



Convergence 2025

Mid-Year Outlook & Beyond

May 2nd, 2025



*"I just want to say two words to you—
Treasury bills."*

Cartoon by Hank Blaustein

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Agenda

Economy

Checklist

Tariffs

Housing

Energy

Rates

Stocks

Beyond

Tax proposals

S. B. 29

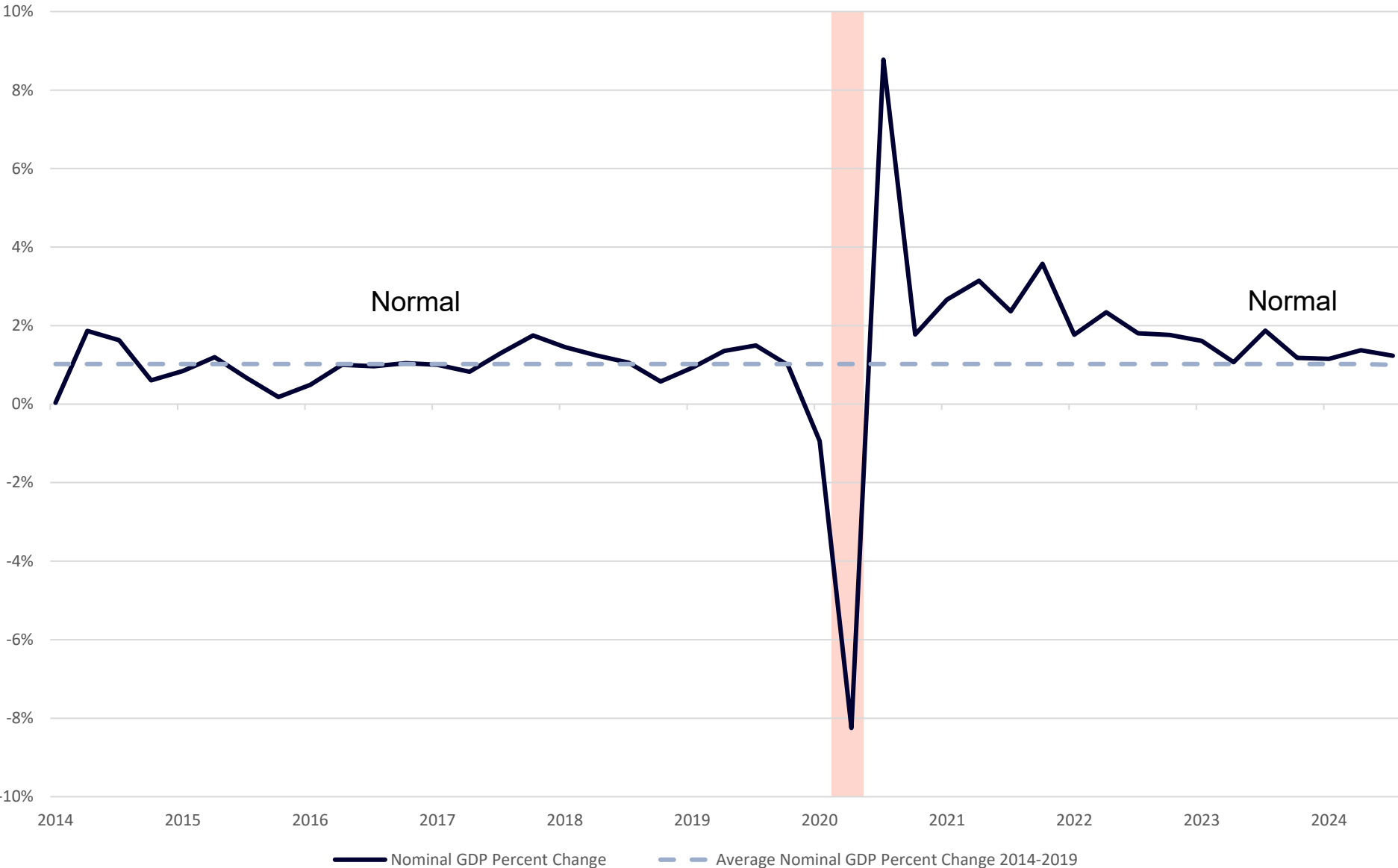
Wars

Demographics

That “AI” thing

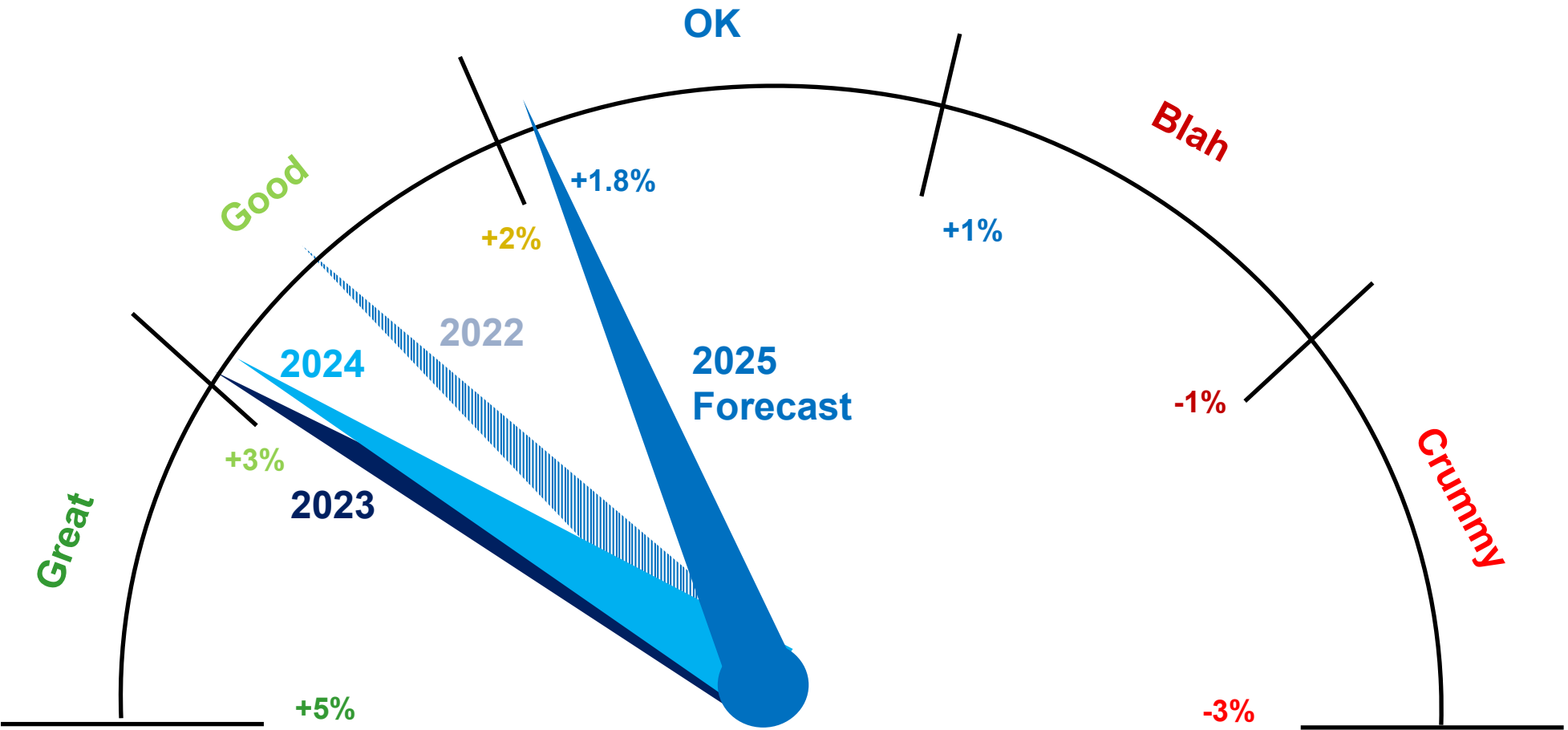
Summary

GDP Swings - Abnormal



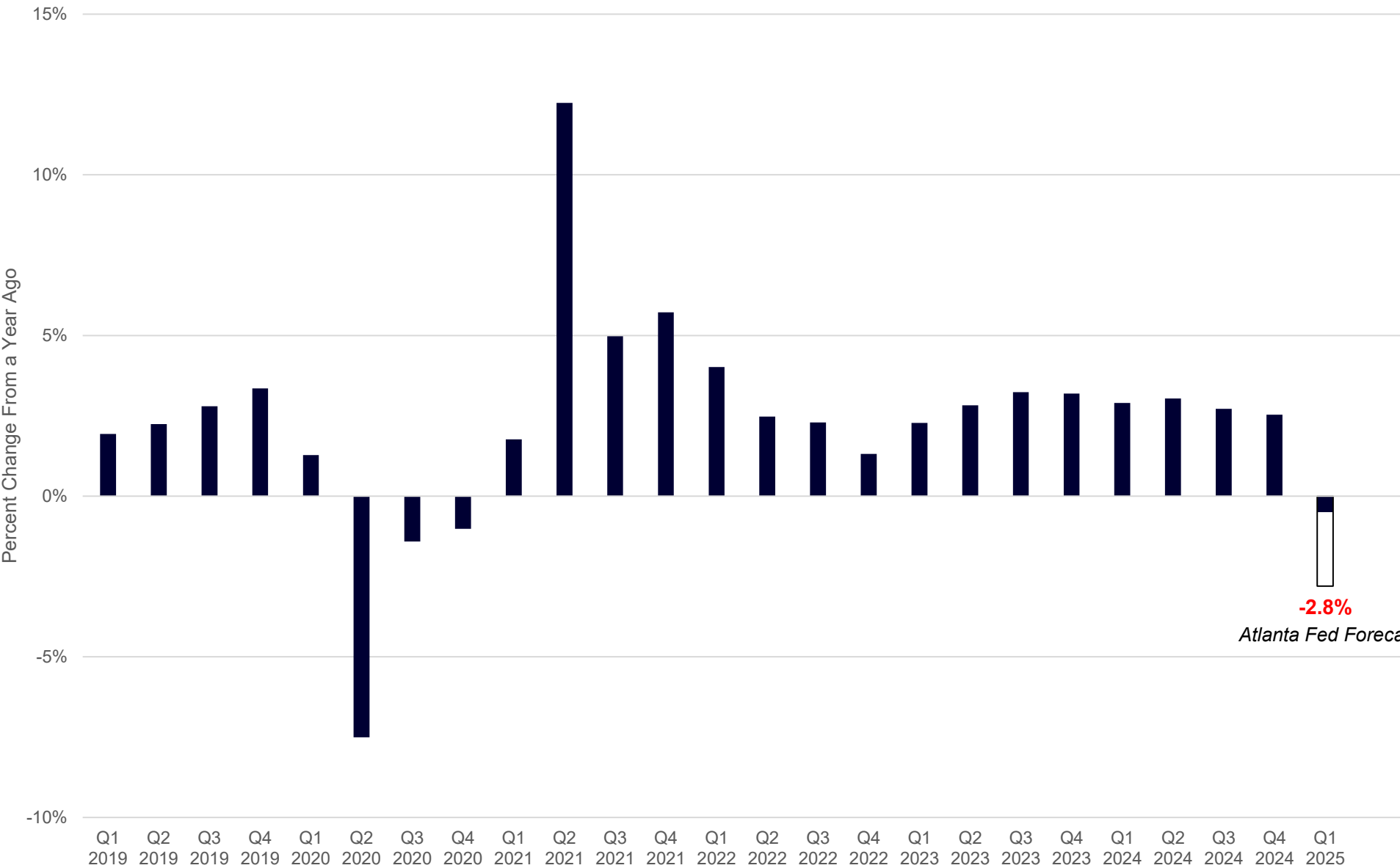
Data Source: FRED
*Data as of December 31st, 2024

GDP Growth

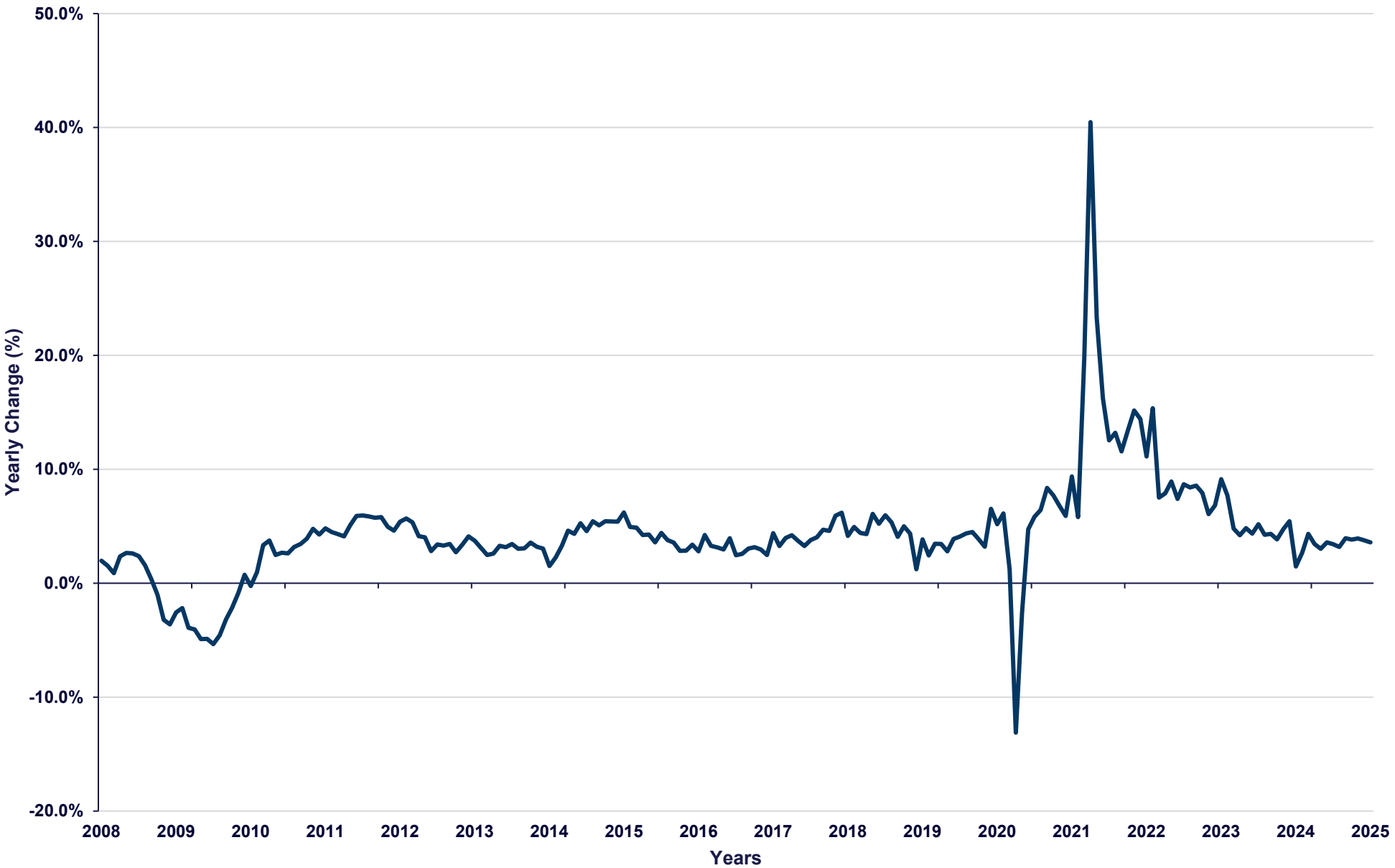


Data Source: Texas Capital Private Bank Economics
*Data as of March 31st, 2025

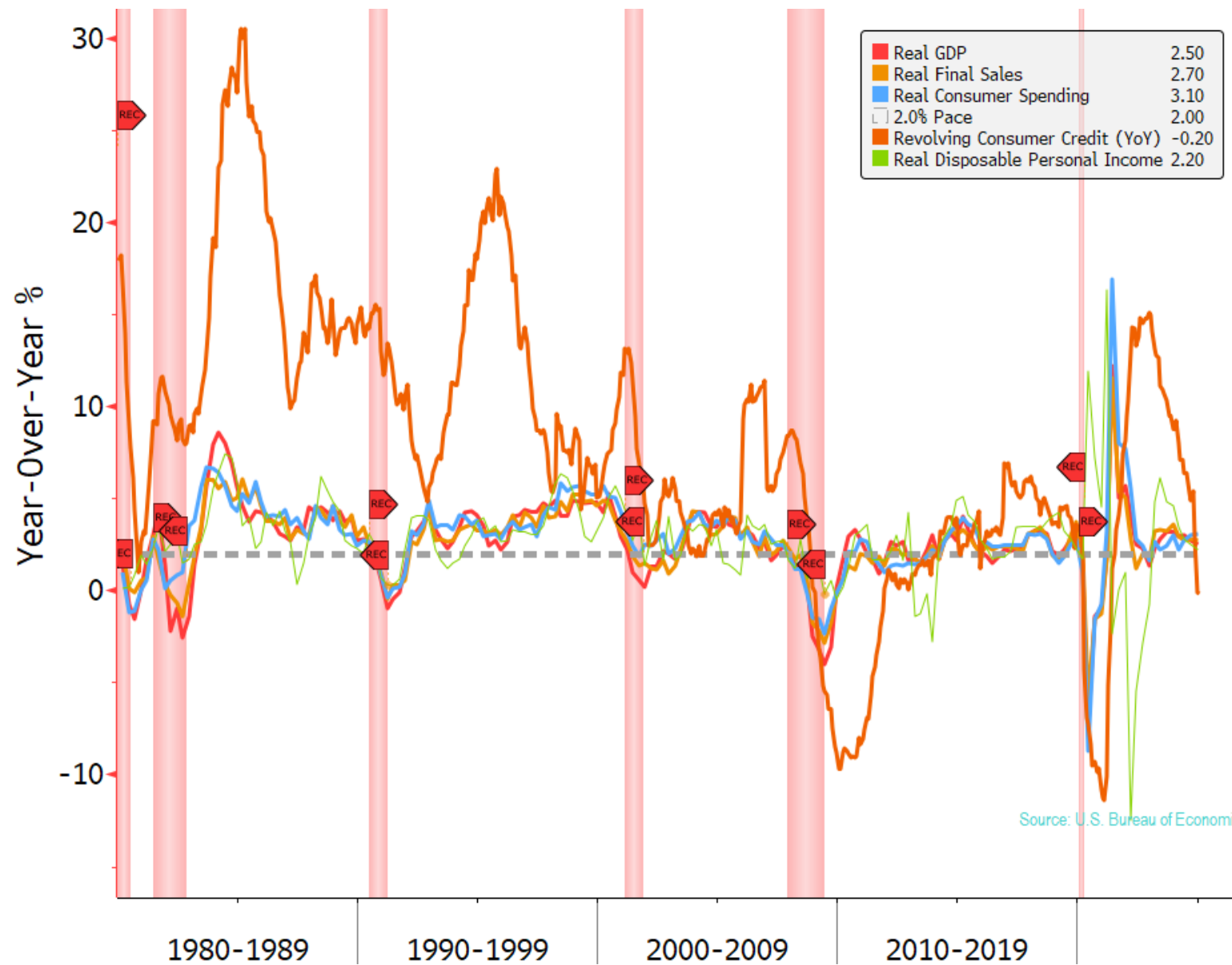
Quarterly Real GDP



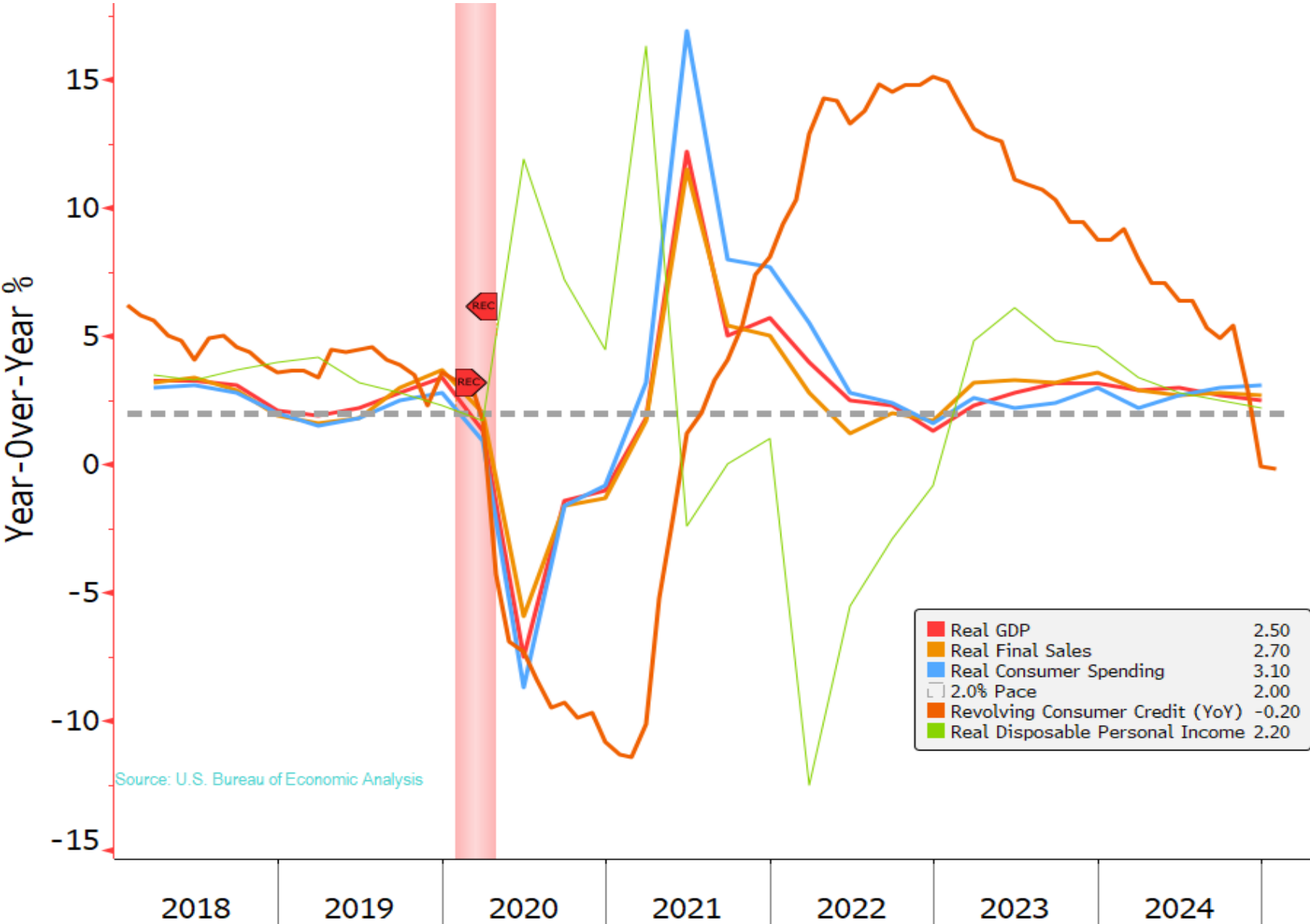
Core Retail Sales (Excluding Gas, Auto Sales) % Change



