Economic Outlook:
Aggressive Fiscal Policy Agenda Likely to Result in Slower Near-Term Growth and Persistently Elevated Inflation

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STIFEL

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The Drivers of the 2025 Outlook

- Consumer
- Inflation
- Policy Decisions

Labor Market Conditions Cooling but Still Solid

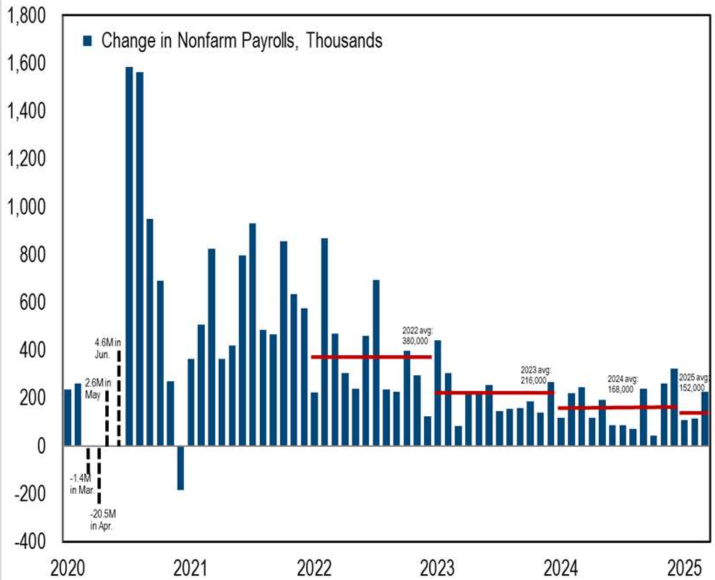
The U.S. economy remains on relatively solid footing as the consumer is still proving relatively resilient thanks to decent gains in the labor market

Nonfarm payrolls rose by **228k** in March, more than expected and a three-month high; the three-month average remains solid at **152k**

Job creation averaged **168k** in 2024, down from 216k in 2023

For the full year of 2024, U.S. employers added **2M** jobs, a solid level of job creation, albeit down from the **2.6M** jobs added in 2023, the **4.6M** jobs added in 2022 and the **7.2M** jobs added in 2021 following the pandemic plunge of 9.2M in 2020, the largest decline on record, and more than the combined decline in 2008 and 2009

The slowdown in hiring in the U.S. labor market remains modest at this point, suggesting more of a normalization of labor market conditions given still elevated interest rates, as opposed to outright weakness



Source: Bureau of Labor Statistics/Haver Analytics

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4.2% U.S., 2.6% North Dakota Unemployment Rate Below Full-Employment Range

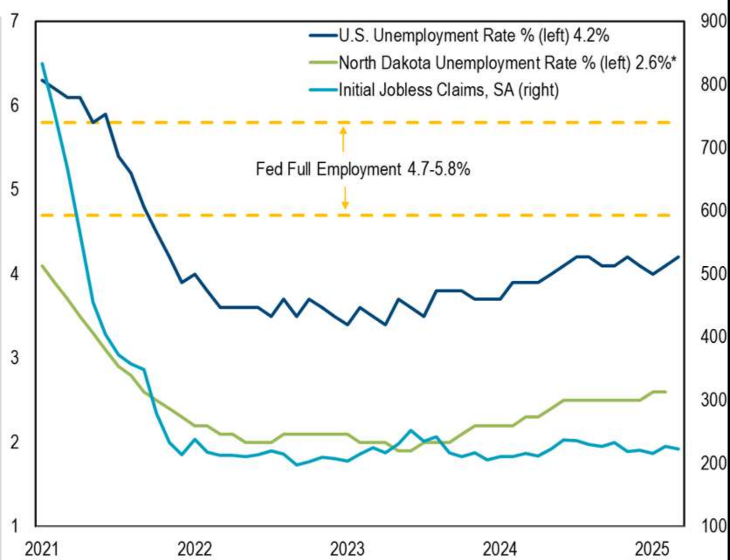
The unemployment rate has risen from earlier lows, although **labor demand continues to outpace labor supply**

The unemployment rate rose one tenth of a percentage point to **4.2%** in March, a four-month high, but still well below the Fed's full employment range

The ND unemployment rate remained at **2.6%** with the SD and MN unemployment rate steady at **1.9%** and **3.0%** in February, respectively

In August, the 57bp increase in the three-month average of the unemployment rate from the cycle low triggered the Sahm Rule**; yet, we are no longer in the trigger range and this rule has never been tested with 7.6M job vacancies

Claims rose to 249k (Jul. 27) before falling to 215k (Apr. 12) still within the 187k to 261k range established since the start of 2022



Source: Bureau of Labor Statistics/Department of Labor *North Dakota Data as of February 2025

**The Sahm Rule is a recession indicator that uses unemployment data to signal the start of a recession. The rule is triggered when the three-month moving average of the unemployment rate increases by 0.5 percentage points or more.

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Average Hourly Earnings Still Positive

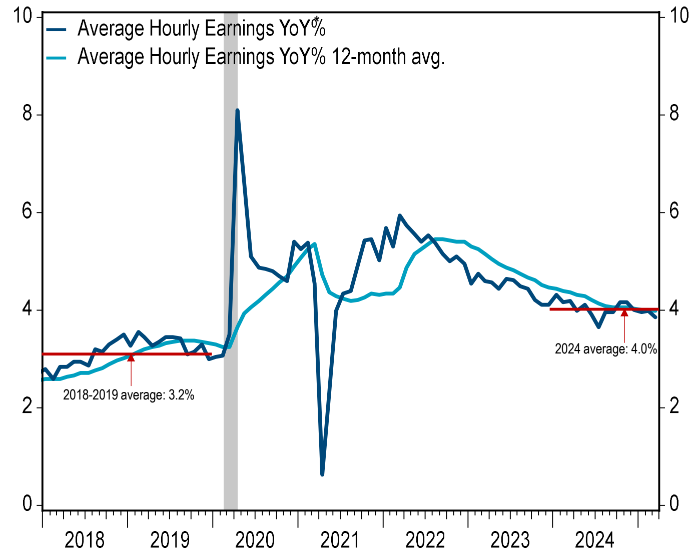
Somewhat of an ongoing disconnect between labor demand and labor supply, continuing to put upward pressure on wages

Although the trend appears to be moderating as businesses struggle to absorb costs

Average hourly earnings rose **0.3%** in March, as expected and following a 0.2% rise in February

Year-over-year, wages rose **3.8%** in March, an eight-month low

Wages tend to remain sticky for some time



Source: Bureau of Labor Statistics/Haver Analytics

*Does not include government assistance

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Real Earnings Continue to Grow Faster than Inflation, Act as a Support to Consumers

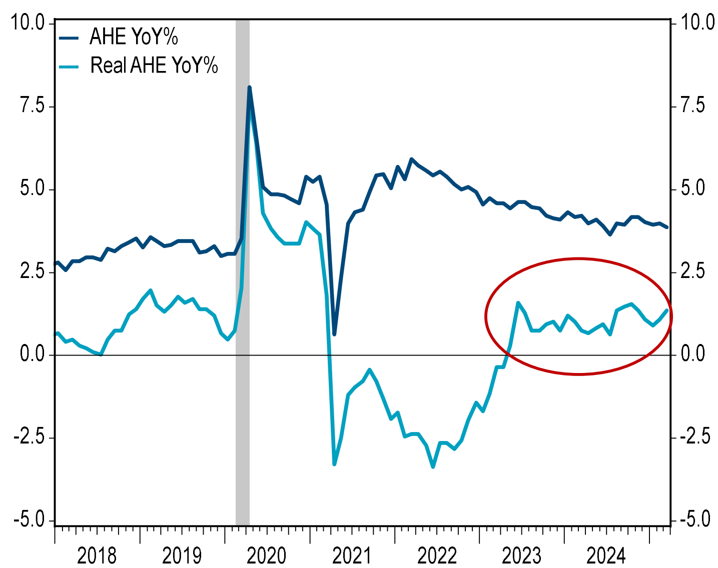
Earnings accounting for inflation turned positive in 2023 after being negative for nearly two years

Real average hourly earnings rose **1.4%** in March from the year prior, the strongest annual gain in five months

Real earnings have averaged **1.0%** since May 2023, matching the 2018-2019 average

"Wages are growing faster than inflation, and at a more sustainable pace than earlier in the pandemic recovery."
-Federal Reserve Chair Powell, March FOMC Press Conference

Still positive real earnings is no doubt a welcome trend for households as pandemic-era stimulus ceased



Source: Bureau of Labor Statistics/Haver Analytics

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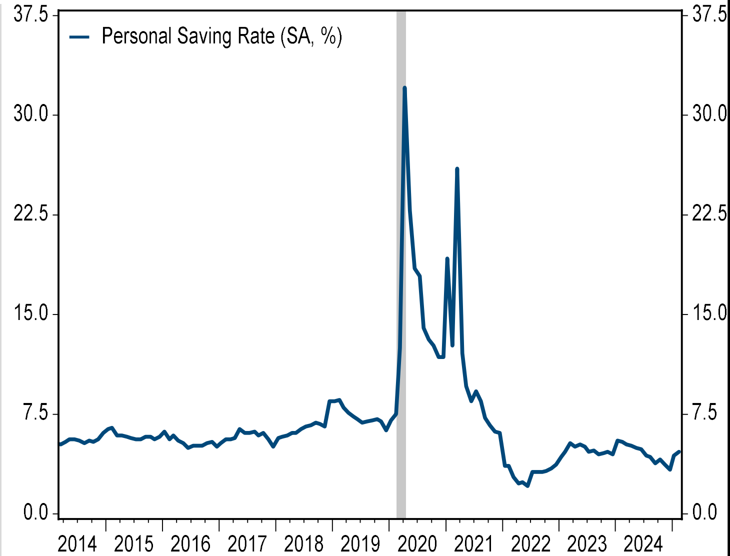
Trillions in Accumulated Support/Savings Much Depleted

