Quarterly Macro Report – 3rd Quarter 2025

The first half of the year revealed a clear divergence in macroeconomic trends. While economic activity in the United States has decelerated relative to last year, growth in Europe has gained momentum, and China continues to struggle. Inflation remains an issue.

Uncertainty appears to be the defining theme of the year. The source of this uncertainty is relatively clear: The U.S. government is altering the institutional framework of the global economy at an unprecedented pace. It began with a series of executive orders intended to drain the financial resources of existing institutions. This was followed by erratic tariff threats on Liberation Day, a sweeping but economically questionable tax bill, and culminated in a direct military intervention in Iran.

It remains unclear whether Iran's nuclear facilities were in fact destroyed. What is certain is that the international institutions that enabled globalisation have been severely undermined. The World Trade Organization (WTO) has been marginalised, the UN Charter ignored, and the NATO treaty called into question. Meanwhile, the U.S. debt situation appears increasingly unsustainable.

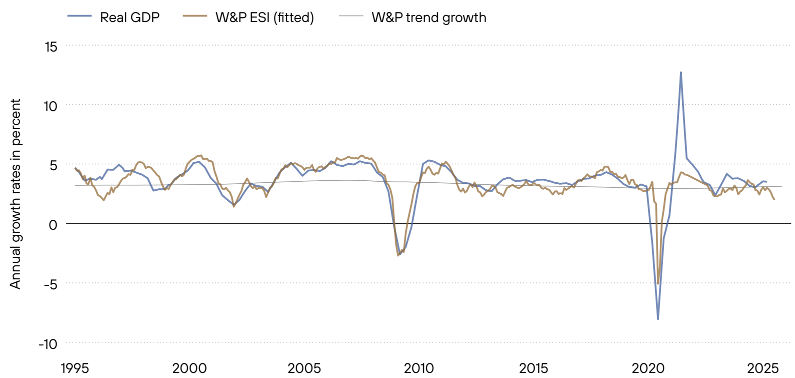
Corporations are responding with heightened caution regarding capital investment. In the private sector, only high-stakes "do-or-die" investments are receiving full allocations, alongside continued government spending on defence. Most other investment activity appears to be stalling. One major consequence has been a significant depreciation of the U.S. dollar. What was intended to "make America great again" is instead resulting in substantial value destruction.

US growth weakening

American consumers are clearly reacting. Consumer sentiment has weakened amid a sharp rise in inflation expectations. Private consumption appears to be gradually declining. While some inflation expectations may be overstated, it is true that newly implemented minimum tariffs will raise total production costs by an estimated 2-3% on average.

Fig. 1: Economic sentiment in the industrialised countries

Real GDP world and sentiment proxy



Source: LSEG, Wellershoff & Partners

Economic sentiment indicators have continued to decline across major economies, signalling a slowdown in growth that is significant, though not yet severe.

With consumer sentiment subdued, companies will find it difficult to fully pass on these costs. As a result, a portion of the adjustment will likely come via compressed profit margins for U.S. businesses. The U.S. growth engine is losing momentum.

> "U.S. economic policy has yet to yield positive outcomes, and its future effectiveness remains highly uncertain."

Unfortunately, Europe is not in a position to compensate. Germany shows tentative signs of improvement as its new government begins to take shape. However, trade distortions have likely skewed recent European growth figures upwards. Underlying demand remains weak, business sentiment is below average, and cash flow continues to underperform. A robust recovery, therefore, does not appear imminent.

China has also been significantly affected by the Trump administration's additional tariffs. Still, some domestic demand indicators show signs of improvement, suggesting that the country may be stabilising from its recession. Overall, however, the global business cycle is likely to underwhelm.

Inflation remains an issue

This slowdown comes at a time when inflation remains above target in most economies. In theory, a sluggish global economy could help bring inflation down, but the widespread introduction of tariffs makes that outcome uncertain. Central banks are therefore expected to take a cautious approach, closely monitoring developments rather than proactively cutting rates to stimulate growth.

In this context, Japan deserves special attention. Inflation continues to rise, yet the Bank of Japan persistently refuses to raise interest rates. Short-term real interest rates are now at -3%, a clearly unsustainable level. Rising inflation alongside ultra-expansionary monetary policy threatens to trigger a major economic crisis. At such negative real rates, consumers are losing purchasing power at an unprecedented pace, which could severely dampen future consumption. Meanwhile, any increase in interest rates risks a nominal decline in asset prices that could threaten financial stability in Japan and potentially beyond. This is a risk scenario that warrants close monitoring.

