U.S. Market Report

Q1 2025

Outline

SUMMARY & OUTLOOK

The first quarter of 2025 marked a significant shift in U.S. economic policy under the Trump administration, driven by an aggressive trade strategy centered on global tariffs. Announced on April 2, 2025, and implemented on April 9, 2025, the policy initially imposed a 10% tariff on imports from all countries, with higher rates targeting nations with large trade deficits with the U.S., such as China. Following China's retaliation, the U.S. raised China's tariff rate to 145%, while a 90-day pause at 10% was granted to all other countries. Aimed at reducing trade imbalances and boosting domestic production, the policy has injected considerable uncertainty into the economy. The administration touts potential revenue of $300–$600 billion annually and commitments from companies to expand U.S. operations, though critics highlight the risks of immediate disruptions and long-term inefficiencies.

The Federal Reserve is in a precarious position amid the tariff-driven economic turbulence. Chair Jay Powell opted to maintain interest rates, citing the risk of stagflation, where higher prices coexist with sluggish growth. The Fed adjusted its 2025 projections, lowering GDP growth to 1.5% from 2.5% and raising inflation to 3.5% from 2.5%, directly linking these revisions to the tariff policy. The yield curve shifted downward, reflecting market fears of a growth slowdown rather than runaway inflation.

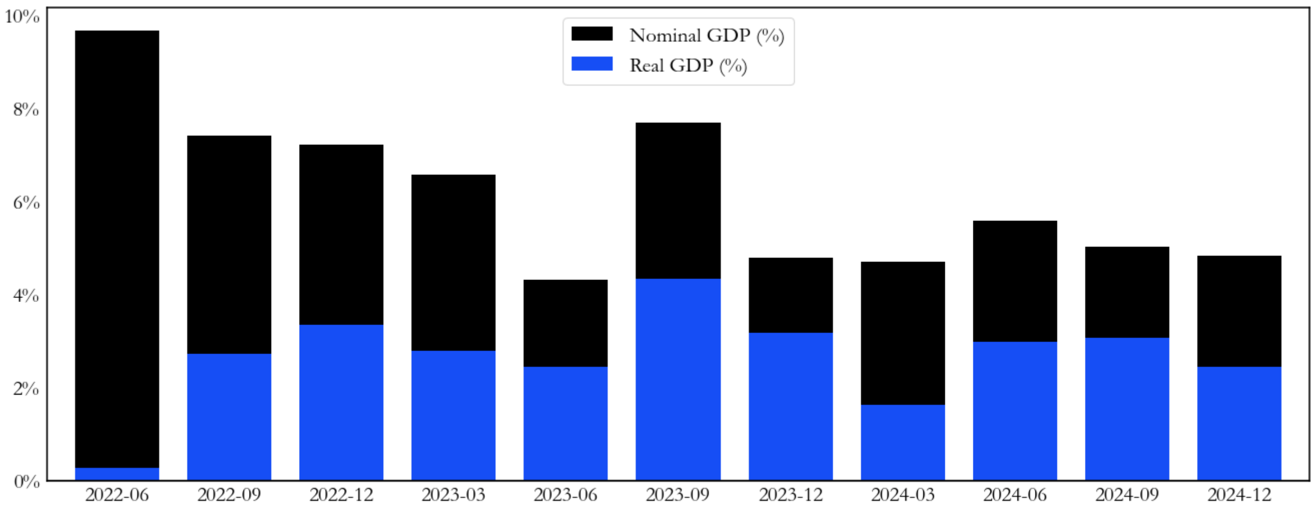
Economic indicators paint a varied picture: manufacturing PMI dropped below 50, signaling contraction, while the services sector showed modest resilience with a slight increase in PMI. The labor market seems healthy. During the first quarter of 2025, unemployment increased to 4.2% from 4.1% compared to the prior quarter. However, labor force participation also rose. Overall, inflation appears to be declining. The annualized Consumer Price Index fell to 2.4% from 2.9%, while the Producer Price Index dropped to 2.8% from 3.4%, though inflation pressures loom on the horizon due to the tariffs.

The tariffs have reignited a long-standing debate over U.S. trade policy. Since the 1960s, the U.S. has pursued a consumption-driven economy with low tariffs, accepting a persistent trade deficit in exchange for affordable imports. Meanwhile, export-driven nations like China, Japan, and Germany have capitalized on production-focused models, often reinvesting in U.S. assets. Free trade proponents argue that tariffs disrupt efficient markets and diminish global welfare by eroding comparative advantage. In contrast, the Trump administration asserts that many countries exploit open trade, justifying tariffs to rebuild U.S. industry, secure supply chains, and counter adversarial powers like China, framing the policy as a necessary corrective to decades of imbalance.

The tariffs' broader implications span consumers, corporations, and financial markets. On the downside, they function as a tax on imports, likely increasing consumer prices, squeezing corporate margins, and risking retaliatory measures from trading partners. They may also foster inefficiencies by propping up less competitive domestic industries. On the upside, tariffs could stimulate domestic job growth, lift real wages, and strengthen industrial capacity over time. Optimistically, paired with tax cuts, tariffs could pave the way for balanced trade deals; pessimistically, a global trade war could cripple productivity and force nations into costly self-reliance. The policy's success remains an open question, balancing short-term pain against long-term ambition.

US GDP Growth slowed during the fourth quarter but remains relatively solid.

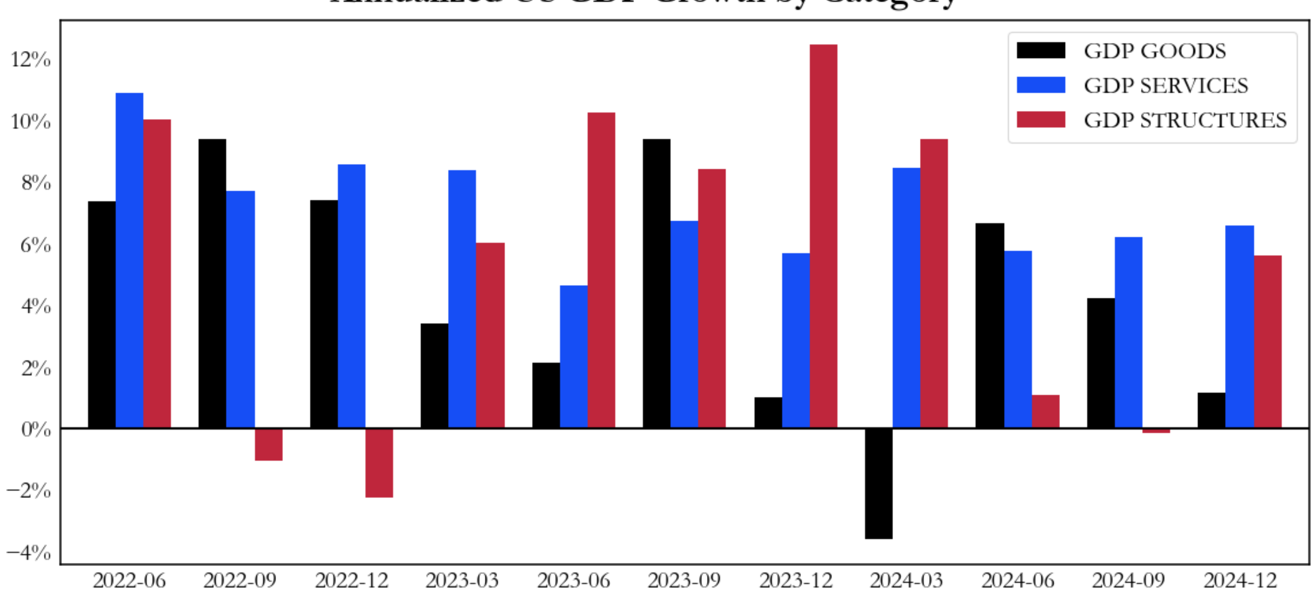
US Nominal & Real GDP Annualized Growth



	2022-06	2022-09	2022-12	2023-03	2023-06	2023-09	2023-12	2024-03	2024-06	2024-09	2024-12
Nominal GDP (%)	9.7%	7.4%	7.2%	6.6%	4.3%	7.7%	4.8%	4.7%	5.6%	5.0%	4.8%
Real GDP (%)	0.3%	2.7%	3.4%	2.8%	2.5%	4.4%	3.2%	1.6%	3.0%	3.1%	2.5%

SEG Research | Data: US Federal Reserve Bank of St.Louis | 2024-12

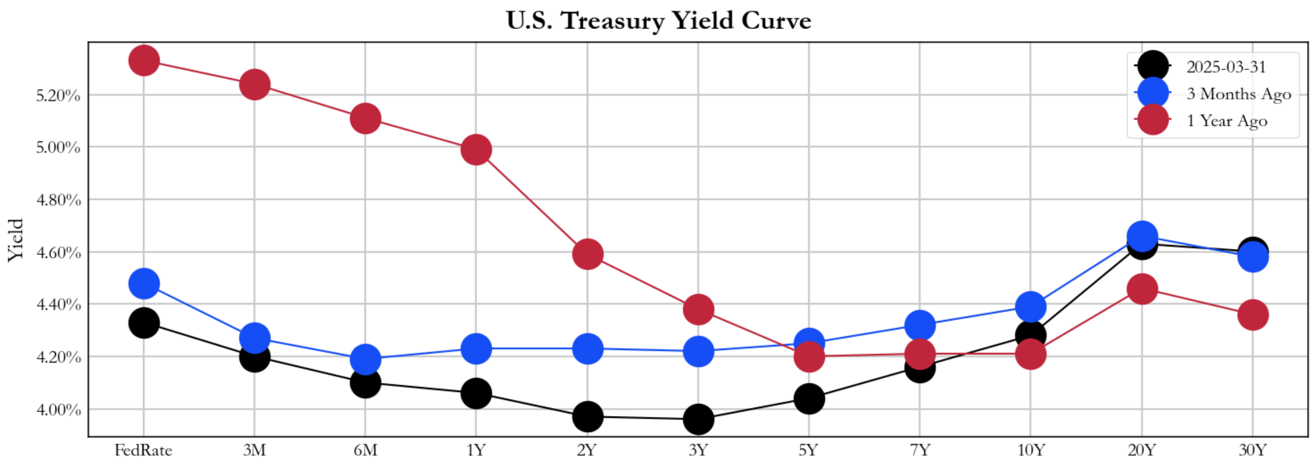
Annualized US GDP Growth by Category



	2022-06	2022-09	2022-12	2023-03	2023-06	2023-09	2023-12	2024-03	2024-06	2024-09	2024-12
GDP GOODS	7.4%	9.4%	7.4%	3.4%	2.1%	9.4%	1.0%	-3.6%	6.7%	4.2%	1.1%
GDP SERVICES	10.9%	7.7%	8.6%	8.4%	4.7%	6.7%	5.7%	8.4%	5.8%	6.2%	6.6%
GDP STRUCTURES	10.0%	-1.0%	-2.2%	6.0%	10.2%	8.4%	12.5%	9.4%	1.1%	-0.1%	5.6%

SEG Research | Data: US Federal Reserve Bank of St.Louis | 2024-12

All but the ultra-long duration U.S. Treasury yields have decreased during the first quarter of 2025. The yield curve is upward sloping from 3 years onward, likely signaling some short-term pain from tariffs.