Early on expansionary fiscal policy led to a massive accumulation of wealth

The U.S. consumer remains relatively solid with **$1.0T** in savings and a savings rate of **4.6%** as of February

Savings won't support potential workers indefinitely – already the savings rate has slowed, and the stockpile of savings is nearly depleted as fiscal support has expired and prices rise

Although higher rates may punish those in need of credit, they benefits savers with record inflows into money market funds (which have yields around 5%), and high-yield savings accounts still offering rates above 4%



Source: Bureau of Economic Analysis/Haver Analytics

Credit Card Debt Tops $1.2 Trillion

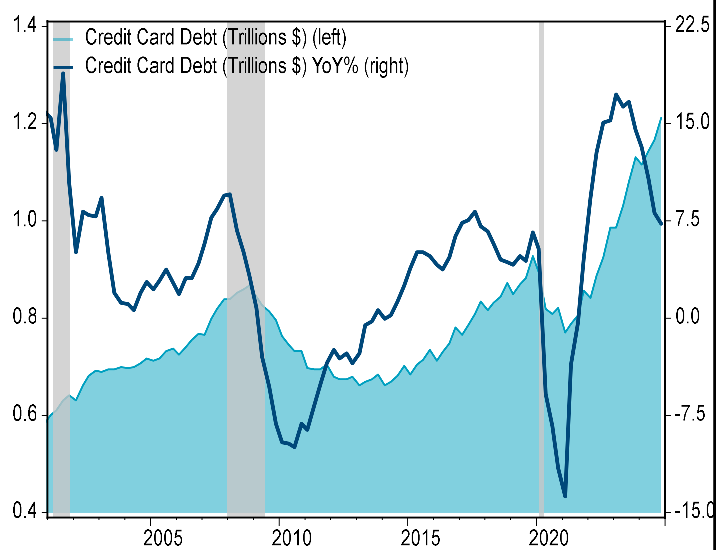
Aside from income support, consumers are turning to alternatives: *"buy now pay later"* options, wealth transfers, credit cards & 401ks

According to the New York Fed's Quarterly Report on Household Debt and Credit, credit card balances rose from $1.17T to **$1.21T** in Q4

Over the past 12 months, credit card debt rose **7.3%** in Q4, down from an 8.1% gain in Q3

Relying on credit cards is not a sustainable with the average annual percentage rate now over **21%**, still near the highest on record

401k hardship withdrawals are also on the rise with withdrawals doubling since 2020

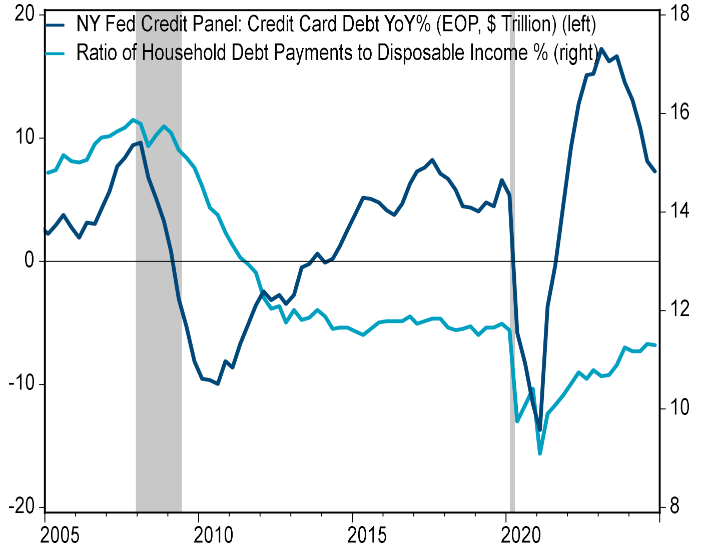


Source: FRBNY Consumer Credit Panel/Equifax/Haver Analytics

Debt as a Percent of Income Still Near Record Low

Most households are better positioned to take on at least some additional debt burden

Debt as a percent of disposable income remained at **11.3%** in Q4, near the lowest on record



Sources: FRBNY/Haver Analytics

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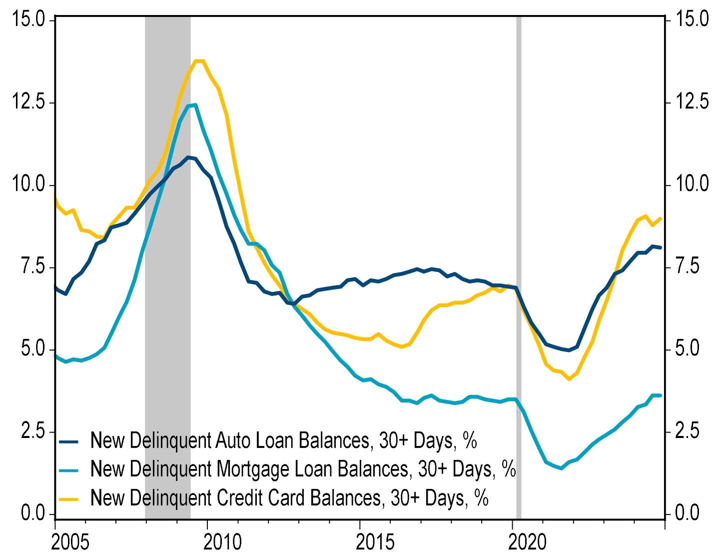
Delinquency Rates Creep Higher

Average delinquency rates edged up from the previous quarter with **3.6%** of outstanding debt in some state of delinquency as of the fourth quarter of 2023, up from 3.5% in the third quarter

Credit card delinquency rates worsened with **9.0%** of credit card balances transitioning into delinquency in the fourth quarter, up from 8.8% in the third quarter

Auto loan delinquency rates, however, remained steady at **8.1%** (the highest since Q4 2010) as did delinquency rates for mortgages at **3.6%** in Q4



Source: FRBNY Consumer Credit Panel/Equifax/Haver Analytics

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Retail Sales Volatile With Broader Momentum Modest but Positive

Amid rising delinquency rates, higher nominal debt, along with elevated inflation and rates, consumers are cutting back as the balance sheet is becoming increasingly fragile

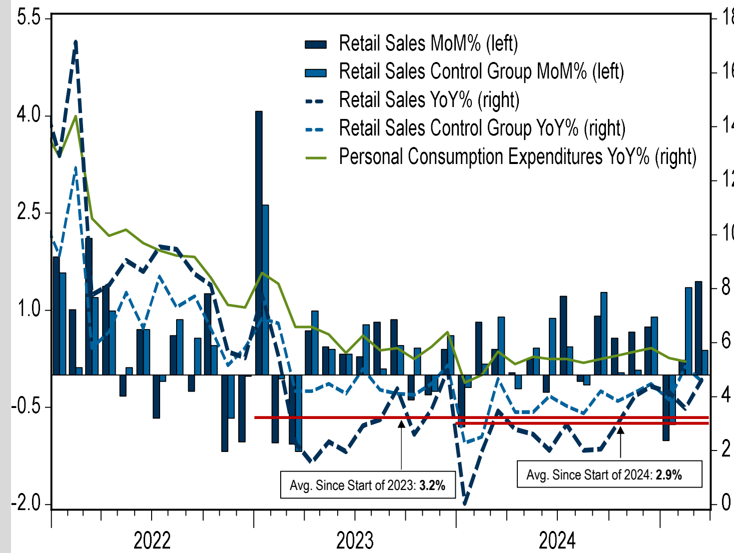
Change in spending patterns: Lipstick effect, change in preferences, & binge spending

Sales jumped **1.4%** in March, the largest monthly increase since January 2023

Year-over-year, retail sales rose **4.6%** in March, the strongest annual gain since December 2023

Control group sales rose 0.4% in March and increased **4.6%** year-over-year, the smallest annual increase in two months

Personal consumption expenditures fell **0.4%** in February but rose **5.3%** year-over-year, a six-month low



Sources: Census Bureau/Haver Analytics, Bureau of Economic Analysis

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A Rise in Household Net Worth (For Some)

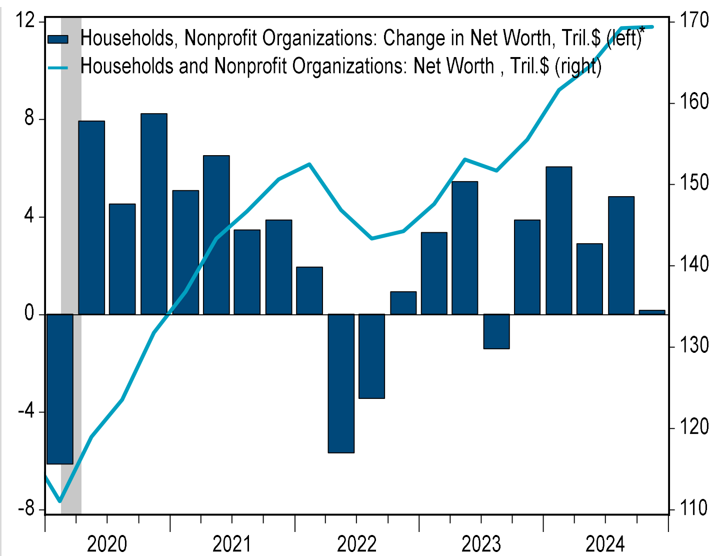
A change in spending patterns is not symmetric across households – a tale of two very different consumers in the U.S.