Table 1: Macroeconomic estimates (in %)

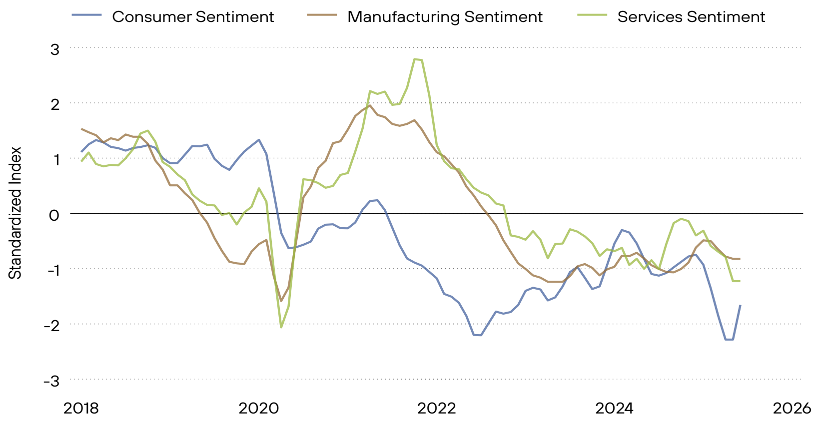
	GDP Growth			Inflation		Interest Rates	Money Growth M1
	Trend	2025*E*	2026*E*	2025*E*	2026*E*	Q2 2025	y/y 06/2025
USA	1.8	1.8	1.7	3	2.5	4.50	3.9
Eurozone	1.1	0.8	1.2	2.1	1.9	2.00	4.8
UK	1.7	1.1	1.4	3.1	2.2	4.25	1.0
Switzerland	1.3	0.9	1.6	0.2	0.5	0.00	13.0
Japan	1.1	0.6	0.6	2.4	1.7	0.50	–0.4
China[1]	4.5	4	4	0	0.6	4.35	68.4
Brazil	1.4	2	2	5.3	4.3	15.00	0.5
India	5.0	6.2	6.3	4.2	4.1	5.50	7.9
Russia	1.0	1.5	0.9	9.3	5.5	20.00	2.8
World	3.0	2.8	3	4.3	3.6	–	–

[1] *China has expanded the statistical scope of M1 as of January 2025*

Source: LSEG, Wellershoff & Partners

Fig. 2: Sentiment in the US faced a major drop

Standardized index of consumer, manufacturing and services sentiment in the US

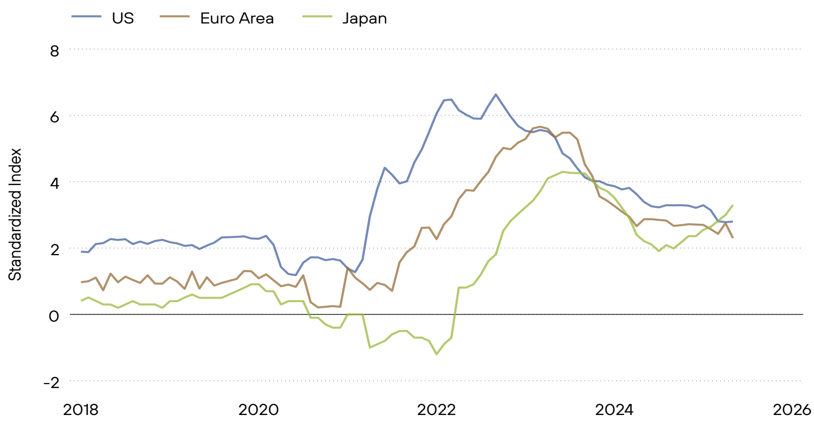


Source: University of Michigan, LSEG, Wellershoff & Partners

The deterioration in sentiment has been particularly pronounced in the United States. Consumer confidence is now well below historical averages, and service sector firms are also reporting a weaker outlook. Meanwhile, manufacturing companies appear unconvinced by the prospect of a more prosperous "MAGA" future.

Fig. 3: Core Inflation in advanced economies remains on a high level

Core Inflation in the US, the Euro Area and Japan

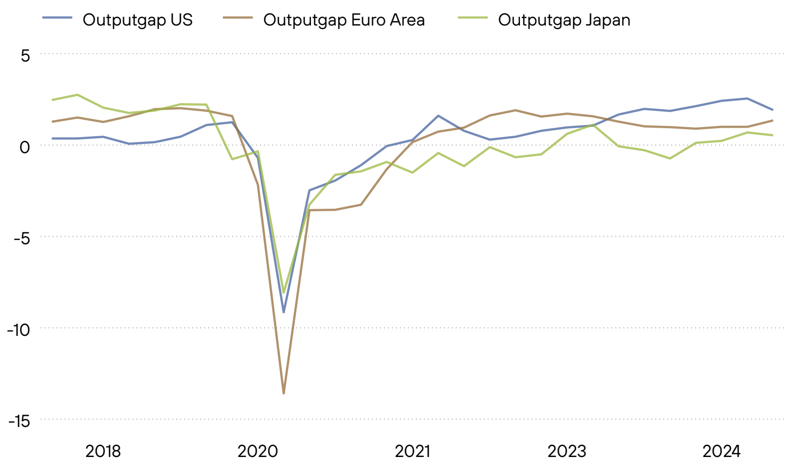


Source: LSEG, Wellershoff & Partners

Inflation remains well above the 2% threshold commonly associated with price stability. While there has been some modest improvement in the U.S. and Europe—possibly reflecting more cautious consumer behaviour—Japan faces a more acute inflation challenge with no clear policy strategy in place to address it.

