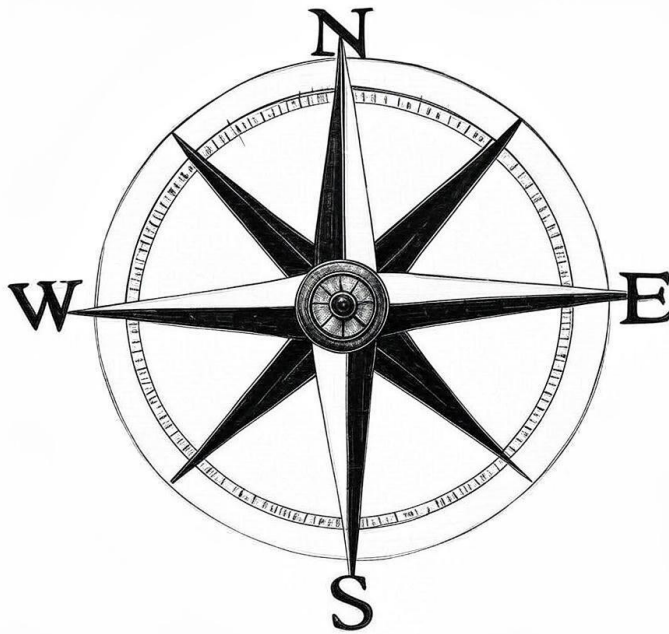


SEG Research



U.S. Macro Compass
Q2 2025



Outline

- i. Summary & Outlook
- ii. Economy
- iii. Financial Conditions
- iv. Consumer
- v. Labor
- vi. Inflation
- vii. Monetary Policy
- viii. Fiscal Policy
- ix. Equity Market
- x. Real Estate Market

SUMMARY & OUTLOOK

The second 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 tout's 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.

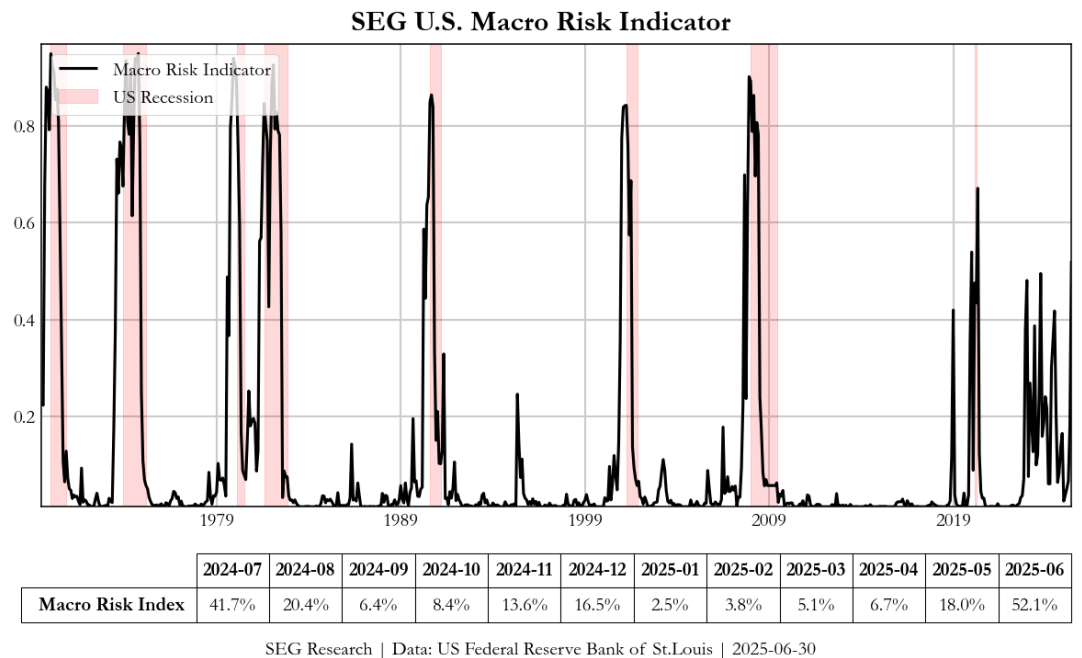
Economic indicators paint a varied picture: manufacturing PMI dropped below 50, signaling contraction, while the services sector showed modest resilience with a slight increase in PMI. The labor market seems healthy. During the first quarter of 2025, unemployment increased to 4.2% from 4.1% compared 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.

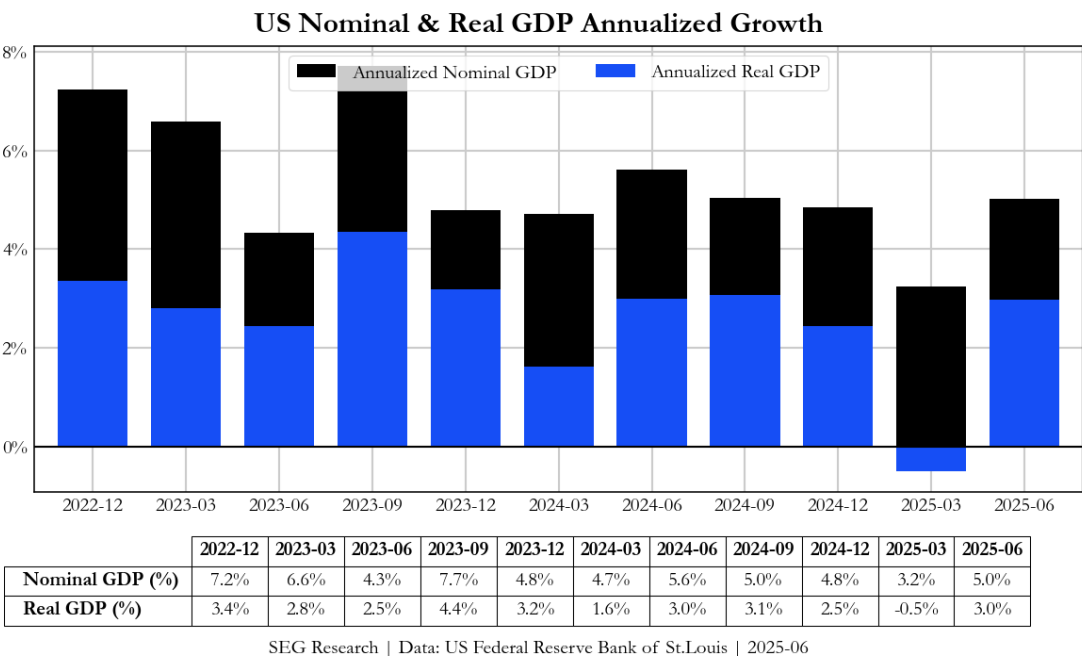
The tariffs' broader implications span consumers, corporations, and financial markets. On the downside, they function as a tax on imports, likely increasing consumer prices, squeezing corporate margins, and risking retaliatory measures from trading partners. They may also foster inefficiencies by propping 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.



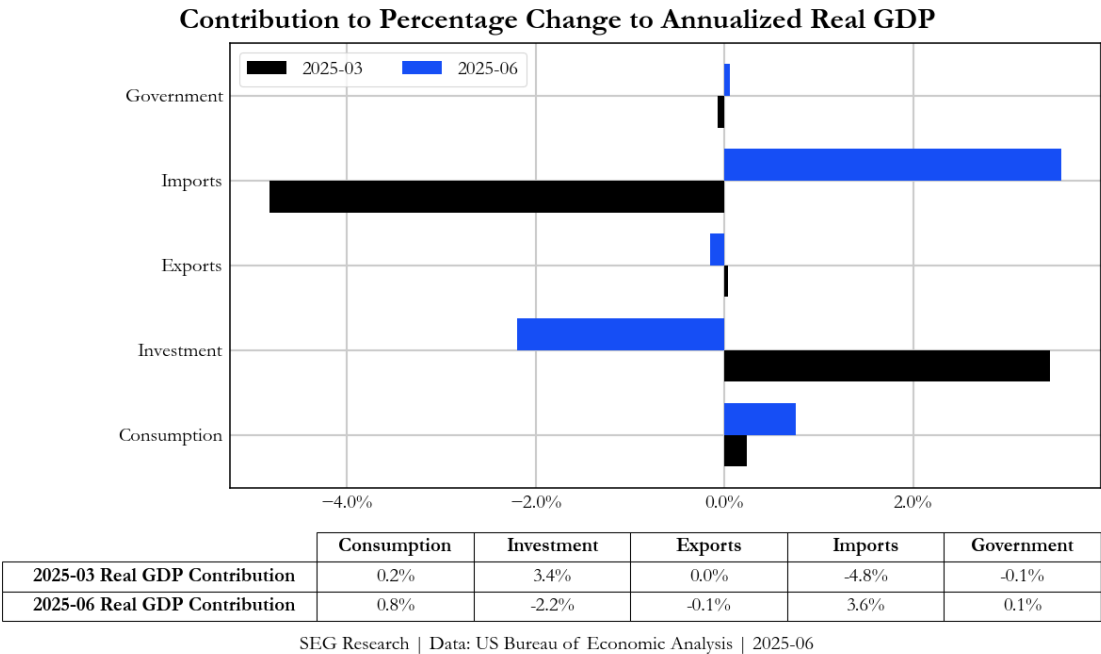
Our macro risk model is on the rise again after declining post election.



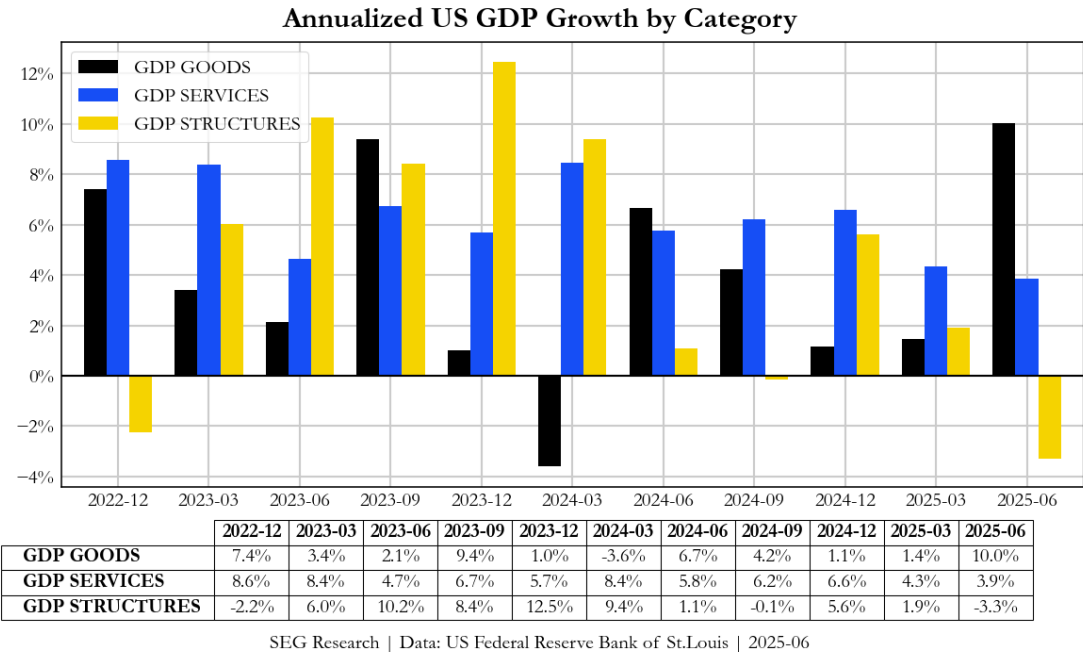
US nominal & real GDP rose during the second quarter of 2025.



