



Wealth Management

# NextGen

Summer Seminar— U.S. Outlook

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**Deutsche Bank**



# US outlook: Easy come, easy go, little high, little low

June 2025

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# Key points

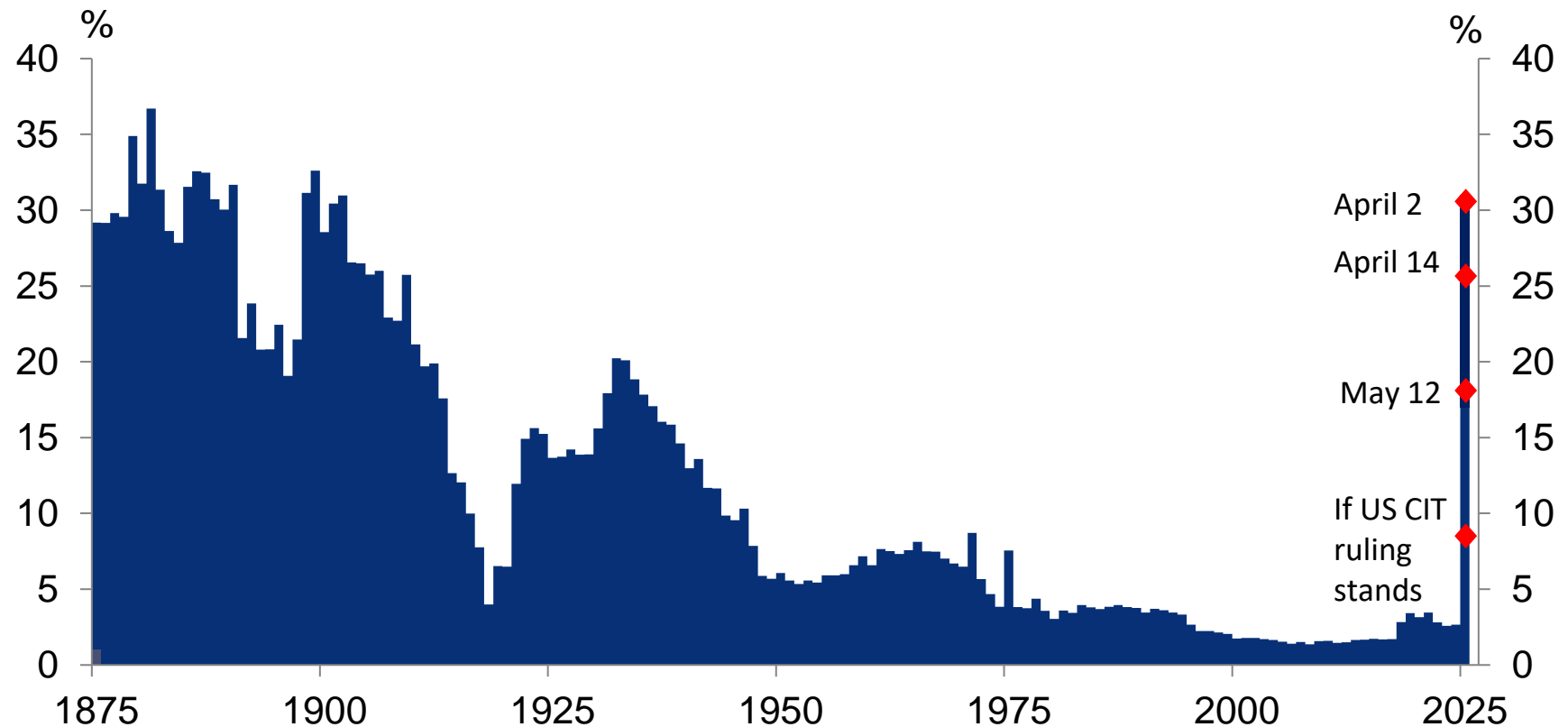
- Policy assumptions: Trade policy on a bumpy de-escalation path and “One big beautiful” bill passed around mid-July
- Economy likely to slow in H2 2025 but avoid recession
- Consumer sentiment is downbeat but fundamentals are resilient
- Labor market to soften modestly, with unemployment ~4.5%
- Tariffs to lift inflation, core PCE 3-3.5% end 2025
- Fed to cut 25bps in December; neutral rate is higher (3.5-3.75%)
- Long-term yields likely to stay elevated (10s at ~4.5%)

