



# The Butterfly Effect

Geopolitical shocks,  
policy uncertainty and  
the economic outlook

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Senior Economist

March 12, 2026



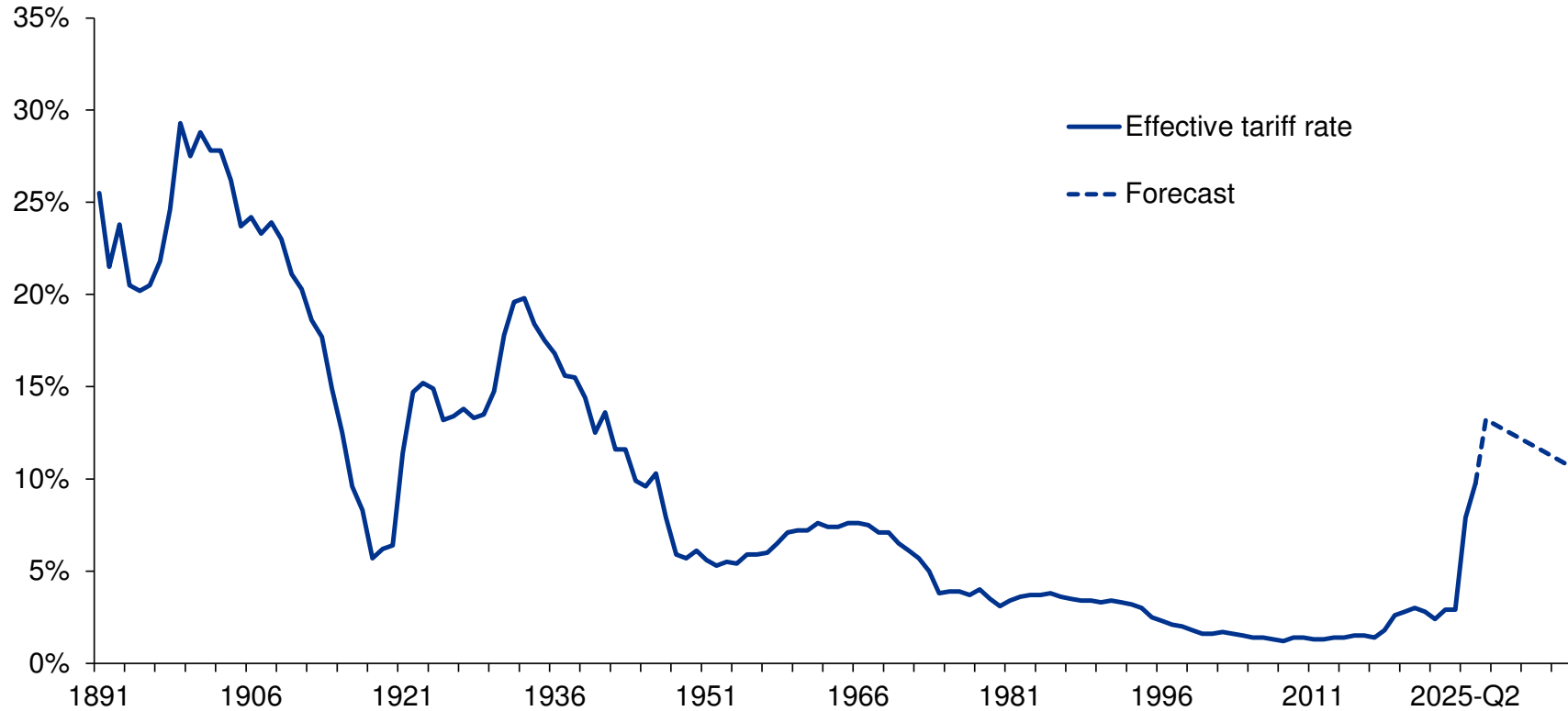


# US Economy

# Tariffs peak at highest level since the 1930s

## Tariffs recede after spike

Effective tariff rate including FTZ adjustment and substitution effects, percent



Source: KPMG Economics, United States Census Bureau

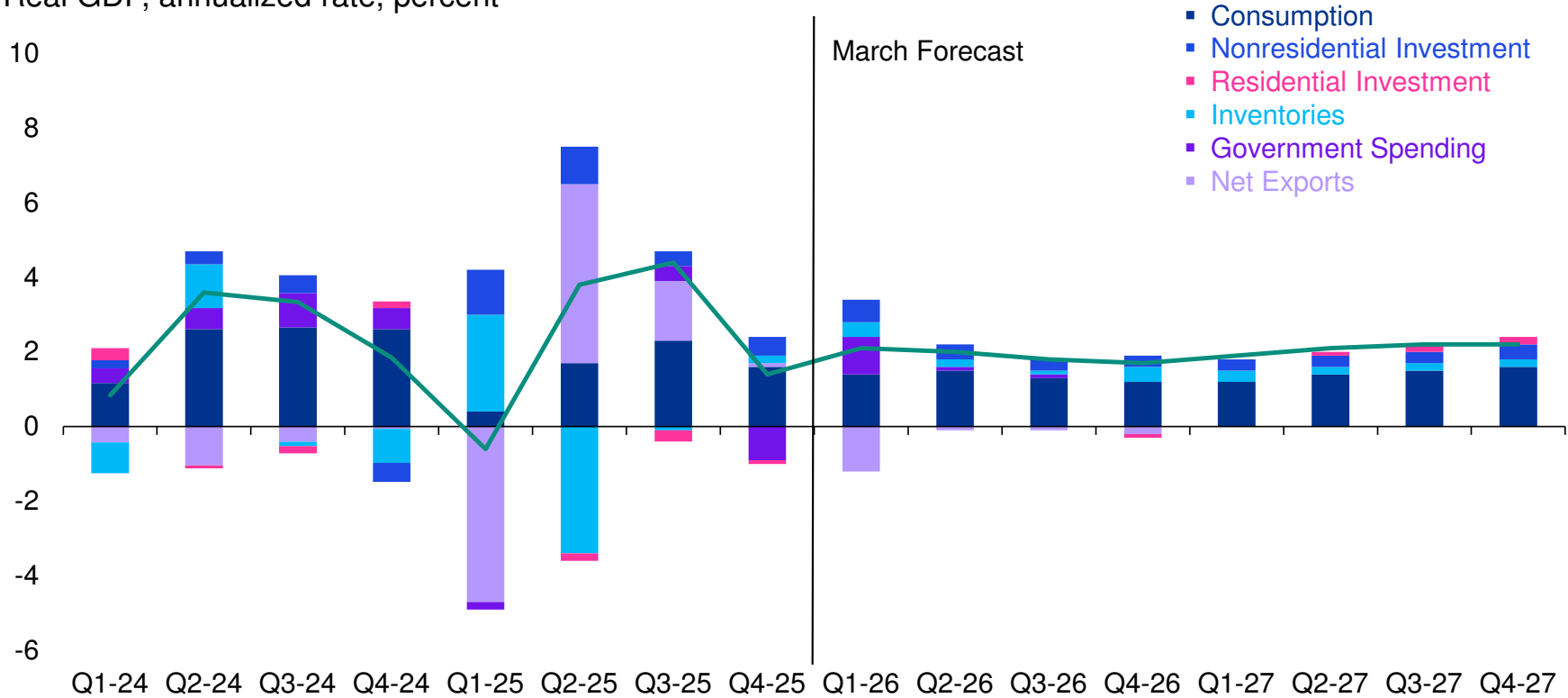


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# Complex year ahead

## GDP growth components

Real GDP, annualized rate, percent



Source: KPMG Economics, Bureau of Economic Analysis

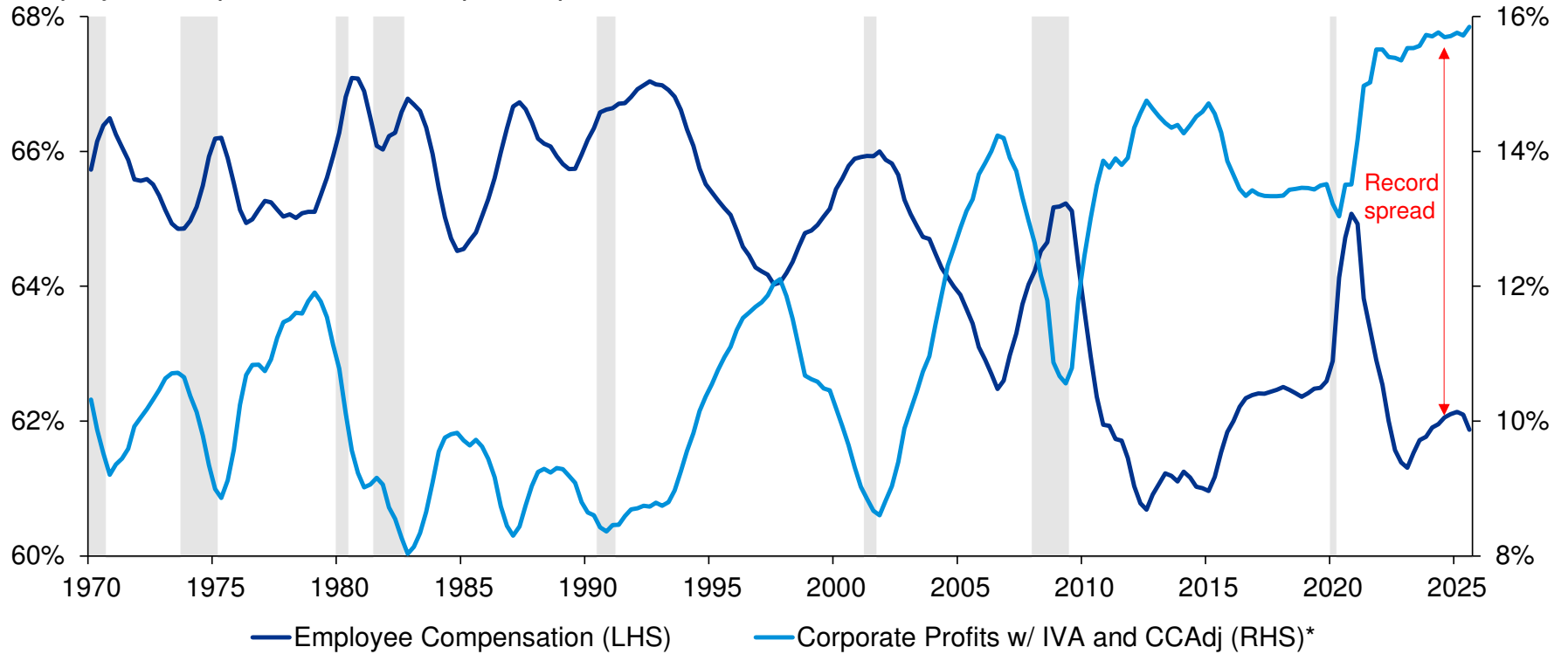


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# The K-shaped economy worsens affordability

