



STATE AND REGIONAL ECONOMIC INTEL FORUM

IMPACT OF TARIFFS ON GLOBAL TRADE

Welcome



STATE AND REGIONAL ECONOMIC INTEL FORUM

IMPACT OF TARIFFS ON GLOBAL TRADE

Agenda

- 11:00 a.m. Start of Program – Networking**
- 11:30 a.m. Plated Lunch Served**
- 11:50 a.m. Welcome - Event Corporate Sponsor**
Erik Swan, Senior Vice President, Associated Bank
- 11:55 a.m. State and New North Regional Economic Report**
John Koskinen, Chief Economist, WI Dept. of Revenue
- 12:10 p.m. Trade and Tariff Impact on Global Economy, Wisconsin and New North Region**
Marc von der Ruhr, Professor of Economics, SNC
- 12:35 p.m. Local Perspective on Trade and Tariff Impacts**
Frank Barbaro, Head of Interest Rate Derivates, Associated Bank
Mitch Clements, Head of Corporate Foreign Exchange, Associated Bank
- 12:55 p.m. Closing Remarks**

Wisconsin's Economic Outlook

2025 & 2026

Wisconsin Dept. of Revenue

Saint Norbert College

De Pere, WI

May 13, 2025

Bottom Line Up Front: Focus on the Signal

You need to separate the noise from the signal.

Forget about the noise.

Focus on the signal.

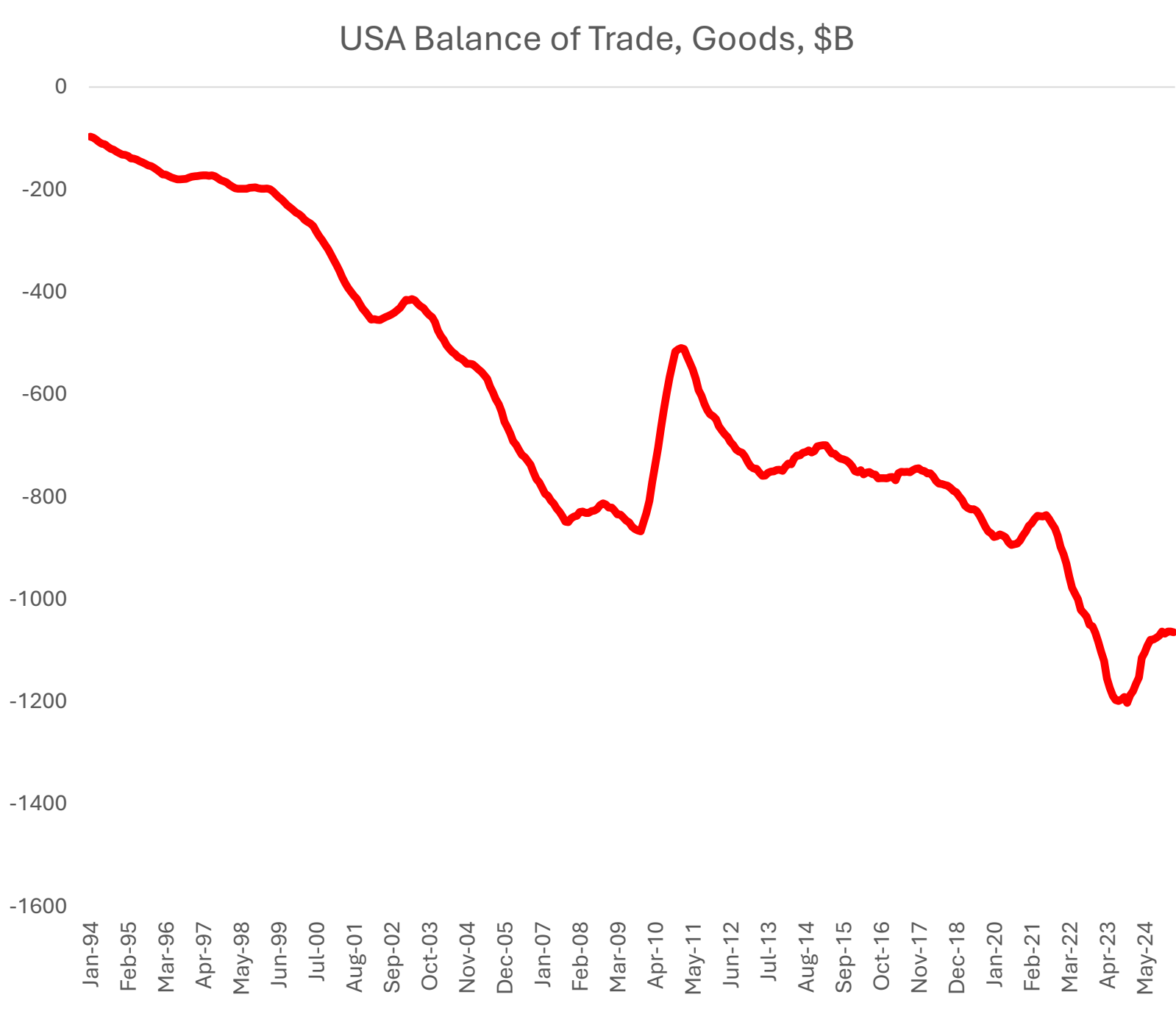
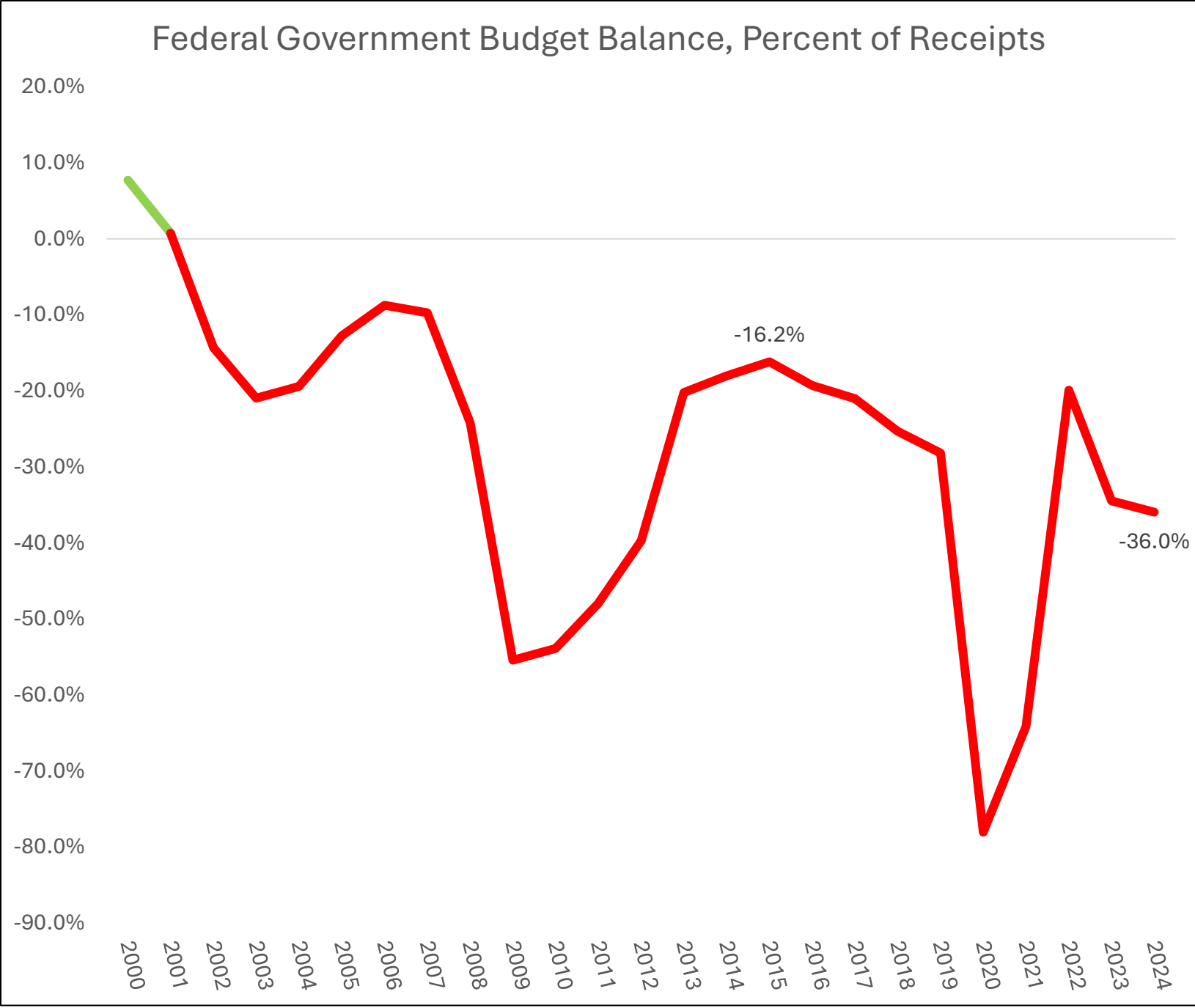
If you haven't learned that after 12 years of Donald Trump, you never will.

--Kevin O'Leary

The Trump Administration confronts twin deficits

- Federal Budget
- International Trade
- Solving big problems will inevitably causes dislocations.
- The impact of the changes will vary by region, within the nation and within Wisconsin.
- Wisconsin has lower exposure to those dislocations.

The Twin Deficits Problem: Budget & Trade



Focus on International Trade

Trade Role In US Gross National Product

Trade Deficits Reduce Gross Domestic Product

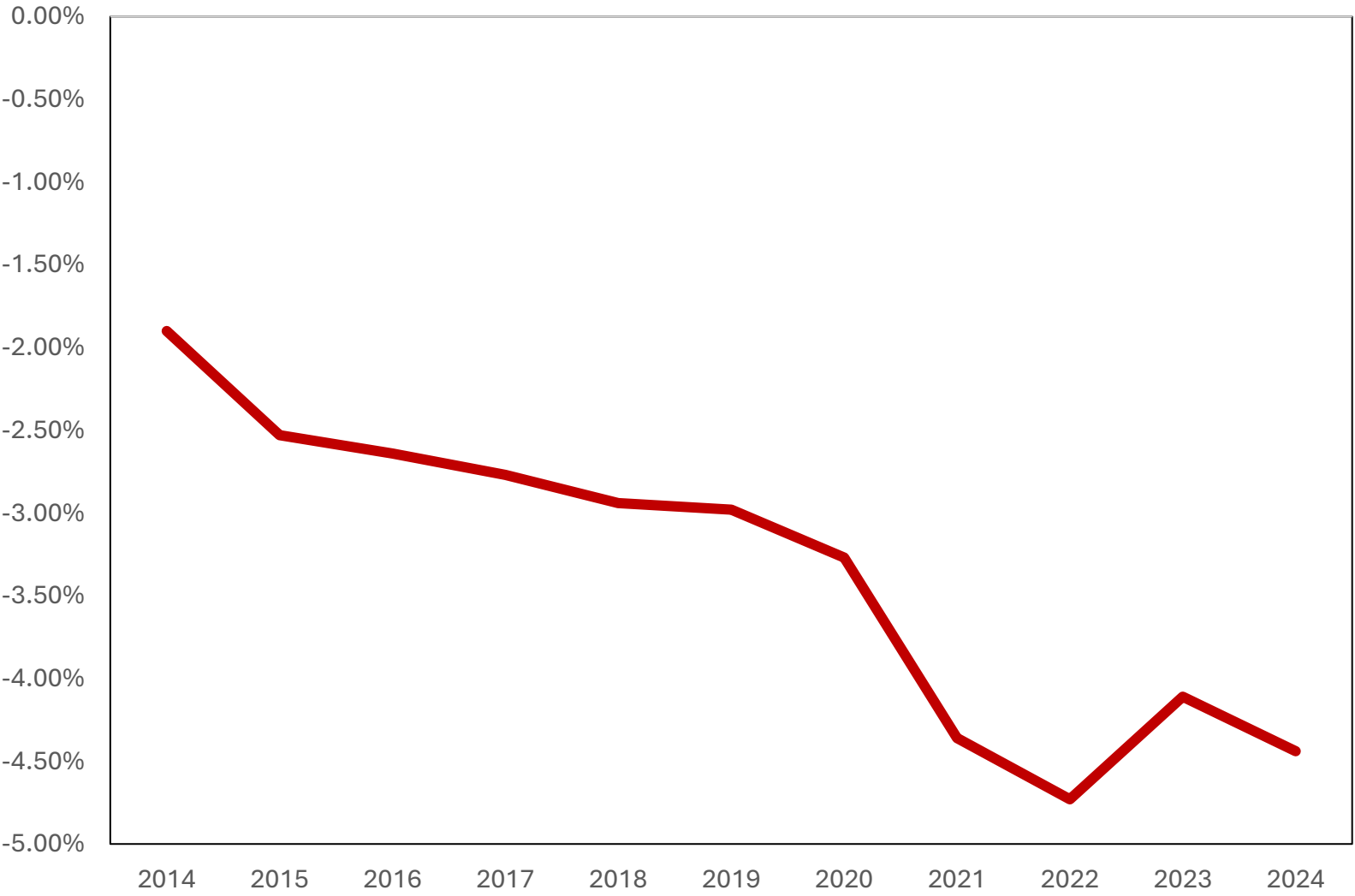
	Real GDP 2024 Annual Average
Consumption	16,052.6
Investment	4,336.1
Net Exports	(-1,033.6)
Exports	2,606.4
Imports	-3,640.0
Government	3,941.8
Total	23,305.0

Objective of Trade Policy

An Observation, Not a Forecast

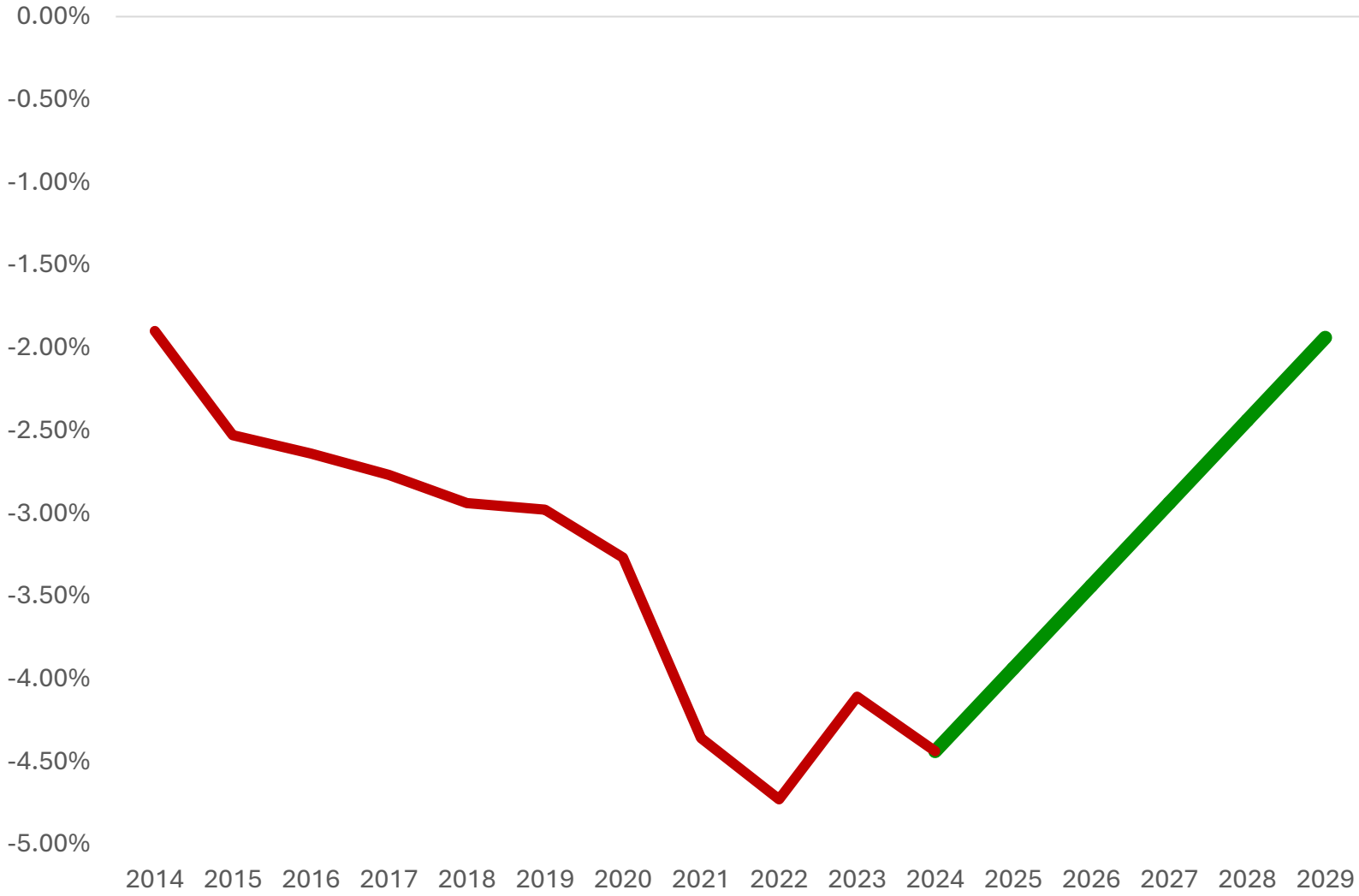
To Make This

Trade Balance: % of Real GDP



Look More Like This

Trade Balance: % of Real GDP



Quick Summary: April 2 Tariffs Order

It Pays to Read the Fine Print

Outline of Order.

- Impacts 180 countries covering 14,000 commodities
- A 10% tariff on all countries effective April 5. [85 countries]
- Individualized reciprocal higher tariff on the countries with which the US has the largest trade deficits effective April 9 [95 countries].
 - *Increase* the tariff if trading partners retaliate
 - *Decrease* the tariffs if trading partners take significant steps to remedy non-reciprocal trade arrangements.

Exemptions.

- (1) Tariffs already covered elsewhere
- (2) Steel/aluminum articles and autos/auto parts already subject to Section 232 tariffs
- (3) Copper, pharmaceuticals, semiconductors, and lumber articles
- (4) Articles that may become subject to future Section 232 tariffs
- (5) Bullion
- (6) Energy and other certain minerals not available in the US.
- (7) *NEW: Computers, Smartphones*

For Canada and Mexico,

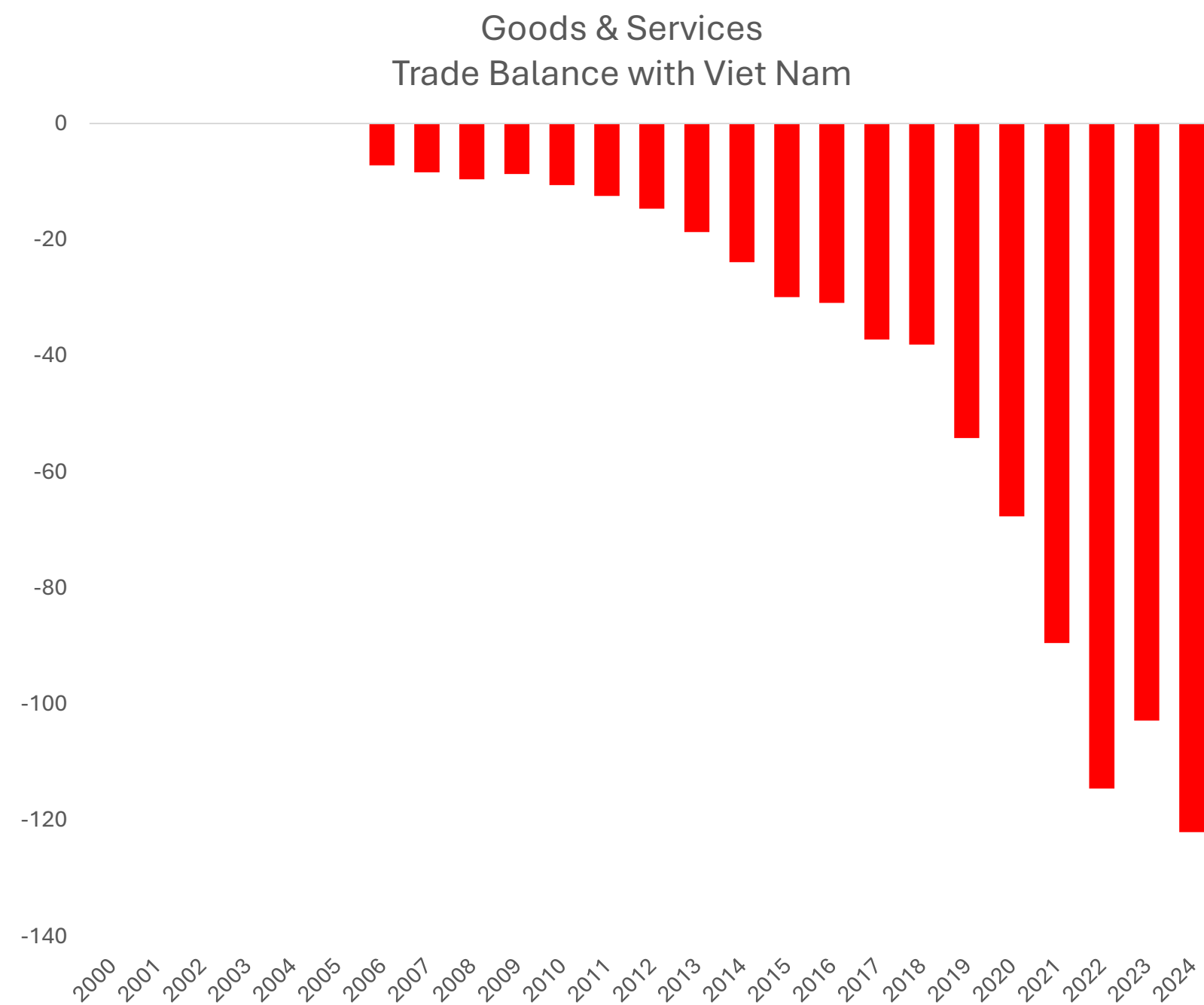
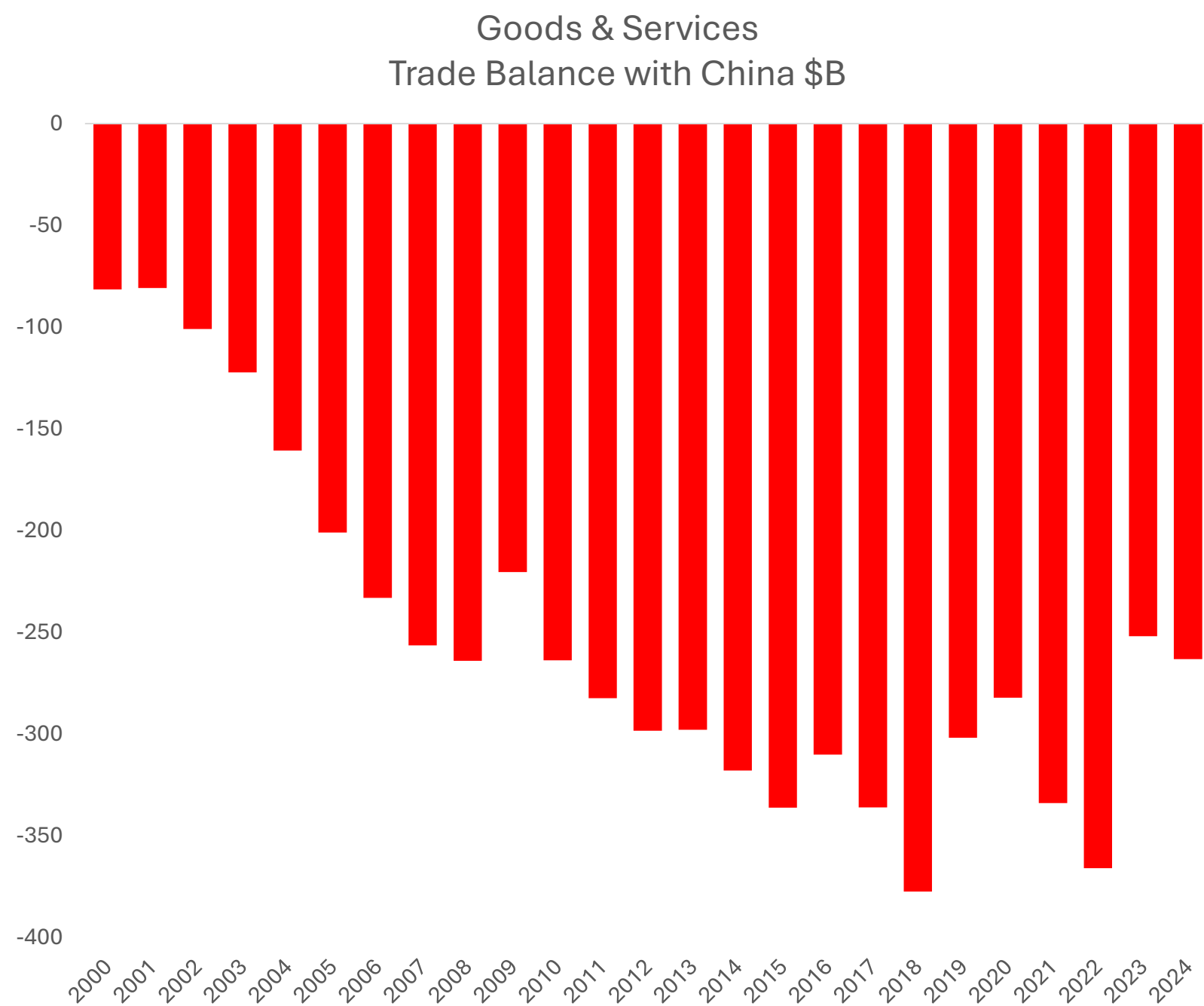
- **USMCA compliant goods: 0% tariff,**
- Non-USMCA compliant goods: 25% tariff,
- Non-USMCA compliant energy and potash: 10% tariff.