Source: Deutsche Bank



# Trade shock: Effective tariff rate near highest in a century

## Average US tariff rate

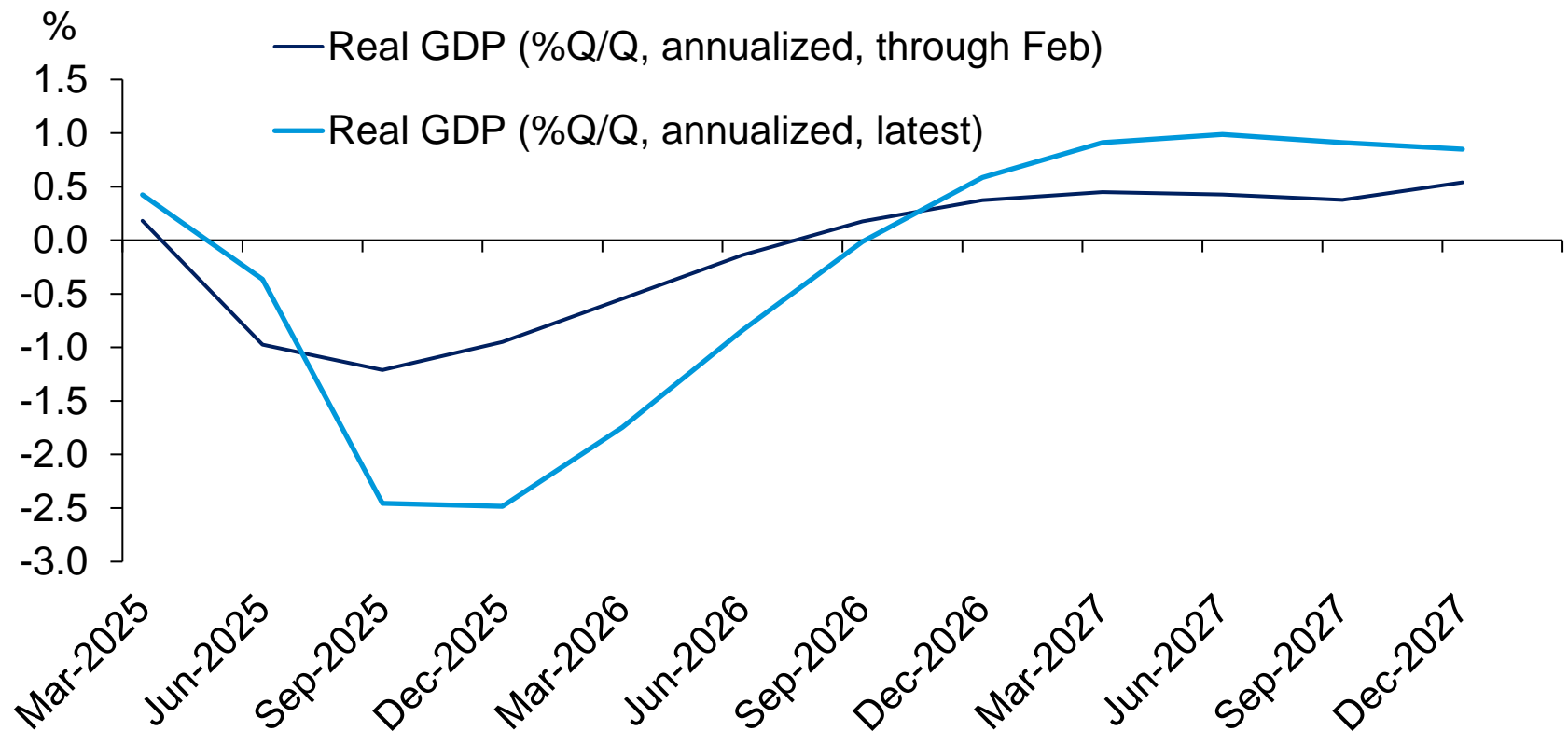


Source: St Louis Fed, BEA, USITC, Macrobond, Deutsche Bank



# The spike in trade policy uncertainty will exert a meaningful drag on growth in H2 2025

## Impact of TPU on real GDP growth

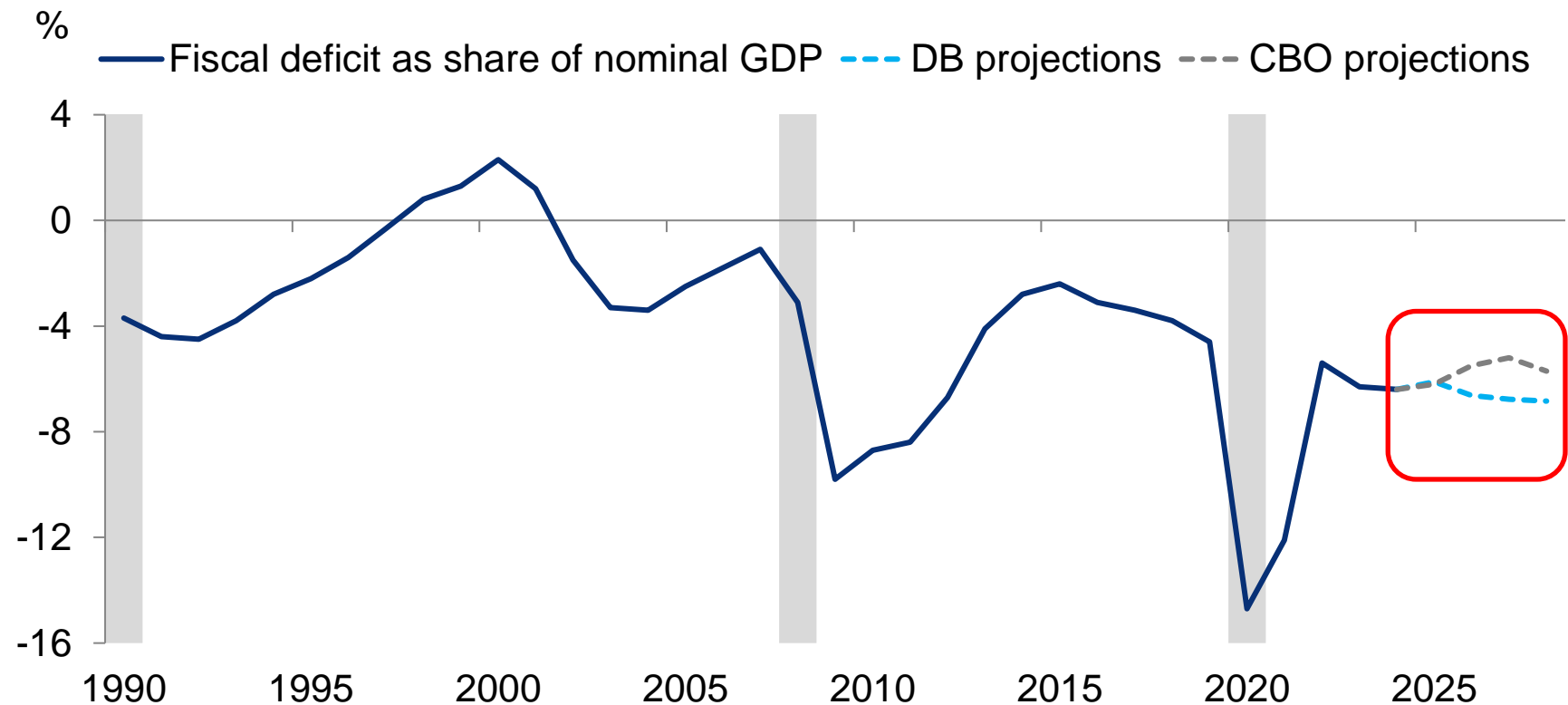


Source: BEA, Haver Analytics, Deutsche Bank



# The “One big beautiful bill” will keep budget deficits elevated in the near term

## Fiscal deficit as share of nominal GDP

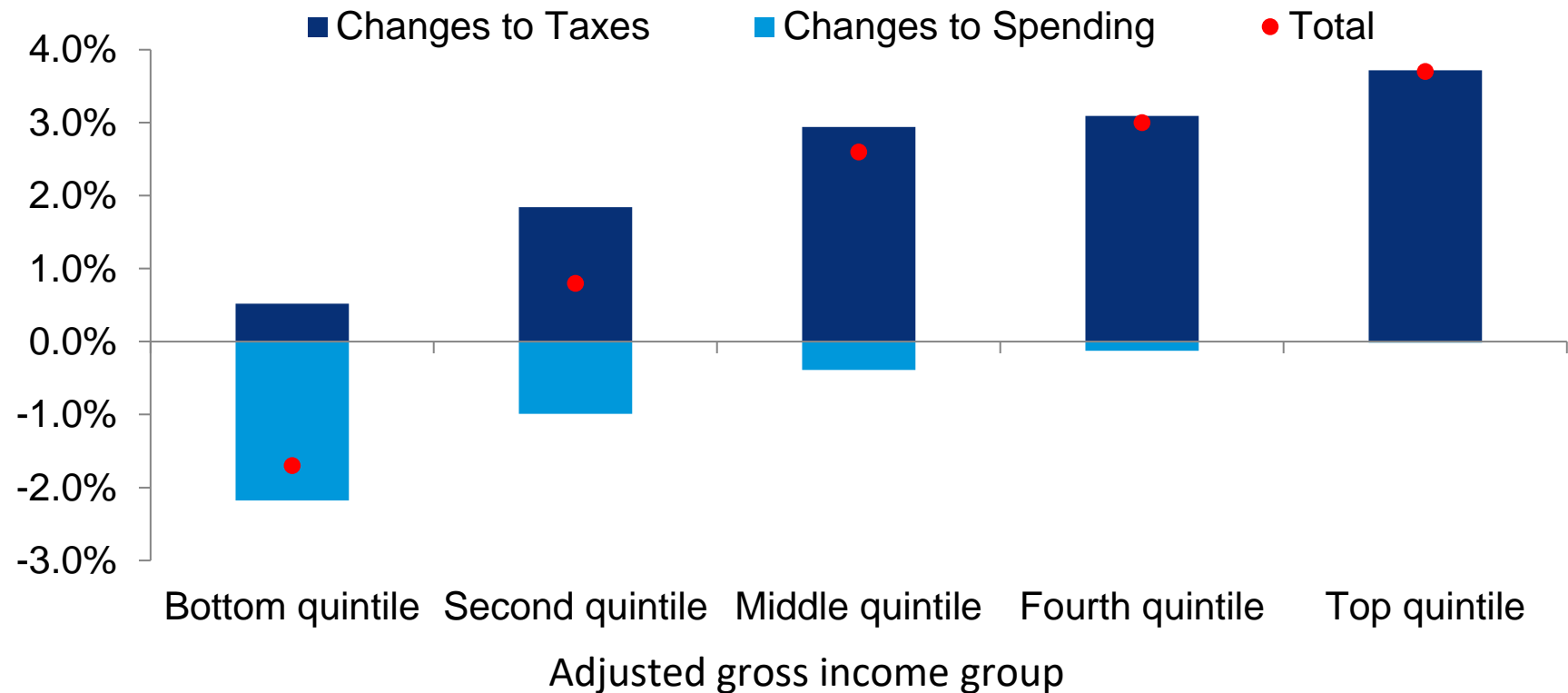


