

## Reality Check: How 2025 Compared to Our Expectations

GLOBAL  
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### Introduction

At the start of the year, Meketa's "What We Are Watching in 2025" highlighted four key themes: Trump Administration Policies, Federal Reserve Policy Dynamics, China's Economic Struggles, and concentration risks in US Equities. As we look back, this scorecard assesses how those expectations matched reality, where our views aligned with unfolding events, where outcomes diverged, and how these dynamics ultimately shaped market performance across 2025. Below, we graded our expectations on a scale from 1 to 5, with 1 representing the least accurate and 5 representing the most accurate.

### Trump administration policies

We anticipated that the Trump administration, backed by Republican control of Congress, would implement tariffs, tax cuts, and stricter immigration policies. These measures were forecast to drive inflationary pressures, alter trade dynamics, and reshape the labor market.

#### GLOBAL MACROECONOMIC INVESTMENT COMMITTEE

Alison Adams, PhD  
Kevin McLaughlin, CFA  
Richard O'Neill, CFA, CAIA  
Kameron Courtright

Our policy outlook largely played out as expected. We anticipated aggressive trade measures, and the administration delivered. Broad tariffs were imposed on imports from nearly all countries including key trading partners, China, Mexico, and the European Union. Rates reached historic levels—10% on most goods and up to 125% on Chinese products—pushing the average U.S. tariff to 18.6% by August.<sup>1</sup> Tensions cooled between the US and China as the year progressed with President Trump and President Xi agreeing to a suspension of trade wars for one year. Despite this agreement the US average tariff rate on all Chinese imports is 47.5%, while China has a 31.9% import tariff on all US exports.<sup>2</sup> The increased trade tensions in 2025 led to forced supply chain adjustments and questions about whether or not companies would pass along higher prices to consumers. We also predicted tax cuts, and they arrived under the “One, Big, Beautiful Bill Act.” However, they added to concerns about rising debt-to-GDP levels and higher Treasury yields. Fiscal stress intensified after Moody’s downgraded US credit in May, briefly sending 30-year Treasury yields above 5%.<sup>3</sup> Immigration restrictions tightened as expected, worsening labor shortages and keeping wage inflation high despite a slowdown in hiring. Overall, most policy actions aligned with our forecasts, though inflationary effects were somewhat muted by global supply chain shifts and many companies largely absorbing the higher costs. Labor market disruptions were also not as significant as expected.

<sup>1</sup> Source: Yale University Budget Lab, November 2025.

<sup>2</sup> Source: Peterson Institute of International Economics, C. Brown, “US-China Trade War Tariff: An Up-To-Date Chart,” December 5, 2025.

<sup>3</sup> Source: Reuters, “Moody’s Downgrade Ripples Through Bond Market, Causes Worries for Stocks,” May 20, 2025.

Grade: **MMMMM**

## Federal Reserve policy dynamics

We anticipated the Fed would face persistent inflation above target, with fewer rate cuts than initially expected. The challenge then was to navigate higher inflation levels and uncertainty related to the Trump administration’s pro-growth agenda. We also noted the chance of a steeper yield curve as the Fed would likely cut rates and strong growth, sticky inflation, and fiscal concerns would all keep longer dated rates elevated.

Our forecast for sticky inflation and limited rate cuts proved accurate, and the market volatility surrounding these moves aligned with our expectations. Our inflation and interest rate outlooks were largely on point. We expected inflation to remain above the Fed’s 2% target, and it did given persistent housing and services costs and some pressure from tariffs. In response, the Fed moved cautiously, holding rates steady through midyear before delivering two 0.25% cuts given signs of labor market weakness: one on September 17 (to 4.00–4.25%) and another on October 29 (to 3.75–4.00%), a third cut recently happened. As we anticipated, persistent inflation reduced expectations for further easing, and the yield curve steepened slightly while government debt service costs

hit record highs.<sup>4</sup> As we projected, Fed communication fluctuated between hawkish and neutral tones, reflecting uncertainty.

<sup>4</sup> Source: Kansas City Federal Reserve, H. Bi et al., "Higher Treasury Supply is Likely to Put Upward Pressure on Interest Rates," November 24, 2025.

