AXA Investment Managers

29 January 2025

Investment Institute Macroeconomics

# A new Golden age

## Key points

- US President Trump's inauguration started a slew of domestic legislation broadly in line with expectations, but including some unexpected developments
- The rest of the world watched as economic developments in the world's largest economy would have important spillover effects. But Trump also proposed additional, geopolitical developments
- China will continue to watch for news on tariffs as it continues to manage its own internal problems. We expect significant stimulus to ward off a sharp downturn
- Eurozone activity remains soft before trade developments. The ECB looks likely to ease policy to support growth, despite a modest rise in inflation
- Canada and Mexico have been threatened with 25% tariffs from 1 February and could prove a litmus test for other such policy

## Global Macro Monthly

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# A new golden age

# Global Macro Monthly Summary January 2025

**David Page**
Head of Macro Research

## Inauguration

US President Donald Trump delivered his inaugural address on 20 January and it is no exaggeration to suggest the rest of the world watched – in the main with trepidation. A new policy direction in the world's largest economy would always be important but now more than ever as the US has enjoyed strong growth in recent years while other large economies have struggled. Trump's expected unorthodox set of policies would always have drawn attention but all the more so given the direct impact they are designed to have on some countries.

Tariffs are a key concern and although Trump started with few concrete tariff proposals, by the end of his first week he had suggested 10% tariffs on China, 25% on Canada and Mexico and that European Union (EU) tariffs would be forthcoming. Beyond tariffs, the President caused fresh concerns by suggesting expanding "our territory", having voiced ambitions to buy Greenland, absorb Canada and "take back" the Panama Canal. It is unclear how literally to take these ambitions but they add to the unease. Finally, we watch broader geopolitical developments. Trump has suggested a Ukraine settlement could take six months, rather than being resolved in his first day – reality over rhetoric. However, he also proposed judging success by "wars we never get into". There are concerns the isolationism implied in that statement could create power vacuums which destabilise Eastern Europe, the Middle East or the South China Sea.

## International partners cannot expect normal service

China will be paying closest attention. It has been the target of much of Trump's ire. Despite facing tariff proposals of 10% so far – small relative to a threatened 60% – it will watch developments and see if this proves the first of several. China must manage this external growth threat with material domestic concerns. The housing market continues to fall – a material drag on the economy. Meanwhile inflation recorded just 0.2% in 2024, similar to 2023 and barely avoiding deflation. The policy stance unveiled in December seemingly acknowledged the scale of its problem. However, we await March's National People's Congress to see China's growth target for 2025 and the exact calibration of stimulus to achieve it, in turn depending on events between now and then.

The Eurozone has also been warned of tariffs. Its concerns likely focus on the risks of a broader trade war than on the direct impact of specific US tariffs. But the Eurozone's own growth remains lacklustre – far short of either recent US or Chinese expansion. On the upside, supply-side headwinds have started to fade and inflation has fallen closer to target, allowing the European Central Bank (ECB) to deliver faster monetary policy easing to support growth, something we expect to lead to a gradual acceleration in growth this year and next. However, economic progress has been slow, and risks being held hostage by US trade developments. European political developments have been faster. The German coalition collapsed in 2024 and sees elections in February. The Austrian coalition talks have suffered similarly. Meanwhile France is on its second government since elections mid-last year. European political weakness leaves it vulnerable and poorly placed to react to US developments.

The US's neighbours have long kept watchful eyes over the border. Mexico has seen a reprise of first-term Trump policies with regards to migration. It also faces the threat of tariffs from its trade partner associated with its trade surplus, Chinese investments and non-trade issues, including fentanyl operations. Canada also faces such a tariff threat. With migration and fentanyl less of an issue for the Canadian border, US grievances with it are less obvious. Both face renewed negotiations over the USMCA trade agreement next year, but uncertainty risks impacting growth prospects before then.

Indirect effects are just as important for some economies. The pre-inauguration rise in long-term yields had an impact across the globe. However, in the UK where the new government had eschewed the opportunity to reduce public borrowing with tax increases, markets again fretted over the fiscal outlook, driving UK yields higher. Over the coming months we expect a demonstrated commitment to fiscal rules, signs of slowing growth, fading inflation and expectations for greater Bank of England easing to dampen fiscal concerns and lower rates. But persistently higher global rates will make things more difficult for the UK's public finances and broader activity outlooks.

These financial spillovers will also be relevant for emerging markets – over and above any direct trade or geopolitical developments. The pace of central bank easing has slowed across most emerging market regions as inflation pressures have revived – in part because of idiosyncratic measures, including rising food prices and looser fiscal policy – but also reflecting exchange rate weakness in the face of a rampant dollar.

