MAY 2025

THE FIRST 100 DAYS ARE HISTORY. WHAT'S NEXT?

Executive Summary

- After a chaotic 100 days, we see more opportunities over the next few months for de-escalation of tensions between the U.S. and key trading partners (including China) and for the Trump administration to pivot to fiscal policy and deregulation. However, there are reasons for investors to remain vigilant.
- While the future of trade tariff rates remains uncertain, their impact on the U.S. and global economies has yet to fully materialize. We are observing a significant deterioration in consumer and business sentiment, and we are closely monitoring how labor market conditions, inflation, household spending and corporate earnings respond.
- More tax cuts may not be unequivocally positive for the U.S. economy, especially if it draws attention to the long-term sustainability of the U.S. debt position. The positive fiscal stimulus would need to be weighed against the risk that fiscal sustainability concerns could prompt investors to demand a higher risk premium to invest in U.S. assets.
- Against this backdrop, the range of scenarios may remain wide for the foreseeable future, with risks tilted to the downside. In this environment, we continue to hold our longstanding view that market volatility is likely to remain elevated, that bond yields should remain biased to the downside while equities and credit spreads could continue to be whipsawed until hard data either confirms or allays rising concerns about the durability of the current business cycle.
- We reiterate the importance of remaining anchored to and invested in one's financial plan. For long-term investors, time in the market is far more important than attempting to time the market.

Niladri 'Neel' Mukherjee
TIAA Wealth Management
Chief Investment Officer

Alberto Favalli-Ragusini
TIAA Wealth Management
Director, Investment Strategist

When we discussed the economic impact of the U.S. election last year, we framed the conversation around four policy pillars: trade policy, fiscal policy, immigration policy, and deregulation. Below, we apply this framework to President Trump's economic agenda during his first 100 days in office and what may come next. The bottom line for investors: The range of possible outcomes remains wide, which is why we recommend sticking with long-term financial plans and resisting the urge to time the market.

In our 2025 Outlook, we explained why there's so much uncertainty. Some of the issues Trump campaigned on were pro-growth (like deregulation), while others (such as tariffs and immigration crackdowns) were not. Depending on which ones he prioritized, and when he acted on them, the impacts on the economy and the markets would be very different. Developments since Inauguration Day have reinforced this view, especially with the implementation of large and broad trade tariffs, as well as the Department of Government Efficiency (DOGE)-led cuts to the federal government workforce. We have seen a spike in uncertainty, which weighs on investor risk appetite and undermines consumer and business sentiment. We've also seen increased upside risks to inflation and greater downside risks to employment, corporate profits and household consumption.

As of April 29, 2025, the S&P 500 had declined by 5.1% year-to-date (YTD) while the Russell 2000 (U.S. Small Cap Index) had fallen 11% YTD. Additionally, U.S. high-yield credit spreads have widened by ~75 basis points (bps), and the VIX Index (Wall Street's favorite fear gauge) has increased from 17 to 24, after spiking to more than 50 at the beginning of April.

Trade Policy

The imposition of broad and large trade tariffs has so far been the centerpiece of President Trump's economic agenda. It should be clear by now that tariffs are not simply a tactic to force trade partners to the negotiating table but also a policy initiative designed to generate new revenue and bring back manufacturing jobs. Recent developments, however, suggest that President Trump is sensitive to consequential swings in equity and bond prices and to the slide in personal popularity. In recent days, the administration has struck a more conciliatory tone, and several trade deals are apparently under discussion with key trading partners (mostly Asian countries), likely in an attempt to calm nerves and reduce near-term risks to the economy and markets.

Reducing the goods trade deficit could come at the expense of slower private sector spending in the U.S., as we discussed in detail in our February Focus*Point* "Trade Tariffs – What is the deal?" While unfair trade practices like currency manipulation, export subsidies and overcapacity sometimes play a role in shaping bilateral trade flows, the widening U.S. goods trade deficit (caused by the value of imports exceeding the value of exports) is mostly a reflection of "exceptional" U.S. consumer spending that has outpaced U.S. domestic production capacity. A significantly smaller trade deficit would be difficult to achieve, in our view, without lower domestic consumption and higher domestic private savings—at least until domestic production (or manufacturing "reshoring") picks up.