Getting “Real”

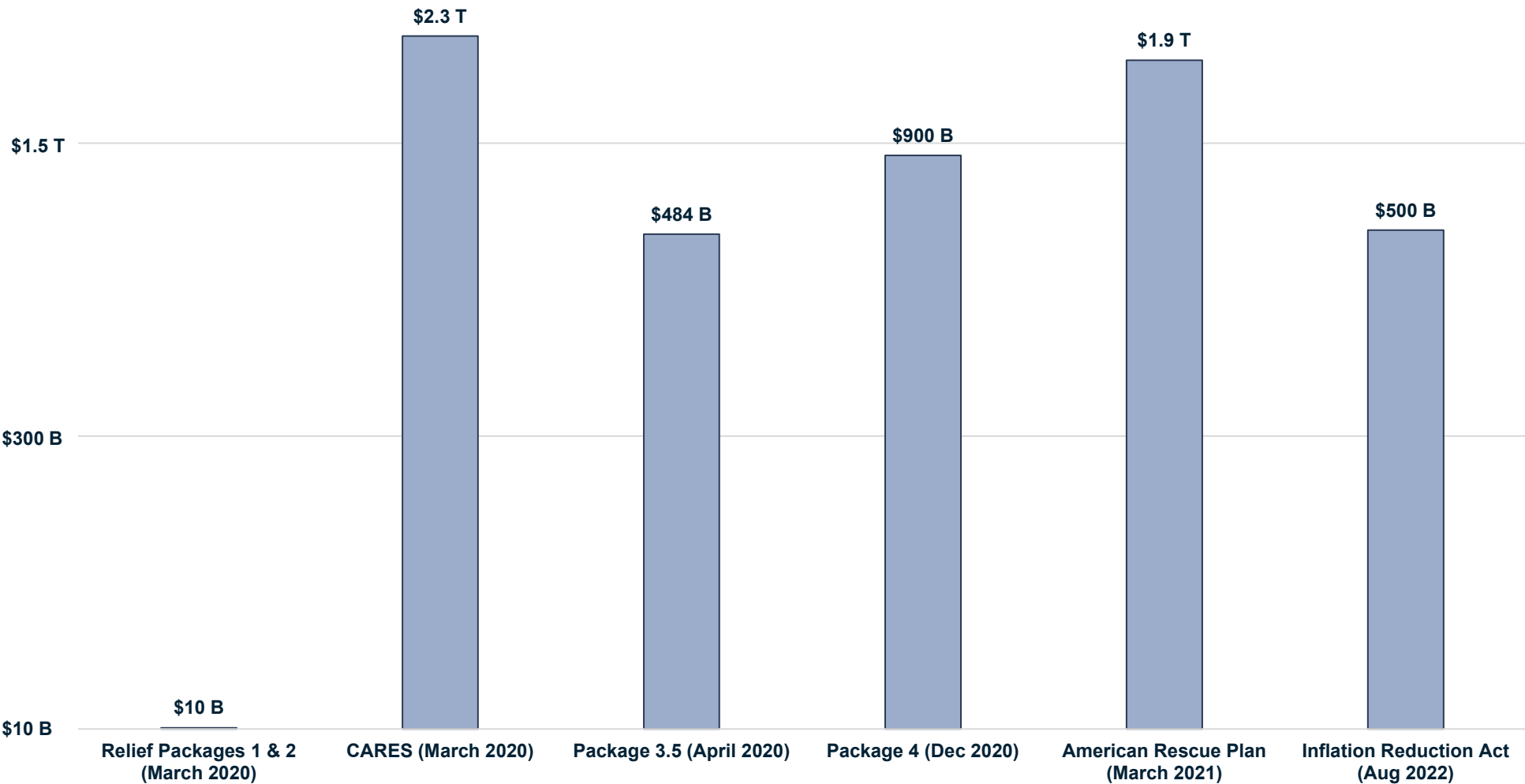


Getting “Real” Right Now



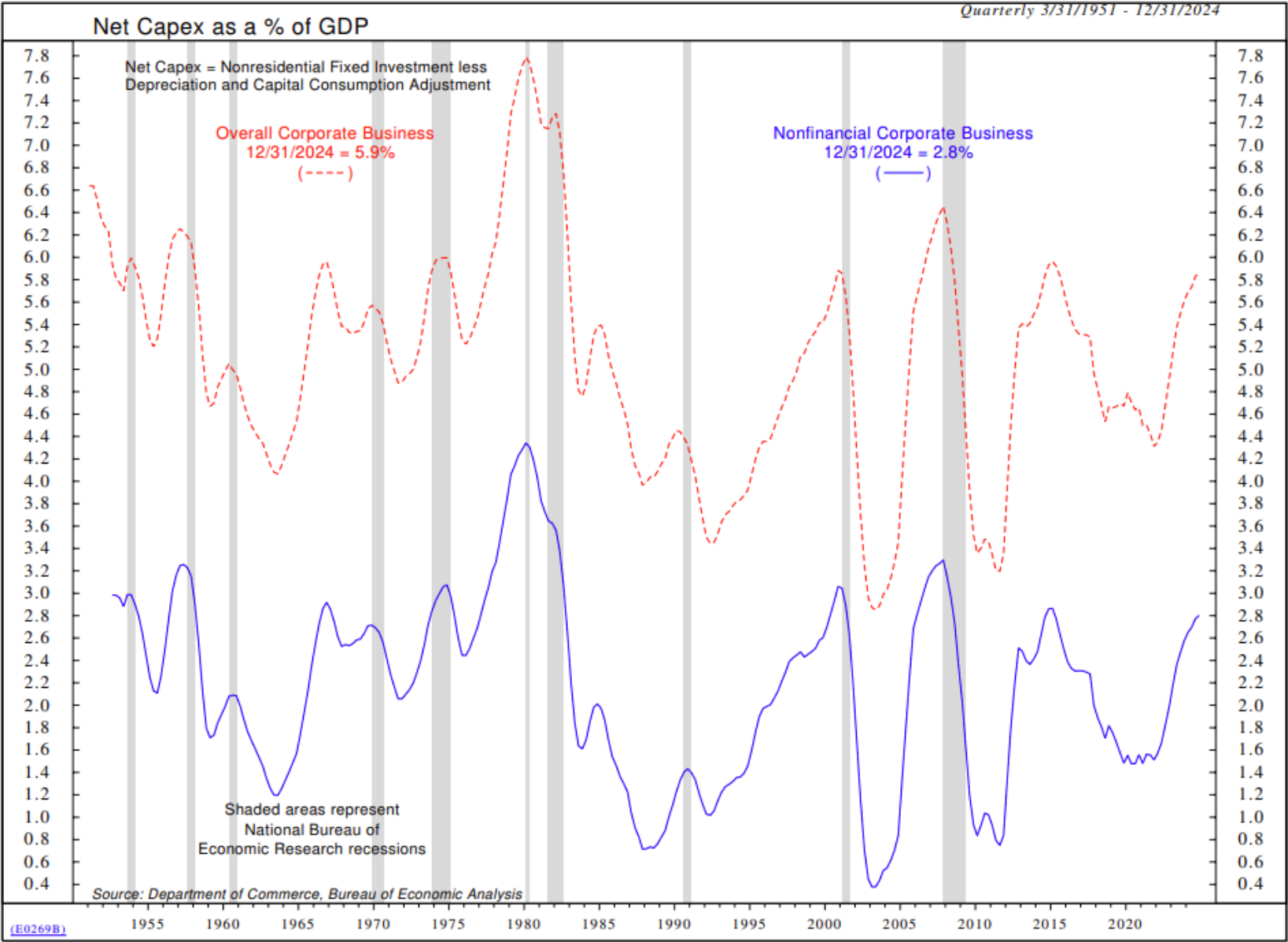
Data Source: Bloomberg and US Bureau of Economic Analysis
Data as of March 31st, 2025

Government Stimulus from 2020 – Sept. 2023



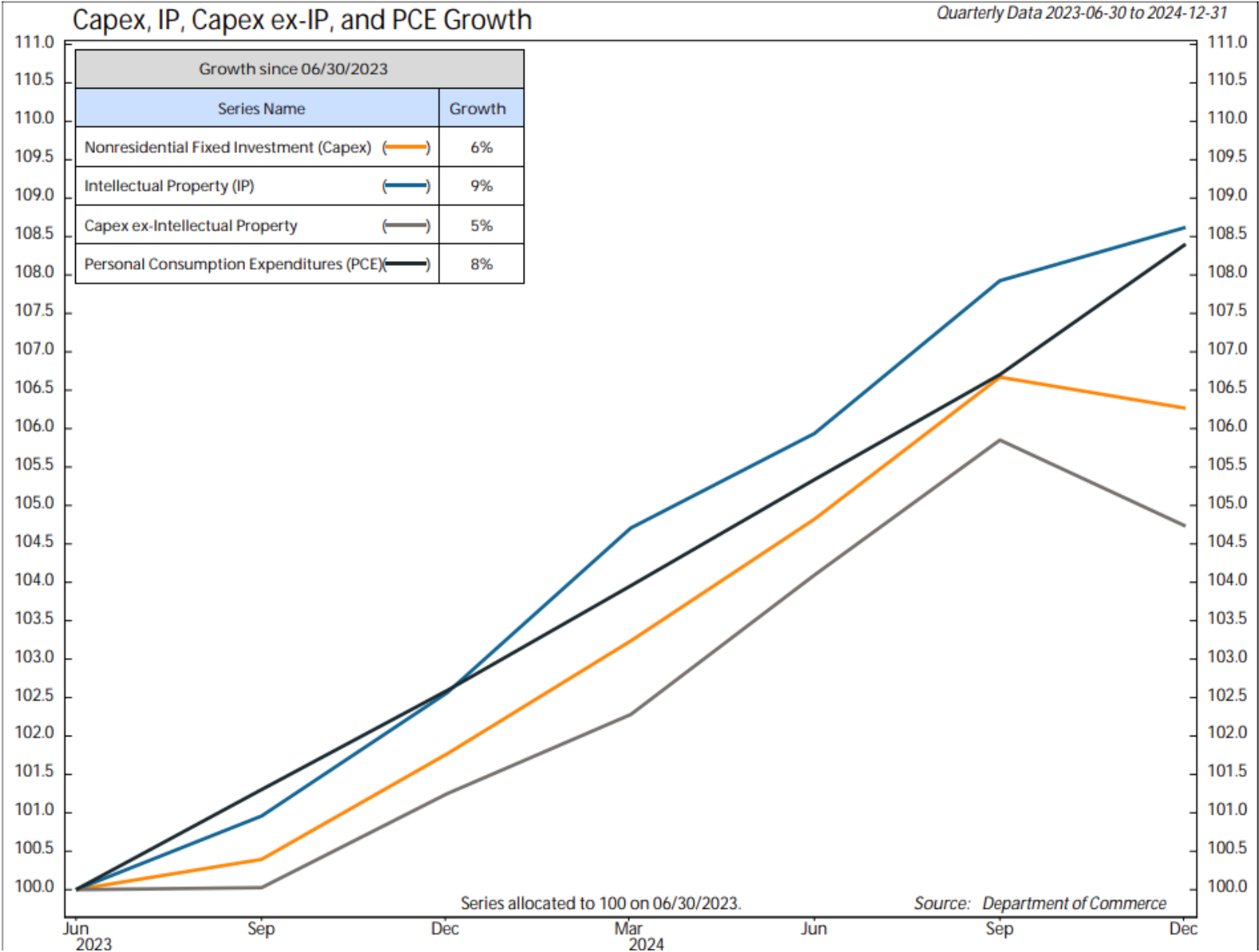
Data Source: FRED, Treasury Department, Congressional Budget office
*Data as of September 20th, 2023

CAPEX



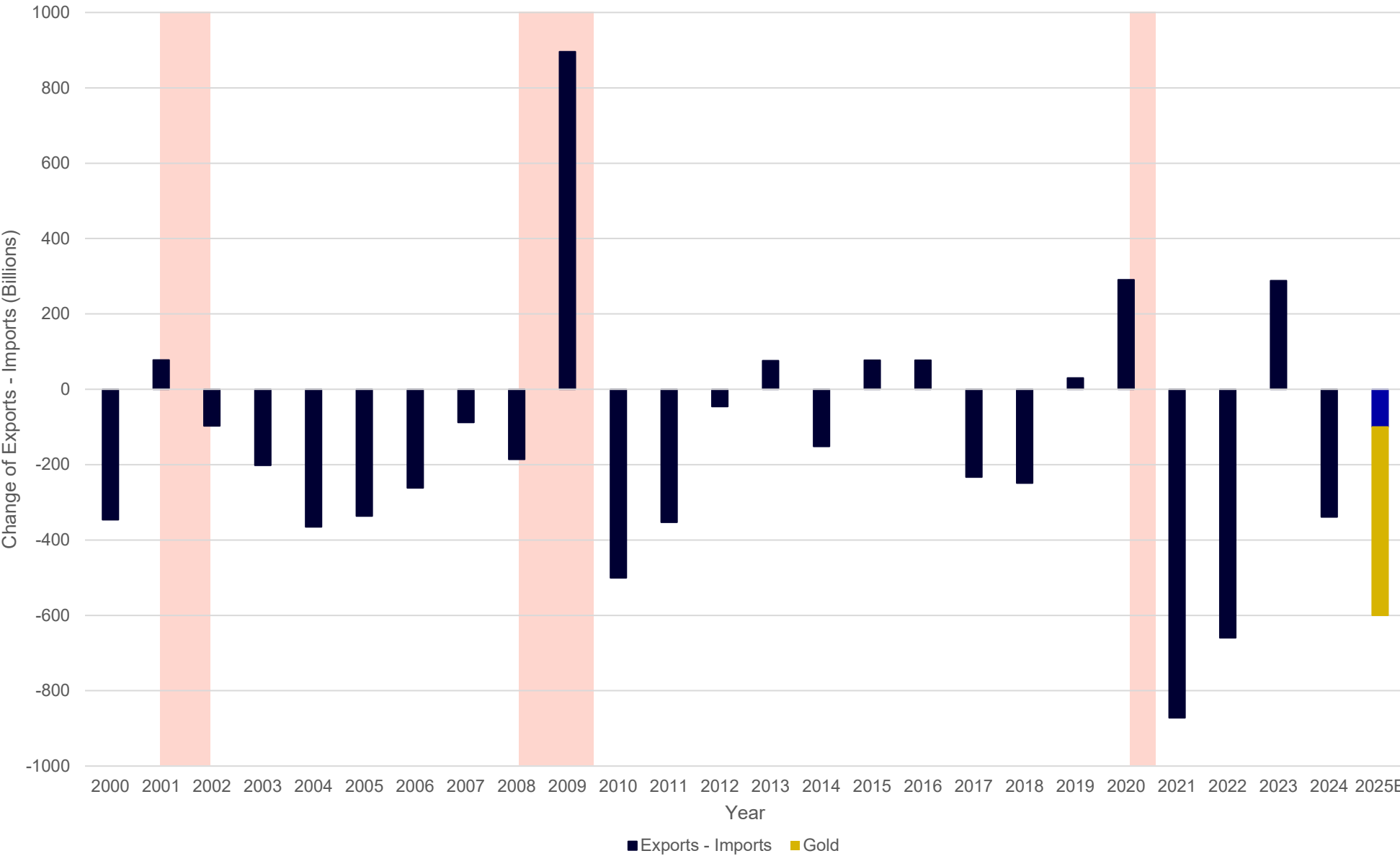
Data Source: NDR
*Data as of March 31st, 2025

CAPEX



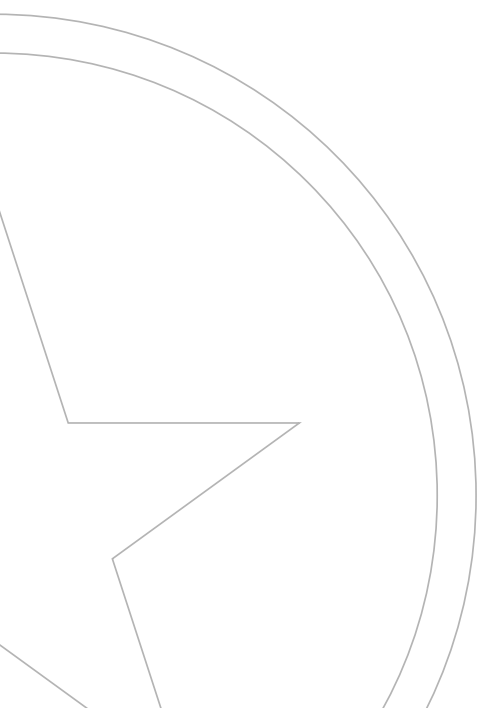
Data Source: NDR
*Data as of March 31st, 2025

U.S. Exports minus Imports



Data Source: NDR
*Data as of March 31st, 2025

Checklist



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Recession Checklist

*Our recession checklist has 1 new item flip from “Off” to “On” last week. Spreads & New Orders flipped 1st week of March **Green** = Good **Yellow** = warning **Red** = Bad*

Indicator	Period	Warning	Active?	Status
Initial Jobless Claims	Weekly	Rising 4-week average, Uptrend	NO	Flat to Lower
Corporate BAA 10 Year Spread	Weekly	Increasing	YES	BofA CCC & BofA High Yield Index rising since February
Yield Curve 2s - 10s	Weekly	Below 0 or Very Steep	NO	Above 0
Single Family Housing Permits	Monthly	Declining	NO	Rising
Nondefense Capital Goods New Orders ex Aircraft	Monthly	Declining	NO	Rising
US Consumer Expectations (Univ Michigan)	Monthly	10 Point Decline	YES	Down 20!
ISM Manufacturing New Orders	Monthly	Below 50	YES	Above 50 since Nov ‘24 dropped to 48.6 in February
Chicago Fed National Financial Conditions	Monthly	Tightening	NO	Easing since March '23

Data Source: Texas Capital Private Bank, Bloomberg, Don Rissmiller, Strategas

As of Mar 28, 2025



GDP Component Trends

- Gross Domestic Product (GDP) is defined as the sum (value) of all finished goods and services produced within a country's borders during a specific time frame
- Calculated in three ways: 1. Expenditures, 2. Production, or 3. Income
- The most popular method is the Expenditure Approach:
 - Formula: $C + G + I + NX$

$$\begin{array}{ccccccc} \text{Q3 2024 Nominal GDP} = & \text{C} & + & \text{G} & + & \text{I} & + & \text{N} \\ & \text{Consumption} & & \text{Government} & & \text{Investment} & & \text{Net Exports} \\ & & & \text{Spending} & & & & \\ & 29.4 & = & 19.9 & & 5.0 & & 5.4 & & -0.9 \end{array}$$



Economy Summary

- Growth recovered from shutdowns
 - Permanent changes
 - Build in America
 - Expansions don't die of old age; they are murdered by high rates or credit crunch
- Retail Sales Holding up +2.5%
- Government spending going down +1.5%
- Manufacturing improving +2.5%
- Capital Expenditures rising +1%
 - Fed and NFIB Surveys

Tariff Trauma



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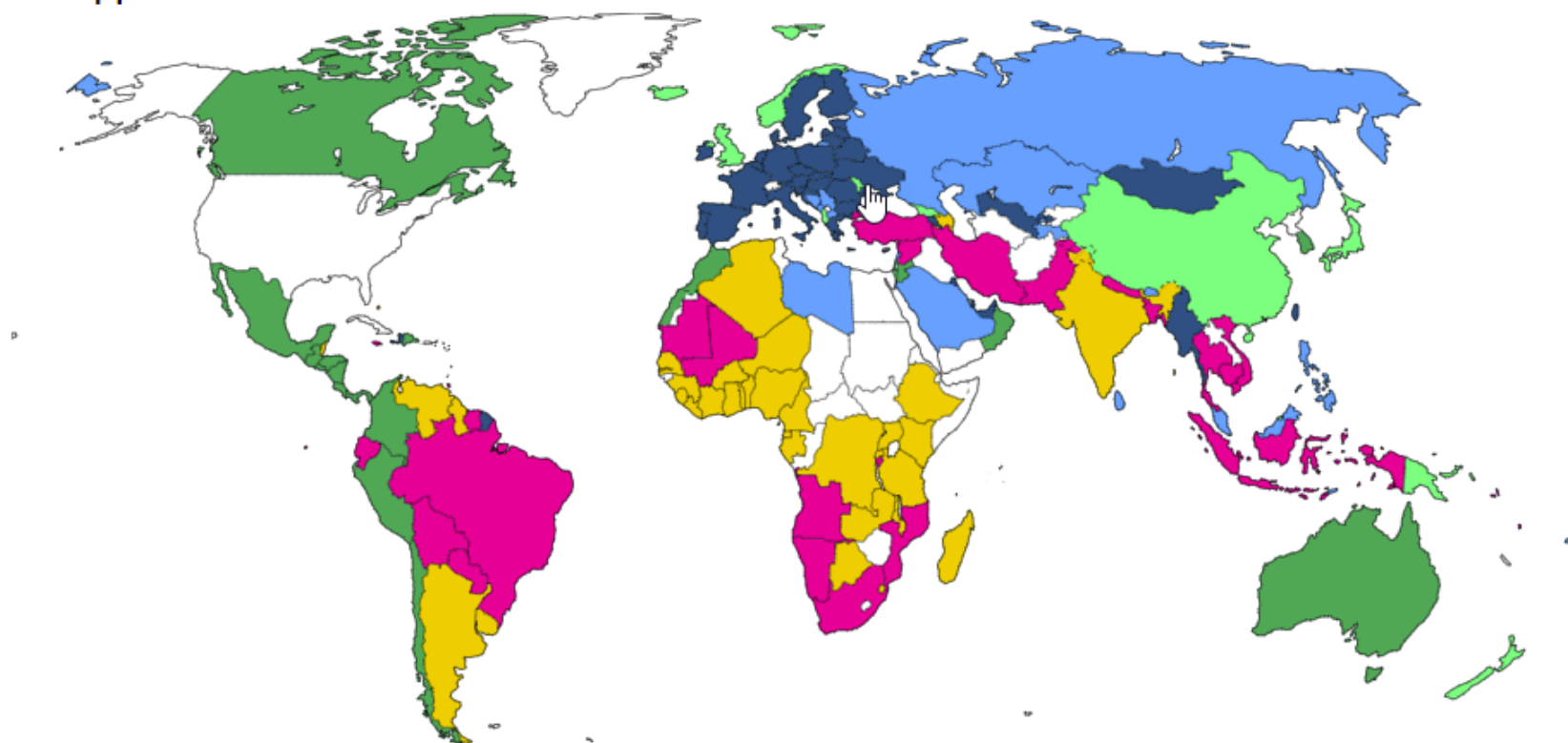
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Tariffs



Economies' Tariffs on US Versus US Tariffs on Them

- Free trade agreement
- Lower than US tariffs
- Exceeds US tariffs by < 2ppt
- 2 to 5ppt
- 5 to 10ppt
- 10ppt or more



Source: UNCTAD TRAINS, Office of the United States Trade Representative

Note: Uses simple average (effectively applied rates) from latest year available (2023 or earlier). Uses EU average for all EU countries. US-China accounts for all additional tariffs (Bloomberg Economics' estimates.). Mapped data show tariffs for distinct economies.

