



StoneX[®]

Global Macroeconomic Outlook 2025

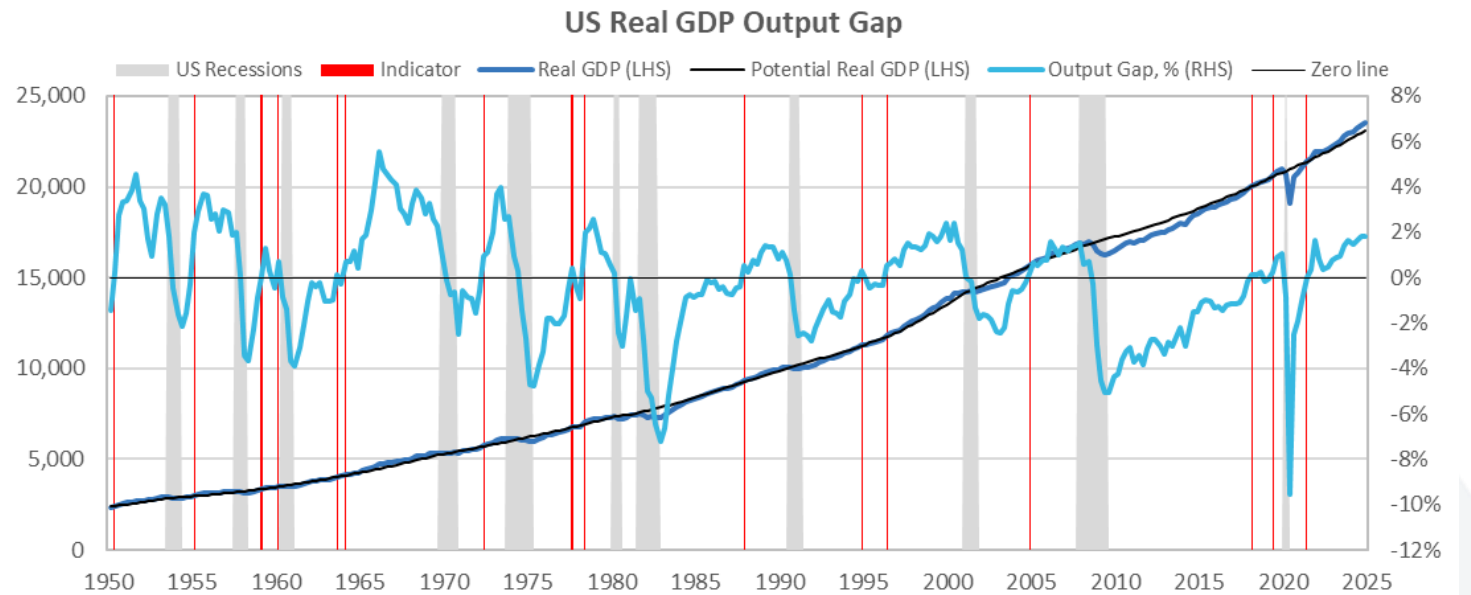
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Chief Market Strategist

U.S. Economic Outlook

While recession risk has risen (to 25% from 10%), we maintain no recession as the base case scenario for 2025. The global soft landing remains in play, but policy-related risks persist.

- TCJA Extension **
 - Corporate Taxes **
 - Regulations
 - Trade Tariffs
 - Energy policy
 - Immigration
 - Growth and Rates
 - US Deficit & Debt
- ** Requires Congress**

TRUMP '25-28	
TCJA Extension **	Full
Corporate Taxes **	↓
Regulations	↓
Trade Tariffs	China, Europe, other?
Energy policy	↓ Green / ↑ Fossil Fuel
Immigration	More Restrictive
Growth and Rates	↑
US Deficit & Debt	↑

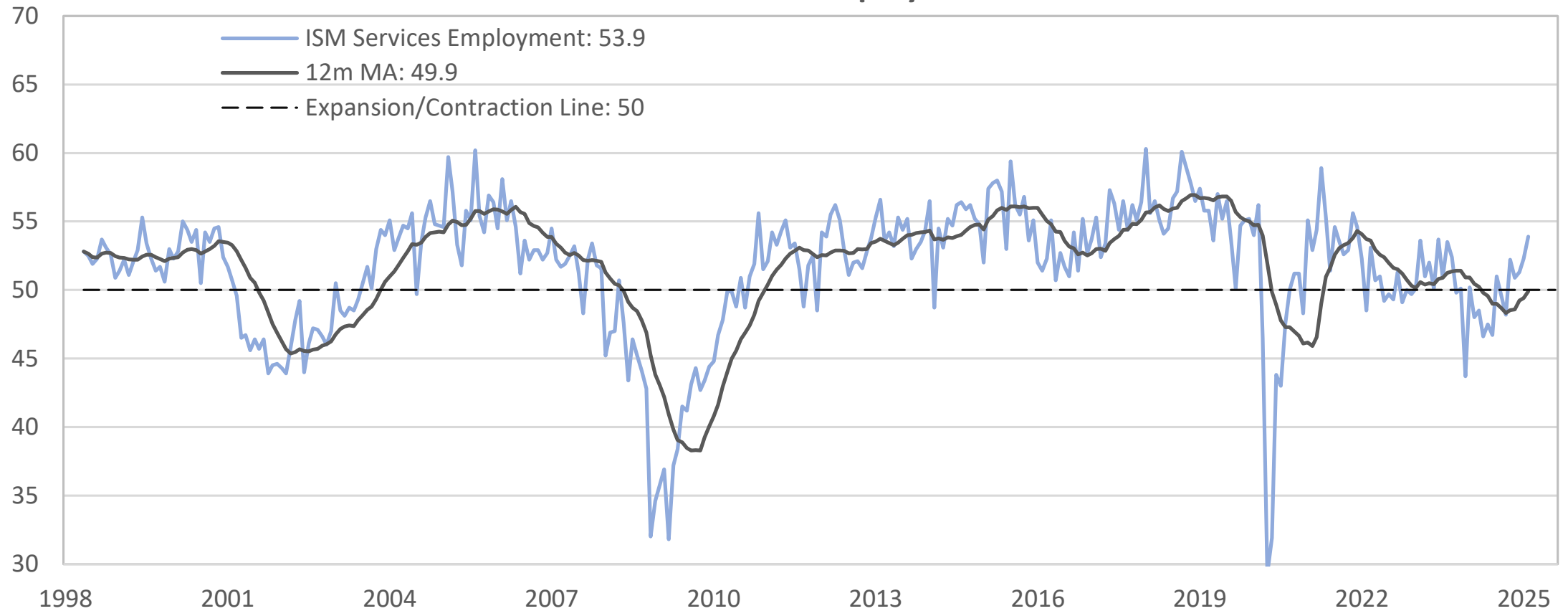


Source: Bloomberg, CBO, StoneX

ISM Services Employment Rebounds Above Expansion Line

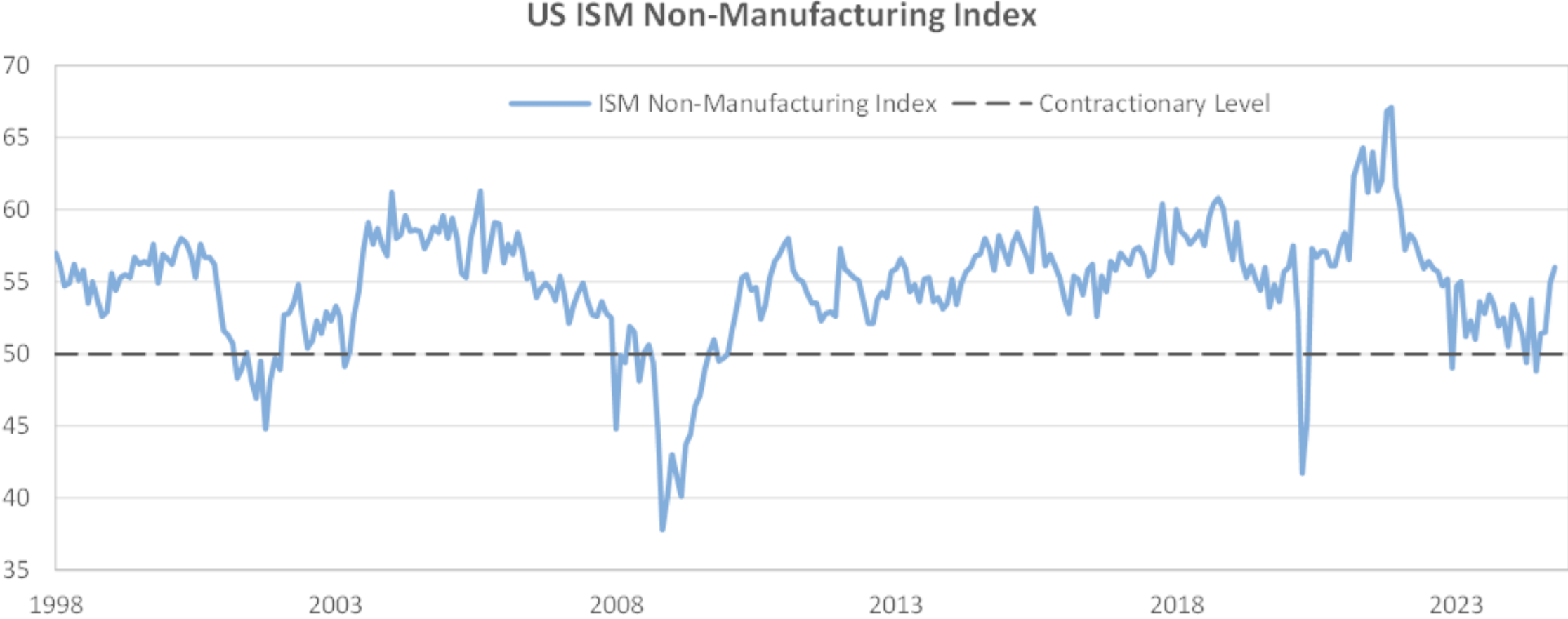
ISM Services Employment at 53.9 signals expansion, breaking above the key 50 level after a period of weakness. The 12-month moving average is still below 50, suggesting labor market softness lingers, but recent strength indicates ongoing hiring. This supports a resilient services sector.

ISM Services Employment



Source: StoneX, Bloomberg

Service sector remains in expansionary territory.

