

# WEEKLY ANALYSIS

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## STAGFLATION IS ALSO THREATENING THE UNITED STATES

The oil shock threatens economic growth. Stagflation is the most likely scenario. Decline in consumption and investment. Rise in key interest rates. Negative outlook for bonds and stocks. The dollar is in demand.

### Key points

- Sharp slowdown in Q4 weighed down by the shutdown
- The oil shock already points to stagflation in Q1
- Oil shock still not fully reflected in the PMIs
- Job creation begins to contract
- The Fed once again faces the risk of stagflation
- Inflation likely to rebound to between 3.5% and 4%
- Outlook for bonds reverses
- Investor enthusiasm for the dollar returns
- Uncertain environment remains negative for U.S. stocks



### Sharp slowdown in Q4 weighed down by the shutdown

In Q4 2025, the scars left by the 43-day federal government shutdown—the longest in history—had a far more profound impact on the Bureau of Economic Analysis's figures than anticipated. Official data now show sharply reduced growth of +0.7% in Q4, well below market expectations of +1.4% and the previous Q3 figure, which had surprised with its strength (+4.4%). This underperformance marks a sharp break from past momentum. These figures illustrate a marked erosion of economic activity, primarily due to the prolonged paralysis of public services and a sharp contraction in federal spending of -16.6%. Foreign trade also weighed heavily, with a persistent deficit and net exports down -3.3%, victims of trade tensions. The duration of the "shutdown" not only froze public sector wages, but also instilled widespread mistrust among private sector players. The growth mix was saved from negative territory solely by the technology sector. Q3 had already shown signs of weakness in certain sectors, but Q4 confirms the entry into a period of turbulence where non-technology investment has come to a complete standstill. This downturn intensified in Q4. During the weeks of the government shutdown, household consumption, though

resilient at +2%, was not enough to offset the halt in construction projects and government contracts. The CBO estimates that the direct cost of the budget impasse shaved 1.15 percentage points off final growth, an impact far more devastating than short-term models had predicted. Uncertainty froze strategic decisions, as the lack of statistical visibility kept companies in a defensive posture. Job creation, although showing a slight rebound compared to the summer, remained insufficient to boost aggregate demand. Ultimately, the rise in import prices linked to tariffs ended up eroding corporate margins and the average American's basket of goods (durable goods). While capital investment in Artificial Intelligence is booming at +5.7%, it remains the sole engine of an otherwise stalled economic machine. This segment literally carried GDP on its shoulders to avoid a technical recession, while the manufacturing sector remained mired in contraction and the real estate market has yet to benefit from the Fed's monetary easing. Interest rates, although falling, are still perceived as too restrictive in this climate of low confidence. Q4 growth is therefore a major warning sign, revealing an economy vulnerable to internal political shocks, with wealth creation plateauing at +0.7%. This structural weakness had placed the Fed under some pressure, caught between the need to provide support and managing inflation. But now, since February 28, the emergence of a new major external shock—one that will unexpectedly affect prices and growth prospects—presents the Fed with a serious new dilemma.

