APOLLON

Market Recap

September 2025

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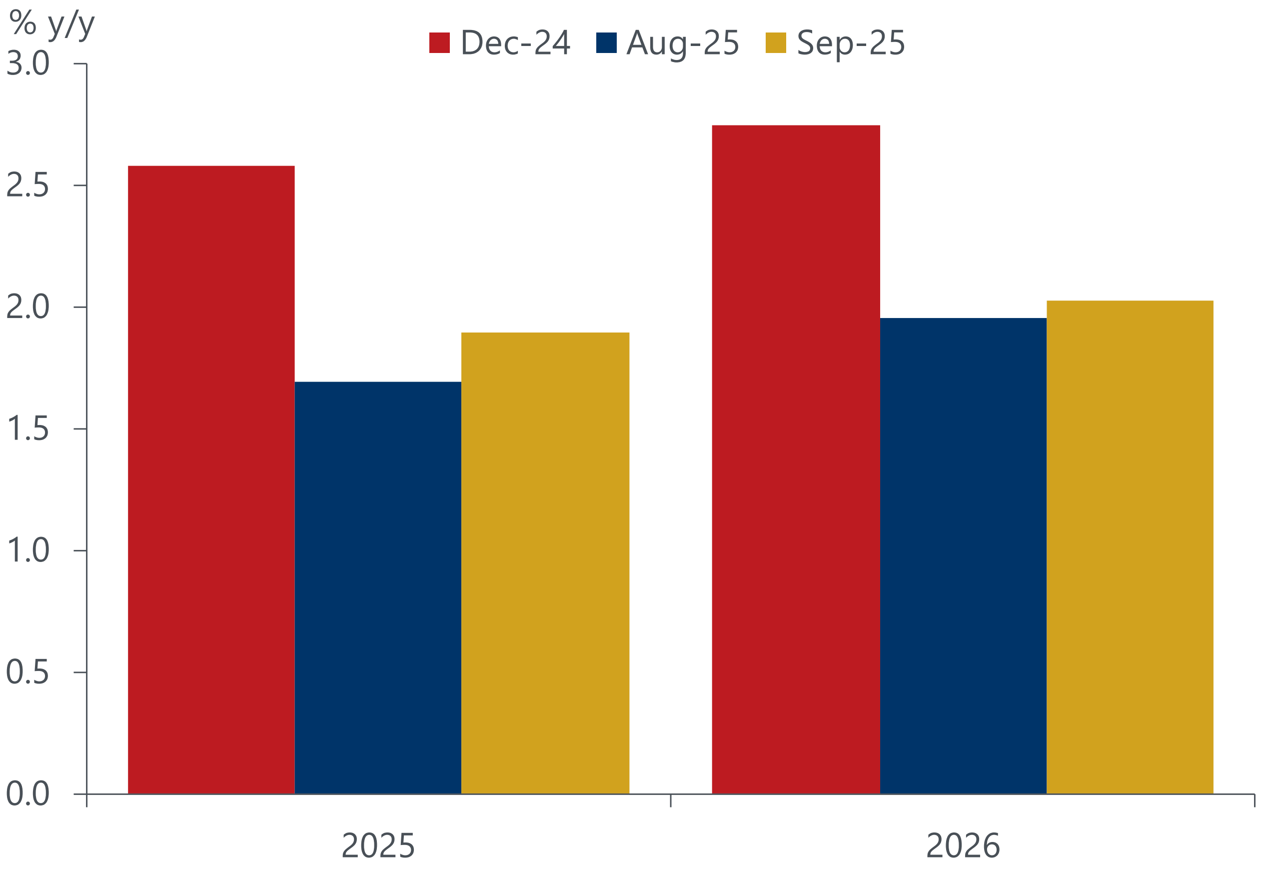
Brighter investment data lifts GDP outlook



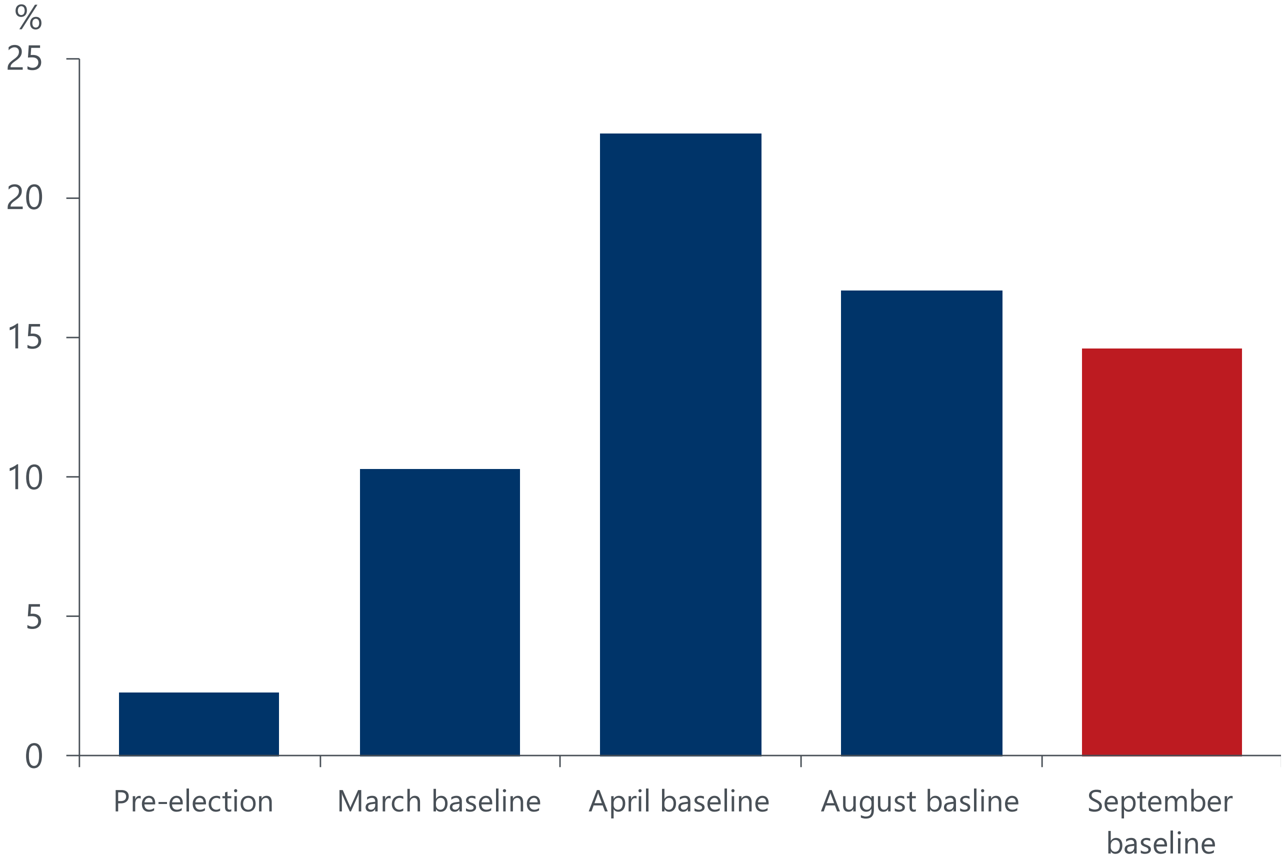
Sources: Oxford Economics, Haver Analytics

• Key takeaways

- Upward revisions to Q2 activity led us to raise our 2025 GDP forecast by 0.3ppts to 2%. We expect GDP growth to maintain that pace in 2026.
- The economy is being supported by AI-related investment. Tight bond spreads, wide profit margins, and fading policy uncertainty will support business equipment spending outside of AI next year.
- The health of the labor market is a key downside risk to our forecast. The Federal Reserve has resumed cutting rates but must be attentive to both sides of its dual mandate. For now, rates remain in restrictive territory.

Trade changes reduce effective tariff rate

US: Effective tariff rate by forecast vintage



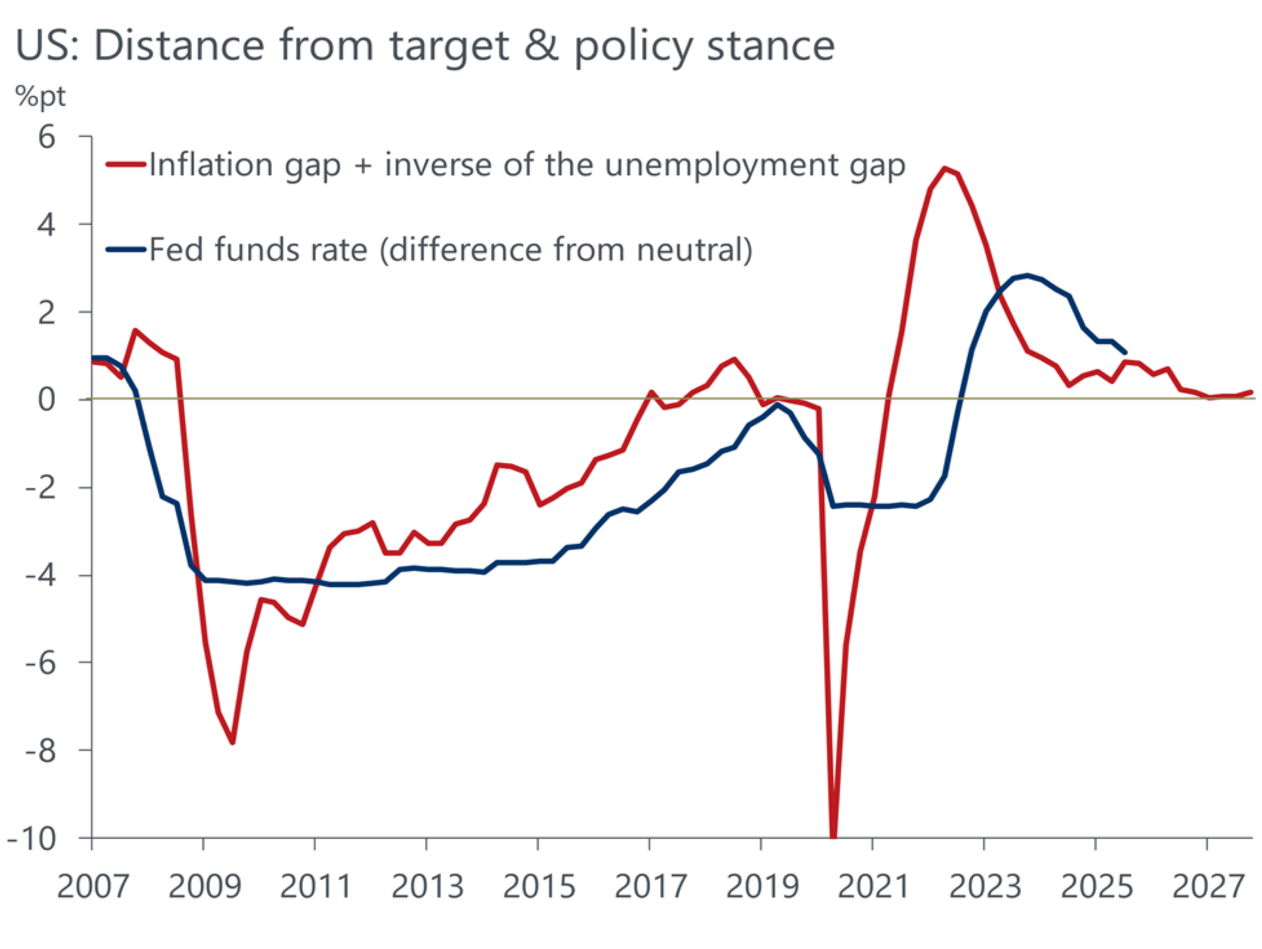
Sources: Oxford Economics, Haver Analytics

- **Key takeaways**

- Higher USMCA compliance for imports from Canada and Mexico lowered our estimate of the effective tariff rate to 14.6%. This shaved 0.1ppt off our forecast for rising inflation.
- Our September baseline includes the 50% tariff on imports from India and the ending of de-minimis exemptions, although they have a small impact on the overall effective tariff rate.
- Risks are weighted toward a higher effective tariff rate due to the potential for sectoral tariffs, including on pharmaceuticals and semiconductors.

Focus: Fed Resumes Rate-Cutting Cycle

Risks tilted toward higher unemployment



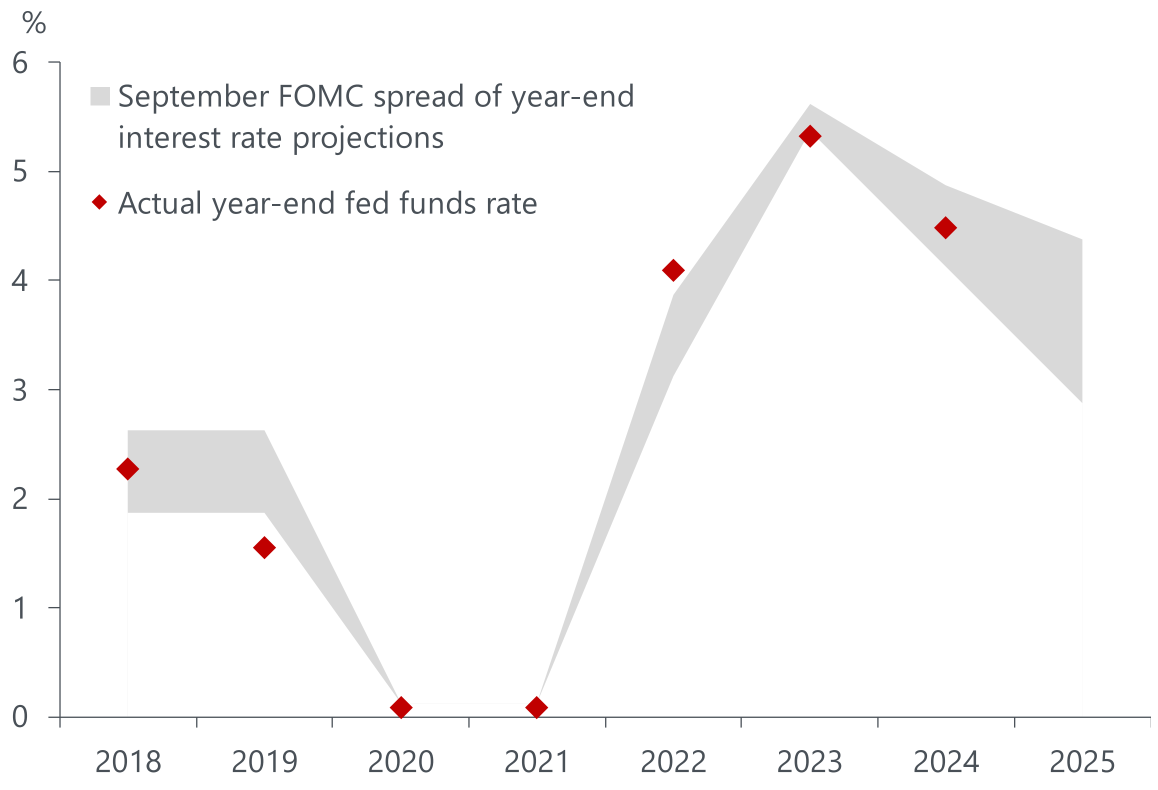
Sources: Oxford Economics, Haver Analytics

Key takeaways

- Downside risks to the labor market drove officials to lower interest rates by 25bps at the September FOMC meeting.
- Excluding Stephen Miran, the median rate projection for this year includes just one more cut.
- The spread of the dot plot projections showed the committee is deeply divided on the near-term outlook.
- We believe that recent data supports a gradual pace of rate cuts. Financial markets are overestimating how much rates will be cut by the end of the year.

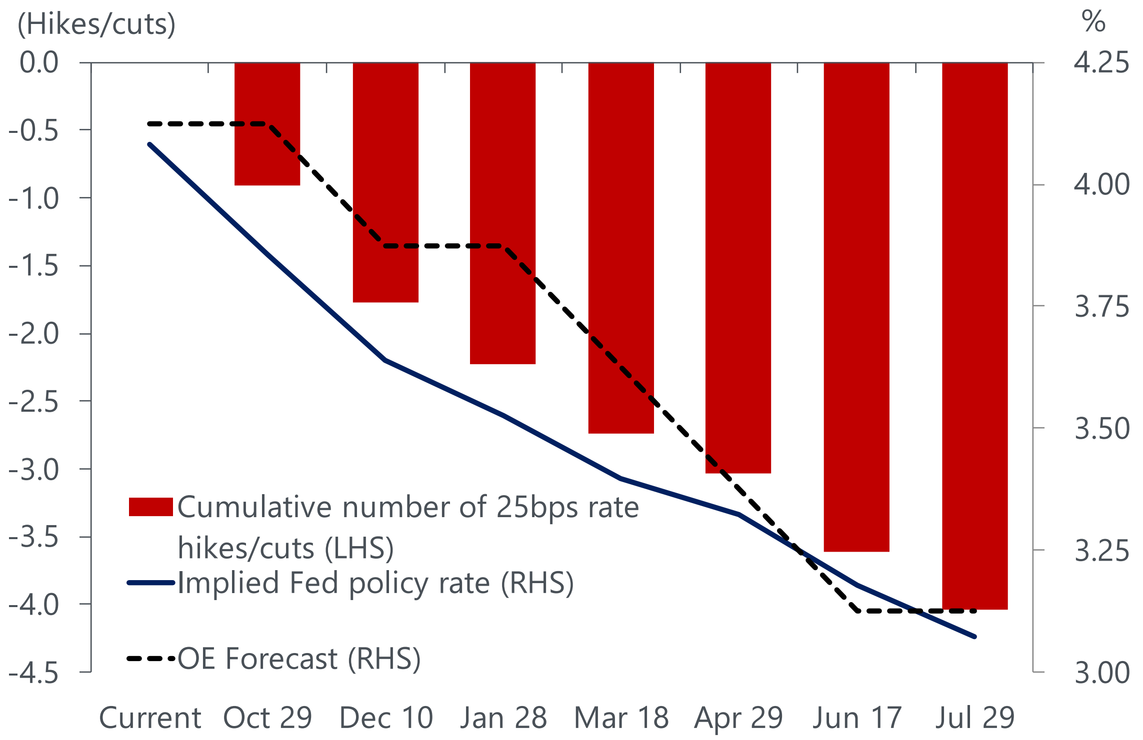
FOMC is split on their projections for the pace of rate cuts