Source: CBO, BLS, Haver Analytics, Deutsche Bank



# The “One Big Beautiful Bill” has very different effects across the income distribution

## Percent change in after-tax-and-transfer income

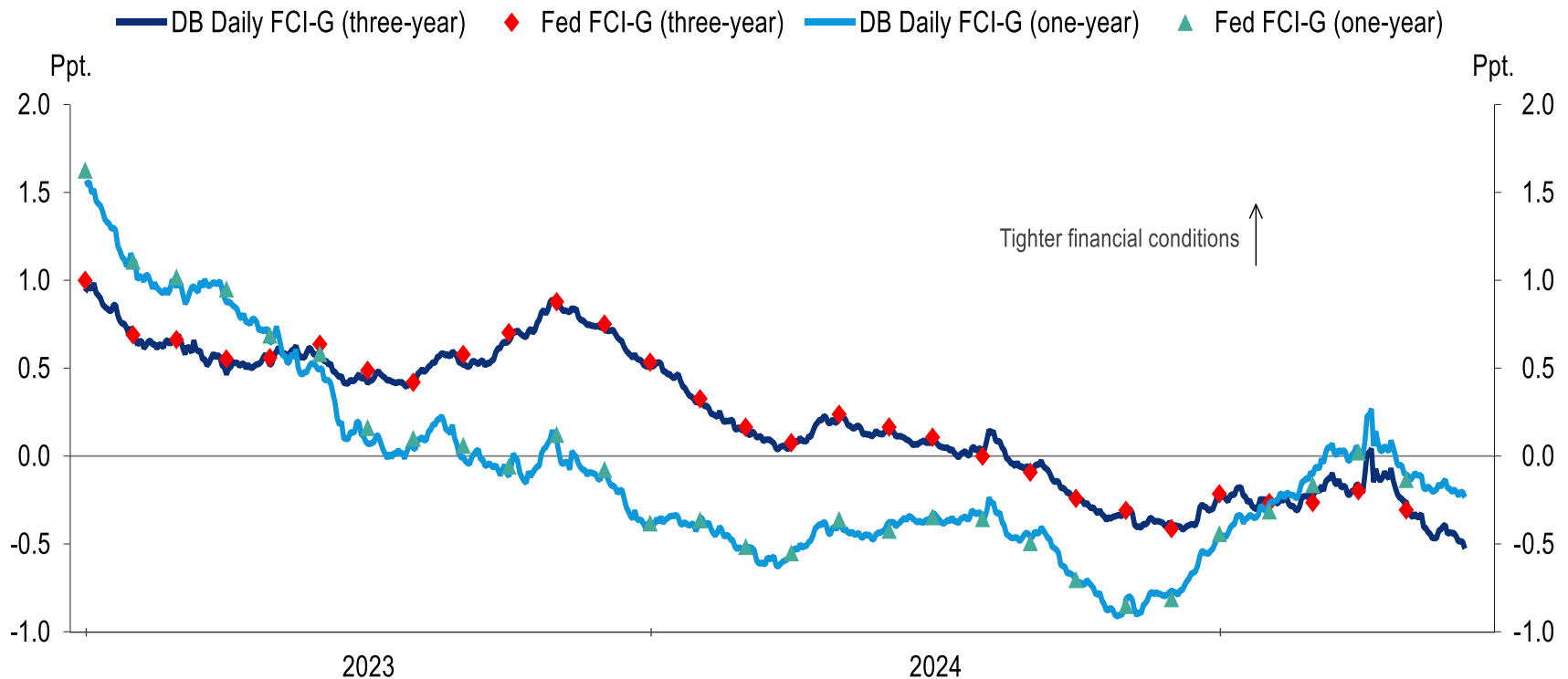


Source: Yale Budget Lab, Deutsche Bank



# Financial conditions have eased considerably

## Financial conditions



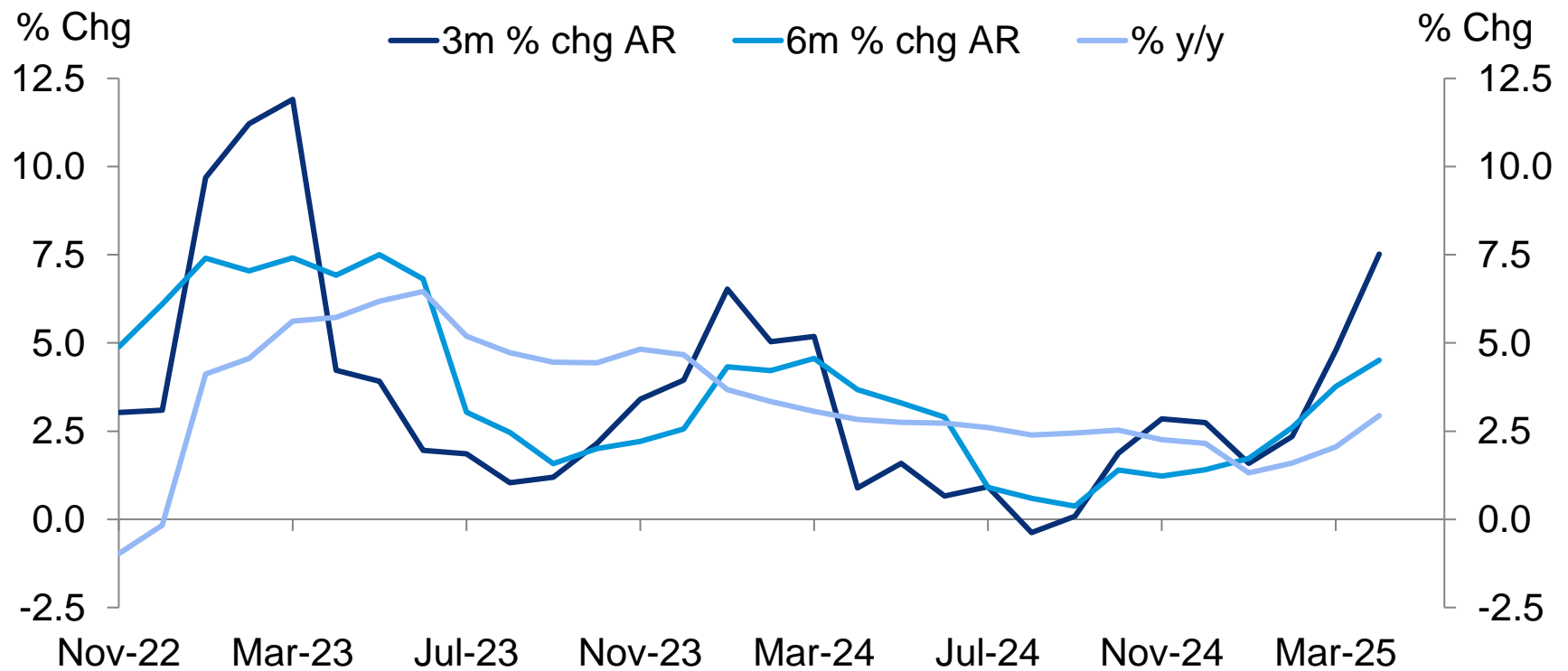
Source: Fed, U.S. Treasury, Macrobond, S&P Global, Zillow, Redfin, ICE, Bloomberg Finance LP, Deutsche Bank