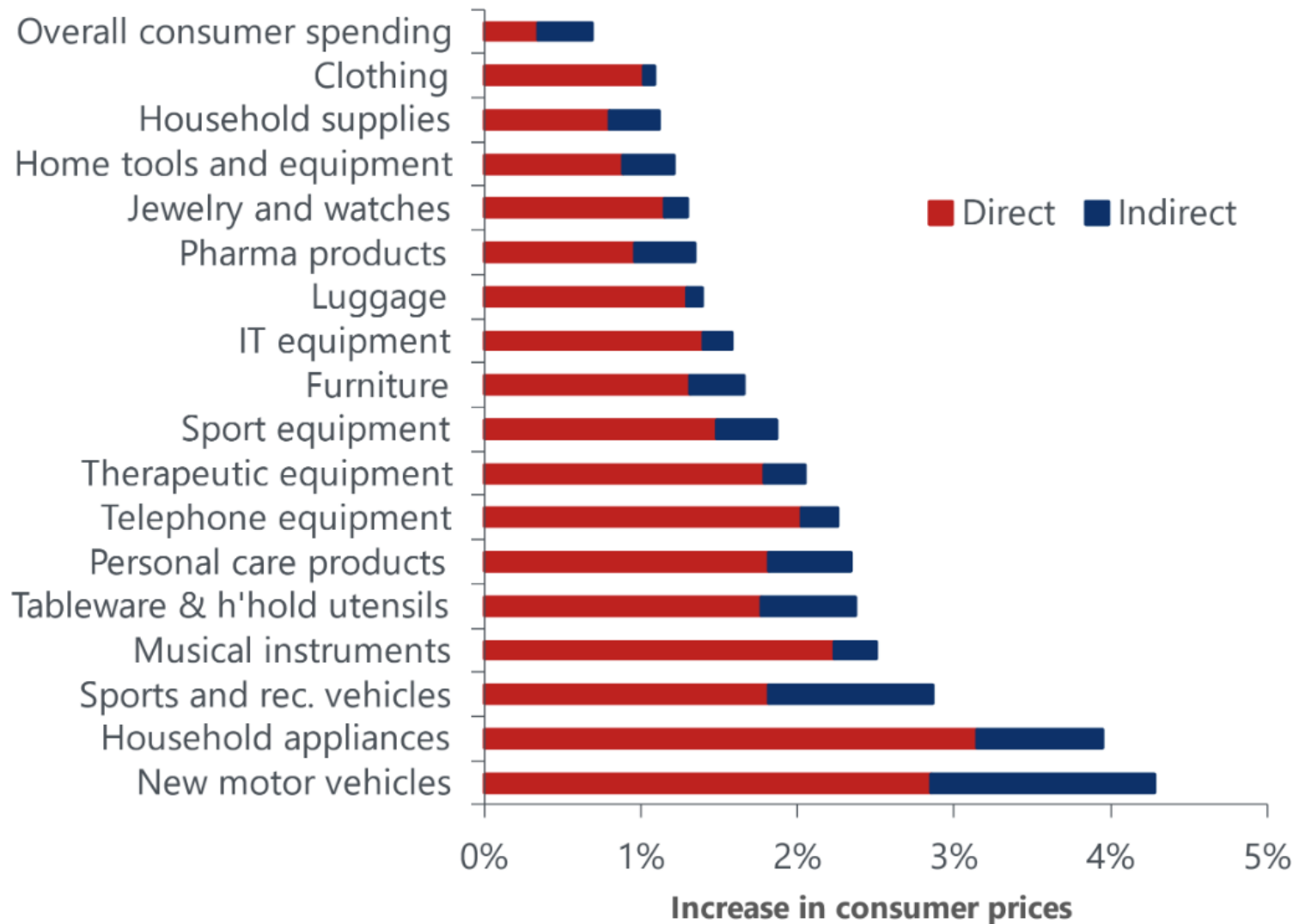
Reciprocal Tariffs - TBD



Tariff Impacts - TBD



US: Potential tariff impact on consumer prices



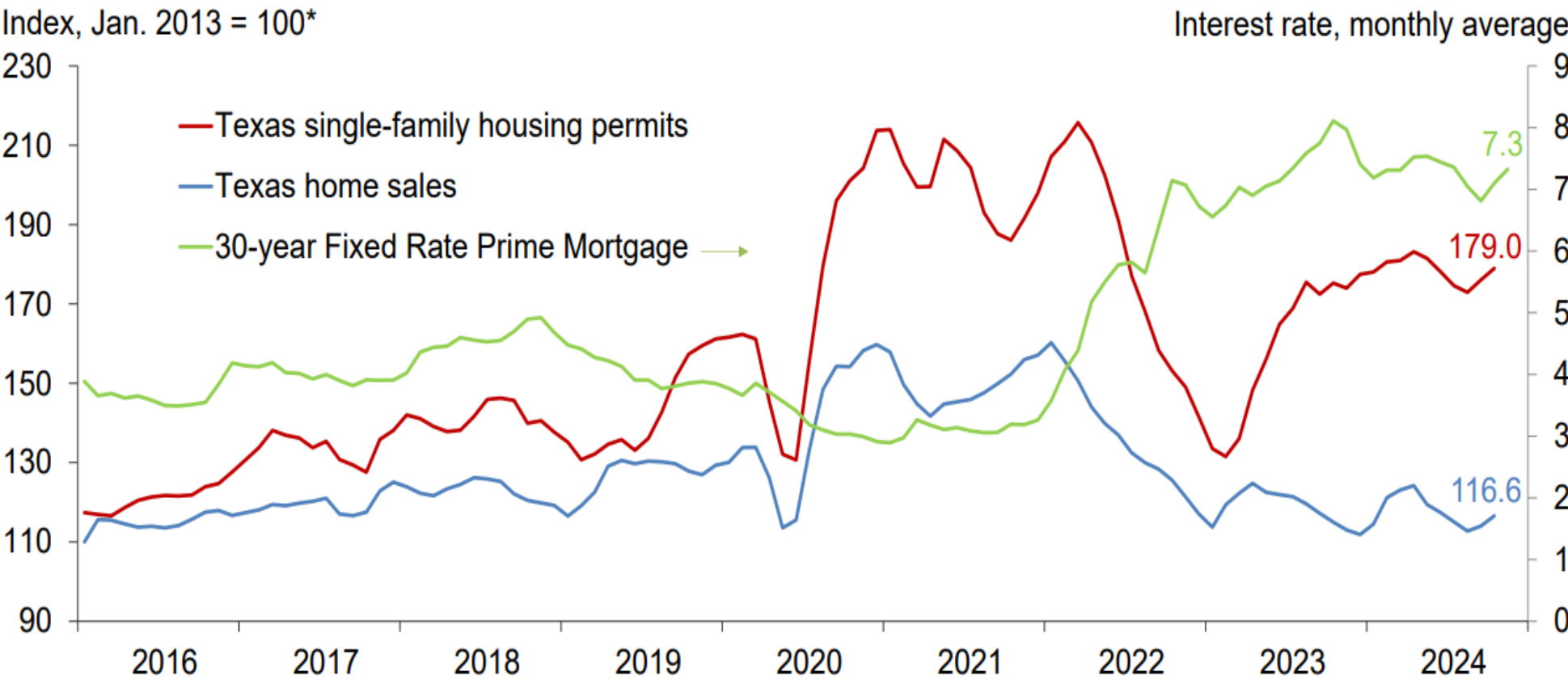
Housing



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Texas Housing Report

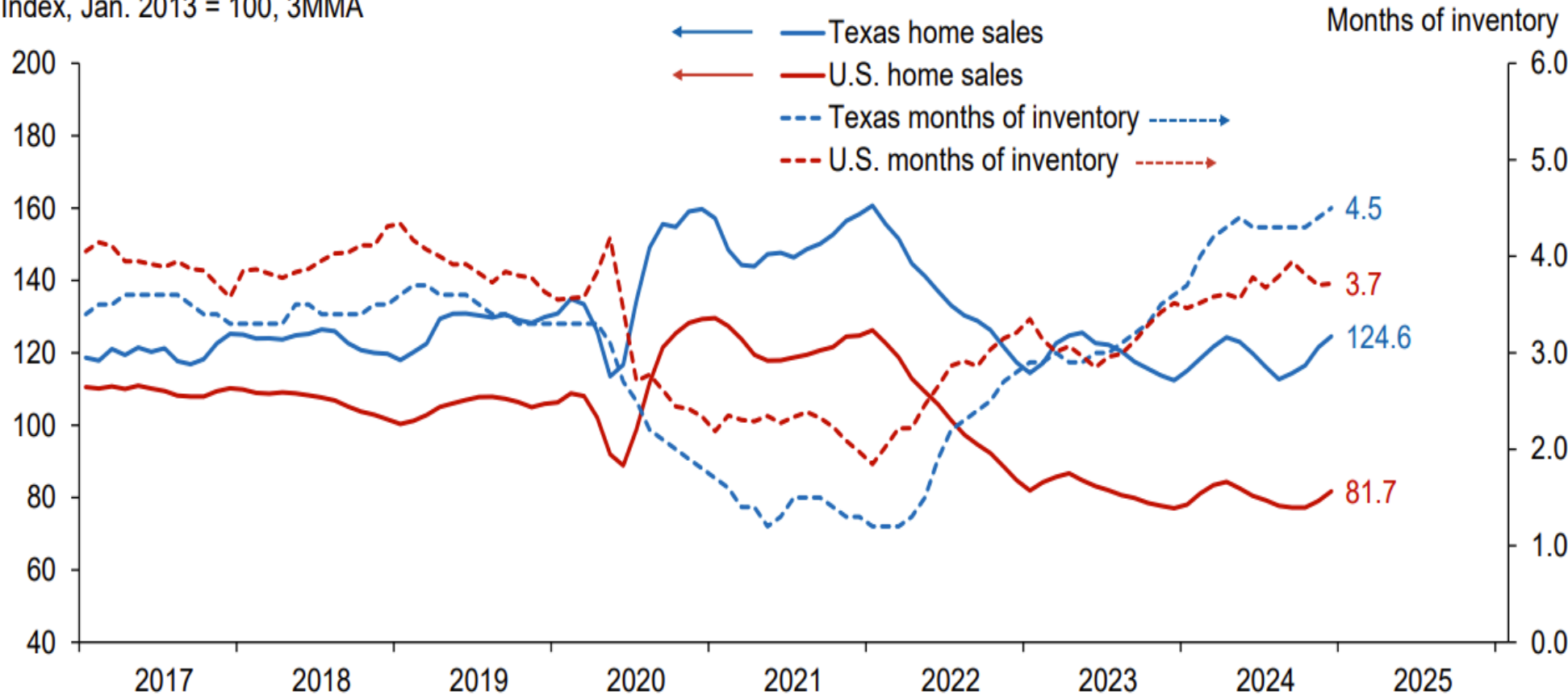


*Seasonally adjusted, three-month moving average.
NOTE: Data are monthly through October 2024 for housing permits and home sales and November 2024 for mortgage rates.
SOURCES: MLS; A&M Real Estate Center; Freddie Mac Primary Mortgage Market Survey; U.S. Census.

Texas Housing Report



Index, Jan. 2013 = 100, 3MMA



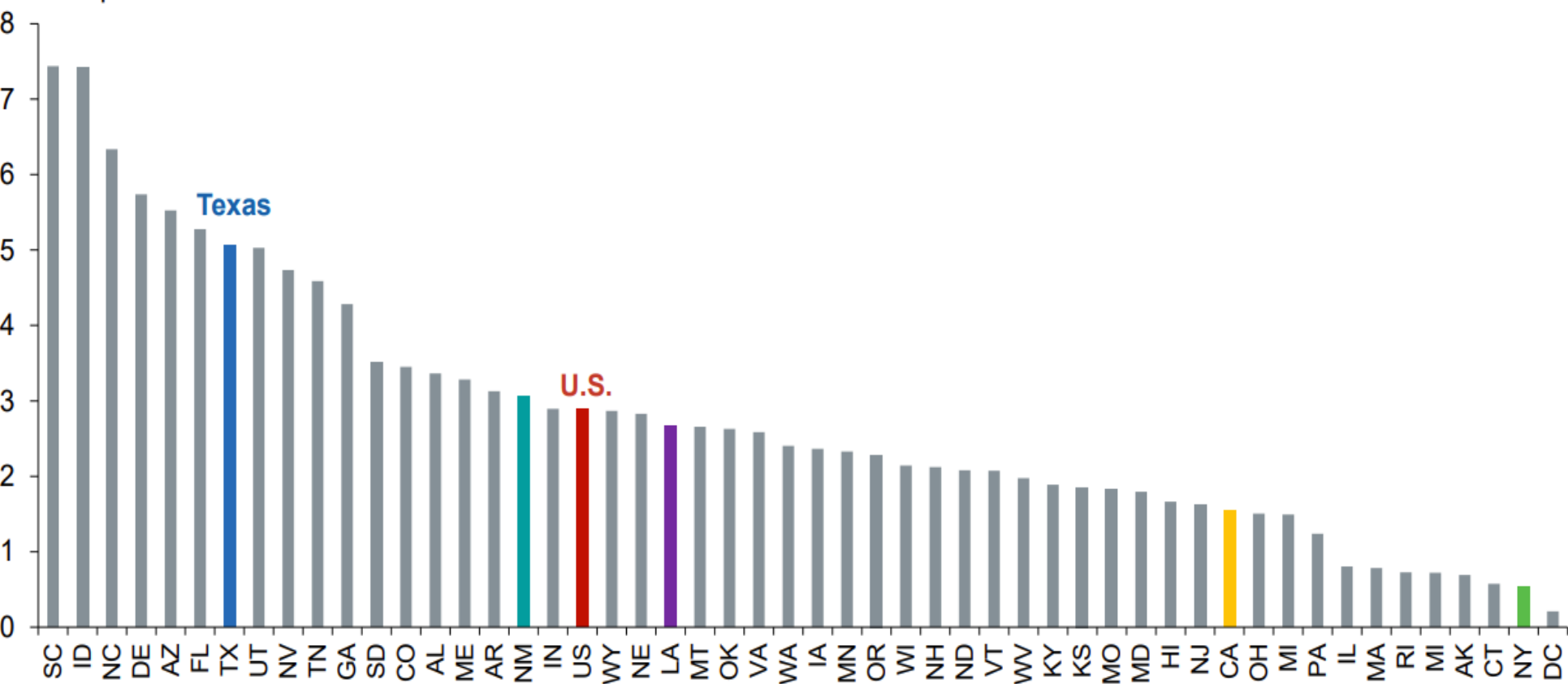
NOTES: Data are monthly through December 2024. Data are seasonally adjusted.
SOURCES: MLS; A&M Real Estate Center; Freddie Max Primary Mortgage Market Survey; U.S. Census.

Texas Housing Report



Texas builds a lot of houses; economists call it ‘elastic housing supply’

Permits per thousand residents



NOTE: Shown are January through December 2024 single family housing permits per thousand residents.
SOURCE: Census Bureau.

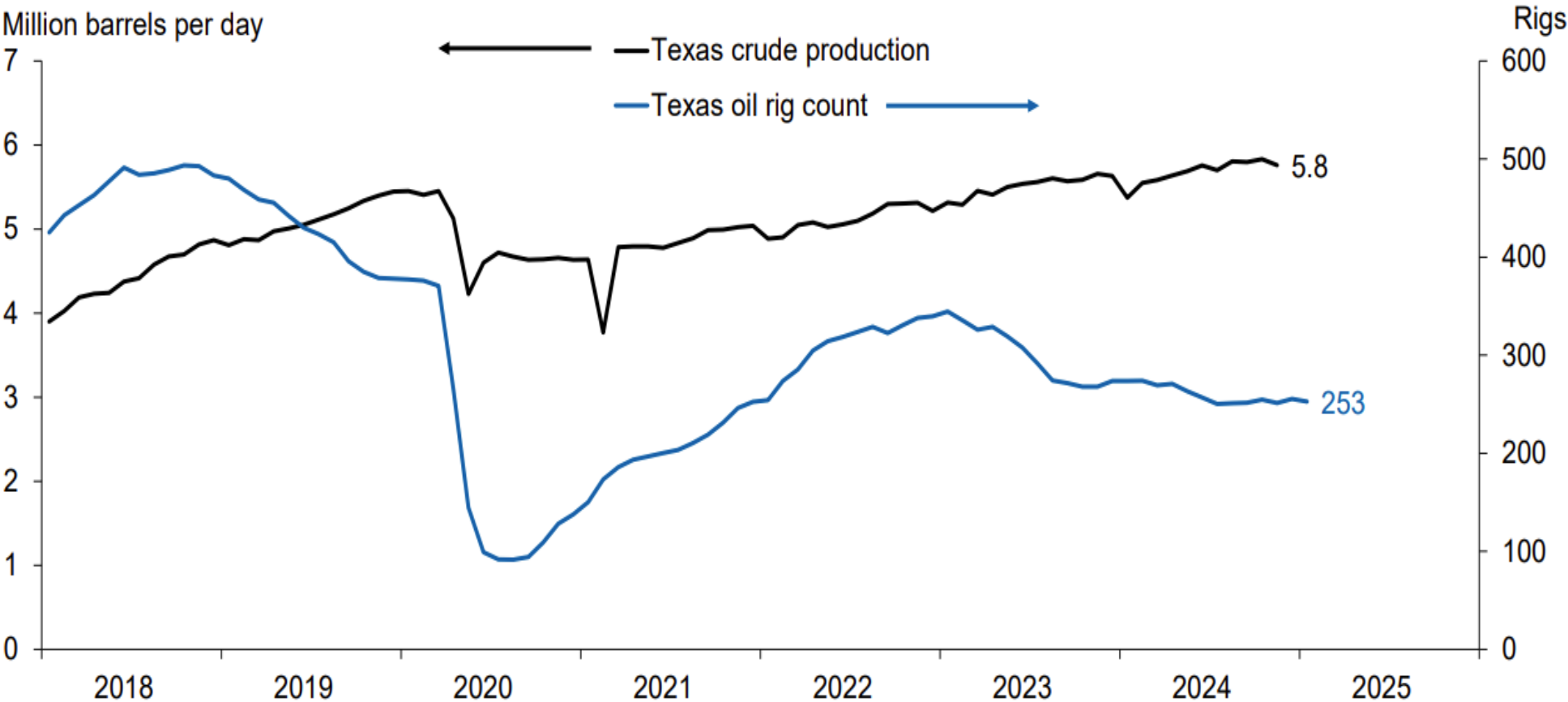
Commodities



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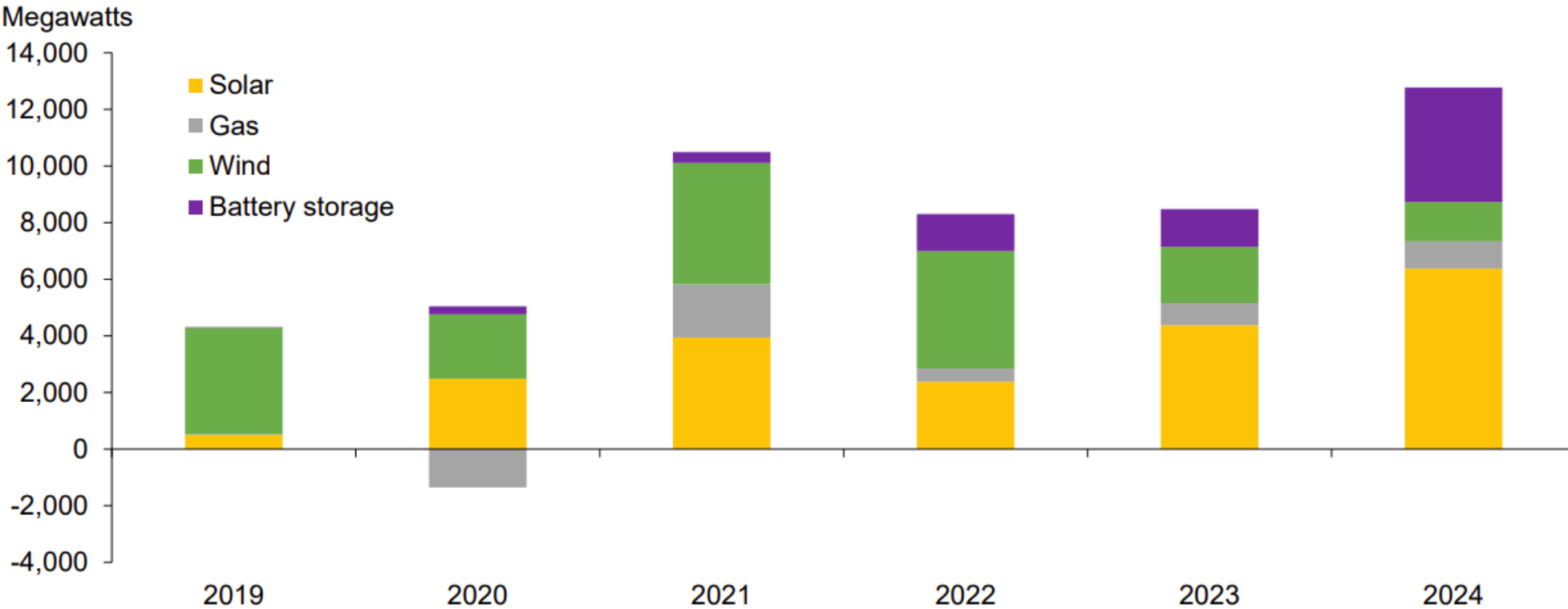
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Texas Oil Production and Oil Rigs



NOTES: Texas crude oil production is monthly through November 2024. Texas rotary oil rig count is averaged from the weekly level through January 2024.
SOURCES: Energy Information Administration; Baker Hughes.

