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2025 US Interest Rate and Inflation Outlook

Surging Debt & Falling Inflation:
A Zero Rate Future

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- Inflation on a downward trend
- Cracks in the labor market
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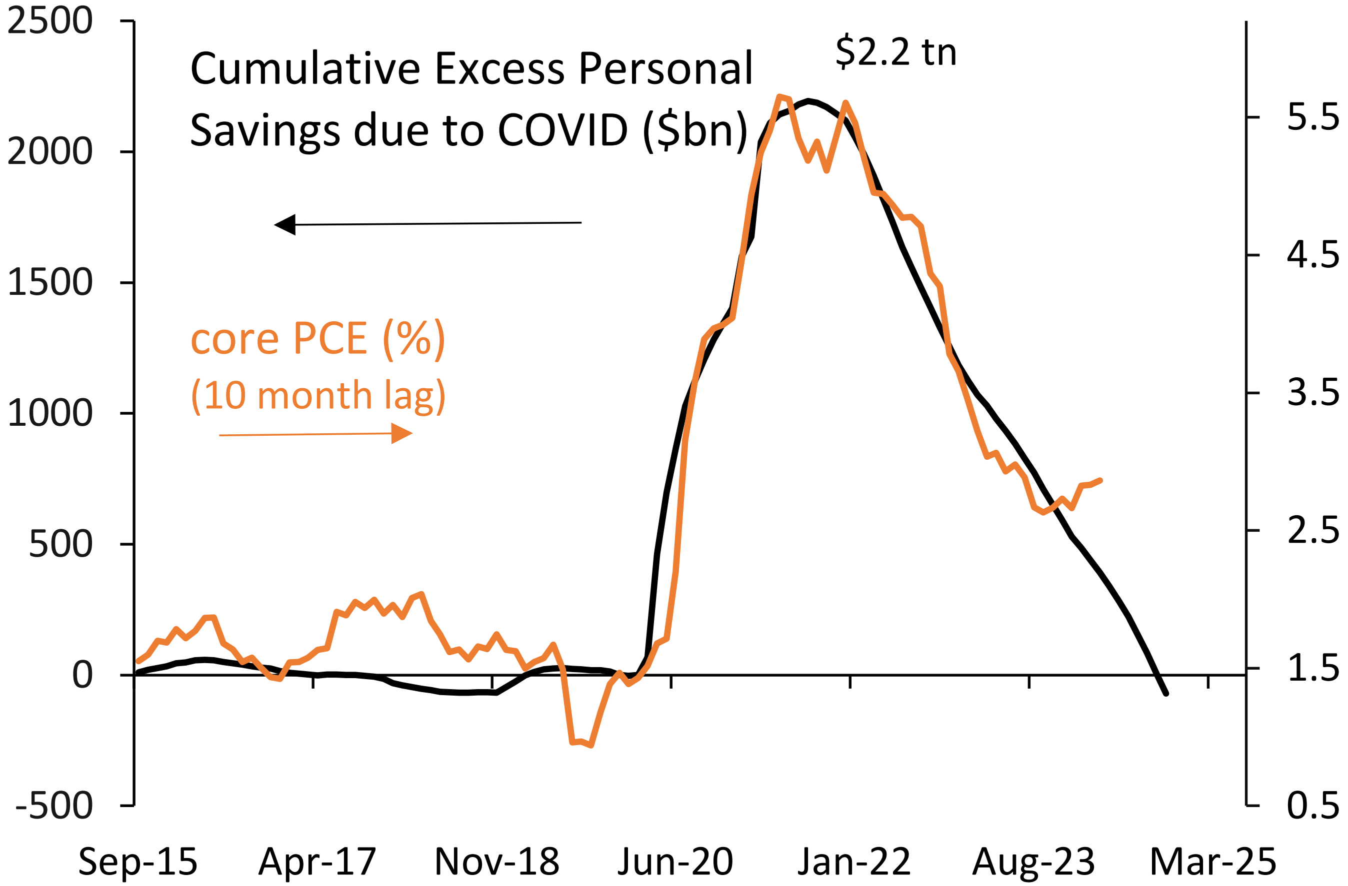
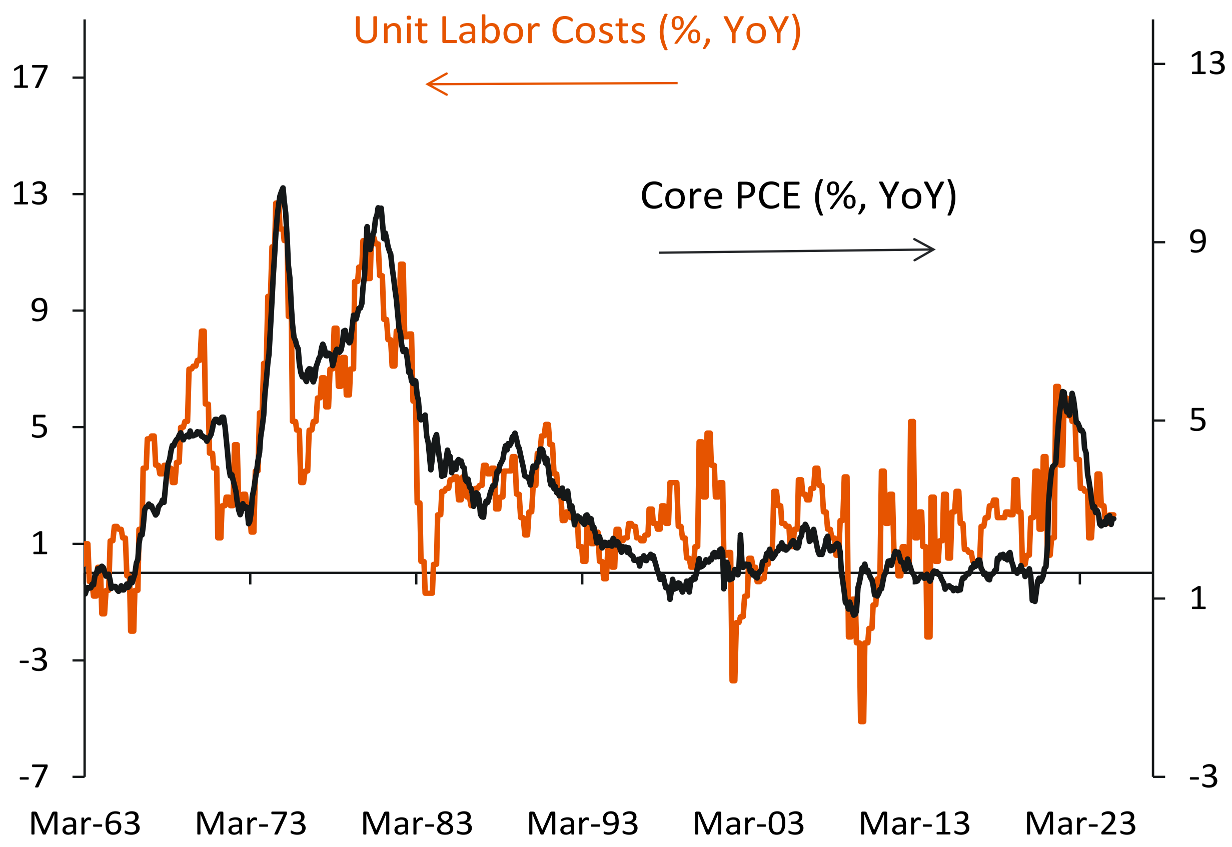
Inflation should decline alongside depleted COVID excess savings



