AXA Investment Managers

Investment Institute Macroeconomics

Tariff Turmoil

Monthly Investment Strategy

AXA IM Macro Research

April 2025

Summary: April 2025

Theme of the month: Tariff turmoil

- Liberation Day saw the US enact ‘reciprocal’ tariffs on over 50 countries and 10% blanket tariffs on the rest of the world. This raised the US announced tariff rate to 22.5% (assuming constant imports). Market turmoil saw the administration relent and introduce a 90-day pause so countries could negotiate trade deals. Tariffs were reduced to 10%, except on China where they were raised by 125ppt. The average rate rose to 25.6% and its highest since 1901. However, if we assume import substitution, the overall rate is likely to be around 16% (still the highest since 1934).
- Beyond the direct impact of tariffs, trade uncertainty has soared. This has been compounded by a lack of clear policy motive. Different administration figures have put weight on reducing deficits, reshoring manufacturing, boosting government revenue and dollar devaluation. Some of these options are mutually exclusive. Given the breadth of tariff implementation, we infer that the principle motive to date has been revenue but recognise this may evolve over the coming quarters.
- Countries have taken different paths in reaction. Many countries have acquiesced to tariffs for now and are actively engaged with the US to achieve a trade deal. This has included Canada, which eased a more aggressive reaction after its exclusion from Liberation Day tariffs. Europe also deferred retaliation to all tariffs after Trump’s 90-day pause. However, China is the main exception. It has raised tariffs to similar levels on US products. It has also restricted the supply of critical supply-chain components, including rare earth supplies.

Macro update: Trump trade policy ravages outlook

- The implementation of far higher tariff increases than we had in our baseline has led to a marked reduction in growth outlook in most regions. We have lowered our global growth outlook to 2.6% and 2.4%.
- Erratic tariff policy implementation and tactical behaviour are likely to raise GDP growth volatility over coming quarters. Many countries will have seen a boost to GDP ahead of tariff announcement. In the US, it will have weakened GDP. Yet all are likely to see weaker growth in H2 2025 and 2026.
- We expect some rebound from a weak Q1 in Q2 but lower our growth outlook to 1.6% and 0.6% for 2025 and 2026 forecasting growth to remain positive, but weak. Uncertainty surrounds future trade policy and market sentiment over further unorthodox policy. We expect the Fed to cut rates from June.
- China has seen the most belligerent retaliation to tariffs so far testing the resilience of its globally integrated supply chains. We forecast a 2.5ppt growth hit from current US tariffs and see growth falling to 4.3% this year and 4.0% next. Beijing is gradually increasing further domestic demand support.
- The Eurozone is likely to dip into a mild recession in H2 2025 as a result of US trade policy. However, with inflation forecast to dip further, the ECB is likely to continue the pace of policy into easing territory, we forecast at 1.00% by year end. Fiscal stimulus should help lift growth later in 2026.
- Canada emerged relatively better off after it avoided Liberation Day tariffs. Nevertheless, confidence has fallen sharply, and the economy is likely to have a close brush with recession. Canadian elections have returned the Liberals to power under current Prime Minister Mark Carney.

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Central scenario

Summary – Key messages

Our central scenario: Global economy reshapes to new US policies.

Global growth expected 2.6% in 2025, to slow to 2.4% in 2026.

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

Inflation

Upside inflation risks for US on policy initiatives and rising inflation expectations. Disinflationary shock elsewhere, particularly as dollar declines. Core disinflation to broaden, some stickiness in services.

Monetary policy

Expected changes in US trade policy to lead most developed central banks 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 for tax cuts. Markets increasingly vigilant.

Emerging Markets

External pressures, including tighter financial conditions, rise. 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. Short-term gains possible, but policy response elsewhere to see further pull back into 2026.

Rates

European yields rise on fiscal expansion. US yields soften on growth fears, but broader concerns lift term premia. Japanese yields trend higher in normalisation. China yields bounce off lows.

Growth

Several economies to brush with recession after US trade policy, including the US. Domestic policies become more supportive.

Alternative scenarios

Summary – Key messages

	Entrenched supply shock Probability 25%		A global boost Probability 10%
What could be different?	- Full scale Trumponomics: protectionism, migration clampdown - Geopolitical tensions escalate: Ukraine, Middle East and Indo-Pacific - Inflation expectations rise, affecting wages and inflation persistence		- US pares back global tariffs more aggressively post trade deals - Productivity boost post-pandemic adjustments, AI more visible - De-regulation prompts more efficient government - Ukraine settlement lowers short-term energy prices
What it means	- 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		- Growth surprises on the upside in most regions - Inflation fades more quickly towards and below central bank targets - Monetary policy eases quicker than signalled
Market implications	- Risk appetite deteriorates / equities sell off / credit widens - Sovereign yields reprice higher - Dollar remains elevated - EM debt to come under pressure		- Risk-on environment, equities make further gains, growth retains lead over value - UST softens, EUR strengthens - Spreads grind tighter

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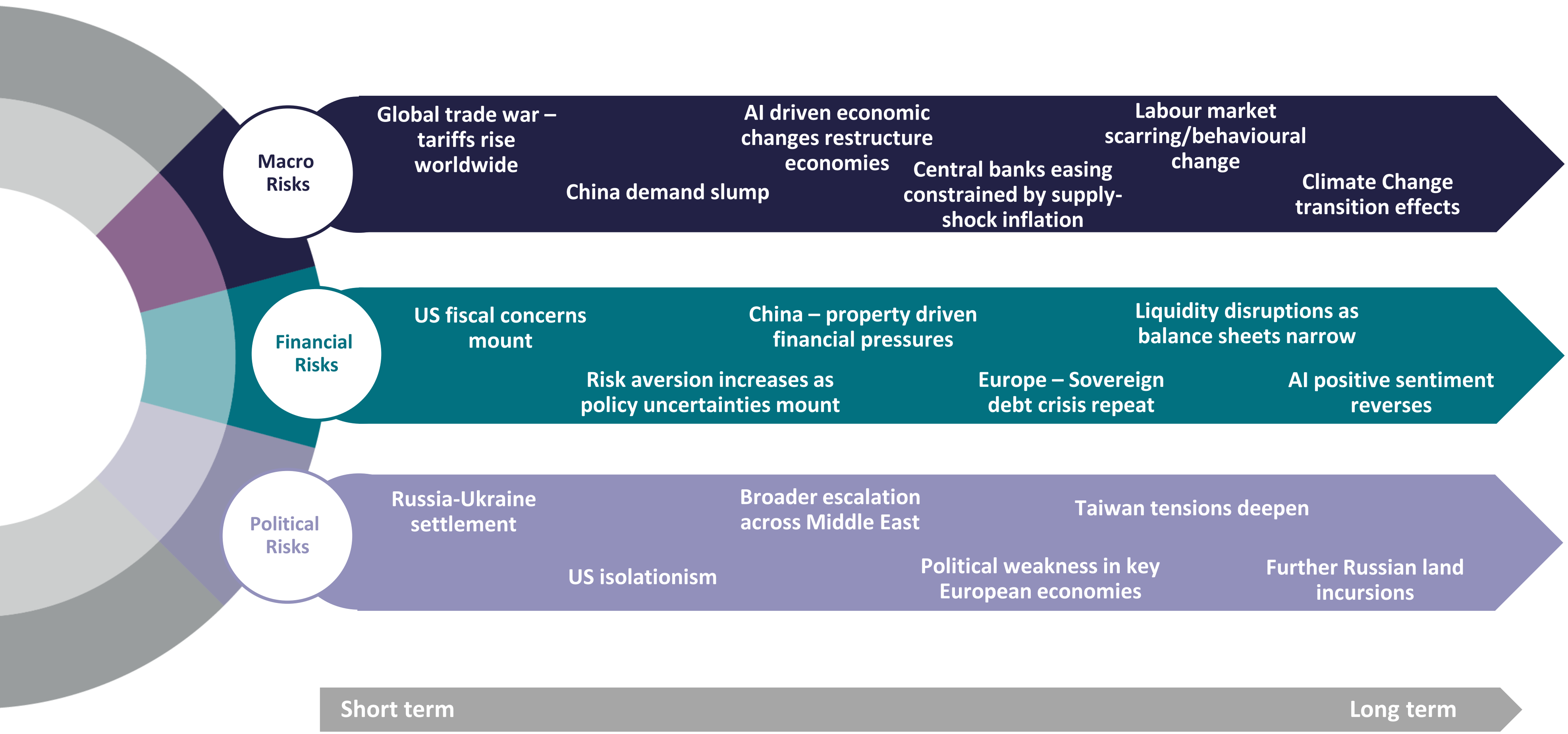
RISk Radar

Summary – Key messages



Contents

Theme of the month

Economic independence

Tariff turmoil

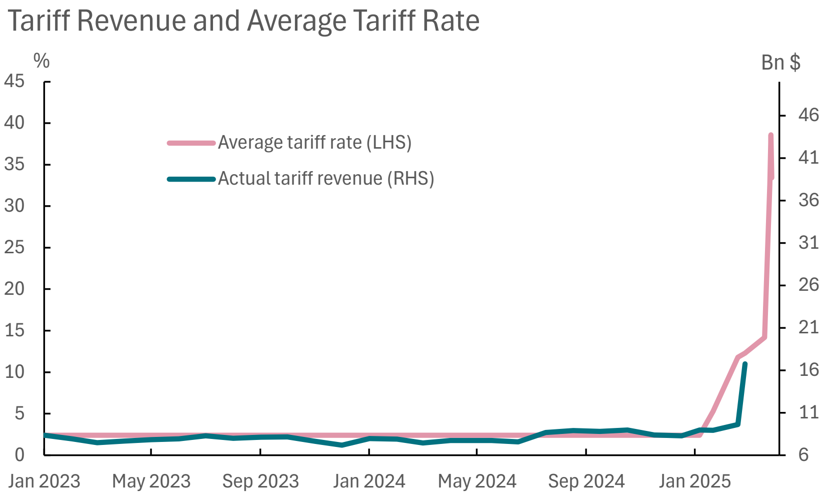
Liberation Day

- President Trump announced Liberation Day 'reciprocal' tariffs on 2 April to take effect on 9 April. This targeted 57 countries with individual tariffs said to be based on those country tariff and non-tariff barriers to the US. The remaining 136 countries faced a 10% flat tariff rate. This raised the announced tariff rate (weighted by historic imports) to 22.5% and the highest the US had levelled since 1909.

Reciprocal?

