

Global Economics & Markets update

3 June 2025

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Economic Outlook – key views

Worst-case scenarios are off the table, but material uncertainty remains

Growth

Global economy to slow following tariffs by the US on global trading partners

US likely to stall as tariffs lead to a large fiscal tightening. Europe/China to avoid recession with support from looser monetary and fiscal policy

Inflation

US inflation likely to move higher in the near term as tariffs lead to a one-off spike in price levels

US wage growth slowing, labour markets balanced so no recurrent inflation

Ex US, inflation is likely to fall

Central Banks

The Fed will want to assess the impact of tariffs and proceed cautiously in the near term

The ECB & BOE to cut gradually. **The BOJ** should resume to gradually hiking rates

Risks

Growth risk due to tariffs direct shock and the associated uncertainty. Tariff **inflation risk**

Tariff pauses and negotiations mean the **worst-case scenarios appear off**

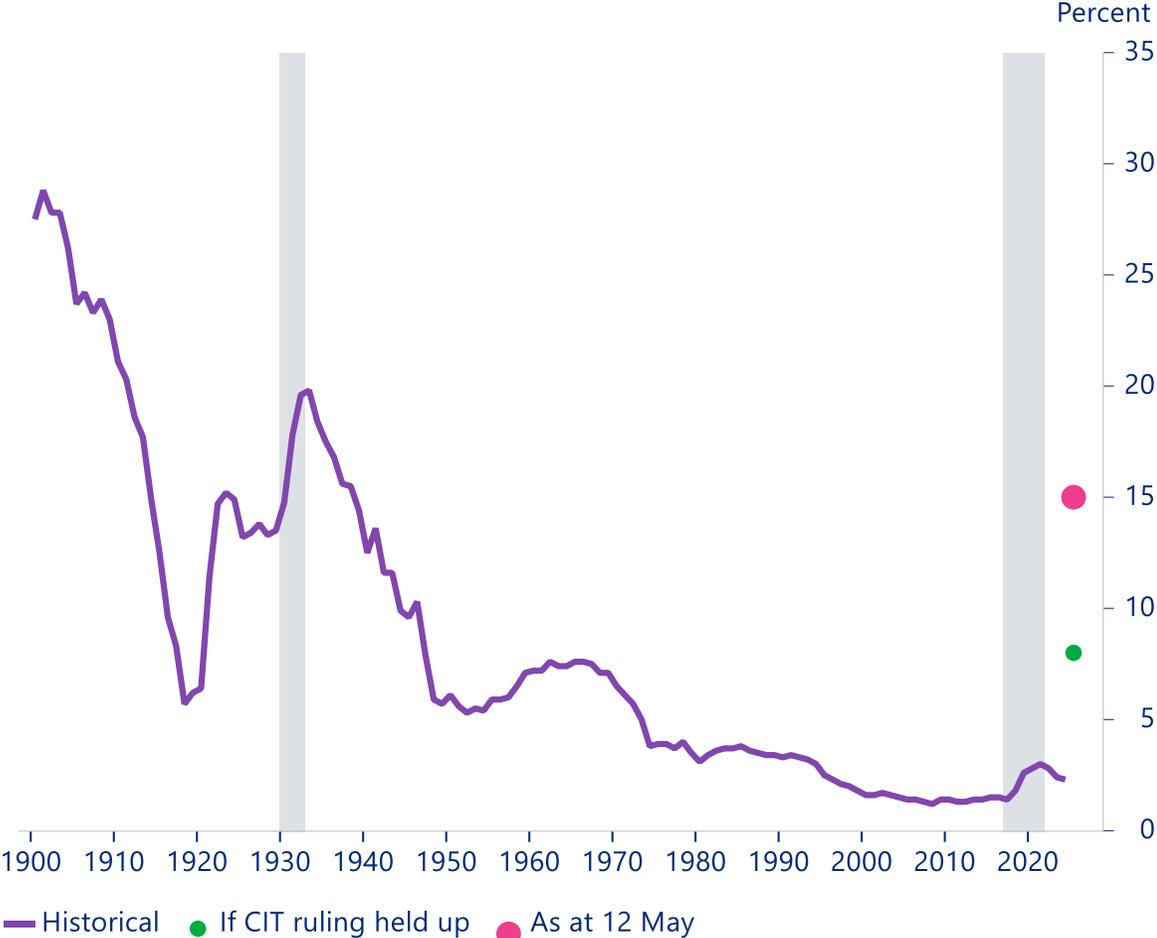
Upside growth risks from **AI**

Timeline of US Tariff Announcements in 2025

Effective Date	Target Countries/Sector	Action
4 February 2025	China	10% on all goods imports
4 March 2025	Canada, Mexico China	25% on goods not UMSCA compliant (c56%), 10% for Canadian energy Raise effective tariffs to 20%
12 March 2025	Steel & Aluminium	25% on all imports
2 April 2025	Venezuelan Oil importers	25% tariffs on all goods (biggest buyers: China, Spain, India)
3 April 2025	Autos	25% on all imported vehicles
5 April 2025	All	10% baseline tariff on all goods imports into the US
9 April 2025	“Reciprocal” tariffs	Individual tariffs on countries with the biggest trade deficit, lowered to 10% universal tariffs on all (ex China) for 90 days
12 April 2025	China	145% tariffs with China retaliating by placing 125% tariffs
3 May 2025	Car parts	25% on certain imported car parts
14 May 2025	China	Tariffs lowered to 30% by the US and to 10% by China
28-29 May 2025	All	Court of International Trade ruling that all tariffs applied under IEEPA exceeded President’s authority; subsequently blocked by appeals court
TBD	Pharmaceuticals, semiconductors	Expect tariffs on pharmaceuticals

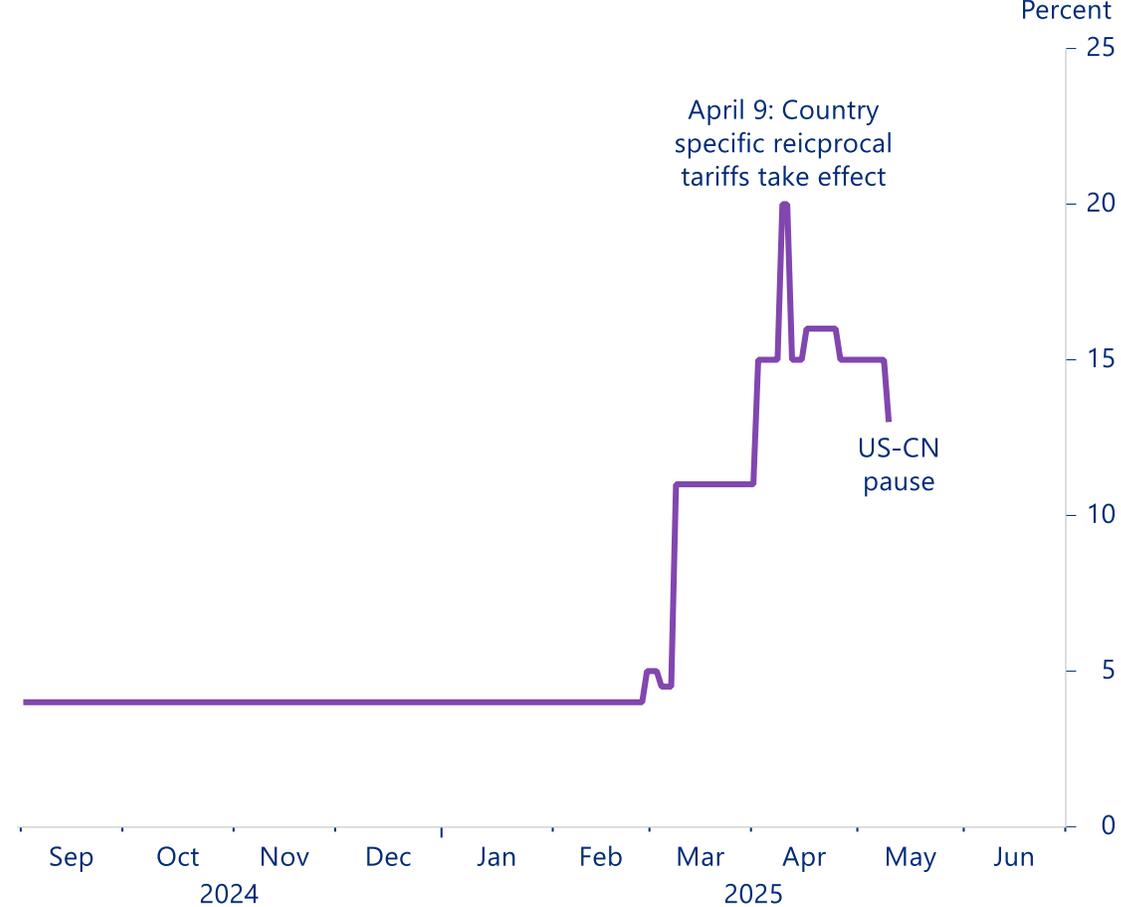
Average tariff rate to jump even after pause on reciprocal tariffs

