

The Economic and Geopolitical Outlook

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The Hartford

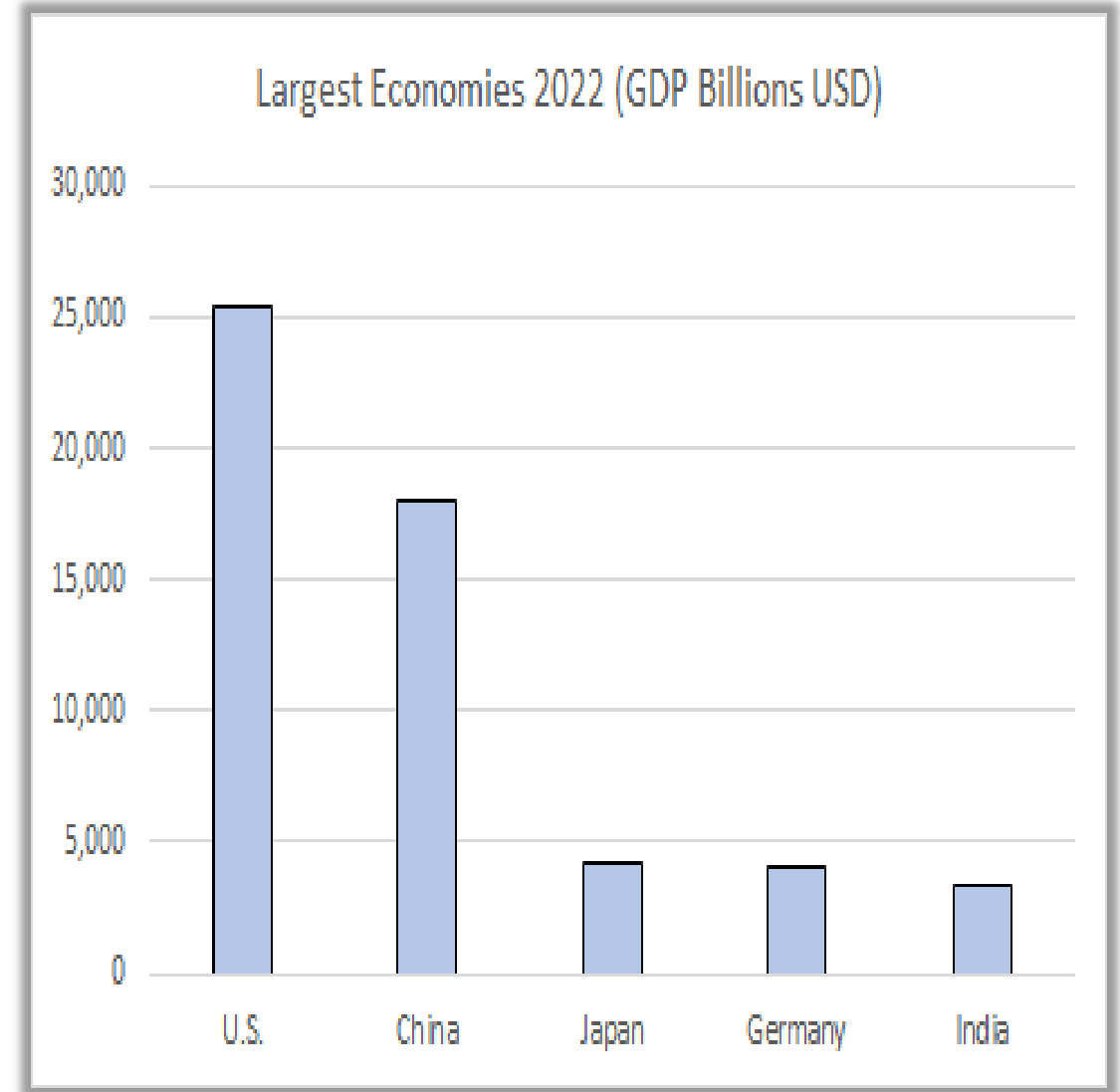
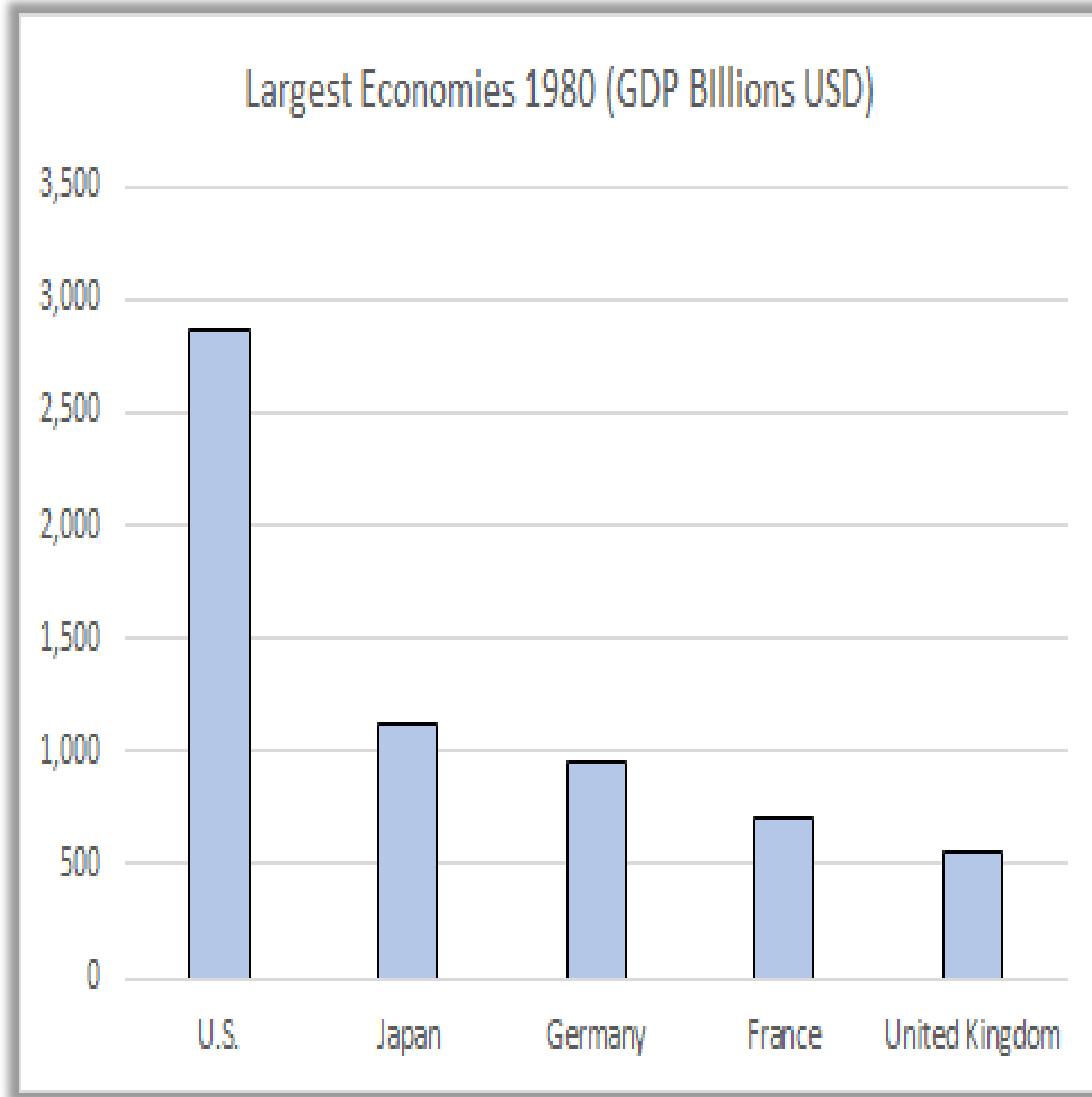




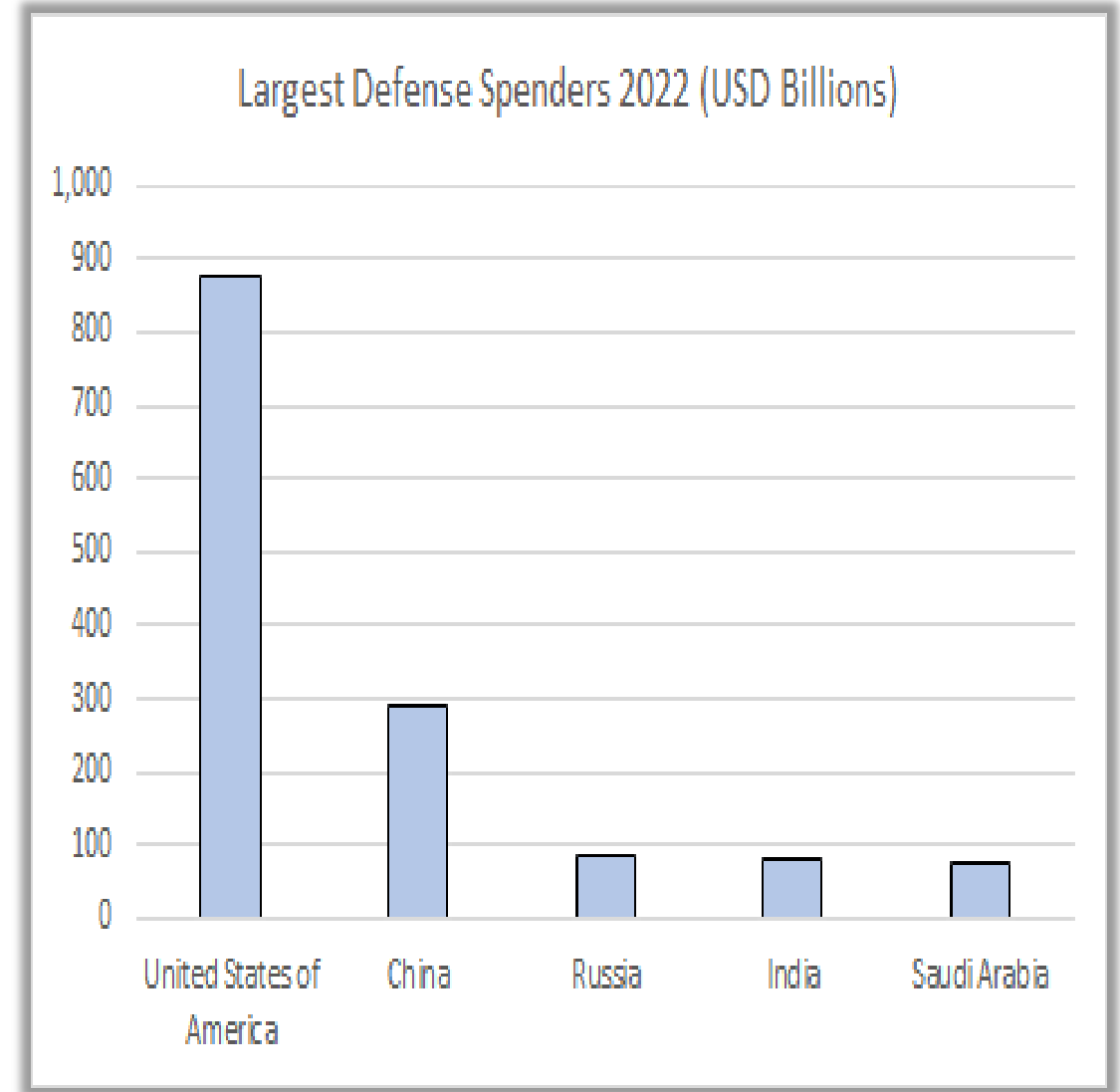
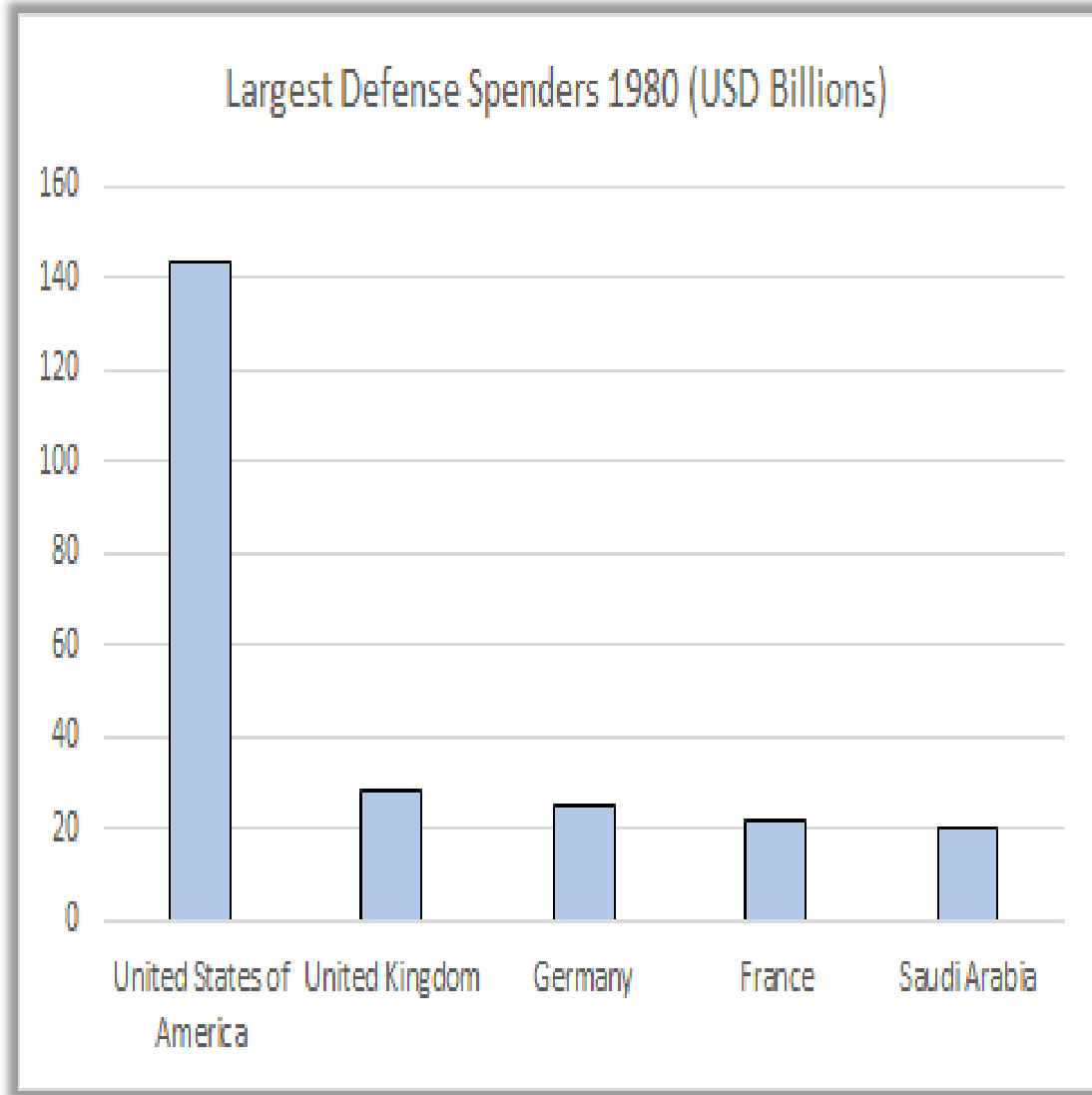
How We Got Here – The Three Themes Driving EVERYTHING



Theme 1: Emergence of new power centers and a fracturing world order.

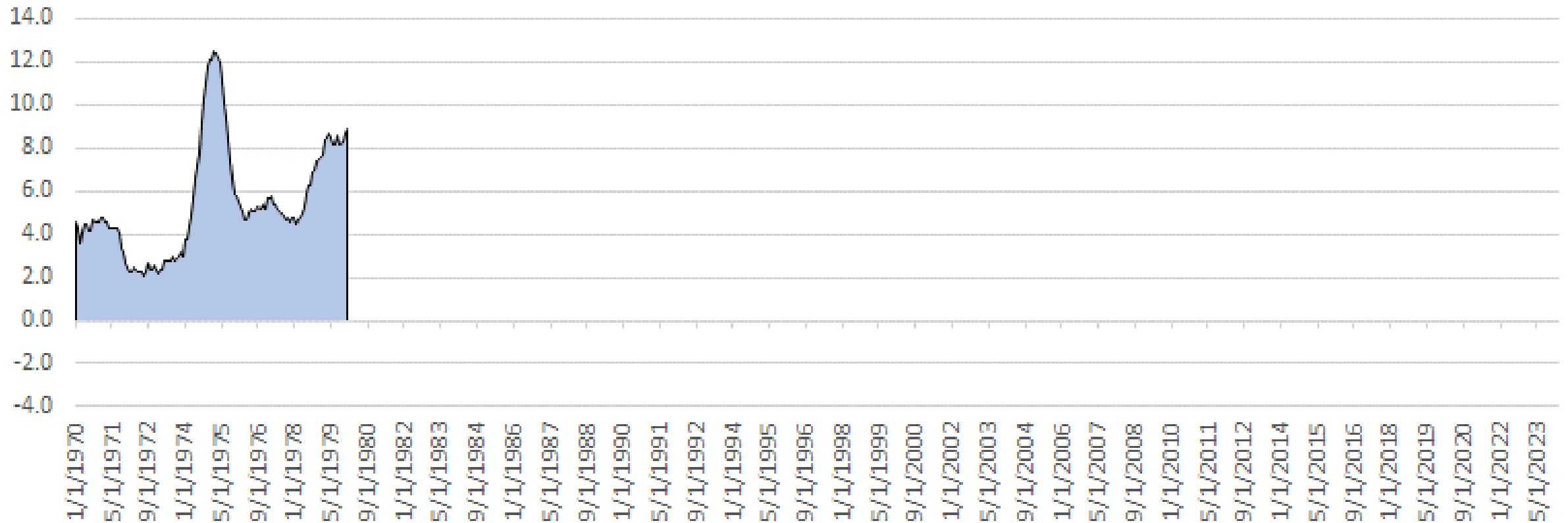


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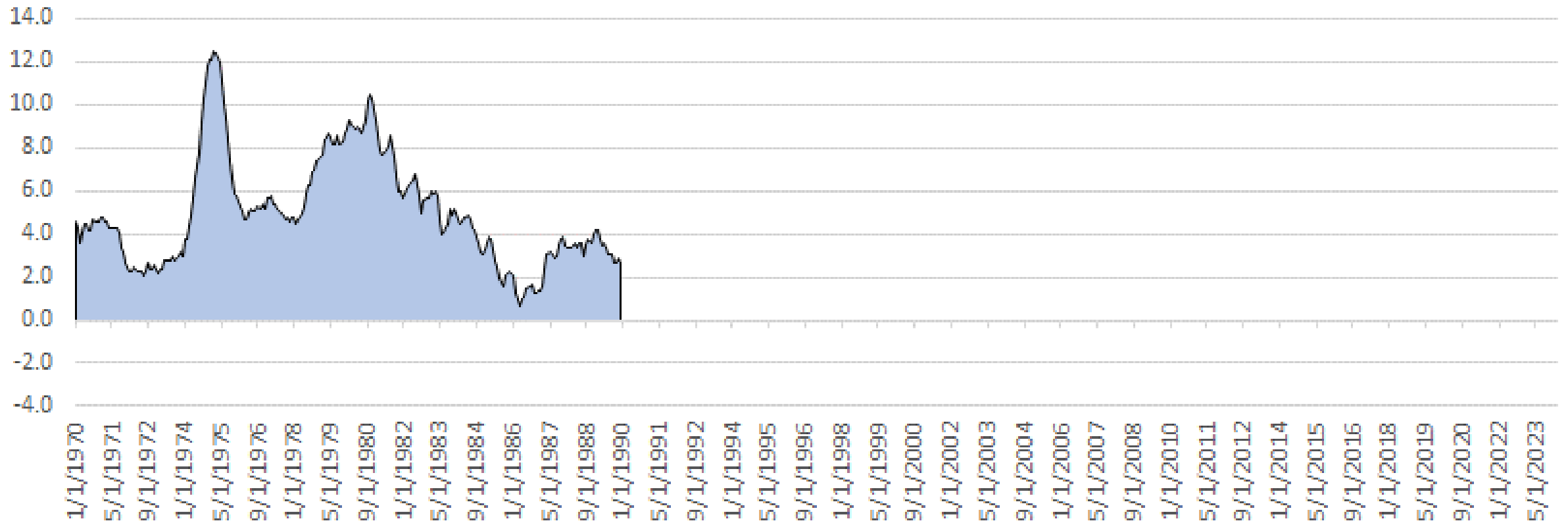
Theme 2: The advent of modern trade and lessons learned.

