

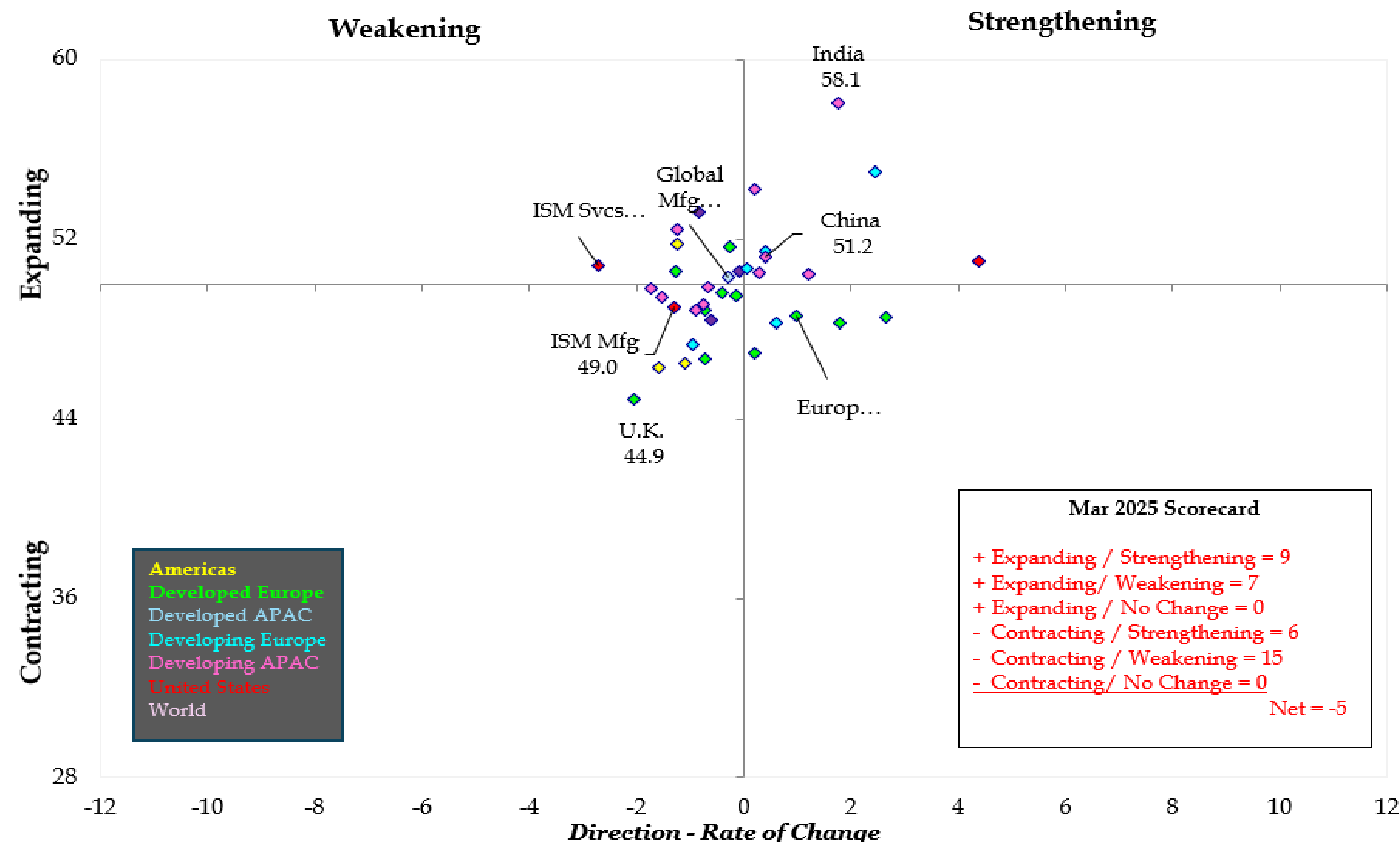
# Economic & Market Outlook: It All Depends On Your Time Horizon

**Linda A. Duessel, CFA®, CPA, CFP®**  
Senior Equity Strategist  
Senior Vice President

May 2025

# Can the globe skirt a recession?

Global Economy Scorecard As of March 2025



Source: Strategas Research Partners. Data as of March 31, 2025

# Can we avoid a recession?

Consumer Sentiment: Expectations Index 1978 Through Mid-April 2025

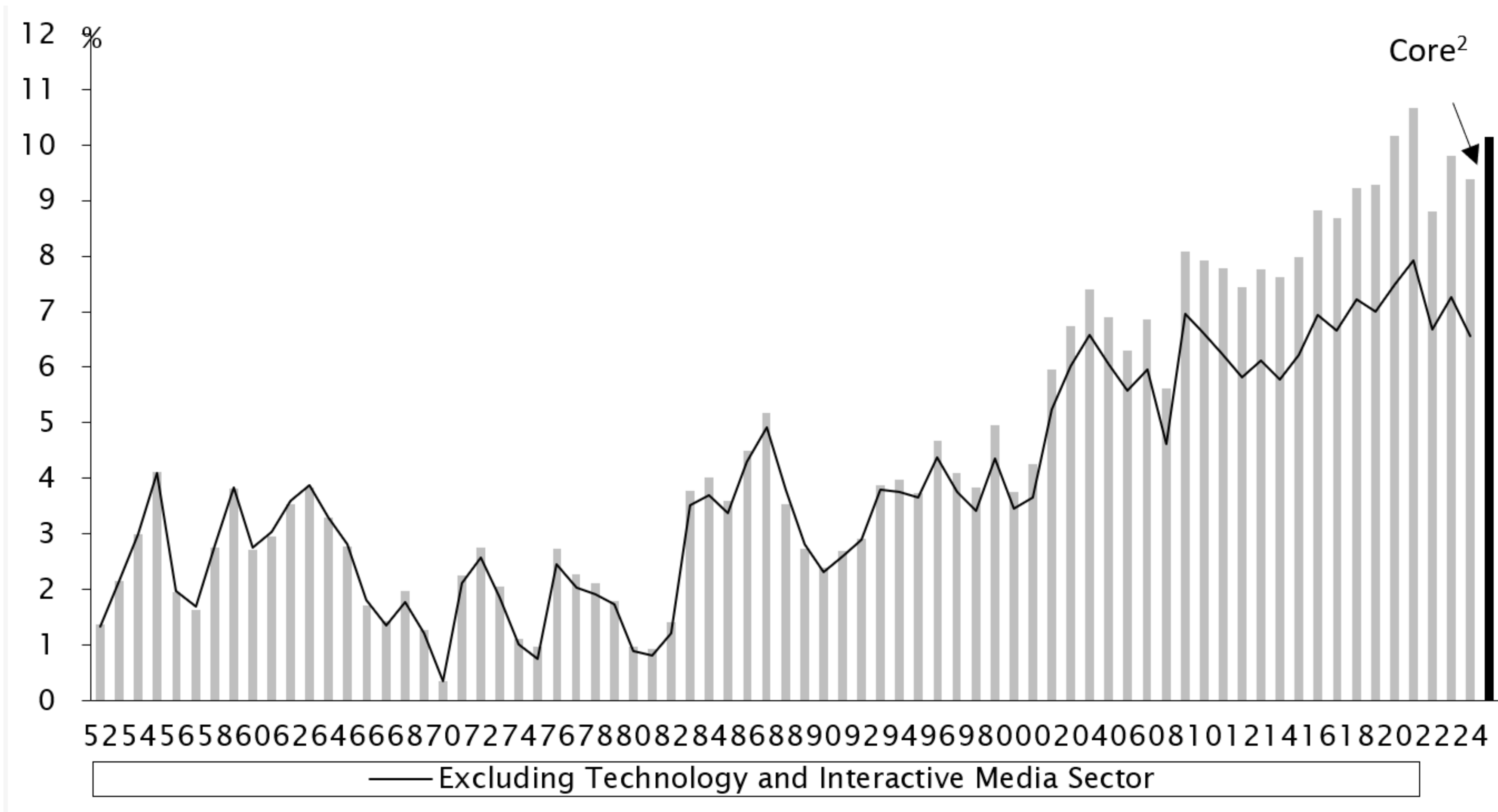


Source: University of Michigan. National Bureau of Economic Research. April 30, 2025. April 30, 2025. Shaded bars indicate recessions.



# Profit margins are at a record level

The S&P 500<sup>1</sup> Free Cash Flow Margins  
1952 Through 2024



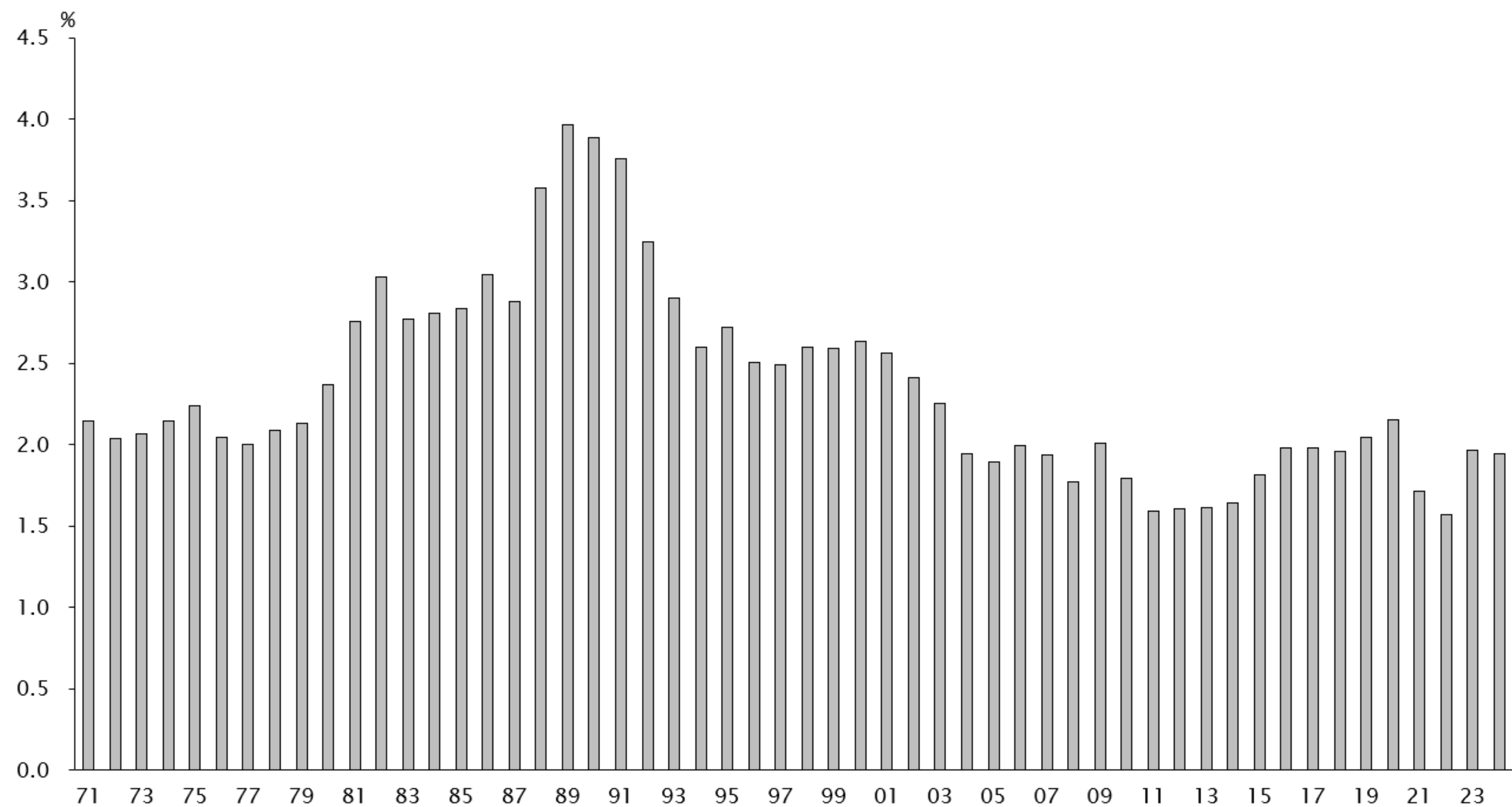
Source: Corporate Reports, Empirical Research Partners Analysis. April 30, 2025. Shaded bars indicate recessions.

<sup>1</sup> Excludes financials and REITs; prior to 1976, the large-cap universe is used.

<sup>2</sup> Excludes financials, REITs, utilities, energy and industrial commodities.

# Corporate debt service is handleable

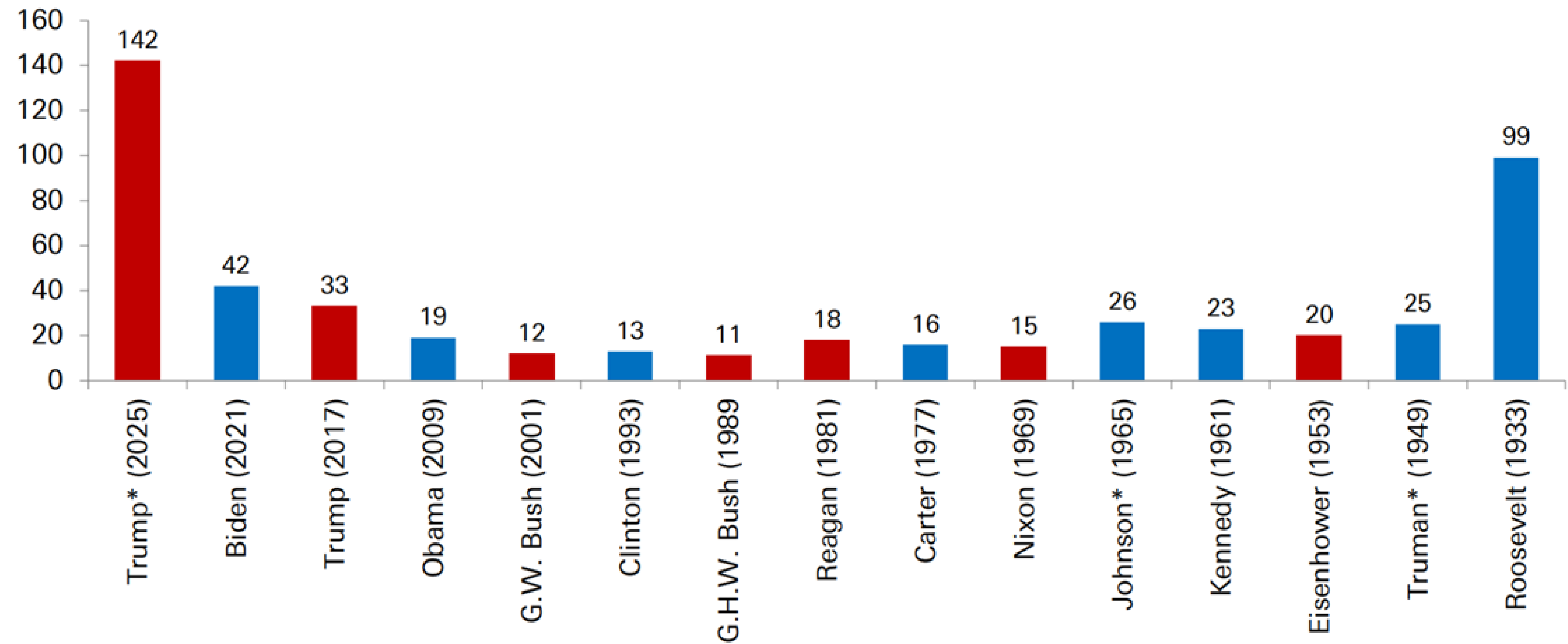
U.S. Public Companies<sup>1</sup> Interest Expense As A Share of Revenues  
1952 Through 2024



Source: Corporate Reports, Empirical Research Partners Analysis. April 30, 2025  
<sup>1</sup>Largest 1,500 stocks, including financials.

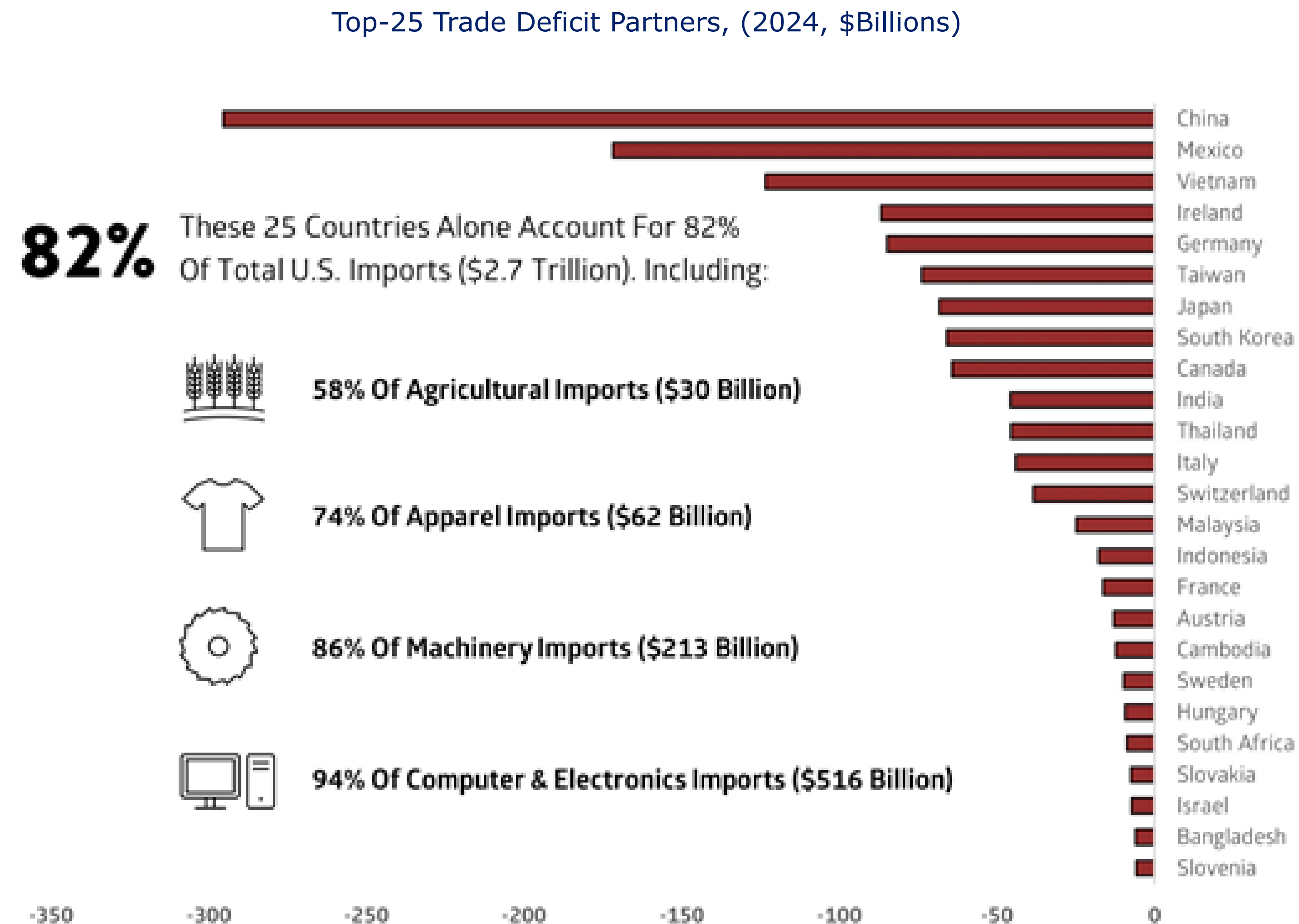
# President Trump has wasted no time!