	FedRate	3M	6M	1Y	2Y	3Y	5Y	7Y	10Y	20Y	30Y
2025-03-31	4.33%	4.20%	4.10%	4.06%	3.97%	3.96%	4.04%	4.16%	4.28%	4.63%	4.60%
2024-12-31	4.48%	4.27%	4.19%	4.23%	4.23%	4.22%	4.25%	4.32%	4.39%	4.66%	4.58%
2024-03-31	5.33%	5.24%	5.11%	4.99%	4.59%	4.38%	4.20%	4.21%	4.21%	4.46%	4.36%

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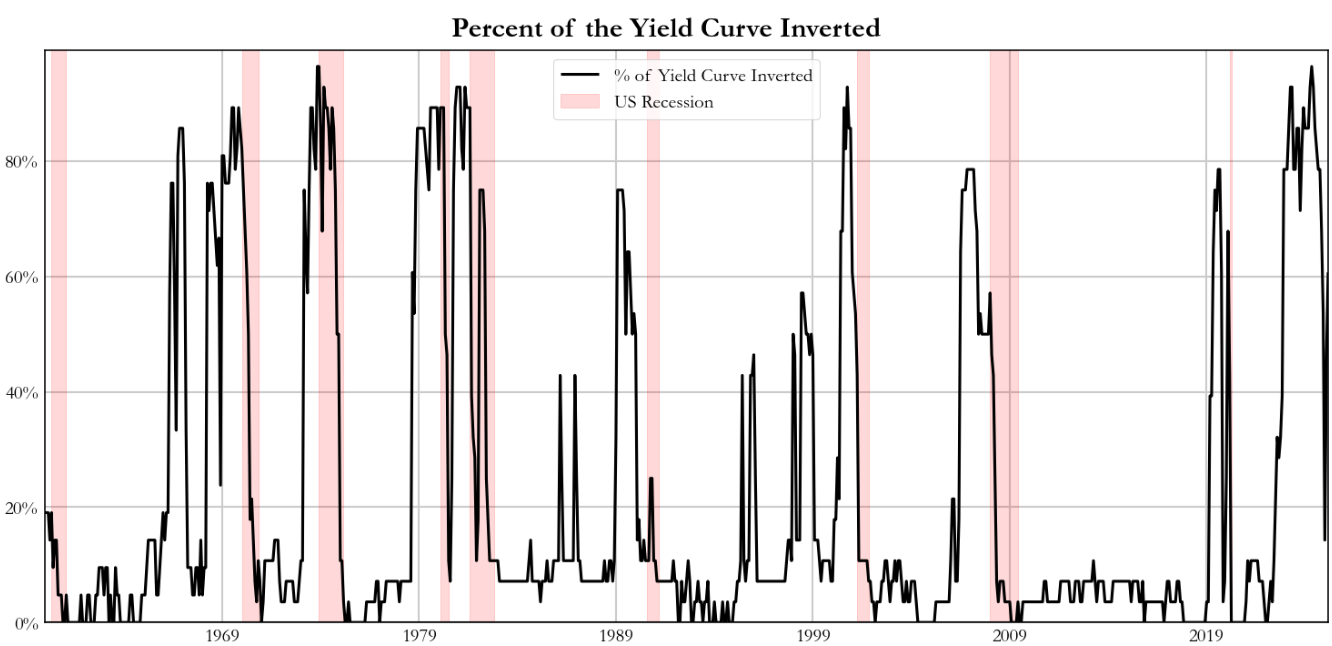
Most of the yield curve is no longer inverted. However, recessions have frequently occurred when the curve has started un-inverting.



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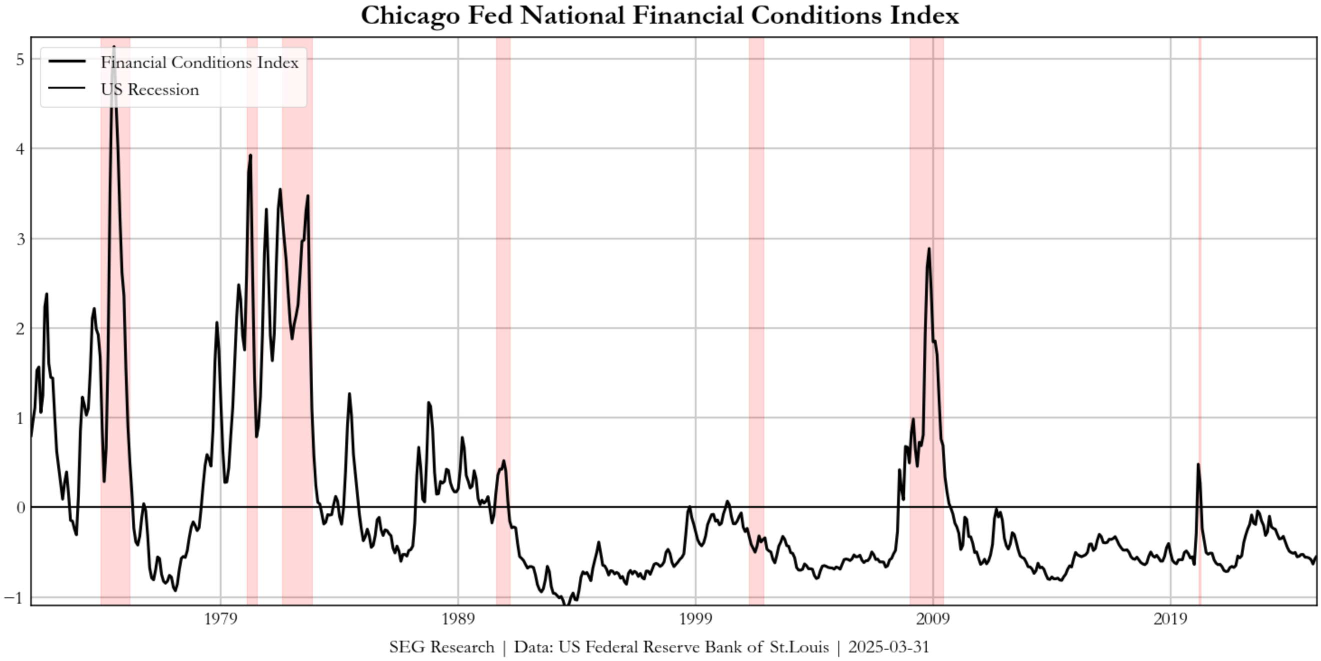
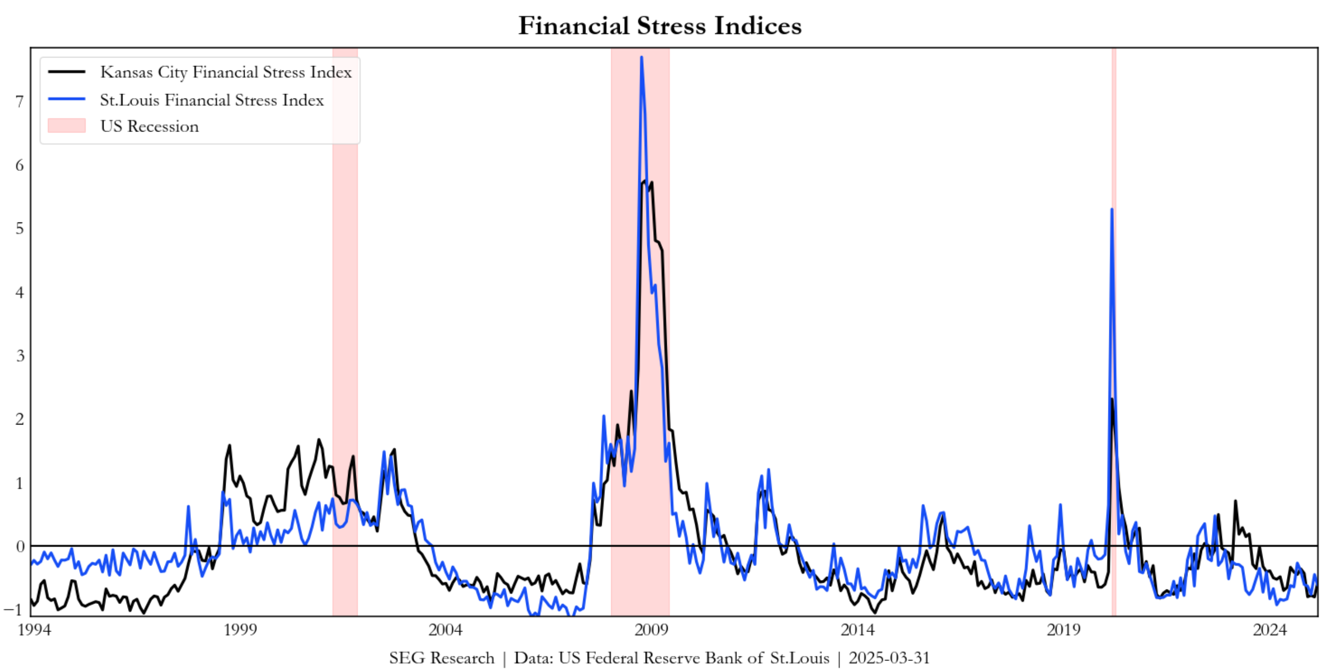
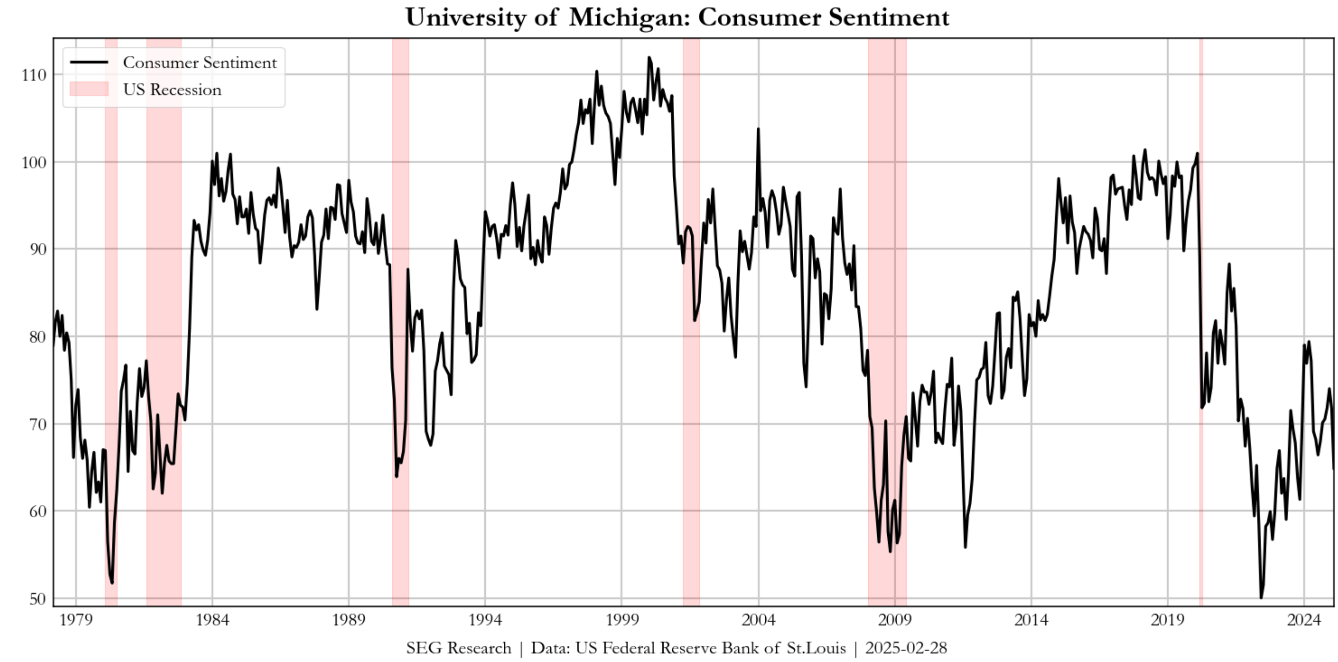
Financial conditions are very loose.



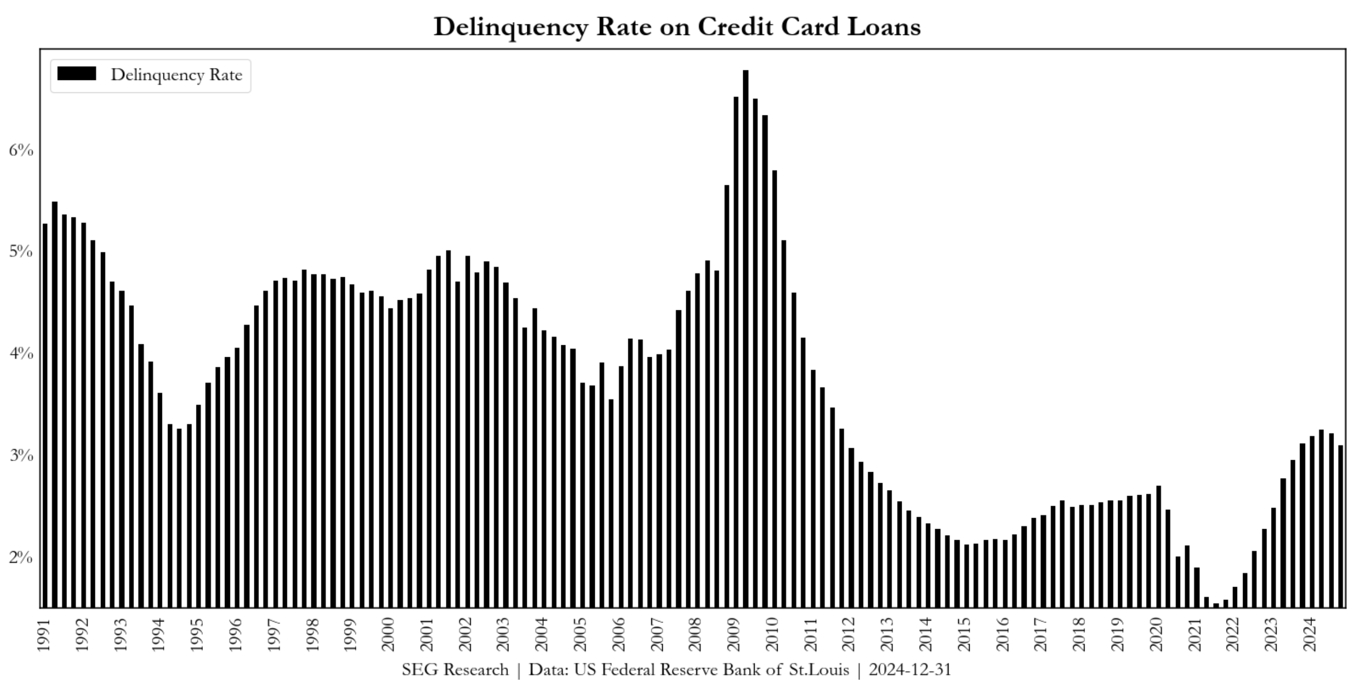
Additional financial stress remains low.