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# Global Macro Monthly – US

**David Page**
Head of Macro Research


## "Saved by God to Make America Great Again"

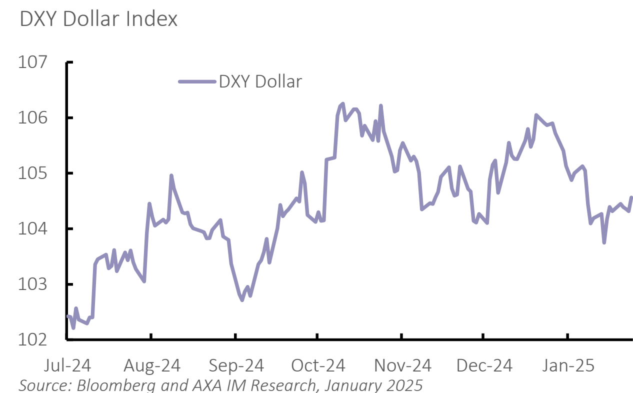
Donald Trump became the 47th President of the United States – the second to serve two non-consecutive terms. In his second inaugural speech he said he had been "saved by God to make America great again" and stated "our golden age has just begun". Trump used his speech to reinforce plenty of issues we had expected, including migration control, tariffs, tax cuts and looser environmental regulation to encourage fossil fuel use. He also included plenty we did not, including renaming the Gulf of Mexico (to Gulf of America), "taking back" the Panama Canal and expanding "our territory". Over Trump's time we have learnt to take him seriously, but not literally. Yet as he stands as leader of the world's largest economy, not being able to take policy pronunciations literally is a problem.

We remain of the view that Trump was elected to deliver two main mandates: to control immigration by a large section of his voting base and to cut taxes by his sponsors. To facilitate those ends – mainly the latter – we see the use of tariffs and de-regulation as ancillary policies. Day one provided plenty of evidence of the first of these policies, with a raft of Executive Orders including the declaration of an emergency on the Southern border enabling the mobilisation of the military and steps taken towards deportations. Tax cuts will take longer and require Congressional action. This will need political juggling, with only small majorities in both Houses of Congress.

Despite the flurry of activity in his first days – suggesting, as anticipated, a Trump more focused on delivery than during his first term – we still believe it will take several months to get a comprehensive picture of the administration's plans. The lack of initial tariff focus led some to lower their assessments of how much they would feature. However, to our minds, tariffs require careful management to bypass Congress and thus are likely to be rolled out over time, as we saw during his first term, rather than be delivered in one fell swoop. We believe they will be a necessary part of the fiscal package and note that Trump has created the ERS – the External Revenue Service – to that end. Markets of course, do not wait to see (Exhibit 1). After the election they had downplayed the prospect of tariff and migration policies, focusing on growth stimulus. More recently, they have acknowledged these policies would indeed be central to the new administration, but continue to consider other policies growth positive, underpinning inflation concerns and interest rate expectations that see little easing from the Federal Reserve (Fed) over the coming three years. Our own view is that inflation pressures will be elevated by supply-restrictive policies but that these will also act as headwinds to growth. Meanwhile tax extensions – rather than cuts – and offsetting spending cuts will not prove growth stimulative. For now, we continue to forecast solid 2025 growth at 2.3% but envisage deceleration to a below consensus 1.5% next year.

Exhibit 1: Dollar volatility reflects policy uncertainty

DXY Dollar Index




*Source: Bloomberg and AXA IM Research, January 2025*

The starting point for Trump's new "golden age" is also important. We expect Q4 GDP at 2.8% (annualised), delivering another strong year of economic growth of 2.8%, in line with our forecasts, driven by a 2.7% increase in consumer spending. The consumer will remain important looking ahead and we expect an eventual softening over 2025. That said, there were few signs of that at the end of 2024: the retail sales control group rose by 0.7% on the month and payrolls surged 256k, the second successive month above 200k. However, we forecast a softer pace of employment growth next month, and looking ahead, not least as labour supply slows reflecting migration flows.

The Fed will also monitor inflation. Although the headline rate accelerated in December, core slowed to 3.2%, from 3.9% at end-2023. Tariffs and a still tight labour market are likely to limit further disinflation over the coming years, although this may be somewhat offset by stronger productivity growth, which the Fed may regard as similar to the end of the 1990s. We do not believe the Fed has much space to ease rates further. We expect it to forego a cut in January. However, on balance, we believe it will ease again in March – assuming a much softer pace of employment growth and no repeat of last year's services inflation spike. That being the case, we forecast the Fed cutting rates to 4.25% then – and likely signalling an end to the Treasury maturities for quantitative tightening by the end of Q2. However, with increasingly inflationary policy announcements expected in Q2, we do not see much scope for further easing for the rest of the year. However, our expectation that Trump's net policy measures will slow growth in 2026 is likely to force the Fed back to easing policy next year. We forecast the Fed Funds Rate ending next year at 3.50%, lower than the current consensus.

