Midyear macro update for corporates | The economy that wants to hang on

A CLEARWATER RESEARCH INSIGHT

25 JUNE 2025

Executive summary

Midyear and quarterly reports are inherently backwards-looking. In 2025, this reality proves particularly frustrating amid volatile markets beset by cloudy economic policy. This report seeks to remedy this by providing:

- a comprehensive view of recent history for corporate investors, using Clearwater's proprietary data (~1000 corporate clients with a combined ~$1.4 trillion in assets) and
- a look ahead at the macroeconomic environment for the second half of the year.

The following chapters contextualize investor behavior in yesterday's macroeconomy and offer insight into tomorrow's, an outlook that many pundits have already written off. The research is, as always, data-driven but not data-reliant. While there are nontrivial headwinds ahead, a recession is by no means inevitable. A later-stage business cycle is less capable of weathering a shock like tariffs. This cycle, however, still has engines of resilience. Said differently: this is an economy that wants to hang on.

For more insights, please contact Matthew Vegari, Head of Research, at mvegari@clearwateranalytics.com or follow on LinkedIn

Performance | Steady in the storm

In the first half of 2025, markets have hardly been smooth-sailing for investors, fixed income and equity alike. Two themes for the year remain **tariff clarity and severity**. At present, amid pauses, delays, and court challenges, investors (and businessowners) still have little clarity as to what lies ahead: When will higher tariffs go into effect? Will certain countries, sectors, and/or goods be exempt? And could levies drop, or increase, next year?

As for severity, we are learning that elevated tariffs are here to stay. They will be higher than recent history, lower than those “reciprocal” tariffs first proposed on April 2. Today’s effective rate is estimated at 15%. The start of the year? Closer to 2%.

All told, trade policy from Washington brought significant volatility to markets. But how did corporate investors fare? Given their exposure to cash and shorter-duration, high-quality fixed income investments, **corporates were largely spared the whiplash**. High rates continue to confer income gains, and **those with a duration bent saw even better performance.**

A tumultuous first half of the year…

Amid tariff uncertainty, both U.S. equity and bond markets have experienced whiplash

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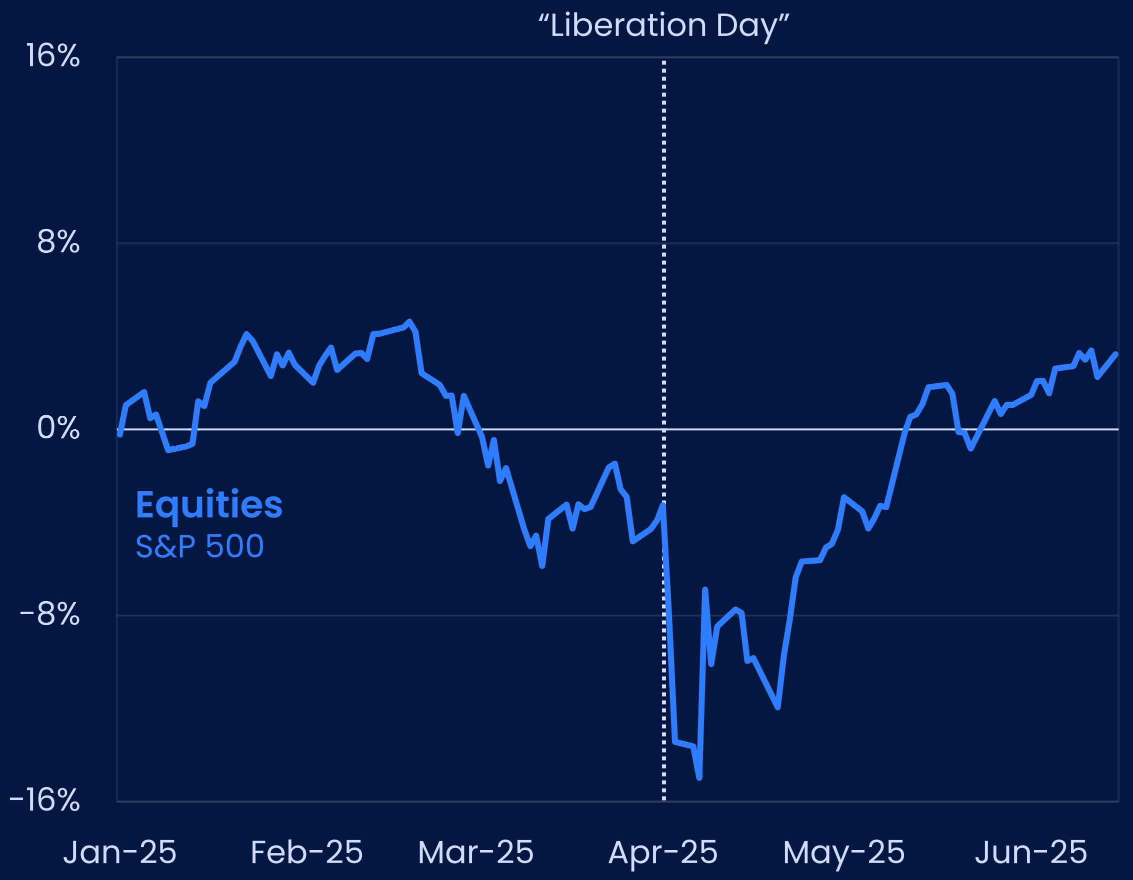
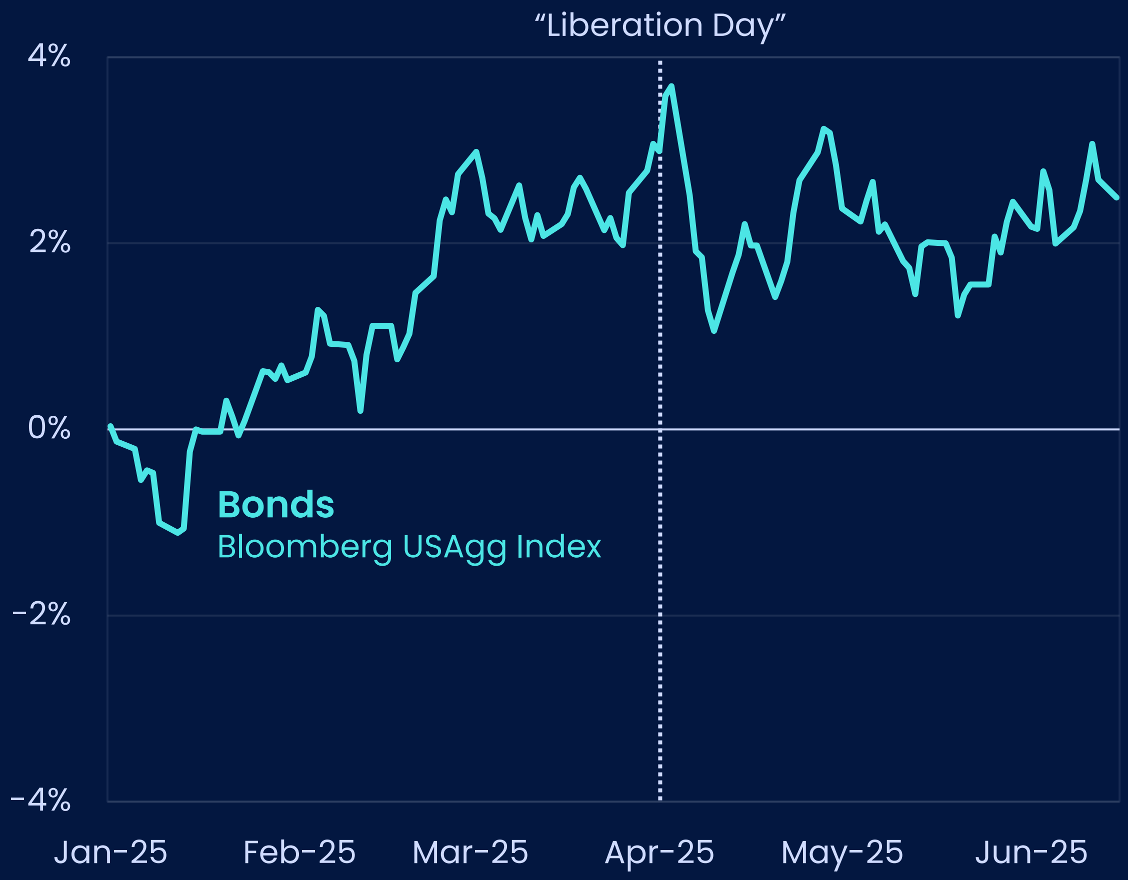
Total return, YTD



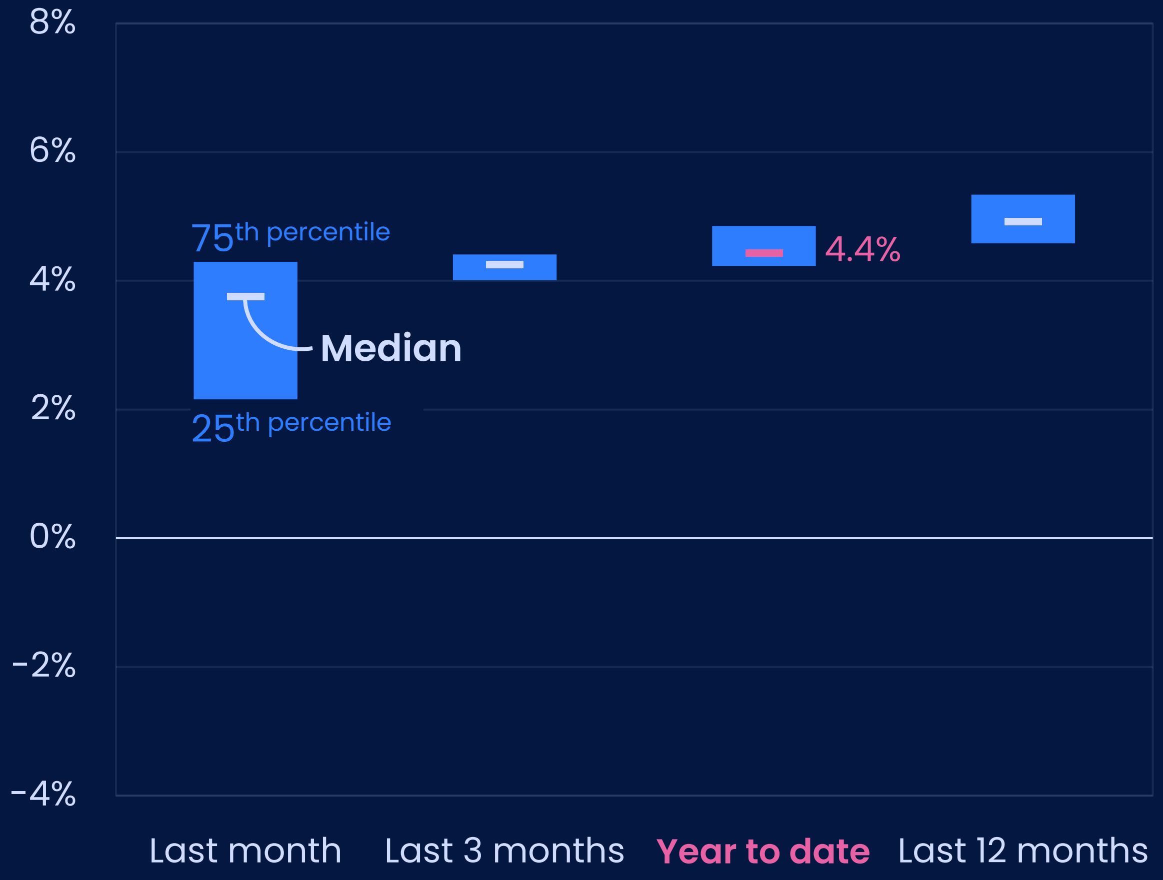


Note: Data through 6/16/2025. "Liberation Day" = 4/2/2025, when the White House announced the reciprocal tariff strategy.
Source: Bloomberg, Clearwater Analytics

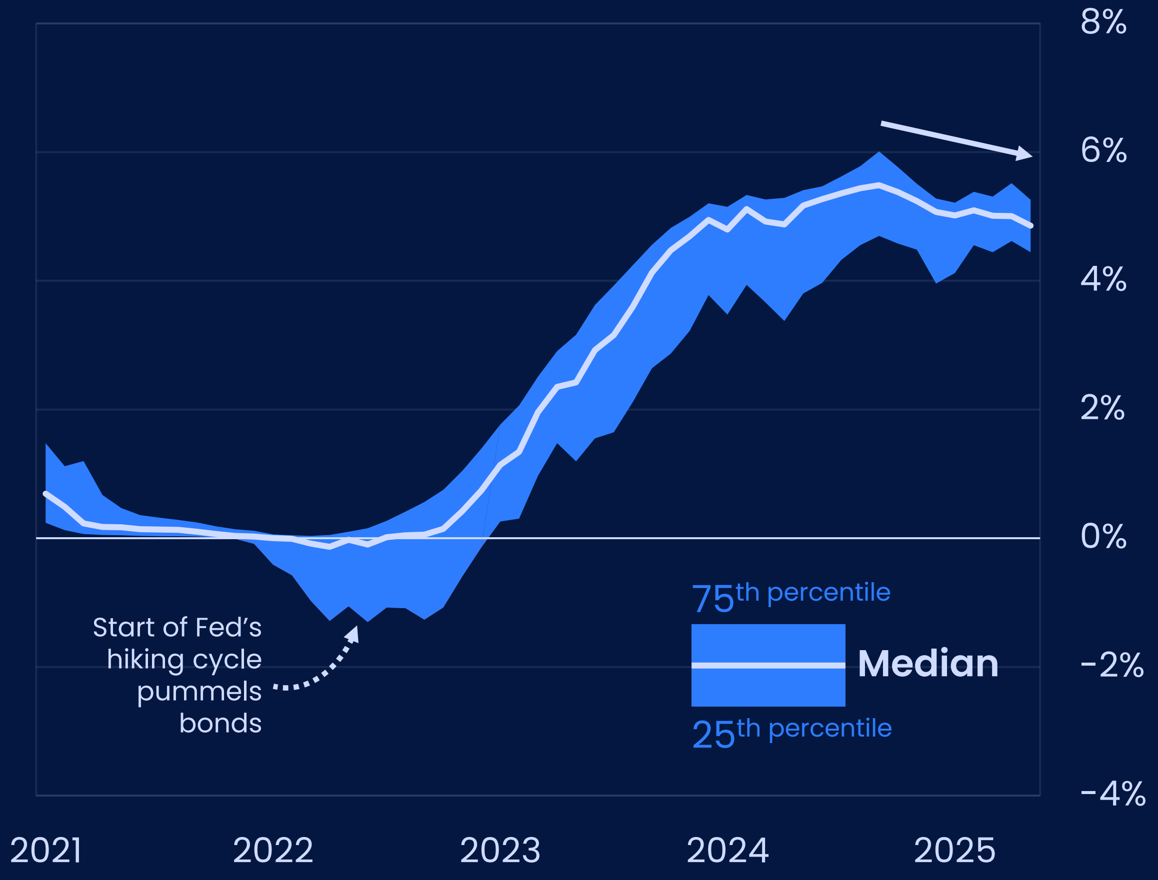
...but corporates fared well

Easing monetary policy and still-high short-term rates have meant smooth, if falling, returns

