

WINTER MACRO-ECONOMIC REPORT

Presented By:

The Stanton Executive Board



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About Us.



Introduction

Founded in 2024, Stanton Research Group was created to provide real world equity research & macro-economic projects to finance students around the nation. Our team of analysts has grown to over 45 represented universities across the United States, fostering a diverse, experienced skill-building focused team of young industry professionals.

Our Philosophy

At Stanton Research Group, we are driven by a commitment to excellence, integrity, and innovation. As a student-led equity research organization, we believe in fostering a collaborative and inclusive environment where curiosity and critical thinking thrive. Honesty and transparency are the cornerstones of our operations, and we are dedicated to providing unbiased, accurate insights.

Vision for the Future

Stanton Research Group aims to provide students who aspire to develop their general finance acumen & skillset with industry leading projects & assignments, preparing them for the real world of finance. These session specific projects will provide students the opportunity to contribute their findings to a team-wide comprehensive research report, serving as a reference of their achieved skillset and research capabilities.



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Macroeconomic Coverage Group | Alayna Veeck

Overview of Current U.S. Macro Environment

Monetary Policy: On January 29, 2025, the FOMC decided to hold its benchmark rate at 4.25% - 4.50% after three consecutive cuts in 2024. The decision was largely attributed to three key factors that have shaped the New Year:

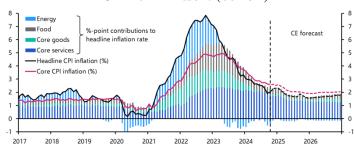
- 1. Stubborn inflation: Inflation remains close to 3% instead of the desired 2%, so continuing to cut rates could reignite price increases due to the higher demand from the incentive to spend. In fact, the Fed's statement in December mentioned "progress" toward its inflation goal, and this statement was removed in the January statement, proving its sticky status.
- **2. General uncertainty:** As the first monetary policy decision since President Trump returned to office, the Fed is taking a cautious "wait-and-see" approach due to the uncertainty of economic policies and data that could prove inflationary.
- 3. Tariffs: Beginning February 1, 2025, President Trump will impose 25% tariffs on Mexico and Canada to slow the flow of migrants into the U.S. and a 10% duty on China for its distribution of illegal fentanyl to the states. Moreover, Trump threatened a 60% tariff on all Chinese goods. As the three largest trading partners of the U.S., economists fear a trade war of retaliations that will depress economic growth and raise inflation. In defense, Trump affirms his policies as a win-win to grow U.S. tax revenues and protect domestic industries.

2025 Outlook: Fed Chair Jerome Powell affirmed that the economy is in "quite a good place," highlighting GDP growth, stable job gains, and low unemployment. The next rate cut is likely to come after clear and sustained signs inflationary easing towards the 2% target. According to CME FedWatch, almost 60% of investors predict at least two 25bps cuts in 2025, while the remaining predict a single reduction or none at all. Consensus is that the economy will grow at a similar pace coupled with a sharp decline in recession fears following the resilient labor market and stable corporate earnings throughout 2025 thus far.

U.S. Economic Indicators

	Q1-24	Q2-24	Q3-24	Present
GDP Growth Rate (Y/Y)	1.4%	3.0%	3.1%	2.3%
CPI - Inflation Rate (Y/Y)	3.1%	3.4%	2.9%	2.9%
Unemployment Rate	3.7%	3.9%	4.2%	4.1%
Fed Funds Effective Rate	5.3%	5.3%	5.3%	4.8%
NFP - Job Gains (M/M)	38.8%	-73.1%	-80.7%	11.3%
Retail Spending (M/M)	-0.8%	-0.1%	0.1%	0.4%
Consumer Confidence (M/M)	-0.6%	-7.9%	-0.1%	-0.6%

CPI 2017-Present (% Y/Y)



Nonfarm Payrolls 2023 – Present (M/M)



Market Indices

Index Name	Region	Ticker	Description	Value	YTD △ 1Y △	5Y △
S&P 500	USA	^GSPC	500 largest by market cap	6,040.53	2.26% 22.65%	83.96%
Dow Jones Industrial Average	USA	^DJI	weighted	44,544.66	4.63% 15.80%	54.35%
NASDAQ Composite	USA	^IXIC	3,000+ tech-heavy stocks	19,627.44	0.72% 26.55%	111.07%
NASDAQ 100	USA	^NDX	100 most actively traded on NASDAQ	21,478.05	1.33% 22.90%	135.09%
Russel 2000	USA	^RUT	2,000 small-cap U.S. stocks	2,287.69	2.69% 14.60%	38.16%
Wilshire 5000	USA	^W5000	5,000 U.S. stocks, broadest index	42,053.20	10.45% 1.60%	48.00%
FTSE 100	UK	^FTSE	100 largest stocks listed on LSE	8,673.96	6.81% 13.14%	17.50%
Nikkei 225	Japan	^N225	225 listed on TSE, price-weighted	39,572.49	-0.81% 9.06%	70.53%
CAC 40	France	^FCHI	40 largest shares listed listed on PSE	7,950.17	8.70% 3.55%	35.40%
Euro STOXX 50	Eurozone	^STOXX50E	50 blue-chip European companies	5,286.87	8.58% 13.39%	43.25%
Hang Seng	Hong Kong	^HSI	82 largest companies listed on SEHK	20,225.11	0.92% 26.79%	-27.64%
Shanghai Composite	China	^SSEC	All stocks listed on SSE	3,250.60	-4.60% 11.70%	9.21%
ASX 200	Australia	^AXJO	200 largest-cap companies	8,532.30	4.57% 11.09%	21.59%

Sources: BLS Current Employment Statistics (CES), Yahoo Finance

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Top 5 Gainers: S&P 500 YTD (+155.01%)

Company	Sector	Market Cap	YTD Return
PLTR – Palantir Technologies	Technology	252.52B	46.57%
CEG – Constellation Energy	Utilities	96.91B	38.48%
UBER – Uber Technologies	Consumer Discretionary	157.09B	23.67%
CRWD – Crowdstrike Holdings	Technology	103.84B	23.21%
GE – General Electric	Industrials	220.33B	23.08%

Top 5 Losers: S&P 500 YTD (-106.73%)

Company	Sector	Market Cap	YTD Return
PCG – PG&E	Utilities	33.60B	-24.08%
STZ – Constellation Brands	Consumer Staples	30.54B	-23.53%
MRNA - Moderna	Healthcare	12.55B	-21.60%
BF.B – Brown Forman	Consumer Staples	14.62B	-18.80%
ON – ON Semiconductor	Technology	21.82B	-18.72%

Company	Sector	Index Weight	YTD Return
AAPL - Apple	Technology	6.83%	-6.65%
☆ NVDA - NVIDIA	Technology	6.12%	-6.12%
☆ MSFT - Microsoft	Technology	5.99%	-2.11%
🖈 AMZN - Amazon	Consumer Discretionary	4.33%	-4.05%
☆ META – Meta Platforms	Technology	3.01%	19.24%
☆ GOOGL (A) – Alphabet	Technology	2.17%	-2.16%
AVGO – Broadcom	Technology	2.09%	-3.06%
☆ TSLA – Tesla	Consumer Discretionary	2.03%	-4.66%
☆ GOOG (C) – Alphabet	Technology	1.78%	-1.83%
BRK.B Berkshire Hathaway	Financials	1.70%	4.80%

Starting off 2025, PLTR has shown the strongest performance due to strong Q4 earnings and attractive 2025 revenue outlook. CEG announced a 10-year, \$840 million contract to supply government agencies and a \$30 billion acquisition to become America's largest clean energy provider. UBER jumped after Bill Ackman revealed a \$2.3 billion stake. CRWD and GE exceeded expectations.

PCG faced selling pressure after the California wildfires and its proximity to company facilities. STZ dropped after its Q3 earnings report due to weak performance in its wine and spirits segment. MRNA and ON fell due to weak demand and outlook for its primary products. BF.B experienced a significant decline in gross profit due to high inventory levels and competition.

After an extraordinary performance of the M7 stocks in 2024 (over 60%), the start of 2025 has yet to average in the green. AMZN earnings led to a 4% selloff due to lower-thanexpected sales due to headwinds in currency exchange. Similarly, TSLA fell short of sales and earnings expectations. On the other hand, META surprised analysts with its Q3 2024 earnings report driven by advancements in AI and growth in advertisements. NVDA and AVGO have faced regular volatility due to the cyclicality of the semiconductor industry. BRK.B reflects the valuedriven investing strategy of Warren Buffet and its resilience in uncertain environments.

Sources: SlickCharts, Yahoo Finance, Wall Street Journal

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Treasury Yields (2015-2025)



Since the rate cutting cycle began in September 2024, 10Y Treasury yields have increased. This is an unusual movement considering that the since the 1980s, rate cuts have led to a declining curve 100% of the time. According to JPMorgan, this can be attributed to growth expectations and elevated macroeconomic uncertainty. In other words, growth creates upward pressure on yields since the number of anticipated rate cuts decreases.

