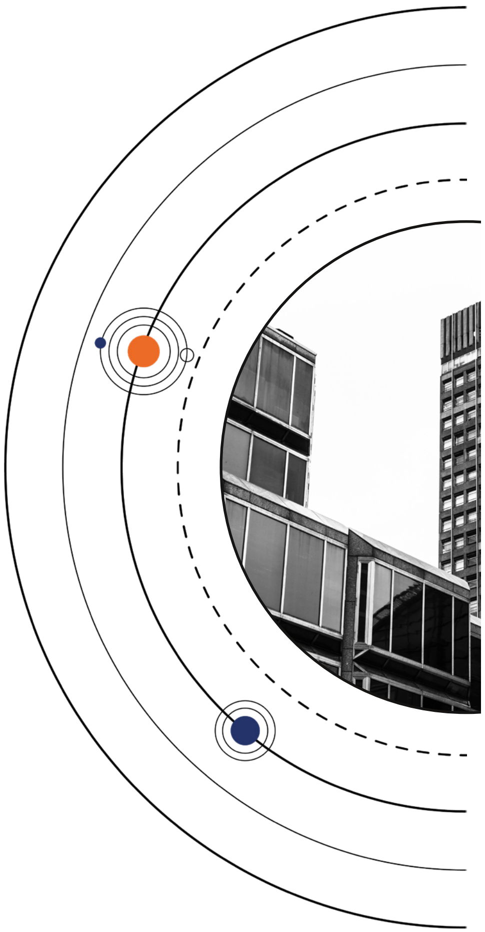
SVN RESEARCH

State of the Market Report

MACROECONOMY & LABOR ENVIRONMENT | 2025

Macroeconomy & Labor



The Fed appears to have nailed its soft landing as inflation pressures gradually ease, and the US labor market continues to defy skeptics. As 2025 kicked off, real estate investors and operators were positioned for an upturn, while America's CEOs are hopeful about the potential pro-business tax and regulatory policies proposed by the new administration.

