

The Great Inflation Comeback Of 2025

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Executive Summary

Insufficient Tightening Of Monetary Policy



Insufficient tightening of monetary policy, immigration, and reshoring helped the U.S. side-step a 2024 recession and S&P 500 earnings contraction. The 100bps of easing against an economy running just below peak cyclical capacity suggests stronger growth and inflation in 2025.

“Inflationary” Green Shoots



The underlying drivers and leading indicators of inflation suggest that it has not been tamed. The output gap, labor markets, and credit growth likely work to push prices higher in 2025. The Fed remains in wait-and-see mode in the near term before ultimately reversing course later this year.

Policy Proposals Could Exacerbate Inflation



The primary policy proposals of the new administration have the potential to exacerbate the upward trend in inflation. The macro headwinds from tariffs and reduced labor supply likely prove more consequential to the direction of equity markets than austerity measures.

Five Concerns For 2025



Apart from inflation, risks to U.S. equities stem largely from fiscal policy and the debt/deficit driving bond yields to levels inconsistent with current equity market valuations. A global economic recovery could also spark a rotation out of the domestic “safety” trade and the USD.

Long: Small Cap, Cyclical, & Pricing Power



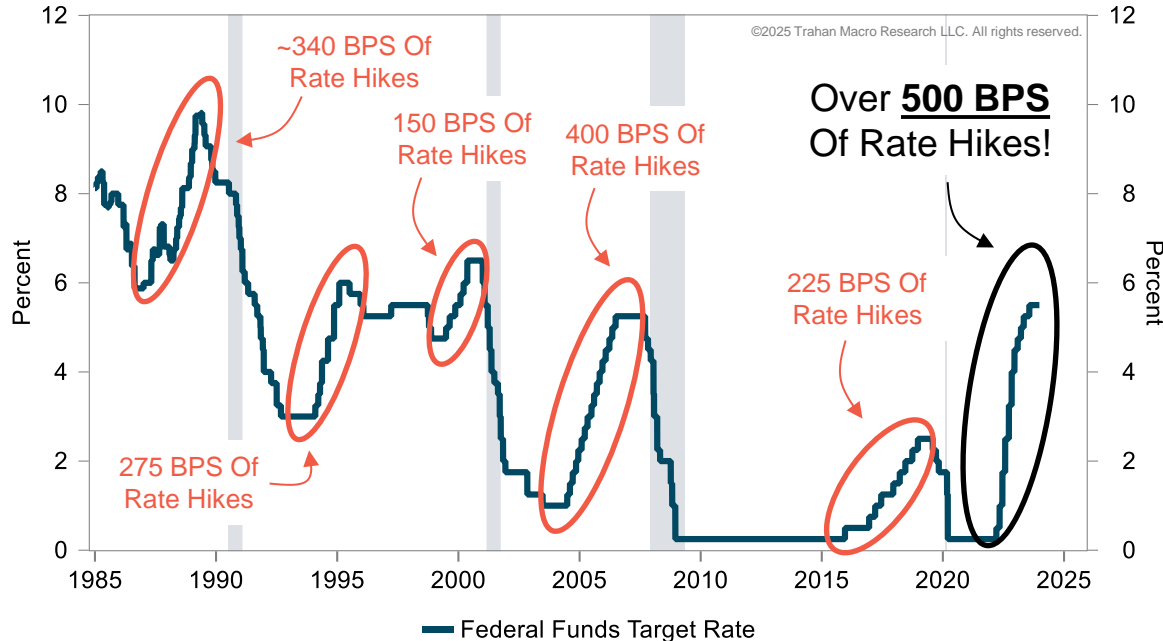
Many anticipatory and leading indicators of the global economy suggest growth and inflation move higher in 2025. Under this backdrop, we favor Small Cap, Cyclical and businesses with pricing power. We expect higher bond yields and further Fed tightening.

Introduction: An Unusual And Problematic Economic Cycle

Every Recession Indicator Pointed To Recession Risk!

As Of June 2024

We Witnessed A Historic Amount Of Fed Tightening



Tightening Skews Recession Odds

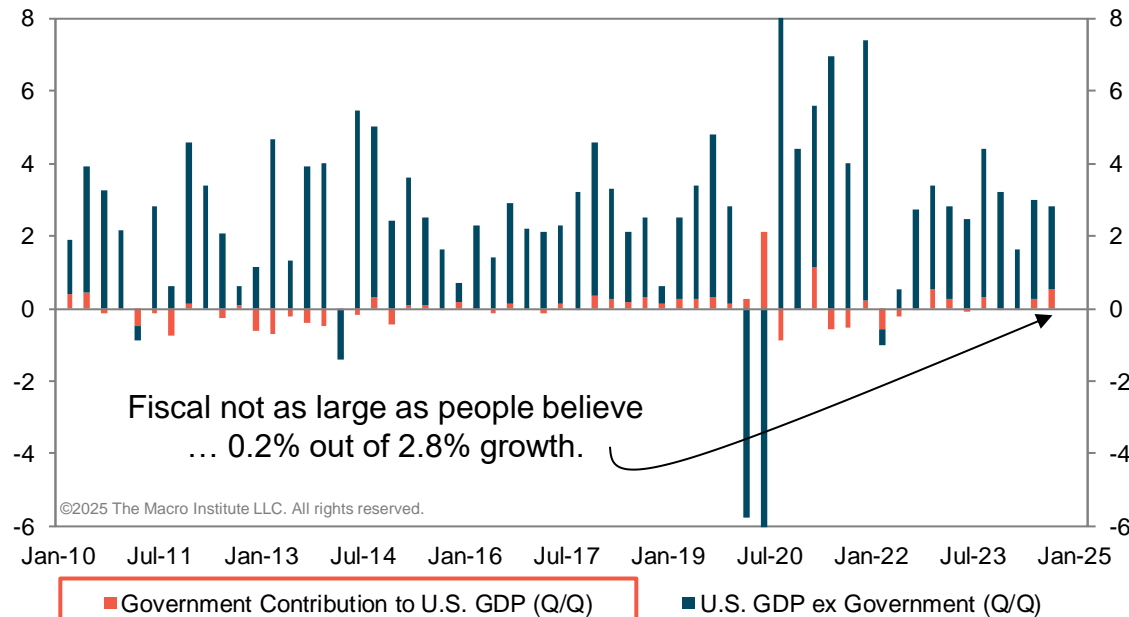
Start Of Tightening	ISM Fell Below 50	GDP Recession
1954	Yes	Yes
1958	Yes	Yes
1961	Yes	Yes
1967	Yes	No
1972	Yes	Yes
1977	Yes	Yes
1980	Yes	Yes
1983	Yes	No
1988	Yes	Yes
1994	Yes	No
1999	Yes	Yes
2004	Yes	Yes
2015	Yes	Yes
2022	Yes	?
Frequency	14/14	10/13

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Introduction: An Unusual And Problematic Economic Cycle

Consensus Mostly Points To Fiscal Policy As Source Of Economic Momentum

Fiscal Policy Not Adding As Much To GDP As Investors Believe



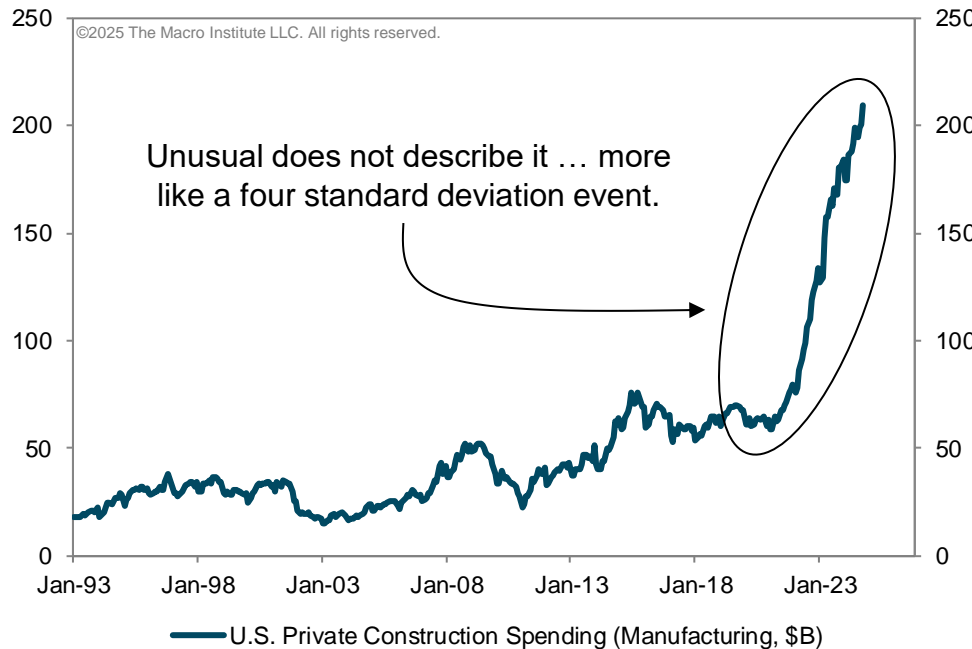
Unusual Forces At Play In 2024

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

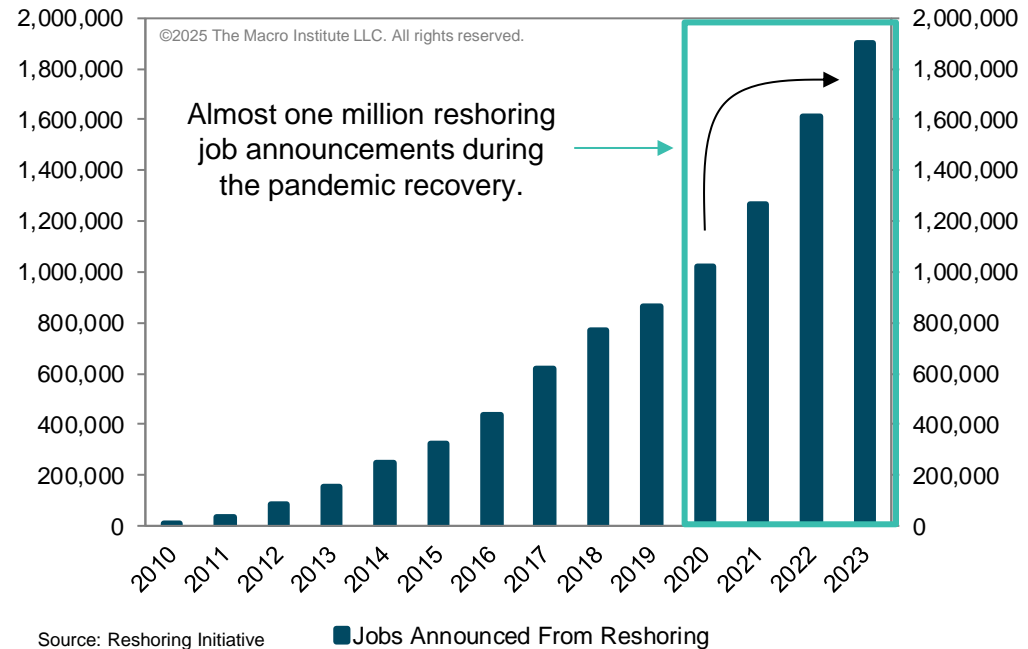
Introduction: An Unusual And Problematic Economic Cycle

Reshoring: A Structural Phenomena With Cyclical Implications

Robust Manufacturing Spend Amidst Tightening



Cumulative Reshoring Jobs Announced



Immigration: Added To Consumption And Weighed On Wage Inflation

GDP Tailwinds From Immigration Largely Consumption Driven

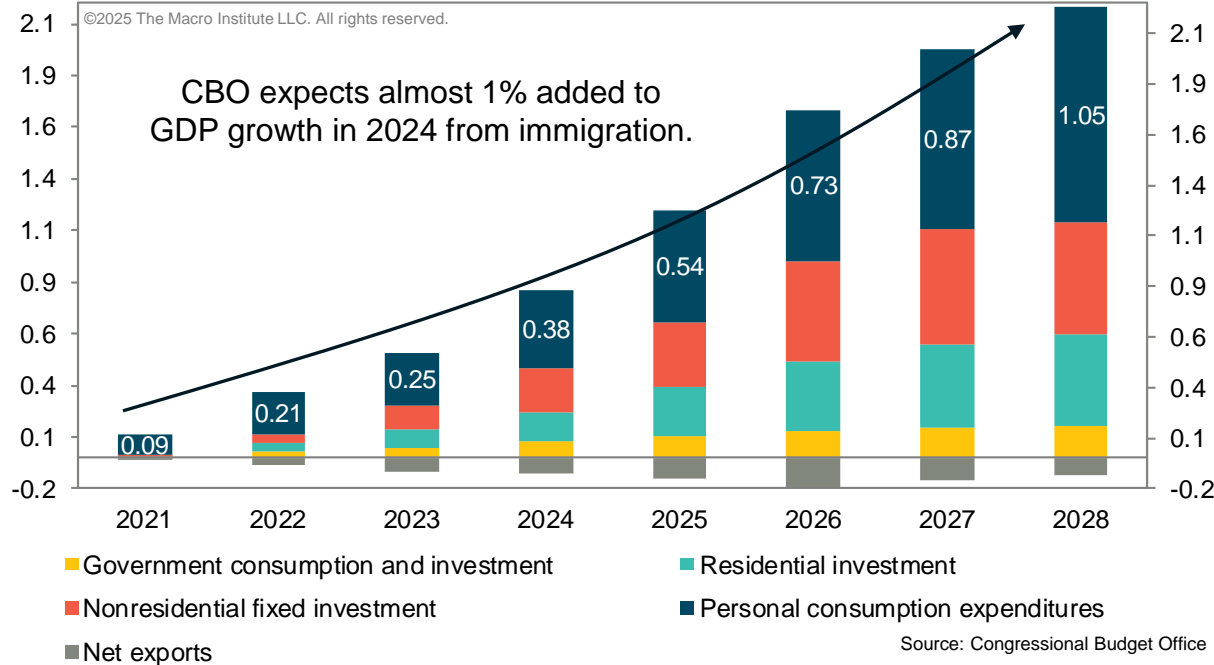
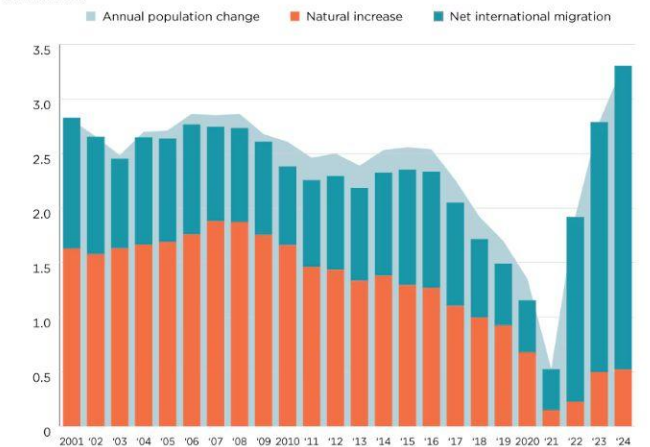


Figure 2.
U.S. Annual Population Change, Natural Increase and Net International Migration: July 1, 2000–July 1, 2024
(In millions)

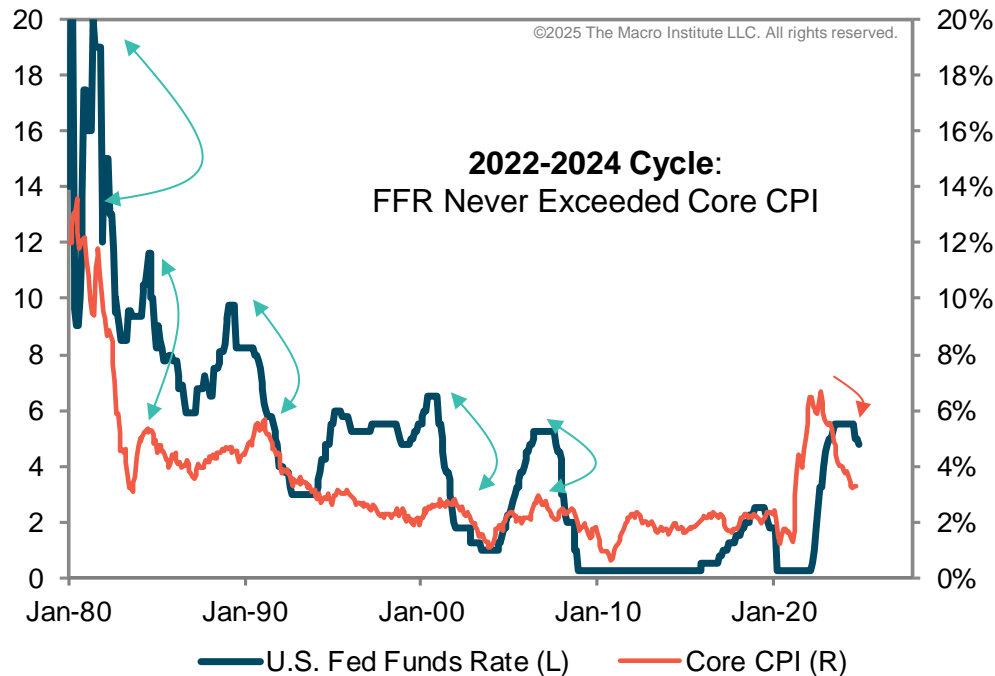


Note: For the years 2000 to 2020, the sum of natural increase and net international migration may differ slightly from the annual population change. This is because population change is derived from the intercensal estimates, which do not include the components of population change. The components of change are based on postcensal estimates. For more information on the difference between intercensal and postcensal estimates, please visit www.census.gov/programs-surveys/popest/guidance.html.
Source: U.S. Census Bureau, Vintage 2024, 2020, 2010, and 2000 Population Estimates; 2010-2020 and 2000-2010 Intercensal Estimates.

Introduction: An Unusual And Problematic Economic Cycle

Monetary Policy's Relationship With Inflation Very Different Than In The Past

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.

Introduction: An Unusual And Problematic Economic Cycle

The Fed Took Its Victory Lap A Bit Too Early!



“Inflation is coming down and is close to target, unemployment has come up and the job market is basically where we would want it to be... Rates need to come down over the next 12 months by a lot.”

- Austan Goolsbee, 10/3/2024

“Inflation data pushed me toward a big cut.”

“Estimates suggest Core PCE running below target.”

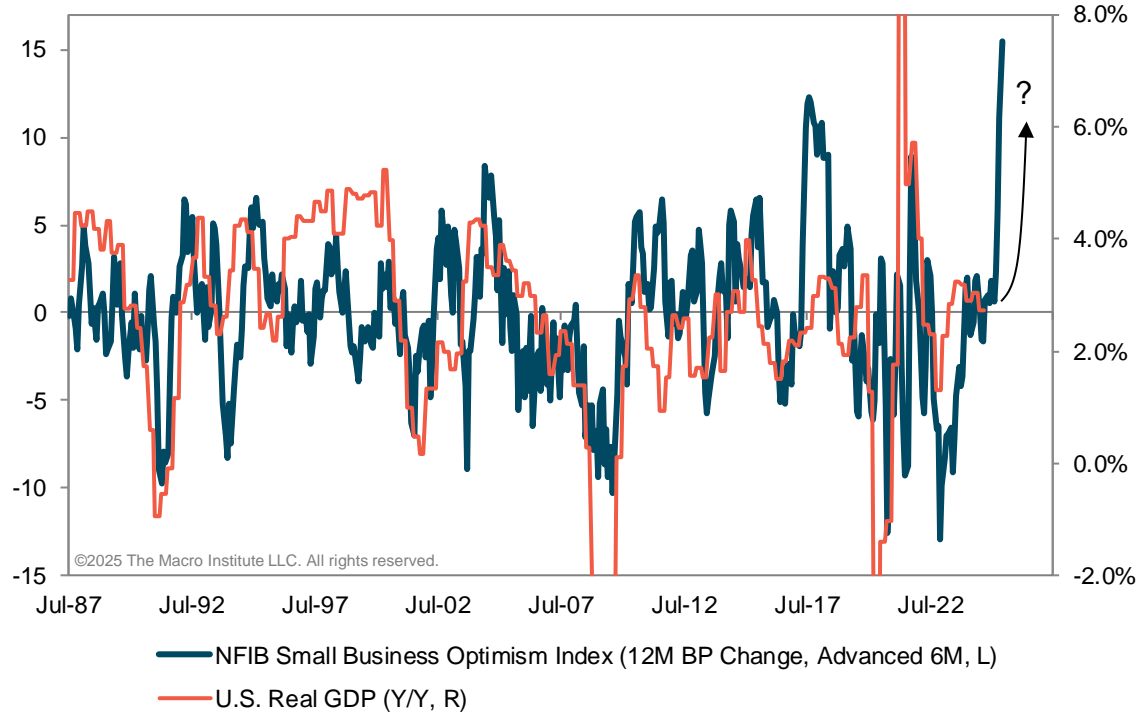
“Inflation softening faster than I expected.”

- Chris Waller, 9/20/2024

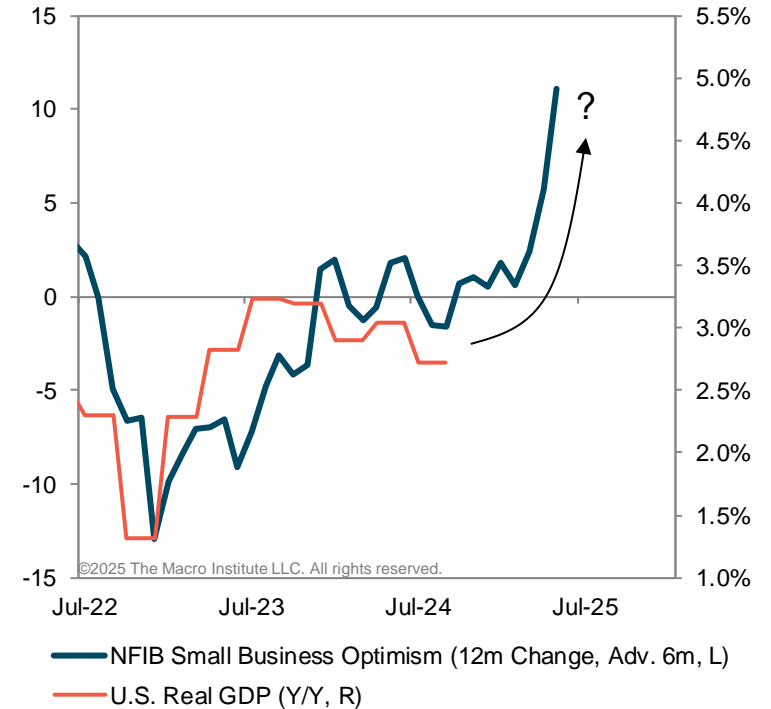
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NFIB's Small Business Optimism Points To Even Stronger Economy In 2025

↑ Small Business Optimism = ↑ GDP Growth Ahead?



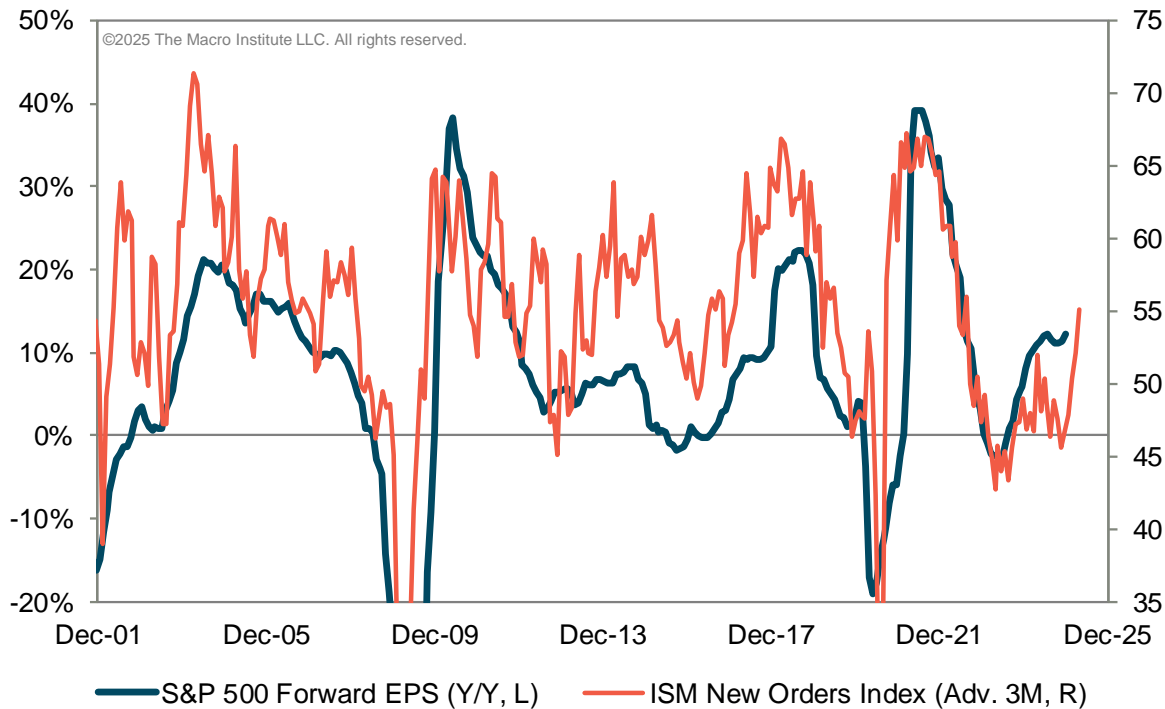
Accelerating Growth In 2025?



