



16 May 2025

## **A Macro Update - Why We're No Longer Bearish**

Dear Investors

A core principle of the Fund is to be willing to change our minds when the material facts change. At the beginning of May, we began to detect a shift in the Trump administration's policy stance – one that has meaningfully altered our macroeconomic outlook. In this note, we outline why we've become increasingly constructive on the economic trajectory since early May.

### **The Recession Thesis Unravels**

Our prior recession thesis was anchored in three main assumptions:

- (i) A planned \$1.5 trillion reduction in federal spending over ten years,
- (ii) Deep job cuts of at least 500,000 through the newly established Department of Government Efficiency (DOGE), and
- (iii) A rigidly hawkish approach to trade.

Yet in recent weeks, the administration, despite its characteristically hardline rhetoric, has revealed a more populist bent, walking back each of these policy pillars to varying degrees.

Russell Vought, the architect of Project 2025 and the Trump administration's former OMB director, had outlined an aggressive fiscal consolidation agenda. Commerce Secretary Lutnick followed through by establishing DOGE, tasked with identifying \$1 trillion in savings and restoring budget balance. Meanwhile, House Republicans, led by fiscal conservatives, had secured a commitment from Speaker Johnson to deliver \$1.5 trillion in spending cuts during the reconciliation process. At face value, the policy framework appeared clearly contractionary. But the political execution now appears far less certain and potentially more accommodative than initially feared.

Despite the tough talk, the populist stripes of the administration were laid to bare when they released their discretionary spending request for 2026. Even Russell Vought, one of the most fiscally conservative voices in the Republican Party, submitted a budget proposal that was surprisingly expansionary in tone.

**Table 1. Proposed 2026 Discretionary Request by Discretionary Category**

(Budget authority in billions of dollars)

	2025 Enacted <sup>1</sup>	2026 Request	2026 Request Less 2025 Enacted	
			Dollar	Percent
<b>Base Discretionary Funding.....</b>	<b>1,613.1</b>	<b>1,450.0</b>	<b>-163.1</b>	<b>-10.1%</b>
Defense .....	892.6	892.6	---	---
Non-Defense <sup>2</sup> .....	720.5	557.4	-163.1	-22.6%
<i>Pending Reconciliation Resources Affecting Base Discretionary Funding: <sup>3</sup></i>				
Defense .....	---	119.3	+119.3	---
Non-Defense.....	---	43.8	+43.8	---
<b>Base Discretionary, including reconciliation resources.....</b>	<b>1,613.1</b>	<b>1,613.1</b>	<b>---</b>	<b>---</b>
Defense .....	892.6	1,011.9	+119.3	+13.4%
Non-Defense <sup>2</sup> .....	720.5	601.2	-119.3	-16.6%
<b>Non-Base Funding: <sup>4</sup></b>				
Emergency Funding.....	117.7	-2.3	-120.0	-101.9%
Program Integrity.....	2.5	3.1	+0.6	+22.6%
Disaster Relief.....	22.9	26.6	+3.7	+16.3%
Wildfire Suppression.....	2.8	2.9	+0.1	+3.6%
Infrastructure Investment and Jobs Act.....	66.1	43.7	-22.5	-34.0%
Other Exempted appropriations.....	5.9	4.0	-1.8	-31.4%
<b>Total, Non-Base Funding.....</b>	<b>217.8</b>	<b>78.0</b>	<b>-139.9</b>	<b>-64.2%</b>
<b>Total, Discretionary including reconciliation resources.....</b>	<b>1,830.9</b>	<b>1,691.1</b>	<b>-139.9</b>	<b>-7.6%</b>

Please note: some totals may not add due to rounding.

<sup>1</sup> The 2025 enacted column reflects OMB scoring of appropriations enacted in the Full-Year Continuing Appropriations Act, 2025 (division A of Public Law 119-4) and the Disaster Relief Supplemental Appropriations Act (division B of Public Law 118-158). This level does not include \$2.9 billion in emergency funds provided for 2025 by the Congress that were not designated as emergency by the President since those amounts are not available for obligation.

