APOLLON

# Market Recap

*November 2025*

# Disclosure

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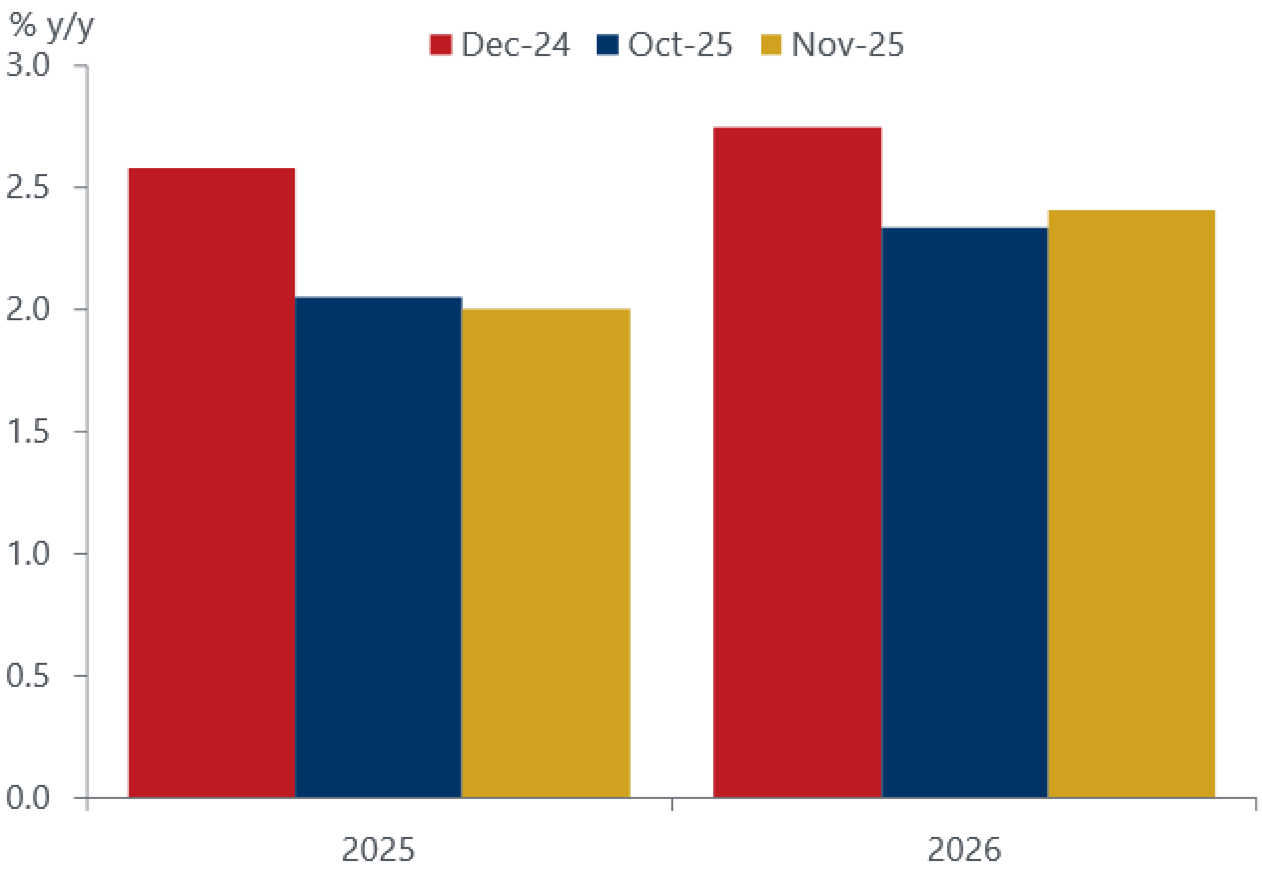
# Shutdown impacts growth forecasts

US: GDP forecasts



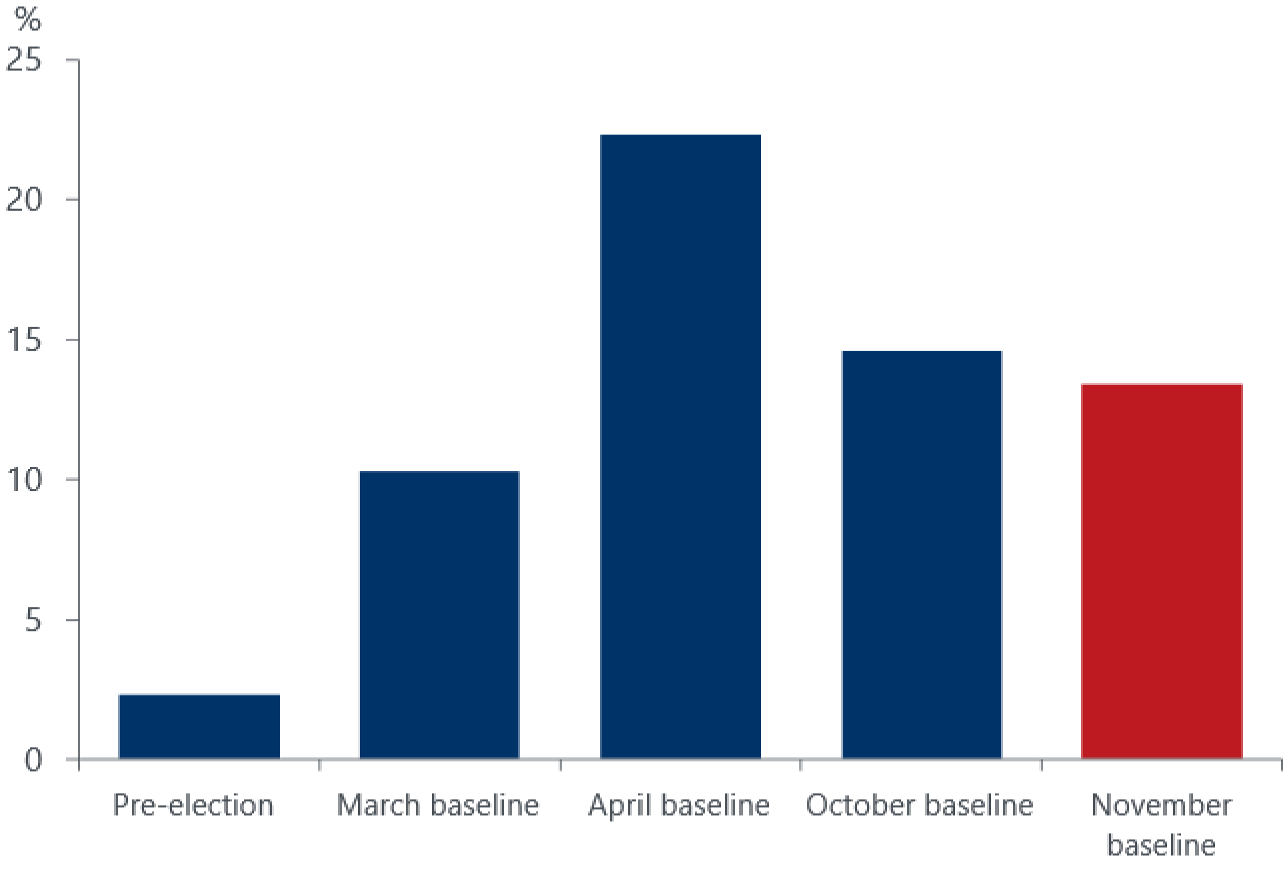

Sources: Oxford Economics, Haver Analytics

## Key takeaways

- We lowered our forecast for 2025 GDP growth down by 0.1ppt to 2.0% due to the government shutdown. Backpay for federal workers means most of the drag will be made up in Q1 2026.
- AI-related investment will remain strong. Tight bond spreads, wide profit margins, and easing policy uncertainty will lead to a broader rise in equipment spending.
- The US may be entering a jobless expansion. Productivity gains will be important for the economy's growth potential, as immigration restrictions and an aging population limit labor force growth.

# Effective tariff rate lowered in November

US: Effective tariff rate by forecast vintage



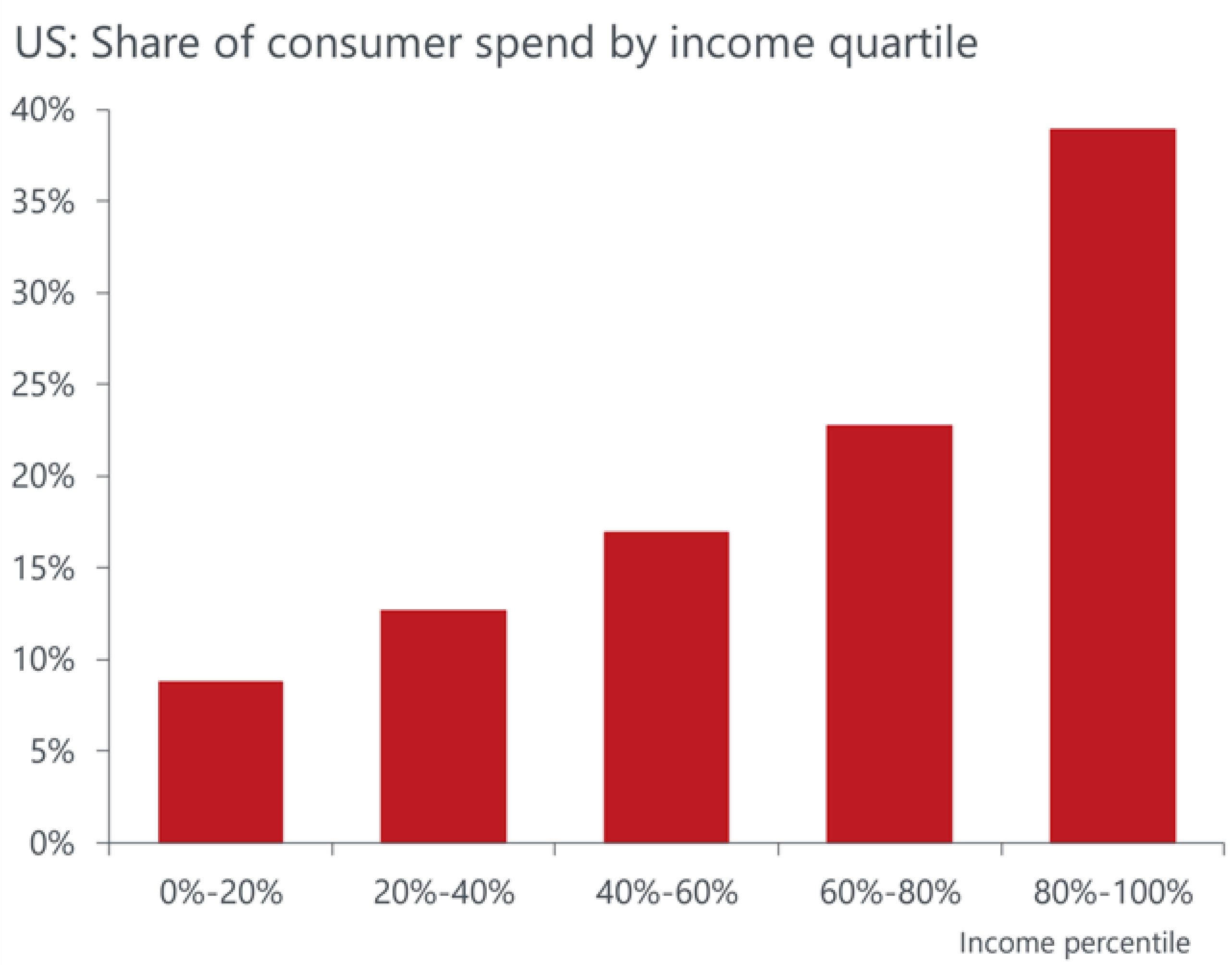

Sources: Oxford Economics, Haver Analytics

## Key takeaways

- The latest trade deals with China and Switzerland, and exemptions for agricultural products have lowered the effective tariff rate close to 13%.
- While a Supreme Court decision blocking Trump's use of IEEPA could significantly lower the US effective tariff rate, there are several other legal channels by which he could raise tariffs again. It is unlikely to alter the end point for tariffs in our forecast.
- The biggest threats still in the pipeline come from semiconductor tariffs as well as a new investigation into machinery and robotics.

# Focus: A bifurcated economy

# Spending upheld by wealthier consumers

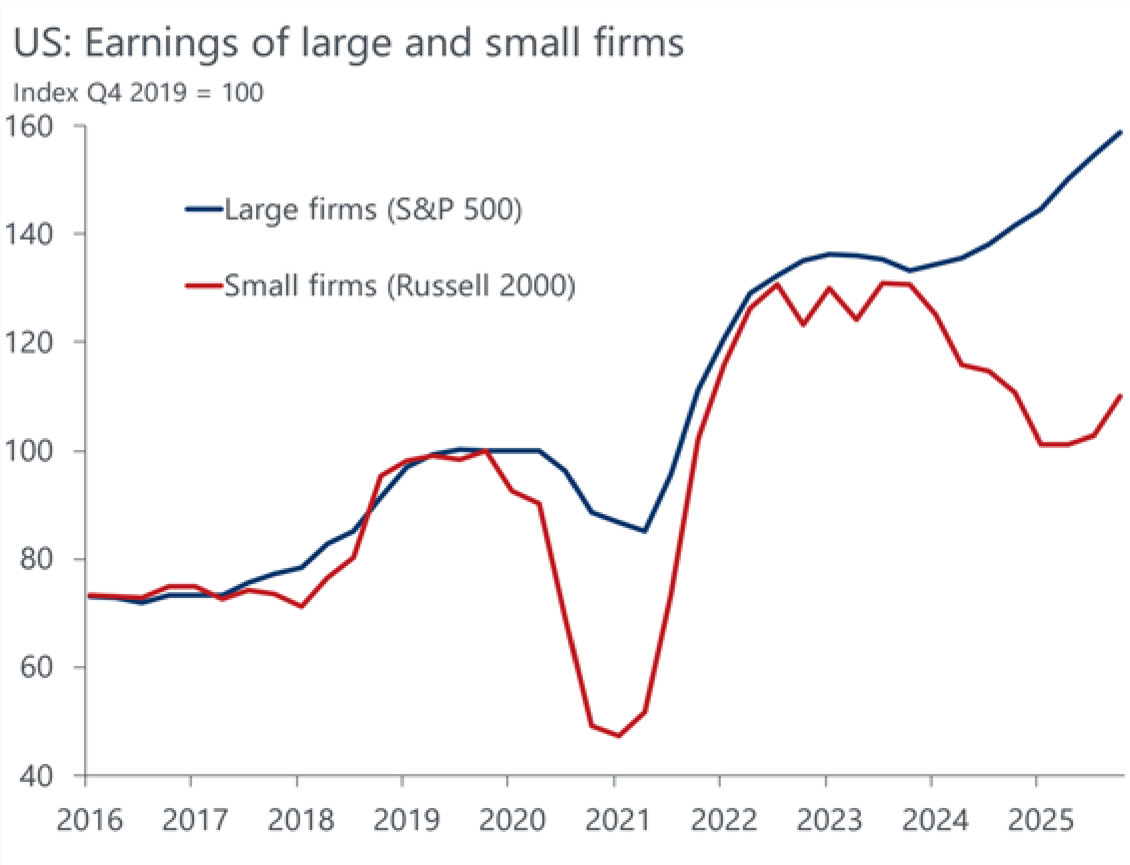



Source: Oxford Economics, Haver Analytics

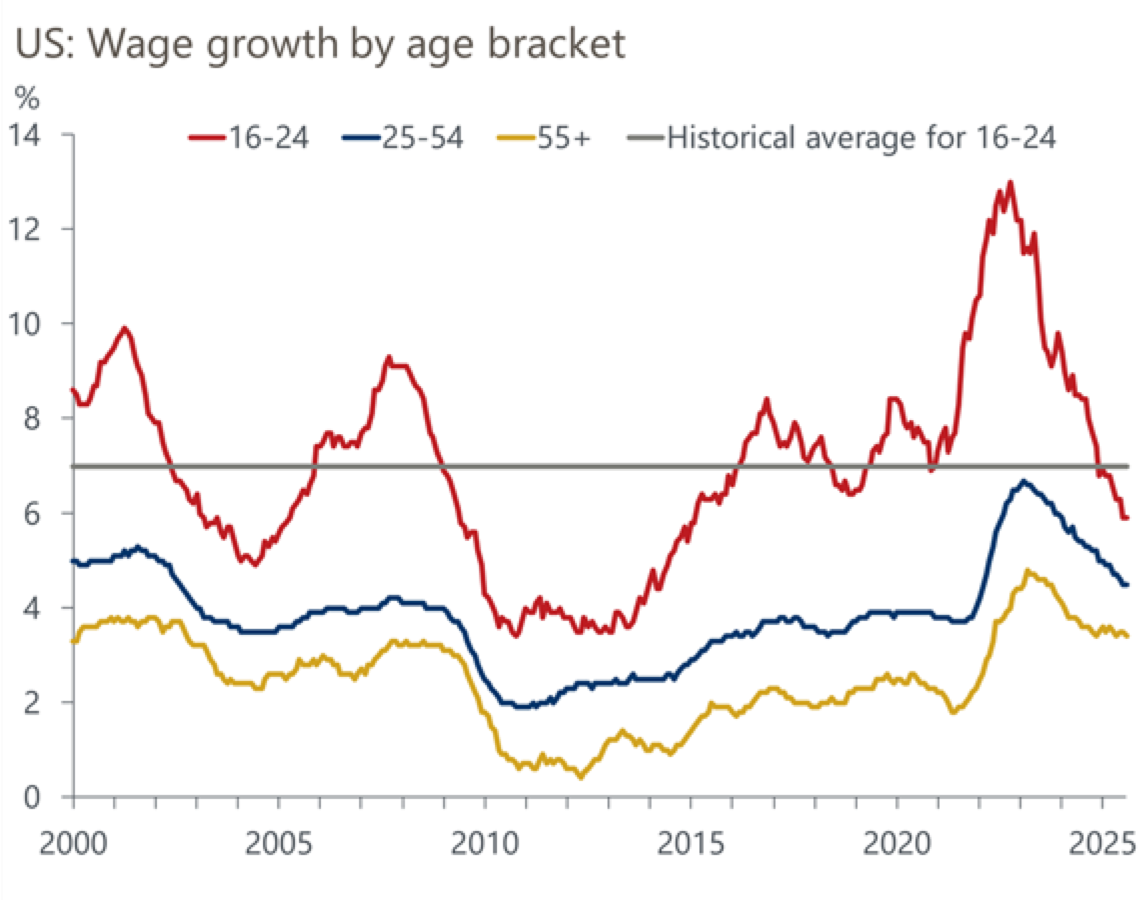
## Key takeaways

- Consumer spending has become dependent on the strength of high-income households, while low-income households struggle to maintain their discretionary spending.
- The middle-class being held up by strong balance sheets. Stronger real income growth should help their spending in 2026.
- Smaller firms are struggling amid policy uncertainty and tariffs. They  also lack the resources to capitalize on the AI boom and face tighter lending standards.
- Wage growth is declining for young adults, which could have a long-term scarring impact.