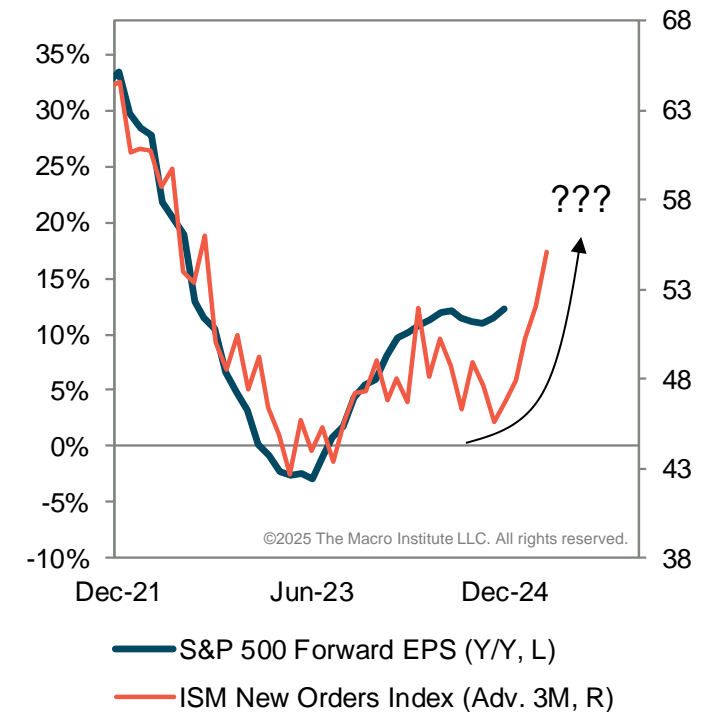
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A Better Economy Will Also Bring About Better Earnings

Economic Activity And S&P 500 Earnings Intrinsically Linked



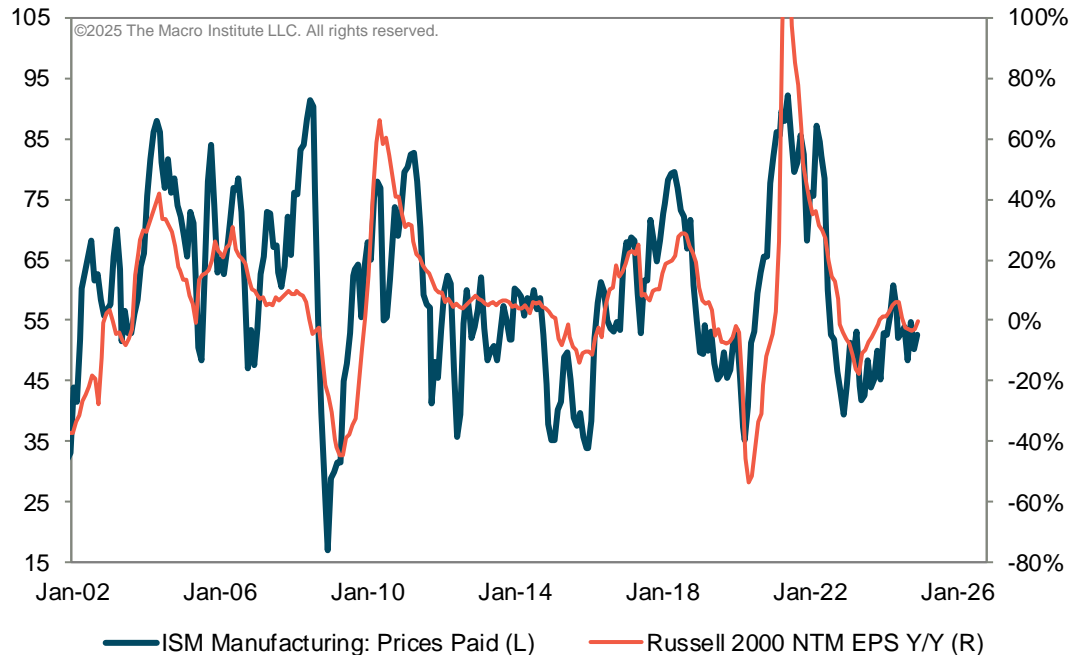
Earnings Headed Higher?



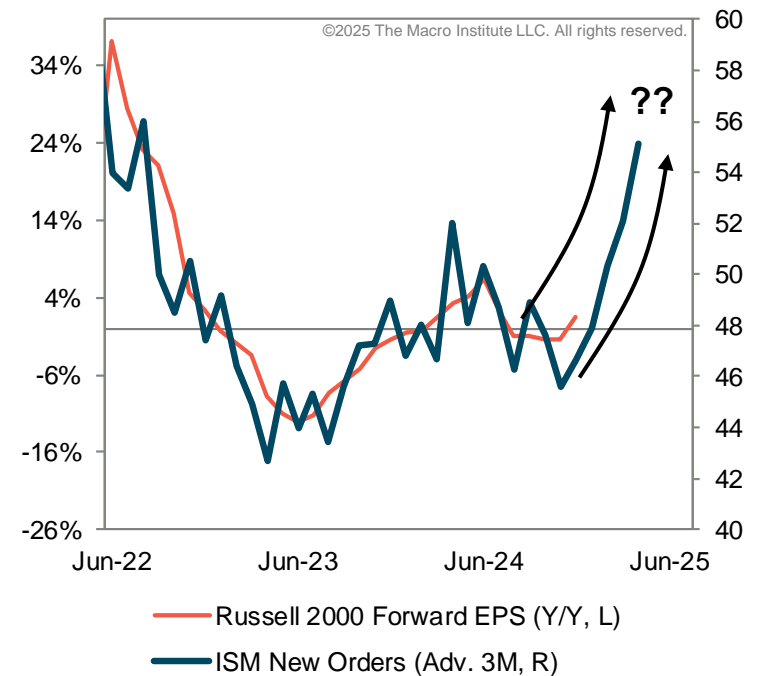
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Better Earnings Inevitably Mean Stronger Inflationary Pressures

Earnings Trends And Inflation Intrinsically Linked



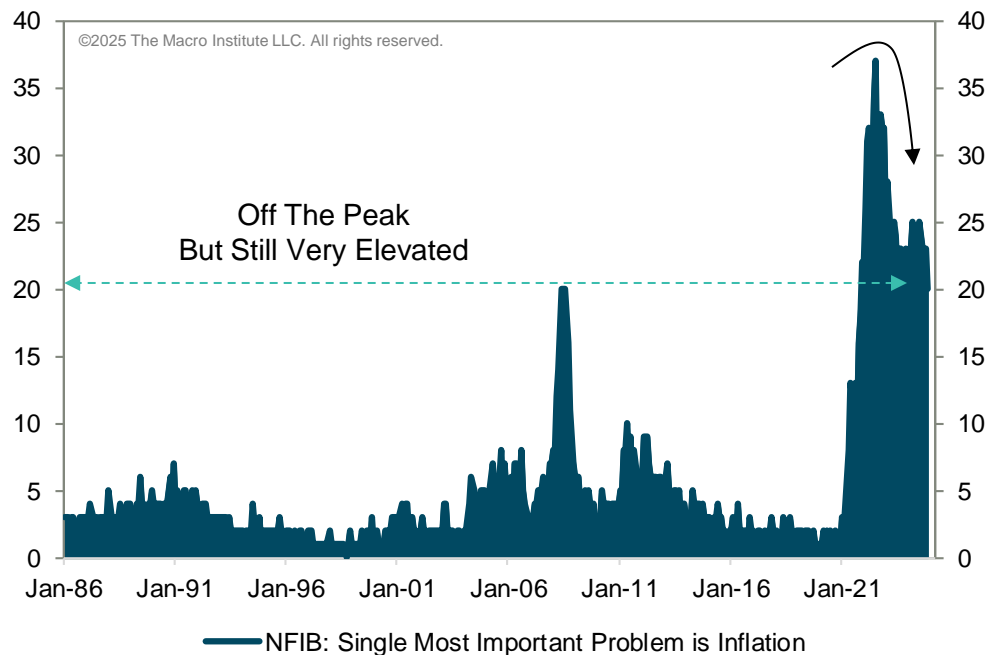
Earnings About To Takeoff?



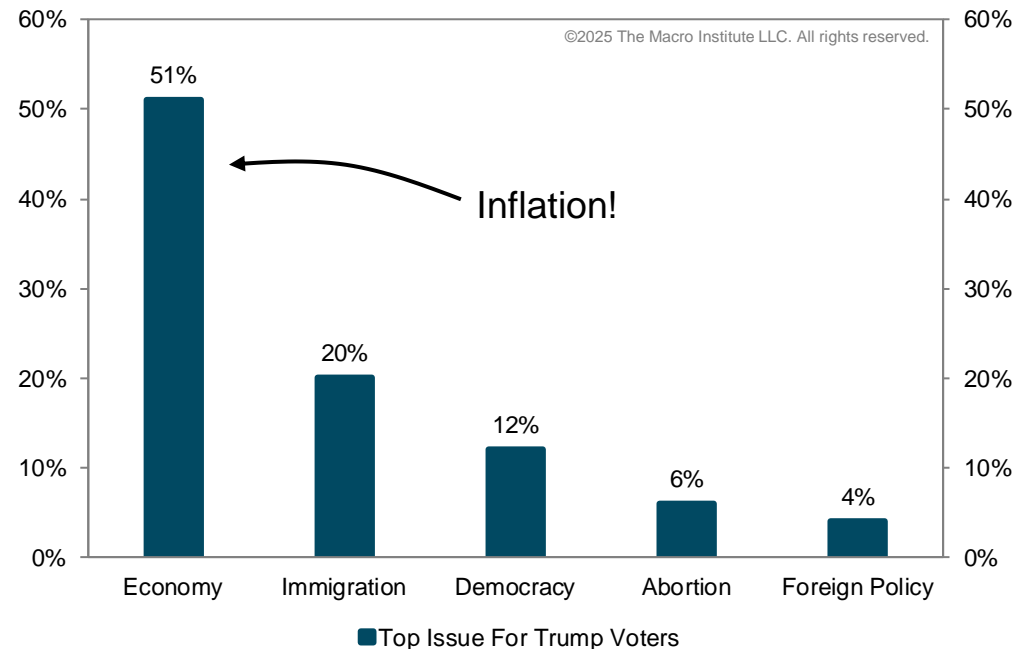
Introduction: An Unusual And Problematic Economic Cycle

Bottom Line: New Cycle Is About To Start When Inflation Is Still An Issue

Inflation Still A Problem For Small Businesses

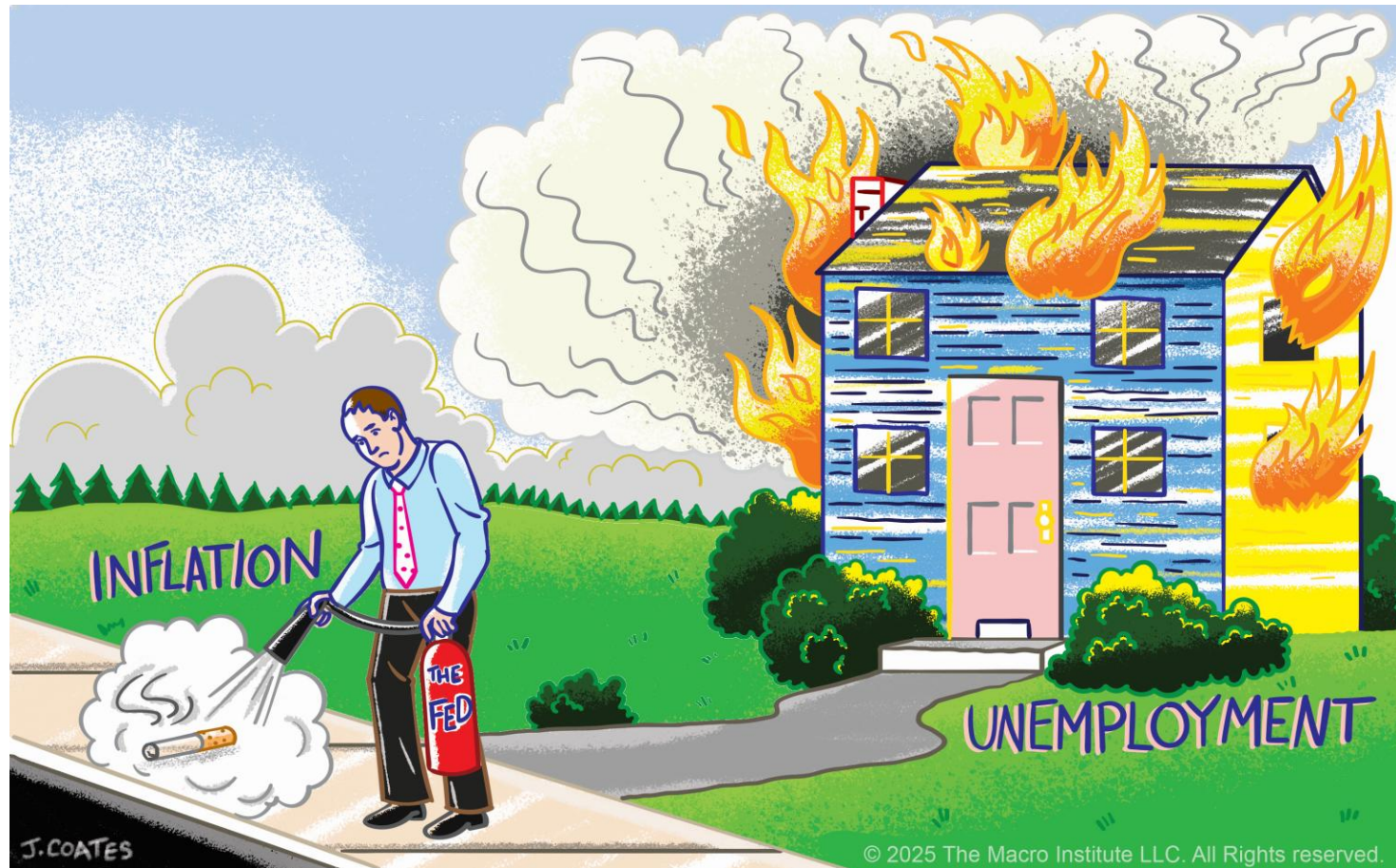


Inflation Still An Issue For Consumers



Source: NBC News Exit Poll

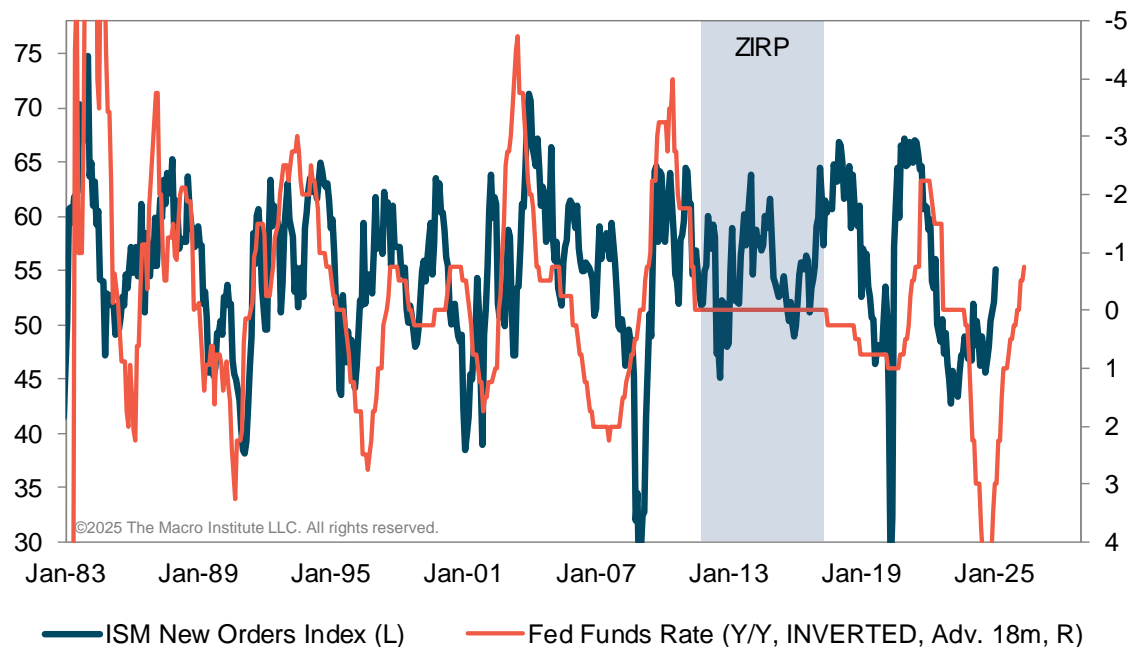
Section 1: A Different Structural Backdrop For U.S. Inflation



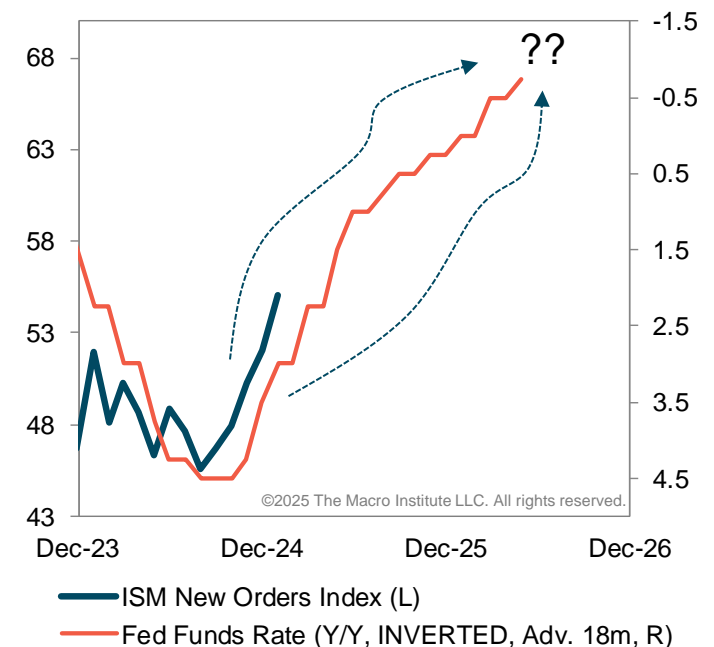
Section 1: A Different Structural Backdrop For U.S. Inflation

Monetary Policy: Already A Tailwind For Economic Prospects (LEIs)

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



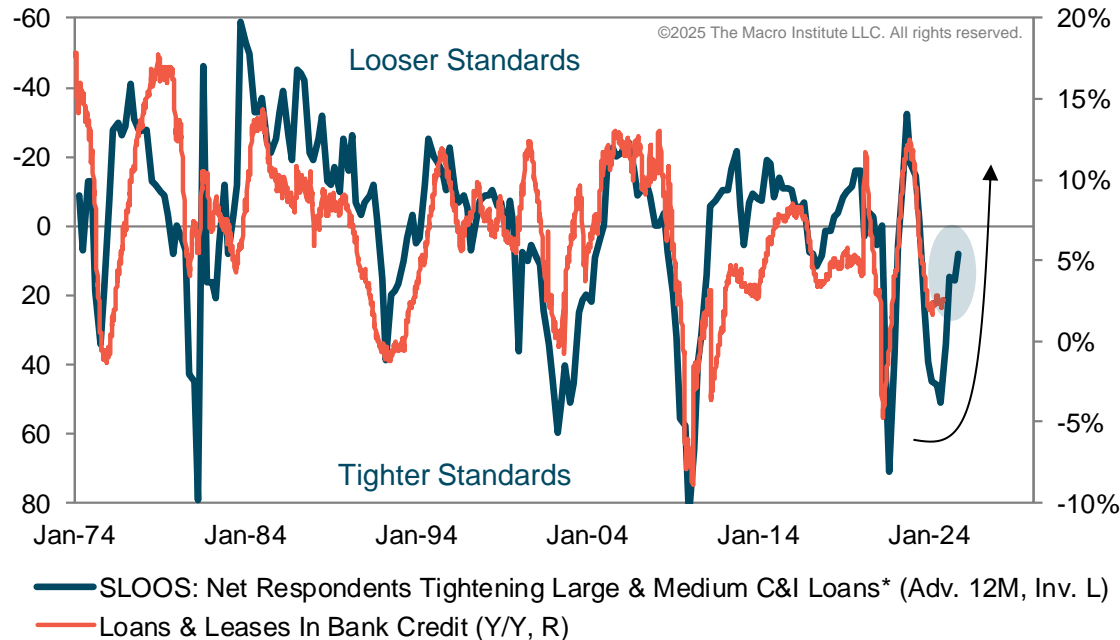
Higher LEIs In 2025?!?



Section 1: A Different Structural Backdrop For U.S. Inflation

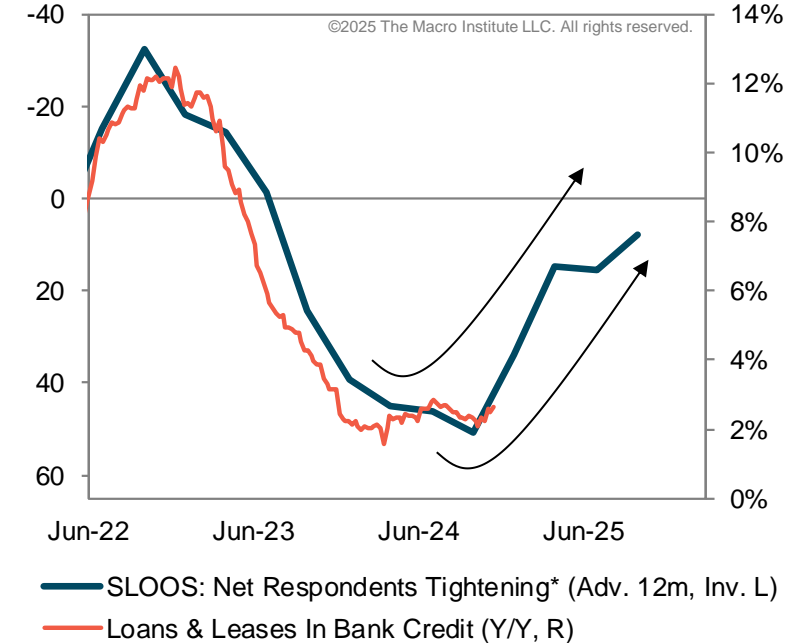
Easier Lending Standards: Also Supportive Of Economic Activity In 2025

Loosening Credit Standards Suggest Higher Loan Growth



*Spliced with Consumer Loans Pre-1990)

Loan Growth Accelerating Into 2025?

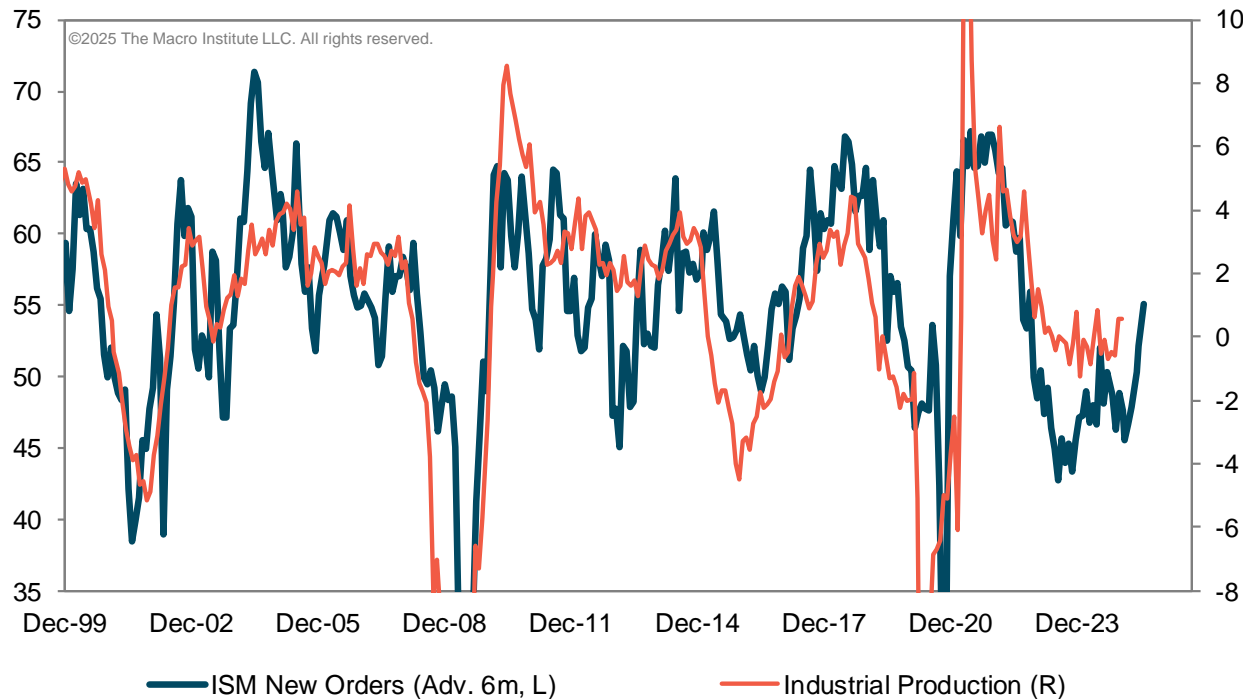


*Spliced with Consumer Loans Pre-1990)

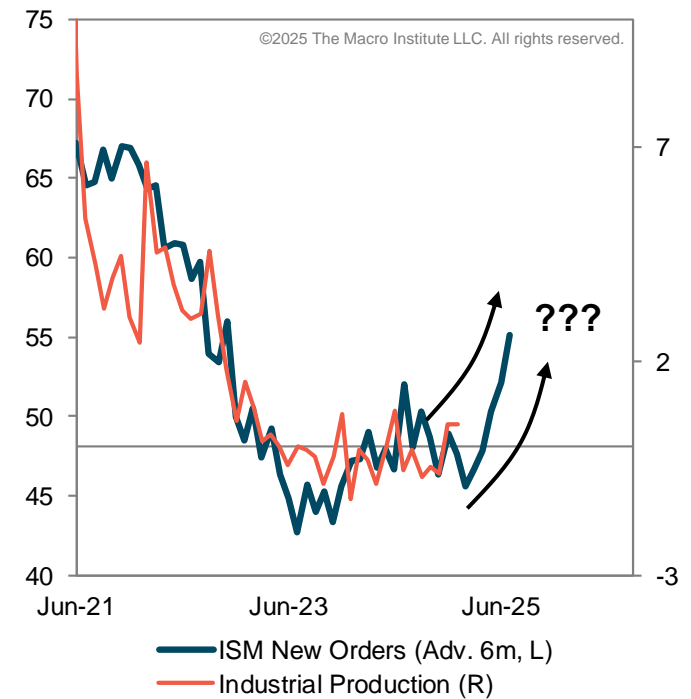
Section 1: A Different Structural Backdrop For U.S. Inflation

Monetary Policy: Set To Become A Tailwind For Broader Economy In 2025

Where Leading Indicators Go ... Economic Activity Follows!

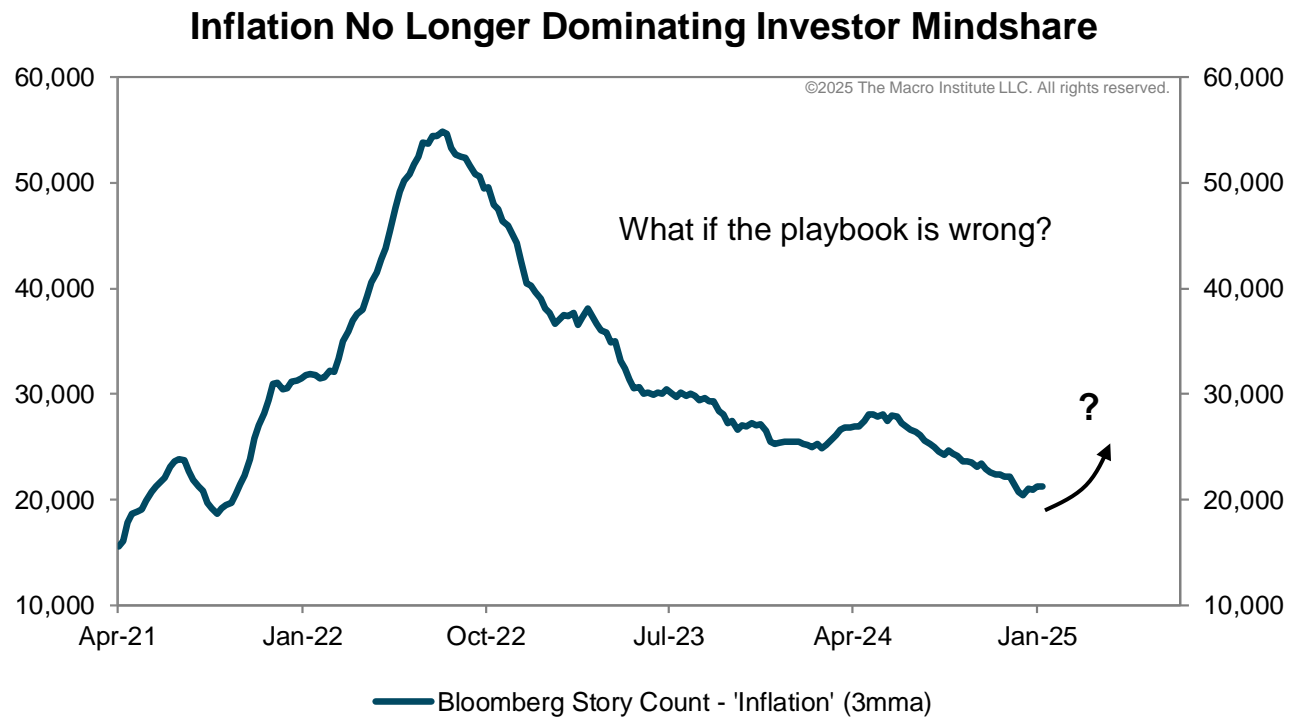


Q2 Liftoff For The Economy?