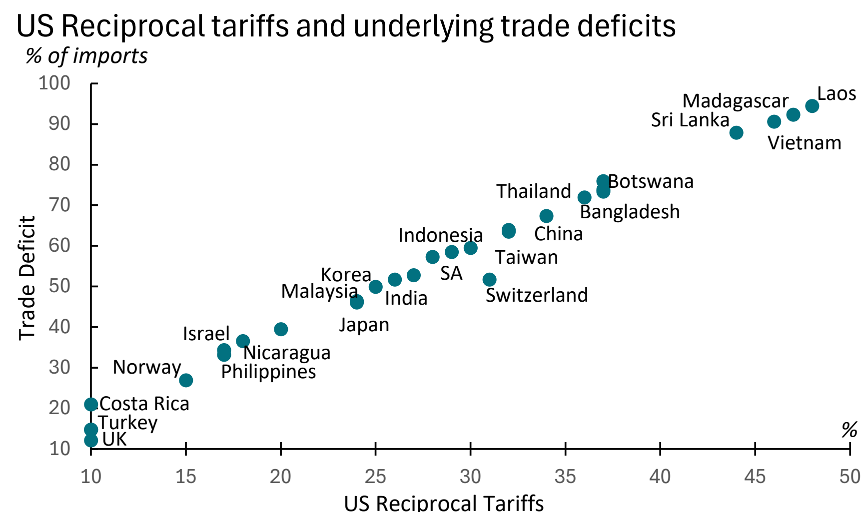
- Yet these 'reciprocal' tariffs bore no relation to the tariffs that each country levelled on the US, neither including non-tariff barriers, nor additional domestic tax measures like VAT. Rather the 'reciprocal' tariffs set were a function of each countries trade deficit with the US.

US tariff volatility up to and after 'Liberation Day'



Source: FRED, FDT, AXA IM Research, April 2025

'Reciprocal' tariffs actually reflect US trade deficit fetish



Source: WPR, AXA IM Research, Apr 2025

The current level

Tariff turmoil

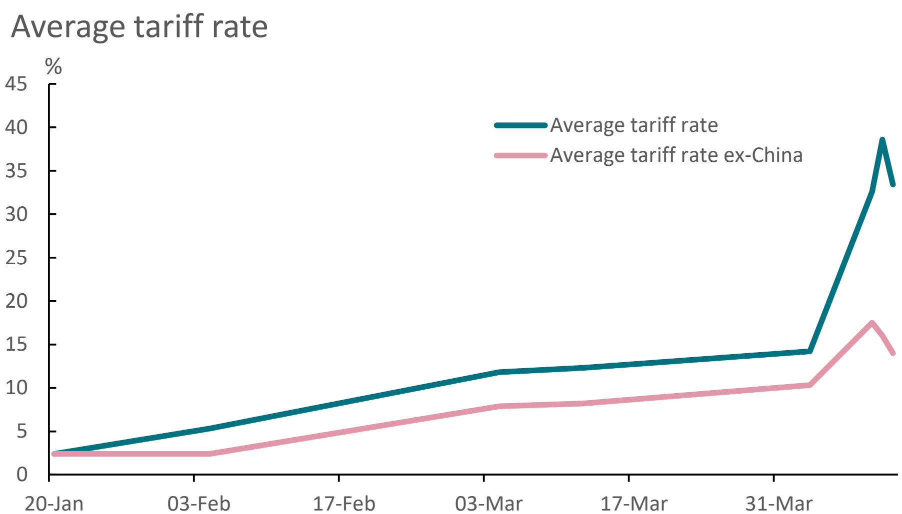
.. and pause

- As markets fell to the 9 April implementation of Liberation Day tariffs, the administration relented announcing a 90-day pause to allow for trade negotiations on the day they were meant to take effect. Tariffs were reset to 10% in the interim, with the exception of China, where tariffs were raised in a series of tit-for-tat rounds that eventually added 125% to China's overall tariff levels.

Announced / effective tariff rates – still high

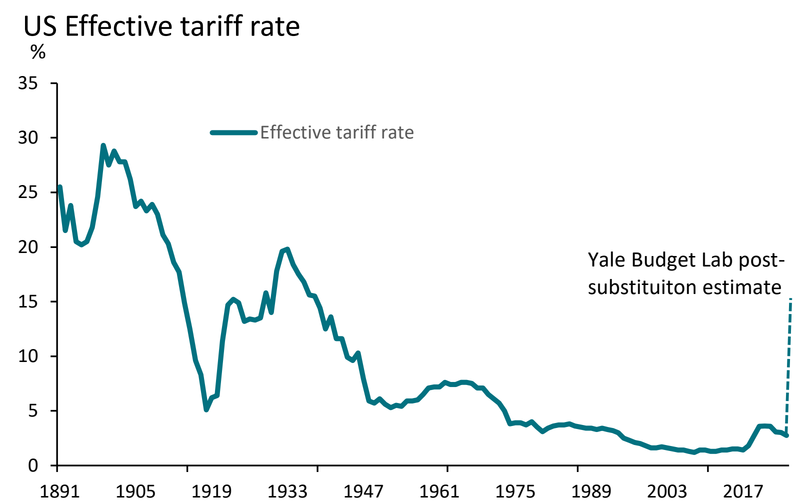
- The US announced tariff rate thus rose to 25.6% - its highest since 1901 – although only on the basis of historic import weights. In reality, US consumers will soon adjust spending behaviour to reduce imports from newly expensive imports, a substitution effect that will reduce the effective tariff rate. Yale Budget Lab estimates to 16%.
- That being the case, US tariffs have still been raised to their highest level since 1934 after the Smoot-Hawley Tariff Act that exacerbated the Great Depression.

And China emerges as prime target



Source: OEC, AXA IM Research, Apr 2025

US tariffs jump to historic rates



Source: US ITC, AXA IM Research, April 2025

Motives

Tariff turmoil

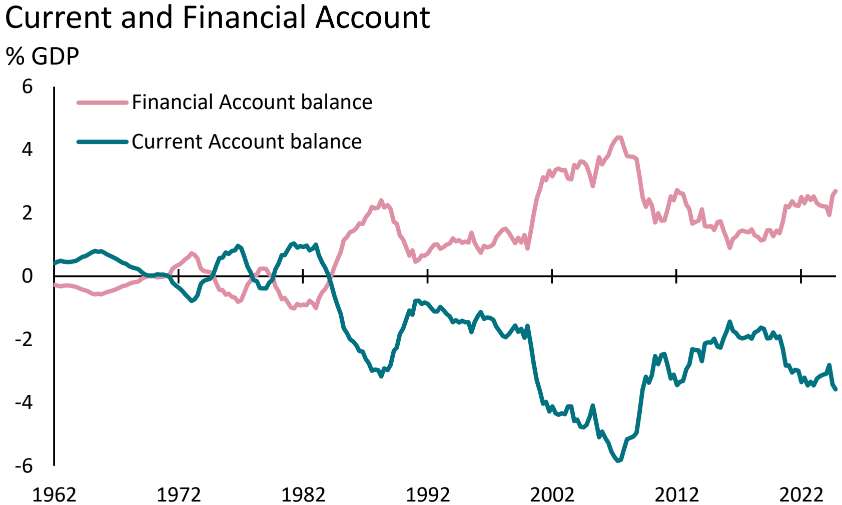
Trade deficits, manufacturing renaissance or a Myth-a-Lago accord

- One of the key reasons for ongoing trade policy uncertainty is that no one understands what the administration is trying to achieve. Key administration figures have alluded to achieving a manufacturing renaissance; building fresh revenue streams for government; reducing the trade deficit; leverage in art-of-the-deal style trade deals; and the complex Mar-a-Lago dollar revaluation. Several of these policies are mutually exclusive; the Mar-a-Lago accord proposals are as far-fetched as Brexit; and the corollary of the US's trade deficit are large financial account surpluses, large capital inflows into the US that have kept government borrowing rates low.

Revenue and the fiscal agenda

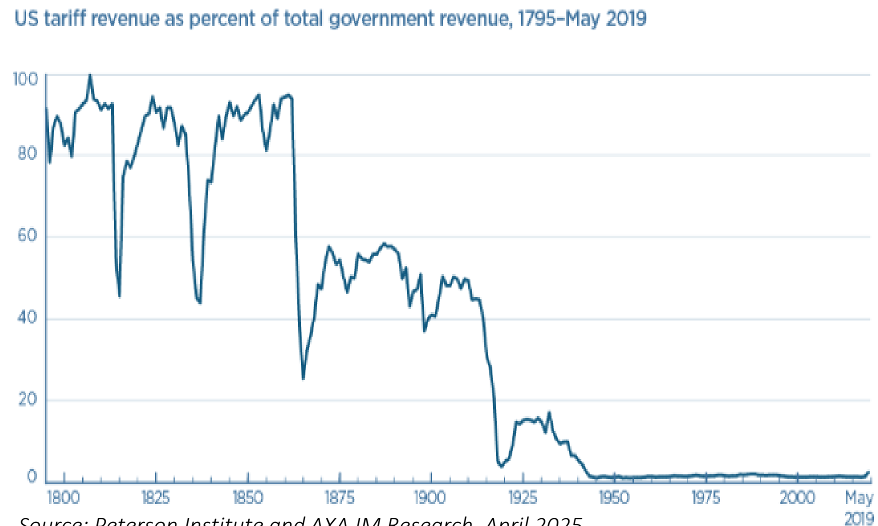
- We argue that the breadth of tariffs – including on close allies like Canada – suggests the administration is for now focused on tariff revenue to fund promised tax cuts in the light of elevated fiscal deficits. While revenues can rise, they will not match historic levels, by virtue of the fact that overall trade now accounts for a much smaller proportion of overall US economic activity.

Financial account capital inflows are the mirror of trade deficits



Source: Refinitiv, AXA IM Research, Apr 2025

No return to the past for government funding



Source: Peterson Institute and AXA IM Research, April 2025

Uncertainty

Tariff turmoil

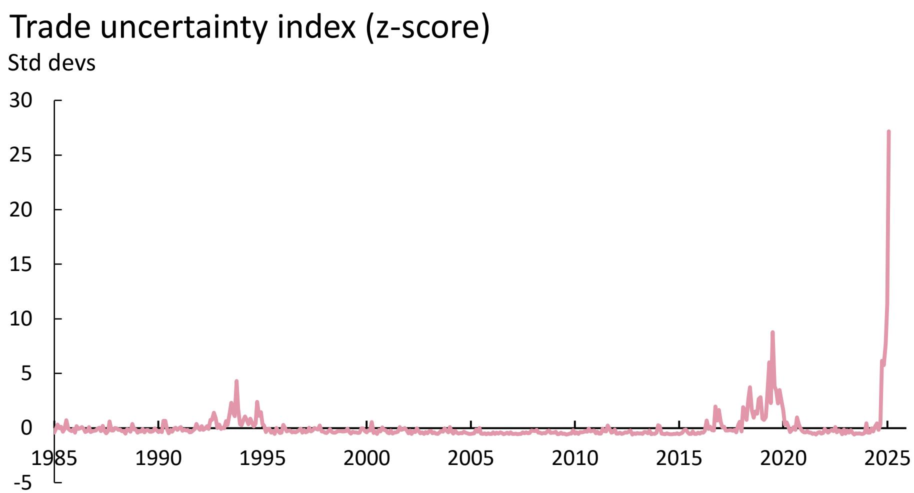
Uncertainty independently weighs on activity outlook

- The erratic implementation of tariff policy over the past two months and the administration's current apparently more conciliatory approach all adds to the uncertainty of trade policy – whether tariffs are rising or retreating. This has spiked to unprecedented levels. Tariffs qualitatively should weigh on output and raise prices; trade uncertainty separately weighs on both activity and prices by deferring action – corporates and households are likely to put off spending decisions in the face of elevated uncertainty.