Purpose

Reprioritize U.S. Manufacturing

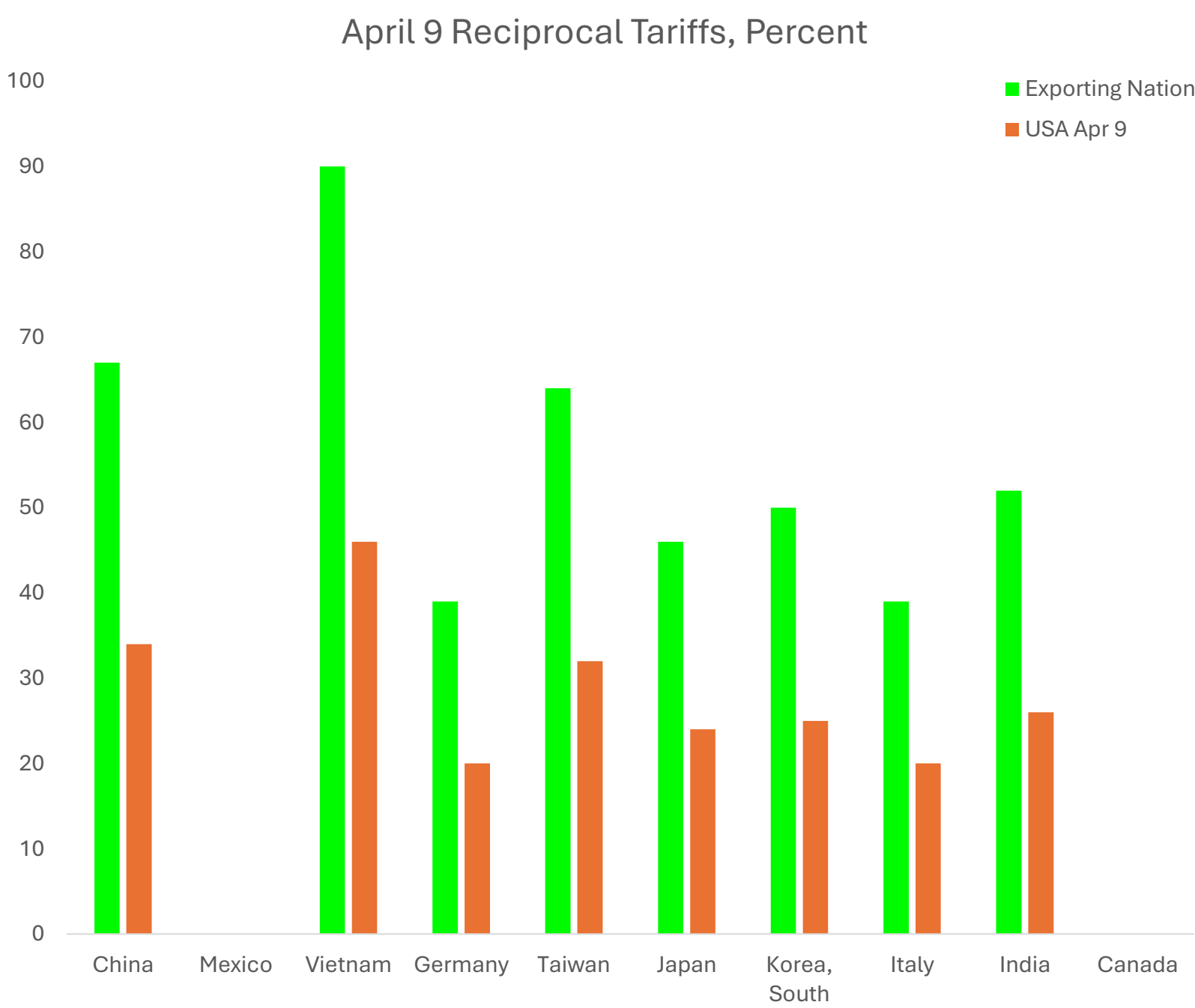
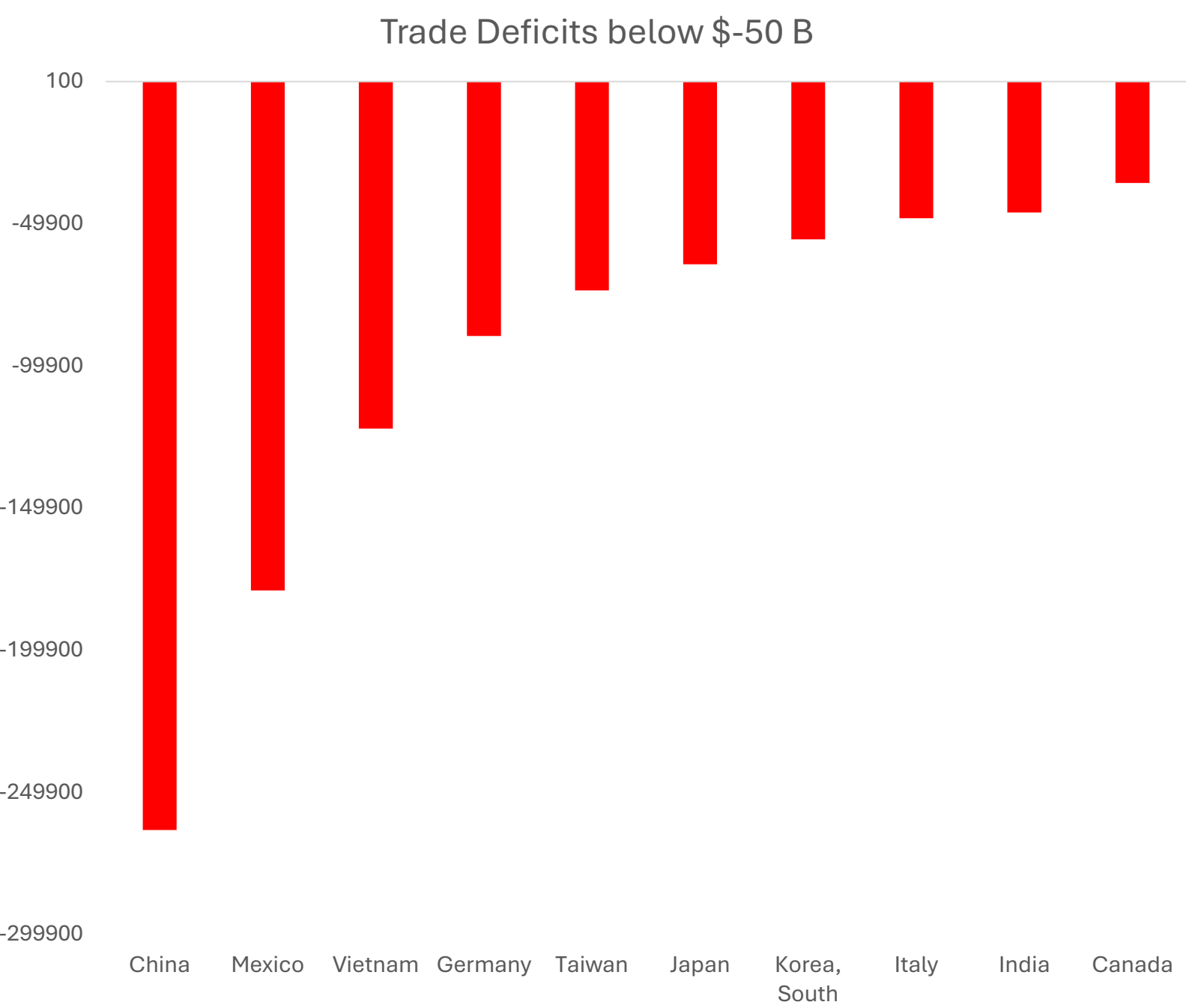
- **Support domestic manufacturing** where loss of capacity could permanently weaken U.S. competitiveness
- **Rebuild defense production**
- **Diminish US vulnerability** to supply chain disruption from geopolitical supply shocks

USA Trade Balances with China and Viet Nam

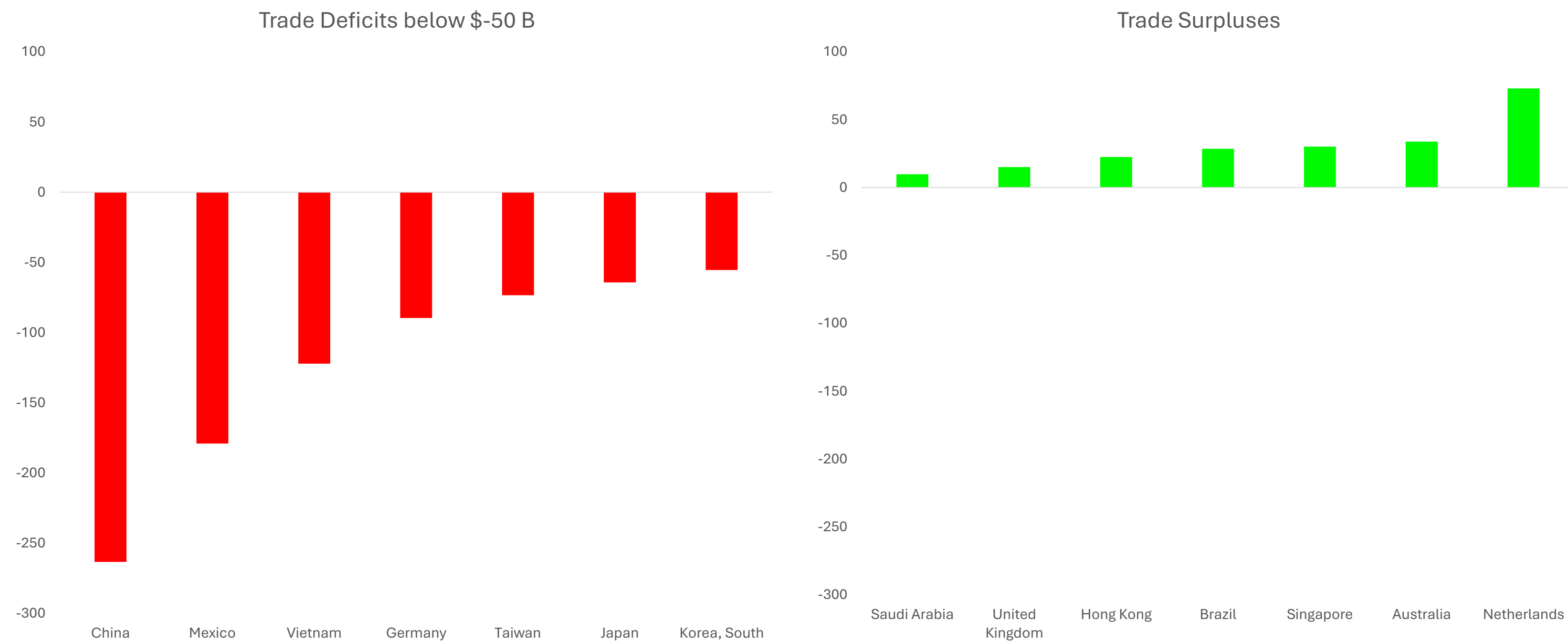


Reciprocal Tariffs Exceed 10% for U.S. Trade Deficit Nations

[Mexico and Canada USMCA Trade 0% Tariff, Non-USMCA 25% Tariff]

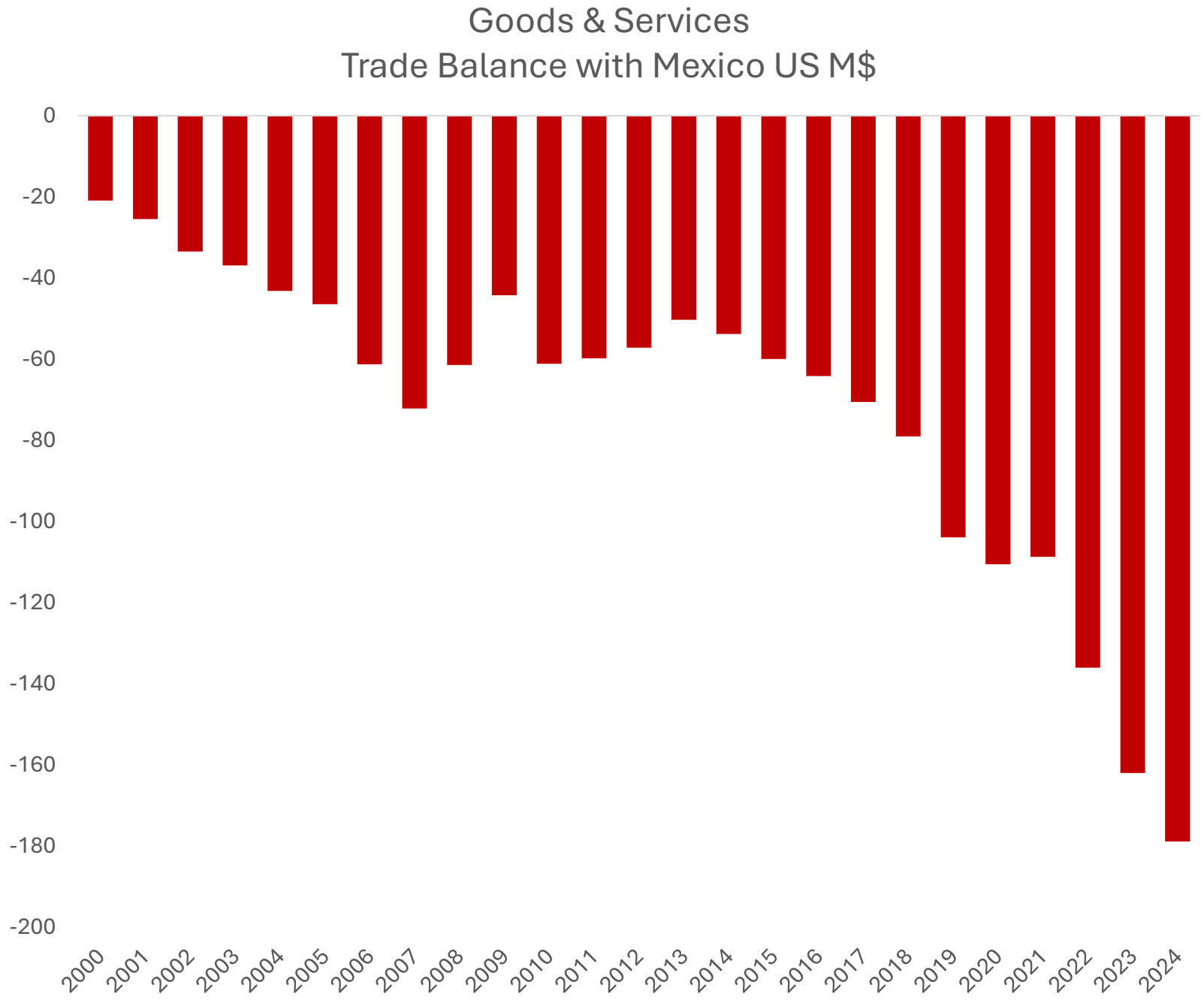
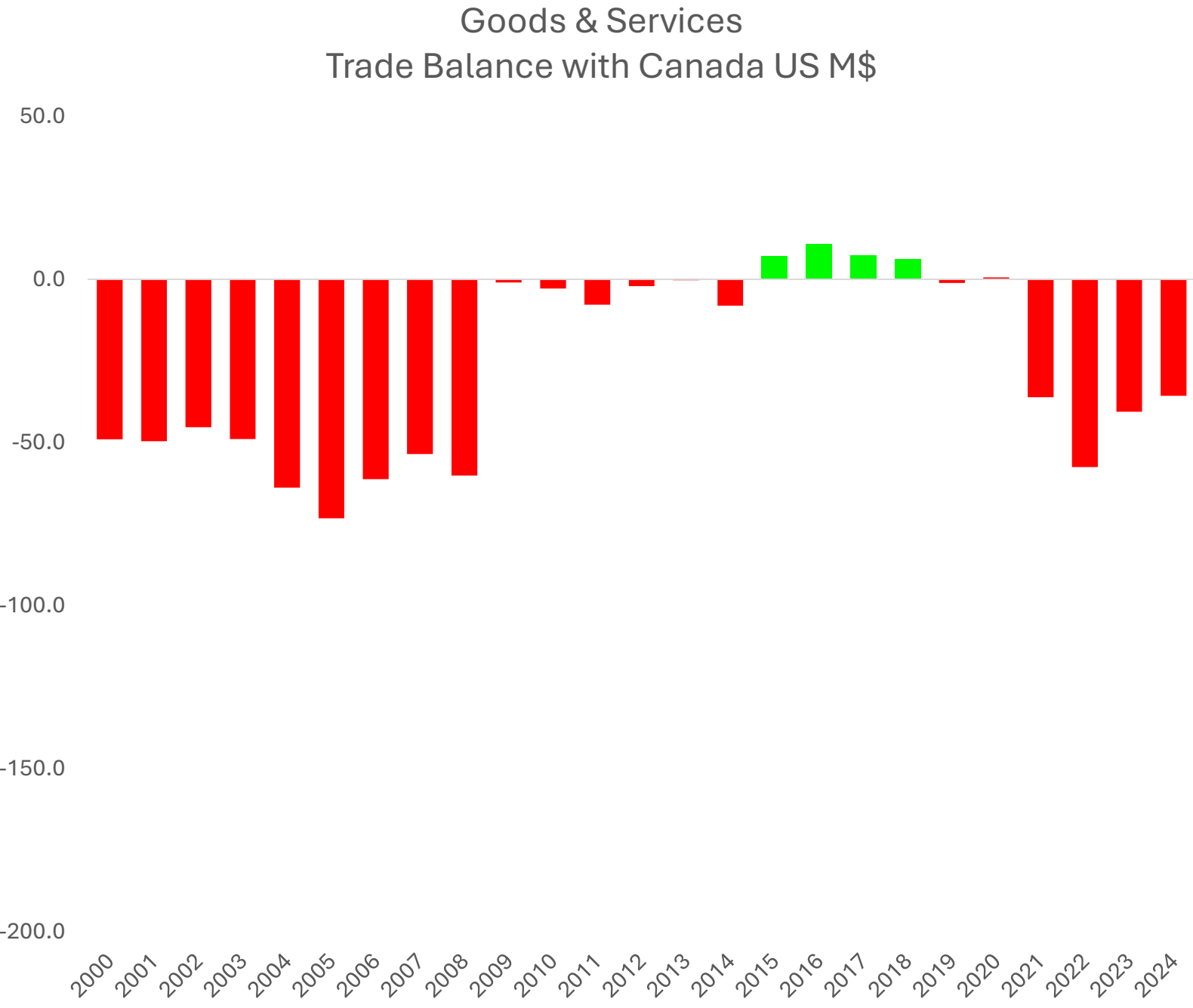


US Trade Balances With Major Trading Partners



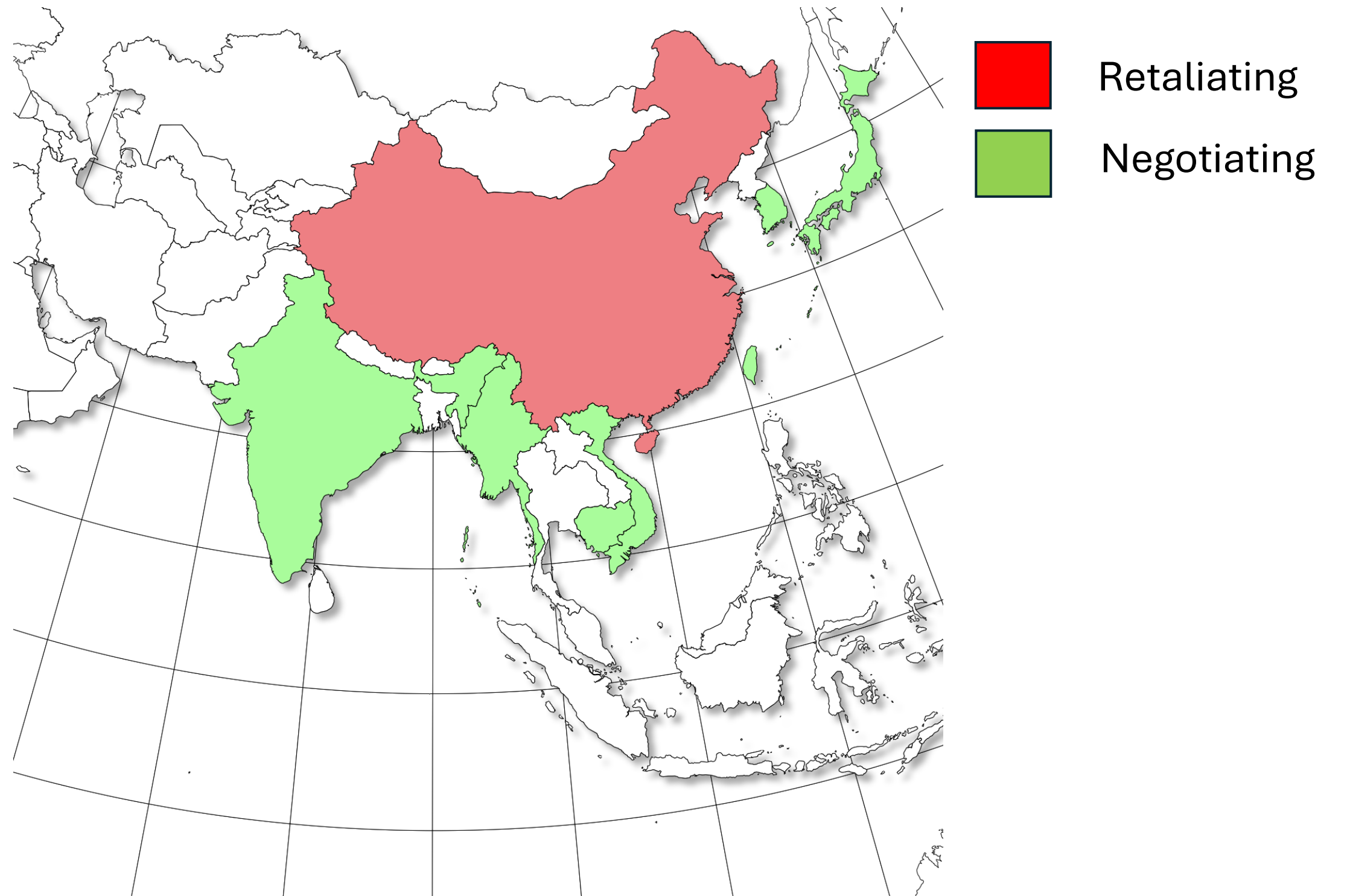
USA Trade Balances with Canada and Mexico

Largest US Trading Partners By Total Trade, Mexico & Canada



It is All About China

A Geopolitical Context to Response to April 9 Tariffs



Trade Issues Not Just Tariffs

Multiple Trade Issues With China

- Forced Technology Transfer
- State Subsidies
- Currency Manipulation
- Forced supply chain purchases from State-Owned Enterprises
- Quotas and Market Access
- Copyrights and Patent rights unenforceable in Chinese courts
- Manufacturing and export of counterfeit goods
- March 2025 State Council of China authorized new measures to prevent any organization or individual from assisting foreign IP enforcement

Not Just Trade Issues: Geopolitical Threats

Wall Street Journal, April 10, 2025

In Secret Meeting, China
Acknowledged Role in U.S.
Infrastructure Hacks

Wall Street Journal, May 10, 2025

Taiwan's leaders have embarked on
an urgent overhaul of the island's
defenses to prepare for what they
see as the possibility of a Chinese
invasion by 2027.