Section 1: A Different Structural Backdrop For U.S. Inflation

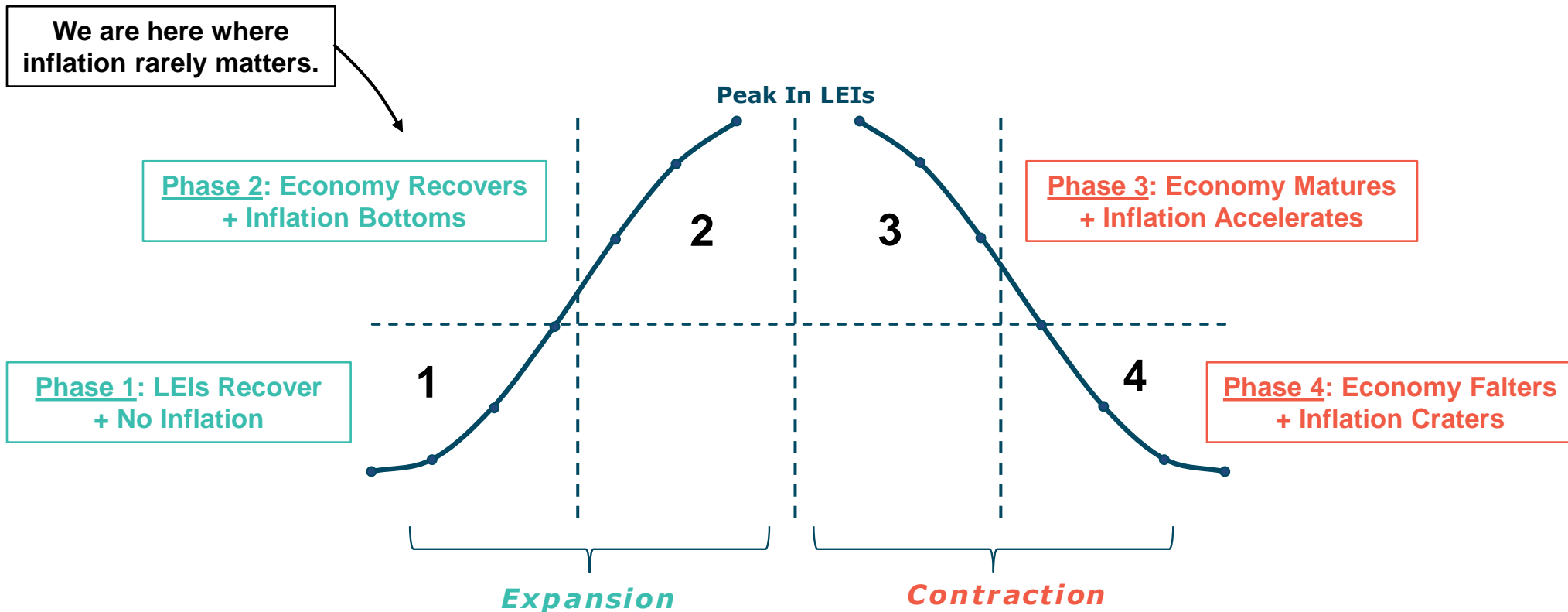
There's Less Concern About Inflation Today Than At Any Point Since 2021



Inflation playbook would argue for little risk at this time.

Section 1: A Different Structural Backdrop For U.S. Inflation

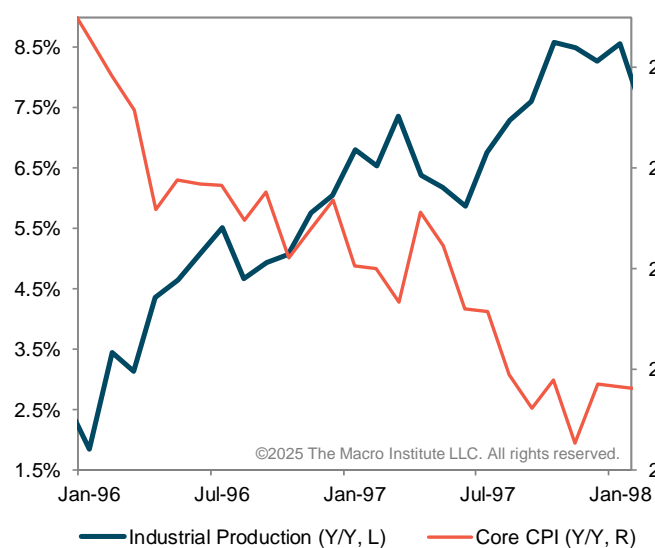
Inflation Playbook: Only Problematic In Extended Expansions



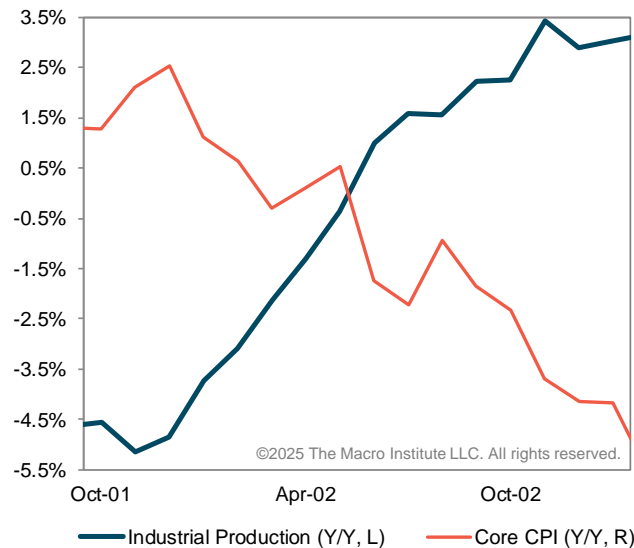
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Inflation Usually Keeps Slowing Even As Economy Recovers (Phase 2)

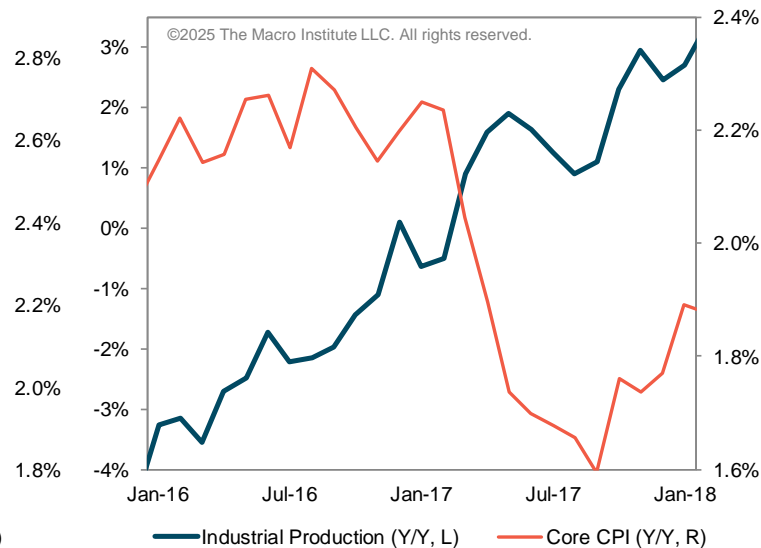
96/97: Inflation Close In Phase 2



01/02: Inflation Close In Phase 2



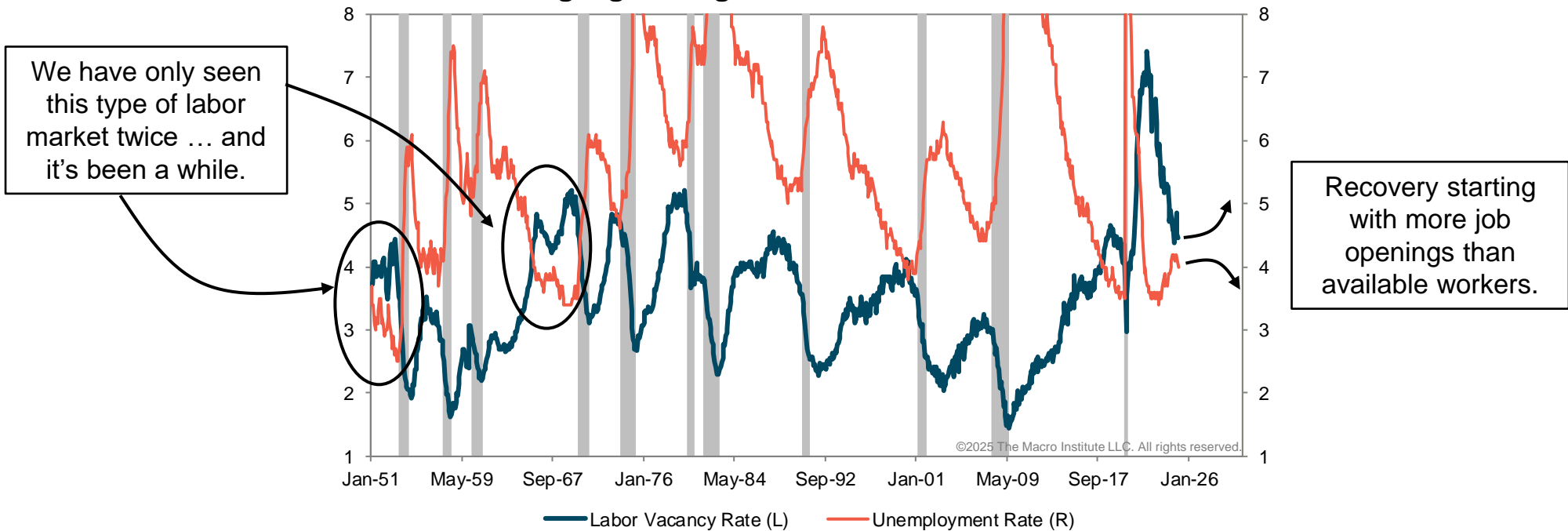
16/17: Inflation Close In Phase 2



Section 1: A Different Structural Backdrop For U.S. Inflation

Today's Reality: This Is NOT Your Parents' Labor Market

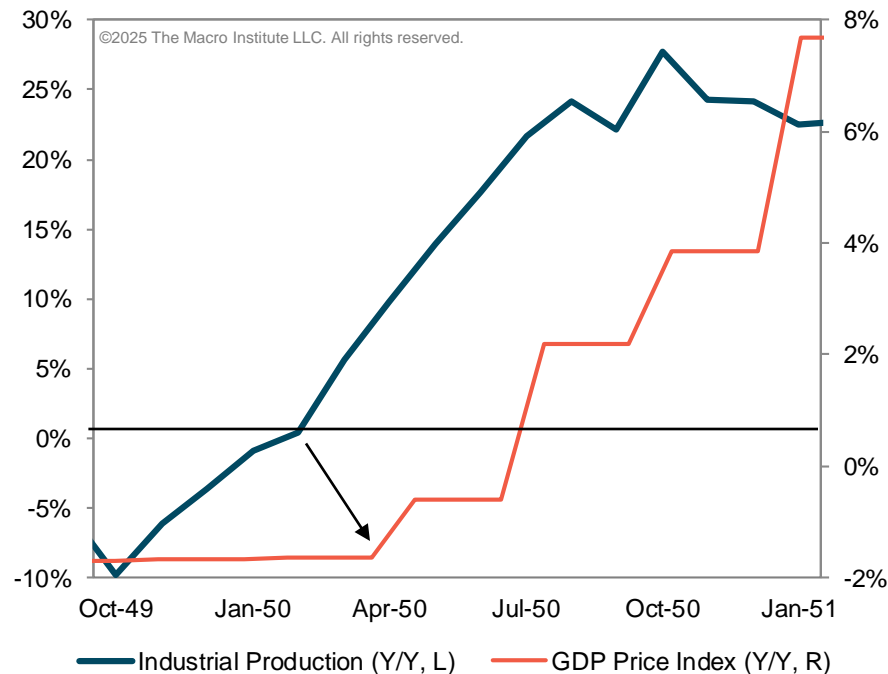
Labor Marketing Tightening From Levels Last Seen In The 1960s



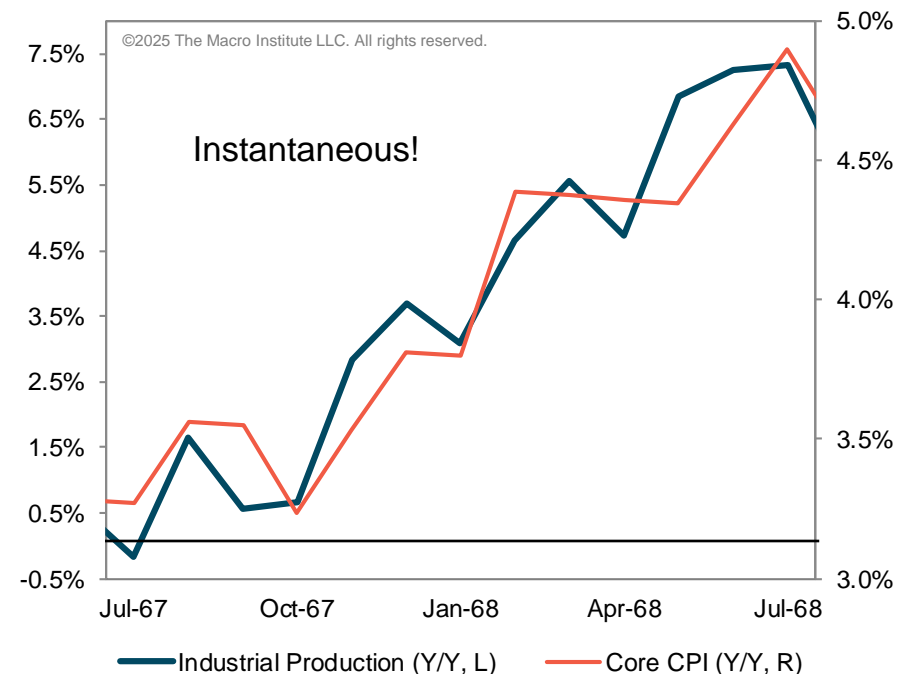
Section 1: A Different Structural Backdrop For U.S. Inflation

Inflation Rebounded Quickly When We Last Faced This Type Of Labor Market

1950: A Quick Recovery In Inflation



1967/68: An Even Quicker Recovery In Inflation



Section 1: A Different Structural Backdrop For U.S. Inflation

Unusual Labor Markets Set To Derail The Inflation Playbook

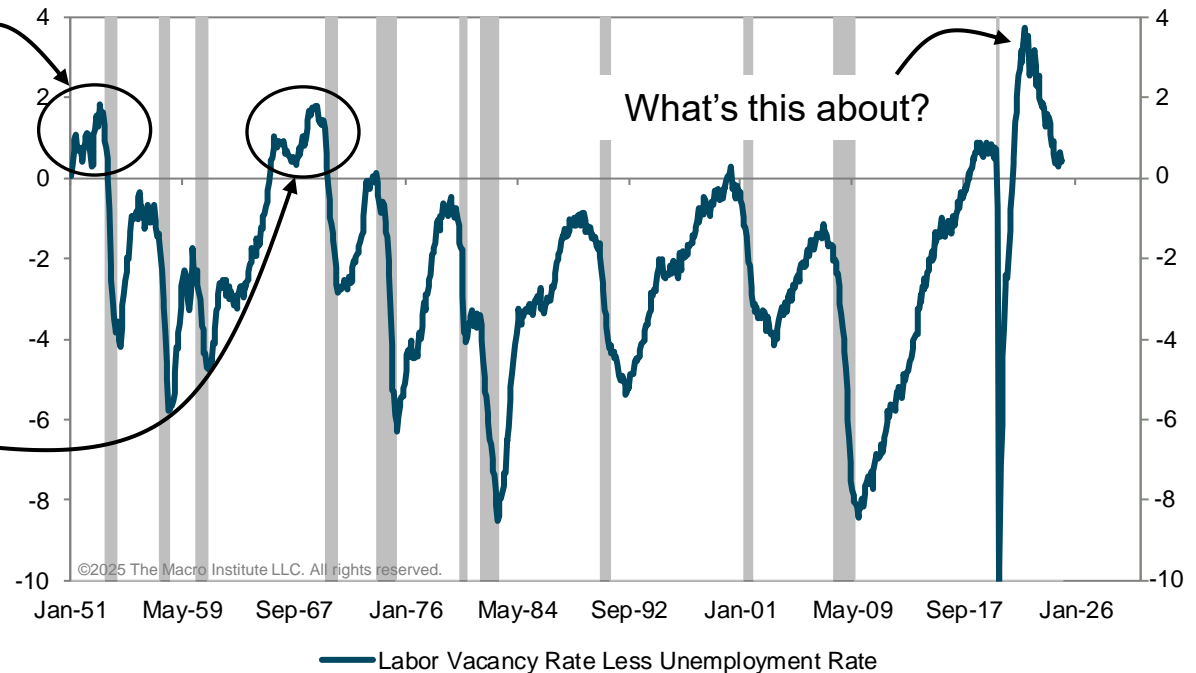
Labor Markets Are Different This Time For Today's Investors

“The period spanning the aftermath of World War II and the duration of the Korean War, from 1947 to 1954 ... was characterized by pent-up consumer demand, war-induced uncertainty, and a Fed policy moving from offsetting a national crisis to offsetting inflation.”

- Council On Foreign Relations, 5/26/2022

“The expenditures related to the Vietnam war, added to the near full-employment economy that existed in mid-1965, have generated severe inflationary pressures.”

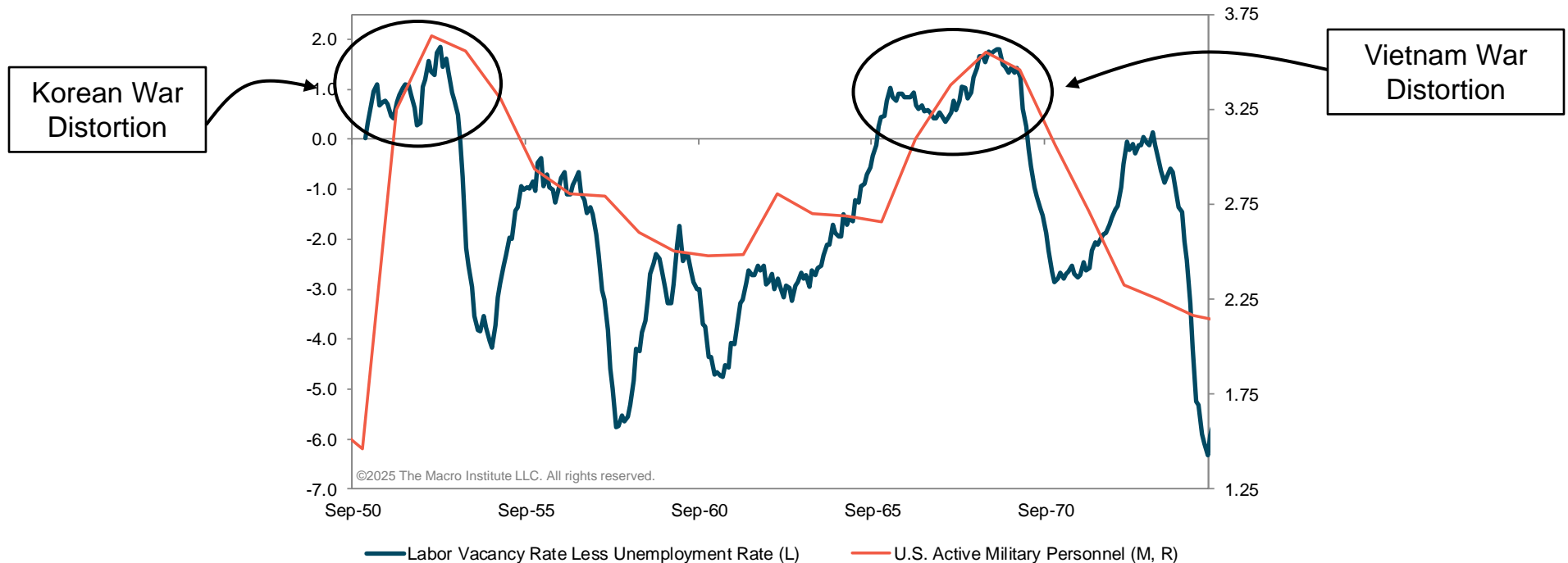
- Louis Lundborg, Bank of America Chairman Of The Board, 4/15/1970



Section 1: A Different Structural Backdrop For U.S. Inflation

Unusual Circumstances Have Led To Unusual Labor Markets At Times

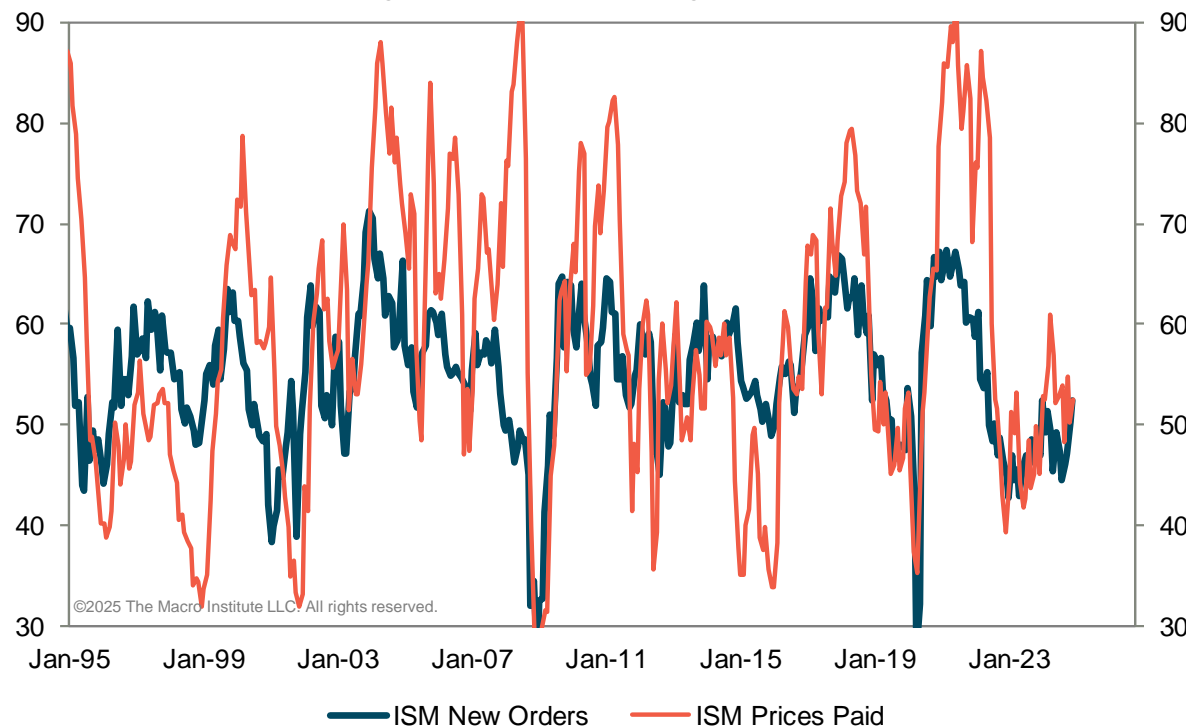
Military Conflicts Have Distorted Pool Of Available Labor In The Past



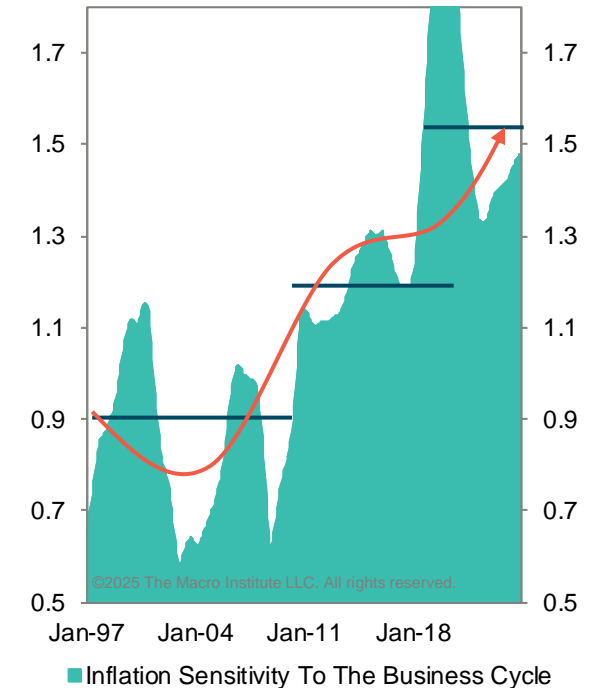
Section 1: A Different Structural Backdrop For U.S. Inflation

U.S. Economy Structurally Different When It Comes To Inflation

Inflation Sensitivity Of The Economy Evolves Across Time ...



