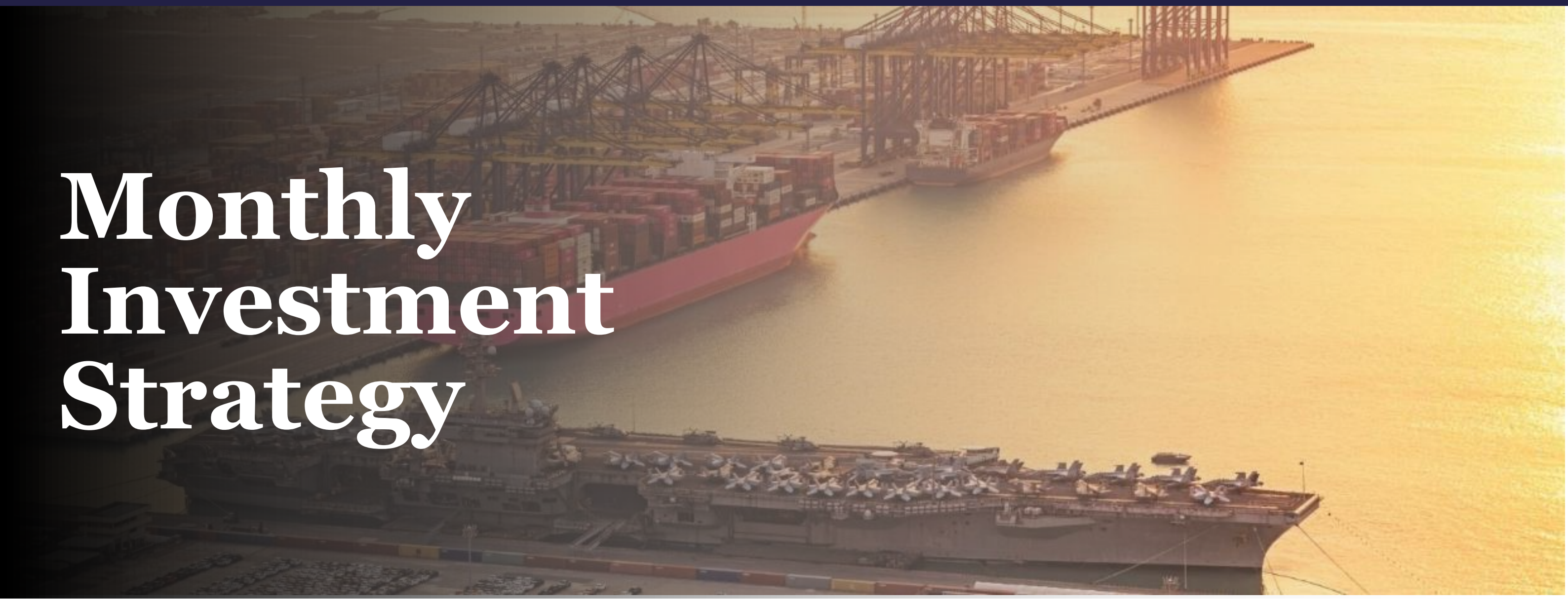
27 February 2025

Investment Institute Macroeconomics



Trade war

Key points

- President Trump started his first term with much activity and 70 Executive Orders. Several focus on domestic policy including migration controls, Federal employment and deregulation, others have more significance abroad.
- Tariffs have only been raised on China, but Canada and Mexico face deferred hikes in March and steel and aluminium tariffs are due on 12 March. Trump has also suggested reciprocal tariffs from April.
- Trump has also pressed ahead with efforts to stop the fighting in Ukraine. Initial negotiations appear to attempt to appease Russia, but negotiation over Ukrainian mineral rights also appears a factor.
- The rest of the world braces for a shock to the global order. European political developments may help strengthen independent resolve.
- In China, DeepSeek reminds Chinese authorities of the boost private sector services could provide its economy.

Global Macro Monthly

Trade wars

Global Macro Monthly Summary February 2025

David Page
Head of Macro Research

Tariffs continue uneven roll-out

Any initial impression that Donald Trump's second term would focus less on tariffs has been overturned; 25% tariffs on USMCA trade partners Canada and Mexico were deferred at the last minute for at least 30 days. It was not obvious whether this reflected concessions or Trump backed down. China saw a 10ppt rise on $525bn of goods. It retaliated, albeit in a limited fashion, raising tariffs of 10-15% on $14bn of goods. Trump has also scheduled 25% tariffs on all steel and aluminium imports from 12 March (again impacting Canada and Mexico), but there are doubts that these will materialise in full, or at all.

Trump's initial targets appear curious but we believe simply reflect immediacy of delivery. The first tariffs were delivered through the International Emergency Economic Powers Act with steel and aluminium tariffs again following the 2018 section 232 national security measures. A deeper investigation, announced as the America First Trade Policy, is due to report on 1 April. Trump has now added to this the goal of reciprocal tariffs to be assessed around the same time. This is likely to provide justification for further executive tariff orders. We expect additional tariffs to be announced on the Eurozone, China and other economies in Q2.

