



**Fair Shakes: assessing US earnings and economic trends during one of the broadest policy shifts since FDR; partisan redistricting, the Supreme Court, the Census and the balance in the US House of Representatives**

Before getting into this month’s content, here are links to some sector-specific pieces<sup>1</sup> we released this year that you might have missed:

Date	If you were busy observing:	You might have missed our piece on:	Which you can read here:
August 12, 2025	National Vinyl Record Day	<b>Healthcare:</b> rock bottom valuations for pharma, biotech and managed care; patent cliffs and thickets, pharma tariffs, changes to Medicaid/Medicare Advantage, RfK-FDA-HHS, China competition, longevity drugs, Biotech IPOs, etc	<a href="#">Healthcare</a>
June 12, 2025	National Jerky Day	<b>Stablecoins:</b> payment rail vs illicit use cases, regulatory capture, GENIUS Act disclosure rules par value redemption rights, tech-issued uninsured stablecoins, impact on t-bill rates, etc	<a href="#">Stablecoins</a>
May 13, 2025	International Hummus Day	<b>Artificial intelligence:</b> AI adoption, hyperscaler profits/capital spending, AI vs human performance measures, AI performance benchmarks and task complexity, o4 and o3-mini hallucination rates	<a href="#">AI</a>
March 4, 2025	Backcountry Ski Day	<b>Energy:</b> global solar capacity, speed of the energy transition electrification Europe, nuclear power, Los Angeles fires, renewable aviation fuels, superconductivity, methane tracking and the ongoing demise of hydrogen economy visions	<a href="#">Energy</a>
July 8, 2025	Cow Appreciation Day	<b>20th Anniversary Eye on the Market Edition:</b> A compilation of pieces that have as much bearing on the future as they did on the past	<a href="#">20th Anniversary</a>

**In this Eye on the Market, we take a chart-based look at:**

- More good news than bad on Q2 S&P 500 earnings
- How much is the US growth picture boosted by AI spending
- The politicization of economic data
- Some of the biggest policy shifts in decades on trade, immigration, regulation and gov’t taxation/spending
- How US growth, inflation and employment are responding to these shifts
- Partisan mid-decade Congressional redistricting, interstate migration trends and Supreme Court cases with the potential to impact the balance in the House of Representatives

Michael Cembalest  
JP Morgan Asset Management

<sup>1</sup> **Healthcare update.** I published the August healthcare piece the same week that my internist required me to see a nutritionist who has since lowered the boom. **The following items have now been banned from my diet:** pizza, French fries, onion rings, Pad Thai, souvlaki, cheeseburgers, hot dogs, lamb chops, Chinese spare ribs, meatball subs, fried calamari, air-fryer chicken wings, Yodels, crackers (other than those made from almond flour, which taste like Styrofoam), diet soda (whose ingredients can apparently metabolize into formaldehyde), milkshakes, chocolate covered lime coconut patties from Florida, Slim Jims, peanut M&Ms, Doritos, “Lokai” cookies with half black and half white frosting (IYKYK-Star Trek), Apple Jacks, pop tarts, oatmeal raisin cookies, raspberry-filled donuts, double stuff oreos, Kirkland chocolate almond-dipped ice cream bars and those things that look like brightly colored sliced segments of fruit but are have no actual fruit in them.

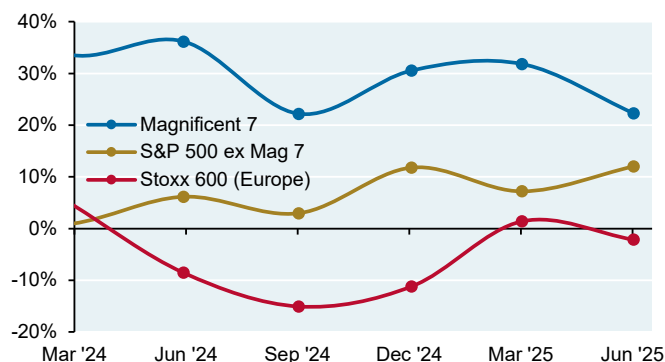


## Q2 S&P 500 earnings: mostly good news, with OBBBA tax incentives set to provide a small boost

- 11% EPS growth vs 4% expectations. In early June, consensus earnings estimates for Q2 had fallen by 7% since the beginning of the year; actual results for Q2 almost exactly met the original January target
- Mag 7 stocks continue to grow earnings at ~2x the pace of the rest of the US equity market, 22% vs 12%. Both Mag 7 and the rest of the S&P 500 continue to post better earnings growth than Europe, which registered yet another quarter of 0% earnings growth. Wake me when European profitability does the same
- Q2 2025 EPS for the median S&P 500 stock was up 8%, driven by earnings growth in all sectors with the exception of Consumer Staples and Energy
- 58% of S&P 500 companies raised **earnings guidance** vs 29% in Q1; average since 2007 has been 46%<sup>2</sup>
- Analysts issued more positive **earnings revisions** looking out over a two-year horizon than negative revisions for the first time since January 2022
- Large cap **profit margins** remain resilient, driven of course by tech along with recent margin improvements in Industrials and Consumer Discretionary (and bad news in Healthcare, as discussed in the August piece). No improvements in mid cap or small cap profit margins
- **Corporate tax provisions** in the OBBBA are time-shifting incentives to invest now rather than later, (rather than being tax cuts). Key provisions: returning to and making permanent the TCJA policy of 100% bonus depreciation on most equipment, returning to immediate deduction of R&D versus 5-year amortization, and temporarily allowing immediate expensing of new factories instead of requiring 39-year depreciation. These provisions could boost 2026 corporate cash flow by ~3% and result in 2%-4% NPV savings

### Year over year earnings growth

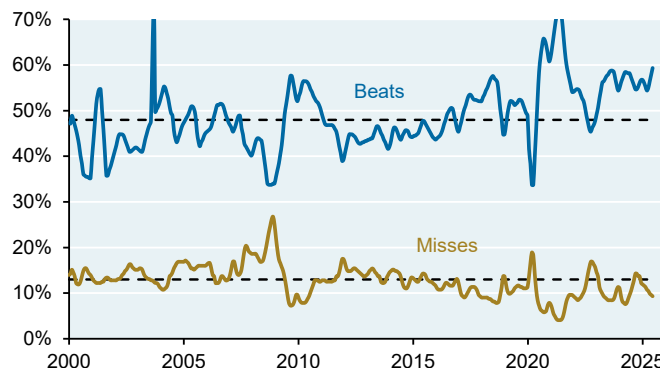
Percent



Source: Bloomberg, JPMAM, Q2 2025

### Frequency of earnings beats and misses in the S&P 500

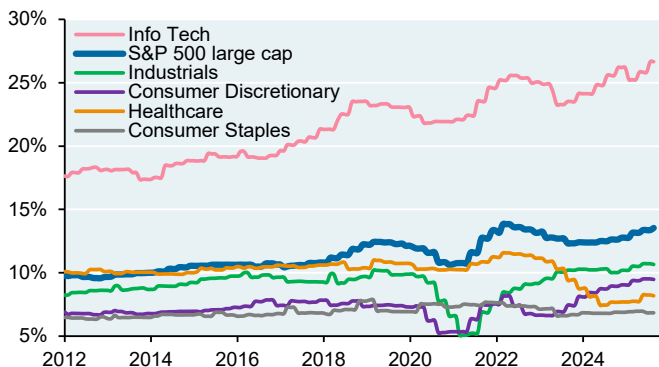
% of companies, earnings surprise = &gt;1 st dev of consensus estimate



Source: Goldman Sachs Global Investment Research, August 15, 2025

### Trailing 12 month profit margins by S&P 500 sector group

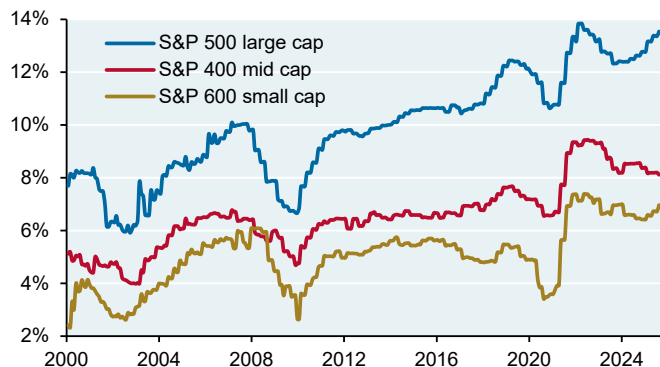
Percent



Source: Bloomberg, JPMAM, August 2025

### Trailing 12 month profit margins by market cap

Percent



Source: Bloomberg, JPMAM, August 2025

<sup>2</sup> Goldman's "US Weekly Kickstart: Q2 2025 Earnings Season Recap", Ben Snider et al