Executive Orders Signed in the First 100 Days in Office...



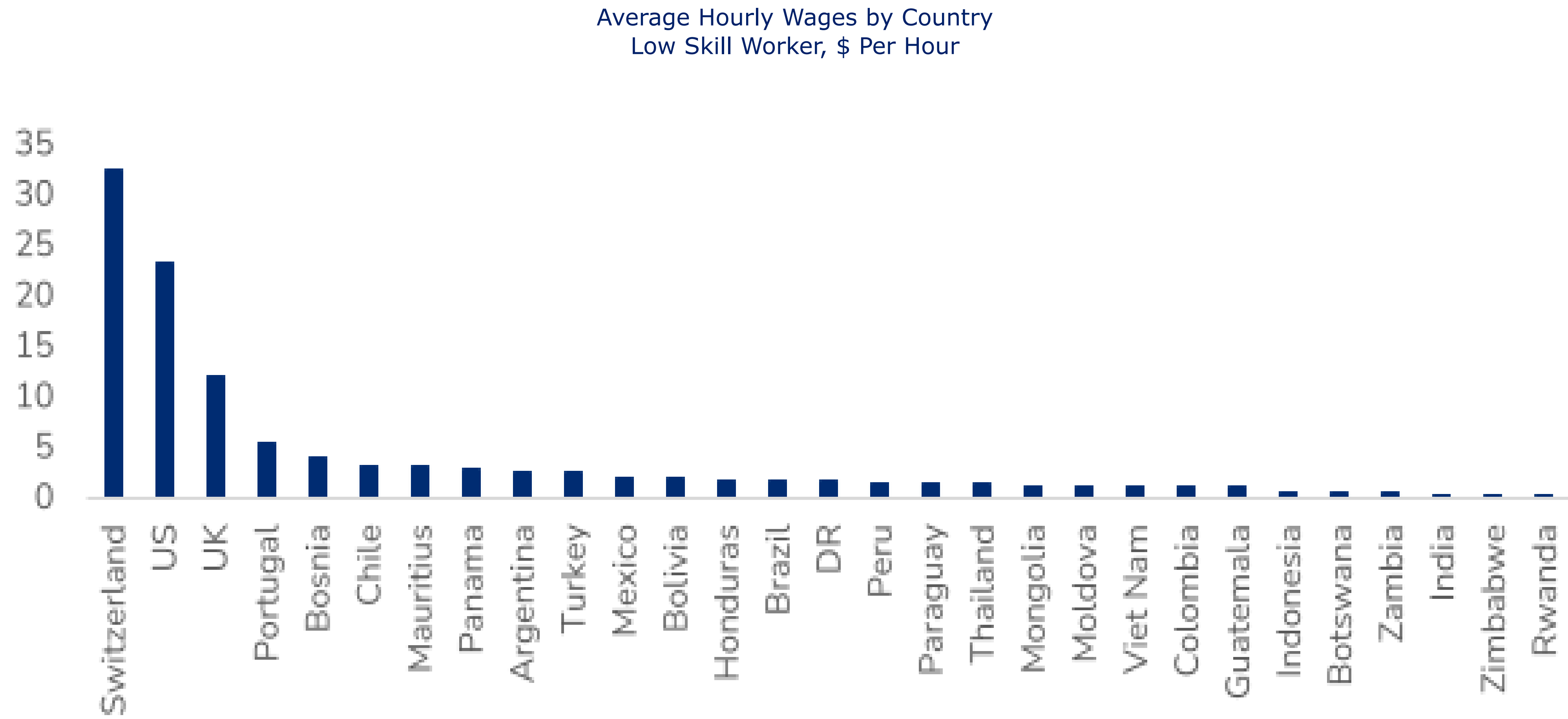
Source : NPR, Deutsche Bank  
\* Data is only for newly-elected presidents. Gerald Ford, who took office following Richard Nixon's resignation, is not included. Figures for Johnson and Truman, who both took office after the deaths of their predecessors, reflect the first 100 days of their full first terms. The total for Trump's second term reflects executive orders signed through April 28, 2025

# Trade War!



Source: TD Cowen, Bureau of Economic Analysis April 16, 2025

# What about comparative advantage?

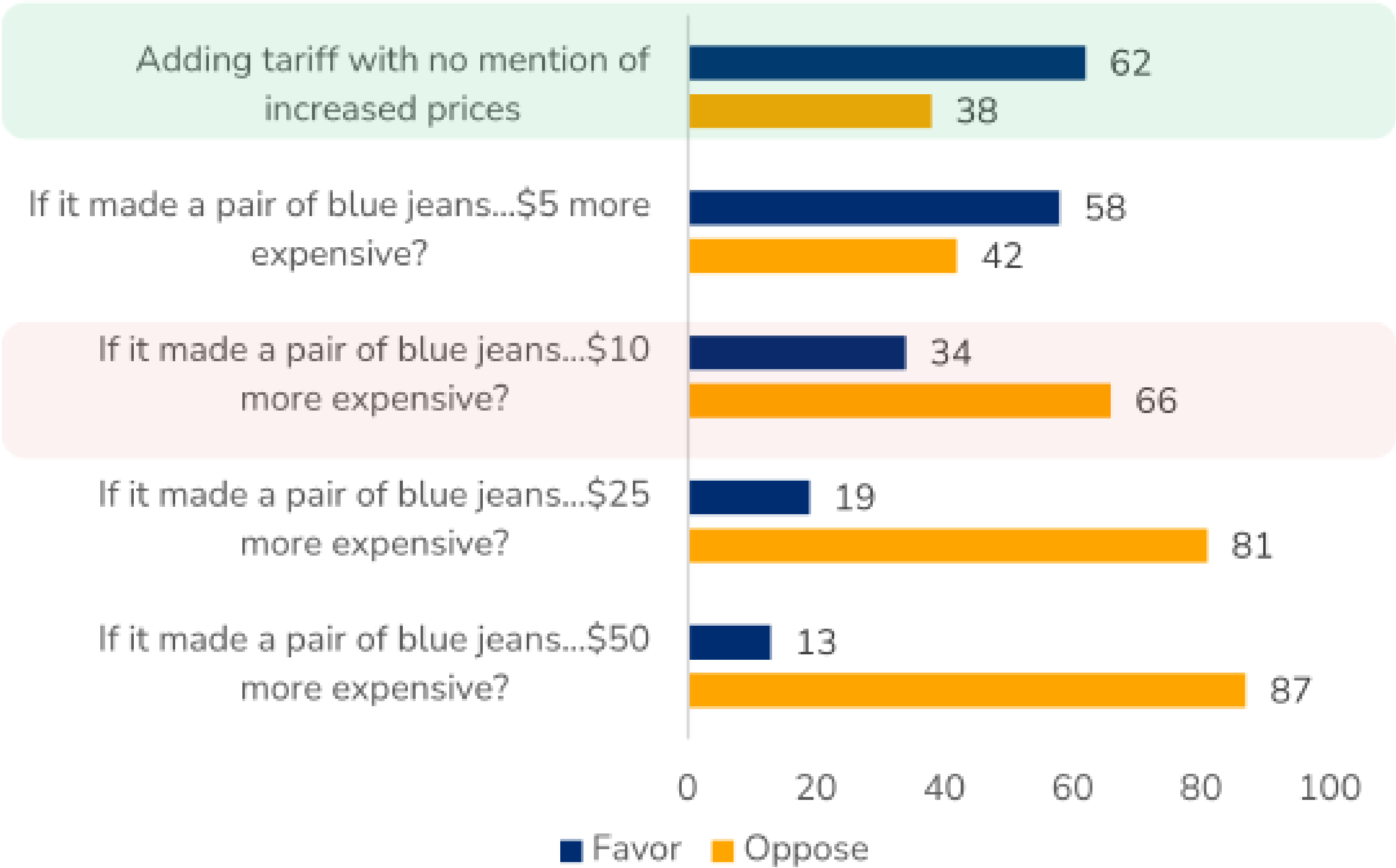


Source: Wolfe Research, April 15, 2025



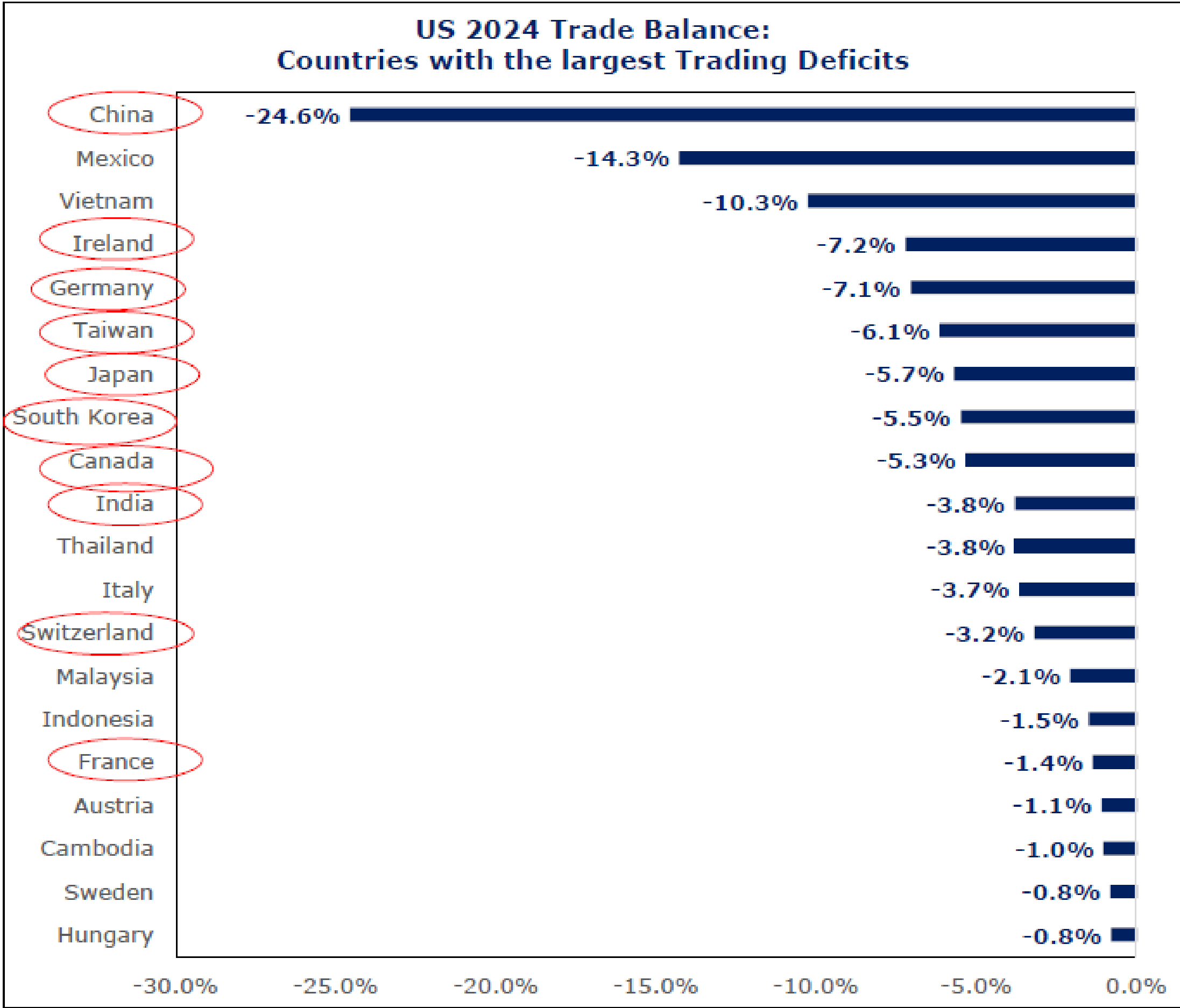
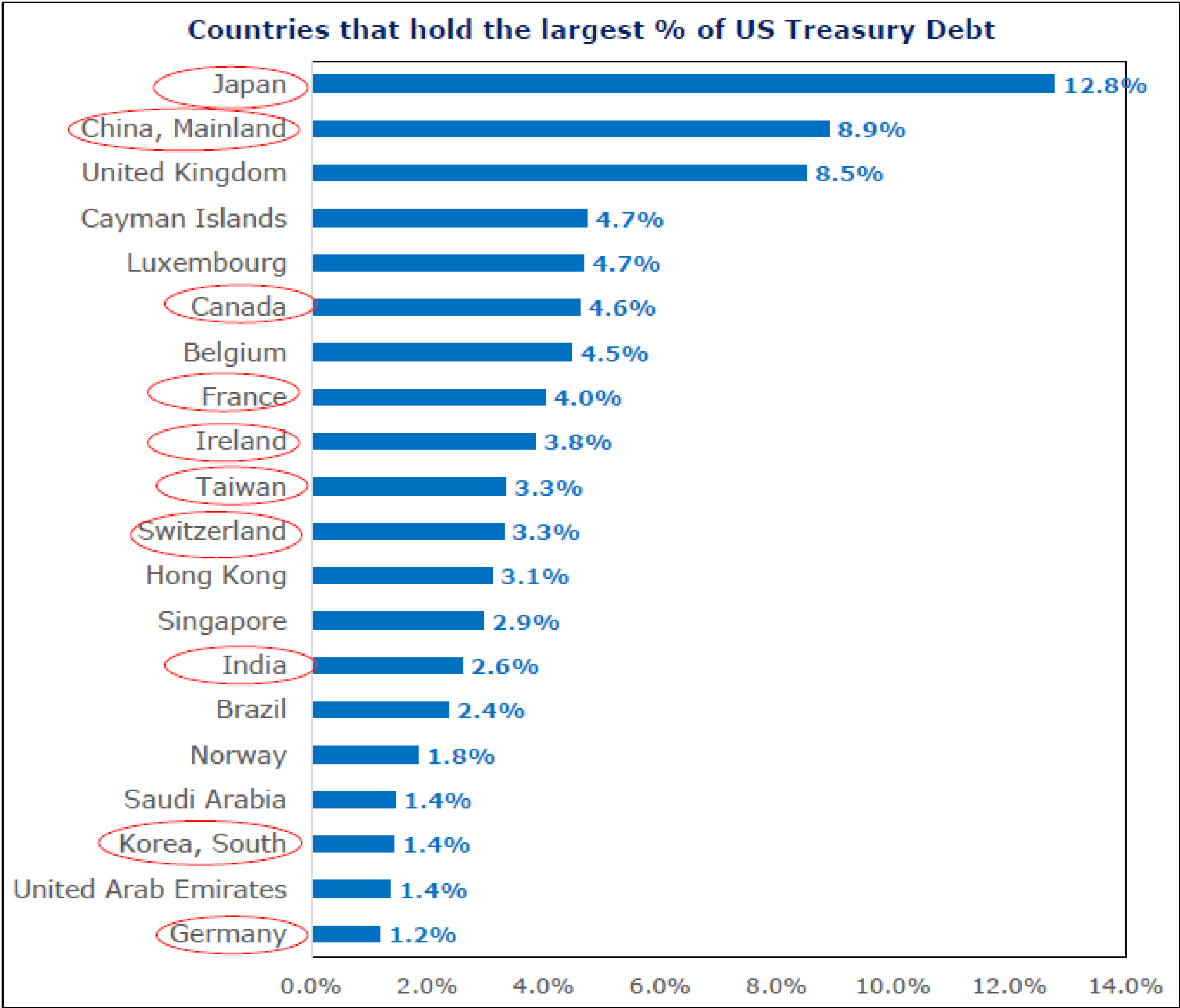
# Yes, but not in my backyard

Favor or Oppose Adding Tariffs to Imported Blue Jeans (%)



