



Investment
Perspectives

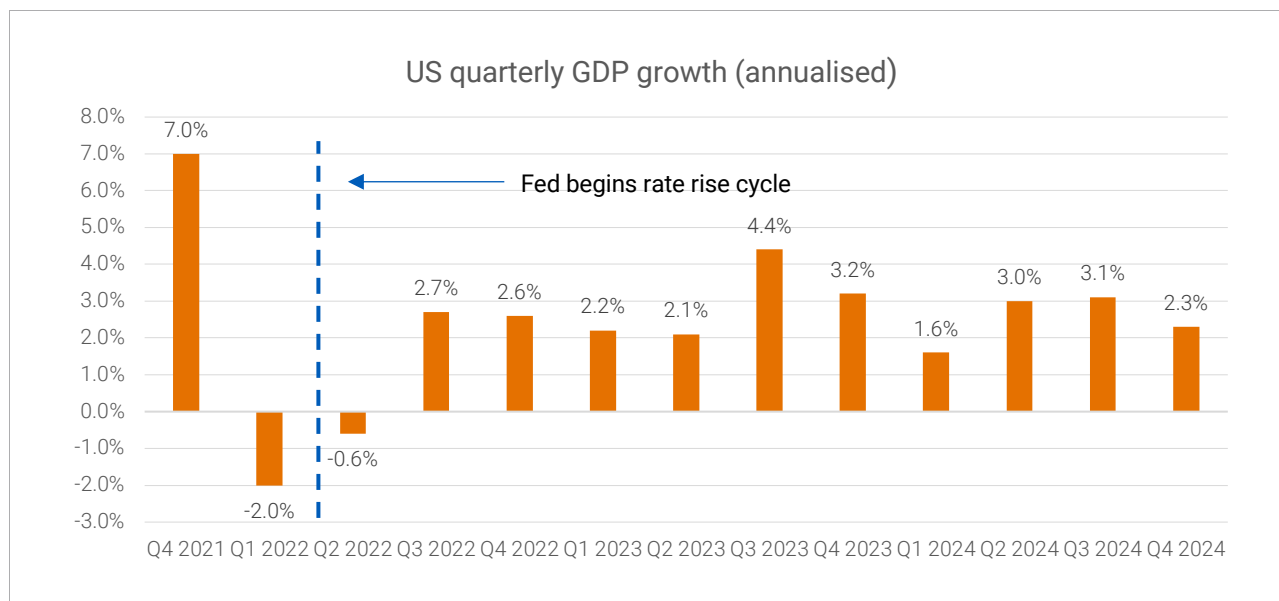
Not another US recession

April 2025

It's that time of year again. As 2025 moves into full swing, another round of (US) recession talk is escalating, creating significant market volatility.

We have heard (and dismissed) these concerns over the past few years. First, when we debunked the dreaded [inverted yield curve](#) scare in 2022. Then in 2023, we refused to buy into the so-called [commercial real estate crisis](#). And last year we pushed back against investor panic over the so-called [Sahm rule](#).

In fact, ever since the US Federal Reserve decided to increase interest rates in March 2022, the US economy has shown remarkable resilience. Meanwhile at Quay, we have been consistent with our 'no US recession' views.