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# Global Macro Monthly – Eurozone

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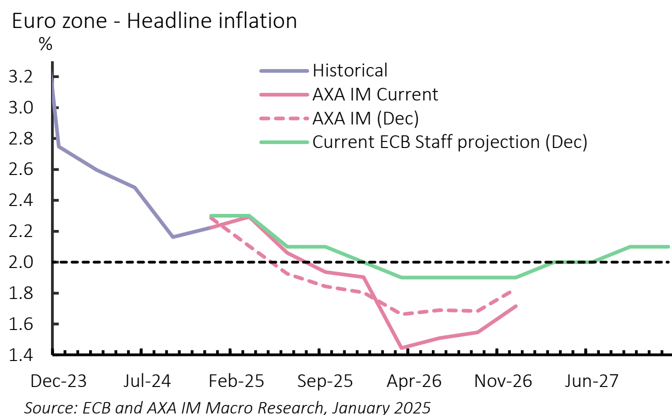
## Energy price spike will not prevent ECB rate cut(s)

We expect the European Central Bank's (ECB) Governing Council to cut interest rate by 25 basis points (bps) for a fourth consecutive time to 2.75% in January. Hard and soft activity data have remained sluggish since the last meeting.

The German economy shrunk for a second consecutive year (-0.2% year-on-year) in 2024. Interestingly, the official press release mentioned that this number is consistent with another slight contraction in Q4. Together with disappointing year-end activity in France, this implies that Eurozone GDP may have flirted with stagnation in Q4 – signalling a downside risk to our 0.1% quarterly forecast (below the ECB's 0.2% GDP growth baseline). Although surpassing market expectations, we fail to find solace in the January flash Purchasing Managers' Indices.

One of the key macro developments since the beginning of the year is the rally in energy prices. Oil and natural gas prices are 3% and 14% higher respectively in euro terms than the 2025 levels projected in the ECB's December forecasts. As such, including the latest price change, we now forecast Eurozone inflation to average 2.0% this year (+0.1 percentage points, ppt), and 1.6% next year (-0.1ppt) (Exhibit 2).

Exhibit 2: Energy led inflation revision upward for 2025, downward for 2026



*Source: ECB and AXA IM Macro Research, January 2025*

However, we do not think these inflation pressures will prevent the ECB from cutting rates in January, given the poor activity momentum noted in December's meeting minutes, as the Bank continues towards an "appropriate policy stance". ECB Chief Economist Philip Lane highlighted the risk that overly-high interest rates could result in inflation undershooting the Bank's target – as is our baseline – thus justifying no pause as long as the deposit rate is above the neutral rate range of 1.75% to 2.50%. Furthermore, we note that a broad consensus has emerged among ECB Governing Council members that a 2% deposit rate could be reached by the summer, in line with the market's and our own expectations. We continue to envisage the deposit rate moving into outright accommodative territory in the second half of the year, reaching 1.5% by year-end.

## Germany – a much awaited restart?

Germany holds snap elections on 23 February – nine months ahead of schedule. For a year, the Christian Democrats (CDU/CSU) have had a 10-point lead in the polls, suggesting their leader Christian Merz will be the next Chancellor.

However, there are still known unknowns, including the time it will take to form a coalition and whether the CDU will partner with the Social Democratic Party (SPD) to remake a grand coalition or go with the Greens. Past experience suggests coalition negotiations could take several months. Beyond exceeding a straight 50% majority in the lower house, parties will also consider the 66% majority needed to make constitutional changes, notably for changing the debt brake.

While facing a spate of decisions, German policymakers should focus on delivering longstanding public investment in infrastructure, health, education, energy and defence. A public sector-boosted economy should help stabilise labour market unravelling. Our baseline, however, remains that things will move moderately. Given the usual lags in investment delivery, we think outright short-term support to households' disposable income (e.g., tax cuts and minimum wage increase) is needed. The CDU/CSU is offering both corporate and higher income household tax cuts[1].

## France – looking for the details of the 2025 Budget

Over the next few weeks, we will also be on the lookout for the (new) key measures of France's 2025 Budget (central state and social security). Public deficit targets have been revised higher to 5.4% for this year (versus 5.0% initially), also reflecting weaker GDP growth assumptions (0.9% vs 1.1%; AXA IM: 0.7%). Undoubtedly, rating agency S&P's decision on France's sovereign rating (currently AA- with stable outlook) will be another key market event (28 February).