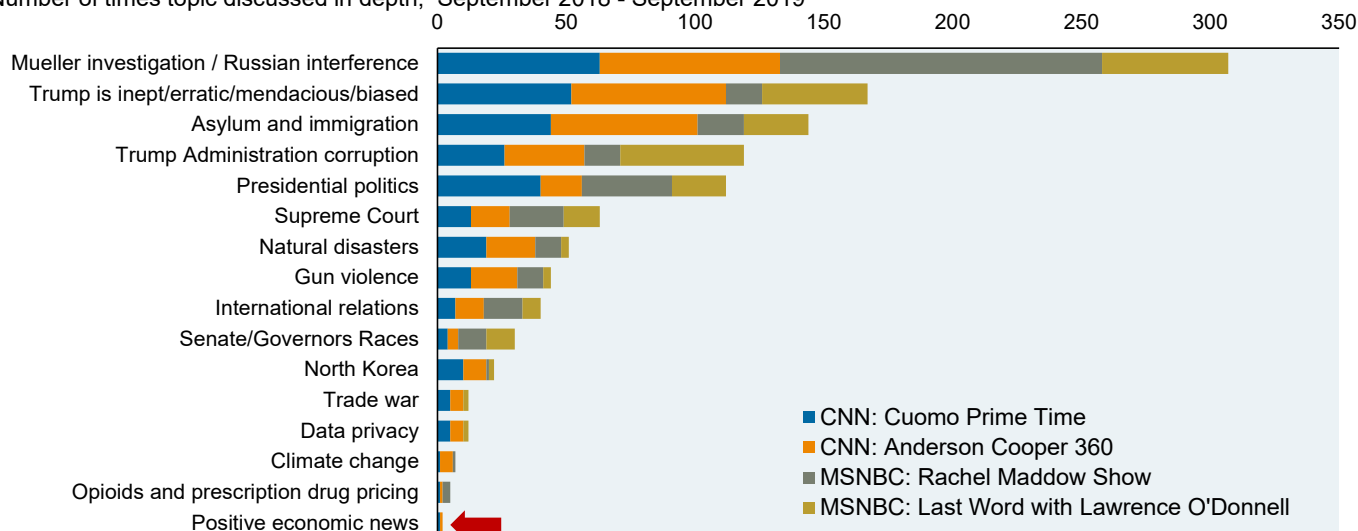
**A fair shake: the politicization of economic data**

In August, the White House took exception to a routine Goldman economic research report projecting that US businesses would gradually shift the burden of tariffs onto consumers. Goldman is of course entitled to publish its opinion on such mundane economic topics without being taken to task. The President mentioned something else I thought was interesting: his belief that he doesn't get a fair shake for any economic accomplishments. While I've highlighted the risks of many White House economic policies this year from an investor's perspective<sup>3</sup>, there's empirical evidence that reporting of economic and financial news is highly politicized, often in favor of Democrats<sup>4</sup>; so on that front Trump may have a point.

For a 2019 Eye on the Market, I did a simple experiment of my own. My team and I read through nightly CNN & MSNBC transcripts for the period Sept 2018 to Sept 2019 and compiled the chart below. Yes, there were important stories to cover regarding the President's policies and politics, but **was there really no room at all for reports on what was a very strong economy, including the lowest Misery Rate since 1960 for all citizens and also by race and by gender?** The bullet points summarize some of the good news prevailing at the time.

**The Medium is the Message: topic reporting frequency on select cable programs**

Number of times topic discussed in depth, September 2018 - September 2019

**US economic conditions from Sep 2018 to Sep 2019 included the following:**

- Wages rising across all levels of income, with wage growth of lowest-income workers growing the fastest
  - Highest rate of job vacancies in 20 years, particularly in construction
  - First sustained pickup in manufacturing dynamism since 2009 (rise in new hires and voluntary quits, decline in layoffs)
  - Consumer confidence surveys exceed pre-crisis levels
  - Lowest household debt service to income obligations in 40 years
  - Lowest misery rate (inflation plus unemployment) since the 1960s (for all citizens, as well as by race and gender)
  - Substantial rebound in labor force participation rate for prime age workers since 2016
  - Small Business Optimism finally back to pre-crisis levels
- Source: J.P. Morgan Asset Management, CNN and MSNBC show transcripts. 2019.

Of course, if politicizing economic news is a bad idea, so is firing the head of the BLS for "data-rigging".

<sup>3</sup> **Trump policy risks discussed in the Eye on the Market in 2025 include:** "Redacted" (April 2) on the dubious legality of law firm executive orders; "Dogespierre" (May 1) on overstated and haphazardly executed DOGE cuts to gov't spending; "The Alchemists" (January 1) on how tariff increases were passed through to US consumers in 2018; "Summer Mailbag" (July 29) on how the number of upstream steel/aluminum workers potentially benefitting from tariffs is 50x smaller than the number of workers in downstream industries that use these same materials; "OK Boomer" (June 12) on how GENIUS Act capital, liquidity, custody and risk management standards for stablecoin issuers are much less demanding than the same requirements for FDIC-insured banks; and "Sick as a Dog" (August 12) on how Trump's 2017 tax bill was the catalyst for greater off-shoring of US pharma profits

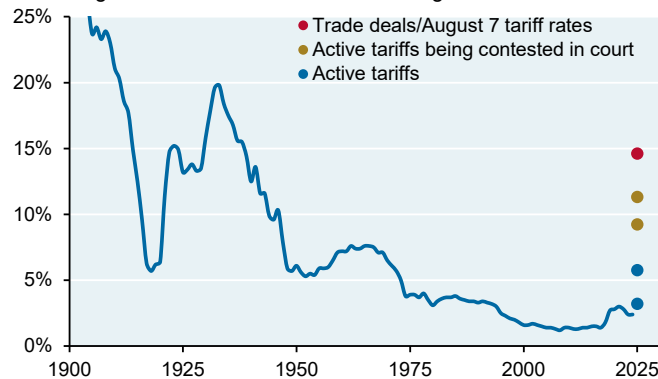
<sup>4</sup> "Political polarization in financial news", Journal of Financial Economics, N. Gupta (Indiana), May 2024; "Partisan bias in economic news content", American Politics Research, E. Merkley (Univ. of Toronto), Dec 2018



With that background, here's my attempt at a fair shake assessment of the US economy at a time of some of the broadest policy shifts since FDR. A few of these shifts are illustrated below. Nothing happens in a vacuum, of course; Trump's first-term reintroduction of tariffs began at a time when every country in the world had a higher tariff on the US than vice-versa<sup>5</sup>, and when other countries often imposed substantial nontariff barriers as well; deportations are occurring after the largest and most disruptive unauthorized migration surge in decades; and Trump's push for deregulation is happening after a Biden-era regulatory bonanza that resulted in final rule costs that were 4x higher than Obama's first term and 45x higher than Trump's first term<sup>6</sup>.

#### Average tariff rate on all US imports

Assuming 20% US domestic and 20% foreign substitution from China

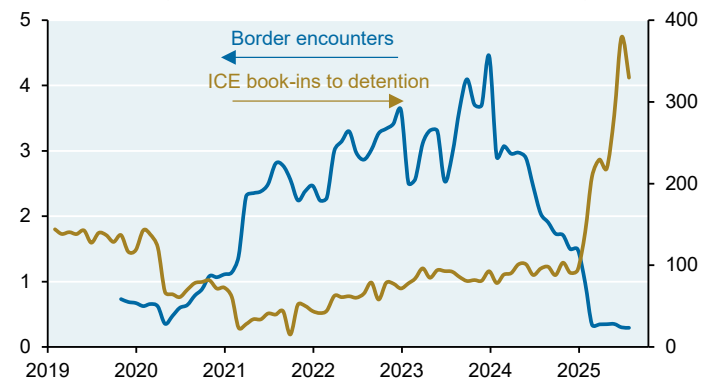


Source: Tax Foundation, USITC, White House, JPMAM, 2025

#### US border encounters and ICE book-ins to detention

Annualized rate, millions

Annualized rate, thousands

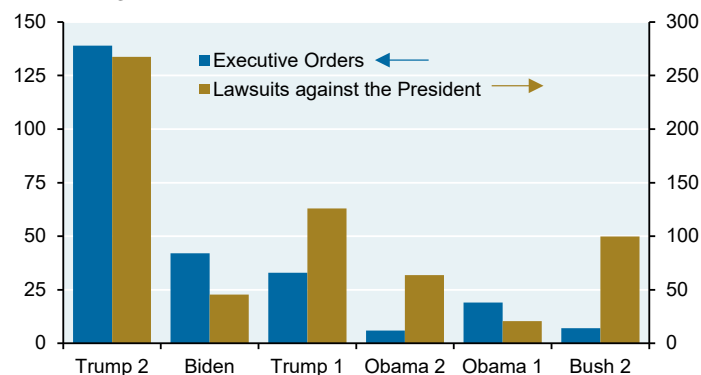


Source: CBP, ICE, JPMAM, August 2025

#### Executive Orders and Federal lawsuits in first 100 days

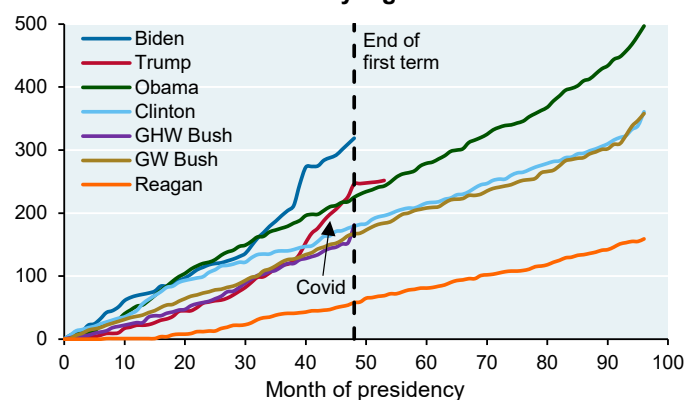
Executive Order count

Lawsuit count



Source: New York Times, Federal Register, JPMAM, May 1, 2025

#### Cumulative # of economically significant rules



Source: GWU Regulatory Studies Center, June 2025

<sup>5</sup> Eye on the Market, February 22, 2017; page 4 chart on the complete lack of tariff reciprocity. In terms of its consequences, an April 2015 paper from the Federal Reserve found a clear linkage between US trade policy and jobs. The conclusion: "we find a link between the sharp decline in US manufacturing and the US granting of Permanent Normal Trade Relations to China, which was passed by Congress in October 2000 and became effective upon China's accession to the WTO at the end of 2001". The authors showed that **when China joined the WTO, US manufacturing industries with the largest permanent tariff declines also saw the largest job declines**. They analyzed and discarded other possible explanations, such as a decline in the US competitiveness of labor-intensive goods, policy changes in China and macroeconomic events in the US. The lack of a job response during the same period in the EU (where tariffs didn't change) further reinforces the linkage between US trade policy and US job declines. See "*The Surprisingly Swift Decline of US Manufacturing Employment*", Pierce (Fed) and Schott (Yale SOM), 2014