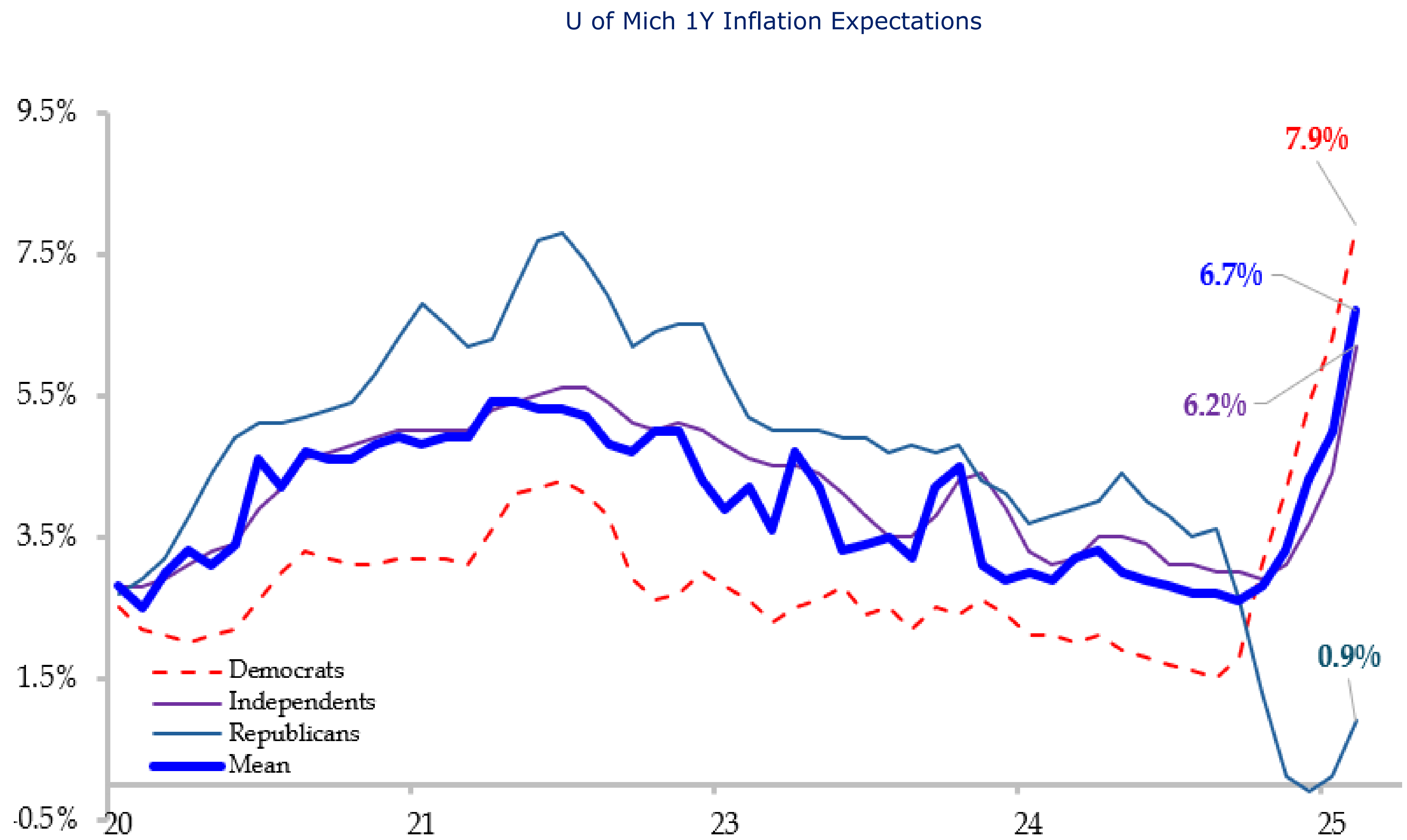
Source: Wolfe Research, April 15, 2025

# The largest holders of US debt export more to the US than they import



Source: US Department of Commerce and Treasury.gov, March 31, 2025

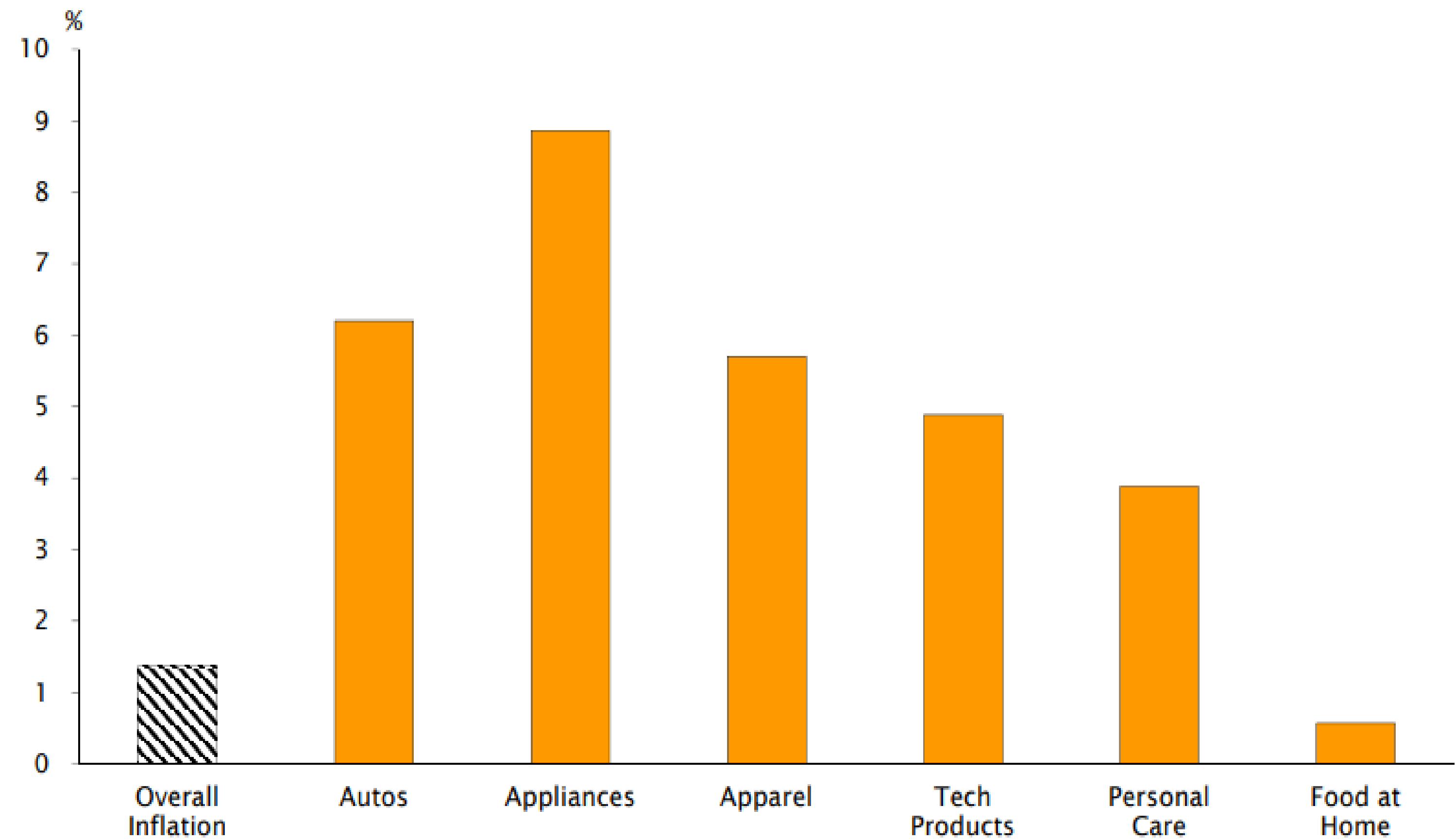
# Unbelievable



Source: Strategas Research Partners. April 23, 2025

# Projected additional impact on inflation

Impact of the 2025 Tariffs on the CPI<sup>1</sup>  
2025-2026



Source: Empirical Research Partners , April 10, 2025

<sup>1</sup>Assumes pass through of 80% on tariffs announced in 2025 and some demand destruction in China.

# The S&P and Tariffs over the last 100 years

S&P 500 Index and Major US Tariff Milestones

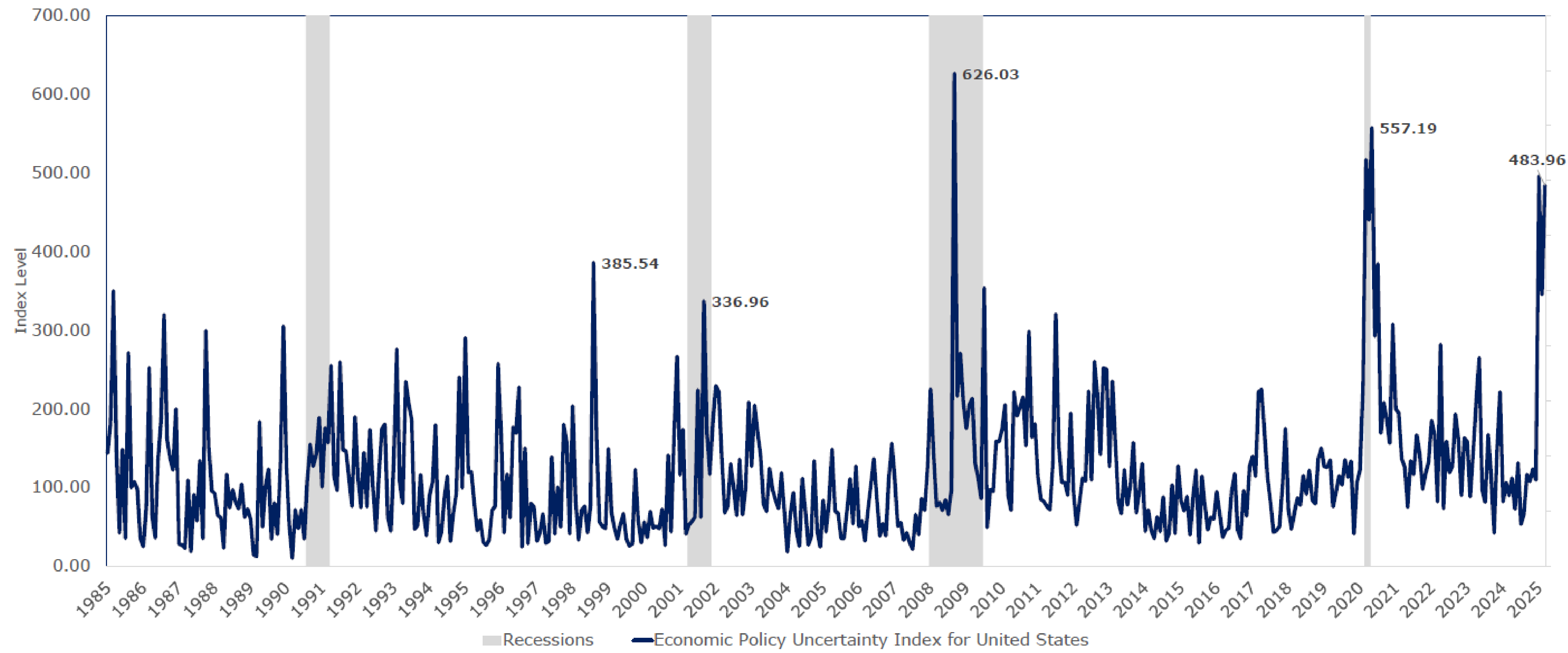


Source: RenMac, April 4, 2025



# Economic policy uncertainty has surged in recent months

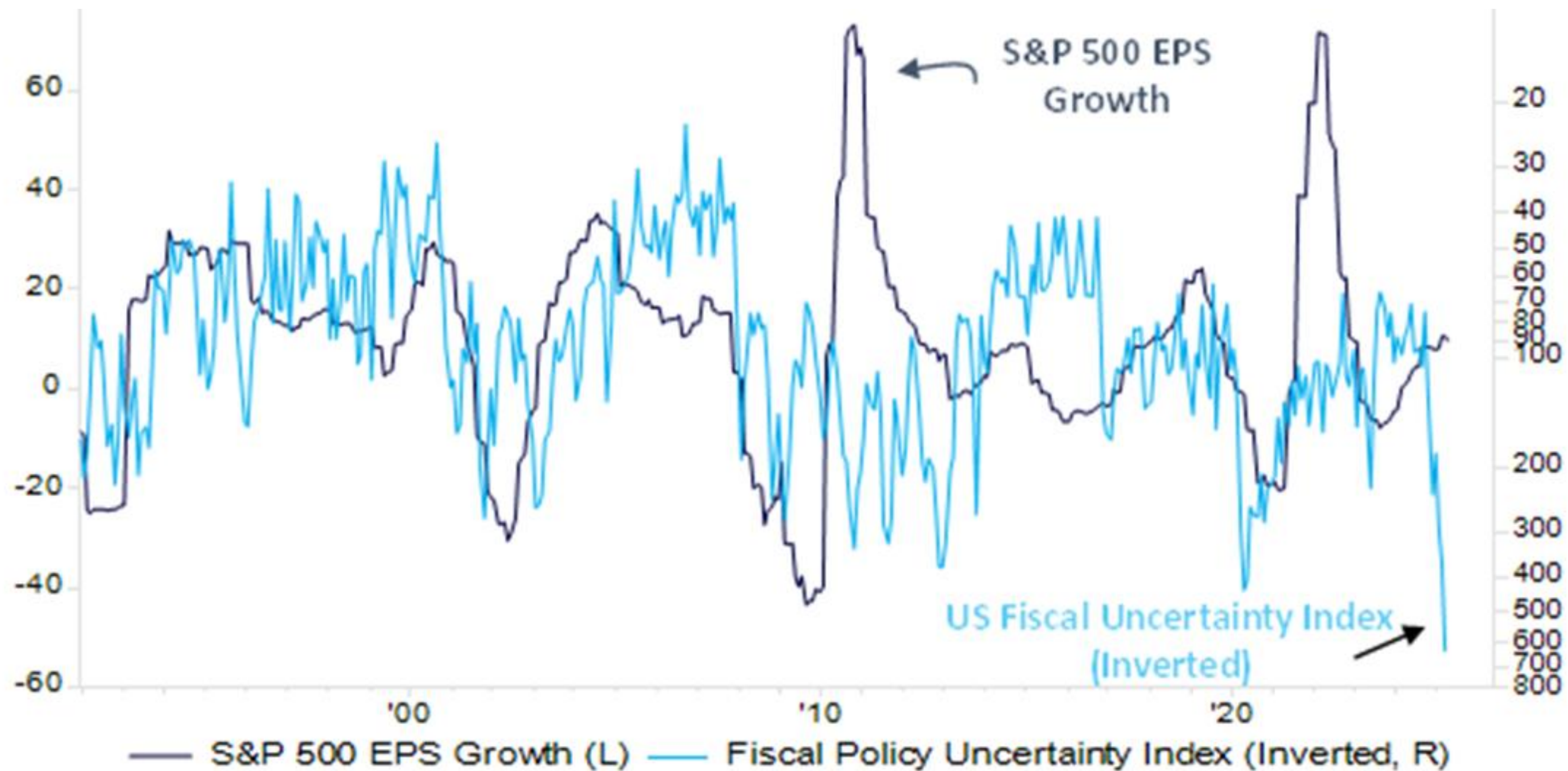
US Economic Policy Uncertainty Index



Source: RenMac, April 4, 2025

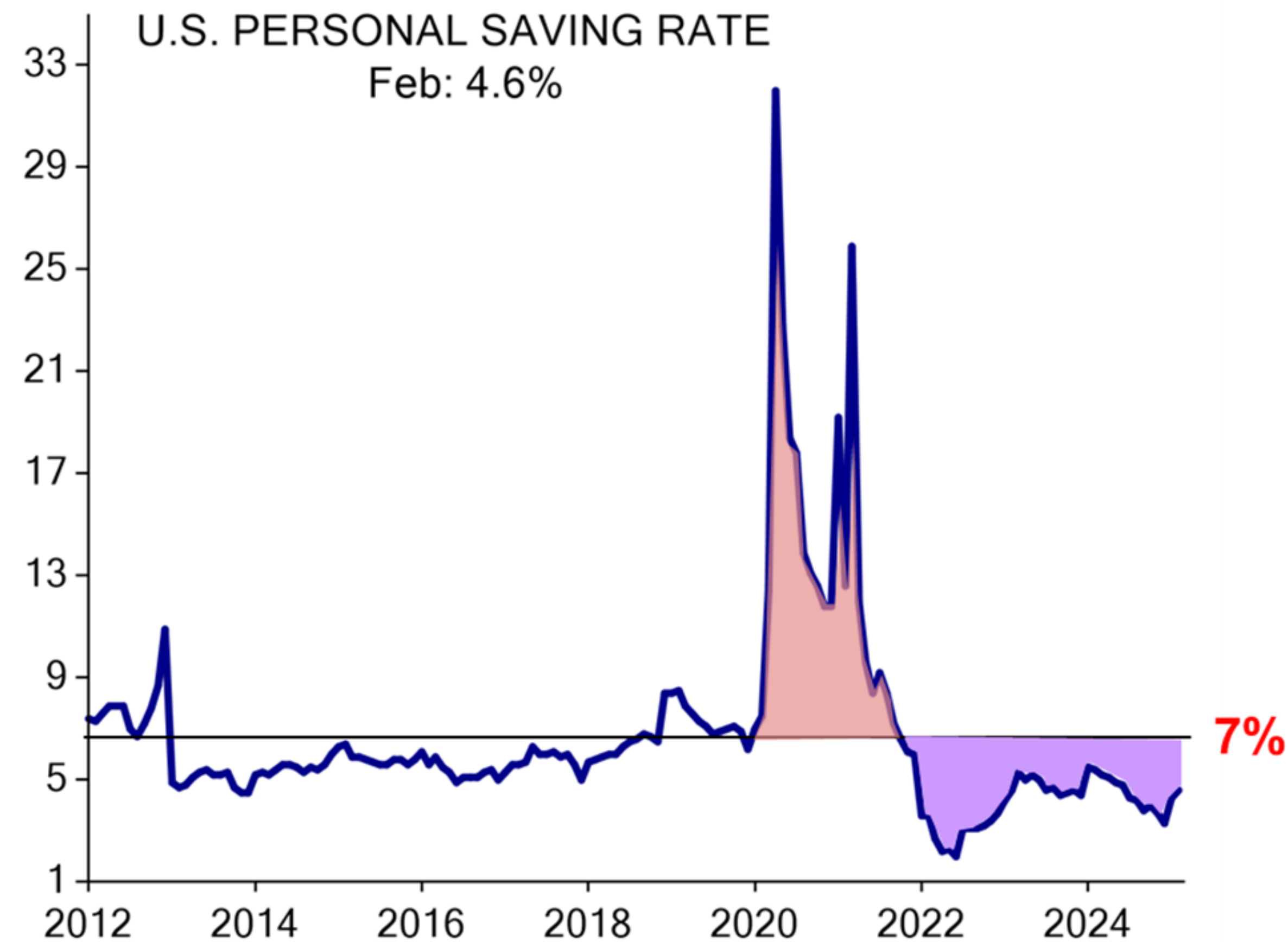
# Uncertainty can't ease soon enough

A Sharp Increase in Policy Uncertainty Tends to be Followed by Declines in NTM EPS Estimates if Uncertainty Lasts Long Enough



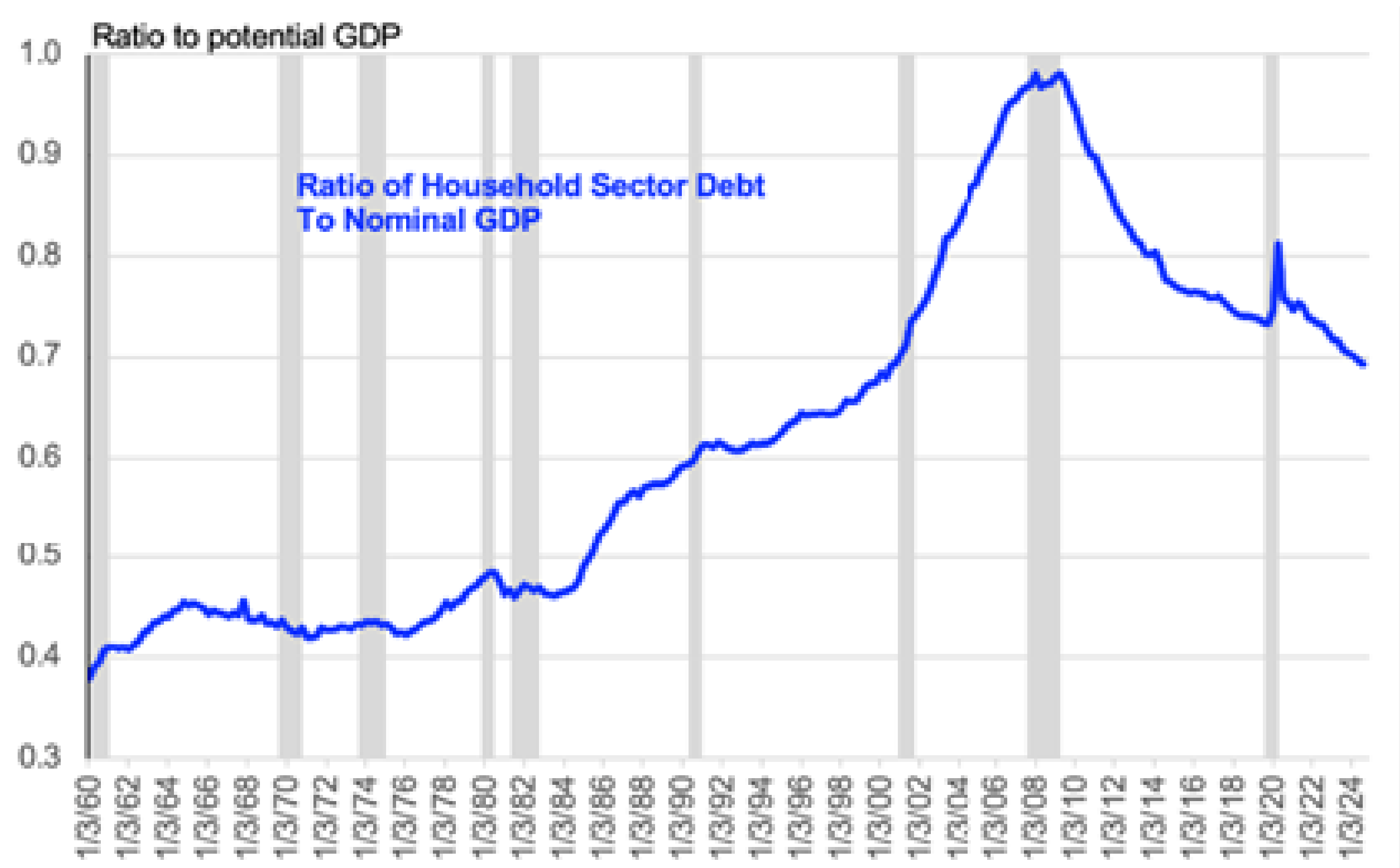
# Easy come, easy go

Excess Savings Are Gone, i.e., Back To A Normal Level Versus Its Peak Two Years Ago of Over \$2T.