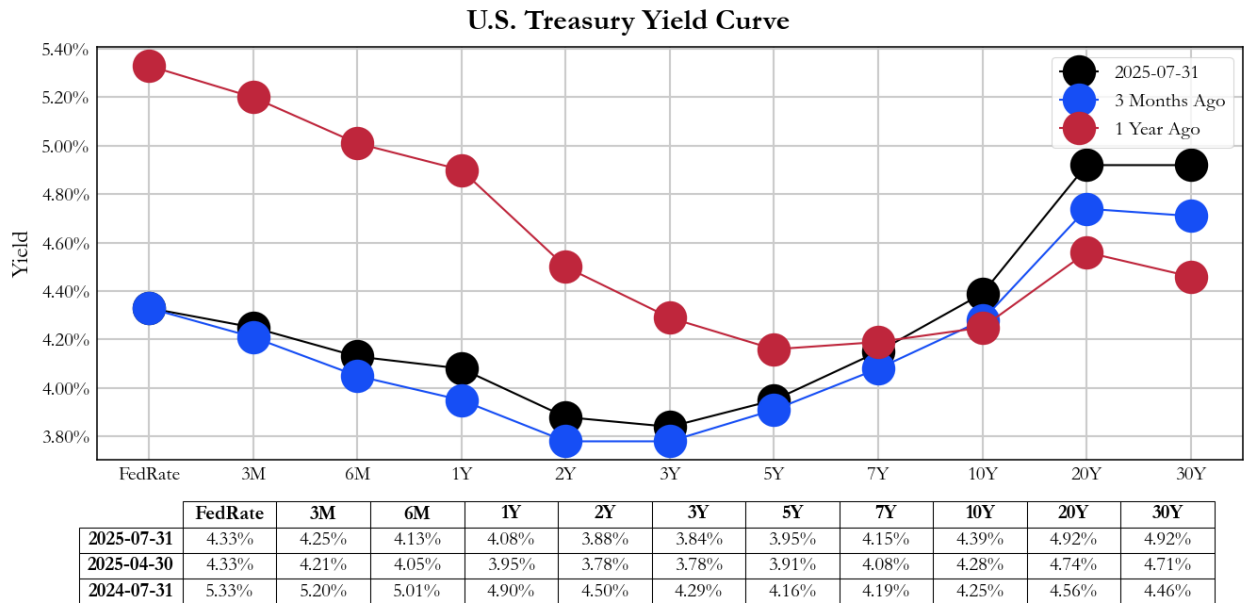
However, most of the increase in real GDP was driven by reversal of imports. Additionally, investment into the US dropped during the quarter.



The drop in investments was driven by decline in new structures construction.

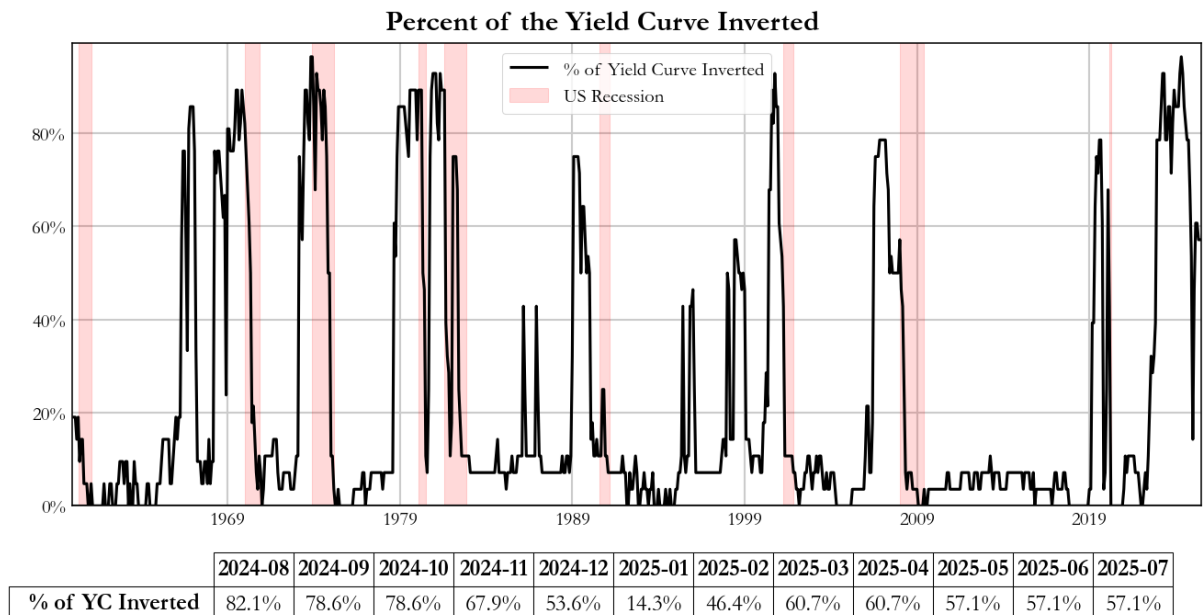


The yield curve is upward sloping from 3 years onward, likely signaling some short-term pain from tariffs. Long duration treasury yields continue to rise. However, we are unsure if the rise in long-term yields is driven by higher expected growth or in anticipation of future U.S. fiscal issues.



SEG Research | Data: US Federal Reserve Bank of St.Louis | 2025-07-31

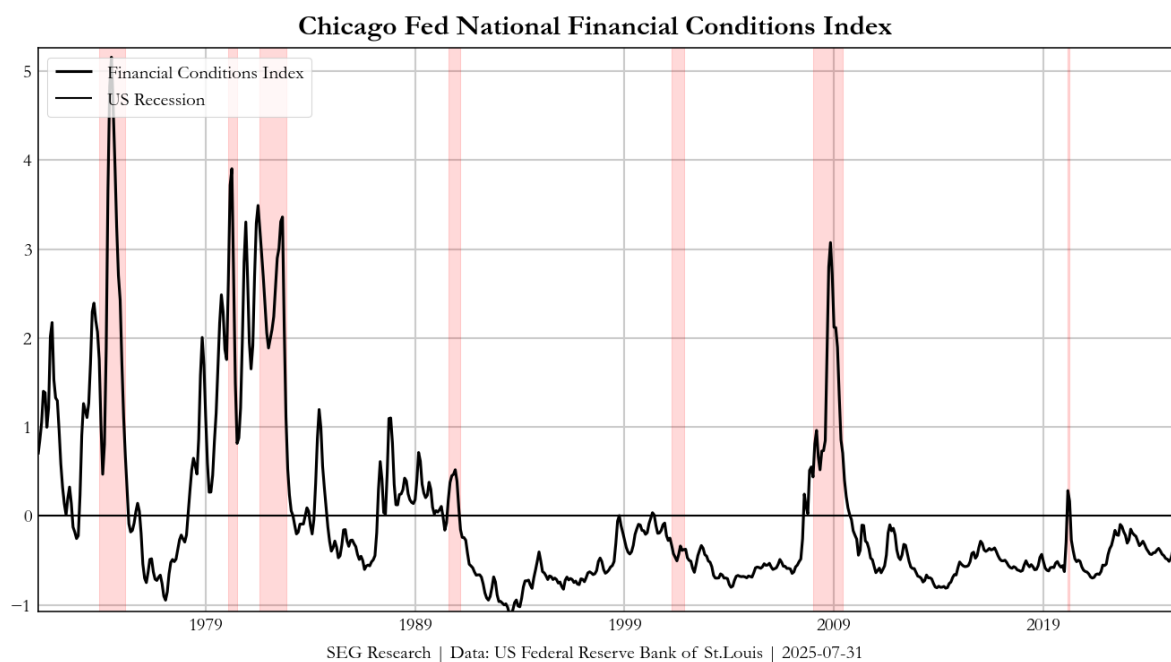
The yield curve partially inverted after uninverting in the beginning of the year. However, we believe that is mainly due to anticipated rate cuts by the Fed.



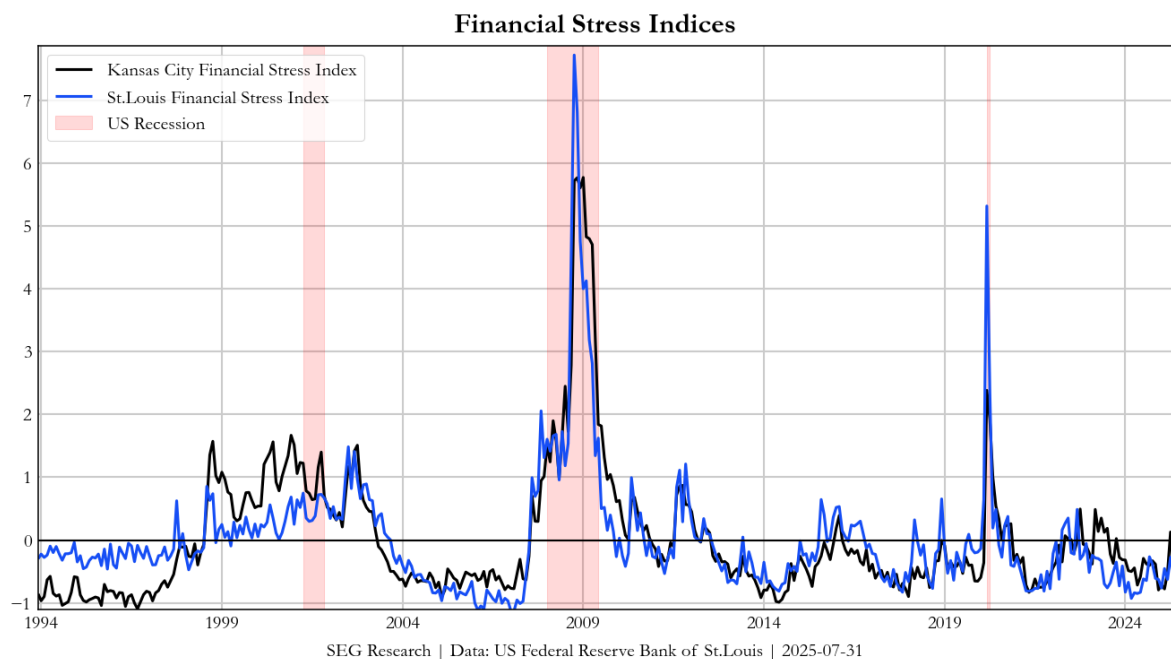
SEG Research | Data: US Federal Reserve Bank of St.Louis | 2025-07-31



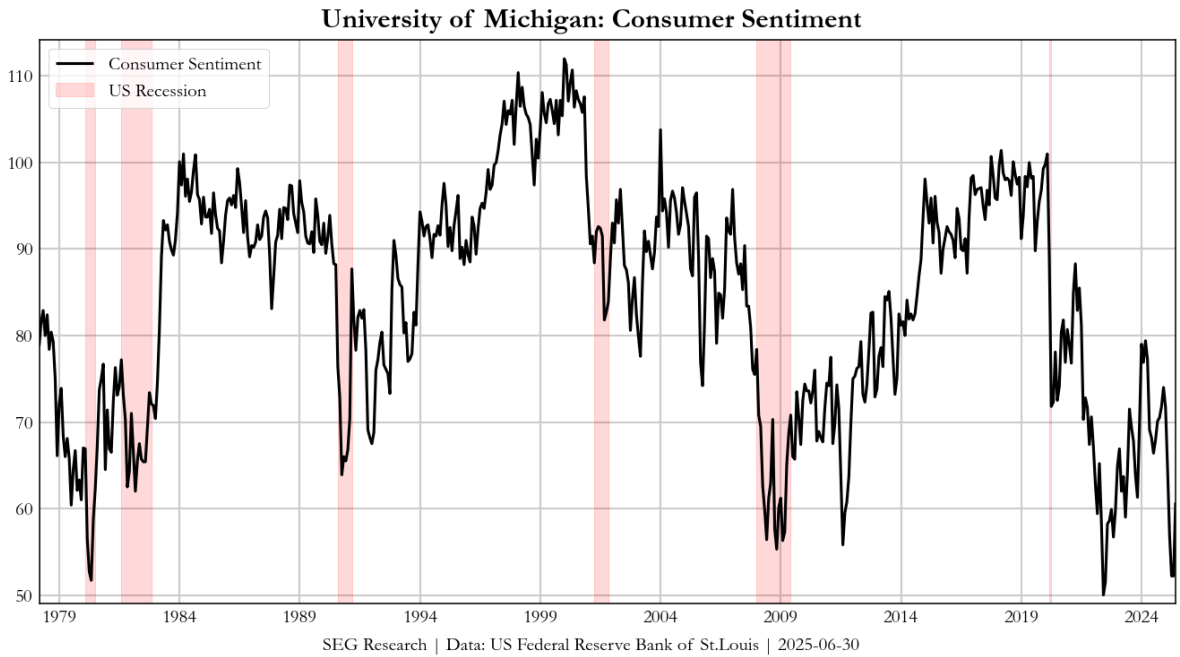
Financial conditions are very loose.