Household net worth has grown in the past few years

Net worth rose by $164B in Q4 to **a record $169.4T**

A net gain of **$25.1T** in household wealth since the start of 2023 suggests there still is a significant amount of borrowing and spending power in the economy

Home prices up 5.4%, or $2.6T, in 2024, bringing total value to $50.1T in value, and equity market up 23% in 2024, with a total value of $49.8T



Source: Federal Reserve Board/Haver Analytics
*Household net worth represents the total value of assets (financial as well as non-financial) minus the total value of outstanding liabilities.

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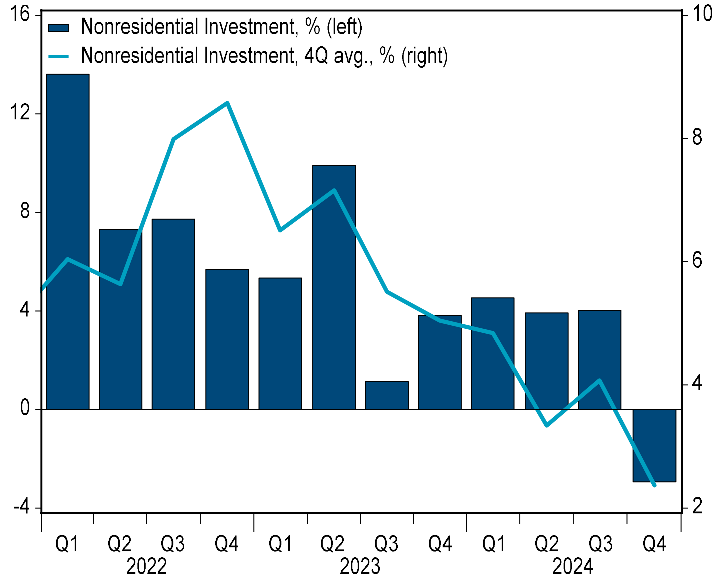
Waning Business Investment

While consumers had been bestowed the majority of the *"credit"* for navigating a difficult and relatively elevated rate and inflationary environment, businesses had also proven surprisingly resilient

However, under the weight of higher prices, elevated costs of parts, materials, rents, and labor, along with a limited ability to pass on rising costs without the risk of losing market share, businesses have started to struggle

Nonresidential investment fell **3.0%** in Q4, the first quarterly decline since Q3 2021

Downard trend likely to continue as reduced profit expectations lead to *some* credit quality problems



Source: Bureau of Economic Analysis/Haver Analytics

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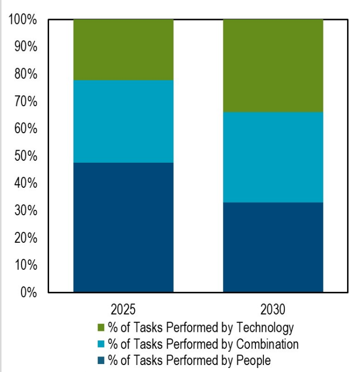
Impact of Artificial Intelligence (AI) on Labor Market

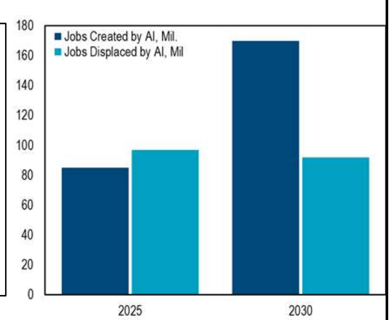
Some corporations have already announced hiring freezes, cut down on investment or turned to AI for cost reductions

50% of businesses in the U.S. say they have already adjusted their staff based on the adoption of AI with **80%** reporting plans to over the coming 12-18 months

AI could also result in ample job destruction and/or displacements, potentially resulting in a net loss of **12M** jobs this year alone with potentially **34%** of the current tasks in the labor market becoming automated by 2030



Source: World Economic Forum



Source: World Economic Forum

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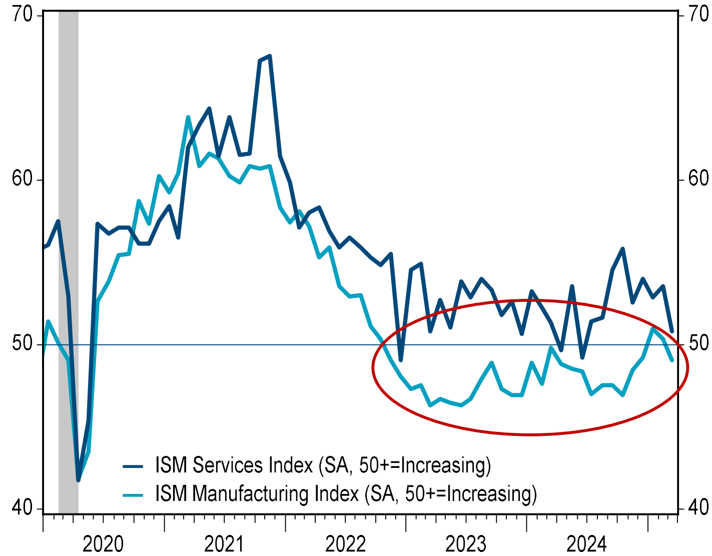
Manufacturing Activity Remains Lackluster, Services Activity Still Positive but Lower

Manufacturing activity has been negatively impacted by higher rates and higher costs

The ISM Manufacturing Index declined from a peak of 60.8 in October 2021 to **49.0** as of March 2025, back in contraction (below 50) following two consecutive months in expansion

The ISM Services Index, meanwhile, fell to **50.8** in March, a nine-month low

Service sector accounts for nearly two-thirds of U.S. GDP



Source: Institute for Supply Management/Haver Analytics

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Housing Affordability Remains Low as Mortgage Rates Remain Elevated

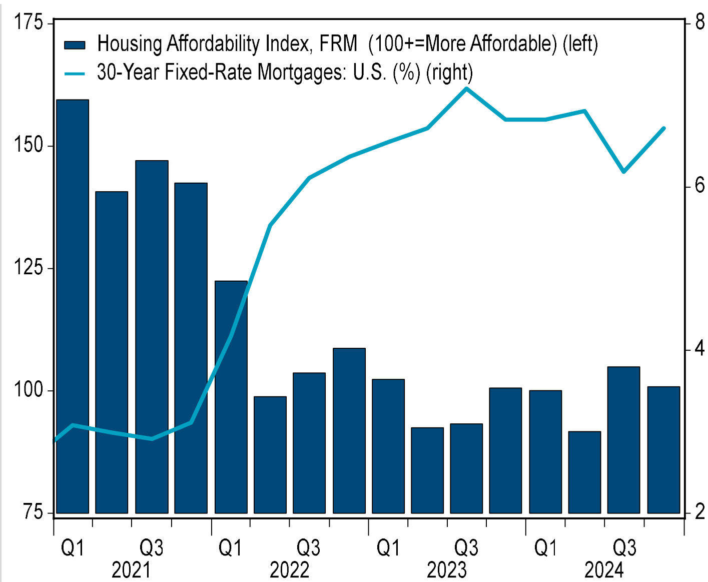
Higher interest rates have also wreaked havoc on the housing market

According to RedFin, more than 86% of homeowners have a mortgage rate below 6%, while 76% of homeowners have a rate below 5% and 57% have rate below 4%, resulting in a lock-in-effect

Housing affordability fell to 100.9 in Q4, averaging 98.8 in 2024 following 97.6, the lowest since the mid-80s

The 30-year mortgage rate rose from **4.50%** to a high of **7.90%** as the Fed initiated rate ***hikes***

Amid the first-round ***cut***, the 30-year mortgage rate fell to **6.13%** in the week ending September 20, down 177bps from the earlier peak, but have since moved higher to **6.81%**



Sources: NAR, FHLMC/Haver

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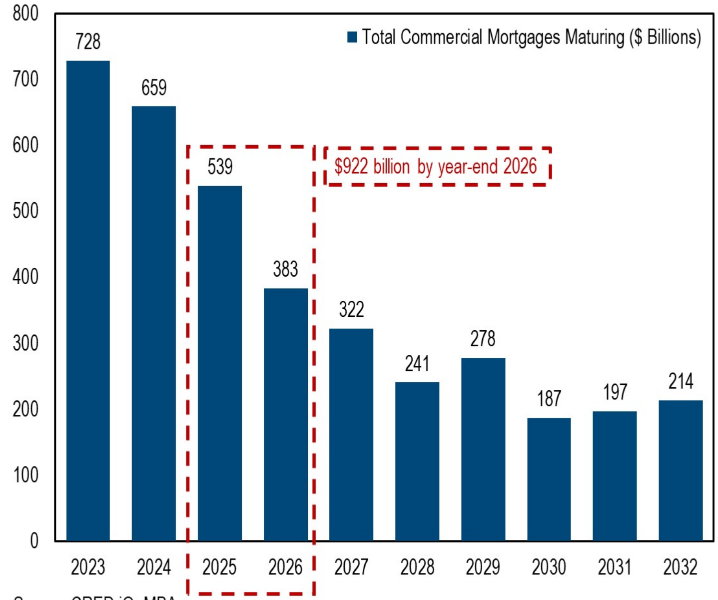
Trillions in Commercial Loans Set to Reset at Higher LTVs

Even with little reprieve in home prices with rates higher for longer, the biggest risk to the outlook stems from the commercial market, as elevated costs undermine affordability and valuations for investors

The risk failed to materialize in 2024, but remains for 2025

By the end of 2026, nearly **$1T** in commercial loans are slated to mature and will need to be reset at higher rates