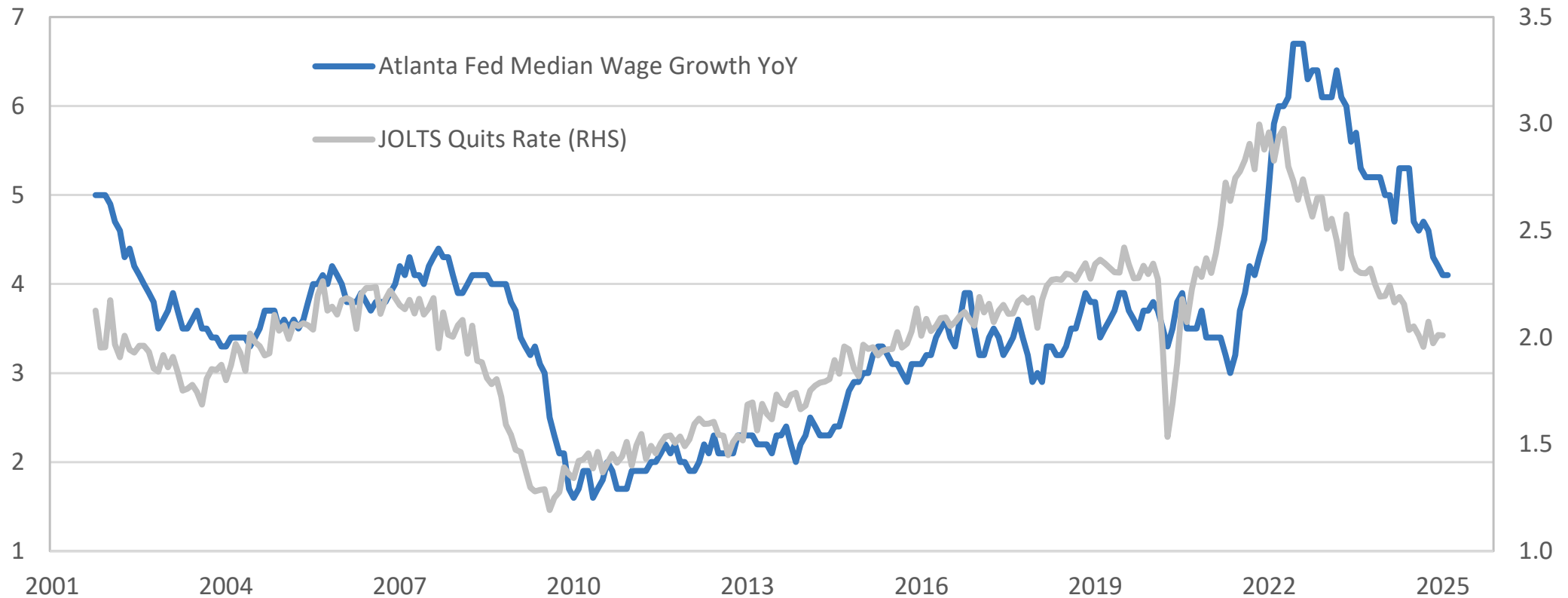


Source: Bloomberg, StoneX

Wage Growth Cooling as Labor Market Normalizes

The JOLTS quits rate is declining, signaling reduced worker confidence and a softening labor market. Wage growth is also trending lower.

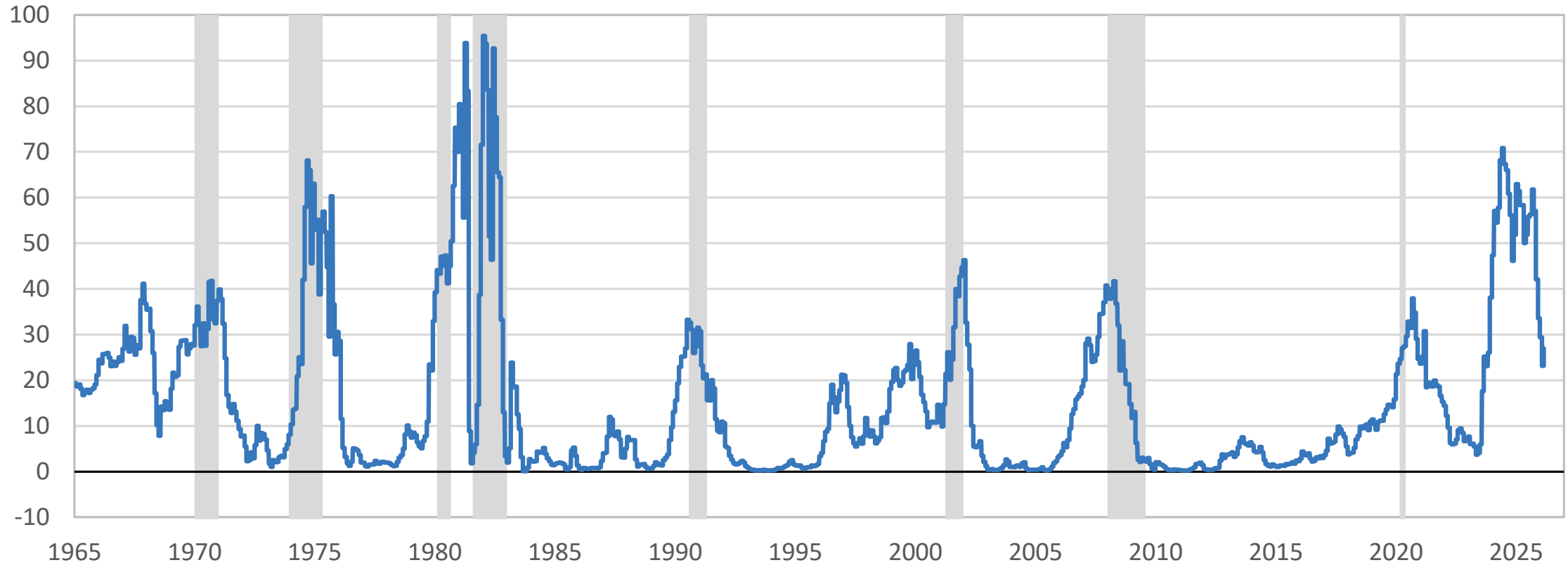
JOLTS Quits Rate vs Wage Inflation



Source: StoneX, Bloomberg

Recession Probability Declining but Still Elevated

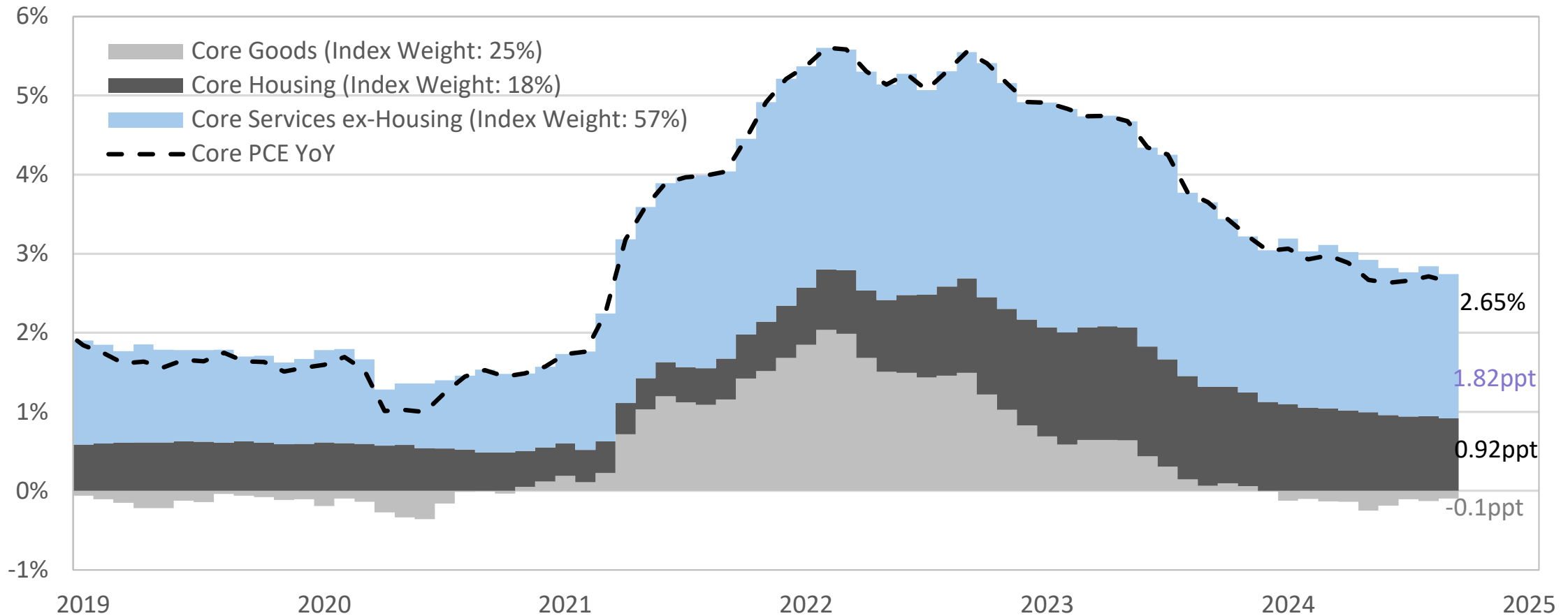
NY Fed Prob Of Recession within 12 Months (recessions shaded)



Source: Bloomberg, FED, StoneX

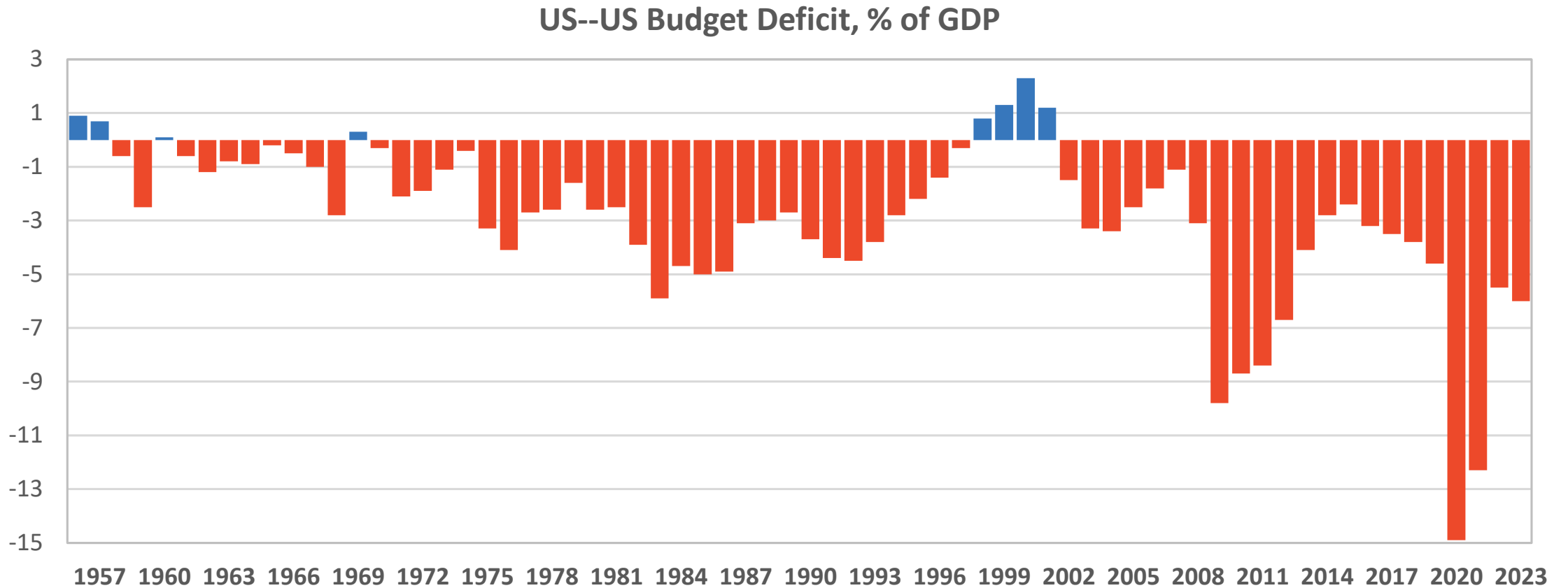
Persistent Inflation: The Impact of Housing and Essential Services

