Investment Institute Macroeconomics

Fiscal anchors

Monthly Investment Strategy

AXA IM Macro Research

June 2025

Summary: June 2025

Fiscal anchors

- Even if energy markets have corrected their initial spike quickly, intense air strikes between Iran, Israel and the subsequent US intervention have brought back geopolitics as another layer on uncertainty for the world economy –.
- The post-Covid monetary policy cycle has run its course, and central banks are now hesitant on the next steps, spooked either by a supply shock which has yet to show in the data (the Fed), uncertainty (all of them), and/or the zero lower bound (the SNB). Following the hawkish tilt at the June Fed meeting, we now forecast just two (from three) rate cuts by the Fed to 4% by year-end, and three next year to 3.25%.
- Much of upcoming market action is likely to come from fiscal policy. We remain very cautious on the path forward for the US, but also in the UK and France. We cannot rule out (further) market jitters in these jurisdictions.
- We are more comfortable with the fiscal situation in Japan, and even more so in Germany. For the latter, we continue to think public spending will incrementally improve medium-term growth prospect though with little to be seen over our forecast horizon.
- Trade truce between the US and China limits downside risk to growth, but we do not expect the near-deflation CPI readings to be sufficient to prompt another policy rate cut, though more confident in the pace of the stepped-up fiscal support deployed so far this year
- In the rest of emerging markets, Poland, Romania, Colombia and Thailand are the key countries where fiscal risks lie. We will be particularly attentive to the deployment of Korean fiscal package following the presidential election.

Central scenario

Summary – Key messages

Our central scenario: Global economy slows as adjusts to new US policies.

Global growth expected 2.6% in 2025, to slow to 2.4% in 2026. Recent oil price spike new downside risk

US policies to have global impact, scale of implementation remains uncertain. Divergence expected in key economies.

Monetary policy

Expected changes in US policy to lead most developed central banks (ex US) to pursue more easing. Some EM's more constrained.

Fiscal policy

Expansive. Germany leads in fiscal expansion of infra and defence, but broader EU defence increase. China lifts borrowing to spur growth. US deficits likely to rise due to tax cuts. Markets increasingly vigilant.

Emerging Markets

Face volatility in US trade policy, but some offset by regional anchors. Require wise use of fiscal and monetary policy. Some have more space than others.

FX

Dollar retraces from 40-year highs (real, TW) as exceptionalism expectation fades and overseas investors become more wary. Short-term gains still possible.

Rates

European yields broadly stable. US yields to rally moderately down the road when the Fed resumes cutting and the economy slows (but that's for 2H 2025)

Growth

Several economies to brush with recession after US trade policy, and now also because of surging oil prices

Inflation

Upside risks from a strong spike in oil prices and from US policy initiatives and rising inflation expectations – "domestic disinflation" still dominates in the Euro area though

Contents

Theme of the month

Fiscal anchors

US: A (Big) step towards persistently high deficit

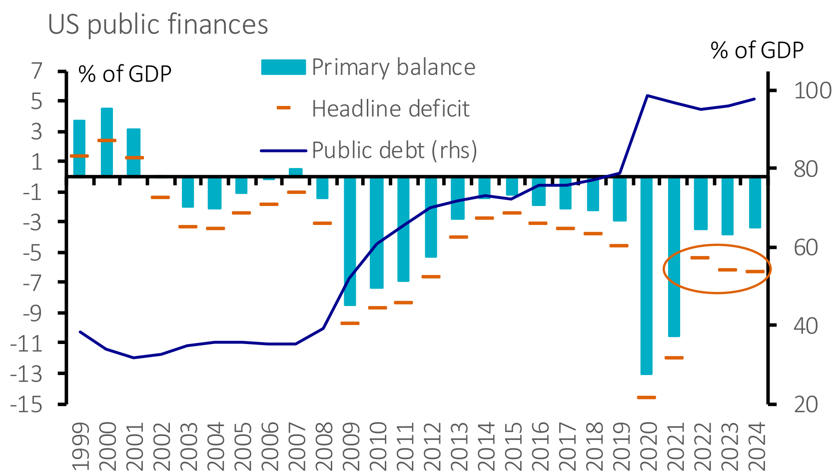
Strained public finances

- Since the end of COVID-19, the US has maintained a noticeably high - ex recession times - public deficit, c.6% of GDP, boosted by the Infrastructure Investment and Jobs Act (Nov. 2021), the CHIPS and Science Act and the IRA (August 2022). These have also been instrumental in underpinning US economy exceptionalism.

The One Big Beautiful Bill

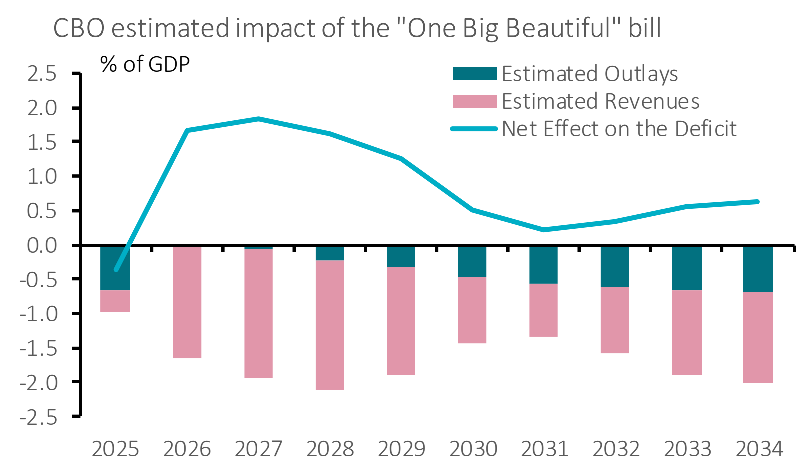
- On 22 May, the House of Representatives passed the proposed One Big Beautiful Bill Act which mainly aims at extending the 2017 Tax Cuts and Jobs Act (TCJA), increase defence spending, while reducing social programs. Meanwhile, the savings to come from the Department of Government Efficiency (DOGE) is to be under c.$150bn, well below initial commitment of c.$1trn.
- Ahead of the Senate vote, the CBO estimated that the US federal deficit would increase by 6ppt by the end of 2029, over 8ppt by 2034, maintaining the headline deficit above 6% throughout this horizon according to the Yale Budget Lab.

US public finances under strain



Source: CBO, AXA IM Research, June 2025

The One Big Beautiful Bill projected impact on public deficit



Source: CBO, AXA IM Research, June 2025

Fiscal anchors

Towards renewed market jitters?

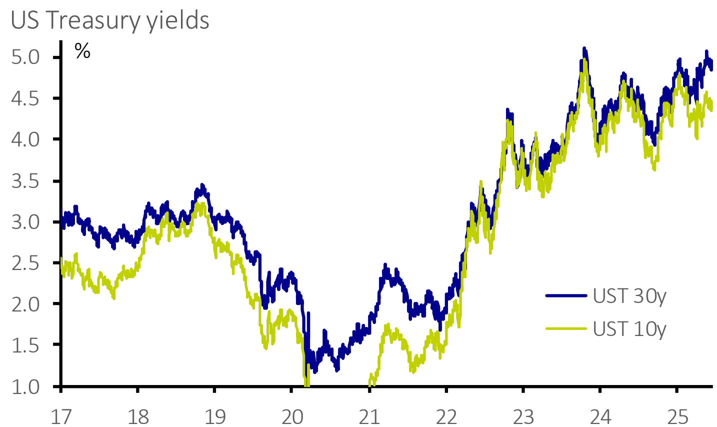
Towards unfavourable public debt dynamics

- This bill will provide little (new) stimulus to growth since the bulk is about extending the TCJA. Besides, we think that other policies such as trade tariffs, curbing immigration are negative for growth. We forecast the US economy to grow by just 1.2% and 0.5% this year and next respectively. Meanwhile, we anticipate further increase in the average funding interest rates, suggesting a rapid rise in public indebtedness levels.
- Meanwhile, the CBO estimates that the debt limit will be again reached during the summer.

Understandably, market is not reassured

- US long-end rates have sold off on the passage of the bill at the House, with the 30year point going over 5.0%, further strengthening the case for challenging public debt dynamics.
- This was echoed in a sharp widening move in US credit default swaps, meaning increased remuneration asked for holding US sovereign bonds. Low demand in some auctions was another sign of unusual tensions.

US bond market under tension



Source: Refinitiv, AXA IM Research, June 2025

US CDS have spiked

Source: Datastream, AXA IM Research, June 2025

Fiscal anchors

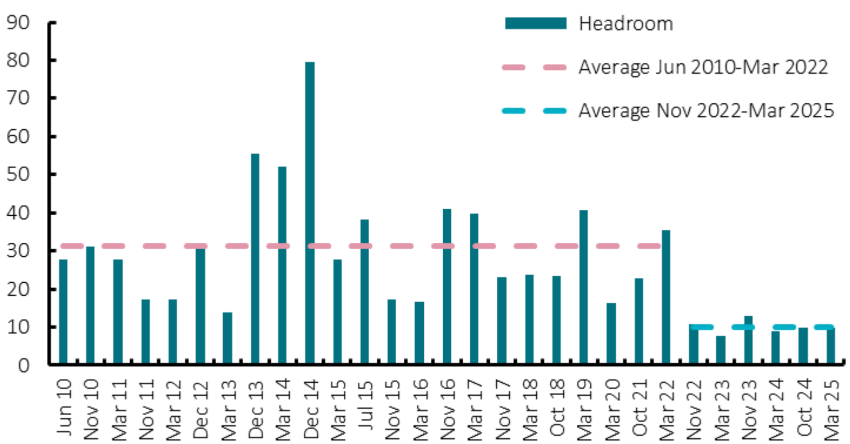
Strained UK public finances imply further tax hikes are likely

The Chancellor will have to grapple with weaker growth and higher borrowing costs

- At just under £10bn, the Chancellor left herself limited fiscal headroom again in March. Higher yields and downward revisions to the OBR's growth forecasts over the medium term due to trade disruption means around £5bn of that has been eaten away.
- Of course, the fiscal rules could be altered to allow for greater borrowing, but we think that this is very unlikely, given the Chancellor's repeated commitment to them and potential punishment by markets. We think the government will find it politically challenging to push through further spending cuts so additional tax changes will be necessary. The government have ruled out changes to income tax and VAT, but we think additional duty changes to things like alcohol and tobacco may not cut it this time, meaning the government may be forced to row back on manifesto pledges.
- Higher defence spending will most likely require higher taxes to fund it too, as the government will find it politically challenging to cut spending in other areas.