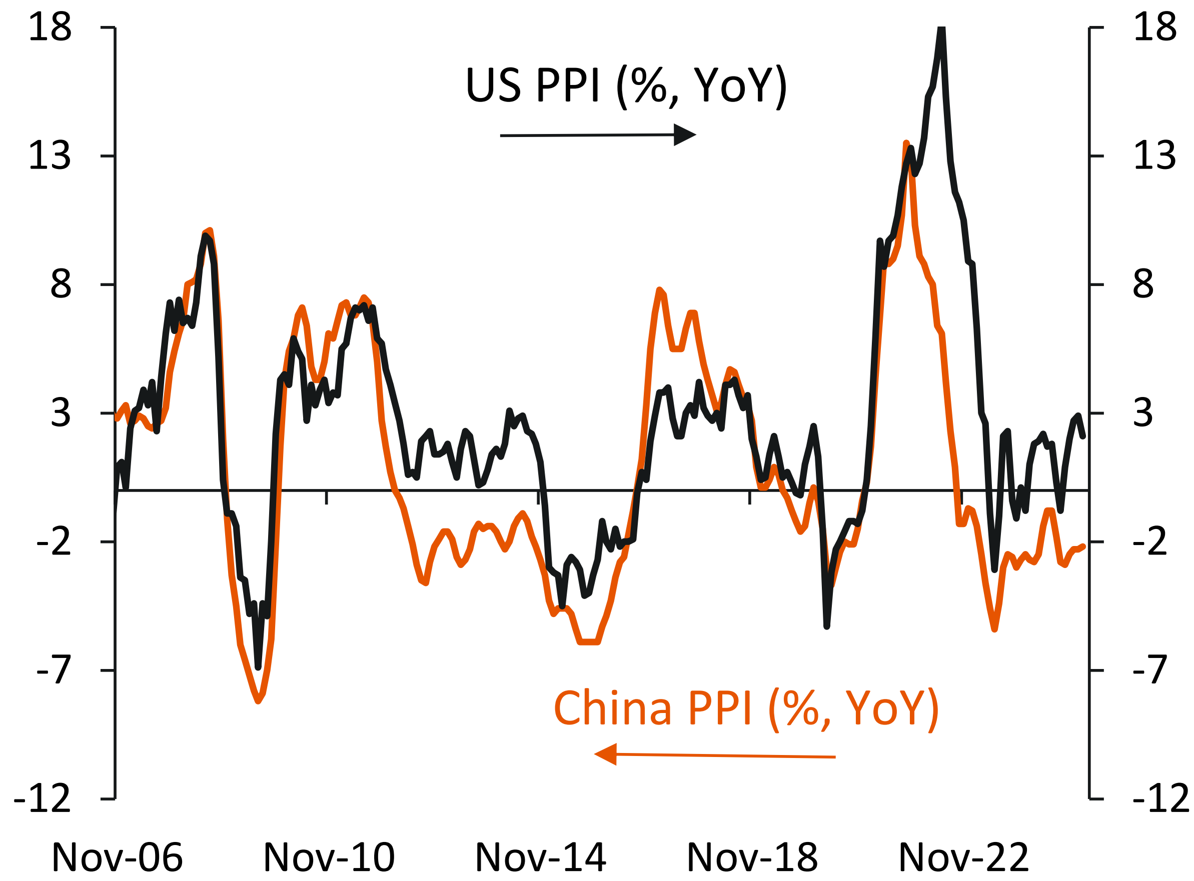
Source: BEA, Piper Sandler

Reduced unit labor costs will keep inflation notably lower



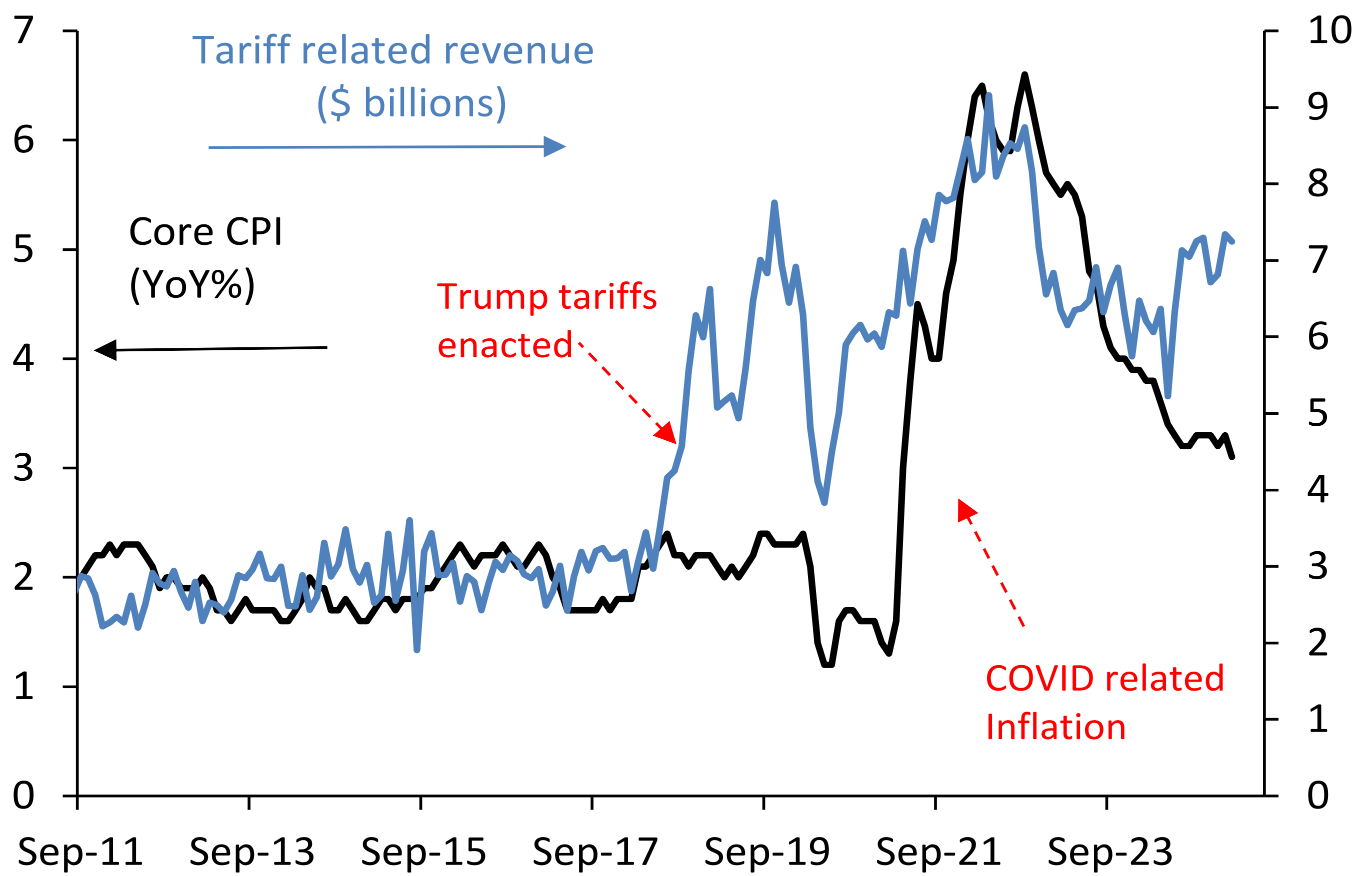
Source: BLS, Piper Sandler

Chinese deflation should exert downward pressure on U.S. prices



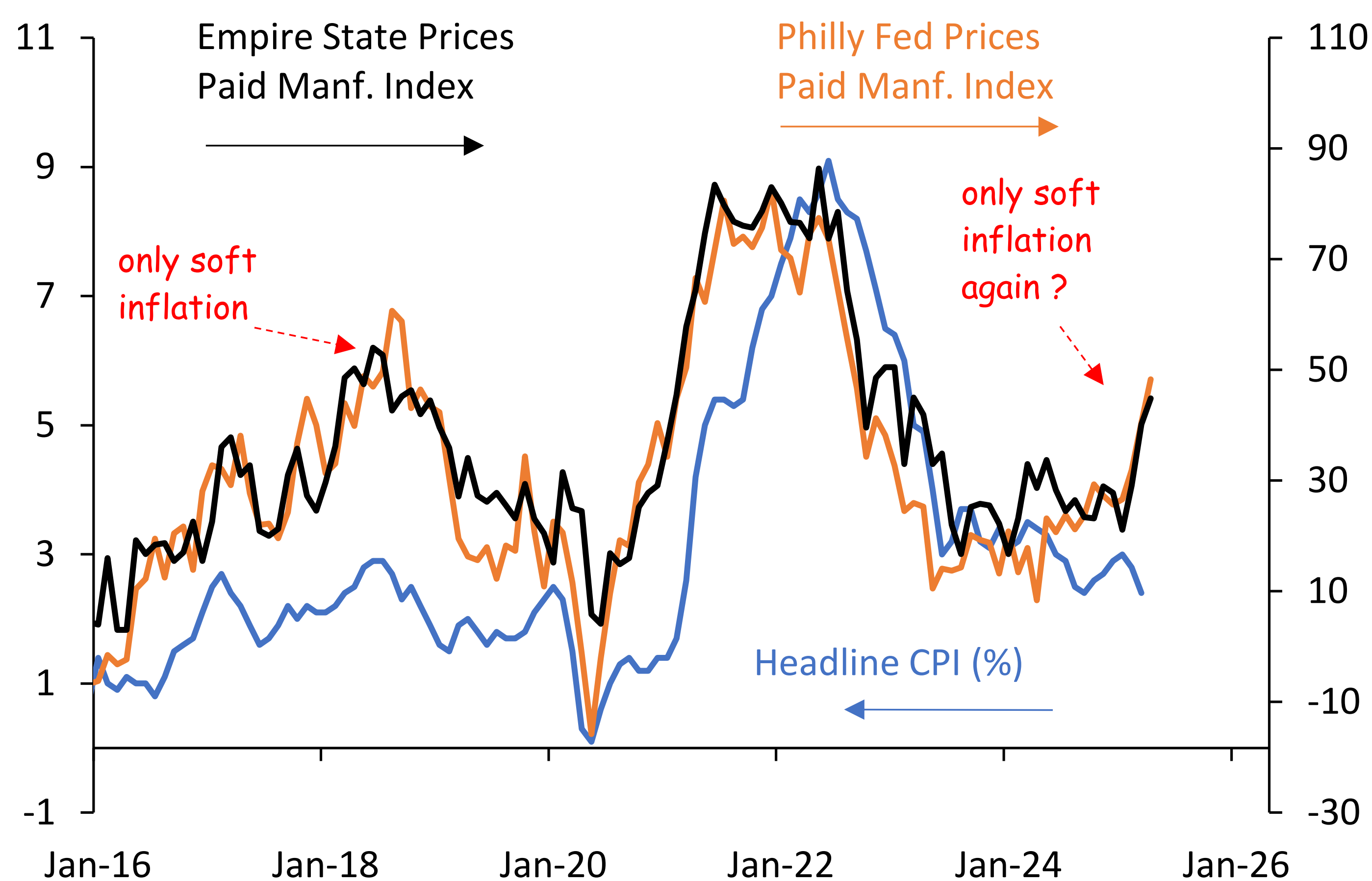
Source: BLS, Bloomberg, Piper Sandler

The Trump tariffs did not cause inflation in 2018



Source: BLS, Bloomberg, Piper Sandler

Just like in 2018 survey based inflation metrics are increasing again



Source: ISM, Bloomberg, Piper Sandler

Liberation Day Reciprocal Tariffs

Reciprocal Tariffs

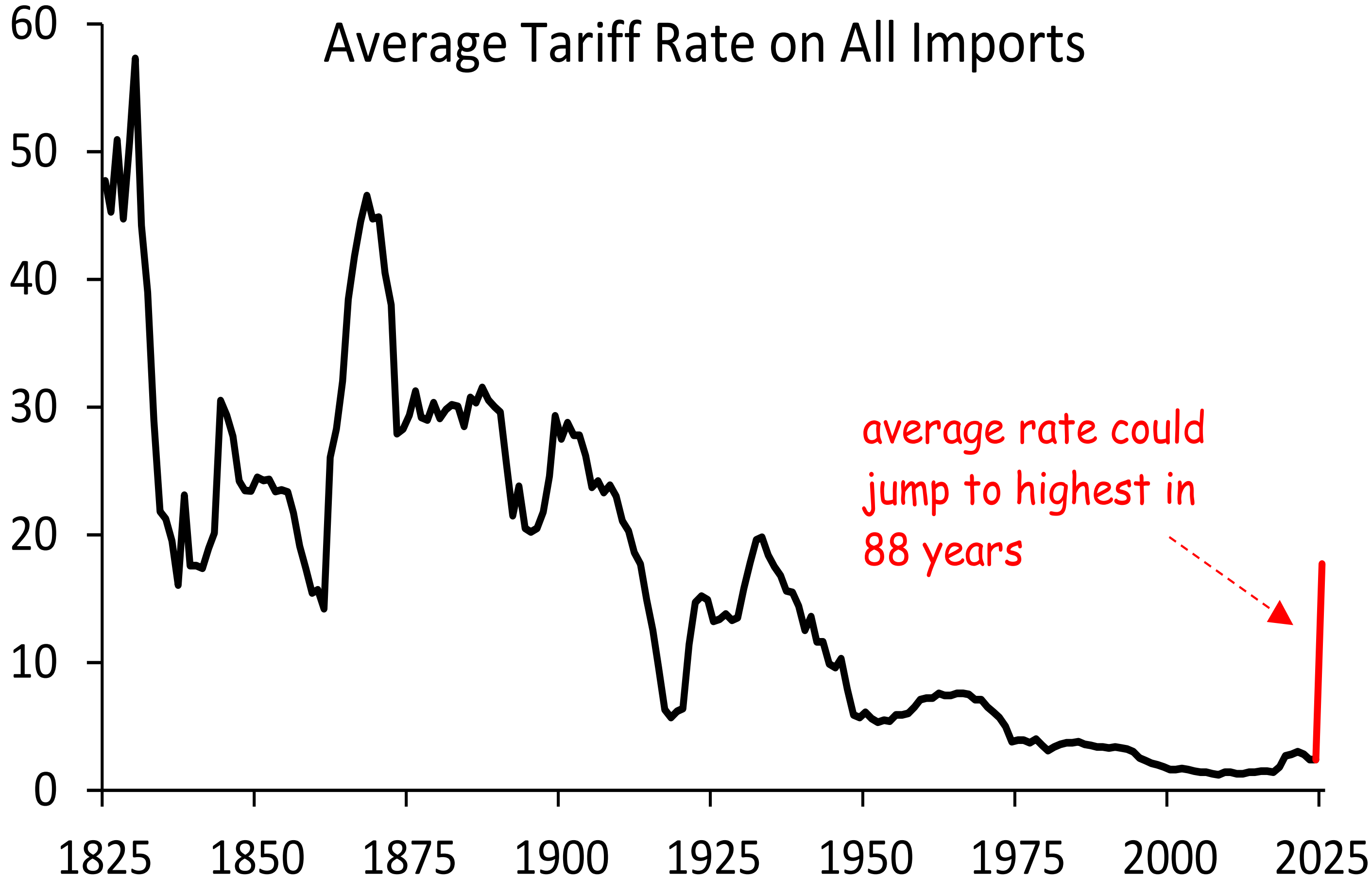
Country	Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
China	67%	34%
European Union	39%	20%
Vietnam	90%	46%
Taiwan	64%	32%
Japan	46%	24%
India	52%	26%
South Korea	50%	25%
Thailand	72%	36%
Switzerland	61%	31%
Indonesia	64%	32%
Malaysia	47%	24%
Cambodia	97%	49%
United Kingdom	10%	10%
South Africa	60%	30%
Brazil	10%	10%
Bangladesh	74%	37%
Singapore	10%	10%
Israel	33%	17%
Philippines	34%	17%
Chile	10%	10%
Australia	10%	10%
Pakistan	58%	29%
Turkey	10%	10%
Sri Lanka	88%	44%
Colombia	10%	10%

Reciprocal Tariffs

Country	Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
Peru	10%	10%
Nicaragua	36%	18%
Norway	30%	15%
Costa Rica	17%	10%
Jordan	40%	20%
Dominican Republic	10%	10%
United Arab Emirates	10%	10%
New Zealand	20%	10%
Argentina	10%	10%
Ecuador	12%	10%
Guatemala	10%	10%
Honduras	10%	10%
Madagascar	93%	47%
Myanmar (Burma)	88%	44%
Tunisia	55%	28%
Kazakhstan	54%	27%
Serbia	74%	37%
Egypt	10%	10%
Saudi Arabia	10%	10%
El Salvador	10%	10%
Côte d`Ivoire	41%	21%
Laos	95%	48%
Botswana	74%	37%
Trinidad and Tobago	12%	10%
Morocco	10%	10%

