

**MOODY'S**

# Unprecedented Uncertainty

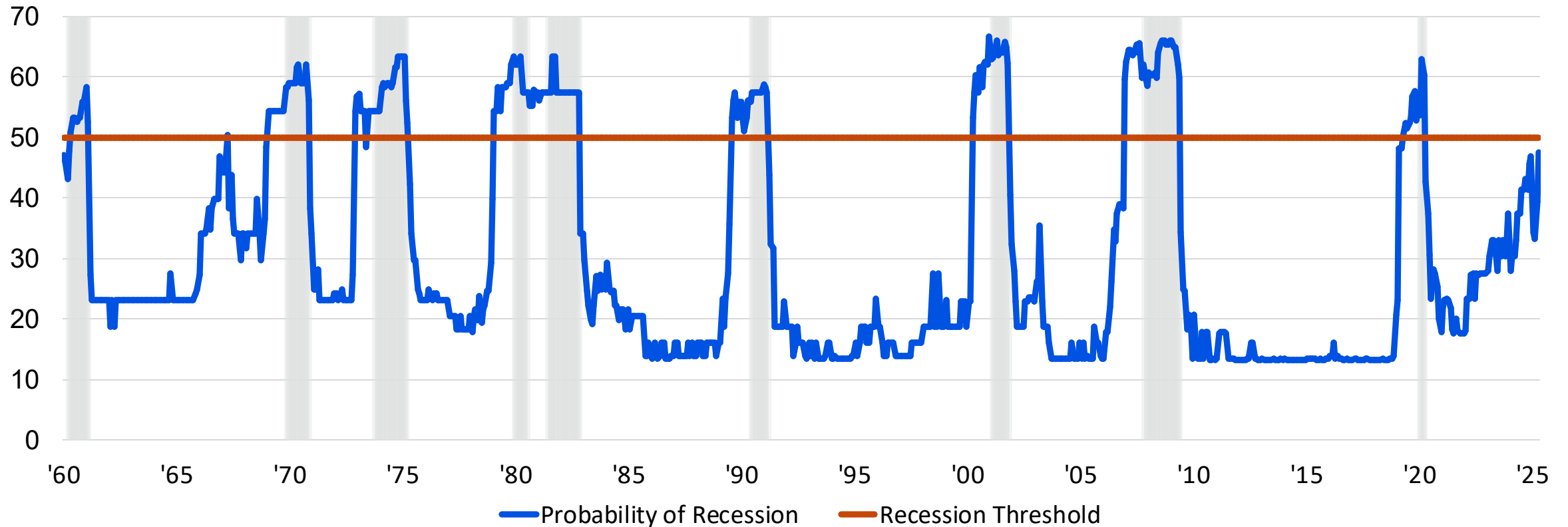
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Mark Zandi, Chief Economist

May 2025

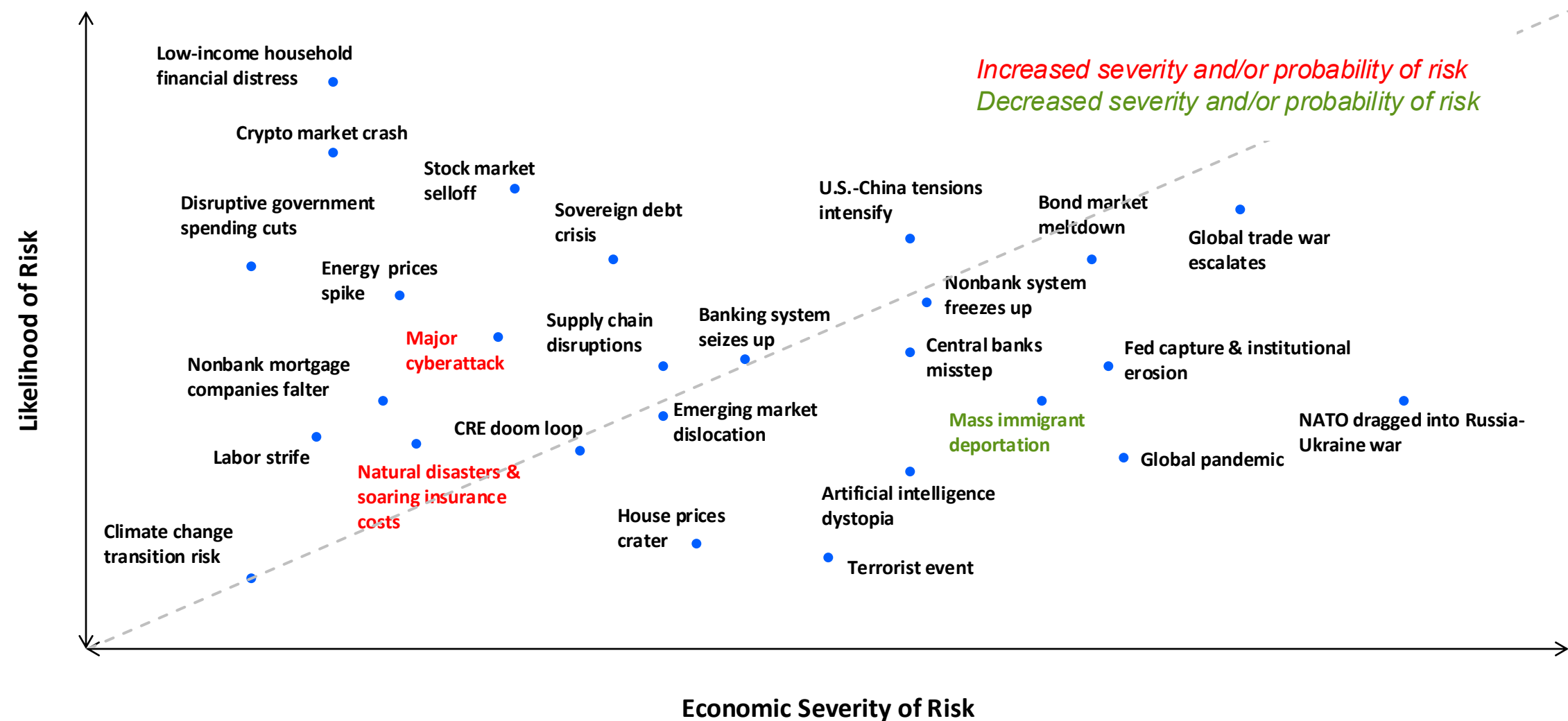
# Recession Risks Are Uncomfortably High