Limited fiscal headroom in March has probably halved

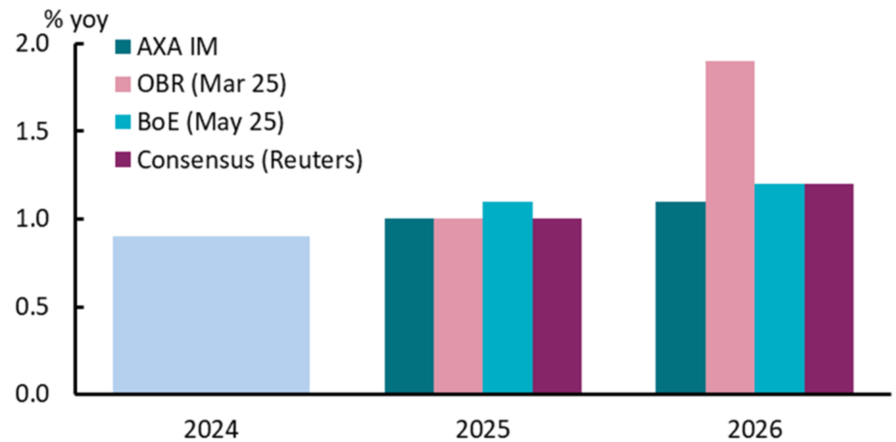
OBR headroom forecasts



Source: The OBR, ONS and AXA IM Research, June 2025

The OBR will most likely revise down their growth forecasts again

GDP growth forecast



Source: Bank of England, the OBR, Reuters and AXA IM Research, June 2025

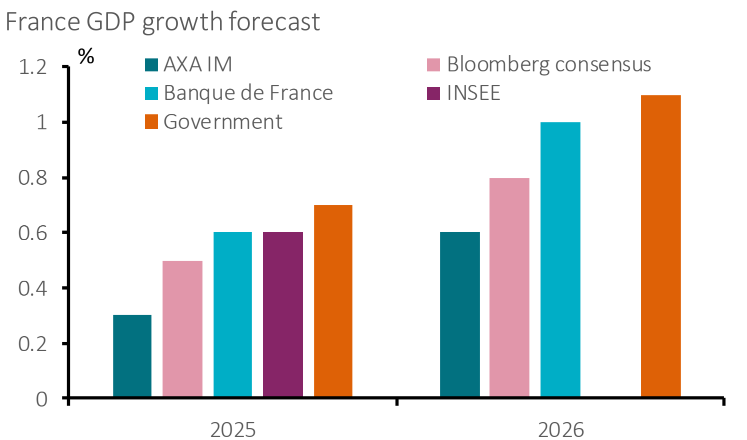
Fiscal anchors

France: More public deficit slippage ahead

Weak growth and unstable politics complicate everything

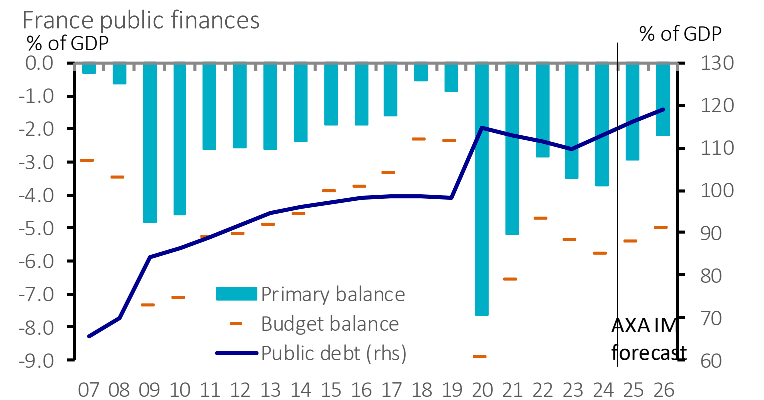
- France GDP grew by 0.1% q/q in Q1, underperforming other large euro area economies. Forward looking indicators suggest no significant pick up around the corner. We keep our cautious view projecting French GDP to grow by just 0.3% this year.
- This may not have large ramifications in the short-term, given the small committed reduction in public deficit (0.4pp to 5.4%) for this year.
- Though adding major short-term external risks to likely persistent domestic political instability makes it very hard to foresee a persistent growth pick-up, implying further fiscal slippages in the years ahead. Challenging political situation implies minimal effort on the spending front. Public debt to keep grinding higher.
- When taking 2024-2025 together, also accounting for reforms and investment, the Commission judged that France's fiscal consolidation plan is broadly on track. We are not that reassured.

Cautious growth forecasts



Source: Bloomberg, Banque de France, INSEE, Ministry of Finance, AXA IM Research, June 2025

Public debt to grind higher



Source: EC, AXA IM Research, June 2025

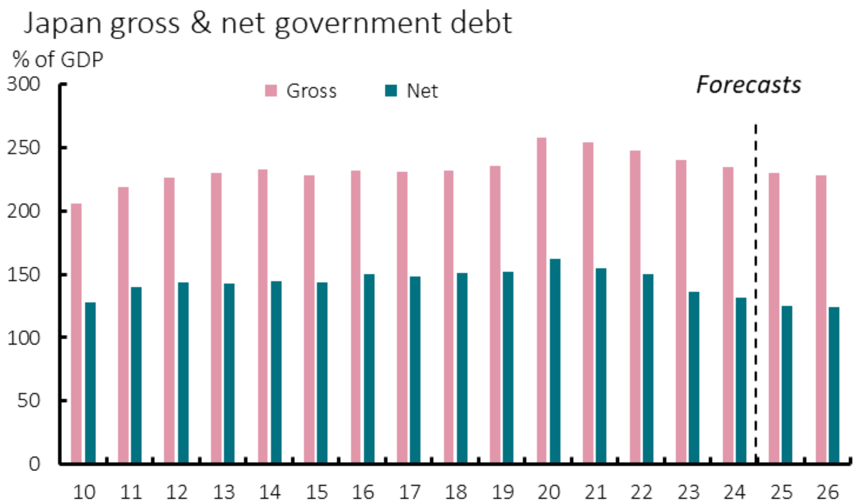
Fiscal anchors

Japan: Fiscal position not quite as fragile as it first appears

High debt, but modest risks

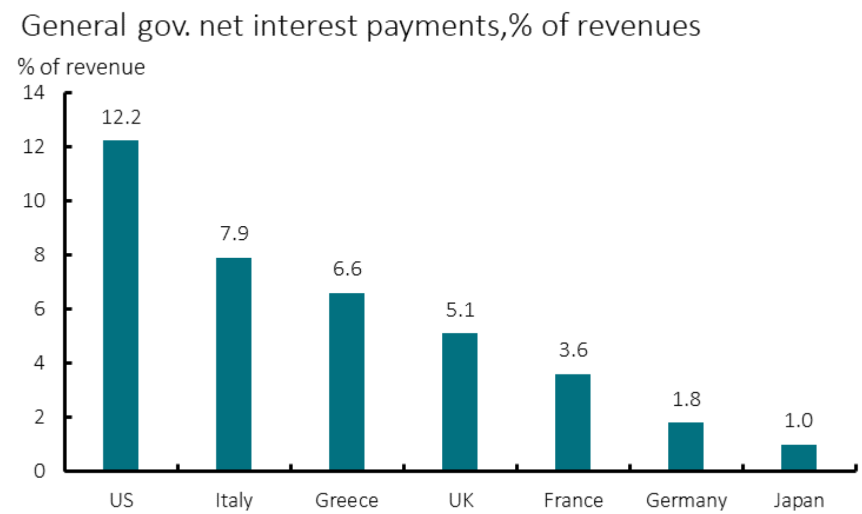
- Japanese government debt is eye-wateringly high at first glance. It rose to just under 260% in 2020 and remained above 230% of GDP in 2024. But net debt is just over half of that as a share of GDP and has been improving gradually over the past few years, as nominal GDP growth has remained strong. Indeed, tax revenues have jumped by around 15bn yen over the past three years or so, as nominal earnings have jumped. Japan's net interest payments are also low relative to its revenue and holds most of its domestically, making it less vulnerable to currency shocks.
- As a result, we think the government still has some scope to support households either through further energy subsidies, one-off handouts to households or through a consumption tax reduction. Note a drop in the consumption tax to 5%, from 8% currently would only cost 0.3% of GDP in revenues. We think fiscal concerns are somewhat overplayed.

Debt is high, but most held domestically; less exposed to shocks



Source: National sources and AXA IM Research, June 2025

Net interest payments are low too; fiscal concerns overdone



Source: Morgan Stanley, National Sources and AXA IM Research, June 2025

Fiscal anchors

Germany: Using the space

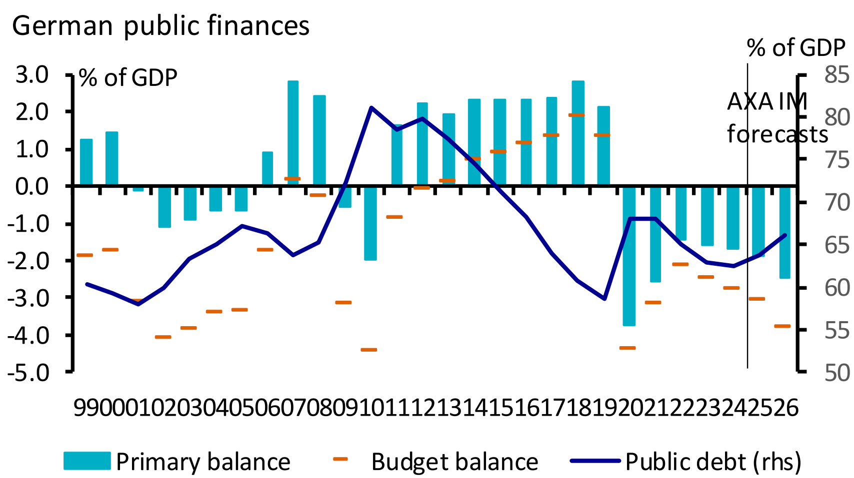
We expect only small gains in the short-term

- Newly formed government is finalising the 2025 budget to be voted in September, suggesting little extra spending to come in the short-term to offset the negative external drag from tariffs. We project the German public deficit to increase 0.3ppt to 3.1% this year.

Ramping up long-term investment plans

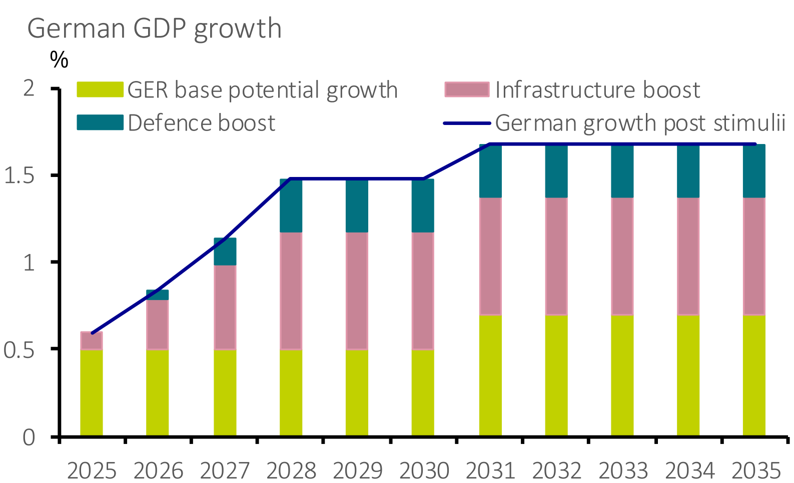
- The draft 2026 budget to be submitted to the Commission by mid-October will reveal the spending targets aimed by the government for the two critical items: €500bn new infrastructure fund (11.6% of 2024 GDP) for 12 years and defence spending above 1% of GDP is excluded from debt brake calculation.
- We have taken conservative assumptions both in terms of ramping up the spending as well as the associated multipliers. Though, potential growth in Germany is to be significantly improved in the medium-run.

