VIEW | FIRST QUARTER 2025

Quarterly economic outlook: The new world (dis)order.

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SEI recently released its first-quarter Economic Outlook. Here is a summary of our key perspectives, focusing on global economic growth, monetary policy, inflation, geopolitics, elections across the globe, and equity markets.

- The optimism among U.S. investors that greeted Trump's election has been completely unwound as concerns over tariffs and the deteriorating relationships with U.S. allies take centerstage.
- Trump views tariffs as a tool that serves multiple purposes including border control, compelling NATO allies to spend more money on their own defense, correcting economic imbalances, encouraging the reshoring of manufacturing, and generating revenue.
- Tariffs are an inefficient way to raise revenues and should cause prices to rise while restricting consumer choice.
- Although U.S. gross domestic product (GDP) will likely be weak in the first quarter, SEI still expects the economy to grow near 2% over the full year. This assessment is subject to a downward revision depending on the severity of the coming tariffs.
- Outside the U.S. there are signs that growth might be picking up. Germany's loosening of fiscal constraints should lead other European countries to do the same, leading to higher spending on defense and infrastructure.
- Although Elon Musk's war against government waste grabs headlines, the impact on overall U.S. government spending will likely be limited.
- Federal Reserve Chair Jerome Powell resurrected the term "transitory inflation" when describing the impact of tariffs on the price level. In theory, he is correct. But people are highly sensitized to rising prices, and a tightening labor market (the result of fewer migrants entering the labor force) could lead to a modest wage-price spiral that keeps inflation higher for longer.
- Central-bank policy divergence has been a long-running theme. It may continue, but a more aggressive fiscal policy in Europe could make the European Central Bank less eager to cut rates in the future.
- The drop in U.S. yields has gone too far given the inflationary pressures that we expect to develop from tariffs. We still expect the 10-year Treasury to trade mostly in a 4.25%-to-4.75% range this year.
- European stock markets have enjoyed a sharp first-quarter gain in reaction to the German elections and the expectation that fiscal policy would become more expansive. The outperformance of developed equity markets versus U.S. equities so far this year is based on investors' perception that growth in earnings outside the U.S. will accelerate after a long period of relative stagnation.
- It has become easier for investors to defend both diversification outside the U.S. and a tilting toward value.

A full-length paper is available if you wish to learn more about these timely topics.

Glossary

10-Year Treasury yield represents the annual interest rate that the U.S. government pays on 10-year Treasury notes, serving as a key benchmark for other interest rates and a barometer of investor sentiment about the economy.

Gross domestic product (GDP) is the total monetary or market value of all the goods and services produced in a country during a certain period.

Transitory inflation refers to a temporary or short-lived increase in the rate of consumer price rises, expected to revert to a steady rate, often caused by supply chain issues or other temporary factors.

A **tariff** is a tax imposed by the government of a country on imports or exports of goods.

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