Goods Inflation and Supply Chain Pressures



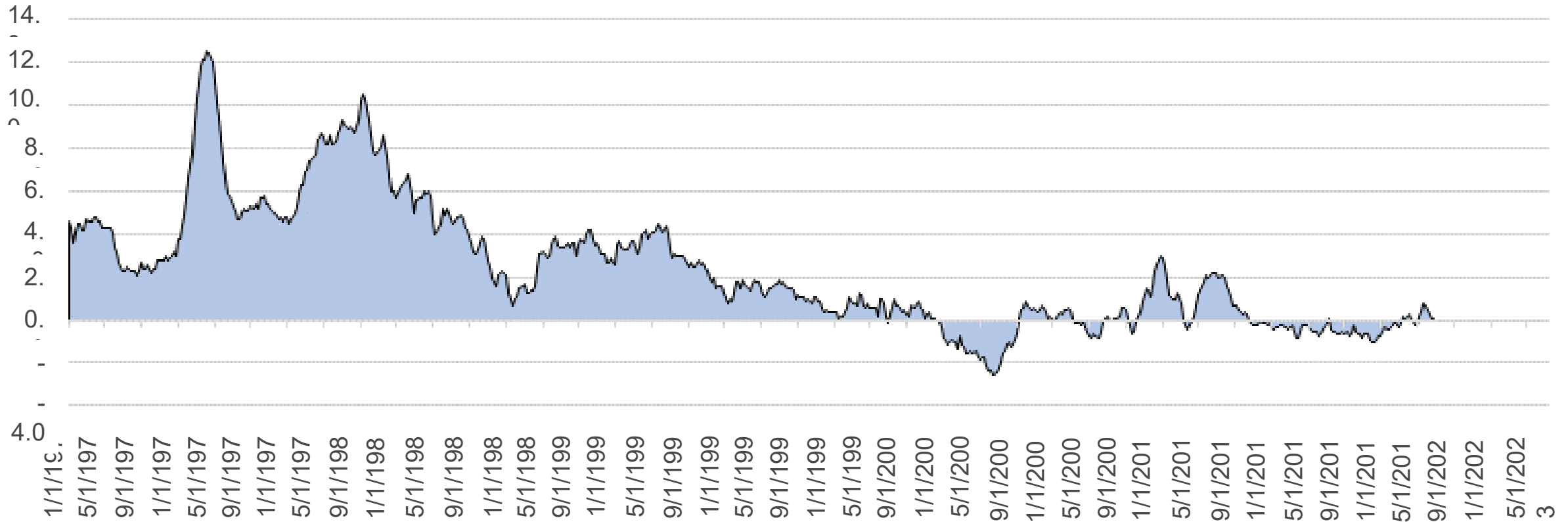
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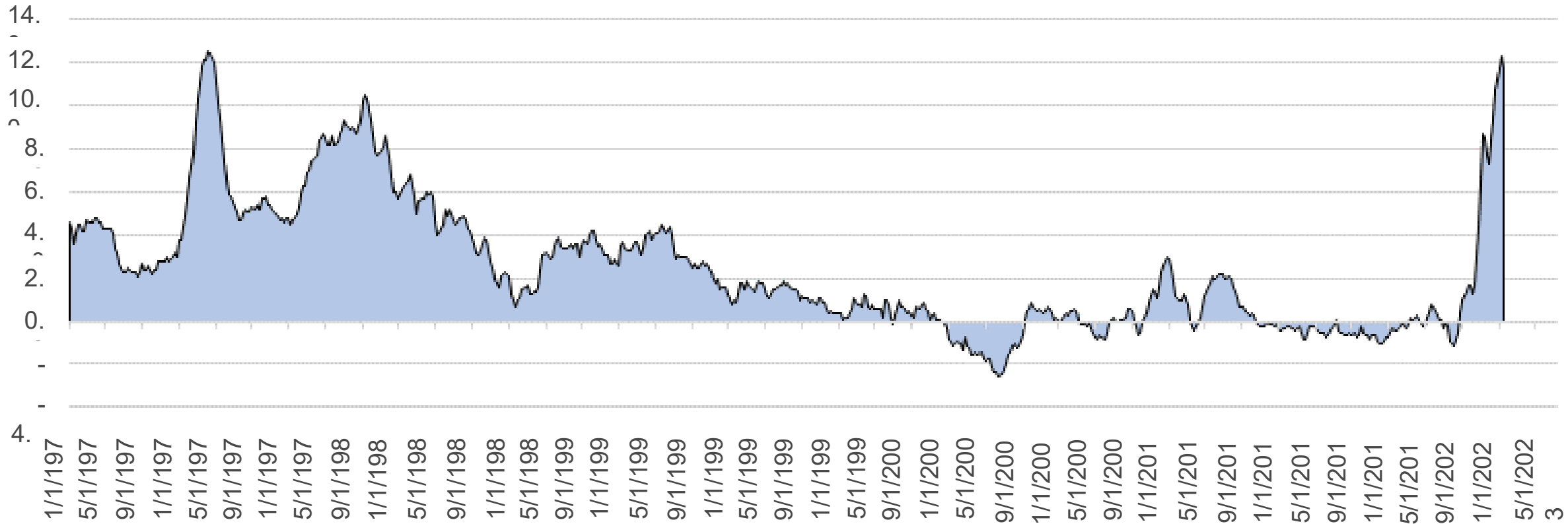
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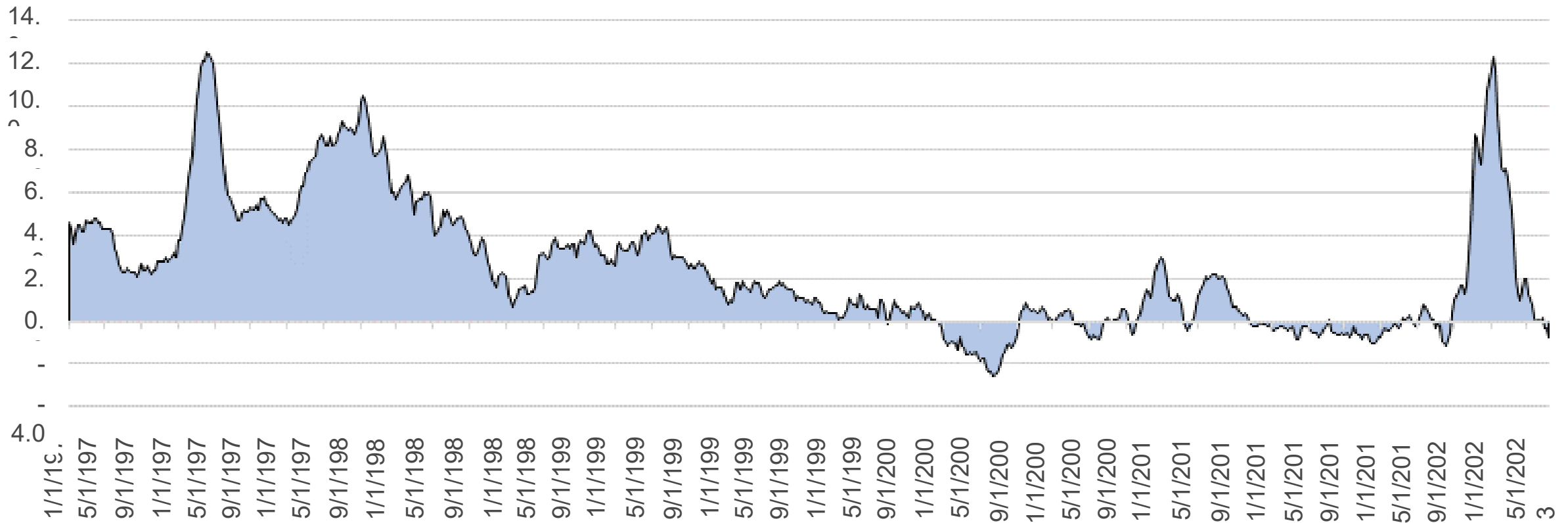
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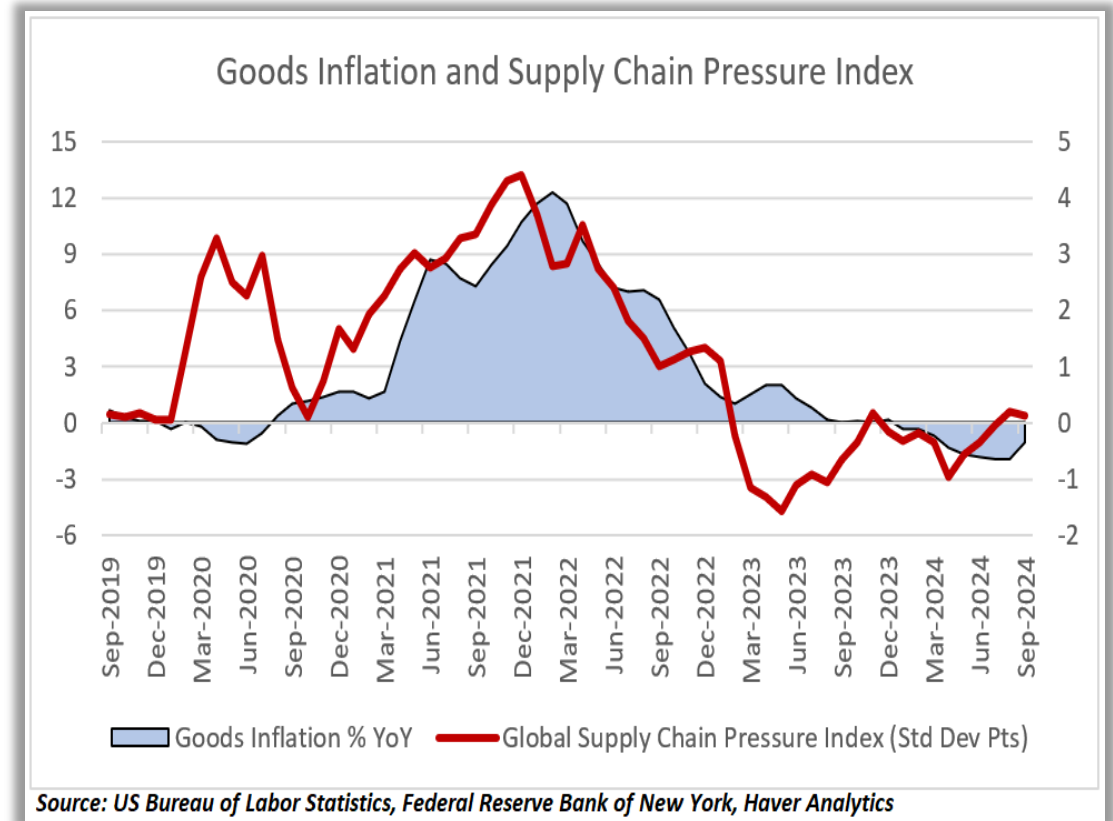
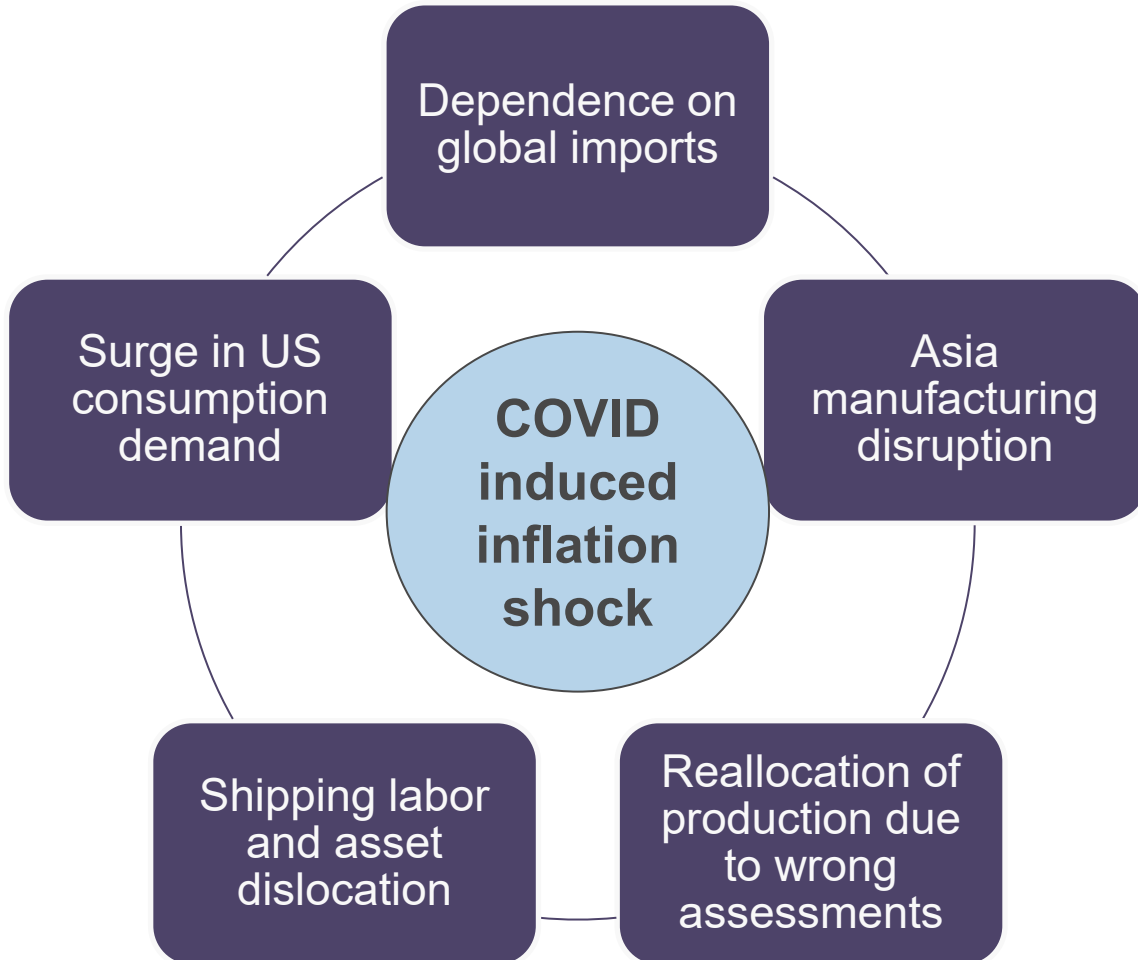
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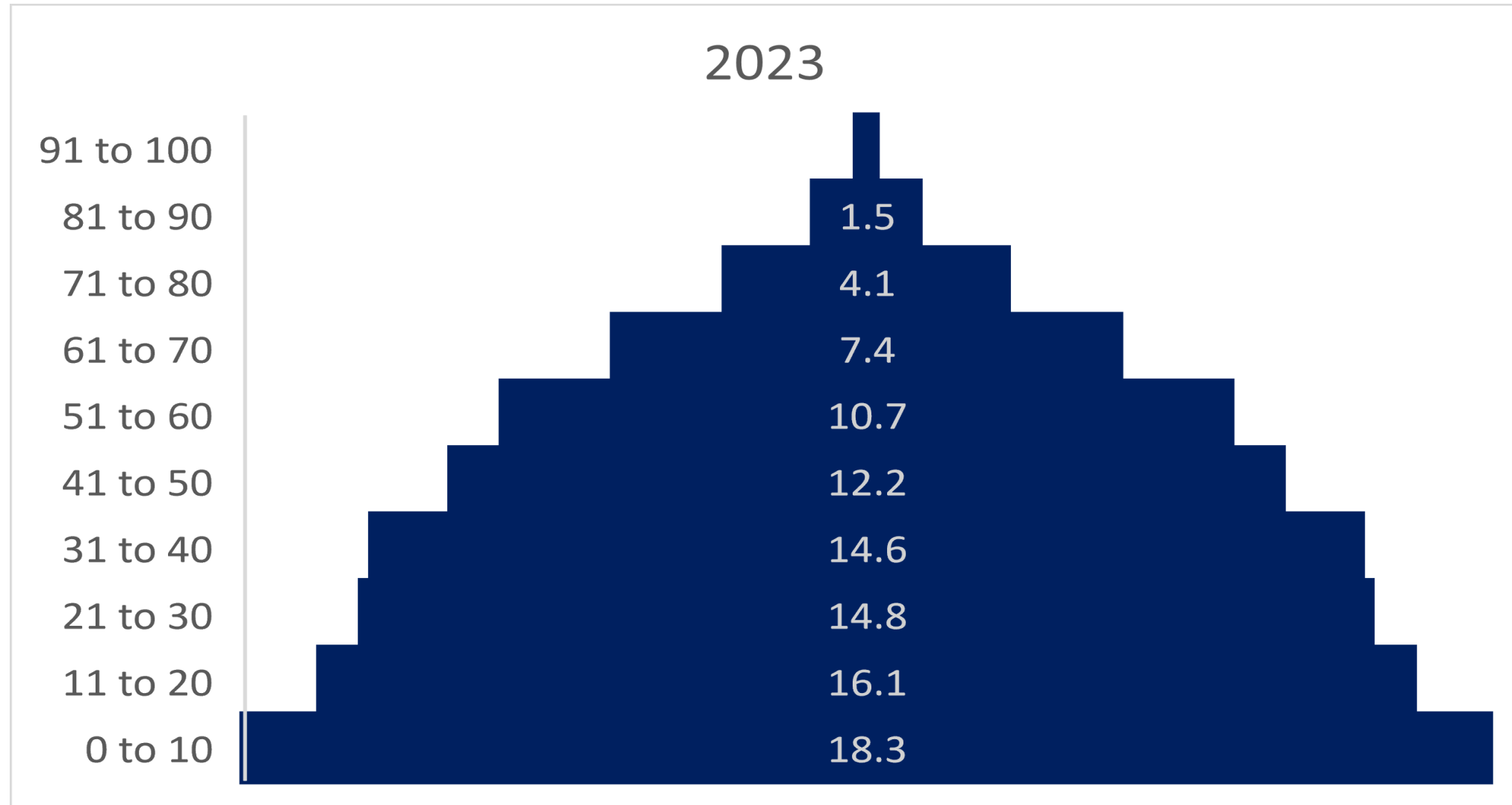


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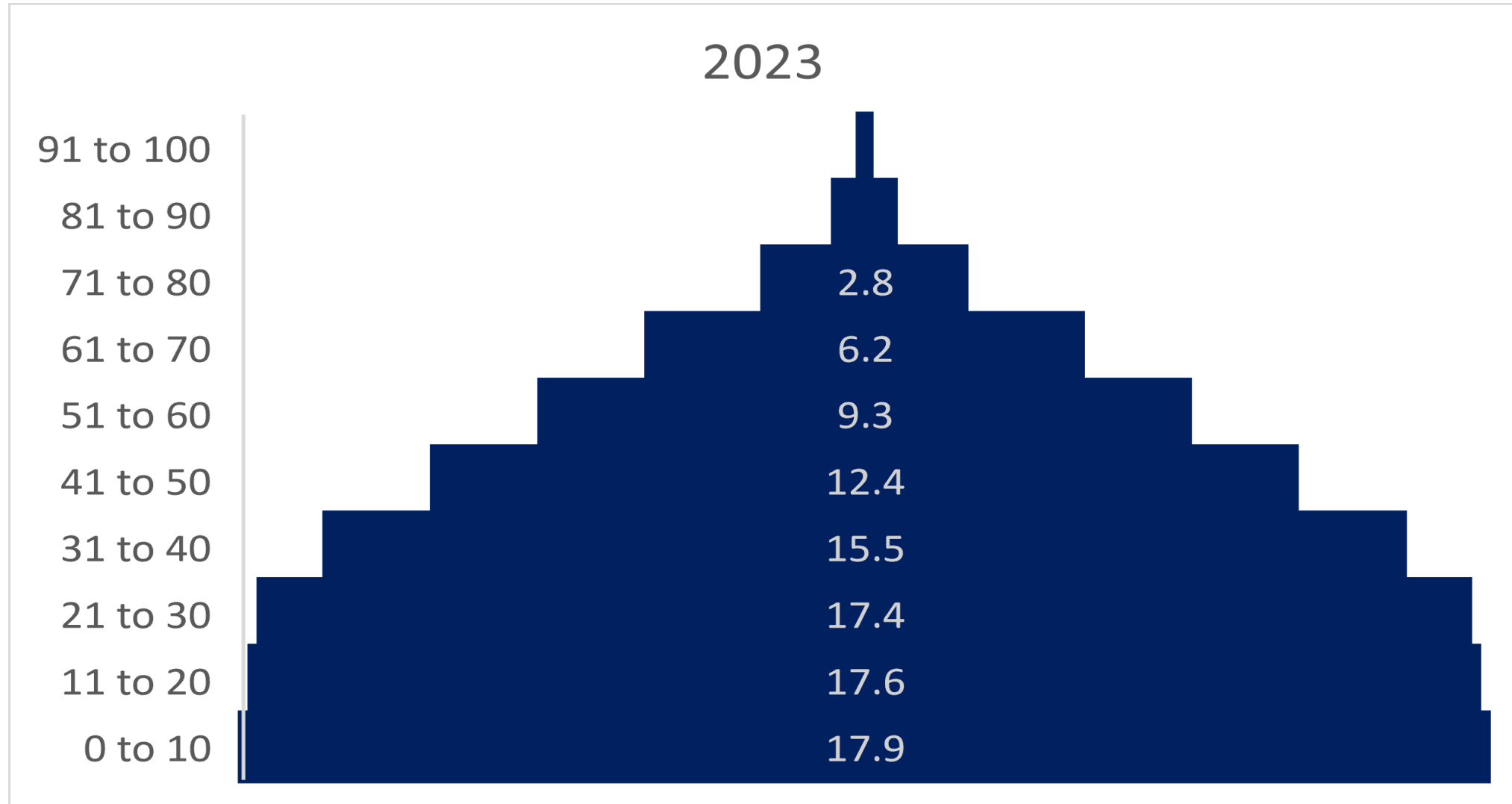
Supply Chain was once seen as an opportunity, and now it's seen as a risk. But we can turn this into our own opportunity if we recognize that history rhymes, it doesn't repeat.