Assumed moderate increase in deficit in the short-term



Source: EC, AXA IM Research, June 2025

Aiming at long-term growth gains



Source: EC, AXA IM Research, June 2025

Fiscal anchors

China: Faster fiscal spending supports domestic economy amid trade tension

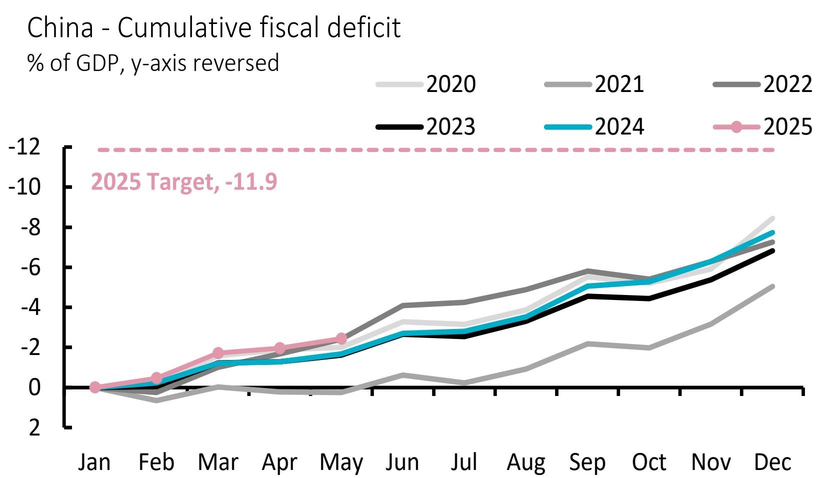
Faster than previous years, yet only a fifth of annual target spent

- The National People's Congress has set a nearly 12% of GDP worth of fiscal package for 2025, a moderate increase since last year's 9%. With a "less bad" outcome from trade negotiations with Washington, we now do not expect further additional fiscal stimulus, at least till Q4 this year.
- The progress of fiscal spending has been bumpy but still outpaced the previous years.

Central government bond issuance progressed well

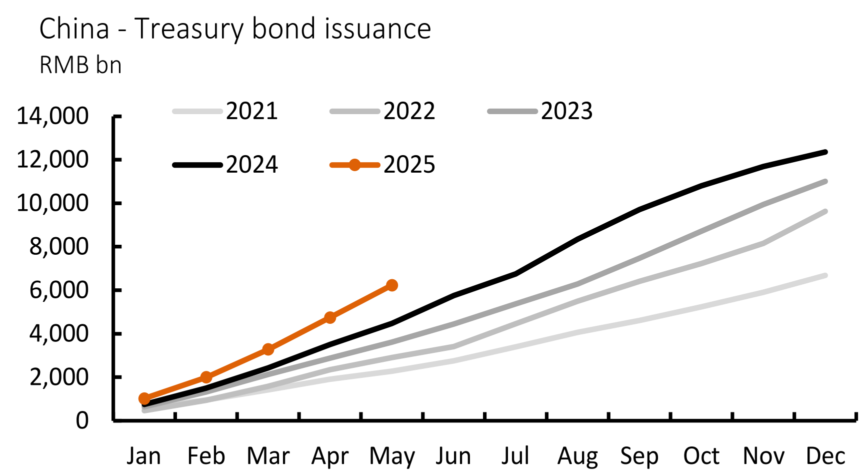
- Given local governments' heightened debt levels, the central government has taken on responsibility for over half the total fiscal spending in 2025, whereas previously the majority would have come from local governments.
- Indeed, this trend could be seen in the rapid issuance of treasury bond so far this year.

Overall fiscal spending in 2025 outpaced previous years…



Source: CEIC and AXA IM Research, June 2025

…especially the bond issuance



Source: CEIC and AXA IM Research, June 2025

Macro outlook

Impact of tariffs yet to show

US

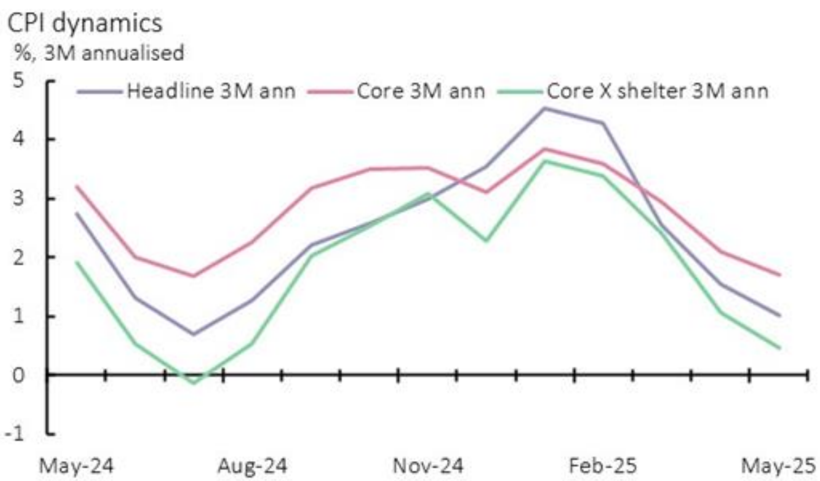
Disinflation continues

- On a 3m-annualised basis, headline inflation fell to 1.0% in May, while core CPI fell below 2.0% for the first time since last summer. Excluding shelter, which is the Federal Reserve's favourite gauge of price pressure at the moment, core was particularly weak, at 0.5%.
- Tariffs are the most obvious source of tension, the first concerning signs of pass-through should emerge in core goods prices. This is not yet happening: on a three-month annualised basis, prices of goods fell again into negative territory in May.

Resilient labour market

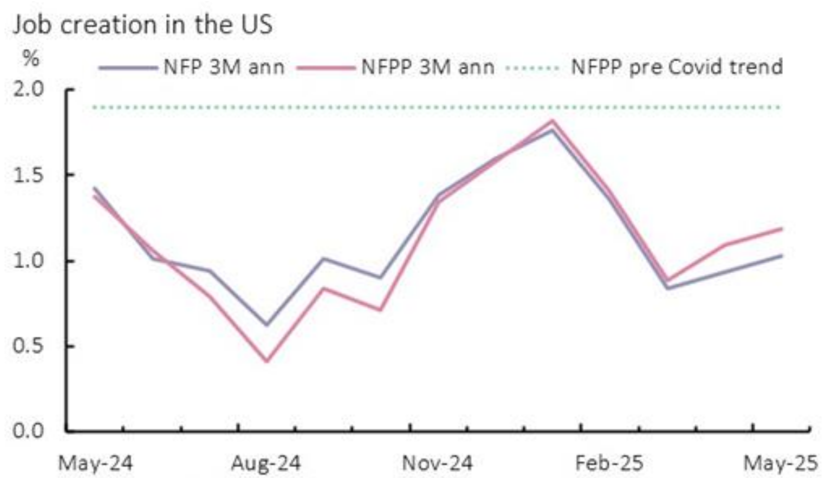
- May's employment report came out better than expected, with non-farm payrolls at +139K according to the Establishment Survey. While the employment gains are markedly below the pre-COVID-19 trend (1.9% on average between 2010 and 2019), this is still a very, very soft landing: the slowdown in job creation reflected by the Establishment Survey continues to be contained.

Disinflation continues, for now



Source: Bureau of Labor Statistics and AXA IM Research, June 2025

Labour market very soft landing



Source: Bureau of Labor Statistics and AXA IM Research, June 2025

Taking onboard Fed in no hurry to cut

US

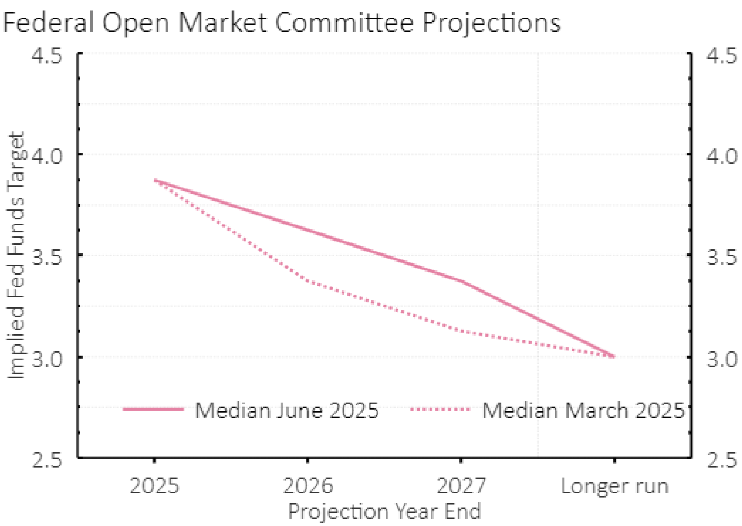
Hawkish forecast revisions

- The Fed's new forecasts in June sent a hawkish message. The FOMC's median forecast for GDP was revised down for 2025 and 2026. GDP growth is now projected slightly below trend growth next year, at 1.6%, against 1.8% in March. Yet, the forecast for core PCE was revised up from 2.2% to 2.4% in 2026 and, crucially, the FOMC is not sure it can be brought completely back to target in 2027, hitting 2.1% at the end of the horizon.

We now look for two cuts this year

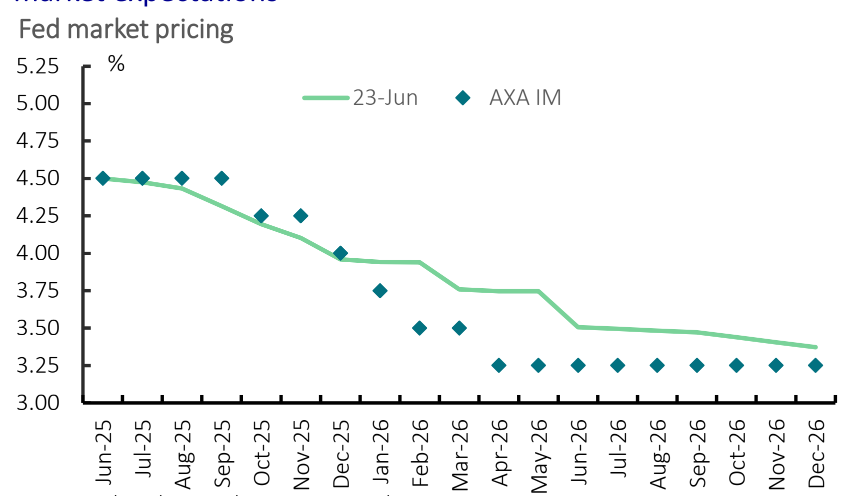
- We now foresee just two rate cuts this year in October and December ending the year at 4.0%. For 2026, we keep our projected three cuts ending the year at 3.25%, significantly below market expectations, though likely consistent with our more bearish view on the growth front.