# Real disposable income growth trends have improved



## Real disposable personal income

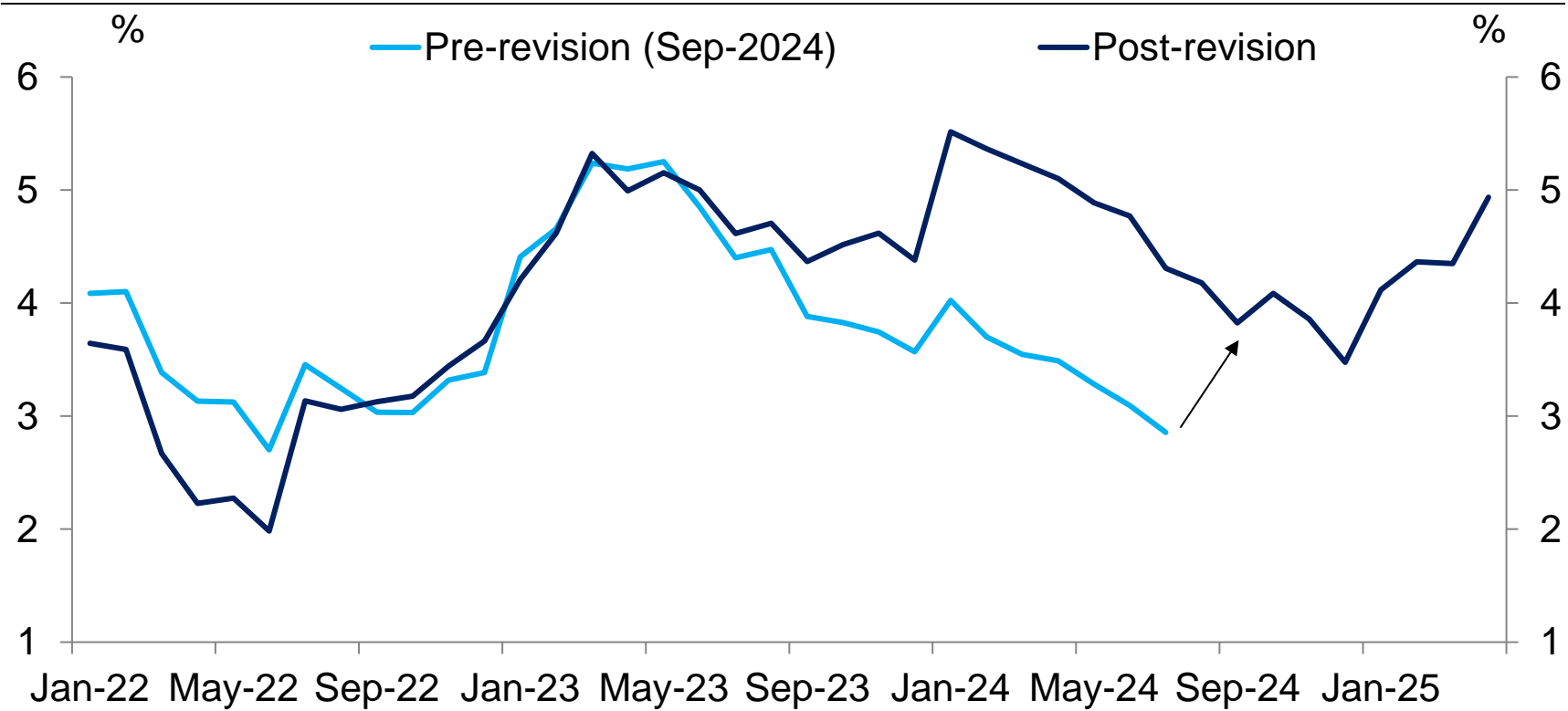


Source: BEA, Haver Analytics, Deutsche Bank



# Personal saving rate has risen noticeably

## Personal saving rate

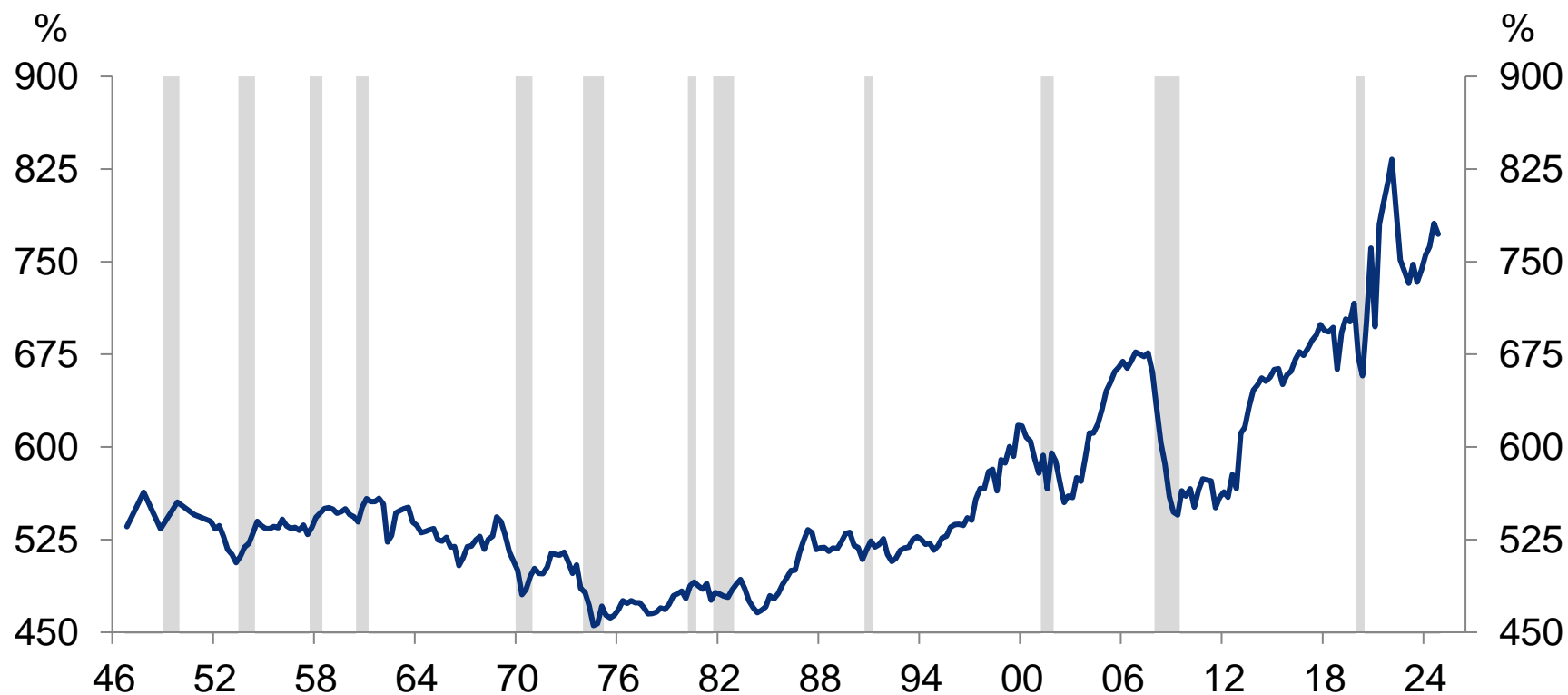


Source: BEA, Haver Analytics, Deutsche Bank

# Household net worth-to-income ratio near record highs



## Household net worth as % of disposable personal income

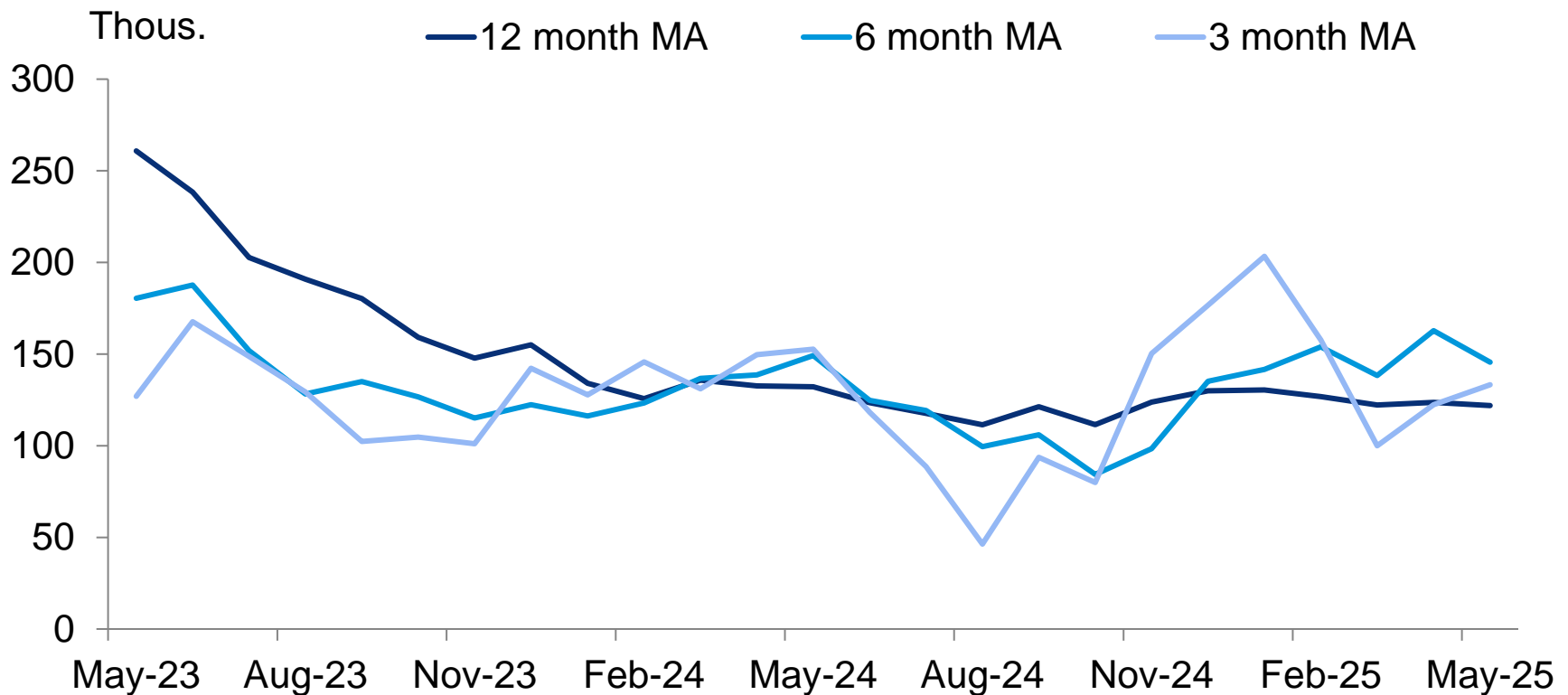


