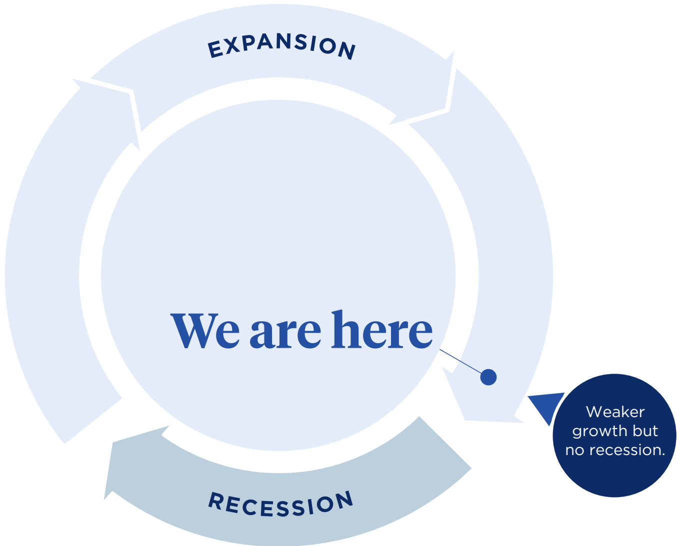
Economic Watch | June 2025

High uncertainty in U.S. & abroad

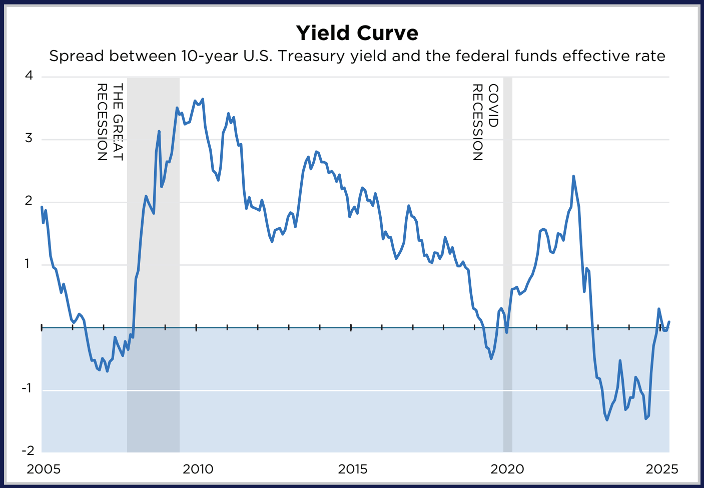


The post-tariff consumer and trade data experience whiplash as the pull-forward of consumer and business purchases in March predictably led to substantially lower demand in April. Peak uncertainty regarding tariffs is likely behind us, but businesses maintain a cautious approach as they deal with ongoing heightened uncertainty, higher costs, and the prospect of weaker demand going forward. The outbreak of war between Israel and Iran and associated geopolitical risks add another layer of uncertainty and shock to the global economy, oil prices, and financial markets. The Federal Reserve remains in a wait-and-see mode as it continues to evaluate the effects of tariff, immigration, and fiscal policy changes and now fresh geopolitical risks.

Economic Overview

Long-term rates climb higher

The yield curve steepened from mid-May into June, as long-term Treasury yields climbed while short-term rates held steady. The 10-year Treasury rate began rising in late April, driven in part by a higher term premium and renewed concerns over the federal deficit and debt outlook following the passage of the "One Big Beautiful Bill Act." Looking ahead, long-term interest rates are expected to stay elevated through 2025 and into 2026. We don't expect the Federal Reserve to begin cutting interest rates until September, as policymakers continue to evaluate how recent policy changes are affecting consumer spending, the labor market, and inflation.

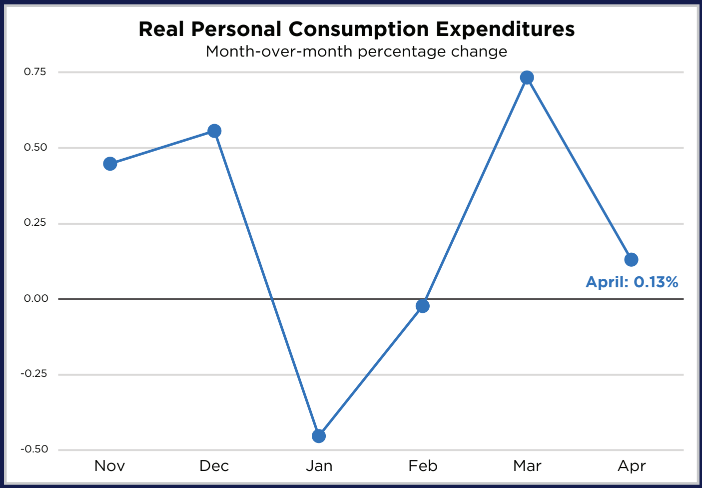


Source: Bloomberg, National Bureau of Economic Research

Economic Overview

Consumers pull back after pre-tariff splurge

Real consumer spending slowed sharply in April, rising just 0.1% after a frontloaded surge in March ahead of tariff changes. We expect spending to remain subdued in the coming months. The pullback was especially noticeable in goods, which contracted by 0.2% following a 1.5% spike in March. Services spending, less sensitive to tariffs, remained more stable and didn't show the same pre- and post-tariff swings. Looking ahead, we anticipate a slower pace of consumer spending in the second half of the year. This reflects payback from the March surge, a cooling labor market, softer wage growth, and the gradual pass-through of higher tariff-related costs into consumer prices.

