

Macro Outlook: Extreme Uncertainty Clouds Economic and Rate Outlooks

June 2025



STIFEL

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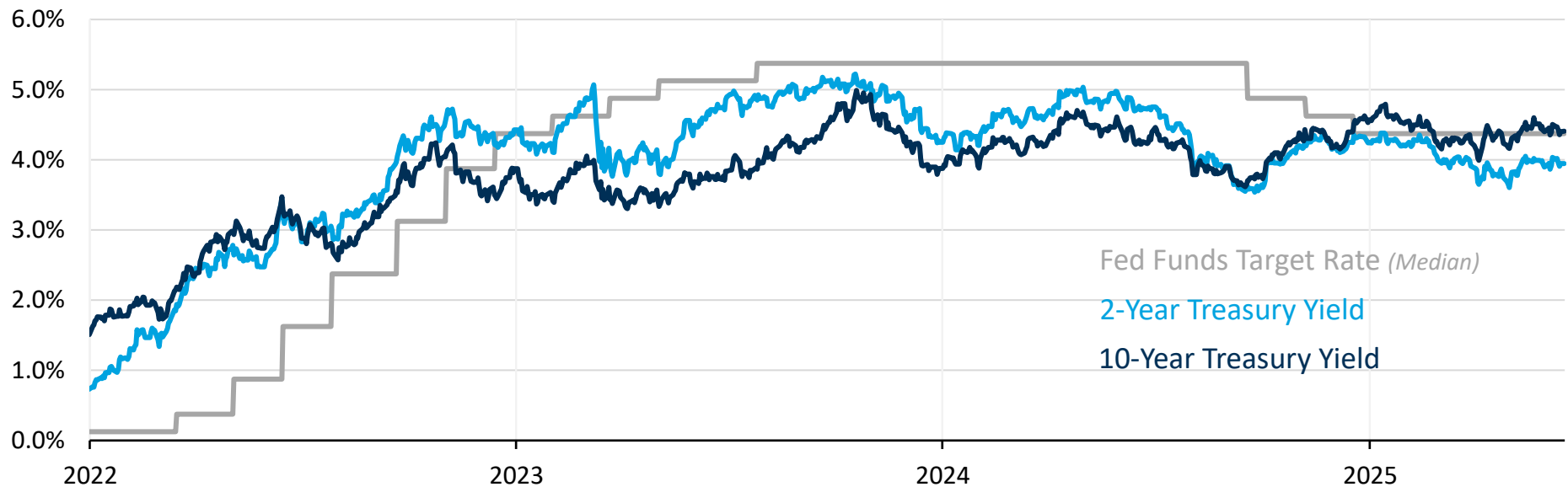
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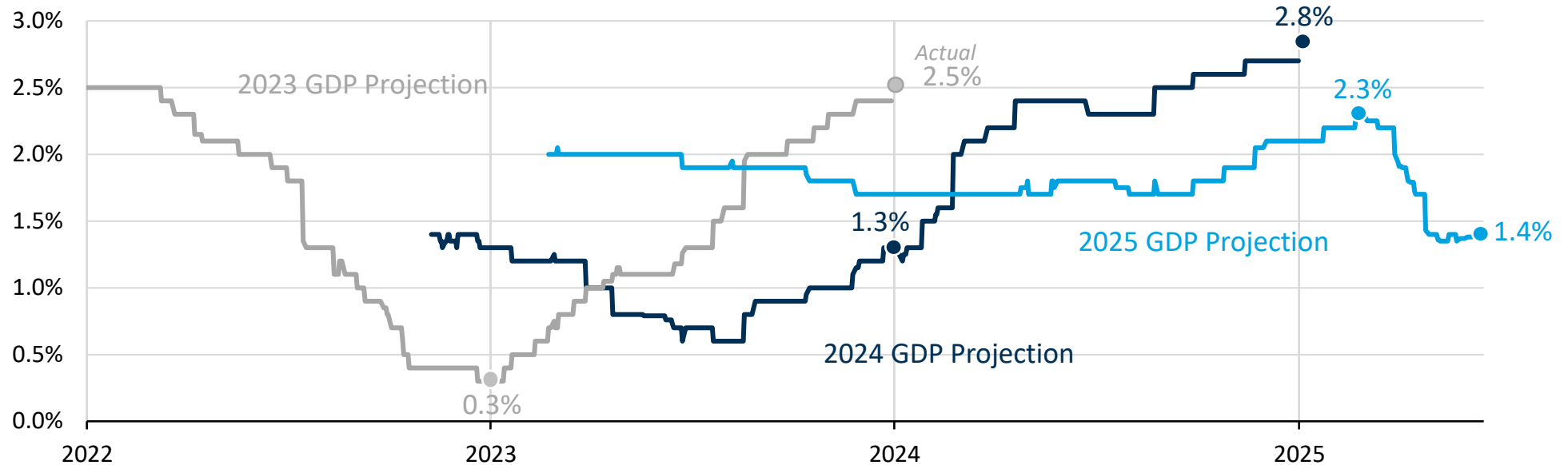
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Economic Resilience | Optimism for Soft Landing Grew as Economy Remained Resilient

U.S. Interest Rates | Rise in Rates Provides Basis for Tightening of Financial Conditions

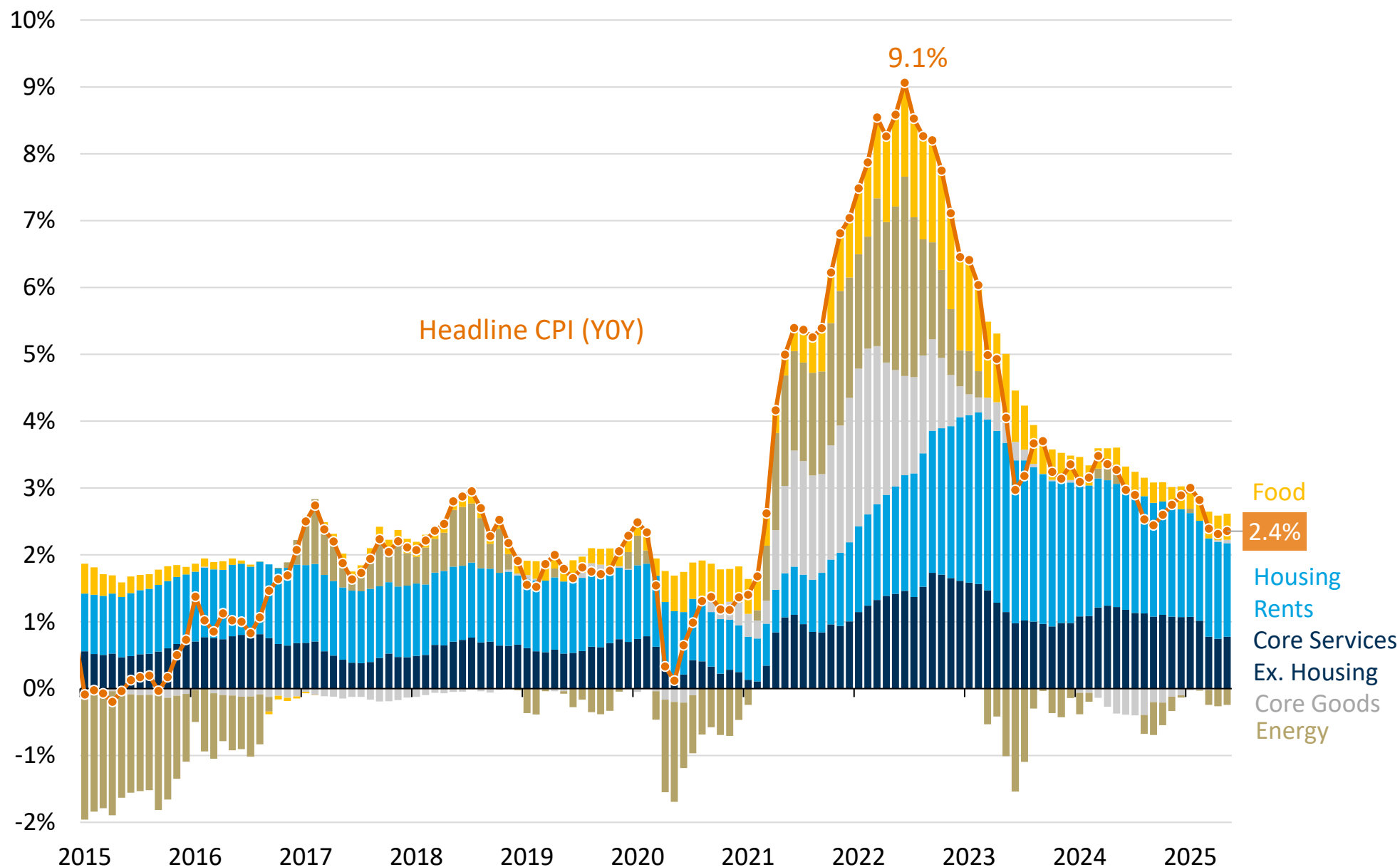


Full Year GDP Growth Projections | Bloomberg Survey of Economists



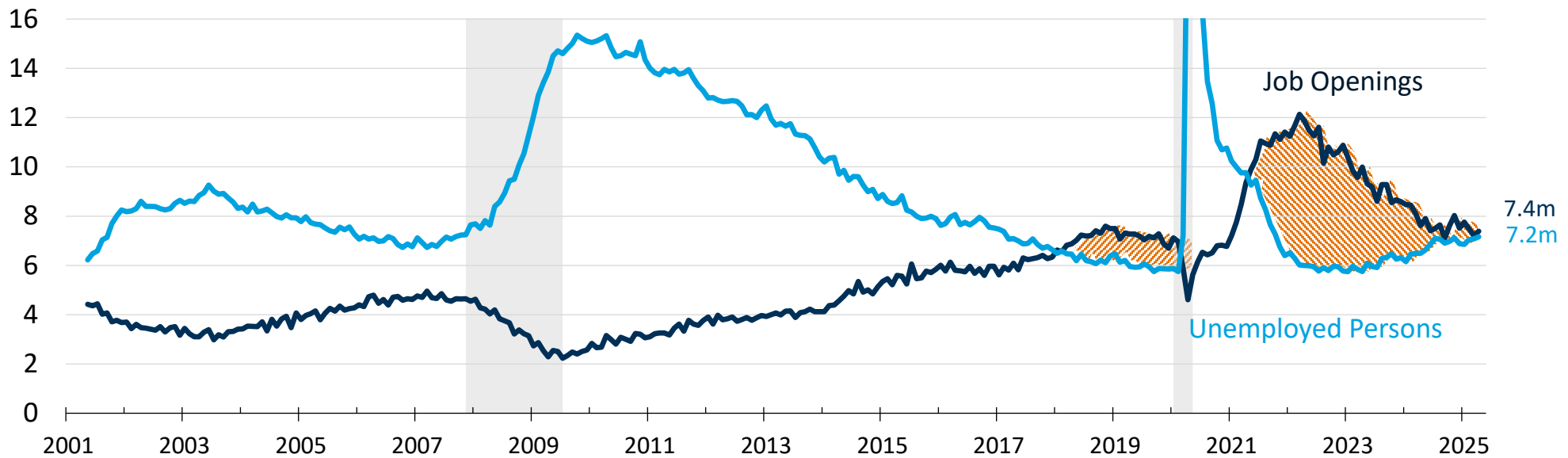
Disinflation Process Continues as Core Services Inflation Moderates

Headline CPI and Contribution to YoY Change by Category

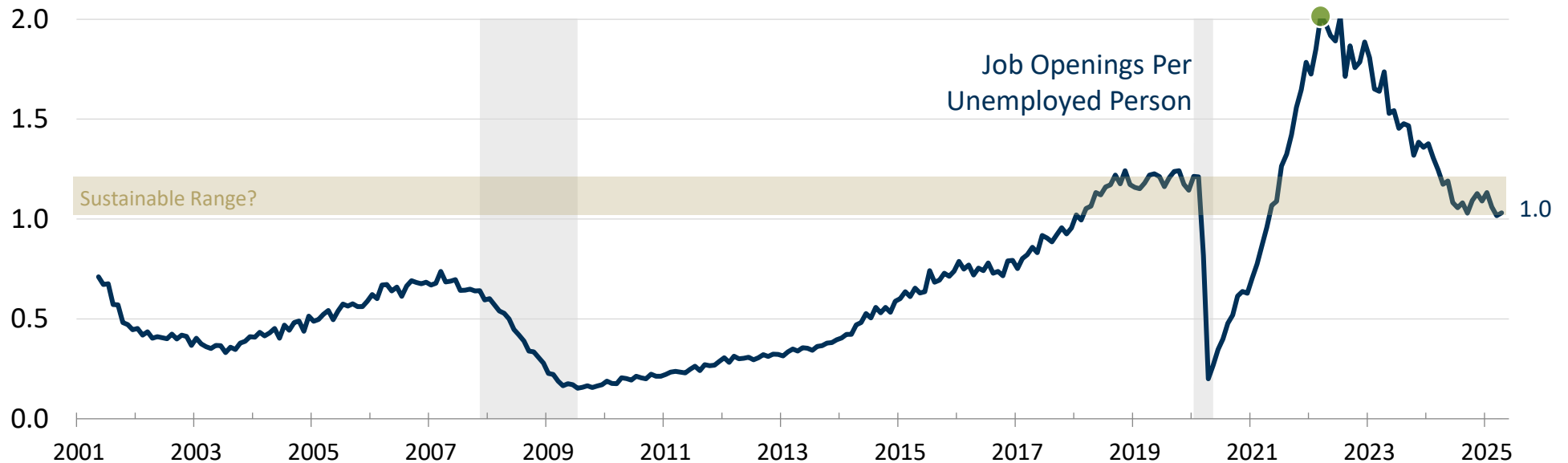


Resolution of Labor Imbalance Should Allow Wage Growth to Continue Lower

Job Openings and Unemployed Persons (Millions)