US: September FOMC dot-plot & year-end fed funds rate



Sources: Oxford Economics, Federal Reserve

US: FOMC rate change expectations based on OIS

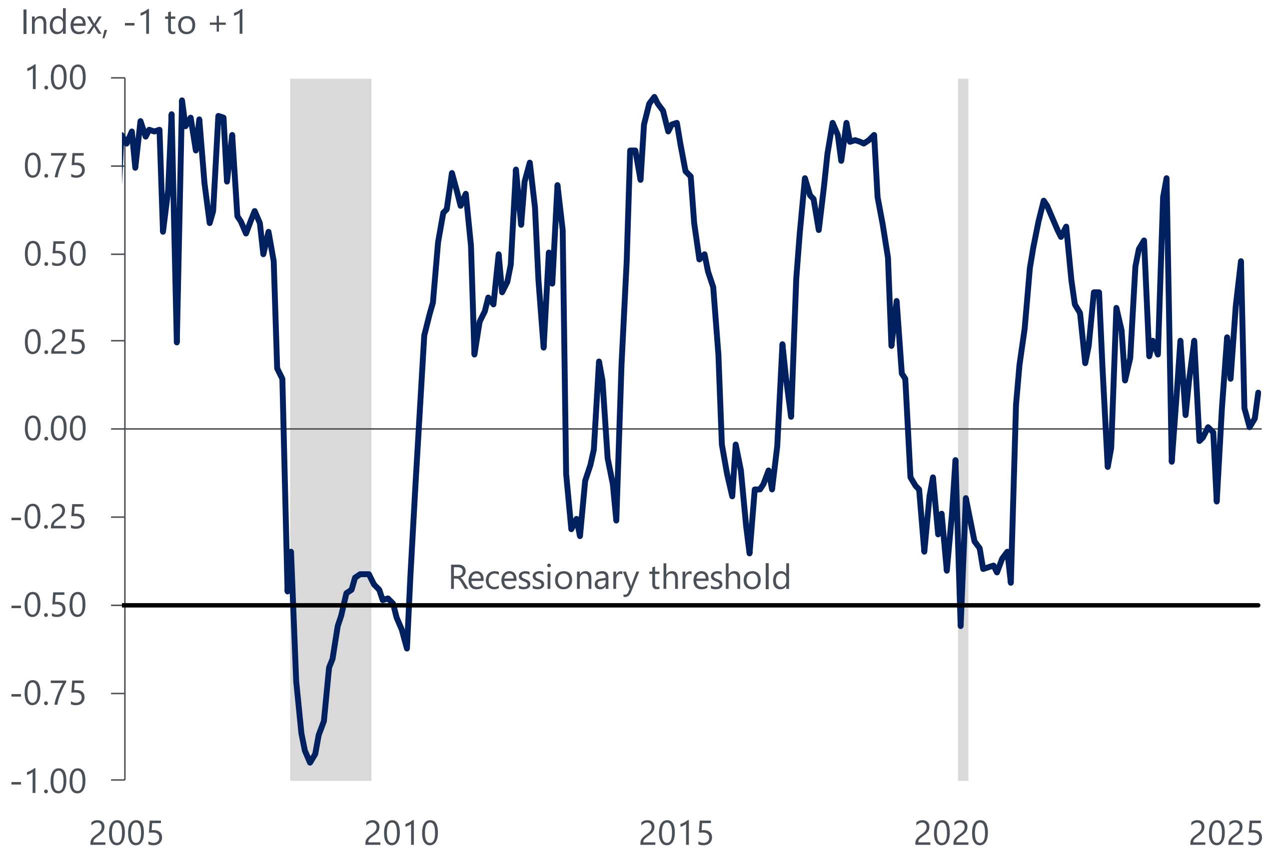


Note: Data collected August 28, 2024
Sources: Oxford Economics, Bloomberg

Health Check on the Economy

Activity slower but far from a recession

US: Oxford Economics' US Business Cycle Indicator



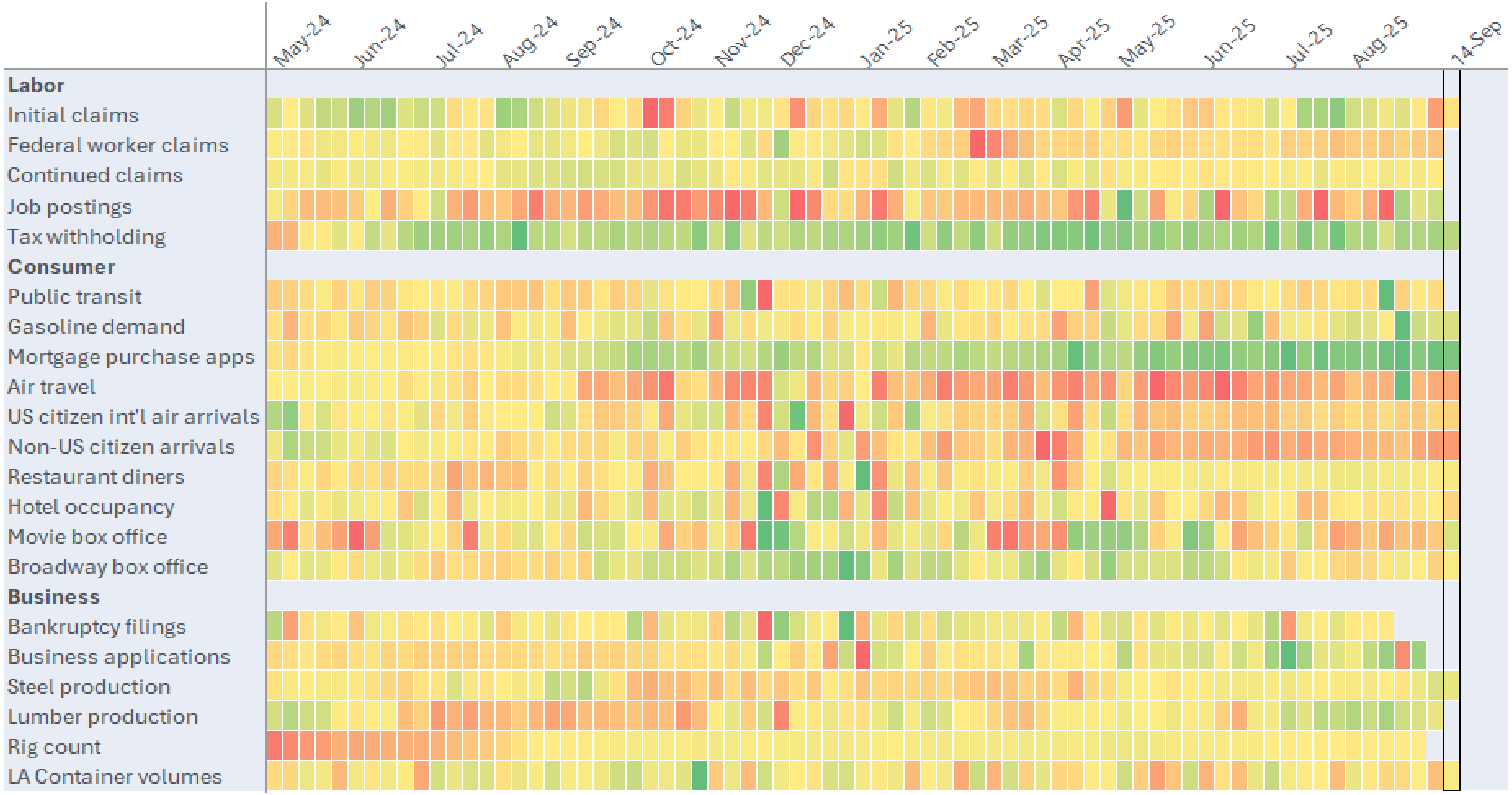
Note: Latest month is estimated due to lagging datapoints and is subject to revisions

Source: Oxford Economics

- **Key takeaways**

- We expect the US economy to slow further in the second half, but our business cycle indicator doesn't point to an economy near recession.
- AI-related investment has sufficiently offset the weakness elsewhere in business equipment spending.
- Tariff pass-throughs will intensify this fall, but inflation is poised to moderate next year, helping the economy find its footing.
- Easing financial market conditions will prevent a more significant decline in private employment in the second half of this year.

High-frequency indicators aren't flashing red

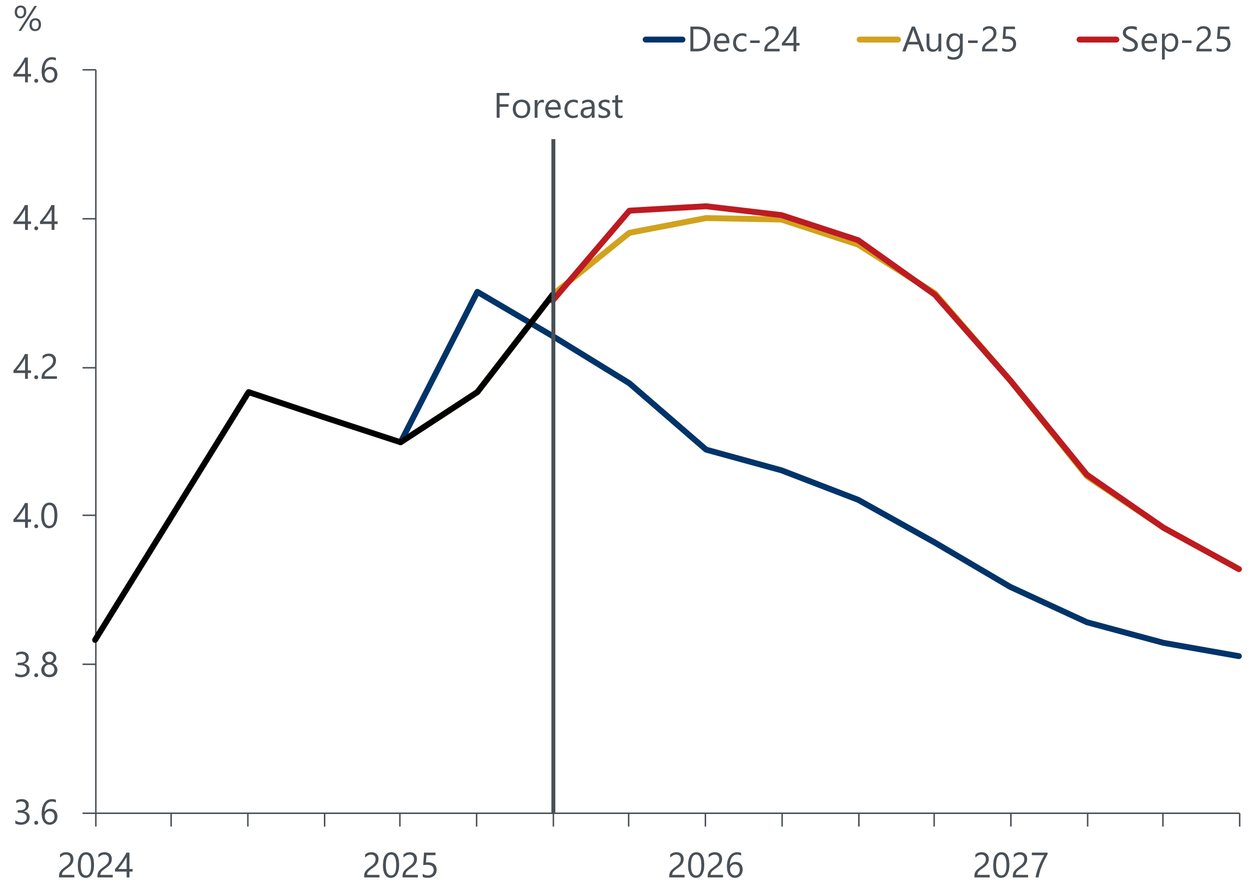


Source: Oxford Economics

Labor Market Continues to Soften

Unemployment will rise, not skyrocket

US: Unemployment rate by forecast vintage

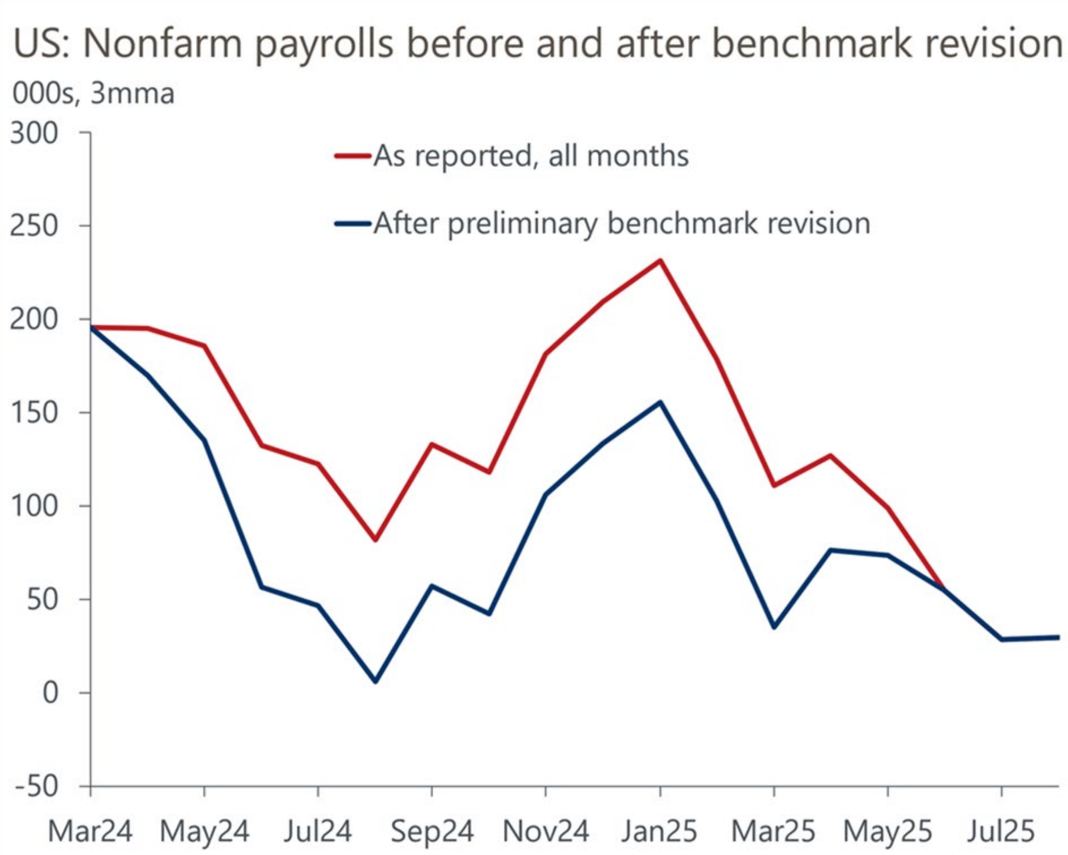


Sources: Oxford Economics, Haver Analytics

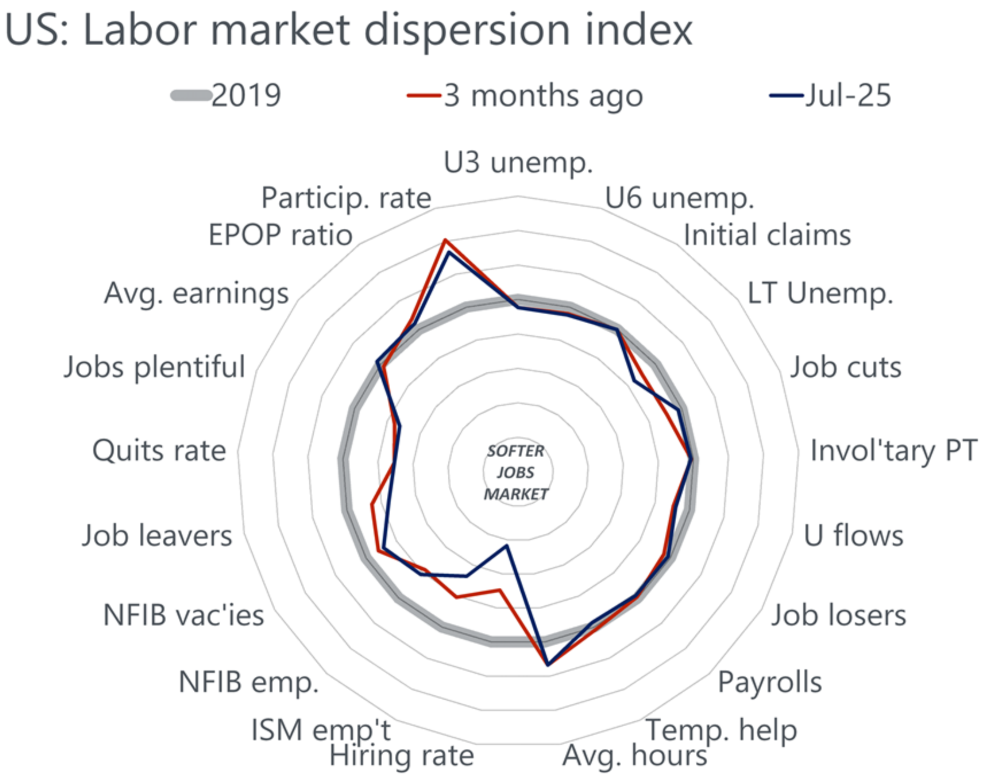
Key takeaways

- A rising unemployment rate and low hiring rate point to a weakening labor market.
- Trend job growth has fallen below the breakeven rate, although the slowdown will be less abrupt following annual benchmark revisions.
- Weaker immigration will weigh on labor supply growth and constrain the rise in the unemployment rate this year.
- Low job availability is taking a toll on consumer sentiment.
- A healthy prime employment-to-population ratio is one bright spot.