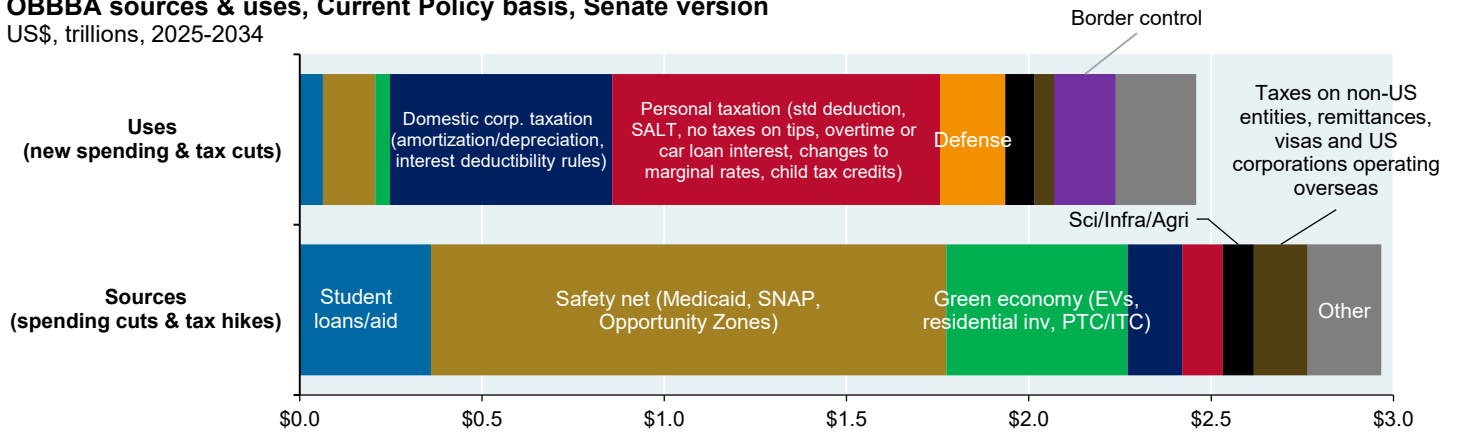
<sup>6</sup> From former CBO Director Doug Holtz Eakin's *American Action Forum*, January 29, 2025



**The Administration's reconciliation bill is another pillar of its policy objectives that impact the economy.** The OBBBA redistributes \$5 trillion of government spending/taxation over ten years and combines Thatcherite pro-business and supply side incentives, Jacksonian nationalism, Clinton's welfare reform, a heavy dose of Reagan (more on national defense and less on the safety net for the poor), border and immigration controls with parallels to Coolidge and Eisenhower, and Trump's own aversion to the green economy.

### OBBBA sources & uses, Current Policy basis, Senate version

US\$, trillions, 2025-2034



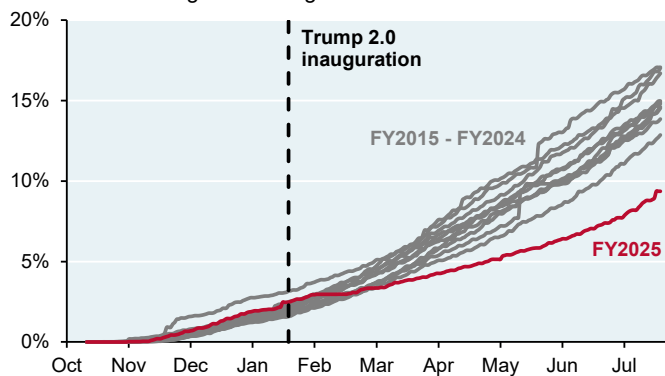
Source: JPM Global Markets Strategy, CBO, JPMAM. August 2025. Current Policy basis means that all figures are compared to 2024 fiscal conditions rather than comparing them to fiscal conditions assuming a sunset of all TCJA provisions (Current Law basis).

**OBBBA Medicaid/SNAP work requirements are reminiscent of Clinton's Welfare Reform Act of 1996**, which has been acknowledged as a policy success in reducing welfare caseloads by the Heritage Foundation (no surprise there) but also by the center-left Brookings Institution.

Here are two last exhibits on Administration priorities before looking at US economic trends: **a slowdown in government-funded NIH grants, and trends in new/cancelled green energy projects.** A related development, on solar: in August, the US Court of International Trade vacated Biden's June 2022 suspension of solar tariffs on imports from Southeast Asia. This ruling opens the door to higher tariffs on US solar imports and billions in retroactive duties owed on \$50-\$70 billion in solar imports from Cambodia, Malaysia, Thailand and Vietnam.

### NIH new & competitive renewal grant funding, FY15 - FY25

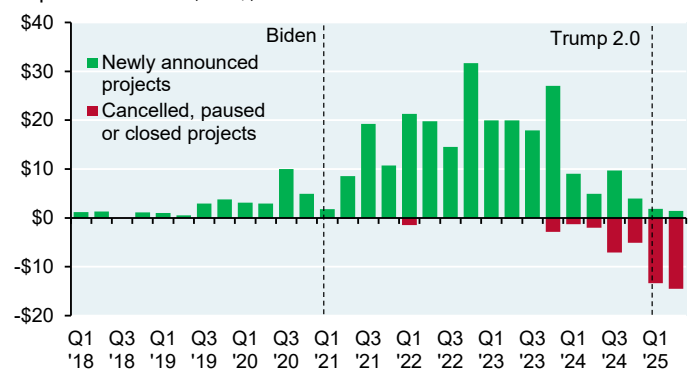
Percent of annual grant funding



Source: Jeremy Berg (University of Pittsburgh), July 25, 2025

### New vs cancelled clean energy projects

Capital investment, US\$, billions



Source: Jay Turner (Wellesley College), Q2 2025



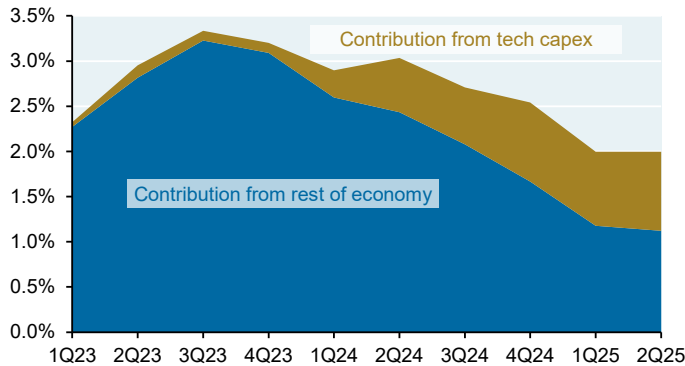
*First: to what degree are economic impacts of Trump policies obscured by the benefits of AI spending?*

Quite a bit, according to the first chart: **tech sector capital spending has been contributing 35%-45% of overall US GDP growth over the last three quarters.** This is remarkable; in other words, without tech capital spending, US growth might already have converged to ~1% due to weakness in consumption. Some GDP growth impacts are exaggerated since tech equipment is partially imported from Taiwan, but the general trend is the same: tech capital spending is an increasingly important contributor to both growth and equity valuations.

Investment spending growth for the S&P 500 looked good in Q2 at 24% for capex and another 10% for R&D; but for the median stock, both grew by just 3%-4%. We have discussed hyperscalers extensively this year; as shown below on the right, they're spending an increasingly large share of revenues on capex and R&D. How long this can last is one of the most important questions for the US economy and for markets.

