STONEBANK's Annual 2025 Projections and Audibles

Stonebank's Annual 2025 Projections and Audibles report highlights the top macro-economic factors for 2025 and how C-level corporate executives should quickly pivot to take advantage of opportunities and mitigate risks. We see 2025 having a number of disruptive events and trends that the C-suite needs to lead through to be successful. These include: the Trump administration policy changes in Tariffs and Regulations, global supply chain risks, AI revolution, geopolitics and wars, persistent inflation, lowering interest rates, and step-changes in technology advancements.

From our experience, most companies set their annual strategies and operating plans around Mid-2024 and have not fully game-planned for these macro-factors and need to prepare now updated plans including preparing for how to call an **"audible"**, to take a football sports analogy, and execute adjusted plans as events take place.

We have highlighted the following 2025 projections and C-level executive actions:

1. **Tariffs will be used as global trade and government policy leverage, creating significant uncertainty in certain sectors**

   The Trump administration has been expressing desire for 20-25% tariffs on Mexico and Canada and additional 25% on Chinese incoming goods. We do not expect these to be broadly put in place for longer duration since part of it is posturing to negotiate better terms for U.S. goods in those markets, gain additional support in immigration, encourage U.S. investment, and improve U.S. made competitive positioning. Most companies and industries will be affected to some extent, making this a key area of executive focus. **C-Action:** C-suite needs to develop a Tariff scenario analysis and playbook so as to be ready and act quickly to address potential increased production costs, market access restrictions and counter-tariffs, and minimize impacts on margins that may initially occur. Decisions and actions such as supplier selection, manufacturing location, and sales emphasis in those markets are critical areas of consideration.

2. **Consumer buying power continues to be constrained as Inflation will persist but flatten later in the year, interest rates will reduce modestly, and consumer debt increases will persist**

   Inflation in the US is expected to be 2.5% in 2025. This is more in line with Pre-Covid but prices are still about 20% greater since 2021. Wage growth has been increasing to catch-up but the general consumer is continuing to have reduced purchasing power. We expect inflation to continue above historical levels of the last 20 years, being driven by continued increasing costs of doing business with high interest rates, labor costs increasing, tariffs, and hyper-competition. Even with the Federal Reserve expected to execute total Fed Fund rate cuts of 1% to result in a 4% rate, the pressure due to increasing consumer credit debt (current

APR 20-25%) and mortgage costs (current 7% 30 year fixed) will continue to significantly affect consumer buying power.   It is also expected that the unemployment rate will is expected to slightly increase from 4.3% in 2024 to 4.5% in 2025, which will hold wage growth and overall consumer spending near flat. **C-Action:** Invest in productivity, including IT, AI, and organizational restructuring. Invest in improving customer experience and value propositions aligned to specific customer segments to differentiate and manage price increase messaging.

3. **Corporate Taxes will likely be reduced, providing incremental investment opportunities**

   The prior Trump Administration reduced the corporate tax rate from 35% to 21% and this was maintained during Biden. Trump would like to reduce the rate to 15%, which would compete with some of the lowest global tax jurisdictions, such as Ireland at 12.5% and Singapore at 17%. We expect a reduction to something more moderate like 17-18% but may not be effective for 2025. **C-Action:** Identify and invest increased cash in next tier of priority initiatives. Manufacturing and R&D location tax strategies should be reviewed for optimization.

4. **Government efficiency and de-regulation will initially have modest impact broadly across the economy**

   The newly formed Department of Government Efficiency, DOGE led by Elon Musk and Vivek Ramaswamy is looking to streamline government operations and regulations. In general, we view efficiency and productivity in government, just like in the private sector as good and needed given the $36 Trillion deficit, need to focus resources, and the negative business impact this has on interest rates, need for tax increases, and exchange rates. DOGE has set an aggressive timeline and objectives to reduce federal spending by $2 Trillion, through program elimination, agency consolidation, workforce reductions, de-regulation, and modernization with IT. Given the entrenched structure of the government and political implications this work will be challenging and likely frustrating for DOGE to navigate and obtain the desired results compared to the private sector. The impact of this work may more quickly impact the private sector businesses that provide goods and services to the government or support specific regulatory activities. **C-Action:** It is important to monitor DOGE activities and their focus areas and if those areas affect the business to develop a plan to address if and when the impacts materialize.

5. **Technology advances in AI, Robotics, Connected Products, Automation will have mainstream applicability and validation sufficient for companies to invest with more confidence**

   AI continues to be a game-changer in enhancing business operations, automating processes, developing new offerings, and personalizing customer experiences. The level of investment in AI by OpenAI, Microsoft, Google, Amazon, Anthropic and many others is expected to be greater than $200B. The use-cases are evolving quickly including call-center management, creative content, new product development, strategic analysis, business process automation across all areas, robotics, and manufacturing to name a few. There will be a lot of sorting out of viable applications and winners and losers in AI in 2025 but in our view, corporations need to move from current "dabbling" in select use cases to adopting and implementing or will be left behind their competition. Robotics and automation in manufacturing and service areas will see significant growth, especially where there are labor constraints, cost reduction opportunities, quality needs, and re-shoring of operations. **C-Action:** Develop an AI and Automation strategy and plan that focuses on the highest business value use-cases and shift investment from core legacy projects to these proactively and in a sufficiently committed manner.

6. **M&A will substantially increase**

   With reduced interest rates and more realistic valuations expected, deals are expected to increase. Private Equity has significant dry-powder available (Estimated at $3-4B) that along with better economic conditions and lower borrowing costs deal flow will increase. Pressure for CEOs to grow in low growth climate along with need to evolve with technology and market expansion trends will continue to drive deals. The new administration and FTC is expected to be less restrictive and business friendly on some larger deals. **C-Action:** M&A environment will become more competitive, so developing a strategy and quickly engaging targets will be critical to making the right deals on the right terms. It is also important to invest sufficiently to fully integrate to drive value creation, which can be complex since many deals will be stretching current / historical business models.

In conclusion, 2025 is expected to be fast moving with a-typical uncertainty in key maco-economic, policy, and technology factors that the C-suite needs to plan for now, including scenario reaction plans that can be quickly "audibled" and actioned by the organization.

About STONEBANK Partners and Author Tim Durst:

Stonebank Partners LLC is a management consulting firm focused on C-level executive decision-making, strategy and planning, innovation, critical initiative acceleration, and practical operational improvement across high technology industries, such as High Tech, Medical Technology, Industrial, and Consumer Products. We are differentiated as Senior Advisors, that have been Partners in Management Consulting, Sr. Executives in fortune 100 companies, and Entrepreneur Founders and Sellers of businesses. We leverage a broad Partner network to bring the best and most current talent and perspective to all of our client work.

Tim Durst, CEO of STONEBANK Partners, is a thought-leader in business innovation and transformation, including shift to new business models, leveraging new technology such as AI and IOT, developing new product and service offerings, and driving operational productivity. Tim has consulted and worked with over 50 Fortune 1000 companies and many new ventures and mid-size companies. Prior to STONEBANK Partners, Tim was a Partner and led Accenture's global MedTech sector and prior to that was a Partner at PwC, EY, Kearney, and PRTM. Tim has his MBA from the University of Chicago and Electrical Engineering from Kettering University.