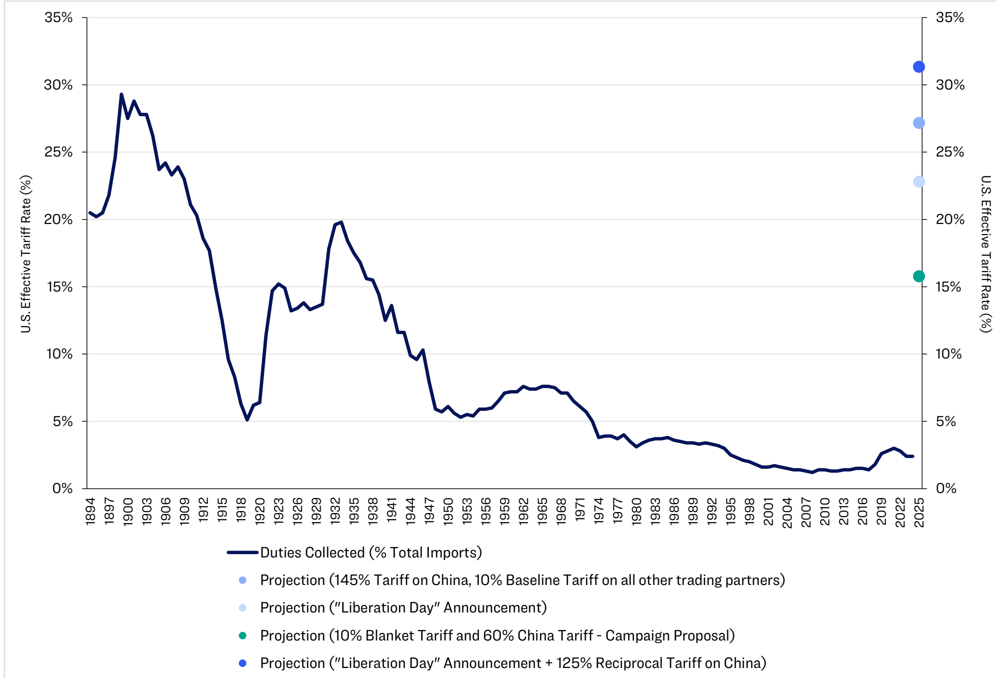
But there is more at play. Another key agenda item for the Trump administration is the revamping of fiscal policy (see next section for more detail). The government is now facing tough choices as to how to fund ambitious tax cuts. Given the focus by many Republican policymakers (especially in the House) to reduce the budget deficit—and the few palatable options when it comes to spending that could be cut—the focus on revenue generated by tariffs could intensify once the budget reconciliation process gets underway. President Trump has touted this role for tariffs several times, including during the roll-out of the April 2nd "Liberation Day" reciprocal rates.

What should we expect going forward?

How the Trump administration balances these objectives will be paramount. As things stand, the existing trade tariffs would push the effective tariff rate from 2.4% at the end of 2024 to more than 25% today (Figure 1). A few dynamics (including consumers and businesses "substituting" more expensive tariffed goods with cheaper domestically produced options) are likely already contributing to lowering this rate. Ultimately, the effective tariff rate could fall further to a level that eases pressure on inflation and economic growth, while also still generating enough budget revenue and providing adequate incentives to reshore some manufacturing capacity—policy priorities that President Trump is unlikely to abandon altogether.

FIGURE 1

The U.S. effective tariff rate under different scenarios.



Source: U.S. International Trade Commission, IMF, White House, TIAA Wealth Chief Investment Office.

