

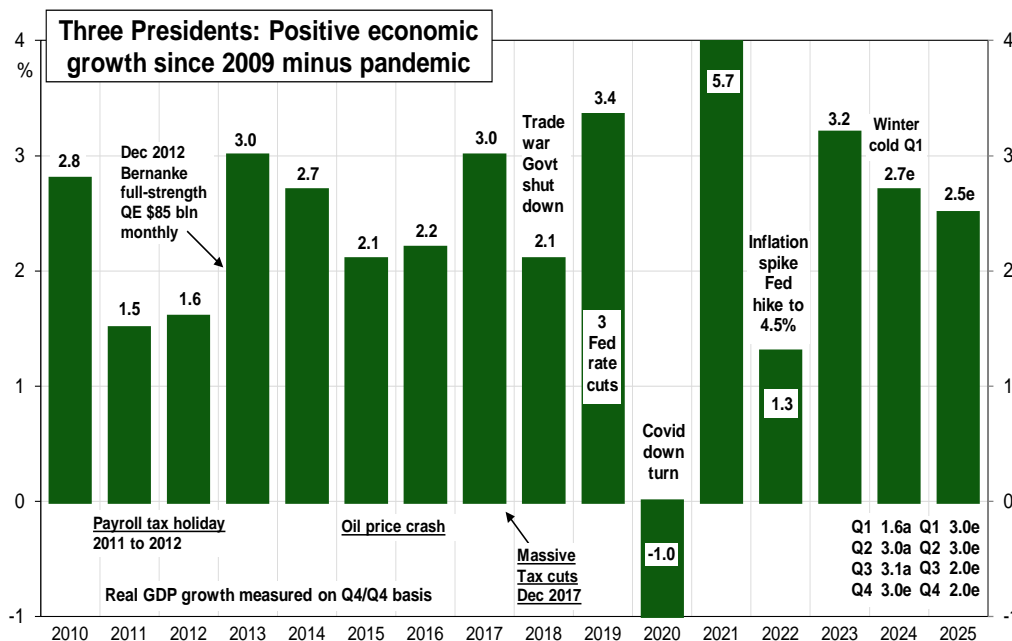
# Financial Markets This Week

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Christopher S. Rupkey, CFA  
Chief Economist  
crupkey@fwdbonds.com

## 2025 GDP OUTLOOK

We look for 2.5% real GDP growth this year as the Fed measures it Q4/Q4. Trump 2.0 has a pro-growth agenda, but many of the fiscal stimulus proposals may never get voted through, and the trade tariffs are likely to slow things down like they did in Trump 1.0. Speaking on how the Fed measures it, the December meeting forecasts see very low 2.1%



growth in 2025, possibly because they see potential, long term GDP of just 1.8%. Since 2010 there have not been more than a handful of years with annual Q4/Q4 real GDP growth less than 1.8%. Average growth counting 2010 through 2023 is 2.4%.

Reviewing how the economy got here, growth was 3.0% in 2017, the first year of Trump 1.0, something to crow about, although growth was already headed there before the Tax Cuts & Jobs Act was signed in December 2017. The best part of that legislation for the stock market and corporate earnings, if not the economy, was the permanent corporate tax cut from 35% down to 21%. Anyway in 2018 real GDP slowed to 2.1% thanks to the trade war, Federal government shutdown, 20.2% stock market drop and the draconian monetary policy tightening to a Fed funds rate peak of 2.5% in December. Growth bounced to 3.4% in 2019 even with more trade war noise with China. Hope Powell does not believe his three 25 bps rate cuts from 2.5% to 1.75% in 2019 caused the

