Monthly Investment Strategy

Tariff Turmoil

Key points

- Liberation Day reciprocal tariffs sparked negative market reaction and a pause in implementation. However, the US effective tariff rate has still increased to c. 90-year highs.
- Beyond the direct effect of tariffs, trade uncertainty has soared, not helped by a lack of clear understanding as to US motives. This will additionally weigh on global activity.
- This combination has led to a sharp drop in our global growth outlook to 2.6% for 2025 and 2.4% for 2026.
- Tariff implementation (and behavioural positioning) is likely to lead to volatility in GDP over the coming quarters with many seeing a boost to activity ahead of tariffs.
- Yet we forecast all suffering weaker growth in H2 2025 and 2026: the US slowing to 1.6% this year and 0.6% next; China to 4.3% and 4.0%; and the Eurozone to 0.7% and 0.5%, likely to include mild recession.
- Most central banks to ease policy in response.

Global Macro Monthly

30 April 2025

Tariff Turmoil

Global Macro Monthly Summary April 2025

David Page
Head of Macro Research

Biting off more than one can chew?

On 2 April, US President Donald Trump's *Liberation Day,* 'reciprocal' tariffs were announced for 57 countries and a flat 10% on 136 others. He stated this was "our declaration of economic independence". In our *Theme of the Month,* we detail developments – and retreats – since, and the rest of the world's reaction. Certainly, the subsequent four weeks have tested the limits of this independence.

The most obvious test was in deeply integrated US financial markets. After the announcement, stocks collapsed by 12.1%, until the administration retreated on implementation day (9 April) announcing a 90-day pause; stocks recovered but are still 2.7% lower. The fall was accompanied by the dollar's decline, down 4.4% against a basket of currencies since Liberation Day (and 9.6% from the pre-inauguration peak), unusual both for raising tariffs and a currency that has traditionally gained during periods of risk aversion. Alarmingly, 10-year US Treasuries have fallen by 1.1% to date (down 3% at their worst). Treasuries are seen as a 'safe haven' asset to which increased uncertainty and US activity doubts should have provided a bid. The combined fall suggests at best a scaling back of US asset allocation; the risk of a more structural pivot; and at worst bore the hallmarks of financial instability.

Economic independence has also been tested by US supply chains. Canada and Mexico's exclusion from Liberation Day tariffs perhaps reflected belated acknowledgment of the degree of North American industrial integration. Canada paused some of its retaliation. And while the US administration has initiated trade deals with many countries since, to date China has refused to play ball. China has been the only economy to effectively match US tariffs in tit-for-tat retaliation and while both sides declare they remain open to negotiation, neither has initiated. Senior US cabinet members believe they hold the whip hand as the world's largest buyer. Yet this may be a miscalculation as the world's largest supplier turns the screw, particularly on key supply-chain imports, including rare earths for electric vehicle battery production.

Whether the US administration has responded to the financial market reaction – a so-called Trump put – or to belated supply-chain disruption concerns, recent days appear to mark a change. Tariff-sceptic Treasury Secretary Scott Bessent suggested the US-China stand-off was unsustainable. Trump subsequently suggested China tariffs could fall substantially with a deal but also indicated de-escalation over coming weeks. Talk of further tariffs on pharmaceuticals and chips has faded.

Economic paralysis

The US tariff policy outlook remains unclear but even after the pause, US tariffs are the highest in over a century. This will weigh on global growth and raise US prices in the short term, risking more persistent inflation. But trade uncertainty itself remains a major drag on growth prospects. Even if companies buy into the administration's vision of America, it is impossible to enact strategic investment for a global realignment amid such volatility and uncertainty about future trade relations. Companies will also pause on major investment decisions globally; this will likely weigh on hiring. Consumers are also wary of slowdown and rising prices and sentiment has cratered.

Acknowledging this backdrop, we have cut our US GDP forecasts to 1.6% for 2025 (from 2.2%) and 0.6% for 2026 (from 1.5%). Assuming no return to Liberation Day tariff levels – and an easing from current levels in H2 of 2025 – we expect the US to avoid recession, just. We have also cut our global growth forecasts, to 2.5% for 2025 and 2.4% for 2026 (from 3.2% and 2.9%). In the Eurozone we now see growth at 0.7% and 0.5% (from 0.8% and 1.1%). And in China we forecast growth to remain at 4.3% and 4.0%, below Beijing's growth target for this year with US tariffs estimated to strip around 2.5 percentage points from headline growth (noting China only exported 2.8% of GDP to the US in 2024). This is weaker than the International Monetary Fund (IMF)'s recently lowered forecasts to 2.8% and 3.0% for global growth, 1.8% and 1.7% for the US, 0.8% and 1.2% for the Eurozone and 4.0% in both years for China.

