APOLLON

Market Recap

December 2025

Disclosure

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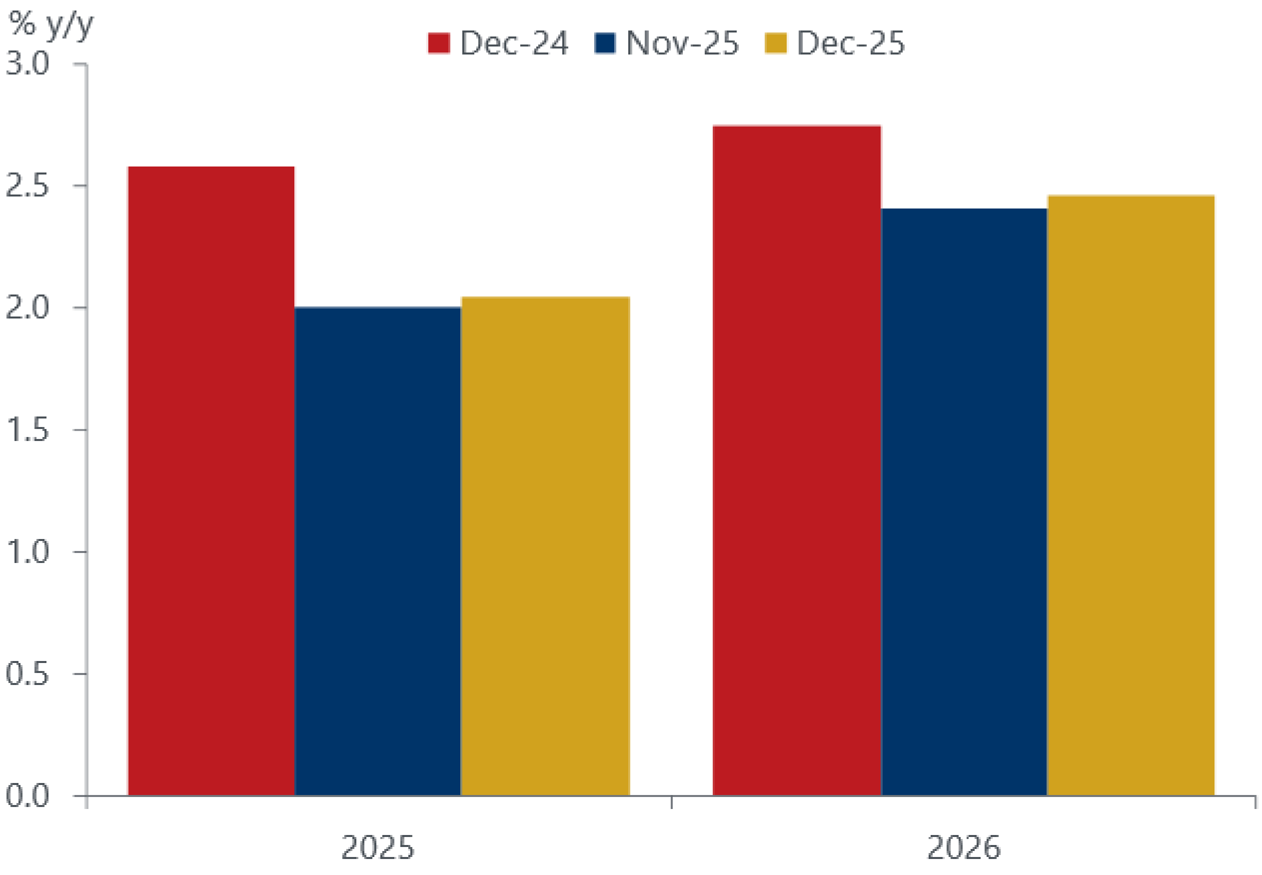
Jobless recovery could play out in 2026

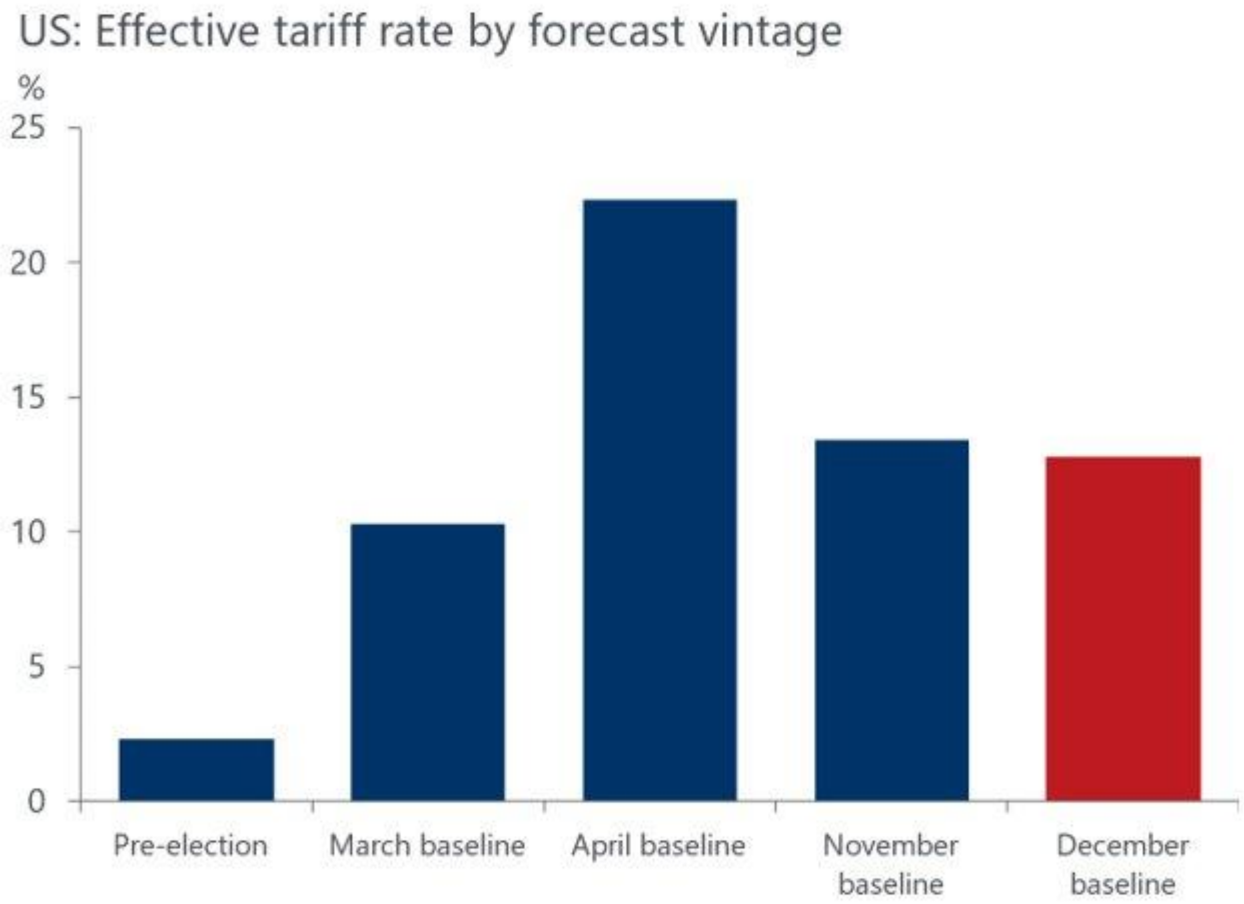


Sources: Oxford Economics, Haver Analytics

Key takeaways

- We've raised our forecast for real GDP growth in the US in 2026 by 0.1ppt to 2.5% to reflect improved consumer spending.
- Growth in real disposable income will perk up next year, supported by moderating inflation and stronger than usual tax refunds.
- The disconnect between GDP and the labor market will be increasingly visible next year as the odds of a jobless recovery rise. Robust productivity growth will be important for the GDP outlook.
- Business investment will broaden beyond AI next year, in part thanks to less policy uncertainty.

Effective tariff rate steady around 13%



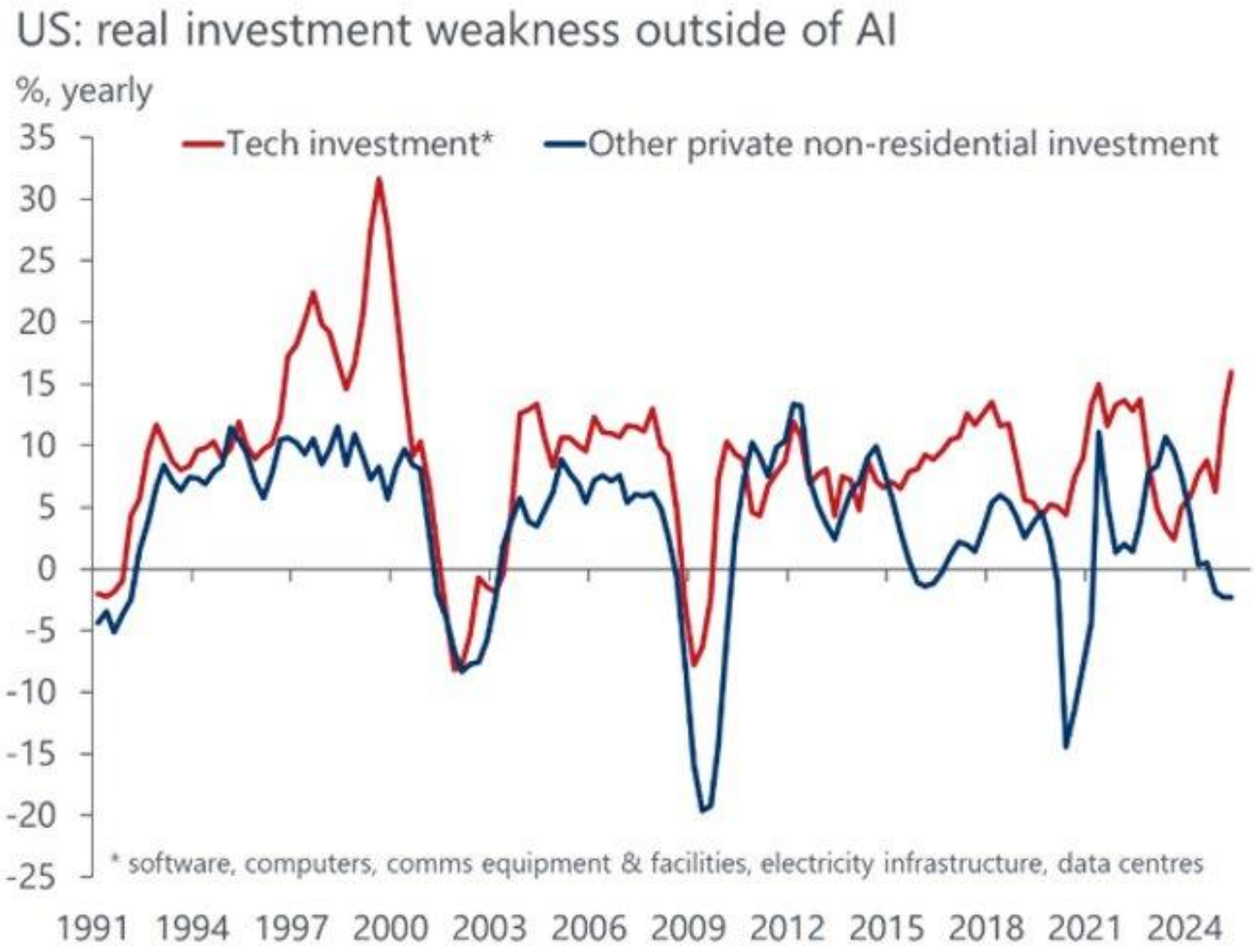
Source: Oxford Economics

Key takeaways

- The effective US tariff rate remains close to 13%, as there were no material changes to our tariff assumptions in the December baseline.
- We have not included any assumptions about the outcome of Supreme Court's ruling on the legality of IEEPA tariffs in our forecast. There are several other legal channels by which tariffs could be raised again. It is unlikely to alter the end point for tariffs in our forecast.
- The biggest threat still in the pipeline comes from sectoral tariff investigations into products like semiconductors, robots, and machinery.

Focus: AI investment supporting growth

Investment spending will be strong in 2026

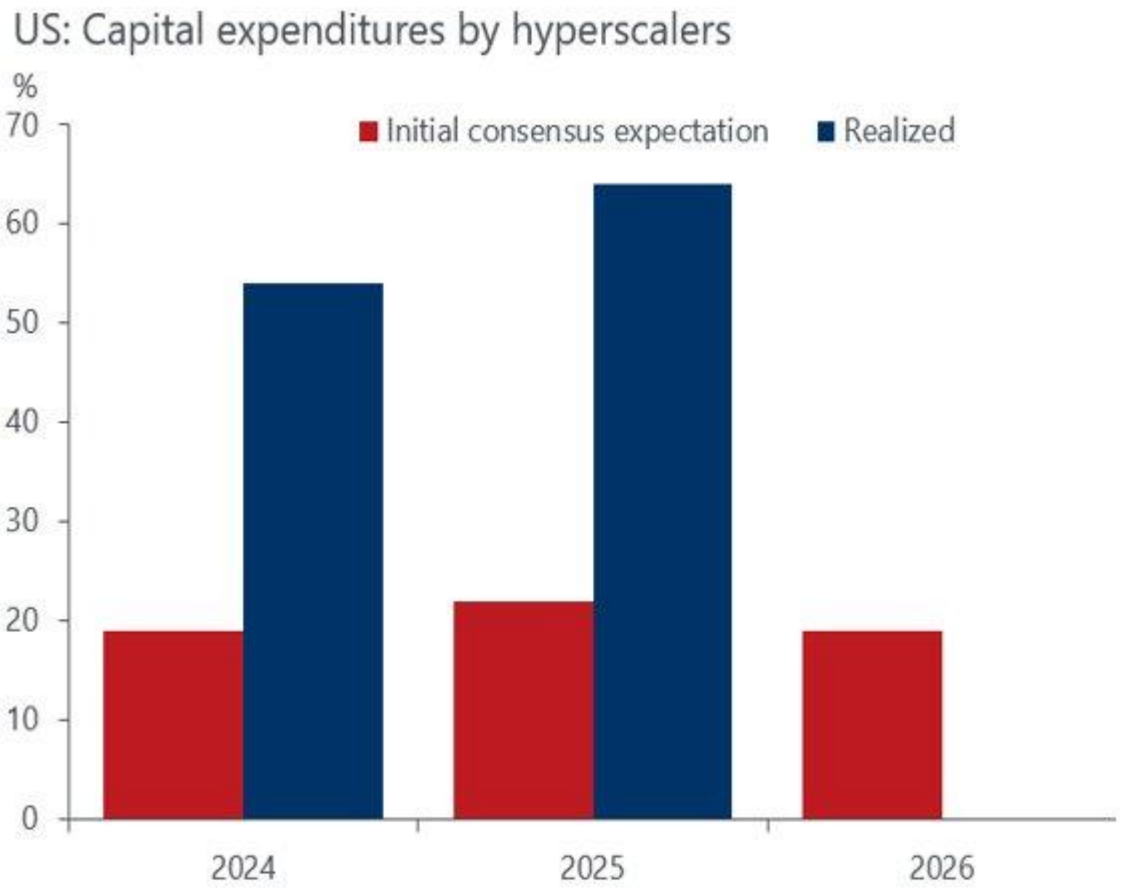


Sources: Oxford Economics, Haver Analytics

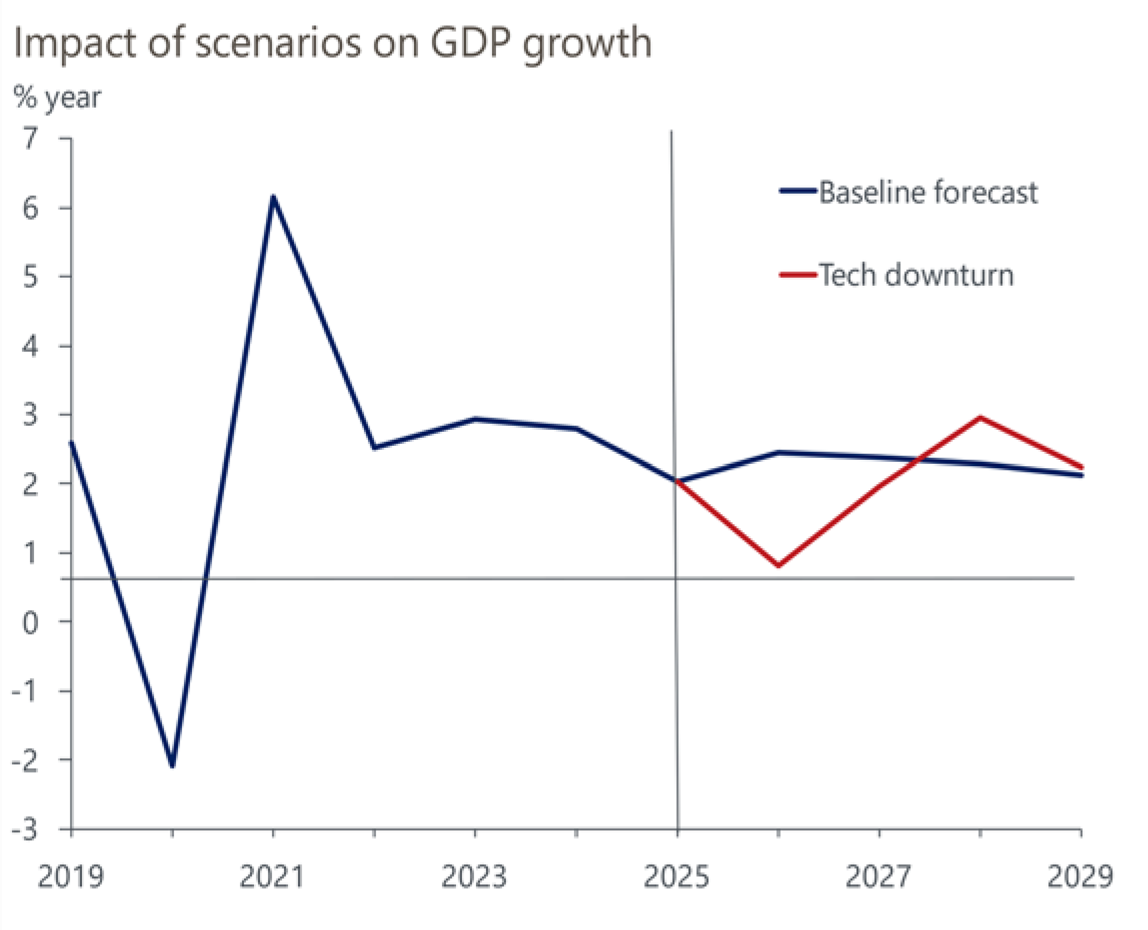
Key takeaways

- Capital expenditure plans for AI will increase next year, supporting US GDP growth. There are signs that early adopters in AI are seeing some productivity gains.
- Fading policy uncertainty, narrow corporate bond spreads, wide corporate profit margins, and investment incentives under the One Big Beautiful Bill Act point to increased equipment investment beyond AI as well.
- Greater strength in digital tech investment spending increases the risk of an equity bubble. However, even in a downside scenario where the AI boom unwinds we still expect positive GDP growth.

