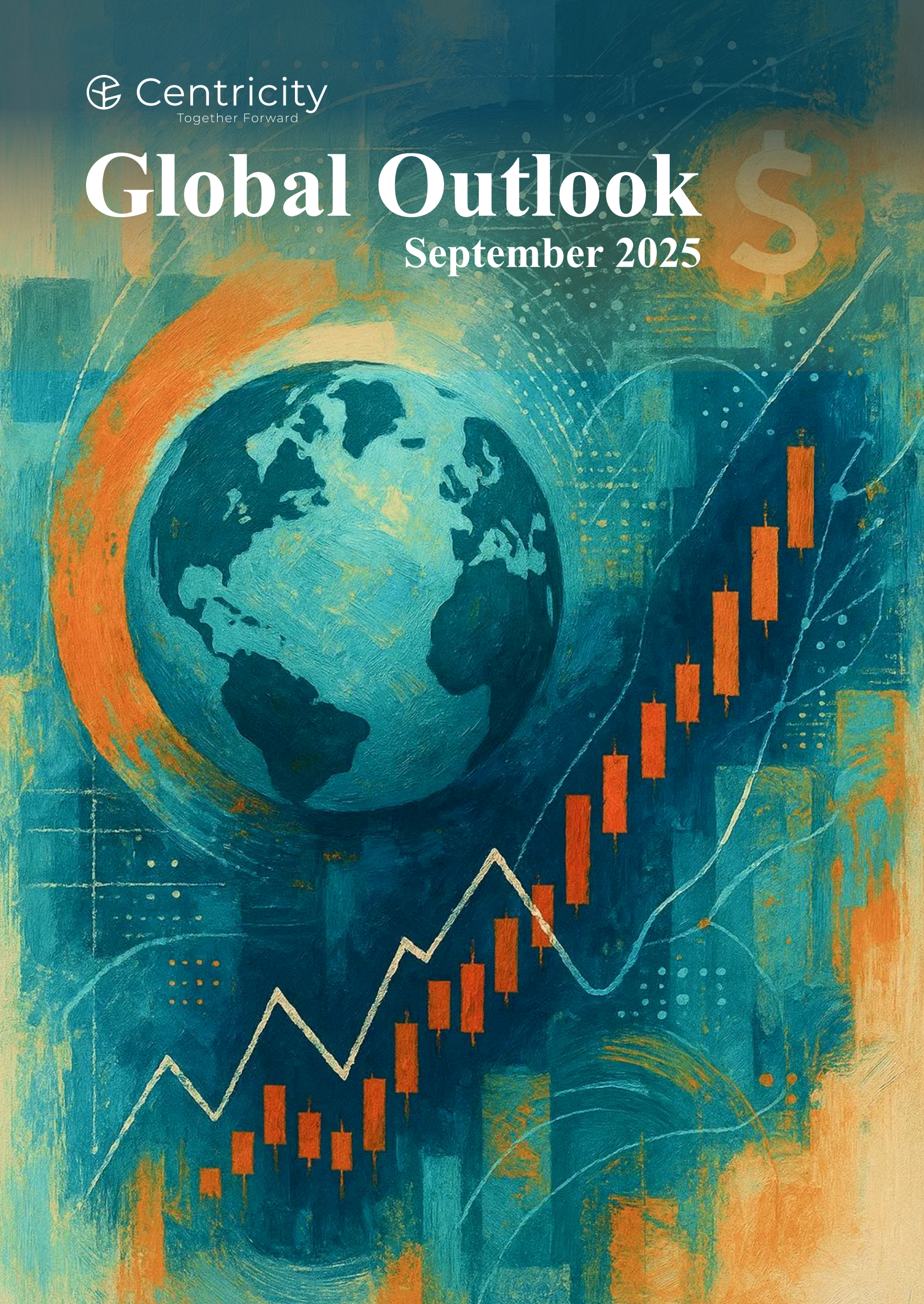




Global Outlook

September 2025



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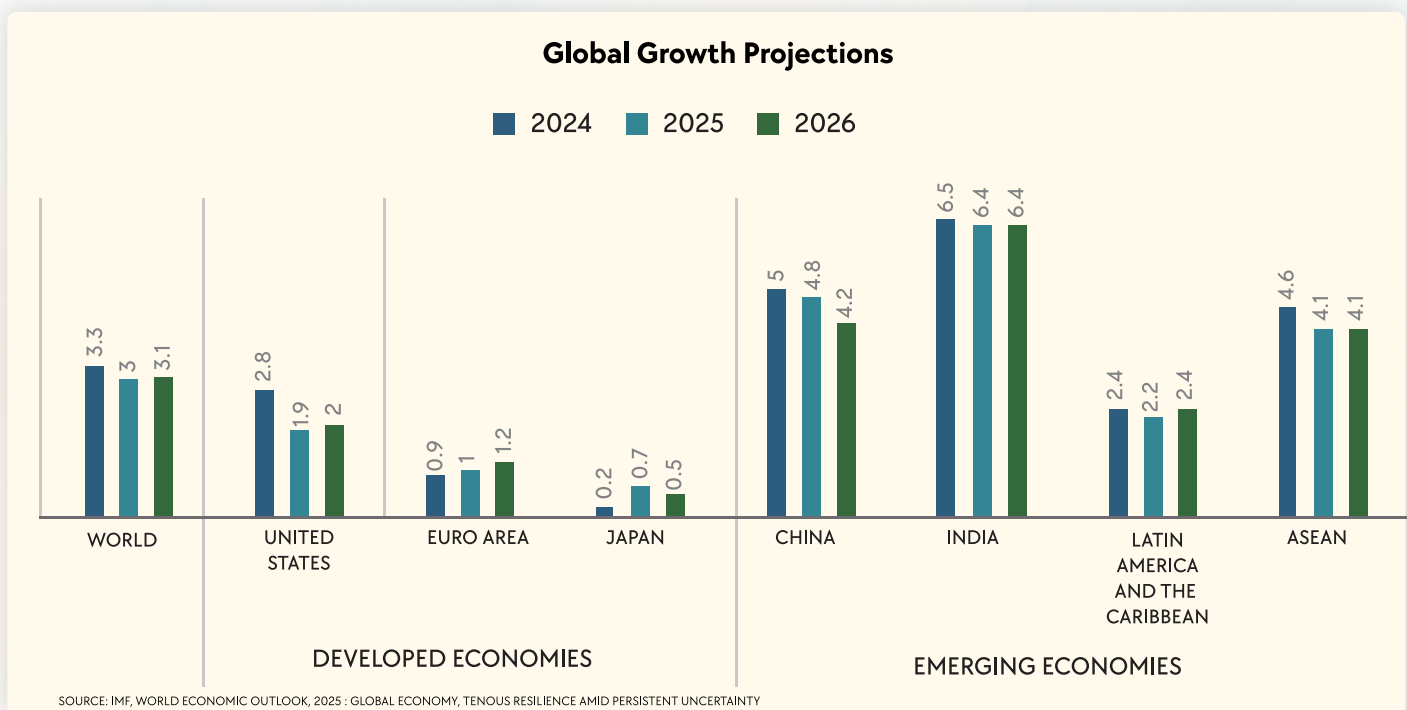




Global Update

According to the IMF's **World Economic Outlook Update** (July 2025), global growth was projected to **slow from 3.3 percent in 2024 to 3.0 percent in 2025 and 3.1 percent in 2026**. While headline numbers suggested a measure of resilience, the **outlook remained weaker than the pre-pandemic historical average of 3.7 percent, highlighting the effects of trade-related distortions**.