It is tempting to think the US administration will have learnt a lesson on the delivery and implementation of unorthodox policy, which could pave the way for risk recovery from here. This may be, but the administration is still striving to cut taxes in the face of elevated deficits and concerns about fiscal sustainability and likely to use the threat of default in the debt ceiling extension to pass such a bill. The summer may see more concern over US Treasuries. Moreover, in retreat over trade, the administration may double-down for 'victory' elsewhere. The recent aggressive pivot back to Ukraine suggests the search for a 'quick win' here. And the US has started negotiations with Iran over nuclear development – geopolitical developments could also add to concerns over the coming months.

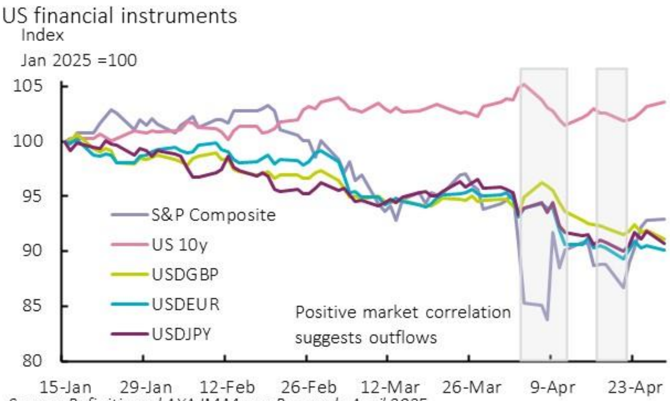
Global Macro Monthly – US

David Page
Head of Macro Research

Policy shocks

As addressed in our accompanying *Theme of the Month*, US tariffs resulted in global turmoil during April – none more so than in the US. On 2 April – *Liberation Day* – President Donald Trump announced a set of so-called reciprocal tariffs – in fact a function of foreign countries' trade deficits and nothing to do with trade barriers, however defined. This raised the average announced tariff rate to 22.5%, its highest since 1909. Markets pronounced judgment: equities, the dollar and Treasuries all fell, an unsettling combination which raised the prospect of financial instability (Exhibit 1). The administration relented as tariffs went into effect on 9 April with a 90-day 'pause', reducing them to a blanket 10%, but increasing China's tariff to 125% for having enacted retaliatory tariffs. The US's announced tariff rate rose to 25.6%, but its effective rate will be lower as consumers adjust spending accordingly.

Exhibit 1: Combined asset decline a worrying development



Source: Refinitiv and AXA IM Macro Research, April 2025

The pause enables trade deals to be done (with 193 countries) and these have begun with some. However, sectoral tariffs on steel, aluminium and autos remain and the administration has threatened extensions to pharmaceuticals and semiconductors. That said, the US appears to have been forced into a more conciliatory approach, and uncertainty remains high.

Moreover, we expect the focus to switch to the passage of a fiscal bill, set to include the President's campaign trail-pledged tax cuts. Congress has passed procedural motions to begin reconciliation, and the aim is to pass the bill by the summer, the timing tied to alleviating the debt ceiling constraint. The bill is likely to include projected tariff revenues to mitigate tax cuts despite elevated deficits (forecast averaging 5.8% of GDP over the coming decade). Yet, anxiety over US assets leaves us wary that further fiscal deterioration – given uncertain tariff revenues and government efficiency gains – may see further negative market reaction, noting rising US credit default swap spreads.

The impact of disruptive policy

The economic impact of these policies is less easy to judge. Qualitatively the increase in tariffs will weaken activity, but raise prices, creating an inflation risk as inflation expectations rise. However, trade policy uncertainty will weigh on both activity and inflation and can be expected to materialise in data over the coming months. And we continue to doubt the fiscal bill will provide a compensating boost. However, the erratic implementation of policies may have perverse impacts.

Q1 GDP (due as we publish) is likely to be weak – we forecast at 0.5% (saar). Some of this is due to weak consumer spending (forecast around 1%). However, despite an underlying decline, actual spending has been erratic with sharp falls in January at least somewhat impacted by weather and a strong rebound in retail sales in February supplemented by further gains in March as consumers purchased ahead of expected tariff hikes, particularly autos. The main uncertainty around Q1 GDP reflected import strength, exaggerated by gold that does not count towards GDP, but unusually not apparent in inventory. An unwind of this is likely to boost Q2's growth.

