

# Outlook 2025: Good Times Roll but with Risks Lurking

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# House Views

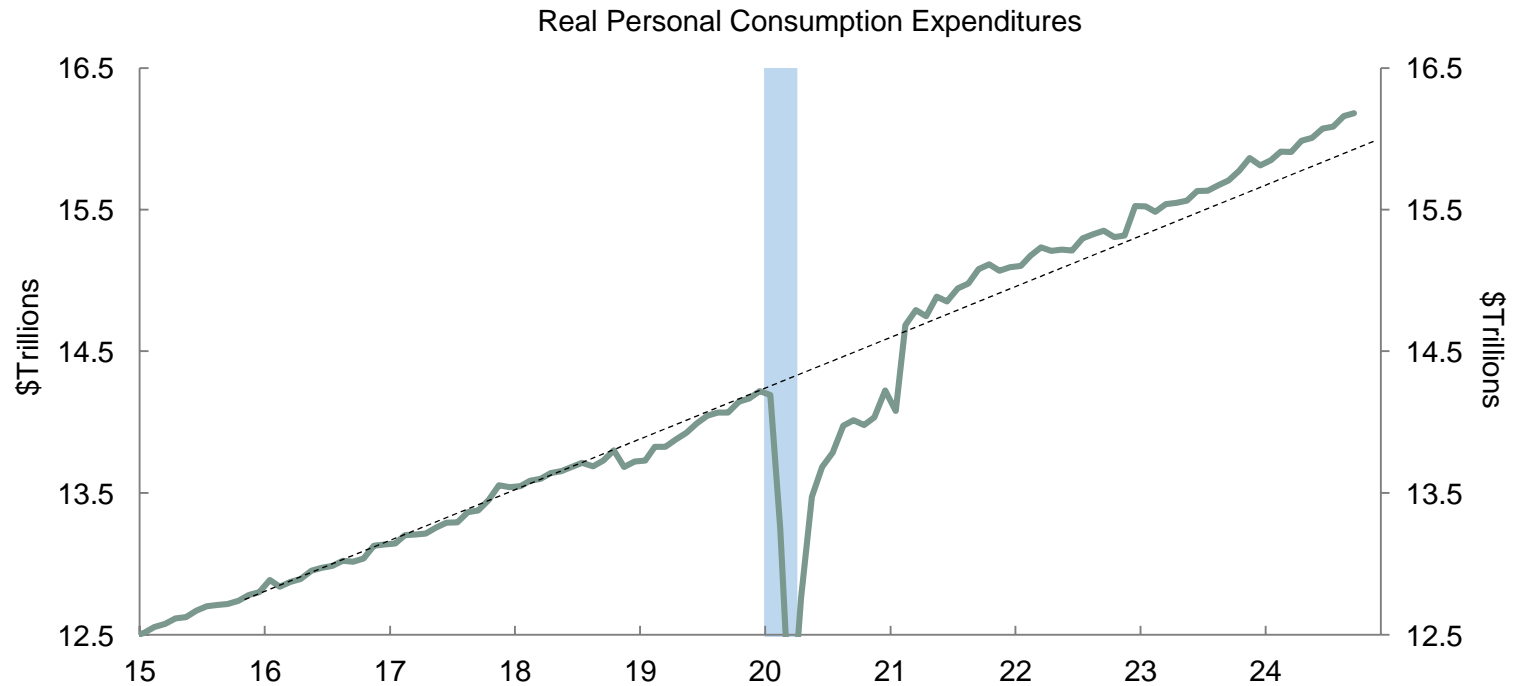
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- At 2.7% YoY, US economic growth is robust due to an ebullient consumer and an exceptional fiscal deficit. We expect GDP to pickup to 3.1% and PCE to 3.5%.
- Despite this, inflation is on a 2% glidepath by yearend 2025 and possibly lower, if certain 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.

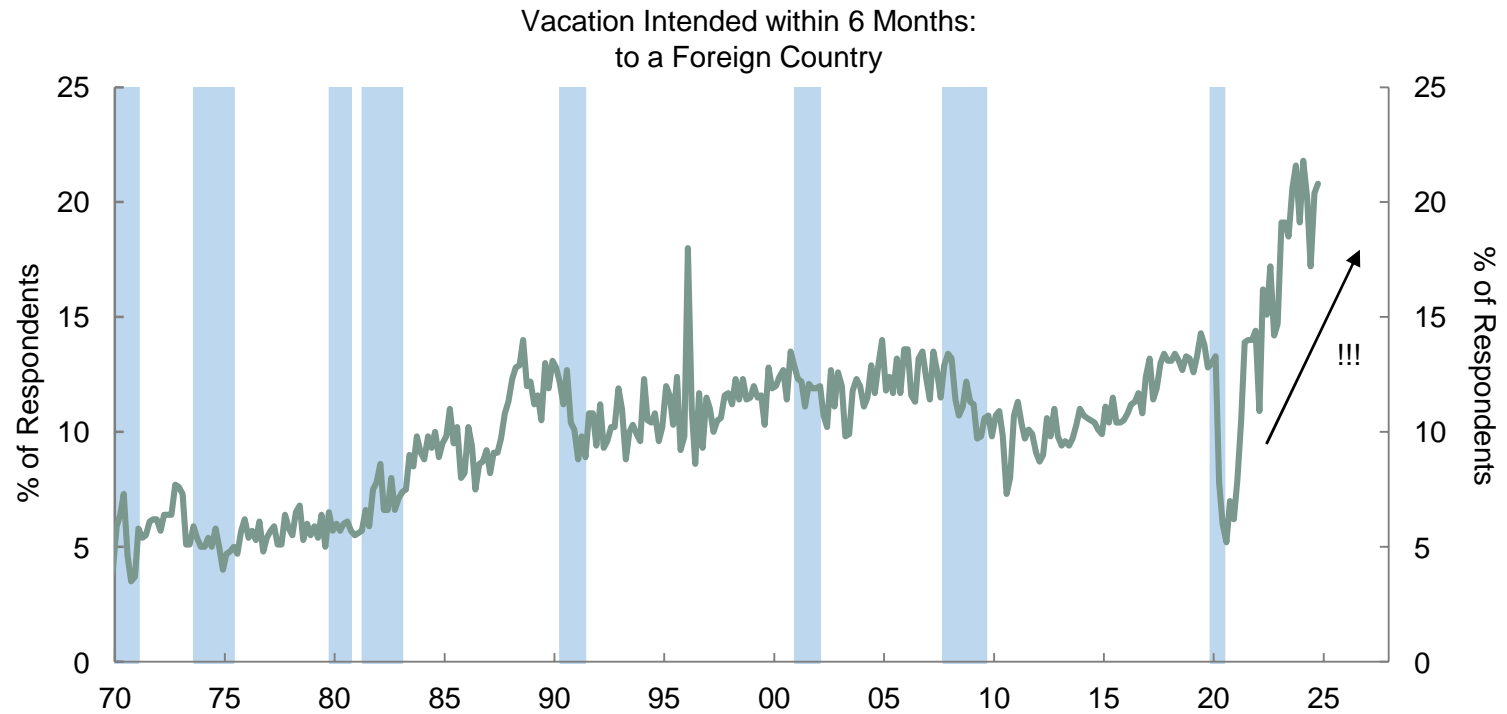
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## The Consumer

