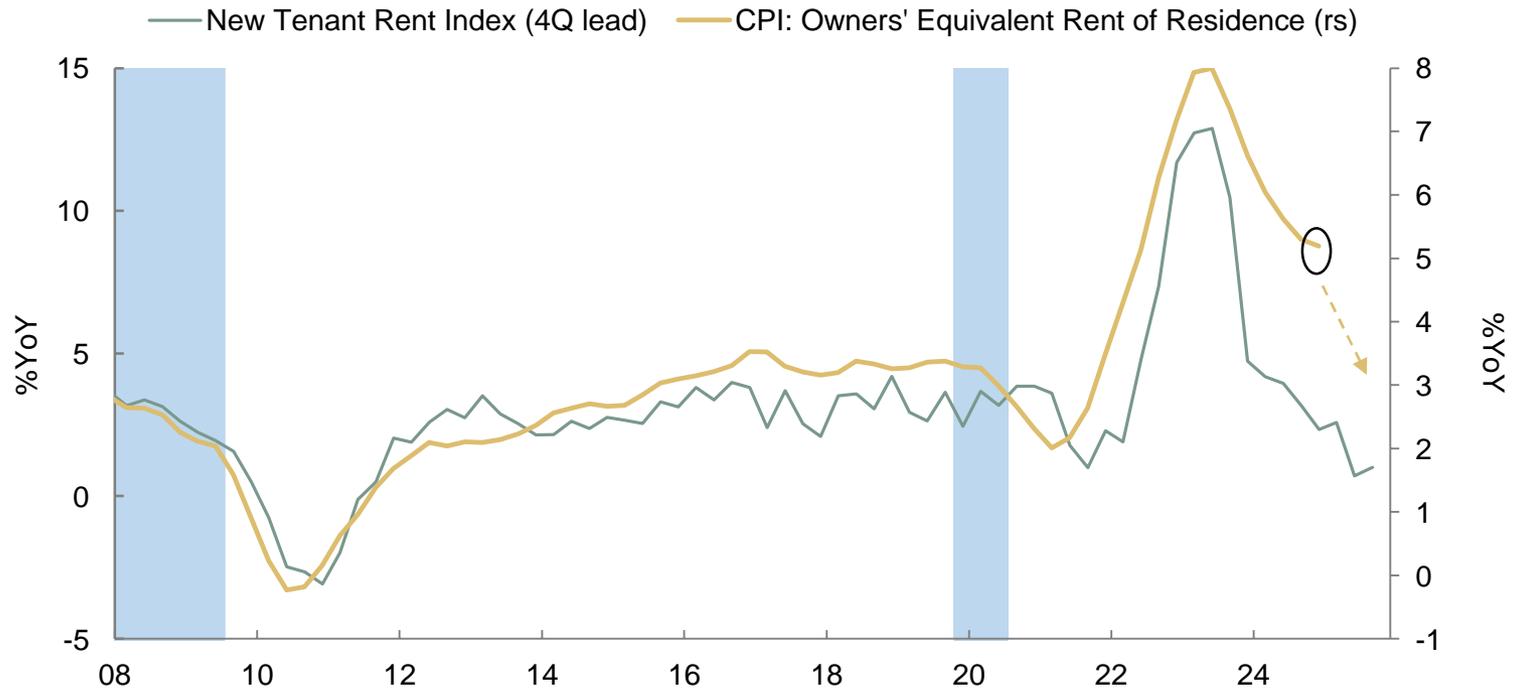


Inflation Outlook

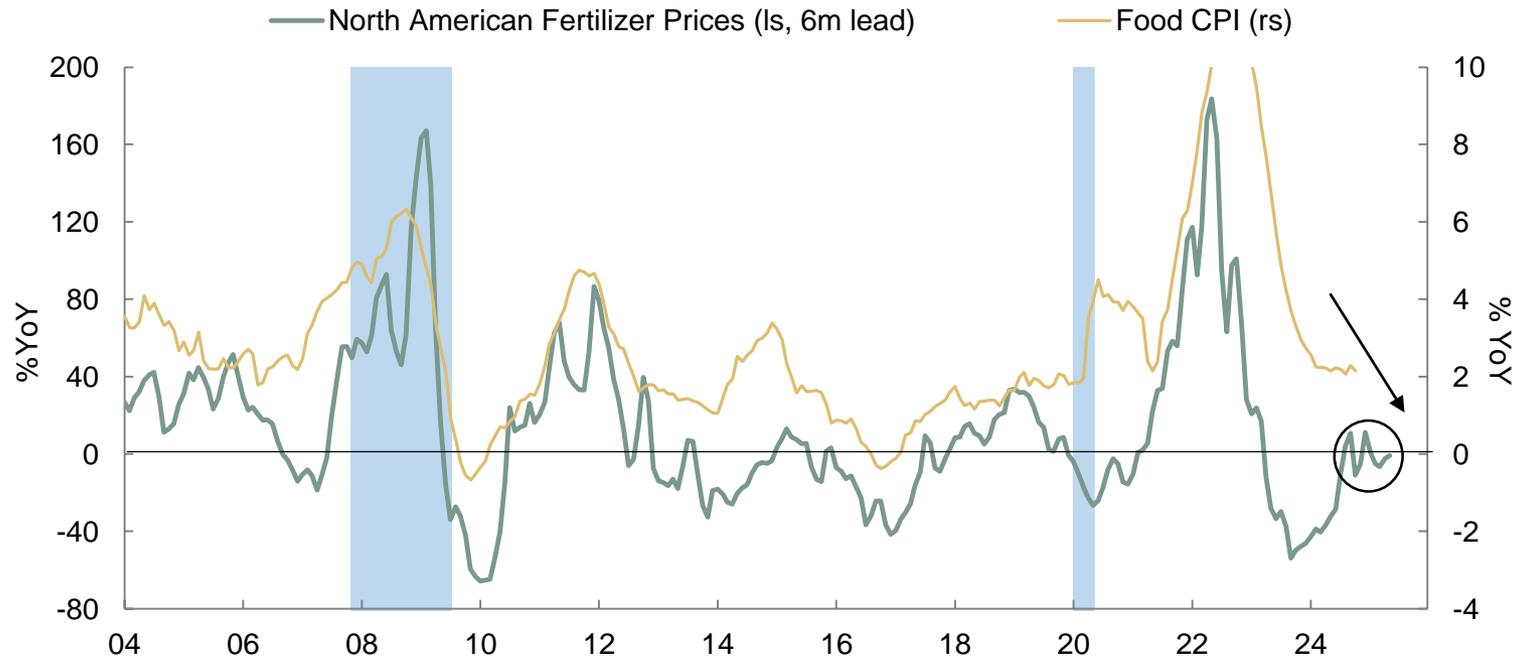
Shelter Costs Follow Home Prices



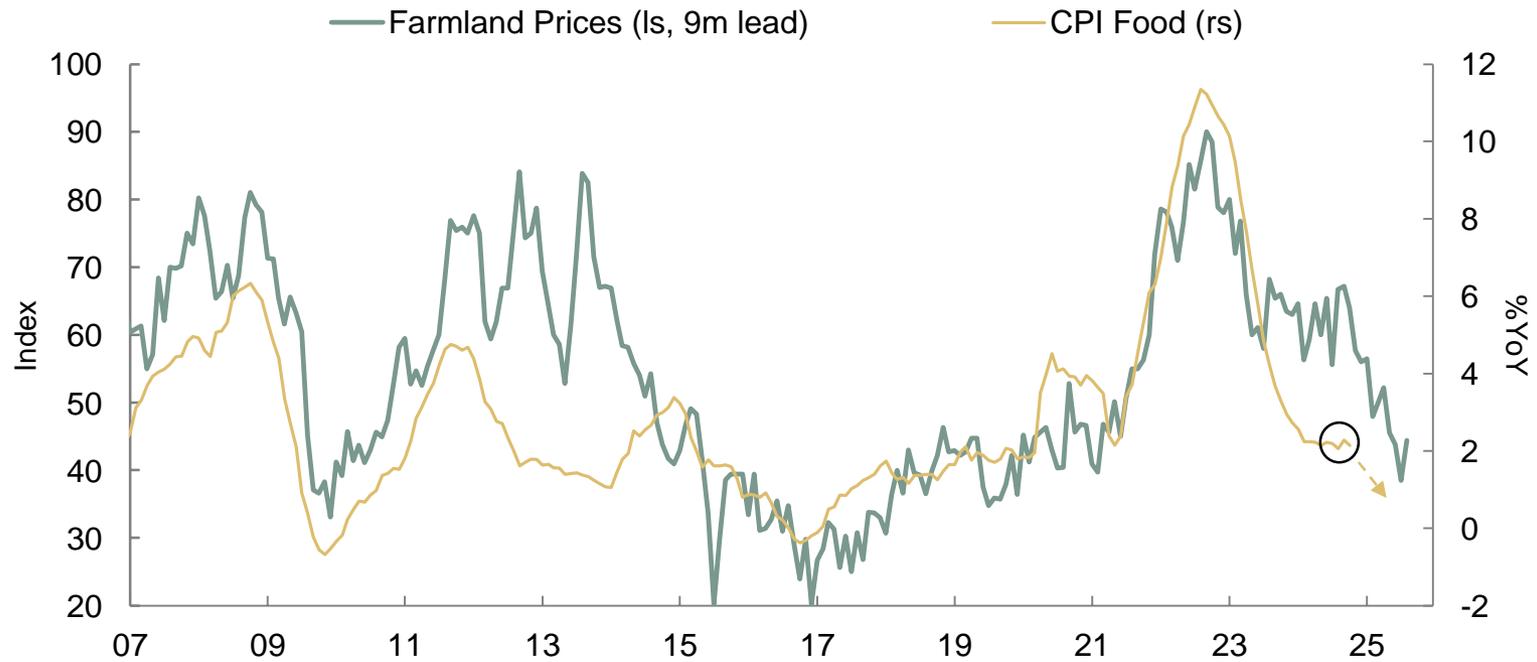
Rental Reprieve Coming