## Owners of capital leave workers in the dust

Employee compensation and corporate profits as share of GDP, 4Q MA %



\*IVA and CCAdj = Inventory valuation and capital consumption adjustments  
 Source: KPMG Economics, Bureau of Economic Analysis, Haver Analytics

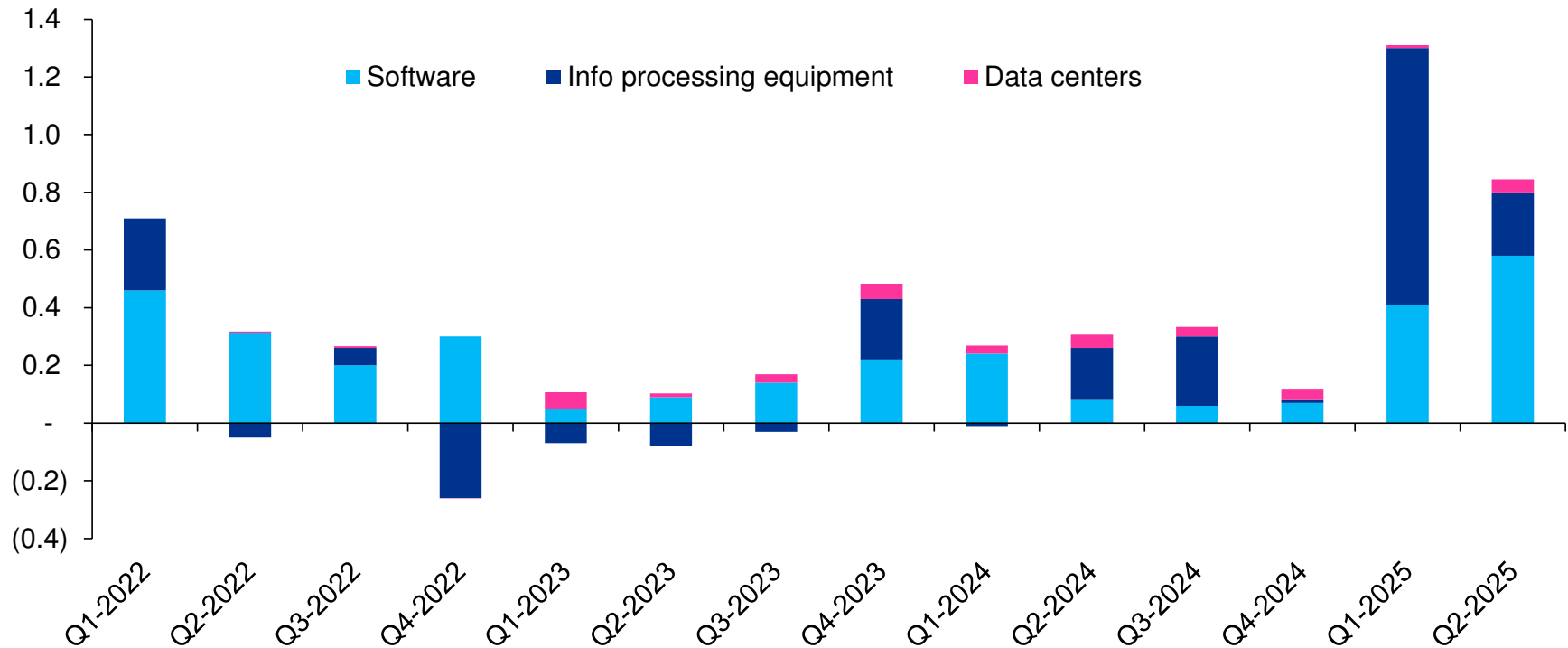


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# AI dominance in investment

## Investment showing up in GDP

Contribution to quarterly annualized GDP growth, percentage points



Source: KPMG Economics, BEA

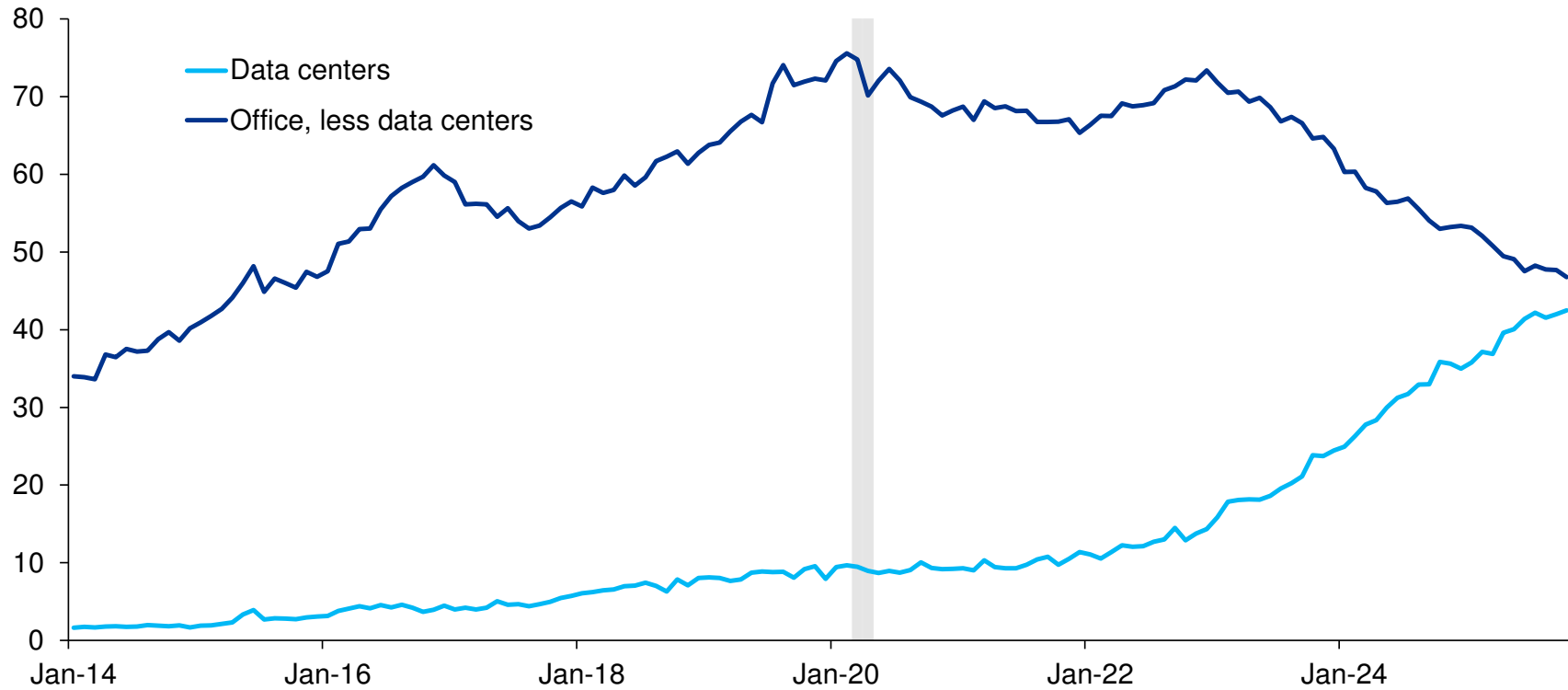


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# AI dominance in investment