Revenue raising appears the administration's key motivation, to help package the case for tax cuts – including extending Trump's first term tax cuts and new corporate tax and social security cuts – to Republican hawks. This desire is likely to see tariffs broaden. The impact of renewed increases remains to be seen. After the China tariff hikes the US effective tariff rate has increased by around 1.5ppt. Our baseline scenario envisaged a total rise of around 5ppt, phased in over the rest of this year. We see these as weighing on growth into year-end and lifting CPI inflation to around 3% over the next two years.

Military mercantilism?

Trump has started a process to stop the fighting in Ukraine. Contrary to more supportive comments towards Ukraine recently, Trump's initial discussions have been conducted with Russia and appeared to concede key issues, including NATO membership. Trump also suggested Ukraine started the war and called Ukrainian President Volodymyr Zelensky a "dictator". As elsewhere, the motive and direction of US policy are unclear, with suggestions that policy goals include negotiations of a US-Ukrainian mineral rights access deal. Markets have mainly focused on the immediate implications for energy, assuming reduced Russian sanctions as part of any deal would boost oil and gas supply. The impact on oil prices has been modest (Brent down less than 10%), but European gas prices – highly elevated into this year – have fallen by more than 20%. We note though that counting on increased natural gas supply to Europe appears to run contrary to Trump's demand for Europeans to buy more US Liquified natural gas (NLG).

Beyond excluding Ukraine from negotiations, European powers have also been left out of the process. This poses several questions over the US's ongoing relationship with Europe, beyond the risks of repeating policies of appeasement towards an aggressor state - all too obvious to Europeans. The combination of US trade policy pressure and an apparent material shift in strategic alliance leaves European countries reviewing future defence programmes. Most NATO countries had commitments to raise defence spending over coming years, but recent developments may accelerate this.

Moreover, the US stance may also reflect recent European political weakness. The recent German elections may begin to address this, after returning the CDU/CSU partnership led by Friedrich Merz to the Chancellery, in an expected coalition with the SPD, which he suggested could materialise as soon as in two months. This may galvanise German public spending, despite risks from extreme parties blocking progress. For full details see our preview of the German elections[1]. More fundamentally he has discussed independence from the US. However, the rest of Europe remains politically fragile. France's latest Prime Minister François Bayrou managed to stave off a vote of no confidence having passed a more modest budget aiming to reduce France's deficit to an expected 5.4% from 6.1% in 2024. Although remaining in office is the lowest bar for any government, it suggests some stability for the coming months. Yet in Italy, arguably Europe's strongest government, Prime Minister Giorgia Meloni – a frequent strong and vocal backer of Ukraine – only attended what has been an annual show of G7 commitment to Ukraine by video conference, as did UK Prime Minister Keir Starmer.

[1] Cabau, F., "German election preview: Aiming at a grand reset", AXA IM Macro Research, 13 February 2025

Global Macro Monthly – US

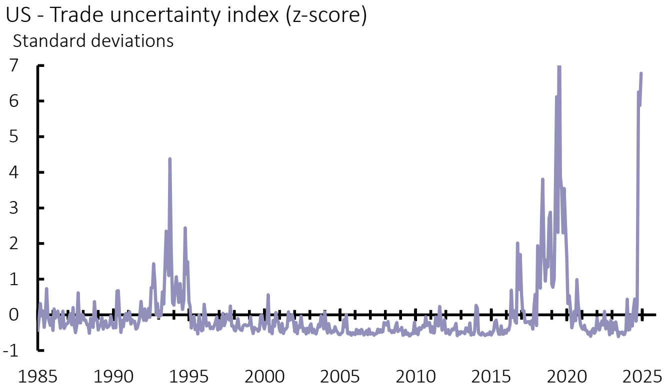
David Page
Head of Macro Research

Quite the month

President Trump was inaugurated as the 47th President on 20 January and has been in office a little over a month. As expected, he has hit the ground running ahead of second-term mid-terms elections, traditionally when Presidential influence wanes. The new administration has initiated action on most of the issues it campaigned on, for better and for worse.

Trump signed 70 Executive Orders in his first month, more than double Joe Biden's 32 and Barack Obama's 15 over the same period. He has pressed ahead with tougher migration policies and Federal agencies have detained and deported illegal migrants. Some have been criminals but any undocumented migrants caught in the sweeps have been detained. Elon Musk has set up the Department of Government Efficiency, which threatened to suspend up to $3tn of Congressionally approved Federal grants (rescinded) and offered Federal workers the option to resign (75k, 3% accepted – below the indicated 5%-10%). Trump has suggested a resettlement programme for Gaza and opened negotiations with Russia's President Vladimir Putin to resolve the Ukraine conflict.

Exhibit 1: Dollar volatility reflects policy uncertainty



Source : Economic Policy Uncertainty and AXA IM Macro Research, February 2025

Trump also reprised tariffs as a policy tool. Using the International Emergency Economic Powers Act, he levied tariffs of 25% on Canada and Mexico, deferring enactment for 30 days, and 10% on China. China retaliated with modest tariffs of its own. He also restored section 232 of the trade act, relating to national security, to propose 25% tariffs on steel and aluminium, scheduled for 12 March. These fall short of campaign trail pledges, but a report due 1 April is likely to lay the groundwork for further, broader tariffs. Trade policy uncertainty has surged (Exhibit 1).