The report marked an upward revision relative to earlier projections, with improvements observed across a broad set of economies. The **upgrade was largely driven by stronger-than-expected front-loading in international trade during the first half of the year, a lower effective global tariff rate as new trade agreements were rolled out, and more favourable global financial conditions**.



Global inflation was expected to continue easing, with **headline levels projected at 4.2 percent in 2025 and 3.6 percent in 2026**. While the broad trajectory remained almost unchanged, the impact of newly applied tariffs is set to alter the pattern.

In the United States, **tariffs are anticipated to gradually feed into consumer prices, pushing inflation higher in the latter part of 2025**, evidence of which is already popping up in the recent inflation numbers.

In contrast, for other major economies, **the effect was more demand-driven with easing price pressures**. Aside from domestic factors that may contribute to the lower inflation rates in these countries, the tariffs imposed are expected to increase the import bill and raise imported inflation.

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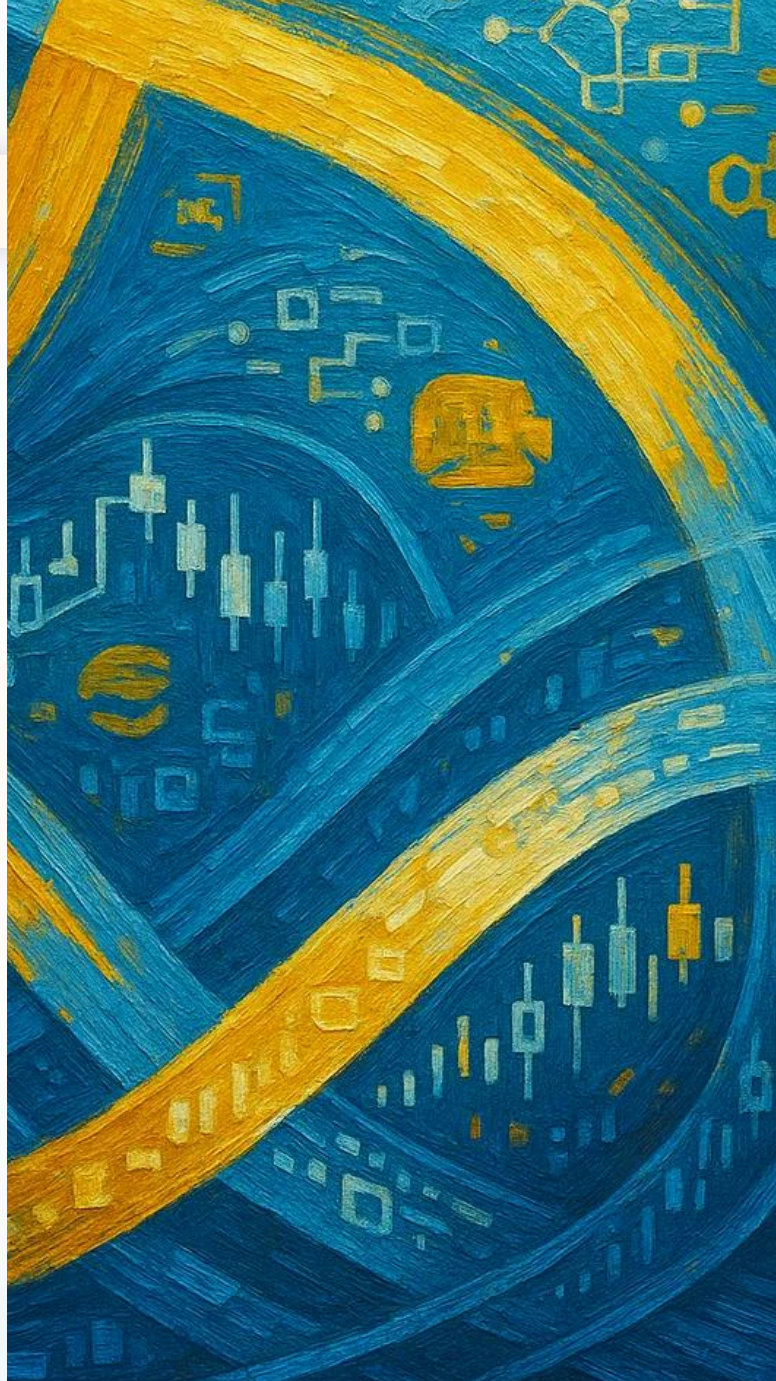
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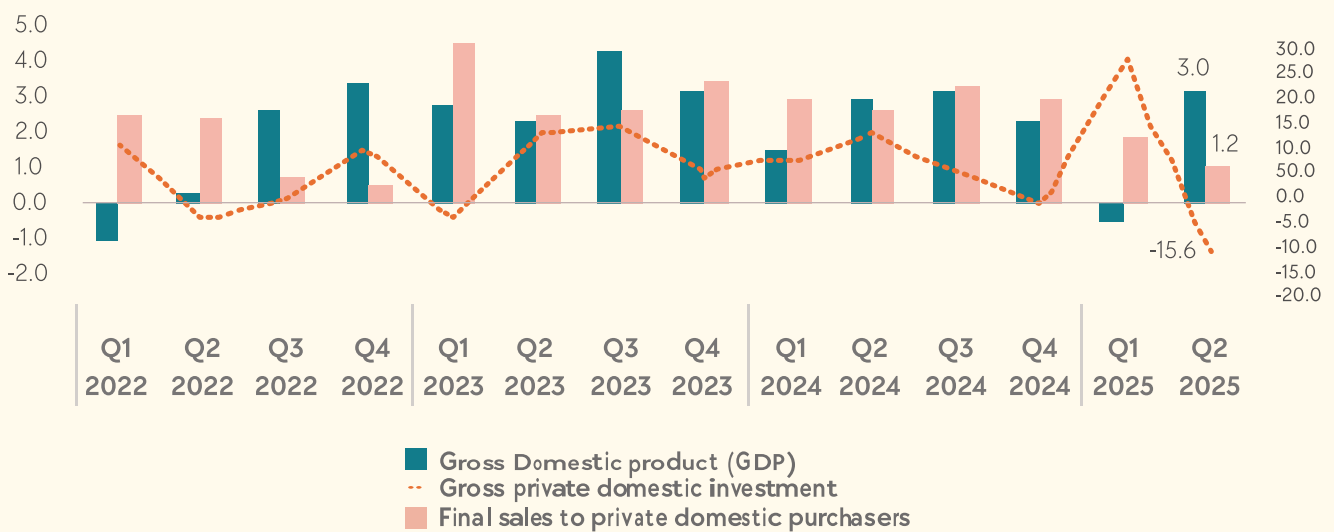


