AllianceBernstein

Global Economic Research

Global Macro Outlook

First Quarter 2025

The Macro Picture

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The resolution of the US election has provided some clarity as to the likely path of economic policy. A trade war is all but certain, with tariffs and other trade barriers likely to dominate the narrative in the next few months. While there are still questions around the timing, targets, magnitude and duration of the coming policy changes, the direction of travel seems clear enough.

From an economic perspective, less free trade will reduce growth everywhere, but we believe the impacts will be larger outside the United States. This could accentuate a divergence that is already underway: we expect the US to outperform the global economy in the coming quarters. To be clear, that divergence is not directional. We expect all major economies to continue to expand. But the US seems well placed to grow more quickly than other developed economies for the time being, and that will shape the market outlook.

US outperformance isn't new, of course. In contrast to most other major economies, the US has made a full recovery from the pandemic-induced recession. US GDP has not only regained but exceeded its previous trend. A positive supply shock to the labor market, in the form of a surge in net inward migration, has been an important contributor to the expansion, with newly arrived workers offsetting the graying of the native-born population. While net migration flows slowed sharply in 2024 and seem set to do the same in 2025, those already here have helped the labor market find a new, stronger equilibrium. The labor market has supported consumption, and the US consumer has powered ahead, through higher inflation and interest rates as well as political volatility. This seems set to continue and as goes the consumer, so goes the economy as a whole.

We expect some positive momentum in business investment as well. With the election behind us, businesses that may have been reluctant to undertake new projects until policy and tax regimes were clearer should be in a better position to look to the future. We also think that there is some scope for additional growth from deregulatory policy, though the recent historical example suggests that caution is warranted in assuming a significant impact. The possibility of additional tax cuts could also boost sentiment, though fiscal policy is unlikely to change meaningfully for the next few months, given that it takes time for Congress and any presidential administration to agree on a budget.

There will be headwinds of course, especially in the trade channel. Tariffs are a tax paid by those who import foreign goods—not one paid by foreign exporters. In 2018, higher tariffs paid by the corporate sector for the import of raw materials and intermediate goods from overseas were passed through to end consumers. While we cannot yet know the specifics of the tariffs likely to be put in place, a reasonable assumption is that the policies under discussion would cost the average household up to a few thousand dollars per year. Given the underlying momentum, we think that's enough to slow growth but not stop it. This should keep the Fed in easing mode, albeit at a slower pace than in 2024.

While trade restrictions are likely to have some effect on the US, their impact could be larger elsewhere. The US is a relatively closed economy and US trade as a percentage of GDP is among the lowest globally. European economies, Germany in particular, are much more open and thus are more vulnerable to trade tensions and restrictions. Our outlook for the euro area was already subdued; in contrast to the US, the European economy has slowed significantly in recent months, and now the situation looks more precarious than before. We don't expect an outright recession, but the risk of one has risen. The good news is that inflation has fallen, allowing the European Central Bank (ECB) to be aggressive in fighting downside risks. We expect rate cuts at every meeting in the first quarter and into the second. This should pave the way for the outlook to improve in the second half of the year, assuming that the impact of the trade war is manageable.

Europe isn't the only region in need of significant policy support. China continues to suffer from sluggish growth, and the trade war is an unwelcome headwind. Policymakers have already taken significant steps to address the slowdown, with both monetary and fiscal easing in train. More will be needed and the key variable to monitor from our perspective is the willingness of policymakers to do what it takes. So far, so good, considering the language that officials have used in recent weeks, which suggests they're aware of the need and willing to be creative. We expect that Chinese policymakers are likely to wait until after the contours of US trade policy come into focus before taking the next step, but we remain confident that more support will come.

EM as a whole seems likely to come under some pressure. Some markets are likely to be targeted by US trade restrictions, several resonate to China's growth, and still others may simply be caught up in the wash. If we're right that the US economy outperforms, it should keep the US dollar stronger; indeed, we forecast the dollar to appreciate. Weaker EM currencies will likely slow disinflation in the emerging world, forcing central banks to be more restrained in their efforts to support growth and potentially limiting capital flows.

From an investor perspective, we believe that the question to wrestle with in the next few months will be the extent to which US outperformance translates to financial markets. The divergence we expect is one of magnitude rather than direction. Therefore, there are likely to be limits on how far markets will go in favoring US assets which, in many cases, have already outperformed other regions. We believe there's room for the US dollar to gain ground, with the scope for dollar appreciation expanding in rough proportion to the severity of the trade war. Because we expect the US economy to do better than others, we also believe the Fed will be slower in lowering rates, which should keep US yields higher across the curve. We generally would expect US equities to benefit from the rosier US outlook compared with international markets but are also aware that US markets have already outperformed significantly. Valuations matter too, and equity investors will need to be attuned not only to growth potential but to prices, which are generally elevated.

