



EAGLE
INVESTMENT TEAM

Macroeconomic Outlook 2025-2026

First Edition

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Introduction

August 15, 2025

The economy in 2025 has been shaped by conflicting factors, including high interest rates, wavering inflation data, and a weakening labor market. On top of that is the controversial Big Beautiful Bill which adds fiscal stimulus through tax cuts and modifying spending programs. Global growth has slowed to its weakest pace since 2008 amid geopolitical tensions and tariffs. An increase in tariffs has altered the landscape of global trade, as deals are being made but uncertainty remains high. This uncertainty is evident in the weakening dollar which boosts U.S. exports but raises the cost of imports. These interconnected macroeconomic forces are sending mixed signals, creating a cautious market outlook.

About the Eagle Investment Team:

The Eagle Investment Team (EIT) is FGCU's selective, interview-based finance organization that prepares students for careers in business and investing. EIT bridges classroom learning with real-world application by giving members hands-on experience in research, analysis, and presenting investment ideas.

The Federal Reserve and Interest Rates

Throughout 2025, the U.S. economic data we have seen has provided mixed signals. Related to the labor market, job creation has been minimal, but the unemployment rate remains low. Furthermore, inflation remains persistent, with core prices above the Federal Reserve's 2% target. These inflationary pressures have been intensified by trade tensions and tariffs, increasing import prices and uncertainty. This has left the Federal Reserve in a tricky situation, trying to balance both sides of their dual mandate amid unpredictable conditions.

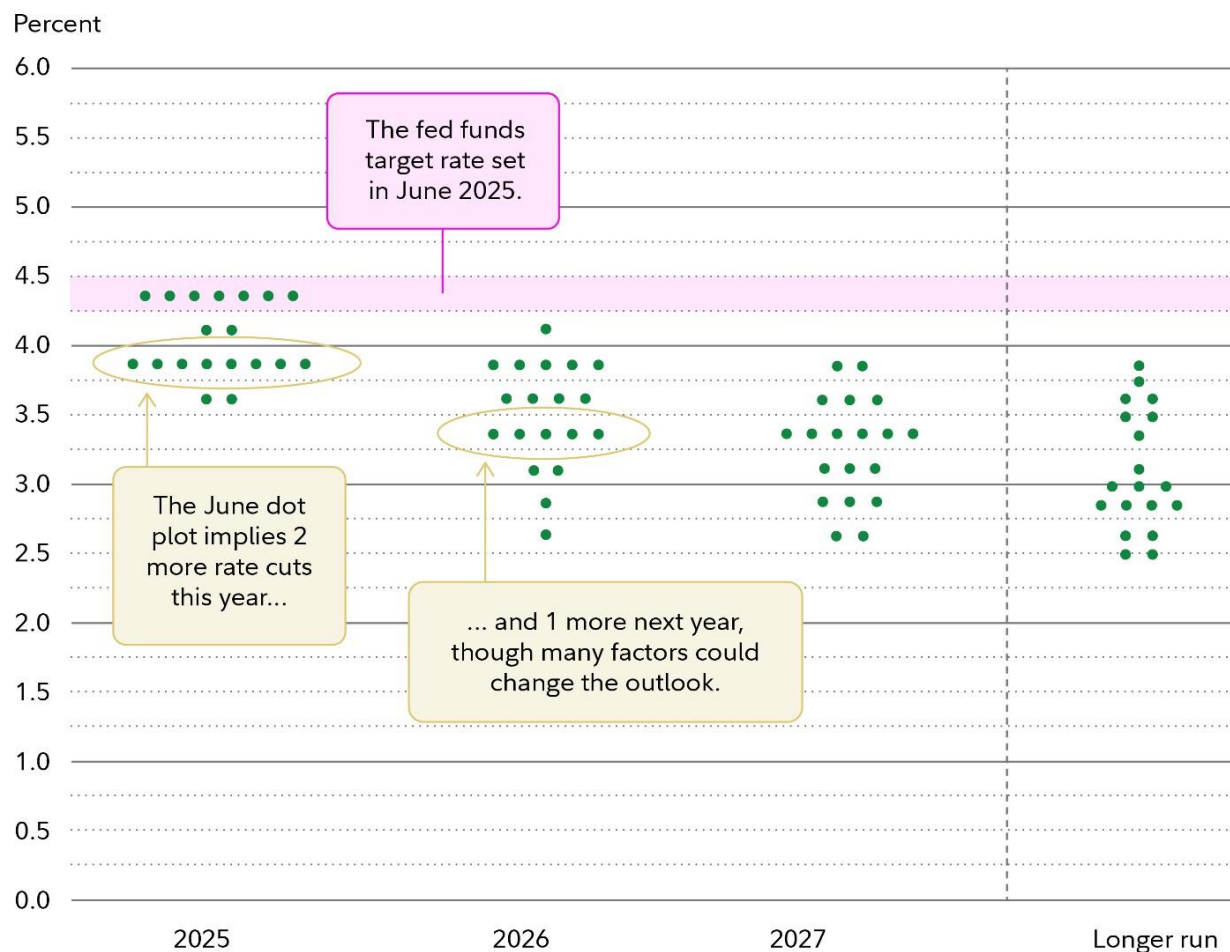
Due to this uncertainty, the Fed has been forced to take a more passive approach to monetary policy. The Federal Funds Rate, which the Fed uses to control monetary policy, has remained unchanged at 4.25% - 4.5% throughout 2025. The Federal Open Market Committee (FOMC) recently met on July 29th – July 30th, where they again opted to maintain this rate. Two of the governors, Christopher Waller and Michelle Bowman diverged from the group, voting to cut rates by 25 basis points. They dismissed the threat of tariffs and cited labor market concerns as the reason to cut rates. Other voting members are favoring a "wait and see" mindset, and likely won't cut rates until inflation signals clarify.