Powell's Components: Core PCE YoY Inflation Attribution



Source: StoneX, Bloomberg

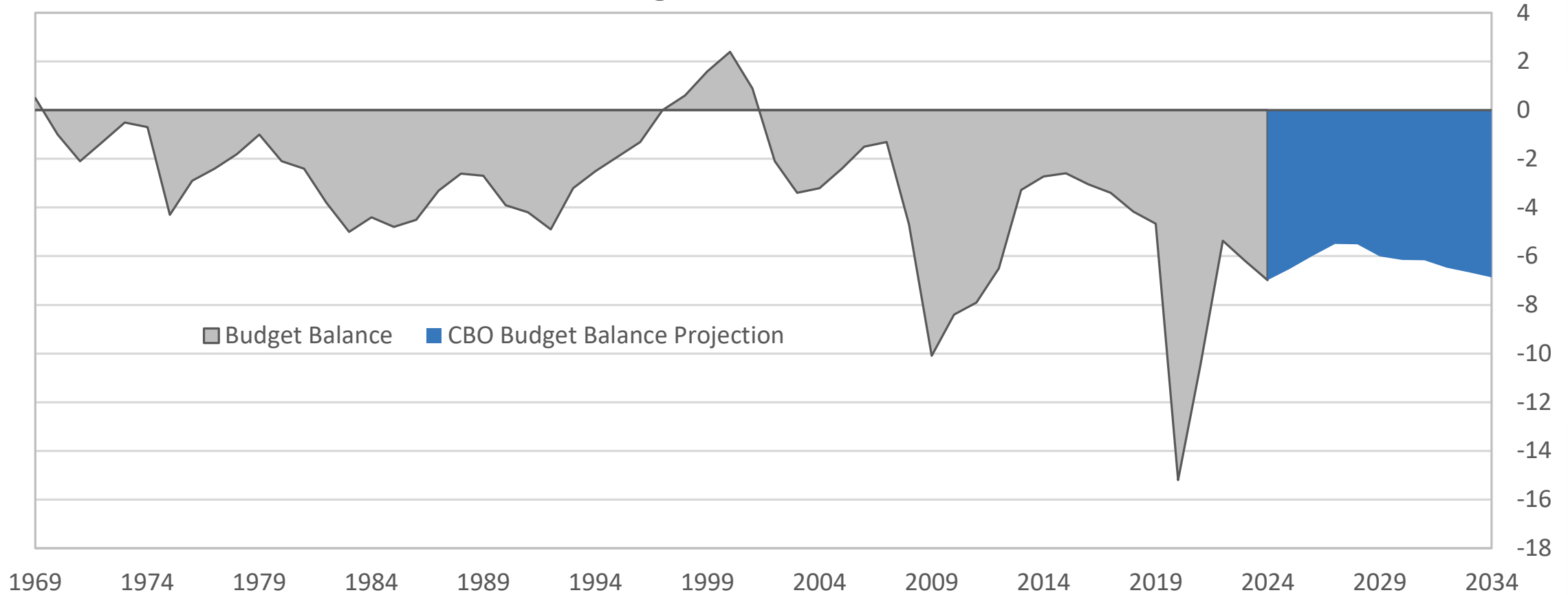
Fiscal policy is procyclical. Massive deficits supported U.S. consumers and helped the country avoid a recession—but at a cost.



Source: Bloomberg, StoneX

US fiscal deficit/GDP: 5.5% - 7% Next 10 years

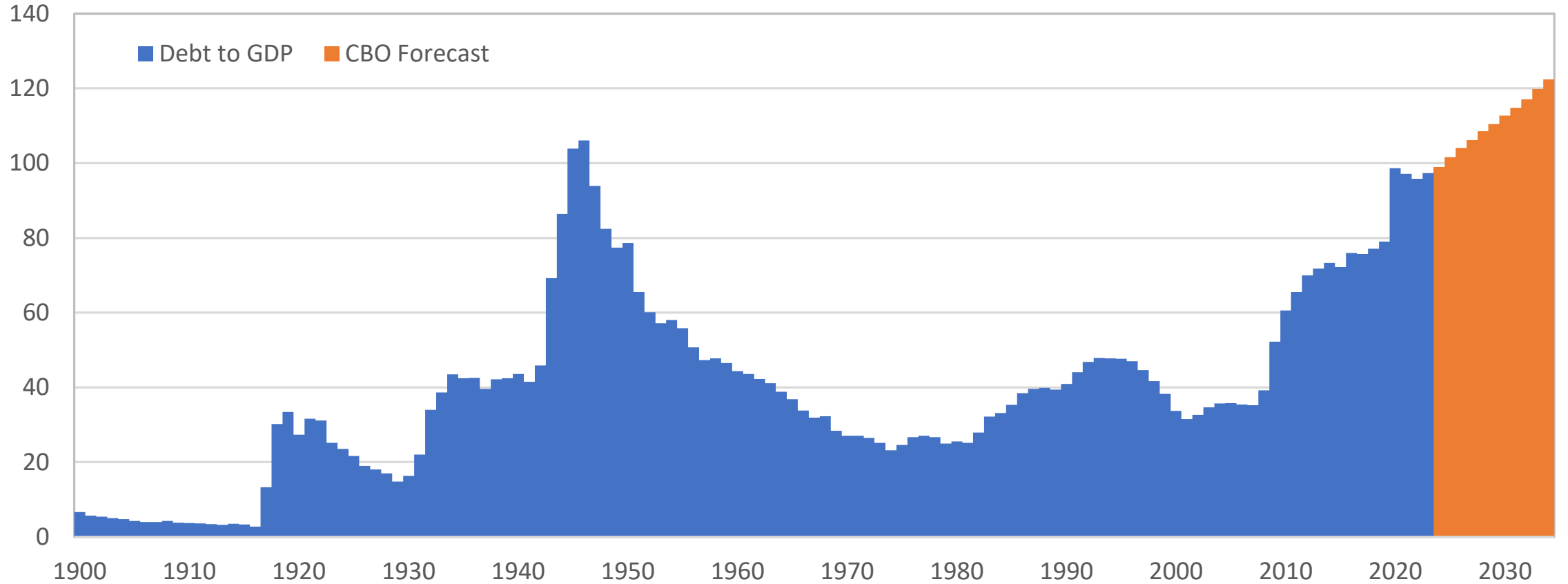
US Budget Balance as a % of GDP



Source: StoneX, Bloomberg

US Debt/GDP to rise to 120% by 2034

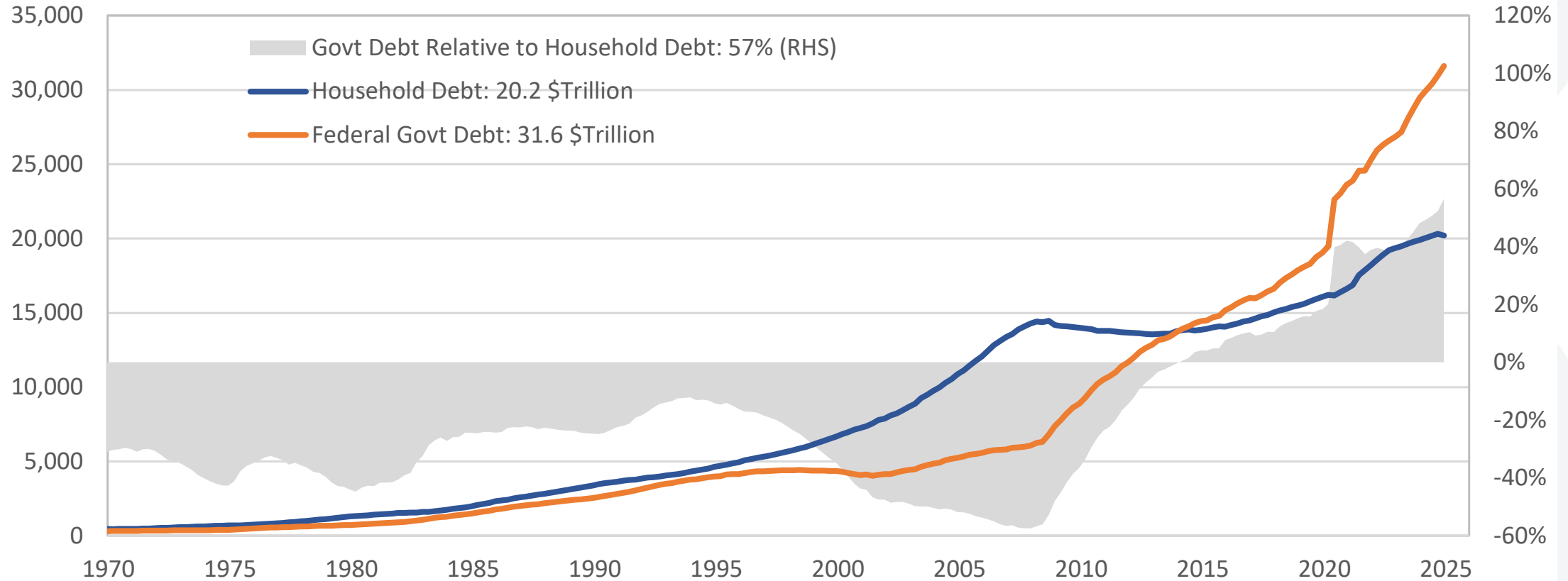
Debt to GDP



Source: StoneX, Bloomberg

Crowding Out in Motion: Fiscal Expansion's Market Impact...Surging Government Debt Reshapes Market Dynamics

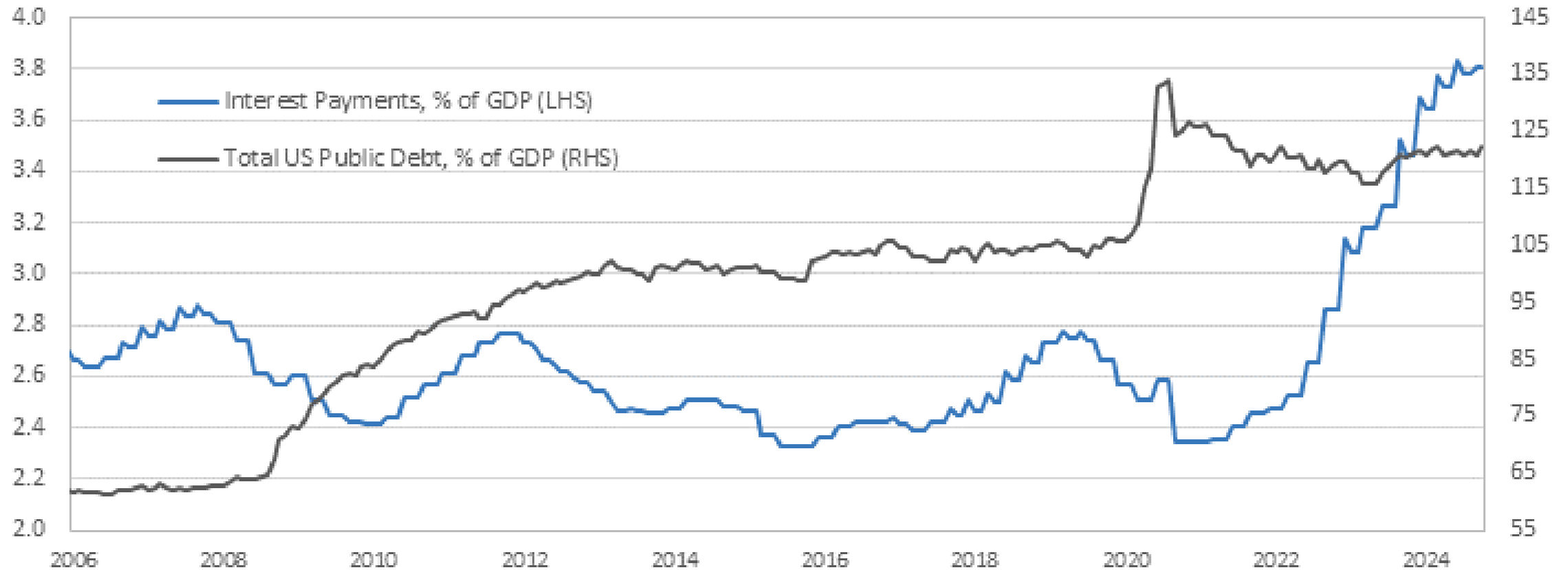
Relative Debt Levels: Federal Govt vs Households