[1] Macro Research Team, "2025's elections around the world", AXA IM Research, 23 January 2025

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# Global Macro Monthly – UK

**Gabriella Dickens**
Economist (G7)
Macro Research

## Still confident the BoE will cut by 100bps in 2025

UK growth has disappointed in recent months. Third quarter GDP was revised down from an initial estimate of 0.1% to zero. And while the monthly activity data rose by 0.1% in November, that followed a 0.1% drop. As a result, growth was stagnant on a three-month-on-three-month basis. We still expect no change in Q4 which would leave 2024 growth at 0.8%, below the Bank of England's (BoE) forecast of 0.9%. And downside risks are growing, given the unexpected 0.3% monthly drop in retail sales in December. Growth should pick up this year, largely due to the announced fiscal injection. But the boost will probably end up smaller than laid out in the Budget even if yields continue to fall, given official growth forecasts, and therefore tax revenues, will likely be revised down.

December's inflation figures were somewhat of a relief. The headline rate slowed to 2.5% – consensus 2.6% – back in line with the Bank's forecast, while services inflation fell to 4.4%, from 5.0% – way below the 4.9% rate expected by markets and the BoE. This dip probably doesn't mark the start of a renewed downward trend, given utility bills look set to edge higher, food prices should start to rise, while the hike in employer national insurance contributions and in the minimum wage threatens to apply some upward pressure in the first half of the year. This should culminate in a headline Consumer Price Index (CPI) peak of just under 3% in Q3.

We don't, however, think this reflects an inherent UK inflation problem. On top of the weakness in economic activity, the latest 47K drop in the Pay as you earn (PAYE) measure of employee numbers in November, a further drop in vacancies and a sharper deterioration in survey measures all suggest the labour market is loosening at a faster pace, which should underpin a more material slowdown in wage growth in the second half of 2025.

The recent CPI and growth data alongside the BoE Monetary Policy Committee's dovish messaging broadly cements a February rate cut. And while wage growth looks set remain sticky in the first half, we see a growing risk that inflation will undershoot the target over the medium term. As a result, we continue to think the Bank will look through any near-term upward pressure, as noted by policymakers Sarah Breeden and Alan Taylor in the BoE's latest remarks. We remain confident in our view that the Bank will cut rates four times this year, leaving Bank Rate at 3.75% by year end.

# Global Macro Monthly – Canada

**David Page**
Head of Macro Research

## Tariff threat alone proves "highly disruptive"

Canada's economy appears to have pivoted quickly. Strong real retail sales gains over the summer reflected improving household finances and were reflected in strengthening GDP readings, up 0.2% in September and 0.3% in October. Q4 GDP should now rise by around 2% annualised. Since November though, consumer confidence – at a 2½ year high – started to fall sharply, ex-auto retail sales retraced a monthly 0.7% and the GDP first estimate fell 0.1%, its first drop in nearly a year. The collapse has come despite still elevated sentiment around household incomes. It likely reflects Donald Trump's threat to impose 25% tariffs. We now see a solid Q4 (despite later quarter weakness) and 2024 growth of 1.3%. However, Q1 2025 now looks softer, and we have lowered our 2025 outlook to 2.0% from 2.1%, still assuming the US does not impose sustained tariffs.

Politics has moved as fast as the economy[2]. The government responded by cutting sales taxes for two months on a range of Christmas goods including food, children's clothing and toys from 14 December – stimulus worth CAD1.6bn. While hoped to boost spending, Finance Minister Chrystia Freeland did not support the measure and resigned adding to pressure on the Liberal government and Prime Minister Justin Trudeau specifically. On 6 January he resigned, proroguing Parliament until 24 March to elect a new leader, with an election now expected in the spring, earlier than the October deadline. Given current polling, a Conservatives win is expected.

Going to press, we expect the Bank of Canada (BoC) to slow the pace of easing this month, reflecting the "more gradual pace" signalled in December. Then, and referring to US tariff threats, the Bank said it would react to actual policy, not expectations. But with a potential tariff hike just days away, this threat appears to have been "highly disruptive". For now, we expect the BoC to ease again by 0.25% to 2.75% in March to respond to this uncertainty, but assuming no major tariffs and a rebound in activity, we think the BoC will then pause. However, if the US imposes tariffs, more rate cuts will be likely, not least with further fiscal reaction likely curtailed by the expected impending election, and only limited by further Canadian dollar weakness – already at 22-year lows.

[2] Macro Research Team, "2025's elections around the world", AXA IM Research, 23 January 2025

# Global Macro Monthly – China

**Yingrui Wang**
Economist (China)
Macro Research

## Challenges persist despite reaching 2024's target

China met its 2024 GDP growth target of "around 5%" – delivering 5.0% – as largely expected. However, achieving its target last year does little to alleviate the structural challenges, and external threats, facing its economy.

