UCI Paul Merage School of Business

Leadership for a Digitally Driven World™

2025 Economic and Financial Forecast

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Professor of Finance

Faculty Director, Todd and Lisa Halbrook CIWM

January 16, 2025

For Some Reason It Feels Like ...

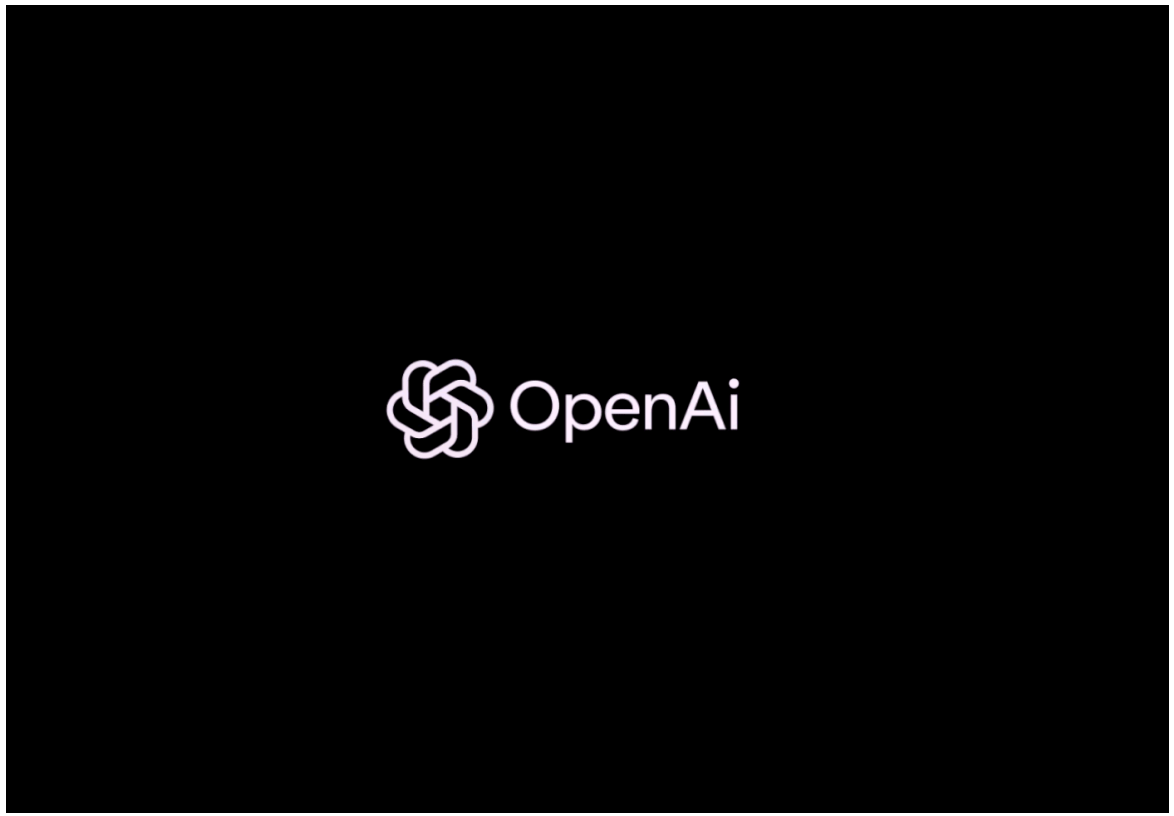
For Some Reason It Feels Like …

Because It Feels a Bit in 2016 … again

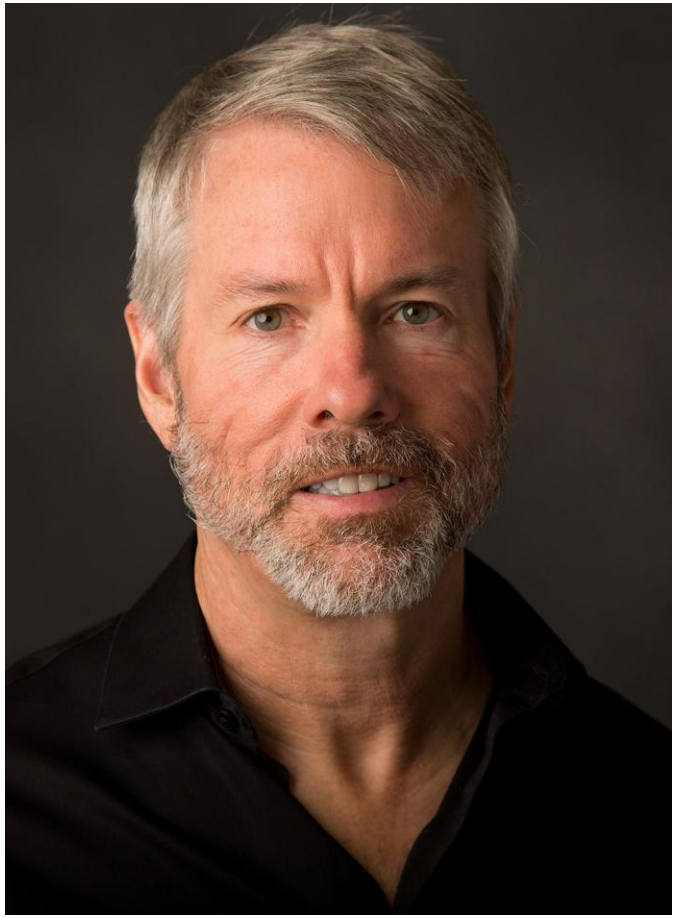
Because It Feels a Bit in 2016 … again

Or Maybe 1999?

Or Maybe 1999?



No No Maybe … 1980?



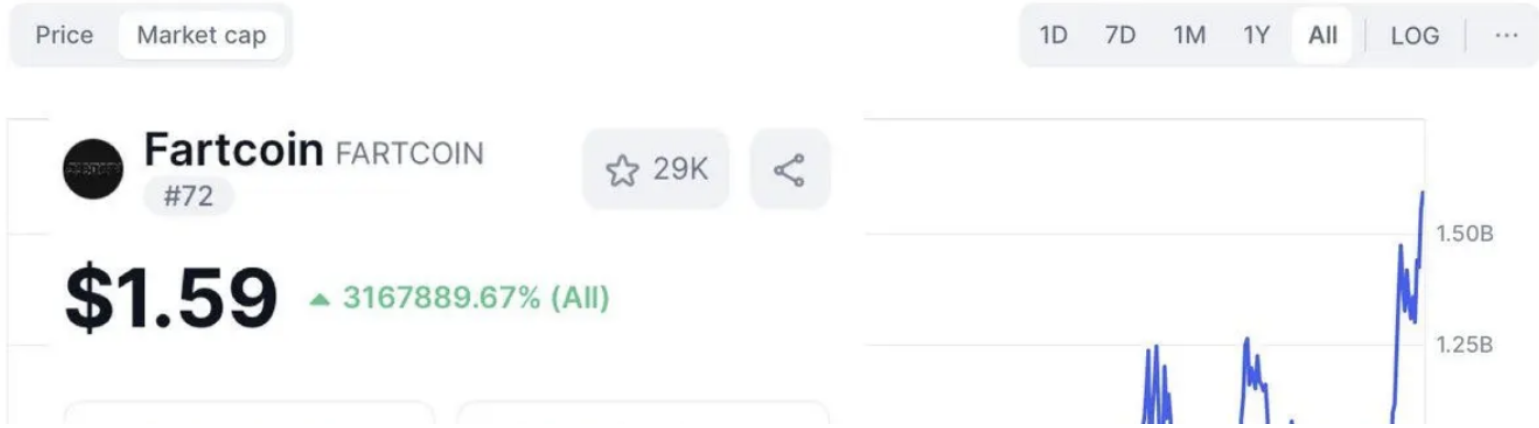
I GOT IT – 2021!

I GOT IT – 2021!

Solana's Fartcoin Hits $1.6 Billion Market Cap in 3 Months, Tops 1,000 Russell 3000 Companies

The Solana-based memecoin Fartcoin has experienced a significant surge

By: DeepNewz • January 03, 2025



But Whichever One of Those You Pick ...

But Whichever One of Those You Pick ...

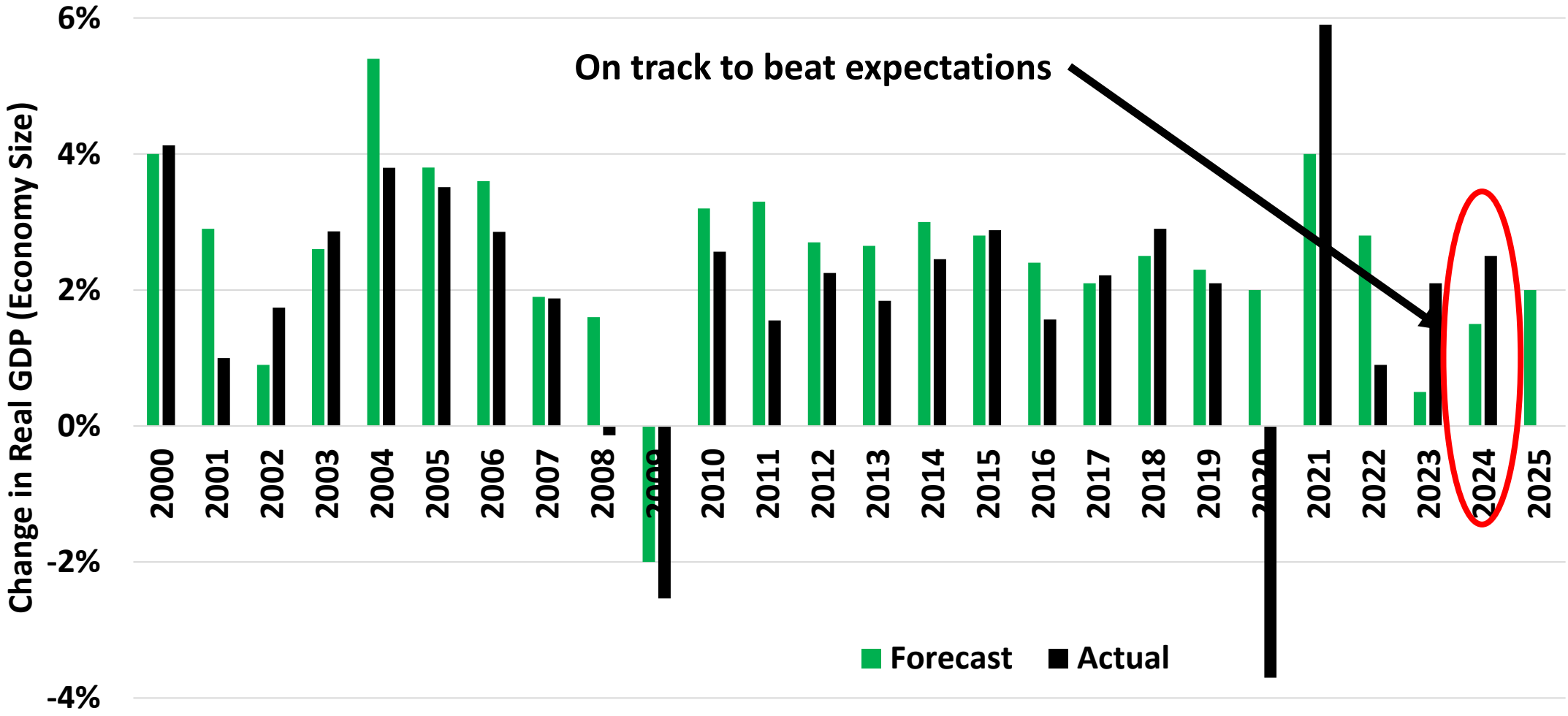
And Naturally the Following Years There Were…

And Naturally the Following Years There Were…

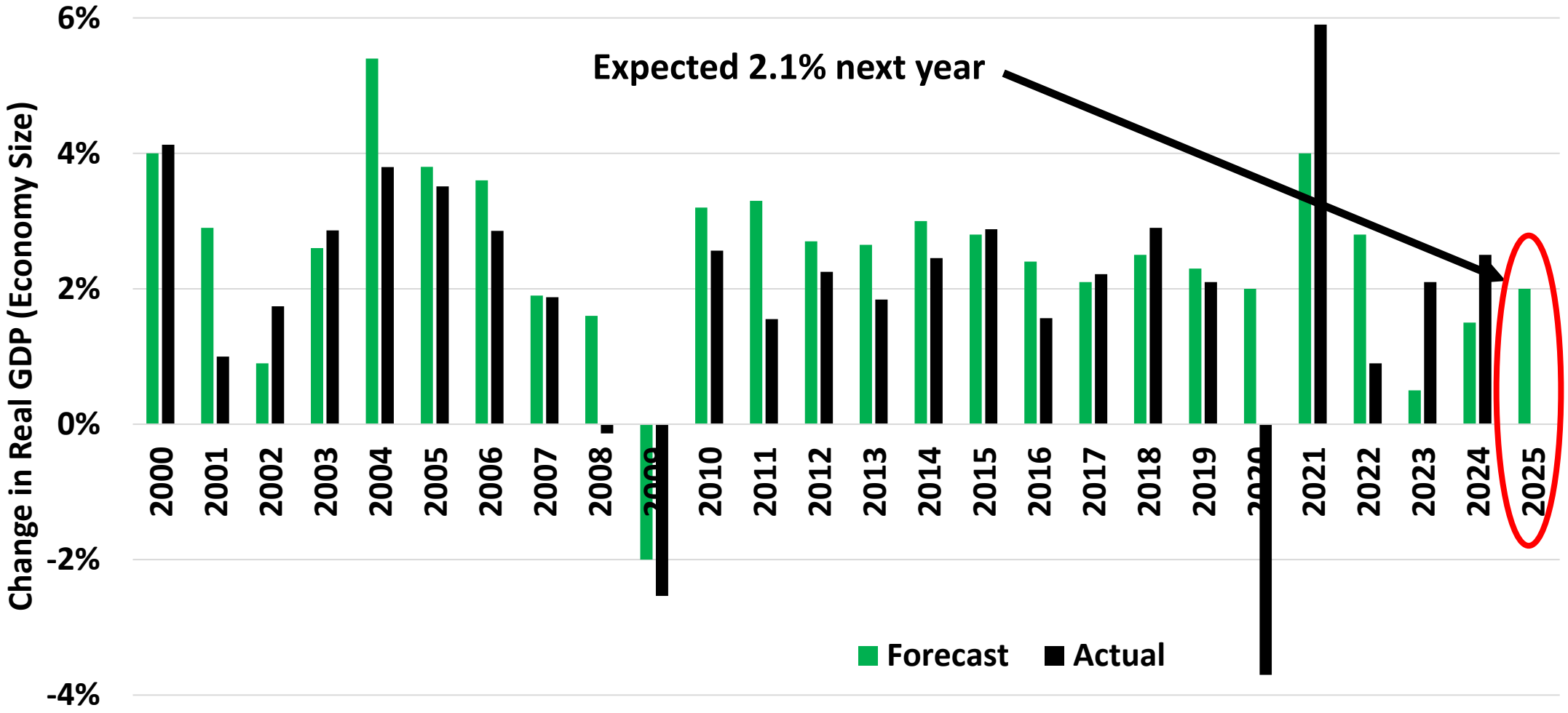
General Thoughts

- Economy is just trucking along
  - A little more slowly each year
  - One shock away from a recession
- Difficult to predict shock … pretty much everyone has been wrong
- Economy and markets are leaning a lot government and AI
- Current stock valuations make them more vulnerable to shocks
  - Decline is coming… and bigger run up, bigger the decline

GDP Forecast 2025



GDP Forecast 2025



Economy is Like John McClane

Economy is Like John McClane

Defying Expectations

SPEND

‘Ugly’ inflation numbers make a recession more likely in 2022, economist says

Published Wed,

Mike Wint
@MIKE_V

MARKET INSIDER

Why everyone thinks a recession is coming in 2023

PUBLISHED FRI, DEC 23 2022•7:40 AM EST | UPDATED MON, DEC 26 2022•7:09 PM EST

Patti Domm
@IN/PATTI-DOMM-9224884/
@PATTIDOMM

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Home / Money / Investing / Recession 2024: How to Prep...

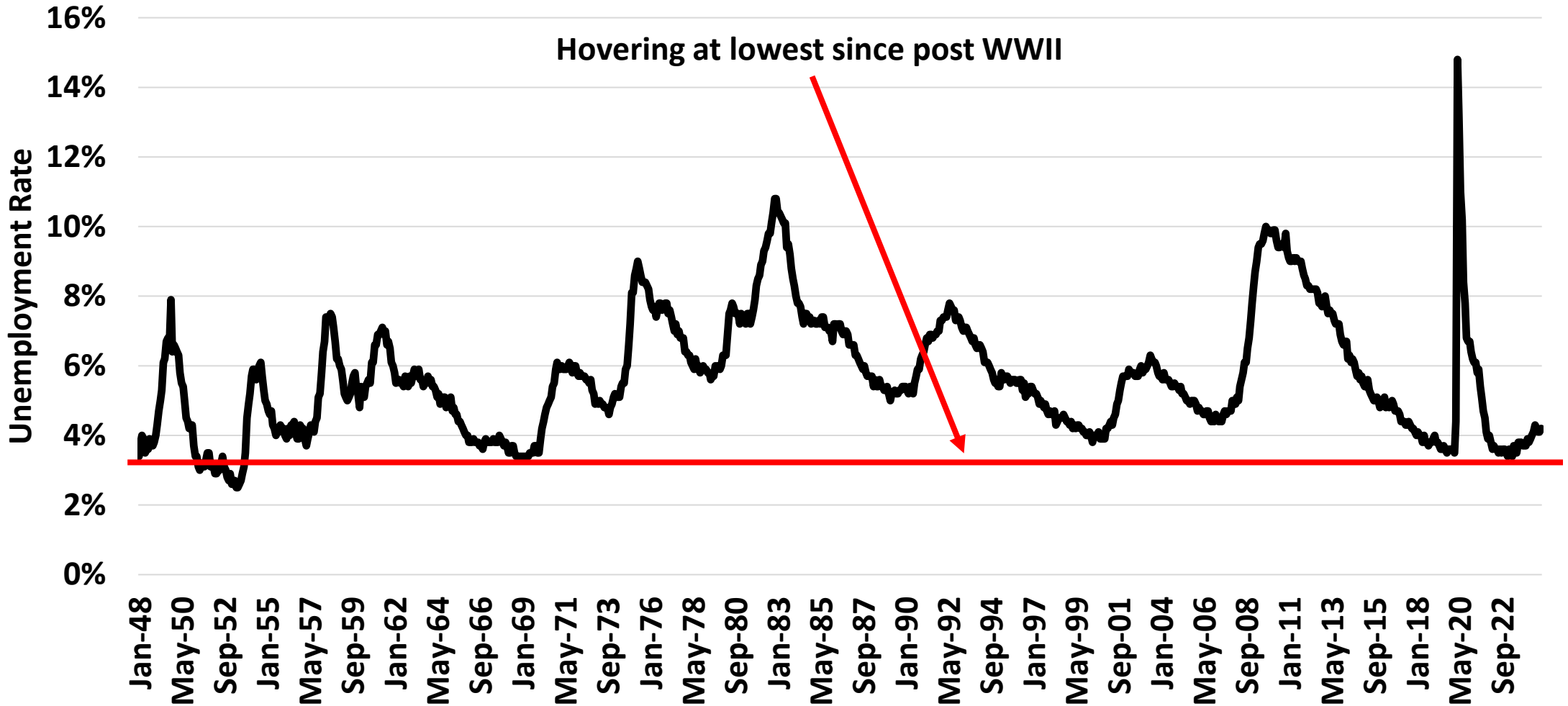
Recession 2024: What to Watch and How to Prepare

Recession chances remain elevated heading into the final half of 2024.