#### US real GDP growth contribution from tech capex

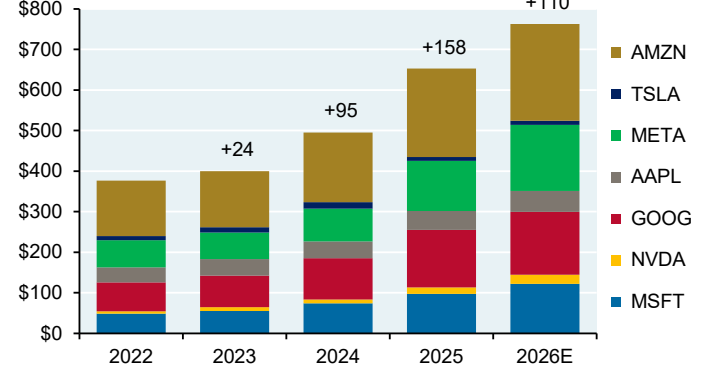
Percent



Source: Bridgewater, August 2025

#### Mag 7 capex & R&D

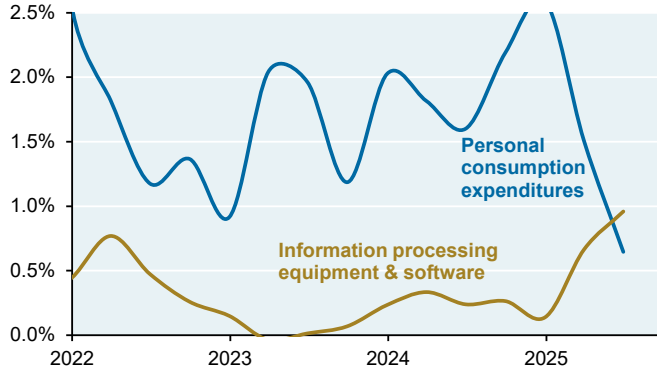
US\$, billions



Source: Bloomberg, JPMAM, August 2025

#### Contribution to real GDP growth

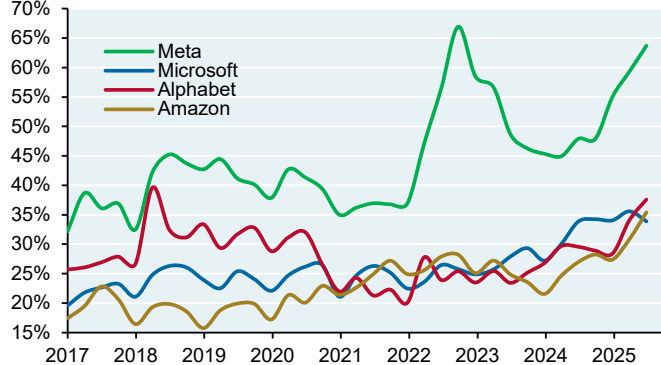
Percent, 2Q rolling average



Source: BEA, Bloomberg, JPMAM, Q2 2025

#### Hyperscaler capex and R&D as a share of revenues

Percent



Source: Bloomberg, JPMAM, Q2 2025




[Online Trump Tracker](#)

### What do coincident and leading indicators of growth show?

A mixed bag. Current growth looks steady in the Dallas Fed Weekly Growth tracker, the Atlanta Fed GDPNow tracker, Conference Board coincident indicators and in our favorite indicator, ISM new orders less inventories. However, there's some weakness in business optimism, Conference Board leading indicators and rising small business concerns on sales relative to concerns about inflation. In any case, no smoking gun regarding a tipping point into recession.

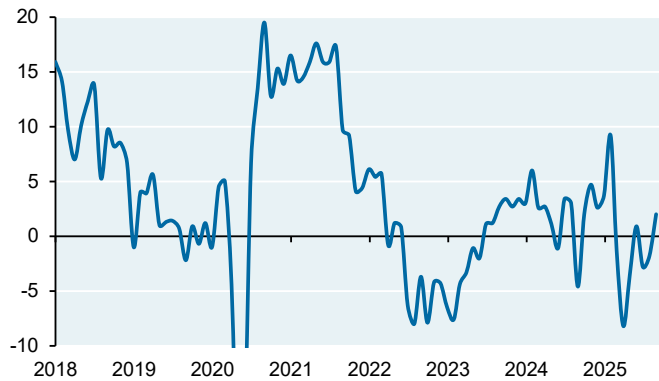
#### Dallas Fed US Weekly Economic Index

Index (composed of 10 series including unemployment claims, retail sales, fuel sales and electricity utility output)



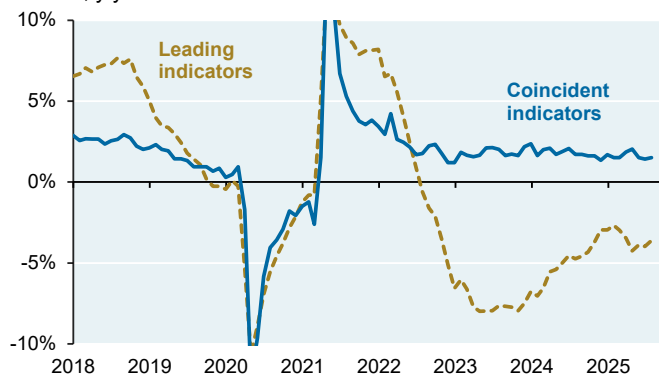
#### ISM new orders less inventories

ISM manufacturing index



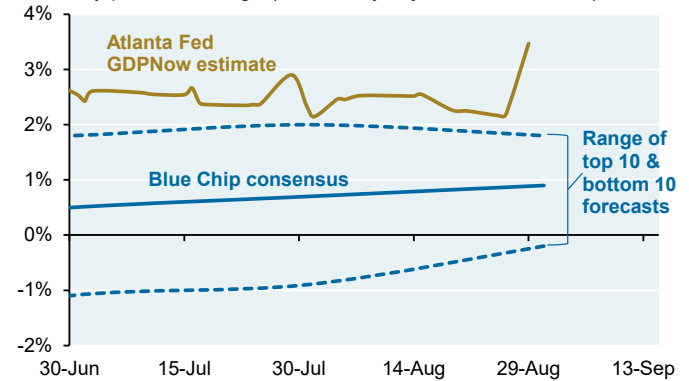
#### Conference Board coincident and leading econ. indicators

Percent, y/y



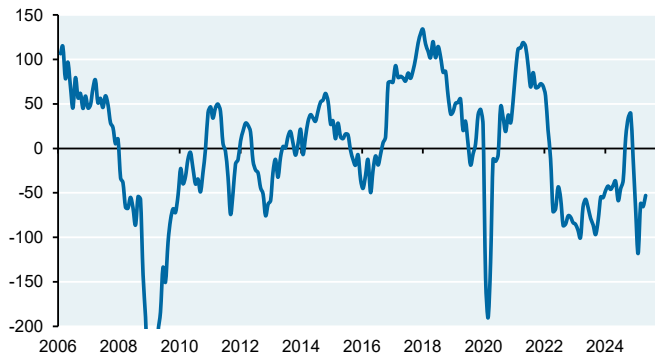
#### Real GDP estimates for Q3 2025 (GDPNow)

Quarterly percent change (seasonally adjusted, annualized)



#### US business optimism and capital spending tracker

Index



#### Survey of most important problem for small businesses

% of NFIB respondents reporting a given issue as most important



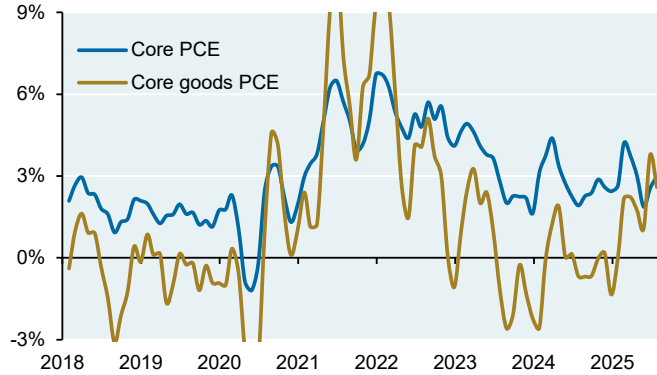


### Is the Fed really going to ease at a time of 3% core inflation and inflation expectations above 2%?

There's some concern that the Fed is being bum-rushed into easing, just like Fed chair Arthur Burns during the Nixon era. Core PCE and PPI inflation are now 3%, and while core goods inflation fell in July, it has trended upward since the start of the year due to tariffs. **Even more worrisome measures for rate-cutters:** the increase this year in input/output prices paid in manufacturing/services surveys. With the primary exception of the 1989-1991 easing cycle around the S&L crisis, the Fed generally has not cut policy rates at a time of rising prices paid (5<sup>th</sup> chart). Any Fed cuts would also be taking place when inflation expectations are above 2% (see 6<sup>th</sup> chart), so the Fed better be sure about a weakening economy... the clearest example of which is seen in deteriorating labor demand on page 10.

#### Core PCE and PCE goods inflation

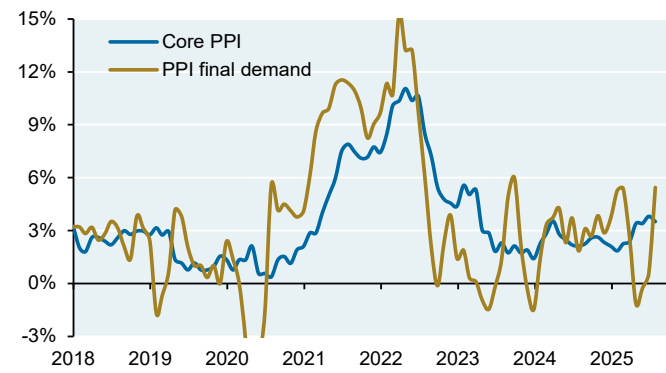
3 month % change, annualized



Source: BEA, Bloomberg, JPMAM, July 2025

#### Core PPI and PPI final demand inflation

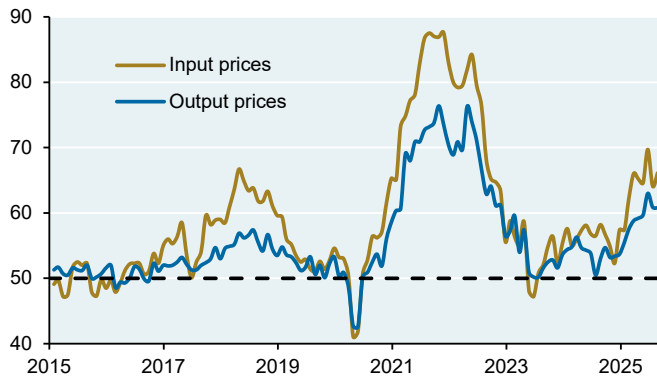
3 month % change, annualized



Source: BLS, Bloomberg, JPMAM, July 2025

#### US manufacturing PMI: input and output prices

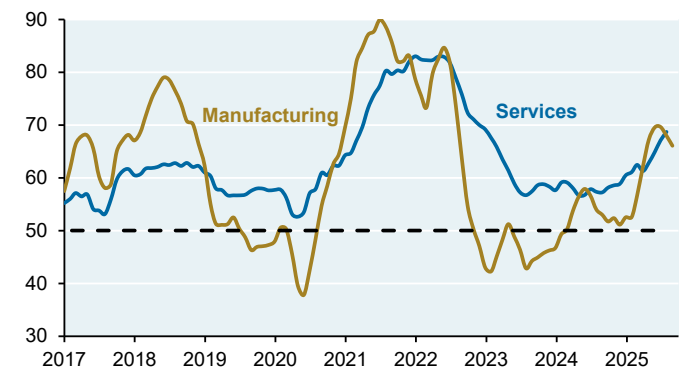
Index (50+ = increasing)