Slowdown in job growth less abrupt after benchmark revisions

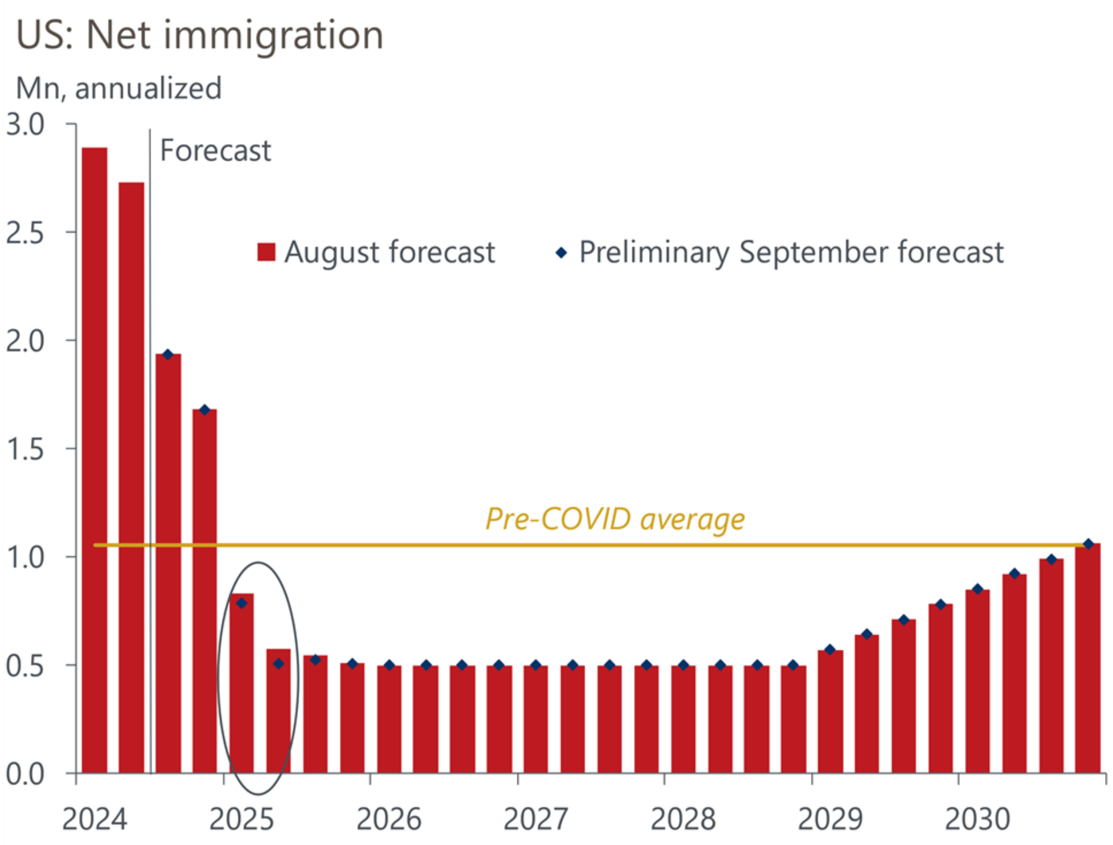


Sources: Oxford Economics, Haver Analytics

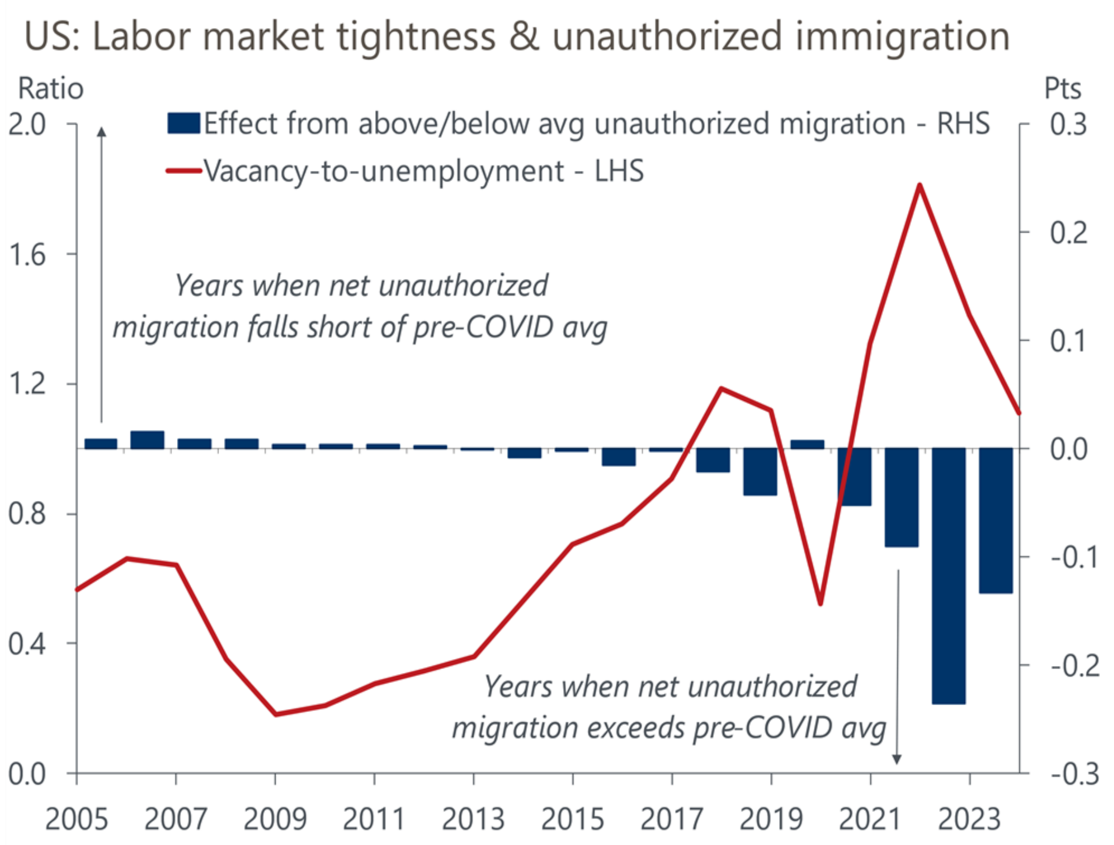


Sources: Oxford Economics, Haver Analytics

Labor market will continue to soften with less immigration

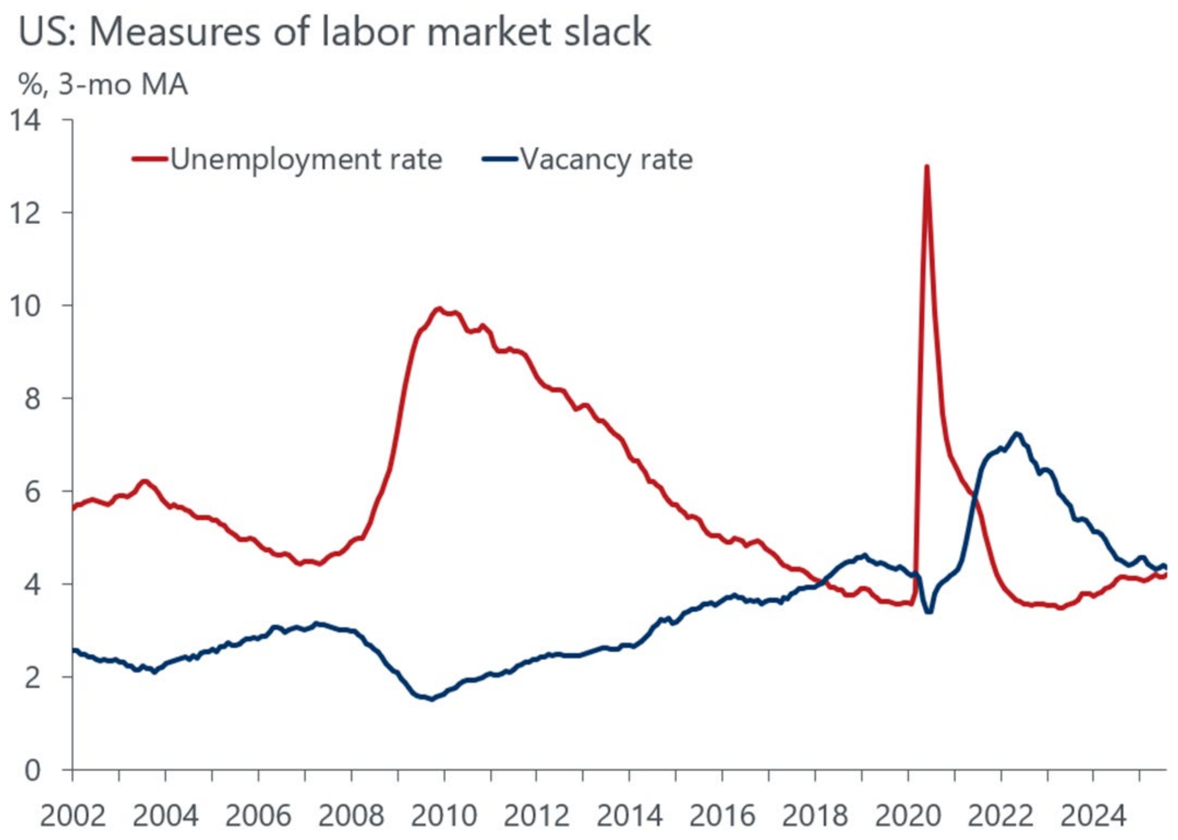


Sources: Oxford Economics, Haver Analytics

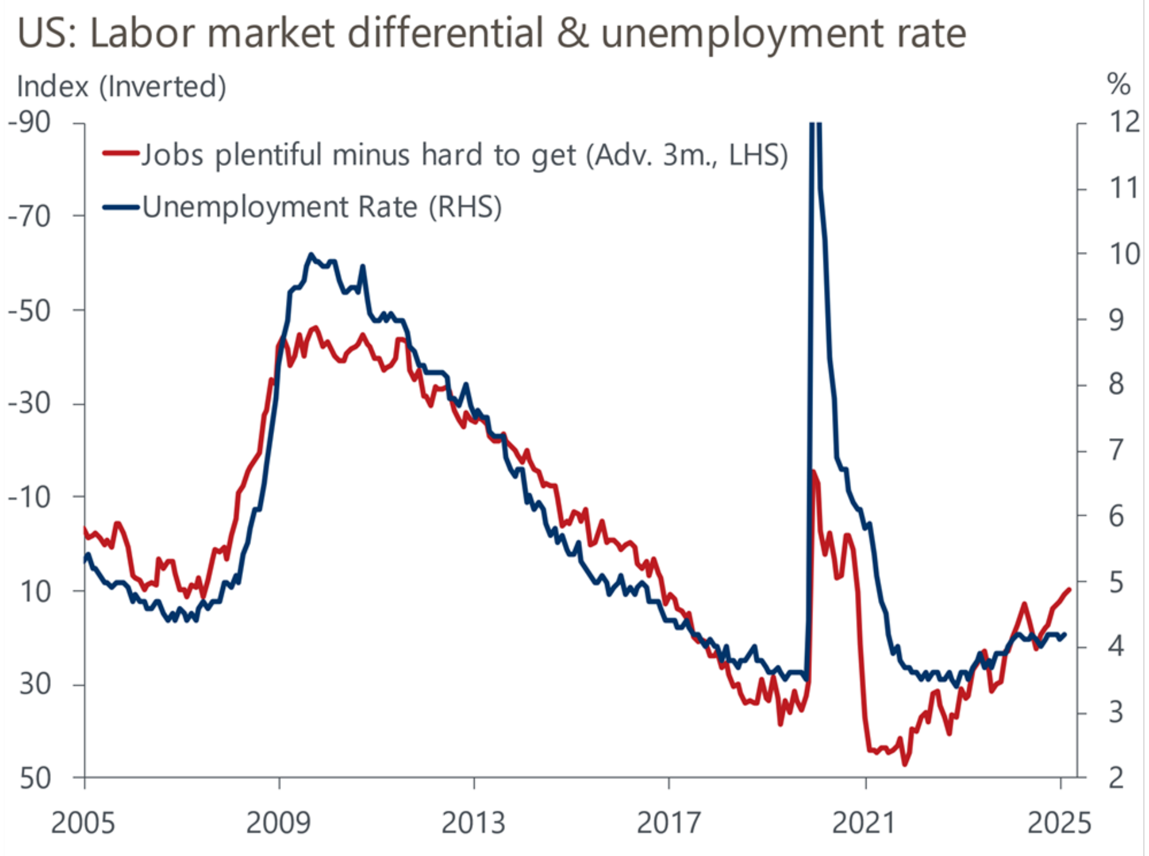


Sources: Oxford Economics, Haver Analytics

Lower vacancy rate contributing to consumer pessimism



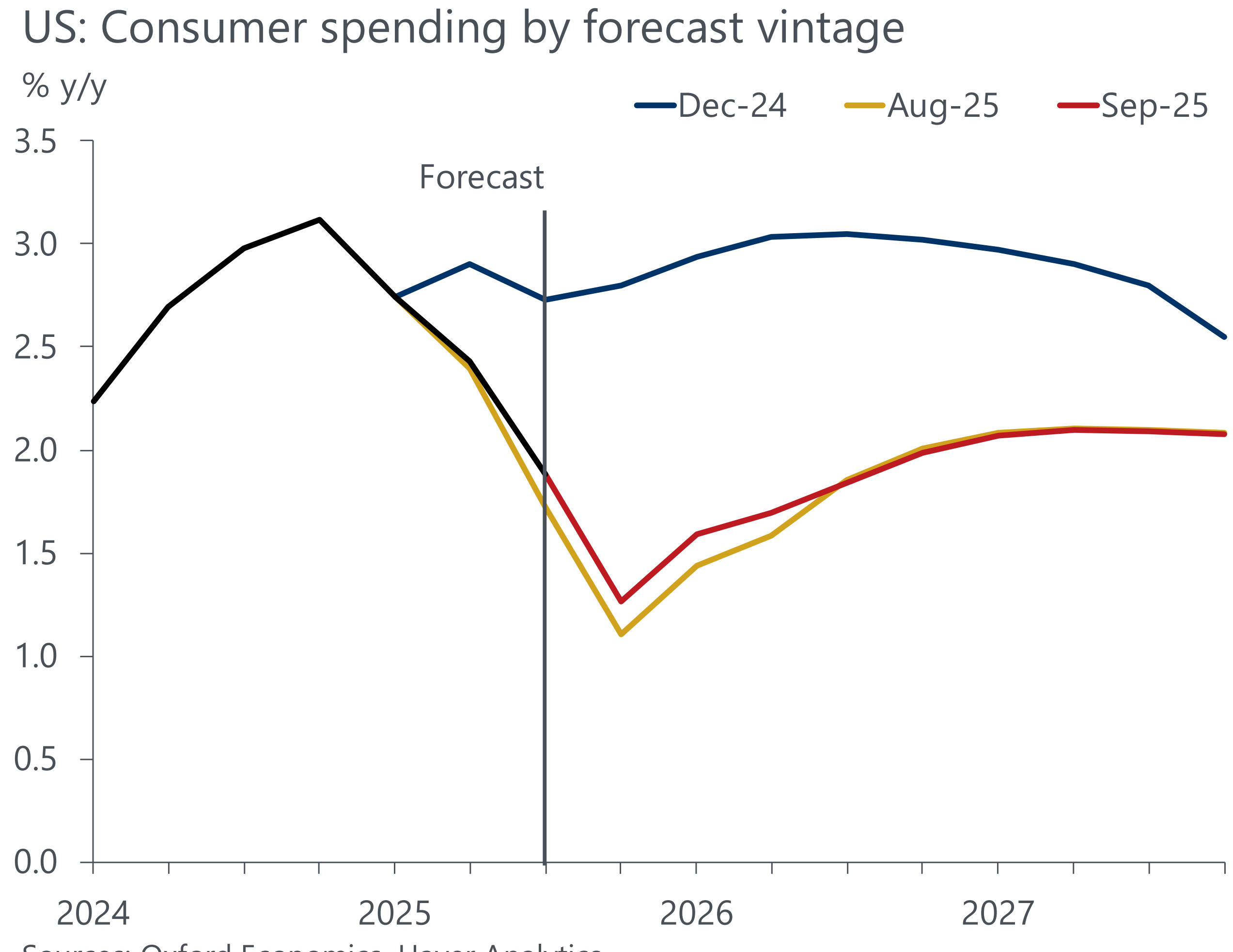
Sources: Oxford Economics, Haver Analytics



Sources: Oxford Economics, Haver Analytics

Consumer Spending Near Turning Point

Brighter outlook for consumer spending

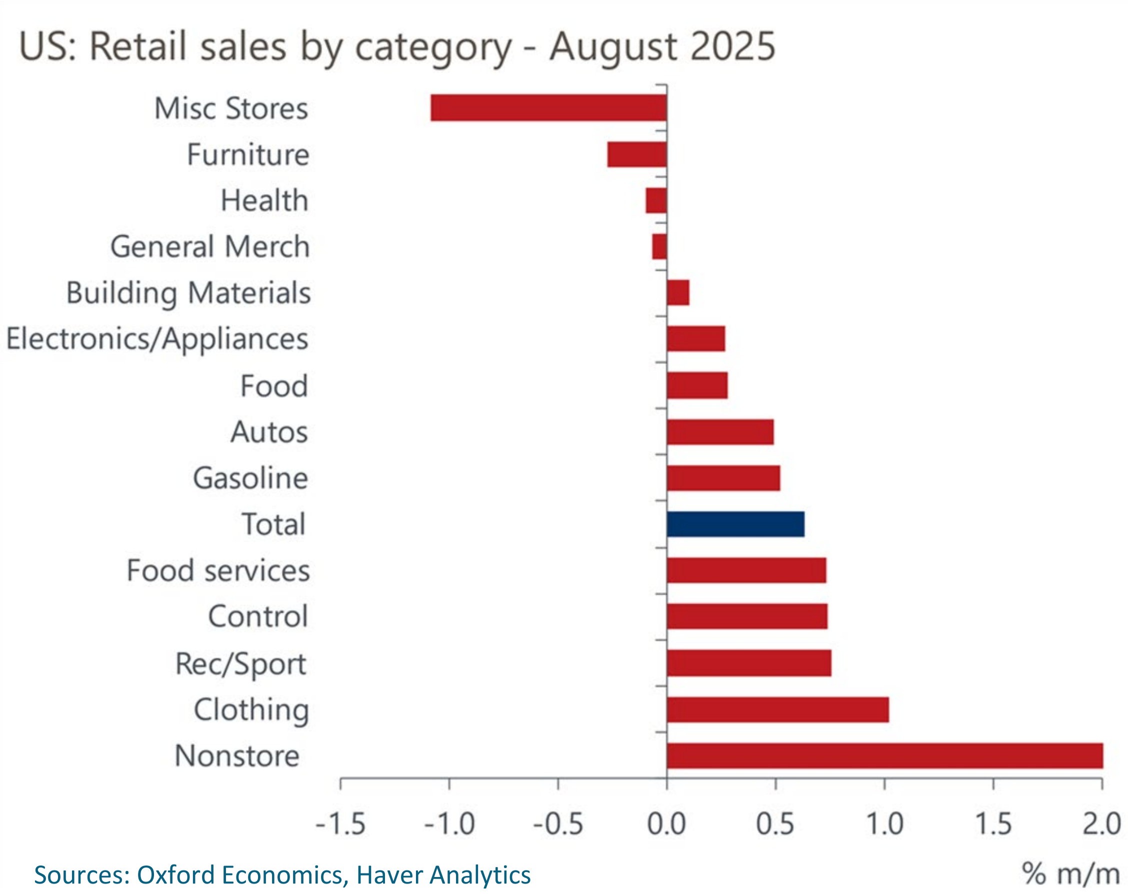


Sources: Oxford Economics, Haver Analytics

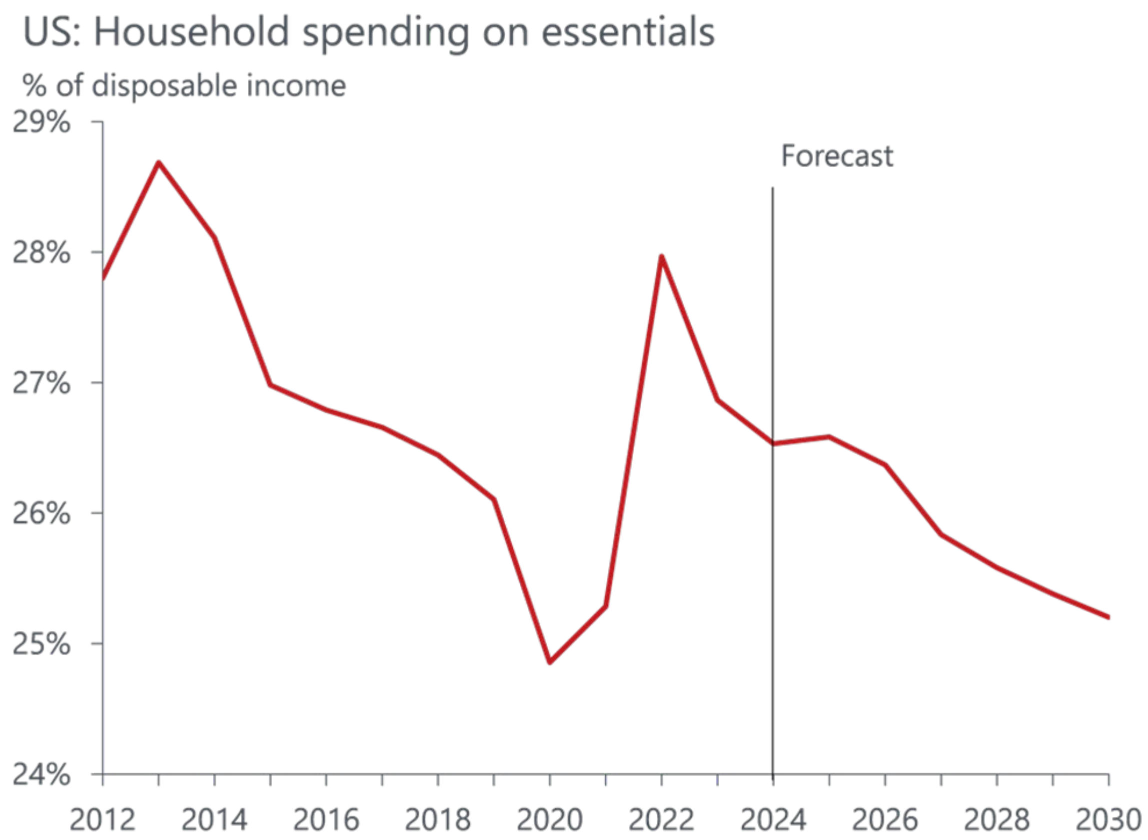
Key takeaways

- Consumer spending on discretionary goods has softened this year, but August retail sales data shows Q3 consumption tracking at 2% annualized.
- Tax cuts and lower interest rates will help spending growth to gradually recover heading into 2026.
- New fiscal policy, an outsize wealth effect, and tariff-related price increases will widen the bifurcation of high- and low-income consumers.
- SNAP cuts will weigh on goods spending, particularly in the South and West regions of the US.

