

***Best Client Question From Last Week's Conference Call:
What Has Changed In Your View Since Mid-2024?***

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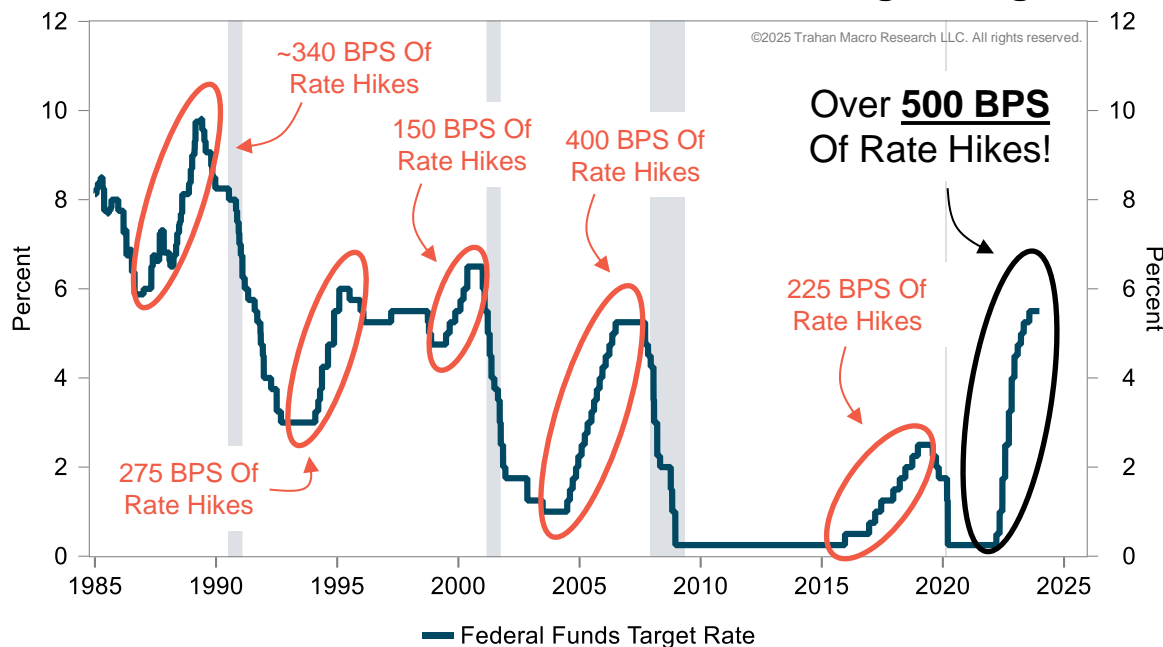
January 2025

Our Biggest Concern In Mid-2024

Every Recession Indicator Pointed To Recession Risk!

As Of June 2024

We Witnessed A Historic Amount Of Fed Tightening



Tightening Skews Recession Odds

Start Of Tightening	ISM Fell Below 50	GDP Recession
1954	Yes	Yes
1958	Yes	Yes
1961	Yes	Yes
1967	Yes	No
1972	Yes	Yes
1977	Yes	Yes
1980	Yes	Yes
1983	Yes	No
1988	Yes	Yes
1994	Yes	No
1999	Yes	Yes
2004	Yes	Yes
2015	Yes	Yes
2022	Yes	?
Frequency	14/14	10/13

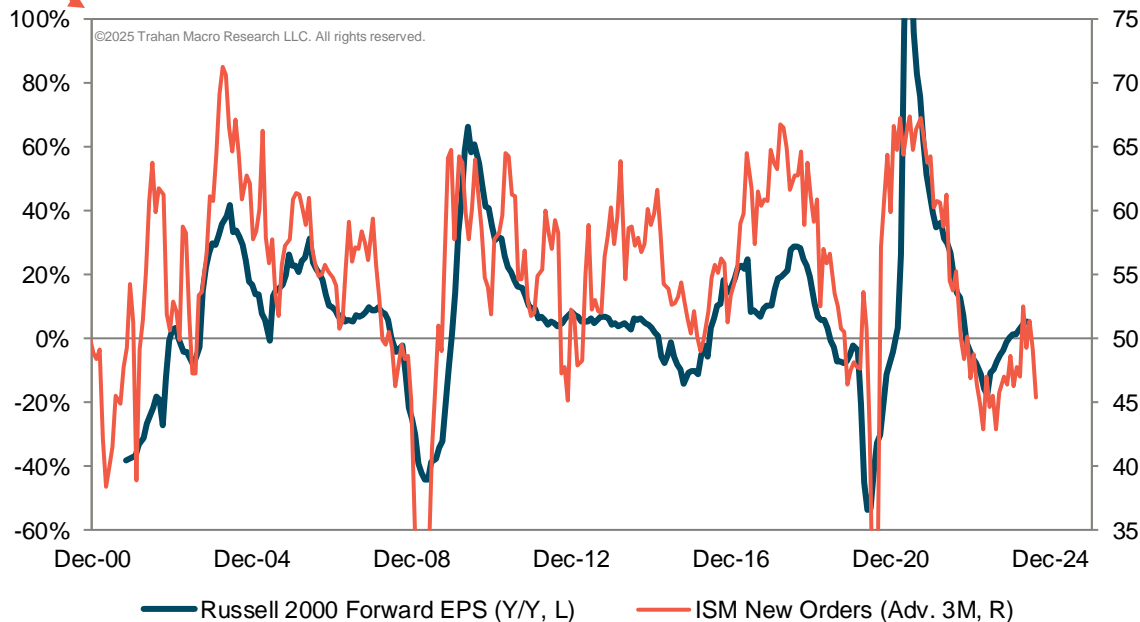
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Our Biggest Concern In Mid-2024