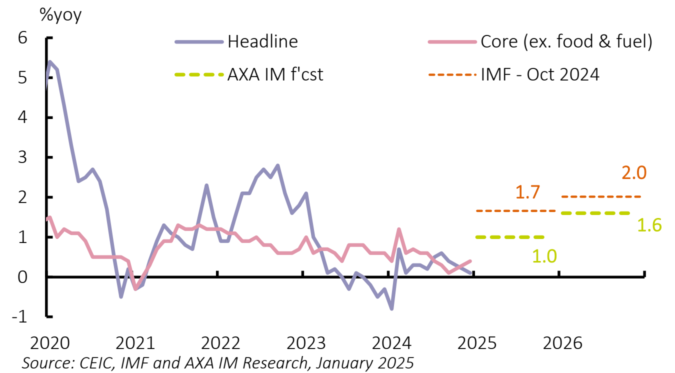
In 2024, headwinds outweighed the tailwinds and growth slowed from 5.4% in 2023. The property market downturn persisted, weighing on households already burdened by bleak income prospects and rising financial insecurity, which further restrained spending. State-led investment slowed during the summer amid growing balance sheet pressures among local governments, while private and foreign investments declined as investors awaited a turnaround in economic fundamentals.

On the positive side, industrial production remained resilient, buoyed by strong external demand, particularly with front-loaded orders ahead of anticipated trade disruptions from the US. Exports significantly outpaced imports, leading to a record trade surplus of nearly $1tn, equivalent to 5.2% of GDP – the highest since 2015. Yet this reliance on trade is under threat. US president Donald Trump's inauguration has left new trade policies targeting China expected. His recent 10% proposal falls short of the threatened 60%, but these are early days. Our base case projects tariffs cutting GDP growth by around 0.5 percentage points (ppt) this year, although risks are skewed to a greater impact, with potential damage of up to 1.6ppt. Such headwinds have left Beijing looking to its last resort: domestic consumption.

Chinese consumers have been largely neglected since the pandemic. Nationwide fiscal support for households has been absent, even in the face of job losses, wage cuts, payment delays and declining wealth amid falling property prices. Meanwhile, production-focused stimulus has exacerbated the imbalance between supply and demand, as evidenced by China's persistent near-zero inflation (Exhibit 3) despite robust external demand.

Since mid-2024, Beijing has gradually shifted its policies towards stimulating household demand, including expanded subsidies for durable goods trade-ins. While theoretically capable of creating a positive feedback loop of rising demand, production and wages, the fragile, near-deflationary state of the economy requires more robust measures to jumpstart this process. We expect further, yet moderate, support to address the negative income and wealth effects households have endured in recent years. These measures are likely to focus on boosting wages and stabilising the property market.

Exhibit 3: Two years of low inflation




*Source: CEIC, IMF and AXA IM Research, January 2025*

Additionally, Beijing announced a RMB10tn multi-year debt swap programme late last year. While its direct economic impact is limited, the programme provides local governments – a key conduit for policy implementation – with greater fiscal flexibility. Regions with more strained finances are expected to receive a larger share of the quota, with most funds likely directed towards delayed salary payments and arrears settlement, offering some relief to affected households as well as the prospect of smoother fiscal transmission ahead.

To address the property slump, we anticipate more robust and targeted intervention, particularly in regions with severe inventory overhang. Potential measures include issuing special local government bond quotas for inventory buybacks. While especially in top-tier cities, organic demand may be boosted by authorities further easing purchase restrictions, cutting mortgage rates and deposit requirements. However, fixed-asset investment in real estate will likely remain subdued, as Beijing prioritises de-stocking to restore market equilibrium. As such, contraction in new home starts – prolonging the drag on construction and related sectors – is likely to continue.

China's economic development over the coming two years will be challenging. With effective policy implementation, a managed slowdown is expected, as the economy transitions to a new phase. This rebalancing process is critical to reposition the economy for more sustainable growth in the long term. We forecast annual GDP growth of 4.5% in 2025 and 4.1% in 2026. Moreover, redirecting fiscal and monetary stimulus towards bolstering household demand could help reflate the economy, with Consumer Price Index (CPI) inflation forecast to reach 1% in 2025 and 1.6% in 2026. Yet, long-term structural reforms addressing social care will be vital to sustain a domestic consumption recovery.