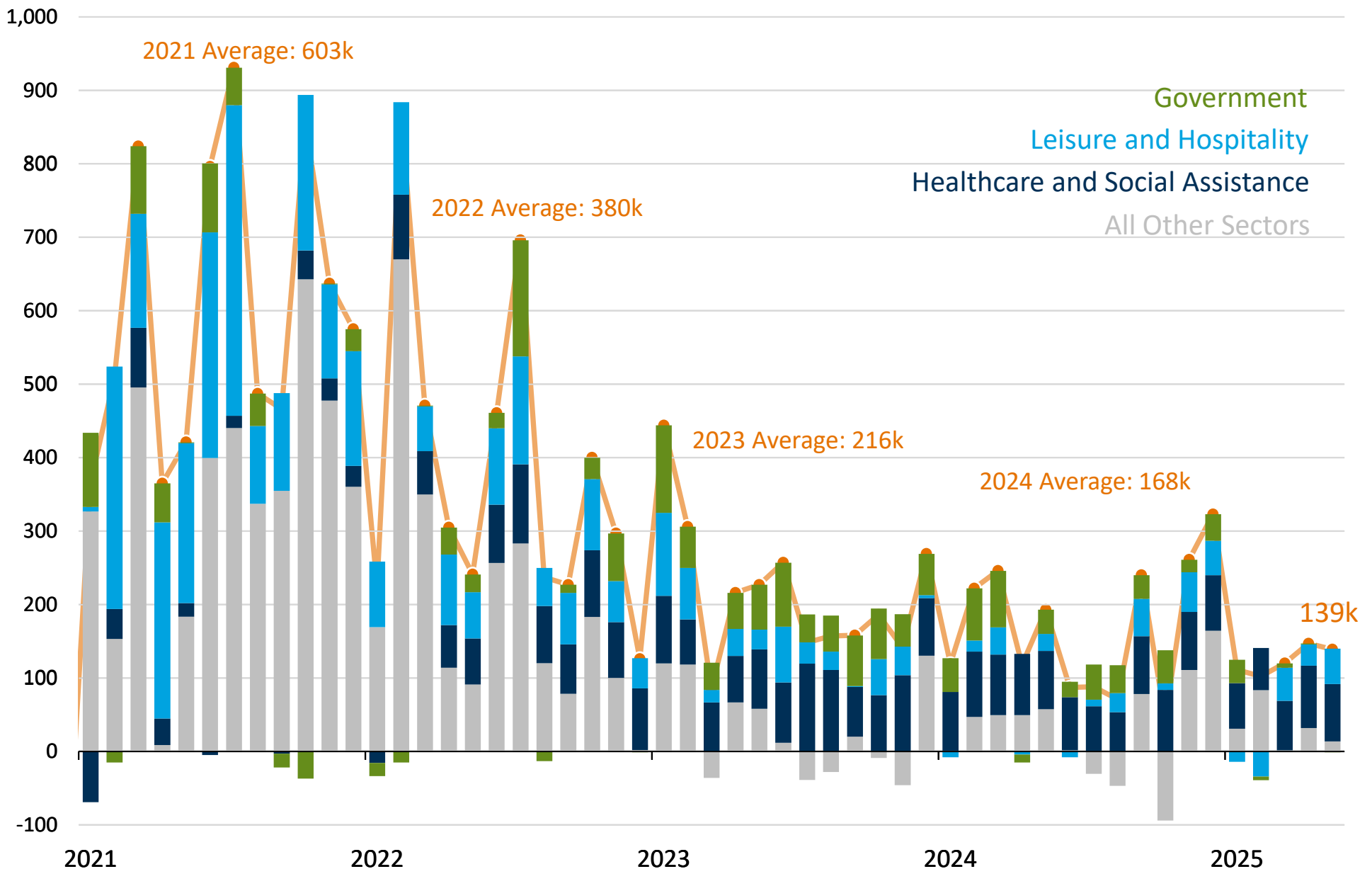


Unemployed Persons Per Job Opening (Ratio)



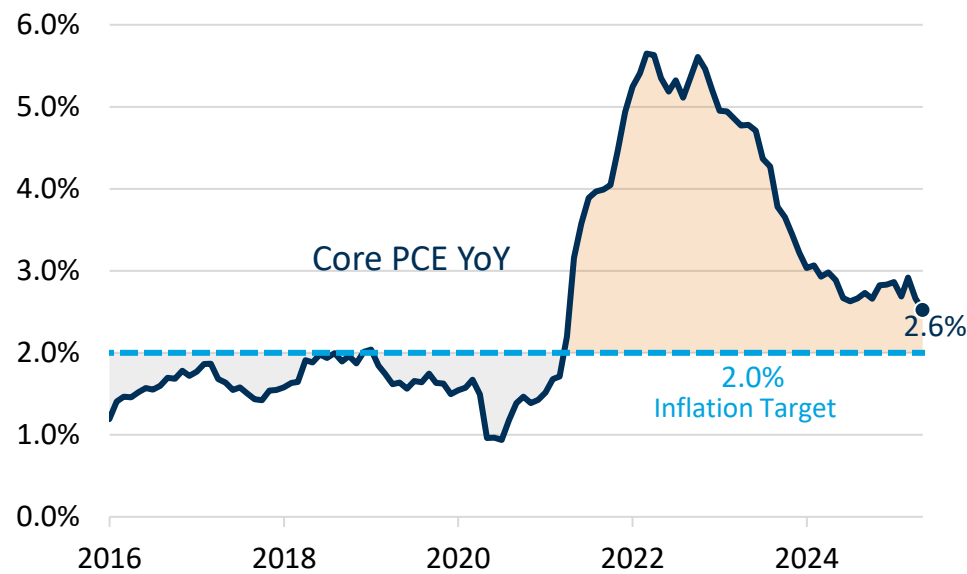
Headline Job Growth Remains Solid; Narrow Breadth of Growth a Lingering Consideration

Change in Nonfarm Payrolls | Growth in Healthcare, Government, and Leisure (Thousands)

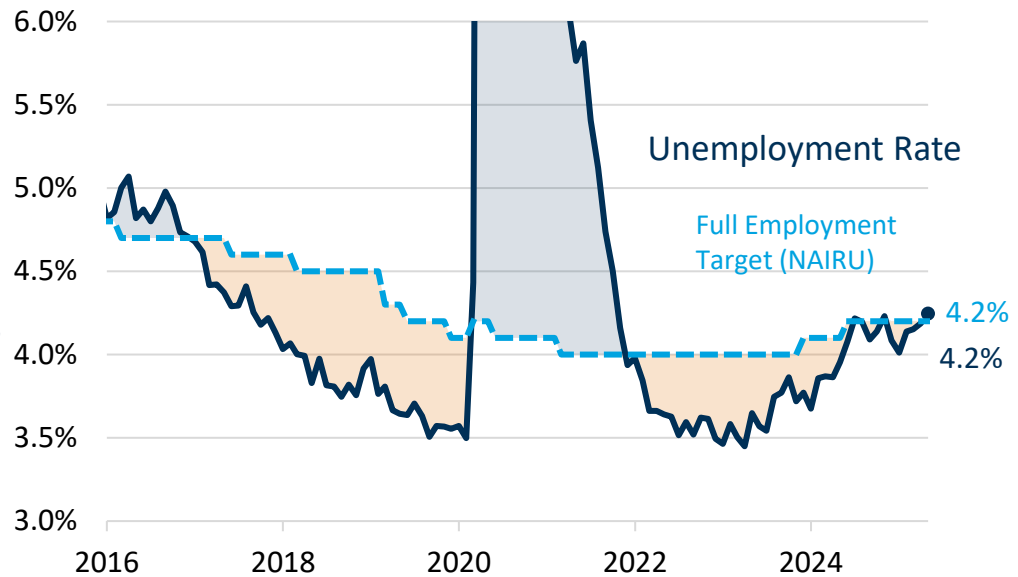


Dual Mandate in Better Balance Allowing Fed to Begin Easing Process (Pre-Tariff Uncertainty)

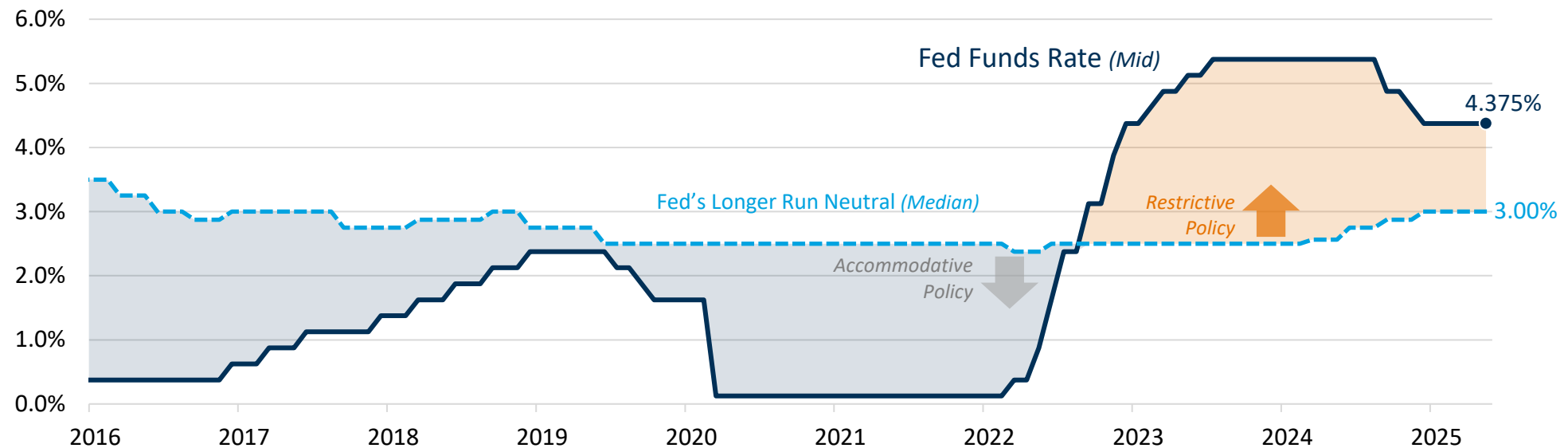
Price Stability Mandate (I-Star)



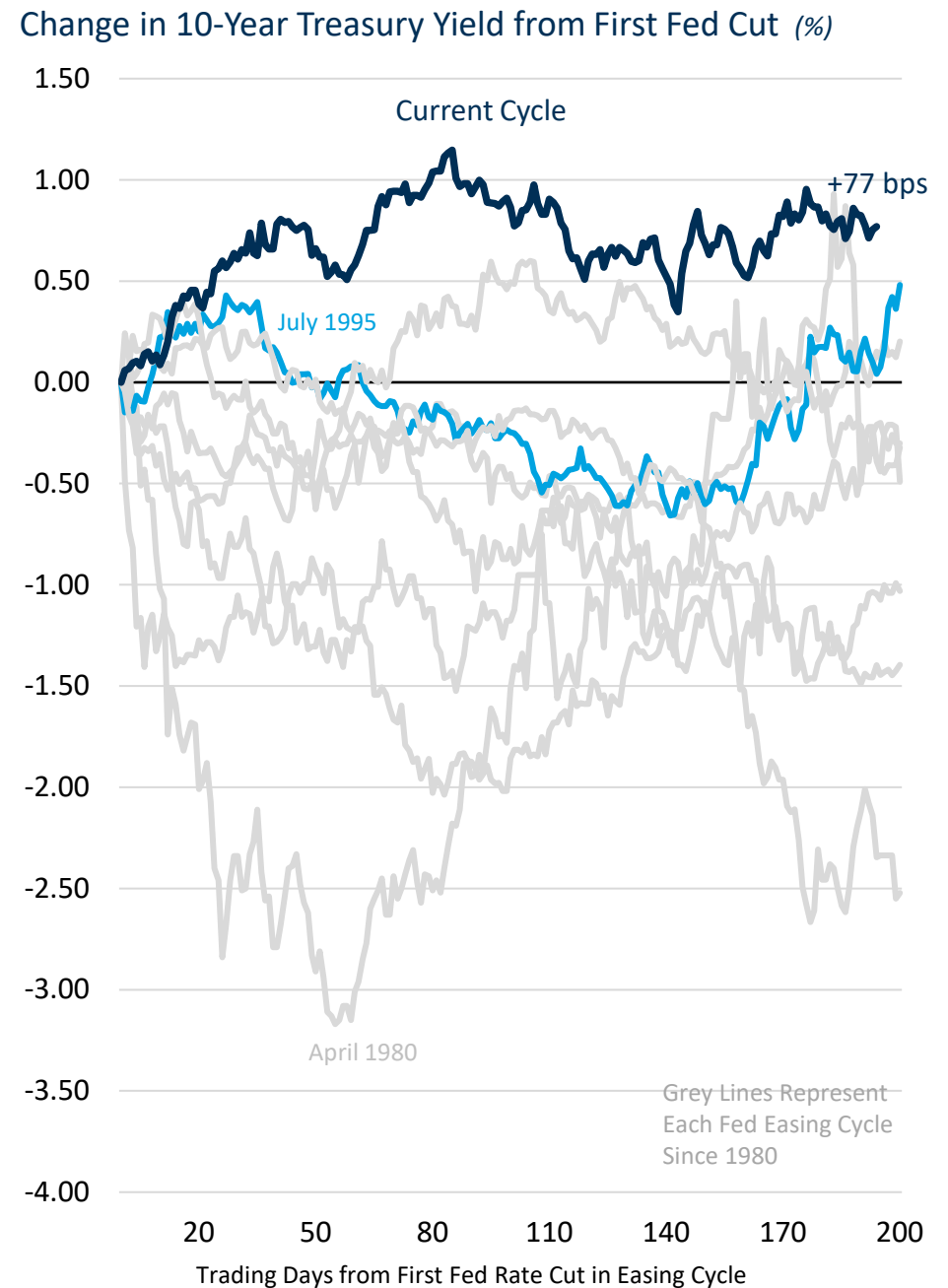
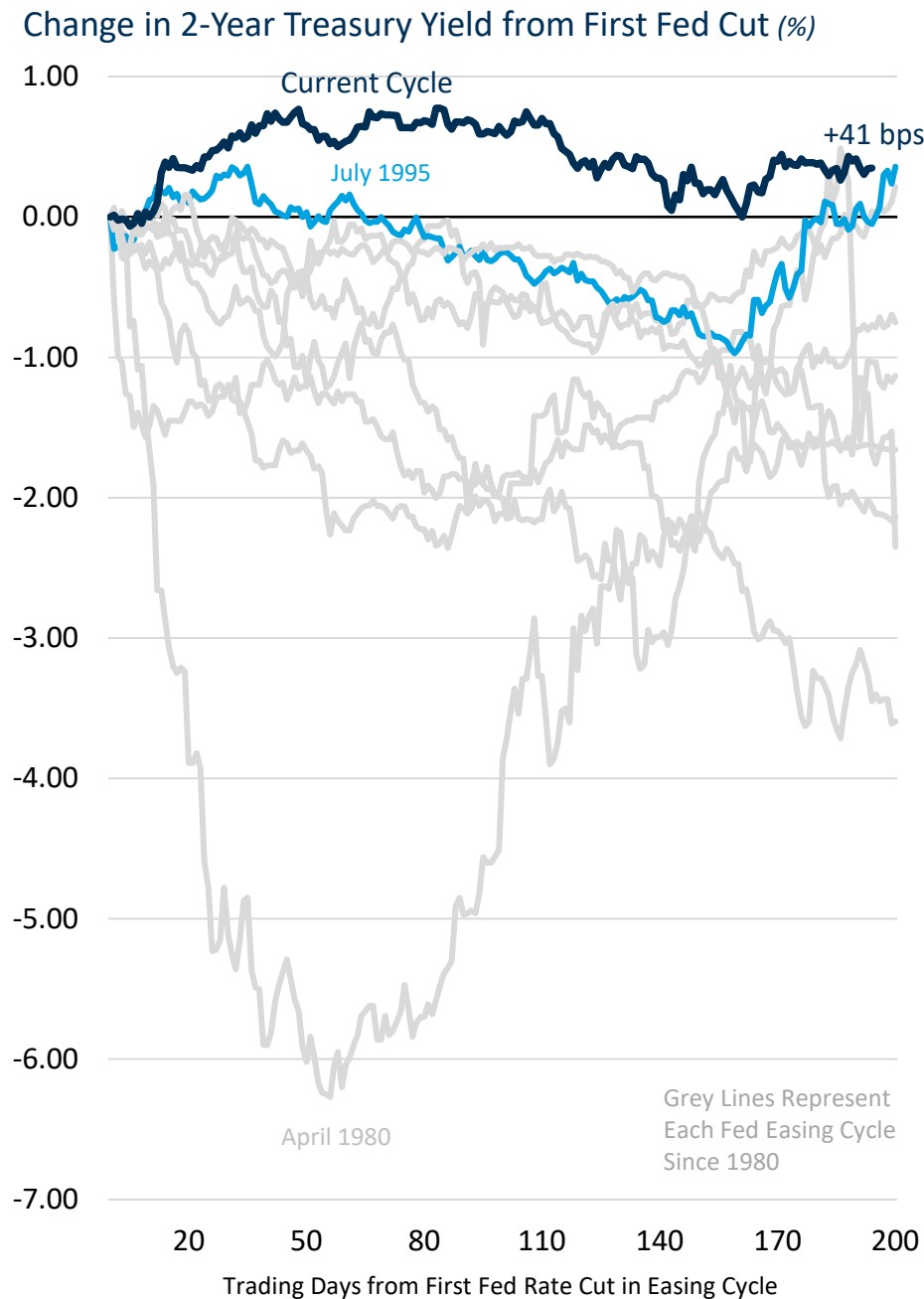
Maximum Employment Mandate (U-Star)