However, beyond these more erratic shifts there are growing signs that underlying activity is weakening. Manufacturing surveys have trended lower in recent months and the Philadelphia Fed's services index dropped to its weakest since May 2020. Moreover, the National Federation of Independent Business (NFIB) hiring index, which has provided a good lead indicator for employment growth, fell close to its lowest since 2020. These are not definitive developments but are consistent with a more material softening in activity in H2 2025. Amid ongoing policy uncertainty, we forecast US growth of 1.6% in 2025, but see a more protracted weakness into 2026, forecasting 0.6% (consensus 1.4% and 1.5%).

Recent headlines focused on Trump's angst over the Federal Reserve's (Fed) lack of policy easing. After markets fell further, Trump said he did not seek to remove Chair Jerome Powell – our long-term assumption – but the episode has not helped Fed policy setting. We continue to believe the Fed will triage the economy: considering the prospect of material downturn, then labour market deterioration and then inflation. But we see the outlook having shifted closer to material slowdown. We suspect the Fed will react to further signs of economic deterioration by easing policy pre-emptively, even as we now expect headline Consumer Price Index (CPI) to top 4% by year end. We now forecast a first easing in June and tentatively forecast three cuts to 3.75% by year-end and a further two to 3.25% in H1 2026.

30 April 2025

Global Macro Monthly – Eurozone


François Cabau,
Senior Eurozone Economist
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Hugo Le Damany,
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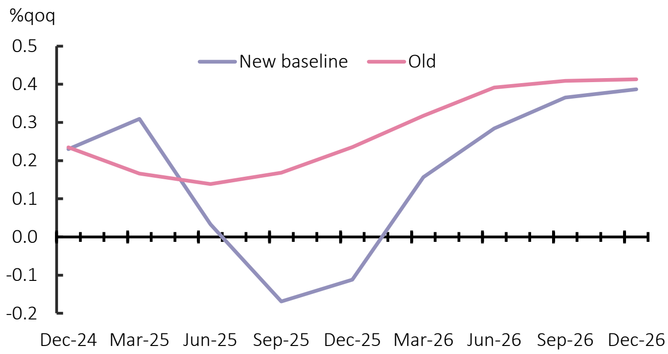
A tough month for forecasters

The size of the US's reciprocal tariffs was unexpected, forcing us to revise down our already below consensus growth forecasts for 2025/2026. The 20% tariffs on European Union (EU) good exports alone are an extraordinary shock that would leave the eurozone with virtually no chance of avoiding recession. Exporters also face a stronger EURUSD and a fall in demand from the US, which will also weigh on the outlook. But President D. Trump granted a 90-day pause, imposing 'only' 10% tariffs, though auto, steel and aluminium tariffs still stand at 25% and pharmaceutical products may be targeted by sectoral tariffs later. This reversal (if sustained beyond 90 days) should marginally reduce the negative impact but overall, we believe that much damage has already been done (through uncertainty), leaving our new GDP growth forecasts at 0.7% and 0.5% for 2025 and 2026 (down from 0.8% and 1.2%).

Exhibit 2: Potential for a near-term recession
AXA IM euro area GDP profile



Source: Eurostat and AXA IM Macro Research, April 2025

With this revised outlook (Exhibit 2), we now forecast a slightly better Q1 (+0.3% on a quarterly basis, from +0.2%) after better-than-expected industrial production, likely in part reflecting a front-loaded export boost ahead of coming US tariffs. But beyond Q1, activity is likely to slow, driven by much weaker exports. April's flash Purchasing Managers' Indices indicated as much with the services sector surprisingly joining the manufacturing sector in contractionary territory. Despite some resiliency expected in domestic demand, we believe that a recession is very likely in the second half of 2025.

Once the shock has passed (dealing with new supply chain, search for new markets...etc), a recovery should begin, but Germany's smooth implementation of its defence and infrastructure spending plan will be crucial. Global uncertainty will likely remain high and weigh on sentiment. Moreover, the EU may face increased competition from exports re-routed from third parties which are no longer competitive in the US. Therefore, we remain cautious and only anticipate growth to catch up to its previous forecast pace by end-2026.

Trade war not necessarily inflationary

Inflation decelerated further in March, to an annual headline rate of 2.2% and 2.4% for core. This disinflationary momentum should persist, falling below 2% in Q2; we forecast it touching a low point around 1.4%-1.5% in Q1 2026 (on average 1.9% in 2025 and 1.6% in 2026). Several factors drive this downward revision, including a stronger euro, notably against the dollar and the yuan (+9% for both since early March), lower oil prices (-15% in euro terms) and weaker domestic demand. The EU decided not to retaliate to the latest round of US tariffs and paused retaliation of €26bn on US goods (in response to steel and aluminium US tariffs), hoping negotiations will end with a deal. If not, the EU has said it would target goods with a minor impact on EU consumers (*i.e.* excluding oil and gas imports) with possible non-tariff measures on US services.