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# Global Macro Monthly – Japan

**Gabriella Dickens,**
G7 Economist
Macro Research

## Growing conviction of further rate hike this year

Japan's GDP rose by 0.3% quarter-on-quarter in Q3, driven largely by stronger private consumption amid a rebound in real incomes. Both fixed investment and net trade, by contrast, knocked 0.1 percentage points off the headline rate, the latter due to a sharper increase in imports than in exports. The economy looks set to have grown at a similar pace in Q4, as softer consumption growth due to weather-related effects is offset by a pick-up in investment. The Purchasing Managers' Index averaged a tad below the 50 mark, indicating contraction, across the quarter. Looking ahead, we think growth will continue at a modest quarterly pace across 2025, supported in part by a further recovery in real spending power. But some of the additional cash households amass will likely be saved, preventing a stronger acceleration. We expect growth of 1.3% across 2025, following a 0.2% decline in 2024.

Headline inflation rose to 3.6% in December but that largely reflected the phasing out of government energy subsidies. The new core measure – which excludes energy and fresh food – was unchanged at 2.4%. We think underlying inflation will remain around the 2% target this year, as higher labour and distribution costs are passed on to consumers. Meanwhile, there is growing evidence that the 2025 Shunto wage negotiations will result in base pay rises of around 3%, which should help to cement the virtuous wage/price spiral – the key to well-anchored inflation expectations – that the Bank of Japan (BoJ) is so keen to see take hold.

Strong inflation, a relatively calm global backdrop and growing confidence in the outcome of the Shunto wage negotiations led the BoJ to hike its key policy rate by 25 basis points (bps) at January's meeting to a 17-year high of around 0.50%, from 0.25%, with eight of the nine committee members in favour. The BoJ also revised up its forecasts for both headline and core Consumer Price Index (CPI) inflation to 2.4% and 2.1%, respectively, from 1.9% for both in October. And it continued to highlight the upward pressure on inflation from growing labour shortages amid an ageing population. If wage settlements do therefore come in as expected, we look for a further 25bp hike in the second half of the year to 0.75%. Political uncertainty, meanwhile, remains elevated in Japan under the current minority government. Indeed, the ruling party will struggle to pass the Budget without the support of the opposition, leading to a near-term fiscal expansionary bias in our view.

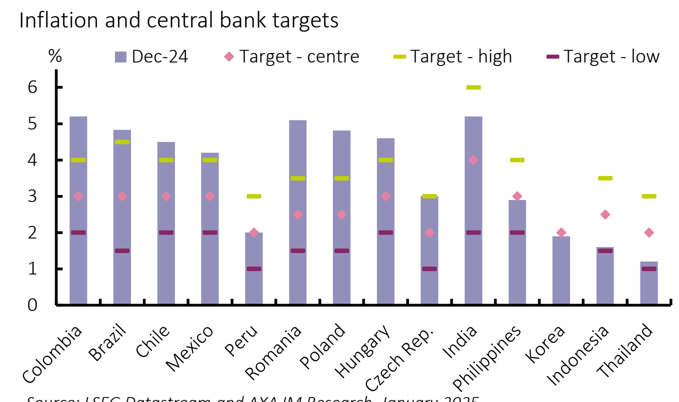
# Global Macro Monthly – EM

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

## Challenging inflation targets for most outside of Asia

The US dollar's strength has contributed to a slowing – or reversal – of disinflation across emerging markets (EMs) in recent months. However, weak domestic fiscal discipline is also to blame, particularly across Central and Eastern Europe (CEE) as well as Brazil. With inflation above central bankers' targets in most markets outside of Asia, we expect forthcoming policy decisions to be mostly on the hawkish side. EM Asia's central bankers have less to worry about on inflation but currency risk will take on greater weight in policy rate decision-making.

Exhibit 4: Outside of Asia, most EM central bankers struggling to hit inflation targets




*Source: LSEG Datastream and AXA IM Research, January 2025*

In EM Asia there are justifications for policy easing. Inflation has largely been contained, with the latest data coming below or at the lower end of target ranges (Exhibit 4), and the outlook for growth is subdued that such a shot in the arm to reinvigorate domestic demand (and offset external risks) would be welcomed. However, high US yields and the strong US dollar have weighed on local currencies and cutting interest rates now risks an escalation in capital outflows.

The central banks which have already met to set rates this year have gone against the market's consensus views. The Bank of Korea (BoK) kept its policy rate on hold at 3%. In its previous two meetings, the bank had acted to support growth, and given the political crisis that has erupted since those meetings has drained confidence in the economy, a third cut was thought to be on the cards. While still noting downside risks to growth, the decision reflects the bank's heightened anxiety over increased volatility in the won. Nevertheless, with forward guidance

showing unanimous support for a rate cut in the next three months, we think the BoK will ease policy at its next meeting in February. Conversely, Bank Indonesia unexpectedly cut its policy rate by 25 basis points (bps). In its previous few meetings, it had eschewed rate cuts and focused on stabilising the rupiah – and with ongoing weakness against a strong US dollar, holding steady was the consensus view. The surprise cut showed the central bank has prioritised boosting growth. It is providing support for the rupiah through intervention and other measures, but it may be forced to be more defensive with rates again in forthcoming meetings.