Fed Funds Rate and the Neutral Estimate (R-Star)



Why Have Rates Followed an Unusual Path Higher After the First Rate Cut?

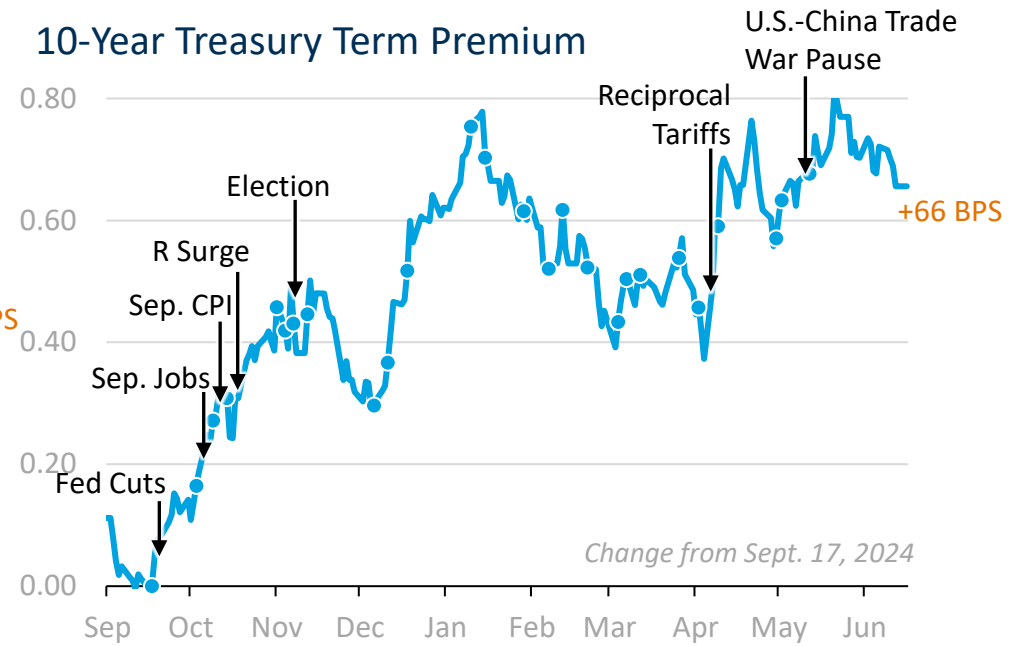


Stable Labor, Sticky Inflation, and Election Results = Greater Uncertainty and Slower Fed

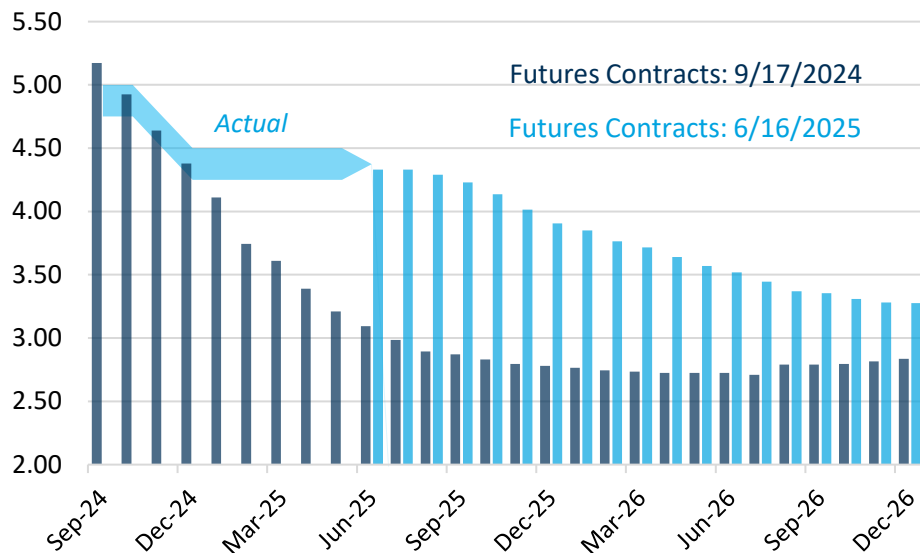
10-Year TIPS Inflation Breakeven



10-Year Treasury Term Premium



Fed Funds Futures Contracts



YE25 Fed Funds Futures Contract

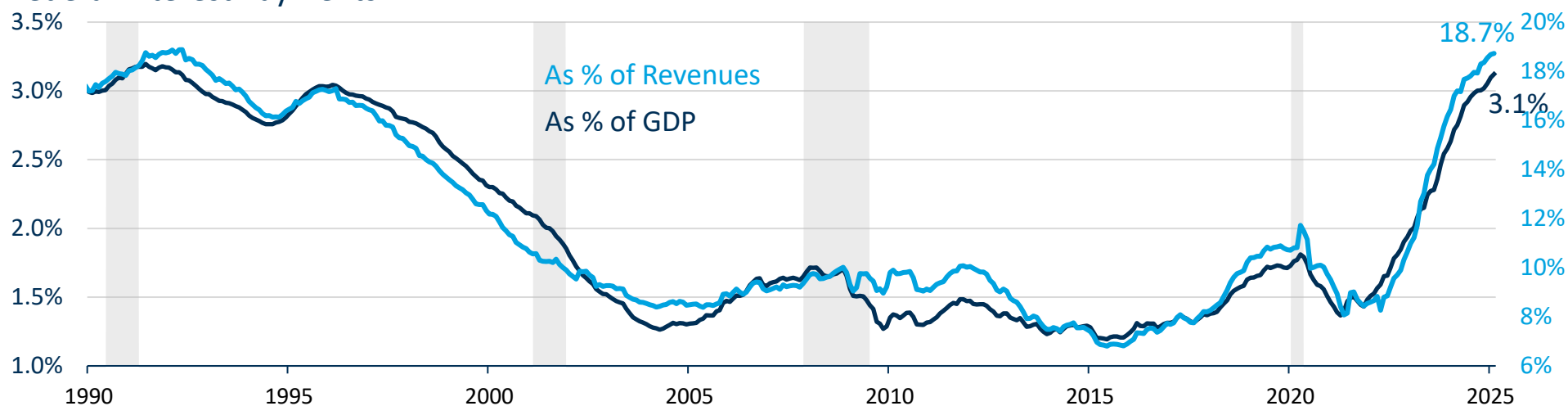


Elections Bring Range of Policy Implications Into Play; Deficits Spook Investors

	House Bill	Senate Bill
2017 TCJA Tax Cuts	Extends lower tax rates	Extends lower tax rates
SALT Cap	\$40,400; phased out after \$505k AGI	Retains \$10k cap ("placeholder")
Tips	Deductible; phaseout at \$155k	Deductible up to \$25k; phaseout at \$150k
Overtime	Deductible; phaseout at \$155k	Deductible up to \$25k; phaseout at \$150k
Seniors (Social Sec.)	Raises standard deduction to \$4k thru '28	Raises standard deduction to \$6k thru '28
Auto Loan Interest	Deductible for new and used vehicles	Deductible for new vehicles
Child Tax Credit	\$2.5k thru '28 then drops to \$2.0k	\$2.2k thru '28 then adjusts for inflation
TRUMP Accounts	\$1k federal match (children under 8)	\$1k federal match (children under 8)
Clean Energy Subsidies	Phased out over 60 days	Phased out over two years
Debt Ceiling	Increased by \$4T	Increased by \$5T

Sources: Bloomberg, H.R. 1; Senate Finance Committee

Federal Interest Payments



Tariff Fears Realized with Announcement of Higher Tariff Rates than Expected

Campaign Proposals for Trade Policy

- Threatened 60% tariff on all Chinese imports
- Threatened 10-20% tariff on all imports
- *Baseline expectation: effective tariffs would be smaller than threatened tariffs - inflationary

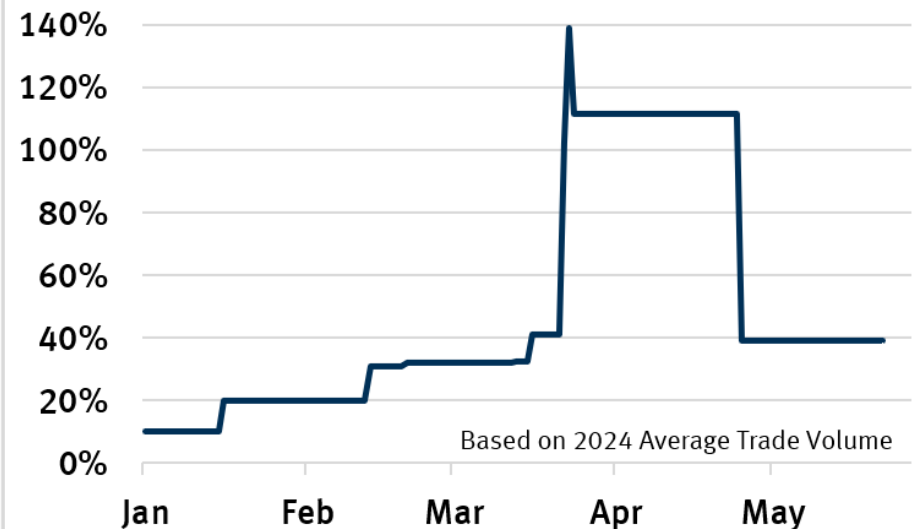
Post-Inauguration Trade Announcements

- **Country-specific tariffs:**
 - 10% tariff on all Chinese imports
 - Raised China tariff to 20%
 - 25% tariff on Canadian and Mexican imports
 - USMCA items exempted initially
 - Liberation Day (April 2):
 - 10% minimum on all countries
 - Reciprocal rates on 61 countries
 - China: 34% (54% total)
 - Ended *de minimis* exemption (120%)
 - Paused reciprocal rates for all except China (April 9)
 - Added 50% tariff to China (total 104%) after China raised U.S. rate to 34% (April 9)
 - Raised China rate to 145% after China raised U.S. rate to 84% (April 9); China then raised rate to 125%
 - U.S. exempted certain tech products (April 11)
- **Product-specific tariffs:**
 - 25% tariff on steel and aluminum
 - 25% tariff on auto imports (April 3)
 - Conducting study on pharma and semiconductors