The only area with little progress to date is fiscal policy. This was also expected as it requires legislation. So far, the Republican House and Senate are attempting different one-bill/two-bill approaches to meet Trump's fiscal demands. Both face complications and we expect more detail in Q2.

"No need to hurry" on rates

GDP growth rose by an annualised 2.3% in Q4 – a little below expectation – but up 2.8% for 2024 as a whole. Consumer spending rose 4.2%, underpinned by a surge in auto sales. So far, Q1 has seen some signs of softening. Retail sales fell sharply in nominal terms in January; real spending corrected more. This followed a retracement in auto spending. It is unclear whether this is a temporary snowstorm disruption. However, December's consumer credit posted a record high of $41bn, which could retrace; consumer confidence has fallen; and the services PMI dropped below 50. We expect softer spending in Q1, but overall GDP a still healthy 2.4%. We maintain our outlook for 2025 overall at 2.3% (consensus has risen to 2.3% from 1.9% in October) and 2026 at 1.5% (2.0%).

January's CPI inflation surprised, rising to a 7-month high of 3.0% with core edging up to 3.3%, effectively unchanged over the same period. Goods prices rose by 0.4% on the month, on the back of energy and used auto prices, but services prices also jumped, with ex-shelter inflation up 0.52% – its firmest in 10 months. This time last year, three successive reports suggested accelerating services inflation, only to fade thereafter in what looked like residual seasonality. The Federal Reserve (Fed) will be wary of reading too much into one month's release. However, large labour market revisions added over 2mn to the estimated employment level; the unemployment rate is gradually falling and wage growth has accelerated. Michigan's 1-year inflation expectations leapt to a 15-month high of 4.3%, which although not echoed in the New York Fed's own measure, will still cause some concern.

Fed Chair Jerome Powell sounded cautious when he left the policy rate unchanged in January (as expected) but signalled "no need to hurry" to cut further. This appeared to rule out a March cut as we had expected. Powell repeated this in February's testimony to Congress, adding the Fed was "close, but not there yet" on inflation. We think it will hold rates this year, with inflationary government policies preventing a cut. Markets currently fully price a cut by July and best part two by year-end. Contrary to markets, which price little chance of cuts beyond this year, we expect the Fed will cut rates next year, in response to weakening growth, seeing the Fed Funds Rate closing 2026 at 3.5%.

Global Macro Monthly – Eurozone


François Cabau,
Senior Eurozone Economist
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Hugo Le Damany,
Eurozone Economist
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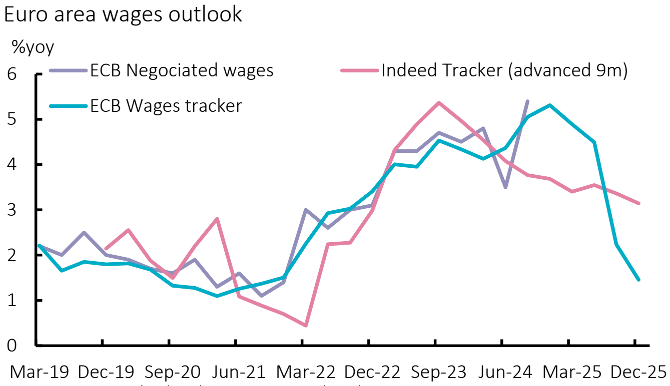
Sluggish growth in Q4, slightly improving in 2025

Eurozone Q4 GDP growth was modestly upgraded to 0.1%qoq, consistent with our initial forecast. Spain and Portugal outperformed (again), growing by an astonishing 0.8% and 1.5% respectively while the rest of the bloc performed poorly, contracting by -0.1% (Germany shrank -0.2%; France -0.1% and Italy was flat at 0%). Employment kept progressing albeit at a slower pace (0.1%qoq; +0.6%yoy) and as such productivity gains (GDP/employment) will have to wait a bit longer.

The Eurozone economy entered 2025 with a pinch of better news but remains weak. February's flash composite Purchasing Managers Indices was flat at 50.2 versus January. The manufacturing sector is struggling to improve but is still a way off from expansion territory at 47.3 (up 0.7 points from January) while the services sector is weakening (down 0.6 points to 50.7). This remains consistent with our subdued growth outlook through 2025 (0.2%qoq growth in Q1 and Q2 and 0.9% for 2025) and now in line with the Bloomberg consensus which has revised its 2025 growth outlook down to 0.9%. We remain concerned by ongoing domestic developments in Germany, France and Italy and do not expect a strong recovery any time soon.

Inflation still on track

Exhibit 2: Wages outlook to lead services inflation down



Sources: ECB, Indeed and AXA IM Research, February 2025

Unlike in the US, where inflation surprised to the upside in January, Eurozone inflation was in line with expectations at 2.5%yoy (2.7% for core inflation, unchanged from last month). Our preferred measure (seasonally adjusted annualised three-month changes) remains stable close to 2% while recent ECB and Indeed wage trackers point to further slowing (Exhibit 2).