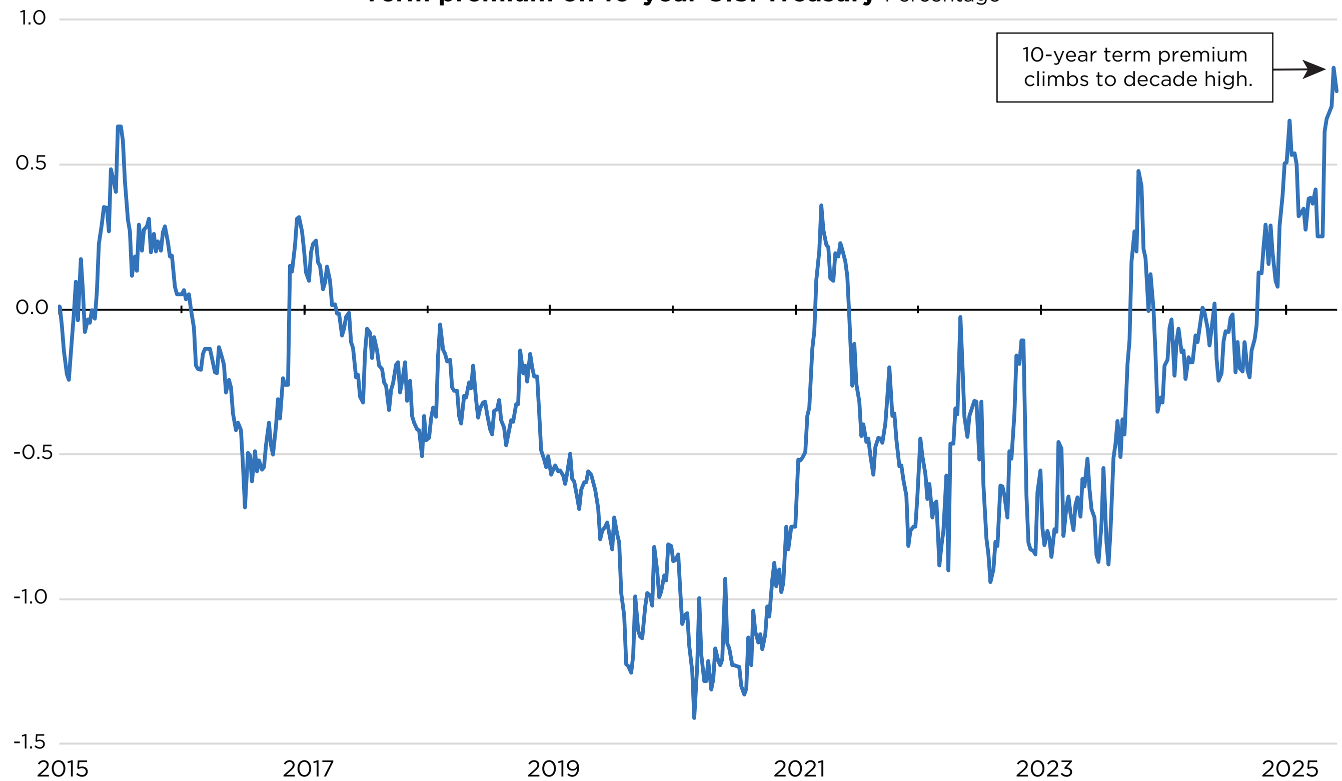


Source: Bureau of Economic Analysis

Outlook: Bond investors worry about fiscal policy

Investor concerns about the federal government's fiscal outlook are growing as the "One Big Beautiful Bill" moves through Congress. The term premium on 10-year U.S. Treasuries—the extra yield investors demand to hold long-term debt—has climbed to its highest level in a decade. This rise partly reflects unease over the bill's potential fiscal impact, including proposals to make the 2017 Tax Cuts and Jobs Act permanent and introduce new stimulus measures. Broader market signals echo these concerns. The U.S. dollar has been weakening on a trade-weighted basis, suggesting that fiscal anxieties are also influencing currency markets.

Term premium on 10-year U.S. Treasury Percentage

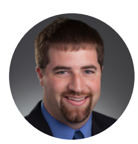


Source: Bloomberg, Nationwide Economics

Contributors

Kathy Bostjancic Chief Economist

Kathy Bostjancic is Senior Vice President and Chief Economist for Nationwide Mutual.



Ben Ayers Senior Economist

Ben Ayers is a Senior Economist with Nationwide Economics, supporting the company's forecasting and macroeconomic analysis functions.

Stay informed with timely insights from Nationwide Economics, offering valuable analysis on the latest economic trends.

Visit https://www.nationwide.com/financial-professionals/topics/market-insights

NFM-24896AO (06/25)