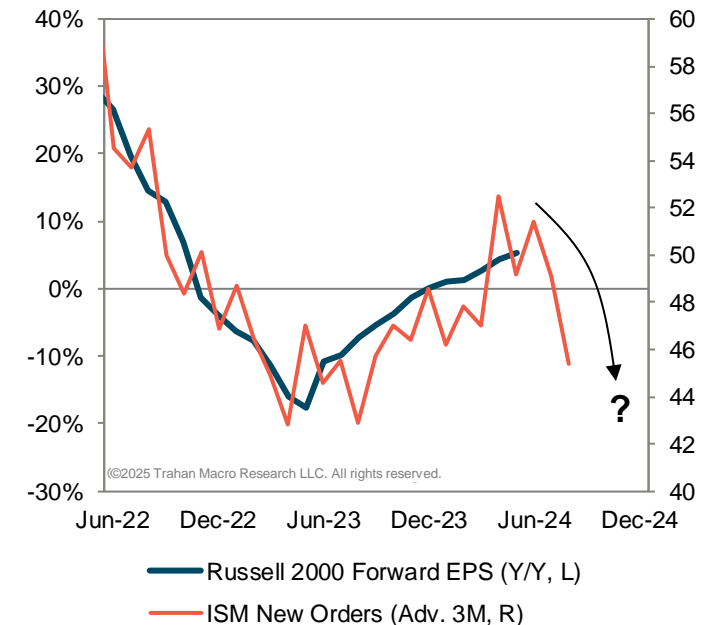
Most LEIs Pointed To Weaker Economic Activity/EPS

As Of June 2024

Small-Cap Earnings Growth Trends Alongside LEIs



Earnings Contraction Ahead?



Our Biggest Concern In Mid-2024

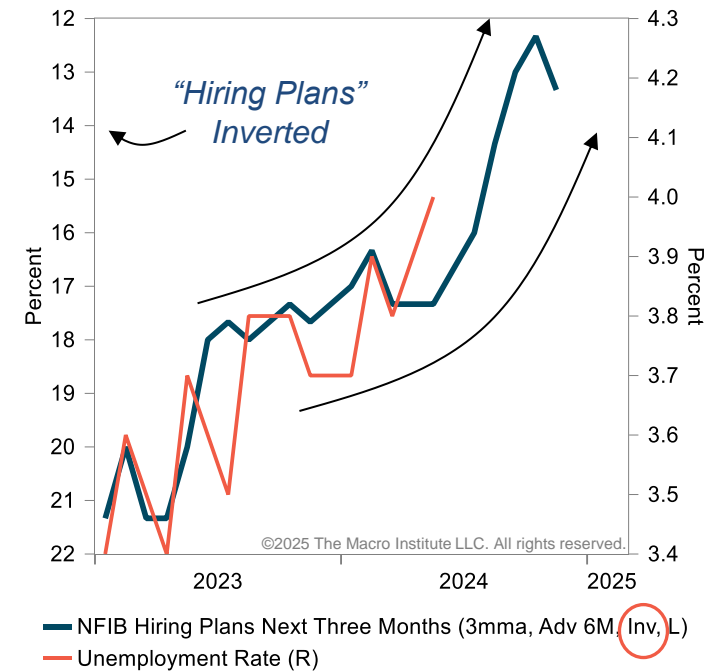
LEIs Of Employment Specifically Highlighted Recession Risks

As Of June 2024

NFIB Hiring Plans A Strong LEI Of The Unemployment Rate



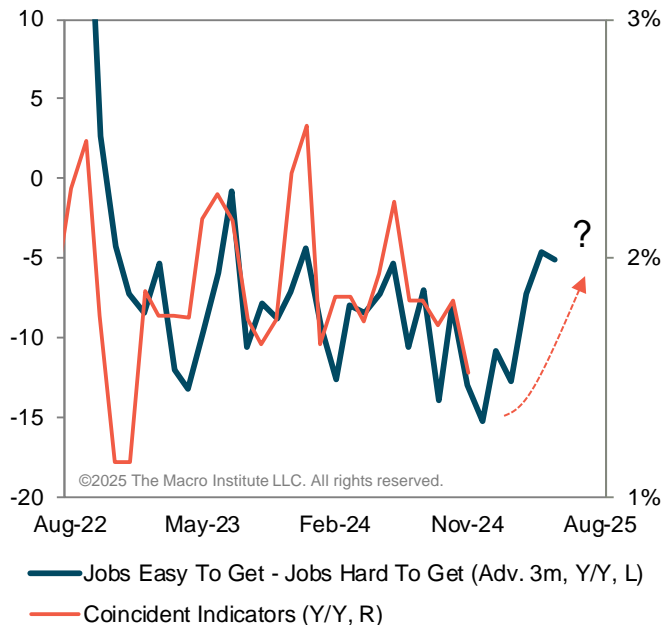
A Good Fit In This Cycle



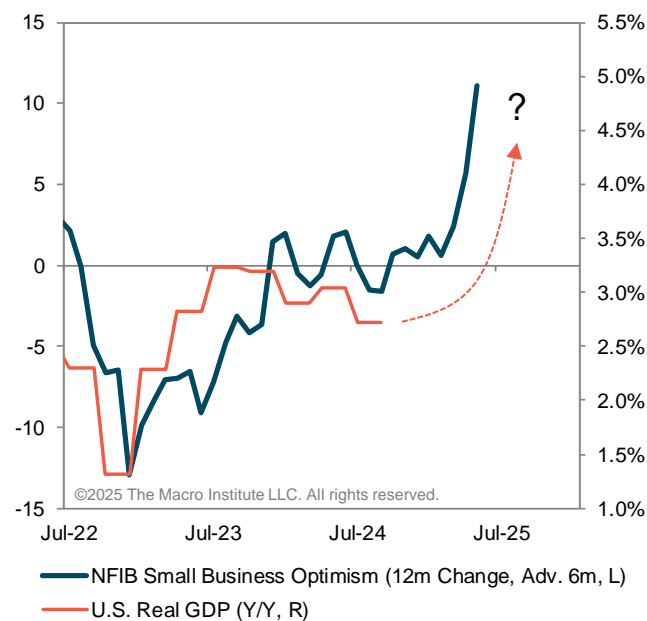
What's Changed: The Data!