Probability of U.S. recession in the next 12 months, %, based on a machine learning model



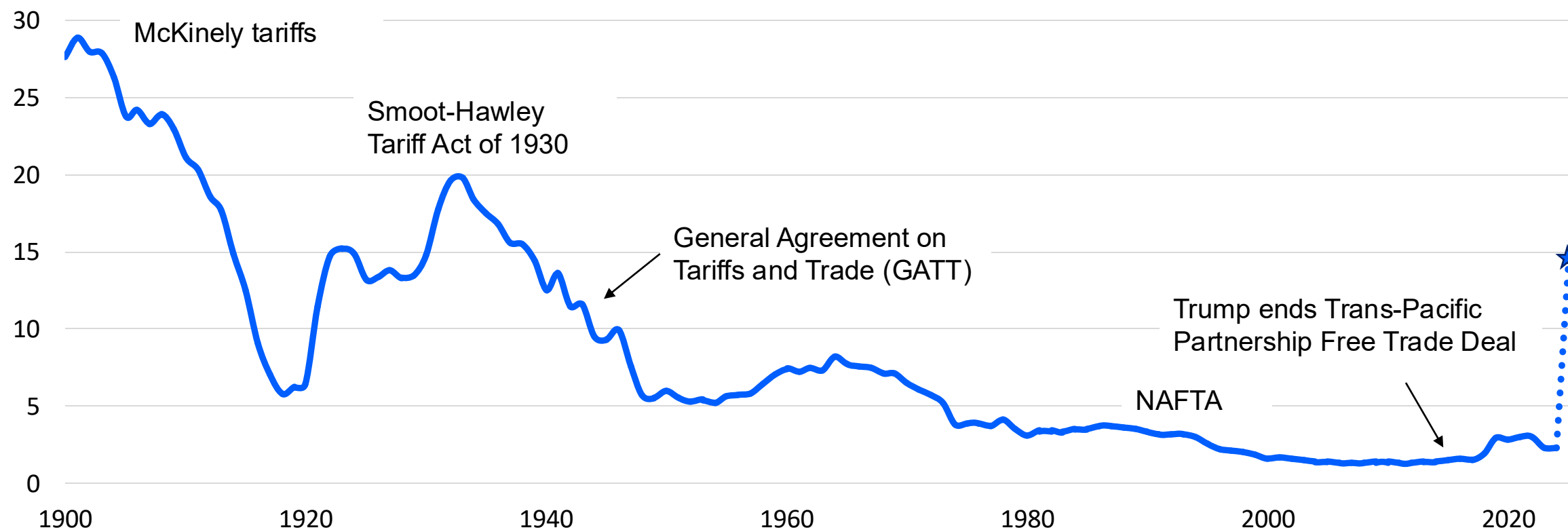
Sources: Moody's Analytics

# What Could Go Wrong



# A Global Trade War...

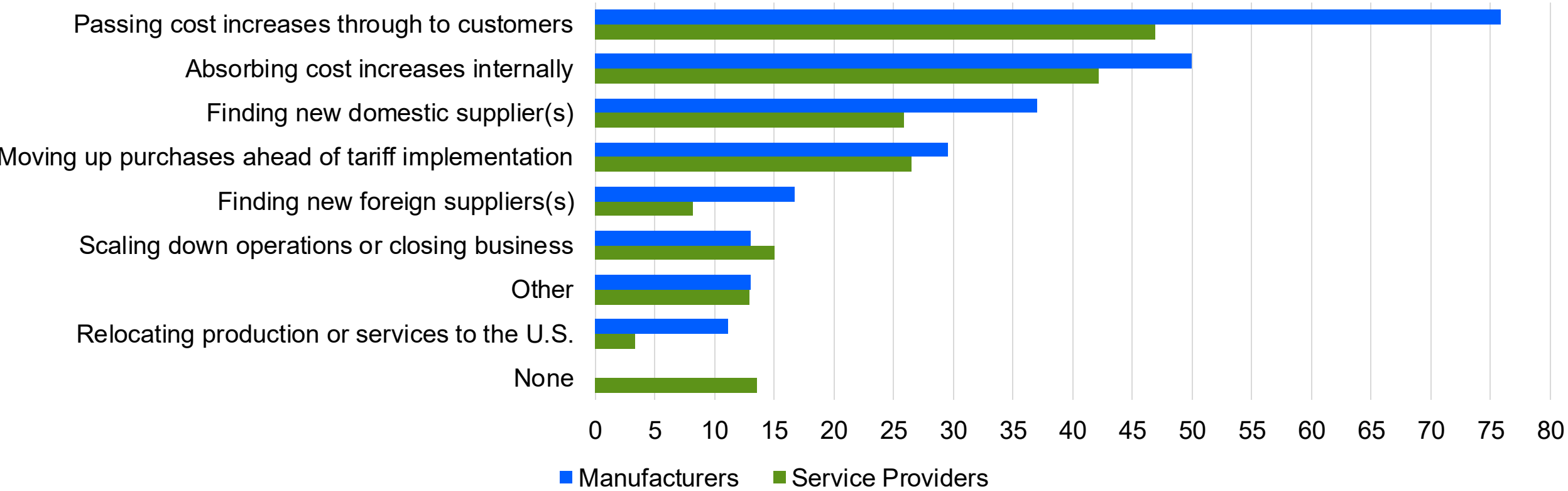
U.S. effective tariff rate, import duties as a % of imports