Expectations for US growth have been overly cautious



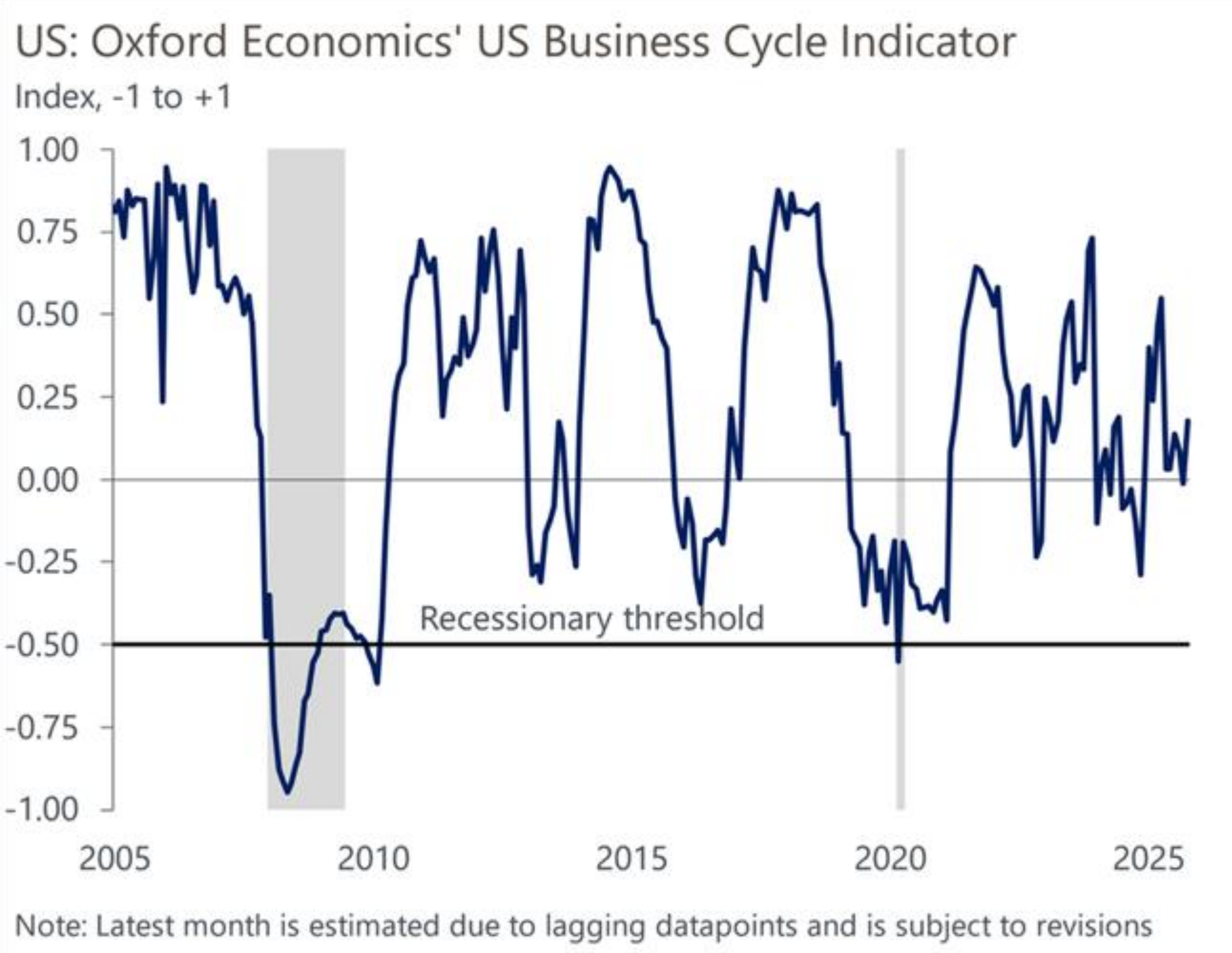
Sources: Oxford Economics, Bloomberg



Sources: Oxford Economics, Haver Analytics

Health check on the economy

Economy resilient despite low job growth

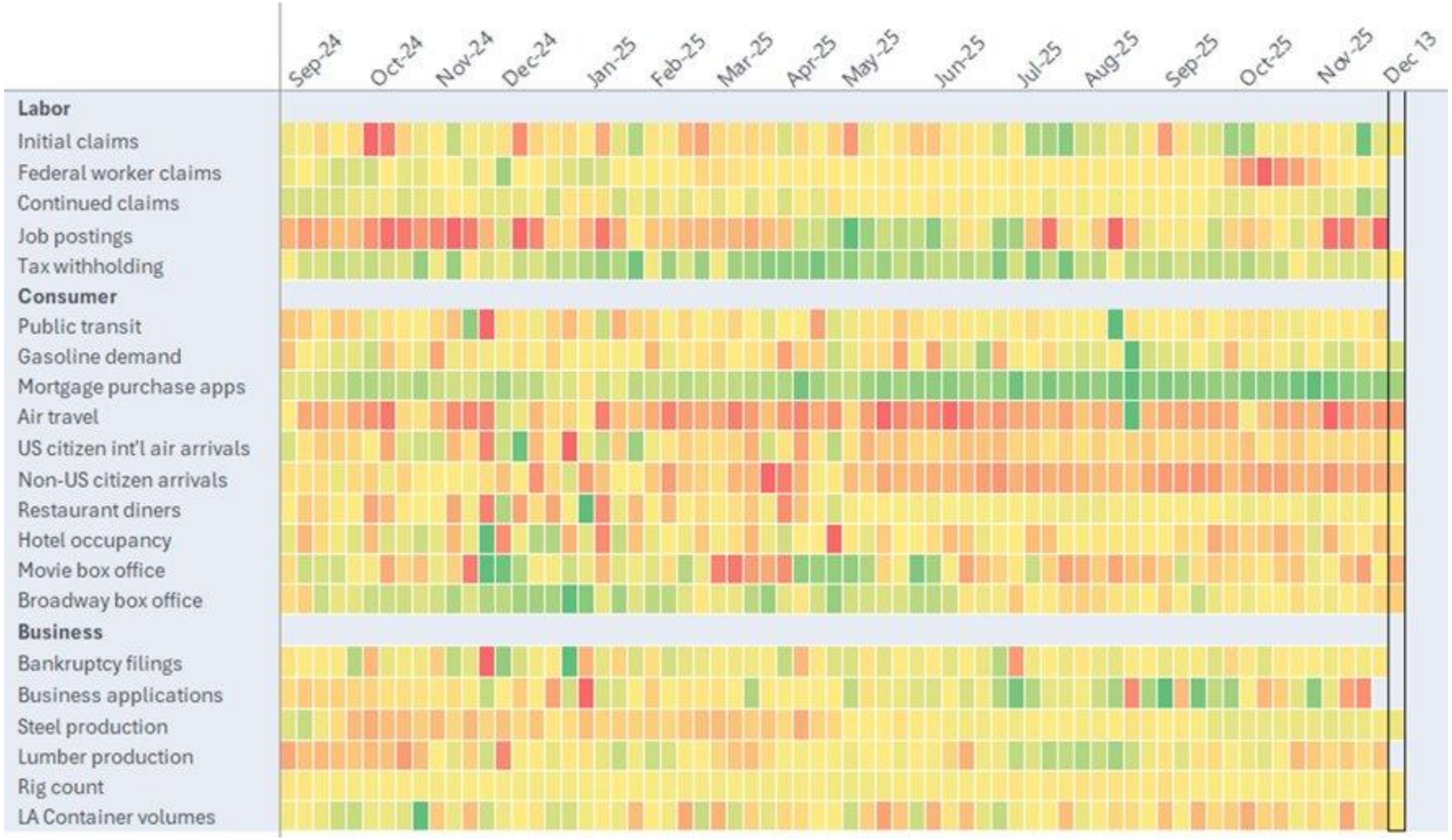


Source: Oxford Economics

Key takeaways

- Strong annual gains in real personal spending, personal income, and manufacturing have kept underlying momentum in the economy solid. Although slower job growth is weighing on our business cycle indicator.
- Unemployment is rising, but the labor market isn't breaking. The increase reflects slower hiring and more people entering or reentering the labor force, not a pickup in layoffs.
- Past overhiring, robust productivity growth, and slow labor supply growth due to immigration restrictions could lead to a jobless recovery in the near term.

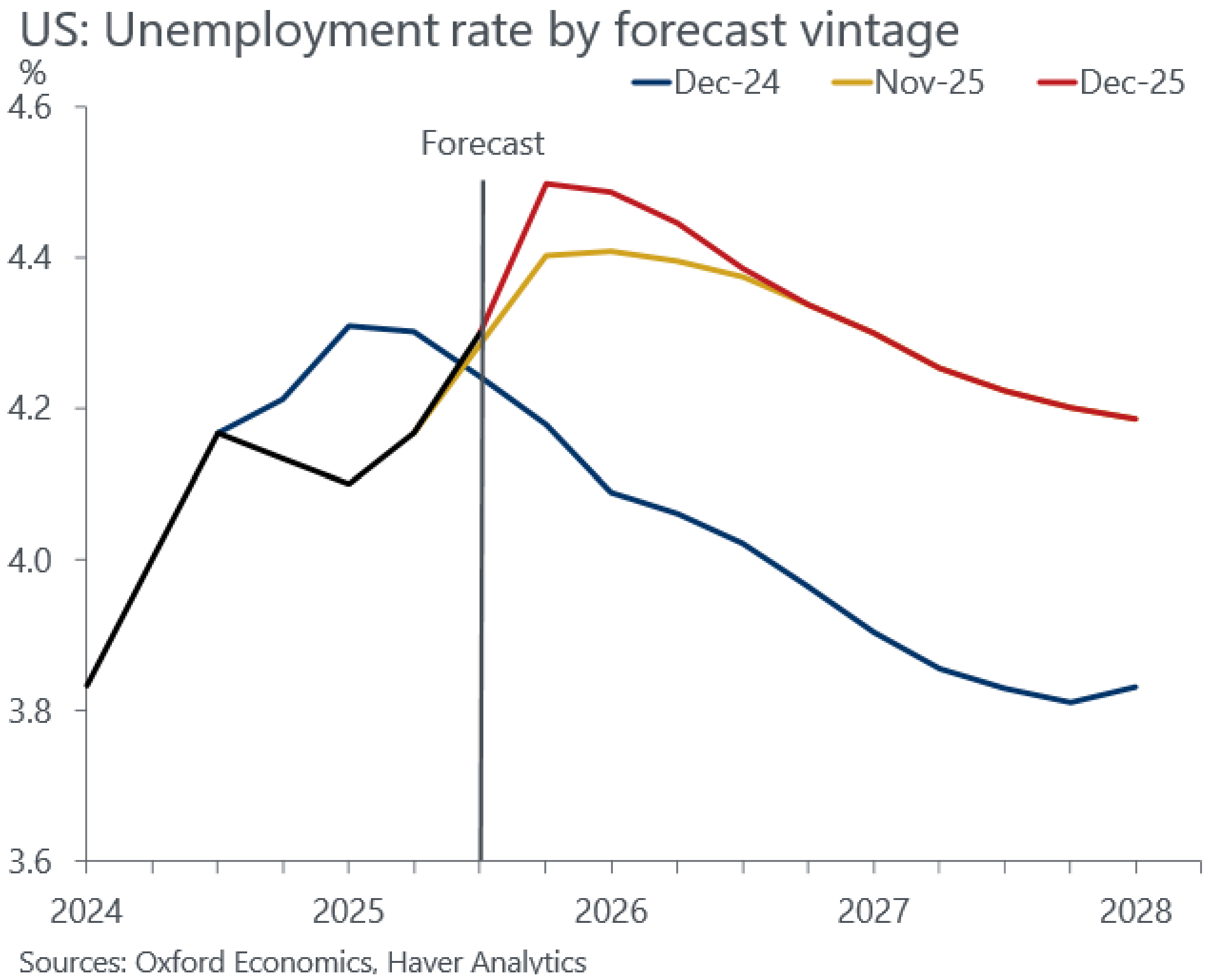
Outside of travel, high frequency indicators are stable



Sources: Oxford Economics, Haver Analytics

Labor market is broadly steady

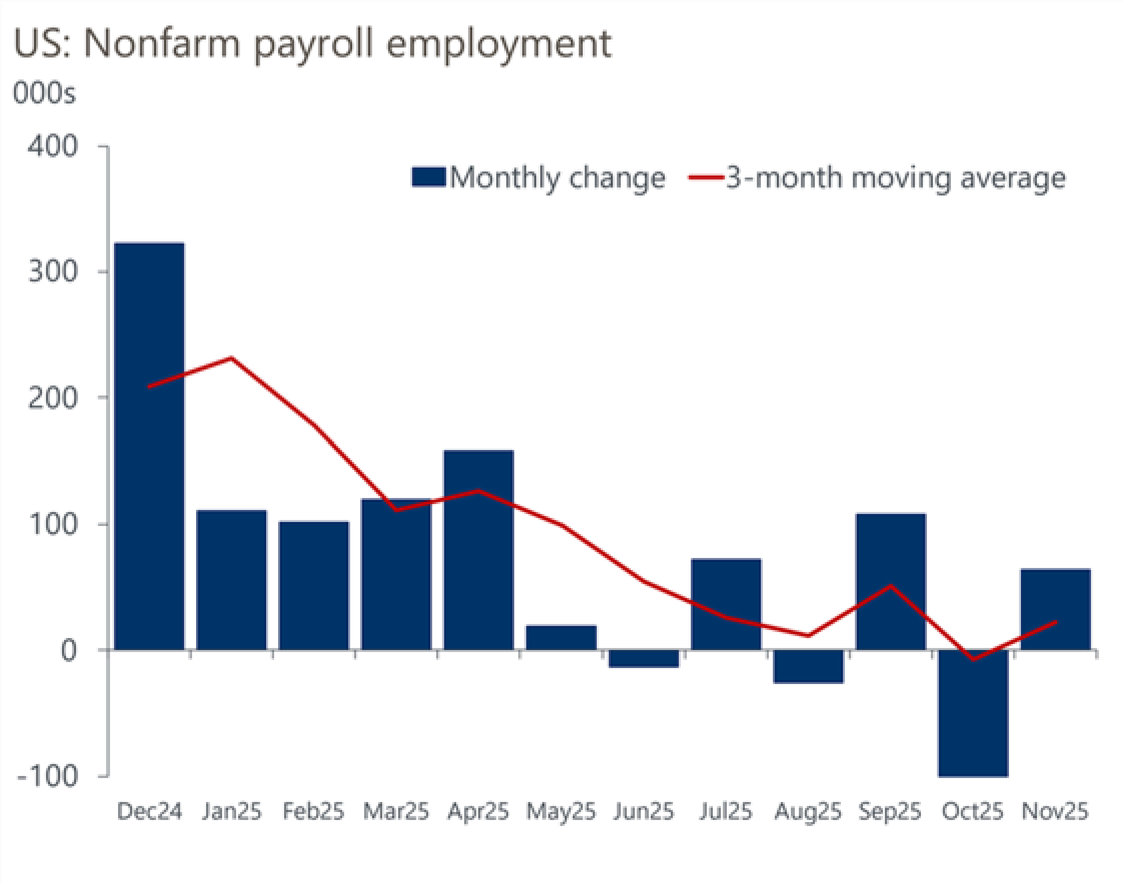
Unemployment to rise, but not skyrocket



Key takeaways

- Private payrolls grew by an average 75k over the last three months, above our estimate of the break-even monthly job growth rate of 30k, supporting our view that the Fed will keep policy on hold until mid-2026.
- Employers are resorting to hiring freezes, replacement-only hiring, and attrition rather than layoffs.
- Small firms have struggled to maintain employment, though easing policy uncertainty and bank loan standards will offer some relief in 2026.
- Deferred resignations and the shutdown caused Federal employment to plunge in October and November.

The labor market didn't crumble in November



Sources: Oxford Economics, Haver Analytics

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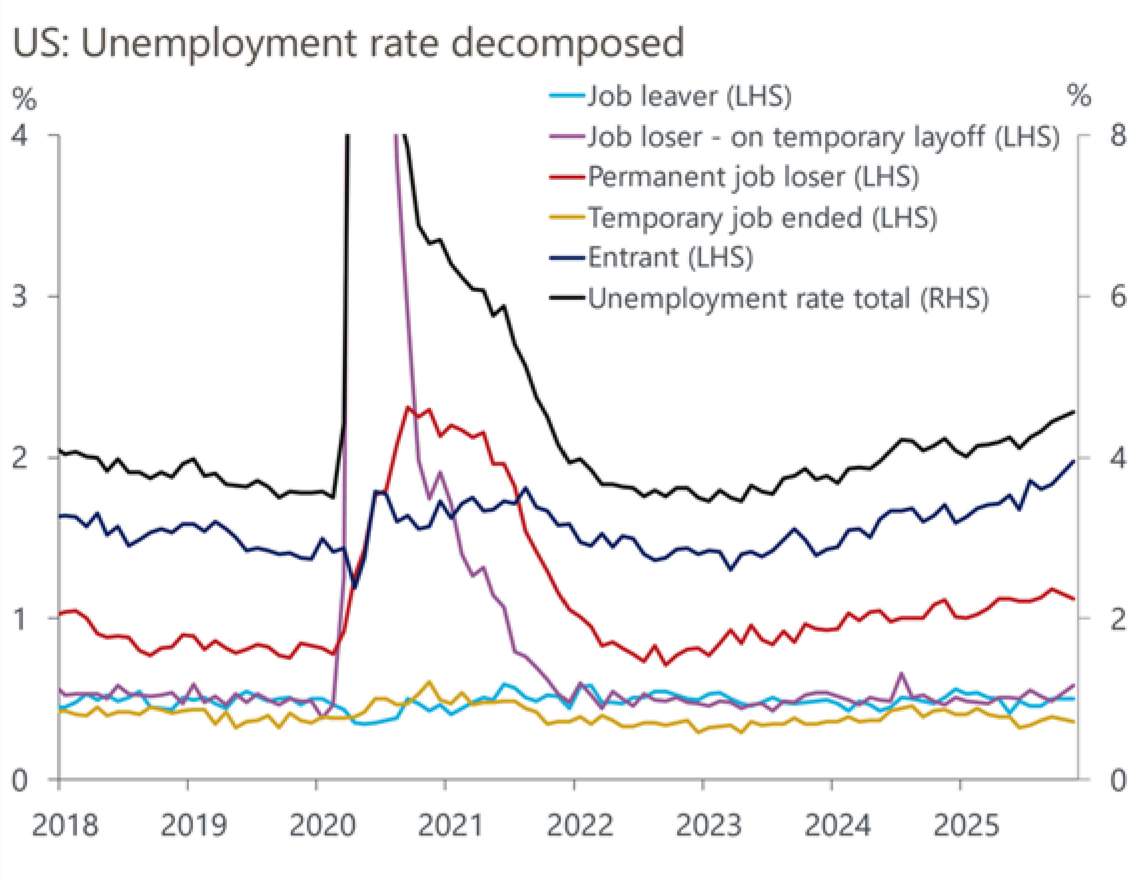
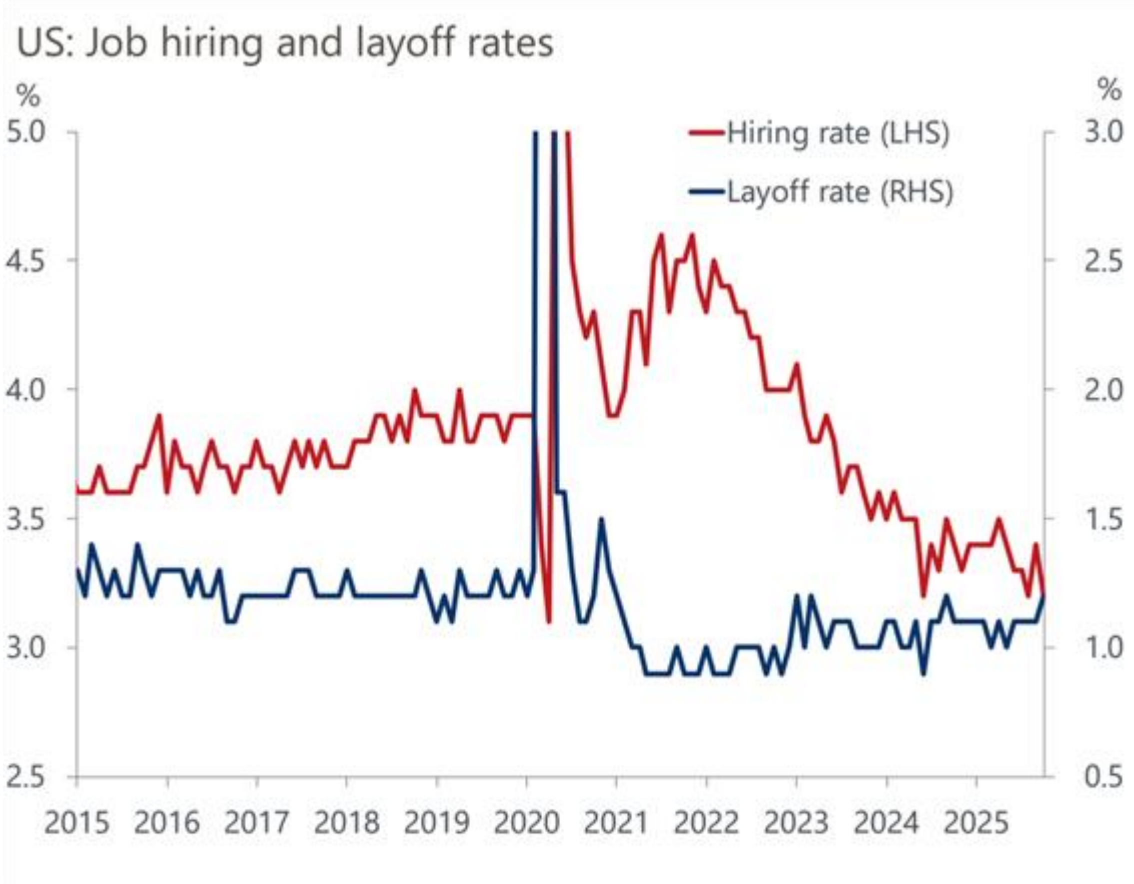
Higher unemployment due to entrants, not layoffs

