



# A new golden age

Monthly Investment Strategy

AXA IM Macro Research

January 2025

# Summary: January 2025

## Theme of the month: Political Outlook for 2025

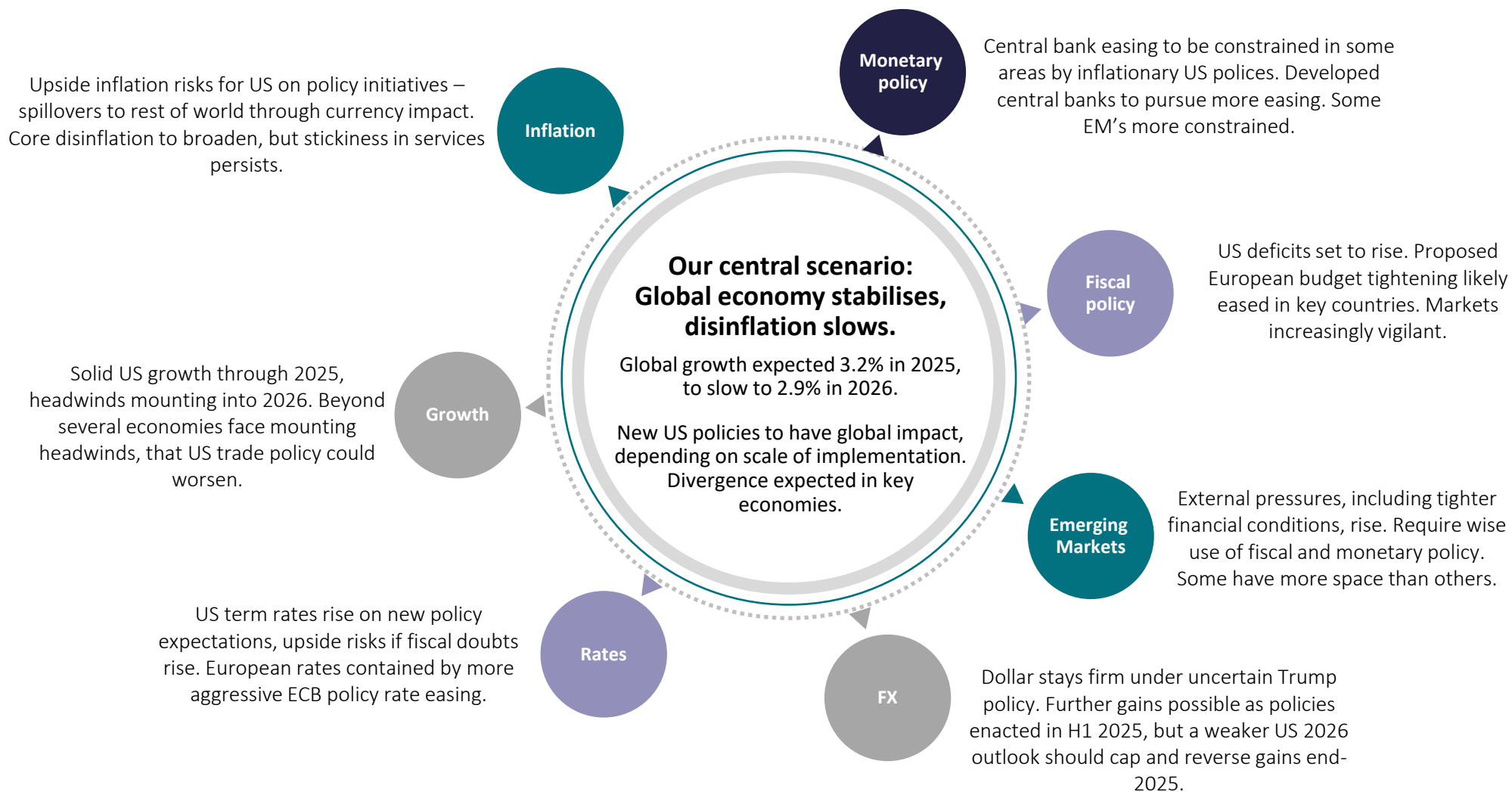
- 2025 faces fewer elections than 2024, but incoming new governments will face, and in some cases cause, ongoing political challenges.
- Europe faces a single scheduled election in Germany on 23 February. Polls suggest the CDU/CSU will lead in the polls, but a coalition with either the SPD or the Greens will likely emerge but may take several months. In either case a relatively small minority is likely with the AfD polling in a solid second place.
- The rest of Europe could, however, deliver further elections. France has already seen one government fail since last year's surprise elections, further elections could be held from July. Spain's leaders govern by minority, the Netherlands have a technocrat leader and Belgium a care-taker prime minister.
- Canada faces an earlier election if the Liberal's soon-to-be-elected leader fails a vote of no confidence once Parliament re-opens in March. Polling suggests a change of government to the Conservatives.
- Poland and Romania both face important Presidential elections that could unlock further structural reform, increasingly needed in the latter case.
- Argentina's Milei faces mid-terms that will gauge support for his reforms. Chile's elections could shift from the left, which might support future investment.
- The Philippines presidential election looks unlikely to shift economic direction; and the outlook for South Korea's President is increasingly uncertain.

## Macro update: a new golden age

- Returned US President Trump embarked on a slew of policy announcements in his first week in office, adding to market volatility and uncertainty in trading partners. The US economy begins this new era with a solid pace. We expect modest deceleration from consumers, and larger risks from the administration's expected unorthodox policy suite. However, scope for Fed easing remains narrow, with just one cut expected (March) this year.
- China has been threatened with 10% tariffs on 1 February, but Trump is seemingly more focused elsewhere. China's domestic economy struggles persist with further softening in early 2025. We expect further stimulus quantified in March to accompany a new growth target focused on managed decline.
- The Eurozone has also not been the focus of initial US trade policy. Again, domestic growth has disappointed, with risks of stagnation in Q4, undershooting ECB forecasts. While headline inflation has inched higher on energy prices, the ECB appears on track to cut to neutral and then, we believe, below.
- UK growth has also disappointed, but a softening labour market should weaken the wage and inflation outlook. We forecast four BoE rate cuts in 2025.
- GDP growth in Japan should quicken as moderate growth persists over H1. Wage growth looks set to continue. The BoJ hiked rates to a 17-year high of 0.50% and barring a material trade war, we expect a further 0.25% hike this year.
- Tariff threats are also impacting EMs. Depending on precise circumstances, central banks are having to ease policy to support growth (Indonesia) or pause with rate cuts to defend currencies/inflation outlooks (Korea, but several Latam). In the main a combination of fx policy and idiosyncratic inflation pressures is increasingly limiting EM monetary policy easing.

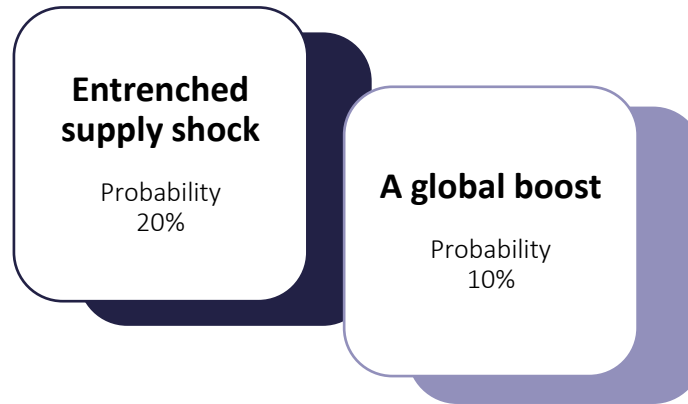
# Central scenario

## Summary – Key messages



# Alternative scenarios

## Summary – Key messages



- Full scale Trumponomics: protectionism, migration clampdown
- Geopolitical tensions escalate: Ukraine, Middle East and Indo-Pacific
- Inflation expectations rise, affecting wages and inflation persistence

What could be different?

- Productivity boost following investment rebound and structural post-pandemic adjustments, AI impact becomes visible
- De-regulation prompts more efficient government

- Growth weaker, employment slows, but inflation remains above target
- Monetary policy ill-equipped to deal with supply shocks and financial instability, deteriorating inflation credibility forces still tighter policy in DMS

What it means

- Growth surprises on the upside in most regions
- Inflation fades more quickly towards and below central bank targets
- Monetary policy softens quicker than signalled

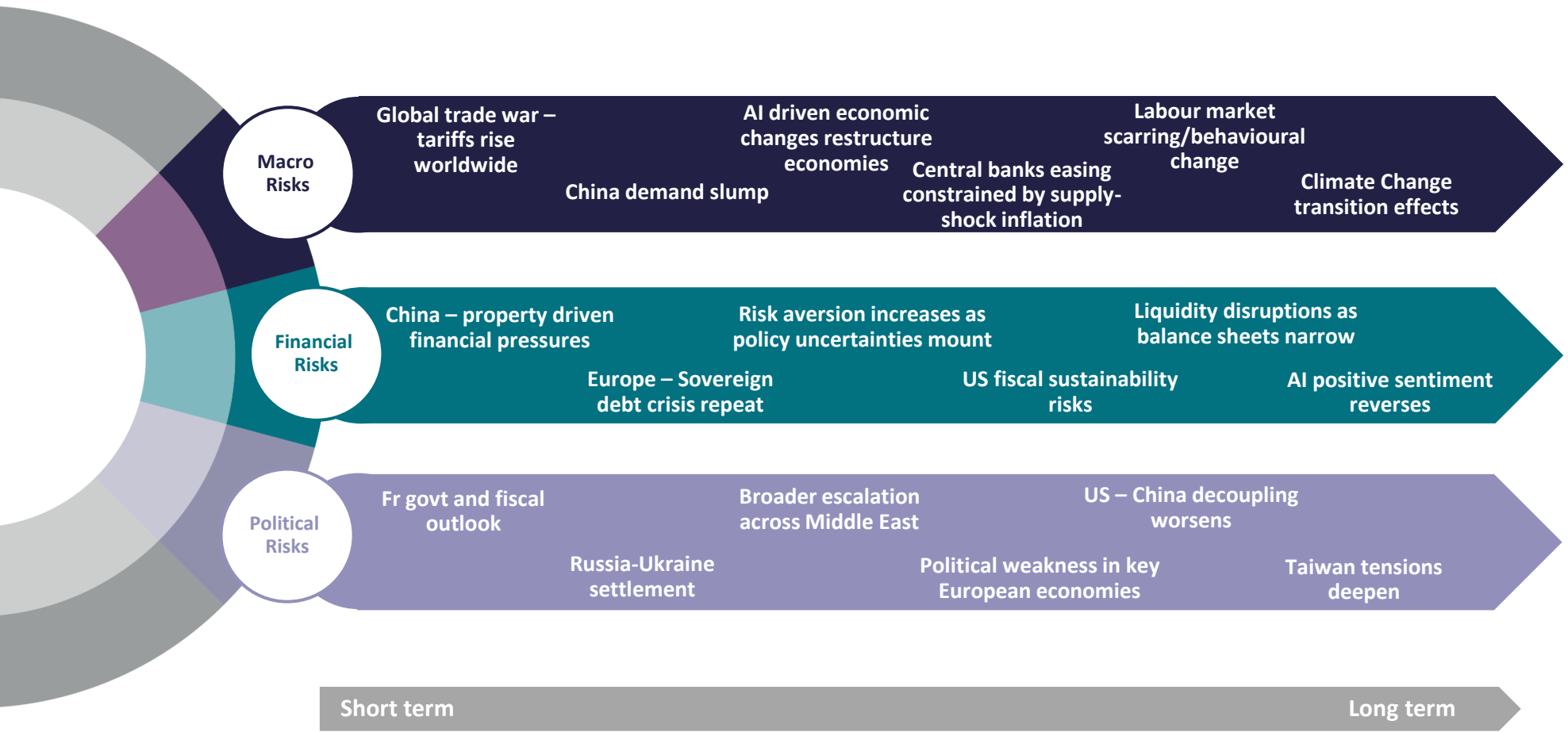
- Risk appetite deteriorates / equities sell off / credit widens
- Sovereign yields repriced higher
- Dollar remains elevated
- EM debt to come under pressure

Market implications

- Risk-on environment, equities make further gains, growth retains lead over value
- UST softens, EUR strengthens
- Spreads grind tighter

# RISk Radar

## Summary – Key messages



# Contents

1. Theme of the Month	P.07
2. Macro outlook	P.14
3. Forecasts & Calendar	P.30

# Theme of the month

# Germany – a much-awaited restart?

## 2025's elections around the world

### Institutional backdrop

- A one-round voting system with two choices: local and federal on the ballot. Parliamentary seats are allocated in proportion to the party share, and parties which got at least 5% voting intentions (or win at least three direct votes of the 299 districts).
- Focus on both 50% and 66% majorities is required – the first for governance, the latter for amending the constitution.