US average tariff rate on total imports



Source: United States International Trade Commission, MacroBond, Mercer as of 29 May 2025

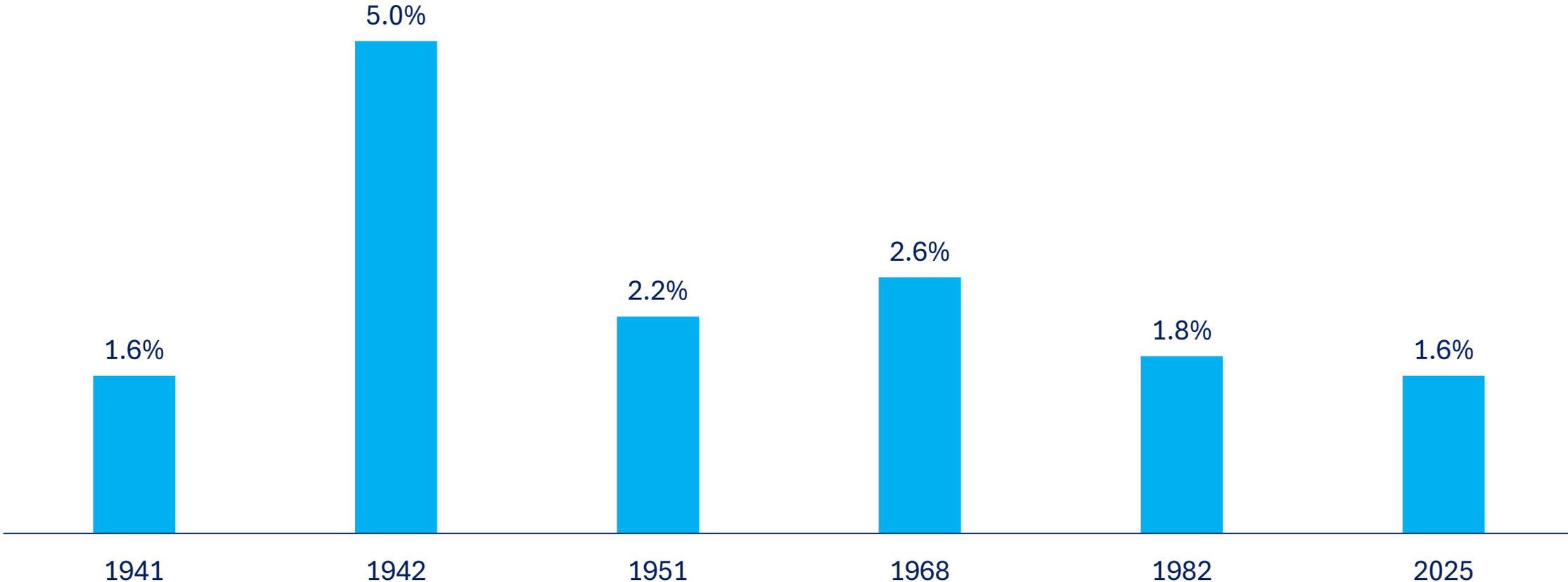
Expected rise in US effective tariff rate



Source: Goldman Sachs, MacroBond, Mercer as of 29 May 2025

Tariffs = large tax hike on the US consumer (direct impact)

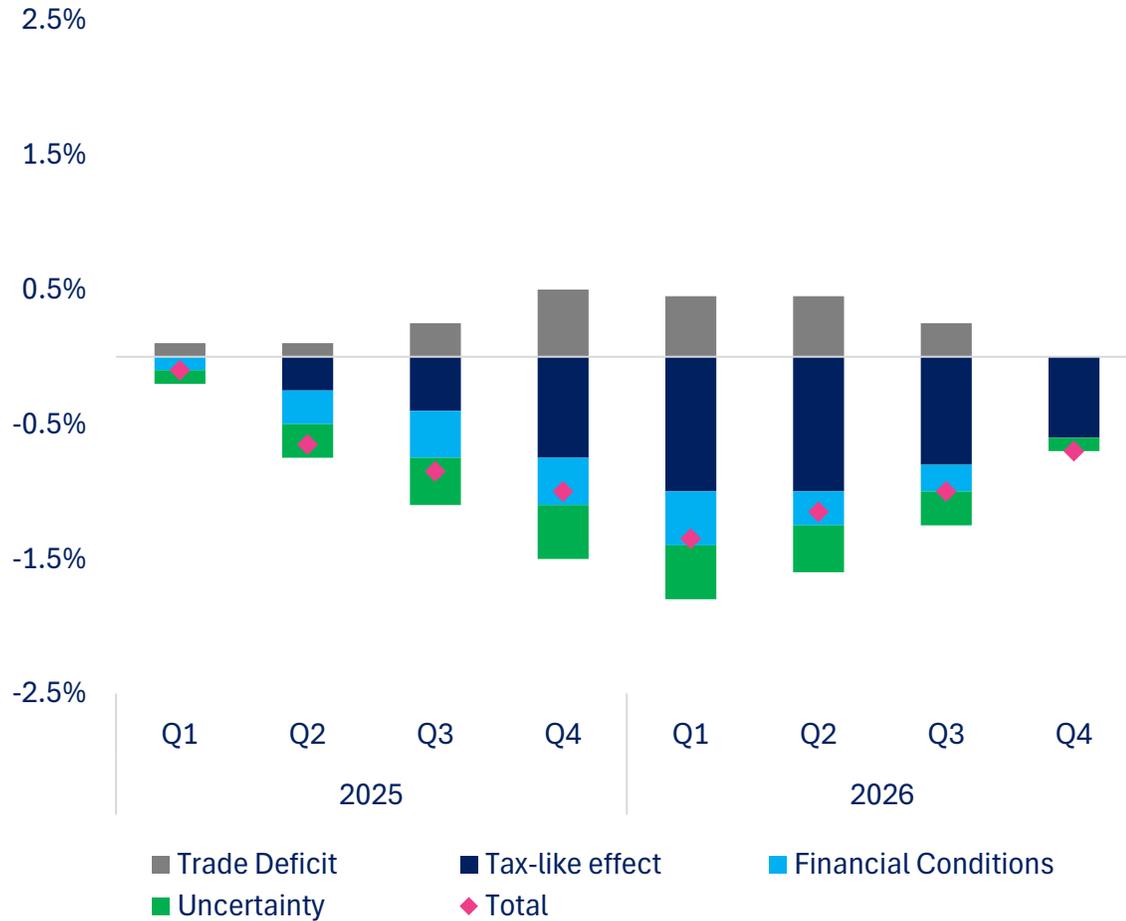
Large US tax hikes (% of GDP)



Source: JP Morgan, Tax Foundation, Mercer. As at April 2025

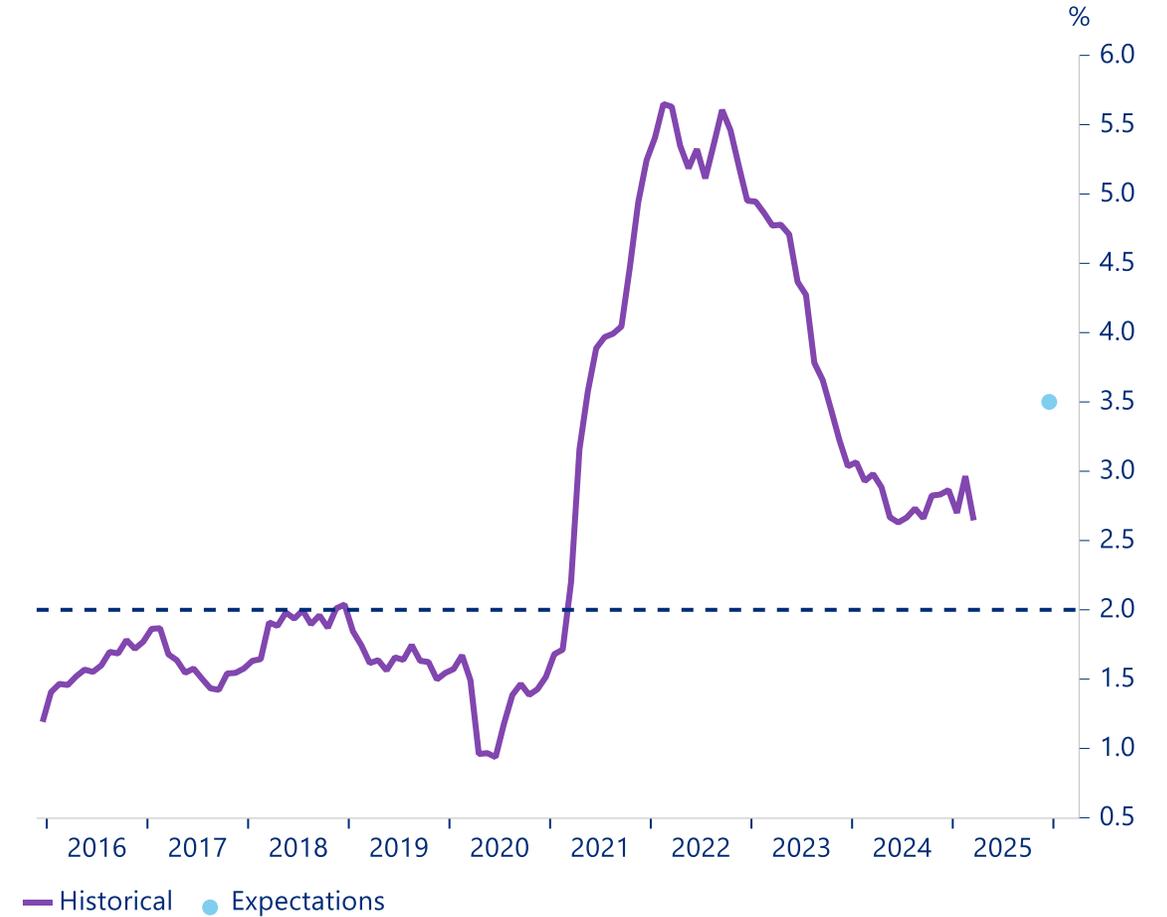
Growth negative, inflation positive shock (direct impact)