That said, even a 10% baseline tariff on all goods imported into the U.S. and an approximate 60% tariff on Chinese goods (similar to President Trump's campaign proposal) would cause the effective tariff rate to settle at considerably higher levels than at the end of 2024, potentially generating $600 to $700 billion in tariff revenue. Over the long term, this revenue source would likely shrink should import duties achieve their intended goal of spurring a consumption shift from tariffed imported goods to non-tariffed domestically produced goods. However, this policy adjustment would still be large enough to pose significant upside risks to inflation and downside risks to economic growth over the medium-term.

A commonly shared rule of thumb suggests that every 1% increase in the effective tariff rate could raise core Personal Consumption Expenditures (PCE) inflation by 0.1%. As a result, upside risks to core inflation might range from 1% to almost 2%, which would push core PCE to at least 3.5% year-over-year (YoY) at its peak in the second half of 2025. At the same time, Gross Domestic Product (GDP) growth may come under pressure via three primary channels: lower consumption in response to higher prices; subdued business sentiment, limiting employment growth and capital expenditures; and falling equity market prices eroding consumer confidence, especially for high-income households.

Heightened protectionism could also reduce the long-term demand for U.S. assets by foreign investors. This could be an intentional reaction by non-U.S. investors to diminished U.S. economic exceptionalism. It could also be an indirect byproduct of a smaller trade deficit. Foreign countries exporting fewer goods to the U.S. means fewer U.S. dollars being sent overseas to pay for them. Historically, a lot of those dollars wind up reinvested in U.S. stocks, bonds, and real estate, which supports prices of those assets.

Fiscal Policy

President Trump's campaign pledges to extend the expiring provisions of the 2017 Tax Cuts and Jobs Act (TCJA) and implement new individual and corporate tax cuts were main drivers of equity market optimism following the November 2024 election. Fiscal policy, however, has played a much more muted and secondary role during the administration's first 100 days. In particular:

- Optimism for tax cuts eventually materializing in the second half of 2025 has likely partly buffered the negative impact of uncertainty on financial markets.
- Fiscal policy and trade policy increasingly appear as two sides of the same coin, as discussed above. Tariff revenue is likely to become a key "pay-for" that the administration could use to convince the fiscal hawks in Congress to pass a multi-trillion-dollar package inclusive of both TCJA extensions and new tax cuts.

Congress is seeking to enact President Trump's key tax reform priorities via the reconciliation process, which allows the Senate to forgo the 60-vote filibuster requirement so the bill will not need Democrats' support. While we expect the bill to become law, the timing of when this will happen remains uncertain. During Trump's first 100 days, Congress concluded the first step of this process: adoption of a budget resolution by both the House and Senate. Among other things, the Senate budget resolution (which was ultimately adopted by the House) instructs the Senate Finance Committee to increase the budget deficit over the next decade by no more than $1.5 trillion. However, this number deliberately excludes the costs of extending the expiring TCJA provisions. That means the actual budget impact of the tax cuts could be closer to $6 trillion in additional deficits over the next decade, according to the Committee for a Responsible Federal Budget.[1] This is significantly higher than the original House budget resolution, which would have allowed for a smaller $2.8-$3.3 trillion in additional deficits.

While tax cuts could represent a positive development for the economy and markets near-term, we see a few reasons why risks could be two-sided:

- The stimulus effect of tax cuts could be much smaller than in 2017, given that around $4.5 trillion out of the total $6 trillion in additional deficit over the next decade would stem from the extension of existing tax cuts, thus providing little incremental benefit to consumers.
- The Committee for a Responsible Federal Budget estimates that the Senate instructions would cause the ratio of U.S. debt held by the public to GDP to spike from around 100% today to 211% over the next 30 years, compared to the 156% current baseline projection by the Congressional Budget Office (CBO). Based on how negotiations within Congress evolve over the next few months, markets could begin to express increased fiscal sustainability concerns—concerns that could translate to higher bond yields, lower equity valuations or a weaker U.S. dollar. These are risks that we are monitoring closely, and the recent rise in the U.S. Treasury term premium (the compensation that investors seek to invest in long-term bonds rather than less volatile short-term bonds) suggests that this dynamic could already be in motion (Figure 2).
- The government's initial focus on slashing budget spending (run primarily through DOGE) seems to have fizzled, and the U.S. Treasury's daily data shows that budget outlays are approximately 3% higher than they were at the same point last year. However, there remains a strong contingent both within Congress and the White House that is likely to push for more sizeable cuts. These could reduce fiscal concerns, but with risks to the economy, given that many of the targeted spending categories (including federal jobs, food stamps, Medicaid, federal contracts and