Wall Street Journal, Jan. 5, 2025

Chinese hackers had gained the
ability to shut down dozens of U.S.
ports, power grids and other
infrastructure targets at will, Jake
Sullivan told telecommunications
and technology executives at a
secret meeting at the White House
in the fall of 2023.

Fluid Situation for Tariffs: Watch This Space

2024 Total USA World Goods Trade Volume: \$5,331.9 B

As of April 7th

Nations Retaliating: \$1,386.3 B

- China
- European Union
- Canada (Non-USMCA)

Nations Accepting or Negotiating: \$2,275.0B

- Mexico
- Viet Nam
- United Kingdom
- Japan
- Cambodia
- Thailand
- Australia
- Israel
- Japan
- South Korea
- India

Fluid Situation for Tariffs: Watch This Space

2024 Total USA World Goods Trade Volume: \$5,331.9 B

As of April 10th

Nations Retaliating: \$582 B

China

Nations Accepting/Negotiating:

- Mexico
- United Kingdom
- Viet Nam
- Japan
- Thailand
- India
- Israel
- European Union
- Canada (After 4/48 election)
- Cambodia
- South Korea
- Australia
- Saudia Arabia

Fluid Situation for Tariffs: Watch This Space

2024 Total USA World Goods Trade Volume: \$5,331.9 B

As of May 12th

Nations Retaliating: \$0

Nations Accepting/Negotiating:

- Mexico
- United Kingdom
- Viet Nam

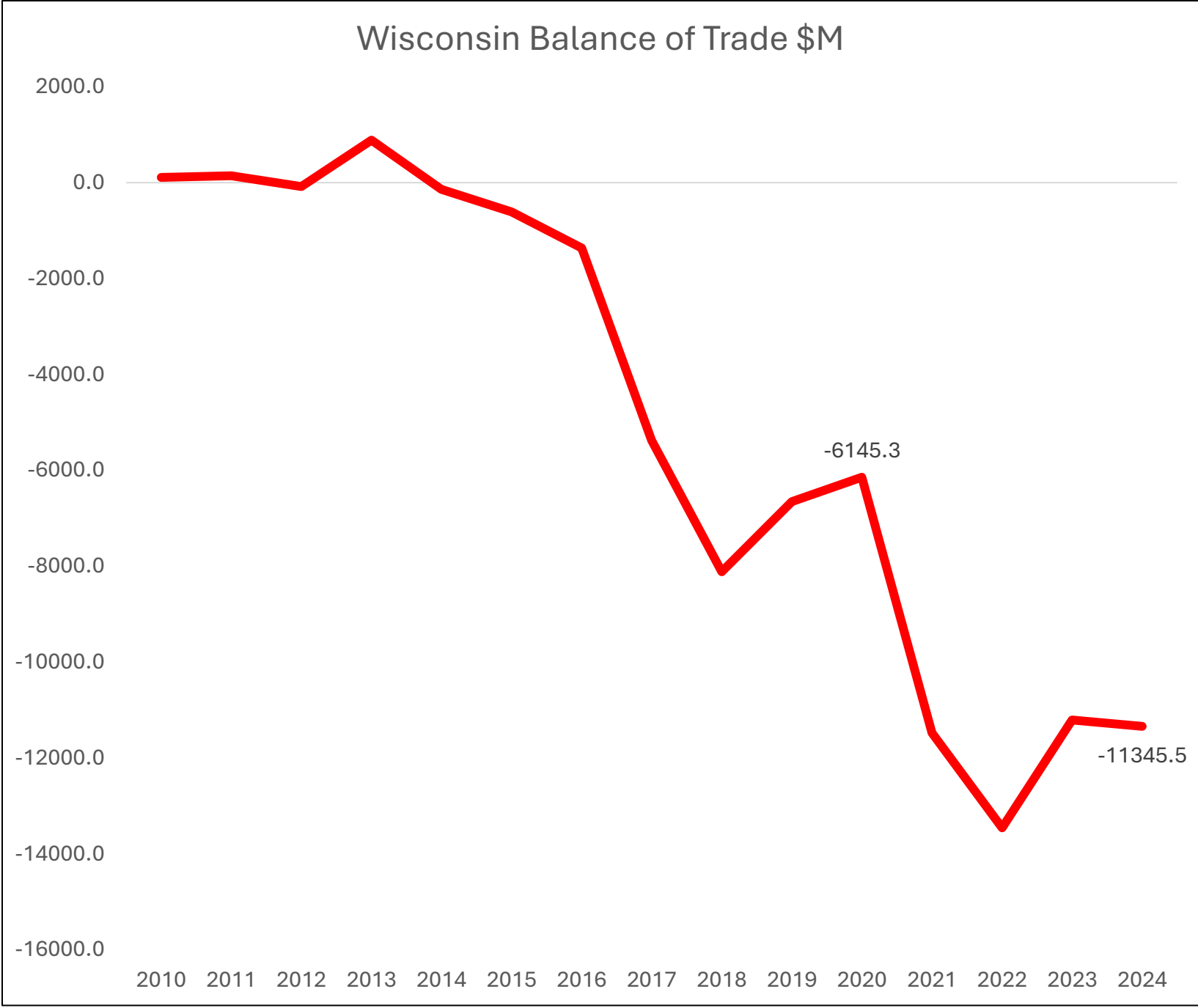
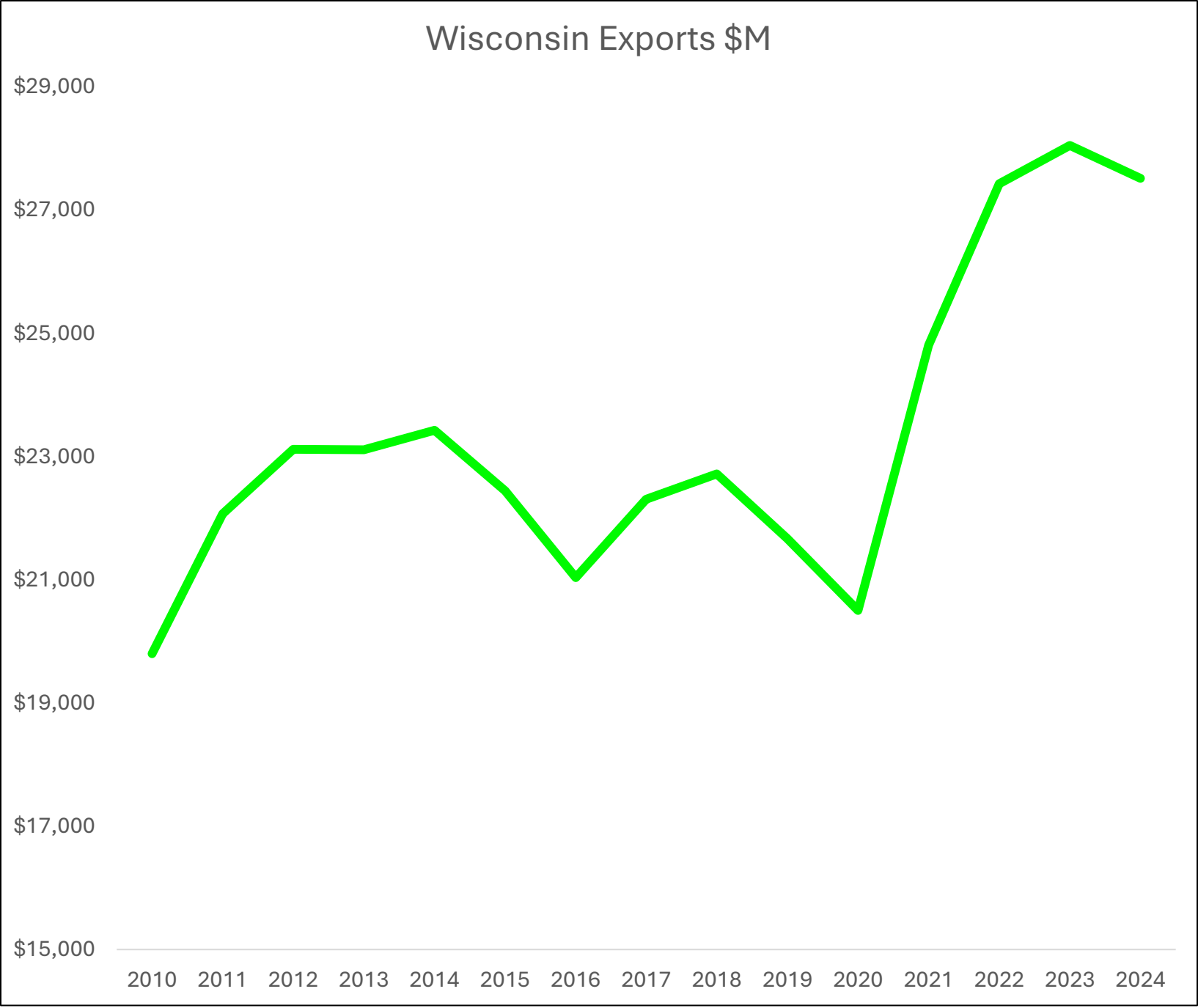
Cambodia
- Japan

South Korea
- Thailand
- India

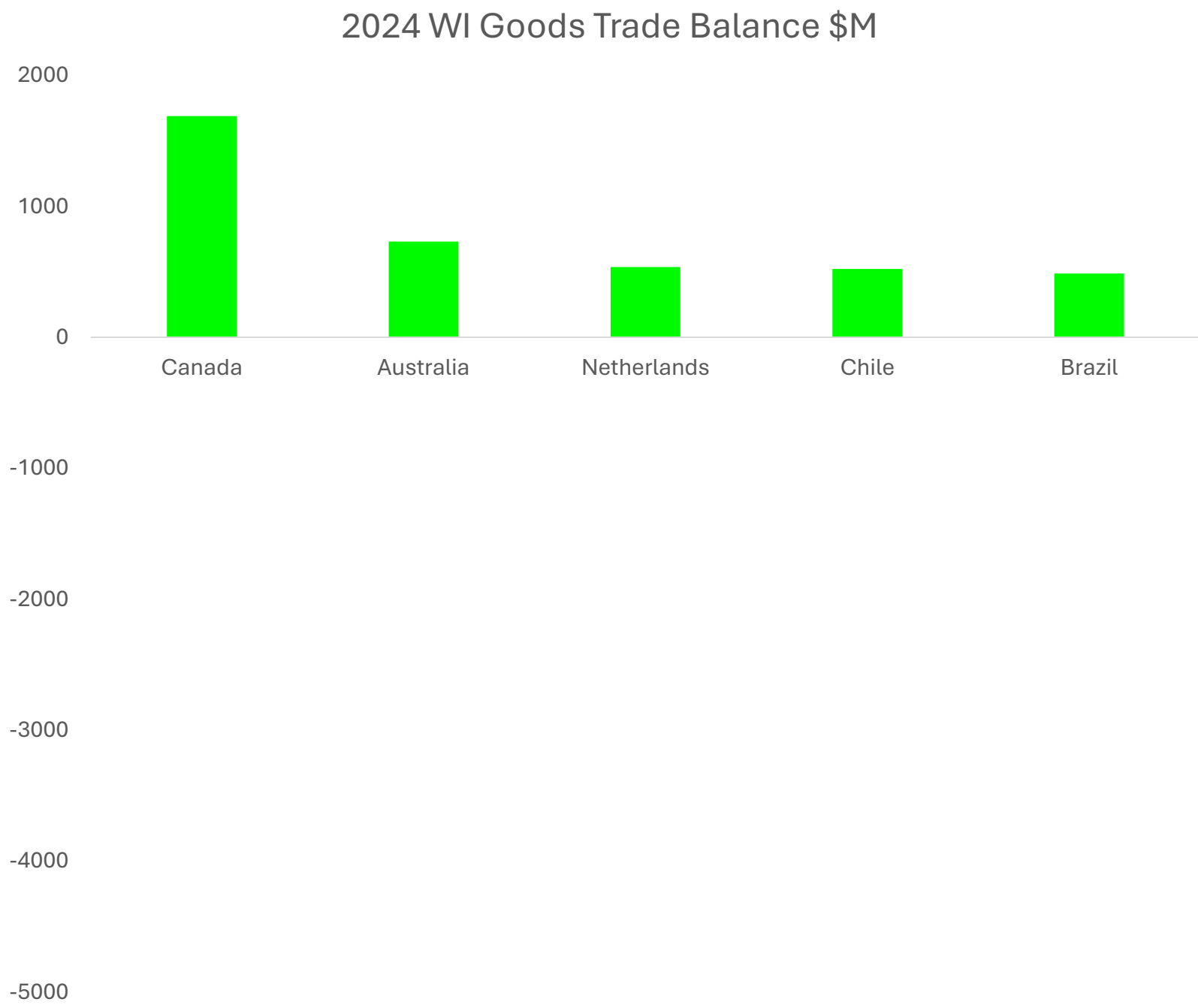
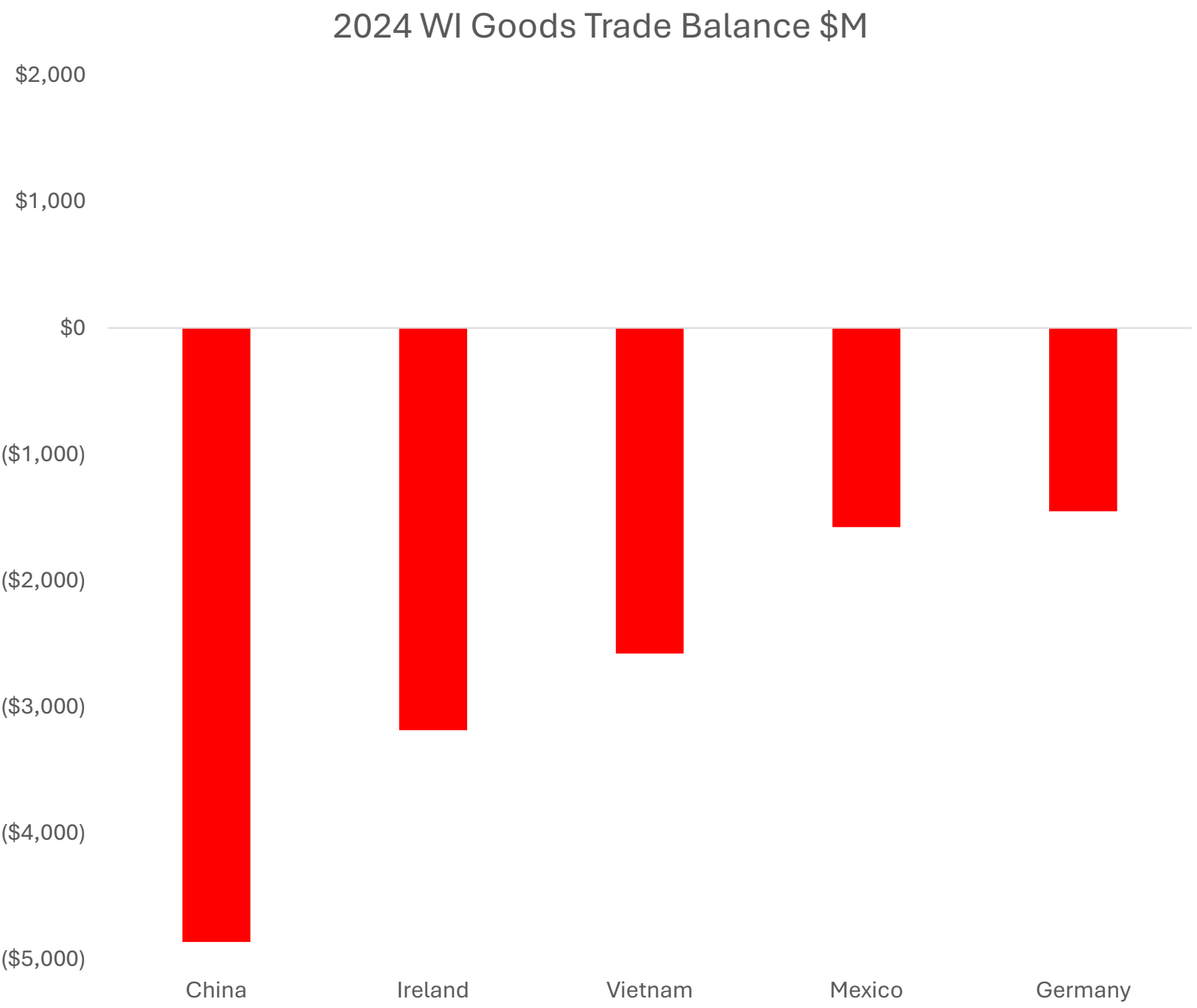
Australia
- Israel

Saudia Arabia
- European Union
- Canada (After 4/48 election)
- China (As of May 12th)

Quick Overview of Wisconsin's International Trade



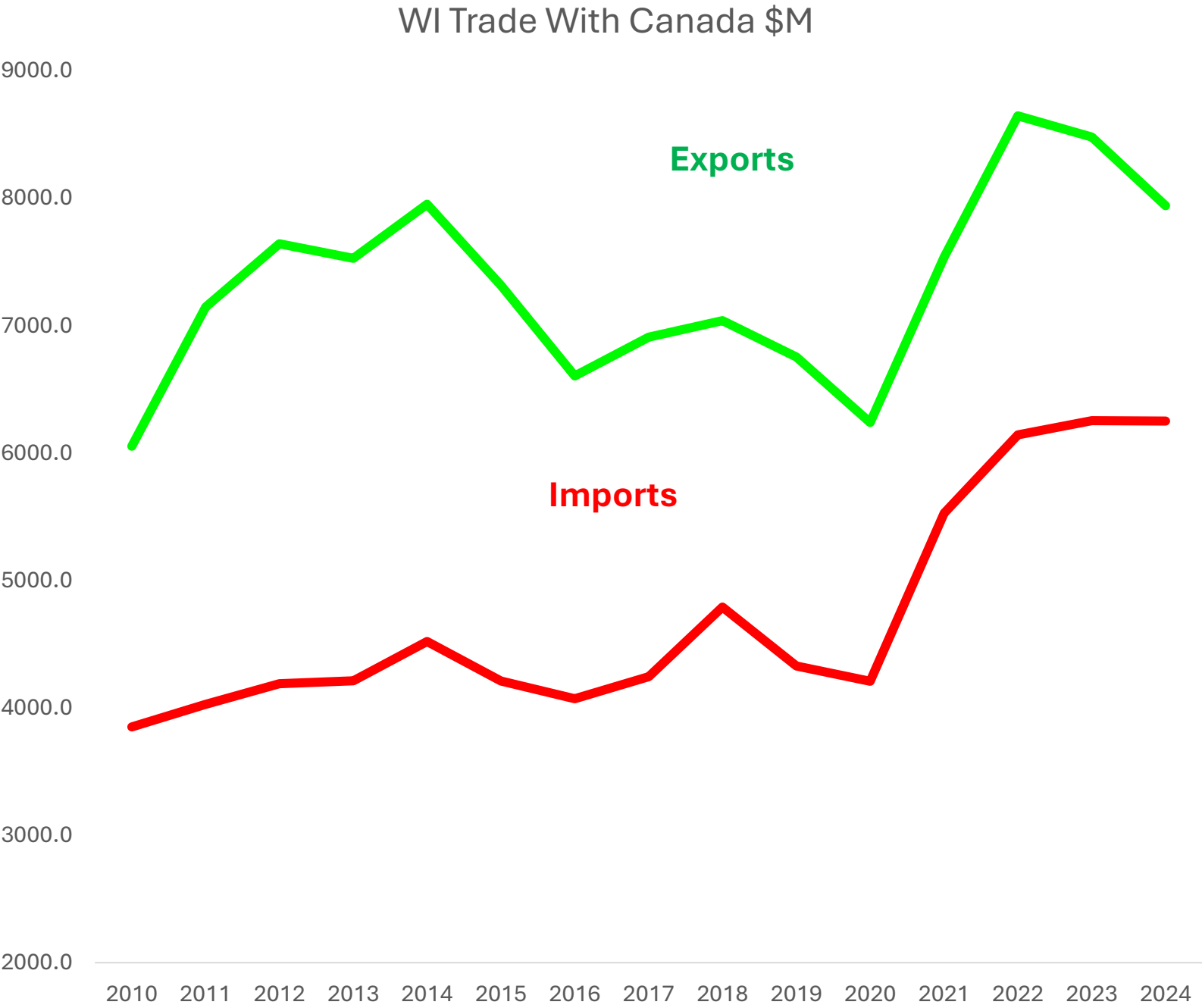
Wisconsin Trade Balances by Major Partner



Wisconsin's Top 10 Exports and Top 10 Imports

NAICS INDUSTRY	WI 2024 EXPORTS \$M	NAICS INDUSTRY	WI 2024 IMPORTS \$M
Ag & Construction & Machinery	1761.9	Pharmaceuticals & Medicines	4795.0
Computer Equipment	1748.3	General Purpose Machinery	2856.9
Navigational/Medical/Control Instrument	1627.9	Navigational/Medical/Control Instrument	1675.3
General Purpose Machinery	1404.7	Apparel	1361.8
Plastics Products	1209.6	Electrical Equipment	1289.1
Electrical Equipment	1189.1	Transportation Equipment, Nesoi	1201.4
Engines & Power Transmsn Equip	1133.1	Motor Vehicles	1187.8
Aerospace Products & Parts	1077.3	Plastics Products	1085.7
Motor Vehicle Parts	1015.0	Electrical Equipment	1021.4
Pharmaceuticals & Medicines	773.6	Ag & Construction & Machinery	1020.6

Wisconsin Has a Trade Surplus with It's Largest Trade Partner: Canada



NAICS DESCRIPTION	2024 \$M
All Exports	\$7,941
Ag & Construction & Machinery	\$655
Converted Paper Products	\$533
Plastics Products	\$514
Electrical Equipment	\$448
General Purpose Machinery	\$424
Motor Vehicle Parts	\$294
Nonmetallic Minerals	\$247
Engines & Power Transmsn Equip	\$242
Foods, Neso	\$234
Basic Chemicals	\$217
Printed Matter & Related Products	\$204