# Small businesses, young workers seeing lower earnings than usual



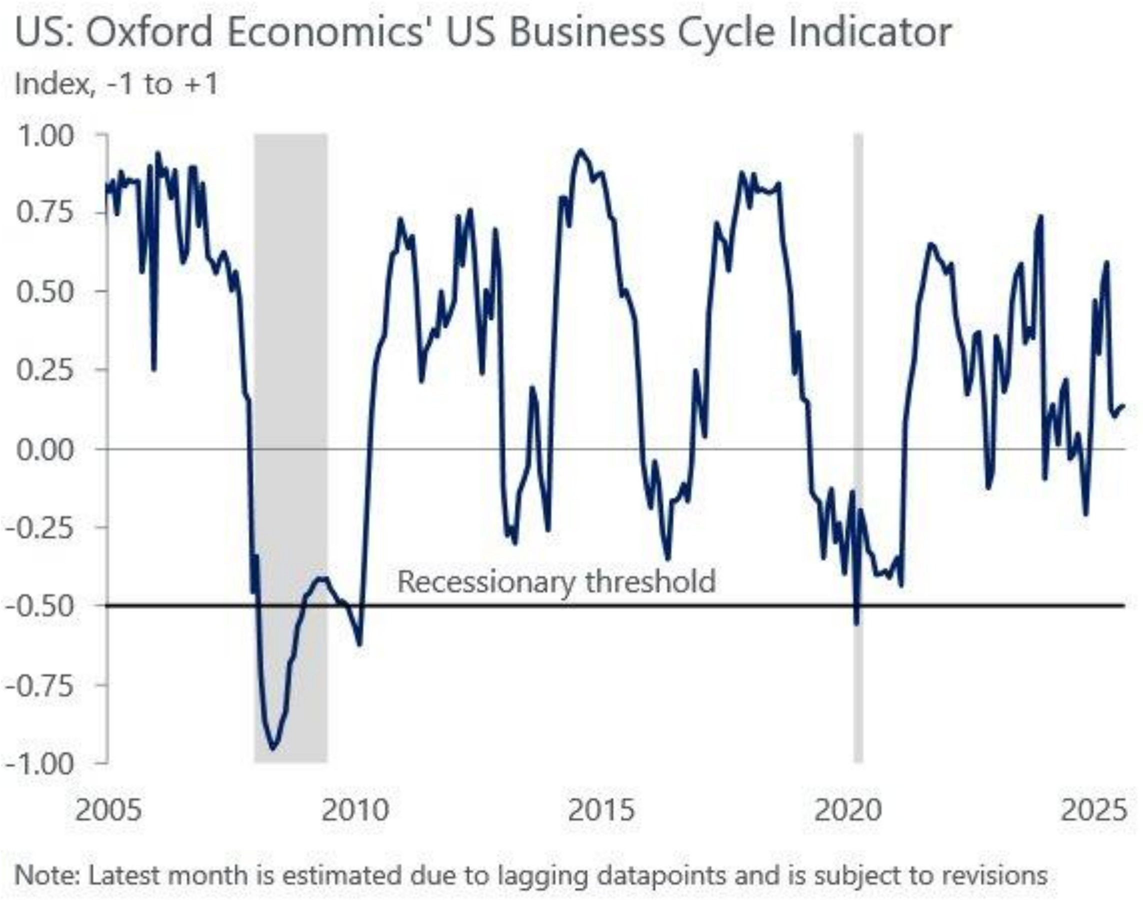

Sources: Oxford Economics, Bloomberg




Sources: Oxford Economics, Haver Analytics

# Health check on the economy

# Economy didn't crack during shutdown

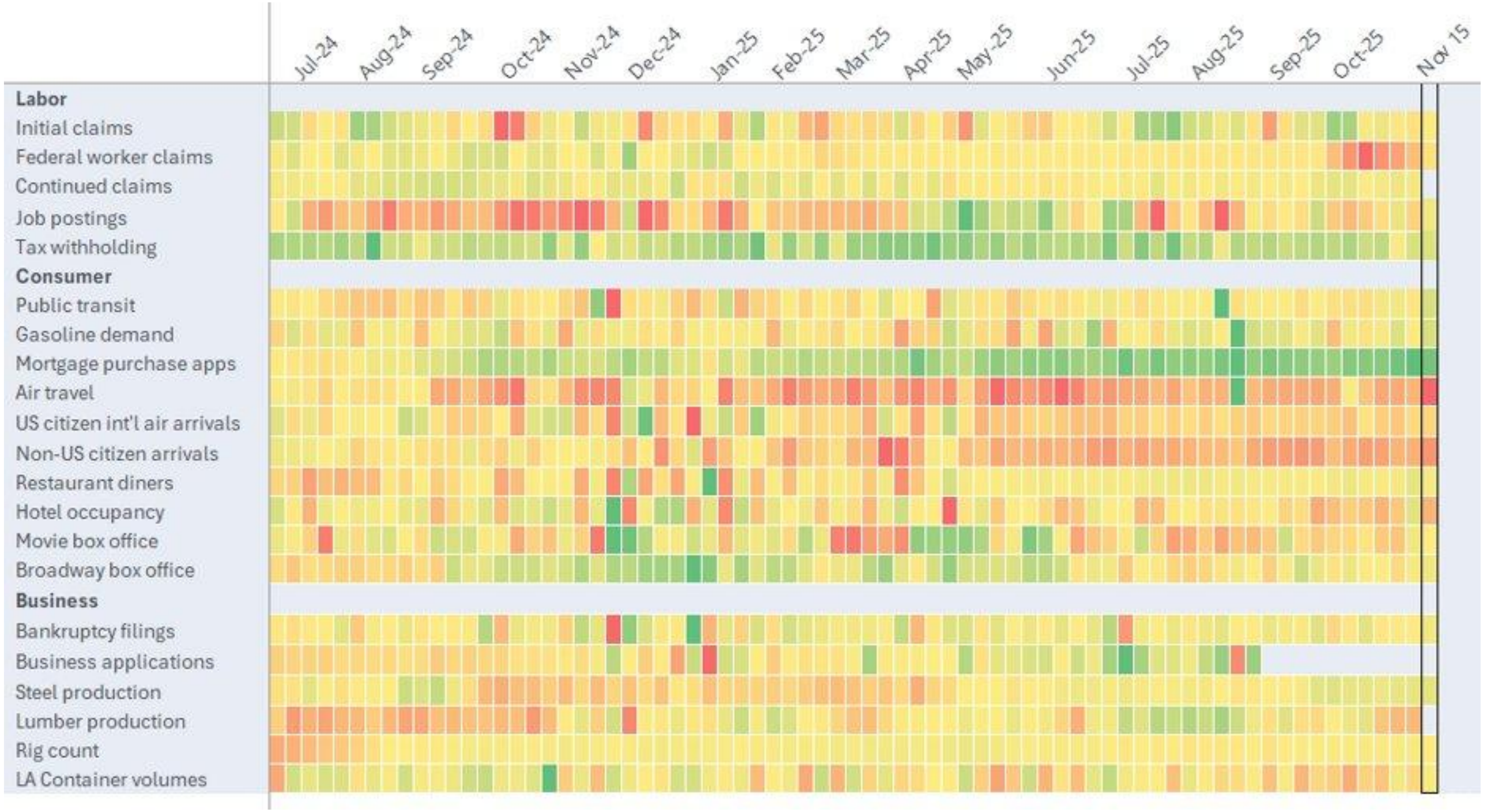



Source: Oxford Economics

## Key takeaways

- The first BLS labor market data following the shutdown showed conditions have not rapidly deteriorated.
- Job growth picked up and initial claims stayed muted, supporting our view that a U.S. recession remains unlikely over the next 12 months.
- AI-related investment has sufficiently offset the weakness elsewhere in business equipment spending.
- Declines in mortgage rates should support a gradual recovery of the housing market next year. Although refinancing activity may be lower than expected.

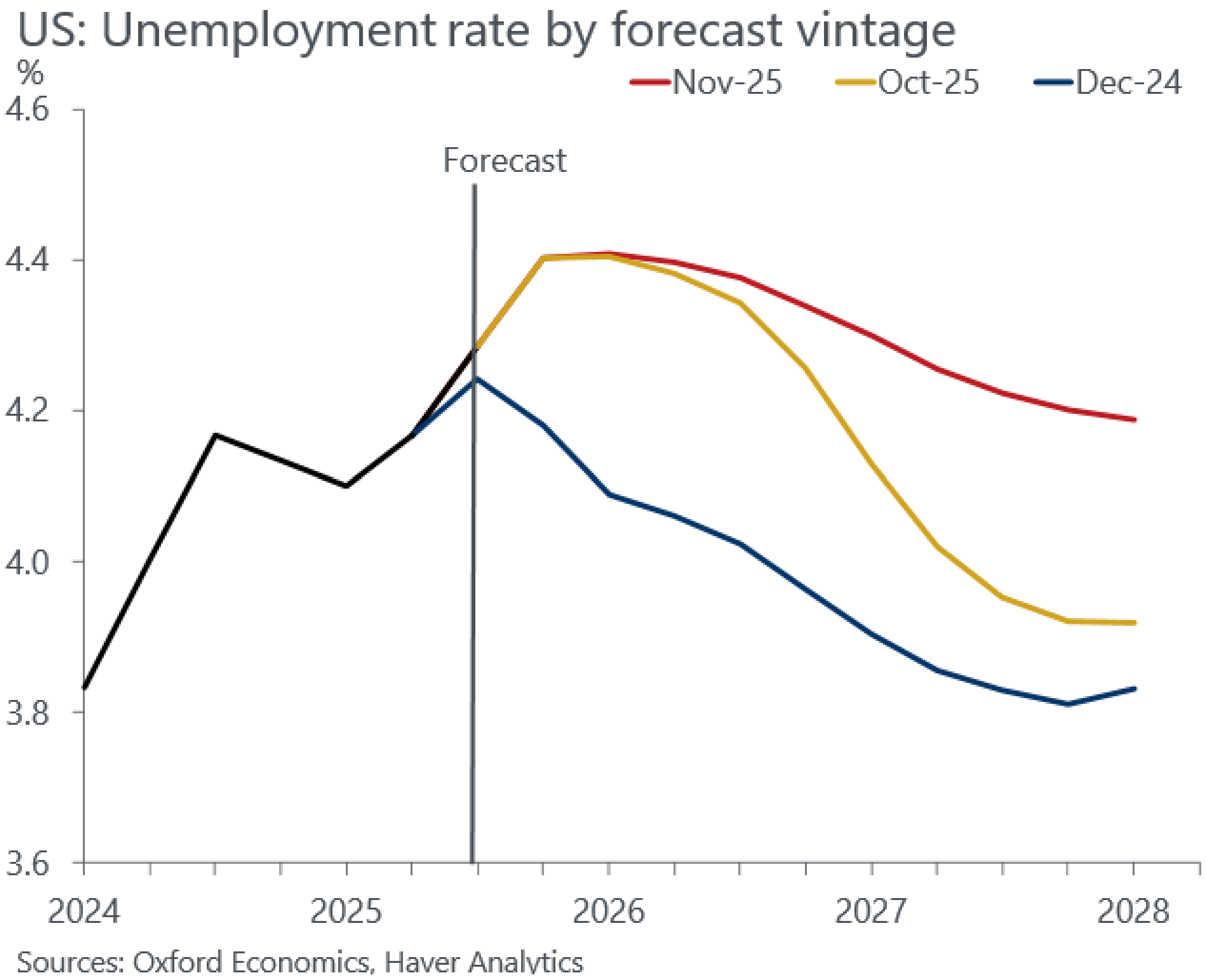
# Outside of travel, high frequency indicators are stable




Source: Oxford Economics

# Labor market continues to soften

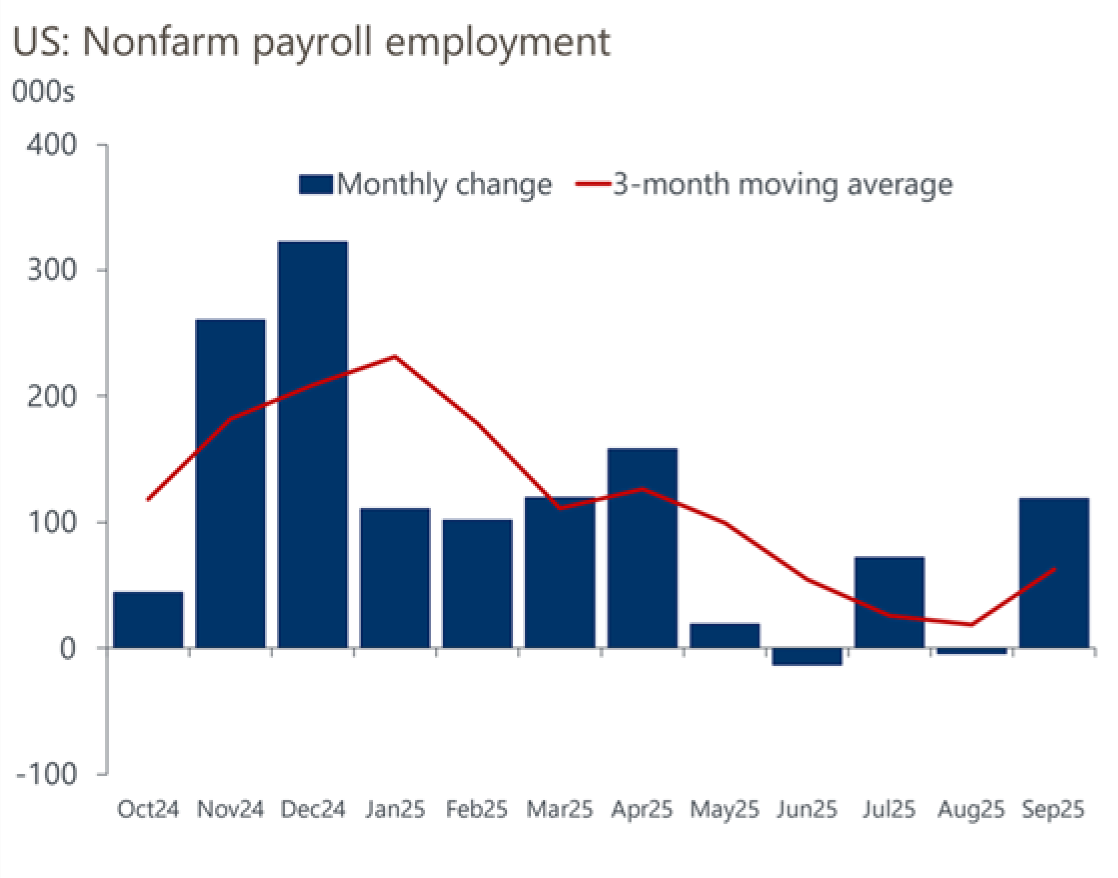
# Unemployment will rise, not skyrocket



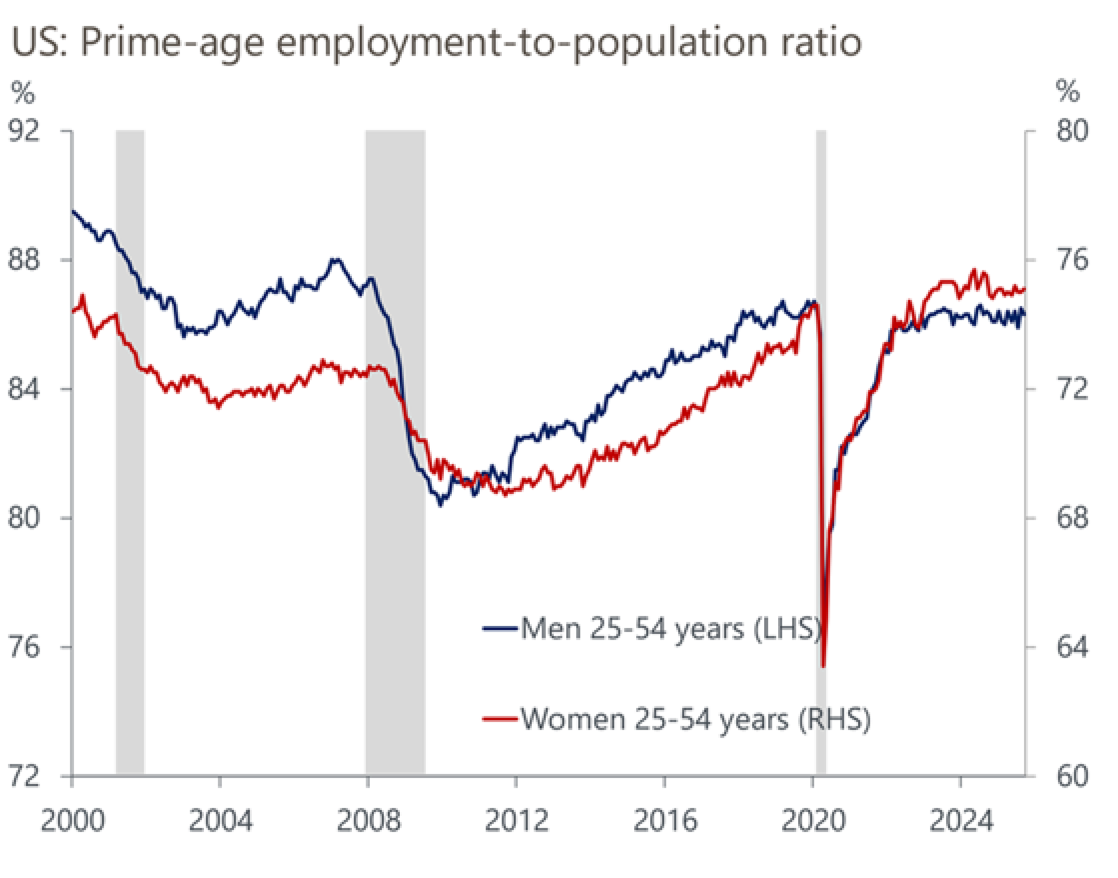

## Key takeaways

- While low-hire, low-fire conditions persist, the September jobs report offers some reassurance that the labor market wasn't crumbling before the shutdown.
- Small firms explain much of the slowdown, though supportive fiscal policy and looser financial conditions should offer a better environment in 2026.
- Modest employment gains and productivity driven GDP growth points towards a jobless expansion, leaving the economy vulnerable to adverse shocks.
- Weak labor market conditions are disproportionately impacting Gen Z, with unemployment rising and wage growth declining for the group.