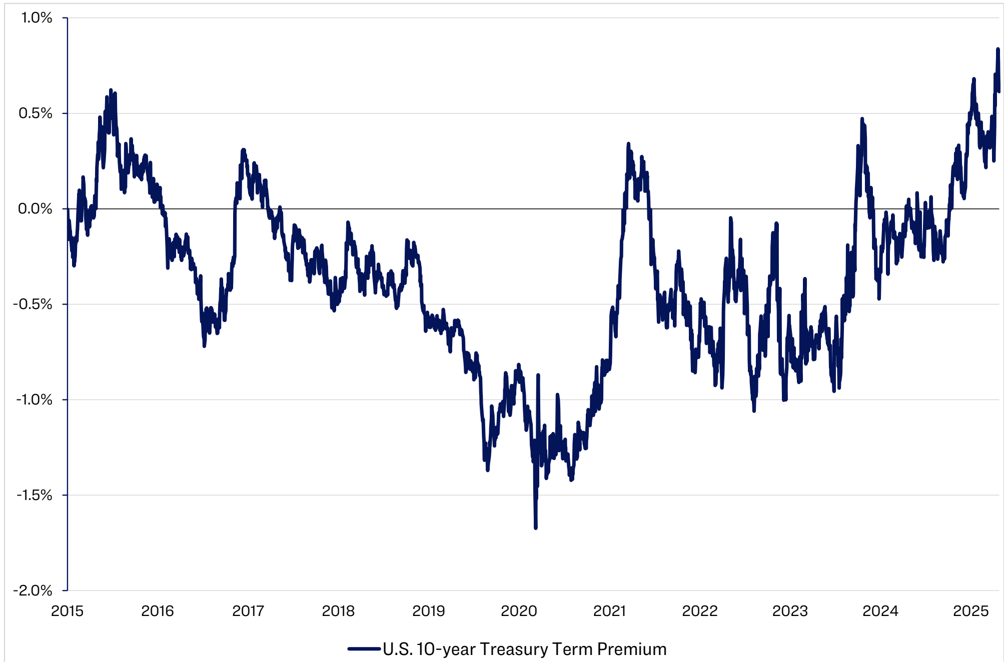
1 What's in the Senate's Concurrent FY 2025 Budget? (2025-04-03)

grants, and transfers to state and local government administrations) play a key role in directly or indirectly supporting the U.S. private sector.

We think a shift from trade policy to fiscal policy by the Trump administration in the second half of the year could be a welcome development for investors in search of short-term offsets to rising risks to the U.S. economy, and part of this optimism could already be reflected in the more positive equity price action since mid-April. However, we remain cautious, recognizing that the impact may not be unequivocally positive over the medium term.

FIGURE 2

The 10-year Treasury Term Premium has been rising.



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

Immigration Policy

Long-term economic growth is the byproduct of two key factors: working-age population growth and productivity growth. Expectations for continued U.S. economic exceptionalism have long been rooted in more favorable demographics relative to other key economies. The most recent CBO population projections[2] estimate that the U.S. working-age population will grow at around 6% over the next 30 years, compared to a decline of 15%–25% in Japan, the Eurozone and China.[3] However, the CBO also estimates that, without the contribution of immigration, the working-age population would instead shrink.

In addition to growing the workforce long-term, net immigration has also been a key driver of short-term economic performance. In 2023 and 2024, strong immigration flows represented a crucial positive "supply shock" for the U.S. economy, one that not only boosted consumer spending but also led to a more balanced labor market and lower wage inflation (which in turn allowed the Federal Reserve to start cutting rates in September 2024).