1. GDP Growth – First Estimate

The first estimate of U.S. real GDP growth came in at **3%** this quarter, suggesting resilience on the surface. However, the details reveal softer momentum. Much of the reported strength stemmed from **volatile components: net exports** contributed **+4.99%**, a sharp reversal from **-4.61%** in the prior quarter.

A more stable gauge, **Final Sales to Domestic Private Purchasers**, grew just **1.2%**, underscoring weak private domestic demand. Investment activity was the main drag; **gross private investment contracted 15.6%**, led by a sharp slowdown in equipment spending (**+4.8% vs. +23.7% in Q1**). With investment faltering, the burden of growth is shifting more toward **household consumption**, which has shown only a **modest rebound**.

GDP Growth - Breakdown



Source: Bureau of Economic Analysis, US Department of Commerce

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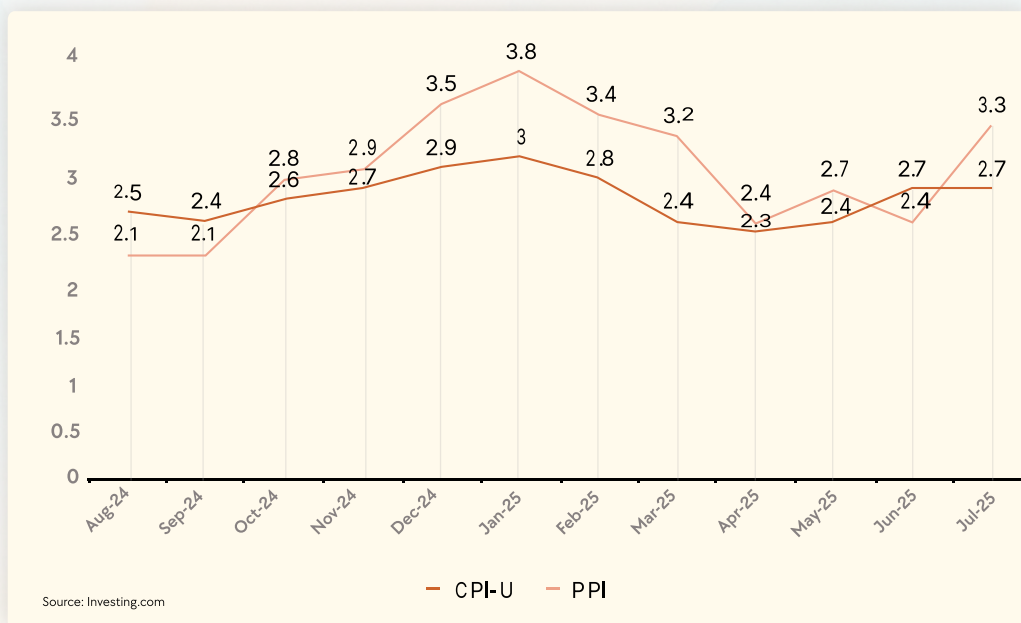
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2. Inflation & Policy Outlook

U.S. inflation is sending **mixed signals**. Headline CPI is steady at **2.7% YoY**, close to target, while core **CPI remains elevated at 3.1%**, reflecting sticky prices. The July **PPI jumped 0.9% MoM**, the **sharpest rise in three years**, raising concerns that upstream price pressures could filter into consumer inflation.

With only **73,000 jobs created in July** and **prior months revised downward**, the **labour market is losing momentum**. This slowdown sets up a policy dilemma for the Federal Reserve, weak job growth argues for rate cuts to support demand, yet wholesale inflation warns against easing prematurely. **The debate has revived stagflation concerns**, households remain strained by higher costs of essentials, businesses face rising input pressures, and the Fed must carefully balance cushioning growth with price instability



3. Housing Market

The U.S. housing market remains central to both growth and inflation dynamics. Affordability is at its weakest in decades: while resale prices remain elevated, new-home markets show more strain. **The S&P CoreLogic Case-Shiller Index** highlights the **steep rise in home values from 2020–22**, followed by a **plateau**, underscoring how **affordability remains strained even as price growth has cooled**.

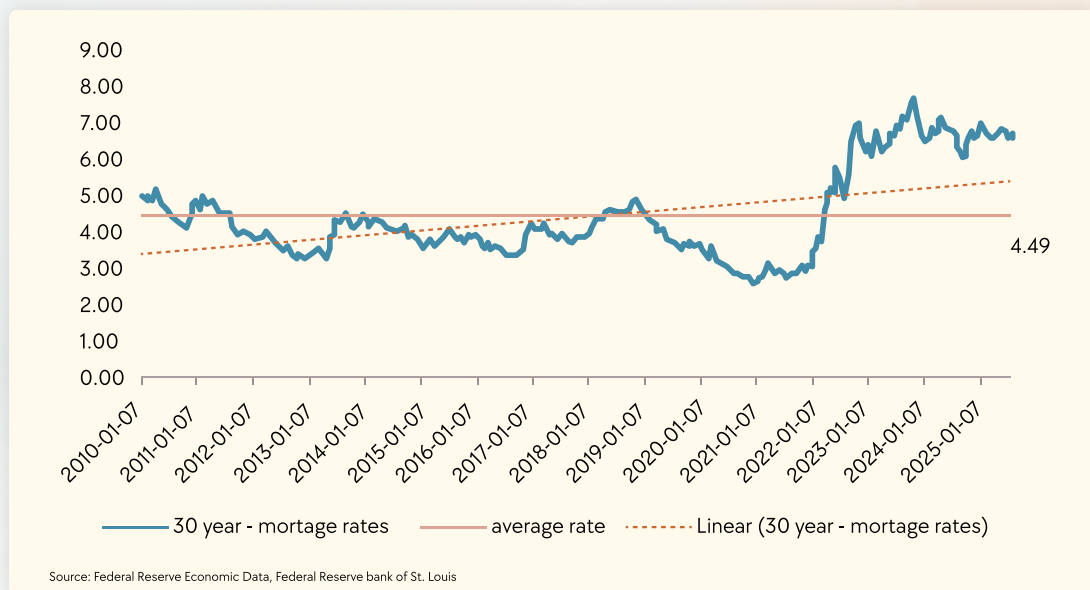
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Mortgage rates are the key constraint. The **30-year fixed rate**, stable at **3–4%** through much of the 2010s, **surged above 7%** in **2023** during Fed tightening and now sits in the **6–7% range**. **This has locked existing owners into low-rate mortgages while pricing out new buyers, creating a tight supply alongside weak affordability.**



Housing's role in inflation is crucial, **shelter costs make up over one-third of CPI**. While weaker sales point to downside growth risks, **sticky rents and elevated values keep shelter inflation high**, complicating Fed easing and, in the near term, lending support to the dollar.