## Data centers nearly half of all office construction

Private construction spending, SAAR, \$ billions



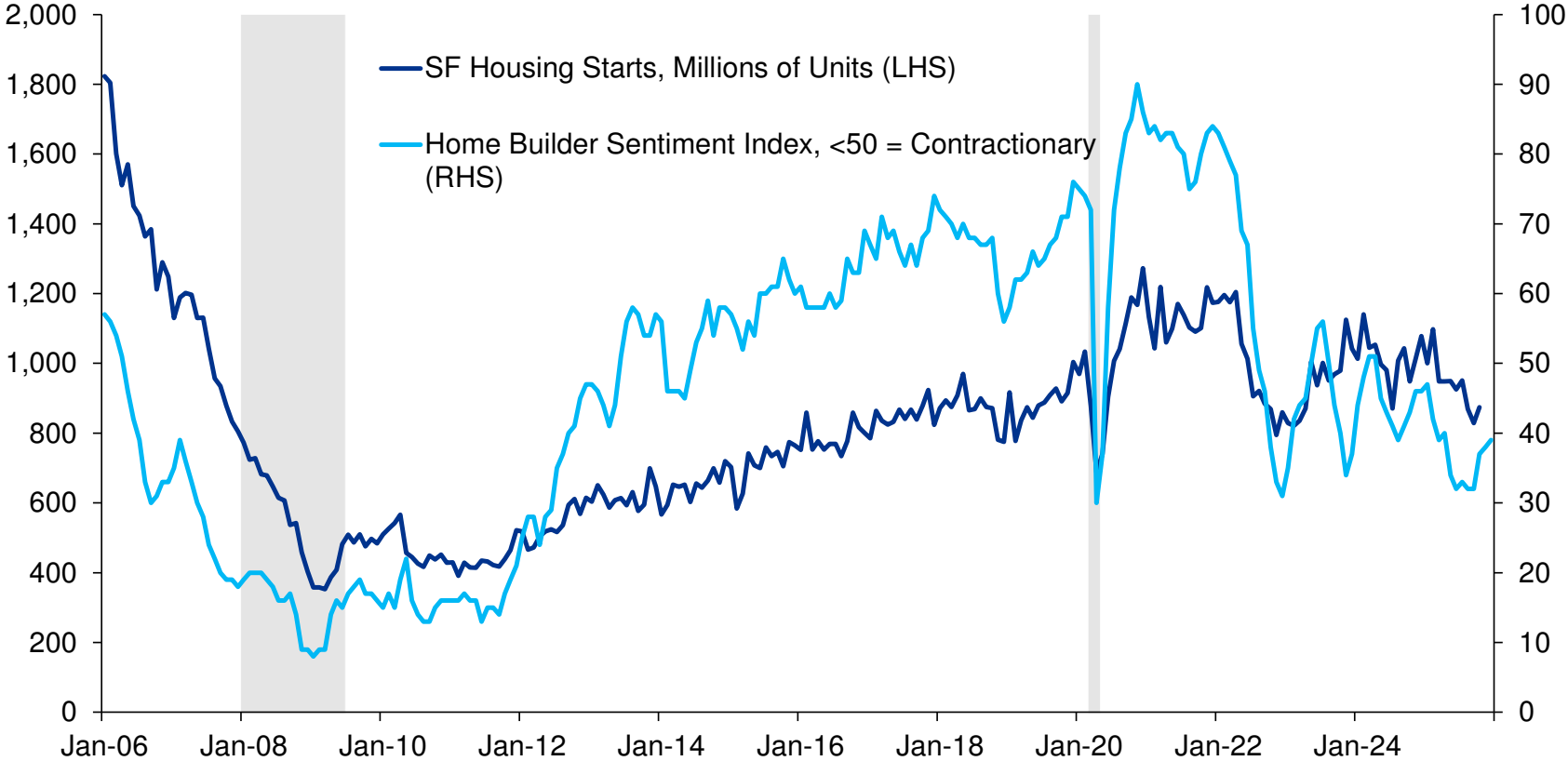
Source: KPMG Economics, Census Bureau, Haver Analytics



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# Residential investment is still struggling

## Homebuilder sentiment remains weak

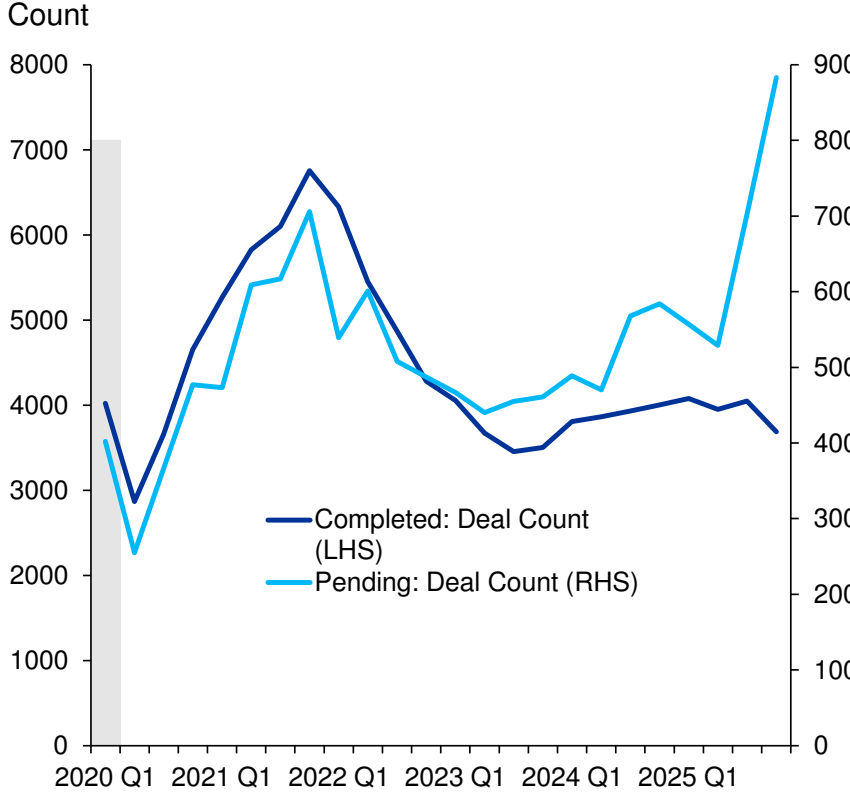


Source: KPMG Economics, NAHB/WF, Census Bureau a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.



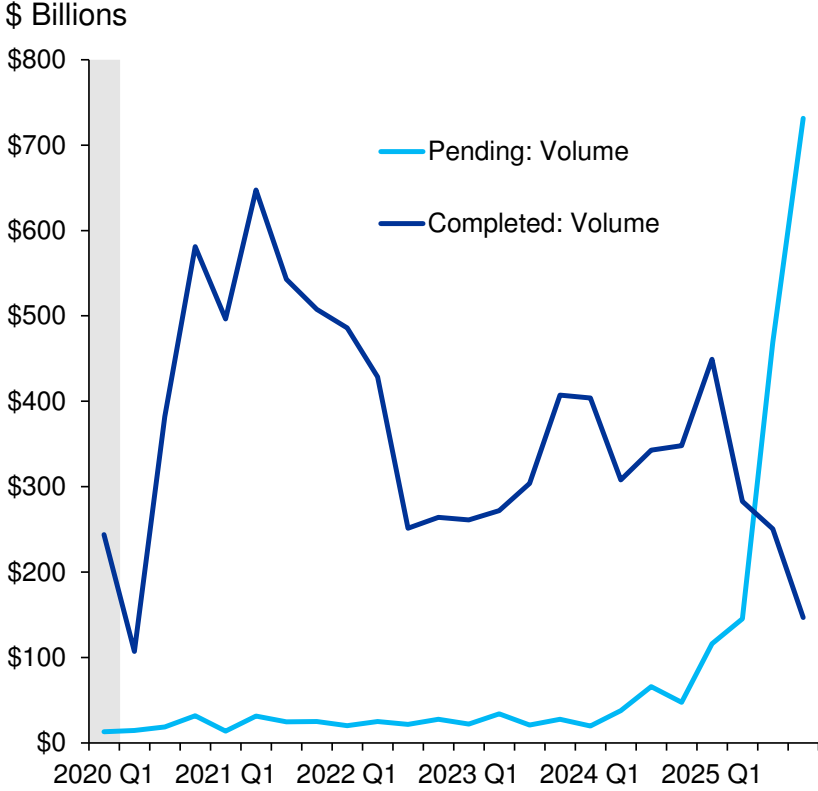
# M&A activity has stalled

**M&A Count in the US**



Source: KPMG Economics, Bloomberg

**M&A Volume in the US**



Source: KPMG Economics, Bloomberg

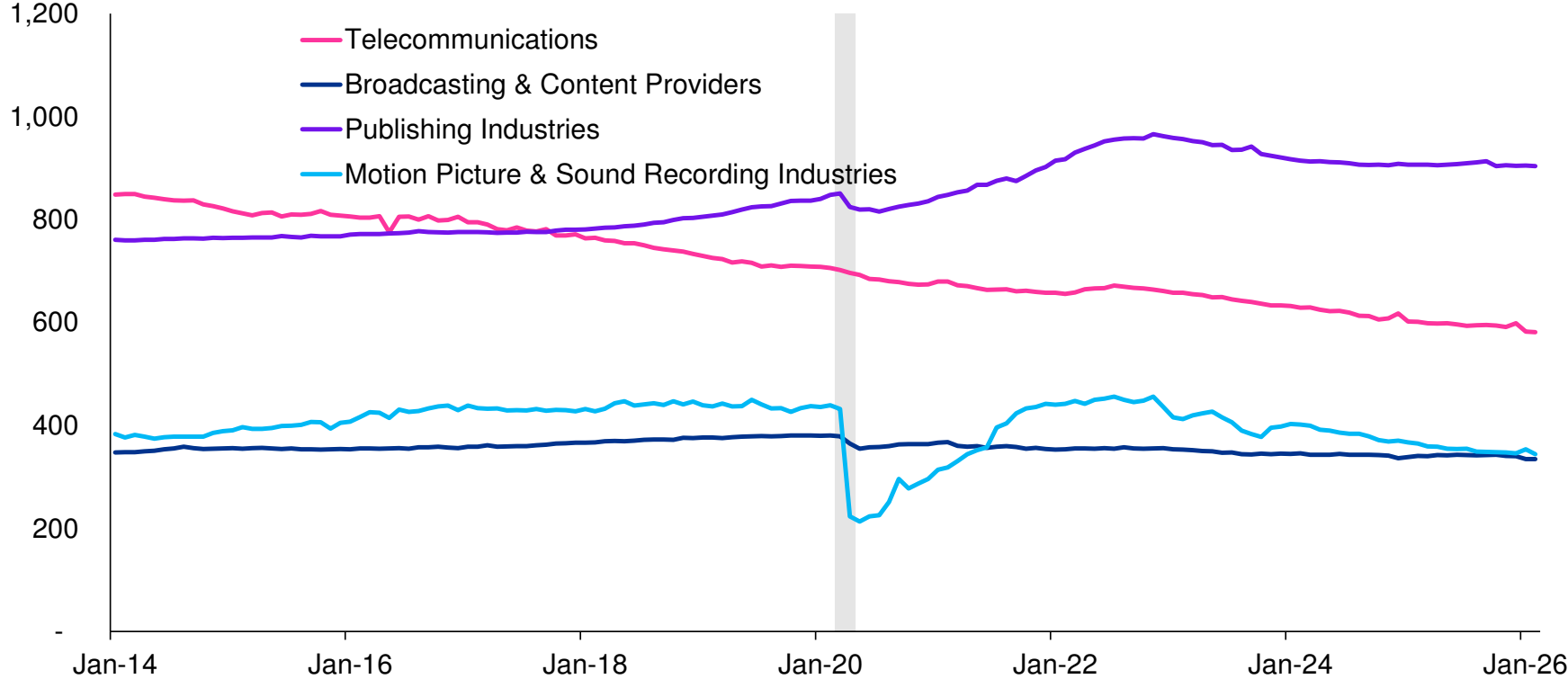


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# Media is generally shedding jobs