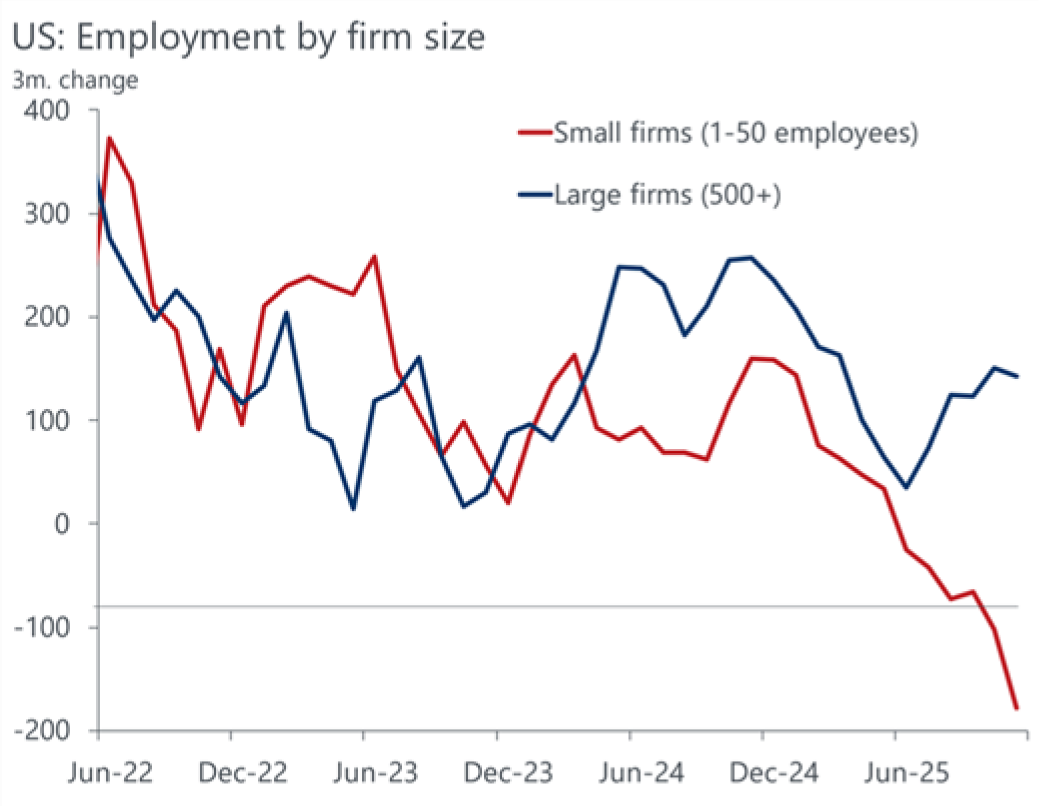


Sources: Oxford Economics, Haver Analytics

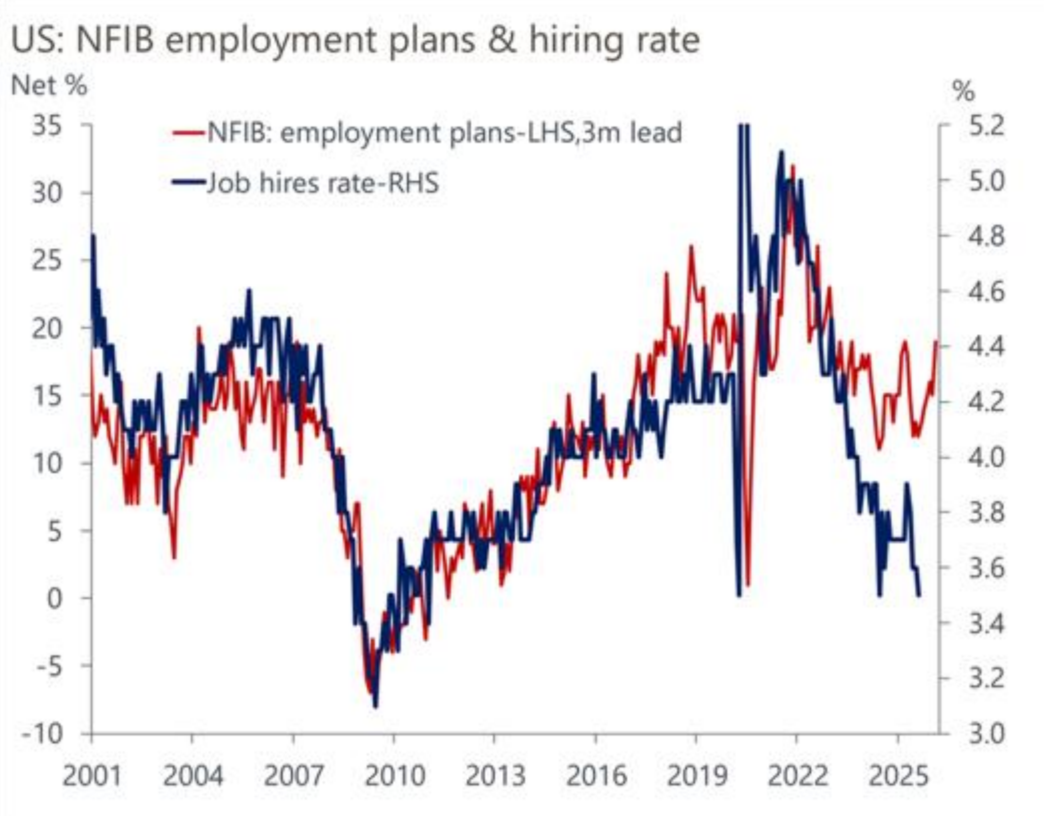


Sources: Oxford Economics, Haver Analytics

Small business hiring weak despite improved hiring intentions

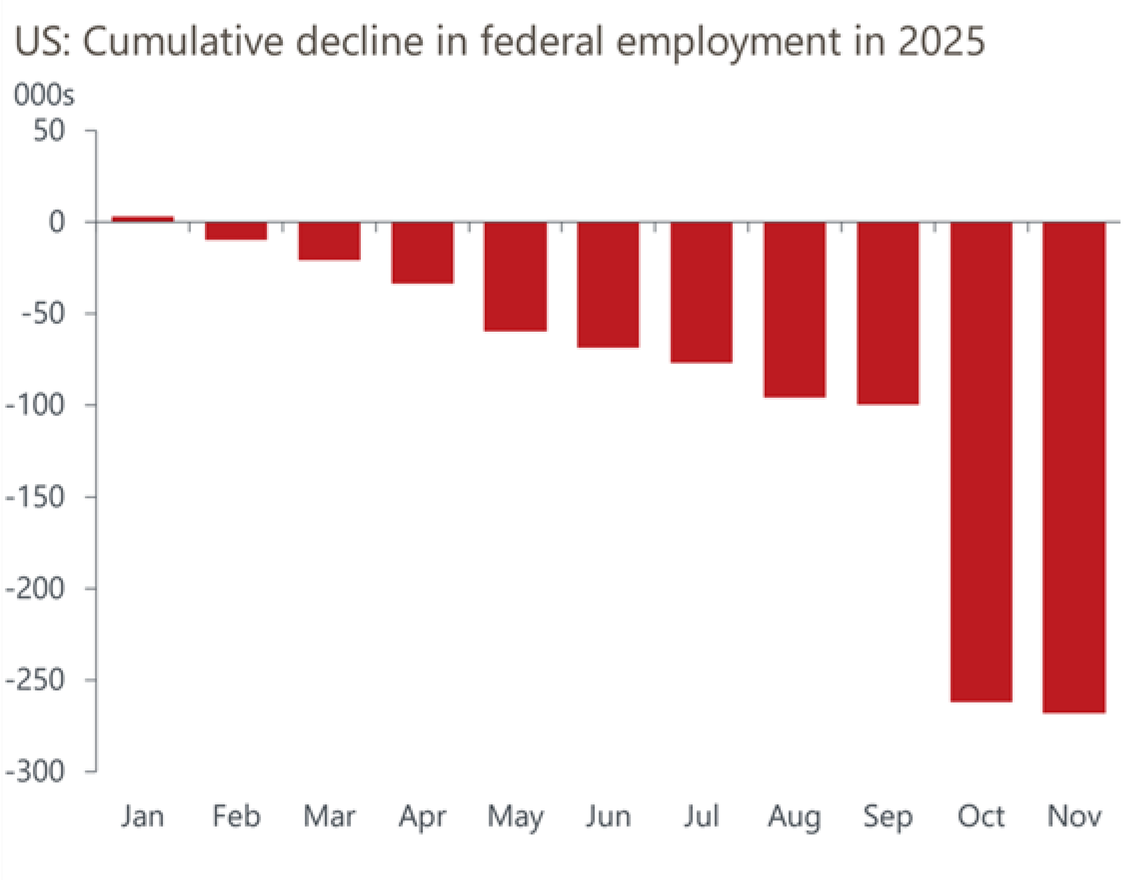


Sources: Oxford Economics, Haver Analytics

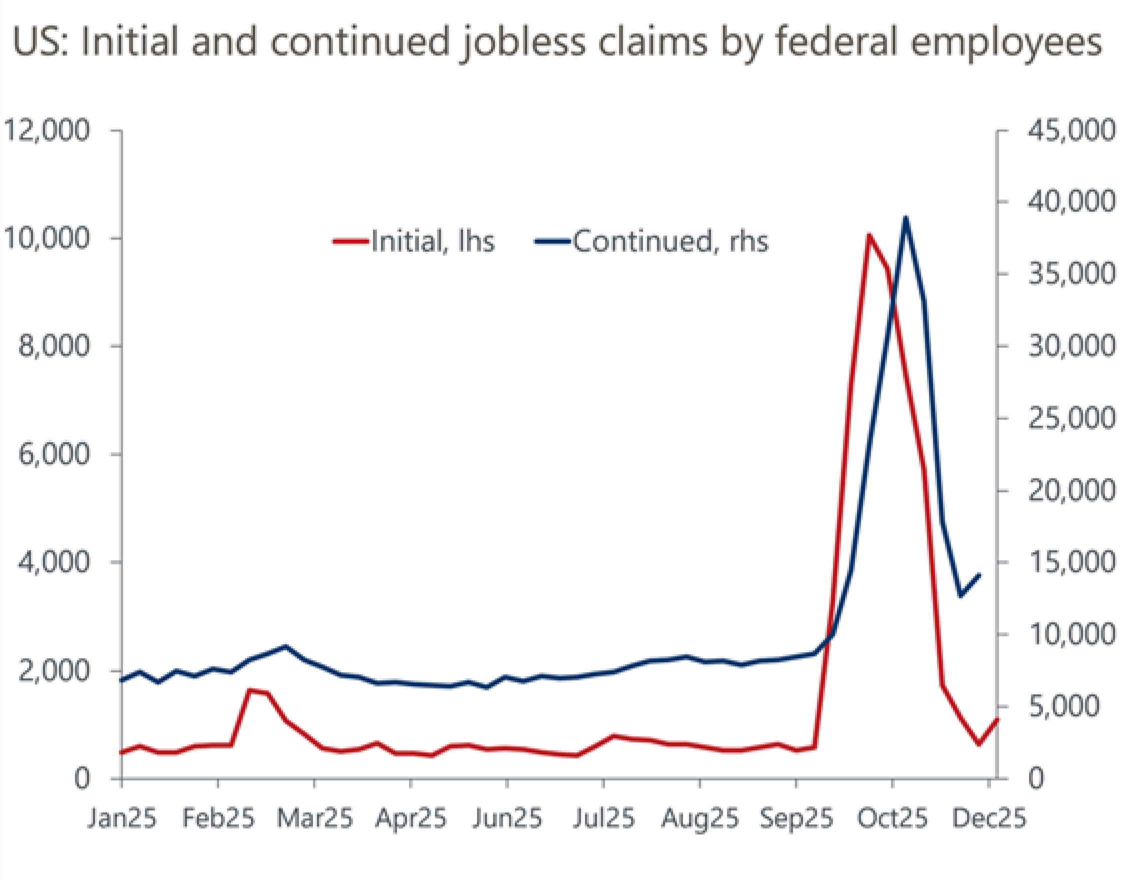


Sources: Oxford Economics, Haver Analytics

Federal employment plunged in recent months



Sources: Oxford Economics, Haver Analytics

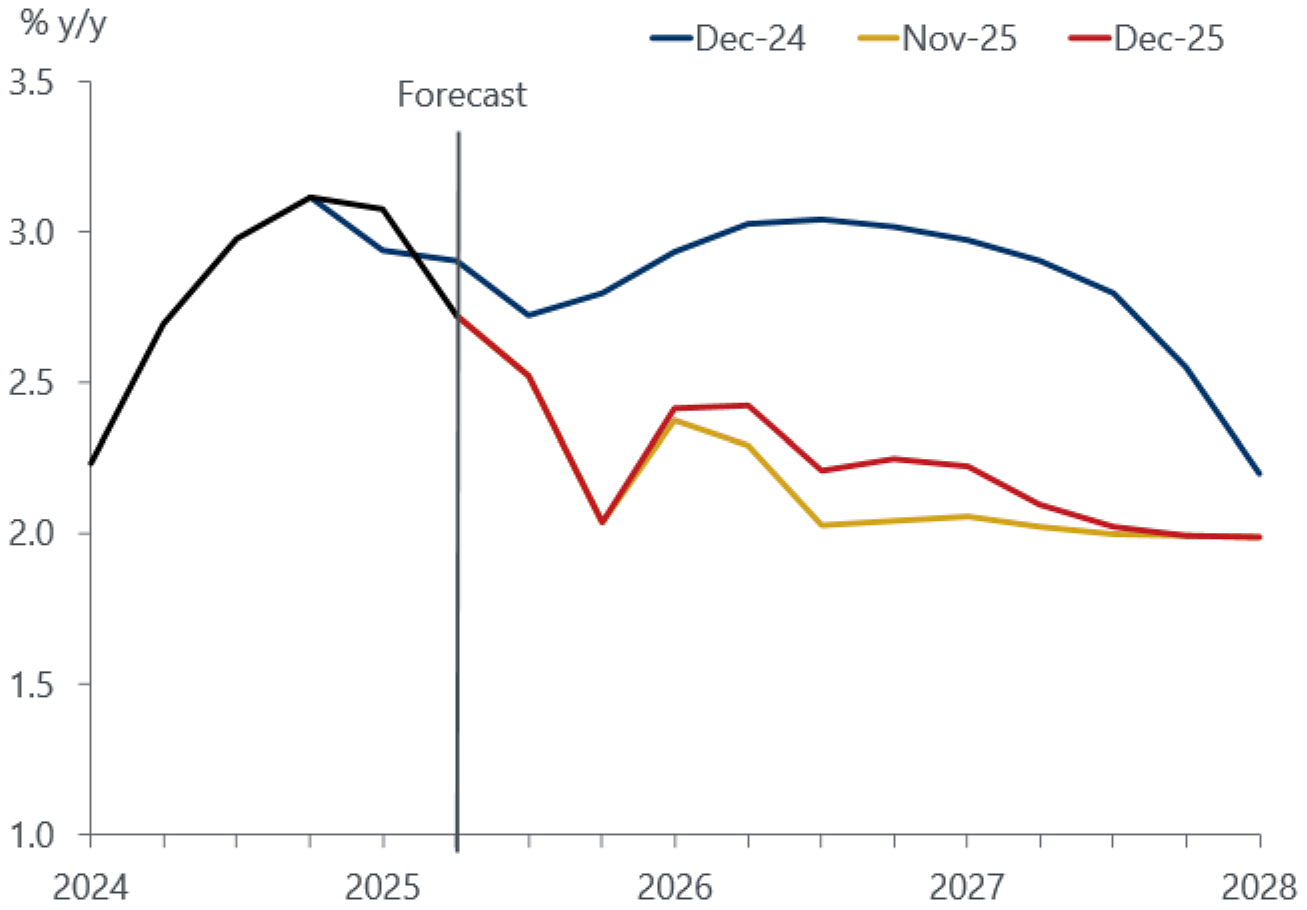


Sources: Oxford Economics, Haver Analytics

Consumer spending in solid shape

Resilient outlook for consumer spending

US: Consumer spending by forecast vintage



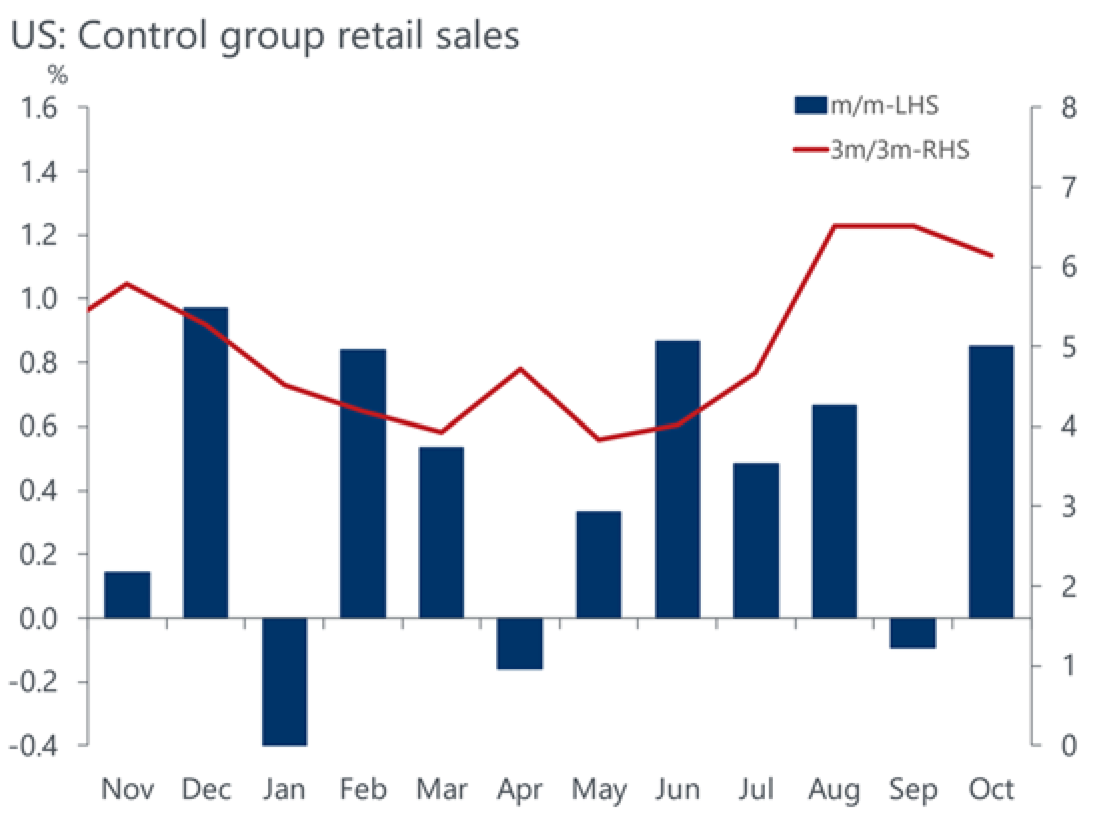
Sources: Oxford Economics, Haver Analytics

Key takeaways

- Consumer spending will grow at a favorable pace for the rest of the year. In 2026, we expect consumption growth to average 2.5%.
- Positive wealth effects have become an important driver of consumption growth this year. However, wealth disparities have limited the boost to Black and Hispanic consumers.
- Compared to 2025, we expect vehicle sales to slow next year, though lower rates and a new federal tax break will still offer a boost to sales.

