HOUSE VIEW

Outlook 2025: US

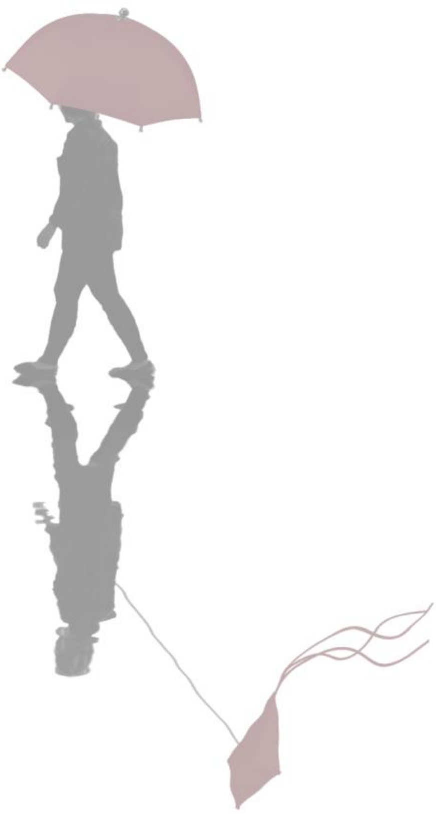
December 2024

3 Things to know

1.
Robust GDP growth of 2.3% in 2025.

2.
See the Fed pausing its cutting cycle earlier than previously expected.

3.
Neutral on US Treasuries; see continued USD strength, US equities to outperform.



MACROECONOMIC VIEW

The US economy entered the November election with both cyclical and structural tailwinds, fuelled by increased immigration and higher productivity. **We expect this positive momentum to continue and forecast real GDP growth at 2.3% YoY in 2025.** We expect consumption growth to slow, investment strength to persist and government spending to provide less of a boost.

Tariffs and slower immigration will hurt growth, but this drag could be offset by more supportive financial conditions, anticipation of tax cuts, and rapid deregulation under President Trump.

The timing, sequence and magnitude of policy changes are key factors shaping the 2025 macro environment, but they are highly unpredictable. Our outlook assumes that narrow margins in the House of Representatives, sensitivity to market reactions and the use of tariffs as a foreign policy tool will ultimately curb the most extreme policy proposals.

We expect core PCE inflation to slow in Q1 due to favourable base effects, but to reaccelerate to 2.8% by the end of 2025 due to the impact of tariffs. **With inflation expected to pick up in H2, we see the Fed pausing its cutting cycle earlier than previously expected, at 3.75-4%**, above its estimate of the neutral rate.

Risks to our outlook centre around the magnitude and timing of policy shifts.

INVESTMENT IMPLICATIONS

4.6% US 10-year yields by the end of 2025 reflecting a modest rise in inflation expectations and an elevated terminal rate of close to 4%. We are neutral on US Treasuries but retain optionality in case the Trump administration is less inflationary and more fiscally prudent than anticipated.

Credit spreads to stay close to record tights given a favourable backdrop of accelerating earnings growth, subdued high yield supply and elevated investor appetite for carry.

A drift towards 1.01 EURUSD in 2025 with continued US dollar strength reflecting a superior US growth outlook, increased protectionism and widening yield differentials. We expect appreciation to be most pronounced against the euro and Chinese yuan.

S&P at 6500 by the end of 2025 which is predicated on 12% EPS growth and a small fall in the 12m forward PE to 21.5x. We expect US equities' outperformance to continue given a superior EPS outlook and a lack of positive catalysts elsewhere. Intra-market we prefer cyclicals to defensives and growth over value.