Solid income growth will support essentials spending in near term

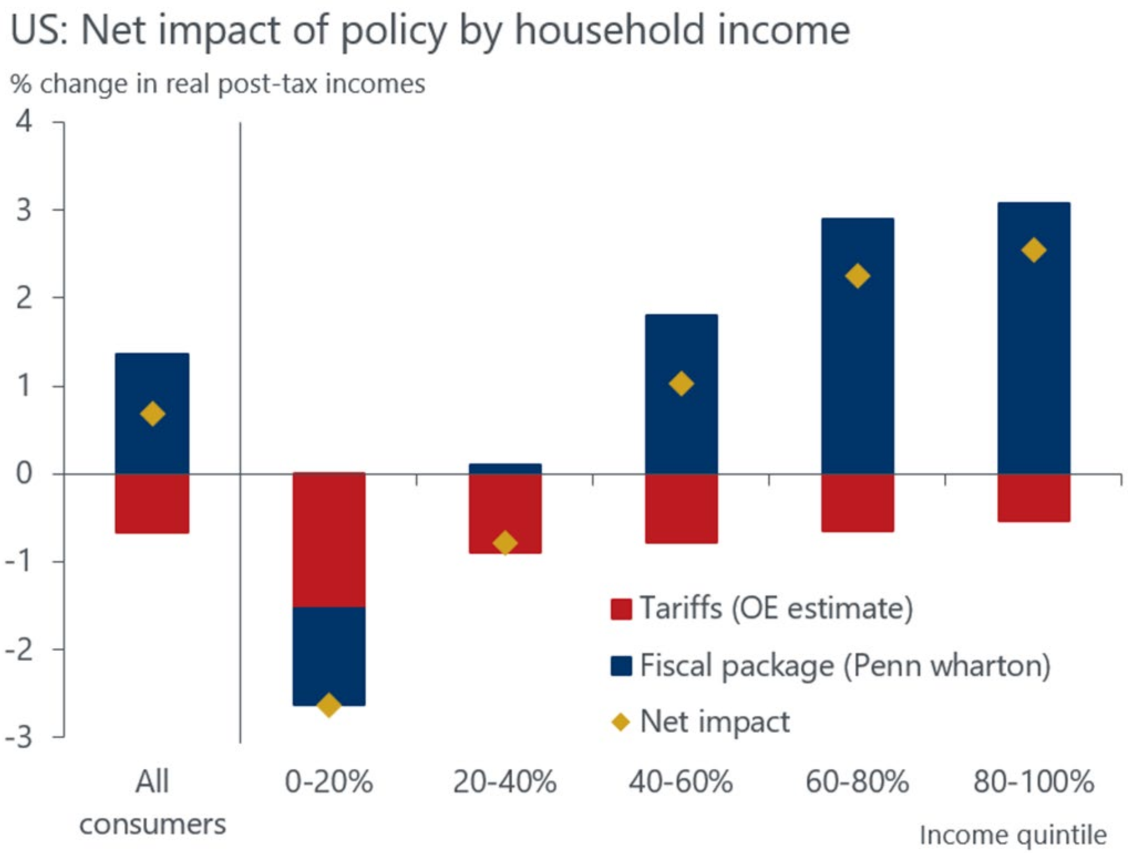


Sources: Oxford Economics, Haver Analytics

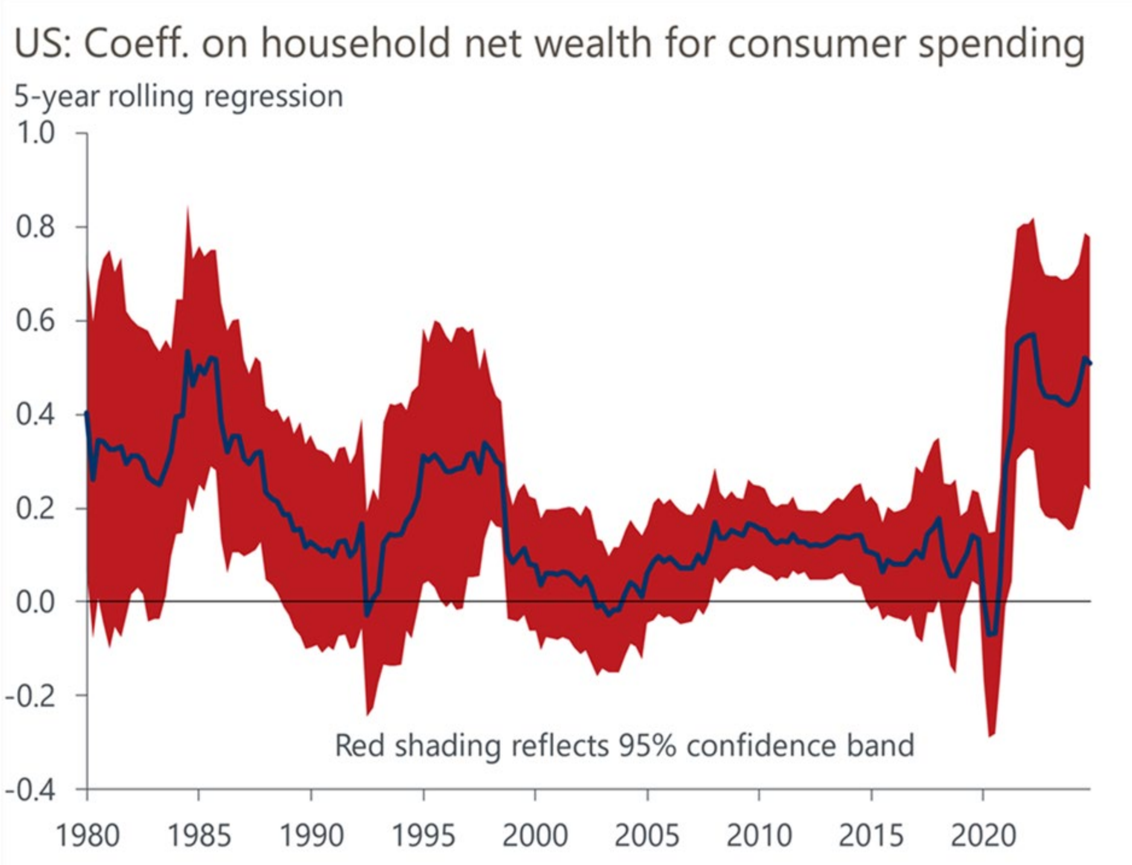


Sources: Oxford Economics, Haver Analytics

Bifurcation of high- and low-income consumers will widen

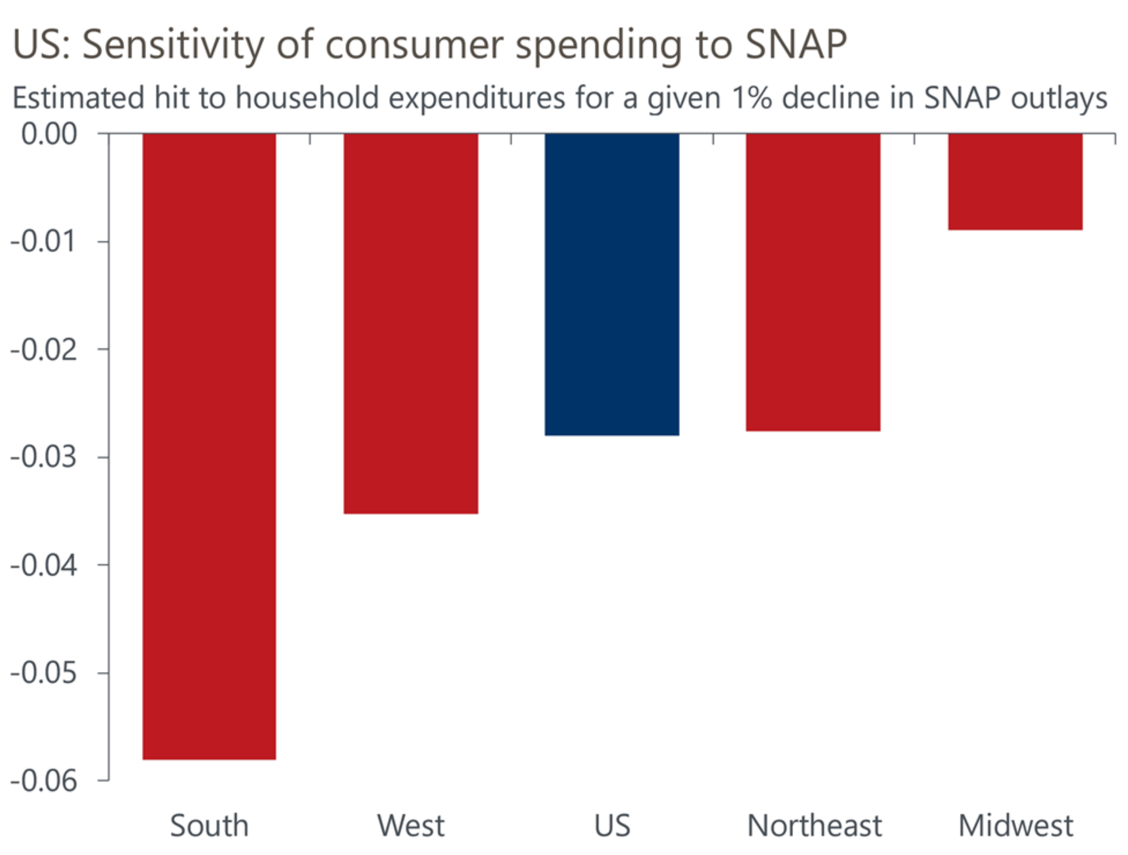


Sources: Oxford Economics, Penn Wharton

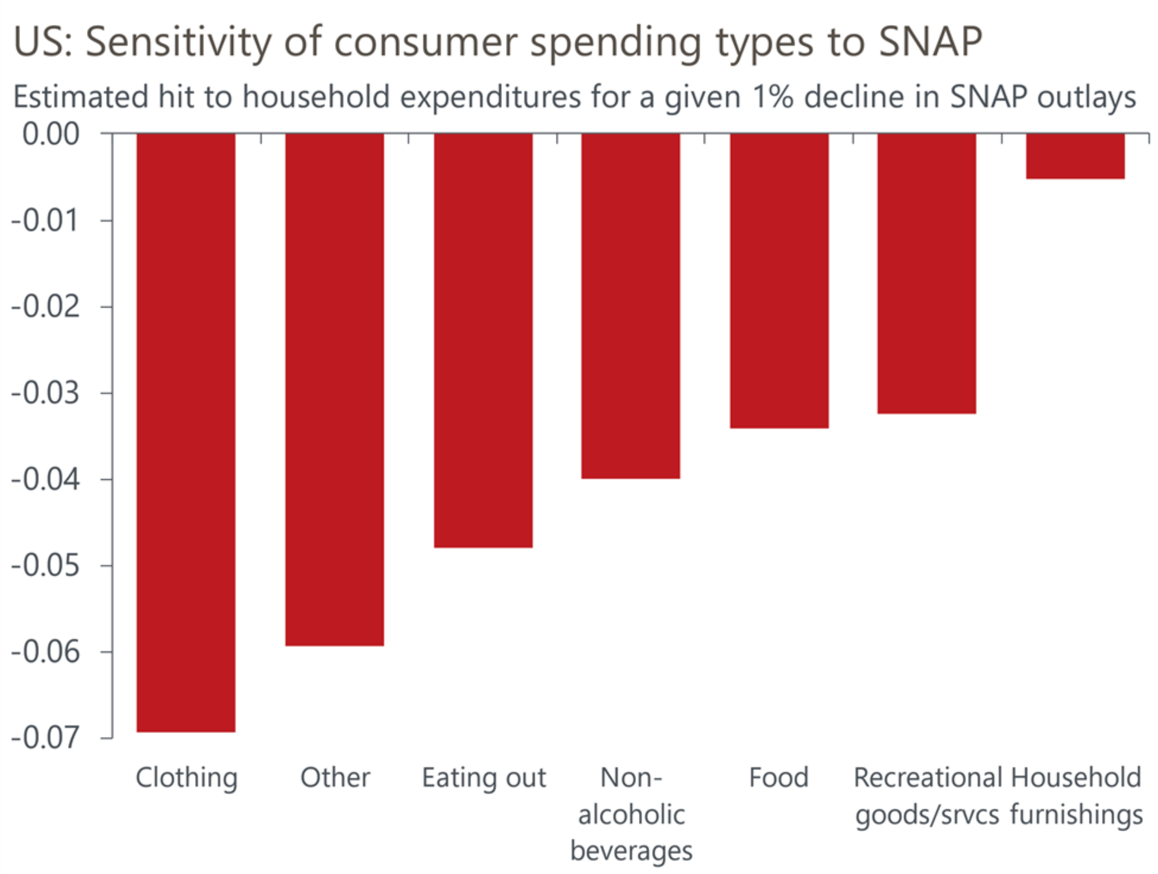


Sources: Oxford Economics, Haver Analytics

SNAP cuts will weigh on food spending, spill over into other areas



Source: Oxford Economics

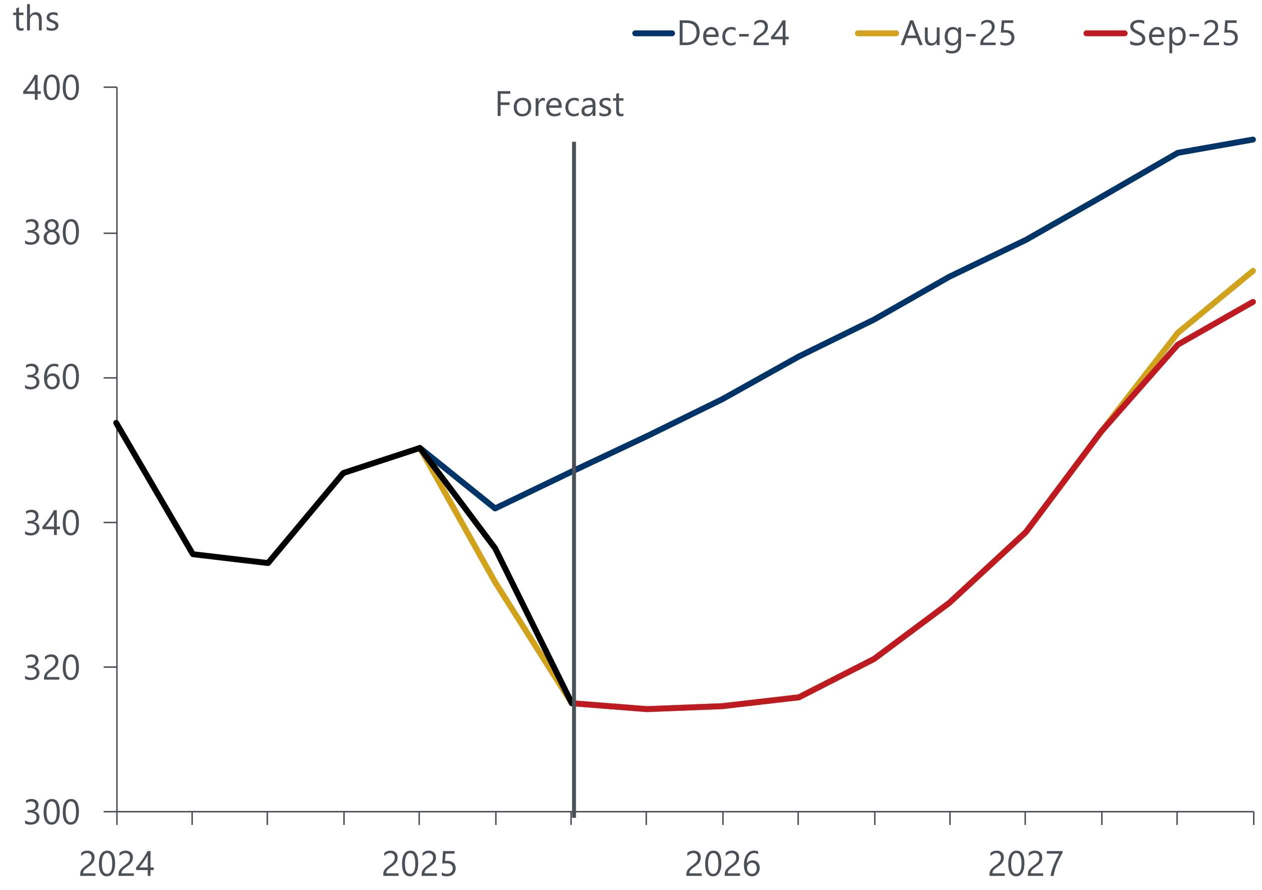


Source: Oxford Economics

Housing Market is in a Slump

Homebuilders and buyers are struggling

US: Housing starts by forecast vintage



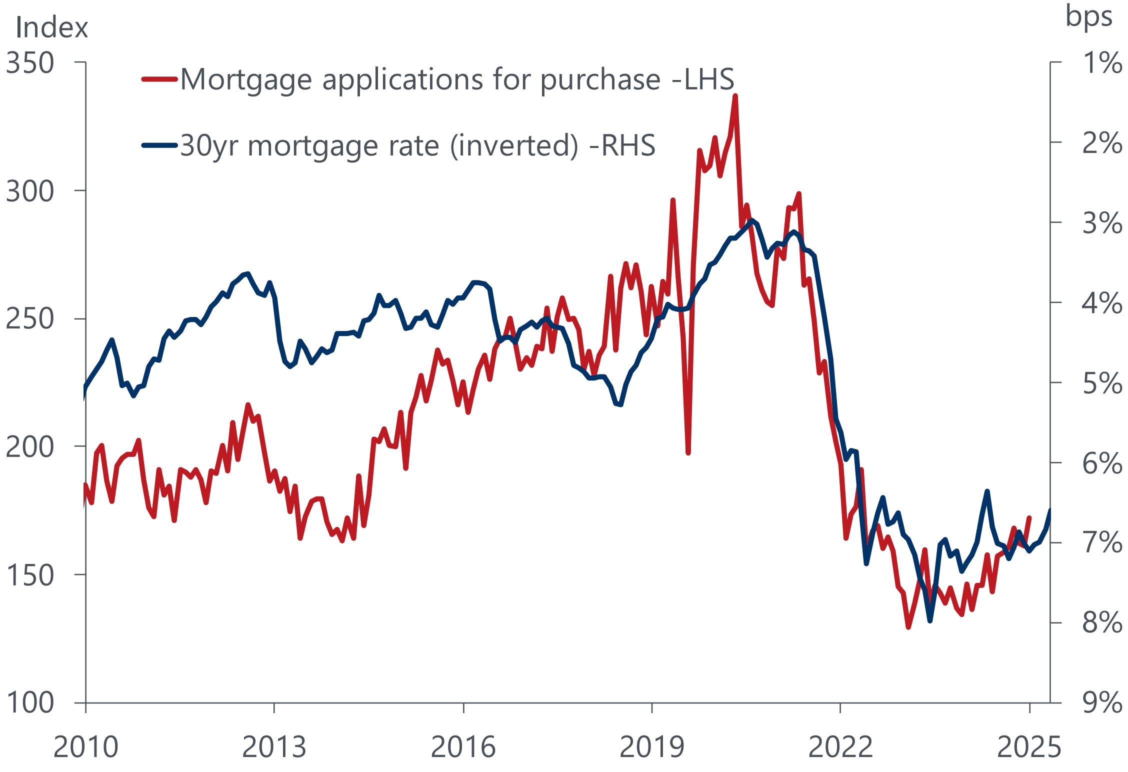
Sources: Oxford Economics, Haver Analytics

- **Key takeaways**

- The outlook for residential construction is poor. Weak homebuilder sentiment and a buildup of unsold, completed new homes will weigh on new home starts.
- Our baseline expects home sales to stay flat in H2. However, a dip in mortgage rates and slowing home price growth across a broader number of metros lends upside risk to that forecast.
- Interest rate cuts and stimulus from the Republican budget law will help sales recover in 2026.
- For those who are moving out of state, a higher share are going where housing costs are lower.