Source: FRB, Haver Analytics, Deutsche Bank



# Payroll gains have been stable

## Change in total private employment

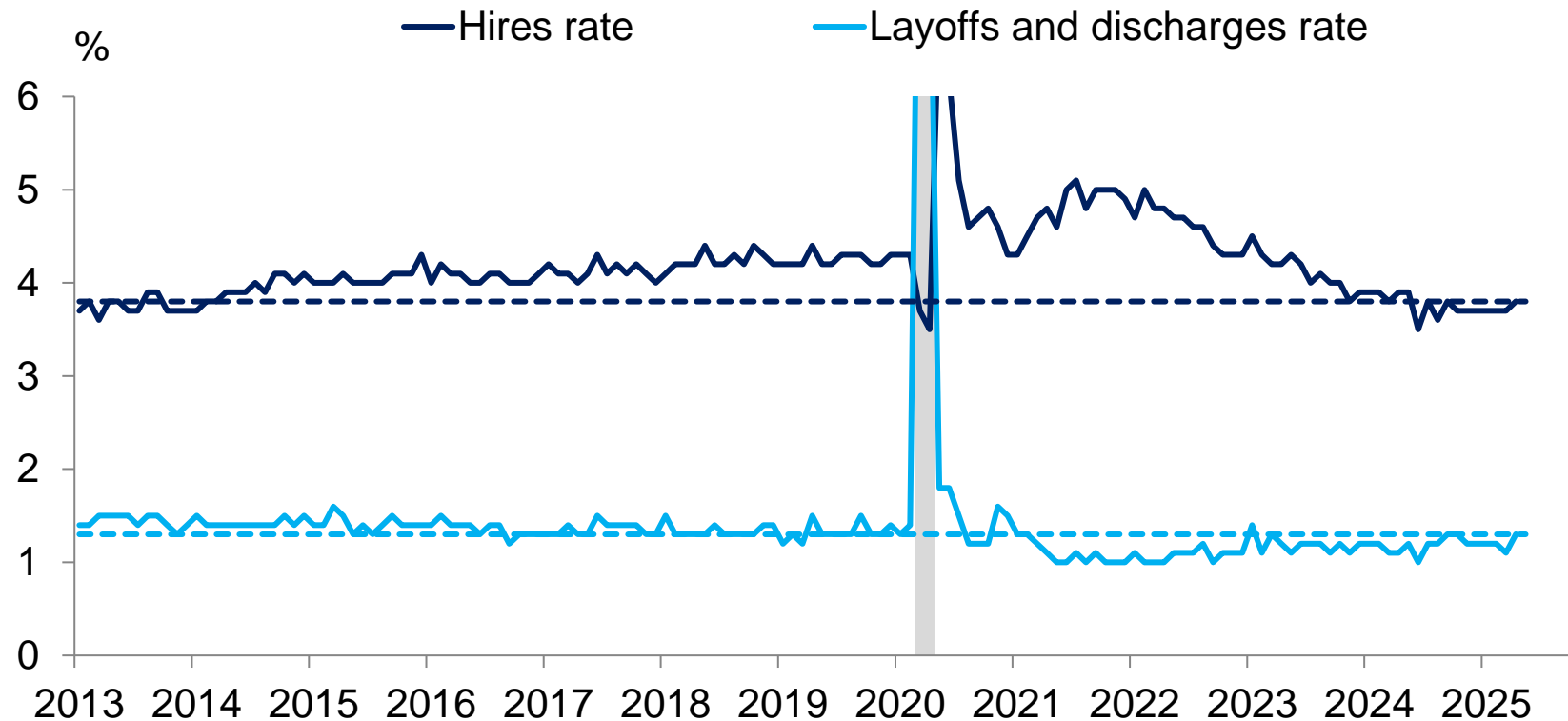


Source: BLS, Haver Analytics, Deutsche Bank



# But the labor market continues a fragile equilibrium with low hiring and firing

## Hires, discharge and layoff rates

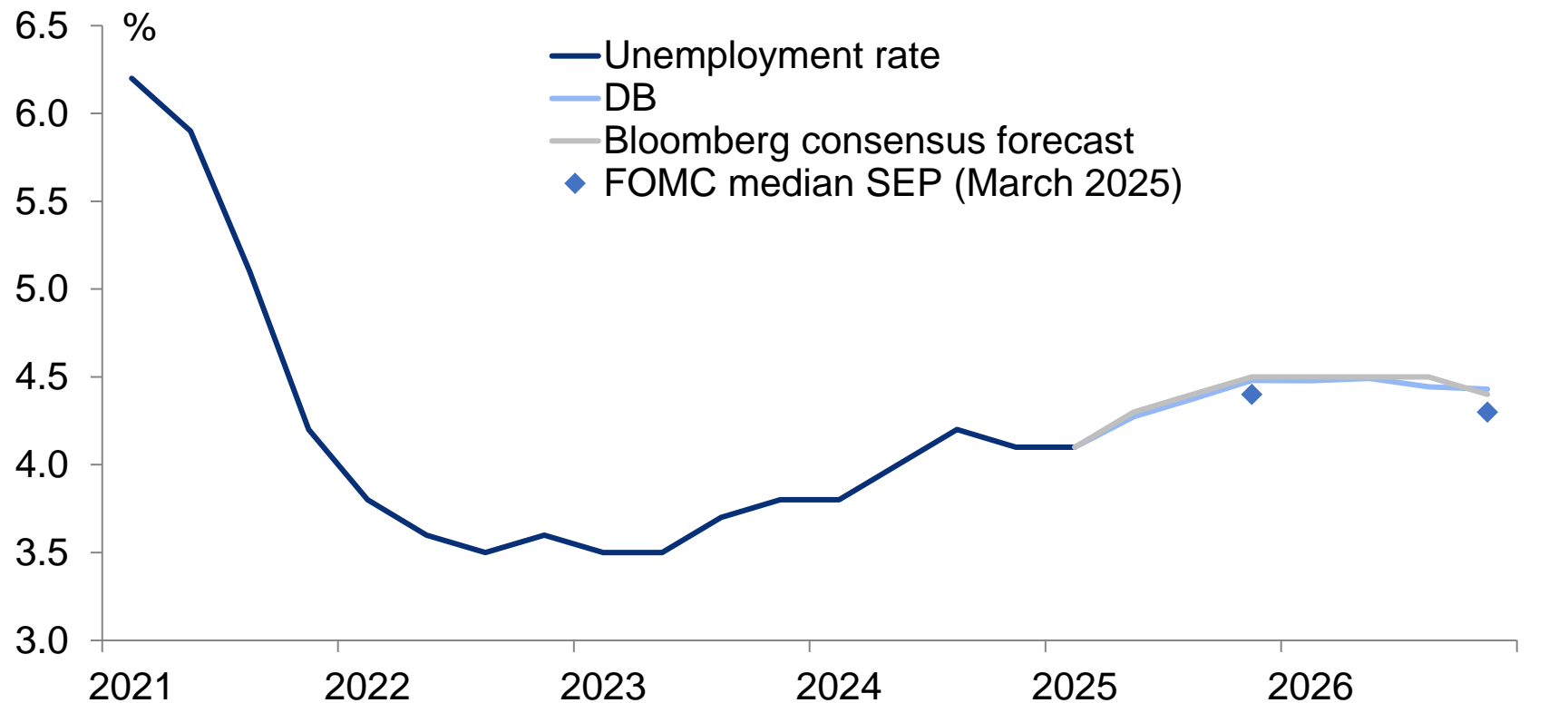


Source: BLS, Haver Analytics, Deutsche Bank



# Unemployment rate now expected to peak at 4.5% this year

## Unemployment rate forecasts

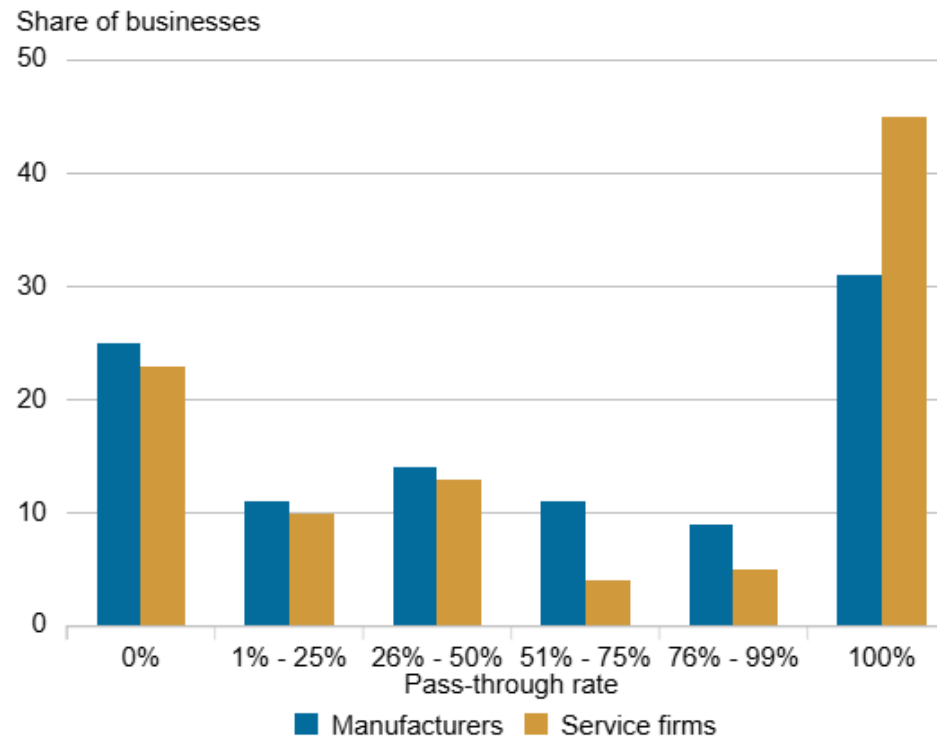