Corporate total return, annualized | distribution snapshot



Corporate total return | trailing 12-month distribution



Note: **Latest = 5/2025.** For Clearwater corporate clients with >$50M in assets and <= 90% allocated to cash (and equivalents).
Source: Clearwater Analytics

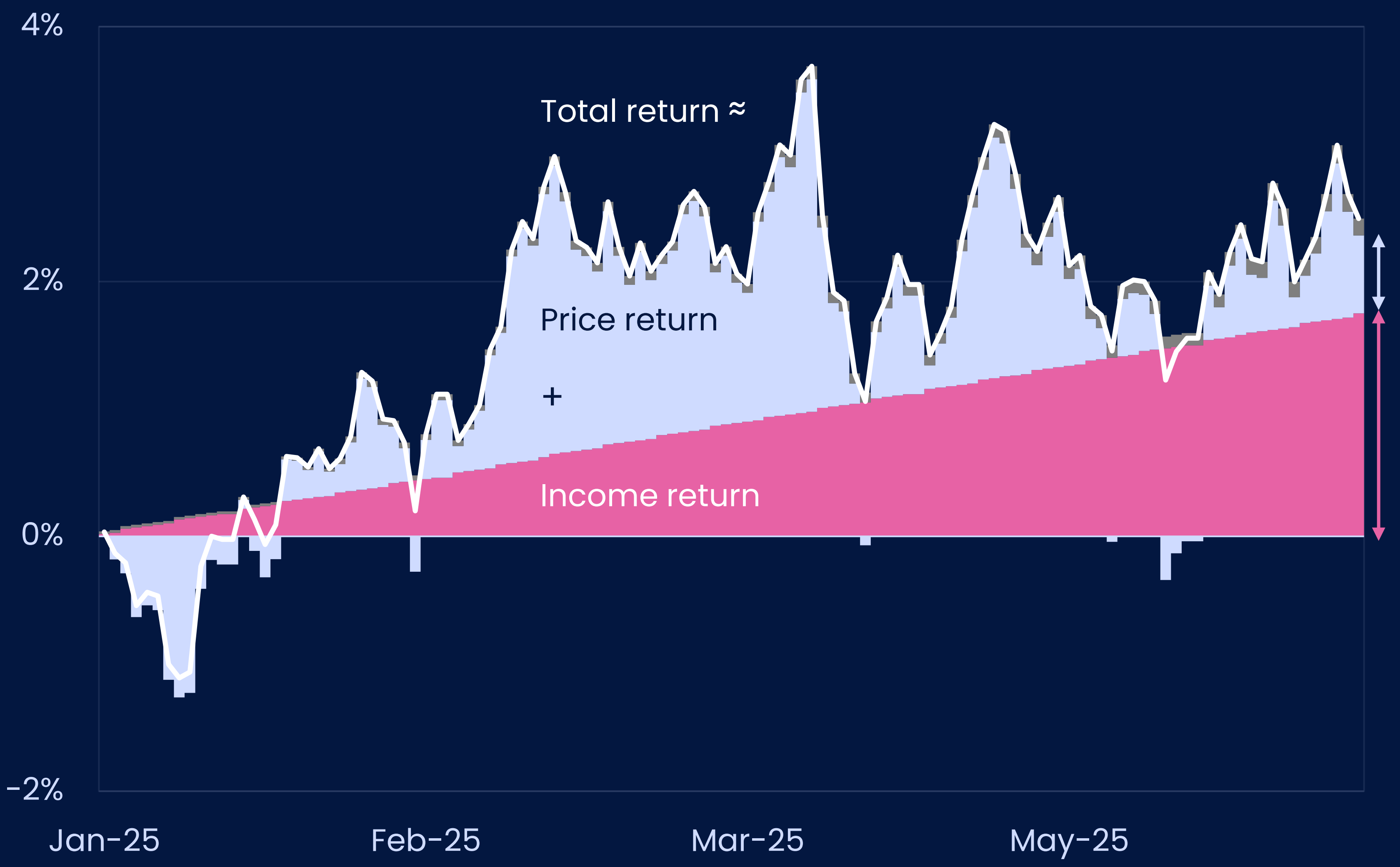
What's quietly driving returns for bonds in 2025?

Interest.

Higher rates have made up for lackluster price returns

Expect this trend to continue, as both rates and volatility stay elevated

Bloomberg USAgg, YTD total return, decomposed



Note: Data through 6/16/2025. Gray shading = residual of decomposition.
Source: Bloomberg, Clearwater Analytics

Corporates see steady, but declining, income gains

Short duration holdings keep price volatility modest, but Fed cuts mean diminishing returns on cash

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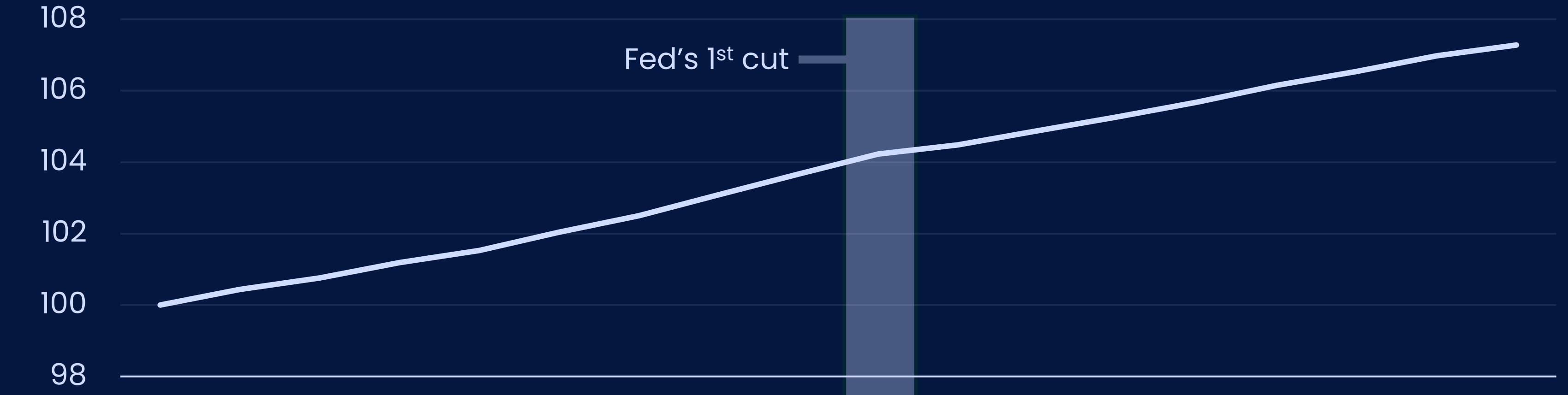
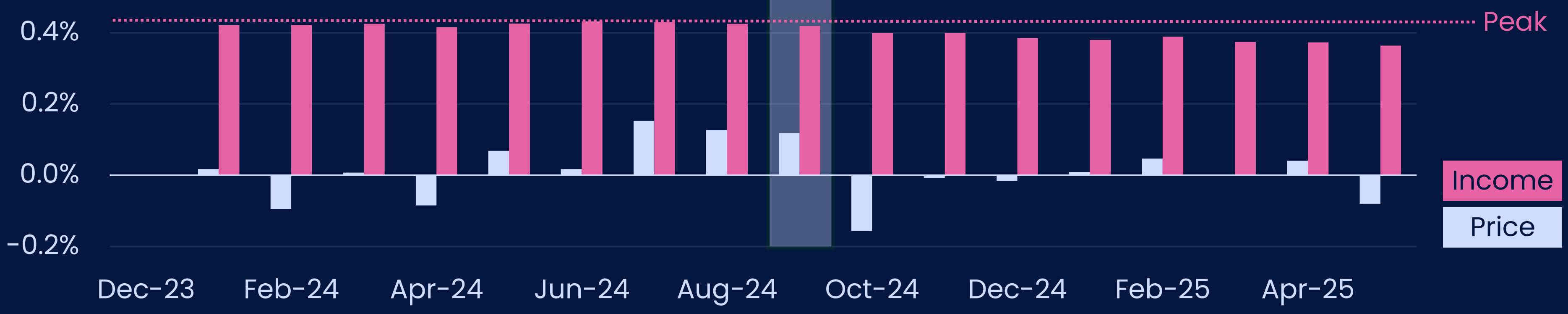
Clearwater Corporate Treasury Index (CCTI), 12/2023 = 100

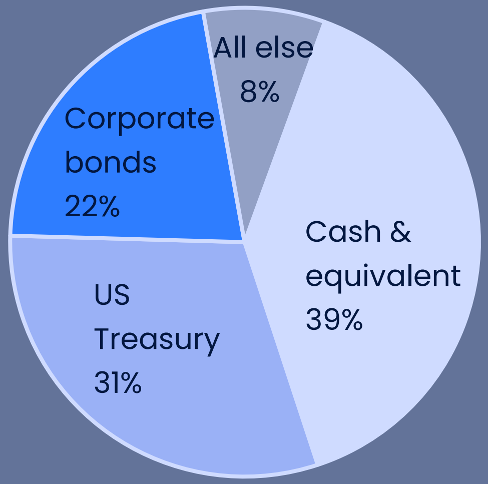


Monthly return, decomposed



Understanding the CCTI

Asset split (aggregate)



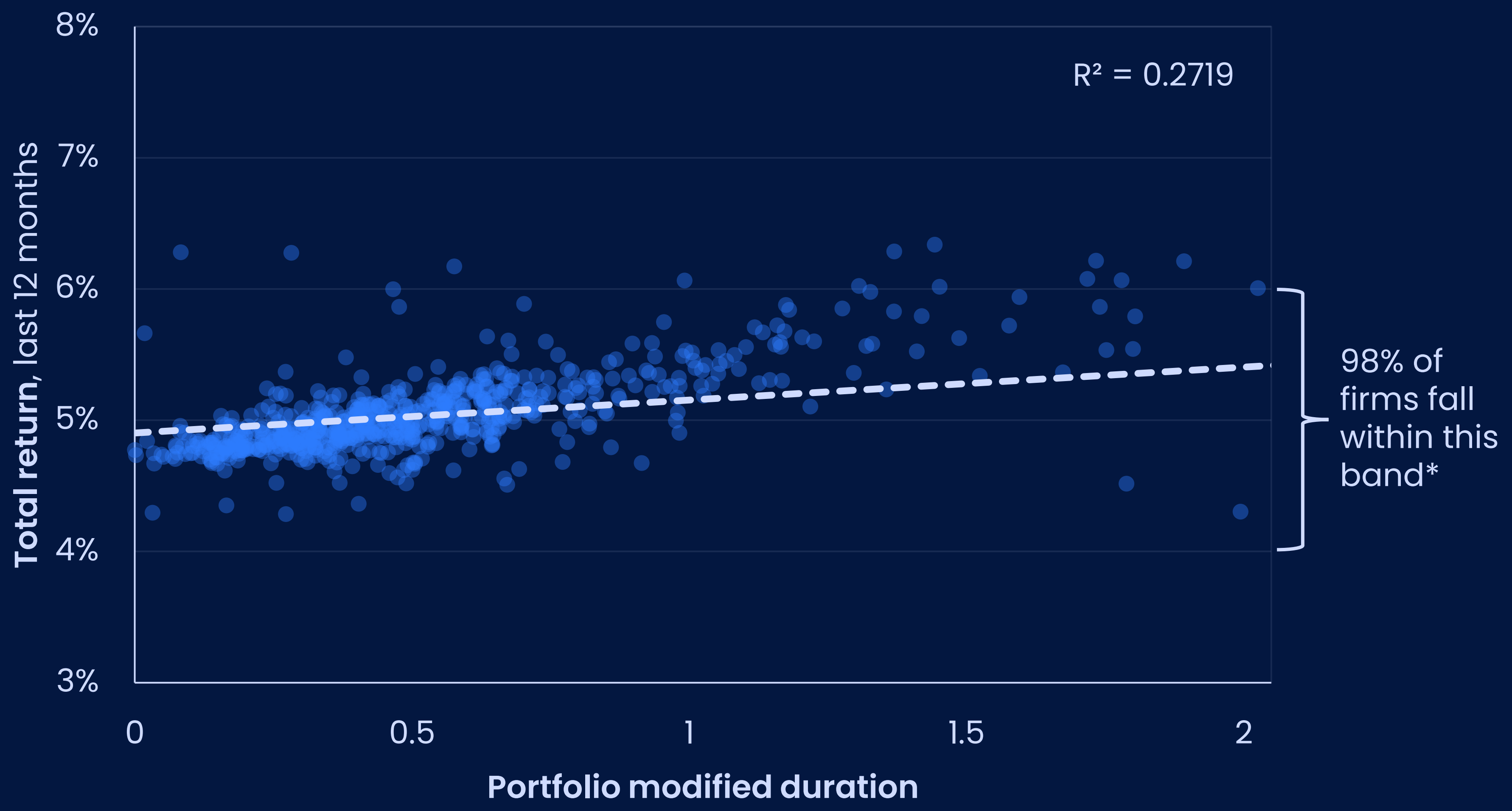
- Mean AUM of firms: $2B
- Avg. length as CW client: 9 years
- Publicly traded firms: 70%

Note: The **CCTI** comprises ~400 portfolios of publicly traded companies, totaling ~$1 trillion in assets. Data through 5/2025.
Source: Clearwater Analytics

Given their mandates and risk tolerance, corporate investors comprise a slim band of performance

Even so, the strongest performers have tended to be those with more duration, stretching ever-so-slightly farther out on the curve

Portfolio duration (x-axis) **vs. performance** (y-axis)



Note: *Data through 5/2025 for Clearwater corporate clients with >$50M in assets, <= 90% allocated to cash (and equivalents), <=10% allocated to equities, with extreme outliers removed. Duration values are the average value for the last 12 months. Duration values near or at 0 suggest clients are invested in assets outside of fixed income
Source: Clearwater Analytics

Do the strongest performers keep on performing?