Treasury Spreads (2015-2025)

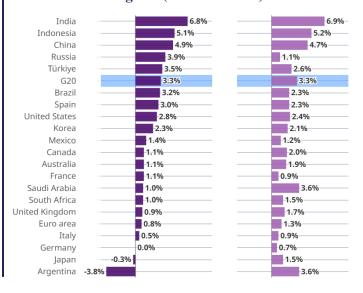


Long-term interest rates are typically higher than short-term rates to reflect the higher risk of an extended holding period. Therefore, the yield spread highlights market expectations for inflation and the **term premium**. The 10Y/2Y spread serves as a benchmark for the "intensity of monetary policy" while the 10Y/3M reveals liquidity conditions in markets.

Other Products

- <u>Commodities</u> Includes energy (crude oil, natural gas, gasoline, coal), metals (gold, silver, copper, platinum), agricultural (wheat, corn, soybeans, coffee, sugar), and livestock. Oil prices are expected to remain under pressure due to strong non-OPEC supply growth while natural gas prices could be bearish in Europe but more bullish in the U.S. due to LNH exports. Gold is forecasted to reach new heights as central banks continue to buy amidst uncertainty.
- <u>Currencies</u> Major pairs include EUR/USD, GBP/USD, USD/JPY along with cryptocurrency (bitcoin, Ethereum) benefiting from deregulation.
- <u>Real Estate</u> Rising rates have cooled real estate markets in many regions, but cuts in 2025 could spark greater investment interest in areas such as REITS.

Global GDP Figures (2024H - 2025F)



Sources: Trading Economics, MacroMicro, JPMorgan Private Bank, Bloomberg, The Organization for Economic Co-operation and Development (OECD)



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FOREX OVERVIEW

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FOREX

De-dollarization entails a significant reduction in the use of dollars in world trade and financial transactions, decreasing national, institutional and corporate demand for the greenback. There are two scenarios that could erode the dollar's status. The first includes adverse events that challenge the perceived safety and stability of the greenback — and the U.S.'s overall standing as the world's leading economic, political and military power. The second factor involves positive developments outside the U.S. that boost the credibility of alternative currencies — economic and political reforms in China.

Causes

The dollar's centrality to the system of global payments also increases the power of U.S. financial sanctions. Almost all trade done in U.S. dollars, even trade among other countries, can be subject to U.S. sanctions, because they are handled by so-called correspondent banks with accounts at the Federal Reserve. By cutting off the ability to transact in dollars, the United States can make it difficult for those it blacklists to do business. For example, in the wake of the Russian invasion of Ukraine in 2022, unprecedented U.S. sanctions cut Russia off from the dollar, freezing \$300 billion in Russian central bank assets and triggering a default on the country's sovereign debt.

Where can we see its effects?

The persistence of the war and the rising conflict with China, have spurred attempts by different economies to shift away from dollar dependence. According to the research group GlobalData, discussion on social media regarding de-dollarization rose more than 600 percent in the first quarter of 2023 compared to the last quarter of 2022. Several bilateral trade relationships that do not involve the dollar have formed recently. Russia and China were already moving away from using the dollar in bilateral trade since the onset of the US-China trade war in 2018.

In 2013, 80 percent of Russia's total exports were denominated in the dollar; in 2020, however, only slightly more than half of its total exports were settled in the dollar. Trade between India and Malaysia can now be settled in Indian rupee; and China and Brazil have reached a deal to trade in local currencies. Additionally, it has been reported that Saudi and Chinese officials are considering pricing some oil sales in yuan.

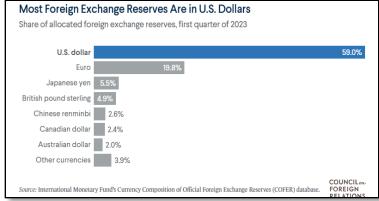
Commodity Markets

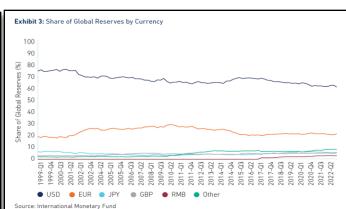
De-dollarization is the most evident in the commodity markets. Nations try to come up with a barter system where they exchange two goods and services without the use of a currency. This way they reduce the dependency on the dollar. The commodities and the USD follow an inverse relation, as USD appreciates, the commodities get more expensive.

Figure 1: US Dollar and Commodity Prices Index 100 80 US REER (LHS) Real commodity price index (RHS - Inverted) 1985 1990 1995 2000 2005 2010 2015 2020

FX Reserves

USD's share of FX reserves, the most analysed barometer of dollar dominance, has decreased, notably in EM. Central bank FX reserves are typically held in U.S. dollars, but the latter is now being supplanted by other currencies. The dollar still retains its influence in this space, especially when considering other factors including dollar-denominated bank deposits, FX volumes and trade invoicing.





Sources: Bloomberg, Yahoo Finance

THE FUTURE OF RESERVE CURRENCY

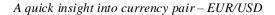
There are concerns if dollar will continue to be the reserve currency. The dollar impact will stay in for a long time. They can phase out the impact, but it is not possible that with consistent globalization, dollar dominance would reduce across the world due to the presence of global corporations based in the US. The US has MNCs like Google, Meta, Apple, Microsoft which has become an essential part of the everyday lives of humans. If the strength of the dollar declines, so will the operations of the companies and this will lead to an imbalance in the global trade. Unless the dependency from these corporations is removed, which brings us to the next question, if we remove the dependency from these companies, then we might get dependent on some other corporations which will bring us to a similar situation.

Which is the next big currency?

One of the most important factors in assessing the dollar's dominance is its role in cross-border lending. During the past 25 years, about half of all transactions globally have consistently been tied to the dollar. Significantly, about half of those dollar-denominated cross-border loans didn't involve any U.S. lenders or borrowers. No other currency comes close, with most remaining below 10% of the market.

Euro

Looking at the graph, Euro and Pound already has a significant advantage when it comes to positioning in the market. The next best competitor is Euro. To be a reserve currency, it takes more than a strong positioning in the markets. However, we must not overlook geopolitical concerns in the Middle East and Ukraine, the low likelihood of fiscal stimulus in the Eurozone, and the possibility of new conflicts with Brussels caused by elections in EU nations, even though Trump's tariffs will play a pivotal role.



The EUR/USD has recently settled into a range between 1.0450 and 1.06 after briefly dropping to 1.0335 in late November. The steep declines in EUR/USD witnessed during 2022 were driven by a combination of an energy crisis and a simultaneous sell-off in bonds and equities that strengthened the USD. Trump's potential policies may be inflationary, they are unlikely to significantly squeeze real incomes. In Europe, weak productivity continues to weigh on growth, and while the European Central Bank is expected to pause rate hikes at 2.25%, markets are already pricing in a move to 1.75%. This economic backdrop supports current EUR/USD levels and limits the potential for significant downside.



BRICS Currency

For years, leaders of BRICS countries have discussed a framework for a shared currency, with proponents arguing that it would protect against devaluation when the dollar rises. However, experts point out that structural challenges in BRICS countries, including a lack of robust central banks and monetary policies, make it infeasible.

What makes BRICS infeasible?

The BRICS bloc's goal of de-dollarization faces significant barriers due to the diverse economic and geopolitical conditions of its members. Countries like India, China, and Brazil have vastly different trade and financial systems, making it challenging to coordinate policies. Recent additions to BRICS, such as Iran, Ethiopia, and Egypt, struggle with economic crises, heavy sanctions, or currencies pegged to the dollar, which further complicates dedollarization efforts. Additionally, the absence of a shared currency or financial framework limits the bloc's ability to offer a cohesive alternative to the dollar. The dependence on dollar-based trade among many BRICS members and their trading partners also highlights the practical difficulties of transitioning to a new system.

Sources: Bloomberg, Yahoo Finance

Why do we not adopt this as a currency?

Experts remain cautious about BRICS' dedollarization efforts because of the disproportionate influence of China and the renminbi in these initiatives. While the renminbi plays a central role in BRICS trade strategies, its adoption raises concerns about shifting financial dependence from the U.S. to China, especially given China's strict capital controls and opaque financial policies. India, among other members, has expressed reservations about further enhancing China's dominance within the bloc. Furthermore, the renminbi's limited global liquidity and convertibility prevent it from being a credible alternative to the dollar. Experts also worry about the potential geopolitical consequences of weakening the dollar's role, as it could provoke retaliatory economic measures

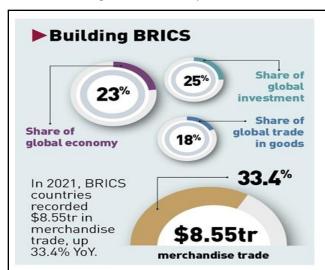
from the U.S. or exacerbate power imbalances within BRICS.

