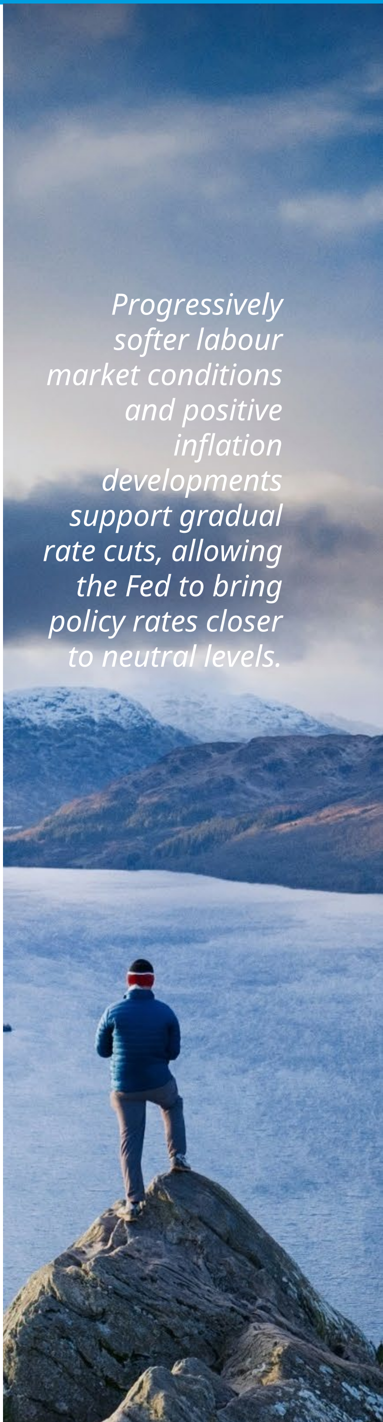
US CYCLE

# The extraordinary US cycle is becoming more balanced



*Progressively softer labour market conditions and positive inflation developments support gradual rate cuts, allowing the Fed to bring policy rates closer to neutral levels.*

## KEY TAKEAWAYS

**The US economy is transitioning to slower growth, with a soft landing expected amid reduced imbalances and declining inflation. Non-residential investment, particularly in technology and AI, will continue to grow, while consumption should soften.**

**With the labour market stabilising, wage growth is moderating, which aids disinflation. The results of the US election will affect economic dynamics, making it likely that the Fed will adjust its course.**

The US economy has undergone an **unusual cycle**, initiated by the Covid-19 pandemic. The recovery was unique, driven by significant monetary and fiscal measures that boosted activity and tightened the labour market. This was followed by an unexpected inflation surge in 2021-2022, influenced by supply chain disruptions, the war in Europe and substantial domestic policy stimulus (particularly the Inflation Reduction Act – IRA). The risk of inflation becoming entrenched compelled the Federal Reserve (Fed) to raise interest rates aggressively, to a level not seen since the Volcker era of the late 70s.

With this substantial tightening, a mild recession seemed almost inevitable last year, particularly in light of the banking turmoil. The anomalies in this cycle – such as high household wealth, fiscal stimulus and the Fed's swift response to regional banking issues – limited the crisis's impact. With targeted support, financial conditions improved and growth resumed. Disinflation also took hold, with inflation rates significantly declining and expectations remaining stable.

### Growth

Our central scenario suggests a **soft landing.** The recent revisions to national accounts, savings and income dynamics portray an economic landscape less dominated by imbalances and bifurcations, and less vulnerable to sudden and dramatic corrections. Indeed, in the next 18-24 months, we still expect the **US economy to transition to a period of slower growth, possibly with a few below-par quarters, driven primarily by slowing domestic demand.**

## Main triggers to watch that could affect the US cycle

**Labour market:** Labour turnover, wage growth, layoffs and immigration policy affecting labour supply. **Progressive labour market cooling, without sudden movements in layoffs,** underpins our central scenario.

**Inflation**: **Core services (shelter) and goods inflation** are crucial for the Fed's policy in the next 3-6 months. **Tariffs could increase inflation in goods,** countering current deflation, with effects depending on timing and scope.