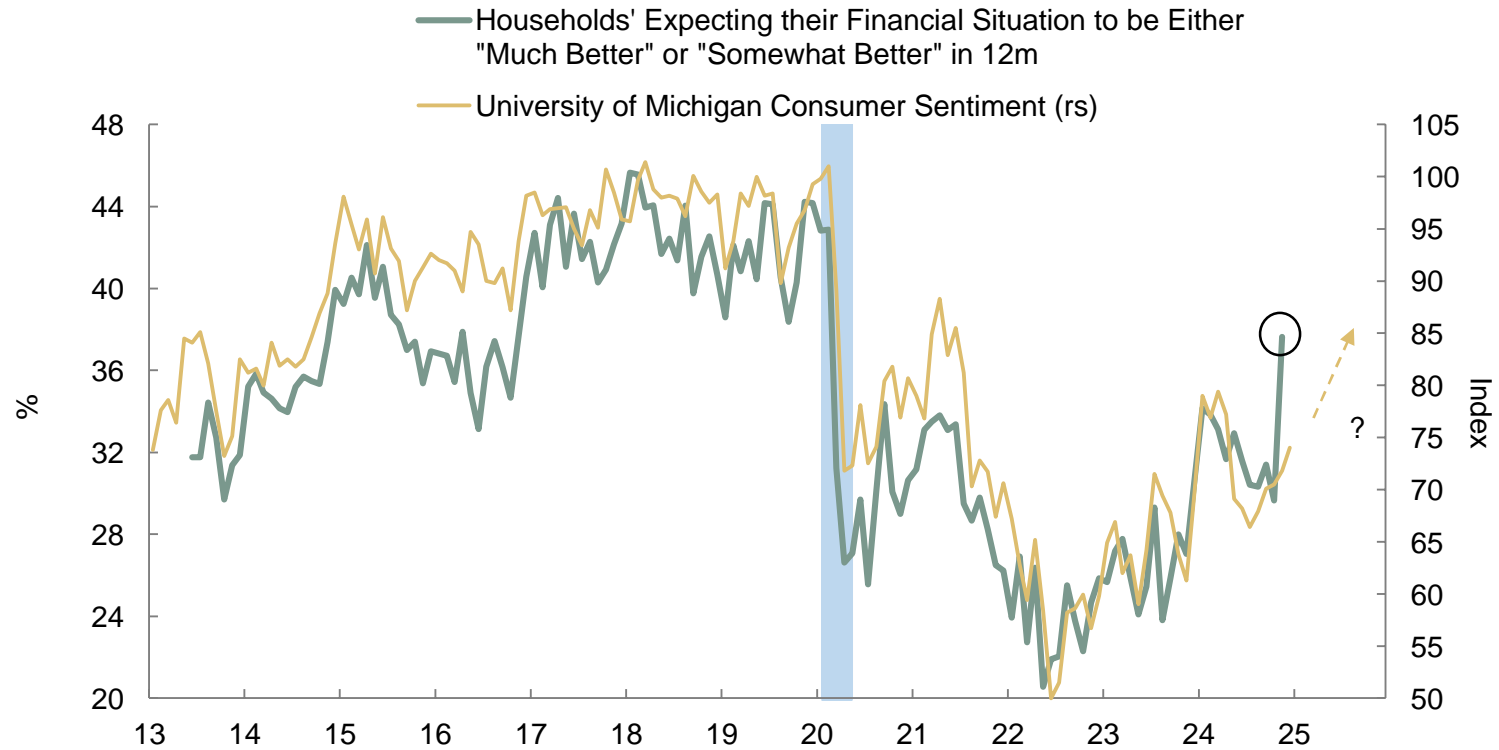
# Above Trend Consumption



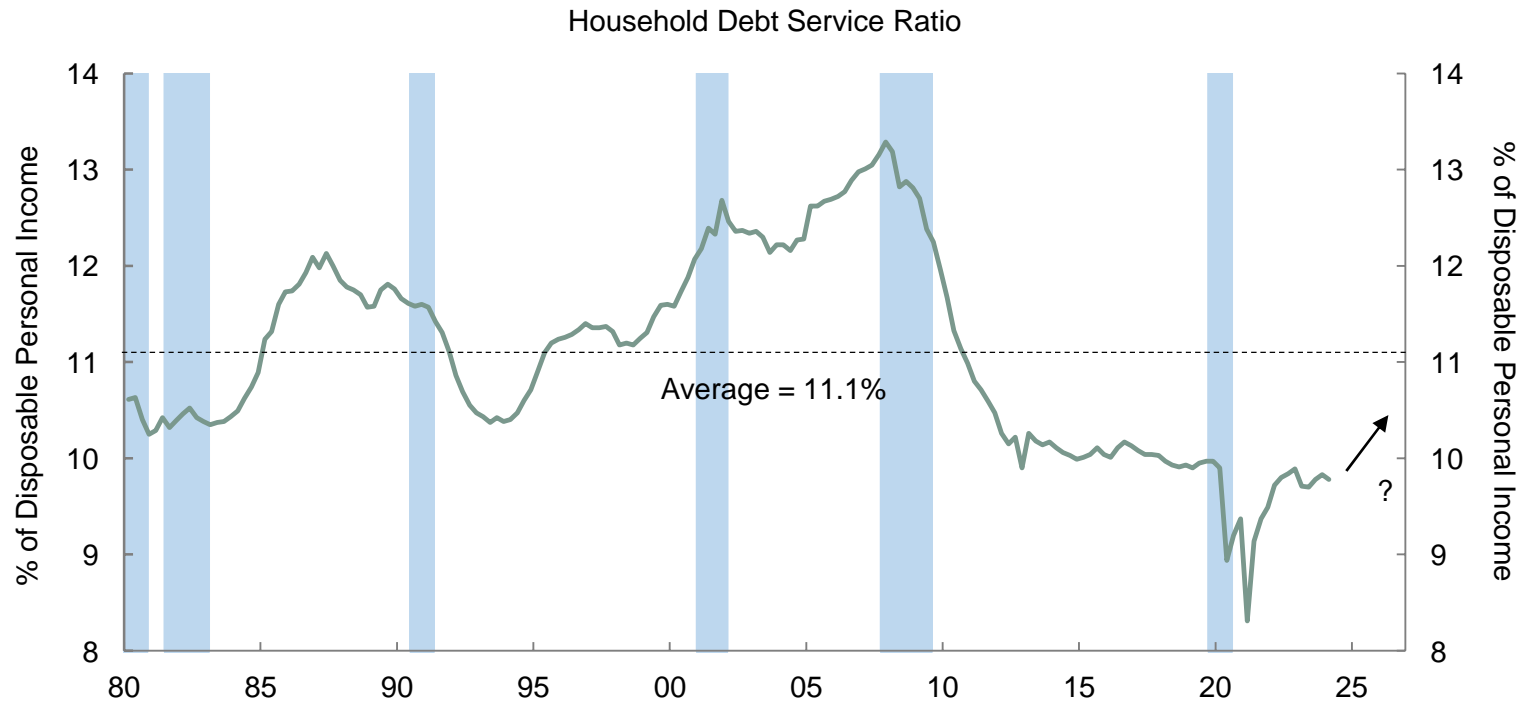
# Vacation Anyone?



# Animal Spirits Unleashed



# Propelled by Low Debt

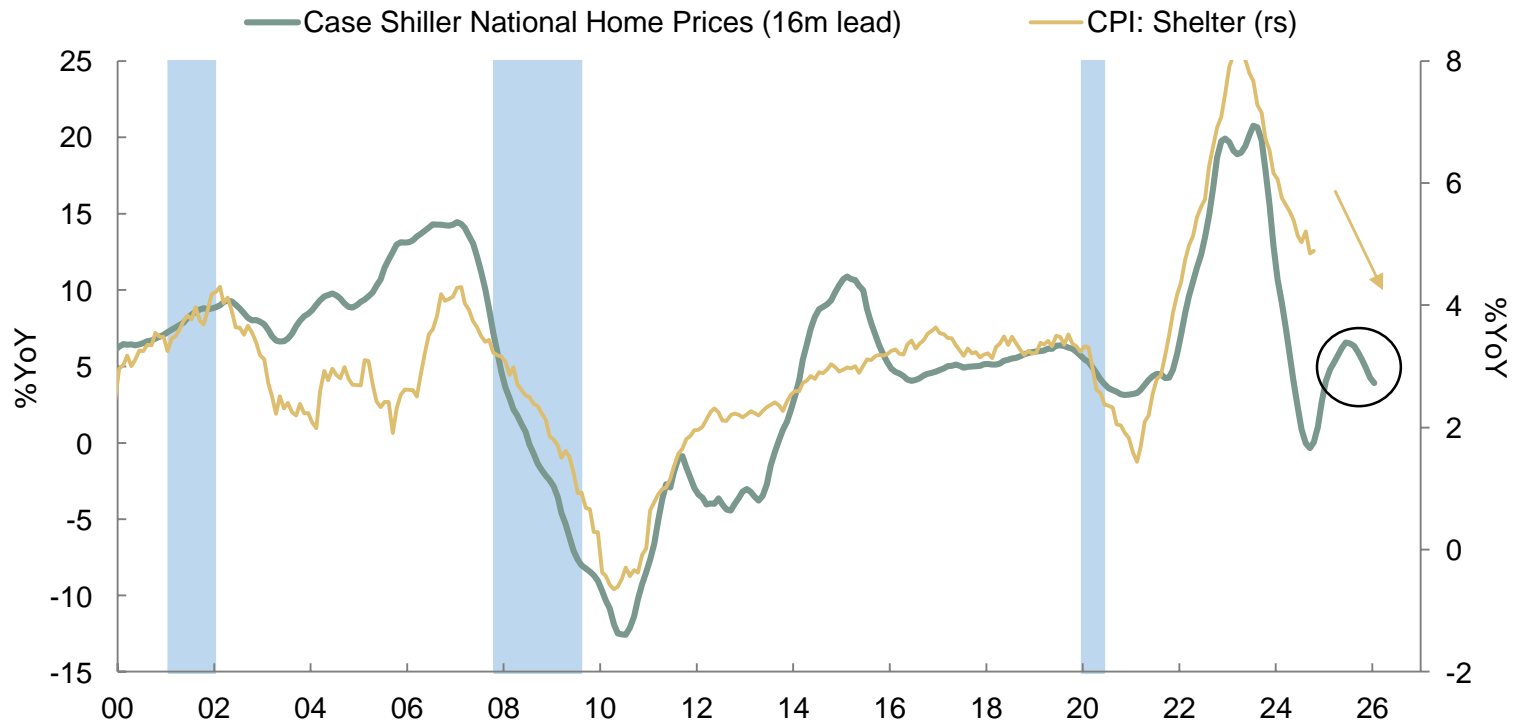


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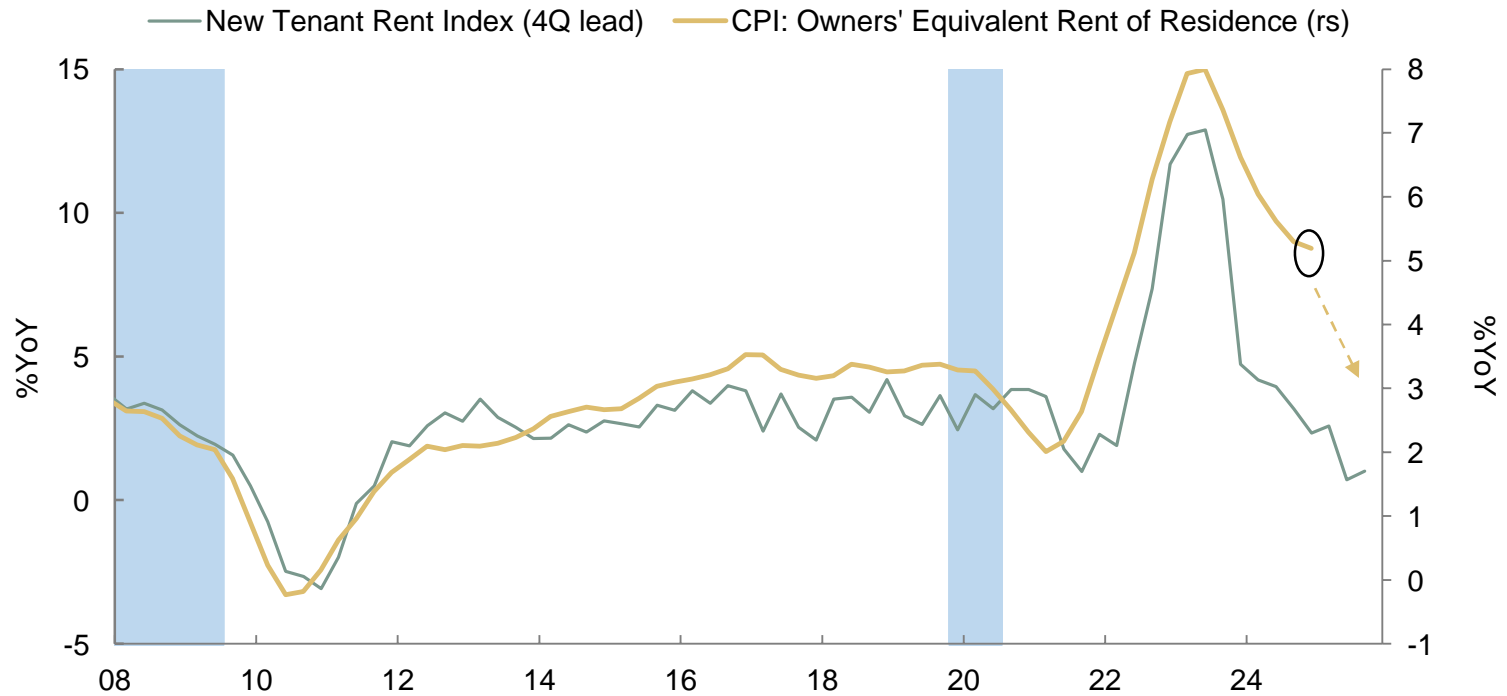
## Inflation Outlook