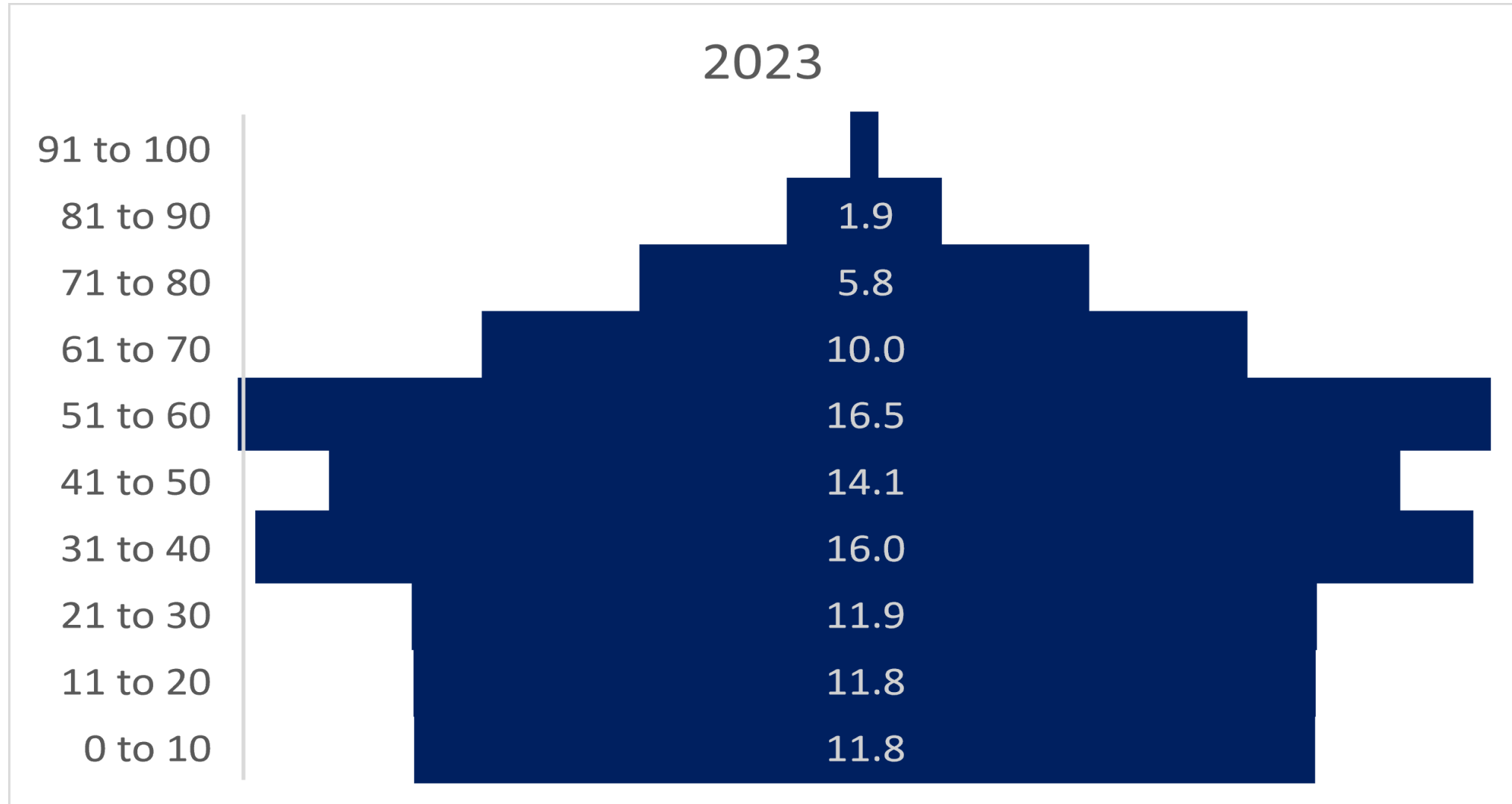
Theme 3: Demographics - The world distribution of ages remains balanced.



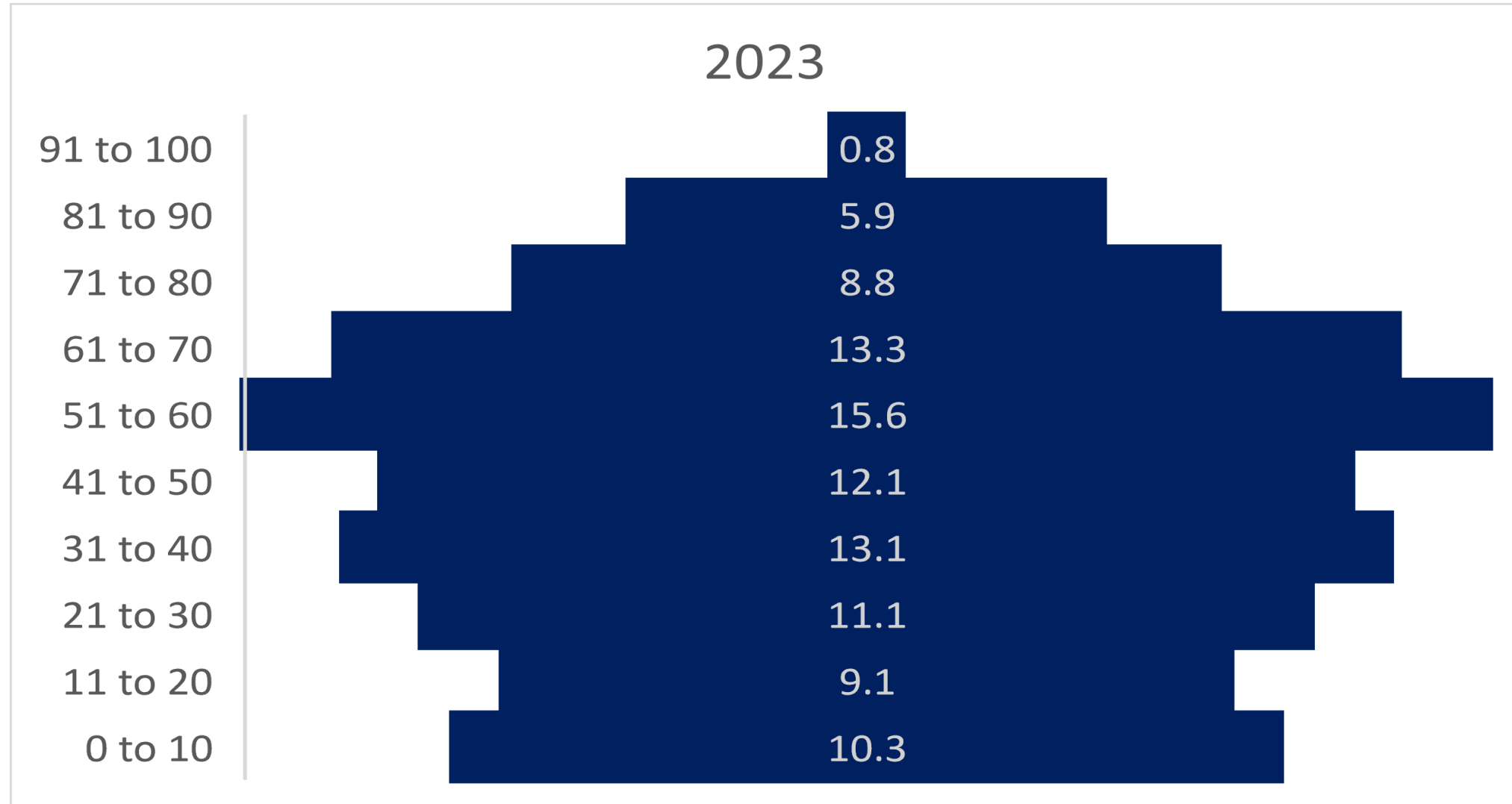
Theme 3: Demographics - India remains a “young” country with 70% coming of age after 1990.



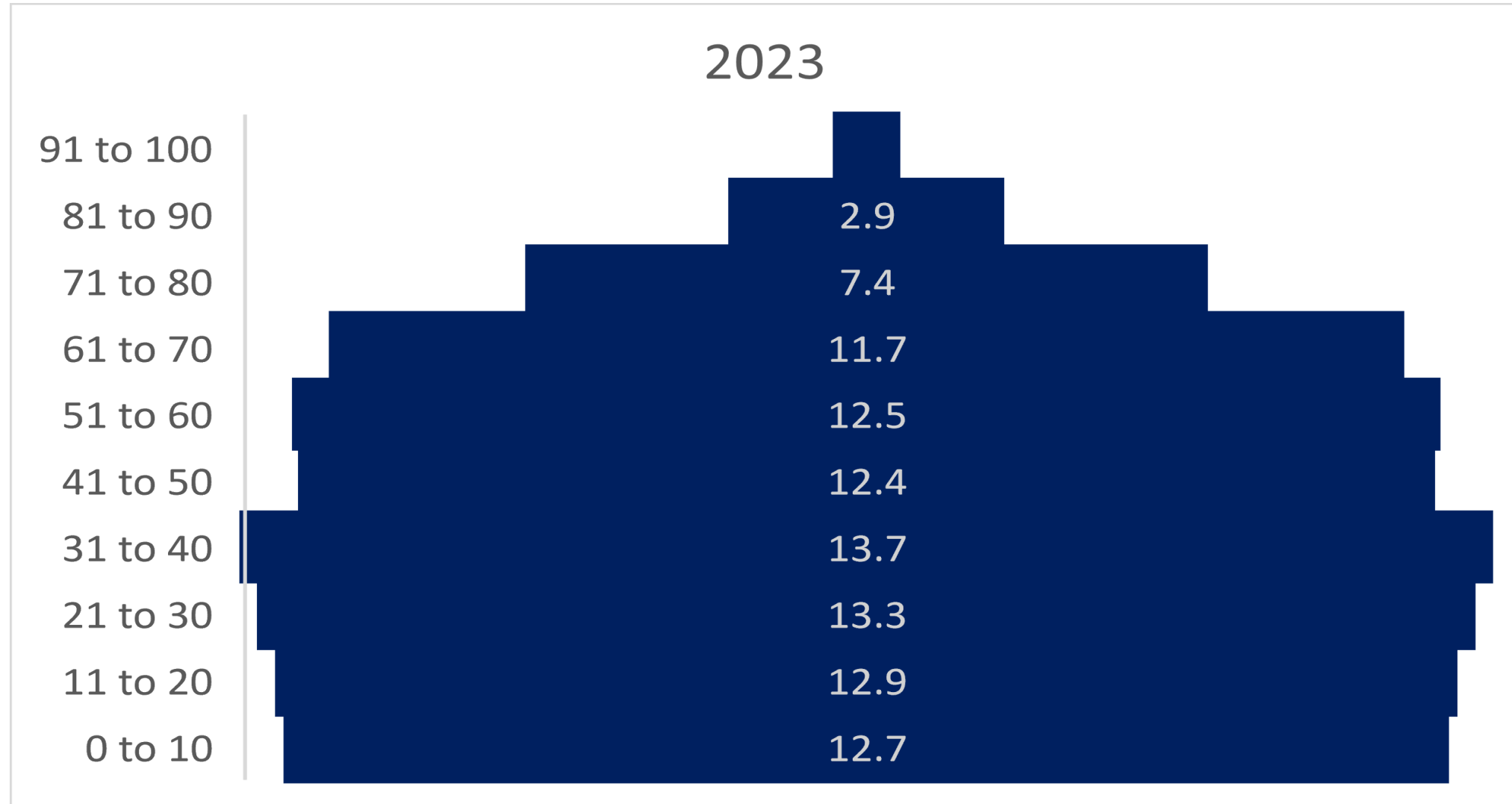
Theme 3: Demographics - China's past policies have distorted age dispersion.



Theme 3: Demographics - Germany's demographic breakdown is also challenging



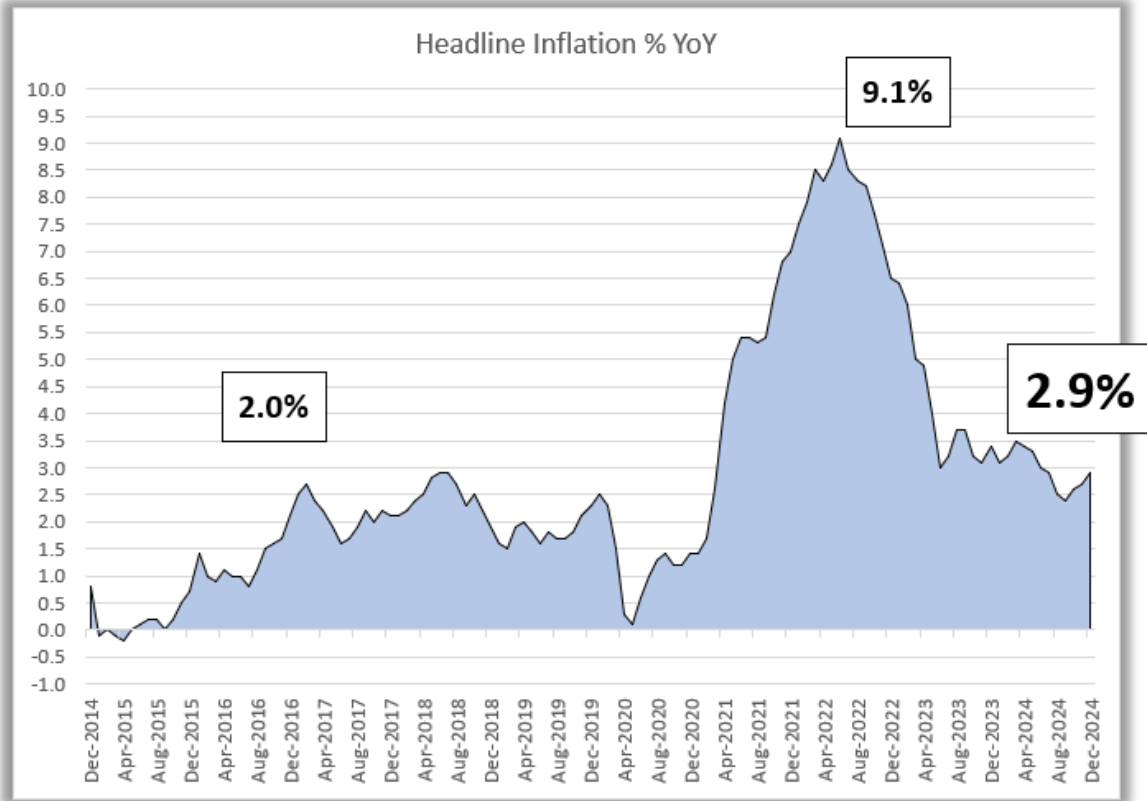
Theme 3: Demographics - US society is also ageing...



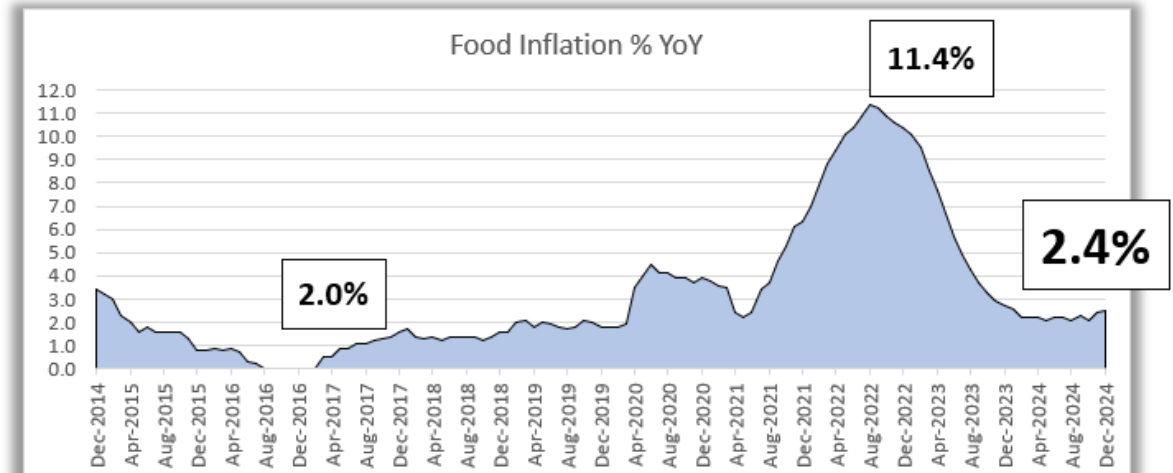
Current State of US Economy



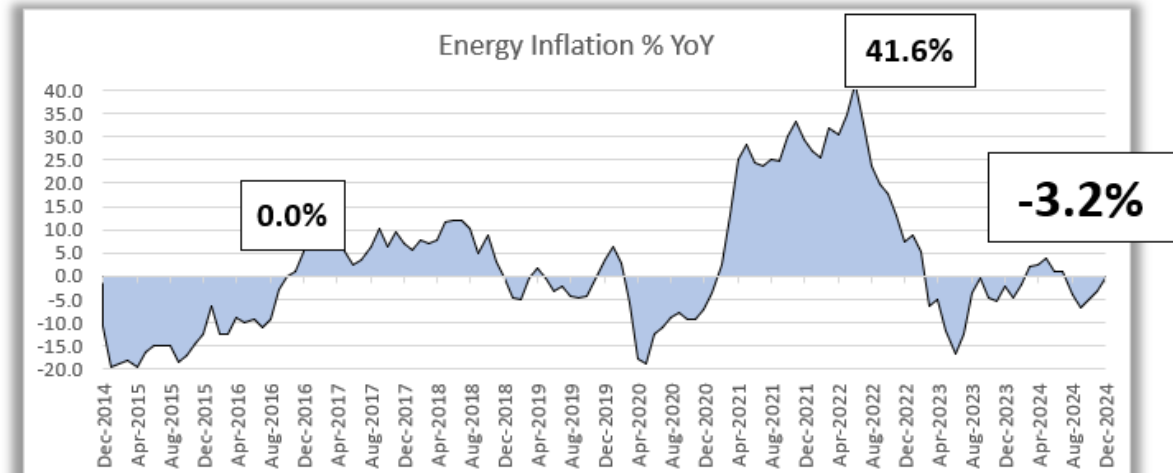
Inflation: Headline inflation is moderating with both food and energy normalizing.



Source: US Bureau of Labor Statistics, Haver Analytics, The Hartford's Global Insights Center

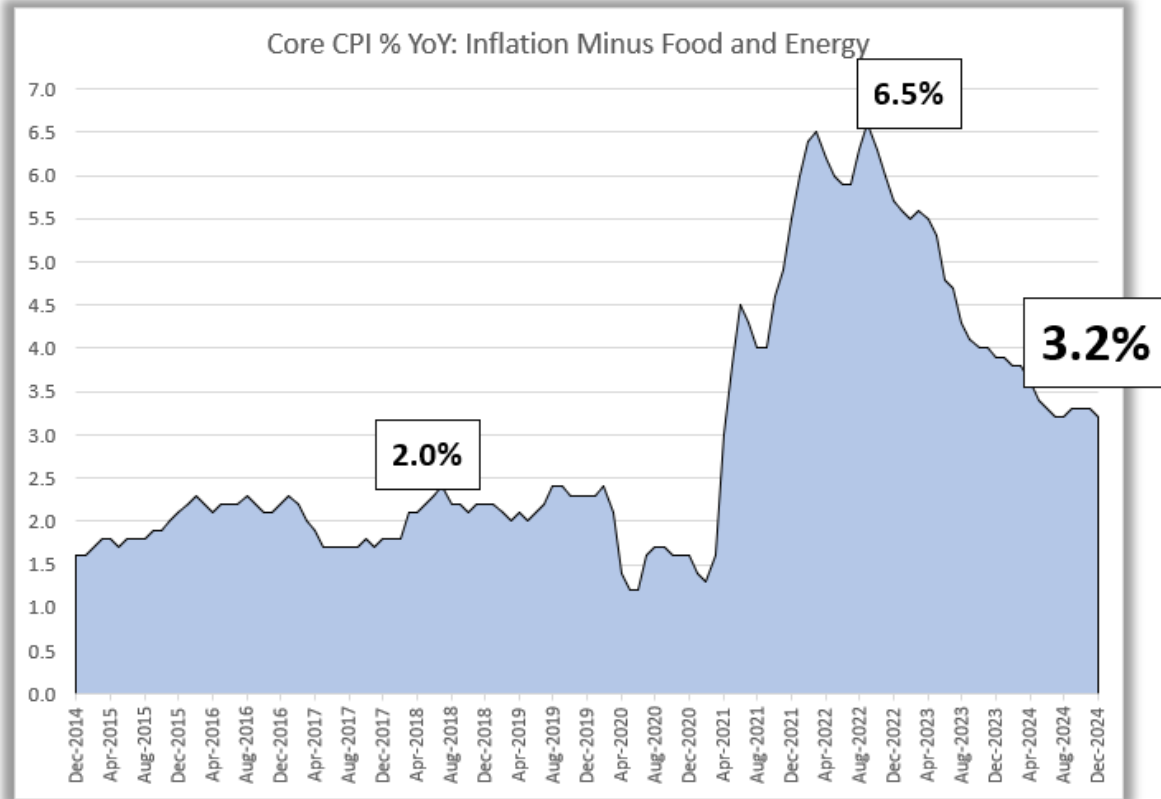


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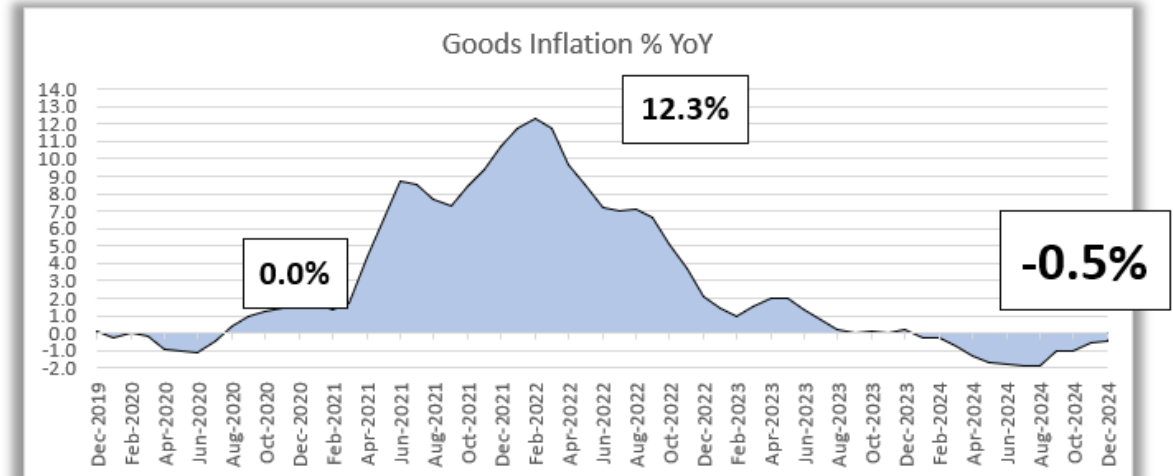