Bilateral Trade Deal

- **U.K. (May 8) ('24 Imports \$68.1b, '24 Exports \$79.9b)**
 - 10% base tariff rate
 - *Steel and aluminum under separate agreement
 - *Auto tariff: lowered from 25% to 10% on 100k units
 - U.K. to ease or remove “numerous non-tariff barriers”

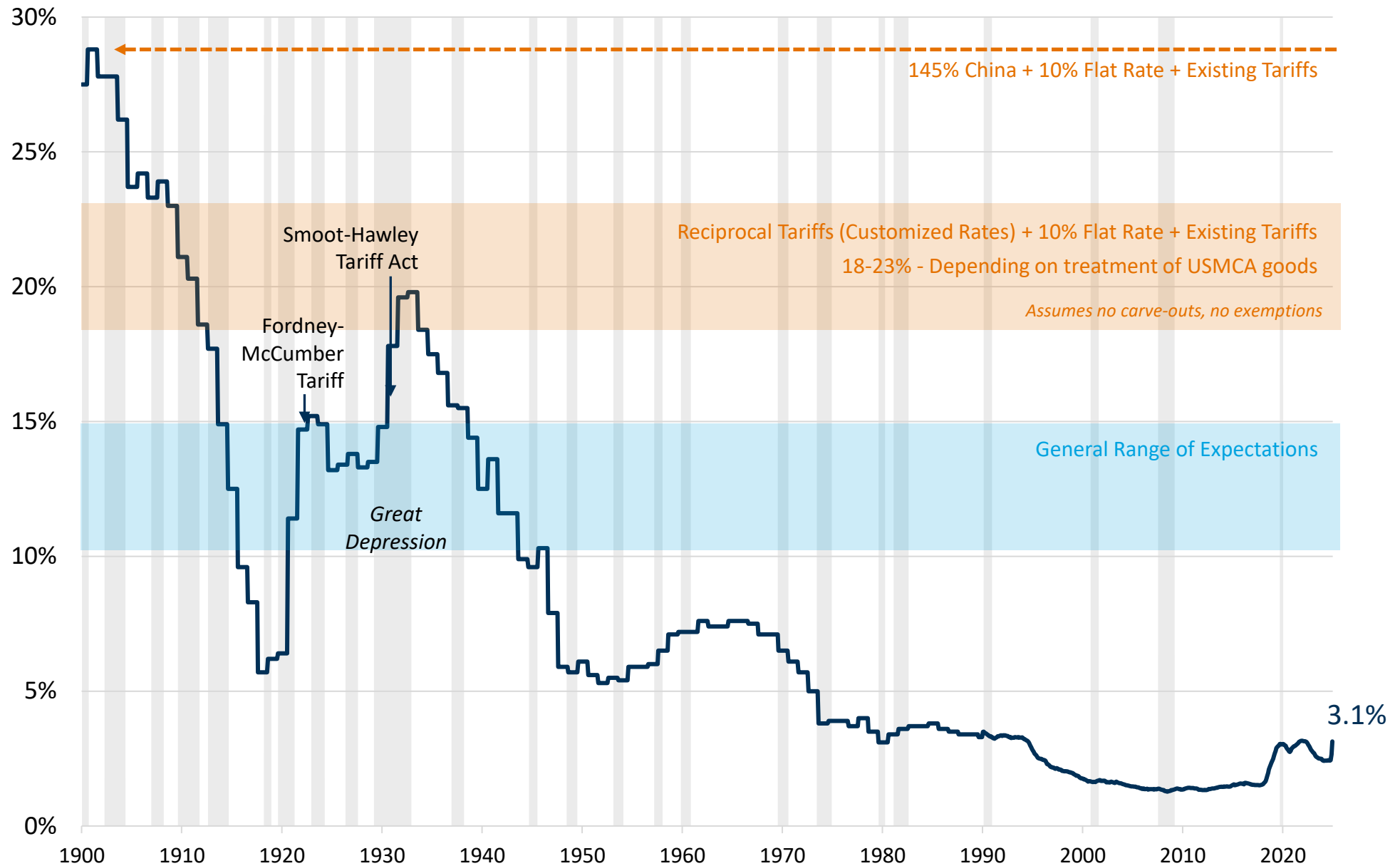
U.S. Average Effective Tariff Rate on China



- Baseline expectation: larger and broader tariffs than initially expected - potentially recessionary

Tariff Concern #1: Trade War Escalates Slowing U.S. and Global Growth

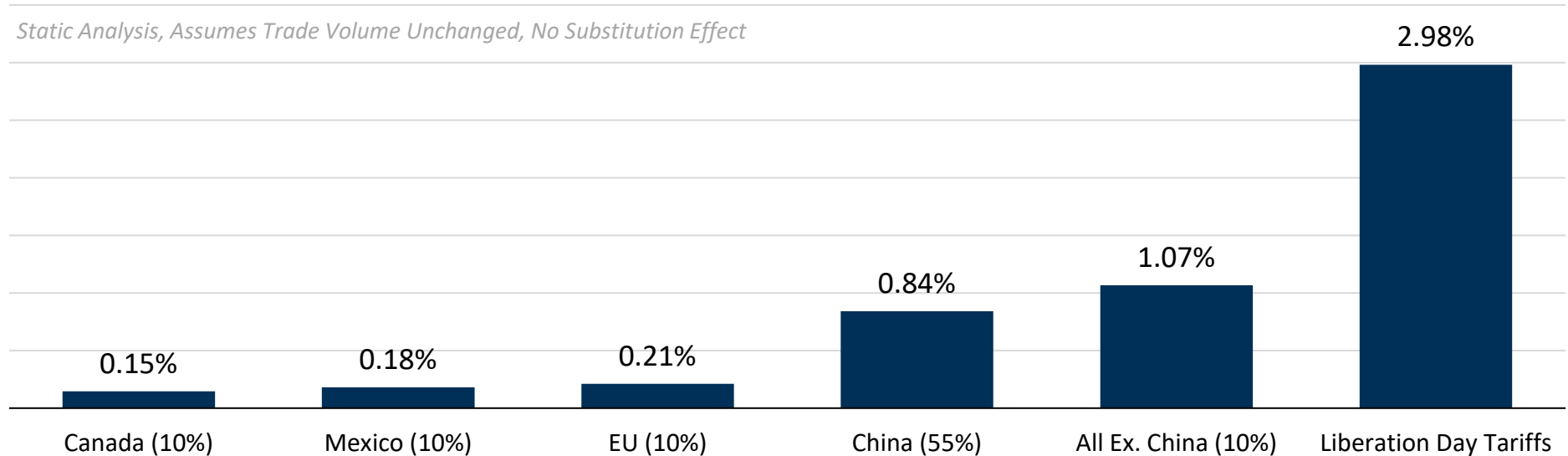
Import Tariff Rate



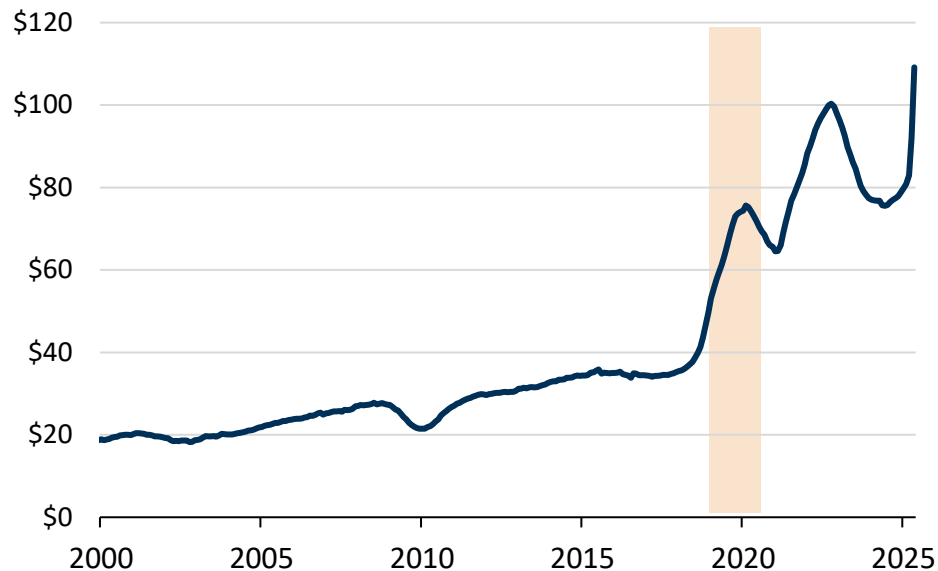
Tariff Concern #2: Raises Inflation at a Tenuous Time for Policymakers

Estimated Tariff Impact on GDP Price Levels

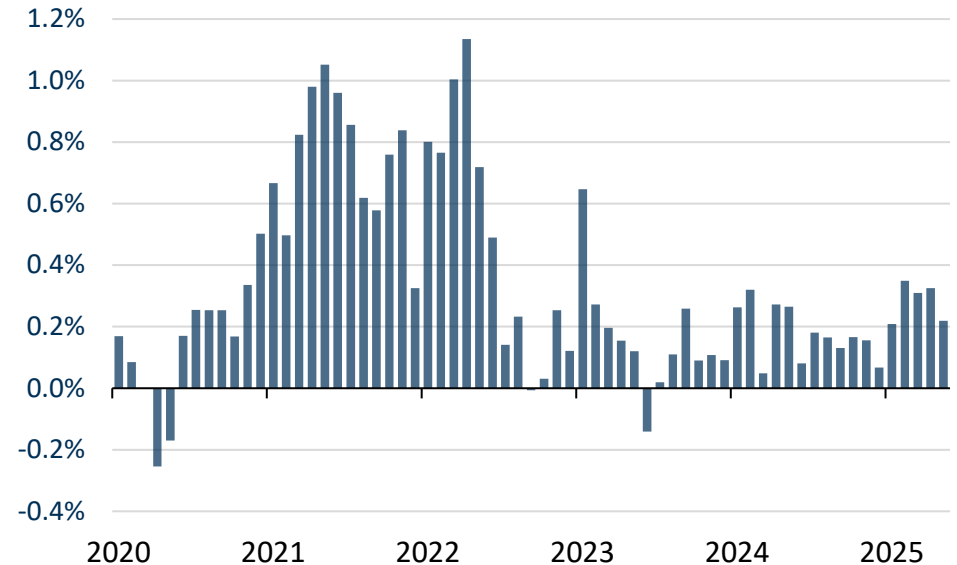
Static Analysis, Assumes Trade Volume Unchanged, No Substitution Effect



Customs Revenues (Trailing 12M, NSA, Billions)

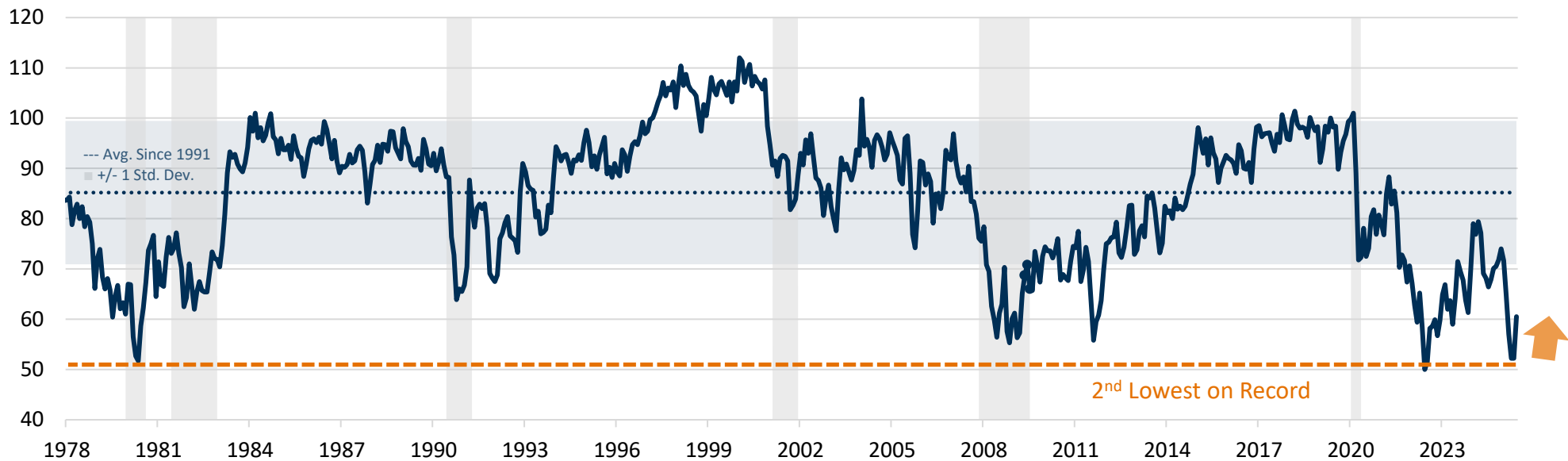


Core Goods PPI (Month-over-Month)

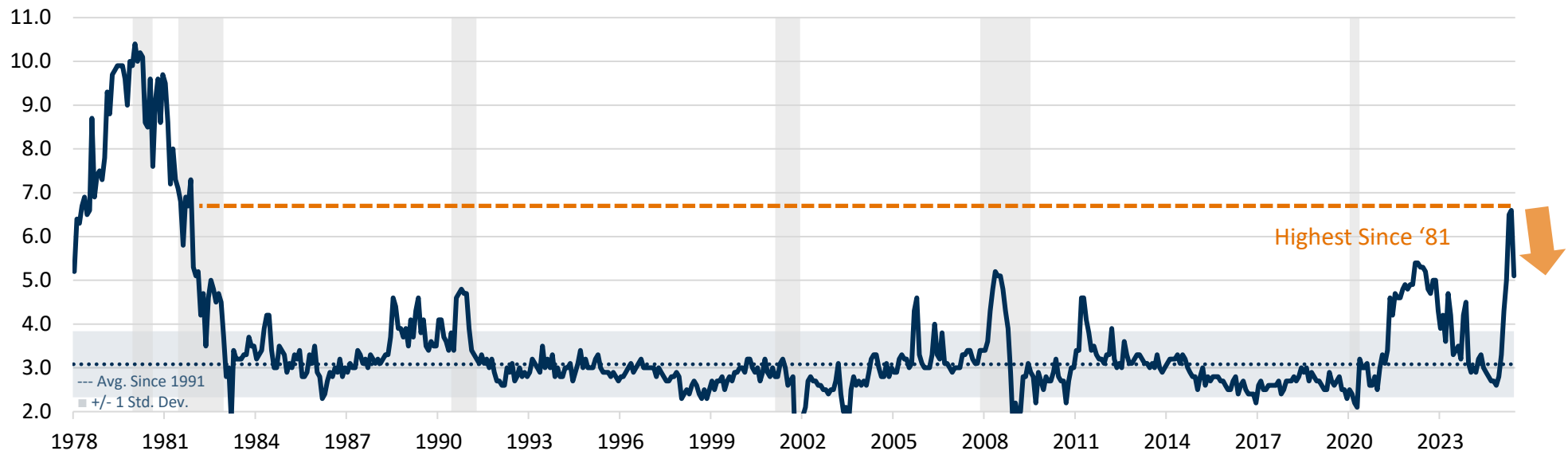


Tariff Concern #3: Consumer Uncertainty and Higher Prices Cut Off the Consumption Spigot

Consumer Confidence (U.M.)

