Quarterly Macro Report – 1st Quarter 2026

The global economy is expected to experience a slowdown during the winter quarters. Given ongoing economic challenges in Germany and China, much will depend on whether the United States can avert a recession. Economic indicators in Europe are anticipated to show improvement in the latter half of the year.

By 2025, most economists were captivated by political events unfolding in the US. The sheer frequency of previously unimaginable policy announcements from the Trump administration was astonishing. Many of these changes contradicted established economic principles, prompting economists to grow increasingly cautious about the global economic outlook.

There is no doubt that the US economy significantly influences future global growth. Not just because it represents between one-fifth and one-quarter of global demand (depending on exchange rates used), but also because the US dollar remains the world's leading currency.

Asian economies on the rise

However, it's important to remember that the rest of the world accounts for around 75 to 80 percent of global demand. In fact, if you exclude trade with the US, international trade comprises over 90 percent of global trading activity.

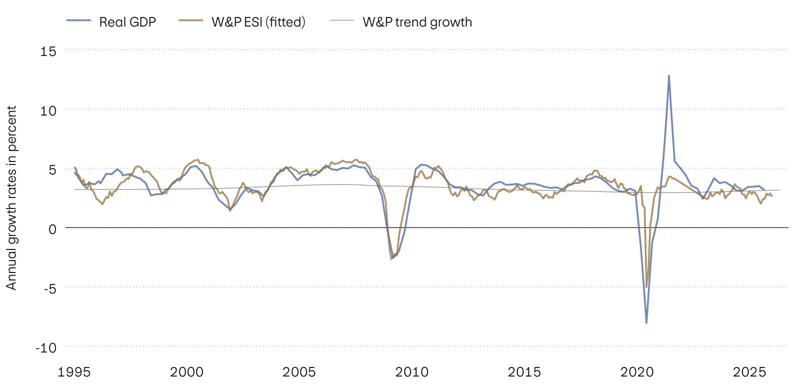
Remarkably, India and China together now generate more demand for global goods and services than the US. Even when acknowledging that China's official growth figures may be inflated, its real average growth rate far exceeds America's; even during a recession, China's economy currently outpaces the US. Meanwhile, India is growing at an 8 percent rate.

These dynamics help explain several phenomena: first, that the world economy is more stable than US-centric economists often claim; second, that inflation remains stubbornly high in many major countries; and third, the strong performance of emerging market assets in 2025.

Asia's economic strength relative to other regions is expected to persist, contributing to greater global stability. At the same time, this shift is likely to provoke ongoing political tensions as Asian nations seek increased influence on the world stage. Additionally, robust demand from the Far East will continue to drive inflation while wage inflation in

Fig. 1 : Global economic growth slowly retrenching

Real GDP world and sentiment proxy



Global economic growth decelerated modestly in the fourth quarter of 2025, despite robust performance from the United States. Overall growth currently aligns with trend levels, underpinned by vigorous economic activity in emerging markets. Sentiment indicators imply there may be a slight further slowdown in the first quarter.

Source: LSEG, Wellershoff & Partners

industrialized economies is outpacing consumer prices – a so-called "second-round effect" that appears more persistent than many anticipate and may have future implications for financial markets.

"Asia continues to outperform Europe and the US."

fall on younger generations. However, if labor becomes scarcer, young workers could find themselves with enough leverage to negotiate and shift higher taxes onto employers.

While these are long-term considerations and current geopolitical tensions demand much of our attention, anticipating major trends remains one of the greatest contributions economic analyses can offer to asset management. The next global downturn might mark the end of a lengthy period of rising corporate margins.

Future risks of a global recession

If US tariffs trigger a downturn in Asia and Europe or the US slips into recession, profit margins could quickly deteriorate. With aging populations, reduced working hours, and AI technologies not yet fully offsetting labor needs, companies may be compelled to pay higher wages despite the downturn – an issue intensified by mounting fiscal pressures in developing nations.