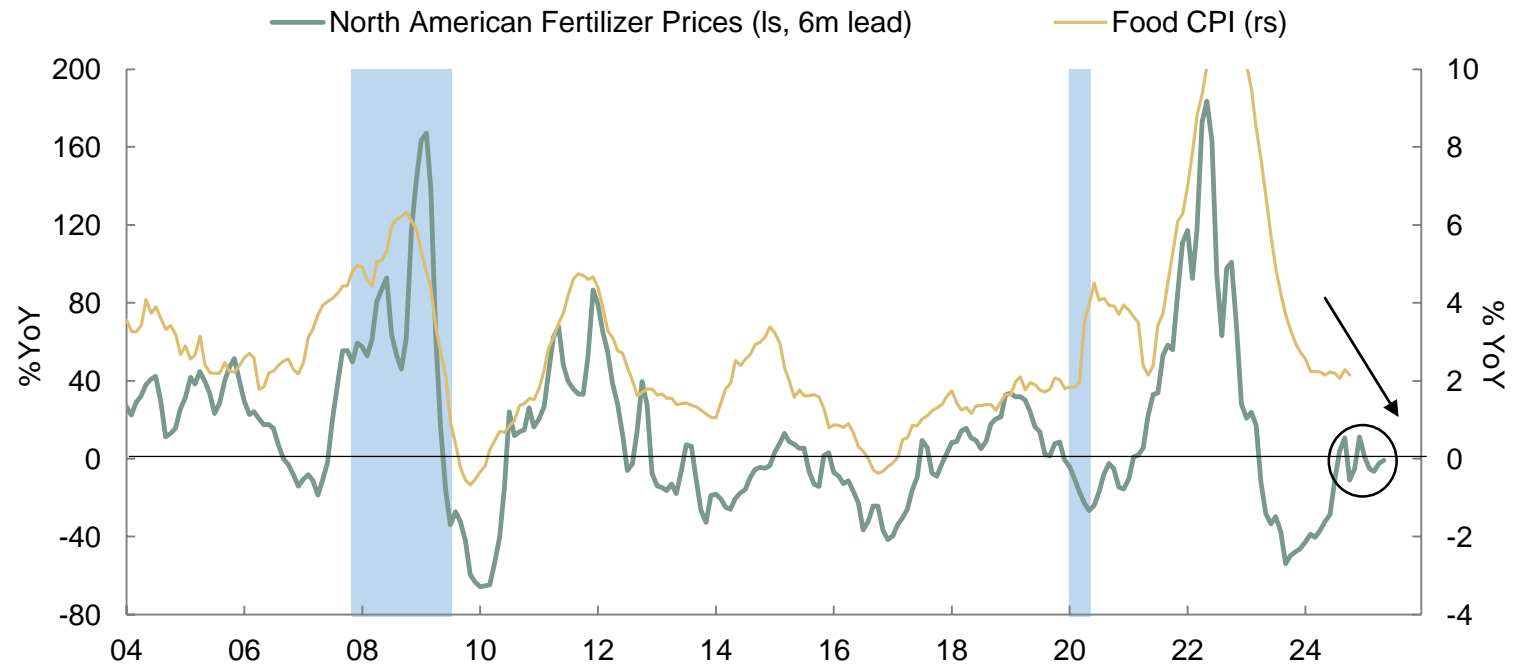
# Shelter Costs Follow Home Prices



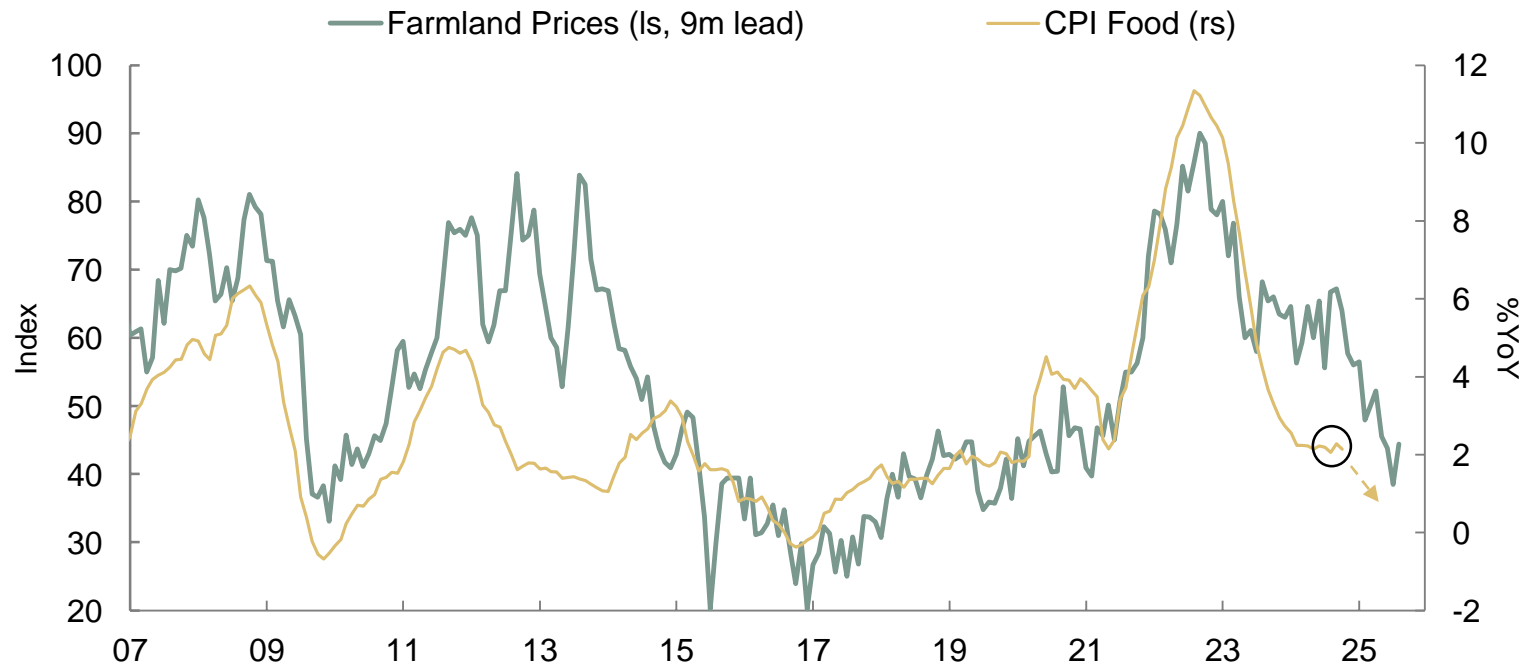
# Rental Reprieve Coming



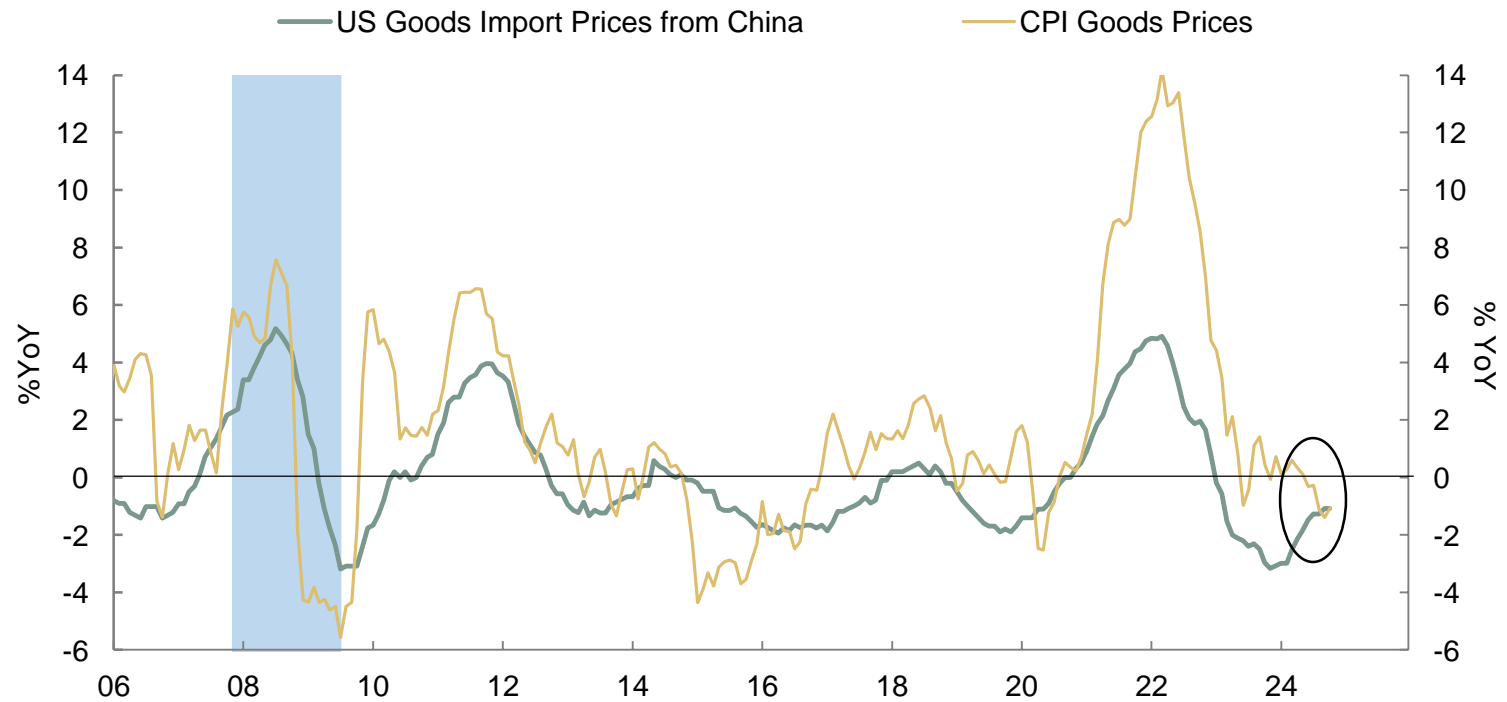
# Lower Input Costs



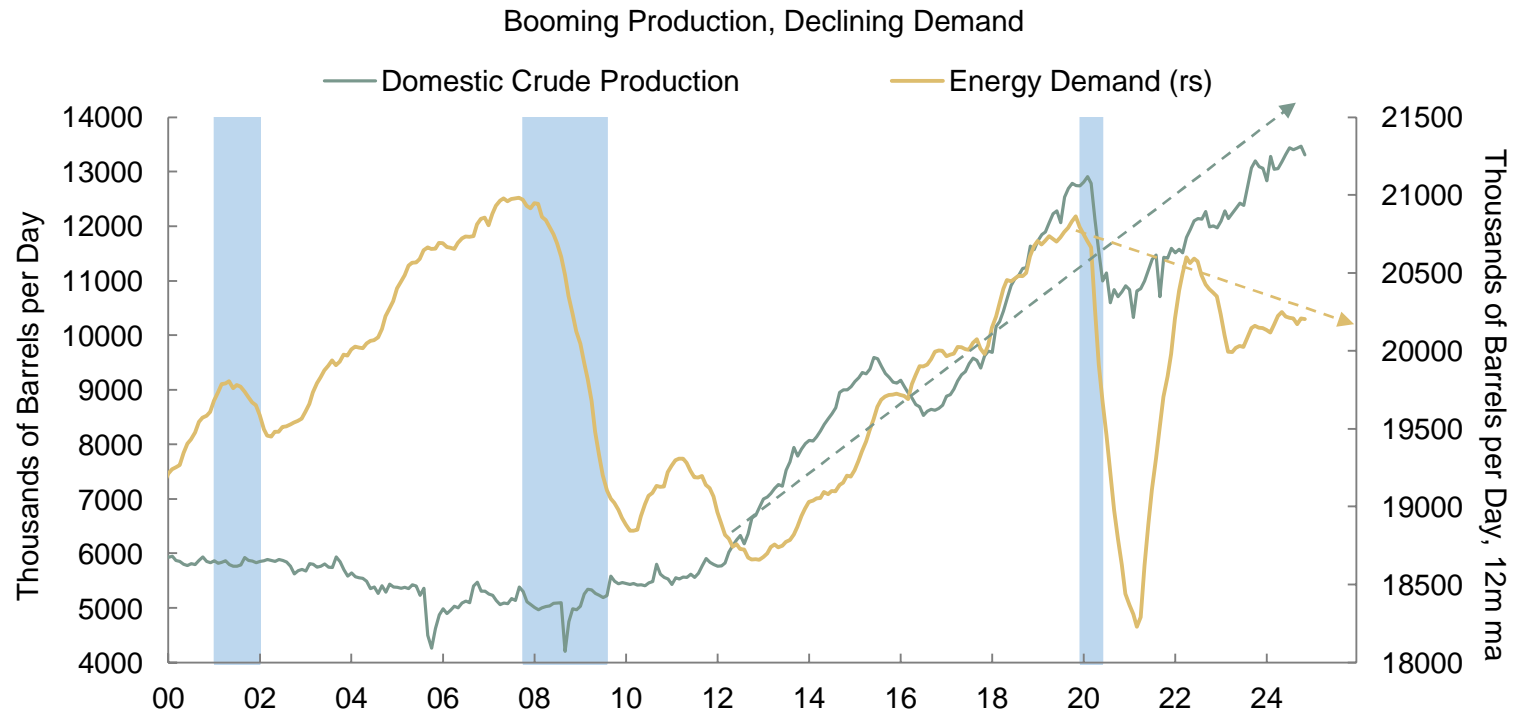
# Farmland Prices Continue to Disinflate