Source: S&P Global, Bloomberg, JPMAM, August 2025

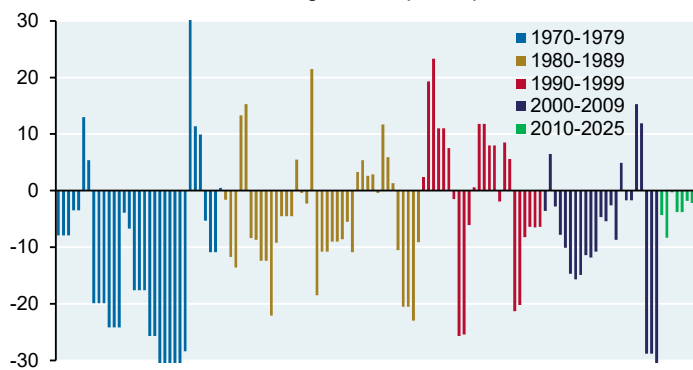
#### ISM surveys: prices paid

Index (50+ = increasing), 3 month moving avg, seasonally adjusted



Source: ISM, Bloomberg, JPMAM, August 2025

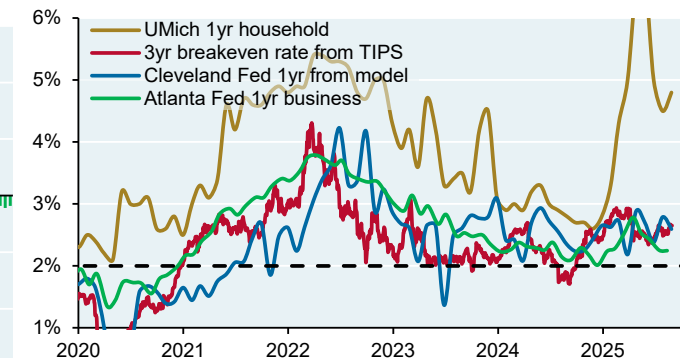
#### Trailing 6 month change in manufacturing prices paid at the time of Fed cuts, Change in ISM prices paid index



Source: ISM, Bloomberg, JPMAM, August 28, 2025

#### US inflation expectations

Percent



Source: Regional Fed Surveys, UMich Survey, Bloomberg, JPMAM, September 2, 2025





### What about food and energy prices, and Krugman's fresh vegetable series?

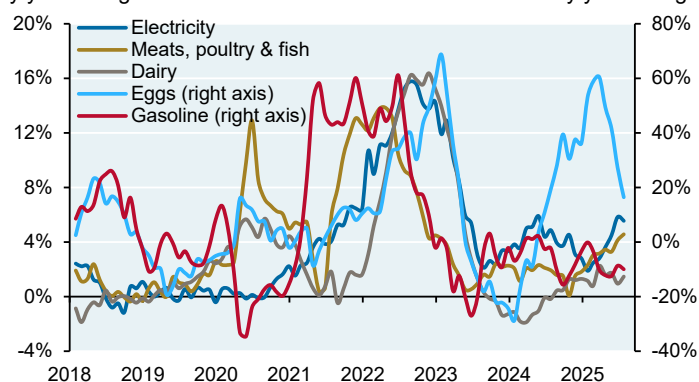
Electricity prices are rising for reasons related to energy transition spending, rising costs for transmission and transformer equipment, AI demand and grid resilience projects in places like California. Crypto could be part of the reason as well, but the crypto industry successfully sued to force the EIA to terminate its Cryptocurrency Mining Operations Survey. Meat/poultry/fish inflation is rising again, although this is a noisy series and still just a third of levels seen in 2022. This year's avian flu outbreak is subsiding in the US, leading the CDC to end its emergency bird flu response and contributing to falling egg prices (from very high levels).

**What about a series that Paul Krugman has highlighted: sky-rocketing monthly inflation in July 2025 for “fresh vegetables except potatoes”, and which he has linked to farm worker deportations?** First, this series has seen similar spikes before, so it's unclear if the reason is Trump policies. Second, if farm worker shortages were the catalyst here (undocumented migrants represent ~40% of farm workers), why wouldn't we see similar inflation spikes for dry vegetables, fresh fruits/melons or potatoes? This feels like cherry-picking by Krugman, whose Substack reports are stratospherically partisan but sometimes worth a read anyway.

One last comment on immigration. If declining border encounters and rising self-deportations (Secretary Noem cited 1.6 mm undocumented workers leaving in her first 200 days) were constraining the labor force, we would presumably see higher wage inflation for immigration-sensitive sectors such as childcare, cleaning, construction, food preparation, etc. But as shown below, there is no material wage growth divergence yet vs the overall labor market. Maybe this will change as some expect but so far, limited evidence.

#### CPI energy and food inflation

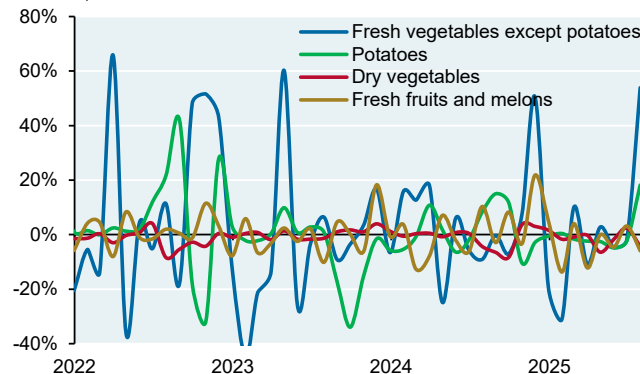
y/y % change



Source: BLS, Bloomberg, JPMAM, July 2025

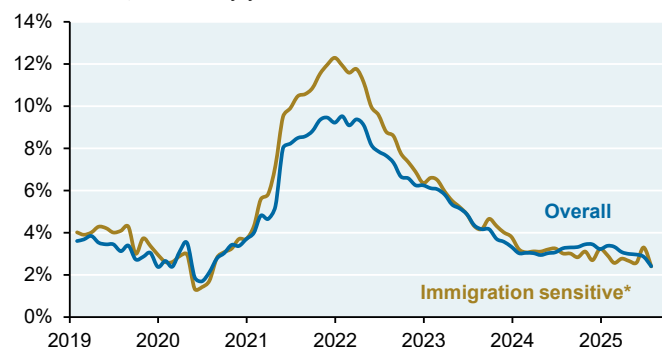
#### PPI fruits and vegetables inflation

Percent, m/m



Source: BLS, Bloomberg, JPMAM, July 2025

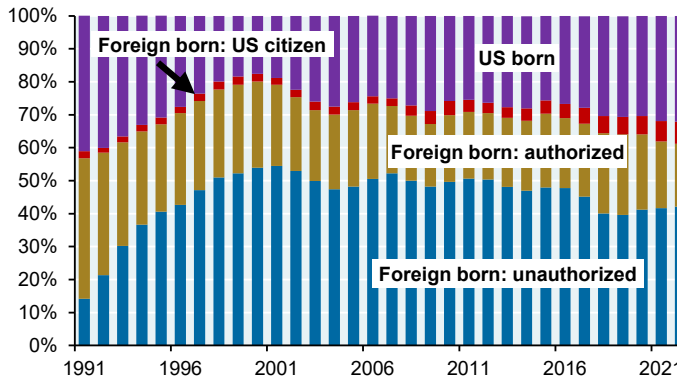
#### Wage growth: overall economy vs immigration sensitive industries, Percent, y/y



Source: Indeed, JPMAM, July 2025. \*Avg across childcare, cleaning, construction, food preparation and service, home health, retail

#### Legal status of hired crop farmworkers

Percent



Source: US Department of Agriculture, JPMAM, 2022

<sup>7</sup> “Stagflation: shooting the messengers”, Paul Krugman on Substack, August 15, 2025

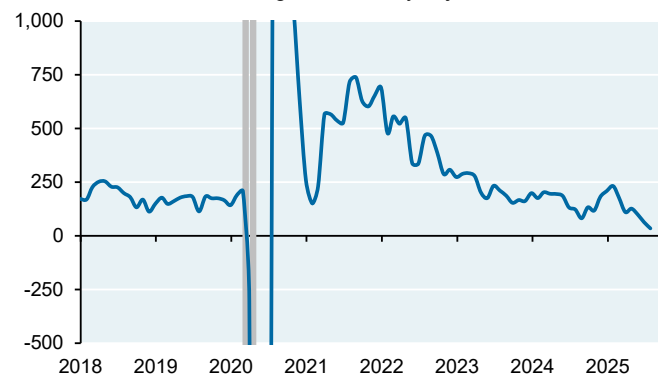


*How weak is labor demand, and how is immigration policy affecting labor force growth?*

**Labor demand is clearly weakening this year.** Examples include declines in non-farm payrolls, declines in the ISM employment survey, declines in the share of small businesses planning to raise worker compensation and in the declining JOLTS survey of voluntary job departures (all shown below). Other examples: a spike in unemployed new labor force entrants, the rising share of workers unemployed for 27+ weeks and a decline in the “job switcher to job stayer” wage premium, all of which appear in the Trump tracker linked above.

