The economic scenario assumptions for the U.S. are generally plausible but have some inconsistencies and areas that may need refinement. Below is an analysis of each variable across scenarios, along with suggestions for improvement.

**1. Real GDP Growth**

**Low Growth Scenario (2025–2031):**

* **2025:** +1.2% (reasonable for stagnation).
* **2026:** -1.0% (recession plausible, but we need to ensure it aligns with triggers like tight policy or external shocks).
* **2027–2031:** Flat to +1.5% (recovery is sluggish but credible).

**Base Case (2025–2031):**

* **2025–2026:** +1.4% (below-trend) JP Morgan forecasts 1.5% for 2025. But since it is below trend, your 2007 to 2031 may need to be adjusted a bit higher.
* **2027–2031:** +2.0% (this is reasonable for trend growth but given that we have been below trend, we may want to raise it by 50 bps).

**High Growth Scenario (2025–2031):**

* **2025–2028:** +2.0% to +3.5% (plausible for a boom, but 2029–2031 decline to +2.5–2.8% seems abrupt; consider smoothing).

**Suggestion:**

* Align base case closer to long-term potential GDP (~1.8–2.2%).
* High growth should sustain >3% for longer if driven by productivity gains/fiscal stimulus.

**2. Inflation**

**Low Growth Scenario:**

* **2025:** 2.3% (high for stagnation; expect ~1.5–2.0% if demand is weak).
* **2026–2031:** 1.5–1.8% (reasonable for disinflation).

**Base Case:**

* Stable at 2.0–2.1% (perfectly credible for Fed target).

**High Growth Scenario:**

* **2025–2027:** 2.5–2.8% (plausible for overheating).
* **2028–2031:** Decline to 2.0% (unlikely without a recession; inflation tends to persist).

**Suggestion:**

* Low growth inflation should start lower (e.g., 1.8% in 2025).
* High growth inflation should stay elevated (>2.5%) unless you assume a sharp policy response.

**3. Yields**

**10-Year Treasury Yield**

* **Low Growth:** 2.5–3.5% (reasonable for weak growth).
* **Base Case:** 3.5–4.0% (matches moderate inflation/growth).
* **High Growth:** 4.0–4.7% (should be higher, e.g., 4.5–5.5%, to reflect inflation risk).

**5-Year Treasury Yield**

* **Low Growth:** Curve is flat/inverted (2025–2026: 5Y > 10Y is odd; inversion should be 5Y < 10Y).
* **High Growth:** 5Y should be below 10Y (steep curve).

**5-Year BBB- Yield**

* **Spreads:**
  + Low growth: ~300 bps over Treasuries (plausible).
  + Base case: ~150 bps (reasonable).
  + High growth: ~100 bps (could tighten further to 75 bps in a boom).

**Suggestion:**

* Fix the 5Y/10Y inversion in low growth (e.g., 5Y at 2.1% in 2025 vs. 10Y at 2.3%).
* Widen BBB- spreads in low growth (e.g., 6.0% in 2025).

**4. Key Inconsistencies**

1. **Inflation in Low Growth:** Starts too high (2.3%) despite weak GDP.
2. **Yield Curve:** 5Y > 10Y in 2025 low growth is backward; inversion should be 5Y < 10Y.
3. **High Growth GDP:** Decline after 2028 seems arbitrary; link to policy tightening or external factors.

**5. Suggested Revisions**

| **Variable** | **Low Growth (2025)** | **Base Case (2025)** | **High Growth (2025)** |
| --- | --- | --- | --- |
| **Real GDP** | 0.8% | 2.0% | 3.5% |
| **Inflation** | 1.8% | 2.1% | 2.8% |
| **10Y Yield** | 2.5% | 3.8% | 4.8% |
| **5Y Yield** | 2.2% | 3.6% | 4.5% |
| **BBB- Yield** | 6.0% | 5.5% | 5.2% |

**6. Additional Notes**

* **Monetary Policy:** Link yields to Fed actions (e.g., high growth = more hikes).
* **Term Premium:** Ensure 10Y > 5Y in all but recession scenarios.
* **Spread Drivers:** BBB- yields should reflect default risk (higher in low growth).