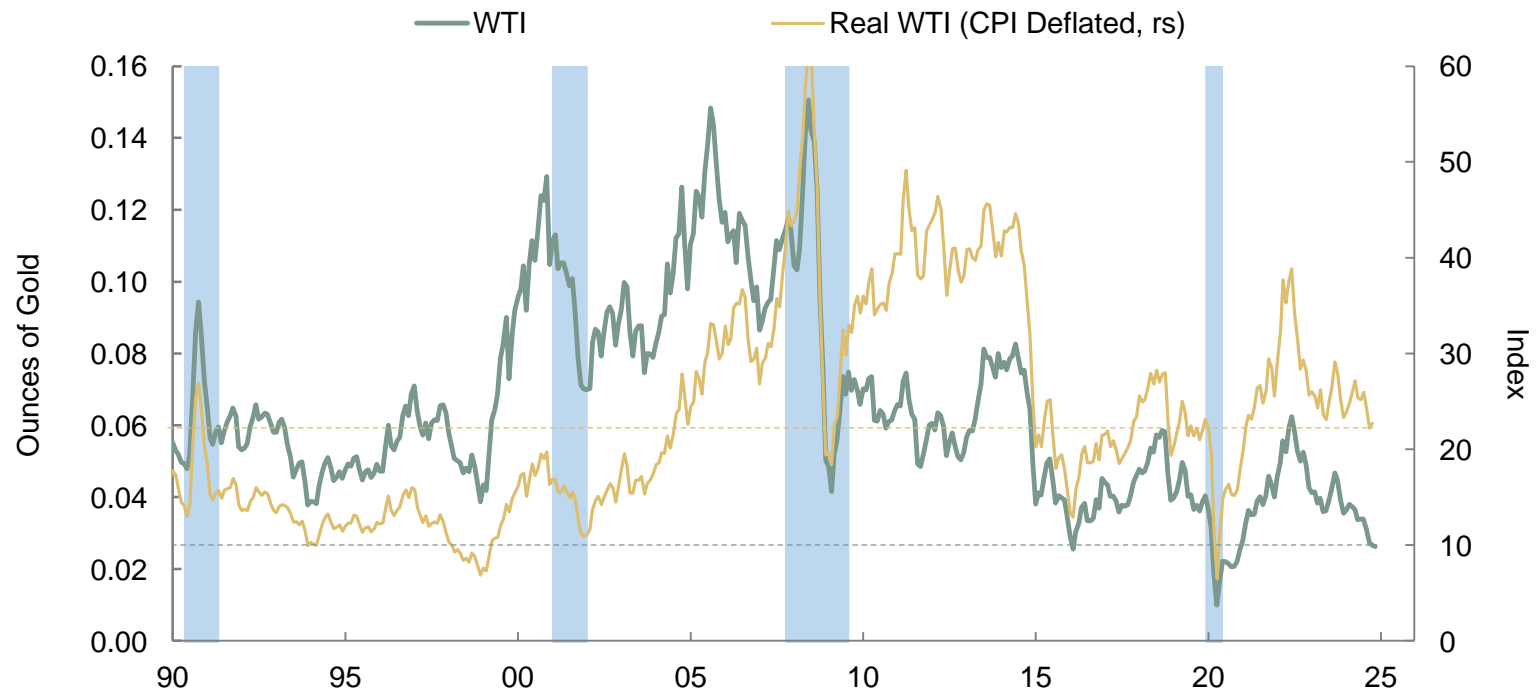
# China is Exporting *Deflation*



# An Energy Dominant US



# Real Oil is Really Cheap

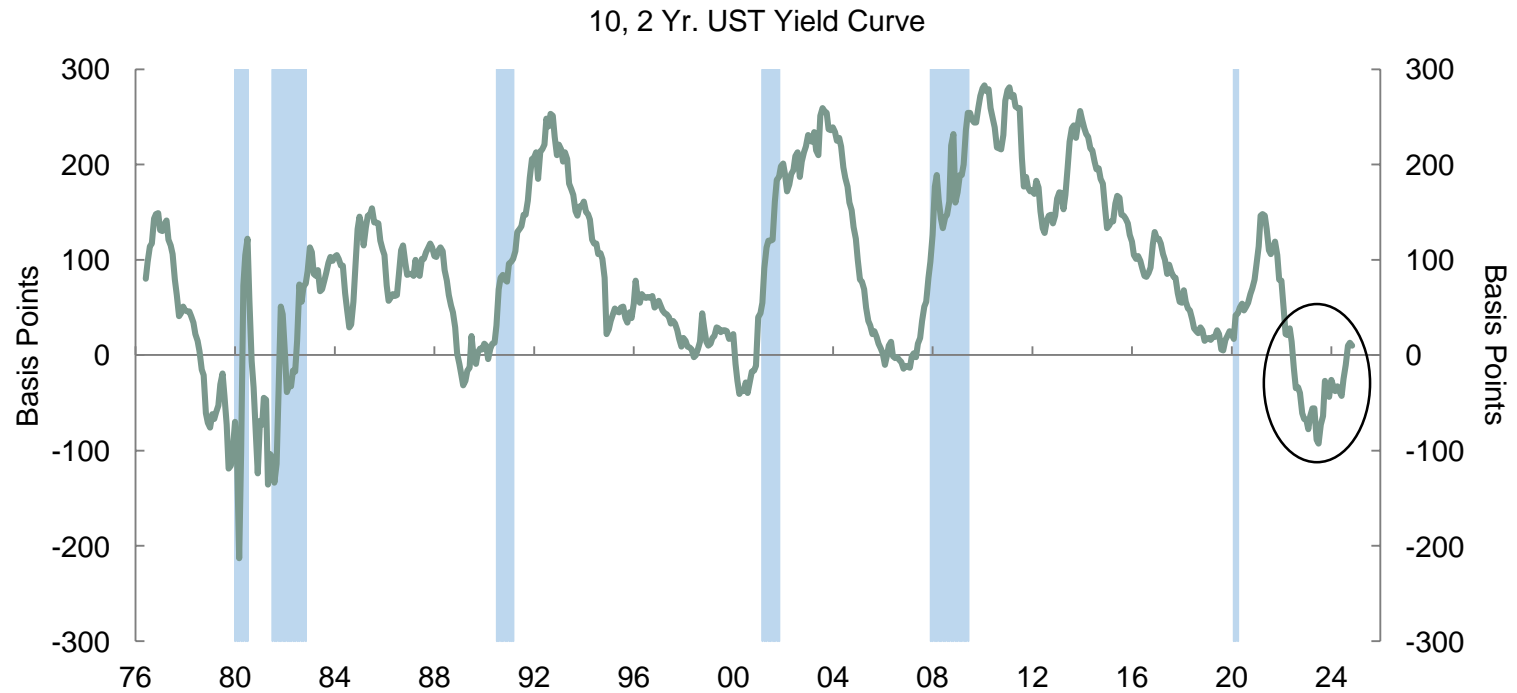


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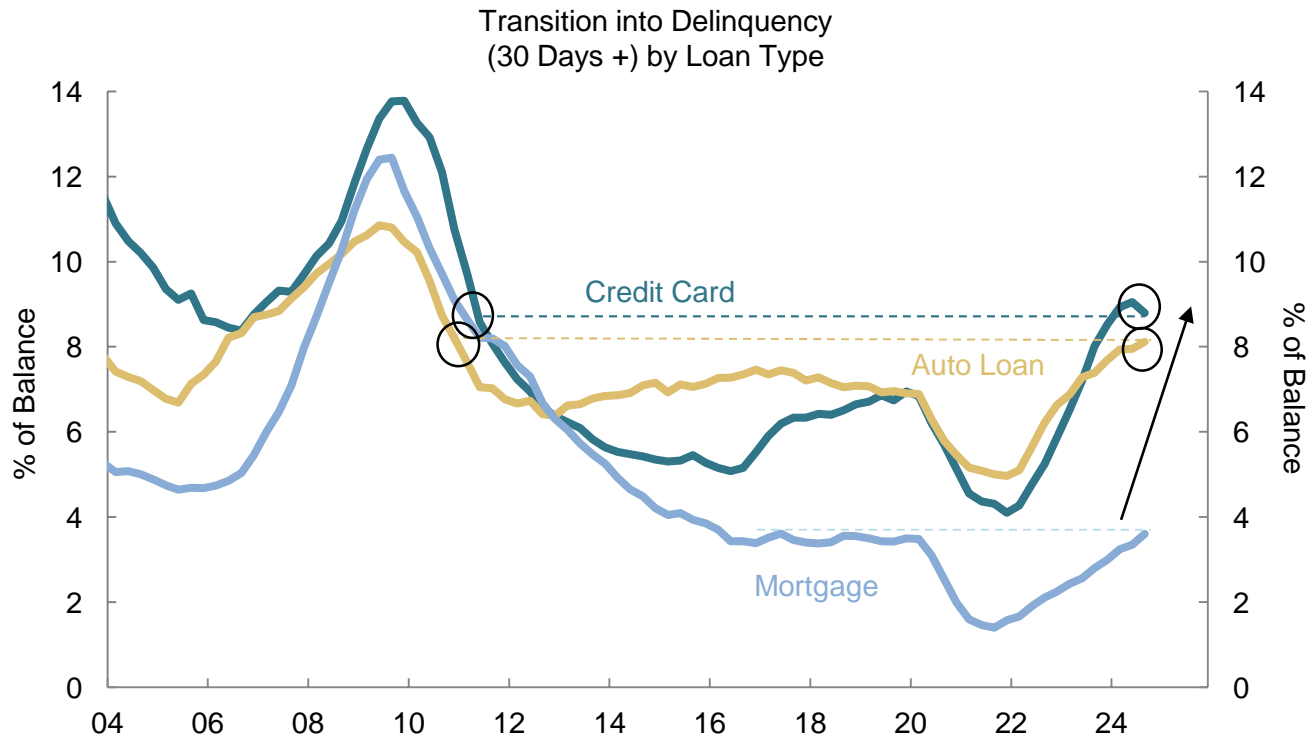
## Pockets of Weakness



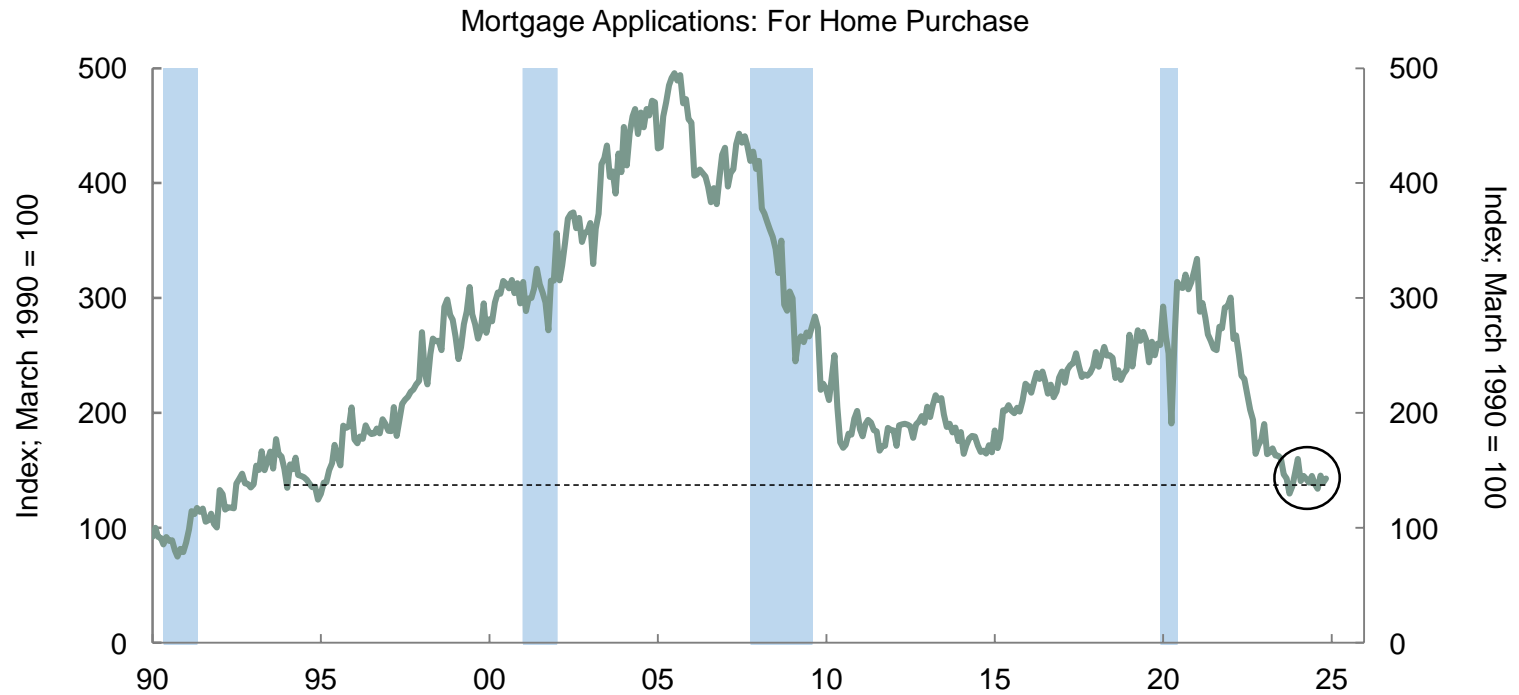
# Uh Oh! Generational Curve Inversion Over