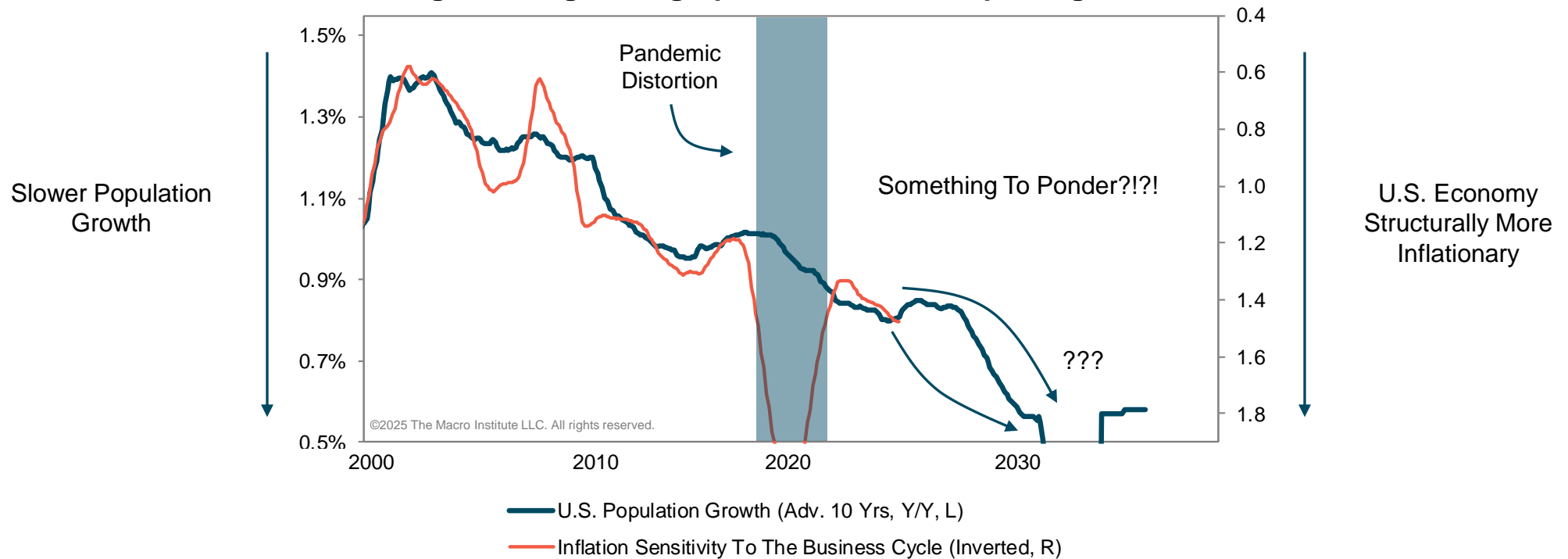
... Now Near Generational Highs



Section 1: A Different Structural Backdrop For U.S. Inflation

Today's Labor Market Issues About Demographics Not War

Long Standing Demographic Issues Now Impacting Inflation

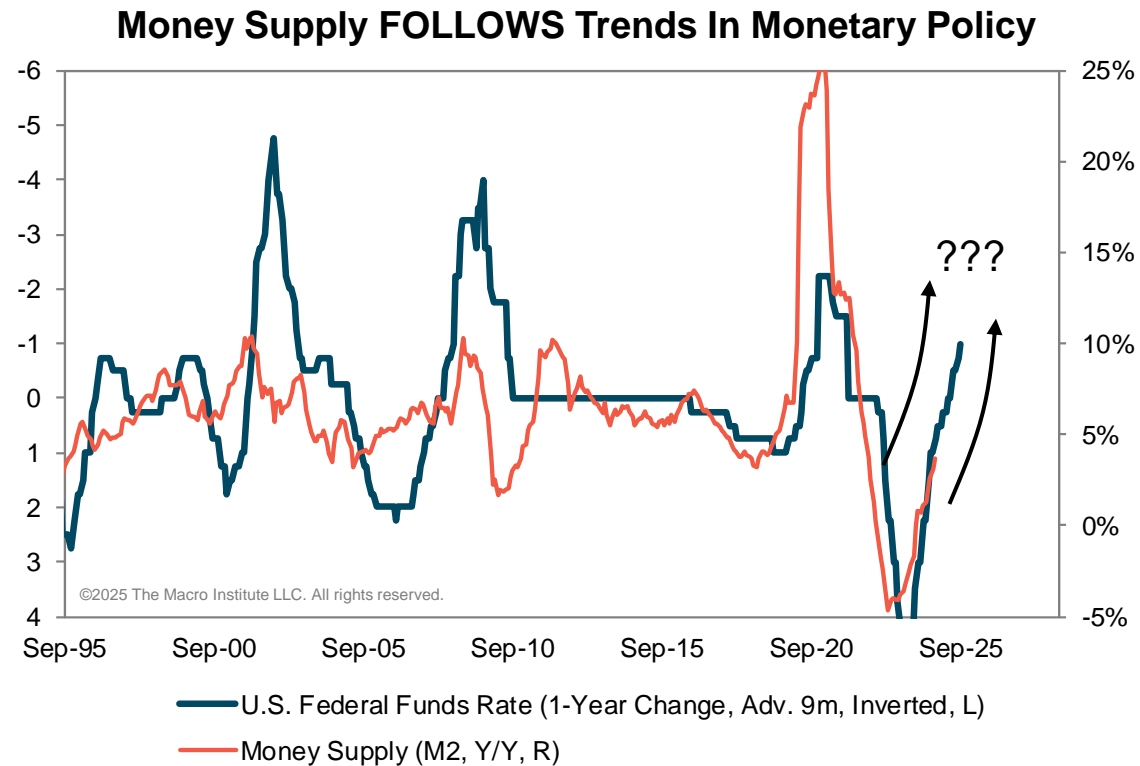


Section 2: An Inflationary Recovery In The Making



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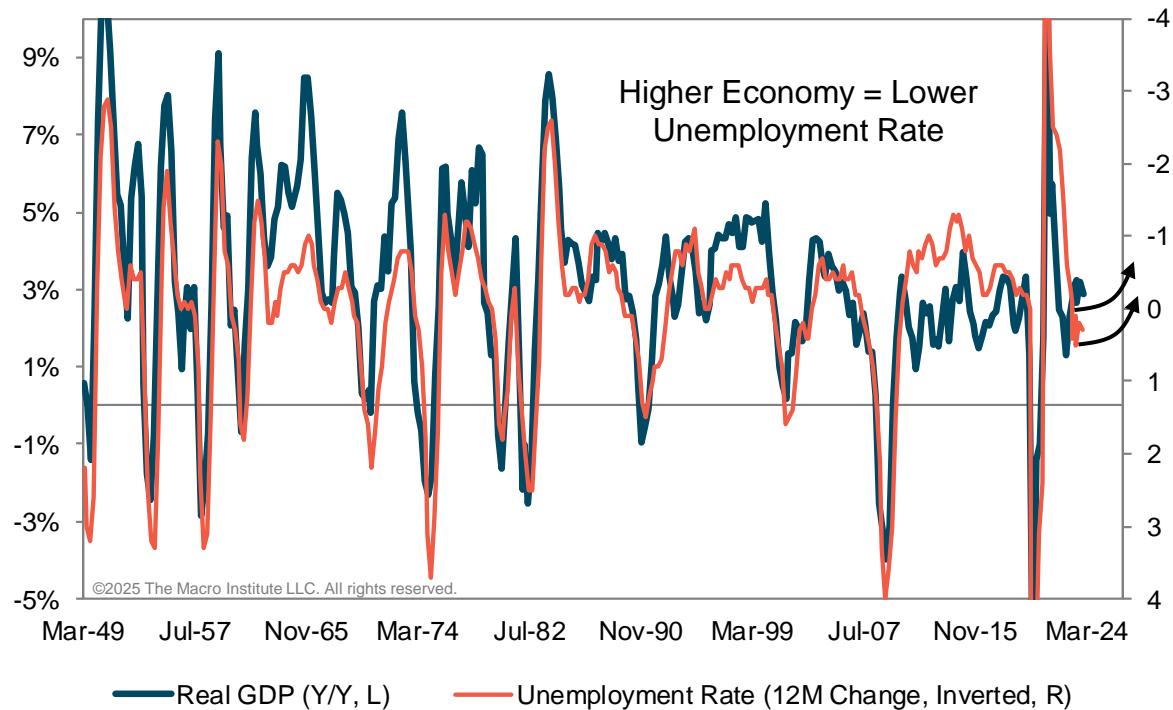
Money Supply Story Also Changing Rapidly When It Comes To Inflation



Section 2: An Inflationary Recovery In The Making

Labor Market Recovery And Stronger GDP Growth One And The Same

Hard To Separate Labor Markets From Trends In The Economy

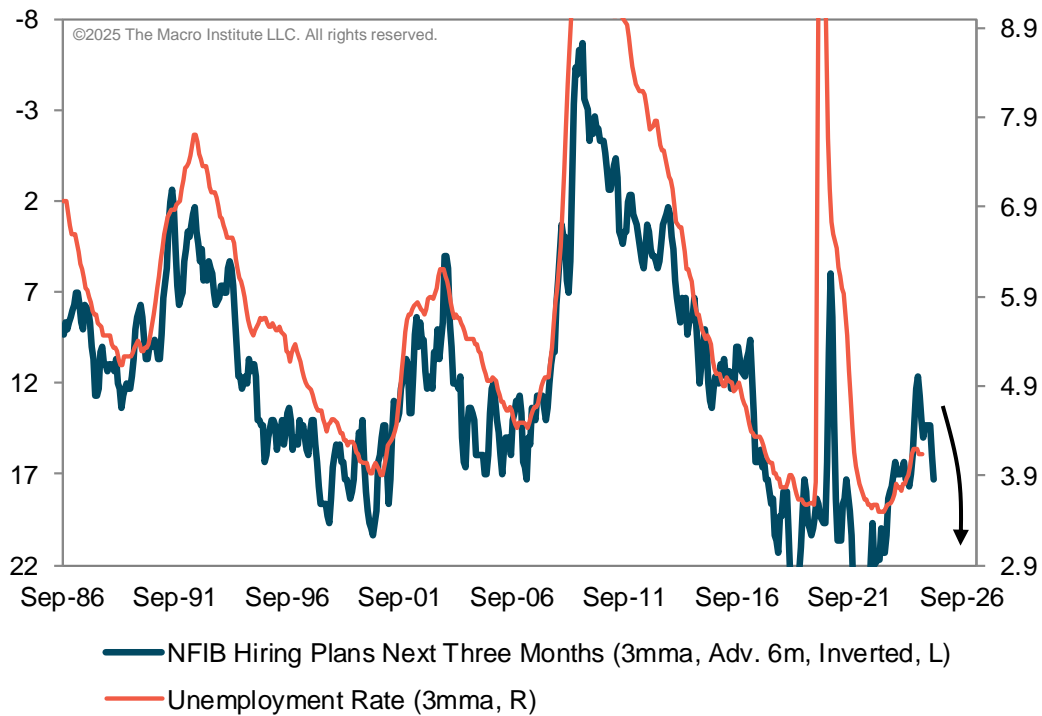


Tighter labor markets an inevitable byproduct of stimulus.

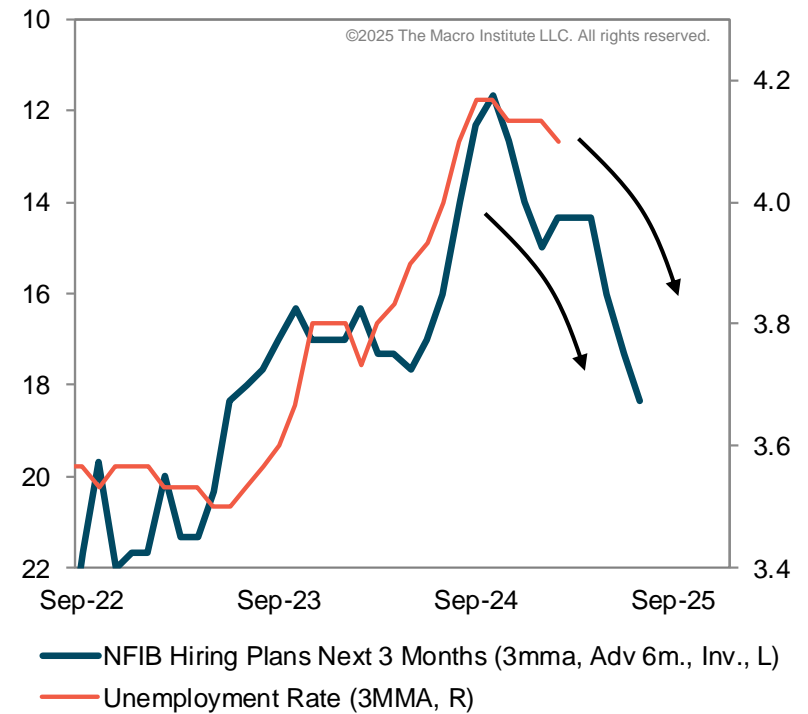
Section 2: An Inflationary Recovery In The Making

Small Business NFIB Survey Points To Even Tighter Labor Markets Ahead

Hiring Intentions On The Rise ...



... Unemployment Set To Dwindle Further



Section 2: An Inflationary Recovery In The Making

An Unprecedented Labor Market For Today's Investors

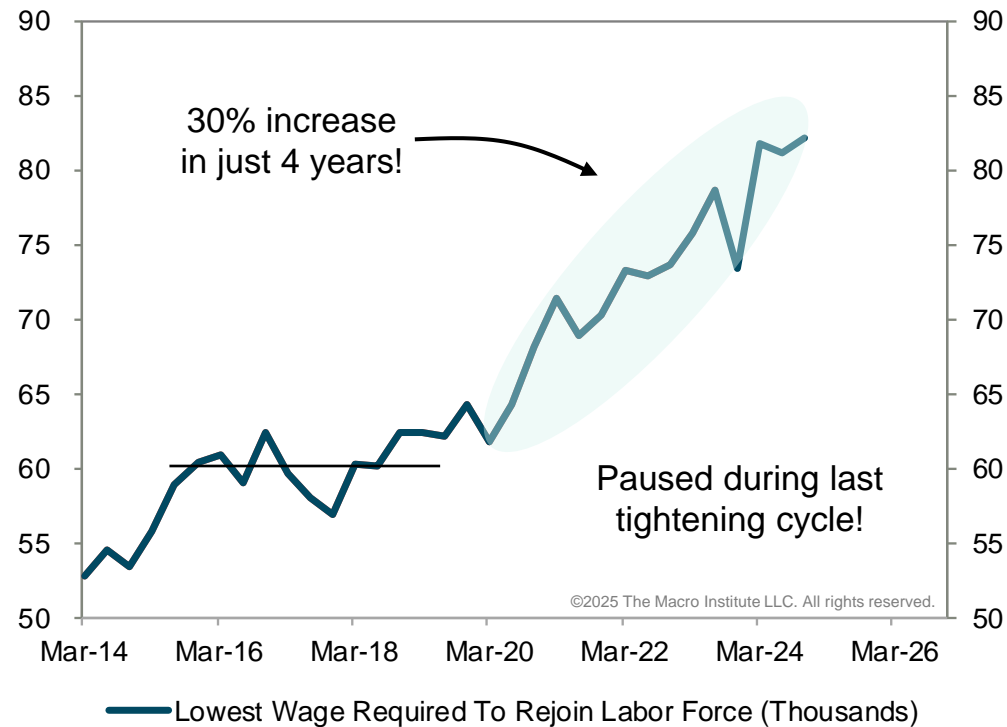
Tighter Labor Markets Inevitably Leads To Higher Inflation



Section 2: An Inflationary Recovery In The Making

An Unprecedented Labor Market For Today's Investors

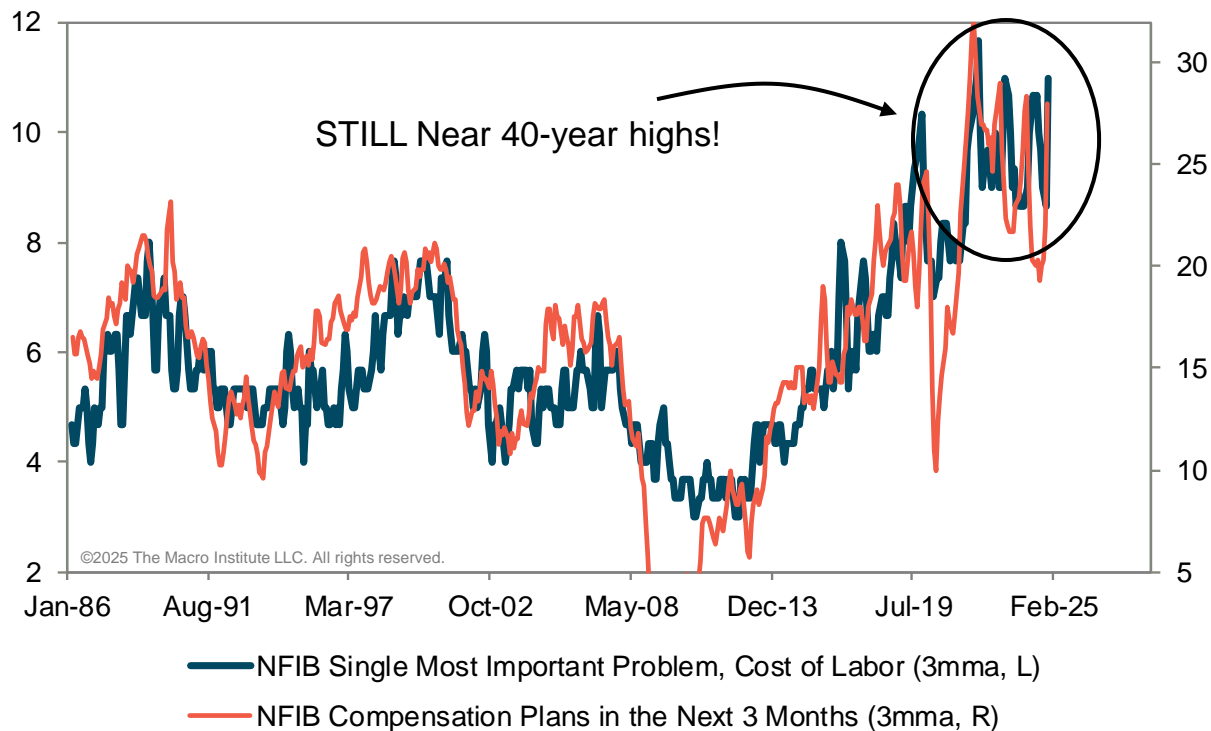
Reservation Wage Higher During Fed Tightening Cycle?!?



Section 2: An Inflationary Recovery In The Making

U.S. Companies Already Understand What The Fed Is Clearly Missing

Labor Markets Tightening From Levels Last Seen In The 1960s



Lagging Economic Index (LAG)

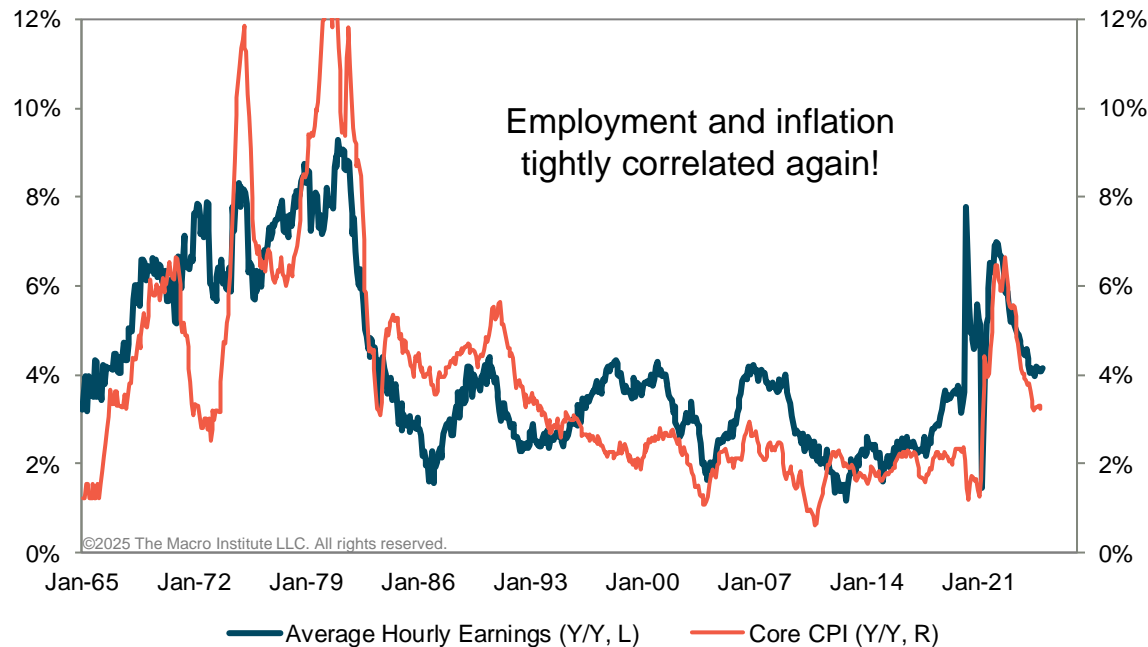
- Duration Of Unemployment
- Inventories To Sales
- Services Inflation (77% of Core CPI)
- Labor Costs (i.e., Wage Inflation)
- Commercial And Industrial Loans
- Consumer Credit To Personal Income
- Average Prime Rate

Both are official LAGs

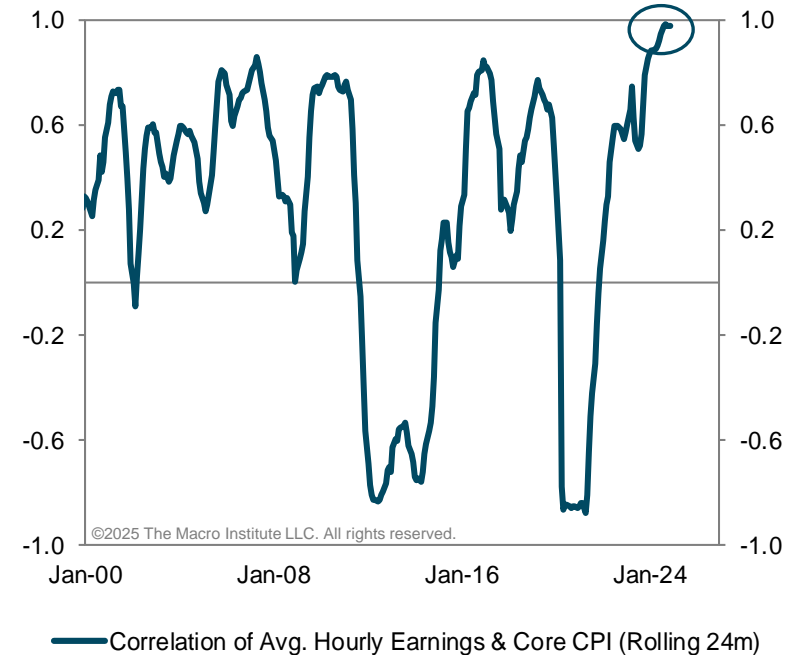
Section 2: An Inflationary Recovery In The Making

Fed Staff Should Probably Revisit The Phillips Curve

Labor Markets Largest Influence For Core Inflation Trends



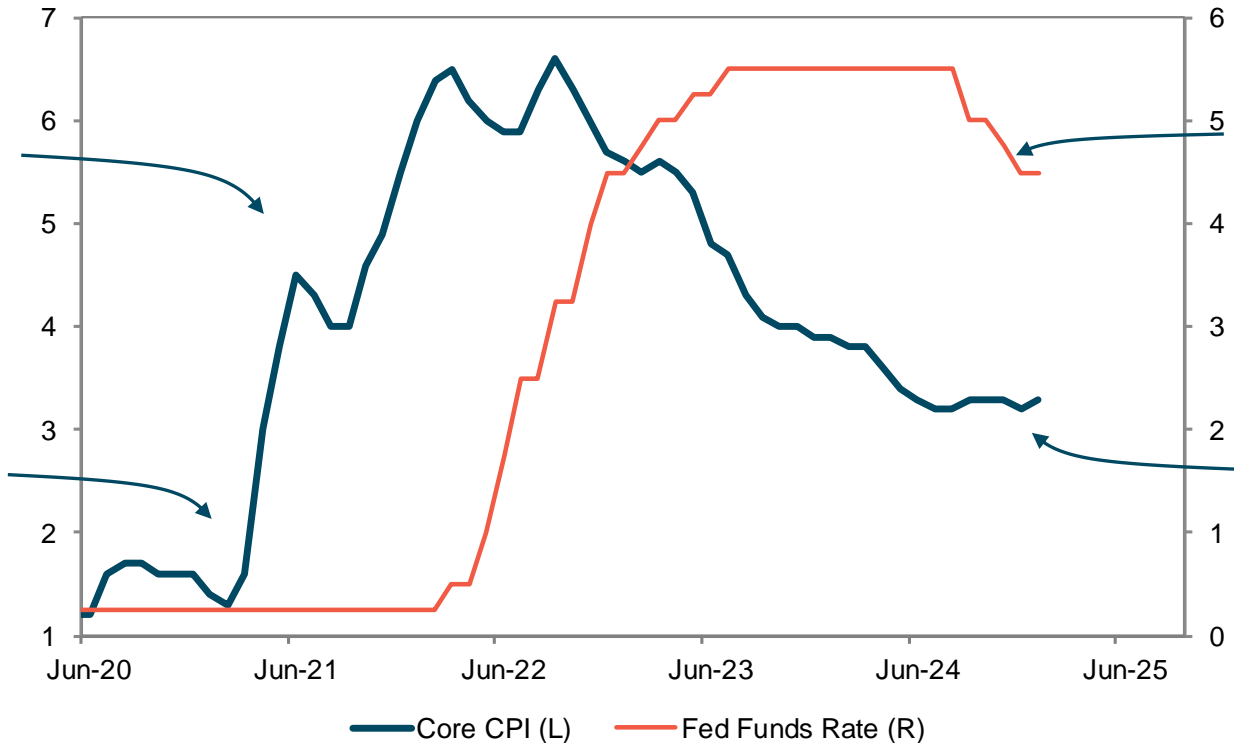
Highest Correlation In Decades



Section 2: An Inflationary Recovery In The Making

Are Tariffs The Supply-Chain Issue Of 2025 For The Fed?

Fed Too Focused On Tariffs, Not Enough On Unemployment!



"I expect that as price reversals and short-run imbalances from the economy reopening play out, inflation will come down from around 3% this year to close to 2% near year and in 2023."

- John Williams (June 2021)

"These one-time increases in prices are likely to have only transitory effects on inflation."

- Jerome Powell (April 2021)

"We don't know what will happen with tariffs ... not be in a hurry to understanding what our policy response should be until we see it play out."

- Jerome Powell (January 2025)

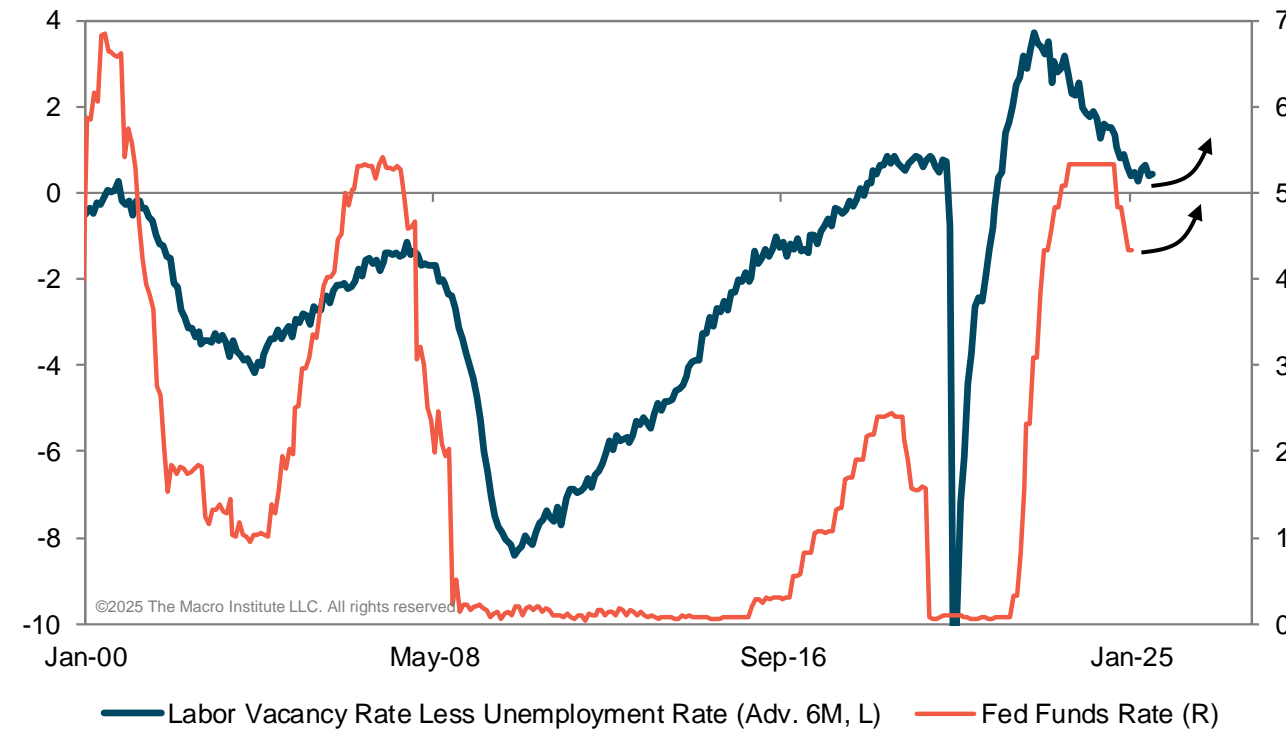
"We've never said we need to be all the way at target (inflation) to reduce rates ... we think that our policy stance is restrictive. Meaningfully restrictive."

