



MACRO COMMENTARY

June 2025

Charts and Smarts®

Jack Janasiewicz, CFA®

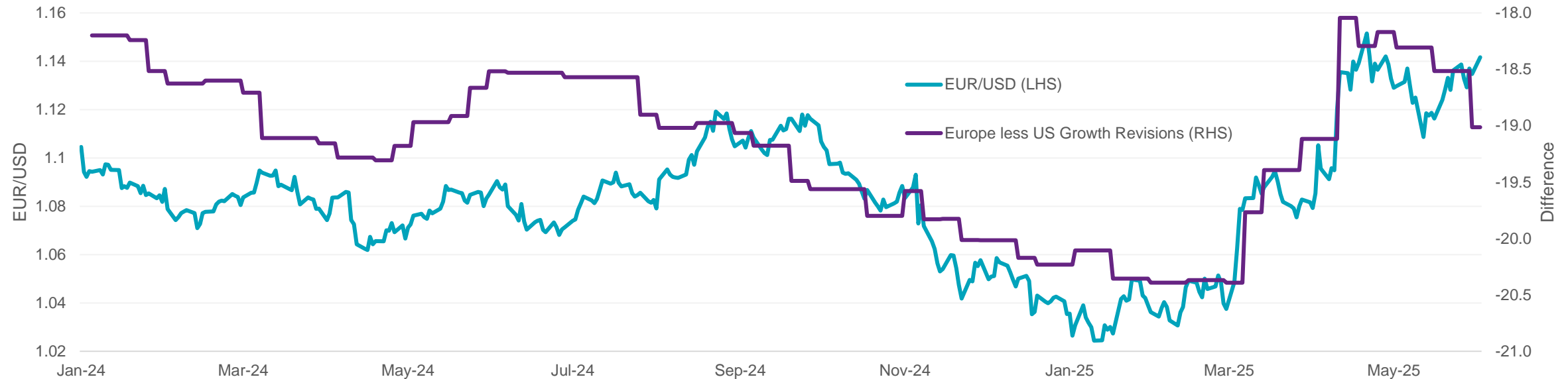
Portfolio Manager and Portfolio Strategist

Garrett Melson, CFA®

Portfolio Strategist

Catch a Wave

EURUSD vs JPMorgan Growth Revisions Index (1/1/24–6/2/25)