Tariff impact on US GDP (YoY)



Source: Mercer, Goldman Sachs. As at April 2025

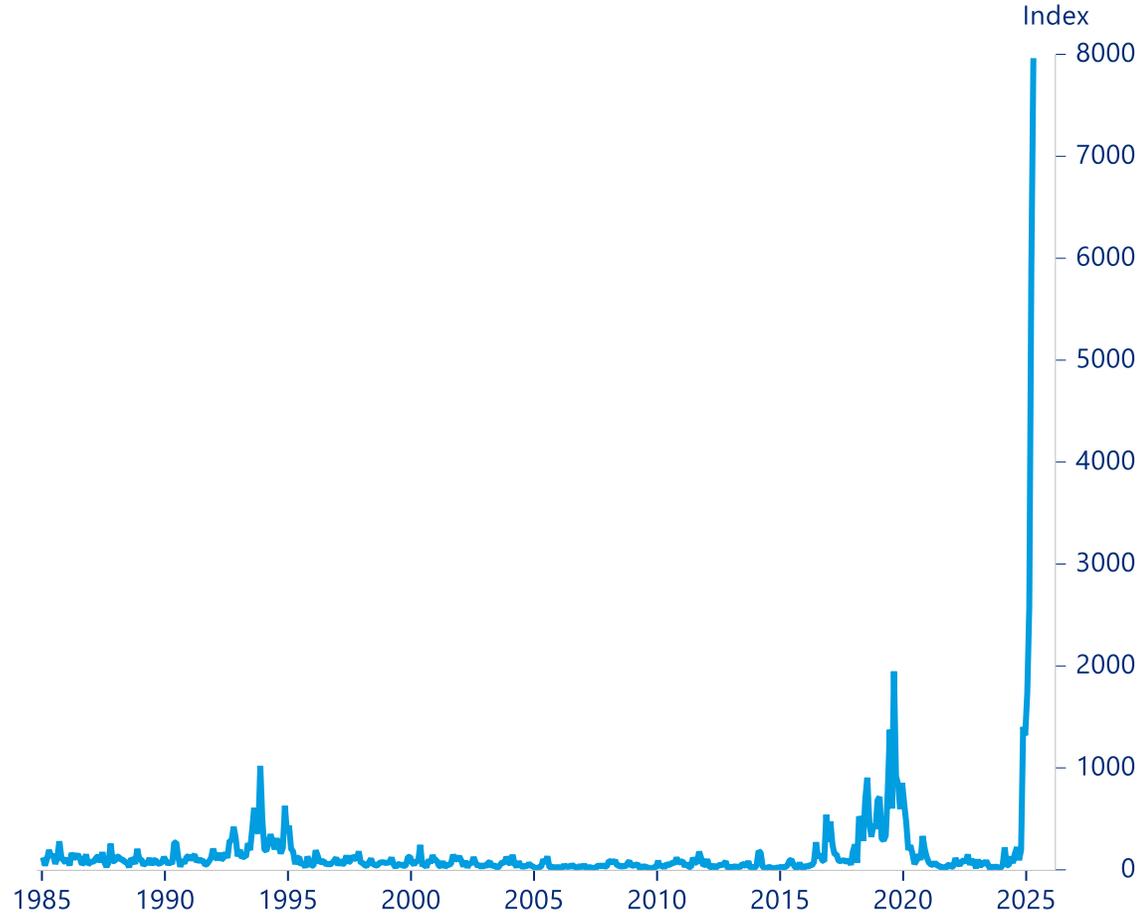
US Core PCE (y/y)



Source: U.S. Bureau of Economic Analysis (BEA), Goldman Sachs, MacroBond, Mercer as of 19 May 2025

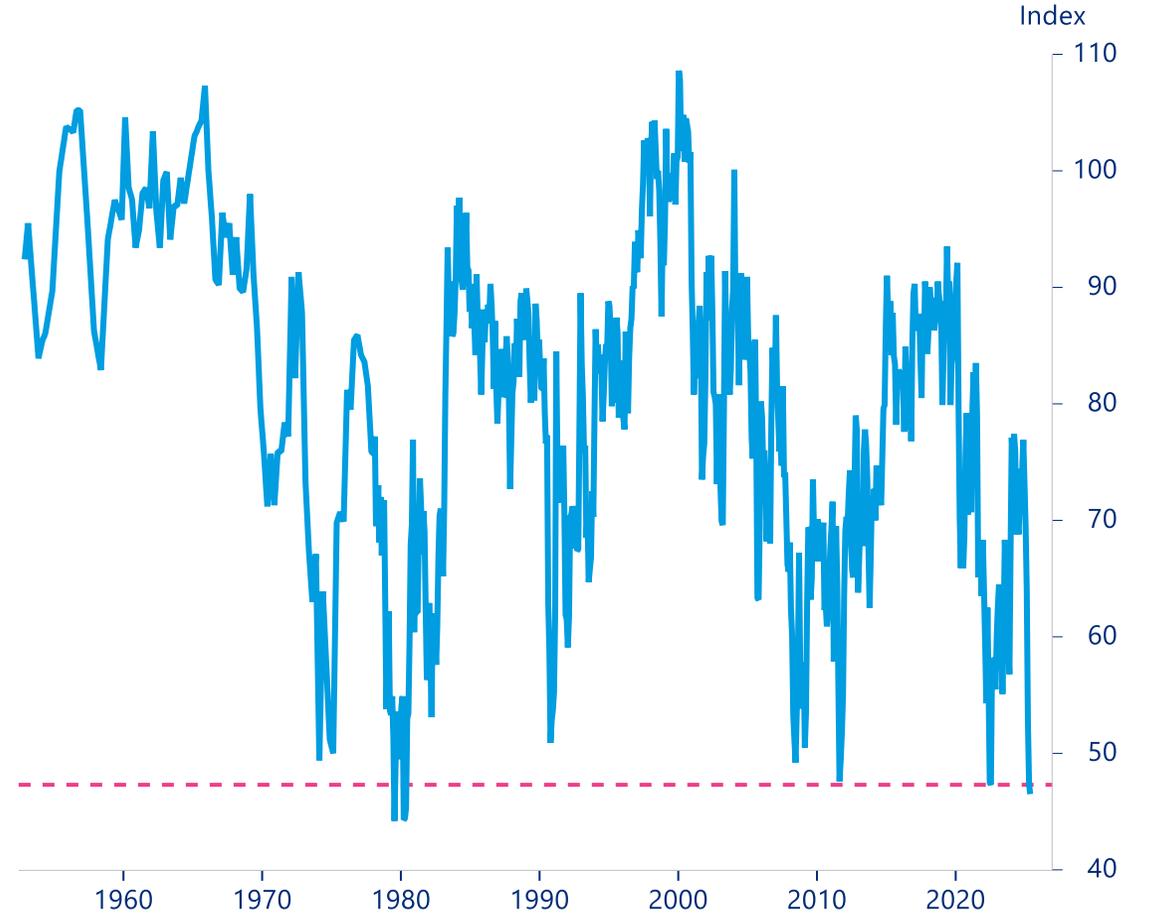
Uncertainty weighs on confidence (indirect impact)

