

MOODY'S

The U.S. Economic Outlook

Headwinds & Tailwinds

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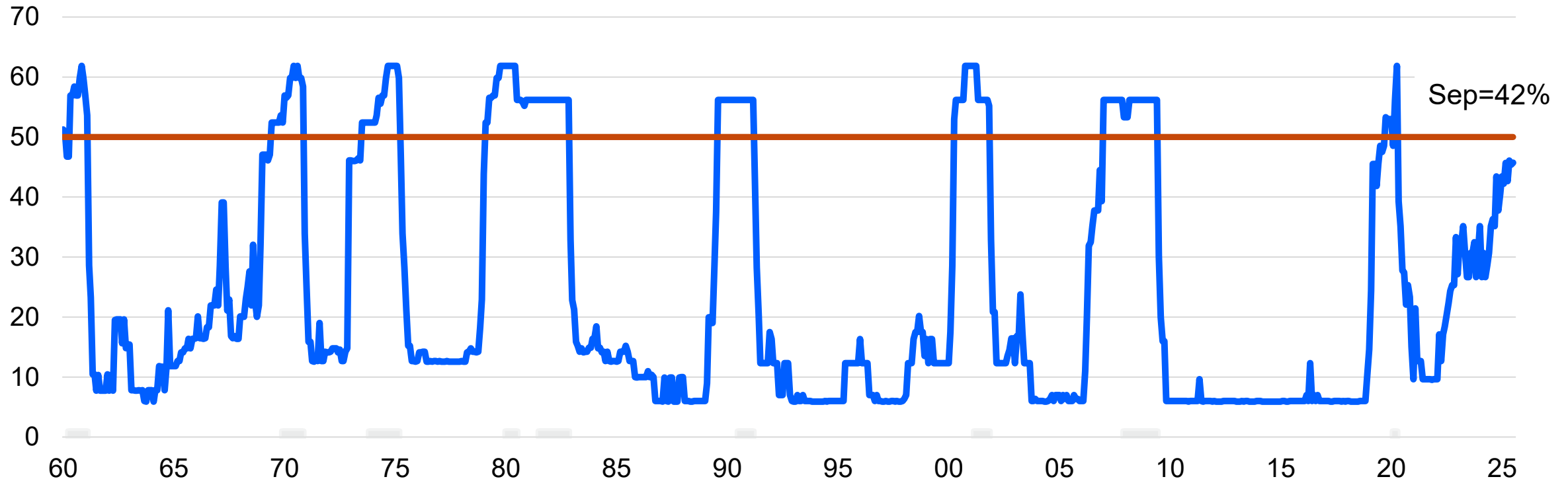
Marisa DiNatale, Senior Director

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December 2025

The Economy Is Struggling but Should Avoid Recession

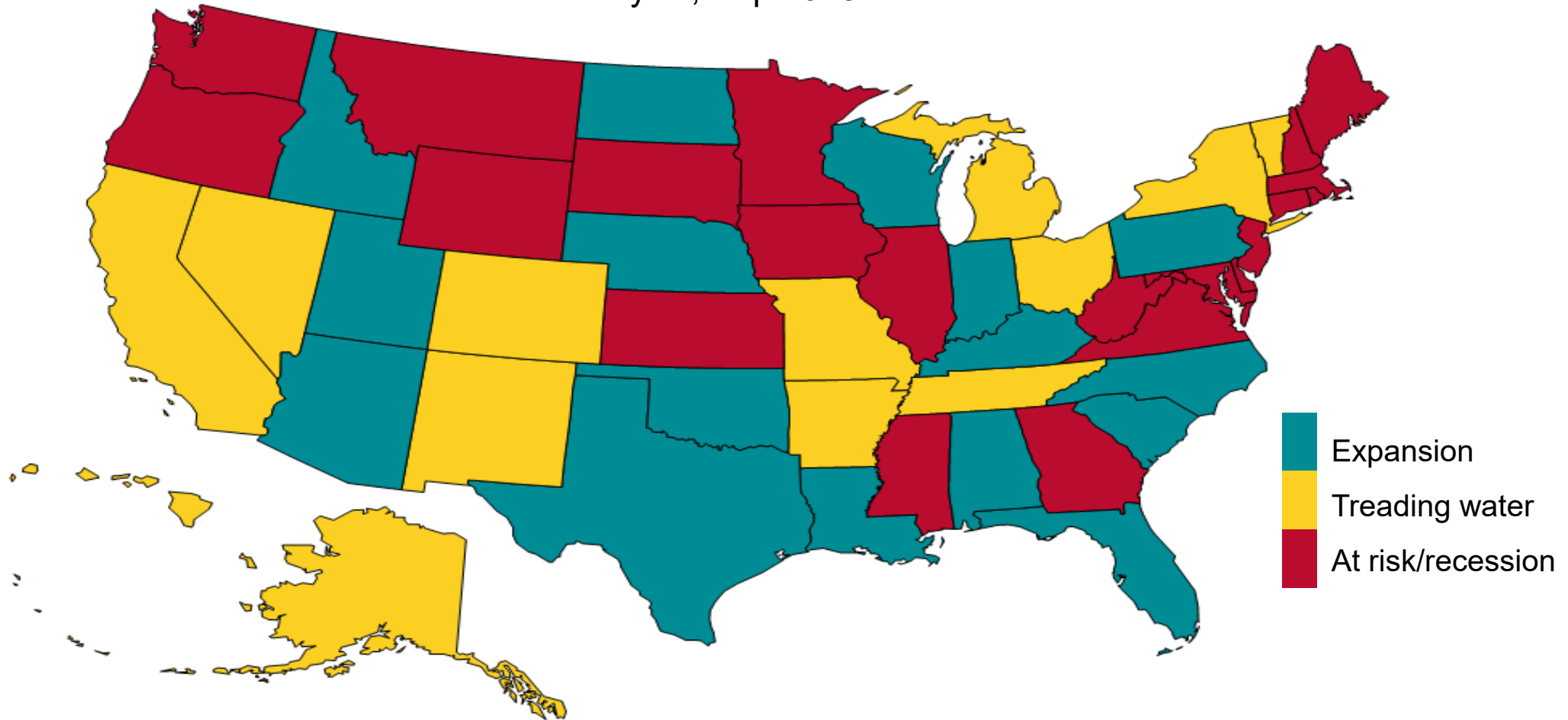
Probability of recession in the next 12 mo, %, based on a machine learning model



Source: Moody's Analytics

Weak Economies From Coast-to-Coast

Where state economies are in their business cycle, Sep 2025



Source: Moody's Analytics

Economic Headwinds & Tailwinds

Projected change in real GDP growth, Q4 to Q4, ppt, Dec 2025 baseline forecast

	2025	2026
Real GDP growth, %	1.69	2.05
<i>Change in real GDP growth</i>	<i>-0.71</i>	<i>0.36</i>
Deglobalization	-1.20	-0.99
Tariffs & trade restrictions	-0.51	-0.57
Restrictive Immigration Policy	-0.69	-0.42
Artificial intelligence	0.62	0.71
Capital investment	0.21	0.33
Stock wealth effects	0.41	0.38
Economic policy	-0.08	0.59
Monetary policy	0.16	0.25
Fiscal policy	-0.24	0.34
Other factors	-0.05	0.05

Source: Moody's Analytics

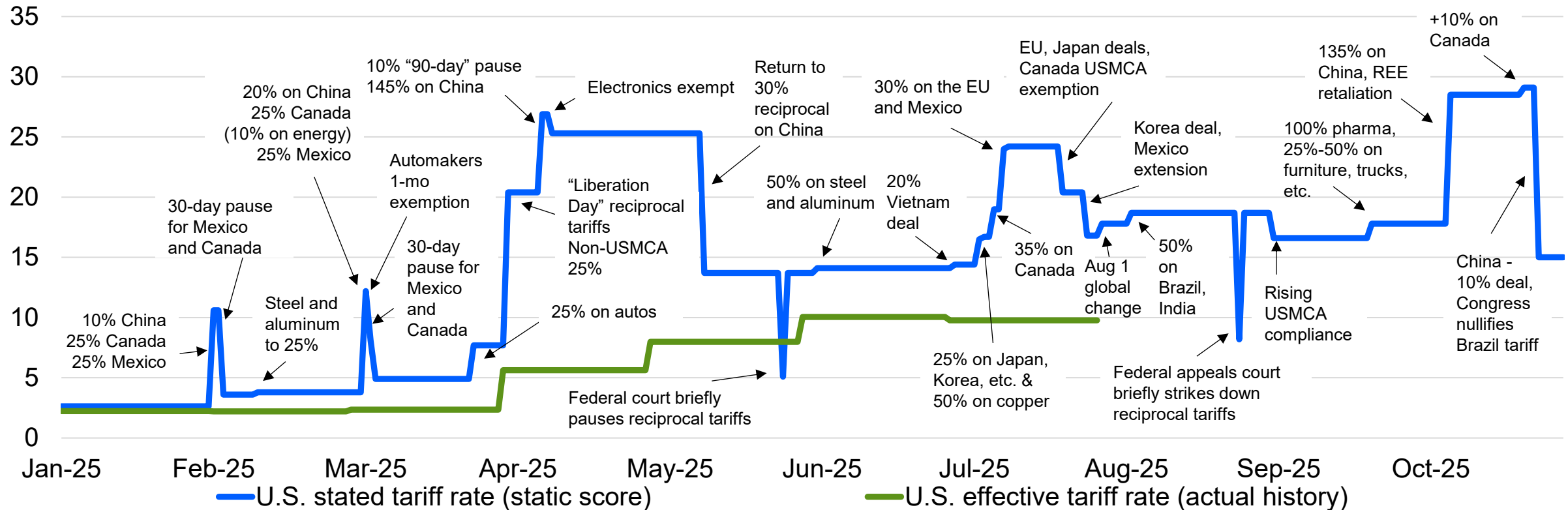
The background of the slide is a solid dark blue. Overlaid on this are several layers of thin, light blue lines that form a complex, wavy, and somewhat chaotic pattern. These lines create a sense of movement and depth, resembling a stylized representation of waves or a topographical map. The pattern is most dense on the left side and fades slightly towards the right.