### Latest polls

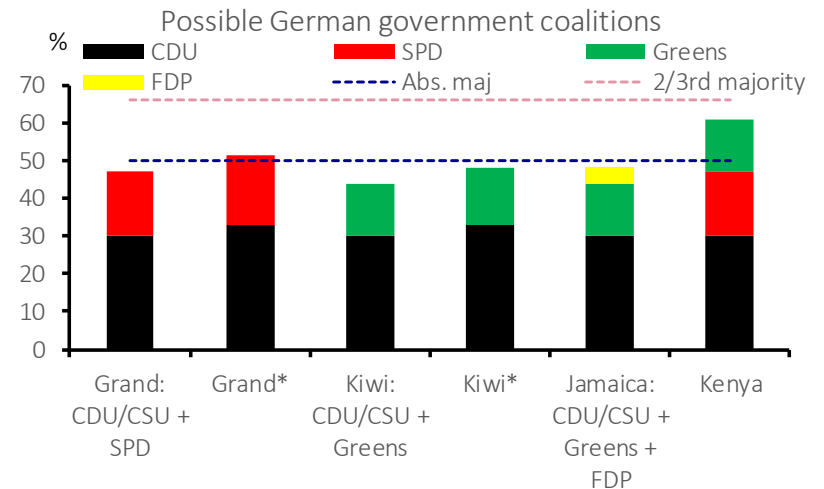
- CDU/CSU have had a 10pt lead in the past year, implying their leader, Frederick Merz, will likely be the next Chancellor. Uncertainty remains as to whether he will partner with the SPD, or with the Greens.
- Striking a coalition agreement can take up to 6 months.

### Polls show likely return of conservatist at the Chancellery...

	Sep-17 Election		Sep 21 Election		Nov-24		Latest polls - 20 Jan
	Seats	%	Seats	%	Seats	%	%
SPD	153	20.5	206	25.7	207	28.2	17
CDU/CSU	246	32.9	197	24.1	196	26.7	30
Greens	67	8.9	118	14.7	117	16.0	14
FDP	80	10.7	92	11.4	91	12.4	4
AfD	94	12.6	83	10.4	77	10.5	20
The Left	69	9.2	39	4.9	28	3.8	4
BSW	-	-	0	0	10	1.4	6
Independent	-	-	1	-	7	1.0	-

Source: Politico polls of polls, AXA IM Research, January 2025

### ...but securing appropriate majority is not straightforward



Source: Polls of polls, AXA IM Research, January 2025. \*Accounts for FDP, The Left not reaching the 5% threshold



# Europe – lacking (a politically-backed) direction

## 2025's elections around the world

### Political uncertainty (almost everywhere)...

- So many European countries are plagued by political uncertainty, and therefore unable to enact meaningful policies. We could end up with more than one European election this year.
- **France:** The current Parliamentary arithmetic in the National Assembly makes it very difficult to see a government lasting the year, above and beyond the issues concerning the 2025 budget. In turn, French voters may well have to return to the polls this year – legally though not before July, barring a more extreme political turn.
- **Spain:** The government has been stable and in place since formation in November 2023, but its minority position in the lower house (after July's elections) means its survival has relied on ad-hoc political agreements.
- **Netherlands:** Following a surprising victory by the far-right party in November 2023, political parties eventually agreed to name a technocrat, Dick Schoof, to lead the government.
- **Belgium:** Despite the June 2024 general election, the kingdom continues to be run by Alexander de Croo in a caretaking capacity.

### ... complicates European policymaking and weakens the newly appointed Commission

- **Europe:** Appointed Commissioners may receive less domestic backing where governing parties change. Moreover, the lack of Eurozone leadership, e.g. a Germany-France duo, makes it more difficult to react quickly and decisively. With weak Eurozone growth and Trump's return threatening developments in trade policy and the Ukraine conflict, this could become an issue.

# Canada

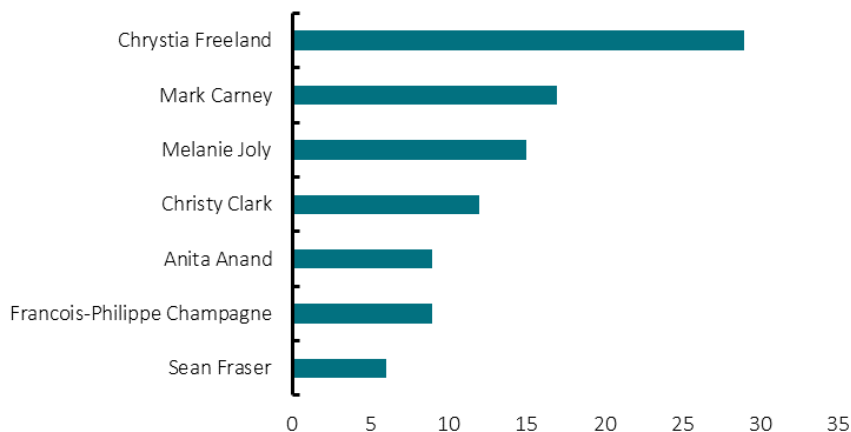
## 2025's elections around the world

### Trudeau resignation increases likelihood of H1 election; Conservative Party on track to win

- The General Election is due to take place by October 2025, but the resignation of former Prime Minister Justin Trudeau has increased the chance that this will take place in H1. Trudeau announced his resignation as PM and prorogued Parliament until 24 March in early January, sparking a leadership contest within the Liberal Party (LP). While uncertain when, the new leader will be selected before parliament reopens. The new leader of the LP will probably face a vote of no confidence in the House of Commons from opposition parties the day the parliamentary session begins. If successful, Parliament would dissolve sparking the start of an election process. Canadian law suggests the earliest date would be in early May, likely on the 5th or the 12th.
- As polls stand, the Conservative (CPC) are set to win an outright majority. This would most likely create additional headwinds for growth, with Pierre Poilievre – the CPC leader – having stated he would curb immigration and aim to bring the Federal Budget back into balance, reducing government expenditure. The rate outlook, however, will likely be less affected given that we think that with inflation hovering within the target range and growth subdued, the Bank of Canada will cut rates to 2.25% by end-2026.

### Trudeau's resignation has sparked leadership contest

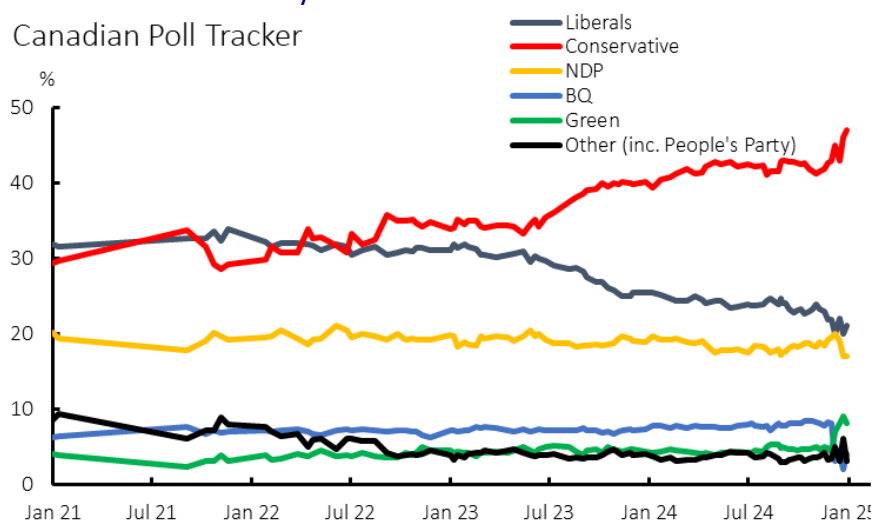
Liberal Party leadership contest polling



Source: IPSOS, Global News and AXA IM Research, January 2025

### The Conservative Party are on track to win

Canadian Poll Tracker



Source: CBC and AXA IM Research, January 2025

# EM Europe – Presidential elections in focus

## 2025's elections around the world

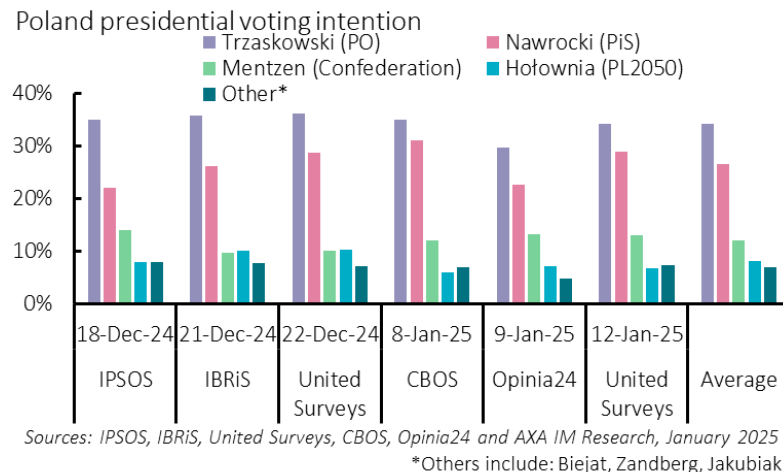
### Presidential elections likely to give increased room to PM Tusk

- Poland's presidential election in May could allow PM Tusk to fully implement his programme of rolling back institutional reforms that had weakened the rule of law under the previous PiS government. So far incumbent President Andrzej Duda (PiS) has resisted the change, but Tusk's Civic Platform candidate, Rafał Trzaskowski, has been leading in the polls over PiS candidate Karol Nawrocki. The vote will give indications as to whether Poland can maintain pro-EU policies after its 2027 general elections.