Falling mortgage rates add upside risk to home sales

US: Mortgage rates & applications



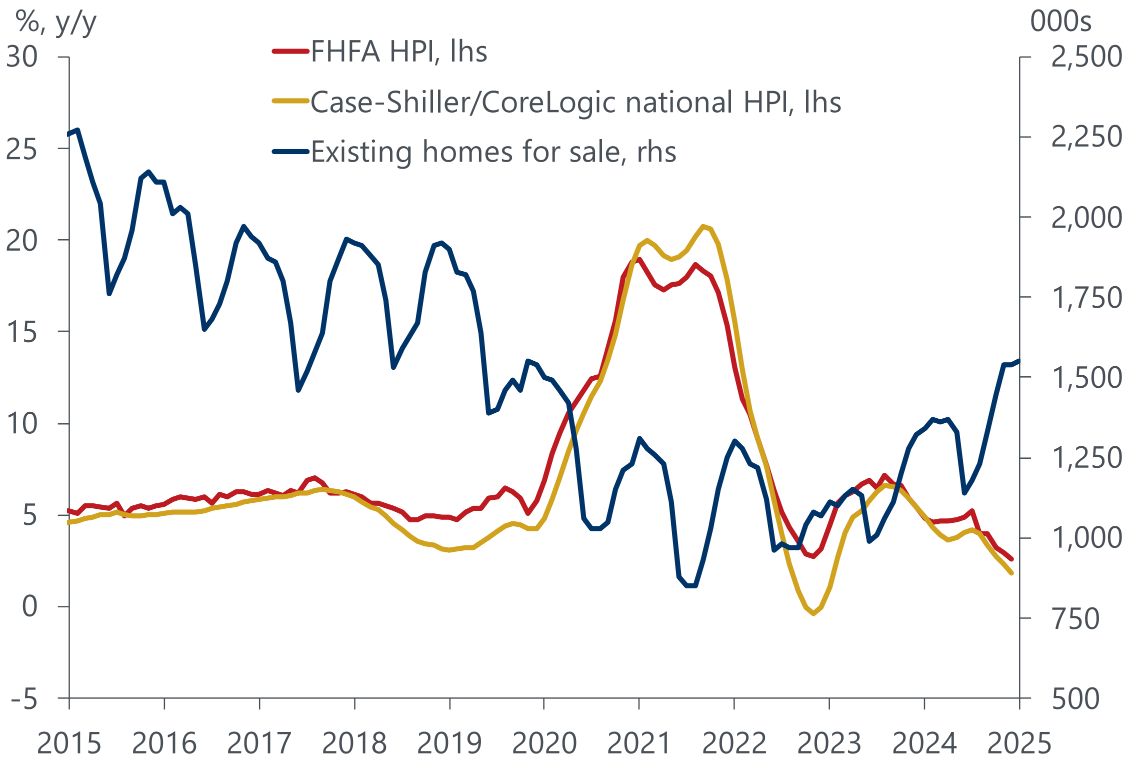
Sources: Oxford Economics, Haver Analytics

US: New and existing home sales

Sources: Oxford Economics, Haver Analytics

Home prices are declining across a broader number of metros

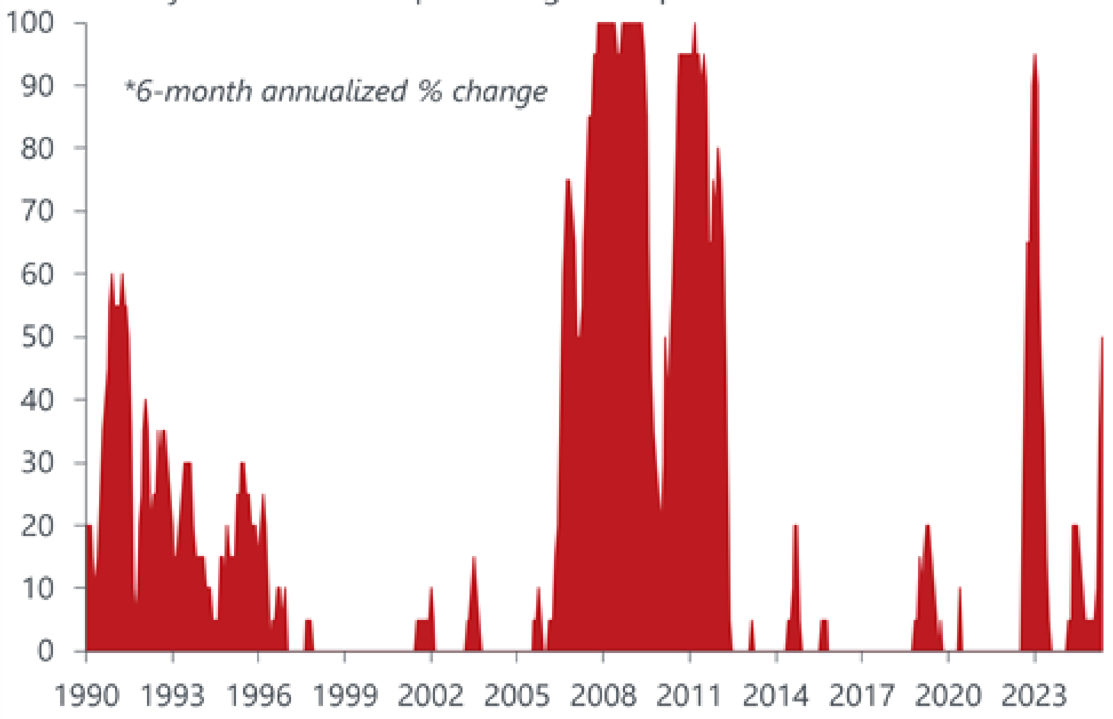
US: Homes for sale and home prices



Sources: Oxford Economics, Haver Analytics

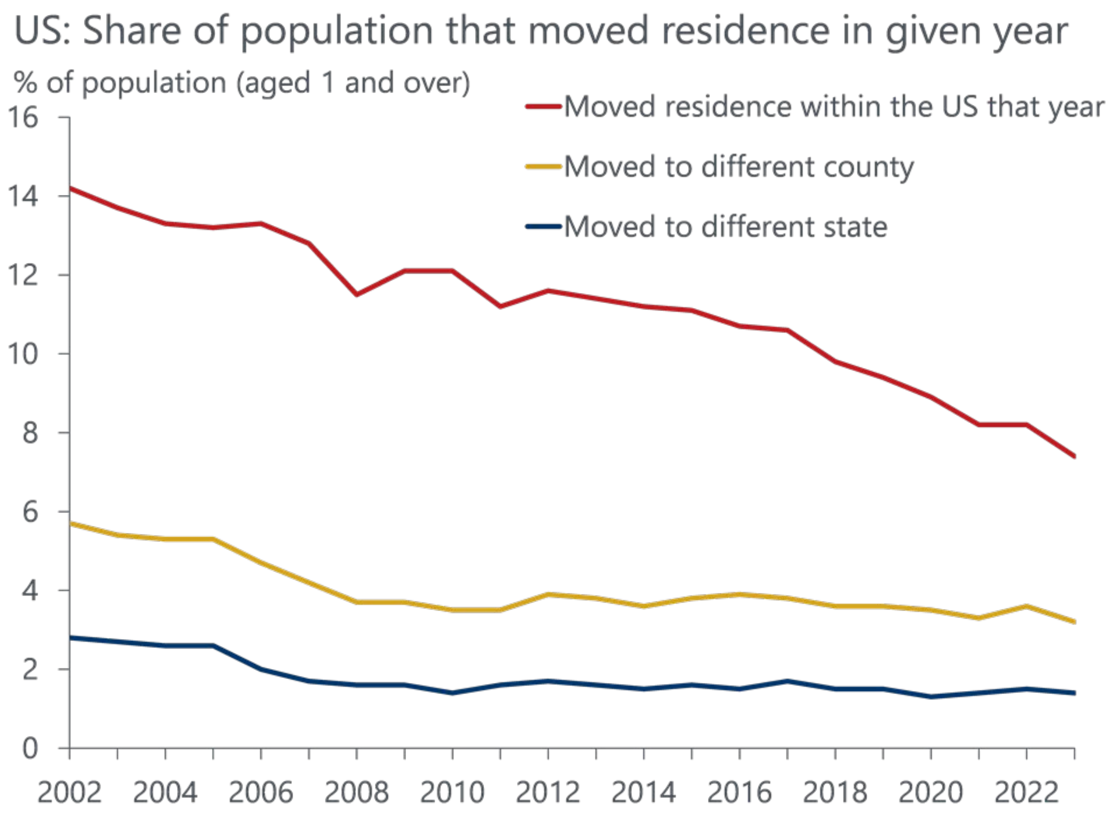
US: Regional breadth of decreasing house prices

% of 20 major metro areas experiencing home price declines*

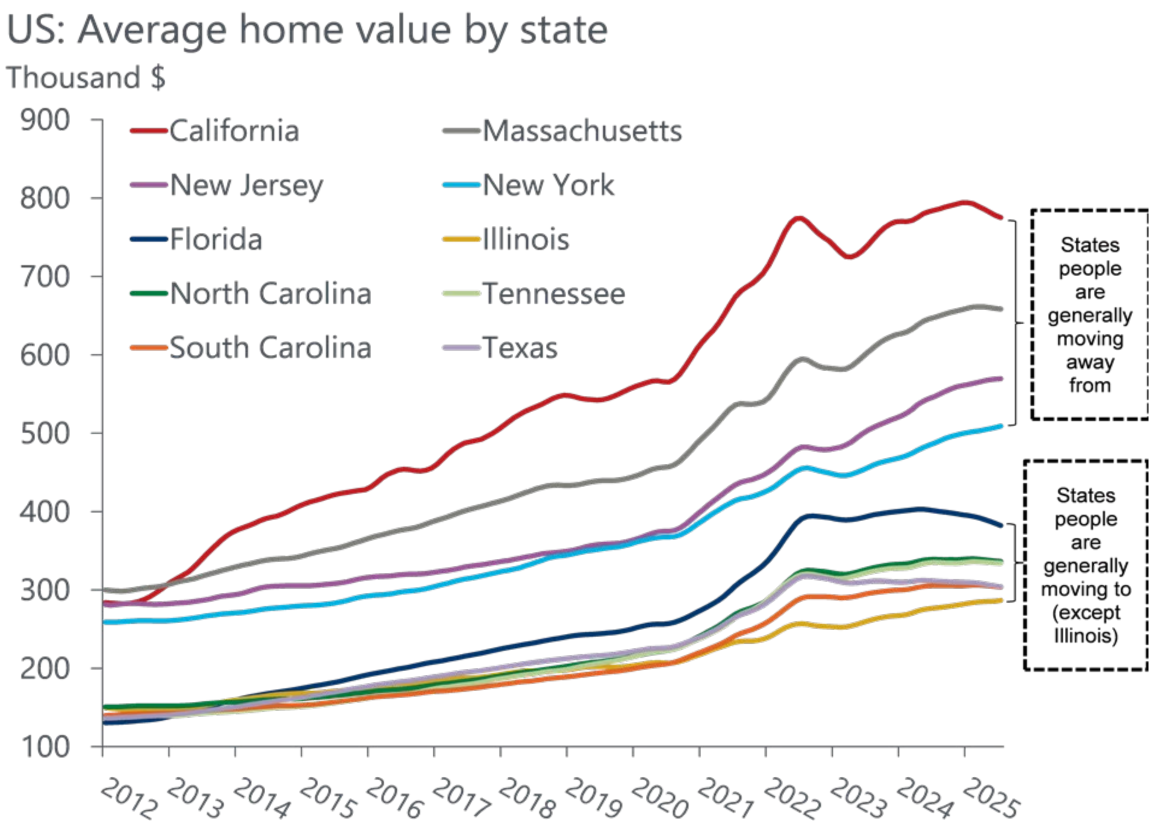


Sources: Oxford Economics, Haver Analytics

Small share moving states are going where housing costs are lower



Sources: Oxford Economics, Census Bureau



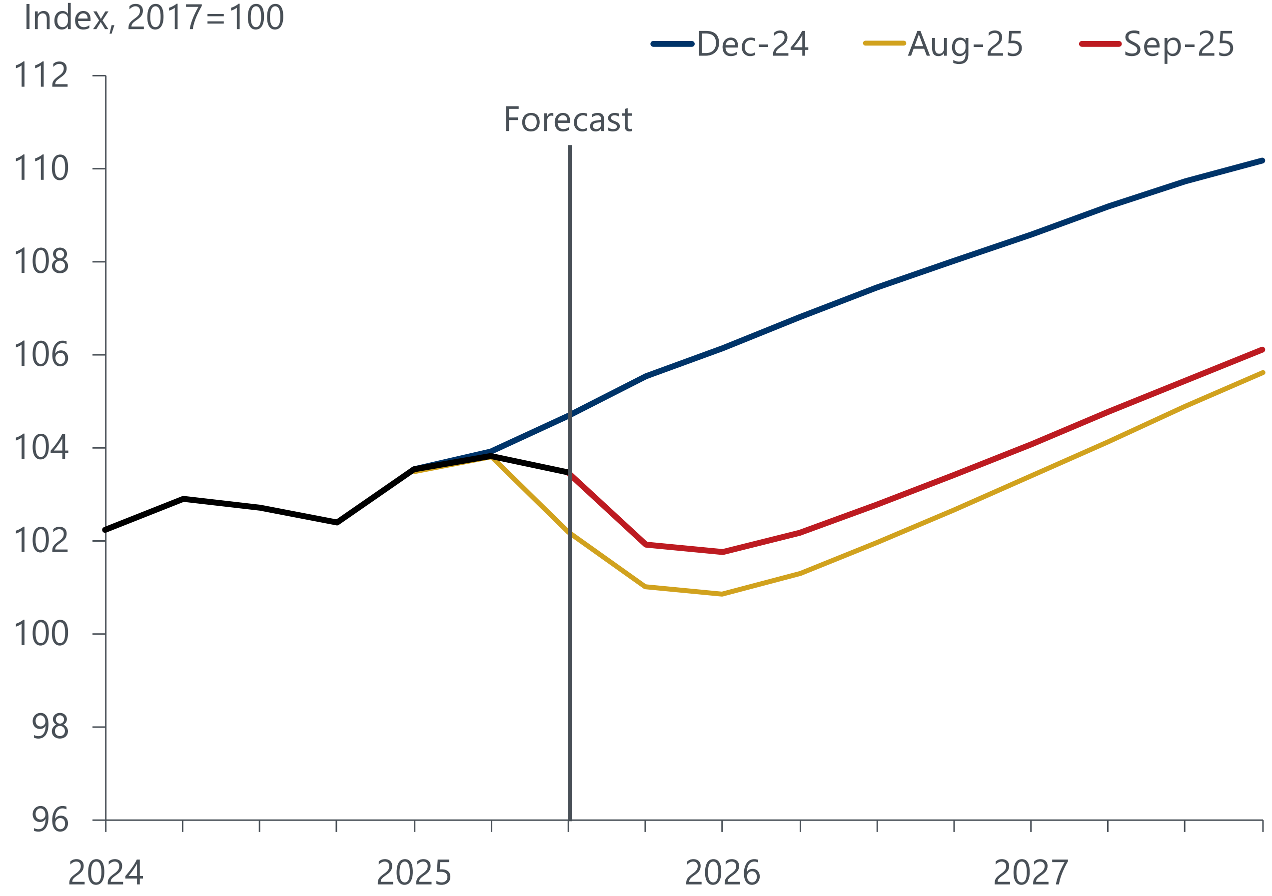
Sources: Oxford Economics, Zillow

Manufacturing Outlook Improving

Industry conditions will improve in 2026

US: Industrial production by forecast vintage

Index, 2017=100

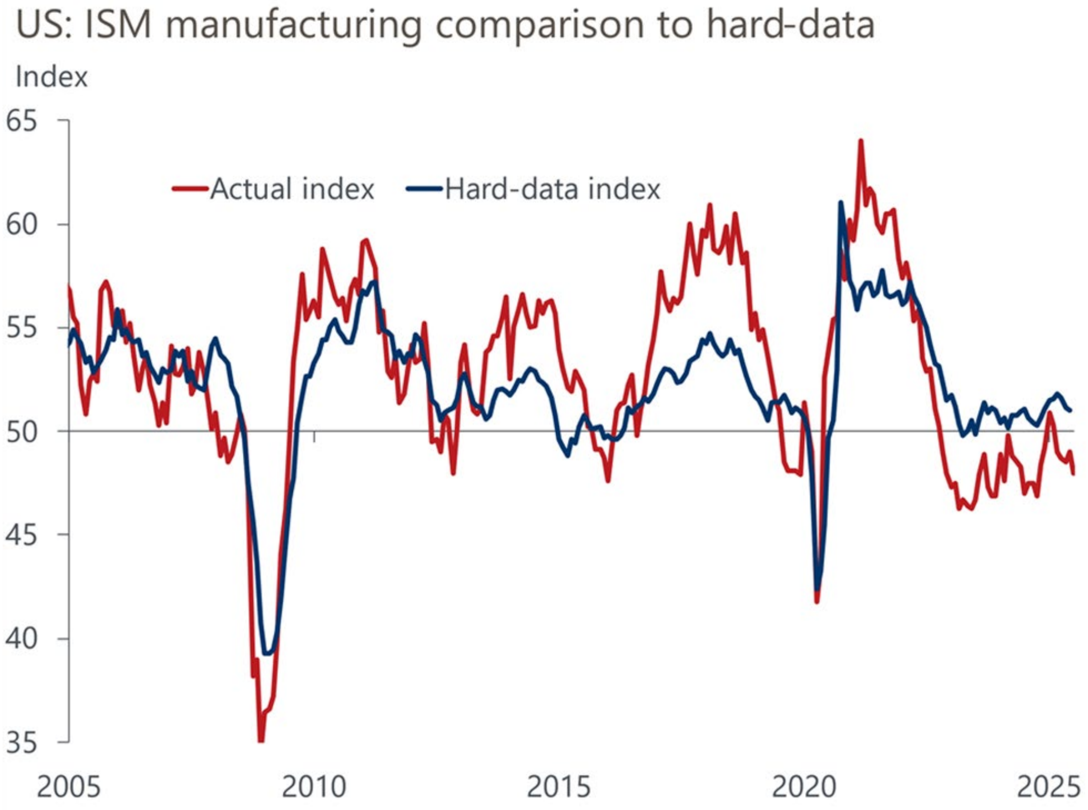


Sources: Oxford Economics, Haver Analytics

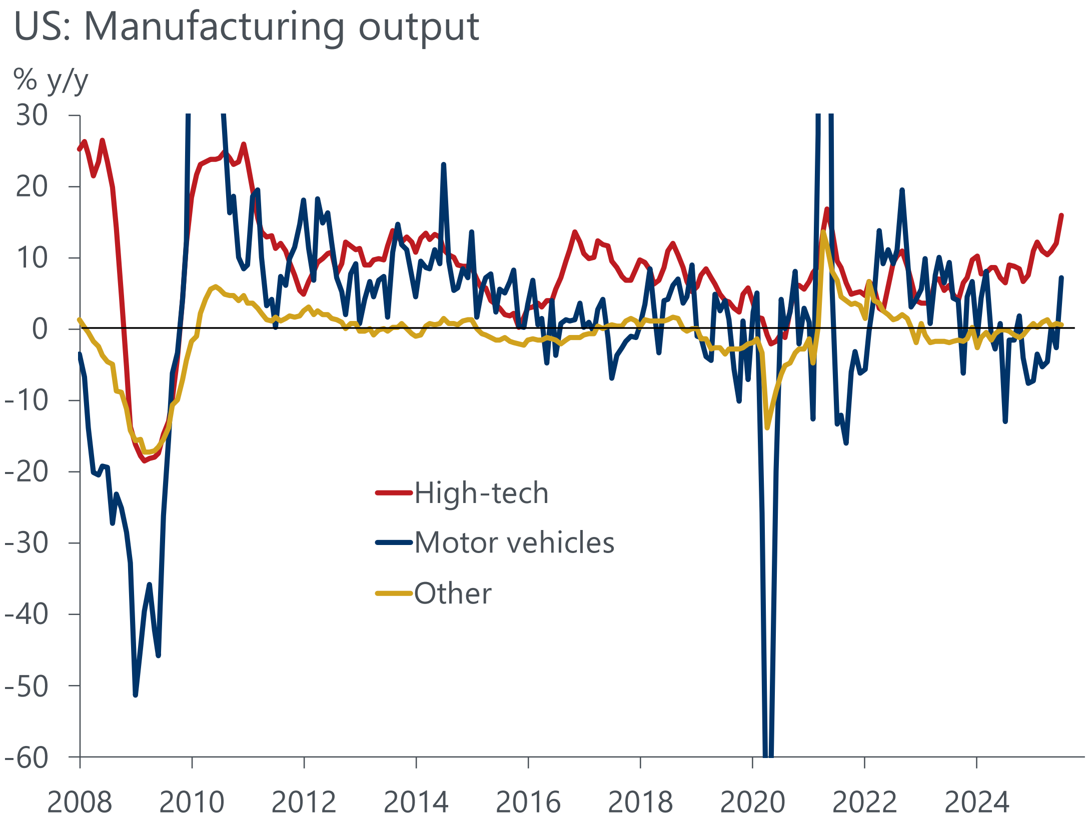
- **Key takeaways**

- The baseline forecast calls for a shallower decline in industrial production in H2 than before. Another upward revision is likely in store.
- Key to its resilience so far has been the AI tailwinds to information processing equipment and a comeback in aerospace.
- Fiscal policy, lower interest rates, and reduced uncertainty will provide a better environment for business investment in 2026.
- Supply-chain stress rose due to a second wave of front-loading. With tariffs back in place, we expect these pressures to be short-lived.