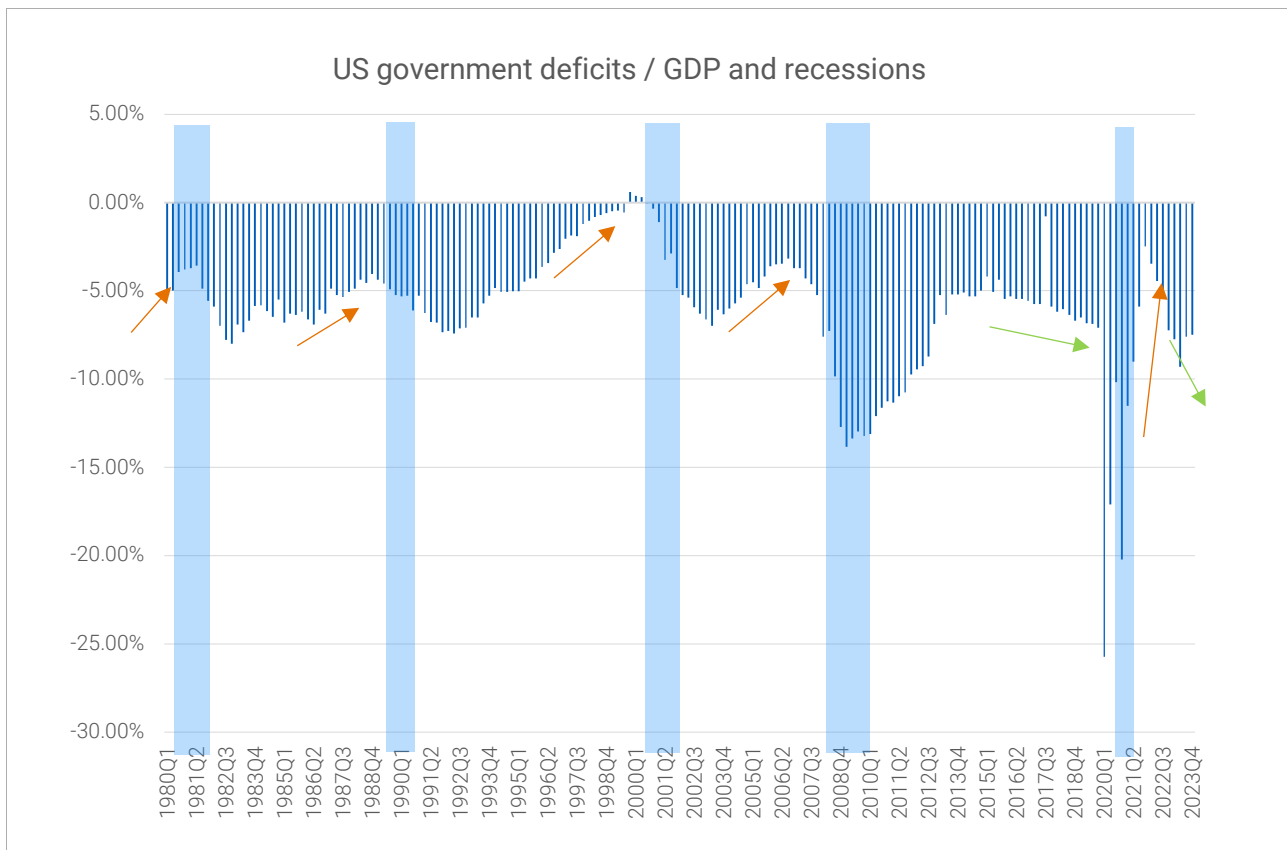
Source: BEA, US Federal Reserve, Quay Global Investors.

Are the current fears of a US recession overblown again? Let's dig in.