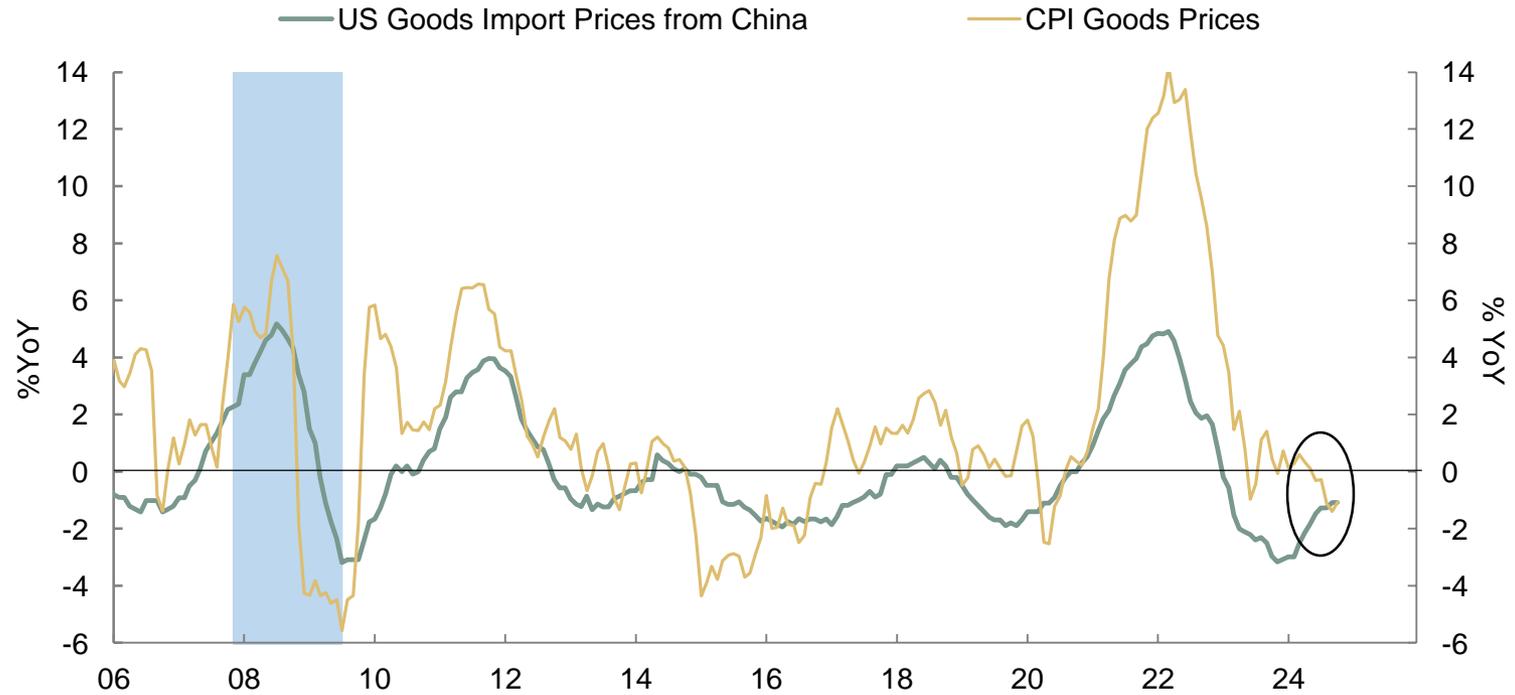
Lower Input Costs



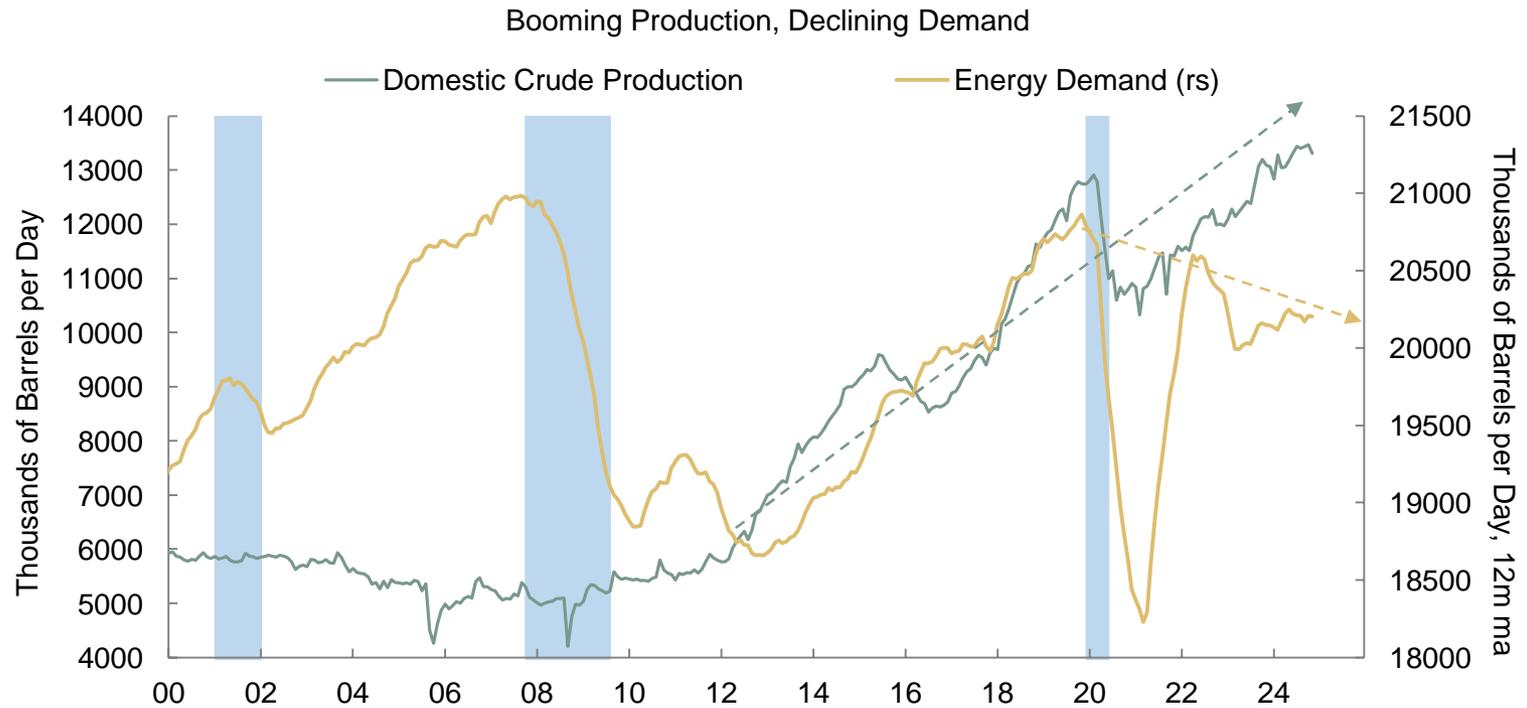
Farmland Prices Continue to Disinflate



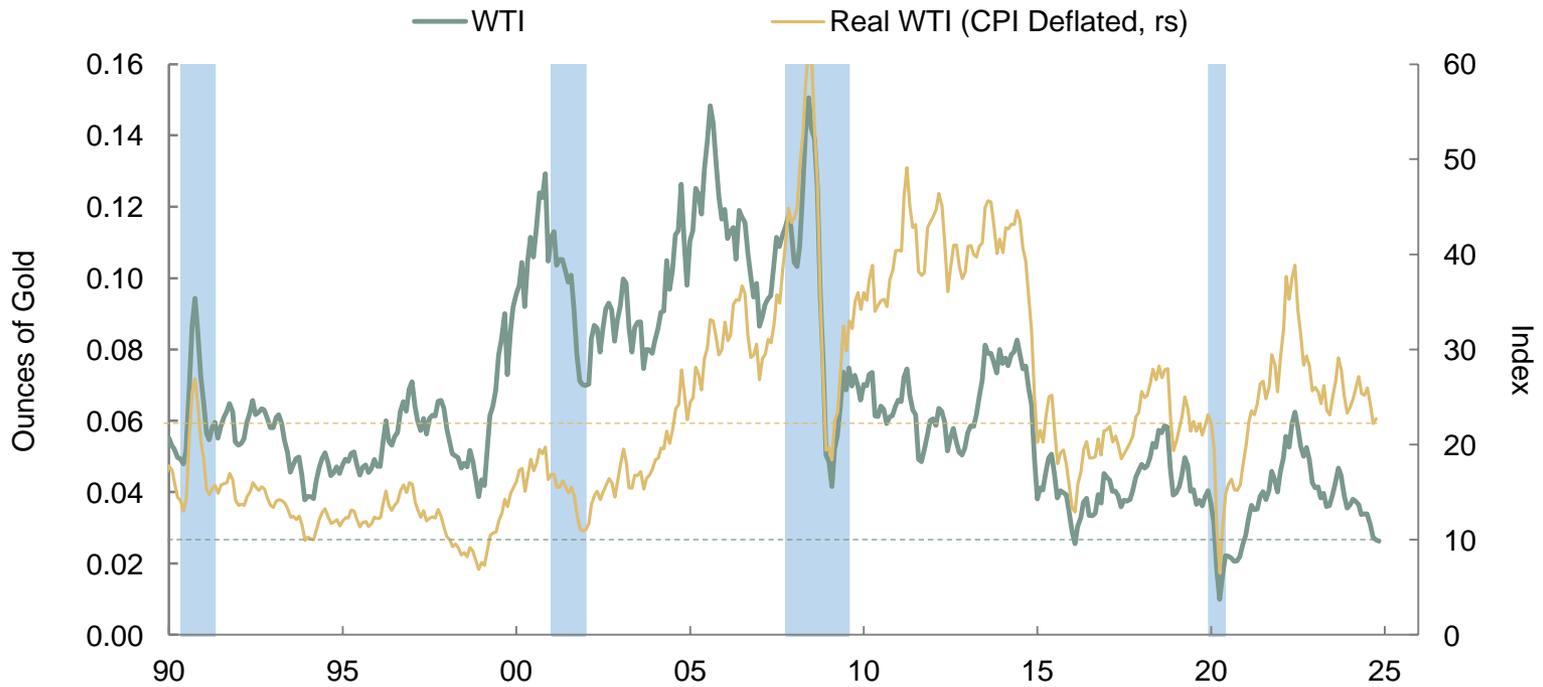
China is Exporting *Deflation*



An Energy Dominant US