Financial markets react

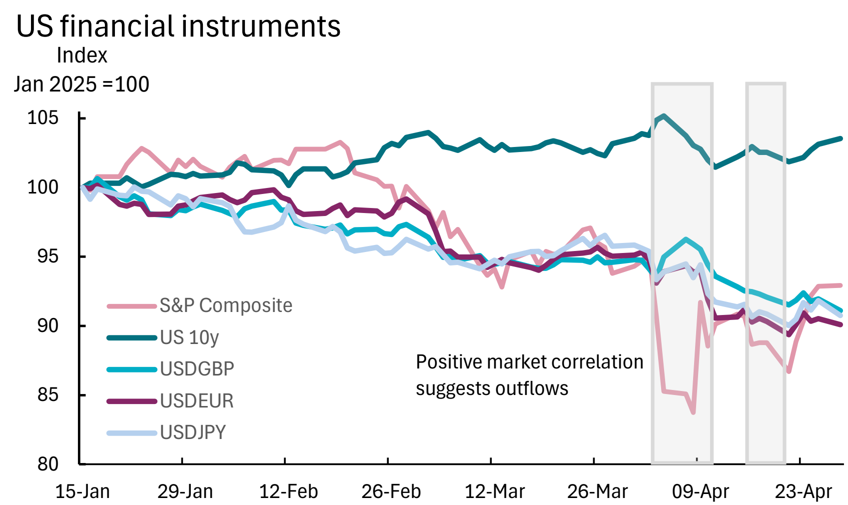
- Financial markets have reacted sharply to tariff measures. Equities fell by over 12% before the pause was announced they are still down over 4%; the dollar fell by 5% and US Treasuries are also down 1%, from 3% at worst. The combined fall in these assets suggests global asset reallocation at best; the risk of a more structural pivot; and at worst bore the hallmarks of the first signs of financial instability.

Trade policy uncertainty surges



Source: Economic Policy Uncertainty and AXA IM Research, April 2025

Financial market stress forces partial climbdown



Source: Refinitiv, AXA IM Research, Apr 2025

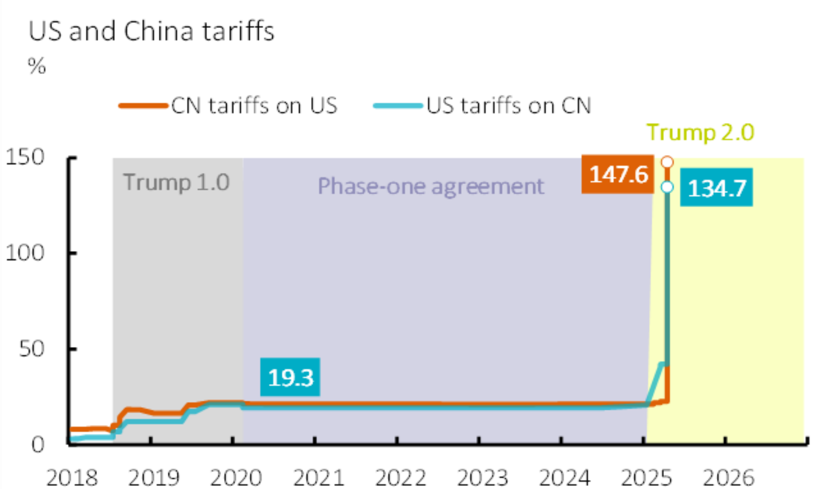
China retaliation

Tariff turmoil

Stand-off risks two giants decoupling

- The rapid escalations in tariffs between US and China have sent US's effective tariff to 134.7% and China's to a prohibitive level. Moreover, China has also put export controls on rare earths and US issued export restrictions for Nvidia's chip. The current trade disputes have led to a sudden, messy and costly decoupling between the world's two biggest economies.
- The impact of the potential decoupling will be enormous, and the rest of the world will bear significant collateral damage. Recent comments from US Treasury Secretary Bessent confirmed the worry, as he suggested to de-escalate the trade war with China, pointing out that decoupling was not the goal.
- Although Beijing and Washington DC have shown their willingness of a negotiation, no top-level contact has yet been scheduled. There remains some potential in a June "birthday summit".

Sharp increases in tariff from both US and China



Source: Peterson Institute and AXA IM Research, April 2025

Tariff-related actions between US and China

Date of announcement	Tariff-related actions between US and China (Since Trump's inauguration in 2025) *US's action in pink, CN's action in purple*
01-Feb-25	US tariffs of 10% on all imports from China under International Emergency Economic Powers Act (IEEPA)
04-Feb-25	China's retaliation to US tariffs under IEEPA
04-Mar-25	US tariffs of 10% on all imports from China under IEEPA
02-Apr-25	US "reciprocal tariff" of 34% on China
04-Apr-25	China retaliatory tariff of 34% against US
08-Apr-25	US additional tariffs of 50% on China
09-Apr-25	China retaliatory tariff of 50% against US
10-Apr-25	US additional tariffs on China increase to 125%
12-Apr-25	China retaliates against US tariffs, to reach levels of recent US tariff increases of 125%

Source: Peterson Institute and AXA IM Research, April 2025

EU defers

Tariff turmoil

The EU plays for extra time

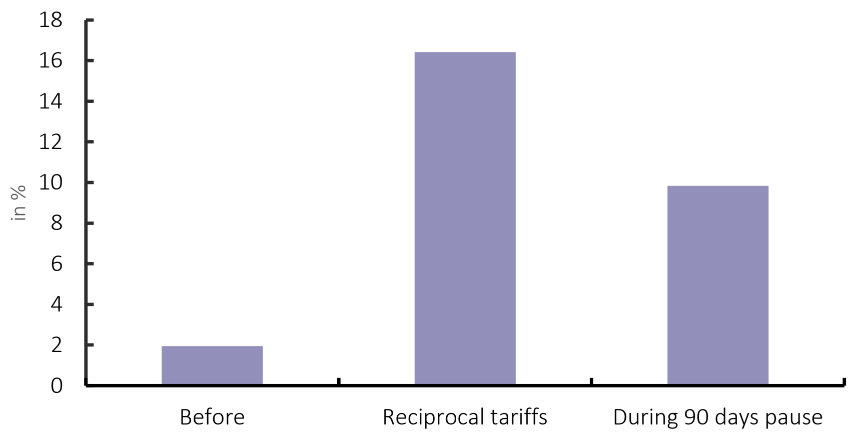
- The EU was about to retaliate to the US reciprocal tariffs before the 90-day pause put its retaliation on hold.
- The EU also suspended retaliation on steel, aluminium and its derivatives ($21bn of US exports), out of good faith and to further ongoing and future negotiations.

If tariffs resume, the EU could apply non-tariff barriers on services

- The EU would resume tariffs on some goods, but retaliation would be relatively smoothly implemented to allow importers time to find alternatives and consumers not to face inflationary pressures.
- But US services exports could face restrictions on market access or through investment (FDI), changes in intellectual property rights and exclusion from public procurement.

Trump' pause is only a partial step back

Weighted average US tariffs faced by EU goods



Source: WTO, Eurostat, AXA IM Research, April 2025

"Keeping the cards close to your chest"

	US tariffs	EU retaliation: Goods	EU retaliation: Services
1st wave	Steel, aluminium and its derivatives	Countermeasures on $21bn of US exports (suspended)	Under investigation Can include: - restriction on trade in services, - intellectual property rights, - restriction on access to foreign direct investment, - public procurement
2nd wave	Auto and components	Under investigation	
3rd wave / Universal tariffs	Other products - Universal tariffs	Under investigation	
4th wave - Sectoral tariffs (to be announced)	Pharmaceutical products, semiconductors, copper, lumber	To be investigated	

Source: AXA IM Research, April 2025

Macro outlook

Volatile GDP growth to become consistently softer

US

GDP volatile over first half of year

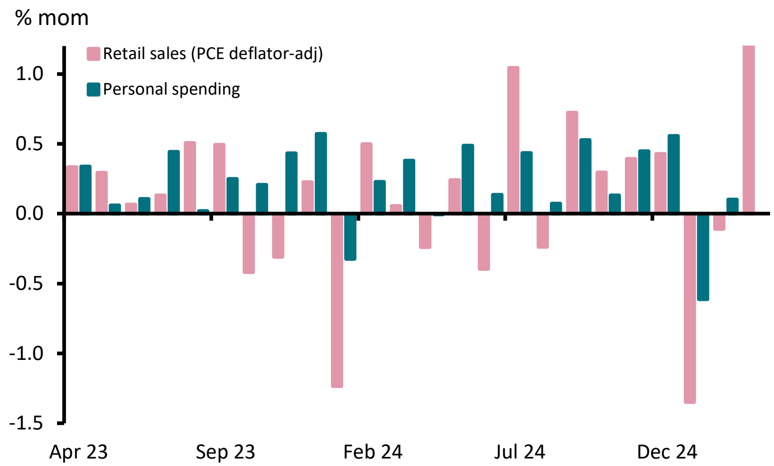
- Q1 GDP will be released imminently but is likely to be distorted by a number of factors. We expect a weak 0.5% (saar) to be driven by a slowdown in consumer spending from an elevated Q4 but also impacted by disruptive weather in January and a tariff-beating surging in March. GDP is also likely to be impacted by a similar surge in imports in Q1 (beyond gold). However, both of these effects will unwind in Q2, leaving us expecting, on net, a rebound in activity (we forecast to 2.0%).

More persistent softening likely from H2

- Yet broader indicators are starting to flag a more persistent slowdown, including the Philadelphia Fed's manufacturing and services indices and more alarmingly the NFIB hiring index, which has been a good predictor of employment trends and is also close to its lowest since 2020. On balance, we think this heralds softer, uncertainty-weakened growth in H2 2025. We lower our forecast to 1.6% for 2025 and 0.6% for 2026, an outlook that currently envisages the economy scraping close to recession.