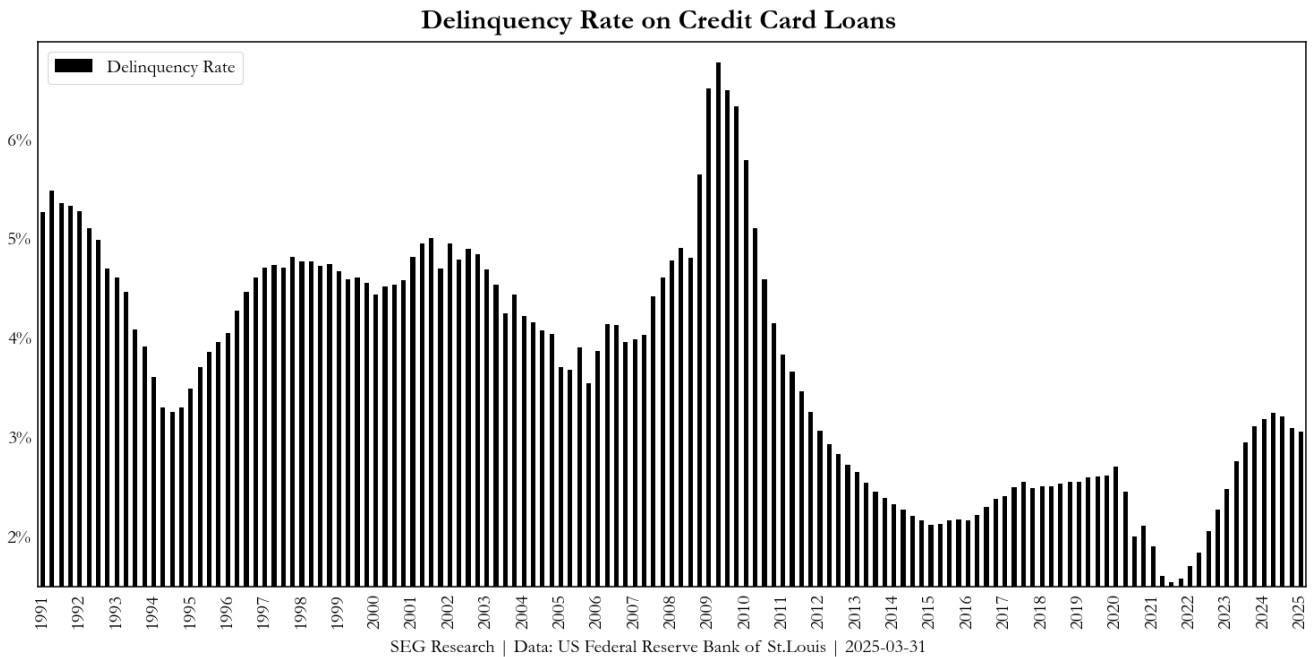
Financial stress remains low.



Consumer sentiment is declining again.

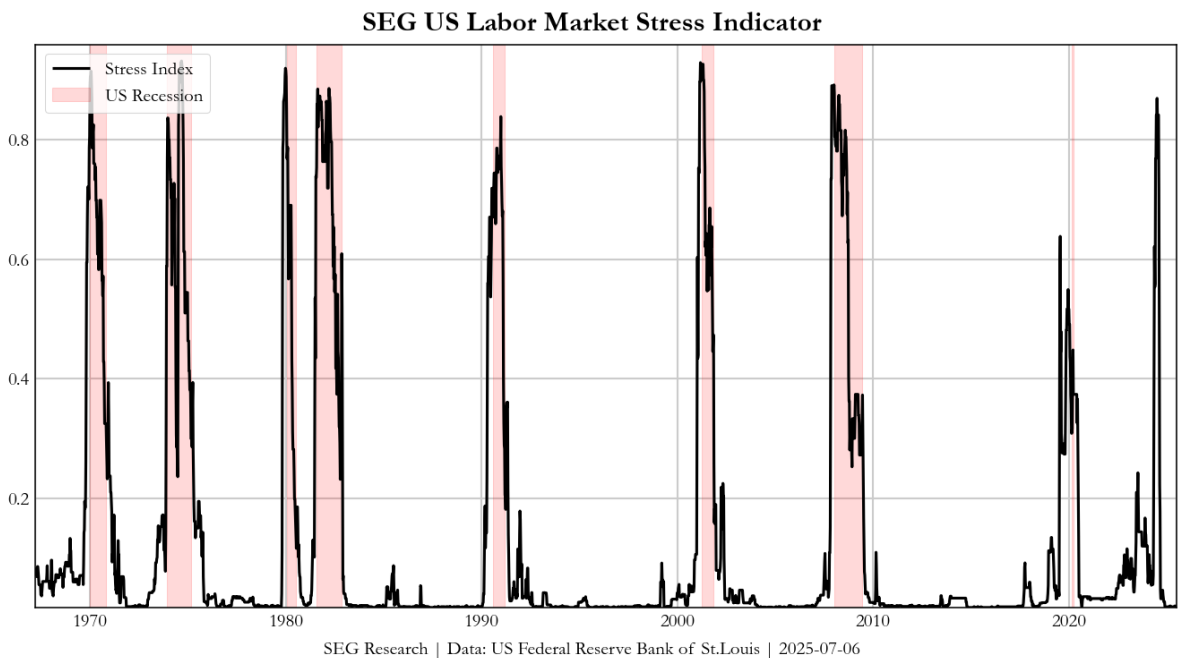


However, delinquency rates on credit card loans remain low relative to historical standards.



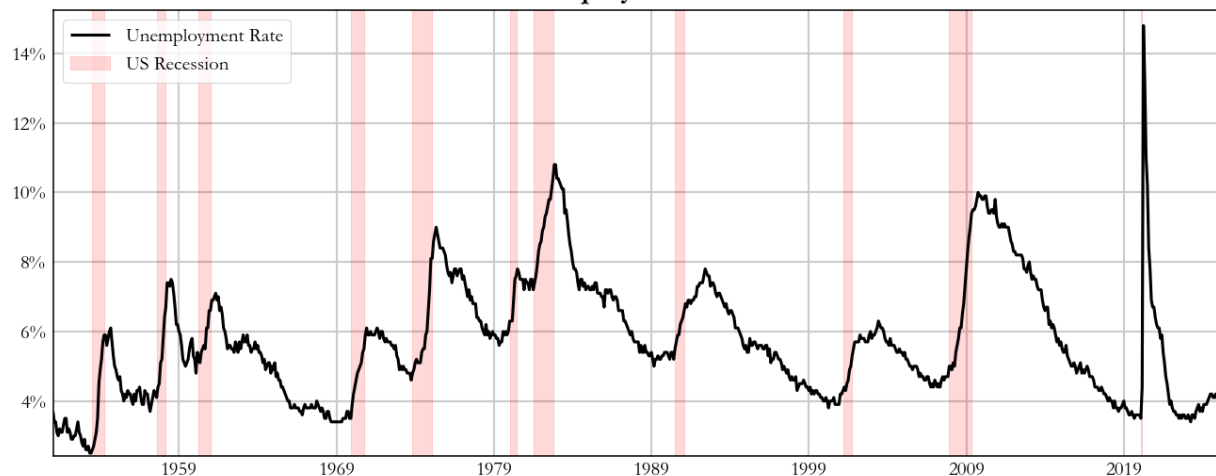
US Labor Market

Our labor market stress indicator dropped down after spiking in 2024. The introduction of sizeable tariffs in early April sparked fears of supply chain disruptions and job losses in import-dependent sectors like retail and transportation. However, the labor market has so far been stable with spots of weakness. While the data signals no immediate recession, signs of cooling—such as inching continues jobless claims and cautious business investment—suggest vulnerabilities ahead, particularly in cyclical sectors sensitive to interest rates, commodity prices, and global trade disruptions.



The US unemployment rate remains stable.

US Unemployment Rate

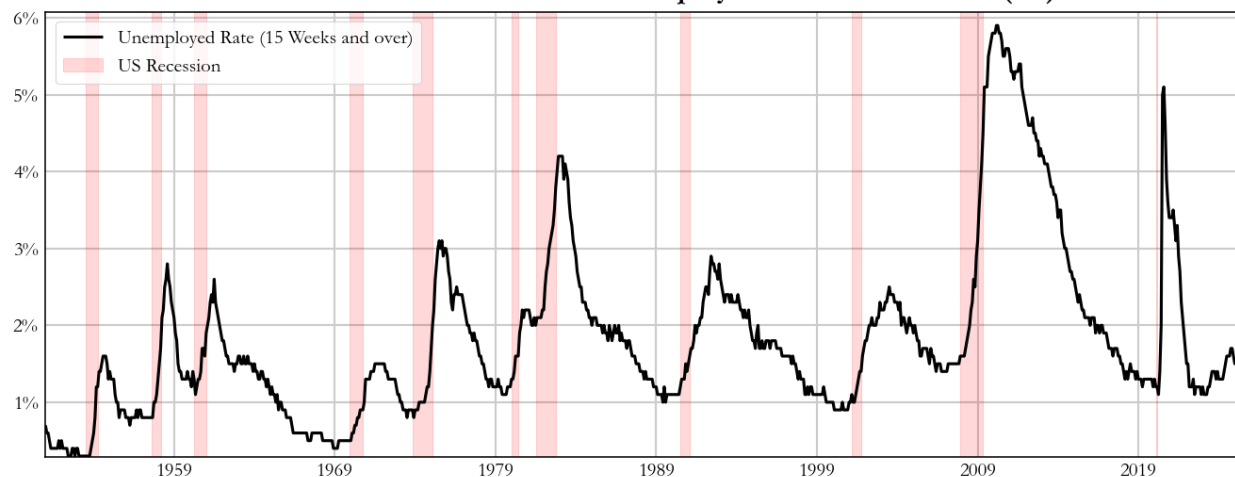


	2024-08	2024-09	2024-10	2024-11	2024-12	2025-01	2025-02	2025-03	2025-04	2025-05	2025-06	2025-07
Unemployment Rate	4.20%	4.10%	4.10%	4.20%	4.10%	4.00%	4.10%	4.20%	4.20%	4.20%	4.10%	4.20%

SEG Research | Data: US Federal Reserve Bank of St.Louis | 2025-07-31

However, the long-term unemployment rate has been rising since 2024.