<sup>2</sup> The base non-defense total for 2025 includes \$9.4 billion in emergency funds that are considered to be for base activities.

<sup>3</sup> H. Con. Res. 14, the Concurrent Resolution on the Budget for Fiscal Year 2025, as passed by the House and Senate includes instructions to provide additional funding for defense, homeland, and law enforcement activities. The Administration assumes at least \$325 billion (\$175 billion for border security/non-defense and \$150 billion for defense) will be enacted in a reconciliation bill later this year to meet these instructions and the funds will supplement discretionary resources for the Departments of Defense and Homeland Security, as well as the National Nuclear Security Administration in the Department of Energy for fiscal years 2026-2034. For 2026, the Administration assumes approximately \$163.1 billion of these funds will be spent with \$119.3 billion for defense activities and \$43.8 billion for border/non-defense activities.

<sup>4</sup> Non-base funding reflects appropriations for anomalous or above-base activities such as emergency requirements, program integrity, disaster relief, and wildfire suppression, or amounts that have been explicitly exempted from counting for budget enforcement in authorization Acts. These amounts continue to be presented outside of base allocations.

Source: Office of Management and Budget (OMB)

**Policy Retreat: Fiscal, Labour, and Trade**

What's clear is that the administration's proposed \$140 billion in annual spending cuts outlined above are largely derived from reductions in emergency funding. This is money that has been previously provisioned under the Biden Administration for various programs that might need contingent funding but are rarely drawn upon. Rather than reflecting genuine austerity, the headline reduction appears to rely on an accounting gimmick to lower the deficit without delivering real spending cuts.

Secondly, DOGE's original mandate was to radically streamline the federal workforce, effectively resetting headcount to the "essential" staffing levels defined during the COVID-19 pandemic. Commerce Secretary Lutnick, alongside Elon Musk, publicly argued that this essential core represented the true baseline required to run government operations. If implemented fully, the plan would have resulted in over one million job losses. In practice, the outcome has been far more restrained: approximately 280,000 cumulative job cuts have been announced across a broad range of agencies. With Musk now stepping away from the role to refocus on his business interests, DOGE's contribution to spending restraint and workforce reduction has so far proven immaterial.



Third, we've observed a meaningful softening in the administration's trade policy. This includes:

- A 90-day suspension of reciprocal tariffs following sharp bond market volatility,
- A trade agreement with the UK that reduces tariffs on cars, steel, and aluminium despite earlier pledges to hold the line, and
- A temporary deal with China restoring tariffs to pre-second term levels.

Collectively, these steps reflect a recognition that a recession would pose an existential risk to the political durability of Trump's protectionist platform.

The administration's eagerness to avoid a recession is evident on two fronts. First, it consistently pulls back from the brink just as policy measures begin to threaten economic stability. Second, its definition of that "brink" is evolving in real time as new developments emerge. This moving target reflects both Secretary Bessent's skill economic forecasting, and the administration's sensitivity to international reactions. Regardless of the driver, the frequent reassessment of tariff policy in response to macroeconomic signals suggests that the likelihood of a recession continues to diminish.

### Learning from 2023: Consumers Stay Resilient

In light of the marked softening in both fiscal and trade policy, our base case has shifted, and we no longer expect a recession to materialise. Our outlook has turned more bullish on equities.

To contextualise this shift, we compare the current environment to the perceived economic shock of 2022-23. At that time, a sharp rise in living costs coupled with widespread layoffs across the tech sector, totalling 250,000 jobs, led many to forecast an imminent consumer-led recession. Expectations of demand destruction dominated market narratives.