#### Monthly net change in nonfarm payrolls

Thousands, 3 month average, seasonally adjusted



Source: BLS, Bloomberg, JPMAM, July 2025

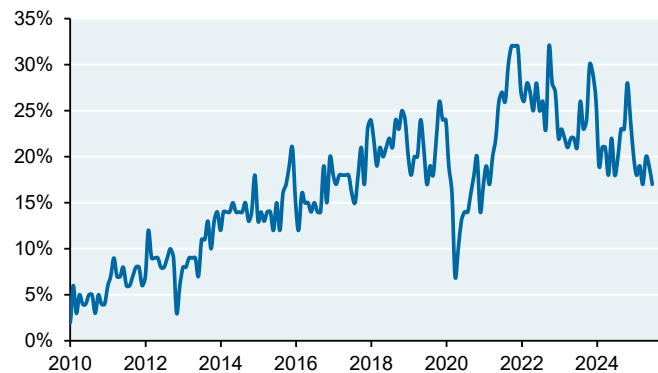
#### ISM employment indicator

Index



Source: ISM, Bloomberg, JPMAM, August 2025

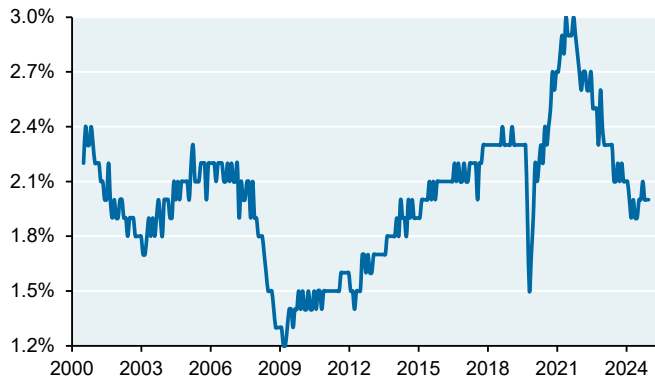
#### US small businesses planning to raise worker compensation, % of small business survey respondents



Source: NFIB, Bloomberg, JPMAM, July 2025

#### JOLTS voluntary quit rate

Percent



Source: BLS, Bloomberg, JPMAM, June 30, 2025

**Labor demand is also falling for certain legacy Defense Department officials.** The following individuals

were relieved of their duties this year:

Joint Chiefs Chairman Gen. CQ Brown

Air Force Vice Chief of Staff Gen. James Slife

Air Force Chief of Staff David Alvin

Air Force Gen. Tim Haugh (NSA Chief)

Air Force Lt. Gen. Jeffrey A. Kruse (DIA)

Rear Adm. Milton Sands III (NSWC)

Adm. Lisa Franchetti, Chief of Naval Operations

Vice Adm. Nancy Lacore, Chief of Navy Reserve



**The relatively weaker job market for recent college graduates has gotten a lot of attention.** Two recent papers find an explicit connection between AI exposure and employment for young people, one from Erik Brynjolfsson at Stanford<sup>8</sup> (second chart) and another from Harvard<sup>9</sup> (third chart) which finds a discrete break in Q1 of 2023. **Not everyone agrees, of course;** according to Employ America and the Economic Innovation Group (EIG), weaker employment for recent graduates predates AI adoption, and their research doesn't show higher unemployment for majors with higher AI exposure. But I'm inclined to put more credence in Stanford and Harvard papers; both Employ America and EIG were founded by Silicon Valley individuals that may have a predisposition, subliminal or otherwise, to absolve AI of any negative economic outcomes.

#### Recent college graduate employment gap

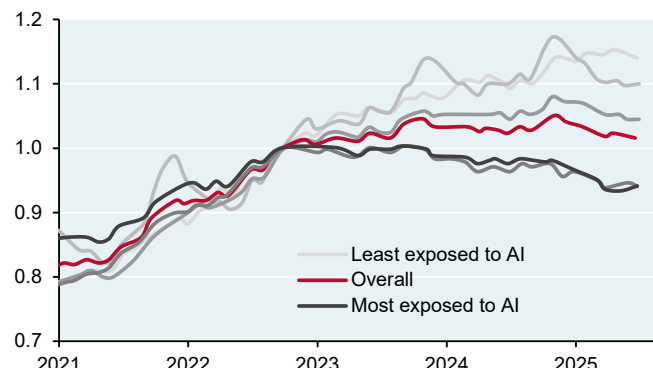
All workers unemployment rate - recent graduate unemployment rate



Source: Census Bureau, BLS, JPMAM, June 2025

#### Employment of workers aged 22-25 by level of AI exposure

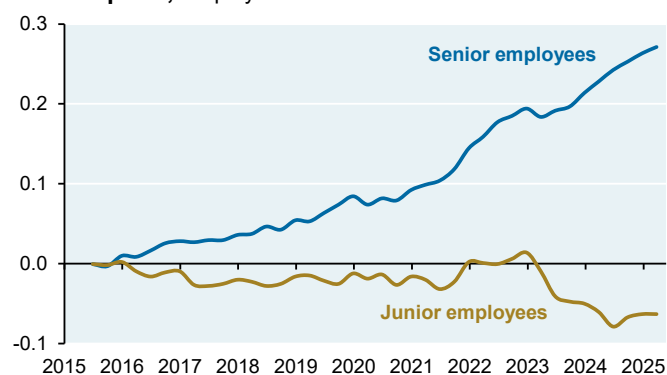
Headcount index (1 = October 2022)



Source: "Canaries in the coal mine", Brynjolfsson et al, Stanford, August 2025

Some economists such as Mark Zandi at Moody's are unimpressed by low unemployment rates given what he cites as a shrinking US labor force. But the question of immigration and US labor force growth is way more complicated than I imagined. I was advised by subject matter experts to ignore the BLS Household Survey's "Total Civilian Labor Force" series due to problems related to sample sizes, the lack of backward revisions and discrepancies related to population control adjustments using Census data. **Ok, but then what's the best way to get a sense for changes in the labor force?** According to Jed Kolko at the JP Morgan Institute, if the labor force were shrinking, we would expect to see a declining employment-to-population ratio for people aged 25-54; yet this series is still stable and close to its post-pandemic peak (fourth chart). In other words, no clear sign yet from this series that the labor force is materially shrinking.

#### Employment differences between Gen AI adopters and non-adopters, Employment coefficient



Source: Lichtinger and Hosseini (Harvard), August 2025

#### US employment to population ratio

Percent of prime age (25-54) population in employment



Source: BLS, Bloomberg, JPMAM, July 2025

<sup>8</sup> "Canaries in the Coal Mine? Six Facts about the Recent Employment Effects of Artificial Intelligence", Erik Brynjolfsson (Stanford Digital Economy Lab) et al, August 2025

<sup>9</sup> "Generative AI as Seniority-Biased Technological Change: Evidence from US Resume and Job Posting Data", Lichtinger and Hosseini (Harvard), August 2025



*And what about tariffs? Clients are sick of hearing about them but the President is not sick of imposing them*

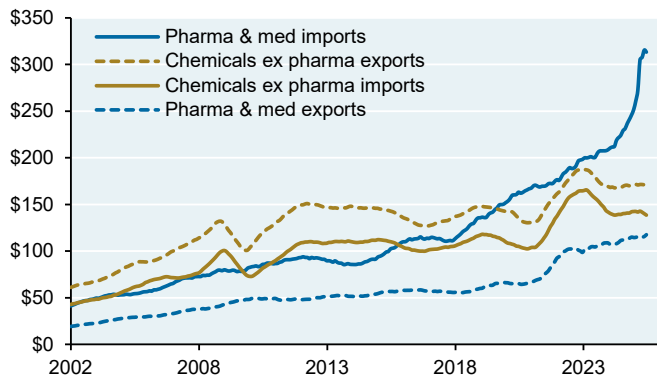
The latest tariffs include a very complex rule<sup>10</sup> applying steel and aluminum “derivative” tariffs to composition of such materials in intermediate or final goods imports. Furniture and wind turbine tariff investigations are also underway, adding to the list of pending items. Note: the Democratic-dominated Court of Appeals for the Federal Circuit ruled against Trump’s IEEPA tariffs, which will remain in force pending a White House petition for certiorari with the Supreme Court. **If I had to guess:** the Supreme Court will overrule the Appellate Court and reinstate tariffs based on the notion that IEEPA allowances for Presidential “regulation” include “taxation”.