**Fiscal policy:** Fiscal policy stimulus may change the growth/inflation outlook but at the same time, **if deemed too bold for debt sustainability, it may tighten financial conditions.**

Source: Amundi Investment Institute.

## US CYCLE

On the investment side, we see a continuation of growth in non-residential investment driven by the intellectual property product (IPP) capex trend (technology and AI-related) and equipment investment, as manufacturing activity recovers. On the consumption side, recent data indicate that consumer behaviour has become more consistent and aligned with the dynamics of disposable income growth, which we expect to moderate progressively as the labour market cools. So far, the labour market has achieved a better balance with labour demand moderating without a significant rise in layoffs. As labour turnover continues to decrease, wage growth is expected to moderate as well. Thanks to improved productivity dynamics, wage growth will remain compatible with the disinflationary process, even stabilising at a slightly higher rate than in the past.

### Inflation

The underlying core disinflation observed so far has been largely driven by deflation in core goods prices, linked to both normalising supply chains and cooling demand. This trend has also extended into core services, with some signs of moderation in shelter inflation. We expect this disinflationary trend to continue as domestic demand slows, provided there are no shocks to energy prices or disruptions to the supply chain.

### Monetary policy

The job market is getting softer and inflation is improving, which supports the idea of gradually lowering interest rates. This would help the Federal Reserve bring rates closer to a neutral level. We expect the Fed to lower the federal funds rate to 3.5% by the summer of 2025. However, changes in policy direction after the elections could make the rate path less predictable next year, especially if markets have to absorb more debt.

## Scenarios and **Investment** Implications

| 2025 | Sharp slowdown and inflation back to target | Slowdown in growth and sticky inflation | AMUNDI Soft landing scenario | No landing and sticky inflation |
|---|---|---|---|---|
| **GDP** | ≈ 0.5 - 1% | ≈ 1% - 1.5% | 2% | 3% |
| **Core Personal Consumption Expenditure** | 2% | ≈ 3% | 1.8% | 3% |
| **Unemployment** | > 6% | 5 - 6% | 4.6% | 4.1% |
| **Fed Policy Rate** | 2 - 2.5% | 4% | 3.5% | 4.5% |
| **Govies**<br>Duration<br>Yield curve | ⇒ Positive<br>⇒ Steepening | ⇒ Cautious<br>⇒ Flattening | ⇒ Neutral<br>⇒ Steepening | ⇒ Cautious<br>⇒ Neutral |
| **Credit**<br>IG credit<br>HY credit | ⇒ Negative<br>⇒ Negative | ⇒ Neutral<br>⇒ Negative | ⇒ Positive<br>⇒ Neutral | ⇒ Positive<br>⇒ Neutral |
| **EM Debt**<br>HC bonds<br>LC bonds | ⇒ Positive<br>⇒ Positive | ⇒ Neutral<br>⇒ Neutral | ⇒ Positive<br>⇒ Positive | ⇒ Negative<br>⇒ Negative |

Source: Economic forecasts are by Amundi Investment Institute as of 6 November 2024 and are based on current policy. GDP = GDP growth YoY in 2025; Core Personal Consumption Expenditure YoY in 2025; Unemployment rate at end of 2025; Fed Policy Rate = Fed Funds rate Upper Bound at the end of 2025: EM: Emerging Markets.

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DEFINITION ABBREVIATIONS

**Currency abbreviations**: USD – US dollar, BRL – Brazilian real, JPY – Japanese yen, GBP – British pound sterling, EUR – Euro, CAD – Canadian dollar, SEK – Swedish krona, NOK – Norwegian krone, CHF – Swiss Franc, NZD – New Zealand dollar, AUD – Australian dollar, CNY – Chinese Renminbi, CLP – Chilean Peso, MXN – Mexican Peso, IDR – Indonesian Rupiah, RUB – Russian Ruble, ZAR – South African Rand, TRY – Turkish lira, KRW – South Korean Won, THB – Thai Baht, HUF – Hungarian Forint.



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