Focus on fiscal

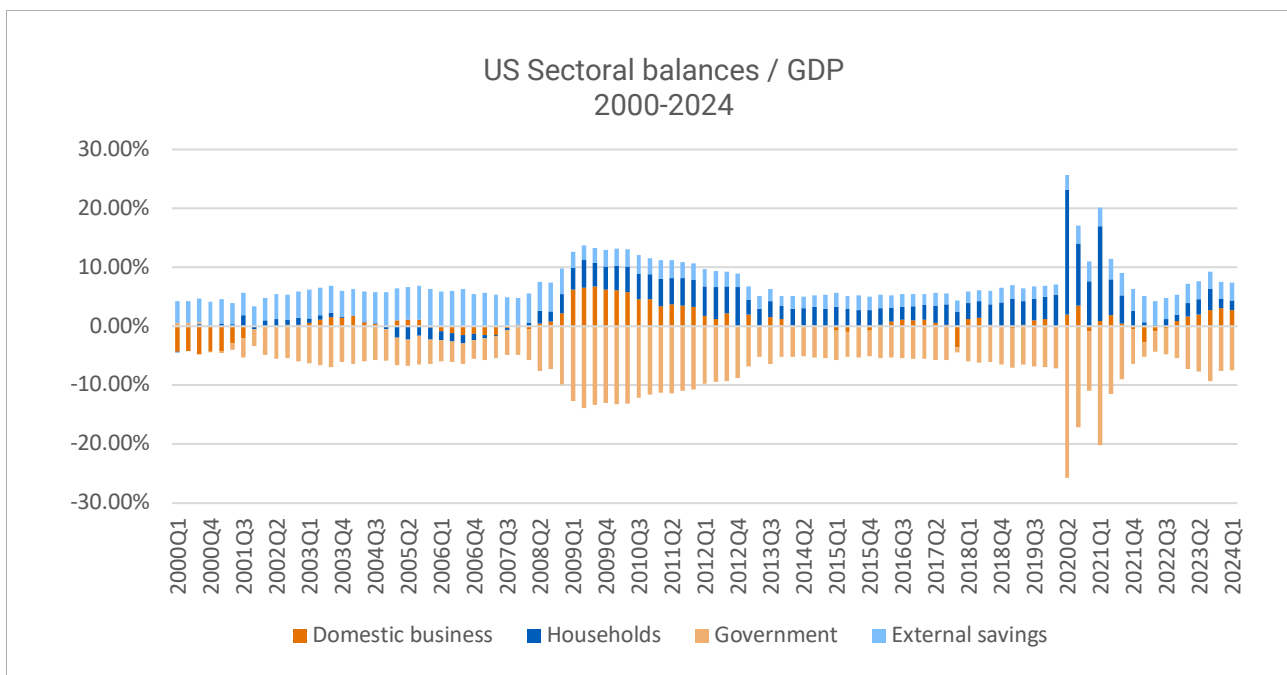
We have long argued that while macroeconomics is a hard beast to predict, investors have a better chance if focused on the fiscal pulse (ie net government spending) rather than an indirect credit pulse (monetary policy). And the data backs us up.

The following chart highlights whenever the US deficit begins to reduce, economic slow-down generally follows. And while the dramatic decline in net deficit spending in late 2021 did not cause a recession in early 2022 (BEA defined), it did result at the time in two quarters of negative GDP growth.



Source: US Fed Z.1 accounts, BEA, Quay Global Investors.

Why? Because as we learnt with [MMT](#), net government spending 'shows up' as net accumulated financial assets for the non-government sector. Higher deficits result in more money in the pocket of companies and consumers, which so far this cycle has significantly outweighed the effects of 'tighter' monetary policy.