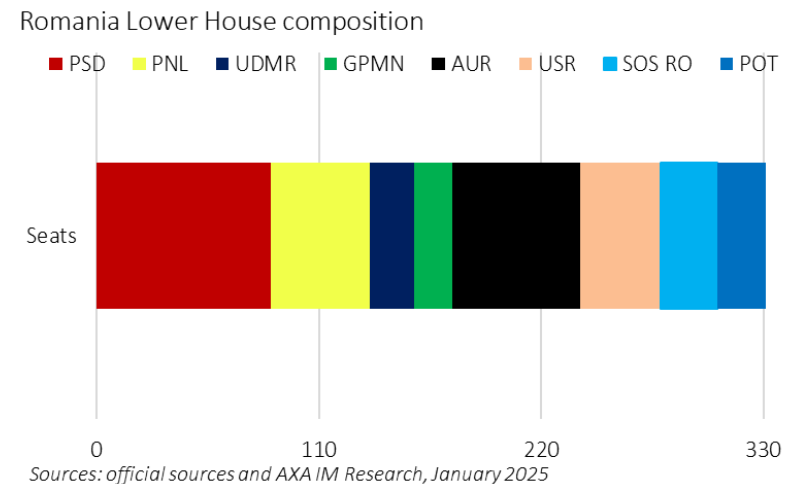
### Remaining election uncertainties in Romania delay forceful fiscal adjustment

- Romania is facing a political crisis that prevents a quick resolution of its fiscal and economic crisis. Any post-election correction of its macro imbalances has been further delayed after the first round of presidential elections was cancelled in December due to alleged irregularities and foreign influence, with a re-run now scheduled for May. The life expectancy of the new coalition government (of pro-EU centre-right and left parties) would likely be bolstered if its candidate, Ion Antonescu, is elected president.

### Trzaskowski (PO) leading vote intentions in Poland



### Romania's 2024 elections resulted in a fragmented Parliament



# Latin America – looking for reform

## 2025's elections around the world

### Argentina's Milei looking for stronger backing for reforms

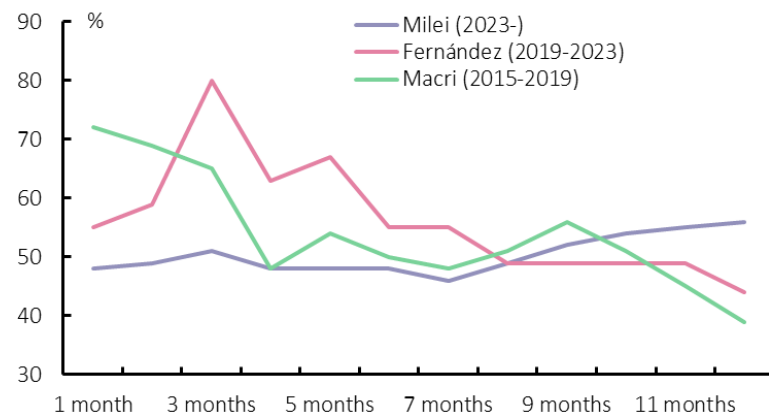
- Mid-term legislative elections in October will provide a key test for President Milei's economic stabilisation plan. Milei has drastically cut government spending and the deficit, even though his newly-created party La Libertad Avanza (LLA) holds a very small share of seats in Parliament, forcing him to negotiate to pass structural reforms. Milei continues to embody change and hope for a better economic future, a crucial factor underpinning public support - his approval rate stood at 56% in December.

### Chile's electorate looking for change (but not extremes)

- The left-wing president, Gabriel Boric, who is ineligible for re-election, has struggled to deliver on his election pledges to reduce inequality by increasing both taxes and social spending. His term has also featured the rejection of two new constitutional drafts (one too extreme for the left, the other too extreme for the right). The expected political shift will result in a change in policy priorities. A solid victory for centre-right Chile Vamos could deliver a better environment for much-needed investment.

### Milei's favourable approval rating

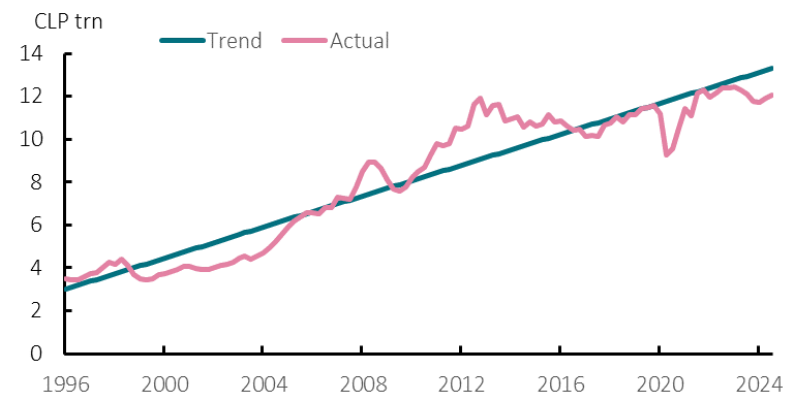
Argentina presidential approval rate in their first year



Source: Fortalecemos Las Democracias, AS/COA and AXA IM Research, January 2025

### New government in Chile could deliver investment impetus

Gross fixed capital formation (Constant prices SA)



Source: Macrobond and AXA IM Research, January 2025

# EM Asia

## 2025's elections around the world

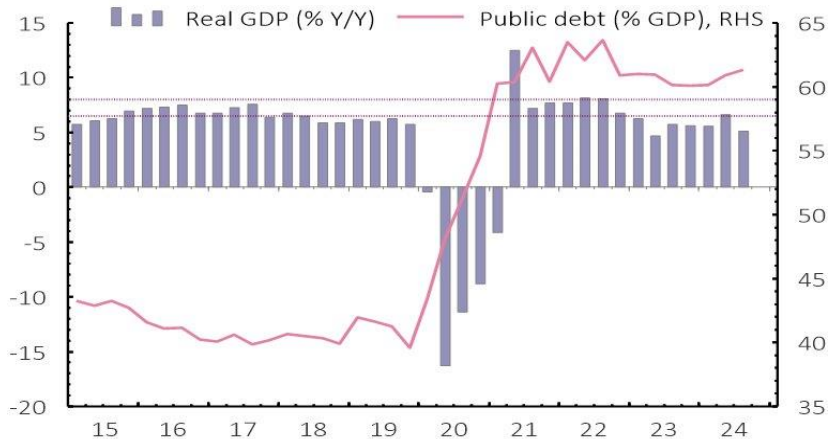
### President Marcos Jr. in the Philippines has strengthened alliances ahead of mid-term elections

- Mid-term legislative elections in May are not expected to change policy direction. Despite a declining trend in President Ferdinand Marcos Jr.'s approval ratings and an intensifying feud with his vice-president, Sara Duterte, he has cemented alliances with other political parties, such that his administration will have strong backing in both houses during the second half of his term, ensuring a continuation of his economic agenda. Under the 2023-2028 Development Plan, the ambition is to increase growth to 6.5%-8%.

### South Korea's impeached president will struggle to win fight to stay in office

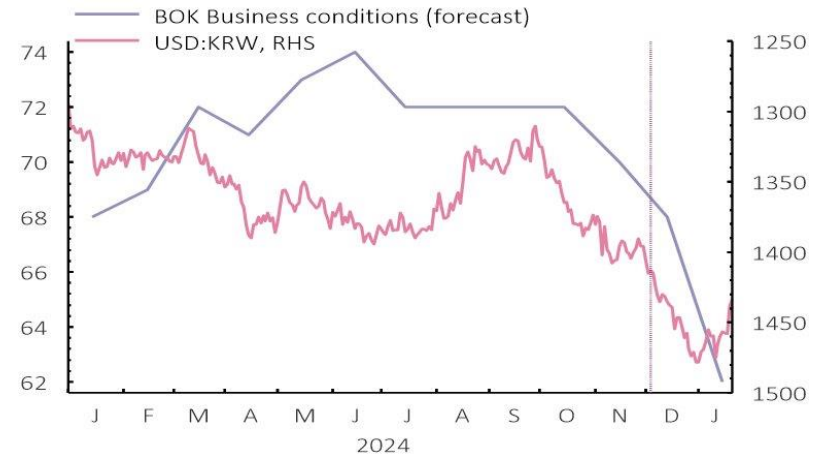
- South Korea is in a political quagmire, with President Yoon Suk Yeol impeached and facing criminal proceedings for insurrection following his bungled attempt to invoke martial law in December. There are multiple potential outcomes to this complex political crisis, and although Yoon's legal team will seek to overturn his impeachment, it is unlikely he will survive in office to the end of his term.

### Marcos administration focused on accelerating growth



Source: LSEG Datastream and AXA IM Research January 2025

### Sentiment and the won fall sharply after martial law invoked



Source: LSEG Datastream and AXA IM Research Jan 25

# Macro outlook

# Trump again

## US

### Inauguration sparks slew of activity

- President Trump's inauguration was followed by a slew of Executive Orders, echoing our expectation of an administration much more focused on delivering change. Beyond culture war issues including gender and withdrawal from the WHO and Paris Climate Accord (again), orders focused on migration and deregulation, the latter specifically around oil & gas and tech. The broader policy drive towards tax cuts will come through Congress and we expect to take much longer to emerge.

### Tariff concerns fade prematurely ?

- Most volatility has been caused by speculation around tariffs. Beyond campaign trail threats of 60% tariffs on China and 10% on the rest of the world, Trump caused angst when he threatened Mexico and Canada with a 25% tariff in mid-November. Since inauguration, details on tariffs have been light, leading to some relief pricing. We suspect trade policy developments will remain volatile – as with Colombia's brief experience - and we are unwilling to sound an all clear on the back of the first weeks' actions.