Manufacturing activity resilient despite sour sentiment

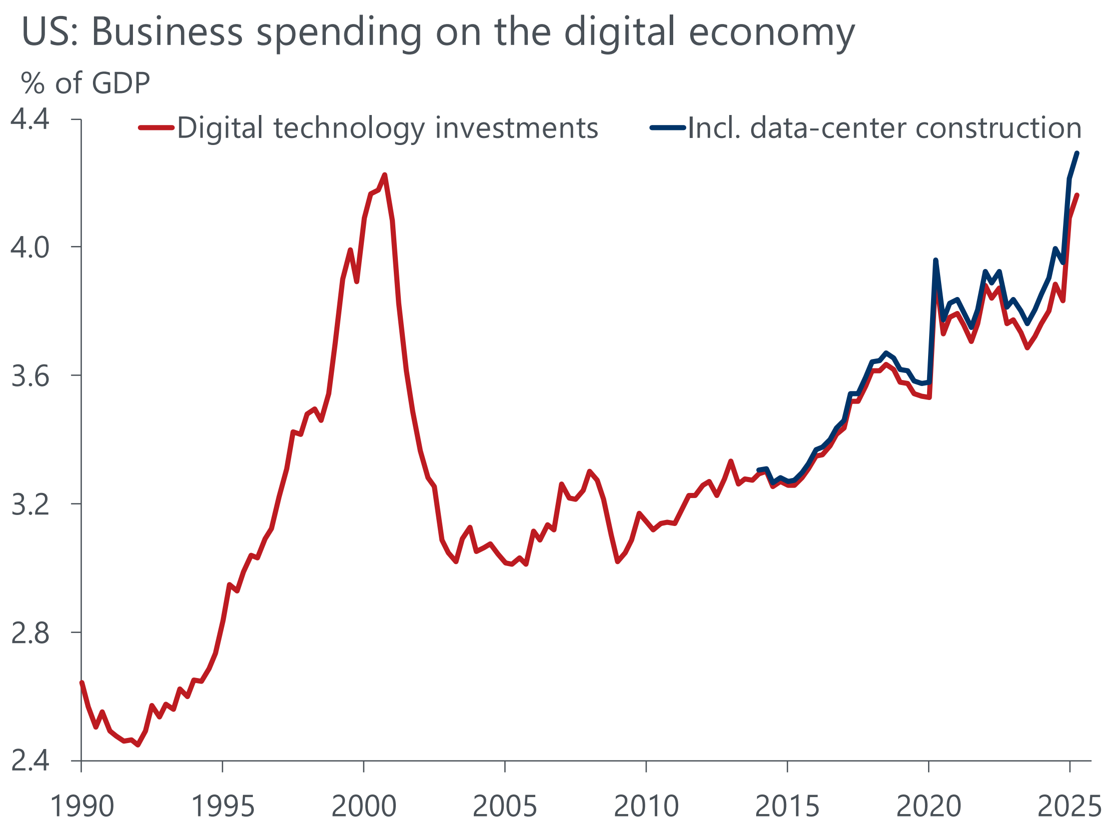


Sources: Oxford Economics, Haver Analytics

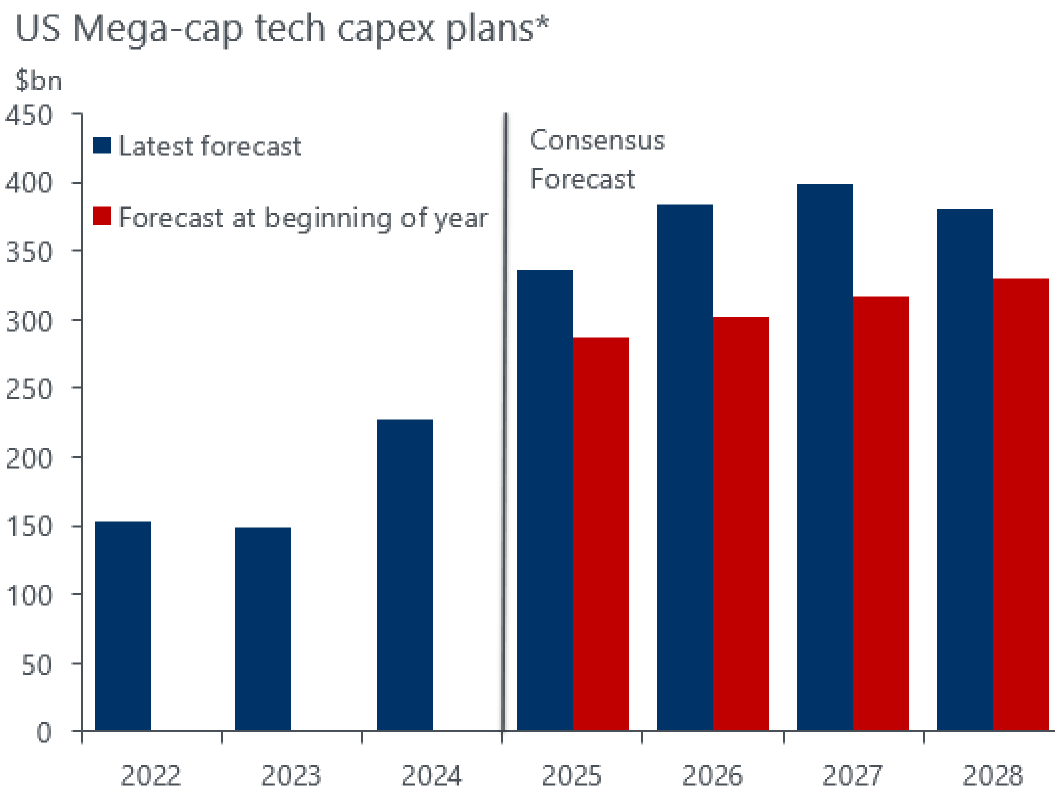


Sources: Oxford Economics, Haver Analytics

Strong AI-related investment will support GDP growth

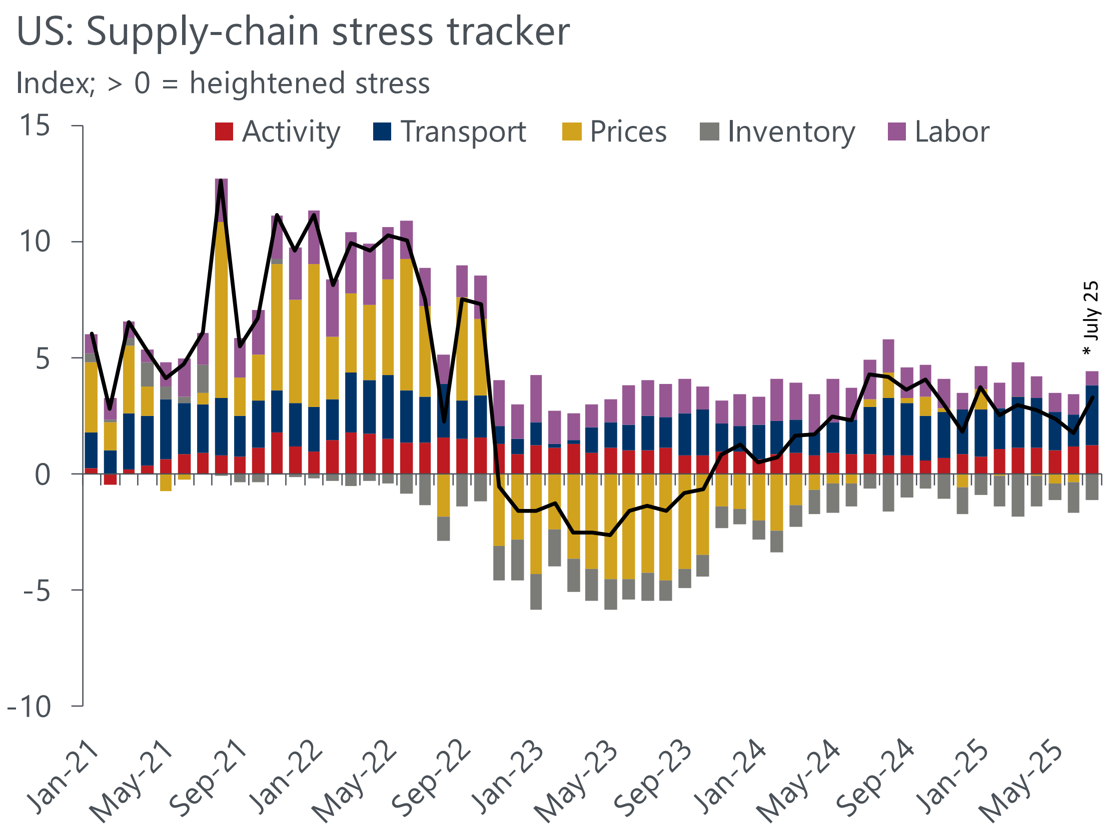


Source: Oxford Economics/Haver Analytics

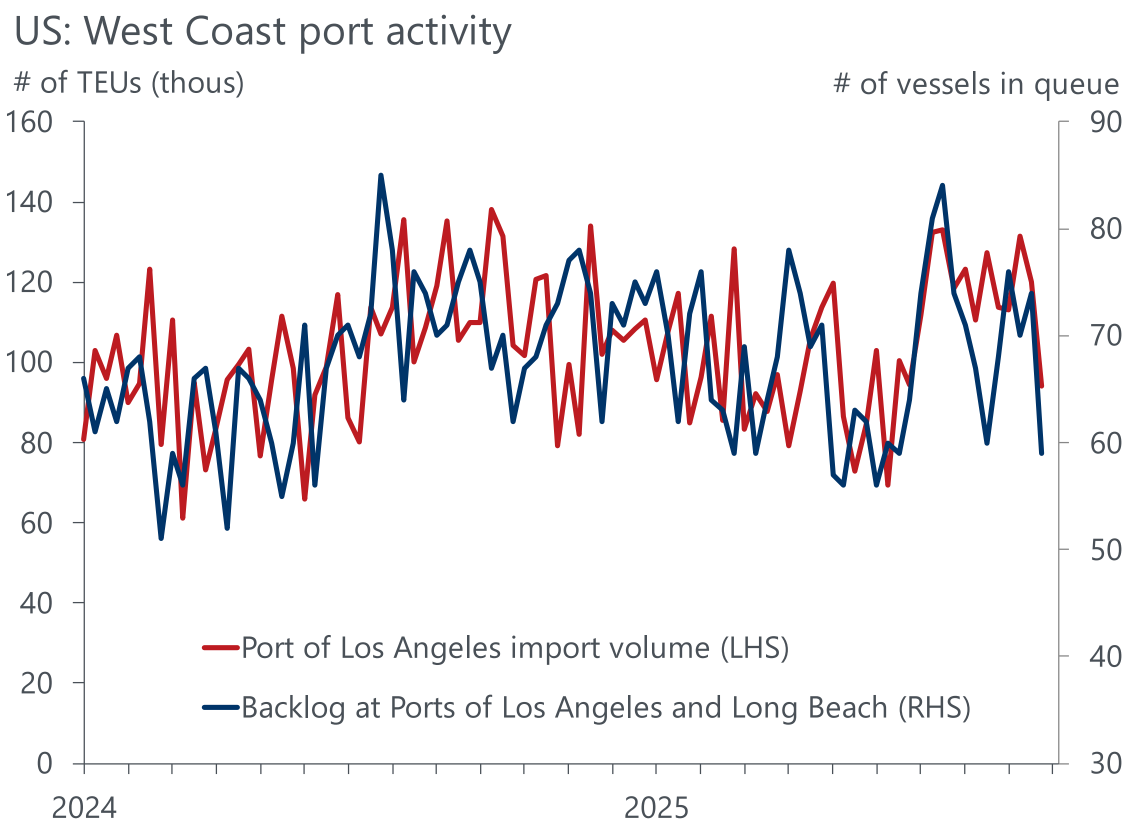


*Alphabet, Amazon, Meta and Microsoft
Sources: Oxford Economics, Bloomberg

Short-lived jump in front-loading activity raised supply-chain stress



Sources: Oxford Economics, Haver Analytics

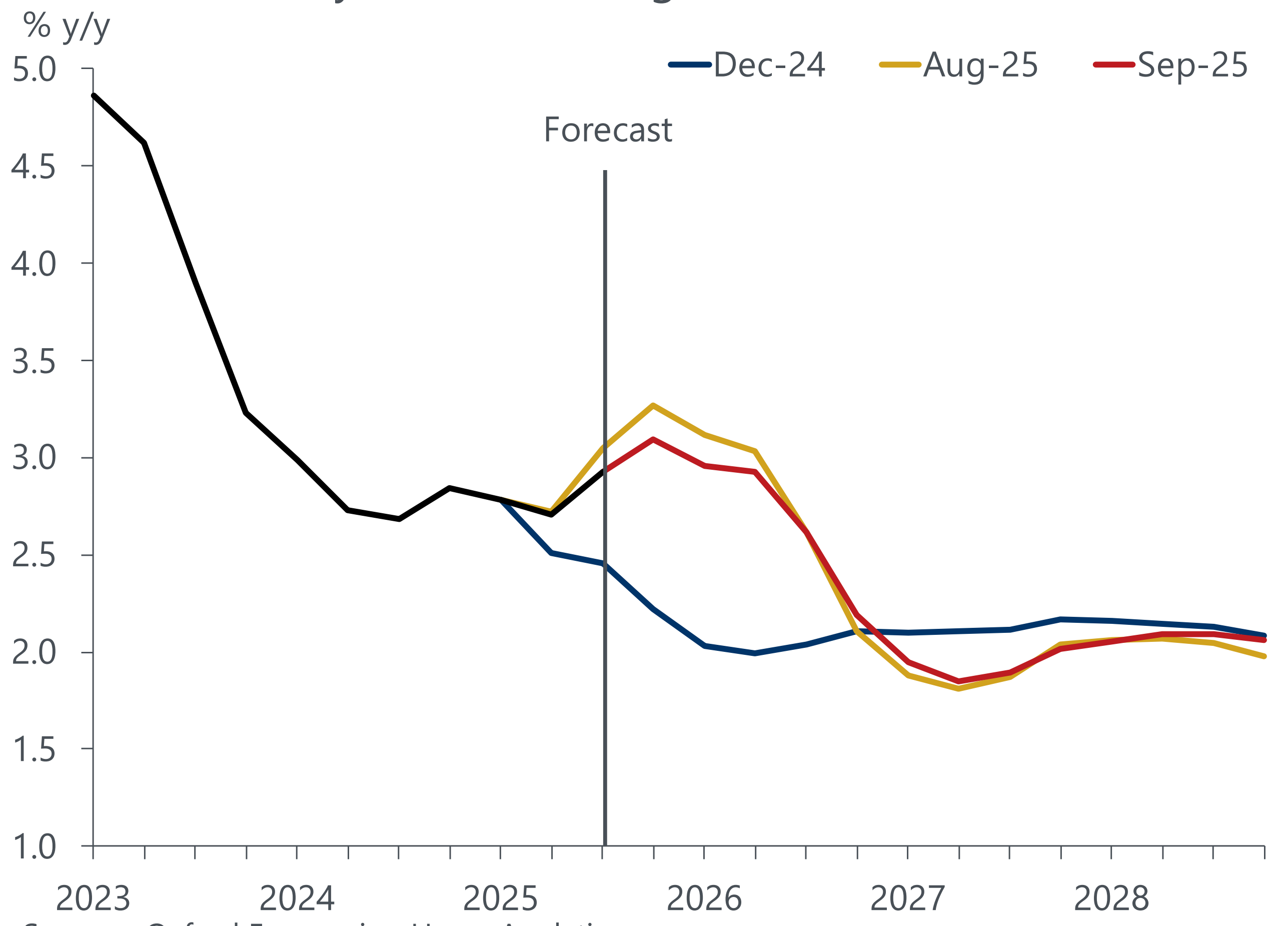


Sources: Oxford Economics, Haver Analytics

Tariffs Will Boost Inflation

Core inflation will continue to rise

US: Core PCE by forecast vintage

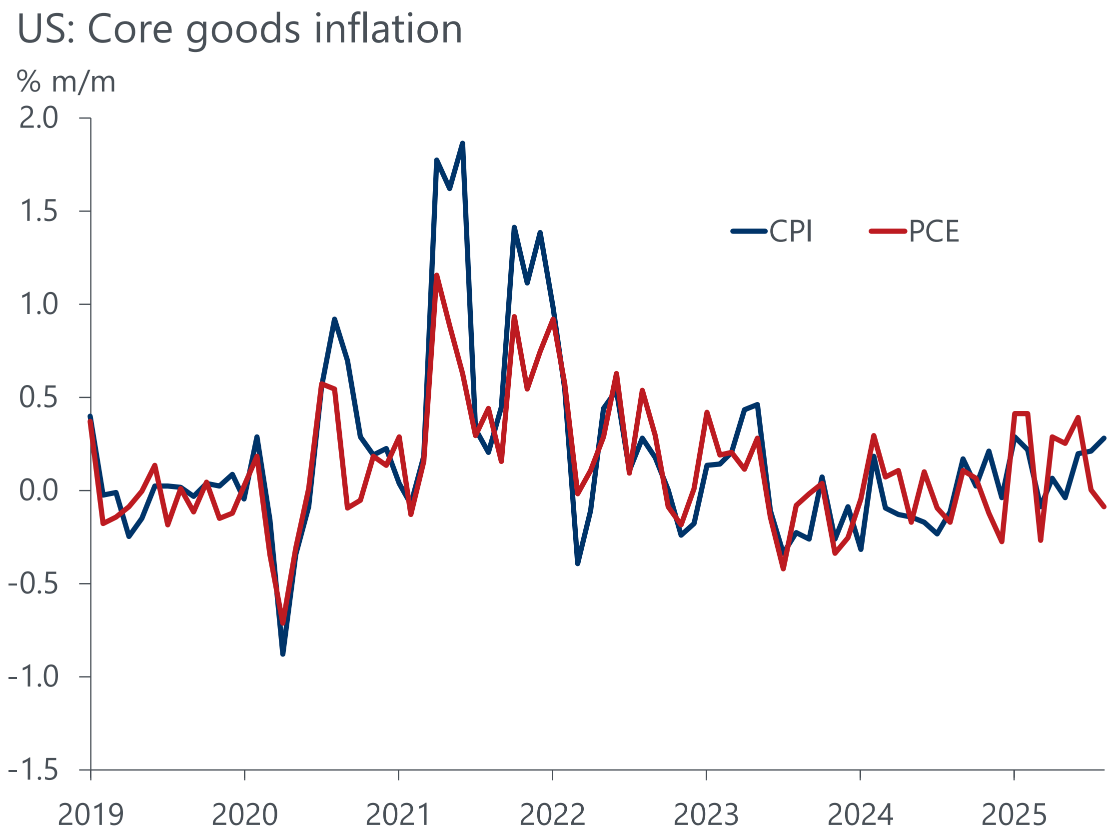


Sources: Oxford Economics, Haver Analytics

• Key takeaways

- Tariffs are lifting prices even though our PCE nowcast estimates that core inflation remained steady at 2.9% in August.
- The core goods CPI is rising faster, which assigns more weight to goods like vehicles and computer software.
- The feedthrough of tariffs to consumer prices will intensify this fall, as exporting countries and corporations absorb less of the costs. A larger share of duty-free goods from Canada and Mexico will limit some of the rise.
- We expect core PCE inflation to rise to 3.1% before year-end.

