



Economic Outlook: “Back to the future” for the U.S. economy?

Chris Dillon, CFA

T. Rowe Price

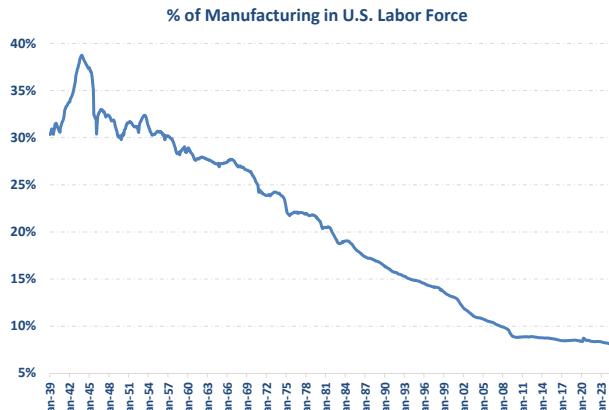
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Discussion highlights

1. A new “mercantilist” road map for a resilient U.S. economy
2. The One Big Beautiful Bill Act (OBBA) arrives during a revolutionary time for “tech”
3. Year-to-date S&P 500 sector return patterns reinforce points one and two above
4. The U.S. is no longer the world’s policeman, and international stocks are benefiting!
5. The global economy is good enough, for now...
6. Lower fed funds, but higher future longer-term U.S. rates
7. Credit markets are wide open, while the S&P 500 may not be as concentrated as many fear
8. Corporate America has room to handle higher tariffs, while ***hopes for future productivity is a BIG DEAL***

Back to the future for the U.S. economy?

As of July 1, 2025



Source: St. Louis Fed, analysis by T. Rowe Price.

“Treasury Secretary Scott Bessent said President Trump’s tariffs should **boost American manufacturing over the “next couple of years.”**

“We’re seeing these very large commitments both from governments and from corporates,” Bessent said Thursday while on MSNBC’s “Morning Joe,” adding later that “we’ve got trillions and trillions of manufacturing that’s going to come back, and we’re going to see that in the next couple of years.”

Source: The Hill, July 7, 2025. Bessent: Tariffs should boost U.S. manufacturing “over the next couple of years.”

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A new administration and a different economic plan

As of July 2025

U.S. GDP = C + I + G + (Net exports minus imports)

“Tariffs are likely to prove a drag on consumption, but the revenues are mostly being used to lower taxes on businesses who spend on capex. Ultimately, tariffs are designed to decrease **consumption** but with an offsetting increase in **investment**... and aspirations to turn net exports positive...”

Source: Tim Murray, CFA, T. Rowe Price Multi-Asset Strategist.

“Bottom line (for right now) is that the U.S. economy remains on an odd (relative to history) pathway forward. Most of the economy is stuck in purgatory. Rate cuts are needed to get activity going, but inflation hasn’t abated enough for rate cuts to be a sensible choice...”

“...But this is not the story for artificial intelligence (AI). The AI part of the economy is **BOOMING...**”

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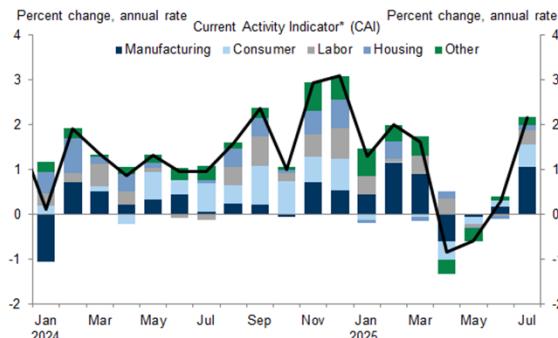


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A “transitional” soft patch for the U.S. economy is about to get a boost from a policy “reverse mullet” designed to provide an economic “party” through 2028

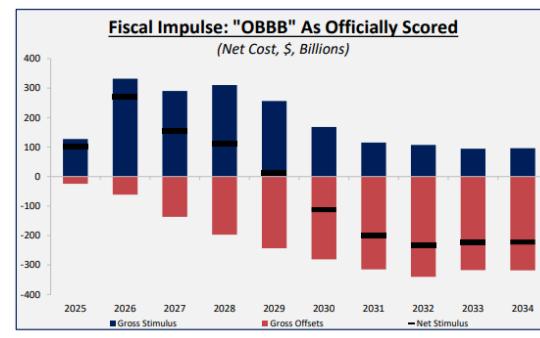
As of August 4, 2025



*First principal component of 37 key weekly and monthly US economic indicators.

Source: Goldman Sachs Global Investment Research—Used with the permission of Goldman Sachs Investment Research.

As of July 14, 2025



Source: Wolfe Research.

