VIEW | SECOND QUARTER 2025

Quarterly economic outlook: Uncertainty reigns supreme.

By: James R. Solloway, CFA, Chief Market Strategist and Senior Portfolio Manager

SEI recently released its second-quarter Economic Outlook. Here is a summary of our key perspectives, focusing on global economic growth, monetary policy, inflation, geopolitics, elections across the globe, and equity markets.

- The first six months of Donald Trump's presidency have been breathtaking as the administration has attempted to disrupt the status quo in many ways—whether in economics, politics, foreign relations, or immigration policy. Remarkably, investors have managed to take all this uncertainty in stride.
- The second quarter is shaping up to be a strong one for inflation-adjusted GDP in the U.S., but that merely reflects the slump in imports. Growth in spending by households and businesses has slowed and inventories are expected to be drawn down. Outside the U.S., there appears to be some improvement in business activity, but shifting trade flows make the data hard to interpret.
- There are plenty of tools available to provide President Trump with the power to impose tariffs on specific industries and countries if the fentanyl, reciprocal, and across-the-board levies are overturned by the courts.
- There are signs that the labor market in the U.S. is softening. While it is not recessionary in character, employment growth has slowed, initial unemployment claims have risen to their highest level in two years, job seekers are reporting that jobs are harder to get, and the quit rate has declined to its lowest level since 2015.
- We still judge the U.S. economy to be near full employment because labor-force growth is slowing in line with employment growth. The Trump administration's crackdown on immigration may lead to an outright decline in the labor force over the next year.
- The improvement in inflation varies across countries and regions, but price pressures have subsided more than we projected at the beginning of the year. SEI believes that further improvements in inflation among the major economies will be limited, although the U.K. and the U.S. are likely to continue to see more elevated inflation than the others owing to stronger wage gains and a larger services sector, where inflation tends to be sticky.
- Although it hasn't shown up yet in the data, the U.S. is likely to sustain a bump-up in its inflation rate as the cost of the tariffs finally are passed through to consumers.
- The U.S. Federal Reserve and the Bank of England have been more reluctant than the Bank of Canada and the European Central Bank to cut their policy rates because inflation, while decelerating, is still elevated and more persistent. Low unemployment rates also encourage a wait-and-see approach. The Bank of Japan, meanwhile, continues to slowly normalize its monetary setting, raising its overnight interest rate while the others are lowering theirs. Global financial stress is low.
- SEI still sees fiscal policy to be on an expansionary track, with the major advanced economies posting general expenditure gains above the inflation rate.
- Geopolitical risk obviously remains elevated, with the latest focus on the Israel-Iran war and America's entry into the fray. Outside of the energy complex, there has been little reaction on the part of financial markets. Since the announcement of a ceasefire, oil prices have fallen back to the levels where they were prior to the start of the war.
- The deep valuation discount outside the U.S. helps even the playing field. SEI is a strong believer in portfolio diversification across geographies as well as across sectors and asset classes. A sustained weakening of the U.S. dollar against other currencies would add to the attractiveness of investing outside the U.S.

A full-length paper is available if you wish to learn more about these timely topics.

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Glossary

Gross domestic product (GDP) is the total monetary or market value of all the goods and services produced in a country during a certain period.

A **tariff** is a tax imposed by the government of a country on imports or exports of goods.

A **reciprocal tariff** is a tax or trade restriction that one country imposes on another in response to similar actions taken by that country, aiming to create balance in trade by mirroring the tariffs or trade barriers imposed by the other nation.

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