Paradoxically, market uncertainty is higher today than one year ago. Curbs on trade and immigration cast doubt on our disinflationary path, while growth and deficit concerns are placing upward pressure on borrowing rates for US debt.

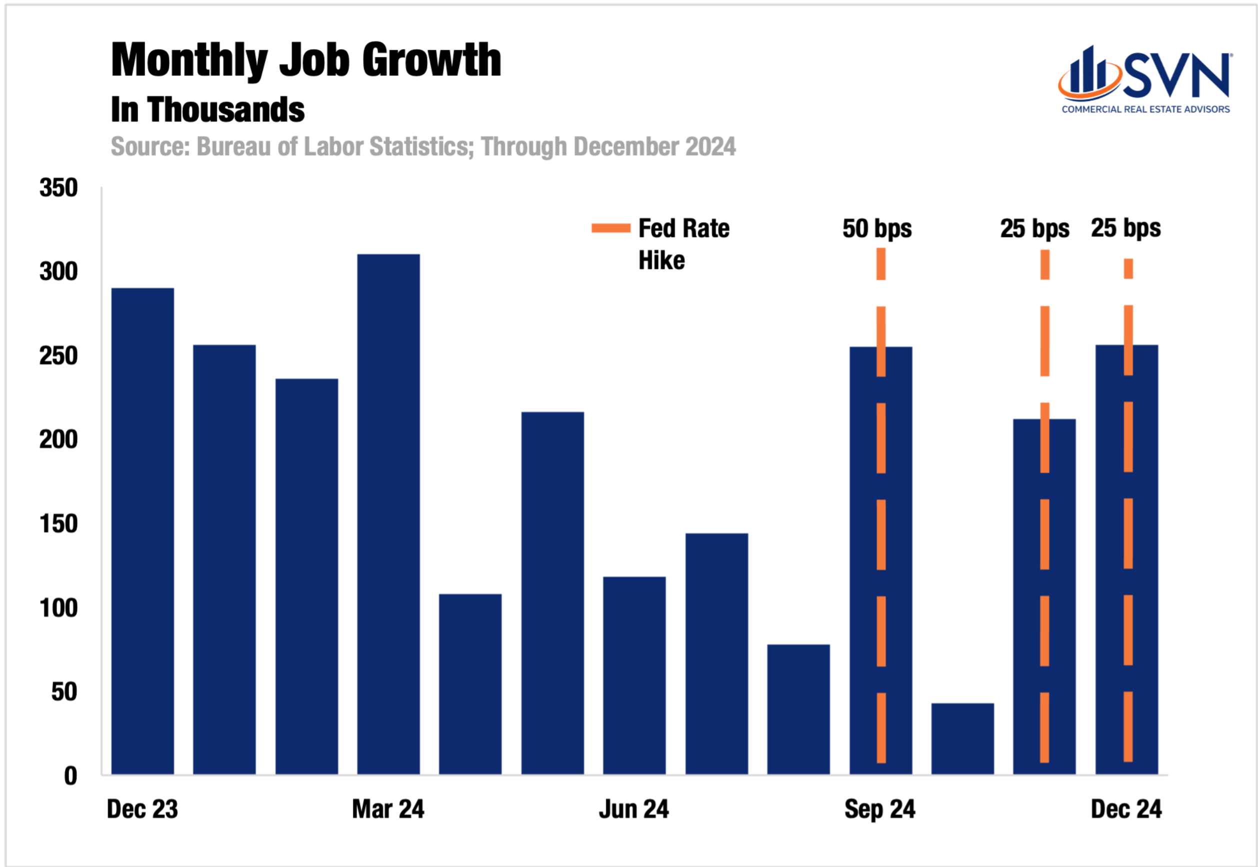
As of the writing of this year's SVN State of The Market Update, 25% tariffs on America's two largest trading partners were rolled out, then delayed for 30 days. Whether to view the looming tariffs as a negotiation tool or a permanent policy shift stumps even the most discerning game theorists, and the broader implications remain highly uncertain.