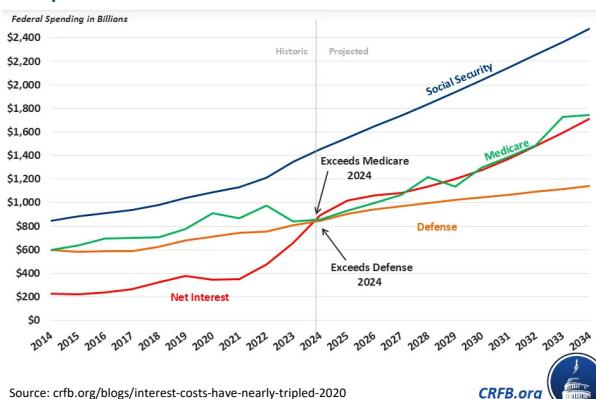
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But it won't be “beautiful” everywhere in the U.S. economy... something had to give

We spend more on interest than Medicare or defense



As of August 7th, 2025

OBBA Highlights	Aggregate Total
Spending Cuts	
Medicaid	-917
Student Loans (Cash Flow Adj)	-270
SNAP	-187
Premium Credit	-185
Other	-149
Spending Increases	
Border & Immigration	198
Defense	150
Agriculture	66
Other & Interactions	88
New Tax Policy	
TCJA & SALT	519
Trump Individual Tax Cuts	260
Capex Incentives	588
International Reforms	-8
All Other Tax	-11
IRA Reforms	-499
OBBA Deficit Expansion (+)	-355
Post-OBBA Deficit	\$25,754

Source: Congressional Budget Office (CBO) and Piper Sandler

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The intersection between OBBA, the Genius Act, and the Trump administration with the S&P 500 YTD

Tailwinds

- The Trump administration is supportive of AI and crypto
- The AI economy is booming and requires a ton of energy
- Powerful incentives to bring manufacturing back to the U.S., which includes accelerated depreciation and amortization inducements

Headwinds

- Materially more accountability in justifying Medicaid benefits
- “Trump asserted *that children will be fine* having two dolls—perhaps three or five—instead of 30 if U.S. import taxes increase consumer prices...”¹
- “The (oil) market is *flush* with supplies at the moment, as the Saudi Arabia-led cartel of oil-producing nations known as OPEC+ allows more barrels to flow while China, the world’s top oil consumer, *curbs its consumption*.”²

¹apnews.com/article/trump-two-dolls-tariffs-toys-7b0e5d3a9035471317e6dc4ee1fbfb1

²arstechnica.com/science/2025/07/trump-promised-a-drilling-boom-but-us-energy-industry-hasnt-been-interested/

S&P 500 Sectors	YTD Total Return Through 8/7/25
Utilities	16.24
Industrials	14.92
Technology	14.13
Communications	13.99
Consumer Staples	7.17
Financials	7.06
Materials	6.76
Real Estate	3.83
Energy	0.77
Consumer Discretionary	-1.97
Healthcare	-5.53

Source: Bloomberg Finance, L.P. Please see Additional disclosures page for additional legal notices and disclaimers. Past performance is no guarantee or a reliable indicator of future results.

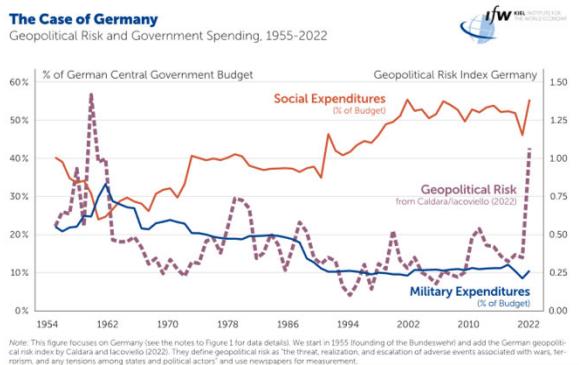
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U.S. no longer the world’s “policeman”...this development (decades in the making) has broad ramifications

As of February 16, 2025



From Steven Miran, chairman of the Council of Economic Advisors, who was nominated to serve on the Federal Reserve Board in August:

“I’d like to discuss the United States provision of what economists call global public goods for the entire world. First, the United States provides a security umbrella, which has created the greatest era of peace mankind has ever known.

Second, the U.S. provides the dollar and Treasury securities reserve assets, which make possible the global trading and financial system, which has supported the greater era of prosperity mankind has ever known.

Both of these are costly for us to provide...”

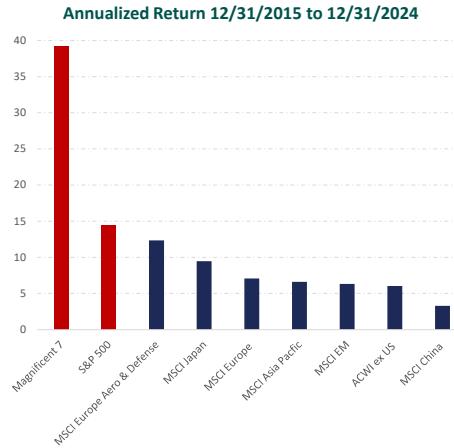
Source: www.hudson.org/events/chairman-council-economic-advisers-stephen-miran-trump-administrations-economic-agenda.