Texas Magawatts



NOTE: Data through December 2024.
SOURCE: US EIA Preliminary Monthly Electric Generator Inventory.



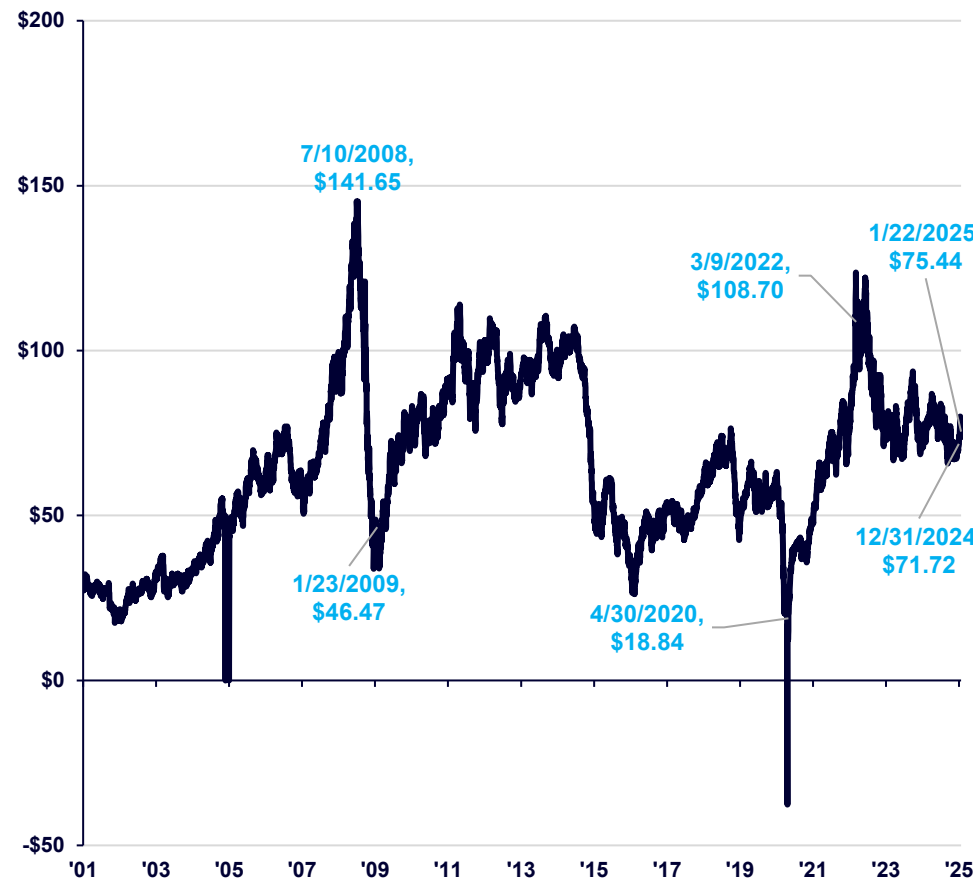
Commodity Outlook

- OPEC +
 - China Russia Iran
 - Expansions don't die of old age; they are murdered by high rates or credit crunch
- Don't Drill Baby Drill
- Natural Gas exports

Commodities



WTI Crude Nominal \$ Per Barrel



Real Gold Spot Price



Data Source: Bloomberg
*Data as of January 22nd, 2025



Commodities Summary

- Digging countries better growth prospects
- Consuming countries mostly no growth
- Control of commodities equals geopolitical power



Tailwinds & Headwinds

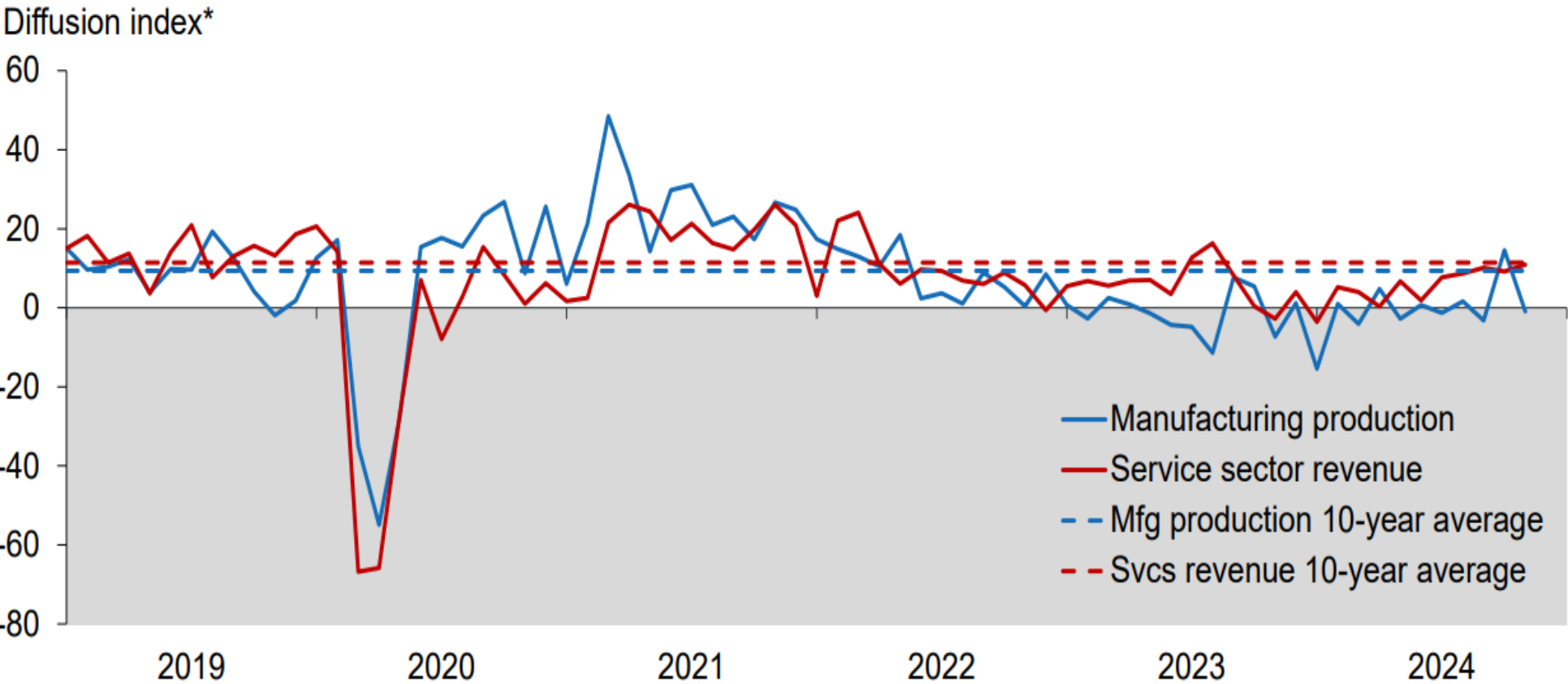
Tailwinds

- Record earnings and margins
- Re-shoring opportunities
- Possible de-regulation
- Chevron & Loper Bright remove obstacles

Headwinds

- Getting away from deficit spending
- 4 wars & 3 gearing up
- Sticky inflation
- Tariff uncertainty

Dallas Fed Surveys



*Seasonally adjusted.

NOTES: Data through November 2024. Shaded area represents contractionary territory.

SOURCE: Federal Reserve Bank of Dallas' Texas Business Outlook Surveys.

DATA: [Surveys - Dallasfed.org](https://surveys.dallasfed.org)



Texas is Best!

- 8th largest global economy – 15.4mm workers
- Largest U.S. exporter since 2001
 - Leader in high tech exports since 2012
- #1 in Oil Rigs
 - 5.8 out of 13mm barrels of crude oil per day
- Through Q3 Texas produced more than 9% of U.S. GDP and 22% of all U.S. exports
- Tax base growing faster than the nation

Rates



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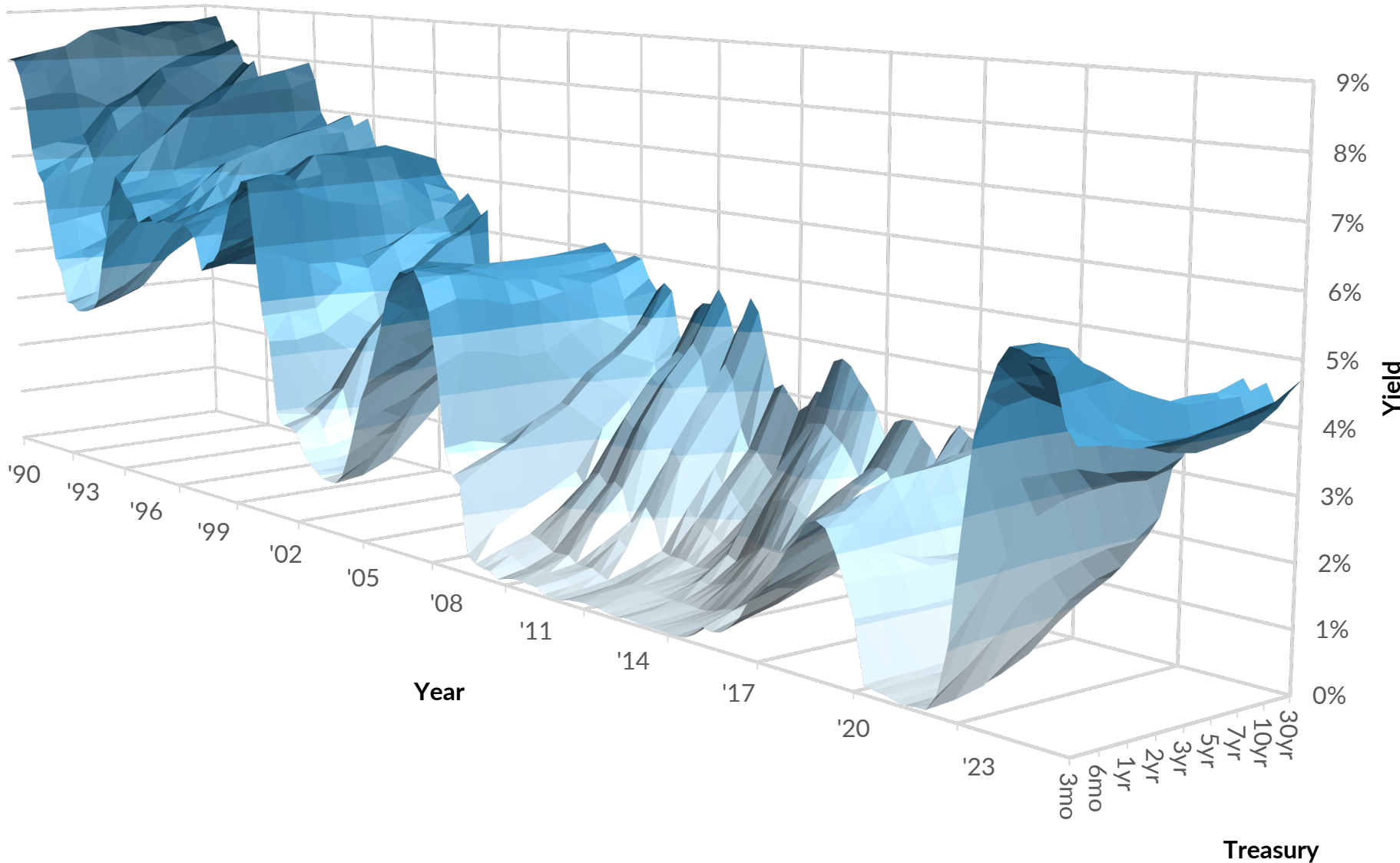
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U.S. 10yr Treasury Yield



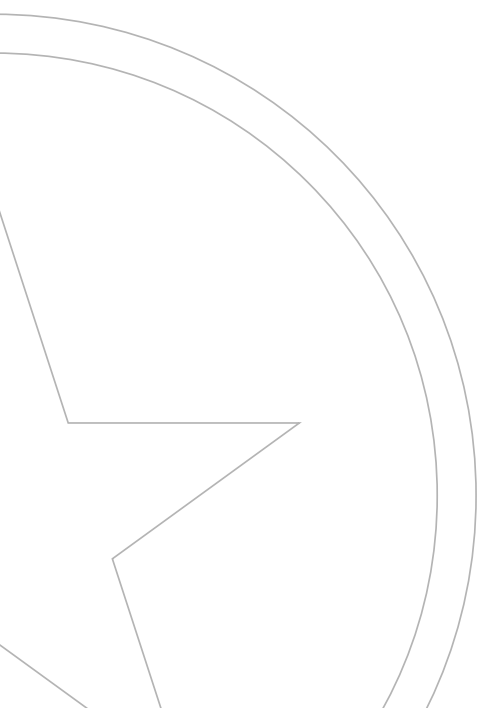
Data Source: FRED
*Data as of March 31st, 2025

U.S. Treasury Yield Curve



Data Source: Fred
*Data as March 31st, 2025

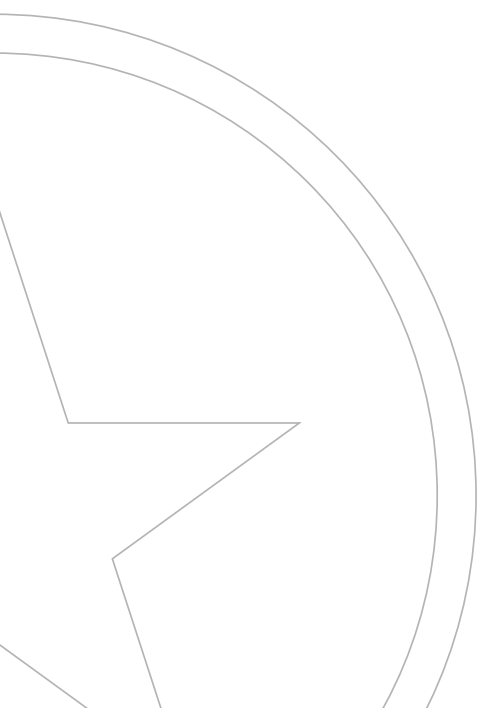
Stocks



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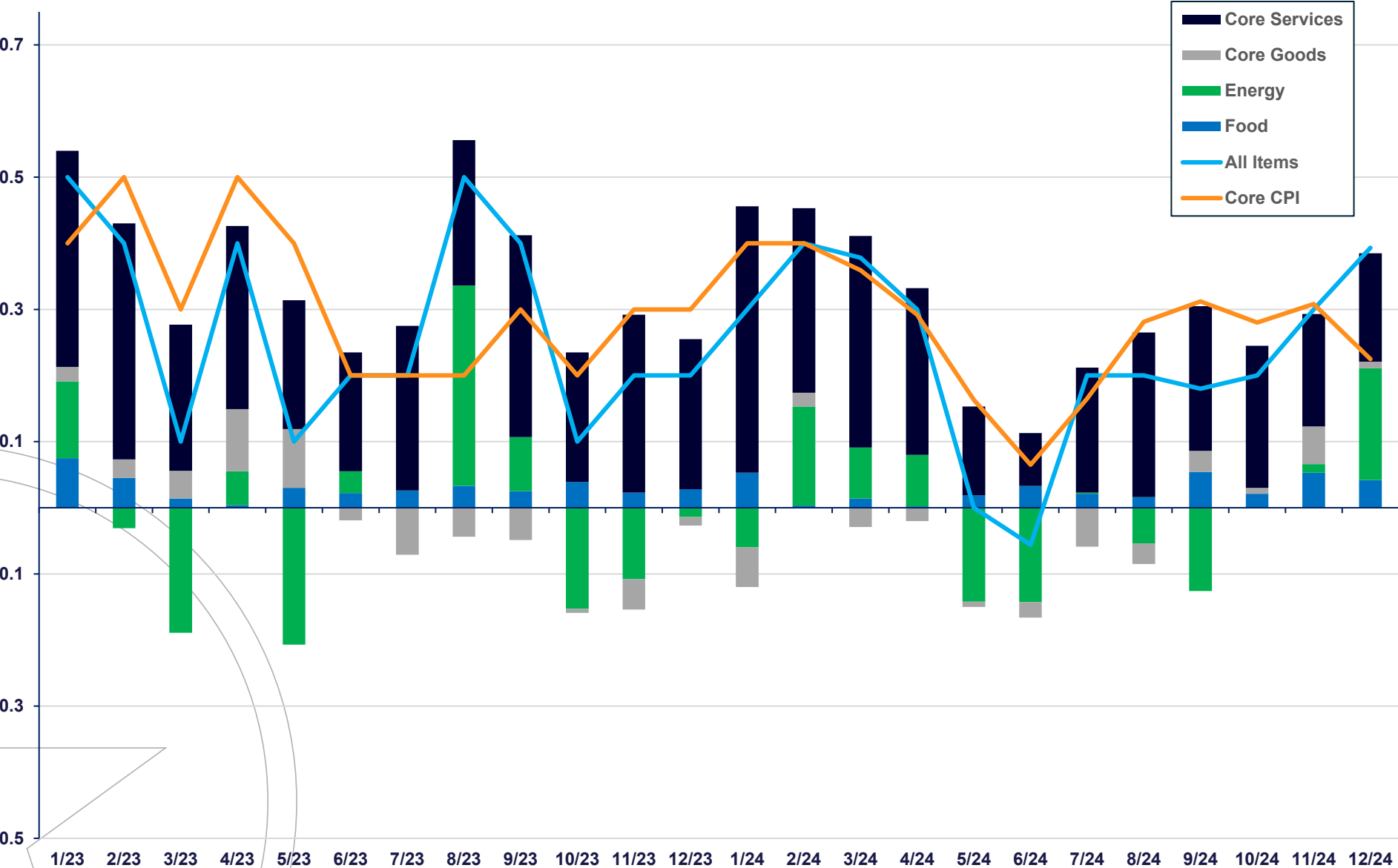
Inflation



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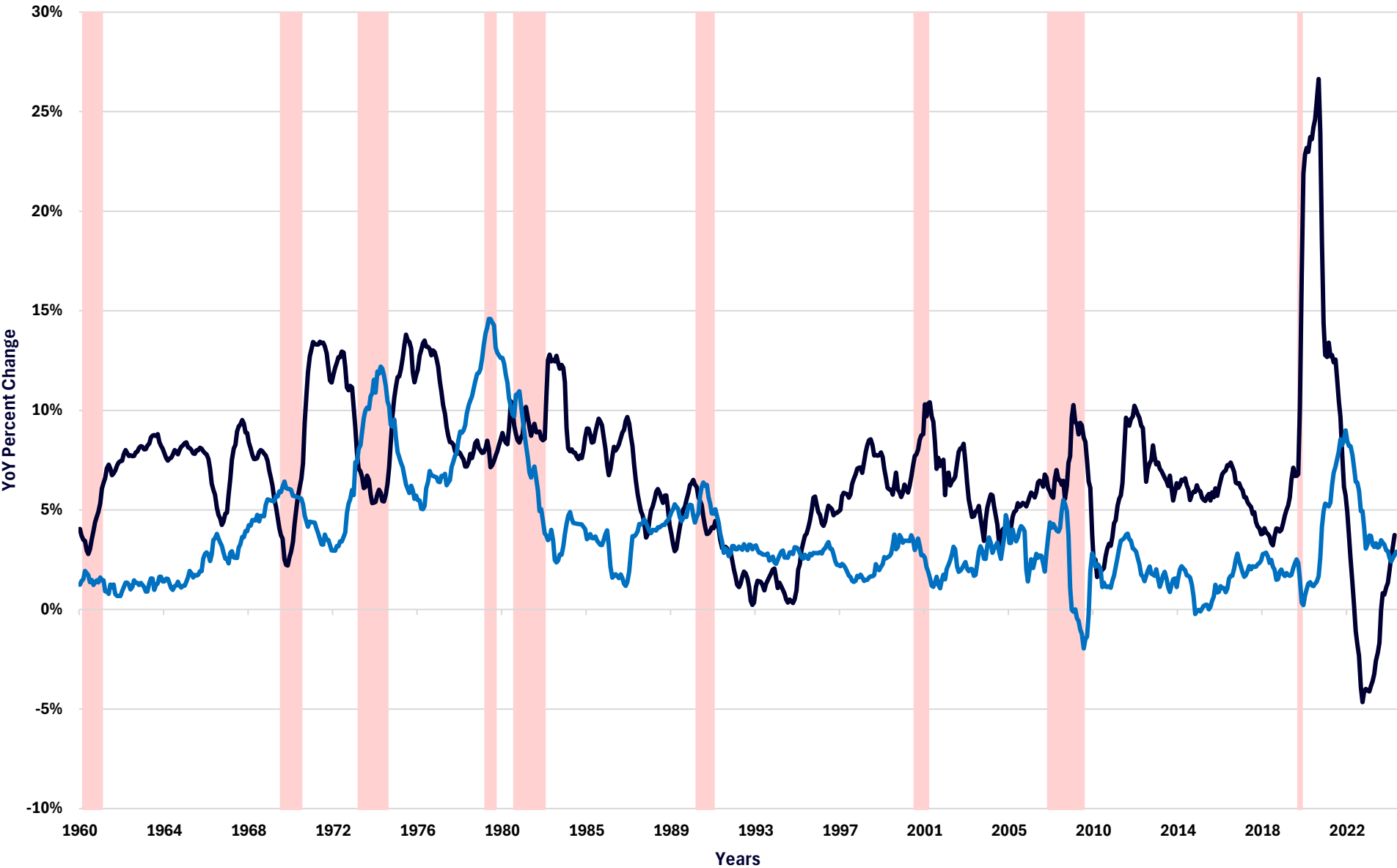
CPI M/M % Change Attribution