Consumer spend bounces to beat tariff roll-out

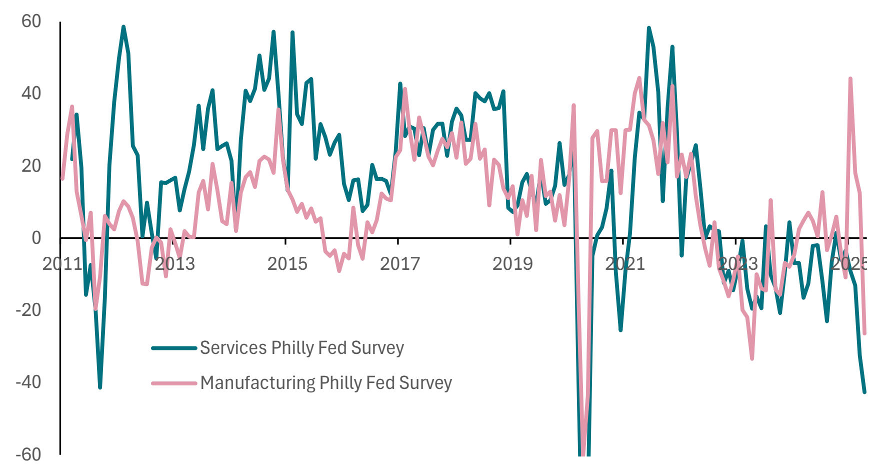
Real retail sales and consumer spending



Source: BEA and AXA IM Research, April 2025

Philadelphia Fed records sharp weakening in manufacturing and services

Manufacturing and Services Philadelphia Fed Surveys



Source: Bloomberg, AXA IM Research, Apr 2025

Fed called to action

US

Tariff driven inflation

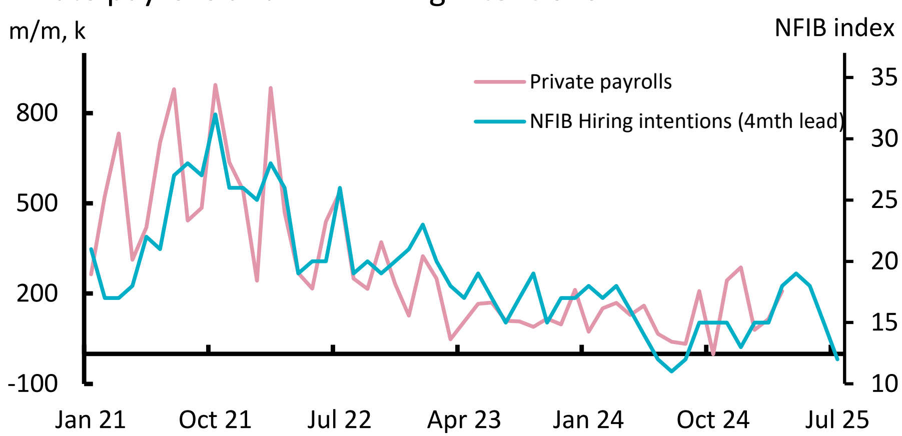
- Inflation fell to 2.4% in March, 2.8% in 'core' terms – a 4-year low. The impact of the current trade policy will drive inflation higher over the coming months, likely to 4% by year-end. Our outlook assumes a paring back of tariffs, particularly after the fiscal bill passage, which would contribute to a faster easing of inflation pressures next year. We forecast CPI inflation to average 3.4% and 3.2% this year and next (consensus 3.2% and 2.8%), but this remains highly sensitive to trade policy assumptions.

Fed worries about growth outlook

- The erratic delivery of unorthodox policy has led to weakness across US financial assets – early signs of financial stress. Financial conditions have tightened back to levels last seen end-2023. The Fed continues to suggest it is not in a "hurry" to ease policy, but FOMC participants are increasingly referring to worsening growth prospects while suggesting tariff-inspired inflation may prove temporary. We see further weakness now leading to the first cut in June, pencilling in 3.75% by year-end and 3.25% in 2026.

Forward-looking indicator threatens labour market roll-over

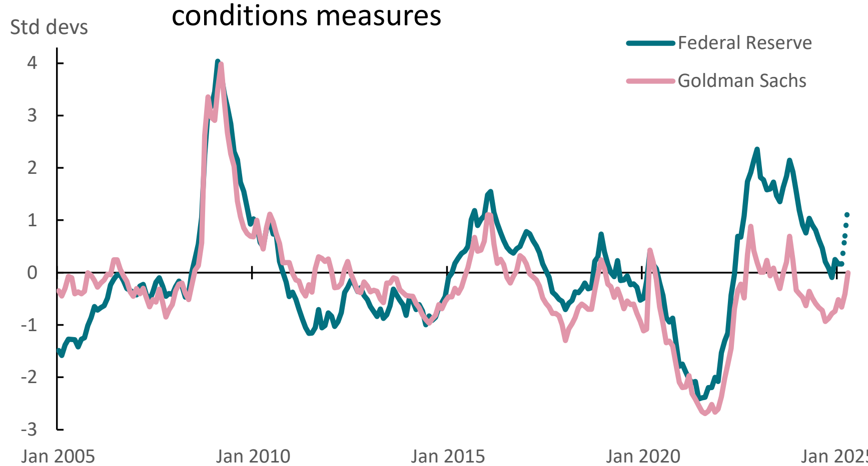
Private payrolls and NFIB hiring intentions



NB Chart adjusts NFIB index lead from 2 to 4 mths Sep 22
Source: BLS, NFIB, AXA IM Research, Apr 2025

Sell off across asset classes tightens financial conditions

Federal Reserve and Goldman Sachs financial conditions measures



Source: FRB, Bloomberg, Goldman Sachs and AXA IM Research, April 2025

US tariffs to drive euro area into mild recession

Euro area

Q1 GDP growth figure may keep up appearances

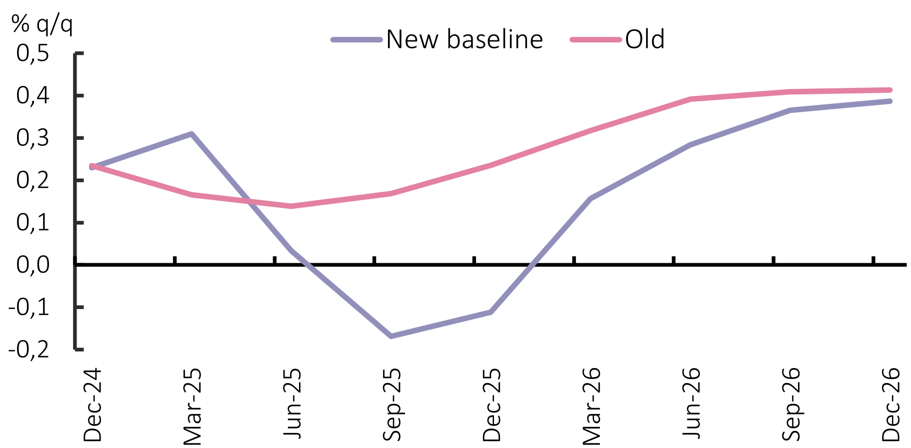
- Q1 GDP could be slightly higher (+0.3%qoq) after better-than-expected industrial production, likely in part reflecting a front-loaded export boost ahead of coming US tariffs

Partial reversal on reciprocal US tariffs will still hurt

- Beyond Q1, activity is likely to slow, driven by much weaker exports. A 10% universal tariffs, 25% on auto, steel and aluminium, stronger EURUSD, weaker external demand from the US and China and large uncertainties will weigh on the Eurozone growth outlook and a recession in H2 2025 is now our baseline
- PMIs and domestic surveys (INSEE, Ifo) also surprisingly pointed to weaker momentum in services sector

Another downward revision to our baseline

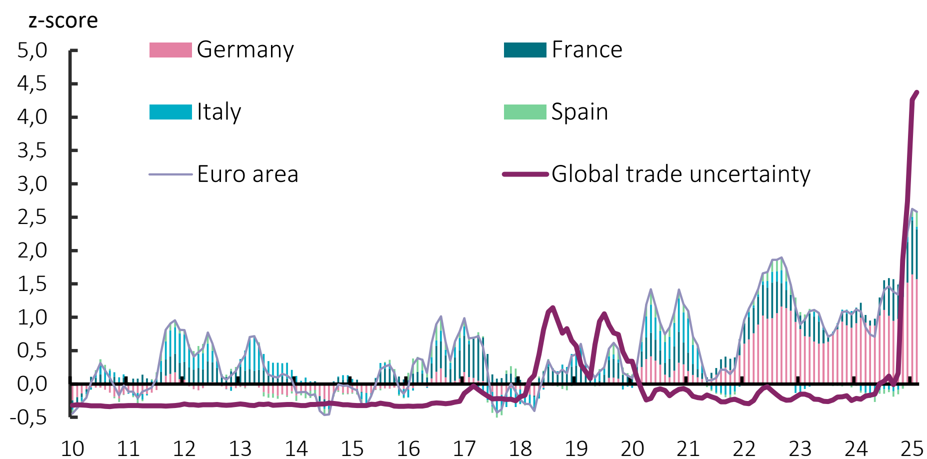
AXA IM euro area GDP profile



Source: Eurostat, AXA IM Research, April 2025

Extremely high level of uncertainty will weigh on consumer and capex

Uncertainty



Source: Bloomberg, Refinitiv, AXA IM Macro Research, as of April 2025

The ECB open to more forceful easing

Euro area

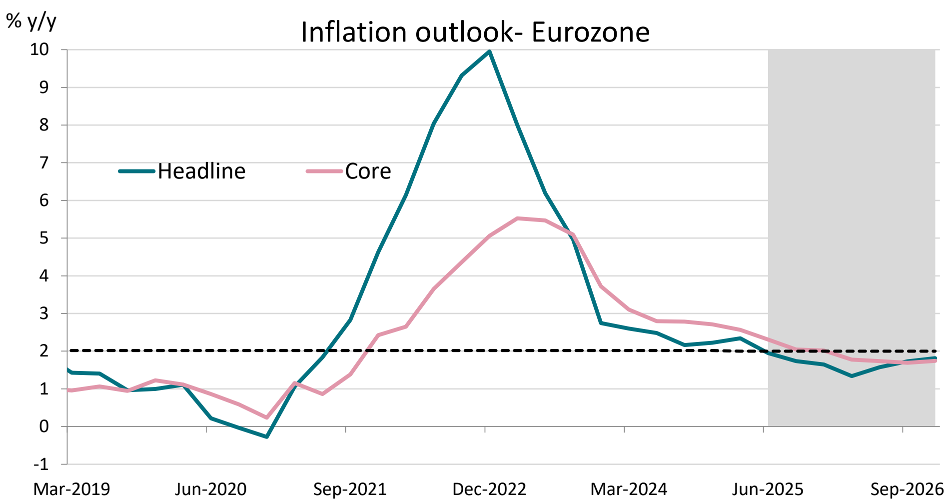
Trade war not necessarily inflationary

- Current disinflationary momentum should persist, falling below 2% in Q2; and touching a low point around 1.4%-1.5% in Q1 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.