Percent of Civilian Labor Force Unemployed 15 Weeks and over (U1)

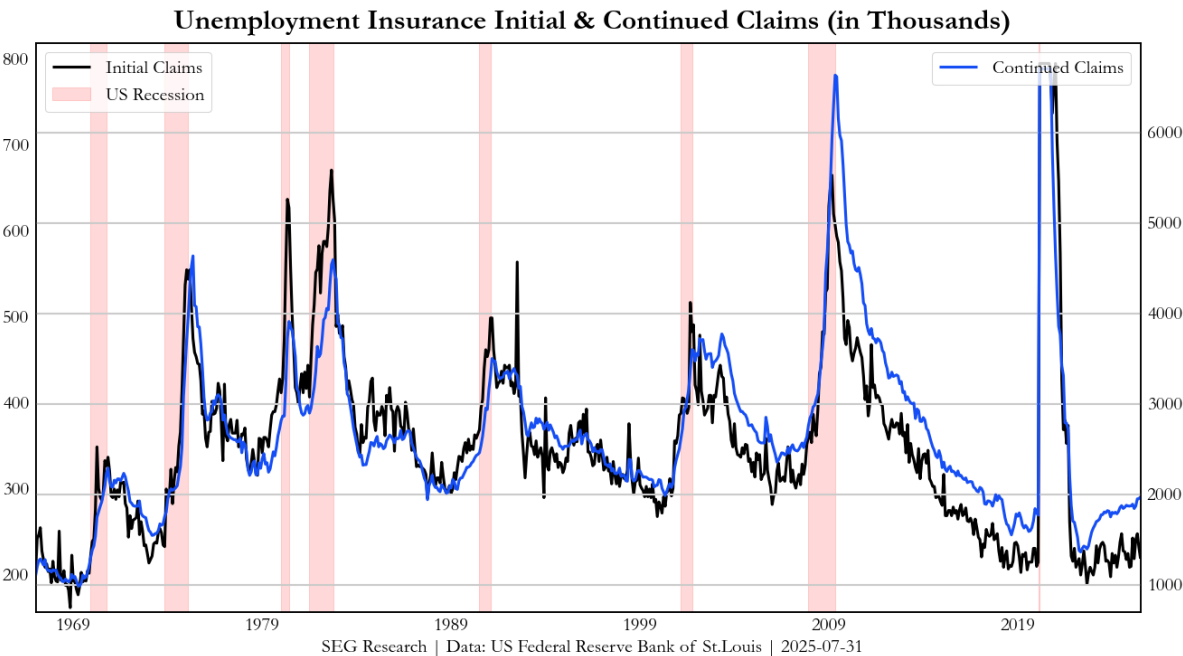


	2024-08	2024-09	2024-10	2024-11	2024-12	2025-01	2025-02	2025-03	2025-04	2025-05	2025-06	2025-07
U1 (15 weeks +)	1.60%	1.60%	1.70%	1.70%	1.60%	1.50%	1.50%	1.50%	1.60%	1.50%	1.60%	1.80%

SEG Research | Data: US Federal Reserve Bank of St.Louis | 2025-07-31



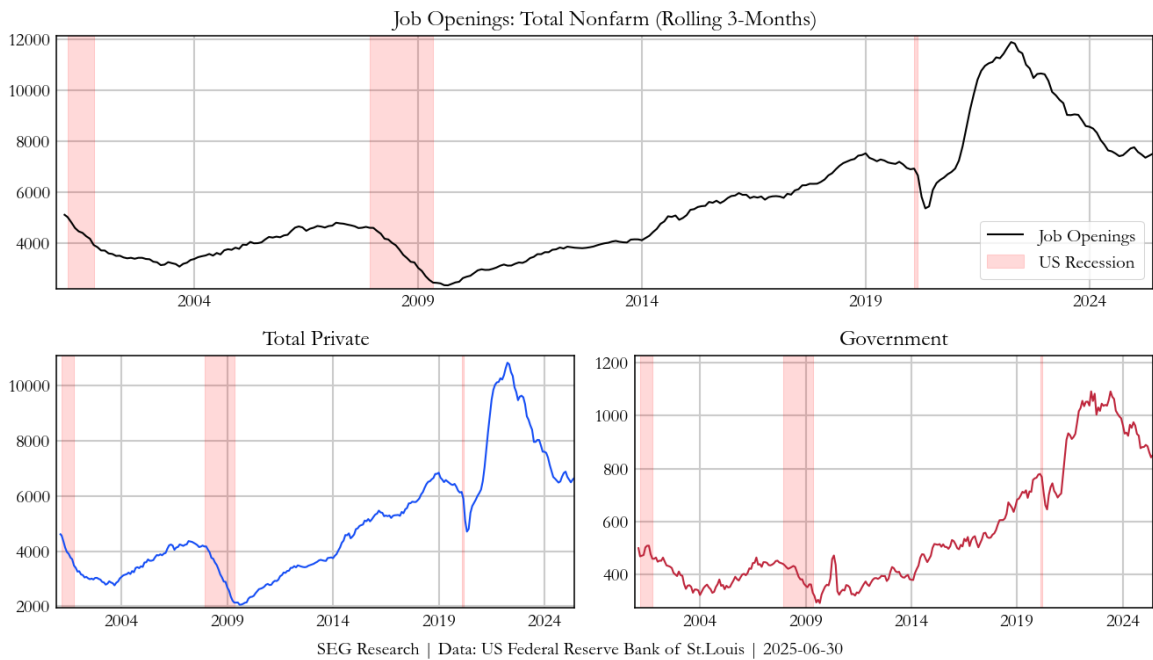
Continued claims are also rising but initial claims remain low.



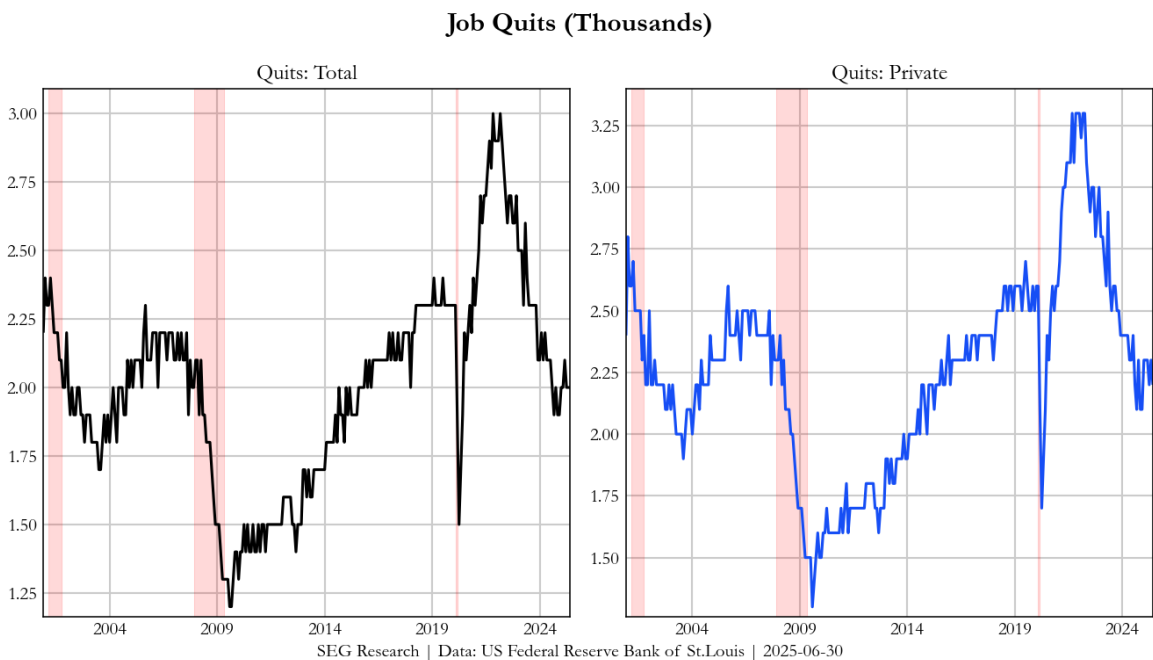
Overtime hours have for durable goods appear to be stabilizing after declining for several quarters in a roll.



Job openings in the private sector have been declining but we are now seeing declines in government job openings, too.

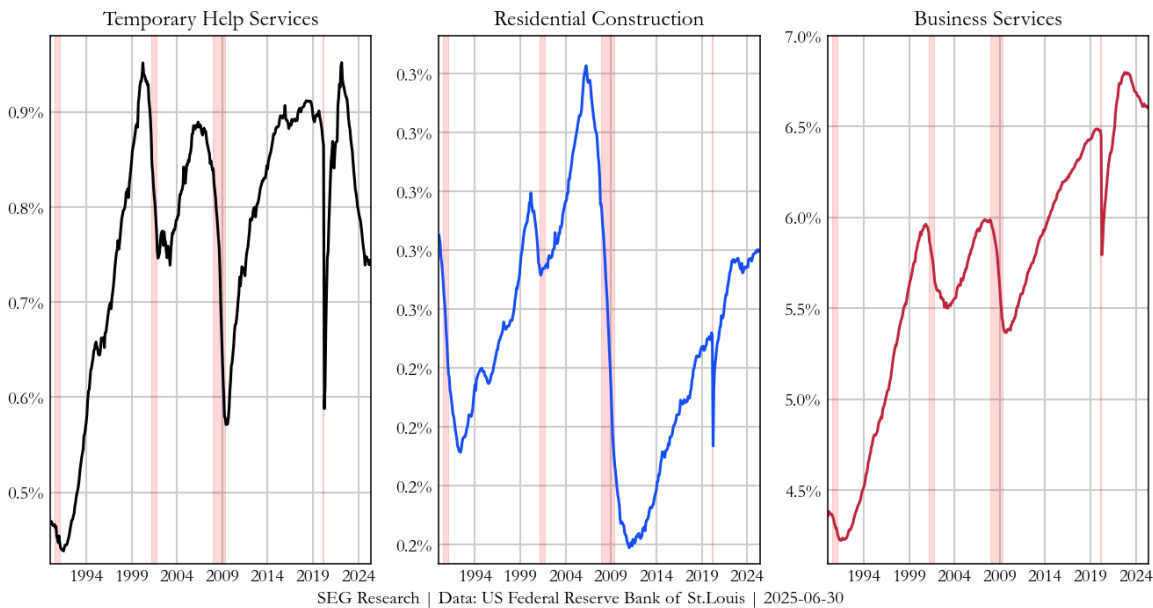


Job quits have also dropped below prior high.



Economically sensitive labor sectors such as temporary help and business services have declined. However, employment in the residential construction sector remains strong.

Sensitive Labor (% of Population)

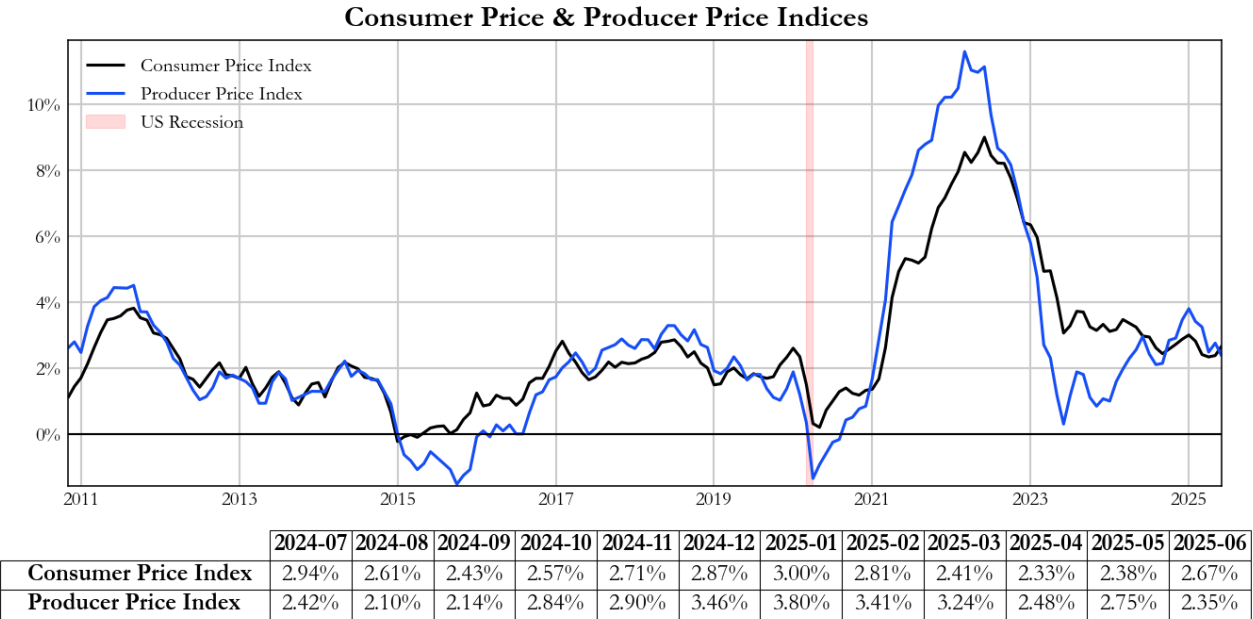


Part-time employment typically does not rise in a strong labor market.