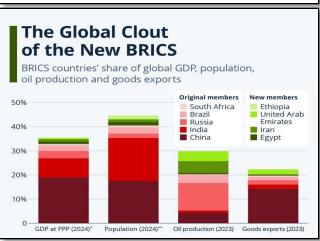
High and increasing debt levels in BRICS countries, against the backdrop of rising advanced economy interest rates, make it difficult to successfully address dollar shortages by issuing debt in dollars, as there is little investor appeal. Rapidly rising interest rates in advanced economies have also attracted capital away from emerging market assets and helped strengthen the dollar relative to emerging market currencies. This relative strengthening, as well as the Russia-Ukraine war's spillover effects on food and energy prices, contributes to the surging cost of importing dollar-priced commodities in emerging markets, further draining these economies (such as Argentina, Ethiopia, and Egypt) of dollars and exacerbating inflation, as the scarcity of dollars constrains the ability to import food and energy and thus drives up prices.

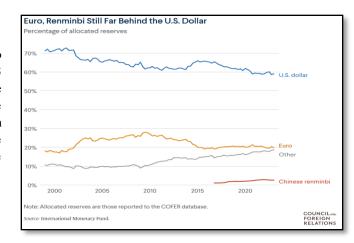
If BRICS succeeded in dedollarizing their trade and financial systems, the global financial landscape would likely become more fragmented. This could complicate international trade and finance as businesses and governments adapt to multiple payment systems and regional currencies. While this shift might weaken the effectiveness of U.S. financial sanctions, it could also increase transaction costs and financial risks globally. A multipolar monetary system could lead to reduced liquidity and stability in global markets, as the dollar's unifying role in pricing and reserves diminishes. Additionally, reliance on the renminbi could introduce new dependencies and vulnerabilities, particularly for smaller BRICS members, as China consolidates its influence within the bloc. This fragmentation might undermine global financial cooperation and increase volatility in trade relationships.

Chinese Renminbi

China has been trying to boost the global role of the renminbi, also known as the yuan, since the late 2000s. It currently accounts for 3 percent of global reserves, but China has increasingly pushed to use the renminbi in bilateral trade, especially in the wake of the Ukraine war. However, Chinese policymakers are wary of the lessons from previous currencies that rapidly internationalized, and they have imposed strict controls on the flow of money that have hamstrung the renminbi's growth.







Sources: Bloomberg, Yahoo Finance

A quick insight into currency pair – USD/CNY

The Chinese Yuan is set for further weakness as rising US-China trade tensions weigh heavily on market sentiment. Following Donald Trump's re-election, his proposal to impose tariffs exceeding 60% on Chinese imports has raised fears of renewed economic strain, prompting global investment banks to slash their forecasts for the Yuan.

Trump's tariff policies, seen as inflationary, are expected to maintain high US interest rates, strengthening the Dollar while pressuring trading partner currencies. Barclays projects USD/CNY could reach 7.40–7.50, especially if a 20% effective tariff hike shaves 0.7% off China's GDP.

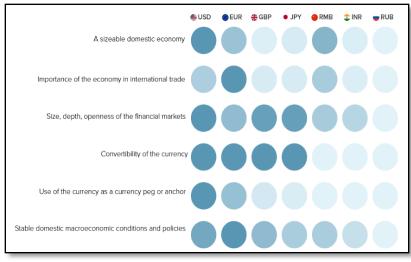
Multipolar Currency Regime - A Possible Answer

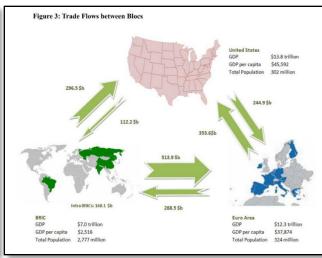
A multipolar currency regime refers to a system where multiple currencies share dominance in global trade and reserves, as opposed to the current dollar-dominated framework. While this approach could decentralize financial power, it brings significant challenges and risks.

The dollar's dominance stems from its extensive network effects, offering benefits like lower transaction costs, greater liquidity, and reduced currency volatility. Moving to a multipolar regime would erode these efficiencies, increasing costs for central banks and corporations as they manage assets in multiple currencies. For example, hedging against currency mismatches would become more complex, impacting trade and investment operations. Emerging markets, particularly those pegging their currencies to the dollar, would face risks of instability, as alternatives like the euro or renminbi lack the same level of global trust and liquidity.

Alternative currencies like the euro and renminbi face structural issues that hinder their ability to rival the dollar. Political instability in the Eurozone and China's strict capital controls reduce the credibility of these currencies. Trust is central to global currency adoption, and these alternatives lack the institutional robustness and widespread acceptance necessary to challenge the dollar.

De-dollarization efforts have already emerged in the form of bilateral agreements and regional trade frameworks. For instance, China and Brazil have begun trading in their local currencies, while India and Malaysia now settle trade in Indian rupees. However, these efforts remain small-scale and insufficient to disrupt the dollar's dominance. Nations attempting to diversify face the challenge of building liquidity and trust in new financial systems, which takes time and sustained effort.





Sources: Bloomberg, Yahoo Finance



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REAL ESTATE OVERVIEW

JASHITH SACHDEVA

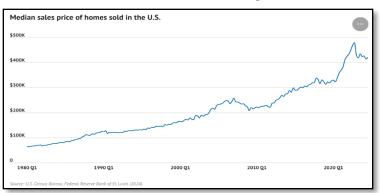
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Real Estate Overview

The U.S. enters 2025 with positive momentum in terms of economic growth and easing inflation. Consumers—the bedrock of the U.S. economy—remain in good shape with robust gains in wealth and income. The S&P 500 rose by 22.5% in 2024, house prices by 6.8%1 and real disposable income by 3.1%.2 This in turn should drive consumer spending growth of between 2% and 4% in 2025.

Median Home Price

The median home sales price is \$420,400 as of the third quarter of 2024. That's a 25% increase from the third quarter of 2020, when the median sales price was \$337,500. The average cost of a house in the United States has increased over the past four decades.



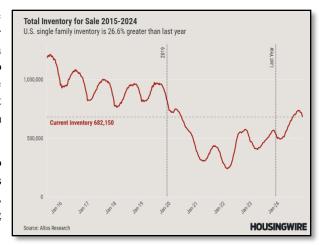
US Key Indicator Summary

Figure 1: CBRE Economic Forecast, End 2025			
GDP Growth (Annual)	2.0-2.5%		
Unemployment	4.0-4.5%		
Inflation	2.0-2.4%		
Fed Funds Rate	3.5-4.0%		
10YT	4.0-4.2%		

Housing Inventory

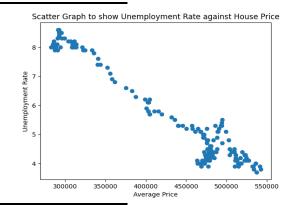
As of December 2024, unsold housing inventory is 27% higher than the same period in 2023, reflecting a consistent trend of rising inventory over the past three years. This trend is expected to continue in 2025, with a projected 15% increase in available homes, moving the market closer to pre-pandemic "normal" levels seen in 2018 and 2019. Notably, some states already have more homes on the market than at any point in the last decade, while others, particularly in the Midwest and Northeast, remain tight but are experiencing gradual increases.

The seasonal nature of the housing market has caused inventory to decline during the winter months, with 682,000 single-family homes currently available—a 1% decrease from the previous week. However, the annual rise in inventory suggests a more balanced market is emerging after years of constrained supply.



Employment Rates

With the unemployment rate steadily declining from over 8% to around 4%, the corresponding increase in housing prices is a natural consequence of improved economic conditions. More people working means more income, more demand for homes, and thus higher prices. This trend, if it continues, suggests that housing affordability might become an increasing concern for potential buyers as prices are expected to continue their upward trajectory in the near future.

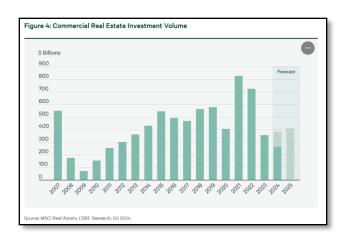


Sources: Bloomberg, Yahoo Finance

Cap Rates

Treasury yields, the risk premium, GDP growth, and rents are the biggest drivers of cap rates. Cap rates will slowly fall and stabilize at higher levels than in the last cycle due to interest rates remaining higher than they were during the 2010s. This is driven by outsized budget deficits and continued economic growth, among other factors.

From their peak in 2024 to the end of 2025, industrial cap rates will fall by 30 basis points (bps), retail by 24 bps, multifamily by 17 bps and office by 7 bps. Borrowing rates, which impact activity and pricing, can cause a material change in this forecast. Investors should consider broader macroeconomic drivers that influence Fed policy to understand cap rate movements.

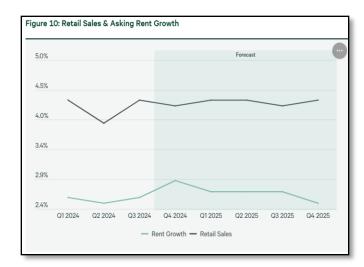


Consumer Spending And Retails Leasing

Retail space availability will remain limited in 2025. Despite lower interest rates, the high cost of capital will make it challenging to finance new projects and expansions, especially in markets where rental rates may not justify the expense.

