

Quarterly Macro Report – 4th Quarter 2025

The global economy is losing momentum. The US labor market is weakening, Europe remains stagnant, and China struggles to emerge from its downturn. Even worse, the US government is continuing to undermine the foundations of its liberal market economy.

President Trump has intensified his assault on federal institutions and their independence throughout the third quarter. The attempted removal of Lisa Cook from the Federal Reserve's Board of Governors and the dismissal of Erika McEntarfer, head of the Bureau of Labor Statistics, after her release of weaker-than-expected employment data represent the most visible manifestations of a broader pattern. As such, these interventions systematically undermine the foundations of a functioning market economy.

Concurrently, the 10% baseline tariffs implemented in spring were supplemented in August by additional reciprocal duties. Import tariffs now average approximately 18%, with certain rates reaching prohibitive levels that effectively preclude market access. Swiss industrial enterprises, for example, face insurmountable competitive disadvantages in the American market with tariff rates of 39%.

Deteriorating economic fundamentals

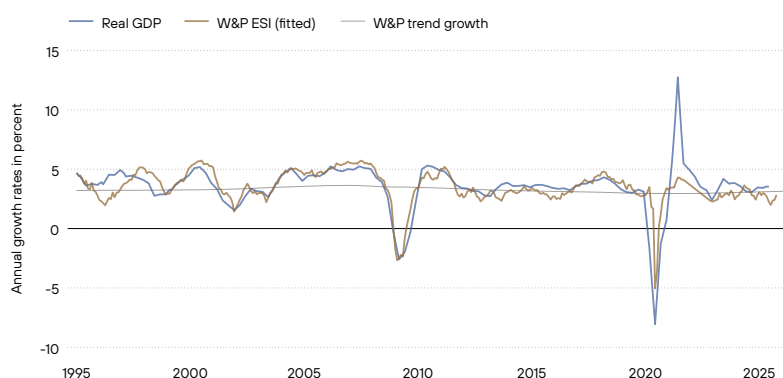
Beyond these political risks, cyclical weakness is intensifying in America's economy. US growth has decelerated over the course of this year from levels well above its long-term trend to a performance below trend.

This deceleration is increasingly evident in labor market conditions. Job creation has collapsed in recent months. The economy generated only 107,000 positions over the past four months, approximately one-fifth of the prior year's pace. June even marked the first month of negative employment growth since 2020.

This development materially elevates recession risks. History shows that labor market deterioration characterized by sustained negative job growth has almost invariably preceded economic recession. Enterprises typically reduce workforce levels only when order books contract, production declines, or profit margins face severe compression.

Fig. 1 : Global economic growth supported by emerging markets

Real GDP world and sentiment proxy



Global economic growth has remained above its long-term trend in recent quarters, driven by robust growth in emerging markets such as India and Indonesia, as well as China's impressive, albeit somewhat dubious, figures. However, given the weak economic momentum in industrialised economies, growth is likely to fall below the trend level in the coming quarters.

Source: LSEG, Wellershoff & Partners

Global economic fragility

A US-recession would occur at a particularly vulnerable juncture for the global economy. The eurozone has failed to generate meaningful recovery momentum. Constrained by German economic

markets and elevated US trade barriers presents considerable headwinds. This combination is likely to result in notable economic deceleration through the remainder of the year.

However, one bright spot in this challenging environment is Switzerland's price stability. The country maintains the distinction of being the sole currency area achieving sustained low inflation, while core inflation rates across other major economies remain above central bank targets.

"Labor market downturns typically mark the beginning of a recession."

stagnation and subdued French growth, regional performance remains below potential. Recent sentiment indicators provide modest encouragement, though substantive improvement remains elusive.

China presents a similar picture. Economic performance continues to disappoint, with recovery indicators visible in the first half of the year having failed to gain traction in subsequent months. Without significant improvement in private sector investment activity, sustained economic expansion appears unlikely.

For Switzerland's export-dependent economy, this combination of weakening demand in major

Inflationary pressures intensifying

Inflationary momentum even accelerated in the United States, the United Kingdom and Japan during parts of the third quarter. This upward trajectory is likely to persist, particularly in the United States. The tariff burden is substantial and corporations are unlikely to be able to fully absorb these cost increases. Historical experience suggests that price adjustments usually reach consumers with a considerable time lag, which explains why the impact of tariffs has been limited to date.

The Federal Reserve's decision to reduce interest rates in September despite rising inflationary pressures, and the Bank of England's similar action in August, underscores the severity of growth concerns and their elevation above price stability objectives.