1

Deglobalization Headwinds

Tariffs Move Steadily Higher...

U.S. tariff rate, %

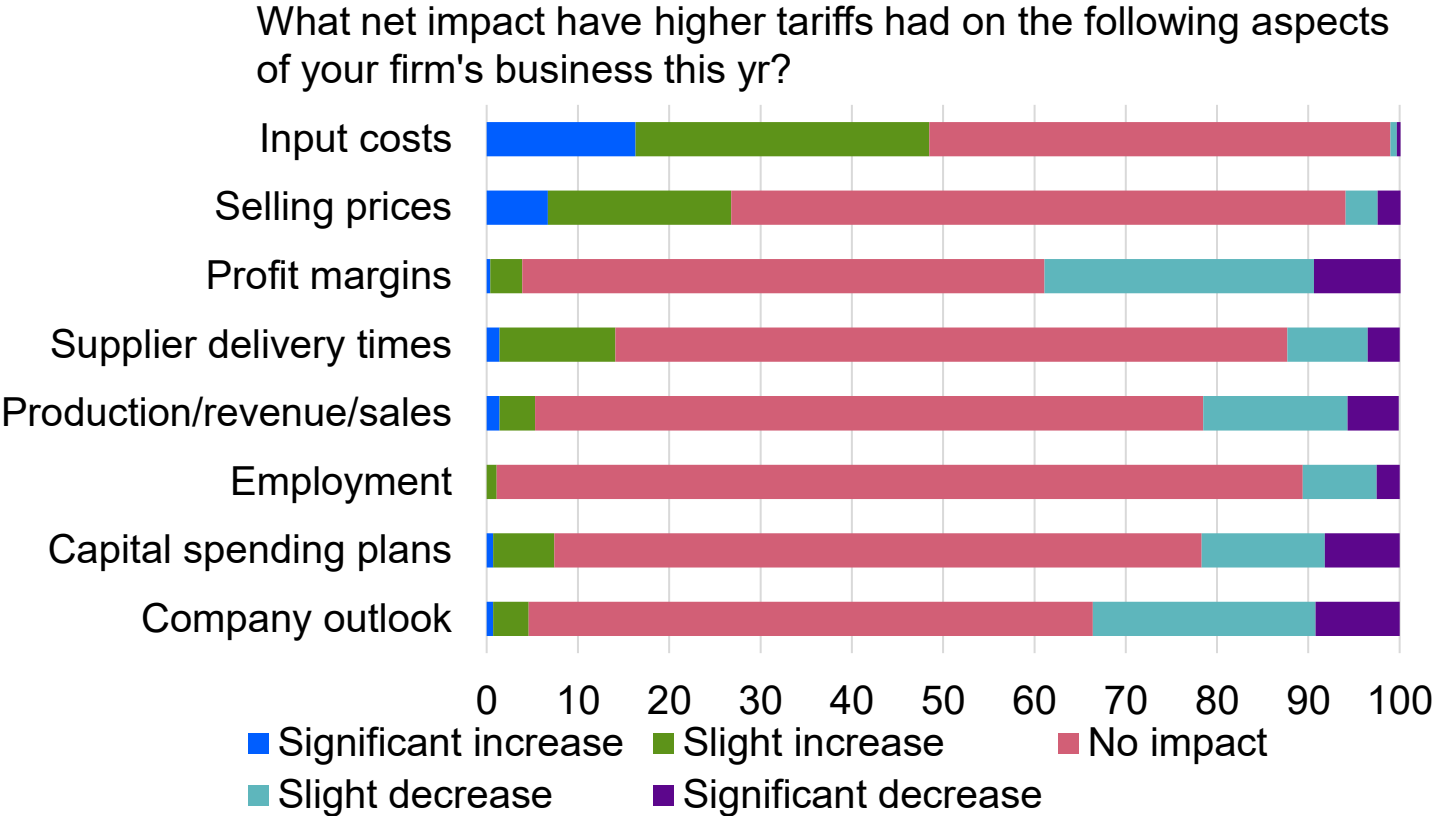
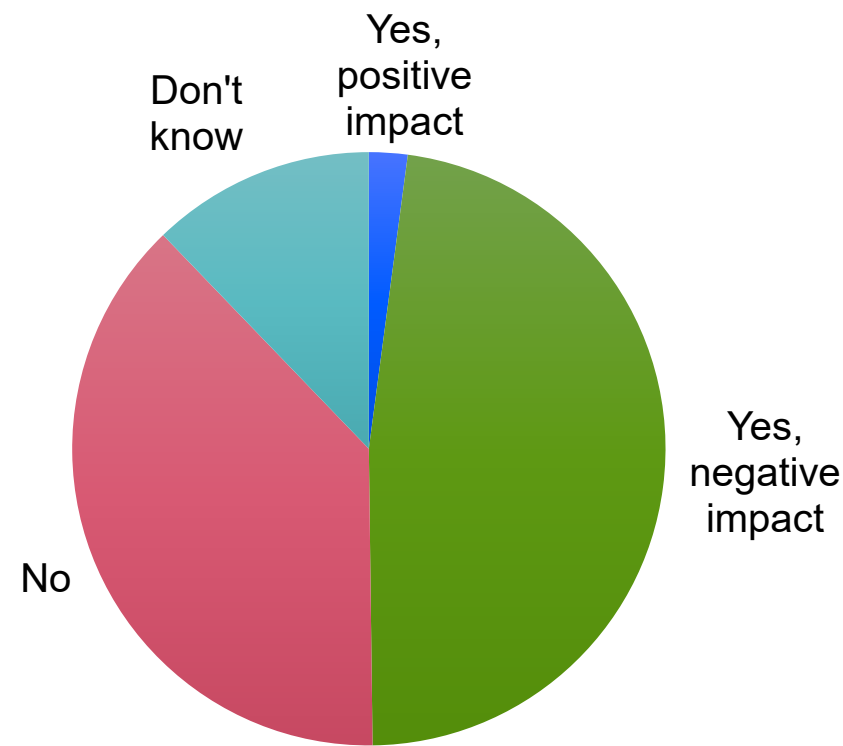


Timing based on tariff announcements, not implementation. Jun tariff rate is estimated.

Sources: BEA, Census Bureau, AP News, Moody's Analytics

...Hitting Consumers & Businesses

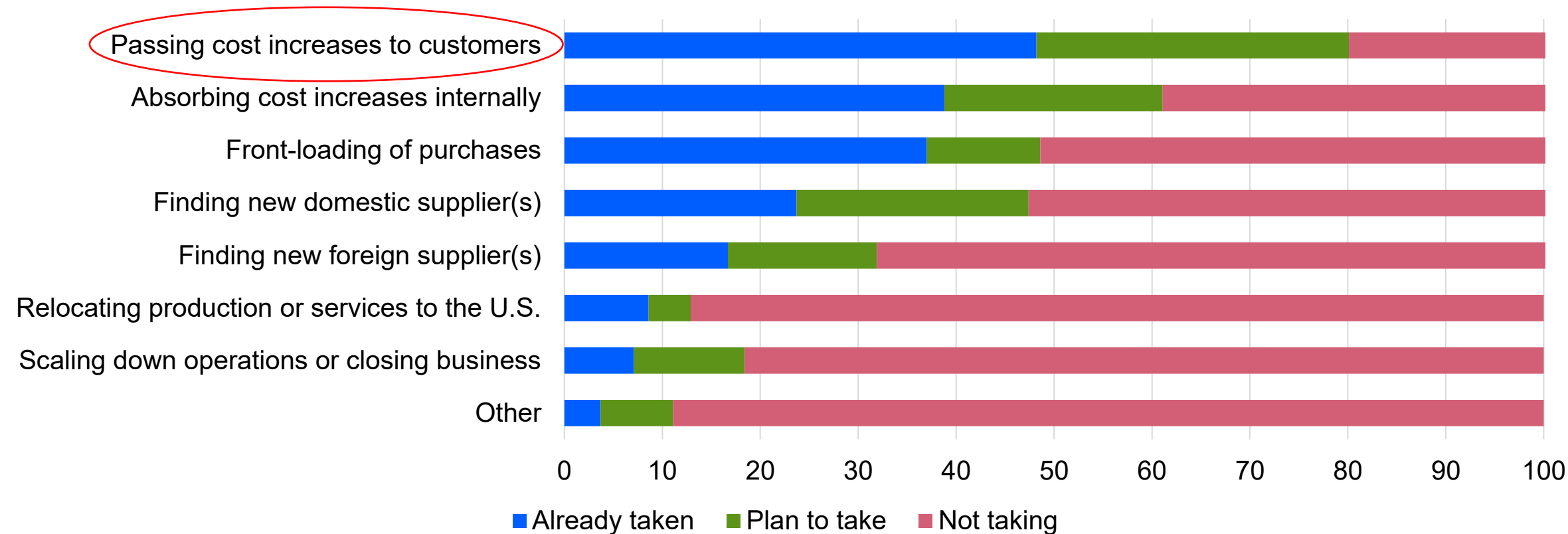
Share of businesses reporting impact of higher tariffs this yr, %, Aug 2025 survey



