



Managing macro uncertainty

Outlook and Analysis

JUNE 2025

Our vision

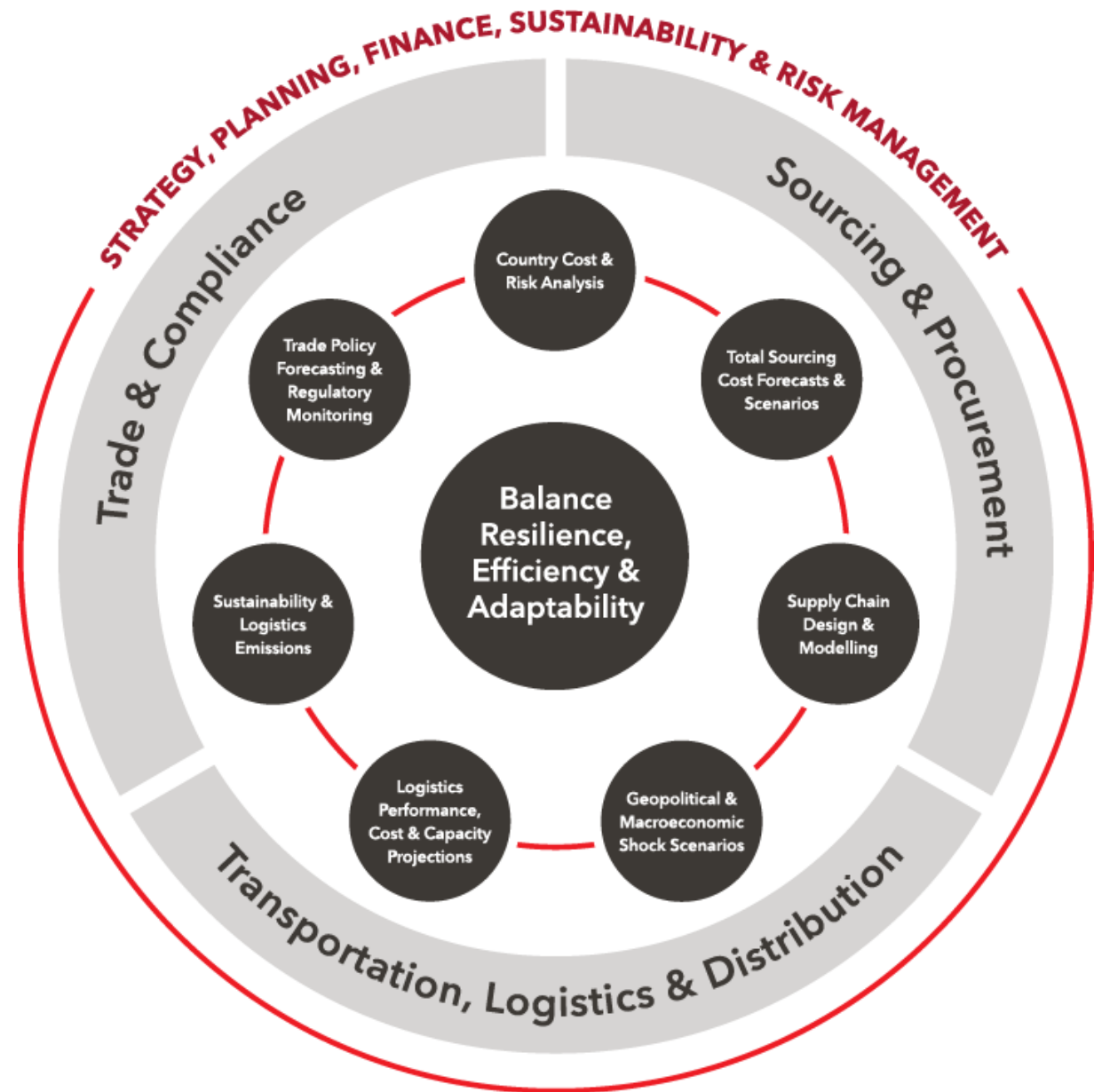
Help clients build more efficient, resilient and sustainable supply chains