Data Source: Bloomberg LP
*Data as of January 15th, 2025

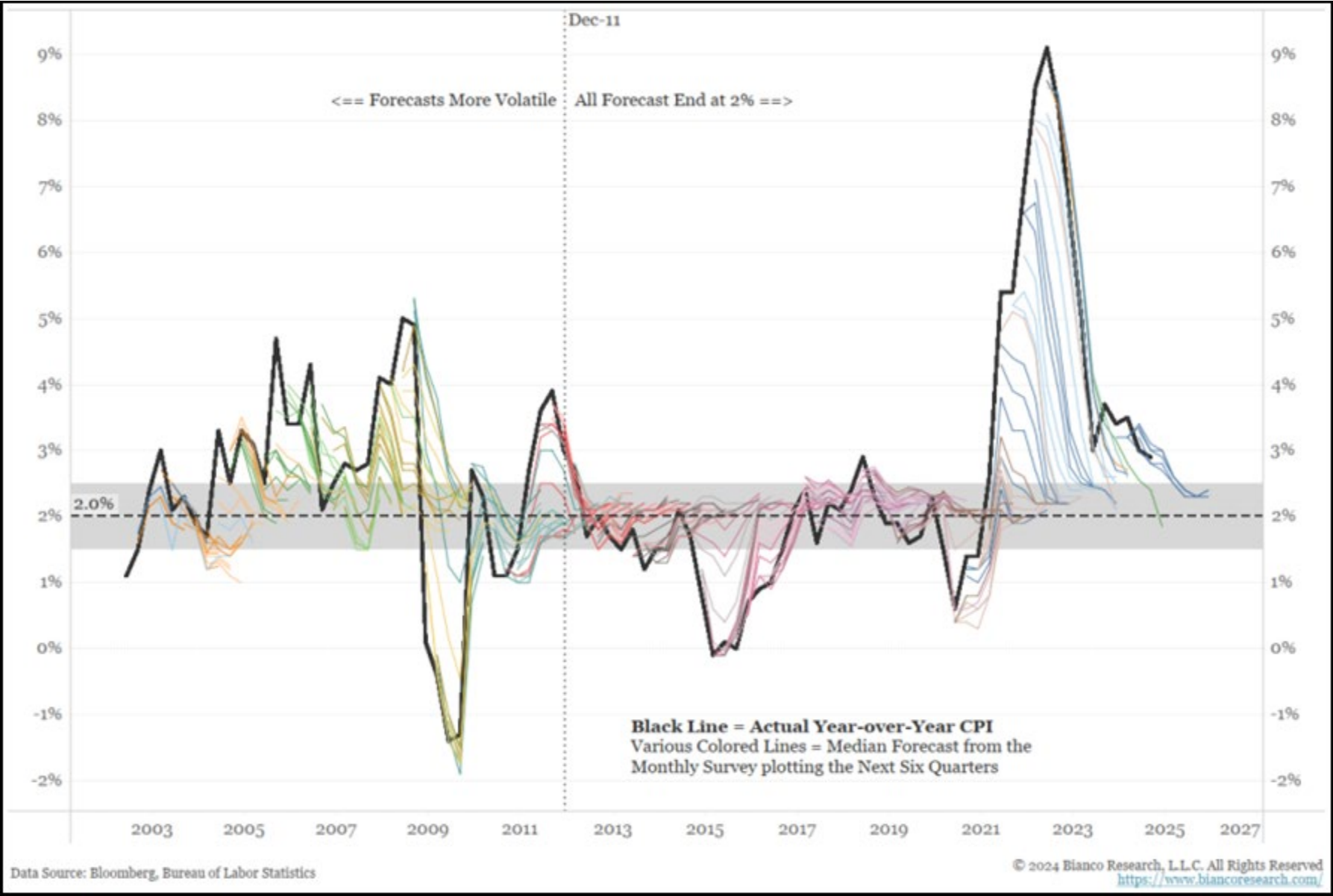
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Cash & Currency (M2) & CPI YoY Growth



Data Source: FRED
*Data as of January 15th, 2025

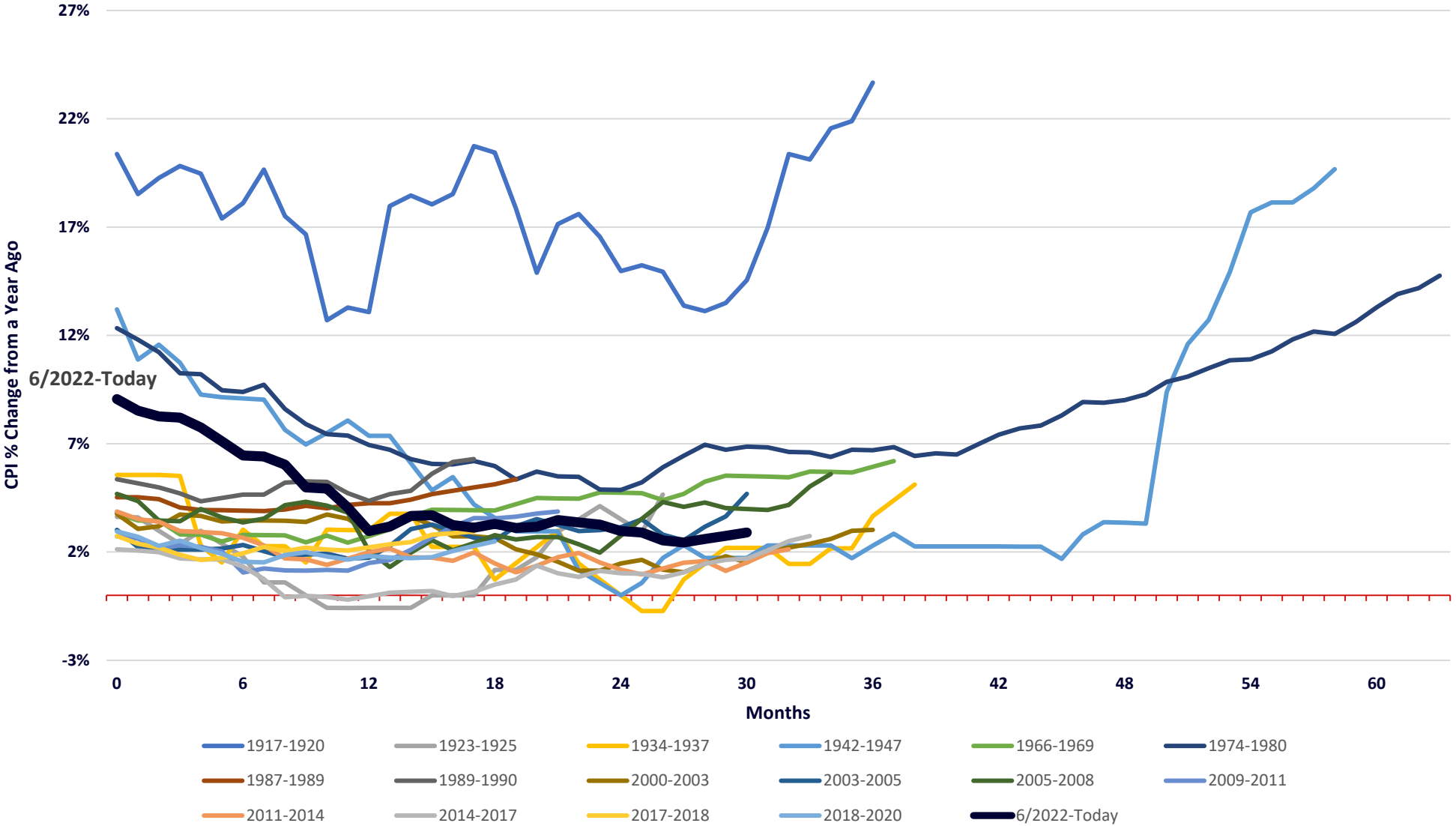
Fed Dream – The Magic 2%



Inflation Echo Peaks



Median time to Echo – 33.5mo



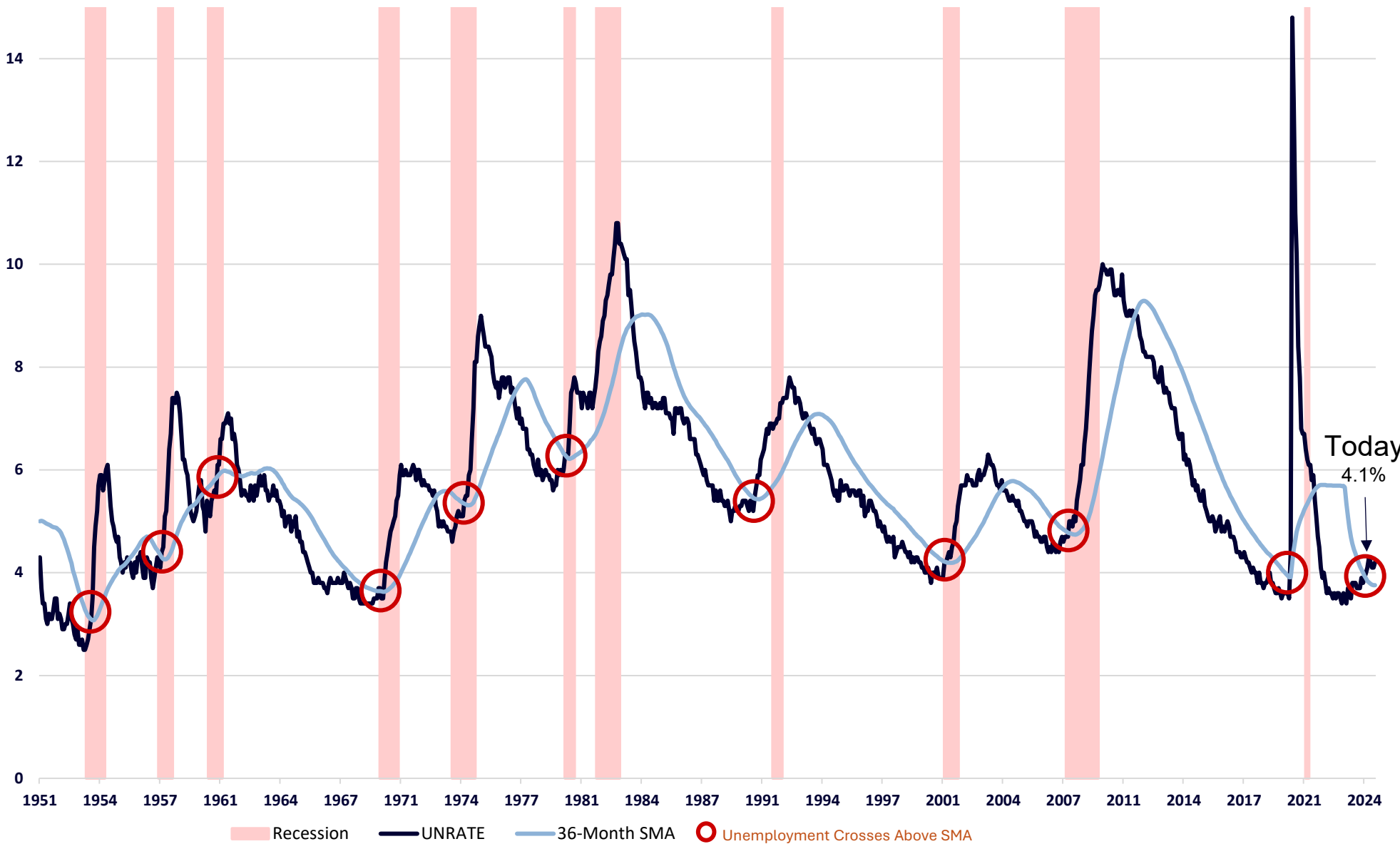
Data Source: FRED
*Data as of January 15th, 2025



Inflation Summary

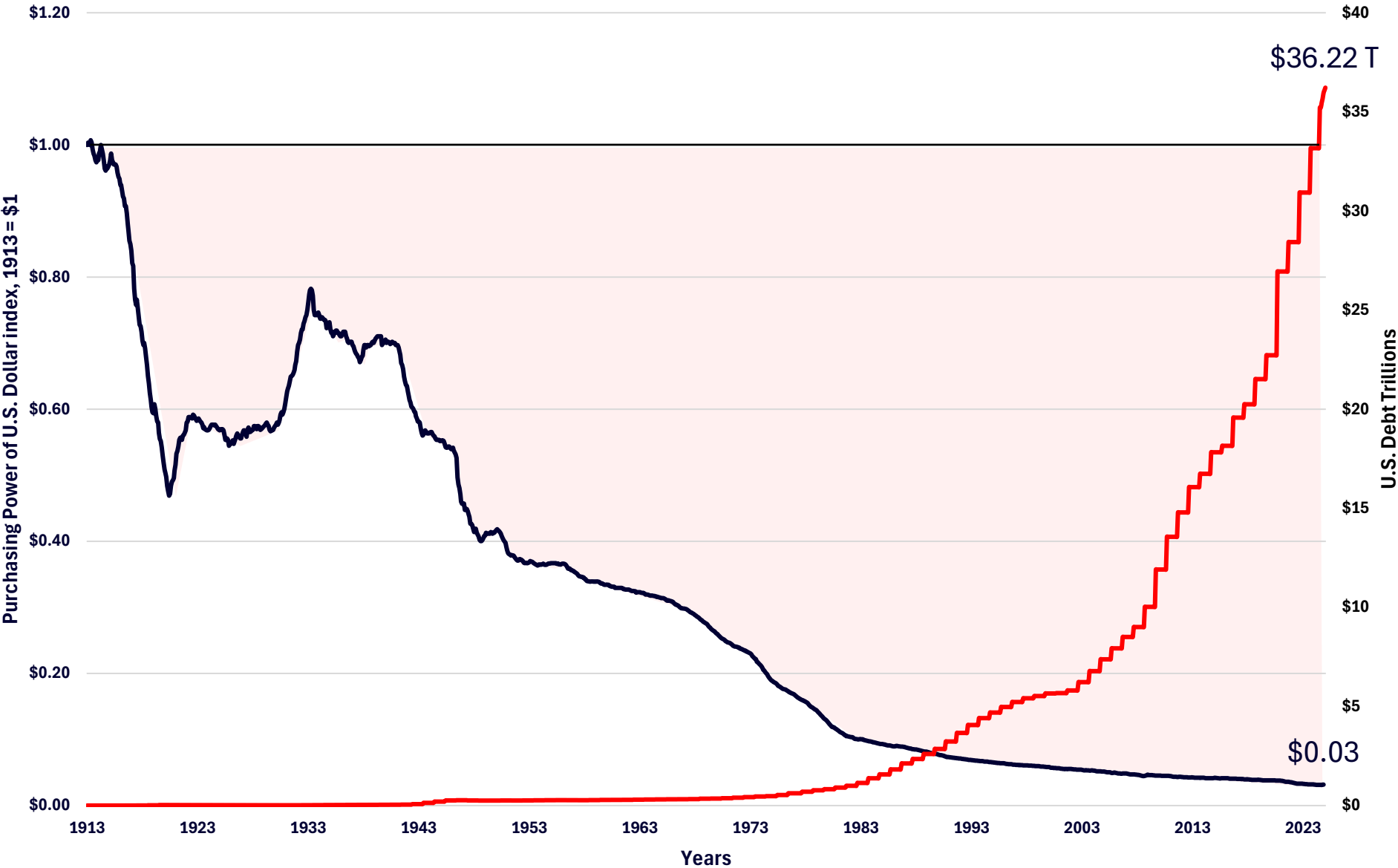
- 3% floor headed towards 4%
- New cycle starting
- Too much money in circulation
- Fed is not fighting inflation

Unemployment Rate Crossing the 36Mo Moving Average



Data Source: FRED
*Data as of December 31st, 2024

USD Purchasing Power and U.S. Debt



Data Source: FRED
*Data as of January 21st, 2025

U.S. Debt



Time Required to reach Total U.S. Debt Levels of:	
\$10 Trillion	232 Years
\$20 Trillion	9 Years
\$30 Trillion	4.5 Years
\$31 Trillion	8 Months
\$32 Trillion	8 Months
\$33 Trillion	3 Months
\$34 Trillion	3 Months
\$35 Trillion	7 Months
Latest Level	\$36.22 Trillion

Data Source: FRED
*Data as of January 21st, 2025

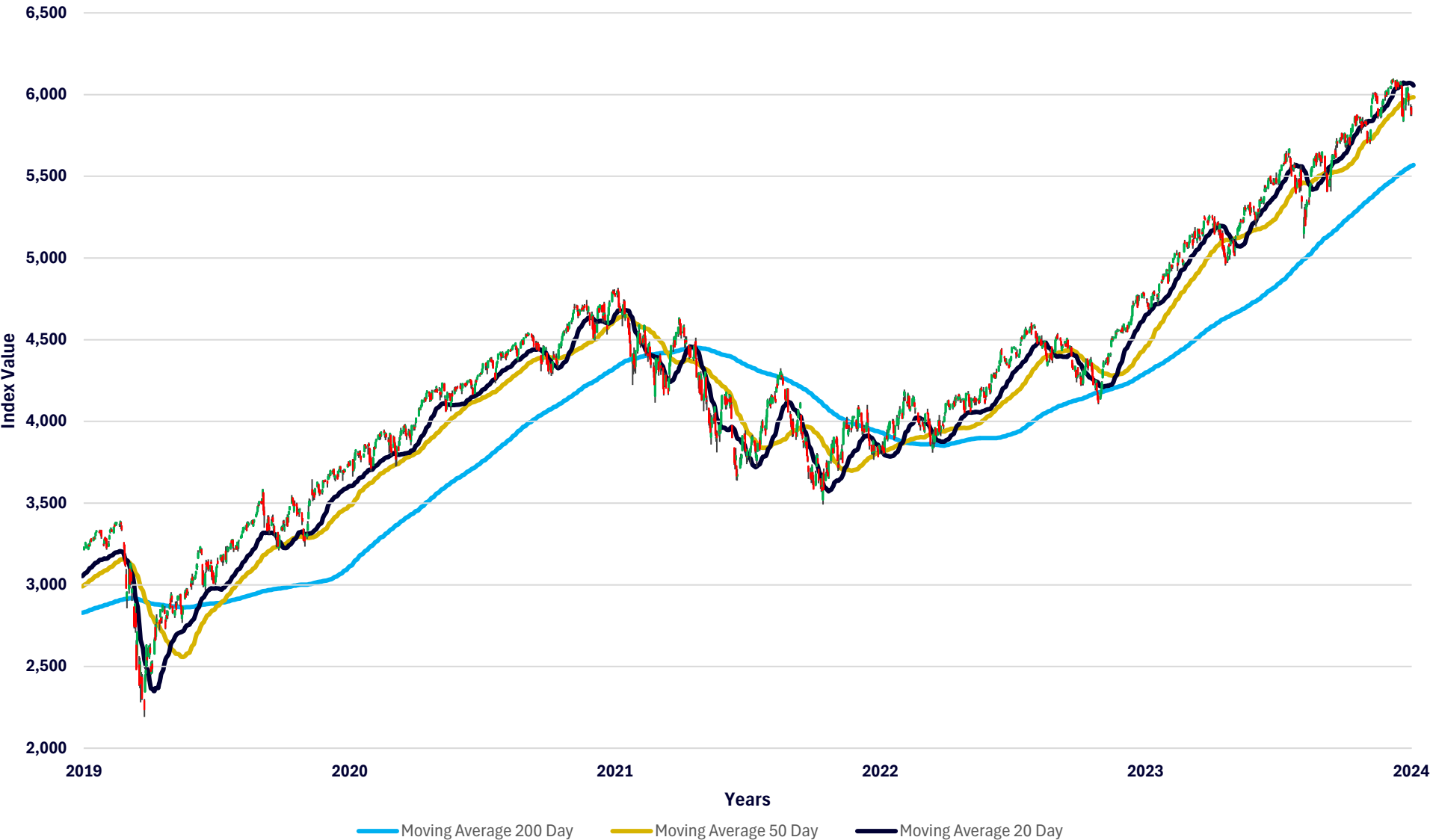
Markets



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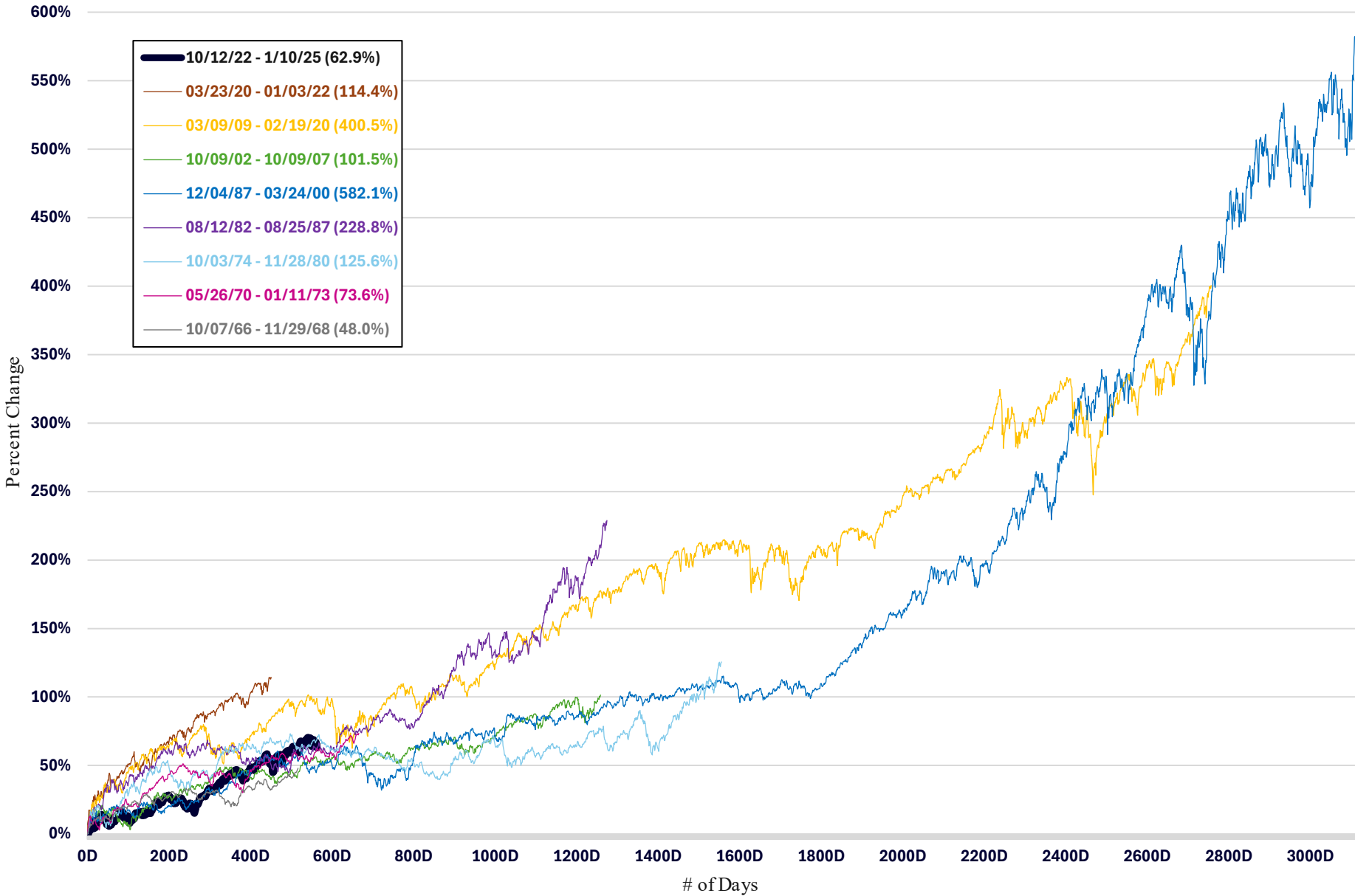
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S&P 500 Daily Moving Averages



