

US MARKET INTELLIGENCE:  
MORNING BRIEFING

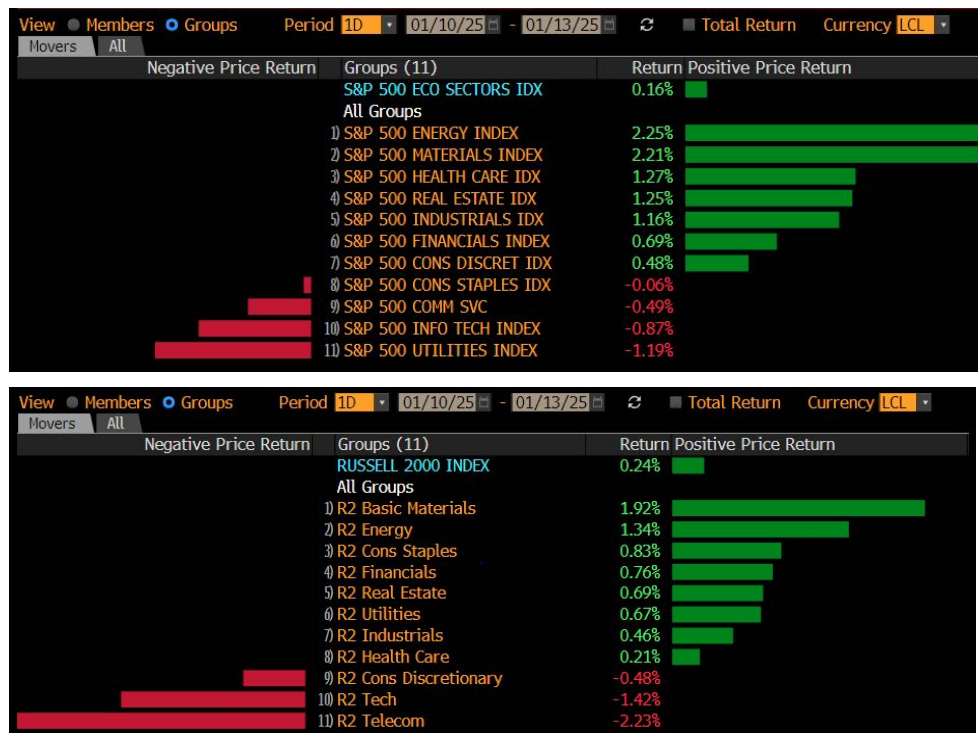


JANUARY 14, 2025

TOP OF THE AGENDA

- **SPX +0.5%, NDX +0.7%, RTY +0.7%.** WTI -67bps at \$78.29, NatGas -325bps to \$3.81, UK NatGas +37bps to £1.2195, Gold +10bps to \$2,666, Silver +28bps to \$29.70, 10Y @ 4.780%, and VIX @ 18.82.
- **US:** Futs are higher on reports that Trump may use a gradual approach rather than to tariff deployment, perhaps more scalpel than broad sword approach with the market seems to like. With bond yields flat and USD weaker, both NDX/RTY futures are outperforming with Mag7 names all higher along with Semis. It does appear to be a broad-based rally today, into PPI and tmrw's CPI. Cmtdys are seeing some profit-taking today with Ags/Energy lower, but Metals still bid up. Today's macro data focus includes NFIB Small Biz Optimism, PPI, Federal Budget Balance, and 2x Fedspeakers.
- **US Market Intel's Deep Dive into the Bear Case** is [here](#).
- **EMEA:** Major markets are all higher led by SX5E/France/Italy, all of which are seeing at least a 1z move higher. Regional bond yields are lower, with most curves bull steepening. Individual baskets seems to be driven by short squeezed today. There is a chatter that an Israel/Hamas ceasefire may be implemented this week. Value UKX +0.2%, SX5E +1.0%, SXXP +0.6%, DAX +0.8%.
- Additional color on APAC/EMEA from **International Market Intel** is [here](#).
- **US MACRO DATA:** NFIB Small Business Optimism at 6am ET. PPI at 8:30am ET.
- **US EARNINGS:** AILEQ, APLD, LUNA, RENB
- **GLOBAL MACRO DATA:** (Japan) Money Stock M2 and Money Stock M3.
- **US MARKET INTELLIGENCE WEEK AHEAD** is [here](#).
- **JPM RESEARCH MACRO PUBLICATIONS:** A copy of the JP Morgan Economics team's **Global Data Watch** can be found [here](#) (Kasman, et. al. Jan 10). A copy of JPM US Economics team's **US Weekly Prospects** can be found [here](#) (Feroli, et. al. Jan 10). A copy