4. Equities & Market Sentiment

U.S. equities have extended their rally through 2025. Both the **S&P 500 and Nasdaq** remain **near record highs**, led by large-cap technology and AI-driven themes. The resilience highlights a decade-long pattern of equities pushing higher despite shocks, from the 2020 pandemic to the 2022 inflation spike and Fed tightening.

Still, risks are surfacing beneath the rally. The July **PPI surprise (+0.9%)** lifted Treasury yields and the dollar while briefly tempering expectations for September rate cuts. Meanwhile, the labour market softened: only **73,000 jobs were created in July**, with downward revisions to prior months.

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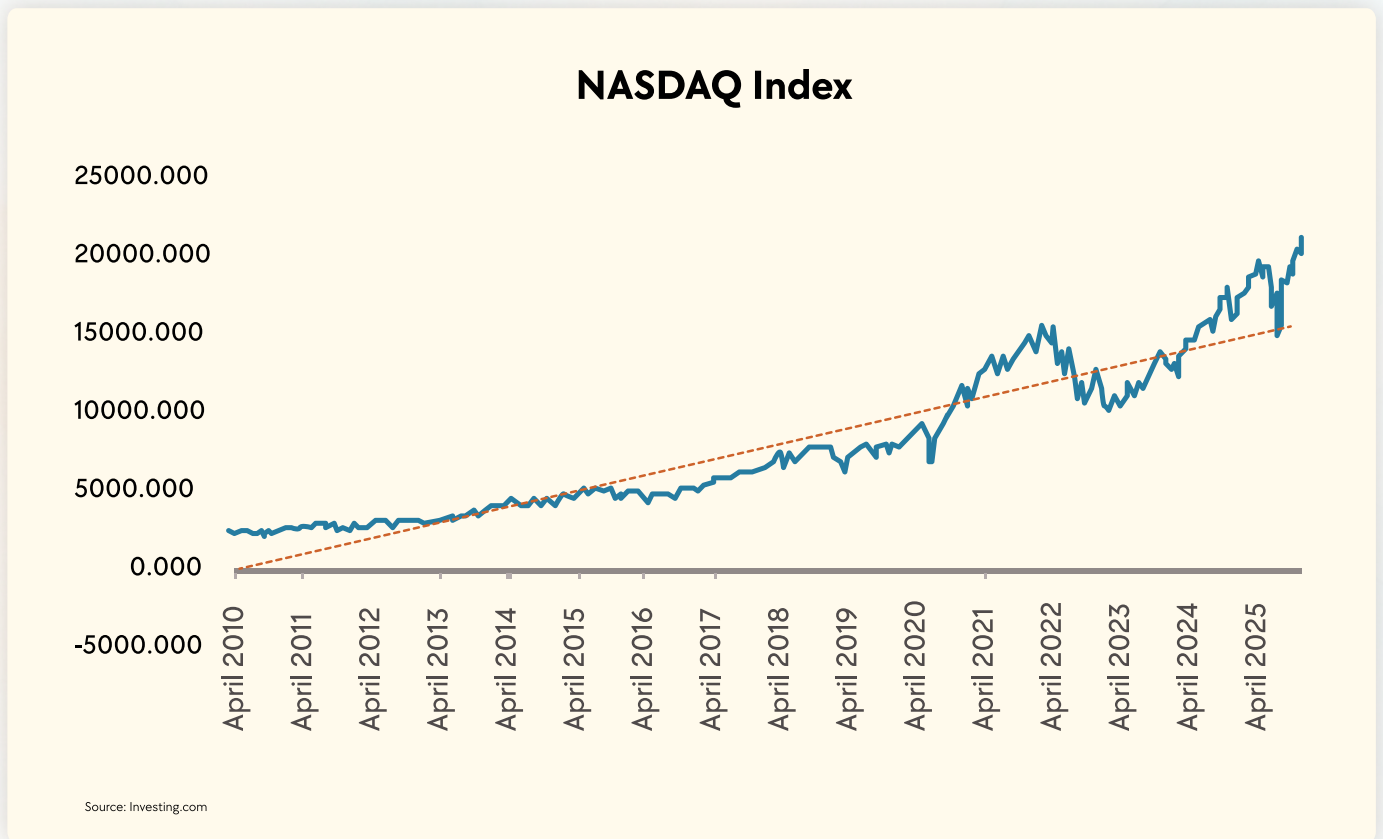
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This leaves markets finely balanced. On one hand, **earnings strength and tech leadership** continue to propel indices. On the other, **inflation risks and labour market fragility** complicate the Fed's path: too much inflation delays cuts, while too much weakness forces them.



The U.S. economy looks solid in the headlines but weaker underneath, with fragile private demand and faltering investment. Inflation remains sticky, housing affordability is a growing drag, and equities are caught between earnings momentum and policy uncertainty. For now, resilience in tech and consumption is holding up the cycle, but policy trade-offs are sharpening.