Consumer sentiment is declining again.



Delinquency rates on credit card loans remain low relative to historical standards.



The US unemployment rate has ticked up higher but remains low.

	2024-04	2024-05	2024-06	2024-07	2024-08	2024-09	2024-10	2024-11	2024-12	2025-01	2025-02	2025-03
Unemplyment Rate	3.90%	4.00%	4.10%	4.20%	4.20%	4.10%	4.10%	4.20%	4.10%	4.00%	4.10%	4.20%

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The long-term unemployment rate declined after several increases during 2024.

	2024-04	2024-05	2024-06	2024-07	2024-08	2024-09	2024-10	2024-11	2024-12	2025-01	2025-02	2025-03
U1 (15 weeks +)	1.30%	1.40%	1.50%	1.60%	1.60%	1.60%	1.70%	1.70%	1.60%	1.50%	1.50%	1.50%

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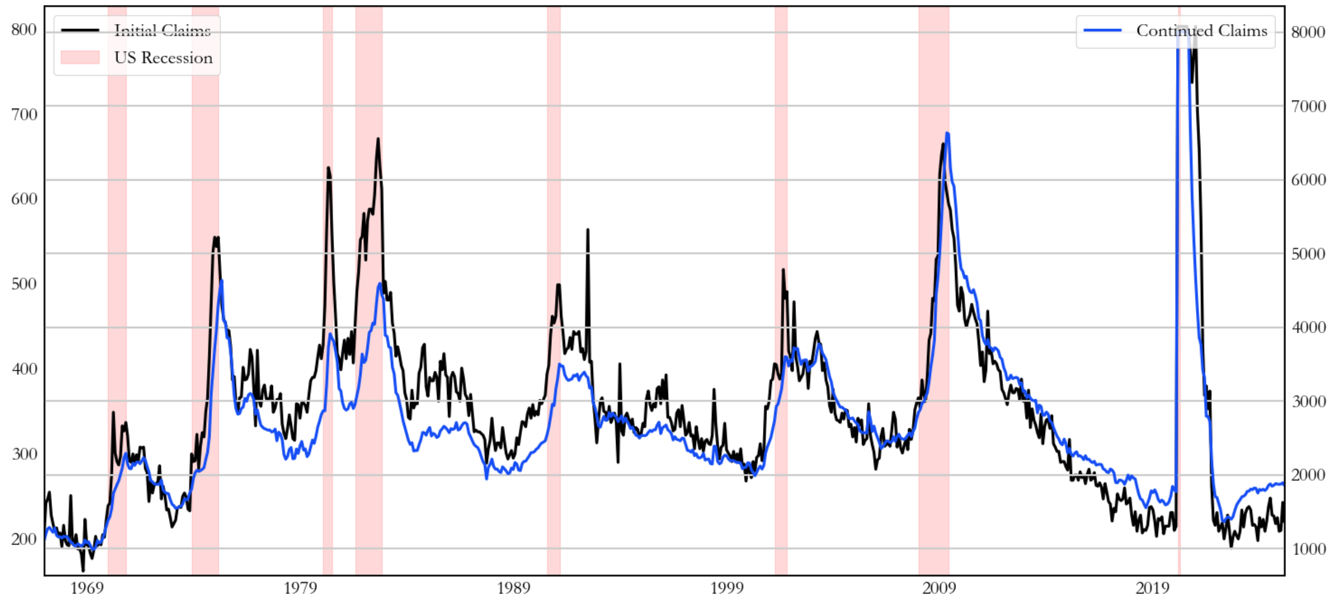
Initial and continued unemployment claims remain low but continued claims are rising.

Unemployment Insurance Initial & Continued Claims (in Thousands)



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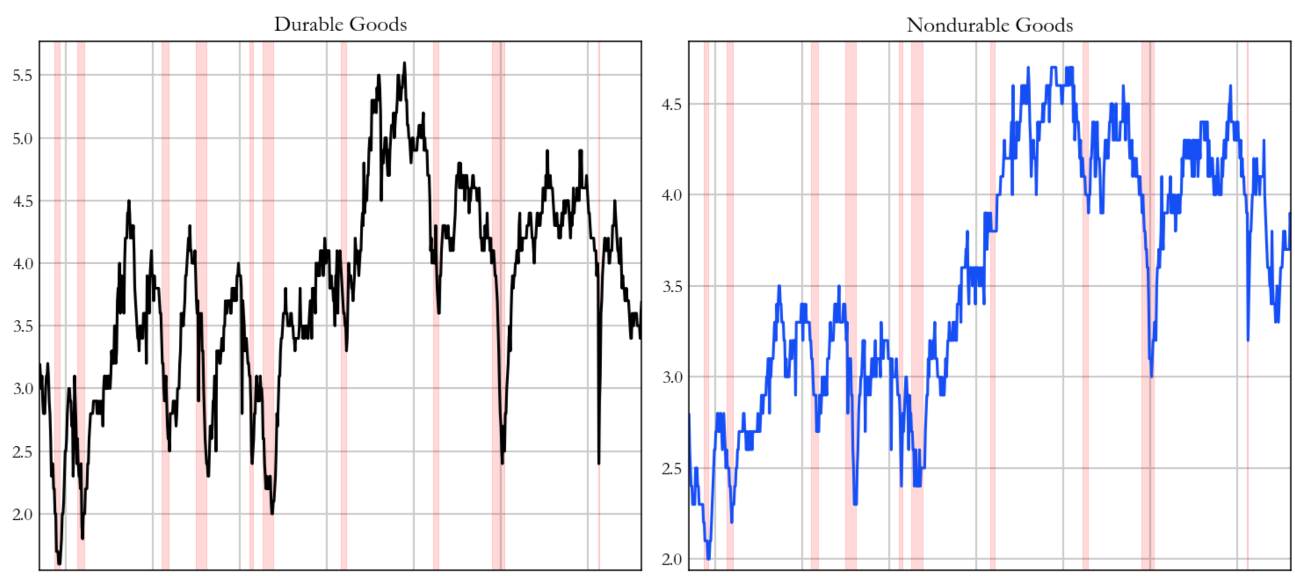
Overtime hours have also declined, particularly for durable goods manufacturers.

Overtime Hours Worked (Manufacturing)



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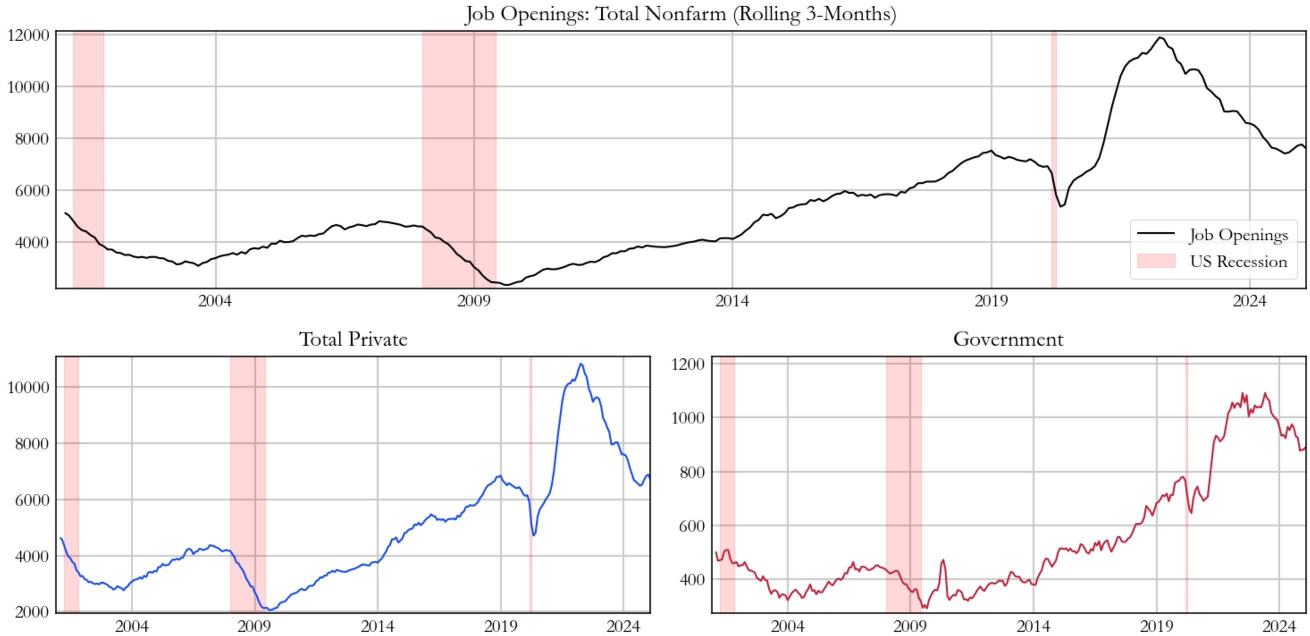
Job openings in the private sector have been declining fast for some time, but ticked higher during the first quarter of 2025. Unsurprisingly, we are now seeing declines in government jobs.



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Job quits have also dropped below prior high.

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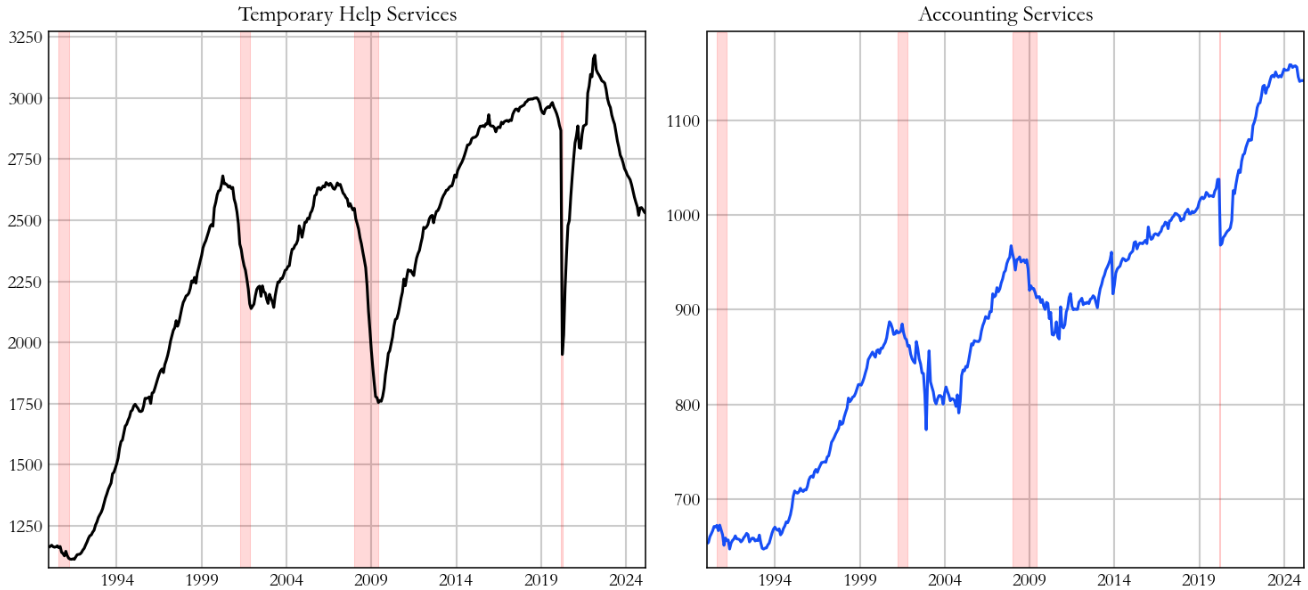
Economically sensitive sectors such as temporary help employment have declined. Employment in accounting services also appears to have peaked.