The Reserve Bank of India (RBI) faces a challenging policy decision in February, the first under new governor Sanjay Malhotra. The RBI has already adjusted to taking a more flexible position on the rupee, given its intervention during much of 2024 resulted in the currency being overvalued on a real effective basis, with downward pressure mounting. Also, unlike elsewhere in the region, inflation in India still needs to be tamed, and the weaker rupee presents an upside risk to inflation. Nevertheless, lower borrowing costs could help to reverse the recent slowdown in consumption and investment growth, and with its recent liquidity enhancing measures, the RBI appears set to commence a shallow rate cutting cycle.

## Hawks in a holding pattern in CEE

We expect an extended period of caution in CEE with regards to any further monetary easing this quarter. In Hungary, inflation surprised on the upside in December, accelerating to a yearly high of 4.6%. The forint's weakness, driven in part by concerns over the troubled outlook for Hungary's economy, has contributed to renewed upward pressure on domestic prices. Currency weakness along with tax hikes – to contain the fiscal deficit – risk de-anchoring inflation expectations, which will put the National Bank of Hungary under pressure to keep its policy rate on hold until its March meeting at the earliest.

Inflation in Poland slowed marginally in December (to 4.8%) but stayed above the central bank's target of 1.5%-3.5%. The governor, Adam Glapiński, has become more hawkish in recent statements, asserting that discussions on future rate cuts need to be delayed. Driving this caution is concern over the impact of a potential increase in electricity prices later this year, after the current price cap expires in September. The governor's anxiety over future electricity prices may be excessive but the scope for rate cuts is limited, particularly given upward pressure on wages following hikes in public sector pay and the government's wide fiscal deficit. In Romania, the central bank has even less room for policy easing. Inflation was unchanged at 5.1% in December, with non-food inflation edging up to 4.4% and services easing to 7.1%. Upside risks stemming from fiscal challenges rule out any resumption in the bank's rate cutting cycle in the short term. It expects inflation to decline in Q1 2025 but remain higher than previously anticipated.

The Czech National Bank joined its regional peers in halting its easing cycle at its December policy meeting, holding rates at 4% having cut throughout the year from 7% in October 2023. Nevertheless, it is better positioned to resume rate cuts than its peers. Inflation ticked up in December but at 3% it was just at the top end of the target range, and prices fell on a monthly sequential basis. The bank therefore still has some flexibility in determining its next move. On balance, with services inflation still elevated at above 6%, and retail sales growth trending upwards, we expect it to keep rates on hold at its next meeting in February but resume easing from March.

## Different approaches to meeting target in LatAm

December's inflation data in Latin America were mostly slower than expected but only Peru had inflation within its target range. Mexico's disinflationary trend – inflation eased to a three-year low in December to 4.2% – has encouraged the central bank to consider ramping up the rate cuts pace. With the economy posting mediocre growth and facing sharp fiscal tightening this year, any support from monetary policy would be welcomed. While the Mexican peso remains vulnerable to further depreciation from US President Donald Trump's tariff announcements, the spillover from currency depreciation to inflation is likely to be reduced in an environment of below-trend growth. However, given external headwinds, a cautious approach is likely to prevail as the central bank sets its sights on inflation converging to its 3% target by Q3 2026. There have been differences of opinion among policymakers in Colombia over the pace of rate cuts. Rising fiscal concerns and Fed Fund Rates market repricing led the central bank to cut by 25bps in December (after 50bp cuts at its previous six meetings). With consumption showing signs of recovery and the minimum wage increase at end-2024 above what is consistent with the central bank's forecasts and target, we expect it to stick to the slower pace of 25bp cuts.

Policy rates in Brazil will continue to head higher. In a recent open letter explaining the failure to meet the inflation target, the new central bank governor, Gabriel Galipolo, attributed most of the cause to the depreciation in the real, which fell by more than 20% against the US dollar over 2024. Of the 183bp deviation from the mid-point of the inflation target (3%), 72bps was attributed to "imported inflation", and in turn, the depreciation was blamed on fiscal risks. He has also signalled that there is unlikely to be any change in future policy rate decisions from the guidance delivered in the December meeting of two more 100bp hikes at the next two meetings. Initial signs of easing demand could dampen price pressures but inflation expectations for end-2025 remain close to 5%.