Source: Moody's Analytics

# ... Will Hit Consumers & Businesses Hard

Actions firms are taking in response to higher tariffs, %



Sources: Federal Reserve bank of Dallas, Moody's Analytics

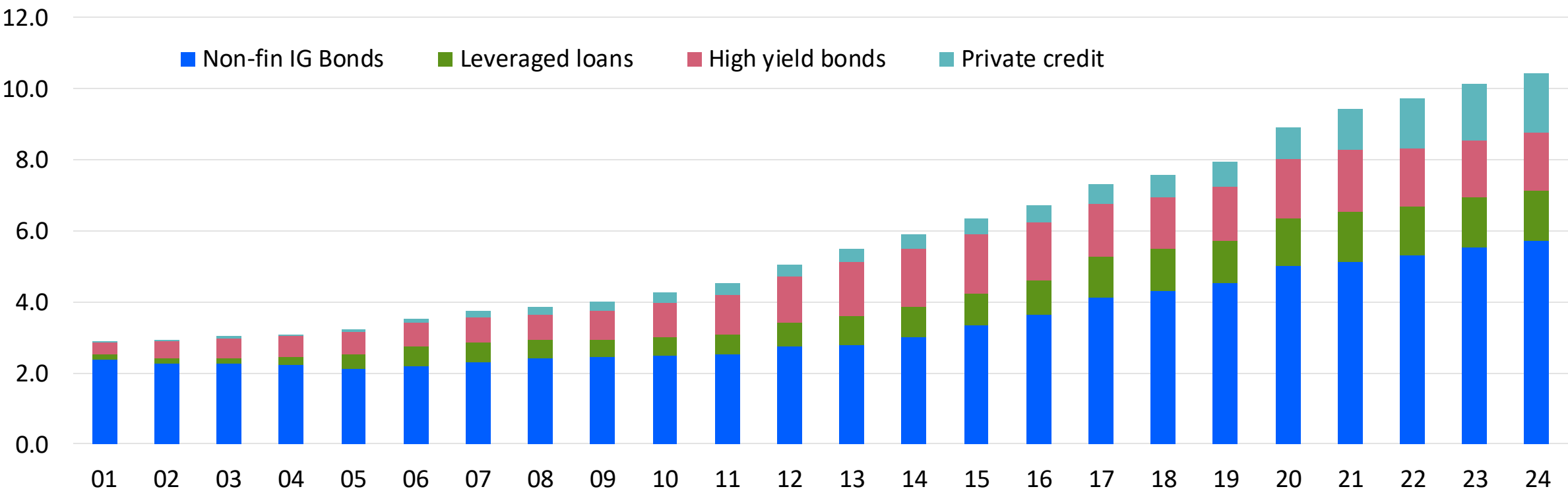
# The Bond Market is Fragile

Factors that threaten a well-functioning Treasury bond market

- Primary dealer balance sheets haven't expanded with the amount of debt outstanding
- Trade war threatens U.S. safe-haven and reserve currency status and value of the \$
- Federal Reserve independence at risk
- Fed exits the bond market via quantitative tightening
- Chinese & Japanese investors turn more circumspect
- Banks are skittish bondholders in the wake of the 2023 banking crisis