No major dissonance within ECB Governing Council

The European Central Bank (ECB) cut its policy rates by 25bps in January and almost all evidence indicates a similar cut at the next meeting on 6 March. The closer we get to the neutral rate (estimated by the ECB at 1.75%-2.25%), the more heated the discussions will be at the Governing Council. We believe subdued growth (still below potential) and limited reflation risks are likely to push the ECB into accommodative territory, reaching 1.5% by year end.

The CDU/CSU's comeback

At Germany's snap elections, as expected, the CDU/CSU, led by Friedrich Merz, came first gaining 208 of 630 seats (33%) and should be in a position to form a coalition with the SPD (120 seats and 19%) which Merz said he intended within two months. The AfD (far right) and the Linke (far left) would together have a blocking minority, with 34% of the seats and the latter potentially a kingmaker. On the debt brake reform, the Linke has always been opposed to the rule and so should support removal if the next coalition pushes for it (CDU/CSU has made only timid commitments so far). However, support for military spending increase would be more uncertain with the Linke opposed to this historically, although this could be "bypassed" through EU joint funding (for a deeper analysis please review our election preview).

France budgets: One hurdle passed, more to come

The government managed to survive motions of no confidence meaning it now has a full 2025 budget. The next test will be for the rating agencies to assess the credibility of the 2025 deficit target (5.4% in budget) and most crucially the entire consolidation path. S&P (with current rates at AA-/ stable) will start its review on 28 Feb and Fitch (AA-/ negative) on 14 Mar.

Geopolitical and trade risks loom large

Besides this, geopolitical and trade risks loom large. The latest peace talks in the Russia-Ukraine conflict underline the need for caution. Negotiations are being managed solely by the US and Russia, restricting the role of Ukraine and the European Union. It is hard to see Europe re-establishing an economic relationship with Russia (particularly for gas, where it is now in competition with other suppliers such as the US and the Middle East). US tariffs loom but any decisions are unlikely before April. Beyond tariffs, which are likely to impact US consumers directly, there is broader uncertainty on trade reallocation across the globe and investment projects.

Global Macro Monthly – UK

Gabriella Dickens
Economist (G7)
Macro Research

Near-term inflationary pressure will abate

The economy beat expectations in Q4, rising by 0.1% quarter-on-quarter – a decline of equal measure was forecast. This boiled down to a 0.4% month-on-month rise in December reflecting production and 'white-collar' services strength. Overall, 2024 growth came in at 0.9%. We expect to see modest growth again in 2025 but as in Q4, that will largely be public sector driven. Household growth will likely stay subdued, as rates remain restrictive, and sentiment stays weak as the labour market continues to soften. We see growth of 1.0% in 2025, above Bank of England (BoE) expectations of 0.7%.

January's inflation figures were mixed. Headline CPI inflation jumped to 3.0% – the highest in 10 months – from 2.5%, above the BoE's 2.8% forecast, largely reflecting upside surprises in food inflation which rose to 3.3%, from 2.0% and core goods, which increased to 1.6%, from 1.2%. Services inflation, by contrast, rose to 5.0% and undershot BoE forecasts of 5.2%. With gas prices hitting two-year highs and surveys suggesting food inflation could rise back towards 4% this year, we have revised our inflation forecasts higher and now expect a peak of just over 3.5% mid-year and an annual average of 3.3%.

Further ahead, inflation will likely decelerate faster than the BoE expects as a weak labour market and subdued private-sector demand reduces wage growth and limits firms' pricing power. While the Pay As You Earn (PAYE) measure of employment rose by 21K in January, pretty much all of that was from the public sector. Private sector payrolls were down 0.5% on the three-month year-on-year measure, vacancies have continued to fall and survey measures have weakened further, all suggesting labour market conditions are continuing to deteriorate.

A key question among BoE policymakers at February's meeting was how much subdued growth in the second half of 2024 reflected supply side constraints or weak demand. December's activity rebound has alleviated some pressures to come to an answer soon, with the Bank Rate likely left on hold at 4.50% in March. But by May, we expect it will cut by a further 25bps due to evidence of an increasingly disorderly labour market. We then see two further cuts in the second half of the year, as the BoE grows concerned over inflation undershoots over the medium term due to ongoing demand weakness, leaving the Bank Rate at 3.75% by year end – and for now forecasting further easing in 2026.

Global Macro Monthly – Canada

David Page
Head of Macro Research

Battling domestic and external forces

Despite Canada being the US's closest and largest trading partner, US President Donald Trump has initiated some of the most aggressive trade policies towards it. Admittedly, 25% tariffs were deferred for "at least 30 days", which may have reflected the administration's acknowledgement of the damage it would do to its closely integrated industrial system. However, 25% steel and aluminium tariffs, scheduled for 12 March, would also have a material impact on Canada – constituting 23% of US steel imports and 41% of aluminium imports. It's unclear if they will go ahead, in full or on time, but if enacted, the impact would be material. Bank of Canada (BoC) Governor Tiff Macklem recently estimated such tariffs would permanently lower Canadian GDP by 2.5%.