From the previous meeting in June, the Federal Reserve released the [Minutes of the Federal Open Market Committee](#). This document gives a closer look at what was discussed regarding economic developments in the second quarter. The key takeaway is that policymakers are divided on whether tariffs are causing temporary price shocks or could lead to ongoing inflation. There is also a split opinion on when to cut rates. Most members support reducing the fed funds rate by the end of the year, while some suggest a cut as soon as September.

Lastly, the Fed releases a dot plot every quarter. This plot shows each FOMC member's prediction for the federal funds rate at the end of the current year, the next two years, and long-term. Although this is not a

binding policy, it helps the market understand the Fed's views on future rates. The dot plot for June of 2025 can be seen below:

Figure A: June 2025 Dot Plot



Macroeconomic Indicators

01: Unemployment Rate

One side of the Federal Reserve's dual mandate is to promote maximum employment. The U.S. labor market has shown resilience when it comes to unemployment levels, defying earlier predictions of a sharper slowdown. The national unemployment rate was measured at 4.2% in July, which is in line with the unemployment rate last year. Decreasing immigration and accelerated retirements have shrunk the pool of available workers. This decrease has offset the weakness in labor demand, keeping the unemployment rate in a state of equilibrium. That said, the Fed's projections now anticipate the unemployment rate reaching 4.5% by the end of the year because of restrictive policy and cautious hiring decisions.

Job growth was stronger than expected during the first quarter of 2025 but has since slowed. According to the Bureau of Labor Statistics (BLS), total nonfarm payroll employment rose by 73,000 in July, weaker than the 115,000 jobs that economists anticipated. The previously reported numbers for May and June were also revised down drastically by 258,000 jobs total. The BLS claims these revisions are due to seasonal adjustment for

government payrolls, but economists say there is an underlying decrease in response rates to surveys. Fewer survey responses cause more data to be missing initially, resulting in revisions. Regardless, the July report signals hiring has taken a turn and the labor market is facing growing headwinds.