# 15 years of deleveraging...

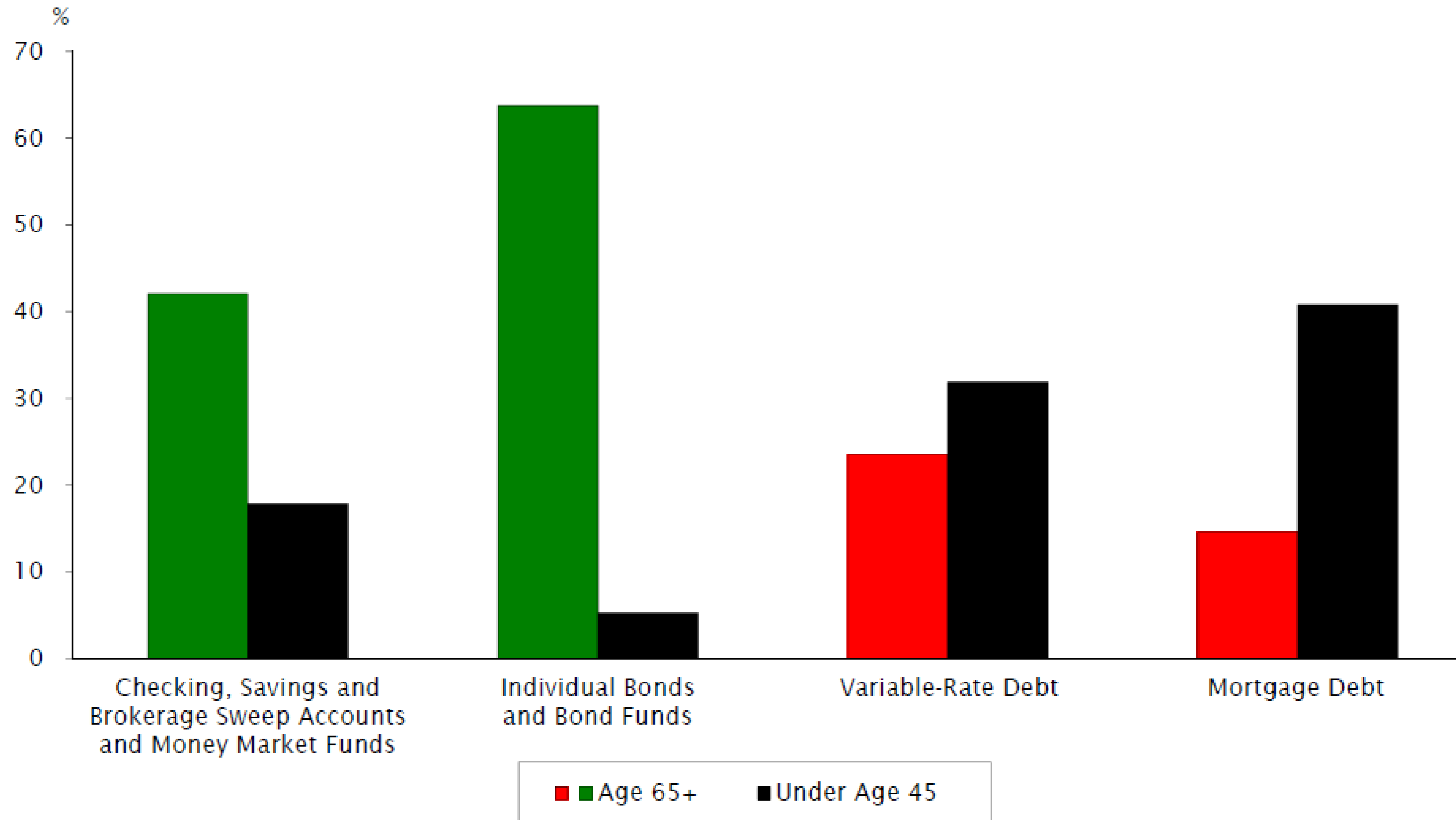
Simple Measure of Household Sector Leverage: Longer View



Source: 22V. December 19, 2024. Shaded bars represent recessions.

# ...Although the demographic divide is striking

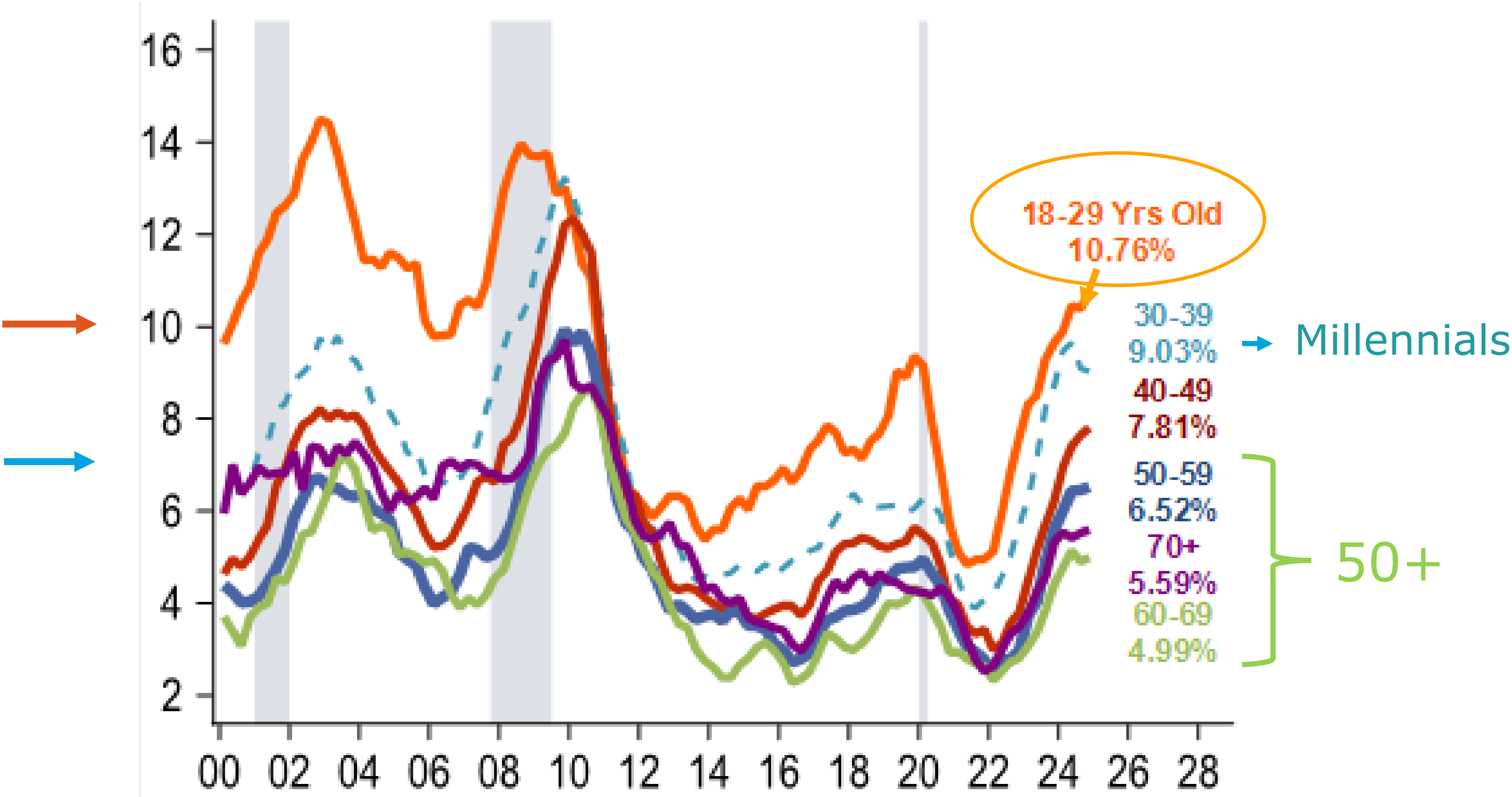
U.S. Consumers- Ages 65 and Over and Under 45  
Share of All Household Assets and Liabilities 2022





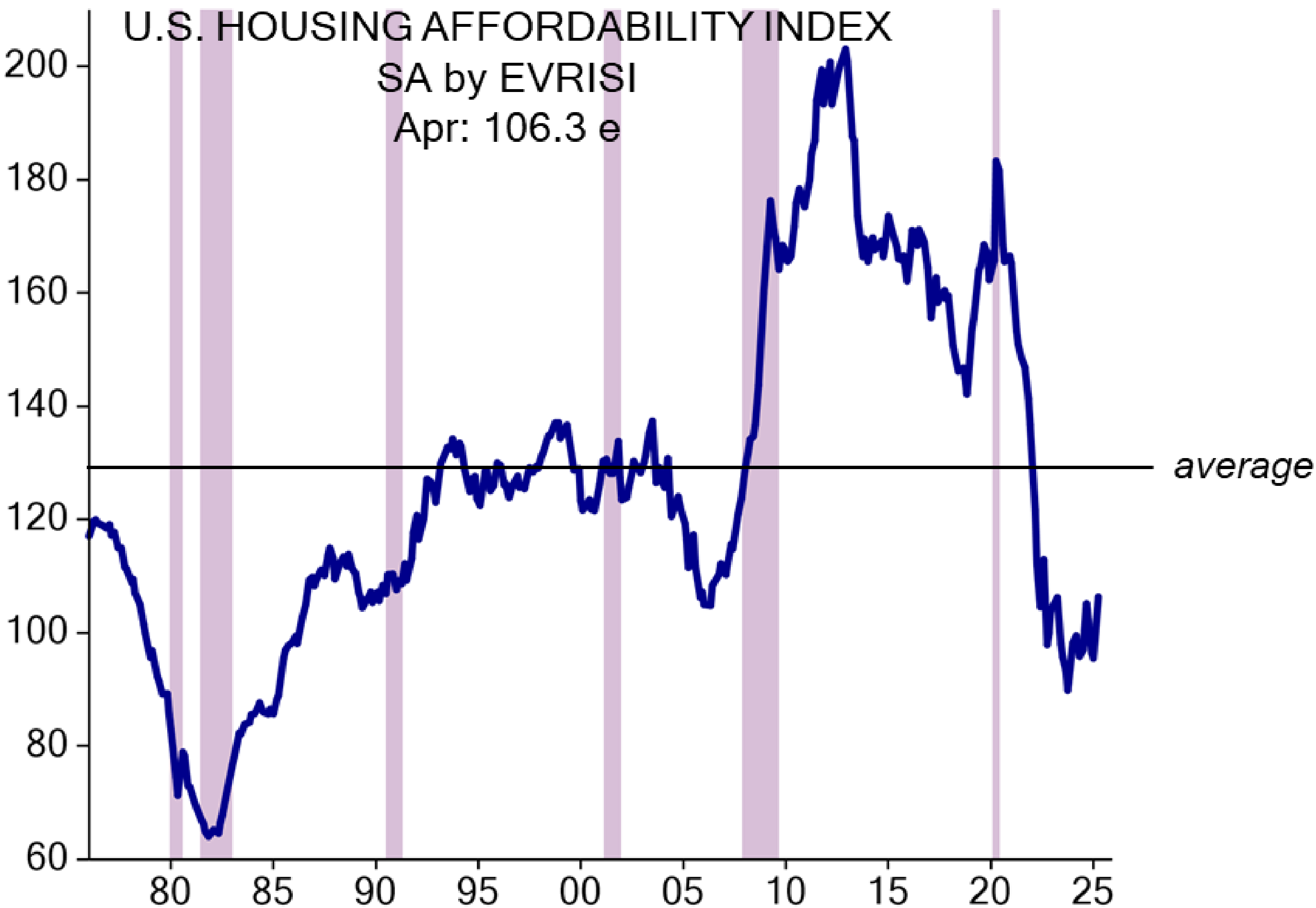
# Delinquencies rising for Millennials and Gen Z

U.S. Credit Card Debt, % 90+ Days Delinquent (NY Fed) 2024 Q4



Source: Piper Sandler Research. Data as of February 13, 2025  
Note: Shaded areas represent recessions.

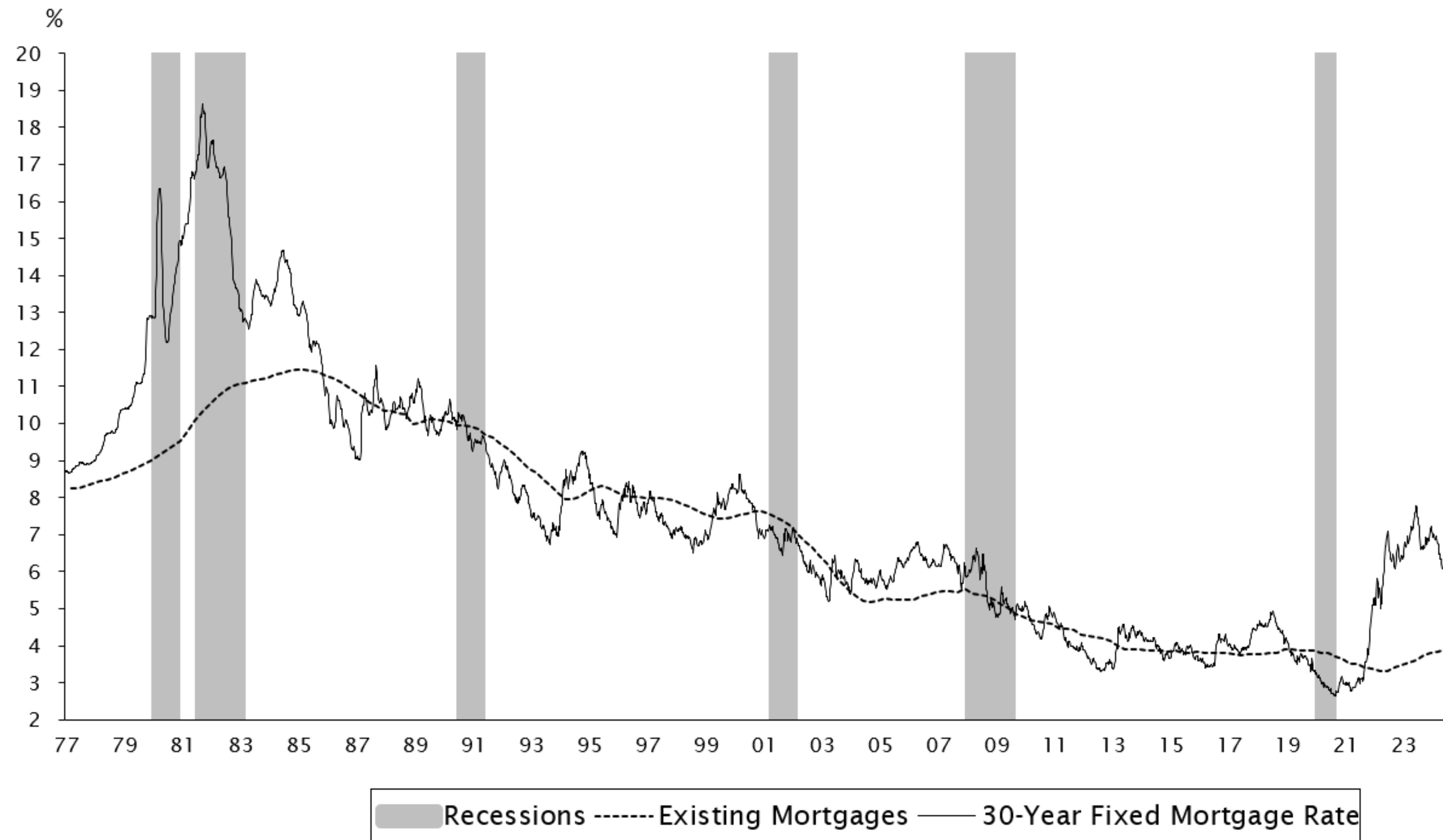
# First-time homebuyers priced out



Source: Evercore ISI Research. April 29, 2025  
\* A value of 100 indicates the qualifying income based on median home prices and 30-year fixed mortgage rates equals the median income throughout the U.S. A 20% down payment and 25% of income devoted to mortgage interest and principal are assumed. Shaded bars represent recessions.

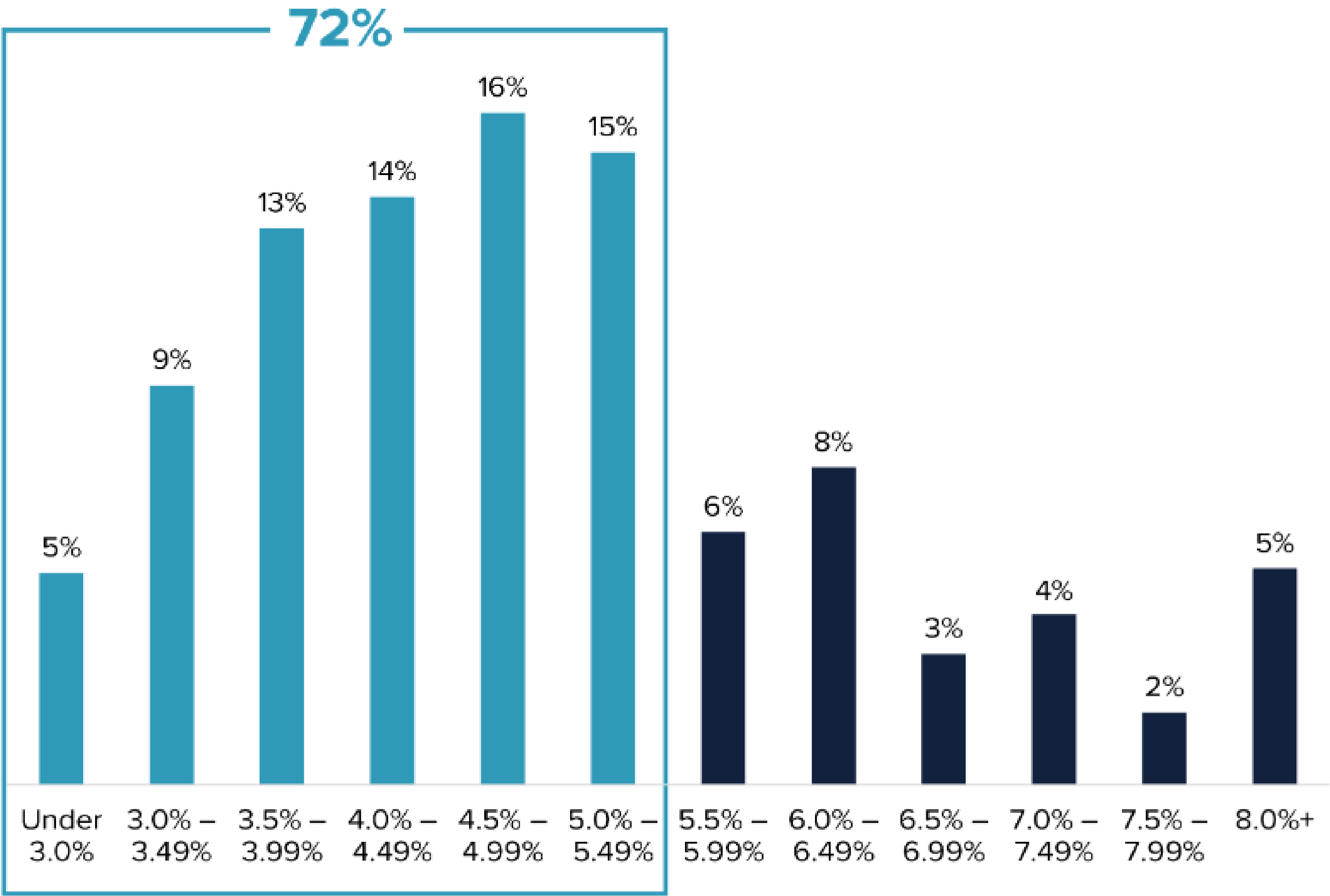
# The existing home market isn't helping matters