Yet Canada's economy seems to be reviving. Despite a sharp drop in confidence as tariffs were announced, activity has improved. Retail sales reversed November's real fall to rise by 2.4% in December. This underpinned a preliminary estimated December GDP rise of 0.2%, which we expect to lead to a 1.8% annualised rise in Q4 GDP, delivering 2024 annual growth of 1.3%. The spending pick-up may reverse as short-term sales tax cuts expired this month. Long-term spending, including residential housing and business investment, may flag, with elevated uncertainty and higher longer-term rates. Yet employment growth continues to rise solidly and unemployment fell to 6.6% in January – a six-month low.

The outlook will depend on these competing dynamics. We continue to doubt the emergence of material tariffs on Canada, but the uncertainty will have an impact. We lowered our 2025 growth forecast to 1.8% (from 2.0%) but keep our 2026 outlook unchanged at 1.7% (consensus for 2025 has fallen to 1.6% from 1.8% at the end of last year but converged on our 1.7% view from 2.1% for 2026).

The BoC slowed the pace of easing in January, cutting the policy rate by 0.25% to 3.00%. While Macklem has highlighted tariff damage, he has also explained that monetary policy could do little to offset it. We expect the BoC to cut rates once more in March to 2.75%. Assuming no tariffs, we then expect a pause, albeit that tariffs would likely prompt further easing. We then expect further loosening in H2 2026 as we see an eventual softening in US activity.

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Global Macro Monthly – China

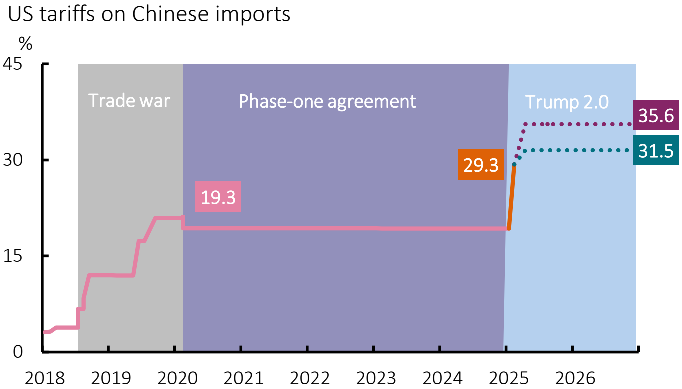
Yingrui Wang
Economist (China)
Macro Research

Tariffs likely to define the Year of the Snake

China faced a fresh wave of tariffs from the US while celebrating the Lunar New Year, its biggest annual festival. On 31 January, President Donald Trump announced a 10% additional tariff on all Chinese imports, which came into effect on 10 February, raising China's weighted average tariff with the US to 29.3% (Exhibit 3). In response, China imposed retaliatory tariffs, including a 15% tariff on US coal and liquefied natural gas, and 10% tariffs on crude oil, agricultural machinery, and large-engine cars. Additionally, China introduced export controls on 25 rare metals, many being critical components for electronic products and military equipment, but China's response overall was measured and less punitive in nature.

While Trump's broad tariff strategy was widely anticipated, the increase in tariffs on China's goods came earlier than our base case scenario. In November, we projected that China's weighted average US tariff would rise from 19.3% (set during the Phase-One agreement) to a range of 31% to 36% from around mid-year. We retain our overall forecast for now, but the earlier-than-expected initial round of tariffs raises risks of a higher final rate with further China tariffs likely from April, when Trump will receive key reports on US trade policy from the Office of the US Trade Representative.

Exhibit 3: US tariff hikes arrived earlier than expected



Source: Peterson Institute and AXA IM Research, February 2025

Despite these developments, the overall trade environment for China still appears less challenging than Trump's campaign rhetoric suggested. The US has also raised tariffs—though postponed to March—on imports from close neighbours such as Mexico and Canada, with potential increases targeting Europe. These widespread tariff hikes may cushion the blow somewhat on China's exports, limiting US ability to diversify imports away from China. Nevertheless, uncertainty remains high, and despite the magnitude of these tariff changes, China's export sector continues to face mounting pressure.

Domestic challenges remain

More surprising than early tariff hikes was China's own technological breakthrough, as DeepSeek shook the artificial intelligence (AI) industry and challenged the US's perceived dominance in this field.

By far one of the most powerful AI models to date, DeepSeek was developed by an obscure Chinese company using outdated Nvidia chips at a fraction of the cost of the widely popular ChatGPT. This could signal a more competitive global AI landscape. Meanwhile, for Beijing it shows that Chinese private enterprise holds immense potential and deserves greater government support.

China's top leadership already appears to be pivoting away from its earlier crackdown on private companies. President Xi Jinping recently convened a symposium with executives from leading technology and high-end manufacturing firms, including Alibaba, Huawei, Tencent, automaker BYD, and battery producer CATL. This was his first meeting with private-sector business leaders since late 2018, suggesting a shift in policy aimed at restoring confidence in the private sector.

China's supply-side economic policies have fostered a robust industrial sector, serving both domestic and global markets. However, with escalating trade frictions and a bleak external outlook, rebalancing the domestic market has become a clear priority. The rise of DeepSeek could reassure government officials of the economic and security benefits of China's ability to drive frontier technological advancements, potentially shifting focus toward addressing domestic household challenges, which have lagged production capabilities and posed economic hurdles in recent years.