- Jerome Powell (January 2025)

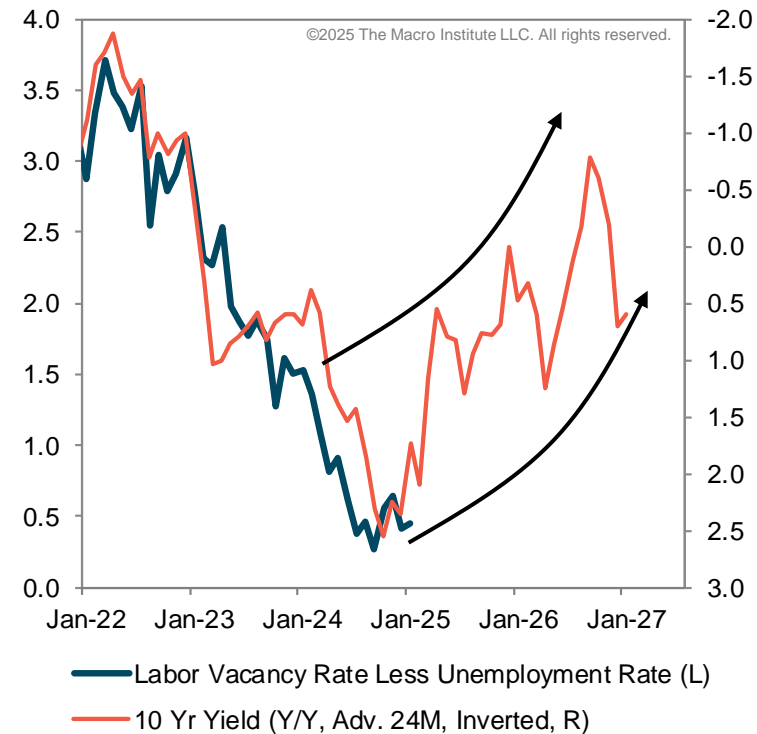
Section 2: An Inflationary Recovery In The Making

Countdown To The Fed's Change In Policy Stance

Lack Of Labor Ushers In A Different World For The Fed



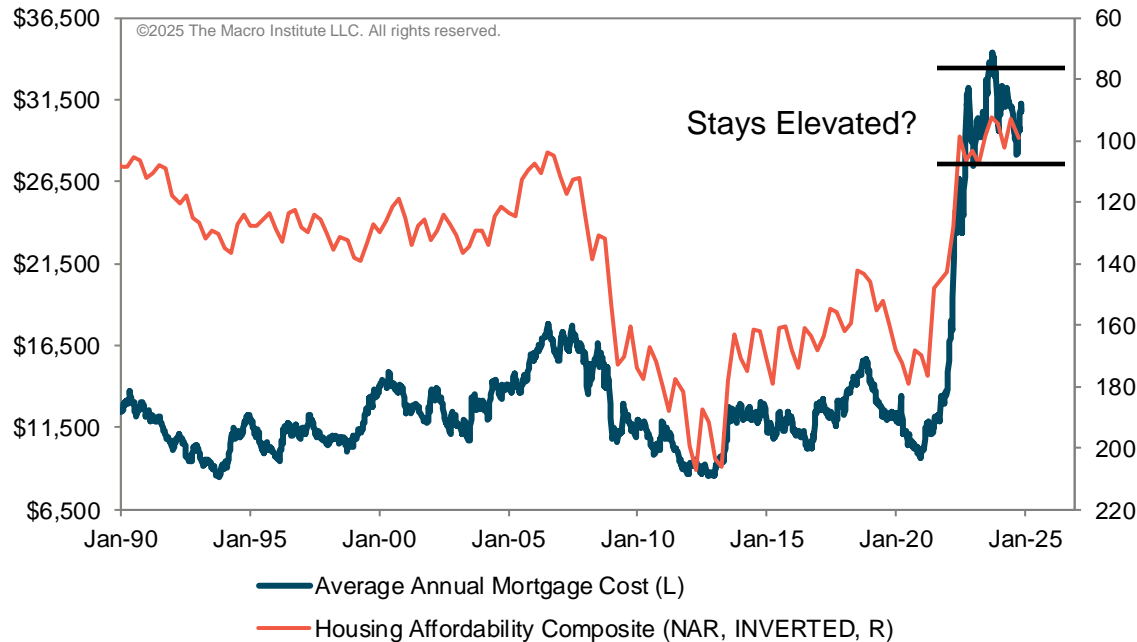
Only Getting Worse From Here?



Section 2: An Inflationary Recovery In The Making

High Inflation Likely Pushes Fed Funds Rate And Mortgage Rates Higher

Mortgage Rates Not Headed Lower In 2025?



Housing Still Largely Unaffordable



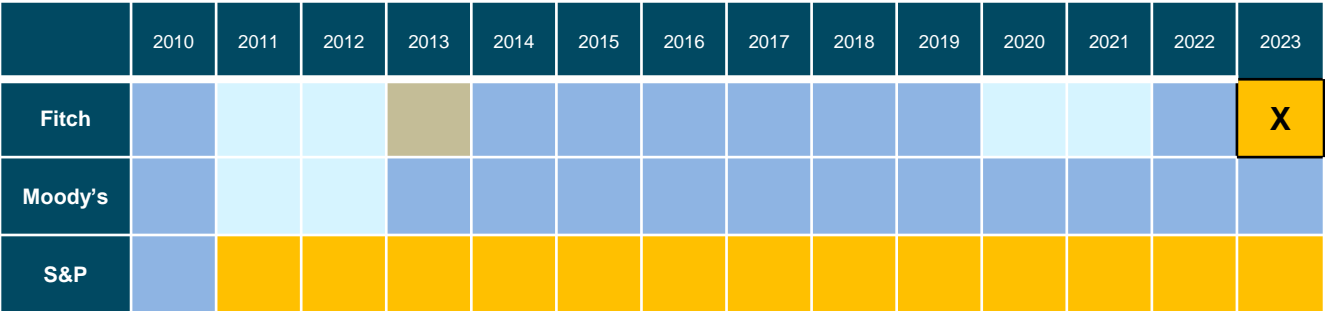
Section 3: Top Concerns On Our Minds For 2025



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Risk #1: An Out-Of-Control Fiscal Backdrop In The U.S.

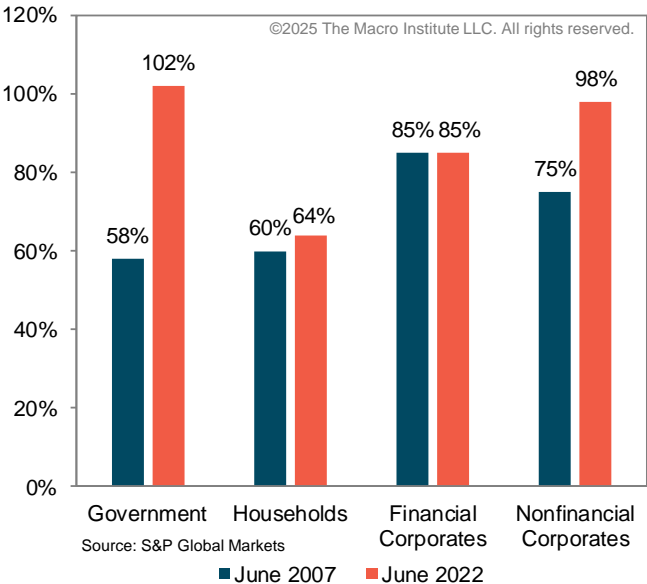
U.S. Loses Top AAA Credit Rating From Fitch



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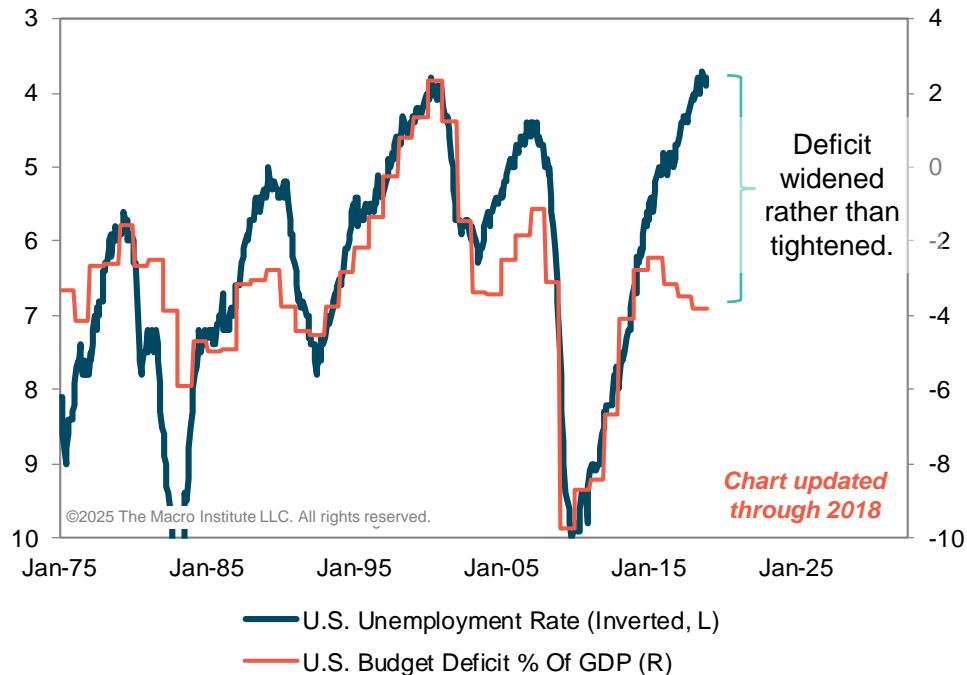
Debt Elevated Across All Segments



Section 3: Top Concerns On Our Minds For 2025

Risk #1: A Structural Deficit In Dire Need Of A Solution

2017 Tax Cuts Contributed To Structural Deficit



Revenue Loss Outweighed Economic Growth

	2016	2017	2018
Revenues:			
Income Taxes	\$ 1,546	\$ 1,587	\$ 1,684
Payroll Taxes	\$ 1,115	\$ 1,162	\$ 1,171
Corp. Income Taxes	\$ 300	\$ 297	\$ 205
Other	\$ 307	\$ 270	\$ 271
Total	\$ 3,268	\$ 3,316	\$ 3,330
Expenditures:			
Discretionary	\$ 1,185	\$ 1,200	\$ 1,262
Mandatory	\$ 2,427	\$ 2,519	\$ 2,522
Interest	\$ 240	\$ 263	\$ 325
Total	\$ 3,853	\$ 3,982	\$ 4,109
Deficit	\$ (585)	\$ (665)	\$ (779)
% GDP	-3.1%	-3.4%	-3.8%
Unemployment Rate	4.7%	4.1%	3.9%

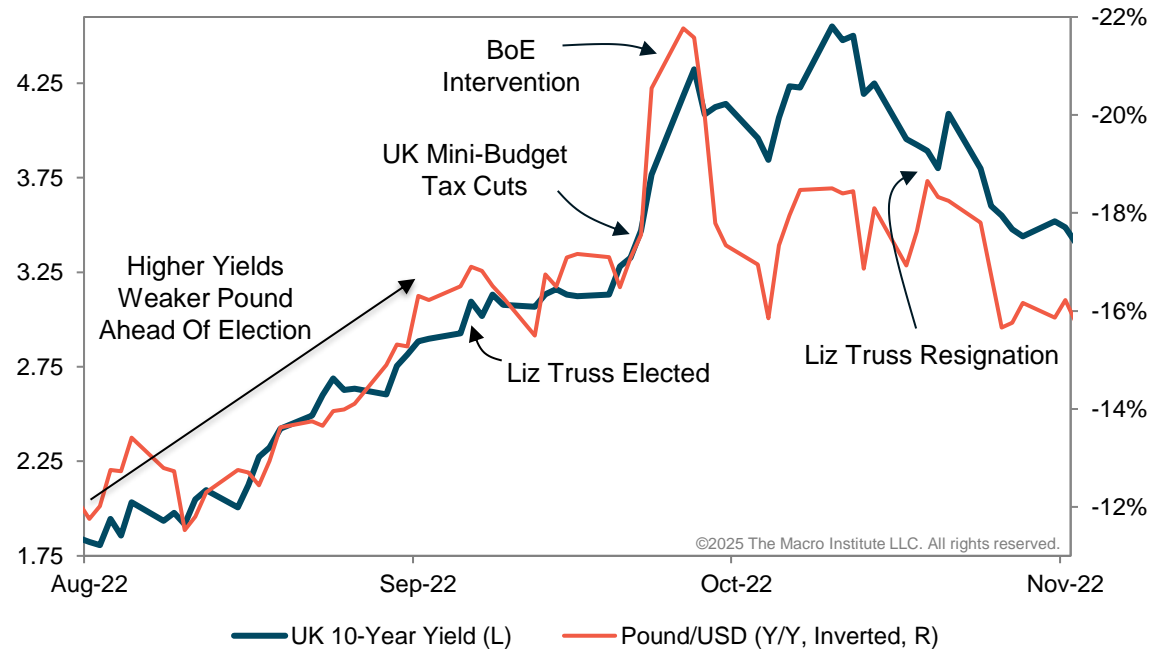
Source: CBO

↓ Tax cuts led to only 1.9% revenue growth while expenditures grew 6.7%.

Section 3: Top Concerns On Our Minds For 2025

Risk #2: Could The Bond Vigilantes Force The Government's Hand?

U.S. Policy Makers Should Heed Lessons From U.K.'s 2022 Experience



Section 3: Top Concerns On Our Minds For 2025

Risk #2: Trump Administration's Proposed Policies Would Add A Lot Of Debt

The Proposed Trump Plan

Policy Proposals	Trump Plan (Billions)
Extend TCJA	-\$5,350
Exempt Overtime Income From Tax	-\$2,000
Exempt Social Security From Tax	-\$1,300
Lower Corporate Tax Rate To 15%	-\$200
Exempt Tips From Tax	-\$300
Strengthen Military	-\$400
Secure Border And <u>Deportations</u>	-\$350
Housing Reforms	-\$150
Boost Support For Health Care	-\$150
<u>Revenue & Spending Reductions</u>	+\$3,700
Total Estimated Budget Impact	-\$7,500

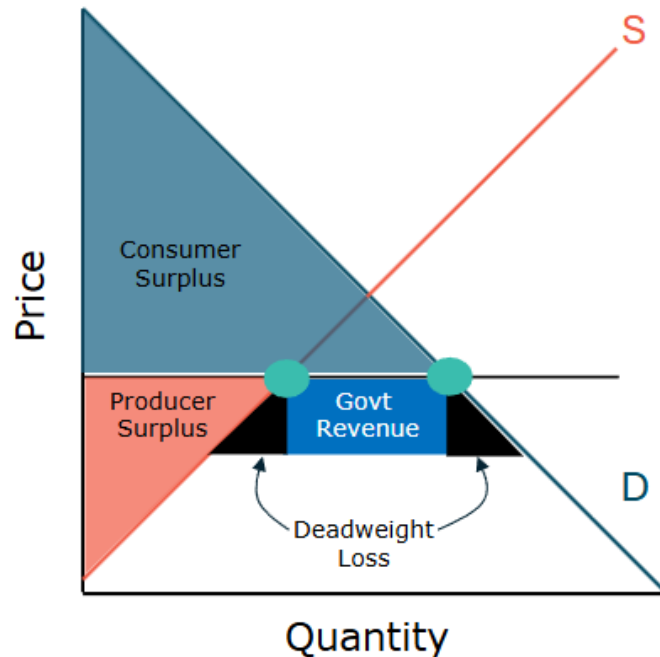
Need revenue offsets for this priority.

Source: Committee for a Responsible Federal Budget

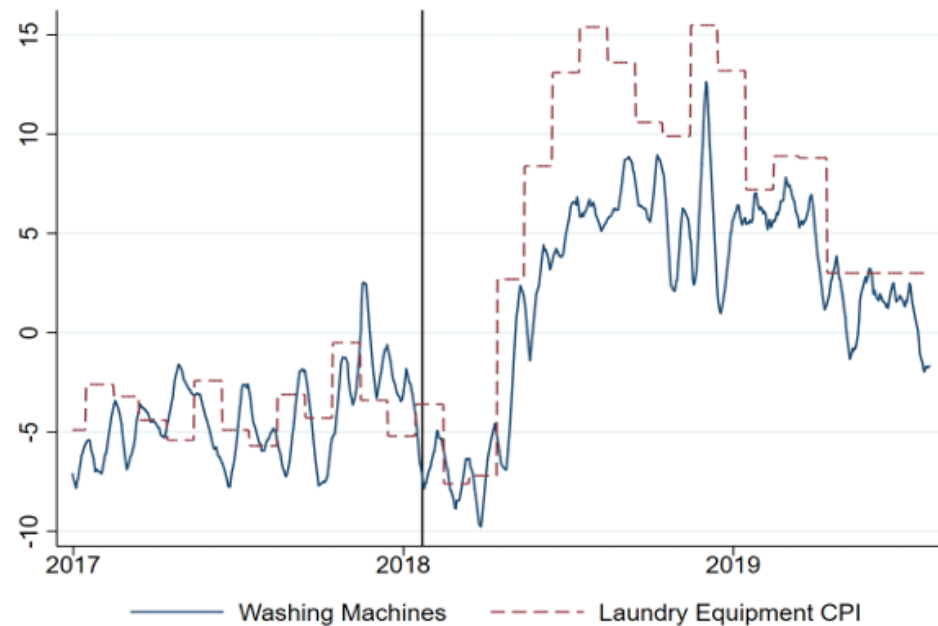
Section 3: Top Concerns On Our Minds For 2025

Risk #3: Protectionist Policies Set To Fuel Inflation

2018 Experience Confirms Tariff Theory And Their Inflationary Consequences



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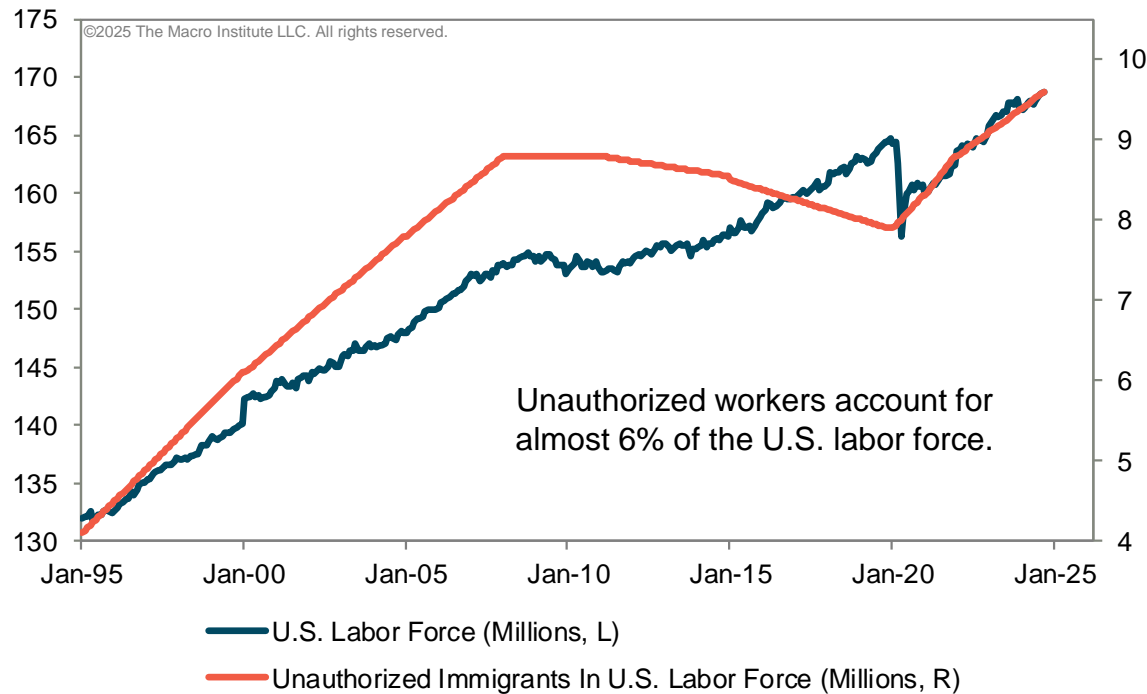


Source: Cavallo, Alberto, *Tariff Passthrough At The Border And At The Store: Evidence From US Trade Policy*, 2019.

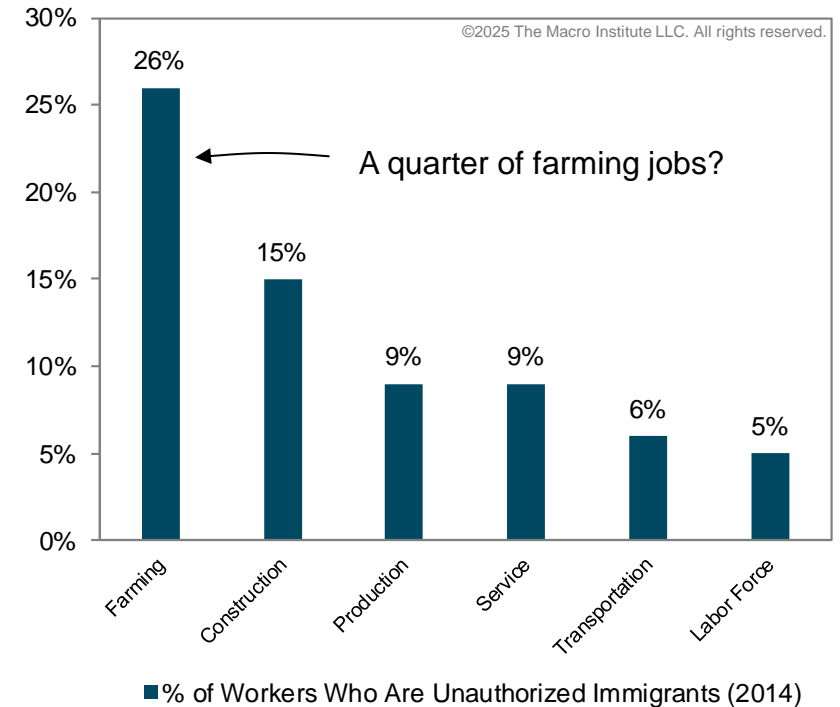
Section 3: Top Concerns On Our Minds For 2025

Risk #3: Undocumented Workers Have Been A Relief For Tight Labor Markets

Unauthorized Workers In The U.S. Number Almost 10 Million



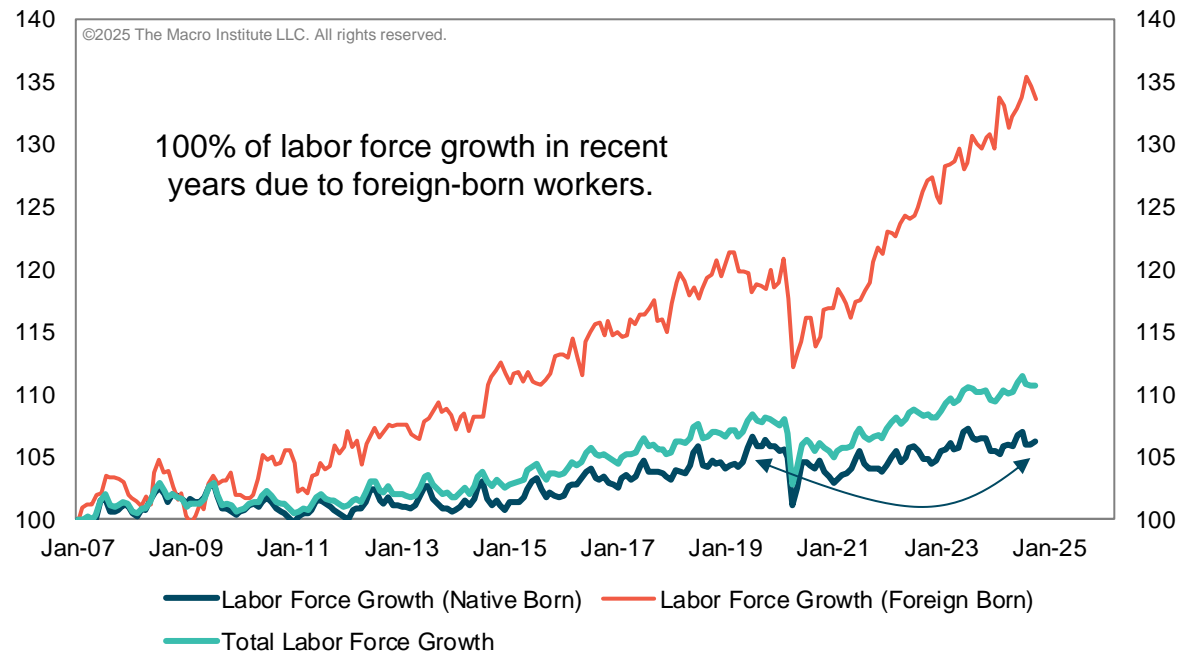
A Real Problem In Some Industries!



Section 3: Top Concerns On Our Minds For 2025

Risk #3: U.S. Labor Markets Inflationary **DESPITE** Foreign Workers

Foreign-Born Workers Explain Bulk of Growth In Labor Force

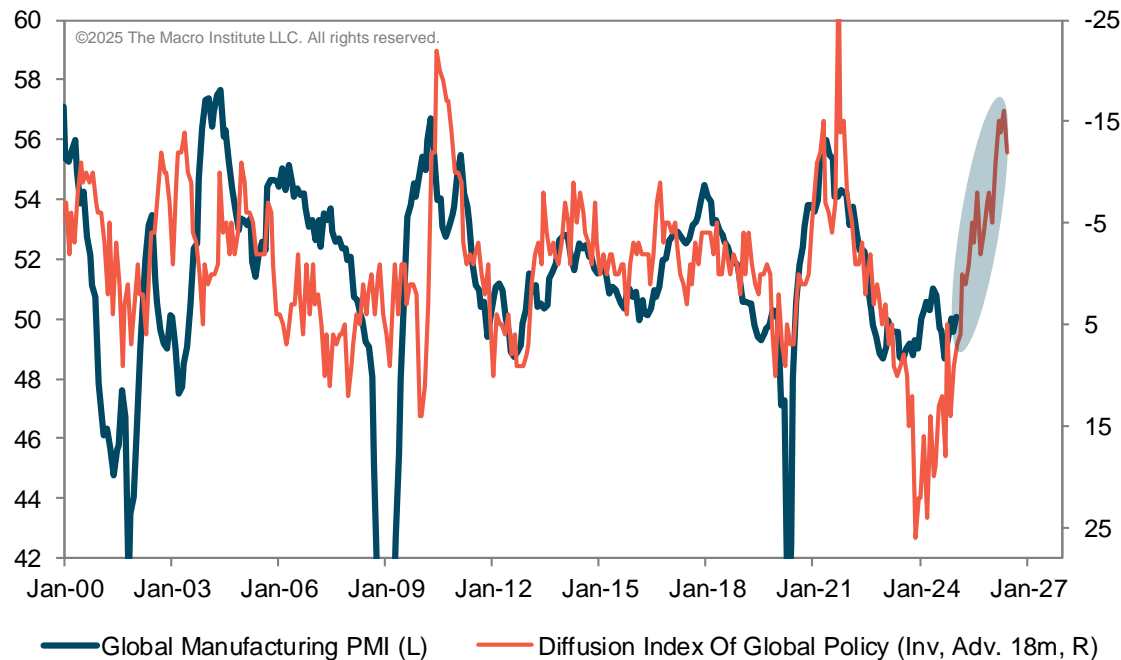


No gains in native
born labor force!