Sensitive Labor



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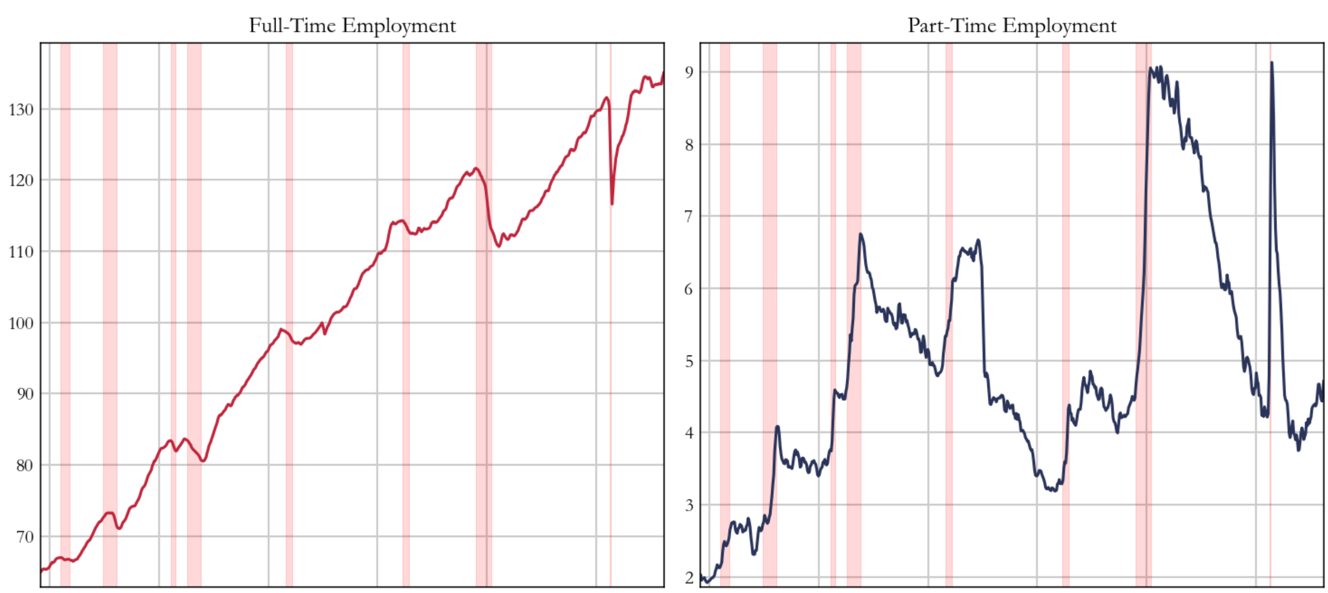
Part-time employment typically does not rise in a strong labor market. However, part-time employment did break the upward trend seen in 2024 and moved lower during the first quarter of 2025. We are yet to that whether that will be sustained in 2025.

Rolling 3-Month: Full-Time vs. Part-Time Employment (Millions)



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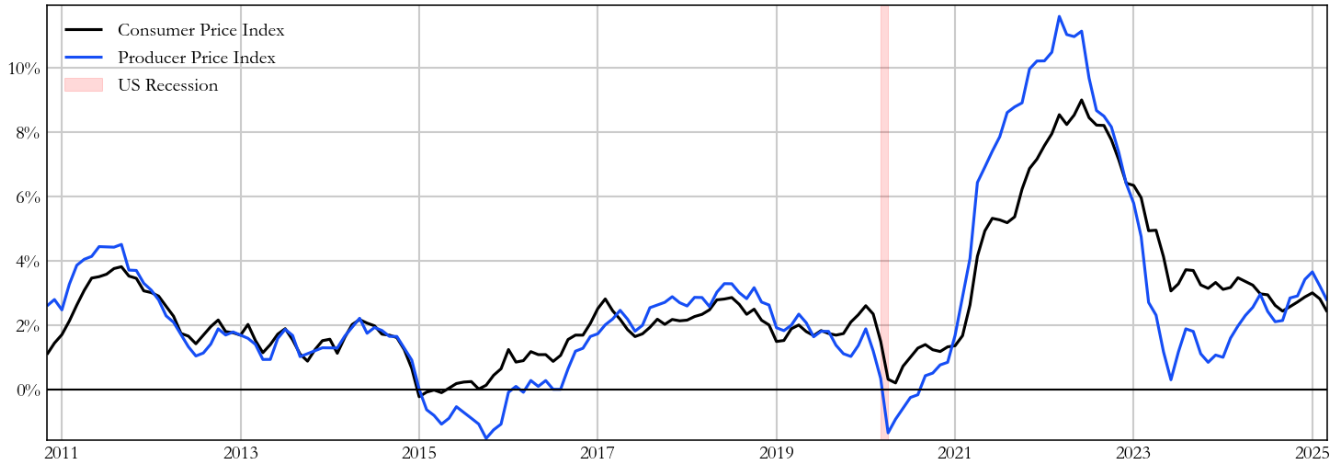
Inflation is declining but remains above the historical 2% target.

Consumer Price & Producer Price Indices

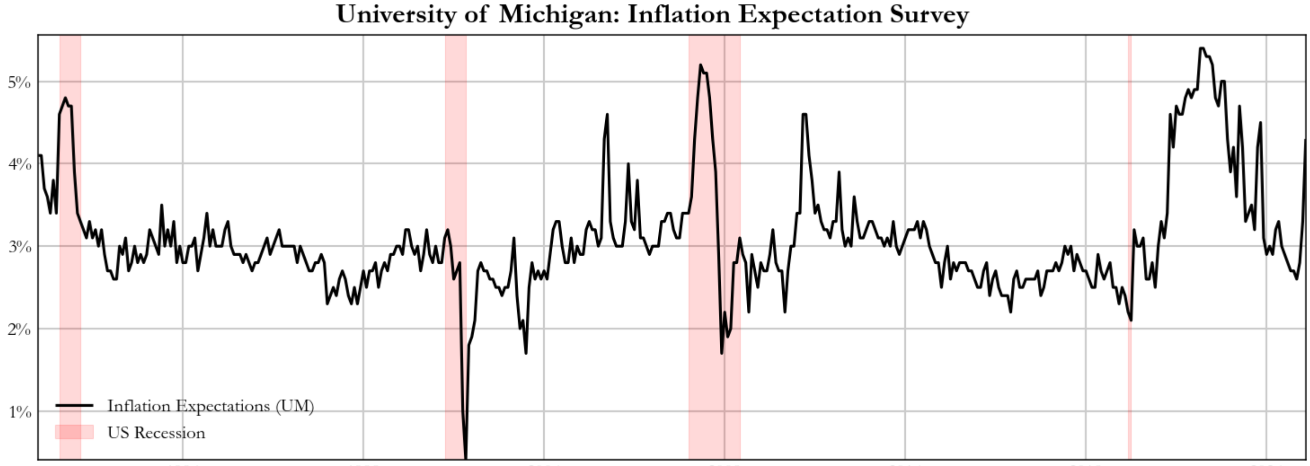


	2024-04	2024-05	2024-06	2024-07	2024-08	2024-09	2024-10	2024-11	2024-12	2025-01	2025-02	2025-03
Consumer Price Index	3.35%	3.24%	2.97%	2.94%	2.61%	2.43%	2.57%	2.71%	2.87%	3.00%	2.81%	2.41%
Producer Price Index	2.30%	2.55%	2.95%	2.42%	2.10%	2.14%	2.84%	2.90%	3.42%	3.65%	3.22%	2.75%

SEG Research | Data: US Federal Reserve Bank of St.Louis | 2025-03-31

With tariffs as a backdrop, consumer expectations of inflation have exploded higher.

University of Michigan: Inflation Expectation Survey

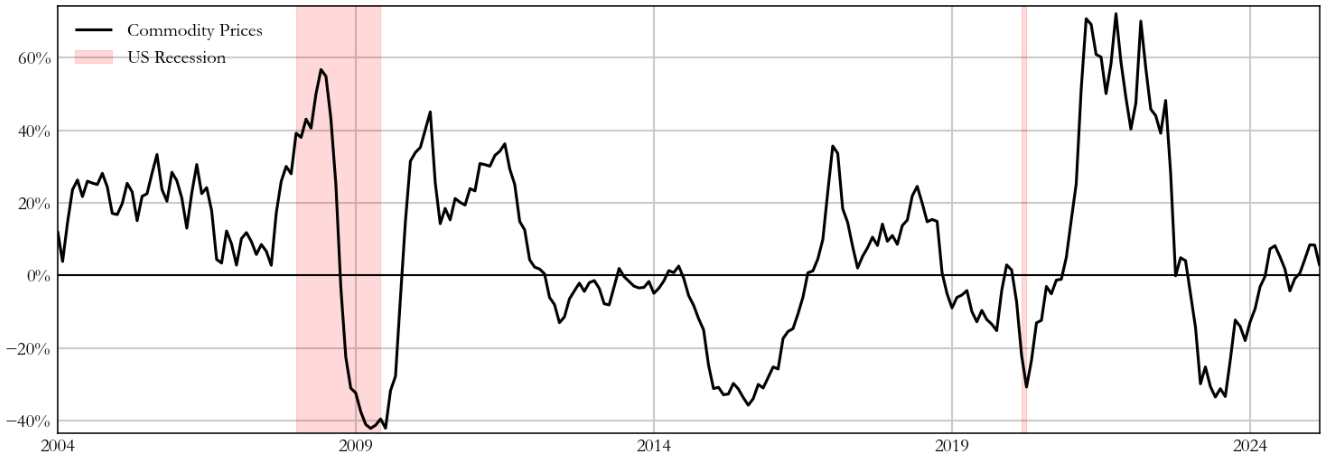


	2024-03	2024-04	2024-05	2024-06	2024-07	2024-08	2024-09	2024-10	2024-11	2024-12	2025-01	2025-02
Inflation Expectation	2.9%	3.2%	3.3%	3.0%	2.9%	2.8%	2.7%	2.7%	2.6%	2.8%	3.3%	4.3%

SEG Research | Data: US Federal Reserve Bank of St.Louis | 2025-02-28

Commodity prices have stabilized.

IMF Global Price Index of All Commodities

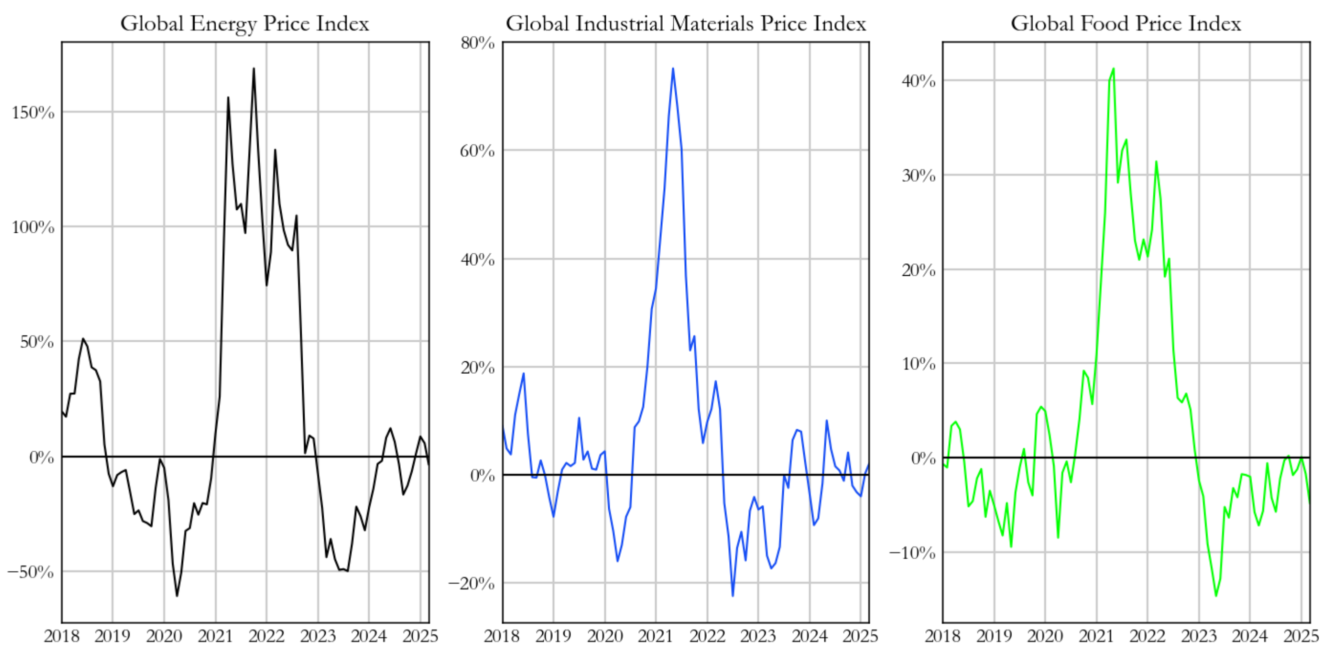


	2024-04	2024-05	2024-06	2024-07	2024-08	2024-09	2024-10	2024-11	2024-12	2025-01	2025-02	2025-03
Commodity Prices	-0.21%	7.36%	8.22%	5.21%	1.80%	-4.24%	-0.83%	0.65%	4.45%	8.45%	8.40%	2.63%

SEG Research | Data: US Federal Reserve Bank of St.Louis | 2025-03-31

Lower consumable commodity prices will likely alleviate some of the price pressures.