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EURO AREA

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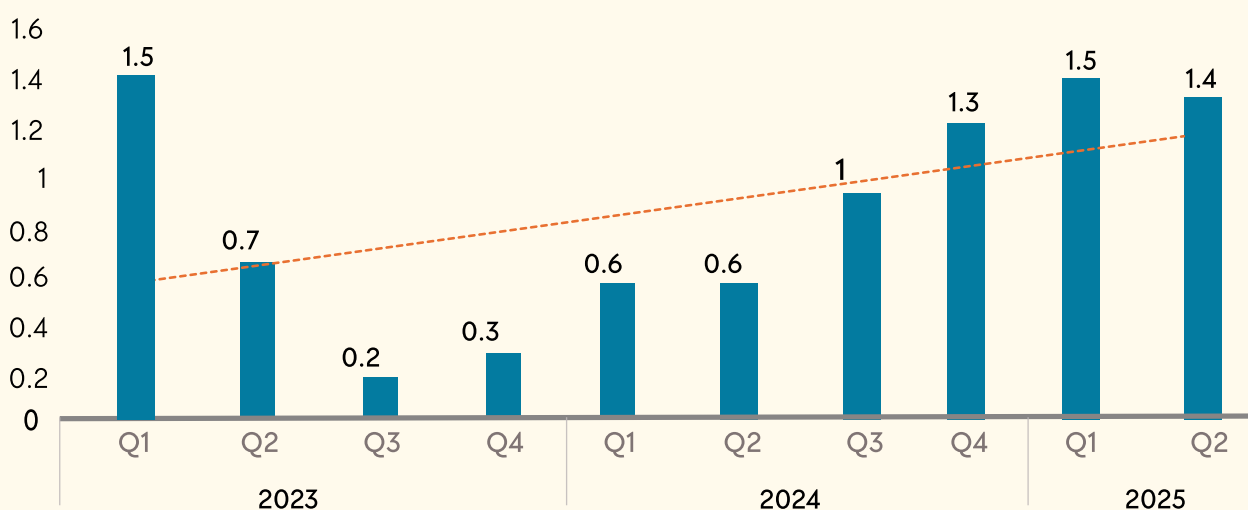


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1. GDP Growth & Activity

The euro area economy managed to hold up better than expected in Q2 2025, with GDP expanding **0.1% QoQ** and **1.4% YoY**, modest but firmer than projections. The regional performance was uneven: **France (0.3%)** and **Spain (0.7%)** drove growth on resilient consumption and services, while **Germany** and **Italy** slipped into contraction (-0.1%), underscoring persistent weakness in industry and external demand.

Euro Area GDP Growth rate



Source:Tradingview.com

Industrial momentum faltered mid-year. **Output fell 1.3% MoM in June**, reversing prior gains and signalling that the anticipated recovery is already losing steam. Weakness was broad-based: **non-durable goods (-4.7%)** and **capital goods (-2.2%)** led declines. Germany, the region's industrial core, bore the brunt, while Ireland's double-digit drop highlighted pharma volatility. **Despite this, services and front-loaded exports ahead of new tariffs helped GDP avoid outright contraction.**

2. PMI & Labor Market

The **manufacturing PMI rose to 49.8 in July**, its highest since mid-2021, signalling slower contraction. New factory orders stabilized at 50.0, with export orders steady ahead of the **pending U.S.-EU trade deal (tariff rate: 15%)**. The **job market remains resilient: unemployment held at a record low 6.2%**, cushioning household demand and mitigating downside risks.

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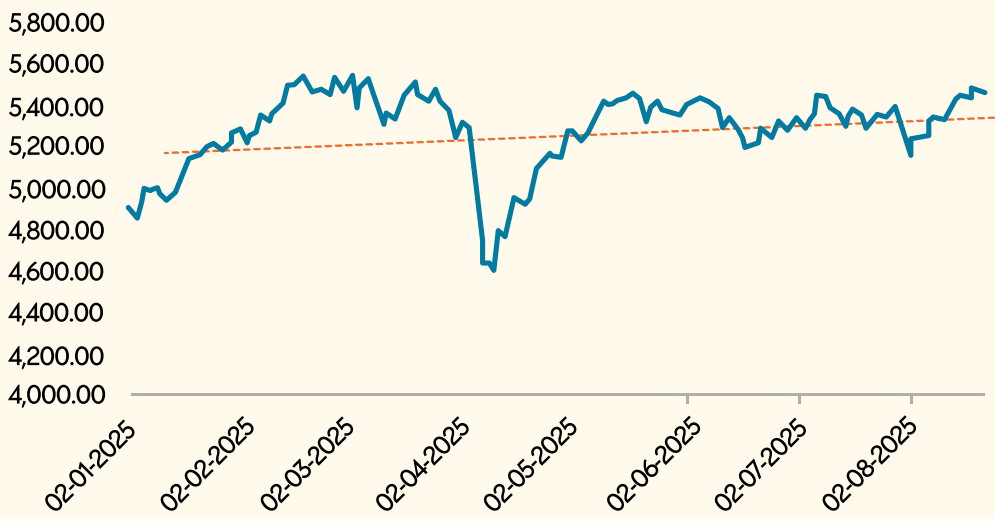
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3. Equities & Investor Flows

Euro area equities have performed better than expected in 2025. The **EURO STOXX 50** climbed from just under **5,000 in January to 5,550 in March**, before retreating below **4,700 in April** on U.S. tariff news. Export-heavy sectors bore the brunt, but the index staged a gradual recovery from May, aided by global liquidity and policy expectations, though still capped below its March highs.

Euro Stoxx 50 Price



Source: Investing.com

European ETFs attracted €39.4bn by July, already surpassing 2024's total. According to Morningstar / ETF Book, **inflows hit €120bn in H1 2025**, a record. Sector performance has been led by **financials and industrials**, benefiting from policy support and domestic demand, even as export-oriented earnings remain under pressure.

*The **ECB faces a complex backdrop**. Inflation is easing toward target, wage pressures are moderating, and market participants had anticipated dovish moves. Yet the firmer growth profile challenges expectations of immediate cuts. **With the policy rate held at 2%**, the stance is increasingly viewed as **balanced supporting growth while guarding against residual inflation risks**.*

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CHINA

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1. China's Economy in H1 2025: Stabilizing but Uneven

China's GDP grew 5.3% year-on-year in the first half of 2025, broadly in line with targets. Yet the recovery remains imbalanced: exports and industry are driving output, while consumption and investment remain weak, limiting the depth of the rebound.

Consumption Still Fragile

Retail sales rose about 5% in H1 but slowed mid-year as households cut back amid weak job prospects and falling property values. Government vouchers and trade-in schemes offered only short-lived boosts. Inflation, on the other hand, stayed subdued as CPI was flat in July and producer prices fell, highlighting weak demand and pressured business margins.

Manufacturing and high-tech exports supported growth early in the year. But July PMI slipped below 50, signaling slowing momentum and softer new orders. **While exports remain a bright spot, reliance on global demand keeps growth vulnerable to trade friction.**

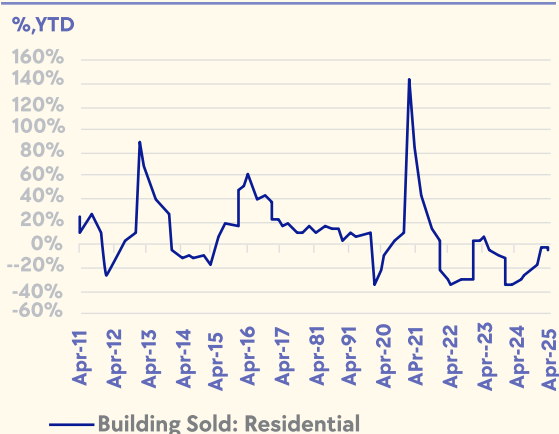
Real Estate Slump Deepens

The property sector contracted sharply as investment fell 11.2% year-on-year to ¥4.67 trillion in H1, residential investment dropped 10.4%, and new starts nearly 20%. Sales by floor area slid 3.5%, while average new-home prices fell 3.2% in June. Developers' financing shrank 6.2% as debt burdens persisted. Local governments also faced weaker land sales, straining fiscal revenues. Targeted easing measures such as lower mortgages and support for affordable housing brought only limited relief.