Source: StoneX, Bloomberg

Interest payments on debt now top defense Spending

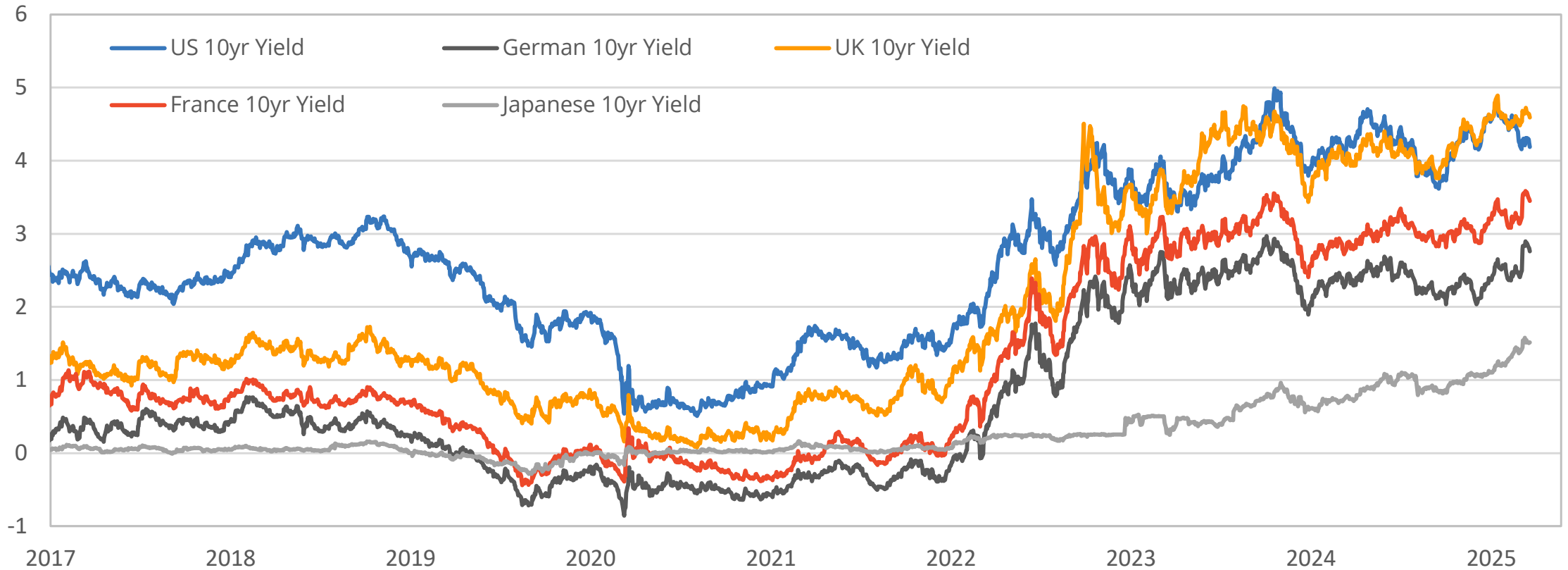
US Interest Expenditure vs Public Debt



Source: Bloomberg, StoneX

Bonds Yields Globally Surged before retracing due to growth fears

Developed Markets 10Y Yields, %



Source: Bloomberg, StoneX

China is reducing its holdings of U.S. Treasury bonds in favor of gold.

Price-insensitive buyers (such as the Fed, China, Russia, and Saudi Arabia) are pulling back, leaving U.S. Treasury bonds to be increasingly absorbed by price-sensitive buyers.

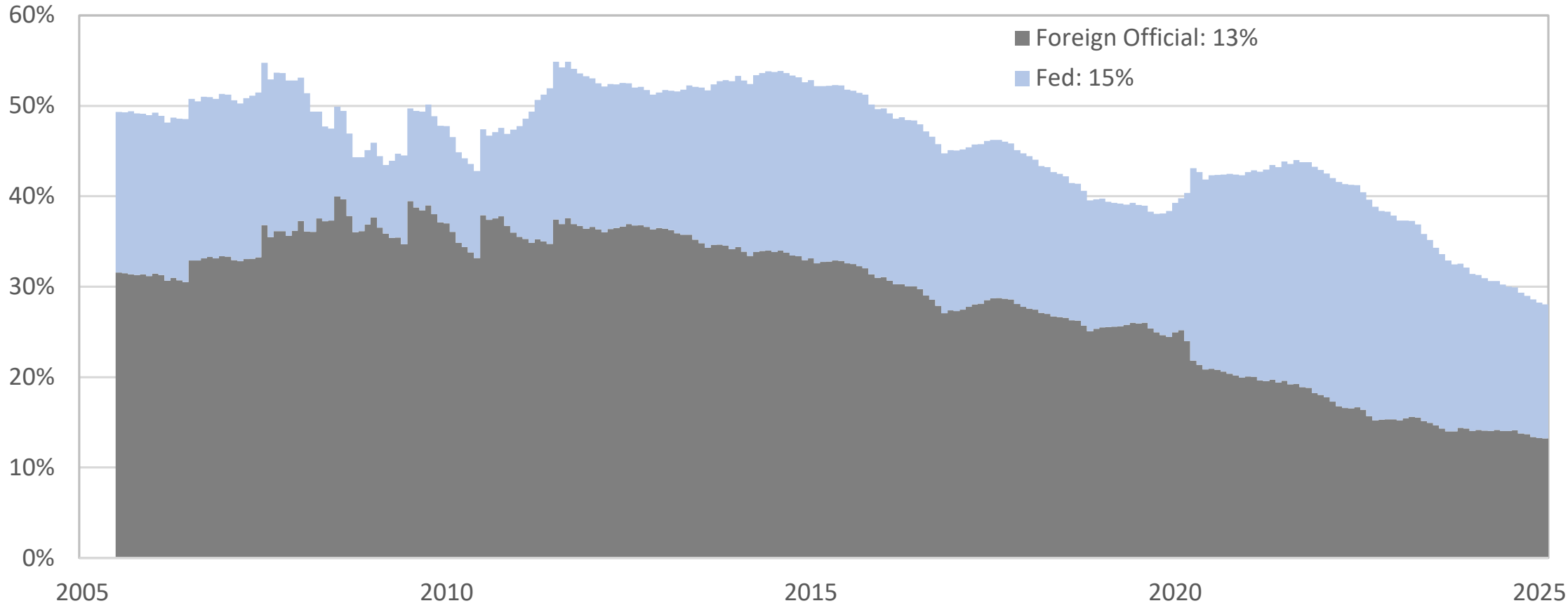
US Treasury Securities Held By China, USDbn



Source: StoneX, Bloomberg

Price-sensitive bondholders (private sector) are filling the gap.

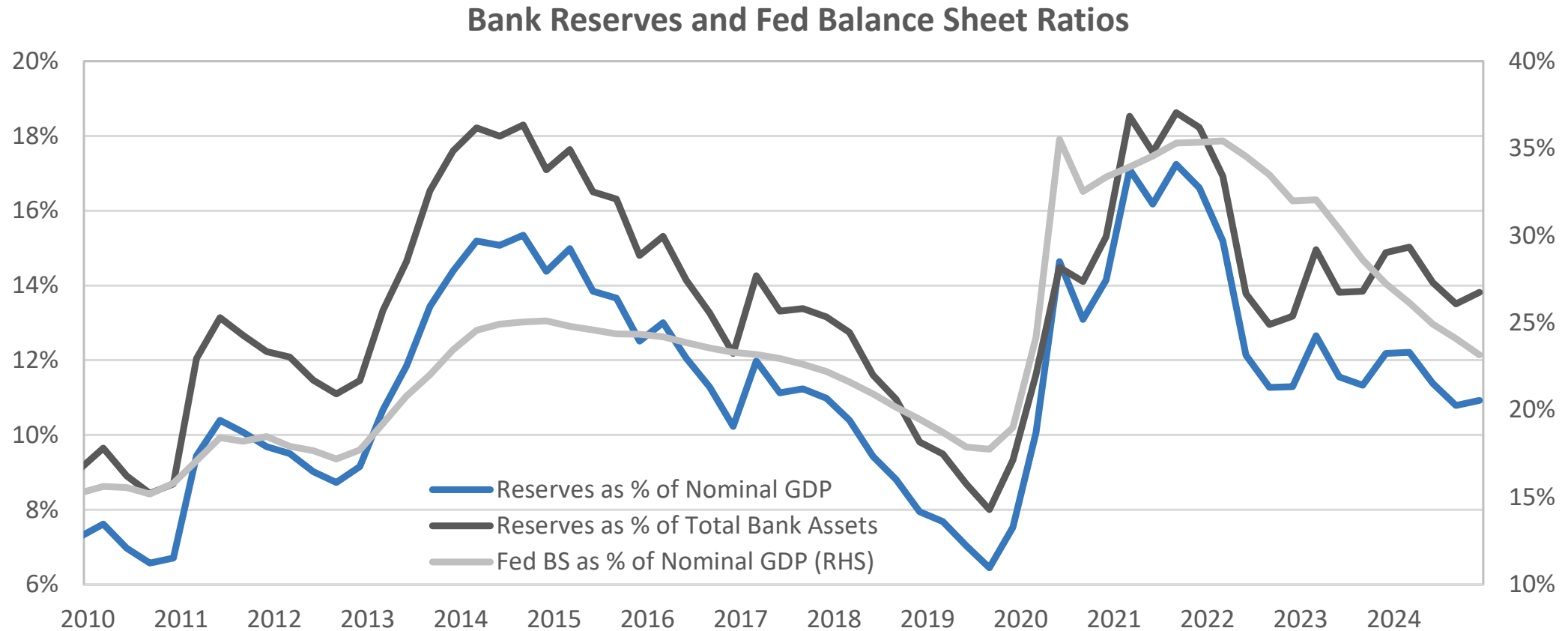
Foreign and Fed US Treasury Holdings as a Percent of US Treasuries Outstanding



Source: StoneX, Bloomberg

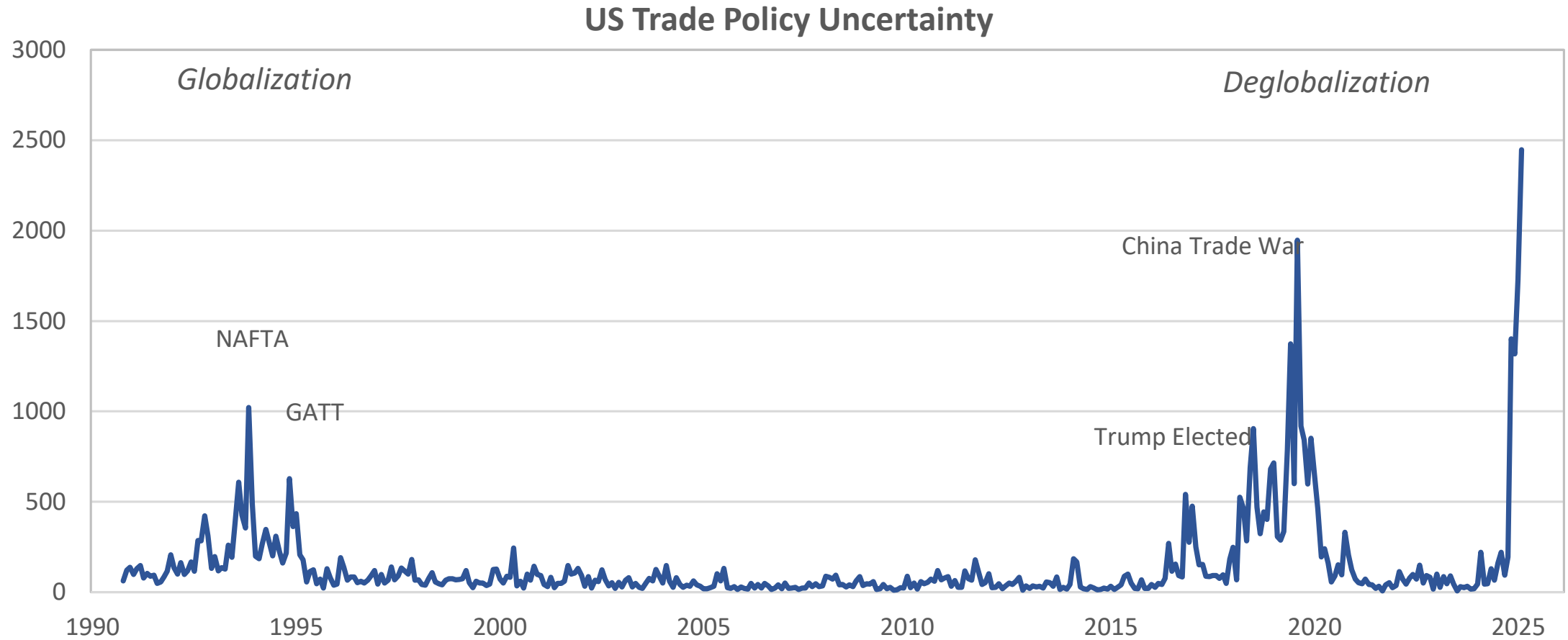
Liquidity Tightening: Bank Reserves & Fed Balance Sheet Shrinking