Increased spending on social security, defense, and infrastructure must all be funded. Conventional wisdom suggests these burdens will

Table 1: Macroeconomic estimates (in %)

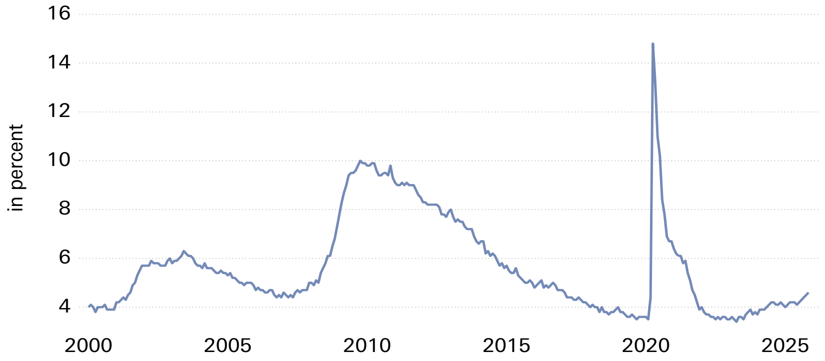
	GDP Growth			Inflation		Interest Rates	Money Growth M1
	Trend	2026*E*	2027*E*	2026*E*	2027*E*	Q1 2026	y/y 01/2026
USA	1.6	1.2	2.1	2.5	2.5	3.75	3.9
Eurozone	1.1	1.2	1.5	1.9	1.9	2.00	5.0
UK	1.8	1.4	1.4	2.6	2.2	3.75	2.7
Switzerland	1.2	0.4	1.6	0.2	0.5	0.00	21.1
Japan	1.1	0.6	0.6	2.5	1.8	0.75	-0.7
China[1]	4.5	4.5	4.5	0.5	0.6	4.35	73.4
Brazil	1.9	1.8	1.6	4.5	4.3	15.00	1.1
India	5.0	7.2	6.1	2.1	4.1	5.25	14.2
Russia	1.0	0.5	0.5	7.5	5.5	16.00	11.1
World	3.1	2.8	3.1	4.3	3.9	–	–

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

Source: LSEG, Wellershoff & Partners

Fig. 2: US unemployment rate on an upward trend

Unemployment rate of civilian labor force

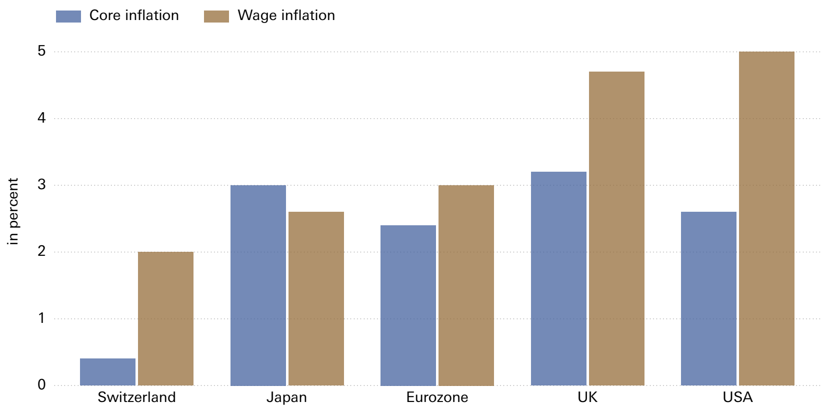


The US labor market has shifted, with unemployment gradually increasing over the past two years. Historically, this often signals an impending recession, which usually begins about a year after unemployment hits its lowest point.

Source: LSEG, Wellershoff & Partners

Fig. 3: Wage inflation pushes inflation up

Wage and core inflation rates

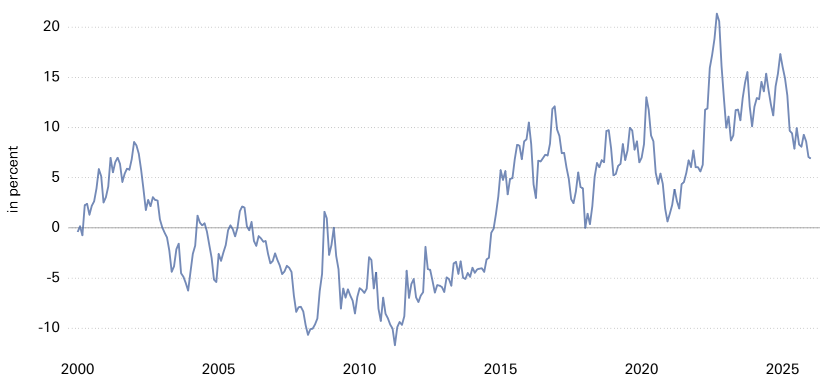


Inflation has eased slowly over the past year, and this trend will likely persist without a global recession. Since services make up most of consumer spending, and wages are their main cost, rising wage inflation – now higher than core inflation – boosts consumers' purchasing power, but puts pressure on corporate profits.

Source: OECD, Wellershoff & Partners

Fig. 4: US dollar remains overvalued

Trade-weighted deviation of the US dollar from PPP



The US dollar has dropped sharply this year based on PPP exchange rates with its major trading partners, but is still overvalued. With the current administration supporting further devaluation, both market and political pressures point in the same direction.