AXA Investment Managers

29 January 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 | 2.0 | 1.5 | 2.0 |
| Euro area | 0.7 | 0.8 | 0.9 | 1.0 | 1.3 | 1.4 |
| Germany | -0.2 | -0.1 | 0.3 | 0.4 | 1.0 | 1.3 |
| France | 1.1 | 1.1 | 0.7 | 0.8 | 1.0 | 1.3 |
| Italy | 0.5 | 0.5 | 0.4 | 0.8 | 0.8 | 1.0 |
| Spain | 3.1 | 3.0 | 2.8 | 2.2 | 2.5 | 1.7 |
| Japan | -0.3 | -0.2 | 1.1 | 1.2 | 0.9 | 0.9 |
| UK | 0.8 | 0.9 | 1.2 | 1.3 | 1.4 | 1.5 |
| Switzerland | 1.6 | 1.4 | 1.5 | 1.3 | 1.4 | 1.6 |
| Canada | 1.3 | 1.2 | 2.0 | 1.7 | 1.7 | 2.1 |
| Emerging economies | 4.2 | | 4.2 | | 3.9 | |
| China | 5.0 | 5.0 | 4.5 | 4.5 | 4.1 | 4.2 |
| Asia (excluding China) | 5.4 | | 5.0 | | 4.8 | |
| India | 6.9 | 6.5 | 6.6 | 6.5 | 6.5 | 6.6 |
| South Korea | 2.1 | 2.2 | 1.5 | 1.9 | 1.5 | 2.2 |
| Indonesia | 5.1 | 5.0 | 5.0 | 5.0 | 4.9 | 5.1 |
| LatAm | 2.0 | | 2.2 | | 2.1 | |
| Brazil | 3.0 | 3.3 | 1.9 | 2.1 | 1.8 | 2.2 |
| Mexico | 1.4 | 1.5 | 1.2 | 1.1 | 1.0 | 2.0 |
| EM Europe | 3.0 | | 2.1 | | 2.2 | |
| Russia | 3.8 | 3.6 | 1.4 | 1.7 | 1.2 | 1.3 |
| Poland | 2.5 | 2.8 | 3.1 | 3.5 | 2.7 | 3.5 |
| Turkey | 2.8 | 2.9 | 2.6 | 2.6 | 3.4 | 3.6 |
| Other EMs | 2.8 | | 4.0 | | 3.8 | |

*Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 28 January 2025*
**Forecast*

| CPI Inflation (%) | 2024* | | 2025* | | 2026* | |
|---|---|---|---|---|---|---|
| | AXA IM | *Consensus* | AXA IM | *Consensus* | AXA IM | *Consensus* |
| Advanced economies | 2.6 | | 2.4 | | 2.4 | |
| US | 2.9 | 2.9 | 2.8 | 2.4 | 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 | 2.4 | 2.5 | 2.1 | 2.0 | 1.8 | 1.7 |
| UK | 2.5 | 2.5 | 2.5 | 2.3 | 2.2 | 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 28 January 2025*
**Forecast*

These projections are not necessarily reliable indicators of future results

29 January 2025

# Forecast summary

| Central bank policy<br>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 | 28-29 Jan<br>18-19 Mar | 6-7 May<br>17-18 Jun | 29-30 Jul<br>16-17 Sep | 28-29 Oct<br>9-10 Dec | 29-30 Jul<br>16-17 Sep | 28-29 Apr<br>16-17 Jun | 28-29 Jul<br>15-16 Sep | 27-28 Oct<br>8-9 Dec |
| | Rates | | -0.25 (4.25) | unch (4.25) | unch (4.25) | unch (4.25) | unch (4.25) | -0.25 (4.00) | -0.25 (3.75) | -0.25 (3.50) |
| Euro area - ECB | Dates | 3.00 | 30 Jan<br>6 Mar | 17 Apr<br>5 Jun | 24 Jul<br>11 Sep | 30 Oct<br>18 Sep | 5 Feb<br>19 Mar | 30 Apr<br>11 Jun | 23 Jul<br>10 Sep | 29 Oct<br>17 Dec |
| | Rates | | -0.50 (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<br>16-17 Jun | 30-31 Jul<br>18-19 Sep | 29-30 Oct<br>18-19 Dec | Jan<br>Mar | May<br>June | Jul<br>Sep | Oct<br>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 | 4.75 | 6 Feb<br>20 Mar | 8 May<br>19 Jun | 7 Aug<br>18 Sep | 6 Nov<br>18 Dec | Jan<br>Mar | May<br>June | Jul<br>Sep | Oct<br>Dec |
| | Rates | | -0.25 (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 | 3.25 | 29 Jan<br>12 Mar | 16 Apr<br>4 Jun | 30 Jul<br>17 Sep | 29 Oct<br>10 Dec | Jan<br>Mar | May<br>June | Jul<br>Sep | Oct<br>Dec |
| | Rates | | -0.50 (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 28 January 2025*

These projections are not necessarily reliable indicators of future results

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

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