**It’s too soon to assess the tariff impact on consumers vs businesses.** As shown below, US businesses ramped up imports of pharmaceutical and consumer goods in Q1 and are still working these inventories down, so it’s not clear how burdens will be shared within the US. **But we do know this: import prices on all goods have only declined by 0.2% in 2025, suggesting that companies exporting to the US are generally not “paying” for tariffs in any explicit way as the Administration often claims.** Are there other quid pro quos? The WSJ cites \$1.5 trillion of foreign direct investment promises from other countries but details are scarce. Hard to enforce these things; for example, China only reached 60%-65% of its targeted purchases of US goods in 2020/2021 as part of the Phase One trade deal (87% for agriculture, 62% for manufactured goods and 52% for energy).

The last chart shows the evolution of monthly budget deficits by fiscal year. Through July, the current year's deficit is around 5% of GDP and has benefitted from \$55 billion in tariffs collected YTD. The latest estimates imply \$250-\$300 billion in annual revenues once all imposed tariffs are collected, which is 0.8% - 1.0% of 2025 GDP. So, for US budget deficits in the 4%-5% range, tariffs are way more than a rounding error but don’t totally change the complexion of the weak US fiscal picture that much, even if they can be sustained.

#### US pharmaceutical & medicine vs chemical trade

US\$, billions, 12 month trailing total



Source: Census Bureau, JPMAM, June 2025

#### Real imports of consumer goods ex autos

Index (January 2023 = 100)



Source: Census Bureau, JPMAM, June 2025

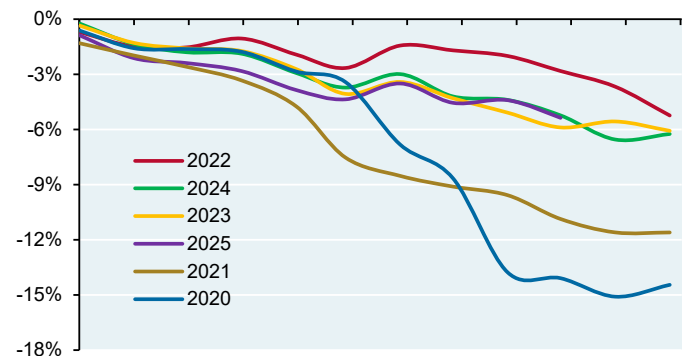
#### Tariff rates & price changes for select goods categories

Description	Tariff rate	Import price chg Jan - Jul
All goods	Various	-0.2%
Bauxite, alumina, aluminum & products thereof	50%	-9.9%
Iron & steel mill products	50%	-6.0%
Passenger cars, new & used	25%	-1.0%
Goods from China	Various	-1.9%

Source: BLS, White House, Bloomberg, JPMAM, August 18, 2025

#### US federal government budget balance

Percent of GDP



Source: US Treasury, BEA, Bloomberg, JPMAM, July 2025

<sup>10</sup> Read at your peril: <https://globaltradealert.org/reports/Section-232-Metal-Content-Calculus-Explained>. The tariff depends on traceability (where the metal was smelted/cast or melted/poured) and on a defensible figure for the metal share of value. Documentation is critical, since missing data triggers worst-case default tariffs

**Wrapping up: the US should avoid a recession despite the policy disruptions**

You can argue that Presidents shouldn't be assumed to create economic conditions they preside over, but then be consistent across Presidents and don't refer to things like "the Clinton Recovery" of the 1990's. In September 2012, I wrote about this period of high growth and elevated equity returns. If Clinton actually was responsible for it, the driving policies of his eight years included cuts to long term capital gains tax rates, slashing military spending, Free Trade agreements, electricity and telecom deregulation, welfare reform and support for HMOs which negotiated discounts from providers and controlled the type of care provided to insured members.

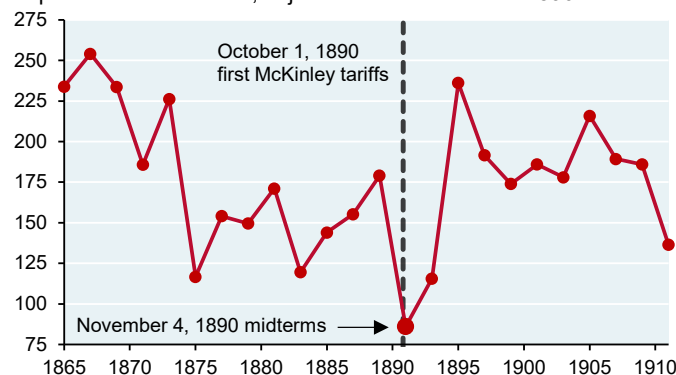
**As for Trump policy impacts, I still expect the US economy to narrowly avoid recession this year and next.** The Fed will probably also ease once or twice, helping interest rate-sensitive sectors like housing. However, growth will probably slow to ~1% in the second half due to tariffs on consumers and businesses, the eventual impact of slowing labor supply growth due to immigration policy (a downshift from ~1 million of net immigration per year to 200k or less), and the collision between AI spending and finite power supplies.

One silver lining, although many of you might not agree: I don't believe the Administration is permanently wedded to tariff and immigration policies irrespective of their impact on growth. If they turn out to be as negative for the US economy as some suspect, such policies can change quickly:

- McKinley tariffs increased the average duty on imports to almost 50%. Subsequent increases in inflation were politically disastrous: in the 1890 midterms, Republicans lost their majority in the House with seats falling from 171 to 88, and after the 1892 election, all branches of government were under Democratic control. Democrats proceeded to draft new legislation which cut effective tariff rates by one third
- In 1954 under Eisenhower, annual deportations peaked at 1.1 million according to DHS data, a figure which included both documented and undocumented workers. Just two years later, deportations fell by over 90% to just 80,000 as funding and support for the deportation program evaporated

**McKinley tariff aftermath: 1890 midterms**

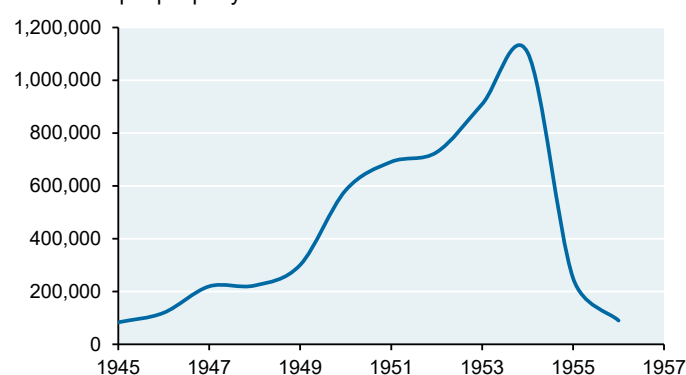
Republican House seats, adjusted for House size in 1890



Source: US House of Representatives, JPMAM, January 2025

**Eisenhower deportations**

Number of people per year



Source: US Department of Homeland Security, JPMAM, January 2025

**One last thing on immigration.** According to the TRAC database run out of Syracuse University<sup>11</sup>, 70% of the people held in ICE detention centers had no criminal convictions as of August 10, 2025, and many of those that do have criminal records only committed minor offenses, including traffic violations. Here are some ICE-related news stories that are pretty jolting to read:

<https://episcopalnewsservice.org/2025/08/04/church-leaders-call-for-release-of-episcopal-priests-daughter-who-was-detained-by-ice/>

<https://www.npr.org/2025/06/27/nx-s1-5442653/father-of-u-s-marines-violently-arrested-by-ice>

<https://apnews.com/article/us-army-veteran-immigration-raid-53cb22251a01599a0c4d1a8d5650d050>

<https://www.washingtonpost.com/climate-environment/2025/08/30/immigration-raid-firefighters-washington/>

Michael Cembalest, JP Morgan Asset Management

See 3-page appendix on partisan redistricting, the Courts, the Census and the balance in the House

<sup>11</sup> <https://tracreports.org/immigration/quickfacts/>

**Appendix: The Supreme Court, partisan mid-decade redistricting, the Census and the Balance in the House**

Short version: House control may get incrementally tougher for Democrats due to mid-decade partisan redistricting, interstate migration patterns and Supreme Court changes to the Voting Rights Act

**Partisan redistricting in Texas, Florida, Missouri and maybe California**

- Officials in TX and FL have attempted to justify mid-decade redistricting based on errors in the 2020 census. Substantial counting mistakes were identified by the Census Bureau itself, the General Accounting Office and National Academies; and atypical population shifts also occurred due to COVID and related shutdowns. That said, the political reality appears to be that redistricting is being done for partisan reasons
- Neither the Constitution nor federal law prohibit mid-decade redistricting. But: California and other state constitutions do, and some vest power to draw district lines in independent commissions. So, rather than directly adopting a new congressional map, the CA legislature passed a public initiative to amend the state constitution to override the state commission and impose a new congressional map for the rest of the decade. Voters will approve/reject this constitutional amendment and the new map in November
- The Supreme Court has held that the Constitution does not contain a judicially enforceable prohibition against **partisan** gerrymandering but some state constitutions do (Florida). If FL state courts find that new districts violate this restriction, they could be invalidated with existing districts reinstated
- Texas faces no such barriers: the Texas legislature has the power to draw congressional district lines, no state constitutional provision or statute bars mid-decade redistricting, and there currently is no recognized prohibition on political gerrymandering. Trump has called on Missouri and Indiana to join the Texas Brigade
- Most Democrat-controlled states already have completely Democratic House delegations (MA) or appear to have the fewest Republican seats reasonably possible given the number of Republican voters and their geographic concentration (WA). Others face state constitutional restrictions on redistricting (CO), although like California they may attempt to circumvent them. The NY legislature is starting that process but unlike California, state constitutional amendments must be approved in two consecutive legislative sessions
- The table below looks at the nine states that have more than two opposing party House seats capable of being redrawn, and where one party controls the Governor's seat and both chambers of the state legislature (a trifecta). **Illinois and Georgia are the only states on the list with as much legislative freedom to operate as Texas.** Note: ChatGPT got the trifecta list wrong when we asked it to make one