# Job growth in September beat expectations

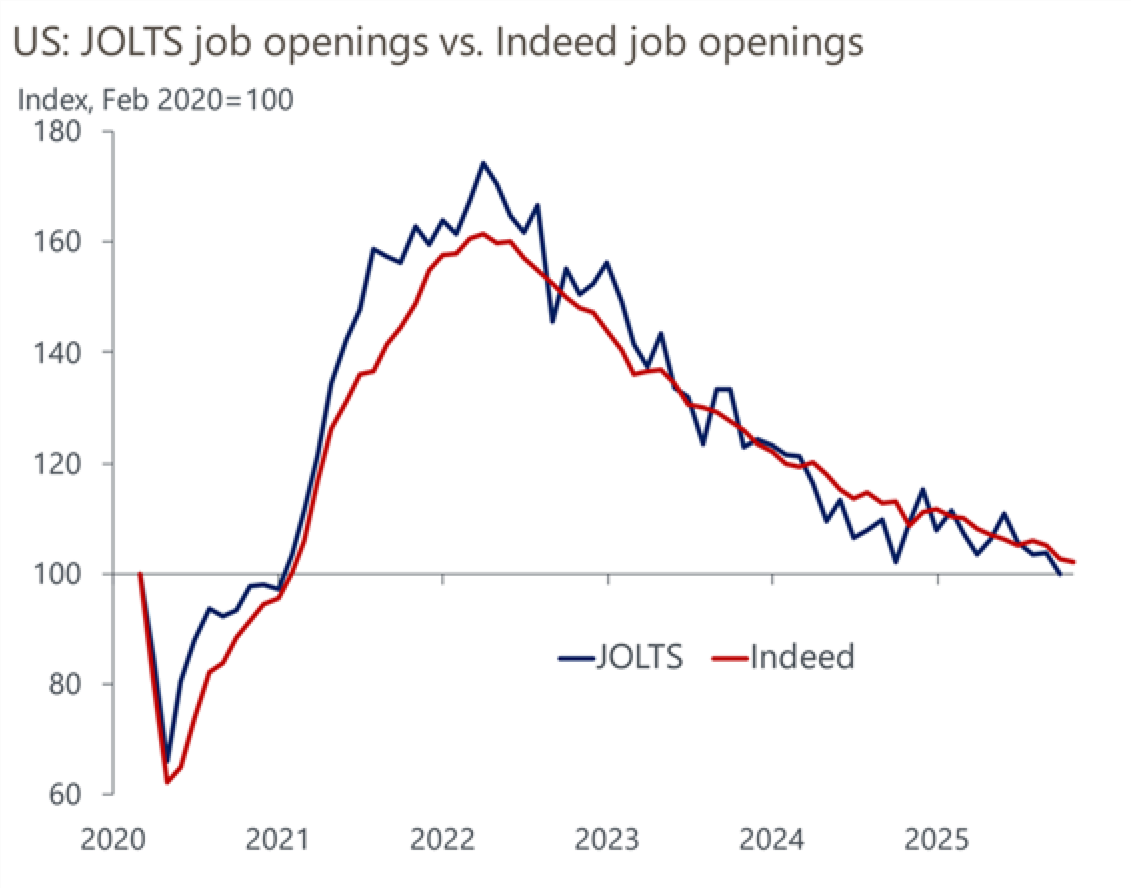



Sources: Oxford Economics, Haver Analytics

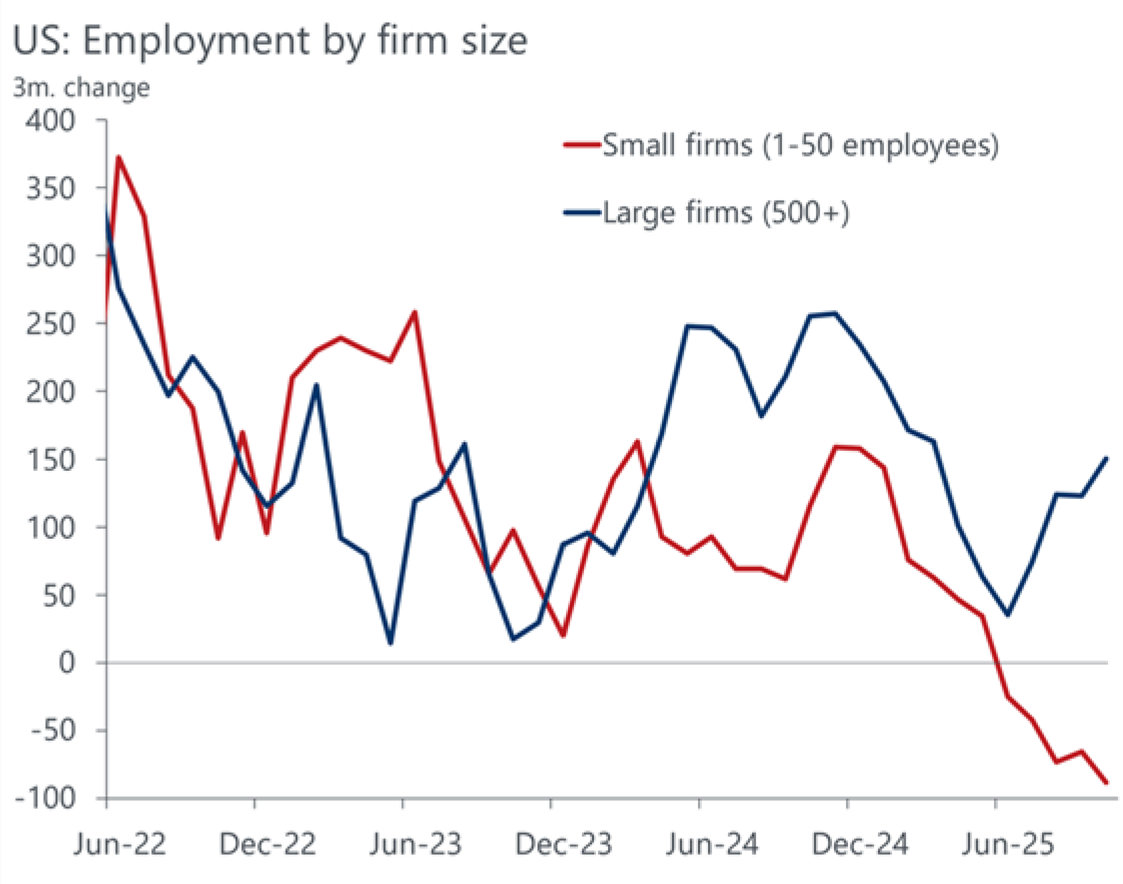



Sources: Oxford Economics, Haver Analytics

# Labor demand is sluggish, especially for small businesses

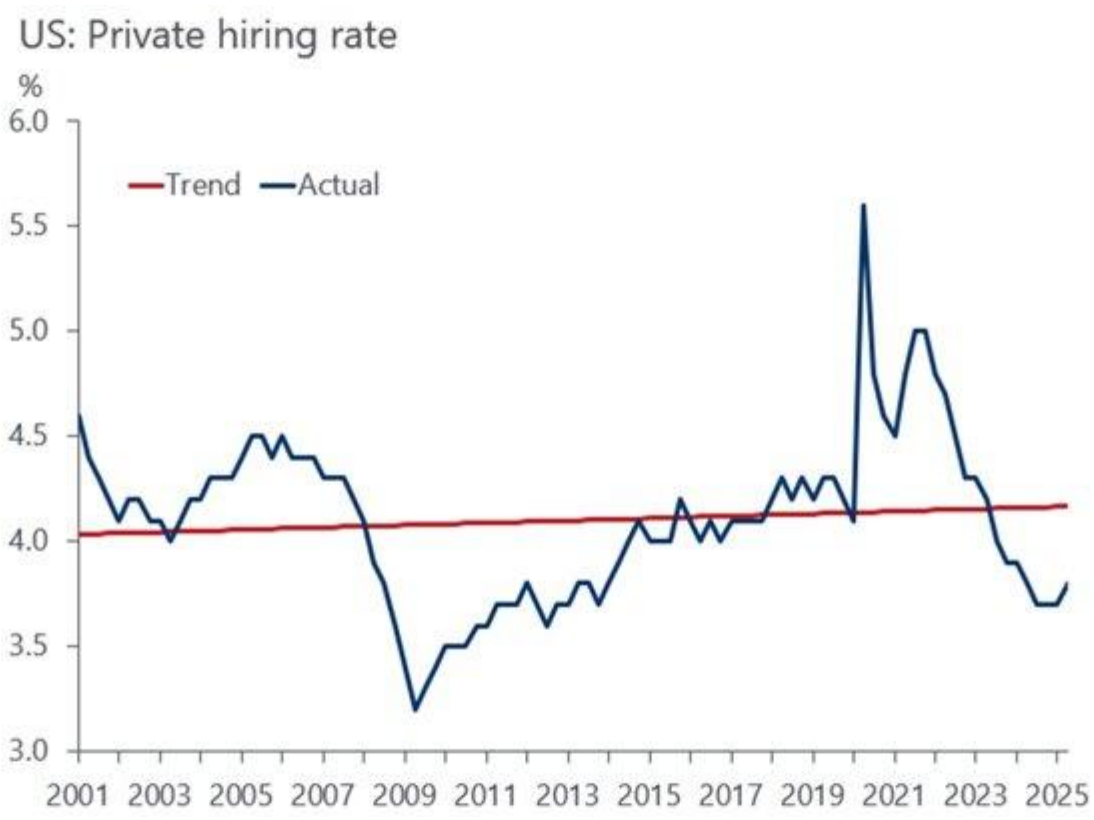



Sources: Oxford Economics, Haver Analytics

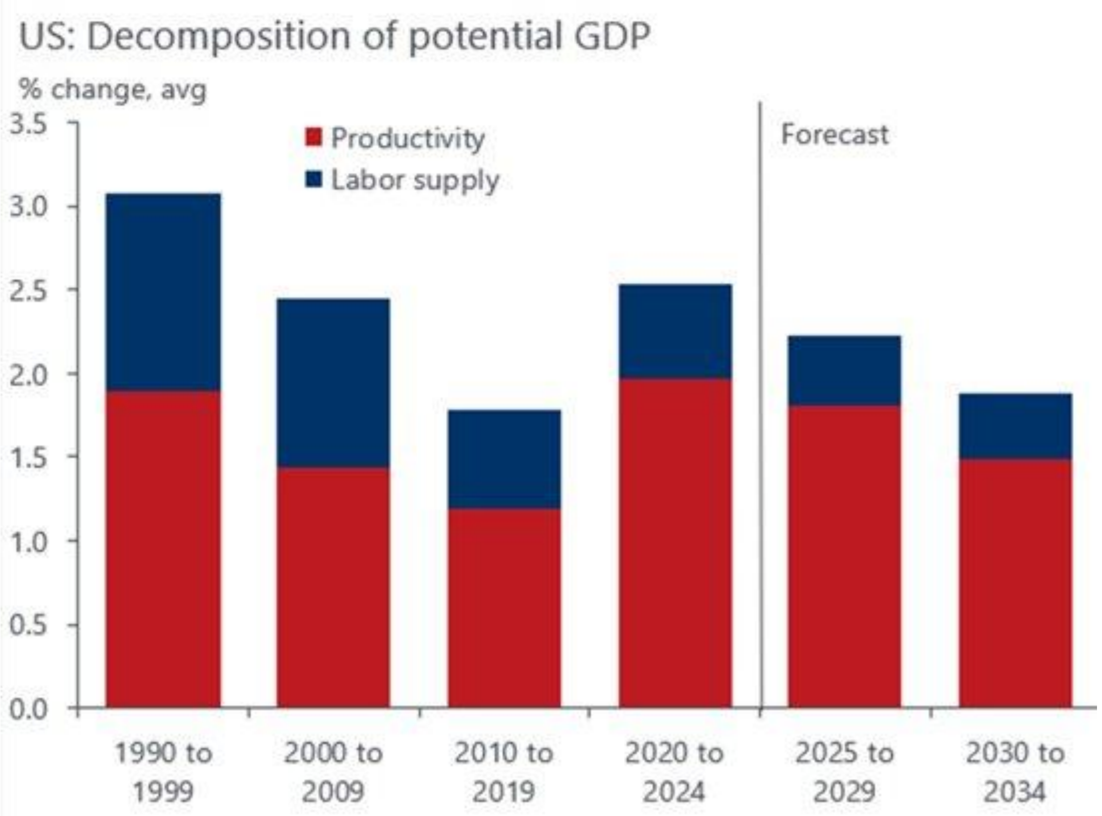



Sources: Oxford Economics, Haver Analytics

# A jobless expansion is a key risk to the economy

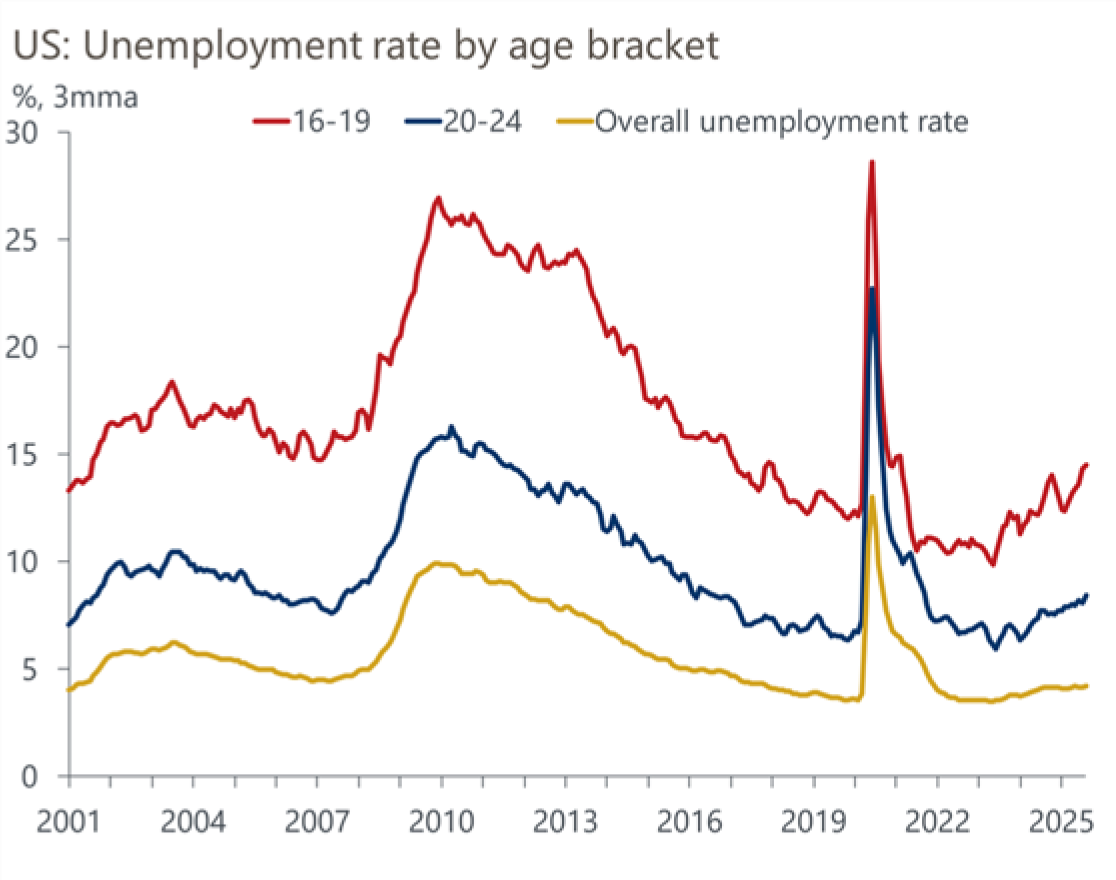



Sources: Oxford Economics, Haver Analytics

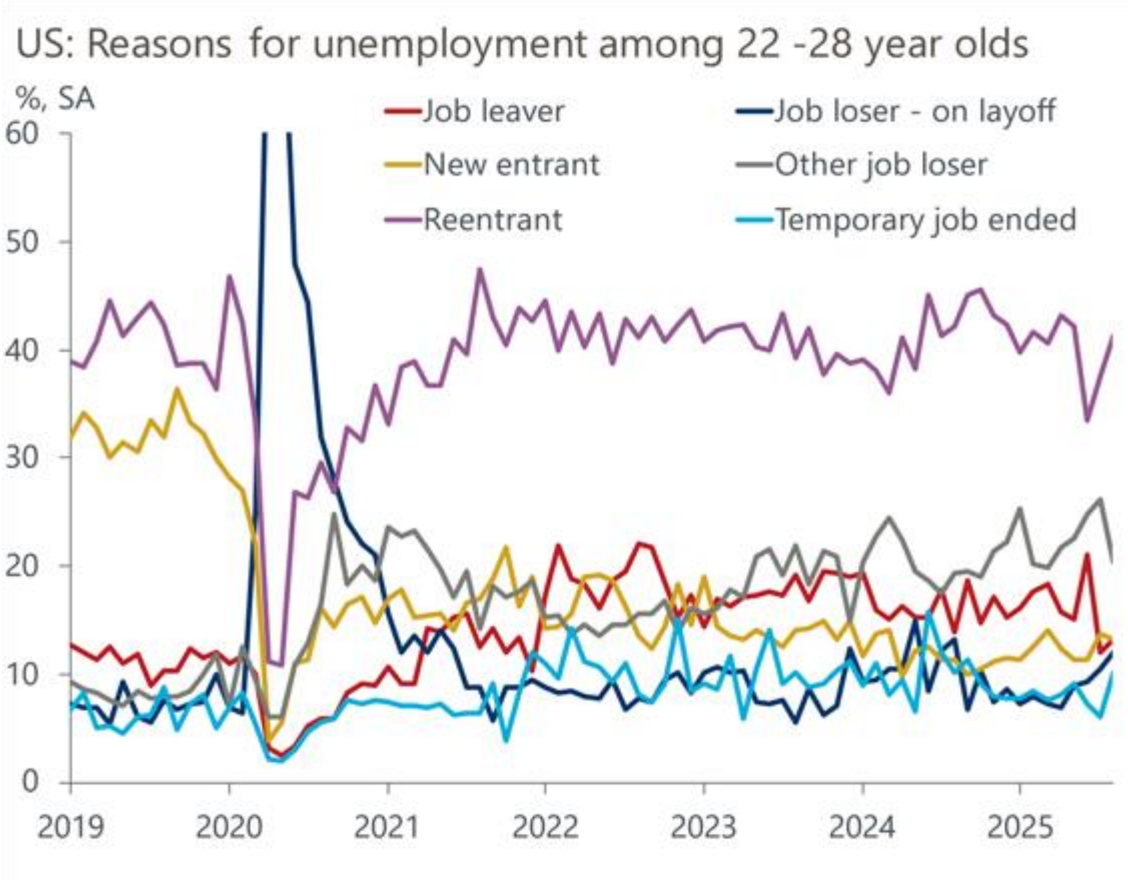



Sources: Oxford Economics, Haver Analytics

# Current labor market conditions are challenging for Gen Z



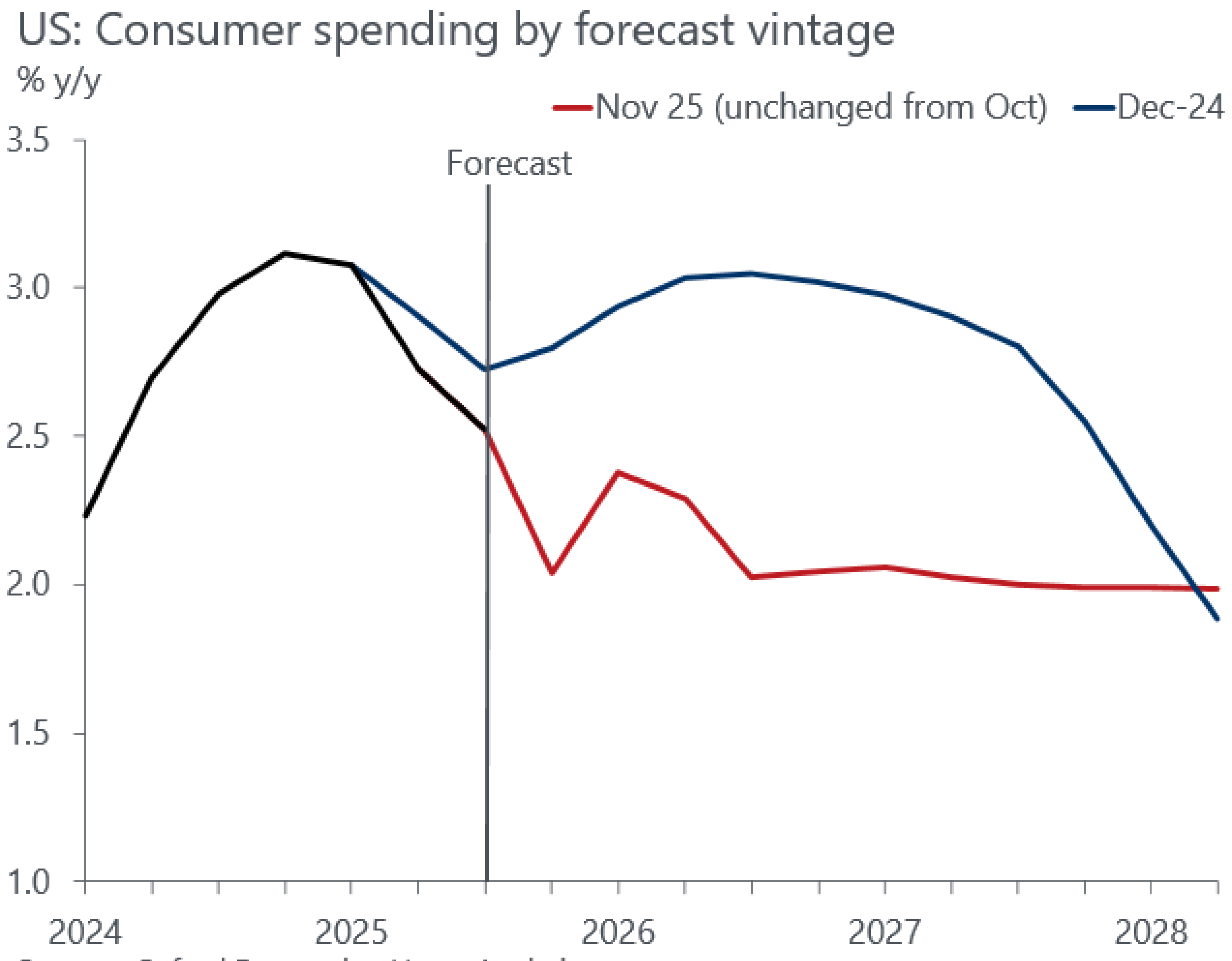

Sources: Oxford Economics, Haver Analytics




Sources: Oxford Economics, Haver Analytics

# Consumer spending in solid shape

# Solid outlook for consumer spending

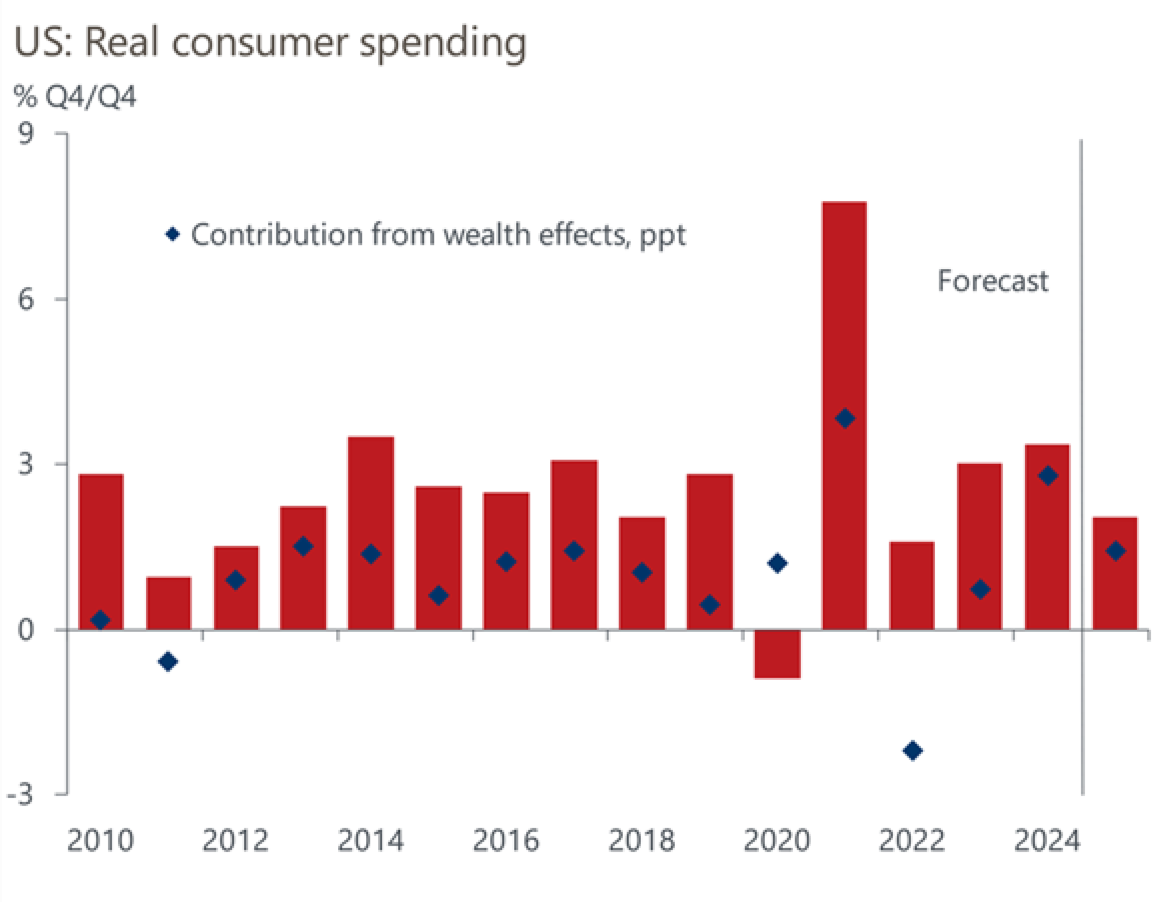


Sources: Oxford Economics, Haver Analytics

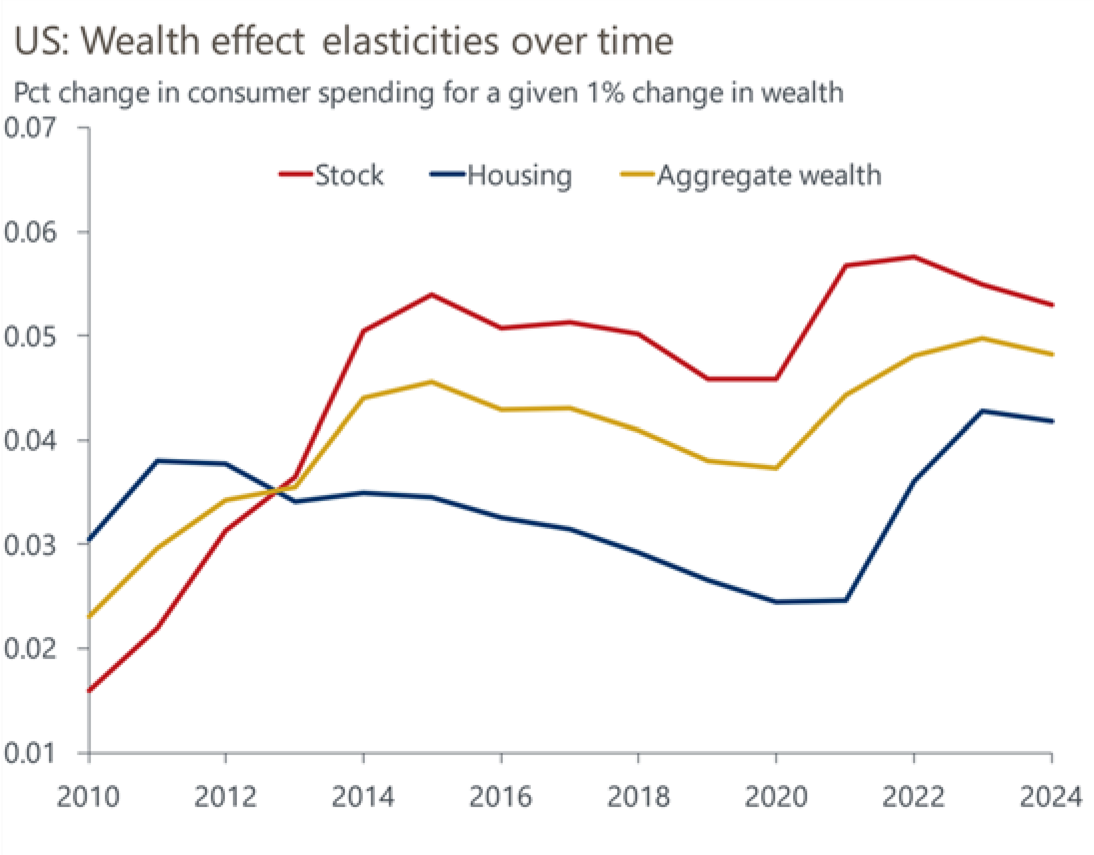
## Key takeaways

- Despite economic headwinds, consumer spending will still grow at a favorable pace for the rest of the year. In 2026, we expect consumption growth to average 2.1%.
- Rising wealth from stock market gains are a primary driver of spending, especially for the upper class.
- While consumption patterns are bifurcated between high- and low-income households, the middle class still drives over half of spending.
- The shutdown drove dips in consumer sentiment in October, although spending remained resilient.