The table below shows what actually unfolded:

YoY Spending Growth	Q1-23	Q2-23	Q3-23	Q4-23	Q1-24	Q2-24	Q3-24	Q4-24	Q1-25
Individual Companies (\$5t)	6.6%	4.6%	5.3%	5.4%	4.4%	4.1%	4.3%	5.0%	4.0%
Visa, Mastercard and Amex (\$12t)	9.6%	5.4%	5.5%	4.6%	5.6%	4.9%	5.1%	7.4%	5.8%
Bank Card Spending Data (\$4t)	9.3%	5.9%	6.3%	5.8%	6.5%	4.9%	4.5%	5.7%	4.6%
Weighted Average Consumer Spend	8.9%	5.3%	5.6%	5.0%	5.5%	4.7%	4.8%	6.6%	5.2%
Consumer Savings / Deposit Growth	-0.7%	-0.6%	-8.1%	-10.2%	1.8%	-4.6%	-2.8%	3.1%	7.4%
Annualised Consumer Savings Growth (\$B)	-47.6	-40.8	-550.8	-693.6	122.4	-312.8	-190.4	210.8	503.2
Retail MMF Annualised Change (\$B)						211.8	574.8	838.1	1,010.0
Stock of Bank Deposit Savings Only (% of GDP)	7.0%	7.0%	6.9%	6.7%	6.7%	6.6%	6.6%	6.6%	6.8%

Source: Company Reports

During the peak of the cost-of-living crisis in late 2023, consumer spending growth remained broadly steady. Rather than cutting back, households drew down on excess savings to sustain their consumption levels.

More recently, consumers have resumed saving, even as nominal spending continues to grow at an annual pace of around 5%. As a result, the excess savings buffer held in bank accounts has recovered to levels last seen at the start of the 2023 cost of living shock. Given that we estimate the current trade-related shock to be, at most, one-third the size of the 2023 episode, we hold considerable conviction that consumer spending will remain resilient.

In light of these developments, we have adopted an investment posture designed to benefit from continued economic expansion.

Kind Regards,  
Fawkes Capital Management



Please click [here](#) to subscribe to receive future Fund or market updates.

#### Fawkes Capital Management Disclaimer

The information contained in this report has been prepared by Fawkes Capital Management Pty Ltd ("Fawkes"). Fawkes is a Corporate Authorised Representative of One Wholesale Fund Services Ltd ("OWFS"), ACN 159 624 585, AFSL 426503, CAR number 1308574. Fawkes offers financial services in Australia only to 'wholesale clients' as defined by the Corporations Act 2001. Fawkes is the investment manager for the Fawkes Capital Fund (the "Fund"). The issuer and trustee of the Fund is One Funds Services Limited ("OFSL"), ACN 615 523 003, AFSL 493421, which is only available to wholesale clients. The information in this article is current as at the date of publication and is subject to change. Fawkes and/or the Fund may hold or intend to hold positions in any of the securities mentioned in this report. Fawkes has no obligation to inform anyone of any changes to its view of, or holdings in any securities mentioned in this report. This information is general in nature. It doesn't take into account a person's objectives, financial situation or needs. Because of that, any persons relying on this information should consider obtaining independent advice before making any investment decisions based on this information. The reader agrees not to invest based on this article, and to perform his or her own due diligence and research before taking a position in any securities mentioned. Information in this article may constitute Fawkes' judgement at the time of publishing and is subject to change. Whilst Fawkes believes this information is correct, no warranty is made as to its' accuracy or reliability. Fawkes doesn't accept responsibility for any loss or liability incurred by you in respect of any error, omission, reliance, or misrepresentation in the information contained in this article. Past performance is not a reliable indicator of future performance. The value of an investment may rise or fall with the changes in the market. Any projection or forward-looking statement in this article is provided for information purposes only. Whilst reasonably formed, no representation is made as to the accuracy of any such projection or that it will be met. Actual events may vary materially. Investors should consider the Fund's Information Memorandum ("IM") dated 24 May 2024 issued by OFSL before making any decision regarding the Fund. The IM contains important information about investing in the Fund and it is important investors obtain and read a copy of the IM before deciding about whether to acquire, continue to hold or dispose of units in the Fund.