JUNE 9, 2025

ECONOMIC DASHBOARD: KEY INDICATORS FOR THE REMAINDER OF 2025

Executive Summary

- There remains considerable uncertainty as to how trade tensions, the "Big, Beautiful" budget bill, an unorthodox approach to budget discipline via chaotic cuts to the federal workforce and to federal contracts and grants, and additional policy noise will impact fundamentals.
- In this environment, it is paramount to closely monitor a broad dataset that, in our view, allows us to gauge the health of the U.S. and global economies in a high-frequency fashion. We are focusing primarily on six categories: labor market data, consumer data, consumer and business confidence data, corporate conditions, trade data, and market pricing.
- In our view, maintaining discipline to stay invested and anchored to a strategic long-term asset allocation must be paired with tactical agility and flexibility to respond to fast-evolving market and economic conditions.

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Following President Trump's election last November, we pointed out how the economic and market outlook for 2025 hinged to a large extent on what policies would be prioritized by his administration. In the January CIO Perspectives note "Lessons to carry forward," we wrote that "...assessing potential upside and downside risks to the base case scenario is an important component of a successful investment process," and this is even more true when investors are facing a wide range of potential outcomes, as we believe to be the case today.

There remains considerable uncertainty as to how trade tensions, the "Big, Beautiful" budget bill, an unorthodox approach to budget discipline via chaotic cuts to the federal workforce and to federal contracts and grants, and additional policy noise will impact fundamentals. In this environment, discipline to stay invested and anchored to a strategic long-term asset allocation must be paired with tactical agility and flexibility to respond to fast-evolving market and economic conditions.

Consequently, **it is paramount to closely monitor a broad dataset that, in our view, allows us to gauge the health of the U.S. and global economies in a high-frequency fashion.** We are focusing primarily on six categories: labor market data, consumer data, consumer and business confidence data, corporate conditions, trade data, and market pricing.

Labor market

The unemployment rate (or the ratio of total unemployed workers to the labor force) remains the key metric to watch, if anything because of its role in shaping the Federal Reserve's (Fed) assessment of labor market conditions, and therefore its monetary policy response. However, as we discuss more in detail in our CIO Perspective "The first 100 days are history. What's next?" the sharp drop in immigration flows into the U.S. could distort the message provided by the unemployment rate. This is due to the composition of total unemployment: workers who re-enter the labor force and are actively looking for a job, new entrants into the labor force, and workers who have been permanently or temporarily laid off. If less immigration slows down the number of reentrants or new entrants, this could partly or fully offset an acceleration in layoffs, therefore delaying or preventing a rise in the unemployment rate.

As a result, our view is that more datapoints are required to assess the health of the labor market. We focus on three:

- **The employment-to-population ratio,** which is less skewed by immigration flows. The latest data for this indicator—while off its cycle-highs—**still points to a healthy labor market.**

- **Weekly initial jobless claims.** We especially focus on a dynamic version of this indicator, by measuring the percentage change of its 4-week average from its 26-week lowest level (this version allows to smooth out seasonal effects and outliers). Historically, a 25% or larger increase has been a reliable indicator of impending economic weakness. At 9% as of the end of May (up from 2% at the end of 2024), **we are closely monitoring the recent uptrend, but still think it currently remains far from levels that would be consistent with a recession.**

- **Aggregate weekly payrolls** (the product of weekly hours worked, average hourly earnings and monthly nonfarm payrolls) is a proxy of underlying income growth. This metric grew 5.3% year-over-year (YoY) in April, and 3.2% YoY from an inflation-adjusted standpoint, **suggesting that U.S. households can still count on robust income growth.** We think this is an important indicator to monitor going forward.