The charts below highlight the continued weakness in China's housing sector. **Residential building sales have been on a declining path.** While there was a brief rebound in 2021 after the pandemic, this proved unsustainable, and demand has since remained subdued, reflecting weaker household confidence and oversupply pressures.

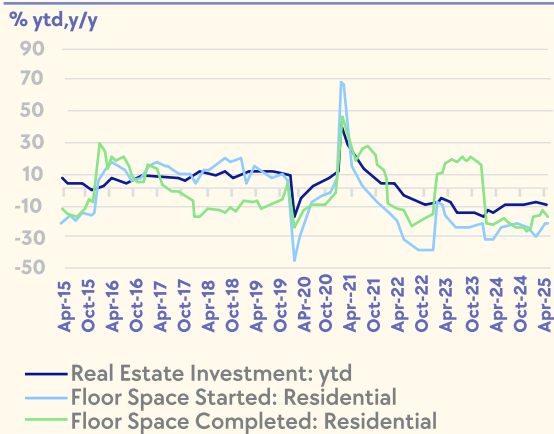


BUILDING SOLD REMAINS NEGATIVE GROWTH



Source: BBVA Research and NBS

FLOOR SPACE COMPLETED & STARTED, AND HOUSING INVESTMENT REMAINED NEGATIVE



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Trade: Strong Exports Offset Weak Imports

Total trade rose 2.9% in H1 to ¥21.79 trillion. Exports surged 7.2% to a record ¥13 trillion, led by autos and electric vehicles, making China the world's top auto exporter. Imports fell 2.7%, reflecting weak domestic demand. Trade with the U.S. fell 9%, but gains in ASEAN (+13%), Africa (+21%), and the EU (+6.9%) offset losses. June's record US\$114.8 billion trade surplus provided a Q2 growth lift.

PBoC: Calibrated, Not Aggressive

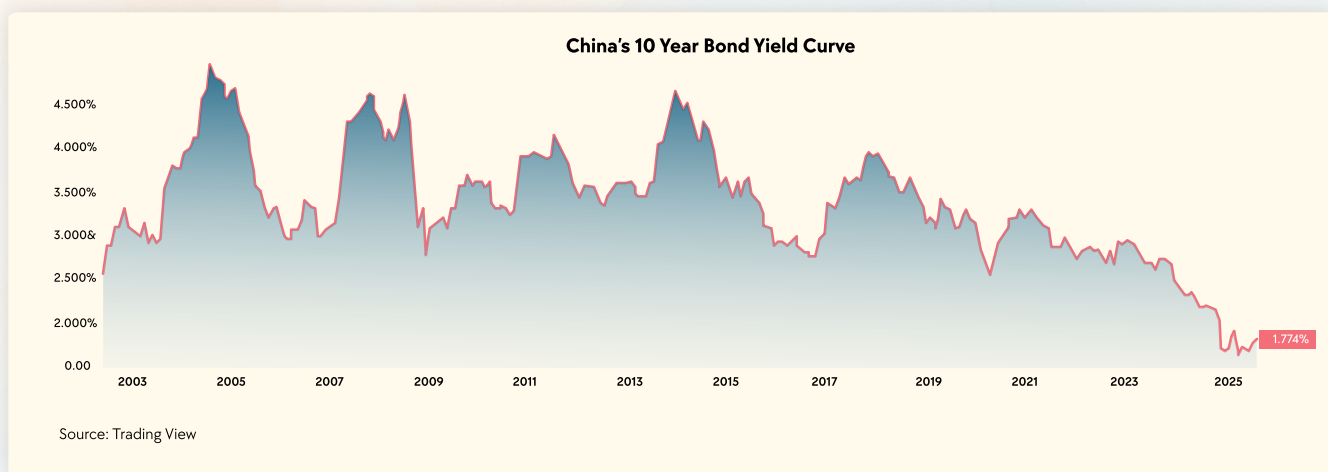
The central bank eased modestly, **cutting the reverse repo rate by 10 bps and the reserve requirement ratio by 50 bps in May, adding RMB 1 trillion in liquidity.** Mortgage rates and relending programs were also adjusted to support consumption and small businesses. But lending benchmarks have since been held steady, reflecting caution over yuan weakness and financial risks. For now, the PBoC is pursuing calibrated easing, targeted at priority sectors rather than broad stimulus.

2. China's Bond Market: Record Issuances, Ultra-Low Yields

In the first half of 2025, **China's bond market was marked by record issuance and historically low yields. The Ministry of Finance front-loaded borrowing, selling nearly ¥7.9 trillion in treasury bonds, about 35% more than last year, to fund fiscal stimulus.**

Local governments added ¥2.2 trillion in special-purpose bonds for infrastructure, while Beijing issued ¥555 billion in ultra-long bonds to finance large-scale projects. This highlights the government's reliance on fiscal policy to counter weak private demand.

Despite this heavy supply, yields on government bonds stayed near record lows, with the 10-year bonds around 1.6%. This was supported by three factors: commercial banks funneling excess deposits into bonds, the PBOC's ample liquidity injections, and limited defaults due to state intervention, all of which kept risk premiums down.



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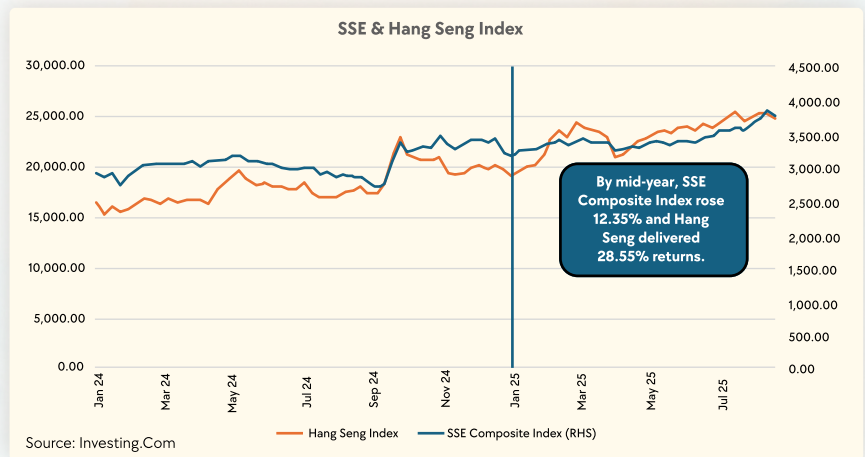


Low yields have made it cheaper for Beijing to fund stimulus but also signal investor doubts about growth and inflation. Going forward, the market's direction will hinge on the PBOC's liquidity stance, the effectiveness of local government spending, recovery in inflation or credit demand, and foreign participation amid shifting global conditions.