02: Inflation

Inflation also remains a persistent challenge. Inflation is measured through two key indicators: the Consumer Price Index (CPI) and the Personal Consumption Expenditures (PCE) Price Index. CPI, reported by the BLS, tracks the average change in price for a basket of goods and services over time. PCE, the Federal Reserve's preferred measure, captures broader consumer spending patterns. Both indicators have "core" versions, which exclude food and energy prices due to their short-term volatility.

Headline CPI has come down from its peak in 2022 and is measuring at 2.7% as of July 2025. Core CPI inflation remains persistently elevated and increased to 3.1% in July. When further broken down, services saw a greater increase in prices than goods. This is evident with services (less food and energy) measuring at 3.6% and commodities (less food and energy) measuring at 1.2%. PCE has seen a similar trend, with the headline reading at 2.6% and core PCE at 2.8% in June. This is the highest PCE inflation has been in four months and is well above the Fed's 2% target. They are attributing this elevated inflation to tariff-related cost pressures following renewed global trade tensions. The Fed revised its inflation outlook upward for both 2025 and 2026 because of this concern. This inflation backdrop has been a key reason for the Fed's continued hesitation to cut interest rates, even as labor market growth is slowing.

03: Consumer Sentiment

Consumer sentiment in 2025 has been shaped by these factors. Despite low unemployment, households remain cautious. The University of Michigan Consumer Sentiment Index rose to 61.7 in July, an increase from June's reading of 60.7, but remains well below pre-pandemic levels. The index reports on two components: current economic conditions and consumer expectations. Current economic conditions rose 5% from the previous month, likely due to increased sentiment among stockholders because of the rallying market. On the other hand, consumer expectations decreased slightly as inflation concerns have kept sentiment muted. This cautious consumer mood highlights the limits of a strong stock market in driving confidence when inflation continues to erode purchasing power and the labor market is taking a turn.

Global Growth and Fiscal Policy

04: Global GDP Growth

Trade tensions and policy uncertainty are expected to slow global growth down to its slowest pace since 2008. This has resulted in growth forecasts being cut in almost 70% of all economics. A recession is not expected, but global growth is expected to slow to 2.3%, which is nearly half a percentage point lower than the rate that had been expected at the start of 2025. If the forecast for the next two years come true, average global growth in the first seven years of the 2020 decade will be the slowest of any decade since the 60s. Indermit Gill, World Bank Group's Chief Economist and Senior Vice President for Development Economics stated "It has been advertising itself for more than a decade. Growth in developing economies has come down for three

decades—from 6% annually in the 2000s to 5% in the 2010s—to less than 4% in the 2020s. That tracks the trajectory of growth in global trade, which has fallen from an average of 5% in the 2000s to about 4.5% in the 2010s—to less than 3% in the 2020s. Investment growth has also slowed, but debt has climbed to record levels.” Nearly 60% of developing countries’ economies are supposed to slow, with low-income countries growing 5.3% this year which is a downgrade of 40 basis points from the forecast at the start of 2025.

The One Big Beautiful Big Act

The “Big Beautiful Bill”—officially known as the One Big Beautiful Bill Act is a tax and budget reconciliation package signed into law by President Donald Trump on July 4, 2025. This piece of legislation merges tax cuts, spending shifts, and major program reforms into a single, high-impact law, and represents the centerpiece of Trump’s second-term policy agenda.

05: Tax Cuts and Credits

Permanent extension of Trump-era tax cuts from the 2017 Tax Cuts and Jobs Act, valued at about \$4.5 trillion. No federal income tax on tips and overtime pay for incomes under \$150,000, with certain limits. Child Tax Credit doubled to \$2,500 per child through 2028. Temporary increase in the SALT deduction cap to \$40,000. There will be tax-exempt savings accounts for every American newborn, with a \$1,000 cap. Small business deduction raised from 20% to 23% for eligible entrepreneurs.