Changing consumer preferences pose certain opportunities and challenges for retailers. Economic uncertainty and high inflation have made consumers more budget-conscious, often prioritizing essential goods that account for approximately 65% of consumer spending, according to the U.S. Bureau of Economic Analysis.

The ongoing rise of e-commerce also continues to reshape the retail landscape, particularly in sectors like apparel and electronics. The online share of total retail sales, excluding autos and gasoline, is expected to exceed 30% by 2030, up from 23% in 2024.



Multi-Family housing: The only other prospective investment after Data Centers

With continued solid fundamentals, multifamily is the most preferred asset class for commercial real estate investors in 2025. For all the short-term negative effects brought on by rising interest rates and record levels of new supply, strong renter demand will drive improving occupancy and accelerating rent growth. This in turn will lead to increased multifamily investment activity. The average multifamily vacancy rate is expected to end 2025 at 4.9% and average annual rent growth at 2.6%.

Ten of the 16 markets with the largest supply pipelines (ranked by inventory growth) are expected to enter 2025 having already reached their peak in new deliveries. Supply in the remaining six (Charlotte, Fort Lauderdale, Phoenix, Raleigh, Riverside and San Antonio) will peak in 2025.

Making homeownership even more difficult for renters, nearly 80% of all current homeowners have mortgage rates below 5% and will remain reluctant to sell in an ongoing high-interest-rate environment. This challenge will remain even more pronounced in many of the largest markets, where the average monthly cost of buying a house is forecast to be two to three times more than the average rent in 2025.

Sources: Bloomberg, Yahoo Finance

DATA CENTERS: The diamond everyone is looking to mine

The rapid growth in digital services, cloud computing, artificial intelligence (AI) and 5G is driving a persistent surge in demand for data center capacity. Applications on cell phones, smart devices, laptops and desktops are constantly increasing the need for processing, storing and computing data.

Despite record construction activity, the data center market will struggle to keep pace with demand, leading to higher utilization rates in existing facilities and tighter vacancy rates. The average vacancy rate for primary markets fell to a record-low 2.8% and the average preleasing rate of new construction hit a record high in 2024. We expect these conditions will persist in 2025, with the average preleasing rate rising to 90% or more and rental rates rivaling the record highs of 2011-2012.

Reasons for Increased Demand

The demand for data centers has surged due to the exponential growth of cloud storage, mobile and internet traffic, and artificial intelligence (AI). Emerging technologies like autonomous vehicles and large-scale AI applications (e.g., language model training) have intensified the need for computing capacity. This demand is further fueled by businesses' reliance on scalable, efficient data storage and processing facilities.

Constraints in Supply

While demand soars, supply struggles to keep pace due to severe constraints in power transmission capabilities. Limited availability of electricity, long wait times for new developments, and environmental opposition to necessary infrastructure, such as transmission lines, exacerbate the issue. These challenges have resulted in virtually no vacant space in major markets, rapidly rising rents, and substantial profits for developers able to secure guaranteed power sources.

Top Markets

Northern Virginia leads the global data center market, hosting 70% of the world's internet traffic due to its early role in the internet ecosystem, robust fiber connectivity, government presence, and relative safety from natural disasters. Other top markets prioritize fiber connectivity, proximity to population hubs, and low costs, though smaller markets near power sources are also gaining traction.

Risks

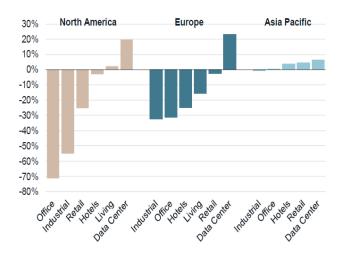
- Quantum computing advancements could disrupt the current model within a decade.
- High water usage, noise, and greenhouse gas emissions have raised opposition from environmental activists.
- Access to electricity remains a critical limiting factor in top-tier markets, limiting markets with large areas but no power.
- A limited pool of hyper-scale tenants increases dependency and risk for developers.

Future Outlook

Data centers are set to double global capacity in the next five years, with \$188 billion in projected capital expenditures. Power constraints will likely persist, ensuring high demand and profitability for facilities with secured energy access. Institutional investors and REITs continue to show strong interest in this sector, making data centers a lucrative real estate asset class. In the long term, cleaner energy sources and innovations in infrastructure will play a pivotal role in sustaining growth while mitigating environmental impacts.

New supply will decline across most property types

2025 forecast completions vs 2021-2024 peak



Sources: Bloomberg, Yahoo Finance



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NOTABLE M&A ACTIVITY EMERGING MARKETS

STEPHEN HUANG

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2025 Global M&A Environment Outlook

M&A recovery is long overdue. Deal momentum at the top-end of the market has already seen an upswing in 2024, with deals exceeding \$1B+increasing 17% YoY. This earnings season, we saw top banks such as JPM hit record breaking investment banking profits. This momentum will send shockwaves down the market ladder, as executives worldwide interprets breaking headlines as a sign to make their own consolidation plans. Afterall, the competitive stakes are high as the shroud around several factors underlying M&A trajectory begins to unveil itself heading into 2025.

Deregulation

On January 31, 2025, President Donald Trump enforced the executive order titled "Unleashing Prosperity Through Deregulation." The main purpose of this order is to enforce the elimination of 10 prior regulations for each new regulation issued, which is an effort to reduce the unnecessary complexity and compliance cost of administrative procedures. Additionally, the appointment of Brendan Carr as Federal Communications Commission chair and Lina Khan being replaced as Federal Trade Commission chair suggest a return to a pro-deregulation agenda for acquisition activities.

Tax Cuts

The new political regime's primary tax proposals aim to extend many of the key provisions from Tax Cuts and Jobs Act of 2017 (TCJA). These ideas include: lowering the corporate tax rate to 15-20%, implementing universal 20% tariffs on imports and 60% on Chinese imports, and eliminating clean energy tax incentives. Carrying these policies out could encourage corporate growth and remove barriers to dealmaking via tax reliefs and alleviated economic burdens. However, it is important to note that the tax proposals would increase the federal deficit budget by north of \$7T, which would tangentially lead to consequences higher interest rates and inflation – a clear negative for M&A activity.

Interest Rate Uncertainty

On January 19, 2025, the Federal Reserve announced it would hold on cutting rate in order to gain greater clarity on policies enacted by the new administration. The Federal Open Market Committee agreed to keep the target federal funds rate at 4.25-4.5%, ending a three-meeting streak of cuts. However, Fed Chair Jerome Powell expressed positive sentiment regarding the nation: GDP grew at a healthy 2.3% in Q4, PCE is sticky at 2.3%, and unemployment is at a low 4.1%. These statistics send strong signals for at least one or two more rate cuts towards the middle-end of the year. However, while the days of near-zero interest rates are gone, the private credit market continues to grow as an alternative solution to dealmaking capital.

Gen AI Theme

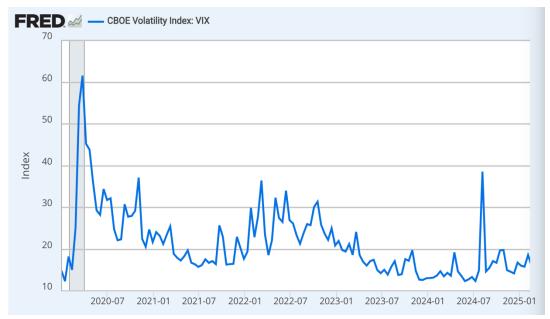
The artificial intelligence rollercoaster is currently belting through highs and lows. On January 21, 2025, President Trump announced Project Stargate, a \$500B AI infrastructure investment initiative between Softbank, Oracle, and OpenAI. Then a week later, Chinese AI startup DeepSeek took the world by storm by presenting a large-language model rivaling American ones at a mere fraction of the cost. This breakthrough challenges the conventional narrative behind the billions and billions of dollars that flows into AI infrastructure, more namely power generation and data centers. Despite this setback, the conviction of the technology remains generally forward-looking, as executives around the globe search for ways to incorporate GenAI into revenue-generating operations — creating M&A tailwinds across the technology, energy, and real estate sector.