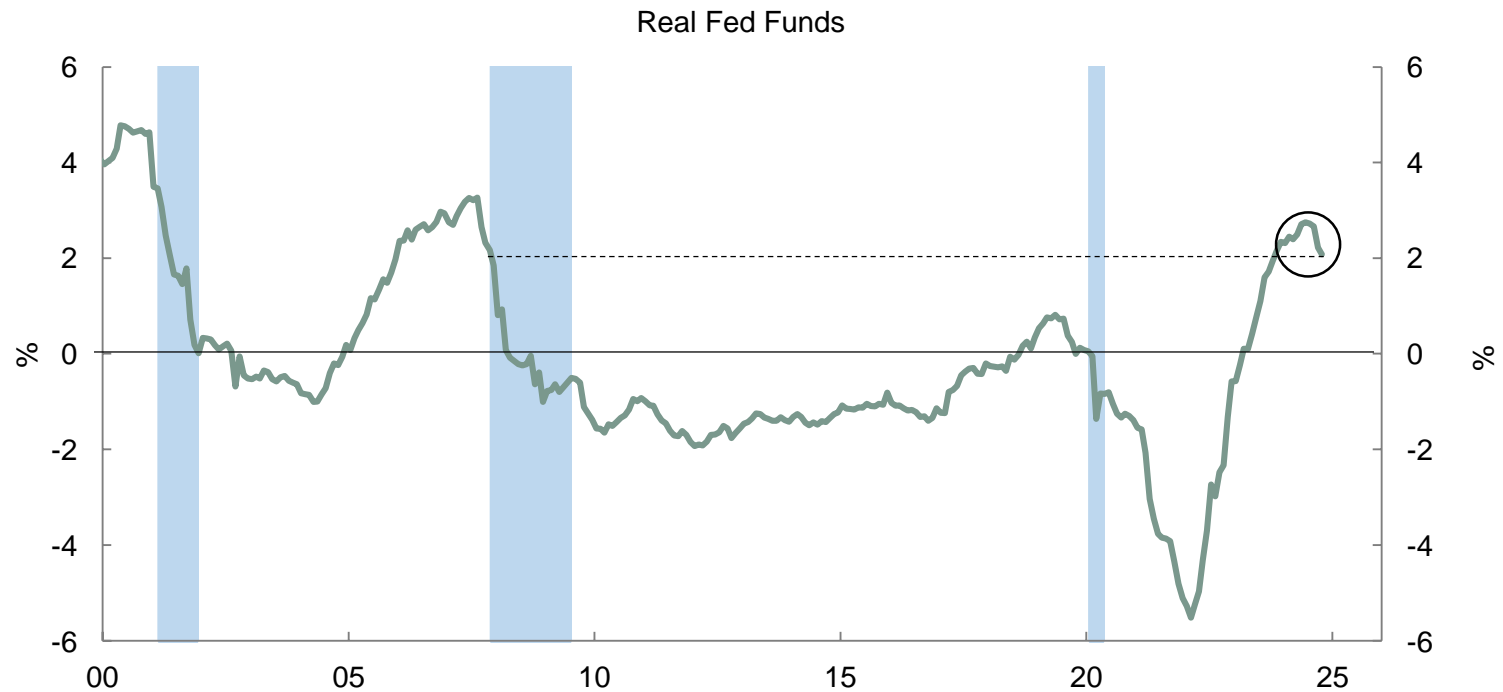
# The Consumer is Strained



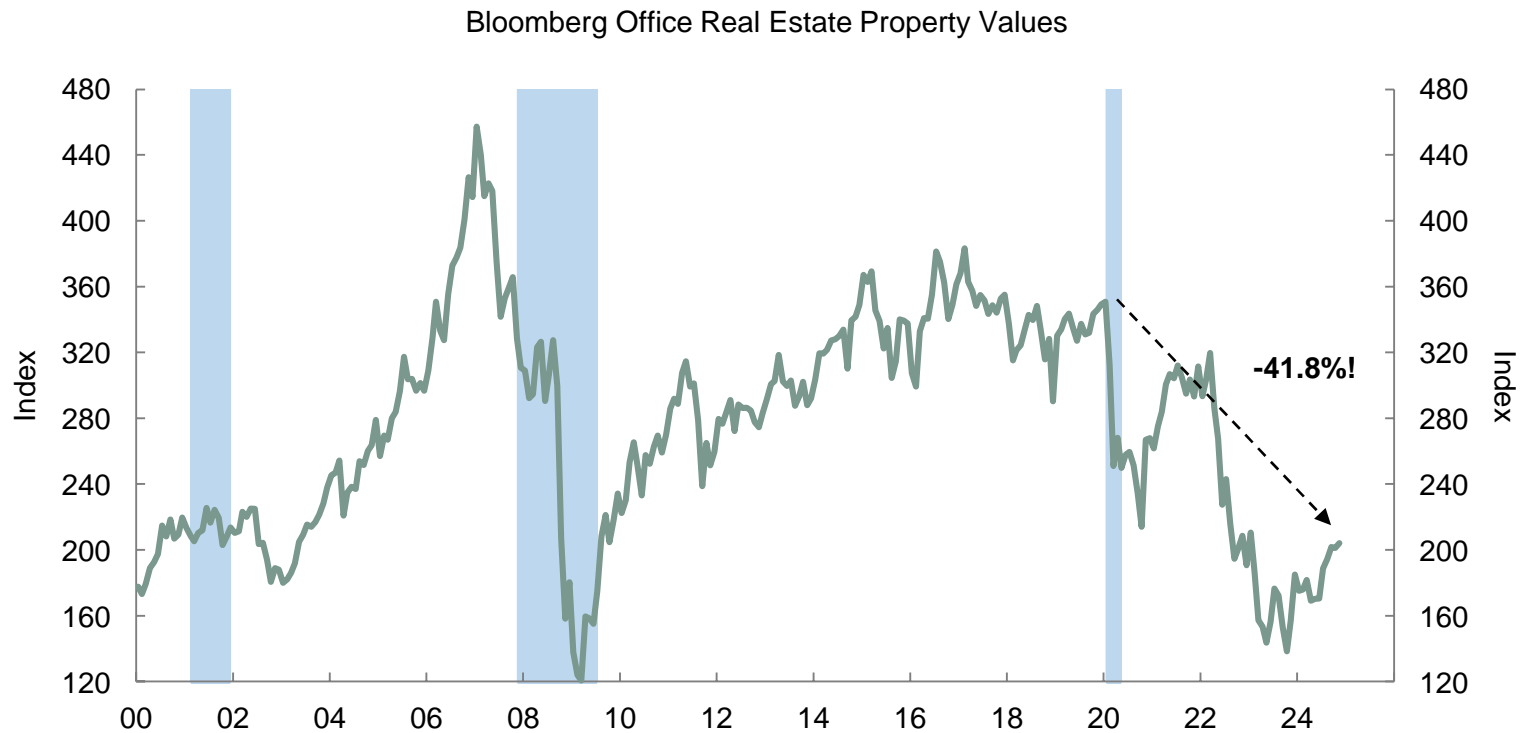
# Housing — Any Takers? Anyone At All?



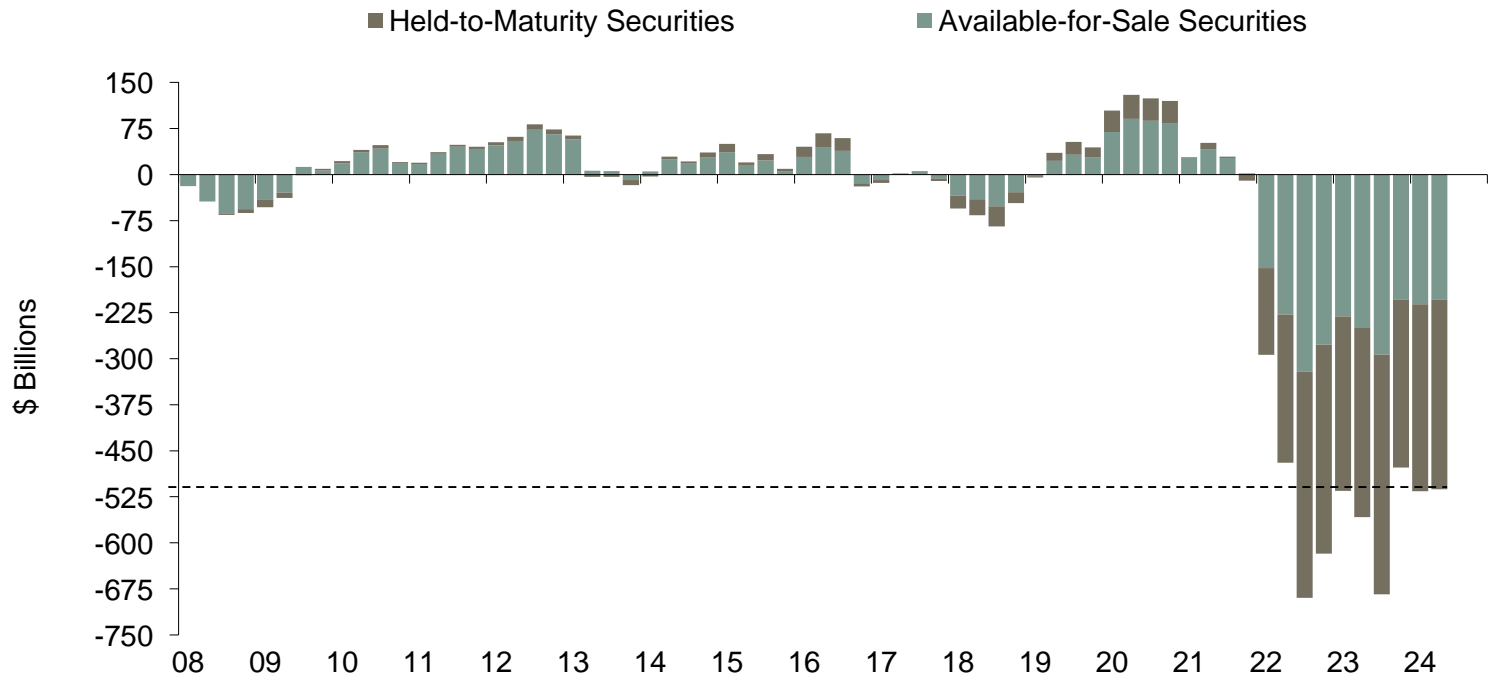
# Debt is No Longer Being Inflated Away



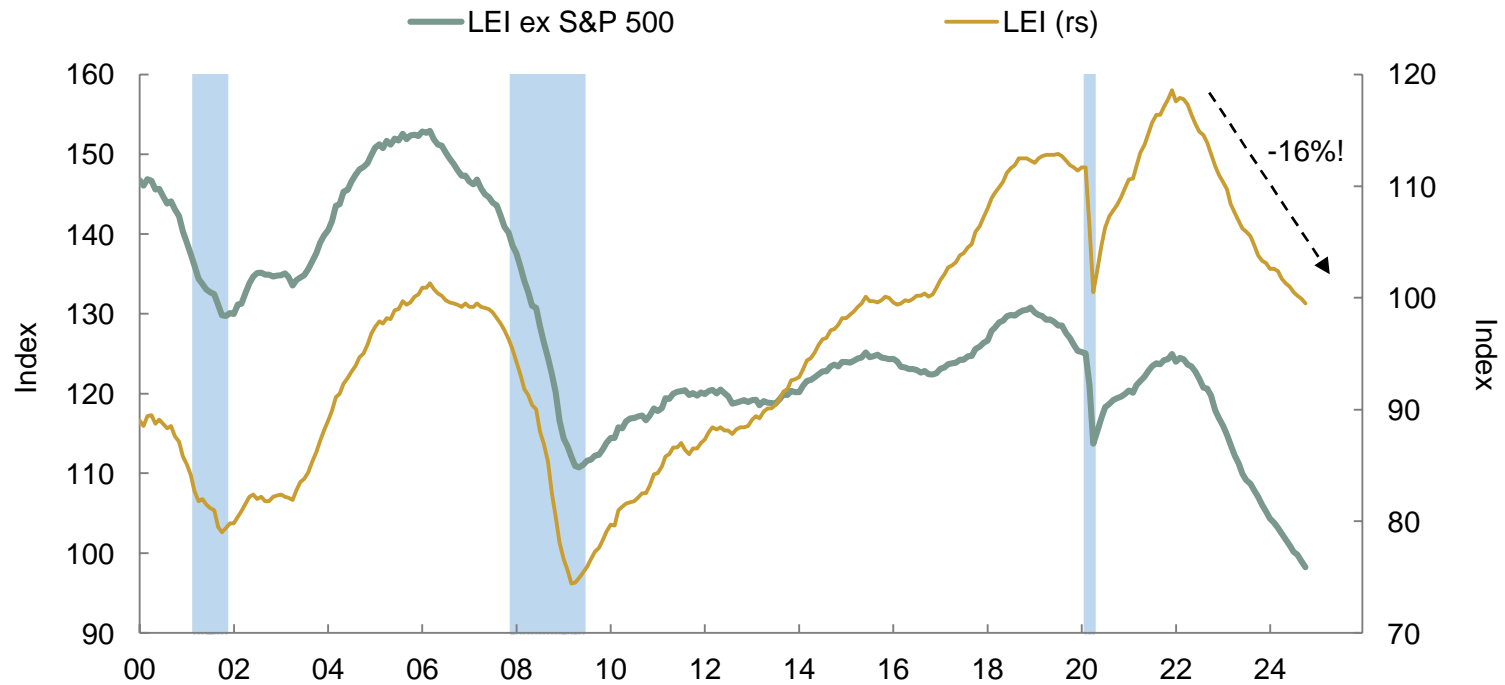
# CRE Woes Concentrated in *Office* Sector