# Gains in wealth have driven consumption since the pandemic

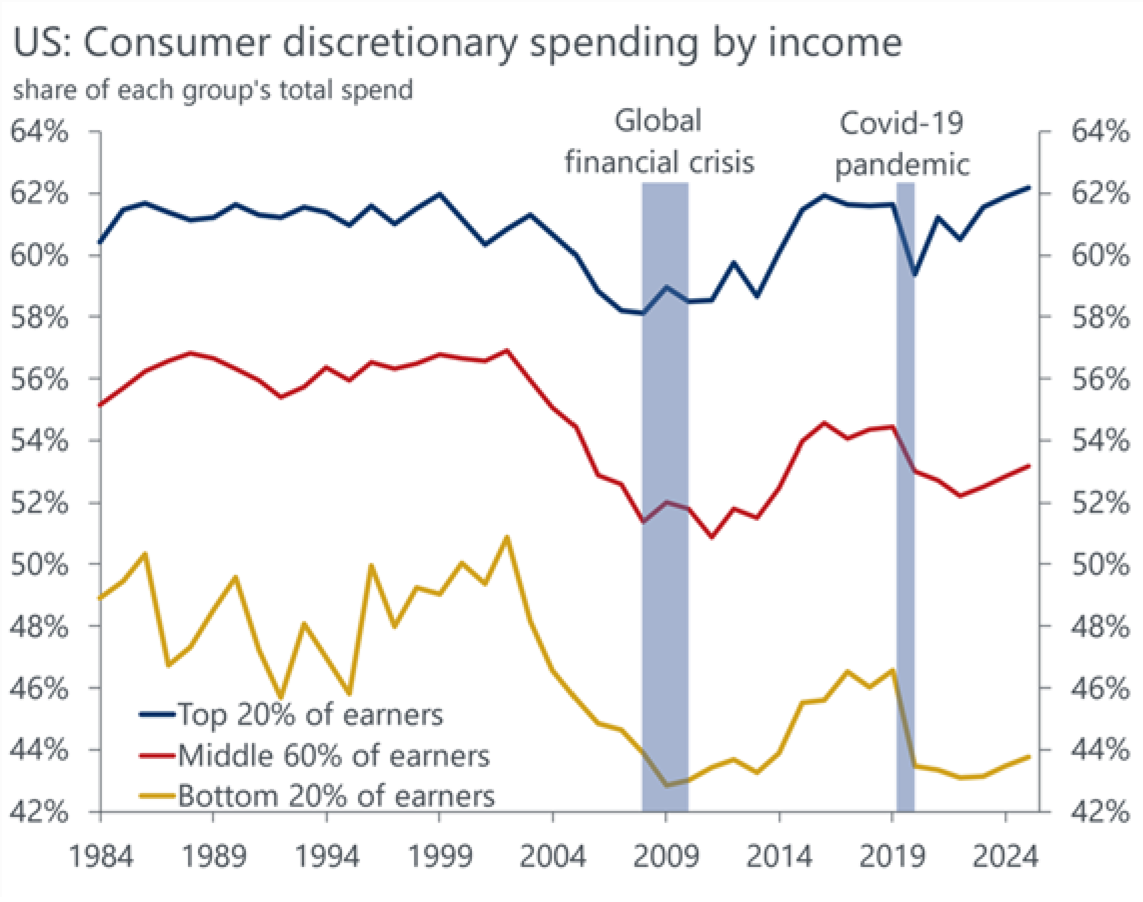



Sources: Oxford Economics, Haver Analytics

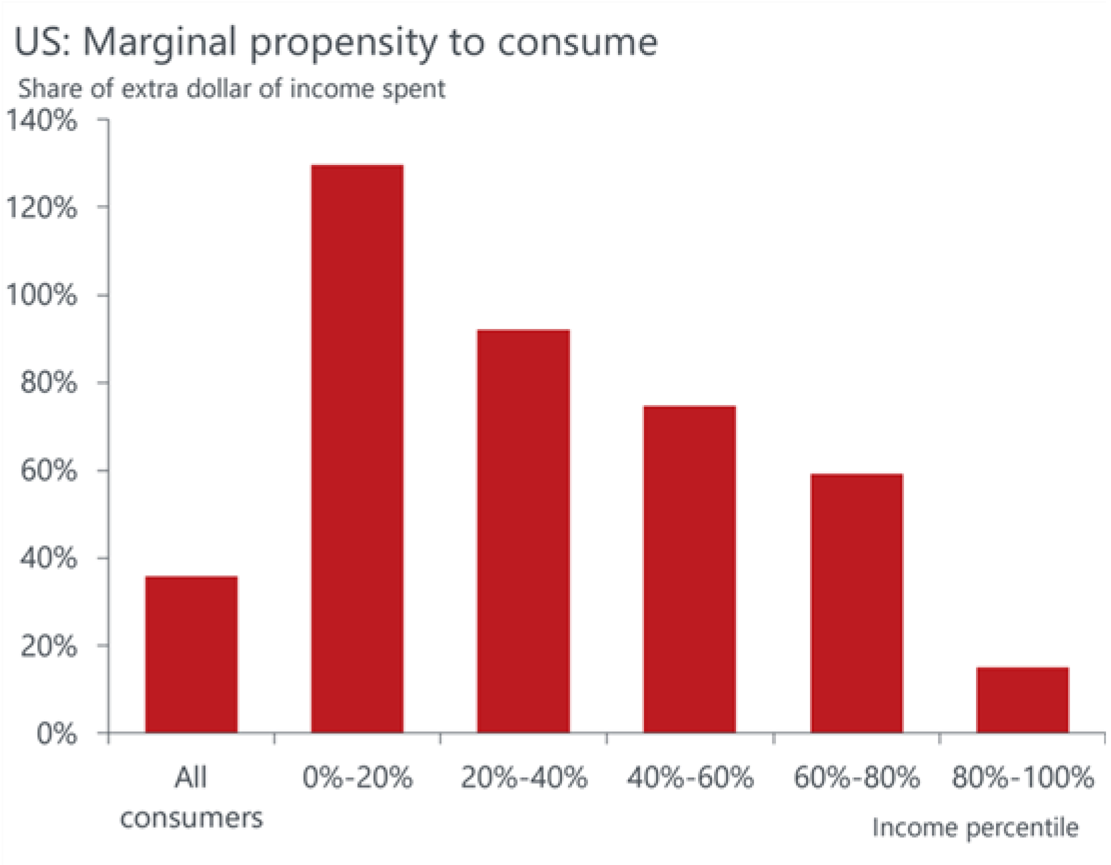



Sources: Oxford Economics, Haver Analytics

# Over half of spending is driven by the middle class

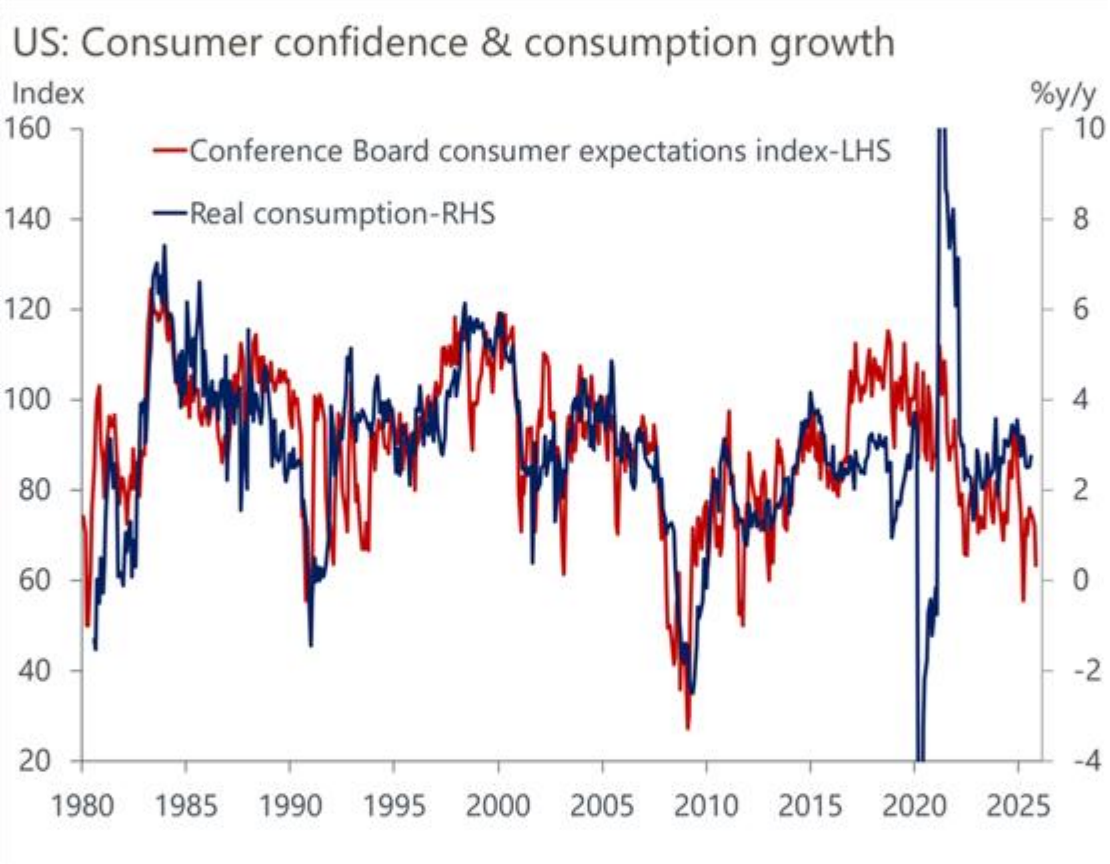



Sources: Oxford Economics, Haver Analytics

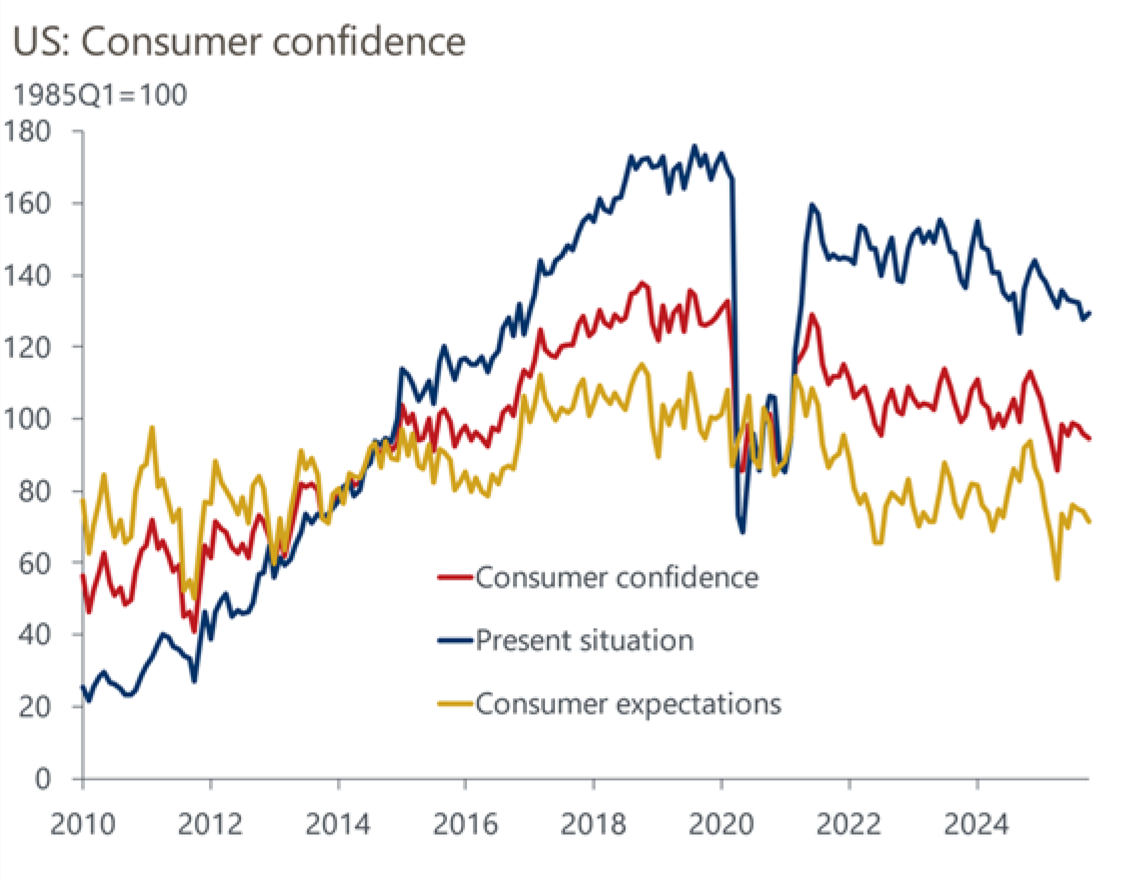



Sources: Oxford Economics, Haver Analytics

# The shutdown contributed to dips in confidence and sentiment



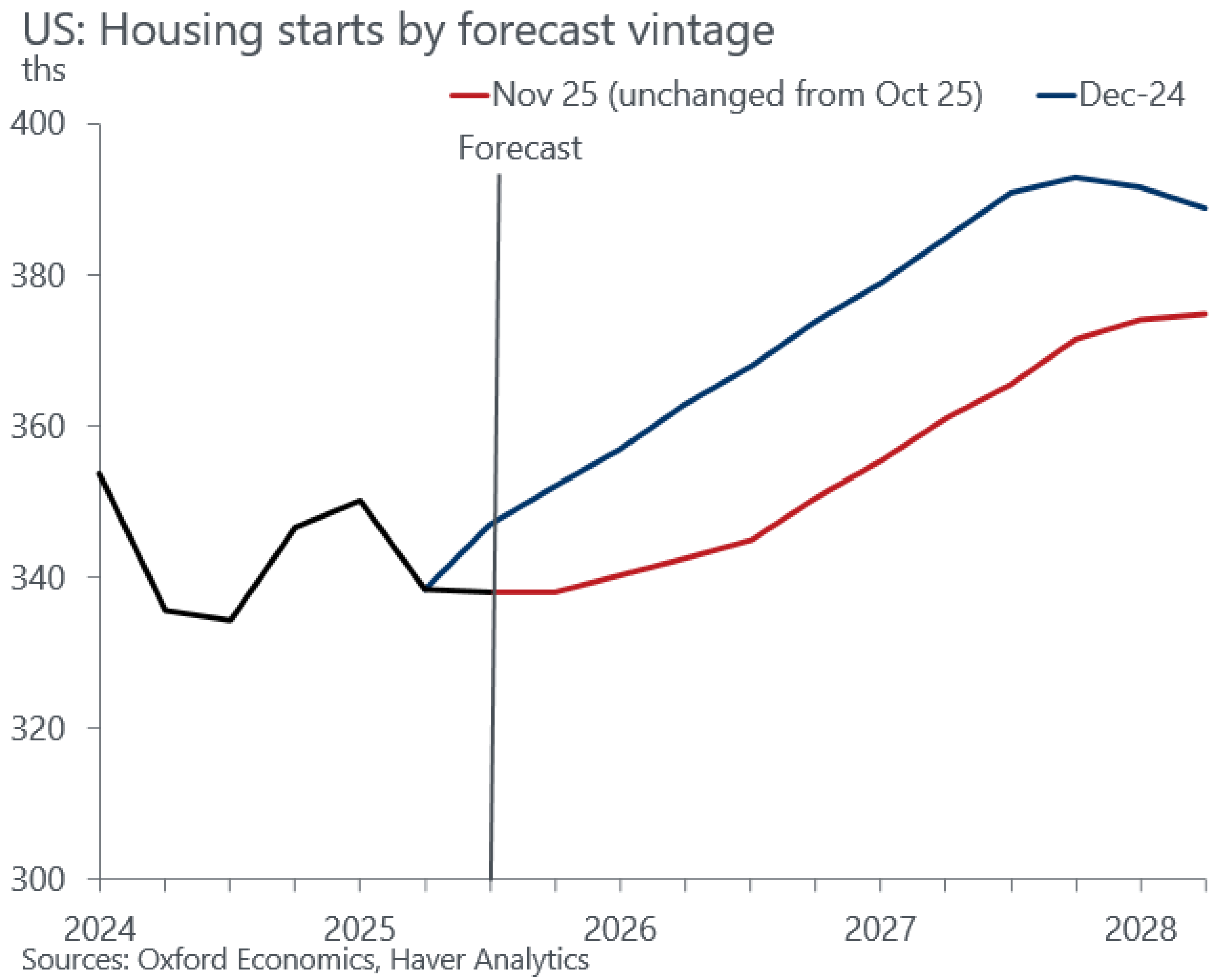

Sources: Oxford Economics, Penn Wharton




Sources: Oxford Economics, Haver Analytics

# Housing market outlook improves

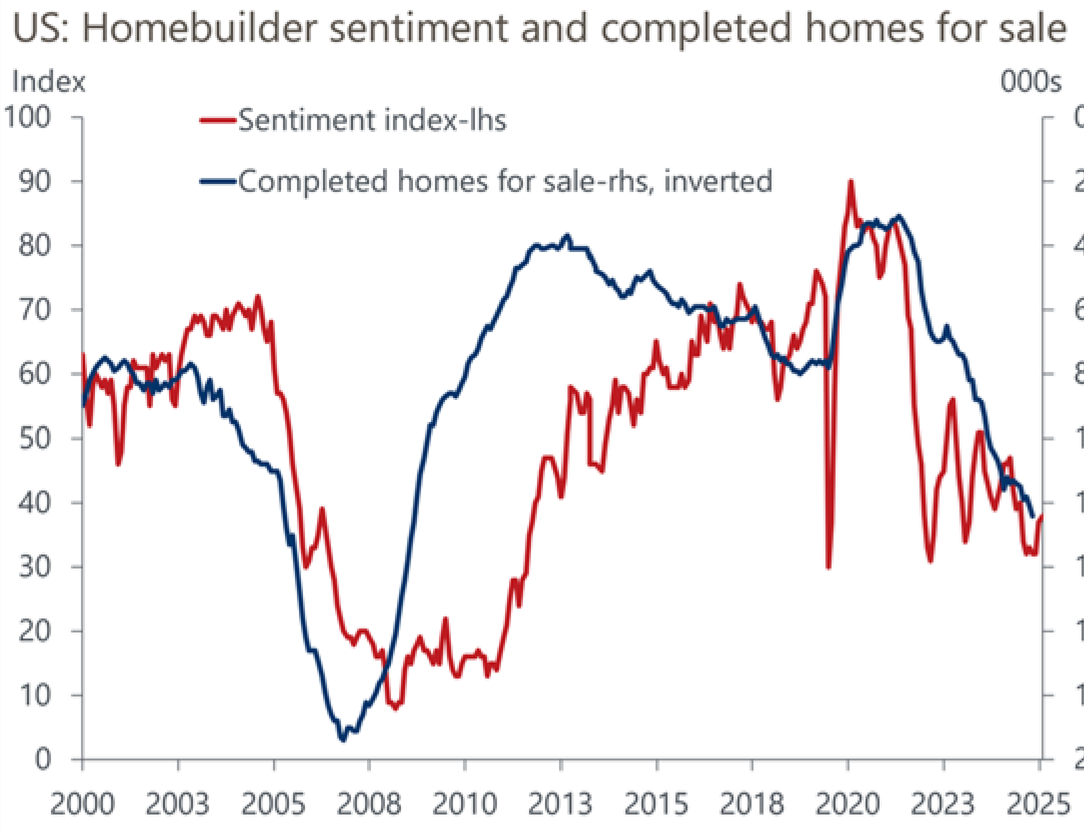
# Gradual recovery ahead for housing




## Key takeaways

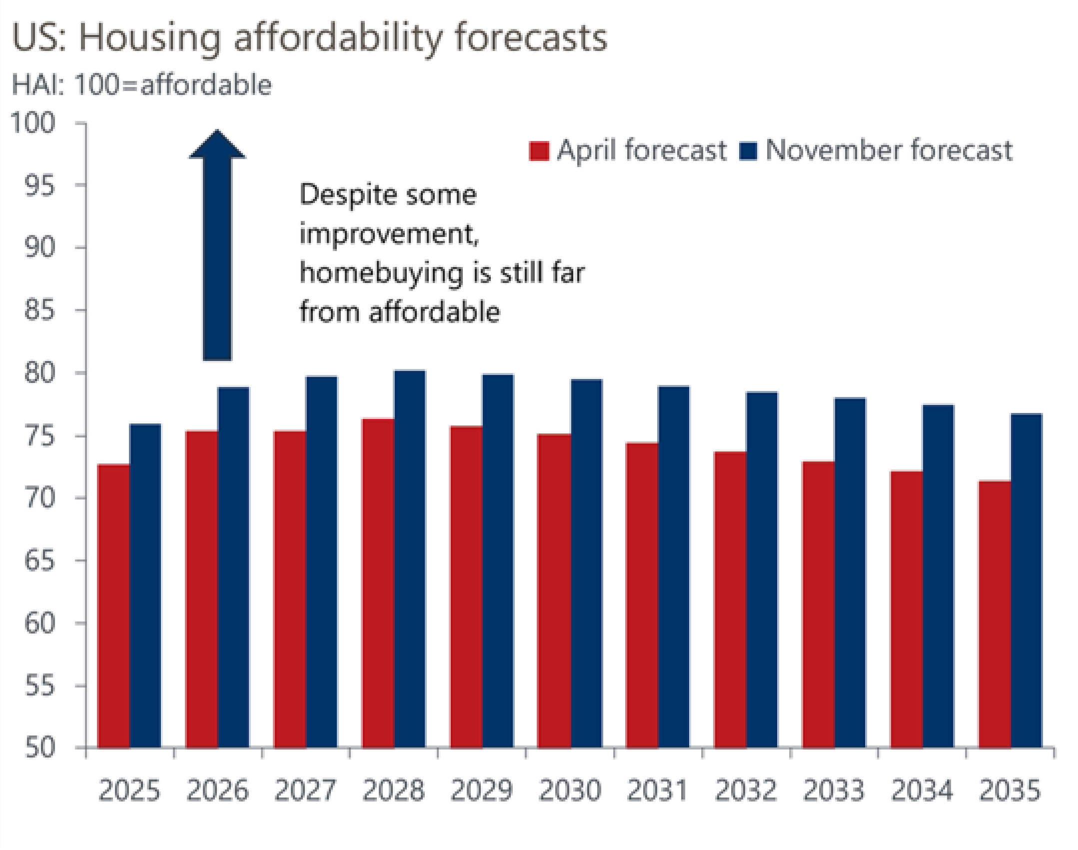
- Lower mortgage rates and high inventories will gradually support housing market recovery in 2026.
- Slowing home price growth will improve also assist in improving housing affordability; however, homebuying still remains out of reach for most households. We expect mortgage rates to settle near 6% next year.
- Refinancing opportunities are limited to just 3 million eligible households. Beneficiaries are primarily older first-time homebuyers in California, Texas, and Florida.