But as the trade war shapes up mainly between the US and China (and Asia more generally), this will have additional repercussions for the Eurozone inflation outlook, likely through increased price competition between domestic producers and US/Asian exporters who can no longer access their usual markets. The severity of the impact is difficult to quantify at this stage but will put further downward pressure on inflation.

The ECB is open to forceful easing

Such an environment warrants more accommodative monetary policy, and the European Central Bank (ECB) appeared to take a step in this direction at its latest meeting. As well as making its sixth consecutive rate cut (now at 2.25%), the tone of both the speech and statement were dovish, highlighted by the wording on outlook deterioration and increased risk perception that could lead to a (further) tightening of financing conditions. The ECB also conceded more disinflationary pressure in the medium term.

The ECB also reiterated that it remains "more than ever" data dependent. But as the outlook looks set to deteriorate over the next few months, we think the ECB should become more adventurous and cut its policy rates more aggressively. Accordingly, we have adjusted our ECB terminal rate forecast to 1% by year end (from 1.5%), meaning cuts of 25 basis points (bps) at every meeting this year, unless the central bank opts for a 50bp cut if economic data weakens more sharply.

30 April 2025

Global Macro Monthly – UK

Gabriella Dickens
Economist (G7)
Macro Research

Downside risks growing

The latest data surprised to the upside. Monthly GDP increased by 0.5% in February, while January's 0.1% decline was revised up to flat. On a three-monthly basis growth is now at 0.6%, up from 0.3% in January; we see Q1 growth at around 0.5%. Yet further ahead the outlook has darkened. While the direct hit of US tariffs has been relatively minor in the UK – around 10 basis points (bps) – tariff-related uncertainty and a global growth slowdown are set to have a more notable impact. We see an impact of around 30bps over the next two years, leaving growth at 0.8% this year and 1.1% in 2026, with the risks tilted to the downside.

Additionally, labour market and Consumer Price Index (CPI) data has softened. The Pay-As-You-Earn (PAYE) measure of employee numbers – which now gives the most reliable steer on the state of the labour market – fell by 78K on the month in March, the largest decrease since June 2020. Additionally, the initial estimate of a 21K rise in February was revised down to an 8K decline. Wage growth also came in 10bps below expectations, following substantial revisions to back data. Headline inflation fell to 2.6% in March, from 2.8% previously, below Bank of England (BoE) expectations of 2.7%. The effect of recent drops in oil prices was evident, with motor fuel knocking 0.15 percentage points (ppt) off the headline rate. More broadly, services CPI inflation slowed to 4.7%, from 5.0% which helped drag core inflation down to 3.4% from 3.5%.

Looking ahead, CPI inflation is due to rise again in April, reflecting tax changes, the national insurance contribution hike, administrative price changes and higher utility bills. But with commodity prices falling and growing labour market slack, we expect the BoE to revise its inflation outlook lower in May's Monetary Policy Report, to peak around 3.2%, from 3.7% previously. The BoE will likely continue to peddle a cautious line, with policymakers highlighting the uncertainty around the path for inflation given both upside and downside risks from US tariff policy alongside the ongoing debate about whether the recent weakness in the UK economy reflected supply constraints or weak demand. In our eyes, the likely slowdown in global growth, combined with the already deteriorating labour market and increasing likelihood of cheaper global imports, point to growing risks of inflation undershoots in the medium term. We think the Bank will cut three more times this year, and continue into early 2026 – cautiously, but consistently – leaving Bank Rate at 3.25% by end-2026.

Global Macro Monthly – Canada

Gabriella Dickens
G7 Economist
Macro Research

Carney secures a victory

At the time of writing, the Mark Carney-led Liberal Party was on track to win the Canadian Election and secure 168 seats – with the Conservatives on track to hit 144 – just short of the 172 needed for a majority, meaning he will need support from the left-leaning BQ and NPD parties to get policy over the line. Alongside the geopolitical turmoil, he faces several challenges – housing, immigration, sluggish private sector employment and weak productivity growth remain key voter issues. We expect Carney to follow through on his pledge to loosen fiscal policy by reducing personal tax thresholds for those on low incomes and boosting support for firms most affected by US tariffs.

We doubt such a fiscal injection will be enough to offset US tariffs nor the uncertainty caused by the toing and froing of US trade policy. Indeed, the latest data already shows signs of stress; having risen by 0.4% on the month in January, monthly activity data moved sideways in February and the S&P Global composite Purchasing Managers' Index (PMI) dropped to 42.0 in March – its lowest level since June 2020 – from 46.8 in February. Consumer confidence, meanwhile, dropped to 45.5, from 46.1 in February, well below the long-run average 51.8.