ECB: such an environment warrants more accommodative policy

- The ECB again cut its policy rates by 25bps in April and the tone of both the speech and statement were dovish, highlighted by discussion on outlook deterioration and more disinflationary pressure in the medium term. 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 (now in our view to 1% by year end from 1.5%) and 50bps rate cut can't be entirely ruled out

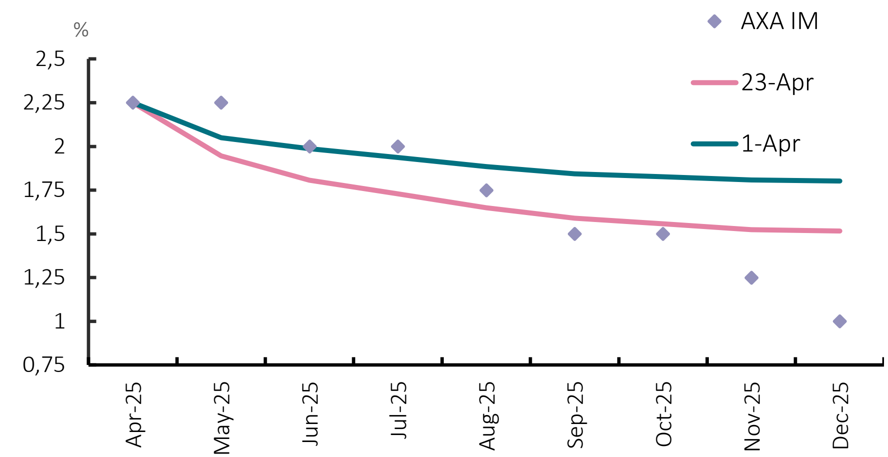
Weak growth, no reflationary pressure …



Source: Eurostat, AXA IM Research, April 2025

… should force the ECB to go deeper into accommodative territory

ECB market pricing and AXA IM forecasts



Source: AXA IM Macro Research, as of April 2025

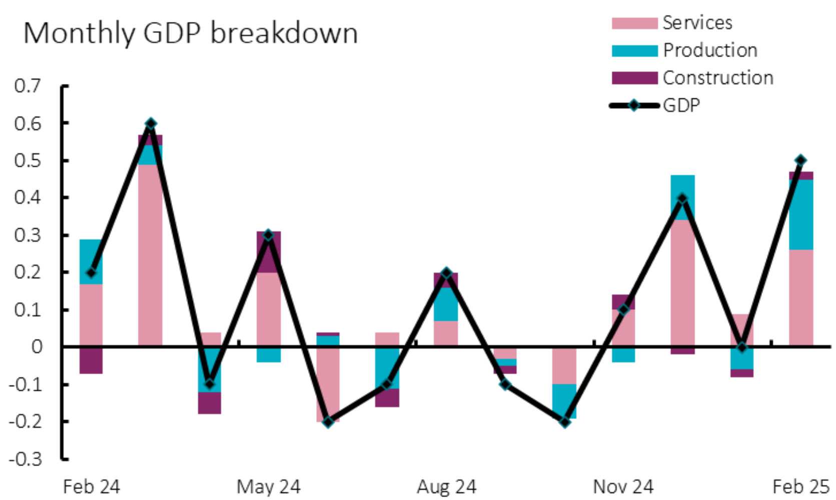
Momentum sluggish

UK

Downward revisions due to US trade policy

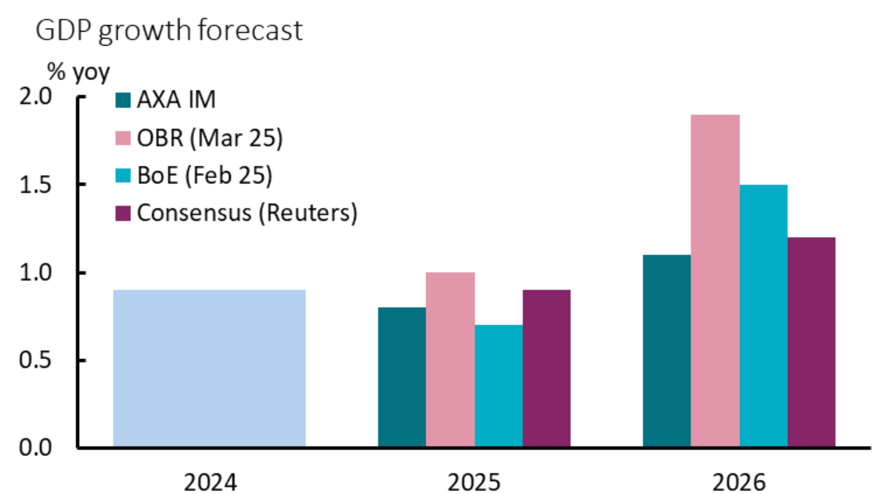
- The latest data surprised to the upside. Monthly GDP increased by 0.5% in February, while January's 0.1% decline was revised up to flat. On a three-monthly basis growth is now at 0.6%, up from 0.3% in January; we see Q1 growth at around 0.5%. Yet further ahead the outlook has darkened.
- While the direct impact of US tariffs should be relatively minor in the UK – around 0.10% – tariff-related uncertainty and a global growth slowdown are set to have a more visible impact. We expect an impact of around 30bps over the next two years, leaving growth at 0.8% this year and 1.1% in 2026, with risks tilted to the downside.

Stronger-than-expected growth in Q1



Source: National Statistics and AXA IM Research, Aoril 2025

We have revised down our growth forecasts by 40bps



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

Bank of England to stick to gradual easing

UK

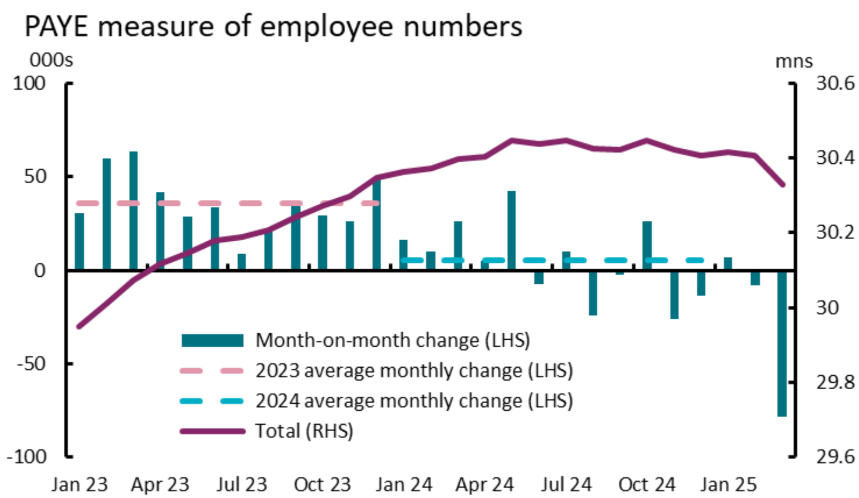
Softer labour market and CPI data

- Labour market and CPI data has softened. The PAYE measure of employee numbers fell by 78K on the month in March, the largest decrease since June 2020. And headline CPI inflation dropped to 2.6% in March, from 2.8% in February, 10bp below BoE forecasts.

Cautious signalling, but rates lower

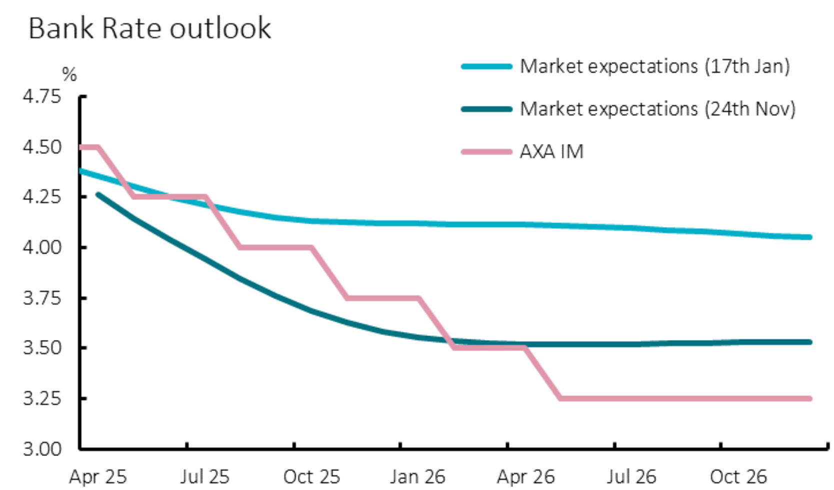
- CPI inflation will rise again in April due to tax changes, the NIC hike and administrative price changes. But with commodity prices falling and growing labour market slack, we expect the BoE to revise its inflation outlook lower in May's MPR.
- The BoE will continue to peddle a cautious line, with policymakers highlighting the uncertainty around the path for inflation given risks from US tariff policy alongside the ongoing debate supply constraints vs. 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.

Labour market deteriorating before US tariff uncertainty



Sources: National Sources and AXA IM Research, April 2025

BoE to continue gradual cutting cycle



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

Derailed growth trajectory may need more policy help

China

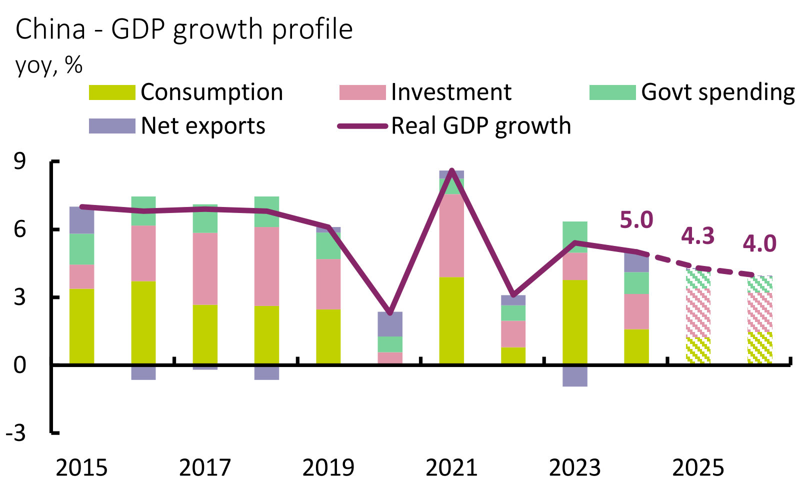
Robust growth in Q1 to fade quickly as tariff impact emerges

- China's economy expanded by 5.4% in Q1, outperforming the market expectation of 5.2%. The recovery was broad-based, spanning retail sales, industrial production, and capex investment, particularly in private-led investment, as confidence gradually rebounded among consumers and businesses.
- The property downturn is also exerting less drag on the economy. The price correction continues to narrow, led by top-tier cities.