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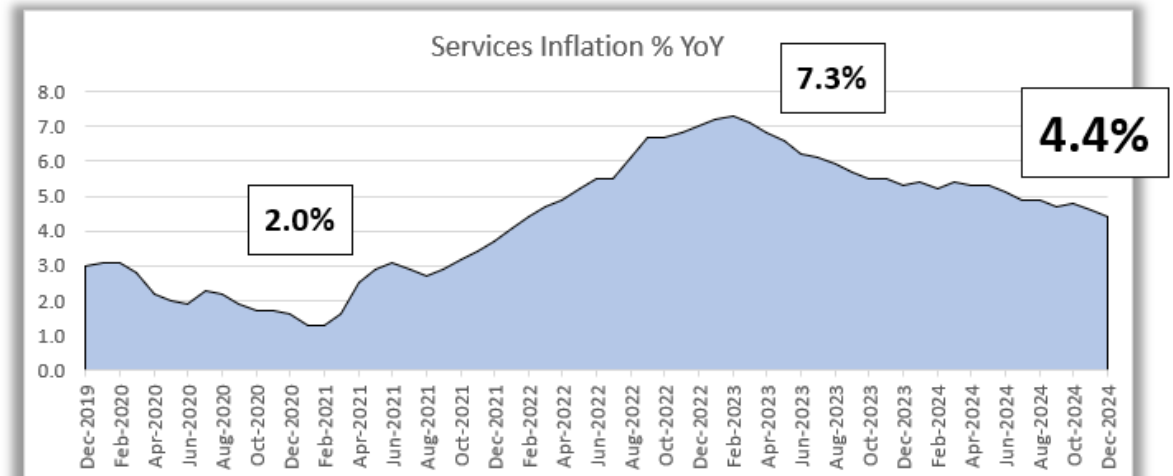
Inflation: Goods prices are also flat while services remains problematic. Core inflation is thus elevated



Source: US Bureau of Labor Statistics, Haver Analytics, The Hartford's GIC



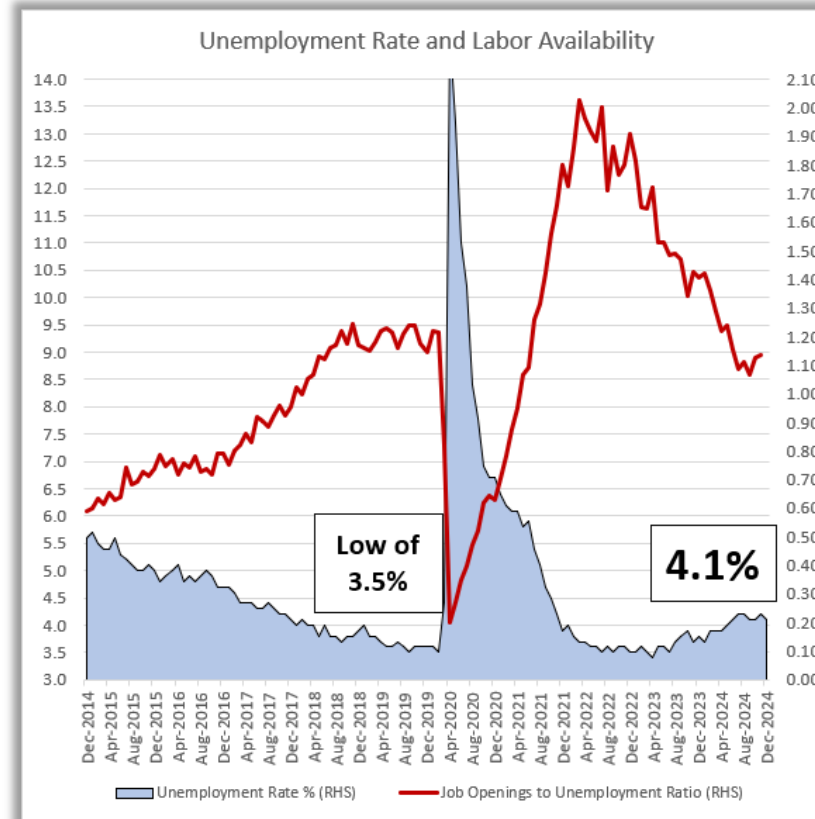
Source: US Bureau of Labor Statistics, Haver Analytics, The Hartford's GIC



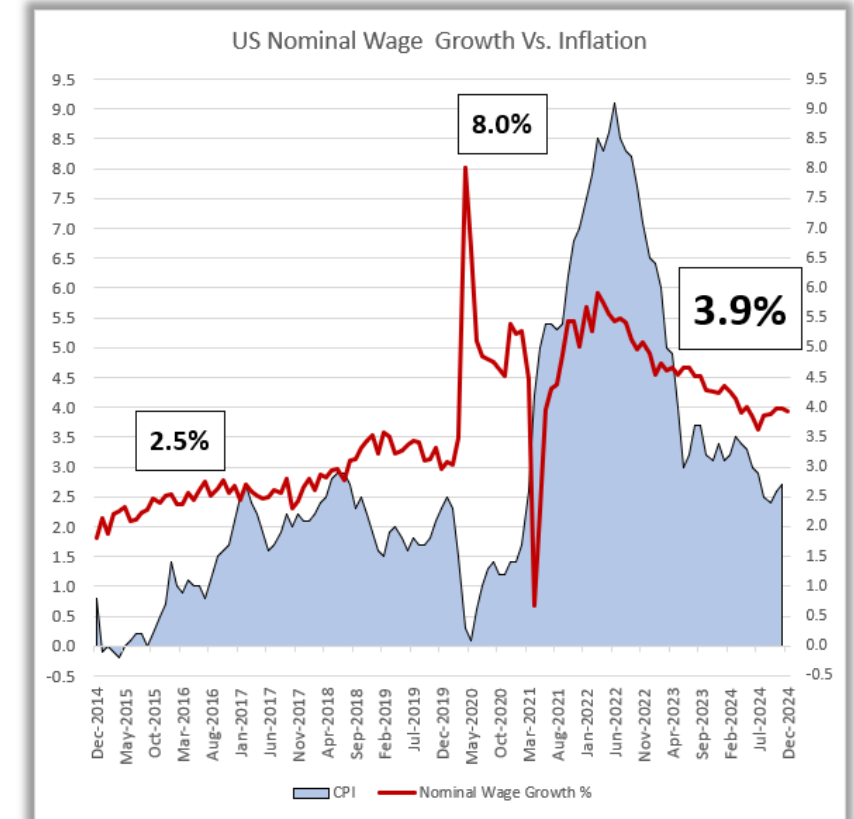
Source: US Bureau of Labor Statistics, Haver Analytics, The Hartford's GIC

Labor: Unemployment remains fairly low but is starting to rise while wage pressures ease.

- Labor Force Participation** Structural changes are leading to a multi-decade shift lower in available labor.
- Job Openings** Open positions remain somewhat elevated at ~ 8.1 million. The ratio of openings to available labor is still 1.1x
- Wages** Pressure persists but have eased to 3.9%. This is down from 8.0% seen earlier and remains above inflation.
- Unemployment** Still low but rising at 4.1%.



Source: Bureau of Labor Statistics, Haver Analytics



Source: Bureau of Labor Statistics, Haver Analytics

2025 Global Insights Center Economic Scenarios: We have modeled our expectations under three different potential conditions for year ahead.



Pessimistic

GDP: -0.5 to -1.5%

Inflation: 1.0 to 2.0%

Unemployment: 5.0 to 5.5%

Consumer spending: -1.0 to -1.5%

Interest Rates: 0.50 to 1.50%%

How it emerges and downside risks

Government policy and uncertainty induces a significant slowdown in markets and spending. Inflation falls sharply prompting deeper Fed cuts.

Base

GDP: 2.2 to 2.8%

Inflation: 2.0 to 2.5%

Unemployment: 4.1 to 4.6%

Consumer spending: 2.7 to 3.0%

Interest Rates: 3.25 to 3.75%

How it emerges

Base case expects economic growth on par with 2024 with inflation moderating slightly. But consumer spending may remain similar to 2024, preventing further decline in inflation. Fed still able to cut closer to terminal rate of 3.50%. **This scenario depends on no drastic policy changes, or international events.**

Optimistic

GDP: 3.0 to 4.0%

Inflation: 3.0 to 3.5%

Unemployment: 3.8 to 4.2%

Consumer spending: 3.0 to 3.5%

Interest Rates: 4.00 to 5.00%

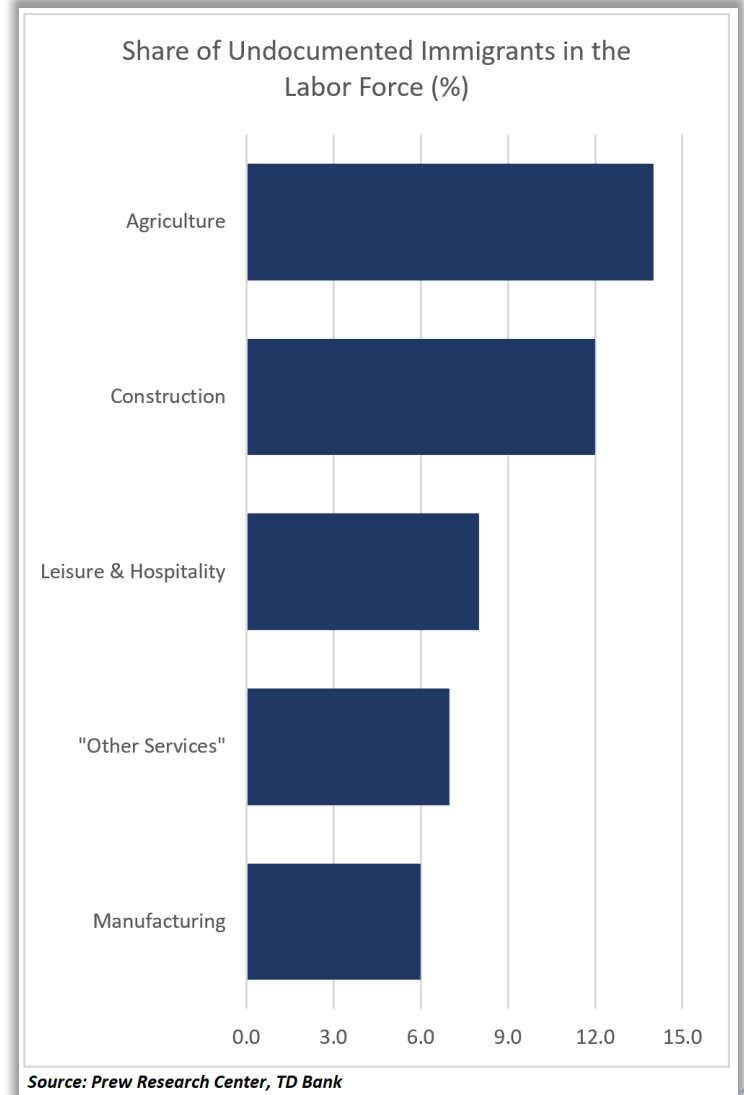
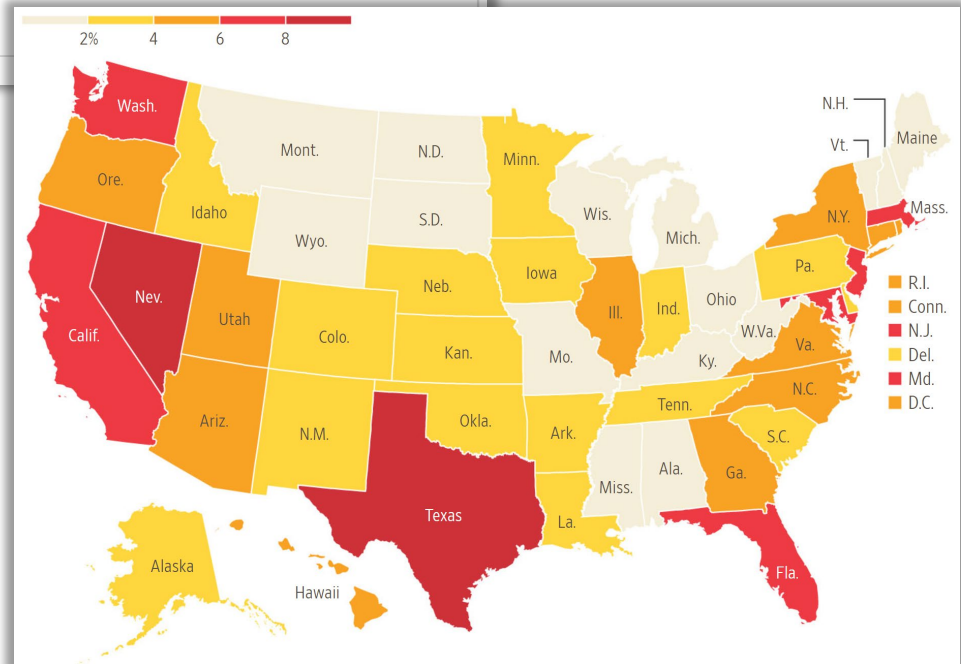
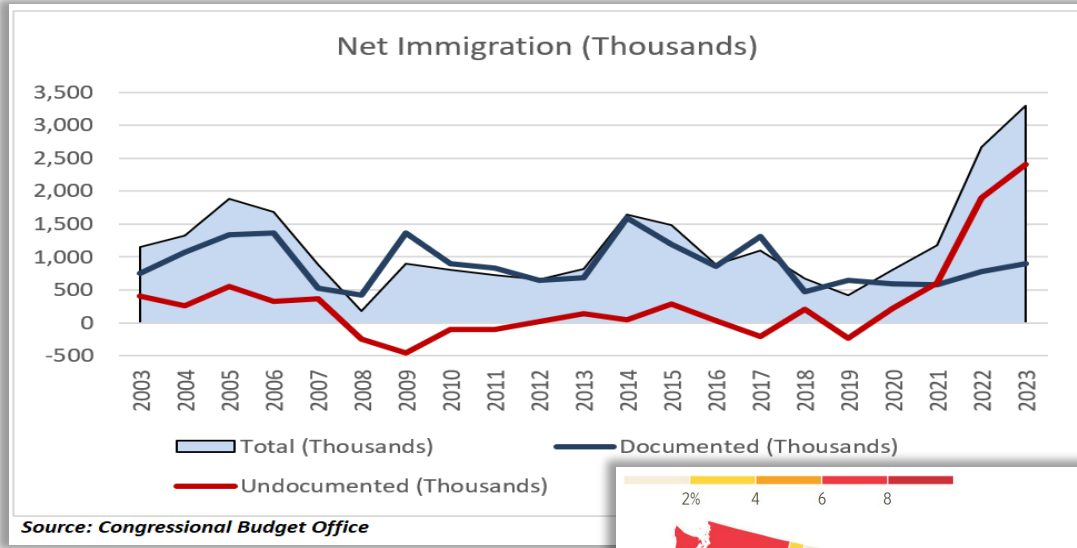
How it emerges and upside risks

Tax cuts spurt advancements in consumer spending driving up economic performance and robust labor conditions. The re-acceleration requires the Fed to also begin raising rates due to upward price pressures. This can be defined as status quo + tax cuts.

Developing Themes



Caveat #1: Immigration policy.



Caveat #2: Tariffs.

Tariffs

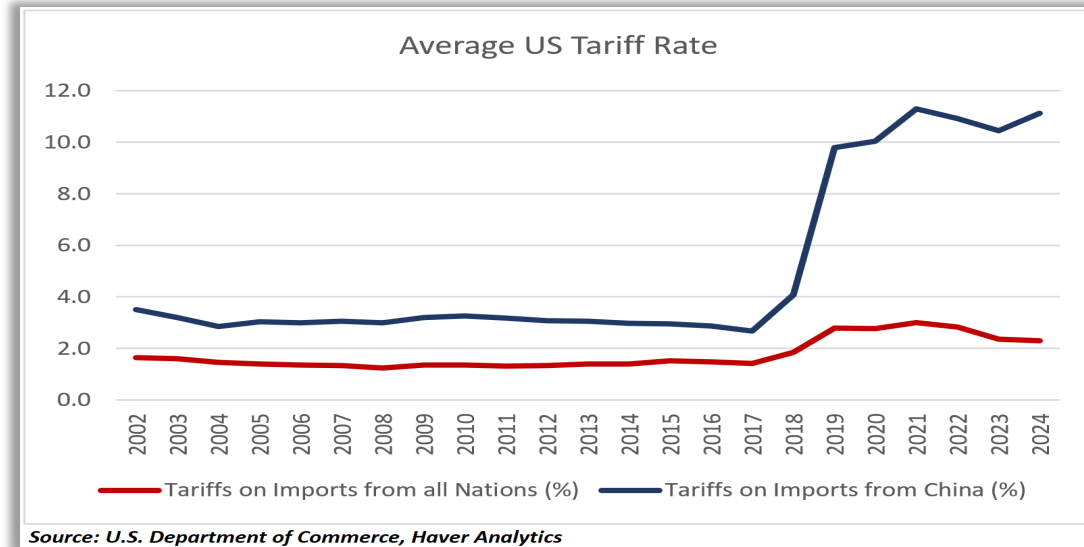
- A tax on imports
- A geopolitical tool

Geopolitical Advantages

- Protect key industries / reduce competition
- Protect national security
- Raise tax revenue
- Enhance international political negotiations

Economic Risks

- Reroute global trade
- Raise the cost of doing business
- Lead to higher inflation
- Reduce factory output



Economic Impacts of Tariff Scenarios (% change in prices and economic activity due to tariffs)

	No Change in Tariffs	Targeted tariffs on individual goods and/or countries	Tariffs reach 60% on China and 10% elsewhere (exemptions for Canada and Mexico)	
			Tariffs reach 60% on China and 10% elsewhere (exemptions for Canada and Mexico)	Tariffs reach 60% on China and 10% elsewhere (no exemptions)
International Trade	0.0	-6.4 to -1.6	-8.1	-23.0
Factory Output	0.0	-1.7 to -0.4	-2.1	-7.2
Logistics Jobs	0.0	-0.7 to -0.2	-0.9	-3.2
Consumer Price Inflation	0.0	0.1 to 0.2	0.3	1.3
Steel Prices	0.0	0.3 to 1.3	1.7	4.2
Auto & Parts Prices	0.0	0.5 to 2.1	2.6	6.5

Source: US Department of Commerce, US Bureau of Labor Statistics, Tax Foundation, The Hartford's Global Insights Center

These figures quantify the impact of tariffs on various prices and sectors. They isolate impact of tariffs from other macroeconomic and industry trends. The figures are based on econometric modeling by the Hartford's Global Insight Center and findings from outside researchers.

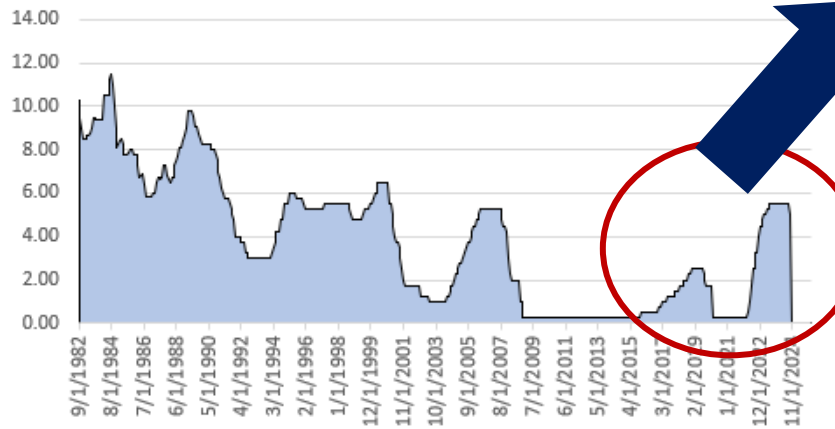
Caveat #3: Interest rate path.

The Federal Funds Rate Has averaged:

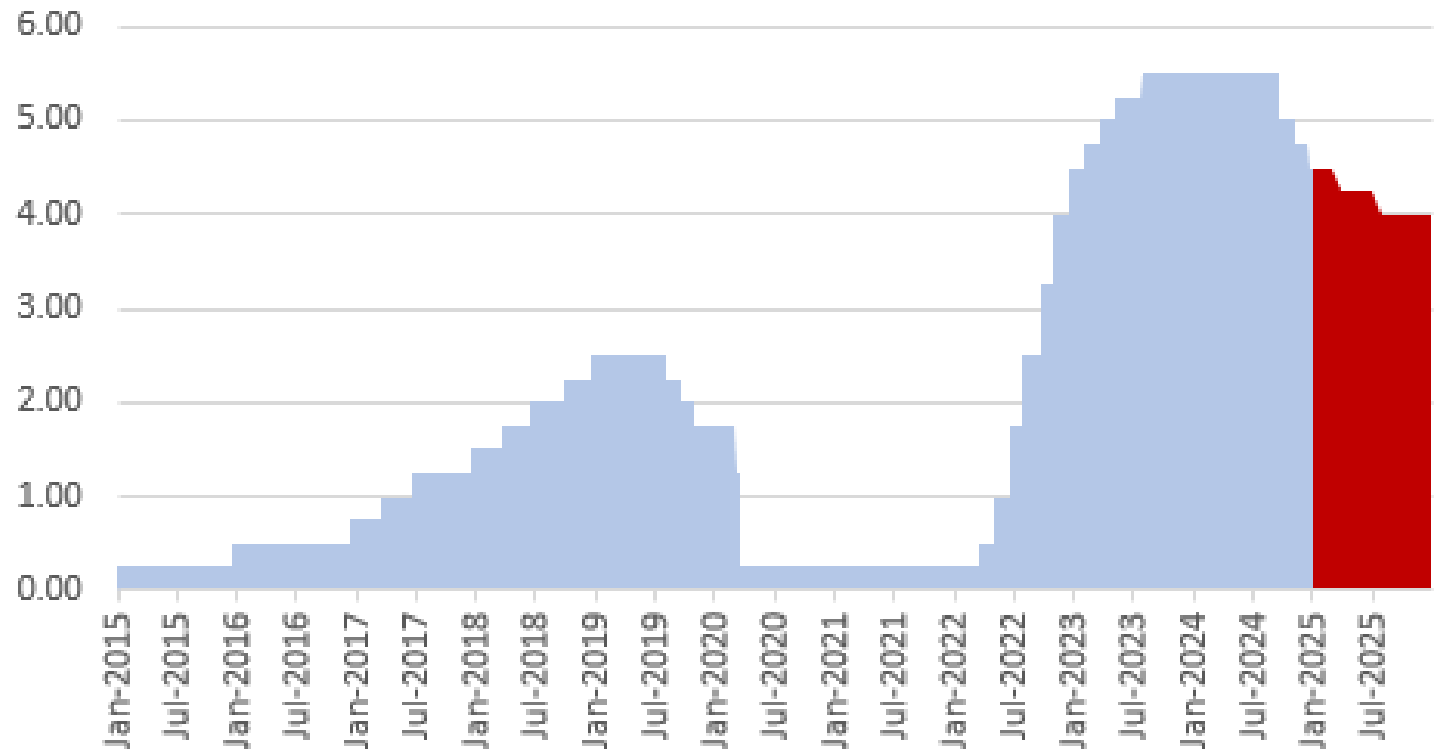
- Over 40 years: 3.50%
- Over 30 years: 2.60%
- Over 20 years: 1.75%
- Over 10 years: 1.80%

Markets expect the Federal Funds rate to settle at 4.00% next year.