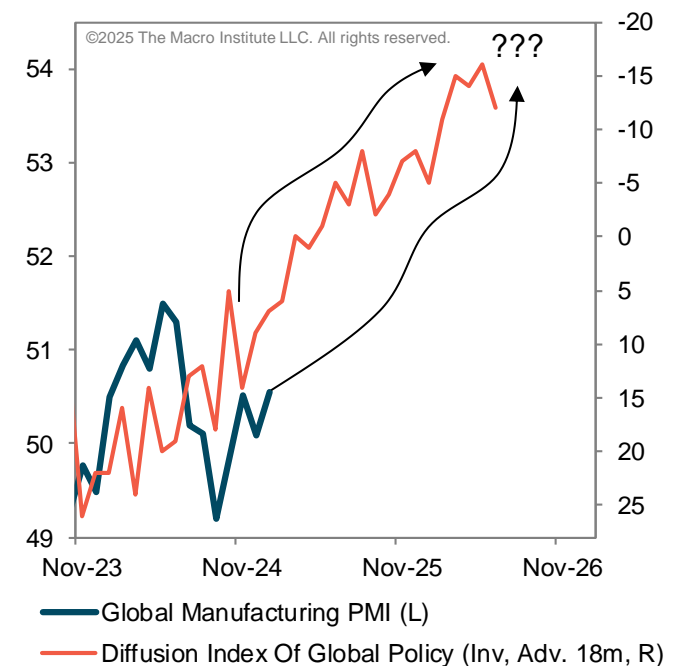
Section 3: Top Concerns On Our Minds For 2025

Risk #4: A Global Recovery Would Accentuate U.S. Inflation Trends

Monetary Policy Also Supportive Globally



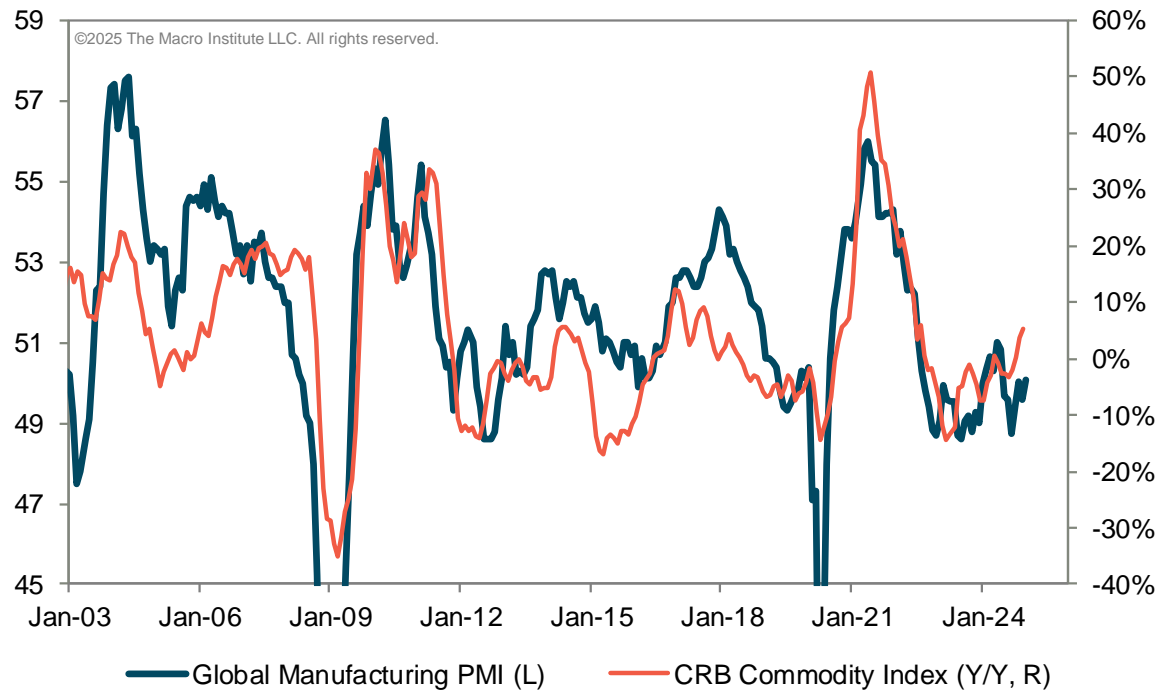
An Uptrend In Global LEIs



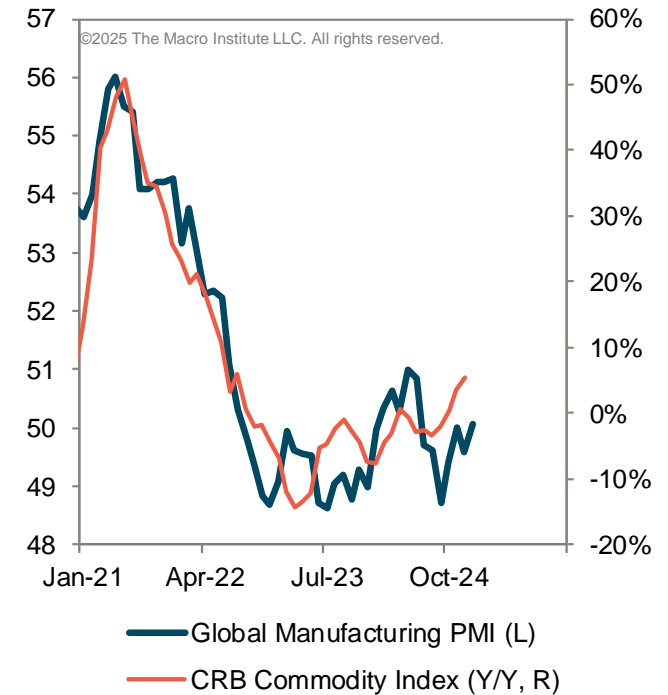
Section 3: Top Concerns On Our Minds For 2025

Risk #4: A Global Recovery Would Accentuate U.S. Inflation Trends

Stronger Global Activity Leads To Higher Commodity Prices



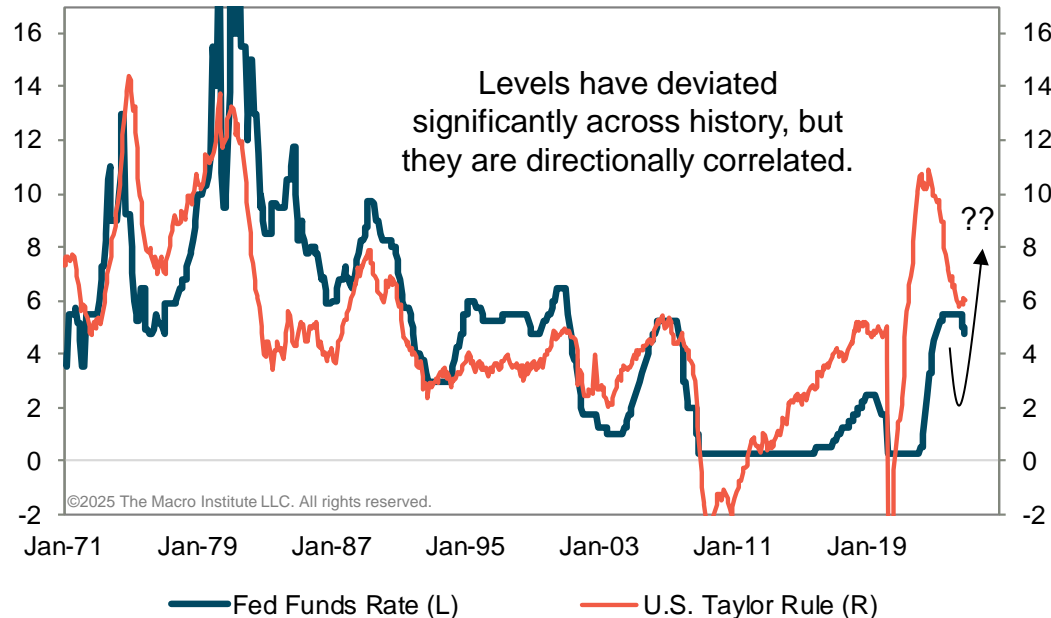
One To Keep An Eye On



Section 3: Top Concerns On Our Minds For 2025

Risk #5: The Federal Reserve Resumes Monetary Tightening

Taylor Rule: A Quantitative Gauge Of The Fed's Mandate



What Is The Taylor Rule?

[Original 1993 Paper by John Taylor](#)

- Developed by John Taylor (Stanford Economist) and published in 1993;
- Designed as a framework for how the Fed should set monetary policy;
- Has done a consistent job at illustrating how monetary policy has been conducted across time.

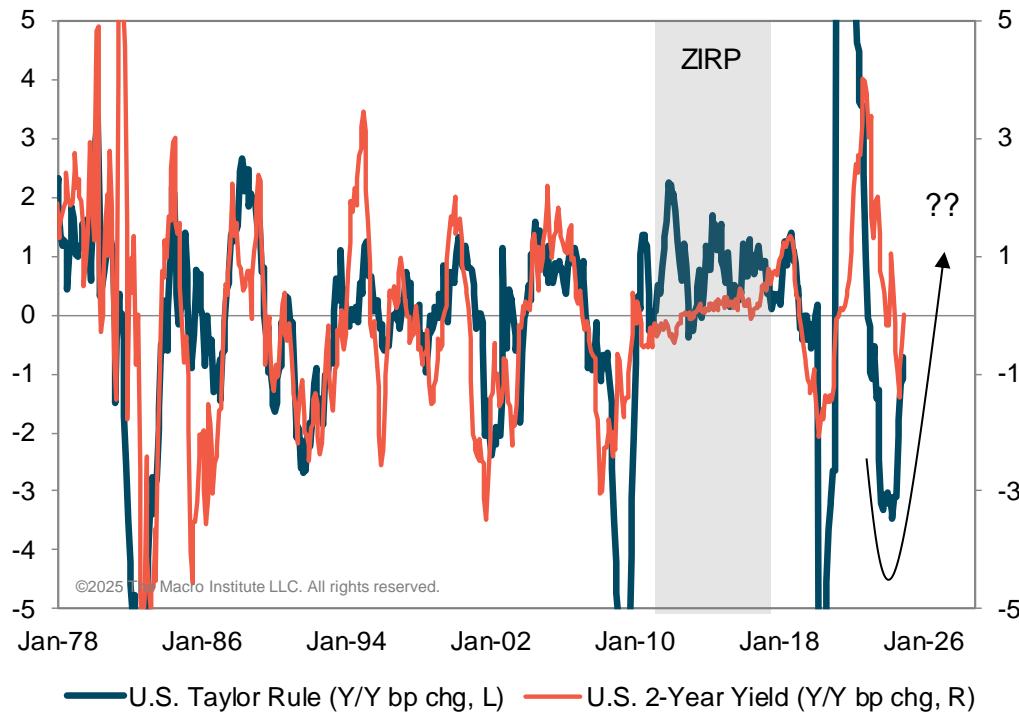
How Is The Taylor Rule Calculated?

$$r = p + .5y + .5(p - 2) + 2$$

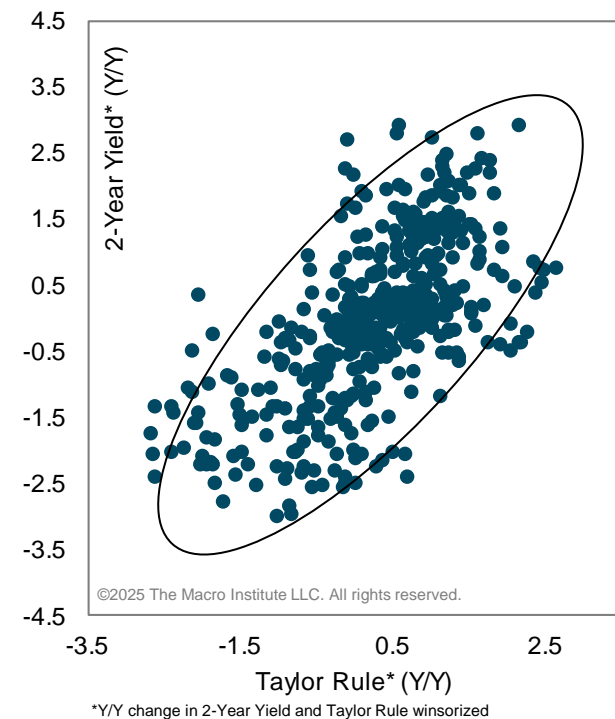
Section 3: Top Concerns On Our Minds For 2025

Risk #5: The Federal Reserve Resumes Monetary Tightening

Change In The Taylor Rule Correlated With Trends In Rates ...



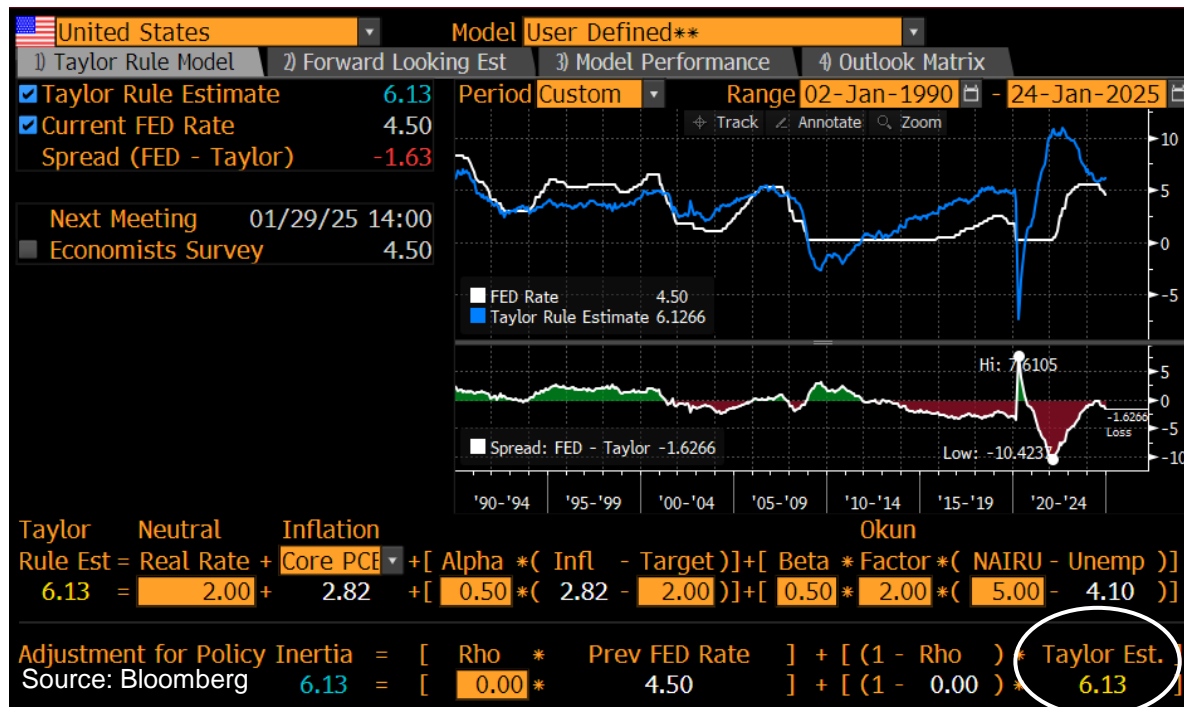
... Hard To Argue?!?



Section 3: Top Concerns On Our Minds For 2025

Risk #5: The Federal Reserve Resumes Monetary Tightening

You Can Use Your Own Forecasts In The TR Using This Bloomberg Function: TAYL [GO]



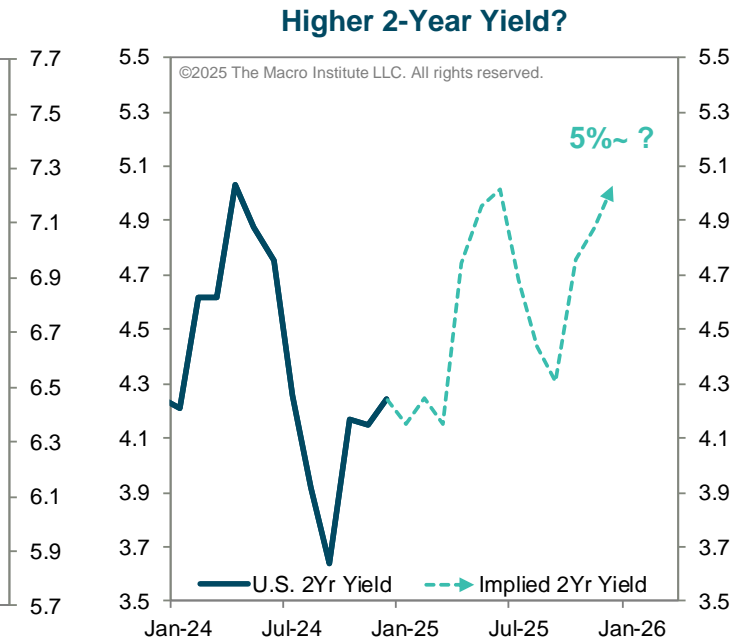
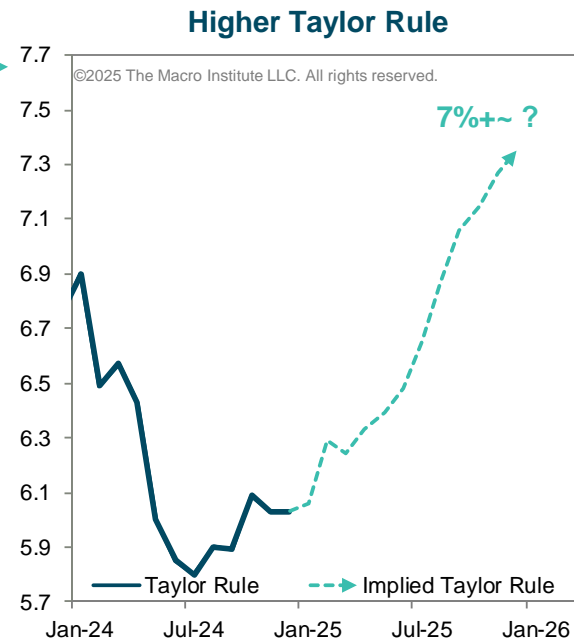
United States Model User Defined*			
Month	Inflation Core PCE Forecast	Unemp. Forecast	Taylor Rule Estimate
Jan 25	2.82	4.17	6.06
Feb 25	2.86	4.00	6.29
Mar 25	2.80	3.96	6.24
Apr 25	2.82	3.90	6.33
May 25	2.85	3.88	6.39
Jun 25	2.90	3.87	6.48
Jul 25	3.00	3.85	6.65
Aug 25	3.10	3.78	6.87
Sep 25	3.20	3.74	7.06
Oct 25	3.22	3.68	7.15
Nov 25	3.26	3.62	7.27
Dec 25	3.30	3.60	7.35

Section 3: Top Concerns On Our Minds For 2025

Risk #5: The Federal Reserve Resumes Monetary Tightening

Lower UR (3.6%) + Higher Core Inflation (3.3%) Leads To This:

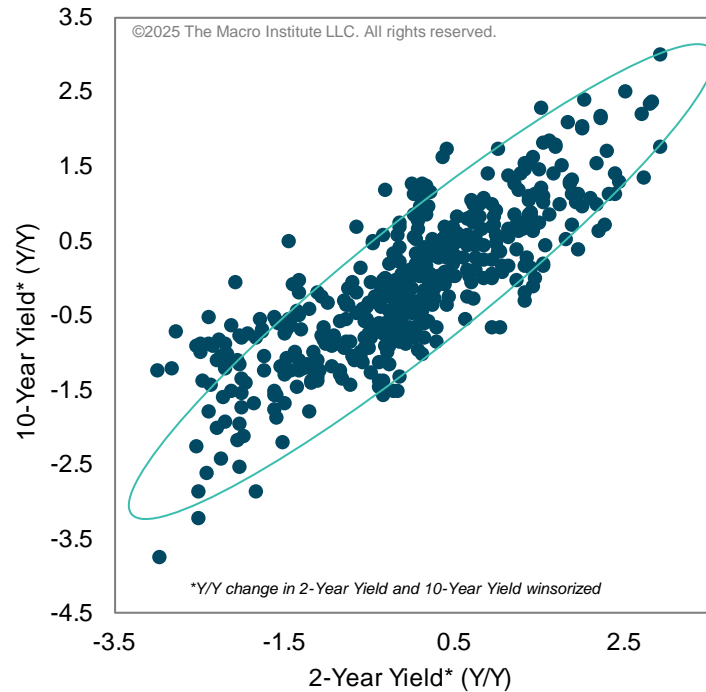
United States			
1) Taylor Rule Model 2) Forward Looking			
Contributor User Defined*			
Month	Inflation Core PCE Forecast	Unemp. Forecast	Taylor Rule Estimate
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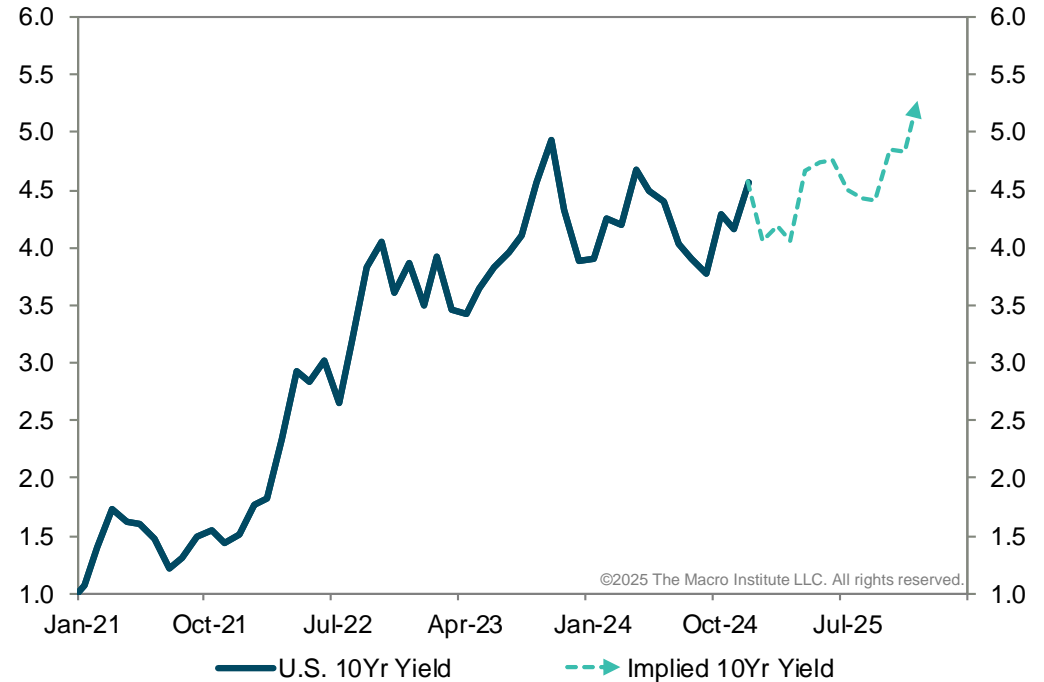
Section 3: Top Concerns On Our Minds For 2025

Risk #5: The Federal Reserve Resumes Monetary Tightening

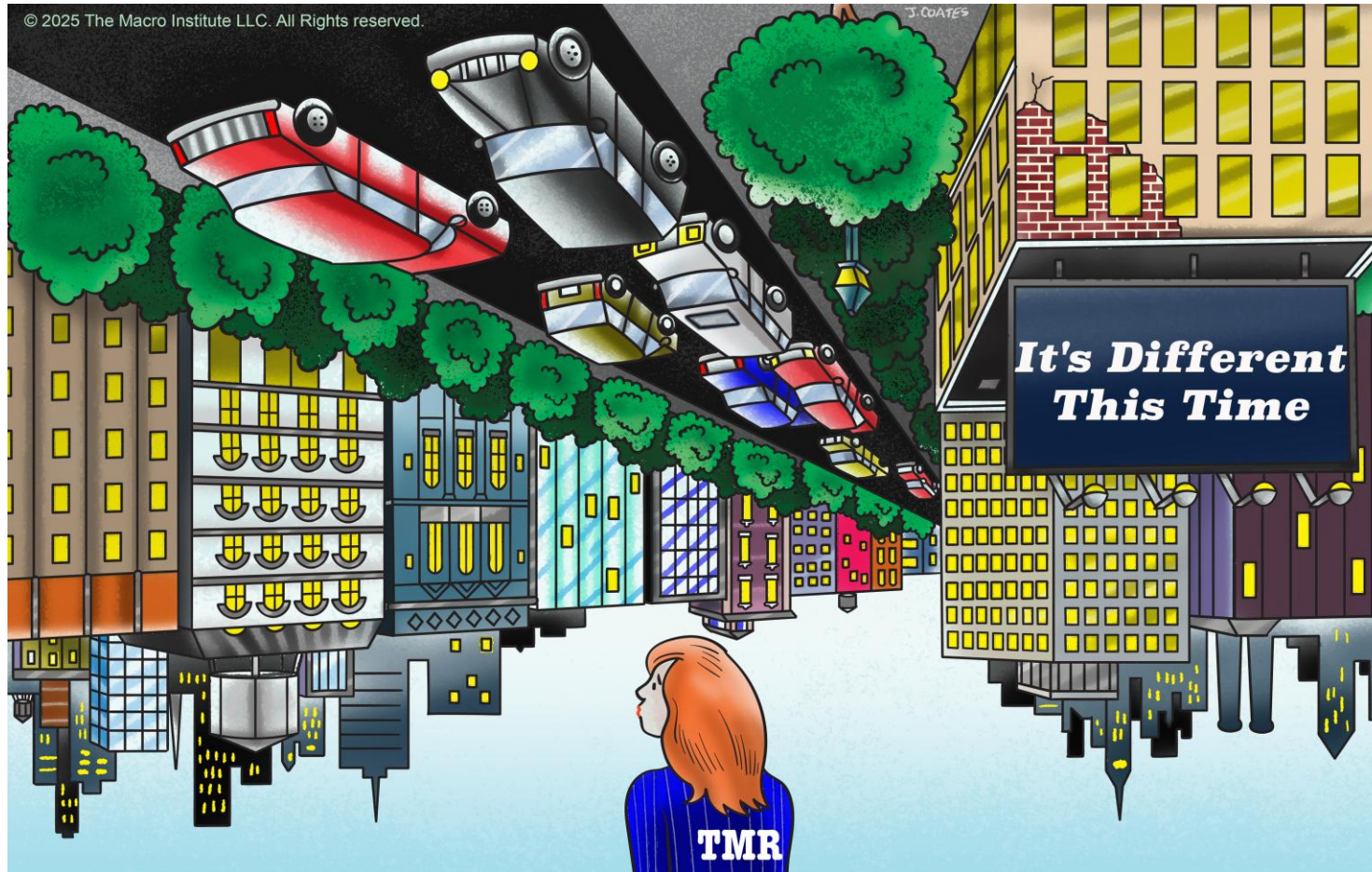
Short/Long Rates Correlated



10 Year Yield Headed To “5% And Change” In 2025?



Conclusion: Opportunities In A Complicated Macro Backdrop



It always is ...
a little bit !!!