Table 1: Macroeconomic estimates (in %)

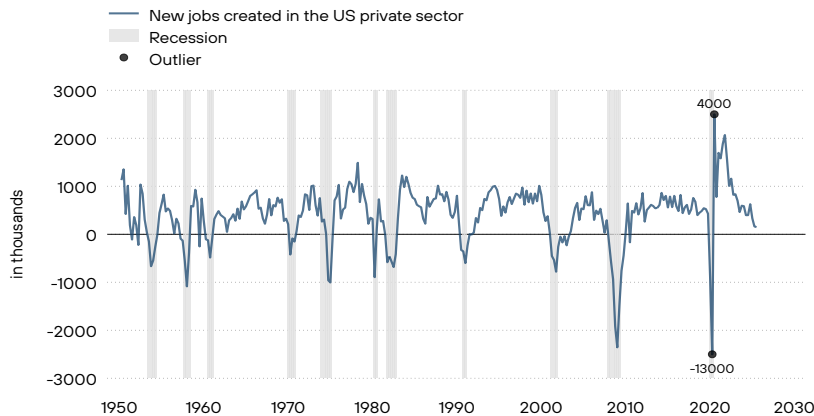
	GDP Growth			Inflation		Interest Rates	Money Growth M1
	Trend	2025E	2026E	2025E	2026E	Q3 2025	y/y 09/2025
USA	1.8	1.6	1.2	2.8	2.5	4.25	4.4
Eurozone	1.1	1.0	1.2	2.1	1.9	2.00	4.9
UK	1.7	1.1	1.4	3.1	2.2	4.00	2.3
Switzerland	1.3	1.1	0.8	0.2	0.5	0.00	21.8
Japan	1.1	1.0	0.6	2.7	2.0	0.50	-0.9
China ¹	4.5	4.2	4	0	0.8	4.35	76.2
Brazil	1.4	2	2	5.3	4.3	15.00	-2.7
India	5.0	6.2	6.3	3.2	3.1	5.50	12.1
Russia	1.0	1.5	0.9	9.3	6.0	17.00	2.7
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: Weakening US labor market

Number of new jobs created in the US on a quarterly basis

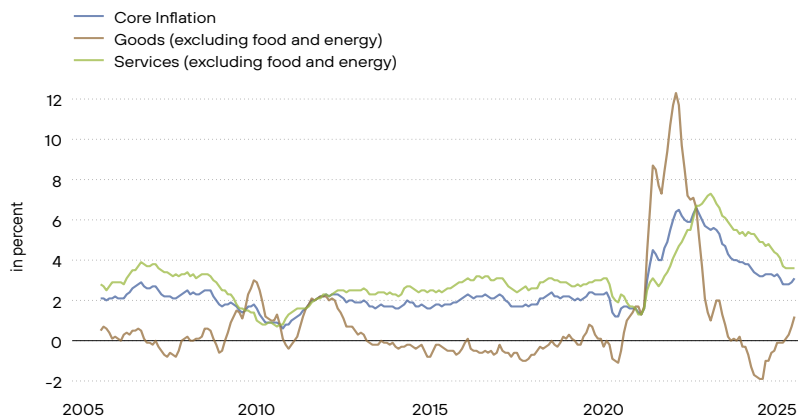


Source: FRED, Wellershoff & Partners

The U.S. labor market is showing clear signs of weakness. Job creation has slowed significantly and is now only slightly above zero on a quarterly basis. In the past, similar declines, especially when job growth turned negative, have consistently coincided with the beginning of a recession.

Fig. 3: US core inflation remains above target

US core inflation and contributors

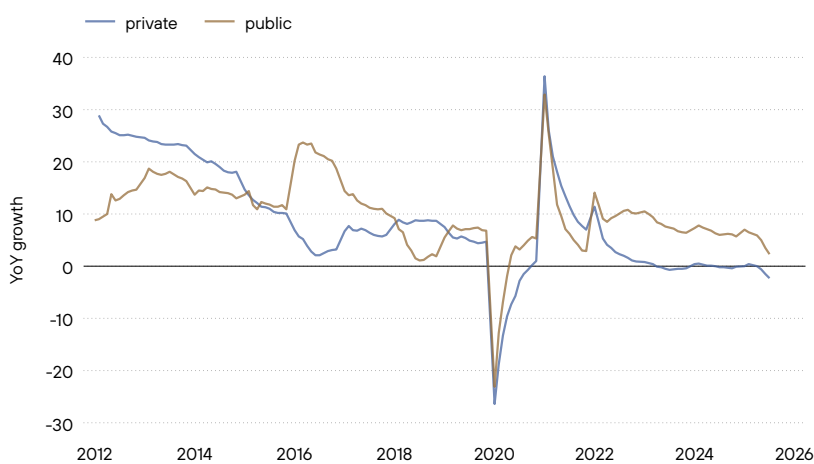


Source: LSEG, Wellershoff & Partners

Inflationary pressure in the US increased during the third quarter. Core inflation rose to 3.1% in July and August. Services remained the main driver of elevated core inflation figures, although an increasing proportion could be attributed to goods. Over the coming months, inflation in the goods sector is likely to rise further as the impact of tariffs gradually feeds through to consumer prices

Fig. 4: Investment in China is declining

YoY growth of private and public fixed asset investment



Source: LSEG, Wellershoff & Partners

China's economy remains below expectations, with fixed asset investment growth continuing to decelerate. Private investment is showing negative year-on-year growth, while public investment growth remains positive but has decelerated significantly. Trade tensions are further dampening the outlook for China's economic recovery and threatening the country's GDP growth target of 5%.