## Publishing is a minor bright spot

Employment, SA, thousands



Source: KPMG Economics, Bureau of Labor Statistics, Haver Analytics

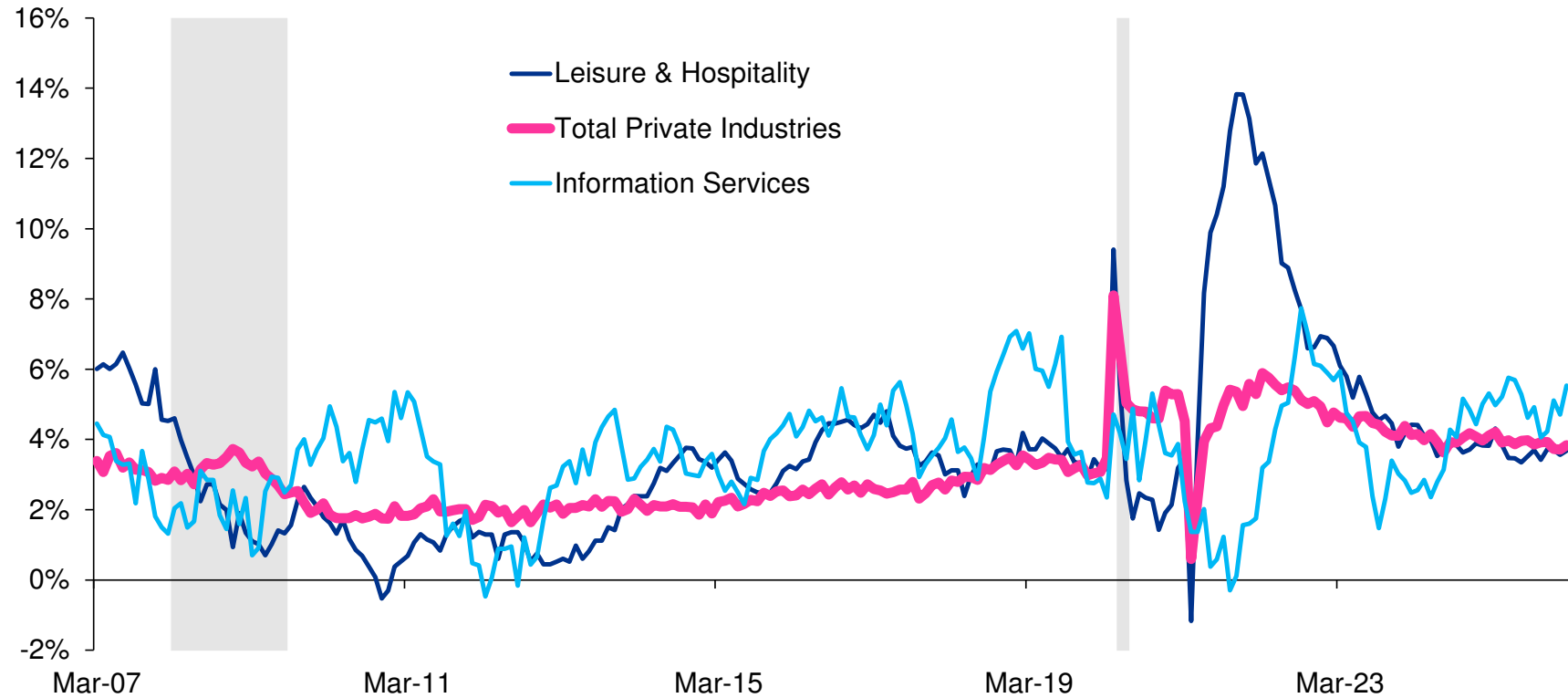


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# Information services wage growth carried by

**AI** Wage growth is fairly sticky

Hourly earnings, year/year, percent



Source: KPMG Economics, Bureau of Labor Statistics, Haver Analytics

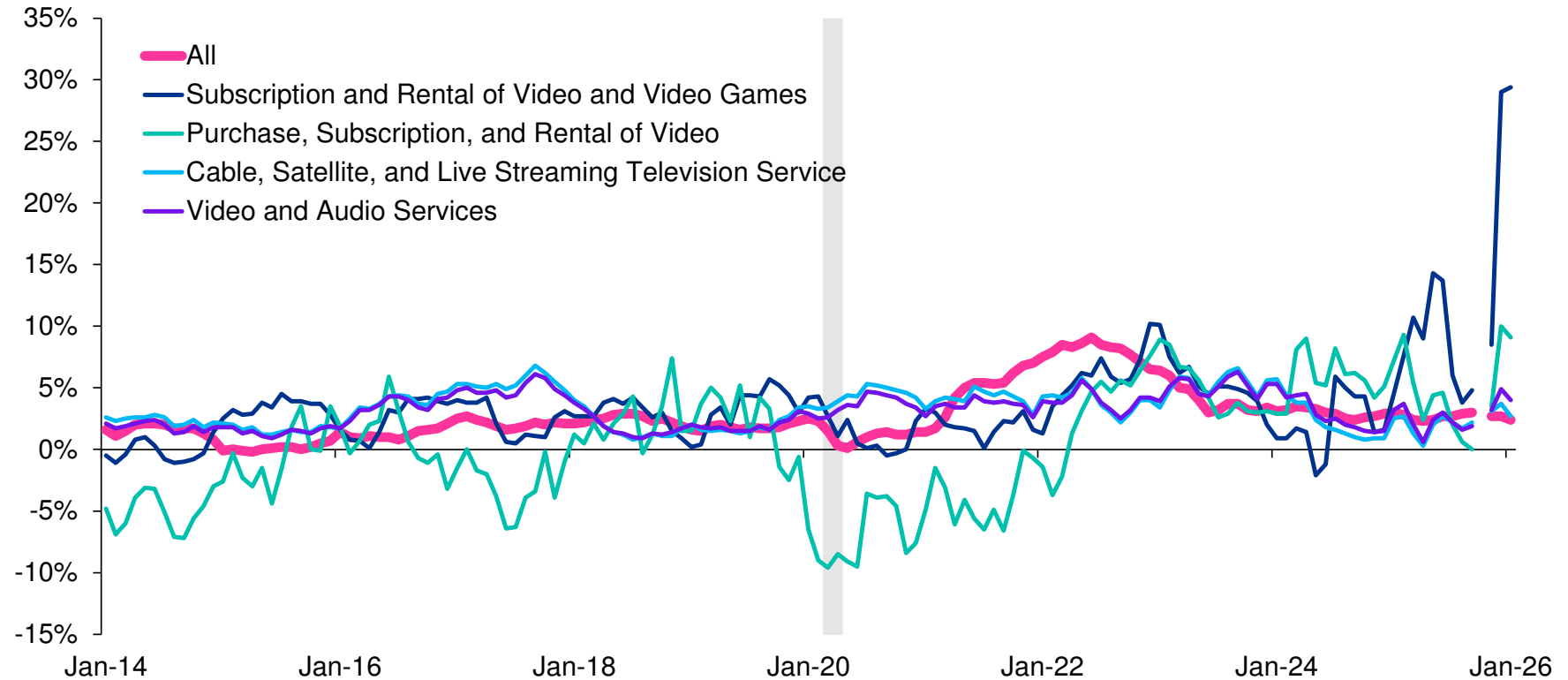


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# Industry prices outpacing overall inflation