It isn't always consistent, but generally speaking, yes

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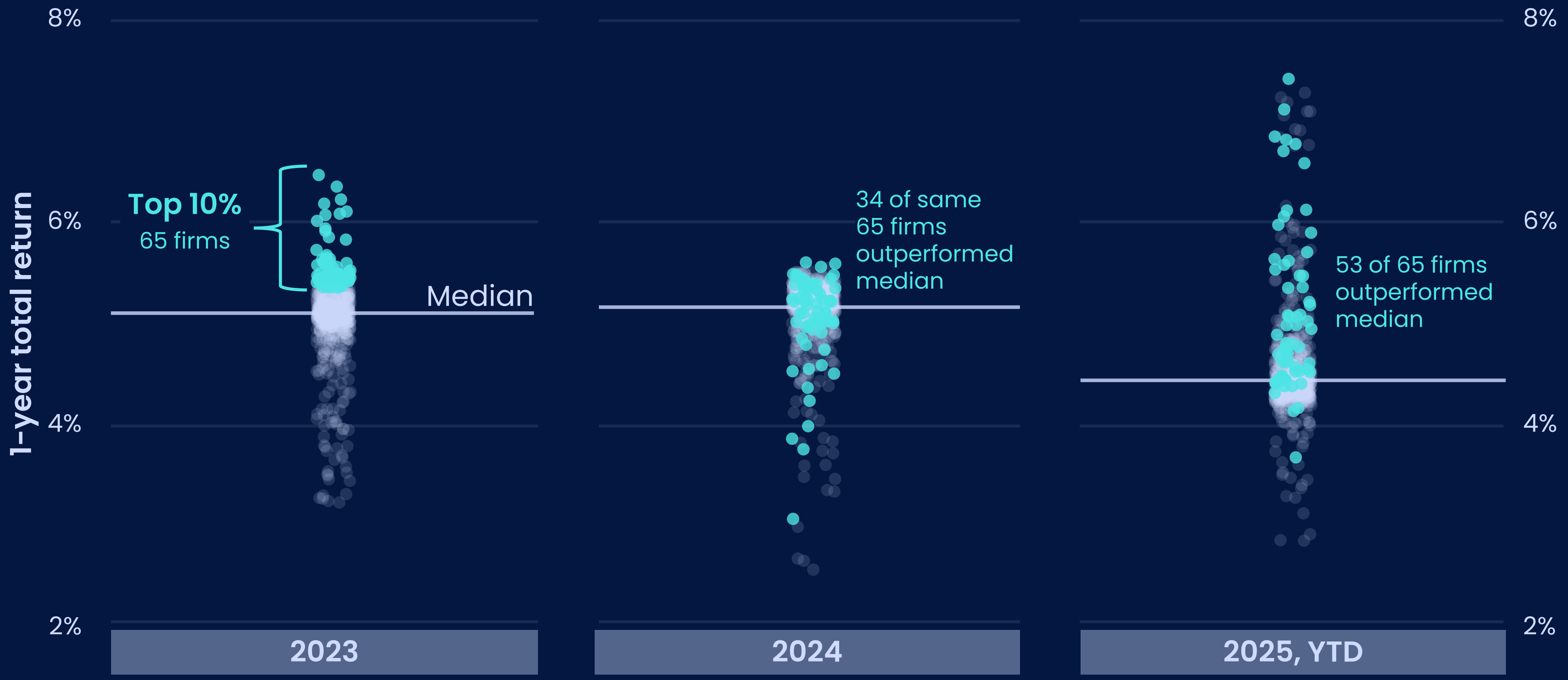
Total return, full client distribution | Strongest performers for 2023, shown again in 2024 and 2025



For insight into strategy, i.e., why these performers have tended to keep outperforming, see p. 18

Note: For Clearwater corporate clients with >$50M in assets, <= 90% allocated to cash (and equivalents), <=10% allocated to equities, with extreme outliers removed. 2025 performance through 5/2025 is annualized.
Source: Clearwater Analytics

Strategy | Duration bets have paid off

As the Fed's hiking cycle has topped out, and as markets price continued easing from policymakers, **corporate investors have turned to duration to lock in yield**. This has been a well-performing strategy. A little history: In May of last year, with the Federal Reserve's policy rate at 5.3% (effective), the yield on a 1-year US Treasury was 5.2%. By December, the Fed had reduced its policy rate to 4.5%. Those who locked in yield were thus rewarded for their foresight.

A tactical shift in duration has also meant a shift in asset allocation. To capture yield, corporates have not merely bought longer-dated Treasuries. Rather, in divesting from cash and cash equivalents (like commercial paper), they have been loading up on corporate bonds.

Pivoting from cash has not been a linear affair, however (see p. 20). Furthermore, as explored in chapter 3, cash should not be written off too quickly. While there is little upside—the Fed is unlikely to *raise* rates—those anticipating an imminent dovishness from policymakers should prepare for a continuation of their recent wait-and-see approach.

A bird's eye view of corporate holdings and allocations

Cash and fixed income dominate, but there have been subtle shifts over the last few years

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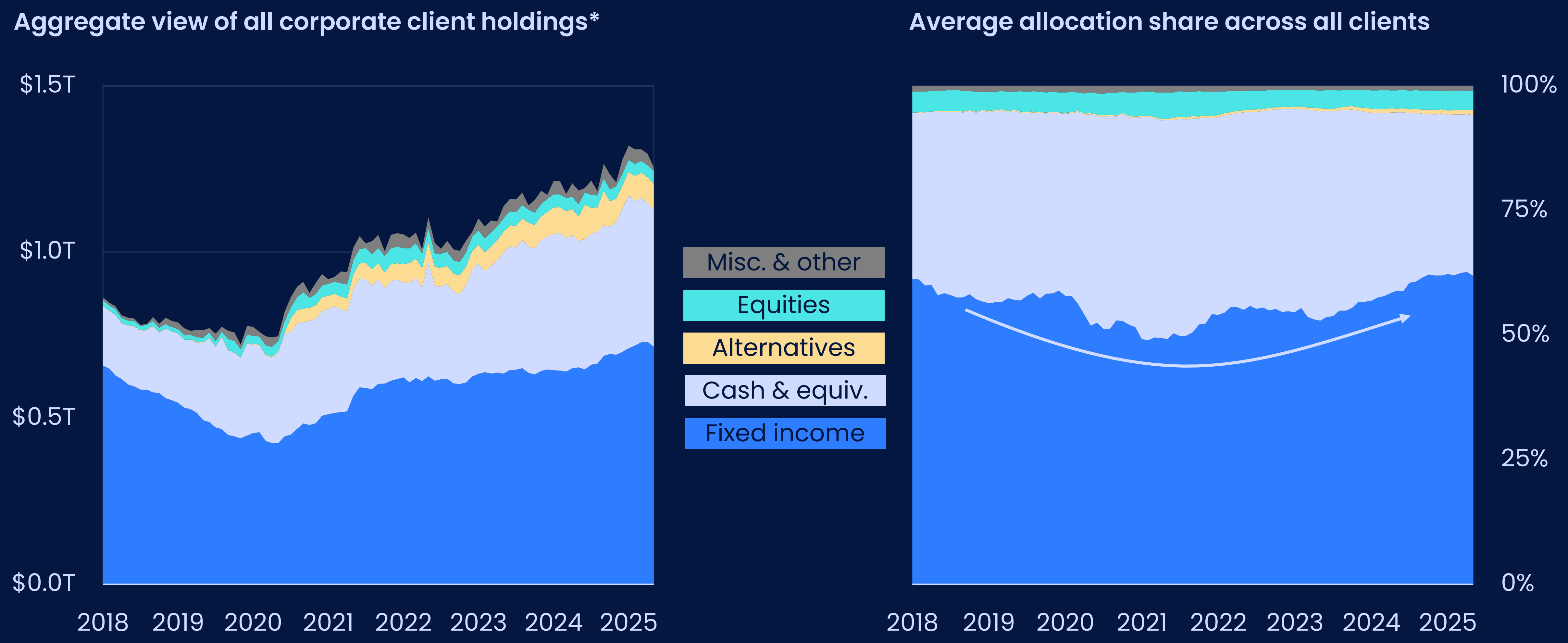


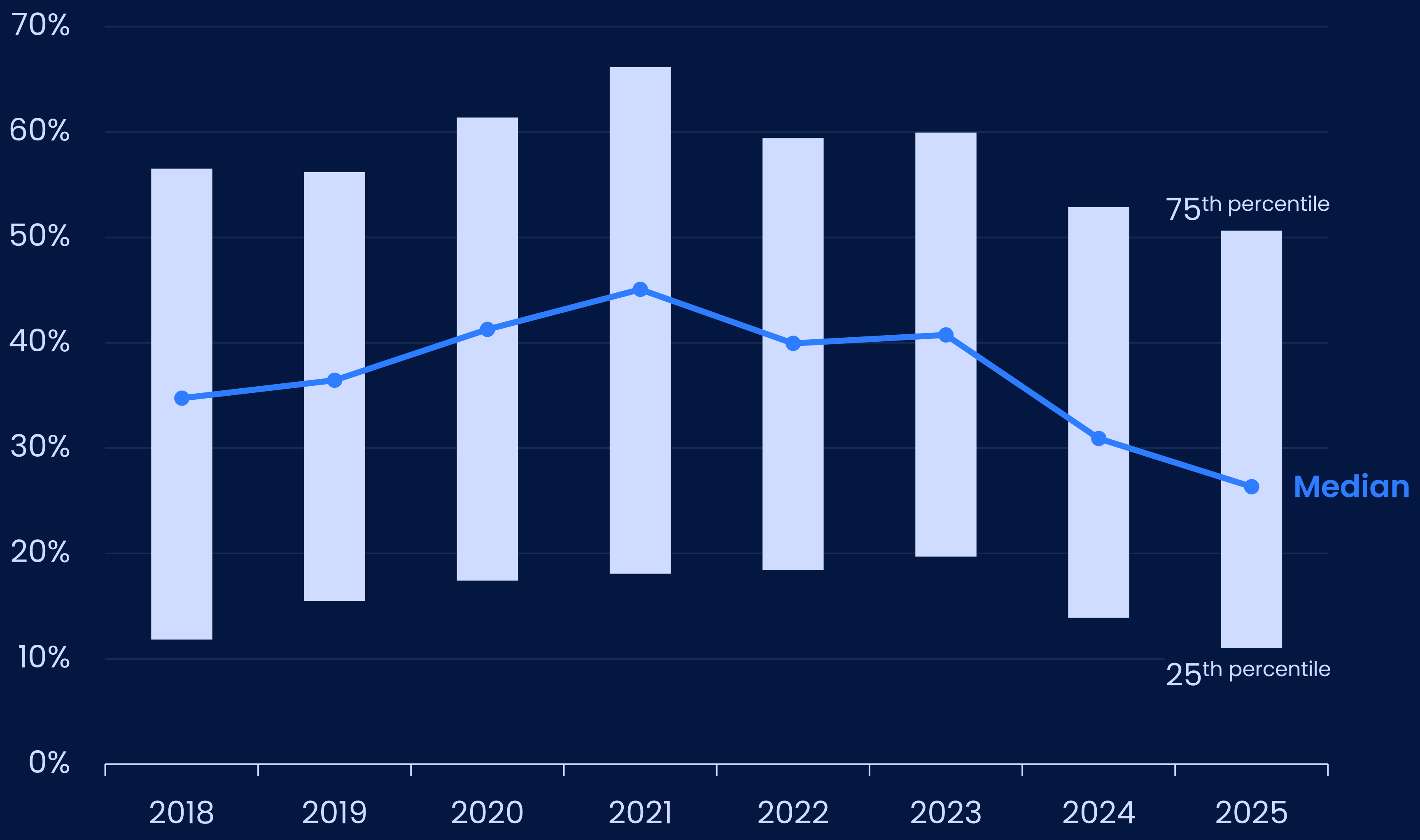
Note: *For corporate clients with $50M+ in assets and no more than 90% allocated to cash & equivalents. Asset growth is both organic and inorganic, as firms adopt Clearwater.
Source: Clearwater Analytics