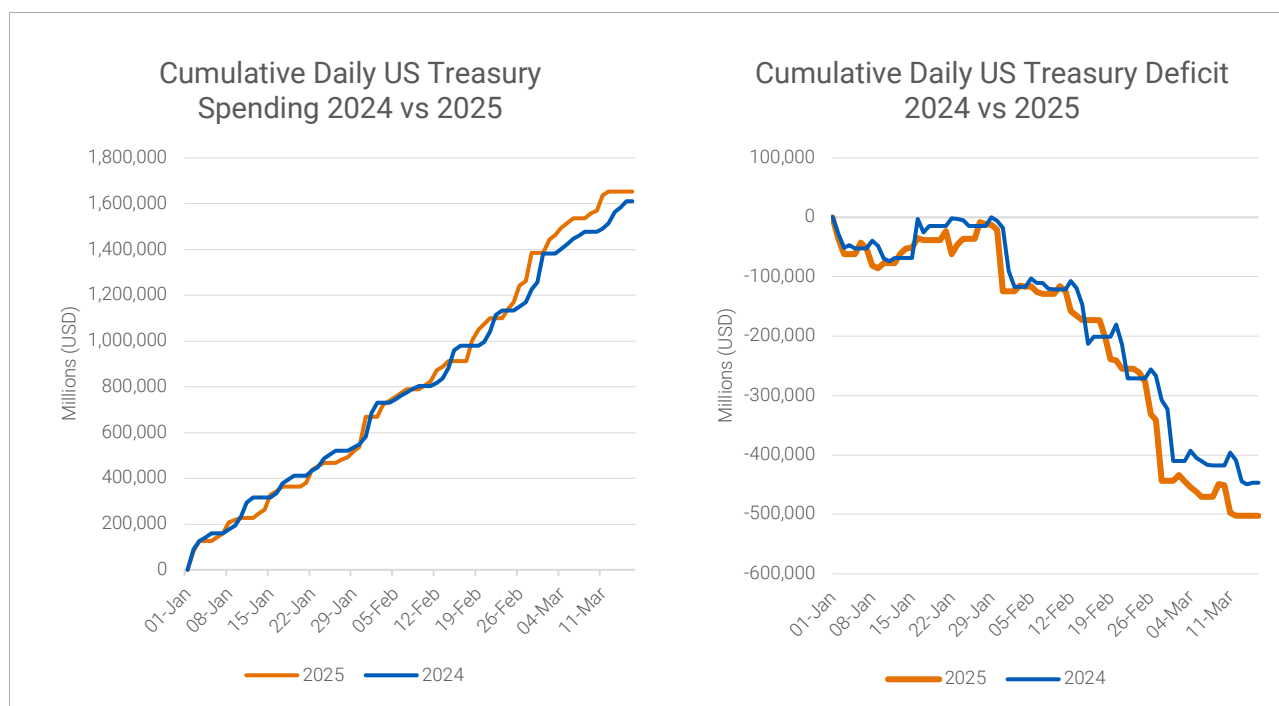


Source: US Fed Z.1 accounts, BEA, Quay Global Investors.

American exceptionalism maybe. But budget deficits help.

Forget the Fed, focus on the Daily Treasury Statement

While the vast majority of market commentators and participants slavishly obsess over US Federal Reserve monetary policy and commentary, given the power of the fiscal pulse we find it more instructive to focus on net spending. And despite the concerns of government cuts and drive for government efficiency via 'DOGE', the Daily Treasury Statement shows there has been no deceleration of government spending or net deficit (so far) this quarter. In fact, relative to the same time in 2024, gross and net spending have increased.



Source: US Daily Treasury Statement, Quay Global Investors.

Further, despite calls for increased government efficiency (via DOGE) and elimination of government waste, the recently passed stopgap funding bill (known as a Continuing Resolution) extended most current funding for the next six months, as well as increased spending on defence and border security.¹

But, the tariffs

The real spanner in the works this time will be the impact of tariffs. At the time of writing, the second Trump administration has called for universal base line 10% tariffs on all exports to the United States. Some sectors and countries have come in for some harsher rates (46% for Vietnam, 20% for Europe, 24% for Japan etc).

We argued that while tariffs may increase the price level, it does not follow that they are inflationary. Indeed over time, viewed (correctly) as a tax, the tariffs may well be deflationary by slowing the economy.

This view was recently supported by the Federal Reserve in last month's monetary policy statement stating that they were assuming that tariffs would cause a one-time jump in prices, rather than a more sustained increase, but it is also a hit to growth.

The Fed forecasts showed policymakers now expect inflation to stand at 2.7% at the end of this year, up from the 2.5% they had predicted in December. However, they are also expecting GDP growth of just 1.7% this year,

¹ Source: Bloomberg

down from the 2.1% previously anticipated. We note these forecasts were prior to the April 2 tariff announcement and therefore could change.

We believe it's not relevant whether the increase cost of tariffs is absorbed by US companies or passed on to consumers. From a sectoral balances perspective, the increased federal tax take will reduce the deficit, and thus reduce the flow of net financial assets to the non-government sector. This will almost certainly impact company and consumer spending.