Sources: Dallas Fed, Moody's Analytics

More Consumer Price Increases Coming

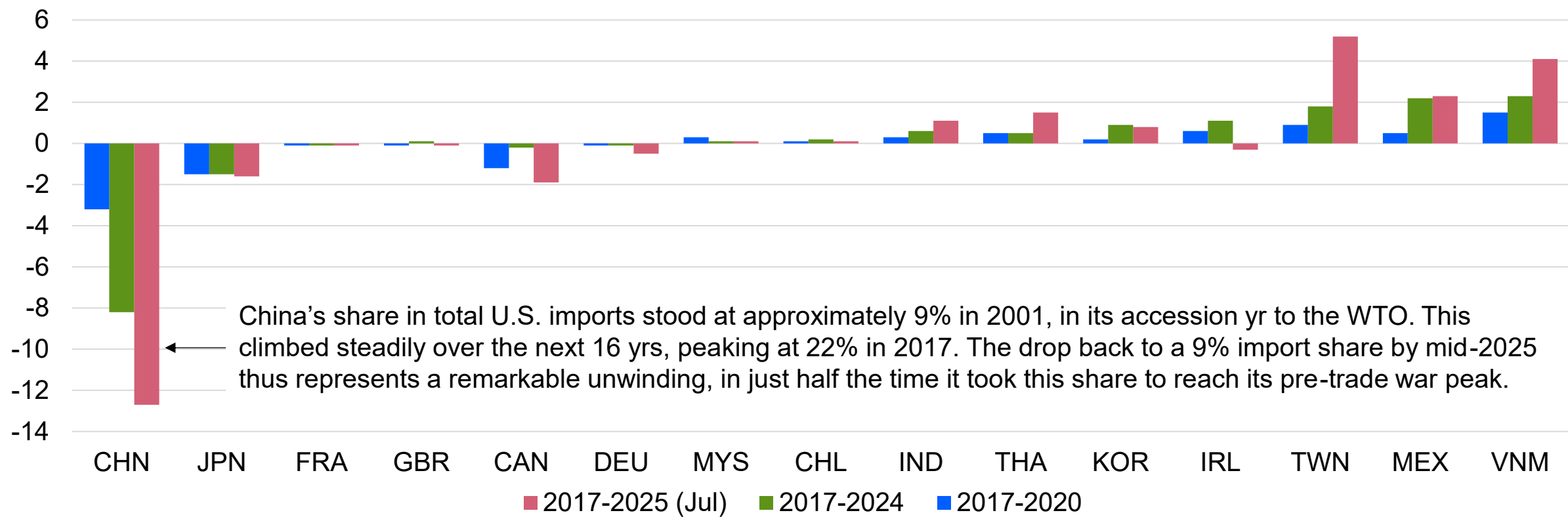
Actions firms are taking in response to higher tariffs, %, Aug 2025 survey



Sources: Dallas Fed, Moody's Analytics

Tariffs Accelerate Import Shift From China to Vietnam, Mexico and Taiwan

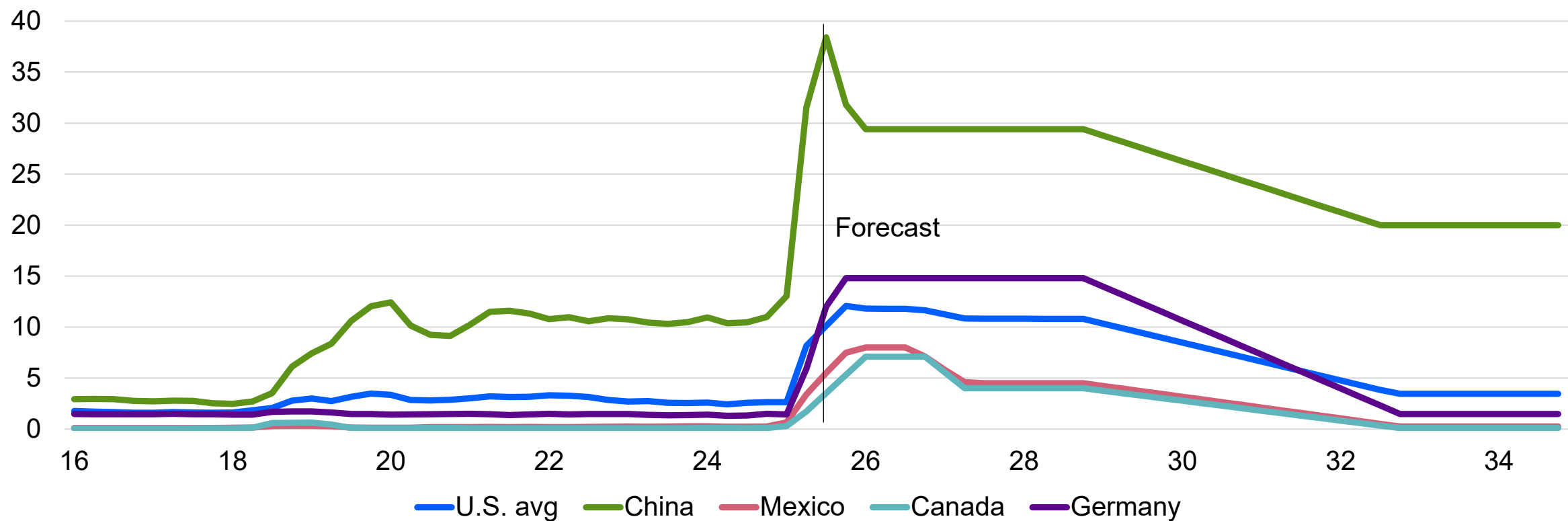
Changes in U.S. import shares across trade partners since 2017, pts



Sources: “An Anatomy of the Great Reallocation in U.S. Supply Chain Trade,” Laura Alfaro and Davin Chor, NBER, 2025, Moody’s Analytics

Tariffs Are Peaking

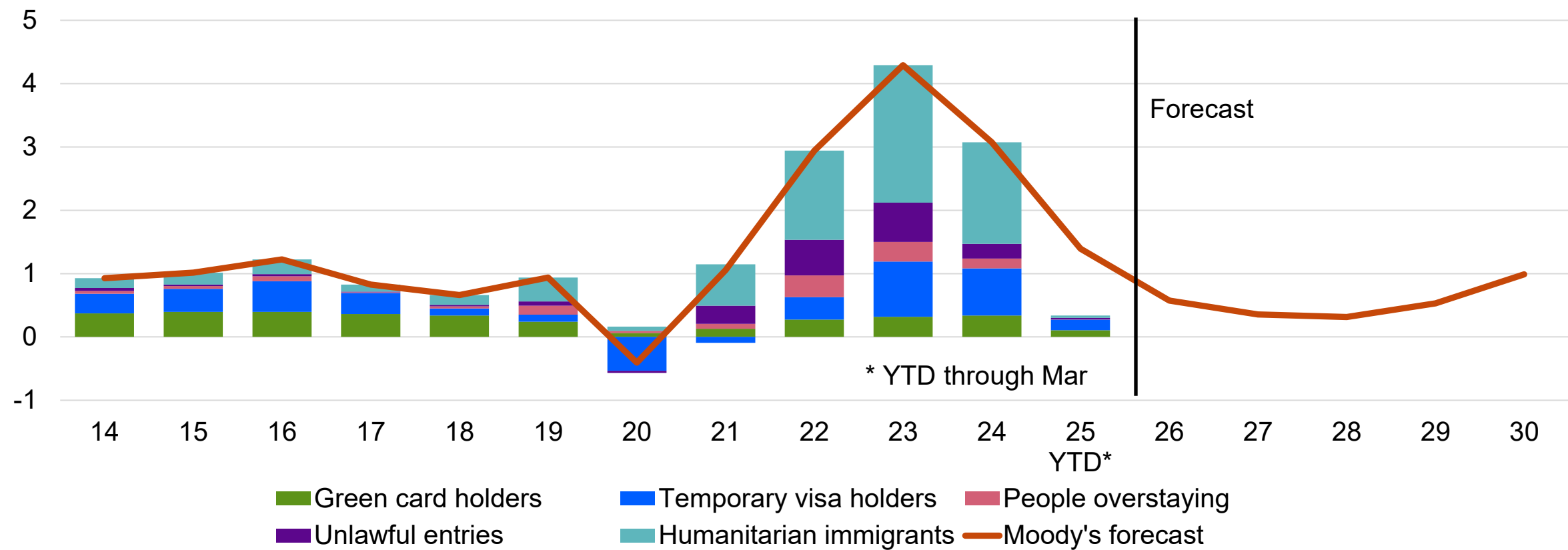
U.S. import duties as a % of U.S. imports, Moody's Analytics baseline forecast



Sources: Census Bureau, Moody's Analytics

Foreign Immigration Slides...

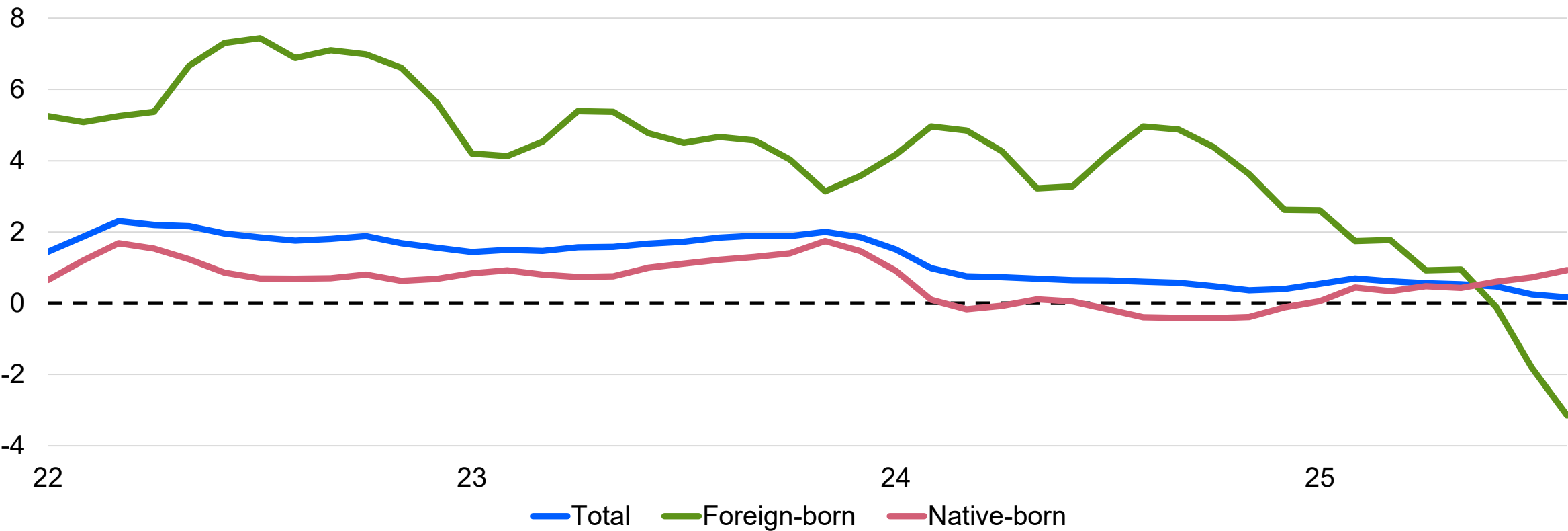
of people, mil



Sources: Department of Homeland Security, Department of State, Customs and Border Protection, Social Security Administration, Congressional Budget Office, TRAC Immigration, Barclays Research, Moody's Analytics