Cash, no longer king

Corporate allocations to cash surged during Covid, then retreated modestly

Since the Fed's hiking cycle peaked (2023-24), however, divestment has intensified

Portfolio allocation to cash (& equivalents), share of total market value



Note: For Clearwater corporate clients with >$50M in assets and <= 90% allocated to cash (and equivalents).
Source: Clearwater Analytics

Corporate investors are looking beyond cash for yield

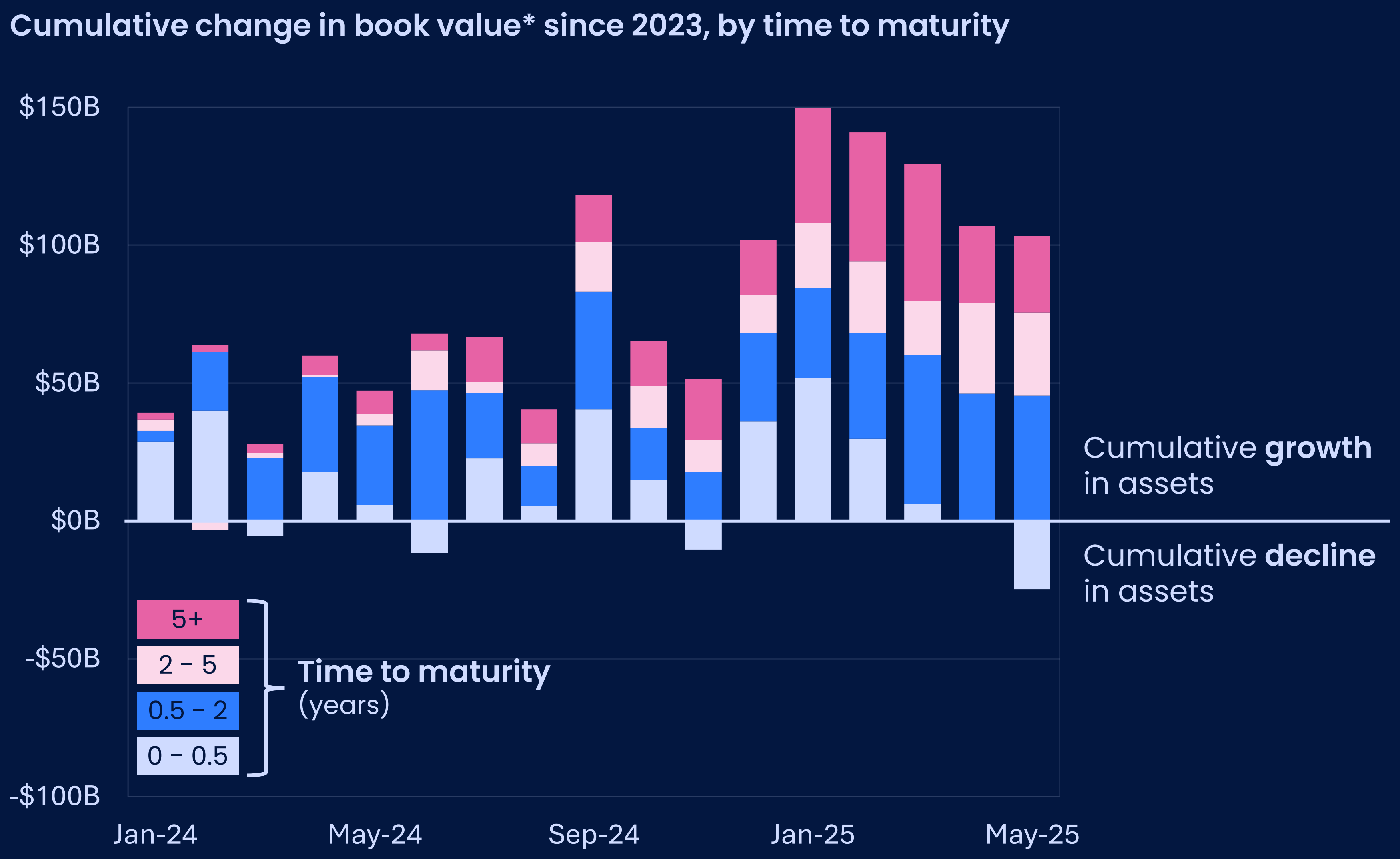
Allocations to corporate bonds are seeing a resurgence after a post-Covid slump

Portfolio allocations, share of total market value

Note: *excluding T-bills with <= 90 days time to maturity and TIPS. Annual averages of monthly data. Other government bonds consist primarily of municipal bonds and agency bonds/notes. Data for corporate clients with >$50M in assets and <= 90% invested in cash and equivalents.
Source: Clearwater Analytics

For the past few years, Clearwater corporate clients have been adding duration to their portfolios…

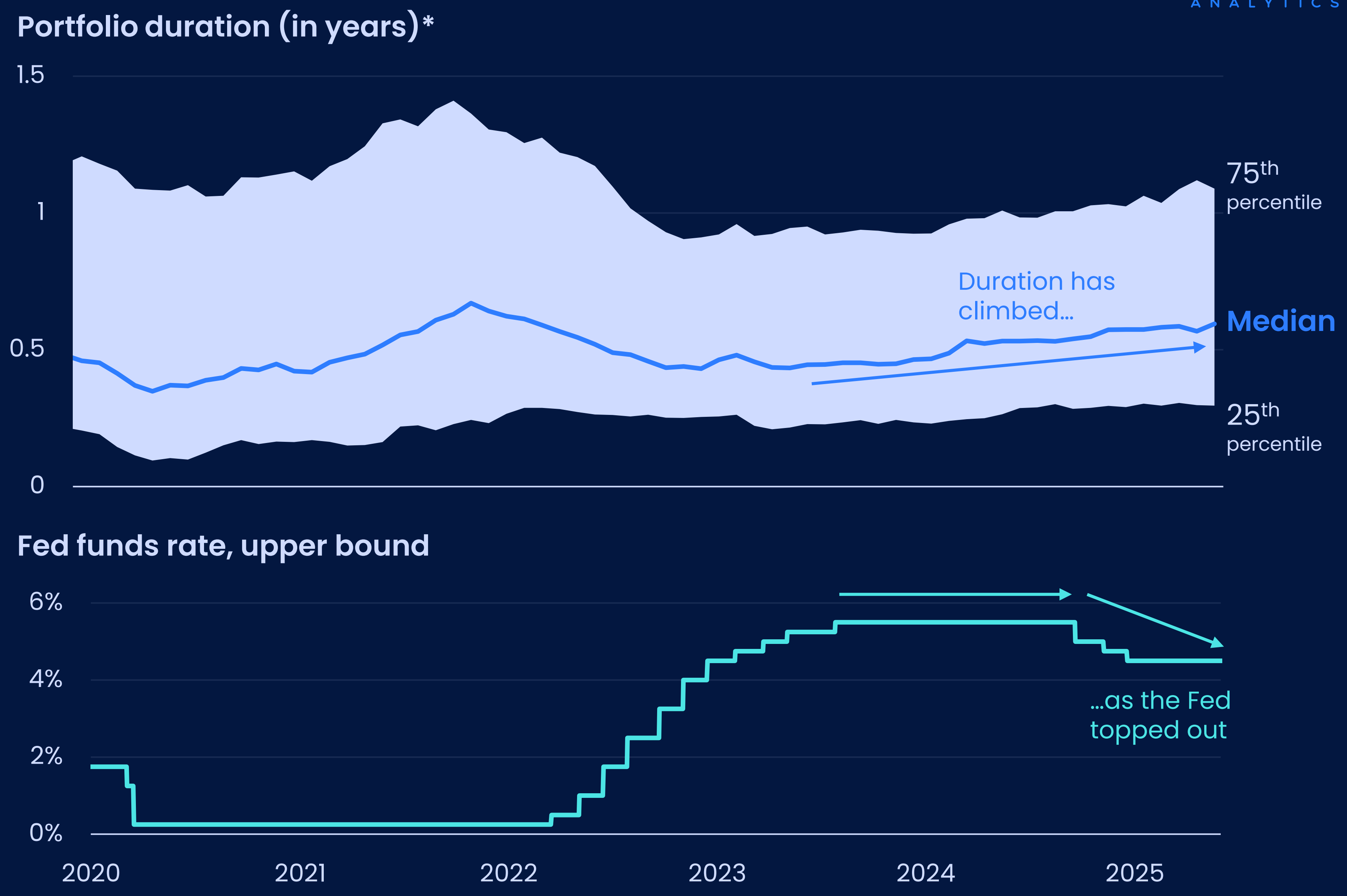
…with few, if any, increases in short-term investments (e.g., cash)



Note: *For those Clearwater corporate clients present on 12/31/2023, with >$50M in assets and <= 90% allocated to cash.
Source: Clearwater Analytics

Corporates now have the highest **duration exposure** in years, corresponding with the Fed's easing

Firms divested from cash as they anticipated Fed cuts, though the Fed has held higher-for-longer

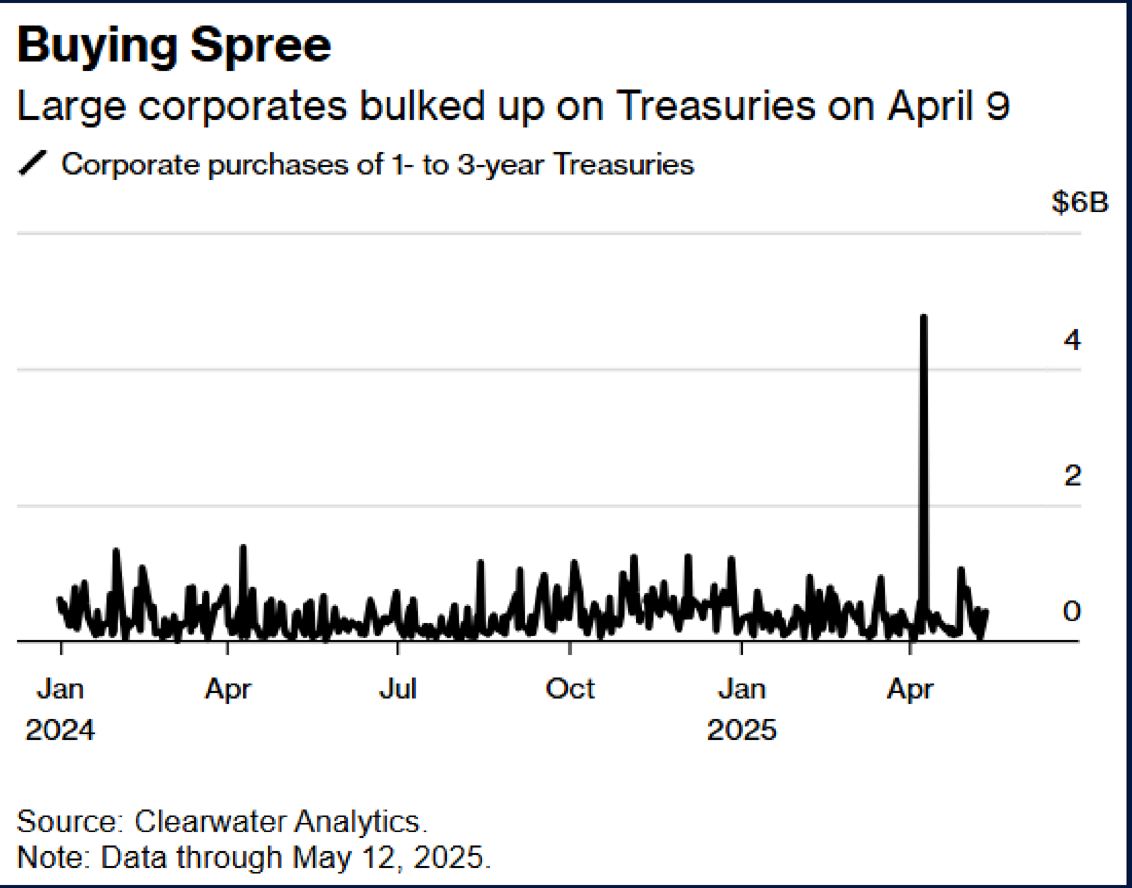


Note: *time-to-maturity weighted by market value of holdings. For clients with $50M+ in assets under management and <=90% allocated to cash. Data through 5/2025.
Source: Clearwater Analytics, FRED