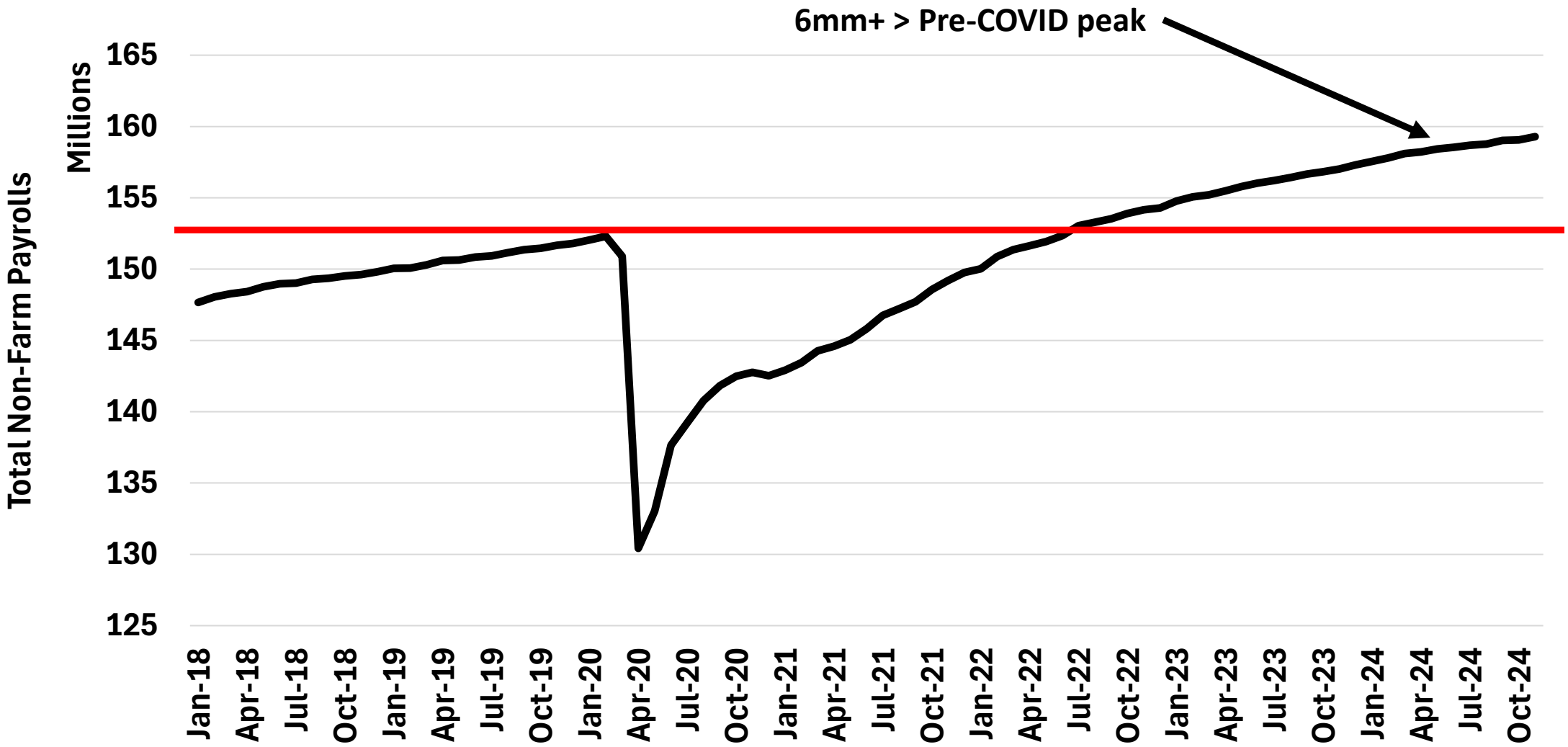
By Wayne Duggan | Reviewed by John Divine | Sept. 11, 2024, at 2:59 p.m.

Save

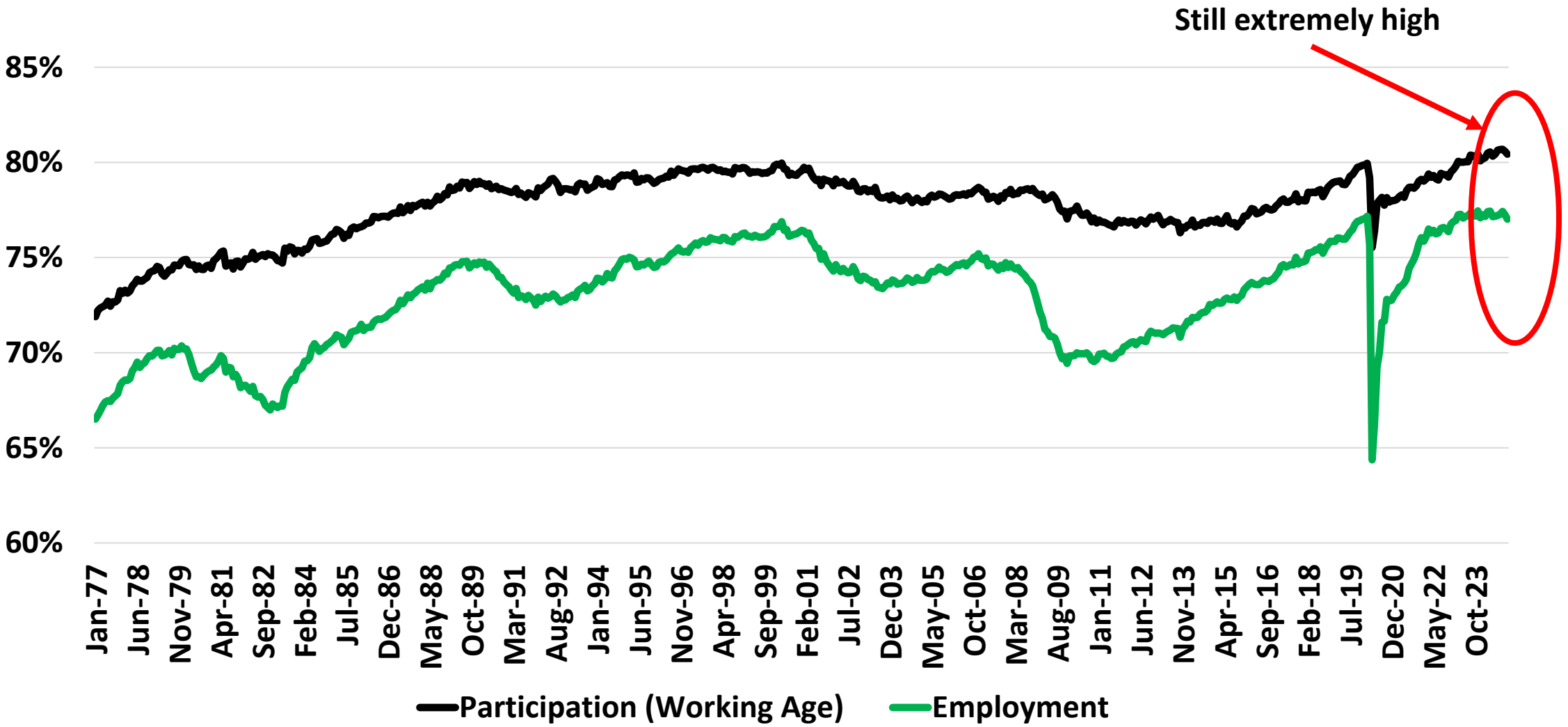
Employment is Super Strong



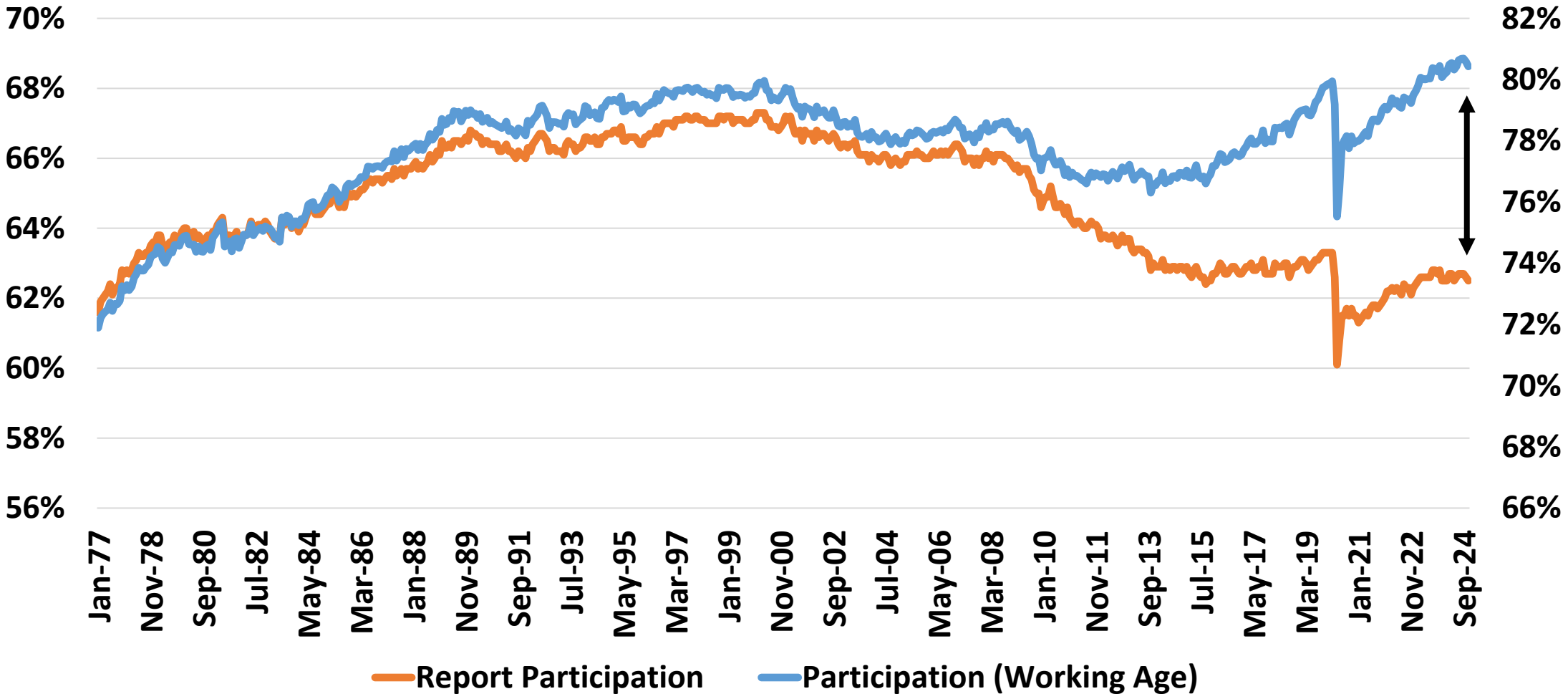
Lots-o-People Working



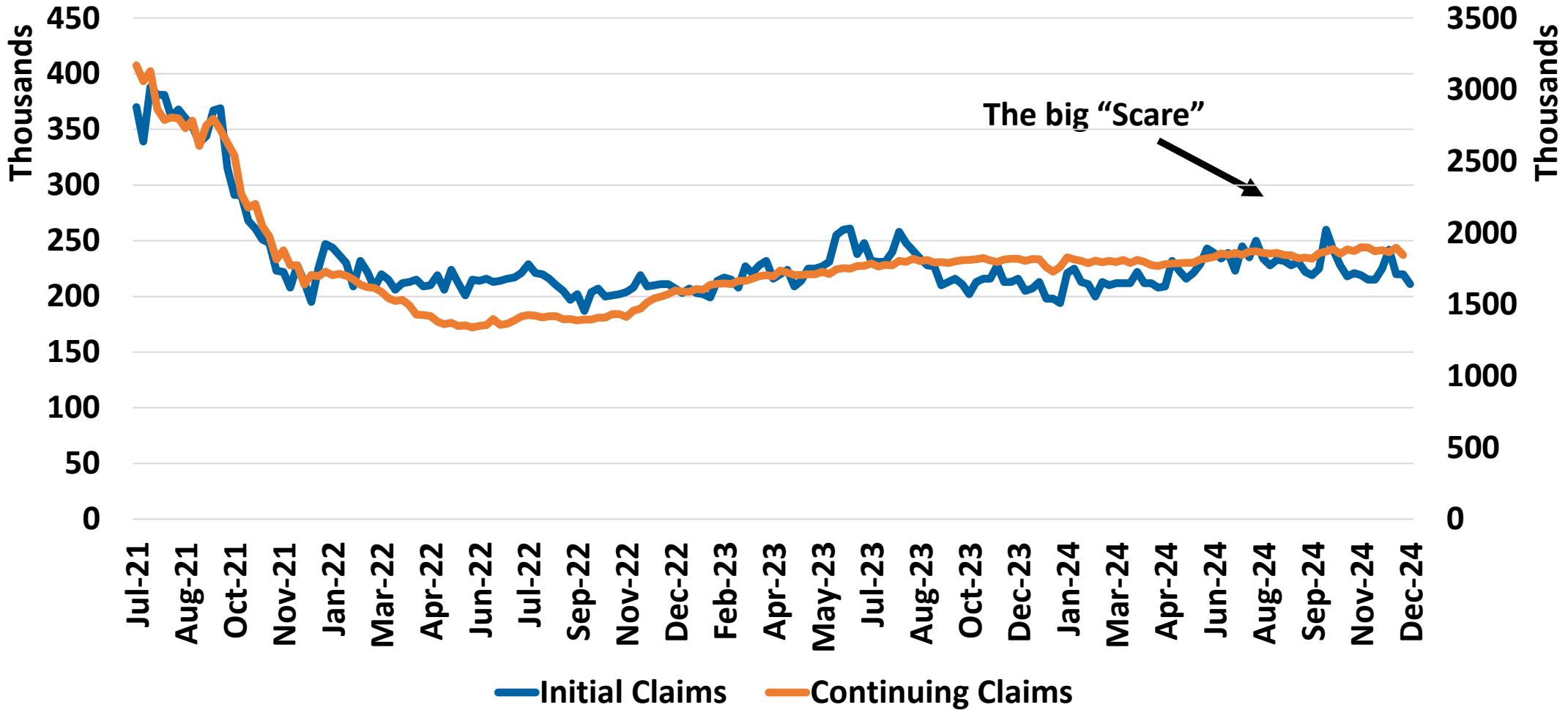
Bench Is Still Empty



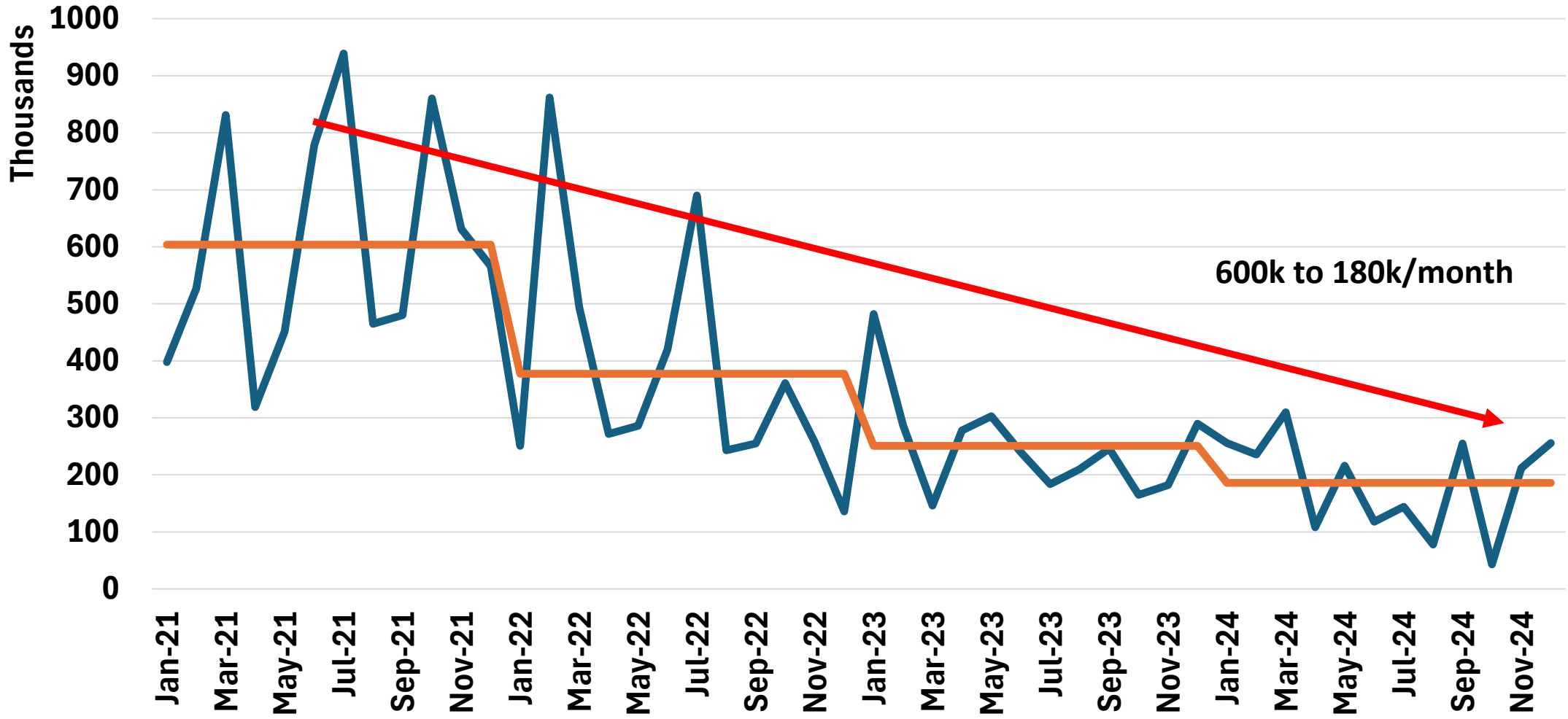
Remember: BLS Participation Rate is Wrong