...Slamming the Job Market

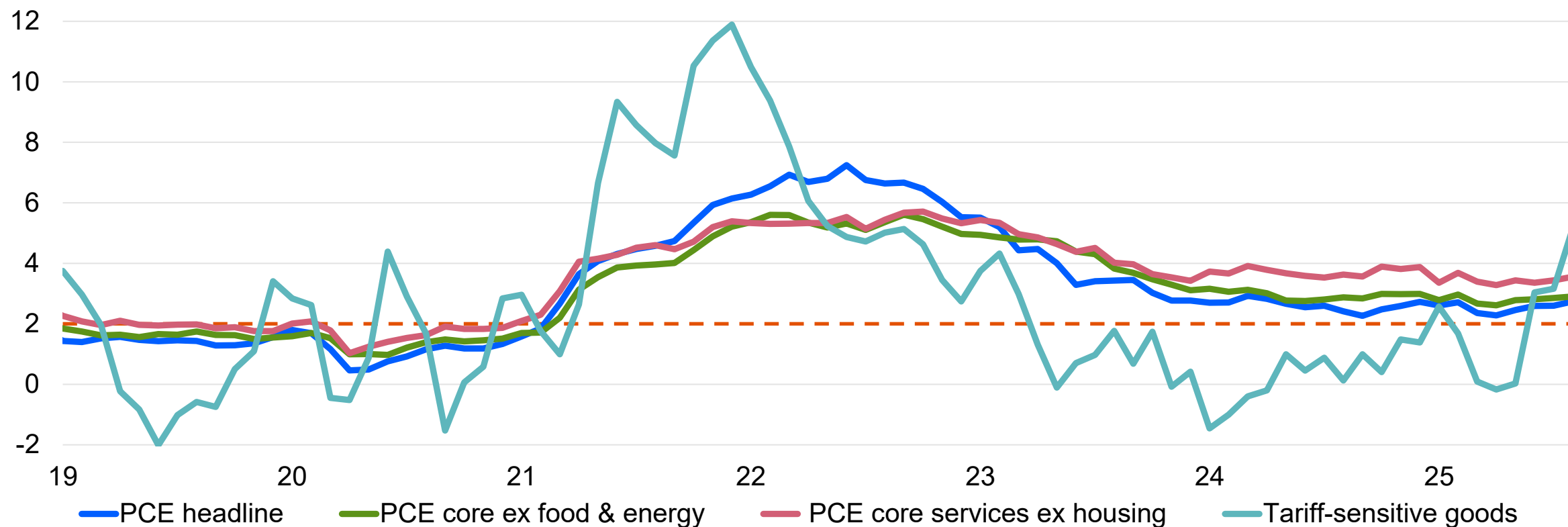
Labor force, % change yr ago, 3-mo MA, adjusted for Jan 2025 population controls



Sources: BLS, Moody's Analytics

“Sticky” Inflation Driven by Tariffs and Services to Persist Into 2026

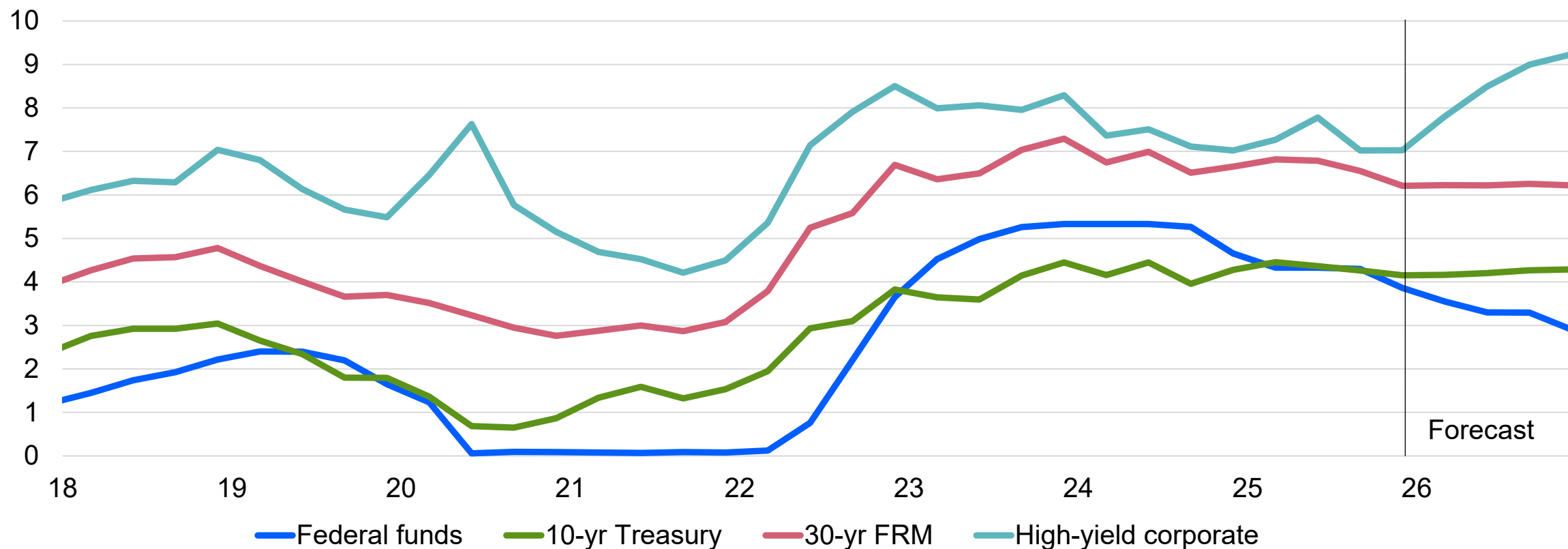
Personal consumption expenditures price index, % change yr ago



Sources: BLS, Moody's Analytics

Fed Likely to Cut Rates as Job Market Outweighs Inflation Concerns

U.S. interest rates, %, Nov 2025 baseline economic outlook



Sources: Federal Reserve, Freddie Mac, ICE, Moody's Analytics

The background of the slide is a dark blue color. It features abstract, flowing, wavy lines in a lighter shade of blue. These lines are composed of many thin, overlapping curves that create a sense of movement and depth. The lines are more concentrated on the left side of the slide, where they form a large, complex shape that resembles a stylized '2' or a series of overlapping waves. On the right side, there are smaller, more isolated wave-like patterns. The overall effect is a modern, digital, and artistic aesthetic.

2

Artificial Intelligence Tailwinds

Artificial Intelligence Powers the Stock Market & Investment

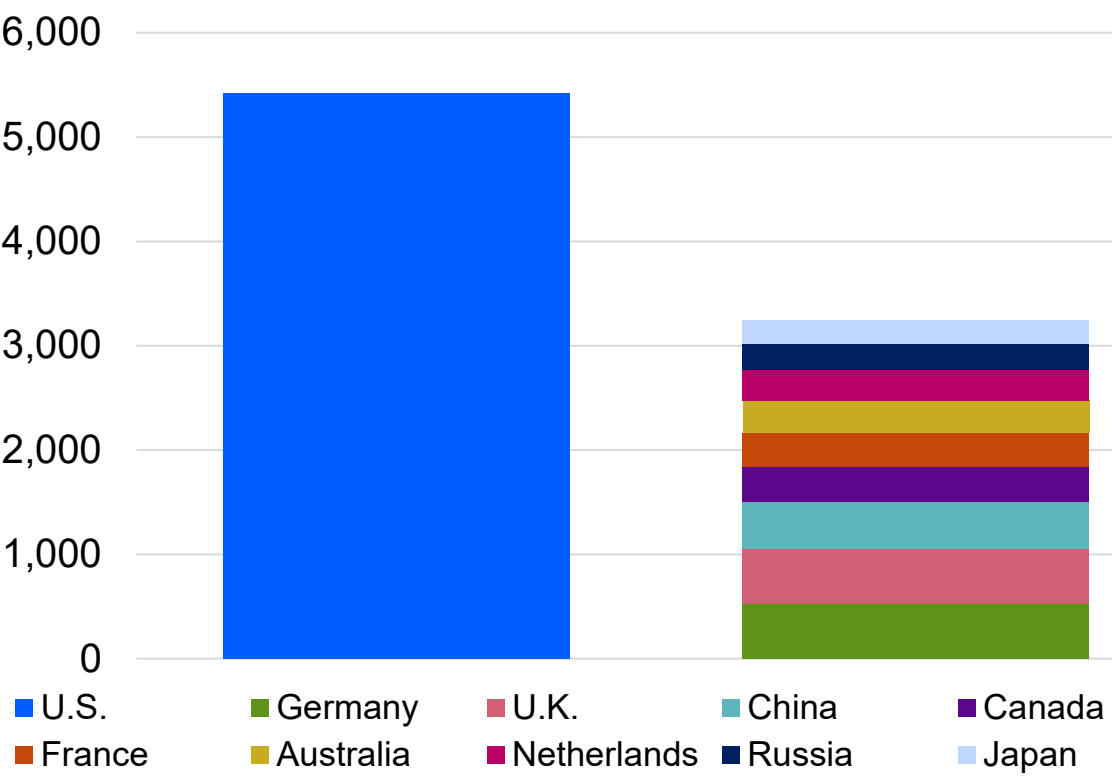
Since Nov 2022, when ChatGPT was unveiled

		Artificial Intelligence companies	S&P 500 x AI companies
Performance			
	Price return	181%	25%
	<i>Earnings growth</i>	124%	9%
	EBIT growth	98%	16%
	<i>Capital spending growth</i>	63%	4%
Contribution to S&P 500			
	Price return	77%	23%
	<i>Earnings growth</i>	80%	20%
	EBIT growth	64%	36%
	<i>Capital spending growth</i>	92%	8%