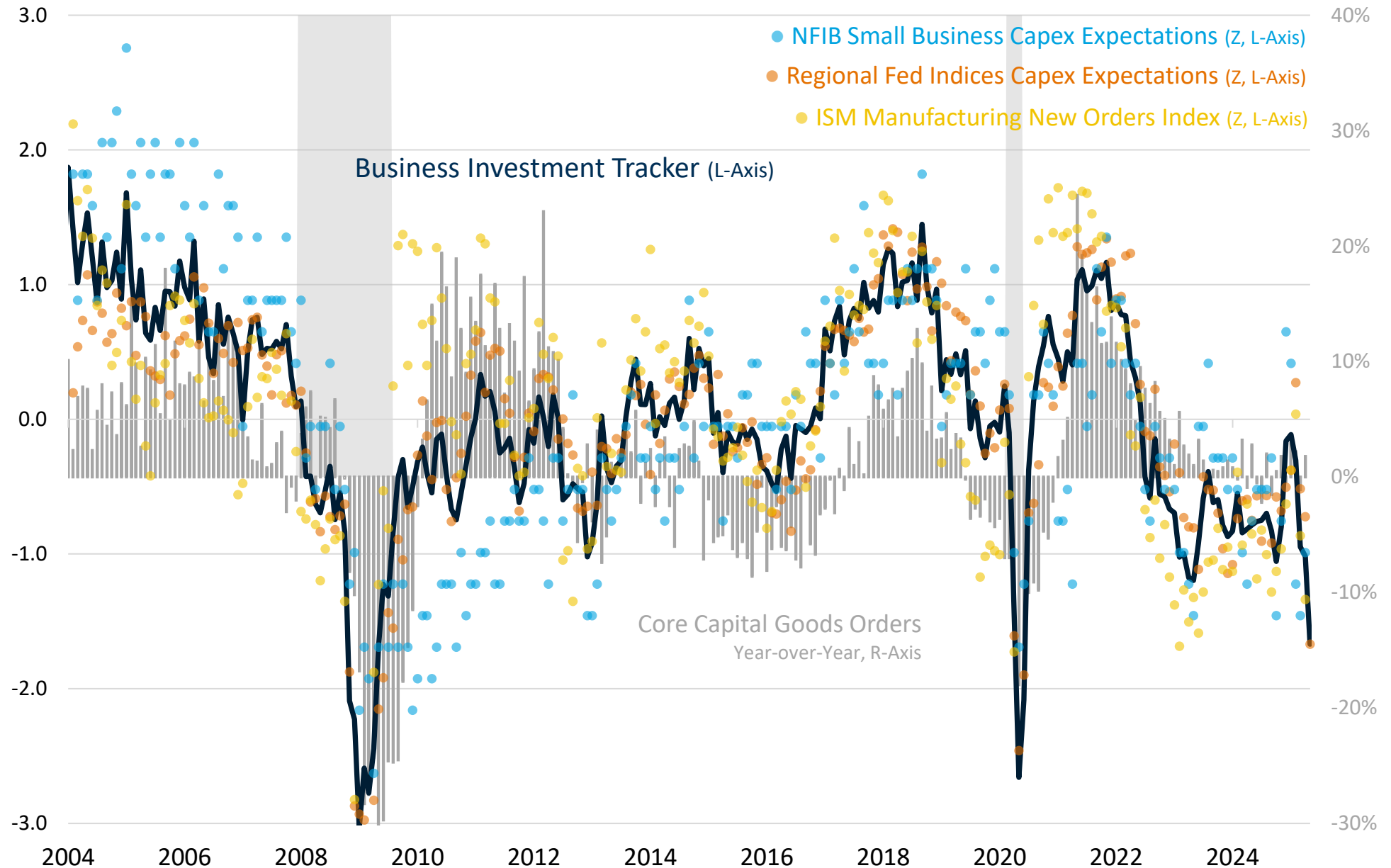


1-Year Consumer Inflation Expectations (Percent, U.M.)



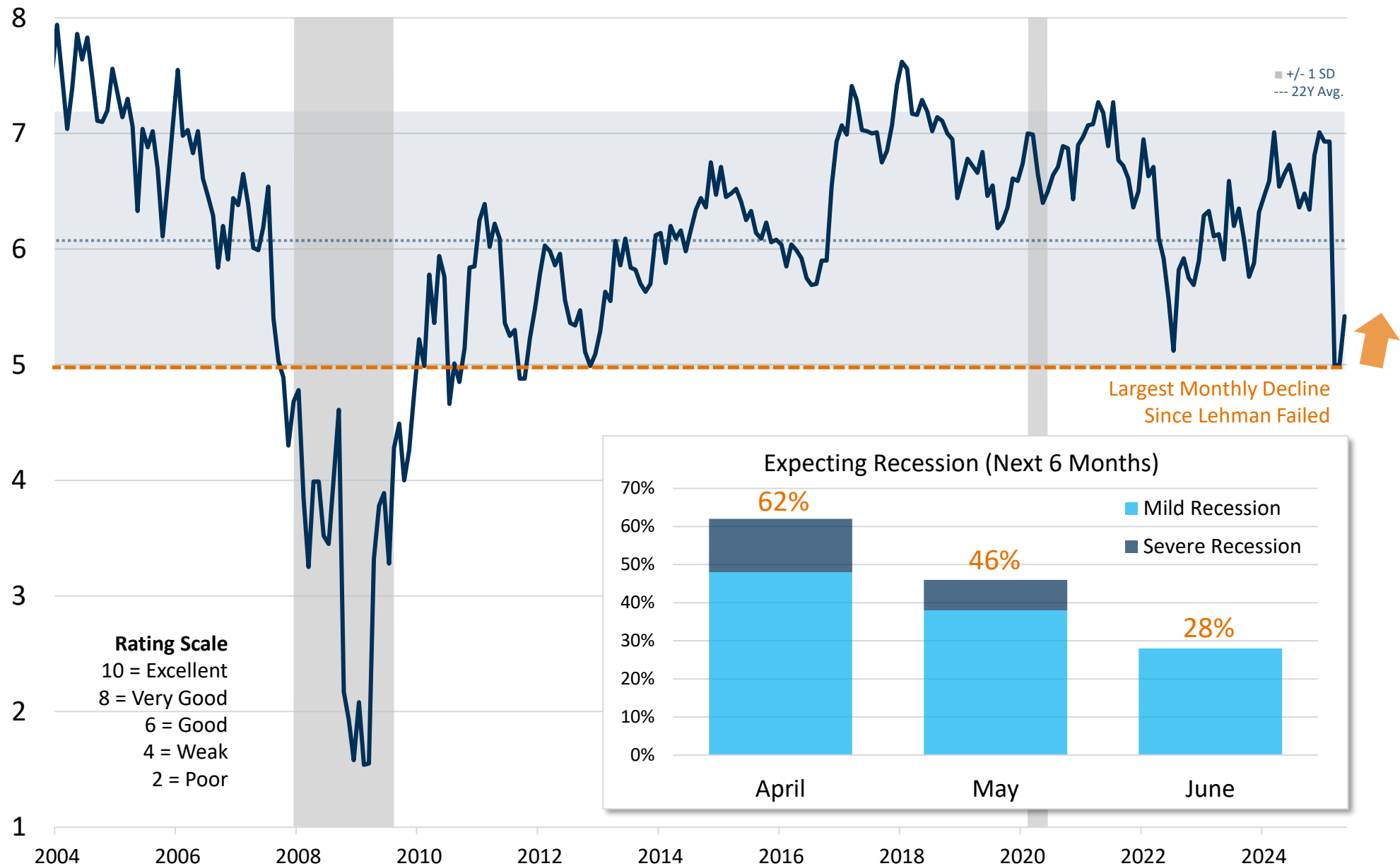
Tariff Concern #4: Policy Uncertainty Freezes Business Investment

Capex Indicators and Core Capital Goods Orders



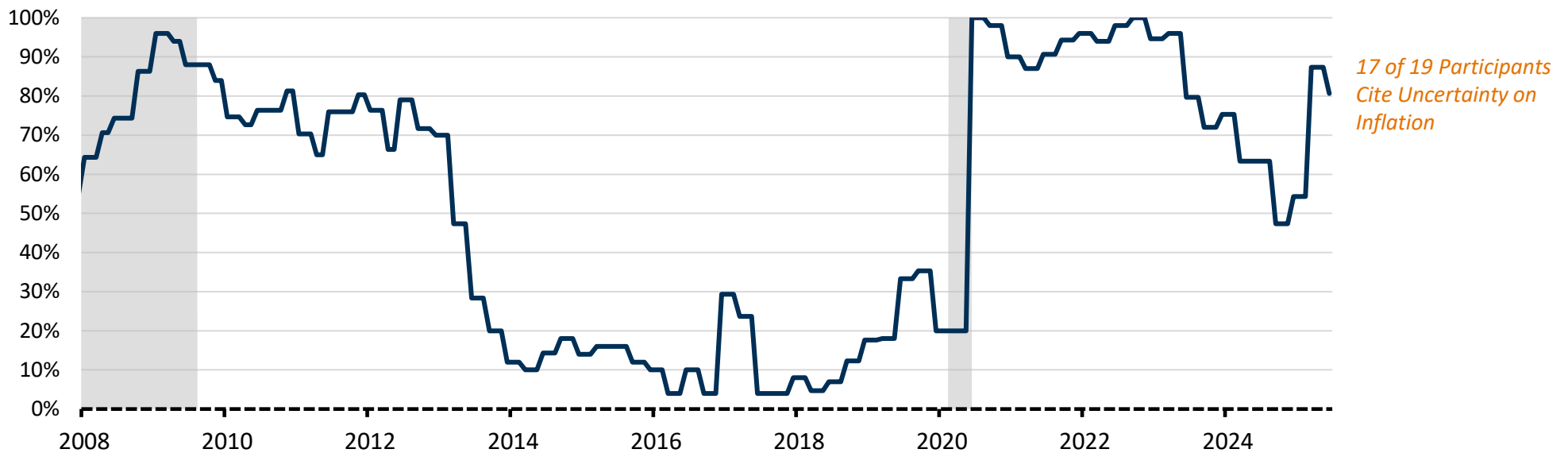
Tariff Concern #4: Policy Uncertainty Freezes Business Investment

CEO Confidence in Economy 12 Months Forward (*Chief Executive Magazine*)

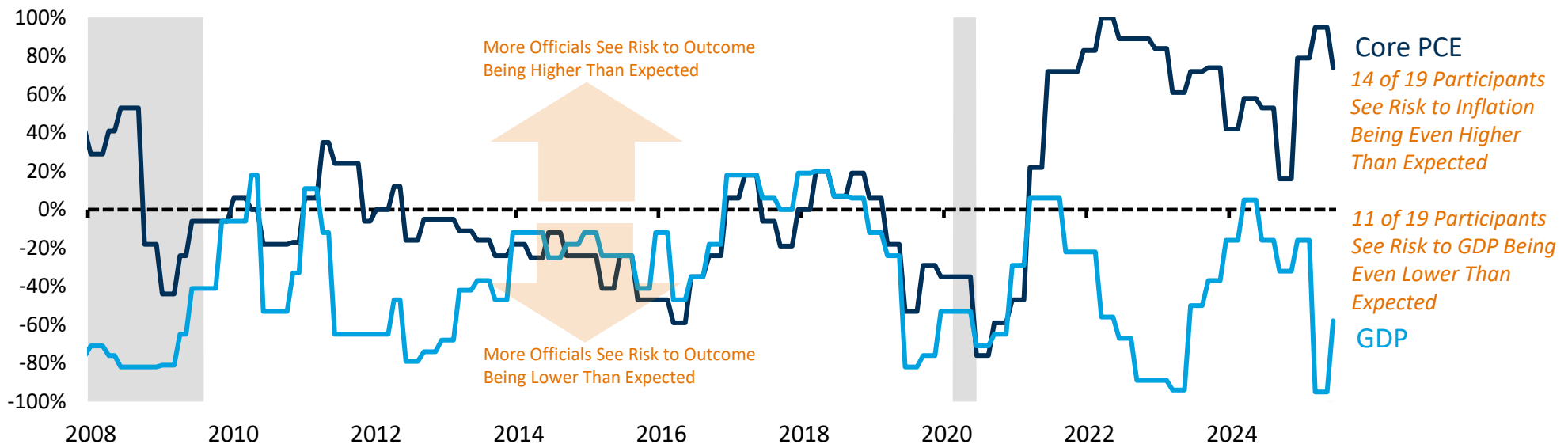


Tariff Concern #5: Heightened Uncertainty Slows Pace of Monetary Policy Normalization