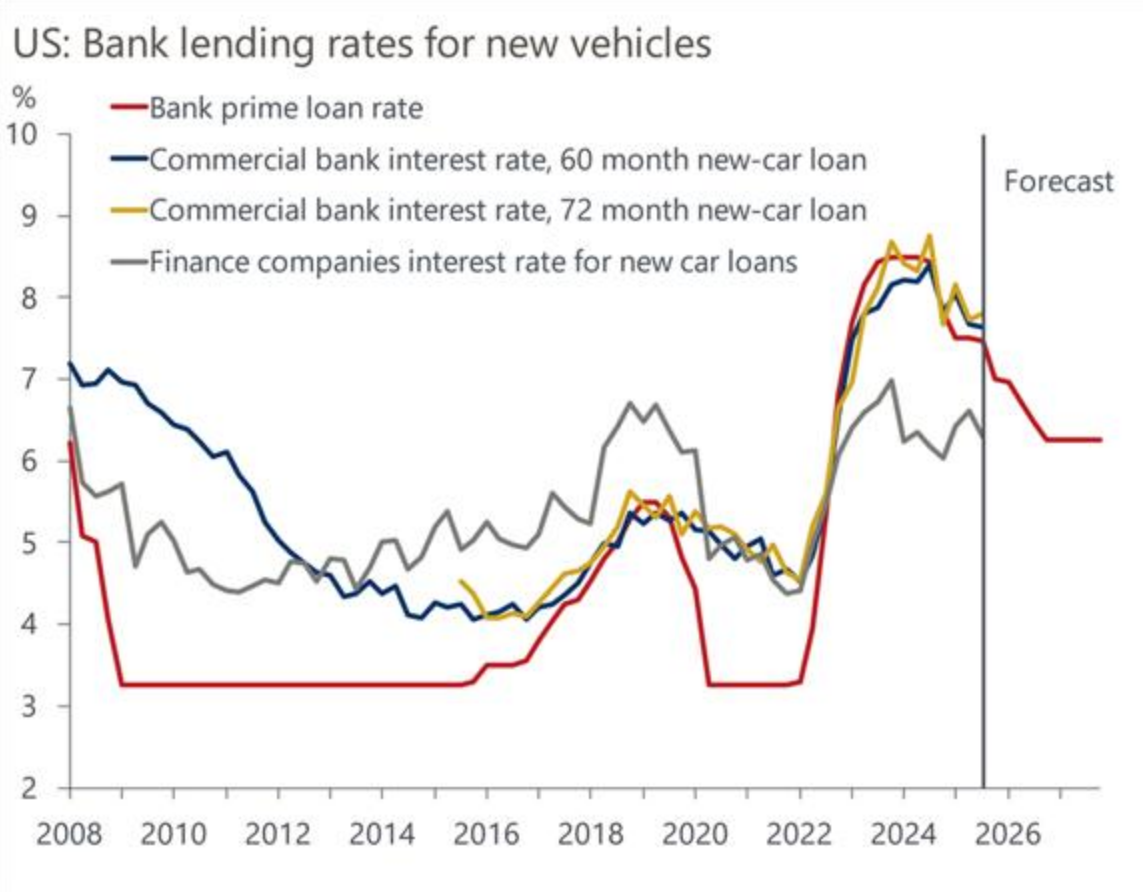
Consumer spending solid ahead of the holiday season

Sources: Oxford Economics, Haver Analytics

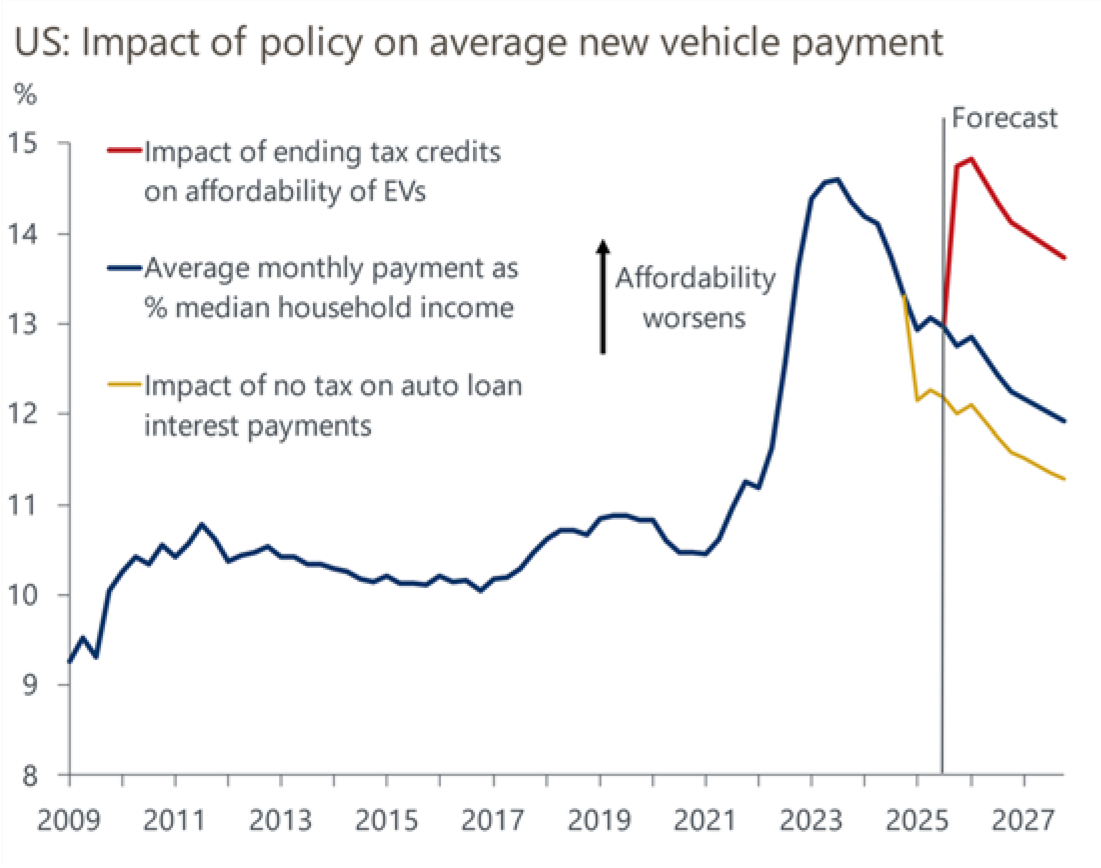


Sources: Oxford Economics, Haver Analytics

Reduced rates and a new tax break will support vehicle sales



Sources: Oxford Economics, Haver Analytics

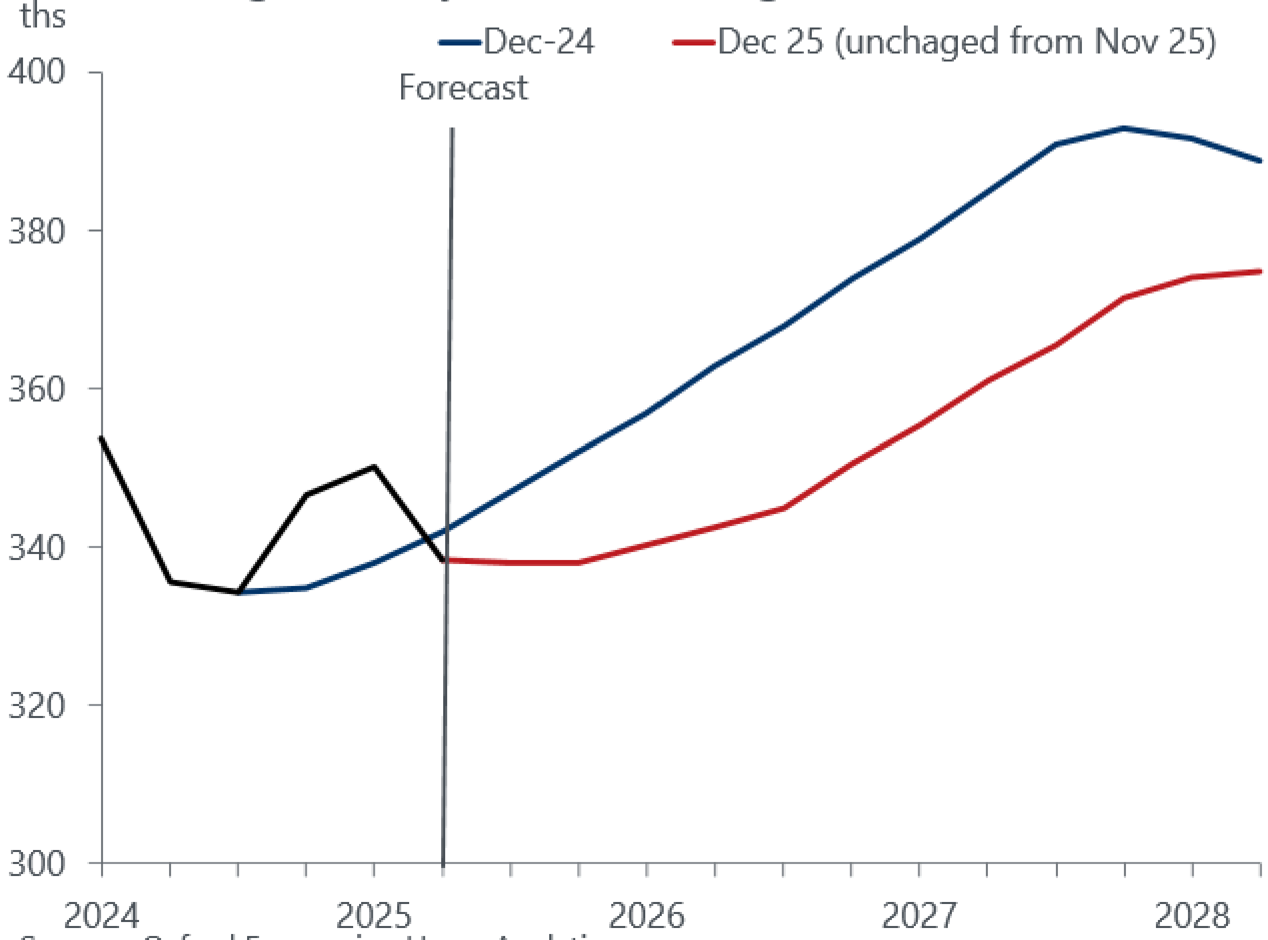


Sources: Oxford Economics, Haver Analytics

Housing market outlook improves

Gradual recovery ahead for housing

US: Housing starts by forecast vintage



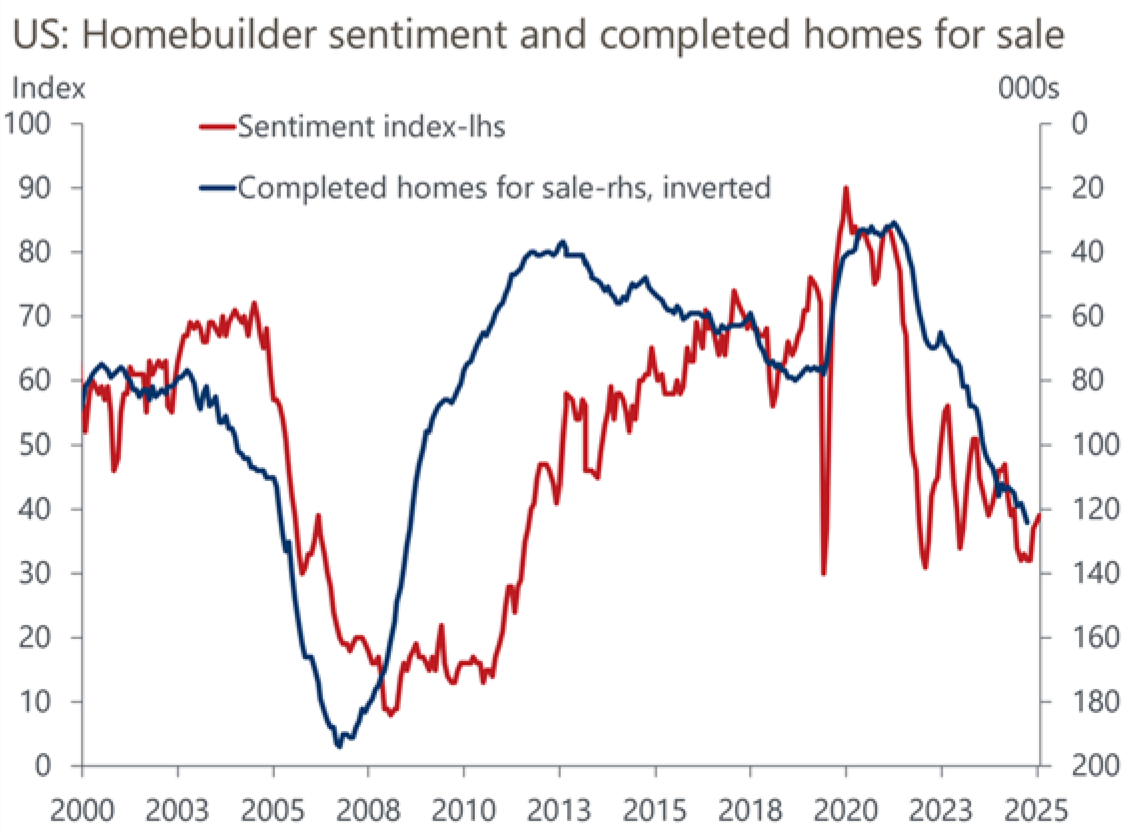
Sources: Oxford Economics, Haver Analytics

Key takeaways

- Existing home sales increased for the third consecutive month in November. Lower mortgage rates and high inventories are set to gradually support housing market recovery in 2026.
- Trends in sales and price growth vary across regions. Home prices declined in the Northeast but ticked up in the Midwest. The increase in November sales were driven by gains in the Northeast and South.
- Disinflation in housing will help drive core services inflation lower next year.

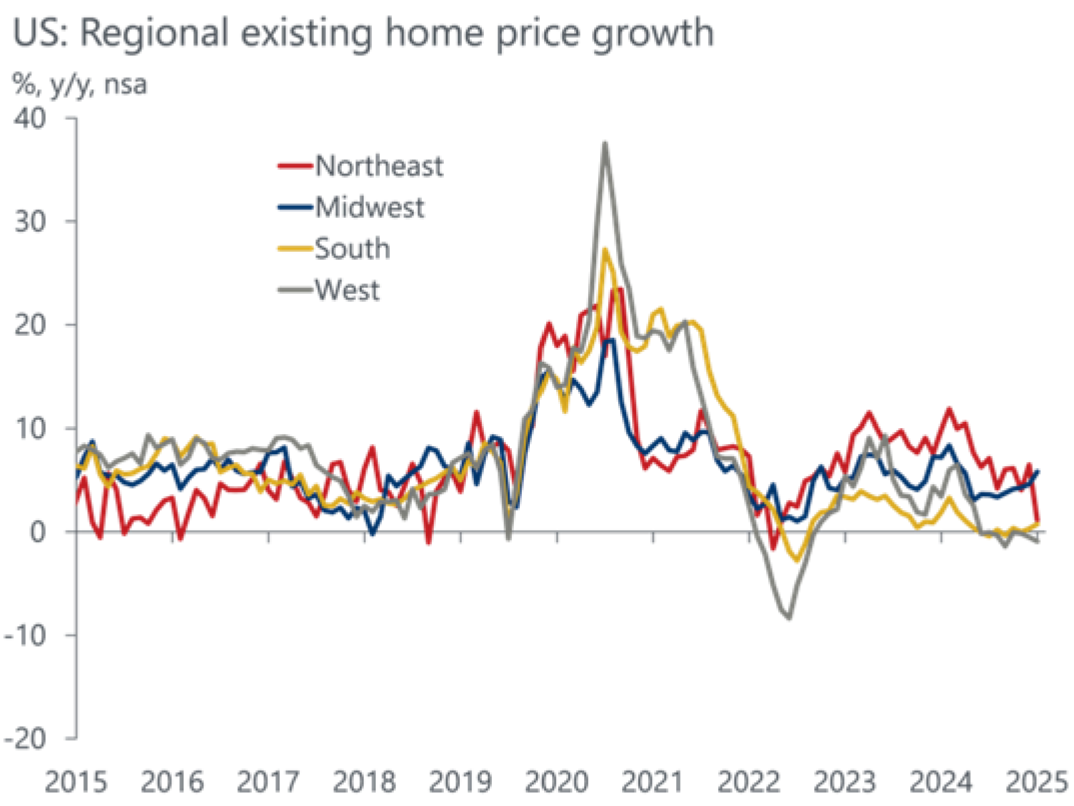
Improved sentiment and supply will support a slow recovery