US Trade Policy Uncertainty



Source: Economic Policy Uncertainty, MacroBond, Mercer as of 19 May 2025

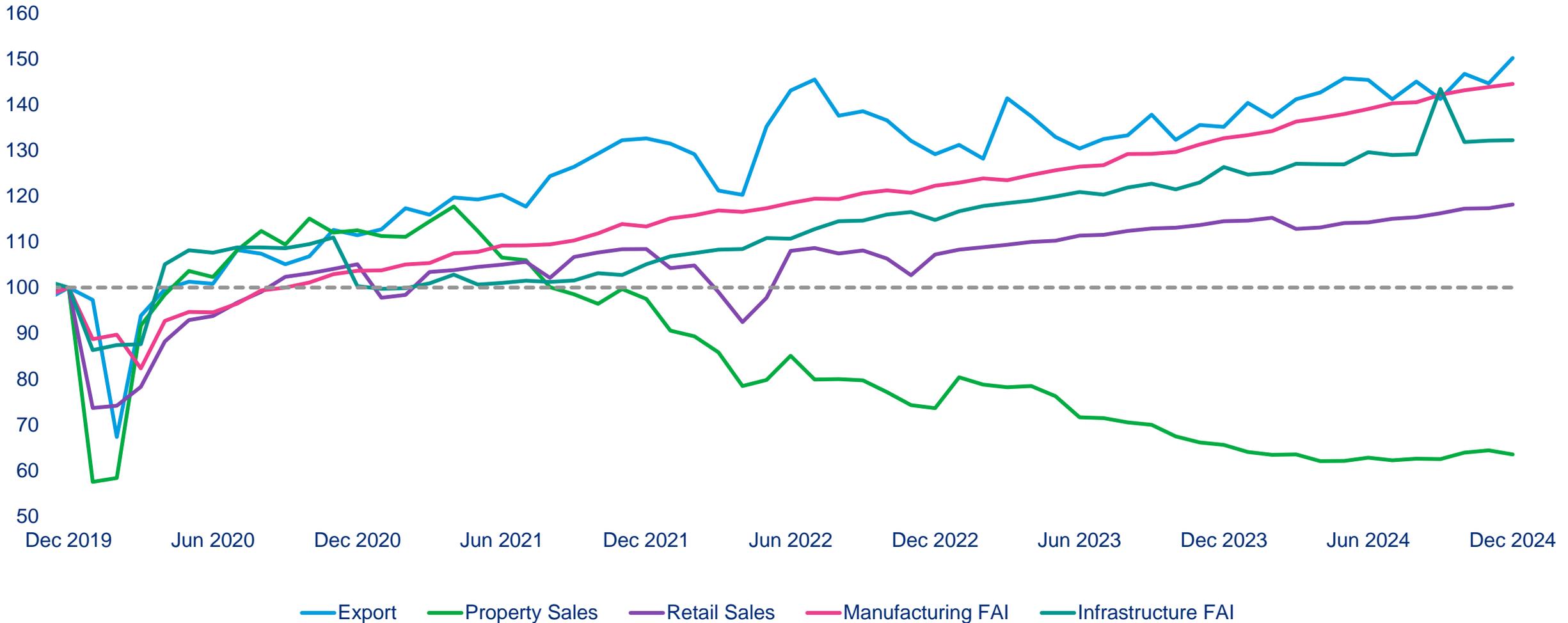
UoM Consumer Expectations



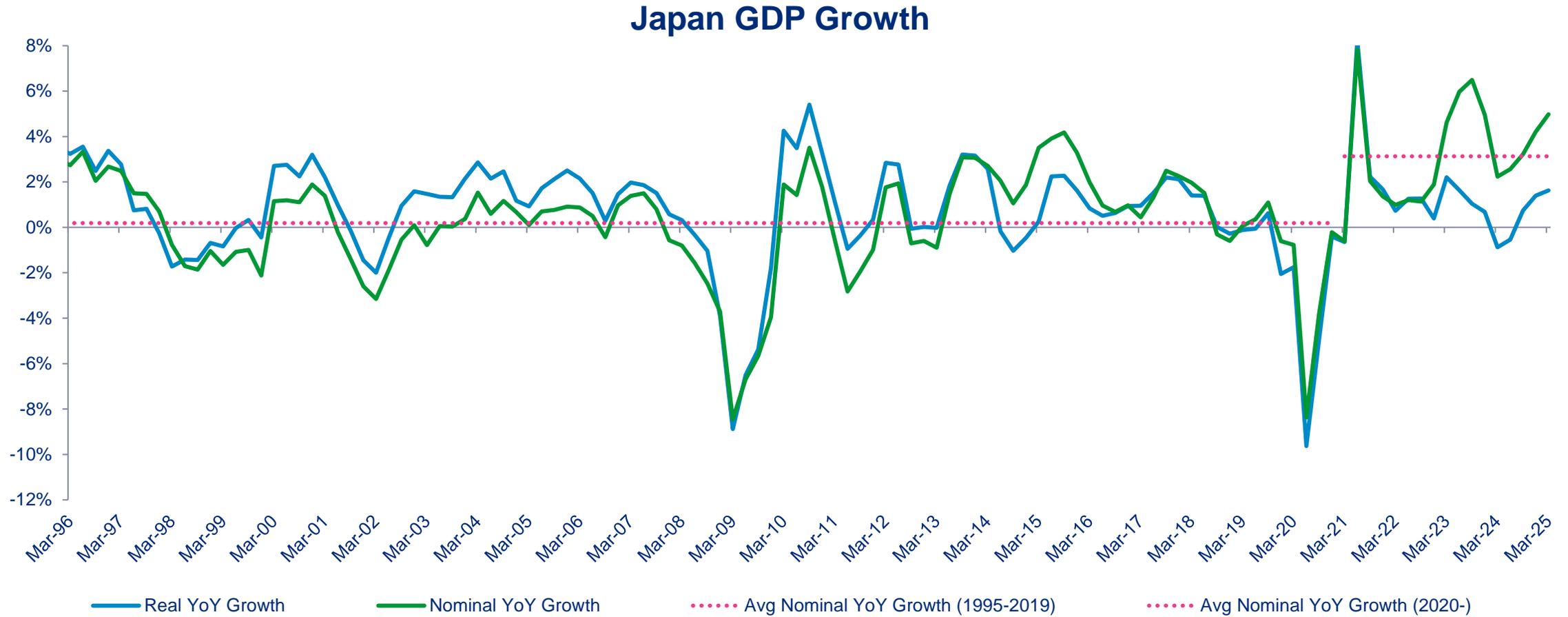
Source: University of Michigan, MacroBond, Mercer as of 19 May 2025

China's economy in need of rebalancing

China, seasonally adjusted level of economic indicators

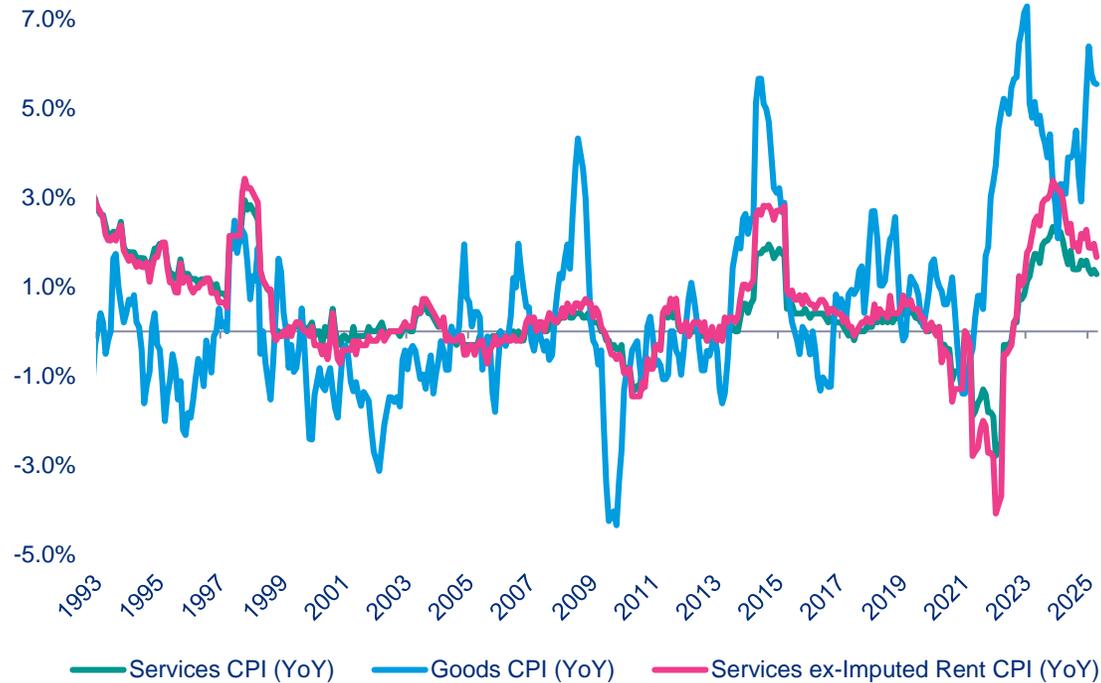


Japan has entered a structurally higher nominal GDP growth environment...