Uncertainty Regarding Forecasts Versus Prior 20 Years *(Percentage of Participants, Average of GDP, PCE, UR)*

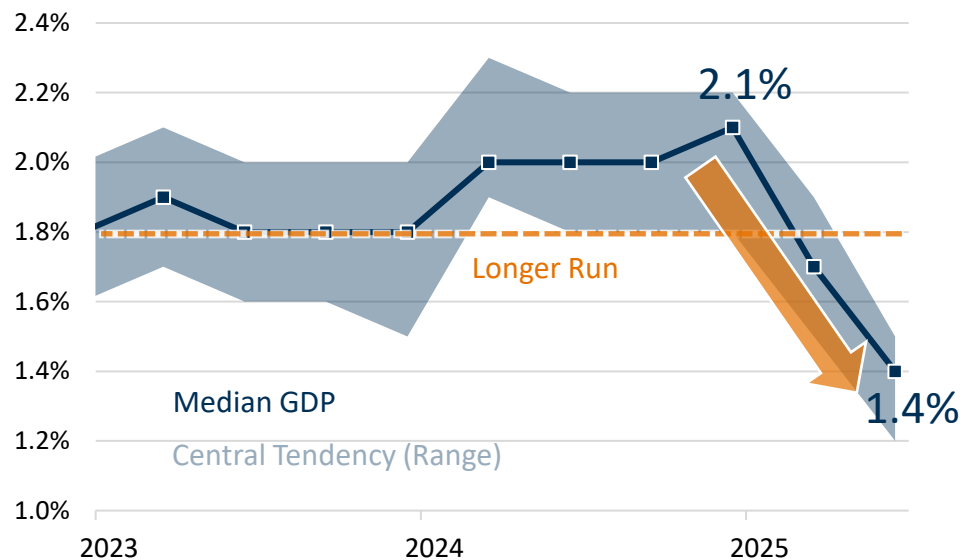


Assessment of Risks to Forecasts *(Net Percentage of Participants)*

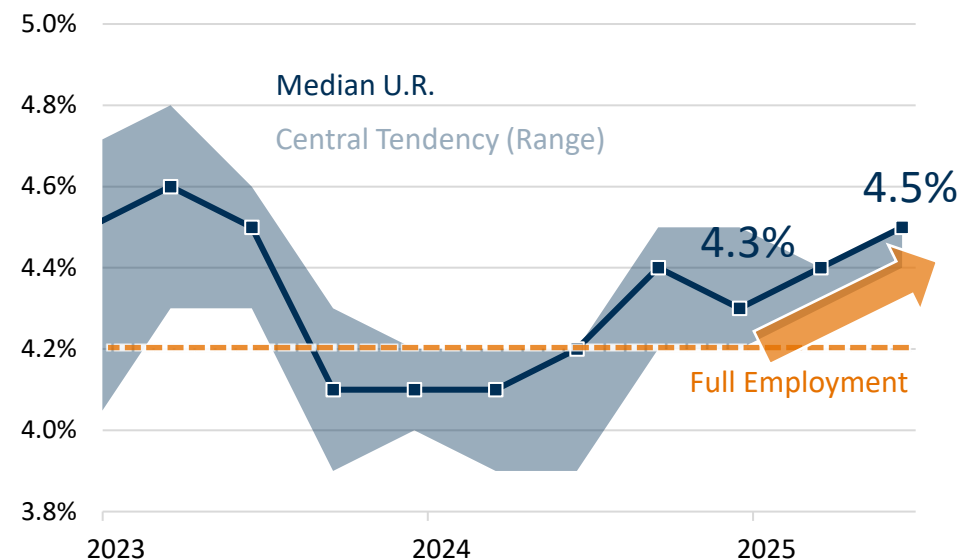


Federal Reserve Summary of Economic Projections

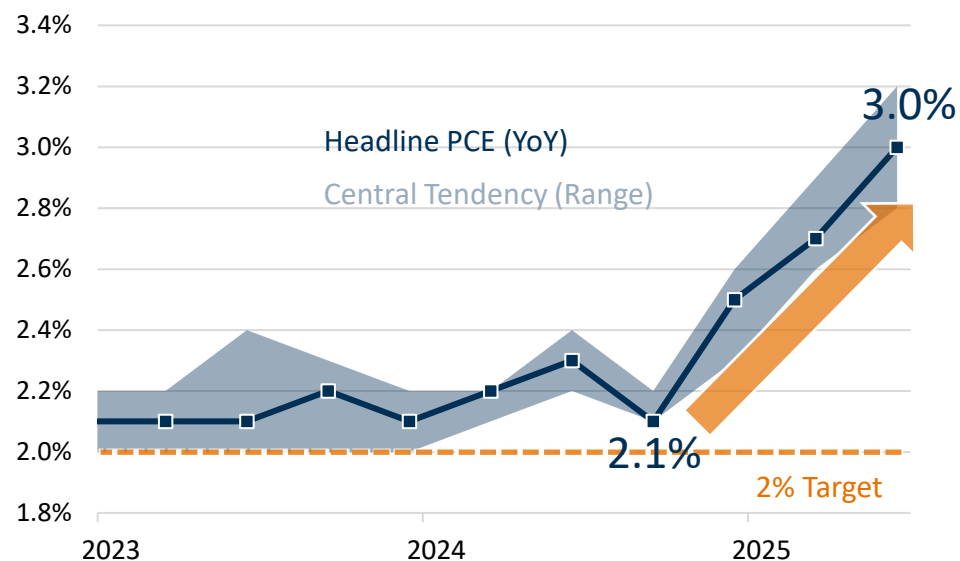
GDP Projections (Full-Year 2025)



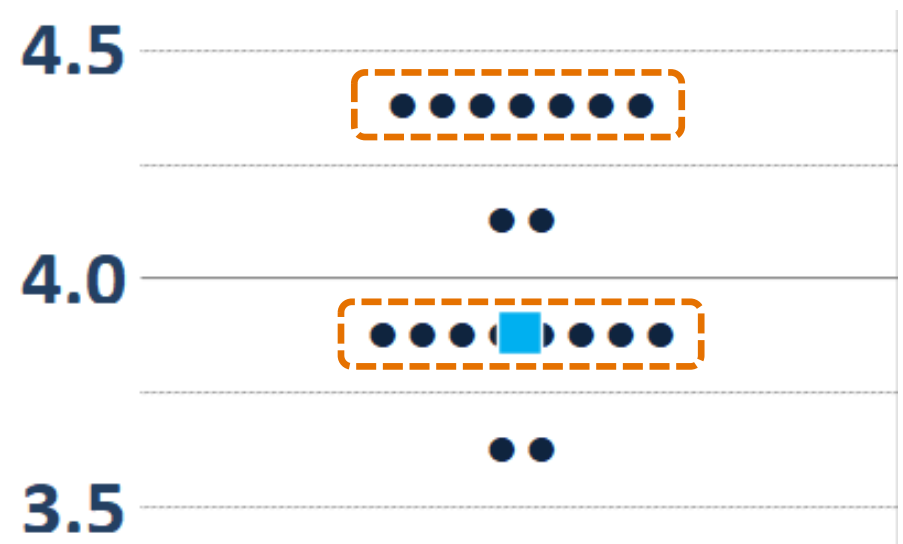
Unemployment Projections (Year-End 2025)



PCE Inflation (Year-End 2025)

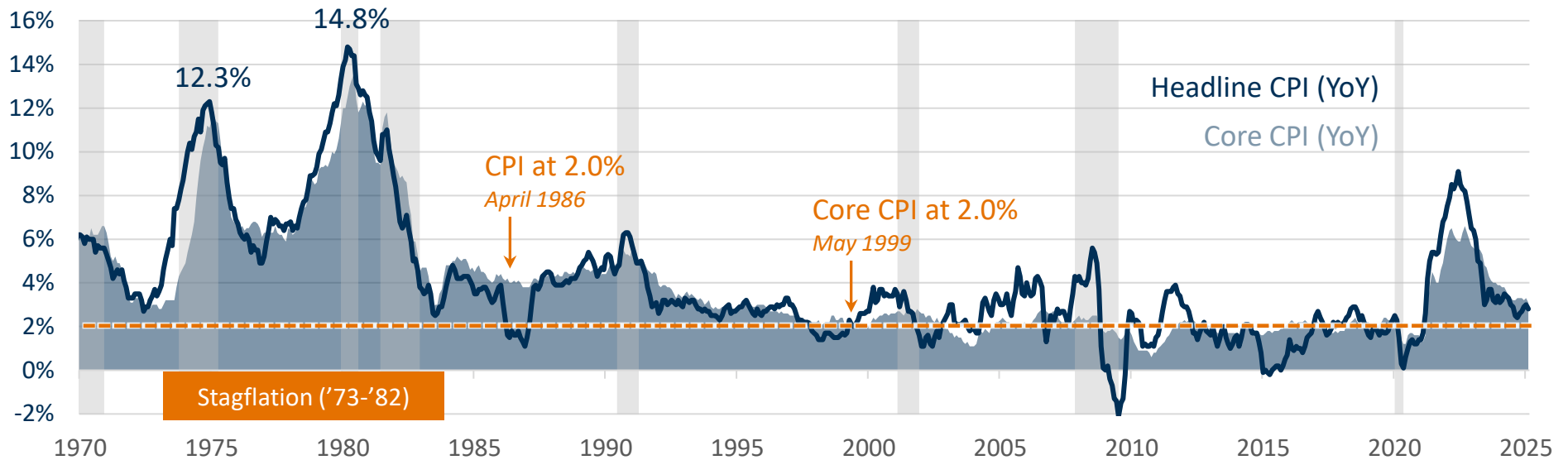


Target Rate Projections by Year-End 2025

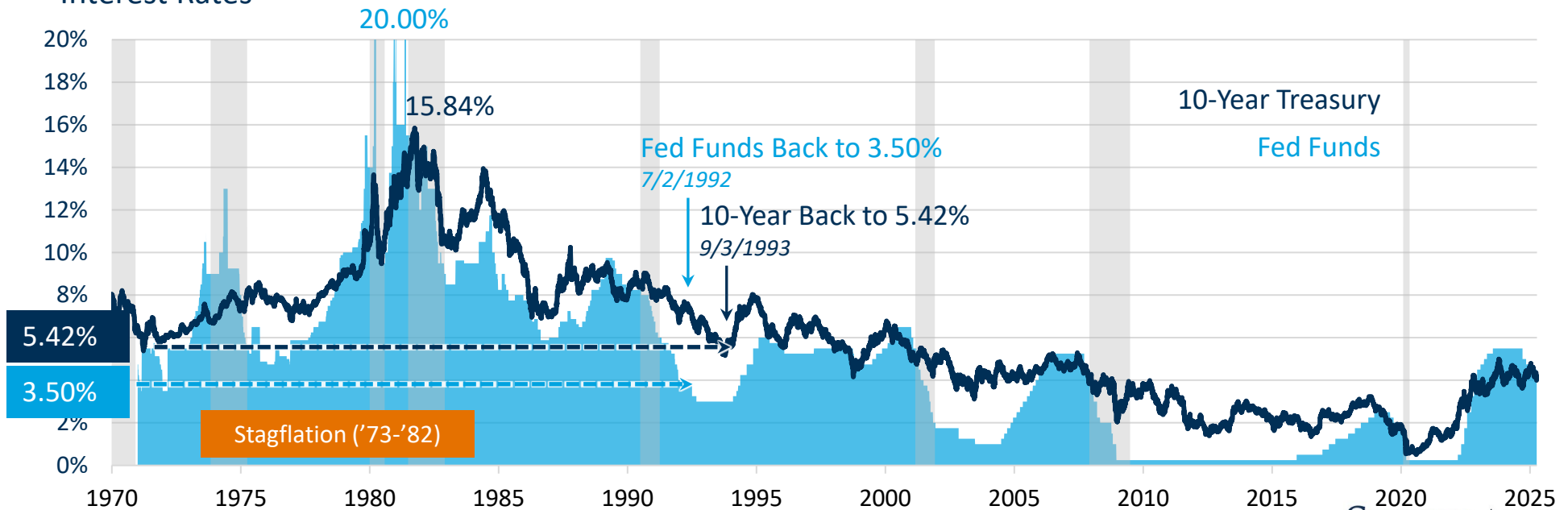


The Stagflation Environment: ...Creating an Environment That Policymakers Vow to Avoid