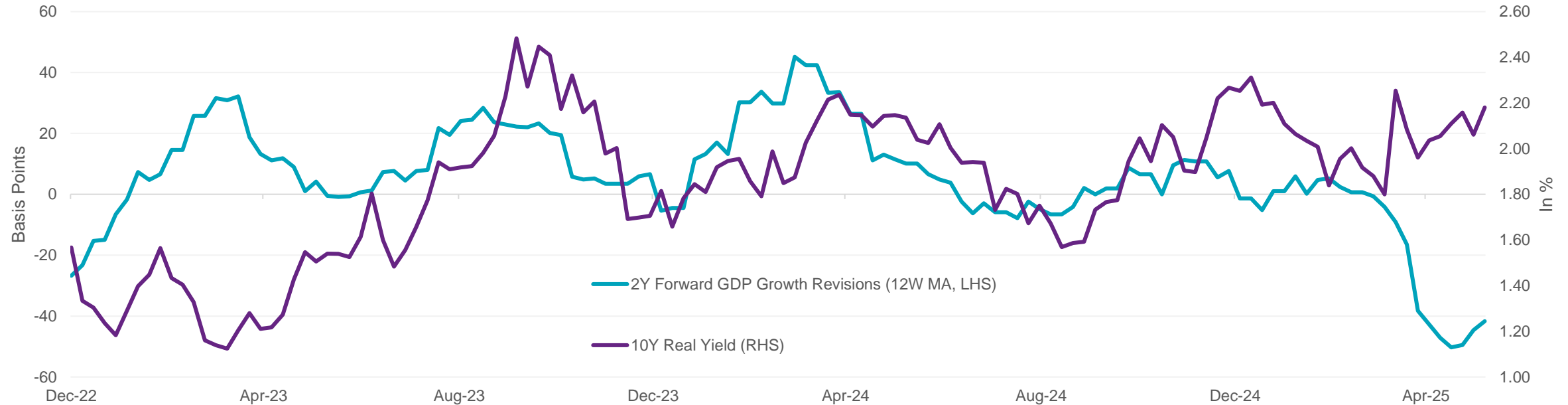


Despite the eye-watering recovery in risk assets since the Liberation Day lows, it remains a bull market in calls that the days of US exceptionalism are over. Bolstering that fear is the US dollar's status as one of the few notable exceptions to the round trip that has occurred cross-assets. The acute fear of capital flight may have subsided, but the lack of a durable bid to the dollar has sustained calls that the dollar is bound for continued weakness. While the consensus continues to place blame for the greenback's weakness on a loss in confidence in the US exceptionalism thesis, the true culprit appears far more benign. Yes, the shine has come off the US' exceptional standing on the global stage, but its days of superiority are hardly over. Instead, the failure of the dollar to recoup its losses appear to be simply a function of compressing growth differentials. While rate differentials can and do drive currencies, as they did through much of 2024, growth differentials have taken over as the dominant driver since the growth scare lows of September 2024. As the market fully embraced the concept of secular US exceptionalism as it priced in a Trump victory, growth differentials widened in favor of the US, sending the dollar surging. But that crowded trade began to unwind as the calendar flipped into 2025, first as European growth expectations ticked higher on optimism of a shift in fiscal attitudes in Europe and then as the market sharply revised US growth expectations lower in the wake of Liberation Day. Over that time, the dollar has moved nearly in lockstep with growth differentials, and as those growth differentials have stabilized in recent weeks, so too has the dollar. While narratives continue to abound of a loss of confidence in US assets and the dollar, the dollar's decline and failure to bounce seems to be more a function of compressing growth differentials. Given the bearish consensus and crowded shorts on the dollar, the greater risk into year end may actually be a stable to modestly stronger dollar.

Source: Portfolio Analysis & Consulting, Bloomberg.

Break Away

US GDP Growth Revisions vs 10Y Real Yield (12/30/22–6/6/25)

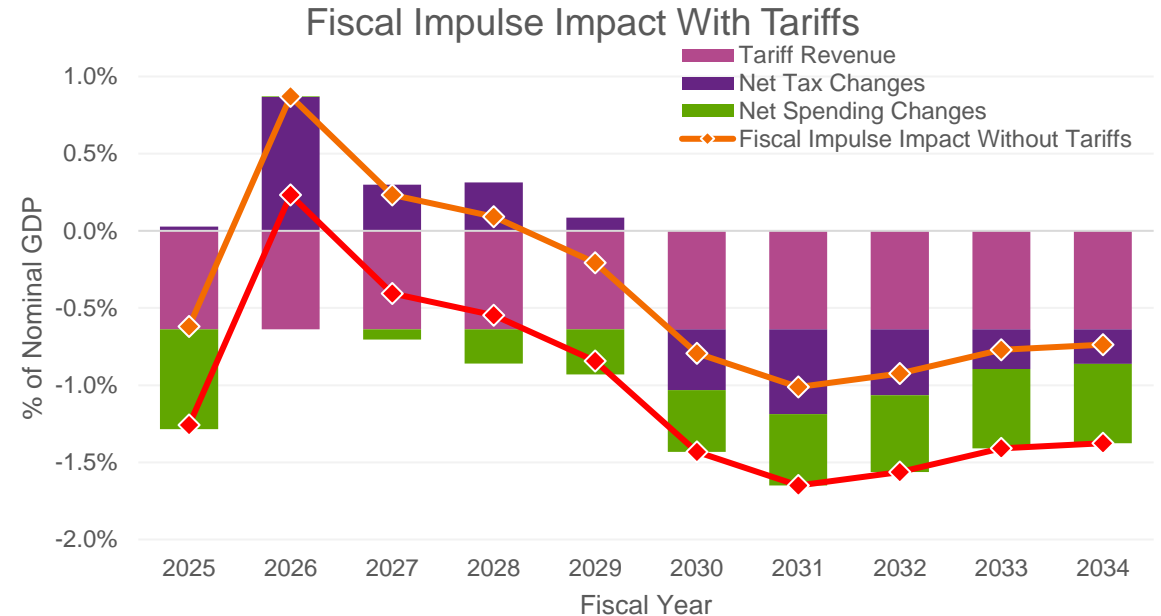
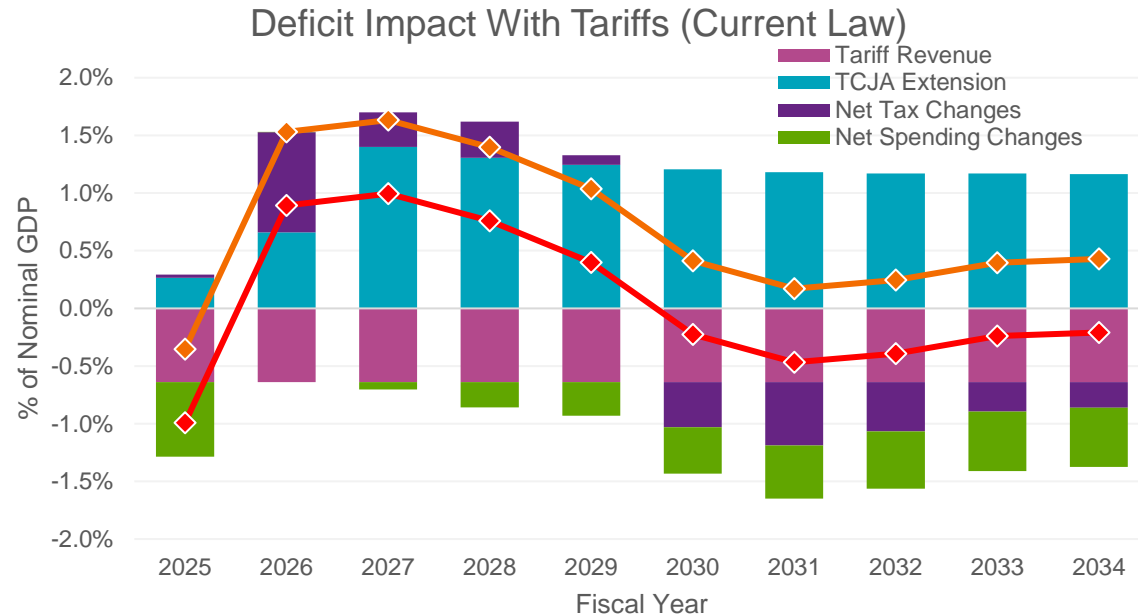