Consumer data

One of the consequences of the steep rise in trade tariffs is a distortion of consumer and investment behaviors. Expectations for higher prices caused households and businesses to pull forward spending ahead of the implementation of tariffs. This led to strong retail sales and personal consumption data in March, followed by weaker readings in April as the frontloading faded. **April retail sales pointed to broad softness in goods spending,** but resilience in service spending (with food services and drinking places, the only service category within the retail sales dataset, up 1.2% month-over-month [MoM]). Are consumers replacing goods (given higher prices) with services,[1] rather than increasing their savings, in what would represent a benign outcome for the U.S. economy?

Given the lagging nature of these indicators, we also focus on weekly credit card spending, weekly retail sales (Johnson Redbook Index Same Store

1 For context, services consumption accounts for ~70% of total household consumption.

Sales Weekly) and daily TSA airport traffic data. The combination of these metrics paints a relatively healthy consumption backdrop, but with signs that households seem to be cutting back on some non-essential expenditures. Bank of America's weekly data on credit card spending shows that households are still spending but are turning more conservative on items like air travel and lodging. This is also confirmed by the ongoing moderation in TSA airport traffic data.

Price inflation, employment and income growth, and equity market performance (especially for high-income households,[2] as we discussed here) are likely to determine how these recent trends develop going forward.

Corporate conditions

Corporate America is facing this period of heightened uncertainty from a position of relative strength. **Leverage and debt servicing metrics remain healthy and above levels that were prevalent before the pandemic, on average. The path forward for these metrics hinges in part on profit margins,** and higher tariff-related input costs are a key risk in this sense. **U.S. high-yield-rated companies appear more vulnerable,** as their average net margin has shrunk from ~6% in 2021 to just above 3% in Q1 '25, while U.S. investment grade-rated companies still feature net margins above 10%, on average. We are watching these dynamics very closely.

Another important area to monitor is corporate earnings. 2025 earnings-per-share (EPS) expectations have already declined from 12% YoY at the end of 2024 to 7% YoY. This is in line with the unfavorable trend in earnings revisions, as the number of S&P 500 stocks with falling earning expectations has far outpaced the number of stocks with rising earnings expectations. This is the result of both company managements suggesting that their profits might moderate relative to expectations due to headwinds including trade tariffs, and analysts incorporating these headwinds in their models. As a result, the ratio of upward earnings revisions to total earnings revision fell to as low as ~20% in April, though it has since bounced back to just below 50%. We expect to see more volatility in this data going forward, but this represents a key risk, as falling earnings revisions historically anticipated a more significant decline in earnings growth.

The Census Bureau's Business Trends and Outlook Survey is an additional data source that provides timely information on how U.S. businesses perceive current and future economic conditions. This bi-weekly survey polls 1.2 million nonfarm businesses, split into panels of 200,000 that are asked to report every 12 weeks. As of May 18, 2025, the percentage of businesses expecting below average or poor performance over the next six months was 23%, up from 15% at the end of 2024, while the percentage of businesses expecting to reduce headcount climbed from 7% to 10% over the same period. These numbers

2 The top 20% of households by income distribution hold 35% of their net worth in equities, compared to 13% for the bottom 80%.

are likely to remain sensitive based on how policy and economic uncertainty evolve, and anecdotal evidence shows that businesses are still hoping that uncertainty will gradually fade, which might reduce near-term risks especially if rhetoric around trade tariffs continues to deescalate and we see a pivot to deregulation and tax cuts.

Altogether, **our view is that U.S. businesses remain supported by healthy balance sheets and resilient profitability.** At the same time, **there are growing signs that corporate conditions could sour rapidly if progress towards more policy clarity and lower trade tariffs is not achieved over the next few months.**

Consumer and business confidence

Household and business sentiment has deteriorated significantly since the start of the year. While hard data, or tangible economic fundamentals (like employment growth and consumer spending), has so far remained resilient, we think that a prolonged period of poor confidence could eventually alter consumption and investment decisions. It is therefore **crucial that uncertainty continue to gradually dissipate, in our view.**