IMF Global Commodities Price Indices



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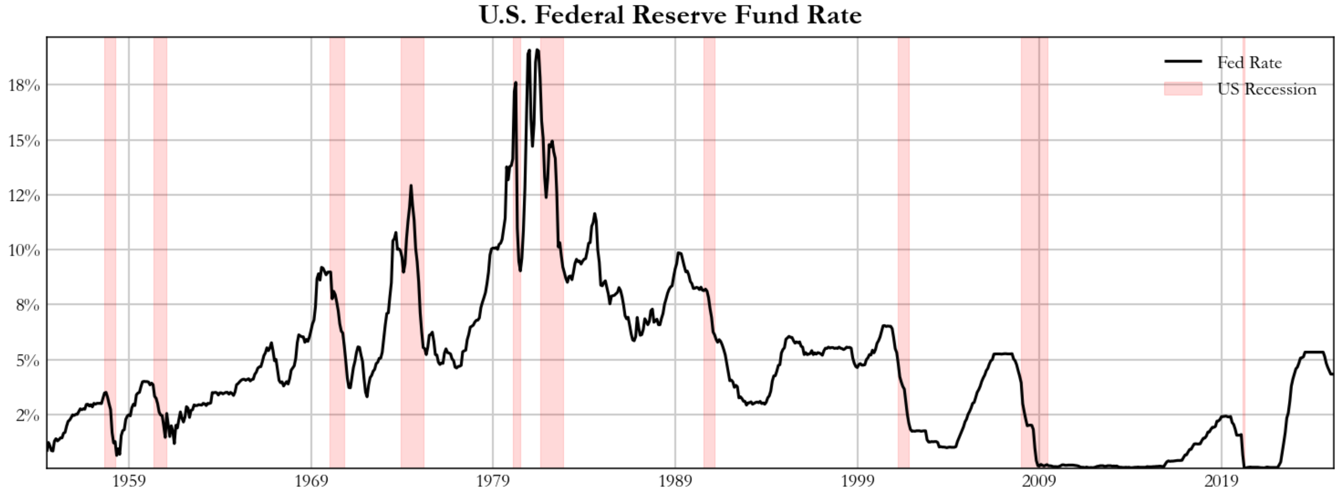
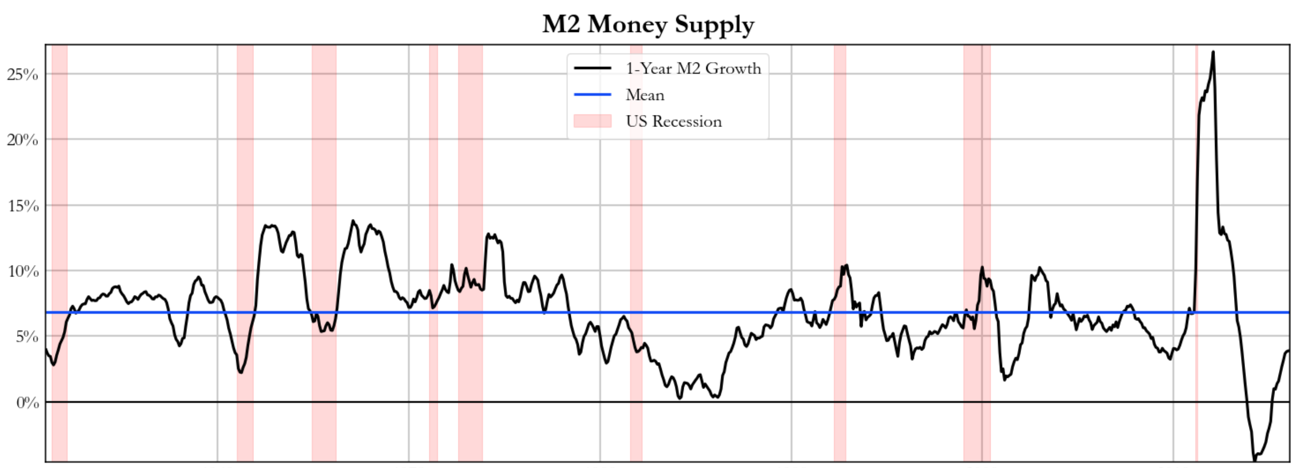
After two rate cuts, the US Federal Reserve appears to have halted additional interest rate cuts. However, cuts might be back on the horizon if tariffs cause significant economic pain.



	2024-04	2024-05	2024-06	2024-07	2024-08	2024-09	2024-10	2024-11	2024-12	2025-01	2025-02	2025-03
FED Rate	5.33%	5.33%	5.33%	5.33%	5.33%	5.13%	4.83%	4.64%	4.48%	4.33%	4.33%	4.33%

SEG Research | Data: US Federal Reserve Bank of St.Louis | 2025-03-31

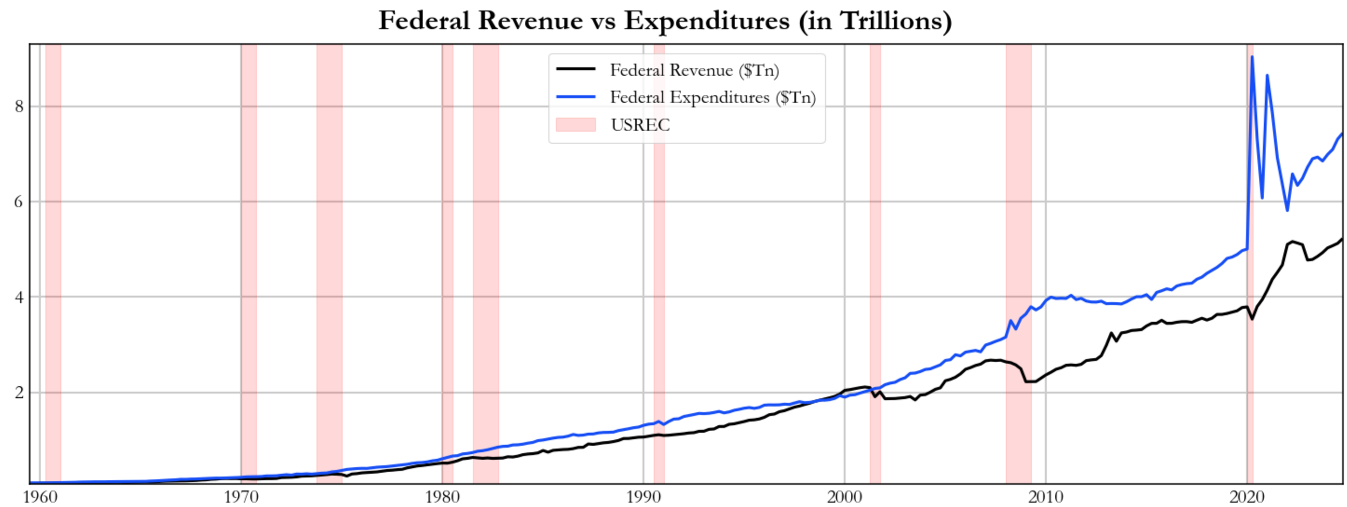
Money supply growth has turned positive but is not high by historical standards.



	2024-03	2024-04	2024-05	2024-06	2024-07	2024-08	2024-09	2024-10	2024-11	2024-12	2025-01	2025-02
1-Year M2 Growth	0.12%	0.98%	0.94%	1.36%	1.57%	2.12%	2.67%	3.13%	3.66%	3.81%	3.87%	3.88%

SEG Research | Data: US Federal Reserve Bank of St.Louis | 2025-02-28

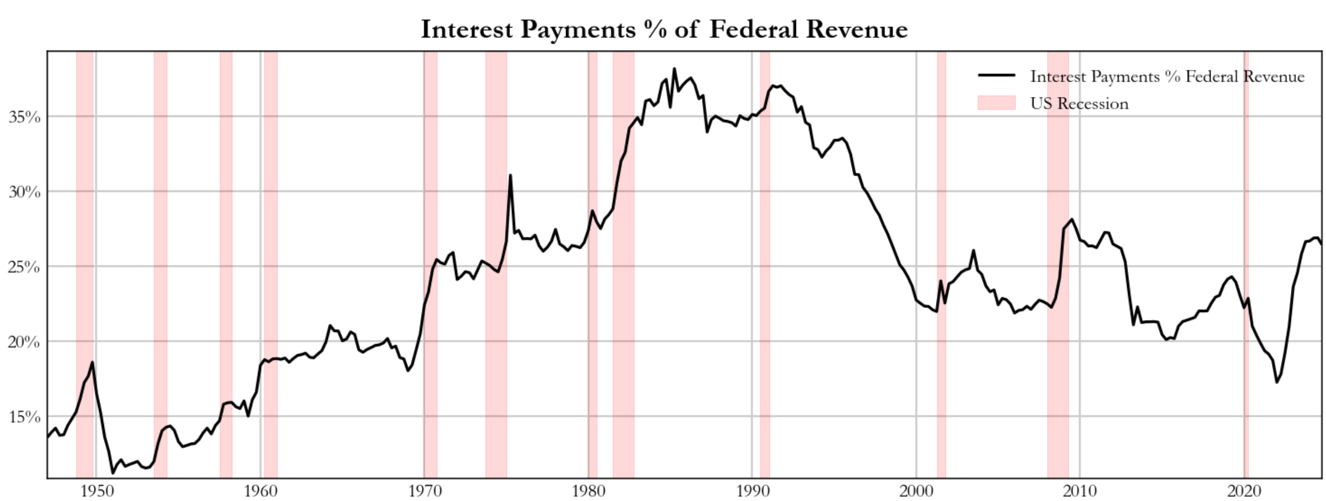
Federal spending has been out of control, endangering the U.S. status as a financial safe haven. The current administration has an uphill battle to raise revenue and cut spending. Tariffs could be one tool, but they will not be enough.



	2022-03	2022-06	2022-09	2022-12	2023-03	2023-06	2023-09	2023-12	2024-03	2024-06	2024-09	2024-12
Federal Revenue	5.1	5.2	5.1	5.1	4.8	4.8	4.9	4.9	5.0	5.1	5.1	5.2
Federal Expenditures	5.8	6.6	6.3	6.5	6.7	6.9	6.9	6.8	7.0	7.1	7.3	7.4

SEG Research | Data: US Federal Reserve Bank of St.Louis | 2024-12-31

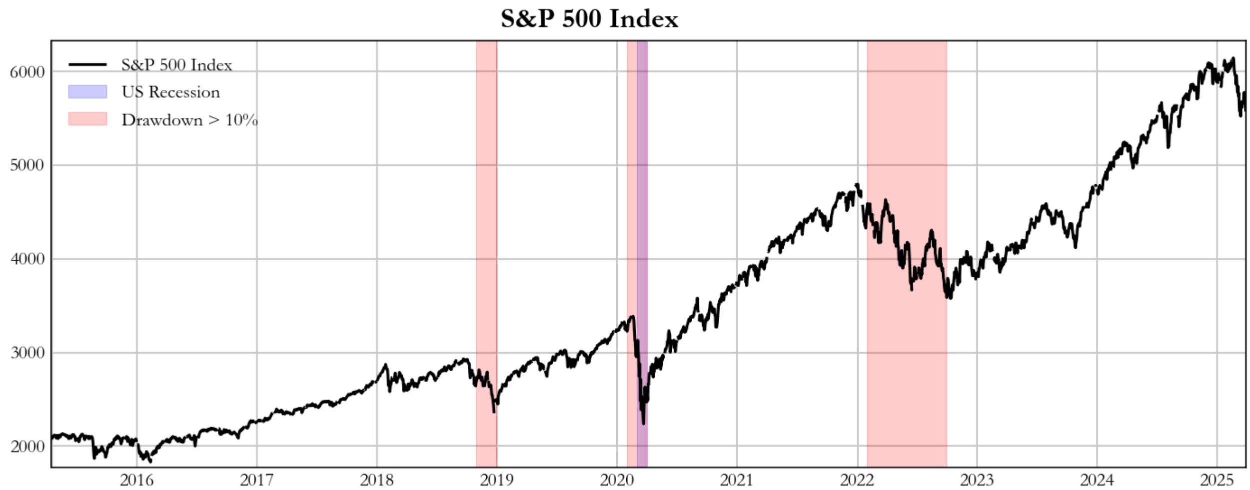
Interest expense on federal debt is climbing as older debt is refinanced at higher rates. It is estimated that over $9 trillion of debt will be refinanced in 2025 at higher rates.