Source: CRED iQ, MBA

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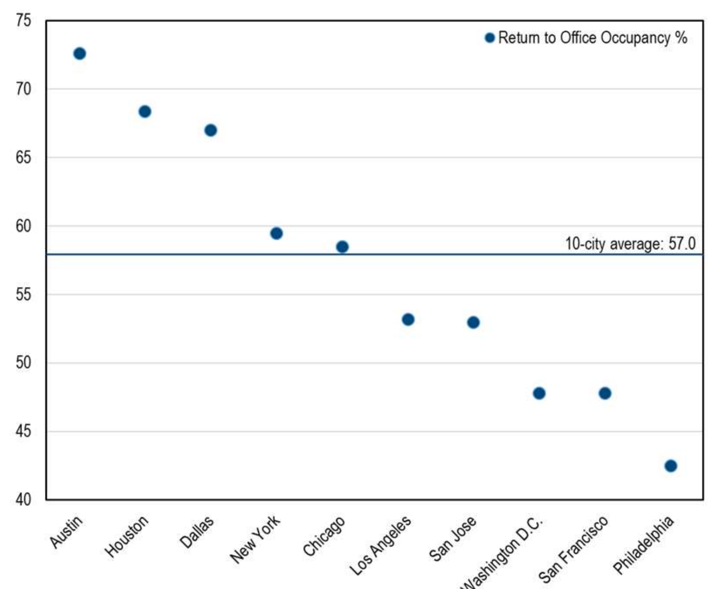
Return to Office Rates Complicate Commercial Real Estate Market Outlook

For the commercial market, as the work-from-anywhere environment has been wholly adopted, a change in structural preferences has resulted in a significant relocation of populations

For the downtown urban centers still experiencing anywhere from a **40-70%** return to office rate, the population support will be more difficult to recapture

According to real estate data firm Trepp, the U.S. office delinquency rate increased to **11.01%**, the highest since tracking began in 2000

Other areas, however, experiencing population booms will need further investment in commercial space to support the emerging growth and demand in everything from shopping centers to office spaces or alternative spaces for work, grocery stores and everything in between



Source: Kastle

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Higher Rates Likely to Weigh on Nominal Growth (While Avoiding Recession)

Despite challenges, growth is likely to remain positive as consumers are still spending and businesses are still investing but slow in the first half of the year

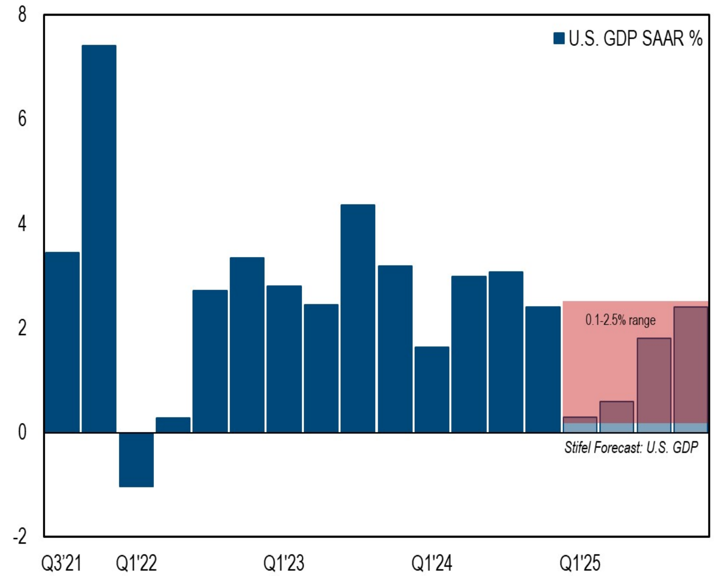
GDP rose **2.4%** in Q4 following a 3.1% gain in Q3 and marking the weakest pace in three quarters

Excluding trade and inventories, final sales to domestic purchasers rose **3.0%**

The Atlanta Fed GDPNow estimate for Q1 2025 is **-2.2%,** a potential five-year low; the Street estimate for Q1 is **+1.0%**

The Fed revised its GDP forecast down from 2.1% to **1.7%** in 2025 with growth expected to rise **1.8%** in 2026 (revised down from 2.0%) and **1.8%** (revised down from 1.9%) in 2027

The risk of recession still real for 2025



Source: Census Bureau/Bloomberg/Stifel

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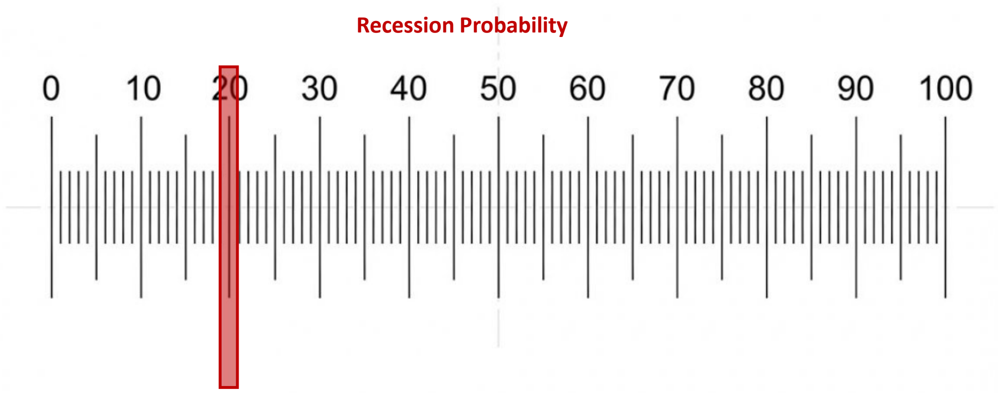
Recession Risk Remains Real but Fed Remains Focused on Soft-Landing

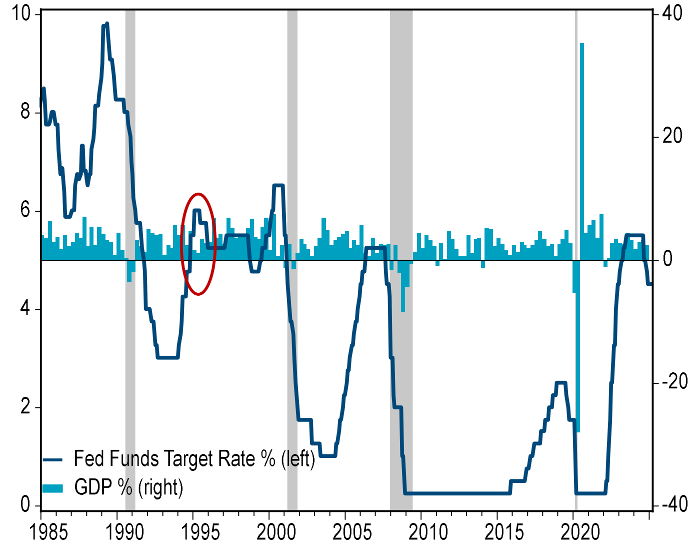


Soft Landing Only Achieved by the Fed Once in Last 60 Years

The Fed remains optimistic it can achieve the utopic soft-landing scenario – but it's too soon to claim victory for this cycle

Over the last 60 years, the Fed has managed to achieve a soft landing only once in 1994-1995 under then Chairman Alan Greenspan

The bigger concern and likelihood is not an outright downturn or outright recession, but a period stagflation as the economy slows to virtually a non-accelerating pace on average



Sources: FRB, BEA/Haver

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Counterparts Abroad Facing Conundrum of Slower Growth and High Inflation

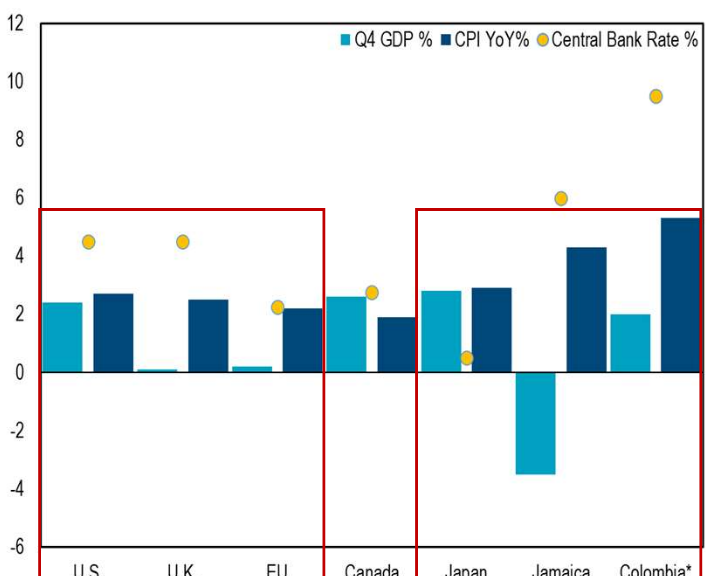
Global central banks face a conundrum of slower growth and still elevated inflation

The Bank of England (BOE) cut rates 25bps to 4.50% in February following two previous 25bp cuts in August and November with growth rising 0.1% in Q4 and inflation at 2.5%

The European Central Bank (ECB) cut its deposit rate in April for the seventh time since June to 2.25% with growth rising 0.2% in Q4 and inflation at 2.2%

The Bank of Canada (BOC), meanwhile, cut rates 25bps in March to 2.75%, marking the seventh consecutive cut with growth rising 2.6% in Q4 and inflation at 1.9% in Q4

The Bank of Japan (BOJ), on the other hand, raised rates to 0.50% in January with GDP at 2.2% in Q4 and inflation at 2.9%



Source: Bloomberg

*Colombia GDP figures are from Q3 2024

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U.S. Debt Continues to Increase, Risking Pressure on Inflation, Longer-Term Rates

U.S. debt has now topped **$36T** as of late

According to CBO, debt is expected to reach over **$56T** by the end of the next decade