Consumer Inflation



Interest Rates



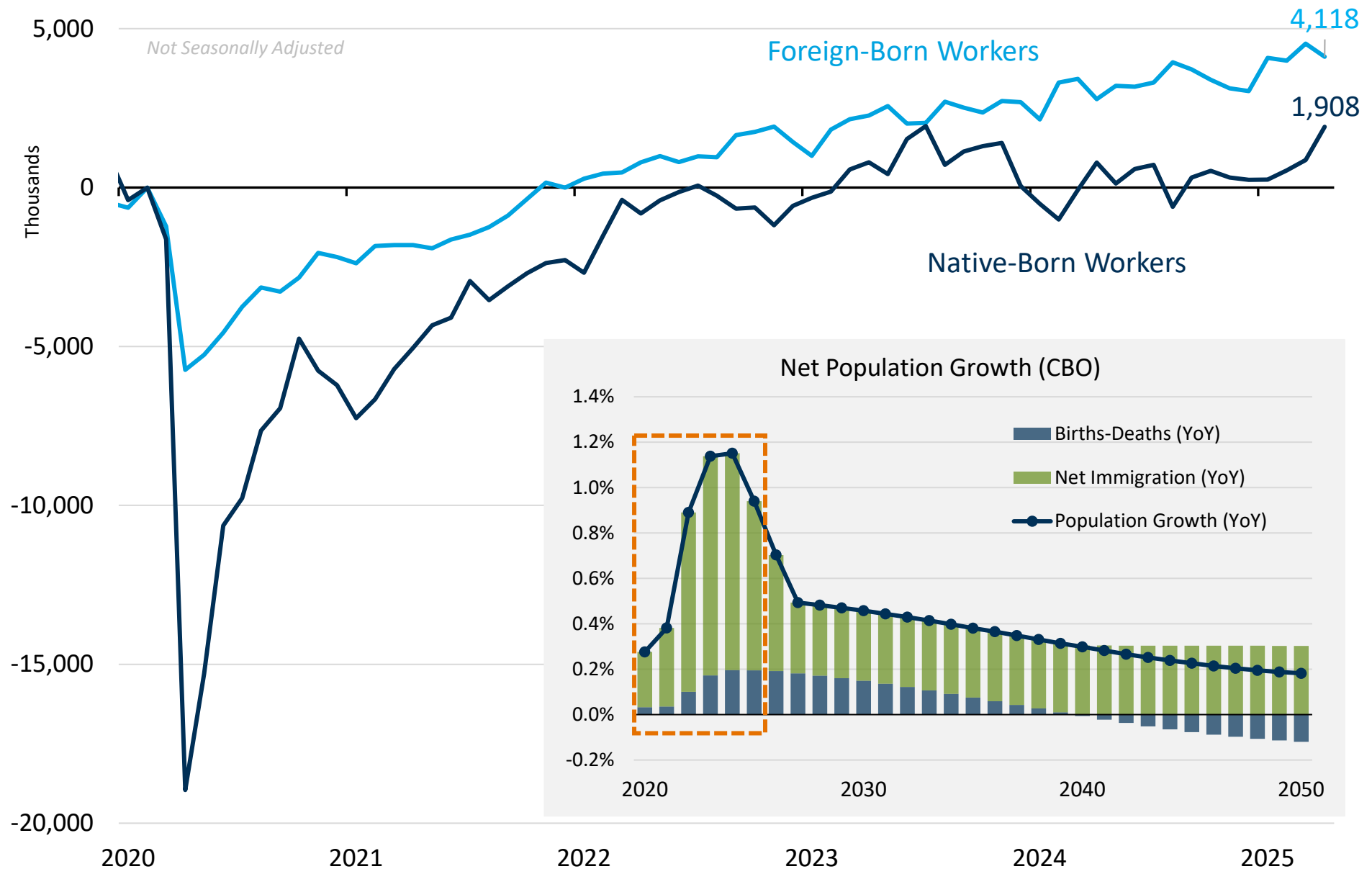
Questions Remain about Eventual Impact on Economic Growth, Inflation, and Markets

Numerous Questions Remain Unanswered That Will Dictate Economic and Market Outcomes

- Will there be retaliatory tariffs? If so, how will the U.S. respond?
- How long will these tariff rates remain in effect?
- How much financial market pain is the President willing to tolerate to achieve goal?
- Will Congress make the tariffs permanent legislatively?
- How much of the increased costs will be absorbed by business margins?
- How much if the increased costs will be passed on to consumers?
- Will consumers balk in the face of even higher prices?
- How long will it take the Fed to be convinced any tariff inflation is transitory?

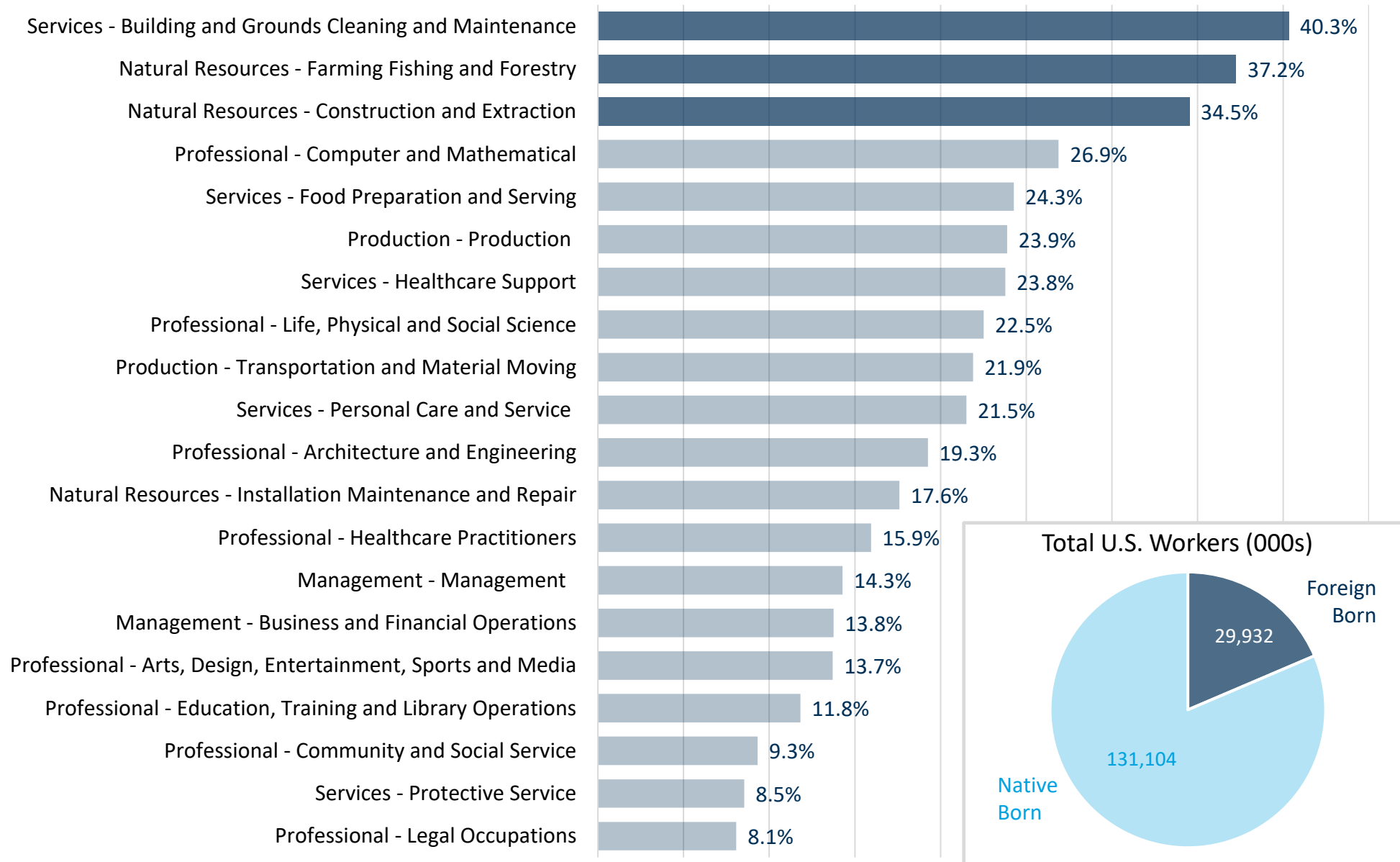
With Prime Participation High and Seniors Retiring, Immigration Has Filled Labor Demand

Change in Number of People Employed by Nativity | Change from February 2020



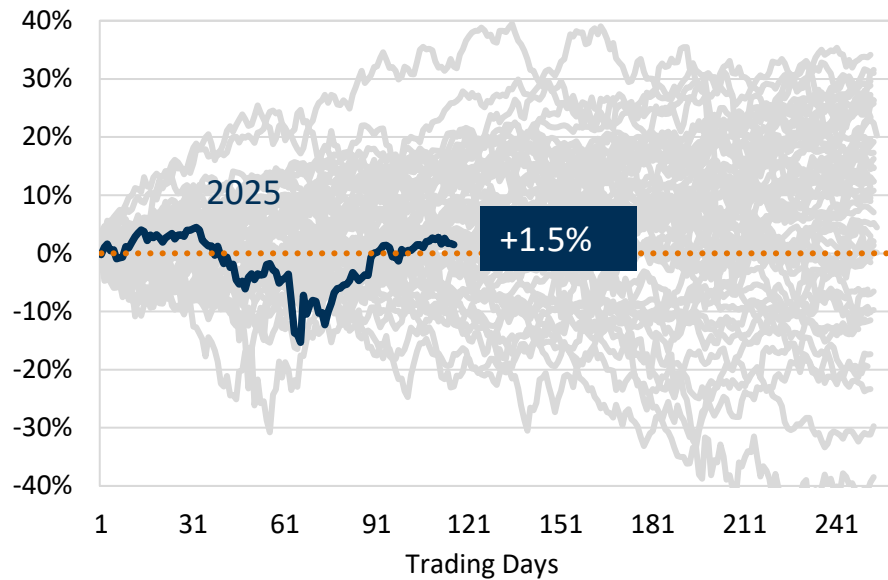
Maintenance, Farming, and Construction Likely to Be Most Challenged by Slower Immigration

Foreign Born Workers as Percentage of Total Workers by Sector

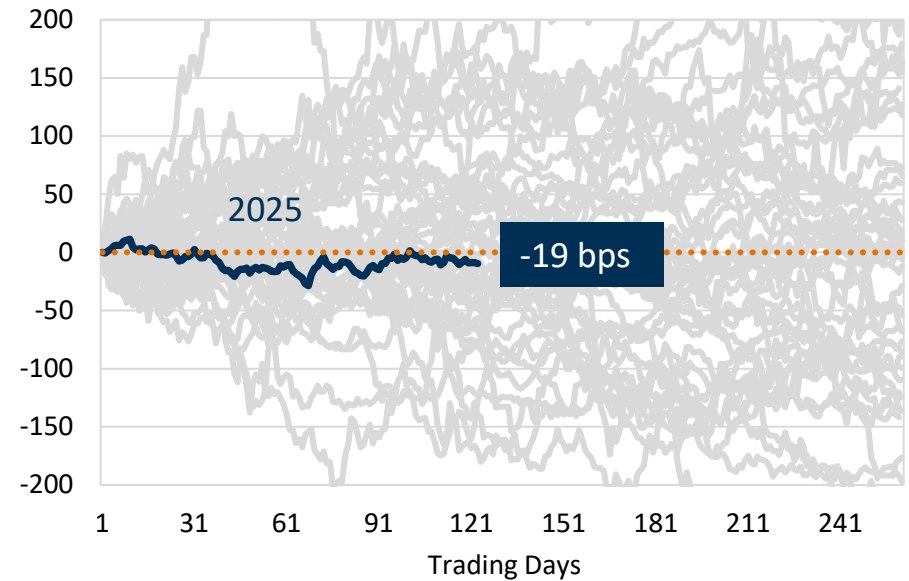


S&P Rebounds from -15% YTD, 10-Year Yield Remains Elevated, Dollar Grinds Lower

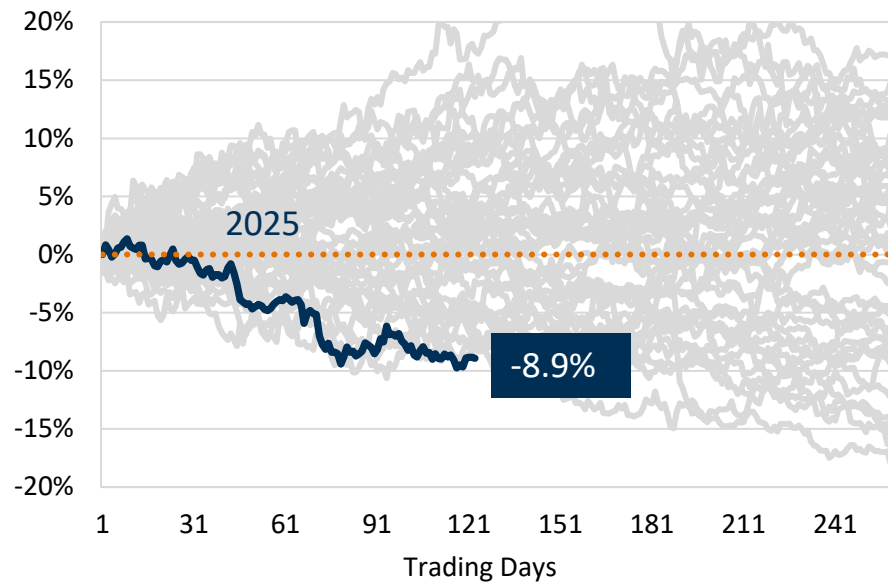
S&P 500 | YTD Changes Since 1968



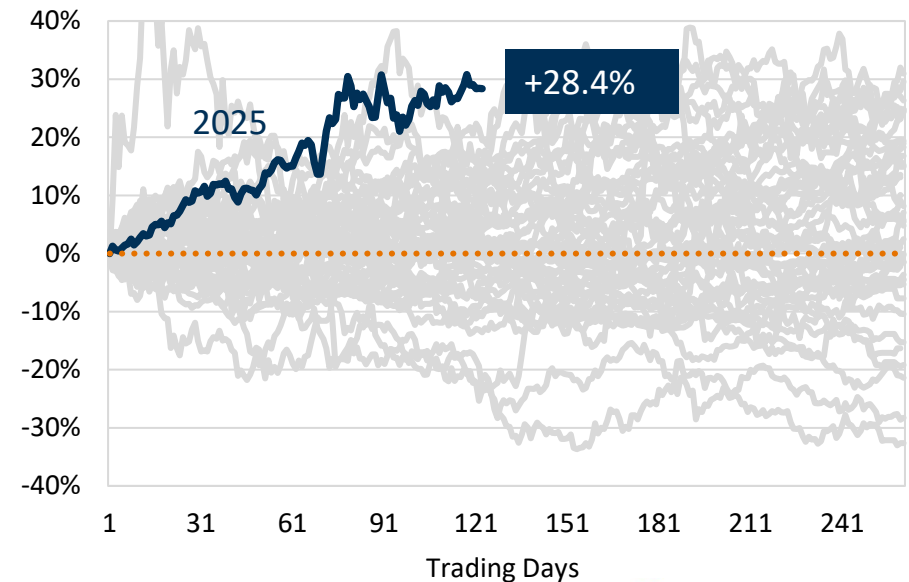
10-Year Treasury Yield | YTD Changes Since 1979; BPS