A hawkish move of the dot plot



Source: LSEG Datastream and AXA IM Research 15/05/2025

Our updated Fed rate path still on the dovish side against market expectations



Source: Bloomberg and AXA IM Research, June2025

Unsatisfying underlying growth momentum

Euro area

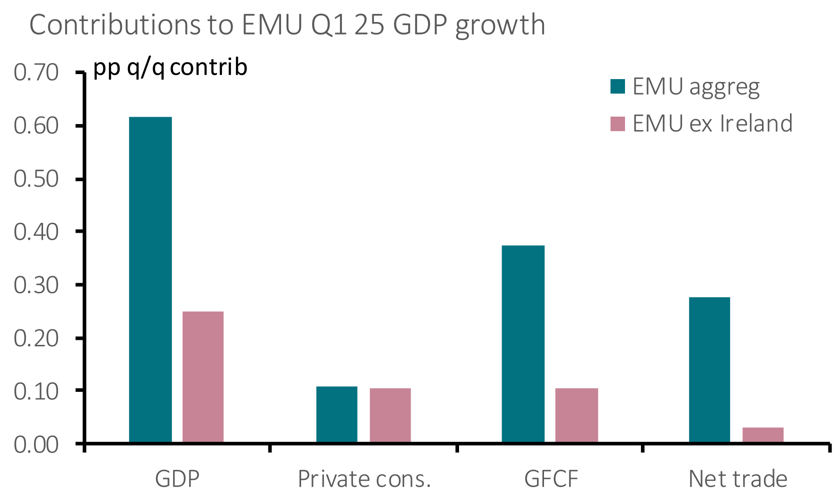
Ireland in the driving seat of eurozone growth in Q1 25

- Euro area Q1 25 GDP growth was revised up to 0.6% q/q (from 0.3% q/q) following large revisions in Germany and Ireland, posting growth two and three-times stronger than initially estimated to 0.4% q/q and 9.7% q/q respectively. Boosted by very large net trade and investment contributions, Ireland made up 50% of euro area growth in Q1 while weighting just 4% in the aggregated level.

We remain conservative on the growth outlook

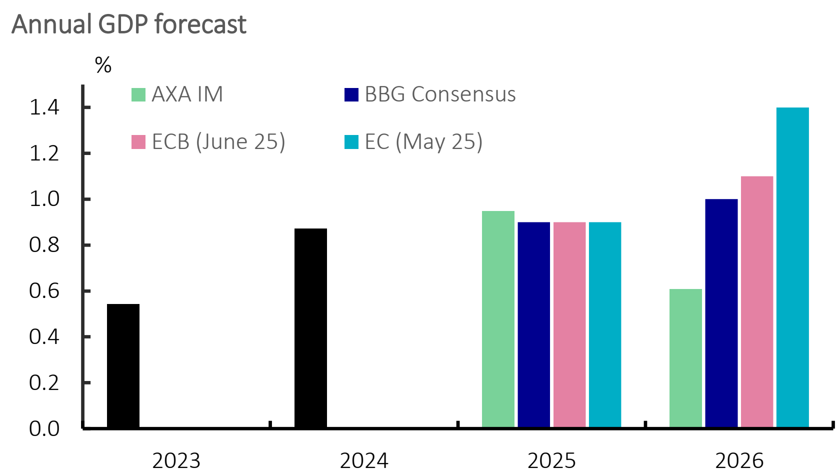
- Our revised projected growth profile now looks more volatile, as we brought forward some of the weakness we expected for the second half of the year. We know project GDP to contract -0.2% q/q in Q2 (from 0.0% q/q) before a flat print in Q3 (from -0.2%) and -0.1% q/q in Q4 (from -0.2%). The euro area would be just about flirting with a recession – rather than going through the canonical definition of a recession (two consecutive quarters of GDP contraction). We keep our cautious, below consensus, recovery path: annual average growth for 2026 is still likely to be lower (0.6%, +0.1pp) than 2025 (0.9%, +0.2pp).

Very large (temporary) contributions from investment and trade



Source: Refinitiv, AXA IM Research, June 2025

We project lower growth in 2026 than in 2025



Source: ECB, Datastream, Bloomberg, AXA IM Research, June 2025

Revised ECB rate path, but unchanged dovish bias

Euro area

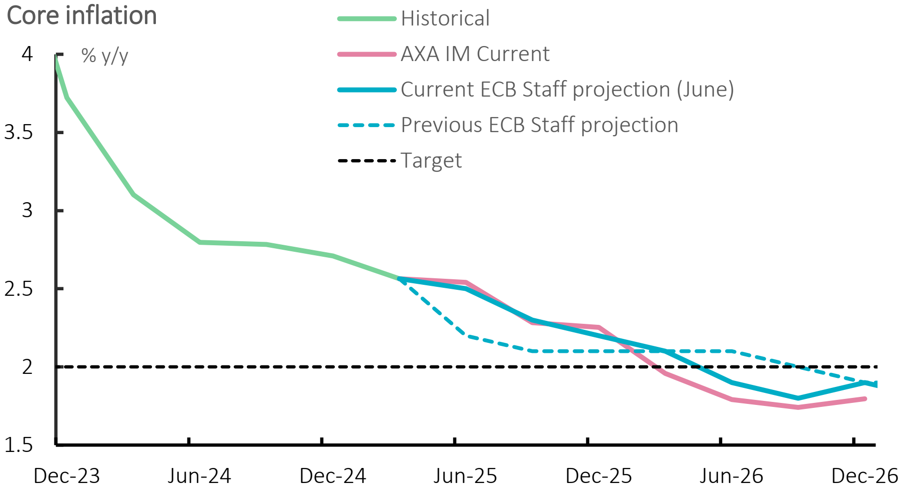
High uncertainty continues

- In line with our long-held call, the ECB cut its depo rate to 2% in June. Amid continued very high uncertainty, the ECB maintained its data-dependence and meeting-by-meeting approach.

Revised call to 1.5% by year-end

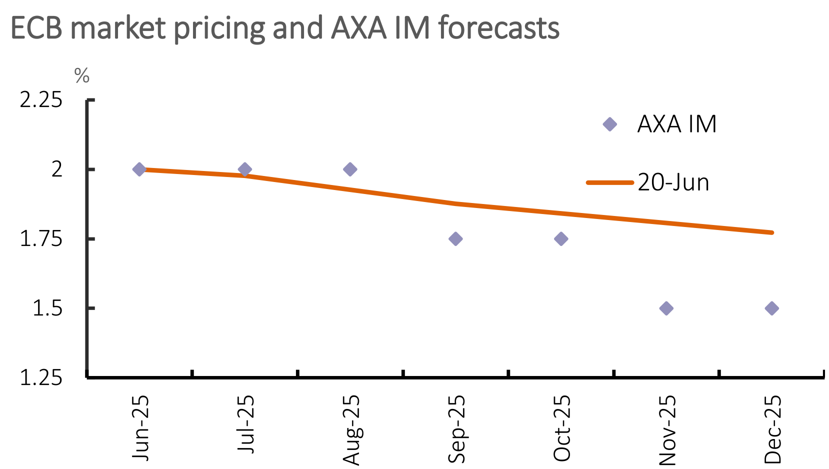
- We think that the bar for continuing back-to-back rate cuts has gone significantly higher pending for more news on the tariff front – US officials have highlighted a trade US-EU trade deal on the 9 July is unlikely. In light of ECB's communication, and better-than-expected in the data, we now only foresee two rate cuts in September and December to 1.5% by year-end. We maintain our dovish bias against market expectations that the risk is skewed towards more cuts.

We see more downside on core inflation from a weaker economy



Source: ECB, AXA IM Research, as of June 2025

We continue to expect more ECB rate cuts than the market



Source: Bloomberg, AXA IM Macro Research, as of June 2025

Strong start but underlying momentum is likely weaker

UK

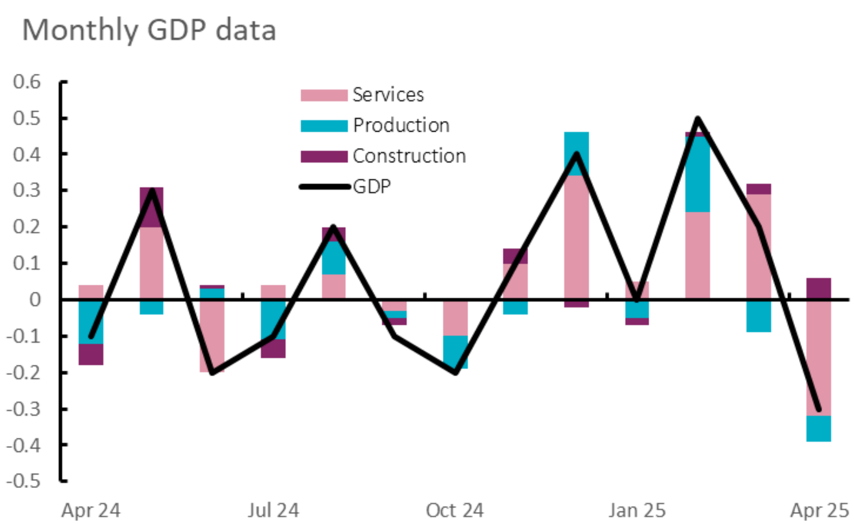
Q1 surprised to the upside

- GDP growth surprised to the upside in Q1, rising by 0.7% on the quarter. But evidence is growing that a chunk of that was activity being brought forward ahead of Trump's Liberation Day and various tax changes. The latest data showed a 0.3%mom decline in April. And retail sales data were down a chunky 2.7% on the month in May. We see growth flatlining in Q2.