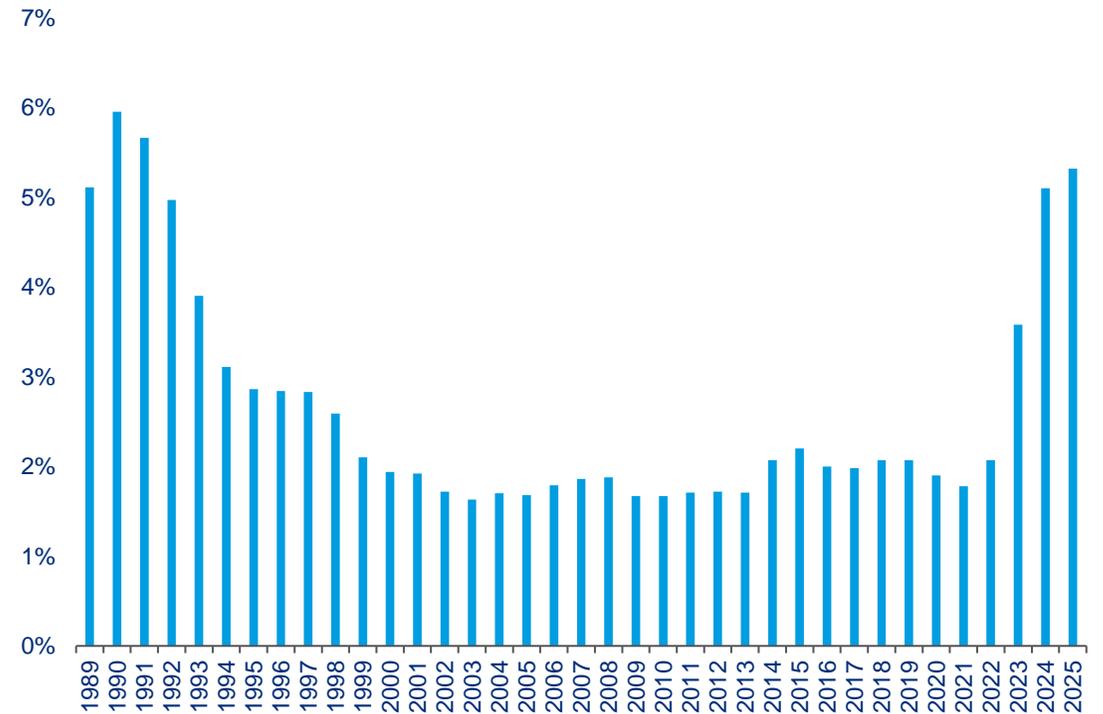


...supported by higher wages and inflation

Japan Goods and Services Inflation



Shunto Spring Wage Negotiation Agreed Pay Increases



Source: Statistics Bureau of Japan, Japan Trade Union Confederation. Data as of May 28, 2024.

Fed has tough balancing act, ECB can cut, BoJ to hike

	Fed	BoE	ECB	BoJ
Now	4.5%	4.25%	2.25%	0.5%
2025	-59bps	-47bps	-57bps	+20bps
2026	-38bps	-11bps	+14bps	+11bps
2027	+18bps	+6bps	+27bps	+14bps

Source: Goldman Sachs, Barclays. Data as of May 27, 2025.

Asset class outlook – key views

Equities

The outlook for equities is bearish because of slowing growth and rising inflation. Earnings per share growth forecasts appear too optimistic

Growth Fixed Income

Corporate balance sheets in reasonable shape. However, growth is softening, which should lead to higher defaults. **Spreads may widen from currently tight levels**

Defensive Fixed Income

Long gilt yields attractive from a valuation perspective as offering yields not seen since the 1990s

Investment grade spreads are relatively tight, given the uncertain outlook

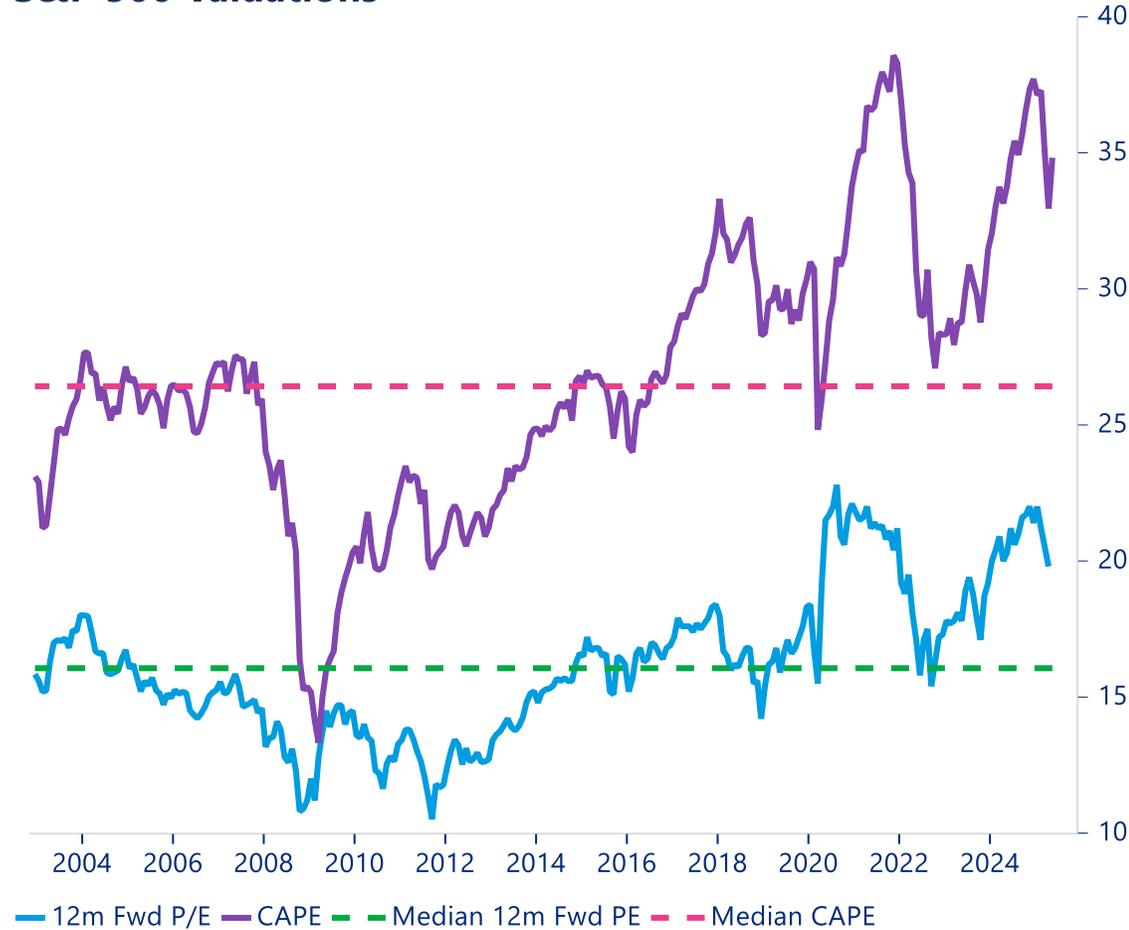
Currencies

US dollar weakness likely to continue given the slowdown in US growth. USD still expensive

Japanese yen, euro are cheap and are expected to benefit from valuation rerating and narrowing of growth differentials