As we navigate Trump's second term, with policies seemingly reshaping the rest of the world, China's domestic challenges remain central to its economic development. The latest holiday travel numbers suggest continued subdued consumer demand. While recent benign external conditions have temporarily masked these challenges, they pose a ticking threat to China's economic stability if not addressed in time. Recent moves from Beijing may have provided some confidence, yet more concrete measures are expected at the annual National People's Congress on 5 March. We continue to believe that the size of the stimulus will only be marginally higher than in previous years, but the focus and transmission mechanisms of the supportive measures will be more critical.

27 February 2025

Global Macro Monthly – Japan

Gabriella Dickens,
G7 Economist
Macro Research

Further rate hikes look more and more likely

Japan's Q4 GDP data provided further evidence that the Bank of Japan's (BoJ) virtuous wage/price spiral remains intact, with activity increasing 2.8% on an annualised basis, well above expectations of 1.1%. Private consumption continued to rise, as Japanese households took advantage of stronger real income growth – real employee compensation rose to 6.3% annualised, up from 1.4% in Q3. It's worth noting some of that additional cash was likely saved as consumption slowed to 0.5%, from 3.0% in Q3. We think growth will remain solid throughout 2025, as rising real incomes pass through to spending; we expect growth of 1.3% across 2025. But global uncertainties mean the risks lie to the downside, with the impact of potential tariffs hitting demand in some of Japan's key export destinations.

Headline CPI inflation rose to 4% in January, though that largely reflected changes in energy and food prices. Together, fresh food and food ex. alcohol contributed 2.2 percentage points (ppt) to the headline rate with rice prices surging by over 70%, while energy contributed a further 0.8ppt, as the government cut back on subsidies. Measures of underlying inflation were more subdued, with the US style core – excluding all food and energy – below the 2% target for the tenth month in a row, easing to 1.5%, from 1.6%. We expect to see underlying services inflation picking up from April – most service businesses adjust prices in the new fiscal year – as higher labour and input costs are passed onto consumers. We see underlying inflation around the 2% target in the second half of the year. Meanwhile, evidence that the Shunto wage negotiations will result in base pay increases of around 3% is growing, which should help to cement the wage/price spiral.

The BoJ has also become more confident in the outlook. Indeed, the Bank hiked its key policy rate by 25bps at its January meeting, to around 0.50% – its highest level in 17 years. The Bank also revised up its inflation outlook and now expects headline and core CPI to average 2.4% and 2.1% respectively in 2025. Looking ahead, if the Shunto wage negotiations do result in an agreement of an increase in base pay of around 3% and the global backdrop remains relatively calm, we think the BoJ will feel confident to maintain the current pace of hikes – one roughly every six months – and will push through an additional 25bp hike to 0.75% in the second half of the year.

Global Macro Monthly – EMEA

Claire Dissaux,
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Macro Research

Growth and financial stability: Trade-offs vary

Central Europe's GDP growth should accelerate in 2025, but even this is unlikely to dispel concerns about an upward trend in government debt ratios over the medium term.

A slow growth recovery raises the odds of fiscal slippage in Hungary after it succeeded in reducing its central government deficit by 0.7 percentage points (ppt) of GDP in 2024 (to 5% of GDP). Weak retail sales momentum amid poor consumer confidence suggests private consumption ended 2024 on a soft note. Firmer consumption is likely to await a deceleration in inflation by Q2. January's sharp rise in Consumer Price Index (CPI) to an annual 5.5% was driven by food and volatile service prices and should fade. Slower wage growth points to softer service price inflation ahead. Delayed recovery in household spending will weigh on VAT receipts, while likely encouraging government pre-election spending. With the Tisza party taking the lead in polls ahead of 2026 elections (at 41%, a 4ppt lead over the incumbent Fidesz), the government is likely to increase support to households.

In Poland, where growth has been above pre-pandemic trends, its sustainability will be key in securing long-term financial stability. Private consumption has been supported by an expansionary fiscal stance, resulting in large primary deficits. An acceleration in private investment, helped by Next Generation EU funds, would be a positive development for growth sustainability. With presidential elections by June 2025 and general elections in 2027, we see further upward pressure on government spending and persistently wide deficits (-6% in 2024) fuelled by military spending but also continued consumer support.

In Turkey, improved financial stability requires a slowdown in growth. Signs of growth re-accelerating at the turn of 2025, with rising consumer confidence, auto sales and credit growth, are worrisome. Reliance on real currency appreciation to bring down inflation may backfire if stronger domestic demand feeds into an import boom. Higher rates would fuel a further unwelcome increase in external borrowing by the private sector. A stronger contribution of fiscal policy to disinflation is needed. So far, the willingness of the government to rein in the budget deficit (-5.9% of GDP in 2024) beyond the end of the earthquake spending looks limited.