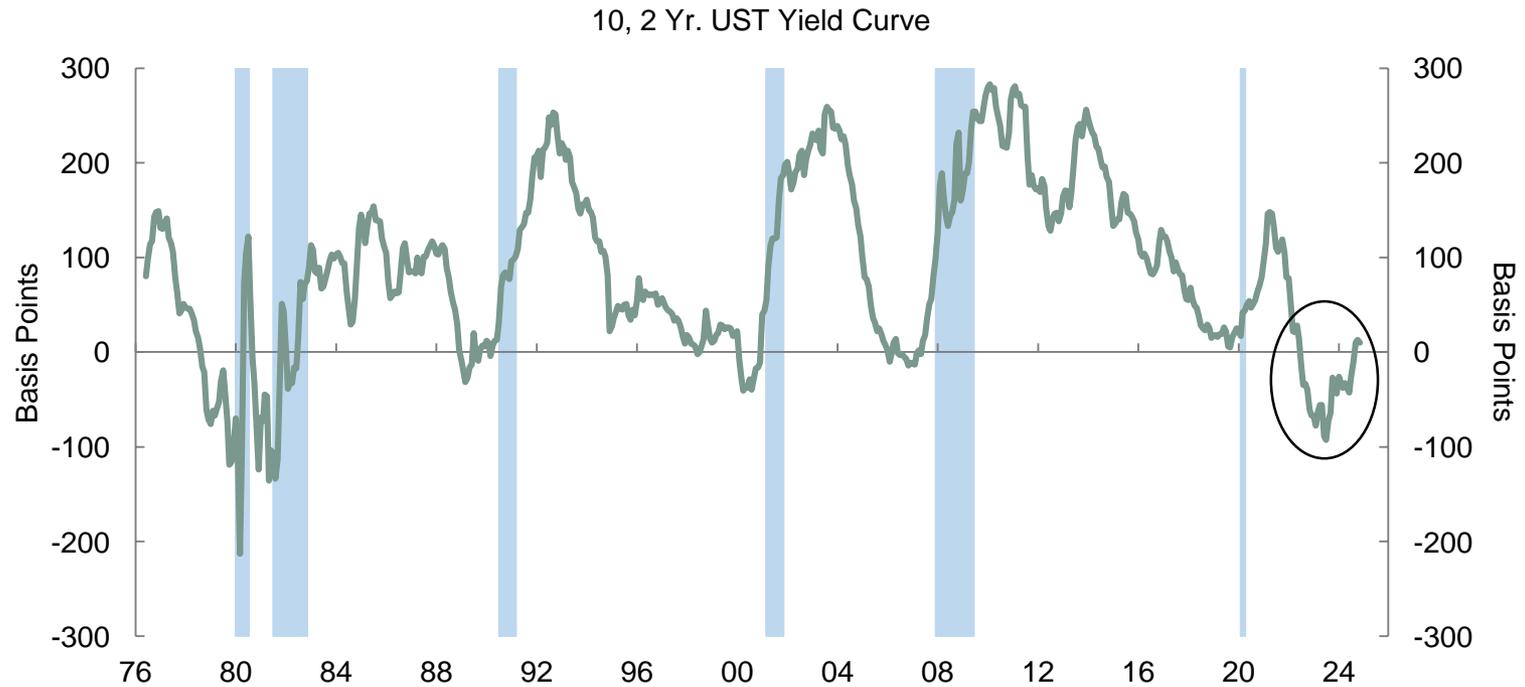


Real Oil is Really Cheap

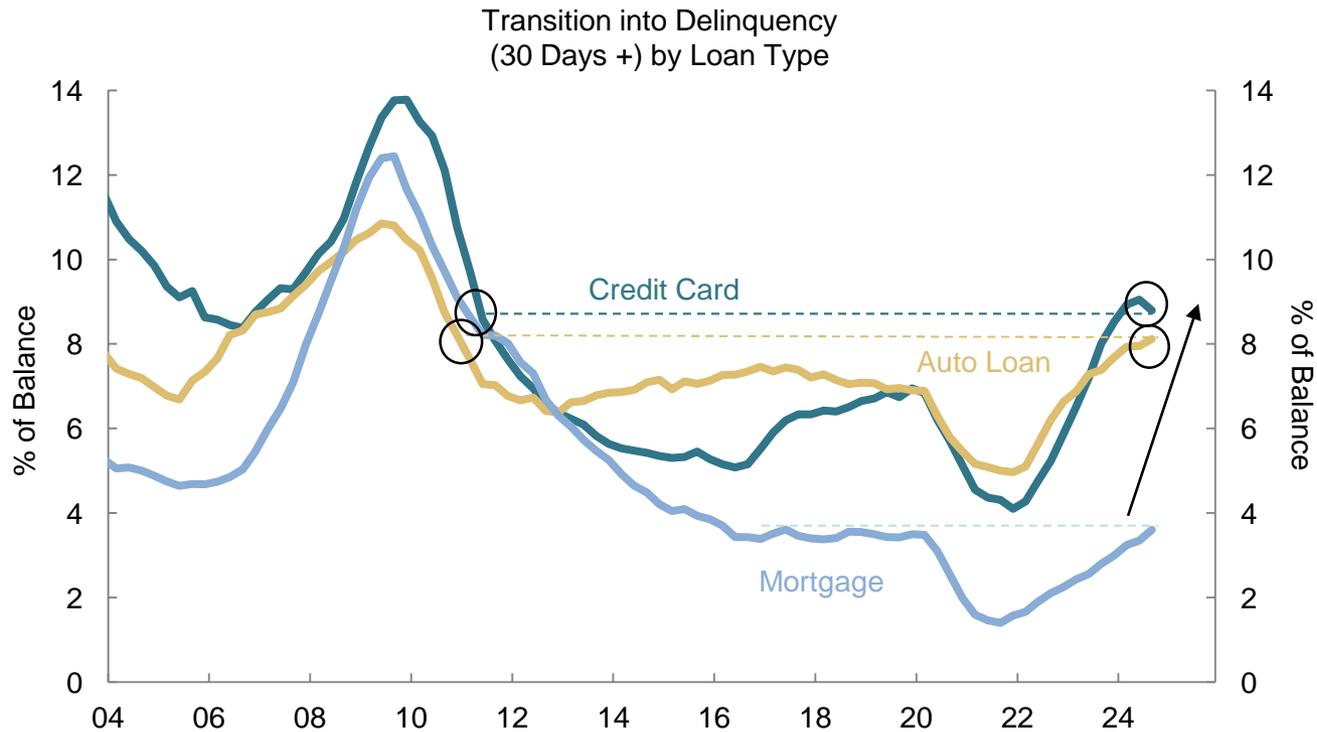


Pockets of Weakness

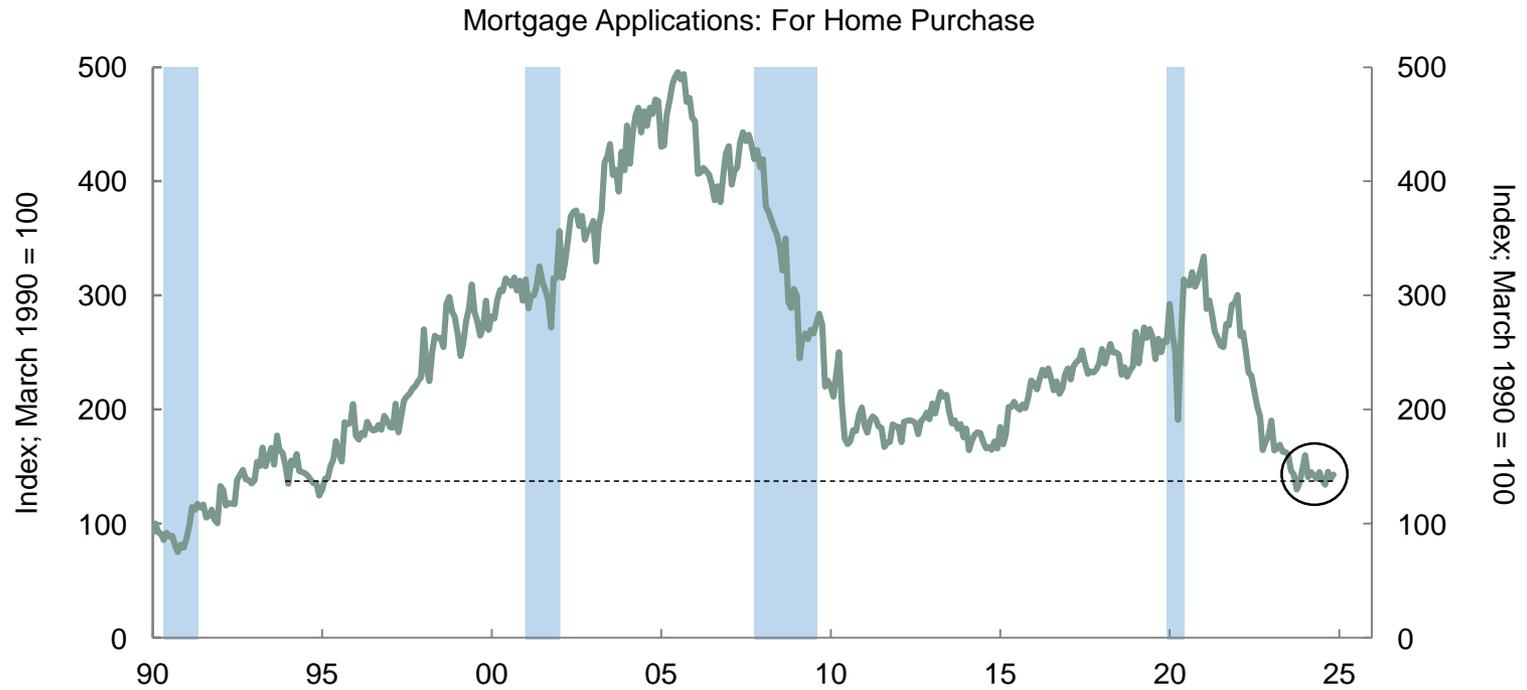
Uh Oh! Generational Curve Inversion Over