Wisconsin's Largest Trade Deficit: China



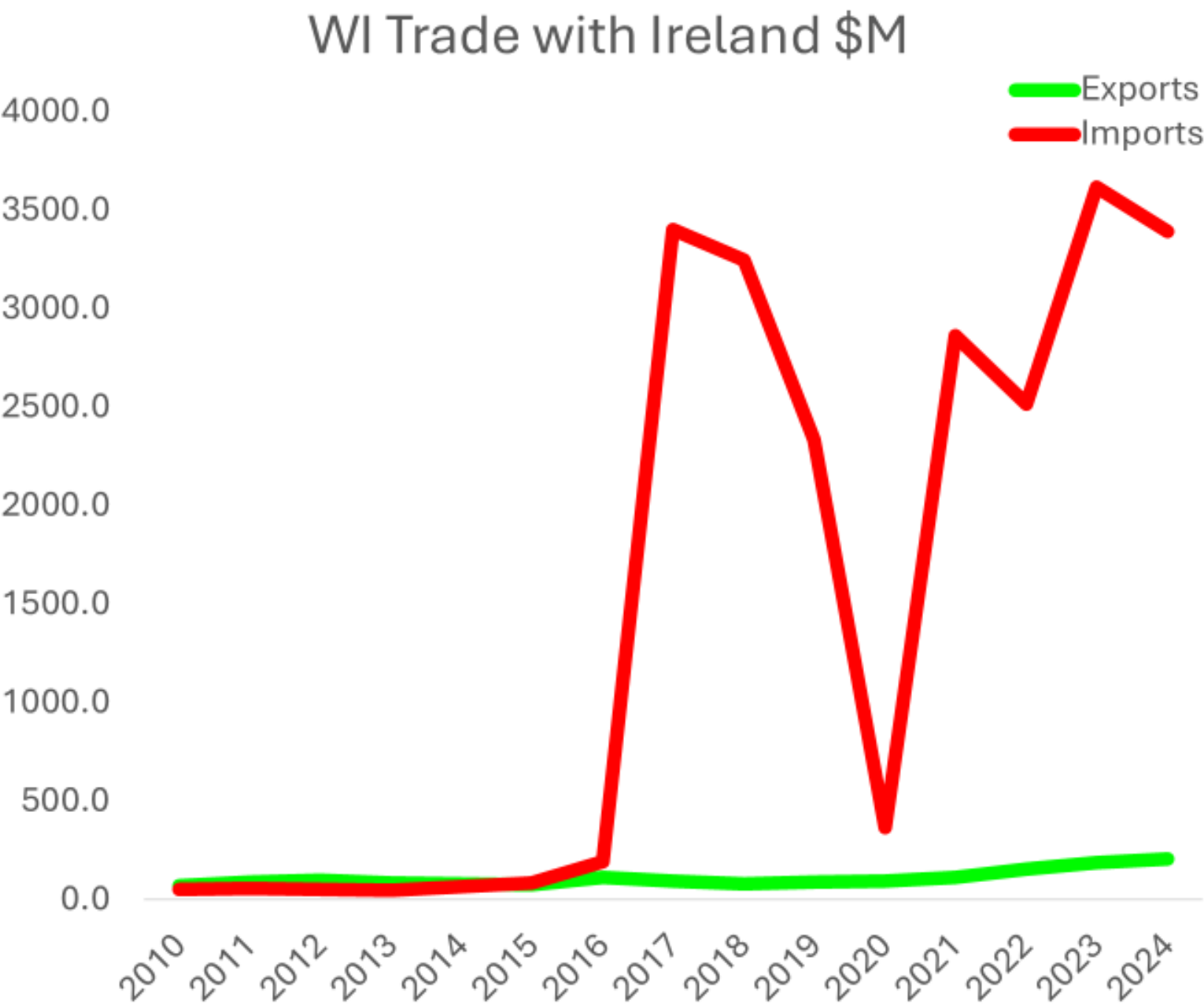
NAICS DESCRIPTION	2024 \$M
WI Exports to China	\$1,555.0
Navigational/Medical /Control Instrument	198.8
Electronic Components	156.6
Dairy Products	107.3
Pharmaceuticals & Medicines	74.9
WI Imports from China	\$6,417
General Purpose Machinery	706.2
Electrical Equipment	393.7
Misc. Manufacturing	370.9
Other Fabricated Metals	314.0

Wisconsin Industries with Largest Exposure to China Trade Disruption: Imports

Sorted by Dollar Volume		
NAICS	Industry	Amount \$M
3339	Other General Purpose Machinery	706.2
3359	Electrical Equipment & Components	393.7
3399	Miscellaneous Manufactured Commodities	370.6
3329	Other Fabricated Metal Products	313.8
3352	Household Appliances & Misc Machines	278.6
3345	Navigational/Medical/Control Instrument	232.9
3261	Plastics Products	225.4
3341	Computer Equipment	222.0
3336	Engines & Power Transmsn Equip	208.7
3162	Footwear	201.4

Sorted by China Share		
NAICS	Industry	China Pct
3162	Footwear	83.8%
9900	Special Classification Provisions	77.4%
3151	Knit Apparel	77.4%
3159	Apparel Accessories	74.3%
3351	Electric Lighting Equipment	69.9%
3399	Miscellaneous Manufactured Commodities	56.1%
3149	Other Textile Products	55.5%
3341	Computer Equipment	45.9%
3352	Household Appliances & Misc Machines	45.8%
3231	Printed Matter & Related Products	45.2%

Wisconsin's 2nd Largest Trade Deficit: Ireland



NAICS DESCRIPTION	2024 \$M
WI Exports to Ireland	\$208.2
Computer Equipment	41.5
Plastics Products	34.7
Basic Chemicals	32.9
Navigational/Medical /Control Instrument	27.7
WI Imports from Ireland	\$3,392.6
Pharmaceuticals & Medicines	3,281.5
Dairy Products	33.1
Navigational/Medical /Control Instrument	16.2
Medical Equipment	14.0

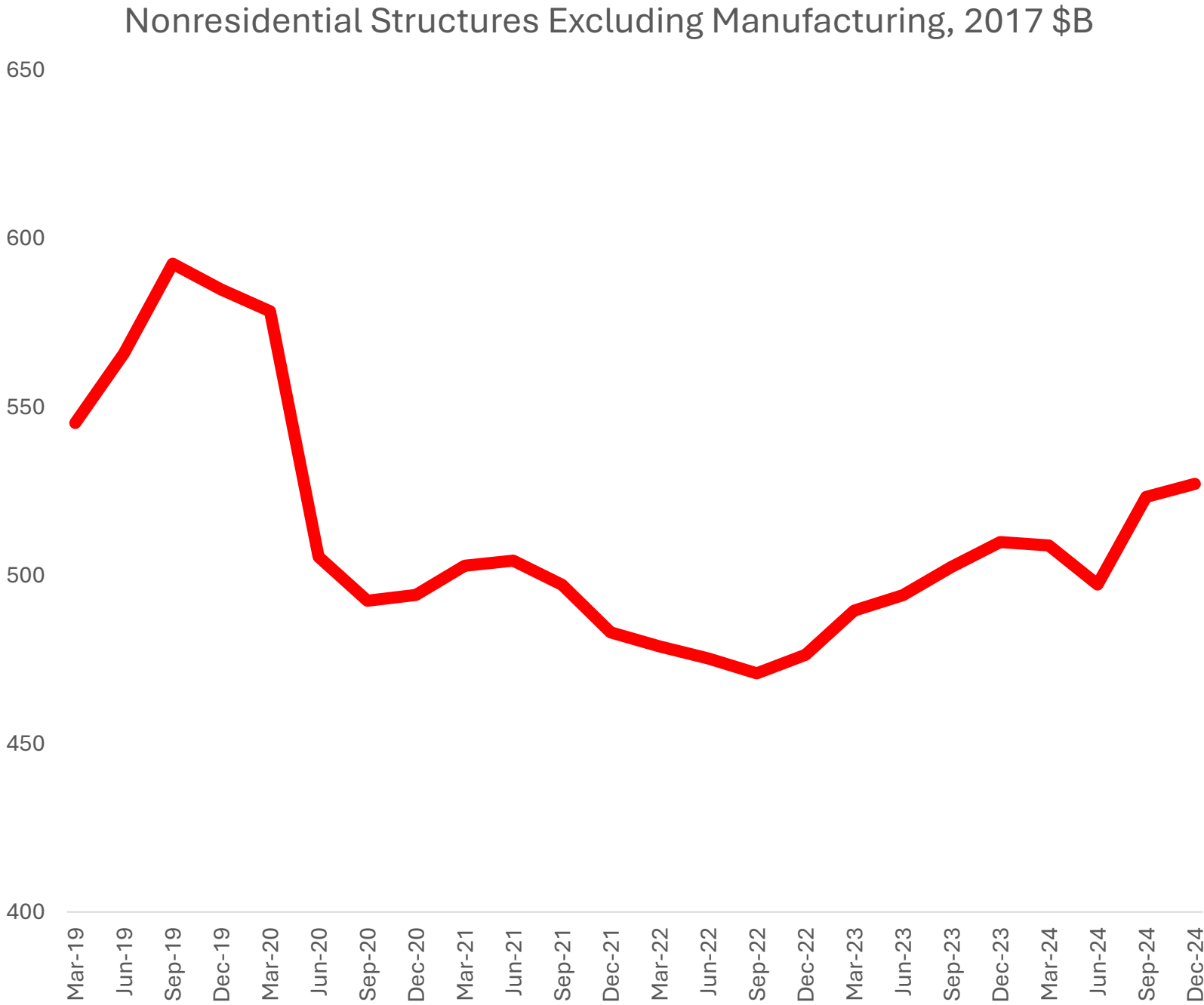
How to Meet the Objective

Invest in U.S. Manufacturing

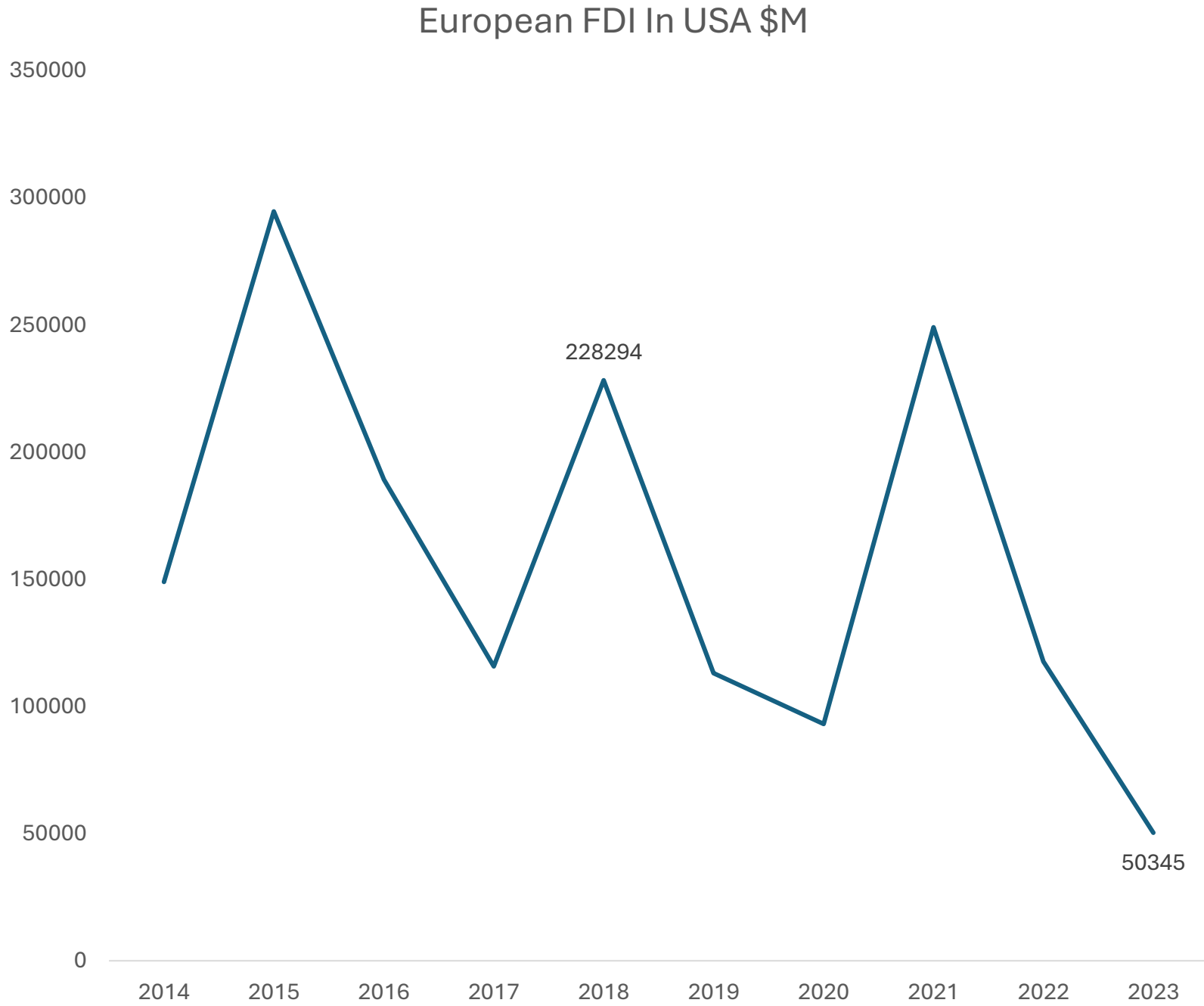
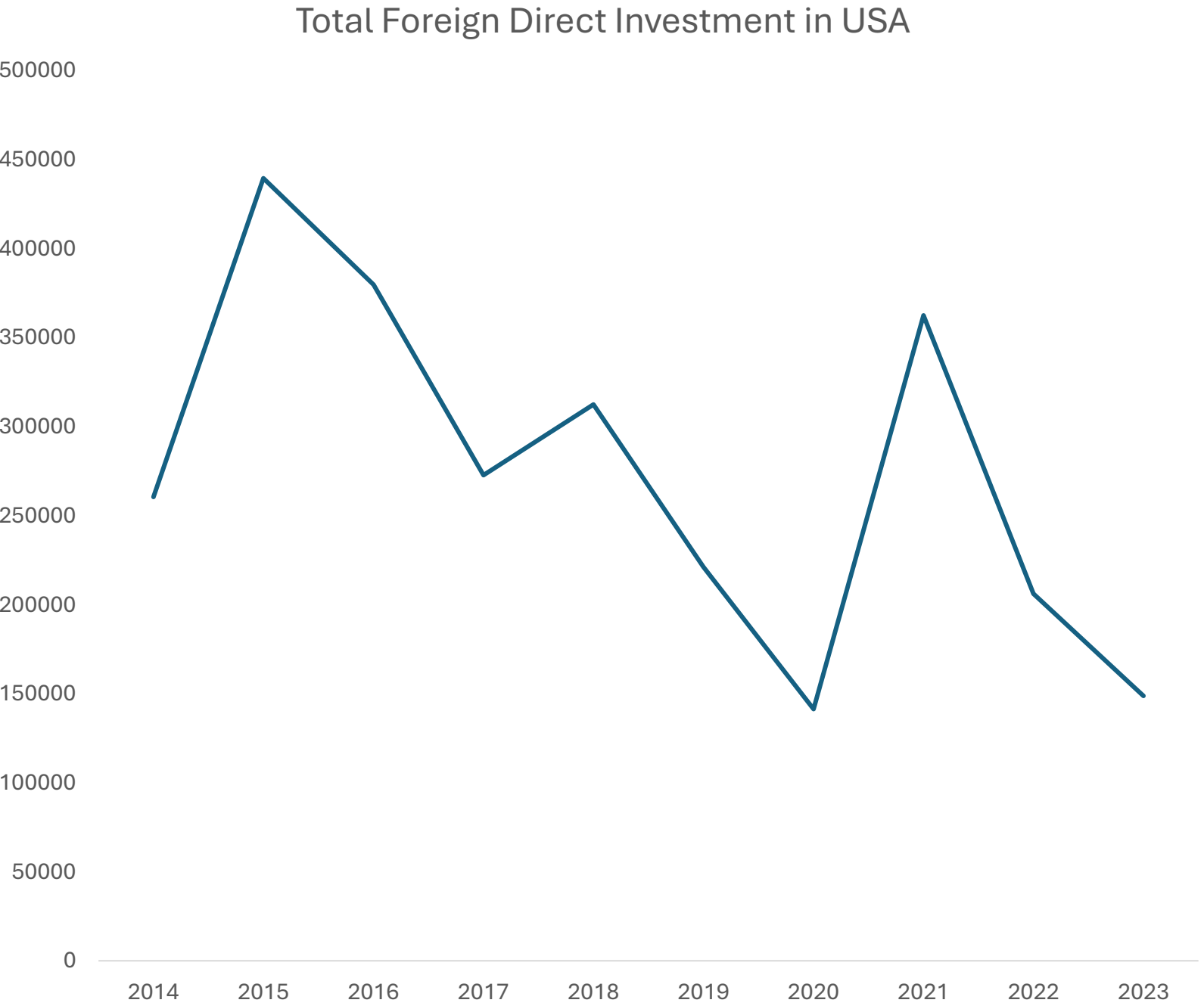
- Level Playing Field
Reciprocal Tariffs
- Re-Shore Manufacturing
U.S. Manufacturers Bring Back Operations
- In-Shore Manufacturing
Foreign Direct Investment
- Stay Home
Forego Investment Elsewhere

Manufacturing Investment Drive Business Investment in Structures

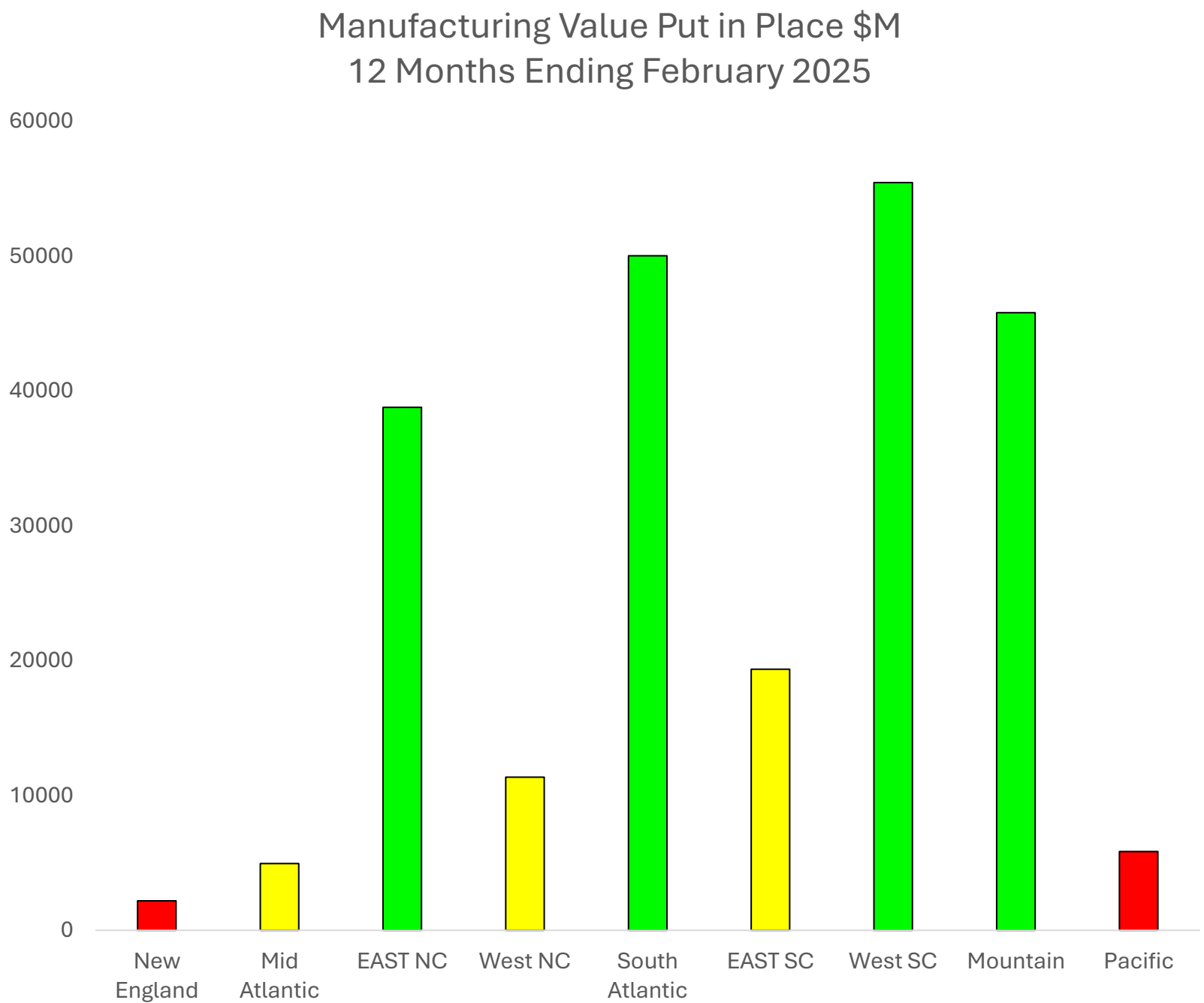
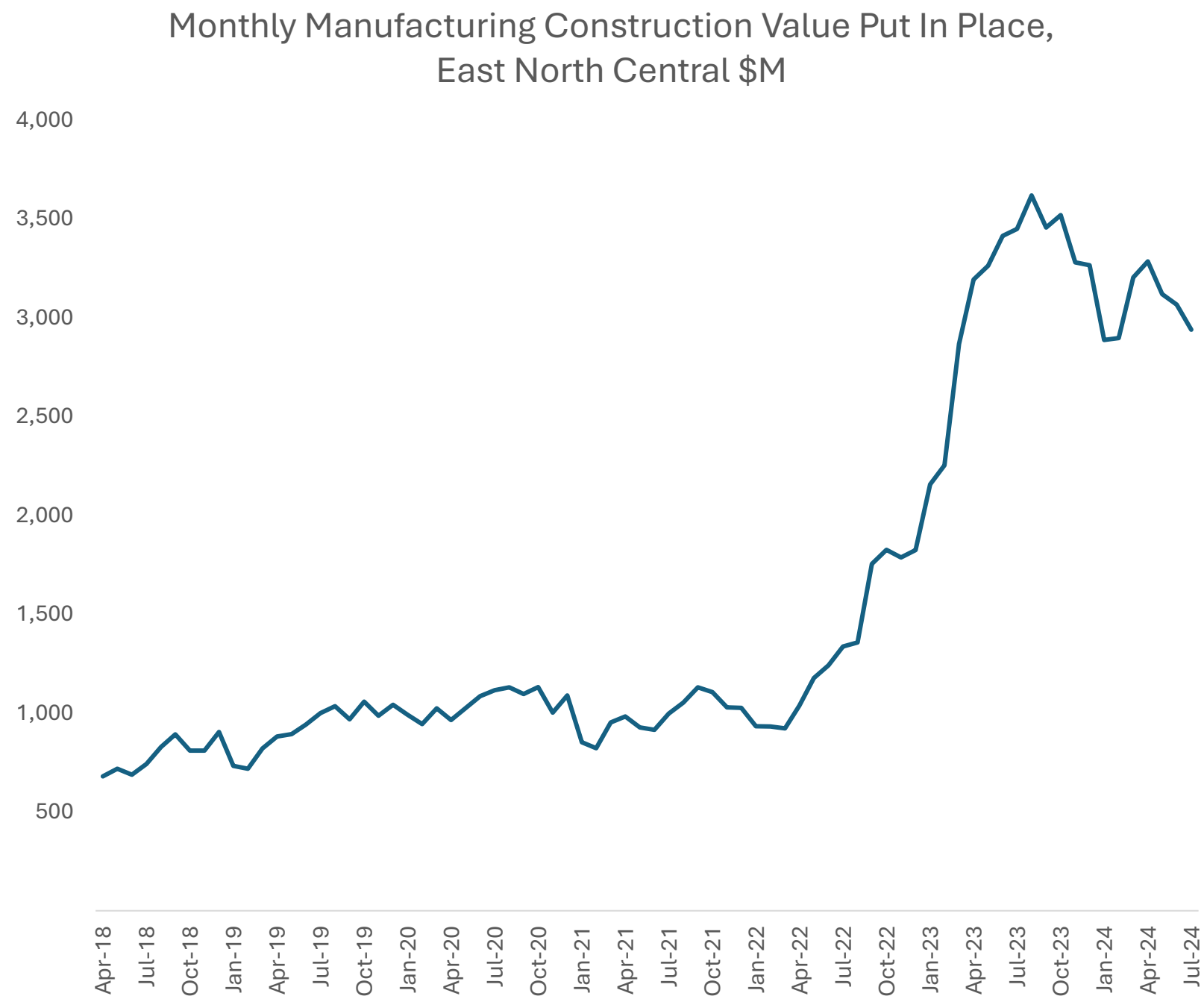
More than Double Pre-Pandemic Levels



Foreign Direct Investment Dropped After 2021



Substantial Variance for Increase In Manufacturing Value Put In Place by Region



\$5+ Billion in Manufacturing Investment In the Pipeline for Wisconsin: A Non-exhaustive List

Foreign Direct Investment

FOOD: Kikkoman Foods’ \$800 million expansion in Jefferson and Walworth.