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

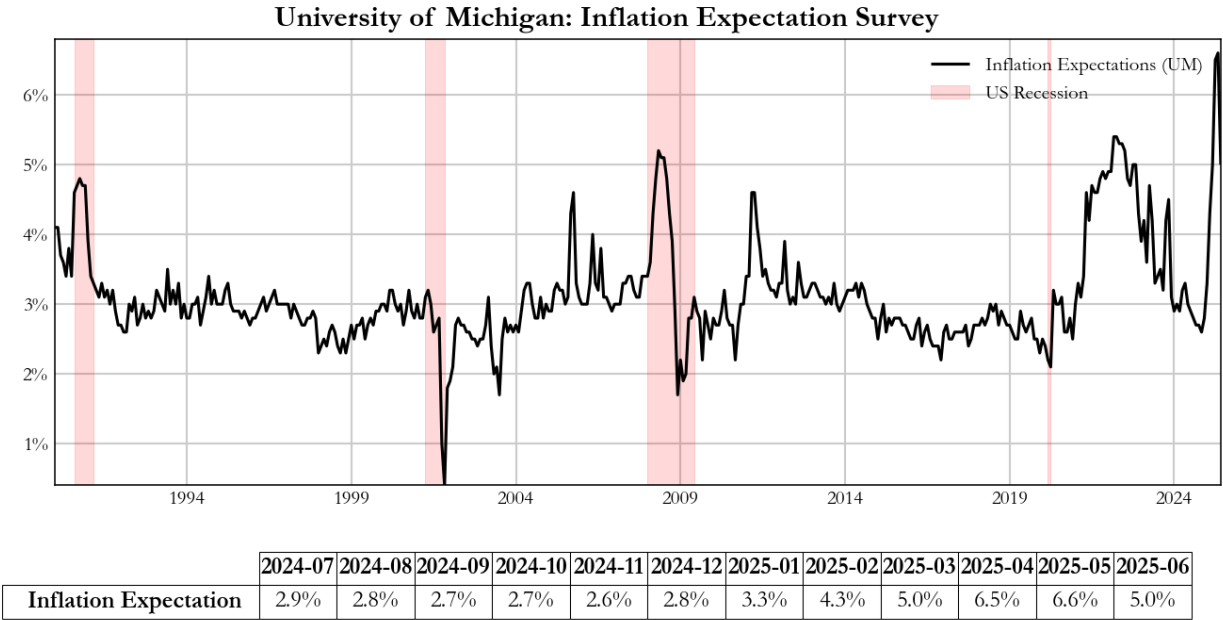


Inflation is declining but remains above the historical 2% target.



SEG Research | Data: US Federal Reserve Bank of St.Louis | 2025-06-30

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

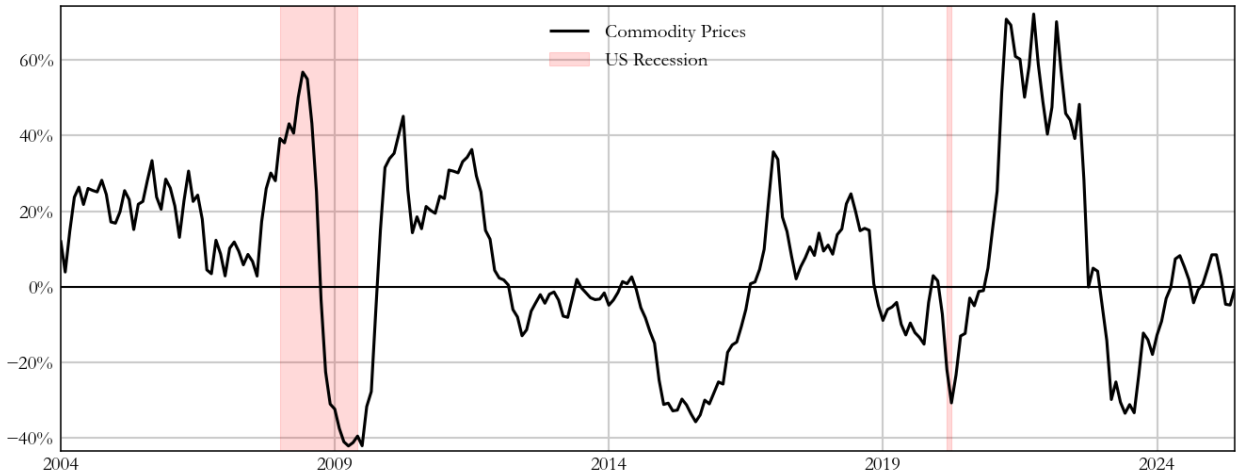


SEG Research | Data: US Federal Reserve Bank of St.Louis | 2025-06-30



Commodity prices have stabilized.

1-Year Change: IMF Global Price Index of All Commodities

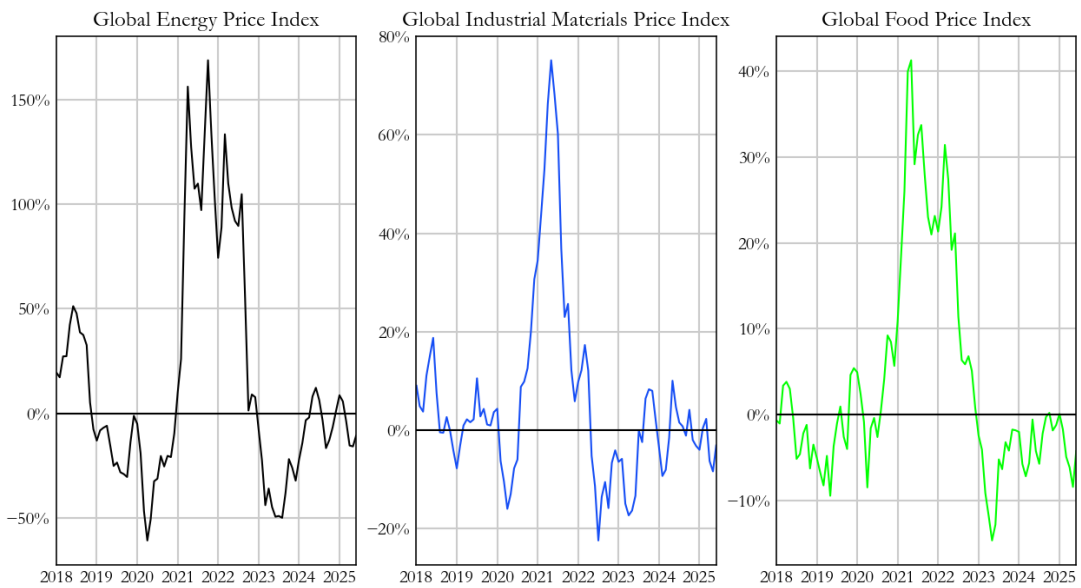


	2024-07	2024-08	2024-09	2024-10	2024-11	2024-12	2025-01	2025-02	2025-03	2025-04	2025-05	2025-06
Commodity Prices	5.21%	1.80%	-4.24%	-0.83%	0.65%	4.45%	8.45%	8.45%	2.67%	-4.64%	-4.84%	-0.57%

SEG Research | Data: US Federal Reserve Bank of St.Louis | 2025-06-30

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

IMF Global Commodities Price Indices

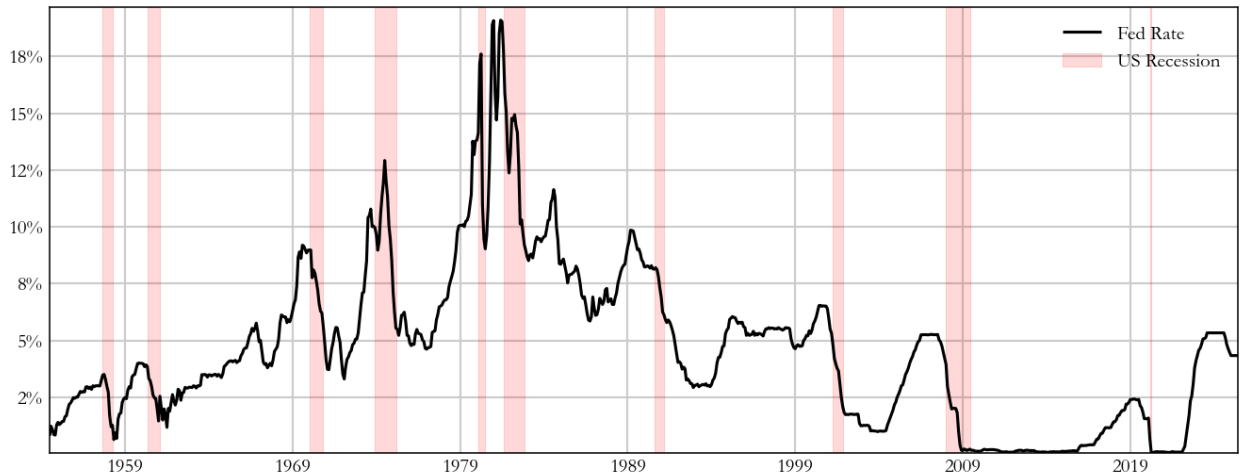


SEG Research | Data: US Federal Reserve Bank of St.Louis | 2025-06-30



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.

U.S. Federal Reserve Fund Rate



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

SEG Research | Data: US Federal Reserve Bank of St.Louis | 2025-06-30

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

M2 Money Supply



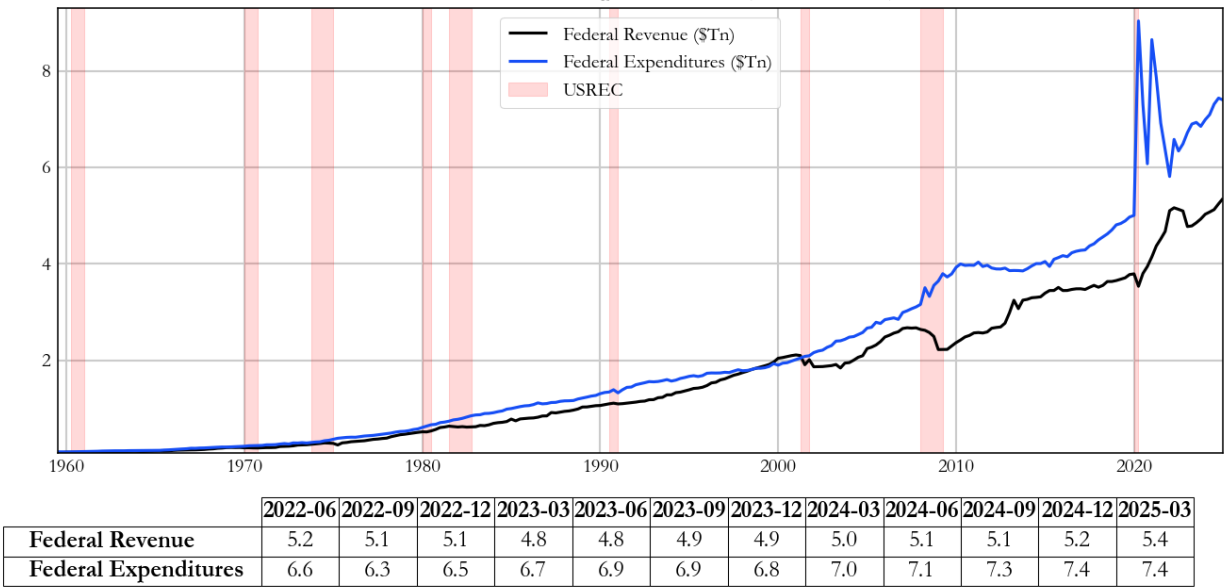
	2024-07	2024-08	2024-09	2024-10	2024-11	2024-12	2025-01	2025-02	2025-03	2025-04	2025-05	2025-06
1-Year M2 Growth	1.57%	2.11%	2.66%	3.07%	3.52%	3.58%	3.55%	3.47%	3.62%	4.16%	4.22%	4.53%

SEG Research | Data: US Federal Reserve Bank of St.Louis | 2025-06-30



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.