.... focusing on geopolitical, regulatory, economic and operational disruptors

... through advisory engagements and insights

Our service lines

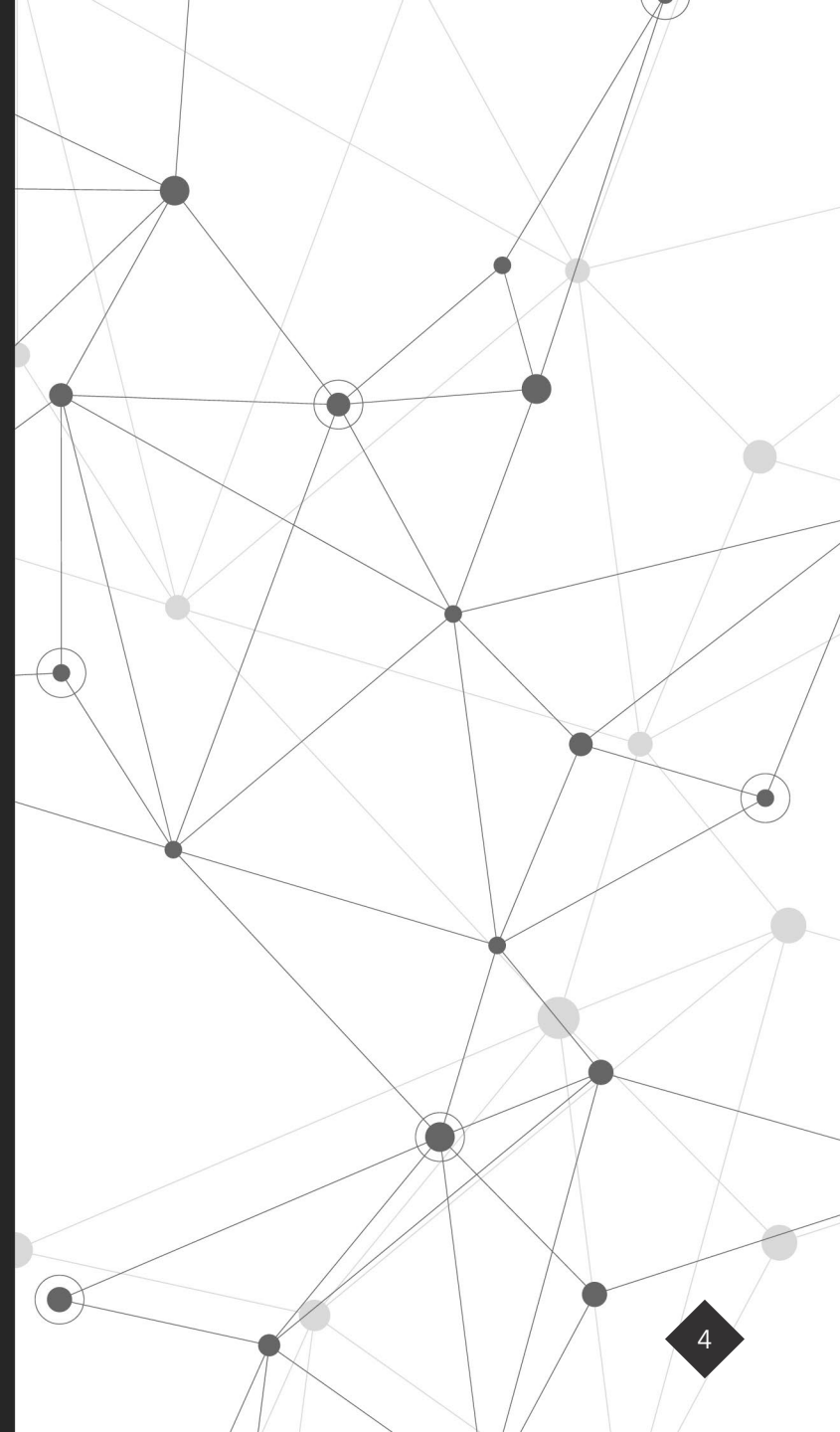
Bringing together actionable insights in service of global supply chains



Section One



Macro Outlook



Overview

Softer underlying growth

US cyclical slowdown, China and Europe continue to battle structural issues

Record-level uncertainty has done damage...

---by greatly distorting growth trends, weighing on consumer spending and fixed investment

While US policy uncertainty will subside...

...it will remain elevated (trade + fiscal / tax + immigration)

The economic rollercoaster will continue

Bull whip effect of policy on trade volumes, manufacturing, and logistics costs

We're not returning to the old normal

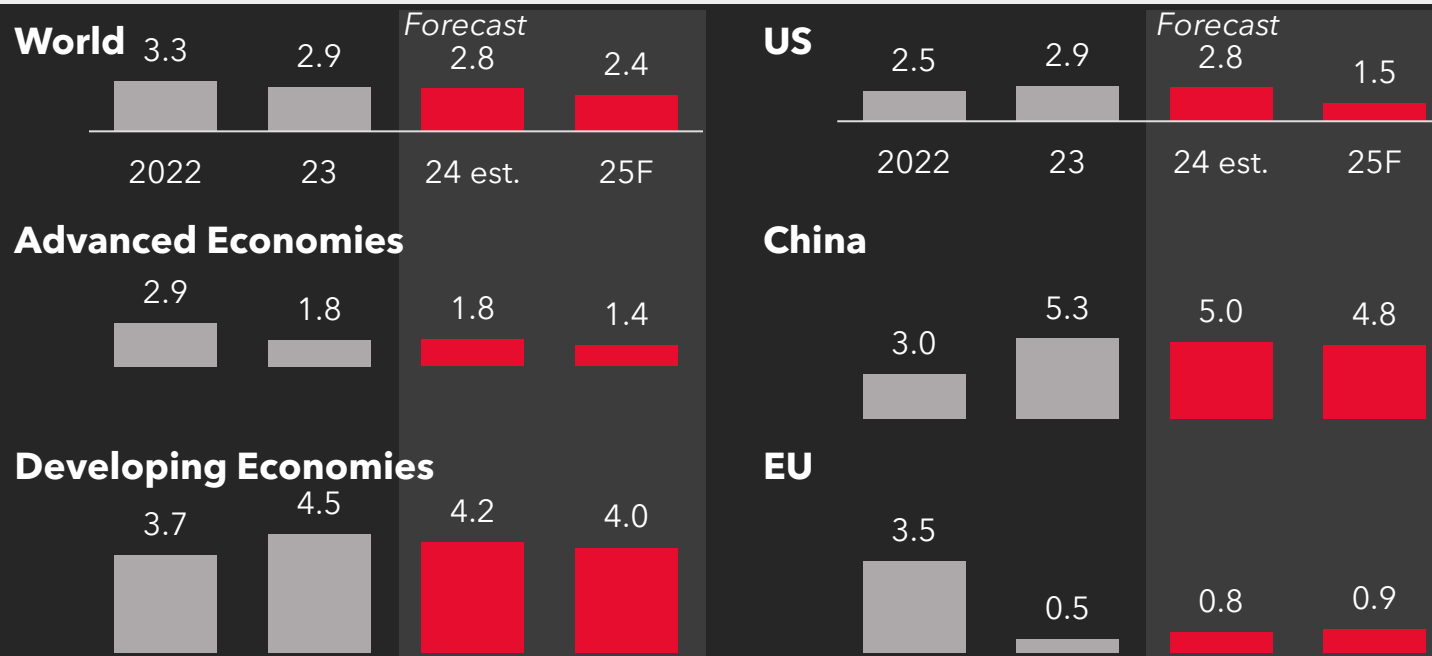
Signposts point to moderately higher tariffs, continued supply chain evolutions