Bank reserves and the Fed's balance sheet have declined sharply from pandemic highs, signaling tighter liquidity. While reserves remain above pre-2020 levels, continued QT could strain funding markets, raising the risk of financial instability and a potential Fed policy adjustment.



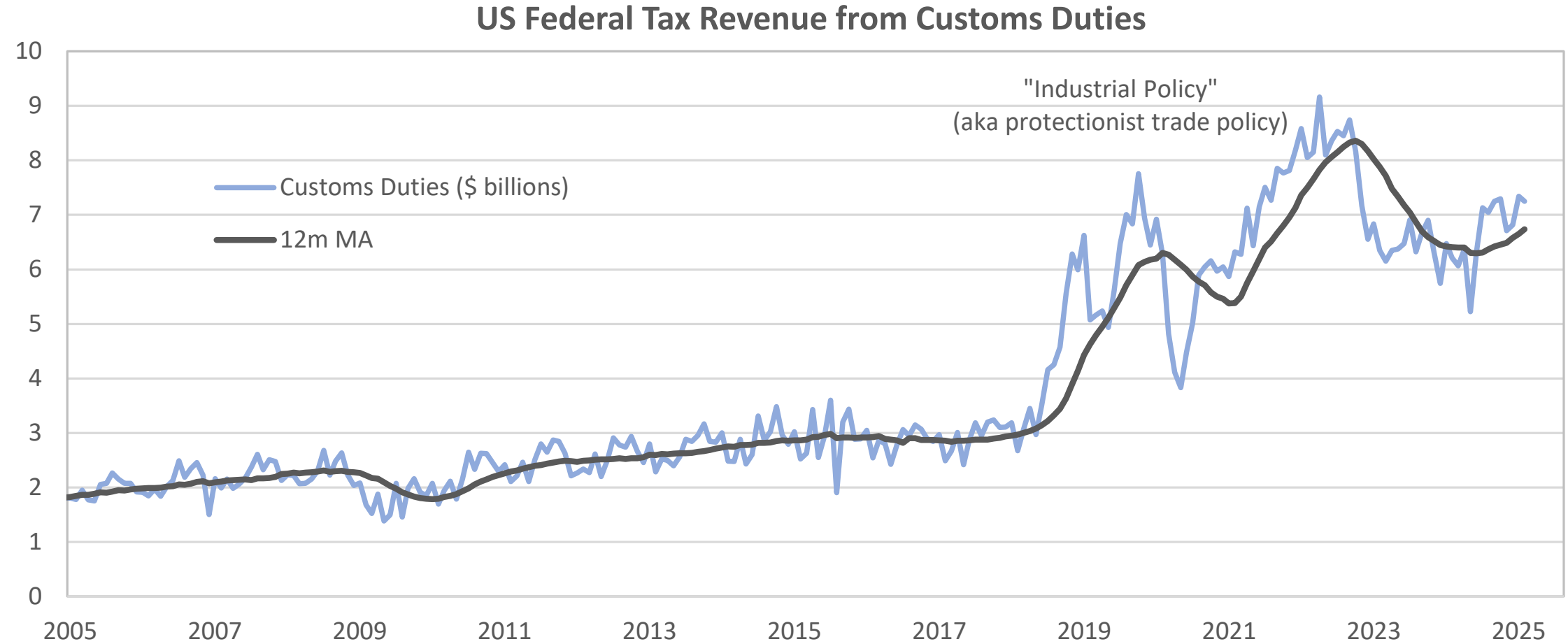
Source: StoneX, Bloomberg

Surging Trade Policy Uncertainty: From Globalization to Deglobalization



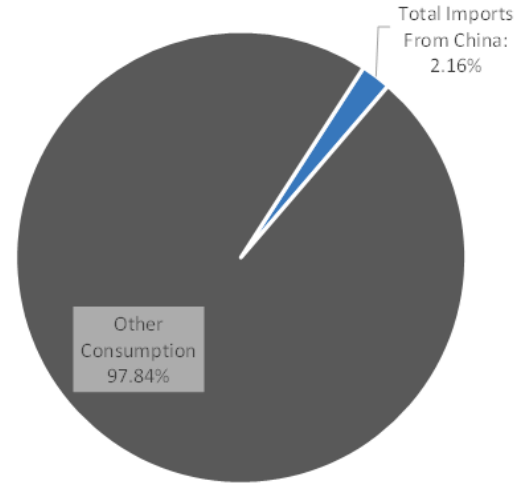
Source: StoneX, Bloomberg, Baker, Bloom & Davis

Tariff Revenue Surges Under Protectionist Trade Policy but Remains a Small Fiscal Tool

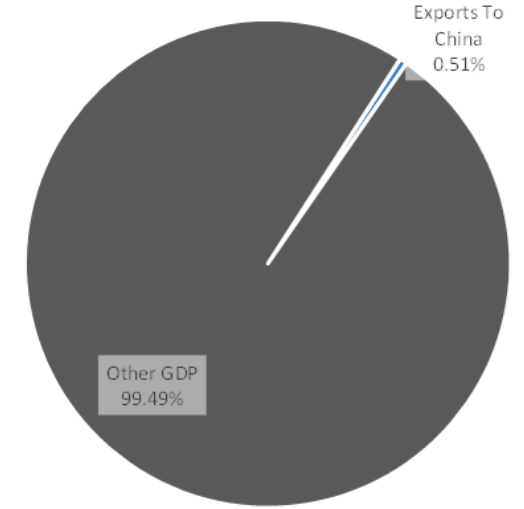


Source: StoneX, Bloomberg

Chinese Imports A Small Part of US Consumption (assumes imports are purely consumed)

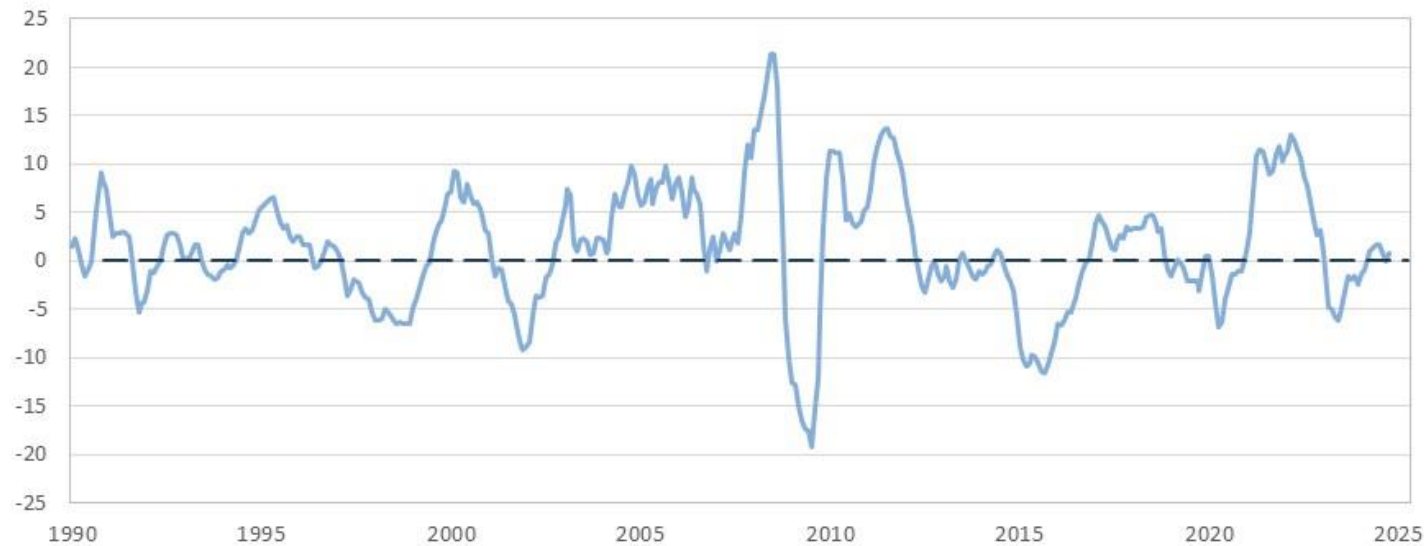


Exports To China A Miniscule Share of Total US GDP



Impact of current and proposed tariffs on inflation measures
Costs could rise due to the impact of tariffs on imports.

US Import Prices, % chg y/y



Source: Bloomberg, StoneX

Rising inflation expectations following recent volatility (2005-2024)

Average of Survey-based and Market-based Inflation Expectations

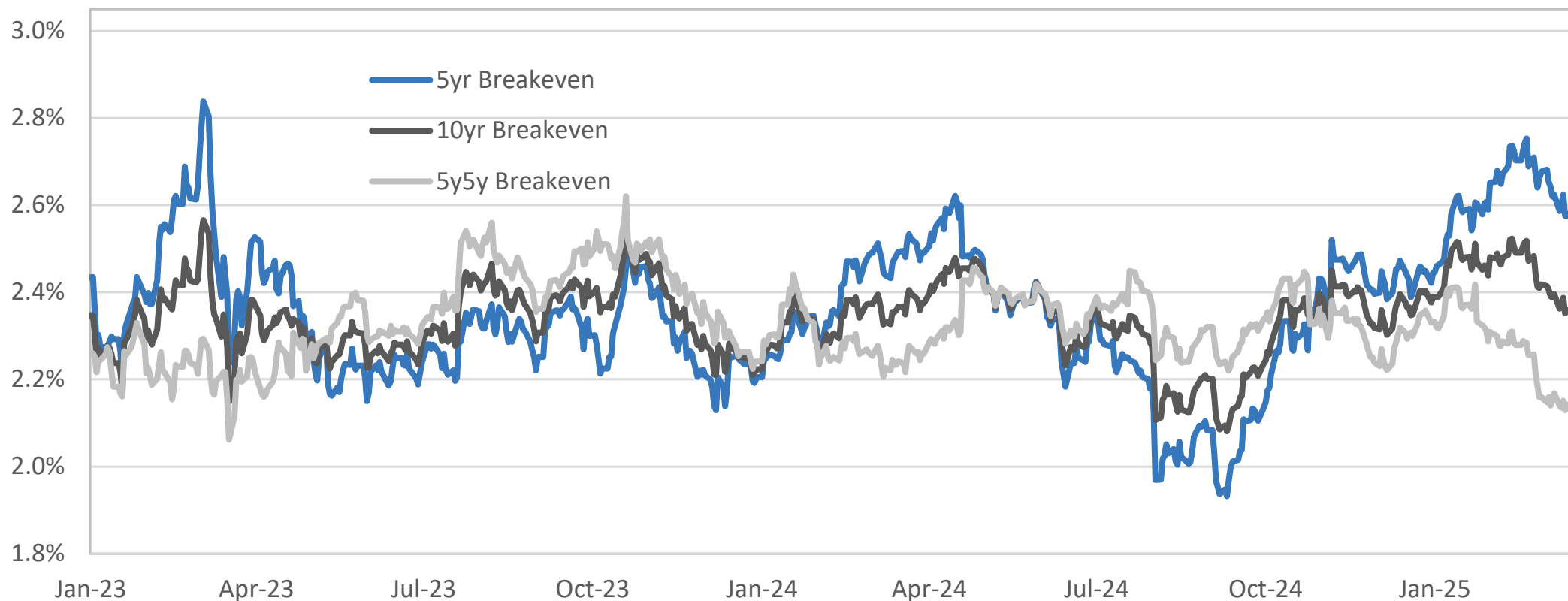


Source: StoneX, Bloomberg (average of Survey of Professional Forecasters, U Michigan, 1y1y CPI Swaps, and 10yr Breakeven)