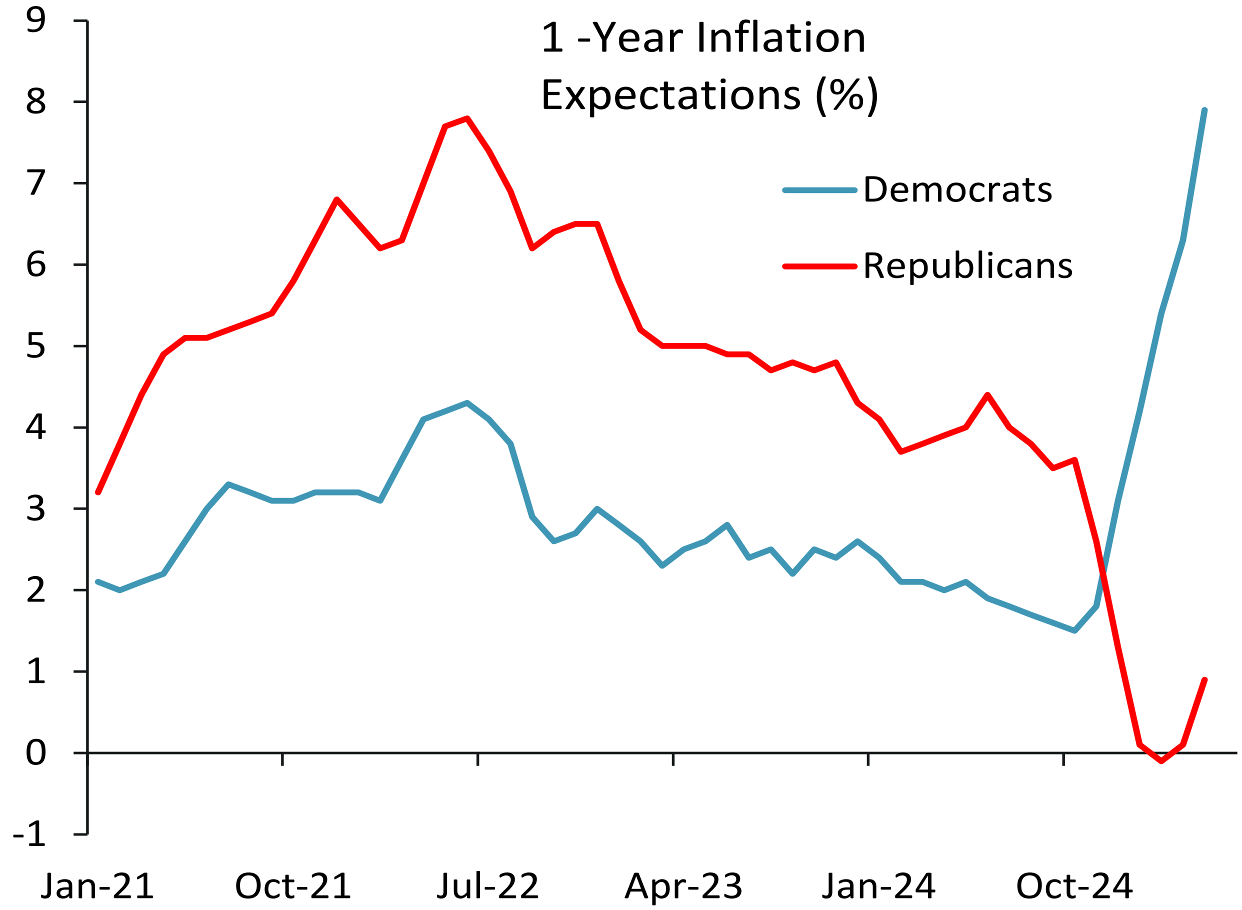
Source: White House, Piper Sandler

The average tariff rate will jump to its highest in almost 90 years



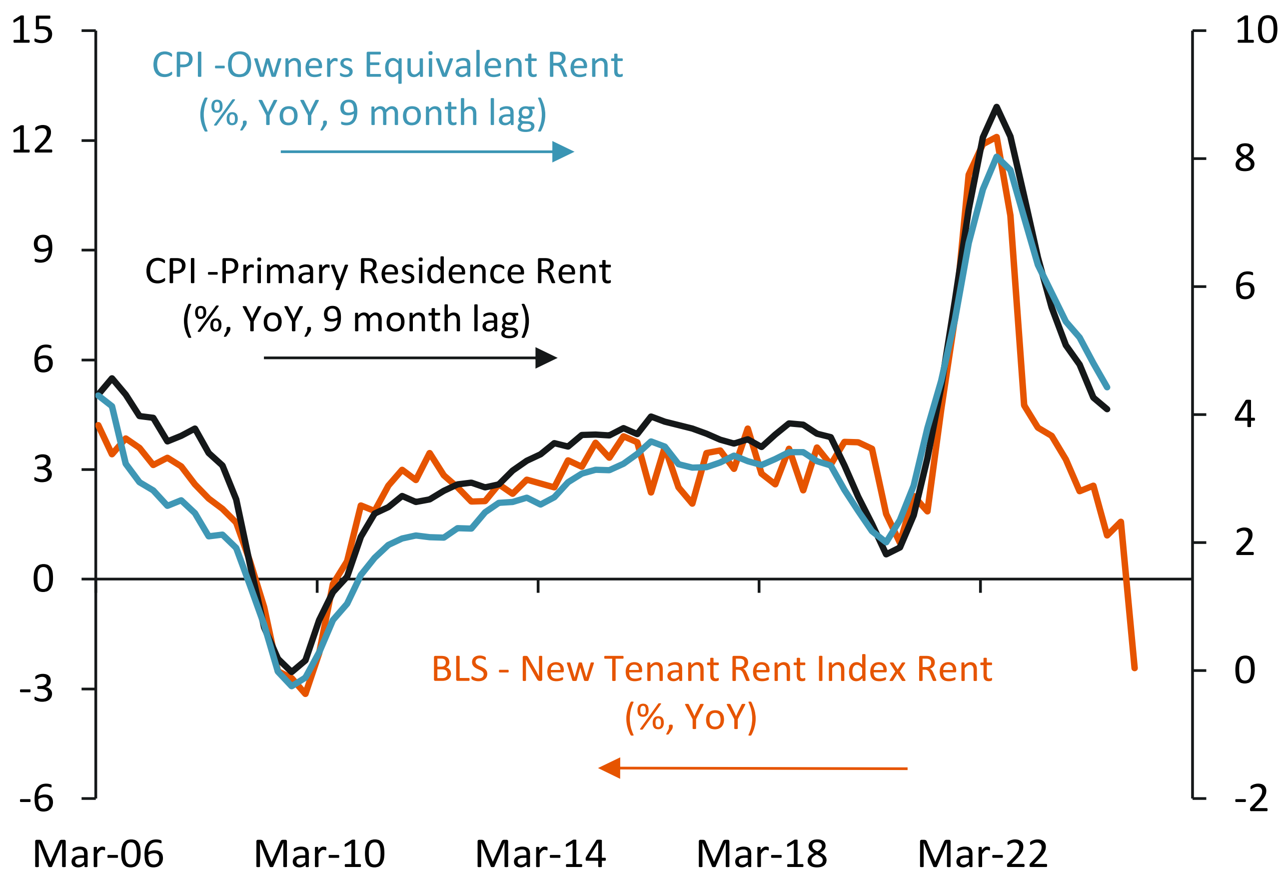
Source: BLS, Bloomberg, Piper Sandler

Separate inflation realities for Democrats and Republicans



Source: U of Michigan, Bloomberg, Piper Sandler

Growth for shelter related costs is on a downward trend



Source: BLS, Piper Sandler

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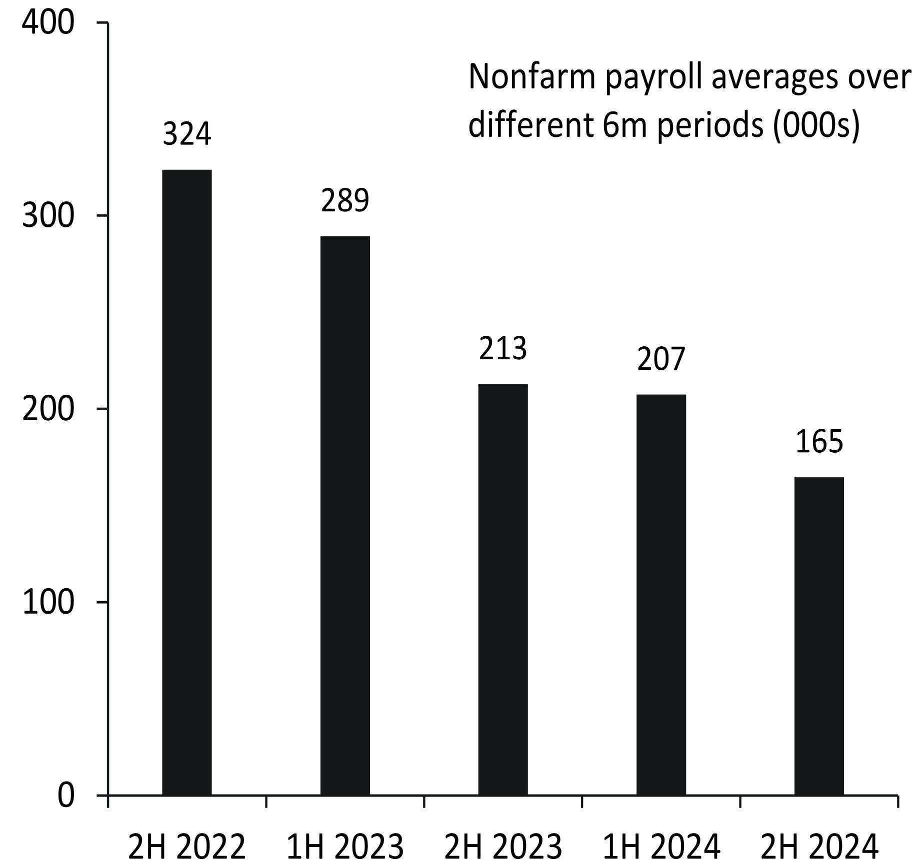
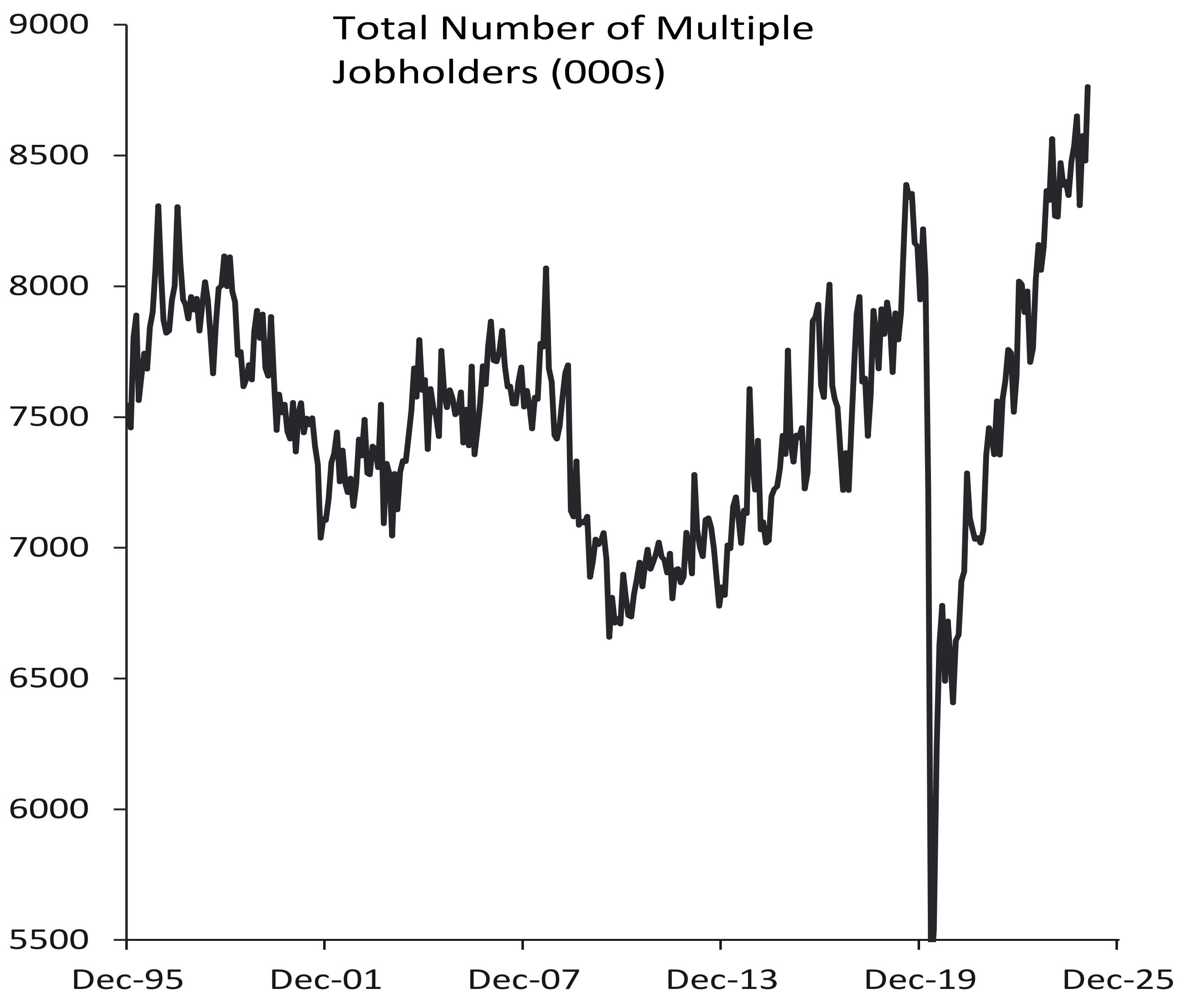
Labor market is resilient, but is getting softer