Global economy in the early stages of a structural transformation

US trade policy causing record-level shifts in uncertainty and trade flows

Global growth forecast

YoY % change in real GDP (in local currency)



Key points

What to expect in 2025...

- **Global growth** downgraded based slower growth in Advanced Markets.
- **US** Q1 contraction from tariff uncertainty and record imports; tariff impact pending; H2 uncertainty will ease but not going away.
- **China's** economy struggling against property sector headwinds and external pressures. Requires continued stimulus to hit 5% growth target.
- **Europe's** economy struggling: Germany contracted (YoY), weak investment, no clear growth engine; military spending a marginal boost post-2025.

Source: Oxford Economics, Onyx

US Outlook Summary

Along for the ride

Short-term

2025-2026

- Underlying growth in a cyclical slowdown
- Policies are stagflationary – matter of degree
 - Uncertainty headwind
 - Tariffs, DOGE negative for growth
 - Tariffs, immigration are inflationary
- US-China deal averts recession
- Q2-Q4 will be whipsawed from policy distortions
- Tough call for the Fed: 2-3 rate cuts this year

Medium- to long-term

2027+

- US policy testing American exceptionalism
- Still, the US economy remains the most dynamic globally
- AI/innovation may propel productivity and new growth opportunities
- Watch for a wave of domestic investment
- Fiscal deficits could become more challenging (politically, if not economically)

Key uncertainties

Wild cards and uncertainties

- Policy crossroads:
 - Tariffs
 - Fiscal policy, entitlement reform
 - Immigration
- Net capital inflows into US markets
- Monetary policy timing and lags
- “K-shaped” economy