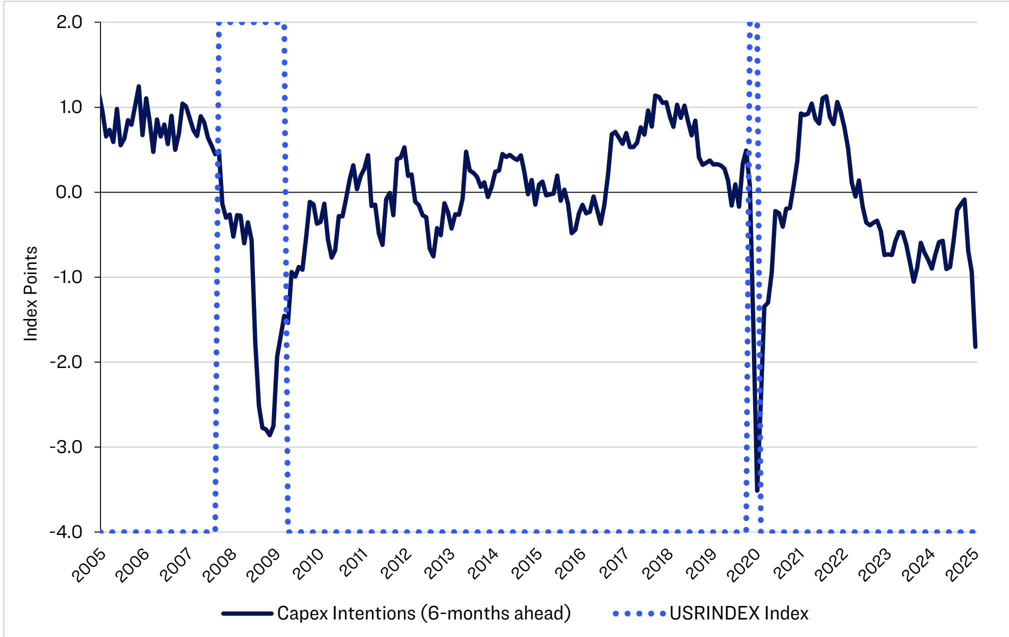
Consumers no longer only seem concerned about declining price affordability, but also about the outlook for employment and income growth. This is a key difference relative to the drop in household sentiment in 2022/2023, when the labor market was perceived to be more robust and job opportunities more plentiful. The main risk, in our view, is that a mix of rising inflation and a less optimistic assessment of employment could have a stronger impact on households' spending and saving decisions, especially against the backdrop of increased policy uncertainty (related to trade tariffs and budget cuts).

Similarly, business confidence has also been dented by trade tensions. In particular, **we monitor capital expenditure intentions as a reliable leading indicator of investment decisions.** What we are observing is a worrisome decline (Figure 1), following a spike in optimism following President Trump's election in November 2024, as a sign that the risk of businesses freezing or even reversing capital allocation decisions[3] has increased since February.

3 Normalized average of 6-month-ahead capital expenditure plans from all regional Fed surveys and the NFIB small business survey.

FIGURE 1

Capital expenditure intentions have more than reversed the post-election optimism.



Source: Bloomberg, TIAA Wealth Chief Investment Office.

Trade data

Chaotic and frequent swings in tariff rates (from reciprocal tariffs, to tentative deals with China and other countries, to the recent ruling by the Court of International Trade), the potential implications for consumer price inflation and profit margins, and the significant consumer and business uncertainty unleashed as a result make it imperative that we follow a range of trade-related data. We focus particularly on four:

- **Custom and excise taxes collected at the border**, as shown in the U.S. Treasury daily data, **have risen significantly** relative to past years (Figure 2), and accounted for ~9% of total monthly imports in April. Interestingly, while this number is almost 4 times higher than at the end of 2024, it also suggests that importers did not bear the full cost that would have been implied by the tariff rates announced in April. This could be due to foreign exporters absorbing part of the higher tariffs, and/or to the rerouting of trade flows from high-tariffed countries to lower-tariffed countries, and/or to the fact that goods already in transit before the implementation of reciprocal tariffs were exempted. Given the tangible nature of this dataset, its evolution over the next few months will offer key insights into these dynamics, and into the concrete impact of U.S. tariffs on businesses and consumers.