Source: LSEG, Wellershoff & Partners

Capital Market

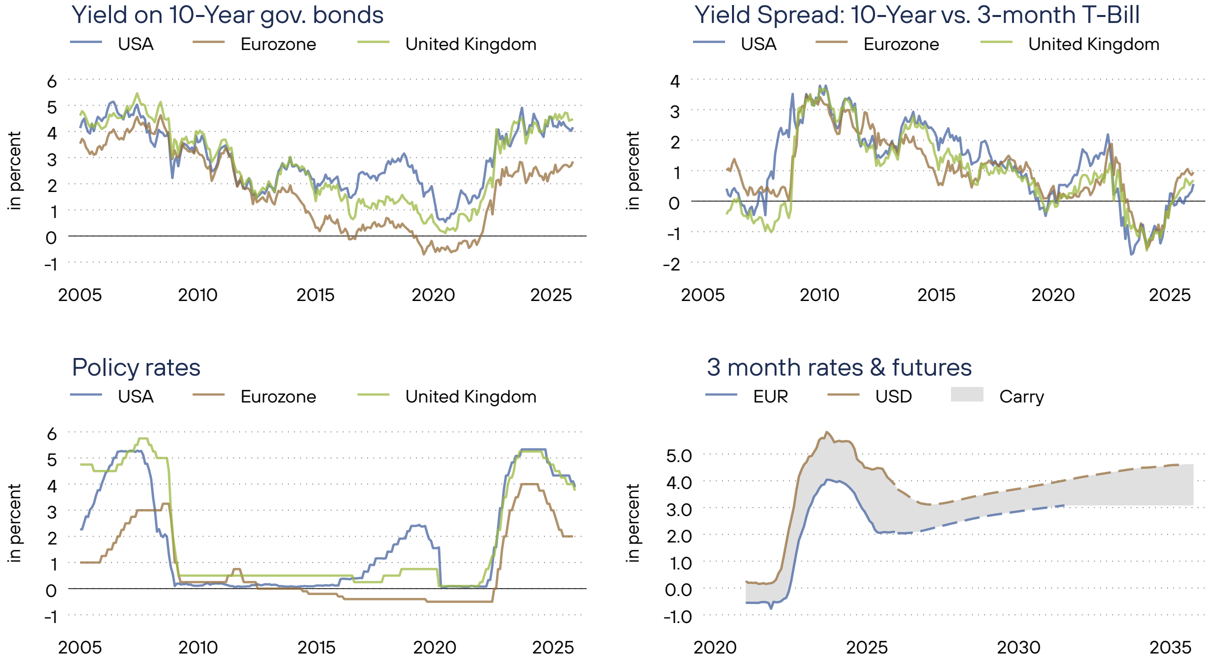
The final quarter of 2025 witnessed a mild rise in the yields of global government bonds. In the US, 10-year Treasury yields traded in a narrow range between 4.0 and 4.2 percent throughout the quarter. The period was marked by the longest government shutdown in US history, which resulted in significant delays or complete suspension of key economic data releases. Despite these data gaps, the Federal Reserve proceeded with a 25 basis point rate cut at its December meeting, marking the third reduction of the year. The decision was supported by an unexpected decline in inflation and persistent labor market weakness. Notably, the meeting revealed growing divergence among FOMC members regarding the appropriate rate trajectory for the coming year.

> "10-year JGB yields surged 100 basis points in 2025 to reach 2 percent, a level not seen since the global financial crisis."

Internationally, the most significant development occurred in Japan. Inflation has remained persistently above the Bank of Japan's target for over 12 months, driving 10-year Japanese government bond yields 100 basis points higher in 2025 to reach 2 percent, a level not seen since the global financial crisis. The Bank of Japan responded with its second rate hike of 2025 at its December meeting. The move triggered brief market volatility as investors feared a replay of the carry-trade unwind witnessed in summer 2024, which caused substantial market dislocations. While broader market concerns quickly subsided, domestic Japanese banks and insurance companies face potential market-to-market losses on their bond portfolios.

In contrast to the active monetary policy adjustments in the US and Japan, the European Central Bank (ECB) faces limited policy flexibility. Having already reduced its key rate by 100 basis points over the course of the year, the ECB held rates steady as inflation remained anchored at 2.7 percent for three consecutive months. Markets have responded to this stickier inflation environment: German Bund yields rose throughout the quarter to close the year at 2.8 percent, approaching the March peak reached after the government's fiscal stimulus announcement.

Fig. 5: Money market and capital market interest rates



Source: LSEG, Wellershoff & Partners

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