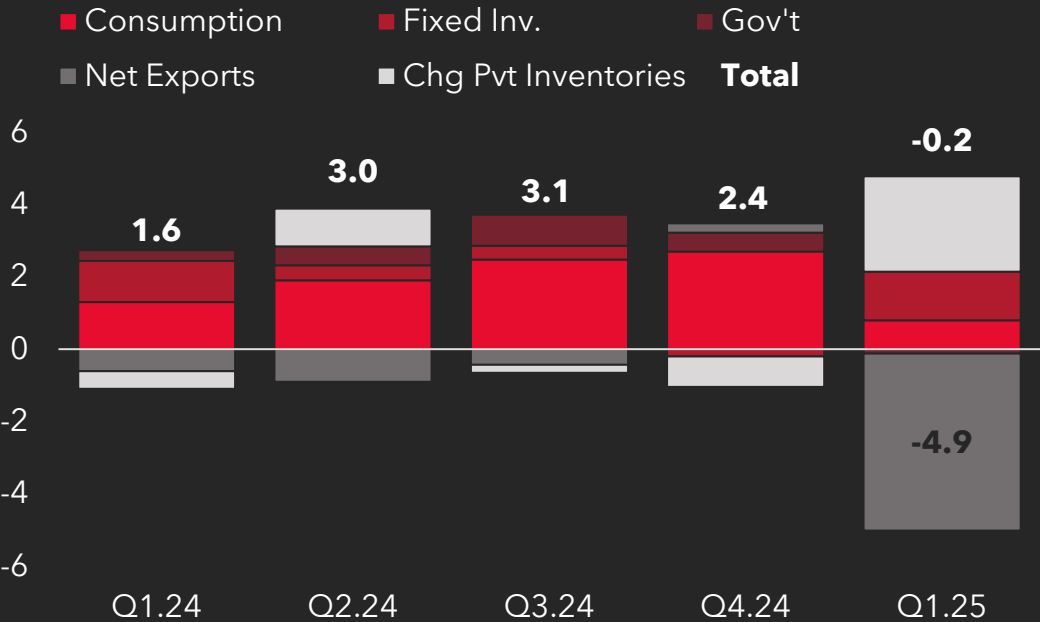
Source: Onyx

US Q1 contraction caused by general slowing and import surge

Underlying demand moderated with evidence of some “tariff pull-forward” effect

US Real GDP

Contribution to overall percent change



Key trends

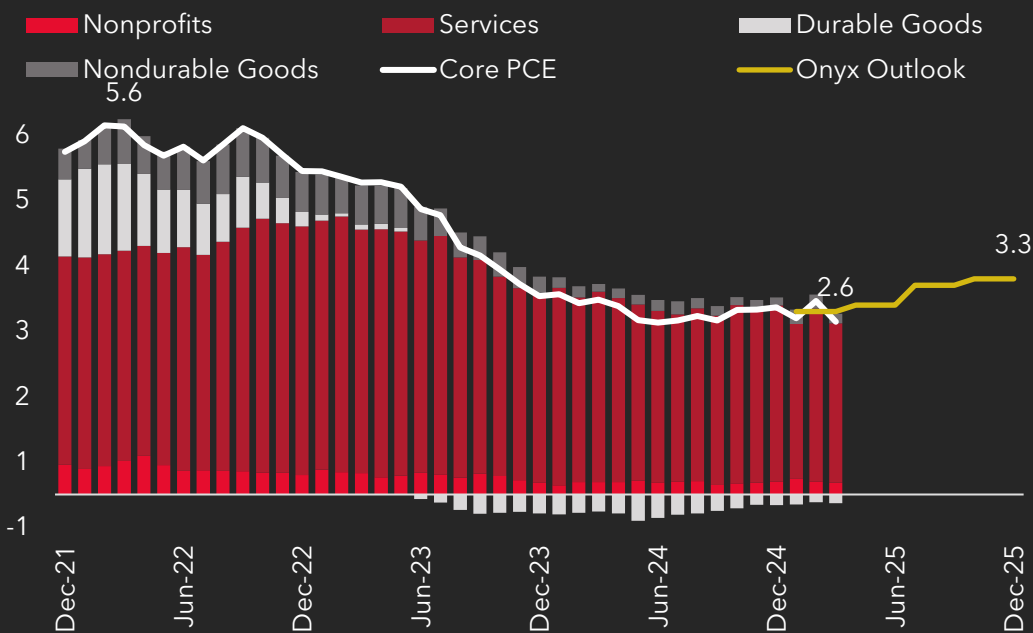
Category	Q1 2025	Q2-Q4 Outlook
Private consumption		 1 to 1.5% growth
Fixed investment		 Contraction in Q2
Private inventories		 Normalize lower
Government spending		 Headwind to growth
Net exports		 Volatile
Policy uncertainty		 Will ease over time

Source: Onyx

Tariffs shifted inflation risks to the upside

"Core PCE" was nearing its 2% target, but could trend above 3% by year-end

The Fed's key inflation metric is on target
Core PCE Components, YoY % Change



Source: Onyx

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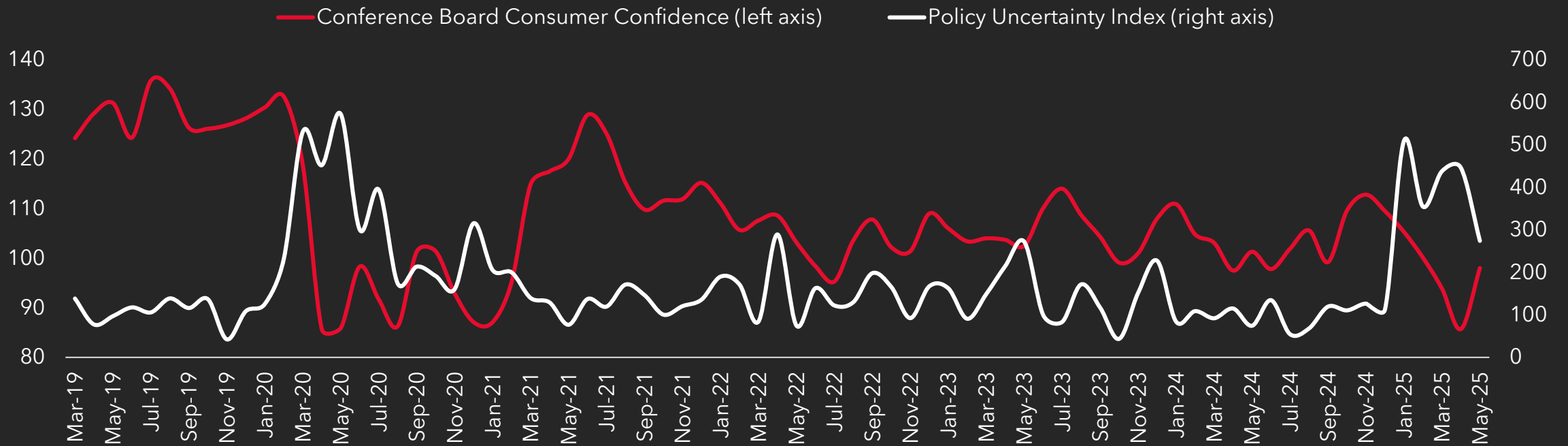
Price drivers	
Inflation Channel	Trends
Labor market	<ul style="list-style-type: none"> Slowing wage growth Immigration risks
Demand	<ul style="list-style-type: none"> Consumption growth slowing
Expectations	<ul style="list-style-type: none"> Above 20-year highs
Money & Credit	<ul style="list-style-type: none"> Money supply slowly growing Marginally tighter lending standards
Energy & Commodities	<ul style="list-style-type: none"> Oil remains in low \$70s Mixed commodity outlook
Import prices	<ul style="list-style-type: none"> Driven by tariffs and other policies

But uncertainty is clouding the outlook

Strong inverse relationship between uncertainty, confidence and the real economy

Policy Uncertainty and Consumer Confidence

Index Values



Source: Bloomberg, Onyx

The “unknowns” extend beyond just tariffs

The marginal impact of US policies depends on direction, degree, and timing

+ Improves
- Worsens

Policy “Unknowns”	Directional Impact			
	Growth	Trade	Inflation	Deficit
Tariffs	-	-	-	+
Cut government spending	-	-	+	+
Tax cuts	+	+	-	-
Regulatory review/reform	+	+	+	+
Immigration	-	-	-	-
Net Impact	-	-	-	-