Capital Market

The divergence in bond yields across geographic regions continued into the third quarter of the year. In a notable reversal from the previous quarter, US Treasury yields, which had been elevated, fell, while Eurozone yields edged upwards.

In the US, concerns about higher inflation following President Trump's introduction of global tariffs as well as concerns about the sustainability of government debt after the "Big, Beautiful Bill" have given way to concerns about the strength of the economy. In particular, weaker-than-expected

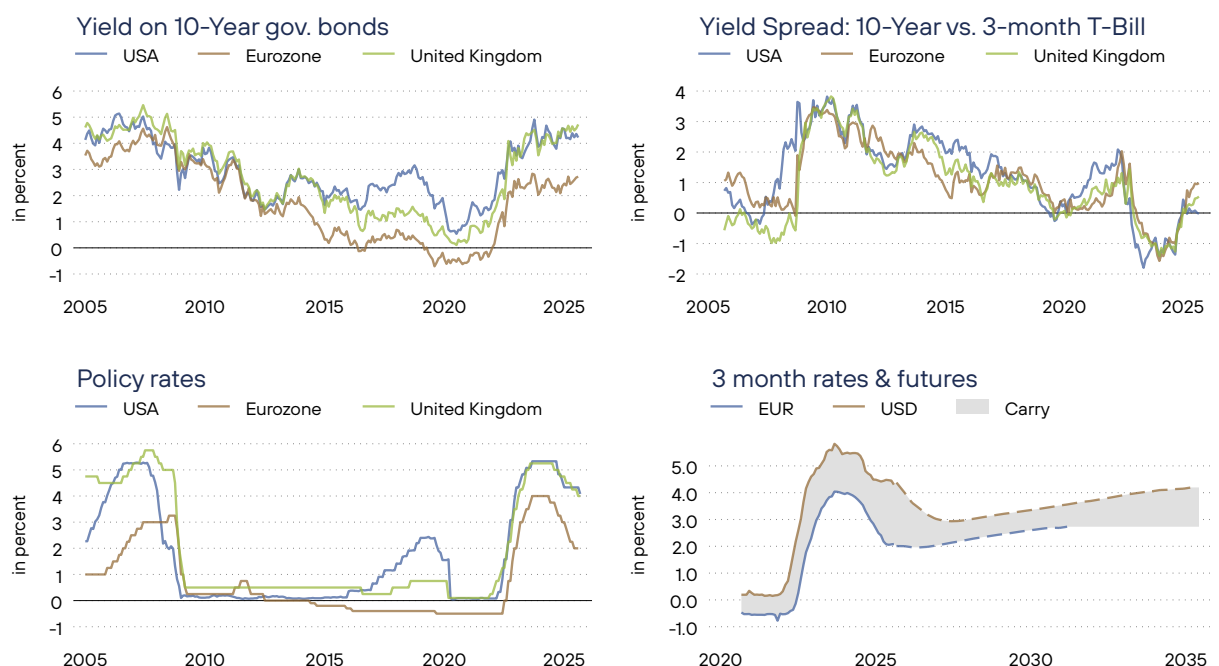
weaker labor market data as the main reason for cutting the reference rate by 25 basis points. The US yield curve remains essentially flat, with markets pricing in an additional 50 basis points of Fed rate cuts by the end of the year. This is despite the fact that inflation remains elevated, at 2.9% overall and 3.1% for core inflation, both of which are well above the Fed's target rate.

For the European Central Bank, inflationary pressures remained moderate in the third quarter. Core inflation edged slightly above the target rate of 2%, staying at 2.3%. There has been a slight upward trend in government yields throughout the euro area over the past three months. For instance, German 10-year Bund yields are currently around 2.7%, though still lower than the highs of the first quarter. The development of French government yields is also notable. The country is still experiencing political instability, primarily due to the ongoing discussions regarding budget cuts by the government. This resulted in Prime Minister Bayrou stepping down after losing a confidence vote, leaving President Macron with his third prime minister in one year. Yields on French government bonds have increased to their highest levels of the year, and the spread to German Bunds has also reached levels not seen since the Eurozone economic crisis around 2012.

"US Treasury yields decline over concerns of labor market strength and rate cut expectations"

labor market figures have driven market expectations for rate cuts and concurrently led to lower yields. Currently, the yield on the 10-year US Treasury is close to 4%, which is 80 basis points lower than the highs at the beginning of the year. At the last Fed meeting, Chairman Jerome Powell cited

Fig. 5: Money market and capital market interest rates



Source: LSEG, Wellershoff & Partners

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