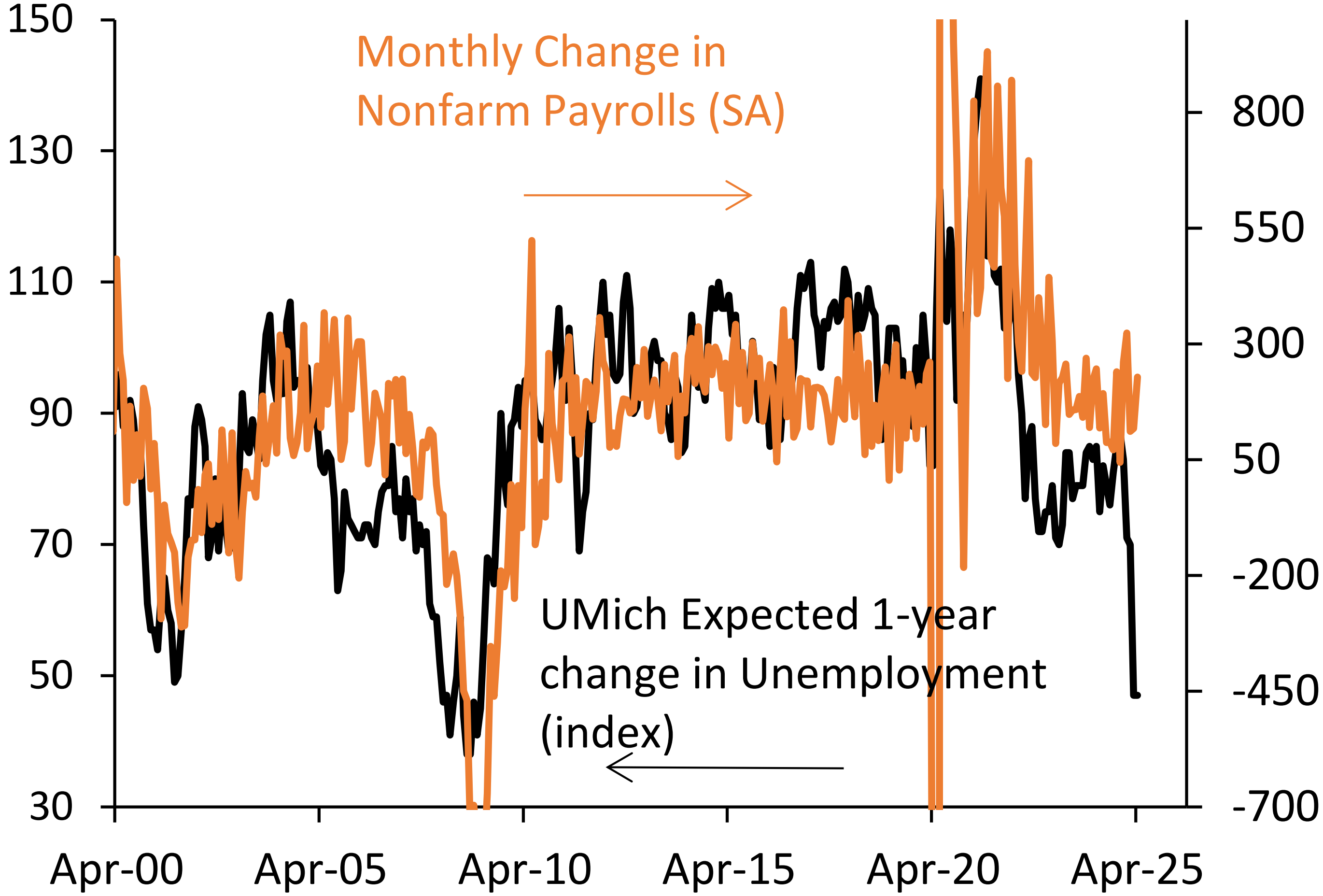
Source: BLS, Piper Sandler

The quality of available jobs may be declining



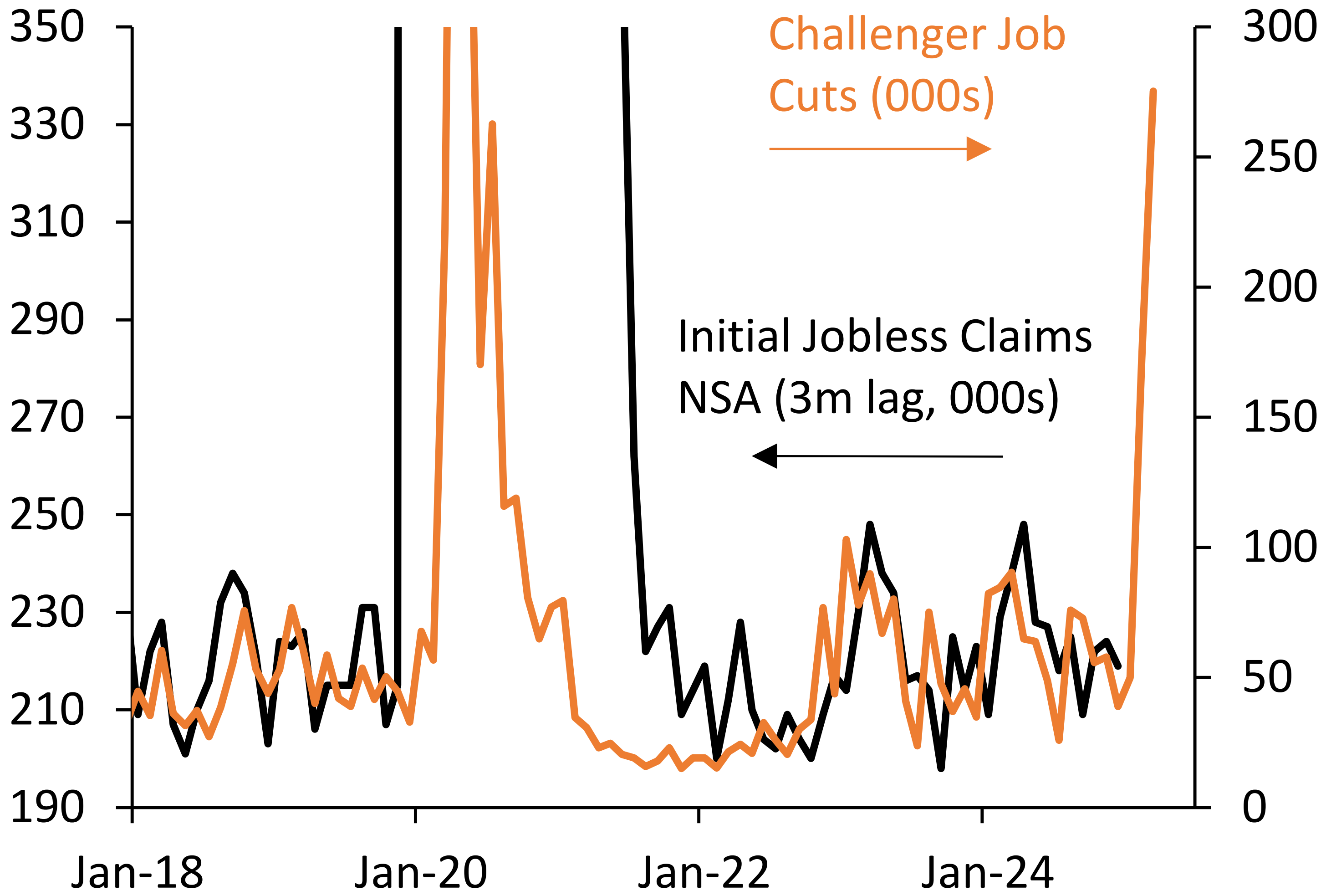
Source: BLS, Piper Sandler

Nonfarm payrolls may turn negative



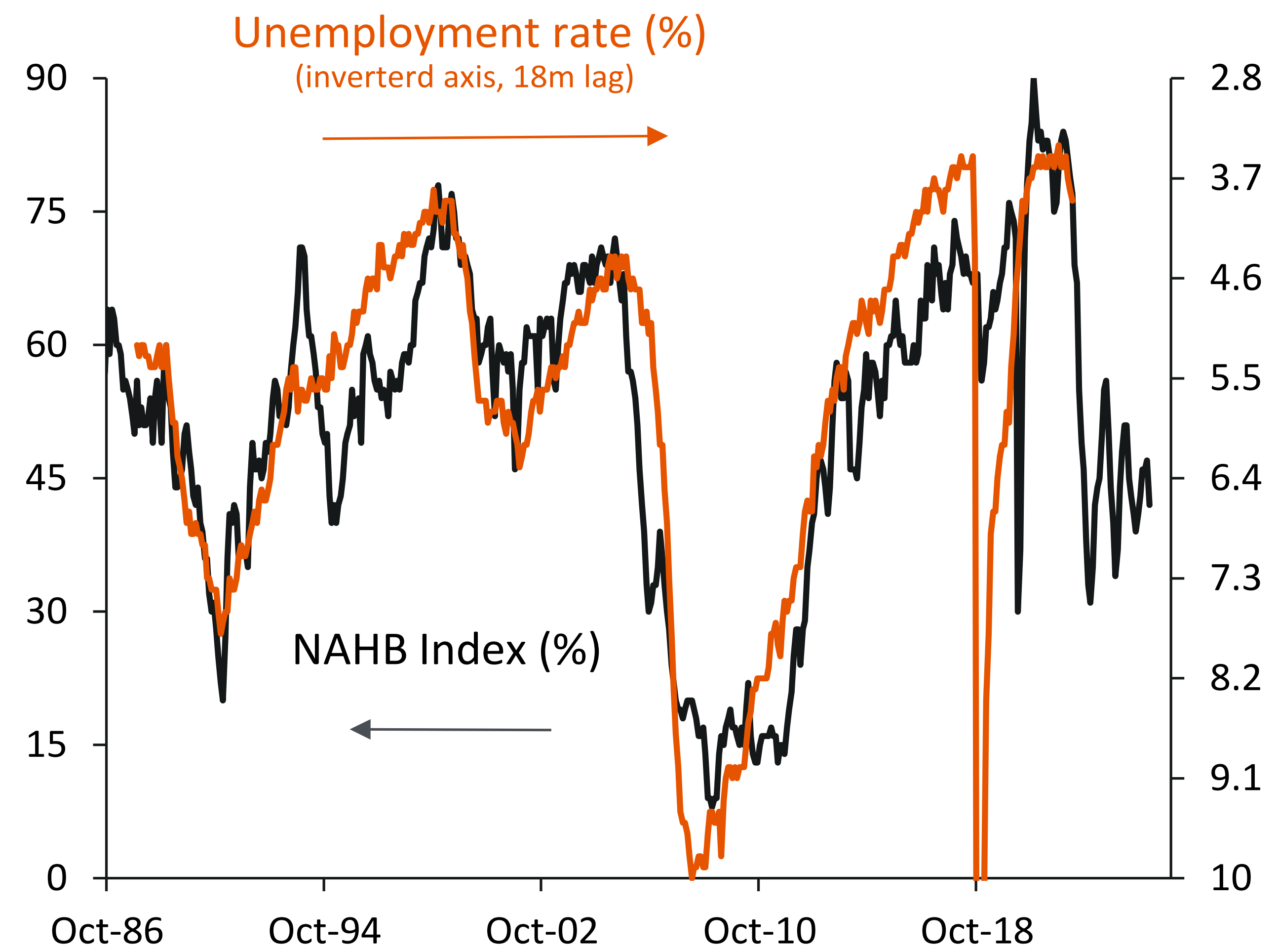
Source: BLS, Piper Sandler

Job cut announcements have spiked and initial claims could follow



Source: Department of Labor; Challenger, Gray & Christmas; Piper Sandler

Unemployment may be on the verge of rising



Source: BLS, Piper Sandler

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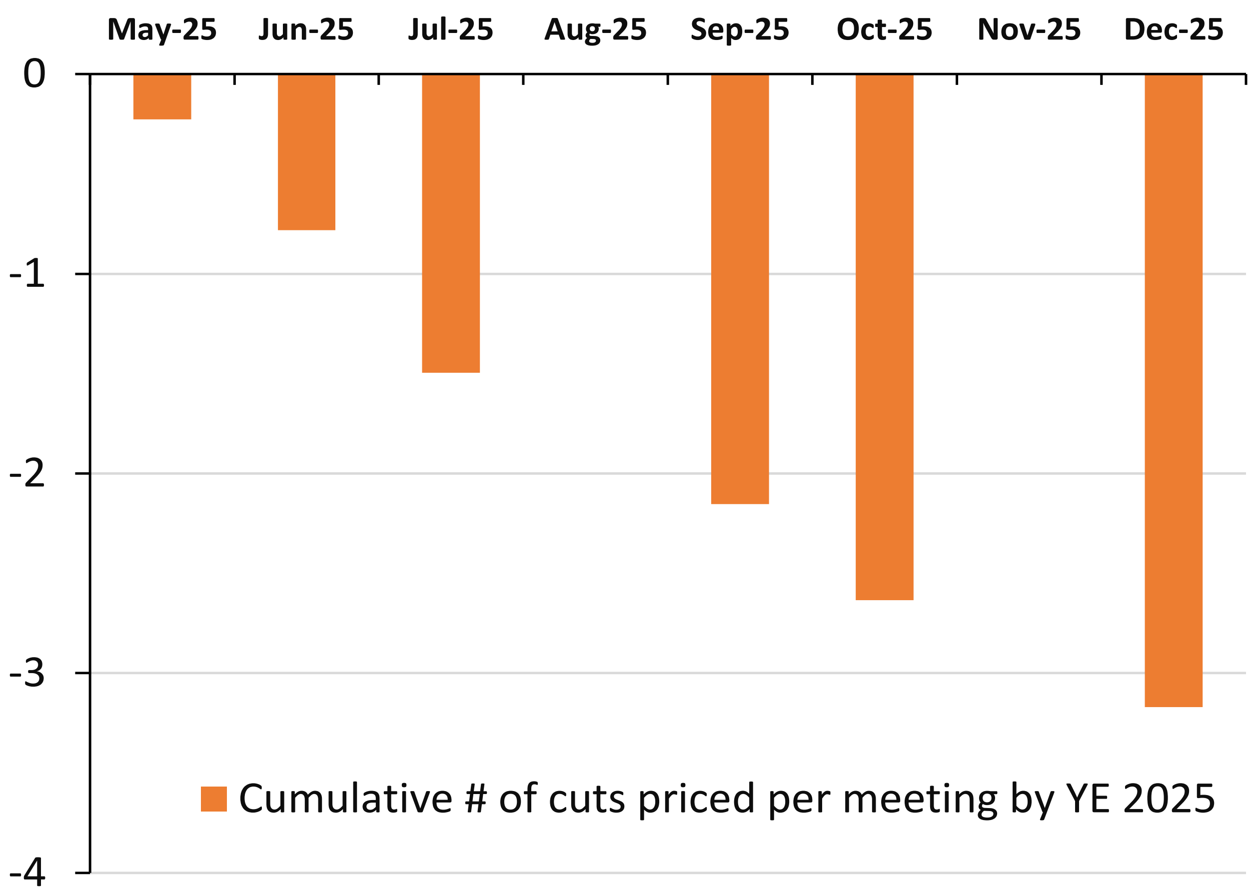
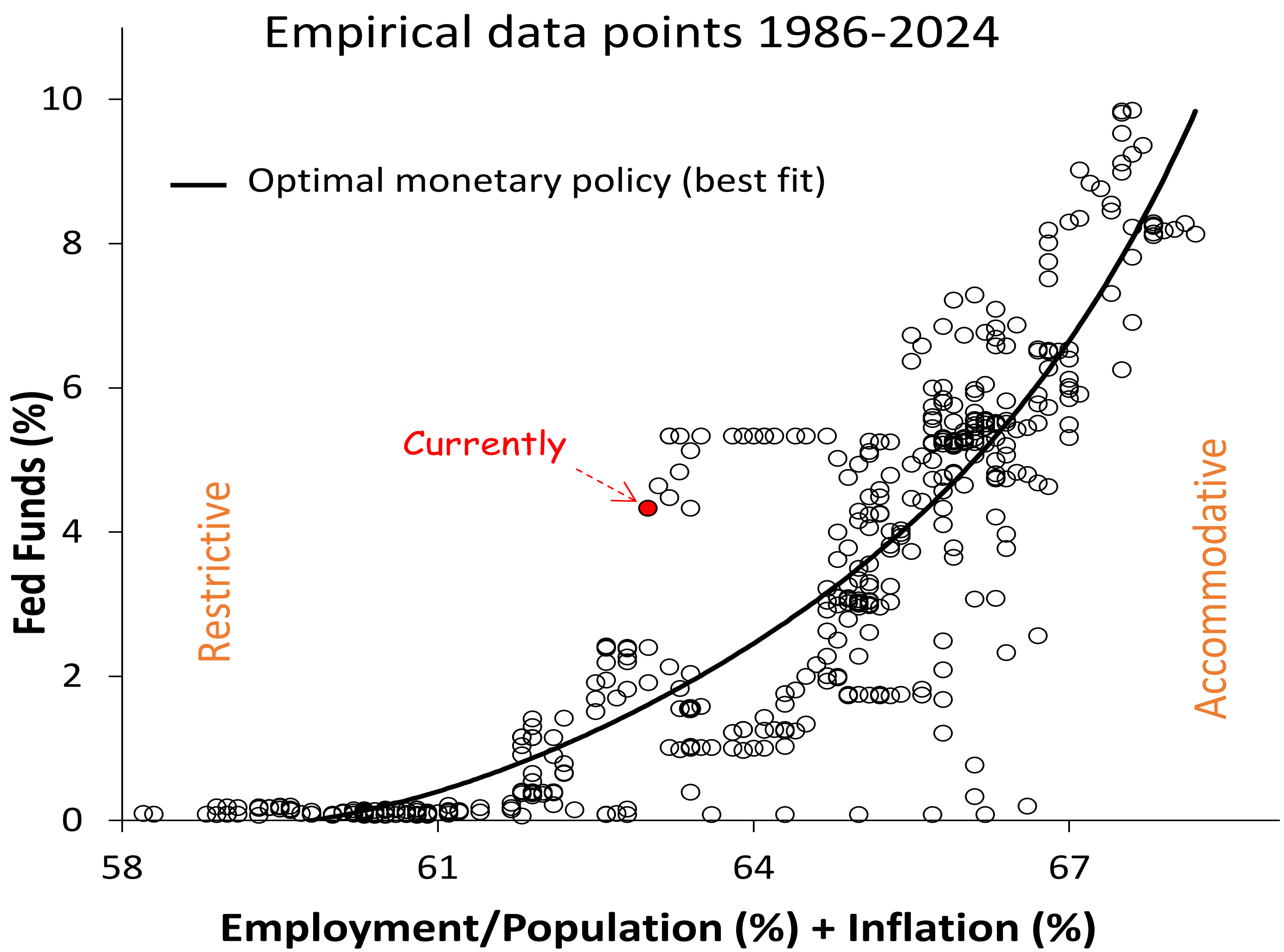
The market is pricing three full rate cuts by YE 2025



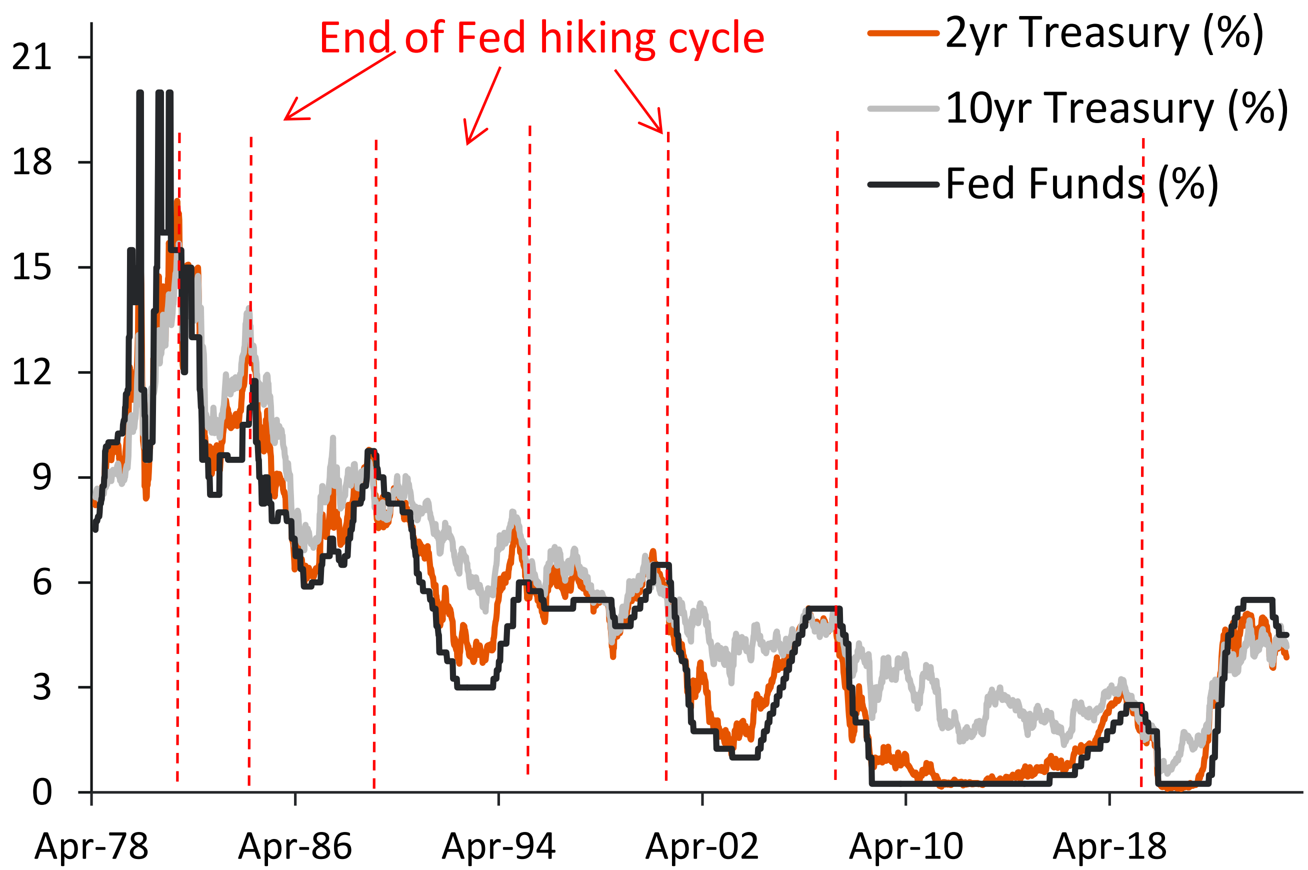
Source: Bloomberg, Piper Sandler (4/11/2025)

