Macroeconomic Update

Fundamentals Are Solid, but Policy Uncertainty Is Elevated

We see moderate growth in the U.S. economy in 2025.

The U.S. economy has good momentum heading into 2025, but the policy outlook from Washington elevates uncertainty. Recent economic data have been solid, with fourth quarter real gross domestic product (GDP) on track for about 2 percent annualized growth. The outlook for consumer spending remains positive, supported by healthy growth in inflation-adjusted labor income and a wealth effect driven by rising asset prices. Financial conditions have also turned more supportive as credit growth is reaccelerating, and optimism about artificial intelligence induces a positive outlook for capex. Disinflationary progress has stalled a bit in recent months, but fundamentals point to a further slowdown in inflation as wage pressures and housing inflation ease further.

With the new administration taking office, we expect a boost to both consumer and business sentiment, aided by expectations of deregulation and further tax cuts. Post-election surveys have already shown increased optimism about the outlook, which could support consumption, investment, and hiring in coming months.

Looking beyond the immediate sentiment boost, the outlook becomes more uncertain and depends on the ultimate policy mix of the new administration. Extension of the Tax Cuts and Jobs Act (TCJA) would prevent a fiscal drag, but we see limited scope for new tax cuts as the fiscal backdrop has worsened.

Some of the administration's proposed policies—such as tariffs and immigration—could weigh on growth if fully implemented. Tariffs slow growth by increasing business uncertainty and lowering real incomes. Broad implementation of tariffs could also threaten to push up prices, complicating the Fed's task of returning inflation to 2 percent and potentially slowing the pace of rate cuts. Ultimately, we expect more targeted tariffs will be used to negotiate favorable terms for the United States. Immigration activity at the border is already down over 70 percent from its 2023 peak, which should slow both labor supply and consumption in coming quarters. Our expectation is that additional new policies will slow immigration modestly further than the current trajectory.

All together, we see moderate growth in the U.S. economy in 2025 as these policy shifts play out. Economic fundamentals remain solid, with strong household and corporate balance sheets. The Fed will likely ease policy further toward a neutral setting, but tariffs could slow the pace of rate cuts by interrupting the disinflationary trend. The U.S. economy should remain a global outperformer, though we expect continued bifurcation across sectors, particularly as new policies begin to have an impact.

By Matt Bush and Maria Giraldo

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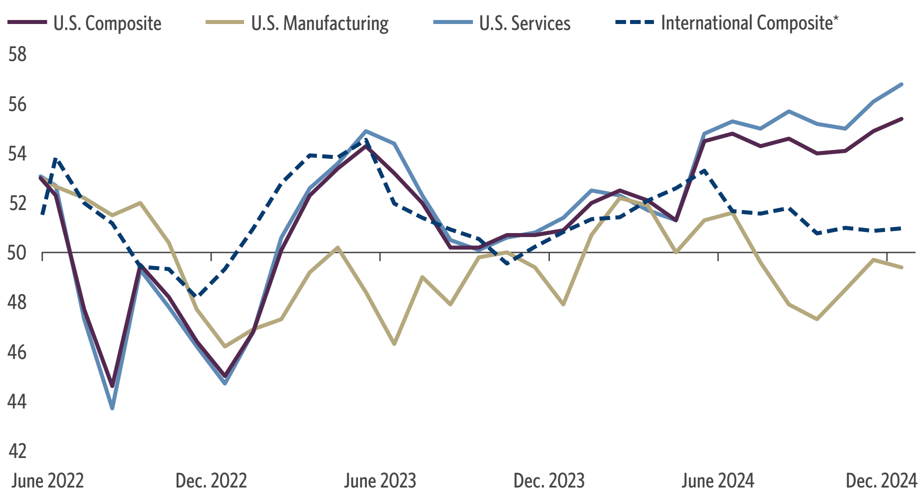
U.S. Growth a Bright Spot, Led by Strong Services Sector

S&P Global PMIs



Source: Guggenheim Investments, S&P Global, Bloomberg. Data as of 12.31.2024. *International is a simple average of China, Eurozone, Japan, and Emerging Markets. PMI = Purchasing Managers Index

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