of the **US Fixed Income Markets Weekly** can be found [here](#) (Barry, et. al. Jan 10). A copy of the **Treasuries Weekly** can be found [here](#) (Barry, et. al. Jan 10). A copy of the **TIPS Strategy Weekly** can be found [here](#) (White, et. al. Jan 10). A copy of **Oil Markets Weekly** can be found [here](#) (Kaneva, et. al. Jan 10). A copy of **Key Currency Views** can be found [here](#) (Chandan, et. al. Jan 10).



Source: Both charts sourced from Bloomberg

## MARKET SUMMARY

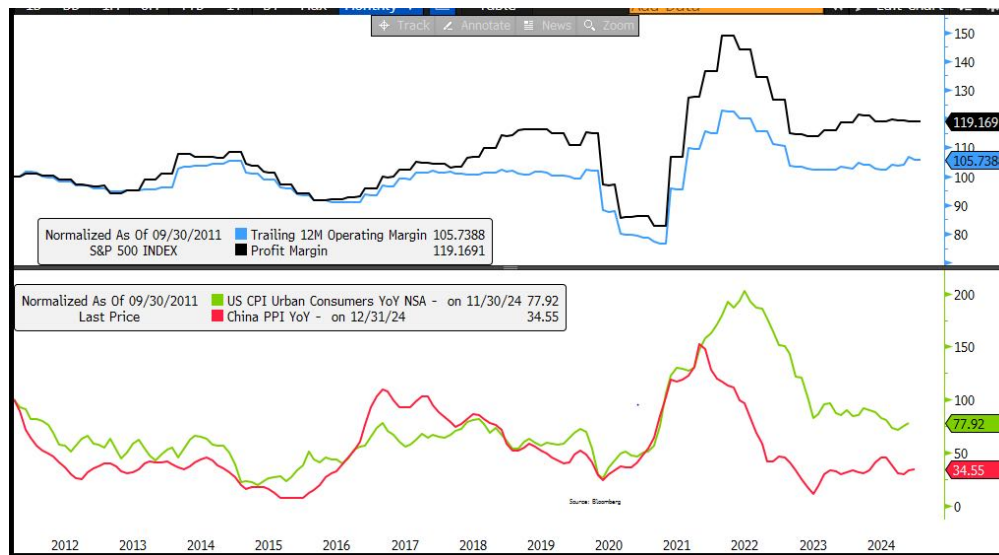
**EQUITY AND MACRO NARRATIVE:** Yesterday was a choppy session with stocks opening on the lows and closing in the green, near their highs. While bond yields moved higher, the USD was flat. Bloomberg reports that Speculative Traders are the most bullish on USD since 2019, based upon CFTS. Commodity prices are also stoking inflation fears. Today gives the first batch of inflation data ahead of Wednesday's CPI print and the kick off of bank earnings, which will be important to see if broadening of the rally, that characterized much of 24H2 rally, can resume.

**CHINA PPI vs. US CPI vs. US PPI**



TOP PANEL: SPX OPERATING MARGIN vs. PROFIT MARGIN

BOTTOM PANEL: US CPI vs. CHINA PPI



**PPI PREVIEW (FEROLI) – his full note is [here](#)**

- We anticipate a 0.4% rise in the final goods producer price index (PPI) in December, broadly similar to the increase seen the month prior. After some softening earlier last year, the PPI has firmed somewhat in recent months, particularly as food and more recently energy prices have started to move higher within the index (on a seasonally adjusted basis). For December we forecast the highest monthly tracking reading for the PPI energy index in nearly a year, with broad-

based strength across fuels and a positive contribution from electricity. Following November's surge in food prices, we look for another strong month in December. If our forecasts are realized, PPI inflation on a year-ago basis should continue on its recent upward trend, and rise to 3.4% from 3.0%oya in November.