Average Rate on Existing Mortgages and The 30-Year Fixed Mortgage Rate  
1977 Through Late-April 2025



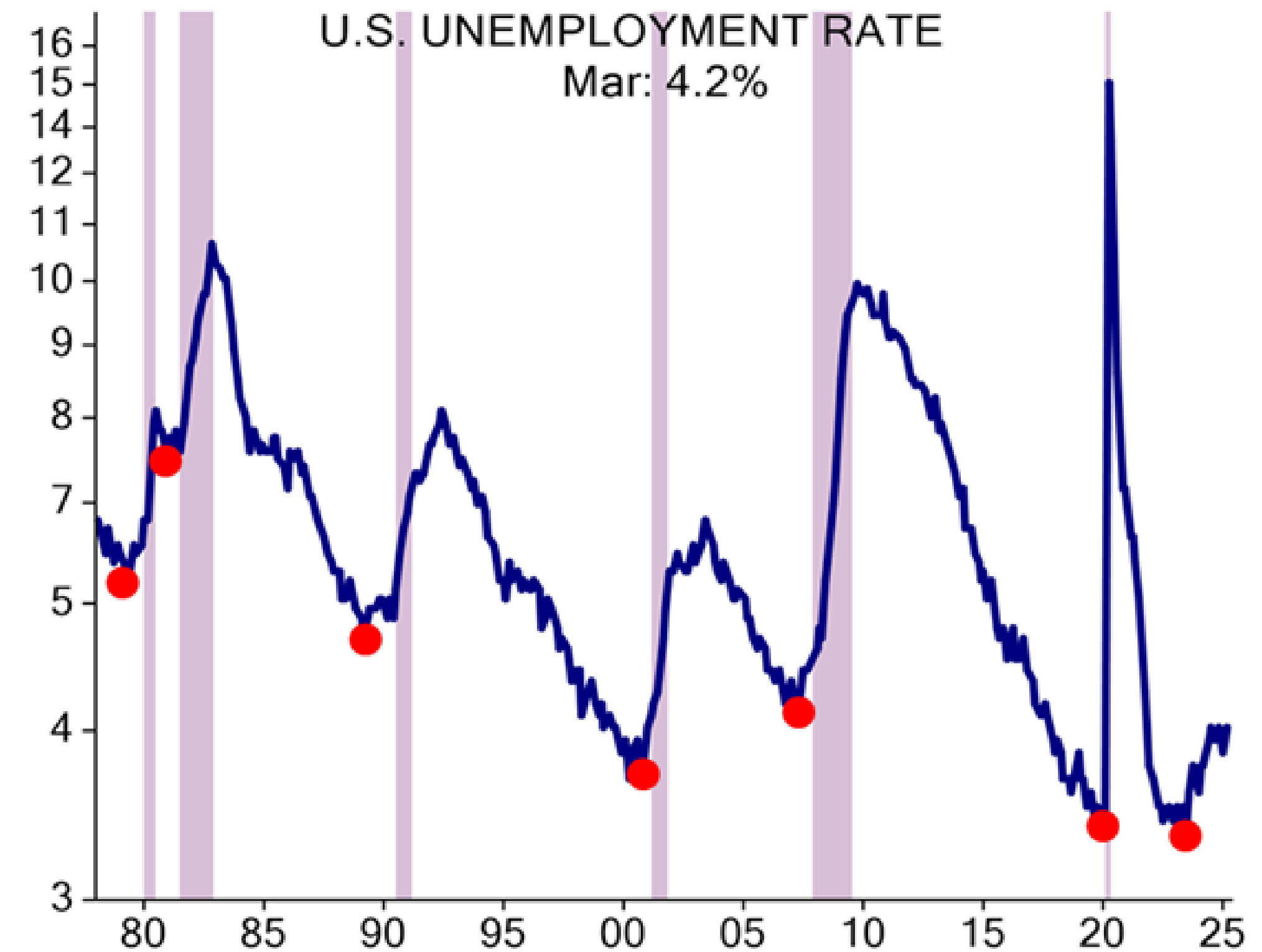
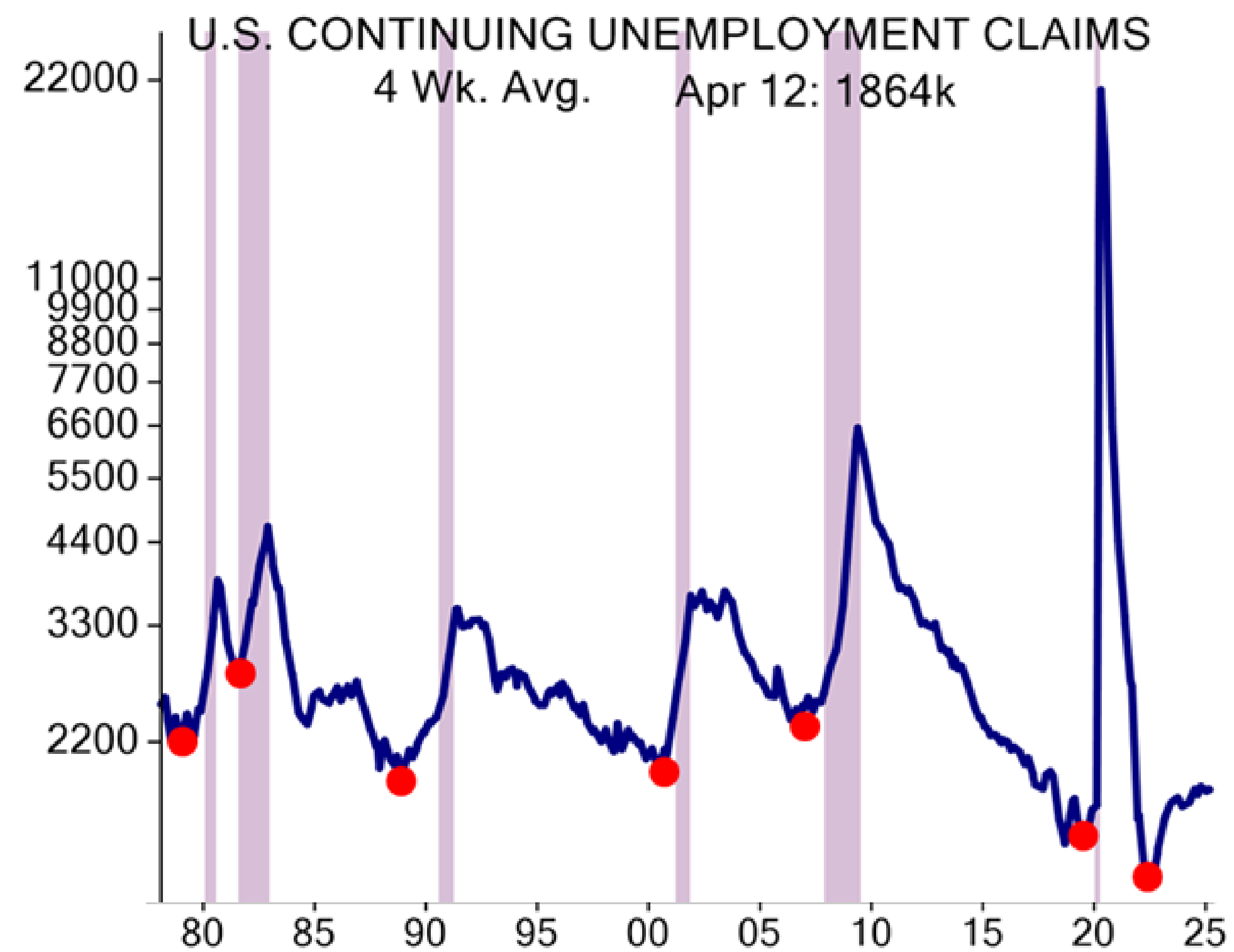
# Rooting for a 5.5% mortgage rate

72% of Homeowners and Renters Say That 5.5% Is The Highest Acceptable Mortgage Rate For A New Home (With a Household Income of \$50k+ Who Plan To Purchase Their Next Home With A Mortgage)



Source: UBS Research and New Home Trends Institute by John Burns Research & Consulting, LLC August- September 2023 survey.

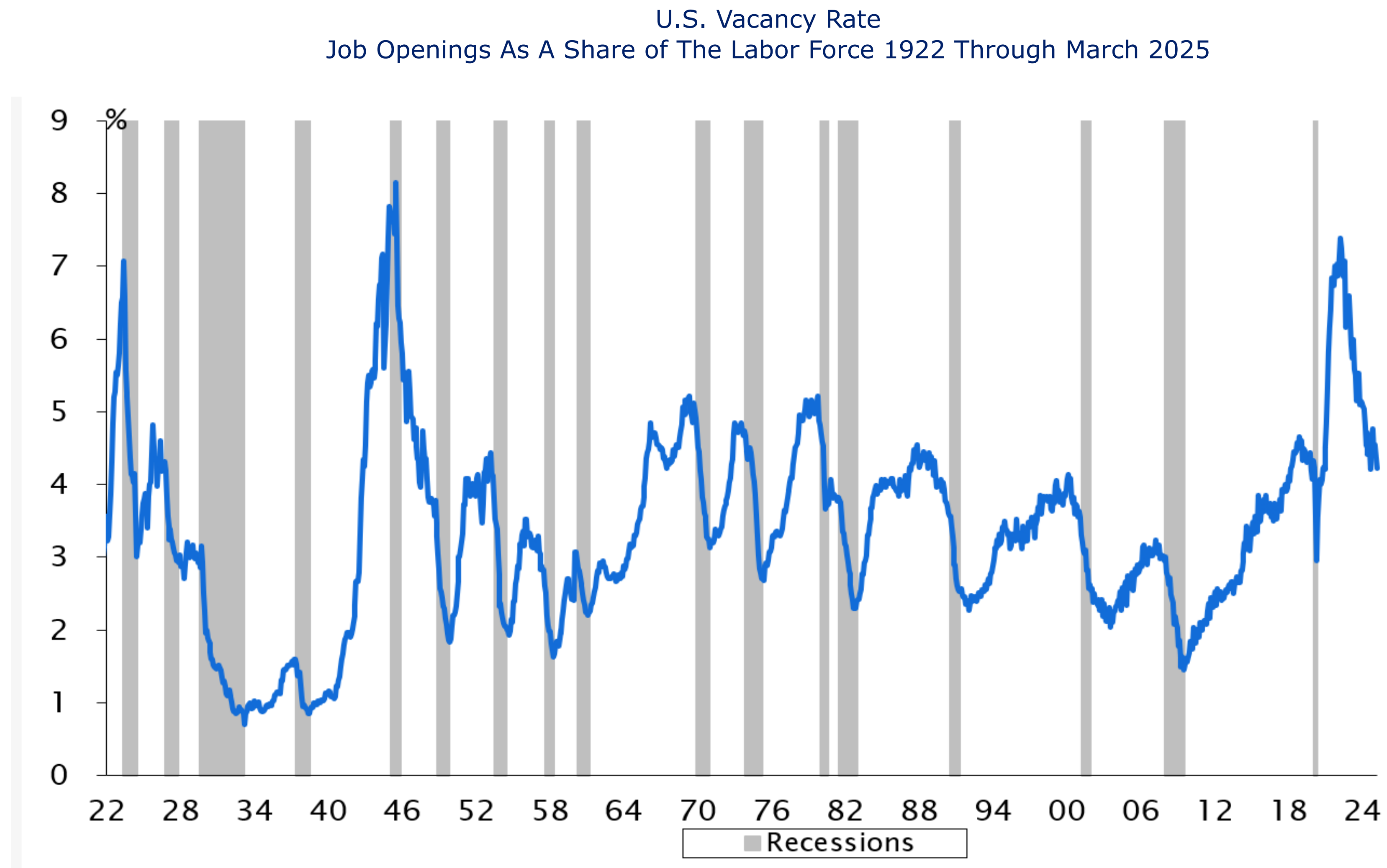
# What about jobs?



Source: Evercore. April 29, 2025. Shaded bars represent recessions.



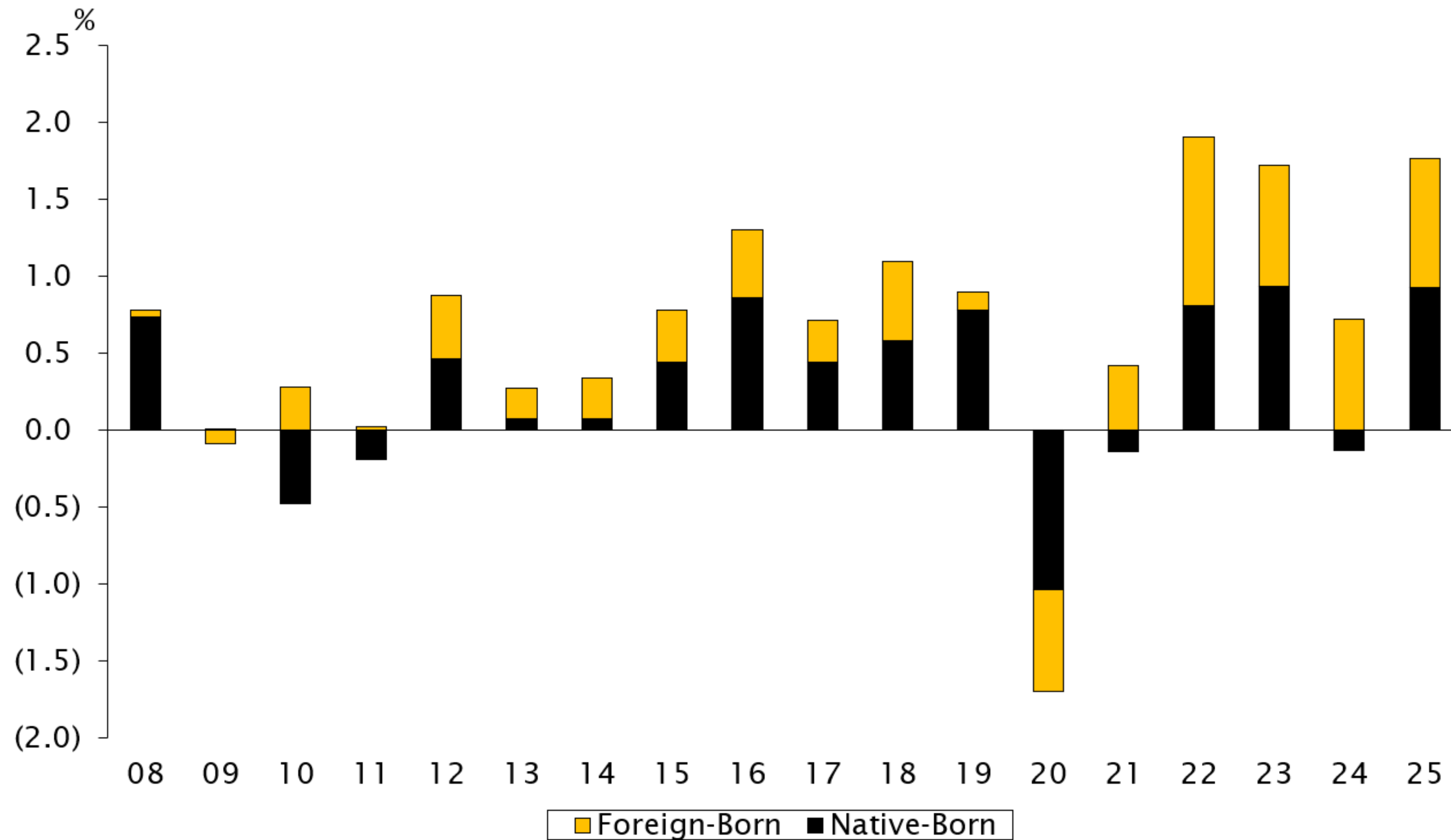
# The labor market has come back closer to balance...



Source: Empirical Research Partners. Data through April 30, 2025.

# ...With immigration an important swing factor

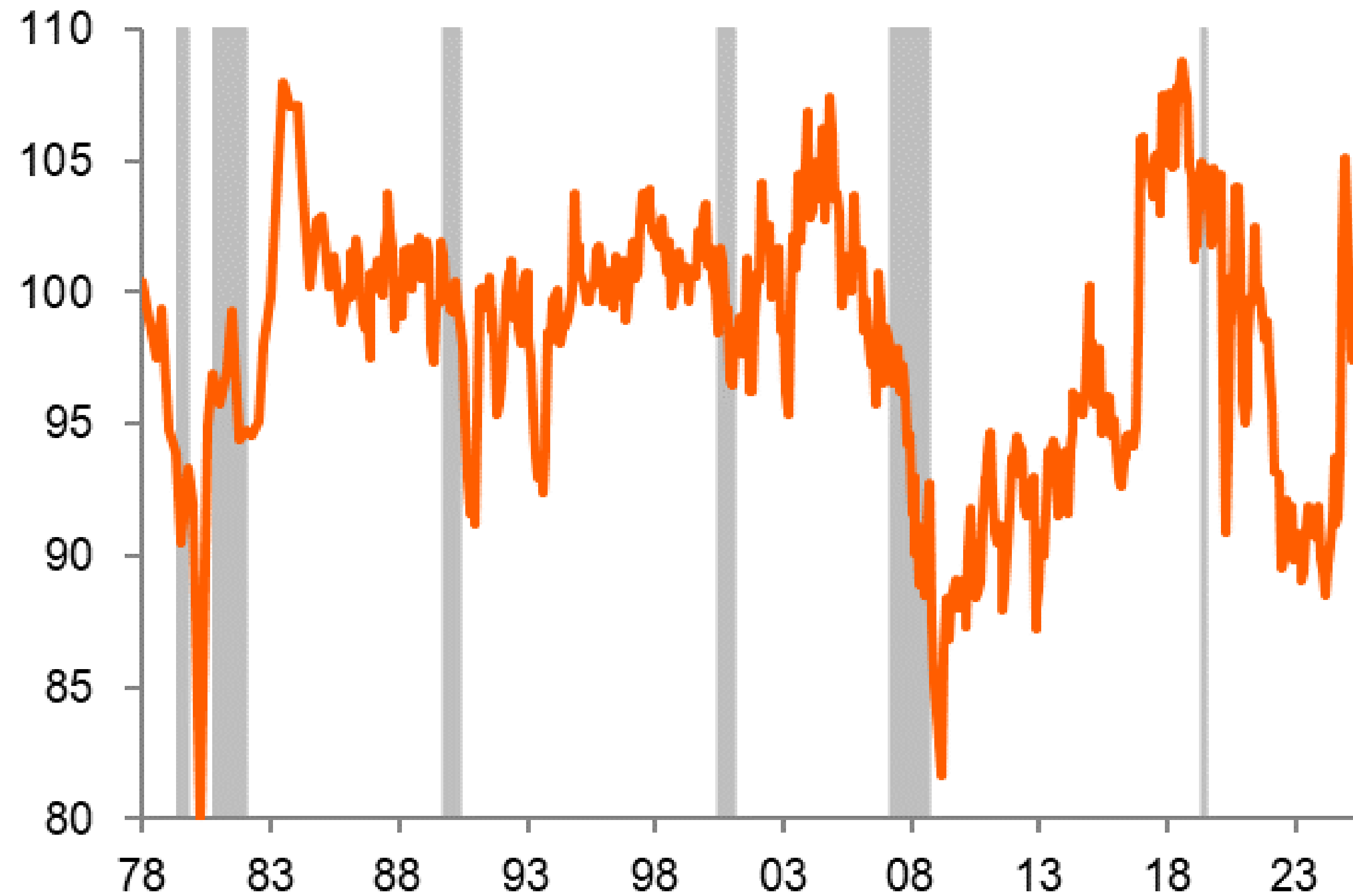
U.S. Labor Force Contributions to the Growth Rate By Nativity 2008 Through March 2025<sup>1</sup>