40 Years of Fed Funds Rates



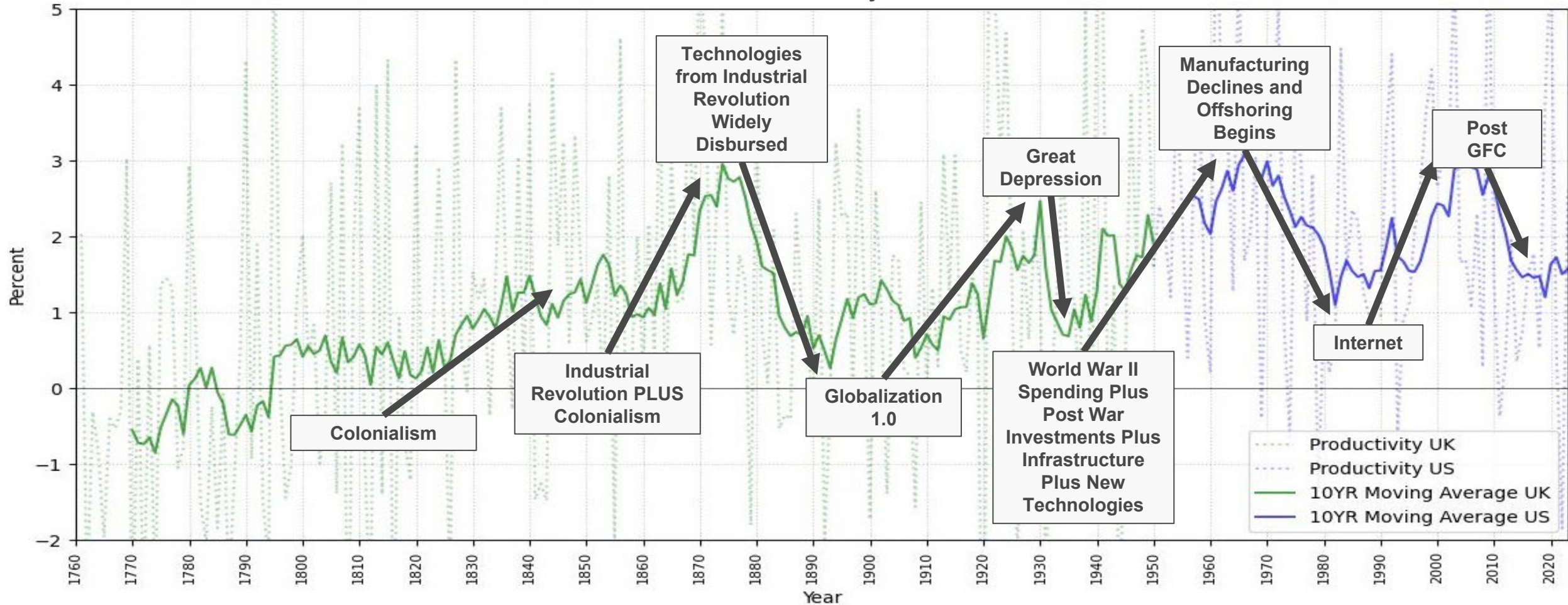
Interest Rate Exepctations



Source: Federal Reserve, Haver Analytics, Bloomberg,

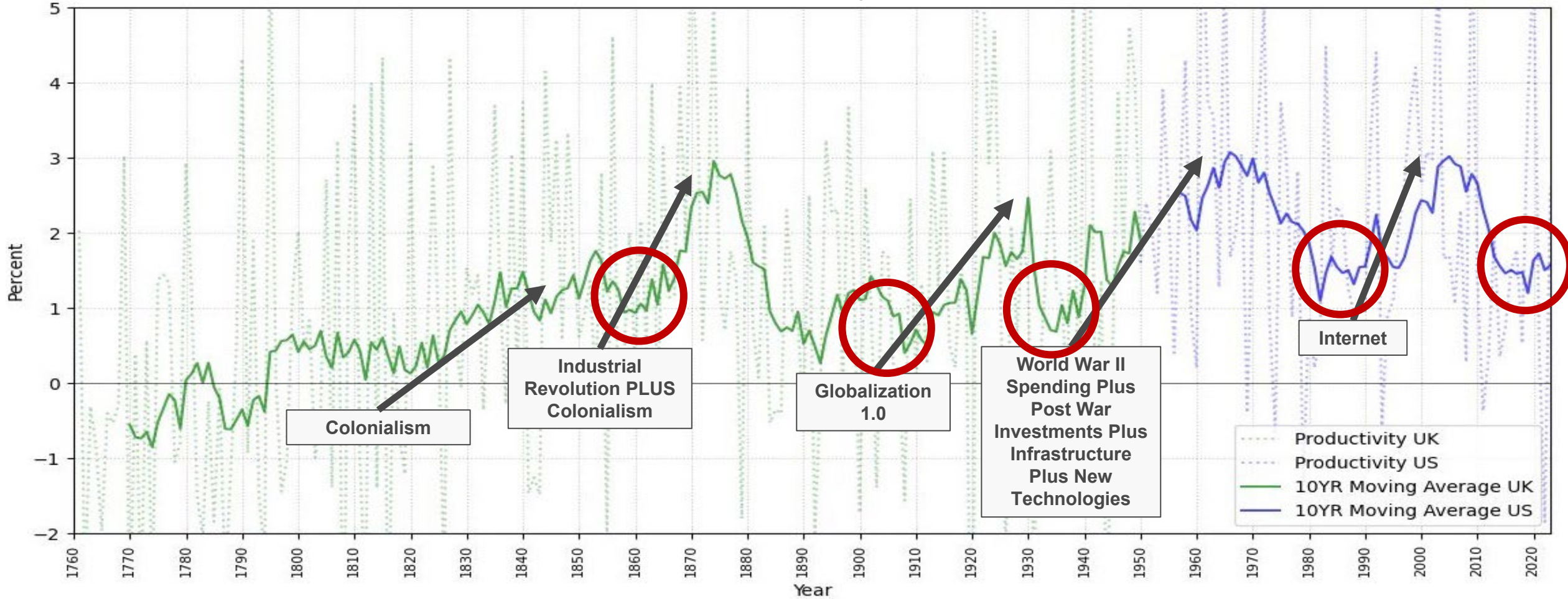
Artificial Intelligence: 300 years of productivity gains following technological changes.

US UK Productivity Growth



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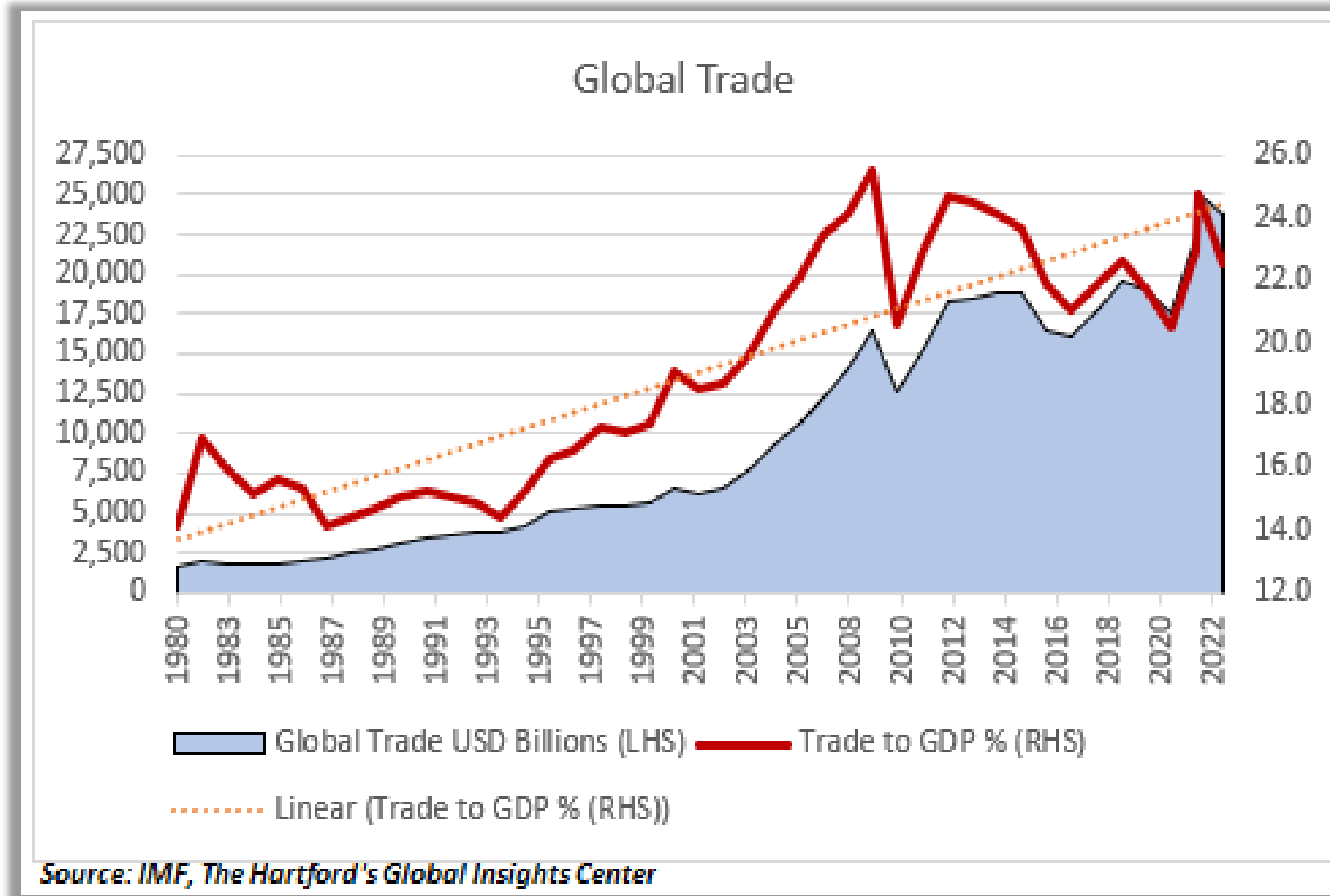
US UK Productivity Growth



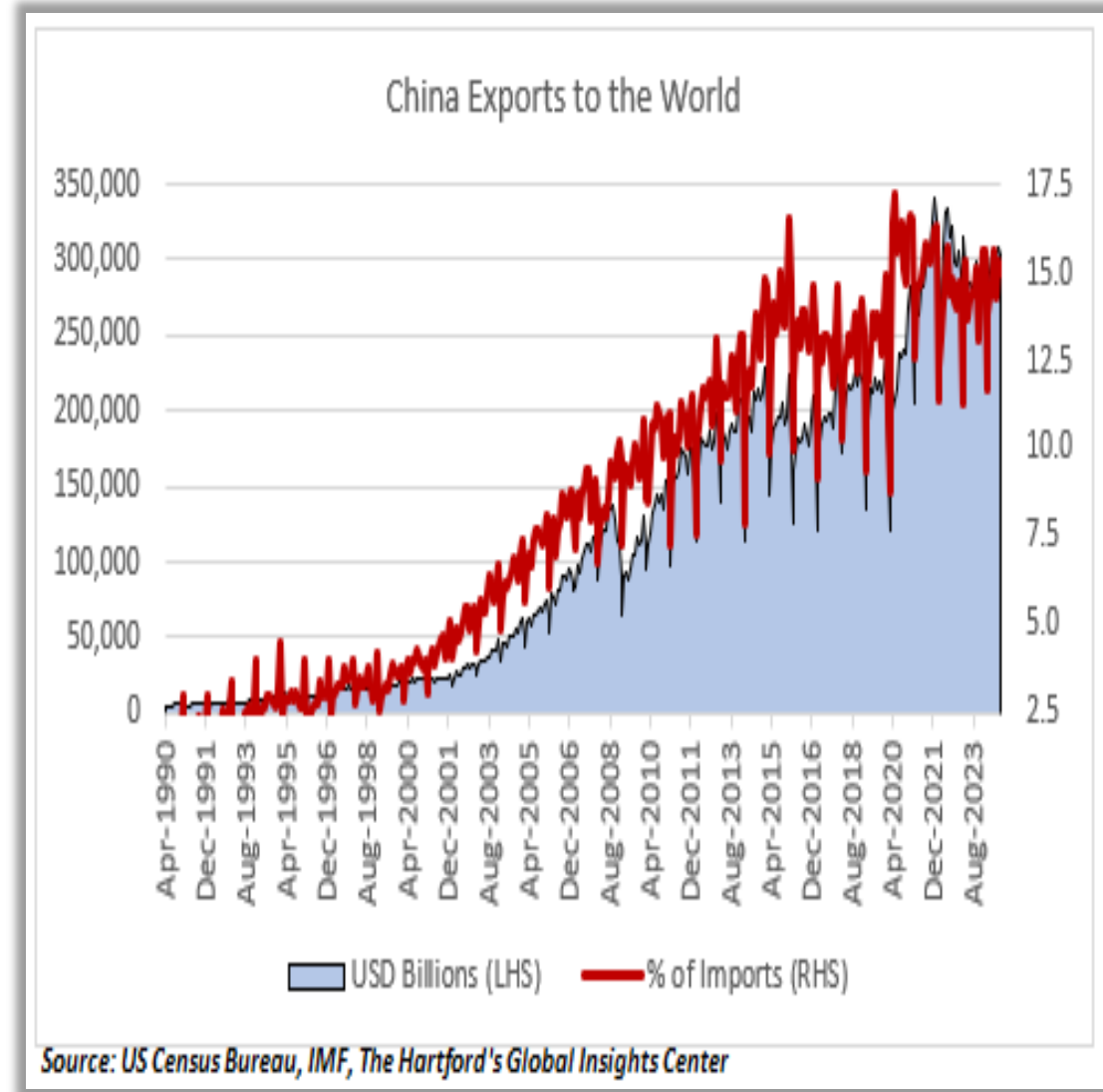
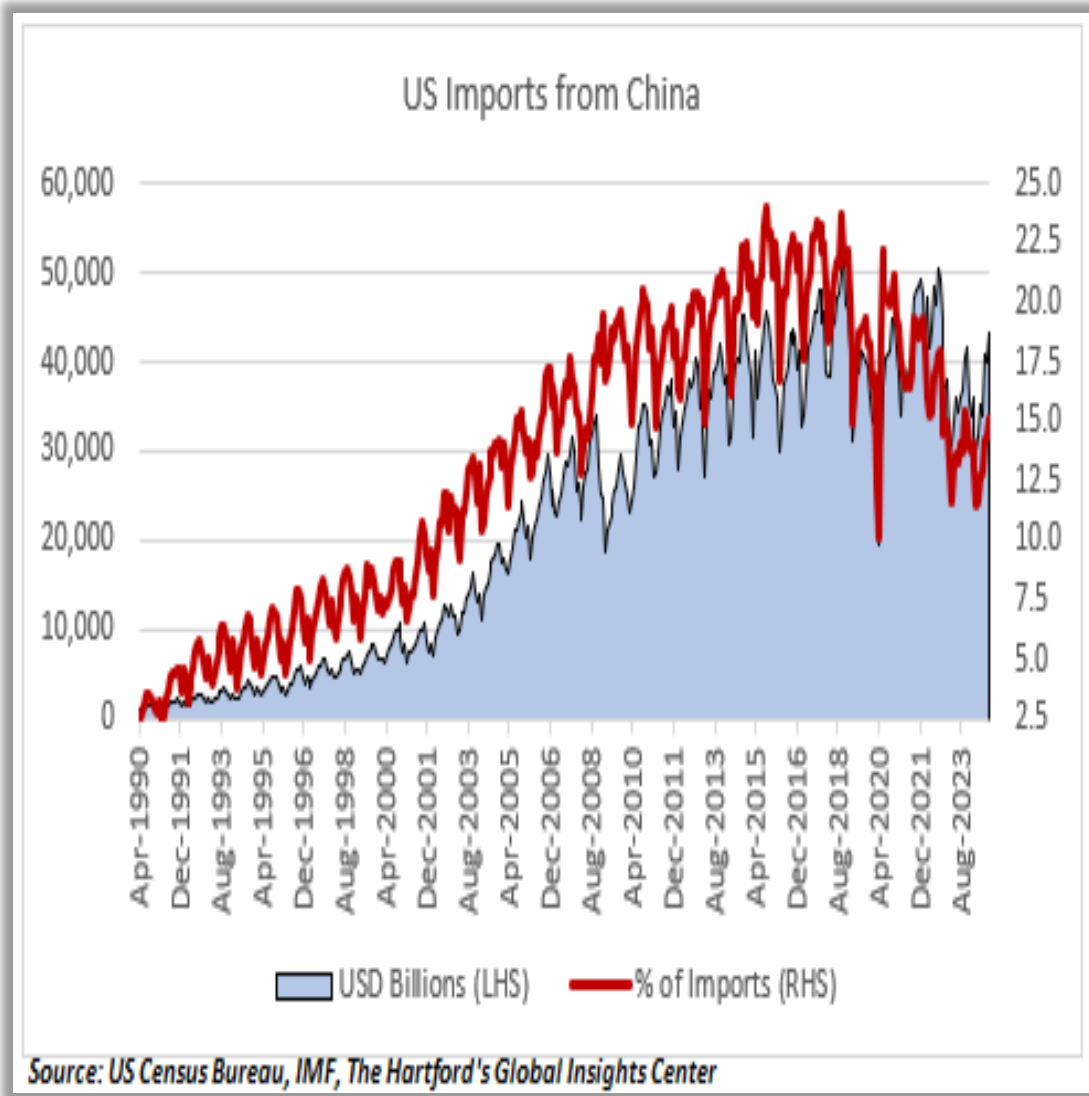
Sector Views