Labour market still deteriorating

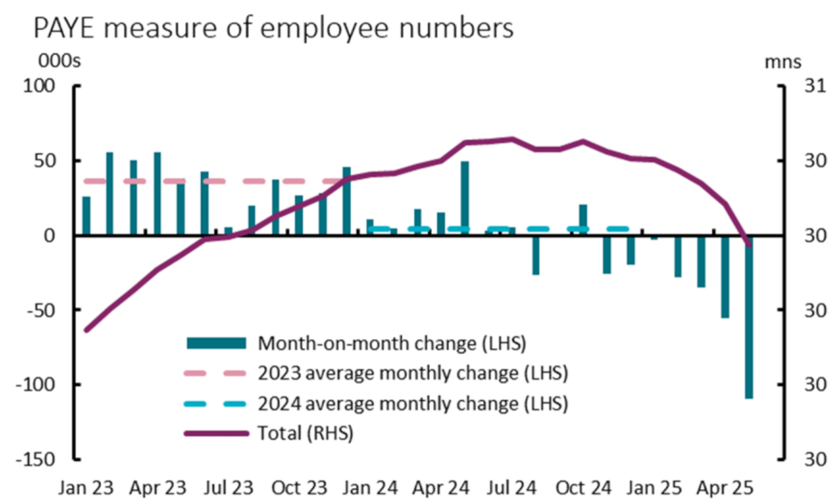
- CPI inflation, edged down to 3.4% in May, from 3.5% in April. But the ONS miscalculated the impact of the VED change in April, meaning the headline number would have been 10bp lower had this error not occurred. The underlying disinflation story remained intact. Core came at 3.5%, from 3.8% in April, while services inflation dropped back sharply to 4.7%, from 5.4%. We expect underlying inflation to slow in H2, as a weaker labour market underpins a more material slowdown in wage growth and sluggish demand keeps limits firms' ability to pass on higher costs. Note the PAYE measure of employment dropped by a whopping 109K in May, though this likely will be revised higher, and survey data suggests slack is continuing to widen.

Some payback from Q1 strength



Source: National Statistics and AXA IM Research, June 2025

Labour market slack increasing



Source: National Statistics and AXA IM Research, June 2025

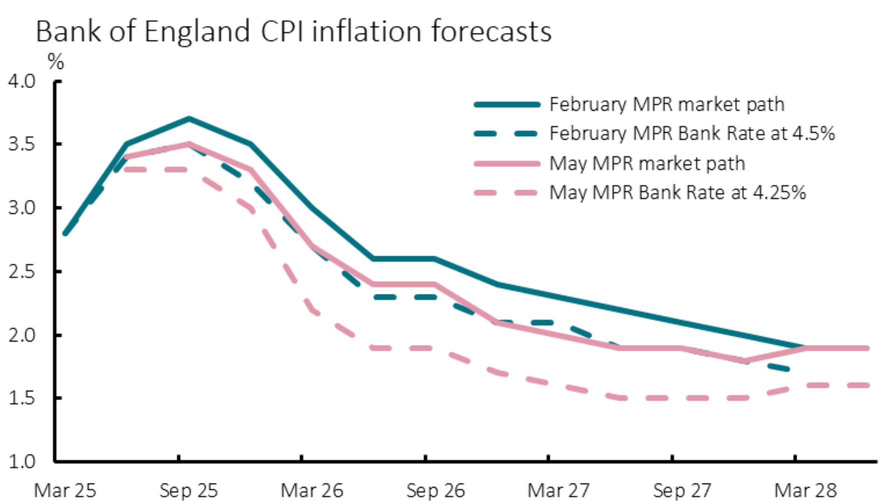
Keep calm and carry on (Cutting once a quarter)

UK

Increasing labour market slack to underpin 'gradual' cuts

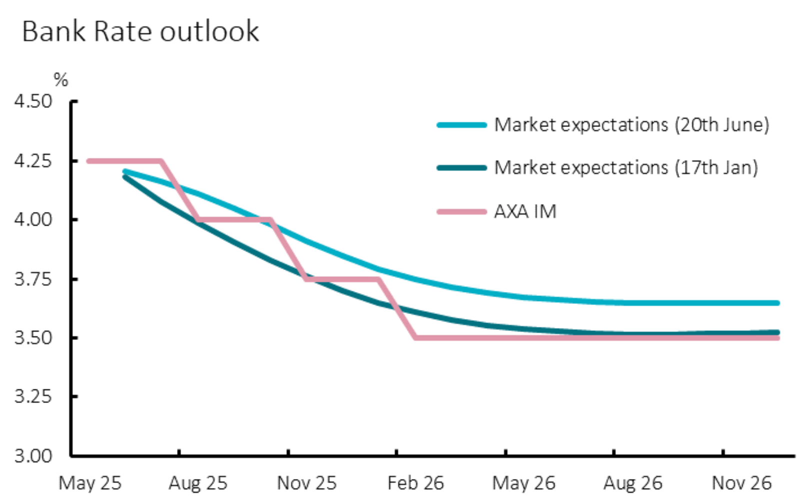
- The Bank of England (BoE) voted to keep Bank Rate unchanged at 4.25% this month, but the vote split was more dovish than expected, with three of the nine members – Dhingra, Ramsden and Taylor – voting in favour of a further 25bp cut. The Bank also continued to peddle its "gradual and careful" approach which in our eyes indicates a desire to stick to the current quarterly pace of cuts.
- The MPC also noted that while it remained sensitive to higher oil prices amid the growing conflict in the Middle East, geopolitical factors had not played a significant role in its decision-making process in June indicating that the Committee is happy to look through near term volatility if evidence continues to show growing slack in the domestic economy. We continue to expect Bank Rate to fall to 3.75% by year end, broadly in line with market expectations.

BoE revised down its CPI inflation forecast in May MPR



Sources: The Bank of England and AXA IM Research, June 2025

BoE to continue gradual cutting cycle



Sources: The Bank of England and AXA IM Research, June 2025

Investment Managers

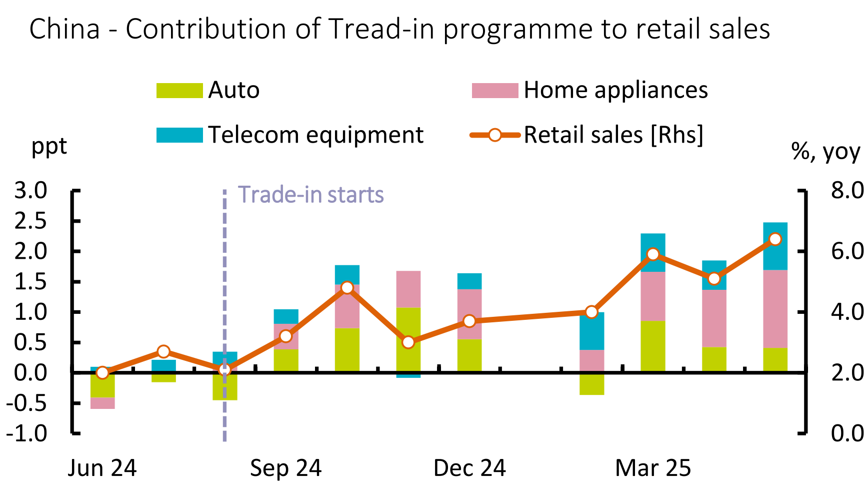
Retail sales rebound does not secure faster reflation

China

Several catalysts boosted May's retail spending

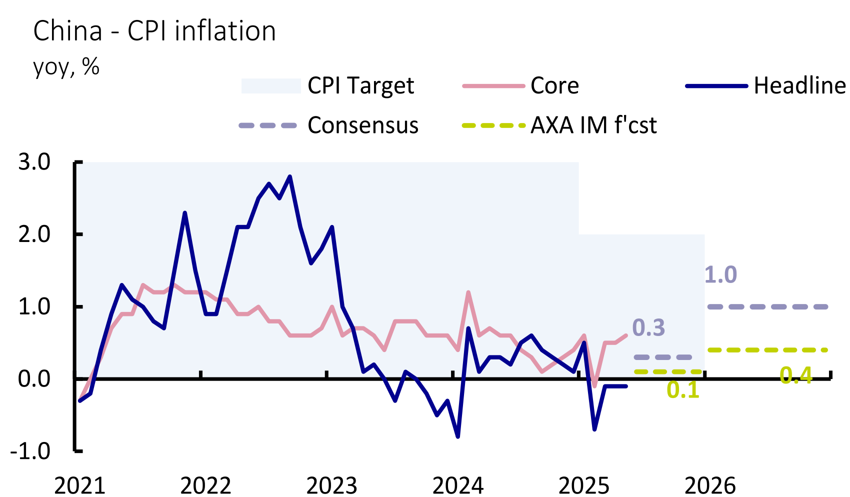
- The government-led ongoing trade-in programme had another positive impact on retail sales in May – home appliances alone account for the 1.3 percentage points growth of overall retail sales growth. Besides, Labour Day holiday at the beginning of the month saw a rebound in service spending. Moreover, early promotion of e-commerce shopping festival "618" also front loaded some demand.
- Despite the strong retail sales, price dynamics remain subdued. Headline CPI inflation continued to contract for the fourth consecutive month. Although the momentum is improving, it has been very gradual. We now expect CPI inflation to stay barely in positive territory at 0.1% in 2025, before improving further to a still weak 0.4% in 2026 (from 0.4% and 0.6% respectively).

Trade-in programme continues to support retail sales…



Source: CEIC and AXA IM Research, June 2025

…but price dynamics remain weak



Source: CEIC, Bloomberg and AXA IM Research, June 2025

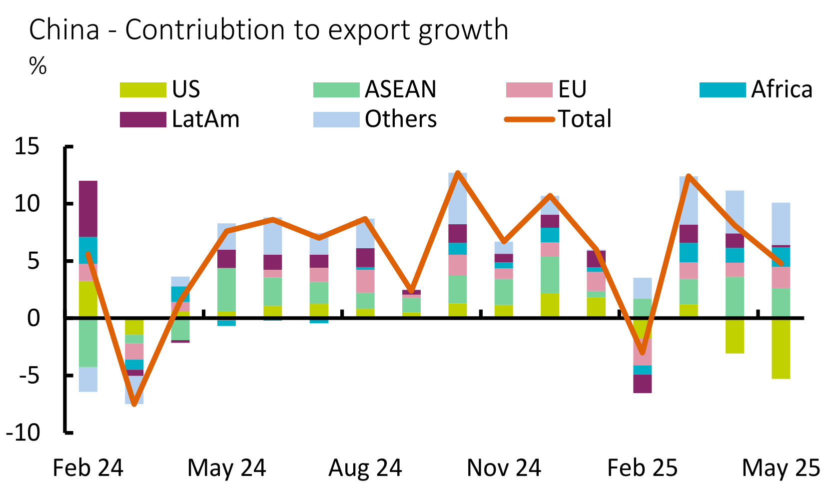
Second round trade talk, limited details

China

US and China held the second round of trade talk

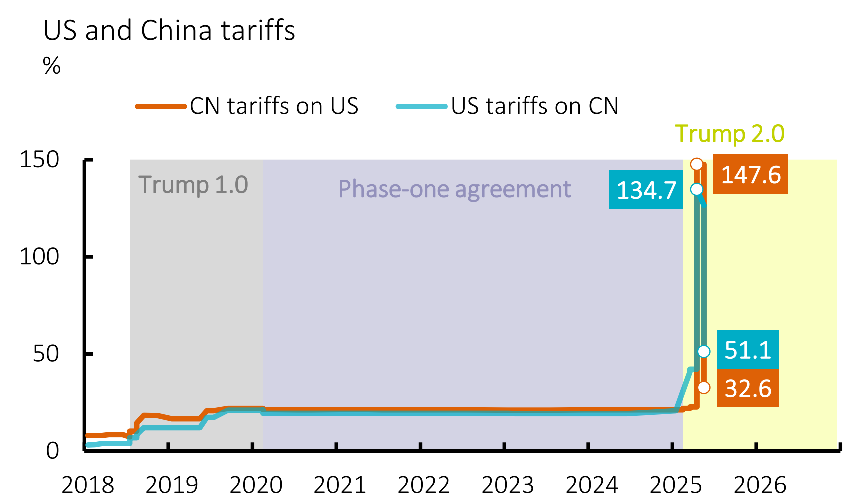
- Top officials met in London in early June after a first round in Geneva. Neither side has released many details since then, suggesting that the final deal may still need more time and discussions.
- The talks focused on China's rare earth export curbs, which is believed to be the pain point for Washington. Beijing has agreed to resume and fast-track shipments of rare earths to the US. However, neither sides changed their tariff level further since May's truce.
- China's exports so far held up reasonably well, thanks to the transhipment to ASEAN regions and the EU. High-frequency tracker of cargo shipment suggests that US importers have been encouraged to resume orders, however that has not yet shown in the latest trade numbers.
- Despite the recent development, uncertainty remains a headwind for China's exports.