Current levels of inflation and employment point to over 200 bp of rate cuts



Source: Federal Reserve, Bloomberg, Piper Sandler

Since the early 1980s yields have always declined as the Fed cut rates



Source: Federal Reserve, Bloomberg, Piper Sandler

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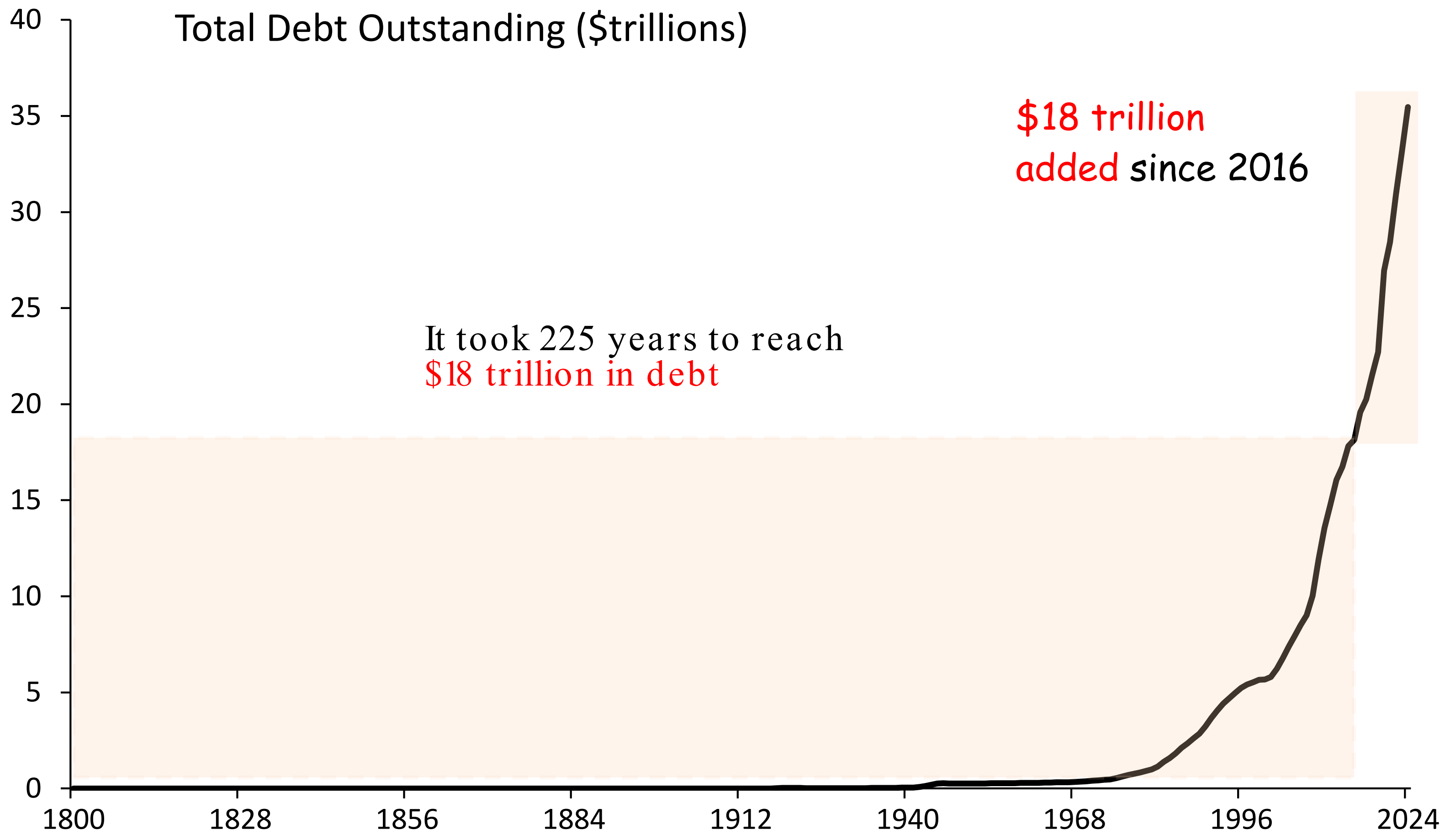
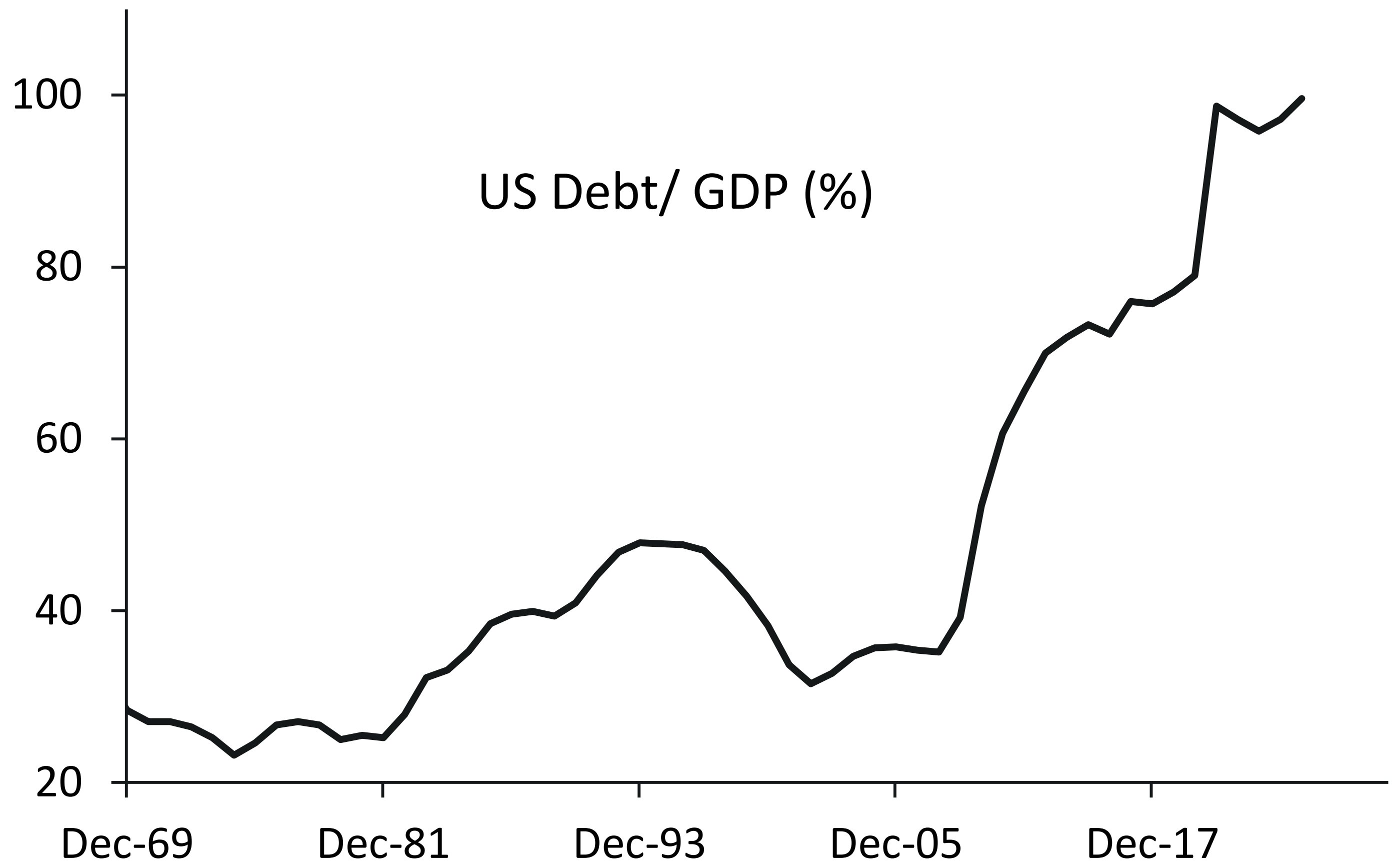
US debt has risen sharply over the last eight years



Source: Federal Reserve, Piper Sandler

US debt has risen sharply since the Great Financial Crisis



Source: Federal Reserve, Piper Sandler

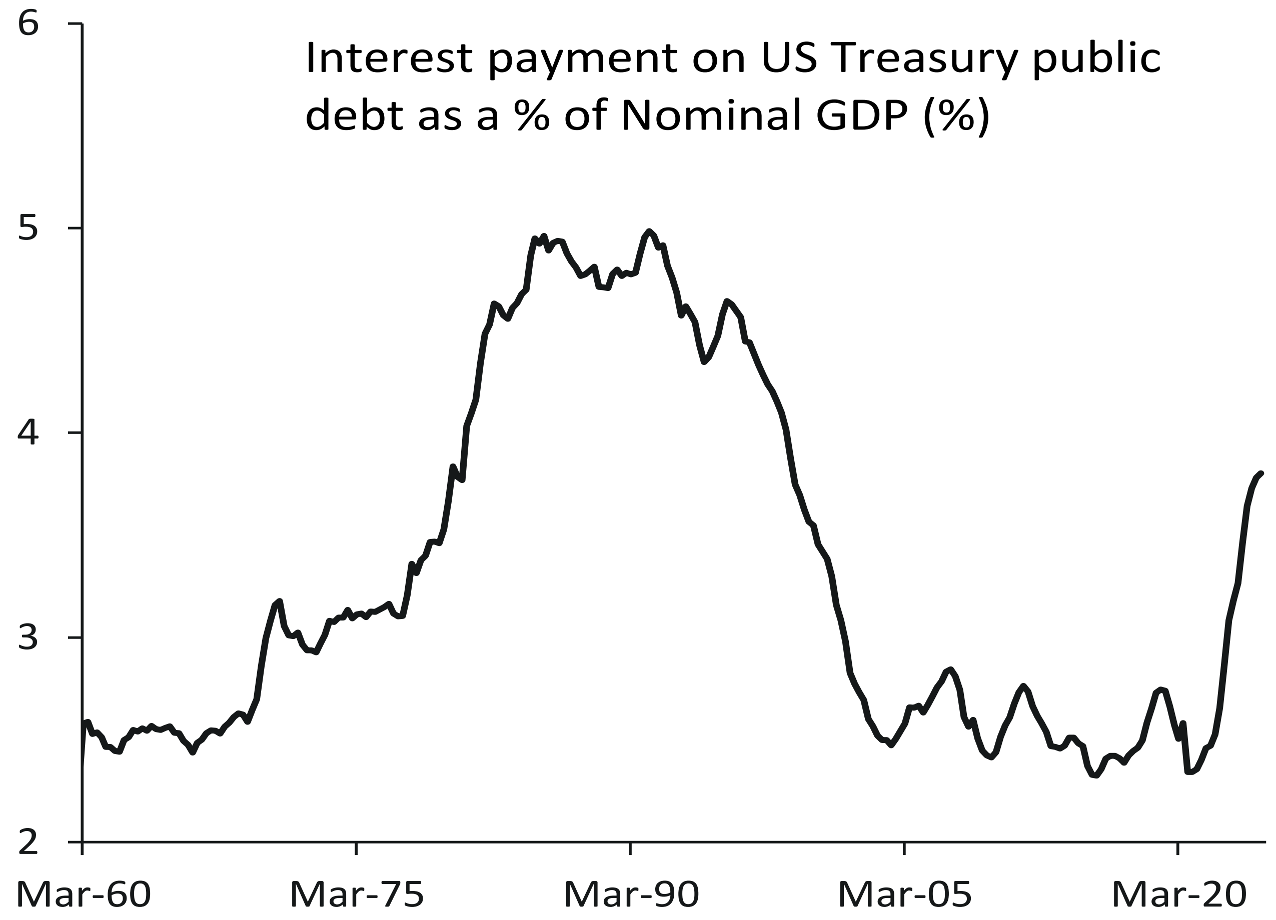
High debt doesn’t always translate into higher interest rates

Country	10yr yield	Debt as % of GDP	CDS Spread (bp)
Japan	1.33%	250%	23
Greece	3.42%	158%	67
United Kingdom	4.67%	155%	25
Italy	3.70%	136%	63
United States	**4.43%**	**122%**	**57**
France	3.28%	114%	44
Canada	3.20%	107%	29

Country	10yr Yield	Debt as % of GDP	CDS Spread (bp)
South Africa	10.95%	73%	267
Colombia	12.62%	54%	268
Brazil	14.73%	75%	197
Mexico	9.57%	40%	150
Pakistan	12.65%	77%	936
Turkey	32.00%	29%	360
Romania	7.39%	53%	240

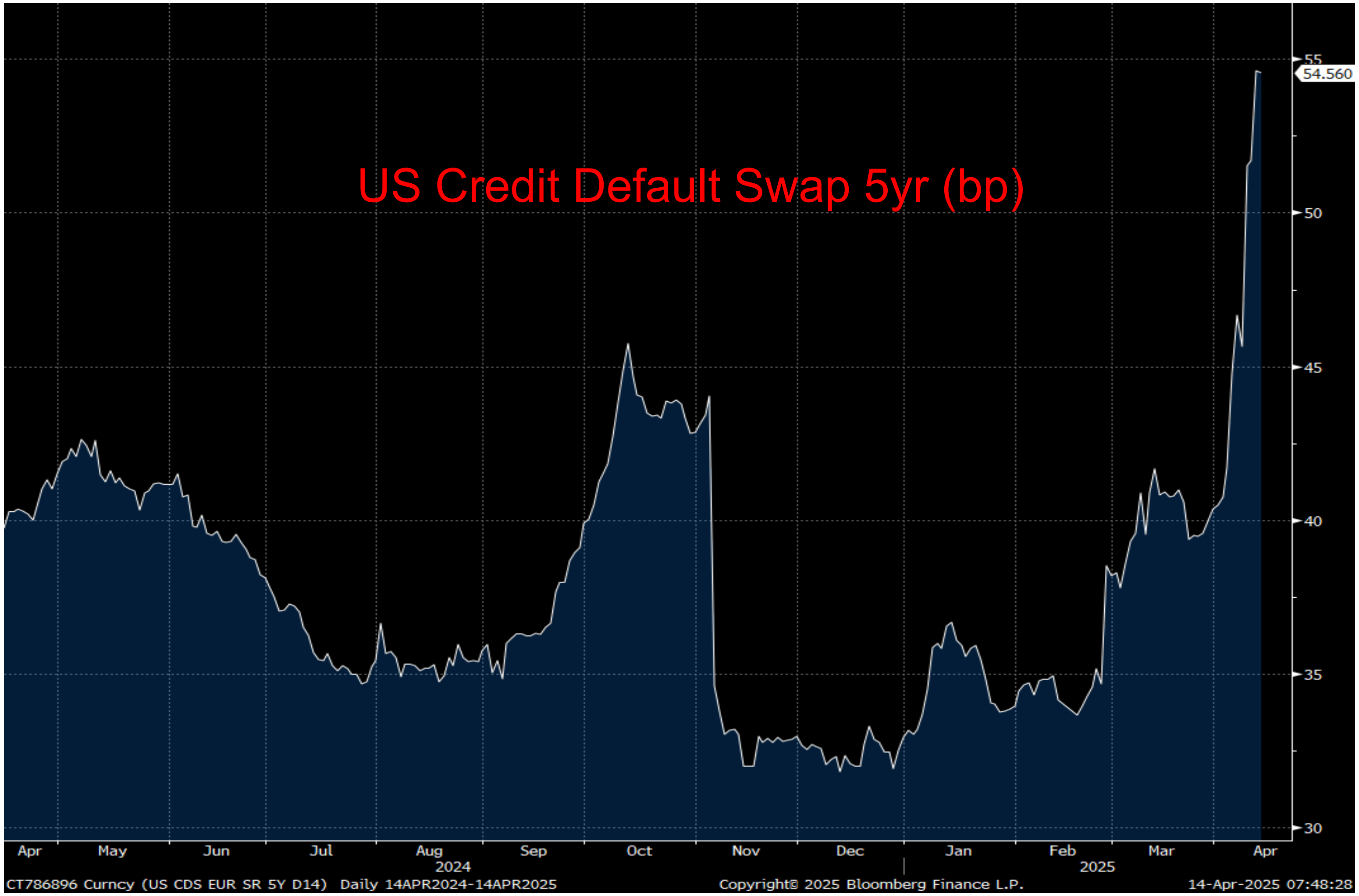
Source: Federal Reserve, Piper Sandler (4/14/2025)