Admittedly, Canada came out of so-called *Liberation Day* relatively unharmed, with USMCA-compliant goods exempt from any additional tariffs. Currently, the share of goods that fall into that category is around 62%, leaving the effective tariff rate at around 17%. But as more businesses apply for USMCA-compliant status, we expect the effective tariff to drop. All told, we see GDP growth of 1.6% in 2025 and 0.6% in 2026, with quarterly growth grinding to a halt in Q3.

The Bank of Canada (BoC), meanwhile, will likely continue to cut interest rates in the second half of 2025. Tariff retaliation will put some upward pressure on Consumer Price Index (CPI) inflation in the near term – we have raised our forecast by 0.2 percentage points this year and next – with the headline rate peaking at 3.1% in Q1 2026. But ultimately, the opening of slack in the economy as growth slows looks set to be stronger and more persistent than any upward pressure on costs. The BoC will likely cut twice more this year, leaving the policy rate at 2.25% by year-end. Further ahead, if US tariff pressure relents, there is scope for the Bank to restore the key policy rate back to its current level as private consumption recovers.

30 April 2025

Global Macro Monthly – China

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Economist (China)
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Robust momentum faces strong headwinds

China's economy expanded robustly in the first quarter of 2025, growing 5.4% year on year, thanks to the policy pivot in late 2024 and front-loaded easing measures earlier this year. However, the fast and dramatic tit-for-tat tariff escalation between Washington DC and Beijing jeopardises China's growth outlook. We now expect GDP to expand by 4.3% in 2025 and 4.0% in 2026 (from 4.5% and 4.1% respectively), with Beijing likely to introduce additional incremental fiscal support to shore up domestic demand later this year.

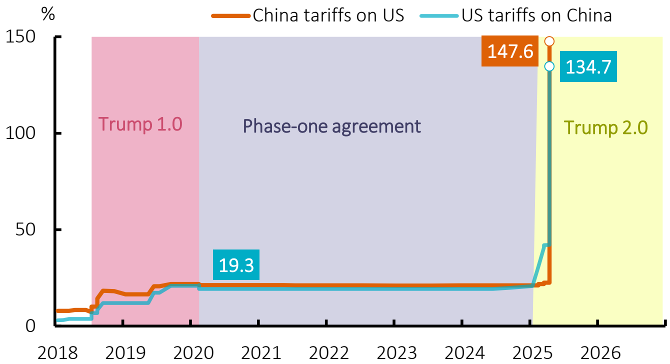
Looking back at Q1, the recovery was broad-based. Steady monthly growth in retail sales and a rebound in private investment suggested improving confidence among both consumers and businesses. Part of this consumer recovery has been supported by stabilising property prices. The average price decline has been narrowing consistently over the past six months, led by tier-one cities. Improving sentiment has boosted demand, which is aided by Beijing's 'trade-in' scheme. As a result, retail sales have grown steadily since July 2025, particularly in home appliances and mobile phones.

Externally, much has happened between the US and China in the past month. Retaliatory measures following the 2 April announcement of reciprocal tariffs have pushed border levies between the world's two largest economies to prohibitive levels (Exhibit 3). More measures have followed: China has imposed restrictions on rare earths exports, while the US has tightened export controls on Nvidia chips. China's state-backed funds are pulling back from US investments, and the US is set to introduce port fees on Chinese-made ships docking at America from late July.

The rising tension has set the two giants on a sudden, messy, and costly path toward decoupling. Yet recent comments from US Treasury Secretary Scott Bessent suggested this may be too costly to sustain, with subsequent comments from President Donald Trump suggesting a trade deal would be a preferable outcome. Indeed, top leaders from both sides have expressed a willingness to negotiate but no high-level contact has been scheduled. A potential June summit would appear to be the most likely time for meaningful talks. But until any deal is made, the stand-off between the two looks set to persist.

Exhibit 3: Sharp increases in tariff from both US and China

US and China tariffs



Source: Peterson Institute and AXA IM Research, April 2025

Tariff-related economic damage is both direct and indirect. We estimate the direct impact from US levies at around 2.5% of GDP. However, the direct blow may be softened somewhat. Lower tariffs for countries such as Vietnam, Thailand, and Mexico – integrated within China's supply chains – may help reroute exports and absorb some of China's trade flows. US efforts to use third party trade deals to limit such rerouting will be difficult to enforce in practice. Moreover, China may seek to increase exports to other markets. A weaker yuan could also help mitigate the impact. The People's Bank of China (PBoC) appears to have stopped resisting this path, setting record weak daily fixes. We expect the yuan to weaken further, reaching around 7.5 yuan per dollar by year-end.