## Information and entertainment are big outliers

Consumer Price Index, year/year, percent



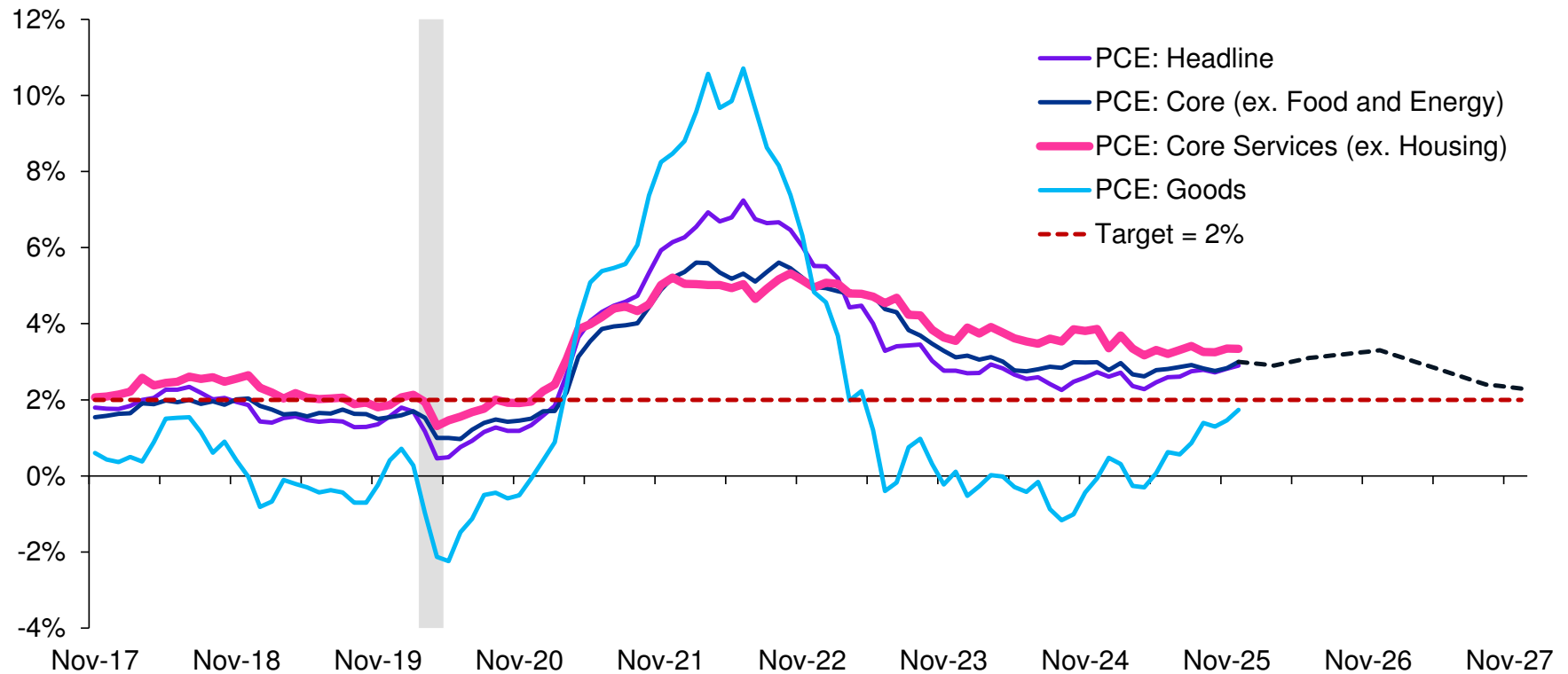
Source: KPMG Economics, Bureau of Labor Statistics, Haver Analytics



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# Aggregate prices increases painful; oil & tariffs to elongate

Inflation in U.S. Fed target 2%  
Year/year, percent



Source: KPMG Economics, Bureau of Economic Analysis, Haver Analytics

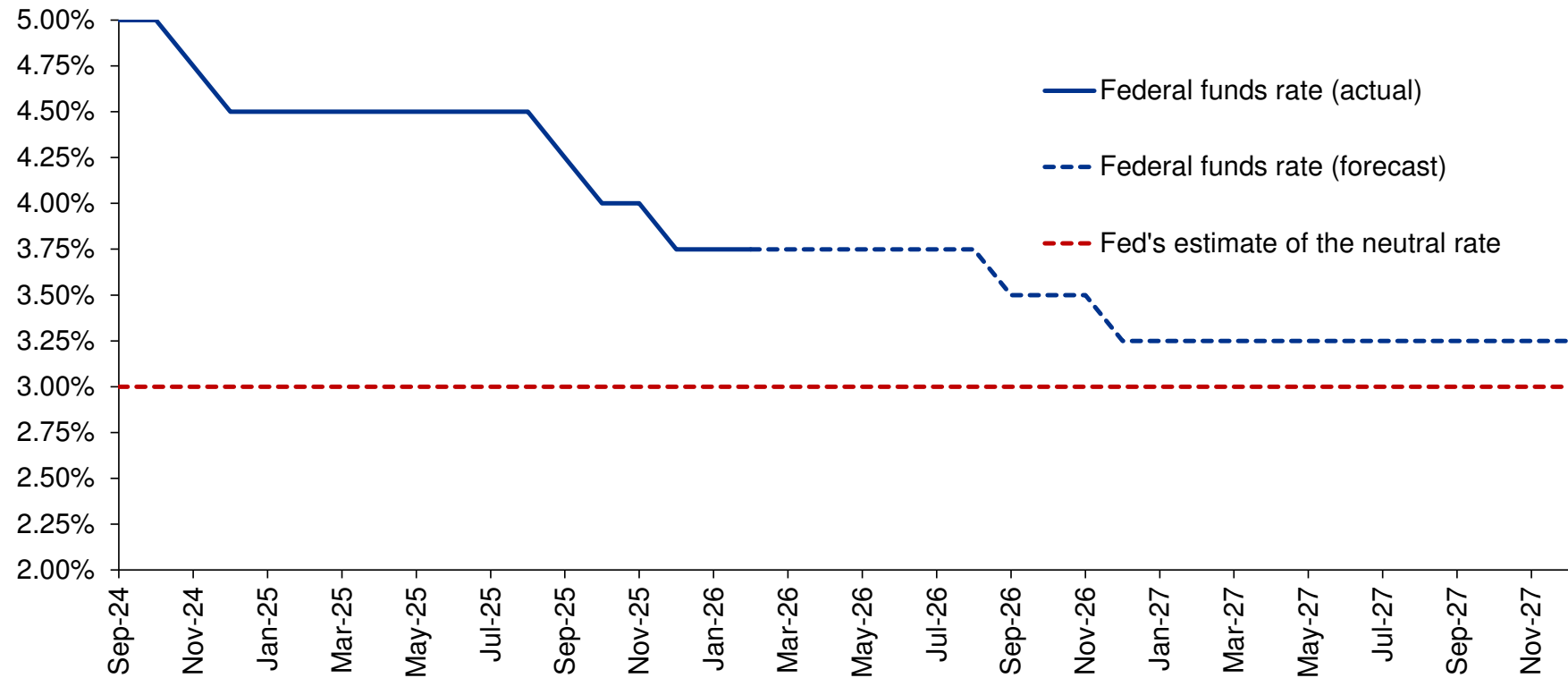


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# Federal Reserve expected to cut again in