Uncertainty is a bigger threat

The scale of the fiscal drag of tariffs is still unclear. Policy development is fluid, whimsical even, with what seems to be a changing stance on almost a weekly basis. It is this policy uncertainty, in our view, which represents a bigger threat to the health of the US economy.

Last month we attended a global real estate conference. Among the themes that emerged were not so much the prospect of less regulation spurring growth, but more so the lack of consistent policy around trade may result in delayed investment decisions. If companies do choose to delay investment decisions (real investment, leases etc), this in itself can become a drag on the economy and at a macro level a significant drag on company profits (as we detailed in our [Kalecki-Levy profits equation](#) paper).

Concluding thoughts

We note some real time US GDP measures (such as the Atlanta Fed GDPNow) are pointing to a Q1 contraction. However much of this has been driven by accelerating imports (a detraction in GDP) attempting to front run tariffs. This front running is likely to reverse in Q2 (adding to GDP growth).

Fears on an imminent US economic downturn seem somewhat premature. The Daily Treasury Statement data along with recently passed budget resolutions indicate net fiscal spending will remain consistent or even higher than last year. All other things being equal, this will support growth, jobs and profits.

However, tariffs ensure not all things are equal. In the absence of any other fiscal adjustment, tariffs will act as a fiscal drag, slowing the economy and reducing profits and/or consumer spending. In what is perceived to be an over-heated economy, that may not be a bad thing and may provide scope for the Fed to continue to lower interest rates² (and quite positive for real estate).

The bigger risk is policy uncertainty – which could delay private investment, compounding the impacts of higher taxes (tariffs) resulting in a more meaningful slowdown. At this point however, we feel that outcome is too early to call, but something to monitor.

² The March Fed 'dot plot' continues to expect another 50bps reduction in the cash rate this year.

For more insights from Quay Global Investors, visit quaygi.com

Get in touch



quaygi.com



client.experience@bennelongfunds.com



1800 895 388 (AU) or 0800 442 304 (NZ)

The content contained in this article represents the opinions of the authors. The authors may hold either long or short positions in securities of various companies discussed in the article. The commentary in this article in no way constitutes a solicitation of business or investment advice. It is intended solely as an avenue for the authors to express their personal views on investing and for the entertainment of the reader.

This information is issued by Bennelong Funds Management Ltd (ABN 39 111 214 085, AFSL 296806) (BFML) in relation to the Quay Global Real Estate Fund (Unhedged) and the Quay Global Real Estate Fund (AUD Hedged). The Funds are managed by Quay Global Investors, a Bennelong boutique. This is general information only, and does not constitute financial, tax or legal advice or an offer or solicitation to subscribe for units in any fund of which BFML is the Trustee or Responsible Entity (Bennelong Fund). This information has been prepared without taking account of your objectives, financial situation or needs. Before acting on the information or deciding whether to acquire or hold a product, you should consider the appropriateness of the information based on your own objectives, financial situation or needs or consult a professional adviser. You should also consider the relevant Information Memorandum (IM) and or Product Disclosure Statement (PDS) which is available on the BFML website, bennelongfunds.com, or by phoning 1800 895 388 (AU) or 0800 442 304 (NZ). Information about the Target Market Determinations (TMDs) for the Bennelong Funds is available on the BFML website. BFML may receive management and or performance fees from the Bennelong Funds, details of which are also set out in the current IM and or PDS. BFML and the Bennelong Funds, their affiliates and associates accept no liability for any inaccurate, incomplete or omitted information of any kind or any losses caused by using this information. All investments carry risks. There can be no assurance that any Bennelong Fund will achieve its targeted rate of return and no guarantee against loss resulting from an investment in any Bennelong Fund. Past fund performance is not indicative of future performance. Information is current as at the date of this document. Quay Global Investors Pty Ltd (ABN 98 163 911 859) is a Corporate Authorised Representative of BFML.