The Bottom Line Is That *Forward Looking Data* Has Improved

Tighter Labor Markets?



Accelerating Growth In 2025?

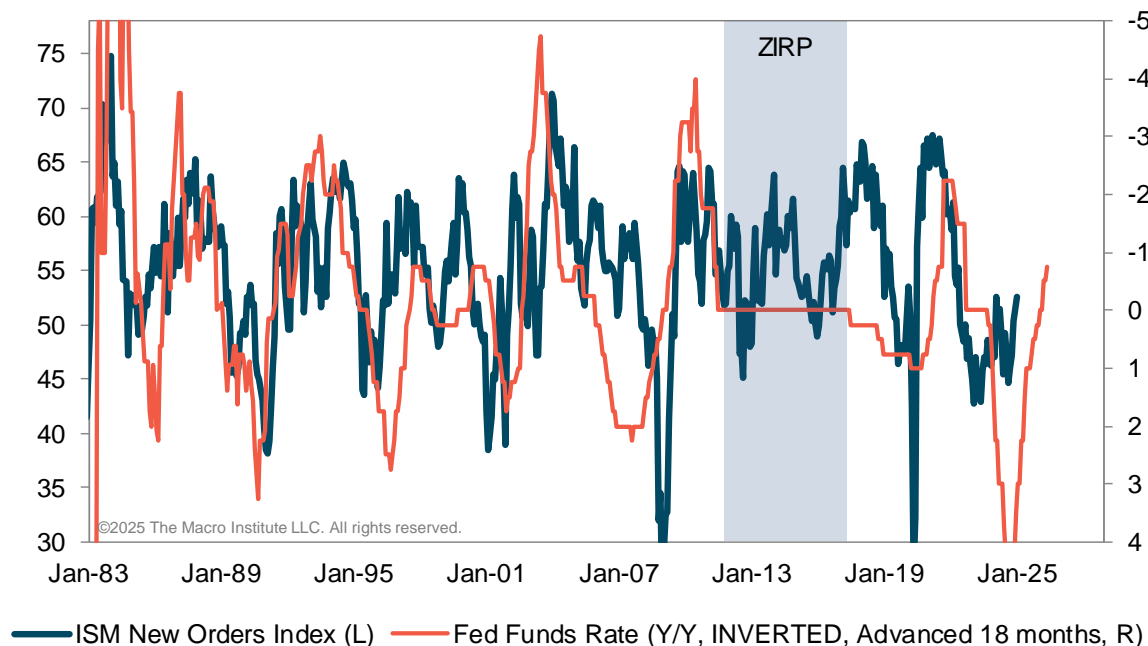


Lower Unemployment Rate?