3. China's Equity Market: A Resilient Rebound

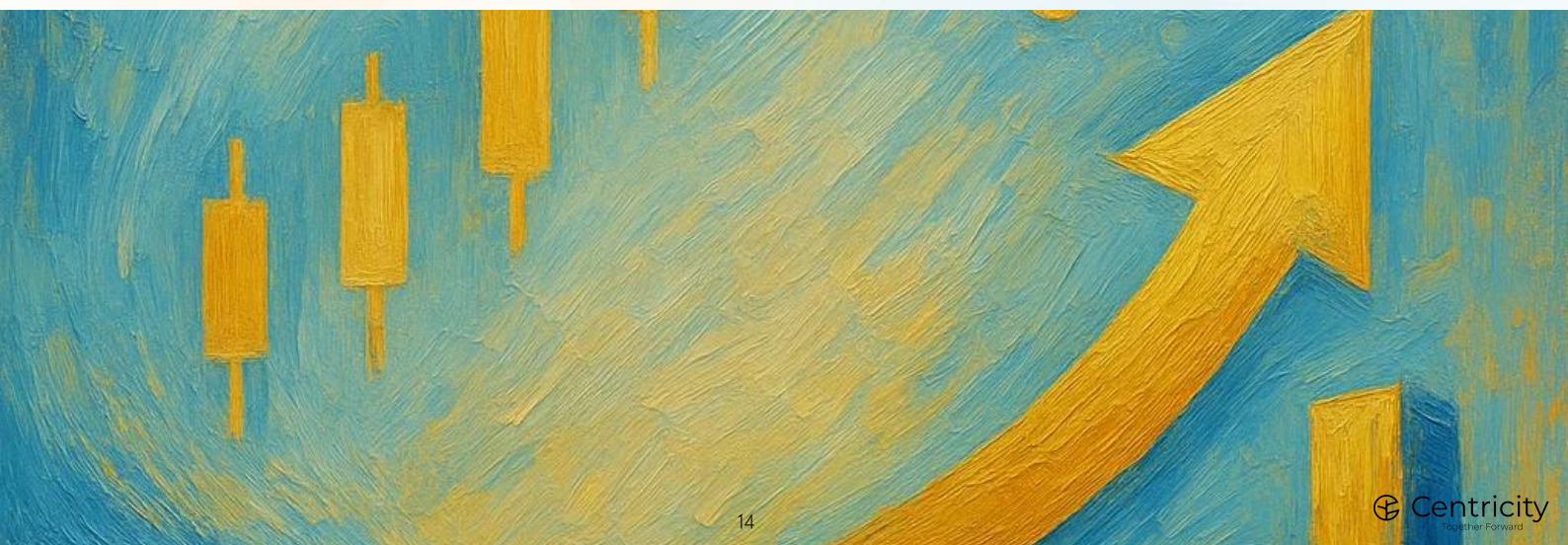
China's equities staged a sharp rebound in early 2025, with the **MSCI China Index up about 22.97% year-to-date**. **Hong Kong's Hang Seng Index rose nearly 15% in the first quarter and 28% by mid-year**, lifted by strong mainland inflows.

Several forces drove the rally: rapid progress in technology and AI (notably DeepSeek), attractive valuations at roughly half those of U.S. peers, targeted fiscal and liquidity support, strong southbound capital flows, and easing regulatory pressures that boosted sentiment.



In terms of performance, **A-shares**, represented by the CSI 300, **remained muted as domestic investors stayed cautious and stimulus had limited impact**. In contrast, **cheaper H-shares in Hong Kong drew heavier buying from mainland institutions, reflecting quicker international confidence compared with local participation**.

Looking ahead, momentum will depend on sustained policy support, domestic consumption strength, and recovery in the property sector. Continued gains in technology and a rebound in global demand could add upside, though external risks such as trade frictions, U.S. monetary policy, and global risk appetite remain important headwinds.



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JAPAN

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1. Japan's Growth: From Weak Start to Gradual Pickup

Japan's economy began 2025 on a soft note, with Q1 GDP contracting at **-0.2% annualized** as households cut discretionary spending. Inflation outpaced real income gains, reducing purchasing power and limiting consumption to essentials. **By Q2, conditions improved, with GDP expanding +1.0% annualized.** Growth was supported by **stronger capital investment, firms boosted spending on capacity and automation amid solid earnings and a weaker yen, and resilient exports of autos, electronics, and machinery.**

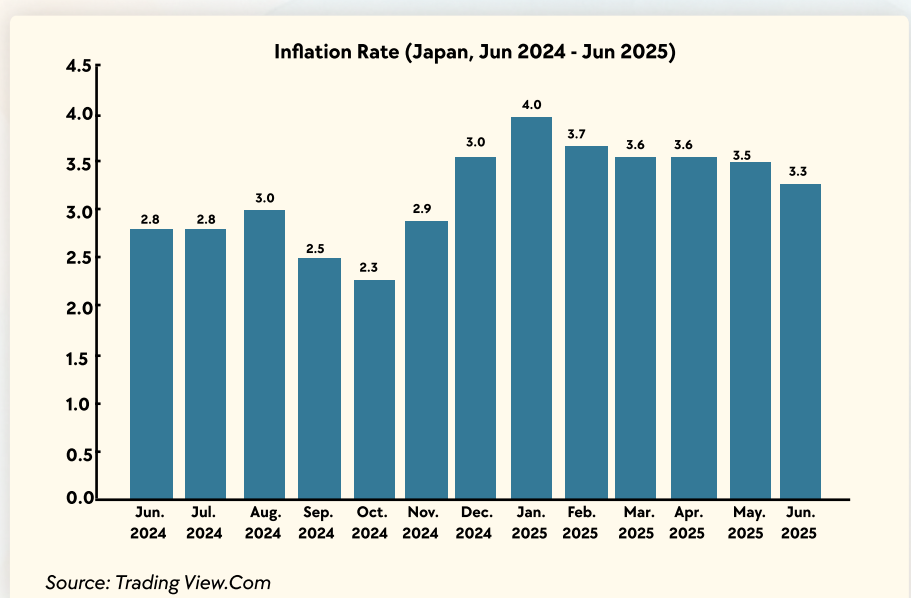
Industrial output also showed recovery. In June, production rose 2.1% MoM and 4.4% YoY, while inventories edged lower. This combination points to supply normalization and cautious stock rebuilding, especially in autos, electronics, and capital goods, ahead of expected demand.