06: Spending and Social Program Cuts

Major reductions in Medicaid with stricter eligibility and work requirements. New work requirements for SNAP. Reversal of Biden-era student loan forgiveness and subsidies. Elimination of many clean-energy incentives and tax credits.

07: New Spending Priorities

Border security for \$175 billion for wall construction and hiring of ICE/Border Patrol officers. \$160 billion increase, marking the highest peacetime military budget in U.S. history. Air traffic control system modernization \$12.5 billion for infrastructure investment.

The Big Beautiful Bill is designed to stimulate economic growth. Here’s how it works: By locking in the 2017 individual and corporate tax reductions, the bill aims to give households and businesses more after-tax income, encouraging spending, investment, and hiring. Exempting tips and overtime (for those earning under \$150,000) lets many workers keep more of their take-home pay, raising disposable income and consumer spending. Raising the small business deduction from 20% to 23% is intended to improve cash flow for entrepreneurs, which can drive job creation.

The One Big Beautiful Bill Act represents a significant overhaul of U.S. tax policy, extending and expanding provisions from the 2017 Tax Cuts and Jobs Act while introducing new tax incentives and spending cuts. Promoted as the largest tax cut in American history, the bill aims to stimulate economic growth, provide relief

to working families, and enhance national security. However, its fiscal and economic implications have sparked debate among policymakers, economists, and analysts.

The OBBBA includes a mix of permanent and temporary tax changes affecting individuals, businesses, and specific industries. Below are the major provisions, effective after December 31, 2025.

08: Individual Provisions

Permanent Extension of TCJA Individual Tax Cuts

The proposal retains the lower tax rates and income brackets established by the 2017 Tax Cuts and Jobs Act (TCJA), preventing the scheduled increases set to take effect in 2026. It also increases the standard deduction to \$15,750 for single filers and \$31,500 for married couples filing jointly, with both amounts indexed annually for inflation. State and Local Tax (SALT) Deduction

State and Local Tax (SALT) Deductions

The proposal temporarily raises the state and local tax (SALT) deduction cap from \$10,000 to \$40,000 for taxpayers with incomes below \$500,000, effective from 2025 through 2029, with the cap increasing by 1% annually during that period before reverting to \$10,000 in 2030. The higher deduction phases out for incomes between \$500,000 and \$600,000, which results in what is commonly referred to as the "SALT torpedo," where some taxpayers in this range experience an effective marginal tax rate of 45.5%.

Child Tax Credit (CTC)

The proposal permanently increases the Child Tax Credit (CTC) from \$2,000 to \$2,200 per child, with the amount indexed annually for inflation, and modifies eligibility by requiring only one parent to have a Social Security number.

No Tax on Tips and Overtime

The proposal permits deductions of up to \$25,000 in tip income and \$12,500 in overtime pay through 2028, with the deduction phased out beginning at incomes of \$150,000 for single filers and \$300,000 for joint filers. It applies to workers in tipped professions and hourly jobs, with average annual tax savings estimated at \$1,300 to \$1,500 per worker.

Senior Tax Relief

Introduces a \$6,000 deduction for seniors (65+) earning up to \$75,000 (single) or \$150,000 (joint), reducing taxes on Social Security benefits for 88% of recipients.

Charitable Deductions

Reinstates a \$1,000 (single) and \$2,000 (joint) deduction for non-itemizers' cash contributions, with a 0.5% AGI floor for itemizers. Caps deductions at 35% for the 37% tax bracket.

Estate and Gift Tax

Increases exemptions to \$15 million (single) and \$30 million (joint), indexed for inflation, making them permanent.

09: Business Provisions

100% Bonus Depreciation

The proposal restores full expensing for qualifying business assets placed in service after January 19, 2025, reversing the scheduled phase-down of bonus depreciation that was established under the 2017 Tax Cuts and Jobs Act (TCJA). Under this change, businesses would again be able to immediately deduct the full cost of eligible property in the year it is placed in service, rather than gradually depreciating the expense over multiple years.