Sources: Oxford Economics, Haver Analytics

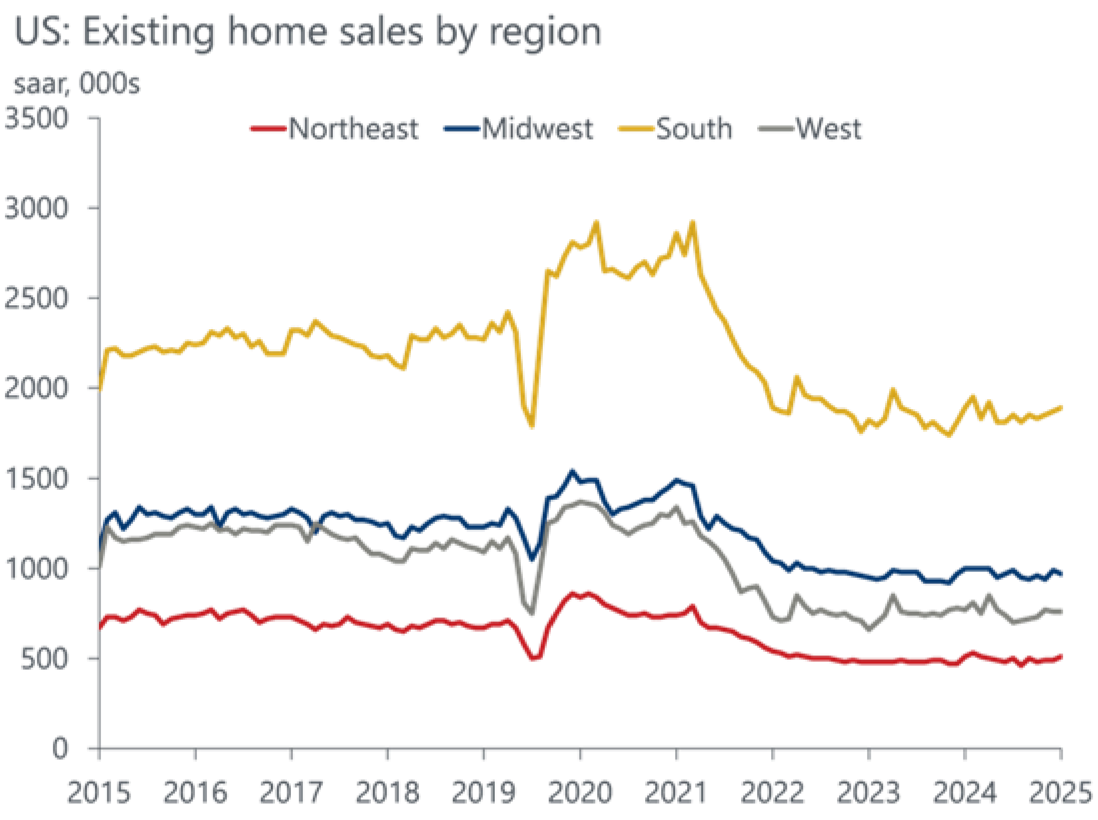


Sources: Oxford Economics, Haver Analytics

Home sales and price growth are mixed at the regional level

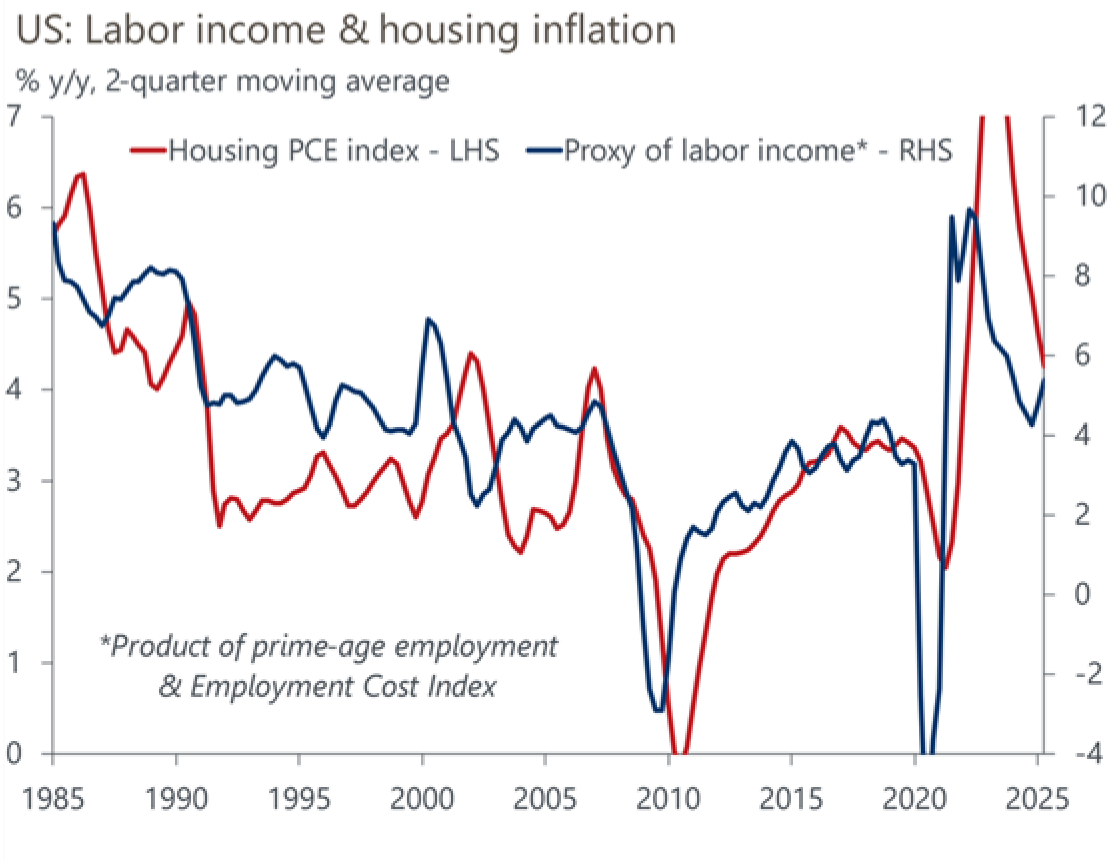


Sources: Oxford Economics, Haver Analytics

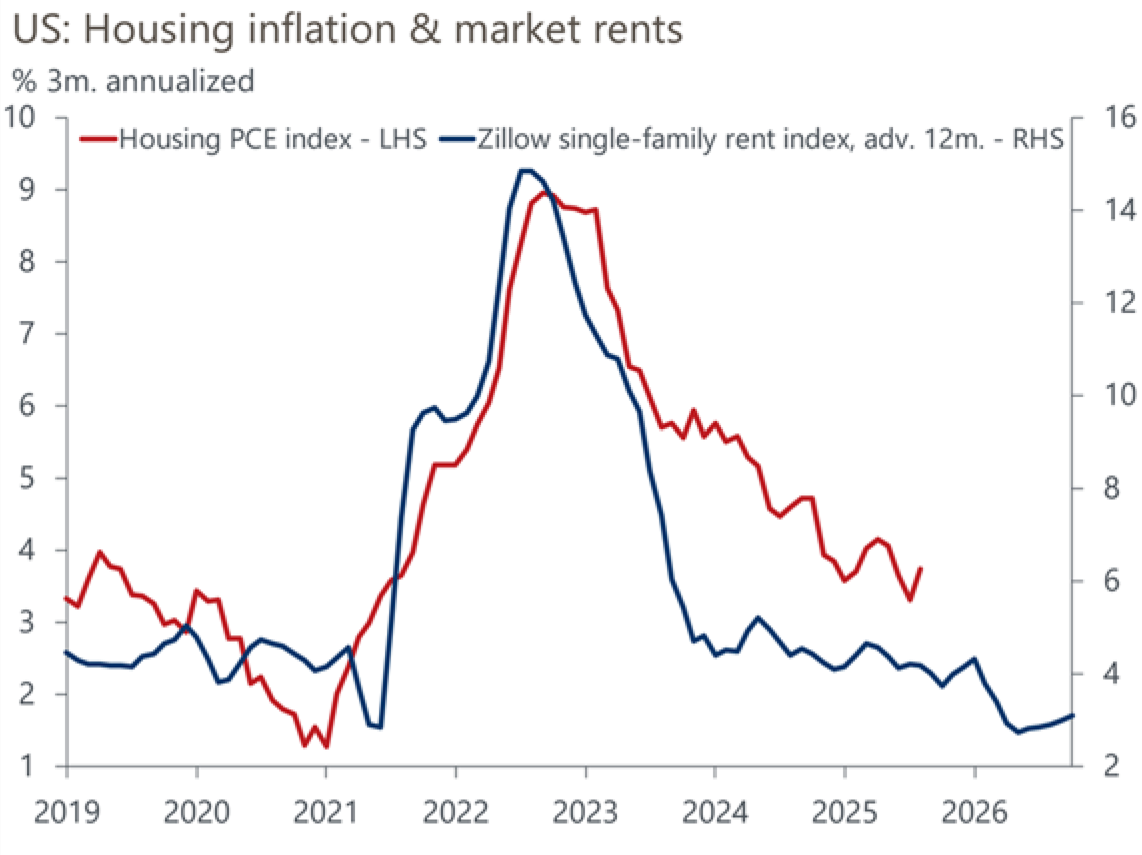


Sources: Oxford Economics, Haver Analytics

Housing and rental inflation will slow in 2026



Sources: Oxford Economics, Haver Analytics

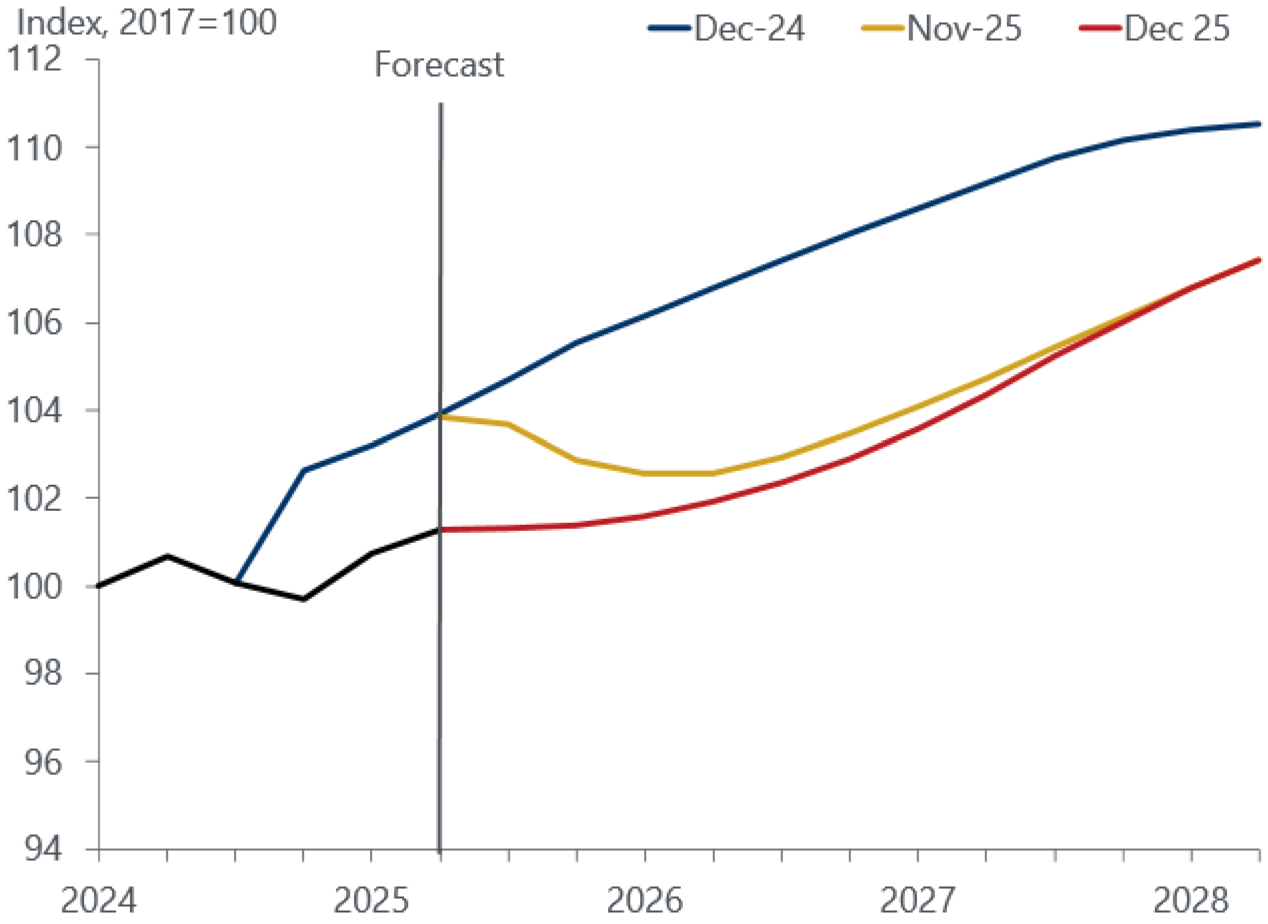


Sources: Oxford Economics, Haver Analytics

Manufacturing growth sluggish

Manufacturing faces a slow recovery

US: Industrial production by forecast vintage

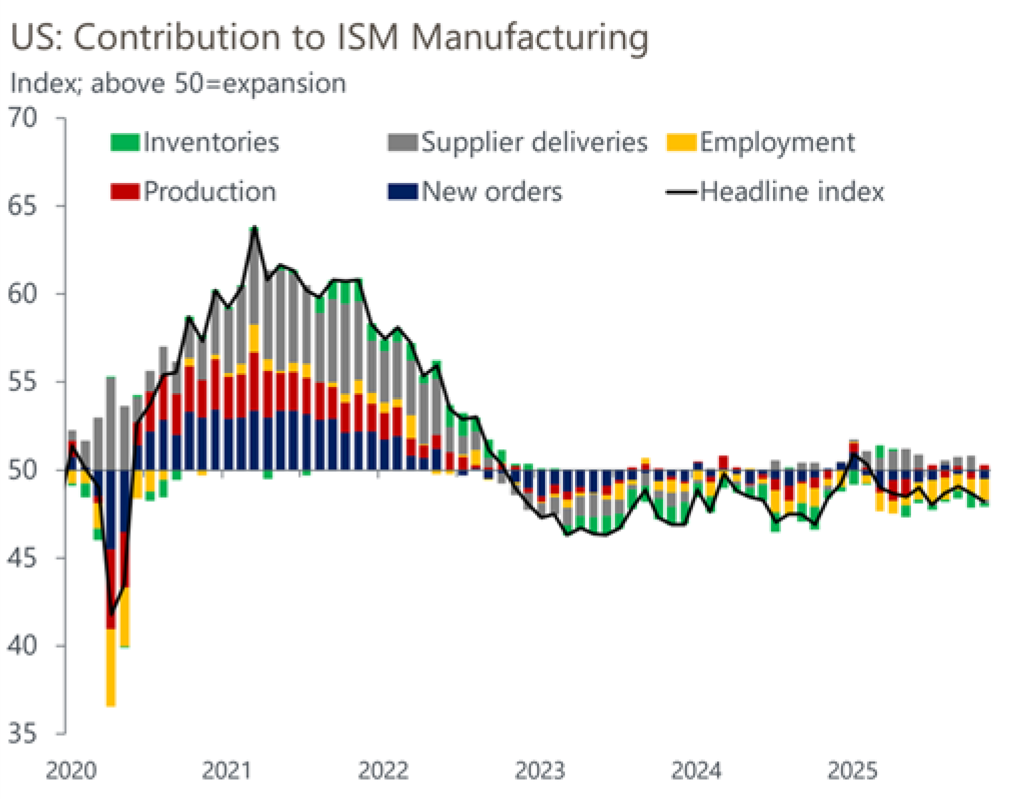


Sources: Oxford Economics, Haver Analytics

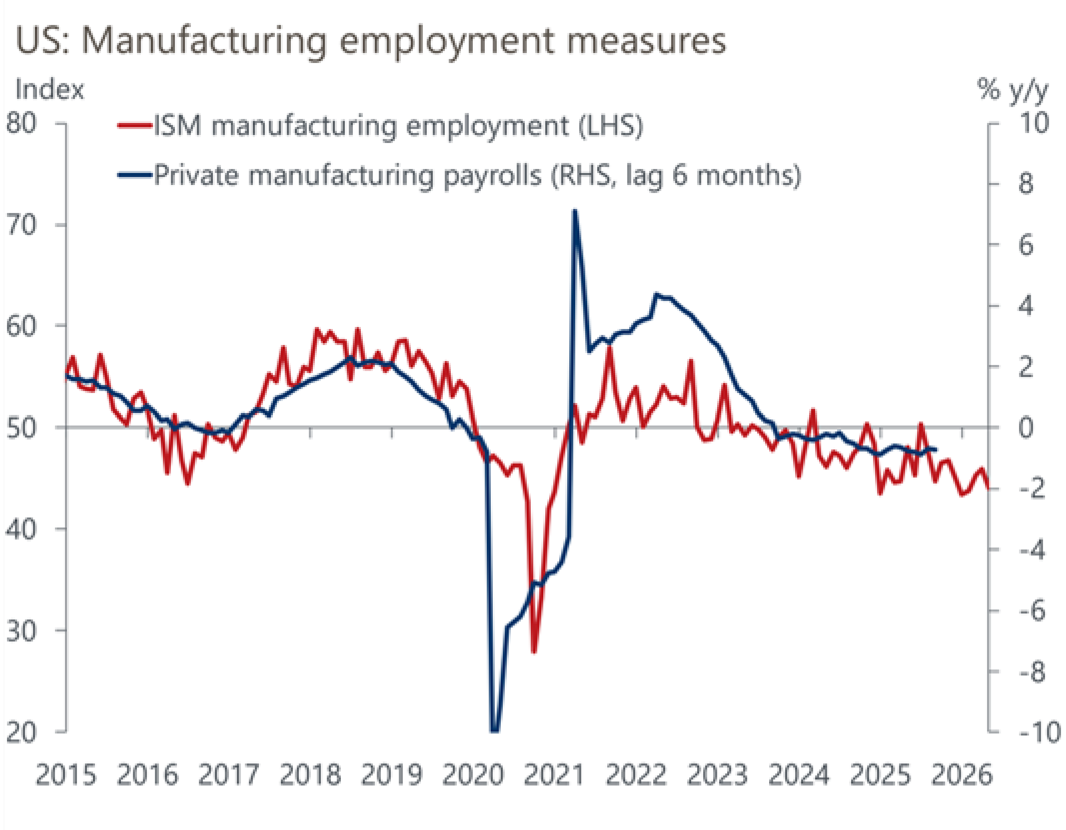
Key takeaways

- 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.
- The rebound in aerospace production leads output growth for the sector, however, the share of manufacturing subindustries contracting on a y/y basis is still trending lower.
- Our supply-chain stress indicator rose in October, driven by an uptick in activity and greater labor demand. We expect sectoral tariffs to be instrumental in shaping supply chains next year.