For all the handwringing and head-scratching around the dollar, it's the price action in Treasuries that stands out more so as an outlier as compared to the fundamentals. While consensus growth estimates have been slashed meaningfully, Treasury yields have continued to grind higher, fueled largely by rising real yields. We've heard all the excuses – Treasuries are the new risk asset, international investors are repatriating out of Treasuries, the Bond Vigilantes are responding to fiscal largesse, there's a glut of Treasury supply hitting the market. But these arguments hold little water in our view. Rate volatility has been elevated for years and there's little evidence in available data of meaningful outflows from Treasuries, a largely deficit financed fiscal package is hardly new news, and recent Treasury auctions have in fact been met with robust demand with the exception of a single 20Y auction at a thinly traded portion of the curve. Treasuries have hardly been the outlier on the global stage as global sovereign bonds have sold off in unison over the past few months. The current environment has begun to feel eerily similar to the technical driven overshoots of late 2023 and 2024. The narratives that triggered the move may be a bit different from those selloffs, but it shares the same narrative breakdown and head scratching price action. For all the fears of tariff induced inflation, the loss of confidence in US assets, higher term premium and 30-year yields breaching 5%, when the market begins to focus myopically on Treasury supply, that's a pretty good indicator technicals have taken full control. Nominal growth tends to drive nominal yields and in each of the prior technical selloffs, rates eventually converged towards the fundamentals. We expect this environment will prove no different. After all, there's nothing like a strong whiff of slowing growth to bury those narratives and spur a strong bid into Treasuries.

Source: Portfolio Analysis & Consulting, Bloomberg.