R&D and Equipment Expensing

The proposal permanently allows businesses to immediately expense U.S.-based research and development (R&D) expenditures as well as the costs of qualifying equipment. This change eliminates the need to amortize or depreciate such costs over multiple years, enabling companies to deduct the full amount in the year the expenses are incurred.

Pass-Through Business Deduction

The proposal makes permanent the 20% qualified business income (QBI) deduction under Section 199A, which currently applies to certain pass-through businesses such as partnerships, S corporations, and sole proprietorships. The House version modifies this provision by increasing the deduction rate to 23%, which corresponds to an effective top marginal tax rate of 28.49% for eligible business income.

Manufacturing Incentives

The proposal allows full and immediate deductions for costs associated with the construction of new manufacturing facilities, applied retroactively to January 19, 2025, and continuing through 2028. In addition, it enhances existing tax credits available for U.S.-based semiconductor manufacturing facilities.

Excess Business Losses

The proposal permanently limits the amount of business losses that noncorporate taxpayers may deduct against nonbusiness income, setting the threshold at \$313,000 for single filers and \$626,000 for joint filers beginning in 2025, with both amounts adjusted annually for inflation. Losses exceeding these limits may not be used in the current year but can be carried forward as net operating losses, preserving their use in future tax years.

10: Other Provisions

Clean Energy Tax Credits

The proposal terminates federal tax credits for electric vehicles (EVs) by September 2025, eliminating incentives for the purchase of new qualifying EVs after that date. It also phases out production and investment tax credits for wind and solar energy projects over a three-year period, reducing the credits to 60% of their current value in 2026, lowering them further to 20% in 2027, and ending them entirely by 2028.

Child Savings Account

The proposal introduces a new federal credit of \$1,000 for each child born between 2025 and 2028. The credit would not be delivered as a direct tax refund but instead deposited into a designated savings vehicle referred to as a “MAGA account.” These accounts would be established for each eligible child, with funds credited at birth and available under program-defined rules for future use.

Health and Welfare Programs

The proposal reduces federal Medicaid spending by introducing new restrictions, including work requirements for able-bodied adults as a condition of eligibility. It also tightens verification procedures for Affordable Care Act (ACA) premium subsidies to limit access to tax credits for individuals who do not meet the stricter documentation standards. According to projections, these combined measures could result in an estimated increase of up to 10 million additional uninsured Americans by 2034.

11: Economic Impact

The OBBBA’s tax provisions and associated spending cuts have significant economic and fiscal implications, as estimated by the Tax Foundation, CBO, and other analysts.

GDP Growth

According to the Tax Foundation, the Senate version of the proposal is estimated to increase long-run GDP by 1.2%, while the House version is projected to raise it by 0.8%. These gains are attributed primarily to stronger incentives for capital investment, such as the restoration of full bonus depreciation and the immediate expensing of research and development (R&D) costs. On average, GDP growth is expected to rise by about 0.1% annually, reflecting incremental increases in incentives to work, save, and invest.

By contrast, the Trump administration projects substantially larger effects, estimating short-run GDP growth of 5.2% and long-run growth of 3.5%. The administration also forecasts a 14.5% increase in business investment and the creation of approximately 4 million new jobs as a result of the proposal. Many economists, however, have expressed skepticism about these figures, noting that structural factors such as trade tariffs and baseline growth constraints may limit the economy's capacity to achieve these outcomes.

12: Revenue and Deficit Impact

Revenue Loss

The proposal is projected to significantly reduce federal tax revenue over the 2025–2034 budget window. Under conventional scoring methods, the overall revenue loss is estimated at approximately \$5 trillion. When accounting for macroeconomic effects such as an estimated 1.2% increase in long-run GDP, the dynamic revenue loss is reduced to about \$4 trillion. The House version produces slightly smaller figures, with a conventional revenue loss of \$4 trillion and a dynamic revenue loss of \$3.1 trillion, reflecting its different structure and assumptions about economic feedback.