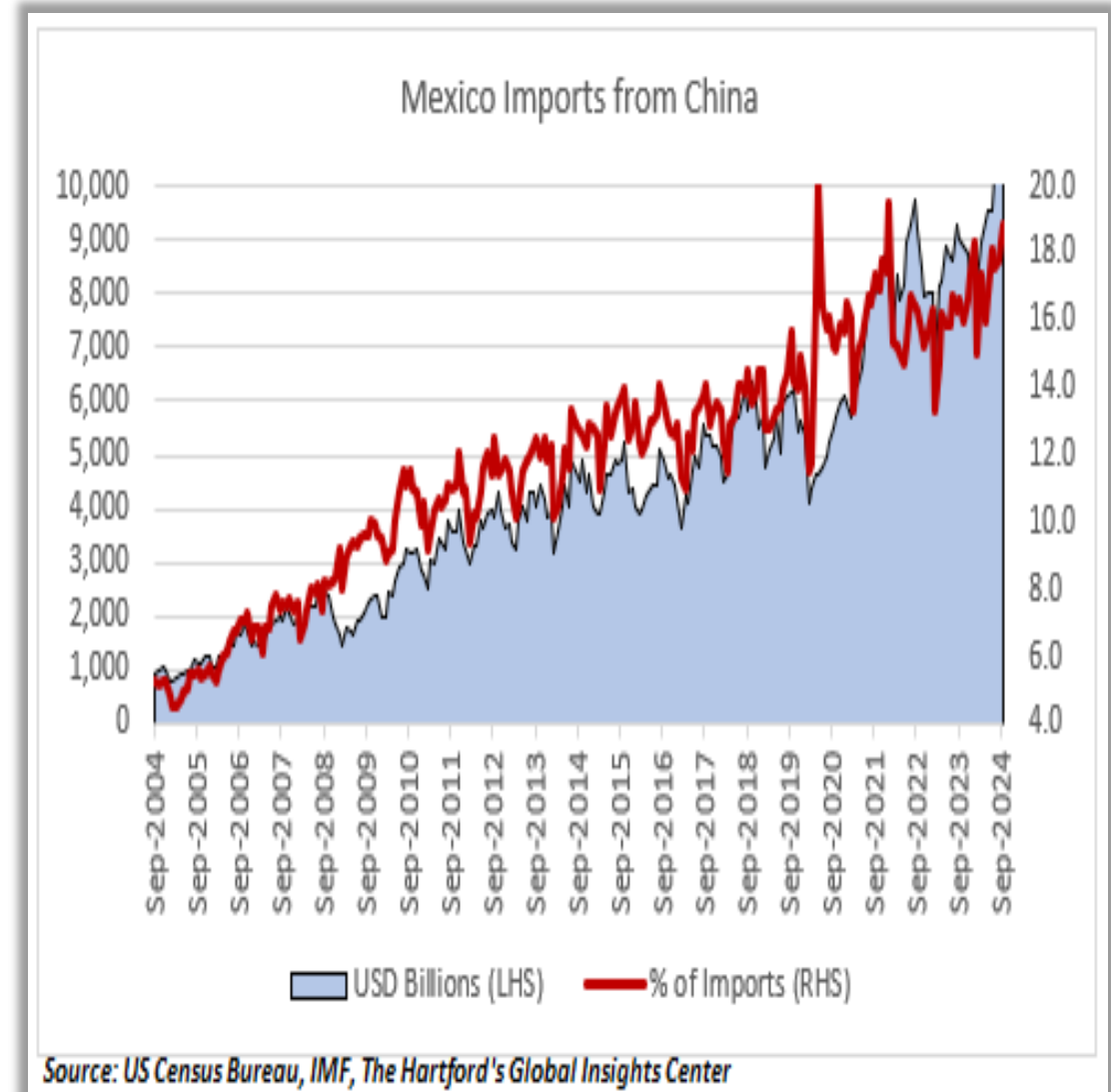
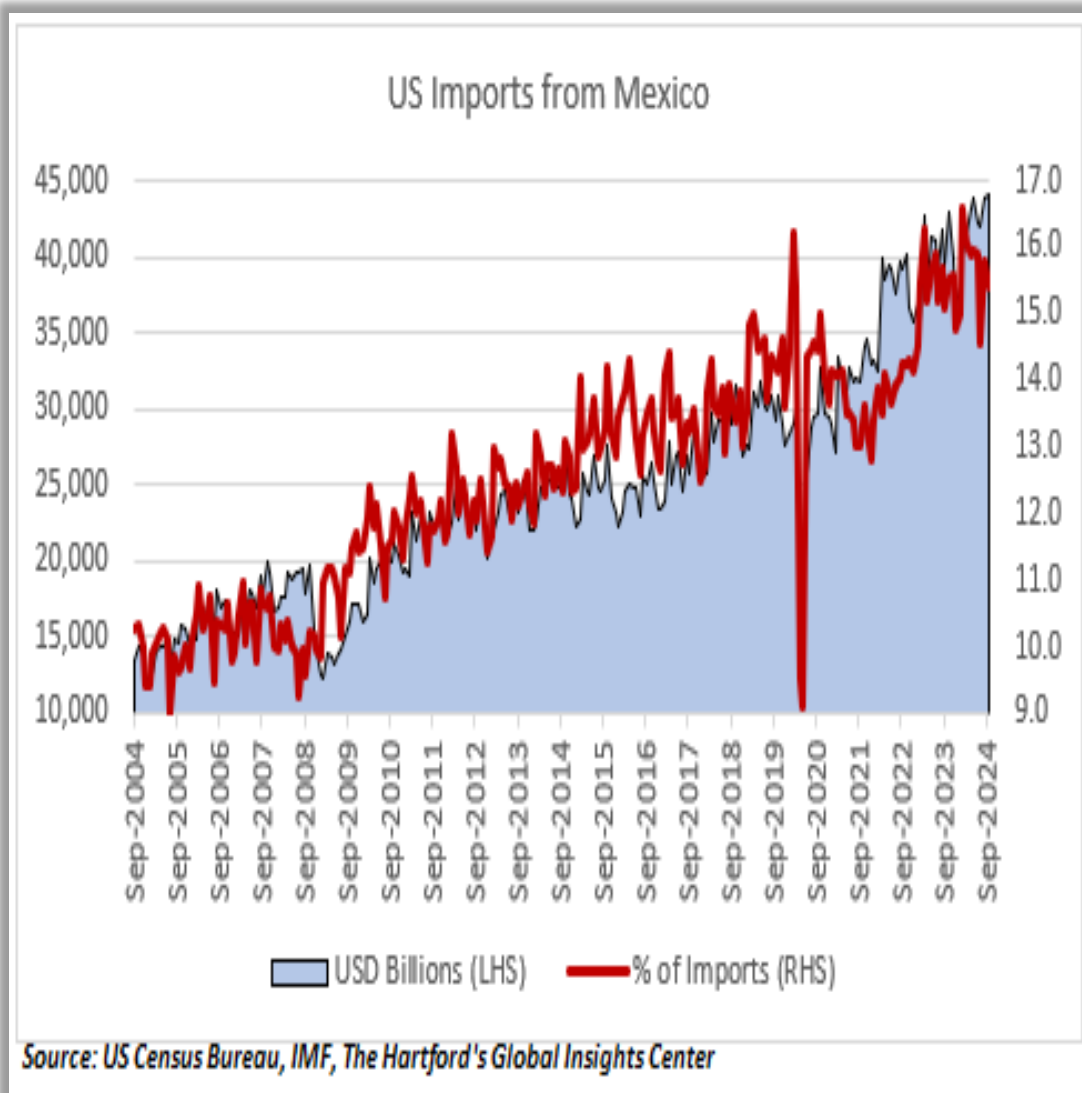
Global Trade: Deglobalization is not happening, but its likely shifting.



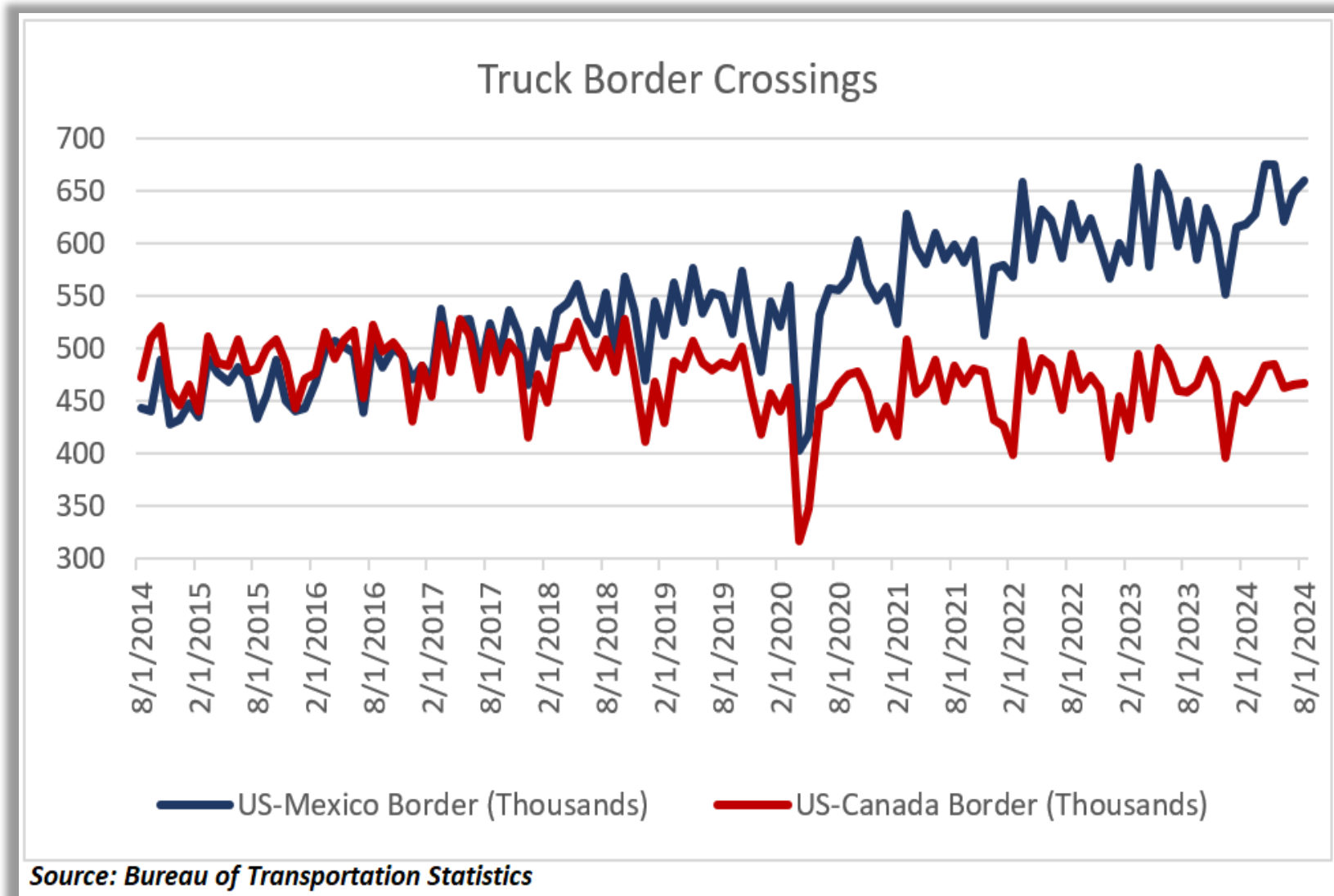
Global Trade: US imports from China are easing, but Chinese exports to the world are not.



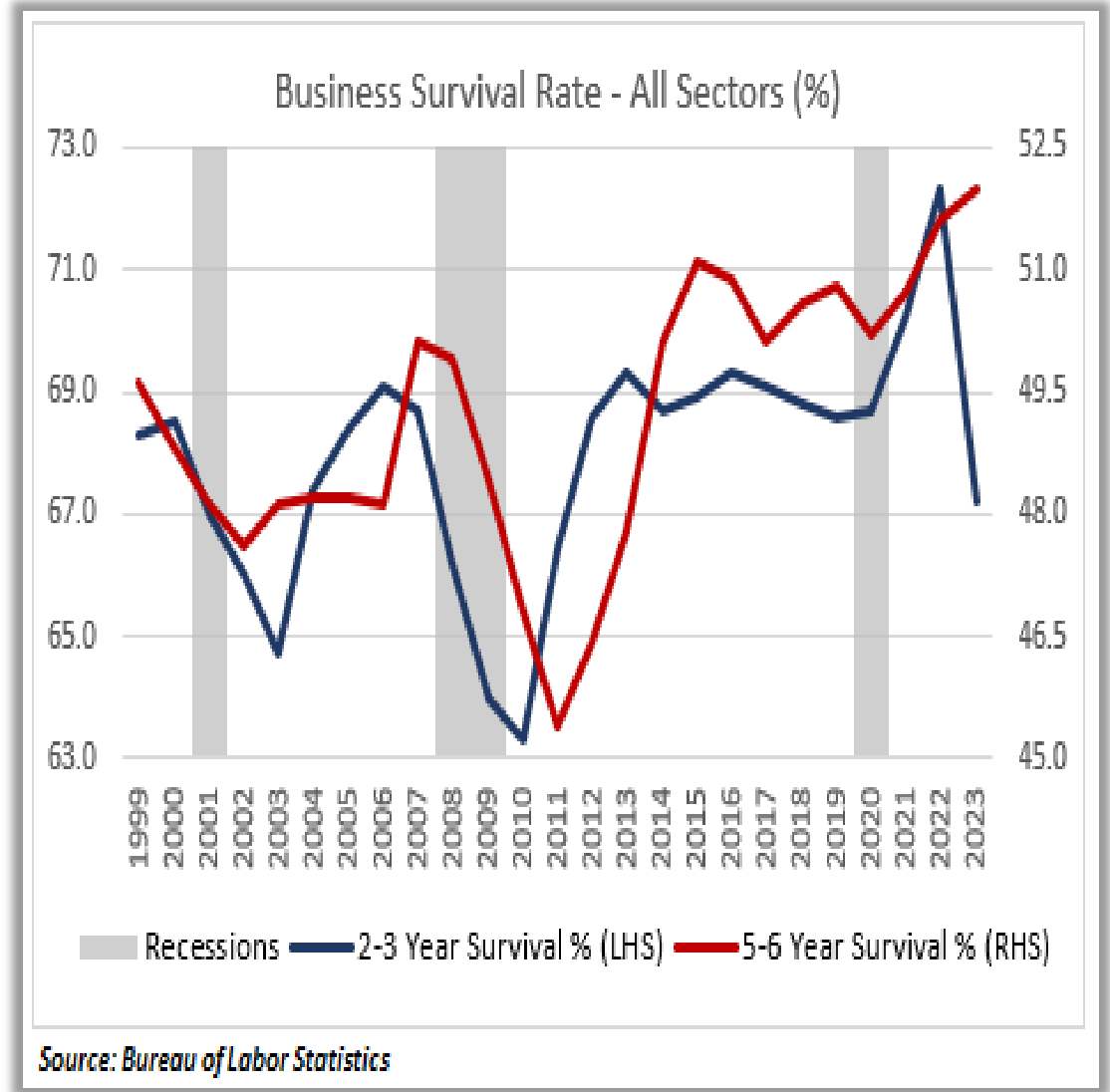
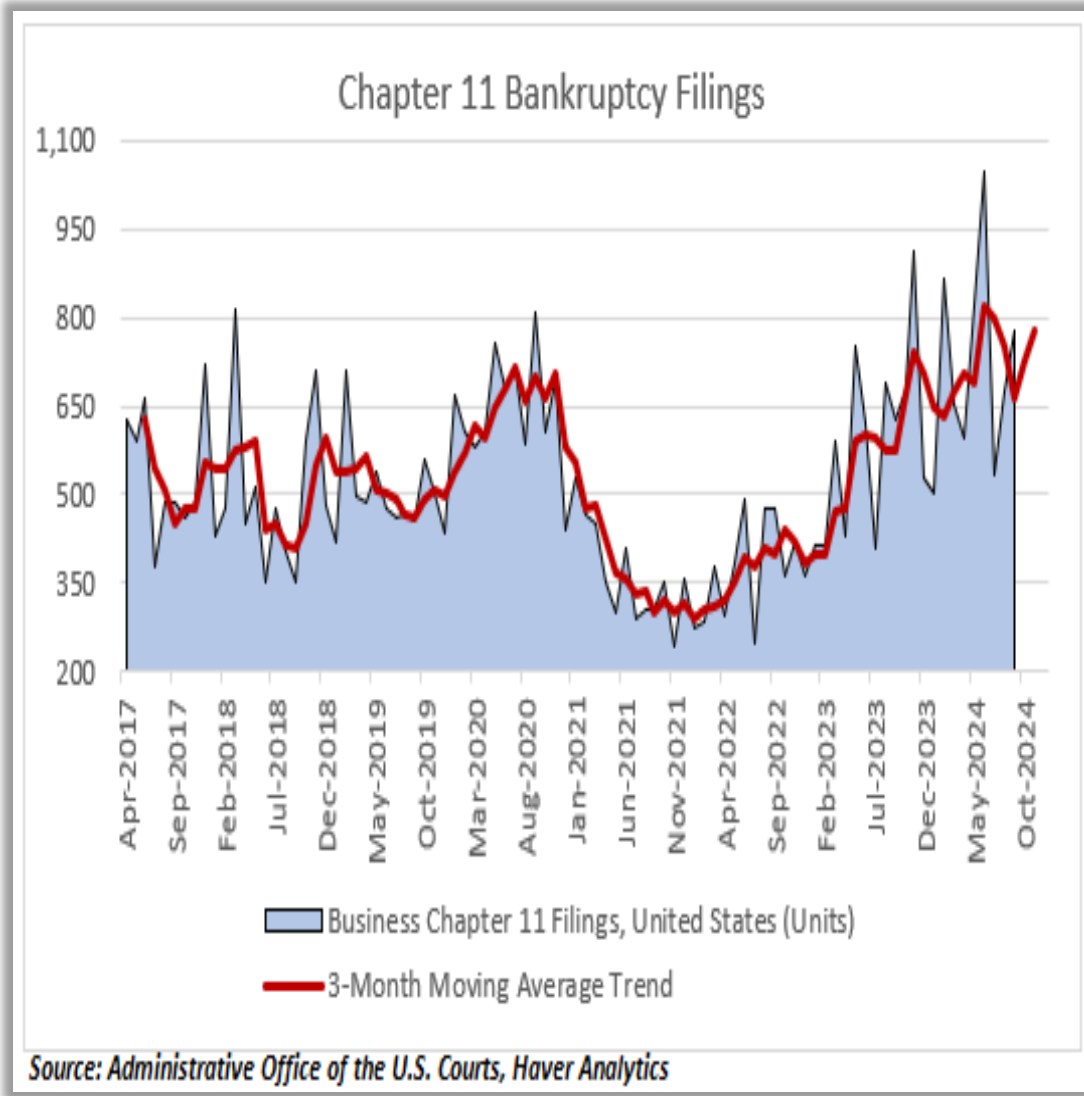
Global Trade: US imports from Mexico are up, and so to are Mexico's imports from China.



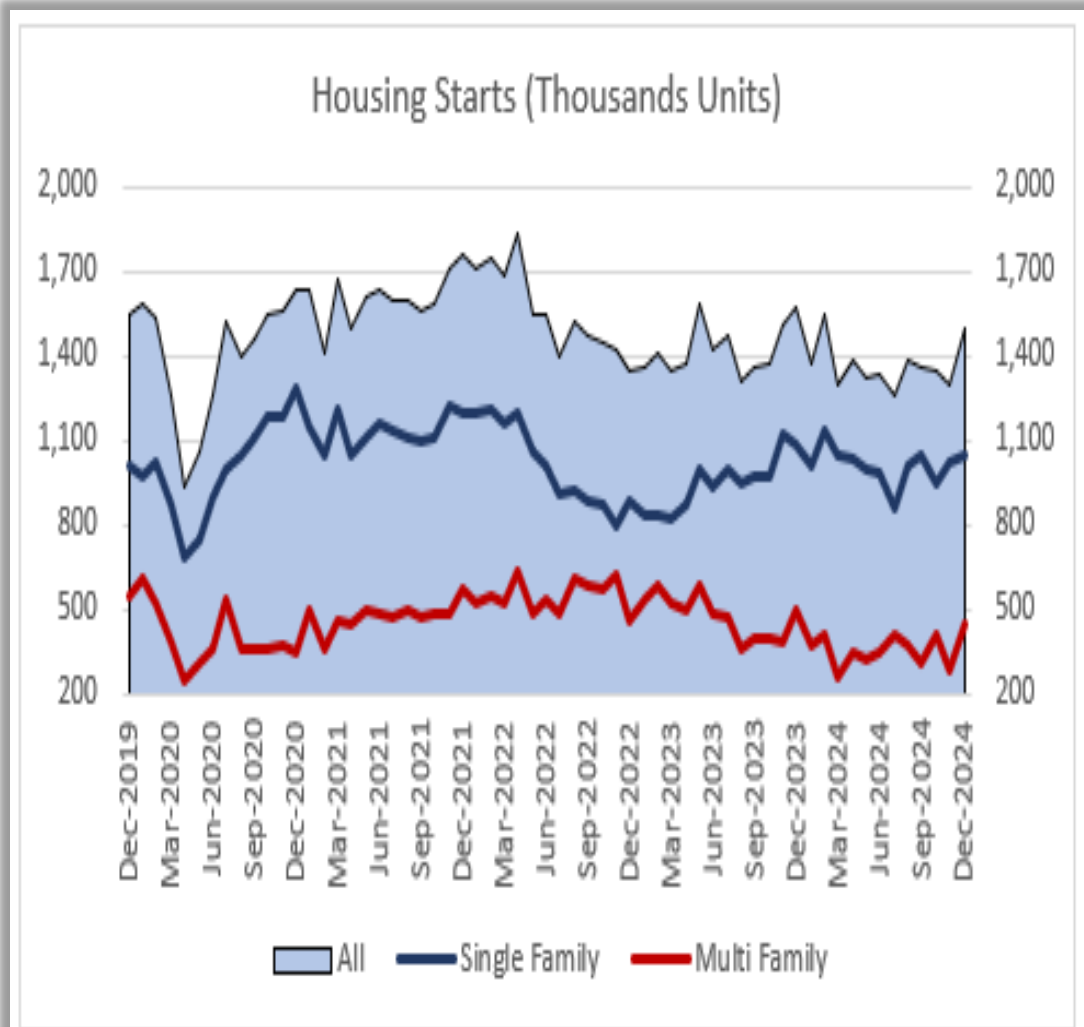
Global Trade: US-Mexico truck crossings are growing consistently. Potentially due to “back door” imports from China.



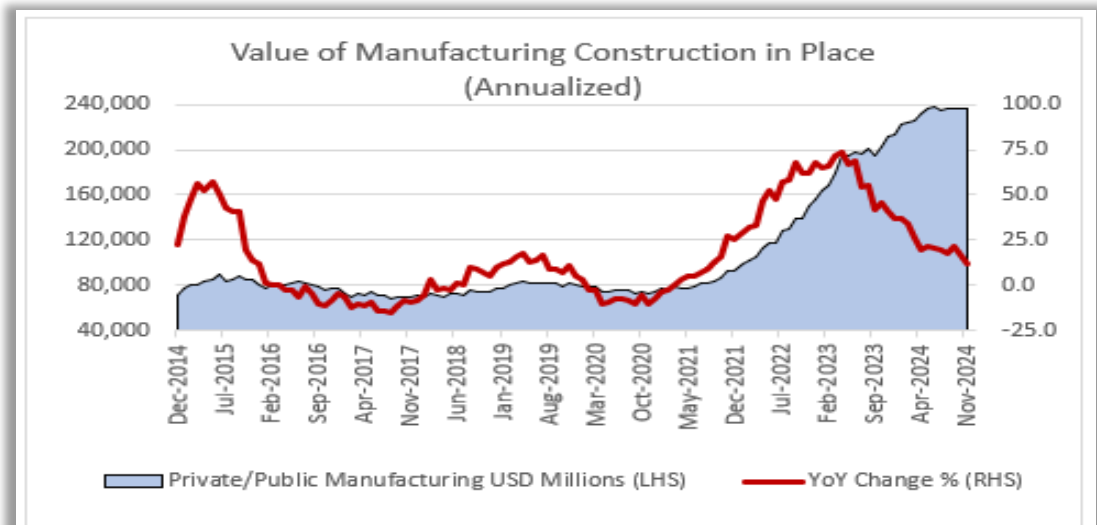
Business Conditions: Bankruptcies are rising, likely driven by newer companies



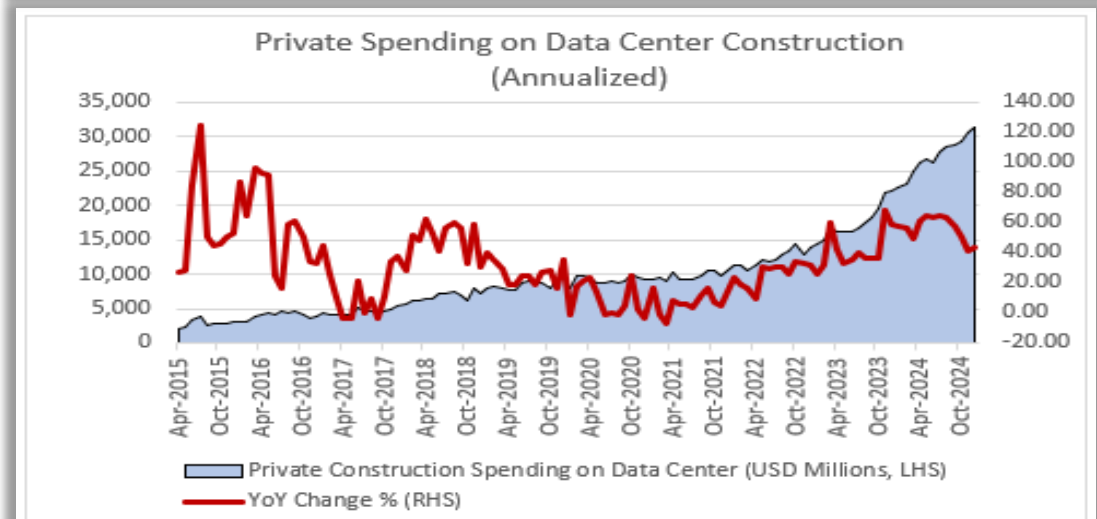
Construction: Demand is shifting from residential to non-residential projects.