Source: BLS, Haver Analytics, Bloomberg Finance LP, FOMC, Deutsche Bank



# NY Fed survey shows firms passing through 50% or more of tariffs to prices

## Most Businesses Passed Through Some or All of the Tariffs



Source: Federal Reserve Bank of New York, Regional Business Surveys, May 2025.

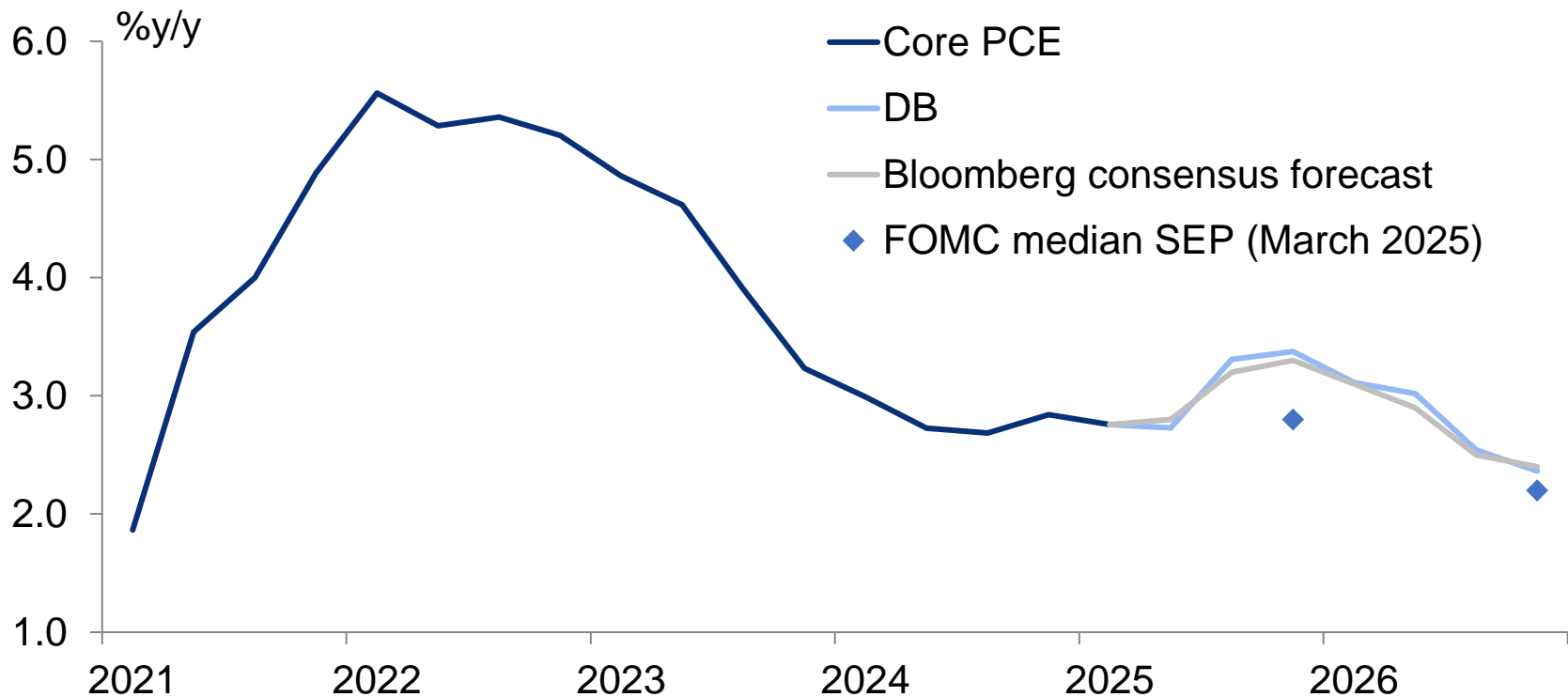
Note: Figures are based on businesses that reported an increase in the cost of their imported goods owing to tariffs over the past six months.