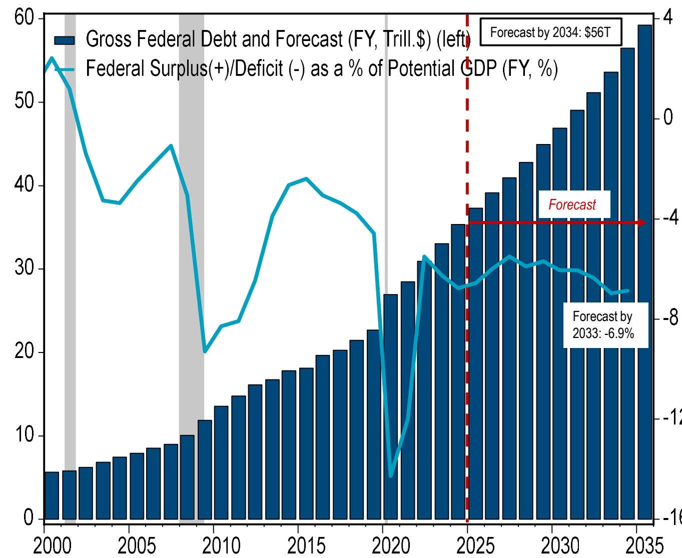
The U.S. Treasury is expected to significantly increase issuance

Deficits matter and will continue to reshape expectations for higher longer-term rates, complicate the Fed's pathway, and risk inflation

In FY 2024, the federal deficit was **$1.8T**, and 6.4% of GDP

The deficit is expected to remain elevated at 6.5% of GDP, almost two times the historical norm

On March 14, Congress passed a bill to keep the government funded through September 30, 2025



Source: Congressional Budget Office/Haver Analytics

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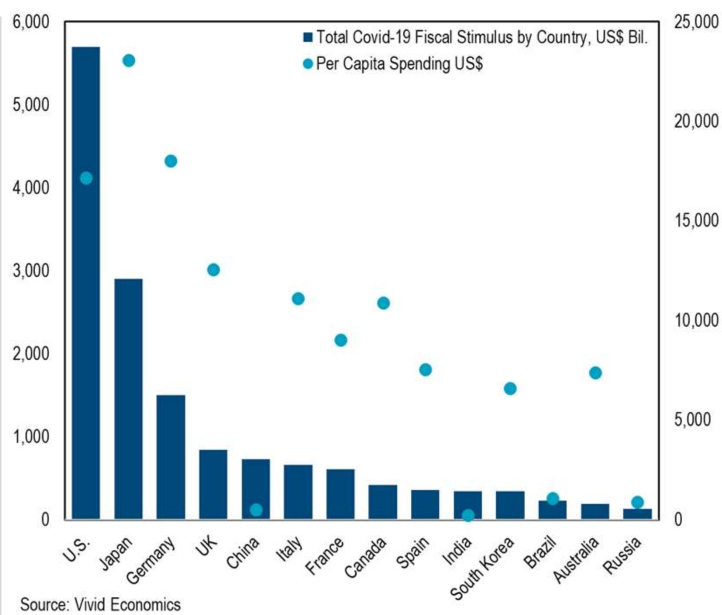
Global Covid-19 Spending

Even without the IRA ($891B) and the CHIPS and Science Act ($280B) the U.S. spent nearly **$6T** in Covid relief grossly contributing to the nation's inflationary concerns

Developed nations in total spent **$17T** on the pandemic with government spending becoming a greater share of GDP in every major advanced economy, a relentless expansion of government

The U.S., however, spent more than double the next highest spender with much in the way of direct payments, leading to higher inflation rates than almost anywhere else in the world

U.S. debt grew 39% under Trump, 31% under Biden/Harris



Source: Vivid Economics

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Unprecedented Inflation amid Massive Government Spending

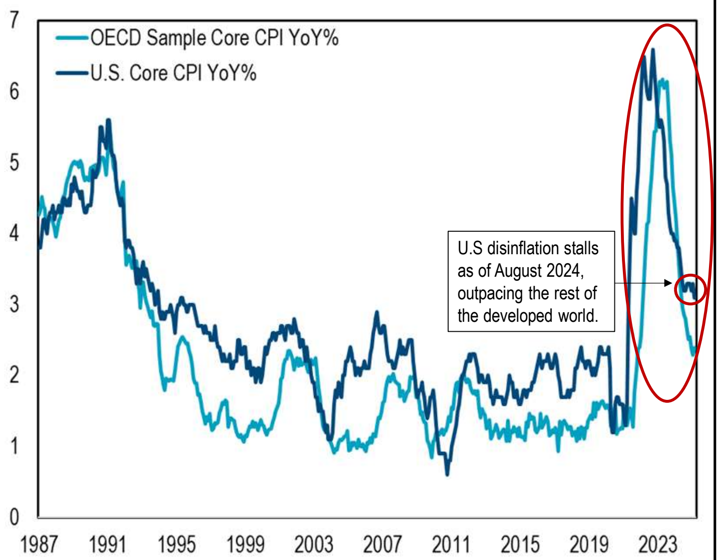
The global economy was reeling from supply-side constraints

U.S. inflation was exacerbated by fueling demand-side metrics and labor costs resulting from fiscal policy measures

Inflation has slowed, but prices continue to rise, and the risk remains to the upside, particularly from international factors

U.S. core CPI now again outpaces other countries, rising **3.1%** as of February vs. **2.4%** elsewhere in the developed world

International Inflation (CPI) Rates:
(as of February/March)
China: **-0.1%**
New Zealand: **2.2%**
Eurozone: **2.2%**
Canada: **2.3%**
Australia: **2.4%**
U.K.: **2.8%**
Japan: **3.7%**
Netherlands: **3.7%**



Source: FRED

*Sample includes: Canada, Denmark, Finland, France, Germany, Netherlands, Norway, Sweden, and the U.K.

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Trump Policies/Proposals

	Trump's Policy Proposal	Potential Consequences
Tariffs	•20% tariff on Chinese imports. •25% tariff on Canadian and Mexican imports. •25% tariff on steel and aluminum imports. •25% tariff on imported autos. •10% tariff on all imports, reciprocal tariffs of 11-50% on products from 60 countries; 90-day pause on most countries, 145% tariff on goods from China.	**Not Inflationary:** A onetime price increase lacks the "inflationary" implications some fear in terms of perpetual upward momentum in costs. **Higher Inflation**: However, escalating trade disputes resulting do risk sustained price pressures.
Taxes	•Extend the Tax Cuts and Jobs Act (TCJA) of 2017. •Suggested on Sept.18 that he would restore full state and local tax deduction (SALT) expire. •Exempt tips, overtime pay, and Social Security from income tax.	**Higher Inflation:** A sizable reduction in taxes could result in inflationary tax-cut fueled spending as well as have a meaningful budget impact in the near term. **Increase in Debt:** Expected loss of roughly $4 trillion in reduced
Corporate Taxes	•Cut corporate the corporate tax rate to 20% and to 15% for companies that make their products in the U.S.	**Growth:** Potential pickup in longer-run growth.
Investment Income	•No proposed changes	
Immigration	•Implement stricter border measures. •Mass deportations of illegal immigrants.	**Labor Supply Shortage & Higher Production Costs:** Additional immigration restrictions could exacerbate the already existing labor supply shortage and result in higher production costs and wage pressures. **Reduced Costs**: Cost reduction on social programs.
Energy	•Roll back incentives for buying and producing electric vehicles. •Restarting permitting for liquid and natural gas exports. •Open up more land for drilling oil. •Repeal/relax environmental regulations.	**Environmental Impact:** U.S. unlikely to meet emission-reduction targets set by EPA. **Energy Independence:** Maintain dominance as the world's leading energy producer.
Fed Leadership	•Select next Fed Chair as Chair Powell's term as Chairman ends in May 2026. •Select replacement for Fed Governor Adriana Kugler as her term on the Board ends in January 2026. •Select new Vice Chair of Bank Supervision as Michael Barr stepped down on February 28.	**Fed Leadership:** Stack the proverbial Fed deck with more dovish-leaning members inclined to support less restrictive policy**.**
Healthcare	•Possibly try to repeal the Affordable Care Act.	**Social Impact:** Potential increase in the number of uninsured. **Cost Reduction:** Decrease government spending/entitlement spending.
Summary	Increase deficits by around $4T in next 10 years with GDP rising over next 10 years	

Source: Campaign Websites, Tax Foundation, Stifel's Chief Washington Policy Strategist Brian Gardner
*The six-month funding bill passed on March 14 keeps the governement funded through September 30, 2025, and includes a $6B increase in defense spending and a $13B cut in domestic nondefense spending.
An extension of the Tax Cuts and Jobs Act was not included.

