Economics

Roubini Predicts No US Recession in 2025, Defying Doomsayers

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Roubini Expects Trade War With China to Escalate

By Isabelle Lee
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Takeaways NEW

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Nouriel Roubini expects the US economy to skirt a recession and the Federal Reserve to hold rates steady for the rest of this year after tariff-related policy battles de-escalate.

Summary by Bloomberg AI

Roubini believes President Donald Trump will be the first to cave to market pressures, while the Fed sticks to its inflation-fighting mandate, and that the relative resilience of credit markets supports policy caution.

Summary by Bloomberg AI

Nouriel Roubini has a new word of caution for Wall Street: Traders should temper their bets that the Federal Reserve will ramp up interest-rate cuts to mitigate the effects of President Donald Trump's trade conflict.

This time around, the economist – who rose to prominence for correctly predicting the 2008 financial crisis – expects the US economy will skirt a recession while the Fed holds rates steady for the rest of the year after the tariff-related policy battles de-escalate.

Following a three-day $5 trillion stock selloff on fears that punitive tariffs will fuel a worldwide recession, Roubini expects Trump will be the first to cave to the pressures whipsawing markets, despite the president's recent espousal of tariffs as medicine, while the US central bank sticks to its inflation-fighting mandate. Add the relative resilience of credit markets in the recent global turmoil, and the Fed has reason for policy caution, per Roubini.

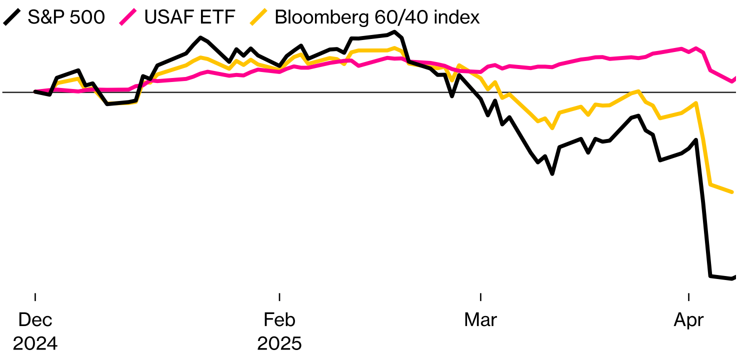
"There is, of course, a game of chicken between the Trump put and the Powell put," Roubini said in a phone interview. "But I would say that the strike price for the Powell put is going to be lower than the strike price for the Trump put, meaning Powell is going to wait until it's Trump who blinks."

Fed Chair Jerome Powell last week said the economic impact of new tariffs is likely to be significantly larger than expected, resulting in slower growth and higher inflation. This week saw traders penciling in expectations for between three and five quarter-point reductions this week – with some on Wall Street even factoring in an emergency rate cut before the Fed's next meeting.

The trading whiplash continued Tuesday amid hopes of trade-deal negotiations following the bigger-than-expected tariff hikes. US Treasuries fell after the wildest day for bond traders since the height of the pandemic in March 2020 while US stocks surged at the fastest pace since 2022 before easing. The VIX – Wall Street's so-called fear gauge – is now at around 55 after spiking above 60. Investors have been gripped by fears that something might break amid all the volatility.

Nouriel Roubini's USAF Beats Broader Market

The active ETF launched in November faces its first test



Source: Bloomberg
Data is normalized with percentage appreciation as of December 31, 2024.

Roubini's optimistic economic outlook stands in contrast to other market watchers, former Treasury Secretary Lawrence Summers predicted a downturn with potentially 2 million Americans put out of work, his grim stance is shared by some Wall Street economists.

Even as trade negotiations raise hopes the US will temper its protectionist stance, they warn a new world of higher tariffs beckons. To Roubini, who also runs Roubini Macro Associates, that suggests inflation will prove sticky, hurting investors in longer-dated bonds. That's a constructive setup for his exchange-traded fund that invests in inflation-protected US Treasuries, municipal securities and gold trusts, among others.

Since its inception the actively managed Atlas America Fund (ticker USAF) has only accumulated $16 million in assets. Year-to-date the ETF is up nearly 1%, outperforming the benchmark S&P 500 that's been teetering on the precipice of its first bear market since 2022, as well as Bloomberg's 60/40 index.

"The ETF is supposed to essentially do well when there are a variety of tail risks," he said. "Over the medium term, it's possible that – if there is more inflation – long bond yields are going to be higher. And you want to be in short-term bond yields.”

Read More: Roubini Launches Treasury-Alternative ETF to Ride Trump-Era Risk

And with China pledging to “fight to the end” against Trump’s latest tariff threat, Roubini cites a third element that may push inflation higher: the president of the world’s second-largest economy.

“There’s also a Xi put, meaning at some point Xi decides to give a break to the US,” he said. “But I don’t think Xi Jinping is willing to do it anytime soon because that will lead to a market relief and put less pressure on Trump.”
– With assistance from Sam Potter