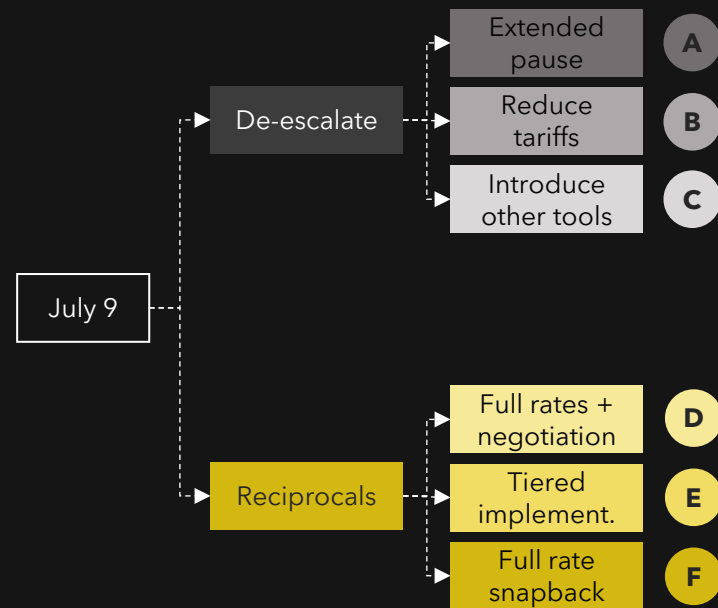
Source: Onyx

Bilateral trade negotiations will set the course for H2

Positive signs we're headed towards de-escalation, but not a full liberalization of trade barriers