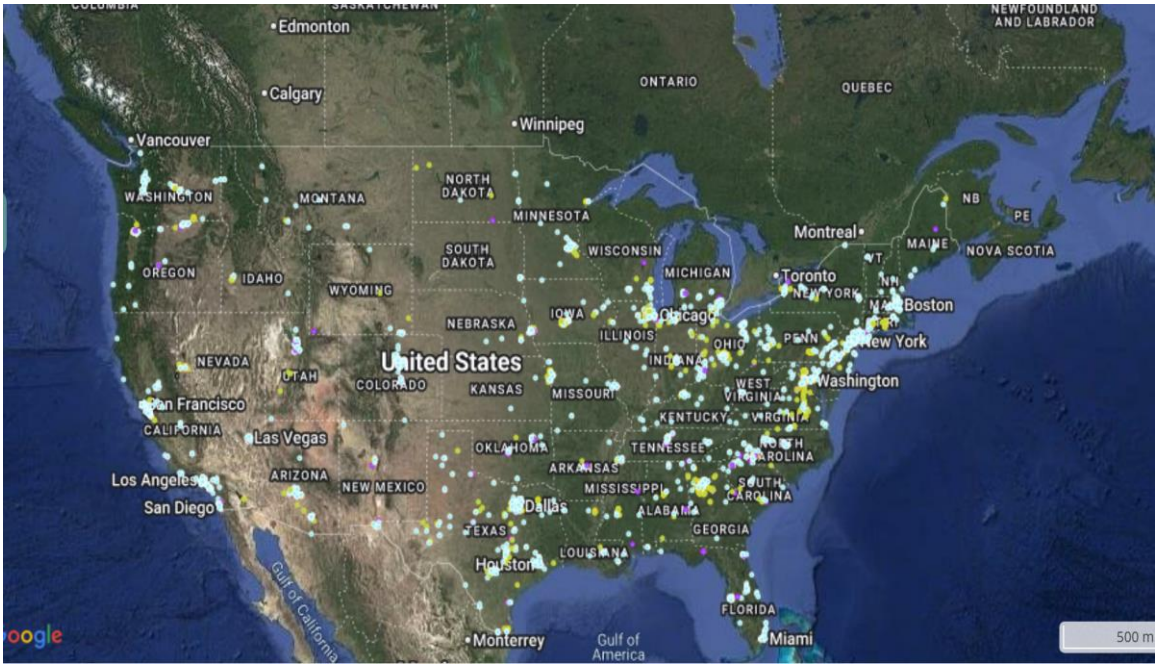
Sources: Bloomberg, JP Morgan, Moody's Analytics

U.S. Dominates AI Investment Boom, Especially in the Northeast

of data centers as of Mar 2025



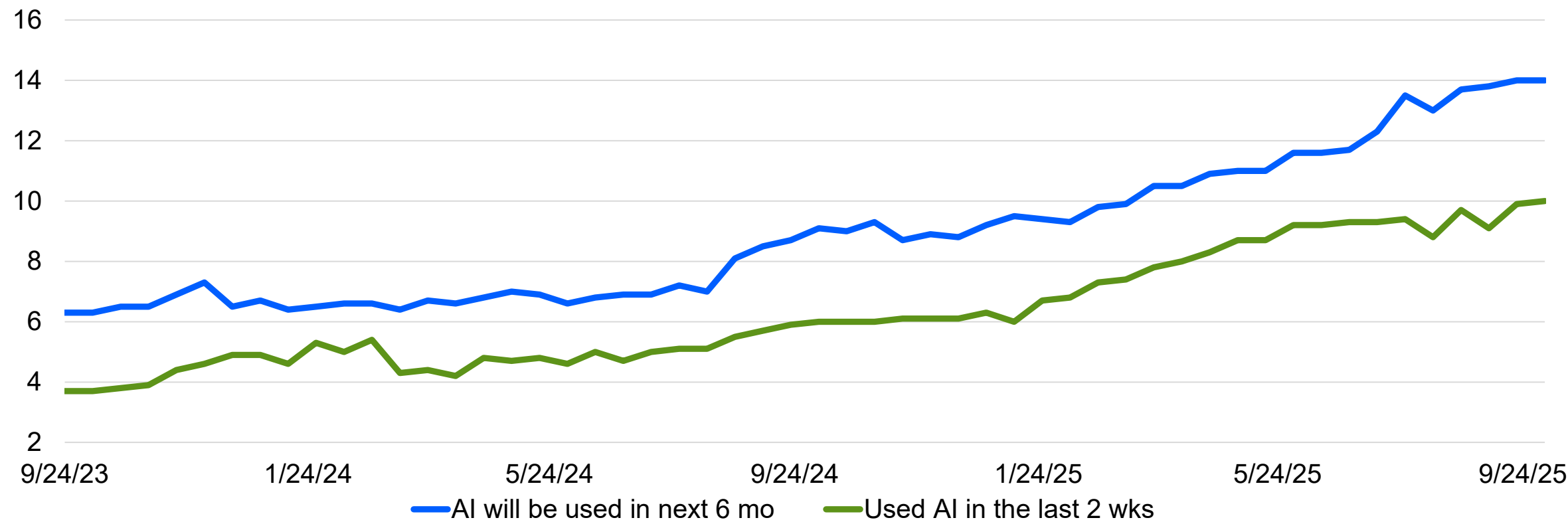
Planned and active data centers as of Nov 29



Sources: Statista, Cloudscene, Landgate, Moody's Analytics

AI Adoption Still Relatively Low

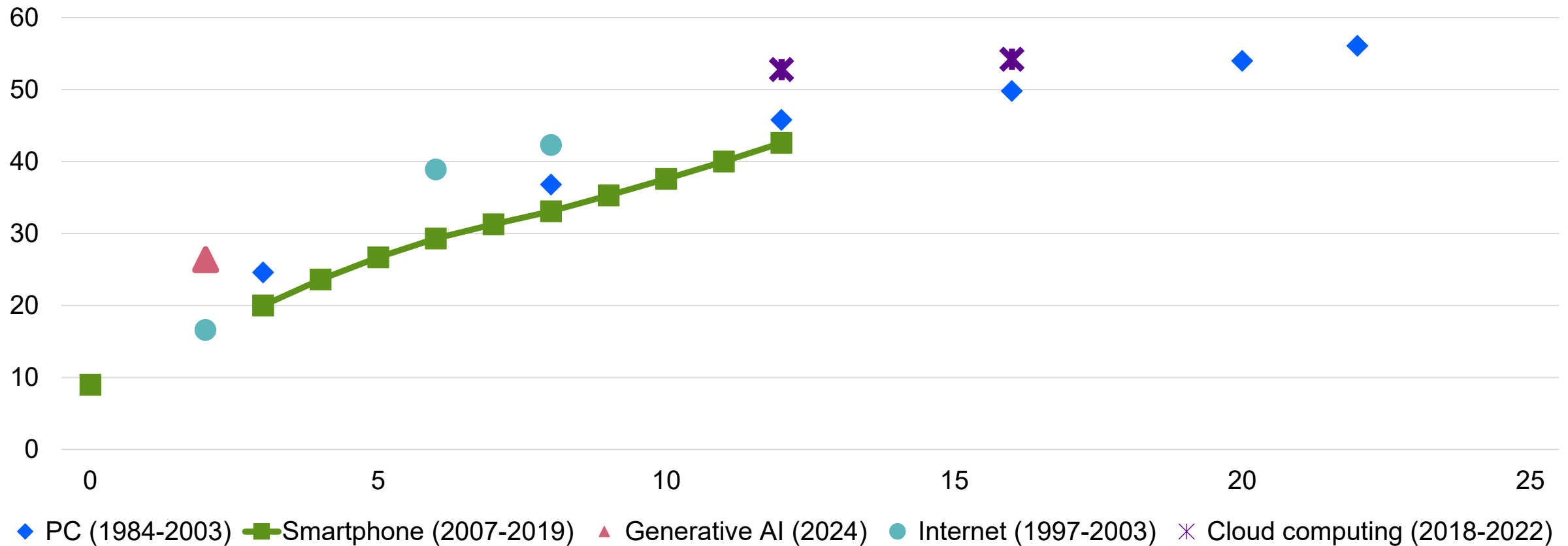
Share of positive responses, %



Sources: Census Bureau, Moody's Analytics

Quicker Uptake for Gen AI, but History Suggests This Will Slow

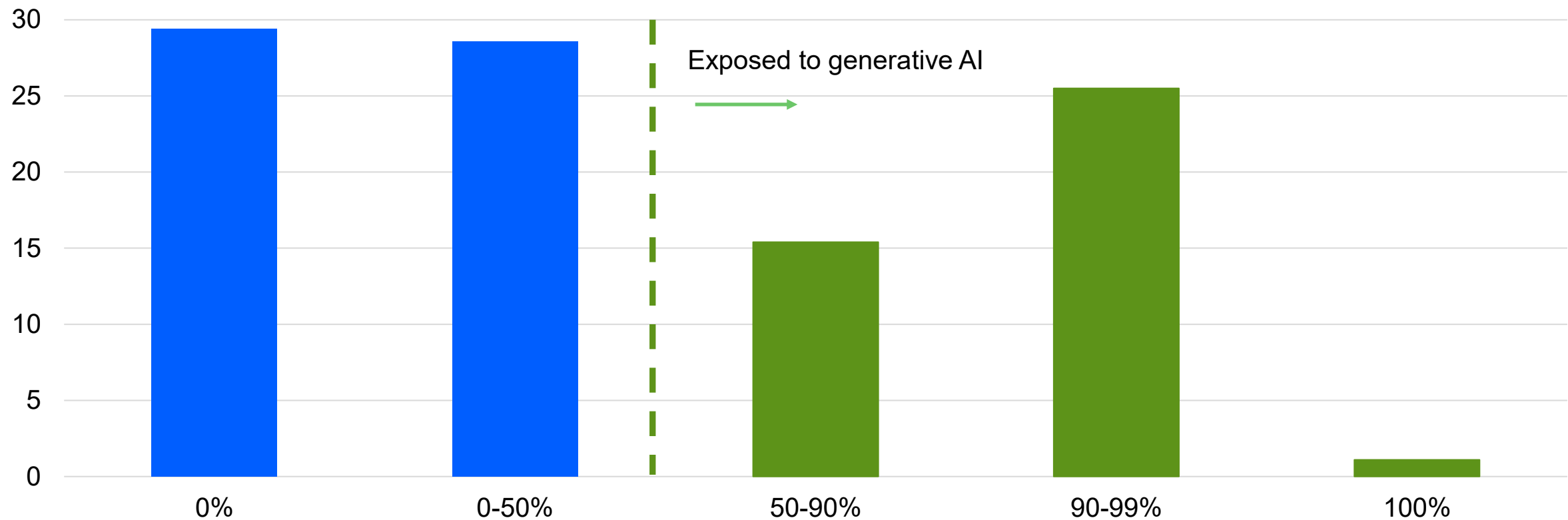
Adoption rates, % (y-axis) at work by yr since mass-market introduction (x-axis)



Sources: Penn Wharton Budget Model, Moody's Analytics

Most Jobs Are Not Highly Exposed to Gen AI...