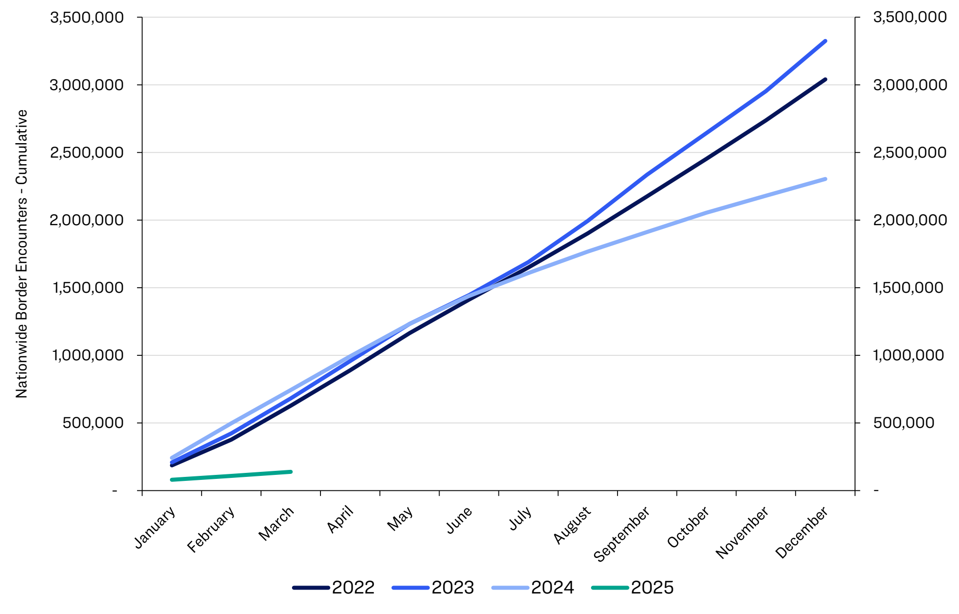
These dynamics have reversed over the first 100 days of the Trump administration. Efforts to curtail immigration, increase deportations, and potentially cancel protected status programs (asylum seekers and refugees, categorized under Lawful Permanent Residents) make it likely that the CBO projections (estimating 2.3 million undocumented immigrants and 3.3 million lawful immigrants over the next 4 years) could already be outdated. Even before accounting for data on deportations

2 Published on January 13, 2025
3 World Bank data

(which has not yet been updated by official sources in 2025), data from the U.S. Customs and Border Protection agency shows that nationwide encounters with undocumented immigrants have dropped from a monthly average of 192,000 in 2024 to a monthly average of 29,000 in February and March this year (Figure 3).

FIGURE 3

Undocumented immigration has already been significantly curtailed.



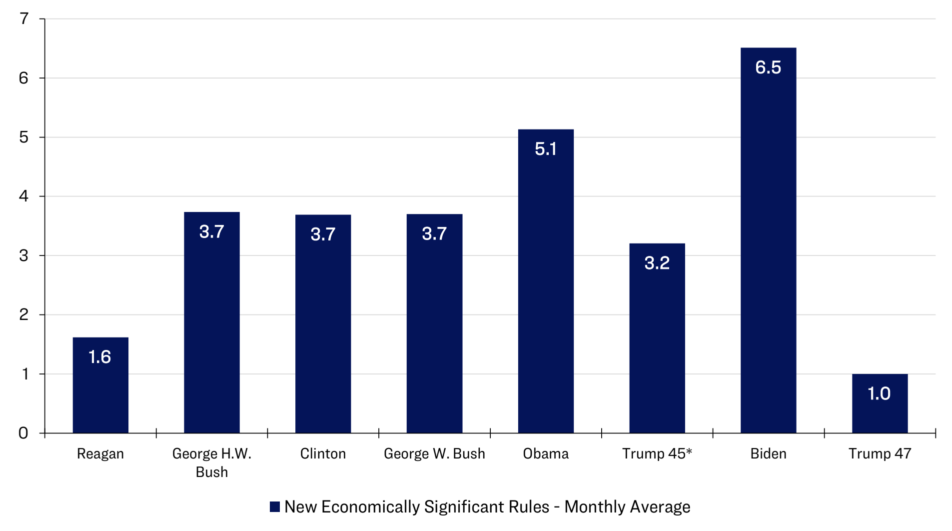
Source: U.S. Customs and Border Protection Agency, TIAA Wealth Chief Investment Office.