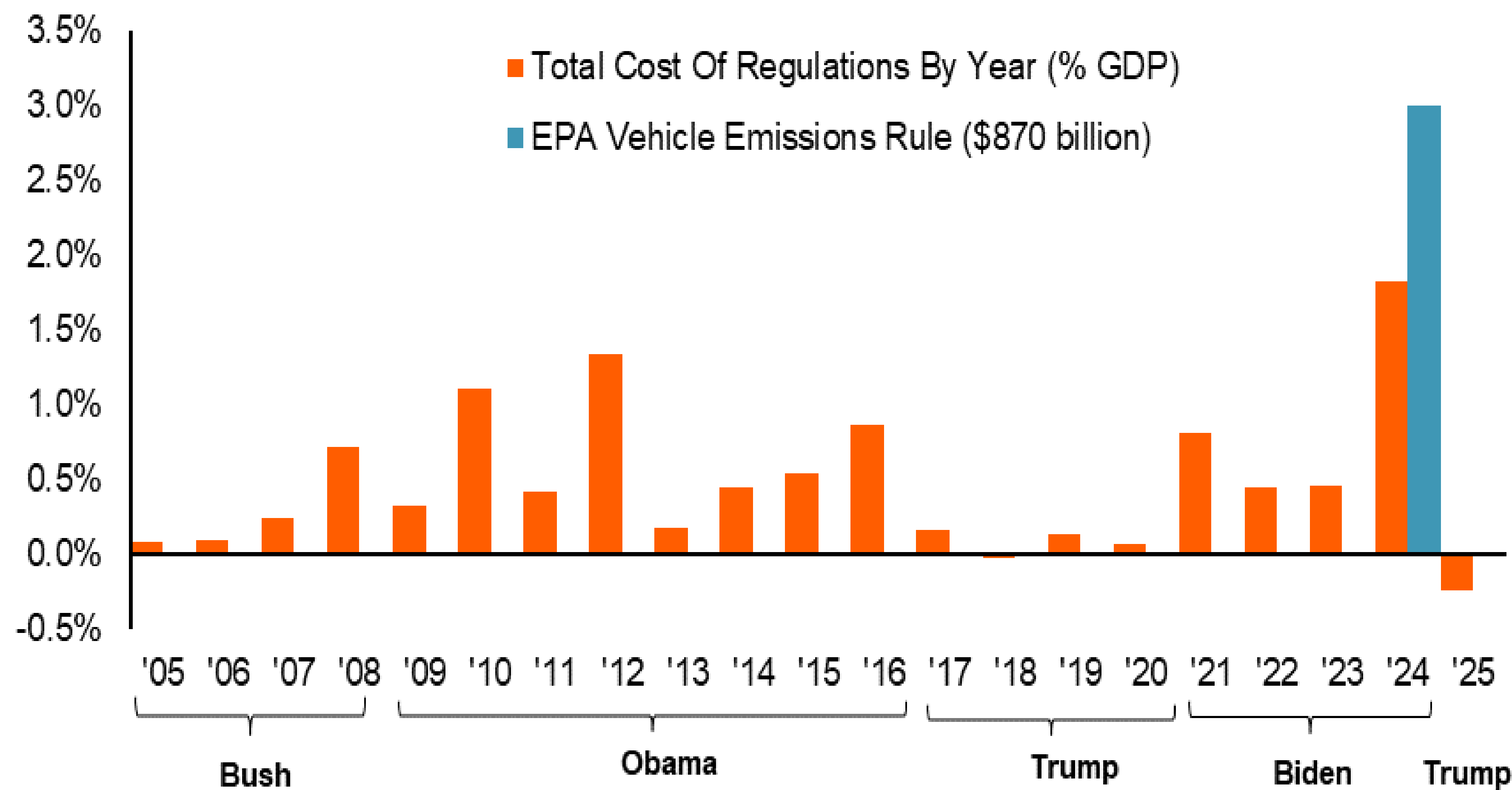
Source: Census Bureau, Congressional Budget Office, Bureau of Labor Statistics, Empirical Research Partners. April 30, 2025  
<sup>1</sup>2025 is versus the January thru March 2024 level.

# Small business optimism on a rollercoaster ride

NFIB U.S. Small Business Optimism Index  
March 2025: 97.4



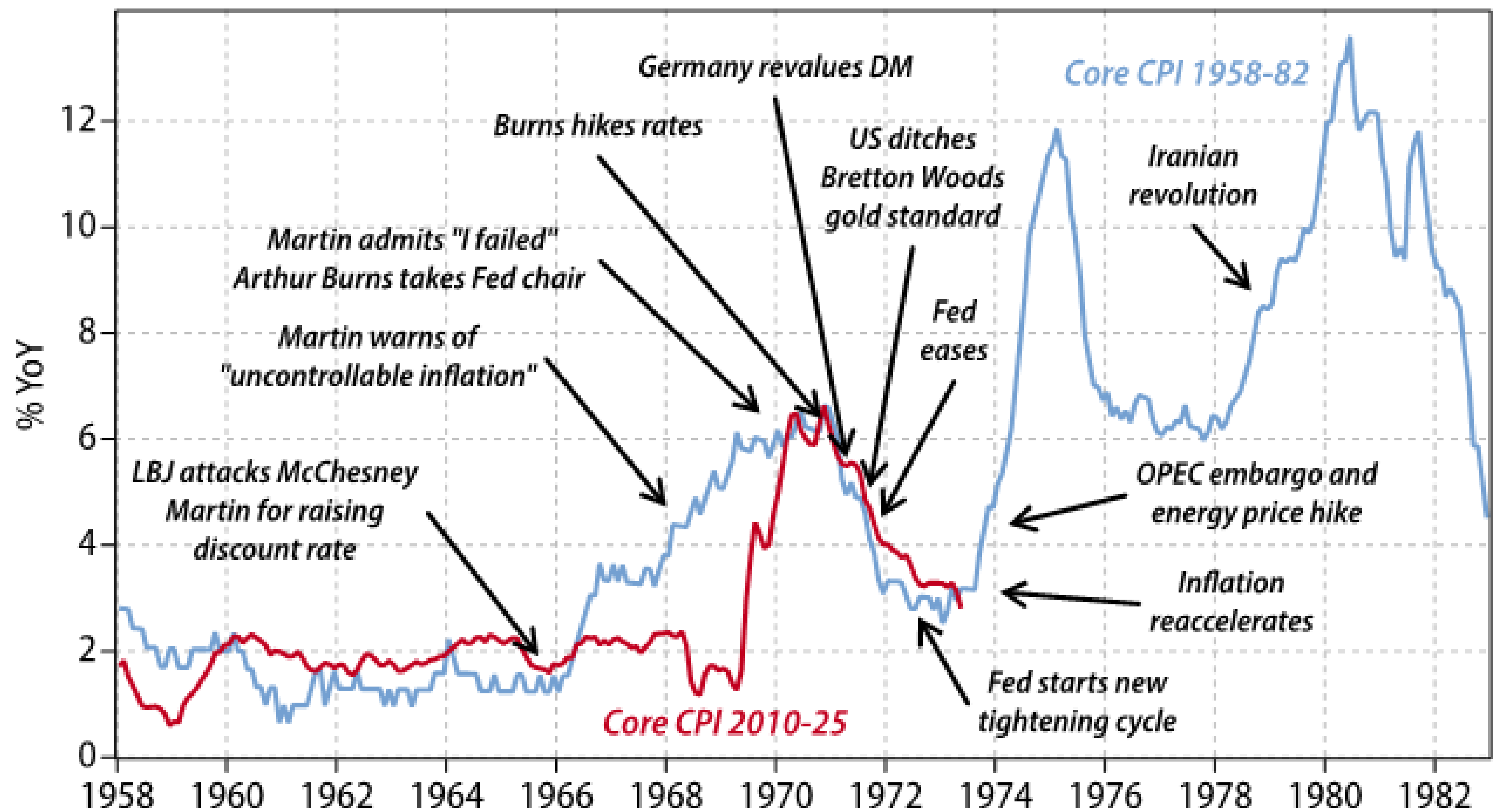
# Small and medium-sized companies were particularly hard hit by regulations



Source: Piper Sandler. January 28, 2025

# Fingers crossed that the similarity ends here

The 1960s and 1970s Saw Three Successive Waves of Inflation

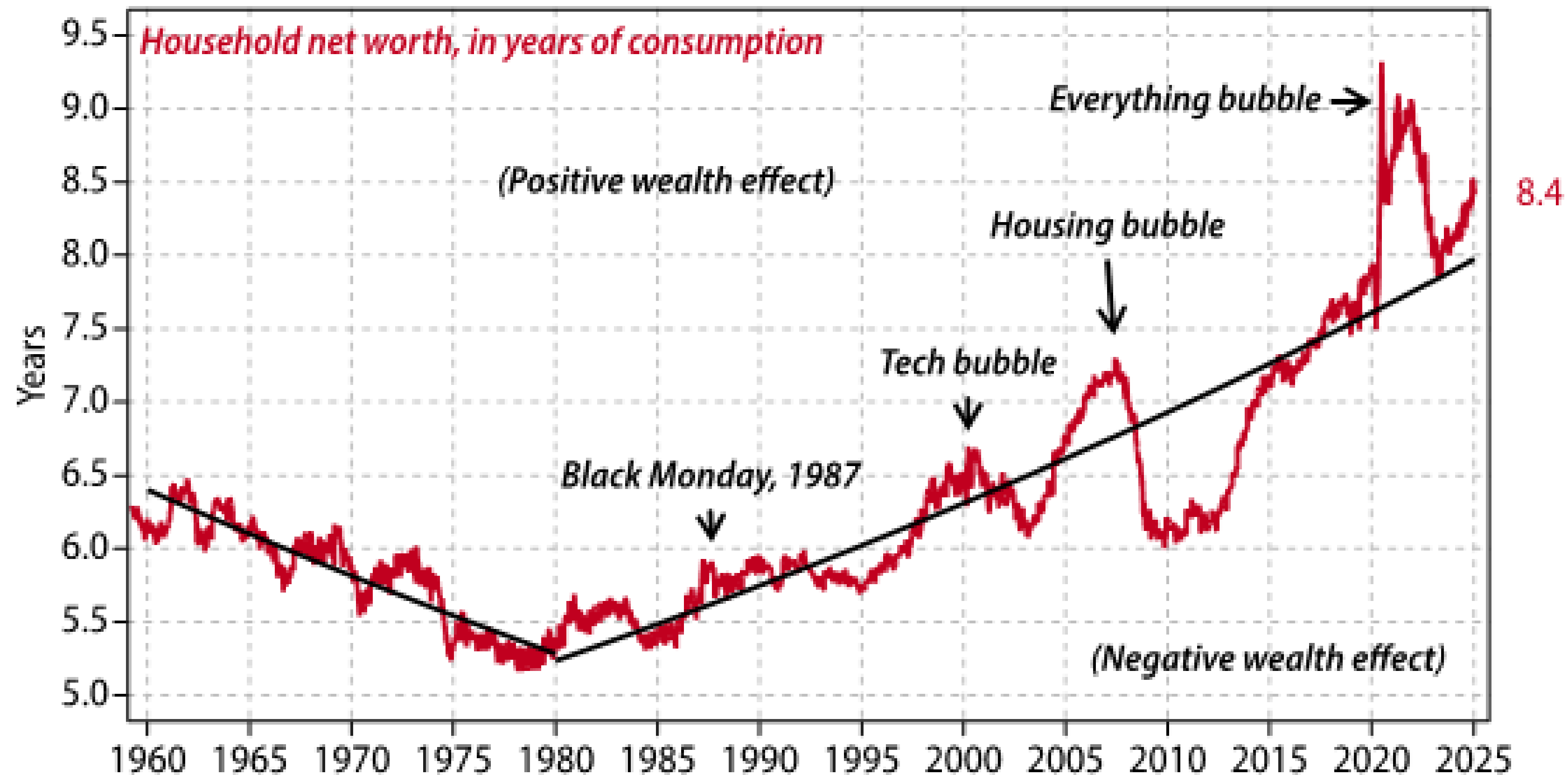




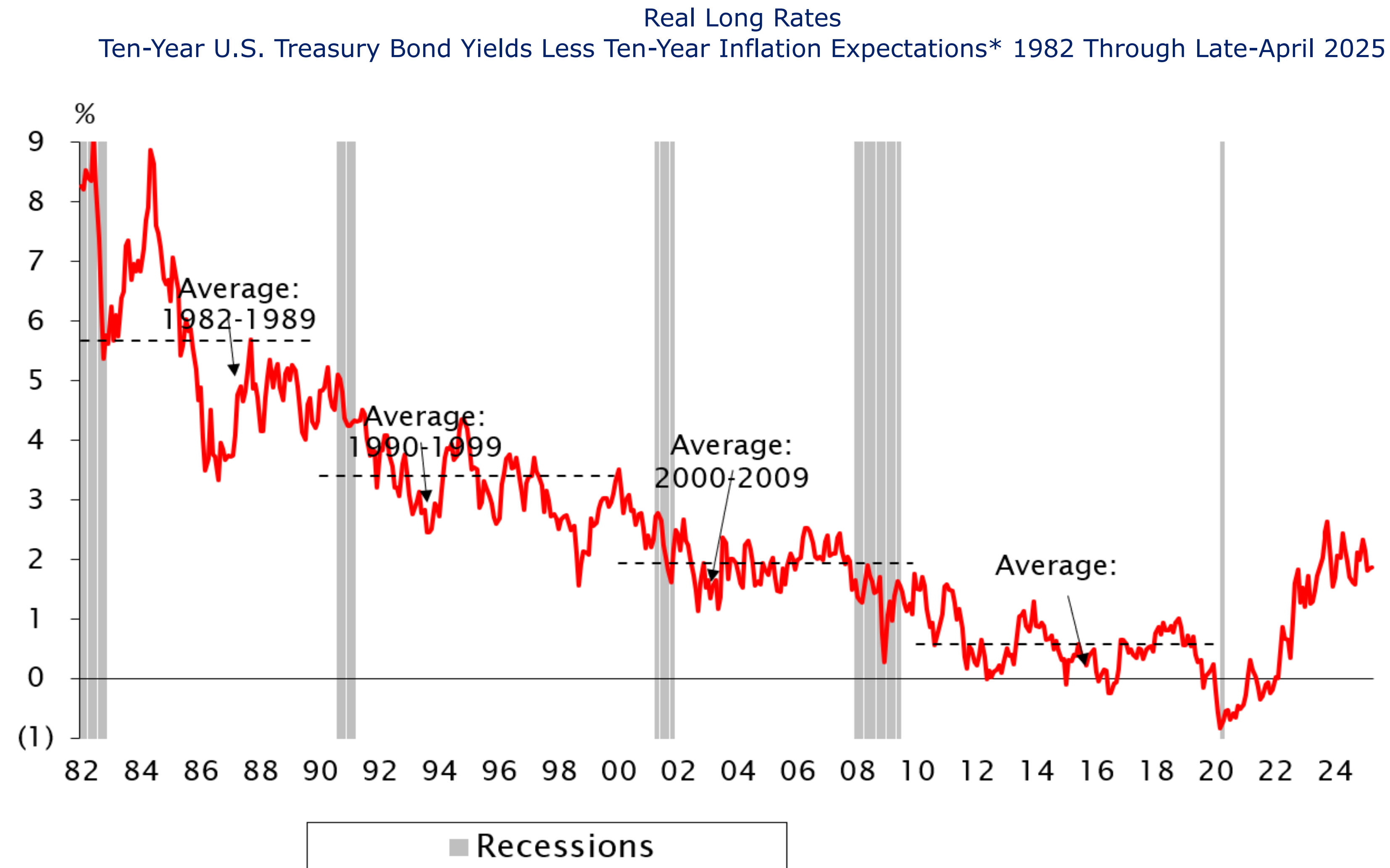
# Consumers in great shape—particularly those ages 55+

U.S. Consumers' Positive Wealth Effect is Fading Fast with the Equity Sell-Off

Net worth based on flow of funds data, adjusted for recent equity and house price changes



# The next “normal”?



Source: Empirical Research Partners. April 30, 2025.

\*Less the trailing 3-month average of 10-year inflation expectations as estimated by the Cleveland Fed Model. Shaded bars indicate recessions.

# The cost of inflation: “instability,” then “new price level”

A Consumer of Potato Chips Now Pays, on Average, 50% More Than Before COVID

Inflation: Price Level Matters Too  
*Commodities*

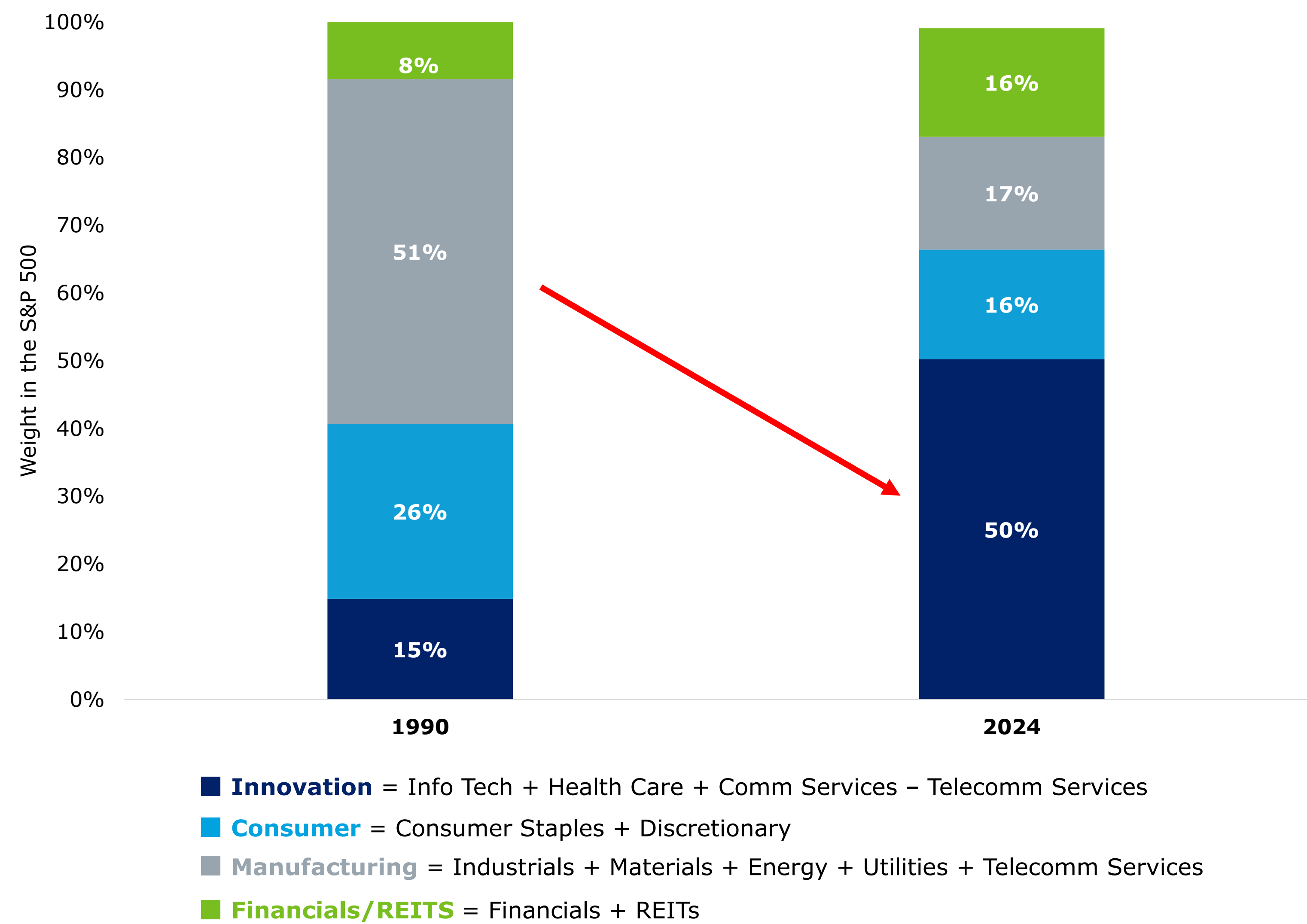


U.S. average price for potato chips  
\$ per 1.5-oz bag



Source: BLS, BLR, 22V. Note: updated on 10-Apr-2025 with data through Mar. 2025 (latest available). Fun fact: the first recorded recipe for potato chips appears in an 1817 cookbook (*The Cook's Oracle*) authored by the aptly-named chef William Kitchiner. Frito-Lay Inc. (formed in a 1961 merger of two predecessor firms, each founded in 1932) merged with Pepsi-Cola to form PepsiCo. in 1965. Production costs for a bag of potato chips include expenses for biaxially oriented polypropylene (inside lining of the bag), low-density polyethylene (a middle layer), Surllyn® (a branded thermoplastic resin for the bag's outer layer), nitrogen, potatoes, salt, spices, sunflower oil, water, natural gas, and diesel fuel.