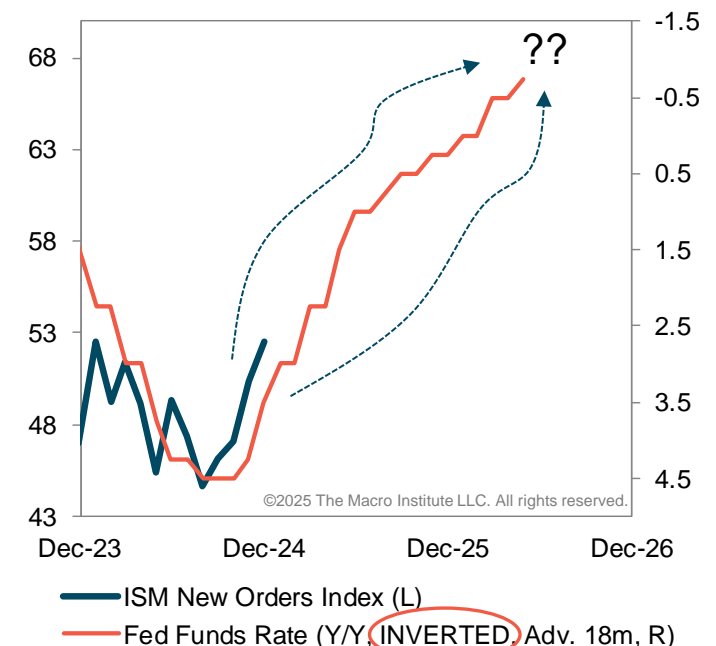


Monetary Policy Turning Supportive Of U.S. LEIs In 2025

LEIs Usually Start To Recover ~18 Months After Last Rate Hike

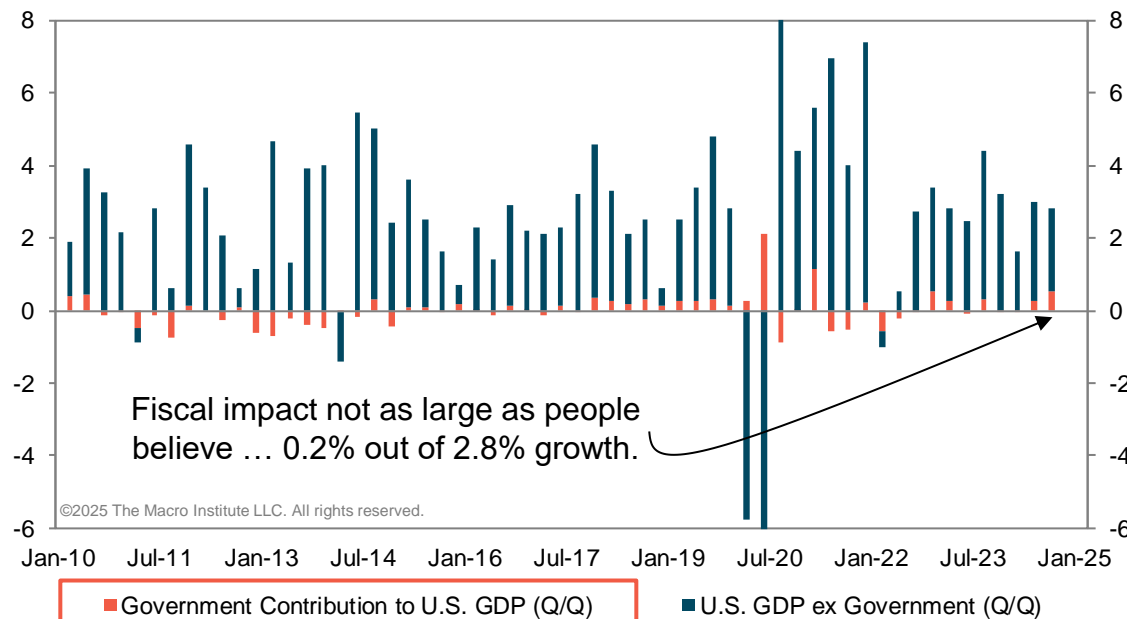


Higher LEIs In 2025?!?



Many Of The Bullish Arguments Put Forth In 2024 Missed The Point

Fiscal Policy Not Adding As Much To GDP As Investors Believe



Unusual Forces At Play In 2024

1. Investments (Reshoring)
2. Consumption (Immigration)
3. Fed Not Restrictive Enough

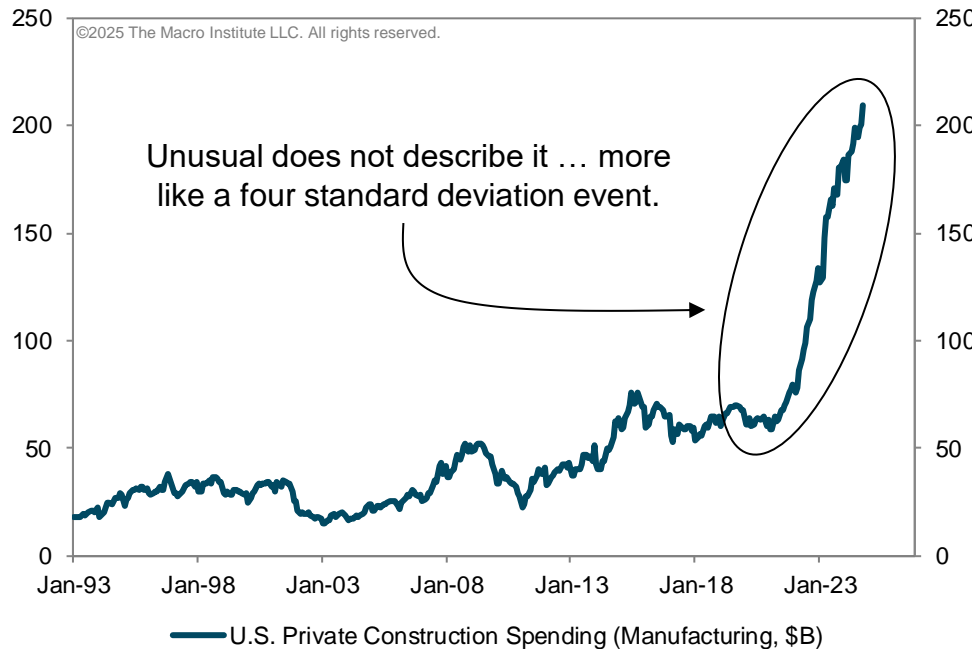
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Biggest Reasons!

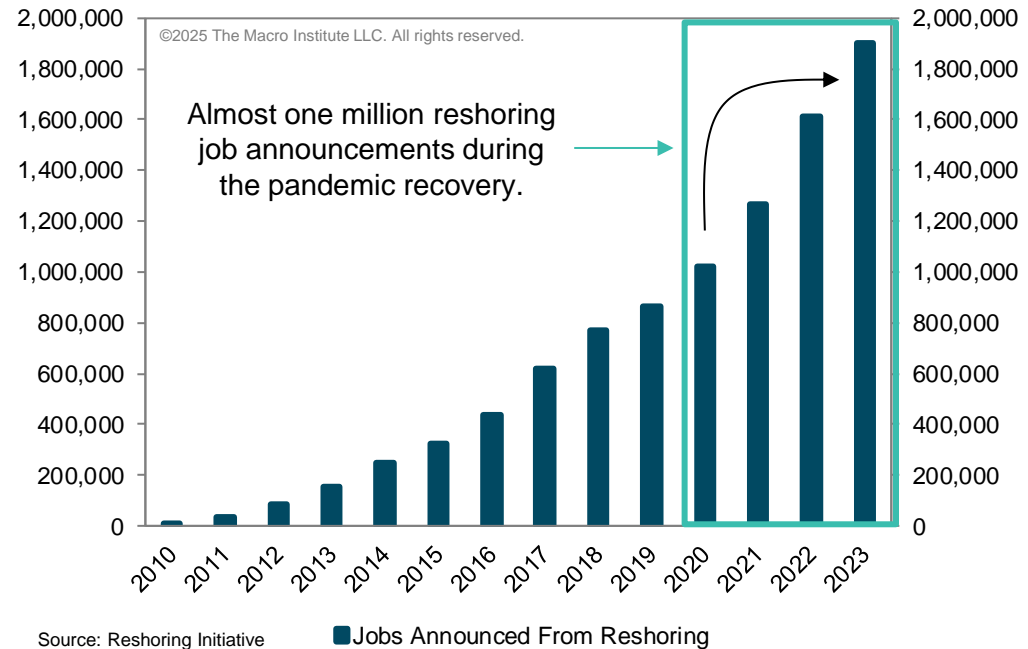
Investments “Unusually” Robust Post-Tightening