- That said, much of the upward drift in the over-year ago PPI inflation can be attributed to drift in the core PPI measure that excludes food and energy. We look for a more muted 0.2% rise in core PCE, similar to the pace in recent months. Within that, we see core services (which has the largest share) remaining at around 0.2% in December, with core goods cooling to 0.1% after a long period at 0.2%. Nonetheless, largely due to base effects, our forecast implies a further move higher in year-ago core PPI inflation to 3.6% from 3.4% in November. As some earlier strong readings start to fall out of the year-ago computation, however, we would expect to see a deceleration in producer price inflation reemerge this year.

PPI					
Tue					
Jan 14	%m/m, sa, unless noted				
8:30am		Sep	Oct	Nov	Dec
	Final demand	0.2	0.3	0.4	0.4
	%oya (nsa)	2.0	2.6	3.0	3.4
	Core	0.3	0.3	0.2	0.2
	%oya (nsa)	3.2	3.4	3.4	3.6
	Energy	-3.0	0.1	0.2	2.4
	Core goods	0.2	0.2	0.2	0.1
	Services	0.4	0.3	0.2	0.2
	Construction	0.1	-0.2	0.0	-0.1
	Intermed. processed goods	-0.8	0.6	0.0	
	Core intermed. processed	-0.1	0.3	0.1	

### CPI SCENARIO ANALYSIS

Feroli's CPI preview is [here](#). For CPI he sees Headline MoM printing +0.4% (0.44% unrounded) and Core MoM printing +0.3% (+0.28% unrounded), both numbers are above the Street. This equates to 3.0% YoY for Headline and 3.3% YoY for Core.

*The following scenario analysis is NOT A PRODUCT OF JPM RESEARCH, this is a trading desk view from [JPM US Market Intelligence](#). This month we focus on Core MoM outcomes and 1-days SPX moves.*

- **[5.0%] Above 0.30%.** The first tail outcome with this outcome stemming from strong consumption and a potential move higher in housing prices. **SPX loses 1% - 2%.**
- **[30.0%] Between 0.23% - 0.30%.** This hawkish outcome likely comes to fruition if Core Goods deflation flips to being inflationary and/or loss of disinflation momentum from housing. **SPX loses 75bps – 1.25%.**
- **[40.0%] Between 0.17% - 0.23%.** The base case scenario. **SPX gains 25bps – 1%.**

- **[22.5%] Between 0.10% - 0.17%.** This dovish outcome is likely achieved via a combination of cooler home inflation and an increase in the deflationary impulse from Core Goods. **SPX gains 1% – 1.5%.**
- **[2.5%] Below 0.10%.** Similar to the previous bullet point, but you also likely see a reversal in categories experiencing recent gains such as Transportation. **SPX gains 1.75% – 2.50%.**
- **WHAT ARE OPTIONS PRICING?** Options that expire on Friday are pricing ~1.85% move.
- **US MARKET INTEL VIEW ON CPI** – We enter CPI with the VIX at its highest level since the October print. That October print came in dovishly triggering a bull steepening of the yield curve but with a minimal move in the SPX, which fell 20bps. The notable outperformers were ARKK (+2%), Energy (+80bps), Momentum Short (+50bps). WTI was up 3.6% that day with gold (+80bps) and natgas (+60bps) also performing well. This CPI print is a pivot data point. A dovish print likely reignites the rally which is likely to get a boost from a strong earnings period. A hawkish print could see the 10Y yield make a run at 5%, increasing vol across all asset classes, and continuing to pressure Equities. I think this could be the type of print that is hotter than expected for Headline inflation but cooler than expected in Core inflation, primarily due to the spike in energy prices and some Ag commodities, such as corn and cocoa..
- **MONETIZATION MENU** (originally published in the [Jan 7 Morning Briefing](#)) – Until you get data the suggest an increase in dispersion, the barbell trade that we utilized for much of 2024 still makes sense. To refresh, we like elements of Tech/Growth (Mag7, Datacenters, Semis, and NDX) and Value/Cyclicals (JPM's Cyclicals basket, Large-Cap Financials, Consumer Discretionary like Airlines/Autos/Retailers, and Transports). Given the tariff headlines and potential to pressure USD, it may make sense to buy upside in EM Equities (esp. Latam) and small-cap TMT (e.g., ARKK). For those looking to hedge beyond single stocks, Defensives and/or Staples make sense. I would consider Energy as a short play.