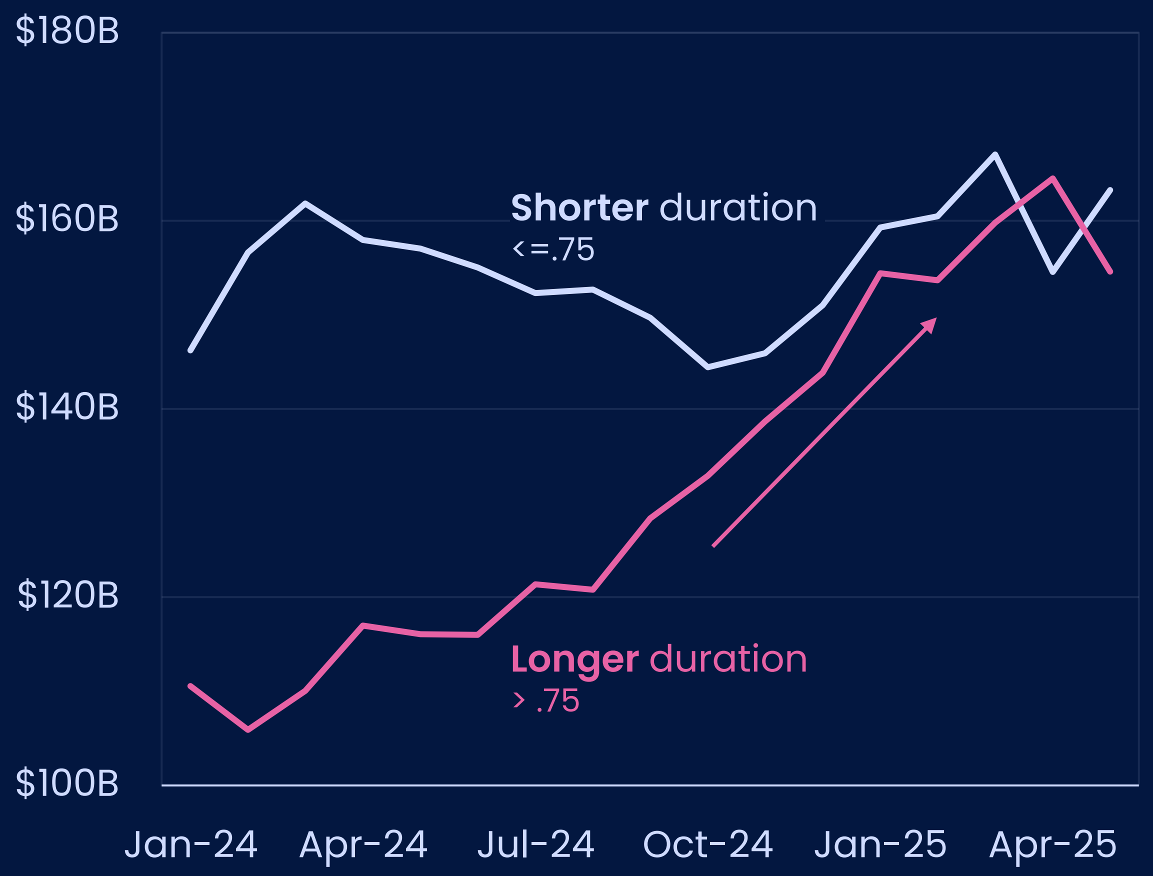
Tariff tumult did not go unnoticed by corporates

A day in April encapsulated a long-running trend: Corporates have been capturing yield/duration

As featured in Bloomberg



Corporate holdings of US Treasuries, by modified duration



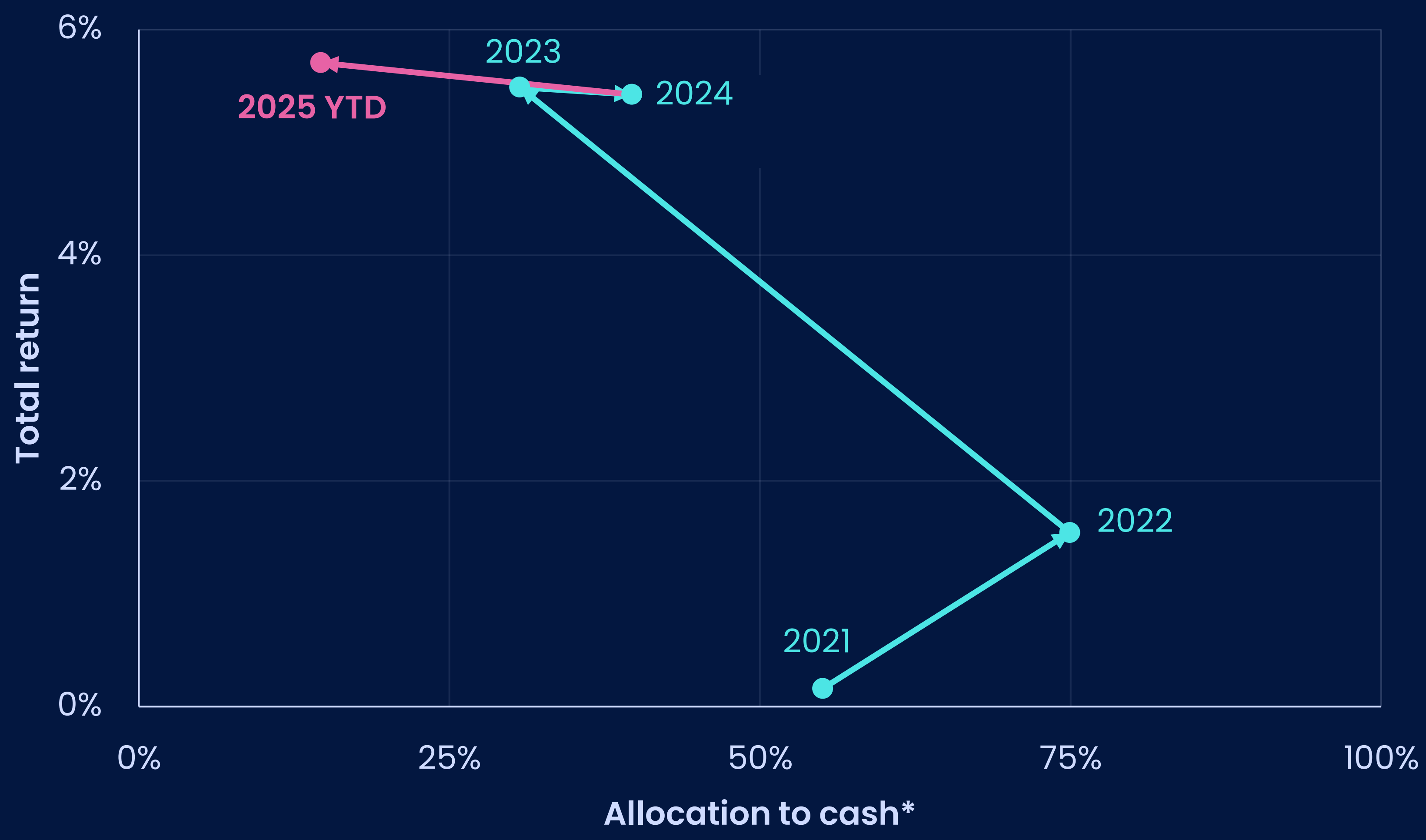
Note: Featured in Bloomberg article on 5/14/2025. Data (right) for consistent Clearwater clients with <=90% allocated to cash and $50M+ in AUM.
Source: Clearwater Analytics

What does a good strategy look like?

It depends on the year, but in 2025, less cash → better returns

This is a major shift from last year, when holding 40% cash was optimal for corporates

Best performing strategies: Allocation to cash (x-axis) **vs. total return** (y-axis)



Note: *and equivalent. For top 10% best performers (total return). Includes clients with $50M+ in assets under management, <=90% allocated to cash (and equivalents), <=10% allocated to equities, with extreme outliers removed. 2025 data is annualized through 5/2025.
Source: Clearwater Analytics

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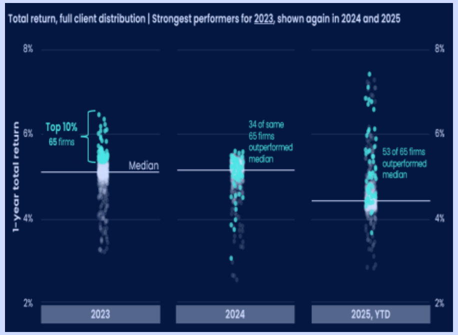


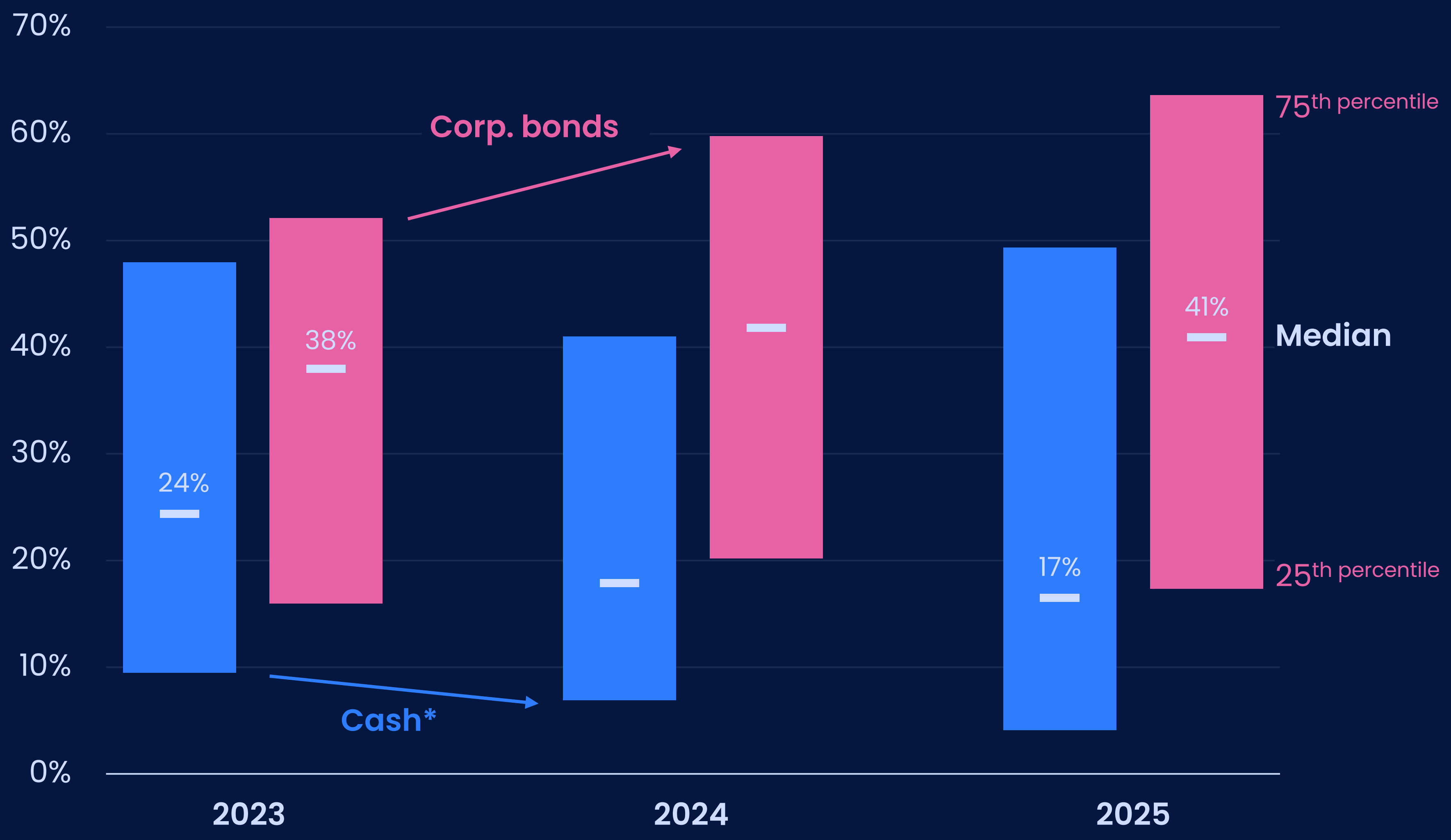
Continued from p. 9

What's driving consistent outperformance?

By and large, dynamic allocations

2023's "winners" have favored corporate bonds more and more

Asset allocation mix for 2023's top performers over time



Note: *and equivalent. Annual averages of monthly distribution for 2023's top 10% of performers (65 firms, see p. 9 for more details).
Source: Clearwater Analytics

Active divestment from cash has been a nonlinear affair

When markets turned dovish in the wake of tariffs this spring, corporates shed cash…and then quickly reversed course

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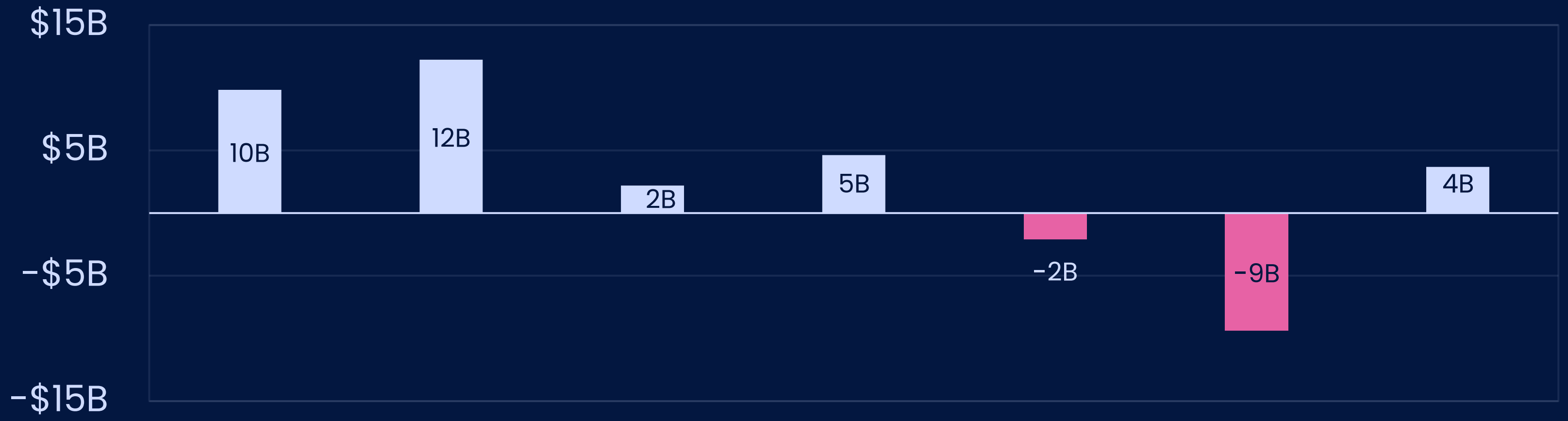
Net flows to cash (& equivalent) investments for corporate clients