Escalations in tariffs overcast China's growth

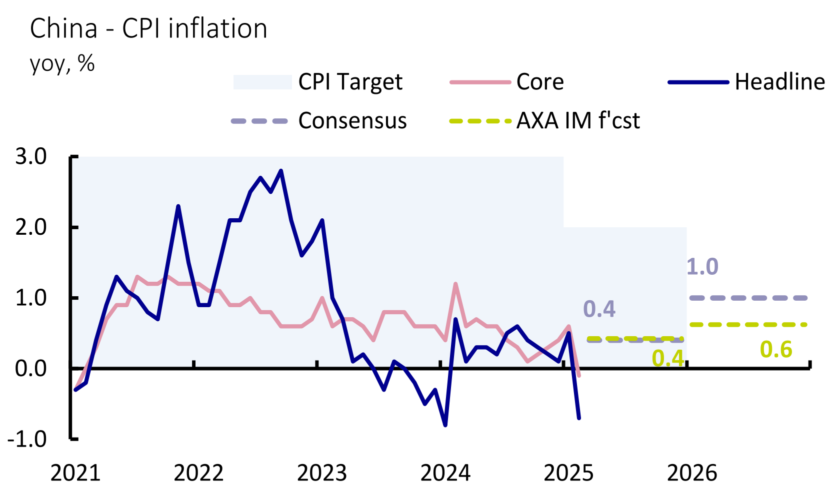
- Higher-than-expected tariffs from the US have dimmed China's economic outlook. We now forecast GDP growth at 4.3% in 2025 and 4.0% in 2026.
- Reduced exports to both the US and the rest of the world—due to slowing global demand—are placing renewed pressure on China's reflationary efforts. We have revised our inflation forecast down to 0.4% for 2025 and 0.6% for 2026.

Lower growth prospective amid trade disputes



Source: CEIC and AXA IM Research, April 2025

More headwind on reflation as global demand under pressure



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

“Unsustainable” trade war

China

Beijing up for it

- Beijing’s strong and decisive retaliation against Washington DC’s additional tariffs marks a clear distinguish from its stance in 2018, when President Trump launched the initial trade war. China’s preparations since have strengthened its bargaining position.

Deep integration in supply chain and less reliance on imports offer China advantage

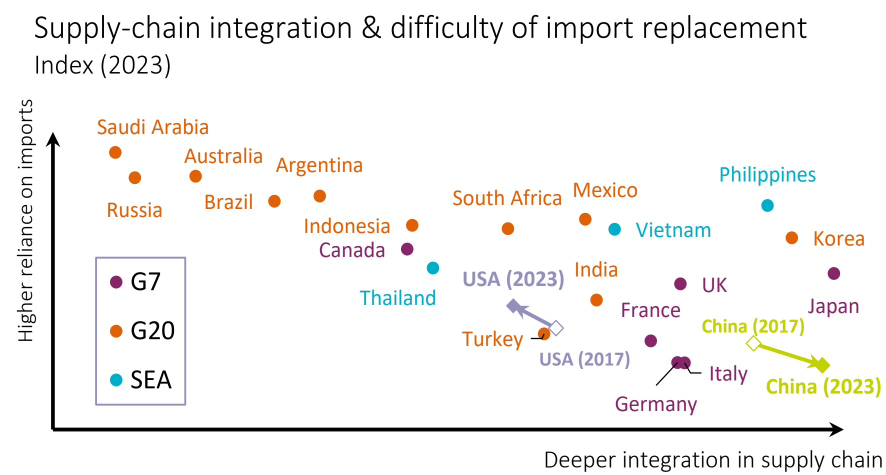
- There is no winner in a trade war. But China’s deep integration in global supply chains and its targeted industrial expansion have positioned it more favourably, particularly in a head-to-head contest with the US. In contrast, the US—on some measures the least integrated in supply chains among G7 economies and more reliant on imports than China—may find itself more vulnerable in this self-inflicted trade dispute.
- The Trump administration has recently softened its rhetoric towards China. Still, only a formal, signed trade deal can resolve the current uncertainty—and such an agreement has yet to materialise.

China’s increased market shares in some products since 2017

Product category	US			China		
	2017	2023	Change	2017	2023	Change
Textiles, garments, footwear and furniture	5	5	0	1	1	0
Vegetables, animals, wood and paper	1	1	0	2	2	0
Stone, glass and ceramics	2	3	-1	3	2	1
Minerals, fuels, ores and salts	2	1	1	14	14	0
Metals	3	3	0	1	1	0
Chemicals and plastics	2	2	0	3	1	2
Transport vehicles	2	3	-1	4	2	2
Machinery and instruments	3	2	1	1	1	0
Electronics	3	3	0	1	1	0
Other	1	1	0	2	2	0

Note: Number represents ranking of global market share across 235 countries
Source: Atlas of Economic Complexity and AXA IM Research, April 2025

Deeper integrated in supply chain with lower reliance on imports



Source: Atlas of Economic Complexity and AXA IM Research, April 2025

Bumpy start even before US tariff hit

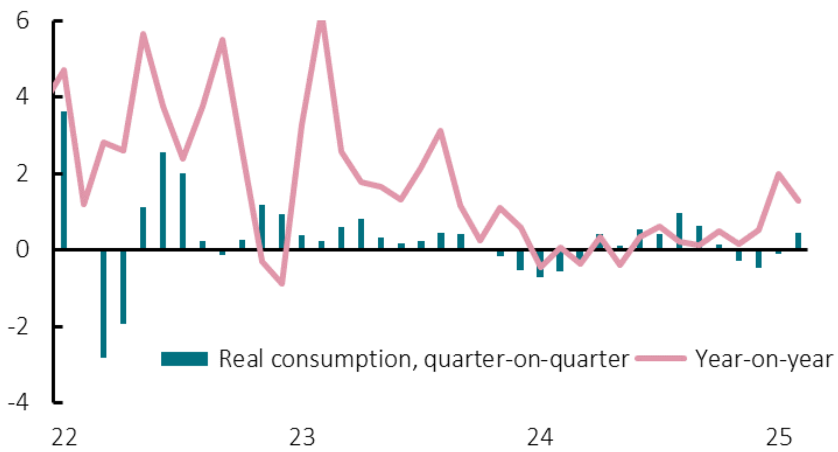
Japan

Moderate quarterly pace expected through 2025

- 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 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 being implemented – the government is likely to be keen to strike some form of deal before the Upper House elections in July – although 25% auto tariffs will likely remain. If the government does strike an early deal, 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%.

Consumption picked up in March after weak start to 25

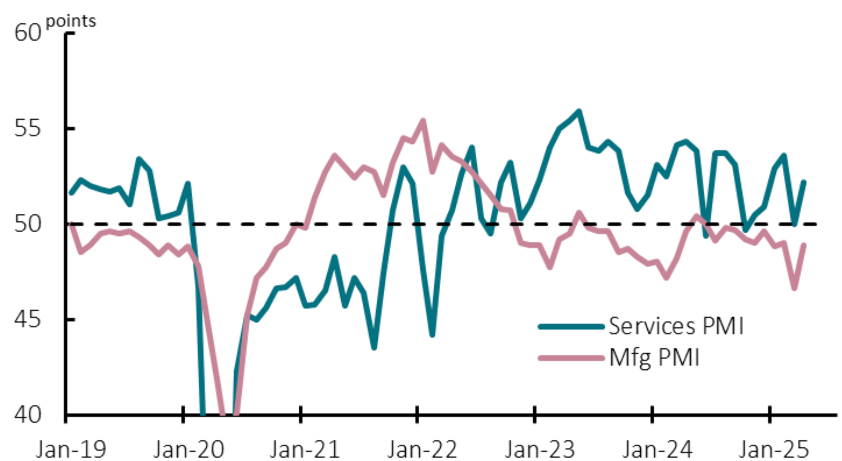
Real Consumption Activity Index



Source: Bank of Japan and AXA IM Macro Research, April 2025

Services activity driving stronger Q2

Japan Purchasing Managers' Index (PMI)



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

Bank of Japan to continue normalising in 2025

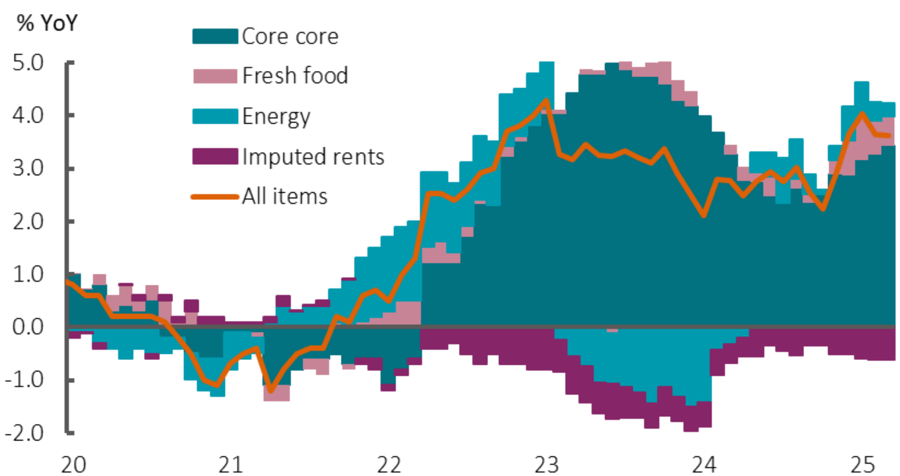
Japan

Heightened uncertainty won't halt rate hikes

- Domestic dynamics remain broadly favourable. The third tabulation of the Shunto wage negotiations showed a 3.82% increase in base pay (first round 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 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.
- 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 in line with the current pace of hikes. 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 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.