Deficit Increase

Despite projected net federal spending cuts in the range of \$1.1 to \$1.5 trillion, the proposal is estimated to increase federal budget deficits by between \$3.0 and \$3.4 trillion on a dynamic basis over the 2025–2034 period. These figures include approximately \$725 billion in additional interest costs from higher federal borrowing. Under the House version, the net deficit increase is somewhat smaller, adding an estimated \$1.7 trillion dynamically over the same period.

As a result of these changes, the federal debt-to-GDP ratio is projected to rise substantially by 2034. Using conventional scoring, the debt ratio increases from 117.1% to 126.7%. Under dynamic scoring, which incorporates macroeconomic feedback effects, the debt ratio rises more sharply, reaching 175.5% by 2034.

Administration Counterclaim

Supporters of the proposal claim that the bill would reduce federal deficits by more than \$2 trillion over the 2025–2034 period. They attribute this reduction to a combination of stronger economic growth generated by tax incentives and accompanying federal spending cuts. In presenting these estimates, they dismiss projections from the Congressional Budget Office (CBO) and other independent forecasters as unreliable, arguing that such models fail to adequately account for the growth effects they expect the legislation to produce.

13: Income and Distributional Effects

Winners

The proposal provides a range of benefits across different taxpayer groups. High-income earners benefit from the permanent extension of the lower tax rates enacted under the 2017 Tax Cuts and Jobs Act (TCJA) and from the temporary increase in the state and local tax (SALT) deduction cap. At the same time, the phaseout of the

SALT expansion creates the so-called “SALT torpedo,” under which taxpayers with incomes between \$500,000 and \$600,000 face higher effective marginal tax rates.

In addition to provisions affecting higher earners, targeted deductions are extended to certain groups of workers. These include allowances for tip income and overtime pay, which primarily benefit employees in tipped professions and hourly jobs, as well as specific tax relief directed toward seniors.

Businesses also receive substantial advantages under the legislation. Manufacturers and other firms are eligible for full and immediate expensing of new facilities and qualifying equipment, while pass-through entities such as partnerships, S corporations, and sole proprietorships benefit from the continuation of the qualified business income (QBI) deduction.

Losers

The proposal is projected to have negative impacts on lower-income households and certain industries. Households earning less than \$18,000 annually are expected to experience an average after-tax income reduction of 1.1%, equal to approximately \$165 per household. More broadly, the bottom 30% of the income distribution may see overall losses as a result of new restrictions placed on federal safety net programs, including Medicaid and the Supplemental Nutrition Assistance Program (SNAP).

In addition to household-level effects, the legislation reduces support for clean energy industries by phasing out tax credits for renewable energy projects. The elimination of these credits may increase production costs in the sector, with potential downstream effects such as higher consumer energy prices and a reduction in clean energy employment.

American Incomes

Gross National Product (GNP), which measures the total income of Americans including earnings from abroad, is projected to increase by 0.9% under the proposal. However, this gain is partially offset by the effects of higher federal borrowing from foreign investors. As debt levels rise, the government is expected to face larger interest obligations to overseas creditors, which in turn reduces the share of national income retained domestically. As a result, American incomes are estimated to decline by 0.6% when accounting for these higher net interest payments abroad.

14: Sector-Specific Impacts

Manufacturing

The proposal includes provisions designed to stimulate business investment by allowing full and immediate expensing of costs associated with the construction of new manufacturing facilities. This provision applies retroactively beginning January 19, 2025, and continues through 2028, enabling companies to deduct the entire cost of qualifying projects in the year they are undertaken rather than spreading deductions over time. In parallel, the legislation enhances federal tax credits specifically targeted at U.S.-based semiconductor manufacturing facilities. Together, these measures are expected to encourage greater levels of capital investment, expand domestic production capacity, and support job creation within the manufacturing and technology sectors.