Trade and Tariffs: The Impact on the Economy Will Depend

President Trump implemented a 10% universal tariff on all imports, a 25% tariff on goods from Mexico and Canada (USMCA good exempted), a 25% tariff on all steel and aluminum imports, as well as a 25% tariff on foreign autos

90-day pause on retaliatory tariffs of 10-50% with tariff rate on Chinese goods moved up to 145% (some electronics, phones, & computers exempted)

From an inflation standpoint, a onetime price increase lacks the *"inflationary"* implications some fear in terms of perpetual upward momentum in costs

However, escalating trade disputes resulting in a perpetual *"tit for tat"* response do risk sustained, upward price pressures

CPI Category Increase Since 2020

Groceries: **+28.4%**

Housing: **+27.3%**

Transportation: **+27.0%**

Medical Care: **+13.3%**

Date	U.S. Tariff	Amount Impacted	Tariff Rate Charged by Other Country	Retaliatory Action
4-Feb	10% on Chinese imports	$439B	China imposed 10-35% tariffs on U.S. imports plus an average Value Added Tax of 13%	China imposes an additional 10-15% tariffs on $14B of U.S. coal & natural gas
4-Mar	Additional 10% on Chinese imports	$439B	China imposed 10-35% tariffs on U.S. imports plus an average Value Added Tax of 13%	China imposes an additional 10-15% tariffs on $19.5B of U.S. agricultural exports
4-Mar	25% on Mexican & Canadian imports	$920B	Under USMCA most goods traded duty free	Canada imposes 25% tariffs on $21B worth of goods
12-Mar	25% on all steel & aluminum imports	$150B	The U.S. and E.U. traded steel & aluminum duty free until a quota was met	E.U. imposes tariffs on $23B worth of metals as well as motorcycles & soybeans; Canada imposes additional 25% tariffs on $21B of
13-Mar	Proposed 200% on European wine & spirits	$4B	The U.S. and E.U. traded spirits duty free following the suspension of 2018 retaliatory tariffs	The E.U. has removed U.S. bourbon from their retaliatory tariff package
3-Apr	25% on autos	$474B	The E.U. charges 10% tariffs on U.S. auto imports; Canada & Mexico are largely exempt from tariffs under USMCA before facing a 2.5% tariff on cars & 25% tariff on trucks	Japan & the E.U. are considering imposing retaliatory measures; Canada imposes a 25% tariff on U.S.-made autos not compliant with USMCA
5-Apr & 9-Apr	10% universal tariff on all imports with an additional 10-50% tariff on about 90 countries	$4.1T	According to the World Trade Organization (WTO), the global average tariff rate was 8.9% in 2021; The E.U. charges 39% duties on the U.S., factoring in VATs, compared to the 4% the U.S. charges on	The E.U. has announced they will consider a unified response; China has announced 34% duties on all U.S. goods & rare earth export controls beginning April 10
9-Apr & 10-Apr	90-day pause on most countries, 145% tariff on China	$439B (China)	China imposed 84% tariffs on U.S. imports in response to reciprocal tariffs and retaliations	China raised their tariff rate on U.S. goods to total 125% .

Source: AP/Reuters/Tax Foundation

*Tariffs could generate $1.5T through 2035, factoring in threatened and imposed retaliation

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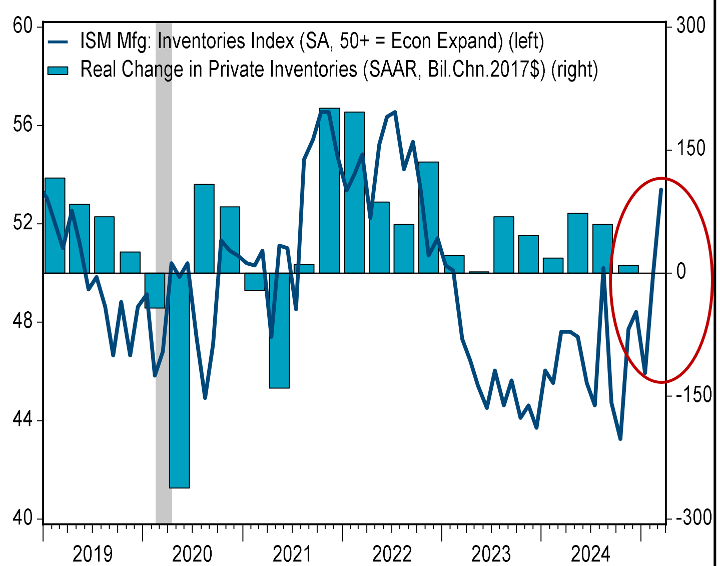
Impact on Businesses: Ramp Up in Inventories Ahead of Tariffs

Ahead of the newly implemented tariffs, businesses increased stockpiles with inventories rising by **$8.9B** in Q4 2024 and increasing to a reading of **53.4** in March, the highest reading since October 2022

New orders fell 3.4 points to **45.2** in March, the weakest reading since May 2023, and are down 10.1% year-over-year



Sources: ISM, BEA/Haver

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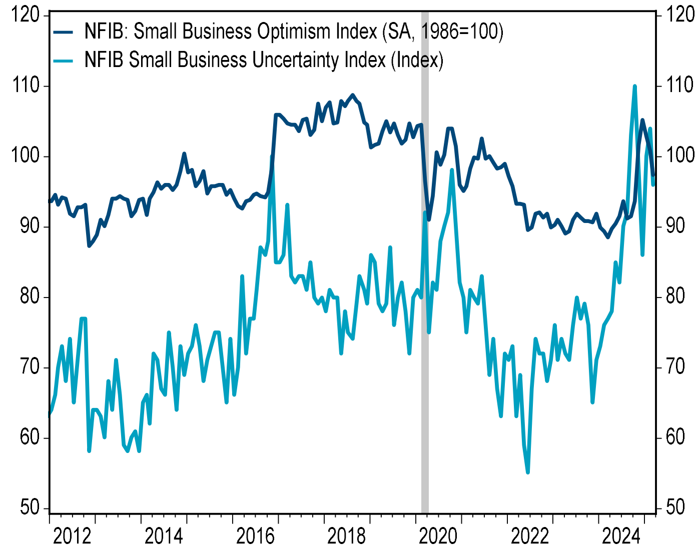
Impact on Businesses: Increased Uncertainty

The NFIB Small Business Optimism Index fell 3.3 points from 100.7 to **97.4** in March, surpassing the expected decline to 99.0 and marking a **five-month** low

The NFIB Uncertainty Index, meanwhile, fell eight points to a reading of **96** in March, after reaching the **second highest reading on record in February**

88% of firms report no plans to hire within the next three months, and **91%** reported that now is not a good time to expand their business



Source: National Federation of Independent Business/Haver Analytics

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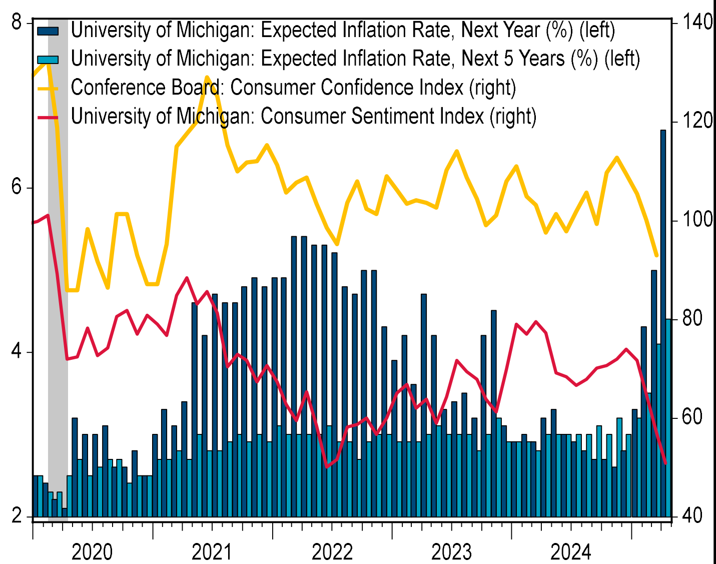
Impact on Consumers: Rise in Inflation Expectations, Decline in Confidence

A measure of short-term inflation expectations soared 170bps in the latest April report, from 5.0% to **6.7%, the highest since 1981**, while longer-term inflation expectations rose 30bps to **4.4%, the highest since 1991**

The University of Michigan Consumer Sentiment Index fell from 57.0 to **50.8** in April, **a more near three-year low**, while the Conference Board's Consumer Confidence Index fell more than seven points to **92.9** in March, **a four-year low**



Sources: University of Michigan, The Conference Board/Haver Analytics

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Tariffs Summary: Opponents vs. Supporters

Opponents

Opponents argue increase in tariffs will:

- Slow growth
- Lead to higher prices

Forecasts:

- **Less than 1% growth in first half**
- **Inflation elevated near 3% through year-end**

Supporters

Supporters argue increase in tariffs will:

- Potential remedy of unfair trade practices
- Revitalization of American industries
- Raise revenue for federal budget; help pay for extension of Tax Cuts and Jobs Act

Loss of Government Revenue from Tax Cuts Could be Offset by Potential Cuts

Tax-cut fueled spending could prove inflationary and impact government revenues by $2-4T over the next ten years

However, a reduction in waste could potentially offset a loss of revenues and add to longer-run growth over the same period

About 61% of the federal budget is mandatory spending, 26% is discretionary spending, and the rest is interest payments on debt

If TCJA is not extended, the rates and brackets will resemble their 2017 structure.

