

Morning Market Tidbits

Fiscal flippancy

Trade deal: no free lunch

The US-China trade deal is good news for the economy and the stock market. But, taken at face value, the deal would reduce tariff revenues by about 1% of GDP (~\$300bn). The actual impact is likely to be smaller because i) there would have been significant rotation away from Chinese goods under the previous tariff regime, and ii) stronger growth should support tax revenues. Still, the deficit impact of this deal is meaningful.

We're noticing a trend

Other policy developments are also pushing the US down the path of fiscal profligacy. The annual spending cuts projected by DOGE have dropped from \$2tn initially to \$150bn per the latest estimate. And then there's the impending reconciliation bill. As expected, the Ways and Means Committee's proposals on tax cuts, released yesterday, point to front-loaded stimulus. We remain skeptical that spending cuts will even come close to offsetting the tax cuts. Again, that's good news for growth and bad news for the deficit.

The "Lucas critique" points to risks of even larger deficits

Yesterday's news on tariffs and taxes leaves us comfortable with our above-consensus deficit forecast of 7.1% for FY2026. But we see a risk that the proposed policies could lower tax revenues even more than the official score would indicate. The elimination of taxes on overtime and tips could incentivize firms and employees to mark more hours as overtime and more pay as tips. This is an example of the "Lucas critique": we shouldn't analyze the impact of policies without thinking about how they affect incentives.

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Glossary

CPI: Consumer Price Index
GDP: Gross Domestic Product

Market Action

The Asian equity markets that we cover closed mixed overnight. Looking at individual markets the Hang Seng and the Indian Sensex fell 1.9% and 1.6%. On the flipside Korean Kospi closed flat, while the Shanghai Composite and the Nikkei rose 0.2% and 1.4% respectively.

As of 7:00 am ET, aggregate European stocks are up 0.1% and S&P500 futures are down 0.3%. In the bond markets, US Government Bonds are down 1bp to 4.46% and German Bund yields are up 2bp to 2.67%. The dollar index is up \$0.54 to \$62.49. WTI crude oil prices are \$0.54 higher at \$62.49/bbl, and gold prices are at \$3252.72/oz.

US GDP Tracking

Exhibit 1: 1Q GDP tracking is unchanged at -0.4% q/q saar

BofA US GDP tracking estimate (% q/q saar)

Date	Data release	GDP	Final Sales	PCE	Res. Inv.	Struct	Equip	IPP	Gov.	Exports	Imports	Net exports (level)	CIPI (level)
4/30/25	1Q GDP (A)	-0.3	2.3	1.8	1.3	0.4	22.5	4.1	-1.4	1.8	41.3	-1374.3	140.1
5/1/25	Construction Spending	-0.4	2.2	1.8	0.1	-0.8	22.5	4.1	-1.4	1.8	41.3	-1374.3	140.1
5/2/25	Factory Orders	-0.4	2.2	1.8	0.1	-0.8	20.5	4.1	-1.4	1.8	41.3	-1374.3	139.6
5/6/25	Trade Balance	-0.4	2.2	1.8	0.1	-0.8	20.5	4.1	-1.4	1.7	41.8	1377.8	139.6
5/7/25	Wholesale Inventories	-0.4	2.2	1.8	0.1	-0.8	20.5	4.1	-1.4	1.8	41.3	1377.8	138.8
	GDP tracking	-0.4	2.2	1.8	0.1	-0.8	20.5	4.1	-1.4	1.8	41.3	1377.8	138.8
	Contribution to GDP growth (pp)			1.2	0.1	0.0	1.1	0.2	-0.3			-4.8	2.3
	BofA official GDP forecast	-0.3	2.3	1.8	1.3	0.4	22.5	4.1	-1.5	1.8	41.3	-1374.3	140.1

Source: BofA Global Research. Our GDP tracking estimate reflects the mechanical aggregation of incoming data that directly informs the BEA's GDP calculations. The process is distinct from our official published GDP forecast. Boldface cells indicate where data have implications for tracking estimates.

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Data Preview

Consumer Price Index

Data deck

Date	Time	Indicator	Period	BofA		
				Estimate	Consensus	Previous
5/13/25	6:00	NFIB Small Business Optimism	Apr	—	94.7	97.4
5/13/25	8:30	Consumer Price Index (yoy)	Apr	2.3%	2.4%	2.4%
5/13/25	8:30	Consumer Price Index (mom)	Apr	0.2%	0.3%	-0.1%
5/13/25	8:30	CPI Ex Food & Energy (yoy)	Apr	2.8%	2.8%	2.8%
5/13/25	8:30	CPI Ex Food & Energy (mom)	Apr	0.2%	0.3%	0.1%

Source: Bloomberg, BofA Global Research

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