## Fed begins cutting cycle

Federal funds rate, upper bound



Source: KPMG Economics, Federal Open Market Committee

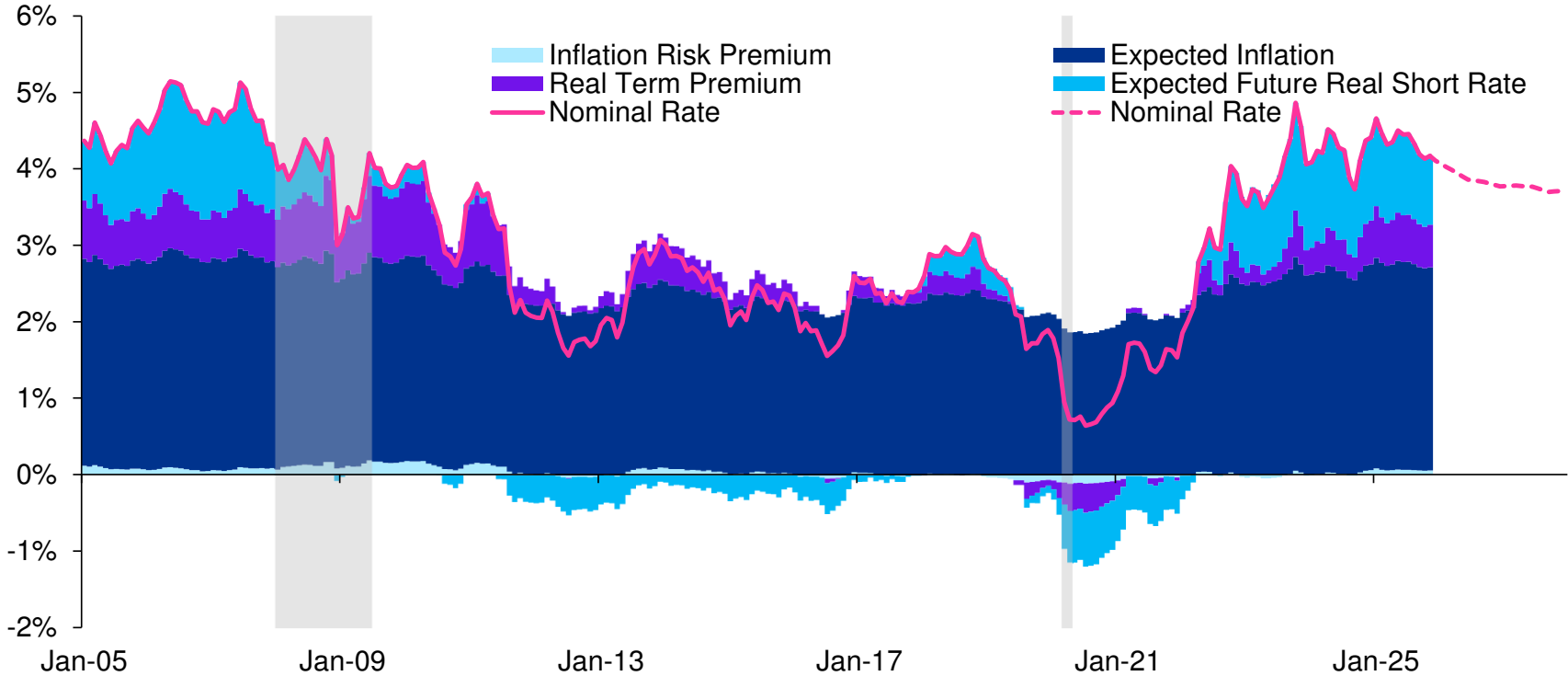


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# Rates have normalized

## Interest Rate Decomposition

10-Year Treasury yield, percent



Source: KPMG Economics, D'Amico, Kim and Wei Model, Haver Analytics



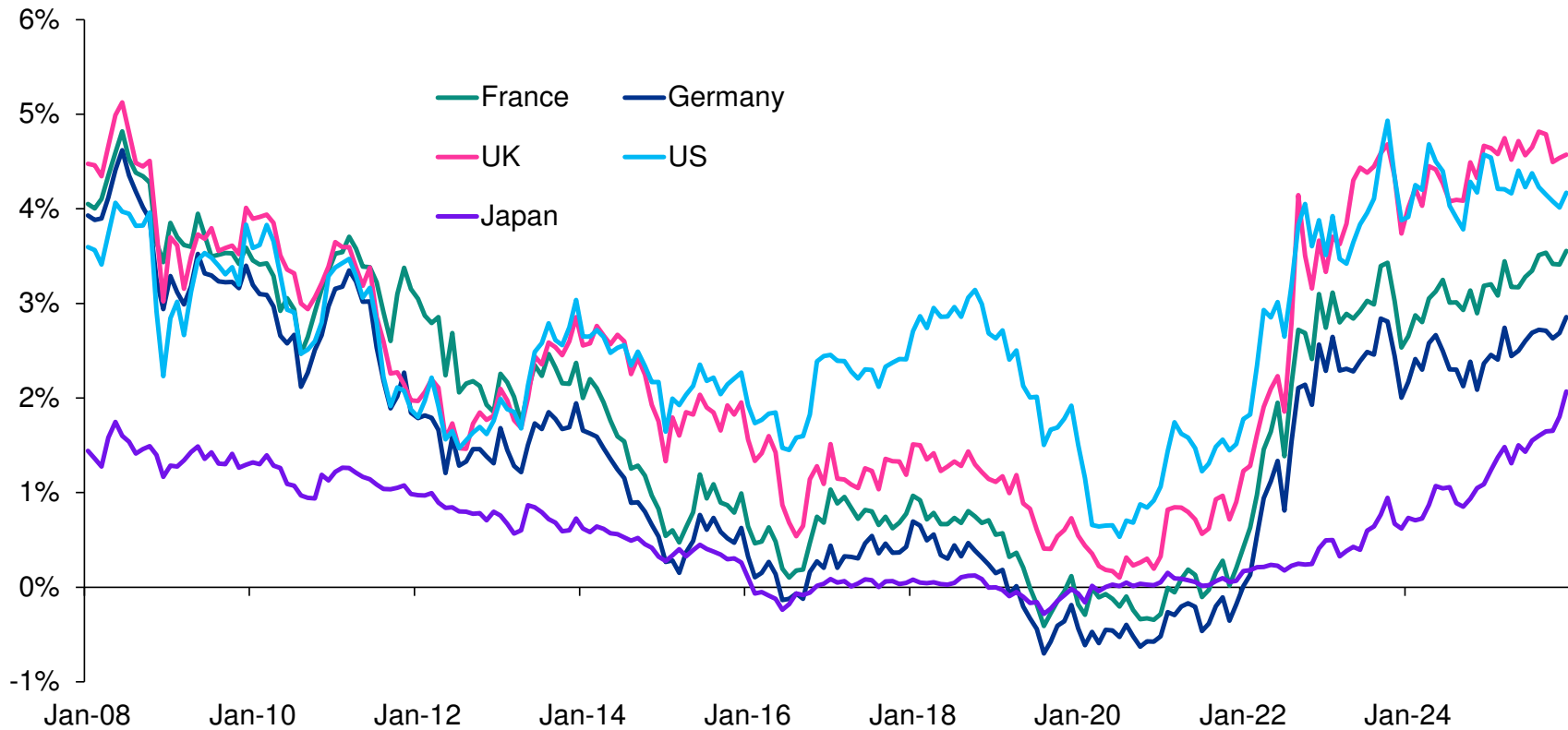
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# International Economy & Long-Run Trends

# Global long yields have risen

## 10 Government Bond Yields

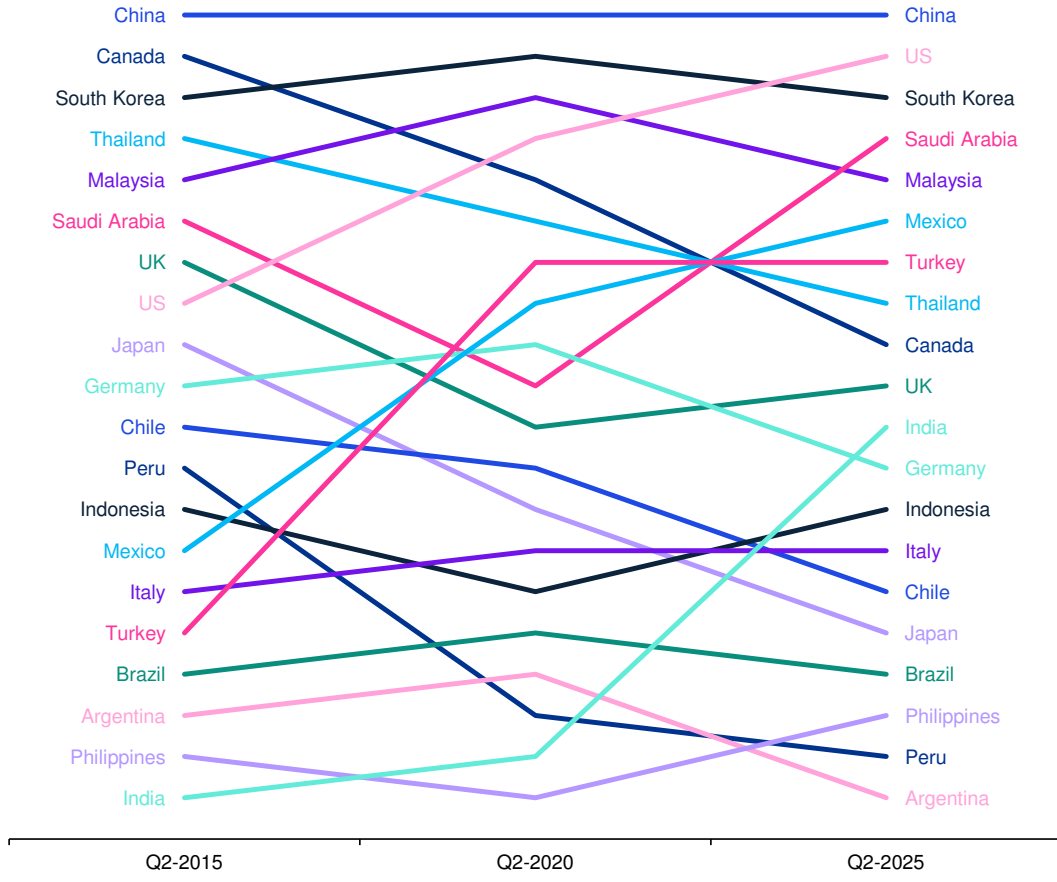


Sources: KPMG Economics, Tullett Prebon Information, Haver Analytics



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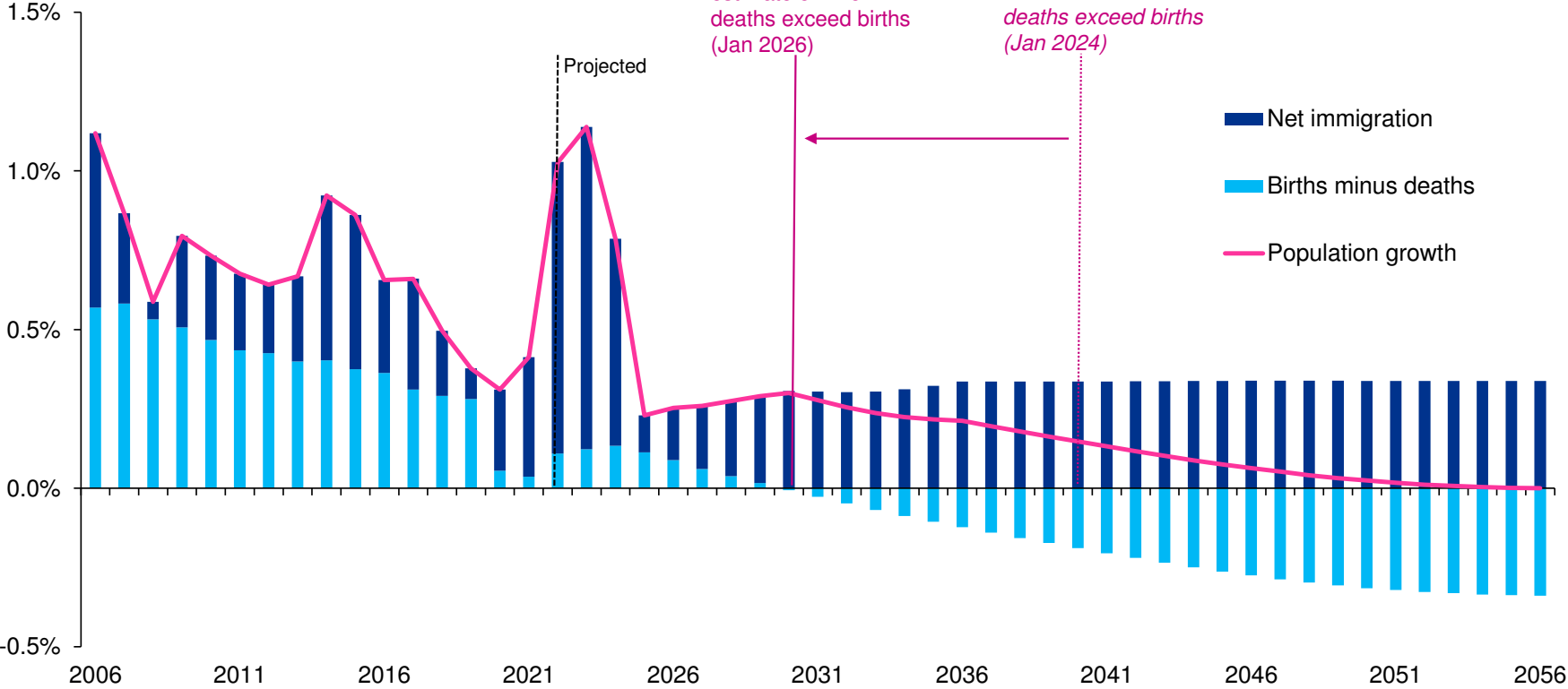
# Investment Opportunity Index: A new tool for site selection