Inflation Expectations: Reaccelerating, Raising Fed Dilemmas

Breakeven inflation rates show renewed upside momentum, with the 5-year breakeven rising more sharply than the 10-year and 5y5y measures. Near-term inflation concerns are intensifying, due to supply-side pressures, fiscal expansion, or tariff impacts. The divergence in longer-term breakevens (5y5y flattening) implies that markets expect the Fed to contain long-run inflation. However, if near-term expectations remain elevated, it complicates the Fed's rate-cut calculus, reinforcing the case for a prolonged higher-for-longer stance.

Inflation Expectations

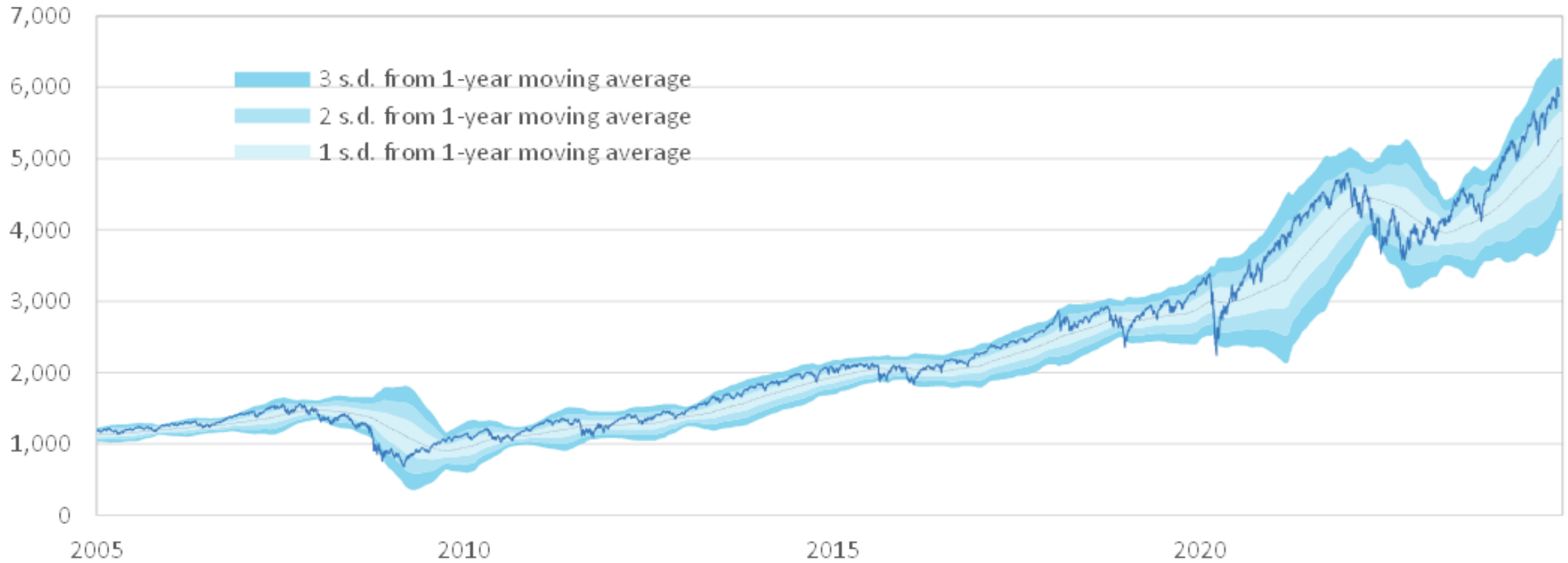


Source: StoneX, Bloomberg

Equities

The S&P 500 is historically expensive, but not excessive.

S&P 500 Index (with 1, 2, and 3 Standard Deviations from 1-year moving average)



Source: Bloomberg, StoneX

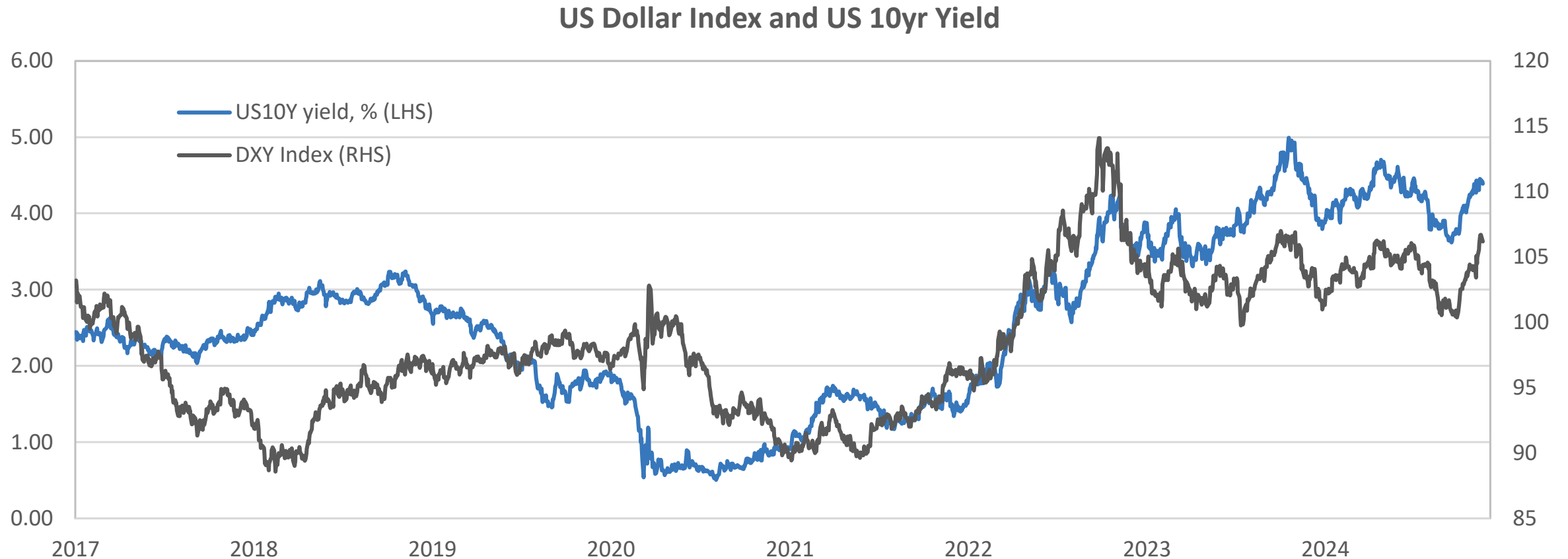
Taxes: Corporate tax policy impacts asset valuations.

From the current 21% (Harris had proposed 28%) Trump proposes 15%, with direct impacts on stock valuations.

Corporate Rate	Effective tax estimate	EPS	PE Ratio	S&P Target
15% (Trump proposal)	14.6%	250.8	26.07	6,537
			23.70	5,943
			21.33	5,349
21% (current situation (TCJA))	20.4%	233.6	26.07	6,091
			23.70	5,537
			21.33	4,983
28% (Harris proposal)	27.2%	213.6	26.07	5,569
			23.70	5,063
			21.33	4,557

FX

U.S. Dollar and 10-Year Yield: Rising rates and a strong dollar.

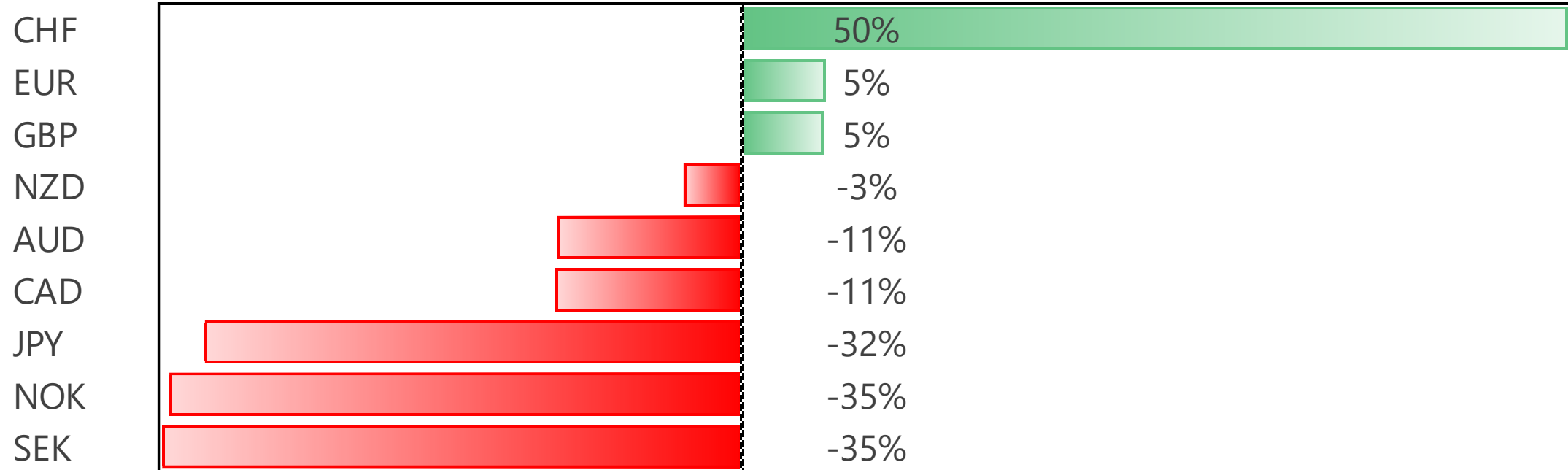


Source: Bloomberg, StoneX

FX

G10: Long-term misalignments in purchasing power parity (PPP) against the USD based on future 10-year rates.

G10 PPP Valuations vs US dollar based on 10yr Forward FX rates



Source: StoneX, Bloomberg

FX

Increase in bullish sentiment and strengthening of the U.S. dollar: Speculative positioning against the DXY index.