### Dollar sees marked volatility as expectations shift

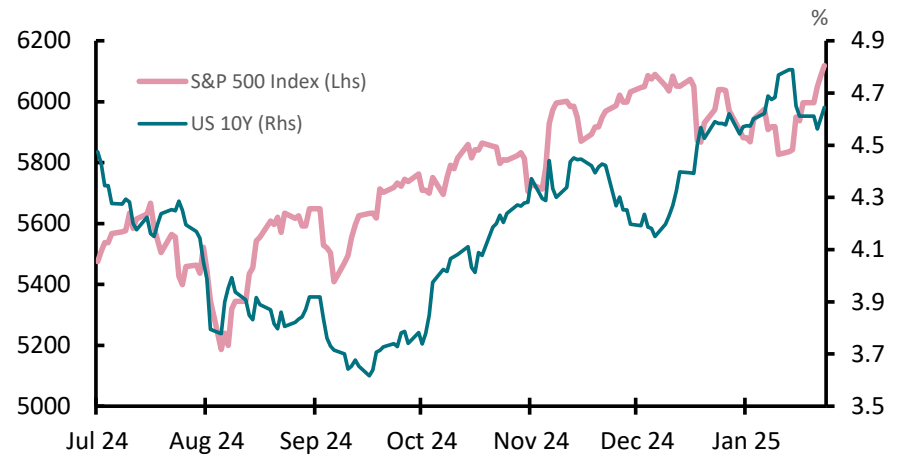
DXY Dollar Index



Source: Bloomberg, AXA IM Research, January 2025

### Market anticipation of comprehensive package shifts

US 10y and S&P 500



Source: Refinitiv Datastream, AXA IM Research, January 2025

# The starting point

## US

### Expected net policy to leave inflation sticky and slow growth

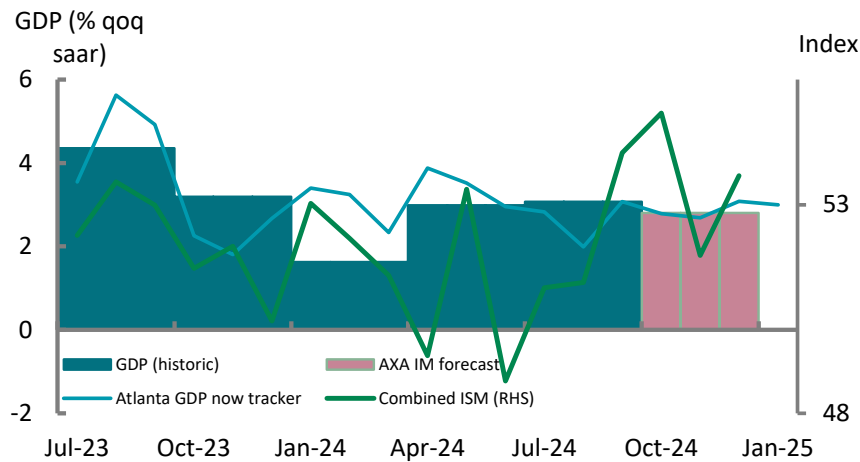
- We anticipate another strong Q4 GDP to deliver annual growth of 2.8%. Extreme weather (fires and snowstorms) may disrupt Q1, but we forecast annual growth in 2025 to remain solid (forecasting 2.3%), slowing gently with softer consumer spending. We remain wary that new administration policy will be net growth negative in 2026, slowing GDP growth to 1.5%. Consensus forecasts GDP growth of 2.2% and 2.0%. Yet we envisage CPI inflation remaining around 3% this year and next as eventual tariffs impact.

### Fed's space for easing shrinks

- The Federal Reserve is expected to start the year pausing its easing cycle. We expect another cut in March to 4.25% but thereafter see the Fed cautious about further cuts in the wake of inflationary government policy initiatives. The President may well be vocal about this, but we do not expect further influence. A growth slowdown in 2026 is likely to prompt more easing (we forecast 3 x 0.25% cuts in H2 2026), contrary to current expectations. We also expect the Fed to announce cessation of US Treasury QT in Q2.

### Growth momentum continues to year-end

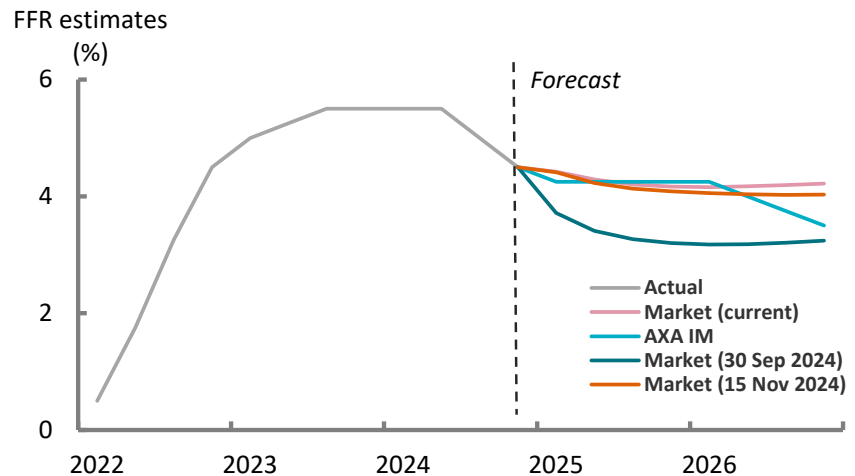
#### GDP growth and short term outlook



Source: BEA, FRBA, ISM and AXA IM Research, January 2025

### Market fine tunes Fed outlook under Trump

#### Fed Funds rate history and outlook



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



# Sluggish activity momentum

## Euro area

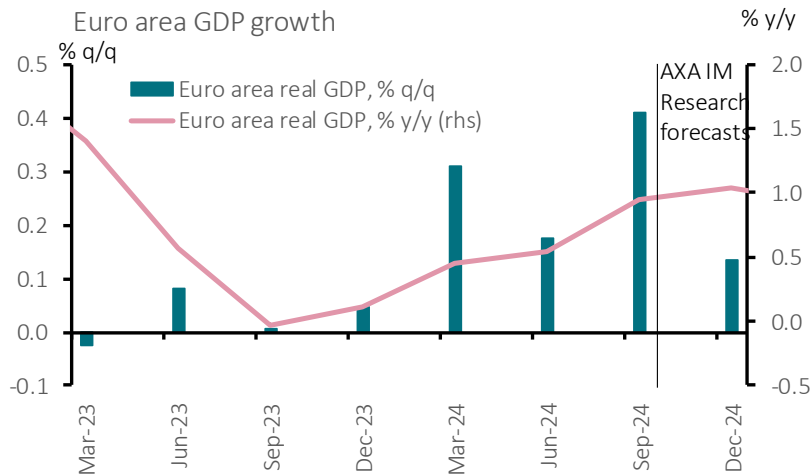
### Downside risk to our euro area 0.1% q/q Q4 GDP forecast

- In its annual account press release, Destatis revealed that German GDP may have contracted in Q4 (-0.1%qoq; AXA IM: 0.0%qoq). Both hard and soft indicators points to increased weakness in France casting downside risks to our EA 0.1%qoq Q4 growth forecast – (ECB's: 0.2%qoq).
- The euro area flirting with stagnation in Q4 would completely offset a solid, French-Olympics-boosted 0.4%qoq in Q3 24.

### We find no solace in surveys

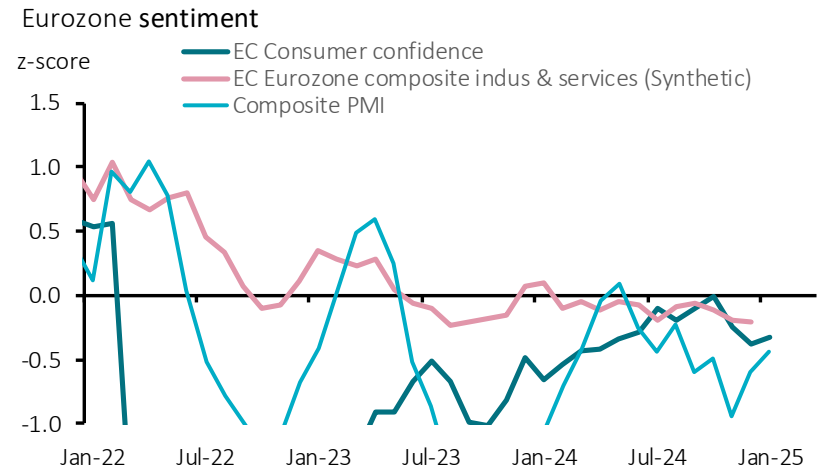
- January flash PMIs surpassed market expectations, though still consistent with weak momentum in Q1. Furthermore, we remain very cautious on the reliability of this indicator. Meanwhile, consumer confidence remain below October's level.

### Euro area Q4 GDP payback after Q3 strength



Source: Refinitiv, AXA IM Research, January 2025

### Finding no solace in latest surveys



Source: Refinitiv, AXA IM Research, Jan 2025

# Energy inflation spike not to derail ECB cutting narrative

## Euro area

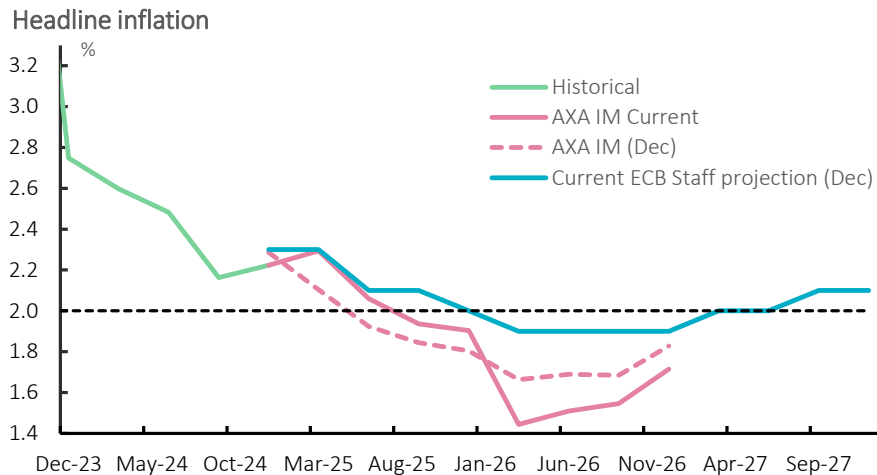
### Energy inflation on the rise...

- Oil in euros terms and natural gas prices are 3% and 14% higher than levels projected for 2025 in the ECB December forecasts, respectively. Including these, and latest price change, we now forecast euro area inflation to average 2.0% this year (+0.1ppt), and 1.6% next year (-0.1ppt).

### ...with little ramification on expected rate cuts in Q1

- In his January interview, ECB Chief Economist Philip Lane highlighted the risk that too high interest rates could generate undershooting of the inflation target, justifying no pause at the January meeting. GC is seemingly unanimous to cut rates in January. Depo rate would still be slightly above the neutral rate range mentioned by Lagarde in December: 2.50-1.75%.
- We agree with market pricing expecting expect the ECB to cut rates to 2% by the end of H1. Though, we maintain our baseline that continued sluggish activity momentum will push the ECB to cut rates into accommodative territory to 1.5% by the end of the year.

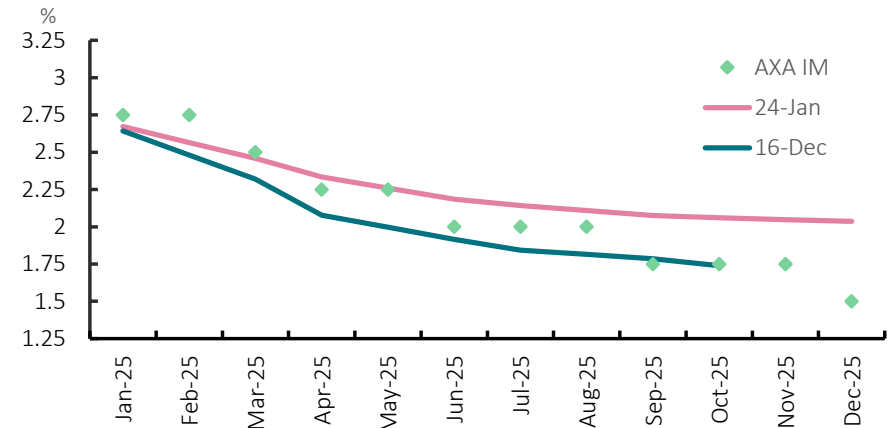
### Energy led upward inflation revision for 2025, downward for 2026



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

### Broad agreement for a 2% landing this summer

#### ECB market pricing and AXA IM forecasts



Source: AXA IM Macro Research, as of Jan 2025

# Growth to pick up modestly this year, but downside risks loom

## UK

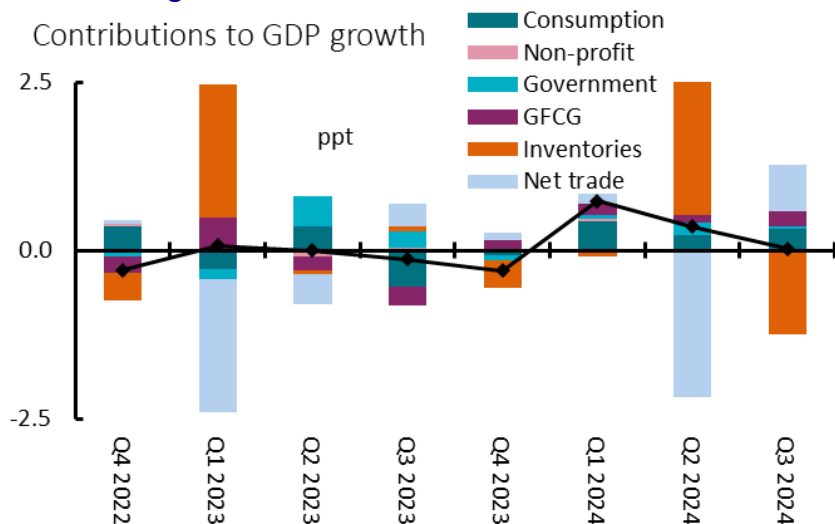
### Q4 GDP looks set to stagnate again

- UK growth has disappointed in recent months. Third quarter GDP was revised down to zero from an initial estimate of 0.1%. And while November rose by 0.1% on the month, that followed a 0.1% drop in October. As a result, growth was stagnant on a three-monthly 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 looks set to undershoot OBR October growth forecasts; problems for Chancellor remain

- 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 highly optimistic official growth forecasts. Tax revenues will, therefore, likely be revised lower creating further pressures for the public finances.