Do It Again

2025 Reconciliation Bill: Deficit Impact vs Fiscal Impulse

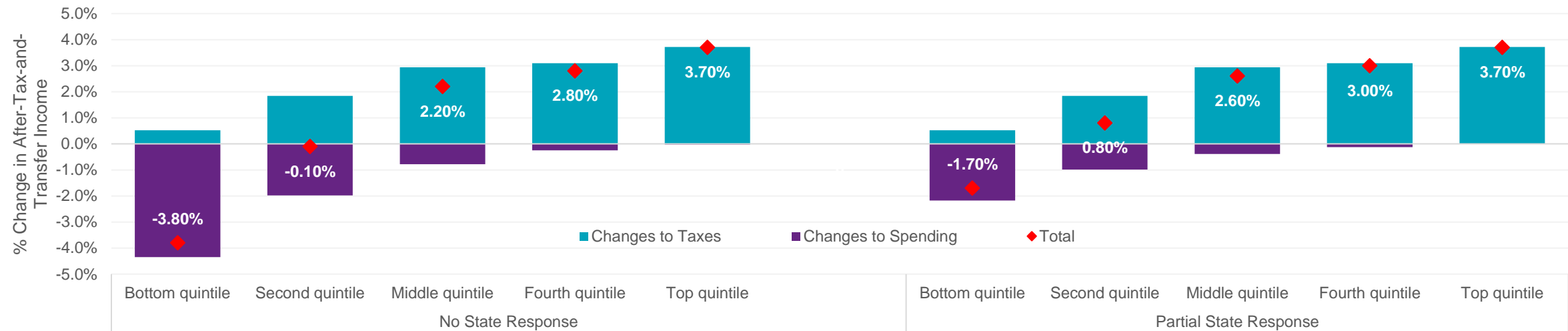


As the Liberation Day shock fades and markets have grown more immune to incremental threats, the focus has shifted across DC to the reconciliation bill making its way through Congress. The so-called One Big Beautiful Bill was supposed to embody the pro-growth side of the administration's agenda headlined by the extension of the Tax Cuts and Jobs Act (TCJA) tax cuts and incremental cuts Trump promised on the campaign trail. But unpacking the bill leaves a fiscal impulse that looks neither big nor beautiful. While the bill carries a deficit price tag of \$2.4T over the 10-year budget horizon, budget scoring is very different from a fiscal impulse. Recall that the fiscal impulse, or the positive growth impacts of fiscal policy, isn't a function of the size of the deficit, but the change in the size of the deficit. Through that lens, the heart of the bill is the extension of Trump's signature legislation from his first term that simply averts a massive tax hike cliff that markets already expected would be avoided. Backing out the nearly \$4T estimated cost of extending those tax cuts leaves very little in the way of a positive fiscal impulse. Further, assuming tariffs remain in effect over that horizon, that fiscal impulse shrinks even further as tariffs are expected to generate \$2.4T in revenue, without factoring the negative growth effects of the policy which reduce revenues elsewhere in the economy. All told, the Big Beautiful Bill yields a meager 20 basis point fiscal impulse in 2026 before fading to a meaningful growth drag for the remaining years of the budget window as the new tax cuts sunset after 2028 and spending cuts to SNAP and Medicaid ramp up. In total, the \$2.4T budget translates to a nearly \$4T fiscal drag when including estimated tariff revenue. Not so big or beautiful for growth.

Source: Portfolio Analysis & Consulting, Bloomberg, Congressional Budget Office, The Budget Lab at Yale. TCJA represents Tax Cuts and Jobs Act of 2017. Assumes effective tariff rate of 12.9% as of June 1, 2025 tariff rates. Interaction Effects included within Net Spending Changes.