Income brackets before and after the Tax Cuts and Jobs Act (TCJA)			
Prior law (2017)		2024	
Not over $19,050	10%	Not over $23,200	10%
$19,051-$77,400	15%	$23,200-$94,300	12%
$77,401-$156,150	25%	$94,301-$201,050	22%
$156,151-$237,950	28%	$201,051-$383,900	24%
$237,951-$424,950	33%	$383,901-$487,450	32%
$424,951-$480,050	35%	$487,450-$731,200	35%
Over $480,050	39.6%	Over $731,200	37%

Source: IRS

Department	Amount Cut (Mil.$)	Reported Firings	Total Department Size
USAID	$27,015.5	2,000	10,000
Department of Health and Human Services	$16,700.3	12,900	80,199
Department of the Interior	$3,061.3	2,300	71,510
Department of State	$2,769.2	--	11,622
Department of Defense	$2,758.3	--	104,231
Department of Treasury	$2,435.3	--	109,145
Department of Education	$1,638.4	6,500	4,273
Department of Agriculture	$1,265.6	--	96,340
Department of Homeland Security	$1,073.6	400	186,136
Housing and Urban Development	$1,068.3	4,000	9,685
Department of Veterans Affairs	$872.2	2,400	300,002
Department of Energy	$737.9	700	16,453
Department of Labor	$458.0	--	16,246
US Agency for Global Media	$419.7	1,300	3,500
Office of Personnel Management	$404.5	--	5,907
General Services Administration	$386.3	600	12,682
Environmental Protection Agency	$362.5	380	18,448
Department of Commerce	$160.2	--	50,846
Department of Justice	$123.5	75	113,694
Department of Transportation	$102.5	400	57,816
Consumer Financial Protection Bureau	$87.5	--	1,700
National Aeronautics and Space Administration	$79.5	23	18,000
Social Security Administration	$51.4	--	67,486
Internal Revenue Service National Office	$43.5	6,700	93,654
International Assistance Programs	$36.8	--	--
Small Business Administration	$36.4	45	3,877
National Science Foundation	$35.8	85	1,504
Securities and Exchange Commission	$29.7	--	3,750
United States Fish and Wildlife Service	$28.3	--	8,000
Geological Survey	$27.9	200	7,900
Office of the Secretary	$27.7	--	--
National Park Service	$26.2	--	20,000
Other***	$90,358.2	18,792	1,458,394
Total Cuts	**155,000***	**59,800****	2,963,000

Source: Department of Government Efficiency (as of 4/4)/Office of Personnel Management

*$155B in cuts is equivalent to 2.3% of total federal budget

**59,800 in reported firings is equivelant to 2.0% of total federal employees

***Other is a grouping of 126 federal agencies and departments

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Immigration Reform

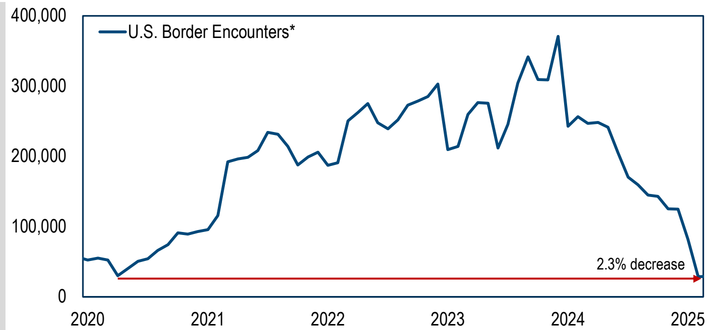
Additional immigration restrictions could exacerbate the already existing labor supply shortage, and result in higher production costs and wage pressures

At the same time, more stringent restrictions could reduce drains on certain government programs and alleviate pressure on certain state budgets

Deportations totaled nearly 38k in the first month of office with the administration indicating a target of potentially 1M a year

*Source: Center for Immigration Studies/U.S. Customs & Border Patrol

Encounter: any interaction between a U.S. Customs and Border Protection officer and a noncitizen who is attempting to enter the United States without authorization



State	Cost of Illegal Immigrants* (Bil.$)
California	30.9
Texas	13.4
New York	9.9
Florida	8.0
New Jersey	3.9
Illinois	3.9
Arizona	3.2
North Carolina	3.1
Georgia	3.0
Virginia	2.8

Source: Federation for American Immigration Reform
*Spending data from 2023

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Far from Ideal Market Conditions with the Fed's Price Stability Mission Not Yet Complete

- Bloated and growing government balance sheet
- An uncertain but still "*spendy*" consumer
- International, and geopolitics risks
- An aggressive fiscal policy agenda under new leadership in Washington

Inflation to Remain Uneven, Uncertain, Elevated….But Improving?

Disinflationary improvement has been bumpy and uneven at best

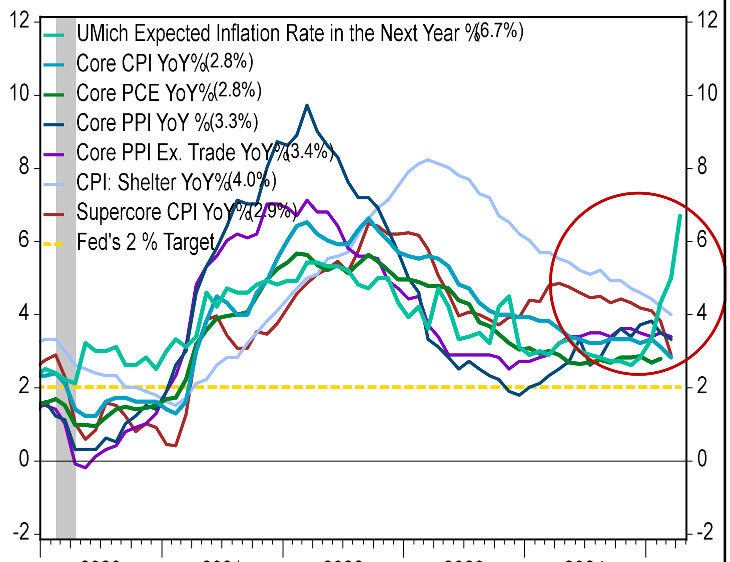
The CPI fell 0.1% in March and rose **2.4%** YoY, the second month of cooling after four months of acceleration

The PPI fell 0.4% in March and rose **2.7%** YoY, a six-month low

The PCE rose 0.3% in February and **2.5%** YoY for the second consecutive month

The core PCE rose 0.4% in February, more than expected, and **2.8%** YoY, an uptick from 2.7% in January with the supercore PCE rising 0.4% in February **3.3%** YoY, a two-month high

Recent cooling in inflation is a double-edged sword, reflecting a loss of momentum from Q4 as well as a material decline in activity as businesses and consumers pull back, and does little to instill confidence of an ongoing trend



Sources: BEA, BLS, Haver Analytics

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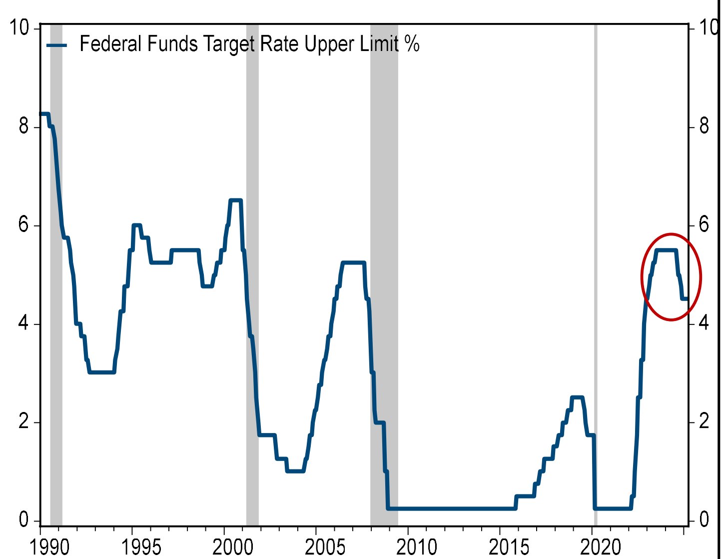
Fed Holds Rates Steady in March, as Expected

As expected, for the second consecutive meeting, the Fed opted to keep rates steady in a range of **4.25-4.50%** in March after lowering rates 100bps in 2024



Source: Federal Reserve Board/Haver Analytics

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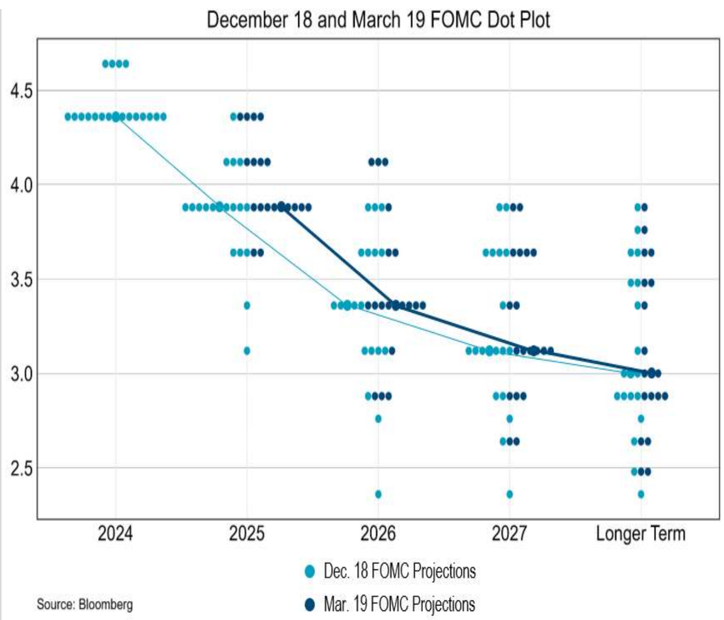
Hold in March Coupled with No Update to Projections for Cuts

Despite the lack of inflationary improvement, the Fed opted to move forward with a third-round rate cut in December but materially reduced its outlook for near-term rate cuts from **100bps** to **50bps** in 2025

A more "*cautious*" tone materialized into a January and March pause

In March, the Committee continued to acknowledge the upside risks to inflation, and downside risks to both employment and broader activity, leaving the median forecast unchanged at **50bps** of cuts by year-end, **50bps** in 2026 and **25bps** in 2027, reaching **3.00%** longer term,

With opposing forces on either side, the Committee's forecasts were compressed towards the more Hawkish end of the spectrum. In December, **five** officials anticipated more than **50bps** of cuts vs. **two** in March; **one** anticipated no further cuts in 2025 vs. **four** as of March



Source: Bloomberg

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Outlook for Slower Growth and Higher Inflation

The Summary of Economic Projections (SEP) shows an expectation for higher inflation and slower growth resulting in no change to the median forecast for policy