# Improved sentiment and supply will support a slow recovery in 2026

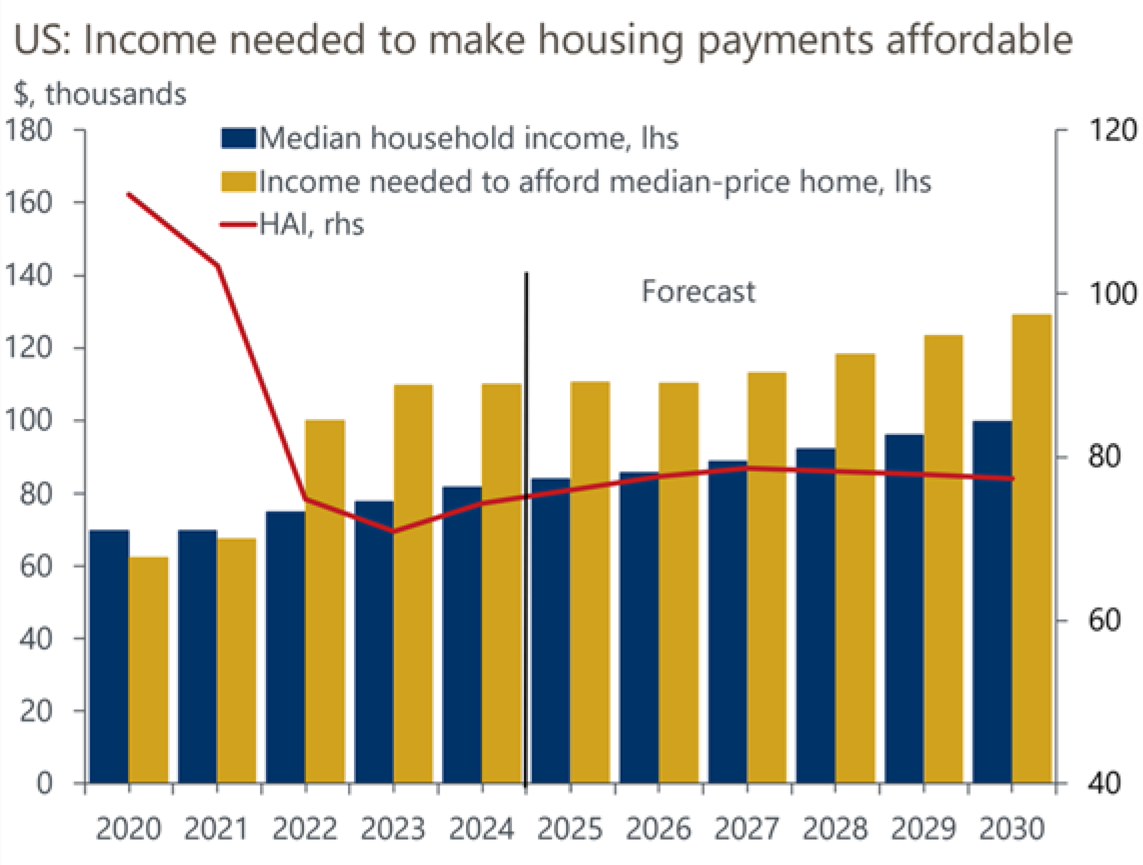




Sources: Oxford Economics, Haver Analytics

# Despite improved affordability, homebuying is out of reach for many

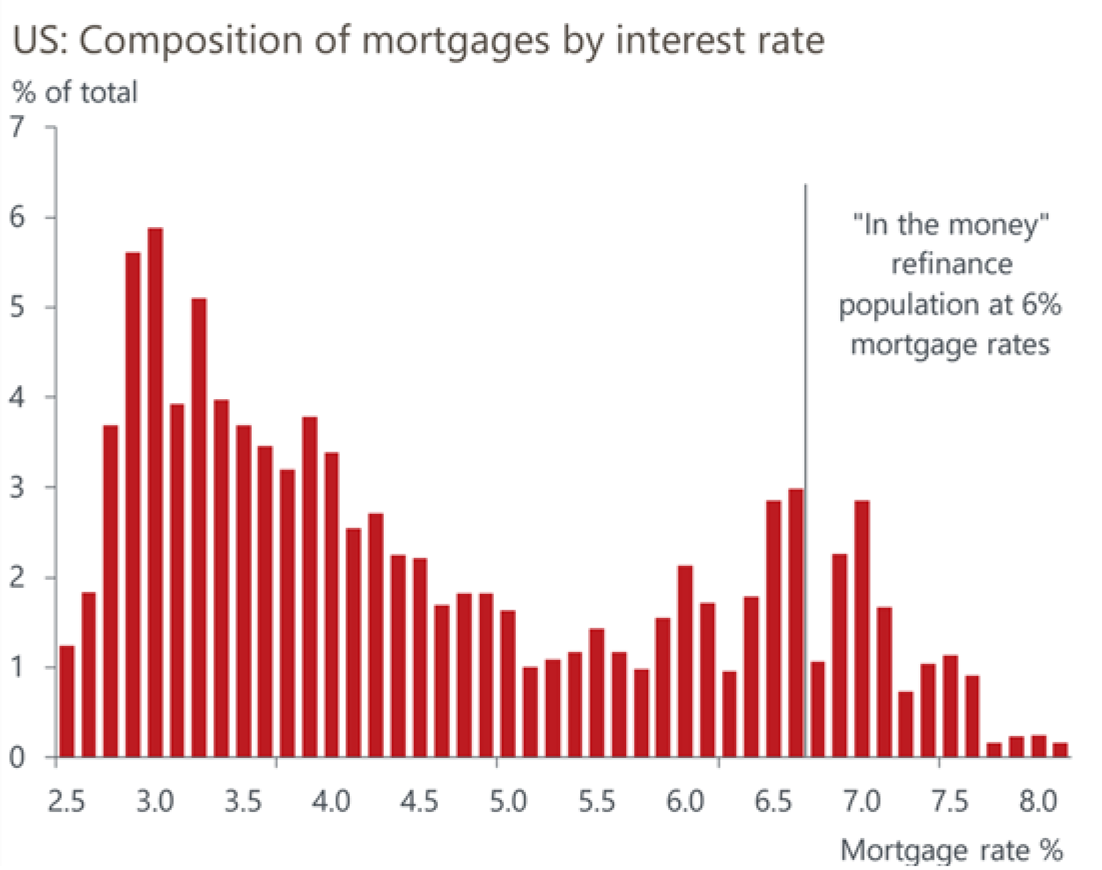



Sources: Oxford Economics, Census Bureau

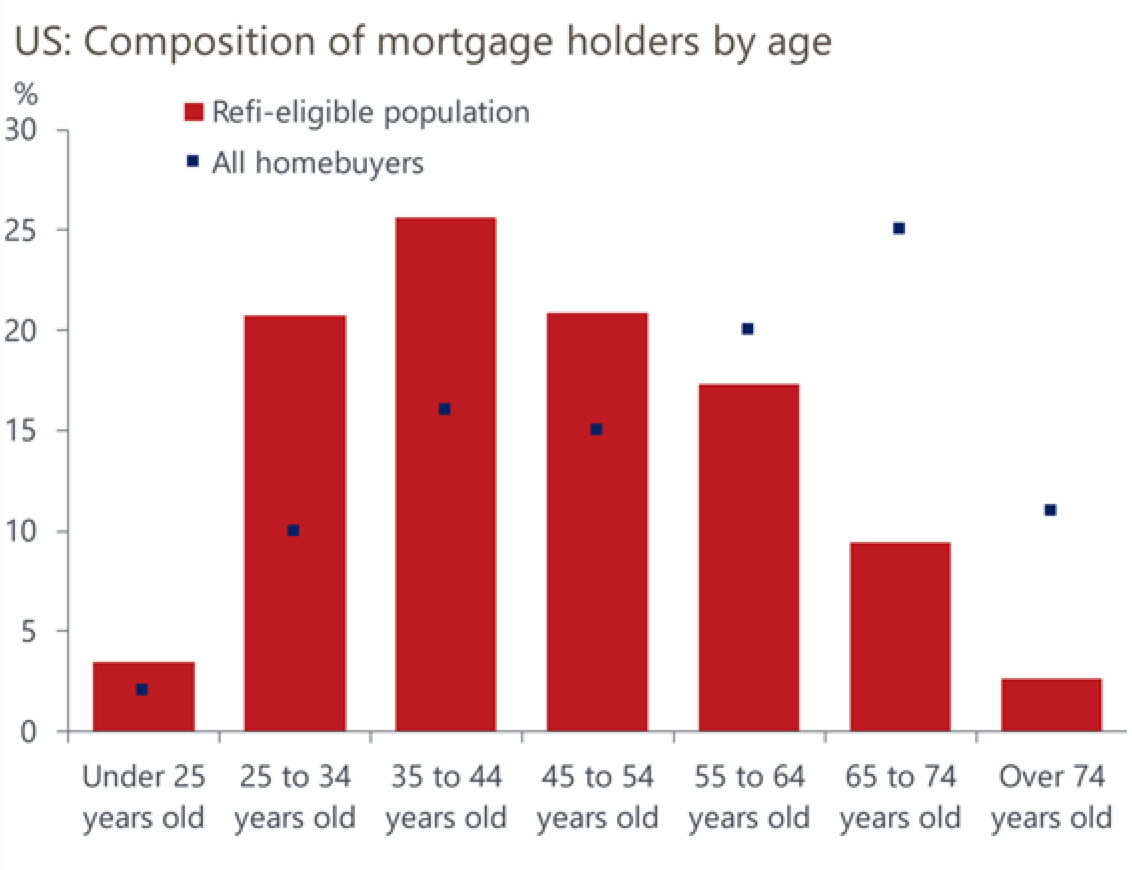



Sources: Oxford Economics, Zillow

# Few mortgage holders will benefit from refinancing opportunities




Sources: Oxford Economics, Fannie Mae, Freddie Mac, Ginnie Mae

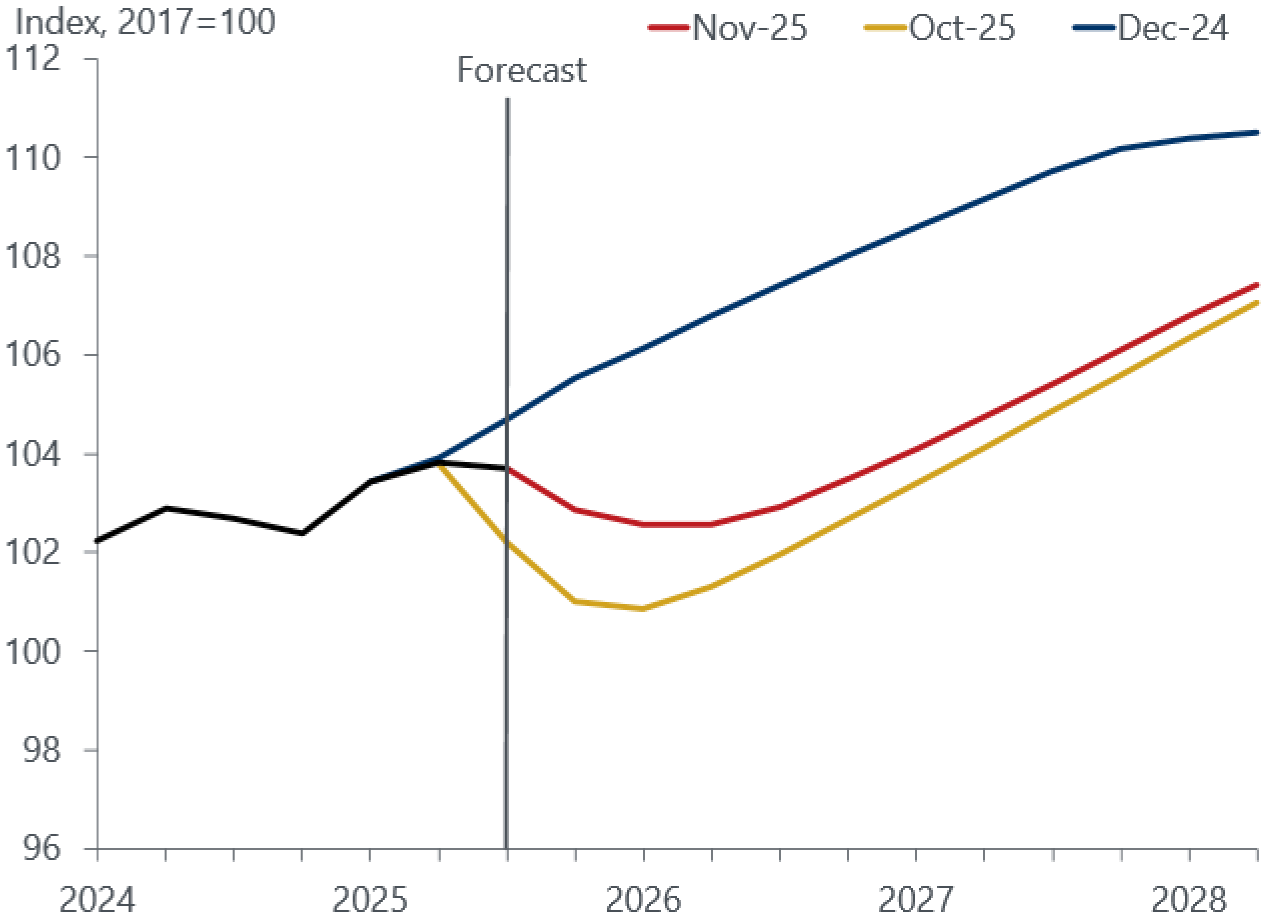



Sources: Oxford Economics, Fannie Mae, Freddie Mac, Ginnie Mae

# Manufacturing has areas for growth

# Manufacturing faces a slow recovery

US: Industrial production by forecast vintage

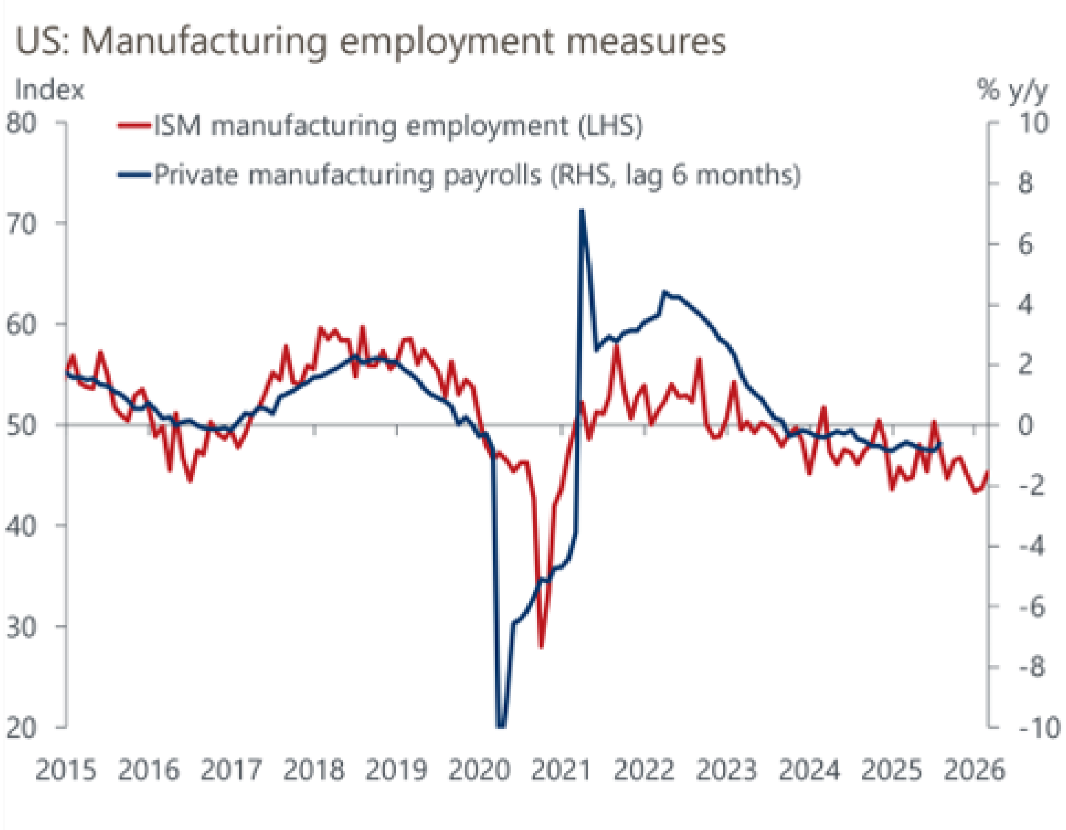



Sources: Oxford Economics, Haver Analytics

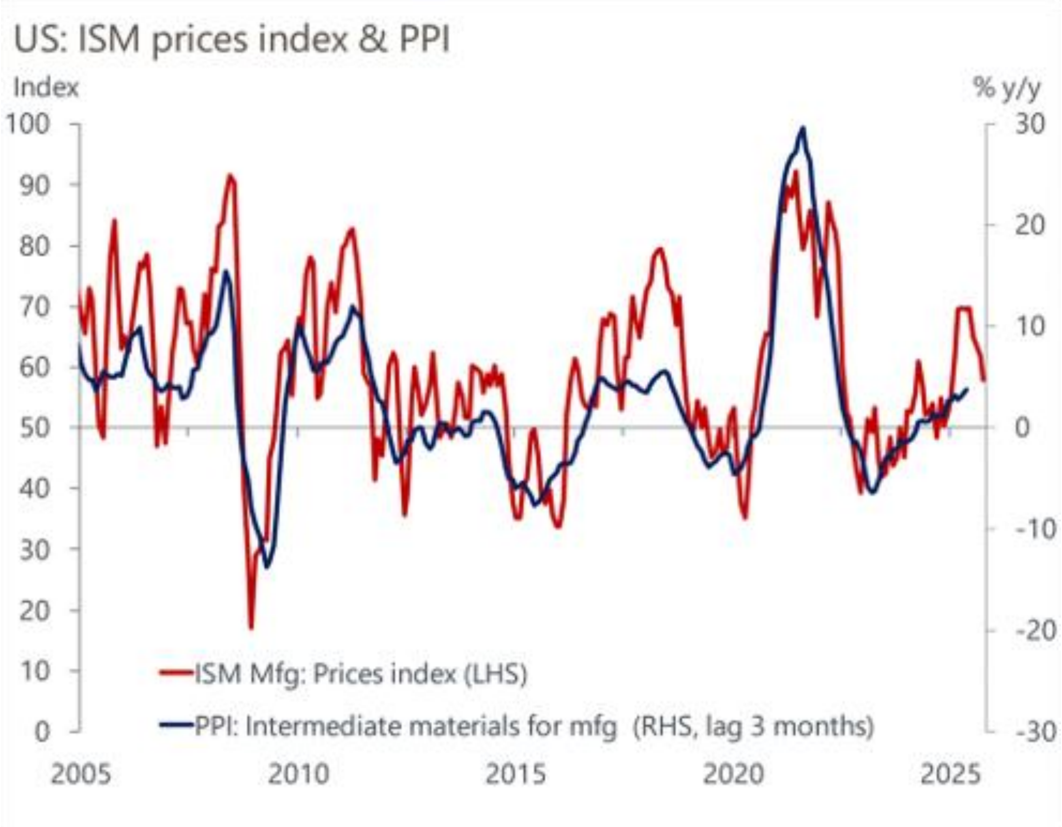
## Key takeaways

- Manufacturing activity is sluggish, and firms have responded by reducing headcount. It will take time for lower interest rates, falling policy uncertainty, and business investment tax incentives to lift the sector.
- Encouragingly, the ISM prices index fell in October, suggesting tariff induced price pressures are subsiding.
- Productivity boosts from AI investments are set to primarily support larger firms in information and professional service industries.
- Depressed oil prices and excess shipping capacity will continue to ease supply chain stress.