27 February 2025

Global Macro Monthly – LatAm

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Fiscal and monetary policies: A tricky relationship

The relationship between fiscal and monetary policy varies from cooperation to confrontation. In Chile, the central bank should remain on hold, a supportive backdrop for fiscal consolidation. The current neutral stance is appropriate as the negative output gap is expected to close in 2025. It should look through near-term inflation supply shocks, namely electricity tariff hikes, labour costs and past currency depreciation, in view of an uneven domestic demand recovery. Inflation expectations are anchored at the 3% target over the next two years and currency risks are two-sided, with copper prices, a fundamentally attractive currency valuation and US rate differential support balancing spillovers from tariff risks on China.

Brazil's central bank has hiked rates in response to fiscal concerns driving inflation expectations higher. Its monetary stance is restrictive but perhaps less than it seems with the fiscal risk premium raising the neutral rate. Beyond another 100-basis-point (bp) hike in March, its job is not done yet. Inflation expectations have yet to reverse (5.9% for the next 12 months versus 3% target). Large spending cuts are needed but unlikely ahead of 2026 general elections. Still the pace of monetary tightening should slow in Q2 in view of a moderation in activity and a rebound in the currency so far this year.

Disinflation progress allowed the central bank in Colombia to cut rates in 2024, thereby supporting growth recovery and fiscal accounts. But that ended in January when it left rates unchanged. Government spending cuts have failed to keep pace with revenue underperformance, causing large fiscal slippage. The small uptick in inflation expectations to the upper end of the target (4%) is a risk to monitor. Yet the easing cycle could resume in March. A still negative output gap, a very restrictive monetary stance and recent currency strength should help avoid the central bank's reaction turning to confrontation and tighter policy.

In Mexico, the central bank's accelerated pace of easing (-50bp in Feb) may support a difficult fiscal adjustment amid a sharp growth slowdown. While backed by actual and expected inflation, the move does carry risks. The Mexican peso is probably pricing moderate tariffs from the US, but not the existential threats to the USMCA [2]trade agreement or punitive tariffs that could still be coming.

[2] United States, Mexico, and Canada

Global Macro Monthly – EM Asia

Danny Richards,
Economist (Asia Emerging Markets),
Macro Research

Unease over domestic weakness and tariffs

Policymakers across the region are increasingly anxious over sluggish domestic demand against a backdrop of a more challenging external environment under Donald Trump's "America first" trade policy agenda. Alongside monetary easing that is underway across most of the region, the need to shore up domestic resilience as Trump tariffs loom large is reflected in fiscal measures to stimulate demand.

In its 2025/2026 budget, India's government has found space to boost consumption with income tax cuts while still meeting the need for fiscal consolidation (albeit with a still wide deficit of 4.4% of GDP planned, down from 4.8% in the previous year). The Reserve Bank of India is also less sanguine about the economic growth outlook and has now started an easing cycle, cutting its policy rate by 25bps in February, comforted by continued progress on disinflation. In Indonesia, President Prabowo Subianto is demanding efficiency savings from government departments to enable him to fund flagship spending plans, including the Free Nutritious Meal programme (he also recently backtracked on a planned VAT increase). Thailand's government is seeking to boost demand via a cash handout scheme and continues to press the central bank to cut interest rates to support growth, while the opposition-led National Assembly in South Korea is pushing for a supplementary budget to prop up the economy that has been hit by political turmoil.

The uncertainty over the timing and magnitude of Trump's tariff moves is unnerving the region's leaders, and it is likely the favoured strategy initially will be one of acquiescence. India's prime minister, Narendra Modi, appeared keen to appease Trump during talks at the White House in February. Trump's focus on imposing reciprocal tariffs threatens India's trade with the US more than its regional peers given India's high trade barriers. Following the meeting, Modi said he was open to lowering tariffs on US imports as part of a "mega partnership" with the US. Trump also asserted that India will be buying more oil and gas from the US. In its budget, India had already announced cuts in duties, including on high-end motorcycles, indicating a willingness to make such concessions to avoid US tariff hikes. Taiwan's president, Lai Ching-te, has also recently pledged to invest more in the US and increase its imports from the US to reduce its bilateral trade surplus, which widened to $74bn in 2024 from $47.8bn in 2023 on the back of a surge in semiconductor exports.

27 February 2025

Macro forecast summary

Real GDP growth (%)	2024*		2025*		2026*	
	AXA IM	*Consensus*	AXA IM	*Consensus*	AXA IM	*Consensus*
World	3.2		3.2		2.9	
Advanced economies	1.6		1.7		1.4	
US	2.8	2.7	2.3	2.2	1.5	2.0
Euro area	0.7	0.8	0.9	1.0	1.2	1.4
Germany	-0.2	-0.1	0.2	0.4	0.9	1.3
France	1.1	1.1	0.6	0.7	0.9	1.3
Italy	0.5	0.5	0.3	0.7	0.7	1.0
Spain	3.3	3.0	2.9	2.3	2.5	1.7
Japan	0.1	-0.2	1.3	1.2	0.9	0.9
UK	0.9	0.9	1.0	1.2	1.4	1.5
Switzerland	1.6	1.4	1.5	1.3	1.4	1.6
Canada	1.3	1.2	1.8	1.7	1.7	2.1
Emerging economies	4.1		4.2		3.9	
China	5.0	5.0	4.5	4.4	4.1	4.2
Asia (excluding China)	5.2		5.0		4.9	
India	6.5	6.3	6.5	6.5	6.7	6.6
South Korea	2.1	2.2	1.5	1.8	1.5	2.2
Indonesia	5.0	5.0	5.1	5.0	4.9	5.1
LatAm	2.0		2.0		2.1	
Brazil	3.0	3.3	1.9	2.1	1.8	2.2
Mexico	1.3	1.5	0.6	1.1	1.0	2.0
EM Europe	3.1		2.1		2.2	
Russia	3.8	3.6	1.4	1.6	1.2	1.3
Poland	2.9	2.8	3.1	3.4	2.7	3.5
Turkey	2.8	2.9	2.6	2.5	3.4	3.6
Other EMs	2.8		4.0		3.8	