Reshoring Acted As A Major Offset To Fed Tightening

Robust Manufacturing Spend Amidst Tightening

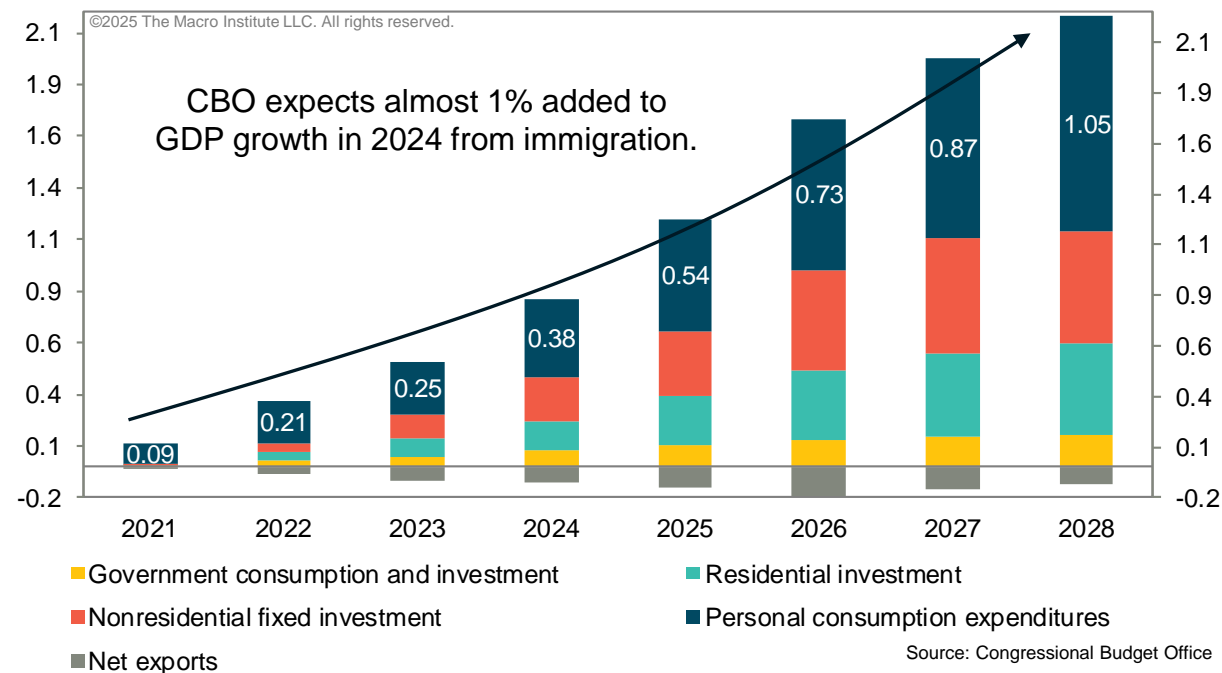


Cumulative Reshoring Jobs Announced



Surge In Border Crossings Helped Support Consumption Trends

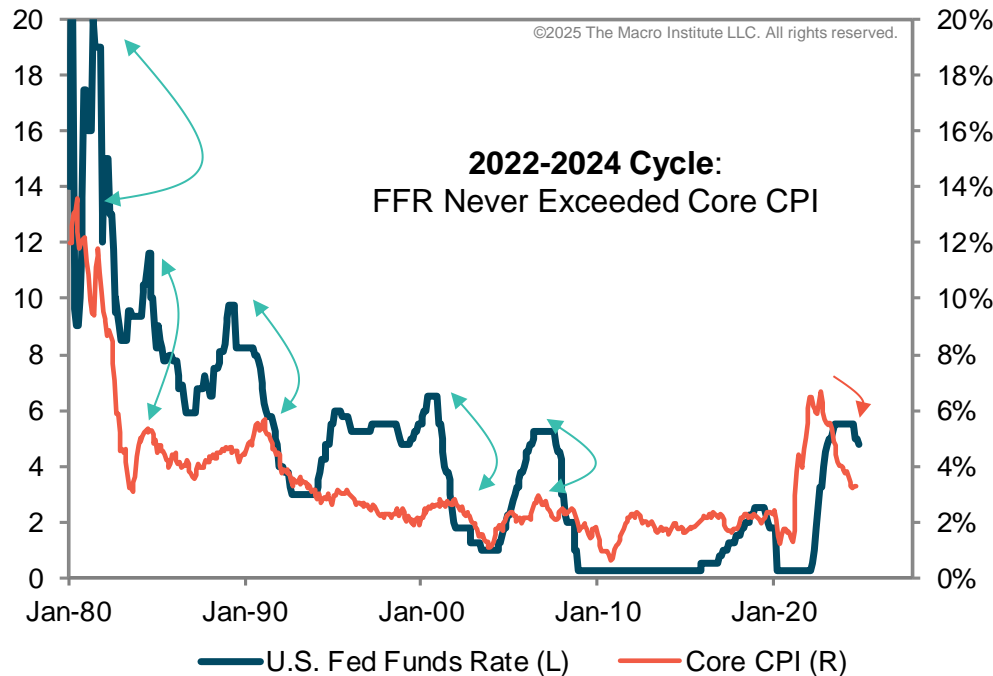
GDP Tailwinds From Immigration Largely Consumption Driven