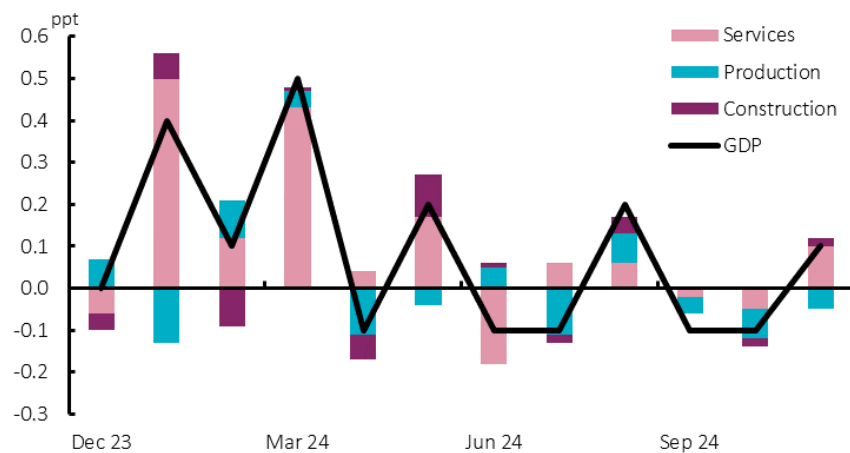
### Growth stagnated in the second half of 2024



Source: National Statistics and AXA IM Research, January 2025

### We see downside risks in Q4

#### Contributions to monthly activity data



Source: National Statistics, BoE, OBR and AXA IM Research, January 2025

# More cuts than market prices in

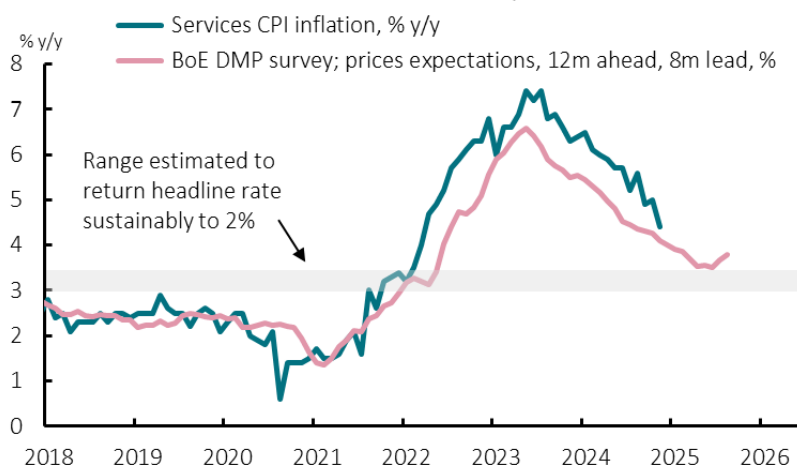
## UK

### MPC to look through near-term pressure; focus on medium-term downside risks

- December's inflation figures were somewhat of a relief. The headline rate slowed to 2.5% – consensus 2.6% – 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 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 minimum wage threatens some upward pressure in the first half of the year. We don't think this reflects an inherent UK inflation problem. On top of the weakness in activity, the latest 47K drop in PAYE employees in November, a further drop in vacancies and a sharper fall in surveys 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.
- 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.

### BoE will look through recent signs of price pressures

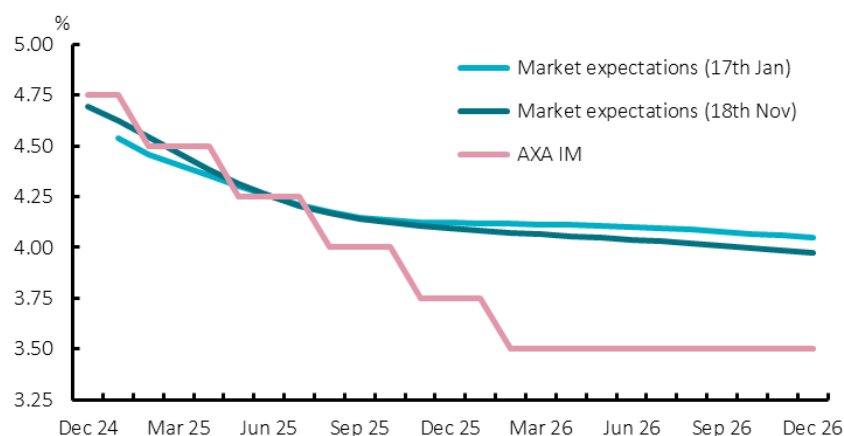
Services CPI inflation and BoE DMP survey



Sources: National Sources, the BoE and AXA IM Research, January 2025

### We see 100bp of cuts in 2025, and one additional cut in 2026

Bank Rate outlook



Sources: Bank of England and AXA IM Research, January 2025

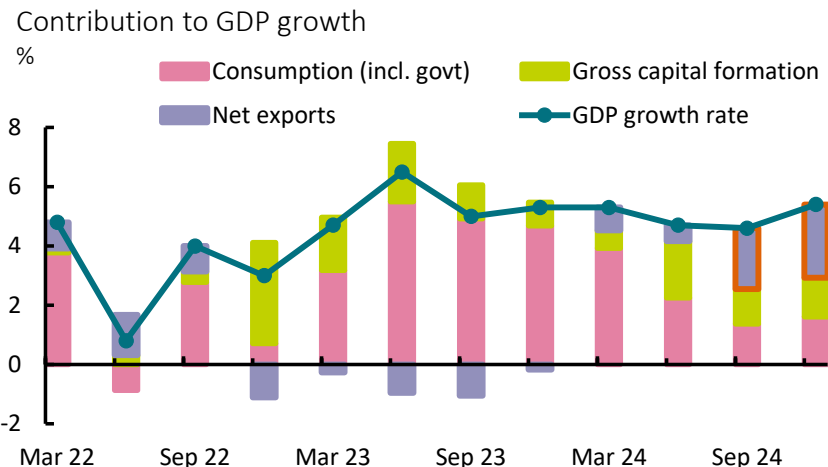
# Exports support 2024 growth, but unlikely in 2025

## China

### Exports propped up 2024 growth; likely to wane

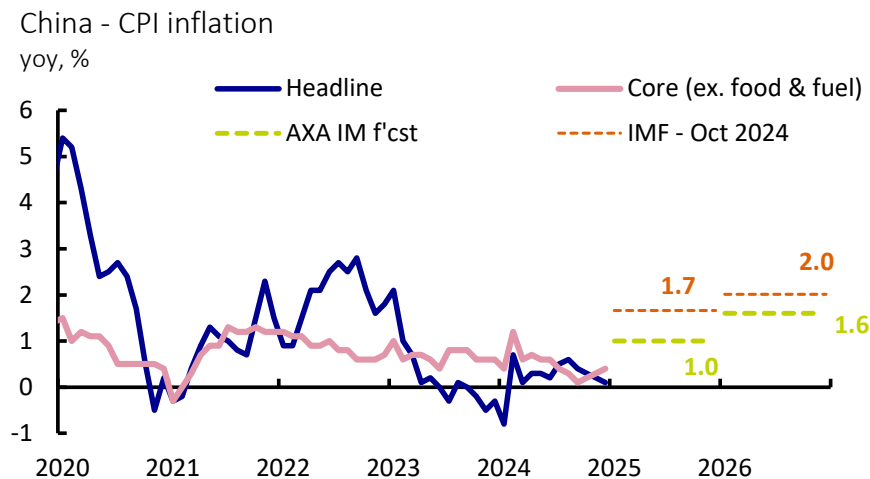
- China's economy achieved its annual growth target of 5% in 2024, as widely expected. Exports played a crucial role in meeting this target, particularly in H2, thanks to front-loaded export demand ahead of heightened trade tensions. In contrast to subdued domestic demand, which resulted in weak imports, net exports reached a record level of nearly USD1tn -- 5.2% of GDP, the highest ratio since 2015.
- As Donald Trump returns to the White House, the announcement of new tariffs on Chinese goods is expected in the coming months. In our base case scenario, these tariffs could reduce China's GDP growth by roughly 0.5ppt. However, the risks are skewed towards a greater impact, with potential economic damage reaching as much as 1.6ppt in the worst-case scenario.
- With external demand likely to soften, the issue of overcapacity could worsen if domestic household consumption fails to recover. This dynamic poses additional risks to China's already fragile inflation, which has hovered just above zero for nearly two years.

### Net exports did the heavy lifting in H2 2024



Source: CEIC and AXA IM Research, January 2025

### Two-year low inflation raises alarm



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

# Eyes on households

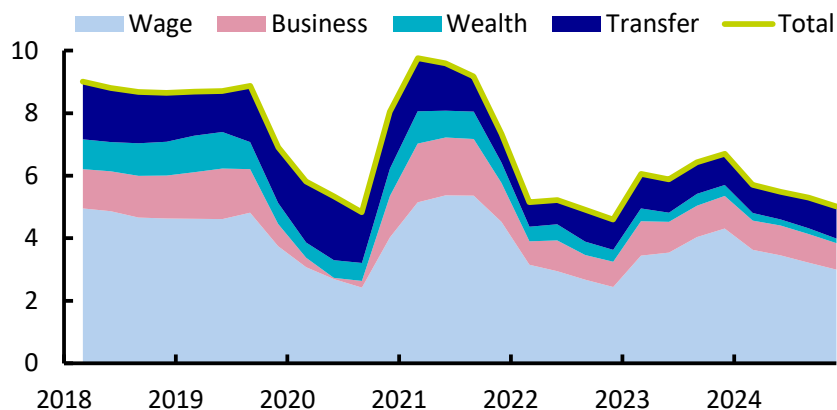
## China

### Wages and house prices at the centre stage

- Chinese households have faced dual pressures in recent years, stemming from weakening income growth and declining asset prices. This has led to widespread consumer caution, further weighing on inflation and economic growth.
- In mid-2024, Beijing initiated efforts to reinvigorate consumer spending as a critical measure to stave off economic stagnation. The durable goods trade-in programme received a warm response, driving double-digit sales growth in eligible categories, such as automobile and domestic appliances. However, while the programme has recently been expanded, its impact is likely to wane due to the long replacement cycles of most qualifying goods.
- To sustain a recovery in spending, restoring consumer confidence in future income and property market stability is key. Likely measures include public sector pay rises funded by debt swap quotas and state-led efforts to address property inventory overhangs. Further details are expected at the National People's Congress in March.