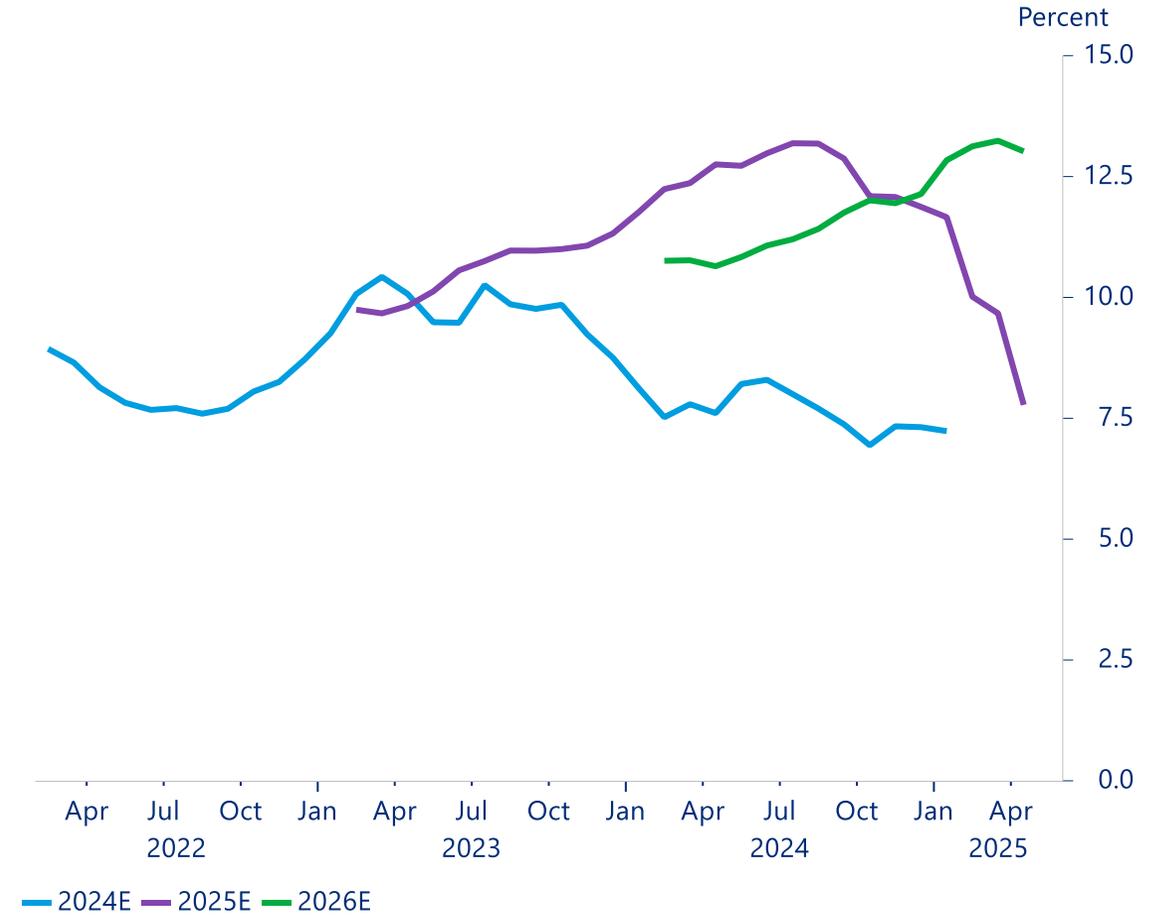
Equities not cheap, earnings expectations optimistic

S&P 500 Valuations



Source: S&P Global, Robert Shiller, MacroBond, Mercer as of 19 May 2025

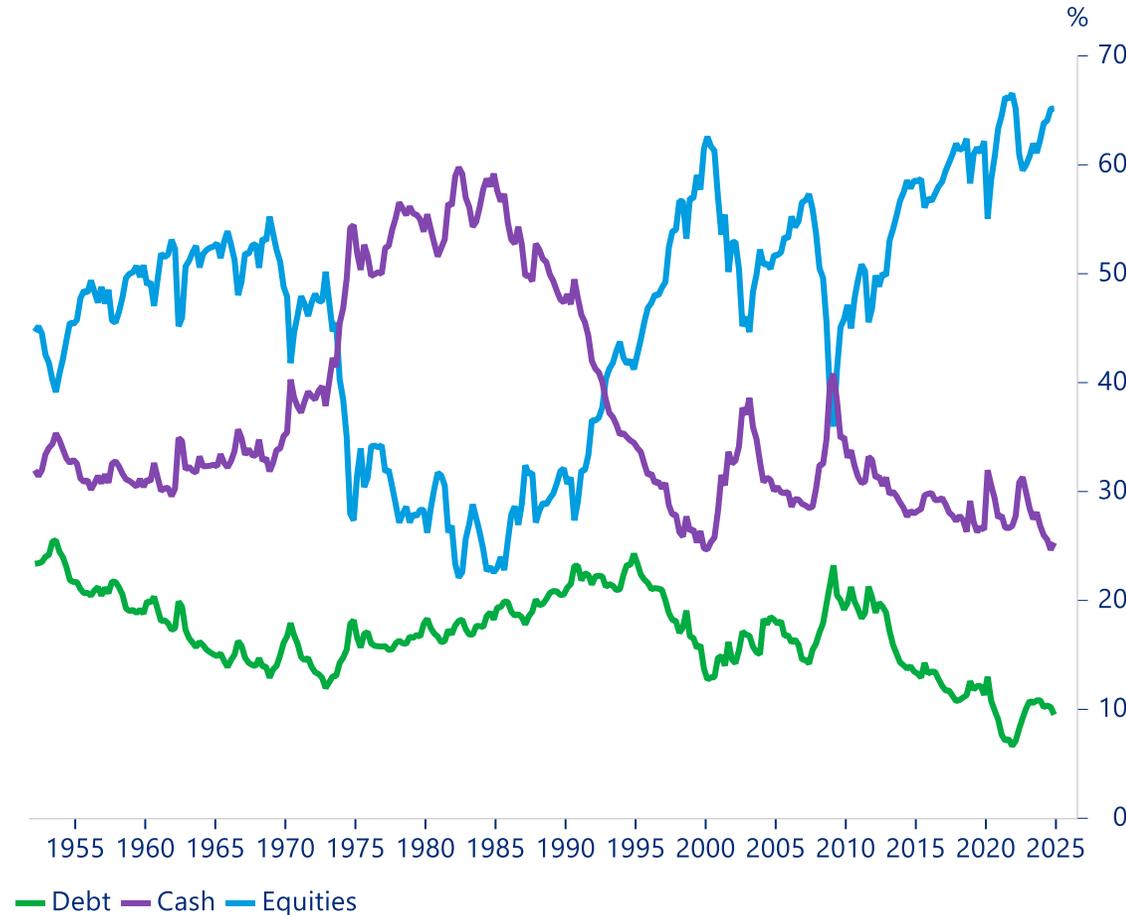
MSCI World Earnings Growth Expectations (YoY)