Fig. 4: Sentiment indicators recover only marginally

GDP Outputgap in the US, the Euro Area and Japan



Source: LSEG, Wellershoff & Partners

The current economic environment in industrialised economies remains broadly healthy, which may explain the lack of urgency among policymakers to mitigate the negative spillovers from U.S. economic policy. Financial markets, meanwhile, appear to have abandoned forward-looking expectations, choosing instead to anchor their positioning to available data.

Capital Market

The geographic divergence in long-term bond yields persisted in the second quarter of 2025. While capital market rates in the eurozone declined, U.S. Treasury yields remained elevated and volatile, reflecting differing macroeconomic dynamics and policy outlooks.

In the eurozone, the yield on 10-year German Bunds fell back toward levels seen at the start of the year, hovering around 2.5%. This retracement effectively unwound the rise in yields observed earlier in response to Germany's expansive fiscal stimulus plans. The European Central Bank (ECB) signalled a temporary pause in its rate-cutting cycle as they are satisfied with the progress on inflation. Nonetheless, markets continue to price in another 25 basis points of monetary easing by the ECB over the remainder of the year.

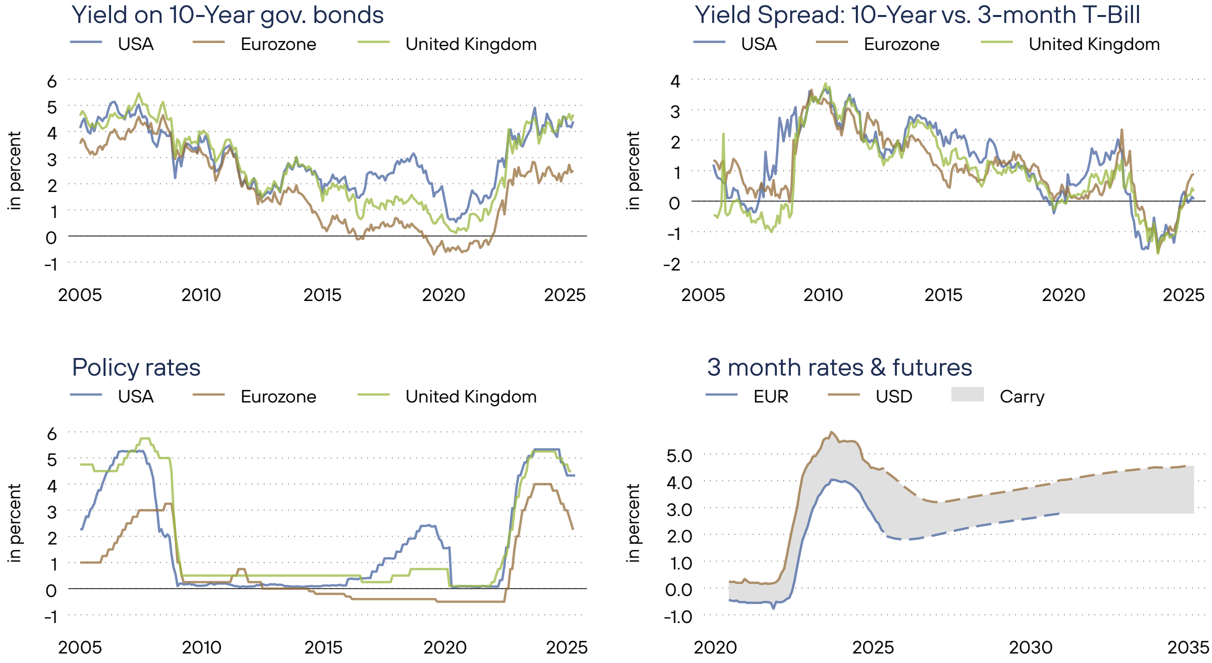
> "U.S. Treasury markets remain on edge due to concerns about inflation and doubts over fiscal sustainability."

In contrast, U.S. long-term interest rates remain in a volatile range of 4.2% to 4.6%, as markets digest a complex mix of political and economic signals. Following the introduction of global tariffs by President Trump, yields initially declined and treasuries served as a safe-haven asset. This quickly reverted amid concerns about the long-term trajectory of U.S. fiscal policy, particularly in response to Trump's controversial "Big Beautiful Bill", which reignited debate over debt sustainability.

Meanwhile, the Federal Reserve (FED) has held interest rates steady and struck a cautious tone at its most recent meeting. The FED acknowledged a rise in economic uncertainty, citing simultaneous risks of higher inflation and higher unemployment. The U.S. yield curve remains essentially flat with markets expecting 50 basis points of Fed rate cuts by year-end, a slight downward revision from earlier expectations.

The persistent divergence in bond markets highlights the contrasting fiscal and monetary landscapes in the U.S. and Europe, as investors weigh inflationary risks and policy-induced volatility.

Fig. 5: Money market and capital market interest rates



Source: LSEG, Wellershoff & Partners

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