AEGON **INSIGHTS**

Macro musings: Well, that was fast

In terms of duration, our recent recession call makes the 33-day reign of Pope John Paul I look quite robust and lengthy. But in a saying often attributed to John Maynard Keynes, "when the facts change, I change my mind." On Wednesday, the facts changed materially.

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Frank Rybinski, CFA, is head of macro strategy responsible for guiding the firm's global macroeconomic view as it pertains to tactical and strategic asset allocation. This includes analysis of the economy, interest rates, and the relative value between asset classes. In this capacity, Frank frequently appears in leading financial media outlets like Bloomberg, CNBC, Fox Business and the Wall Street Journal. Prior to his current role, Frank was a credit strategist for UBS Investment Bank. Prior to that, he worked as an analyst for ZT Zurich Trust in Zurich, Switzerland. Frank began his career as a trader for Spear, Leeds & Kellogg and held a similar position at The Royal Bank of Scotland. He has been in the industry since 1996 and started with the firm in 2008. Frank received his BA in economics from Boston College. He is a CFA® charterholder.

Quick recap of events

Just 13 hours after "max" tariff implementation, President Trump announced a 90-day pause with a reduced reciprocal tariff rate of 10%. China was excluded.

In addition to the blanket 10% tariffs still in place, other country-specific tariffs (Mexico and Canada for non-compliant USMCA goods) and sector-specific tariffs (i.e., autos, steel, etc.) are also still in place.

Ironically, Wednesday's news won't do much for the current average tariff rate—China's huge increase offsets cuts elsewhere—but that is based on a static analysis. Looking forward dynamically, the substitution effect virtually guarantees that imports from China are going to be greatly reduced.

Equity markets were euphoric on the news, gifting a full-year return profile in less than three hours. Flatteners were also back in vogue as the market priced out a full quarter-point rate cut by year-end in a matter of minutes (now pricing in three cuts instead of four).

Updating our forecasts

The impact of massive tariffs was the crux of our recession call. While we are going to be taking our GDP numbers back up (our base case is no longer a recession), they won't be going all the way back. Why? Because the "pall of uncertainty" is still in effect, as are the tariffs that remained in place.

In all, there is still an incremental "tax" increase on the consumer, albeit much less of one than under the "max" tariff scenario that was briefly in effect. Thus, the negative income effect will still weigh on the consumer, but now it won't crush them.

Spit-balling it, the odds we published earlier this week would roughly flip: We now see a roughly 50% to 66% chance of positive, below-trend growth as our base case, with still elevated odds of recession (call it roughly 33%), with plus or minus tail events taking up the balance.

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