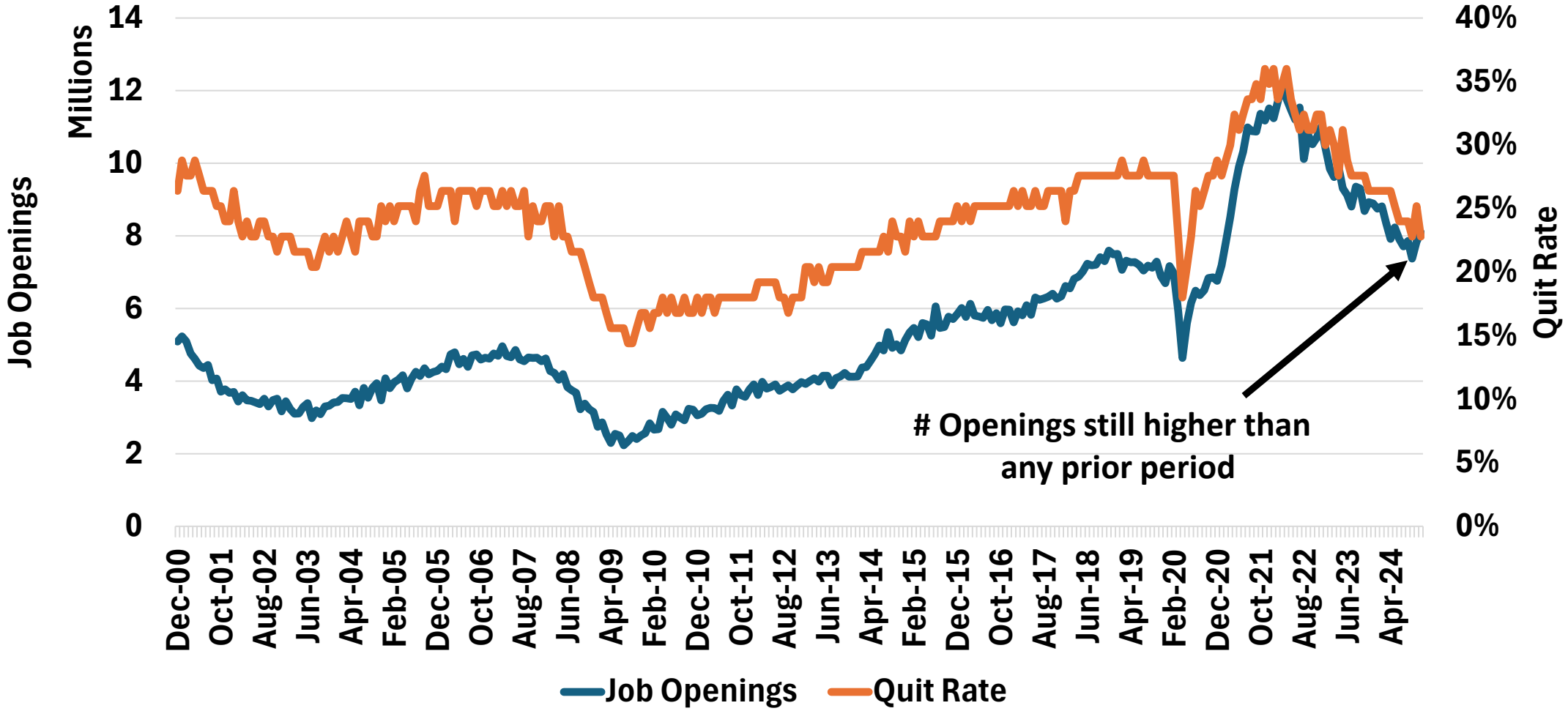
And No Signs of Cooling Much…



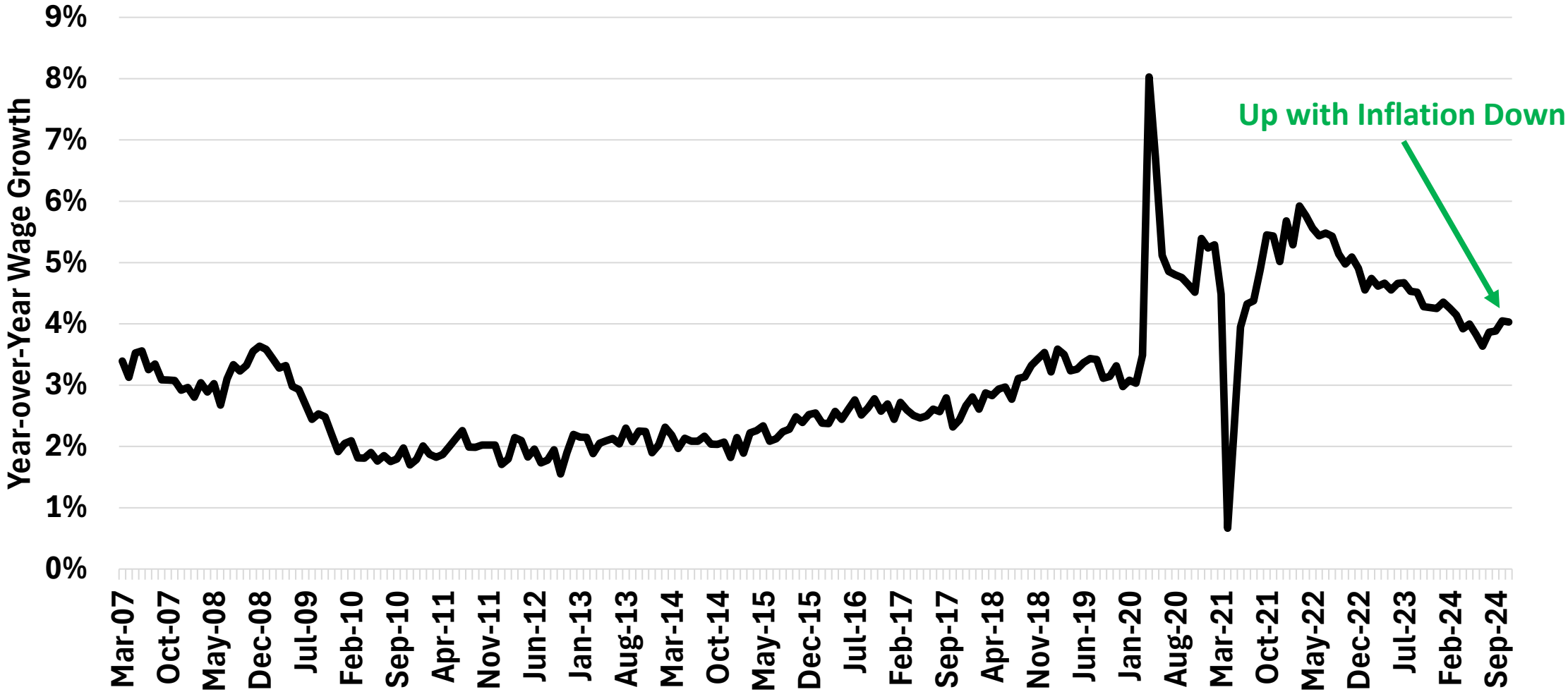
… Although Definitely Slowed Down



Market Isn't JOLTed



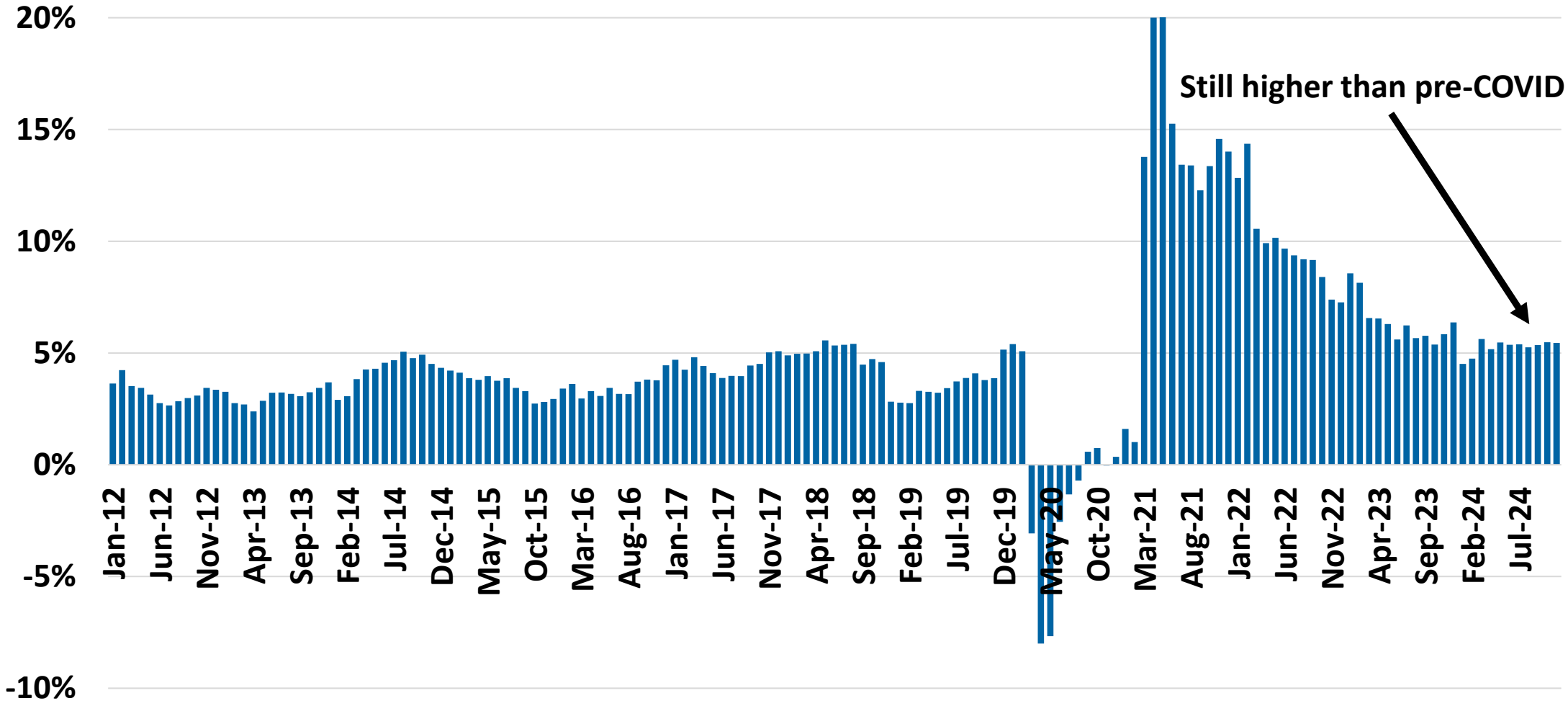
Wage Growth


Year-over-Year Wage Growth
9%
8%
7%
6%
5%
4%
3%
2%
1%
0%
Up with Inflation Down
Mar-07
Oct-07
May-08
Dec-08
Jul-09
Feb-10
Sep-10
Apr-11
Nov-11
Jun-12
Jan-13
Aug-13
Mar-14
Oct-14
May-15
Dec-15
Jul-16
Feb-17
Sep-17
Apr-18
Nov-18
Jun-19
Jan-20
Aug-20
Mar-21
Oct-21
May-22
Dec-22
Jul-23
Feb-24
Sep-24

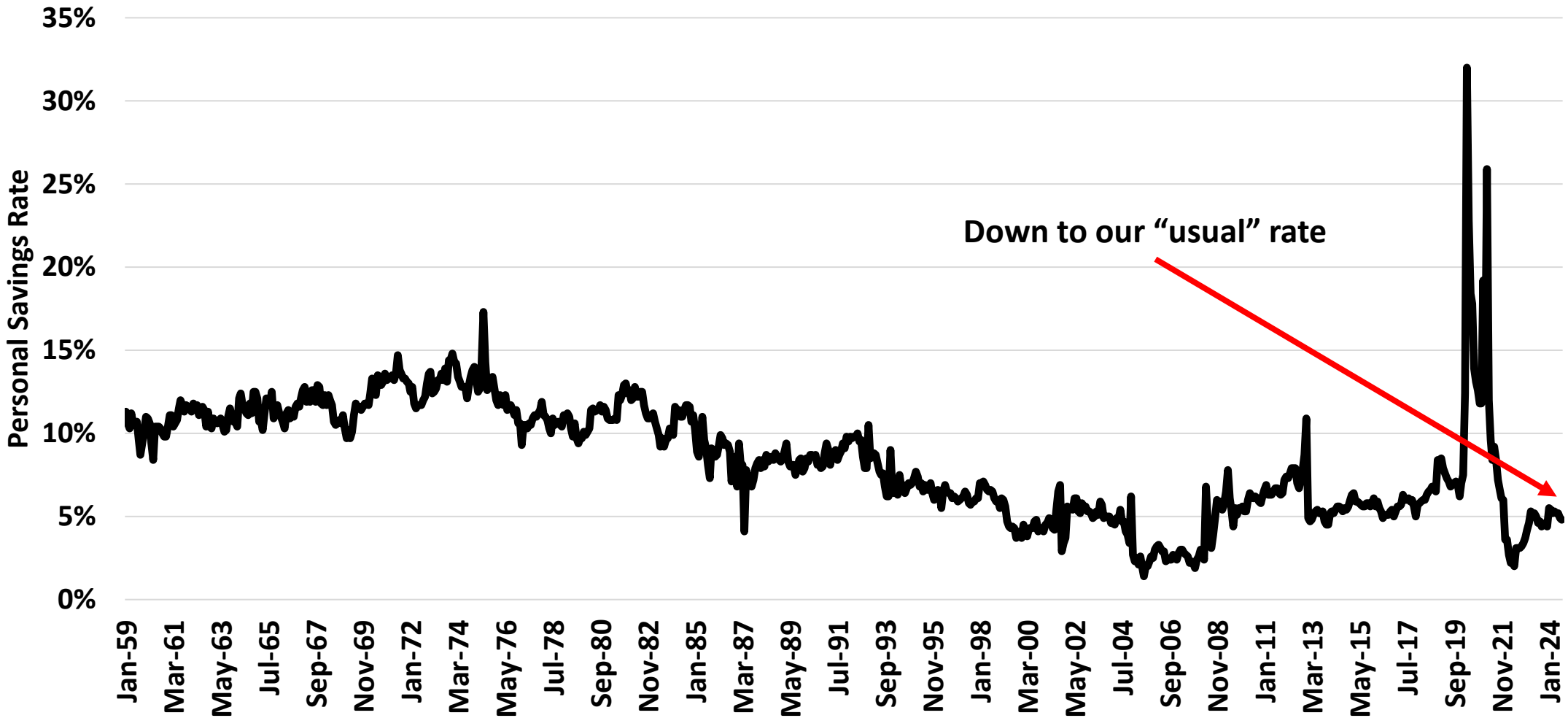
And What Do People Do When They Have Jobs?

And What Do People Do When They Have Jobs?