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# Immigration sole driver of US population

## Population growth of the United States Percent contribution



Source: KPMG Economics, Congressional Budget Office

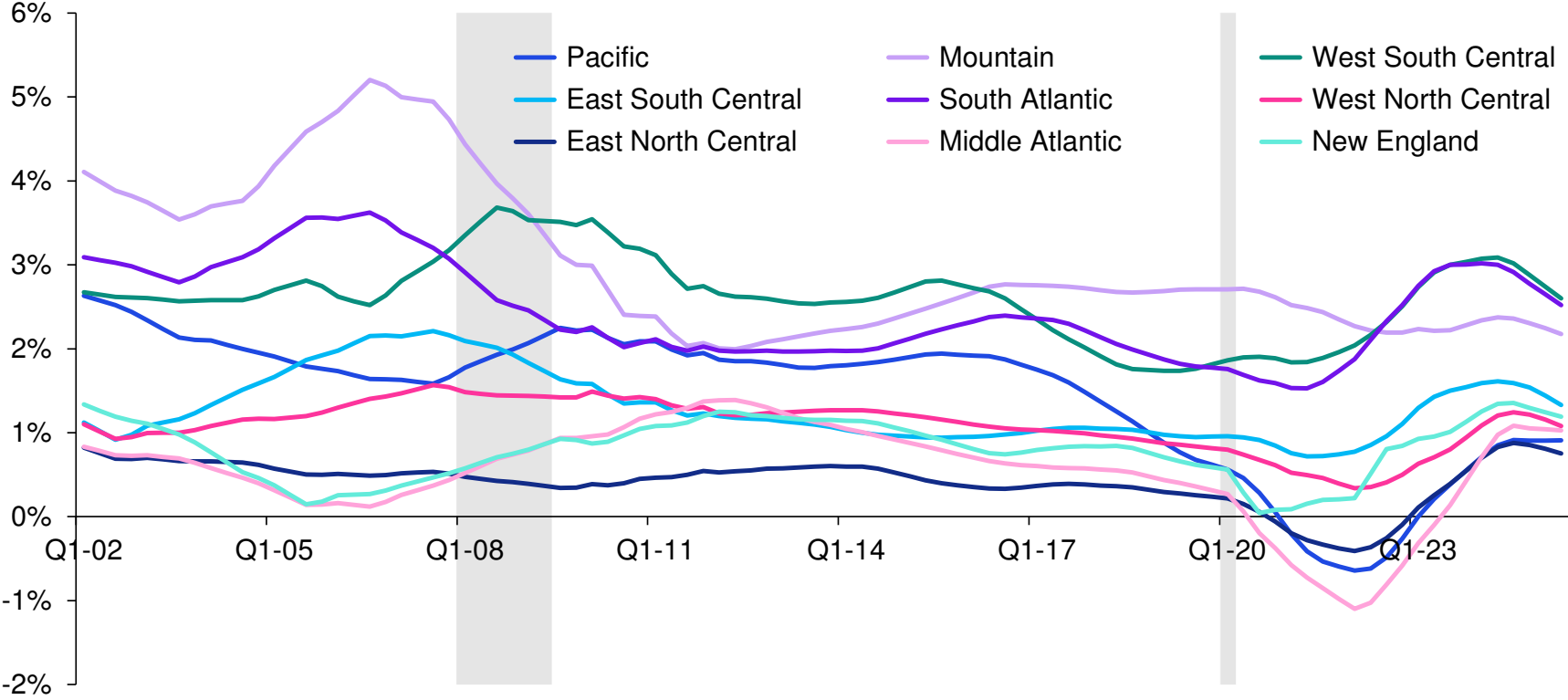


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# Population growth slowing across country

## Middle Atlantic holding population growth

Population, two year growth rate, percent



Source: KPMG Economics, Bureau of Economic Analysis, Haver Analytics

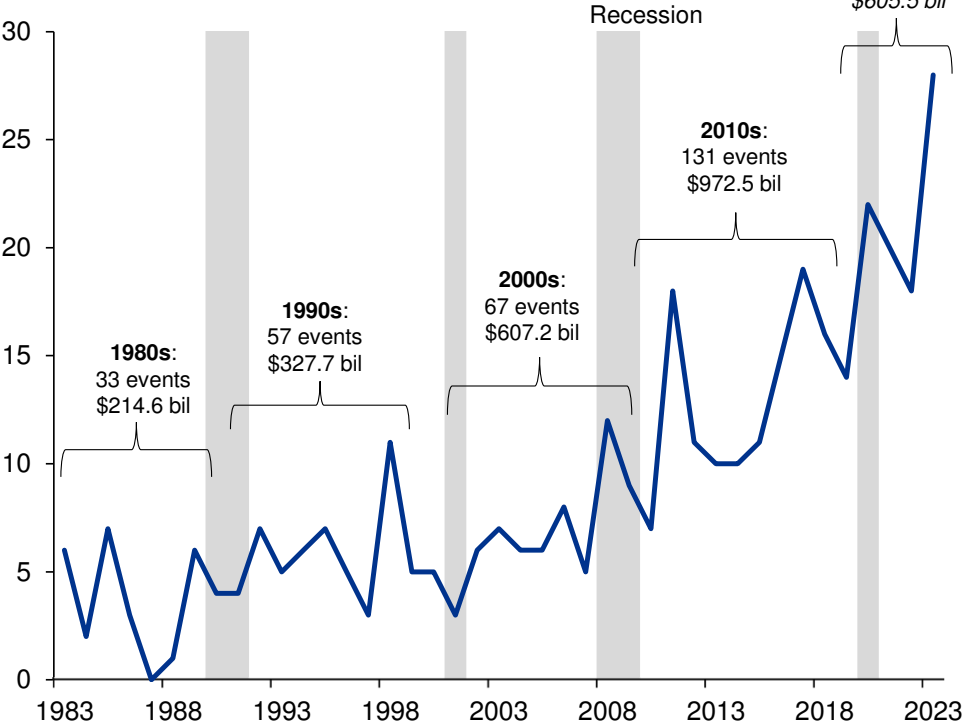


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# Risks to supply chains are costly