- Exports from Asian countries also provide a nuanced message about the impact of trade tariffs so far. Exports from China and South Korea to the U.S. plummeted by 21% YoY and 7% YoY in April, respectively. However, total Chinese and South Korean exports rose by 8% YoY and 4% YoY, respectively, **in a sign that trade tensions with the U.S. have not yet disrupted broader global trade flows.** This is positive news.

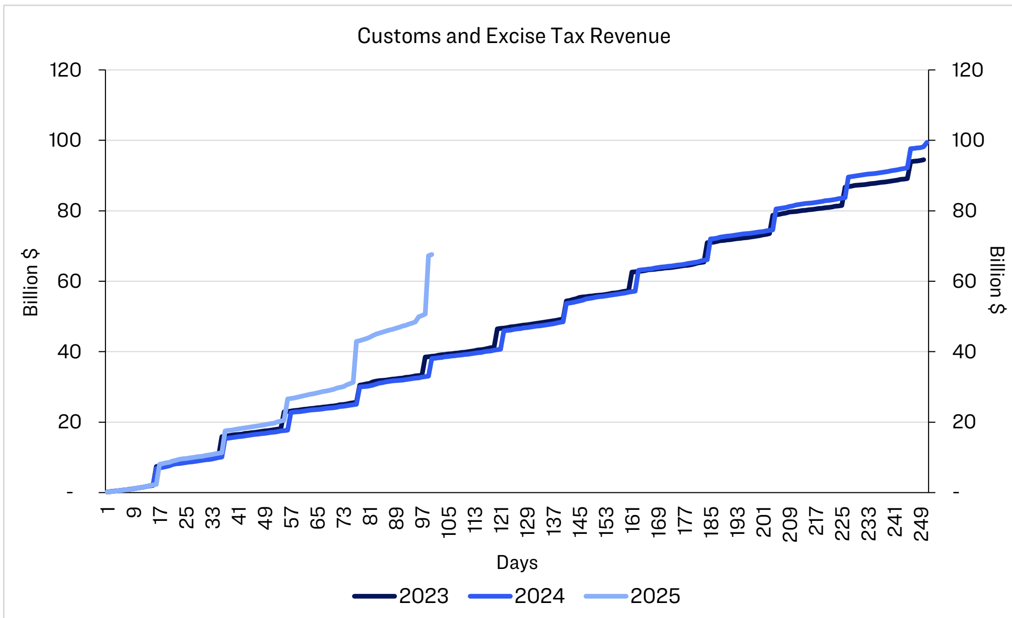
- **U.S. imports in March were 26% higher than the average monthly imports in 2024, as importers rushed to frontload the implementation of trade**

tariffs. However, **90% of this surge came from just a handful of products** (mostly pharmaceutical and chemical products, electrical equipment and gold), suggesting that stockpiling (a trend that would delay the impact of tariffs on price inflation, if products were imported before tariffs became effective) might have been less pronounced across other product lines. In addition, the pace of monthly imports fell back to the 2024 average in April, well below consensus expectations for a continuation of stockpiling efforts.

- Finally, **the number of containerships leaving China for the U.S. continues to fall,** even after the Trump administration agreed to lower the tariff rate from 145% to 30%. Average daily departures are not significantly different from levels seen during 2022 and 2023, and therefore are not overly concerning. However, we are keeping an eye on this data as further declines would indicate that trade-related risks remain elevated.

FIGURE 2

Trade tariffs are driving an increase in customs and excise tax revenue.



Source: U.S. Treasury, TIAA Wealth Chief Investment Office.