**CPI**

%m/m, sa, unless noted

	Sep	Oct	Nov	Dec
Total	0.2	0.2	0.3	<u>0.44</u>
%oya (nsa)	2.4	2.6	2.7	<u>3.0</u>
Core	0.31	0.28	0.31	<u>0.28</u>
%oya (nsa)	3.3	3.3	3.3	<u>3.3</u>
Core services	0.4	0.3	0.3	
Core goods	0.2	0.0	0.3	
Food	0.4	0.2	0.4	<u>0.5</u>
Energy	-1.9	0.0	0.2	<u>2.2</u>
Housing	0.2	0.4	0.3	
Owners' eq,rent	0.33	0.40	0.23	<u>0.28</u>
Rent	0.28	0.30	0.21	<u>0.24</u>
Lodging away from home	-1.9	0.4	3.2	<u>0.6</u>
Apparel	1.1	-1.5	0.2	<u>-0.3</u>
New vehicles	0.2	0.0	0.6	<u>0.9</u>
Used vehicles	0.3	2.7	2.0	<u>0.0</u>
Public transportation	2.4	2.4	0.0	<u>2.2</u>
Communication	-0.6	-0.6	-1.0	<u>0.2</u>
Medical care	0.4	0.3	0.3	<u>0.3</u>
CPI, all items NSA index	315.301	315.664	315.493	<u>315.796</u>

*Source: J.P. Morgan Economics***IN DATA**

	LEVEL	PERCENT RETURN		
		1D	5D	YTD
SPX	5,836.22	0.2%	-0.7%	-0.8%
NDX	20,784.73	-0.3%	-0.6%	-1.1%
R2K	2,194.40	0.2%	-1.9%	-1.6%
S&P 400 (MID CAP)	3,124.47	0.8%	-0.5%	0.1%
S&P 600 (SML CAP)	1,388.52	0.5%	-1.6%	-1.4%
R2K - GROWTH	1,453.07	-0.2%	-1.3%	-1.2%
R2K - VALUE	2,415.47	0.7%	-2.5%	-2.1%
R1K - GROWTH	3,994.70	-0.4%	-0.6%	-1.2%
R1K - VALUE	1,824.48	0.9%	-0.7%	0.0%
RUSS MIDCAP	3,528.59	0.7%	-0.8%	-0.1%
	LEVEL	PERCENT RETURN		
		1D	5D	YTD
SPX	5,836.22	0.2%	-0.7%	-0.8%
COMM SRVCS	342.50	-0.5%	0.1%	0.2%
CONS DISC	1,817.17	0.5%	0.0%	-0.8%
CONS STPLS	834.06	-0.1%	-1.8%	-2.3%
ENERGY	688.75	2.2%	1.8%	5.2%
FINANCIALS	792.58	0.7%	-1.9%	-1.5%
HEALTHCARE	1,649.95	1.3%	1.5%	2.8%
INDUSTRIALS	1,125.37	1.2%	0.1%	0.9%
MATERIALS	536.25	2.2%	0.2%	1.2%
REAL ESTATE	249.34	1.3%	-2.8%	-2.6%
TECH	4,490.60	-0.9%	-1.5%	-2.6%
UTILITIES	379.78	-1.2%	-0.9%	-1.3%
Source: Bloomberg.		Data as of	1/13/2025	

#### MEGACAP TECH STOCKS

	PRICE	%1D	%5D	%1M	%3M	%6M	%YTD
AAPL	\$ 234.40	-1.03%	-2.87%	-5.53%	3.01%	2.74%	-6.40%
AMZN	\$ 218.46	-0.22%	-0.58%	-3.96%	15.70%	12.57%	-0.42%
GOOG	\$ 192.29	-0.46%	1.33%	0.48%	16.88%	3.42%	0.97%
MSFT	\$ 417.19	-0.42%	0.09%	-6.73%	0.21%	-7.63%	-1.02%
META	\$ 608.33	-1.22%	2.77%	-1.94%	3.12%	23.45%	3.90%
NFLX	\$ 840.29	0.31%	-5.53%	-8.55%	16.26%	29.35%	-5.73%
NVDA	\$ 133.23	-1.97%	-1.74%	-0.76%	-1.16%	5.16%	-0.79%
TSLA	\$ 403.38	2.19%	4.08%	-7.53%	85.20%	59.02%	-0.12%
Source: Bloomberg		data as of		1/13/2025			

## SECTOR & THEMES

For Information on the following Bloomberg Component from our JP Morgan Delta-One team and our other custom baskets, please contact [D1\\_NA@jpmorgan.com](mailto:D1_NA@jpmorgan.com).