U.S. Dollar | YTD Changes Since 1980

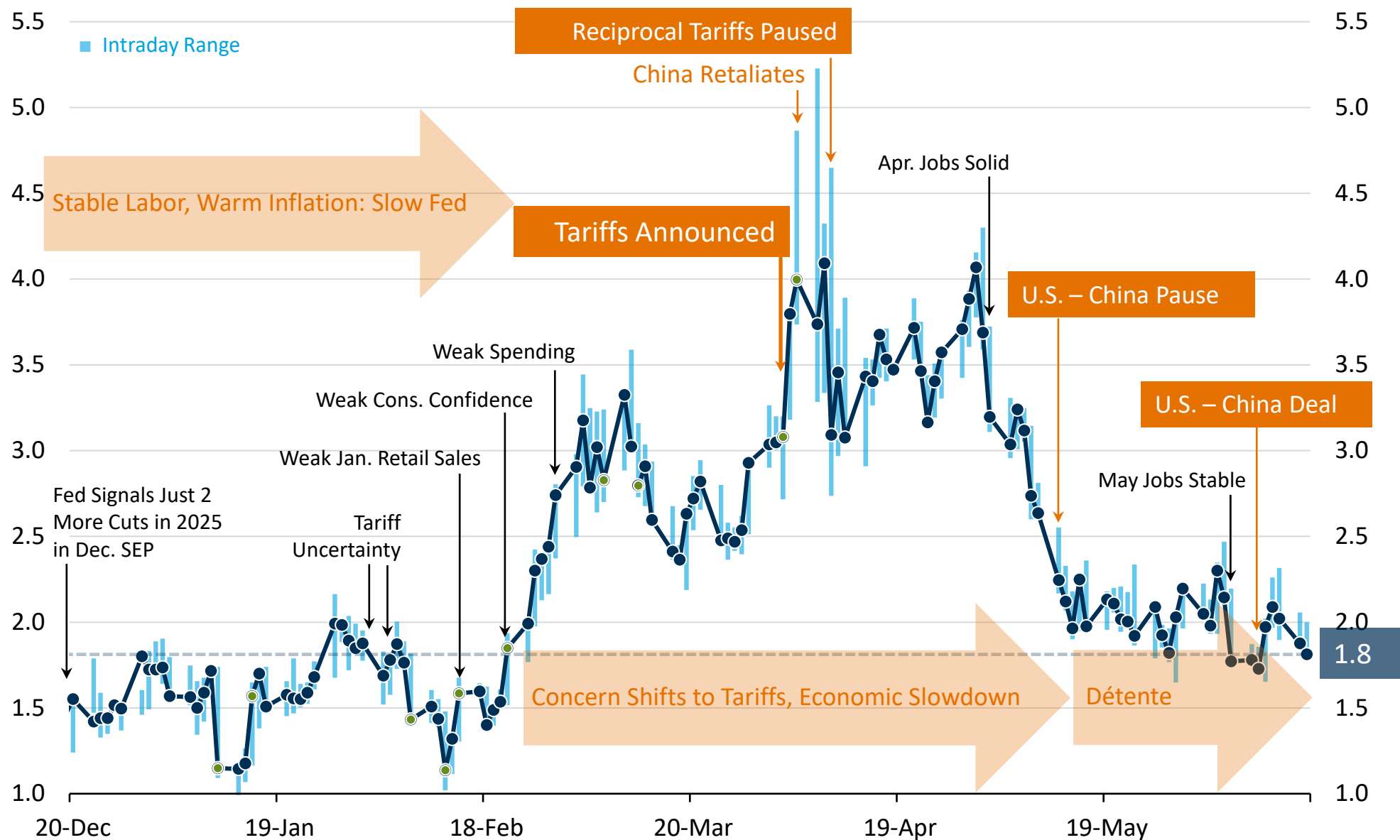


Gold | YTD Changes Since 1980



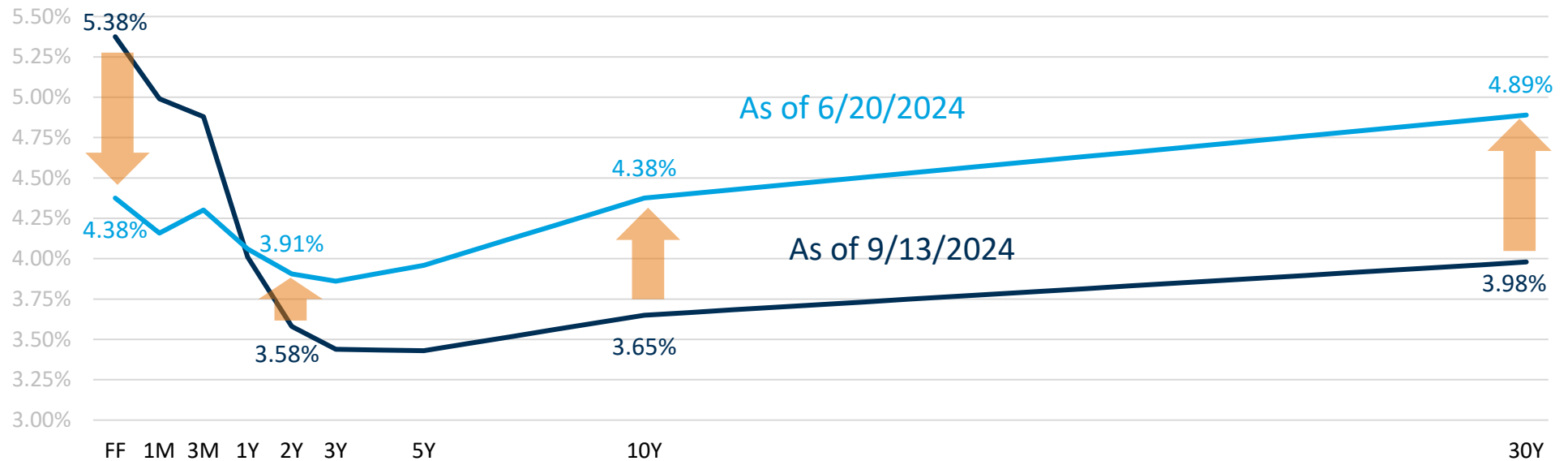
Investor Sentiment Has Shifted from Inflation, to Recession, Back to Inflation/Uncertainty

Number of 25 BPS Cuts Projected in 2025 by Fed Funds Futures Contracts

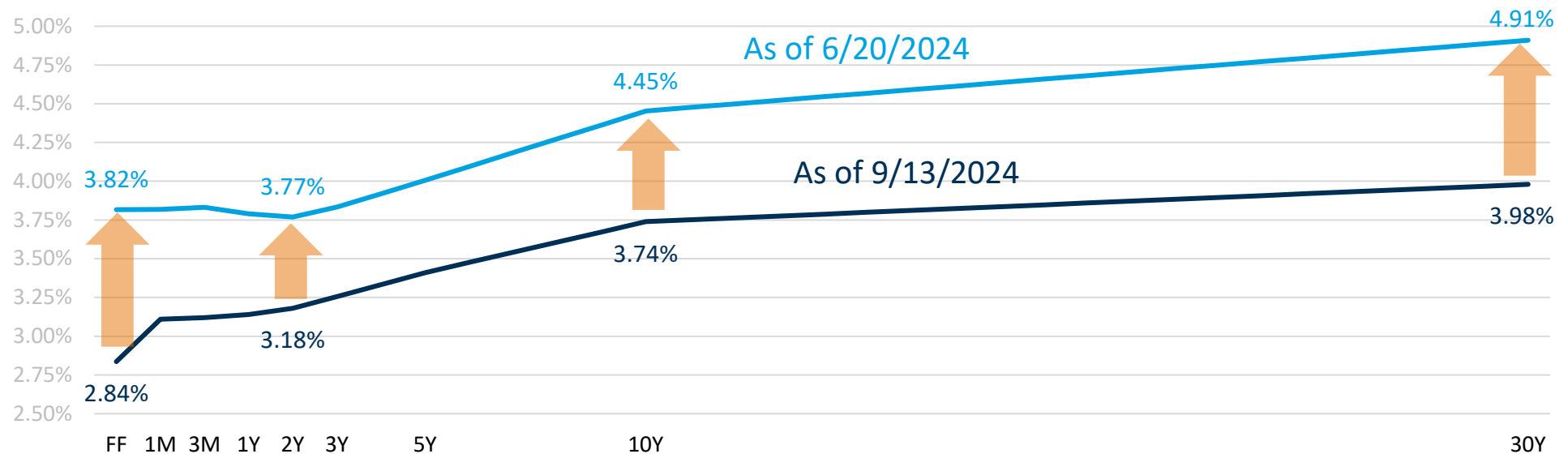


Investors Now Expect Yield Curve to Remain Elevated Through End of the Year

Yield Curve Pre-Fed Cuts and Current

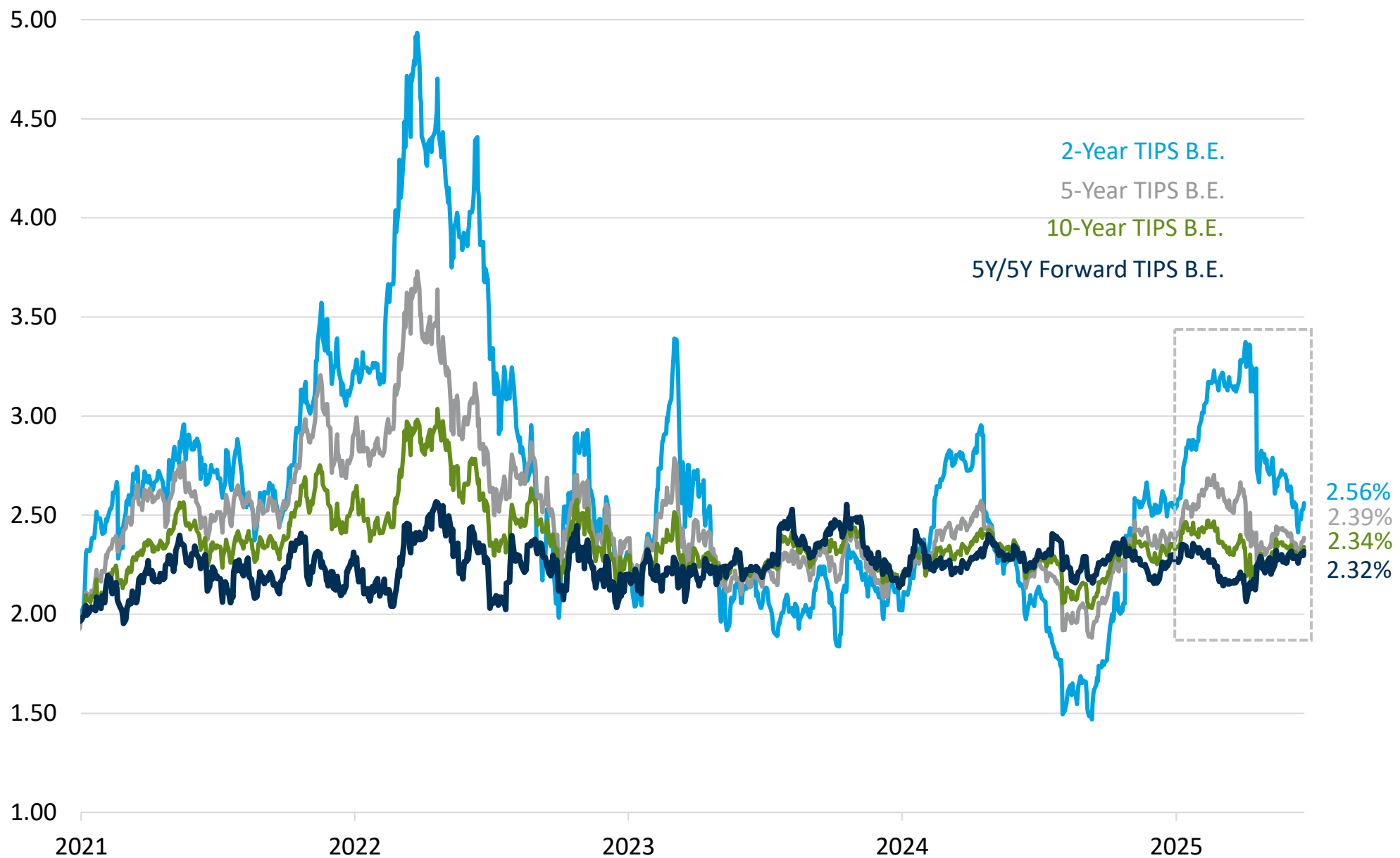


Forward Curve Yield Projections for Year-End 2025



Investors Expect Tariff Inflation to Be Transitory at This Point

TIPS Implied Inflation Breakeven Rates (Percent)



- **Economic Resilience, Progressing Toward Soft Landing**

Economy grew 2.8% in 2024, more resilient than expected

Growth driven by the consumer, business investment, and government

Housing rents and core services (ex. housing) inflation both improving slowly

Labor market imbalance has improved, consistent with continued cooling of wage growth

Areas of concern include trade policy, consumer credit, housing, CRE, federal debt, global growth

- **Election Results Have Amplified Economic Uncertainty Going Forward**

Republican sweep increases likelihood of tax policy changes: positive impulse for growth, negative for deficits

President's efforts to reorganize global trade raises uncertainty for growth, inflation

Regulatory environment expected to be more stimulative for investment/output

Immigration expected to slow sharply from elevated pace, economic implications mixed

Government efficiency efforts raise uncertainty, negative impulse for growth but positive for deficits

- **Interest Rate Outlook: Extreme Uncertainty and Elevated Tail Risks in 2025**

With Fed increasingly focused on balancing risks, there remains room to cut and leave policy restrictive

However, path forward has been complicated by heightened risks to recession and inflation

Policymakers do not want to make same mistakes from 1970s

Supply/demand dynamics going forward support a steeper yield curve than seen over past cycles

Tail risks have increased significantly

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