Source: FRB NY, Deutsche Bank



# DB inflation forecasts see rise in 2025, greater slowdown in 2026

## Core PCE inflation forecasts



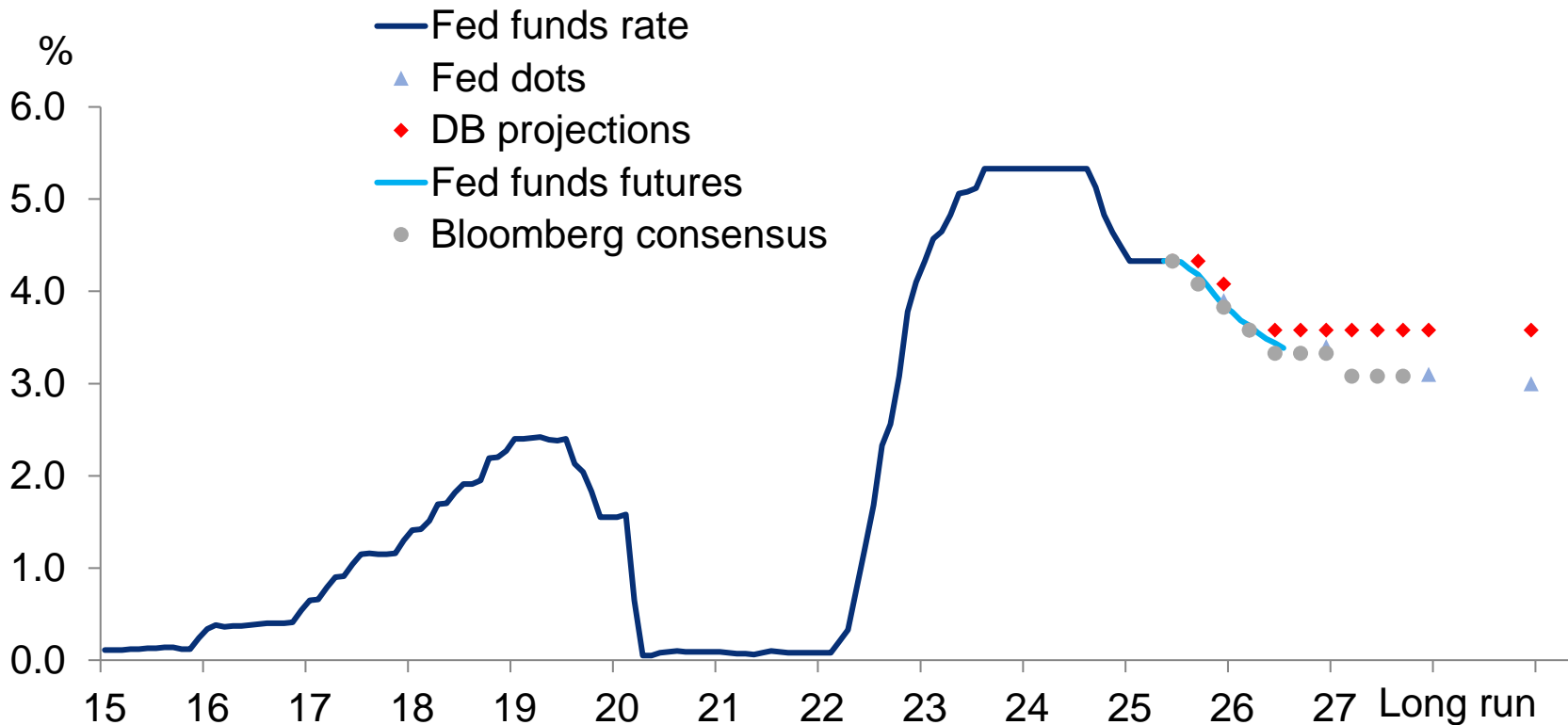
Source: BEA, FOMC, Haver Analytics, Bloomberg Finance LP, Deutsche Bank