	2022-03	2022-06	2022-09	2022-12	2023-03	2023-06	2023-09	2023-12	2024-03	2024-06	2024-09	2024-12
FED Rate	17.27%	17.81%	19.25%	20.98%	23.64%	24.53%	25.80%	26.63%	26.67%	26.87%	26.88%	26.42%

SEG Research | Data: US Federal Reserve Bank of St.Louis | 2024-12-31

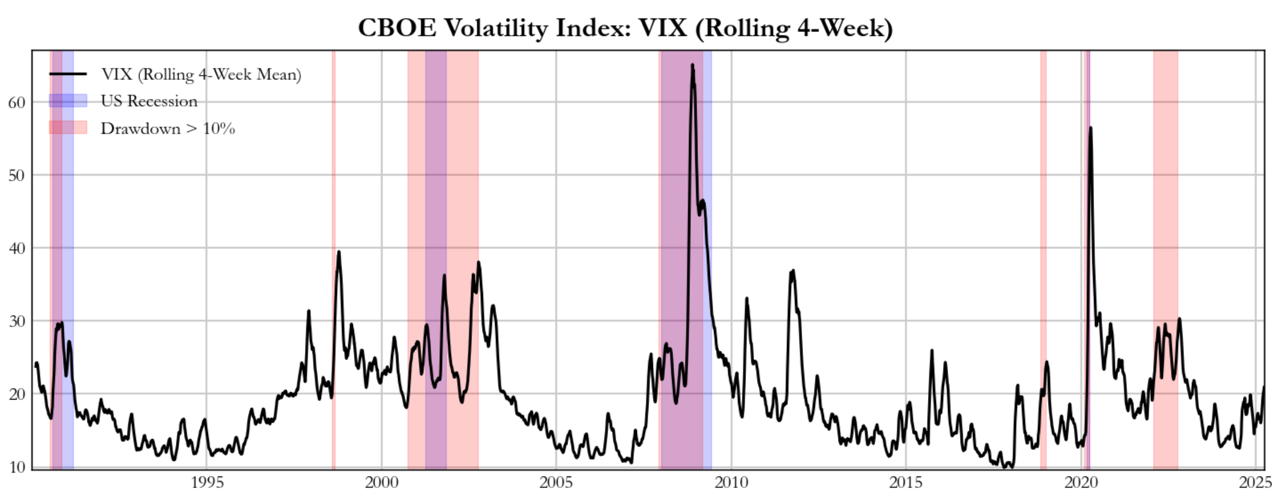
S&P 500's upward march ended in the first quarter of 2025.



	2022-06	2022-09	2022-12	2023-03	2023-06	2023-09	2023-12	2024-03	2024-06	2024-09	2024-12	2025-03
S&P 500 Monthly Price Return	-16.4%	-5.3%	7.1%	7.0%	8.3%	-3.6%	11.2%	10.2%	3.9%	5.5%	2.1%	-4.6%

SEG Research | Data: FRED | 2025-03-31

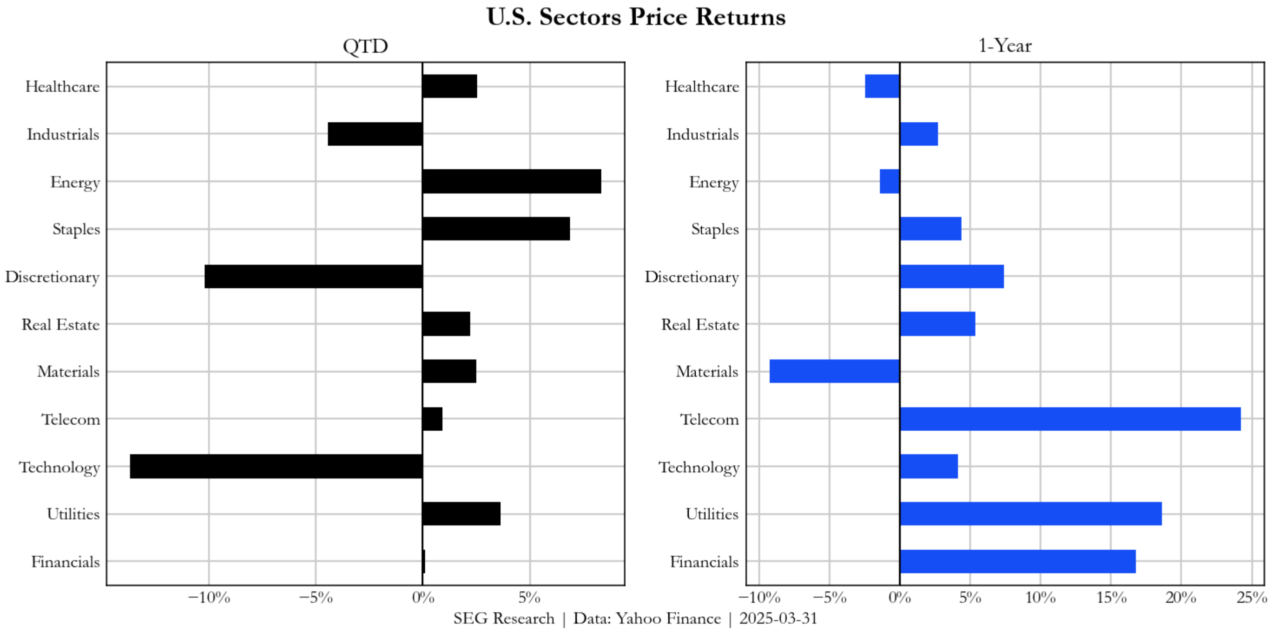
S&P 500 options volatility has exploded up.



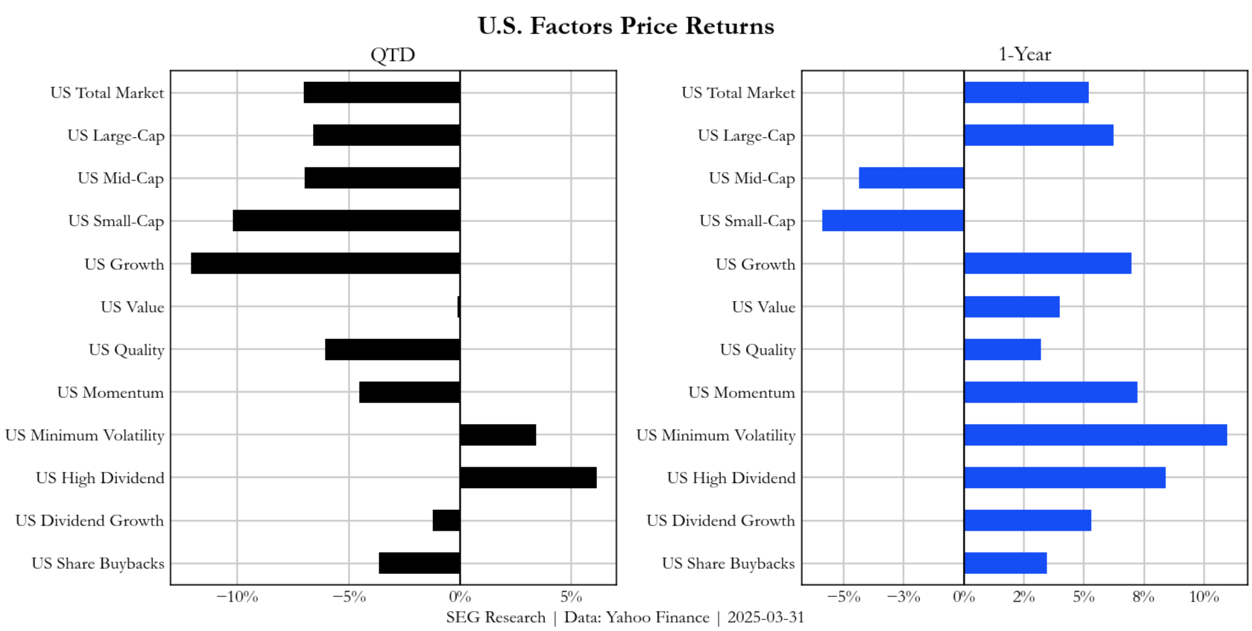
	2022-06	2022-09	2022-12	2023-03	2023-06	2023-09	2023-12	2024-03	2024-06	2024-09	2024-12	2025-03
VIX Quarterly % Change	39.6%	10.1%	-31.5%	-13.7%	-27.3%	28.9%	-28.9%	9.6%	-8.9%	34.5%	3.7%	28.4%

SEG Research | Data: FRED | 2025-03-31

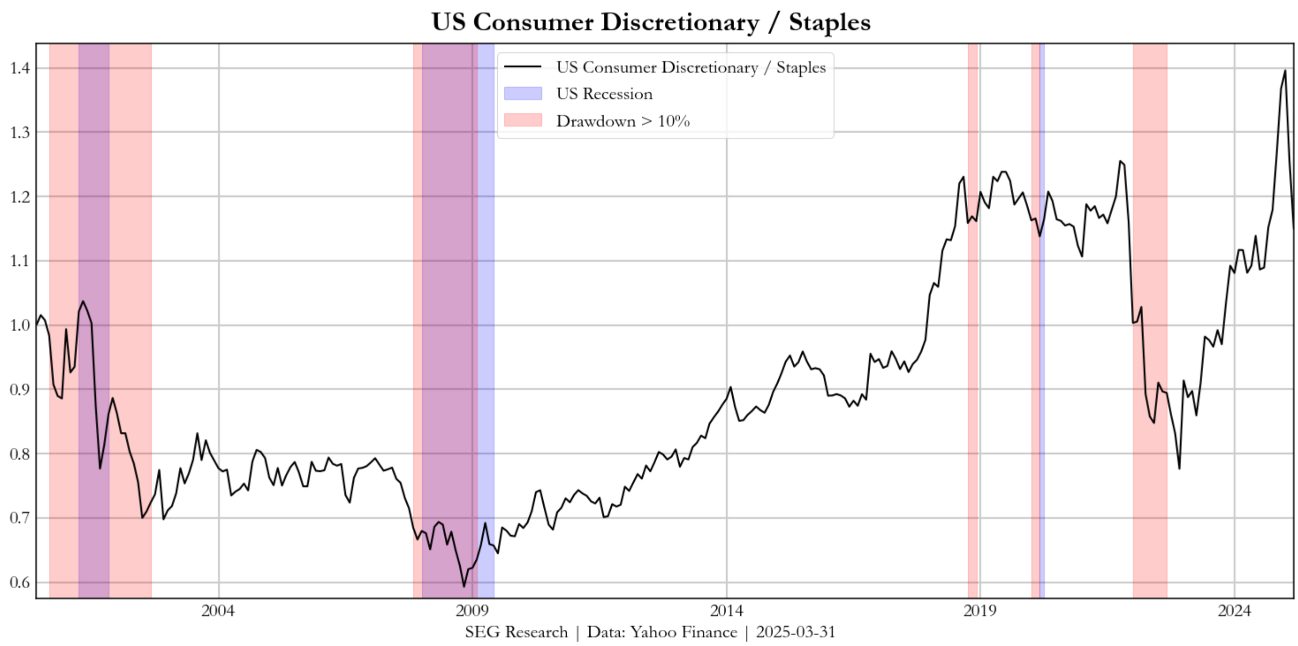
Sector performance was mixed. The technology and consumer discretionary sectors were the worst performers, while consumer staples, energy, and utility stocks were the top performers.