Export growth held up while shipments to US contracted further



Source: CEIC and AXA IM Research, June 2025

Retaliatory reciprocal tariffs have been paused till August



Source: Peterson Institute and AXA IM Research, June 2025

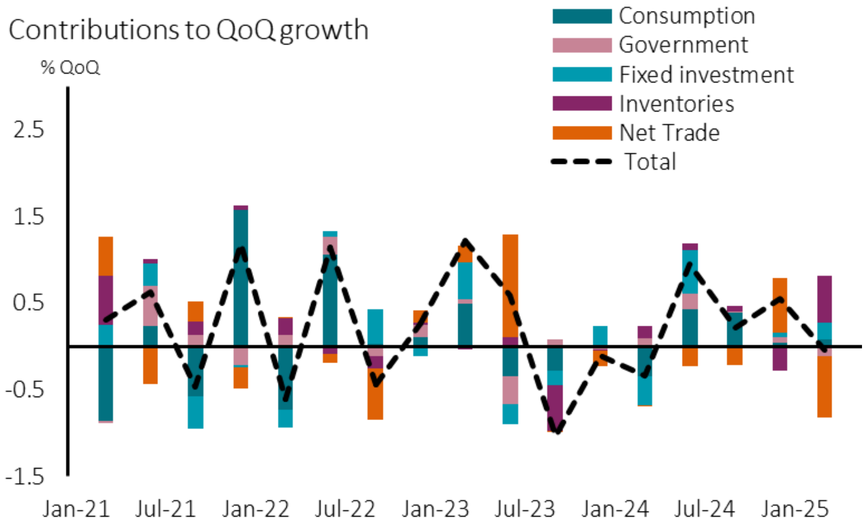
Bumpy start even before jump in geopolitical uncertainty

Japan

Moderate quarterly pace expected through the rest of 2025

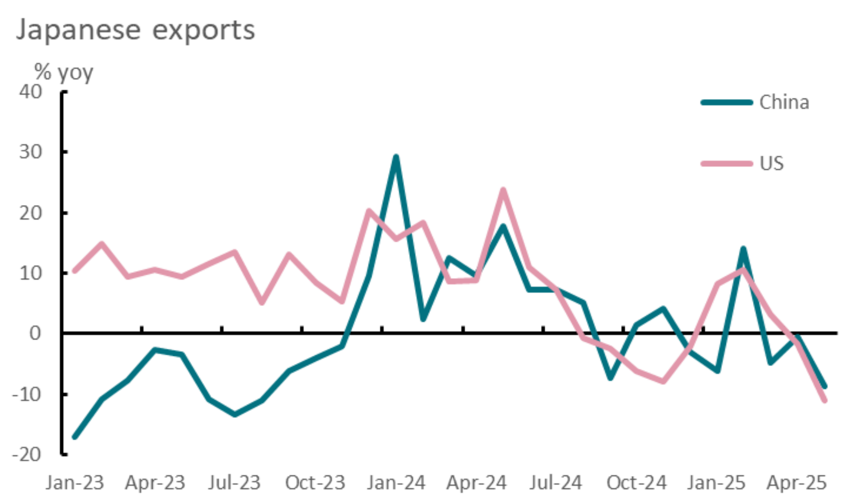
- The second estimate of Q1 GDP in Japan was revised up to an annualised quarter-on-quarter fall of 0.2%, compared to the initial estimate, -0.7%. But while personal consumption increased slightly to 0.5%, from 0.2%, most of the upward revision reflected an increase in inventories, likely due to activity being brought forward ahead of Trump's Liberation Day.
- Looking ahead, therefore, we expect only a modest rebound in Q2, as a sustained increase in personal consumption – due to elevated wage growth – is offset by a drop in autos exports to the US, a reversal in support from inventories and weaker investment as businesses weigh up the tariff impact. Note too that the latest business surveys have edged lower. On balance, we expect growth of 1.0% this year.

Net trade delivers weak start to the year



Source: National Statistics and AXA IM Macro Research, June 2025

Export will remain a drag



Source: National Statistics and AXA IM Macro Research, June 2025

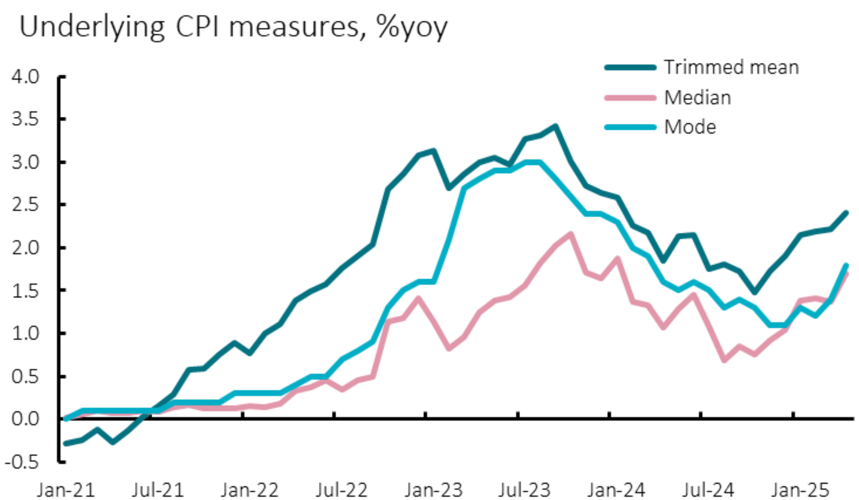
Bank of Japan still on course to hike

Japan

Heightened uncertainty won't halt rate hikes

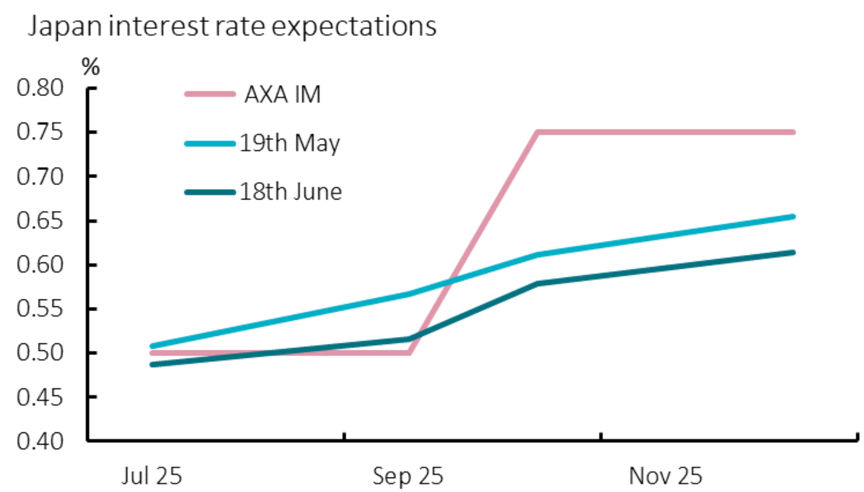
- The virtuous wage/price spiral remains broadly intact, despite geopolitical concerns, with growing acceptance among the population that modest inflation is needed to keep wages rising sustainably over the long term. Structural changes including the ageing population and depleting labour pool should keep wage growth elevated compared to the previous couple of decades. Businesses are passing on rising costs to consumers; the latest CPI data showed the core reading jumping to over a two-year high of 3.7% in May, from 3.5%, while the BoJ's so-called "Model 1" estimate of underlying inflation is approaching 2%.
- The BoJ voted unanimously to leave its key policy rate unchanged at 0.5% at the June meeting. It also stuck to the forecasts laid out in its most recent Quarterly Report; domestic dynamics remained favourable, with underlying inflation returning to the 2% target by the end of the forecast horizon. Stronger than expected CPI inflation in May means we continue to see one more 25bp hike this year to 0.75%, before the Bank is forced to keep rates unchanged through 2026. Meanwhile, the Ministry of Finance has announced that it will reduce issuance at the long end of the curve in response to weakening demand from investors. The revised plan shows a 1.8 trillion drop in issuance of super long-dated JGBs.

Underlying inflation is picking up



Source: National Sources and AXA IM Research, June 2025

We expect a further 25bp hike in H2



Source: Refinitiv and AXA IM Research, June 2025

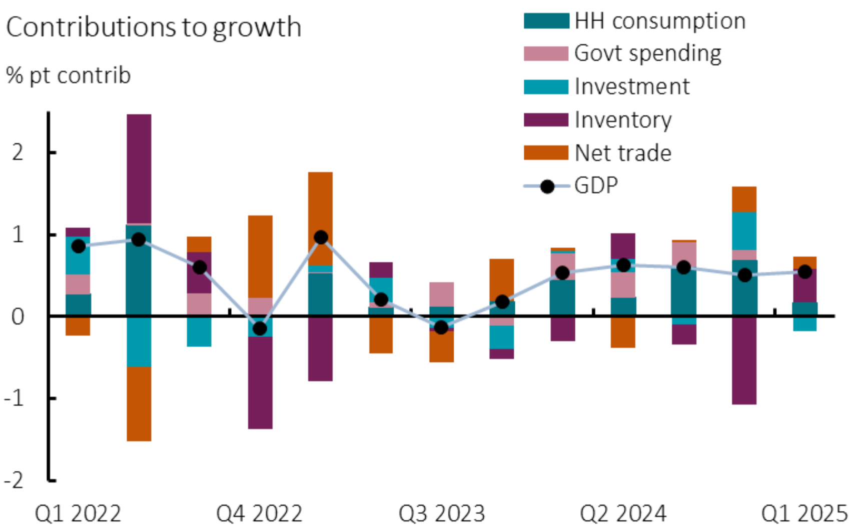
Strong start, but will reverse

Canada

Q1 strength was result of front loading

- Canada GDP surprised to the upside in Q1, rising by 2.2% quarter-on-quarter annualised compared to the Bank of Canada's expectations (BoC), 1.8%. But a large part of that was due to a jump in exports – up 6.7% on the quarter – as US demand surged prior to Liberation Day. Inventories also rose, adding 1.4ppt to the headline rate.
- Consumption growth, by contrast, slowed to a quarterly pace of 1.2% in the face of growing uncertainty, after a strong 5% rise in Q4. And capex fell outright by 3.1%, though that's largely due to an 11.0% drop in residential investment on lower resale activity. Looking ahead, we expect growth to fall outright in Q2, as the boost from front-loading reverses, and then to remain subdued in H2, due to spillovers from a US slowdown and a pause in investment activity in the face of uncertainty. We see growth of 1.4% this year and 0.5% next.