Fed Never Tightened Enough

The Powell Fed Conducted Policy Differently Than Typical

Behavior Of Fed Very Different This Time Around



FFR Peak Usually > Core CPI Peak

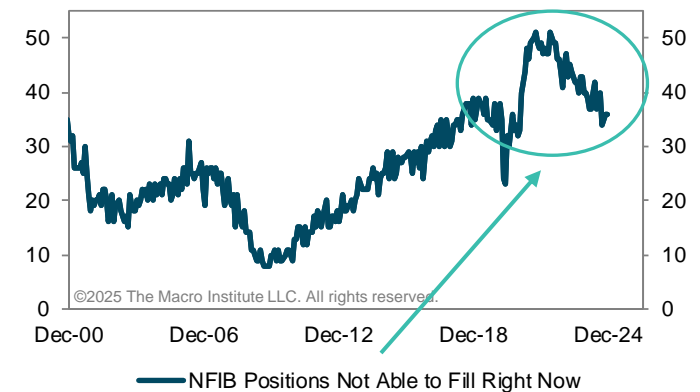
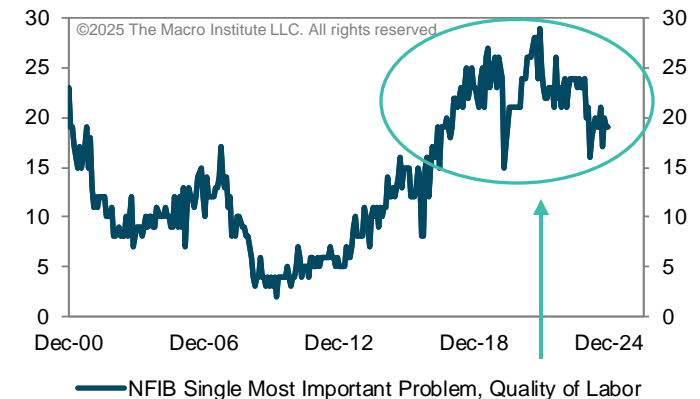
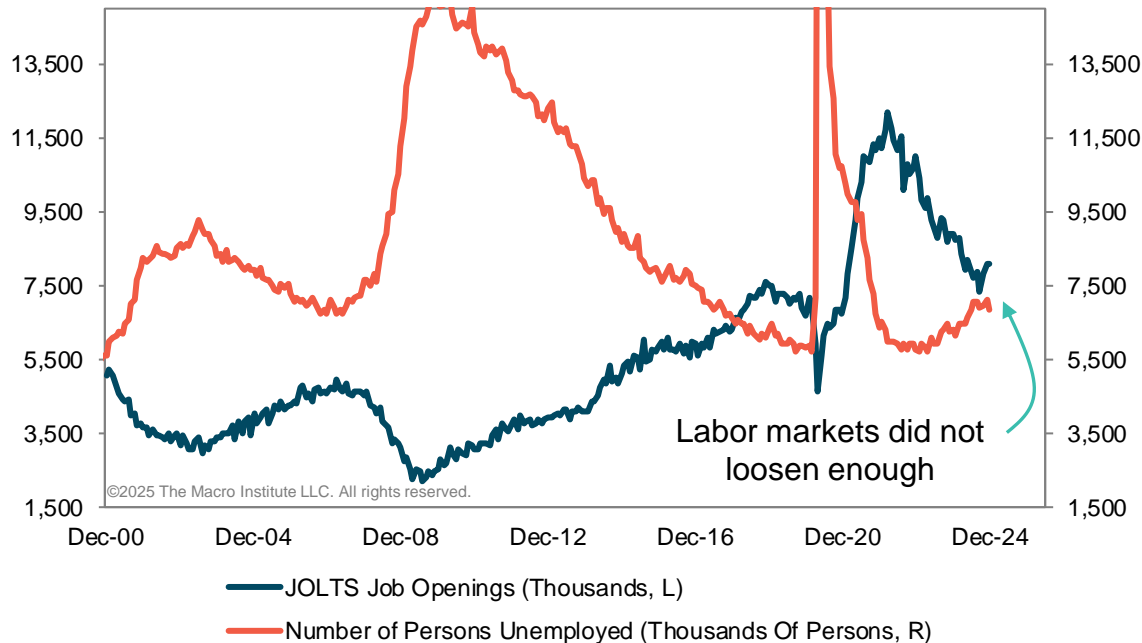
Period	FFR Peak		Core CPI Peak	Ratio
2022-24	5.50%	<	6.6%	0.83
2006	5.25%	>	2.9%	1.81
1999	6.50%	>	2.8%	2.32
1989-91	9.75%	>	5.7%	1.71
1984	11.63%	>	5.3%	2.19
1980	20.00%	>	13.6%	1.47

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Powell is different than his predecessors.

Tighter Than Normal Labor Markets Altered Corporate Behavior

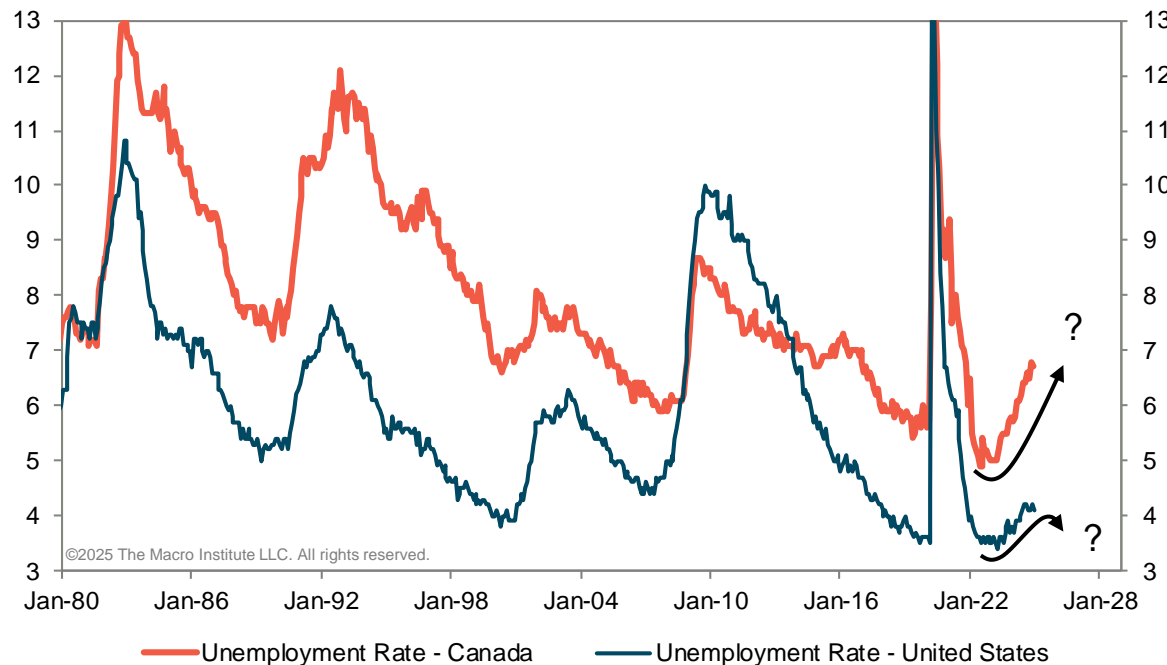
Labor Markets Did Not Significantly Deteriorate