Conclusion: Opportunities In A Complicated Macro Backdrop

The Four Most Important Macro Trends In The Coming Year



Stronger Economic Prospects

An opportunity for small caps and cyclicals



Recovery In Inflation

Favors companies with pricing power



Fed To Resume Tightening

A problem for early cyclical sectors



Higher Interest Rates

A problem for growth sectors

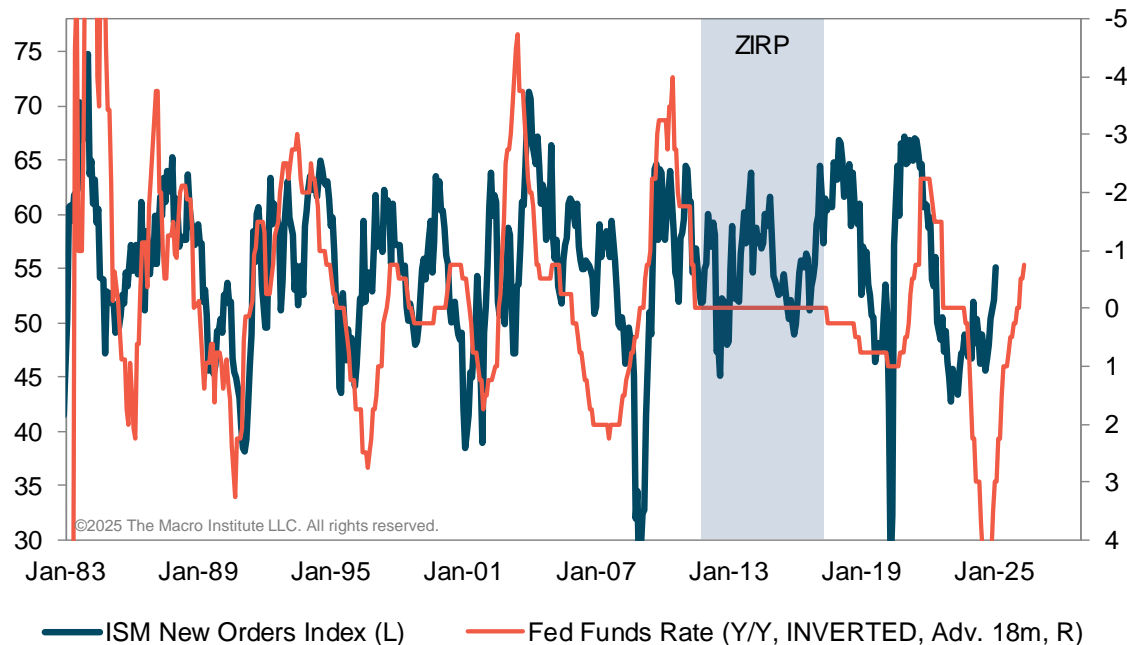
Four Key Macro Influences For 2025



Conclusion: Opportunities In A Complicated Macro Backdrop

Macro Force #1: Emphasize Cyclicality As LEIs Normalize/Improve

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



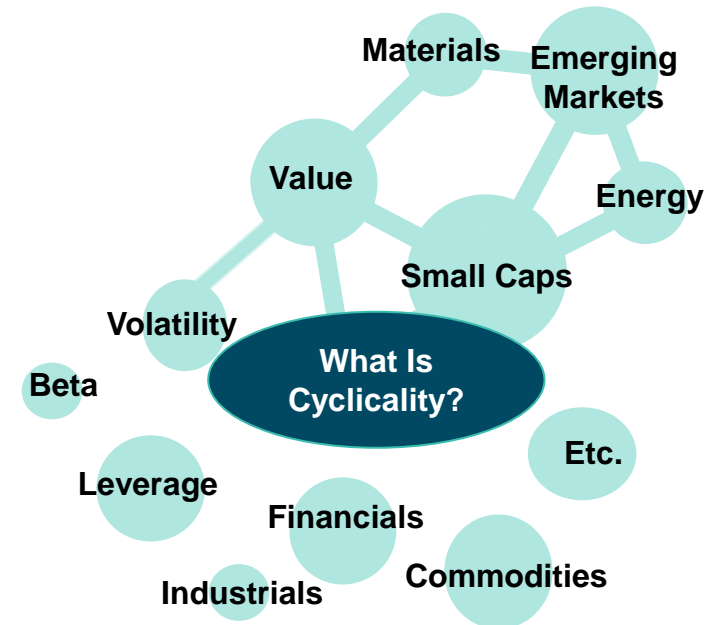
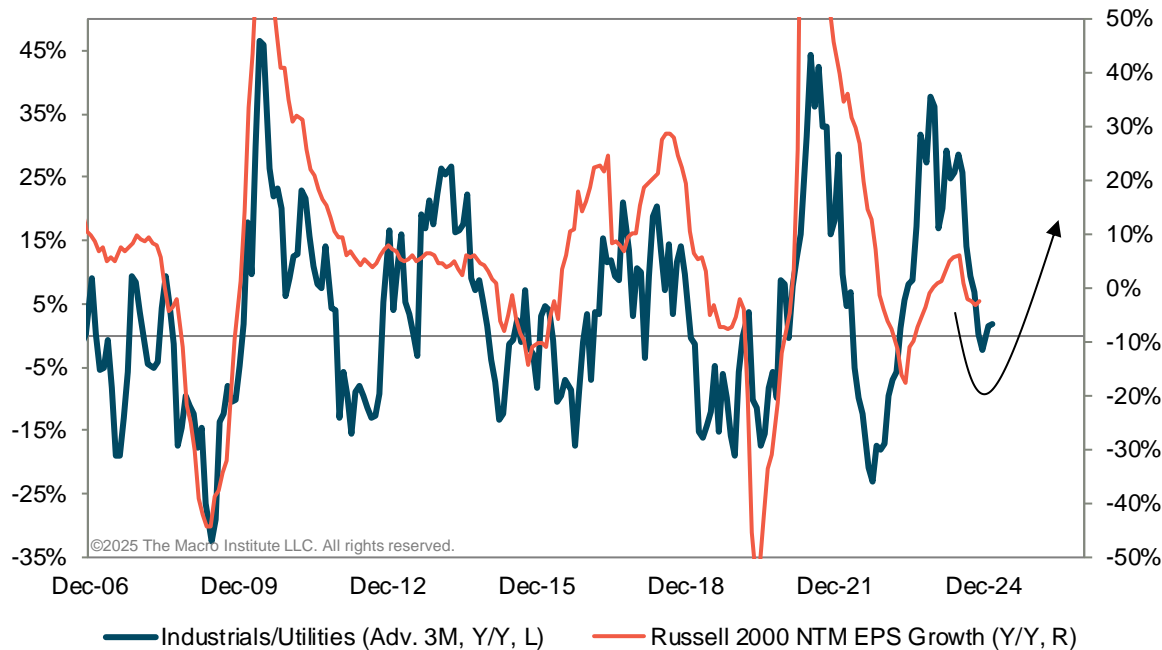
Rising LEI's Should Benefit EPS



Conclusion: Opportunities In A Complicated Macro Backdrop

Macro Force #1: Emphasize Cyclicality As LEIs Normalize/Improve

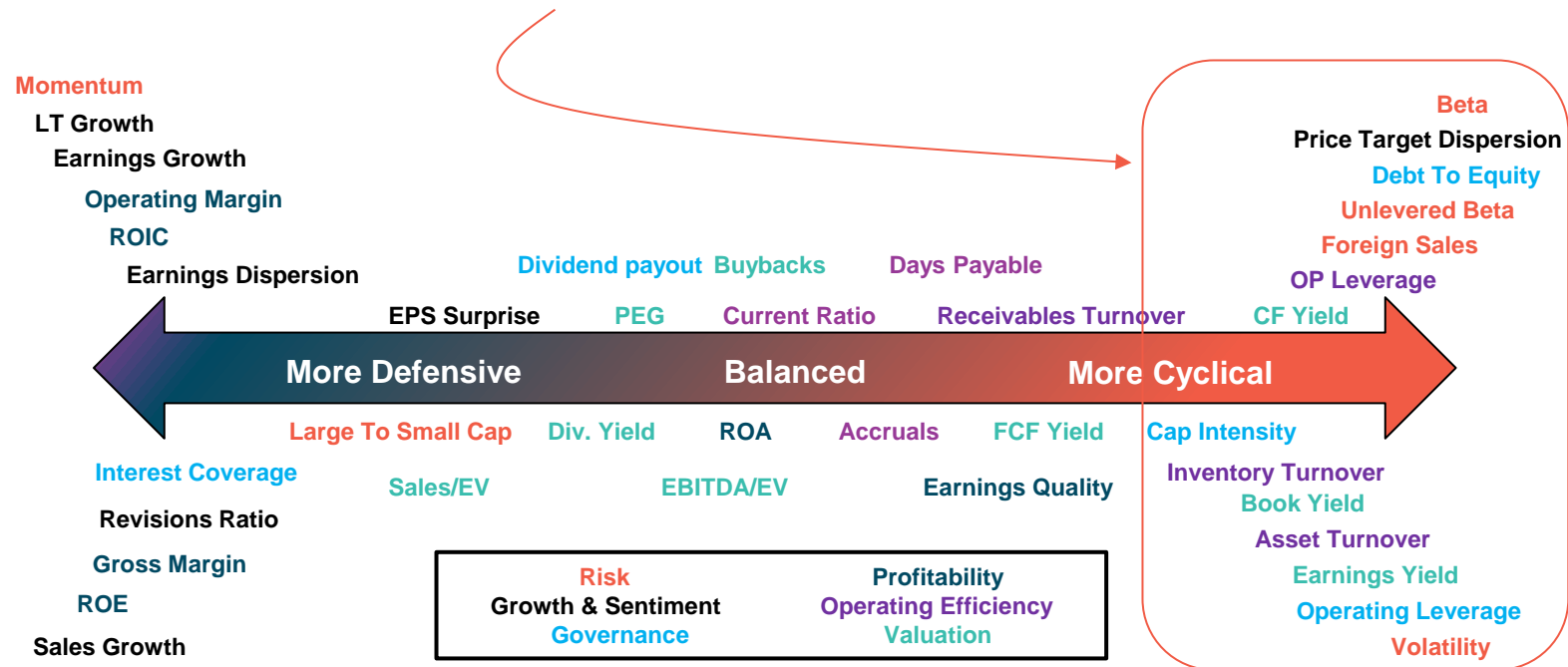
2025 In A Nutshell – Cyclical > Defensives Amidst Rising EPS



Conclusion: Opportunities In A Complicated Macro Backdrop

Macro Force #1: Emphasize *Cyclicality* As LEIs Normalize/Improve

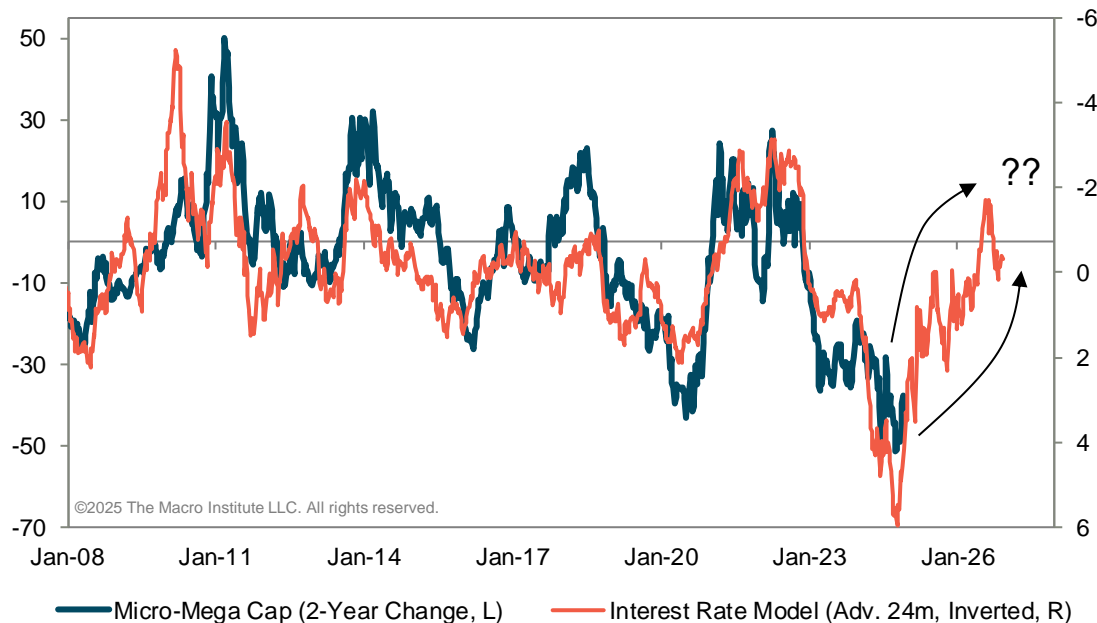
Cyclical Factors Set To Outperform In 2025?



Conclusion: Opportunities In A Complicated Macro Backdrop

Macro Force #1: Emphasize Cyclicality As LEIs Normalize/Improve

Rates Favor Small Caps Over Large Caps Going Into 2025



Not All Indices Are Created Equal

Index	Beta	P/E	Cyclical Weight
Nasdaq 100	1.18	34.83	6.14%
S&P 500	1.00	27.21	26.42%
Russell 2000	1.12	17.18	43.56%

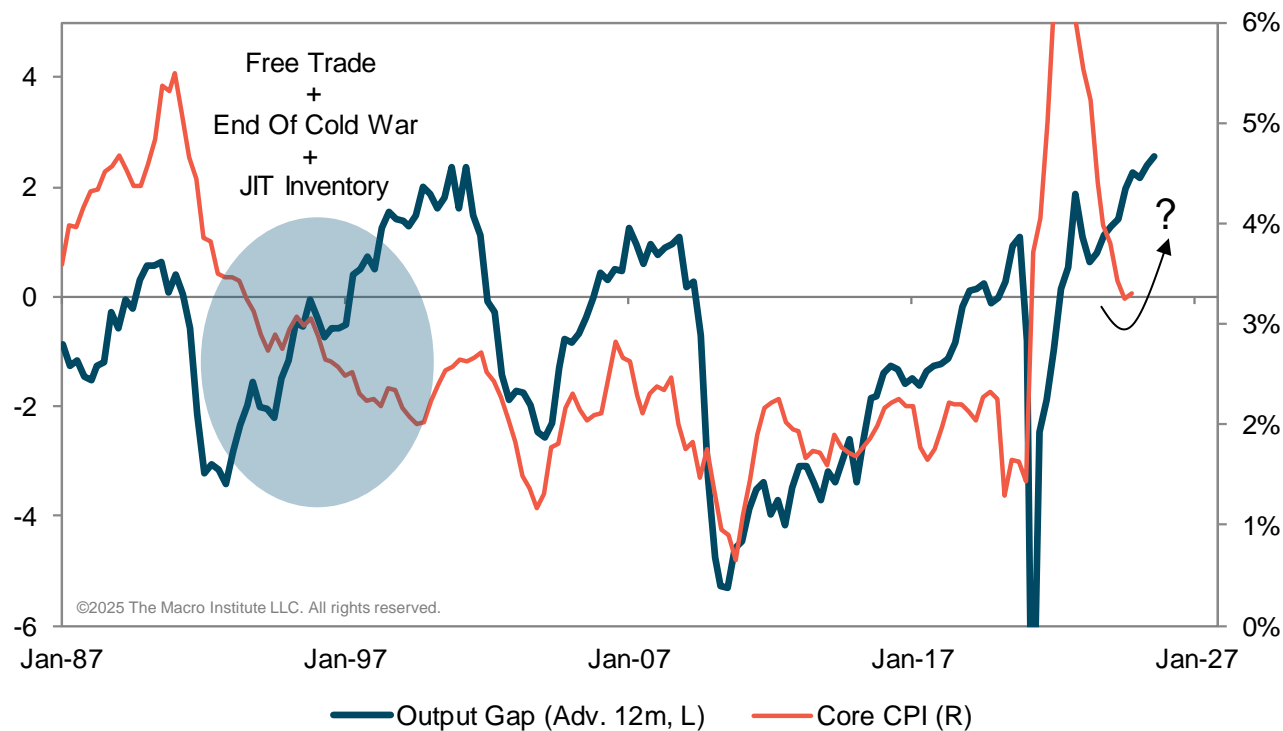
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The TMI rate model is constructive on cyclical-heavy indices in 2025.

Conclusion: Opportunities In A Complicated Macro Backdrop

Macro Force #2: Pricing Power Key As Inflation Stages A Comeback

Output Gap At Its Most Inflationary In Almost 40 Years

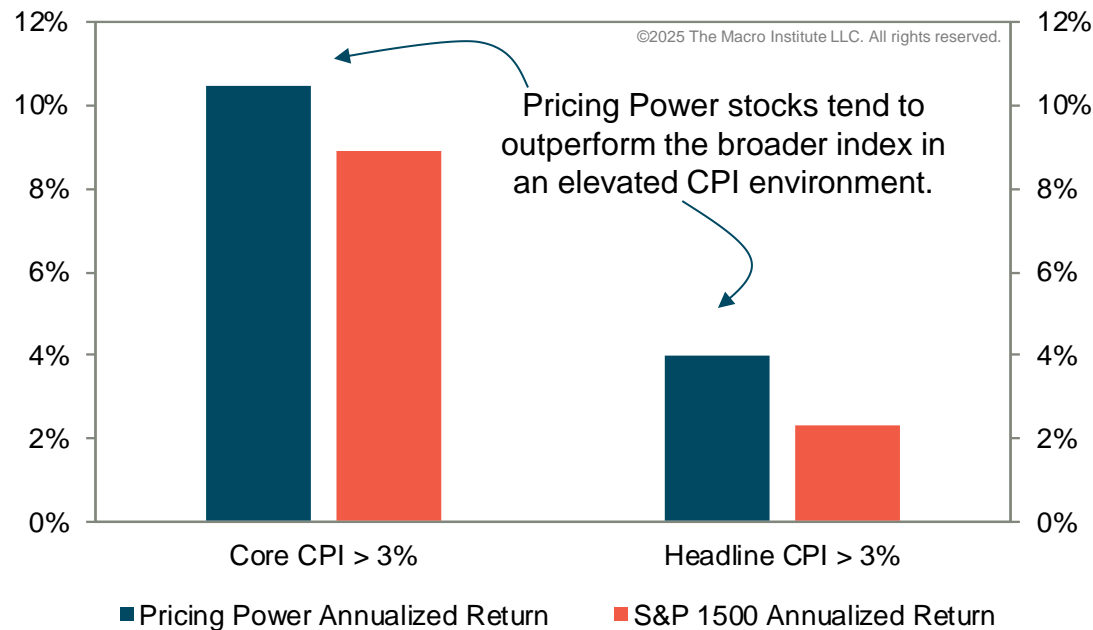


The **output gap** is the difference between an economy's actual output and its potential output.

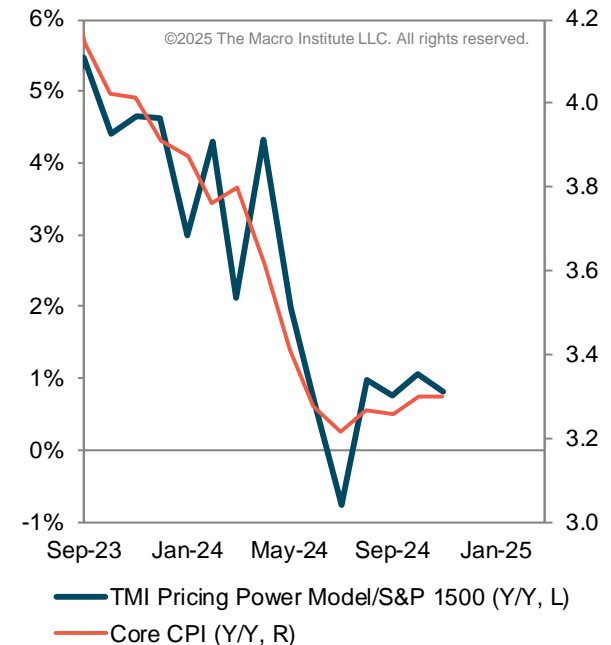
Conclusion: Opportunities In A Complicated Macro Backdrop

Macro Force #2: Pricing Power Key As Inflation Stages A Comeback

Pricing Power Key To Performance In An Inflationary Backdrop



Inflation Set To Reaccelerate



Strong Pricing Power:

Δ Gross Margins + Δ Market Share
 Higher Gross Margins (Y/Y) Higher Market Share (Over Past 2 Years)

Conclusion: Opportunities In A Complicated Macro Backdrop

Macro Force #3: Buybacks – The Standout Factor As Policy Tightens

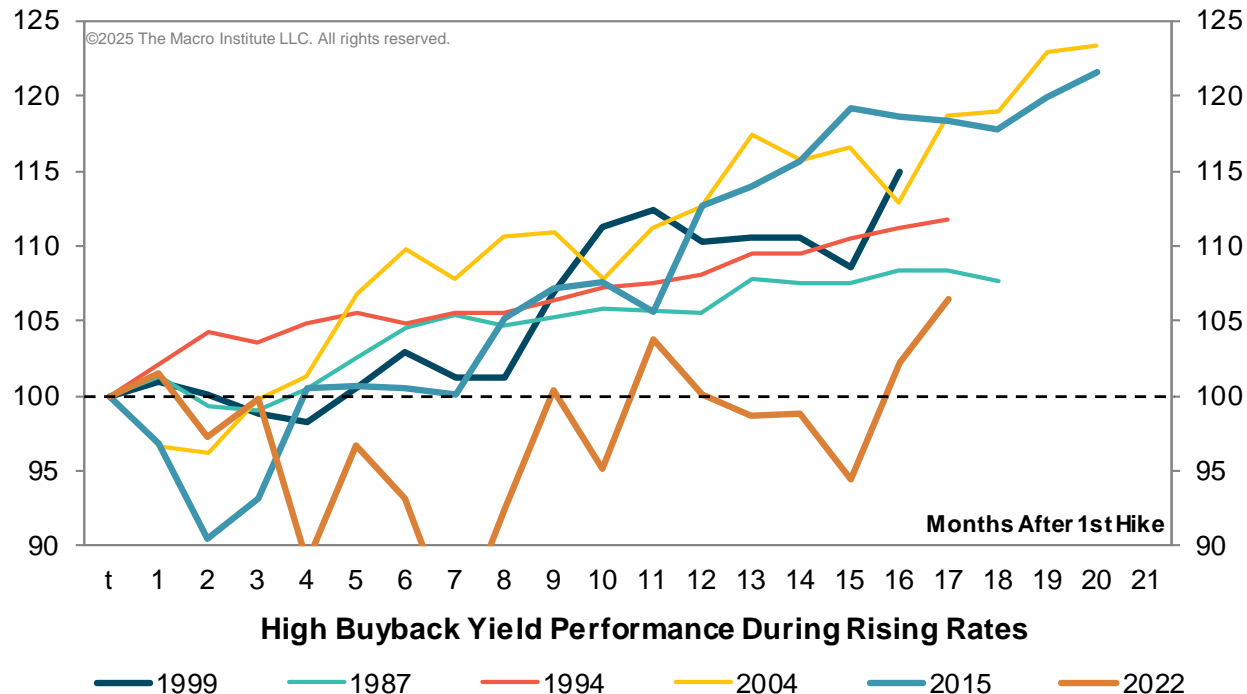
Is Fed Chairman Powell Making His Third Mistake?



Conclusion: Opportunities In A Complicated Macro Backdrop

Macro Force #3: Buybacks – The Standout Factor As Policy Tightens

In A Rising Rate Environment Focus On High Buyback Yield



Buyback Yield Relative Performance +12M From First Rate Hike

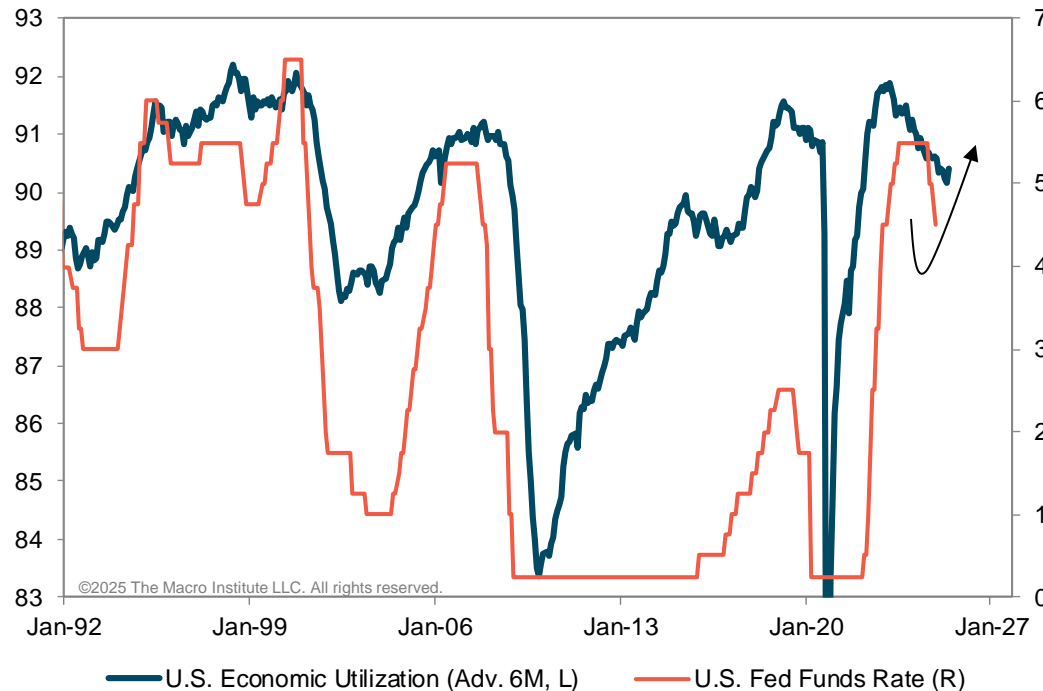
1987	10.1%
1999	9.1%
1994	15.4%
2004	1.4%
2015	0.0%
2022	3.5%

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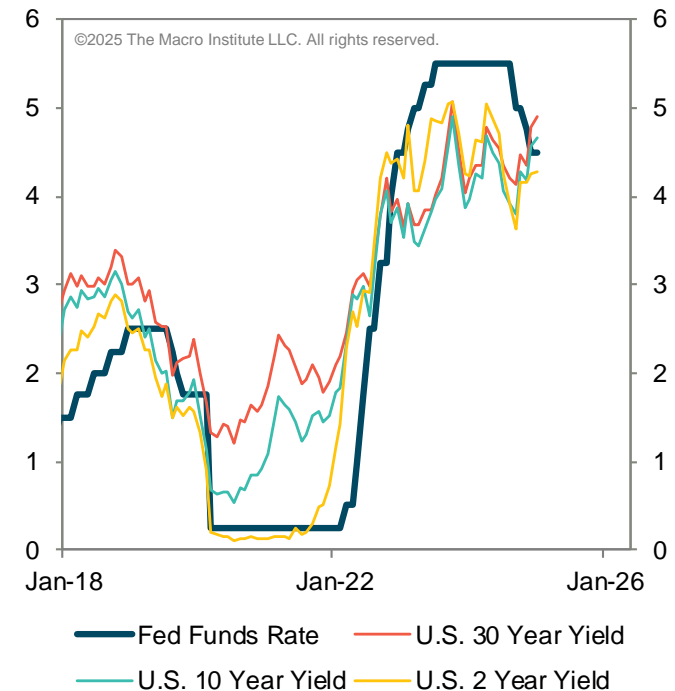
Conclusion: Opportunities In A Complicated Macro Backdrop

Macro Force #4: *Equity Duration* – A Tool For Managing Rate Risk

Official Rates Follow Trends In Economic Utilization



Market Rates Already Pricing In Hikes??