Likely underscoring the expected impact of tariffs, the Committee increased its headline inflation forecast from 2.5% to **2.7%** and from 2.5% to **2.8%** for the core in the current year; although policy makers remain optimistic in reaching the 2% price target by 2027

The growth outlook, meanwhile, was revised down from 2.1% to **1.7%** in 2025, and from 2.0% to **1.8%** next year

March 19 Summary of Economic Projections

	Median				Central Tendency				Range			
Variable	2025	2026	2027	Longer Run	2025	2026	2027	Longer Run	2025	2026	2027	Longer Run
Change in real GDP	1.7	1.8	1.8	1.8	1.5-1.9	1.6-1.9	1.6-2.0	1.7-2.0	1.0-2.4	0.6-2.5	0.6-2.5	1.5-2.5
December projection	2.1	2.0	1.9	1.8	1.8-2.2	1.9-2.1	1.8-2.0	1.7-2.0	1.6-2.5	1.4-2.5	1.5-2.5	1.7-2.5
Unemployment rate	4.4	4.3	4.3	4.2	4.3-4.4	4.2-4.5	4.1-4.4	3.9-4.3	4.1-4.6	4.1-4.7	3.9-4.7	3.5-4.5
December projection	4.3	4.3	4.3	4.2	4.2-4.5	4.1-4.4	4.0-4.4	3.9-4.3	4.2-4.5	3.9-4.6	3.8-4.5	3.5-4.5
PCE inflation	**2.7**	**2.2**	**2.0**	2.0	2.6-2.9	2.1-2.3	2.0-2.1	2.0	2.5-3.4	2.0-3.1	1.9-2.8	2.0
December projection	2.5	2.1	2.0	2.0	2.3-2.6	2.0-2.2	2.0	2.0	2.1-2.9	2.0-2.6	2.0-2.4	2.0
Core PCE inflation	**2.8**	**2.2**	**2.0**		2.7-3.0	2.1-2.4	2.0-2.1		2.5-3.5	2.1-3.2	2.0-2.9	
December projection	2.5	2.2	2.0		2.5-2.7	2.0-2.3	2.0		2.1-3.2	2.0-2.7	2.0-2.6	
Memo: Projected appropriate policy path												
Federal funds rate	3.9	3.4	3.1	3.0	3.9-4.4	3.1-3.9	2.9-3.6	2.6-3.6	3.6-4.4	2.9-4.1	2.6-3.9	2.5-3.9
December projection	3.9	3.4	3.1	3.0	3.6-4.1	3.1-3.6	2.9-3.6	2.8-3.6	3.1-4.4	2.4-3.9	2.4-3.9	2.4-3.9

Source: Federal Reserve

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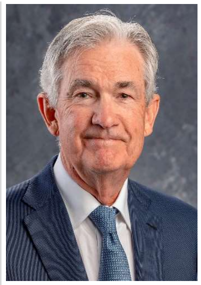
Powell Notes Fed is Not in a *“Hurry”* to Cut Rates Further

March pause widely anticipated and fully priced into the market

The *upwards* assessment of the labor market and *downwards* assessment of inflation improvement in the statement suggests the Fed is increasingly willing to take a position on the sideline until the uncertainty is resolved

The Fed is *“no rush”* to lower rates



*“The **economy seems to be healthy**. We understand that sentiment is quite negative at this time.”*

*“If it’s **transitory**. And that can be the case in the case of **tariff inflation**.*

*“As I noted, **uncertainty** today is **unusually elevated**.”*

*…“Our **obligation is to keep longer-term inflation expectations well anchored** and to make certain that a one-time increase in the price level does not become an ongoing inflation problem.”*

*For the time being, we are **well positioned to wait for greater clarity** before considering any adjustments to our policy.”*

Federal Reserve Chairman Jerome Powell Speaking at the FOMC Press Conference & Economic Club of Chicago

March 19, 2025 & April 16, 2025

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Fed Likely to Move at a Controlled, Tempered Pace; Delay in Additional Rate Cuts

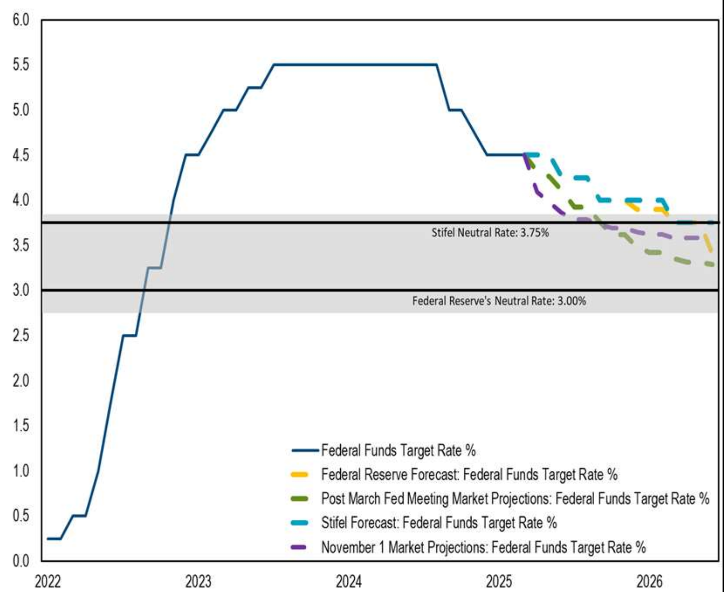
The Fed is on hold, waiting for *“greater clarity before considering any adjustments to policy”*

Prior to the September employment report, investors anticipated **110bps** in cuts in 2025; following the March Fed meeting and tariff announcement, investors anticipate **85bps** of cuts by year-end (around 3-4 cuts)

Important to keep inflation expectations in check

Rate cuts likely to be delayed until the 2H, likely resulting in a higher level of real-rates, a more normal shaped curve and a structurally higher r*

The risk to a 50bp cut in September and 25bp cut in November & December is/was sending a signal of the Fed’s intentions to rush back to an accommodative stance as opposed to unwinding policy firming toward neutral



Source: Bureau of Economic Analysis/Federal Reserve/Stifel

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Key Takeaways

Higher for longer position on rates

A more normal, **positively sloped yield curve**

Potentially **higher neutral** level of policy

Economic Forecast Grid

Publish Date: April 2025

	Q3 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026	2022	2023	2024	2025	2026
											Annual Rate 2022-2025				
Growth indicators															
GDP, QoQ %	3.1%	2.4%	0.3%	0.6%	1.8%	2.4%	2.1%	1.8%	2.2%	2.4%	2.5%	2.9%	2.8%	1.6%	2.0%
Consumer Spending, %	3.7%	4.0%	0.3%	1.1%	1.5%	1.8%	2.1%	2.0%	1.8%	2.1%	3.0%	2.5%	2.8%	2.0%	1.9%
Fixed Investment, %	2.1%	-1.1%	3.0%	2.1%	3.6%	4.5%	5.0%	4.5%	4.8%	5.2%	2.7%	2.4%	3.8%	2.2%	4.5%
Housing Starts, k, end of quarter, yr end	1,355	1,499	1,500	1,510	1,520	1,530	1,550	1,600	1,610	1,620	1,340	1,568	1,499	1,530	1,620
Unemployment Rate, %, qtr avg, yr end	4.2%	4.2%	4.1%	4.5%	4.4%	4.4%	4.3%	4.3%	4.2%	4.1%	3.6%	3.8%	4.2%	4.4%	4.1%
Nonfarm Payrolls, k, qtr avg, ann avg	240	323	228	120	110	120	160	175	180	180	326	192	224	145	174
Inflation indicators, YoY%, yr end															
PCE	2.1%	2.6%	2.6%	3.1%	3.5%	3.6%	3.2%	3.2%	2.8%	2.5%	5.3%	2.6%	2.6%	3.6%	2.5%
Core PCE	2.7%	2.9%	2.8%	3.2%	3.3%	3.5%	3.0%	3.1%	2.5%	2.4%	4.6%	2.9%	2.9%	3.5%	2.4%
PPI	2.1%	3.4%	2.7%	3.0%	3.6%	3.8%	3.5%	3.1%	2.9%	2.6%	6.4%	1.1%	3.4%	3.8%	2.6%
Interest rate, %, end of quarter, yr end															
FF	**5.00**	**4.50**	**4.50**	**4.25**	**4.00**	**4.00**	**3.75**	**3.75**	**3.75**	**3.75**	**4.50**	**5.50**	**4.50**	**4.00**	**3.75**
3month UST bills	4.63	4.31	4.30	4.20	3.90	3.95	3.70	3.75	3.75	3.78	4.37	5.34	4.31	3.95	3.78
2yr UST notes	3.64	4.24	3.89	4.00	4.10	4.15	4.10	4.15	4.18	4.15	4.43	4.25	4.24	4.15	4.15
5yr UST notes	3.56	4.38	3.95	4.20	4.25	4.30	4.35	4.40	4.50	4.50	4.01	3.85	4.38	4.30	4.50
10yr UST notes	**3.78**	**4.57**	**4.21**	**4.40**	**4.55**	**4.60**	**4.65**	**4.75**	**4.80**	**4.75**	**3.88**	**3.88**	**4.57**	**4.60**	**4.75**
30yr UST bonds	4.12	4.78	4.57	4.65	4.70	4.75	4.80	4.90	4.95	4.95	3.97	4.03	4.78	4.75	4.95
3mon to 2s spread bps	-99	-7	-41	-20	20	20	40	40	43	37	6	-109	-7	20	37
3mon to 10s spread bps	-85	26	-9	20	65	65	95	100	105	97	-50	-146	26	65	97
2s to 10s spread bps	14	33	32	40	45	45	55	60	62	60	-55	-37	33	45	60

Actual data in red (Source: Bloomberg) | GDP figures shown as annual change