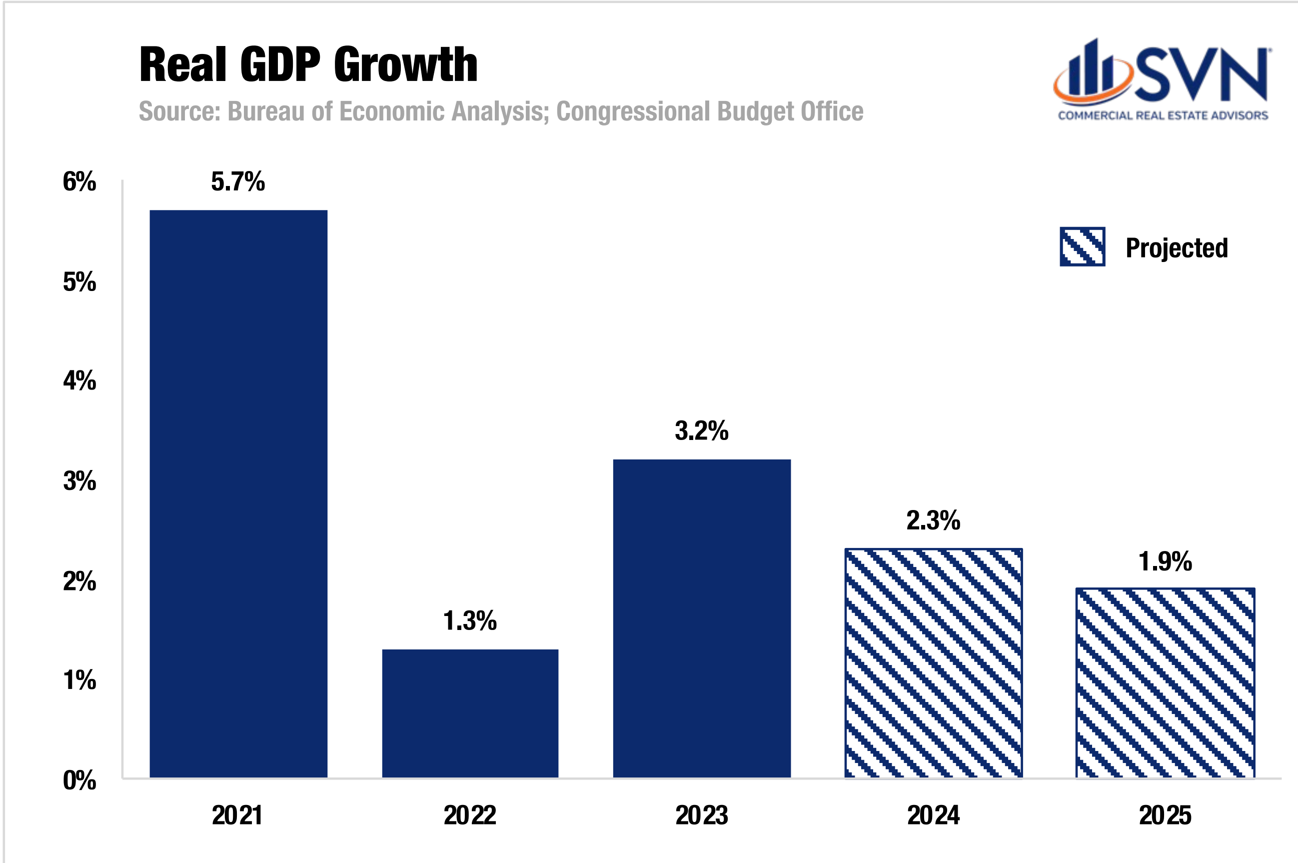
The uncertainty has left key stakeholders — including the FOMC, industry leaders, and consumers — stuck in wait-and-see mode as they assess the potential ripple effects. Nonetheless, if anything is certain, it's that in uncertain waters, the US economy remains at the helm.