# DB Fed forecast: 25bp cut in Dec, 50bps more in Q1 2026, and neutral fed funds rate ~3.5%

## Fed rate forecasts

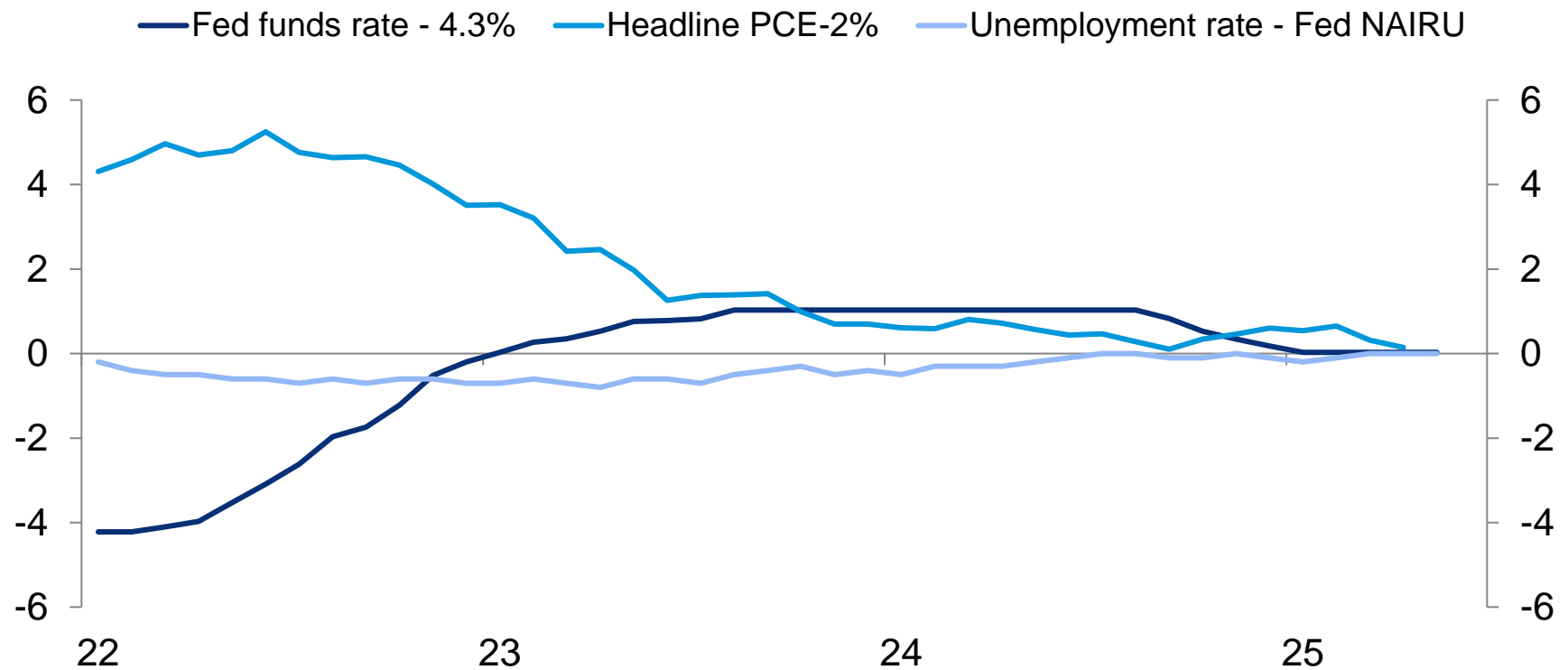


Source: FRB, Haver Analytics, Bloomberg Finance LP, Deutsche Bank



# Is the Fed at neutral? Economy appears to have converged to steady state

## Variables versus current value / targets

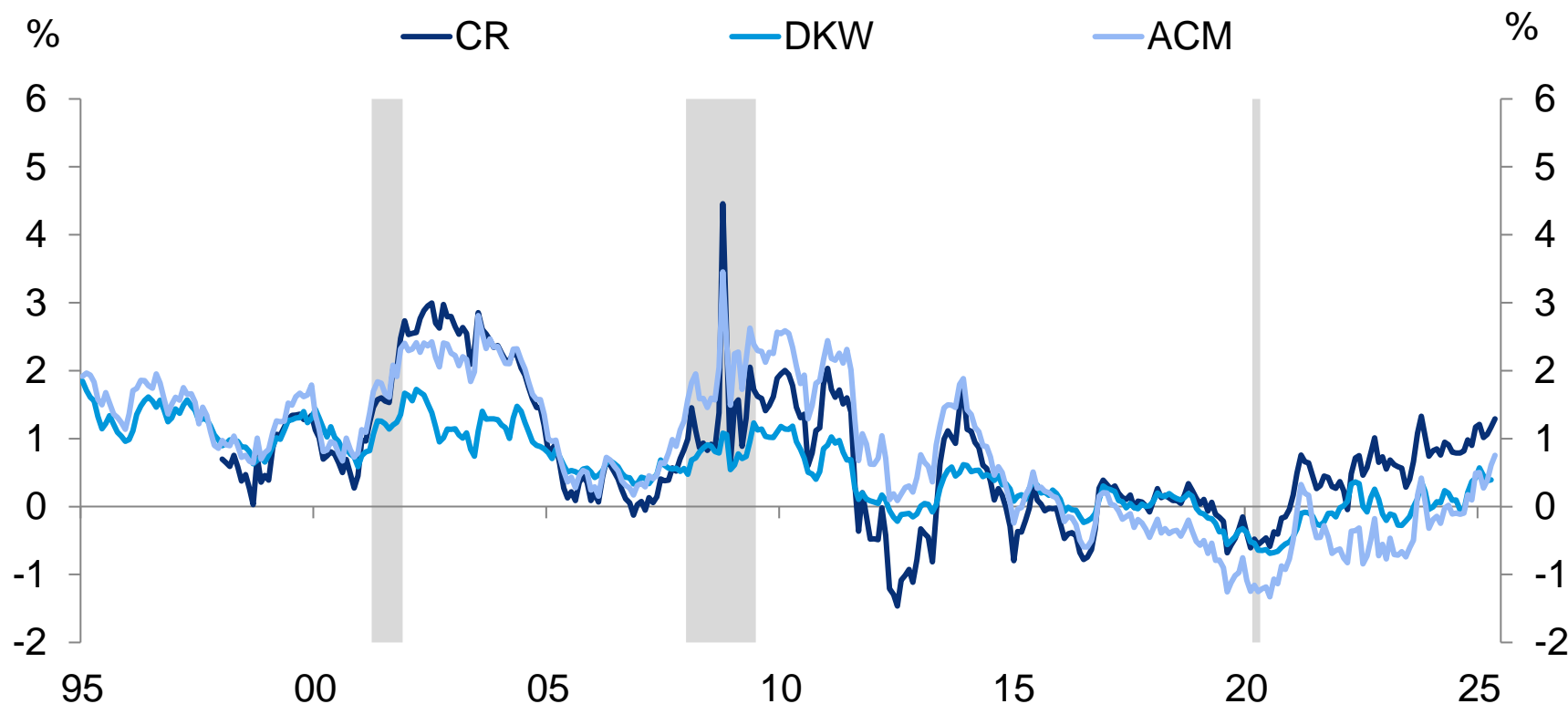


Source: FRB, BEA, BLS, Haver Analytics, Deutsche Bank

# Term premia on the rise, and could have further to go



## 10-year term premium estimates



Source: FRBSF, Federal Reserve Board, FRBNY, Haver Analytics, Deutsche Bank



# DB US economic forecast summary

Economic Activity (% qoq, saar)	2025				2026				2027				2025F	2026F	2027F
	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q4/Q4	Q4/Q4	Q4/Q4
GDP	-0.2	2.1	1.1	1.3	1.7	1.8	2.1	2.5	2.2	2.4	2.1	2.2	1.0	2.0	2.2
Private consumption	1.2	2.5	1.4	1.5	1.6	1.7	1.9	2.1	2.1	2.2	2.1	2.2	1.6	1.8	2.1
Investment	24.4	-18.9	0.5	1.2	2.5	2.7	2.9	4.3	3.1	3.6	2.6	2.5	0.6	3.1	3.0
Nonresidential	10.4	-5.9	0.7	0.9	1.2	2.3	2.4	2.4	2.8	2.8	3.2	3.2	1.4	2.1	3.0
Residential	-0.6	-2.0	-3.0	-3.0	-2.0	2.0	3.0	3.0	2.5	2.4	2.6	2.3	-2.2	1.5	2.4
Gov't consumption	-0.7	0.9	-0.4	0.1	1.1	1.8	1.6	1.7	1.5	1.5	1.5	1.5	0.0	1.6	1.5
Exports	2.4	-9.3	2.0	1.5	1.6	2.1	2.1	2.0	2.0	2.1	2.0	2.1	-1.0	1.9	2.0
Imports	42.6	-29.0	1.1	1.3	1.7	1.9	1.7	1.9	2.1	2.0	1.9	2.0	0.9	1.8	2.0
Contribution (pp):															
Inventories	2.6	-3.0	0.1	0.2	0.3	0.1	0.1	0.3	0.1	0.2	-0.1	-0.1	0.0	0.0	0.1
Net trade	-4.9	4.6	0.0	0.0	-0.1	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	-0.1	-0.1
Unemployment rate, %	4.1	4.3	4.4	4.5	4.5	4.5	4.4	4.4	4.4	4.4	4.3	4.3	4.5	4.4	4.3
<b>Prices (% yoy)</b>															
CPI	2.7	2.7	3.6	3.7	3.6	3.5	2.8	2.6	2.5	2.5	2.5	2.4	3.7	2.6	2.4
Core CPI	3.1	3.1	3.8	3.8	3.6	3.5	2.9	2.6	2.5	2.5	2.5	2.4	3.8	2.6	2.4
PCE	2.5	2.4	3.2	3.3	3.1	3.0	2.5	2.4	2.4	2.3	2.2	2.1	3.3	2.4	2.1
Core PCE	2.8	2.7	3.3	3.4	3.1	3.0	2.5	2.4	2.3	2.3	2.2	2.1	3.4	2.4	2.1
Fed Funds	4.375	4.375	4.375	4.125	3.625	3.625	3.625	3.625	3.625	3.625	3.625	3.625	4.125	3.625	3.625

Source: Deutsche Bank



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Matthew Luzzetti is Chief US Economist and Head of US Economic Research at Deutsche Bank in New York. He was previously an economist in DB's Office of the Chief Economist in London. Matthew is a panelist for the US Monetary Policy Forum (USMPF) and Senior Vice President for the Forecasters Club of New York. His research has appeared in several books on economic policy and in refereed macroeconomics journals.

Matthew holds a Ph.D. in Economics from the University of California, Los Angeles. While at UCLA, he worked at the U.S. Department of the Treasury in the Office of Financial Research. Prior to graduate school, he spent two years as a research analyst in the macroeconomics department at the Federal Reserve Bank of Philadelphia.



# Appendix 1

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