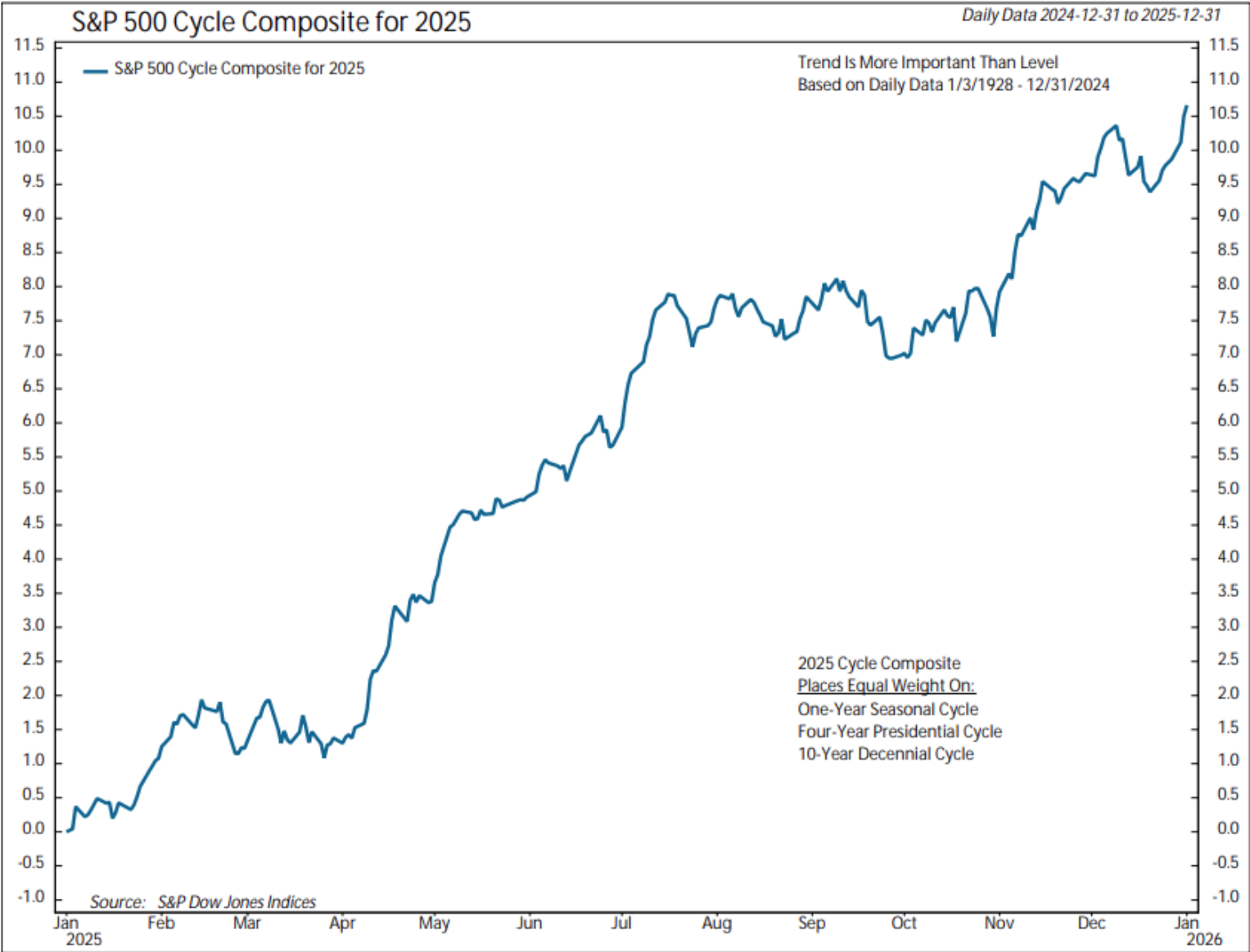
Source: Bloomberg
*Data as of December 31st, 2024

S&P 500 Bull Markets Since 1966* (daily, percent change)



Data Source: Yardeni
*Data as of January 10th, 2025

S&P 500

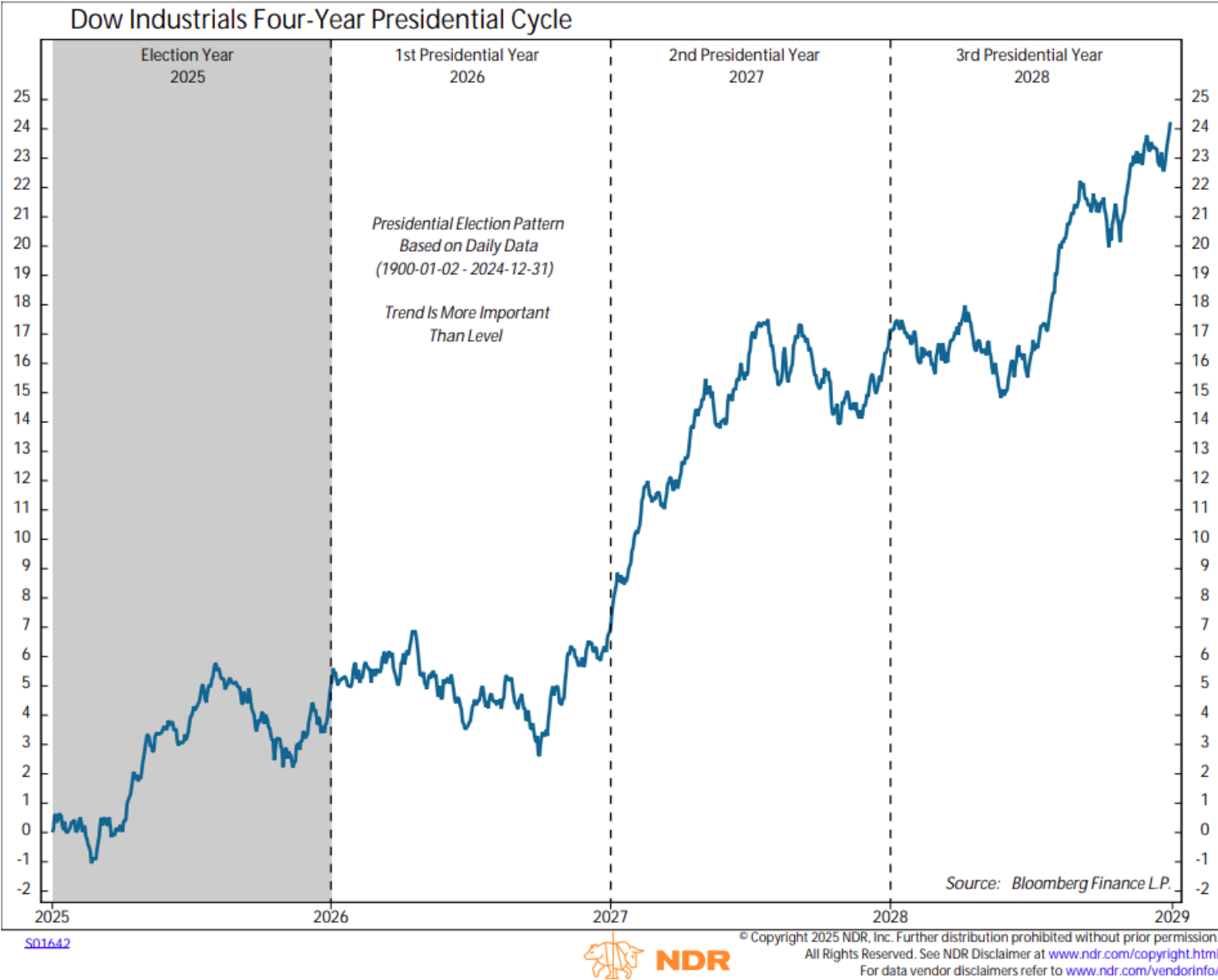


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Four – Year Presidential Cycle

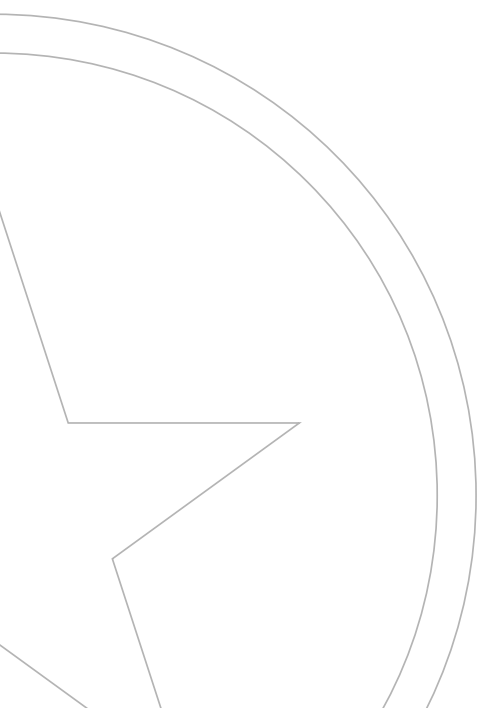




Markets Summary

- Long-term Bull several years left
- Late cycle Bull – expect turbulence
- Valuations – High Trend – Neutral Sentiment – Neutral
- 40-year Bull in interest rates is over
- Expect long rates around 4.5%

Beyond



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Tax Bill Status



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TCJA 2017 Status

- Expire end of 2025
 - TCJA reduced most of the 7 individual tax rates & widened brackets

- TBD

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New Business Court

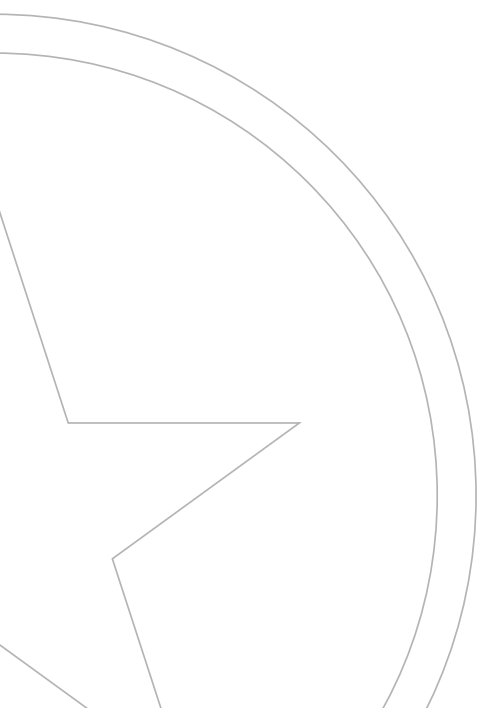
- Delaware Chancery Court
 - One court for business cases
 - Recent decisions making DE less attractive for business incorporation
 - More deference to non-controlling shareholders and “stakeholders”
- 2023 Texas House Bill 19 creates specialized business trial court
 - Statewide jurisdiction – started with 5 divisions
 - Austin, Dallas, Ft Worth, Houston, San Antonio
 - 2 judges each; clerk in Travis County
 - Judges appointed by Governor; confirmed by Senate; 2 yr terms
 - At least 10 years experience in complex civil business litigation
 - Disputes at least \$5mm Governance, Securities, Piercing the veil
 - No medical mal, estate, personal injury



Senate Bill 29 & companion House Bill 15

- Changes to Business Organizations Code
 - Goal: Make Texas preferred domicile for legal incorporation
 - Codify the “Business Judgement Rule”:
 - Common law: directors not personally liable for decisions made in good faith and reasonable care; in best interests of company
 - SB 29 requires plaintiff to bear burden of proof in claim of breach of fiduciary duty
 - Shield firms from meritless lawsuits:
 - Require a minimum ownership percentage before a derivative lawsuit can be filed
 - Prohibit recovery of attorney fees in some cases
 - Allow determination in advance from a judge on independence of directors serving on special committees to exempt them from derivative claims
 - Company By-laws state that the new Texas Business Court will be the exclusive venue for these disputes
 - Possibility that emails and similar communications are not viewed as corporate records and cannot be used to replace discovery

Wars



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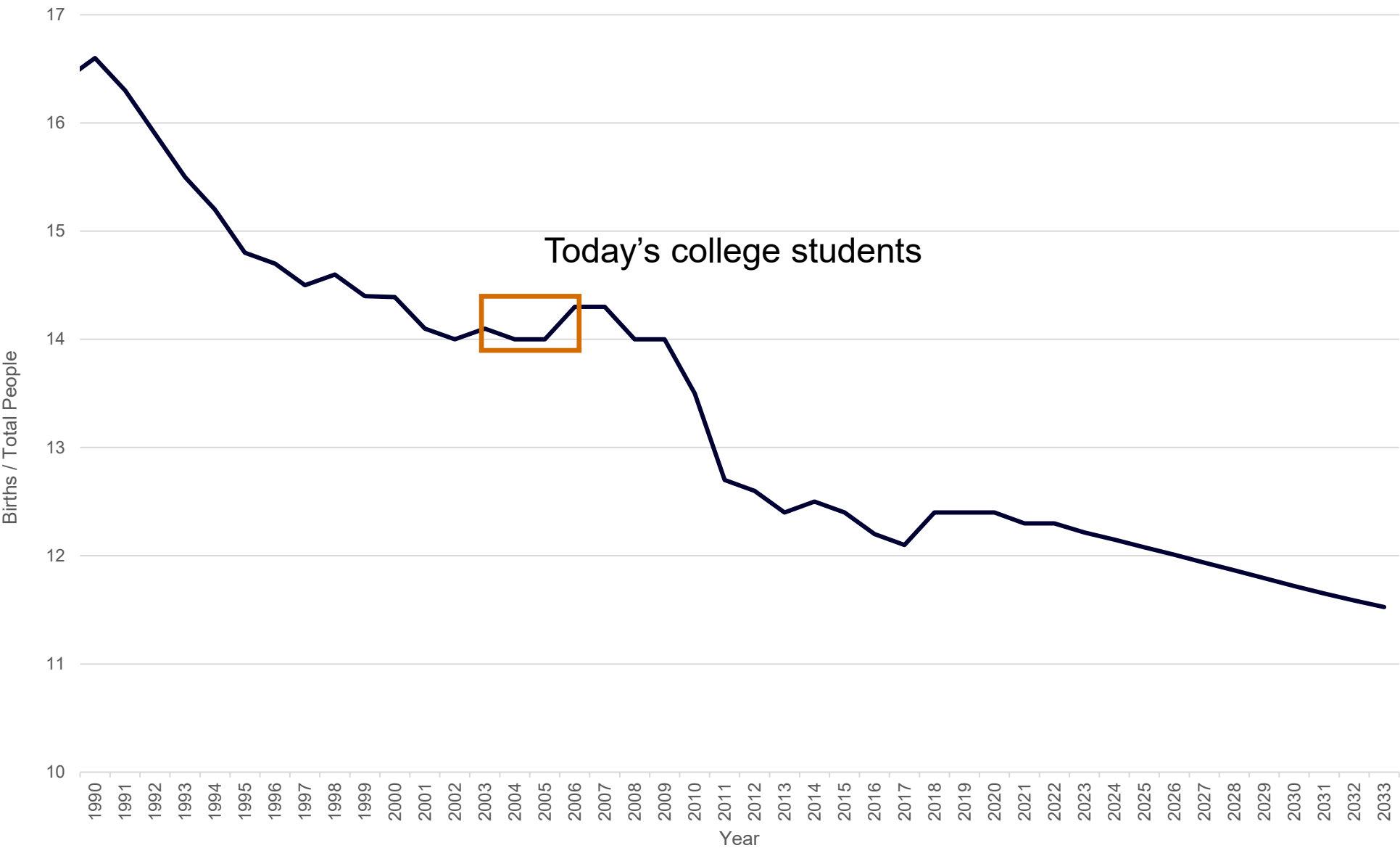
Demographics



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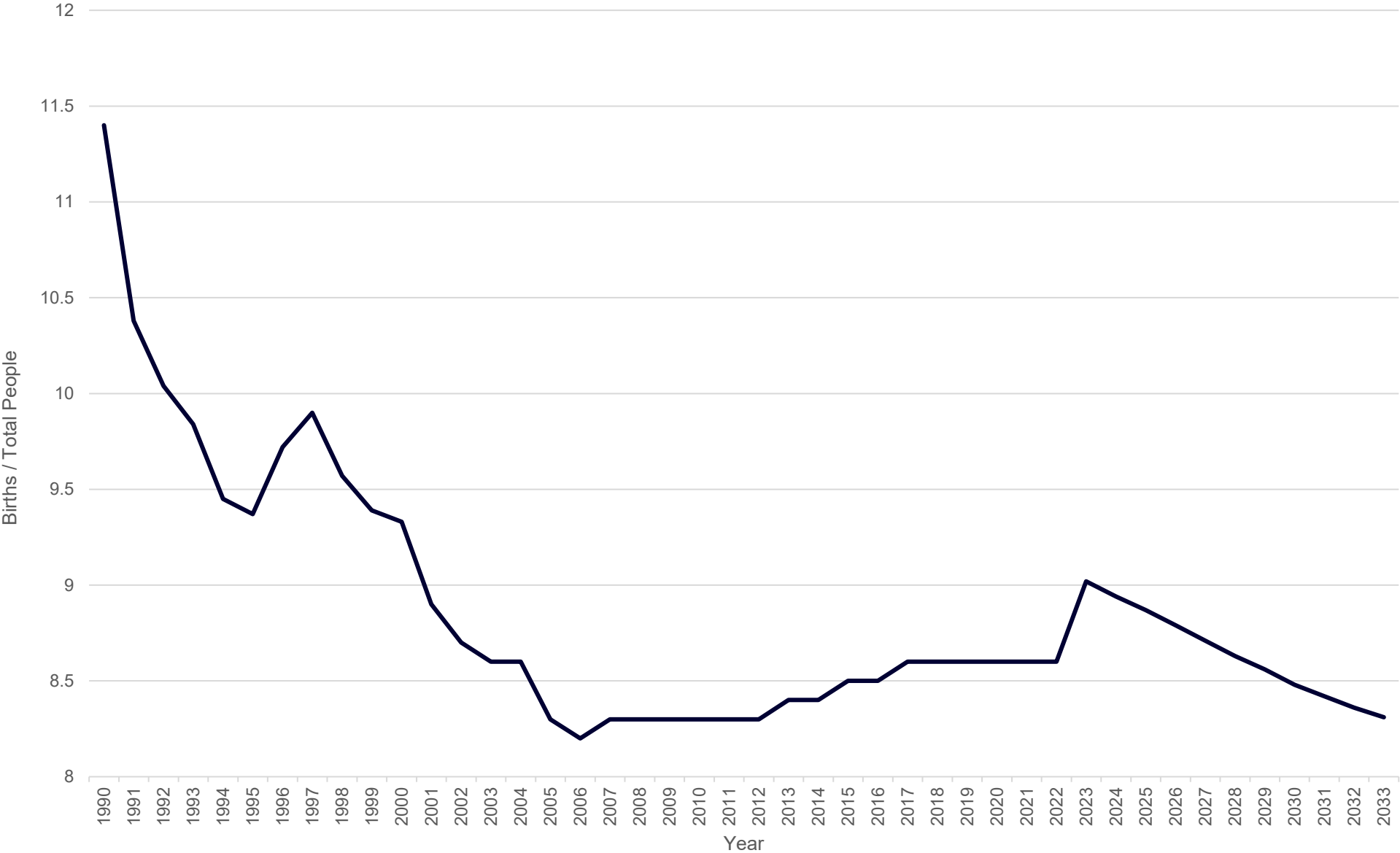
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Birthrate trend – U.S.