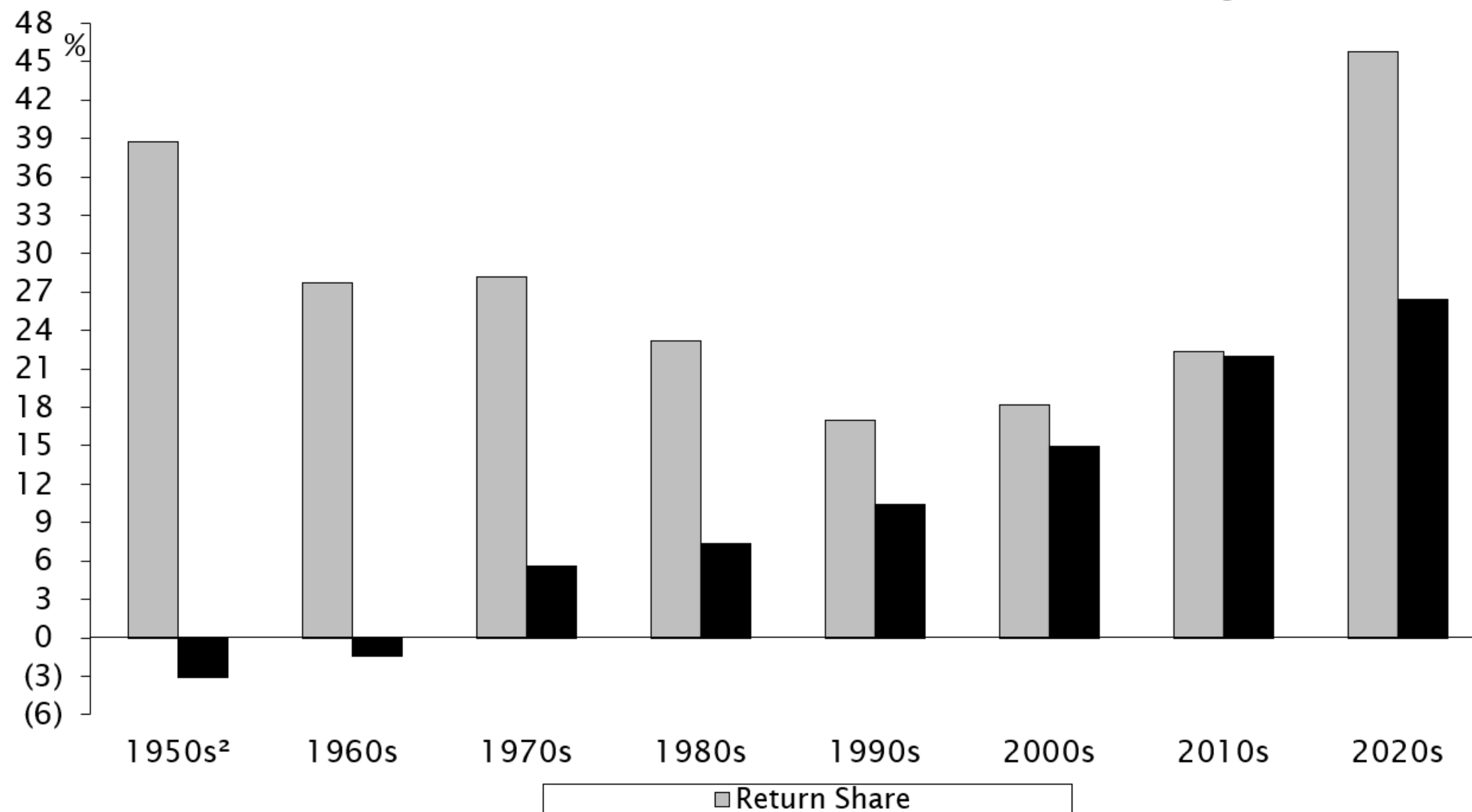
# The Makeup of the US Economy has Changed Dramatically Over the Last Thirty Years, Causing Historical Valuation Comparisons to be Misleading



Source: Federated Hermes, Bloomberg as of 11/21/2024.

# The market has been unusually concentrated, for some good reasons

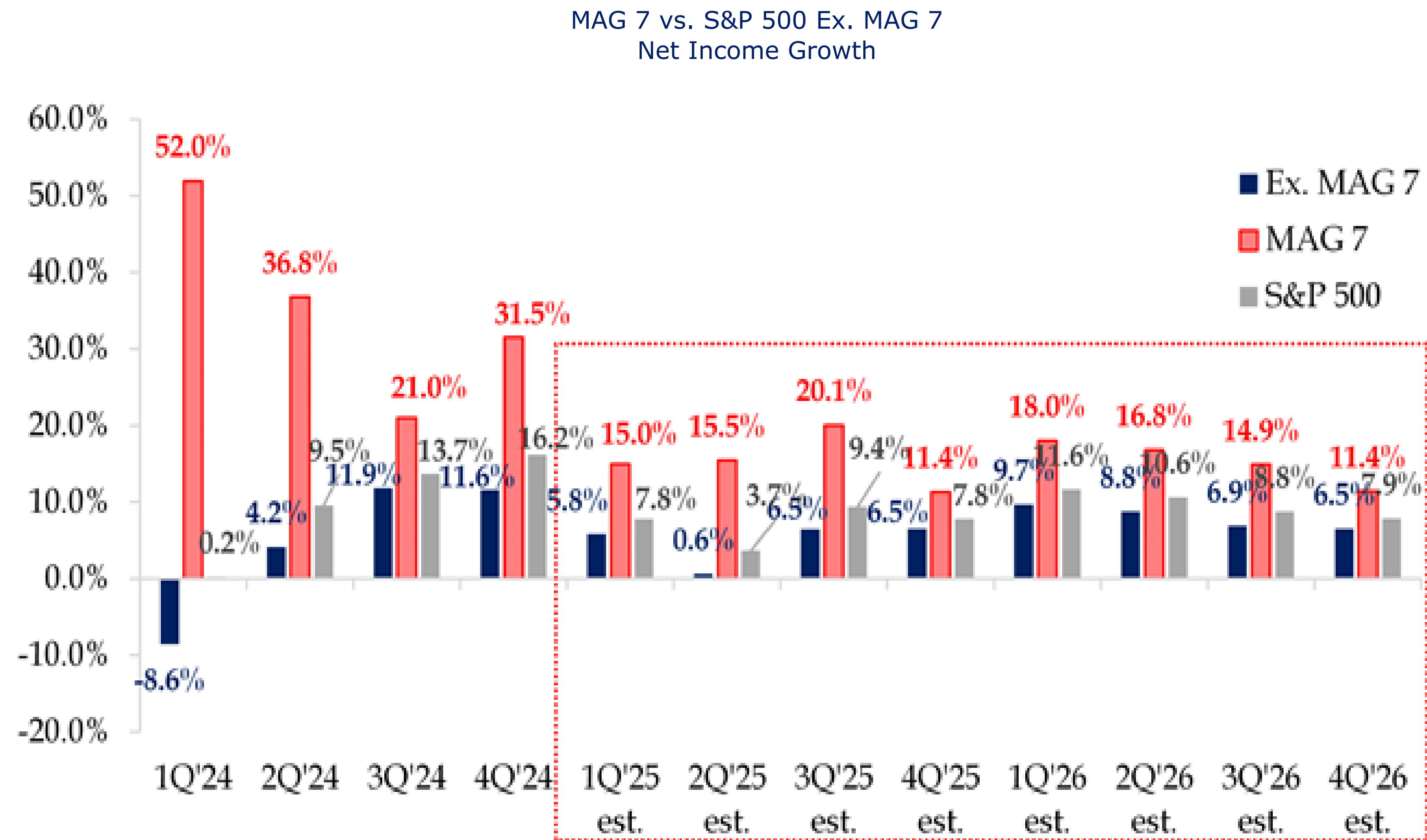
The Ten-Largest Stocks<sup>1</sup> Contribution to the Large-Cap Market's Return and Free Cash Flow Margin  
1952 Through Late-April 2025



Source: Empirical Research Partners. April 30, 2025

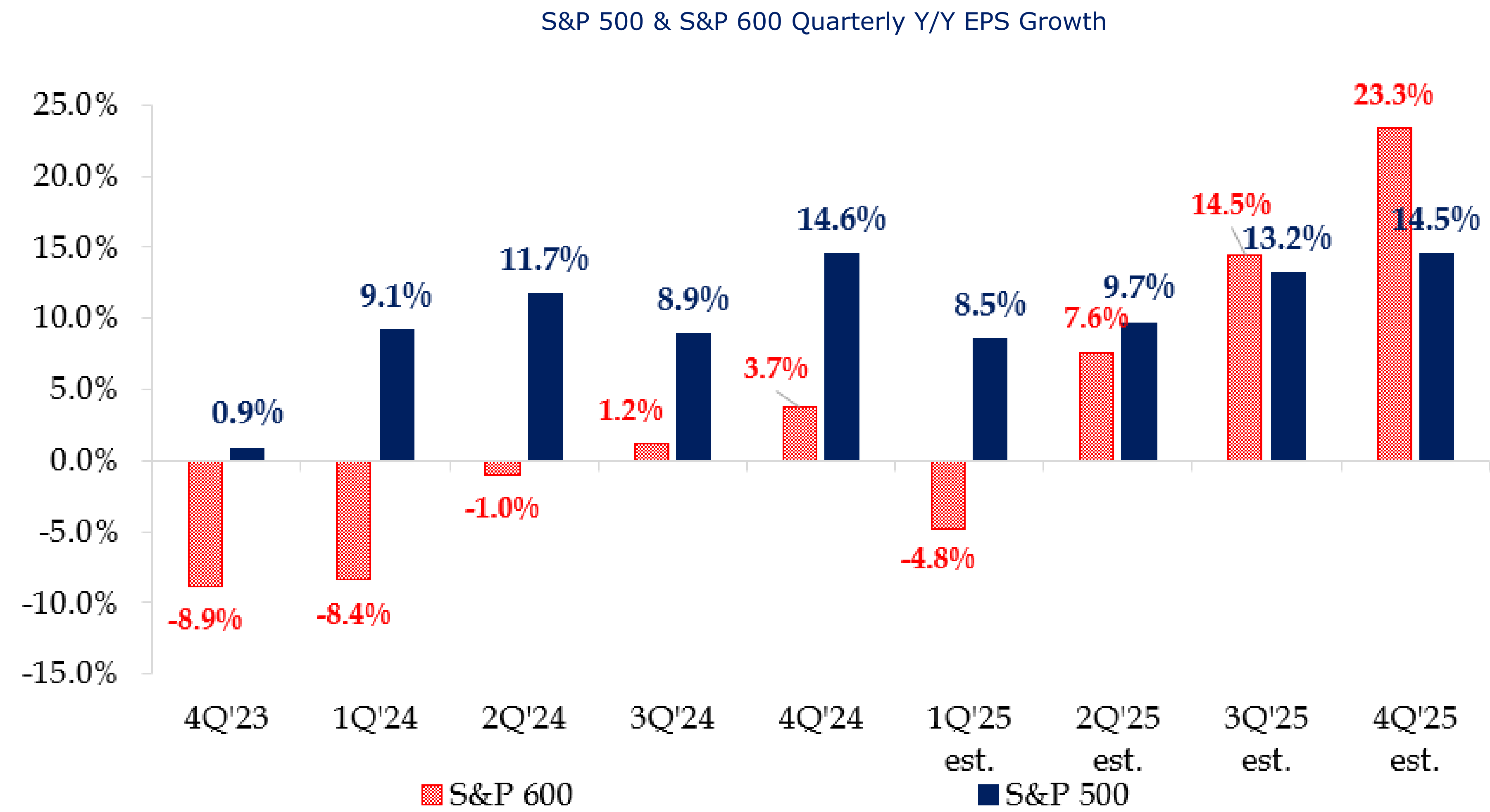
<sup>1</sup>The current top ten are AAPL, MSFT, GOOG, AMZN, NVDA, META, TSLA, BRK.A, LLY and V. <sup>2</sup> Since 1952

# A broadening of income growth



Source: Strategas, FactSet, As of April 22, 2025

# Earnings growth expectations are looking up for small caps

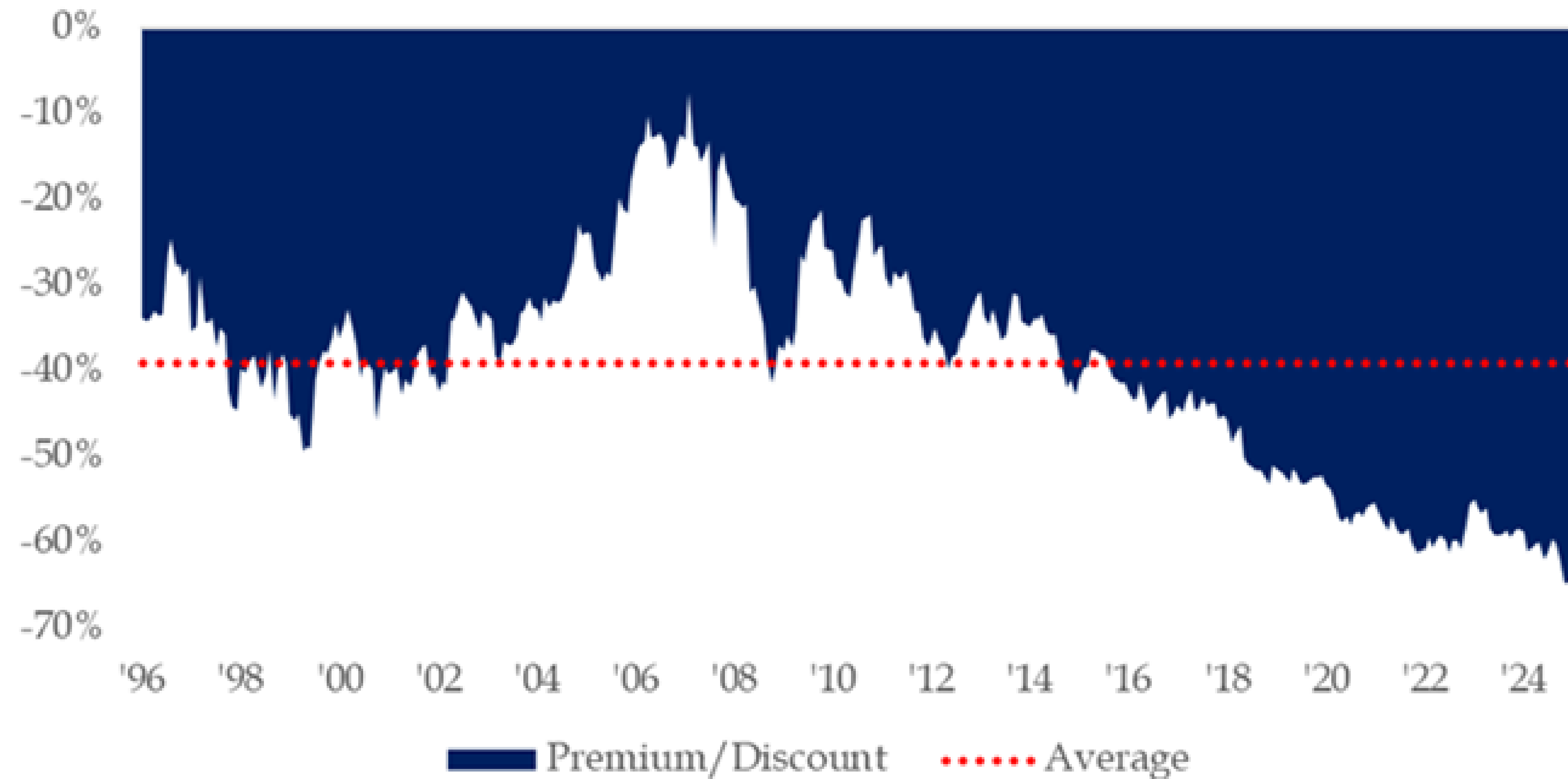


Source: Strategas Research Partners, FactSet, April 22, 2025  
Small company stocks may be less liquid and subject to greater price volatility than large capitalization stocks.