FOOD: Nestle Purina’s \$195 million expansion in Jefferson.

CHEMICALS: FUJIFILM Cellular Dynamic’s \$140 million in Madison.

ELECTRICAL EQUIPMENT: ABB’s \$78 million investment in New Berlin.

PAPER. Ashlstrom Acquires Pixelle Specialty Solutions, Stevens Point, \$600 million

MEDICAL SUPPLIES. Angelalign Technology, Oak Creek, \$50 million

Reshoring

CHEMICALS: Eli Lilly and Company \$3 Billion Investment in Kenosha.

Wisconsin, a state that is becoming a critical geography in Eli Lilly’s global manufacturing operations.”

Stay Home

PRIMARY METALS: A.Y. McDonald’s \$340 million construction in Dickeyville and Kieler.

CHEMICALS: Charter Next Generation’s \$270 million expansion in Milton.

FOOD: Sartori Cheese’s \$60 million expansion in Plymouth and Antigo.

PETROLEUM PRODUCTS: Aztalan Bio LLC’s \$45 million investment in Johnson Creek

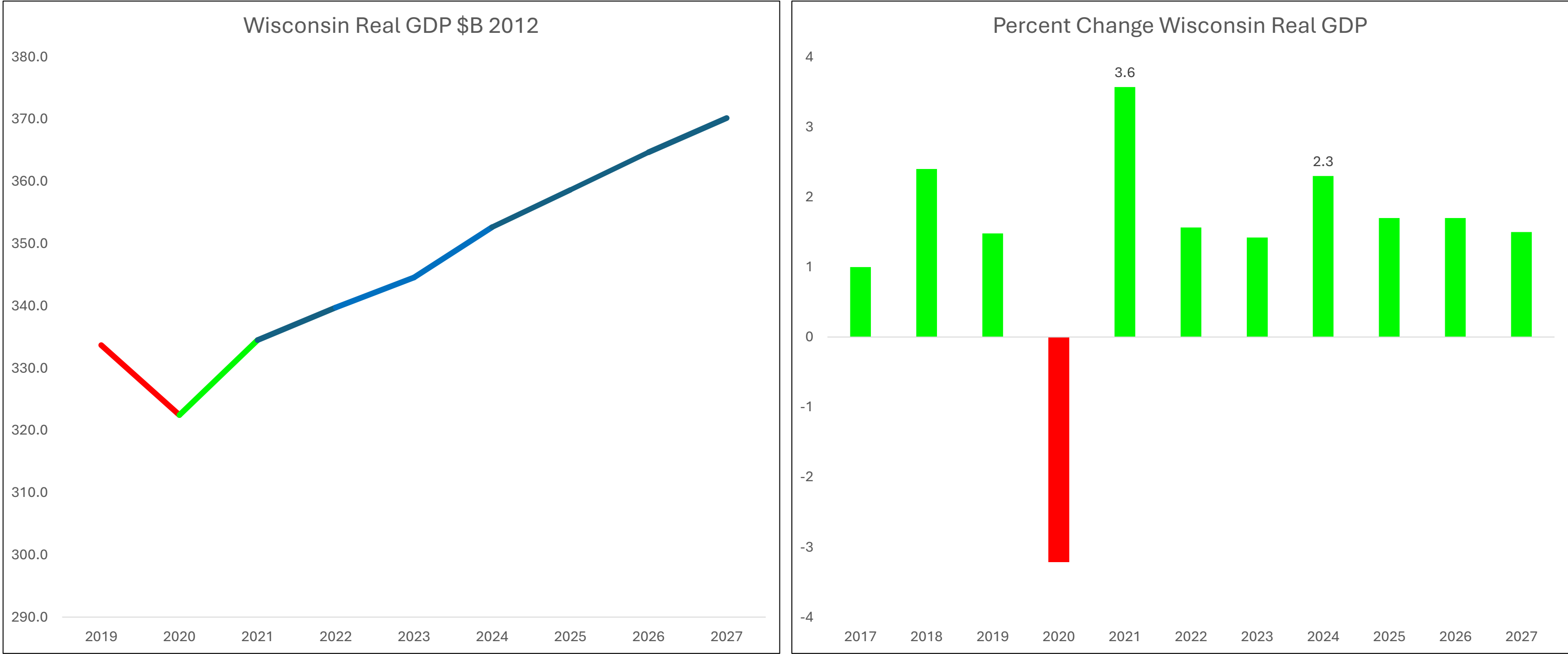
HVAC. XeteX, New Factory, Holmen WI, 144,00 Square Feet Factory

Wisconsin Outlook

<https://www.revenue.wi.gov/Pages/Report/WI-Economic-Outlook.aspx>

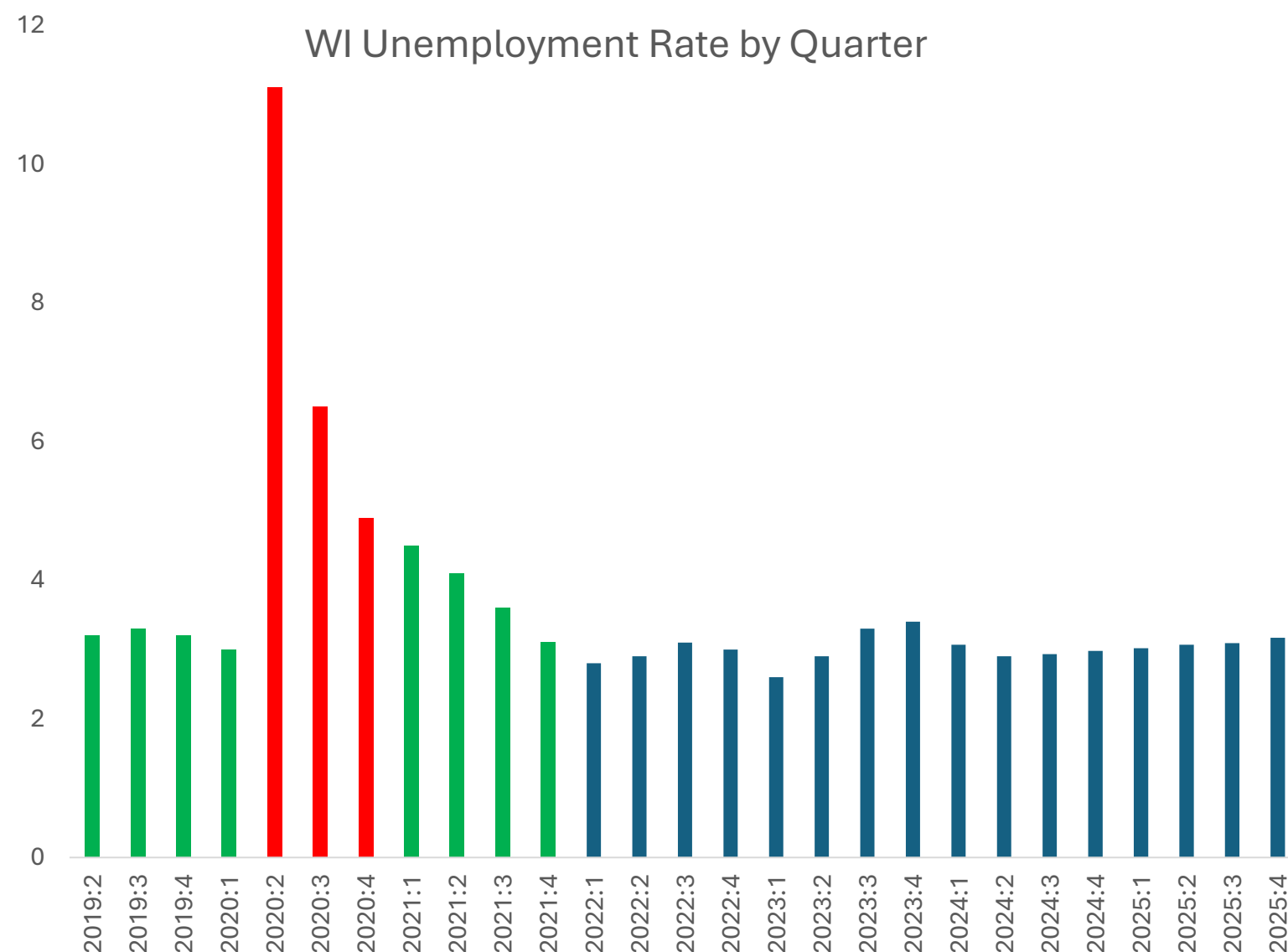
Wisconsin Outlook

Steady Growth Through 2027

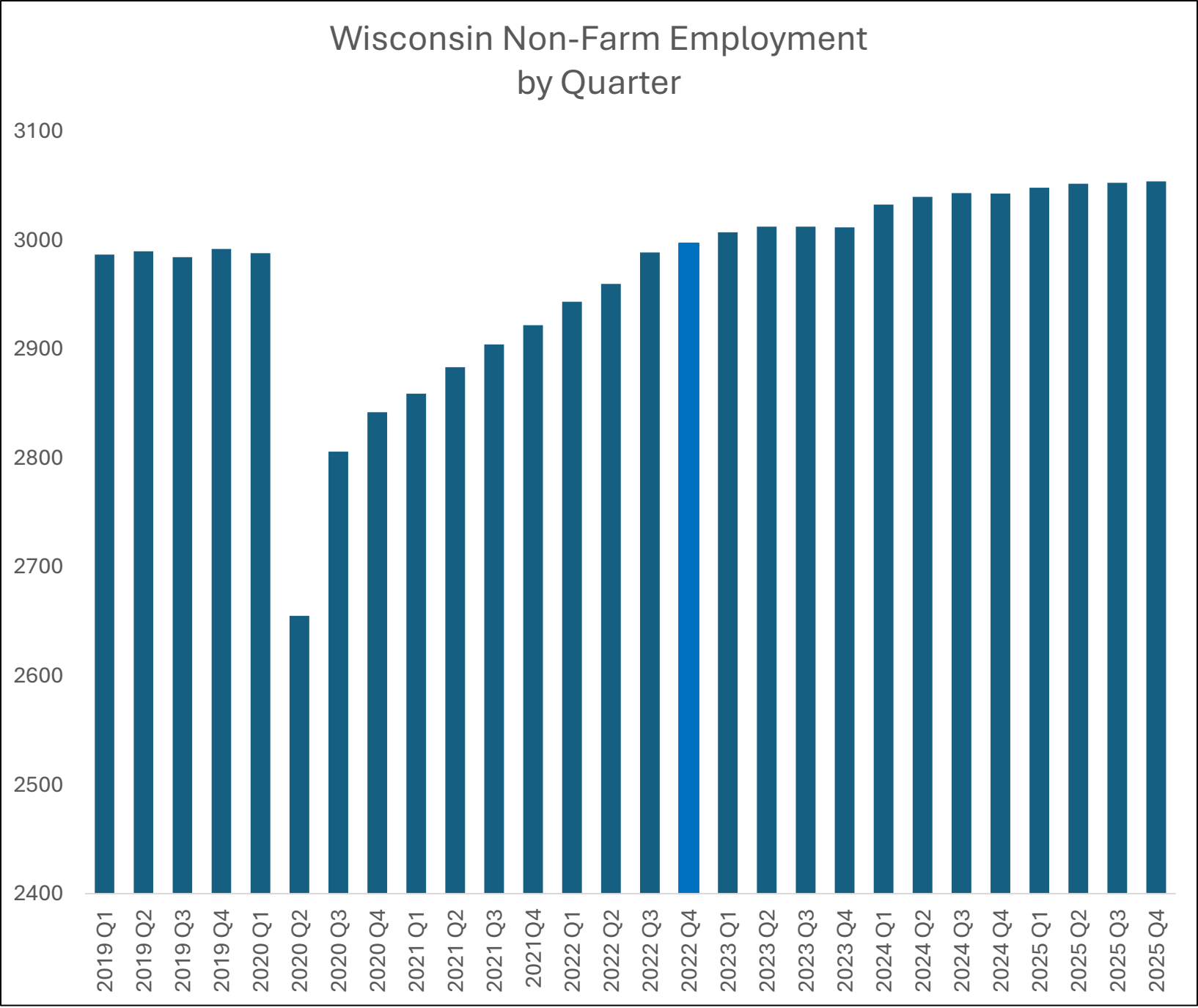


Wisconsin's *Economic Outlook*: Unemployment Rate

Will Stay at Near Record Lows Through 2027



Wisconsin Non-Farm Employment, Establishment Survey Expanding Through 2025



Wisconsin Economic Outlook: Personal Income

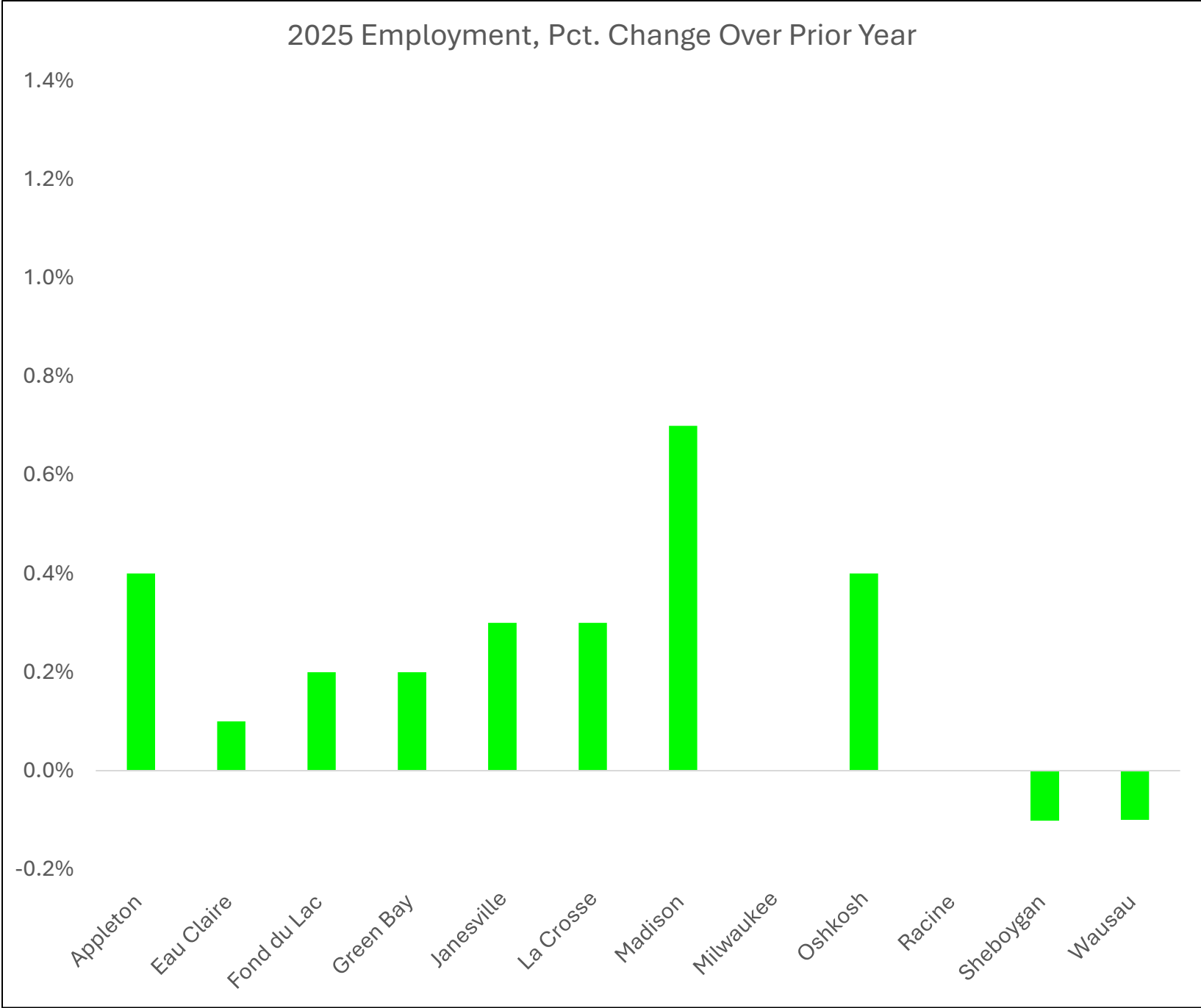
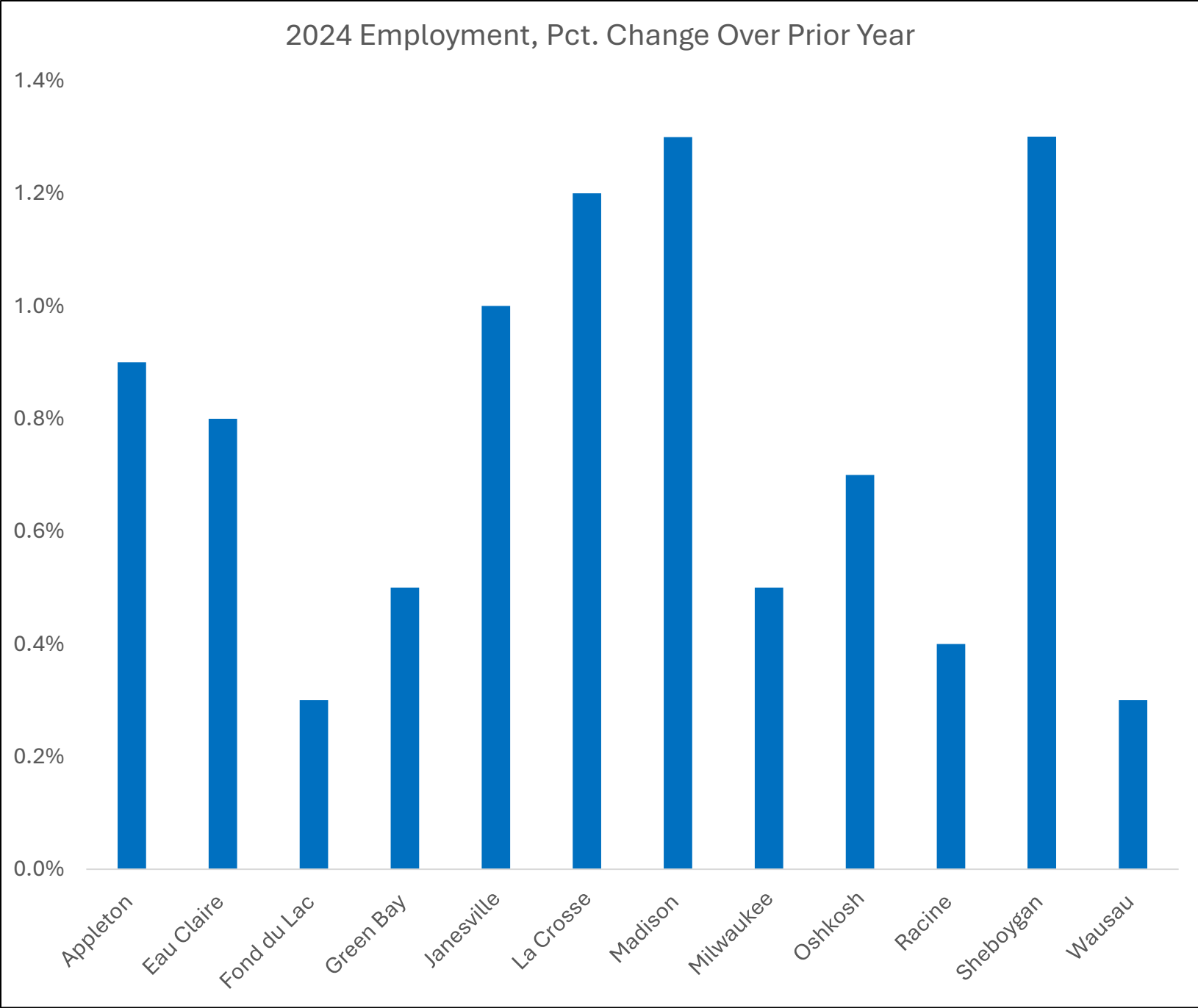
Wage Growth Eases After 2024



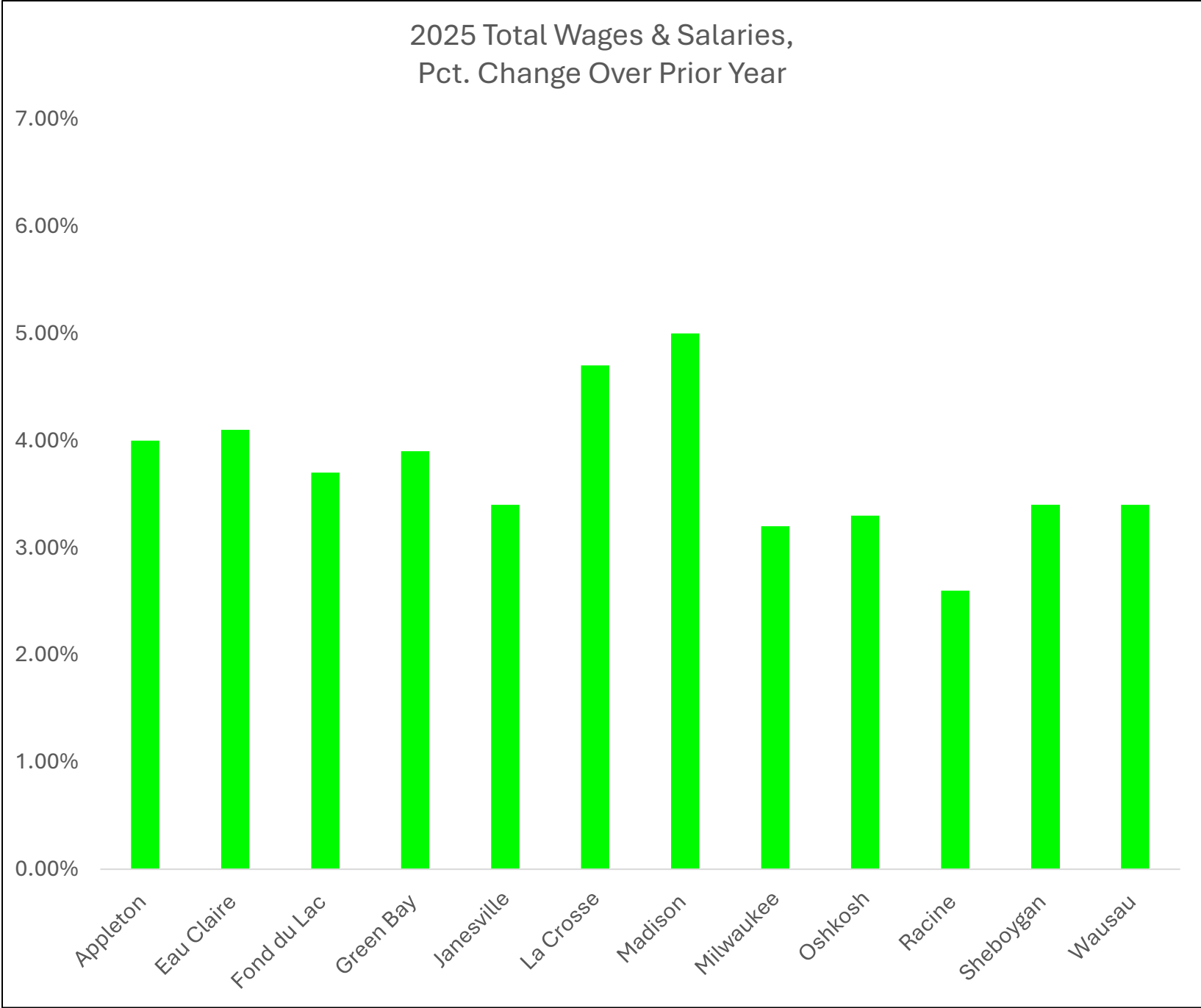
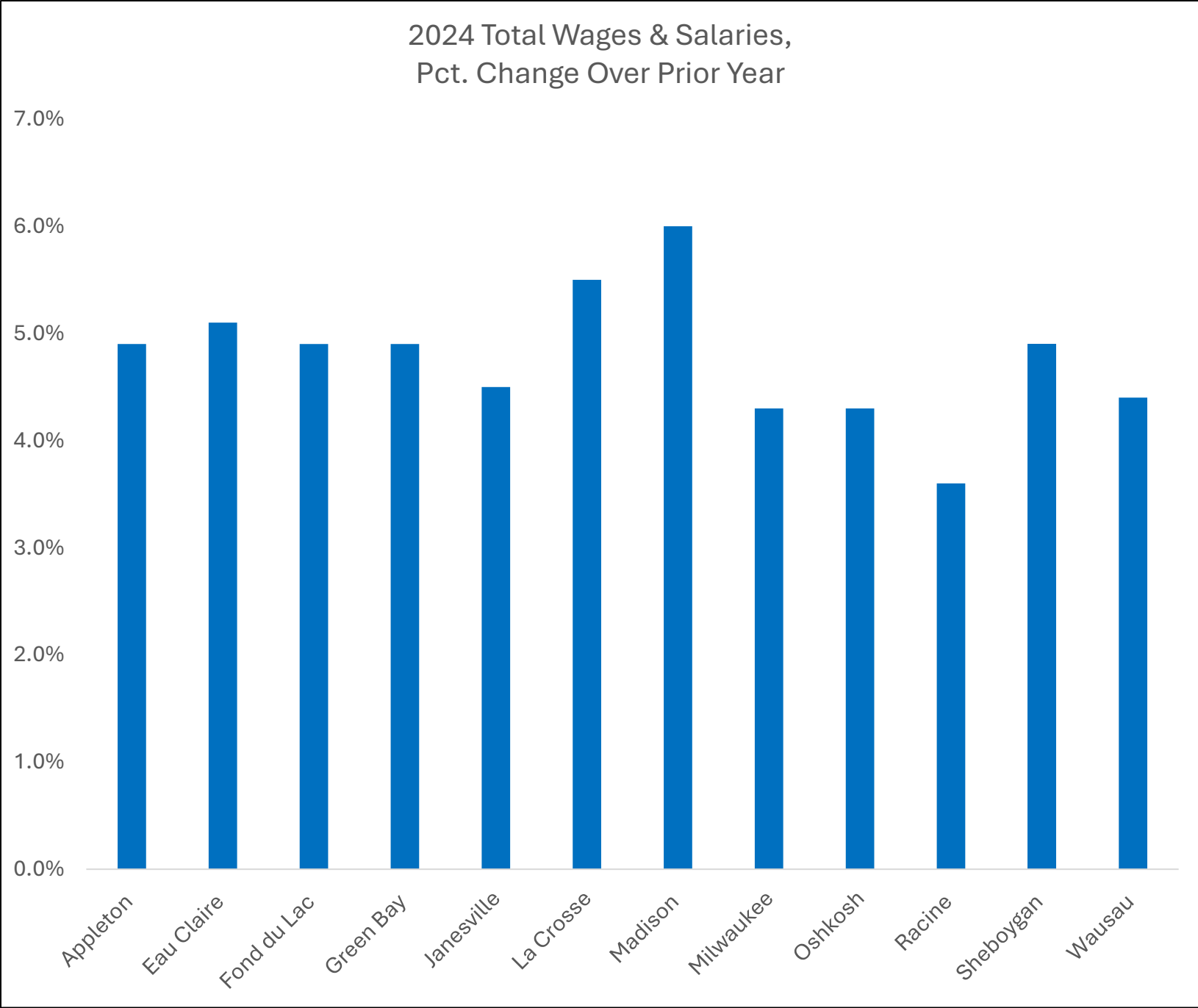
Regional Outlook