Source: US Census Bureau, Haver Analytics



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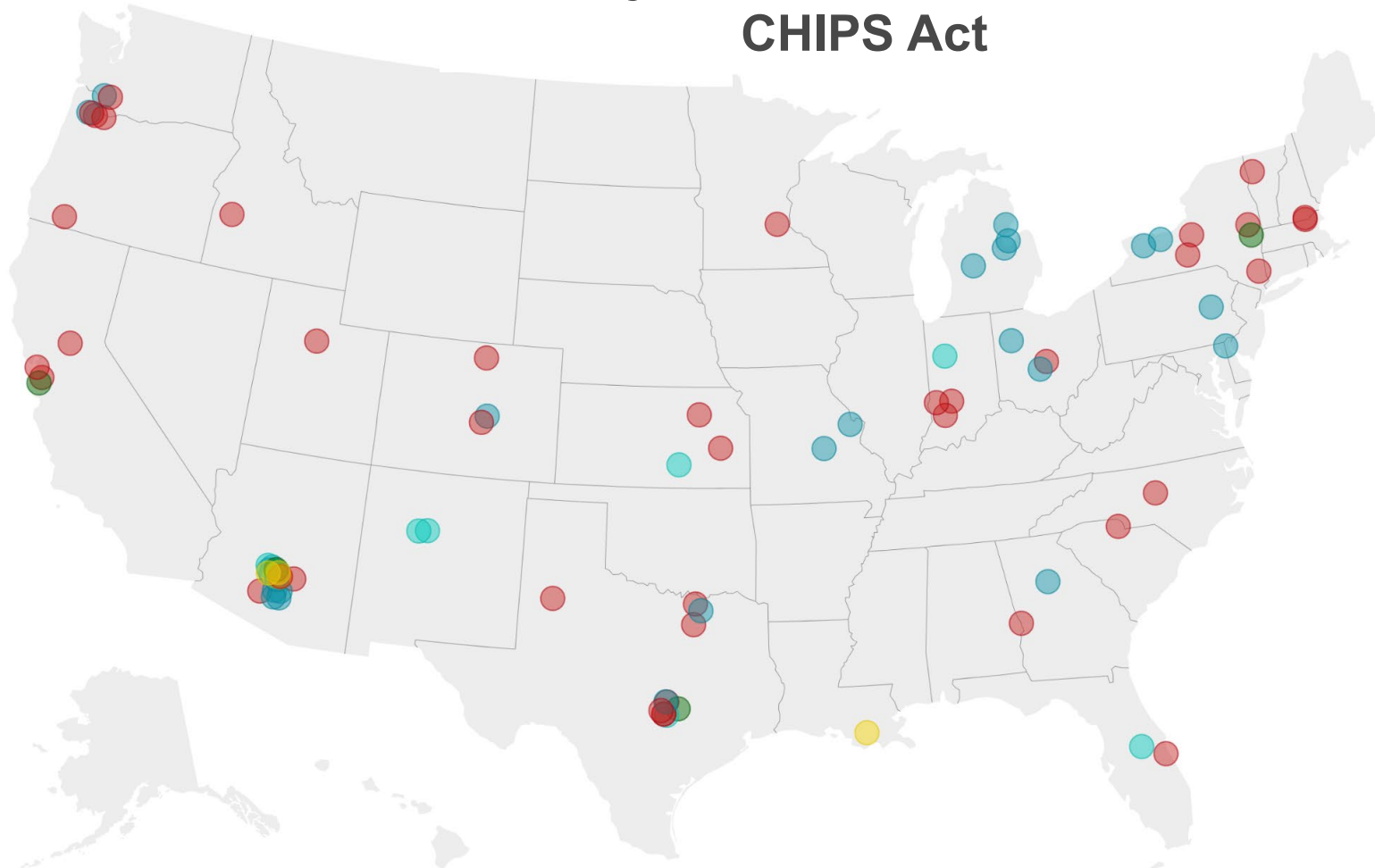


Source: US Census Bureau, Haver Analytics

CHIPS Act: Projects are popping up everywhere. Hot spots in Arizona, Oregon, Texas, New York.

Equipment Materials Packaging R&D Facility Semiconductors

Projects Announced Since CHIPS Act

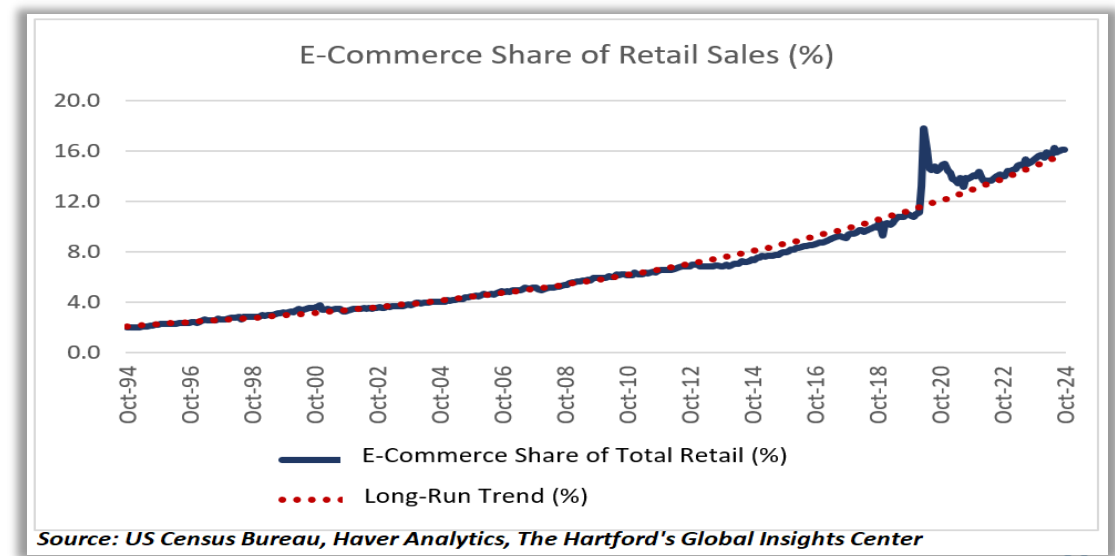
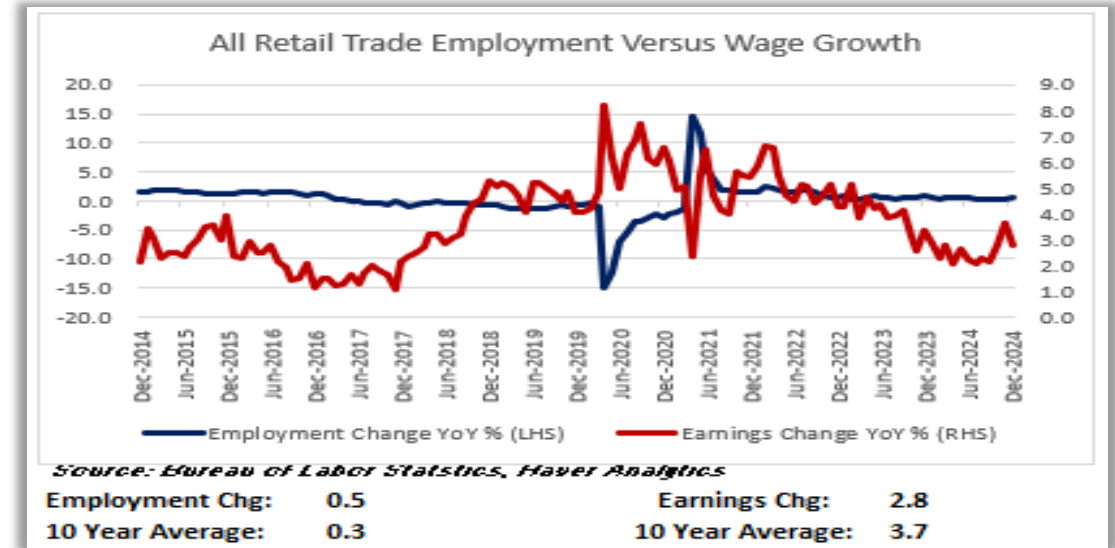
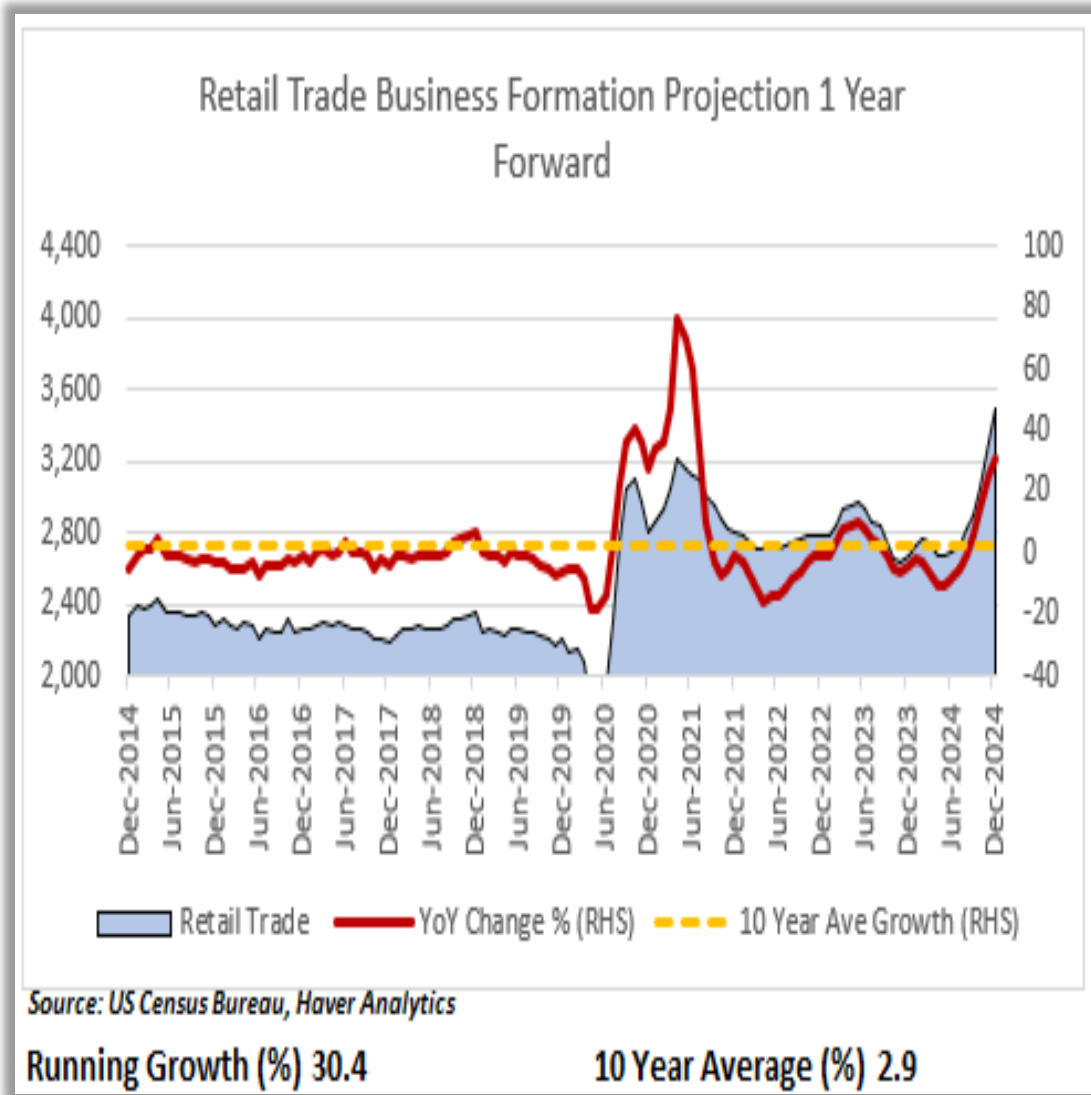


Source: Semiconductor Industry Association

Manufacturing Job Market Impacts: Every 100 new manufacturing jobs generate *approximately 270* additional jobs across sectors and geographies.



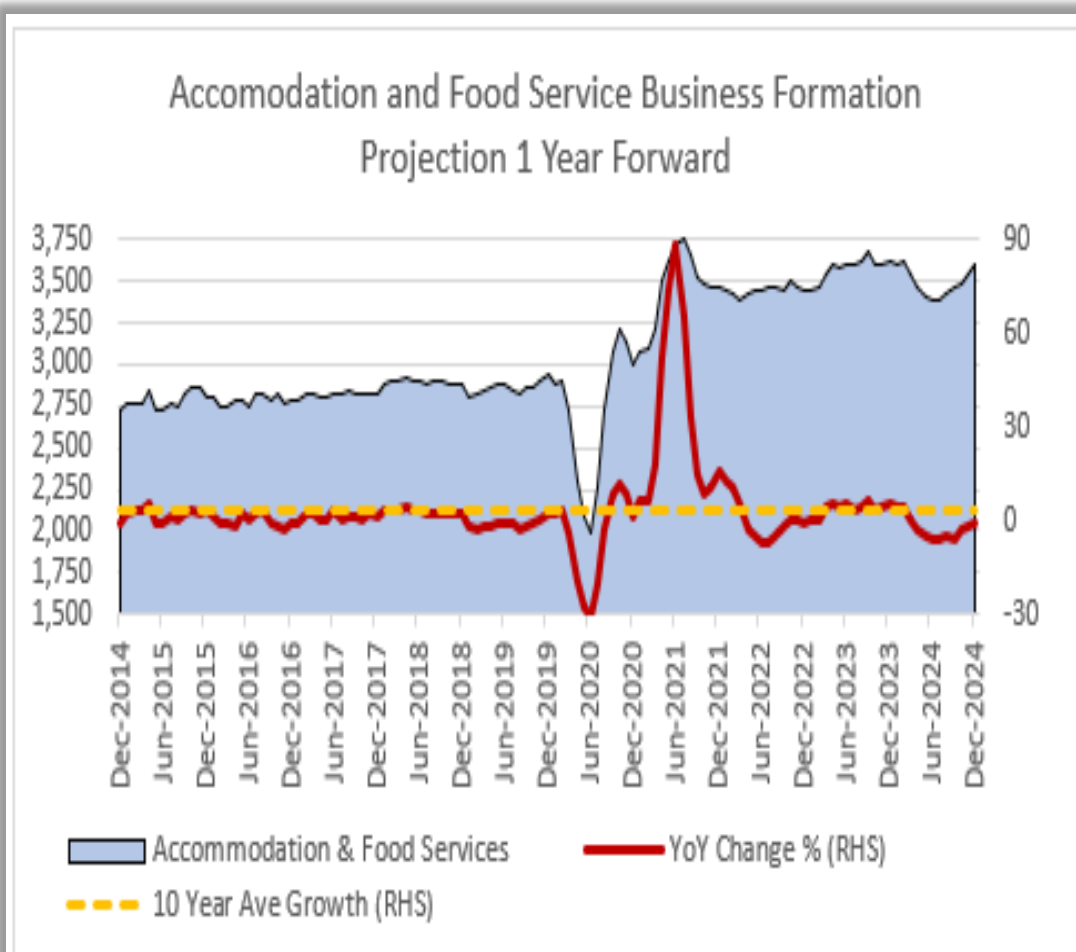
Retail: Retail business formation starting to slow, hours worked declining, but e-commerce is accelerating.





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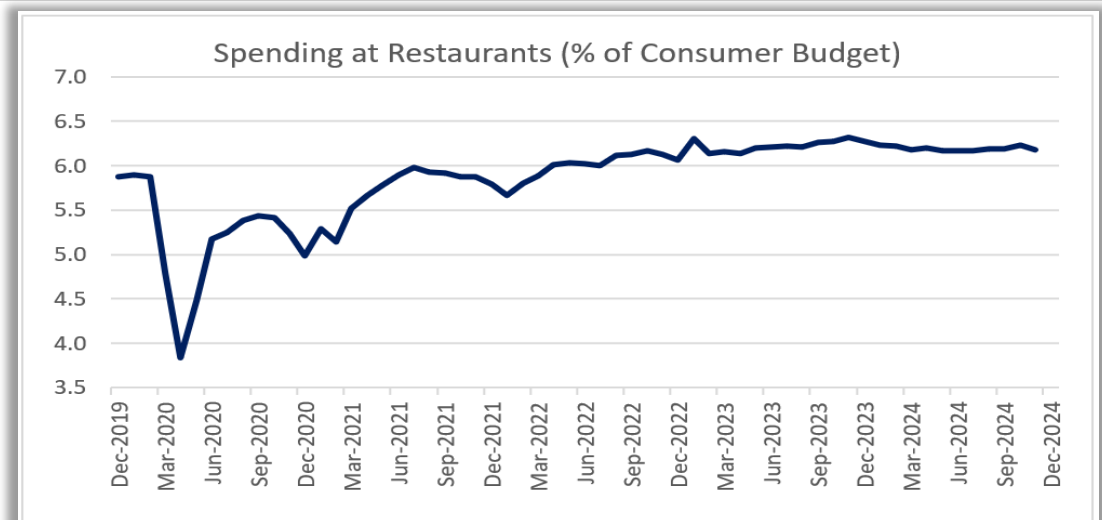
Food Services: Restaurants business formation is also declining while the number of restaurants may be above trend while demand to dine-out has potentially peaked.