Clean Energy

The proposal eliminates federal tax credits for electric vehicles (EVs) beginning in September 2025 and phases out production and investment tax credits for renewable energy sources, including wind and solar, by 2028. The removal of these incentives is expected to increase the cost of developing and deploying clean energy projects, which may in turn contribute to higher electricity prices for consumers. In addition, the reduction in federal support could slow growth in the renewable energy sector, leading to fewer new projects and a potential decline in employment within industries tied to clean energy production and infrastructure.

Healthcare

The proposal reduces federal spending on Medicaid by imposing new restrictions, including work requirements for able-bodied adults, and tightens eligibility verification procedures for subsidies provided under the Affordable Care Act (ACA). These changes are projected to reduce the number of individuals with health insurance coverage, with estimates suggesting that as many as 10 million additional people could be uninsured by 2034. The decline in coverage is also expected to increase uncompensated care costs for hospitals and other health providers, as a larger share of patients would be unable to pay for medical services.

Small Businesses

The proposal makes the qualified business income (QBI) deduction under Section 199A permanent and introduces simplified tax structures intended to reduce compliance costs for small businesses. By lowering effective tax rates on pass-through entities such as partnerships, S corporations, and sole proprietorships, these provisions are designed to expand cash flow and increase the capacity for reinvestment and hiring. Estimates suggest that the combined impact could support the creation of up to 1 million jobs per year, particularly within small and medium-sized enterprises that rely most heavily on these forms of tax relief.

15: Broader Economic Implications

Economic Growth vs. Fiscal Sustainability

The proposal contains several pro-growth measures, including the restoration of full expensing for certain business investments and the permanent extension of lower individual tax rates, both of which are designed to encourage higher levels of capital formation and economic activity. However, analysts note that the legislation does not amount to comprehensive structural tax reform, as it relies heavily on targeted tax breaks and maintains a relatively complex tax code.

Critics also point to the fiscal implications of the plan, emphasizing that the projected increase in federal deficits could place upward pressure on interest rates and contribute to a weaker U.S. dollar. These macroeconomic effects, they argue, may offset some of the anticipated benefits of the growth-oriented provisions.

Debt and Interest Rates

The proposal's projected impact on federal debt raises concerns about long-term fiscal sustainability. Rising debt-to-GDP ratios, combined with an estimated \$725 billion in additional interest costs over the next decade, are expected to place greater strain on federal budgets. Higher borrowing needs could also reduce the availability of capital for private investment, a phenomenon often referred to as "crowding out."

Some analysts caution that these dynamics increase the risk of a potential "debt bomb," in which unsustainable federal borrowing levels trigger more severe fiscal and economic pressures. These risks may be heightened by

trade policies such as tariffs, which could dampen foreign demand for U.S. debt securities and make financing federal deficits more costly.

Social and Equity Concerns

The proposal reduces federal spending on safety net programs, including the Supplemental Nutrition Assistance Program (SNAP) and Medicaid, and introduces new eligibility restrictions such as work requirements for able-bodied adults. These changes may disproportionately affect vulnerable populations, including veterans, foster youth, and other groups with limited economic stability, potentially increasing rates of poverty and food insecurity.

At the same time, the distributional effects of the legislation are uneven across the income spectrum. Analyses indicate that the bill's primary benefits accrue to middle- and upper-income households, with the largest relative gains concentrated among the top 10% of earners.

While the OBBBA delivers substantial tax relief and economic stimulus, its fiscal cost and distributional effects raise concerns. The Tax Foundation notes that economic growth offsets only 19%–22% of revenue losses, far below administration claims. The CBO and independent analysts project significant deficit increases, challenging the White House's assertion of deficit reduction. The bill's temporary provisions (e.g., SALT, tips, overtime) create uncertainty, requiring future legislative action. Moreover, the phase-out of clean energy credits and safety net cuts could harm specific sectors and low-income groups, potentially offsetting broader economic gains.