Change in Consumer Spending



Personal Savings Rate



Now, Negative People Say Everyone Is Like Bud

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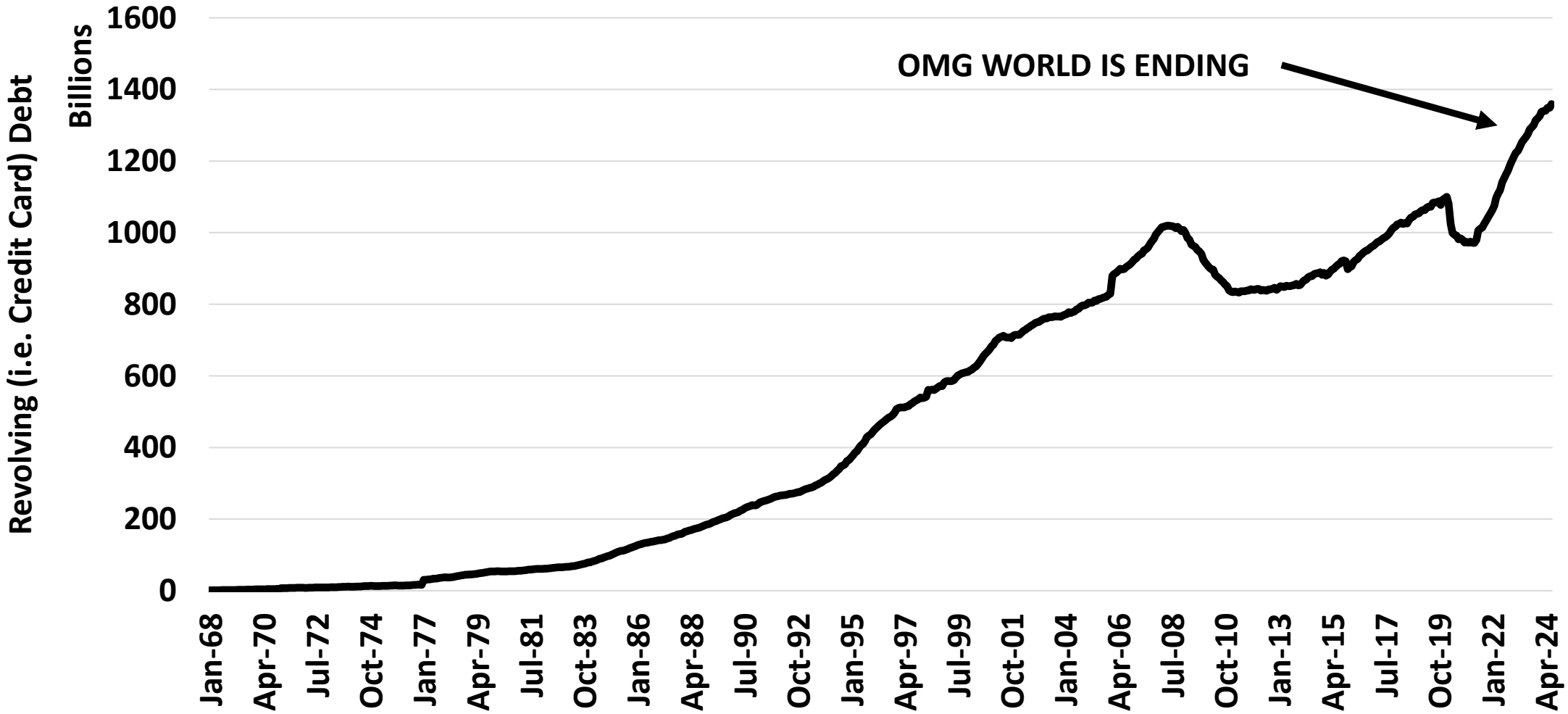
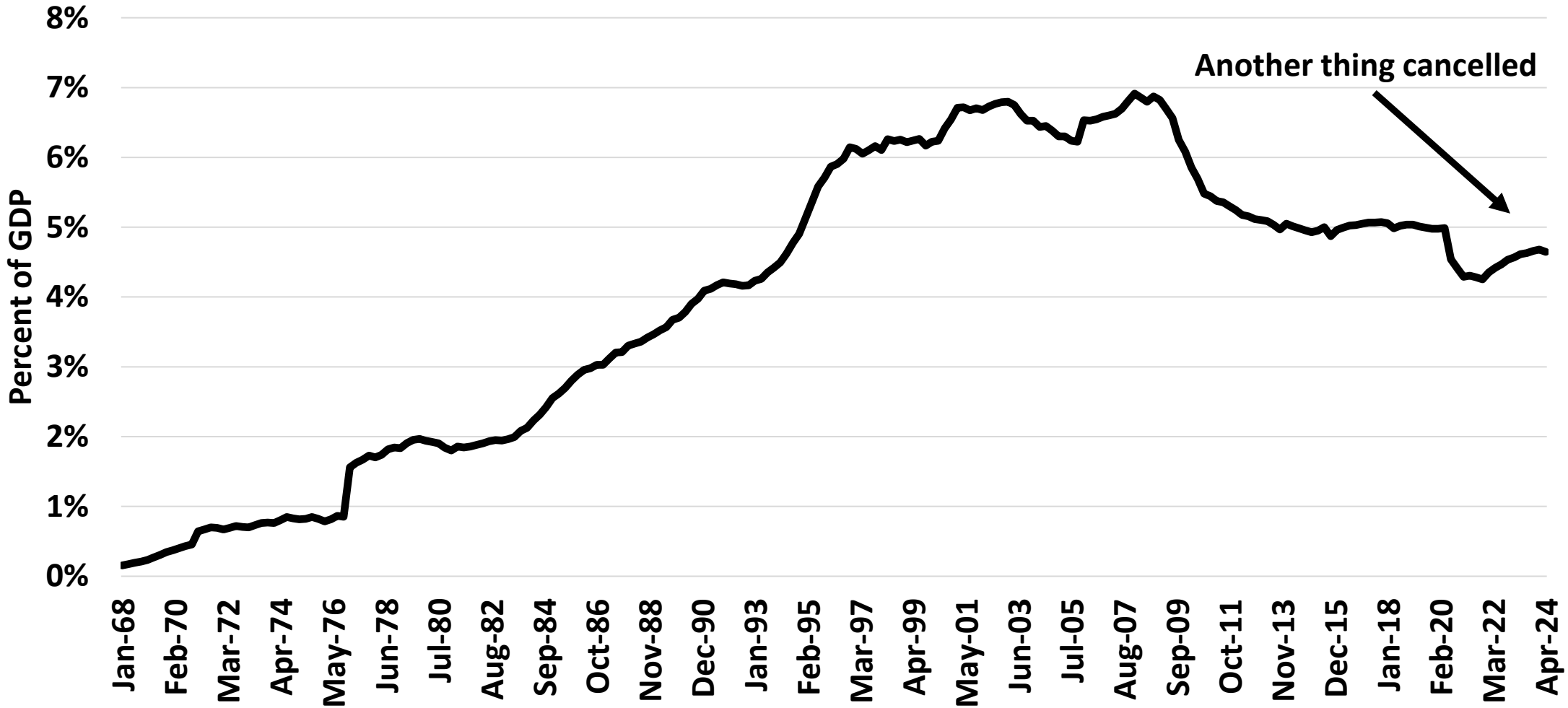
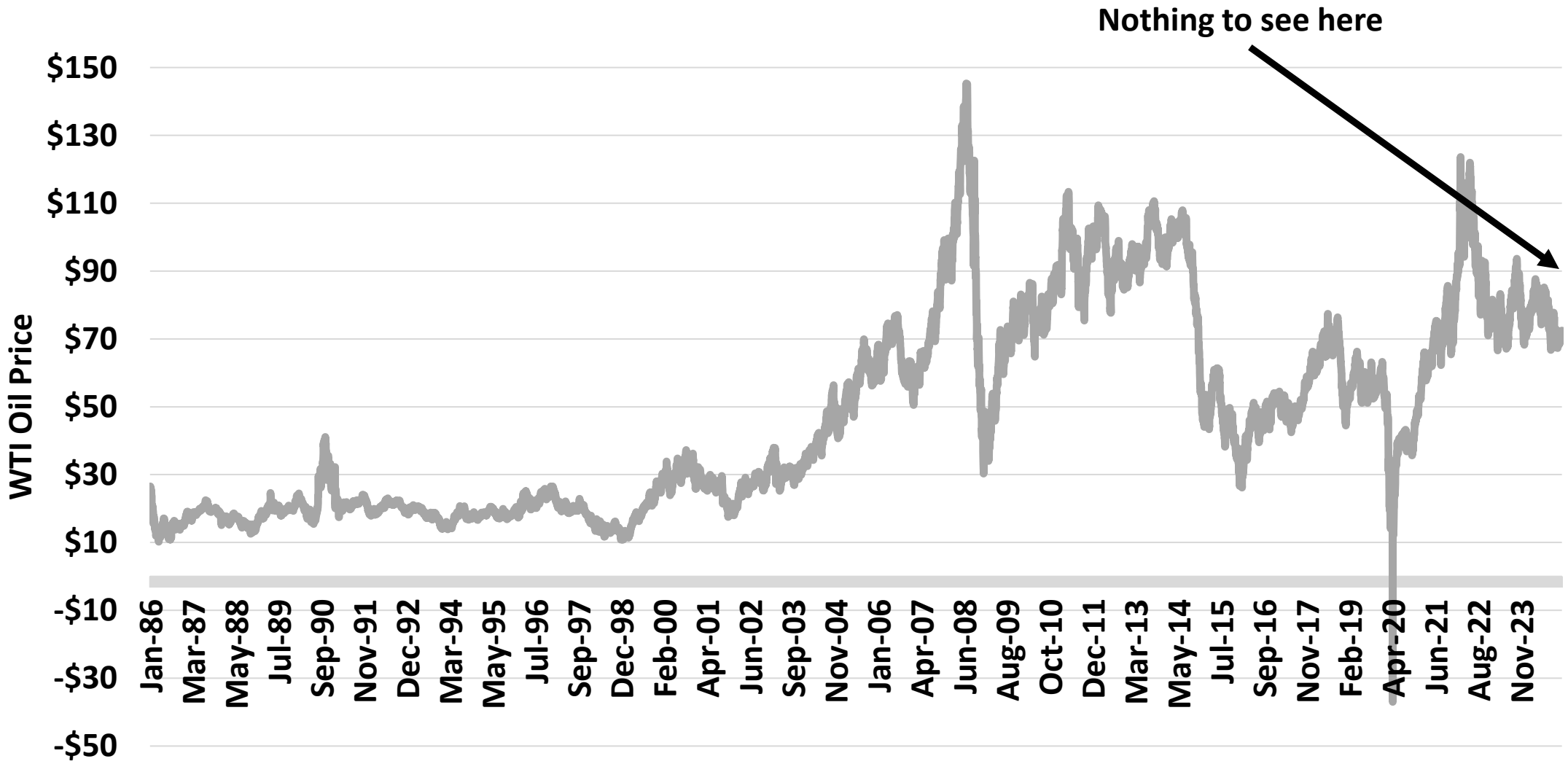
Total Credit Card Debt (Nominal)



Total Credit Card Debt (Indexed)



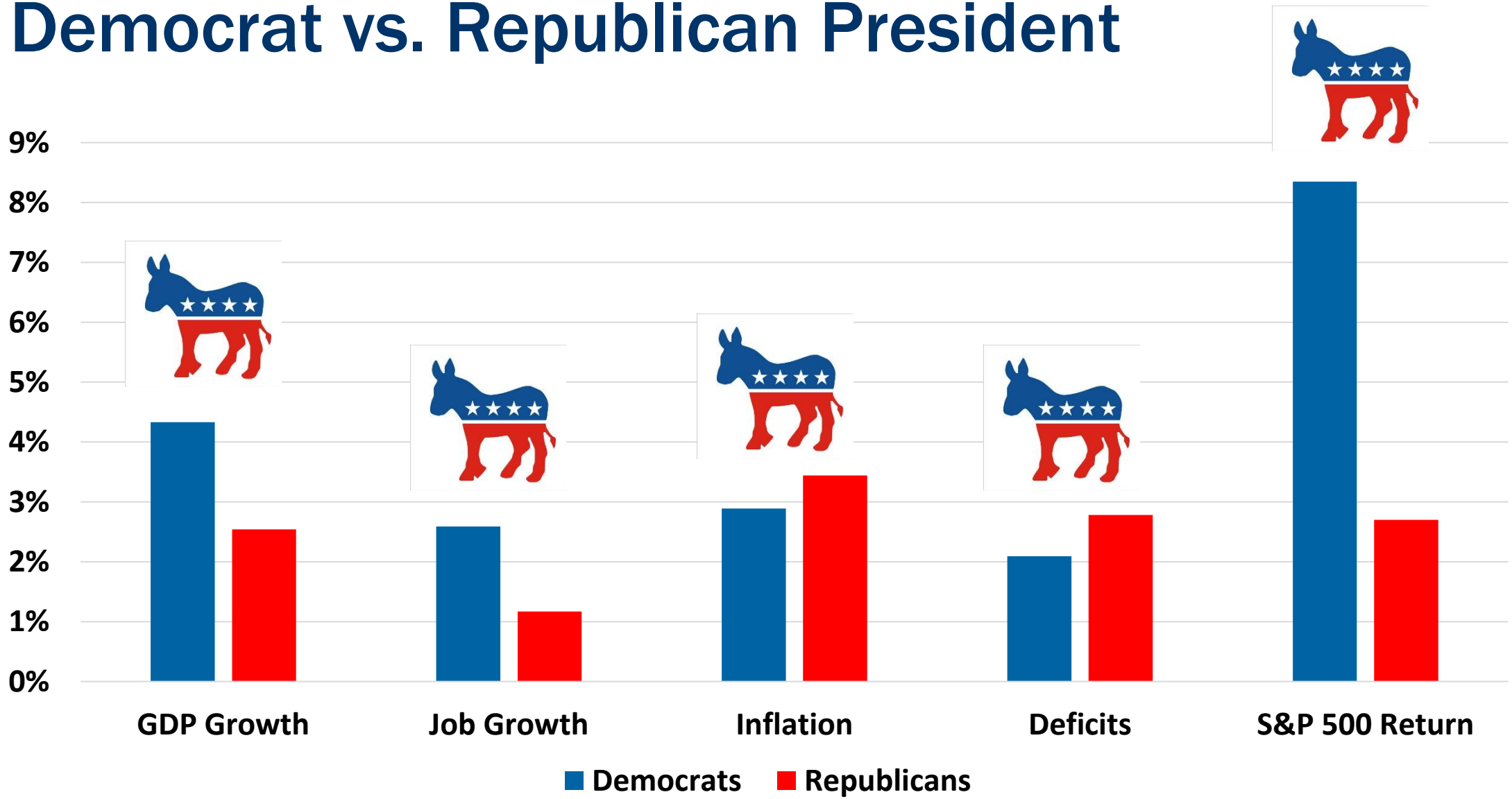
OK OK but … Middle East + Trump + Oil?



So What's Gonna Happen in 4 Days?

So What's Gonna Happen in 4 Days?

Democrat vs. Republican President



First Rule of Government Spending

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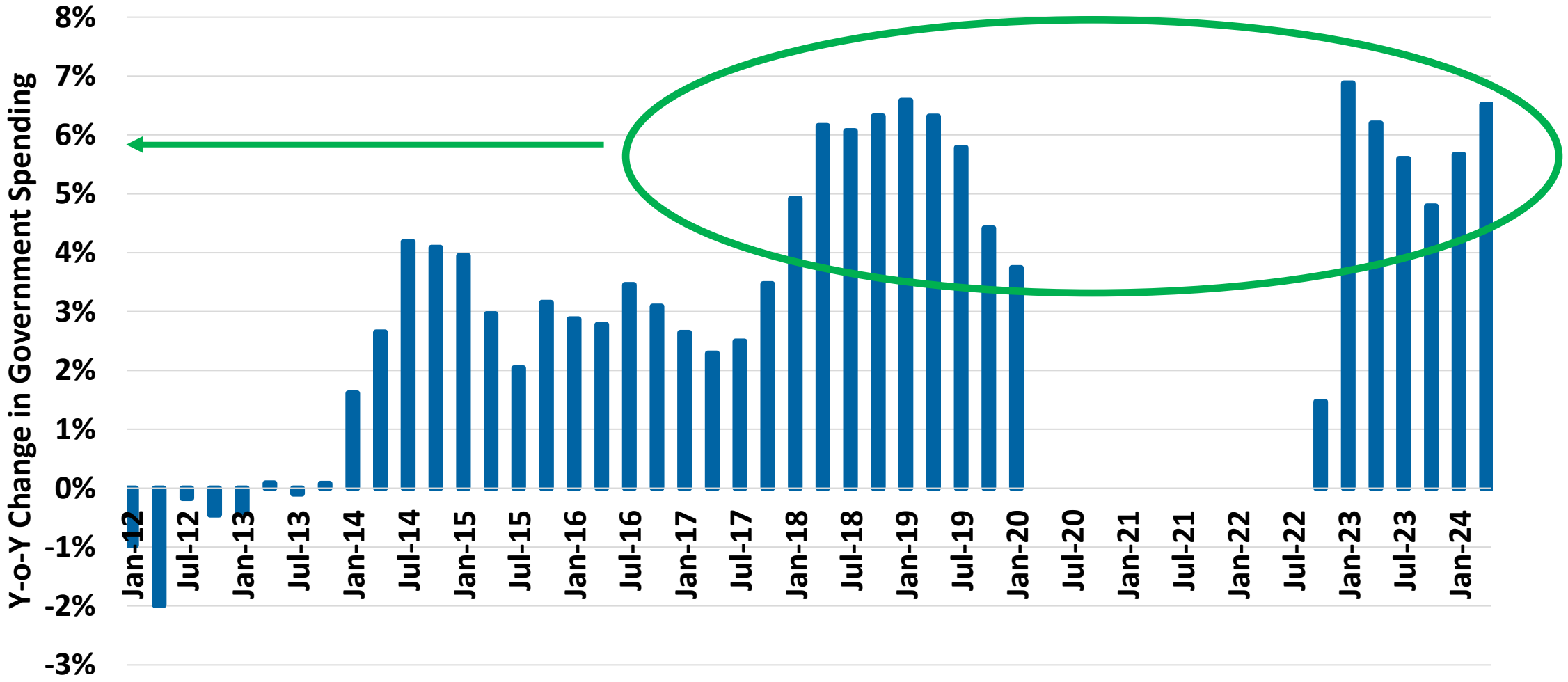
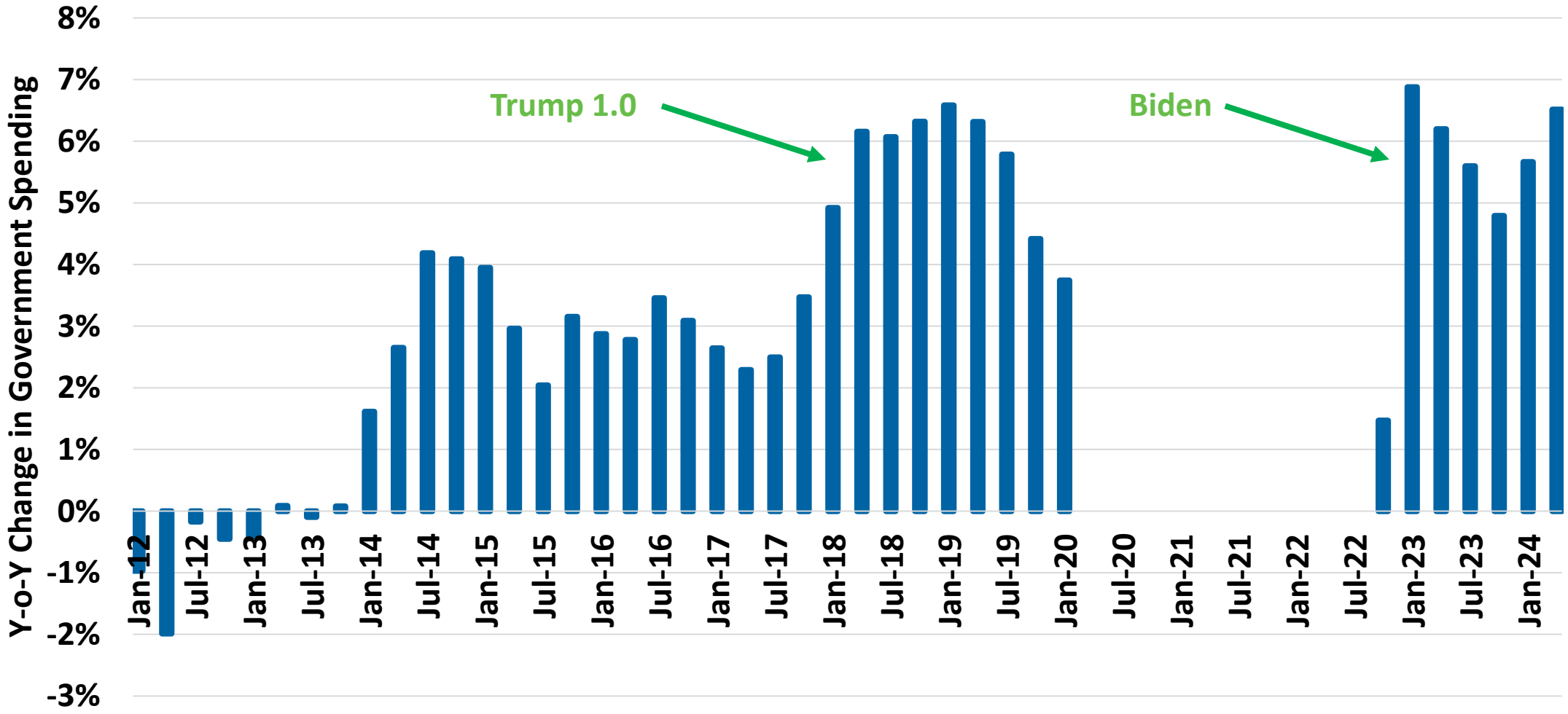
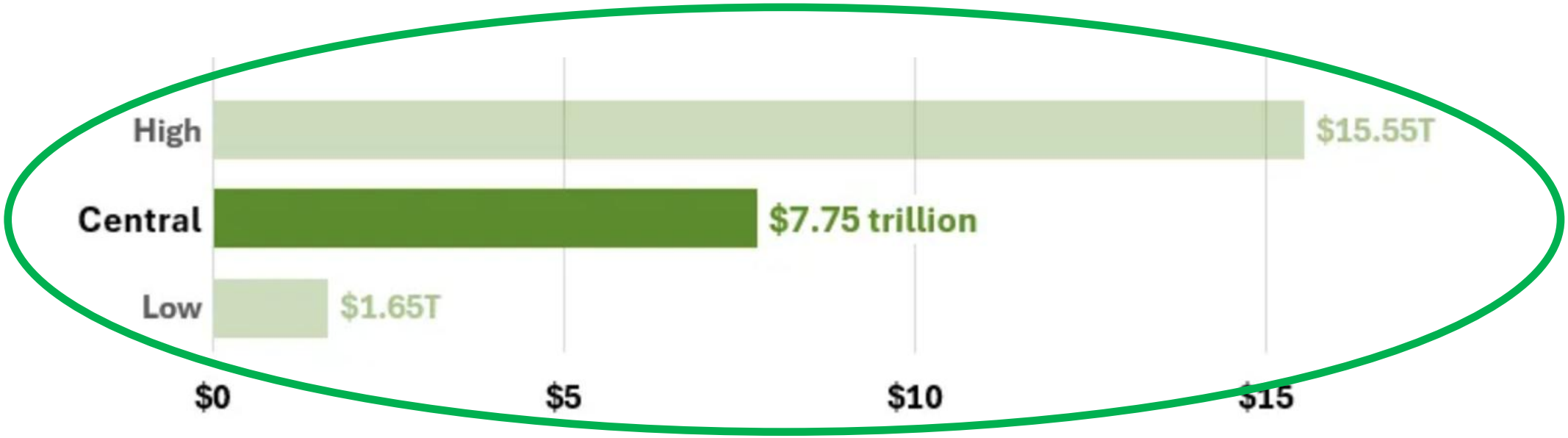