### Bleak income outlook along with sliding wage growth

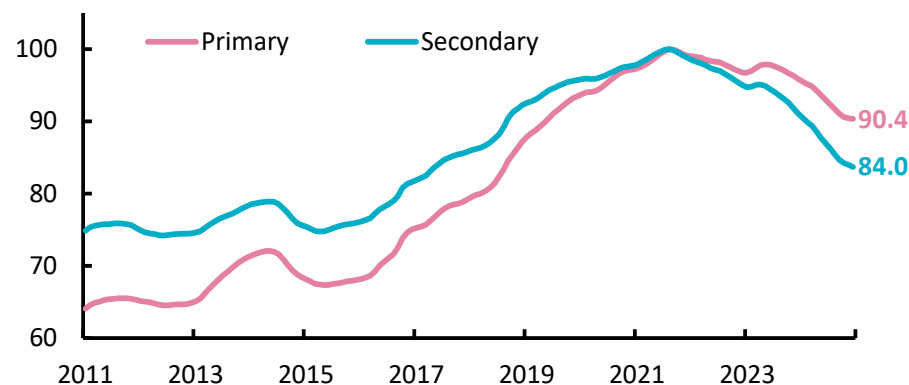
China - Household disposable income growth breakdown  
%, yoy 4Q ma



Source: CEIC and AXA IM Research, January 2025

### Property price adjustment entering the fifth year

China - House price index (national average)  
Index, Aug 2021 = 100



Source: CEIC and AXA IM Research, January 2025

# Growth to accelerate as real incomes rise

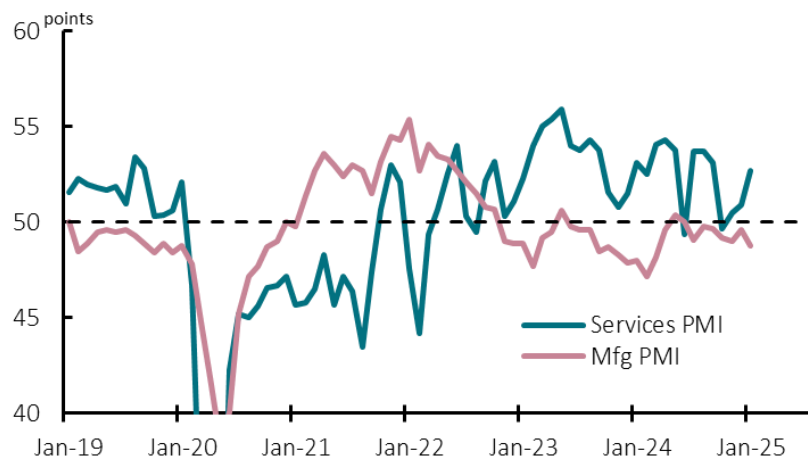
## Japan

### Moderate quarterly pace to continue through 2025

- Japan's GDP rose by 0.3% quarter-on-quarter in Q3, driven largely by stronger private consumption amid a rebound in real incomes. 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 PMI 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.

### Modest growth in Q4

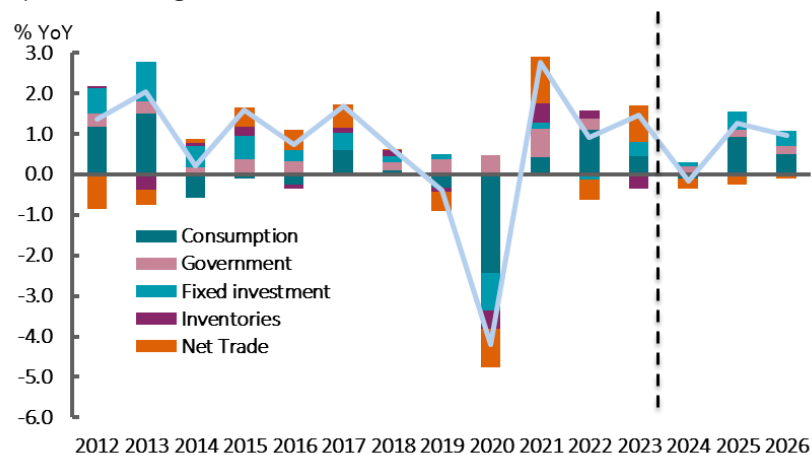
#### Japan Purchasing Managers' Index (PMI)



Source: S&P Global and AXA IM Macro Research, January 2025

### We are a bit more downbeat on growth than the consensus

#### Japanese GDP growth contributions



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

# Bank of Japan normalising 2025, pausing 2026

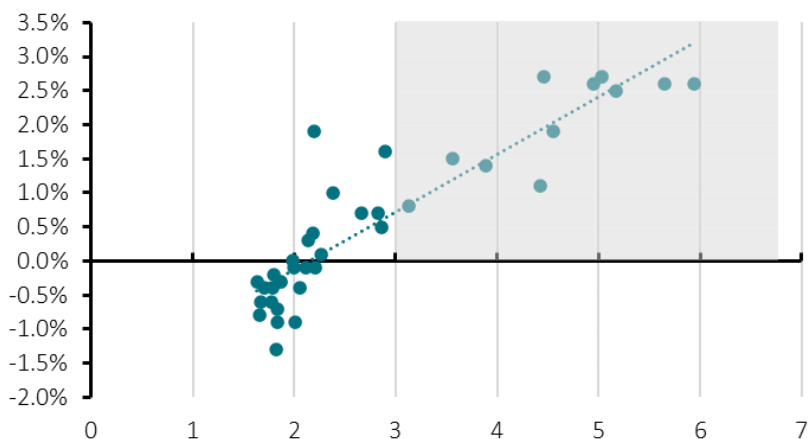
## Japan

### A virtuous wage/price spiral has emerged, underpinning policy normalization in 2025

- There is growing evidence that the 2025 Shunto wage negotiations will result in base pay rises of around 3%, which should help to cement a 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 (bp) 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 headline and core CPI inflation to 2.4% and 2.1%, respectively, from 1.9% for both in October. It continued to highlight upward inflation pressure from growing labour shortages amid an ageing population. If wage settlements come in as expected, we look for a further 25bp hike in the second half of the year to 0.75%. But tariff disruption will remain a risk.

### The virtuous wage/price spiral will keep inflation around target

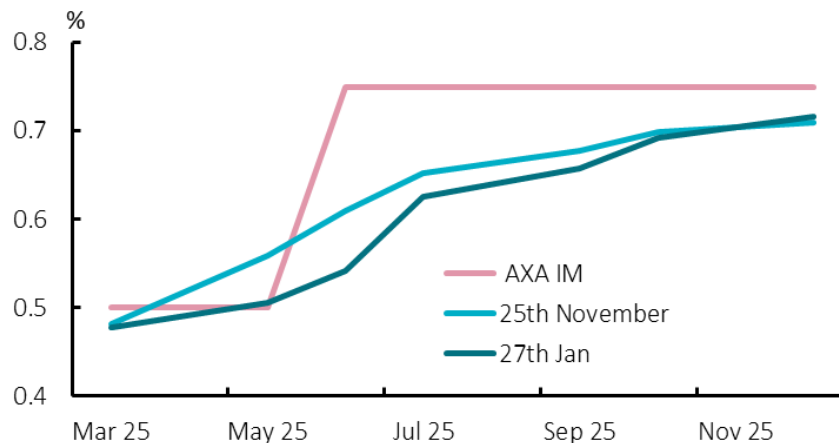
Japanese wage growth vs CPI inflation



Source: Reuters and AXA IM Research, January 2025

### The BoJ will continue to hike in 2025, before halting in 2026

Japan interest rate expectations



Source: Refinitiv and AXA IM Research, January 2025



# Tariff threat knocks confidence

## Canada

### Confidence collapses as tariff threat emerges

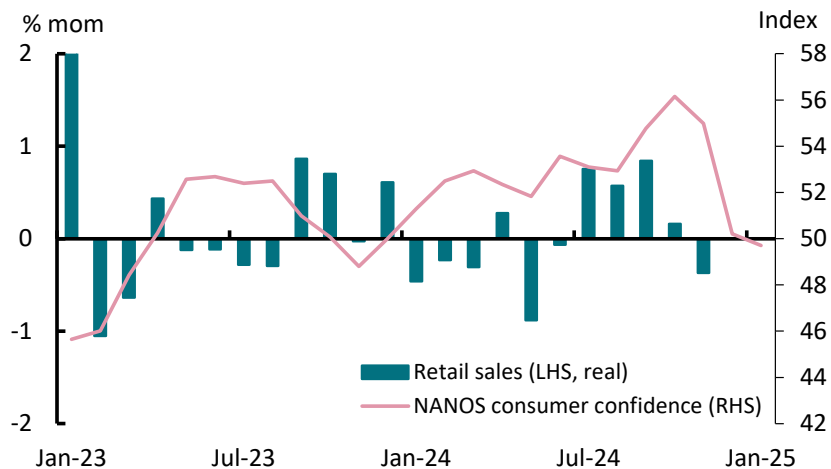
- Consumer confidence rose to a 2½ year high in November as household incomes recovered amidst falling inflation and the BoC cut rates. However, around the time newly-elected Trump threatened 25% tariffs on Canada, confidence began to fall sharply. This was echoed in a retracement in retail spending, November seeing a 0.7% drop in sales ex-autos.

### Growth tariff dependent

- The deceleration in sales growth translated to GDP, which had accelerated to a 0.3% monthly gain in October, only to see its first fall in 11-months in November. Q4 GDP should come in around a solid 2%, delivering 1.3% growth for 2024 as a whole. But the weak end to the quarter will see a softer Q1. For now, we lower our 2025 GDP outlook to 2.0% from 2.1%. However, if the US levies sustained tariffs, the growth outlook will fall further – even as Canada contemplates staged retaliation that falls short of a \$ for \$ response.