16: Summary

The One Big Beautiful Bill Act is a tax and spending package that prioritizes economic growth through tax cuts, business incentives, and spending reductions. It delivers significant relief to middle-class families, seniors, and businesses, with projected GDP growth of 0.8%–1.2% over the next decade. However, its \$3.0–\$3.8 trillion deficit increase, rising debt-to-GDP ratio, and uneven distributional impacts pose risks to long-term fiscal stability and social equity. Policymakers must balance these trade-offs, potentially by closing tax loopholes or further reducing spending, to maximize growth while mitigating fiscal challenges.

Global Trade and Currencies

17: Global Trade Strategy

In 2025, the United States recalibrated their global trade strategy. Through bilateral agreements, and tariffs, Washington secured a group of trade deals. One of the biggest deals took place July 28, 2025. The EU is to invest \$600 billion in the U.S. by 2028 and purchase \$750 billion of U.S. energy exports. The U.S. imposed a 15% tariff on most EU exports which is down from the proposed 30%. The deal aims to encourage reshoring and balance trade flows. The other juggernaut trade deal was between Japan. This deal came in late July, where tariffs on Japanese imports were set at 15%, reduced from the planned 25%. Japan is set to invest \$550 billion in sectors including energy, shipbuilding, and semiconductors. Japan will increase their purchases in U.S. rice,

corn, soybeans, and Boeing aircraft. The most important trade deal is yet to come, but we have a “truce” for now. In the beginning of 2025, the U.S. imposed tariffs on Chinese imports reaching 145%, which then resulted in China putting 125% tariffs on U.S. goods. In May, both countries agreed to meet in Geneva to reach a trade agreement. After discussions U.S. lowered their tariffs to around 51%, while China reduced their tariffs on U.S. goods to 32%. Technology remains a major point, as Nvidia’s H20 AI chip has become a bargaining tool- as Nvidia must share 15% revenue with the U.S. government. Private shipments of advanced AI chips contain location trackers to prevent illegal diversion to China. A 90-day extension of the tariff truce has recently been signed, as investors wait for a deal to happen.

18: Currencies

The U.S. dollar has weakened to multi-week lows, falling against the euro, the pound, and the yen as markets anticipate rate cuts as soon as September 17. The dollar index which measures the U.S. dollar value against major currencies, has dropped around 9-10% year to date, its largest decline since the early 1970s Morgan Stanley predicts that it will decline another 9%. Although the dollar has been a headline the dollar still is 58% of global reserves. In the beginning of 2025, we saw a departure from the dollar’s role as a safe haven. This has a dual impact, it raises the cost of imports, pushing up the prices, at the same time a weaker dollar makes U.S. goods more competitive abroad, boosting exports. If the dollar continues to decrease this can influence foreign investor confidence in U.S. assets such as Treasury securities. The Euro and other currencies across the pond saw an appreciation in currency, which was helped by European stimulus and capital flows.

Outlook and Risks

19: Interest Rate Forecast

Moving forward, the Fed faces a difficult task of conducting monetary policy in an uncertain environment. The labor market is showing cracks with weaker-than-expected job growth, while inflation has proven persistent as tariffs push up costs. Critics have faulted the Fed for holding rates at 4.25%–4.50% throughout 2025, but officials cite inflation uncertainty and until recently, a strong labor market as reasons not to cut. With signs of labor market weakness now emerging, pressure is building for action.

The Fed currently projects two 25-basis-point rate cuts by year-end, bringing the federal funds rate to 3.75%–4.0%. Bank of America expects no cuts until mid-2026, warning of stagflation risks, while JP Morgan forecasts a 25-basis-point cut in September followed by three more before a pause.

We anticipate a 25-basis-point cut in September and another in December, lowering the rate to 3.75%–4.0% by year-end. Future moves will be data-dependent, with the Fed likely shifting back to a “wait and see” stance in early 2026. With Jerome Powell’s term ending in May 2026, the next Fed chair is expected to be more dovish and more open to additional cuts.