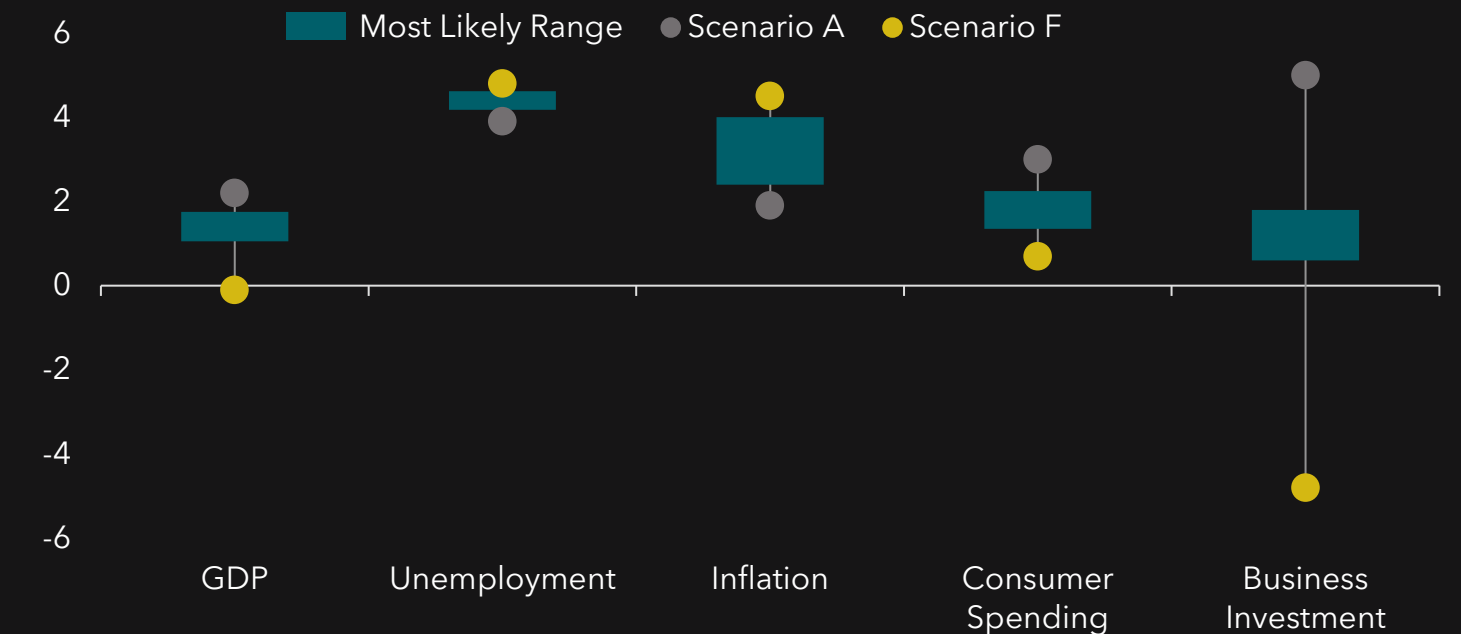
US trade policy scenarios

Illustrative



Economic outlook

Annual percent change in 2025



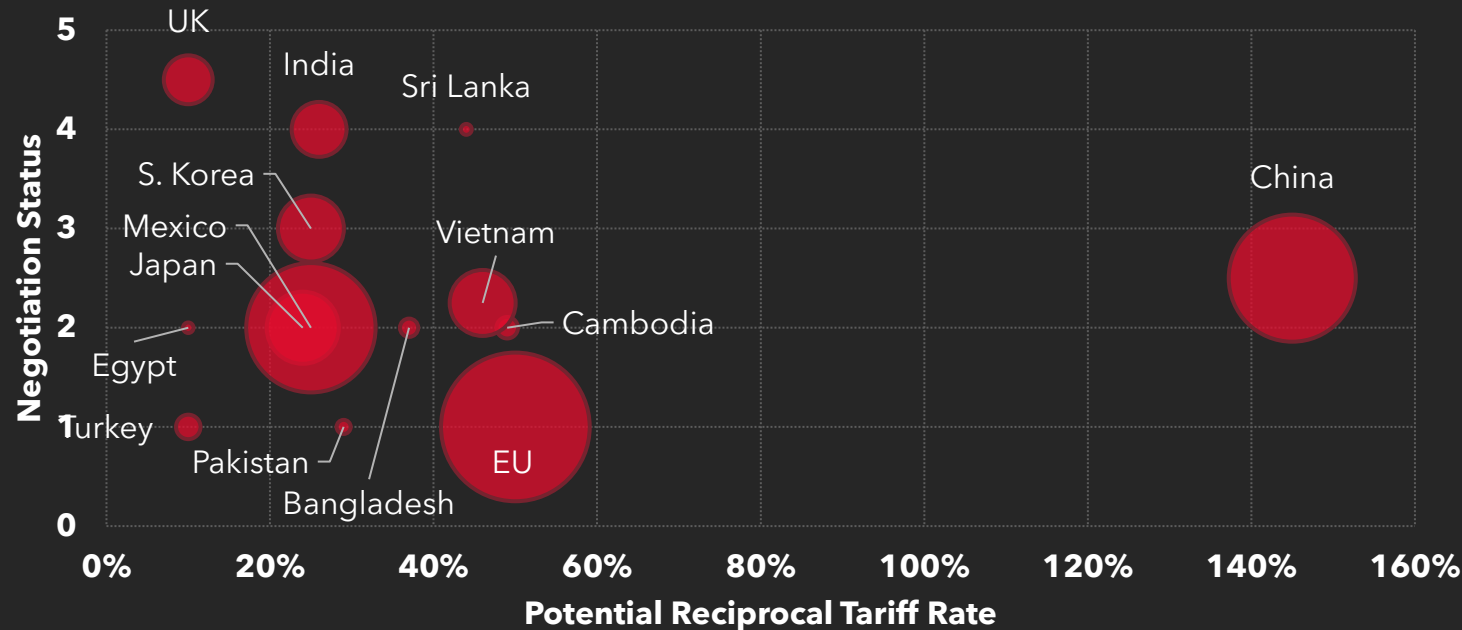
Source: Onyx

We still have a long way to go

Only a few deals are in final stages, representing a small percentage of US imports

Negotiation status of key sourcing countries

Ranked negotiation status (y-axis) vs. potential reciprocal tariffs (x-axis)



Negotiation Status

As of May 12

- 1) No active bilateral tariff negotiations**
- 2) Little Progress:** Bilateral contact initiated or preliminary discussions reported
- 3) Substantial Progress:** Substantive bilateral tariff negotiations are reported as ongoing or having made tangible progress
- 4) Finalizing Agreement:** Reports indicate bilateral trade agreement addressing tariffs is nearing finalization

Source: OEC, Onyx

What's at stake: the enduring lessons of protectionism

Economic theory and historical evidence provide a clear view of how economies are impacted by tariffs

Factors	Main impact	Historical examples
Economic growth	Weaker growth Acts as a supply shock, contracting output and raising inflation. Lower capex and inefficient allocation of capital leads to further growth erosion.	Smoot-Hawley Tariff Act (1930)
Consumer burden	Higher prices, reduced choice Costs are largely passed on higher consumer prices and can eliminate some products from the market.	US tariffs 2018-2019: \$51 bn losses for US consumers
Protected industries	Marginal gains, high costs Temporary gains in protected sectors are outweighed by losses in others.	US Steel Tariffs of 2002 negative impacts on steel-consuming industries outweighed benefits to steel producers
Innovation, productivity	Dampened dynamism Reduced market size from protectionism diminishes incentives for R&D and innovation and productivity gains.	Historically, 10% tariff increase associated with a 25-35% reduction in productivity
Retaliation, escalation	Downward spiral Imposing tariffs often provokes retaliation, worsening the initial economic impact. Trade wars become negative-sum games.	Smooth-Hawley, US-China Trade War 2018-2019