Shut Down

Distributional Effects of 2025 Reconciliation Bill

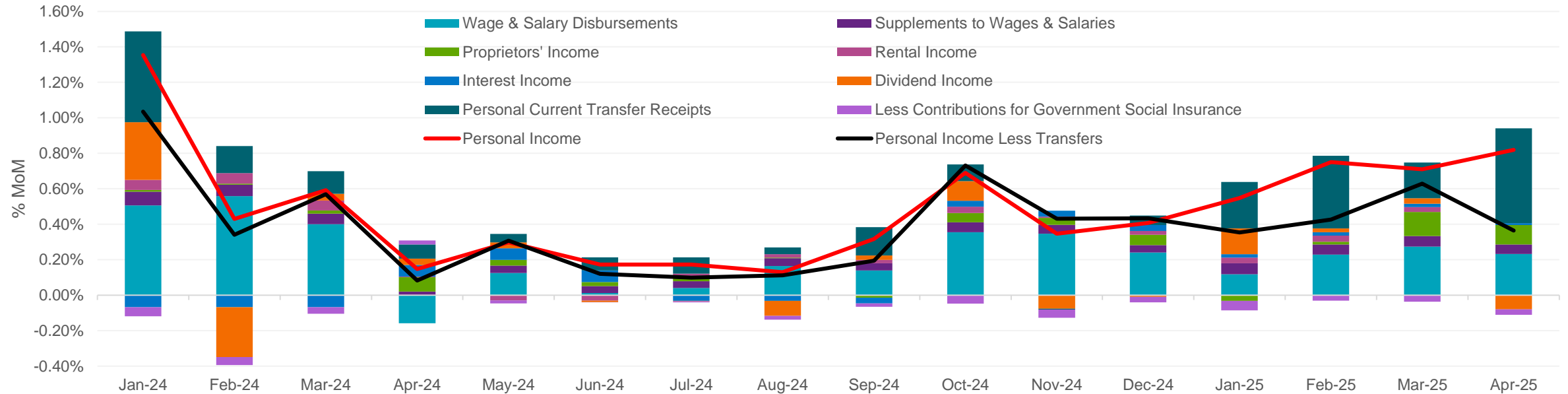


To be fair, a true estimate of the fiscal impulse of the reconciliation goes deeper than simple headline changes in the size of the deficit. One must also consider the multiplier effects for the policies being pursued. Once again, the results are likely to disappoint. We have decades of evidence of the failure of tax cuts to trickle down into a broader economic growth impulse as proponents suggest with much of this failure being a direct by-product of the regressive nature of the tax cuts. The benefits of the proposed tax cuts in the reconciliation bill accrue disproportionately to upper income households with the top quintile of earners seeing a 3.7% increase in after-tax income while the lowest quintile sees just a 0.5% increase. While increased after-tax income for lower-income households is likely to be spent, helping to spur increased consumption, upper income earners, the drivers of the bulk of aggregate consumer spending, have a far greater propensity to save that incremental income. Helpful for equity market multiples, but not necessarily the bottom line. There's another facet to the proposed legislation that shares the same regressive nature of the tax cuts: spending cuts. The largest payfors included in the bill to reduce the deficit financing of the package come in the form of cuts to SNAP (Supplemental Nutrition Assistance Program) and Medicaid, which once again disproportionately affect lower income households. Those cuts are a largely a rounding error for after tax and transfer income for the top 60% of households, but assuming states do not offset that reduced spending to a degree, the federal spending cuts shave an estimated 4.4% and 2.0% from the lowest and second lowest quintile income cohorts, respectively, negating the positive effects of the tax cuts. Assuming some state response alleviates the strain of that reduced spending but leaves the lowest income earners with nearly a 2% reduction in income with little in the way of a positive growth impulse and at the cost of reduced state spending on other measures. While the final bill is likely to be more deficit financed after it makes its way through the Senate, regressive tax cuts plus regressive spending cuts plus regressive tariff policy is not an ideal formula for a positive growth impulse. The outlook for growth largely sits on the shoulders of the private sector.

Source: Portfolio Analysis & Consulting. The Budget Lab at Yale.

Good Timin'

Contributions to Personal Income Growth (1/31/24–4/30/25)



While we're on the topic of transfer payments, personal income has come out of the gates at an impressive pace of 8.8% annualized through the first four months of 2025. While that suggests that the consumer remains on solid footing, nearly 40% of that growth has been driven in large part by transfer payments as a series of one-off payments has led to massive increases in transfer payments in each month. The January spike was a function of annual cost-of-living adjustments for social security benefits. In February, it was health insurance premium tax credits and settlement payouts. In March, the story deviated a bit as the one-off surge showed up in proprietors' income fueled by farm subsidy payments. And finally, in April the story was once again about transfers as retroactive social security benefit payments were distributed to 2.8M pension covered employees under the Social Security Fairness Act. These are all sources of incremental income available to continue supporting consumption, but those one-offs are not sustainable sources of income growth. Wage and salary disbursements, on the other hand, provide a more reliable read on the trajectory of the underlying fuel of consumer spending, and here the trend is clearly one of slowing. Through the first four months of the year, wages and salaries are growing just 2.6% annualized. With labor market momentum grinding to a halt and slack steadily building, wage growth is likely to continue cooling, weighing further on the consumption. Fortunately, rate cuts are an easy solution to what ails labor markets and the economy more broadly. Unfortunately, with tariff induced inflation risks and resilience in headline labor market data keeping the Fed sidelined, the risk remains that economic data continues to weaken as the Fed passively tightens policy against a linearly cooling backdrop.

Source: Portfolio Analysis & Consulting, Bloomberg.

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