CPI inflation will ease back as core inflation eases

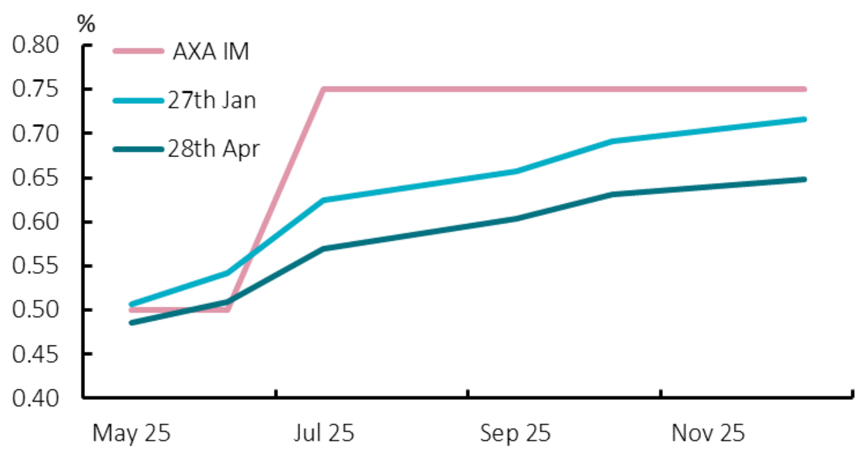
Japan CPI inflation constributions



Source: National Sources and AXA IM Research, April 2025

We expect a further 25bp hike in H2

Japan interest rate expectations



Source: Refinitiv and AXA IM Research, April 2025

Canada a relative winner?

Canada

Canada's relative tariff disadvantage shrinks post-Liberation Day

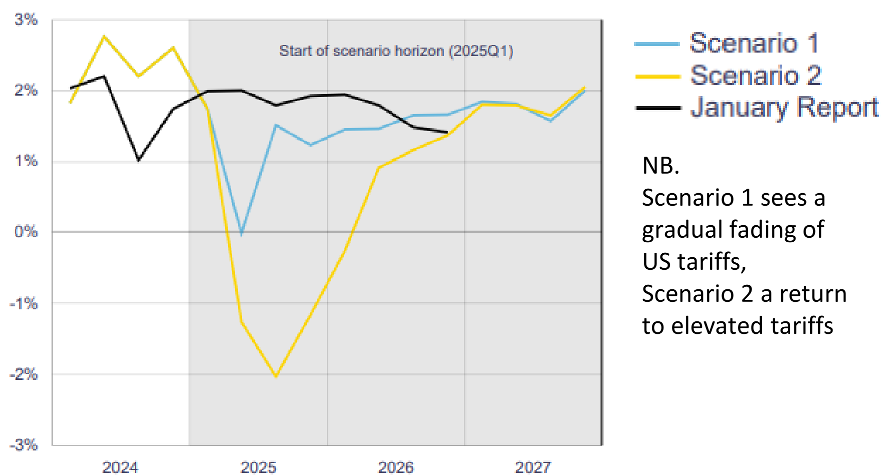
- Despite being early tariff targets and responding with cautious retaliatory tariffs, Canada escaped the sharp Liberation Day tariff hikes. It still faces 25% tariffs on steel and aluminium and non-USMCA compliant goods, including car exports and 10% on potash. Yale Budget Labs estimates the effective tariff rate on Canada at 17.4% but expects a rise in exports to the US as the US substitutes from Chinese imports. Canada's effective tariff rate should fall as the number of USMCA compliant exports increases.

BoC holds policy while it waits and sees

- The Bank of Canada left rates on at 2.75% in April. It produced two forecast scenarios – one where tariffs eventually fade, the other where elevated tariffs re-emerge. Our assumption is more for the former, but we envisage the impact of uncertainty having a more persistent impact on US growth. We lower our growth forecasts to 1.6% and 0.6% for Canada, expecting the economy to barely avoid recession. We expect the BoC to cut rates to 2.25% over the summer, which should start to lift growth in 2026.

Bank of Canada illustrates tariff uncertainty

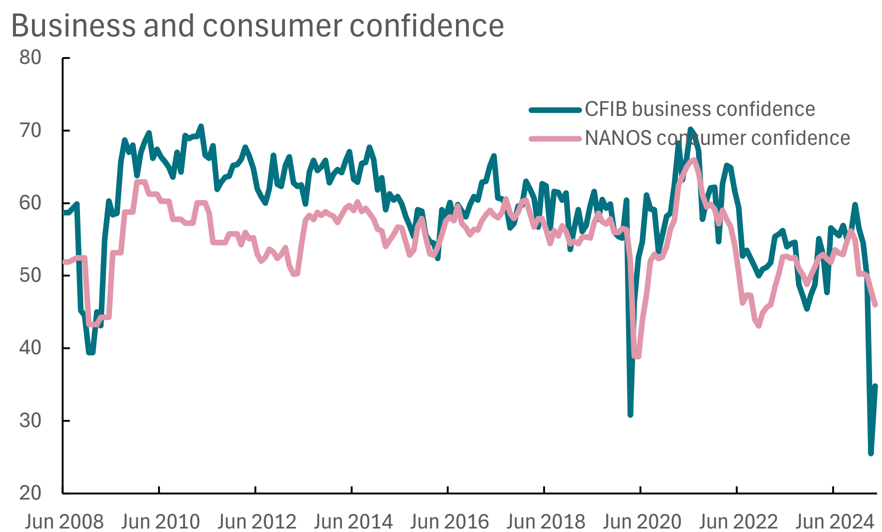
Quarter-over-quarter percentage change at annual rates, quarterly data



NB.
Scenario 1 sees a gradual fading of US tariffs,
Scenario 2 a return to elevated tariffs

Source: BoC and AXA IM Research, April 2025

Uncertainty still key issue as confidence falls



Source: CFIB, Nanos and AXA IM Research, April 2025

Carney leads Liberals to victory

Canada

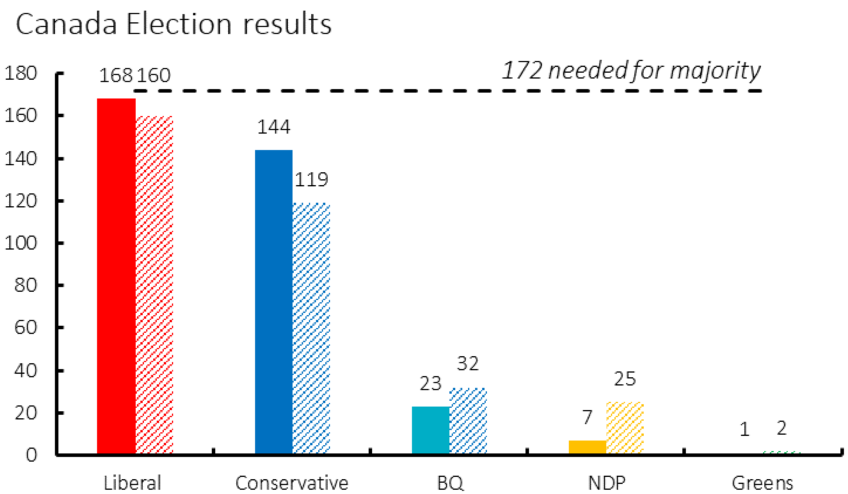
Carney turns election outcome on its head

- Mark Carney and the Liberal Party are on track to clinch victory in an astonishing turn of fortunes, helped by threats to Canada's sovereignty and trade from one of its closest allies. At the time of writing, the Liberal Party are on track to win 168 seats, compared to the Conservatives 144 – both major parties making gains at the expense of smaller, regional parties. The Liberal party is still short of the 172 seats needed for a majority government, but Carney should be able to gain support from left-leaning BQ and NDP parties to get policy over the line.

Prime Minister Carney and an election

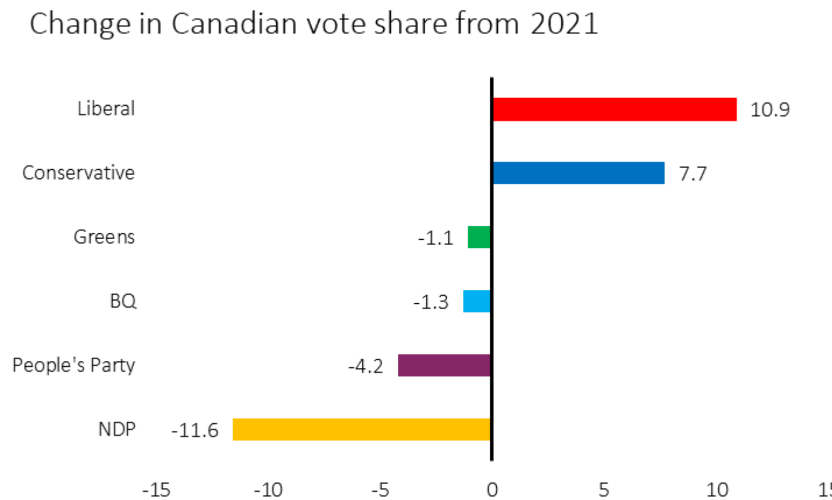
- Carney faces several domestic challenges including ongoing housing concerns, immigration, sluggish private sector employment and weak productivity growth alongside the geopolitical turmoil. Carney has pledged to loosen fiscal policy by reducing personal tax thresholds for those on low incomes and boosting support for firms most affected by US tariffs. This will not be sufficient to offset US tariffs, nor the uncertainty caused by the toing and froing of US trade policy.

Carney leads the Liberal Party to victory



Source: BBC and AXA IM Research, April 2025

Major parties made gains at the expense of smaller parties



Source: BBC and AXA IM Research, April 2025

EM Asia in a precarious position amid tariff turmoil

EM Asia ex-China

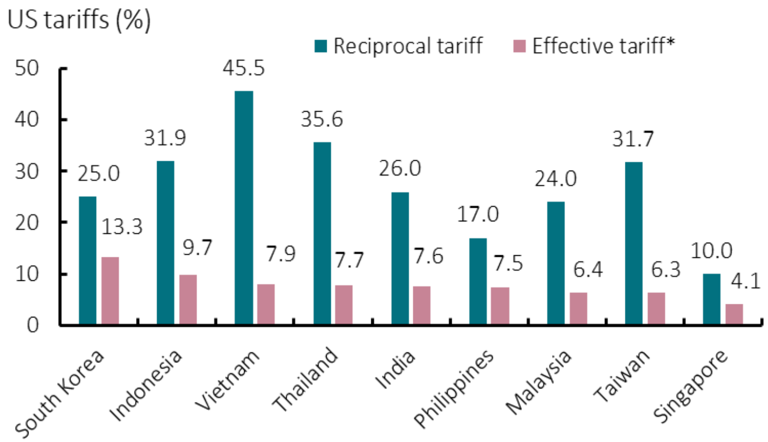
Acquiescing to US demands; hoping to avoid picking a side in US-China stand off

- Trade representatives are engaging the Trump administration and appear willing to acquiesce to US demands. It is unlikely that they will end up facing the full reciprocal tariffs announced on April 2nd, but the region's close trade and investment links with China could complicate trade negotiations, particularly if the US demands countries take its side in a US-China trade war. President Xi's recent visit to South-East Asia was ostensibly aimed at building economic unity but was followed by warnings against agreeing to any US deal at the expense of China's interests.

Domestic policy support will only partly offset direct hit to trade and investment

- At the current effective tariff rates, and amid the projected slowdown in growth in the US and China, our forecast for regional growth in 2025 now stands at 4.3% (down from 5.0% previously). 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 hit consumption and investment.