Share of tasks that can be performed by AI (x-axis) by share of U.S. employment in 2024 (y-axis), %



Sources: Penn Wharton Budget Model, BLS, Moody's Analytics

...Many Most Exposed Were Also Highly Exposed to the Internet Boom

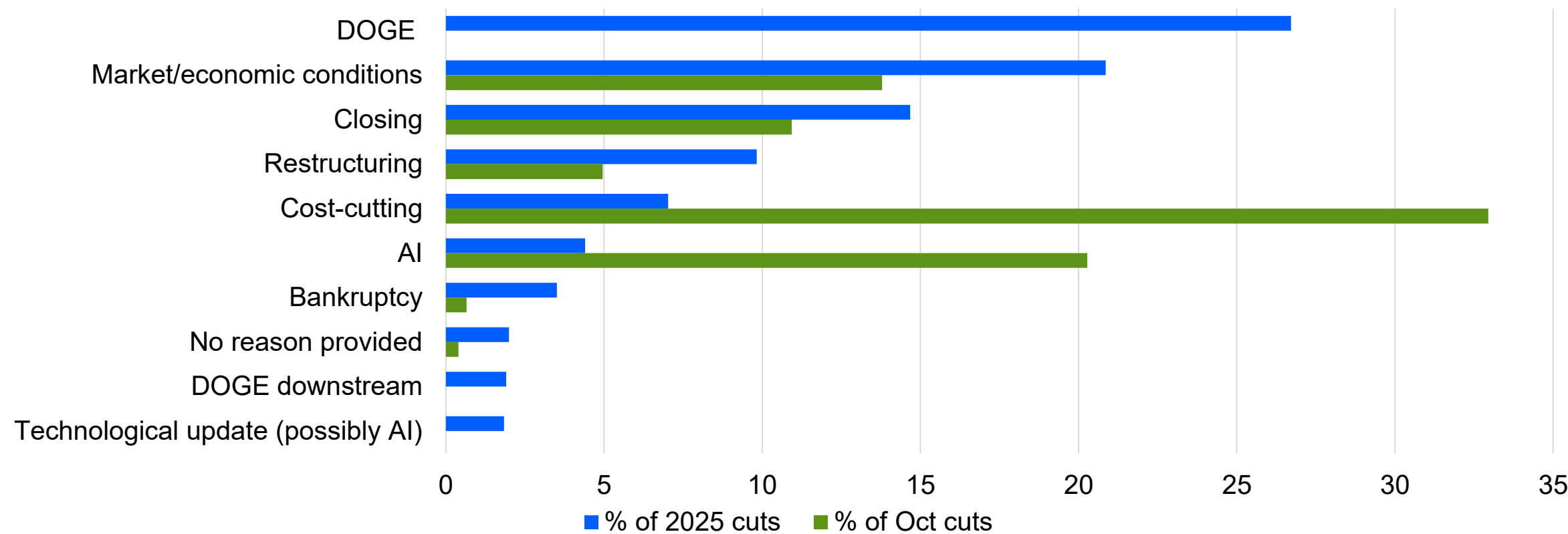
Exposure to generative AI by occupation

Occupation Title	Exposure to AI Automation (% of tasks)
Telemarketers	96.25
Order Clerks	95.53
Insurance Claims and Policy Processing Clerks	95.19
Bookkeeping, Accounting, and Auditing Clerks	95.17
Insurance Underwriters	95
Brokerage Clerks	95
Credit Authorizers, Checkers, and Clerks	94.69
Desktop Publishers	94.17
Payroll and Timekeeping Clerks	94.09
Medical Records Specialists	93.53
Proofreaders and Copy Markers	92.73
Travel Agents	92.5
Telephone Operators	91.56
Tellers	91.38
Loan Interviewers and Clerks	91.11
Tax Preparers	90.83
Medical Secretaries and Administrative Assistants	90.31
Bill and Account Collectors	90

Sources: Penn Wharton Budget Model, Moody's Analytics

AI-Related Job Cuts Are Picking Up

Announced job cuts in 2025 by reason cited



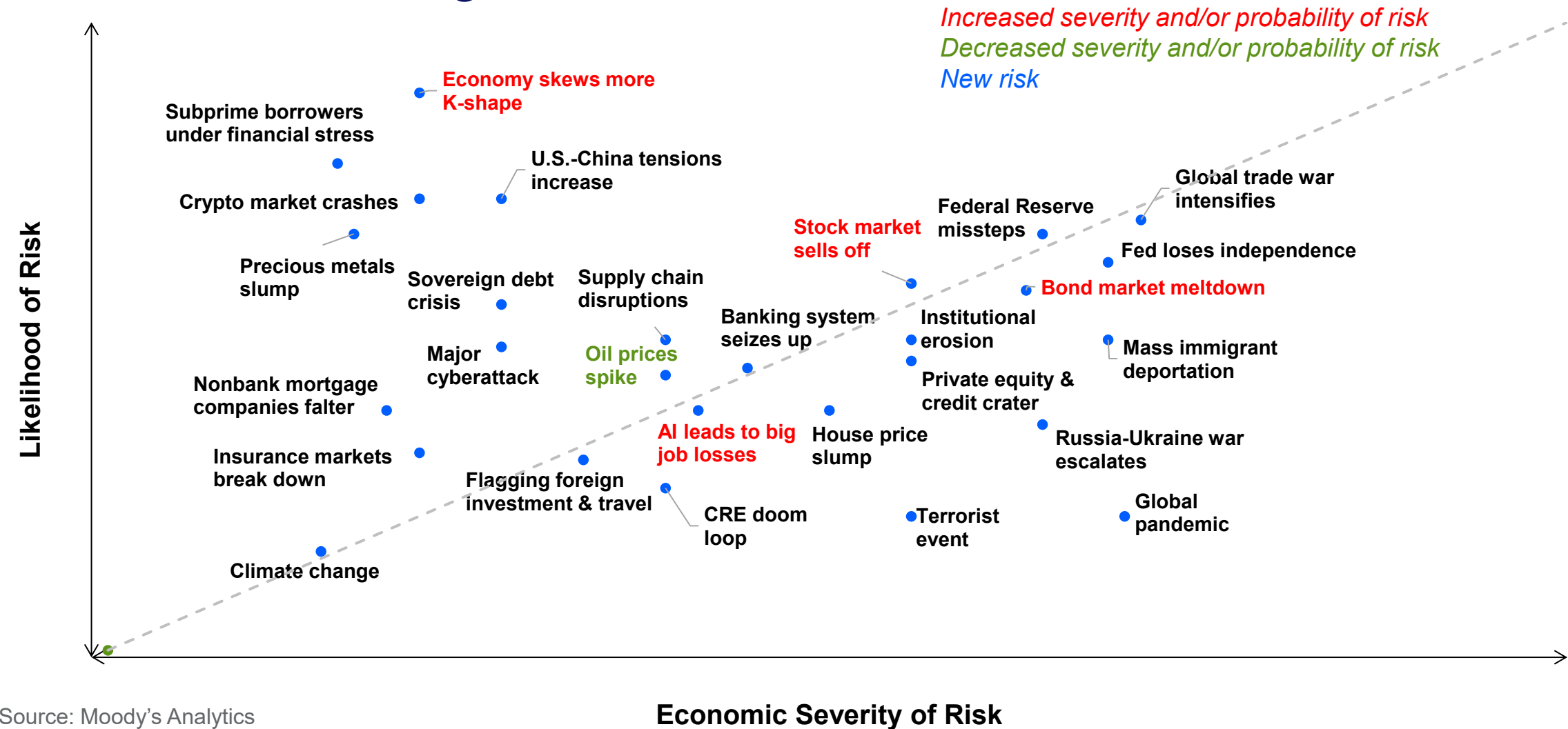
Sources: Challenger, Gray & Christmas, Moody's Analytics

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3

What Could Go Wrong?

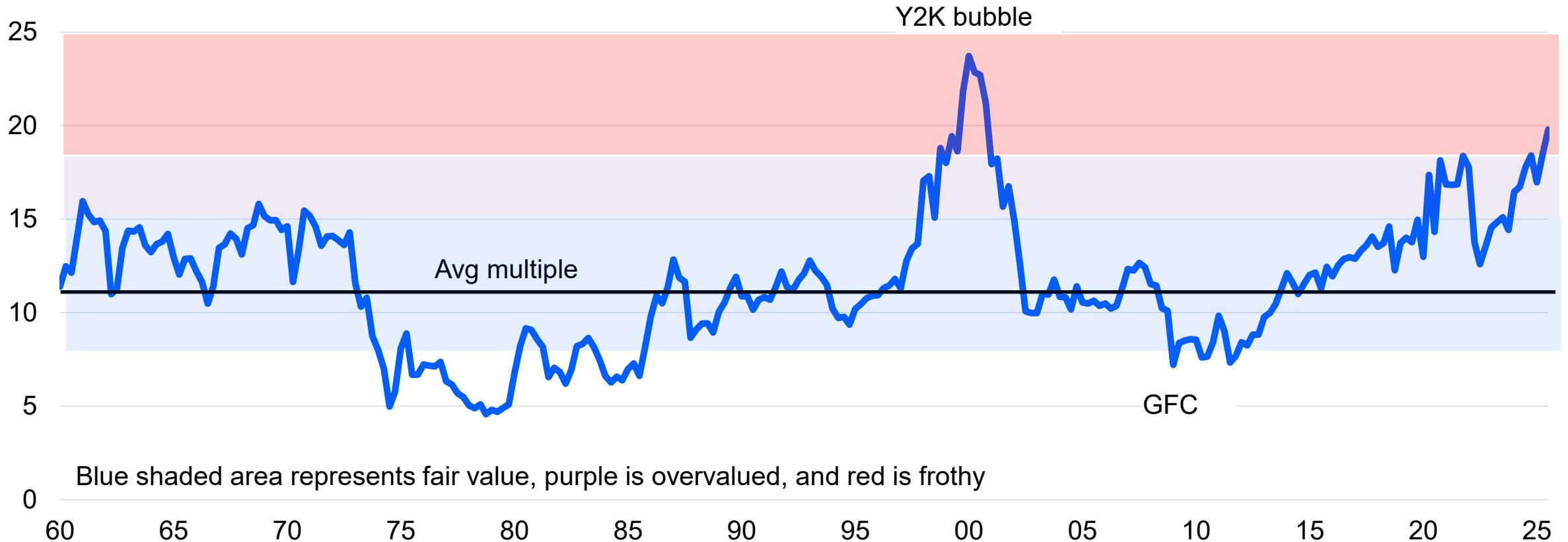
What Could Go Wrong?