Index Enhancement		S&P ENERGY Baskets		Equity Buy/Side Worksh	
Ticker	%1D	Pct Chg on Day (Z-Score)	%5D	%1M	
US Macro/Thematic (43)					
▶ Republican Long	+1.42%	1.34	-0.95%	-4.65%	
▶ Infrastructure	+1.29%	1.15	-1.24%	-6.55%	
▶ US Housing (i)	+1.24%	1.03	-1.07%	-7.68%	
▶ Stagflation Short	+1.12%	1.12	-2.28%	-5.23%	
▶ Rising Dollar Winners	+0.91%	1.13	-0.66%	-3.86%	
▶ International Exposure (r)	+0.76%	0.82	-1.86%	-3.72%	
▶ Defensives (r)	+0.71%	1.17	-0.58%	-3.16%	
▶ Buyback	+0.57%	0.72	-1.50%	-3.10%	
▶ 2024 Potential Tax Selling	+0.52%	0.46	-2.02%	-3.53%	
▶ Rising Dollar Laggards	+0.46%	0.34	-4.25%	-4.98%	
▶ China Exposure (r)	+0.44%	0.31	-2.77%	-2.85%	
▶ EU Exposure	+0.42%	0.56	-1.51%	-4.97%	
▶ Recession Winners (i)	+0.40%	0.41	-2.31%	-5.06%	
▶ Custom S&P ex-Mag. 7 (i)	+0.36%	.47	-1.79	-3.80	
▶ Tariffs Short	+0.31%	0.26	-2.76%	-4.35%	
▶ PURE Beta Laggards (i)	+0.30%	0.41	-1.64%	-3.22%	
▶ Republican Short	+0.29%	0.32	-1.83%	-3.55%	
▶ Domestic Exposure (r)	+0.01%	0.01	-1.93%	-4.81%	
▶ Inflation Winners	+0.01%	0.01	-3.17%	-4.21%	
▶ Credit Laggards	--	0.00	-3.72%	-4.26%	
▶ US Importers (r)	-0.06%	-0.06	-0.18%	-3.09%	
▶ Inflation Laggards	-0.14%	-0.12	-3.25%	-6.37%	
▶ Emerging Mkt Exposure	-0.16%	-0.16	-2.74%	-4.71%	
▶ Rising Rate Winners (i)	-0.17%	-0.15	-2.20%	-2.33%	
▶ AI ex-TMT	-0.19%	-0.20	-2.04%	-2.64%	
▶ Rising Rate Laggards (i)	-0.23%	-0.18	-3.80%	-8.13%	
▶ Recent IPOs	-0.38%	-0.32	-4.39%	-7.68%	
▶ PURE Momentum Laggards (i)	-0.39%	-0.28	-5.03%	-3.81%	
▶ Potential Squeeze	-0.47%	-0.29	-6.45%	-4.97%	
▶ Renewable Energy	-0.49%	-0.24	-5.64%	-3.94%	
▶ AI TMT	-0.51%	-0.32	-6.03%	-6.08%	
▶ Recession Laggards (i)	-0.59%	-0.34	-6.79%	-6.26%	
▶ Magnificent 7	-0.62%	-0.40	-5.73%	-3.31%	
▶ PURE Beta Winners (i)	-0.79%	-0.51	-5.53%	-5.84%	
▶ Cyclical (r)	-0.86%	-0.59	-4.63%	-5.07%	
▶ AI Data Centers & Power	-1.01%	-0.80	-4.00%	-3.32%	
▶ PURE Momentum Winners (i)	-1.06%	-0.69	-6.36%	-7.19%	
▶ Meme Stocks	-1.58%	-0.59	-11.44%	-11.76%	
▶ Crypto Exposure	-1.95%	-0.37	-15.17%	-17.95%	
▶ High Short Interest	-2.02%	-0.99	-9.91%	-7.00%	
▶ Nuclear Energy	-2.70%	-1.00	-7.76%	-2.55%	
▶ High Retail Activity	-5.29%	-2.76	-19.48%	-15.56%	
▶ Quantum Computing	-10.23%	-1.31	-33.00%	+28.23%	
US Pairs (8)					
▶ Barra Value L/S (i)	+1.74%	1.65	+5.25%	+3.32%	
▶ SPY v IWM	-0.08%	-0.10	+1.02%	+3.03%	
▶ Software v Semis	-0.37%	-0.23	-0.46%	-5.43%	
▶ Barra Growth L/S (i)	-0.44%	-0.57	-0.34%	+1.86%	
▶ Barra Growth v Value	-1.36%	-1.57	-2.78%	-0.61%	