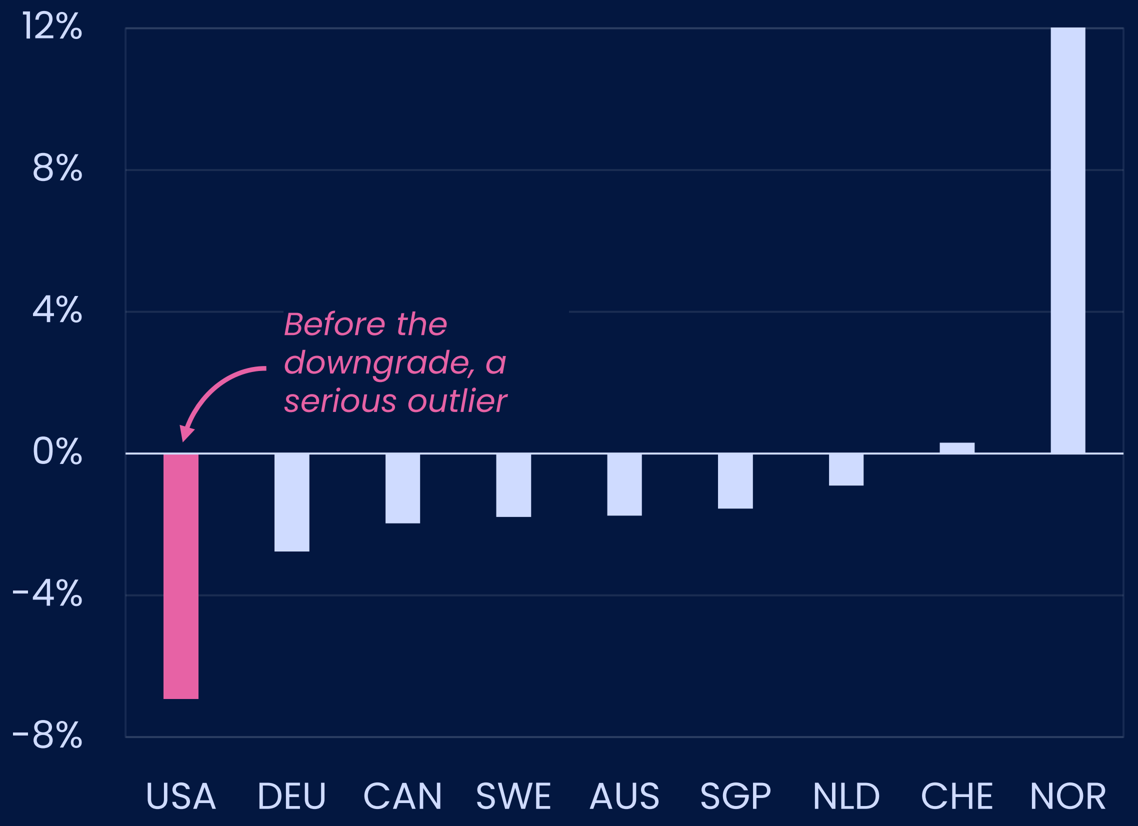
Market-implied fed funds rate in Dec. 2025

Note: Includes clients with $50M+ in assets under management, <=90% allocated to cash (and equivalents), with extreme outliers removed.
Source: Clearwater Analytics, Bloomberg

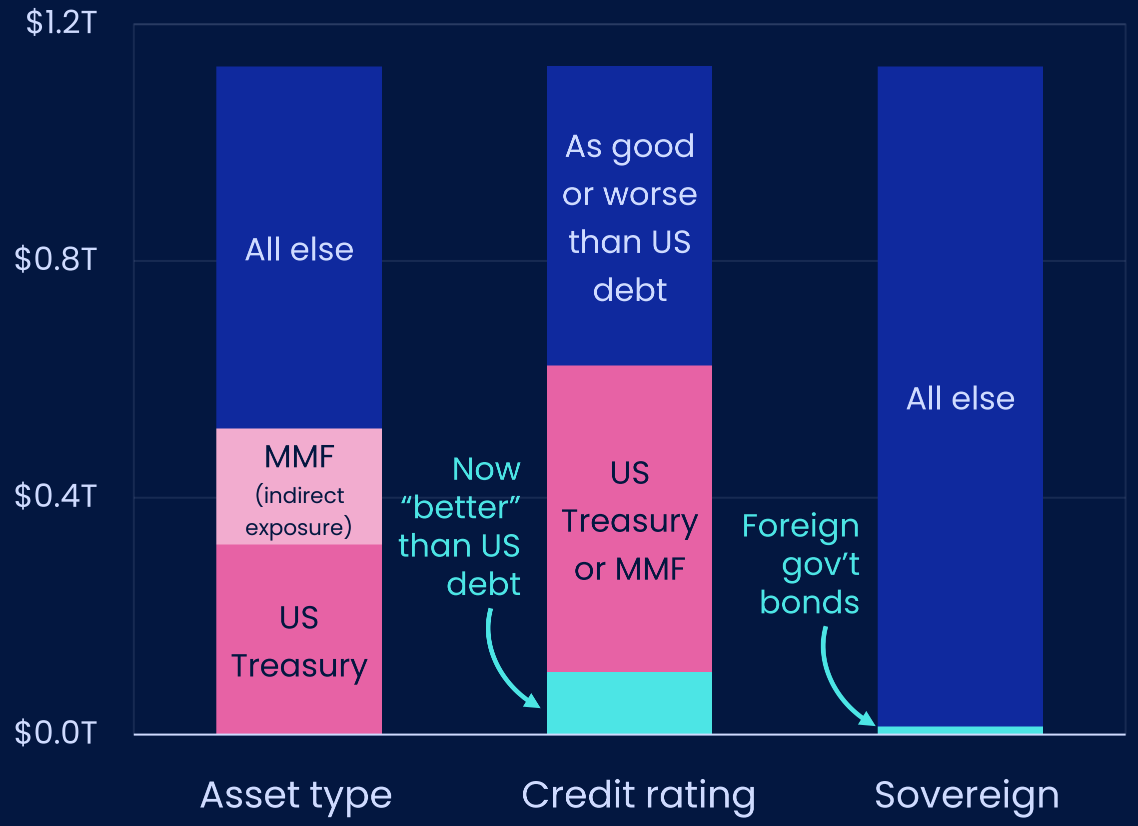
Interlude: Why a downgrade to US debt means little

Moody's downgrade, likely justified, does not change much for corporates, who have few alternatives

Fiscal deficit (share of GDP) **for the US and AAA-rated sovereigns**



Breakdown of corporate treasurer assets by…



Note: **Read more here.** Left: Y-axis truncated for scale (Norway = 13.5% surplus). Data as of 2023 or 2024 per data availability. Right: For clients with $50M+ in assets under management and <=90% allocated to cash.
Source: Bloomberg, Moody's Ratings, Clearwater Analytics

Macro outlook | The economy that wants to hang on

Forecasts regularly miss the mark, but this has been especially true for the post-Covid business cycle. Recession calls became commonplace in 2022, reached a fever pitch in 2023, and dwindled away the following year, as the economy marched ahead.

2025 began differently, however. With inflation falling, the Fed poised to keep easing, and a Republican Congress slated to reduce taxes and strip back regulation, consensus anticipated a strong year of growth. But in the months since, **year-ahead recession probabilities for surveyed economists have doubled**, from 20% to 40%. What changed?

The story primarily revolves around tariffs. The introduction of higher-than-expected levies on imports has thrown the rosy 2025 outlook to the wayside. With prices set to inch higher—eroding firm margins, eating into household budgets—the economy is expected to slow. Enough slowing, and the scales could tilt. Firms lay off workers → a recession unfolds.

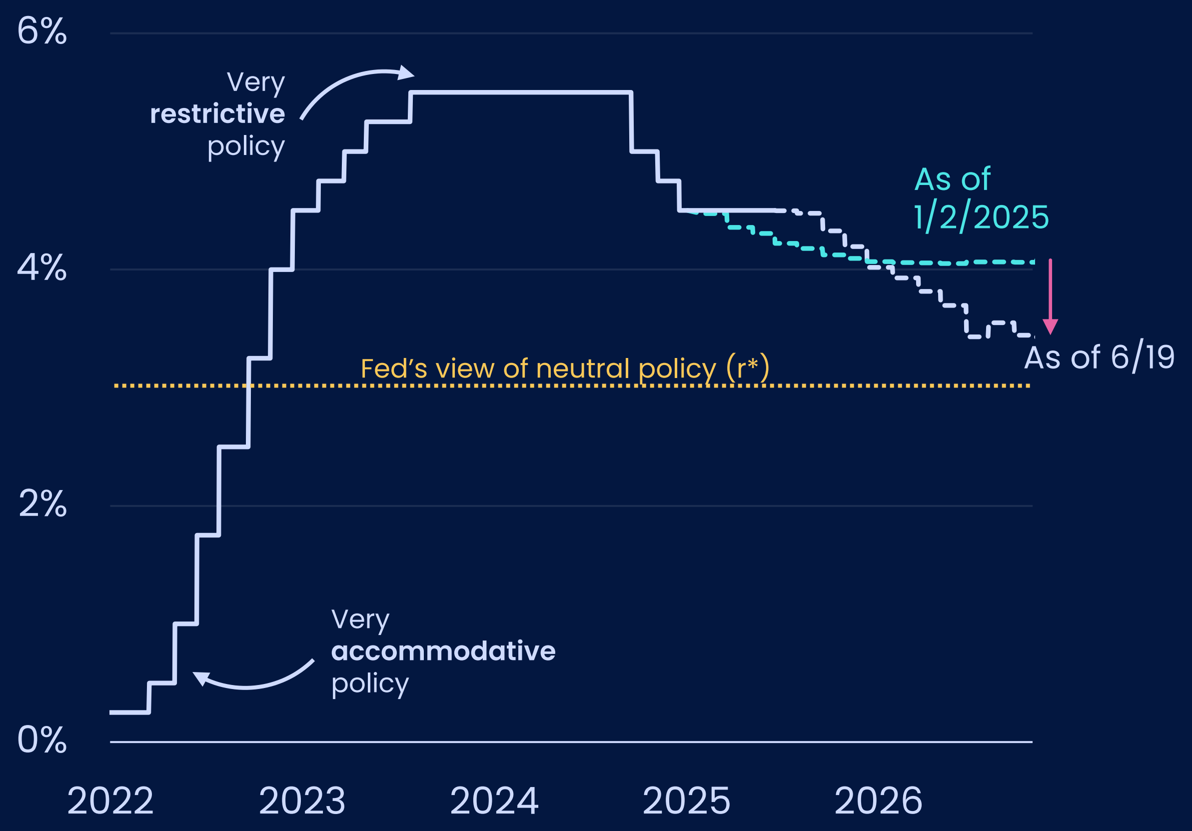
The engines of resilience in this cycle are not quite depleted, however. While risks are certainly tilted to the downside, **there is to date little evidence of a genuine cracking in the labor market**. Weakening, yes, as the cycle matures, but *weakening* does not mean *weak*. Consumers continue to propel the economy through spending, as their (still robust) wage growth outpaces sticky inflation. **Absent a genuine surge in prices, our base case is an economy that outperforms—by muddling through with unspectacular growth.**

What does this mean for corporate investors? Resilience will likely keep rates higher, as the Fed tackles inflation (remember: tariffs aside, price growth is still too hot for policymakers' comfort). **Cash may no longer be king, but its performance could surprise to the upside.**

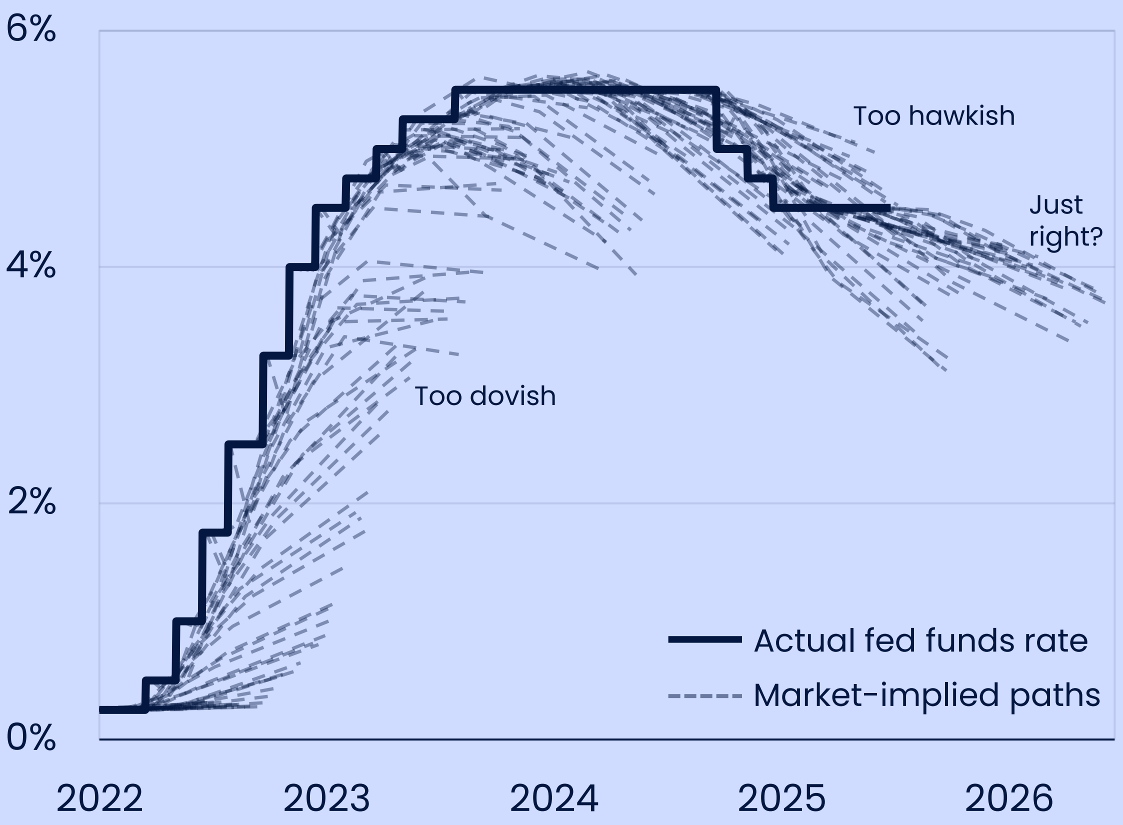
To cut, or not to cut?