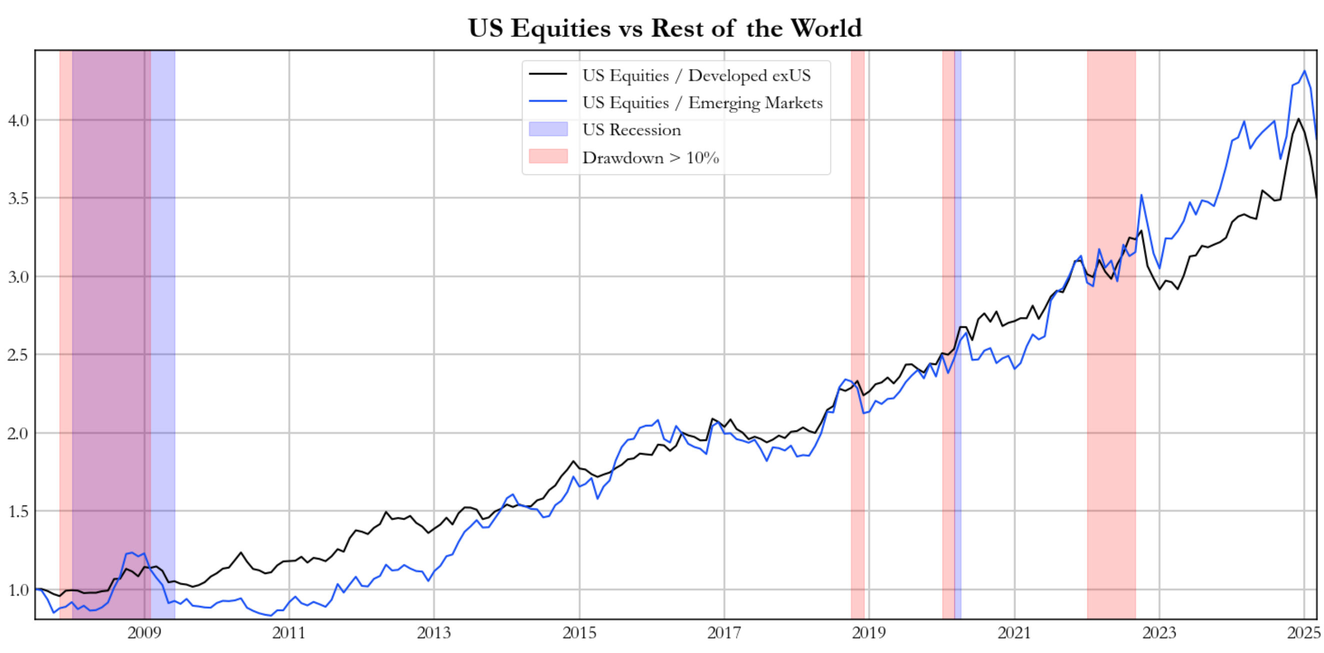
Minimum volatility and high dividend equities outperformed.



Even with the market drawdown caused by the tariffs shock, consumer staples still look attractive relative to discretionary equities.

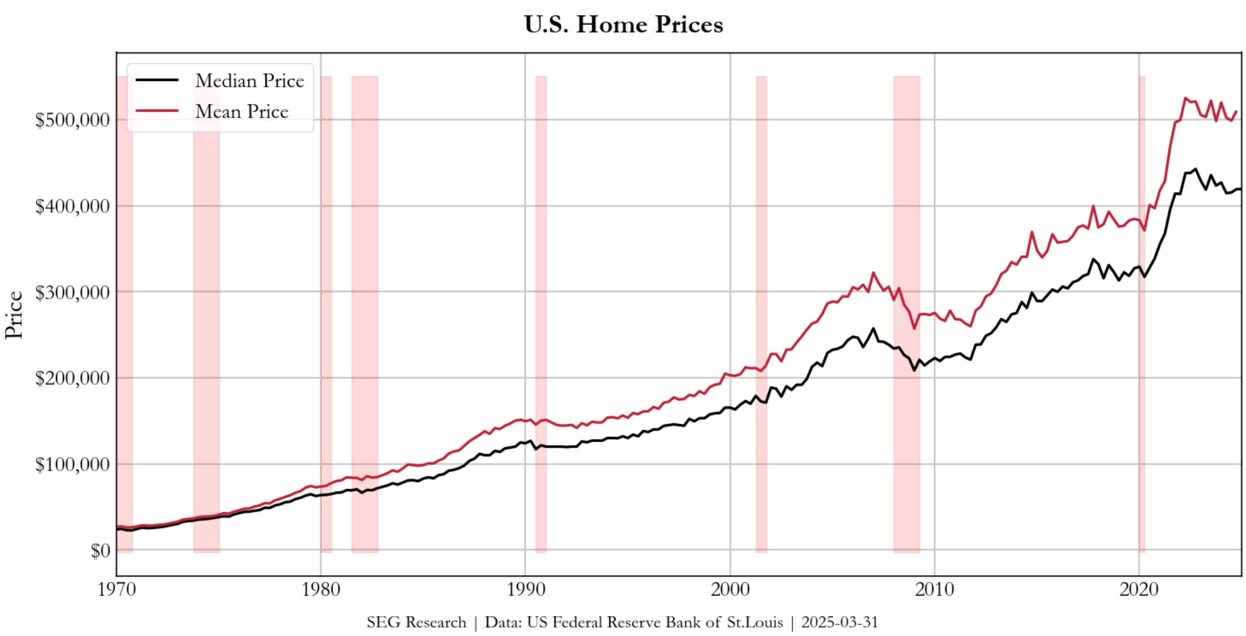


U.S. equities' outperformance relative to foreign equities retracted a bit during the first quarter, but the long-term outperformance remains intact.

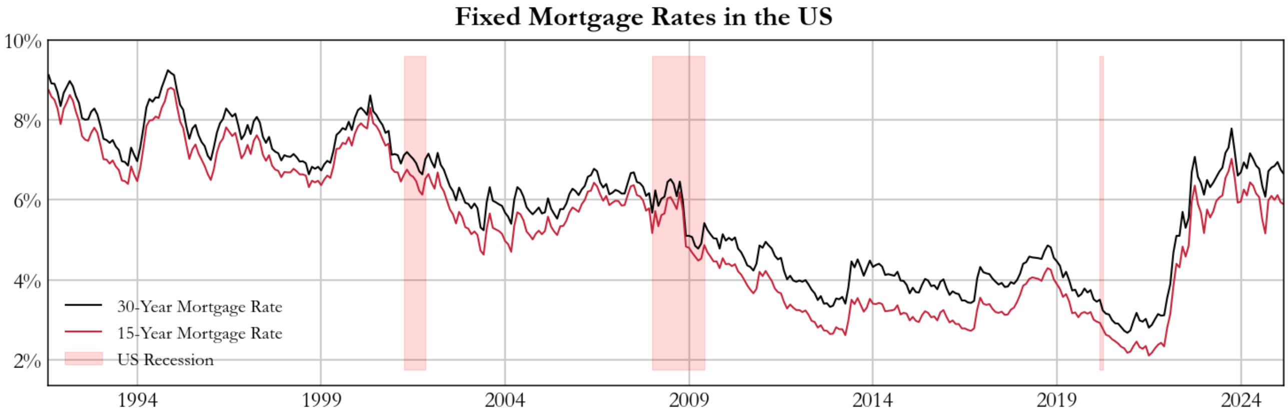


U.S. Real Estate Market

In Q1 2024, mortgage rates significantly influenced the housing market, fluctuating between 6.2% in September and 7% by year-end despite three Federal Reserve rate cuts. This volatility created uncertainty for buyers and sellers. High home prices and elevated mortgage rates compounded affordability challenges, worsened by slower wage growth. The "lock-in effect" further shaped the market, as homeowners with low-interest mortgages were reluctant to sell, limiting inventory and increasing prices. Regionally, the South and West, including states like Texas, Florida, and Virginia, outperformed in home price growth and sales activity. Despite these challenges, the market showed resilience as prices continued to grow. The outlook for 2025 remained uncertain, with affordability, mortgage rates, and potential policy changes under the new presidential administration being key factors. Our model estimates the median home price to be excessive. We believe that either mortgage rates have to come down and/or incomes have to move higher to justify current prices.



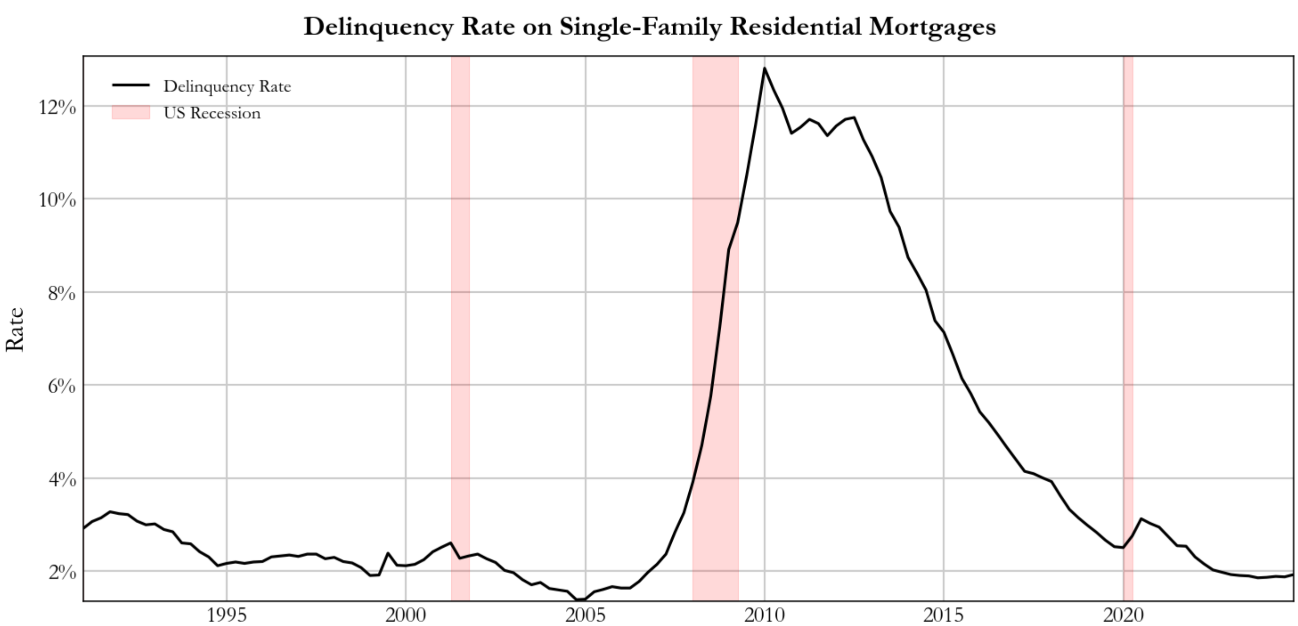
Mortgage rates remain high despite the U.S. Federal Reserve cutting rates.