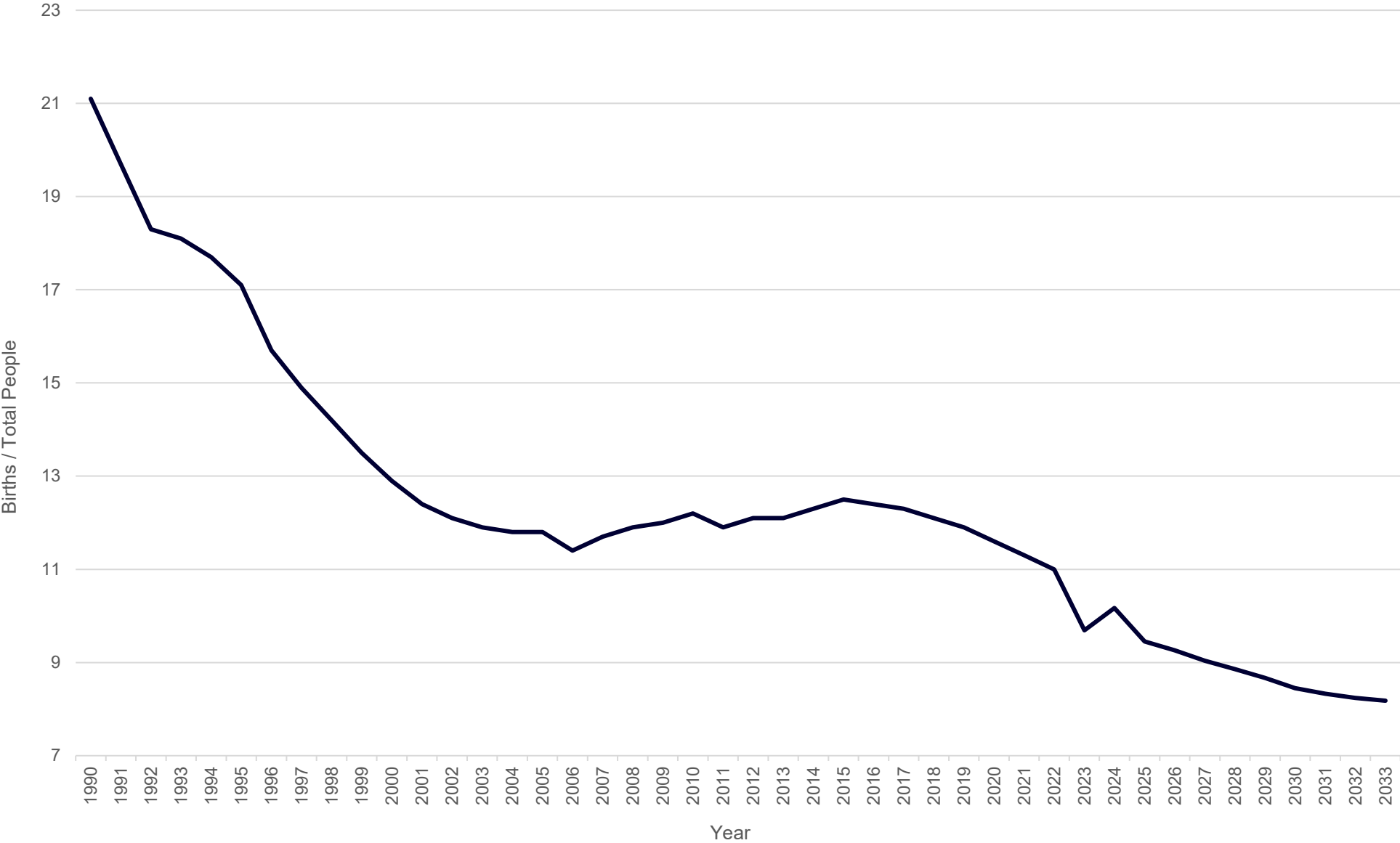
Source: Bloomberg, Census

Birthrate trend – Germany



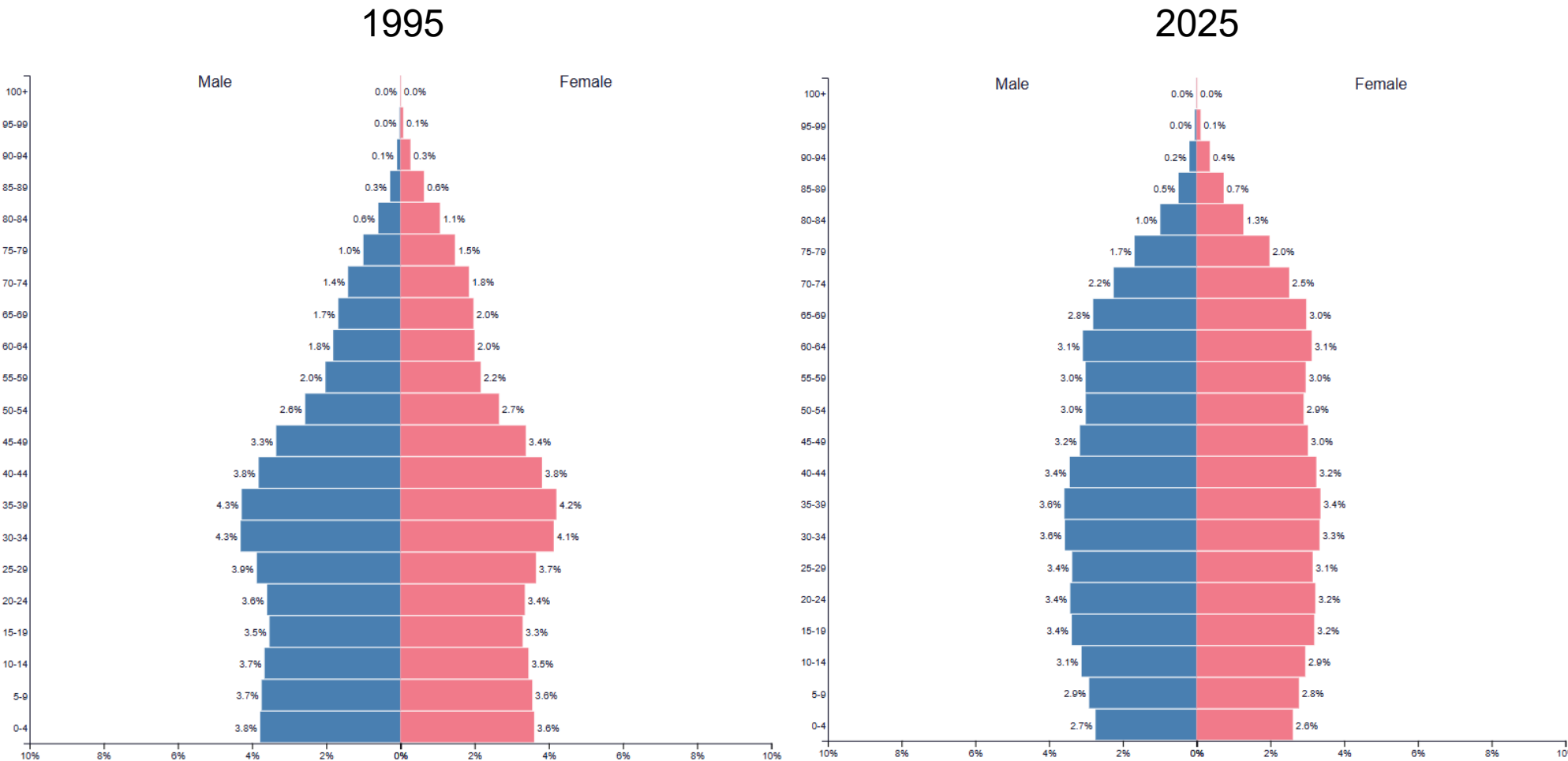
Source: Bloomberg, US Census

Birthrate trend – China

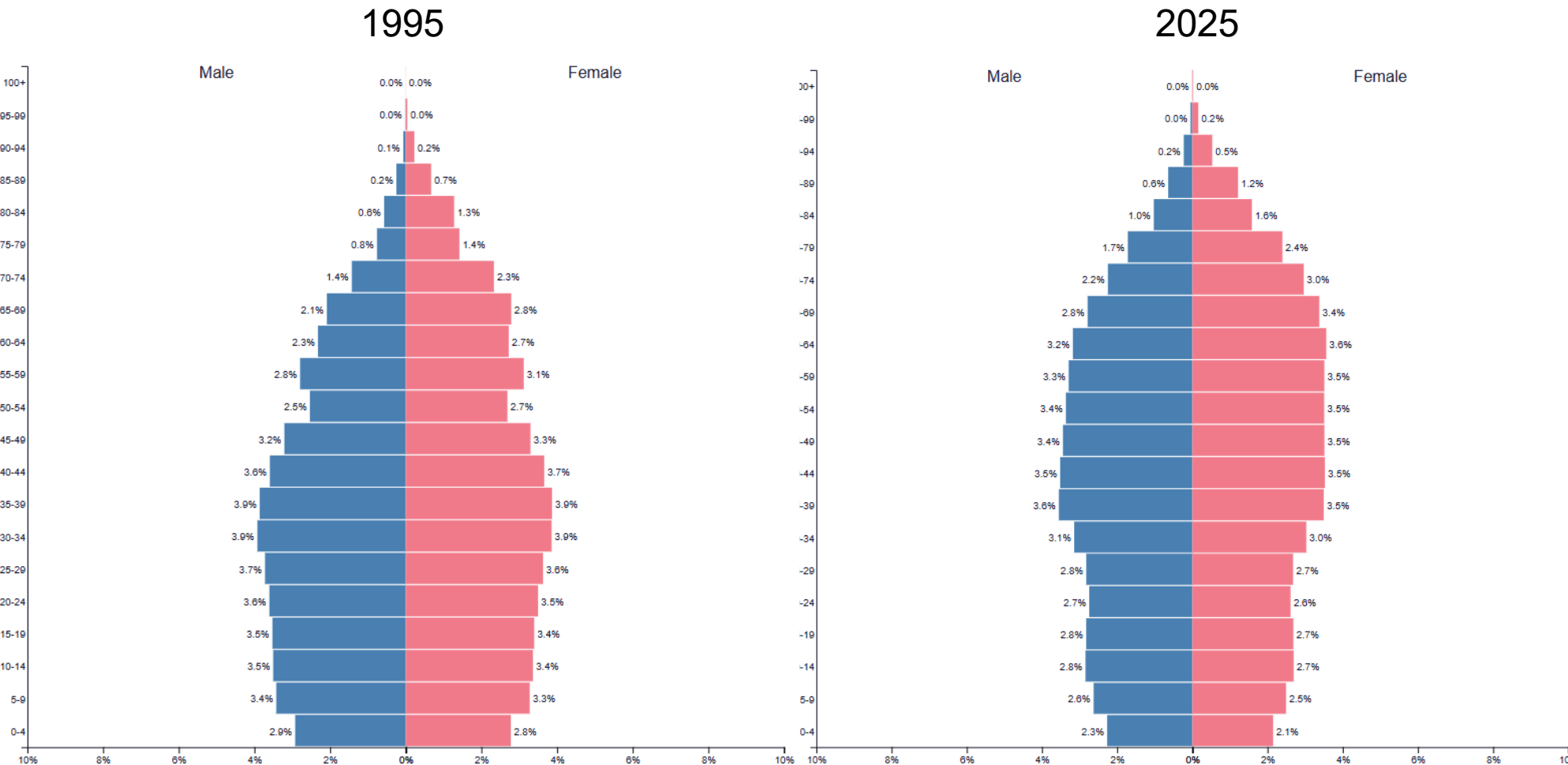


Source: Bloomberg, US Census

Age Pyramid Chart – U.S.



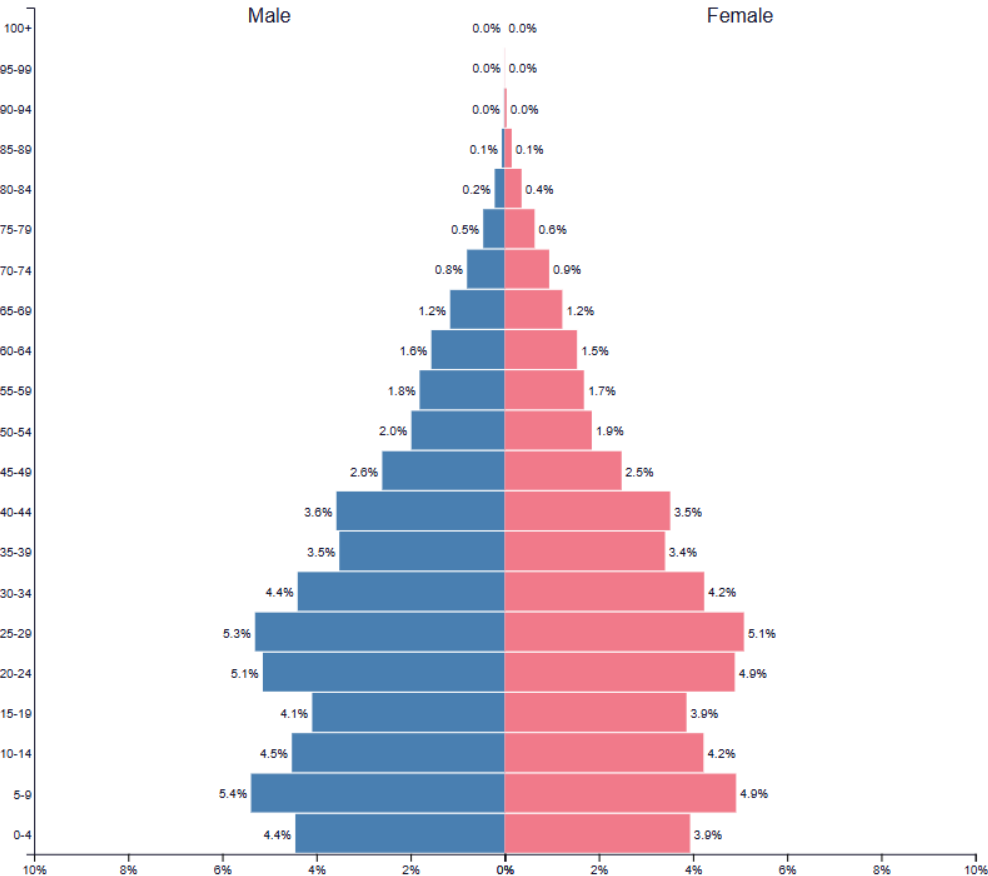
Age Pyramid Chart – Europe



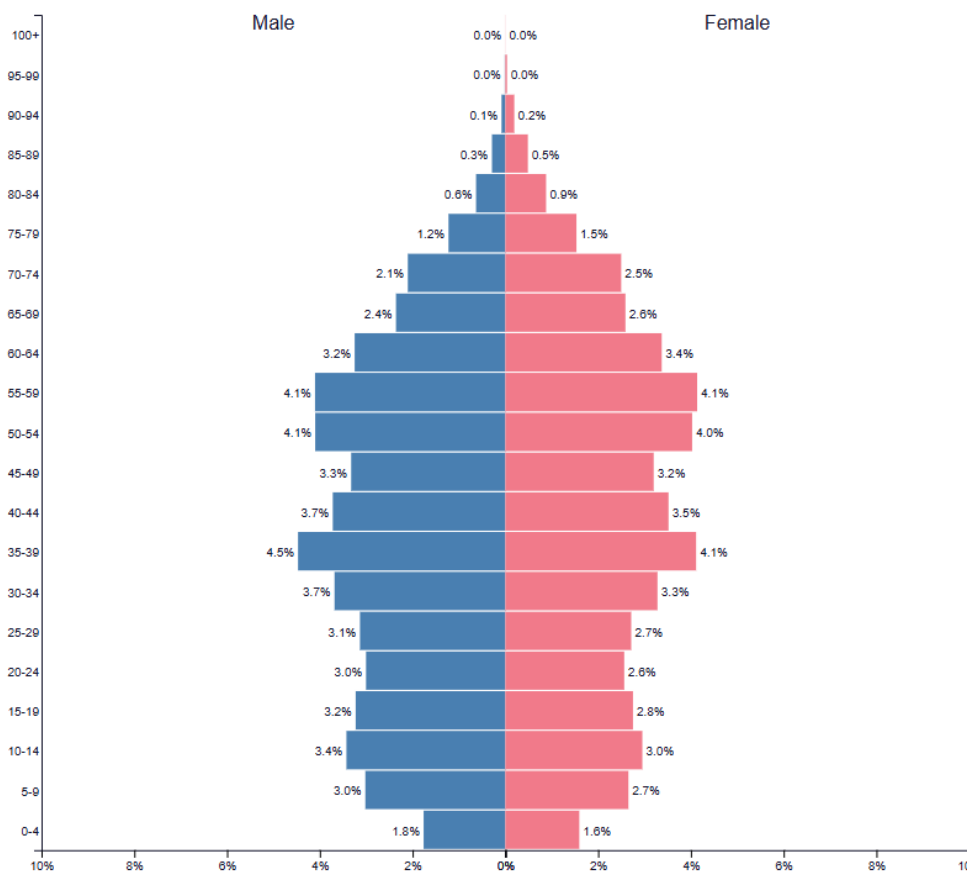
Age Pyramid Chart – China



1995



2025

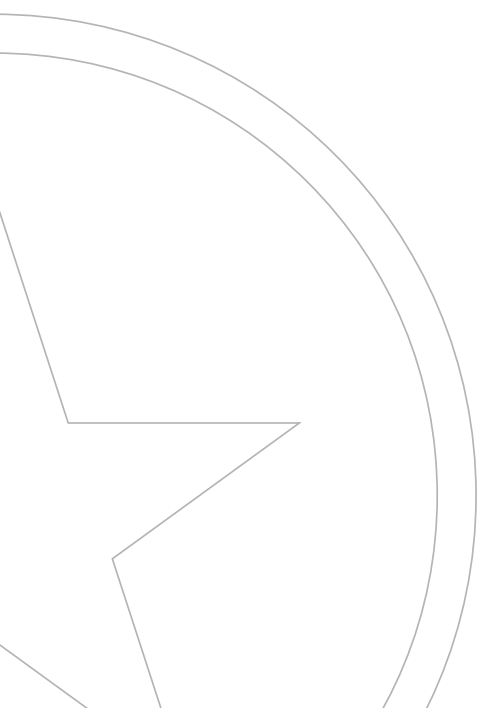




Demographics Summary

- Economic growth challenged in entire Northern Hemisphere
- Birth rates strongly correlate to food chain
- Immigration only partially solves long term growth

That “A.I.” Thing



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Artificial Intelligence

- Old tech
 - A.I. 1950s guessing at pattern matching
 - Neural Networks and genetic algorithms
- New Tech
 - Given four characters what is the probability of next 4: LLM
 - Racks & Stacks: Data Center boom
 - Electricity & land demand
- Productivity
 - LLMs so 2023
 - SLM and Defined data sets
 - Value is in the data not the tool





Summary

- 2025 should grow 1.8% Bias to upside
- Headwinds - Tariffs, 5 wars, inflation
- Texas leads US and developed growth
- Inflation 3.5%
- Interest rates headed higher in second half
- Stocks remain in Bull but bumpy year 3
- Need more kids, rare earths and electricity