Producer prices in Japan (CGPI), on other hand, **fell to 2.6% year-on-year, down from 2.9% in June, as lower energy and commodity costs kept wholesale inflation easing,** while import prices fell 10.4% on softer global prices and a steadier yen.

Inflation: Easing Marginally, But Domestic Pressures Remain Elevated

Inflation remained a central feature of Japan's macroeconomic landscape in the first half of 2025. **Headline CPI fell to 3.1% YoY in July from 3.3% in June,** while the BoJ's preferred "core-core" measure, excluding fresh food and energy, stood at **~3.4% YoY.** Both metrics, though moderating from late-2024 peaks, continued to exceed the 2% price stability target, underscoring the persistence of underlying price pressures.

The moderation in headline inflation largely reflected **base effects** from the prior year's energy spike and a stabilization in global commodity costs.



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BOJ's Cautious Path: Balancing Inflation Gains with Growth Risks

The Bank of Japan began 2025 with a landmark move, raising its policy rate by 25 bps to 0.5%, its highest in 17 years, signaling confidence in stronger wage growth and persistent inflation. Since then, Governor Kazuo Ueda has struck a cautious tone, wary of tightening too quickly amid fragile recovery and risks from global trade frictions and commodity swings. In June, the BOJ kept rates steady but slowed the pace of bond purchase reductions to stabilize markets as long-term yields surged.



2. Japan's Equity Markets: Riding Reform and Global Tailwinds

Equities have been a bright spot in Japan's 2025 story, buoyed by strong corporate earnings, governance reforms, and investors seeking alternatives to China. Despite modest economic growth, sentiment has remained positive.



The Nikkei 225 rose from 39,895 at end-2024 to 43,714 by mid-August 2025, up 9.6% year-to-date, while the TOPIX climbed 12.1% to 3,121. Gains have been broad-based: exporters benefited from a weaker yen, financials and real estate from higher domestic yields, and technology stocks from global AI and semiconductor momentum.

Sector-wise automakers led gains in late July after the U.S.-Japan trade deal cut tariffs, with the transport index up 10.3% and Toyota soaring 13%. Technology and AI names followed in early August, as SoftBank hit a record high on strong earnings and semiconductor stocks lifted TOPIX above 3,000. In contrast, banks underperformed, with Mitsubishi UFJ and Sumitomo Mitsui dragging the sector down 1.45% on August 18 amid margin and volatility concerns.

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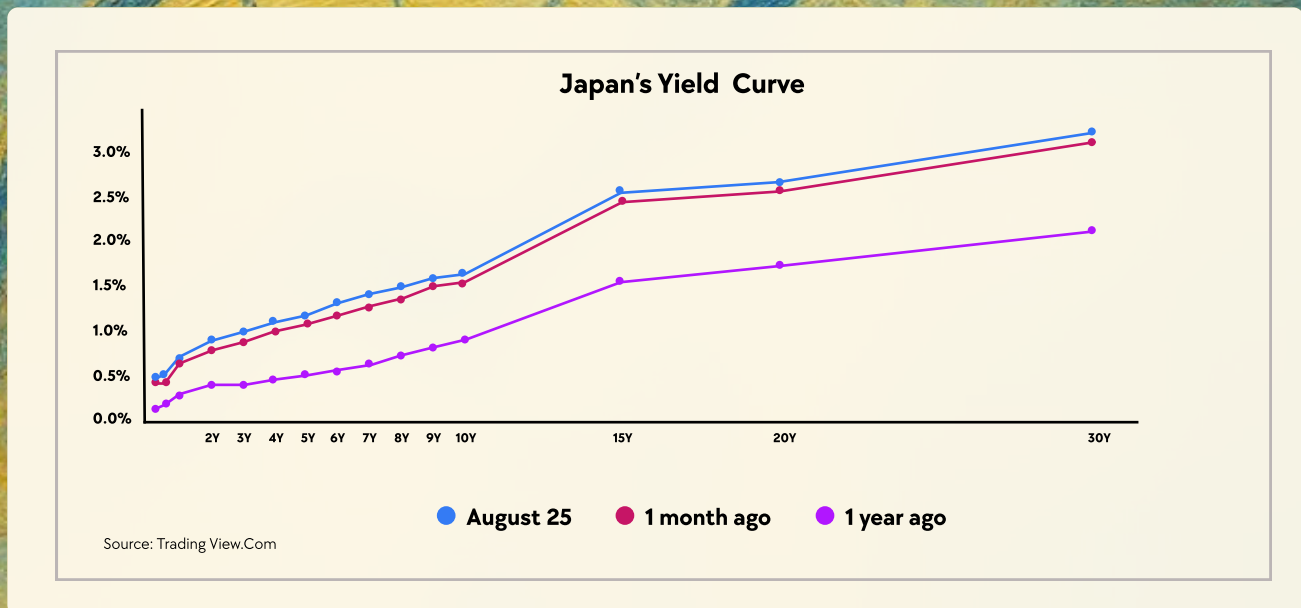
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3. Japan's Bond Market in H1 2025: A Turning Point

Japan's bond market, long known for stability and near-zero yields, shifted dramatically in the first half of 2025. **The 10-year JGB yield climbed to about 1.6%, a 17-year high, while the 30-year surged above 3.2%, unprecedented in modern Japan.**



The main catalyst was the Bank of Japan's exit from Yield Curve Control. While keeping policy rates at 0.5%, the BoJ reduced bond purchases, gradually handing price-setting power back to markets. Traditional long-term buyers such as insurers and pension funds also cut exposure to "super-long" maturities, weakening demand.

Rising global yields, particularly in the U.S., further eroded the relative appeal of JGBs and pressured carry trades. Added to this is Japan's increasing public debt, exceeding 230% of GDP, and fiscal uncertainty, which heightened concerns about future issuance.

These forces combined to push yields sharply higher and steepen the curve, marking a regime shift toward a more market-driven bond environment after decades of heavy central bank control.

In the rest of 2025, the big focus for Japan will be what the Bank of Japan does next, with another rate hike expected later this year. Inflation trends, especially in food and energy, will play a key role in shaping those decisions. At the same time, the yen's movement, global trade tensions, and swings in commodity prices will remain important risks to watch. Within Japan, how strongly wages continue to rise and how companies deliver on earnings will give a clearer picture of the economy's staying power. Altogether, these factors will decide whether Japan's recovery can turn into a steady, long-term growth story.

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