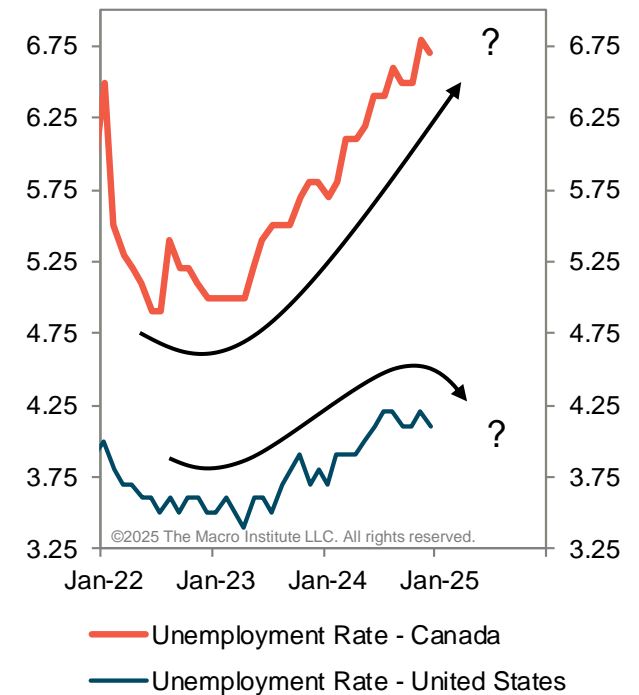
Other Economies Help Explain The Unique U.S. Cycle

Canada: Similar Set-Up As The U.S. But Little To No 'Reshoring'

Canada Had A Much More Abrupt Economic Slowdown



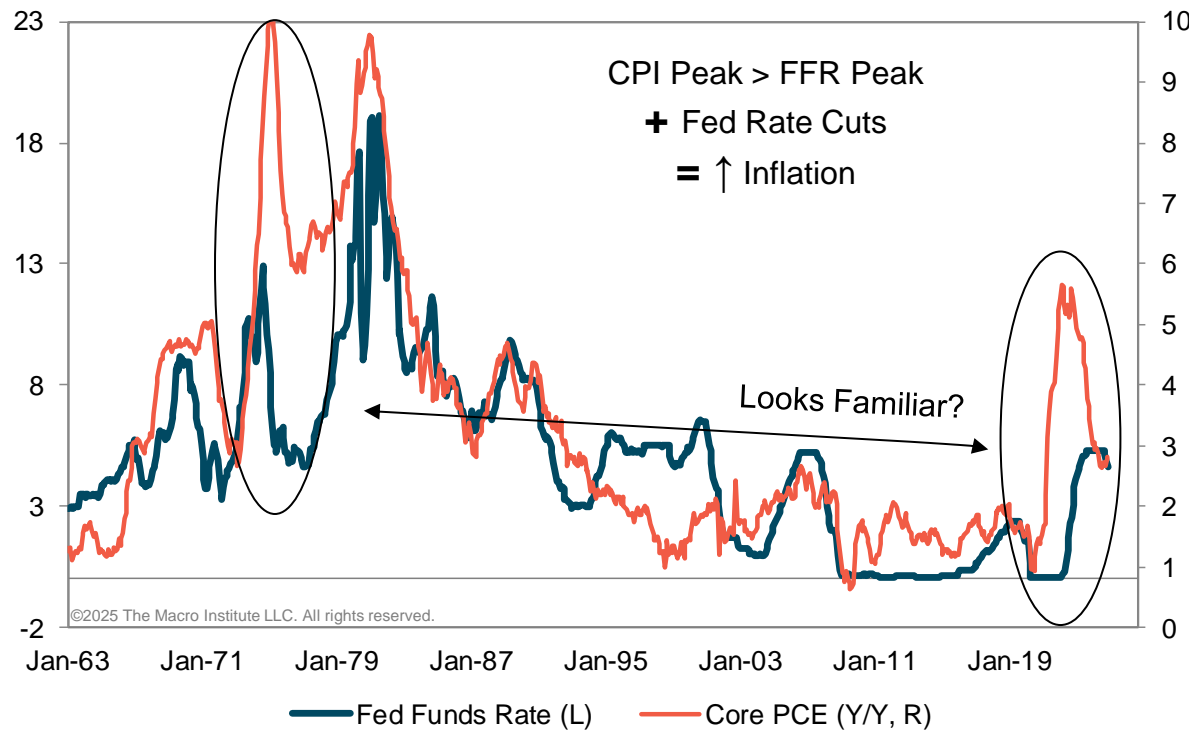
U.S. UR Flat Compared To Canada



A Few Thoughts On The 2025 Outlook

Little Excess Capacity + Stimulus = Return Of Inflation?