# Banks in Trouble?



# Leading Indicators Flashing Red



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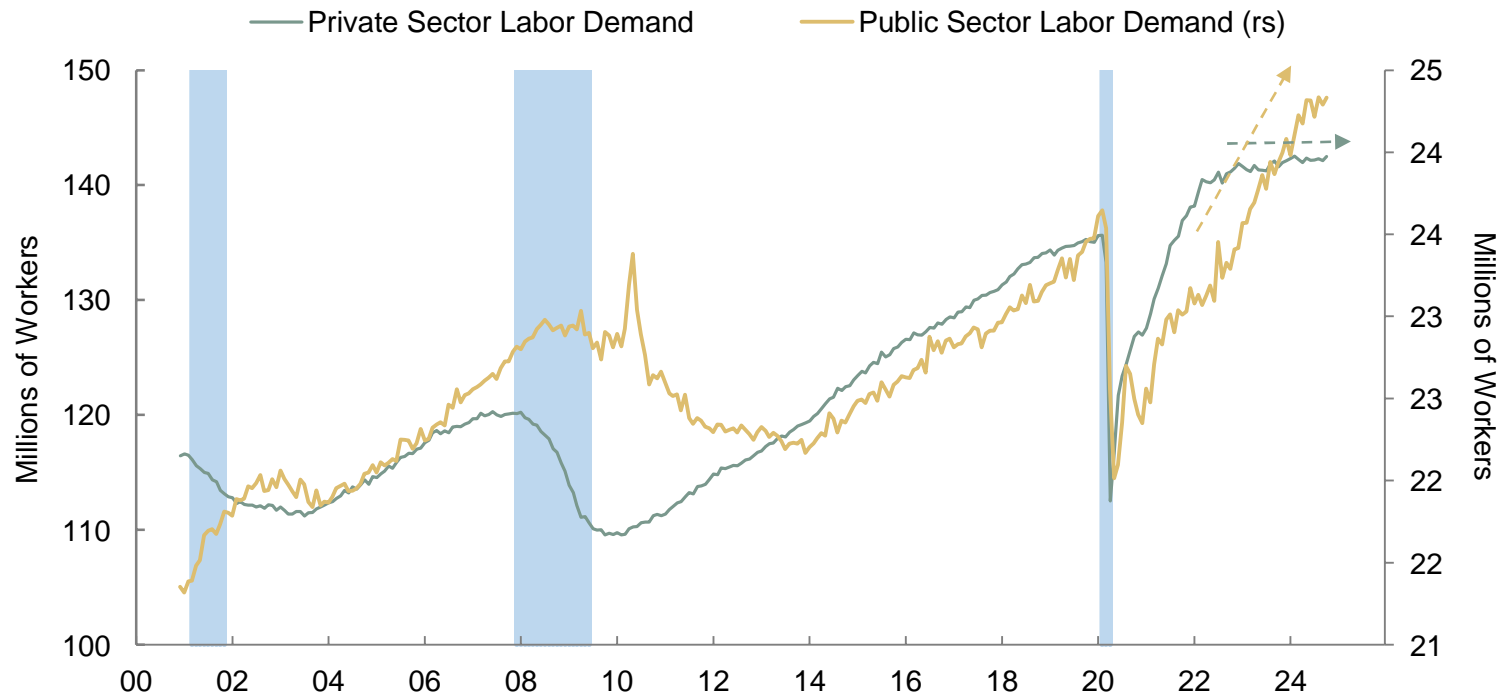
## Shaky Labor Market



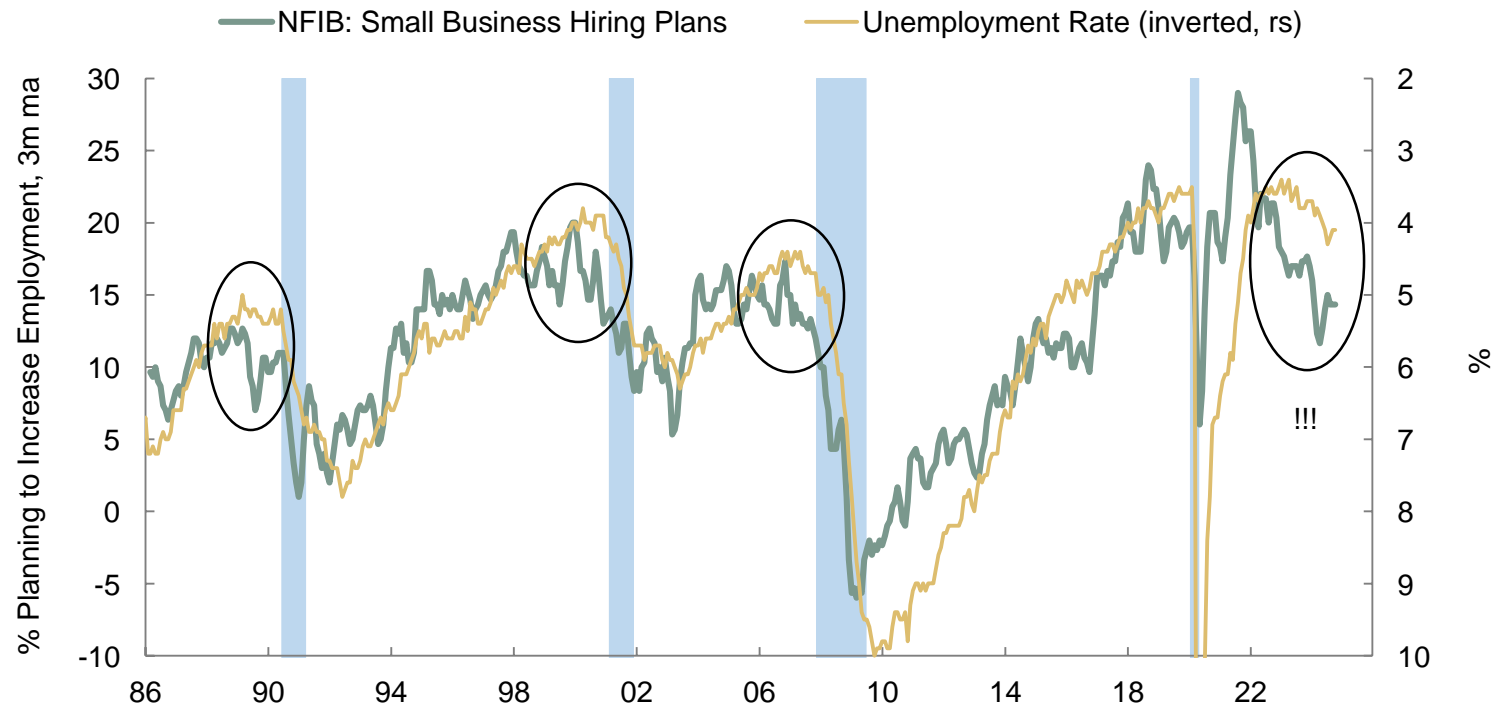
# Ultra Low Unemployment Drifting Higher



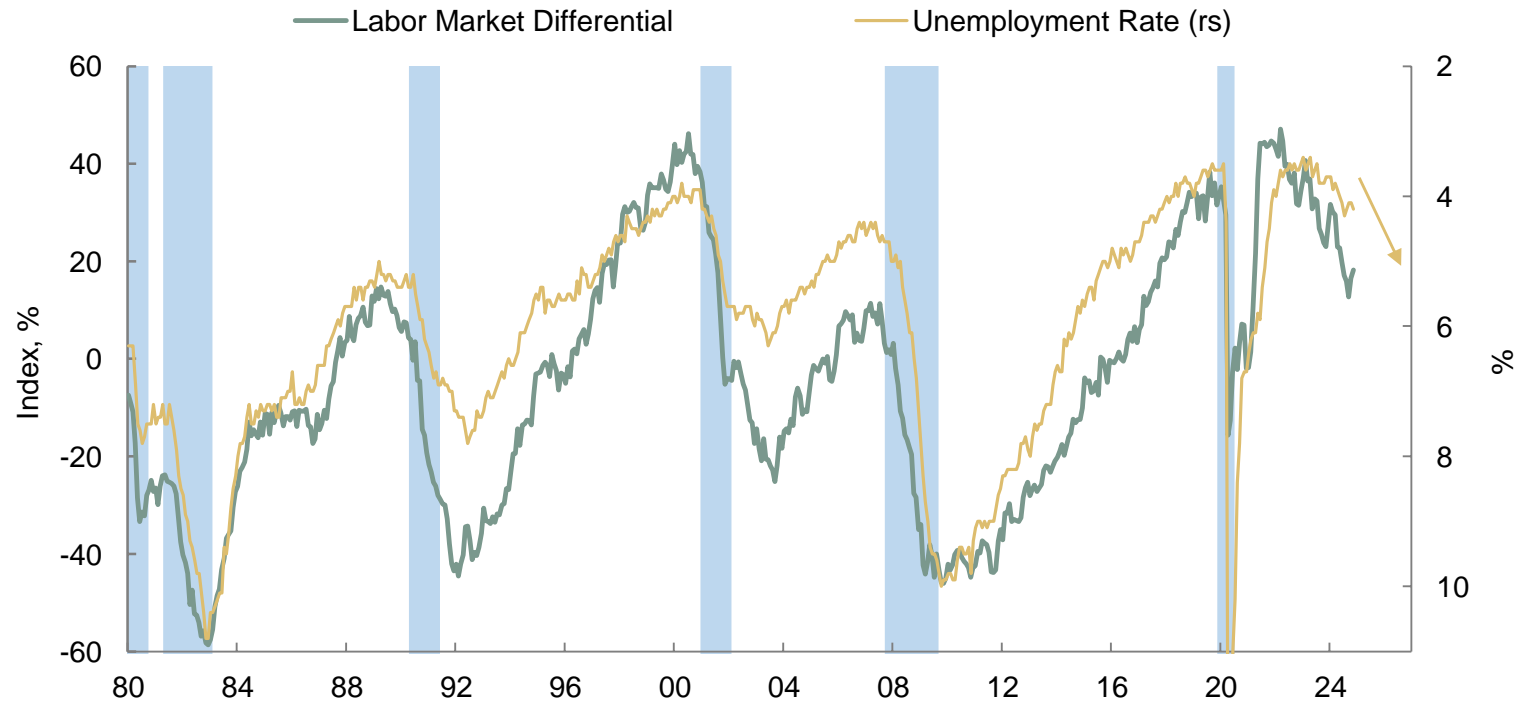
# Private Sector Labor Demand is Stagnant