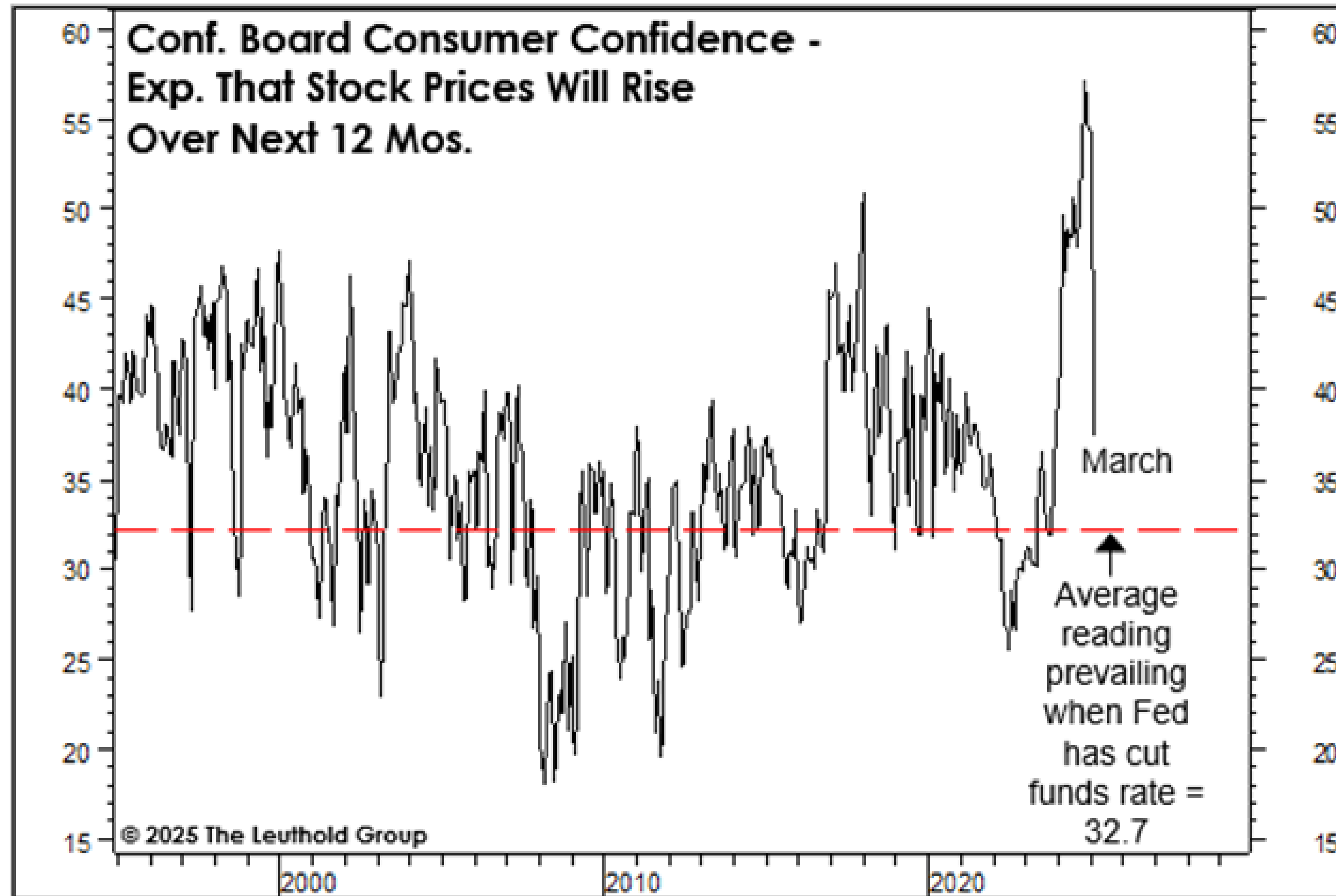


# International investments are historically inexpensive

World ex U.S. Valuation Discount to the U.S. Using Price to Book Ratio

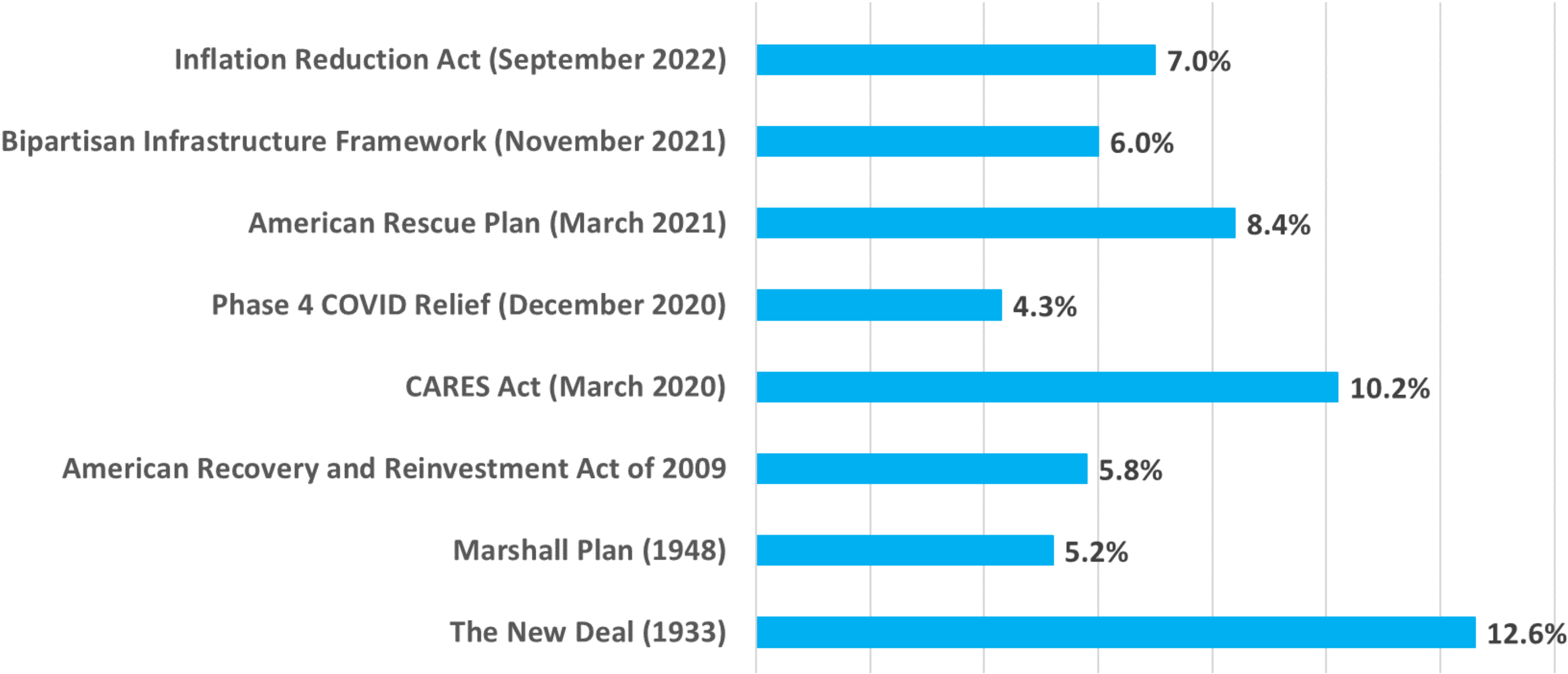


# Election years tend to finish strong, but 2024 took the cake!



# Historic fiscal policy

Select Stimulus as a Percentage of U.S. GDP



Source: Axios and Crown and Company. November 1, 2021. Federated Hermes as of January 18, 2023

# And the debt champion is...

Debt Levels and Increases in Major Economies

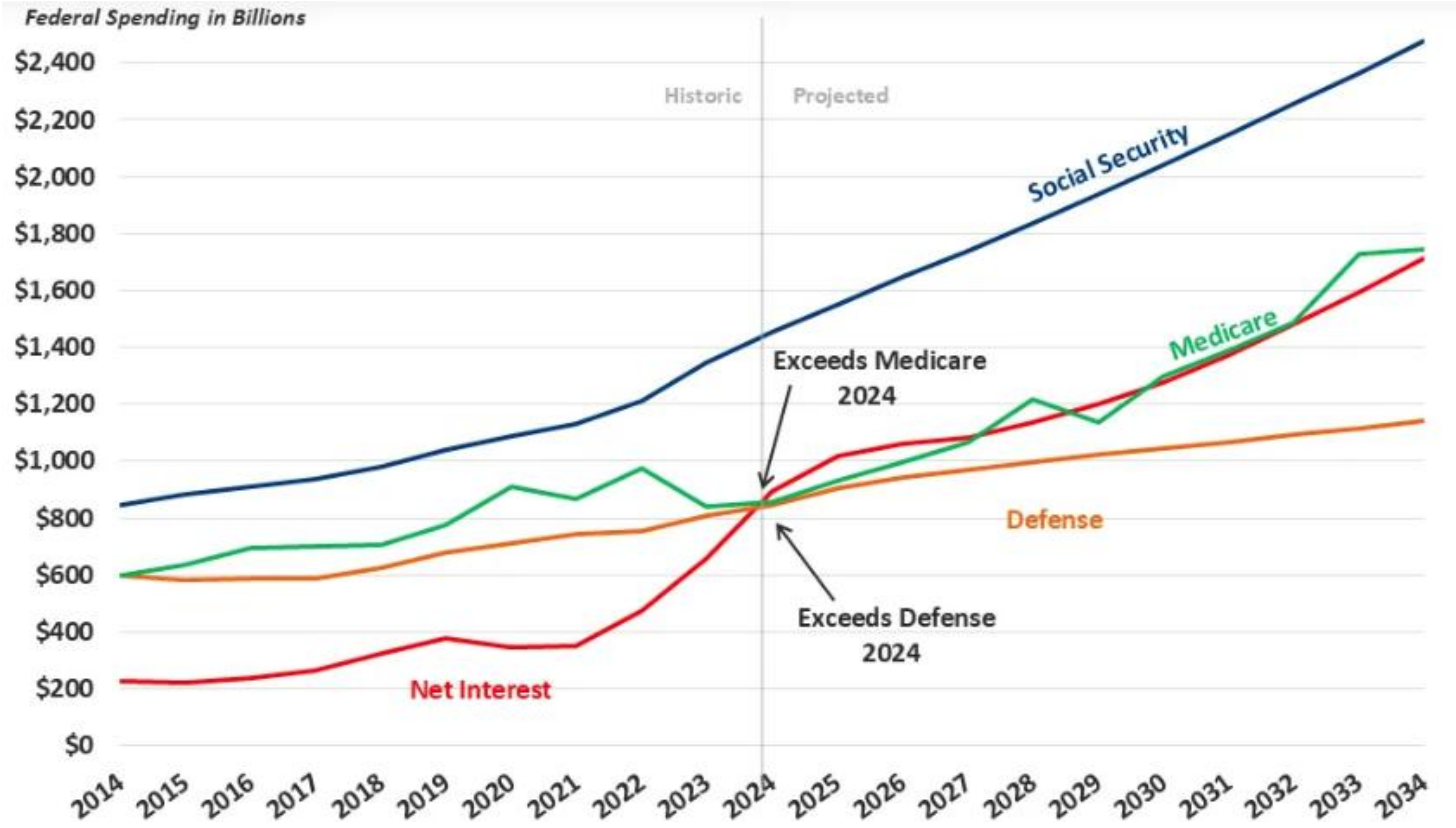
	2024 Gross Government Debt US\$ tr	Increase in Gross Government Debt between 2019 and 2024 US\$ tr	2024 population millions	2024 Govt Debt per Capita US\$	Increase in Govt Debt per capita between 2019 and 2024 US\$
USA	35.25	13.14	340.10	103,649	36,036
Canada	2.36	0.87	41.14	57,408	17,193
UK	3.62	1.26	69.23*	52,275*	16,781*
Japan	9.16*	-2.56*	123.89	73,969*	-18,679*
Germany	2.86	0.48	84.72	33,807	5,104
France	3.44*	0.80*	68.44	50,287*	10,793*
Italy	3.09	0.37	58.97	52,365	6,989
China	16.32	8.78	1408.30	11,593	6,225

\*include IMF forecast



# CBO warns U.S. is drowning in debt

Interest Costs Will Top Defense and Medicare in 2024



Source: Congressional Budget Office & Office of Management and Budget, Renaissance Macro Research. November 20, 2024

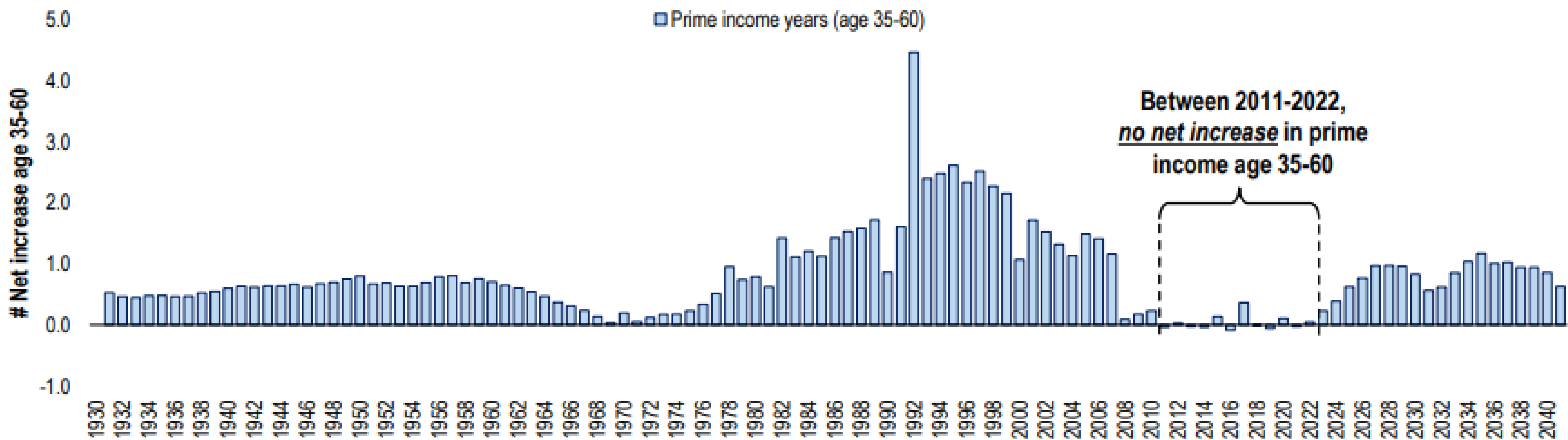
# It all depends on your time horizon: In the long term, prime skilled adults aged 35-60 are growing

## No growth in workforce: 2011-2022: Millennials *replacing* boomers

The potential workforce is actually not growing between 2011-2022 as there is a large offset between Boomers retiring and the replacement of those by millennials.

Figure: Number of adults entering prime earning age (35-60)

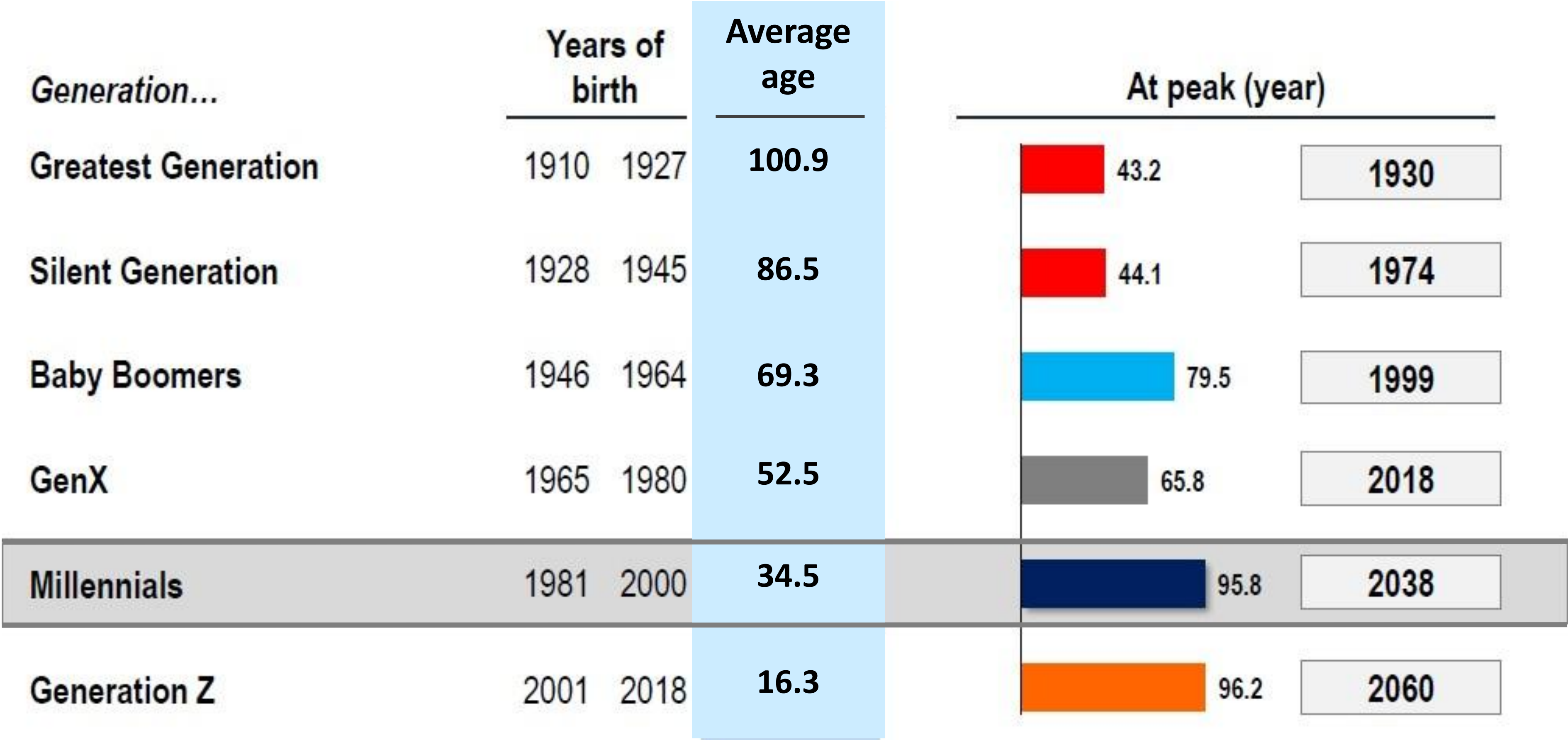
Number in millions



Source: Fundstrat, Bloomberg, Factset. December 7, 2023

# The largest generation ever, Millennials are just entering their prime income years

Total U.S. Population Divided by Age Groups



Peak population figures above include immigration. Reduced immigration will lead to a smaller overall size of Gen Z.  
Source: DESA UN Data sets, Fundstrat; Federated Hermes. Updated January 8, 2025



# All will be well

Country	1990 Mln	2005 Mln	90-05 % Δ	2020 Mln	05-20 % Δ	2035 Mln	20-35 % Δ	2050 Mln	35-50 % Δ
China	649.0	829.4	28%	929.8	12%	859.9	-8%	770.1	-10%
United States	147.7	175.5	19%	193.9	10%	199.8	3%	210.0	5%
Europe	430	447.6	4%	446.8	0%	409.5	-8%	372.4	-9%
Japan	76.6	78.6	3%	69.1	-12%	61.4	-11%	49.4	-20%
India	420.4	601.3	43%	802.2	33%	949.0	18%	1001.2	5%
Southeast Asia	215.3	309.0	44%	397.8	29%	445.2	12%	460.9	4%

Source: Evercore ISI Research, September 27, 2022

# Interested in hearing more?

Visit [www.federatedhermes.com/lindaduessel](http://www.federatedhermes.com/lindaduessel) to sign up for email updates, watch YouTube videos, connect on LinkedIn and more.

## LINDA DUESSEL



### Mind on the Market

With more than 30 years of experience, Linda Duessel is nationally recognized for her expertise in analyzing equity market conditions. Linda discusses personal finance with investor groups across the country on topics of interest ranging from the impact of the alternative minimum tax to investing for retirement. Additionally, Linda has been extensively quoted by Associated Press, The Wall Street Journal and Barron's, as well as featured in the annual roundtable for USA Today.

As senior equity market strategist, Linda is part of the equity income team, which is responsible for formulating Federated Hermes' views about the market and the firm's positioning strategies within the equity income team. As senior client portfolio manager, she is responsible for articulating the strategy, process, positioning and performance of Federated Hermes' equity income products.

Like to keep an eye on her insights? Here are three ways:

1

Attend her [quarterly webcasts](#)  
Focused on timely market trends and topics.

2

Read her weekly market views. Look for them on our [site](#) and in our [weekly email](#).

3

Connect with her on [LinkedIn](#)