The risk of a fiscal crisis is still manageable, but pressure is building



Source: CRFB, Piper Sandler

The cost of insuring government debt climbed as investors get nervous



Source: Bloomberg, Piper Sandler

How to reduce debt pressure

Default

Inflate

Economic growth

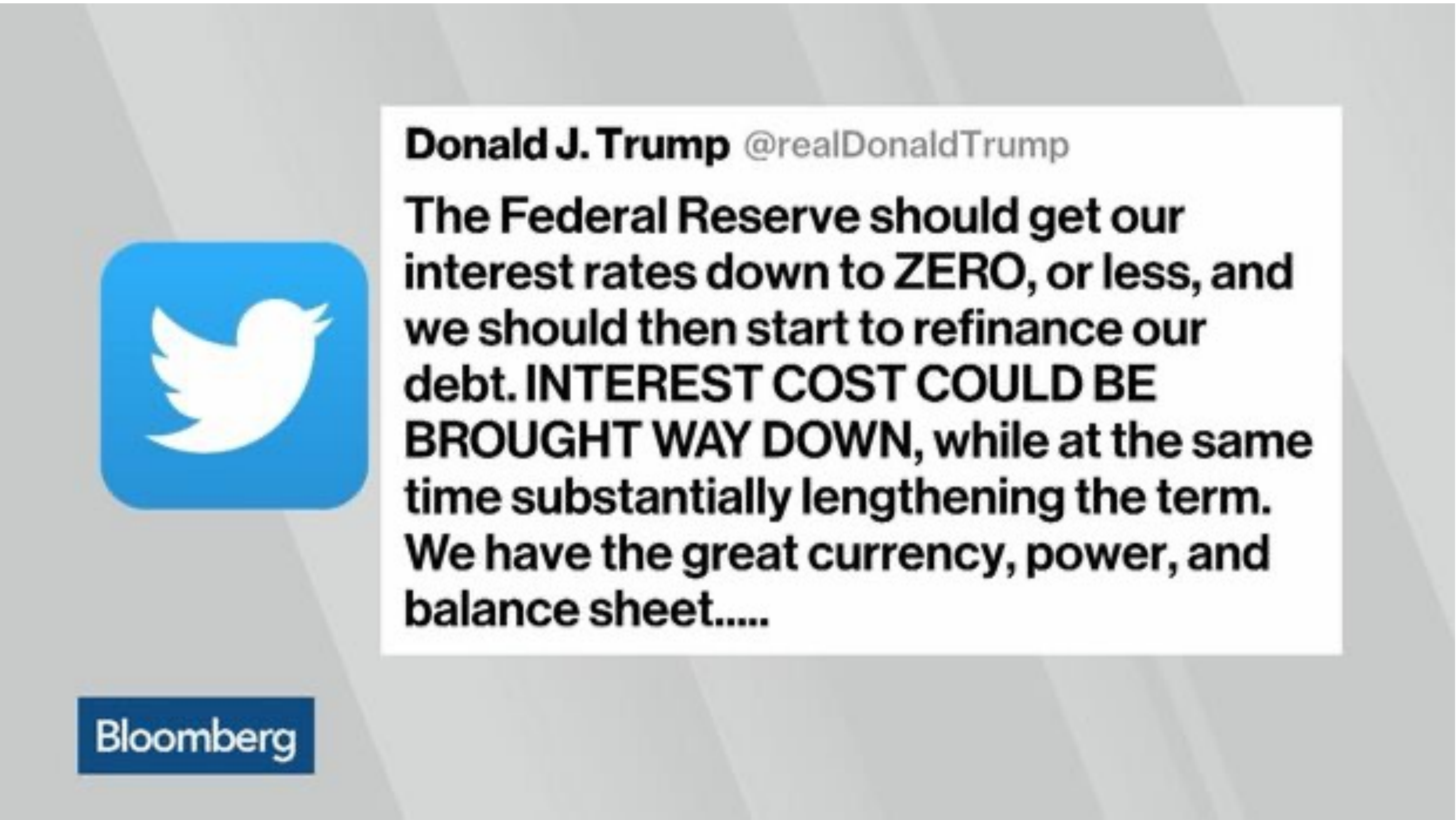
Raise Taxes/Cut spending

Lower rates to ZERO

most likely
solution

Source: Federal Reserve, Piper Sandler

President Trump will push for lower rates



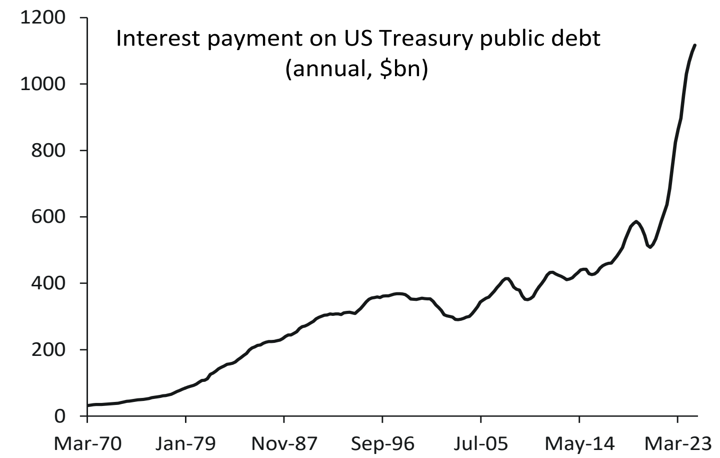
September 2019

Source: Piper Sandler

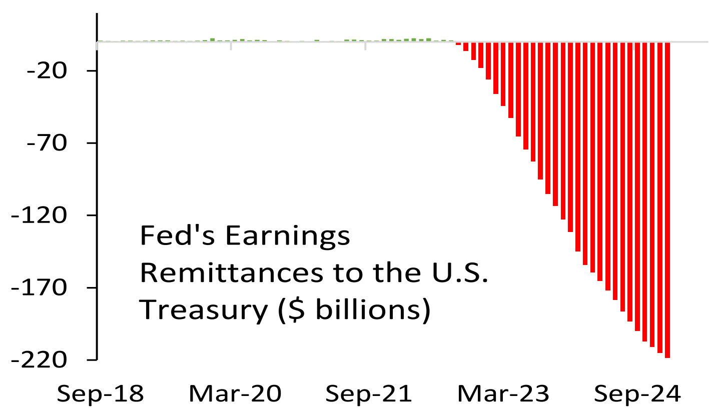
Solving multiple problems with a single shot

The Banks

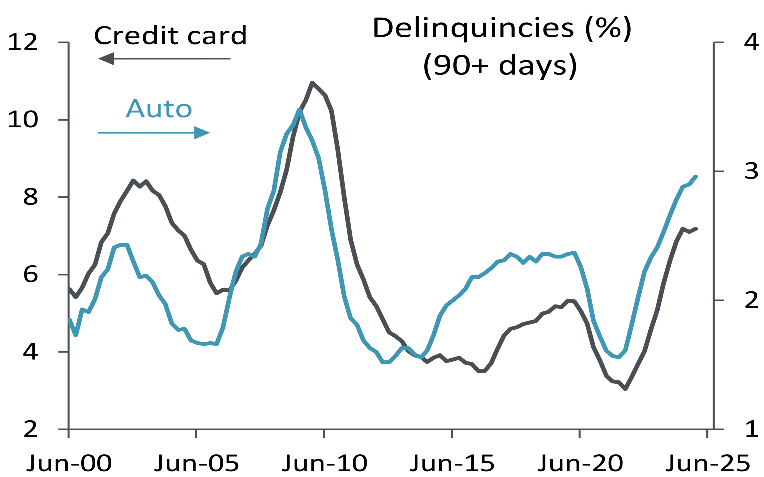
The Federal Government



The Federal Reserve



The Consumer



Source: Bloomberg, Piper Sandler

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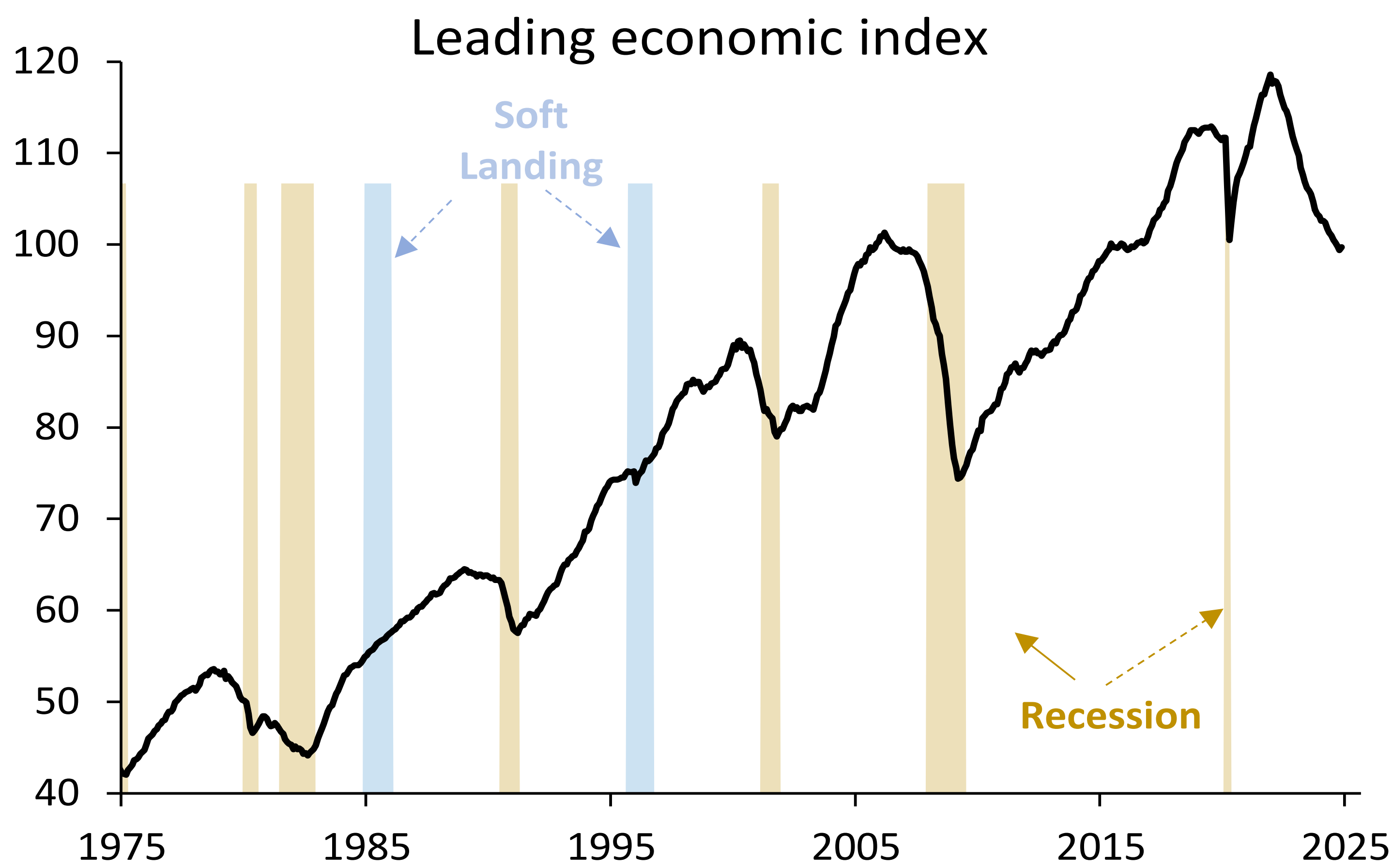
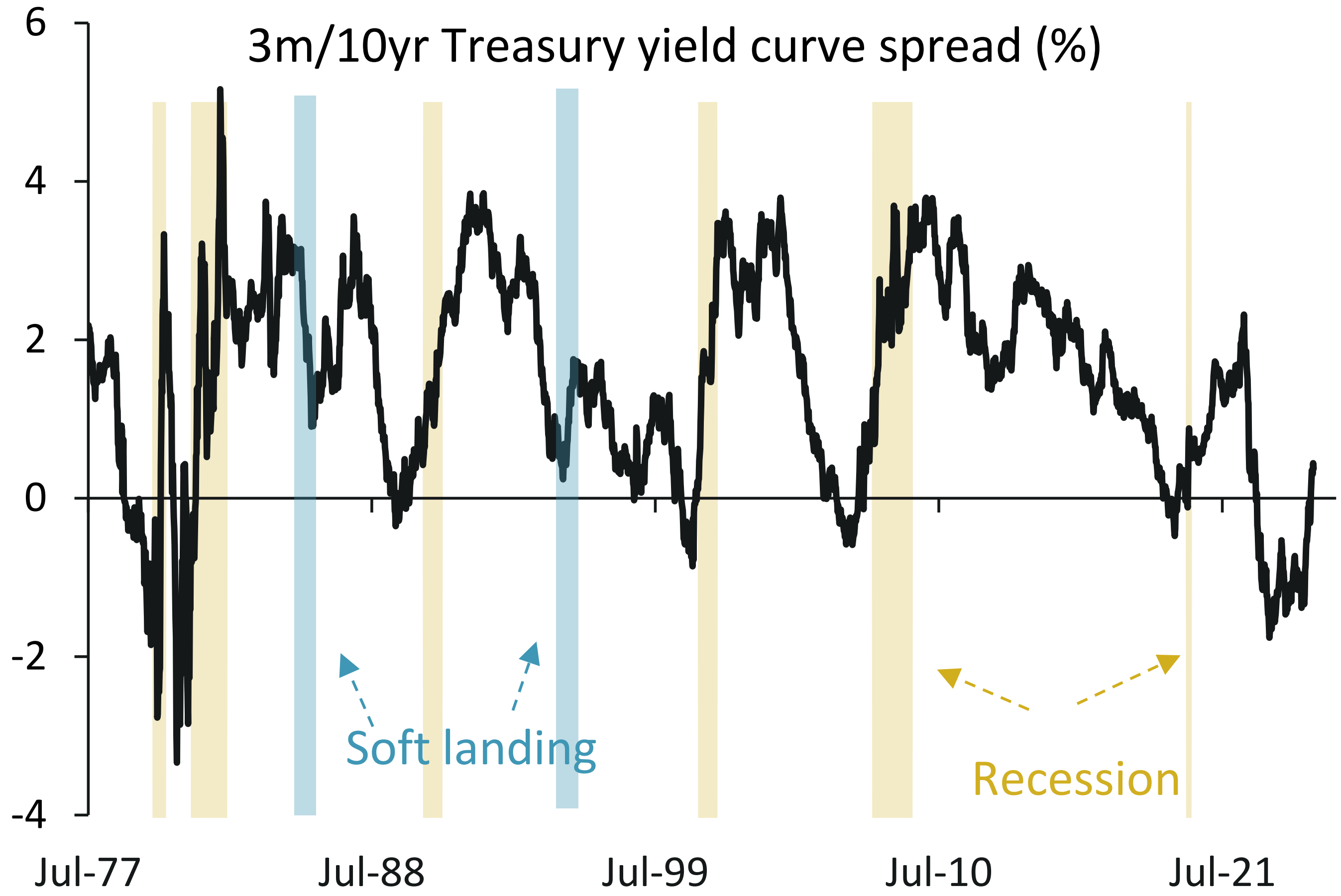
The leading index decline has never been this large without a recession