The indirect impact – not priced in in our latest forecast – stems from weaker global demand. Exports excluding the US accounted for 16.4% of China's GDP in Q1 – marginally higher than the previous quarter. Should US-driven pressures on global demand materialise, all being equal, China could see a further GDP drag of up to 0.2 percentage points (ppt).

In response, we expect Beijing to step up policy support to stabilise the domestic economy. The April Politburo meeting last week focused on these external headwinds and urged for faster implementation of the current fiscal package. If the situation stabilises by summer, the July Politburo meeting may be a suitable juncture to evaluate the damage and announce any additional incremental fiscal response accordingly. On the monetary side, the PBoC has already signalled readiness to ease. With credit appetite picking up recently, cuts to the Reserve Requirement Ratio (RRR) and policy rates are expected in the coming weeks.

With the rising pressure on China's economy, more of the growth will be policy-driven than organic, but it risks seeing a diminishing return of policy efficacy and creating longer-term challenges. Yet, that is unlikely to be Beijing's top priority now. Overall, downside risks dominate our projections.

Global Macro Monthly – Japan

Gabriella Dickens,
G7 Economist
Macro Research

Still one more hike on the horizon

After a bumpy start to 2025, the latest data points to improvement at the end of Q1. The Bank of Japan's (BoJ) Consumption Activity Index rose by 0.4% on a three-month-on-three-month basis in March, up from -0.1% in February, while the composite Purchasing Managers' Index (PMI) rose to 51.1 in April, from 48.9 in March.

Looking ahead, we suspect the US's 24% reciprocal trade tariff will be negotiated away before it is fully implemented – the government is likely to be keen to strike some form of deal before the Upper House elections in July – but the 25% autos tariff will likely remain. If the government does strike an early deal with the US, exports could receive a modest boost in the near term, as demand shifts away from countries with higher tariffs. But heightened uncertainty and weaker global growth will probably still underpin a slowdown over the second half of the year. On balance, we have revised down our GDP forecast to 1.1% this year from 1.2%, and to 0.5% in 2026, from 0.9%.

Domestic dynamics, however, remain broadly favourable. The third tabulation of the Shunto wage negotiations showed a 3.82% increase in base pay – the first round was 3.84% – as firms face labour supply pressures. Meanwhile, a stronger yen, lower oil prices, fuel subsidies and the prospect of product dumping all point to Consumer Price Index (CPI) inflation easing back in the second half of the year. We have revised down our inflation forecast to 2.9% for 2025 and 1.5% in 2026 which should help to boost real wage growth and private consumption.

The BoJ, meanwhile, maintained the key policy rate at "around 0.5%" at its March meeting, with little in the way of new guidance. We continue to see one further hike this year, but now see this likely in September, rather than July. That's still sooner than markets expect – a 25 basis-point hike is not fully priced in this year – but an earlier move would be broadly in line with the current pace of hikes, roughly one every six months or so. The BoJ will also have a better idea of how wage increases are passing through to prices by the summer. We also expect more stability in US trade policy, with most of the major changes resolved by then, easing much of the current uncertainty. The BoJ will probably struggle to push through further hikes over the forecast horizon, though, given that we expect more material signs of slower US activity by year-end and US interest rate cuts, which could boost the yen further.

Global Macro Monthly – EMEA

Claire Dissaux,
Senior Sovereign Credit Analyst (Emerging Markets)
Macro Research

Politics in Turkey and South Africa: How disruptive?

After Istanbul's mayor and opposition leader Ekrem İmamoğlu was jailed in March, Turkey's democracy has been further weakened. With Recep Erdoğan unable to run for elections due by May 2028, barring early elections or the constitution changing, the political transition is unlikely to be smooth. Economic stability has also been jeopardised. The central bank intervened heavily to support the lira in the face of large foreign capital outflows. Gross currency reserves have declined by US$34bn, while the lira has depreciated by over 4% vs. the US dollar. That complicates the FX-based reduction in inflation, given the high currency passthrough.

Renewed resident dollarisation (foreign currency deposits have risen by $15bn since 19 March) is the key risk. The central bank has tightened its stance, first by raising the overnight rate by 200 basis points (bps) to 46%, then by hiking its one-week repo rate by 350bps to 46%, while raising the upper end of the corridor to 49%. Despite high real rates, a soft dollar and lower oil prices, downward pressures on the lira could persist amid lower global risk appetite. A more balanced policy mix, with tighter fiscal policy anchoring inflation expectations, is needed to allow a resumption of rate cuts in the second half of 2025 as well as orderly lira depreciation to accommodate Turkey's large external financing needs.