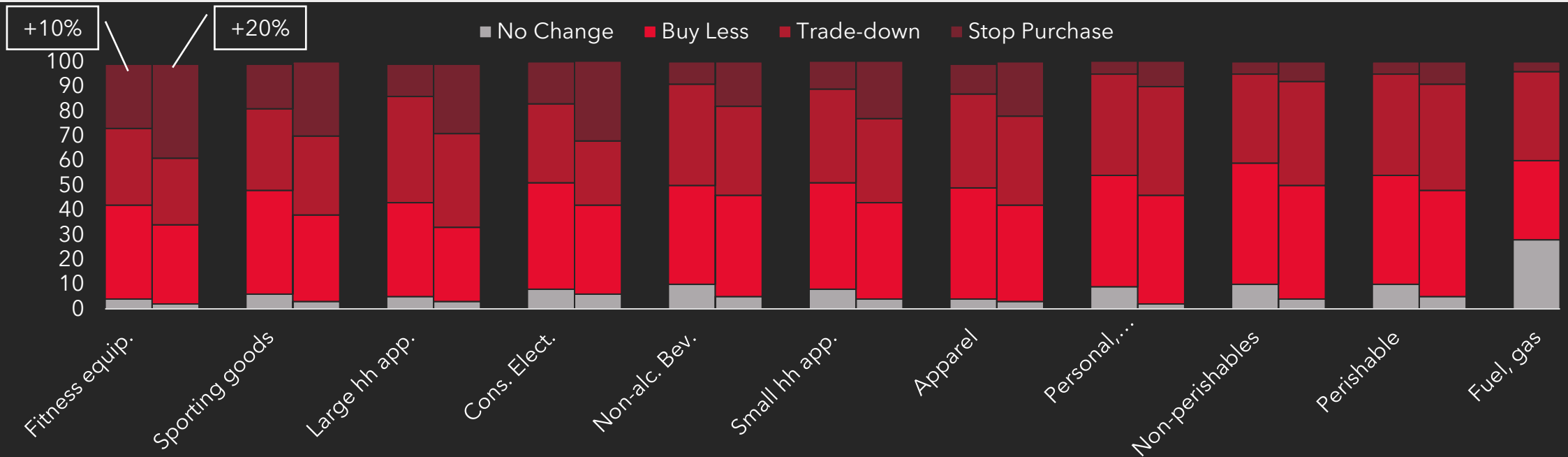
Source: Onyx

Impacts will be varied across sectors

US consumers sensitized to inflation; discretionary goods likely to see a significant decline in demand

Consumer reaction to a 10- and 20% price increase





















% of consumers who will buy less or nothing at all



Source: Simon-Kucher, Onyx

Which strategies are more/less likely to be successful?

Low broad-based tariffs plus higher, targeted rates for economic/national security reasons

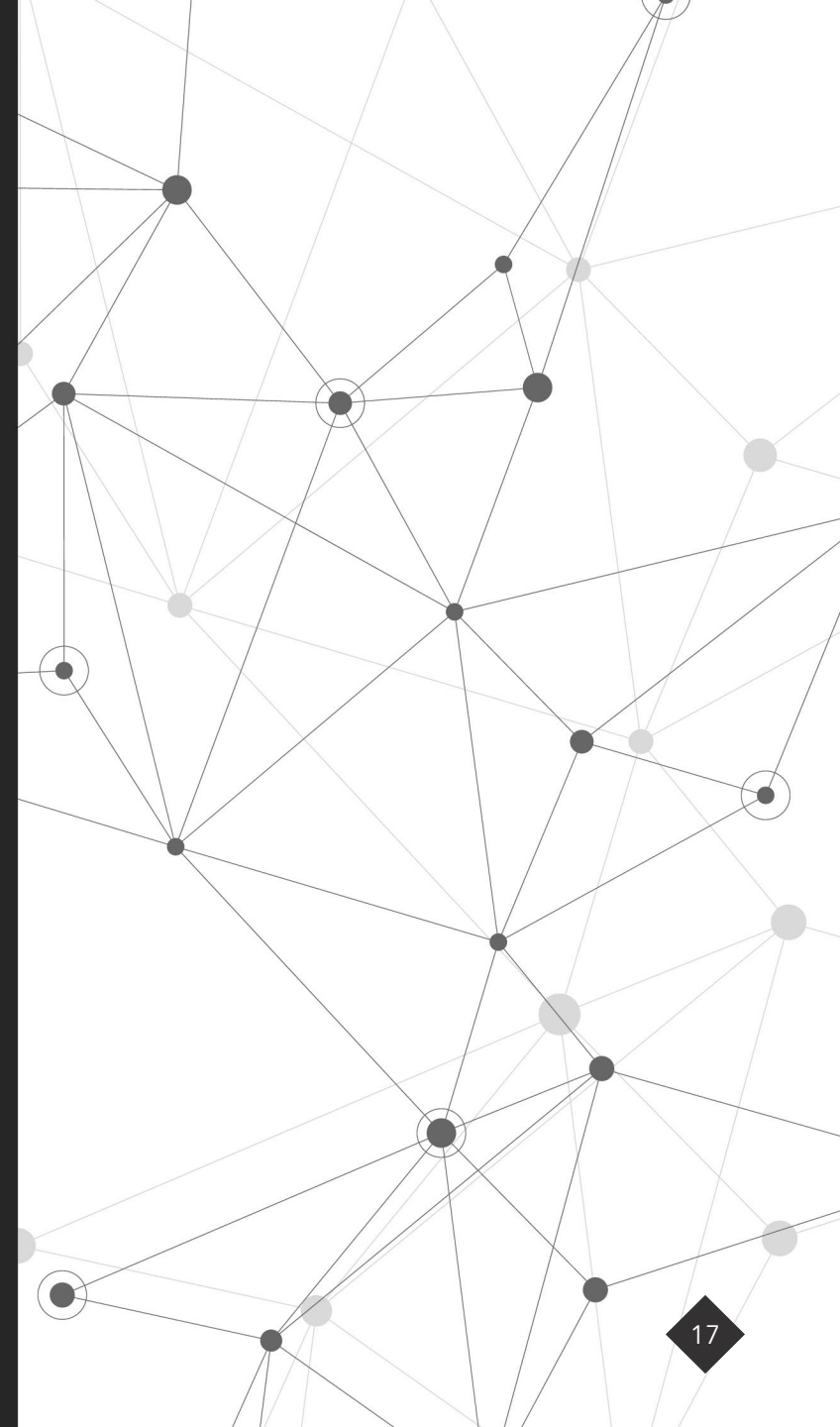
Relative effectiveness of policy options					
Policy Options	US Stated Goals				
	Protecting the border	Pressuring EU allies on defense spending	Strategic decoupling from China	Reshoring critical manufacturing and national security	Raising tariff revenue (net)
Baseline Universal Tariff (e.g., 10-20%)					
Sector-Specific Tariffs (High-Tech, Autos etc.)					
Intensified Tariffs on China (e.g., 40-60%+)					
"Reciprocal" Tariffs (matching partner rates)					