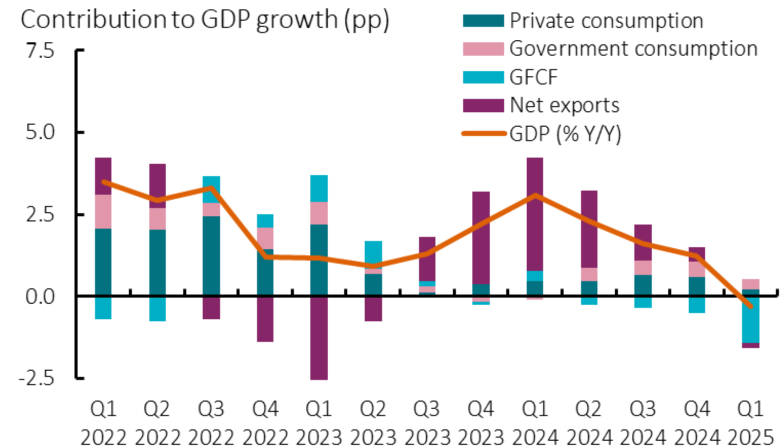
EM Asia facing risk of high reciprocal tariffs



Source: AXA IM Research, April 2025

**Effective tariff following 90-day pause on reciprocal tariffs, including exemptions and special sector tariffs*

South Korea's economic activity constrained in Q1



Source: LSEG Datastream and AXA IM Research, April 2025

Investment Managers

Politics in Turkey and South Africa: How disruptive?

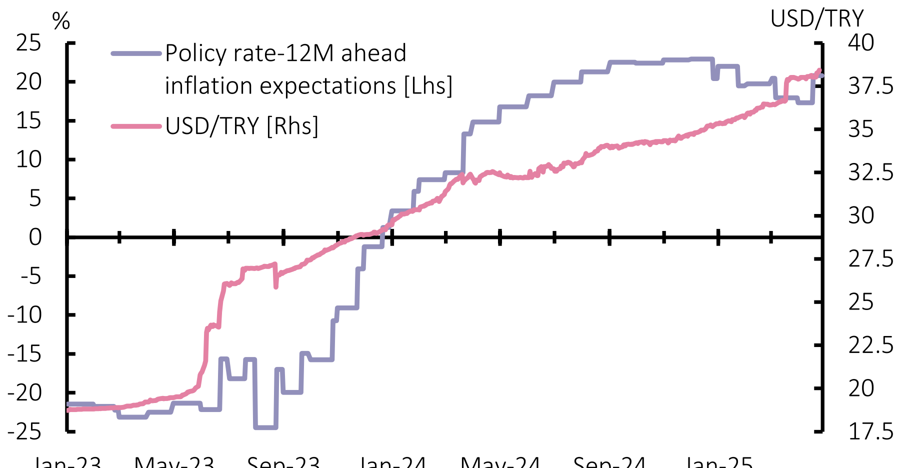
Contrasting economic outcomes from political risks

Politics in Turkey could derail disinflation; politics in South Africa do not threaten macro stability

- Democracy has been further weakened in Turkey after Istanbul's mayor Imamoglu was jailed last month. With Erdogan unable to run for elections due by May 2028 unless early elections are called or the constitution changed, the political transition is unlikely to be smooth. Macroeconomic stability has also been jeopardised.
- The Turkish central bank heavily intervened to support the lira and gross currency reserves have declined by USD 30 bn. Renewed resident dollarisation (FX deposits have risen by USD 15 bn since Mar 19) is the key risk. In response, the central bank has tightened its stance. A more balanced policy mix, with tighter fiscal policy anchoring inflation expectations, would be needed.
- In South Africa, the coalition government may fall, which would likely slow reform momentum. Yet ANC commitment to fiscal consolidation should stay intact. We expect spending cuts will offset any revenue shortfall. South Africa has little fiscal space, but it has significant monetary policy leeway, with the policy rate above neutral and domestic drivers of inflation receding.

Turkey: Central bank has tightened monetary stance in April

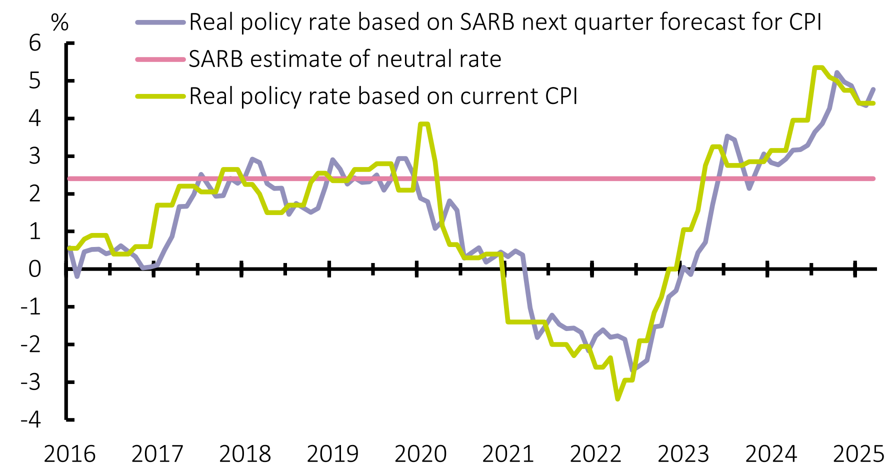
Turkey - Weaker TRY prompts tightening of monetary policy



Source: Macrobond and AXA IM Macro Research, April 2025

South Africa: Monetary policy stance can be loosened

South Africa - Real policy rates mesure, ex-post and ex-ante



Source: Macrobond and AXA IM Macro Research, April 2025

Uneven cushions in the face of an external shock

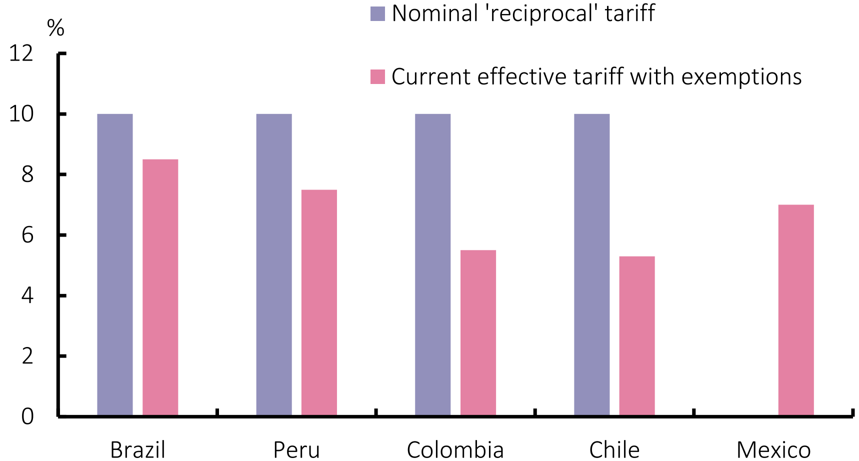
Latin America

Domestic and external headwinds to growth

- US tariffs on Latin America have overall increased less than in other EM. We estimate that effective tariffs stand at 8% for Brazil, 7% for Mexico and Peru, 5% for Chile and Colombia. The direct impact from US tariffs on GDP growth would be a -0.2 ppt for Chile, Peru and Colombia and -0.1 ppt for Brazil but would reach - 1 ppt for Mexico. Importantly, slower global demand, especially from China and the US, will exacerbate the negative impact.
- The regional growth outlook is also shaped by financial conditions, reflecting large government borrowing needs. Brazil, Colombia and Mexico have registered large increases in government interest rate payments since 2019 (3 ppt of GDP in Brazil, 1.4 ppt in Colombia and 1 ppt in Mexico) and the rise is 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 are above the upper end of the target in Brazil (4.5%) contrary to Colombia and Mexico. Monetary policy can accommodate the trade shock in Mexico, but a premature end to tightening is not in the cards in Brazil while measured easing in Colombia is set to keep monetary policy restrictive for longer.

Latam facing comparatively moderate US tariffs

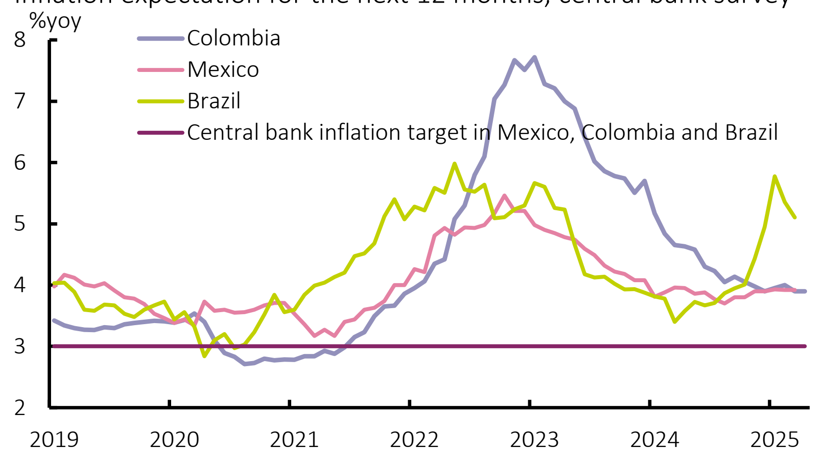
US Tariffs



Source: Macrobond and AXA IM Macro Research, April 2025

Inflation expectations have yet to converge to target in Brazil

Inflation expectation for the next 12 months, central bank survey



Source: Macrobond and AXA IM Macro Research, April 2025

Forecasts & Calendar

Investment Managers

Macro forecast summary

Forecasts

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*

Expectations on inflation and central banks

Forecasts

Inflation Forecasts

CPI Inflation (%)	2024	2025*		2026*	
	AXA IM	AXA IM	*Consensus*	AXA IM	*Consensus*
Advanced economies	2.6	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*

Central banks' policy: meeting dates and expected changes

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-Jun	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

Calendar of key events

2025	Dates	Events
April	30-Apr	Republican target for final budget reconciliation bill
	30-Apr	Deadline for 2025 fiscal appropriations
	30-Apr - 1-May	BoJ meeting
May	1-May	UK local elections
	6-7 May	FOMC meeting
	8-May	BoE meeting
	18-May	Poland presidential elections
June	4-Jun	BoC meeting
	5-Jun	ECB meeting
	15-17 Jun	G7 Leaders' Summit
	16-17 Jun	BoJ meeting
	17-18 Jun	FOMC meeting
	19-Jun	BoE meeting
	24-25 Jun	North Atlantic Treaty Organization (NATO) Summit
July	6-7 Jul	BRICS Summit
	27-Jul	Japanese House of Councillors election
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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