Conclusion: Opportunities In A Complicated Macro Backdrop

Macro Force #4: *Equity Duration* – A Tool For Managing Rate Risk

P/Es Have Contracted During 13 Of The Past 15 Fed Tightening Cycles

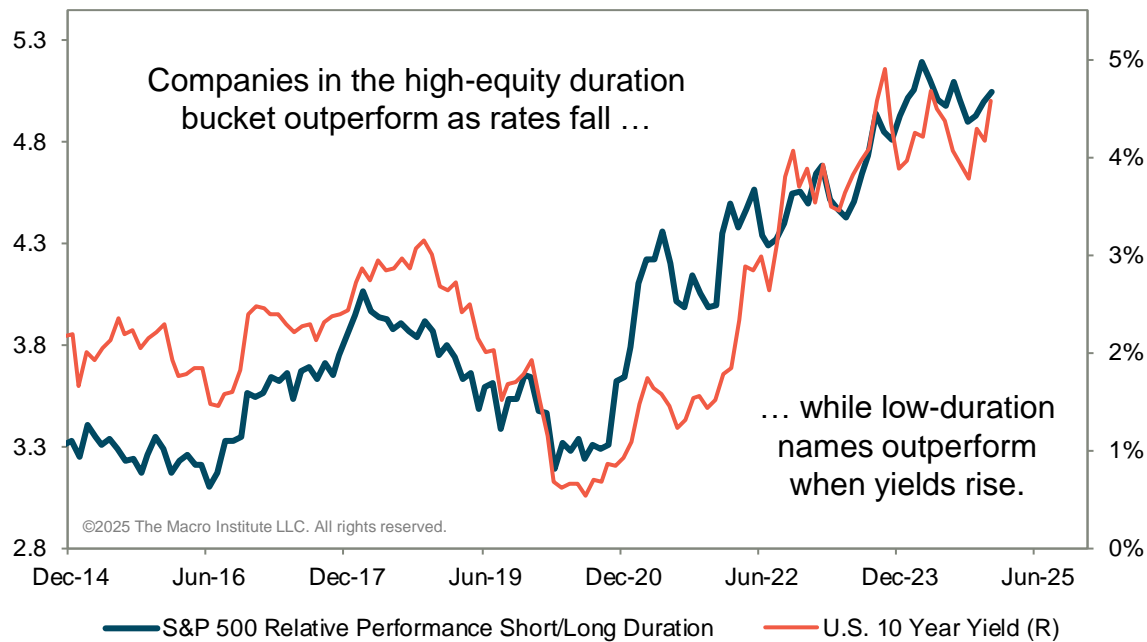
Rate Hike Cycle	Start	Nov-54	Jul-58	Jul-61	Oct-67	Feb-71	Feb-72	Feb-74	Nov-76	Mar-81	Apr-83	Nov-86	Jan-94	May-99	May-04	Dec-15	Up
	Stop	Oct-57	Nov-59	Nov-66	Aug-69	Aug-71	Aug-73	Jul-74	Apr-80	May-81	Aug-84	Feb-89	Feb-95	May-00	Jun-06	Dec-18	
Policy Rates	Start	0.83	0.68	1.17	3.88	3.50	3.50	9.00	4.75	16.00	8.50	5.88	3.00	4.75	1.00	0.50	15/15
	Stop	3.50	4.00	5.76	9.19	5.75	11.00	9.25	11.50	20.00	11.75	9.75	6.00	6.50	5.25	2.50	
	Chg Rates	2.67	3.32	4.59	5.31	2.25	7.50	0.25	6.75	4.00	3.25	3.88	3.00	1.75	4.25	2.00	
Oil Prices	Start	2.8	3.1	3.0	3.1	3.6	3.6	10.1	13.9	38.0	30.6	15.2	15.0	17.8	40.3	37.0	13/15
	Stop	3.1	3.0	3.0	3.4	3.6	4.3	10.1	39.5	38.0	29.3	17.8	18.5	28.8	71.0	45.4	
	Chg Oil	8.9%	-3.3%	0.0%	9.1%	0.0%	21.1%	0.0%	184.2%	0.0%	-4.4%	17.2%	23.5%	62.1%	76.2%	22.6%	
Stock Market	Start	34	47	67	94	97	107	96	102	136	164	249	482	1302	1121	2044	12/15
	Stop	41	58	80	96	99	104	79	106	133	167	289	487	1421	1270	2507	
	Chg Stocks	19.9%	23.5%	20.5%	1.7%	2.4%	-2.2%	-17.6%	4.1%	-2.5%	1.4%	15.9%	1.2%	9.1%	13.3%	22.6%	
P/Es	Start	12.6	14.8	21.4	17.9	18.1	19.4	12.2	11.0	9.0	12.5	12.5	14.9	23.5	16.5	16.2	2/15
	Stop	12.4	17.2	14.4	16.4	18.6	15.1	9.9	7.0	8.9	10.7	10.1	12.6	22.2	14.0	14.7	
	Chg P/E	(0.25)	2.31	(7.07)	(1.53)	0.42	(4.29)	(2.30)	(4.06)	(0.14)	(1.85)	(2.38)	(2.36)	(1.31)	(2.48)	(1.57)	
	% Chg P/E	-2.0%	15.6%	-33.0%	-8.5%	2.3%	-22.1%	-18.9%	-36.8%	-1.6%	-14.8%	-19.1%	-15.8%	-5.6%	-15.0%	-9.7%	4/13
U.S. Dollar	Start				99.9	100.3	90.6	85.9	88.6	80.7	102.1	88.3	79.7	85.3	74.2	82.3	
	Stop				103.0	97.1	79.9	83.9	73.5	87.5	117.0	79.2	71.7	90.7	71.0	80.2	
	Chg USD %				3.1%	-3.2%	-11.9%	-2.4%	-17.0%	8.5%	14.7%	-10.4%	-10.1%	6.3%	-4.2%	-2.5%	

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Conclusion: Opportunities In A Complicated Macro Backdrop

Macro Force #4: Equity Duration – A Tool For Managing Rate Risk

↑ Interest Rates Makes Valuation Relevant Again



Cyclicals Less Exposed To Rising Rates

Sector	Equity Duration
Energy	20.0
Financials	22.5
Materials	23.6
Comm. Services	24.3
Real Estate	24.4
Health Care	24.5
Industrials	24.5
Cons. Discretionary	24.8
Technology	25.4
Cons. Staples	26.2
Utilities	27.0

↑ Outperforms in rising rate environment

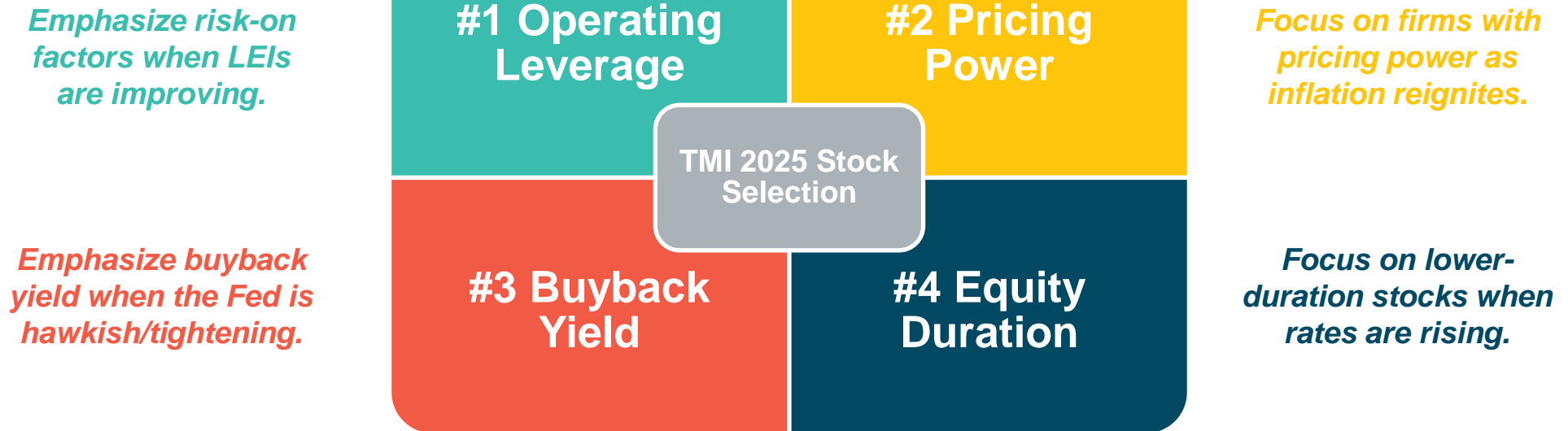
↓ Underperforms in rising rate environment

S&P 1500 12/2024
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Conclusion: Opportunities In A Complicated Macro Backdrop

Renewed Inflation Spike Could Expose Lofty Valuations

The 2025 Stock Selection “Macro” Playbook



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Conclusion: Opportunities In A Complicated Macro Backdrop

A Good Starting Point For Stock Selection

A Sample Of The 2025 Stock-Selection Model

 THE MACRO INSTITUTE		<u>Lower Deciles Rank Better In All Categories</u>							
Universe: S&P 500 TMI 2025 Outlook Portfolio									
Ticker	Name	Equity Duration	Buyback Yield	Pricing Power	Operating Leverage	Price	Market Value	Sector	Industry
TSN	Tyson Foods, Inc. Class A	1	4	1	1	\$ 57.83	20,192.6	Consumer Staples	Food Products
PSX	Phillips 66	1	1	2	1	\$ 110.48	45,627.1	Energy	Oil Gas & Consumable Fuels
ARE	Alexandria Real Estate Equities, Inc.	1	4	2	1	\$ 98.91	17,285.7	Real Estate	Health Care REITs
DHI	D.R. Horton, Inc.	1	2	3	1	\$ 140.09	44,945.0	Consumer Discretionary	Household Durables
JNPR	Juniper Networks, Inc.	1	5	3	1	\$ 37.48	12,409.2	Information Technology	Communications Equipment
PFE	Pfizer Inc.	1	5	3	1	\$ 26.71	151,365.3	Health Care	Pharmaceuticals
EPAM	EPAM Systems, Inc.	1	1	4	1	\$ 243.80	13,828.7	Information Technology	IT Services
FIS	Fidelity National Information Services, Inc.	1	1	4	1	\$ 81.40	43,822.0	Financials	Financial Services
HOLX	Hologic, Inc.	1	1	4	1	\$ 72.50	16,453.2	Health Care	Health Care Equipment & Supplies
PYPL	PayPal Holdings, Inc.	1	1	4	1	\$ 86.90	87,120.6	Financials	Financial Services
BRK.B	Berkshire Hathaway Inc. Class B	1	4	4	1	\$ 454.35	980,027.4	Financials	Financial Services
LYB	LyondellBasell Industries NV	1	4	4	1	\$ 74.01	24,035.3	Materials	Chemicals
CTRA	Coterra Energy Inc.	1	3	5	1	\$ 24.06	17,718.9	Energy	Oil Gas & Consumable Fuels
RVTY	Rewity, Inc.	1	3	5	1	\$ 112.27	13,663.5	Health Care	Life Sciences Tools & Services
TROW	T. Rowe Price Group	1	3	5	1	\$ 110.07	25,786.0	Financials	Capital Markets

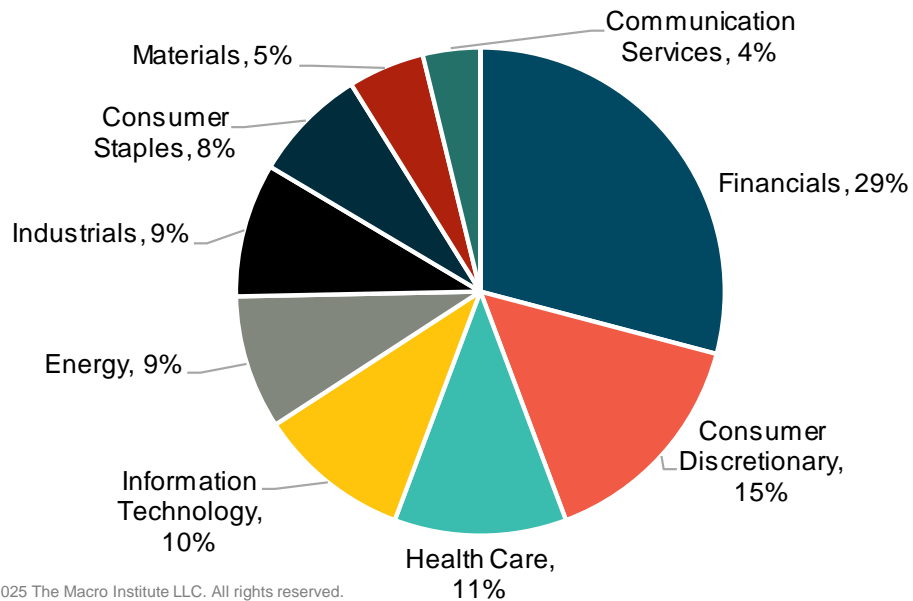
For complete list, different benchmark, or
monthly model updates:

Email quant@trahanmacroresearch.com or
visit trahanmacroresearch.com/screens

Conclusion: Opportunities In A Complicated Macro Backdrop

Sector Positioning For Inflationary Recovery

What Does This All Mean For Sector Allocation?



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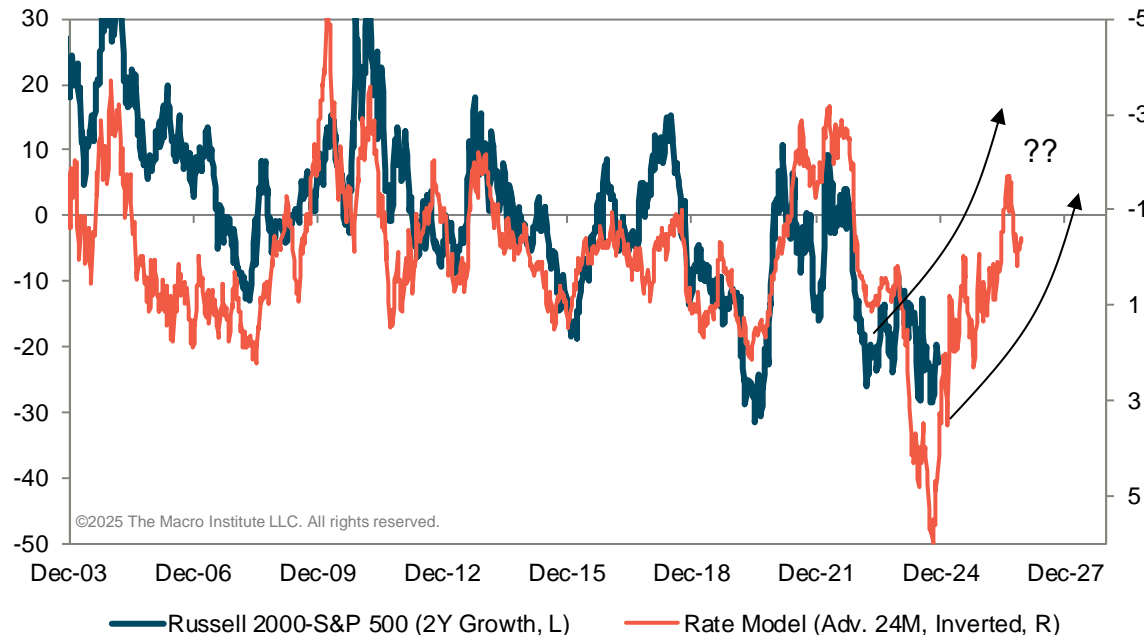
Sector	TMI Portfolio	S&P 500	Net
Financials	29%	15%	15%
Discretionary	15%	10%	5%
Energy	9%	4%	4%
Comm. Services	4%	4%	0%
Consumer Staples	8%	8%	0%
Materials	5%	6%	-1%
Health Care	11%	12%	-1%
Technology	10%	14%	-4%
Real Estate	0%	6%	-6%
Utilities	0%	6%	-6%
Industrials	9%	16%	-7%

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Conclusion: Opportunities In A Complicated Macro Backdrop

In Summary: Monetary Policy Turns Supportive For Equities (Some!)

A Recovery In Small-Cap Cyclical Stocks?

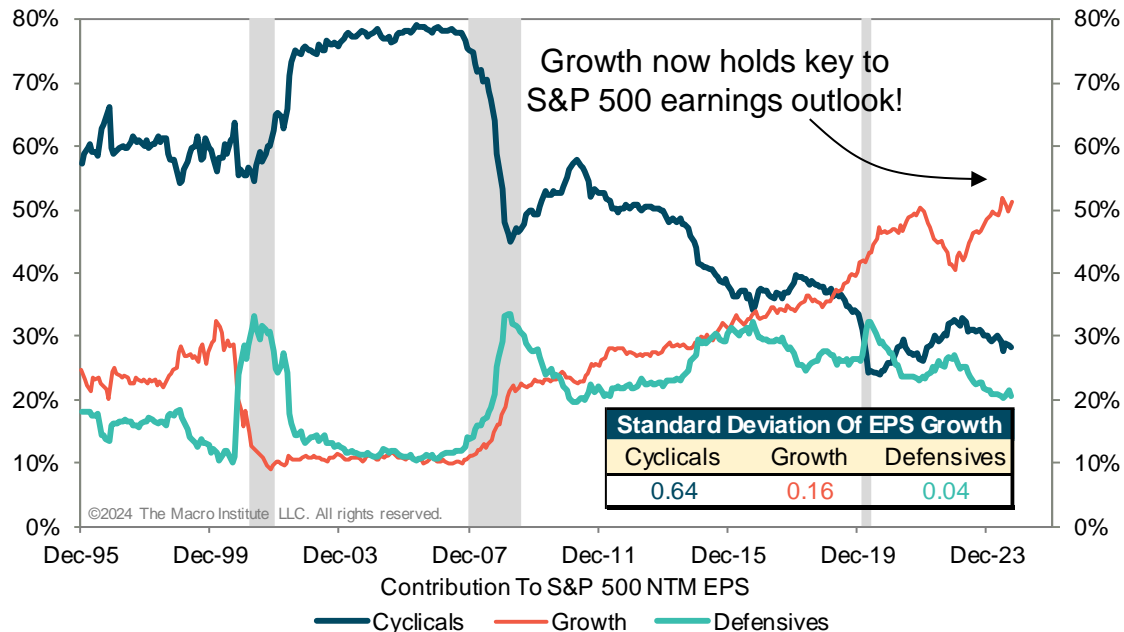


Percent Of Revenues Earned Domestically	
Russell Micro	87%
Russell 2000	81%
S&P 600	80%
S&P 400	76%
S&P 500 Value	68%
S&P 500	60%
S&P 100	55%
Dow Jones	54%
S&P 500 Growth	54%
Nasdaq 100	49%

Conclusion: Opportunities In A Complicated Macro Backdrop

In Summary: S&P 500 EPS Are Just No Longer All That Cyclical

Growth Stocks Now Account For Over 50% Of S&P 500 Earnings



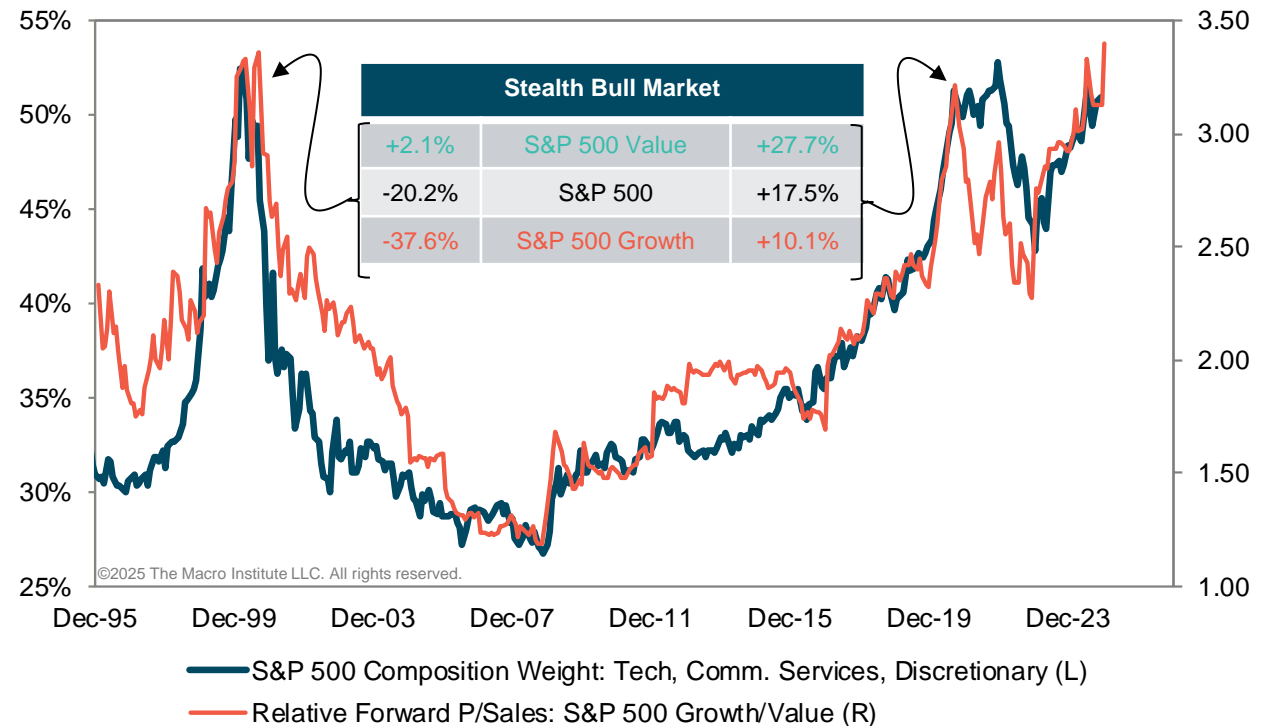
Index	Forward P/E	Sensitivity To Δ In Rates When EPS Are Rising	Sensitivity To Δ In Rates When EPS Are Falling
S&P 600	15.26	0.55	0.05
Russell 2000	24.03	0.24	0.10
Dow Jones	19.35	0.16	-0.04
S&P 500	21.25	0.10	-0.22
Nasdaq 100	26.12	-0.26	-0.41

Conclusion: Opportunities In A Complicated Macro Backdrop

In Summary: Is The S&P 500 Vulnerable To A *Growth Pullback* ???

-  **Risk #1:**
Cyclical Recovery Leads To
A Pullback In Growth
-  **Risk #2:**
Rising Interest Rates Weigh
On Growth P/Es
-  **Risk #3:**
Crowding Often Triggers
Panic Selling Across History

Valuation Disparity At Extremes ... Stealth Bull Market In The Making?



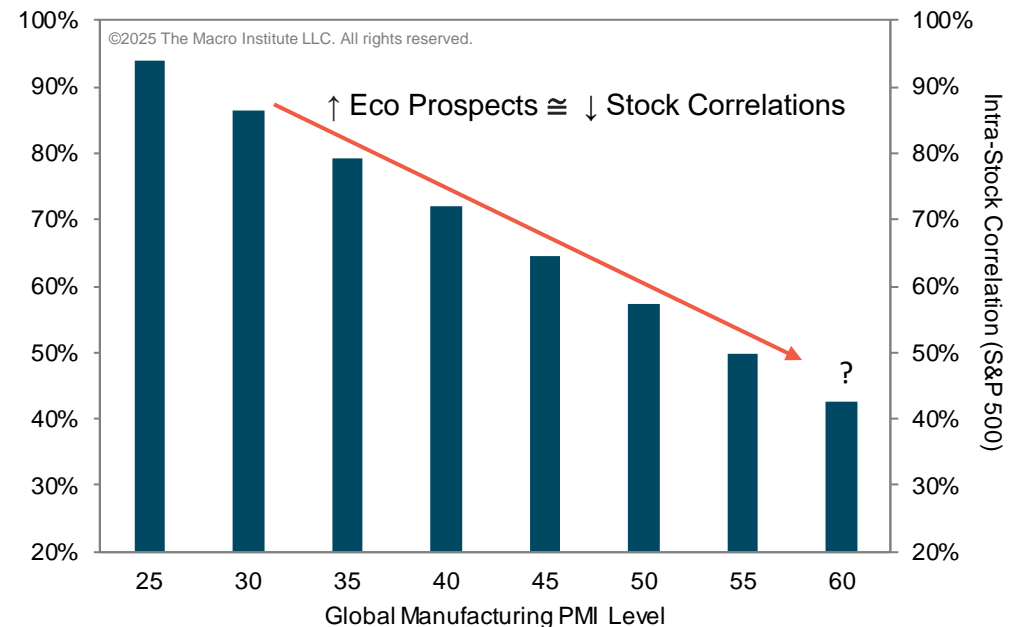
Conclusion: Opportunities In A Complicated Macro Backdrop

In Summary: 2025 The Return Of A Stock Pickers Market In 2025

It's Been A Difficult Stretch For Stock Picking



Intra-Stock Correlation Set To Decrease



Executive Summary

Insufficient Tightening Of Monetary Policy



Insufficient tightening of monetary policy, immigration, and reshoring helped the U.S. side-step a 2024 recession and S&P 500 earnings contraction. The 100bps of easing against an economy running just below peak cyclical capacity suggests stronger growth and inflation in 2025.

“Inflationary” Green Shoots



The underlying drivers and leading indicators of inflation suggest that it has not been tamed. The output gap, labor markets, and credit growth likely work to push prices higher in 2025. The Fed remains in wait-and-see mode in the near term before ultimately reversing course later this year.

Policy Proposals Could Exacerbate Inflation



The primary policy proposals of the new administration have the potential to exacerbate the upward trend in inflation. The macro headwinds from tariffs and reduced labor supply likely prove more consequential to the direction of equity markets than austerity measures.

Five Concerns For 2025



Apart from inflation, risks to U.S. equities stem largely from fiscal policy and the debt/deficit driving bond yields to levels inconsistent with current equity market valuations. A global economic recovery could also spark a rotation out of the domestic “safety” trade and the USD.

Long: Small Cap, Cyclical, & Pricing Power



Many anticipatory and leading indicators of the global economy suggest growth and inflation move higher in 2025. Under this backdrop, we favor Small Cap, Cyclical and businesses with pricing power. We expect higher bond yields and further Fed tightening.

For any additional questions:
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