# Manufacturing faces headwinds from tariffs and policy uncertainty

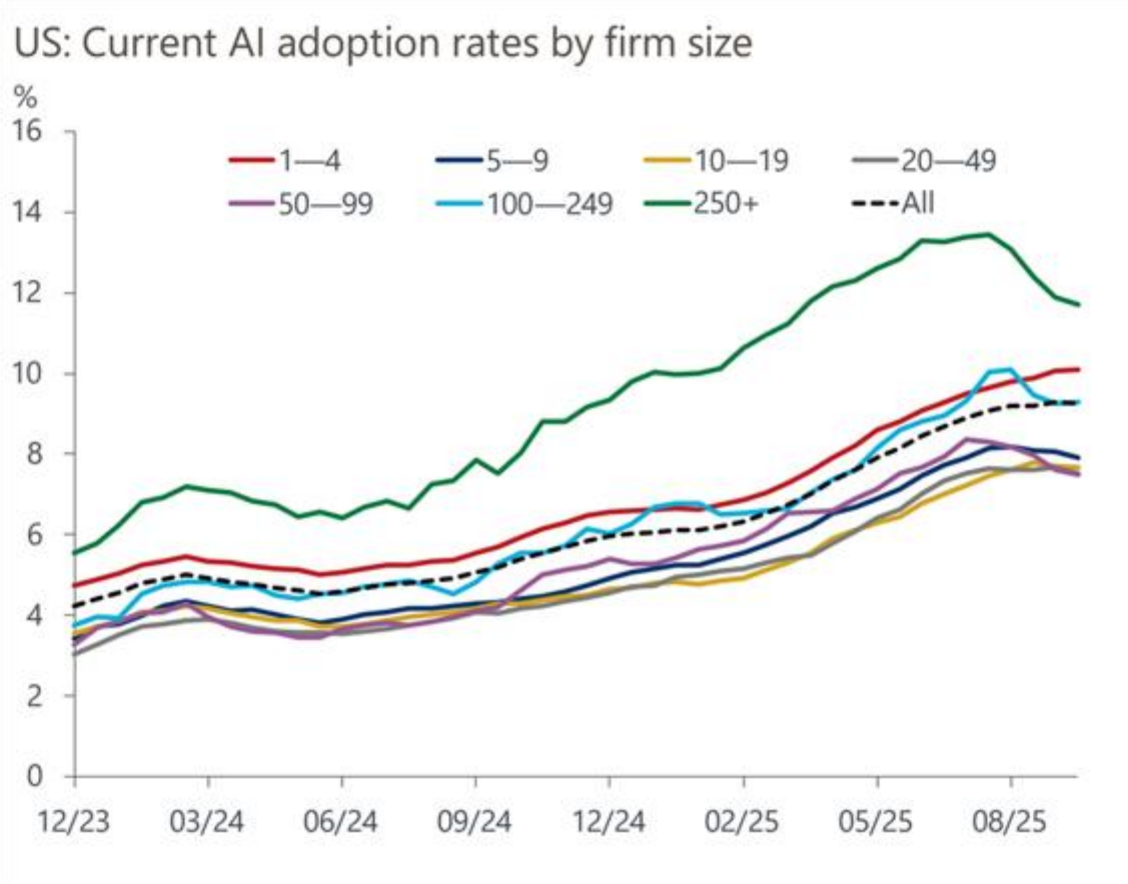



Sources: Oxford Economics, Haver Analytics

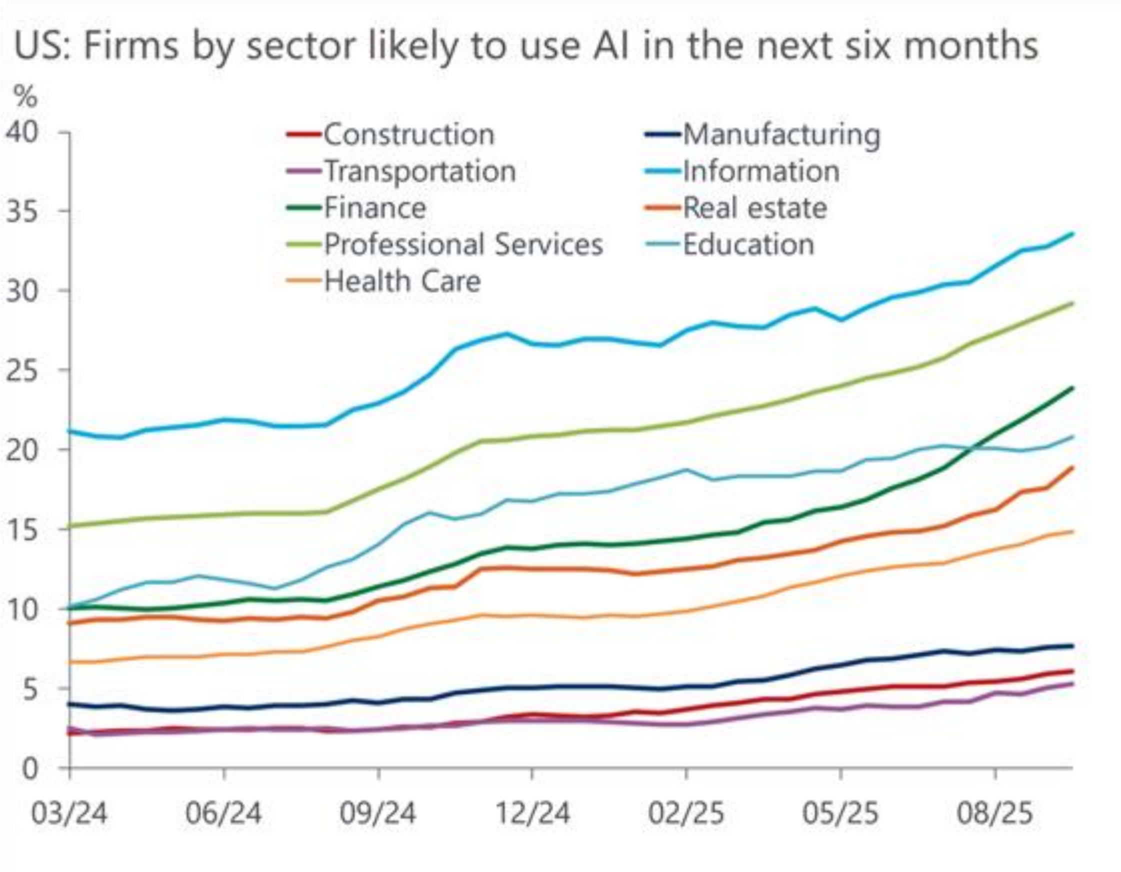



Sources: Oxford Economics, Haver Analytics

# States with existing infrastructure and lower costs attract investment

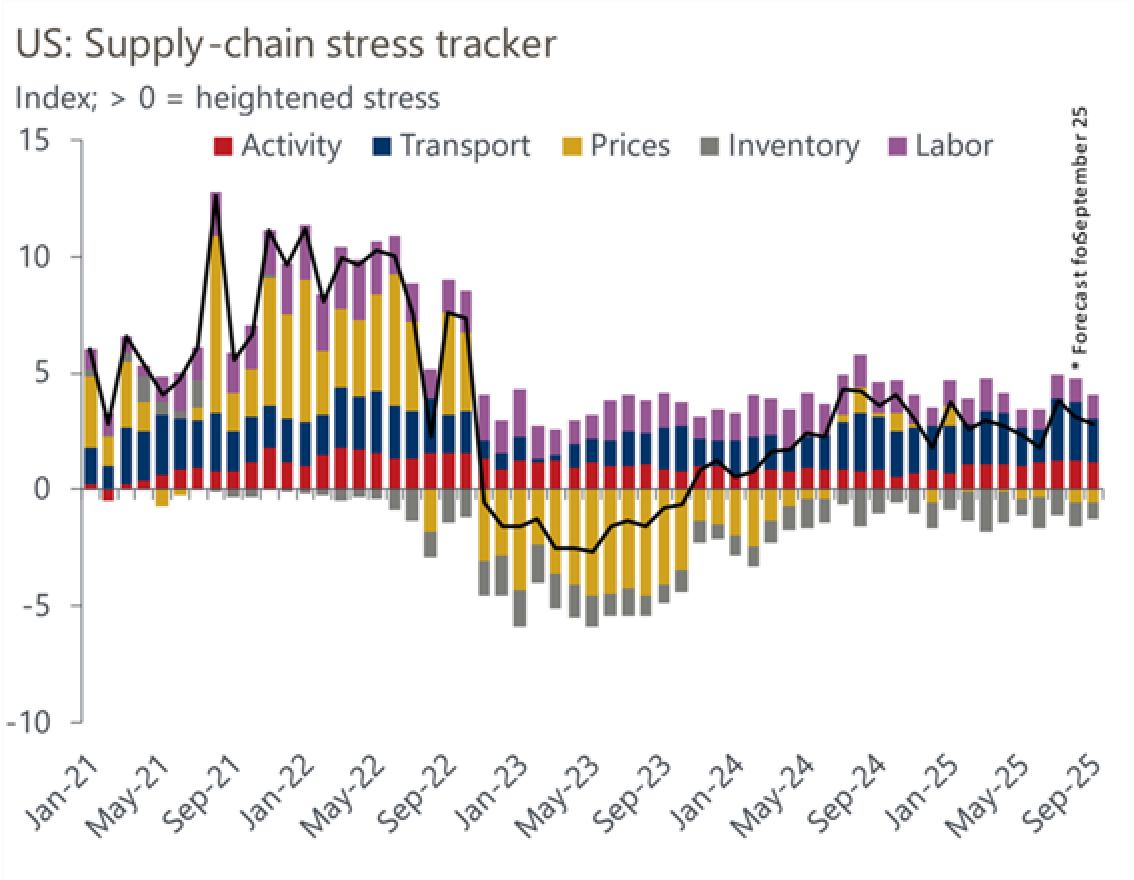



Sources: Oxford Economics, Census Bureau

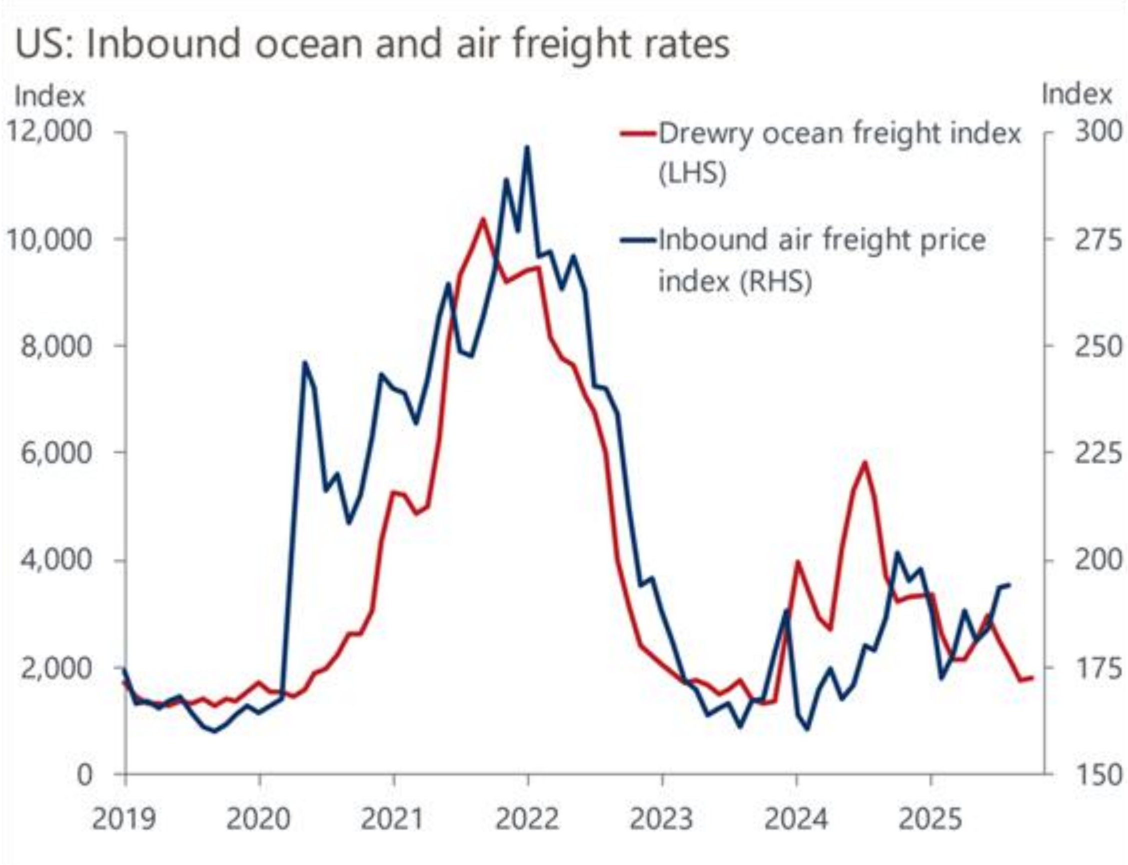



Sources: Oxford Economics, Haver Analytics

# Low oil prices and excess shipping capacity to offer supply chain relief




Sources: Oxford Economics, Haver Analytics

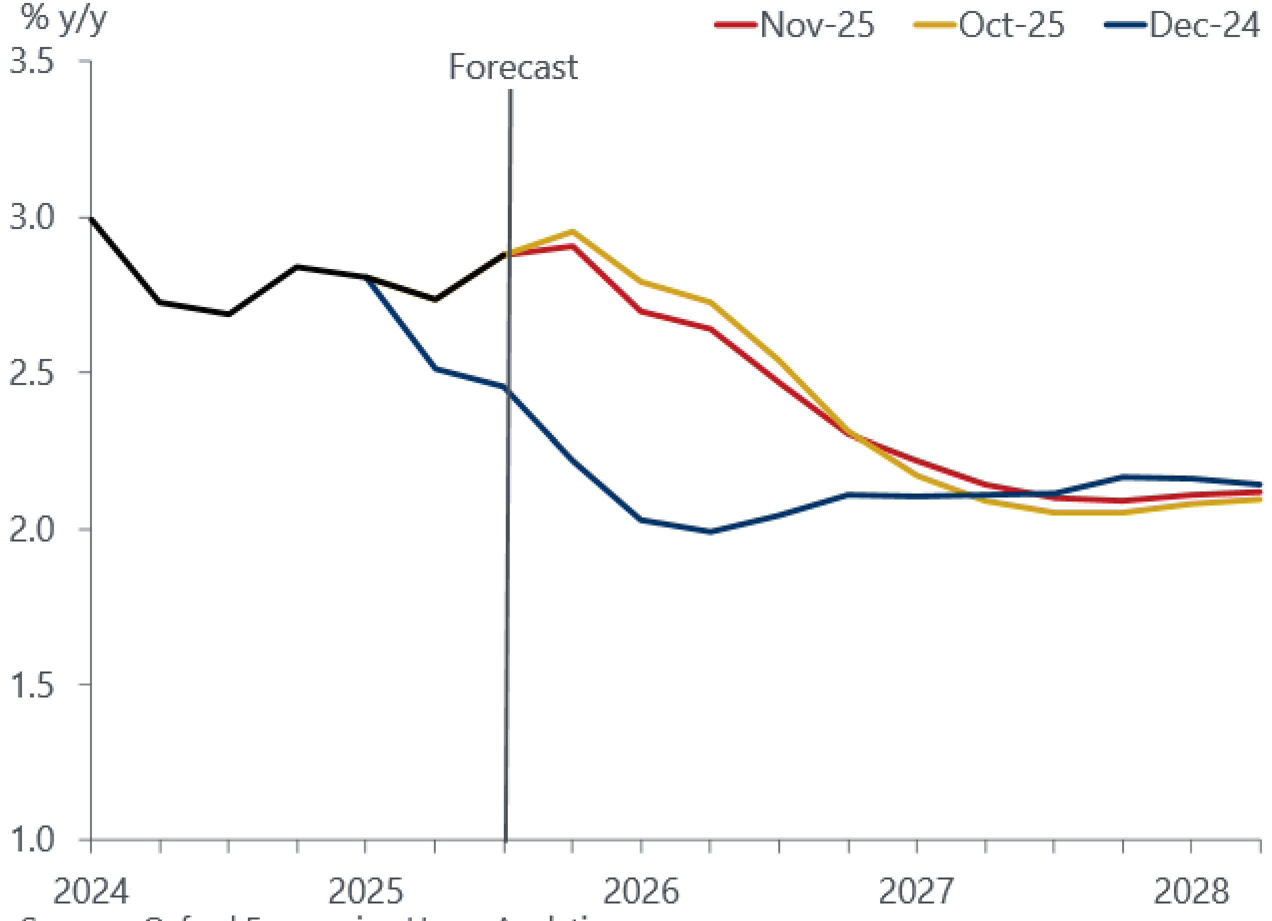



Sources: Oxford Economics, Haver Analytics

# Core inflation to moderate next year

# Core inflation to moderate in 2026

US: Core PCE by forecast vintage



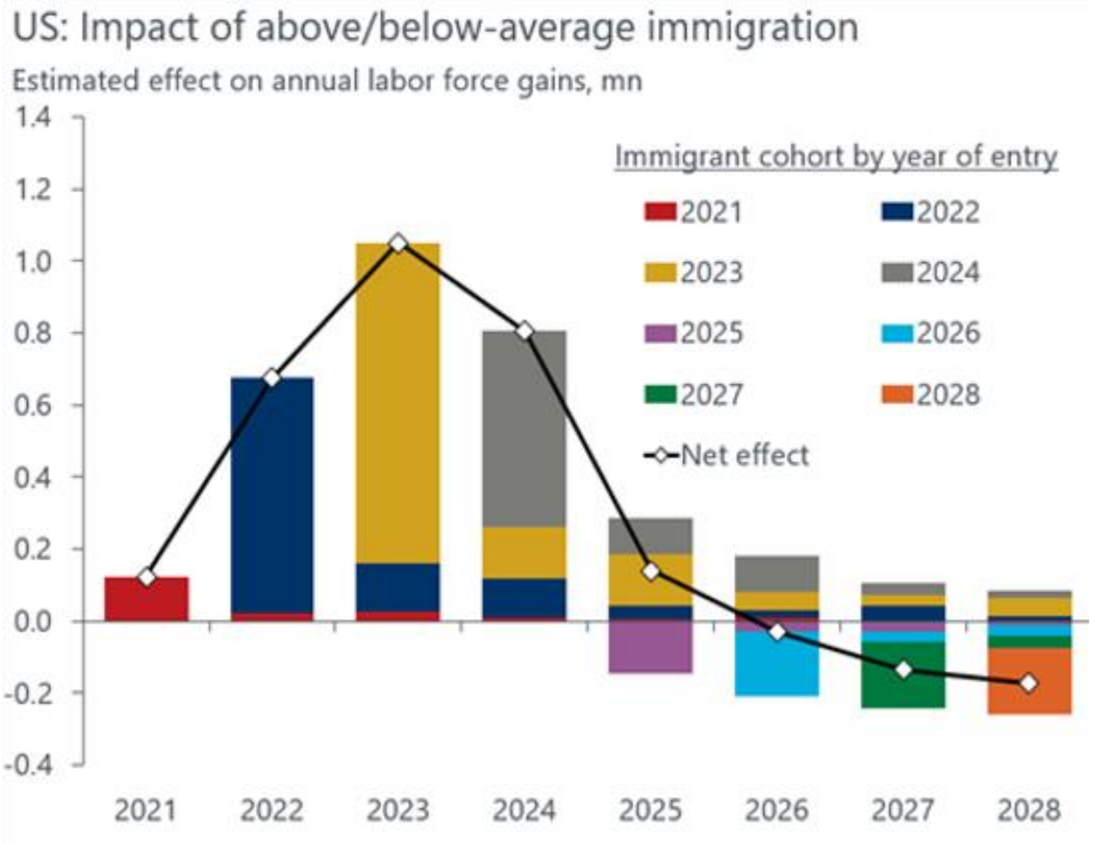

Sources: Oxford Economics, Haver Analytics

## Key takeaways

- We expect core inflation to moderate in the latter half of 2026 as the tariff impact fades, housing disinflation intensifies, and the labor market remains neutral for inflation; however, upward pressure from slowing immigration is a key risk.
- We estimate that the 10% reduction in tariffs on China will lower inflation by 0.1 ppt in 2026.
- Recent tariff exemptions on food and will reduce the overall effective tariff rate by 0.5ppts to 12.8%, though the impact on inflation will be minimal. Further food exemptions aren’t off the table.