## WEEKLY ECONOMIC DATA / EARNINGS

### US CALENDAR

#### ECONOMICS

- **JAN 13** – NY Fed 1-Yr Inflation Expectations at 11am ET. Federal Budget Balance at 2pm ET.
- **JAN 14** – NFIB Small Business Optimism at 6am ET. PPI at 8:30am ET.
- **JAN 15** – Mortgage Applications at 7am ET. Empire Mfg, **CPI** and Real Avg Hourly Earnings at 8:30am ET.
- **JAN 16** – **Retail Sales**, Import/Export Price, Philly Fed Business Outlook, NY Fed Services Business Activity, and Initial Jobless Claims at 8:30am ET. Business Inventories and NAHB Housing Market Index at 10am ET.
- **JAN 17** – Housing Starts and Building Permits at 8:30am ET. Industrial Production, Capacity Utilization, and Mfg Production at 9:15am ET. TIC Flows at 4pm ET.

#### EARNINGS

JPM US Earnings Calendar [here](#)

US Analyst Focus List [here](#)

- **JAN 13** – KBH, MDRX, TTAN
- **JAN 14** – AILEQ, APLD, LUNA, RENB
- **JAN 15** – BK, **BLK, C, FUL, GS, JPM, WFC**
- **JAN 16** – **BAC, JBHT, MS, MTB, PNC, UNH, USB**
- **JAN 17** – CFG, FAST, HBAN, KMI, RF, SLB, STT, TFC

### GLOBAL CALENDAR

- **JAN 12 [SUNDAY]** – (China) Exports, Imports, and Trade Balance.
- **JAN 13** – N/A
- **JAN 14** – (Japan) Money Stock M2 and Money Stock M3.
- **JAN 15** – (Japan) Machine Tool Orders. **(UK) CPI and Retail Price Index** at 2am ET. **(Eurozone) Industrial Production** at 5am ET. **(Japan) PPI** at 6:50pm ET. (UK) RICS House Price Balance at 7:01pm ET.
- **JAN 16** – (UK) Industrial Production, Manufacturing Production, and Trade Balance at 2am ET. (Canada) Housing Starts at 8:30am ET. **(China) GDP, Industrial Production, and Retail Sales** at 9pm ET.
- **JAN 17** – **(UK) Retail Sales** at 2am ET.

**NEAR TERM CATALYSTS** – CPI (Jan 15, Feb 12), ISM-Mfg (Feb 3, Mar 3), ISM-Srvcs (Feb 5, Mar 5), PMI-Mfg (Jan 24, Feb 21), PMI-Srvcs (Jan 24, Feb 21), NFP (Feb 7, Mar 7), PCE (Jan 101, Feb 28), Retail Sales (Jan 16, Feb 14). **FED DATES**: Jan 29, Mar 19. **FED MINUTES**: Feb 19 (for Jan 29 mtg).

## NEWS LINKS

- Los Angeles Wildfires Push Fragile California Insurance Market to Its Limit ([BBG](#))
- Stocks Are Close to Wiping Out Trump Bump as Rate Fears Kick In ([BBG](#))
- Soaring Global Bond Yields Are a Warning for 2025 ([BBG](#))
- Nvidia Partners With Illumina and Mayo Clinic in Health Push ([BBG](#))
- Higher for Longer Rates Imply a Turbulent Year ([BBG](#))
- Biden's total student debt relief passes \$183 billion, after he forgives another 150,000 borrowers ([CNBC](#))
- Retailers post early holiday results — and Wall Street isn't impressed ([CNBC](#))
- 10-year Treasury yield touches fresh 14-month high ahead of key inflation reports ([CNBC](#))
- Several commodities face headwinds in 2025 — but this metal's record rally is set to continue ([CNBC](#))
- Robust US economy may not need Trump's big reforms ([RTRS](#))
- Euro zone savings rate dips in Q3 but stays exceptionally high ([RTRS](#))
- China exports accelerate amid trade tensions, imports surprise ([RTRS](#))
- ECB seeking middle ground with rate cuts, Lane tells newspaper ([RTRS](#))
- Investors Hope Earnings Can Revive Faltering Stock Rally ([WSJ](#))
- U.S. Targets China With New AI Curbs, Overriding Nvidia's Objections ([WSJ](#))
- China's Export Boom Means Trump Tariffs Would Hit Beijing Where It Hurts ([WSJ](#))
- Japan Fires Starting Gun on Global Wave of Auto Mergers ([WSJ](#))