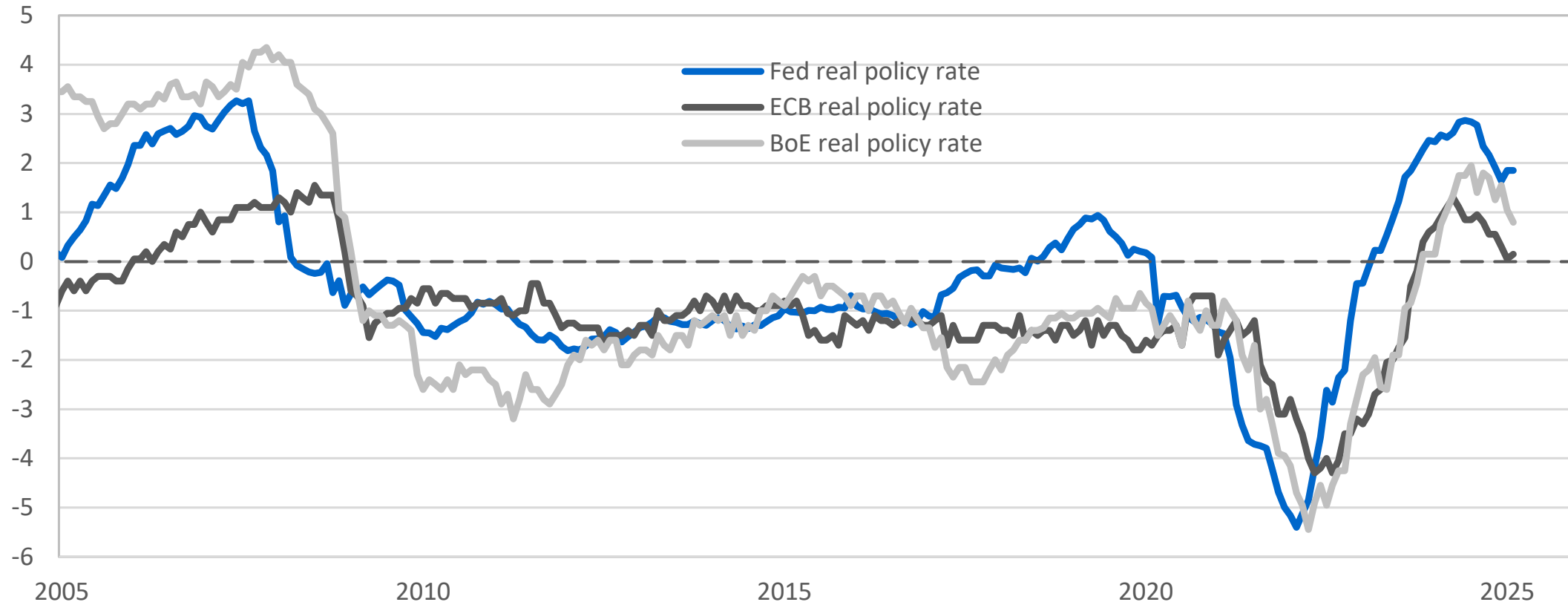


Source: Bloomberg, StoneX (includes positioning in futures for EUR, JPY, GBP, CAD, CHF, AUD, NZD, and DXY)

FX: The interest rate differential will keep the USD strong.

The Fed's real policy rate remains the highest among major central banks, reinforcing a restrictive stance. While the ECB and BoE have also moved into positive real rate territory, their tightening is less aggressive. Elevated real rates suggest central banks are prioritizing inflation control, limiting the case for near-term rate cuts.

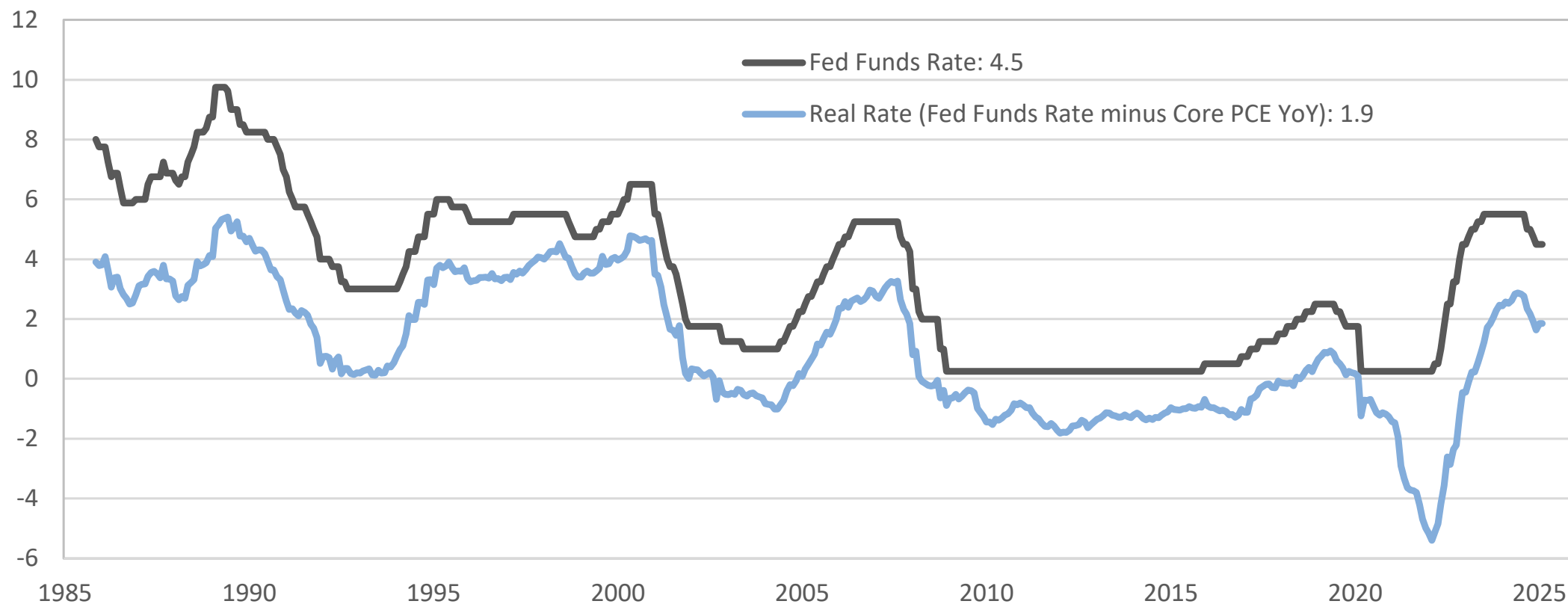
Fed, ECB, BoE Real Policy Rates



Fed Policy Stance: Real Rates in Restrictive Territory

The real Fed Funds rate remains positive at 1.9%, indicating a restrictive policy stance that dampens growth and inflation pressures. Historically, when real rates are this elevated, the Fed has either paused or pivoted toward easing—suggesting rate cut expectations may be delayed but not off the table.

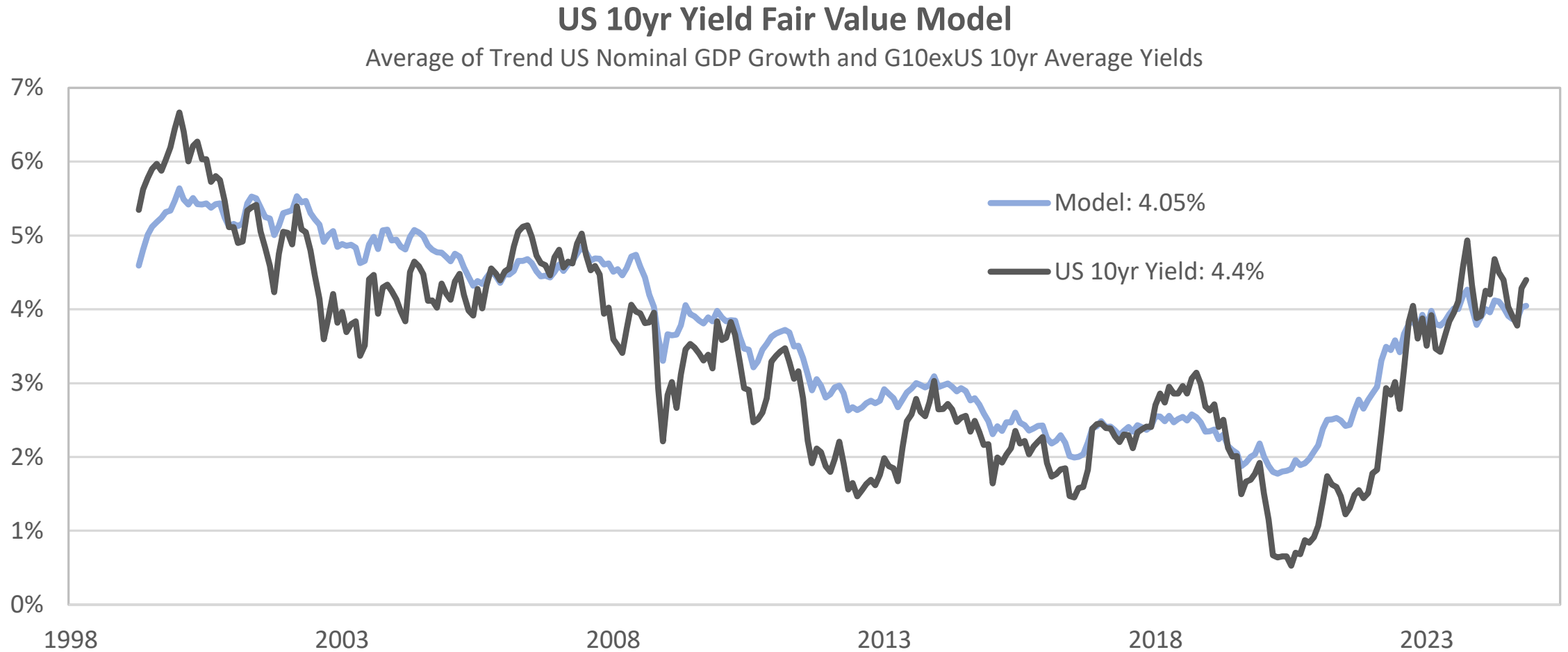
Fed Funds Rate vs Real Rate



Source: StoneX, Bloomberg

FI

U.S. 10-Year Treasury Yields vs. Fair Value: Assessing market divergence.

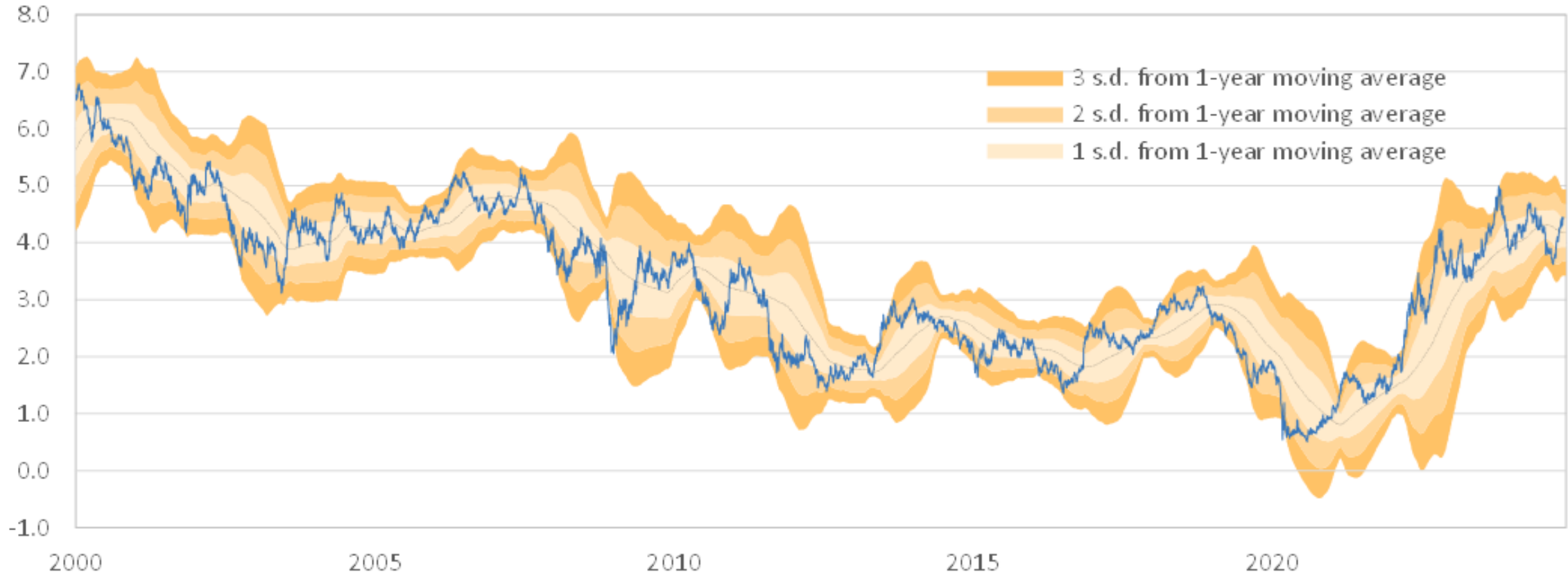


Source: StoneX, Bloomberg

FI

U.S. Treasury yields are rising significantly. While much of this may already be priced in, an explosive increase in the deficit is not.