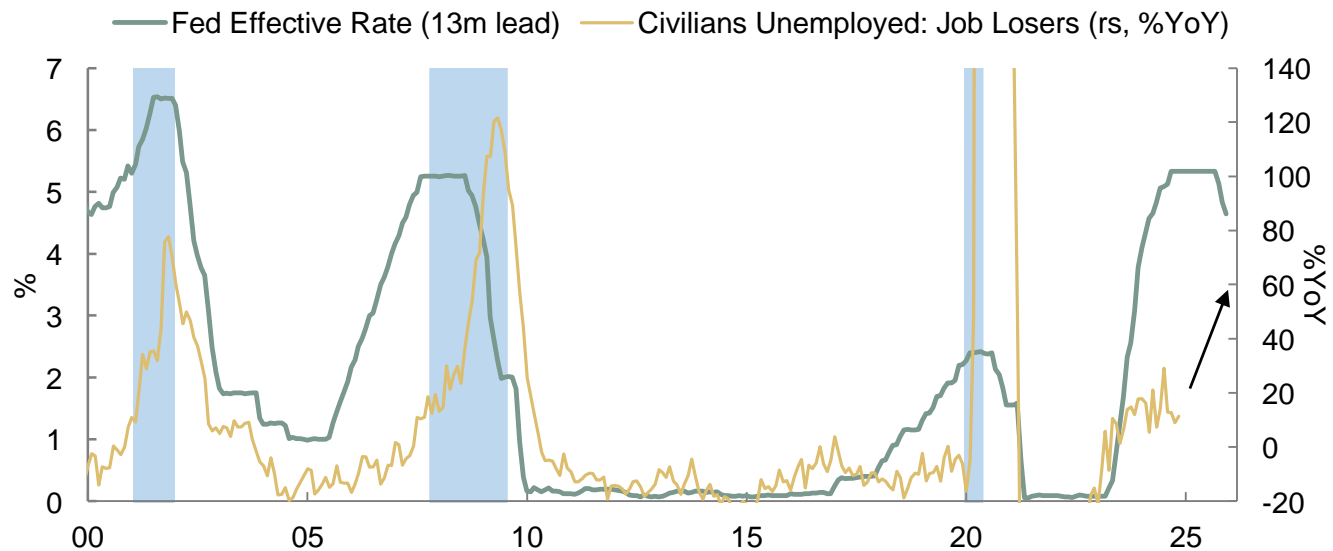
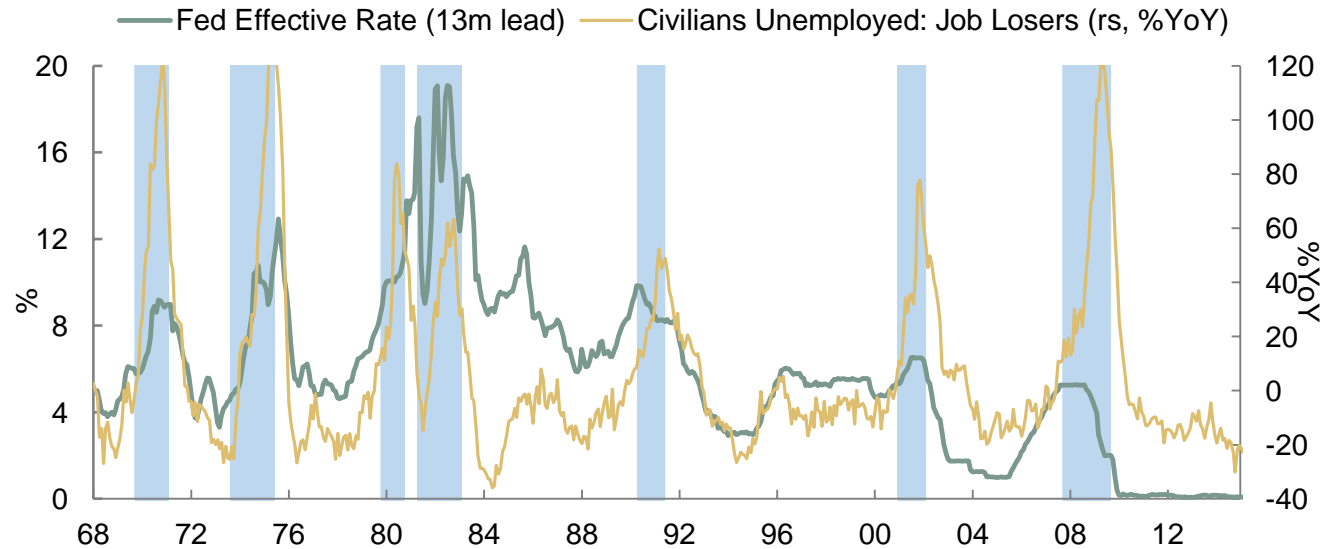
# Small Business Blues