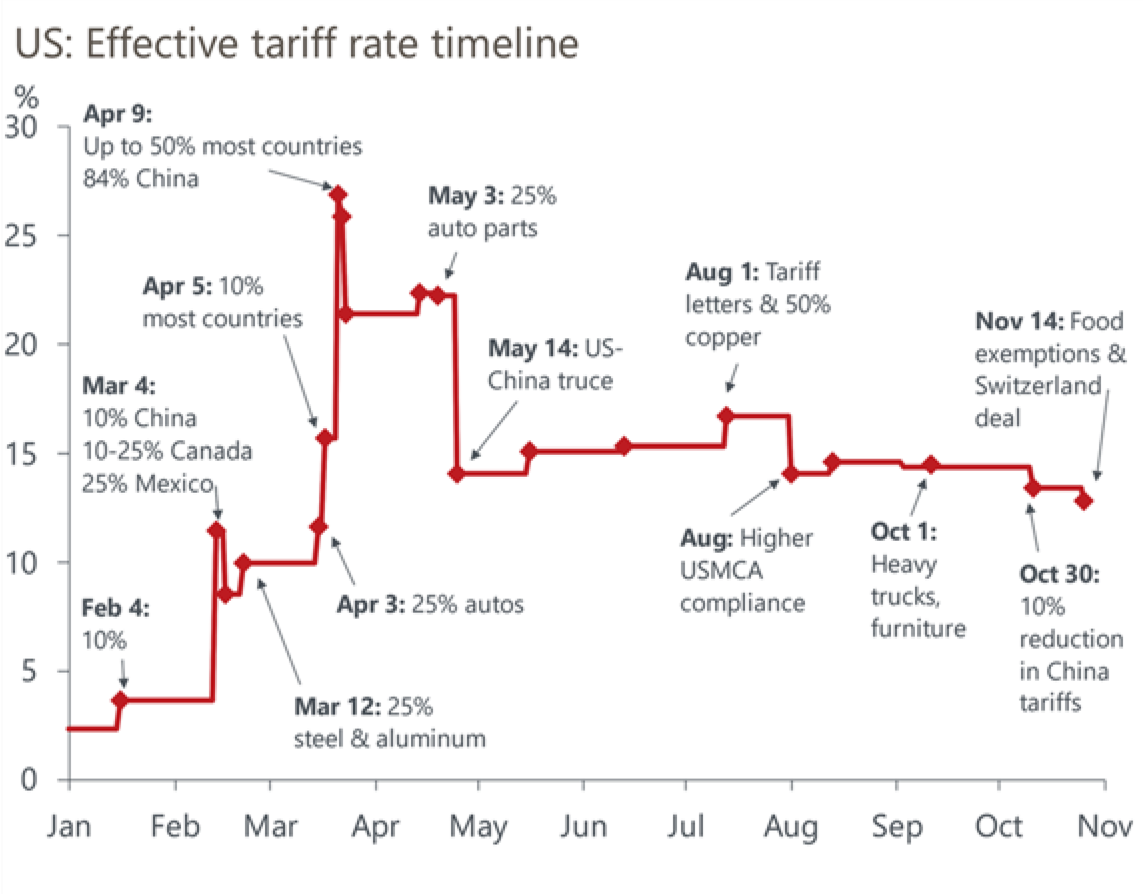
# Inflation to moderate in 2026, though immigration is an upside risk


Sources: Oxford Economics, BLS

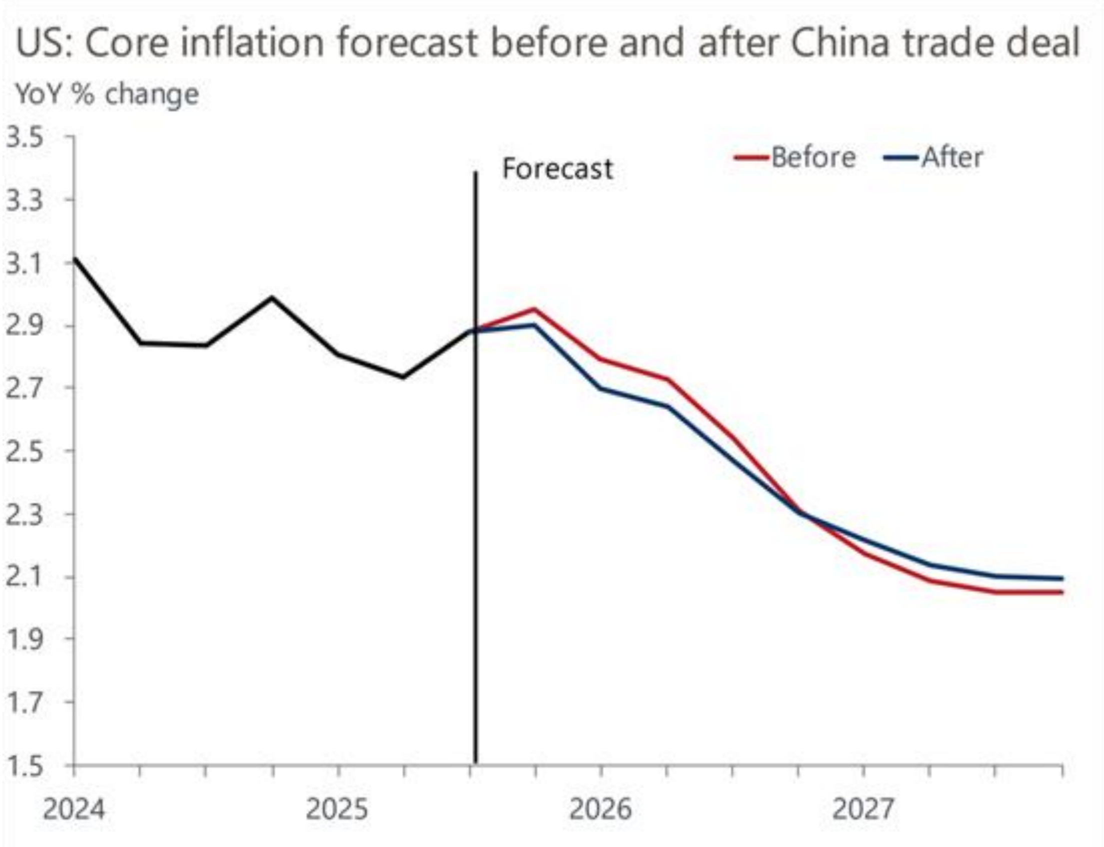



Source: Oxford Economics

# Trade de-escalation with China will slightly reduce inflation

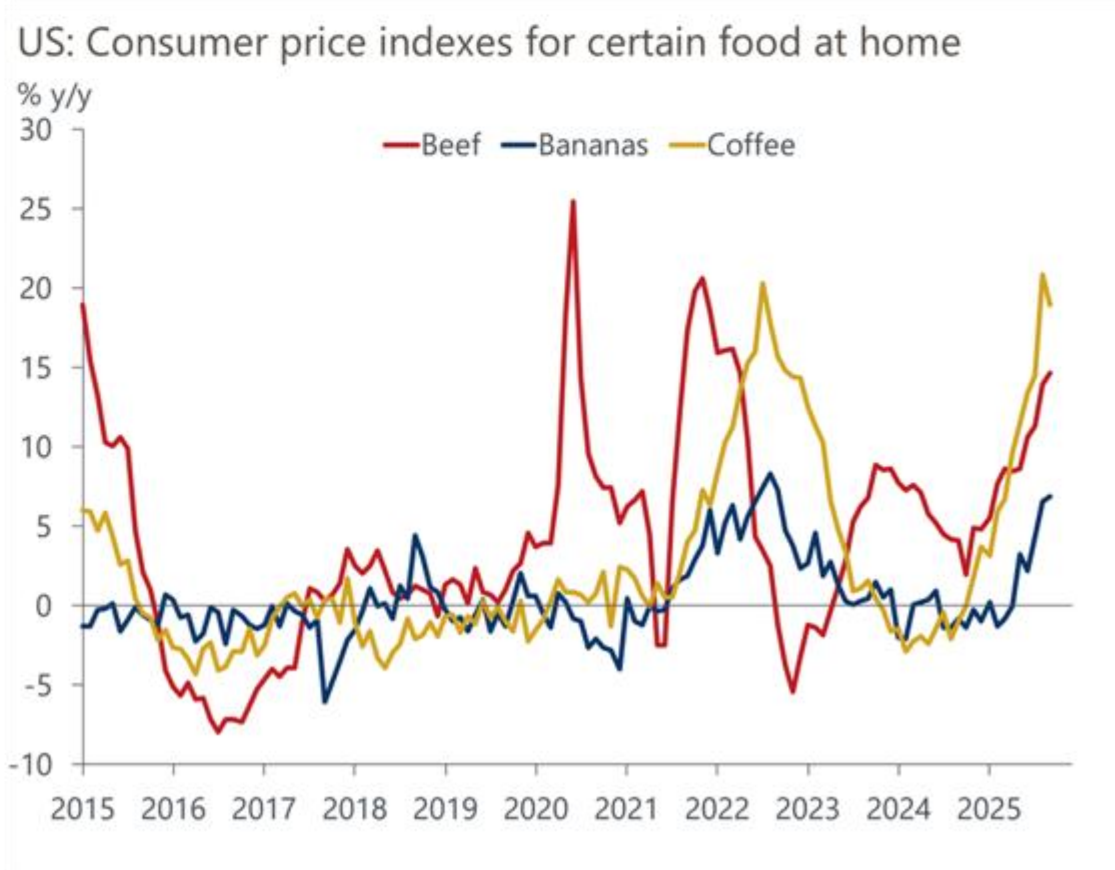



Sources: Oxford Economics, Census Bureau

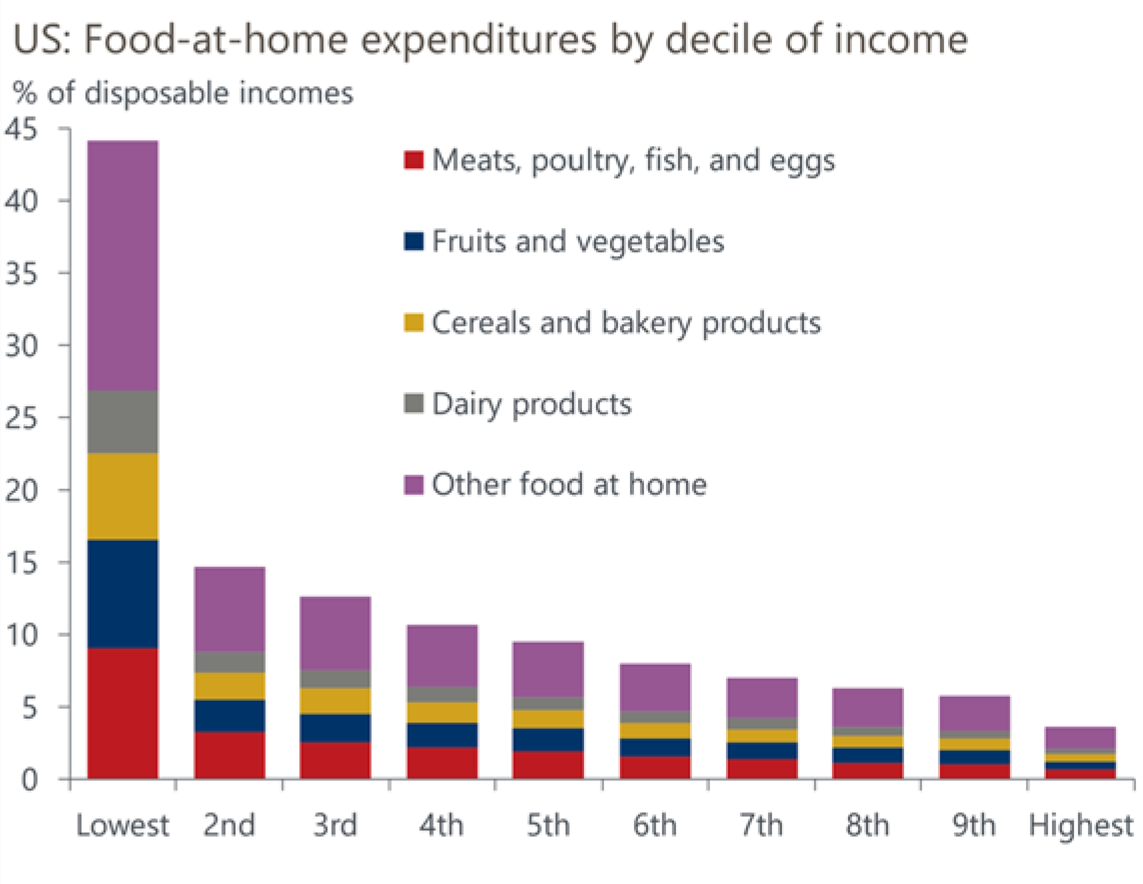



Source: Oxford Economics

# Tariff exemptions target food costs amid affordability concerns




Sources: Oxford Economics, Haver Analytics

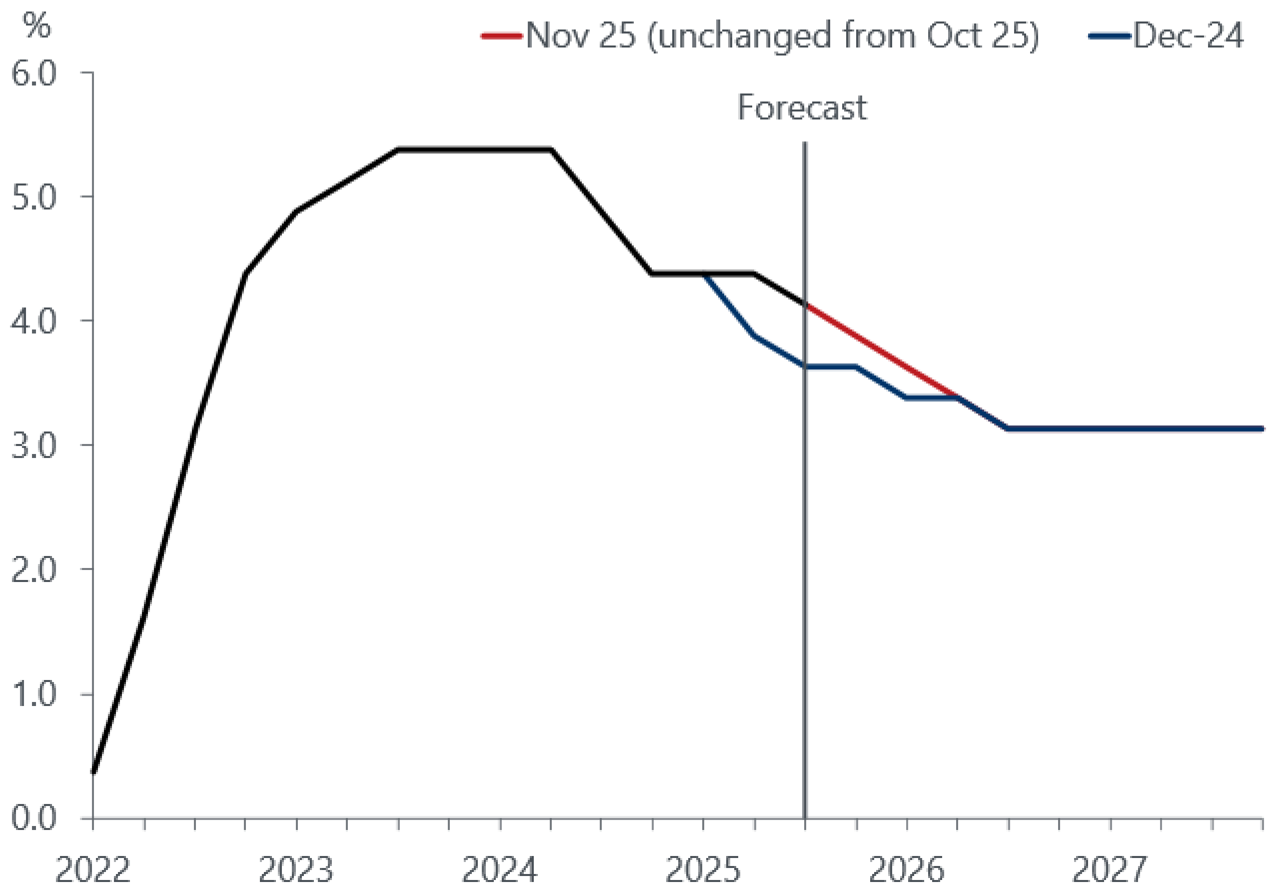



Sources: Oxford Economics, Census Bureau

# Financial market conditions and the Fed

# Fed could pause in December

US: Fed funds rate by forecast vintage



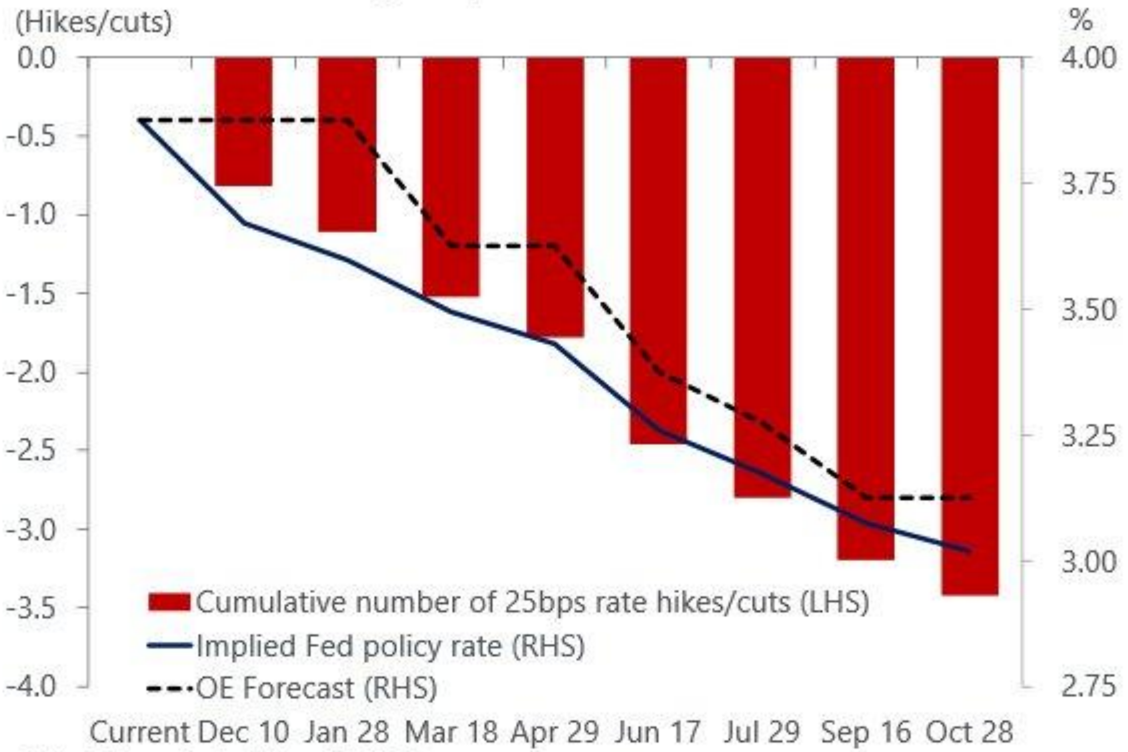

Sources: Oxford Economics, Haver Analytics

## Key takeaways

- The October FOMC meeting minutes showed a divided committee. The outcome of the December meeting will be a close call, and we think financial markets are too optimistic when fully pricing in a rate cut.
- Financial conditions are loosening thanks to strength in equities. While tech continues to lead, Q3 reporting saw strong earnings momentum across sectors, supported by productivity gains.
- Fed announced an end to QT starting December 1. The policy change aims to quell upward pressure on overnight borrowing rates, not alter the course of monetary policy.