Economic Growth & Labor Markets

Rapid rate increases in 2022 and 2023 successfully dampened inflation pressures, but by mid-2024, the health of the US labor market appeared at risk. In response, the Fed shifted its focus toward the maximum employment leg of its dual mandate, cutting rates three times between September and December.

The labor market has proven resilient in the months since the Fed's pivot. After a post-pandemic low of just 78k new jobs created in October 2024, US firms added over 200k jobs to their payroll in both November and December. At the same time, unemployment measures, including the headline rate and one that includes discouraged, marginally attached, and part-time workers for economic reasons, also ticked down to close the year.

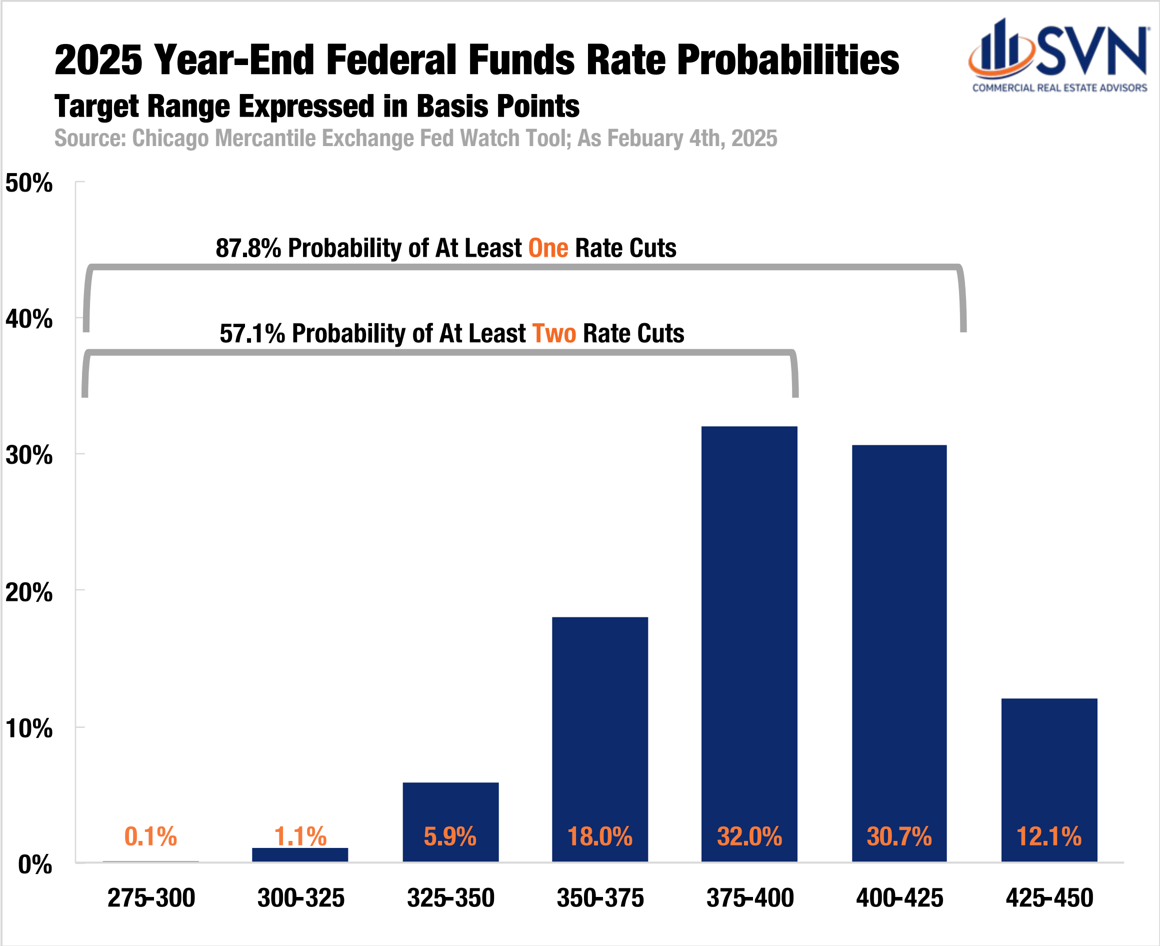




US economic growth is projected to cool in 2025 but remains robust. According to estimates from the non-partisan Congressional Budget Office (CBO), 2024 year-end growth is forecast to land at 2.3% before falling to 1.9% in 2025.

Interest Rate Outlook

The CBO estimate for 2025 growth, which includes economic developments through December 4th, 2024, and legislative actions through January 6th, 2025, expects unemployment to rise and inflation to fall. However, also included in these forecasts is the expectation that the Federal Funds and 10-year Treasury rates will fall to 3.7% and 4.0%, respectively.



Currently, futures markets align with CBO projections of the path of Fed policy, but there is significant variation in the forecasts, highlighting the uncertain outlook. According to the Chicago Mercantile Exchange's Fed Watch Tool, as of February 4th, the median forecast for the year-end Federal Funds rate level is 3.75%-4.00%, and there is only a narrow consensus (57.1% probability) that the Fed will cut rates at least twice in 2025.

Furthermore, the upward pressure on US Treasury rates should not be taken lightly. As a recent analysis from Fitch points out, government bond yields have continued to rise despite major central banks cutting rates. On balance, this development suggests that non-Fed policy considerations are significantly influencing borrowing rates.

Mortgage rates tell a similar story. The Fed's pivot to rate cuts caused the average rate on a 30-year fixed-rate mortgage to fall to 6.1% in late September—a two-year low. However, since late January, mortgage rates have climbed back to around 7.0%.