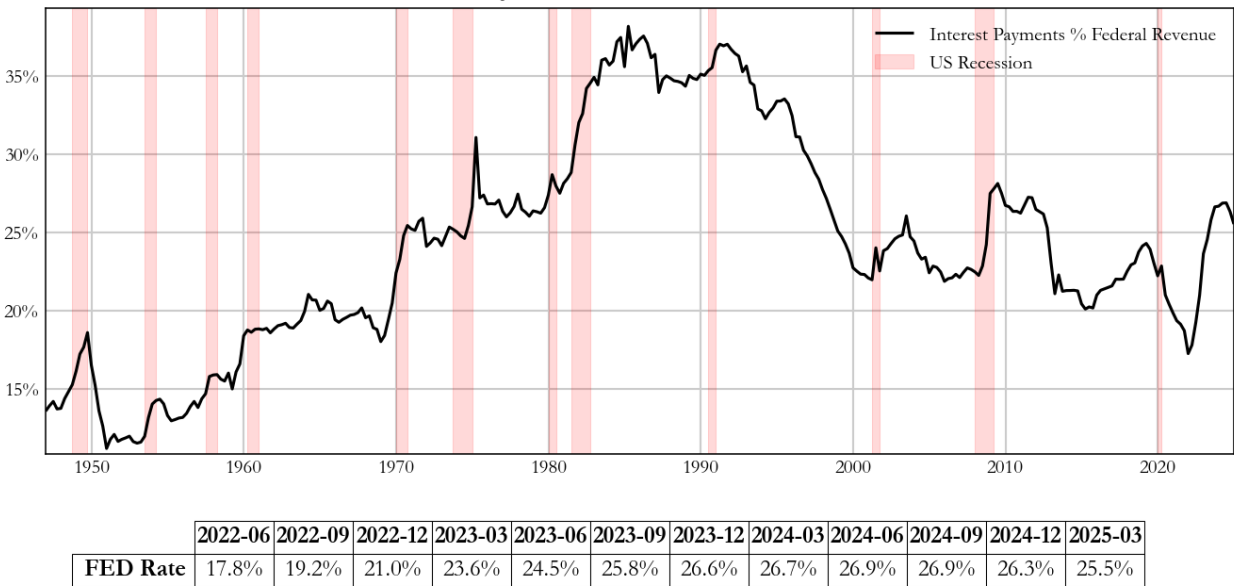
Federal Revenue vs Expenditures (in Trillions)



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

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.

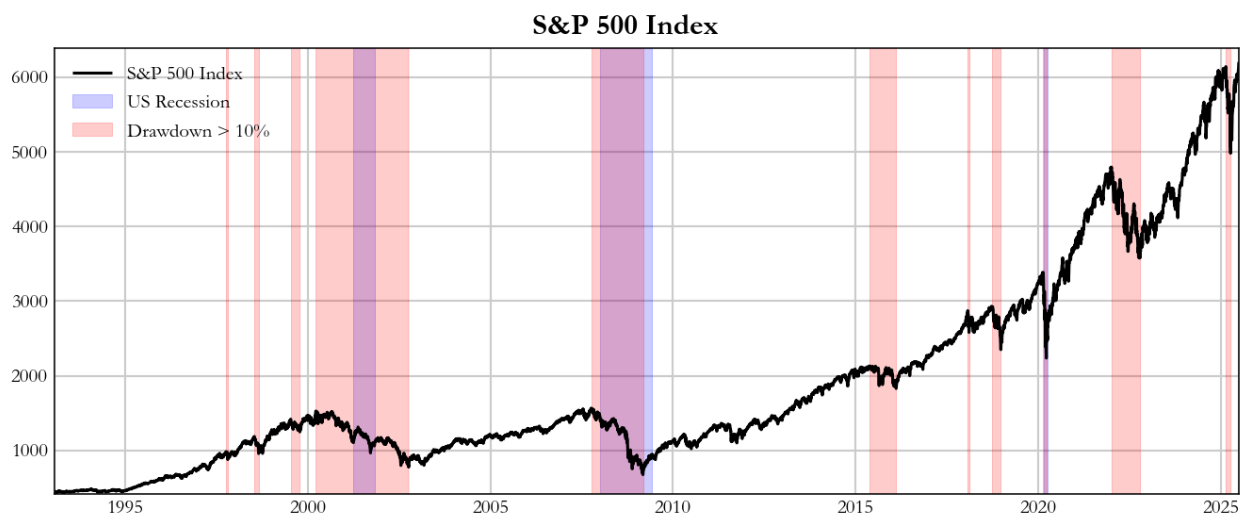
Interest Payments % of Federal Revenue



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



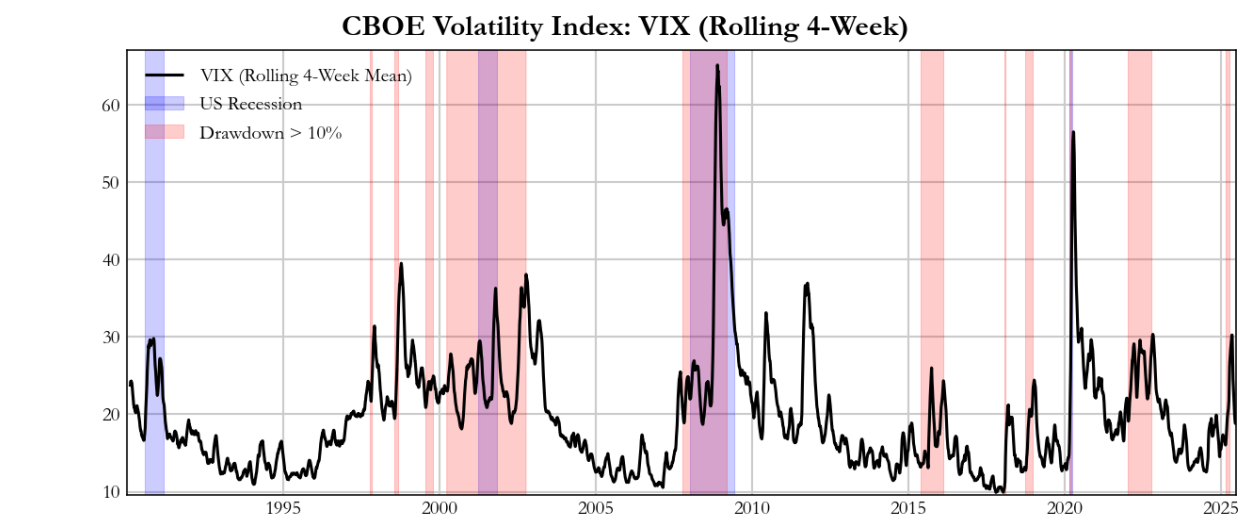
S&P 500's upward march ended in the first quarter of 2025.



	2022-09	2022-12	2023-03	2023-06	2023-09	2023-12	2024-03	2024-06	2024-09	2024-12	2025-03	2025-06
Price Return	-5.3%	7.1%	7.0%	8.3%	-3.6%	11.2%	10.2%	3.9%	5.5%	2.1%	-4.6%	10.6%

SEG Research | Data: SPY, FRED | 2025-06-30

S&P 500 options volatility spiked during the tariff plan roll out but has subsided since.

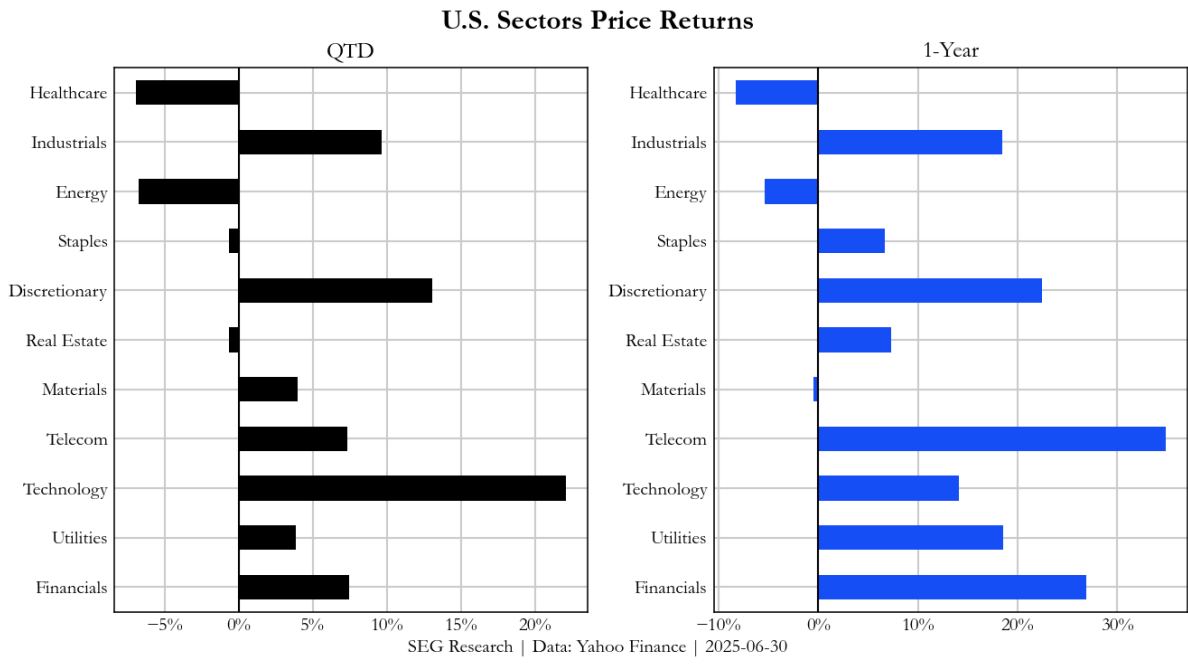


	2022-09	2022-12	2023-03	2023-06	2023-09	2023-12	2024-03	2024-06	2024-09	2024-12	2025-03	2025-06
VIX Quarterly % Change	10.1%	-31.5%	-13.7%	-27.3%	28.9%	-28.9%	9.6%	-8.9%	34.5%	3.7%	28.4%	-24.9%