Manufacturing employment faces headwinds

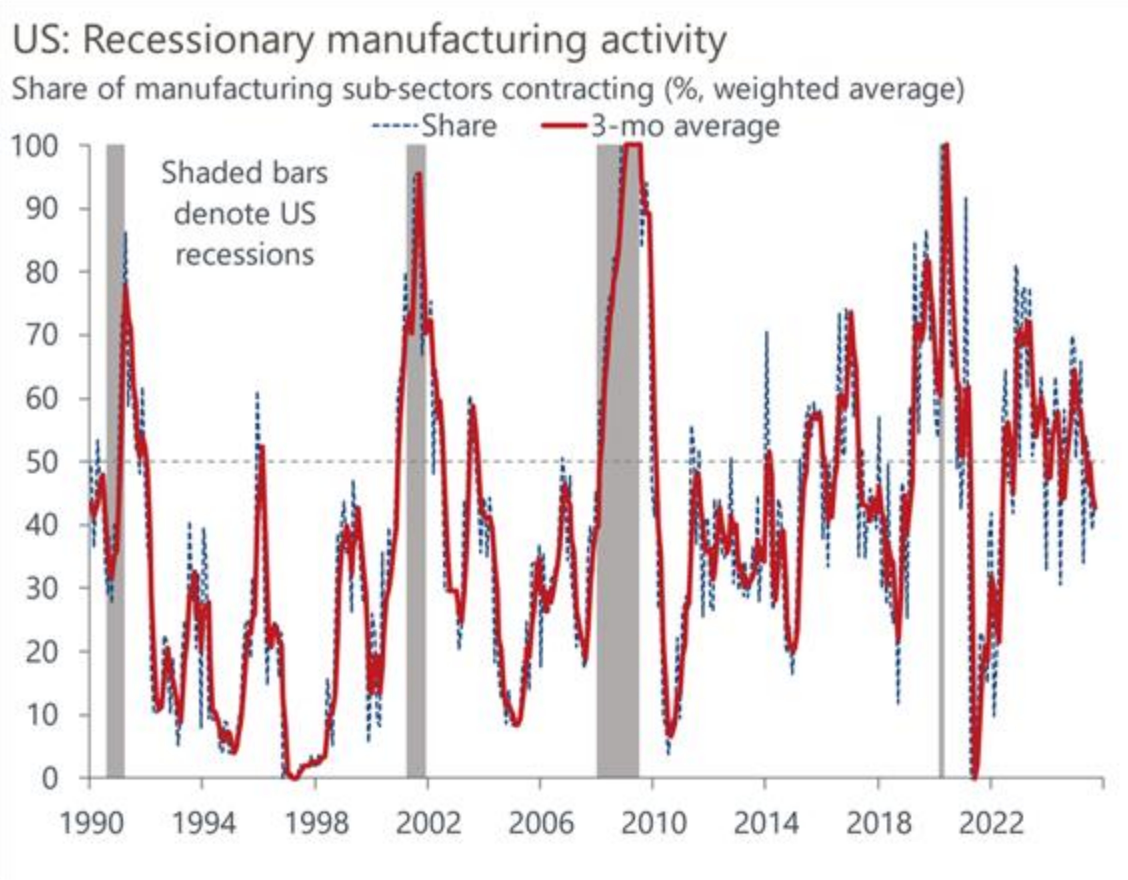


Sources: Oxford Economics, Haver Analytics

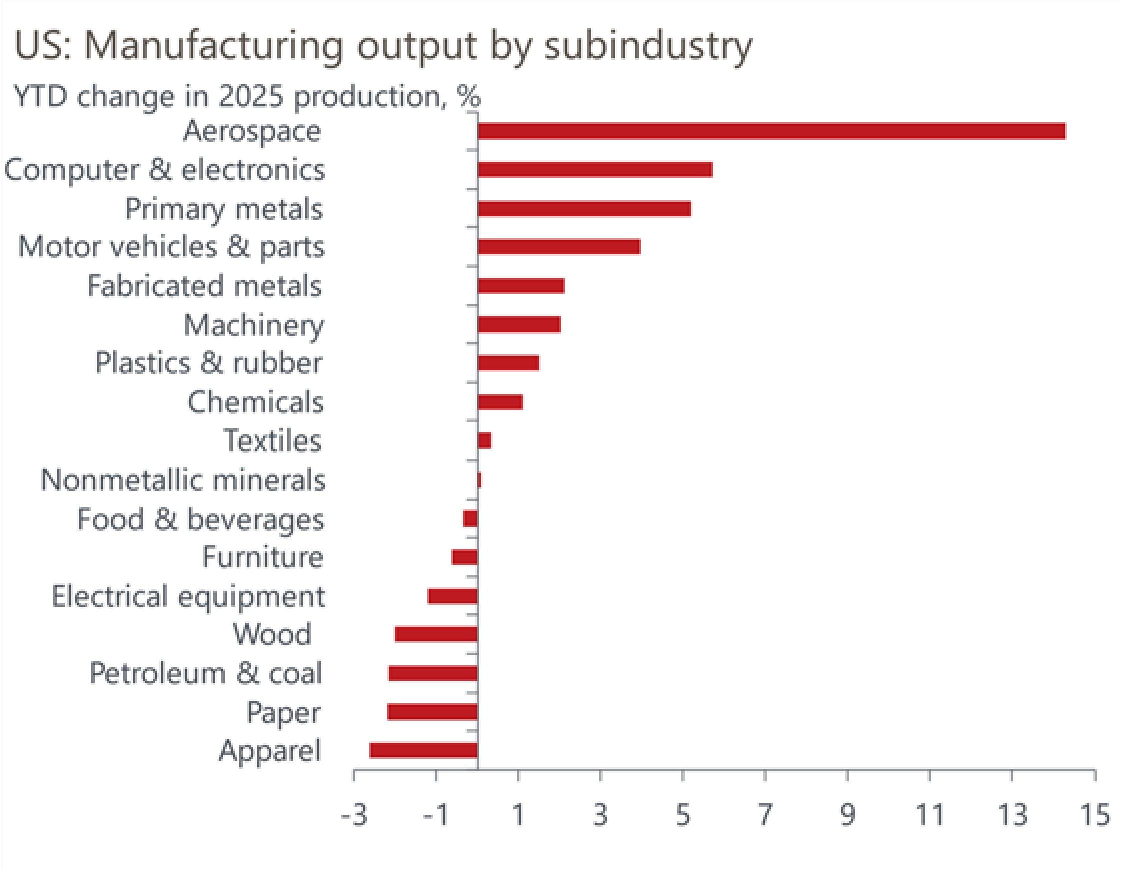


Sources: Oxford Economics, Haver Analytics

Manufacturing output is mixed across subindustries

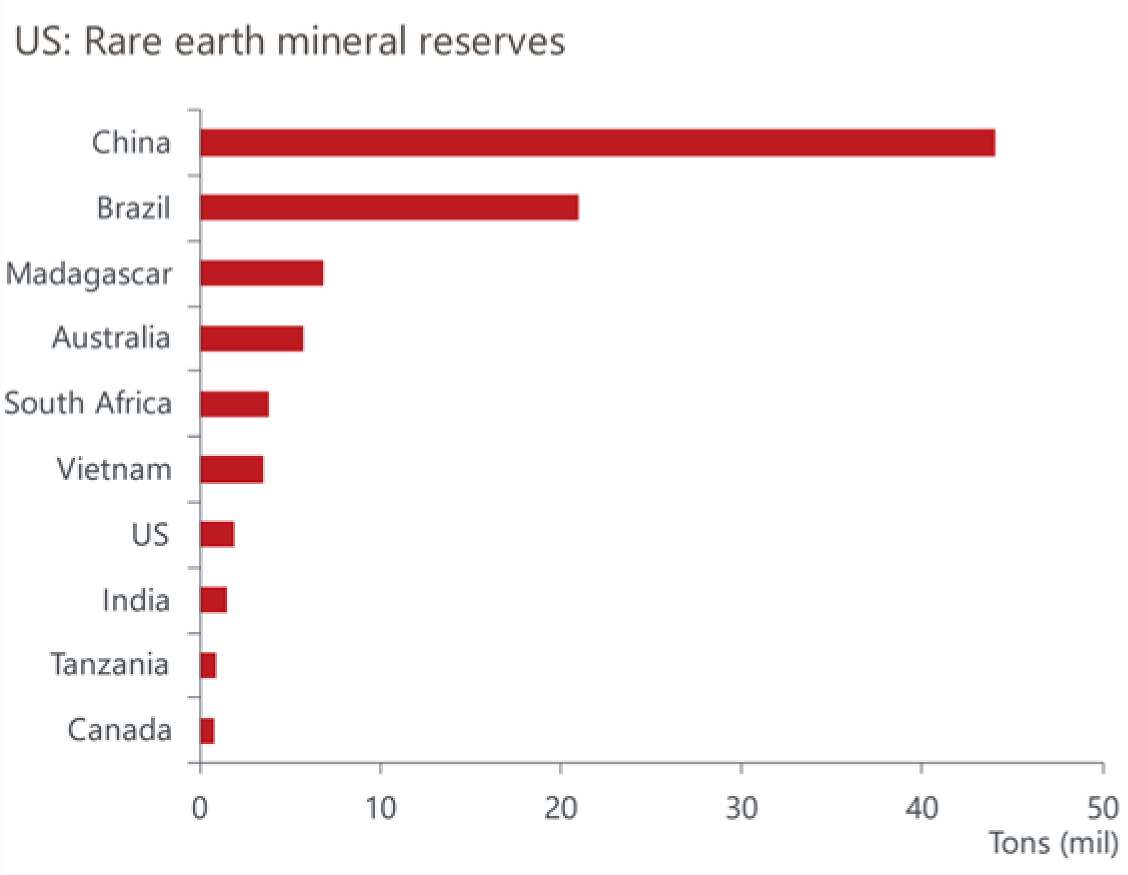


Sources: Oxford Economics, Haver Analytics



Sources: Oxford Economics, Haver Analytics

Looming sectoral tariffs will shape supply chains in 2026



Sources: Oxford Economics, Haver Analytics

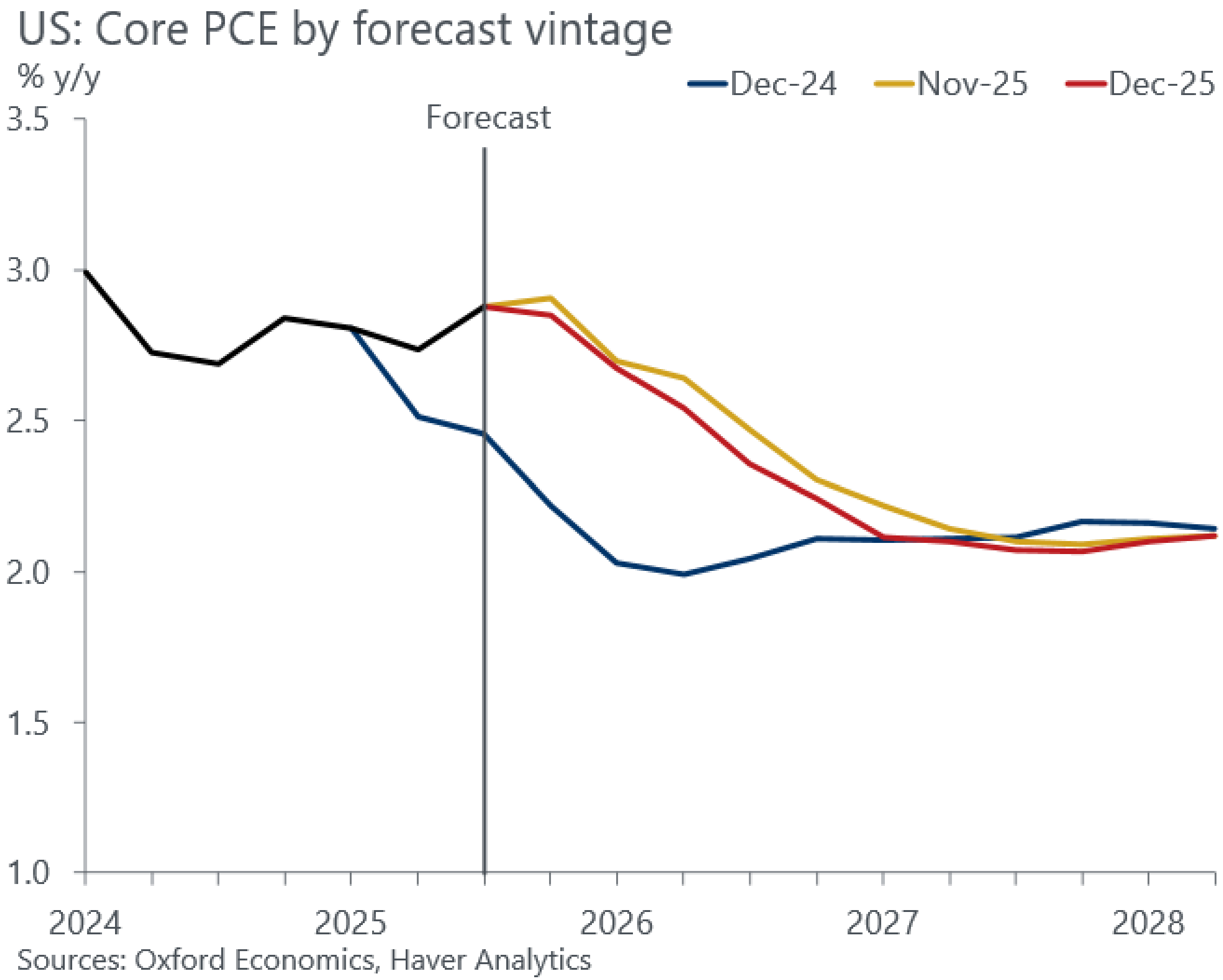
Table 3: Ongoing Section 232 investigations

Product/Sector	Date launched	Coverage
Pharmaceuticals	1-Apr	Finished drug products, active ingredients, precursor chemicals – the basis for drug tariffs
Semiconductors	1-Apr	Includes chips, components, and downstream products
Critical minerals	15-Apr	Processed minerals and downstream products, including motors, batteries, radar, and wind turbines
Aircraft	13-May	Commercial aircraft, jet engines, and parts
Solar	1-Jul	Polysilicon – used in solar, semiconductors, and electronics – and derivative products
Drones	1-Jul	Drones, parts, and components
Robotics, Machinery, PPE	2-Sep	Medical protective equipment, medical devices, robotics, and industrial machinery

Sources: Oxford Economics, Atlantic Council

Core inflation to moderate in 2026

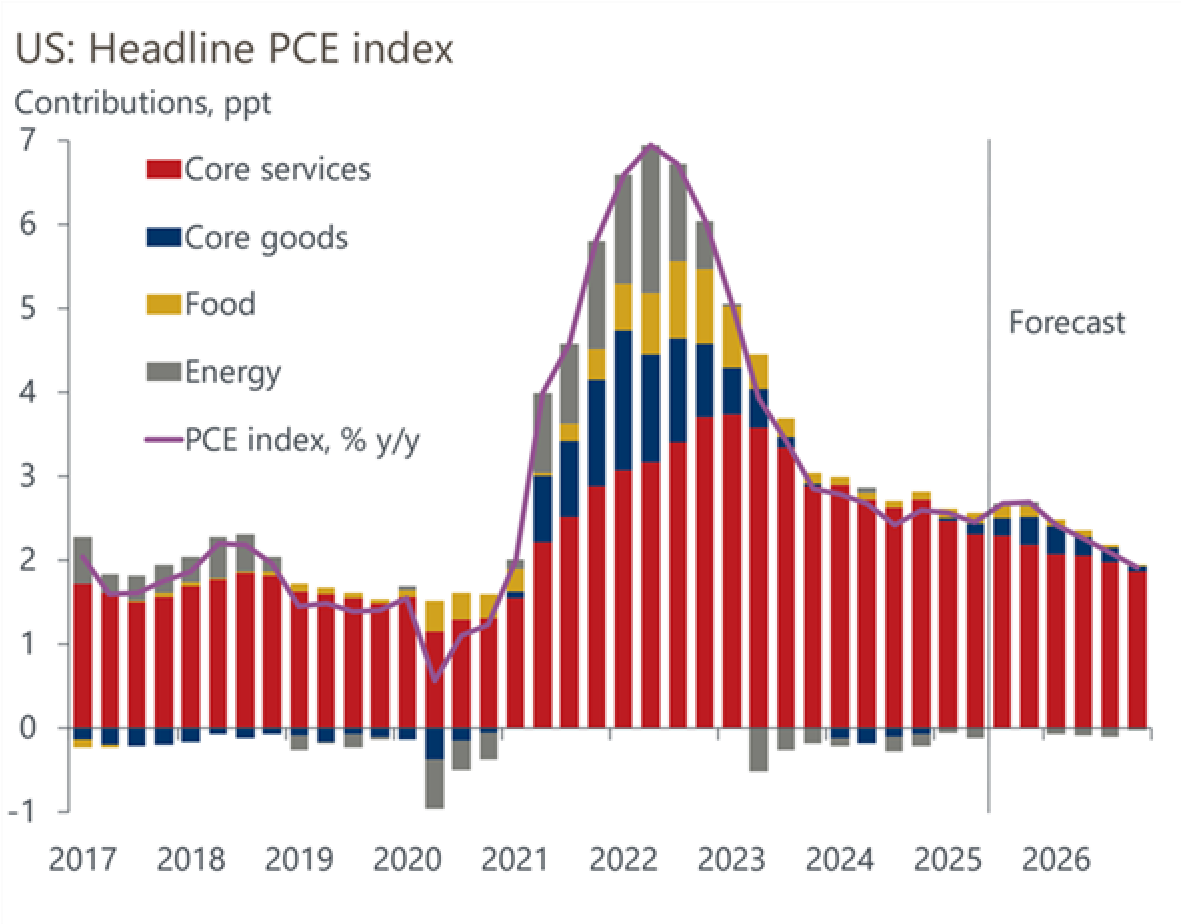
Inflation will fall closer to target in 2026



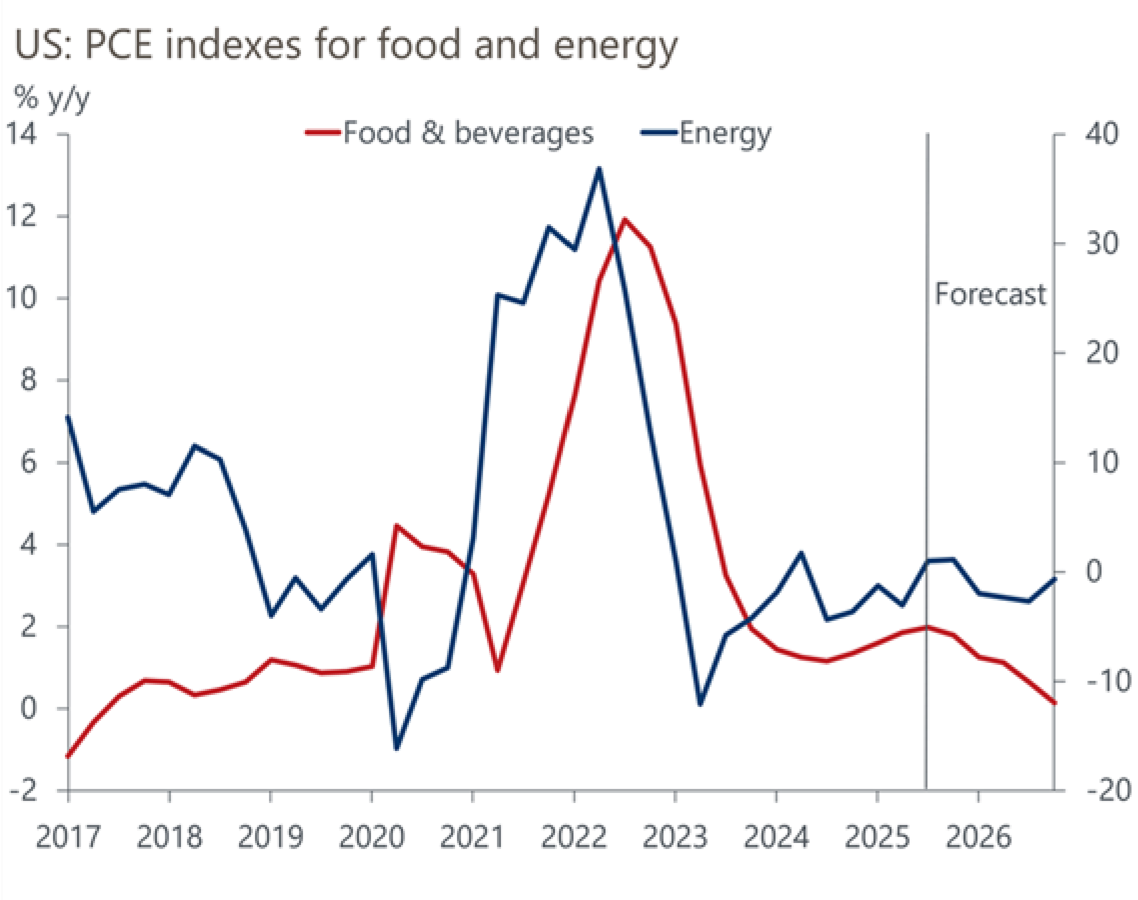
Key takeaways

- Our bottom-up inflation models suggest that core PCE inflation will slow to 2.2% y/y in by Q4 2026, down from 2.7% in mid 2025.
- Disinflation in housing and financial services will drive core services inflation lower, though healthcare inflation will continue to hover around 3%.
- Lower energy prices and slower food inflation will pull the headline PCE index closer to the Fed's target, though tariffs and immigration pose upside risks.
- Despite the below-consensus November CPI print, consumers continue to cite high prices as a reason for worse personal finances.