Source: IBES, MacroBond, Mercer as of 19 May 2025

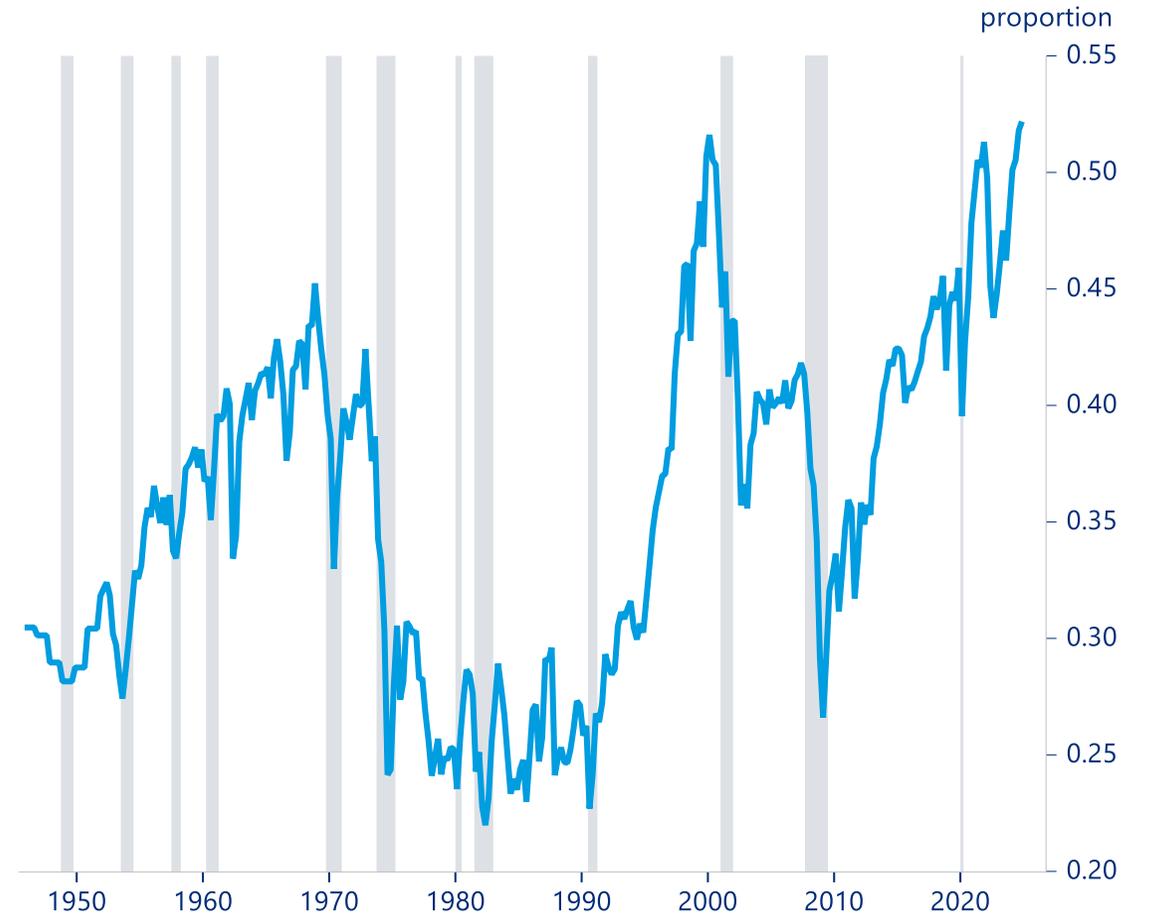
Equity positioning stretched

US Household Balance Sheets



Source: Federal Reserve, MacroBond, Mercer as of May 2025

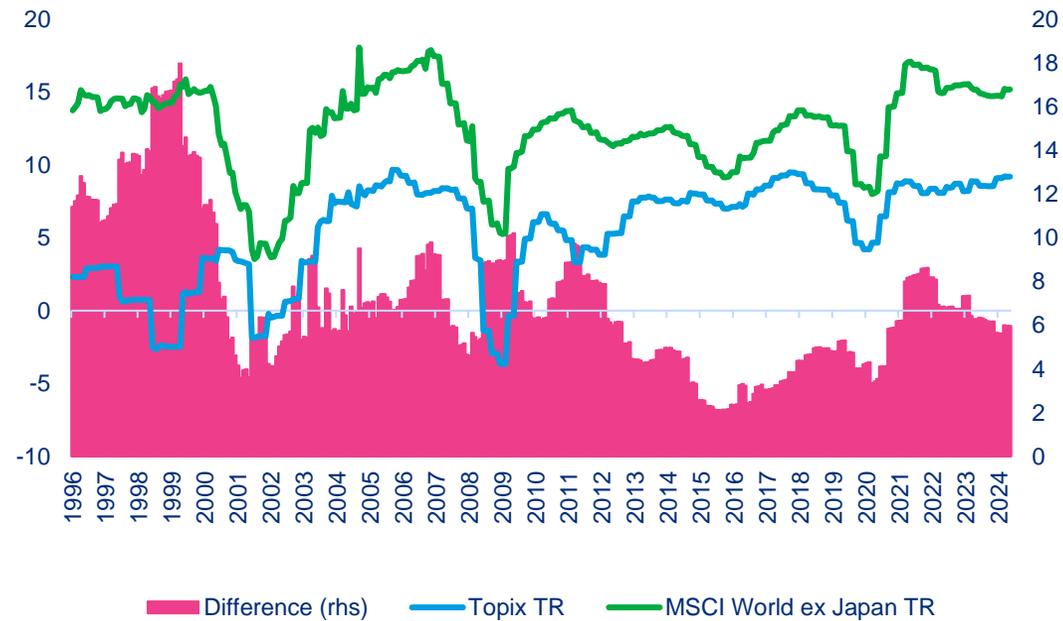
Investors equity allocation



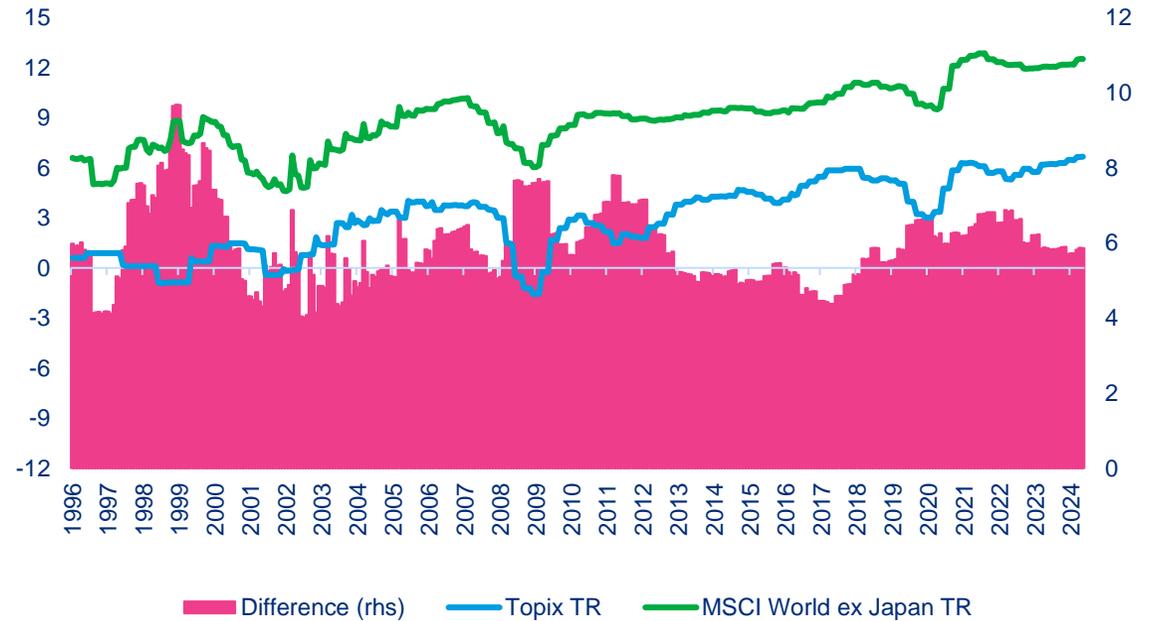
Source: Federal Reserve, MacroBond, Mercer as of 19 May 2025

Japanese Equity – improving profitability to support ROE

Return on Equity: DM ex Japan vs. Japan



Profit Margin: DM ex Japan vs. Japan



Source: Bloomberg. Data as of April 30, 2025.