In contrast, domestic politics are unlikely to derail South Africa's economic trajectory. Tensions between the African National Congress (ANC) and its coalition partner Democratic Alliance (DA) have risen, triggered by the now abandoned ANC plan to hike VAT. The government may still fall, and political uncertainties will persist ahead of local elections in November 2026, the ANC leadership election in December 2027 and the 2029 general election. Yet the ANC's commitment to fiscal consolidation should stay intact and spending cuts will likely offset revenue shortfalls. Instead, political instability would likely slow reform momentum in the medium term. South Africa has little fiscal space but significant monetary policy leeway, with the policy rate (7.5%) above neutral (around 7%) and domestic drivers of inflation (e.g. labour costs) receding as seen in slower service inflation. The fiscal anchor and the central bank's inflation targeting credibility are likely to facilitate rate cuts to easing territory in the case of global downturn, with South Africa's foreign exchange passthrough to Consumer Price Index (CPI) estimated at half that of Turkey's.

30 April 2025

Global Macro Monthly – LatAm

Claire Dissaux,
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Macro Research

Uneven cushions in the face of an external shock

US tariff rises on Latin America have overall been lower than those imposed on other emerging markets. A 10% reciprocal tariff was announced for most nations on 2 April while 25% tariffs on autos and parts, and steel and aluminium are in place. As key regional export sectors – commodities and energy – were excluded, we estimate effective tariffs stand at 8% for Brazil, 7% for Mexico and Peru, and 5% for Chile and Colombia. Mexico is a special case given the USMCA trade agreement and economic integration with the US. It has been spared reciprocal tariffs but is exposed to 25% tariffs on non-US content for autos and auto parts, 25% on steel and aluminium, and 25% tariff on non-USMCA compliant goods[1]. The GDP growth direct impact would be -0.2 percentage points (ppt) for Chile, Peru and Colombia and -0.1ppt for Brazil but would reach -1ppt for Mexico. Slower global demand will add to the negative impact.

The regional growth outlook is also shaped by financial conditions, reflecting large government borrowing needs, and commodity prices (excluding Mexico), as the share of manufactured and service exports is relatively lower than in other regions. On the latter, the fall in oil prices negatively impacts Colombia while other agriculture and metal exporters are shielded for now. Brazil, Colombia and Mexico have registered large increases in government interest rate payments since 2019 (3ppt of GDP in Brazil, 1.4ppt in Colombia and 1ppt in Mexico) – the rise mostly due to the interest rate rather than the debt stock. The lack of fiscal space is reinforced by constrained monetary policy in Brazil. Inflation expectations for the next 12-months remain above the upper end of the target at 4.95% (vs. 4.5%) in Brazil contrary to Colombia and Mexico (3.9% vs. 4%) or Chile (3.6% vs. 4%). Services in Brazil are driving overall inflation, amid a tight labour market and weak transmission of monetary policy. Domestic sources of inflation are also resilient in Colombia. In contrast, CPI is already within the target band in Mexico, with service inflation having started to decline. Monetary policy can accommodate the trade shock in Mexico, with the central bank likely to cut again by 50 basis points (bps) over the next two months. An early end to tightening is unlikely in Brazil, while measured easing in Colombia (-25bp pace) should keep policy restrictive for longer.

[1] Estimated to be 10%-15% of total as compliance increases post-US tariffs. The 25% tariff on non-USMCA compliant goods would drop to a 12% "reciprocal" tariff if fentanyl and migration issues with the US were resolved.

Global Macro Monthly – EM Asia

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Precarious position amid tariff turmoil

With the 90-day pause on US reciprocal tariffs, along with exemptions and additional sector levies, emerging markets in Asia (EM Asia) currently face an effective tariff rate around 7% except for South Korea at 13.3%. Officials are engaging the US and appear willing to acquiesce to its demands to try to rebalance trade. It is therefore unlikely they will end up facing the full reciprocal tariffs announced on 2 April but the region's close trade and investment links with China could complicate negotiations, particularly if the US demands countries take its side in a US-China trade war.

The tariff uncertainty, notably on how the US will treat electronics and electrical products, clouds the region's growth outlook but few will avoid a Q2 slowdown. Trade disruptions and the recent US import front-loading foreshadow a downturn in EM Asia exports in Q2. Early data from South Korea shows that in the first 20 days of April, its exports fell 5.2% year-on-year, with exports to the US down 14.3%. Investment will be constrained by firms' caution amid tariff uncertainty and potential supply-chain rewiring. March's Manufacturing Purchasing Managers' Indices (PMIs) were below 50 in all markets except Indonesia.

Central bankers in the region will be less cautious in Q2. South Korea and Indonesia both kept policy on hold at their respective April meetings but we expect cuts in May and now also anticipate policy easing in Thailand and Malaysia in Q2. Fiscal support will also be forthcoming. In South Korea, the government pushed through a supplementary budget (equivalent to 0.5% of GDP). This domestic support will only partly offset the direct hit stemming from US tariffs and a slowdown in US and China growth.