Wisconsin MSA's Employment Growth

Solid 2024 Moderates in 2025

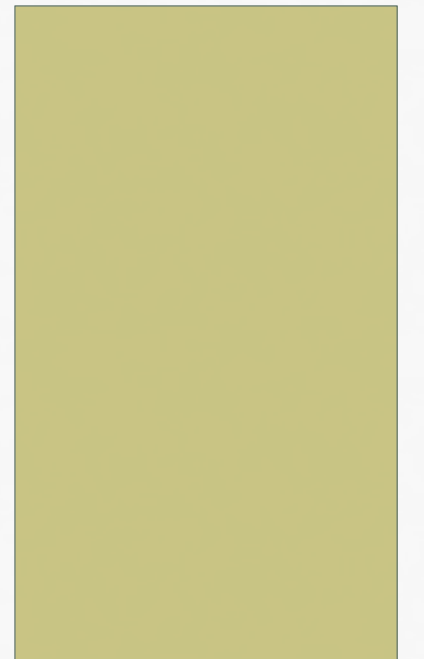


Wisconsin MSA's Wage and Salary Growth Eases Slightly in 2025



U.S. TRADE POLICY

MARC VON DER RUHR
ST. NORBERT COLLEGE



WHY TRADE MATTERS

- Trade's share of GDP has grown from 12% of GDP in the 1970's to 25% in 2023
- ~1 in 3 private sector jobs depend on trade
- U.S. farmers export 20% of their crops
- Trade is vital to U.S. foreign policy
 - Key to advancing UN Development Goals
 - Trade helps spread the rule of law
 - Trade corresponds to growth of democracy
 - Bilateral relations positively affected by FTAs

PUBLIC OPINION TO TRADE

- Despite economic theory and data supporting the benefits of trade, negative anecdotes can overwhelm public opinion
 - e.g., a small minority of the public think that NAFTA (USMCA) is good for the U.S.
- Trade is viewed as a zero-sum game
- Benefits of trade are spread out, costs are concentrated

HISTORY OF ECONOMIC THEORY

- Mercantilist School (Thomas Mun): we “win” by having a trade surplus and “lose” by having a deficit
- Classical School (Adam Smith): saw mutually beneficial trade based on absolute advantage (producing at a lower absolute cost)
- Ricardian School (David Ricardo): saw trade mutually beneficial based on comparative advantage, producing at a lower relative cost (or opportunity cost)

IF WE SPECIALIZE AND TRADE

- Trade is **not** a zero-sum game!
- We can **consume more** than what we could under the condition of no trade (autarky).
- Consumers benefit from **increased competition**
- Consumers may choose from a **wider variety** of goods
- We **specialize and trade** in our everyday lives (do any of our families produce everything they consume?)...
- ...so why is it controversial?

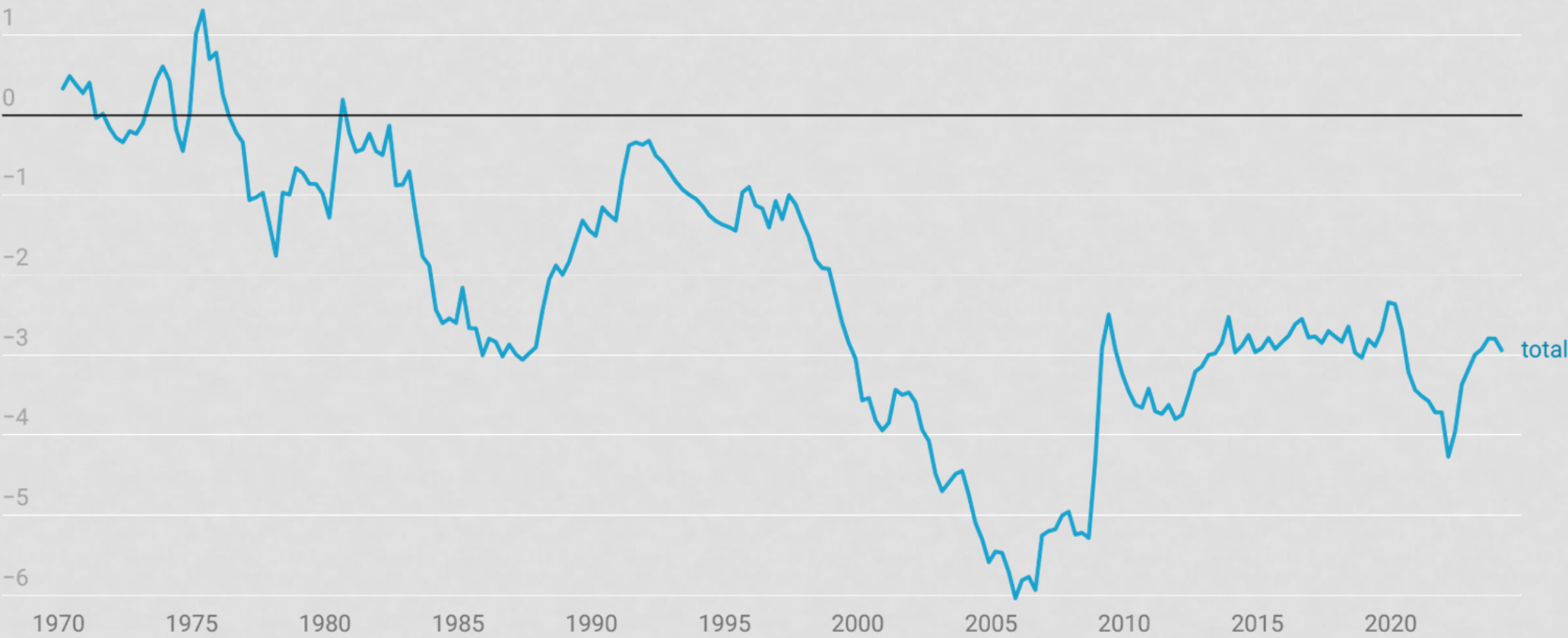
DYNAMIC NATURE OF OUR MARKETPLACE

- 100 years ago, 40% of labor force was in agriculture
- Now, less than 2% is
- This implies that technological progress caused many farmers to become unemployed
- Our labor markets are incredibly fluid
- U.S. unemployment rate in March was 4.2%
- In WI is was 3.2%

THE US HAS CONSISTENTLY RUN TRADE DEFICITS

US Net Exports of Goods & Services

as a percent of GDP | net exports = exports - imports

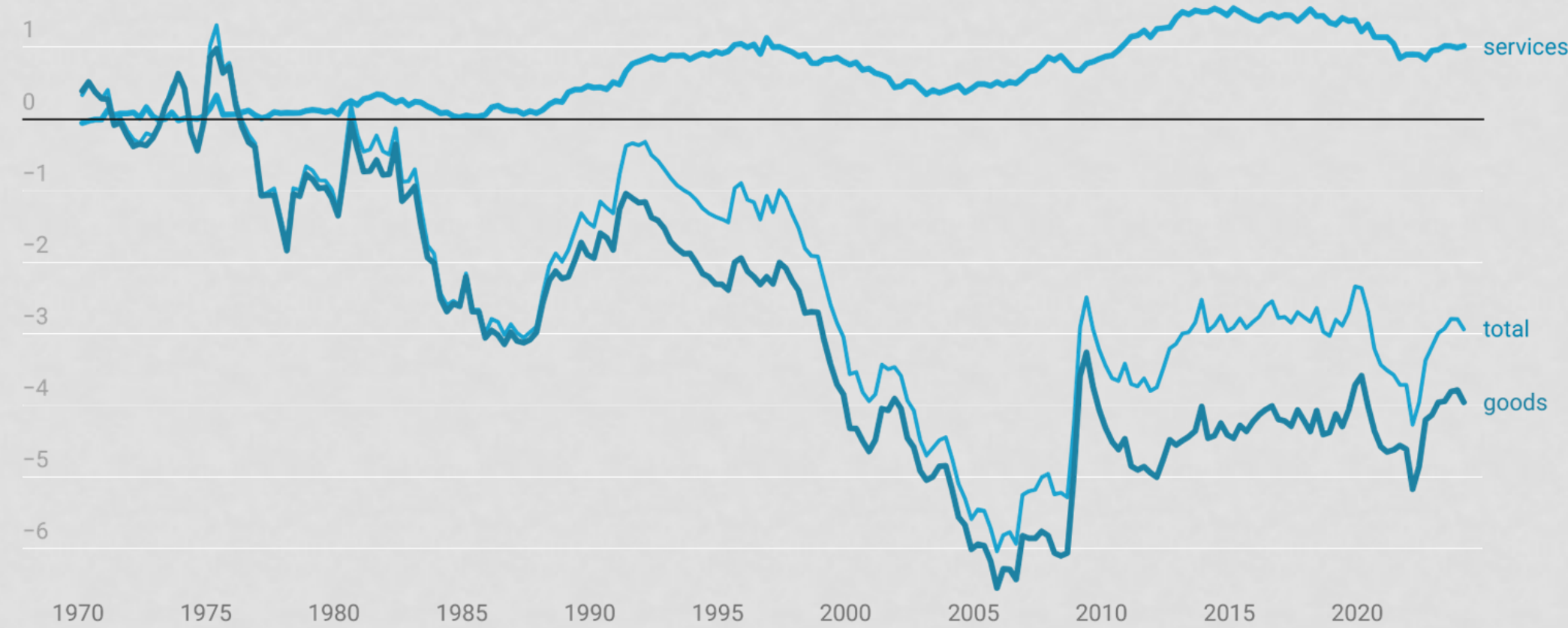


Source: BEA

HOWEVER, THESE ARE REALLY DRIVEN BY GOODS, WHILE THE US
RUNS TRADE SURPLUS IN SERVICES

US Net Exports of Goods & Services

as a percent of GDP | net exports = exports - imports



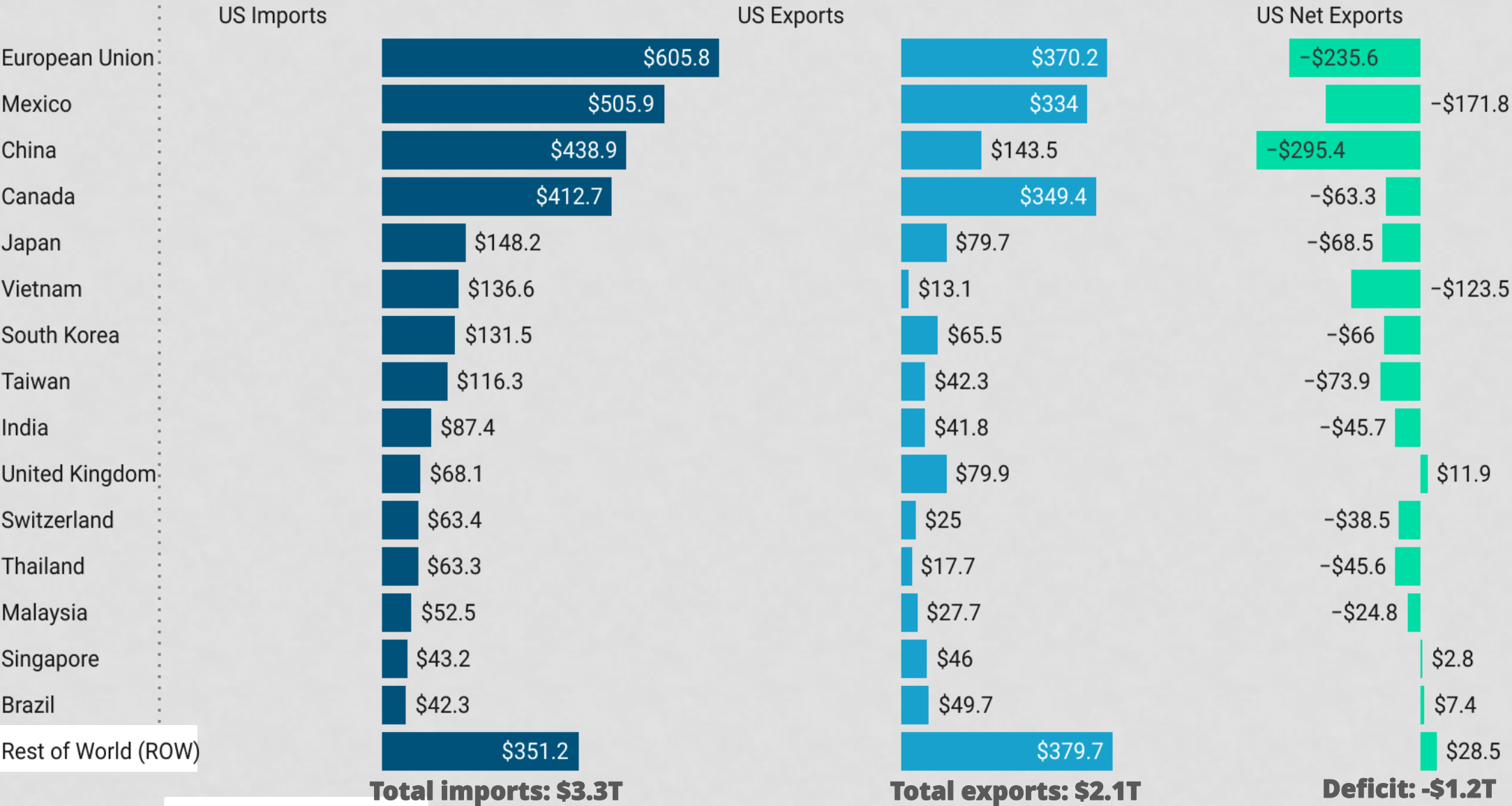
Source: BEA

US TRADE: TOP 15 TRADE PARTNERS VS. REST OF WORLD

(BY IMPORTS IN \$)

US Trade Picture

2024 Trade in Goods Excluding Services | \$ Billions



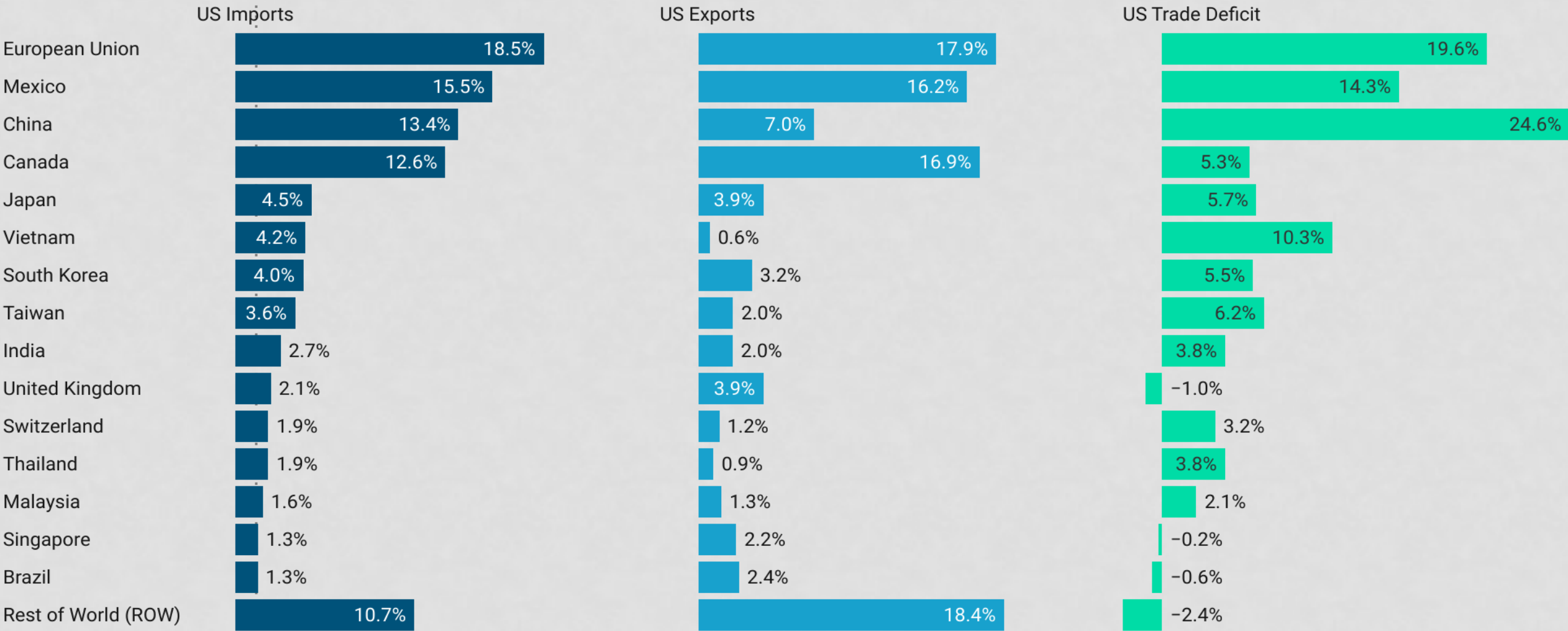
Source: US Census

US TRADE: TOP 15 TRADE PARTNERS VS. REST OF WORLD

(BY IMPORTS IN %)

US Trade Picture

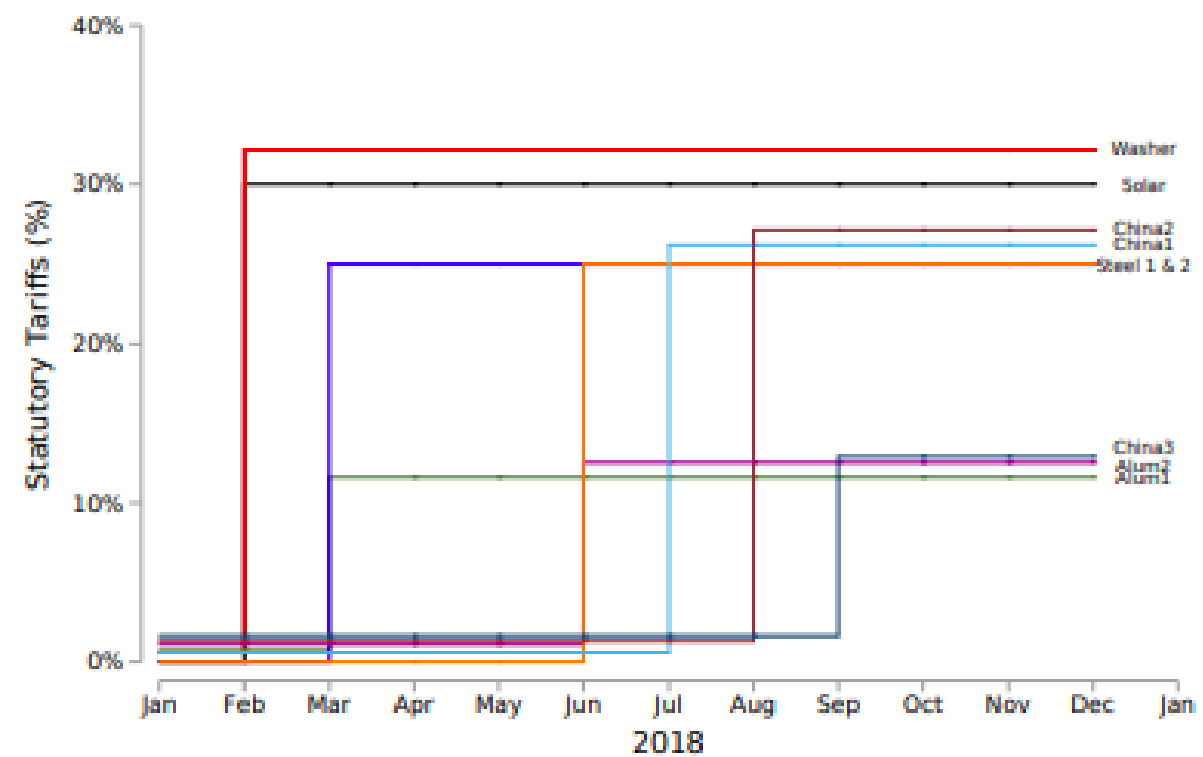
2024 Trade in Goods Excluding Services | percent of total



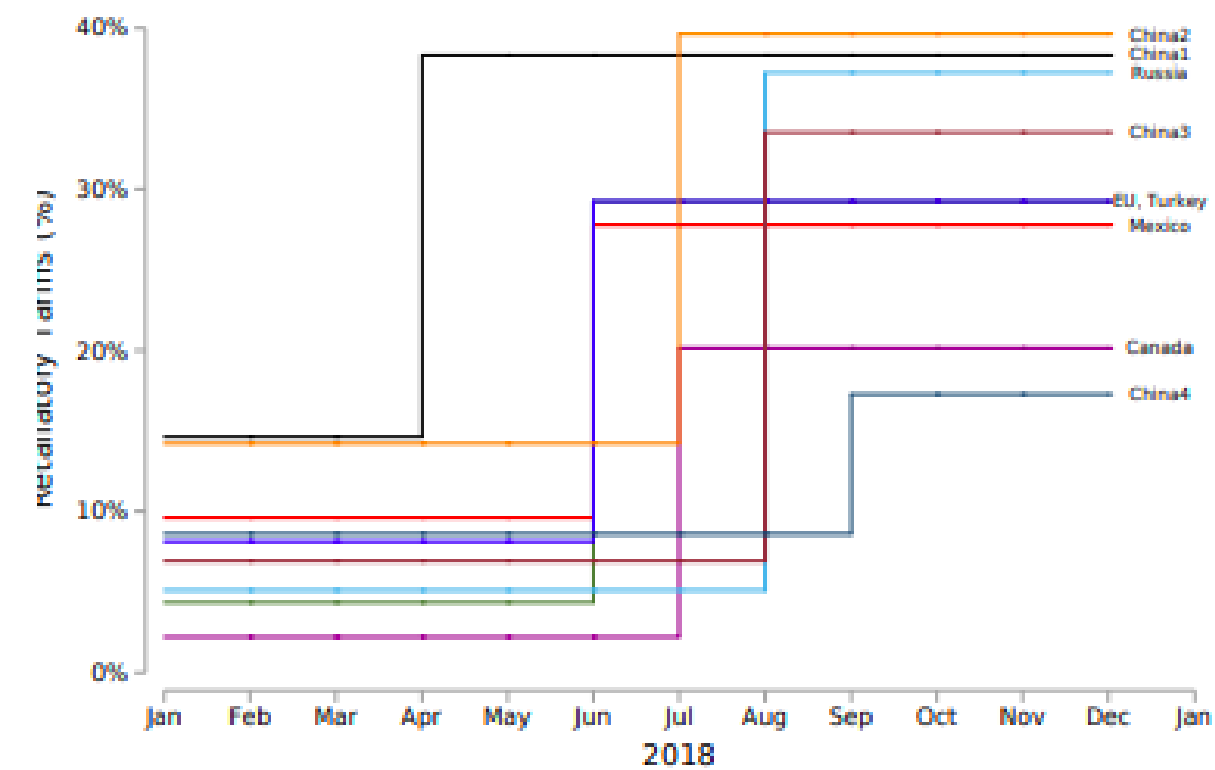
* Trade deficit percentages indicate percentage of the deficit (which is negative), thus positive numbers contribute to the deficit (i.e. US trade deficit with the country), while negative numbers reduce the deficit (i.e. US trade surplus with the country).