Growth was strong in Q1, driven by front loading



Source: National Sources and AXA IM Research, June 2025

Surveys have taken a leg down post tariff debacle; point to reversal

Source: S&PGlobal and AXA IM Research, June 2025

Developing slack will offset initial upward hit to inflation from tariffs

Canada

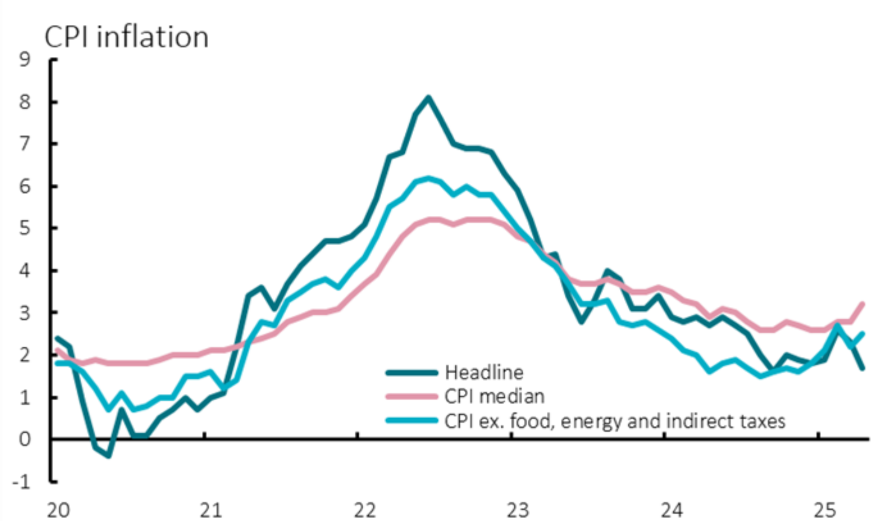
Labour market data gloomy, suggesting larger negative output gap on the way

- The unemployment rate rose to nearly a four-year high of 7.0% in May, from 6.9% in April. Firms most exposed to US tariffs adjusted hiring plans, with net employment in the manufacturing sector down 12.2K jobs. We think the unemployment rate will continue to edge higher over the course of the year, as demand eases and growth slows. Underlying inflationary pressures, meanwhile, picked up by more than expected in April, with the trimmed mean measure rising to 3.1% in April, from 2.8% in March. But growing slack and weak demand will likely offset the initial upward impact from tariffs on inflation.

We see further cuts this year

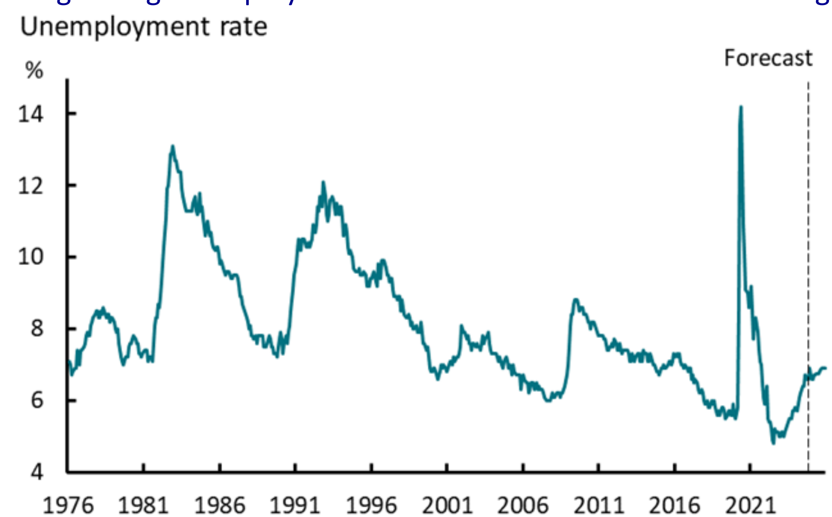
- The BoC kept its key policy rate unchanged at 2.75% at its June meeting, as it waited to see further evidence on how US trade policy is affecting the domestic economy. We continue to see two further rate cuts this year, leaving the key policy rate at 2.25% by year end. While underlying inflationary pressures are currently firmer than expected, the downward impact on growth due to tariff uncertainty and the corresponding opening of slack will likely offset higher costs in our eyes.

Underlying measures of CPI have ticked up



Source: National Sources and AXA IM Research, June 2025

But growing unemployment should offset initial tariff hit in long run



Source: National Sources and AXA IM Research, June 2025

Monetary easing giving way to fiscal stimulus to boost domestic demand

EM Asia ex-China

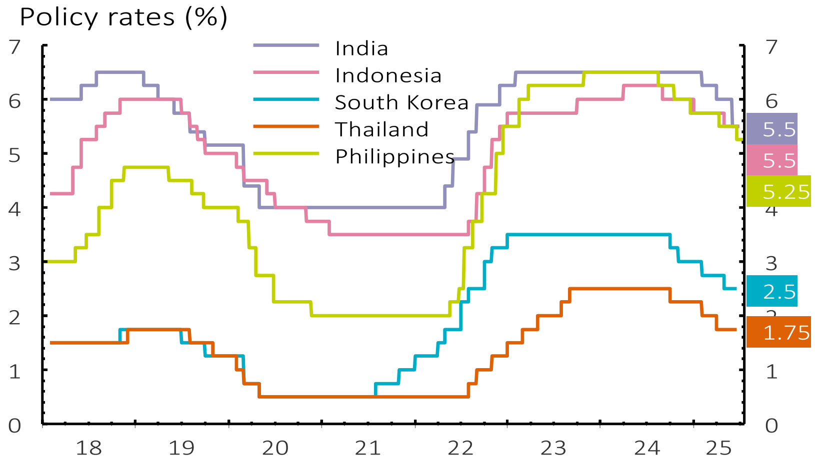
Still room for monetary easing, but bulk of rate cutting has been carried out and geopolitical risks will renew caution

- India's 50bp cut on 6 June means "monetary policy is (now) left with very limited space to support growth," according to the RBI governor. In South Korea there was a unanimous vote for a 25bp cut in late May, but minutes from the meeting showed members calling for careful assessment of domestic and external risks before considering further cuts. Bank Indonesia kept rates unchanged on 18 June due to "still high global uncertainty " but it will continue to monitor the potential for further cuts to support growth.

Fiscal stimulus forthcoming

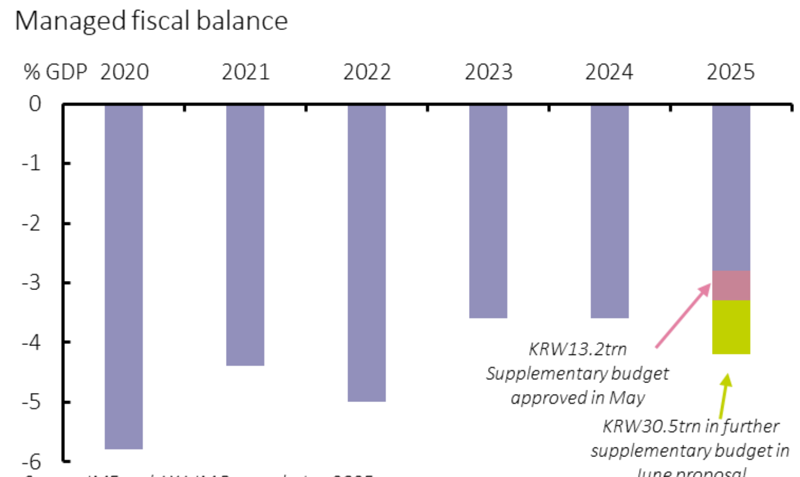
- South Korea's new president is advancing his campaign promises of a substantial fiscal stimulus package, primarily focusing on cash handouts and debt restructuring. Government debt, though still manageable, is expected to rise to 49% of GDP from 47.4% in 2024. Indonesia has introduced a US$1.5 billion economic support package for June-July, but a more pressing need is to get spending back on track now that the budget reallocation process under President Prabowo's "efficiency savings" drive has been completed.

Moving closer to terminal rates in current easing cycle



Source: LSEG Datastream and AXA IM Research Jun 25

Korea's new president seeking to revive demand



Source: IMF and AXA IM Research, Jun 2025

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When political cycles affect fiscal outlook

Central Europe

Poland trapped between Presidential elections (May 2025) and Parliamentary elections (2027)

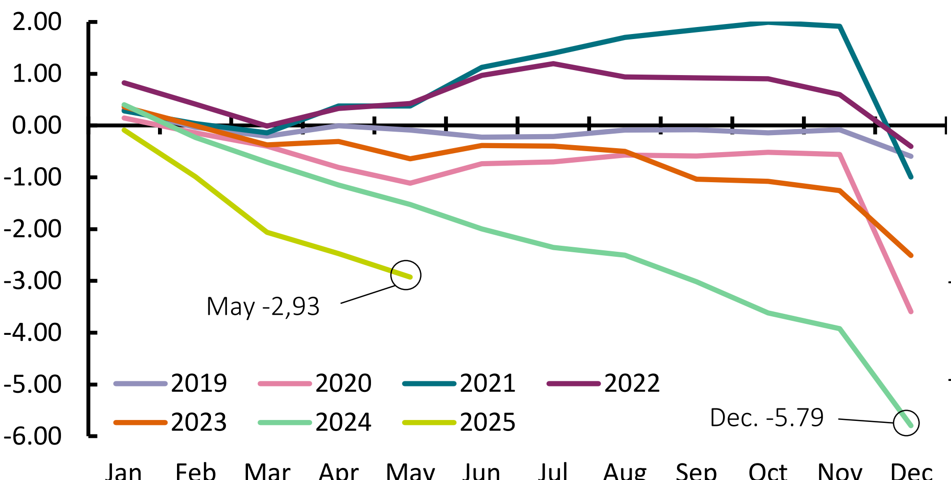
- Right-wing nationalist Law and Justice (PiS) party candidate Nawrocki was elected President last May, a significant blow to the Tusk government, suggesting that its legislative efforts to increase taxes (as well as judiciary reform efforts) may continue to be blocked, while its appetite for reducing social spending may be minimal ahead of 2027 Parliamentary elections. Budget deficits of 6%-6.5% of GDP are likely to stay in 2026-2027, as well as EU funds (~3% of GDP) which will prove quite helpful.