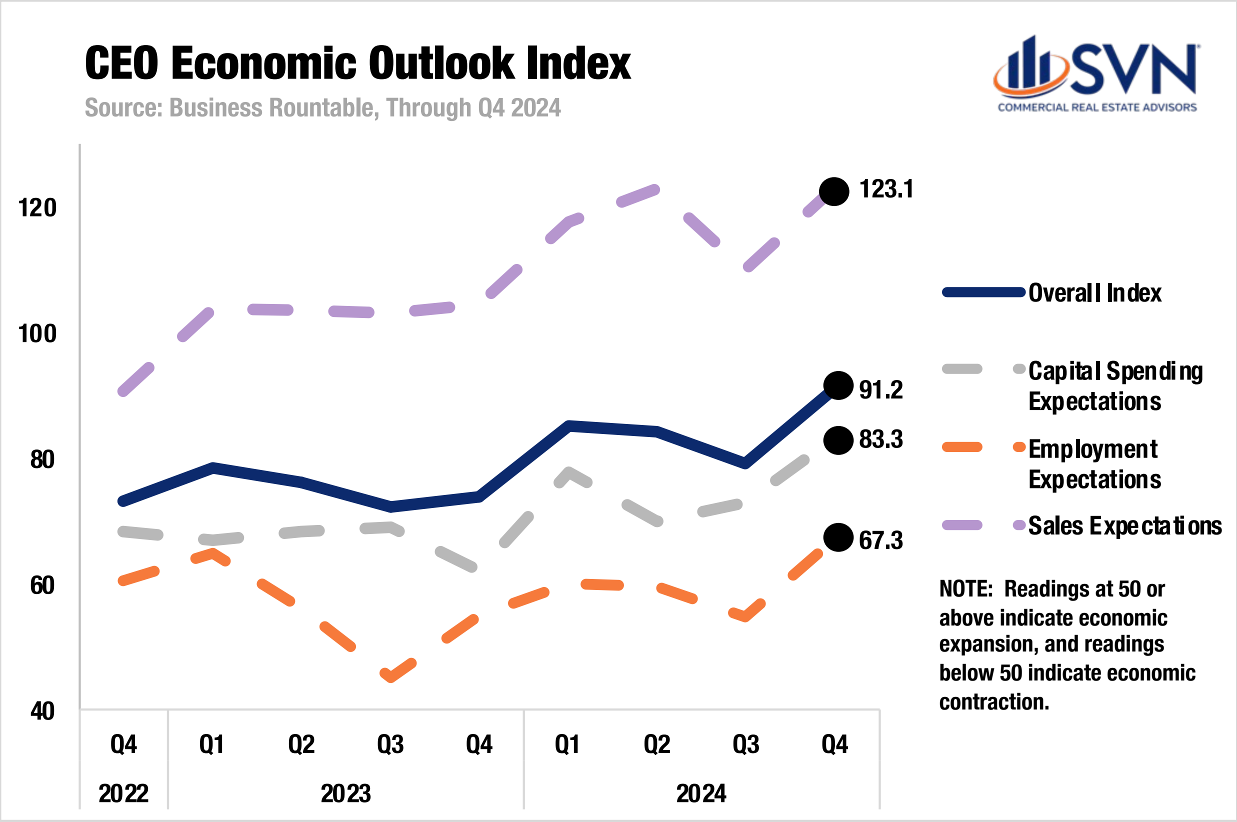
As alluded to earlier, concerns surrounding US debt and inflation are the chief culprits behind the upward pressure on rates. Sustained tariffs threaten to push up inflation and stop the Fed's path of easing, while an expected extension of the 2017 Tax Cuts and Jobs Act would keep the deficit high.

Revenues from tariff duties, congressional spending cuts, or a growth bump from deregulation could eventually reduce the deficit, but the obscurity of these proposals makes projections a futile effort. Looking down the pipe of 2025, Treasury rates will be a key leading indicator for understanding the growth and liquidity environment.

Main Street's Take

Main Street CEOs are increasingly optimistic about the path of the US economy, driven by the hope that Washington will ease the tax and regulatory environment, in turn driving investment and job creation.

According to Business Roundtable's [Q4 2024 CEO Economic Outlook Survey](), executives are the most optimistic they have been in over two years. Their optimism is reflected across multiple domains, with a higher share of executives planning to hire, expand capital investments, and expect higher sales.



The Real Estate Industry entered 2025 with a similar sentiment. According to ULI-PwC's 2025 Emerging Trends in Real Estate, the Fed's autumn pivot sent investors a powerful signal that financial conditions are expected to improve. 65%

of industry investors and operators surveyed in the report foresaw “good-to-excellent” profitability prospects for 2025, a jump above the 41.3% share with such optimism coming into 2024.

However, these sentiment indices largely reflect how executives and investors felt near the end of 2024, and alternatively, more recent sentiment measures paint a more sober picture. US consumer confidence fell to begin the year, with Americans’ near-term expectations for income, business, and the job market each declining. Overall economic optimism has also retreated to start the year following a post-election bump in November and December.

After several years of trekking through uncharted waters, today’s economic environment seems like an inviting swim, but plenty of things in the ocean can cause a tide. As in every market environment, the supply and demand dynamics of the industry remain fundamental to its outlook.

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