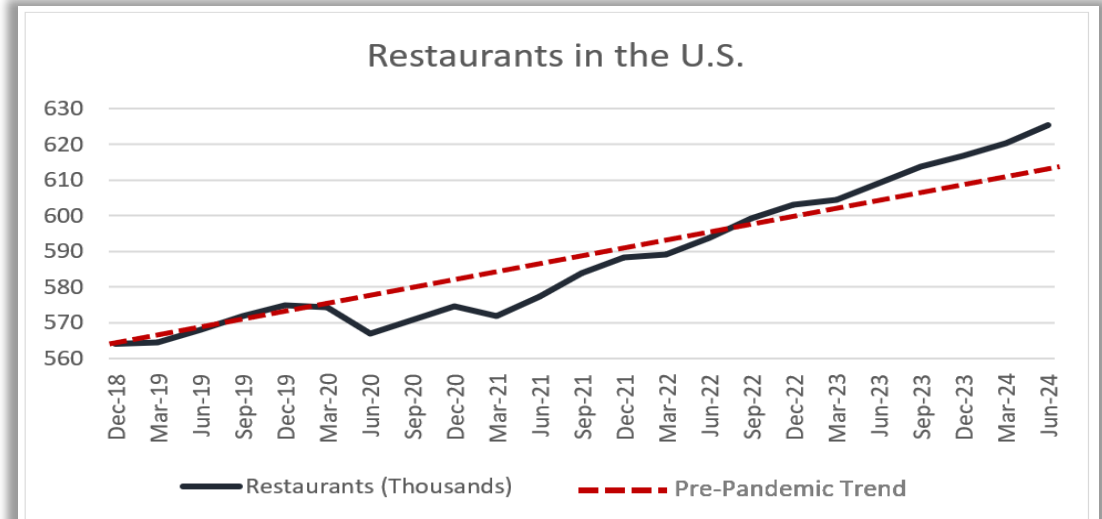
Source: US Census Bureau, Haver Analytics

Running Growth (%) -0.7

10 Year Average (%) 3.3

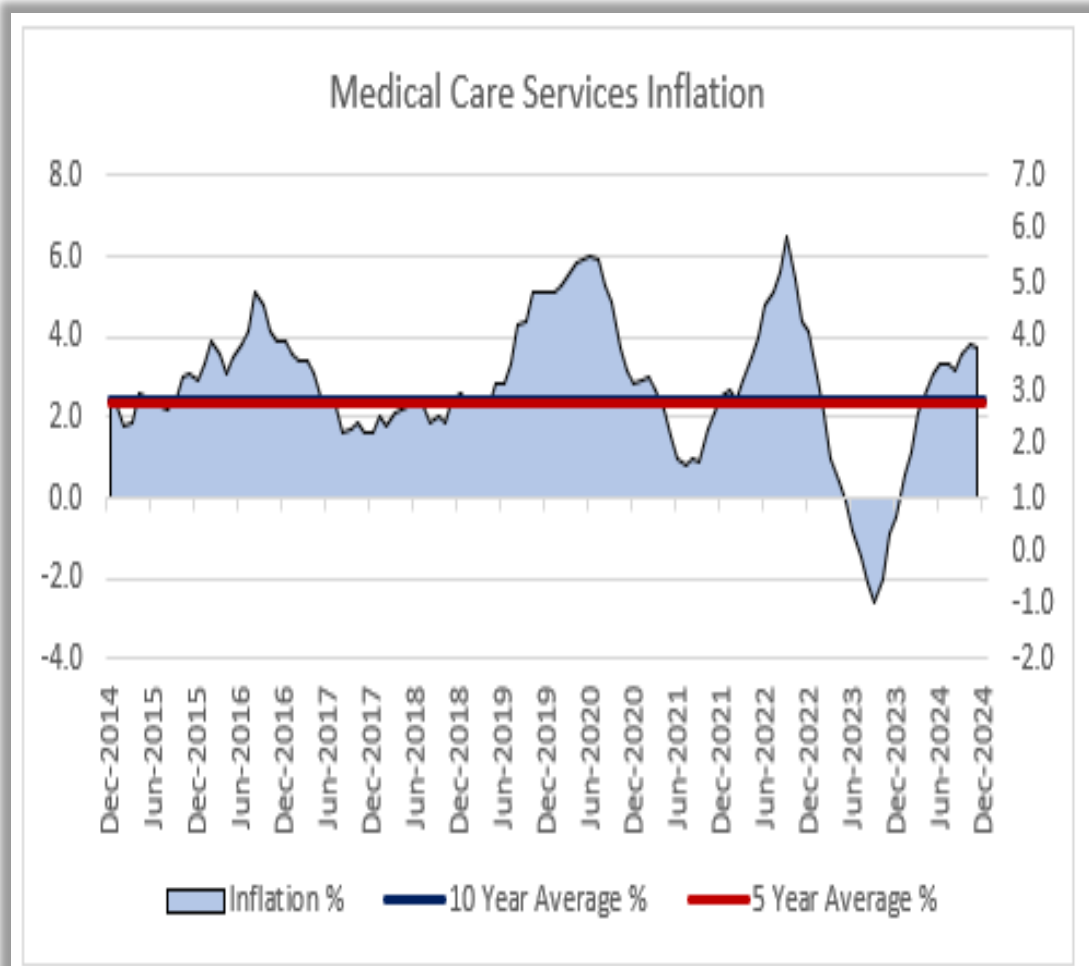


Source: Bureau of Economic Analysis, Haver Analytics, Hartford GIC



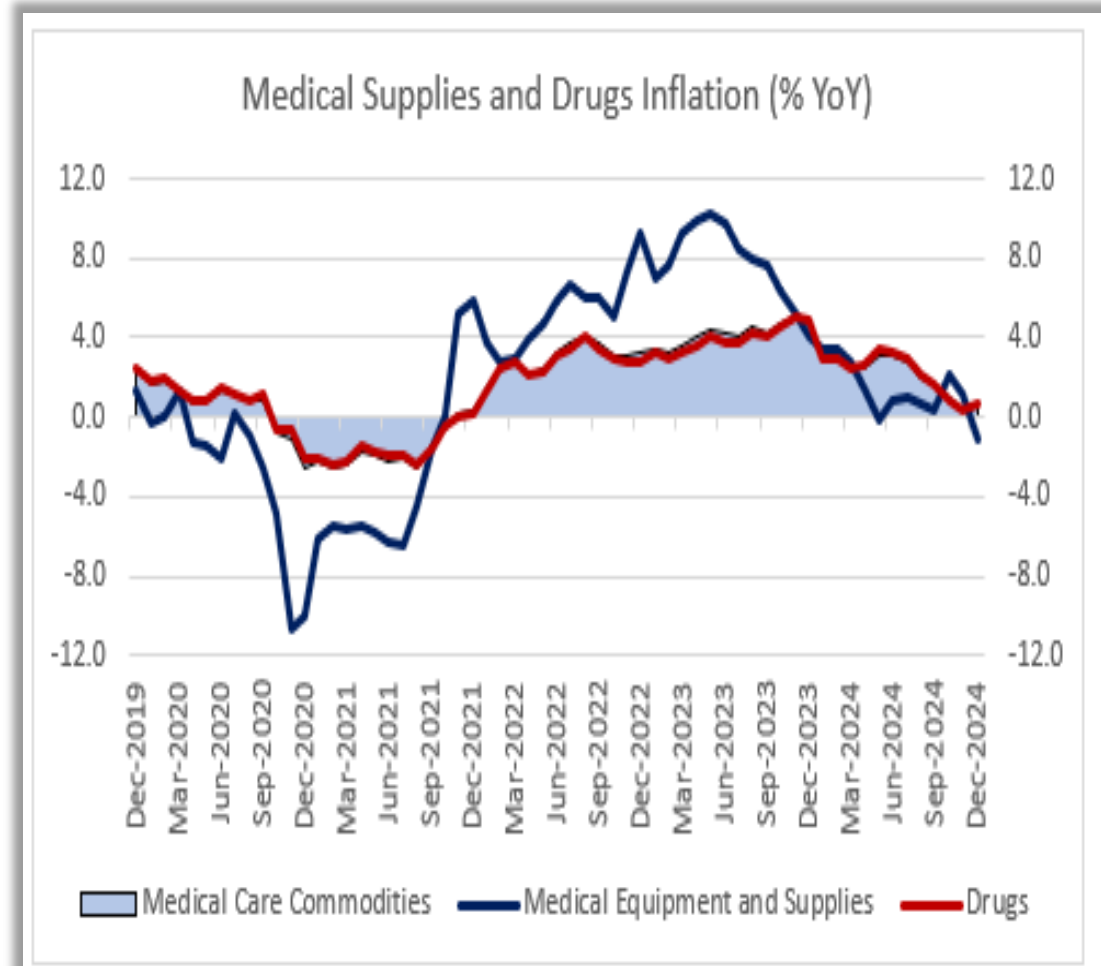
Source: Bureau of Labor Statistics, The Hartford's Global Insights Center

Health Care: Previous uptick in medical goods inflation and softness in services inflation is now normalizing.



Source: Bureau of Labor Statistics, Haver Analytics

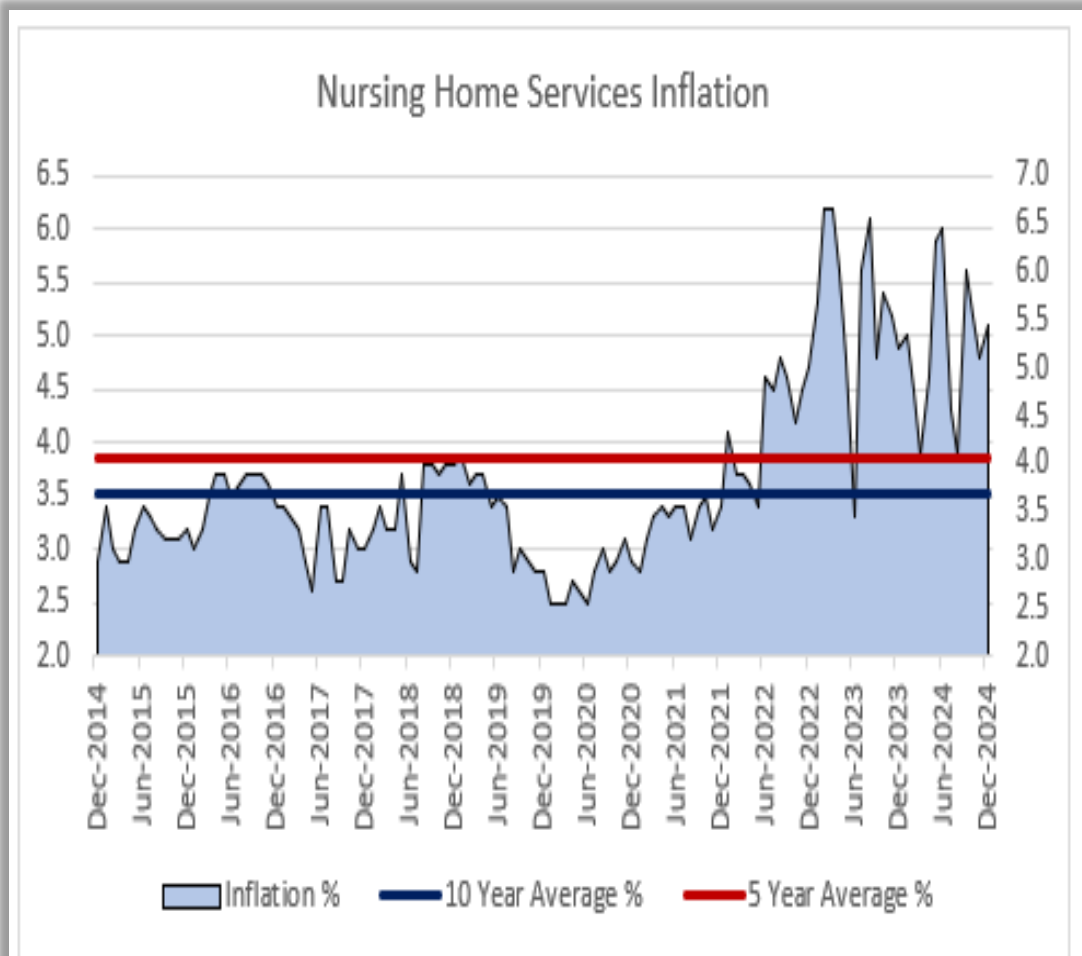
Current: 3.7	10 Yr Ave: 2.8	5 Yr Ave: 2.7
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Source: US Bureau of Labor Statistics, Haver Analytics

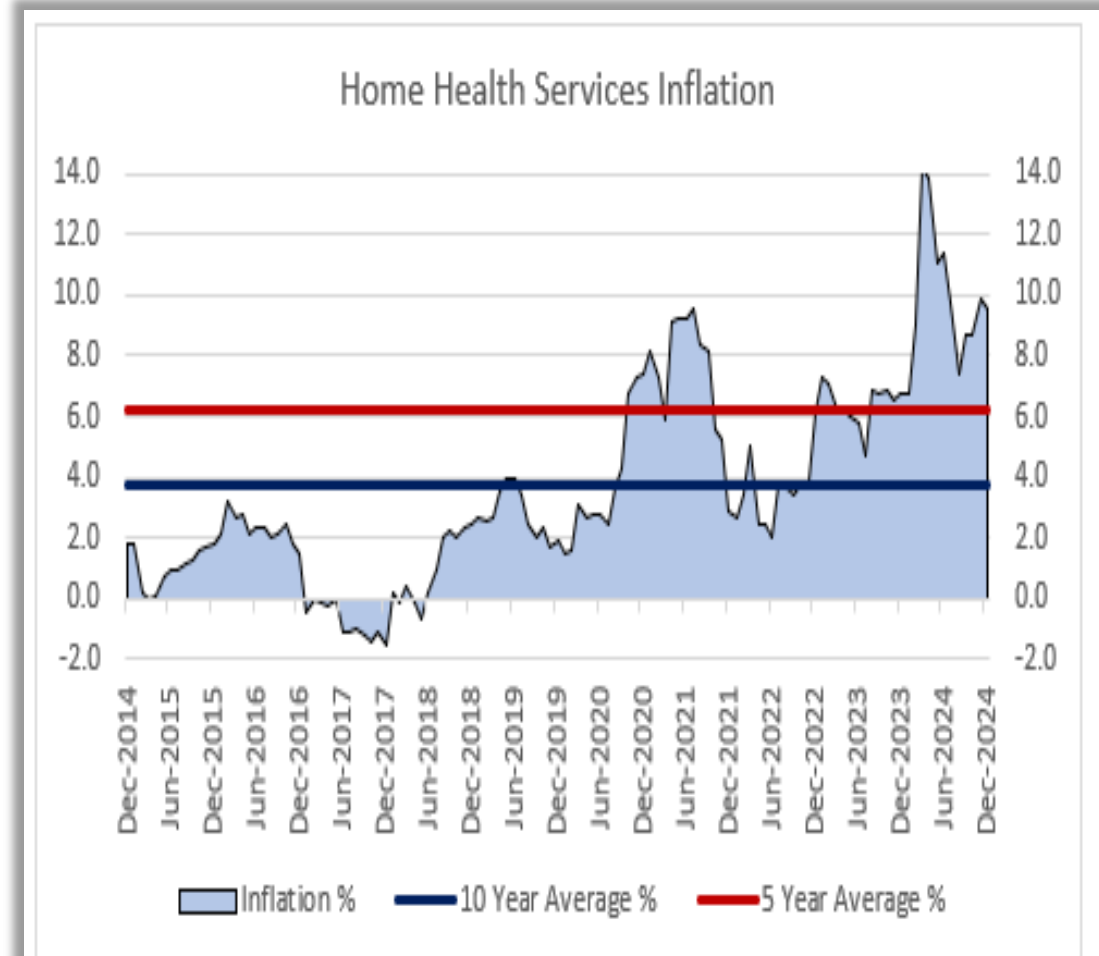
Current: 0.4	10 Yr Ave: 1.9	5 Yr Ave: 1.7
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Health Care: However, elder care inflation services are slightly elevated, especially home-delivery services.



Source: Bureau of Labor Statistics, Haver Analytics

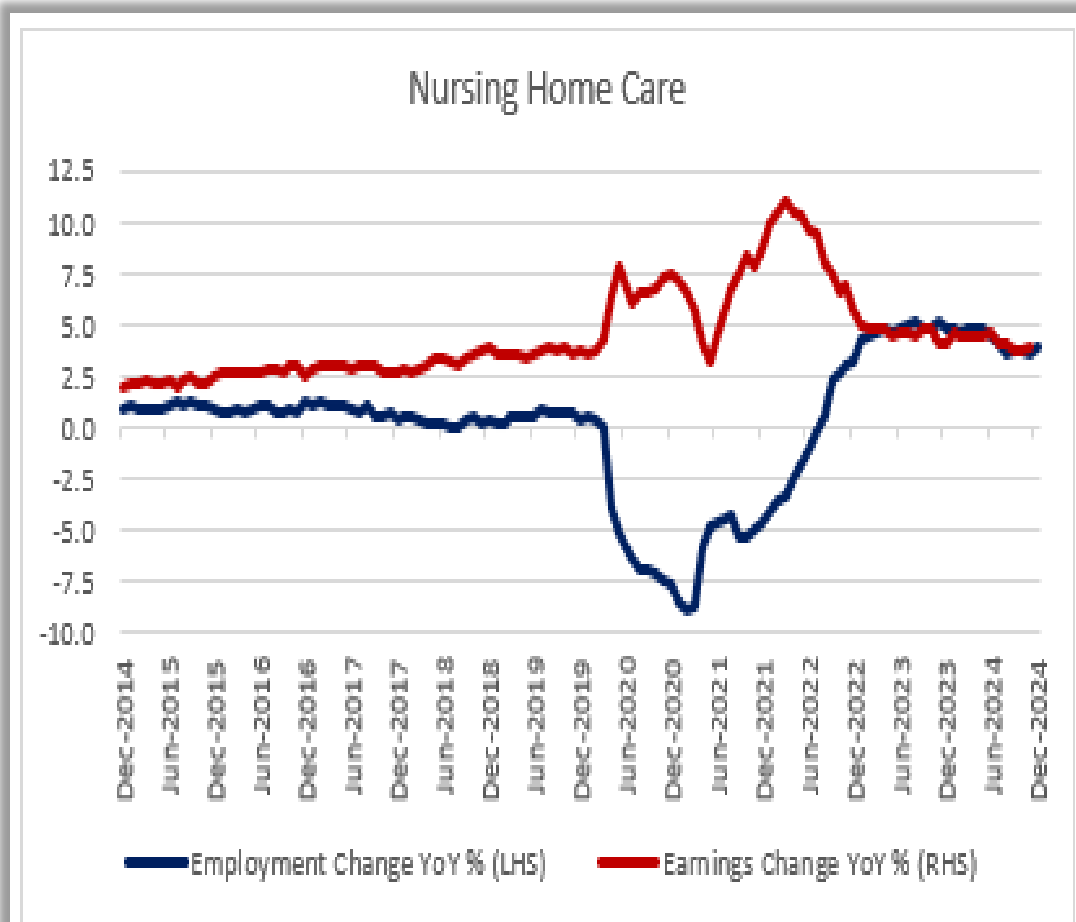
Current: 5.1	10 Yr Ave: 3.7	5 Yr Ave: 4.1
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Source: Bureau of Labor Statistics, Haver Analytics

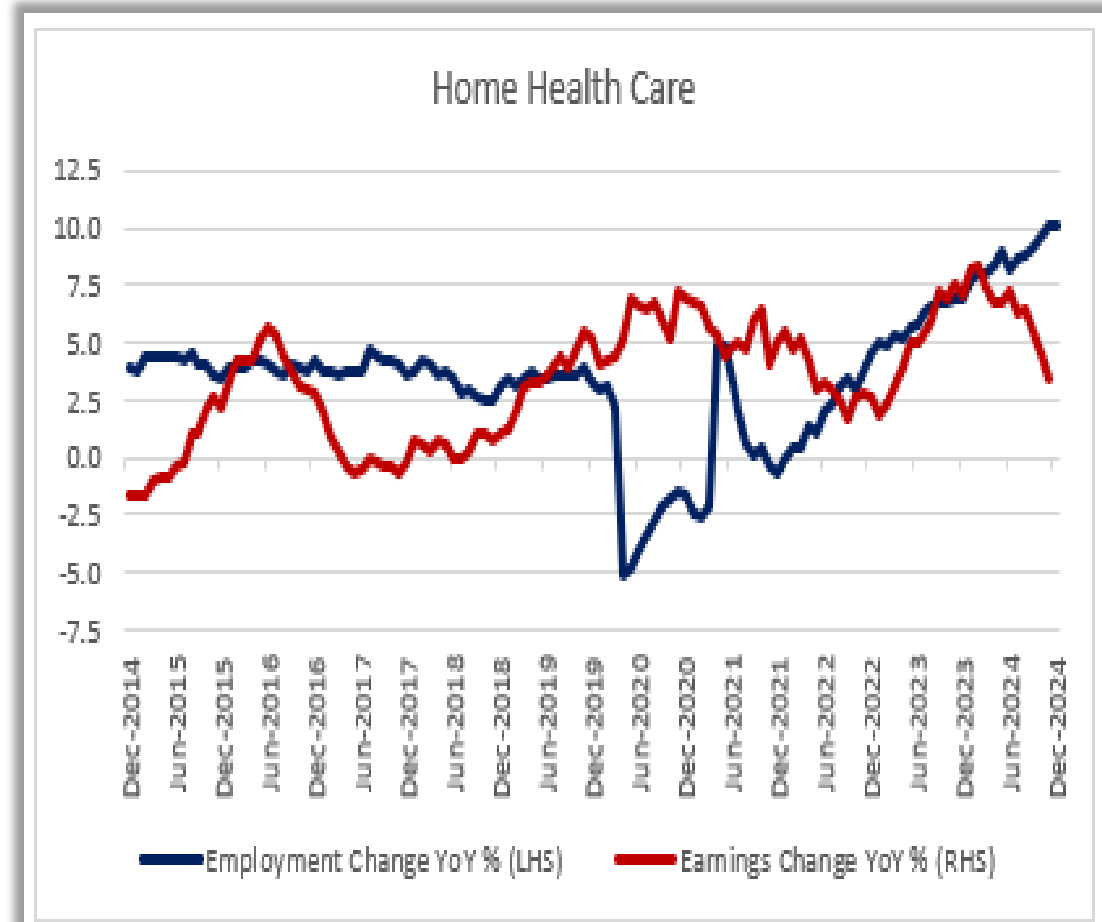
Current: 9.5	10 Yr Ave: 3.7	5 Yr Ave: 6.2
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Health Care: Care directed at elderly demographic, in particular home services, is expected to see strong labor demand.



Source: Bureau of Labor Statistics, Haver Analytics

Employment Chg:	3.8	Earnings Chg:	4.0
10 Year Ave:	0.2	10 Year Ave:	4.5



Source: Bureau of Labor Statistics, Haver Analytics

Employment Chg:	10.1	Earnings Chg:	3.4
10 Year Ave:	3.5	10 Year Ave:	3.4

Industry Outlook: Geopolitically sensitive sectors poised to outperform.

Industry	2024 Performance	2025 Outlook	2025 Issues to Watch
Advanced Manufacturing	Green	Green	Fiscal Incentives & AI Growth Geopolitics / AI Chips Demand AI Rollout Labor Availability Domestic Policy and Global Demand Public Funding Consumer Budgets & Labor Availability Interest Rates / AI Growth / Corporate Profits Overall Economic Growth Labor Availability / M&A / Economic Growth Goods Demand & E-Commerce Transition Population Growth & Public Funding Venture Capital Funding Mortgage Rates & Housing Affordability Interest Rates Geopolitics & Economic Growth Home Sales / Realtor Litigation / Commercial Vacancies Interest Rates / Global Trade / E-Commerce Tariffs / Global Trade / Interest Rates Tariffs / Global Trade / Goods Demand
Construction of Advanced Manufacturing Plants	Green	Green	
Data Centers	Green	Green	
Healthcare	Green	Green	
Natural Gas / Renewables / Utilities	Green	Green	
Construction on Infrastructure & Public Works Projects	Green	Yellow	
Restaurants & Hotels	Green	Yellow	
Tech	Yellow	Yellow	
Professional Services	Yellow	Yellow	
Law	Yellow	Yellow	
Retail	Yellow	Yellow	
Education	Yellow	Yellow	
Life Sciences	Red	Yellow	
Residential Construction	Red	Yellow	
Banking & Finance	Red	Yellow	
Oil & Petroleum	Red	Yellow	
Real Estate Brokers & Property Managers	Red	Yellow	
Construction of Office, Retail, Industrial Buildings	Red	Red	
Non-Advanced Manufacturing	Red	Red	
Logistics & Shipping	Red	Red	

Note: These qualitative assessments include performance for job growth, revenue growth, capital expenditure, and business formation.

Source: The Hartford's Global Insights Center