Easing food, energy, and housing costs to drive inflation lower

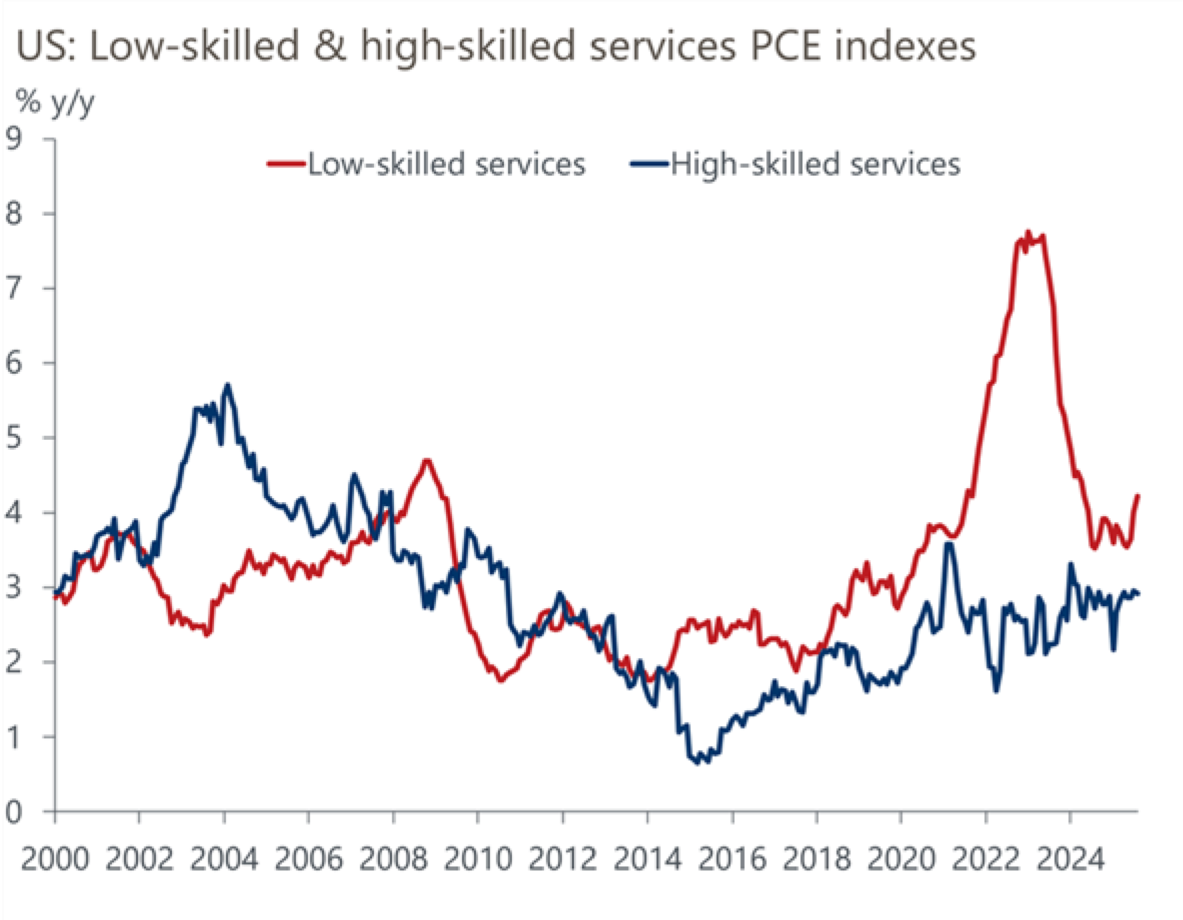


Sources: Oxford Economics, Haver Analytics

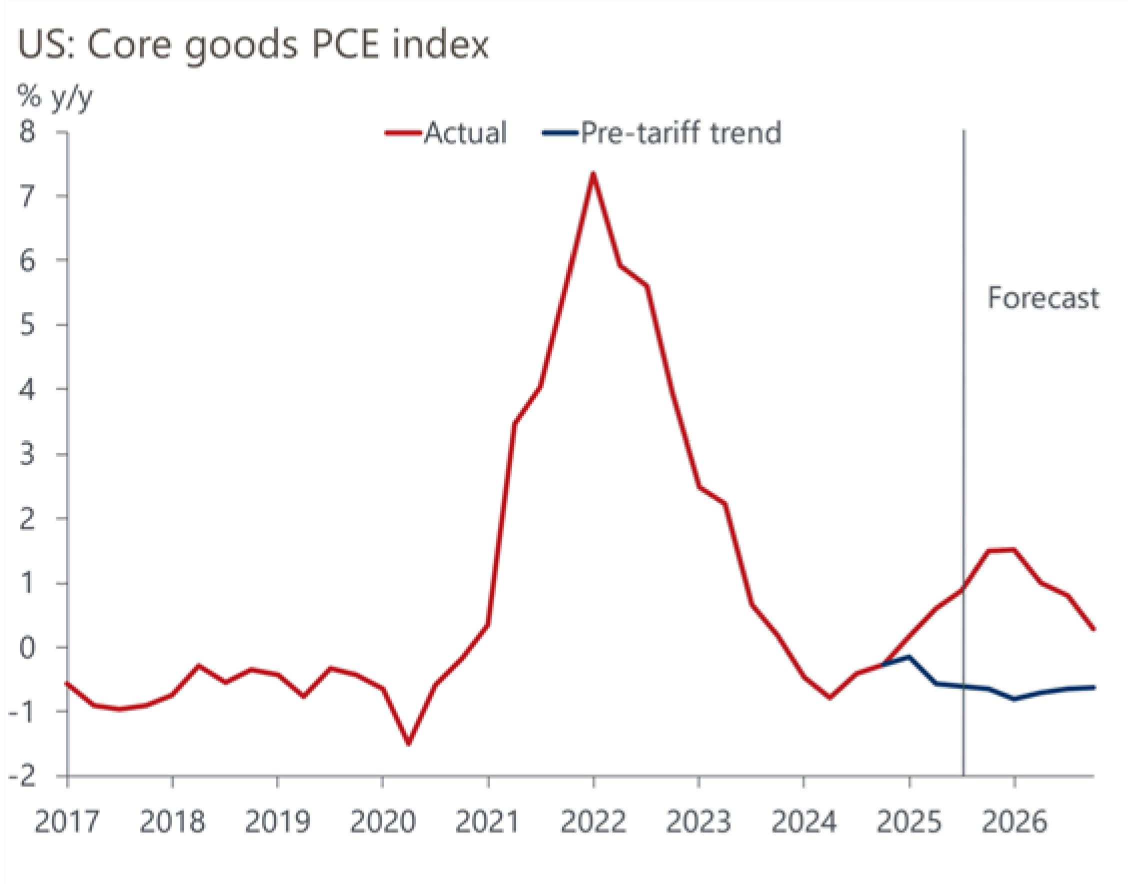


Sources: Oxford Economics, Haver Analytics

Immigration and tariffs are an upside risk to inflation

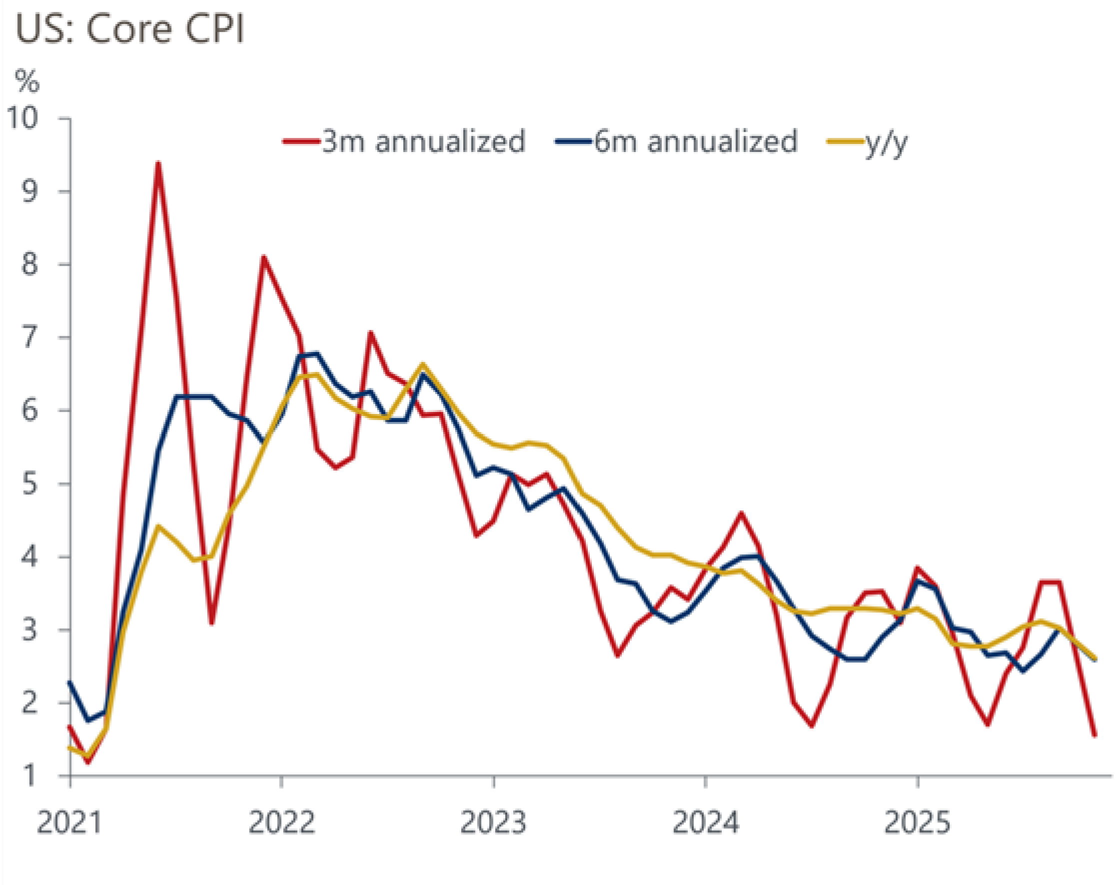


Sources: Oxford Economics, Census Bureau

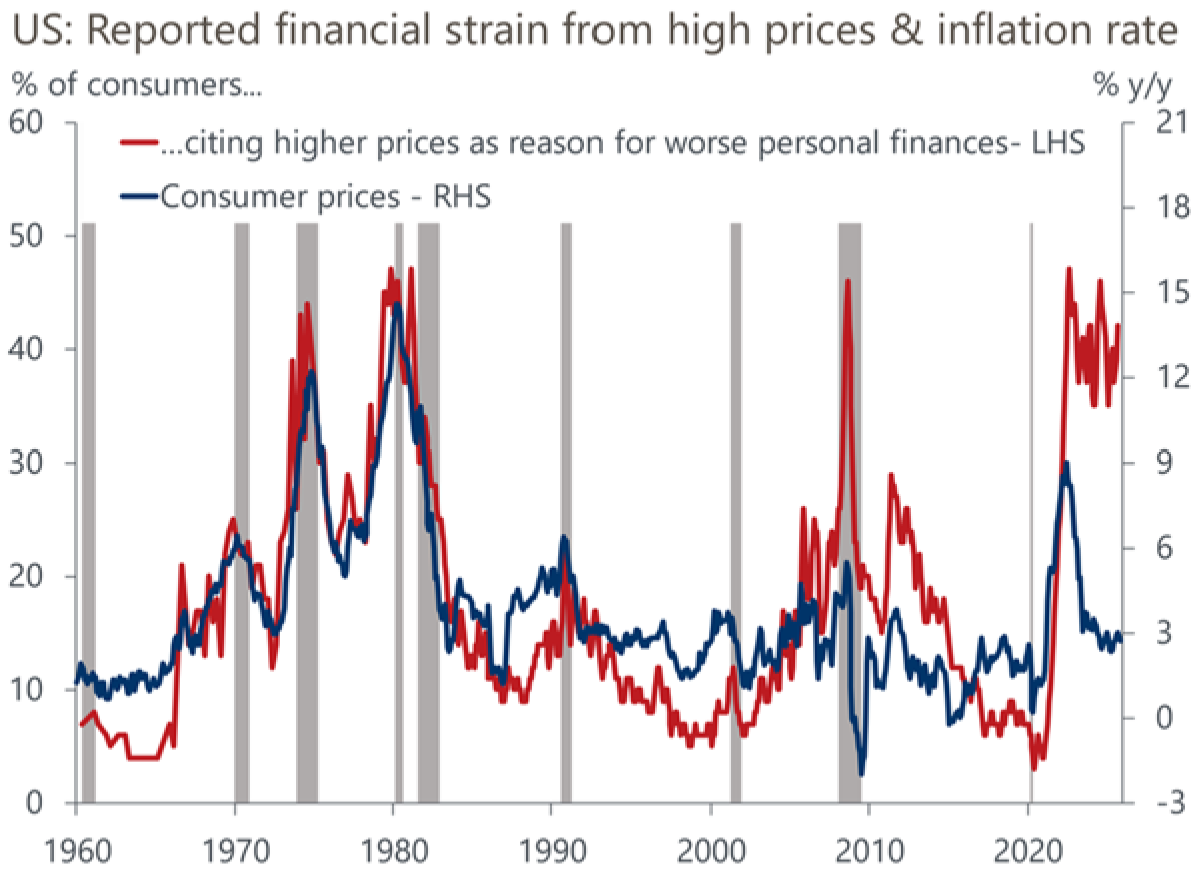


Source: Oxford Economics

Households continue to cite strain from high prices



Sources: Oxford Economics, Haver Analytics

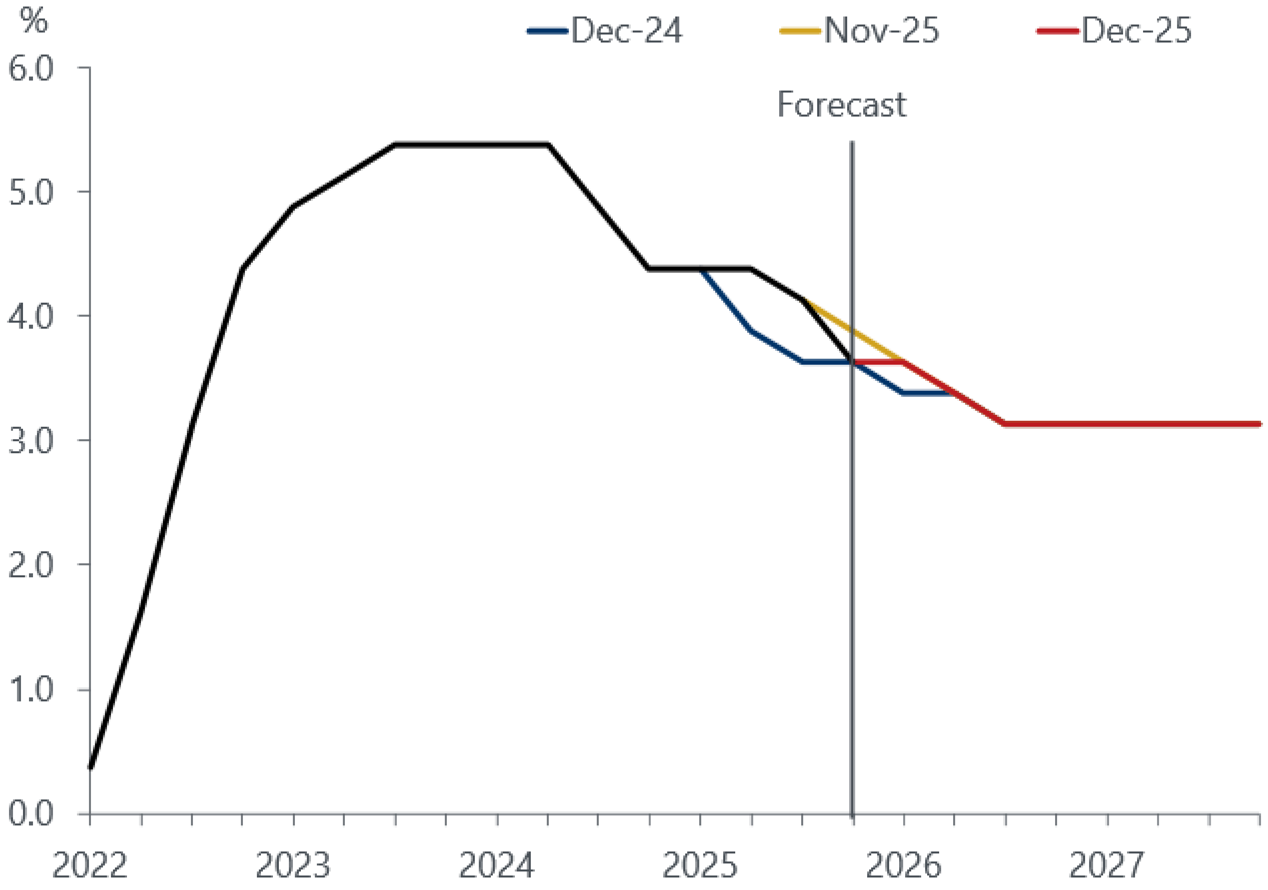


Sources: Oxford Economics, Census Bureau

Financial market conditions and the Fed

Fed to proceed with caution in 2026

US: Fed funds rate by forecast vintage

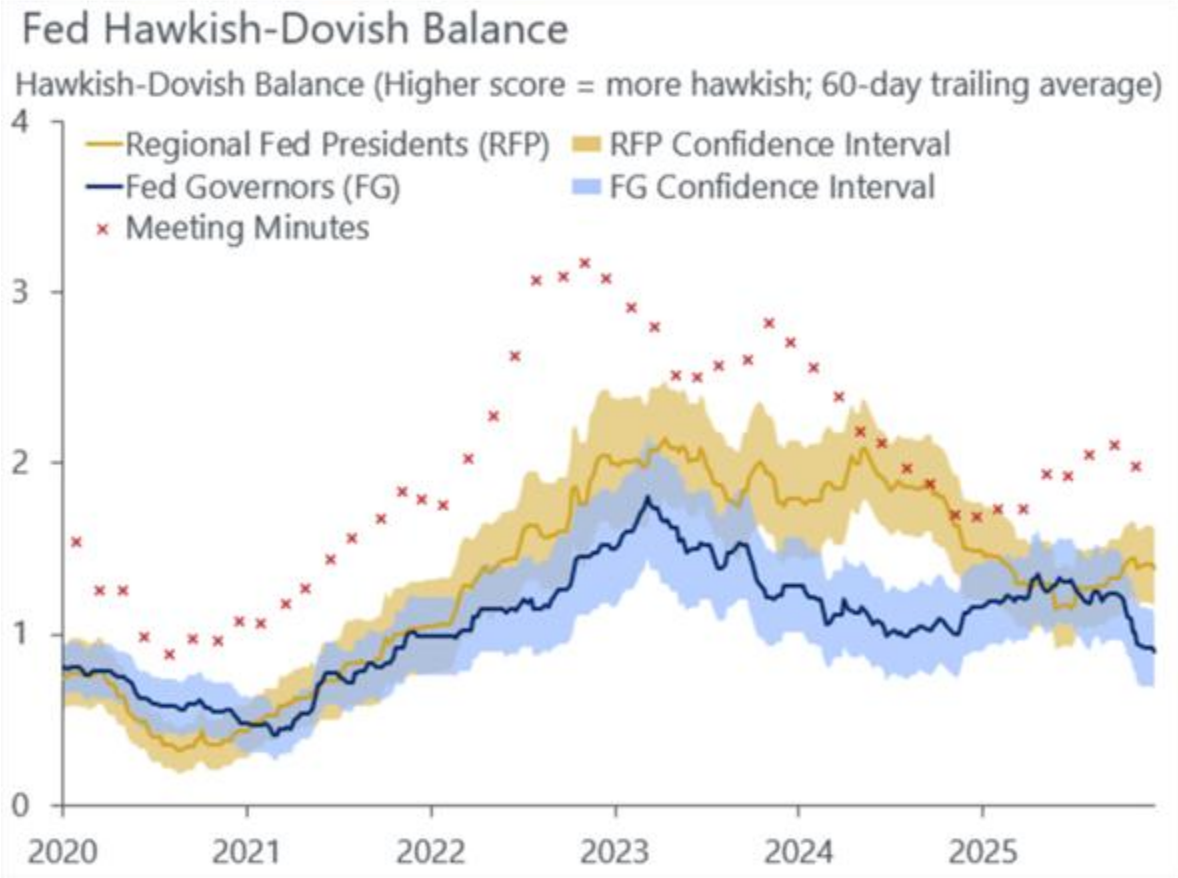


Sources: Oxford Economics, Haver Analytics

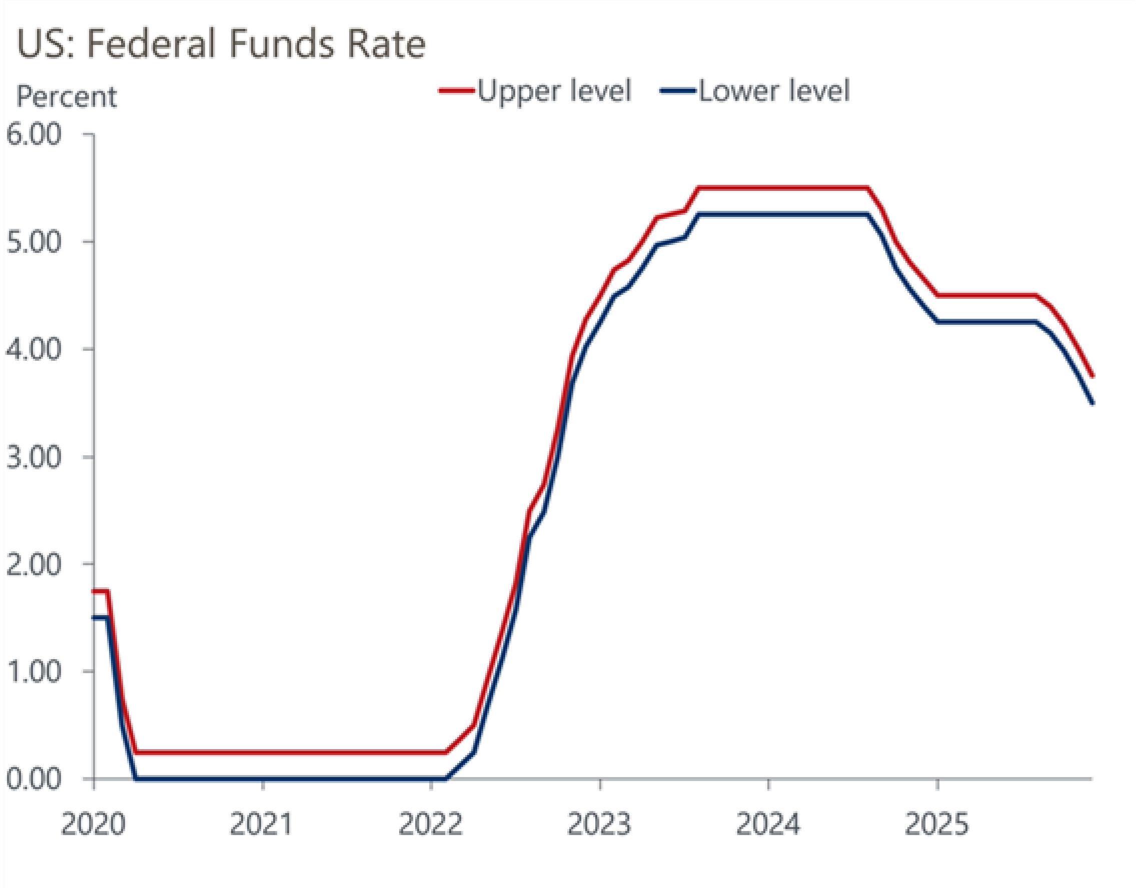
• Key takeaways

- The FOMC cut the target Fed funds rate by 25bps at its December meeting. With three dissents, the divided committee is likely to proceed with caution in 2026.
- Financial conditions are loosening thanks to strength in equities. In an environment of stronger-than-expected growth and weaker-than-expected inflation, equities will continue to fare well in 2026.
- The Fed announced it will buy $40bn in Treasuries per month as part of its reserve management. Separate from monetary policy, the purchases aim to ensure ample reserves.

A divided FOMC to take a cautious approach to cuts in 2026

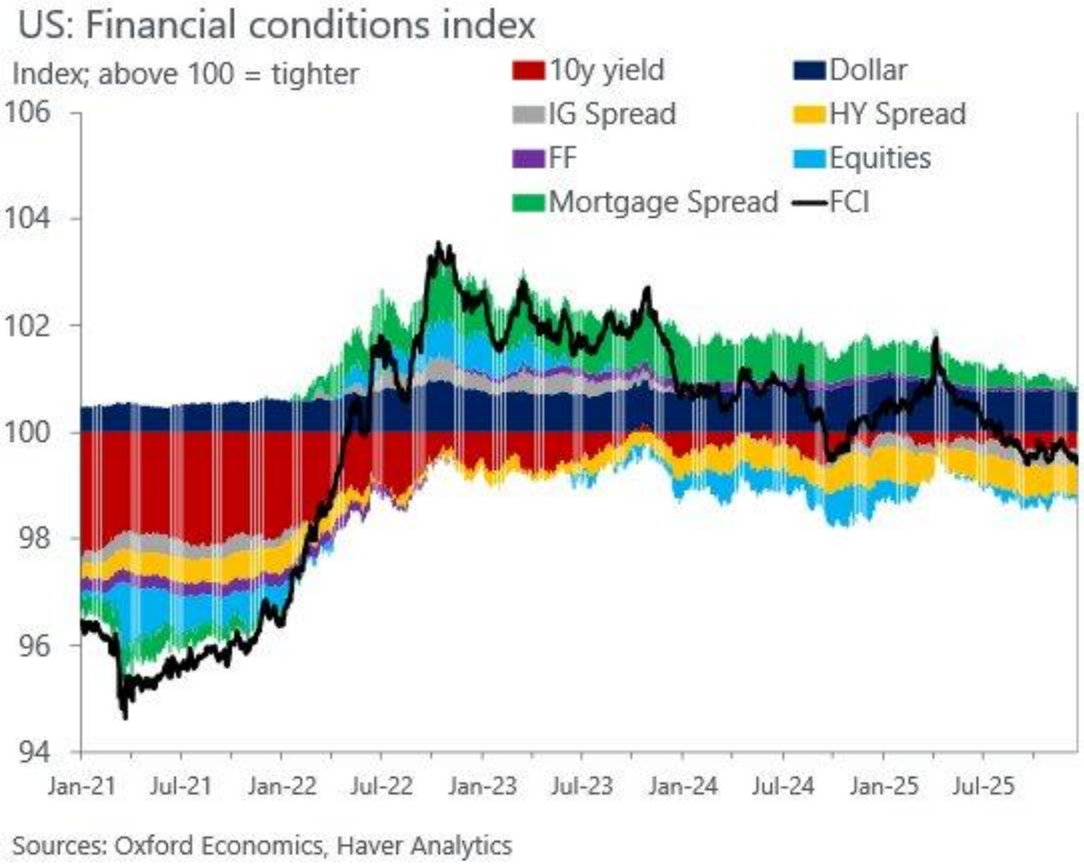


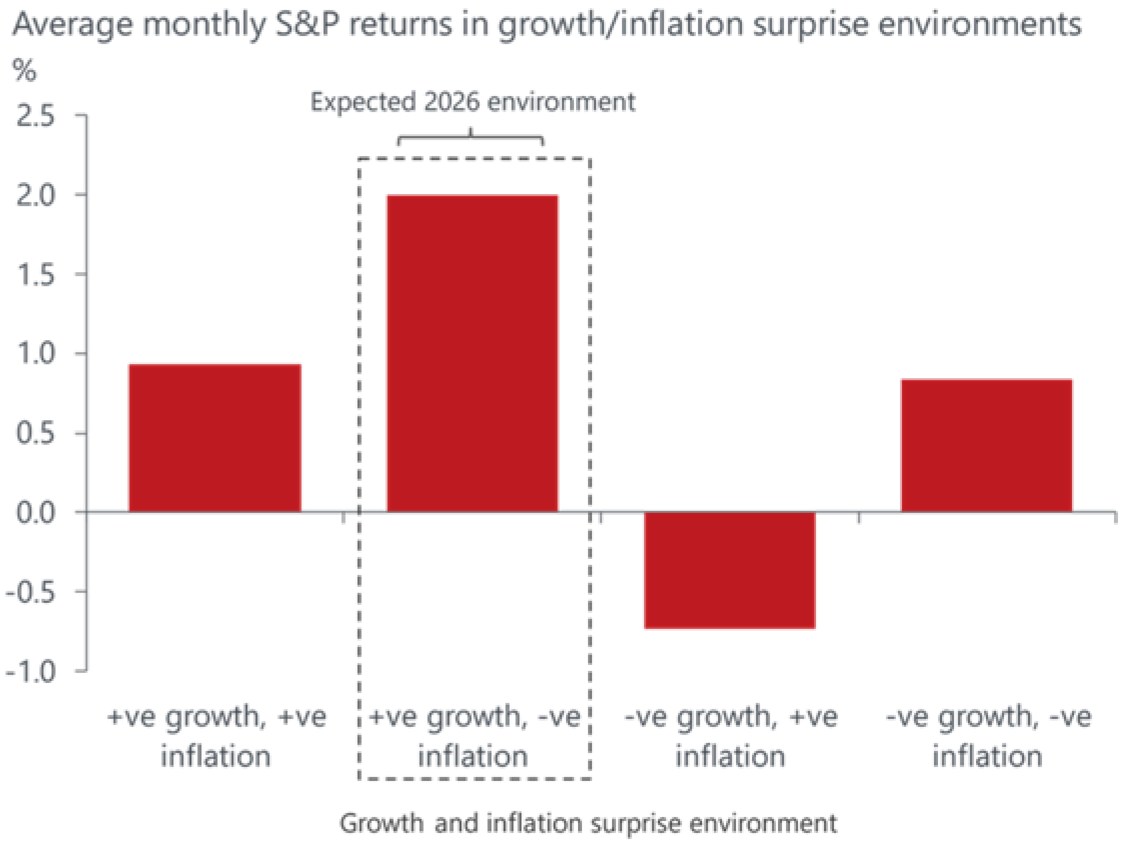
Source: Oxford Economics



Sources: Oxford Economics, Haver Analytics

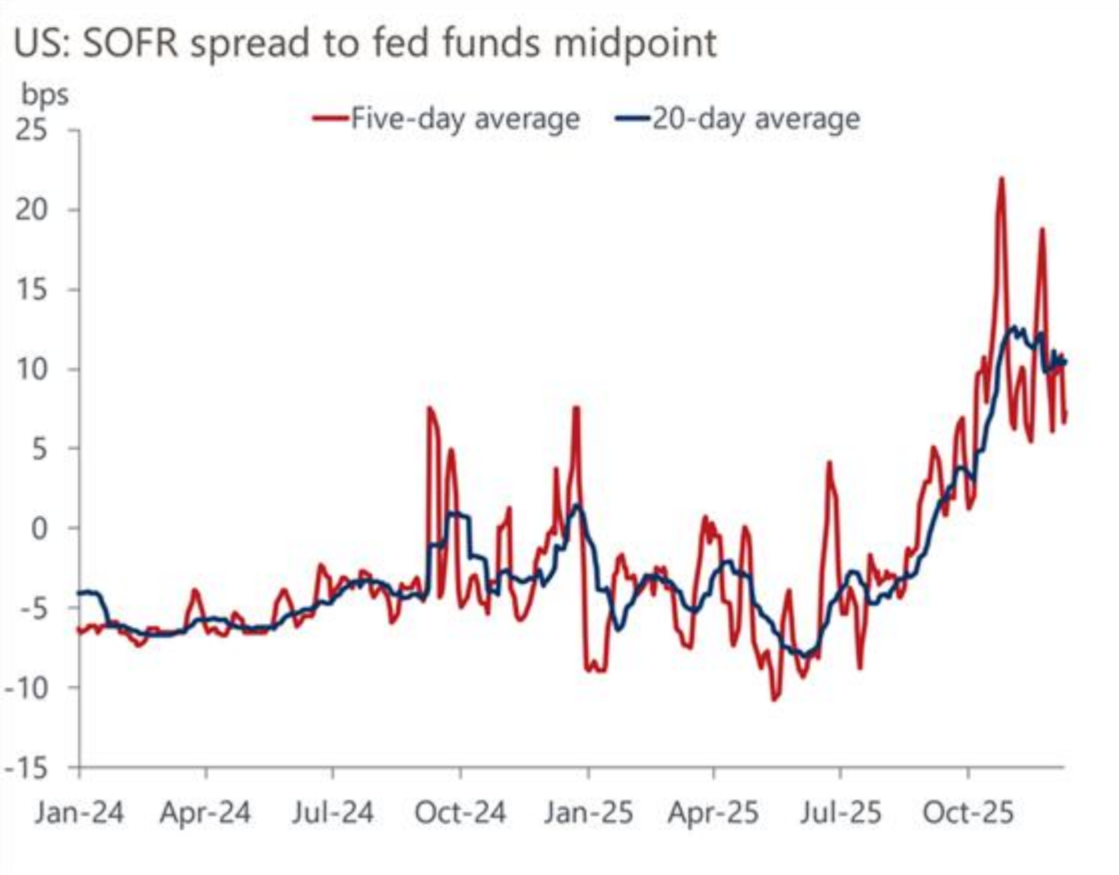
Financial conditions loosen and strength in equities persists



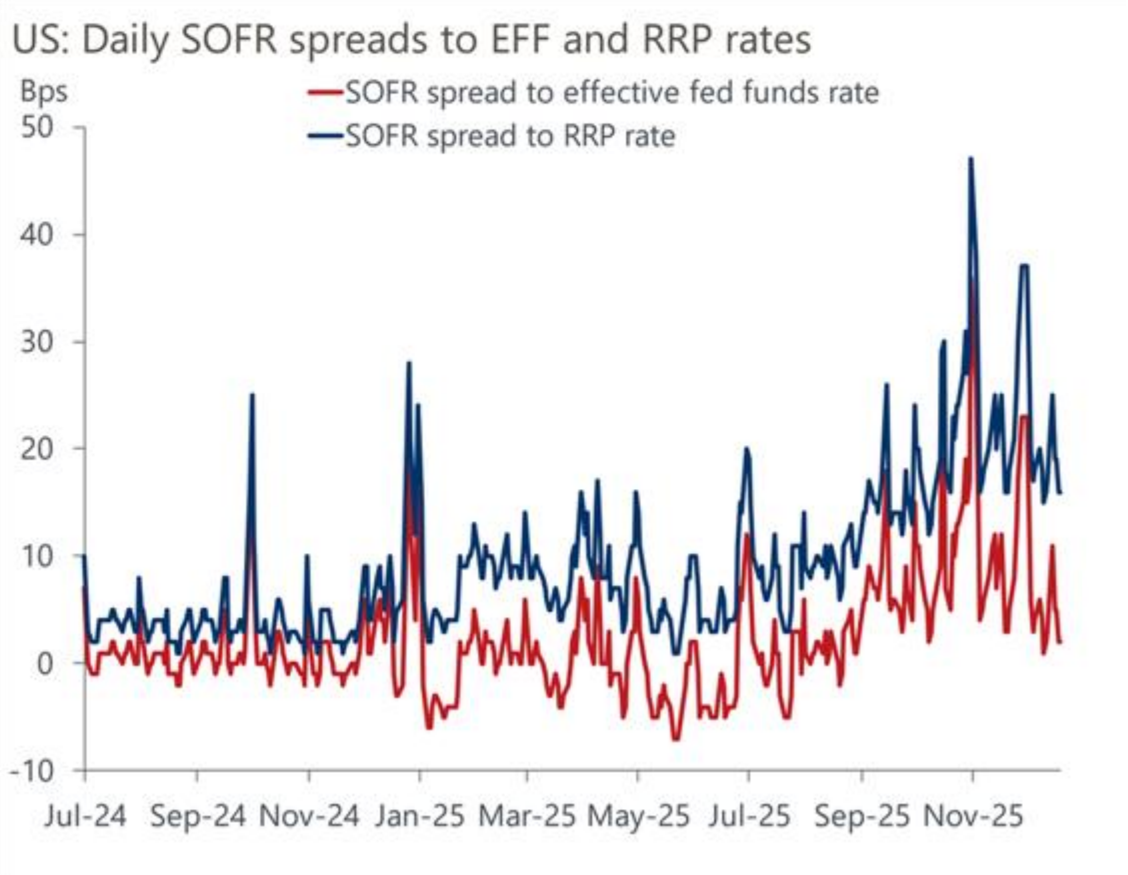


Source: Oxford Economics, LSEG DataStream

Repo rates steady before end-of-year upward pressures



Sources: Oxford Economics, Bloomberg LP



Sources: Oxford Economics, Bloomberg LP

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	2.5	2.4	2.3
Private consumption	2.6	2.9	2.6	2.3	2.1	2.0
Fixed investment	3.8	3.5	3.3	3.5	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	1.0	0.4	2.2	2.0
Imports of goods and services	-0.9	5.8	3.0	-2.4	1.9	2.6
Industrial production	-0.2	-0.6	1.1	1.0	2.5	2.8
Consumer price index	4.1	3.0	2.8	2.4	2.2	2.3
PCE deflator	3.8	2.6	2.6	2.4	2.1	2.1
Unemployment rate (%)	3.6	4.0	4.3	4.4	4.2	4.2
Current a/c balance (% of GDP)	-3.3	-4.0	-3.9	-3.3	-3.1	-3.0
Government balance (% of GDP)	-6.1	-6.2	-5.8	-7.1	-6.9	-6.5