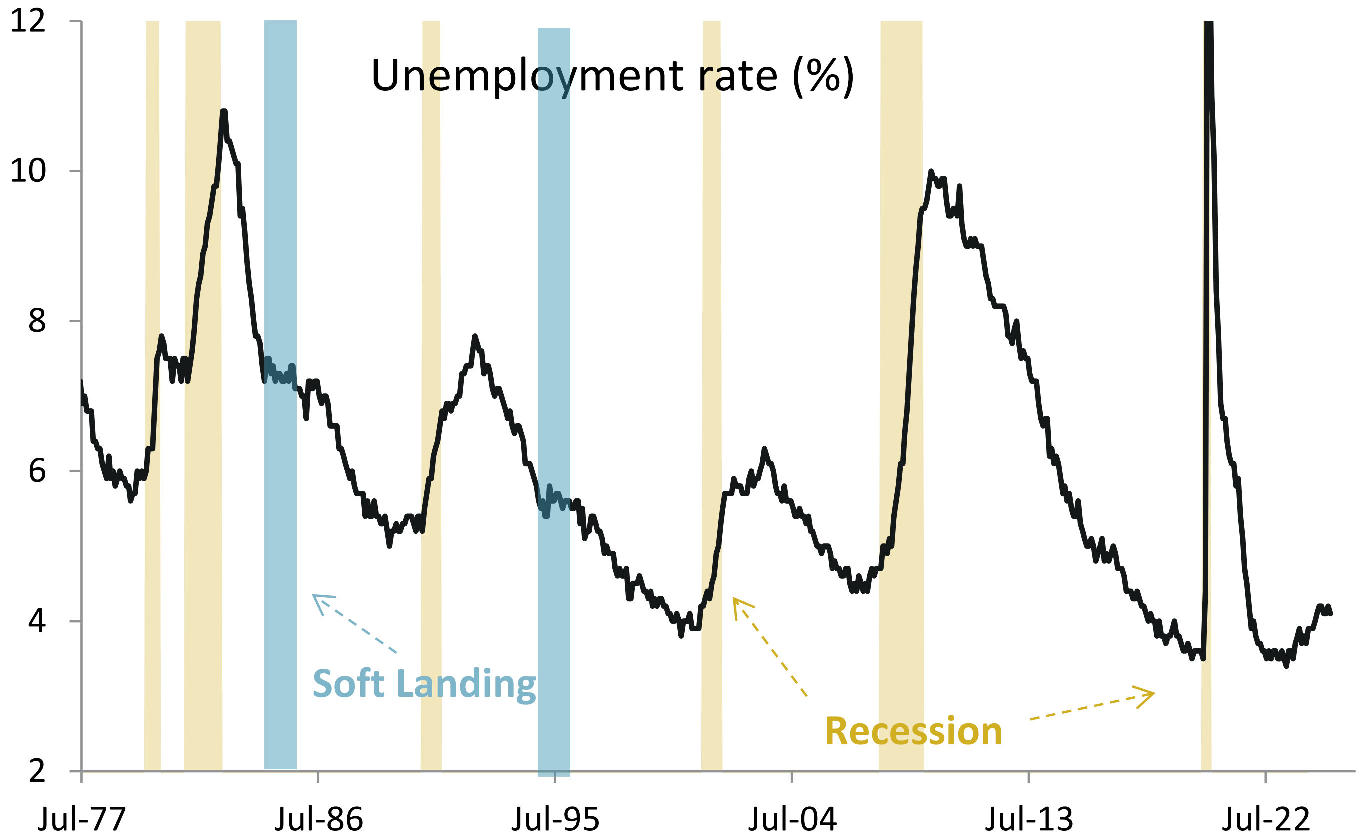
Source: Conference Board, Piper Sandler

Yield curve inversions have been reliable predictors of recessions



Source: Conference Board, Piper Sandler

Unemployment hits cyclical lows just prior to the onset of the next recession



Source: Department of Labor, Piper Sandler

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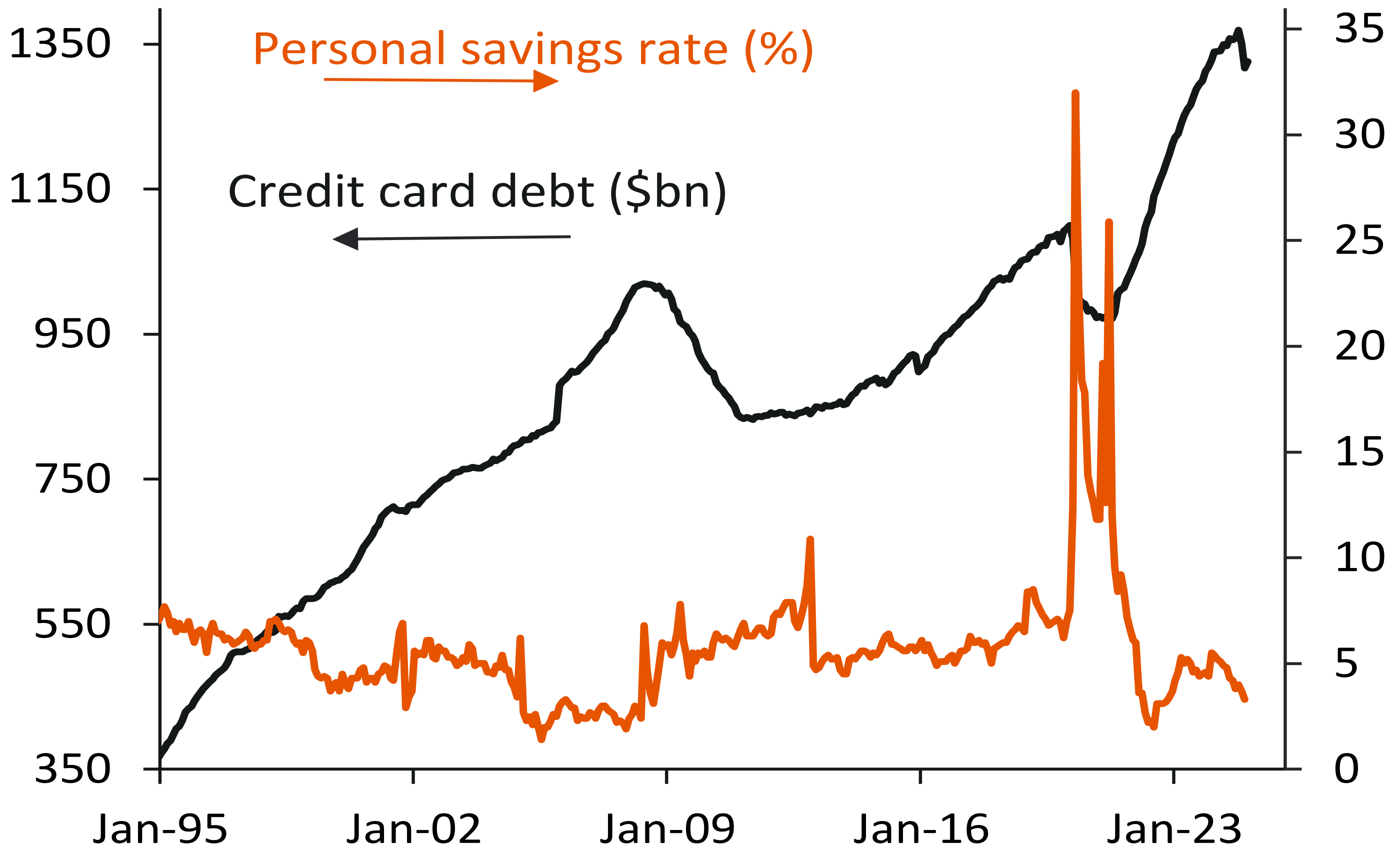
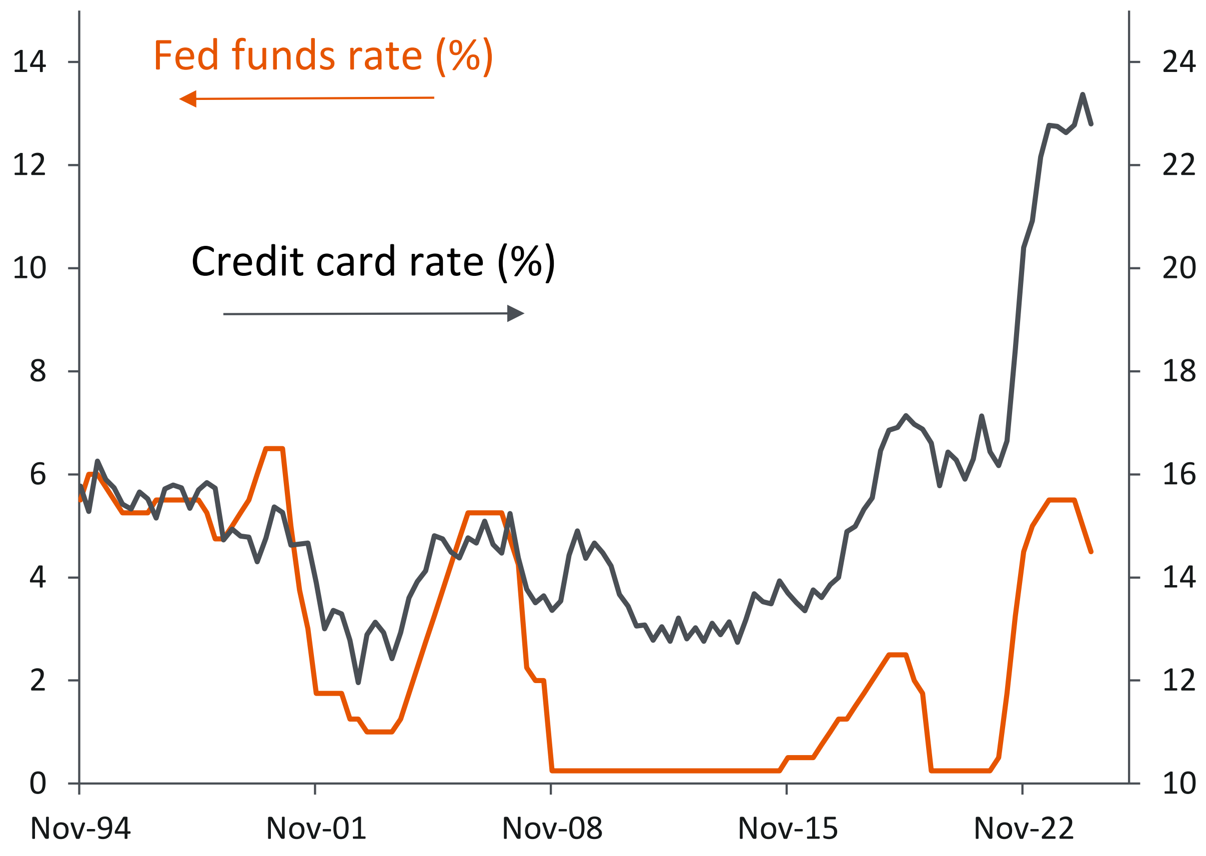
Credit card debt has risen to historic highs, as Americans save less



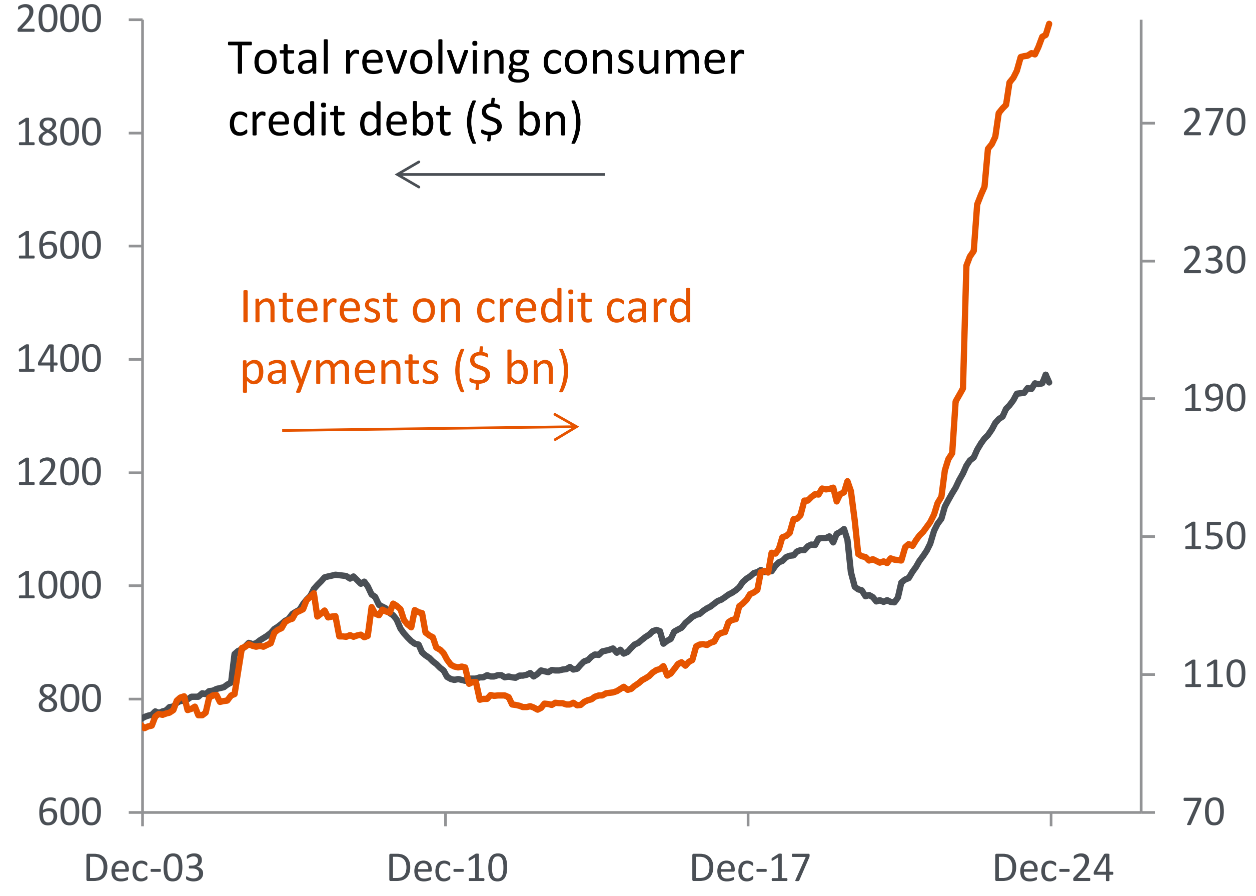
Source: Federal Reserve, BEA, Piper Sandler

The Fed lowered rates, but credit card interest rates remain near historical high levels