Higher Inflation \cong Fed Tightening Ahead



“Supply and demand imbalances related to the pandemic and the reopening of the economy have continued to contribute to elevated levels of inflation.”

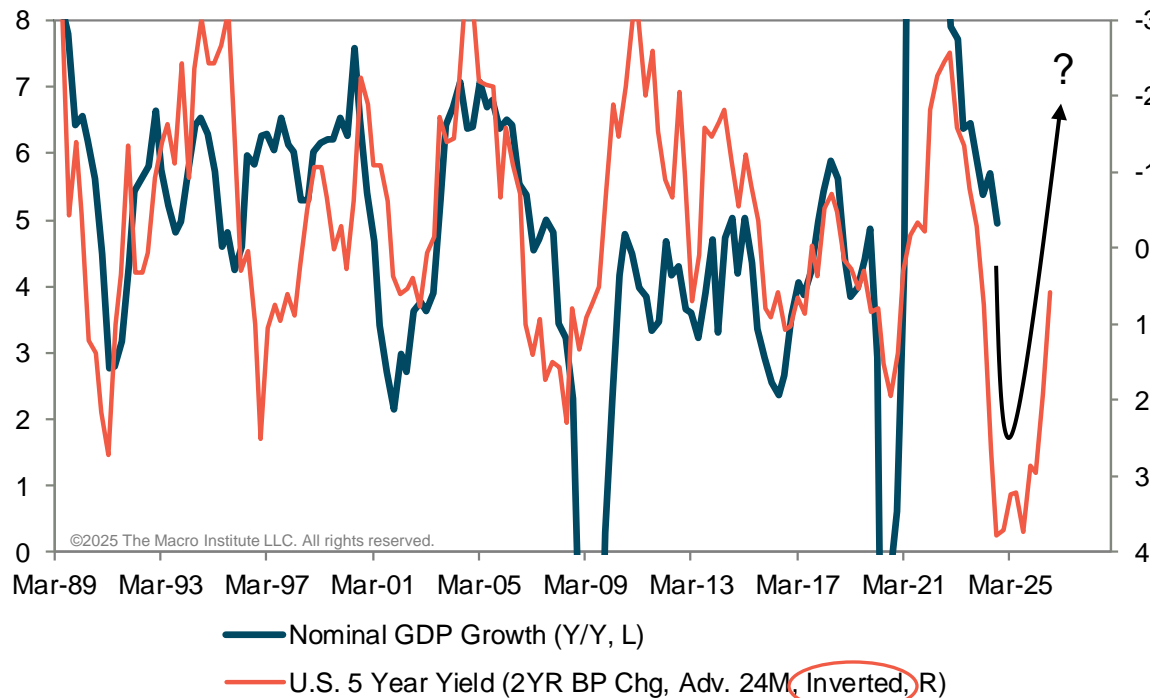
- FOMC Statement, Dec. 15, 2021

Expect a similar statement from the Fed again in 2025.

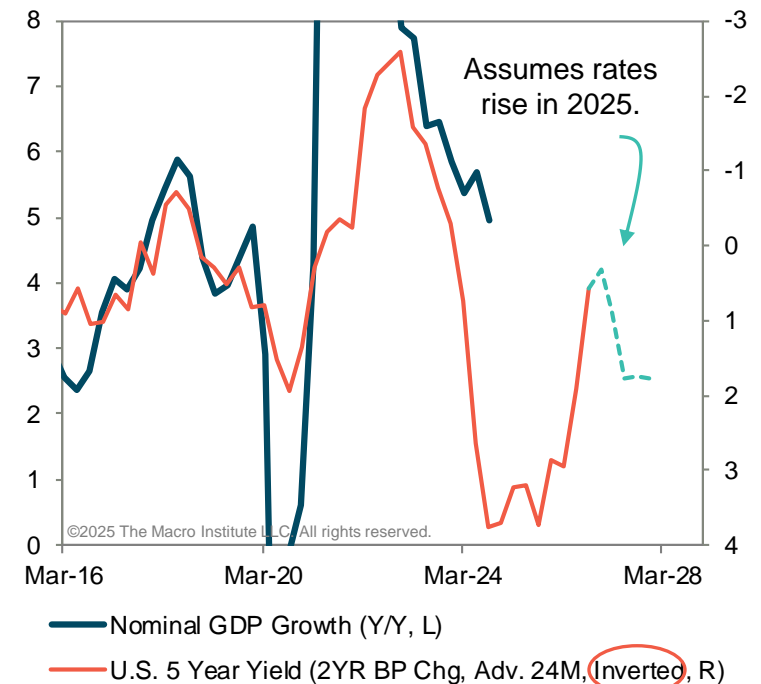
A Few Thoughts On The 2025 Outlook

Stimulus Turns Inflationary Very Quickly In 2025

Policy Becomes Supportive Of GDP At Some Point In 2025



Rising Yields Will Negatively Impact GDP



A GREAT Refresher On Inflation And What It Means For The Economy

Lessons From The 1970s Great Inflation Period: Fed Policy Root Cause Of Higher Inflation

William Poole, St-Louis Fed: [Volcker's Handling of the Great Inflation Taught Us Much](#)

We've learned a lot from that period.

“Bad economic advice, much of it from economists, contributed greatly to policy mistakes in the pre-Volcker days.”

“Another lesson from the Great Inflation is that ***the Fed can only achieve its goal of maximum sustainable employment if it is successful in achieving its goal of price stability.*** The idea that we can let down our guard on inflation to increase employment is unwise in the long term because **higher inflation eventually destroys rather than creates jobs.**”

Source: Federal Reserve Bank Of St. Louis, January 1, 2005

The Great Inflation Comeback Of 2025

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