# Are Jobs Plentiful or Hard to Get?

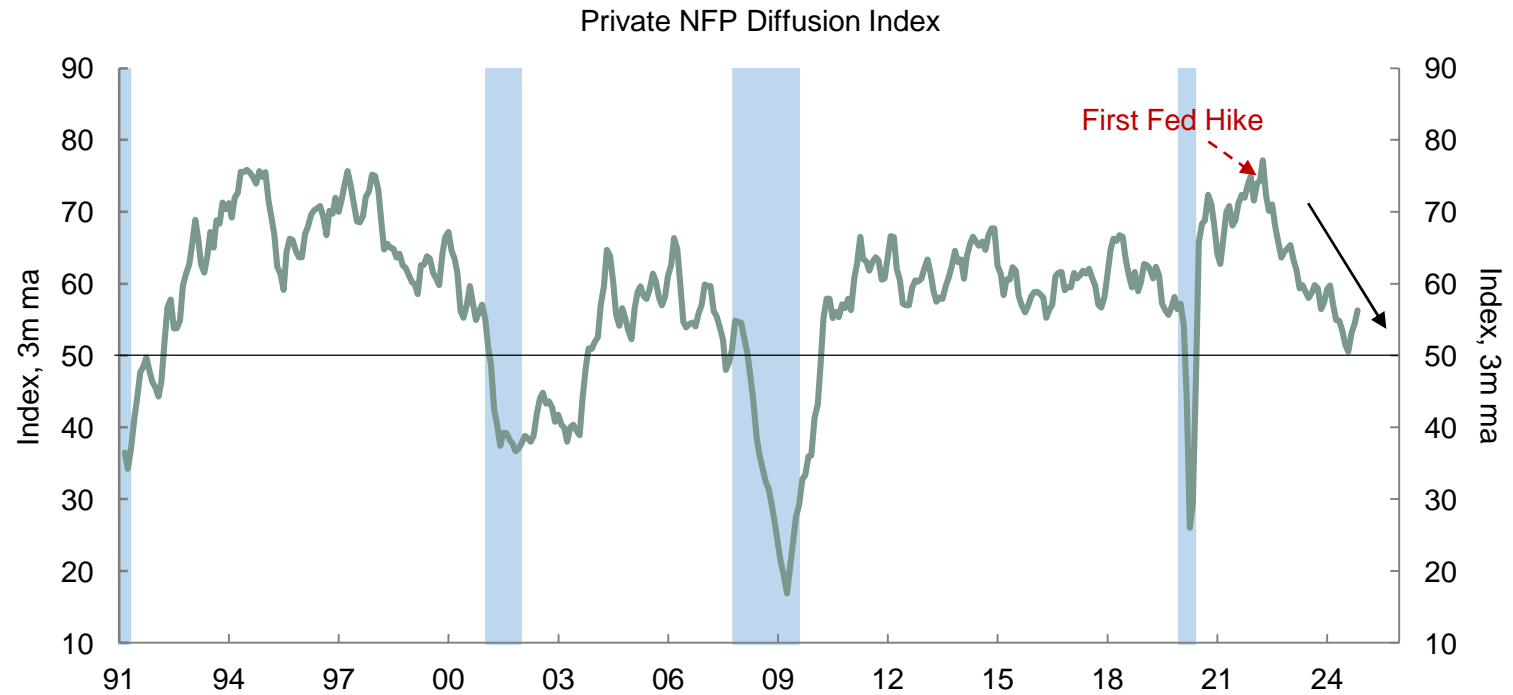


# The 13 Month Policy Lag



Sources: Federal Reserve, BLS, Haver, SMBC Nikko

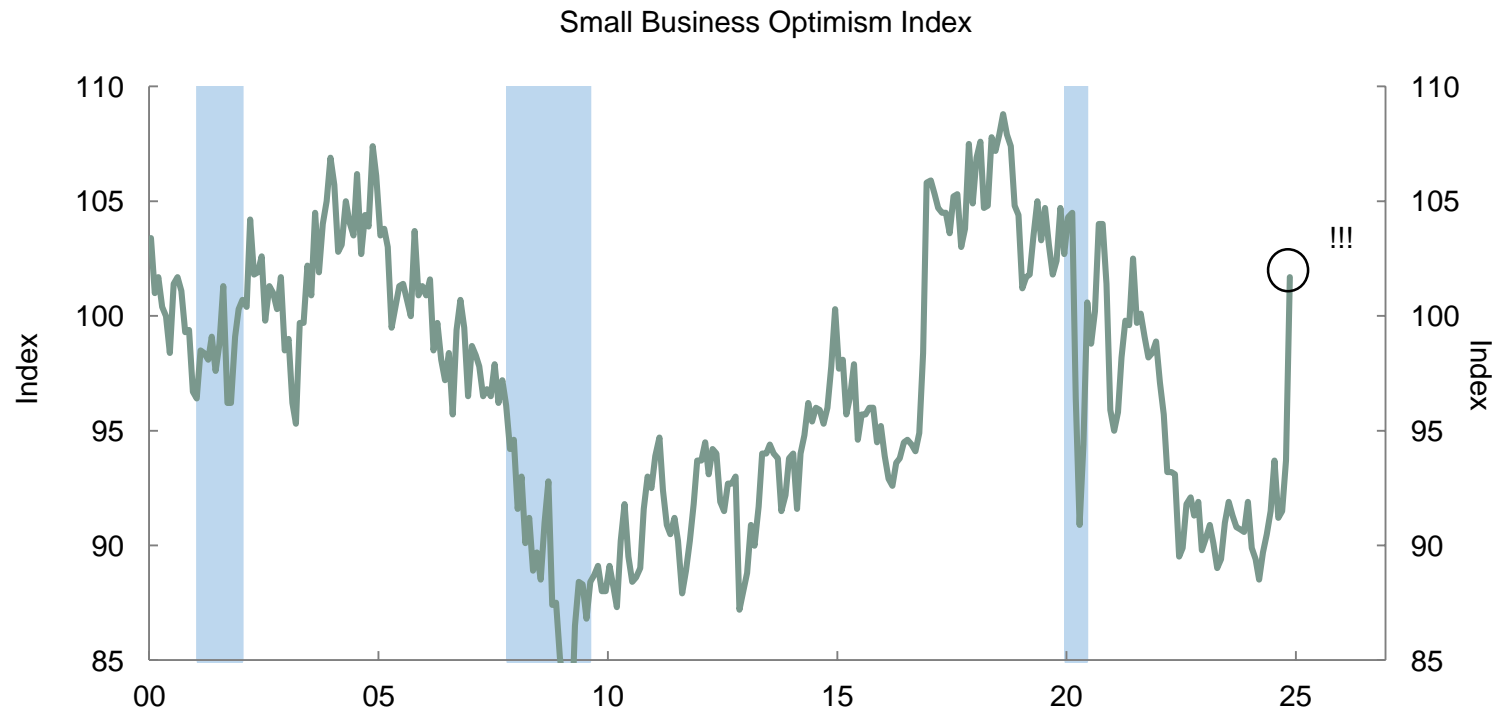
# Breadth of Job Growth is Collapsing



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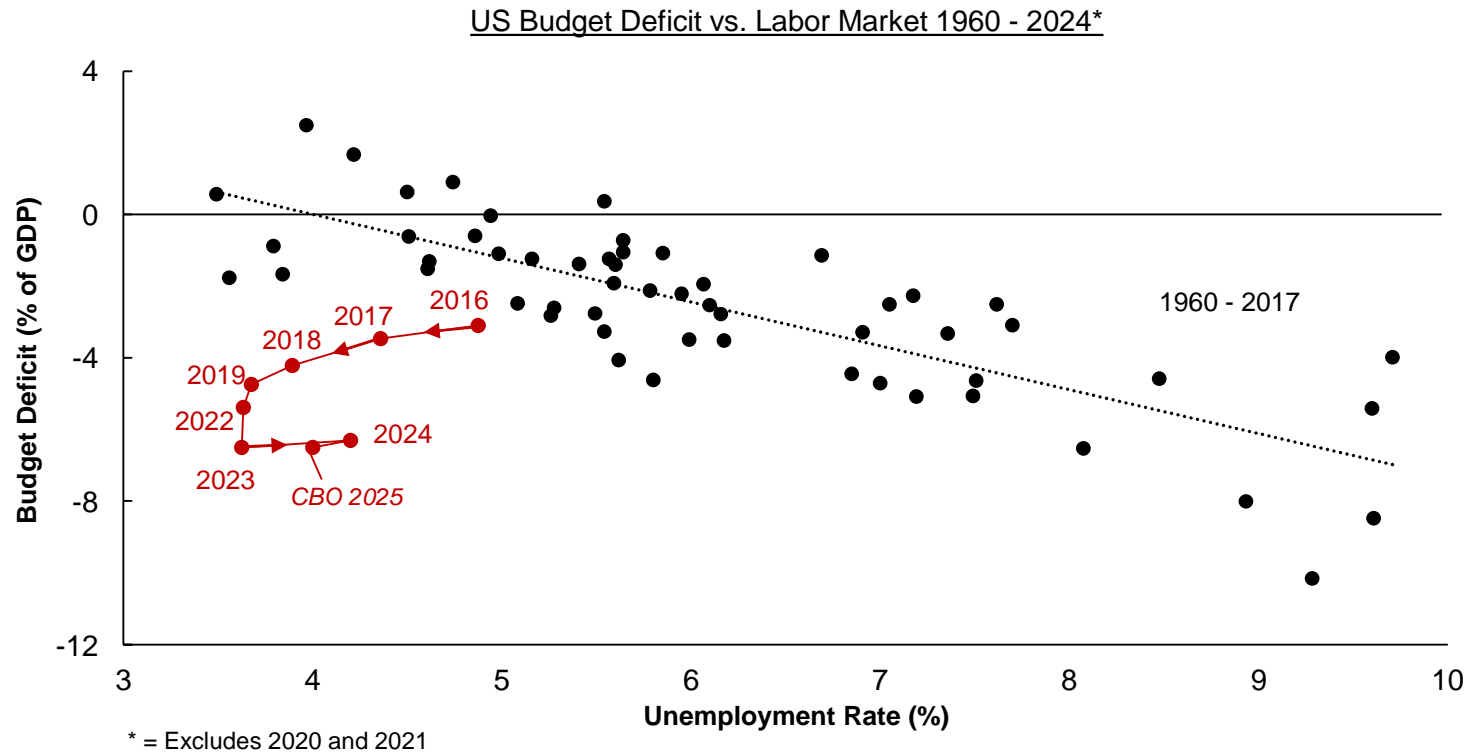
## Near & Long-Term Growth Tailwinds

# Household *and* Business Psychology are Surging

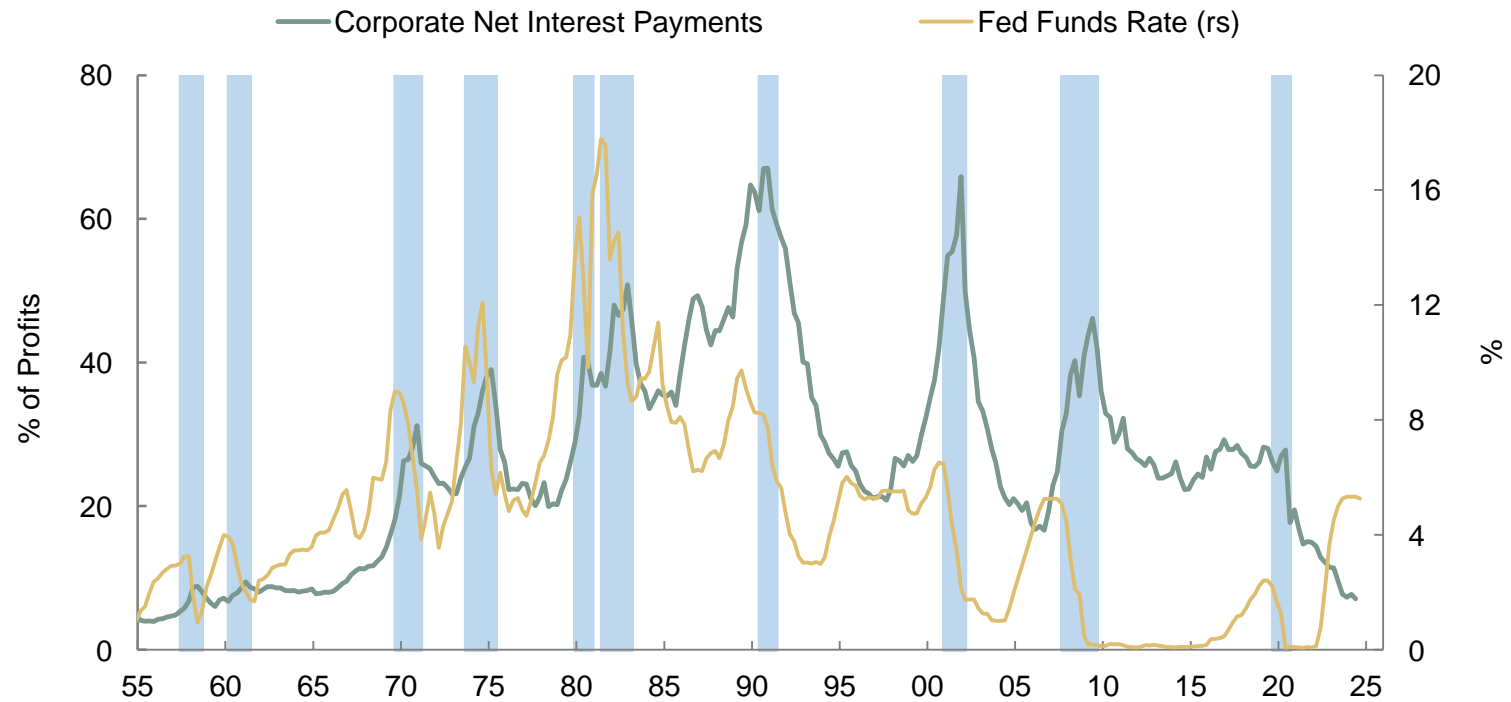




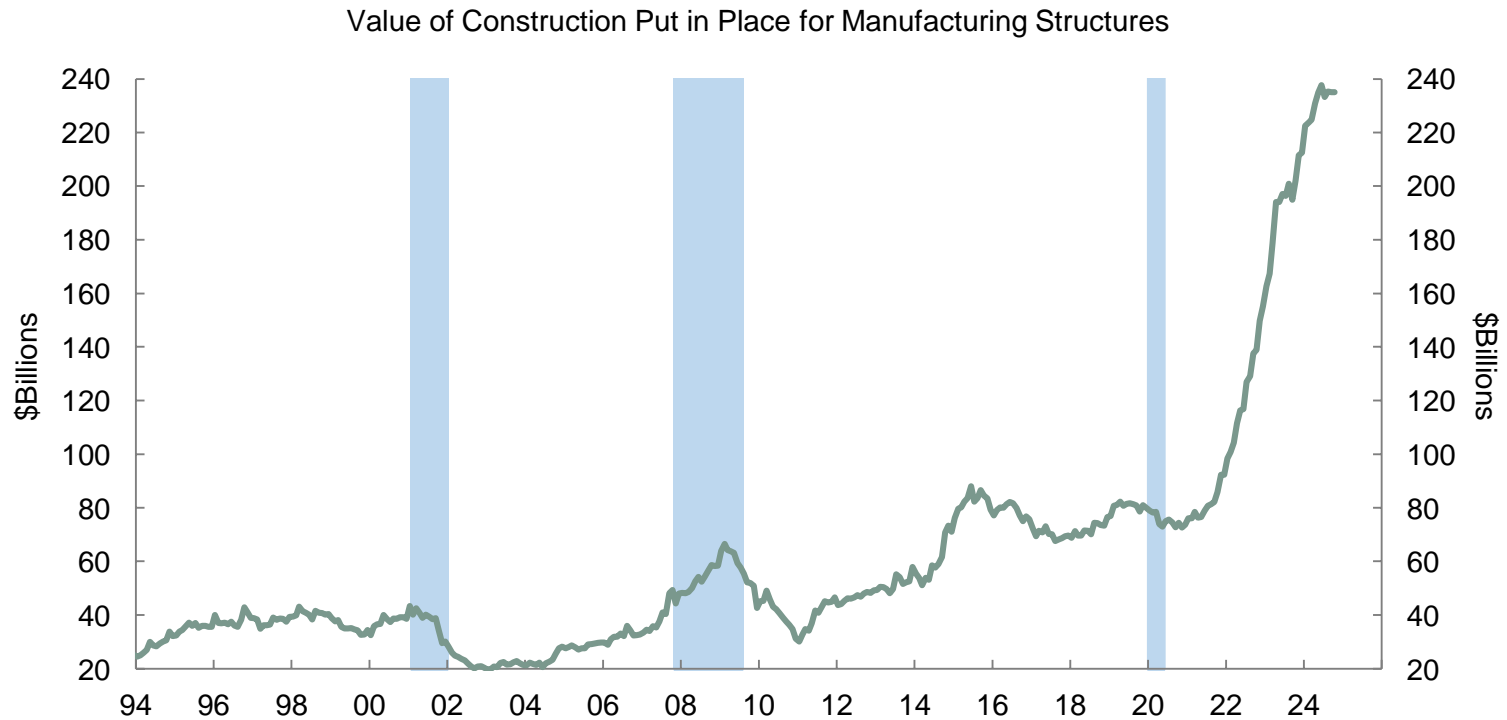
# Fiscal Profligacy by Any Measure



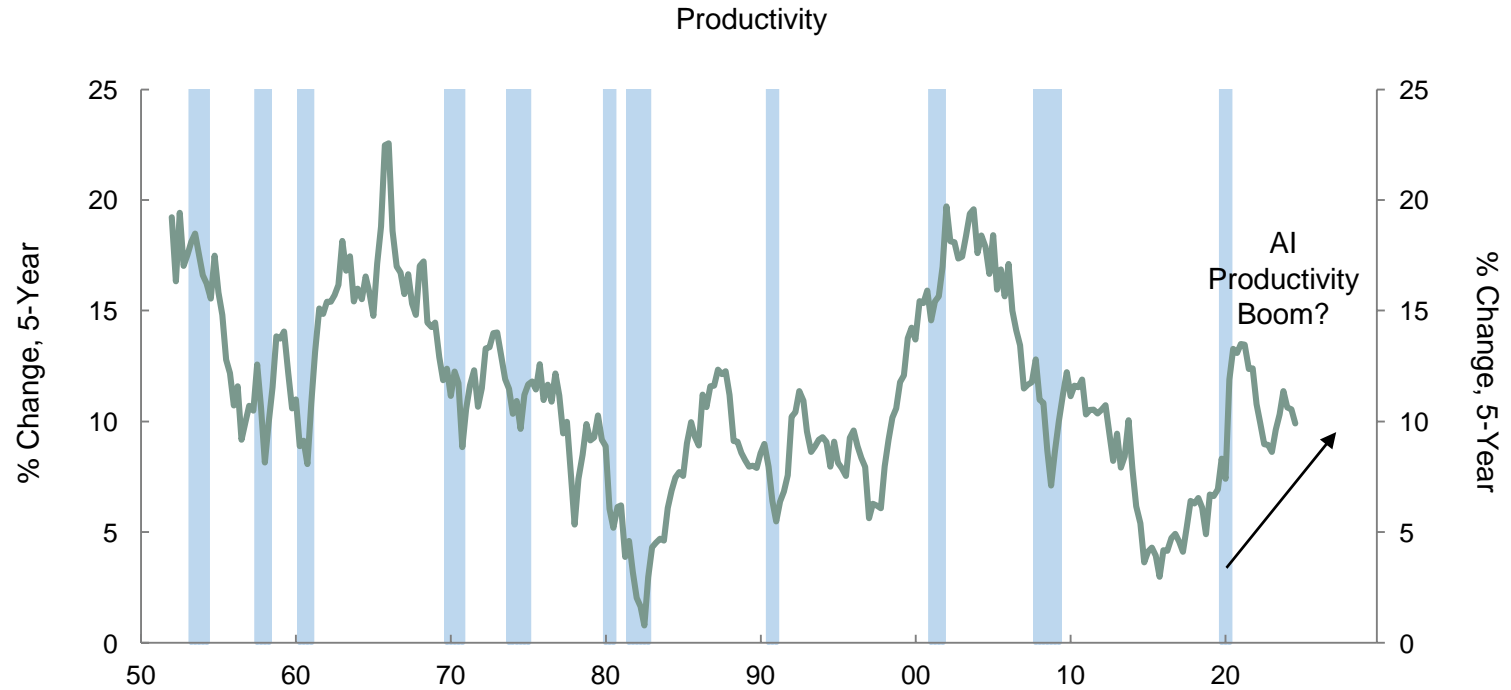
# Large Corporate Borrowers Unperturbed



# American Manufacturing Renaissance



# AI Inspired Productivity Boom?



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