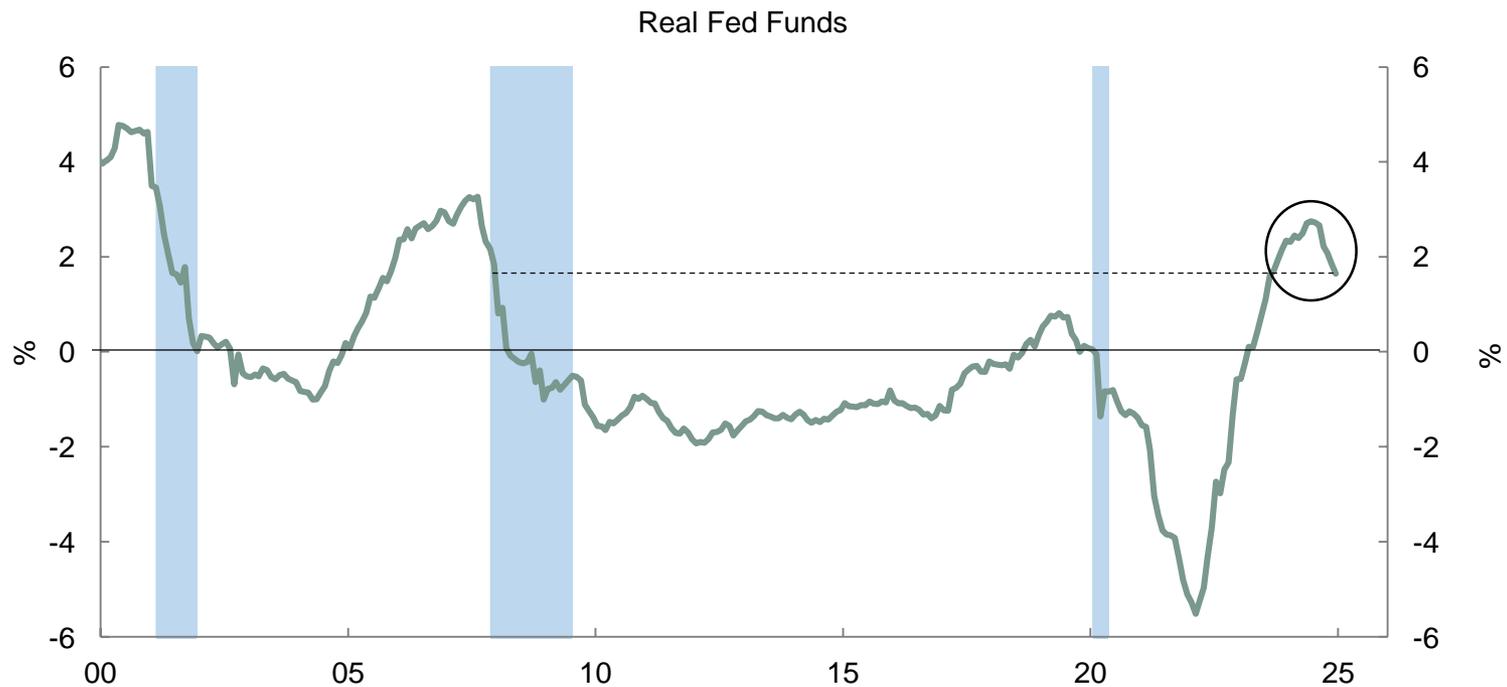
The Consumer is Strained



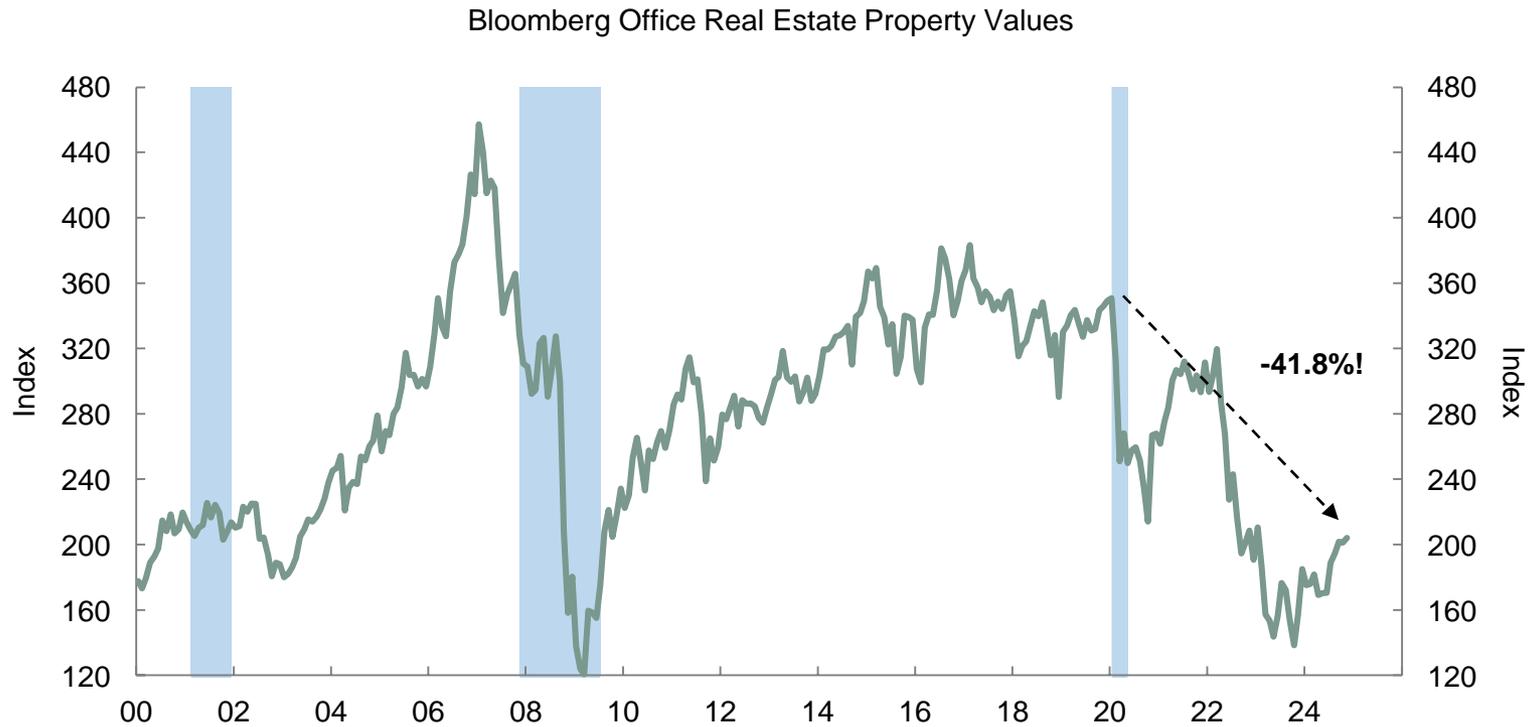
Housing — Any Takers? Anyone At All?