Markets are back to pricing just 2 cuts in 2025…but more in 2026. Remember that pricing is often very, very wrong.

Fed funds rate, actual and market-implied paths



Fed funds rate and previous market-implied paths

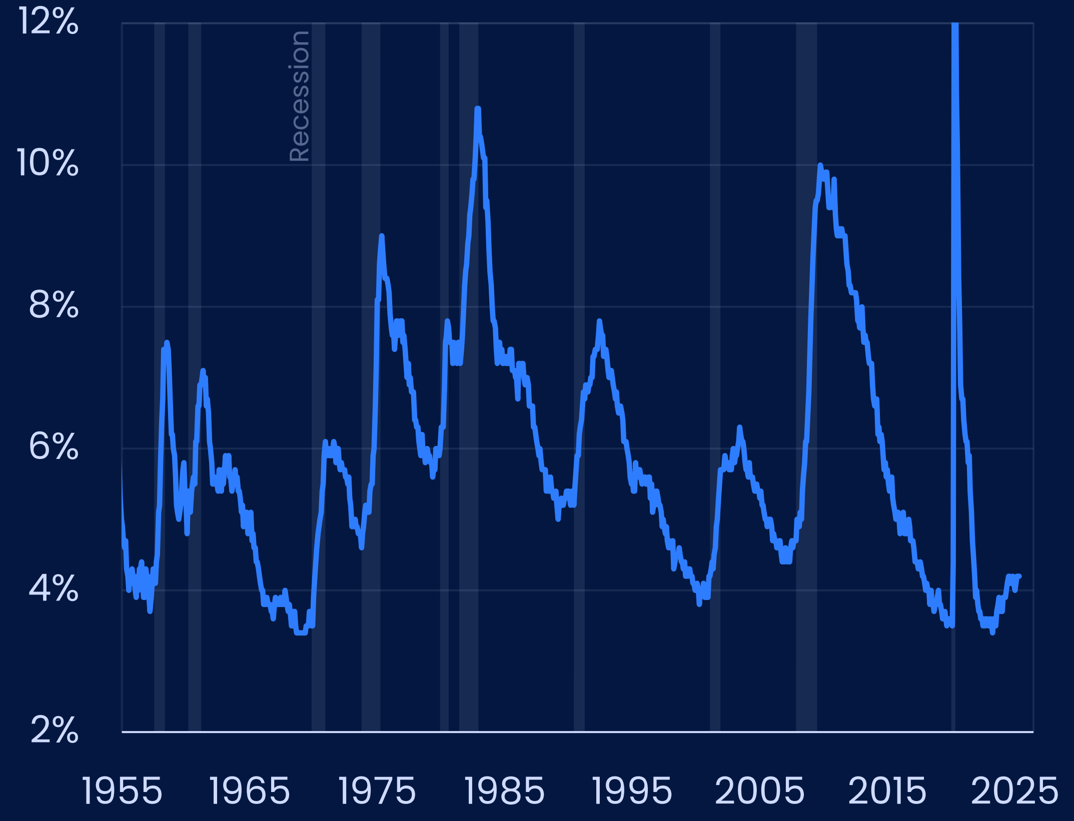


Note: For the fed funds rate upper bound. Left through 10/2026; right (using rolling fed funds futures contracts) through 6/2026. R* = FOMC long-run median estimate.
Source: Bloomberg, Clearwater Analytics

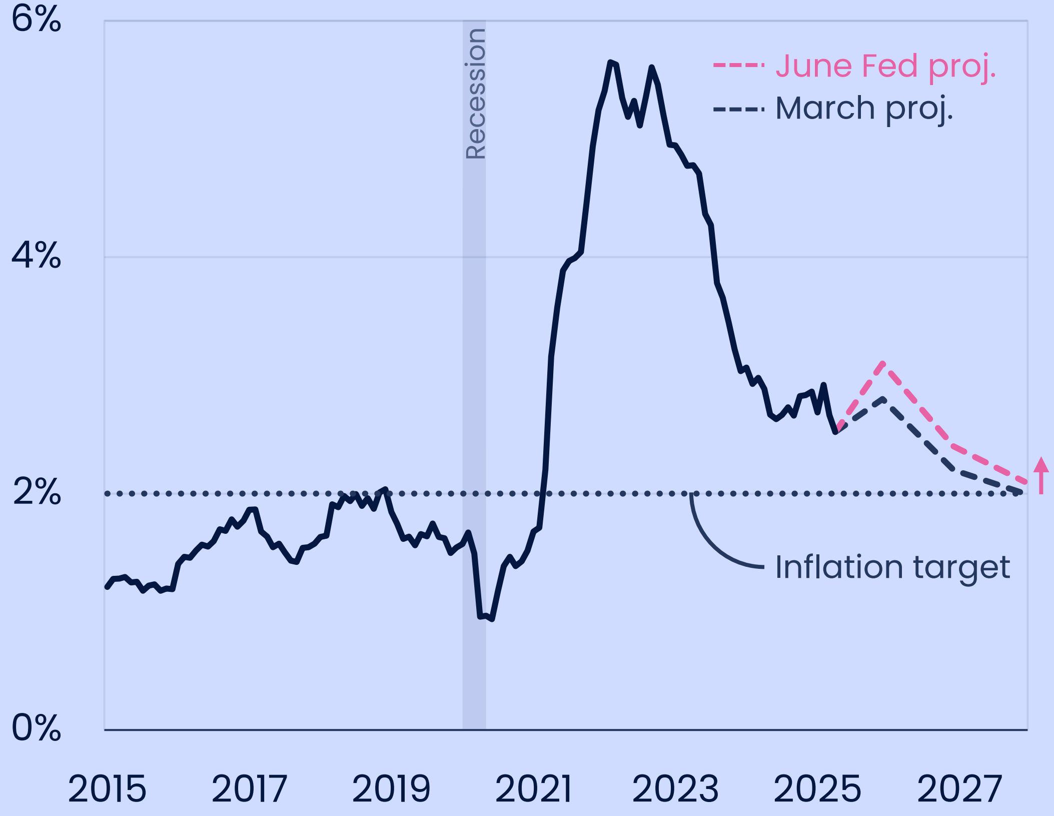
The Fed's balance of risks still points to inflation

Unemployment remains low, if rising slowly. Meanwhile, inflation is still too high—and as tariffs filter through, aiming higher.

US unemployment rate



Core PCE inflation, year-over-year



Note: Unemployment through 5/2025 (Y-axis truncated due to Covid). Inflation through 4/2025. Fed estimates are median of FOMC dot plots.
Source: Bloomberg, FRED, FOMC, Clearwater Analytics

This has been a strong, if unusual, labor market cycle

Typically, the unemployment rate surges within two years of its cyclical low. Post-Covid, it has moved up, too, but very slowly.

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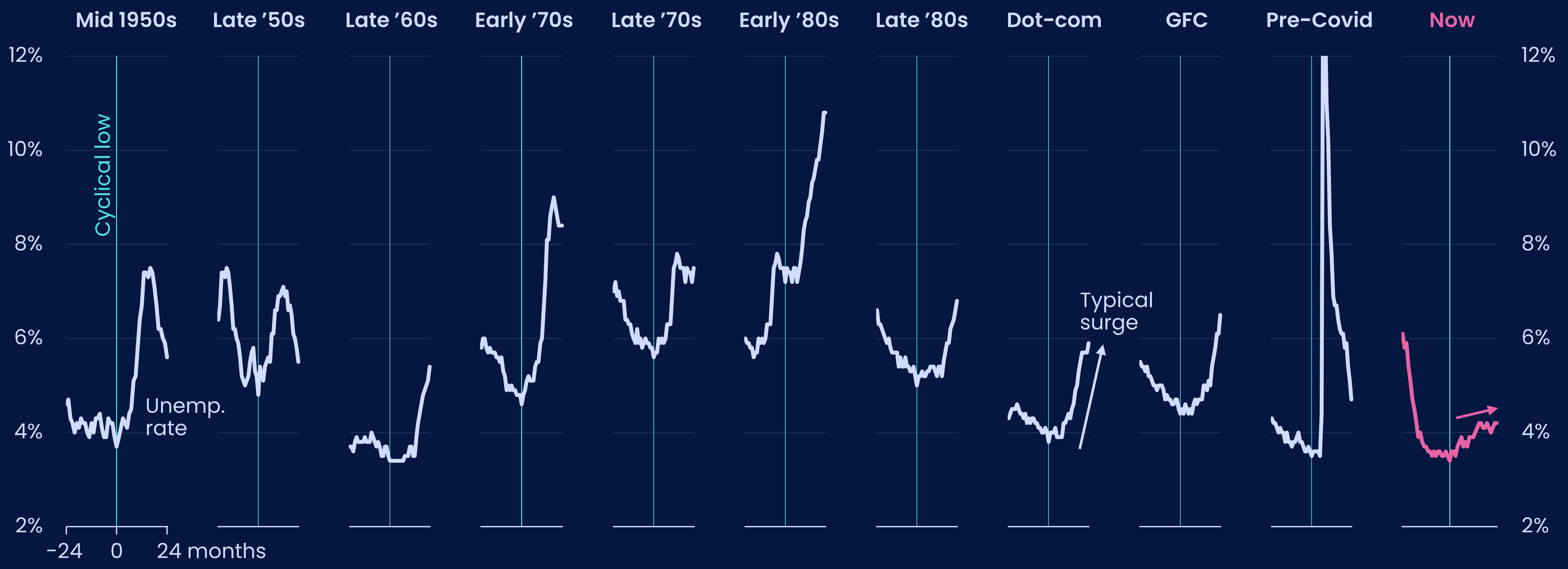
Cyclical snapshots of the US unemployment rate | 24 months before and after local trough



Note: Each timeframe includes a subsequent recession within the 24-month period shown—except the current cycle. Latest trough occurred in 4/2023. Y-axis truncated due to Covid distortion.
Source: BLS, Clearwater Analytics

The labor market still has wiggle room to soften

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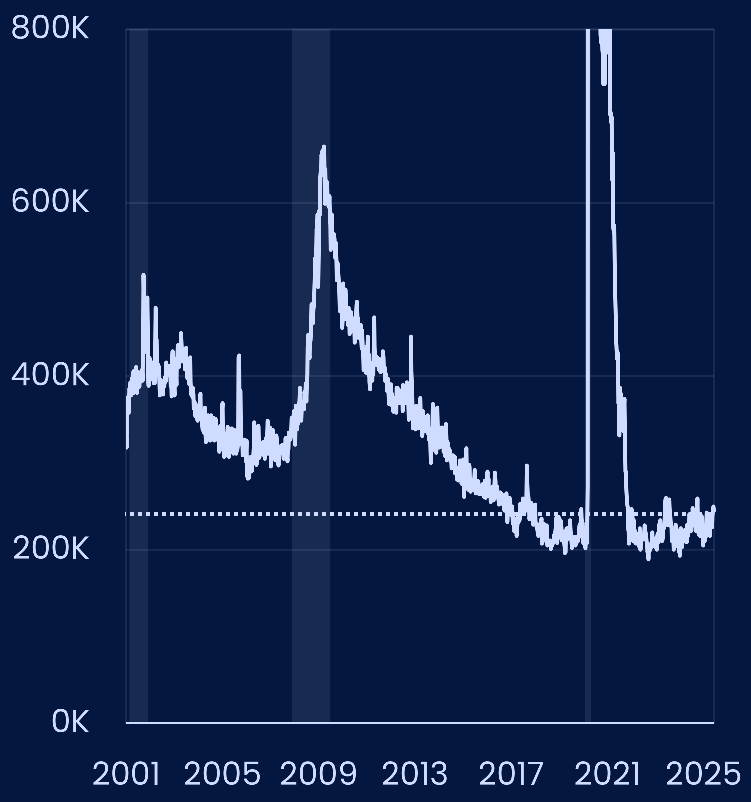
Conditions are undoubtedly weakening, but the labor market isn't *weak*, yet. That gives policymakers time to wait and see.

Labor demand | cooled, not cold

Job openings rate

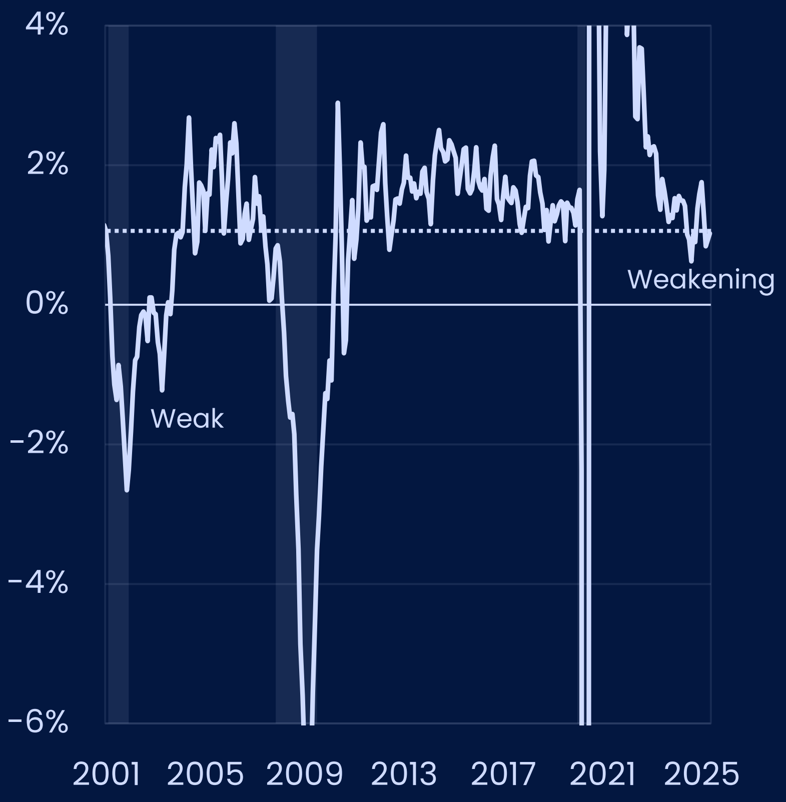
Layoffs | still very low

Initial unemployment claims, weekly



Job growth | slow, not stalled

Nonfarm payrolls, 3-mo. change, ann.