Recent M&A Headlines

- 02/13/25: The United Kingdom's Competition and Markets Authority (CMA) plans to expedite its decision-making process and adopt a more business-friendly approach following government pressure, aiming to promote growth while maintaining the "watchdog" role
- 02/12/25: A survey by EY-Parthenon reveals that 82% of company executives expect profits to rise in the coming year heavily driven by M&A potential (up from 67% in the previous quarter)
- 02/05/25: According to a Bain & Co. report, Saudi Arabia and the UAE led a surge in mergers and acquisitions across the Middle East in 2024, with total deal value reaching \$29 billion, driven by sovereign wealth funds and energy transactions
- 1/30/25: Daiwa Securities, Japan's second-largest brokerage, sees record Q3 growth, driven by a surge in M&A advisory and equity underwriting, reinforcing expectations of an active dealmaking environment in Asia

CBOE Volatility Index: VIX

(Jan 2020 – Feb 2025) (Biweekly, Ending Monday)



VIX Index Notes

- VIX spiked above 60 in early 2020, reflecting market panic during the COVID-19 crash, one of the most volatile periods in modern financial history
- While VIX decreased postpandemic, spikes in 21-22 were driven by inflation concerns, rate hikes, and geopolitical events
- VIX surged in Aug 2024 in a direct response to Japan's shift in interest rate policy, which impacted global bond markets and caused ripple effects in equities
- Now, with volatility stabilizing, record dry powder from PE firms, and undervalued targets, dealmakers may seize opportunities in distressed assets and strategic consolidations, leading to a potentially strong M&A rebound

Sources: Bloomberg, Federal Reserve Bank of St. Louis, The White House, Reuters, Federal Reserve Board

Select Global M&A Deals

Company	Acquired By	Transaction	Sell Side Advisor	Buy Side Advisor
CALPINE°	Constellation.	Jan 10, 2025 \$29.1B	Evercore	Lazard
N Nordstrom	Liverpool*	Dec 23, 2024 \$6.25B	Moelis	J.P.Morgan
USS	NIPPON STEEL	Dec 18, 2024 \$14B	BARCLAYS	cîti
FRONTIER	verizon	Nov 13, 2024 \$20B	PT	Center View Partners
GLP CAPITAL PARTNERS	Ø ARES	Oct 8, 2024 \$5.2B	WELLS FARGO	Morgan Stanley

Global M&A Deals Commentary

Nordstrom Acquisition by Liverpool – Consumer and Retail

The Nordstrom family has secured 50.1% majority ownership, partnering with Mexican retailer El Puerto de Liverpool (49.9%) to take Nordstrom private at a \$6.25 billion valuation, offering a 10% premium at \$24.25 per share. With department stores like Macy's and JCPenney struggling post-COVID, as Amazon and Walmart dominate online retail, the move shields Nordstrom's management from short-term earnings scrutiny, allowing them to execute long-term growth strategies without public market pressure. Nordstrom's privatization marks a broader shift as legacy retailers, struggling against Amazon, Walmart, and changing consumer behavior, retreat from public markets to escape short-term pressures, restructure operations, and pivot toward digital and premium strategies, with private ownership emerging as the only viable path for those unable to compete at scale.

US Steel Acquisition by Nippon Steel - Industrials

US Steel, once the world's largest steel manufacturer during the New Deal era, has fallen to 24th globally by 2025, struggling with financing concerns for modernization from traditional mills to electric and blast furnaces. The Biden administration blocked its merger with Nippon Steel, citingnational security risks, a move that received bipartisan support but has ignited antitrust concerns over government intervention in corporate consolidation. U.S. Steel andNippon are now suing the federal government, alleging political interference in blocking the deal, while Biden has delayed enforcement until June 18, 2025, after CFIUS failed to reach a consensus on security threats. The block threatens massive layoffs in steel-dependent towns and raises questions about market competition, foreign investment, and industrial policy. Meanwhile, Trump's tariffs on foreign steel and aluminum increase the likelihood that the deal collapses entirely, reinforcing protectionist policies that could reshape global trade, domestic industry, and the future antitrust landscape.

Calpine Acquisition by Constellation Energy – Energy

In January 2025, Constellation Energy announced its \$29.1 billion acquisition of Calpine from Energy Capital Partners, including \$12.7 billion in debt, at a 7.9x 2026 EV/EBITDA multiple. The deal, structured as a \$4.5 billion cash-and-stock transaction, includes 50 million shares, yet Constellation's stock jumped 23% on announcement, signaling shareholder confidence despite dilution. As the nation's largest nuclear power producer and independent power generator, Constellation's 60 GW capacity now overshadows Vistra by 50%, solidifying its grip on U.S. energy markets. With 15 nuclear plants nationwide, the acquisition of Calpine's leading natural gas fleet cements its dominance in both renewable and transitional energy sources. Set to close in late 2025, the deal positions Constellation to capitalize on surging electricity demand from AI data centers, reinforcing its foothold in an energy market increasingly shaped by high-density computing power.

Frontier Acquisition by Verizon - Telecommunications

On November 13, 2024, Frontier Communications shareholders approved the \$20B sale (\$10.4B Debt and \$9.6B Cash) to Verizon, with estimations to close around May of 2026. In an all-cash strategic transaction, Frontier shareholders will receive \$38.50 per share in cash, which is a 37% premium to the share price at the time of the deal announcement. Acquiring Frontier, which is the nation's largest fiber broadband provider, will allow Verizon to expand its fiber footprint while recognizing revenue synergies via expansion of customer base. This transaction represents the continued adoption and saturation of 5G comectivity that will likely peak in 2025 as the last of copper wireline operations begin to phase out and replaced by fiber. However, the broadband telecom industry face significant headwind given competition by satellite service providers like Starlink as well as consumer abandonment of cable television for streaming services.

GLP Capital Partners Acquisition by Ares Management – Financial Institutions

Ares Management Corporation announced a \$5.2B deal to acquire Singapore-based GLP Capital Partners Limited, excluding its China operations. The cash and stock transaction is expected to close in the first half of 2025. GLP Capital Partners is a global alternative asset manager with \$122B in asset-under-management (AUM), with majority in real estate focusing on logistics, renewable energy, and data centers. The strategic move adds 320M square feet 6 industrial and digital properties and 23 funds to Ares' \$464B AUM, strengthening its position in real estate and overall geographic coverage. In terms of industry growth, the real estate market sees two main secular trends amongst real assets: hyperscale data centers and automated industrial spaces. As artificial intelligence demand grows, property near risk-free weather and cheap energy sources will grow in value along with manufacturing facilities integrating LLM automation into existing operational processes.

Sources: Bloomberg, Reuters, Yahoo Finance, Pitchbook

Emerging Markets – US Perspective

Emerging markets face a turbulent 2025, shaped by U.S. rate cuts, inflation, tariffs, and shifting immigration policies. While AI-driven investments boost some economies, foreign aid cuts push others into crisis. As global trade and capital flows shift, EMs must adapt to an increasingly uncertain landscape.

Interest Rates, Inflation, and Exchange Rates

Although US interest rates has come to a halt, the series of rate cuts that started in September 2024 had already inspired growth in many areas among EMs. Since many EMs rely on external sovereign and corporate debt that is often denominated in the stable USD, the lowered rates reduces the cost of capital for economic activity to occur. The justification for lowered rates comes at a steady inflation gauge, as the US Fed successfully navigated a temporary soft landing. This is not the case for EMs as developing countries struggle to cool their inflation. The average inflation rate of developing economies is stuck at 4.6% (excluding China) – a stark contrast to the 1.8% median rate of advanced G7 countries. However, this spread may be short-lived, as many economists are now concerned that Trump's inflationary stance will lead to strengthening of the USD, which is solemn news for EM bond holders. For example, the EUR/USD traded to a weekly high of 1.034 on February 11, 2025, but could swing North or South depending on February's CPI report. This constant fluctuation of exchange rates along with whipsaw trade balances makes it difficult for undeveloped markets to fully and reliably capitalize on US liquidity.

Trump Tariffs

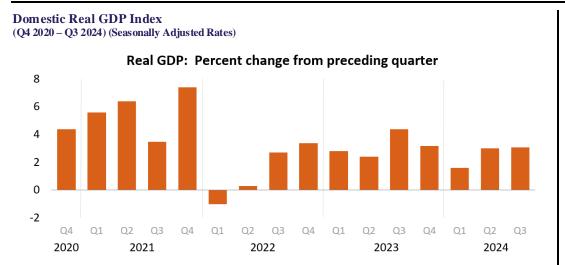
President Trump's efforts of reshoring is carried out by a flurry of tariffs, which is essentially a tax on imported goods. On February 1, 2025, the administration imposed 25% tariffs on Canada and Mexico but shortly recalled them after reaching a temporary 30-day delay with presidents of the neighboring countries promising to fight drug trafficking. China, however, was excluded from this pact. Effective since February 4, a 10% charge on all goods over \$800 imported from the Beijing sparked retaliation. This \$800 boundary is known as De Minimis, which exempts imported goods under the limit free of taxation – Trump aims to shatter this clause as well. Then just a few days later, on February 11, the president announced 25% tariffs on all steel and aluminum imports effective March 12. This tax applies to all foreign countries and is seemingly ubiquitous but unapologetically punishes Brazil and the previously exempt Canada and Mexico, who together makes up the US' largest exporter of steel. As the trade war salvo unfolds, EMs will surely absorb the aftershock. Governments that deal with America will be forced to implement their own defense measures, which not only feeds into global inflation and currency imbalance but also harms years of diplomatic goodwill, inhibiting growth opportunities, such as foreign direct investments and cross-border collaborations, for developing countries to flourish.