Market pricing

While not always perfectly efficient, market prices are supposed to reflect all available information at any given time. It is important to monitor market consensus, positioning and performance to assess how investors, collectively, are judging the balance of risks facing the economy. As of the end of May, equity and credit markets signal optimism about the ability of the economy to navigate the current environment relatively unscathed, while interest rates show growing concerns about the U.S. fiscal position. We are particularly focused on the following indicators:

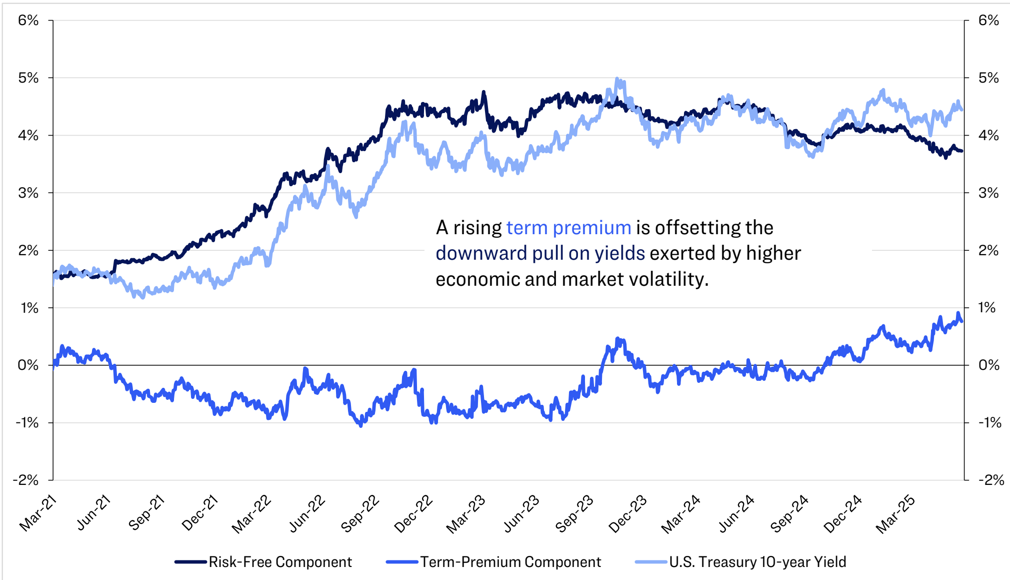
- **Investment-grade and high-yield credit spreads** widened during the April market volatility, but have tightened considerably once again since then, and remain well below the long-term average, let alone levels that we would expect to see in a recession. This signals **limited concerns about the economy,** although the rapid widening in April demonstrated that credit spreads are **not pricing the risk of a sudden event-driven turn in the business cycle.**

- Bond yields have been rangebound even against the backdrop of rising economic uncertainty and slowing economic growth. **A detailed look at the drivers of long-term yields shows that, while lower rates of economic growth have gradually pushed the risk-free yield component (linked to monetary policy expectations) lower, concerns about fiscal sustainability and the impact of trade tariffs have pushed the term premium[4] component to levels not seen in a decade** (Figure 3). We expect this tension to continue, and we think that lack of relief on interest rates represents an underappreciated headwind to economic growth.

- Finally, **the relative performance between cyclical and defensive stocks** provides a strong indication of investors' perception of risks to the business cycle. Between January and mid-April, defensive stocks outperformed cyclical stocks by ~12%[5] as concerns about the impact of policy uncertainty on the U.S. economy escalated. Since then, cyclicals have outperformed defensives by 8%, as the **market-implied probability of a recession has been largely priced out by investors.**

FIGURE 3

Long-end Treasury yields reflect increasingly competing forces.



Source: Federal Reserve Bank of New York, Bloomberg, TIAA Wealth Chief Investment Office.

4 The term premium is the extra compensation demanded by investors to hold long-maturity bonds rather than continuously rolling over short-maturity bonds.
5 As measured by the Goldman Sachs Cyclical vs. Defensive index.

CIO FOCUSPOINT

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