Source: Onyx

Section Two



Managing uncertainty



Benefits of managing economic uncertainty

De-coding macroeconomic uncertainty can unlock value in multiple ways

Enhance firm value	Enable both management and external stakeholders to better distinguish between changes in a firm's intrinsic competitiveness and performance fluctuations driven by external macroeconomic conditions.
Improve decision-making	Provide methods to identify and measure the impact of macroeconomic variables on corporate performance .
Strengthen risk management	Offer strategies for managing macroeconomic risks, moving beyond simple hedging to a more integrated approach.
Increase transparency	Guidance on how to provide more informative and relevant reports to external stakeholders regarding their exposure and management of macroeconomic risks.
Refine performance evaluation	Offer tools to assess the relative performance of different business units , especially within multinational corporations, while accounting for the diverse macroeconomic environments in which they operate.

Source: Oxelheim & Wihlborg, Onyx

How you can use economics to combat supply chain uncertainty

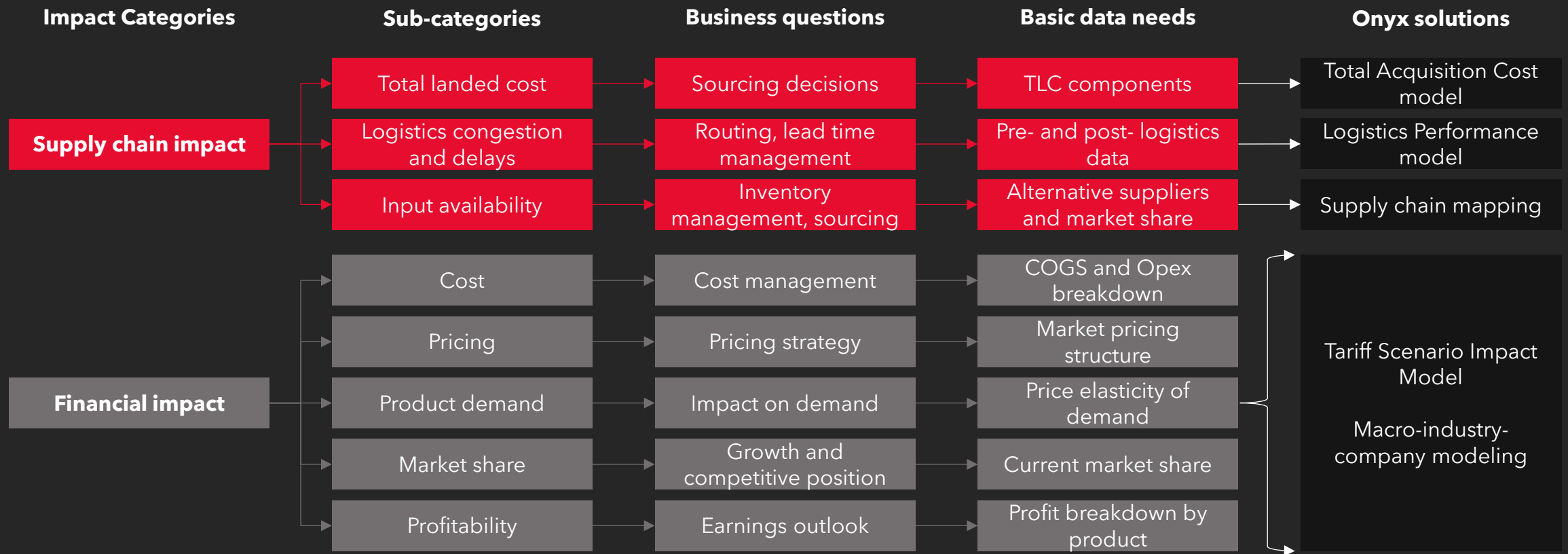
Improve understanding, forecasting, and resiliency

Type	Description	Objective
Understand macro impacts	<ul style="list-style-type: none"> ▪ Input cost volatility ▪ Logistics costs ▪ Supplier viability 	<ul style="list-style-type: none"> ▪ Connect macro events to underlying cost drivers
Design resilient supply networks	<ul style="list-style-type: none"> ▪ Geographic diversification and concentration risk ▪ Strategic sourcing decisions ▪ “Intrinsic” supply chain competitiveness vs. macro-driven advantages 	<ul style="list-style-type: none"> ▪ Use macro risk analysis to improve long-term capital planning decisions ▪ Distinguish between being good from being lucky
Improve demand forecasting	<ul style="list-style-type: none"> ▪ Macro-informed demand signals ▪ Strategic buffering 	<ul style="list-style-type: none"> ▪ Connect macro events to fundamental demand drivers
Enhance supplier relationships	<ul style="list-style-type: none"> ▪ Risk-sharing mechanisms ▪ Collaborative forecasting and planning 	<ul style="list-style-type: none"> ▪ Improve contracts and partnerships by sharing analysis
Communicate risks and performance	<ul style="list-style-type: none"> ▪ Manage-up to executive team and stakeholders ▪ Set and manage realistic performance expectations 	<ul style="list-style-type: none"> ▪ Improve management with data-driven, scenario-based guidance when faced with uncertainty

Source: Onyx

Some examples of how to simplify uncertainty

How to evaluate tariff uncertainty on your business



Source: Onyx

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