Source: Moody's Analytics

The Stock Market Is Overvalued, Bordering on Frothy

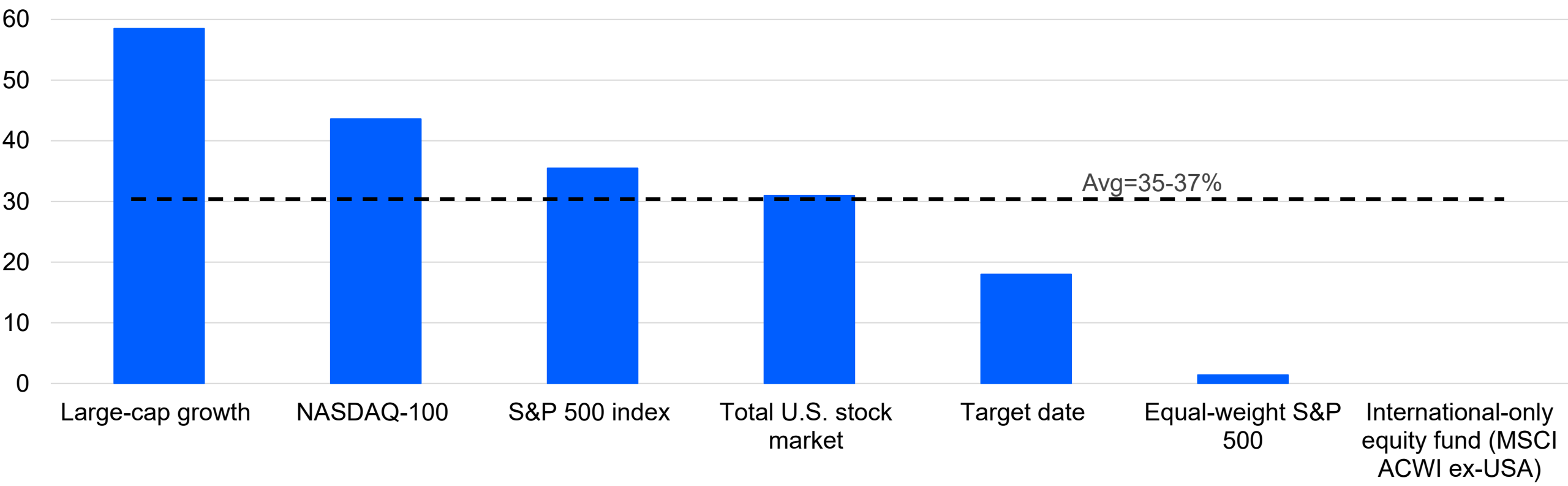
Ratio of Wilshire 5000 to NIPA after-tax corporate earnings, %



Sources: Bureau of Economic Analysis, Financial Times, Moody's Analytics

Even Passive Investors Are Highly Exposed to AI Stocks

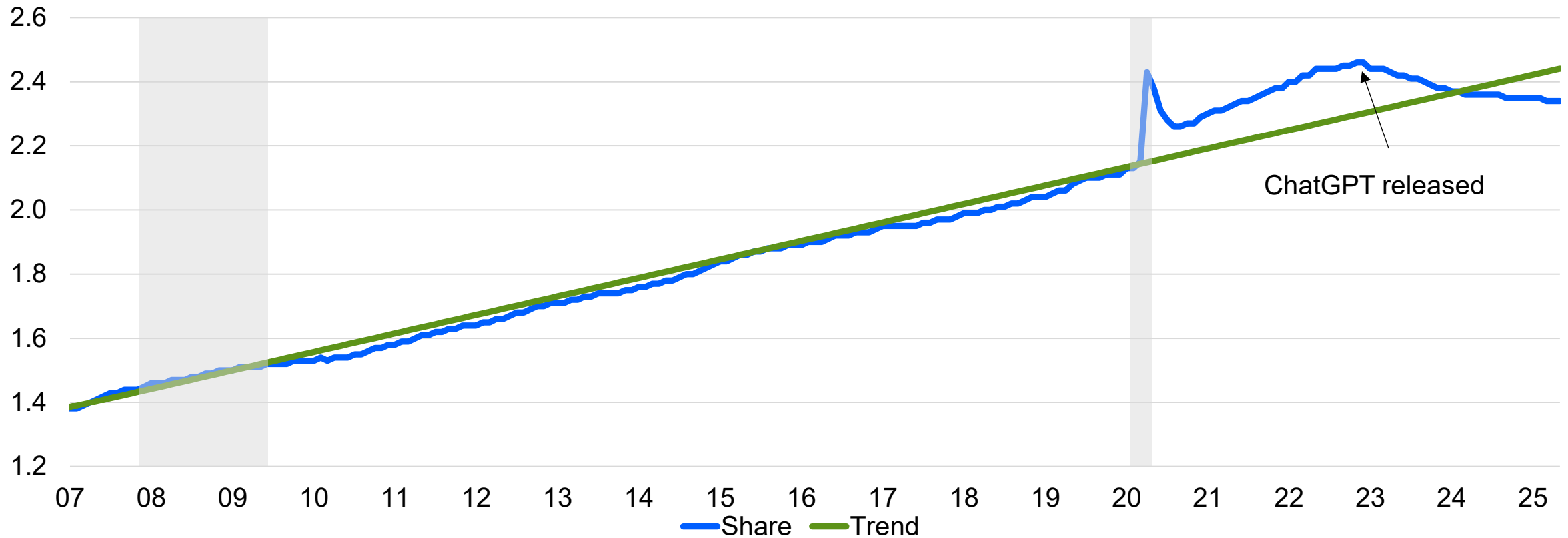
Weight of the Magnificent 7 in most common 401(k) fund types, %



Sources: Morningstar, Motley Fool, MSCI, Vanguard, Visual Capitalist, Alinvest, Moody's Analytics

Is AI Friend or Foe?

Technology share of nonfarm payroll employment, %



Sources: BLS, Moody's Analytics

Three AI Scenarios in the Works

Scenario 1: Tech Bubble-Like Stock Market Bust

- AI equity bubble bursts, sending the stock market down by ~50% from peak to trough
- Short, shallow recession ensues followed by a “jobless” recovery
- Productivity gains are realized but are much smaller and more diffuse than initial expectations

Scenario 2: AI-Induced Job Losses

- Significant near-term productivity gains from AI (2026-2017) and soaring AI stock valuations hold. Rest of the stock market falters.
- Large job losses as productivity gains are realized immediately, with little offset from new job formation
- Negative jobs #s next yr (Baseline is around 0 now)

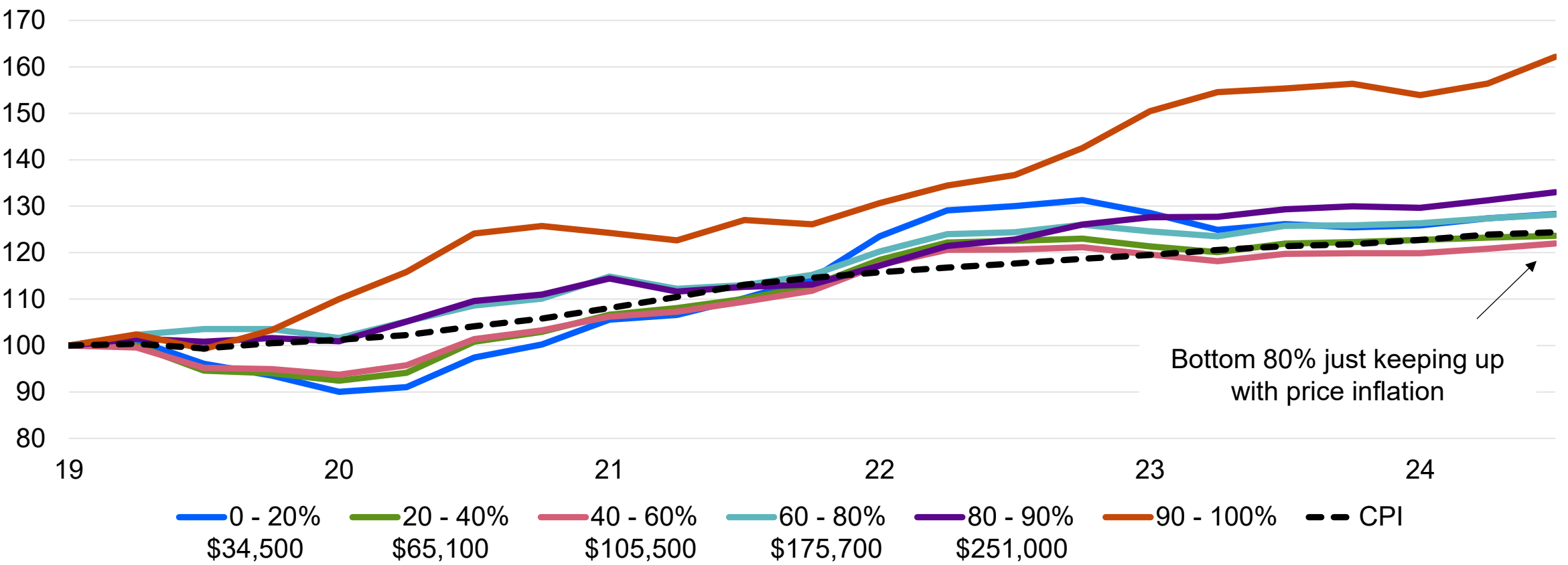
Scenario 3: Productivity Miracle

- AI has profound impacts on productivity growth that are broadly beneficial to the economy
- Any lost jobs are more than offset by new jobs and enhanced productivity within occupations