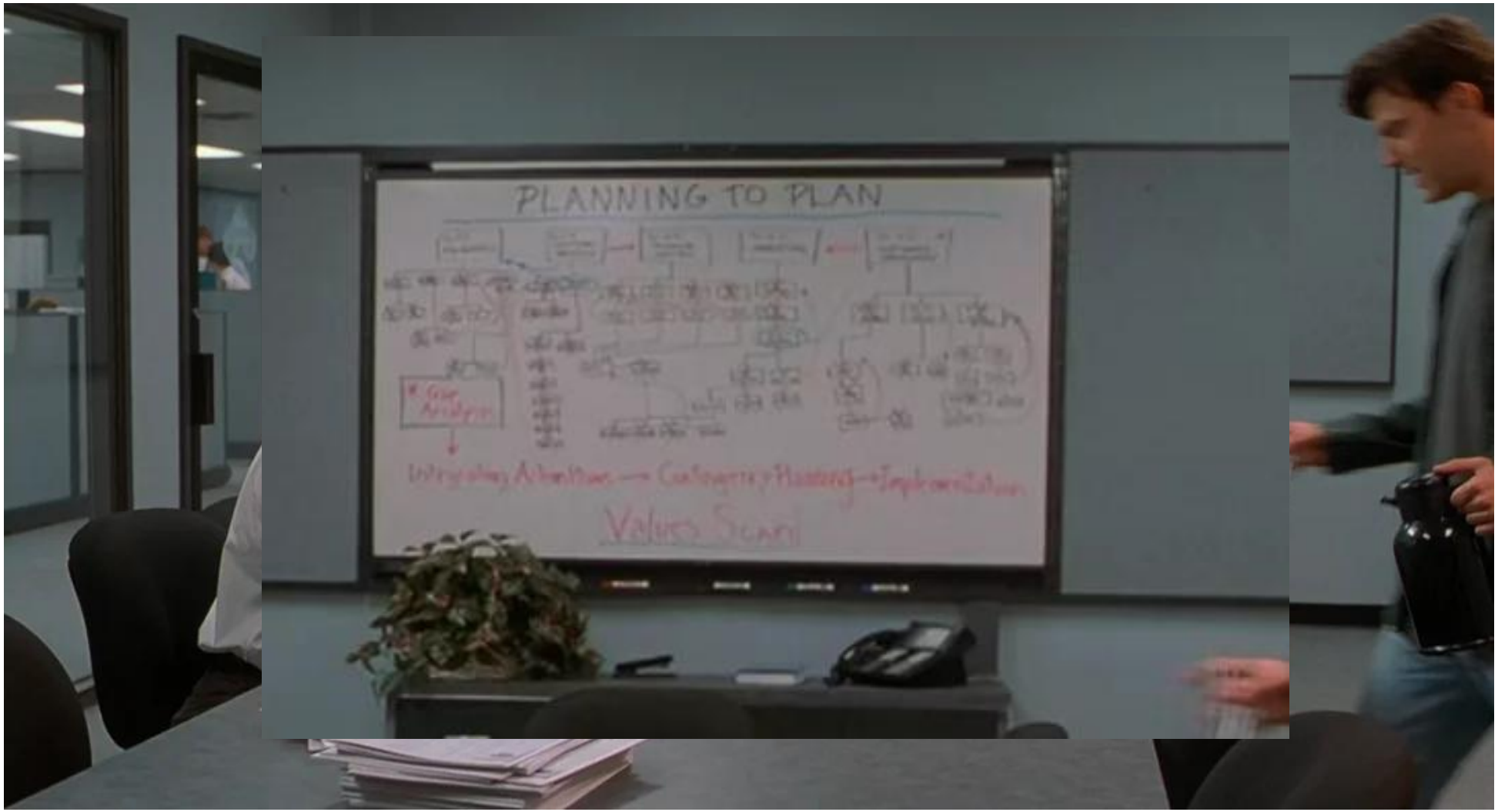
First Rule of Government Spending



But Trump Will Reduce the Deficit Right?



But … But What about Reducing Waste?



And the Fed Is Paying Attention…

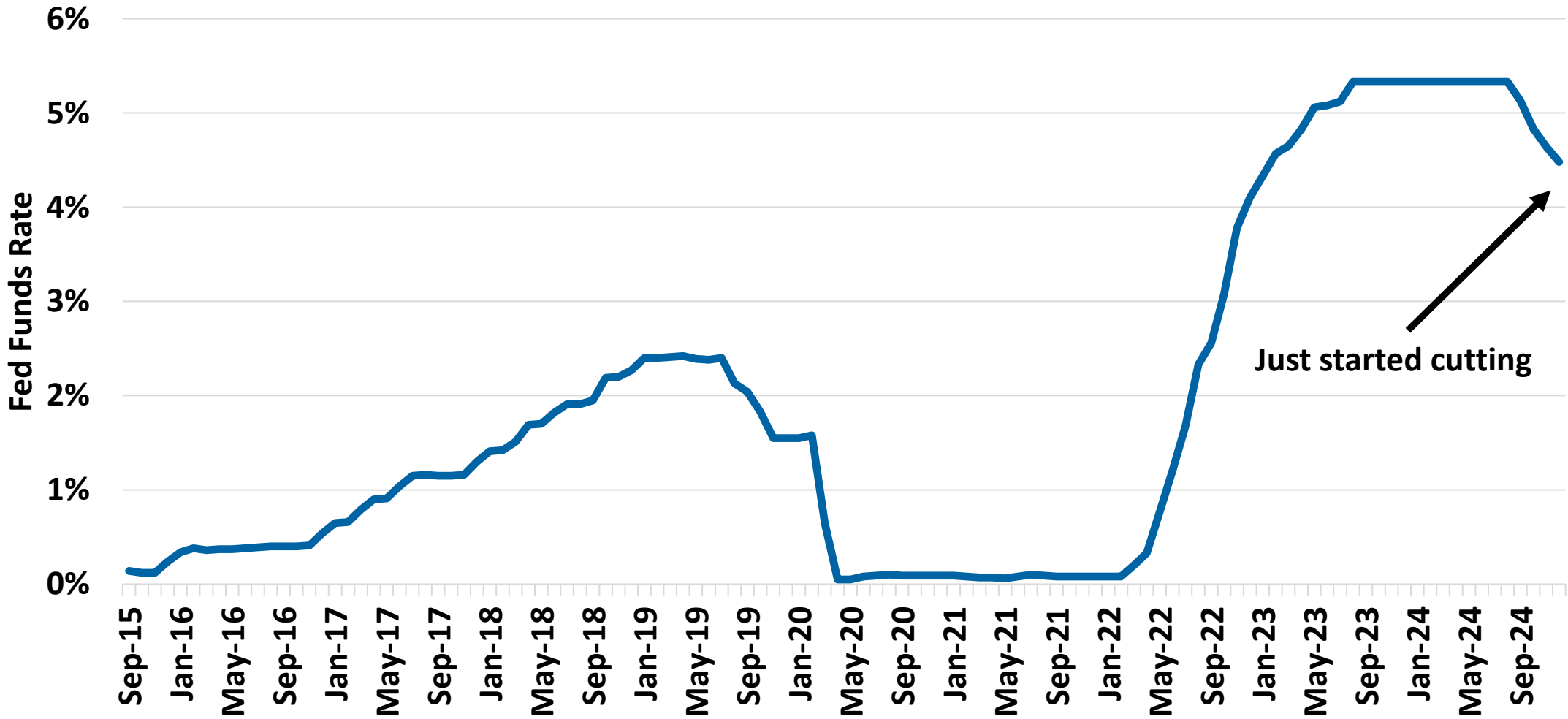
And the Fed Is Paying Attention…

Fed Minutes Last Week

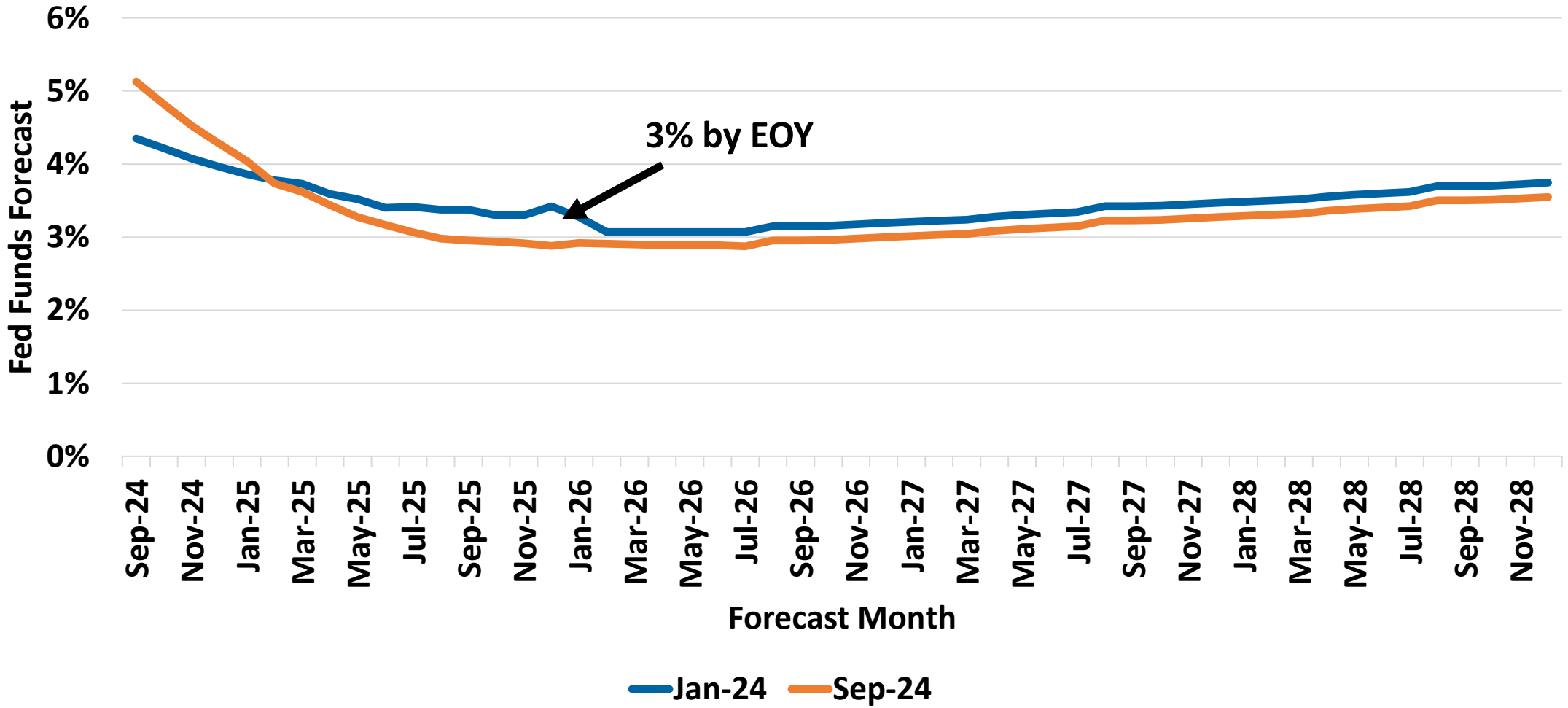
Fed officials fretted about Trump trade, immigration policies

The president-elect's policies weighed on Fed officials' thinking at their last meeting.

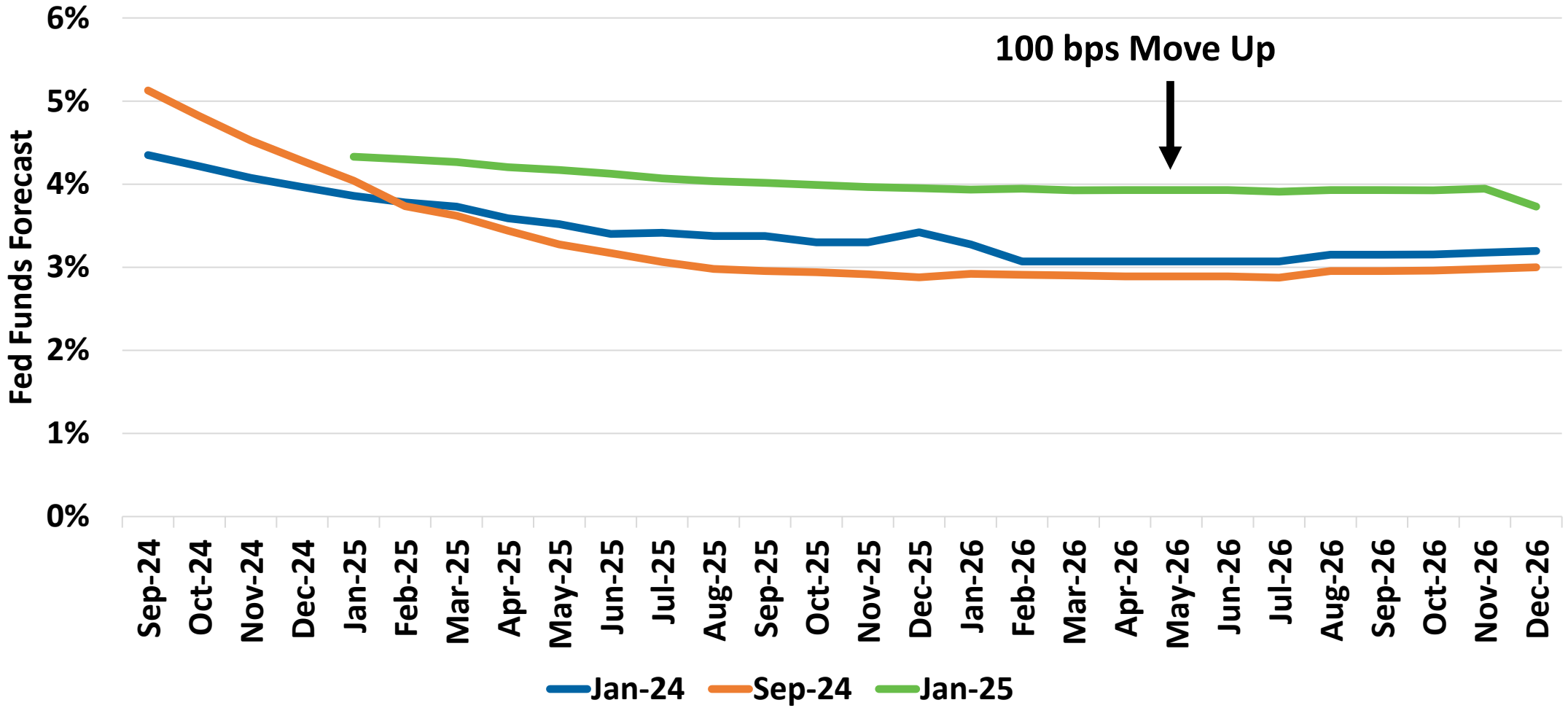
Fed Funds Rate



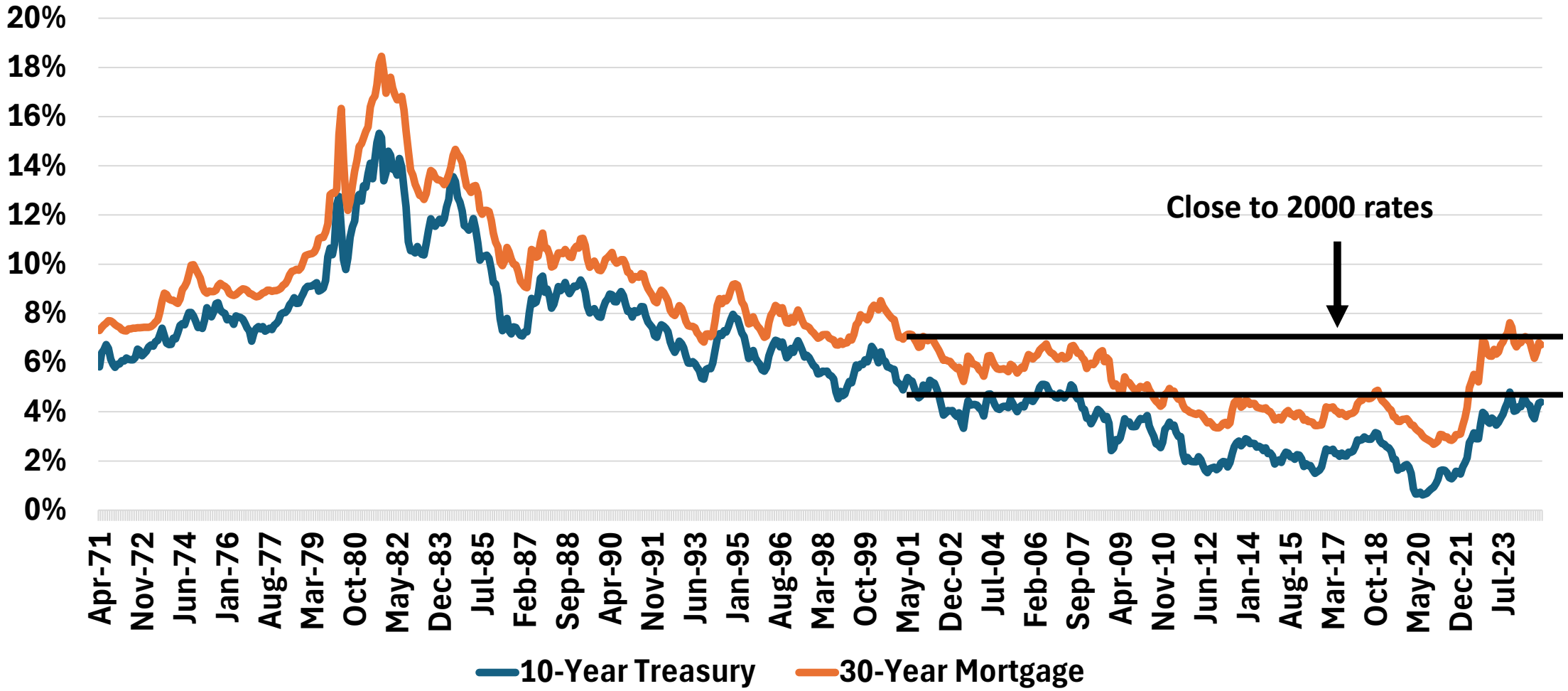
…and Forecast Is for 8 More Cuts in 2025