	2024-04	2024-05	2024-06	2024-07	2024-08	2024-09	2024-10	2024-11	2024-12	2025-01	2025-02	2025-03
30-Year Mortgage Rate	7.2%	7.0%	6.9%	6.8%	6.3%	6.1%	6.7%	6.8%	6.8%	7.0%	6.8%	6.7%
15-Year Mortgage Rate	6.4%	6.4%	6.2%	6.1%	5.5%	5.2%	6.0%	6.1%	6.0%	6.1%	5.9%	5.9%

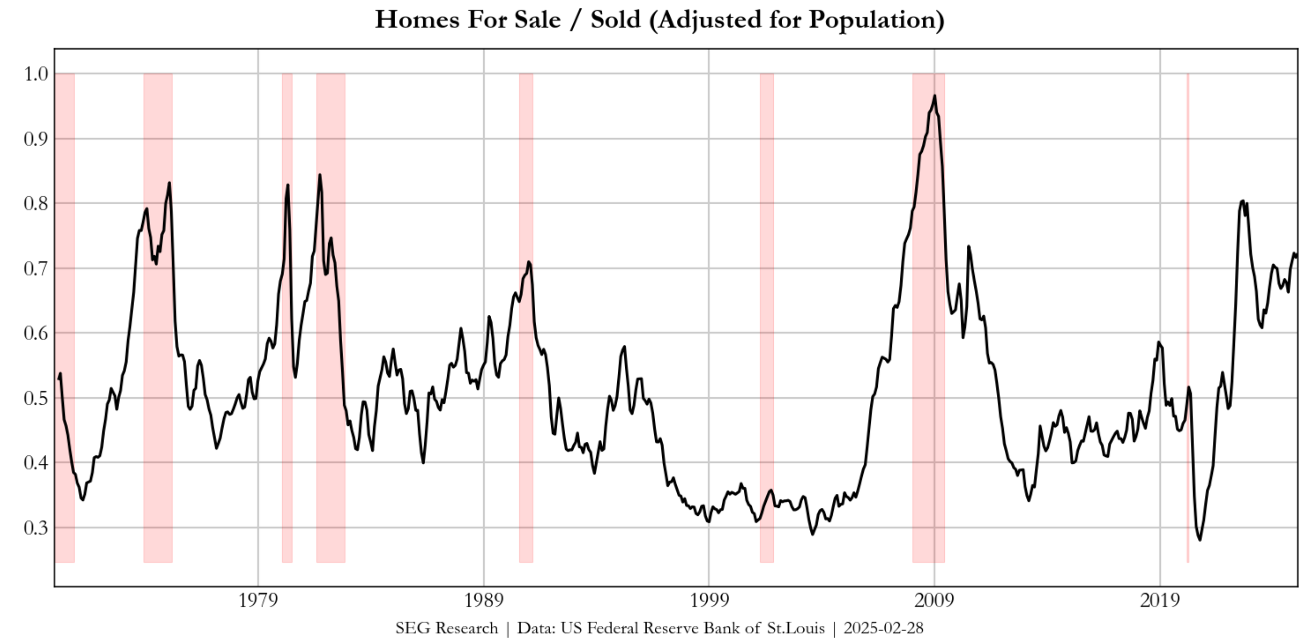
SEG Research | Data: US Federal Reserve Bank of St.Louis | 2025-03-31

Delinquencies are record-low. Many homeowners locked in low mortgage rates, putting them in a great financial position. However, new entrants are avoiding the market.

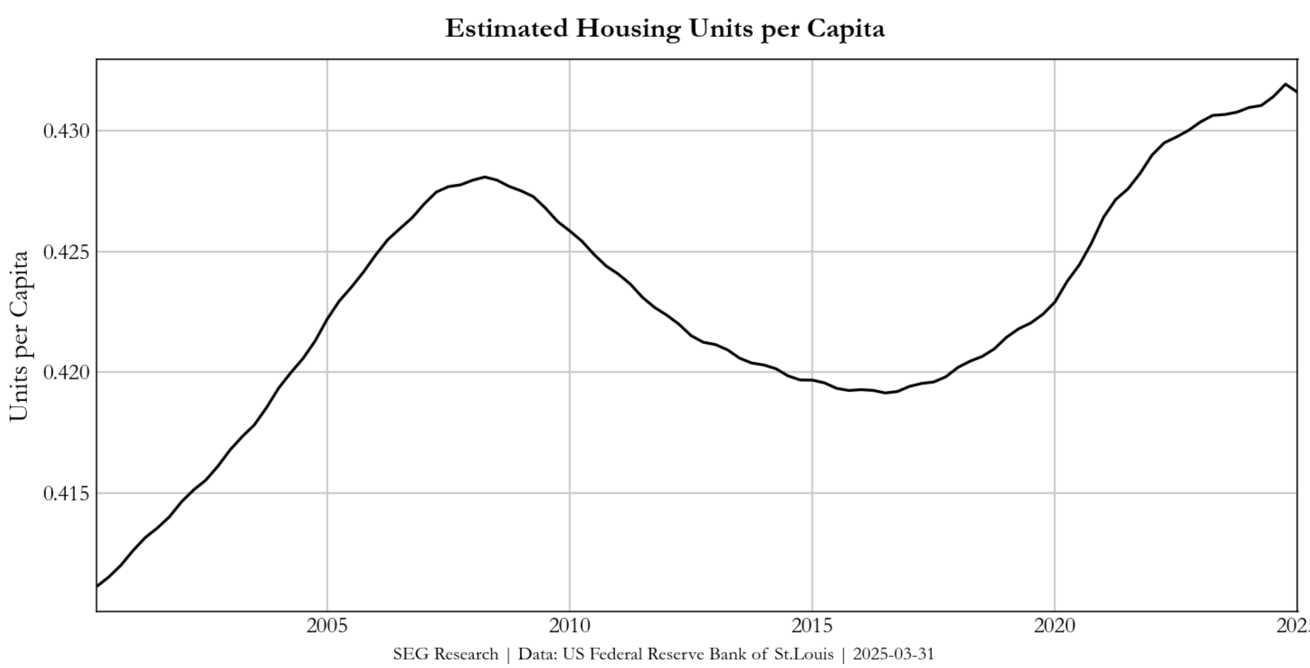


SEG Research | Data: US Federal Reserve Bank of St.Louis | 2024-12-31

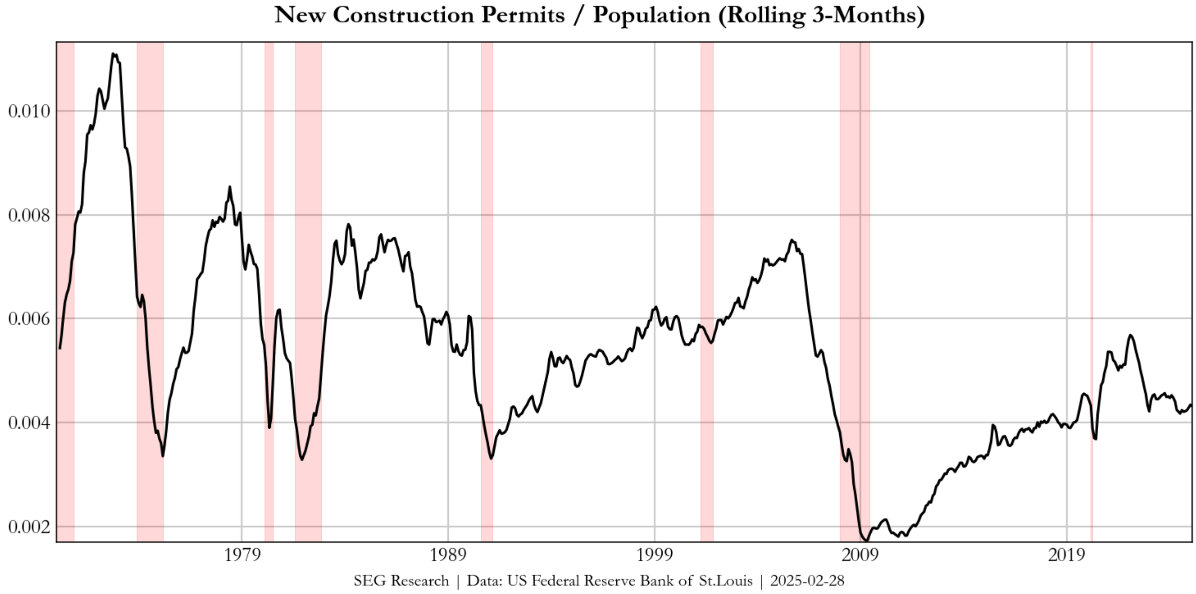
Homes put up for sale are growing relative to homes sold. The market will have to see more new entrants for prices to remain elevated.



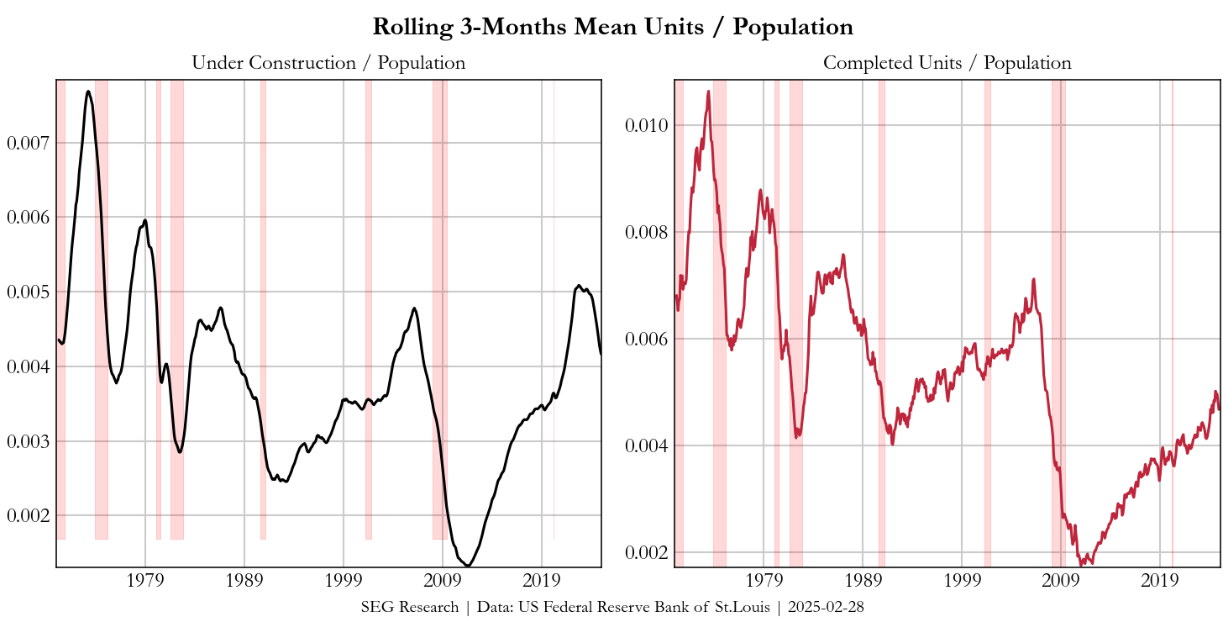
Housing units per U.S. capita are at record levels.



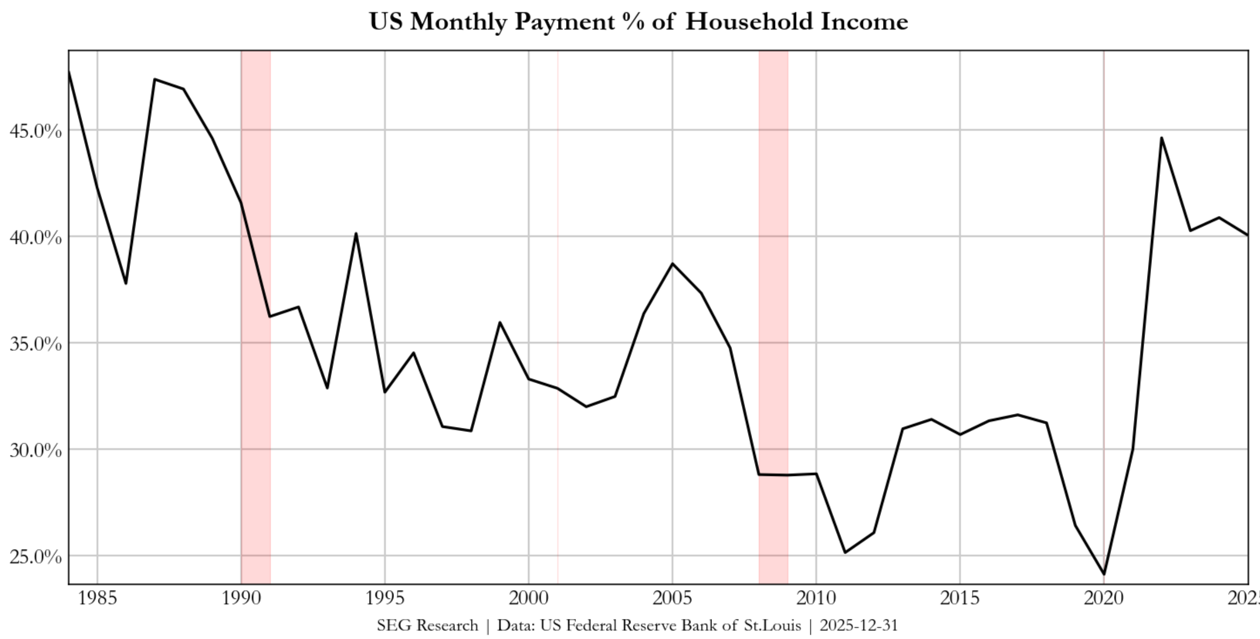
Although new permits have risen, they remain relatively low on historical standards.



However, units under construction are near the 2006 high but falling.



Affordability remains low, annual mortgage costs are higher than in the Subprime crisis and not far from the levels seen during early 1990s real estate bubble.



Our model indicates that residential prices are significantly elevated. For prices to rise from this point, we will need either a decline in mortgage rates or an increase in incomes.