### Confidence falls sharply despite persistent income sentiment

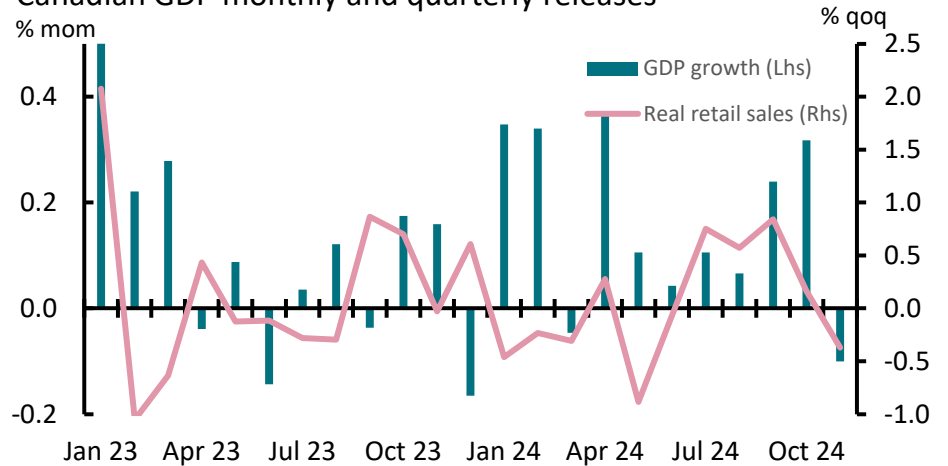
#### Retail sales and consumer confidence



Source: StatCan, Nanos and AXA IM Research, January 2025

### Slower consumer spend weighs on GDP

#### Canadian GDP monthly and quarterly releases



Source: Refinitiv Datastream, AXA IM Research, January 2025

# And shakes establishment

## Canada

### Government caves

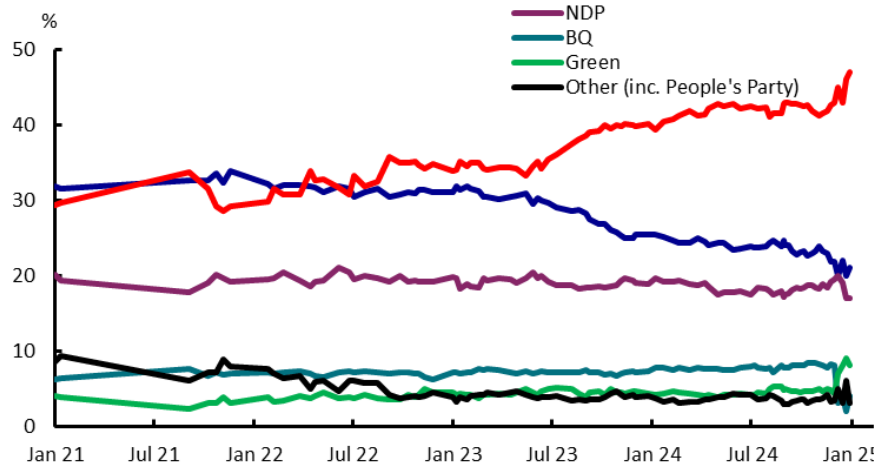
- The government announced a two-month sales tax cut as the tariff threat emerged. However, Finance Minister Freeland did not support the move and resigned, heaping more pressure on the government and Prime Minister Trudeau. He resigned on 6 January and prorogued Parliament until 24 March to elect a new Liberal leader. A vote of no confidence is likely to follow the re-opening of Parliament and usher an earlier than October election, that polls suggest the Conservatives will win.

### BoC left to cope

- With fiscal policy likely hampered by political developments, the BoC is likely to be the first responder to any trade developments. Despite no actual tariff imposition, the drop in confidence and activity will likely see a further cut in January – albeit at the “more gradual” pace of 0.25% (to 3.00%) signalled in December. We envisage a further cut in March (to 2.75%). Assuming no sustained tariffs the BoC should then pause. However, tariffs could push the BoC to ease further, curtailed only by any further CAD weakness.

### Trudeau resigns and earlier election should see Conservative win

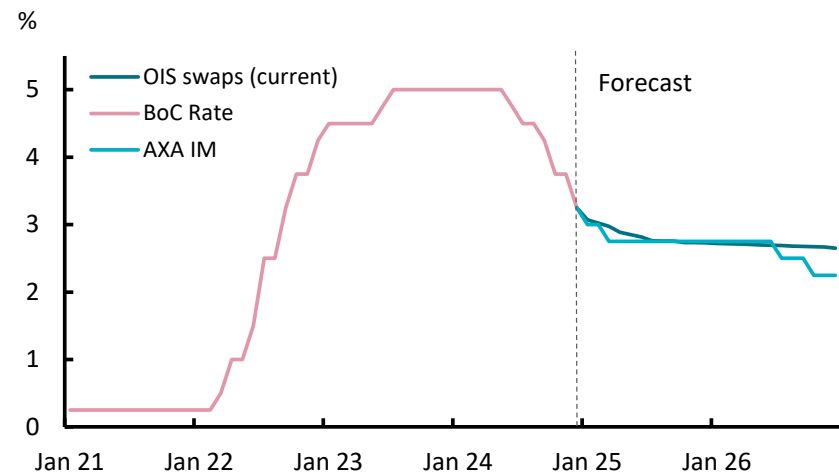
#### Canadian Poll Tracker



Source: CBC and AXA IM Research, January 2025

### BoC to underpin the economy with still lower rates

#### Bank of Canada overnight rate and outlook



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

# Central bankers deliberate supporting growth or currency

## EM Asia ex-China

### Surprise decisions in first policy meetings this year in Indonesia and South Korea

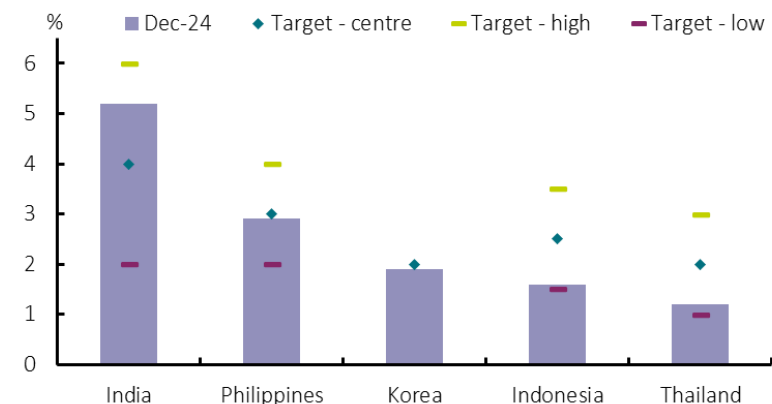
- The Bank of Korea kept its policy rate on hold at 3% in January, rather than cutting for the third successive meeting, a move that reflects heightened anxiety over increased KRW volatility. Nevertheless, given a weak economic outlook and forward guidance showing unanimous support for a rate cut in the next three months, it will likely cut at its next meeting in February. Conversely, Bank Indonesia cut its policy rate by 25bp when it had been expected to hold, favouring growth, rather than support for IDR.

### Big decision ahead for RBI and its new governor

- The Reserve Bank of India faces a challenging policy decision to make in February, the first under the new governor. The bank has already adjusted to a more flexible position on the rupee, and the weaker INR presents upside risk to inflation. Nevertheless, lower borrowing costs could help to reverse the recent slowdown in consumption and investment growth, and with recent liquidity enhancing measures, the RBI appears set to commence a shallow rate cutting cycle.

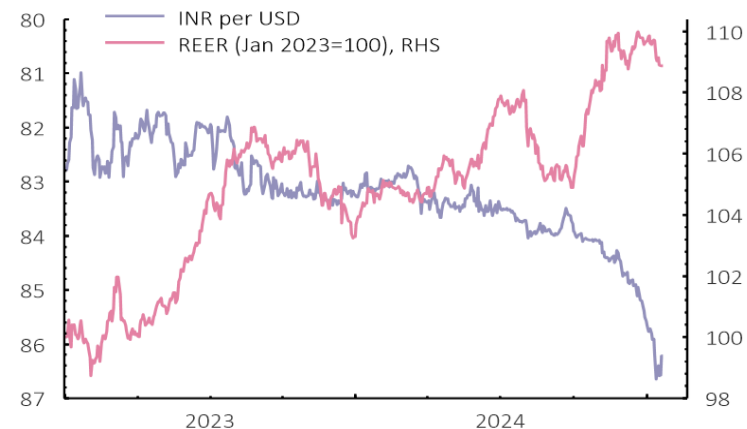
### Inflation has been contained, but still a concern in India

Inflation and central bank targets



Source: LSEG Datastream and AXA IM Research, January 2025

### RBI eases control on INR, overvalued on REER basis



Source: LSEG Datastream and AXA IM Research 20/01/2025

# A more hawkish tone expected

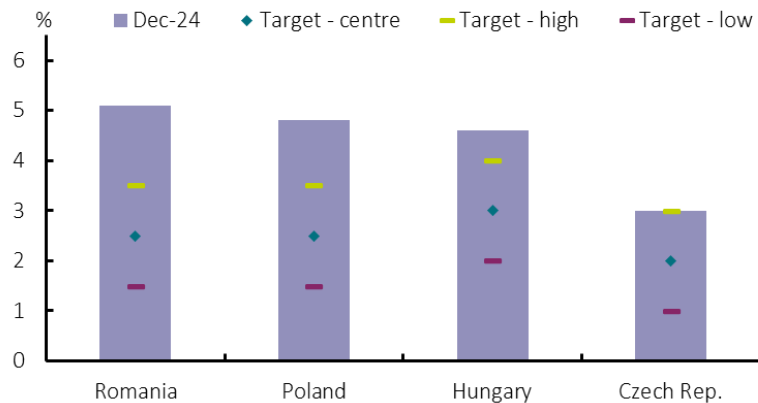
## EM Europe

### Stubborn inflation and fiscal risks preclude further cuts for now

- In Hungary, inflation in December accelerated to a yearly-high of 4.6%. The weak HUF has contributed to upward pressure on domestic prices, and along with tax hikes to contain the fiscal deficit, there is a risk of inflation expectations becoming de-anchored, likely forcing the National Bank of Hungary to keep its policy rate on hold until its March meeting at the earliest.
- Inflation in Poland slowed marginally in December (to 4.7%) but stayed above the National Bank of Poland's target of 1.5-3.5%. The governor has become more hawkish in recent statements, asserting that discussions on future rate cuts need to be delayed. The scope for rate cuts is limited following hikes in public sector pay and the government's wide fiscal deficit.
- The Czech National Bank joined its regional peers in halting its easing cycle at its most recent policy meeting in December. The bank still has some flexibility in determining its next move, but on balance, given services inflation is still elevated at above 6%, and retail sales growth continues to trend upwards, it will likely extend the pause in cutting rates at its next meeting in February.