Source: Moody's Analytics

Spending Concentrated in Upper-Income Households

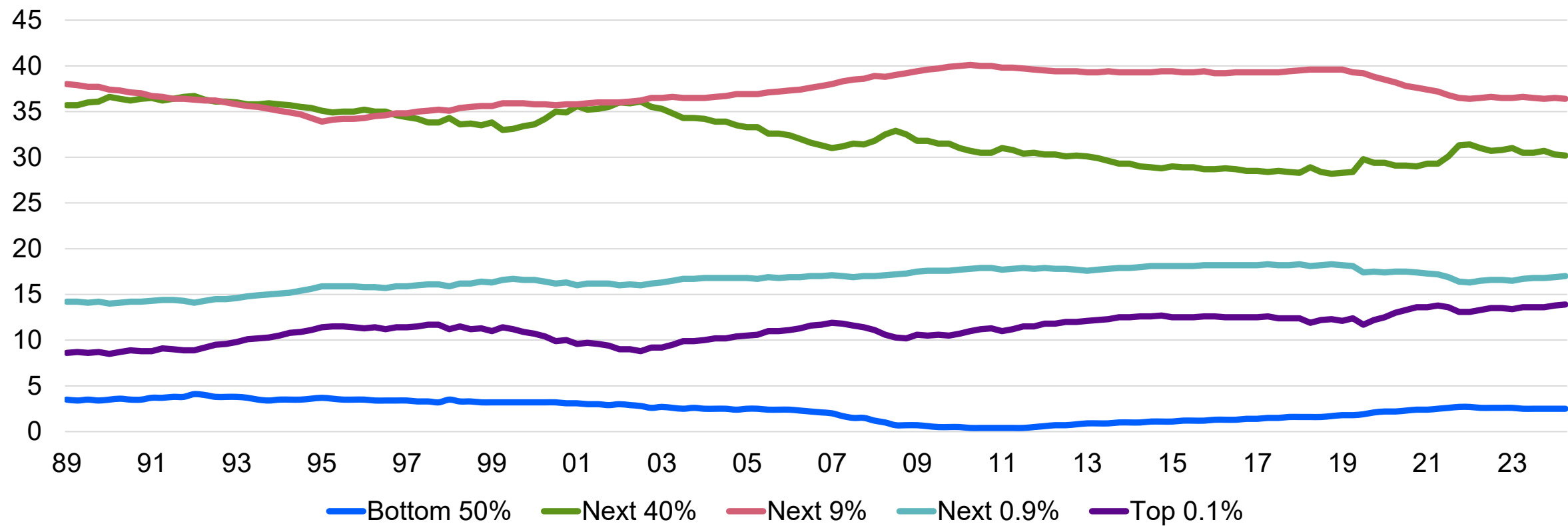
Personal outlays by income group, 2019Q4=100



Sources: Federal Reserve, Moody's Analytics

Bottom 50% of Households Own 2.5% of Total Wealth

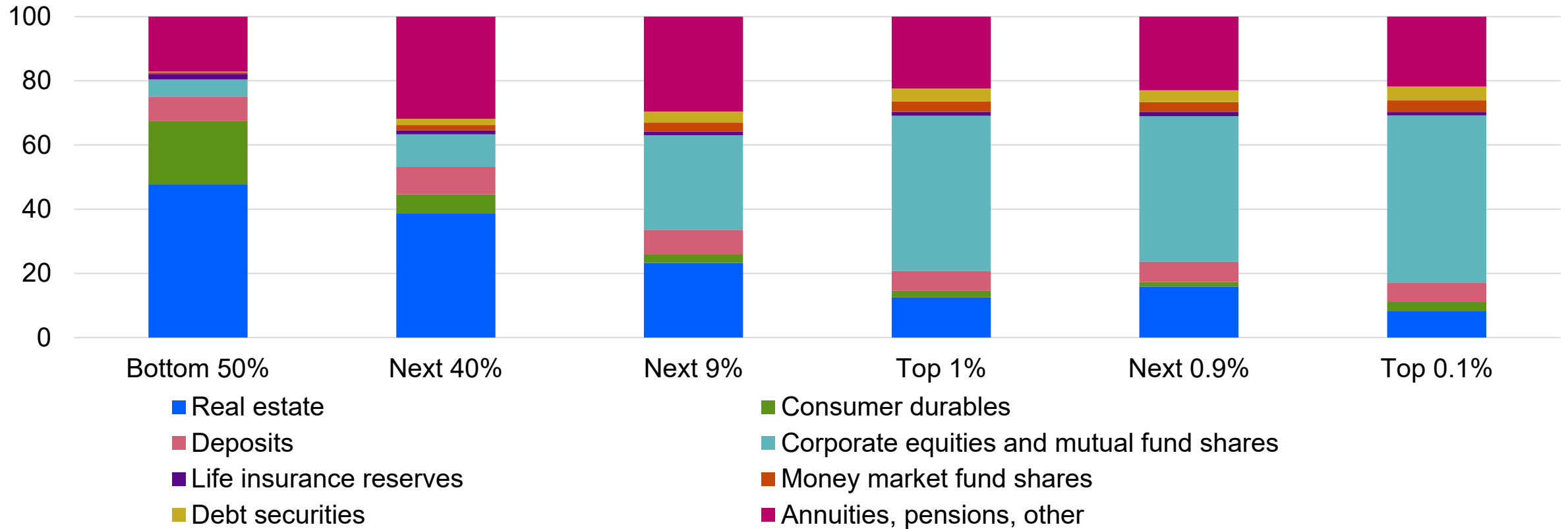
Share of household net worth by wealth percentile, %



Sources: Federal Reserve, Moody's Analytics

Housing Dominates Wealth at the Low End, Equities at the High End

Share of total assets by wealth percentile as of 2025Q2, %



Sources: Federal Reserve, Moody's Analytics

The Bond Market Is Fragile...

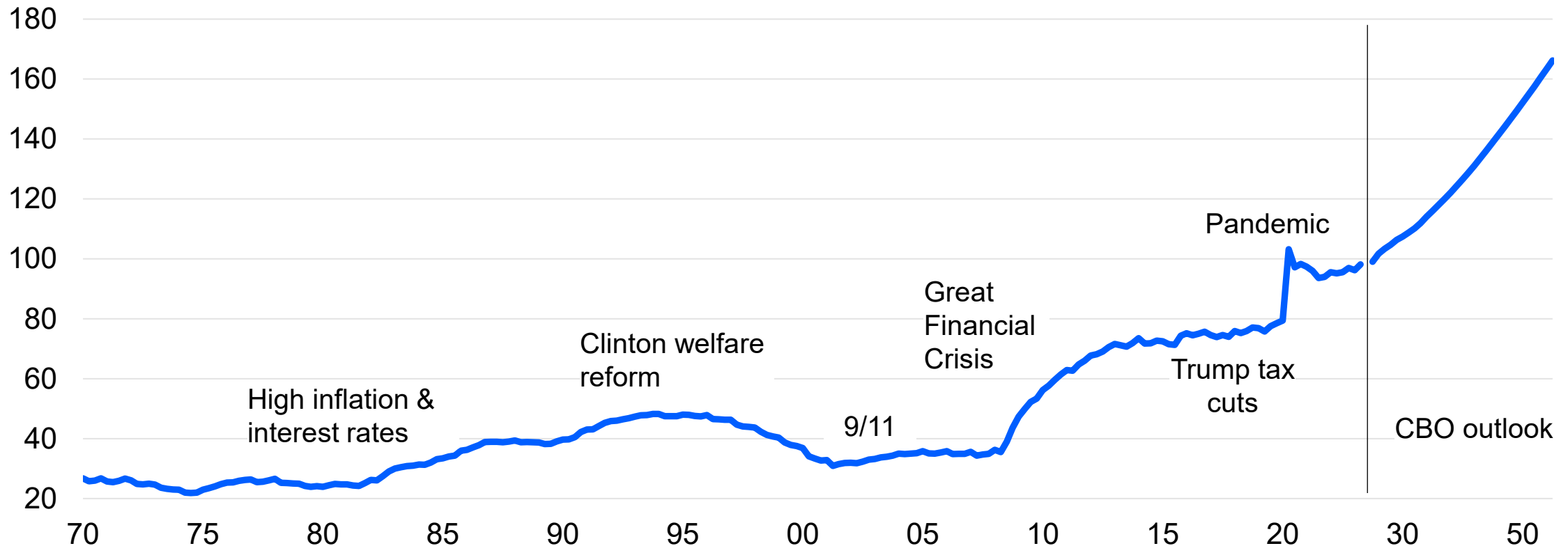
Factors that threaten a well-functioning Treasury bond market

- Primary dealer balance sheets haven't expanded with the amount of debt outstanding
- Trade war threatens U.S. safe-haven and reserve currency status and value of the \$
- Federal Reserve independence is at risk
- Fed exits the bond market via quantitative tightening
- Chinese & Japanese investors turn more circumspect
- Banks are skittish bondholders in the wake of the 2023 banking crisis
- Price-sensitive hedge funds become bigger players
- Government shutdowns and political dysfunction
- Large budget deficits with an issuance shift to short-term Treasuries

Source: Moody's Analytics

...As the Nation Is on an Unsustainable Fiscal Trajectory

Ratio of U.S. federal debt held by the public and GDP, %



Sources: U.S. Treasury, BEA, Moody's Analytics

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