Core goods prices are rising, but won't be reflected in the next PCE



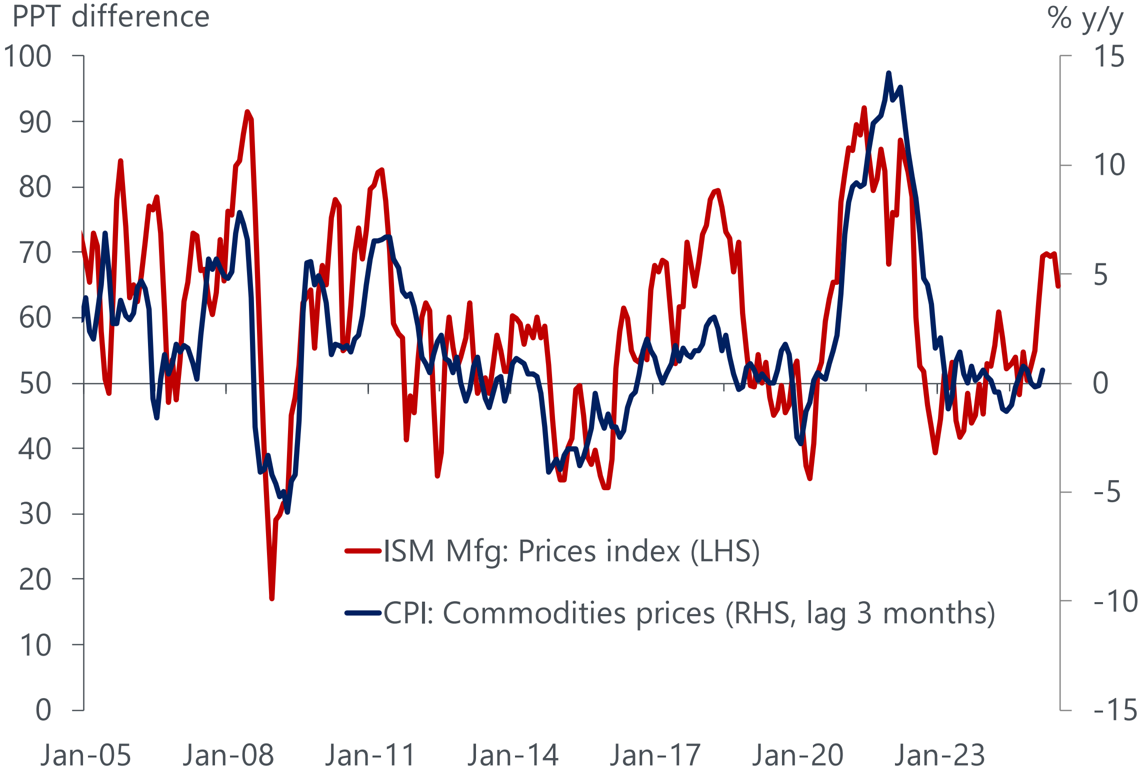
Sources: Oxford Economics, Haver Analytics

%m/m - Actual = Initial BEA estimate		May-25	Jun-25	Jul-25	Aug-25
Headline PCE	Actual	0.14	0.28	0.20	
	OE tracker	0.11	0.34	0.17	**0.26**
Core PCE	Actual	0.18	0.26	0.27	
	OE tracker	0.15	0.32	0.25	**0.21**
Core goods	Actual	0.25	0.39	0.00	
	OE tracker	0.25	0.39	0.00	**-0.09**
Housing	Actual	0.26	0.28	0.27	
	OE tracker	0.26	0.28	0.27	**0.36**
Core services ex-housing	Actual	0.07	0.19	0.39	
	OE tracker	0.00	0.30	0.36	**0.31**

Sources: Oxford Economics, Haver Analytics

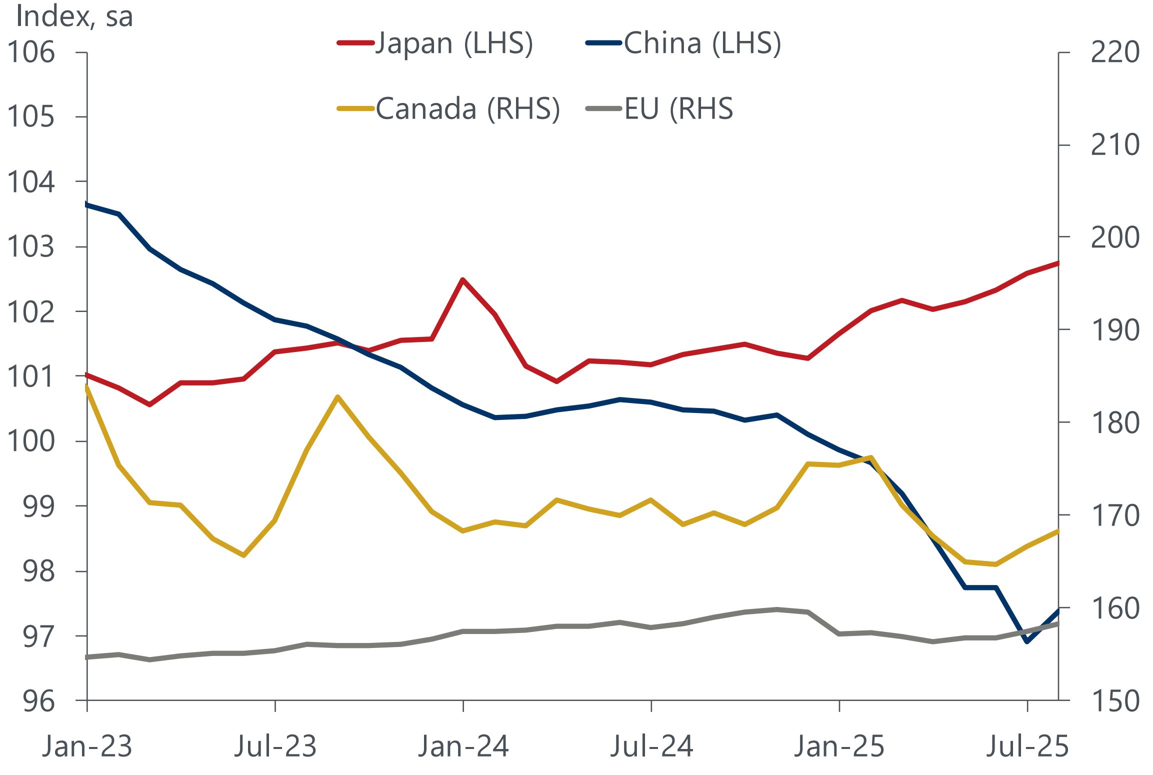
Tariff feedthrough to prices set to intensify this fall

US: ISM Manufacturing PMI



Sources: Oxford Economics, Haver Analytics

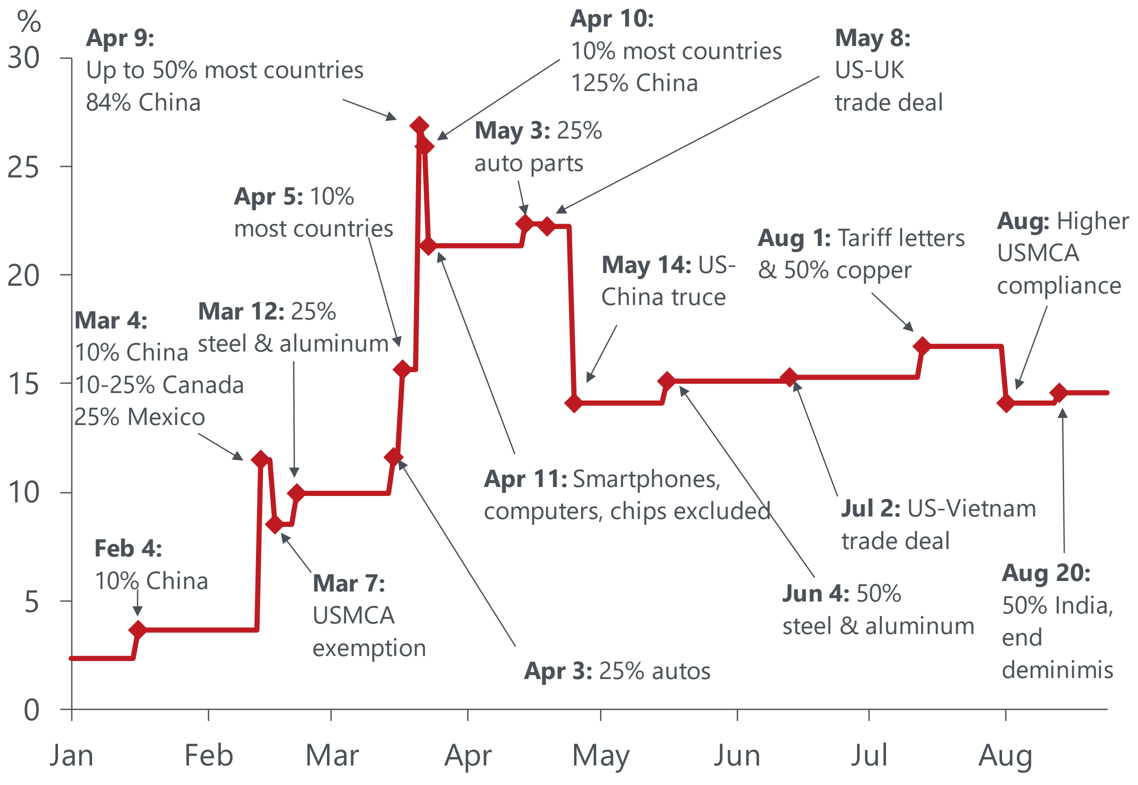
US: Import price indexes by locality of origin



Sources: Oxford Economics, Haver Analytics

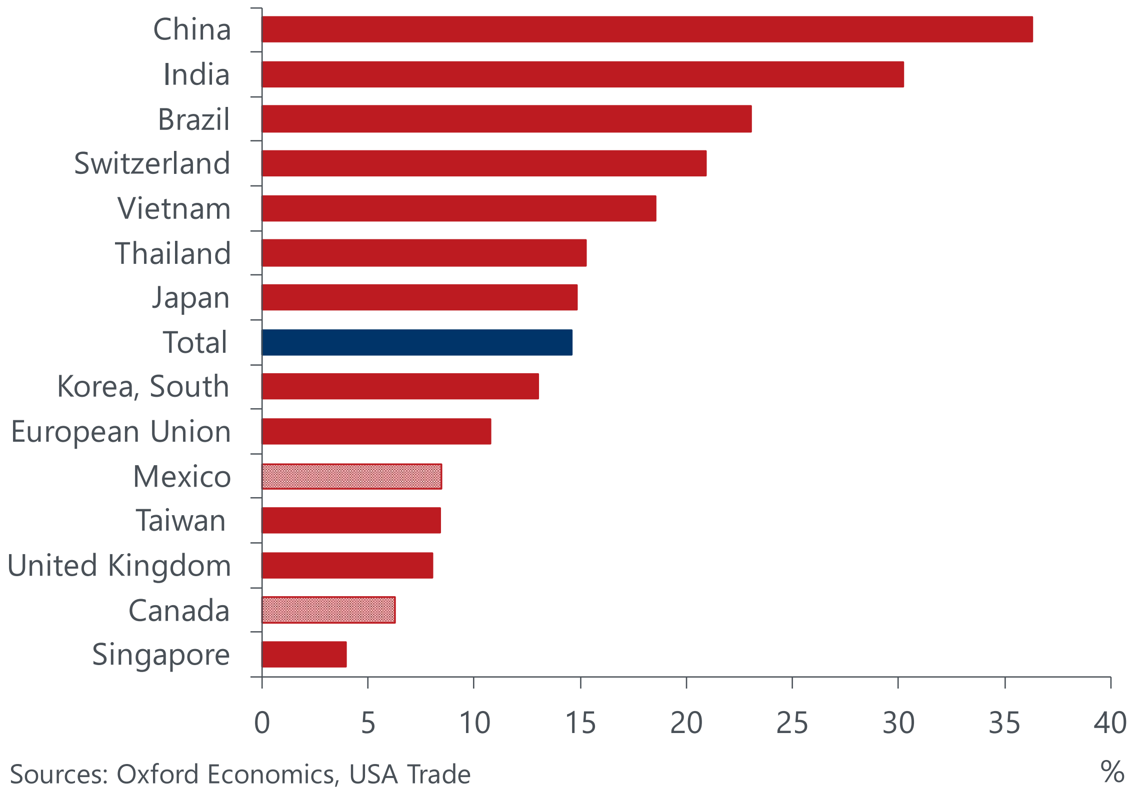
Higher USMCA compliance lowers effective tariff rate to near 14%

US: Effective tariff rate based on 2024 import mix



Sources: Oxford Economics, Census Bureau

US: Effective tariff rate by country

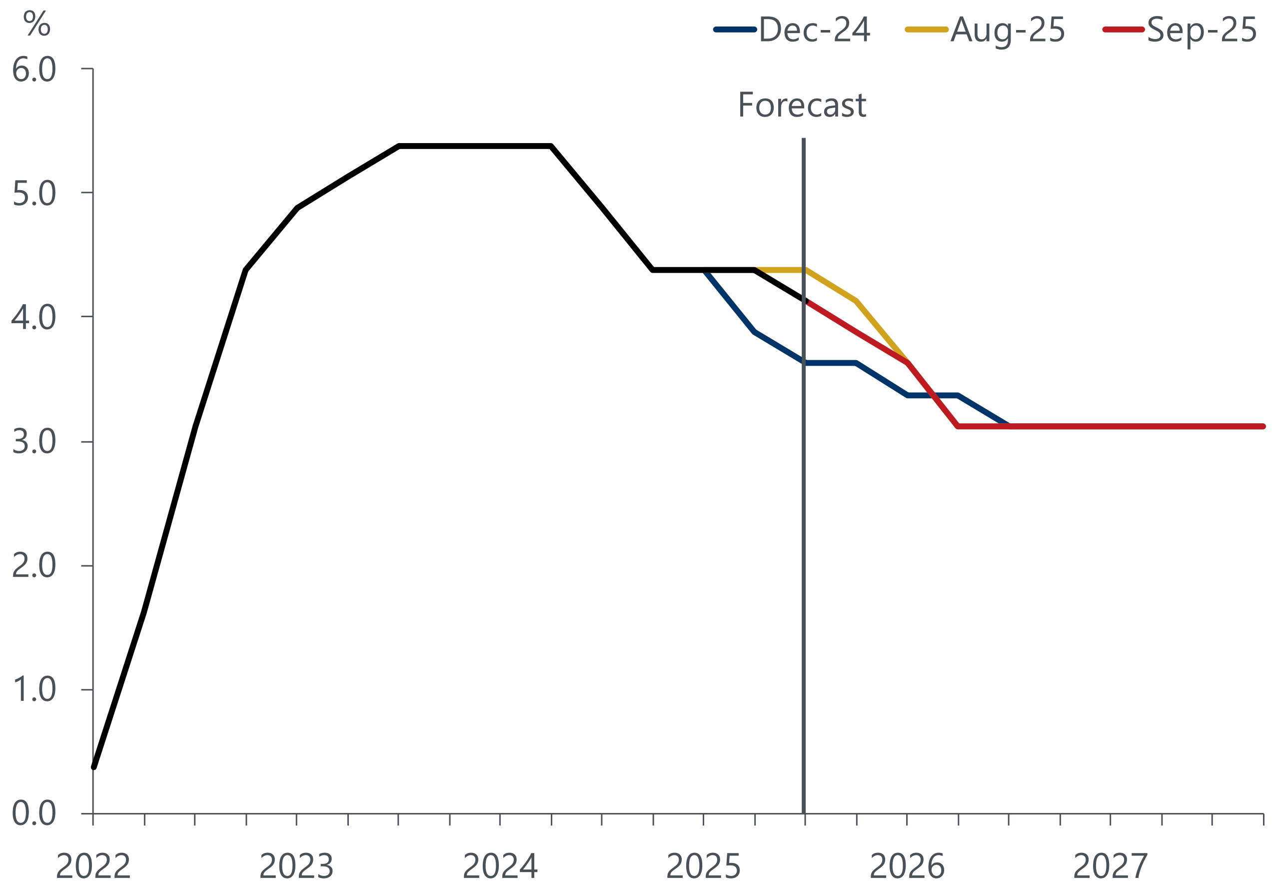


Sources: Oxford Economics, USA Trade

Financial Market Conditions and the Fed

Rate-cutting cycles resumes

US: Fed funds rate by forecast vintage



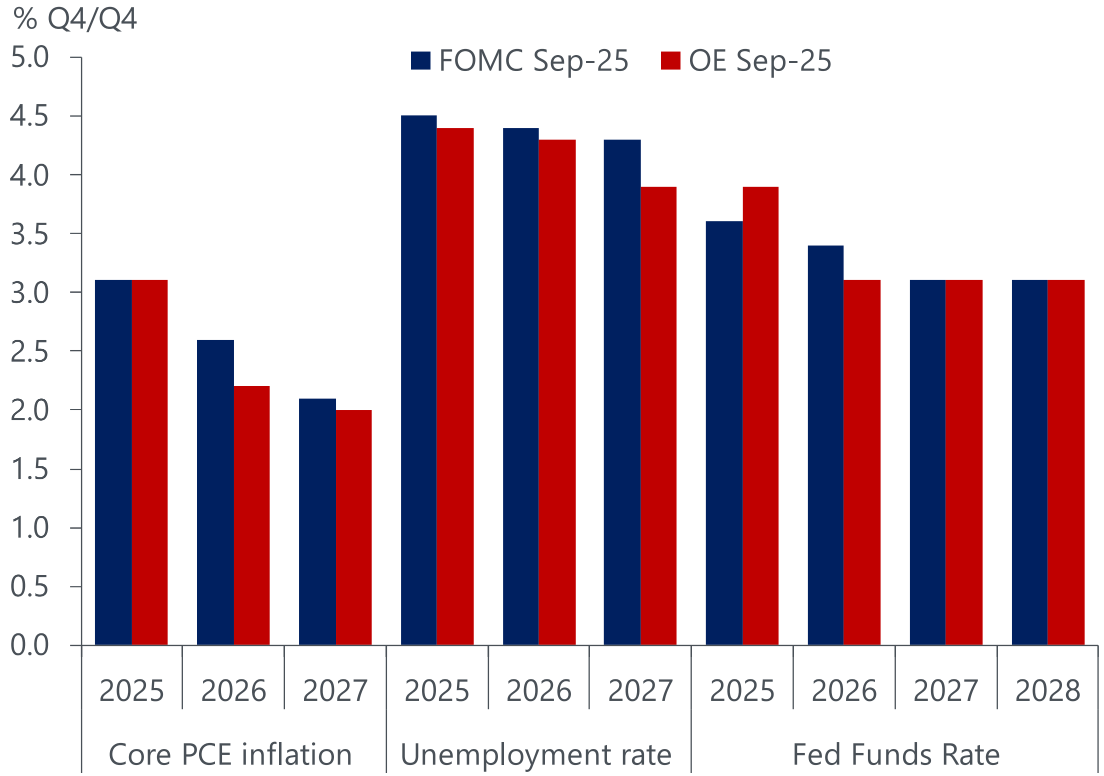
Sources: Oxford Economics, Haver Analytics

- **Key takeaways**

- The FOMC cut rates by 25bps at its September meeting. Our baseline forecast calls for one more cut in December.
- The Fed will remain highly sensitive to labor market data. Another weak jobs reports could push the needle in favor of an October cut.
- Financial conditions are loosening thanks to strength in equities. Tech firms will likely see solid returns during this easing cycle.
- We expect the Treasury curve to steepen following rate cuts. Long-end rates will remain elevated due to inflation risks, supply pressures, and elevated term premiums.