Grade: **MMMMM**

## China's economic struggles

Our January outlook painted a cautious picture of China's economy, citing persistent post-pandemic struggles. We noted that China faced multiple headwinds such as deflationary pressures, a troubled real estate sector with mounting local government debt, and external geopolitical tensions (particularly with the US).

Our China outlook proved highly accurate, as nearly all the significant risks we flagged materialized. As we anticipated, Beijing was forced to intervene as the economy slipped into deflation for much of the year and the real estate debt crisis escalated. By late 2025, China began implementing a major local debt restructuring program—estimated at up to \$2 trillion—to relieve provinces and cities of hidden liabilities. The plan included a proposed \$1.4 trillion of deals with state-owned banks, in a sweeping effort to shore up financial stability and prevent widespread defaults.<sup>5</sup> Year-over-year GDP slowed from 5.4% at the end of last year to 4.8% at the end of the third quarter of this year, broadly in line with our mid-4% forecast.<sup>6</sup> Trade tensions with the US persisted, with new tariffs pressuring manufacturing and driving exports down sharply—growth fell to 2.3%, and shipments to the US dropped by \$115 billion.<sup>7</sup> Foreign direct investment plunged, despite later becoming less severe moving from -27% to -15.2% following policy measures.<sup>8</sup> The yuan depreciated which increased exports but raised capital outflow risks, while forecasts for China's economy continued to be revised lower. Overall, the slowdown driven by large amounts of debt unfolded as expected, but the depth of the property crisis and the collapse in foreign investment were even more severe than we anticipated.

<sup>5</sup> Source: Bloomberg, "China's Economy Grows at Weakest Pace in a Year," October 19, 2025.

<sup>6</sup> Ibid.

<sup>7</sup> Source: US Census, "US International Trade in Goods and Services, August 2025," November 19, 2025.

<sup>8</sup> Source: US State Department, "2025 Investment Climate Statements: China," December 2025.

While we accurately assessed China's economic challenges, we did not discuss the outlook for Chinese stocks. Despite the economic headwinds in China the considerable indirect and direct state support, AI optimism, and a cooling of tariff tensions all led to a significant rally in Chinese stocks. At the end of November, the MSCI China index was up close to 33% year-to-date, almost double the returns of the broad US stock market.<sup>9</sup>

<sup>9</sup> Source: MSCI China Factsheet, November 2025.

Grade: **MMMMM**

## US equities

We highlighted concentration risk and elevated valuations, noting that the “Magnificent 7” stocks<sup>10</sup> drove most market gains. We cautioned that any weakness in these stocks could have outsized effects but also saw potential for a broader post-election rally.

Early in 2025 we did see some of our concerns play out with the “Magnificent 7” dropping over 25% through the start of April during peak tariff concerns compared to a approximately 13% decline for the S&P 500 equal weighted index. After though, these AI related names rallied given strong earnings, significant plans for additional CAPEX, and the announcement of 11 major infrastructure deals totaling over \$500 billion. This propelled giants like NVIDIA, Microsoft, and Amazon to record highs.<sup>11</sup> Elevated valuations remained in focus, yet strong earnings, overall AI optimism, a resilient economy, and later in the year expectations for Fed rate cuts all sustained the bull run. While our concerns about concentration and valuations were valid, the feared correction never materialized, and the market had another very strong year.

Grade: **MMMM**

## Looking ahead

The story of 2025 was shaped by AI optimism, monetary policy uncertainty, persistent inflation, and shifting global trade dynamics. Our forecasts for the year’s key themes largely held true, with notable accuracy in predicting the challenges facing the Fed and China. Like many others we were off, or maybe just early, with our concerns over the rapid rise and high valuations of many AI related stocks. This is a theme we will definitely continue to monitor though.

As the year ends, we have started to gather our thoughts on the key themes that we think will drive markets in 2026. It will likely include the Fed’s dilemma of balancing its dual mandate, thoughts on the path of AI from here, and questions about the sustainability of the strong equity returns outside the US, among other things. Stay tuned for this and our capital market assumptions sometime in January 2026.

<sup>10</sup> Magnificent Seven stocks include: Alphabet (Google), Microsoft, Meta (Facebook), Nvidia, Amazon, Tesla, and Apple.

<sup>11</sup> Source: CNBC, M. Petrova, “A Guide to the \$1 trillion-worth of AI Deals Between Open AI, Nvidia, and Others,” October 15, 2025.

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