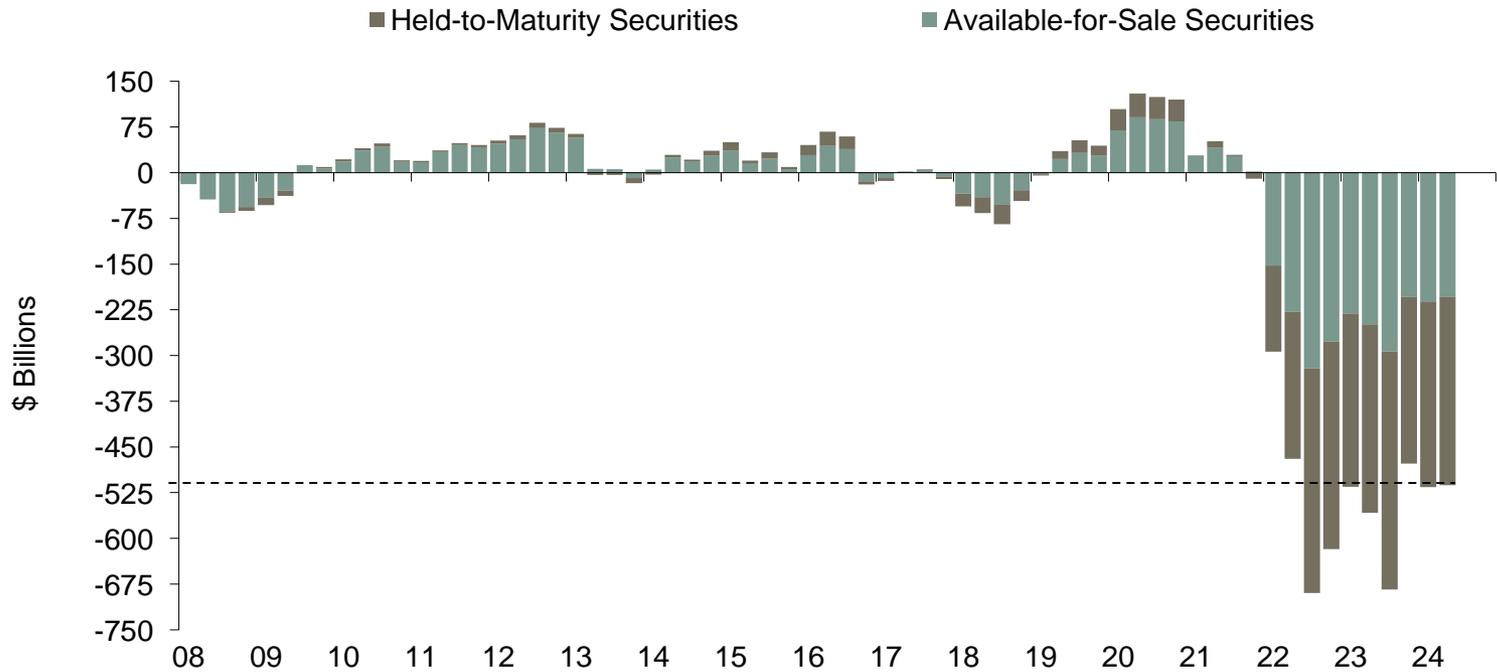
Debt is No Longer Being Inflated Away



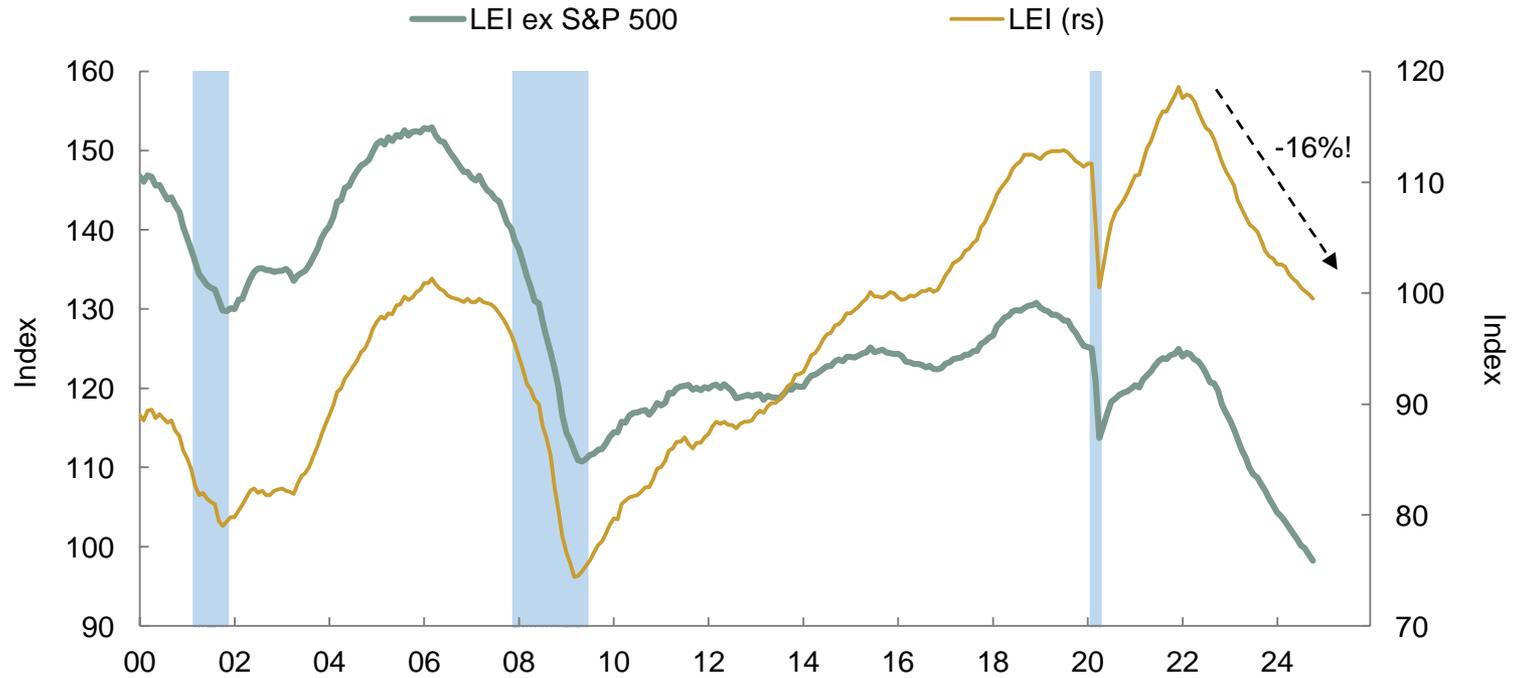
CRE Woes Concentrated in Office Sector



Banks in Trouble?