Pro-EU elections outcome in Romania may not be sufficient to deliver the needed fiscal tightening

- With a public deficit on course to reach 9% of GDP this year, the new government needs broad support across all political parties in order to deliver unpopular fiscal tightening, from pension spending cuts to VAT and personal income tax hikes. EU funds (1.5% of GDP) will be helpful but insufficient. FX adjustment will most likely be part of the macro adjustment.

Fiscal slippage in Poland

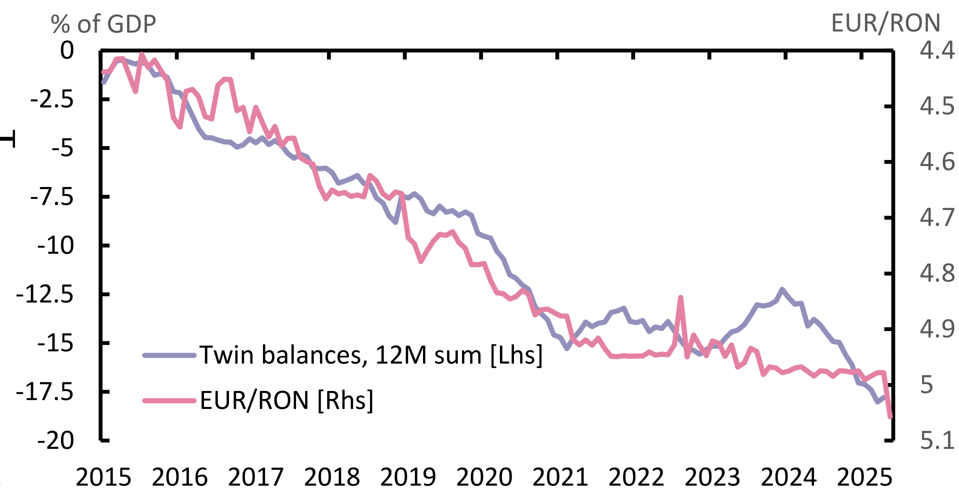
Poland central government budget balance



Source: Macrobond and AXA IM Macro Research, June 2025

Romania: Extremely wide twin deficits

Romania - Budget balance and current account



Source: Macrobond and AXA IM Macro Research, June 2025

Economic and political cycles matter

Latin America

Brazil: short-term gain but still long-term pain

- Strong economic growth buoyed public revenues, while spending has been delayed by the late approval of the 2025 budget. While some of that spending restraint may be partially reversed in H2, some sense of fiscal discipline transpired in the May spending freeze announcement. The 2026 budget may nonetheless struggle, as Congress is likely to avoid tax hikes before elections.

Mexico remains committed to fiscal discipline in spite of weak economic growth

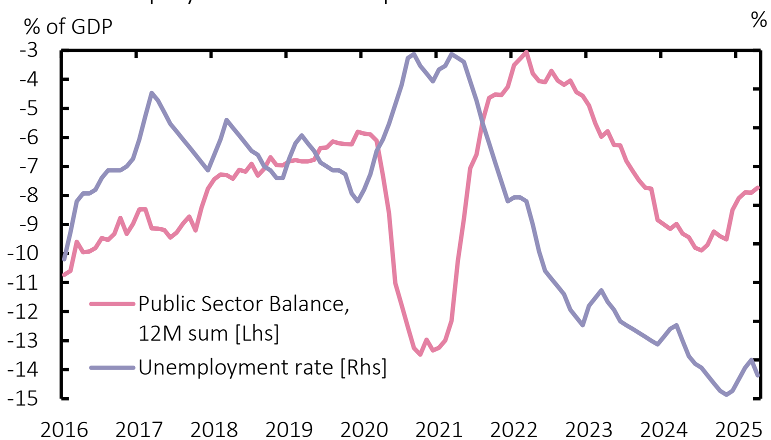
- Despite weak domestic demand , the deficit narrowed in early 2025 to 0.6% of GDP on the back of strong tax collection boosted by an expanded VAT base for digital platforms. The government remains committed to fiscal consolidation through spending cuts.

Colombia lost its fiscal anchor

- In spite of strong economic activity, higher primary spending and lower revenues are likely to take the deficit above 7% of GDP this year. With fiscal rules suspended for the next three years, spending cuts are unlikely ahead of 2026's elections.

Brazil: Public sector deficit still wide despite unemployment close to the lows

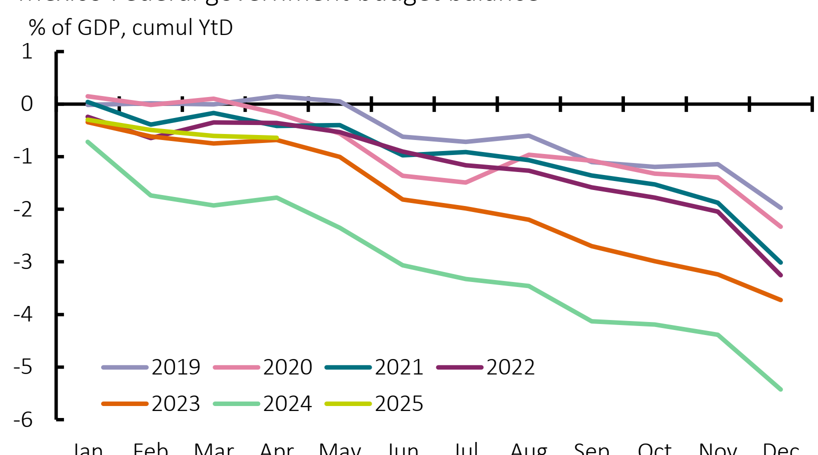
Brazil unemployement rate and public sector balance



Source: Macrobond and AXA IM Macro Research, June2025

Mexico: Fiscal adjustment underway

Mexico Federal government budget balance



Source: Marcrobond and AXA IM Macro Research, June 2025

Forecasts & Calendar

Macro forecast summary

Real GDP growth (%)	2024	2025*		2026*	
	AXA IM	AXA IM	*Consensus*	AXA IM	*Consensus*
World	3.3	2.6		2.4	
Advanced economies	1.7	1.1		0.7	
US	2.8	1.2	1.4	0.5	1.7
Euro area	0.9	0.9	0.9	0.6	1.2
Germany	-0.2	0.0	0.1	0.3	1.3
France	1.1	0.3	0.6	0.6	1.0
Italy	0.5	0.6	0.5	0.7	0.8
Spain	3.2	2.3	2.5	1.9	1.9
Japan	0.1	0.8	1.0	0.9	0.7
UK	1.1	0.9	0.7	1.1	1.1
Switzerland	1.3	1.1	1.1	1.2	1.5
Canada	1.5	1.6	1.0	0.6	0.8
Emerging economies	4.2	3.5		3.4	
China	5.0	4.3	4.5	4.0	4.2
Asia (excluding China)	5.4	4.5		4.6	
India	6.9	6.5	6.3	6.1	6.5
South Korea	2.0	0.5	1.3	1.7	1.9
Indonesia	5.0	4.5	4.9	4.9	5.0
LatAm	2.4	1.8		2.0	
Brazil	3.4	1.9	1.9	1.8	1.7
Mexico	1.5	0.0	0.2	0.8	1.4
EM Europe	3.3	2.1		2.0	
Russia	4.1	1.5	1.7	0.9	1.2
Poland	2.9	2.8	3.3	2.9	3.2
Turkey	3.2	3.0	2.9	3.4	3.4
Other EMs	2.8	3.2		3.7	

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 25 June 2025
*Forecast

Expectations on inflation and central banks

Forecasts

Inflation Forecasts

CPI Inflation (%)	2024	2025*		2026*	
	AXA IM	AXA IM	*Consensus*	AXA IM	*Consensus*
Advanced economies	2.7	2.7		2.4	
US	3.0	3.2	3.2	3.2	2.3
Euro area	2.4	2.0	2.0	1.6	2.0
China	0.2	0.1	1.3	0.4	1.6
Japan	2.7	2.9	2.0	1.5	1.7
UK	2.5	3.3	2.3	2.0	2.0
Switzerland	1.1	0.2	1.0	0.5	1.0
Canada	2.4	2.4	2.1	2.5	2.1

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 25 June 2025

**Forecast*

Central banks' policy: meeting dates and expected changes

Central bank policy
Meeting dates and expected changes (Rates in bp / QE in bn)

		Current	Q3-25	Q4-25	Q1-26	Q2-26	Q3-26	Q4-26
United States - Fed	Dates	4.50	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)	-0.50 (4.00)	-0.50 (3.50)	-0.25 (3.25)	unch (3.25)	unch (3.25)
Euro area - ECB	Dates	2.00	24 Jul 11 Sep	30 Oct 18 Dec	5 Feb 19 Mar	30 Apr 11 Jun	23 Jul 10 Sep	29 Oct 17 Dec
	Rates		-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	30-31 Jul 18-19 Sep	29-30 Oct 18-19 Dec	Jan Mar	May June	Jul Sep	Oct Dec
	Rates		+0.25 (0.75)	unch (0.75)	unch (0.75)	unch (0.75)	unch (0.75)	unch (0.75)
UK - BoE	Dates	4.25	7 Aug 18 Sep	6 Nov 18 Dec	5 Feb 19 Mar	30 Apr 18 Jun	30 Jul 17 Sep	5 Nov 17 Dec
	Rates		-0.25 (4.00)	-0.25 (3.75)	-0.25 (3.50)	unch (3.50)	unch (3.50)	unch (3.50)
Canada - BoC	Dates	2.75	30 Jul 17 Sep	29 Oct 10 Dec	Jan Mar	May June	Jul Sep	Oct Dec
	Rates		-0.25 (2.50)	unch (2.50)	-0.25 (2.25)	unch (2.25)	unch (2.25)	unch (2.25)

Source: AXA IM Macro Research - As of 25 June 2025

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Calendar of key events

2025	Dates	Events
July	6-7 Jul	BRICS Summit
	27-Jul	Japanese House of Councillors election
	24-Jul	ECB meeting
	29-30 Jul	FOMC meeting
	30-Jul	BoC meeting
	30-31 Jul	BoJ meeting
August	7-Aug	BoE meeting
September	9-Sep	UN General assembly
October	17-19 Oct	World Bank annual meeting
	20-Oct	Canada federal elections
	30-Oct	End of FY2025
November	5-Nov	US Mid term elections
	10-21 Nov	Brazil host COP30
	22-23 Nov	G20 Summit
December	31-Dec	Temporary provisions of Tax Cuts &Jobs Act expire
2026	**Dates**	**Events**
February	5-Feb	New START Nuclear Treaty Expires
March	Mar	France Municipal elections
May	15-May	Powell term as Fed Chair expires
July	1-Jul	First review of USMCA
November	3-Nov	US midterm elections

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21 May 2025

The forces reshaping China's labour market

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27 February 2025

February Global Macro Monthly - Trade war

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