Cen. bank policy rate (%, EOP)	5.375	4.375	3.625	3.125	3.125	3.125
10yr govt. bond yield (%, EOP)	3.88	4.58	4.09	4.14	4.18	4.20
Exchange rate (Yen per US$, EOP)	141.91	156.65	153.52	148.24	142.27	137.31
Exchange rate (US$ 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)	3.6	1.0	2.9	2.4	2.2	2.4	2.4	2.4
CPI inflation (% year)	2.9	2.9	2.5	2.6	2.3	2.1	2.1	2.2
Core CPI inflation (% year)	3.1	3.0	2.8	2.8	2.5	2.4	2.4	2.5
PCE inflation (% year)	2.7	2.7	2.5	2.5	2.3	2.2	2.1	2.1
Core PCE inflation (% year)	2.9	2.8	2.7	2.5	2.4	2.2	2.1	2.1
10-year Treasury yield (%, EOP)	4.2	4.1	4.1	4.1	4.1	4.1	4.2	4.2
Federal funds rate (%, EOP)	4.125	3.625	3.625	3.375	3.125	3.125	3.125	3.125

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 December 5)		
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 / EU	The 50% tariff on steel, aluminium, and copper apply to the EU. However, the EU-US trade deal imposes a 15% tariff ceiling for EU goods subject to reciprocal tariffs. The 15% flat rate also applies to autos, auto parts, and furniture, not to mention additional product categories such as pharmaceuticals and semiconductors that are subject to Section 232 trade investigations. For now, the baseline is holding off from assuming a 15% tariff on pharma and chips until more details are known. The US cut tariffs on aircraft and parts to zero as part of the deal.	We now assume no retaliation from EU countries following the agreement with the US announced on 27 July.
US / China	The US has recently cut the earlier 20% 'fentanyl' tariffs on China to 10%, while the baseline 10% rate remains. We assume the latest de-escalation in US-China trade tensions is permanent. Accounting for exemptions and other sectoral tariffs, including the new 10% lumber and 25% furniture tariffs, we estimate the effective tariff rate on Chinese exports to the US is now lower at 29%.	Revised bilateral trade terms in October brought China tariffs on US goods down to around 18%, from around 30% previously. Under those terms China would also suspend retaliatory non-tariff countermeasures taken against the US since March - including restrictions on export licenses valid for critical minerals and the listing of certain American companies on China's unreliable entity lists. We expect the effective tariff rate to stay at the new current level, despite still-meaningful risks that a re-escalation of bilateral tensions could drive tariffs back up again.

Source: Oxford Economics

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