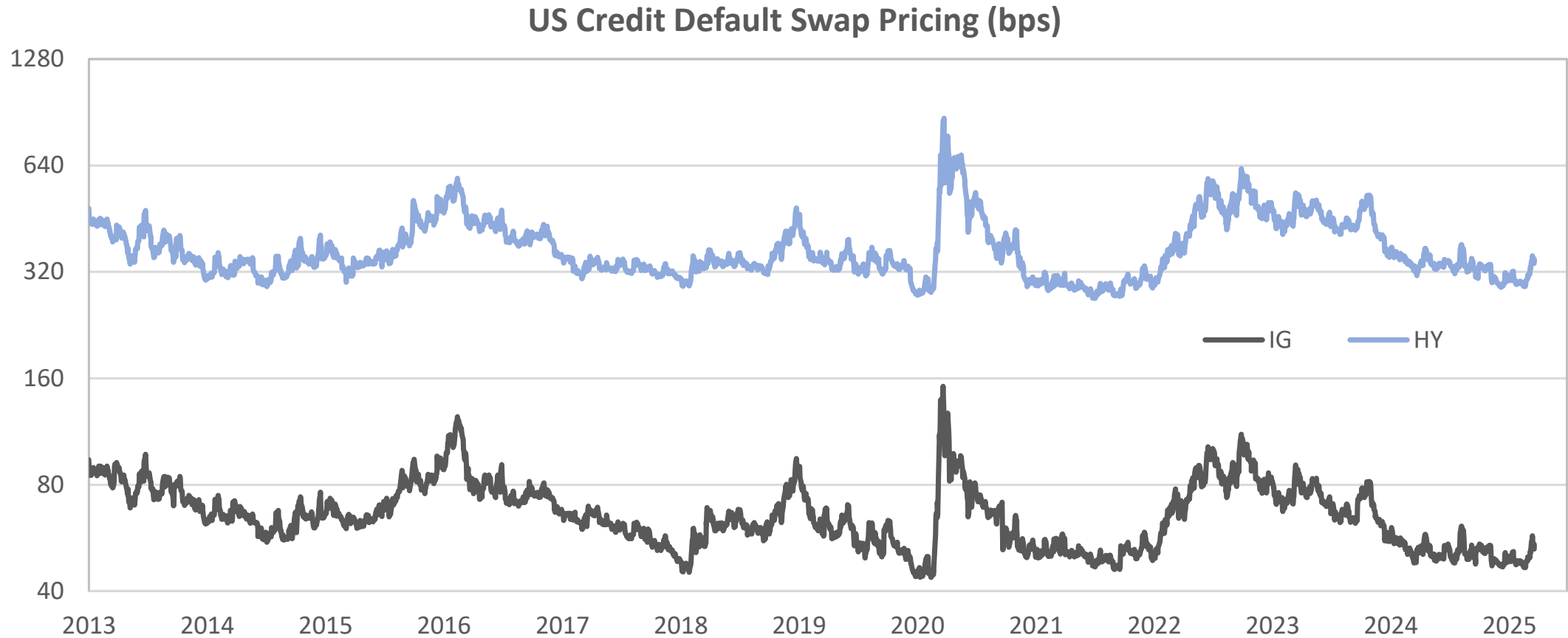
US 10yr Yield, % (with 1, 2, and 3 Standard Deviations from 1-year moving average)



Source: Bloomberg, StoneX

FI

Credit Spreads: Pricing Signals Stability but Limited Upside

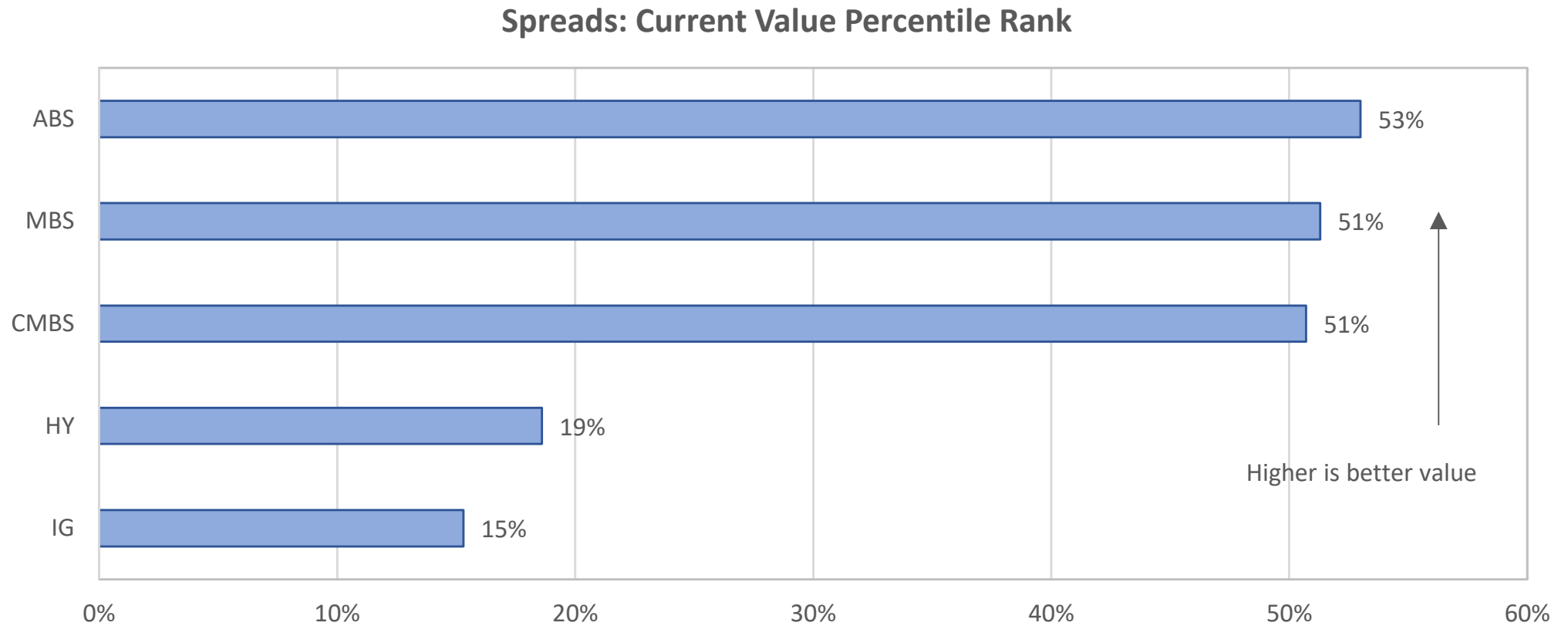


Source: StoneX, Bloomberg

	Current	Percentile	Z-score	Mean	Median	Mode	St. Dev	Max	Min
HY	338	42%	-0.5	375	346	329	79	871	269
IG	53	21%	-0.9	66	63	65	14	152	44

FI

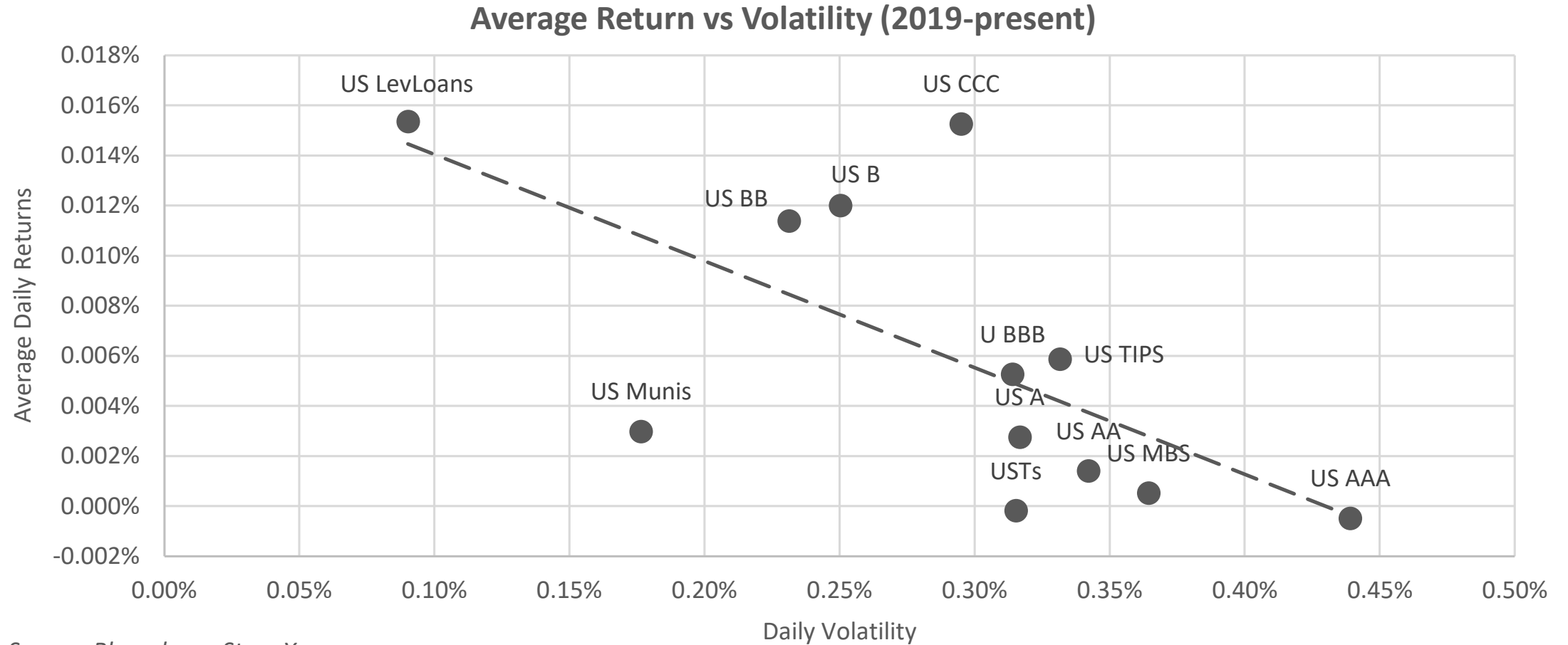
Relative Value: Credit Spreads Favor ABS & CMBS Over IG & HY



Source: StoneX, Bloomberg

FI

Risk-Return Tradeoff: Leveraged Loans and CCC Debt Lead



Source: Bloomberg, StoneX

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