### Challenging targets for most

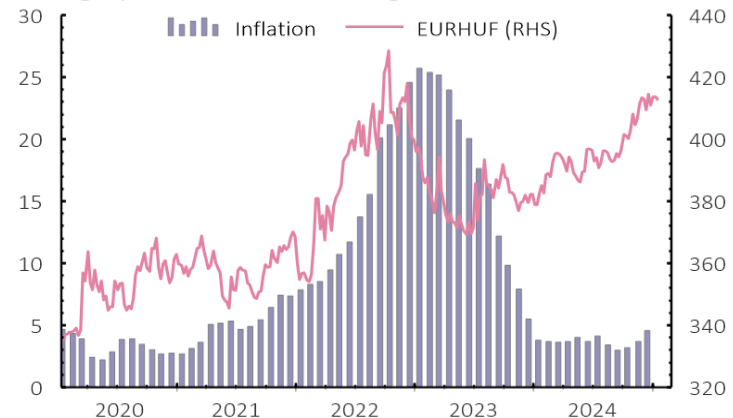
Inflation and central bank targets



Source: LSEG Datastream and AXA IM Research, January 2025

### HUF weakness driving upside risk to Hungary's inflation

Hungary inflation and exchange rate



Source: LSEG Datastream and AXA IM Research Dec 24

# Different approaches to meeting inflation targets

## Latin America

### Mexico and Colombia contemplate pace of further cuts

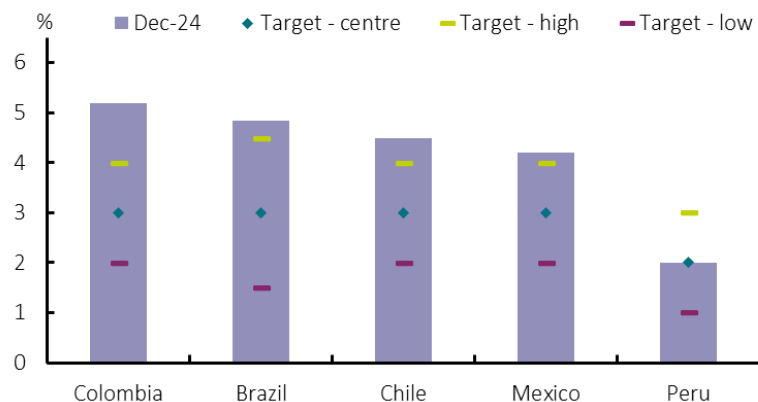
- The disinflationary trend in Mexico, with inflation easing to 4.2%, a three-year low in December, has encouraged Banxico to consider accelerating the pace of rate cuts. However, given MXN's vulnerability to further depreciation as Trump takes office with promises of tariffs, a more cautious approach is anticipated, as Banxico sets its sights on inflation converging to the 3% target by Q3 2026. Concerns over slowing disinflation in Colombia resulted in a split decision in the December policy meeting, with a majority agreement to slow the pace of cuts to 25bp (instead of a more aggressive move) – tariff threats will also feature here.

### Brazil set for steep hikes

- Policy rates in Brazil will continue to head higher, given the upside risks to inflation stemming from BRL depreciation and fiscal weakness. The governor has signalled that there is unlikely to be any change in future policy rate decisions from the guidance delivered in the December policy meeting of two more 100bp hikes at the next two meetings.

### Peru alone in hitting inflation target

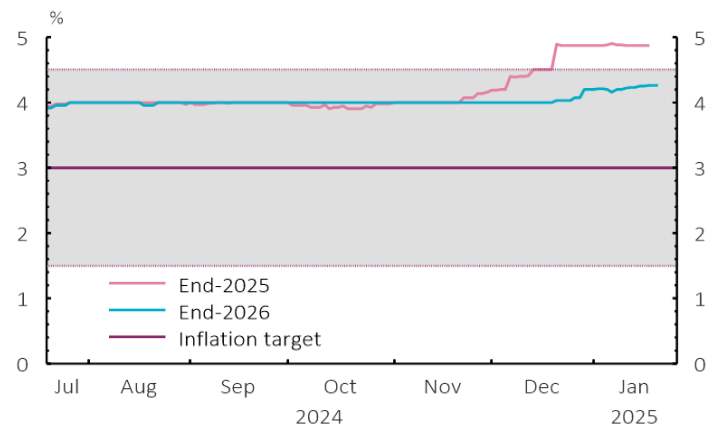
Inflation and central bank targets



Source: LSEG Datastream and AXA IM Research, January 2025

### High inflation expectations driving higher rates in Brazil

Brazil - Inflation expectations



Source: LSEG Datastream and AXA IM Research 17/01/2025

# Forecasts & Calendar

# Macro forecast summary

## Forecasts

Real GDP growth (%)	2024*		2025*		2026*	
	AXA IM	Consensus	AXA IM	Consensus	AXA IM	Consensus
<b>World</b>	<b>3.2</b>		<b>3.2</b>		<b>2.9</b>	
<b>Advanced economies</b>	<b>1.6</b>		<b>1.7</b>		<b>1.4</b>	
US	<b>2.8</b>	2.7	<b>2.3</b>	2.0	<b>1.5</b>	2.0
Euro area	<b>0.7</b>	0.8	<b>0.9</b>	1.0	<b>1.3</b>	1.4
Germany	<b>-0.2</b>	-0.1	<b>0.3</b>	0.4	<b>1.0</b>	1.3
France	<b>1.1</b>	1.1	<b>0.7</b>	0.8	<b>1.0</b>	1.3
Italy	<b>0.5</b>	0.5	<b>0.4</b>	0.8	<b>0.8</b>	1.0
Spain	<b>3.1</b>	3.0	<b>2.8</b>	2.2	<b>2.5</b>	1.7
Japan	<b>-0.3</b>	-0.2	<b>1.1</b>	1.2	<b>0.9</b>	0.9
UK	<b>0.8</b>	0.9	<b>1.2</b>	1.3	<b>1.4</b>	1.5
Switzerland	<b>1.6</b>	1.4	<b>1.5</b>	1.3	<b>1.4</b>	1.6
Canada	<b>1.3</b>	1.2	<b>2.0</b>	1.7	<b>1.7</b>	2.1
<b>Emerging economies</b>	<b>4.2</b>		<b>4.2</b>		<b>3.9</b>	
China	<b>5.0</b>	5.0	<b>4.5</b>	4.5	<b>4.1</b>	4.2
<b>Asia (excluding China)</b>	<b>5.4</b>		<b>5.0</b>		<b>4.8</b>	
India	<b>6.9</b>	6.5	<b>6.6</b>	6.5	<b>6.5</b>	6.6
South Korea	<b>2.1</b>	2.2	<b>1.5</b>	1.9	<b>1.5</b>	2.2
Indonesia	<b>5.1</b>	5.0	<b>5.0</b>	5.0	<b>4.9</b>	5.1
<b>LatAm</b>	<b>2.0</b>		<b>2.2</b>		<b>2.1</b>	
Brazil	<b>3.0</b>	3.3	<b>1.9</b>	2.1	<b>1.8</b>	2.2
Mexico	<b>1.4</b>	1.5	<b>1.2</b>	1.1	<b>1.0</b>	2.0
<b>EM Europe</b>	<b>3.0</b>		<b>2.1</b>		<b>2.2</b>	
Russia	<b>3.8</b>	3.6	<b>1.4</b>	1.7	<b>1.2</b>	1.3
Poland	<b>2.5</b>	2.8	<b>3.1</b>	3.5	<b>2.7</b>	3.5
Turkey	<b>2.8</b>	2.9	<b>2.6</b>	2.6	<b>3.4</b>	3.6
<b>Other EMs</b>	<b>2.8</b>		<b>4.0</b>		<b>3.8</b>	

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

\*Forecast

# Expectations on inflation and central banks

## Forecasts

### Inflation Forecasts

CPI Inflation (%)	2024*		2025*		2026*	
	AXA IM	Consensus	AXA IM	Consensus	AXA IM	Consensus
<b>Advanced economies</b>	<b>2.6</b>		<b>2.4</b>		<b>2.4</b>	
US	<b>2.9</b>	2.9	<b>2.8</b>	2.4	<b>3.2</b>	2.3
Euro area	<b>2.4</b>	2.4	<b>2.0</b>	2.0	<b>1.6</b>	2.0
China	<b>0.2</b>	0.2	<b>1.0</b>	1.3	<b>1.6</b>	1.6
Japan	<b>2.4</b>	2.5	<b>2.1</b>	2.0	<b>1.8</b>	1.7
UK	<b>2.5</b>	2.5	<b>2.5</b>	2.3	<b>2.2</b>	2.0
Switzerland	<b>1.1</b>	1.1	<b>0.8</b>	1.0	<b>1.0</b>	1.0
Canada	<b>2.4</b>	2.4	<b>1.7</b>	2.1	<b>1.9</b>	2.1

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 28 January 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	Q1-25	Q2-25	Q3-25	Q4-25	Q1-26	Q2-26	Q3-26	Q4-26
<b>United States - Fed</b>	Dates		28-29 Jan 18-19 Mar	6-7 May 17-18 Jun	29-30 Jul 16-17 Sep	28-29 Oct 9-10 Dec	29-30 Jul 16-17 Sep	28-29 Apr 16-17 Jun	28-29 Jul 15-16 Sep	27-28 Oct 8-9 Dec
	Rates	4.50	-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)
<b>Euro area - ECB</b>	Dates		30 Jan 6 Mar	17 Apr 5 Jun	24 Jul 11 Sep	30 Oct 18 Sep	5 Feb 19 Mar	30 Apr 11 Jun	23 Jul 10 Sep	29 Oct 17 Dec
	Rates	3.00	-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)
<b>Japan - BoJ</b>	Dates		18-19 Mar	30 Apr - 1 May 16-17 Jun	30-31 Jul 18-19 Sep	29-30 Oct 18-19 Dec	Jan Mar	May June	Jul Sep	Oct Dec
	Rates	0.50	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)
<b>UK - BoE</b>	Dates		6 Feb 20 Mar	8 May 19 Jun	7 Aug 18 Sep	6 Nov 18 Dec	Jan Mar	May June	Jul Sep	Oct Dec
	Rates	4.75	-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)
<b>Canada - BoC</b>	Dates		29 Jan 12 Mar	16 Apr 4 Jun	30 Jul 17 Sep	29 Oct 10 Dec	Jan Mar	May June	Jul Sep	Oct Dec
	Rates	3.25	-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



## Calendar of key events

2025	Dates	Events
February	3-Feb	President's budget submission deadline
	10-11 Feb	AI Action Summit
	23-Feb	Germany federal elections
	27-Feb	Republican target for budget resolution
March	6-Mar	ECB meeting
	14-Mar	Current fiscal appropriations expire
	18-19 Mar	FOMC meeting
	18-19 Mar	BoJ meeting
	20-Mar	BoE meeting
	26-Mar	UK Spring Statement
	27-Mar	Global Trade Conference
April	31-Mar	Pause on US/ EU steel & aluminium tariffs expires
	1-Apr	Florida special election for House seat to replace Rep. Waltz
	17-Apr	ECB meeting
	25-27 Apr	World Bank Spring meeting
	30-Apr	Republican target for final budget reconciliation bill
	30-Apr	Deadline for 2025 fiscal appropriations
May	30-Apr - 1-May	BoJ meeting
	1-May	UK local elections
	6-7 May	FOMC meeting
	8-May	BoE meeting
June	18-May	Poland presidential elections
	15-17 Jun	G7 Leaders' Summit
July	24-25 Jun	North Atlantic Treaty Organization (NATO) Summit
	27-Jul	Japanese House of Councillors election
September	Sep	G20 Summit
	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
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
April	Apr	Legislative elections in Hungary
May	15-May	Powell term as Fed Chair expires
July	1-Jul	First review of USMCA
November	3-Nov	US midterm elections

## Latest publications

[2025's elections around the world: The who's who and the so what...](#)

23 January 2025

[Outlook 2025-2026: Trump-starting the global economy](#)

04 December 2024

[October Op-Ed – Meeting in the middle](#)

23 October 2024

[October Monthly Investment Strategy – A far reaching US election](#)

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[Bonds, bridges, and burdens: China's local government debt in focus](#)

18 October 2024

[September Monthly Investment Strategy - The sum of all fears](#)

26 September 2024

[September Op-ed - Life after the Bang](#)

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[Resilience and realignment: Opportunities and risks in China's banking sector](#)

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[Eurozone GDP: Spain roars, Germany coughs](#)

30 July 2024



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