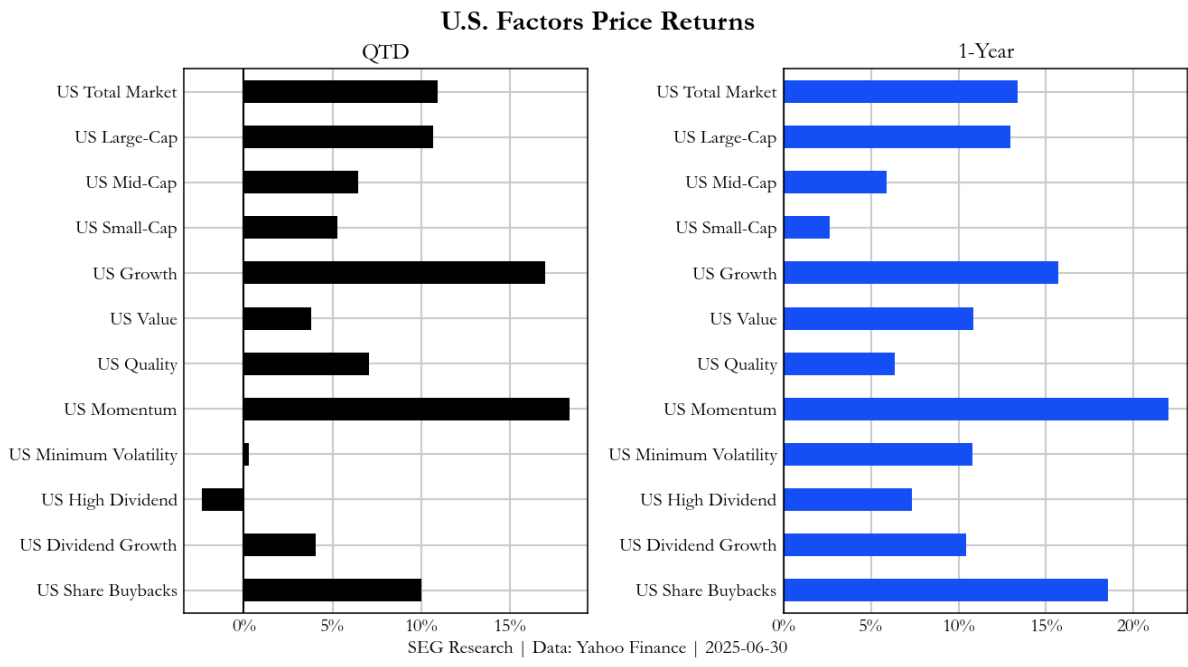
SEG Research | Data: FRED | 2025-06-30



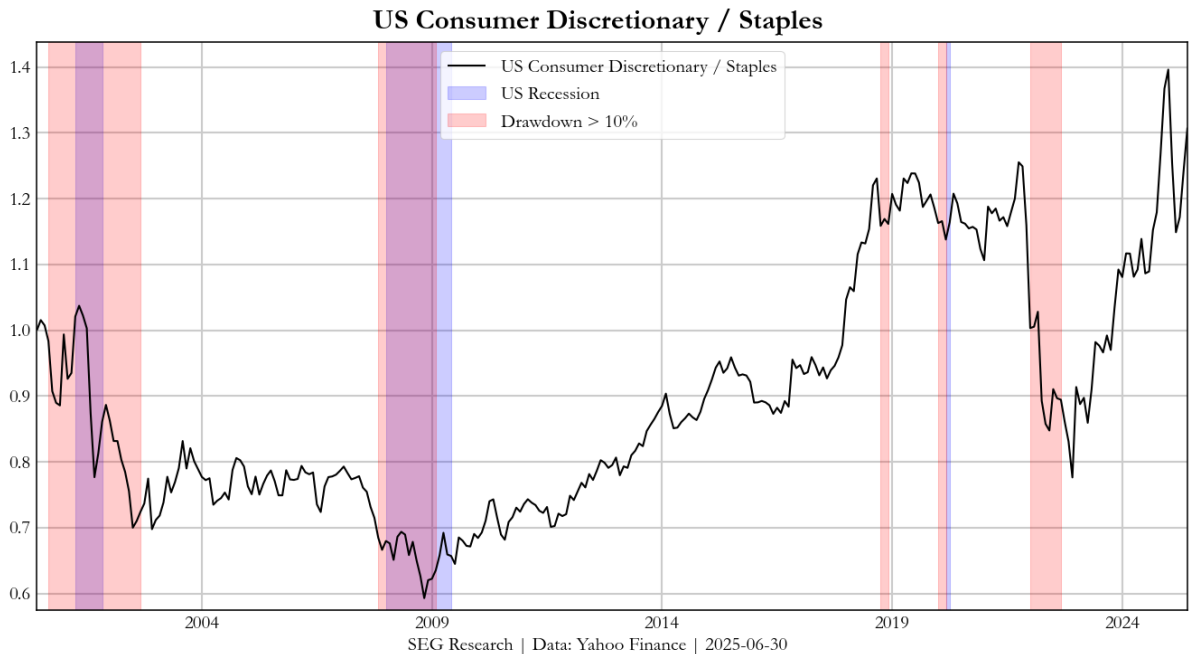
Sector performance was mixed. The technology and consumer discretionary sectors were the best performers, while healthcare, energy, and real estate stocks were the worst performers.



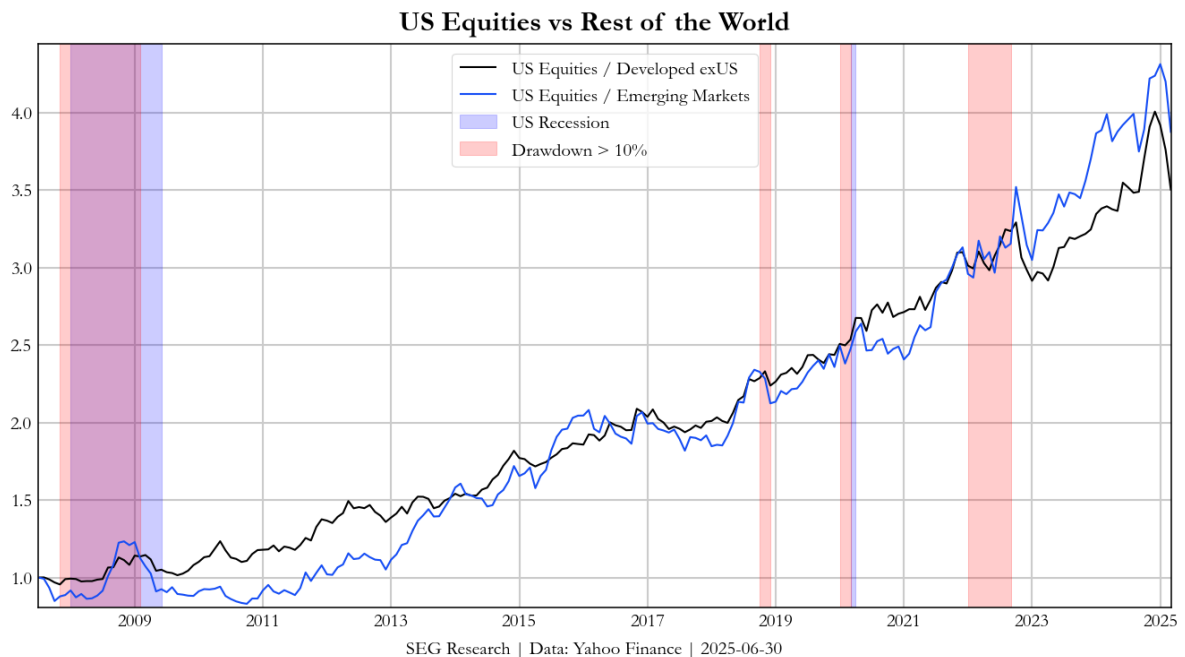
Momentum and growth equities outperformed.



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



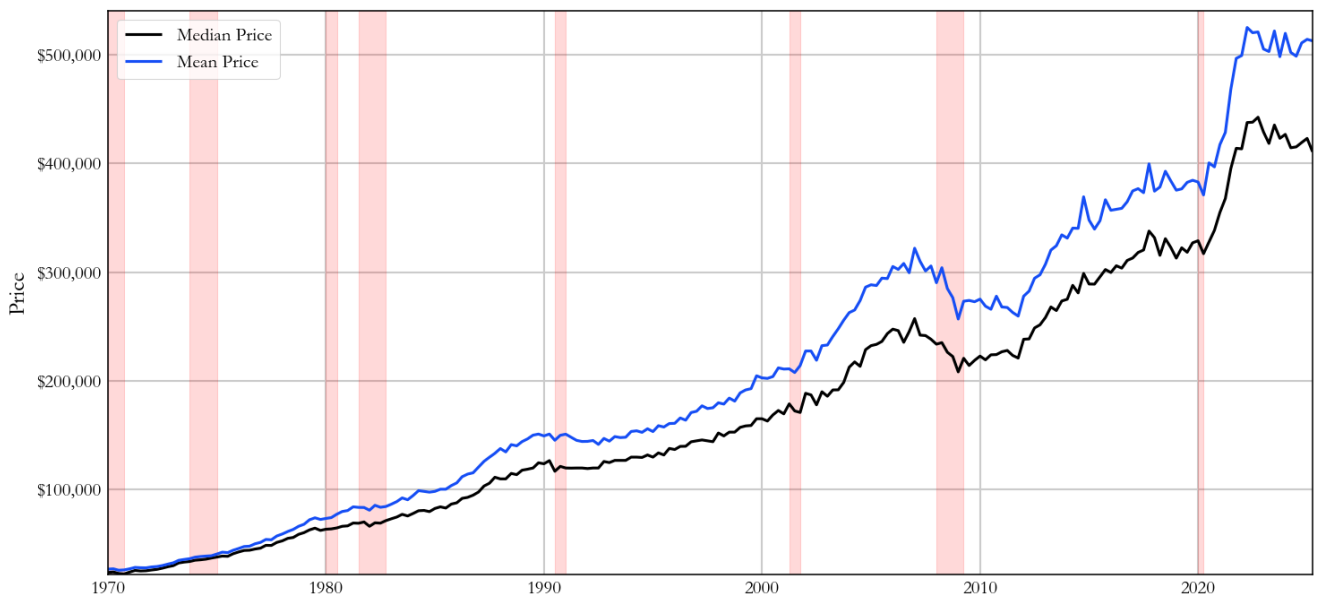
U.S. equities' outperformance relative to foreign equities retracted a bit during the first and second quarter, but the long-term outperformance remains intact.



U.S. Real Estate Market

In Q2 2025, 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. 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 must come down and/or incomes must move higher to justify current prices.

U.S. Home Prices

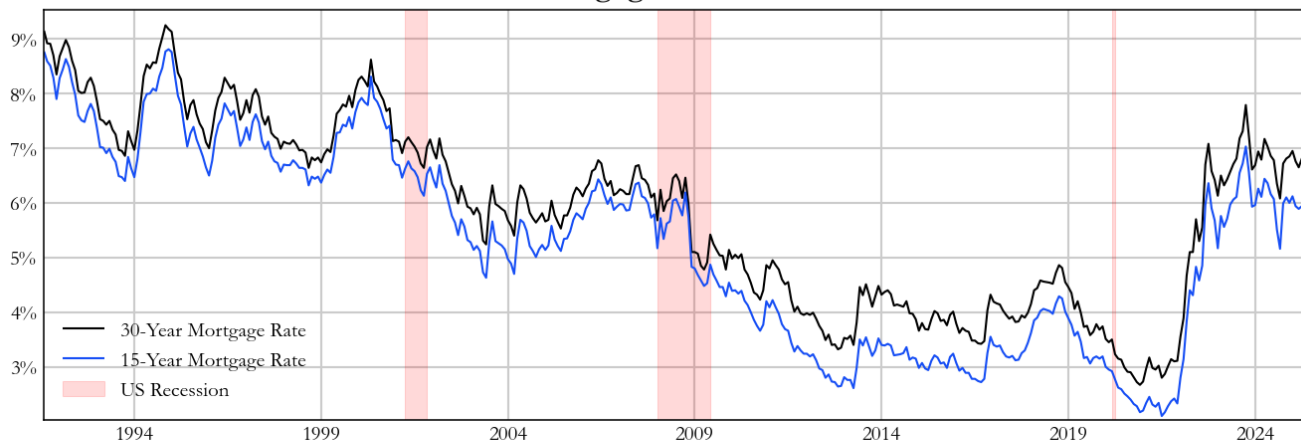


SEG Research | Data: US Federal Reserve Bank of St. Louis | 2025-06-30



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

Fixed Mortgage Rates in the US



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

SEG Research | Data: US Federal Reserve Bank of St.Louis | 2025-06-30

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.