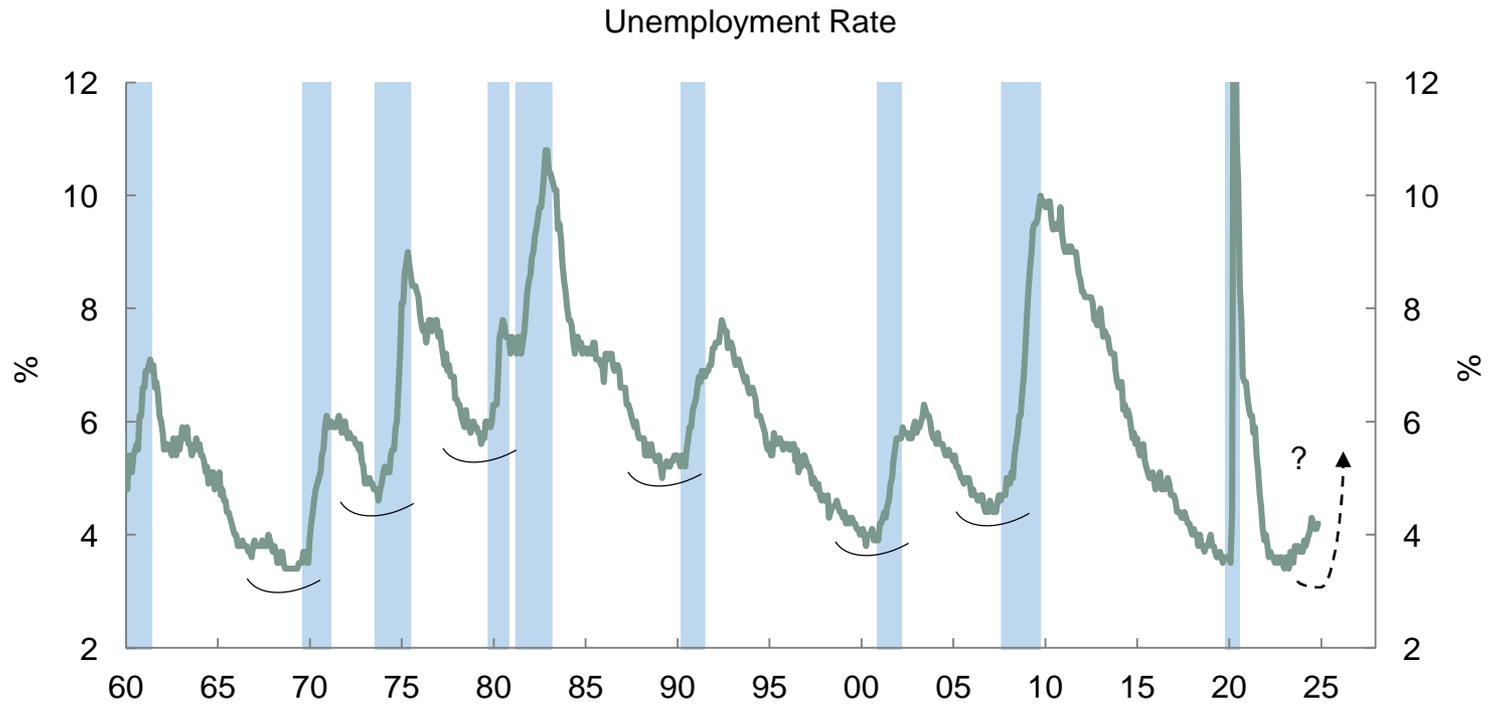


Leading Indicators Flashing Red

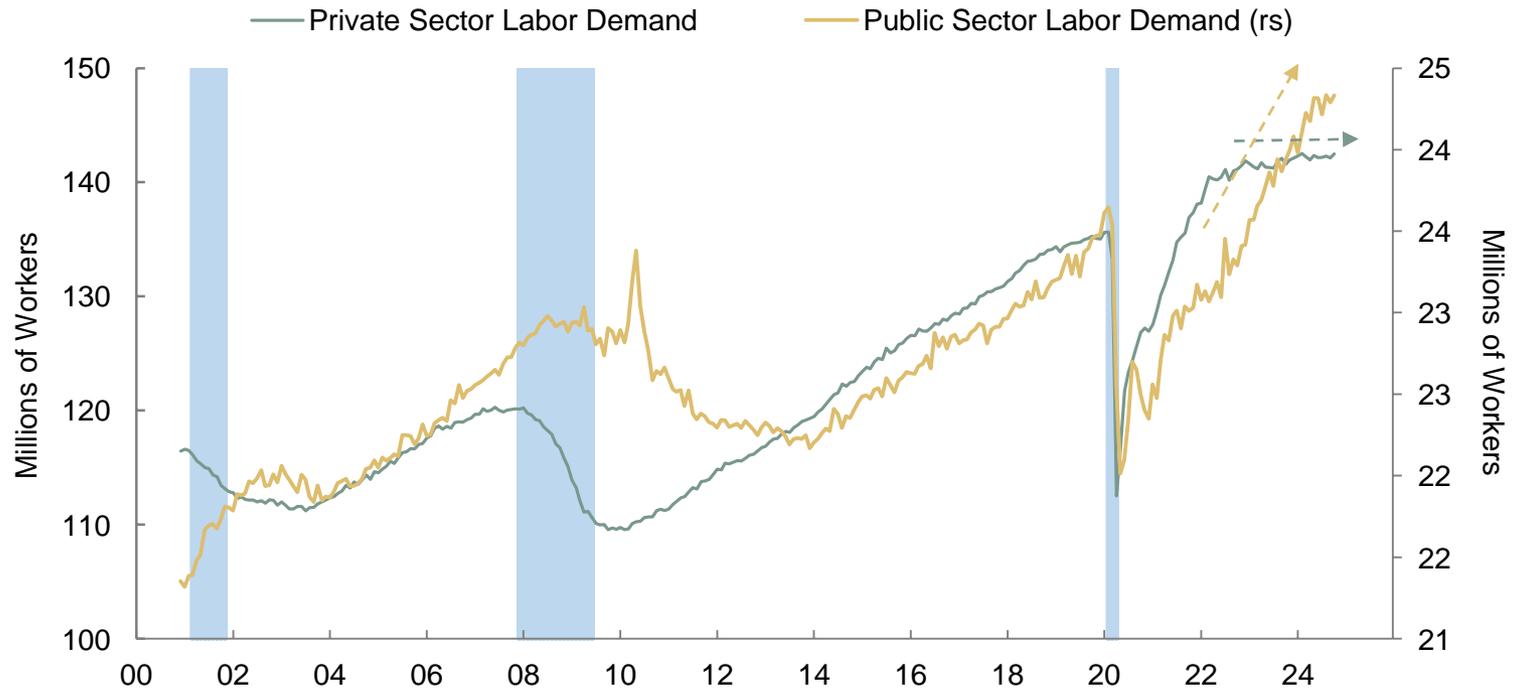


Shaky Labor Market

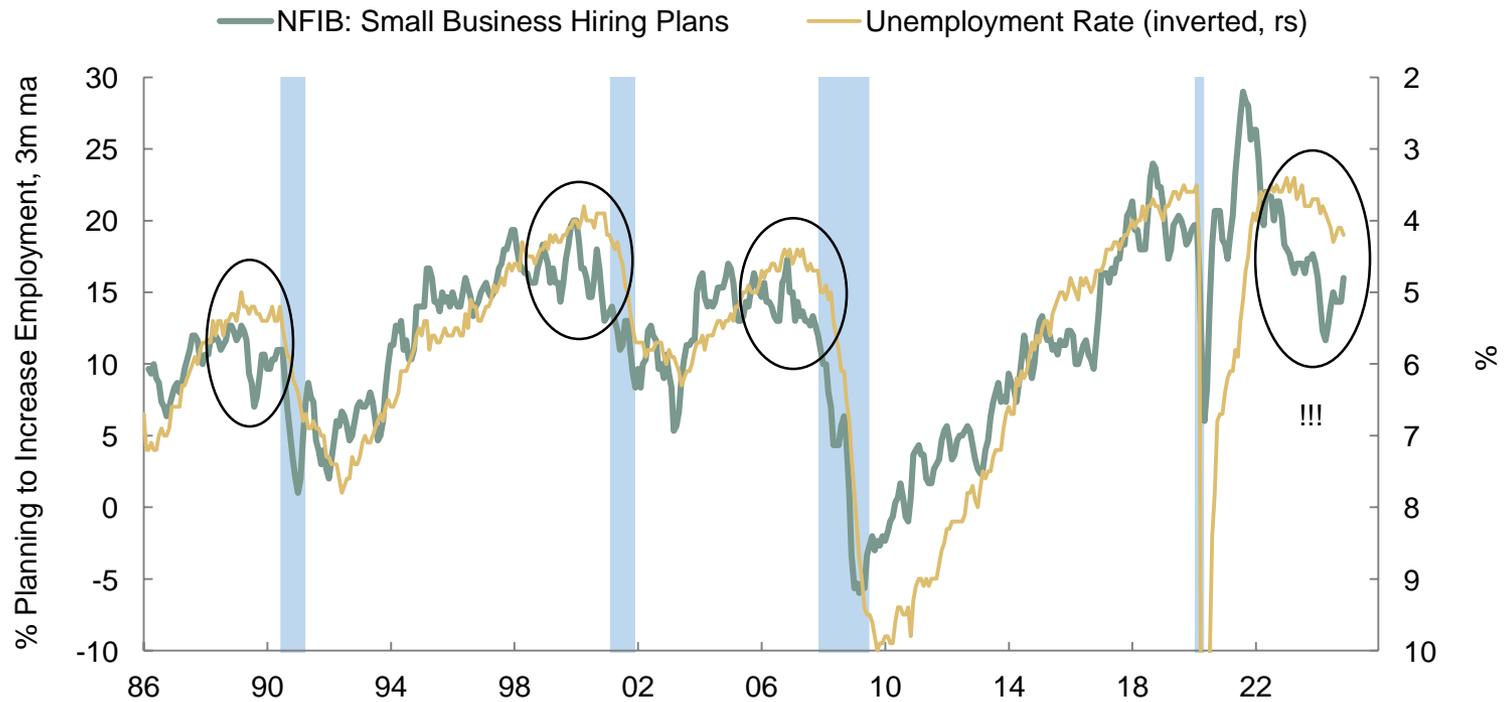
Ultra Low Unemployment Drifting Higher



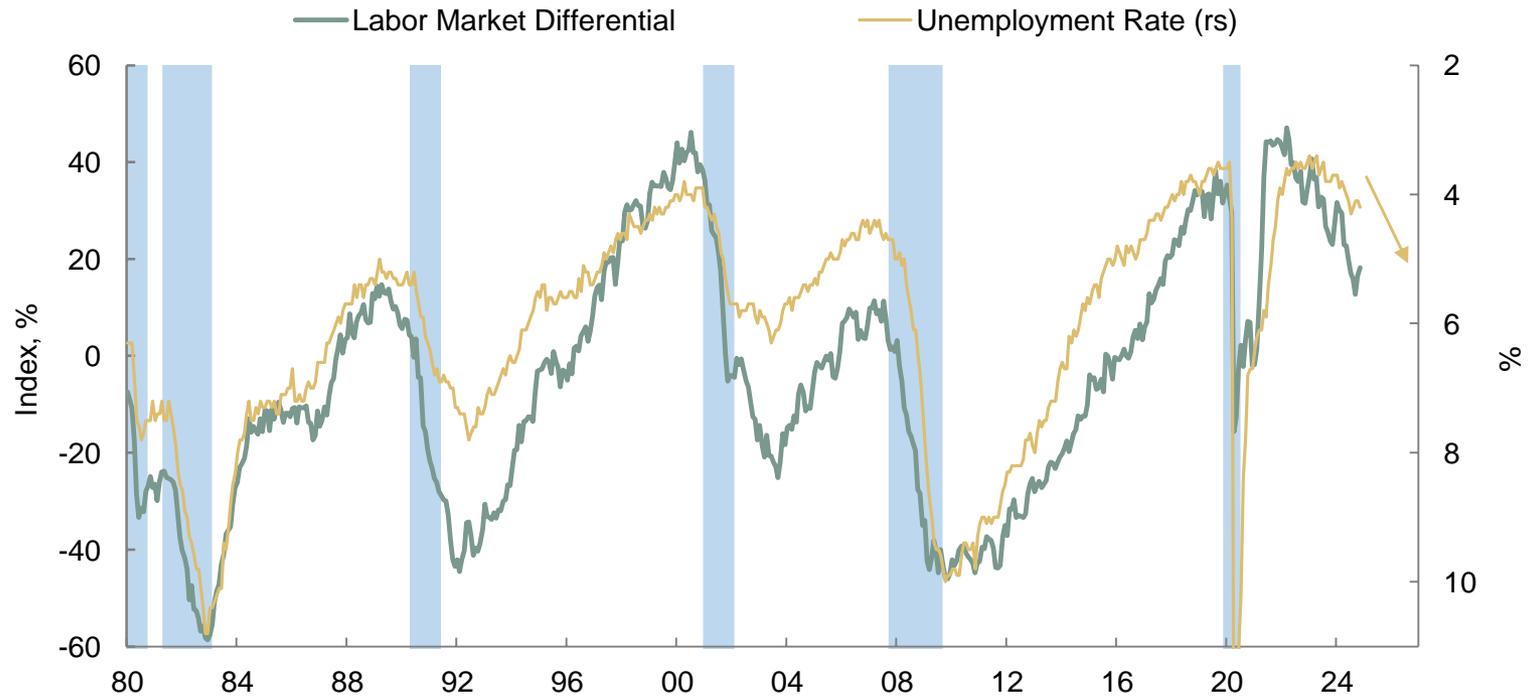
Private Sector Labor Demand is Stagnant



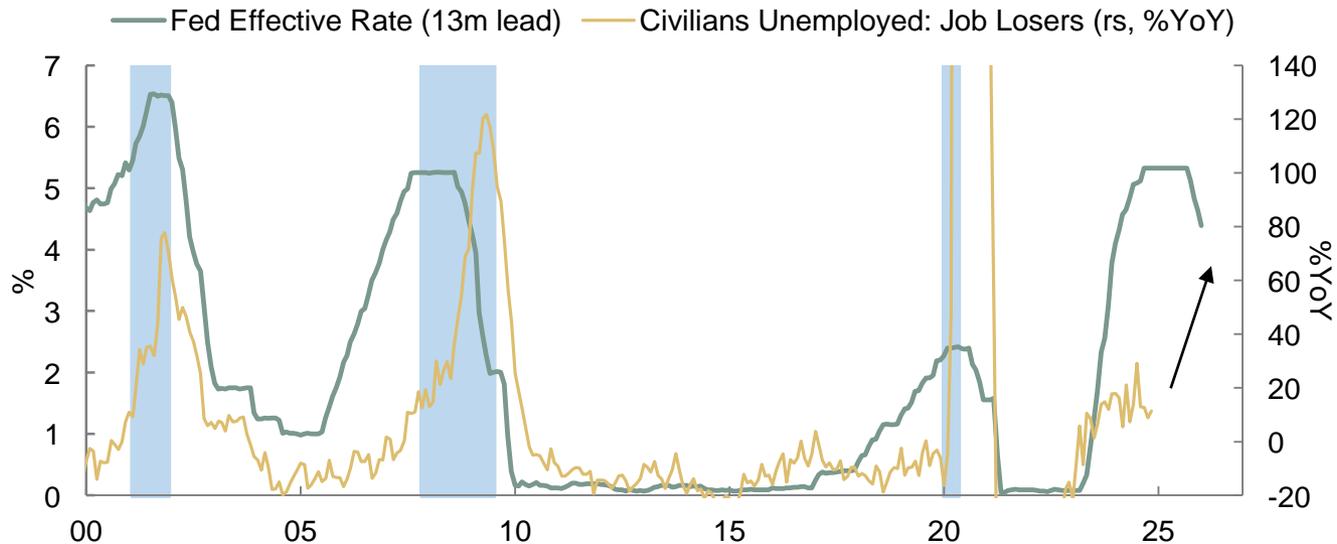
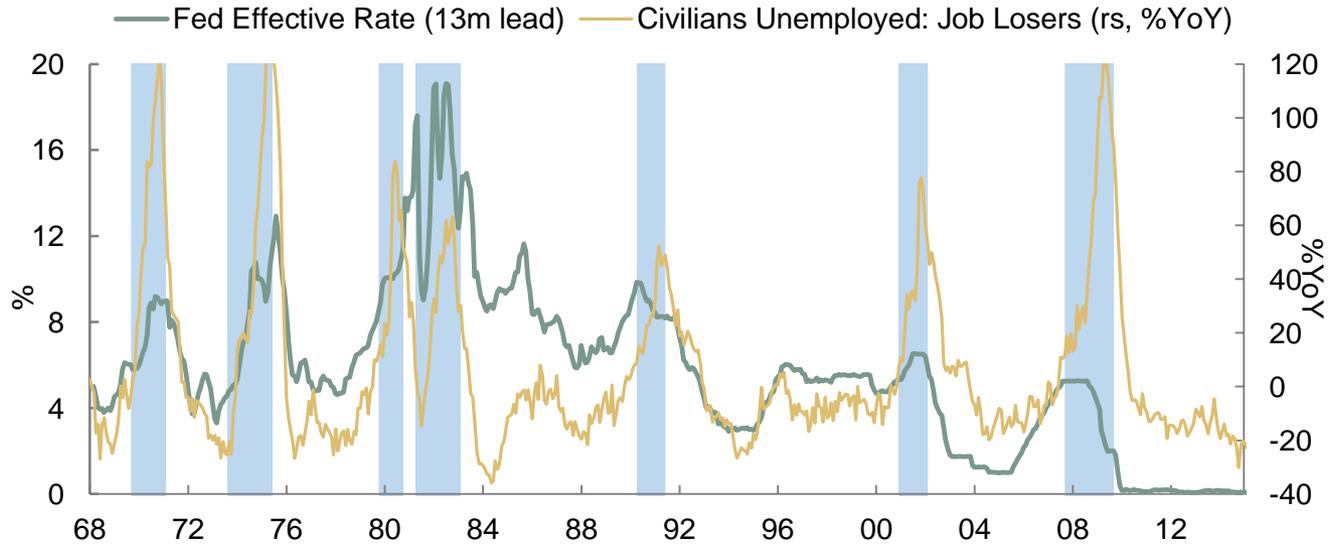
Small Business Blues



Are Jobs Plentiful or Hard to Get?