Oops … Those Are Cancelled Too

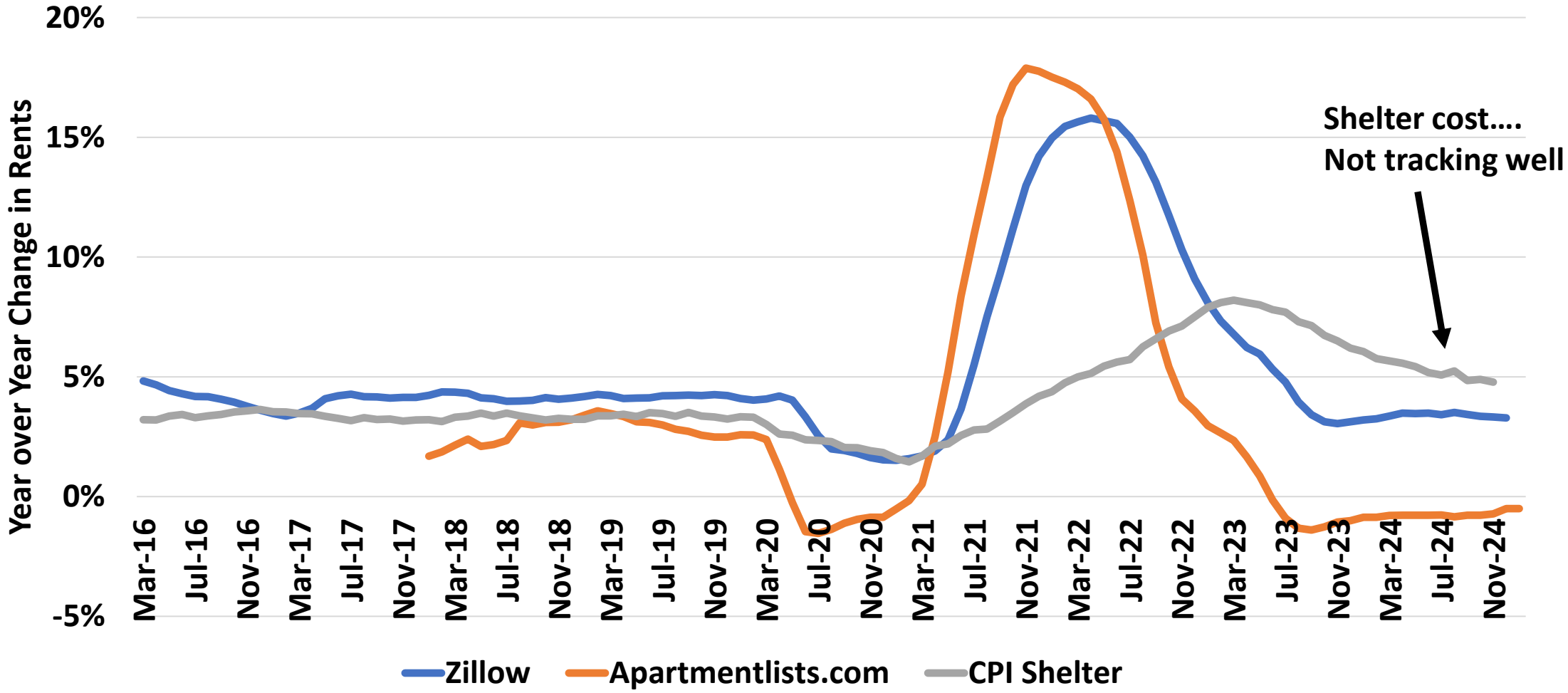


Impacting Long-term Rates

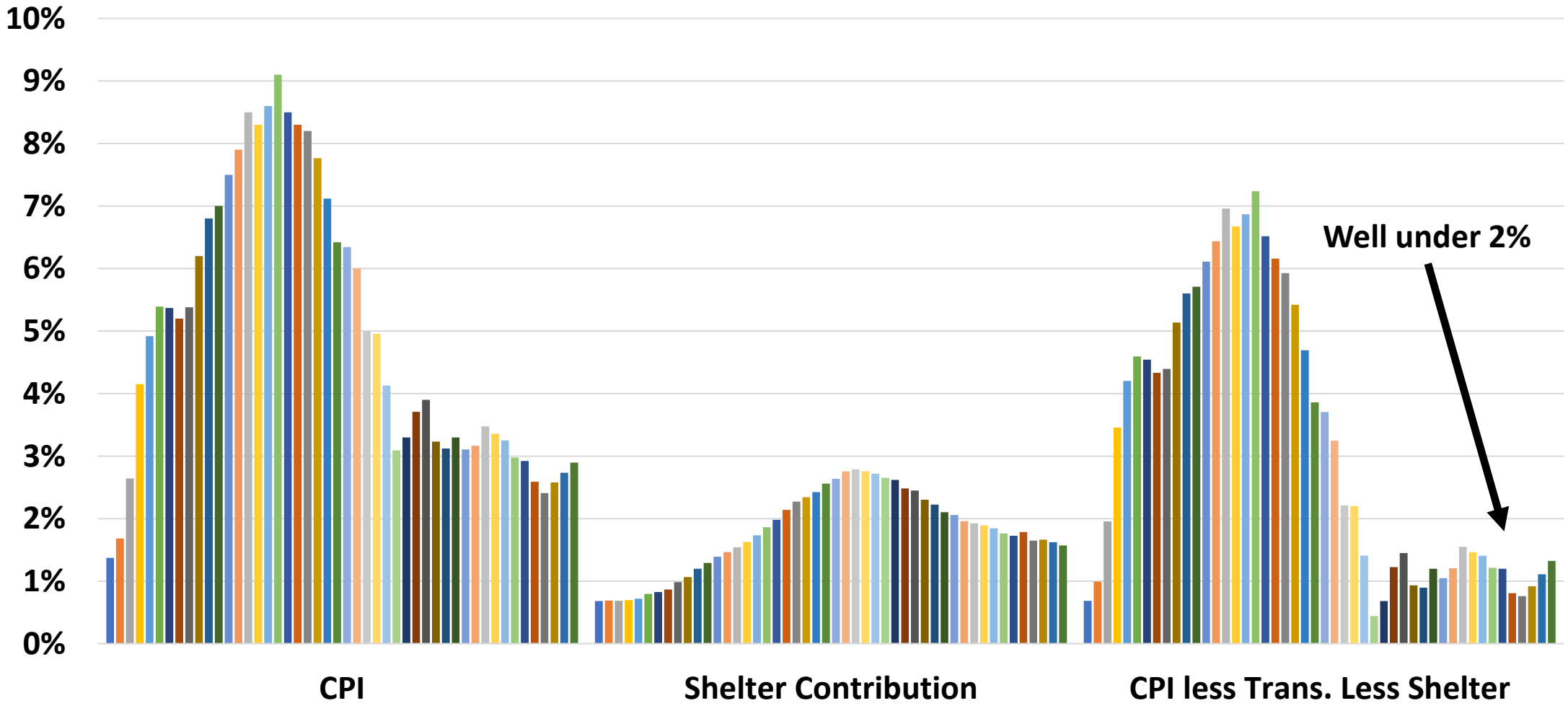


So… Inflation is Fixed? Kind of

Shelter is … Weird



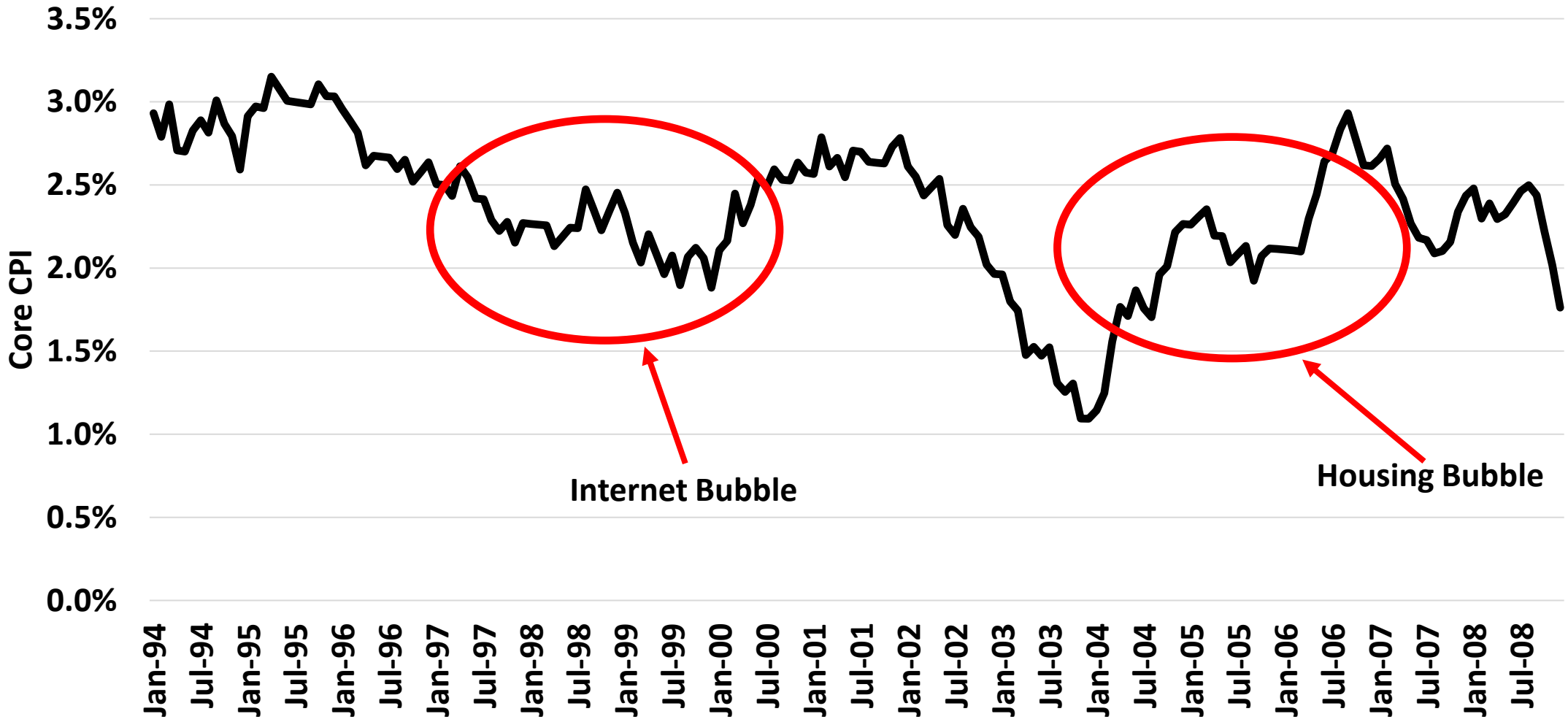
Backing out Shelter



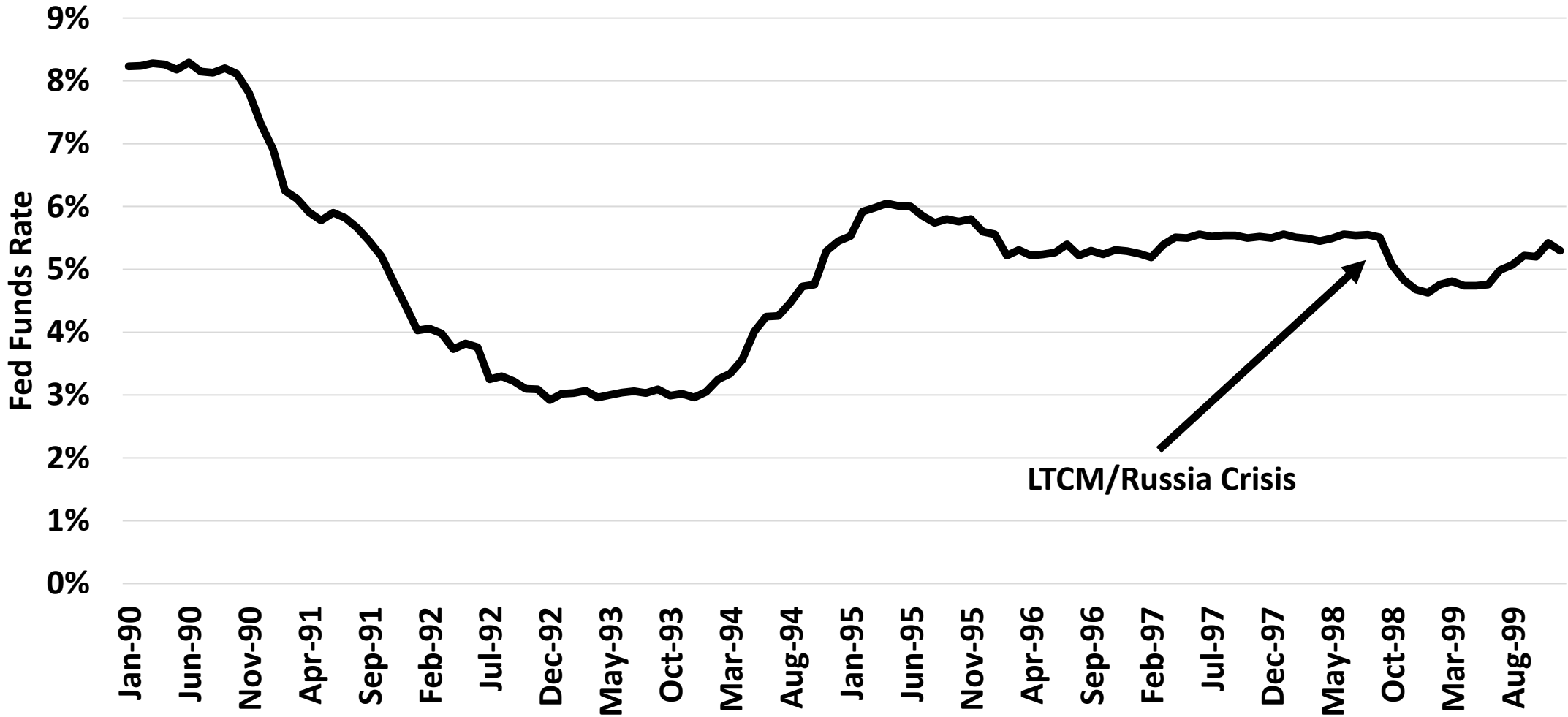
However....

However....

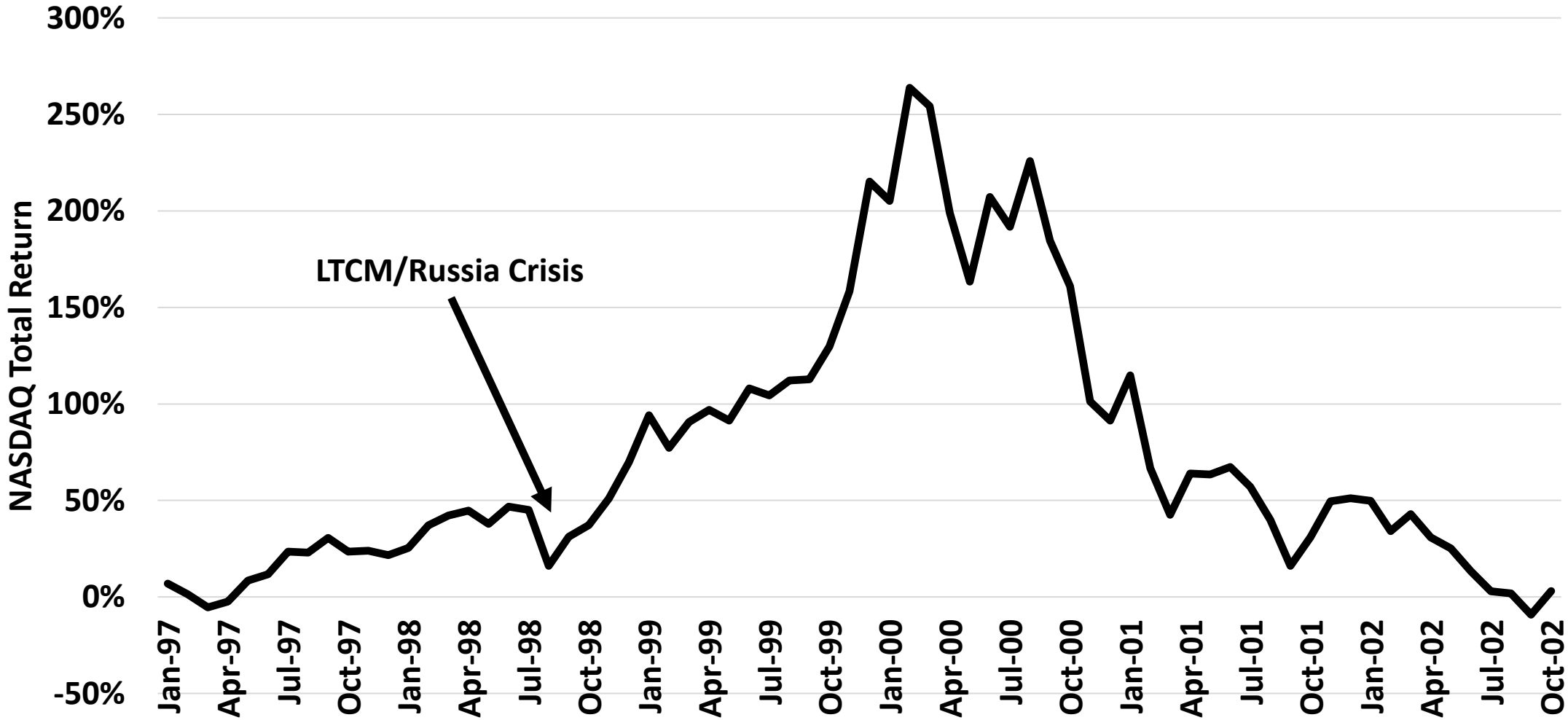
Problem with CPI? No Assets…



So What's the Risk? See: 1998



That Was Fuel on the Fire



Other Risks: Which Sounds Positive for Economy?

- A. Reducing workforce by 2 million period during full employment
- B. Increasing tariffs by 20% to 60%
- C. Reducing GDP by $2 Trillion (6%-7% of GDP)
- D. Forcing fed to reduce rate cuts
- E. None of the above

Economic Summary

- Economy is running along at a decent growth pace
- Simply running out of people to employ, so natural slowdown
- Fed has softened things so more open to shock
  - And more downside risk
- Hard to think of natural shock to cause recession… (more later)
  - Outside the usual liquidity Fed shock

This is a Market Where...

This is a Market Where...

1-Year Returns

- Stocks? WINNER: Up 23%+
- Gold? WINNER: Up 26%
- Bitcoin? WINNER: Up 121%
- Fartcoin? WINNER: Up 1,000,000%
- LT Bonds? LOSER: Down 8%

What Do I Think is Going on?

- Flight from LA to NYC:
  - Guy sitting next to me trading SP500 mini futures contracts because “micro” futures just don’t move enough
- Uber driver to hotel:
  - Flipping between FanDuel App and Robinhood App
- Uber drive to airport:
  - Trades NASDAQ 100 mini futures
- Flight from NYC to LA:
  - Guy next to me buys wifi to trade on his Coinbase account

And I Look at All of Them and See

And I Look at All of Them and See

Me Mimicking Steve Walking thru the Airport

Me Mimicking Steve Walking thru the Airport

Markets Summary

- Honestly, debate if I'm just old half the time…
  - … and then I see Fartcoin
- Feels a lot like 2021 all over again
  - Crypto ~~feels~~ is just crazy
  - Valuations are extremely high
  - No one thinks anything can go wrong
- Problem is can keep going longer than you think – tough to time
- Fundamental question: Are markets just a casino now?

Price.