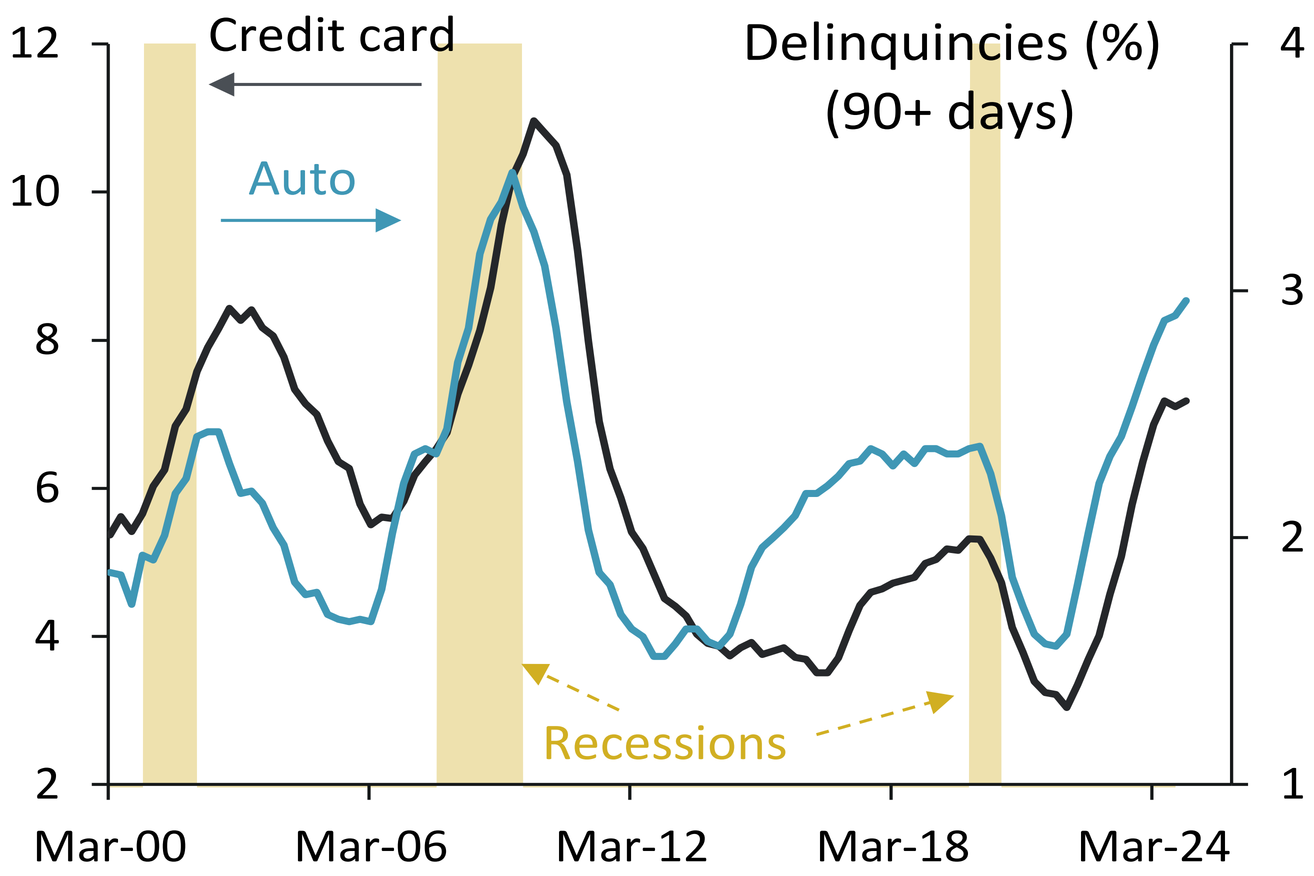
Source: Federal Reserve, Piper Sandler

Over the past few years, interest payments on credit cards have nearly doubled



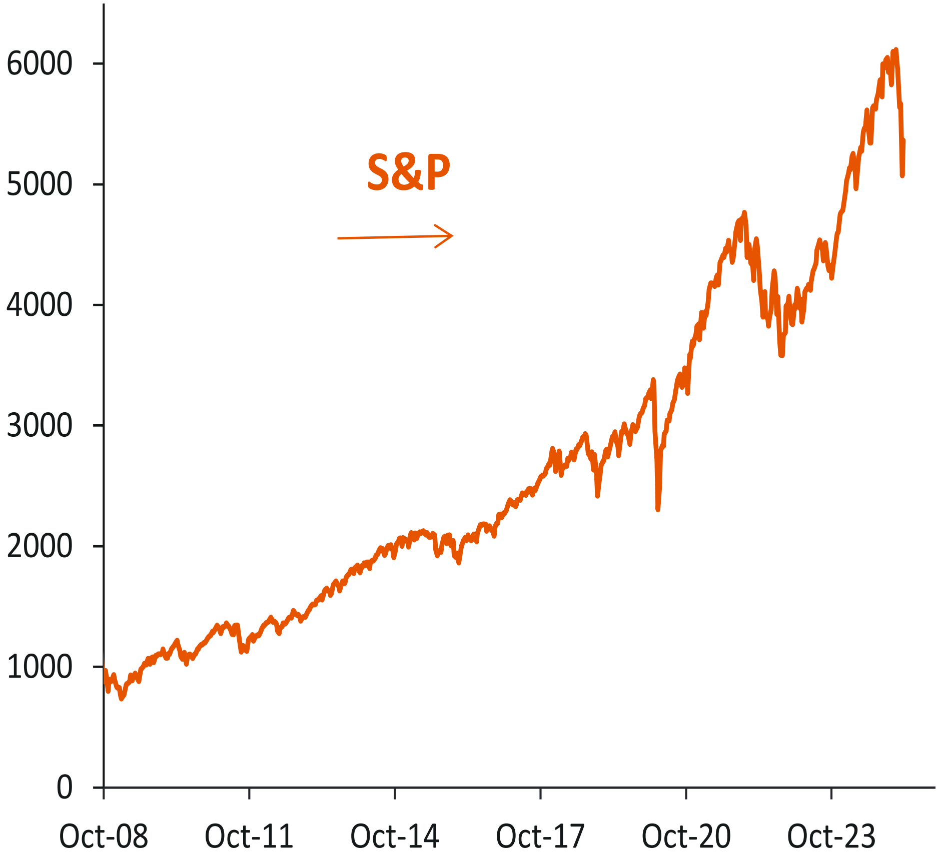
Source: Federal Reserve, Piper Sandler

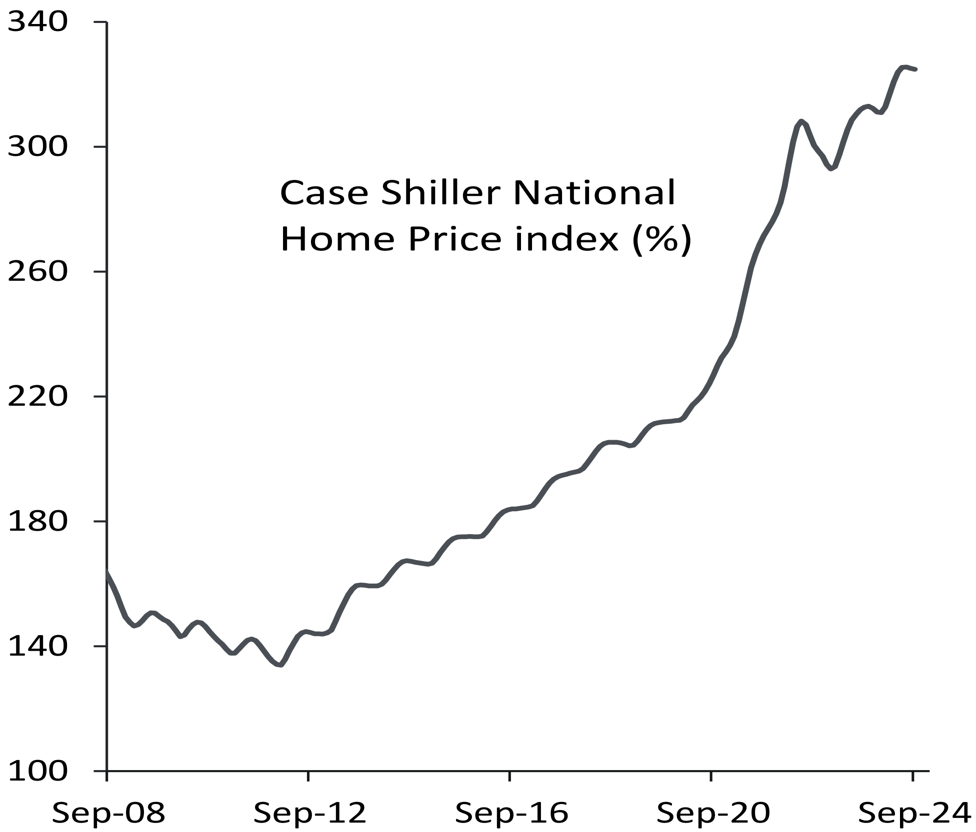
Signs of consumer stress are appearing



Source: FRBNY Consumer Credit Panel/Equifax, Piper Sandler

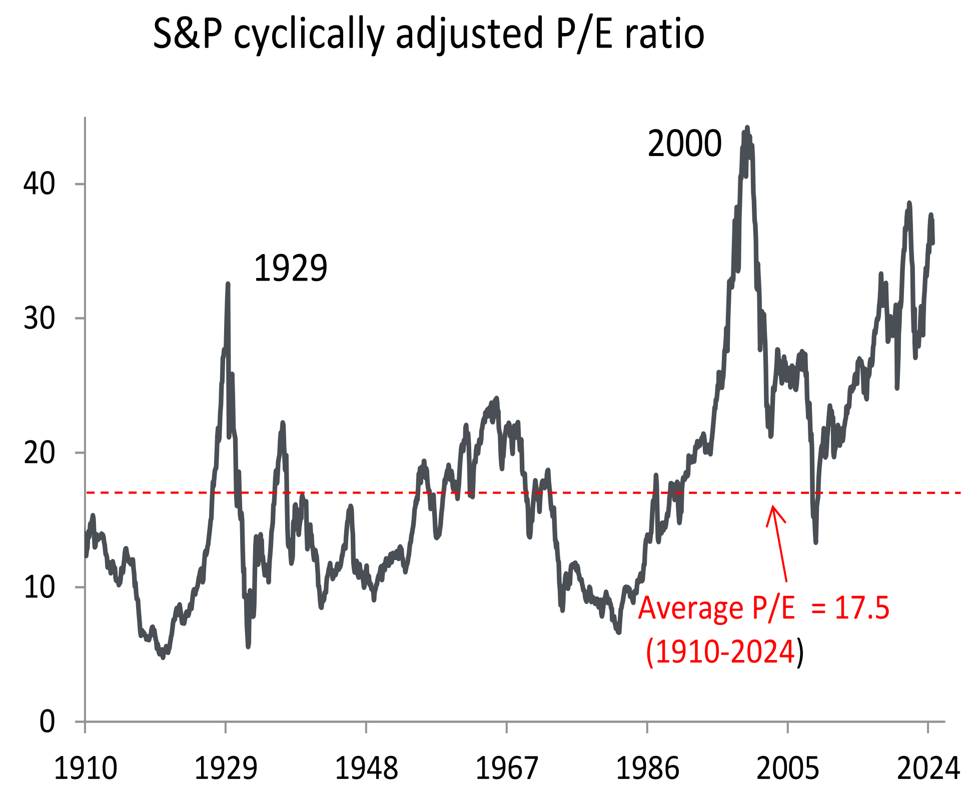
The wealth effect: Equities + Housing





Source: Bloomberg, Piper Sandler

Equity valuations appear excessively high



Source: Bloomberg, Piper Sandler

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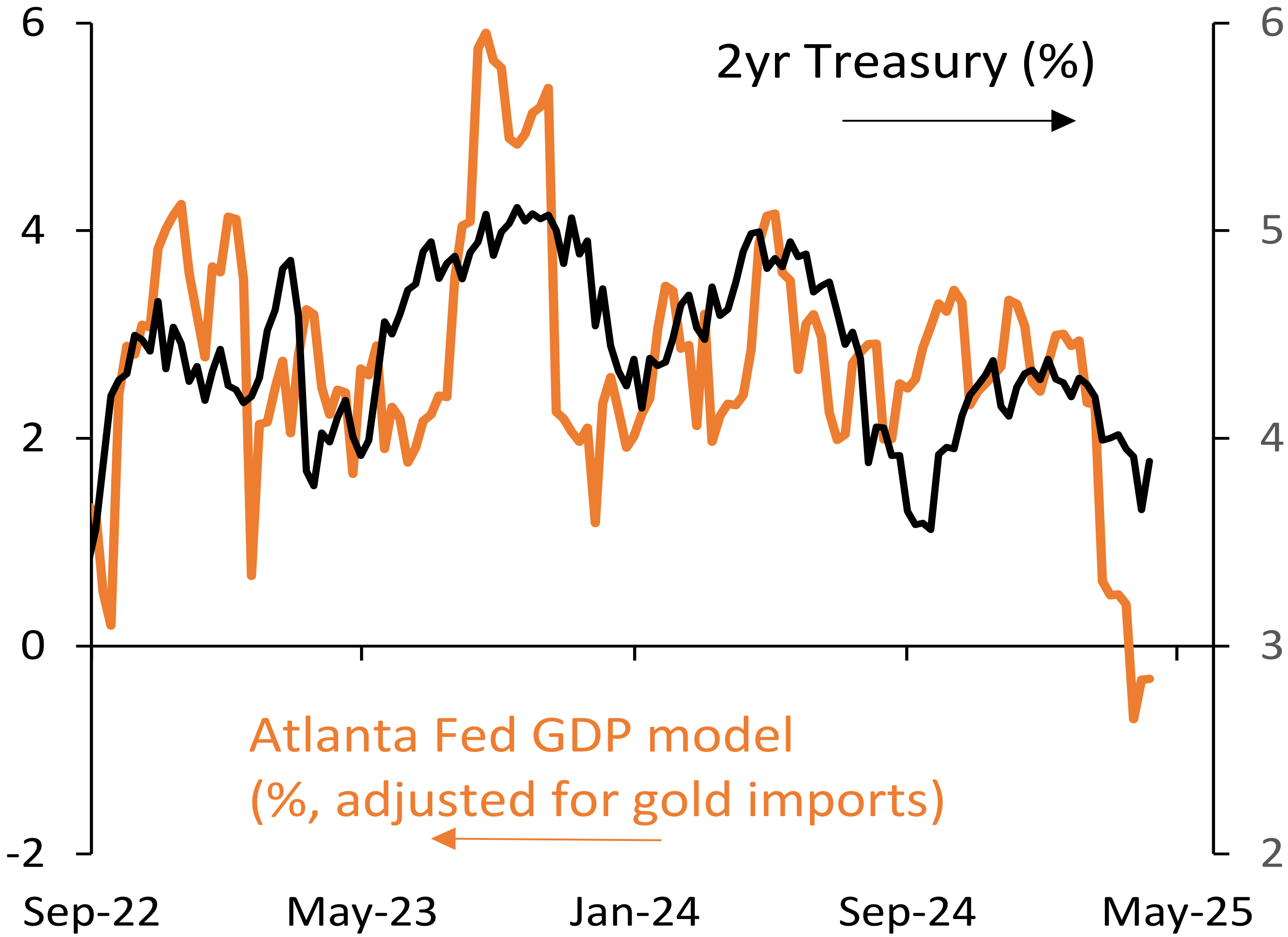
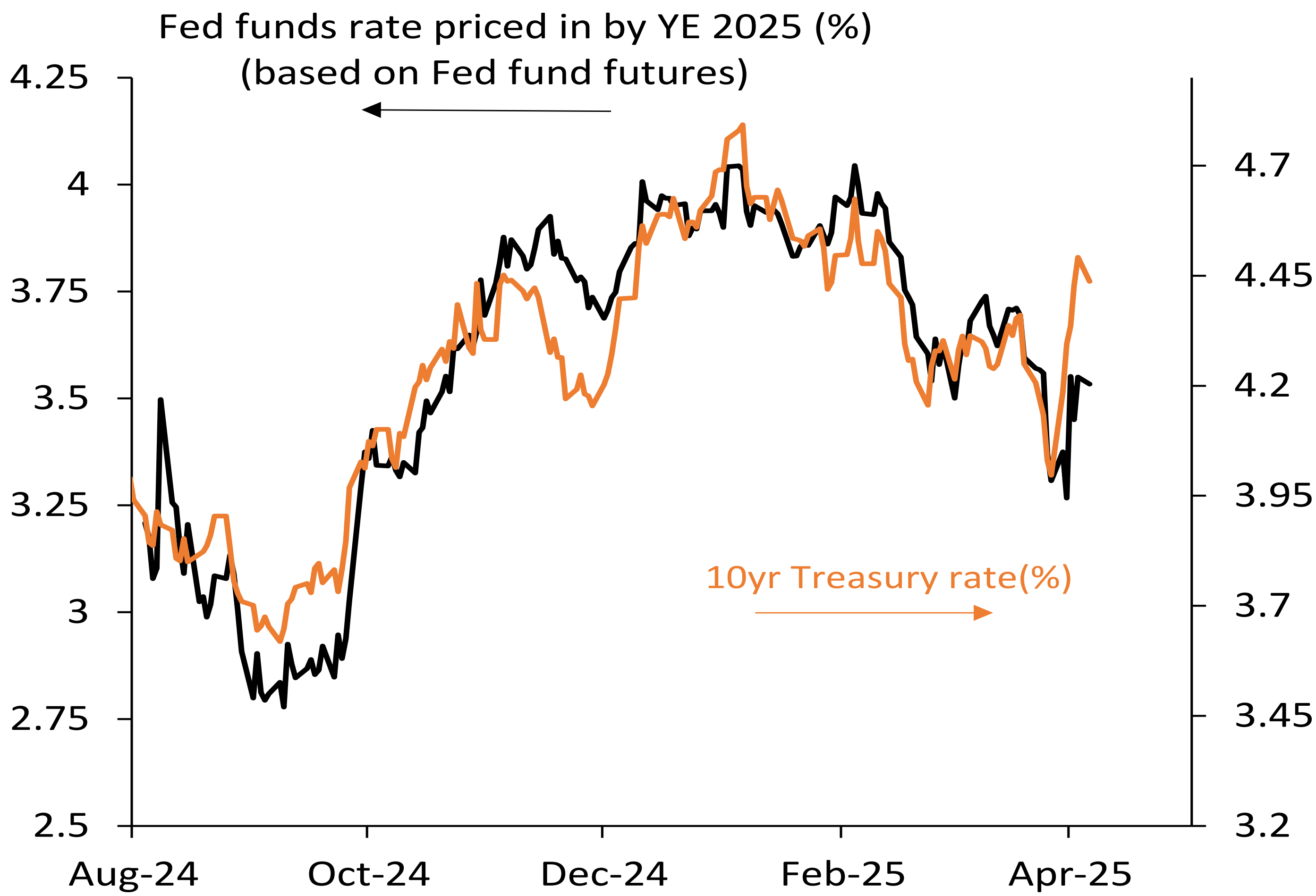
Short term rates are likely to fall with GDP estimates



Source: Atlanta Fed, Bloomberg, Piper Sandler

The decrease in expected rate cuts is putting downward pressure on long-term rates



Source: Bloomberg, Piper Sandler

Where is the 10yr Treasury rate headed in 2025

	# of rate cuts from 4.5%	YE 2025 Fed Funds rate	Predicted 10yr Treasury rate (%)	95% confidence level Lower limit (%)	Upper limit (%)
Soft Landing	1	4.25	4.70	4.54	4.86
Soft Landing	2	4.00	4.52	4.36	4.68
Soft Landing	3	3.75	4.34	4.18	4.50
Landing with turbulance	4	3.50	4.16	4.00	4.32
Landing with turbulance	5	3.25	3.98	3.82	4.14
Landing with turbulance	6	3.00	3.81	3.65	3.97
Landing with turbulance	7	2.75	3.63	3.47	3.79
Hard Landing	8	2.50	3.45	3.29	3.61
Hard Landing	9	2.25	3.27	3.11	3.43
Hard Landing	10	2.00	3.09	2.93	3.25
Hard Landing	11	1.75	2.91	2.75	3.07
Hard Landing	12	1.50	2.73	2.57	2.89
Hard Landing	13	1.25	2.55	2.39	2.71
Hard Landing	14	1.00	2.37	2.21	2.53
Hard Landing	15	0.75	2.20	2.04	2.36
Hard Landing	16	0.50	2.02	1.86	2.18
Hard Landing	17	0.25	1.84	1.68	2.00

Source: Bloomberg, Piper Sandler

Q & A

Dimitri N. Delis, Ph.D

Managing Director
Director of Fixed Income Research
Piper Sandler

Dimitri Delis is a Managing Director and Director of Fixed Income Research within Piper Sandler. He is responsible for evaluating economic trends, analyzing current economic issues and generating relative value strategies by integrating fixed income cross-sector trends with macro/economic analysis. He identifies/analyzes market dislocations across all fixed income asset classes and makes economic presentations to clients. Dimitri has been quoted in Bloomberg, Marketwatch and Reuters and is a frequent speaker at both regional and national level business/financial events.

Prior to joining the group in 2005, Delis served as the cross-sector strategist for JP Morgan. Prior to the JP Morgan-Bank One merger, he was the derivatives strategist for Bank One. Dimitri's experience includes market risk management for ABN AMRO where he was responsible for identifying and monitoring all market risk-taking activities for the derivatives and FX trading desks and bond modeling for Salomon Brothers' proprietary portfolio tools.

Dimitri Delis holds a Ph.D. in nuclear physics from the University of California at Berkeley and a bachelor's degree in chemistry and mathematics from the University of Chicago. He completed his Master of Business Administration degree at Northwestern University's Kellogg School of Management in 2006. He is a registered representative with the Financial Industry Regulatory Authority (FINRA).

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