- Price-sensitive hedge funds become bigger players
- Potential Treasury debt limit battle and political dysfunction
- Large budget deficits with an issuance shift to short-term Treasuries

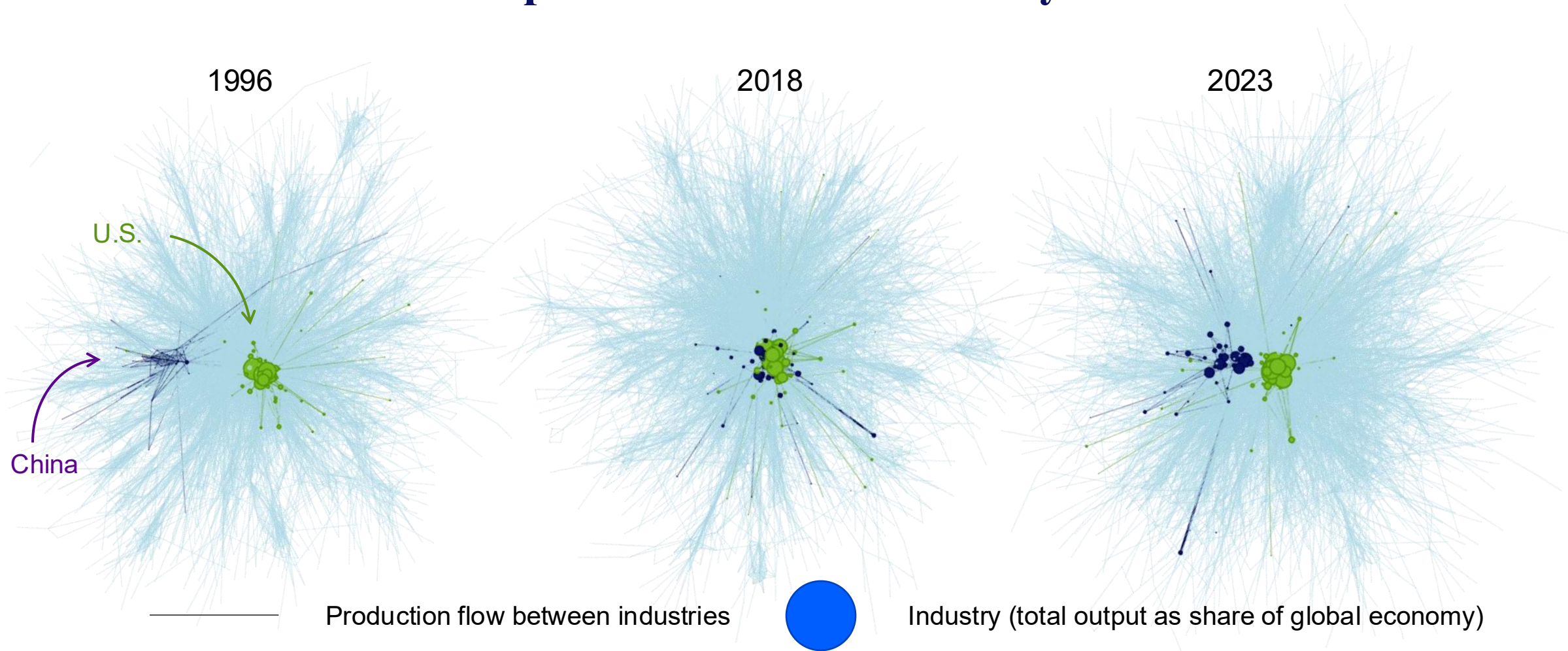
# Nonbank Credit is on the Rise...Led By Private Credit

U.S. corporate debt outstanding, Tril\$



Sources: IMF, Federal Reserve, Moody's Analytics

# U.S. and China Decouple and Tensions Intensify



Sources: OECD, Moody's Analytics



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Email	helpeconomy@moodys.com
U.S./Canada	+1.866.275.3266
EMEA	+44.20.7772.5454 (London) +420.234.747.505 (Prague)
Asia/Pacific	+852.3551.3077
All Others	+1.610.235.5299

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