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ECONOMIC RESEARCH – APRIL 2025

INVESTMENT INSIGHT USA

- ✓ Leading indicators point to a slowdown
- ✓ DOGE's action affects jobs and confidence
- ✓ The Federal Reserve faces a difficult dilemma
- ✓ Tariffs at 15%: +1.5% impact on inflation

TRUMP'S POLICIES ARE KILLING GROWTH

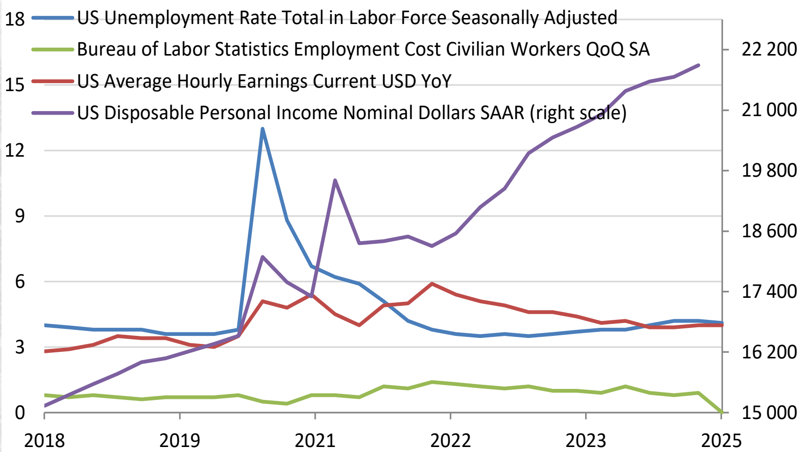
Leading indicators suggest slowdown

Economic activity indicators from the New York and Richmond Feds have fallen to their lowest levels since early 2021. The composite PMI remains at a growth threshold of 53.5, but manufacturing has dipped below 50, and political uncertainty is clearly affecting industrial and consumer sentiment. Consumer confidence has dropped to its lowest point since January 2021, pointing to a negative outlook for domestic demand in the second quarter.

DOGE actions affect employment

The new Department of Government Efficiency (DOGE) is beginning to have an impact on the job market, with hundreds of thousands of jobs at risk. New jobless claims remain steady, but job creation is at its lowest level in years. Over 100,000 federal employees have already been laid off, and this trend is expected to continue. Overall, the labor market appears to be in a normalization phase, with the unemployment rate holding relatively stable at 4.1%.

Unemployment rate, income, labor costs, wages



Sources : Bloomberg, BBGI Group

Federal reserve faces a difficult dilemma

The U.S. central bank has not altered its key rates since December 2024. The Federal Reserve, still overly concerned with inflation, is waiting for a rise in the unemployment rate to justify a policy change, which we believe is a risky strategy given the growing recession risks. The Fed's policy of reducing its balance sheet is also constraining a necessary decline in interest rates. The Fed faces a difficult dilemma, forcing it to choose between fighting inflation and supporting a weakening economy.

Tariffs pose inflationary risks

Donald Trump's policy decisions have heightened concerns about inflation. Although the February CPI rose by a modest 0.2%, inflation expectations, as measured by the University of Michigan, have jumped to +5% year-on-year, a clear sign of growing apprehension. Experts estimate that a general tariff increase to 15% could add around 1.5% to inflation, but the actual impact on indices may not be visible until the second half of 2025. We believe current market expectations of a sharp rise in inflation are premature.

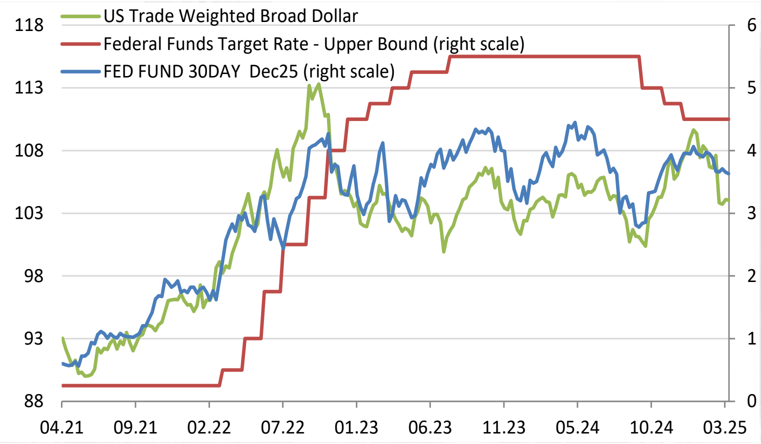
Bond market outlook is negative

The bond market outlook is decidedly negative, with a high degree of uncertainty. Despite signs of a weakening economy, the Federal Reserve's reluctance to cut interest rates and its continued balance sheet reduction policy are putting pressure on long-term government bonds. This makes the prospect of capital gains dim in the medium term.

Stocks face downward pressure

The U.S. stock market faces significant downward pressure. The current political uncertainty and the potential for a recession are contributing to a general lack of confidence among investors. Corporate earnings, which showed a strong rise in Q4 2024, are unlikely to sustain that momentum given the current economic climate. A potential recession, coupled with Trump's tariff policy and its impact on consumer spending, poses significant risks to the market, and we maintain our negative outlook for the first half of 2025.

Fed funds, key rates and USD (trade weighted)



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