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International stocks are benefiting YTD as the U.S. steps back from its global policing role



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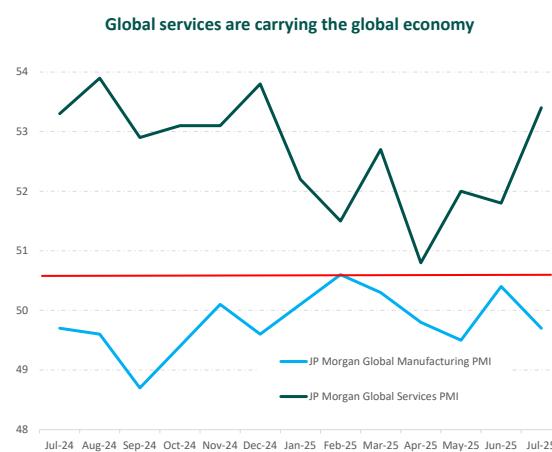
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The global economy is good enough

As of July 31, 2025



Global growth is projected at 3.0% for 2025 and 3.1% in 2026

This reflects:

- Stronger-than-expected front loading in anticipation of higher tariffs;
- Lower average effective U.S. tariff rates than announced in April; and
- An improvement in financial conditions,...due to:
 - A weaker U.S. dollar and
 - Fiscal expansion in some major jurisdictions (such as Europe and the U.S.)

Source: imf.org/en/Publications/WEO/Issues/2025/07/29/world-economic-outlook-update-july-2025

Source: Bloomberg Finance, L.P. See Additional disclosures page for additional legal notices and disclaimers.

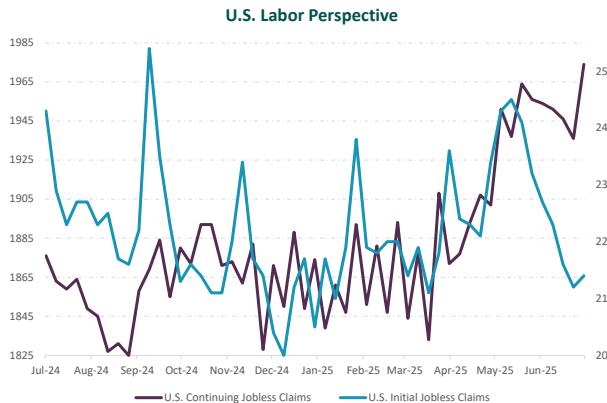
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Conflicting labor market signals and the Fed

As of July 25, 2025



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The Labor Department's most recent report included revisions to previously published data, showing that job gains slowed sharply over the last three months to a monthly average of 35,000.

"This is well below the moderate pace seen earlier in the year, likely due to a significant softening in labor demand," Federal Reserve Vice Chair Lorie Bowman said. "My Summary of Economic Projections includes three cuts for this year..."

Source: msn.com/en-us/money/markets/us-feds-bowman-latest-jobs-data-stiffens-support-for-three-rate-cuts-in-2025/ar-A41KdFid?cid=BingNewsSerp

Based on the "restrictive" nature of the current fed funds rate and labor market concern referenced above, T. Rowe Price's U.S. economist Blerina Uruci, expects two Fed rate cuts before year-end.

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A wide range of yields for longer-maturity U.S. Treasuries since October 2023

As of August 11, 2025



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Consensus expects range-bound U.S. rates:

"The U.S. 10-Year Treasury yield, currently 4.27%, will edge up to 4.30% in three months and trade around there at end-January and in a year, medians from nearly 50 bond strategists in an August 6–11 Reuters poll showed."

Source: reuters.com/business/poll-tariff-inflation-worry-debt-deluge-prop-up-longer-term-us-treasury-yields-2025-08-11/

T. Rowe Price expects higher inflation and eventually higher U.S. rates:

"...T. Rowe Price's concern about inflation is more elevated than consensus. The pass-through to consumer prices from tariffs is likely to be higher than markets anticipate. T. Rowe Price's U.S. economist's (Blerina Uruci), calculations show that a 10% across-the-board tariffs headline inflation by between 0.5 and 1.0 percentage point. With a 15% effective tariff rate, the inflation shock could be as high as 1.5%..."

Source: T. Rowe Price August 11, 2025.

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Credit markets are wide open!

As of August 11, 2025

As of August 11th, 2025

Source for left and right charts: Bloomberg Finance, L.P. Please see Additional disclosures page for additional legal notices and disclaimers.