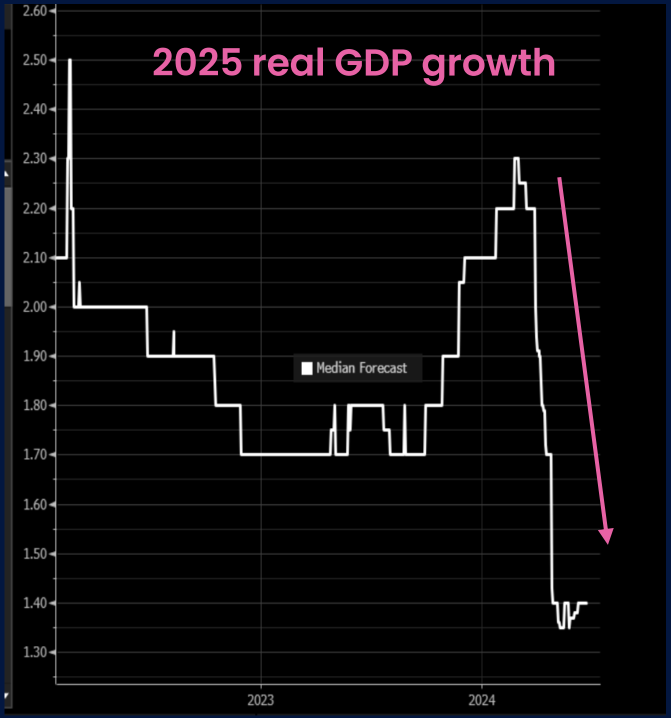


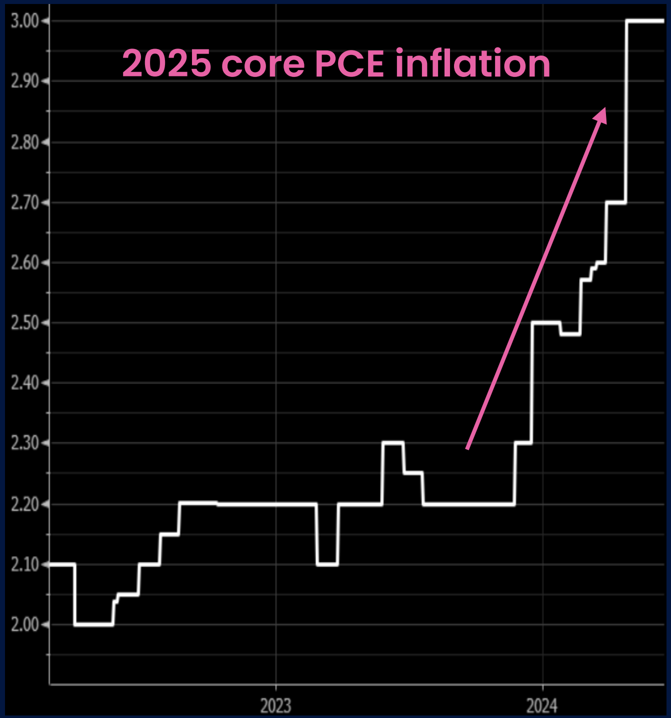
Note: Data through 4/2025 (left), 6/13/2025 (middle), and 5/2025 (right). Y-axes truncated due to recession extremes (middle, right).
Source: BLS, Clearwater Analytics

What we (should) talk about when we talk about stagflation

It isn't just about low growth and high inflation. It's also about high unemployment, which few foresee.

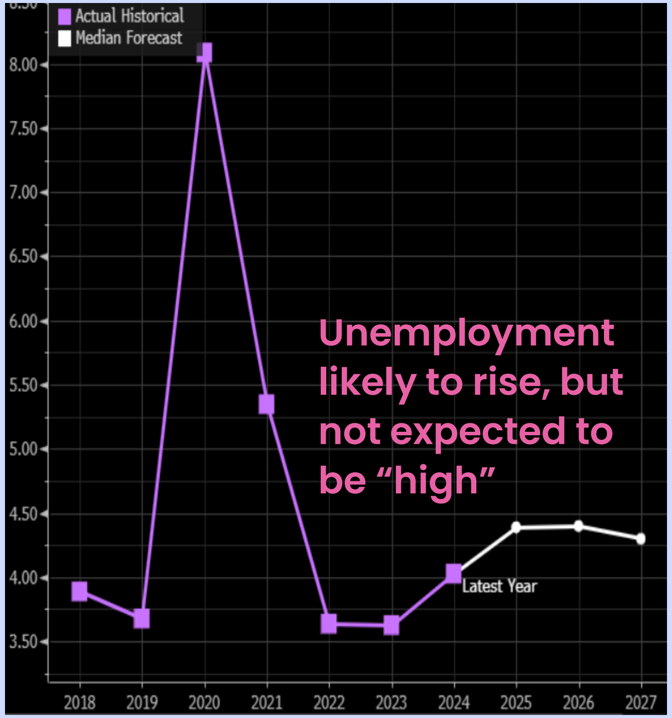
Bloomberg survey of economists | consensus forecasts over time





Lower growth and higher inflation are undesirable.
They don't necessarily mean a recession—or "stagflation."

Unemployment forecast (latest)



Stagflation isn't just semantics, but a serious, prolonged policy failure.

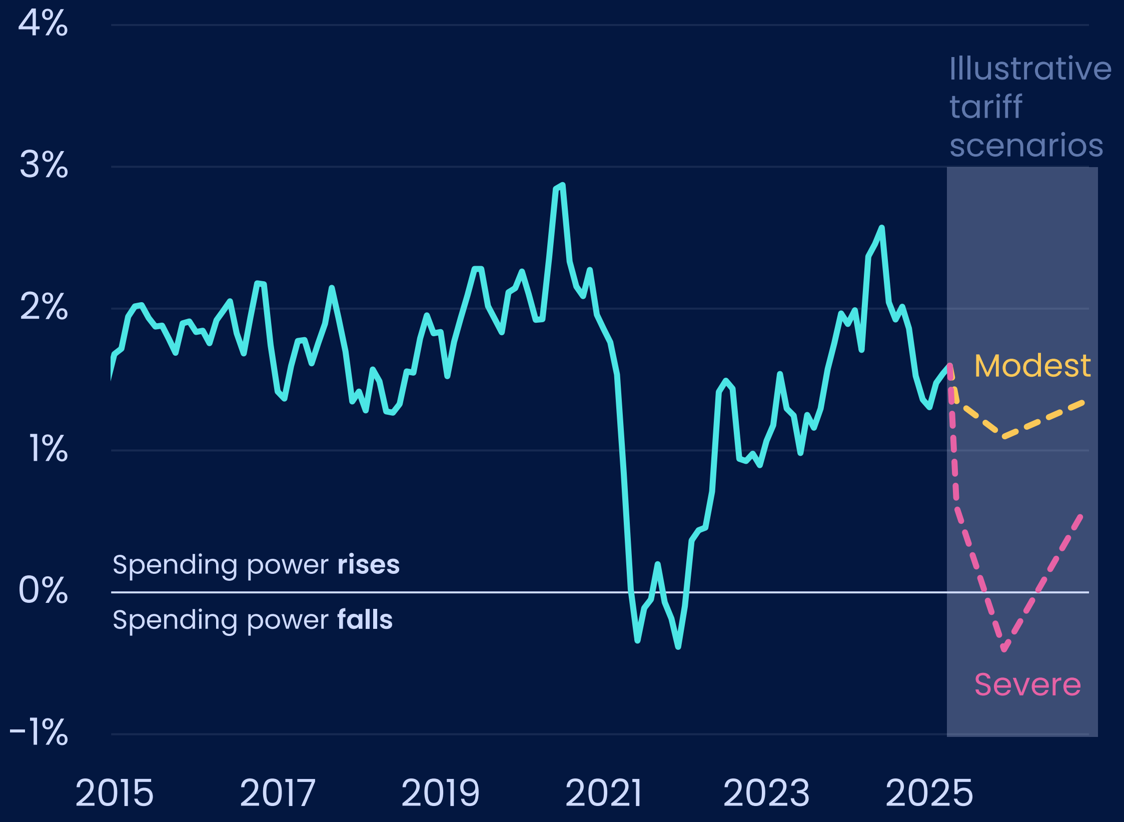
Note: Definition of stagflation. Forecasts as of 6/20/2025.
Source: Bloomberg, Clearwater Analytics

Key risk: Tariff-induced inflation that curbs spending

Consumers have driven growth, increasingly through strong wage gains. Renewed inflation is the economy's biggest threat.

Wage growth and inflation, year-over-year

Real wage growth (A - B)



Note: Wages = Atlanta Fed wage tracker. Inflation = PCE price index (3-month moving average to match Atlanta Fed series). Illustrations on right assume today's wage growth.
Source: FRB of Atlanta, BEA, Clearwater Analytics

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The question for corporates investing in cash is whether the Fed will cut soon—and by how much

Given the economy's resilience, expect fewer cuts and a continued "wait-and-see" approach to setting policy

Adding duration still makes sense, albeit only when markets haven't tilted too dovish

U.S. Treasury yield curve (out to 10 years)

Note: As of 6/24/2025.
Source: Bloomberg, Clearwater Analytics

Coda: Major credit indicators aren't flashing red

A late-stage cycle like today's is bound to get weaker, but today's credit conditions, crucial to economic health, are not worrisome

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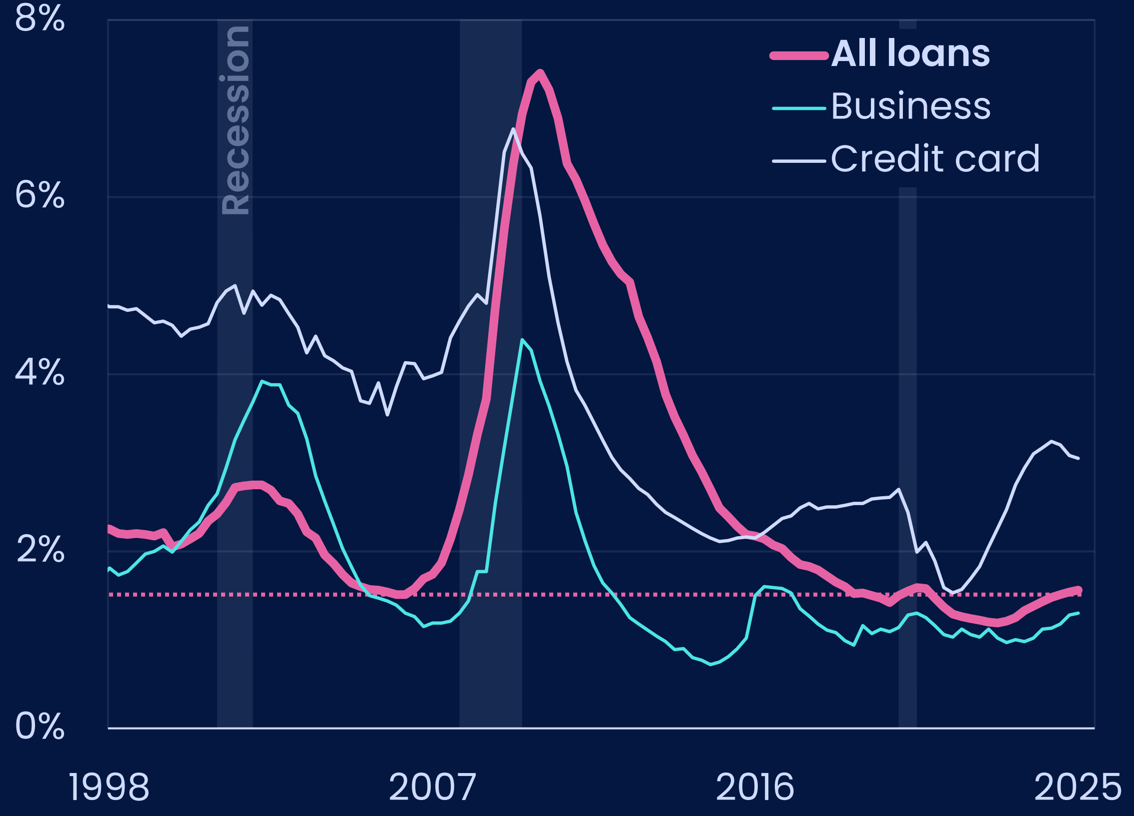
Delinquency rates for loans from commercial banks



High yield bond option-adjusted spreads*

Note: *ICE BofA US High Yield Index. Data through Q1 2025 (left) and 6/17/25 (right). Y-axis truncated right during GFC (2008).
Source: Federal Reserve, FRED, ICE Data Indices, Clearwater Analytics

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