Immigration and Deportation Policies

The latest immigration crackdown initiated by the new political regime marks a pivotal shift in the US labor market. Key policy changes include restricting work permits from people without legal status, stripping public benefits away from asylum seekers, and expanding "expedited removal" which allows the US to deport someone without a proper court hearing. Since 25% of net immigration is made up of undocumented migrants, economists predict the figure will free-fall to a low 750,000 per year compared to an annual average of 1.7 million over the past five years. This change will evidently burden an American labor force that consists of 5% unauthorized immigrants, irritating unemployment as measures are enforced and employers hesitate. In the short-term, wages will rise but due to rising costs of production and supply chain inefficiencies, output will diminish as evident in analyst projections of a 0.3-0.4% decline in GDP. Instead, the output may shift in favor for EMs, as capital investments and highly-skilled workers are redirected to developing economies better positioned to absorb displaced talent. However, a headwind persists for countries reliant on remittances, as dwindling migrant incomes reduce financial inflows to households of transitioning nations.

Capital Reallocation and Other Initiatives

Two forces pull EMs in opposite directions—AI-driven acceleration and crisis-induced stagnation. Project Stargate fuels semiconductor demand, cloud storage, and hardware, strengthening Taiwan's chip dominance, Vietnam and Malaysia's electronics production, and India and the Philippines' business process outsourcing (BPO). The initiative launches with an initial \$100 billion investment in 2025, scaling up to \$500 billion by 2029, positioning select EMs as critical players in AI infrastructure over the next decade. Meanwhile, the Department of Government Efficiency (DOGE) froze funding for the United States Agency for International Development (USAID) early February. This order revoked \$46.8 billion in foreign assistance, which once accounted for 65% of total US foreign aid. Over the next 12-18 months, frontier governments abandons growth for crisis control: Ethiopia, Nigeria, and South Sudan will redirect resources to food insecurity and healthcare breakdowns, Yemen and Syria, stripped of infrastructure funding, will spiral further into displacement. Some low-income nations face economic shocks exceeding 3% of their Gross National Income (GNI) by 2026, deepening stagnation and weakening global trade links. As the nation's capital shifts from aid to AI, select EMs thrive while others sink deeper into stagnation, widening the global divide between those who innovate and those forced to survive.



Domestic GDP Notes

- The US economy experienced robust GDP growth in 2021, with multiple quarters exceeding 5% growth, driven by stimulus spending, reopening effects, and consumer demand rebound
- Growth slowed in early 2022, with Q1 showing a slight contraction, reflecting rising inflation and early rate hikes
- With the GDP maintaining 2-3% quarterly growth, investors may continue favoring developed markets over emerging markets, which have struggled with higher inflation, weaker currencies, and slower post-COVID recoveries

Sources: Bloomberg, American Immigration Council, US Bureau of Economic Analysis, World Bank Group

Emerging Markets – International Perspective

Since Trump's re-election, EM equities have lagged behind U.S. markets, reflecting a violent whipsaw in global power dynamics. Protectionist policies, capital flight, and trade realignments have forced EMs into a recalibration phase, but as the dust settles, these economies are staking their claim in the next macro-realignment.

BRICS: China

The slowdown in China's economic growth is forcing EM equities to diversify, with the country's MSCI EM index weighting dropping from 42% in 2021 to just 26% in 2024. Targeted US tariffs pose another hurdle, but President Xi Jinping is shifting focus toward India and Saudi Arabia to stabilize export reliance beyond the US Despite this decline, China remains the largest EM as it pushes real estate recovery initiatives, employment security measures, and a 2025 economic stimulus package designed to restore consumer confidence and reignite inflation, countering the price stagnation foreign importers have exploited. Meanwhile, China's equity market has recently surged, with the Hang Seng Tech Index rallying over 20% from its January 2025 low, fueled by DeepSeek's emergence as a legitimate AI competitor to Western tech giants. With EM funds still trading at a 50% price-to-book discount to developed markets, investors have a prime opportunity to capitalize on this shifting landscape before valuations correct.

N-11: Mexico

Mexico faces economic slowdown and recession fears following Claudia Sheinbaum's election in October 2024, as her administration cuts public spending and prioritizes law enforcement reforms amid soaring impunity levels (90%) while navigating political uncertainty with the US. A wave of judicial reforms has dampened investment, creating uncertainty in mining, energy, and public infrastructure. Meanwhile, Trump's policies add further downward pressure, with deportation costs, trade tariffs, and the renegotiation of USMCA threatening economic stability. Despite these headwinds, Mexico's MSCI EM Index weighting has surged to 5.64%, nearly triple its 2023 level, driven by "Plan Mexico," a nearshoring national strategy announced on January 21, 2025. This strategy offers tax incentives and workforce training to attract companies relocating supply chains from Asia closer to US markets, particularly in the automotive, medical, and semiconductor sectors, positioning Mexico as a key beneficiary of FDIs and shifting global trade flows.

Frontier Countries: Vietnam

Vietnam has established itself as one of Southeast Asia's fastest-growing and most reliable economies since 2015, when DC-Beijing trade tensions triggered a "China+1" strategy, prompting companies to diversify supply chains. Offering cheaper labor and capital costs than China, Vietnam fully embraced this shift, attracting FDI-driven job creation and wage growth while maintaining inflation stability and policy consistency. Now, a decade into its flying trajectory, Vietnam is positioning itself for an FTSE Russell upgrade from frontier to emerging market status in its next annual review, a move analysts say could unlock up to \$6 billion in foreign capital inflows and elevate its \$269 billion stock market into global indices. Buoyed by strong paper packaging and semiconductor tailwinds, Vietnam has raised its 2025 GDP growth target to 8%—up from the prior 6.5-7% range—after surpassing expectations in 2024. While US tariff risks and pre-existing bad credit loom, Vietnam's impressive momentum continues to outpace regional peers, reinforcing its confidence as the next tiger economy.

MSCI Emerging Markets Index (USD) (Jan 2010 – Jan 2025)



Emerging Market Notes

- MSCI Emerging Markets Index has significantly lagged behind developed markets, reflecting weaker growth, geopolitical risks, and economic challenges
- MSCI World Index and MSCI ACWI have shown strong longterm growth, driven by developed economies, particularly the U.S. and techheavy markets
- While all indices experienced a sharp decline during the COVID-19 crash (2020), developed markets recovered rapidly, whereas emerging markets struggled to regain momentum.

Global Nation GDP Comparison (As of Q4 2024)

Country	Nominal GDP	GDP per Capita	Purchasing Power Parity
United States	\$29.17T	\$86,601	\$29.17T
China	\$18.27T	\$12,970	\$37.07T
Mexico	\$1.42T	\$11,406	\$2.58T
Vietnam	\$0.41T	\$4,106	\$1.69T

GDP Comparison Notes

- The U.S. remains the wealthiest country per capita, reinforcing its global economic dominance
- China is the largest economy in PPP terms but still lags behind the US in nominal GDP
- Mexico has a similar per capita GDP with China due to US trade ties, which is now threatened
- Vietnam is growing quickly, following the path of China's industrial rise

Sources: MSCI Inc., Deloitte, World Bank Group, Moody's, Wall Street Journal





MACRO POLITICS

RANEY NEWMAN

RESEAR GROUP STANTO RESEAR GROUP STANTO GRESEAR GROUP STANTO GROUP TANTO ESEAR GROUP

Trump Administration Policy

Tik Tok Ban

The U.S. Supreme Court recently upheld a law that will ban TikTok unless its Chinese parent company, ByteDance, divests its U.S. operations by January 19. President-elect Donald Trump has suggested he may grant a 90-day extension to avoid the ban, citing the need for more time to review the situation. The Biden administration, however, has stated it will not enforce the ban, leaving the decision in Trump's hands. Major U.S. tech companies, including Meta, Alphabet (Google), Snapchat, Pinterest, and Reddit, stand to benefit significantly if the ban goes into effect, as they could capture TikTok's user base and advertising revenue. The ban also represents a potential investment opportunity for those who can identify which companies are best positioned to capitalize on TikTok's absence from the U.S. market, or even which companies lose the most from a blocking of the ban.

Deportations

President-elect Donald Trump has announced an ambitious mass deportation plan targeting undocumented immigrants, particularly those with criminal records. His administration plans to use executive orders to expedite the process and has discussed deploying the military to assist with deportations. The first operation is scheduled to begin on January 21, the day after his inauguration, starting in Chicago. Up to 200 Immigration and Customs Enforcement (ICE) officers will be deployed to carry out raids, targeting undocumented immigrants with criminal records, including minor offenses like driving violations. Trump's plan aims to deport millions of undocumented immigrants, with estimates ranging from 1 million to as many as 11 million over the next four years. Sectors like agriculture and construction, which heavily rely on undocumented workers—such as Houston's construction industry, which employs an estimated 100,000 undocumented workers—are expected to face substantial disruptions.