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“Magnificent Seven” concentration risk in the S&P 500 or something else all together?

As of August 7, 2025

Mag 7 Company	IPO Year	Approximate # of Acquisitions	Notable Acquisitions
Amazon	1997	105	Whole Foods, MGM
Google	2004	270	You Tube, Whiz
Microsoft	1986	250	Activision, LinkedIn
Apple	1980	100	Siri, Beats
META	2012	95	Instagram, WhatsApp
NVIDIA	1999	20	Mellanox, Bright Computing
Tesla	2010	6	Maxwell, Perbix

Investment Themes	AMZN	NVDA	MSFT	GOO GL	META	AAPL	TSLA
Sports	*						
5G		*	*	*	*		
AI							
Autonomous Vehicles							
Cloud							
Digital Payments							
Frontier Technology							
Metaverse							
Cybersecurity							
Decentralized Energy							
Electric Vehicles							*
Semiconductor		*					

Note: The * represents greater than 50% of revenues

“They may go by the Magnificent Seven, but the truth is they act more like the Magnificent Seventy. Collectively, the Seven have acquired over 800 companies and expanded into a dizzying array of industries—effectively functioning as conglomerates of advanced technology, while still growing organically. Viewed this way—as dozens of companies within each one—concerns about their record 33% weighting in the S&P 500 miss the point: the index may still be as diversified as ever.”



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Source: Bloomberg Intelligence August 7, 2025.

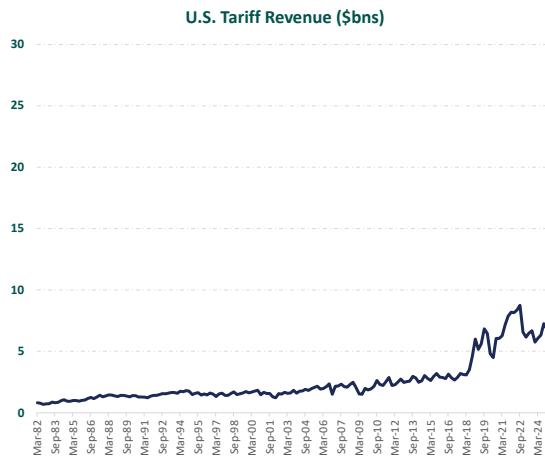
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Corporations arguably have room to absorb elevated tariff levels

As of May 29, 2025



As of June 30, 2025



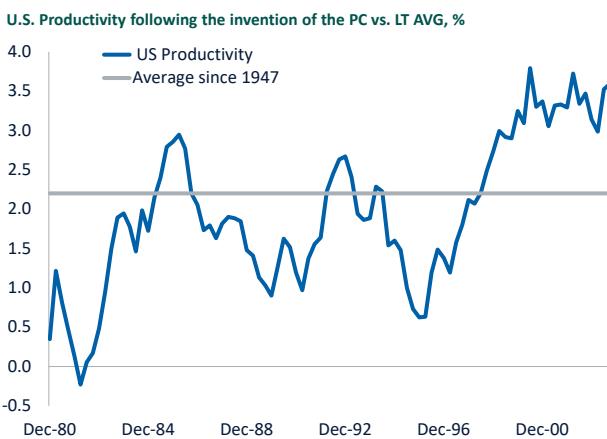
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U.S. productivity emerges as a key 2025 and beyond economic and investment theme

As of January 9, 2025



Measures of labor productivity compare the growth in output with the growth in hours worked and measures of total factor productivity (TFP), also known as multifactor productivity (MFP), which compares growth in output with the growth in a combination of inputs that include labor, capital, energy, materials, and purchased services.

Source: U.S. Bureau of Labor Statistics

"The widespread adoption of previous inventions, including the electric motor (1890) and the personal computer (1981), were followed by U.S. labor productivity booms to the tune of 1.5% of labor productivity growth annually—circa 20 years for the electric motor and approximately 12 years for the PC—for a cumulative impact of ~15%.

These labor productivity growth phases also resulted in a 7% increase in annual global GDP over a 10-year period. If GenAI has a similar impact, the U.S. may realistically be able to outgrow its debt..."

Source: "U.S. Debt Sustainability: An Uncertain Fiscal Future" Goldman Sachs June 30, 2024.

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Final thoughts

- U.S. and global economic resilience appears well anchored into the foreseeable future
- While many questions have been raised about the future of U.S. exceptionalism in recent months, the U.S. is a global front runner in AI capex spend as well as in global stablecoin establishment
- Economic stimulus being introduced at a time of full employment in the U.S. as well as accompanying higher tariff rates raises material questions about future levels of inflation and interest rates
- While concerns exist as to the duration of what has become a revolutionary pursuit of AI technology, this epic buildout appears to still be in its “early innings”

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