36 Years … We did it!!!!
Japanese Stock Index (N225)
45,000
40,000
35,000
30,000
25,000
20,000
15,000
10,000
5,000
0
Jan-85
May-86
Sep-87
Jan-89
May-90
Sep-91
Jan-93
May-94
Sep-95
Jan-97
May-98
Sep-99
Jan-01
May-02
Sep-03
Jan-05
May-06
Sep-07
Jan-09
May-10
Sep-11
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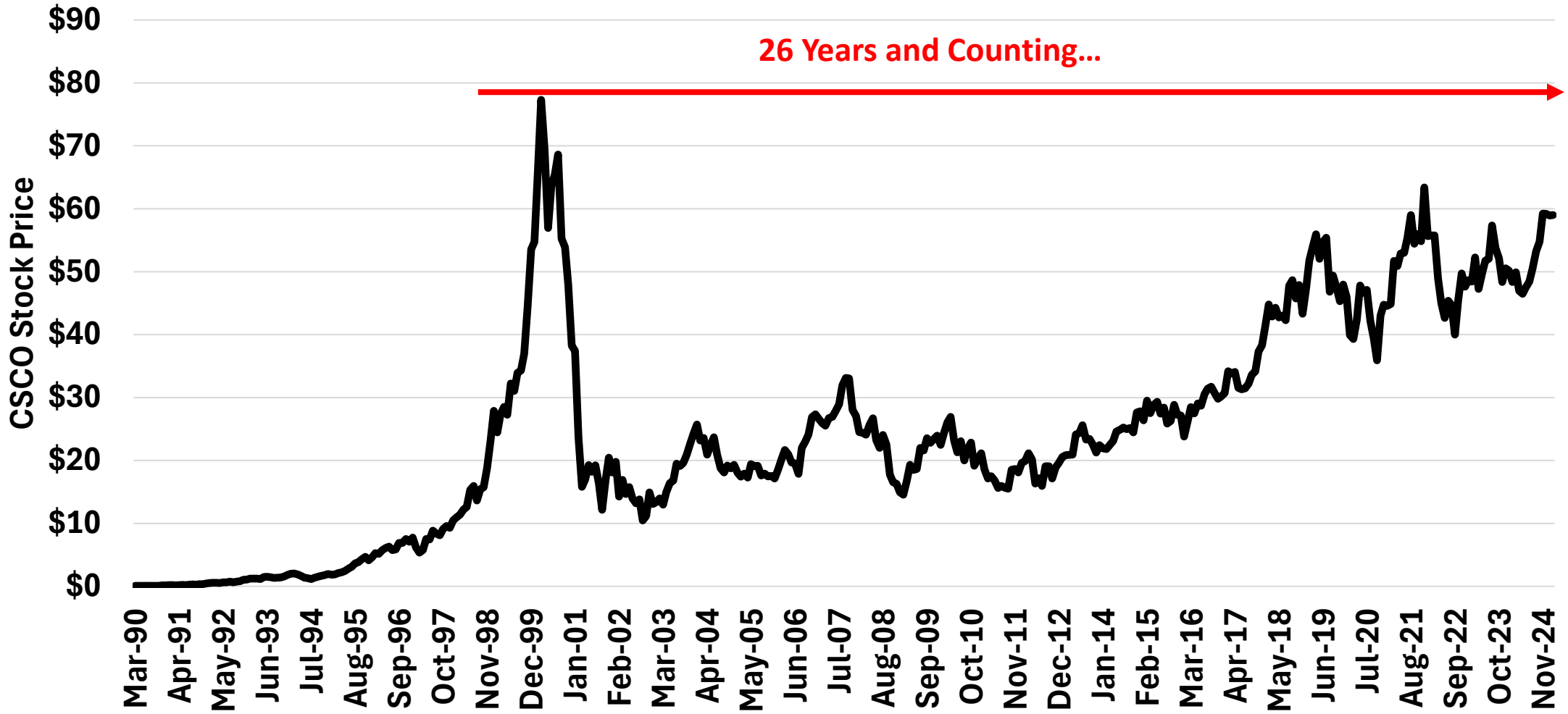
May-14
Sep-15
Jan-17
May-18
Sep-19
Jan-21
May-22
Sep-23
Jan-25

Always.


26 Years and Counting…
CSCO Stock Price
$90
$80
$70
$60
$50
$40
$30
$20
$10
$0
Mar-90
Apr-91
May-92
Jun-93
Jul-94
Aug-95
Sep-96
Oct-97
Nov-98
Dec-99
Jan-01
Feb-02
Mar-03
Apr-04
May-05
Jun-06
Jul-07
Aug-08
Sep-09
Oct-10
Nov-11
Dec-12
Jan-14
Feb-15
Mar-16
Apr-17
May-18
Jun-19
Jul-20
Aug-21
Sep-22
Oct-23
Nov-24

Matters.


$12
$10
$8
$6
$4
$2
$0
AMZN Stock Price
Even AMZN took 11 years…
Jun-97
Jan-98
Aug-98
Mar-99
Oct-99
May-00
Dec-00
Jul-01
Feb-02
Sep-02
Apr-03
Nov-03
Jun-04
Jan-05
Aug-05
Mar-06
Oct-06
May-07
Dec-07
Jul-08
Feb-09
Sep-09
Apr-10
Nov-10
Jun-11

So…. How High Are Prices?

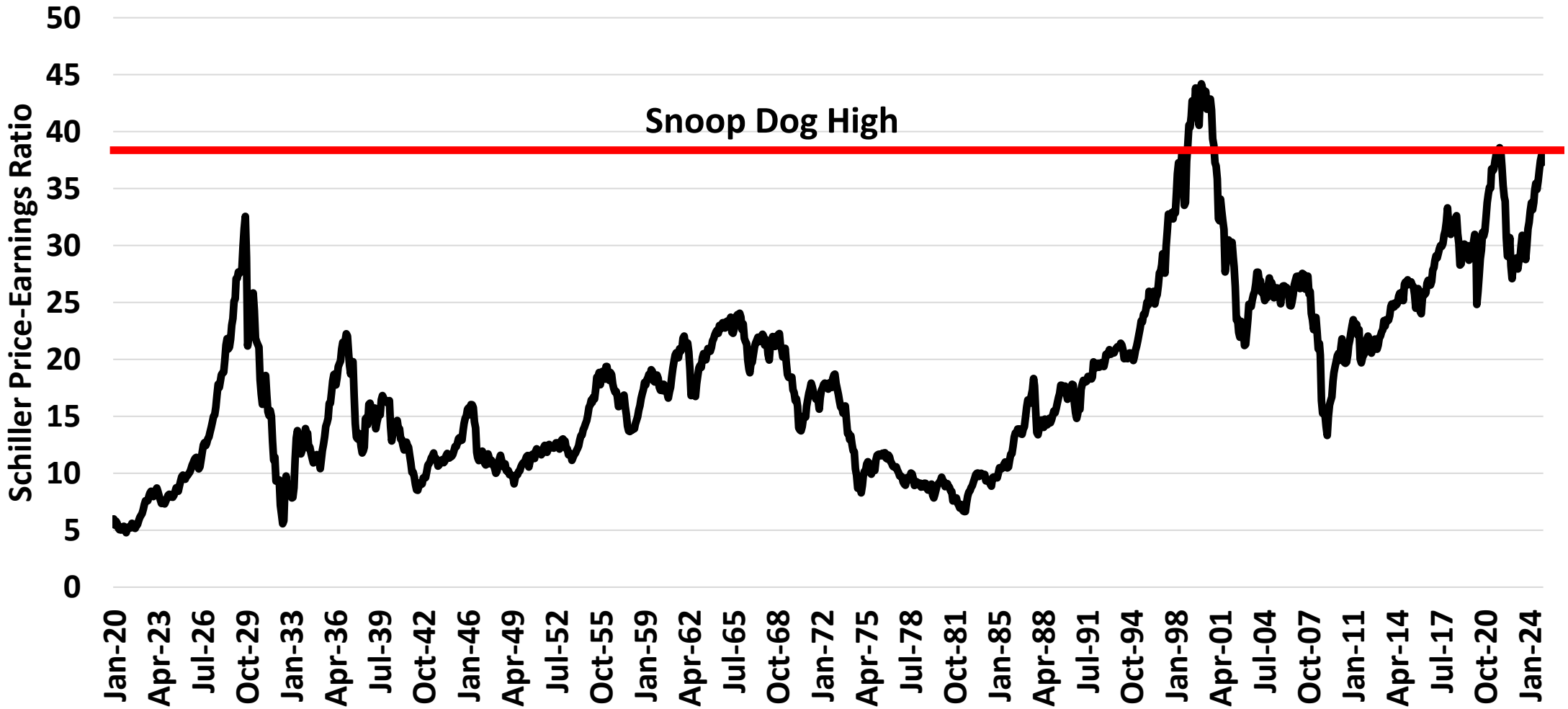
So…. How High Are Prices? This High?

So…. How High Are Prices? This High?

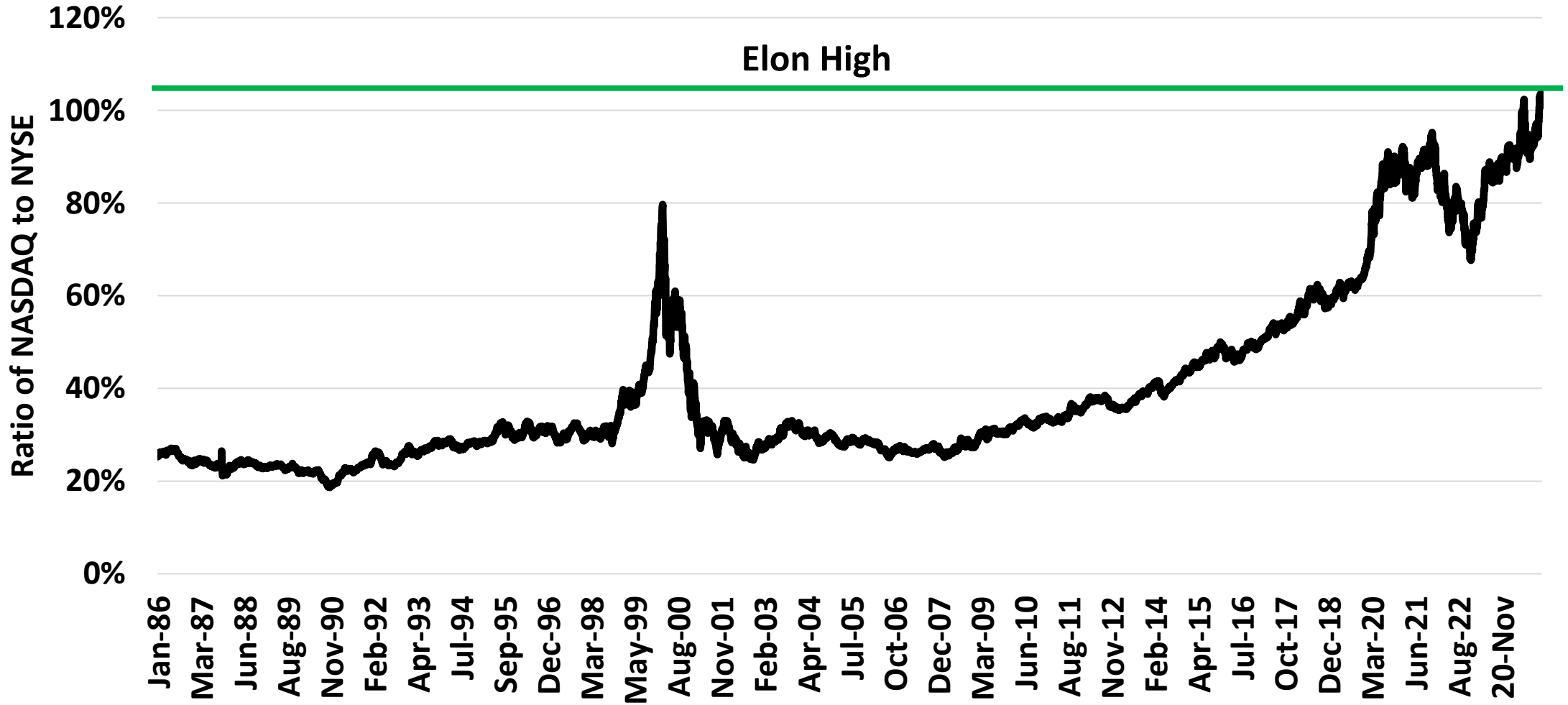
So…. How High Are Prices? This High?

No, No... THIS High

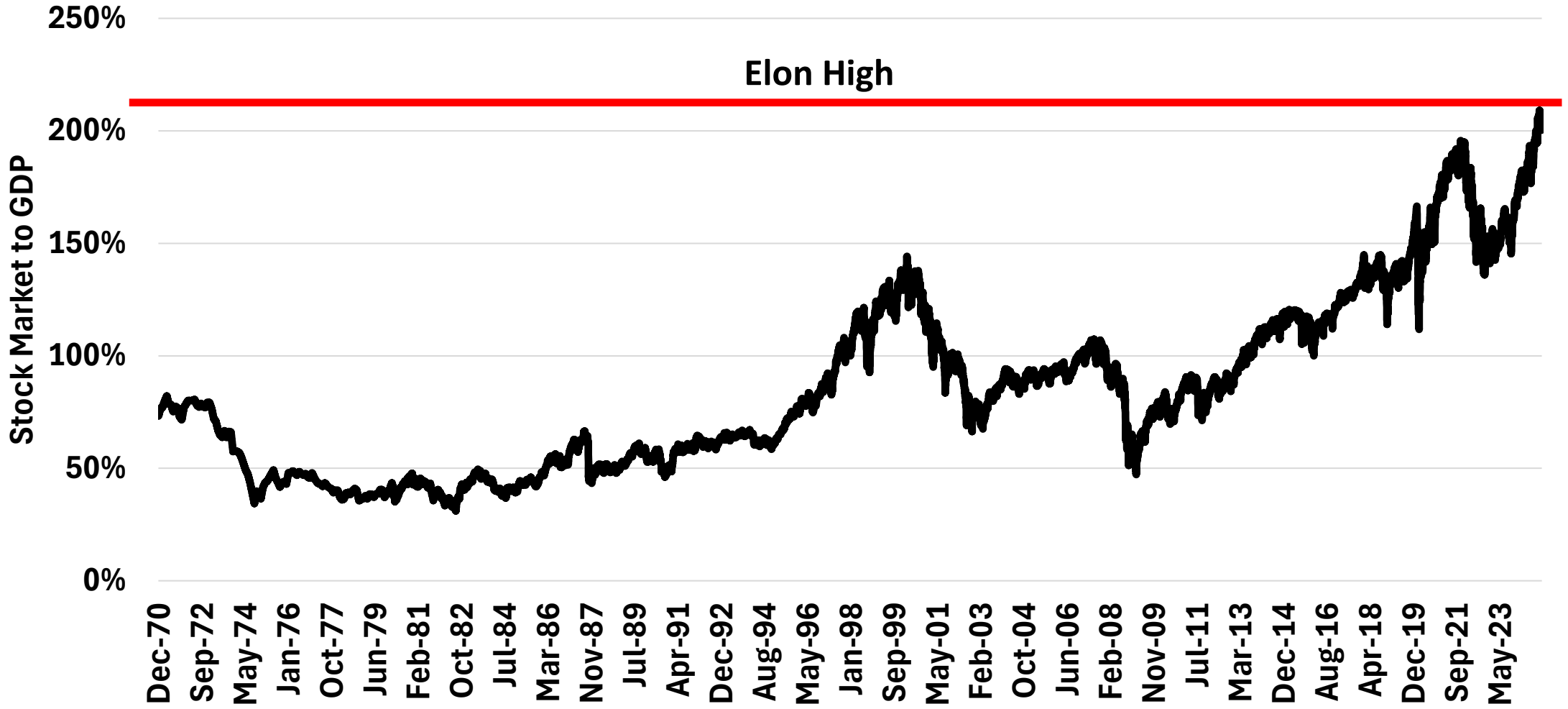
Absolute Stock Valuation High



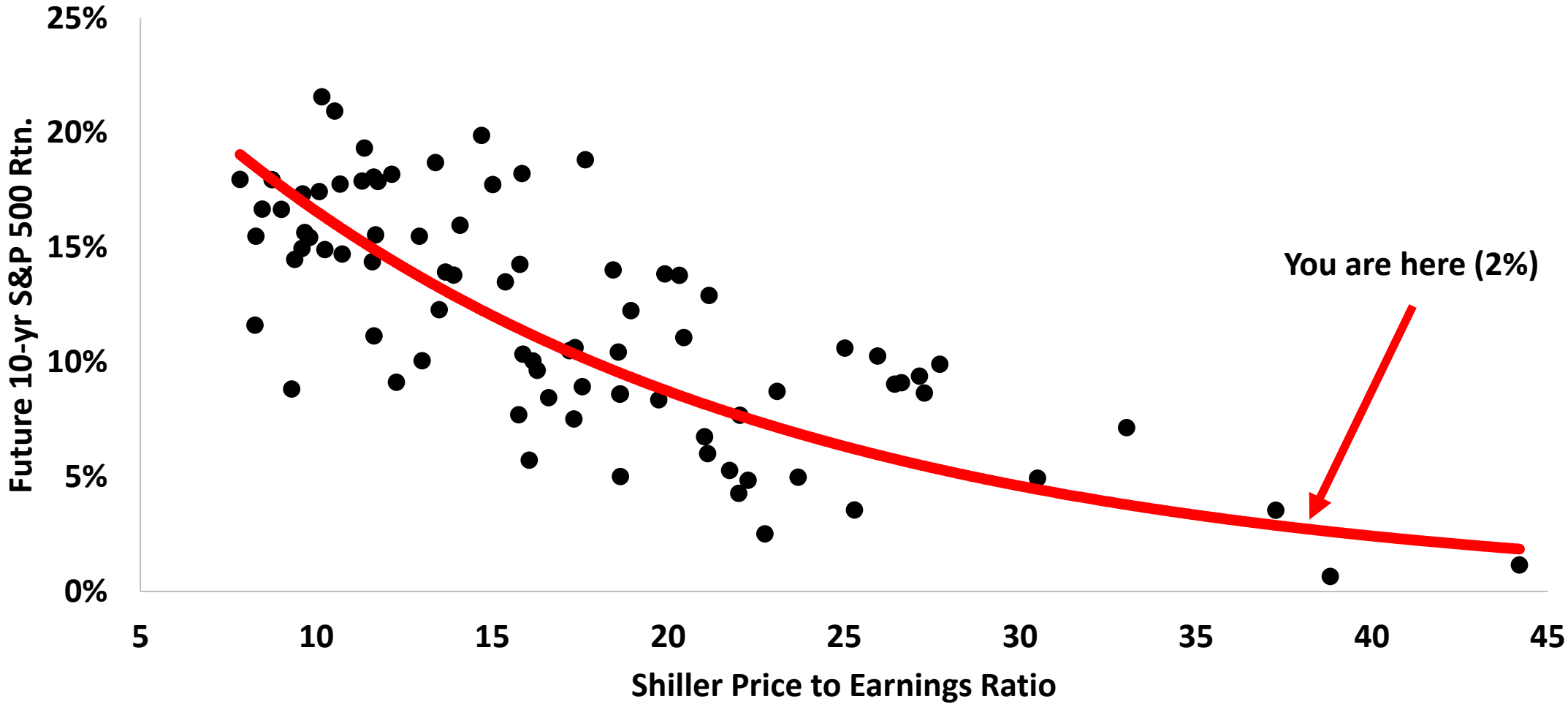
NASDAQ to NYSE



Buffett Indicator



Price. Matters.



Warning from a Tech Bubble CEO

“At 10 times revenues, to give you a 10-year payback, I have to pay you 100% of revenues for 10 straight years in dividends.