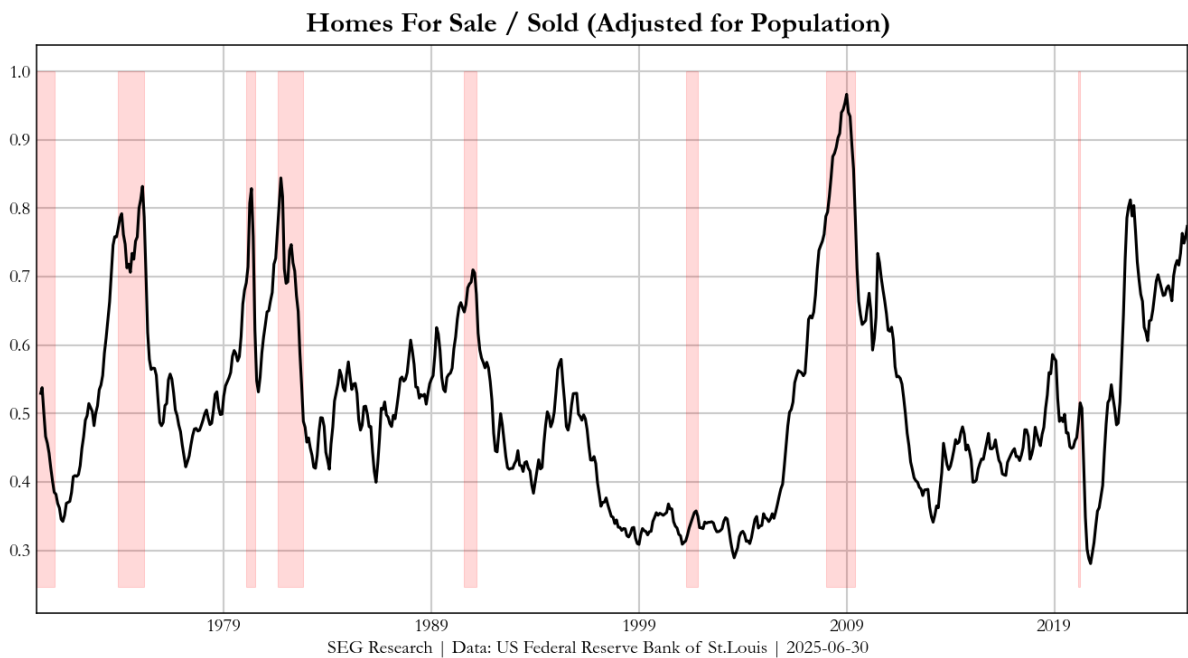
Delinquency Rate on Single-Family Residential Mortgages



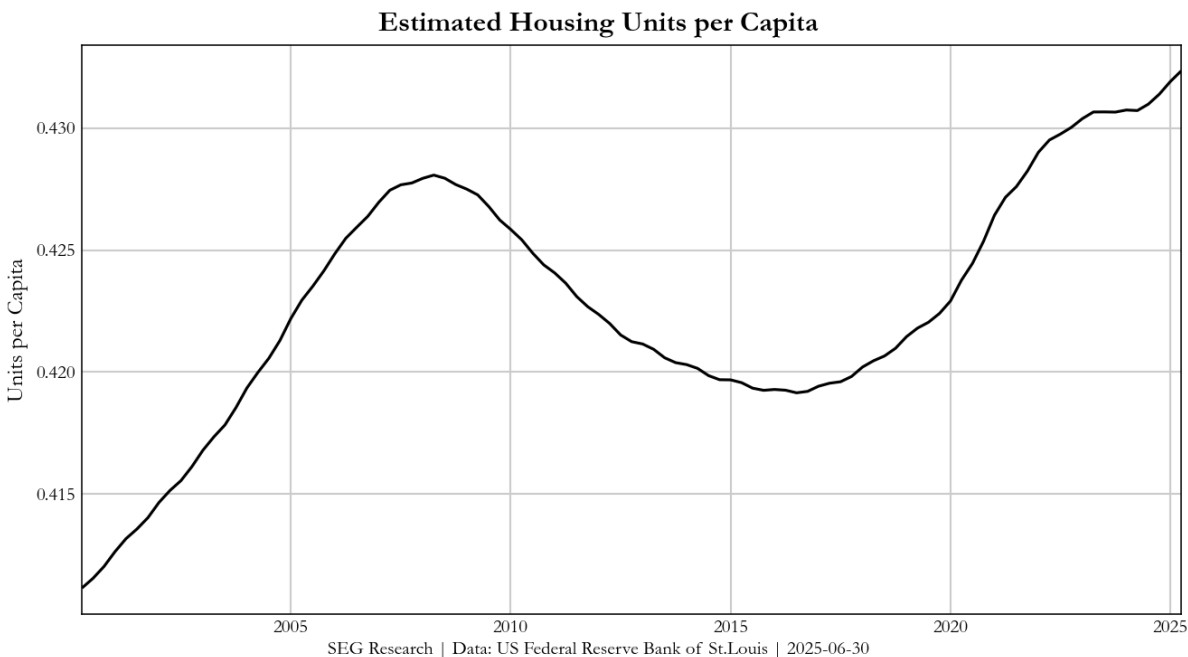
SEG Research | Data: US Federal Reserve Bank of St.Louis | 2025-03-31



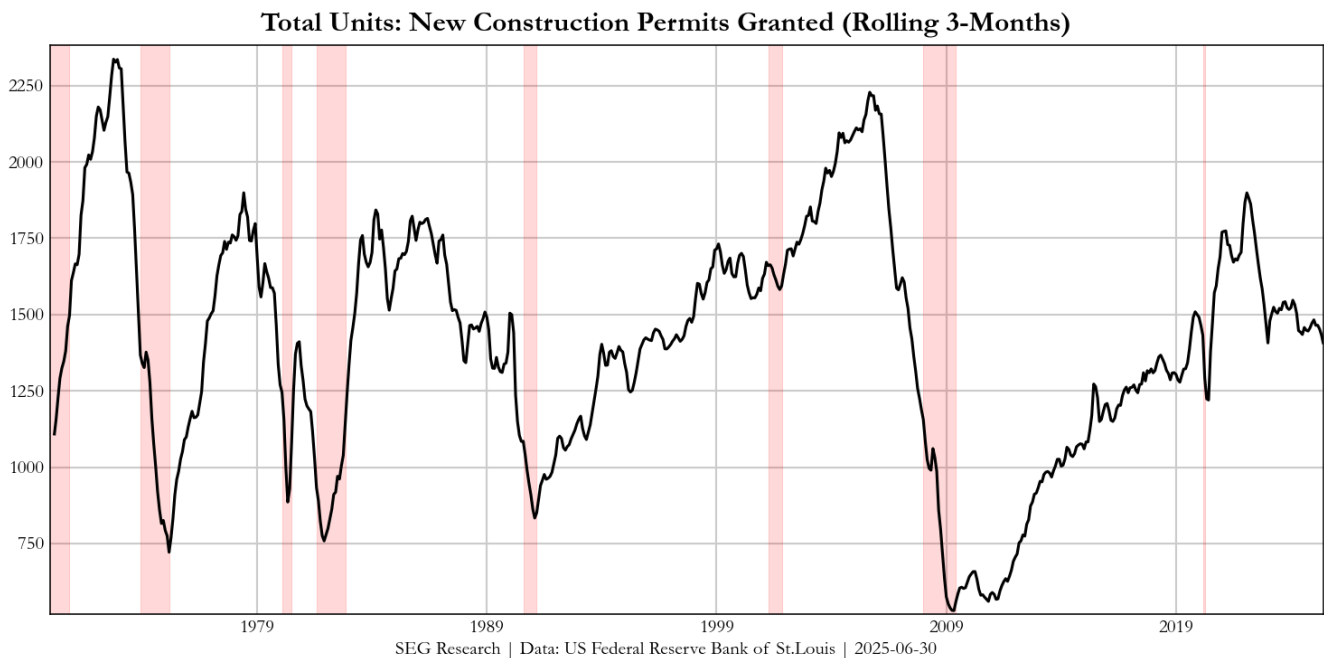
Homes put up for sale are growing relative to homes sold. The market will have to see more new entrants for prices to remain elevated.



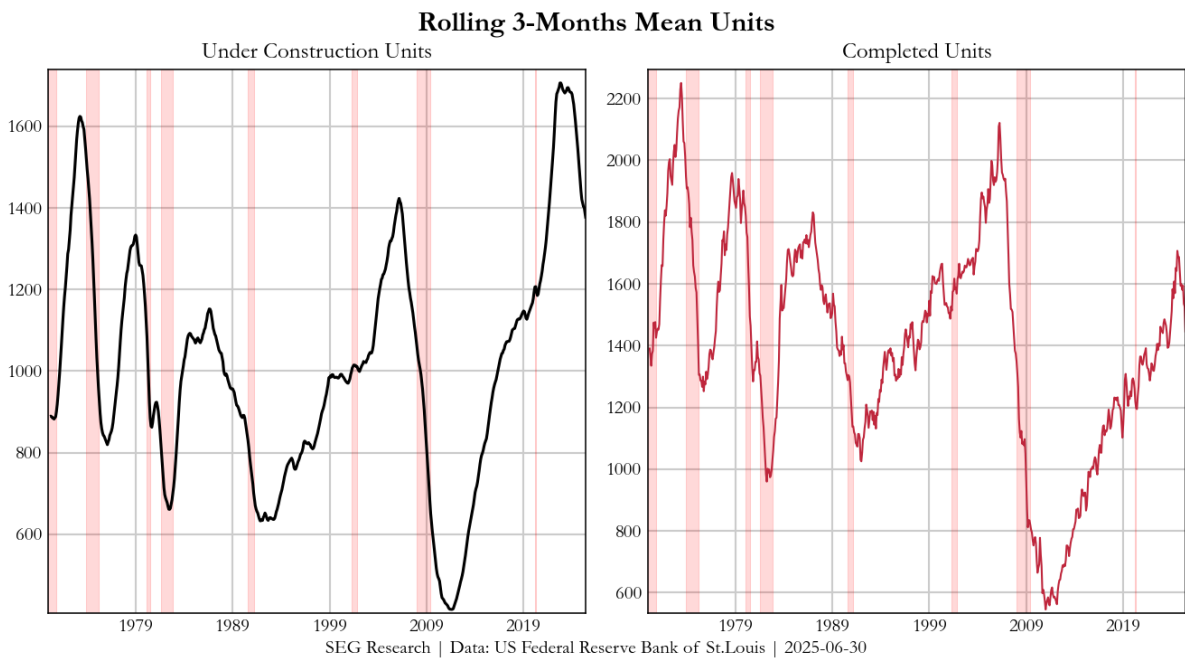
Housing units per U.S. capita are at record levels.



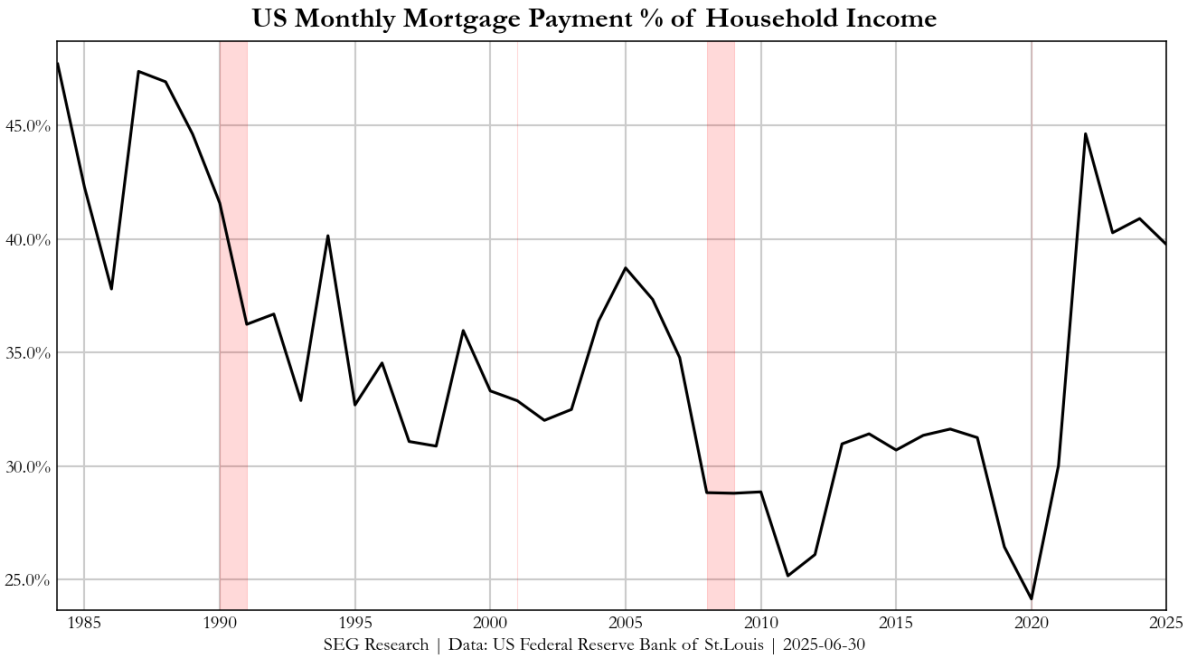
New permits have declined.



Additionally, units under construction and completed appear to have peaked.



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.