## SELECT JPM RESEARCH – MARKET INTELLIGENCE IS NOT A PRODUCT OF RESEARCH

### ***JPM RESEARCH 2025 OUTLOOK***

- **EQUITIES (LAKOS-BUJAS)** –
  - **DUBRAVKO'S 2025 SPX PRICE TARGET IS \$6,500.**

- In 2025 global equity markets should face a fluid backdrop with many cross-currents at the forefront. The central equity theme for next year is one of higher dispersion across stocks, styles, sectors, countries, and themes. Higher dispersion should improve the opportunity set and provide a healthier backdrop for the active management industry after consecutive quarters of record narrow and unhealthy equity leadership. De-coupling central bank paths, uneven disinflation progress and technological innovation will continue to drive divergence across business cycles globally. Moreover, heightened geopolitical uncertainty and evolving government policy agendas are introducing unusual complexity to the outlook, requiring one to maintain an open mind and a flexible approach to investing.
- The US exceptionalism story could face turbulence and heightened volatility on the back of policy changes in 2025, but opportunities are likely to outweigh risks. The benefit of deregulation and a more business-friendly environment are likely underestimated along with potential for unlocking productivity gains and capital deployment. US is to remain the global growth engine with the business cycle in expansion, a healthy labor market, broadening of AI-related capital spending, and prospect of stronger capital market and deal activity. Europe continues to face structural challenges while Emerging Markets struggle with higher-for-longer rates, strong USD, and incremental trade policy headwinds.
- The current polarized regional equity performance will likely remain in place going into 2025, with US equities preferred over Eurozone and Emerging Markets. As 2025 progresses, there exists the potential for a convergence trade, given extreme relative positioning, valuations and price divergences across regions. However, more clarity is first needed on global trade and geopolitics. In the meantime, lack of a quality substitute to US equities remains the reality.

**Figure 1: 2025 Equity Index Price Targets and EPS Forecasts**

	Developed Markets				Emerging Markets			
	US	Eurozone	UK	JP	EM	China	Asia ex-JP	LatAm
Index	S&P 500	MSCI Eurozone	FTSE100	TOPIX	MSCI EM	MSCI China	MSCI AXJ	MSCI LATAM
2025 Price Target	\$6,500	€ 300	£8,600	¥3,000	\$1,150	HK\$67	\$750	\$2,250
% upside	~9%	~5%	~4%	~10%	~5%	~7%	~6%	~8%
JPM EPS	\$270	€ 21.2	£705	¥196	\$88	HK\$6.51	\$54	\$230
YoY Growth	~11%	~3%	~5%	~7%	~7%	~8%	~8%	~10%
Consensus EPS	\$275	€ 22.3	£720	¥201	\$94	HK\$6.62	\$57	\$243
YoY Growth	~13%	~8%	~7%	~10%	~15%	~10%	~14%	~16%