TARIFF IMPACTS: A CASE STUDY | RETALIATION

Panel A: Tariffs on U.S. Imports



Panel B: Retaliatory Tariffs on U.S. Exports

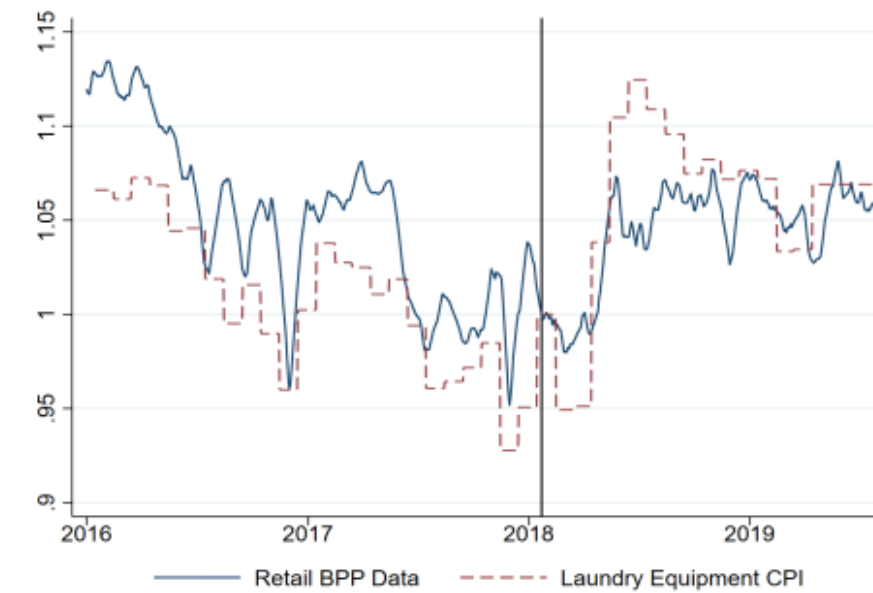


Source: Fajgelbaum et. al (2019), NBER Working Paper

TARIFF IMPACTS: A CASE STUDY

Washing Machines

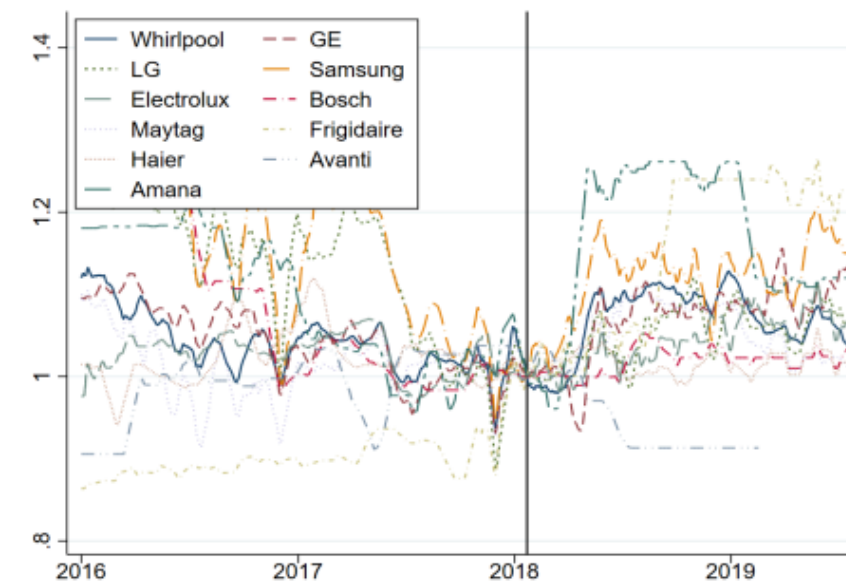
Are tariffs
passed
through to
the
consumer?



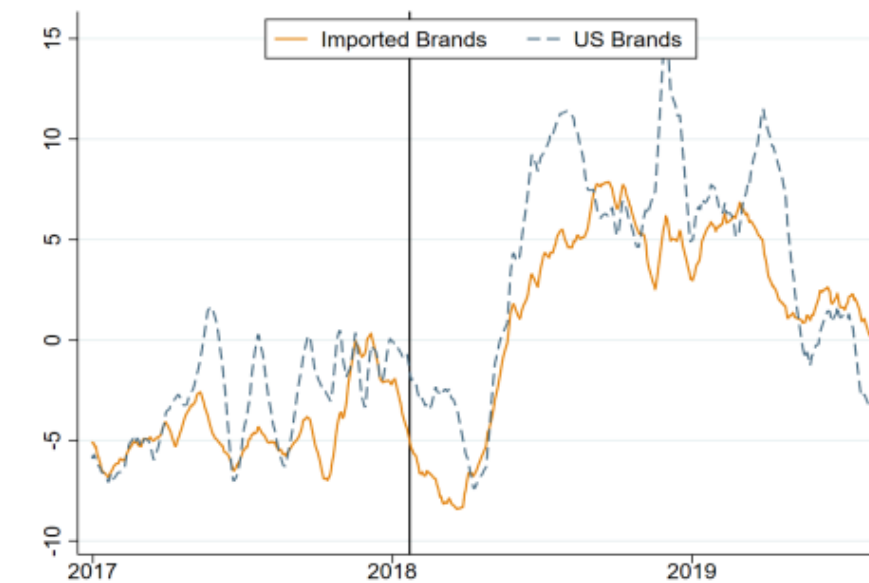
(a) Price Indices



(b) Inflation Rates



(a) Price Indices



(b) Inflation Rates

Source: Cavallo et. al. (2019)

INTERNATIONAL TRADE AND WI

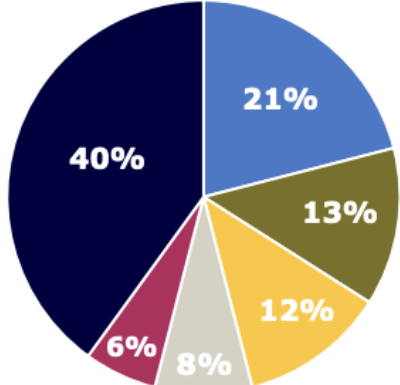
- International trade (including exports and imports) support 687,700 (~20%) of WI jobs
- Imports lower prices and increase choices for WI companies and families
- Free Trade Agreements (FTAs) promote exports and economic growth in WI
- Foreign owned companies invest in WI and employ 136,000 workers in WI
- 95% of the world's population and 80% of the purchasing power reside outside of the U.S. Future economic growth depends on open markets abroad

TRADE AND WI (CONTINUED)

- Trade related growth has grown 5-fold over general employment recently
- Export industries pay ~ 16% more than less export intensive industries
- 86% of WI exporters are small and medium sized businesses
- Top export markets are Canada, Mexico, U.K., Germany, China, and Japan
- ~ 56% of imports are intermediate goods, which allow WI firms to be cost competitive in the marketplace
- WI is the U.S.'s 13th largest exporter of agricultural products

WISCONSIN IMPORTED \$38.8 BILLION OF GOODS IN 2024

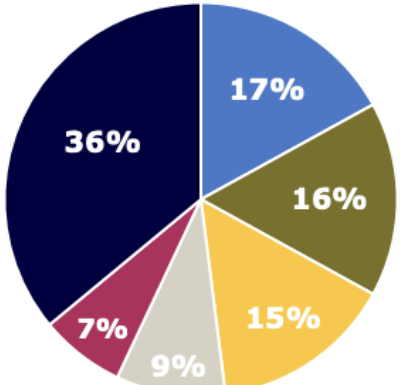
WISCONSIN'S TOP IMPORT PRODUCTS: 2024



PERCENTAGE 2024 WI TRADE

CATEGORY	2023	2024	%Δ '23-'24	2014	%Δ '14-'24
Industrial Machinery	\$8,072,710,900	\$8,213,378,998	1.74%	\$4,234,180,191	93.98%
Electrical Machinery	\$4,788,328,668	\$4,862,055,264	1.54%	\$2,754,934,730	76.49%
Pharmaceuticals	\$5,482,988,745	\$4,692,410,277	-14.42%	\$360,752,219	1200.73%
Vehicles & Parts	\$2,360,310,737	\$3,091,912,274	31.00%	\$1,206,753,865	156.22%
Med./Sci. Instruments	\$3,942,596,360	\$2,411,303,778	-38.84%	\$1,744,737,107	38.20%
Other	\$14,613,152,102	\$15,587,947,021	6.67%	\$13,261,715,146	17.54%
Total	\$39,260,087,512	\$38,859,007,612	-1.02%	\$23,563,073,258	64.91%

WISCONSIN'S TOP IMPORT SOURCES: 2024



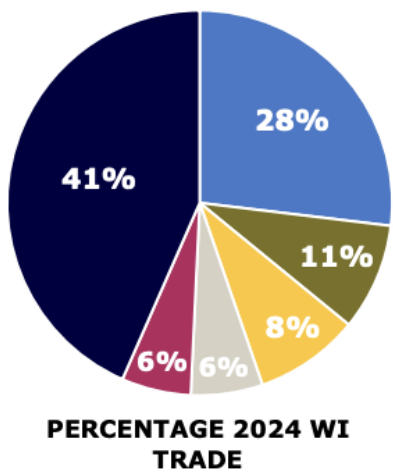
PERCENTAGE 2024 WI TRADE

COUNTRY	2023	2024	%Δ '23-'24	2014	%Δ '14-'24
China	\$5,842,524,380	\$6,416,570,081	9.83%	\$6,071,435,031	5.68%
Canada	\$6,254,065,467	\$6,251,308,546	-0.04%	\$4,521,629,634	38.25%
Mexico	\$6,021,166,474	\$5,935,400,228	-1.42%	\$2,555,379,777	132.27%
Ireland	\$3,617,716,564	\$3,392,618,714	-6.22%	\$68,358,430	4862.99%
Vietnam	\$2,225,832,040	\$2,683,075,978	20.54%	\$896,340,512	199.34%
Other	\$15,298,782,587	\$14,180,034,065	-7.31%	\$9,449,929,874	50.05%
Total	\$39,260,087,512	\$38,859,007,612	-1.02%	\$23,563,073,258	64.91%

Source: wedc

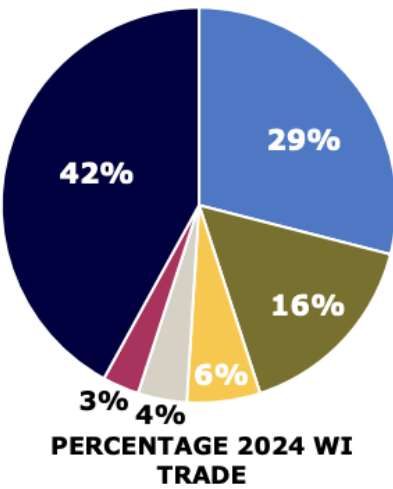
WISCONSIN EXPORTED \$27.5 BILLION IN GOODS IN 2024

WISCONSIN'S TOP EXPORT PRODUCTS: 2024



PRODUCT	2023	2024	%Δ '23-'24	2014	%Δ '14-'24
Industrial Machinery	\$7,625,700,993	\$7,757,954,449	1.73%	\$6,377,696,727	21.64%
Electrical Machinery	\$2,958,539,864	\$3,100,228,334	4.79%	\$2,137,572,423	45.04%
Med./Sci. Instruments	\$2,527,325,829	\$2,247,216,001	-11.08%	\$2,163,051,885	3.89%
Vehicles & Parts	\$1,876,783,986	\$1,727,960,692	-7.93%	\$1,854,824,043	-6.84%
Plastic Products	\$1,613,834,403	\$1,586,332,256	-1.70%	\$1,035,650,313	53.17%
Other Products	\$11,446,315,037	\$11,093,858,494	-3.08%	\$9,856,775,508	12.55%
Total	\$28,048,500,112	\$27,513,550,226	-1.91%	\$23,425,570,899	17.45%

WISCONSIN'S TOP EXPORT DESTINATIONS: 2024



COUNTRY	2023	2024	%Δ '23-'24	2014	%Δ '14-'24
Canada	\$8,479,840,967	\$7,940,724,350	-6.36%	\$7,952,797,101	-0.15%
Mexico	\$4,325,683,184	\$4,358,194,772	0.75%	\$2,836,184,586	53.66%
China	\$1,492,888,842	\$1,554,988,950	4.16%	\$1,561,507,370	-0.42%
Germany	\$959,356,981	\$1,137,783,041	18.60%	\$731,471,743	55.55%
Australia	\$812,218,574	\$806,959,505	-0.65%	\$604,909,154	33.40%
Other Countries	\$11,978,511,564	\$11,714,899,608	-2.20%	\$9,738,700,945	20.29%
Total	\$28,048,500,112	\$27,513,550,226	-1.91%	\$23,425,570,899	17.45%

Source: wedc

FREE TRADE AGREEMENTS

- Help to lower trade barriers to foreign markets
- > 50% of WI exports go to nations in FTAs
- WI exports to Canada and Mexico grew by more than 270% since NAFTA went into effect

FDI AND WI

- FDI in WI continues to grow
- Foreign owned companies employ more than 136,000 workers in WI
- The jobs are mostly in manufacturing, but also in wholesale trade, finance and insurance, retail trade, as well as “other industries”

SOME CONCLUDING REMARKS ON ECONOMIC THEORY

- iPhone
 - Though imported from China, its components and most of its value come from other nations. Only \$8 of its \$699 value come from China
- Vertical specialization explains this
 - We fragment production processes across the globe
 - Nations don't really specialize in final goods; rather in intermediate inputs
- This impacts accuracy of trade deficit (surplus) statistics

INTERNATIONAL TRADE POLICY IS DRIVEN BY MORE THAN ECONOMICS

- Elected officials should try to represent constituent's preferences.
 - Do most people understand the economics behind international trade?
 - Are there common misunderstandings?

This alone creates the potential for misguided economic policy.

COMMON MISUNDERSTANDINGS

- Trade restrictions preserve U.S. jobs
- We are exporting U.S. manufacturing jobs
- Multinational Corporations only invest in low-wage nations at the expense of U.S. workers
- Trade undermines U.S. national autonomy

MORE ON POLICY SETTING

- Policy represents a political interpretation of what good economic policy ought to be
- Policy making involves reconciling the trade-offs among a variety of economic and political goals
- To reach consensus on what “good policy” is, the executive & legislative branches, along with the private sector must sort through various (and often conflicting) viewpoints, pure self interest, domestic goals, and foreign goals.
- There is no single lens used to judge policy

POLITICAL CONCLUSION

- There are so many stakeholders that actual policy may diverge quite a bit from pure economic theory and empirical understandings
- Also, it makes it impossible for government to craft trade policy in a vacuum...its implications are too far reaching

IMPACT ON LABOR MARKETS

- We are concerned about
 - losing jobs to import competition,
 - increased insecurity about jobs,
 - and lower wages due to foreign competition

TRADE PREFERENCES?

- Recent research suggests skeptics of free trade form their policy preferences as a function of:

Isolationism

Let's stay out of world affairs

Nationalism

Foreigners should be more like US

Ethnocentrism

Our group is harder working, less wasteful,
and more trustworthy

They are driven less by economics, more by a psychological view of the world.

CONCLUSION

- International trade is not a zero sum game
- The U.S. can be inconsistent in its policies
- Trade policy is the result of the collision of economics and politics
- Public perception of international trade is a bit 'confused'
- International regulation of trade ought to consider developing economies more
- International trade outcomes often do not reflect economic theory

Market Update

FRANK BARBARO
SENIOR VICE PRESIDENT, CAPITAL MARKETS

MAY 2025



RECENT RATE & FX MARKET HIGHLIGHTS



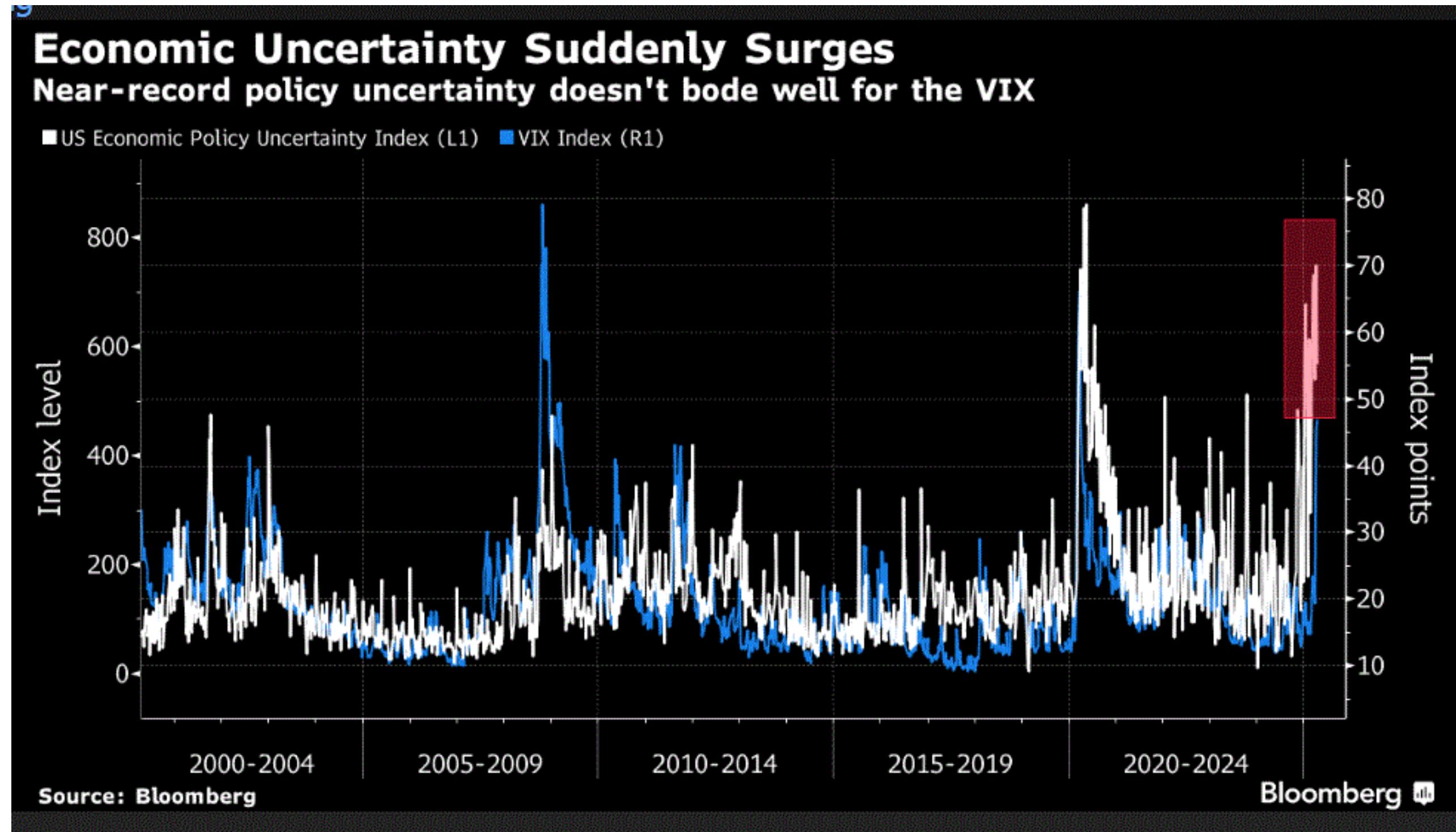
- Economic and policy uncertainty leads to continued high volatility
- Fed Outlook: Slower pace of rate cuts expected
- Yield curve steepens, especially on back end
- Wild swings in Treasury and swap rates
- US Dollar weakens against most currencies, then recovers

VOLATILITY CONTINUES



- In the past 24 trading days, we've had 12 days with *intraday* peak-to-trough moves of more than 10 basis points...
- Includes two moves > 20 basis points.
- Threats (?) to replace the Federal Reserve Chair if he doesn't cut rates quickly prompted a brief market panic and prompt walk-back.
- Meanwhile, markets are anticipating a slower pace of Fed rate cuts than a month ago.