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 26 February 2025
**Forecast*

CPI Inflation (%)	2024*		2025*		2026*	
	AXA IM	*Consensus*	AXA IM	*Consensus*	AXA IM	*Consensus*
Advanced economies	2.6		2.5		2.4	
US	2.9	2.9	2.8	2.6	3.2	2.3
Euro area	2.4	2.4	2.0	2.0	1.6	2.0
China	0.2	0.2	1.0	1.3	1.6	1.6
Japan	2.7	2.5	3.0	2.0	1.8	1.7
UK	2.5	2.5	3.3	2.3	2.3	2.0
Switzerland	1.1	1.1	0.8	1.0	1.0	1.0
Canada	2.4	2.4	1.7	2.1	1.9	2.1

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 26 February 2025
**Forecast*

These projections are not necessarily reliable indicators of future results

Investment Managers

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Forecast summary

Central bank policy Meeting dates and expected changes (Rates in bp / QE in bn)		Current	Q1-25	Q2-25	Q3-25	Q4-25	Q1-26	Q2-26	Q3-26	Q4-26
United States - Fed	Dates	4.50	18-19 Mar	6-7 May 17-18 Jun	29-30 Jul 16-17 Sep	28-29 Oct 9-10 Dec	27-28 Jan 17-18 Mar	28-29 Apr 16-17 Jun	28-29 Jul 15-16 Sep	27-28 Oct 8-9 Dec
	Rates		unch (4.50)	unch (4.50)	unch (4.50)	unch (4.50)	-0.25 (4.25)	-0.25 (4.00)	-0.25 (3.75)	-0.25 (3.50)
Euro area - ECB	Dates	2.75	6-Mar	17 Apr 5 Jun	24 Jul 11 Sep	30 Oct 18 Sep	5 Feb 19 Mar	30 Apr 11 Jun	23 Jul 10 Sep	29 Oct 17 Dec
	Rates		-0.25 (2.50)	-0.50 (2.00)	-0.25 (1.75)	-0.25 (1.50)	unch (1.50)	unch (1.50)	unch (1.50)	unch (1.50)
Japan - BoJ	Dates	0.50	18-19 Mar	30 Apr - 1 May 16-17 Jun	30-31 Jul 18-19 Sep	29-30 Oct 18-19 Dec	Jan Mar	May June	Jul Sep	Oct Dec
	Rates		unch (0.50)	unch (0.50)	+0.25 (0.75)	unch (0.75)	unch (0.75)	unch (0.75)	unch (0.75)	unch (0.75)
UK - BoE	Dates	4.50	20-Mar	8 May 19 Jun	7 Aug 18 Sep	6 Nov 18 Dec	Jan Mar	May June	Jul Sep	Oct Dec
	Rates		unch (4.50)	-0.25 (4.25)	-0.25 (4.00)	-0.25 (3.75)	-0.25 (3.50)	unch (3.50)	unch (3.50)	unch (3.50)
Canada - BoC	Dates	3.00	12-Mar	16 Apr 4 Jun	30 Jul 17 Sep	29 Oct 10 Dec	Jan Mar	May June	Jul Sep	Oct Dec
	Rates		-0.25 (2.75)	unch (2.75)	unch (2.75)	unch (2.75)	unch (2.75)	unch (2.75)	-0.25 (2.50)	-0.25 (2.25)

Source: AXA IM Macro Research - As of 26 February 2025

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Download the full slide deck of our February Investment Strategy

27 February 2025

Our Research is available online: www.axa-im.com/investment-institute

About AXA Investment Managers

AXA Investment Managers (AXA IM) is a leading global asset manager offering a diverse range of global investment opportunities in both alternative and traditional asset classes. Through our products we aim to diversify and grow portfolios, while delivering long-term investment performance and value for clients.

AXA IM manages approximately €859 billion in assets*, and has €480 billion of ESG-integrated, sustainable or impact assets**. Our purpose is to act for human progress by investing for what matters. As a responsible asset manager, we are committed to integrating ESG principles across our business, from stock selection to our corporate actions and culture.

Part of the AXA Group, a worldwide leader in insurance and asset management, AXA IM employs over 2,800 employees and operates from 23 offices in 18 countries globally**.

*As at the end of June 2024, including non-consolidated entities.
** As at the end of December 2023.

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