That assumes I have zero cost of goods sold…

That assumes zero expenses …

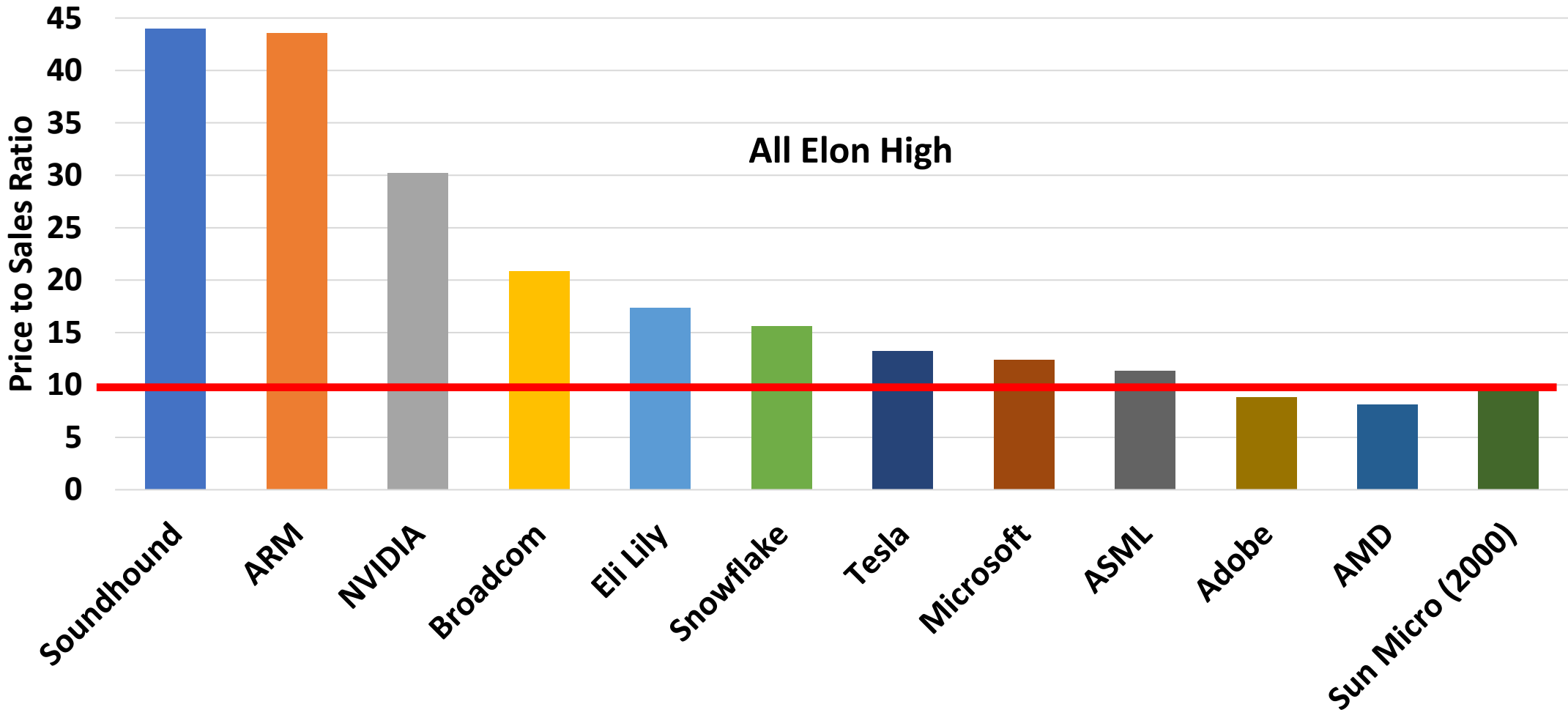
That assumes I pay no taxes, which is very hard. You pay no taxes, which is kind of illegal.

That assumes zero R&D for the next 10 years,

Now … would any of you like to buy my stock at $64? Do you realize how ridiculous those basic assumptions are? You don’t need any transparency. You don’t need any footnotes. What were you thinking?”

- Scott McNealy, Sun Micro CEO

Chat GPT … Drug GLP



How Big is the AI “Overinvestment”?

Google will spend more than $100 billion on AI, exec says

TSMC execs allegedly dismissed Sam Altman as ‘podcasting bro’ — OpenAI CEO made absurd requests for 36 fabs for $7 trillion

News By Mark Tyson published September 27, 2024

Scale of Sam Altman’s proposed investment plans considered ‘absurd’

Hmmm…. Think I Know What Happened

Chat GPT Came Out 2 Years Ago. Now?

- GPT
- Claude
- Grok
- Mistral
- PaLM
- Falcon
- Stable LM
- Gemini
- Llama
- Command R
- Apple

Barrier to entry? Not very high.

So value is _____ .

Are We All Going to Be Replaced?

Bloomberg

AI Can Only Do 5% of Jobs, Says MIT Economist Who Fears Crash

Don’t Worry, There is Always a Solution for a Crash

China's central bank unveils most aggressive stimulus since pandemic

By **Ryan Woo** and **Liangping Gao**

September 24, 2024 7:47 PM PDT · Updated 7 days ago

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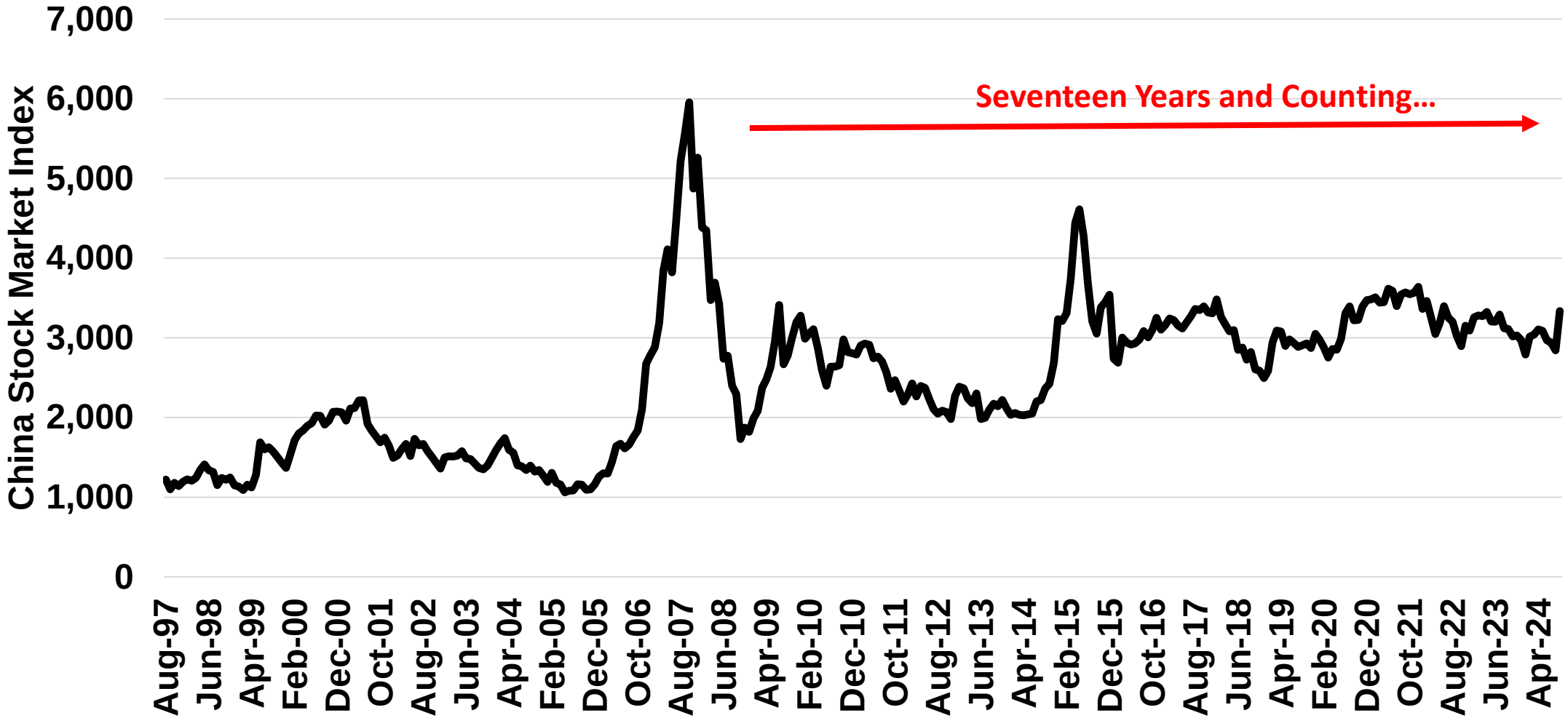
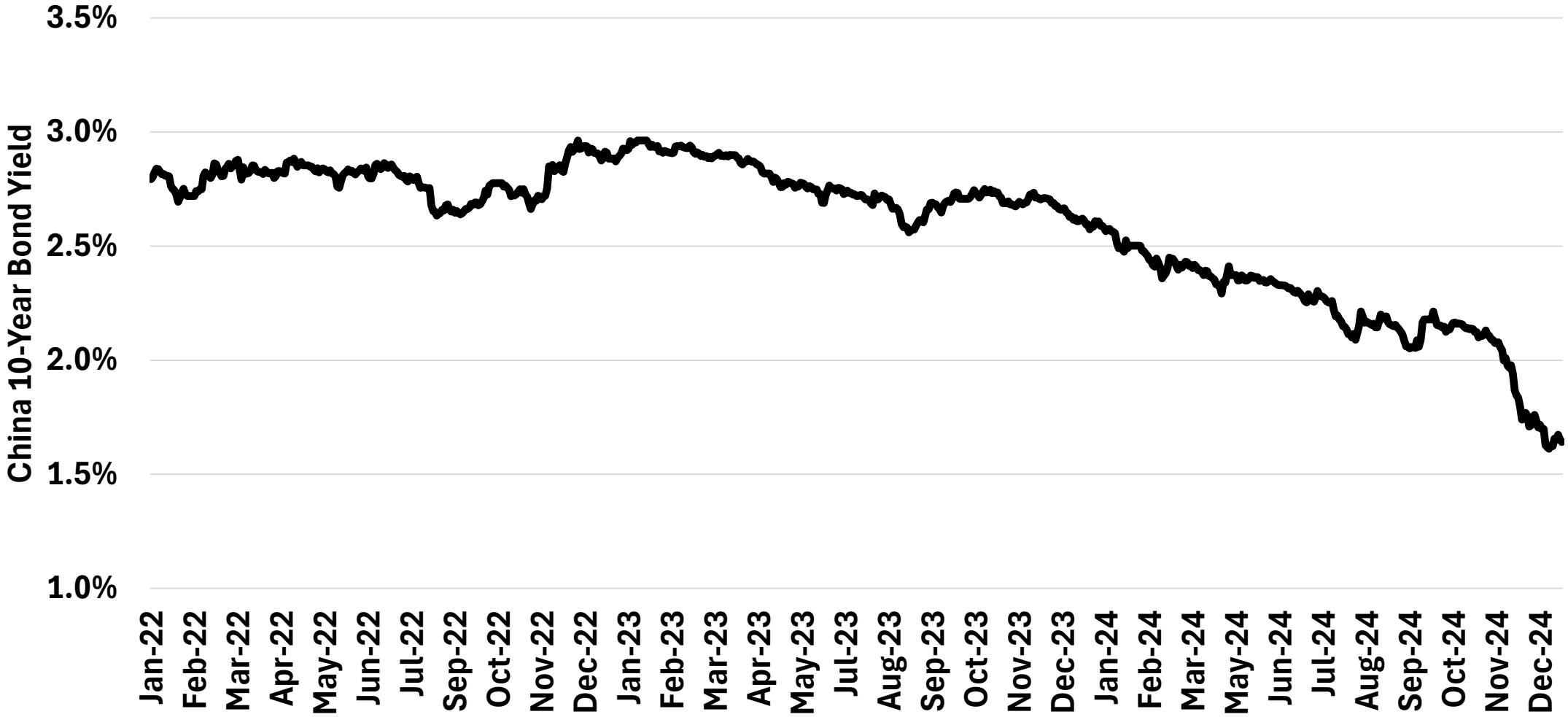
Just Delaying the Inevitable…



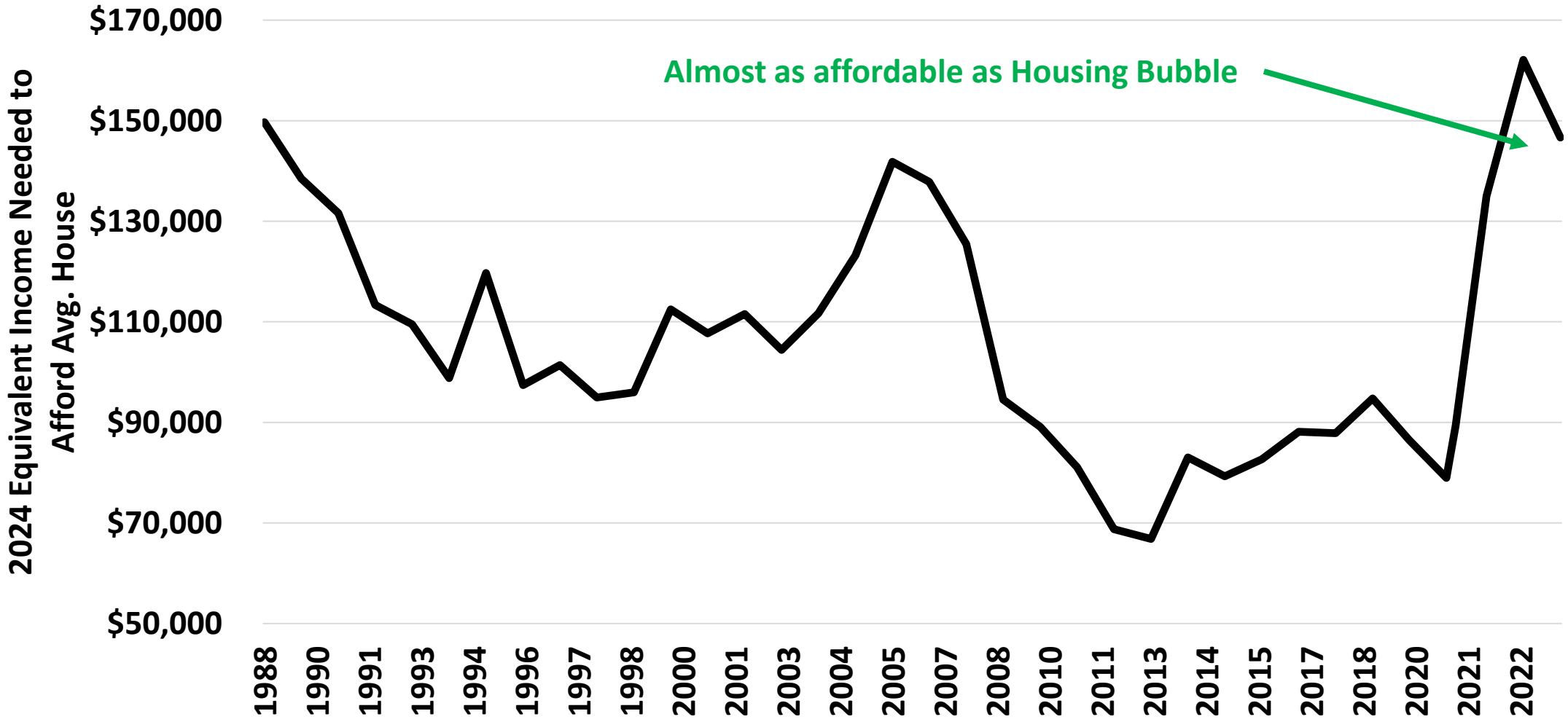
Crashing Bond Yields Are Always Good



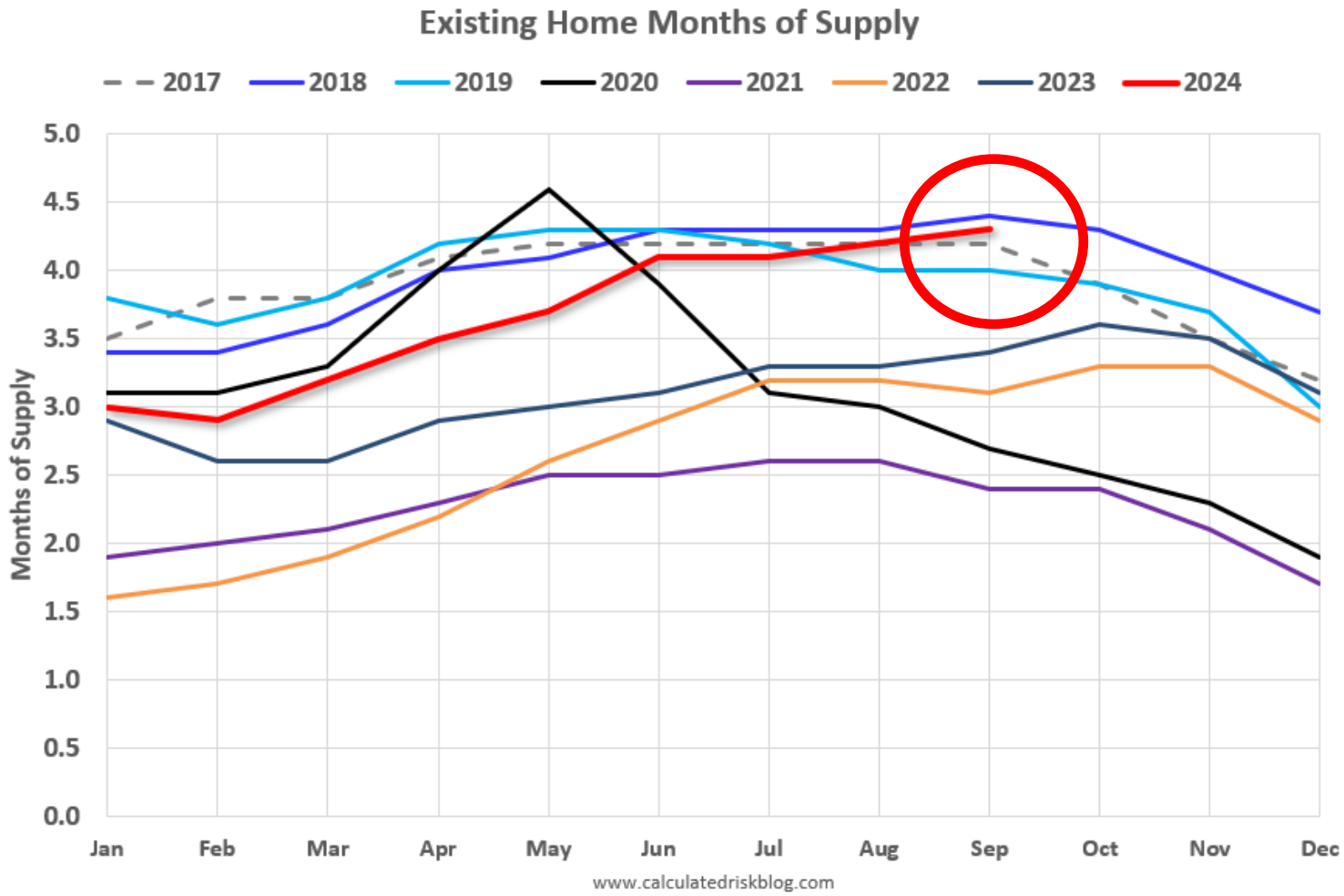
Those People Waiting for Housing to Get Cheap

Those People Waiting for Housing to Get Cheap

Housing Affordability



With That Said ...



Conclusions

- Economy is still chugging along…
- … eventually a shock will cause a recession
- Asset valuations look pretty pushed here
  - Honestly, probably into bubble territory
- Feels a lot like the end of 2019 or 2021 or 2007 or 1999 …