INCREASED ECONOMIC UNCERTAINTY

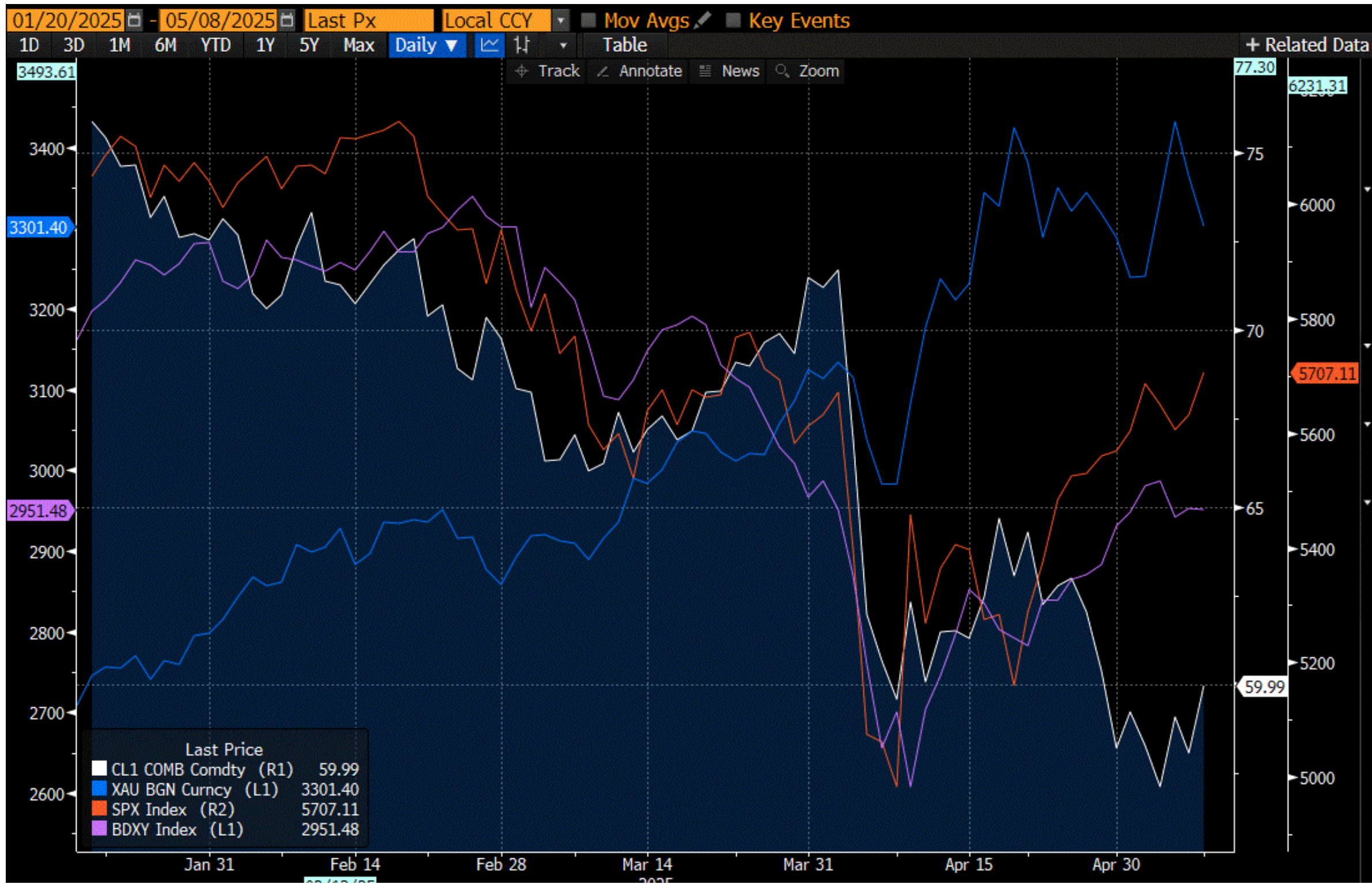


- The Baker, Bloom and Davis EPUI is a news-based measure.
- The VIX is the market estimate of expected S&P volatility.

HIGH VOLATILITY DUE TO POLICY UNCERTAINTY



LARGE MOVES IN ALL MARKETS SINCE INAGURATION



- Large swings in the stock market, oil, the US Dollar, and gold.

THREE DAYS IN THE LIFE OF A SWAP RATE

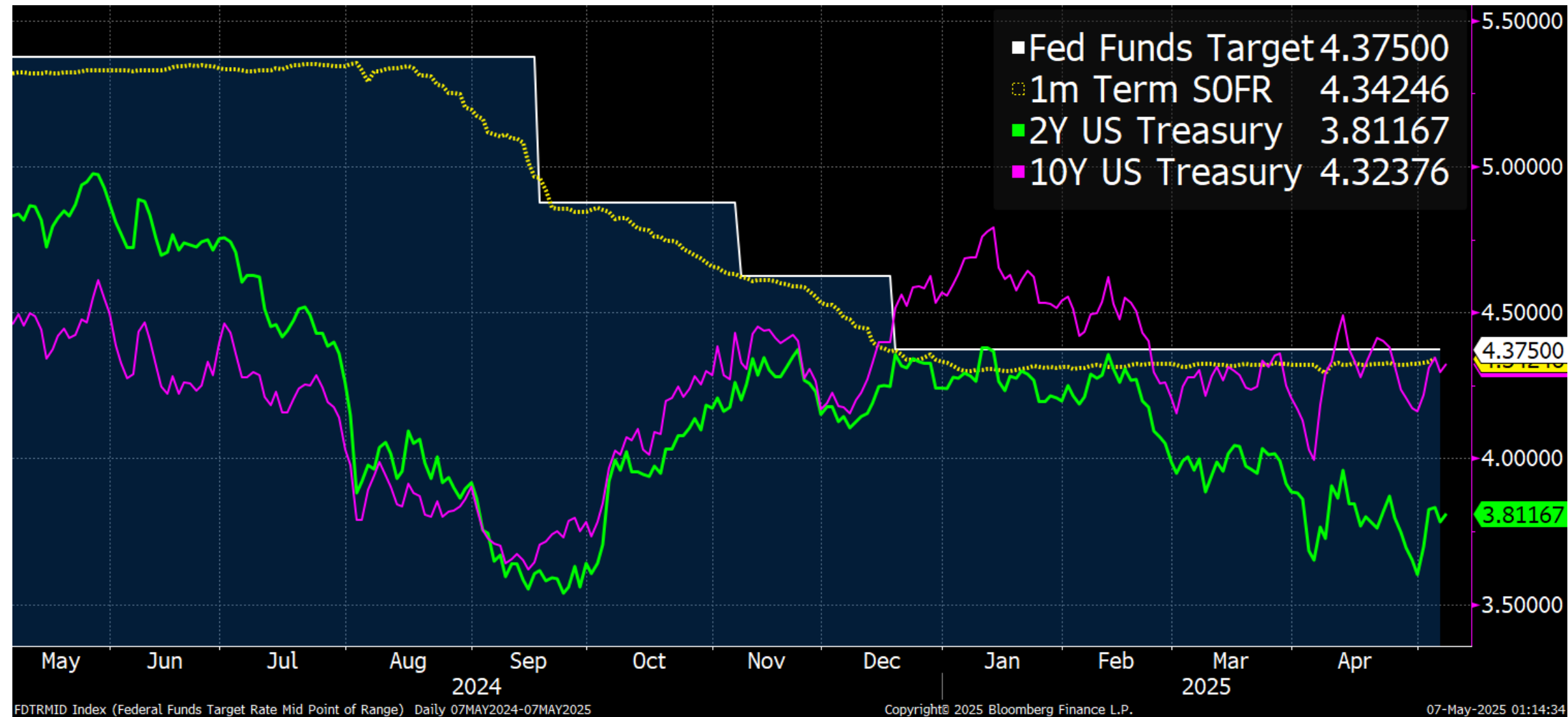


- On three days after “Liberation Day” the five-year swap rate saw a range of nearly 40bp.
- On April 7th alone, the top to bottom range was over 35bp

RATE BENCHMARKS, LAST 12 MONTHS

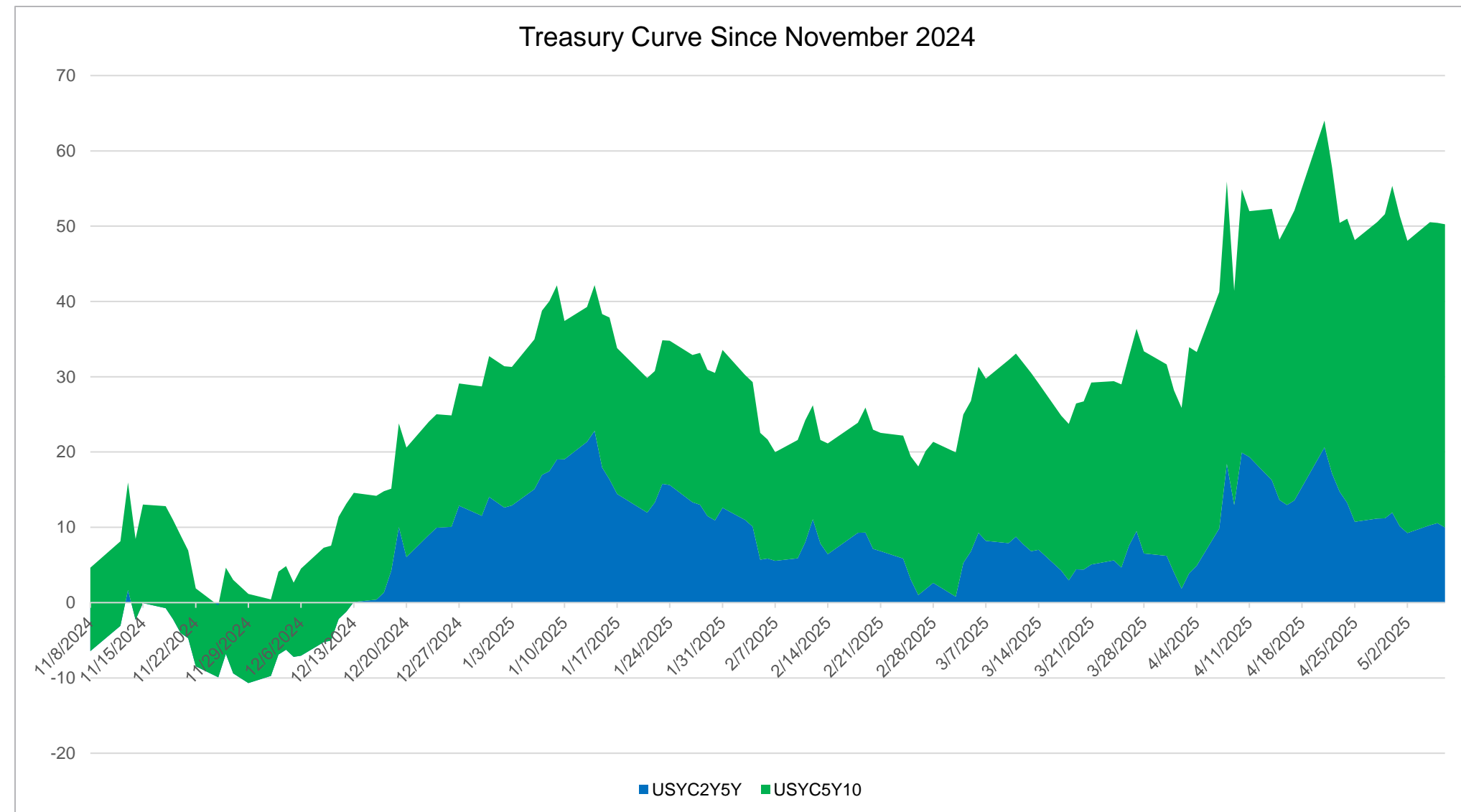


TREASURY YIELDS VS. FED FUNDS AND SOFR



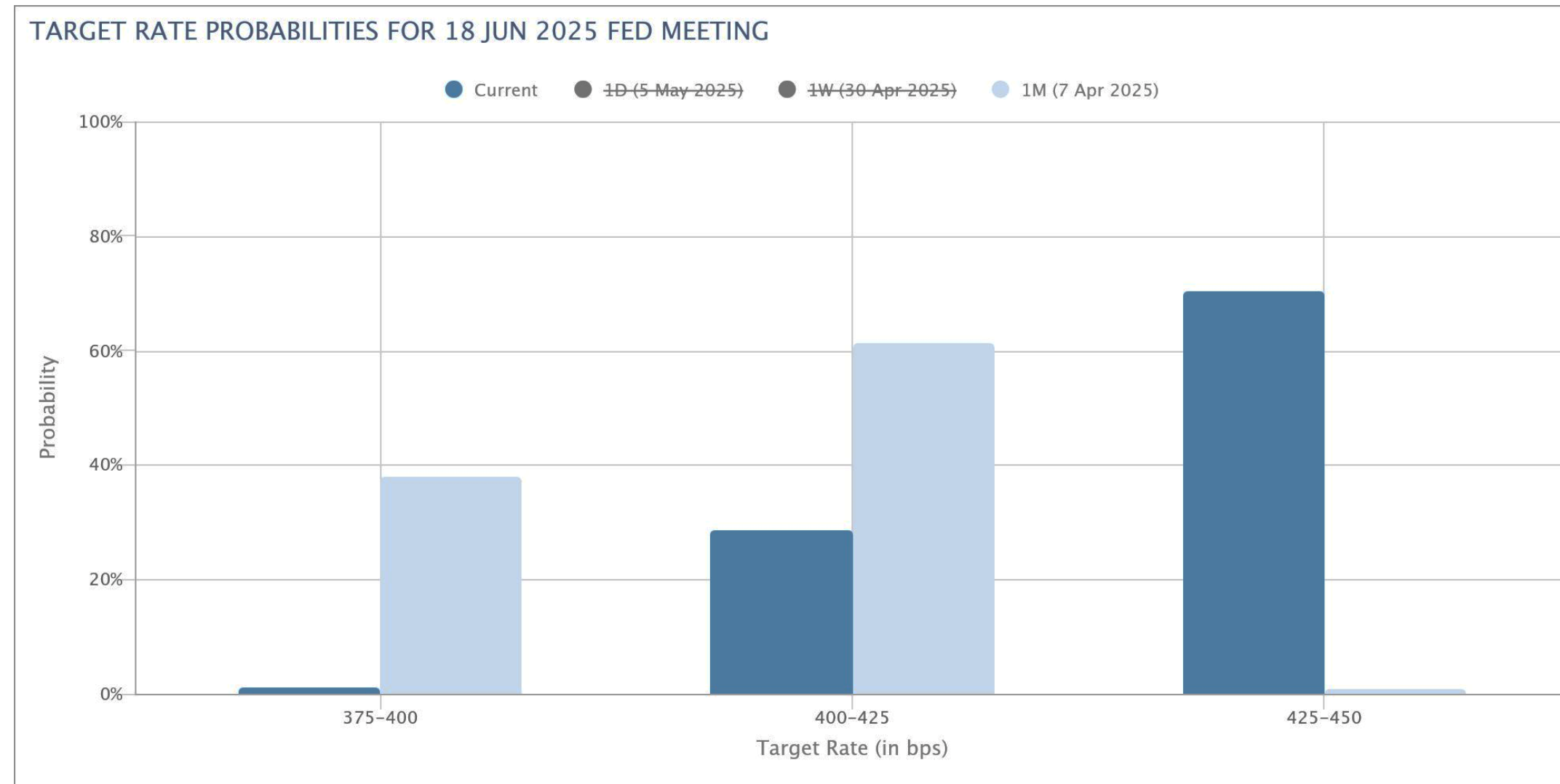
- 1m SOFR still stuck at 4.32% alongside Fed funds.
- Not much difference between Fed funds and 10-year Treasuries.
- 2-year yield (green) reflects expectations of a softening economy.

YIELD CURVE STEEPENS



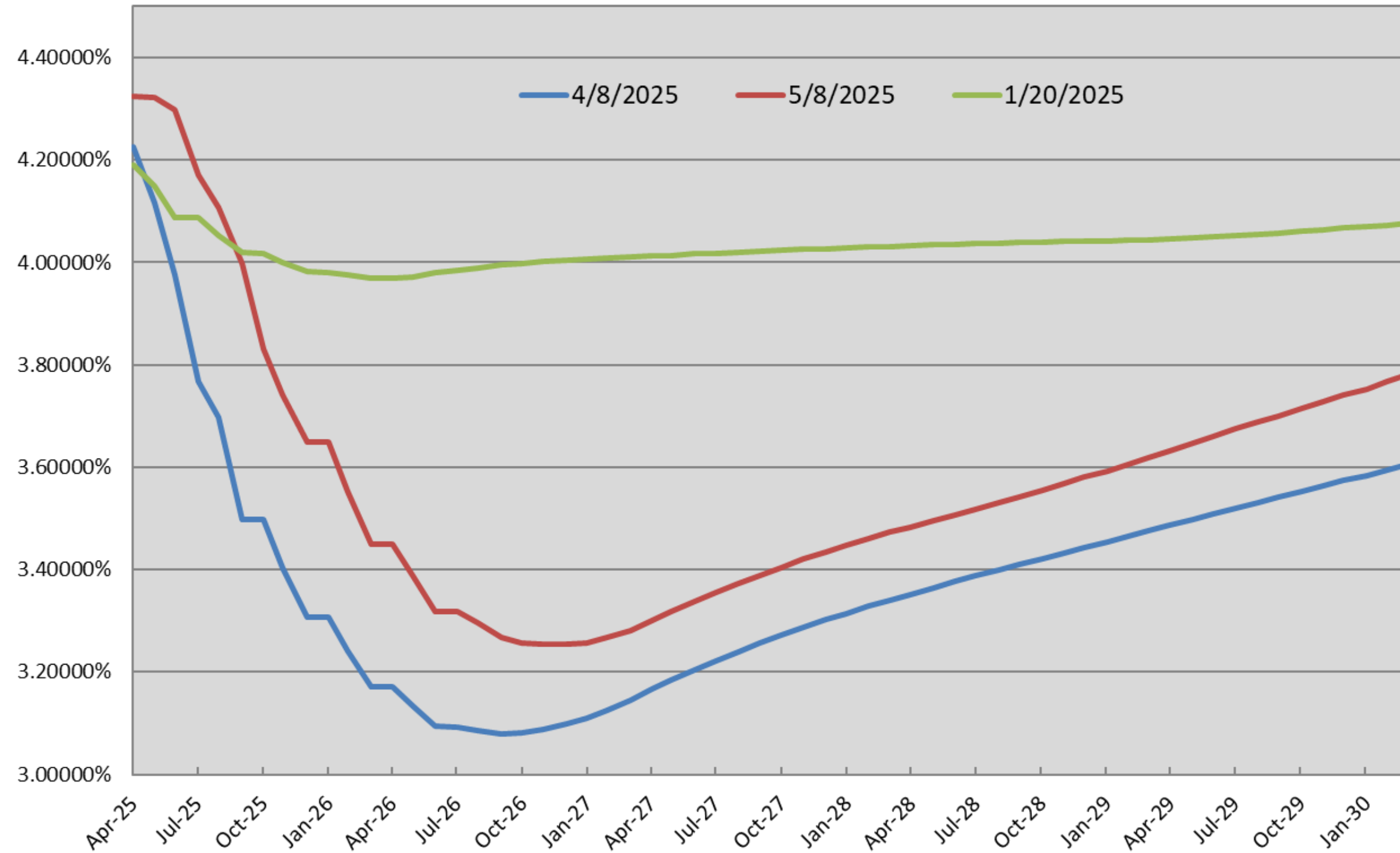
- The spread between 2- and 10-year yields has steepened by 60 bp since late 2024.
- Most of move has taken place on back end (green), reflecting softer demand for dollar-denominated assets and weaker “safe haven” trade.

FED OUTLOOK – JUNE RATE CUT UNLIKELY



- **No move at the May 7th FOMC meeting.**
- One month ago, futures markets were pricing in 99% probability of one or two rate cuts by July.
- Today, prices reflect a 70% chance rates will remain unchanged until July.

TERM SOFR FORWARD CURVE



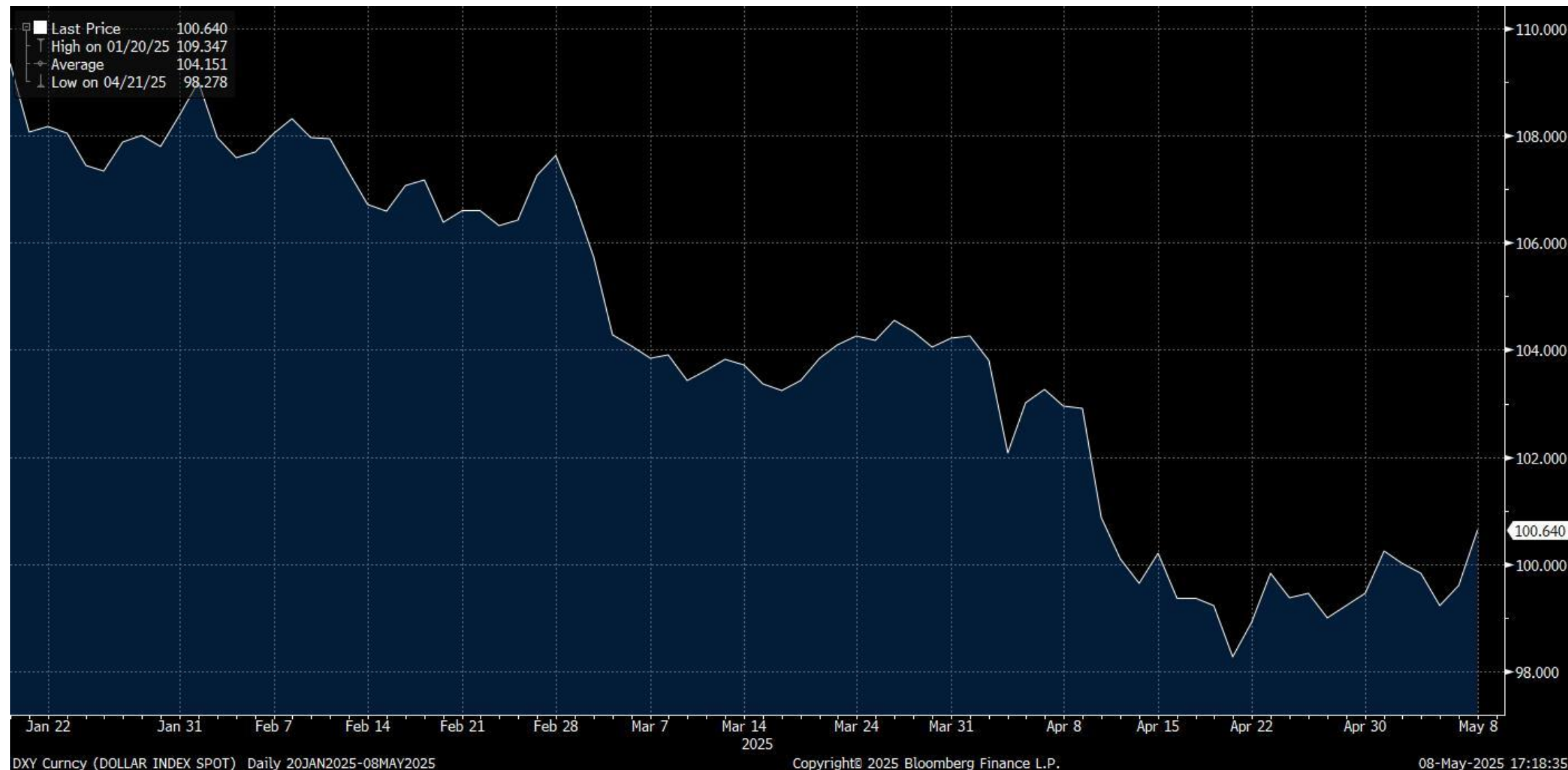
- Big shift in market's "forecast" of future floating rates since Inauguration, but fewer rate cuts expected than one month ago.

TARIFF BACKLASH EVIDENT



- China cut their interest rates to cushion their economy; US not expected to do the same yet.
- EU is prepared to take retaliatory measures, including tariffs on aircraft, industrial goods, and autos.
- Canada's Liberal Party overcame a 20-point pre-Trump deficit to win election.
- Japanese and German bonds have been beneficiaries of “safe haven” buying as demand for US debt comes under pressure.

USD WEAKNESS AND ELEVATED UNCERTAINTY



- The Bloomberg Dollar Spot Index tracks the performance of 10 leading currencies vs the US Dollar.
- Analyst forecasts for the USD Index vary by nearly 10% over the next year
 - Range: 98.40 to 107.75, according to a Reuters poll



- Hard economic data remains strong, soft data (esp. consumer sentiment) is weak
- Will the inflationary (or stagflationary) impact of the tariffs limit the Fed's ability to cut rates?
- Large swings between hope and fear likely to persist due to policy uncertainty.
- Debt ceiling and tax cut discussions could start to have more impact
- Is the US still the “safe haven” and how will that impact the US Dollar and Treasury rates
- Balance of the year will be driven by how the market navigates and interprets the fallout from policy.

SHOULD WE BE HEDGING?



- What is our comfort level with our floating interest rate exposure?
- Is this an opportunity to lock in or protect?
 - Swap rates from 2-5 years are down 50-60bp and are 50+ bp below today's floating rates
 - Caps and collars could be attractive alternatives
- Have we quantified our Foreign Exchange exposure?
- Do we have an FX hedging policy?
- If so, does it need review given current volatility?





STATE AND REGIONAL ECONOMIC INTEL FORUM

IMPACT OF TARIFFS ON GLOBAL TRADE

Thank You!