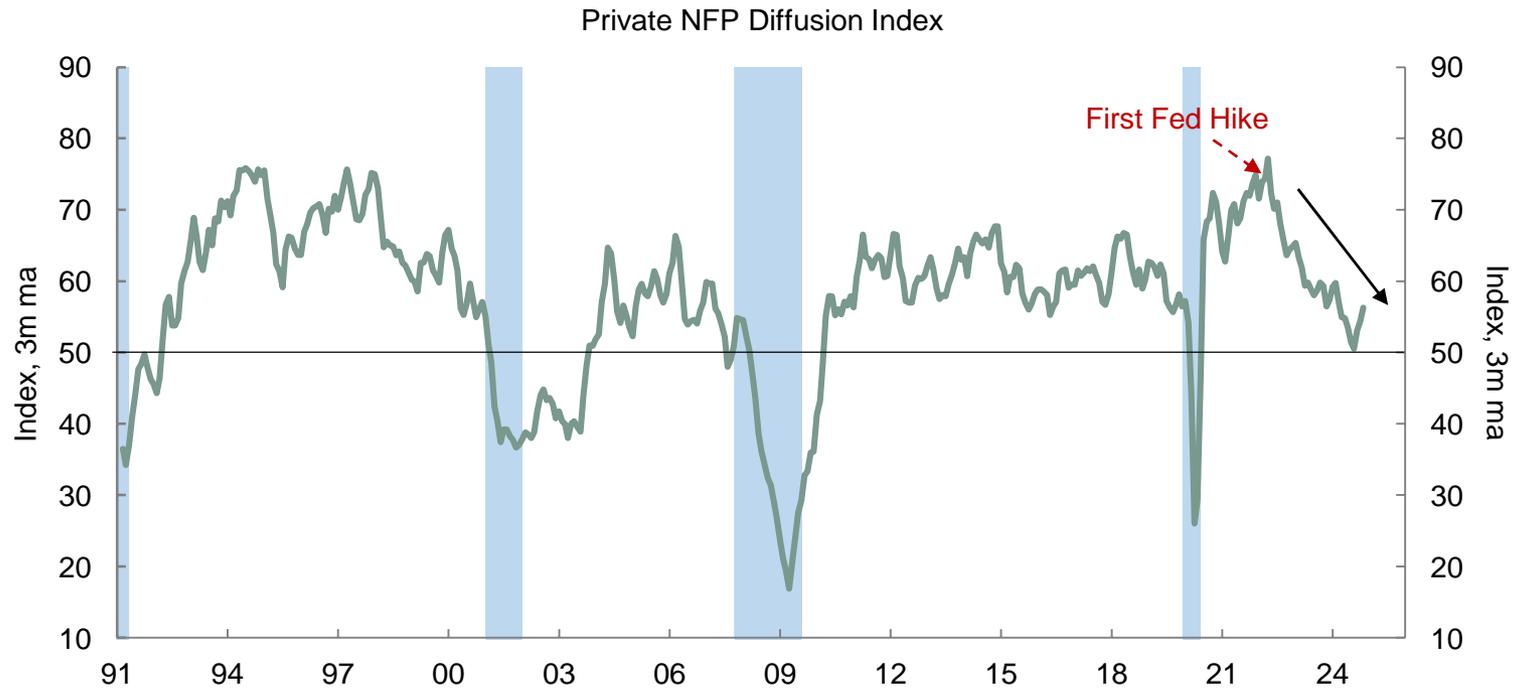


The 13 Month Policy Lag



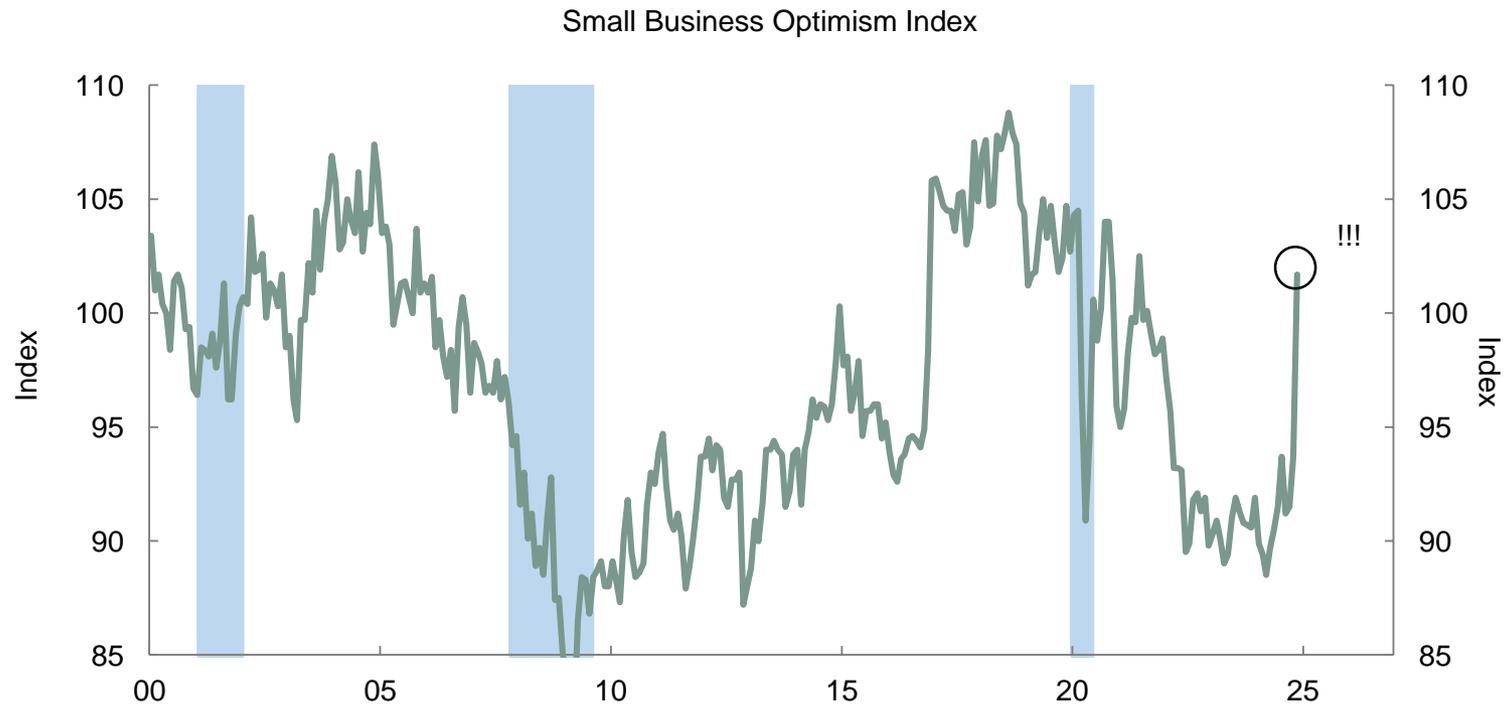
Sources: Federal Reserve, BLS, Haver, SMBC Nikko