Deregulation

Deregulation efforts—in our view the most promising part of President Trump's economic agenda—have taken the backseat to other policy priorities during the first 100 days of the new administration. While the pace of issuance of new "economically significant rules,"[4] as tracked by the George Washington University's Regulatory Studies Center, has slowed notably, there's yet to be a net reduction of federal regulations (Figure 4). However, there are reasons to be optimistic. On February 19, President Trump mandated federal agencies identify for elimination or modification regulations that are unconstitutional or unlawful. As a result, we could see deregulation acceleration as the year progresses. The positive impact of deregulation, specifically on productivity growth, may depend on what sectors will benefit the most, and it could take some time to materialize.

FIGURE 4

Monthly average of newly issued economically significant rules.



*Excluding 2020 due to the impact of Covid. Source: GW Regulatory Studies Center, TIAA Wealth Chief Investment Office.

4 Economically significant rules are regulations issued by executive branch agencies that are deemed as likely to have an annual effect on the economy of $100 million or more or adversely affect in a material way the economy, a sector of the economy, productivity, competition, jobs, the environment, public health or safety, or State, local, or tribal governments or communities.

Conclusions

After a chaotic 100 days, we see more opportunities over the next few months for de-escalation of tensions between the U.S. and key trading partners (including China) and for the Trump administration to pivot to fiscal policy and deregulation. However, there are reasons for investors to remain vigilant:

- While tariff rates might have peaked, their impact on the U.S. and global economies has yet to fully materialize. We are observing a significant deterioration in consumer and business sentiment. We are closely monitoring how labor market conditions, inflation, household spending and corporate earnings respond.
- The policy shift ushered in by President Trump during the first 100 days of his administration could have broad ramifications across global economies, and more data is required to assess risks and opportunities.
- More tax cuts may not be unequivocally positive for the U.S. economy, especially if it draws attention to the long-term sustainability of the U.S. debt position. The positive fiscal stimulus would need to be weighed against the risk that fiscal sustainability concerns could prompt investors to demand a higher risk premium to invest in U.S. assets.

Against this backdrop, our view is that it will take time for investors to gain confidence in any particular outlook. The range of possible scenarios may remain wide for the foreseeable future, with risks tilted to the downside. In this environment, we continue to hold our longstanding view that market volatility is likely to remain elevated, that bond yields should remain biased to the downside (but with rising risks that fiscal concerns could resurface and that U.S. protectionism could drive investors to seek marginally higher diversification than just U.S. Treasuries), while equities and credit spreads could continue to be whipsawed until hard data either confirms or allays rising concerns about the durability of the current business cycle.

That said, we reiterate the importance of remaining anchored to and invested in one's financial plan. For long-term investors, time in the market is far more important than attempting to time the market. Opportunities for investment gains increase over time and since 1926, S&P 500 returns have been positive 79% of the time over a 12-month holding periods, 99% of the time over an 8-year holding periods, and 100% of the time over a 15-year holding periods.[5]

5 On a daily basis, the stock market is akin to a coin toss in terms of gains versus losses. However, the further you extend your investment time horizon, the higher the chance of experiencing gains. Source: Morningstar Direct, Bloomberg, TIAA Wealth Chief Investment Office. S&P 500 TR USD: IA SBBI U.S. Large Stock TR USD Ext from 1926-1970; S&P 500 TR USD thereafter. S&P 500 Price Return (PR). Daily data, from 1/1/1950 – 12/31/2024; daily, monthly and various annual holding periods.

CIO PERSPECTIVES

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