**Rules around mid-decade Congressional redistricting in trifecta states with > 2 opposing party seats**

	House Seats	GOP/DEM split	Does the state constitution explicitly prohibit political gerrymandering?	Does the state vest redistricting power in the legislature or in a state commission?	Do changes to the state constitution require two separate legislative sessions?	Does the state constitution permit Congressional redistricting only after the Federal Census?	Princeton gerrymander score
<b>Democratic trifecta states</b>							
California	52	9R / 43D	Yes	Non-politician commission	No	Yes	B
Colorado	8	4R / 4D	Yes	Non-politician commission	No	Yes	A
Illinois	17	3R / 14D	No	Legislature, subject to veto	No	No	F
New Jersey	12	3R / 9D	No	Politician commission	3/5 of each House or simple majority for two sessions	Yes	A
New York	26	7R / 19D	Yes	Commission + legislature	Yes	Yes	A
<b>Republican trifecta states</b>							
Florida	28	20R / 8D	Yes	Legislature, subject to veto	No	No	F
Georgia	14	9R / 5D	No	Legislature, subject to veto	No	No	F
Ohio	15	10R / 5D	Yes	Legislature, subject to veto	No	Yes but one req. in 2026	F
Texas	38	25R / 13D	No	Legislature, subject to veto	No	No	F

Sources: Ballotpedia, NCSL, Book of the States, University of Pennsylvania, JPMAM, 2025. Trifecta states: same party controls Governor seat and both state legislative chambers. Princeton gerrymander index grades are generated by an algorithm that measures partisan bias, competitiveness and geographic manipulation in new district lines





**Some opposing party Congressional districts shown in the table exist since they were created by states aiming to comply with the Voting Rights Act...but there's a case at the Supreme Court which might change the rules.**

### **Majority-minority districts and the VRA**

The Supreme Court recently ordered a **very rare re-argument** in consolidated cases involving Section 2 of the Voting Rights Act, *Louisiana v. Callais* and *Robinson v. Callais*. The issues at play suggest the Court may constrict or even invalidate the Section 2 provision. The Court asked both parties in these cases to file briefs addressing whether Louisiana's creation of a second majority-minority congressional district, which occurred pursuant to a court order under Section 2 of the VRA, violates the Fourteenth or Fifteenth Amendments. Section 2 requires that "majority-minority" districts be established under certain circumstances for Congress and state/local legislatures. If Section 2 is constrained or eliminated, it could lead to elimination of longstanding Democratic seats, particularly those held by minority legislators.

- A majority-minority district is a Congressional or state/local district in which the majority of the population belongs to a racial or ethnic minority group
- Section 2 of the VRA applies primarily to districts in which a single racial group constitutes a majority. Estimates of the number of such districts vary based on the source, ranging from 44 to 60, and of course the racial composition of congressional districts can change year to year. Circuits are currently split over whether Section 2 applies to "coalition" districts in which multiple racial minority groups that generally support the same candidates join together to form a majority
- There is no hard data on how many majority-minority districts were drawn by states aiming to comply with Section 2 of the VRA, but ~12 appear drawn based on court orders issued under Section 2. Eleven of these seats are currently held by Democrats, and the twelfth is subject to ongoing litigation but would likely be won by a Democrat as well. Those seats would be the most at risk if the Court invalidates or dramatically curtails Section 2, since states would no longer be under a federal legal obligation to maintain them. **Depending on the Court's ruling, states might not even be constitutionally *permitted* to maintain such majority-minority districts adopted to comply with the VRA, in which case new legal proceedings might force states to draw new congressional maps, overriding any state level laws banning such redistricting efforts other than after the decennial Census**
- Around 25 majority-minority districts are in states where Republicans control both legislative chambers and the Governor's office. A total of nineteen out of those 25 seats are held by Democratic Representatives
- In some cases, the dominant party will use Section 2 for partisan gerrymandering purposes (i.e., to "pack" minority voters from the opposing party into a single district to solidify strongholds in neighboring districts), so I would not assume that all Section 2 districts would be targeted for elimination

### *Timing and some background on re-arguments*

- Oral arguments will be held October 15 and the Court will rule by June, meaning this case will be resolved well in advance of the 2026 midterm elections
- It's impossible to speculate how the Court will rule. A few years ago, in *Allen v. Milligan* the Court upheld its traditional approach to Section 2; the Court's composition has not changed since then and might simply continue its prior approach. Four Republican Justices dissented in *Allen*, however, and some Justices in earlier opinions suggested interest in revisiting Section 2 and called its constitutionality into question
- **It is extremely rare for the Court to order that a case be re-argued.** Usually this occurs only when a new Justice is appointed, particularly when other Justices are closely divided in a matter. Other than that, the Court typically resolves all cases, no matter how controversial, in the term in which they are argued. One of the only examples from this century of the Court ordering re-argument without a new Justice being appointed is *Citizens United v. FEC*. The Court asked parties to brief whether it should overturn two of its precedents which had upheld a federal law prohibiting corporations from making independent expenditures concerning federal elections. Following re-argument, the Court issued a sweeping opinion overturning those precedents and invalidating provisions of the Federal Election Campaign Act



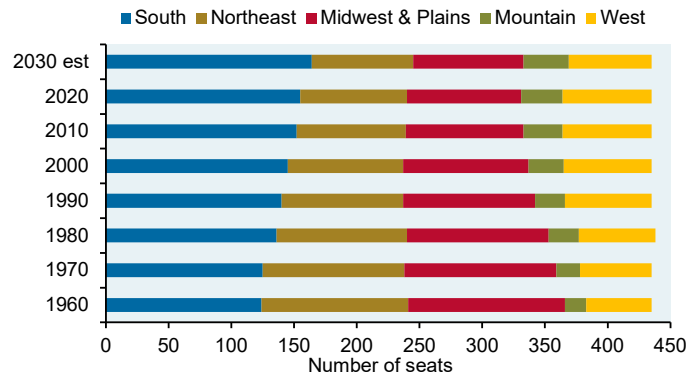
### Related issues: the 2030 Census

Whatever the results of mid-decade redistricting efforts and Supreme Court rulings on the Voting Rights Act, the 2030 Census may make it harder for Democrats. The Brennan Center estimates that interstate migration trends could result in Democratic states losing House seats (CA -4, NY -3, IL -1, OR -1, MN -1, RI -1) and GOP states gaining seats (TX +4, FL +4, AZ +1, UT +1, ID +1). Such Congressional reapportionment would impact not only control of the House but the Electoral College as well, starting in 2032. The table below shows the fastest growing states, and the chart shows Congressional districts by region following each Census. California, New York and Illinois continued to experience the largest net domestic migration losses between 2023 and 2024.

States with the fastest growing populations 2020-2030 EST, cumulative % change		
Utah		13.1%
Idaho		12.4%
Texas		11.4%
North Dakota		11.3%
Nevada		10.7%
Colorado		10.6%
Washington		10.5%
Florida		10.5%
Arizona		8.6%
South Carolina		7.7%

Source: UVA Cooper Center

### Congressional districts by region



Source: Brennan Center. Estimates of seats after the 2030 Census based on analysis of population growth trends for July 1 2022 to July 1 2024

The Brennan Center is using migration trends from 2022-2024 for its reapportionment projections. Some of these trends may be changing in Florida due to a property insurance crisis, regular landfalls of Cat 4 and Cat 5 hurricanes, soaring home prices and property taxes, continued loss of wetland areas, increased congestion and rising utility bills. While Ocala and Jacksonville are still on the PODS.COM list of most moved-to cities in 2025, Orlando fell off the list in 2025 and Tampa showed up on the most moved-out-of cities list for the first time.

### Most moved-to cities

City	State	2025 rank	2024 rank
Myrtle Beach	SC	1	1
Ocala	FL	2	2
Raleigh	NC	3	6
Greenville-Spartanburg	SC	4	4
Dallas-Fort Worth	TX	5	Unr
Charlotte	NC	6	5
Boise	ID	7	11
Knoxville	TN	8	8
Nashville	TN	9	13
Jacksonville	FL	10	9
Chattanooga	TN	11	Unr
Huntsville	AL	12	16
Portland	ME	13	12
Johnson City	TN	14	15
Spokane	WA	15	Unr
Atlanta	GA	16	14
Greensboro	NC	17	20
Asheville	NC	18	10
San Antonio	TX	19	Unr
Dover	DE	20	17

Source: 2025 PODS Moving Trends Report

### Most moved-out-of cities

City	State	2025 rank	2024 rank
Los Angeles	CA	1	1
San Francisco Area	CA	2	2
South Florida/Miami area	FL	3	3
Long Island	NY	4	4
San Diego	CA	5	8
Central Jersey	NJ	6	6
Chicago	IL	7	7
Boston	MA	8	13
Hudson Valley	NY	9	10
Denver	CO	10	12
Santa Barbara	CA	11	11
Seattle	WA	12	Unr
Stockton-Modesto	CA	13	9
Washington	DC	14	Unr
Hartford	CT	15	15
Tampa Bay	FL	16	Unr
Fresno	CA	17	7
Austin	TX	18	5
Bakersfield	CA	19	18
Philadelphia	PA	20	Unr

Source: 2025 PODS Moving Trends Report

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