Economists at the Peterson Institute for International Economics estimate that the plan could have profound economic consequences. Deporting 1.3 million unauthorized workers would reduce the potential U.S. labor supply by 0.8% by 2028, while deporting 8.3 million would lower labor supply by 5.1%. GDP would fall 1.2% below baseline in the smaller deportation scenario and a severe 7.4% below baseline in the larger scenario. Inflationary pressures would also rise sharply. In the 1.3 million deportation scenario, U.S. inflation is projected to increase by 0.54 percentage points above baseline by 2026, while in the 8.3 million scenario, inflation could climb by as much as 3.5 percentage points by 2026. There are also significant up front costs, the American Immigration Council estimates deporting one million undocumented immigrants annually would cost more than \$88 billion per year.

Trump's deportation plans significantly increase uncertainty for Federal Reserve policy, as the Fed grapples with its dual mandate of maintaining price stability and maximizing employment. Rising inflationary pressures due to labor shortages and supply disruptions clash with slower economic growth, creating additional headwinds for the U.S. economy. Further compounding this uncertainty is the widespread belief that Trump may not fully implement his ambitious deportation plans once the economic realities become clear. However, even partial deportations and their associated economic costs pose a substantial hurdle for investors.

From a monetary policy perspective, deportations and tariffs could introduce significant challenges to the Fed's dual mandate. Rising inflation could prompt the Fed to hold off on cutting interest rates or even consider raising them, while simultaneous reductions in GDP and employment might push the Fed to cut rates despite inflationary pressures. This conflict places the Fed at the center of investor focus. When considered alongside Trump's proposed tariff policies, the challenges for monetary policy become even more pronounced. As previously outlined, markets are already grappling with uncertainty over the direction of rate cuts, and policies like these further amplify the stakes. For investors, the Fed's ability to navigate these conflicting pressures will be pivotal in determining market outcomes.

Sources:https://www.cbsnews.com/news/supreme-court-tiktok-ban-ruling/, https://www.msn.com/en-us/news/other/trump-says-he-will-most-likely-give-tiktok-a-90-day-extension-to-avoid-a-ban/ar-AA1xqRyq, https://www.msn.com/en-us/news/us/chicago-will-be-target-area-for-incoming-trump-administration-next-week-top-dhs-officials-confirm/ar-AA1xqT8Y, https://www.msn.com/en-us/news/politics/details-spill-on-immigration-executive-orders-trump-expected-to-sign-monday/ar-AA1xqirJ, https://www.houstonchronicle.com/opinion/outlook/article/mass-deportation-cost-trump-20025156.php, https://news.northeastern.edu/2024/11/18/trump-mass-deportation-plan/, https://www.brookings.edu/articles/the-labor-market-impact-of-deportations/,

Tech Industry Spotlight

During Trump's first presidency, the

technology sector was a standout performer, delivering robust returns as companies such as Apple, Microsoft, Alphabet (Google), and Amazon benefited from favorable market conditions and the rapid growth of digital technologies. One of the administration's hallmarks was its focus on deregulation, which created an environment conducive to innovation and expansion in the tech industry. Looking ahead, a second Trump administration could provide further tailwinds for tech companies, particularly in areas like artificial intelligence (AI). Deregulation in the AI space has already been signaled as a priority, with policies aimed at fostering innovation and reducing barriers for tech companies developing cutting-edge technologies. This could significantly benefit firms like Nvidia, which provides critical AI and machine learning infrastructure, and Alphabet, with its extensive AI-driven initiatives through Google and DeepMind. Similarly, companies like Tesla, whose autonomous driving technologies rely heavily on AI, could also see substantial gains from a policy environment that prioritizes innovation over regulatory constraints. Investors may find these firms well-positioned to achieve excess market returns under Trump's proposed policies.

Energy Sector Spotlight

The energy sector, despite initial enthusiasm during Trump's first presidency, underperformed relative to expectations. Policies aimed at deregulation and boosting domestic energy production, such as rolling back environmental restrictions, were expected to drive significant gains. However, returns were modest, as global oil price volatility and increasing competition from renewable energy sources limited the sector's growth. For instance, the Energy Select Sector SPDR ETF (XLE) rose only 16% during Trump's first term, significantly lagging the broader market. Looking ahead, while Trump's policies might again favor the energy sector, the potential for growth appears constrained. Under Biden, domestic oil and gas production reached alltime highs, leaving limited room for significant expansion. Additionally, global trends toward decarbonization and renewable energy pose structural headwinds for traditional energy companies. Investors might temper their expectations, focusing instead on energy firms with strong balance sheets and the ability to adapt to market shifts rather than expecting runaway gains from Trump-era policies alone.

Policy Spotlight: Trump Administration Tariffs

On the campaign trail, a major running point of Donald Trump was his tariff policy. While the first Trump administration was no stranger to tariffs (representing somewhat of a revival in the use of tariffs in non-warrelated trade policy), Trump has promised significantly harsher, more sweeping tariffs. Currently, he has insisted on a sweeping 10–20% tariff on goods imported globally. More specifically, he has promised a 60% tariff on goods from China and 25% for Canada and Mexico if they do not meet his policy demands.

Despite the obvious impact tariffs have on prices, on the campaign trail Trump promised these measures would not affect prices for American consumers. Trump's first-term trade war highlights this phenomenon. Not only have studies found that his tariff costs were nearly entirely passed through to American consumers, but domestic producers also raised their prices in response to the tariffs, further increasing costs for Americans. Facing this reality, since the election Trump has admitted that he cannot keep his promise that his tariff policy would not increase costs for Americans.

Another major focus of Trump's campaign was his promise to reduce consumer prices and bring down inflation. In the wake of Trump's election, many political and economic experts pointed to inflation as a major reason for his victory—a phenomenon observed globally, where current administrations have been ousted at the ballot box. Since the election, however, Trump has walked back many of these statements, effectively stating that the issue is more complicated than people might have thought.

The overall impact of Trump's proposed tariffs remains uncertain, both in terms of how they will affect inflation and how the tariffs will ultimately be implemented. Most analysts do not believe Trump will impose the most extreme of his proposed tariffs, suggesting they are more likely to be used as a bargaining chip. Nonetheless, these policies have significantly increased market uncertainty. A report suggesting the tariffs could be implemented gradually was generally seen as a positive sign.

While tariffs have broad impacts beyond prices, inflation and its effect on consumer wallets remain central concerns for both consumers and markets. This is especially true during the current Federal Reserve easing cycle, where the Fed has signaled it may cut rates less in 2025 than previously anticipated due to inflationary pressures. Since December 2024, markets have been volatile amid concerns that the Federal Reserve will cut interest rates less than expected, leading to the 10-year Treasury yield reaching its highest levels since November 2023 and the S&P 500 falling by 2.5%. On Tuesday, January 14, Kansas City Fed President Schmid remarked that the Fed remains ready to act if Trump's tariff policies impact inflation.

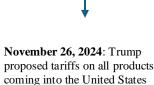
Methodology

Understanding the potential impact of proposed tariffs on Federal Reserve policy—and consequently, market performance—makes it essential to estimate their effect on inflation. The following outlines a methodology for estimating the impact of these tariffs on the Consumer Price Index (CPI).

To begin, the 98 categories from the Harmonized System 2023 import data for Canada, China, and Mexico (sourced from the USA trade online) were mapped to the 8 major CPI categories: Food & Beverages, Housing, Apparel, Transportation, Medical Care, Recreation, Education & Communication, and Other Goods & Services. Using these totals, the import percentage of Personal Consumption Expenditures (PCI), as calculated by the Bureau of Economic Analysis, was recategorized into the corresponding CPI groupings.

Key Timeline

January 2018: Trump initiated the trade war with China by imposing tariffs on solar panels and washing machines



once he takes office

December 18, 2024: Federal Reserve officials expressed caution about cutting interest rates due to uncertaint about Trump's plans to impose tariffs on trading partners

Note: The Harmonized Code data was organized into relevant CPI categories as follows: Food & Beverages (01-24, 31); Housing, including rent, household furnishings, and appliances (32, 44, 57, 58, 69, 70, 94); Apparel (33, 41, 42, 43, 50, 51, 52, 54, 55, 61, 62, 64, 65, 66, 91); Transportation, including vehicles, parts, and tires (86, 87, 88, 89); Medical Care, including pharmaceuticals and medical equipment (90, 30); Recreation, including sporting goods, toys, hobbies, and electronics for entertainment (56, 60, 62, 63, 92, 95, 56); Education & Communication, including computers, phones, and school/office equipment (37, 47, 48, 49, 59); and Other Goods & Services, including personal care products and miscellaneous goods (33, 34). Categories labeled "Everything" (39, 40, 25-28, 72-83, 84, 85) were distributed among multiple relevant CPI groups, with group 27 (mineral fuel and oil) split evenly between Transportation and the other seven categories to reflect the broad impact of fuel costs. The remaining industry-related materials were allocated evenly to Housing, Transportation, Medical Care, and Education due to their reliance on industrial products. No specific CPI category so excluded from the analysis (35, 36, 38, 45, 46, 53, 67, 68, 71, 93, 96-99).