Source: J.P. Morgan Global Equity Macro Research

- **ECON (KASMAN) –**

- The global expansion remained resilient this year with elevated inflation limiting central banks' room to ease. These developments aligned with our forecast, but GDP growth proved stronger and more divergent than expected.
- Robust US outperformance and global manufacturing weakness (outside tech) was a surprise. The contrast between stable goods prices and elevated service price increases was anticipated.
- Our fear that high interest rates would start to "boil the frog" and eventually damp growth has yet to materialize. Global nominal GDP rose faster than 5% and financial conditions eased despite restrictive stances. Profit margins were thus able to remain near their peaks, and labor income and wealth gains maintained household sector health.
- Given solid fundamentals, we are more sympathetic to scenarios in which the expansion can be sustained with high interest rates. Support for a "high-for-real-long" baseline is also found in asymmetric central bank reaction functions; they are unlikely to hike in the face of modestly elevated inflation but will ease quickly if labor markets weaken.
- Our 2025 baseline forecast extends this year's performance with resilient global growth—a sharp China slowdown the notable exception—and core CPI inflation remaining close to 3%. Less synchronized central bank rate action should be a key new development. Substantial easing in Western Europe and Canada is expected to contrast with limited action by the Fed and most EM central banks.
- A Republican election sweep will alter US and global policy and increase outlook risk. The considerable uncertainty around the timing and magnitude of these shifts makes it hard to calibrate forecasts, but the direction of travel is clear enough to start adjusting forecasts.
- The global economy should experience a negative supply shock as US tariffs on China rise and as immigration is restricted across the DM. These impulses should raise inflation broadly and slow central bank easing.
- Policy actions will temper the negative growth impact of these shocks. In the US, we expect a boost to demand from anticipated fiscal and regulatory policy shifts, and we have raised our 2025 GDP forecast by 0.4%-pt.
- Fiscal policies elsewhere are expected to help cushion the trade war impact. In China, we have lowered our GDP forecast 0.8%-pts as additional fiscal stimulus and a yuan decline tempers a large negative trade shock.
- If the US turns aggressively inward by sharply curtailing trade and attempting large-scale deportations, the fallout would be a far more adverse global supply shock. The disruptive impact of this shock would be amplified by retaliation and a global sentiment



slide. The risk of a large and broad-based negative shock to business sentiment is the major threat to the global expansion next year.

- **US ECON (FEROLI) –**

- The election has sparked dueling boom-bust narratives on the path ahead
- There are now upside risks to growth from deregulation and tax cutting and downside risks from tariffs and general policy uncertainty
- But one shouldn't lose sight of the business cycle, which has been performing well
- We look for only a mild downshift in growth in 2025 to 2%, with a small additional rise in the unemployment rate to 4.5%
- Core PCE inflation expected to decelerate a half-point next year to 2.3%
- We look for the Fed to cut 25bps in December and another 75bps by the end of 3Q25, then stop at 3.75%
- Labor supply is set to slow over the next couple years, with breakeven payroll growth falling under 100k by 2026...
- ... while labor demand also keeps moderating, though not enough to create a recession
- Growth will be supported by solid but not spectacular business productivity gains of 1.5-2.0% per year
- Business and residential investment are both projected to increase around 3% next year despite still elevated long-term interest rates
- We assume that tariffs on China will rise sharply but not be raised significantly elsewhere...

- **RATES (BARRY) –**

- We project 100bp of further easing by 3Q25 with the Fed funds rate target range troughing at 3.5-3.75%. OIS forwards are pricing in a more hawkish path than our forecast and look cheap after controlling for Fed speak and growth expectations...
- ... Meanwhile, historical precedents show yields tend to decline through shallow cutting cycles. Coupled with the Fed's asymmetrically dovish bias, we think this favors lower front-end yields in 1H25. Stay long 2-year Treasuries
- Longer-dated Treasuries have diverged sharply from their fundamental drivers recently, but we think there's limited room for yields to decline...
- ...This cheapening reflects higher term premium, supported by the shift in demand toward price sensitive investors. Over time, we expect this shift to continue, and recommend positioning for higher term premium via 64:11 weighted 3s/10s/30s belly-cheapening butterflies

- The long end should steepen as front-end yields decline, but we recommend avoiding wider steepeners which could be exposed to expanding term premium: maintain 10s/30s steepeners
- Overall, we project a modest weakening in the supply/demand imbalance in 2025, which should help to keep yields anchored at higher levels
- **FX (CHANDAN) –**
  - The baseline is for USD to strengthen to new highs on amplified US exceptionalism, still-high rates, stronger productivity and a growing innovation gap. The election is not yet fully priced. Fed cuts will not be a sufficient condition to reverse recent USD strength/ drive sustained USD weakness; this will also require growth to pick up ex-US which now looks unlikely. The high yielding status of USD will keep the smile narrow, but large US twin deficits keep us vigilant to risk factors like US data moderation or tariff under-delivery.
  - Top tradeable themes for 2025: (1) Tariff risk which is broadly USD bullish, (2) relative reliance on manufacturing, (3) mitigating policy responses from RoW (FX with fiscal room/ FX reserves more insulated vs. rate-cutters), and (4) non US-election issues (recovery for early cutters, valuations, repatriation potential, rate convergence). More broadly, conditions are in place for G10 carry to still deliver positive but moderating returns so long as US terminal rate stays elevated, but prospects for global FX carry still look bleak.

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