Breadth of Job Growth is Collapsing

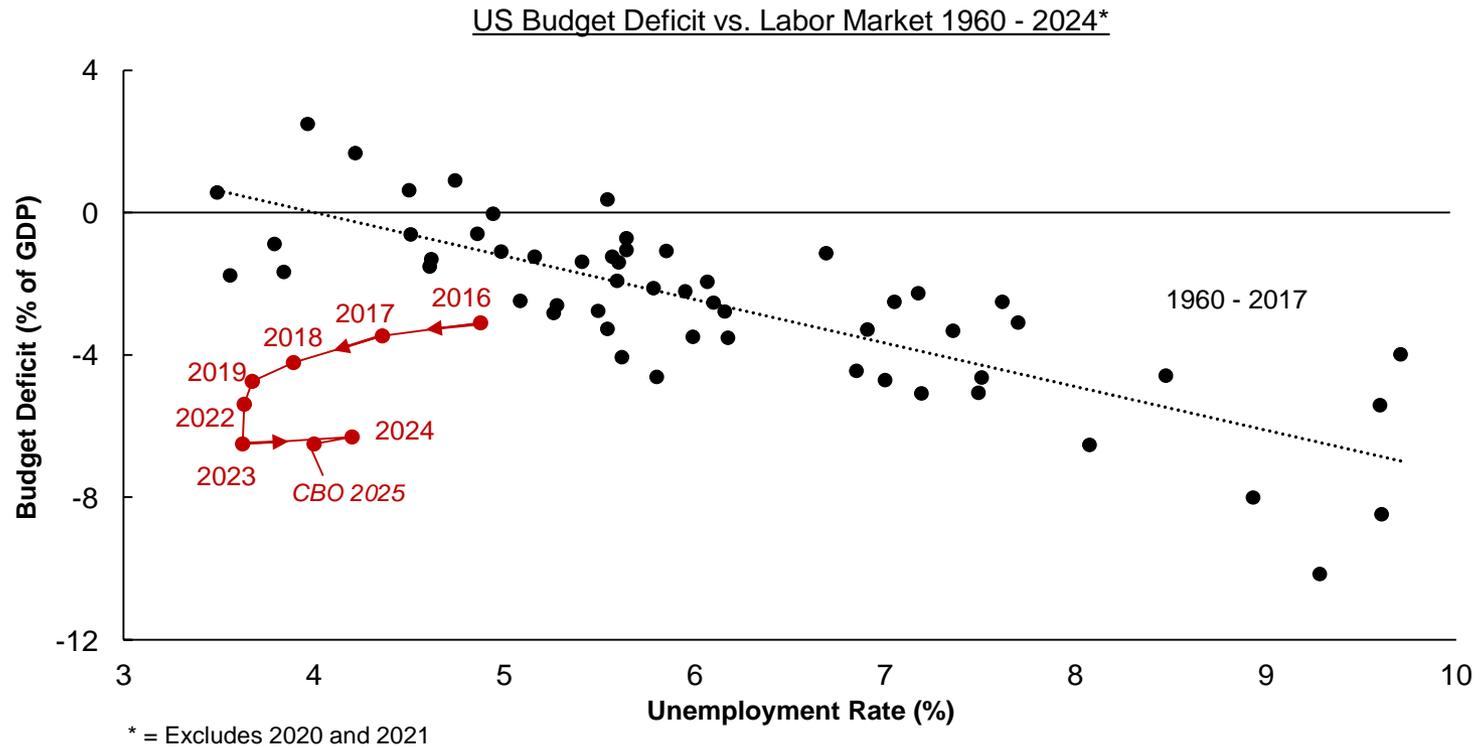


Near & Long-Term Growth Tailwinds

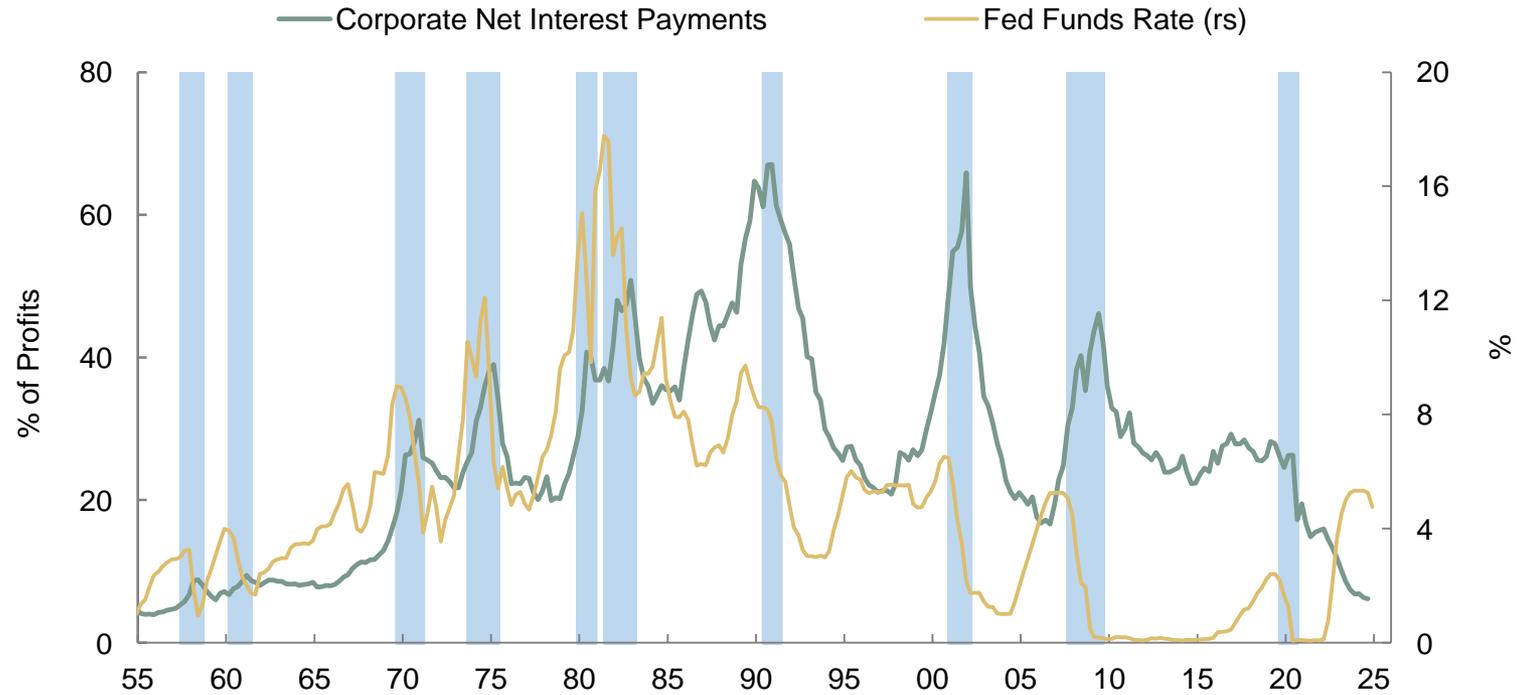
Household *and* Business Psychology are Surging



Fiscal Profligacy by Any Measure

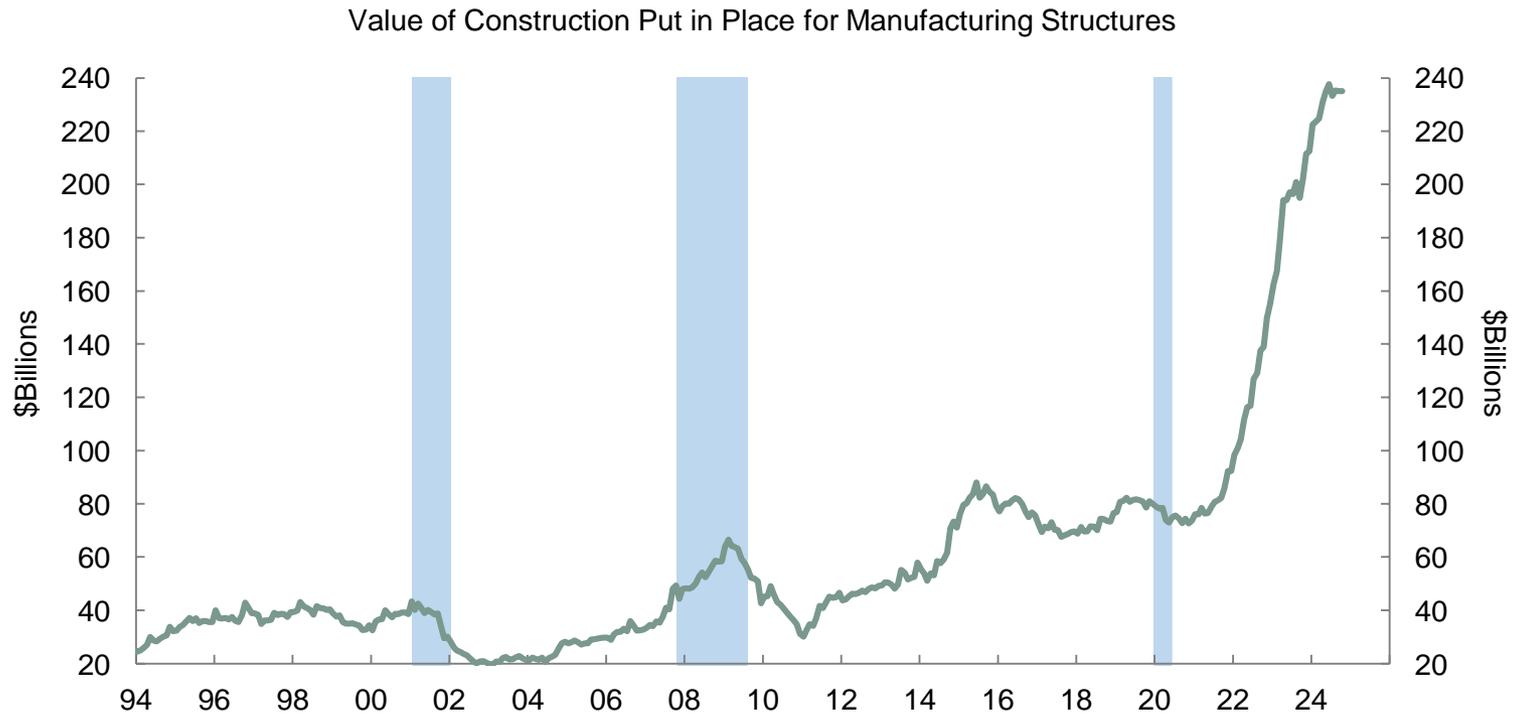


Large Corporate Borrowers Unperturbed

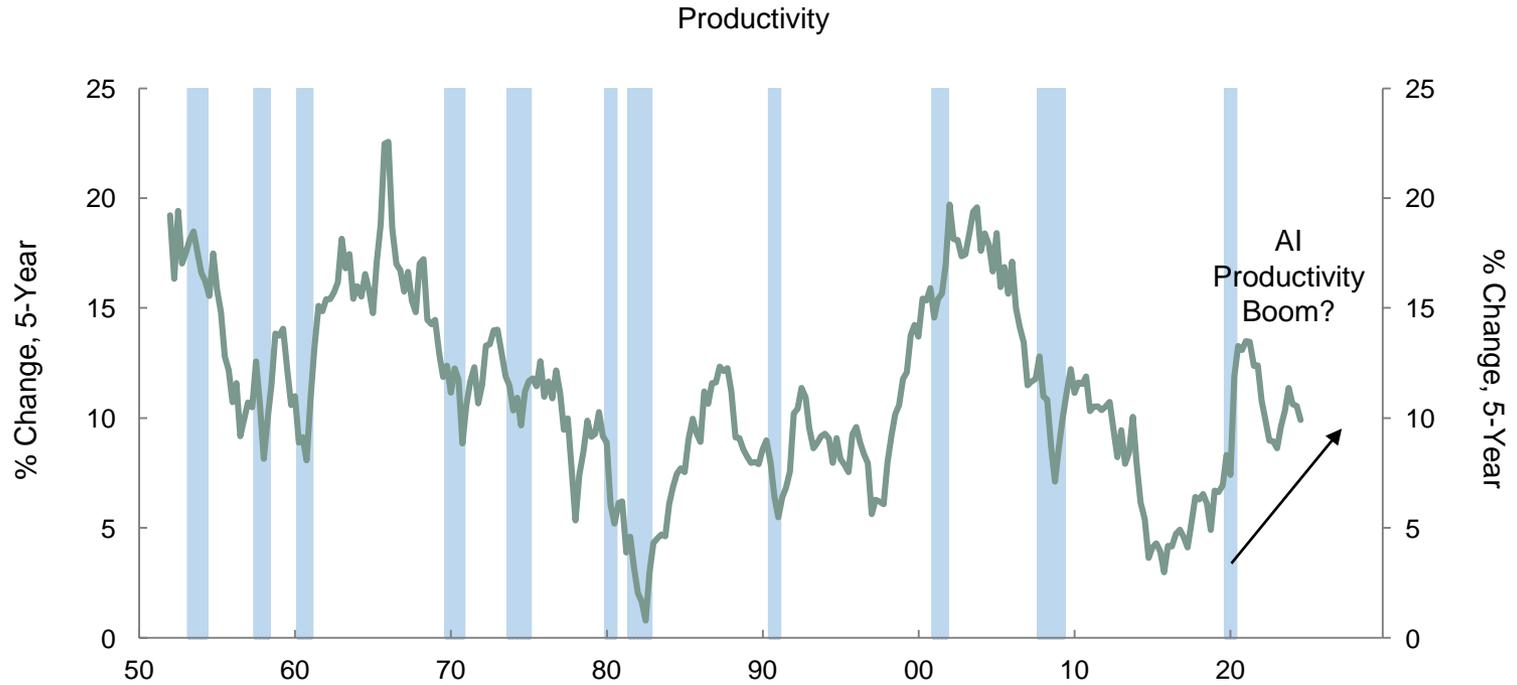


Sources: BEA, Federal Reserve, NBER, Haver, SMBC Nikko

American Manufacturing Renaissance



AI Inspired Productivity Boom?



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