# A divided FOMC likely means a cautious approach to cuts in 2026

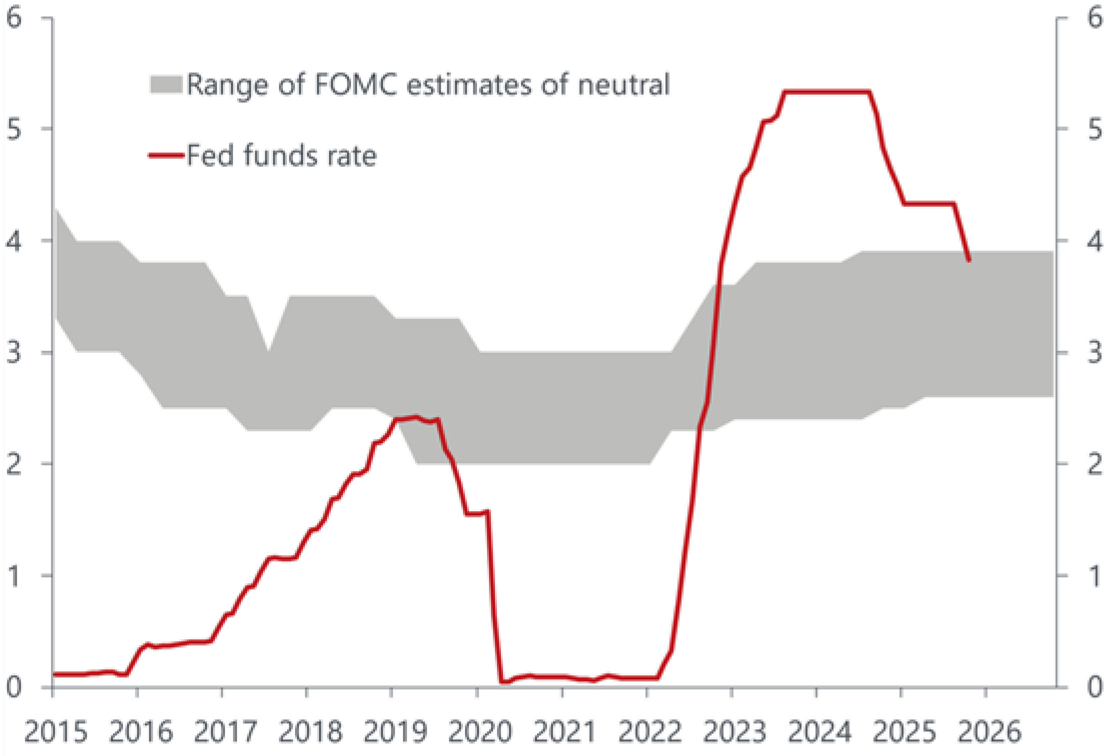
US: FOMC rate change expectations based on OIS




Note: Data collected Nov 25, 2025

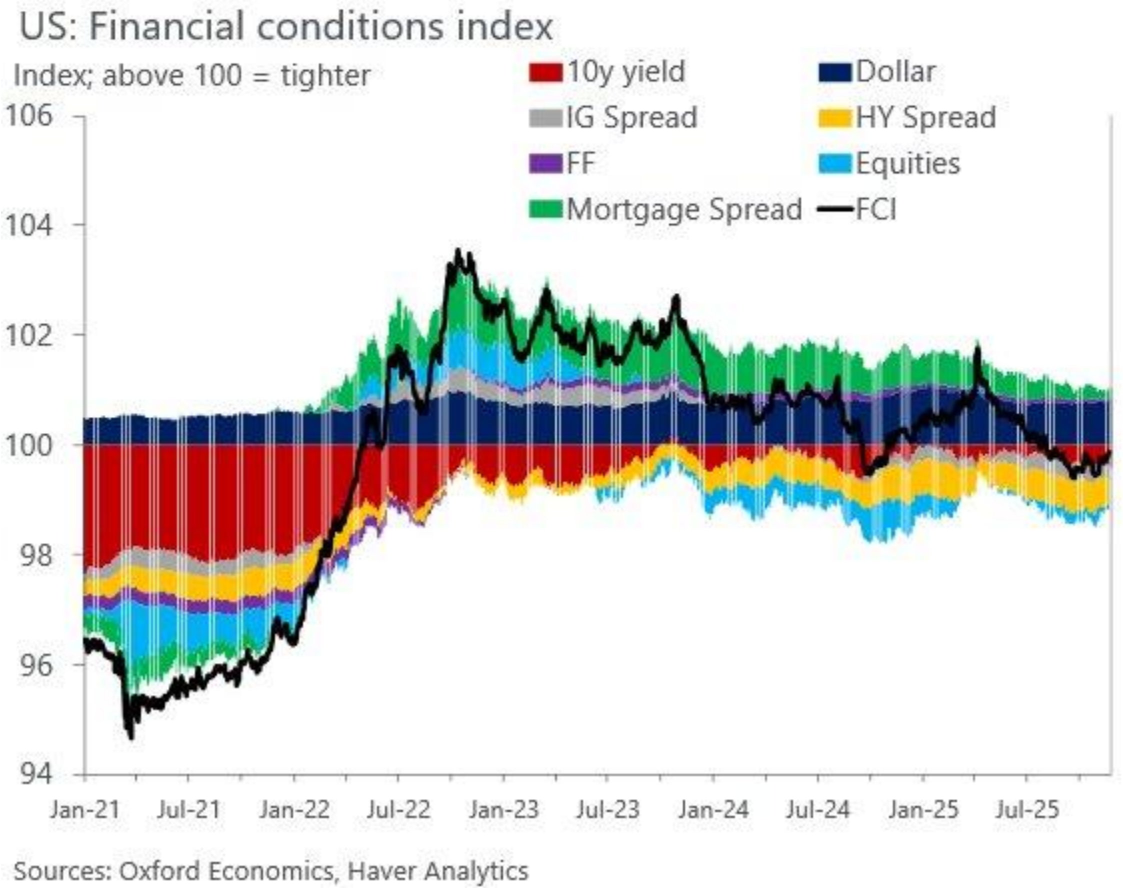
Sources: Oxford Economics, Bloomberg

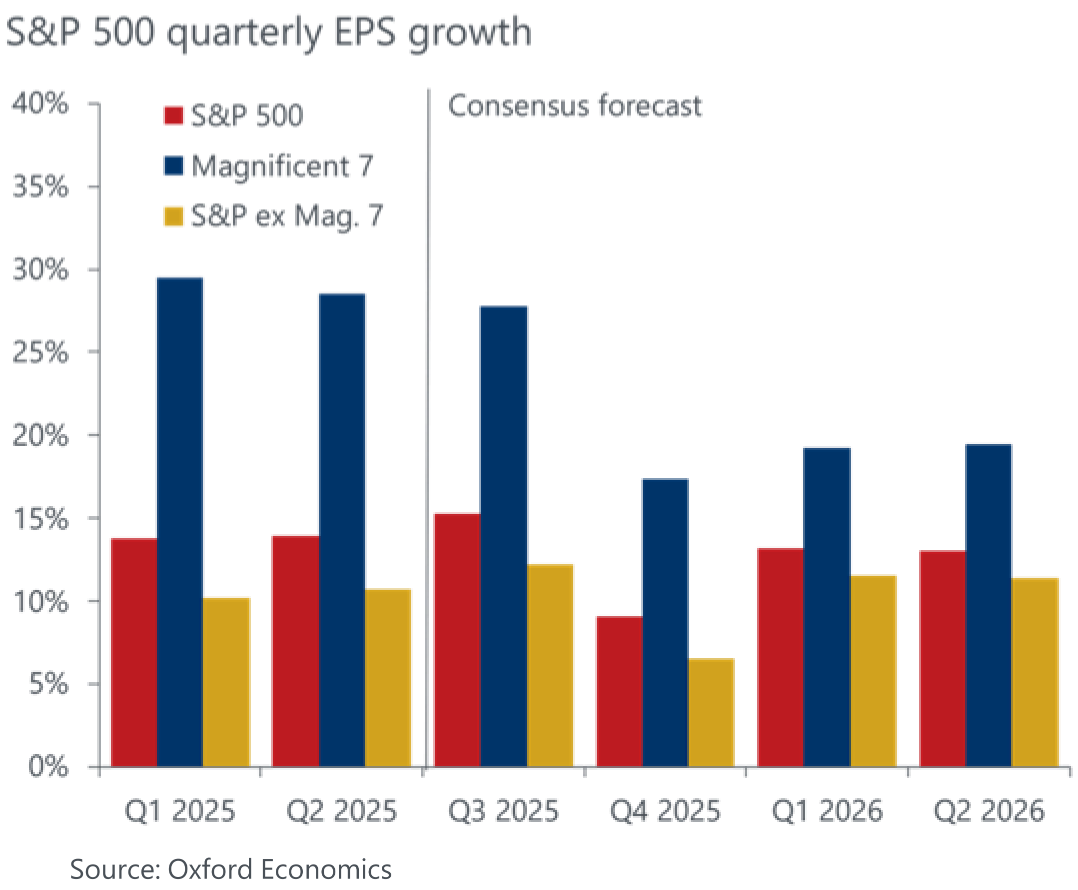
US: Federal funds rate & neutral



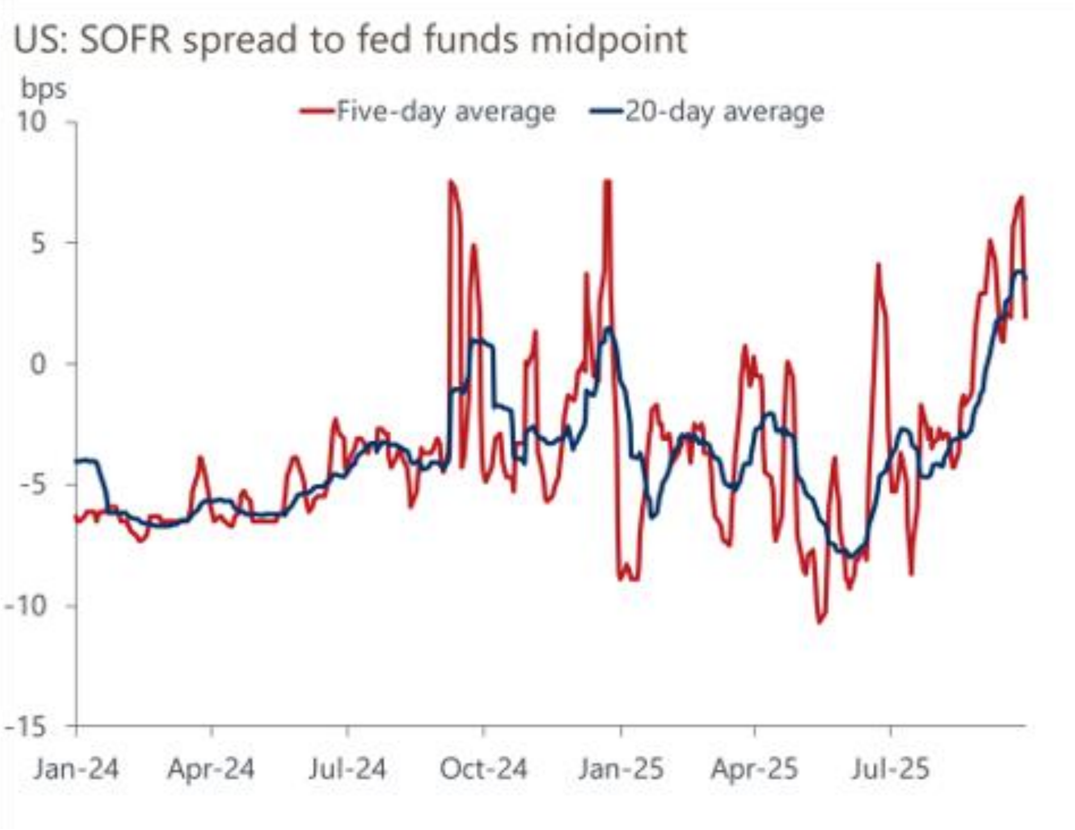

Sources: Oxford Economics, Haver Analytics

# Financial conditions loosen and strength in equities persists

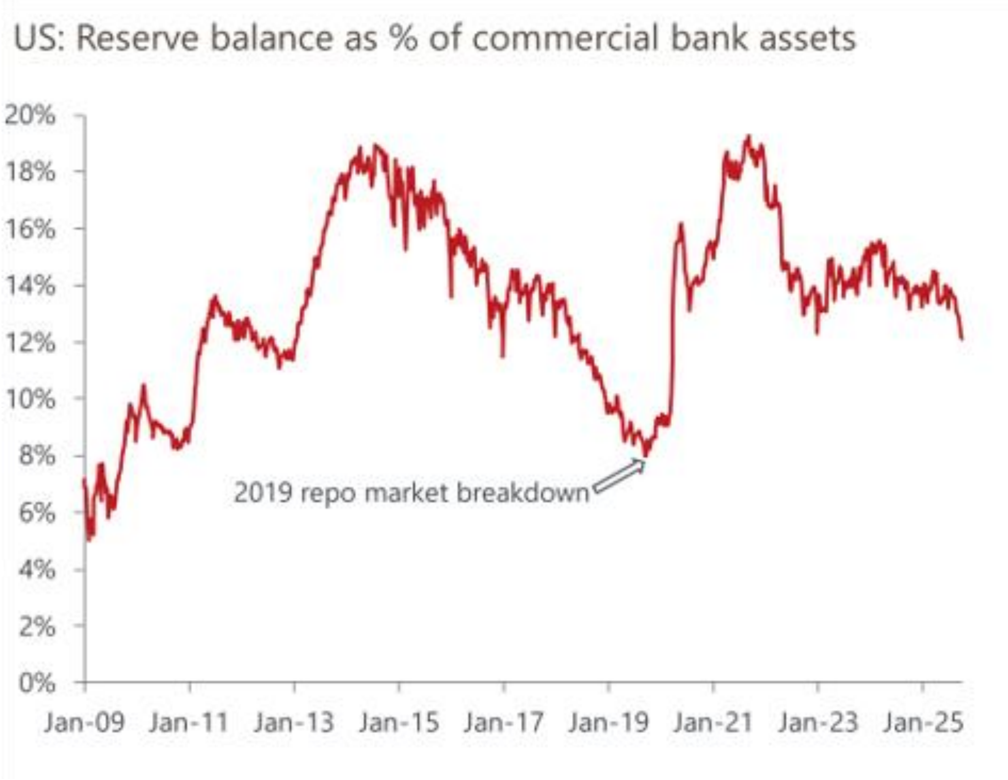


# Repo market pressures put the Fed on course to end QT in December




Sources: Oxford Economics, Bloomberg




Sources: Oxford Economics, Haver Analytics

# 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 | 2.0 | 2.4 | 2.4 | 2.3 |
| Private consumption | 2.6 | 2.9 | 2.6 | 2.2 | 2.0 | 2.0 |
| Fixed investment | 3.8 | 3.5 | 3.3 | 3.6 | 3.4 | 3.3 |
| Government consumption | 3.0 | 3.3 | 0.6 | 1.9 | 1.2 | 1.2 |
| Exports of goods and services | 2.8 | 3.6 | 0.6 | 0.1 | 2.7 | 2.2 |
| Imports of goods and services | -0.9 | 5.8 | 3.1 | -2.8 | 1.8 | 2.7 |
| Industrial production | 0.2 | -0.3 | 0.9 | -0.5 | 2.1 | 2.5 |
| Consumer price index | 4.1 | 3.0 | 2.8 | 2.7 | 2.3 | 2.3 |
| PCE deflator | 3.8 | 2.6 | 2.6 | 2.5 | 2.2 | 2.1 |
| Unemployment rate (%) | 3.6 | 4.0 | 4.2 | 4.4 | 4.2 | 4.2 |
| Current a/c balance (% of GDP) | -3.3 | -4.0 | -3.9 | -3.3 | -3.0 | -2.9 |
| Government balance (% of GDP) | -6.1 | -6.2 | -5.8 | -7.0 | -6.9 | -6.5 |
| Cen. bank policy rate (%, EOP) | 5.38 | 4.38 | 3.87 | 3.13 | 3.12 | 3.12 |
| 10yr govt. bond yield (%, EOP) | 3.88 | 4.58 | 4.12 | 4.14 | 4.17 | 4.20 |
| Exchange rate (Yen per US$, EOP) | 141.91 | 156.65 | 150.92 | 146.03 | 141.26 | 136.79 |
| Exchange rate (US$ 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 Q3 | 2025 Q4 | 2026 Q1 | 2026 Q2 | 2026 Q3 | 2026 Q4 | 2027 Q1 | 2027 Q2 |
| GDP (% chg, saar) | 3.2 | 1.0 | 2.9 | 2.2 | 2.3 | 2.4 | 2.4 | 2.4 |
| CPI inflation (% year) | 2.9 | 3.0 | 2.7 | 2.9 | 2.8 | 2.5 | 2.4 | 2.3 |
| Core CPI inflation (% year) | 3.1 | 3.1 | 2.9 | 3.1 | 2.8 | 2.5 | 2.5 | 2.5 |
| PCE inflation (% year) | 2.7 | 2.7 | 2.5 | 2.6 | 2.5 | 2.4 | 2.3 | 2.2 |
| Core PCE inflation (% year) | 2.9 | 2.9 | 2.7 | 2.6 | 2.5 | 2.3 | 2.2 | 2.1 |
| 10-year Treasury yield (%, EOP) | 4.2 | 4.1 | 4.1 | 4.1 | 4.1 | 4.1 | 4.1 | 4.2 |
| Federal funds rate (%, EOP) | 4.1 | 3.9 | 3.6 | 3.4 | 3.1 | 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 November 10) | | |
|---|---|---|
| **Tariffed countries** | **US tariffs** | **Retaliation measures** |
| **US / Canada** | Tariffs of 50% on steel, aluminium, and copper, 10% on lumber, 25% on furniture, 25% on the non-US content of USMCA-compliant autos and trucks, 10% on non-USMCA-compliant energy and potash, and 35% on all other non-USMCA-compliant products. USMCA compliance rose sharply after tariffs were implemented. 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 (i.e., 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. As of October 23, GM and Stellantis reductions in remissions leaves C$31.6bn of US auto imports eligible for tariff relief until mid-2026. As of September 1, Canada removed counter tariffs on all non-auto products except for C$15bn worth of steel and aluminium products, of which we estimate about half are eligible for remission until mid-December. 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 aluminium products. |
| **US / Mexico** | Tariffs of 50% on steel, aluminium, and copper, 10% on lumber, 25% on furniture, 10% on non-USMCA-compliant potash, and 25% on non-USMCA goods and the non-US content of autos and trucks. As with Canada, USMCA compliance has risen sharply. As a result, the average tariff rate on Mexico is estimated to peak at 9% 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 / Brazil** | Brazil is subject to the same 50% tariff on steel, aluminium, and copper as most other trading partners. The Trump administration singled out Brazil, raising its reciprocal tariff rate on most other products from 10% to 50%. However, there are several carveouts to the 50% reciprocal tariff, including for orange juice, Brazil nuts, and civil aircraft and parts. As a result, we estimate the effective tariff rate on imports from Brazil will only rise to 23%. | We assume Brazil will not retaliate. US-Brazil trade relations have improved significantly since the 50% reciprocal tariff announcement in July, suggesting that the higher tariff rate is likely to be short-lived. Brazil's recent move to cut its reliance on Russian oil reaffirms our view. |

*Source: Oxford Economics*

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