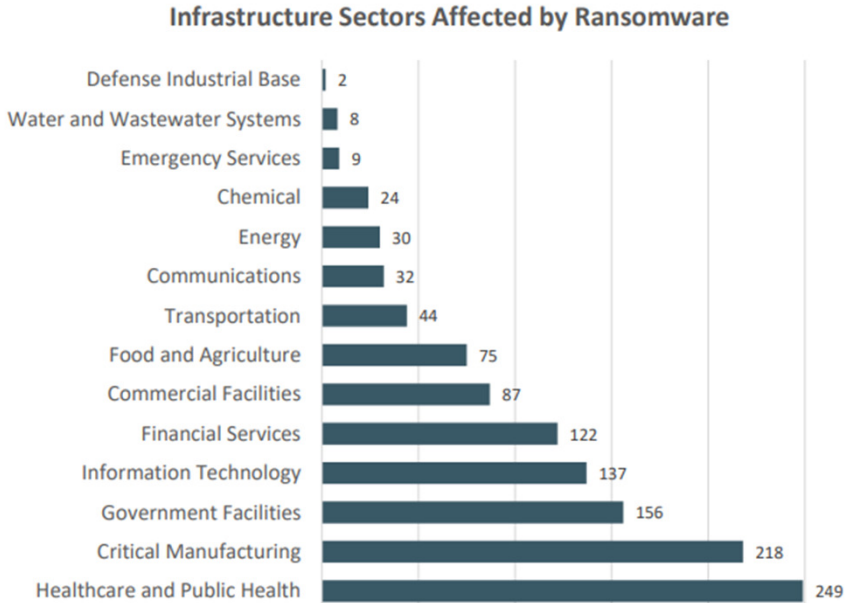
## Disasters getting more frequent

Number of (inflation-adjusted) billion dollar disasters



Source: KPMG Economics, NOAA

## 1,193 critical infrastructure companies affected by cyber strikes in 2023



Source: FBI Internet Crime Complaint Center



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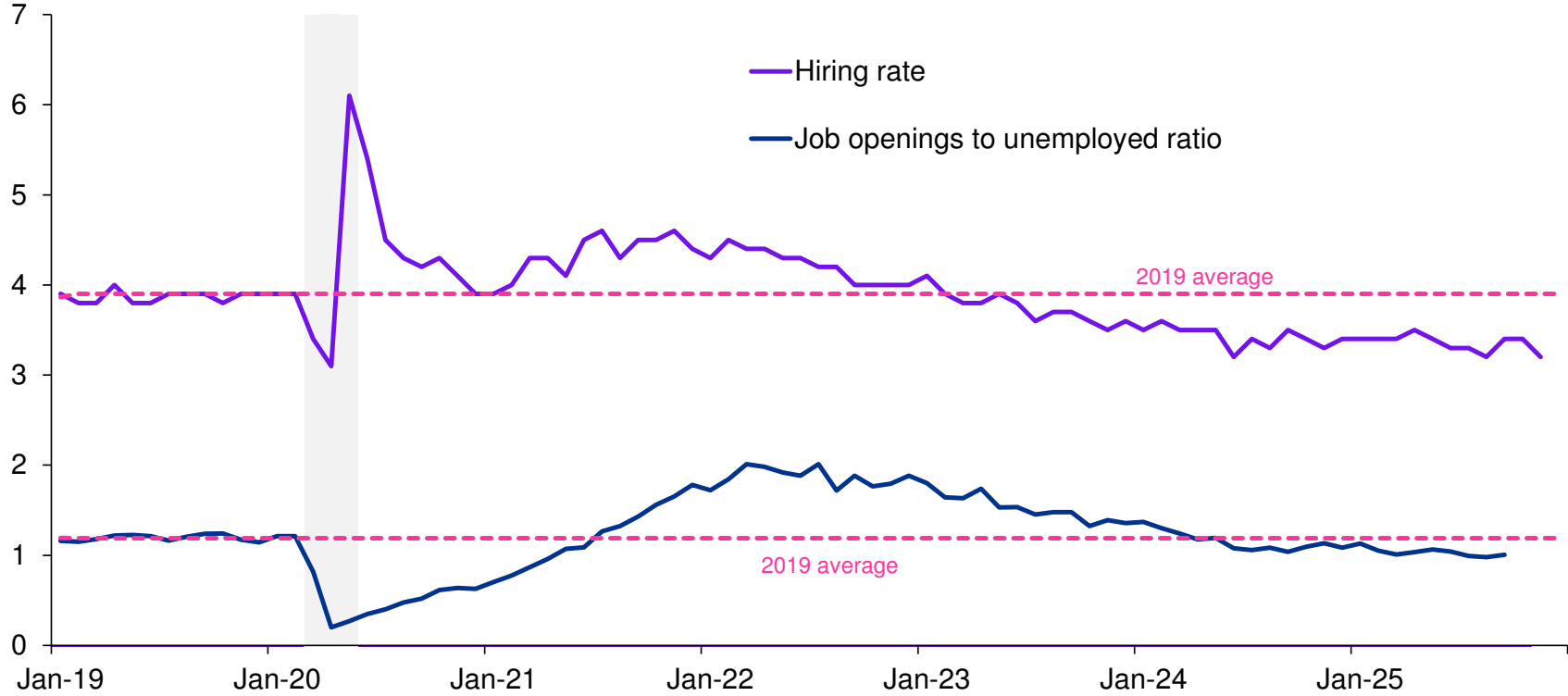
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# Labor market is showing signs of weakness

## Labor market indicators have cooled

Percent and ratio, SA



Source: KPMG Economics, Job Openings and Labor Turnover Survey (JOLTS)

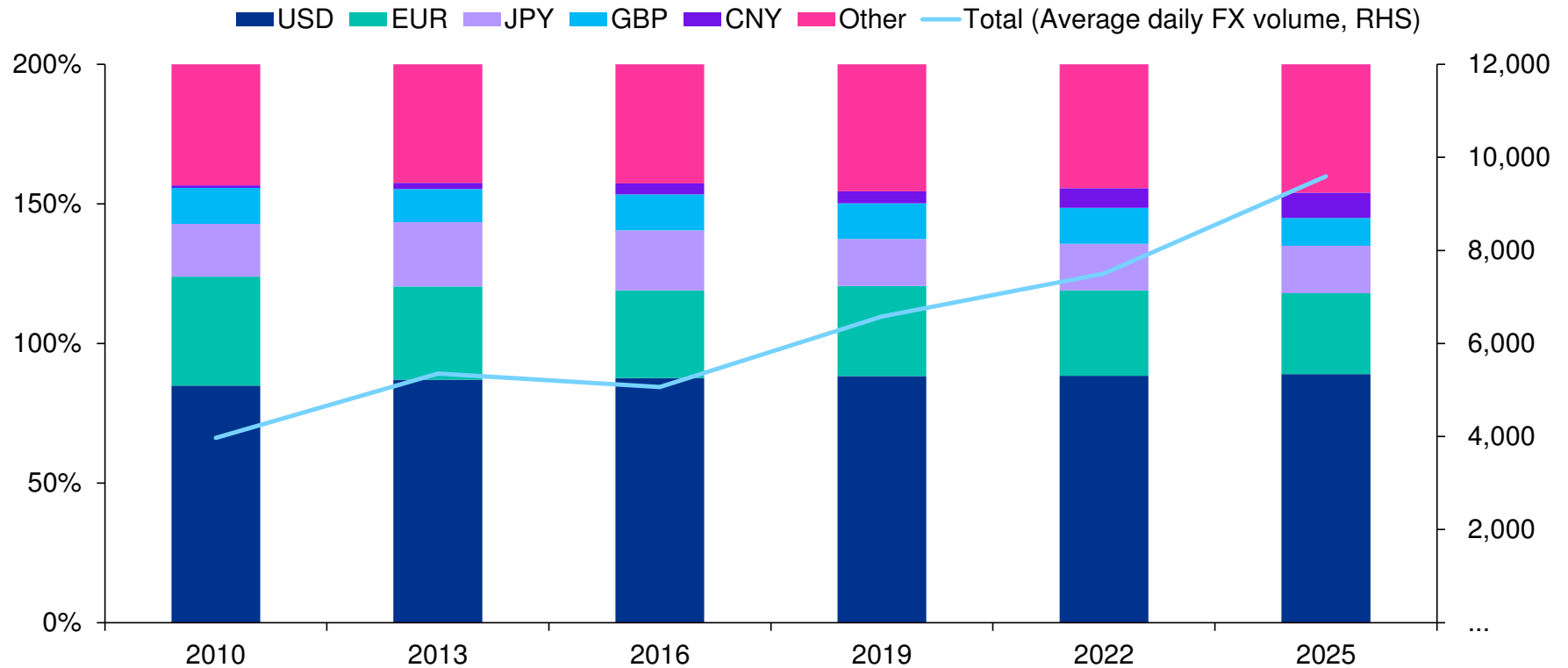


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# The end of the dollar?

## Share of OTC FX Transactions

Net-net basis



Source: KPMG Economics, Bank of International Settlements

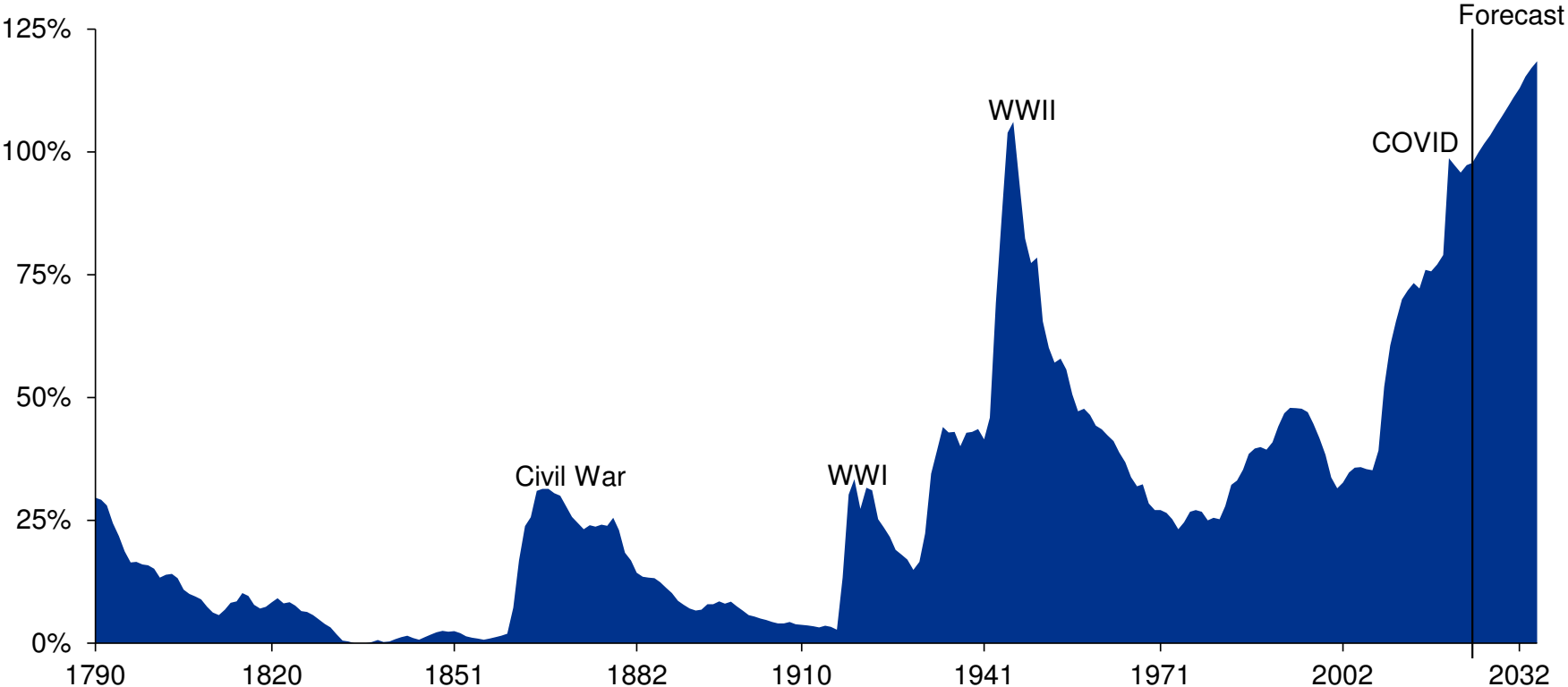


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# Debt keeps growing

## Federal debt to surpass size of economy next year

Debt held by the public, percent of GDP



Source: KPMG Economics, CBO, Haver Analytics



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