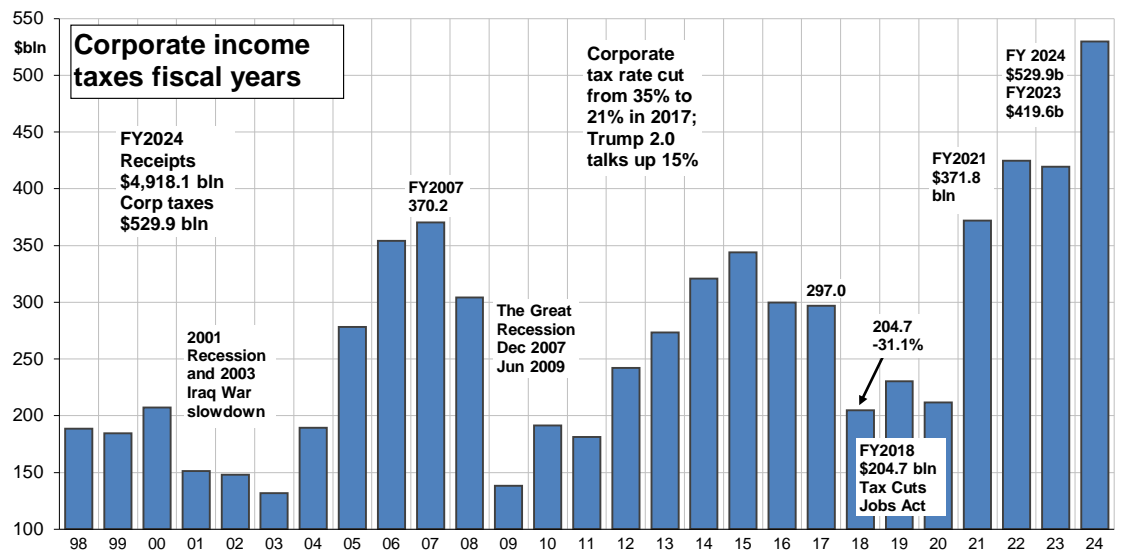
Q4/Q4 growth	2022	2023	2024e	2024e	% Total
REAL GDP	1.3	3.2	2.6	23,547	100.0
<b>CONSUMPTION</b>	1.6	3.0	2.8	16,224	68.9
Durables	-1.5	5.8	3.7	2,078	8.8
Nondurables	-1.6	2.2	1.8	3,442	14.6
Services	3.2	2.8	3.0	10,734	45.6
<b>INVESTMENT</b>	-0.5	2.2	4.2	4,422	18.8
Business Plant & Equipment and	9.7	9.7	0.4	672	2.9
Intellectual Property	6.1	3.1	6.8	1,383	5.9
Homes	10.3	4.1	3.7	1,523	6.5
Inventories	-16.4	2.5	1.9	790	3.4
Imports	-32.5	-67.0	30.7	62	0.3
<b>EXPORTS</b>	5.0	2.0	4.1	2,664	11.3
<b>IMPORTS</b>	2.0	1.2	8.1	3,778	16.0
<b>GOVERNMENT</b>	0.5	4.3	3.3	3,998	17.0
Federal defense	-1.4	1.7	5.7	878	3.7
Fed nondefense	-0.5	1.2	2.2	658	2.8
State and local	1.4	5.7	2.7	2,462	10.5

2024e in table assumes Q4 grows same pace as Q1-Q3 average growth  
Imports subtracted from real GDP spending (in \$ billions)

economy's reacceleration. Any Fed Chair kudos for that were surely lost after he unleashed the worst inflation outbreak since the 80s. There was the pandemic in 2020, GDP down 1.0%, and the 5.7% rebound in 2021.  $-1.0 \text{ plus } 5.7\% \text{ divided by two equals } 3.4\%$ . the same growth as 2019. It all evens out the economic growth despite all the claims that Federal government stimulus, including \$600 and \$1400 checks for consumers with the stamp of approval by Trump 1.0, and Fed QE bond purchases of \$1.9 trillion in the first half of 2020 (if you own "Bitcoin at \$125" and believe Fed QE matters) pushed growth too fast. Maybe it just all evens out in the end without blame or credit for anyone, anyone.