At the current effective tariff rates, our projection for regional growth in 2025 now stands at 4.3% (down from 5.0% previously and slowing from the expansion of 5.4% in 2024), and further revisions hinge on final tariff decisions. The cut to growth forecasts in India and Indonesia is limited, reflecting the high domestic component in GDP but we now expect growth of just 0.2% in South Korea, which had a weak start to the year – GDP shrank by 0.1% year-on-year in Q1 as political turmoil dampened consumption and investment.

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	1.6	1.2		0.7	
US	2.8	1.6	1.4	0.6	2.0
Euro area	0.9	0.7	0.9	0.5	1.4
Germany	-0.2	-0.2	0.1	0.2	1.3
France	1.1	0.3	0.6	0.6	1.3
Italy	0.5	0.0	0.5	0.2	1.0
Spain	3.2	2.6	2.5	2.0	1.7
Japan	0.1	1.1	1.0	0.5	0.9
UK	0.9	0.8	0.7	1.1	1.5
Switzerland	1.3	0.7	1.1	1.0	1.6
Canada	1.3	1.6	1.0	0.6	2.1
Emerging economies	4.2	3.4		3.4	
China	5.0	4.3	4.5	4.0	4.2
Asia (excluding China)	5.4	4.3		4.5	
India	6.7	6.3	6.3	6.1	6.6
South Korea	2.1	0.2	1.3	1.5	2.2
Indonesia	5.0	4.5	4.9	4.9	5.1
LatAm	2.4	1.8		2.0	
Brazil	3.4	1.9	1.9	1.8	2.2
Mexico	1.5	0.0	0.6	0.8	2.0
EM Europe	3.3	2.1		2.0	
Russia	4.1	1.5	1.7	0.9	1.3
Poland	2.9	2.8	3.4	2.9	3.5
Turkey	3.2	3.0	2.9	3.4	3.6
Other EMs	2.8	3.2		3.7	

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 29 April 2025
**Forecast*

CPI Inflation (%)	2024	2025*		2026*	
	AXA IM	AXA IM	*Consensus*	AXA IM	*Consensus*
Advanced economies	2.6	2.7		2.4	
US	2.9	3.4	3.2	3.2	2.3
Euro area	2.4	1.9	2.0	1.6	2.0
China	0.2	0.4	1.3	0.6	1.6
Japan	2.7	2.9	2.0	1.5	1.7
UK	2.5	3.2	2.3	2.0	2.0
Switzerland	1.1	0.2	1.0	0.5	1.0
Canada	2.4	2.4	2.1	2.6	2.1

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 29 April 2025
**Forecast*

These projections are not necessarily reliable indicators of future results

Forecast summary

Central bank policy Meeting dates and expected changes (Rates in bp / QE in bn)		Current	Q2-25	Q3-25	Q4-25	Q1-26	Q2-26	Q3-26	Q4-26
United States - Fed	Dates	4.50	6-7 May 17-18 Jun	29-30 Jul 16-17 Sep	28-29 Oct 9-10 Dec	27-28 Jan 17-18 Mar	28-29 Apr 16-17 Jun	28-29 Jul 15-16 Sep	27-28 Oct 8-9 Dec
	Rates		-0.25 (4.25)	-0.25 (4.00)	-0.25 (3.75)	-0.25 (3.50)	-0.25 (3.25)	unch (3.25)	unch (3.25)
Euro area - ECB	Dates	2.25	05-juin	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 (2.00)	-0.50 (1.50)	-0.50 (1.00)	unch (1.00)	unch (1.00)	+0.25 (1.25)	+0.25 (1.50)
Japan - BoJ	Dates	0.50	30 Apr - 1 May 16-17 Jun	30-31 Jul 18-19 Sep	29-30 Oct 18-19 Dec	Jan Mar	May June	Jul Sep	Oct Dec
	Rates		unch (0.50)	+0.25 (0.75)	unch (0.75)	unch (0.75)	unch (0.75)	unch (0.75)	unch (0.75)
UK - BoE	Dates	4.50	8 May 19 Jun	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 (4.25)	-0.25 (4.00)	-0.25 (3.75)	-0.25 (3.50)	unch (3.50)	unch (3.50)	unch (3.50)
Canada - BoC	Dates	2.75	16 Apr 4 Jun	30 Jul 17 Sep	29 Oct 10 Dec	Jan Mar	May June	Jul Sep	Oct Dec
	Rates		unch (2.75)	-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 29 April 2025

These projections are not necessarily reliable indicators of future results

Download the full slide deck of our April Investment Strategy

30 April 2025

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

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**All figures, as at end of December 2024*

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