Thank You



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Appendix

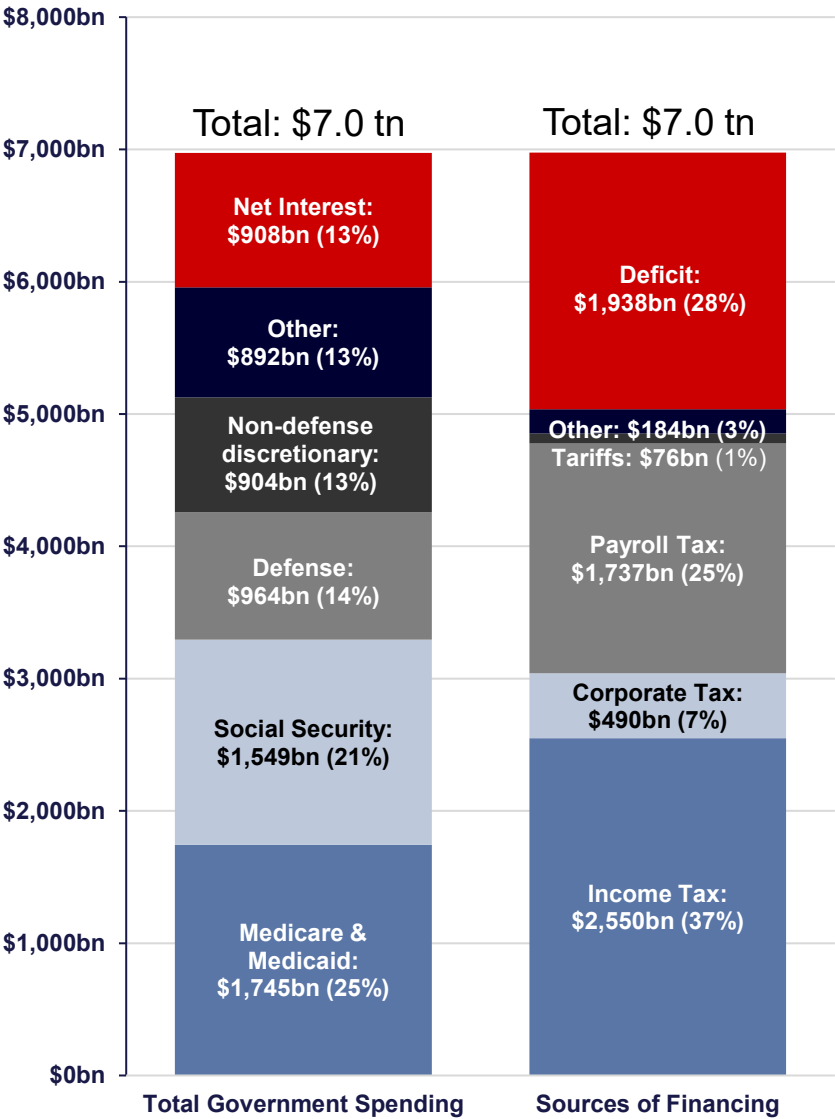


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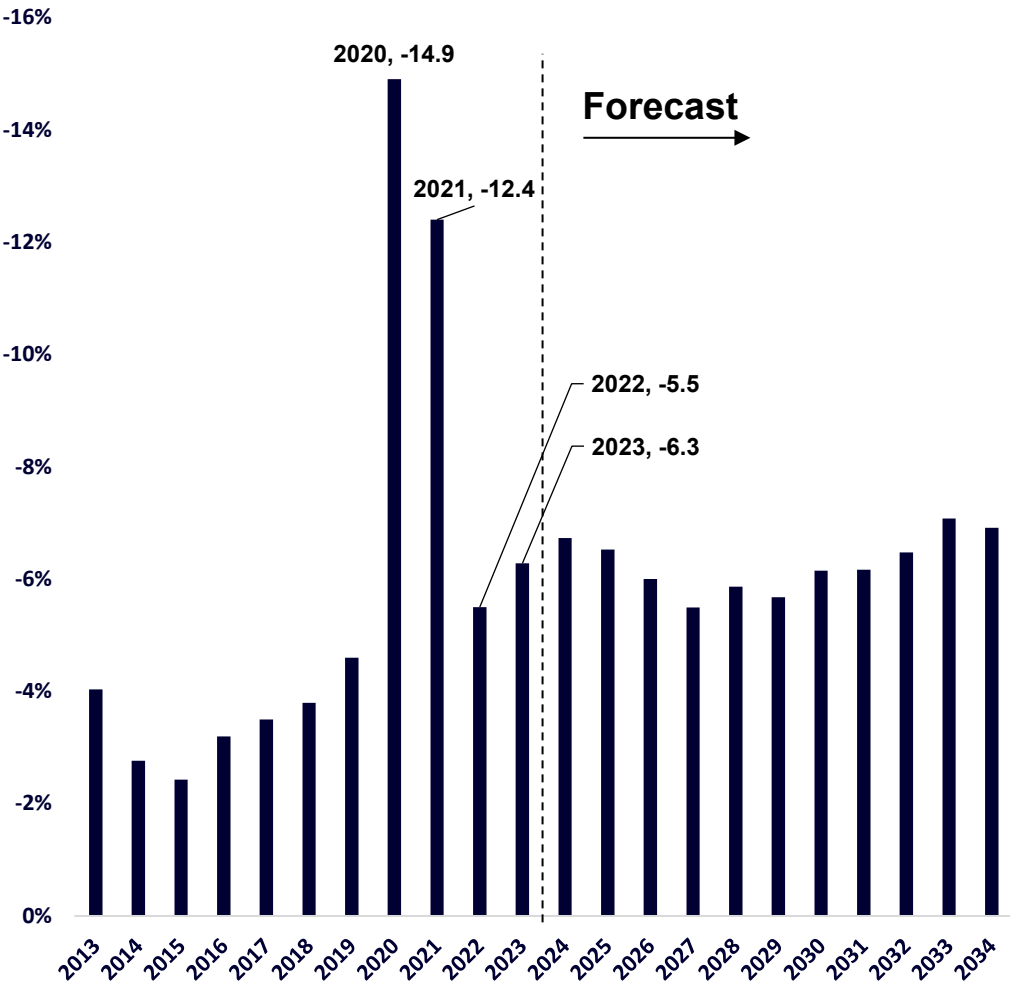


Federal Budget Spending vs Revenue



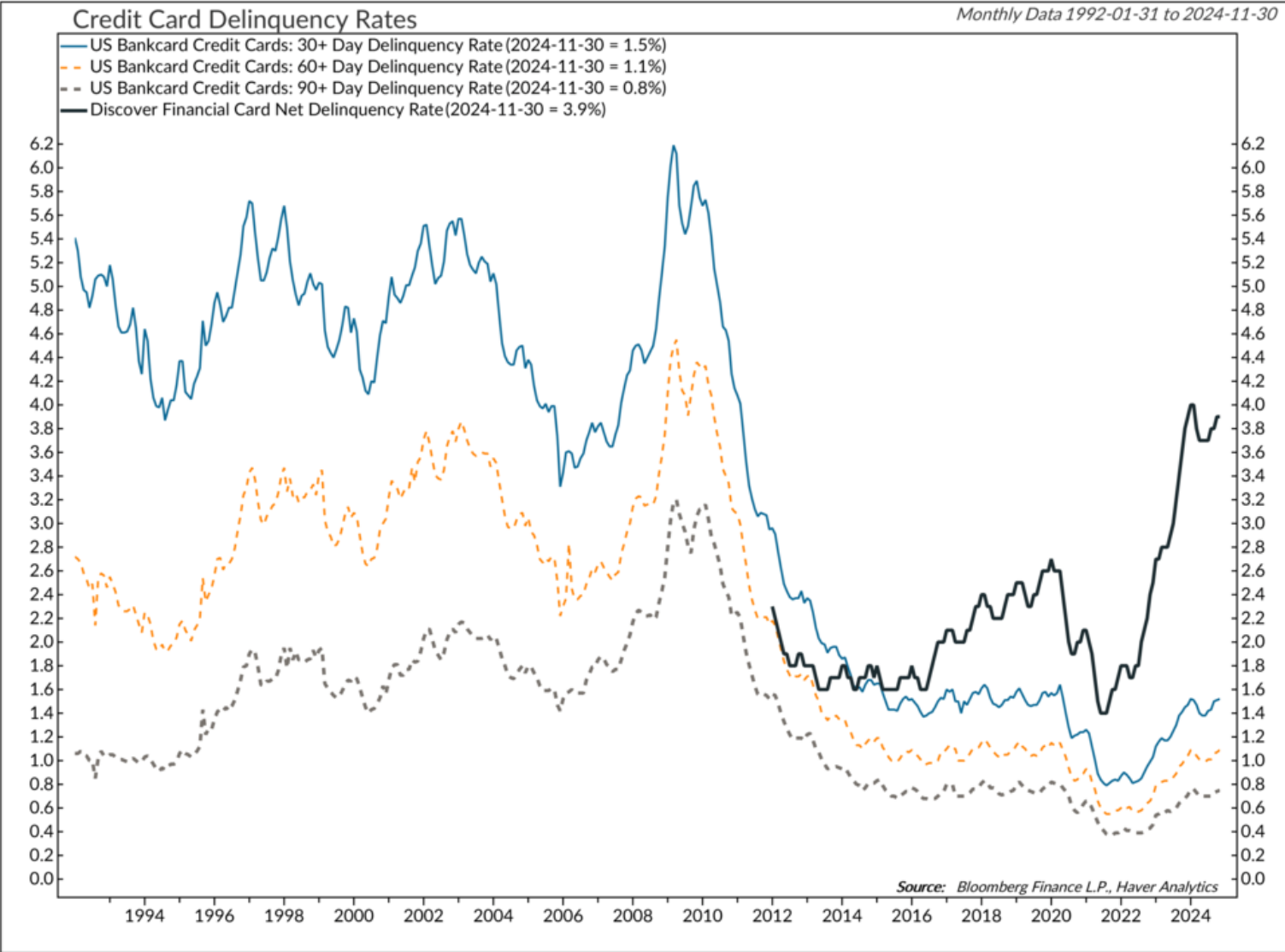
2025 Federal Budget

Federal Budget Surplus/Deficit as % of GDP



Data Source: CBO
*Data as of December 31st, 2024

US Credit Card Delinquency Rates

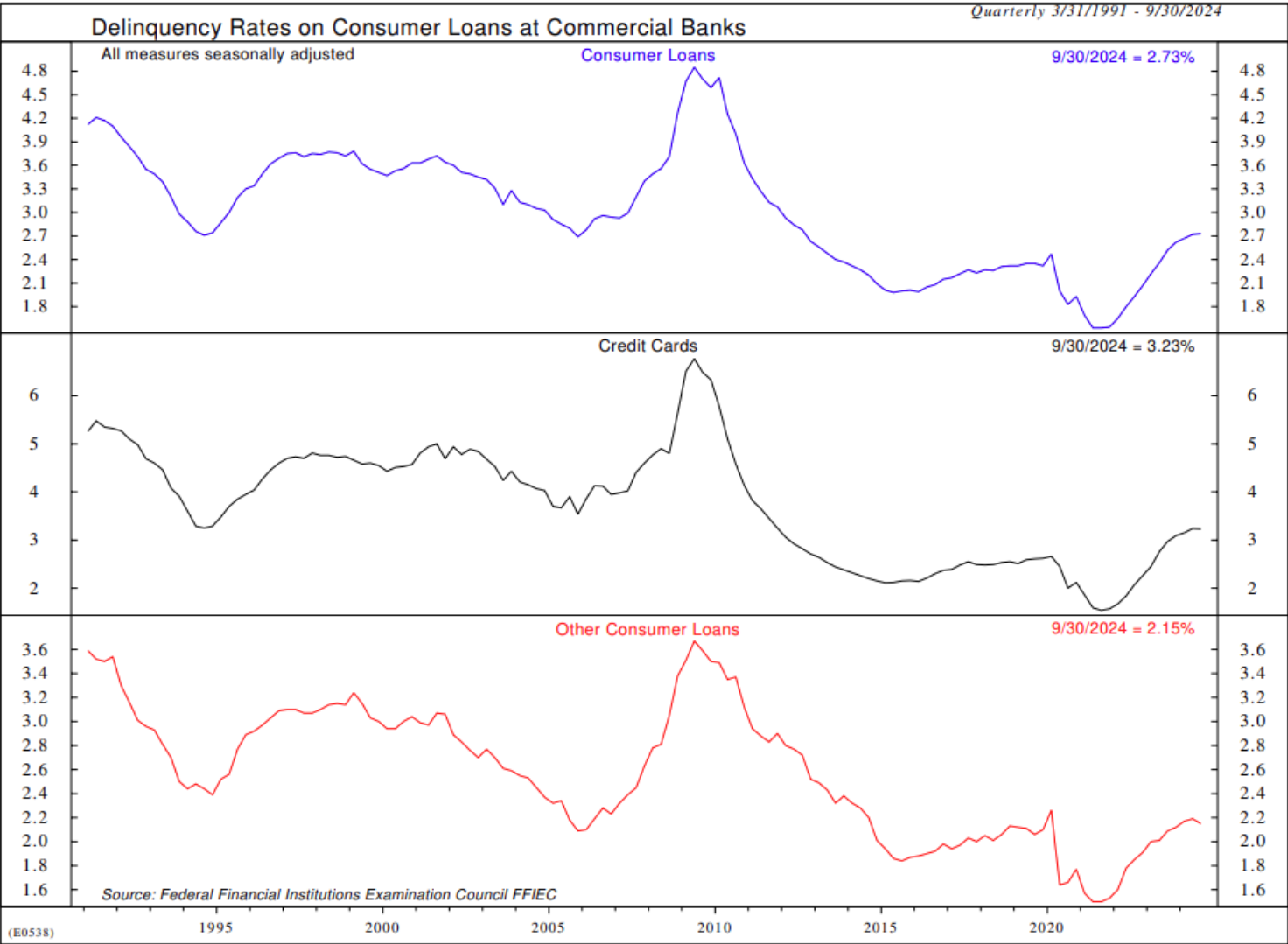


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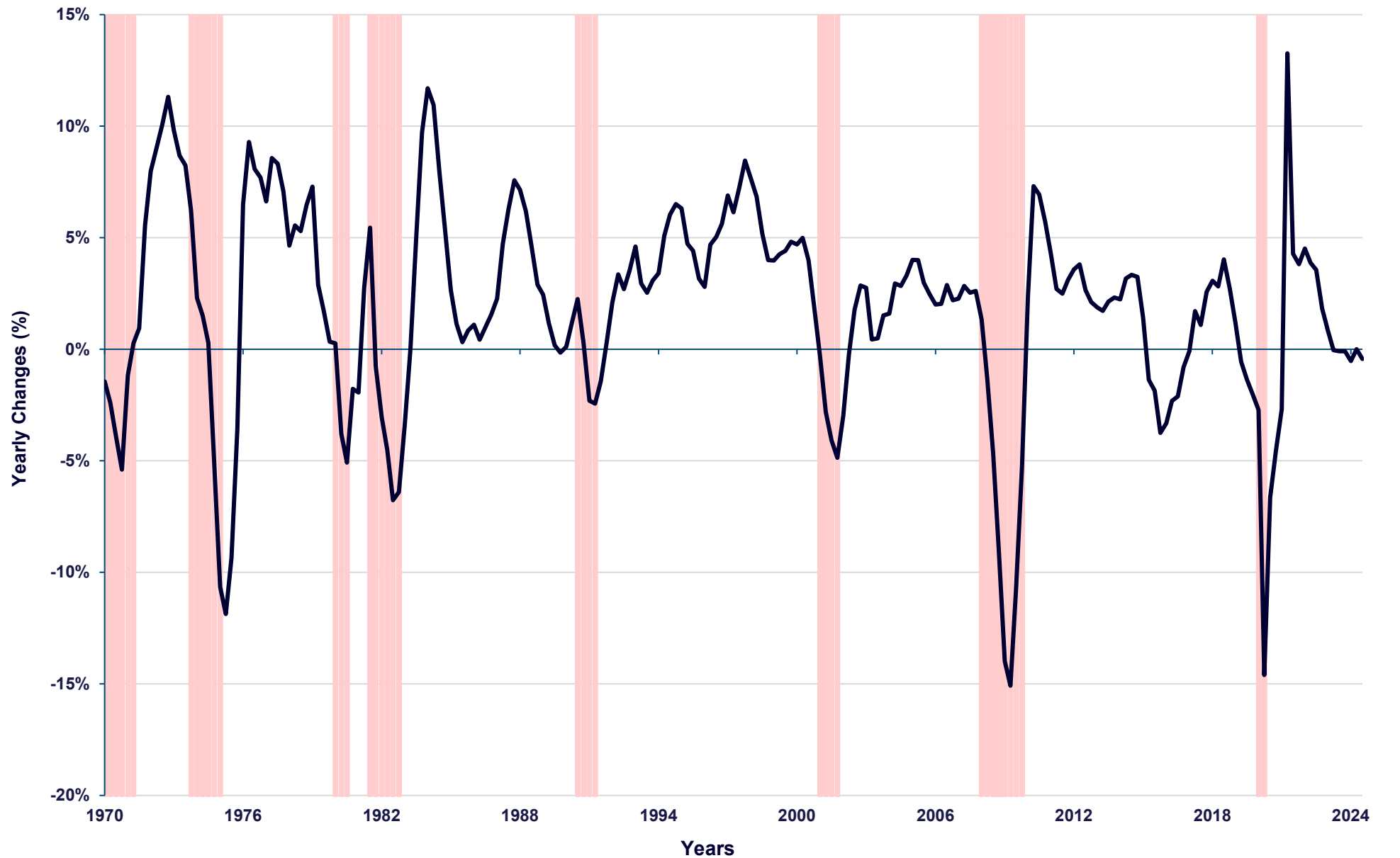
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Delinquency Rates on Consumer Loans at Commercial Banks



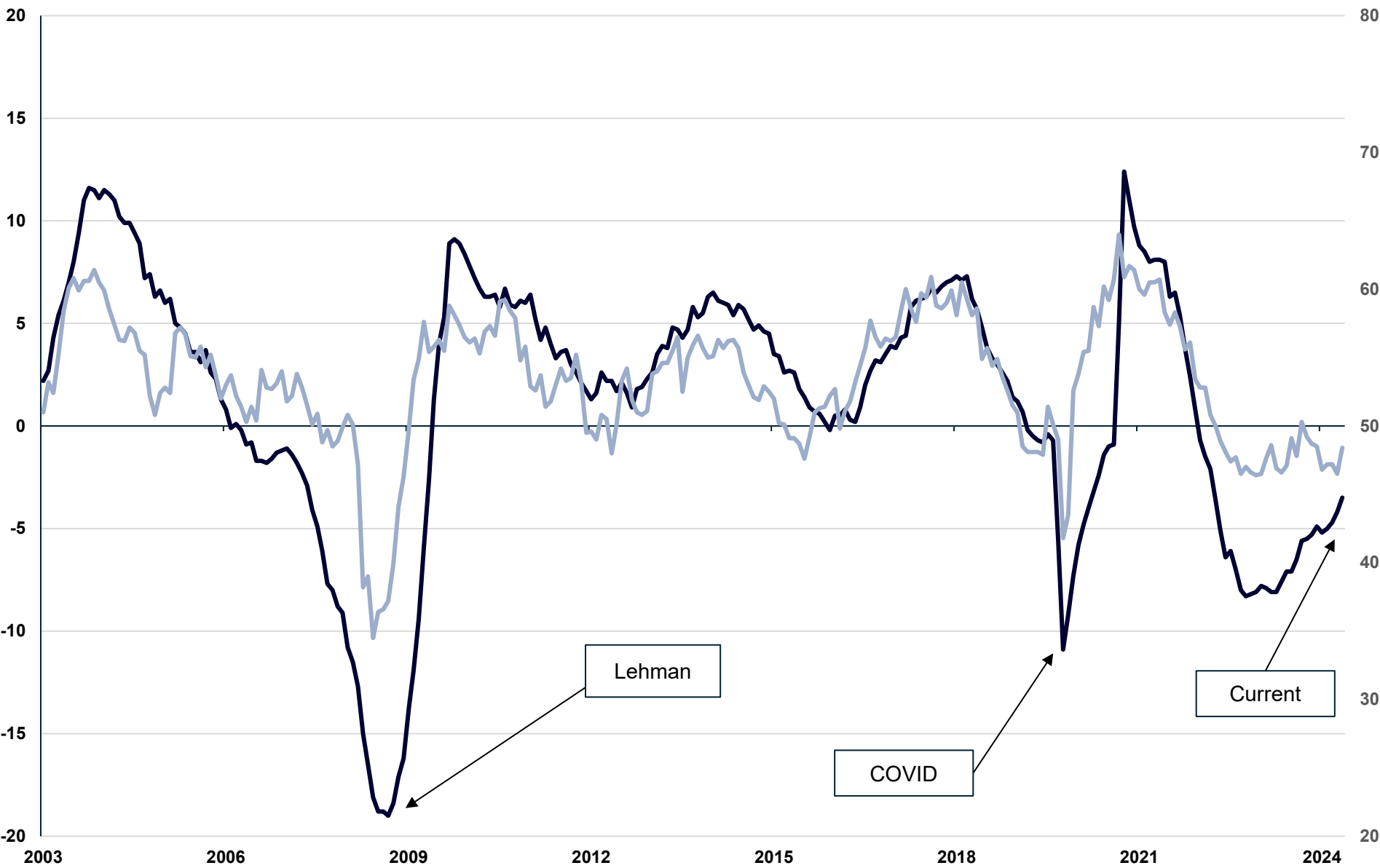
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Industrial Production (Y/Y% Change)



Data Source: FRED
*Data as of January 15th, 2025

Leading Index vs ISM PMI Manufacturing



Data Source: Bloomberg L.P.
*Data as of December 31st, 2024



Index Descriptions

Fixed Income | Barclays Aggregate Index Measures the changes in the fixed rate debt issues rated investment grade or higher by Moody's Investors Service, Standard and Poor's, or Fitch Investor's Service, in that order. All issues must have at least 1 year left to maturity and have an outstanding par value of at least \$300 million. The Aggregate Index is comprised of the Government/Corporate, the Mortgage-Backed Securities and the Asset-Backed Securities indices.

International Equity | MSCI EAFE (Europe, Australasia, Far East) A free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 21 developed nations. With Net Dividends: This series approximates the minimum possible dividend reinvestment. The dividend is reinvested after deduction of withholding tax.

Large Cap | Standard & Poor's 500 (S&P 500) Measures changes in stock market conditions based on the average performance of 500 widely held common stocks. It consists of 400 industrial, 40 utility, 20 transportation and 40 financial companies listed on US market exchanges (mostly NYSE issues). It is a capitalization-weighted index calculated on a total return basis with dividend reinvested. The S&P 500 represents approximately 68% of the investable U.S. equity market.

Large Cap Growth | S&P/BARRA 500 Growth Index is constructed by dividing the stocks in the S&P 500 Index according to price-to-book ratios. The Growth indices contain stocks with higher price-to-book ratios. The indices are market-capitalization-weighted and their constituents are mutually exclusive.

Large Cap Value | S&P/BARRA 500 Value Index is constructed by dividing the stocks in the S&P 500 Index according to price-to-book ratios. The Value index contains stocks with lower price-to-book ratios. The indices are market capitalization- weighted and their constituents are mutually exclusive.

Small Cap | Russell 2000 Index Measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the investable U.S. equity market. As of the reconstitution on December 31, 2008, the average market capitalization was \$897 million; the median market capitalization was \$321 million. The index had a total market capitalization range of \$3.3 billion to \$70 million.

Small Cap Growth | Russell 2000 Growth Index Measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 2000 measures the performance of the 2,000 smallest companies in the Russell 3000 Index. As of December 31, 2008, the average market capitalization was approximately \$918 million; the median market capitalization was approximately \$321 million. The index had a total market capitalization range of approximately \$3.2 billion to \$70 million.

Small Cap Value | Russell 2000 Value Index Measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2000 measures the performance of the 2,000 smallest companies in the Russell 3000 Index. As of December 31, 2008, the average market capitalization was approximately \$858 million; the median market capitalization was approximately \$318 million. The index had a total market capitalization range of approximately \$3.3 billion to \$70 million.

HFRI Fund Weighted Composite Index | HFRI Fund Weighted Composite Index: a global, equal-weighted index of over 2,000 single-manager funds that report to HFR Database. Constituent funds report monthly net of all fees performance in US Dollar and have a minimum of \$50 Million under management or a twelve (12) month track record of active performance. The HFRI Fund Weighted Composite Index does not include Funds of Hedge Funds.

Emerging Markets | MSCI Emerging Markets Index: A free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of December 31, 2010, the MSCI Emerging Markets Index consists of the following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand and Turkey. With Net Dividends: Net total return indices reinvest dividends after the deduction of withholding taxes, using (for international indices) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

There are inherent limitations to indices that are designed to track the alternative investments universe. Index data shown is for illustrative purposes only and is not designed to represent any specific investment. Specific investment statistics could differ materially from the data shown.

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