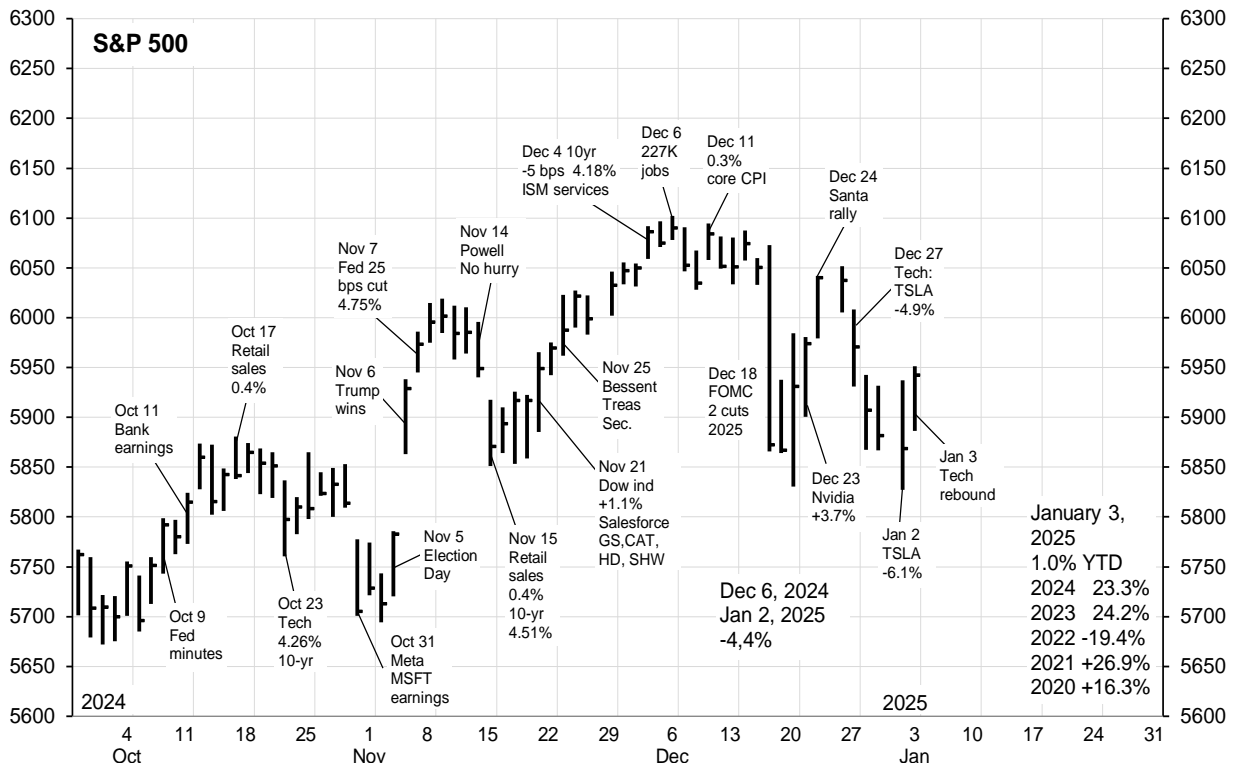
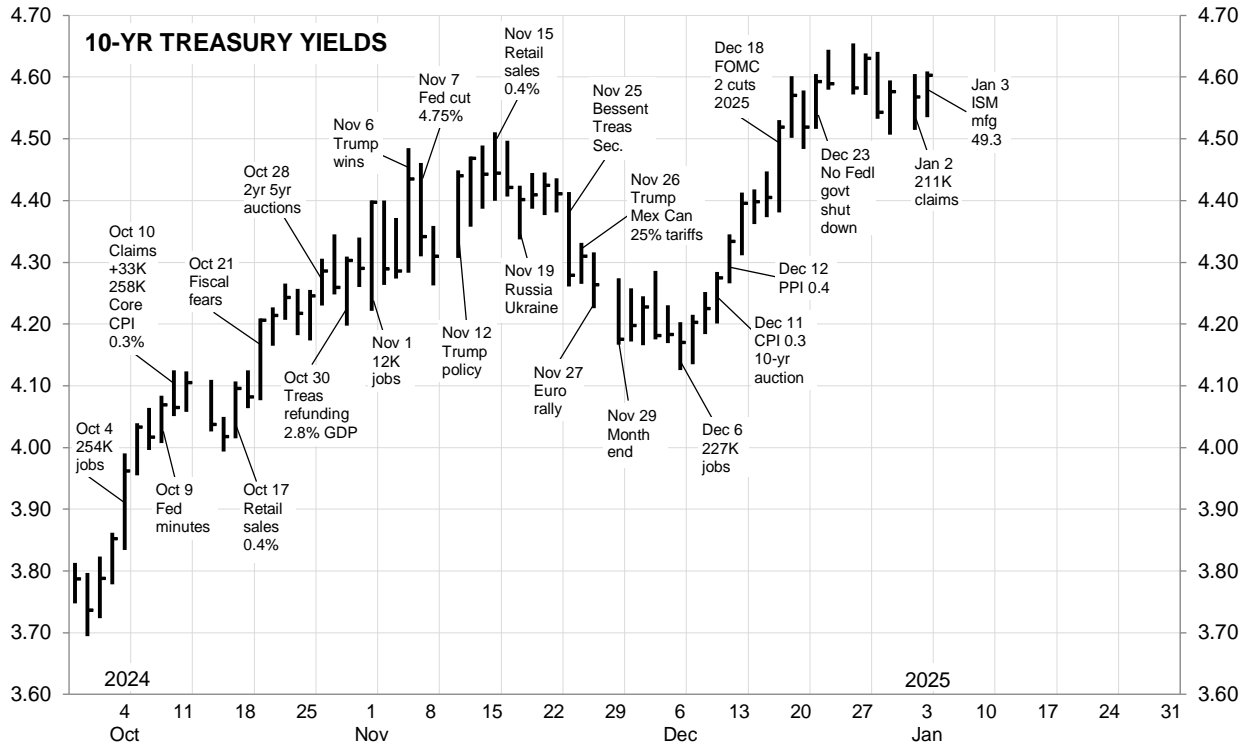
Still going with this newsletter's economic history lesson based in part with slides we got from Scott Bessent Treasury Secretary-elect's class at Yale. Perhaps the inflation spike and Fed raising interest rates in 2022 to 4.5% by the end of the year slowed growth to 1.3%. There were geopolitical risks with Russia invading Ukraine in February 2022 and the S&P 500 fell as much as 27.5%. Growth rebounded under Biden to 3.2% in 2023. That's the economic history lesson for this week. Recent Republican and Democratic administrations oversaw, were both there and present, when US economic growth reached the heights of 3%. We expect that growth slows to 2.7% in 2024 as it was cold in Q1 2024 which took a toll on growth for the Q4/Q4 year. Ahead in 2025, we expect more of the same with perhaps some second thoughts on the part of consumers and businesses about tariffs and policies in Washington which could slow economic growth in the second half of the year. Stay tuned. Watch here where the world goes next.

Calendar year  
2024 Q4/Q4  
-25.8% to \$111.2  
bln estimated, the  
decline due to  
natural disasters  
delayed filings  
(California). Dec  
24/Dec 23 -5.2%  
to \$89.0 billion  
estimated.



Choppy tax collections make it difficult to forecast profit growth, but it does appear the year-on-year increase is slowing in Q4 2024 to be reported later on this month in corporate earnings reports.

INTEREST RATES AND STOCKS



Not sure why much was made about the two back-to-back years of 20% stock market gains. That's right up there in importance as the market stats back to the 1950s on the Santa Claus Rally: the final 5 trading days of last year and first 2 trading days of the year 2025. The Fed only penciled in two rate cuts in 2025, and market odds of a 25 bps rate cut to 4.25% at the March 18-19, 2025 meeting are fifty-fifty based on April 2025 Fed funds futures. Perfectly clear. Happy New Year.

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