Fed resumes rate-cutting cycle, but path will remain data-dependent

US: Economic Projections



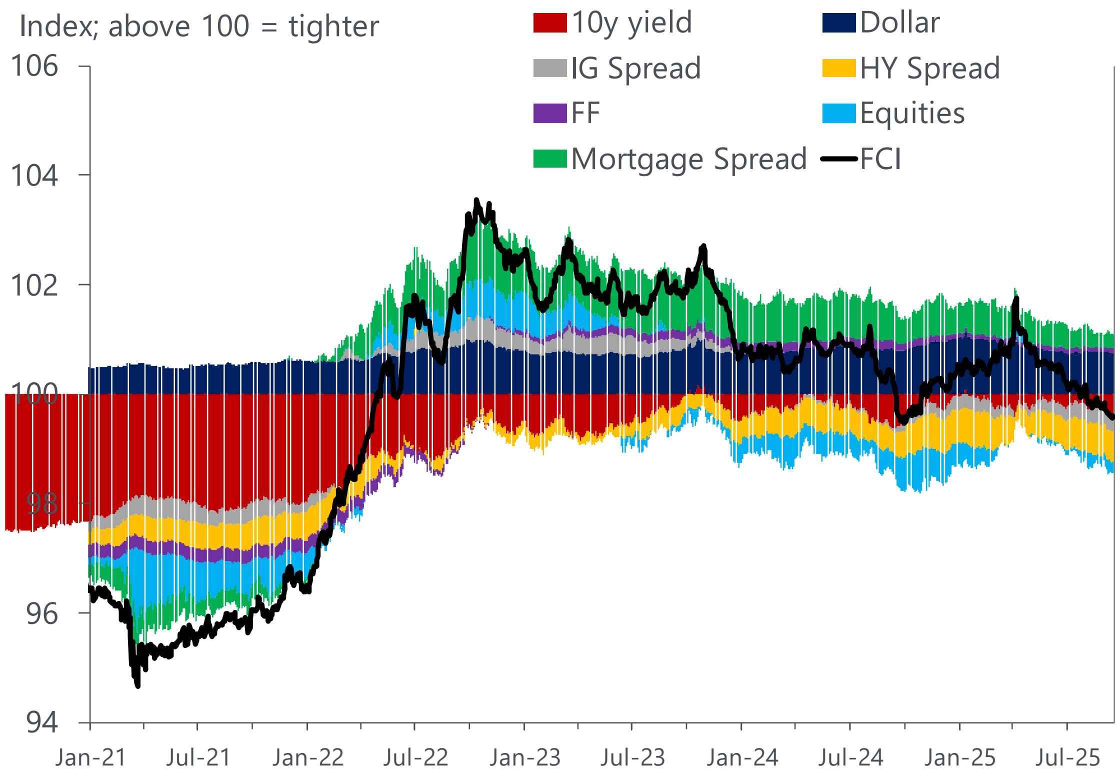
Sources: Oxford Economics, Federal Reserve

US: FOMC diffusion index of risks

Sources: Oxford Economics, Haver Analytics

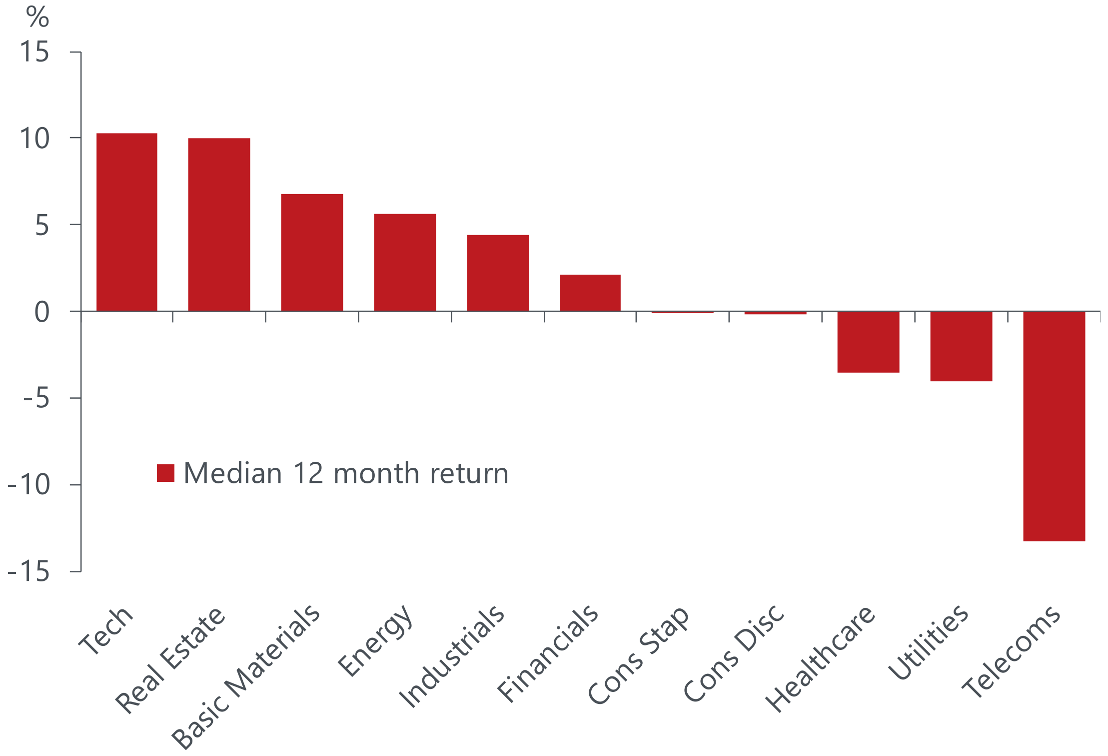
Financial conditions loosen, tech and real estate equities to benefit

US: Financial conditions index



Sources: Oxford Economics, Haver Analytics

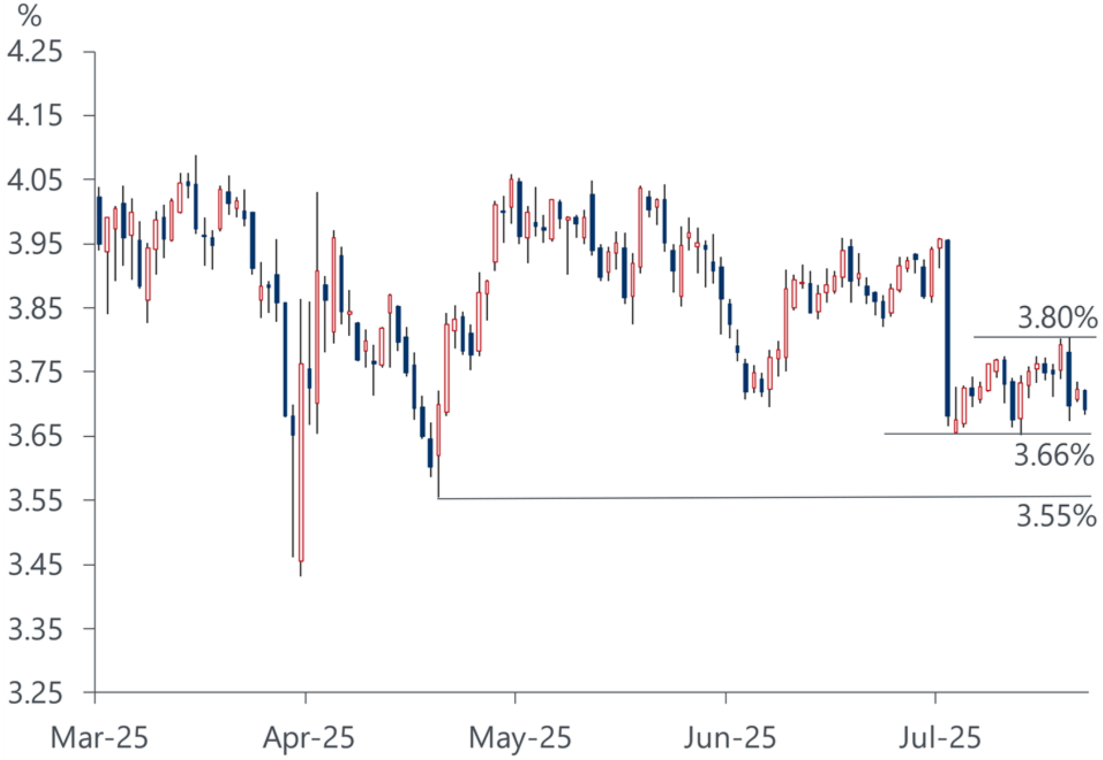
Relative returns following resumption of easing cycles (ex recessions)



Note: based on the ICB sector classfication
Source: Oxford Economics

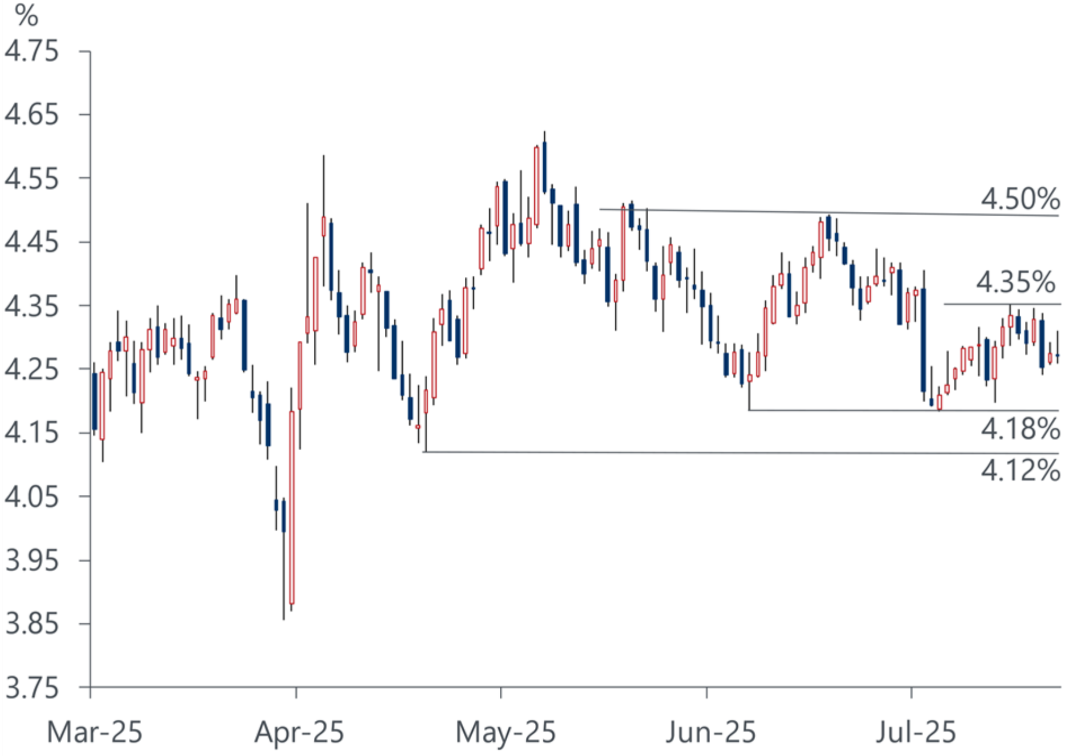
Treasury curve will steepen, as rate cuts lead front-end yields lower

US: Two-year note candle chart (open-high-low-close)



Sources: Oxford Economics, Bloomberg

US: 10-year note candle chart (open-high-low-close)



Sources: Oxford Economics, Bloomberg

Forecast Summary

US yearly outlook table

Forecast for United States						
(Annual percentage changes unless specified)						
	2023	2024	2025	2026	2027	2028
GDP	2.9	2.8	1.9	2.0	2.4	2.3
Private consumption	2.5	2.8	2.1	1.8	2.1	2.0
Fixed investment	3.2	4.3	3.6	3.1	3.2	3.5
Government consumption	2.9	2.5	0.9	1.6	1.2	1.2
Exports of goods and services	2.8	3.3	0.8	-0.6	2.7	2.7
Imports of goods and services	-1.2	5.3	2.4	-3.8	2.0	3.1
Industrial production	0.2	-0.3	0.6	-0.6	2.5	2.5
Consumer price index	4.1	3.0	2.8	2.6	2.4	2.5
PCE deflator	3.8	2.5	2.6	2.6	2.1	2.0
Unemployment rate (%)	3.6	4.0	4.2	4.4	4.0	3.9
Current a/c balance (% of GDP)	-3.3	-4.1	-4.1	-3.1	-2.9	-2.8
Government balance (% of GDP)	-6.1	-6.3	-5.7	-6.8	-6.8	-6.6
Cen. bank policy rate (%, EOP)	5.38	4.38	3.88	3.13	3.13	3.13
10yr govt. bond yield (%, EOP)	3.88	4.58	4.36	4.27	4.20	4.20
Exchange rate (Yen per US$, EOP)	141.91	156.65	149.87	146.54	141.74	137.51
Exchange rate (US$ per euro, EOP)	1.11	1.04	1.16	1.16	1.16	1.16

Source: Oxford Economics

US quarterly outlook table

Quarterly forecasts for US								
	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2	2026 Q3	2026 Q4
GDP (% chg, saar)	-0.5	3.3	2.4	1.3	1.7	2.1	2.3	2.5
CPI inflation (% year)	2.7	2.5	2.8	3.1	2.8	2.9	2.7	2.2
Core CPI inflation (% year)	3.1	2.8	3.0	3.4	3.4	3.5	3.2	2.5
PCE inflation (% year)	2.5	2.4	2.7	2.9	2.8	2.8	2.6	2.3
Core PCE inflation (% year)	2.8	2.7	2.9	3.1	3.0	2.9	2.6	2.2
10-year Treasury yield (%, EOP)	4.2	4.2	4.3	4.4	4.4	4.3	4.3	4.3
Federal funds rate (%, EOP)	4.4	4.4	4.1	3.9	3.6	3.1	3.1	3.1

Source: Oxford Economics

Fiscal Policy Assumptions

Permanent Version in the One Big Beautiful Bill Act as Assumed in the Baseline Forecast												
Estimated Budgetary Effects Relative Current Policy												
	2025	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2025-2029**	**2025-2034**
Net Deficit Impact	**-46,962**	**270,653**	**153,507**	**134,089**	**73,542**	**14,477**	**-29,525**	**-55,489**	**-29,925**	**-19,544**	**584,828**	**464,819**
TCJA Expansions	21,878	89,657	82,395	87,036	82,709	87,131	91,987	95,447	100,226	103,535	363,677	842,003
Campaign Tax Proposals	2,663	54,773	44,970	44,603	48,447	51,633	53,645	55,045	56,624	58,380	195,456	470,783
Investment Incentives	100,034	128,307	100,156	83,070	61,882	40,132	22,144	15,018	13,118	12,703	473,449	576,564
Defense	2,020	41,864	44,677	45,741	47,868	48,932	51,059	52,123	54,251	55,314	182,170	443,850
Border Security/Immigration	0	13,683	25,455	35,890	37,966	38,533	41,349	41,490	42,902	44,281	112,994	321,549
IRA Recissions (Outlays)	-857	-1,027	-1,316	-937	-607	-360	-112	0	0	0	-4,744	-5,216
IRA Recissions (Tax Credits)	138	-11,276	-36,791	-53,755	-67,749	-79,073	-86,370	-94,397	-60,658	-52,728	-169,433	-542,659
Social Benefits Cuts (Medicaid)	-835	-21,813	-54,248	-73,117	-106,367	-127,074	-146,220	-156,518	-170,171	-186,243	-256,380	-1,042,606
Social Benefits Cuts (SNAP)	0	-7,961	-16,116	-21,645	-21,744	-21,748	-21,565	-24,743	-25,150	-25,268	-67,466	-185,940
Social Benefits Cuts (Other health	4	-4,047	-11,992	-16,518	-12,543	-9,233	-10,715	-12,274	-14,706	-16,533	-45,096	-108,555
Other (Spending)	-171,940	-9,411	1,144	-7,304	-11,174	-23,155	-31,933	-33,690	-28,685	-19,642	-198,685	-335,790
Other (Revenue)	-68	-2,097	-24,828	11,024	14,853	8,759	7,206	7,009	2,324	6,656	-1,114	30,836

Source: Oxford Economics

Major tariff assumptions

Tariff assumptions in our baseline (based on information available as of September 8)		
Tariffed countries	**US tariffs**	**Retaliation measures**
US / Canada	Tariffs of 50% on steel, aluminium, and copper, 25% on the non-US content of USMCA-compliant autos, 10% on non-USMCA-compliant energy and potash, and 35% on all other non-USMCA-compliant products. Nevertheless, we have significantly raised our assumption around USMCA compliance and other tariff exemptions for Canadian exports to the US. Consequently, the effective tariff rate on Canada is estimated to peak not much higher than 6% this year. Most tariffs are still assumed to be removed by Q3 2026 as the USMCA is renegotiated, but smaller 10% targeted tariffs remain in place permanently for metals and select agricultural products.	As of March 4, 25% tariffs on C$30bn of US goods imports. As of March 13, 25% tariffs on an additional C$29.8bn of US goods imports (this includes steel, aluminium, and other products). As of April 9, 25% tariffs on C$35.6bn of non-USMCA-compliant autos and the US content of USMCA-compliant autos. We assume all the C$35.6bn of US auto imports will be eligible for tariff remission until mid-2026. As of September 1, Canada removed counter tariffs on all non-auto products except for C$15bn worth of steel and aluminum products, of which we estimate about half are eligible for remission until mid-October. Most tariffs are assumed to be removed by Q3 2026 as the USMCA is renegotiated, but smaller 10% targeted tariffs remain in place permanently for steel and aluminum products.
US / Mexico	Mexico is assumed to face US tariffs of 50% on steel, aluminium, and copper, 10% on non-USMCA-compliant potash, and 25% on non-USMCA goods and the non-US content of autos. We've similarly raised our assumption around USMCA compliance and other tariff exemptions for Mexican exports to the US. As a result, the average tariff rate on Mexico is estimated to peak at 8.5% this year. However, these tariff hikes are assumed to be largely reversed in mid-2026 when a new USMCA trade deal is agreed.	Mexico does not retaliate and instead concedes to US demands on border security, hoping to secure a reduction in the current 25% tariff on non-USMCA-compliant exports.
US / China	In August, the world's two largest economies extended a trade war truce in which the US lowered the tariffs it had imposed on China since February under the International Emergency Economic Powers Act from 145% to 30%. Accounting for exemptions and other sectoral tariffs, we estimate the effective tariff rate on Chinese exports to the US stands at about 36%, and we assume the latest de-escalation in US-China trade tensions is permanent.	The existing trade truce brought China tariffs on US goods down to around 30%, where they have stayed through the latest rounds of talks and where we expect it to stay for the remainder of the year. We also expect China will avoid widespread export bans on critical minerals, though it remains a key leverage for policymakers given the Chinese' dominance in the relevant supply chains.

Source: Oxford Economics

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