Credit spreads remain at historically tight levels

Global IG Credit



Source: , MacroBond, Mercer as of 19 May 2025

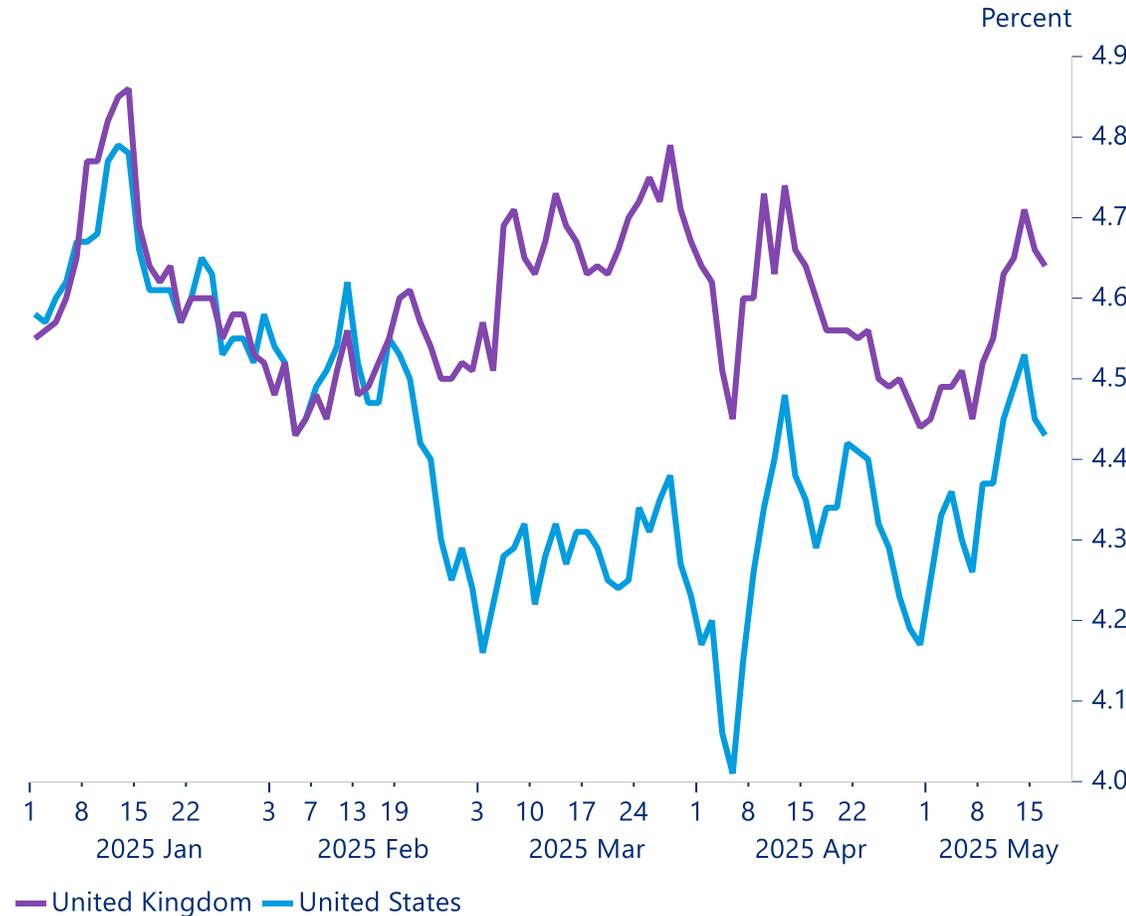
Global HY Credit



Source: , MacroBond, Mercer as of 19 May 2025

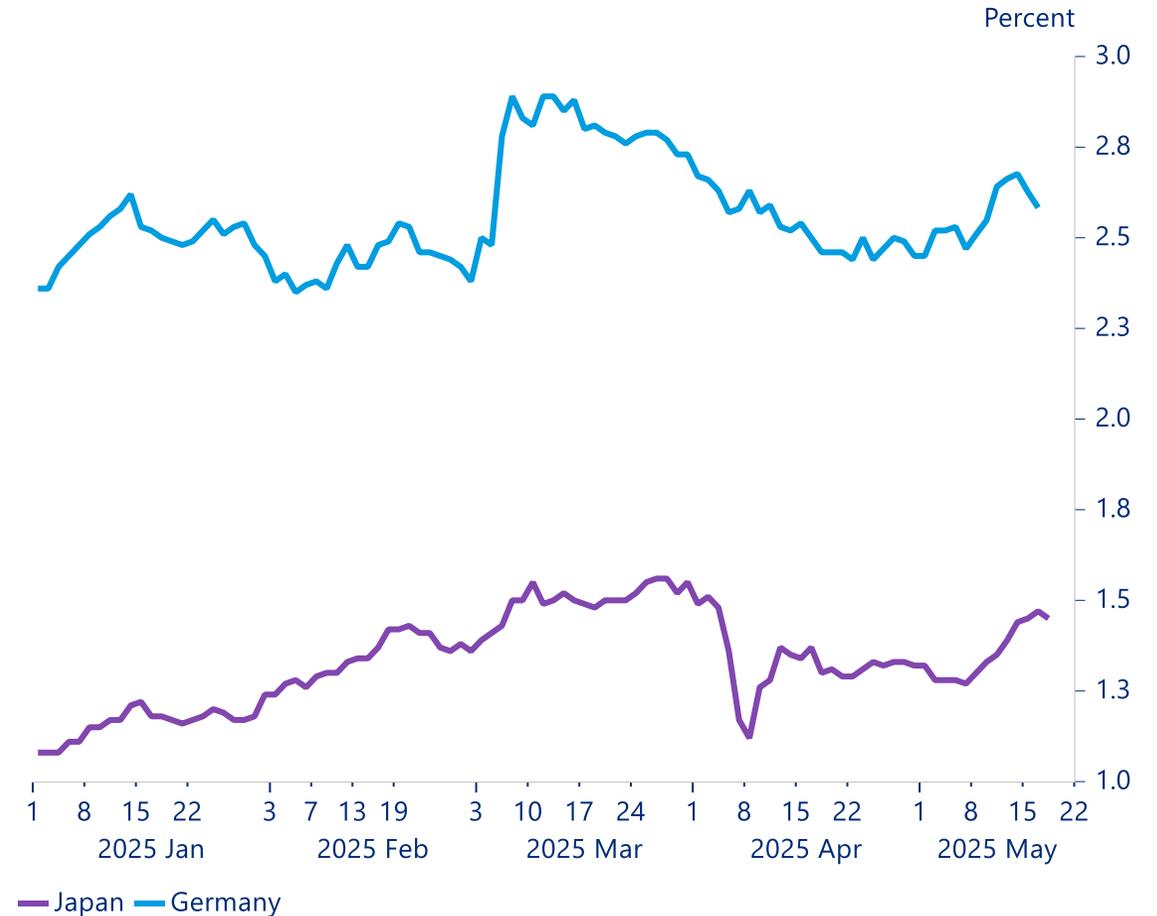
Yields broadly normal levels (we see regional opportunities)

10y Bond Yields



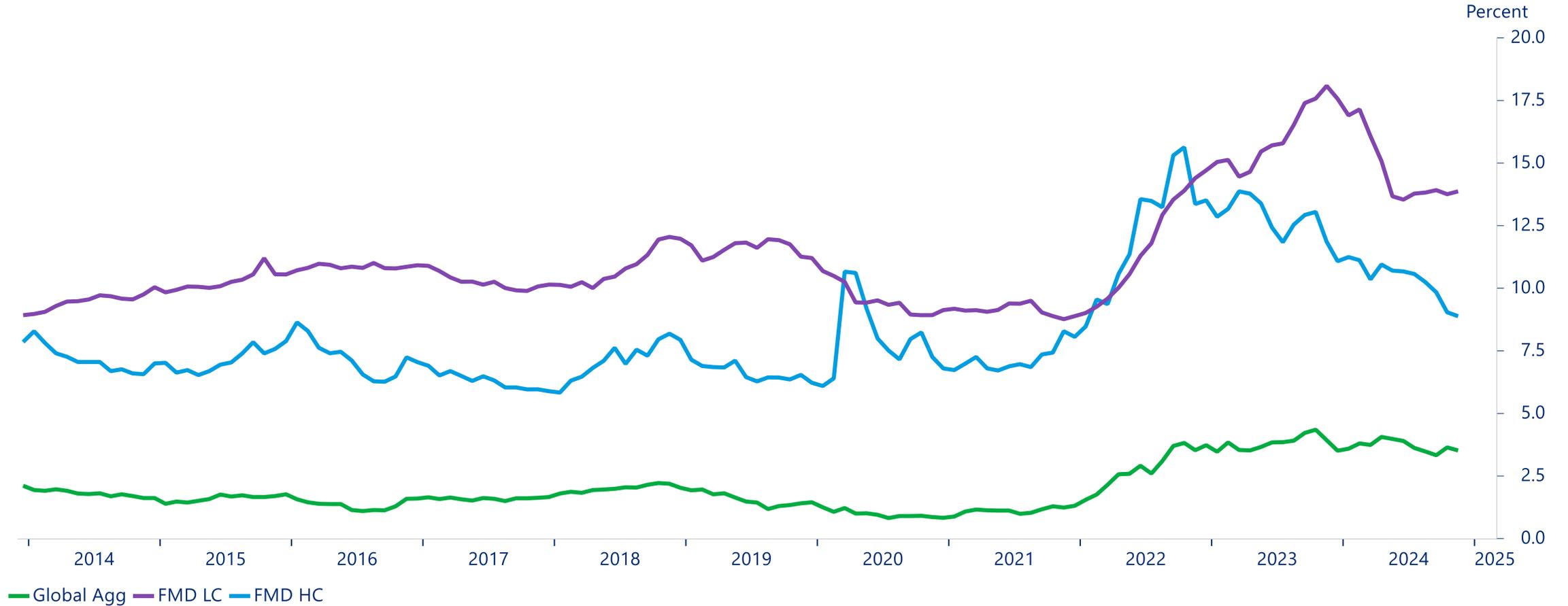
Source: U.S. Department of Treasury, Macrobond Financial AB, Mercer as of 19 May 2025

10y Bond Yields



Source: U.S. Department of Treasury, Macrobond Financial AB, Mercer as of 19 May 2025

Frontier Market Debt yields remain attractive



Source: , NinetyOne, MacroBond. NinetyOne. Frontier HC Index = JPM NEXGEM, Frontier LC Index = Portfolio of 24 equal weighted frontier local markets (Azerbaijan, Botswana, Costa Rica, Egypt, Georgia, Ghana, Ivory Coast, Kazakhstan, Kenya, Morocco, Mongolia, Mozambique, Namibia, Nigeria, Pakistan, Serbia, Sri Lanka, Tunisia, Uganda, Ukraine, Uzbekistan, Vietnam, Zambia). Data as of November 30, 2024.

Yen remains remarkably cheap, should move as BoJ hikes



Source: Bank of Japan (BOJ), U.S. Department of Treasury, Macrobond Financial AB, Mercer as of 19 May 2025

Current Global DAA views

Liquid SAA relative opportunities through the lens of a 6-18 month investment horizon

Global Unconstrained		
	Position	Change
Equities	-5%	
Developed	 -6%	
Emerging	 0%	
Small Cap	 0%	
Japan	 1%	
Growth Fixed	4%	
EM Debt (HC)	 0%	
EM Debt (LC)	 0%	
Global HY	 -3%	
Frontier Debt	 5%	
Asia HY	 2%	
Commodities	0%	
Cash & Cash Like	-4%	

	Position	Change
Defensive Fixed	5%	
Nominal Gov	 0%	
Long Dated UK Gilts	 5%	
Real Gov	 0%	
IG Credit	 0%	
Net FX Position		
USD	 -5%	↓2%
CHF	 -3%	
EUR	 2%	
JPY	 3%	↓1%
CNH	 0%	↑3%
FM FX	 3%	
Tracking Error (p.a.)	1.01%	↓5bps

Source: Mercer. For illustrative purposes only. As at April 2025.

*Latest change made on 22 May 2025.

An unconstrained portfolio is one that is able to invest in a broad range of liquid asset classes including being underweight cash. Tracking error is the relative risk of the DAA positions. Net FX position includes physical currency exposure through asset class tilts plus currency overlay positions. All fixed income assets are USD hedged excluding emerging/frontier market debt. Equities are unhedged. 2% p.a. max tracking error. 0.25%-0.5% value add expected over the medium term.



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