Sources: Amiti, M., Redding, S. J., & Weinstein, D. E. (2019). "The Impact of the 2018 Tariffs on Prices and Welfare."

Cavallo, A., Gopinath, G., Neiman, B., & Tang, J. (2021). "Tariff Pass-Through at the Border and at the Store: Evidence from U.S. Trade Policy." *American Economic Review: Insights*, 3(1), 19–34.

Peterson Institute for International Economics. (2024). No trade is tax-free: Trump's promised tariffs will hit large flows. Retrieved from https://www.piie.com/blogs/realtime-economics/2024/no-trade-tax-free-trumps-promised-tariffs-will-hit-large-flows

https://www.bls.gov/cpi/tables/relative-importance/2023.htm; https://seekingalpha.com/news/4394942-its-too-early-to-assess-impact-of-expected-trump-policies-kc-feds-schmid-says

https://apps.bea.gov/iTable/

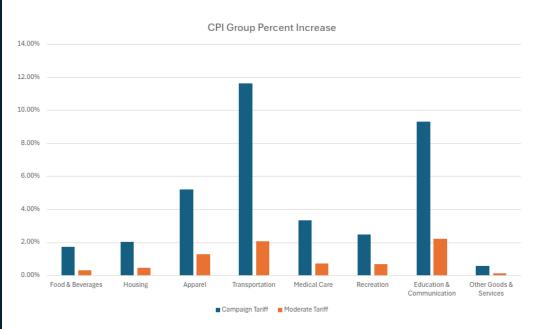
U.S. Bureau of Economic Analysis, "Table 2.3.5. Personal Consumption Expenditures by Major Type of Product" https://usatrade.census.gov/

Trump Administration Tariffs

Next, tariff percentages were applied to imports based on their country of origin: 25% for Canada and Mexico, 15% globally, and an additional 46% for China on top of the existing 16% tariffs already applied to the majority of Chinese products. Using these adjusted import totals, the estimated change in CPI was calculated by summing each CPI group's percentage price increase (for the imported portion) multiplied by its import share and CPI component weight. Additionally another scenario was considered, which reflects a more moderate tariff projection based on the expectations of economists and financial leaders. It assumes a 15% tariff increase on Chinese imports and a 3% tariff increase on imports from the rest of the world. This approach considers a less extreme escalation of trade tensions and focuses on realistic adjustments derived from expert forecasts and the reality facing the Trump administration. Finally, regarding the pass-through rates of these tariffs, studies of Trump's initial trade war indicated nearly 100% pass-through to consumer prices. Therefore, no additional adjustments for pass-through were made in these estimates.

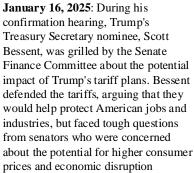
Results

Analysis indicates that the most extreme versions of Trump's proposed tariff policy could result in an excess inflation of 4.1% above current levels. Even a less extreme tariff scenario is projected to cause a significant 0.83% increase in inflation. These findings align with other research on the topic, which estimates tariff-induced inflation impacts ranging from 2–7%. This analysis is relatively conservative, as it does not account for domestic producers raising prices in response to tariffs—a phenomenon observed during Trump's initial trade war. At that time, many domestic producers increased prices to match the higher costs of imported goods, further exacerbating inflationary pressures. Additionally, the analysis does not factor in the retaliatory tariffs other countries might impose on U.S. goods, which could create additional stresses for American businesses and consumers by reducing export opportunities and further disrupting supply chains.



The graph of CPI group percentage increases for the two tariff scenarios highlights several critical implications. It demonstrates that, while all industries experience some level of impact, those heavily reliant on manufacturing—such as transportation, apparel, and education/communication (which includes technology like smartphones)—are disproportionately affected. This aligns with the Trump administration's policy objectives, which aimed to incentivize domestic manufacturing by making imported goods more expensive, thereby encouraging businesses to shift production back to the United States.

January 15, 2025: Trump announced plans to create a new agency called the External Revenue Service to collect tariffs and other revenues from foreign nations.



January 17, 2025: Trump reiterated his intention to impose a wide range of tariffs, including a blanket tariff of 10-20% on all imported goods, and additional tariffs on goods from China, Mexico, and Canada.

Sources: Amiti, M., Redding, S. J., & Weinstein, D. E. (2019). "The Impact of the 2018 Tariffs on Prices and Welfare."

Cavallo, A., Gopinath, G., Neiman, B., & Tang, J. (2021). "Tariff Pass-Through at the Border and at the Store: Evidence from U.S. Trade Policy." *American Economic Review: Insights*, 3(1), 19–34.

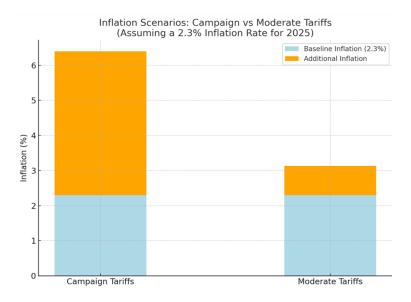
Peterson Institute for International Economics. (2024). No trade is tax-free: Trump's promised tariffs will hit large flows. Retrieved from https://www.piie.com/blogs/realtime-economics/2024/no-trade-tax-free-trumps-promised-tariffs-will-hit-large-flows https://www.msn.com/en-us/money/other/trump-announces-new-external-revenue-service-to-collect-foreign-money/ar-AA1xcRW0



Trump Administration Tariffs

Significance

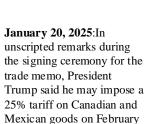
Uncertainty surrounds Trump's proposed tariffs, as his positions often shift despite attempts by advisors and the media to moderate some of his ideas. For instance, while there has been speculation that Trump might focus on specific import sectors, he has repeatedly returned to his earlier proposals for broad, general tariffs. Most recently, Trump announced plans to create a new agency, the External Revenue Service (ERS), to collect tariffs and other revenues from foreign nations. This agency is intended to function similarly to the Internal Revenue Service (IRS), which collects domestic taxes. Trump has framed the ERS as a way to ensure that countries benefiting from trade with the U.S. "pay their fair share." Regardless of how these tariffs are collected, their bottom-line effect on the economy and inflation remains the central concern.

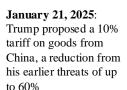


The inflationary effects of such tariffs could prompt action—or, in the case of anticipated rate cuts, inaction—by the Federal Reserve, posing a significant market risk for investors. Persistent inflationary pressures could force the Fed to hold rates higher for longer or even raise them further, undermining economic growth and impacting sectors reliant on lower borrowing costs. In the two different inflation scenarios for 2025, the tariffs could result in overall inflation from 3-6%, well above the Feds goal of 2%. This repricing has already been felt in both the stock and bond markets, where climbing bond yields have reached multi-year highs, and significant corrections have occurred in equities. These movements highlight the sensitivity of markets to inflationary risks and the Fed's rate policy trajectory. At the same time, positive macroeconomic data has provided relief, with lower than expected inflation in December triggering a equity rally, reinforcing the belief that market movements are largely hinged on worries about rate cuts and inflation. This dynamic underscores the fragility of the current market environment, where investor sentiment is closely tied to the Fed's ability to navigate inflation without destabilizing economic growth.

Potential tariffs also present opportunities for certain sectors. During Trump's first administration, domestic producers in tariff-affected industries often raised prices alongside higher import costs. If companies can increase prices without experiencing significant cost increases themselves, they could see improved profit margins. This dynamic is particularly advantageous for businesses with strong pricing power or minimal reliance on imported inputs, as they can capitalize on higher revenues without proportionate increases in expenses. Investors might focus on sectors such as domestic manufacturing, agriculture, and energy—areas that are likely to benefit from reduced foreign competition or higher domestic demand under a tariff regime. Further emphasized by the graph of CPI group percentage increases, products most reliant on manufacturing are expected to see the largest cost increases for purchasers. This creates an opportunity for domestic producers to expand their market share by offering competitive alternatives to imported goods. Additionally, domestic manufacturers may benefit from increased pricing power, allowing them to raise their margins alongside overall price increases. This dynamic aligns with the intended effects of protectionist trade policies, which aim to encourage domestic production and reduce reliance on foreign imports. However, while this shift may benefit producers, it could also lead to higher consumer prices, particularly in industries heavily dependent on imported components or finished goods. Tesla, whose CEO is one of Trump's closest advisors, is a company to watch in this context. One major risk facing Tesla is the influx of inexpensive Chinese electric vehicles into the U.S. market. High tariffs on Chinese goods would shield Tesla from this competition, protecting its market share and potentially boosting its profitability.

January 20, 2025: Trump issued a memo directing federal agencies to study U.S. trade with China and reassess the updated trade deal between the U.S.. Canada, and Mexico. In terms of timing, the memorandum calls for many of the reviews and investigations to be complete by April 1, 2025, implying that new tariffs on both China and other countries could come in the late spring or early summer





Sources: Amiti, M., Redding, S. J., & Weinstein, D. E. (2019). "The Impact of the 2018 Tariffs on Prices and Welfare."

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