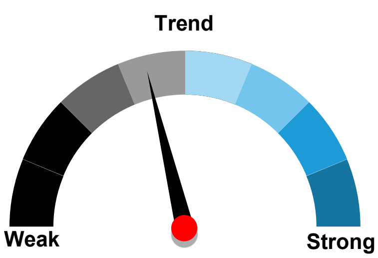
US outperformance is not risk free, of course. A large part of the reason the US economy has performed so strongly has been persistently large budget deficits. The fiscal stance did not retrench after the COVID-19 pandemic the way it typically does after recessions. That phenomenon points to one major risk to the outlook: large budget deficits have meant a rising debt burden for the federal government to service. In addition to increasing interest expense, fiscal sustainability concerns have, at times, rattled financial markets, pushing yields higher. While there is no specific threshold beyond which we can assume that the debt burden is "too large," the bigger it gets, the greater the risk of a destabilizing buyers' strike. Should that occur, yields would rise sharply, likely reversing the economy's positive momentum. This is not our base case, but it's a downside risk that can't be ignored. It's also likely to be a source of both periodic market concern and volatility, even if no crisis ensues.

There are other risks as well. The gains from the ongoing expansion have not done very much to address existing inequality, and the rise in prices over the past several years has disproportionately impacted lower-income households. US credit card and auto loan delinquencies are rising, though at this point the level remains low enough to assuage immediate concerns. Still, many households have little or no financial cushion if the labor market takes a turn for the worse. A significant shortage of housing is impacting sentiment, and the lack of turnover in the housing market remains an impediment to growth.

Still, our broader perspective is for a generally constructive outlook. The global economy appears set to come through an inflationary shock followed by the sharpest increase in interest rates seen in several decades without a recession ensuing. While divergences always bring frictions, if we are right that the coming divergence is one of magnitude rather than one of direction, it is better to think of it as posing opportunities for investors than as posing risks.

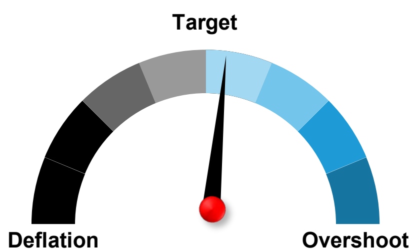
Global Macro Outlook: The Next Six Months

Economic Activity



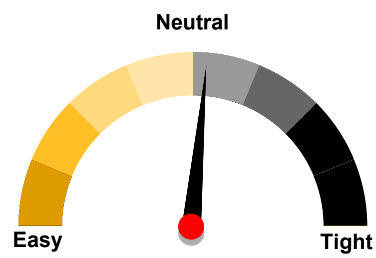
- Global growth will continue to slow, with the coming trade war likely to weigh on non-US growth in particular.

Inflation



- Disinflation is continuing, though the pace is more rapid in countries and regions where growth is slower and is less rapid in the US, where the economy continues to expand smartly.

Monetary Policy



- Rate cuts will continue, moving policy setting closer to neutral after several quarters of restrictive conditions. The US is likely to lag the field in cutting rates, given the stronger growth outlook.

Global Forecast

Forecast Overview

Key Assumptions

- **Financial:** Improved and enhanced regulatory policy has kept financial sector risks limited from a systemic perspective, and we assume that will continue.
- **Geopolitical:** We assume that neither the Russia-Ukraine war nor the many conflicts in the Middle East will upend the global economy or financial markets.
- **Monetary Policy:** Rate cuts are underway and are likely to continue for several quarters.

Central Narrative

- **Global Growth:** We expect growth to continue to slow, which should be more obvious outside the US.
- **Inflation:** Inflation will continue to move lower around the world.
- **Yields:** With growth slowing outside the US, we expect yields to fall and curves to steepen. The US outlook is less clear and we assume only modest moves in US rates.
- **USD:** We expect the dollar to appreciate as global divergences increase.

Key Upside Risks

- Renewed business investment after 2024's elections could boost growth.
- If the trade war proves ephemeral rather than durable it would meaningfully boost sentiment.

Key Downside Risks

- A larger, more persistent trade war could be very disruptive.
- If Middle East conflict spills into energy markets, it could slow disinflation and complicate central bank efforts to support growth.

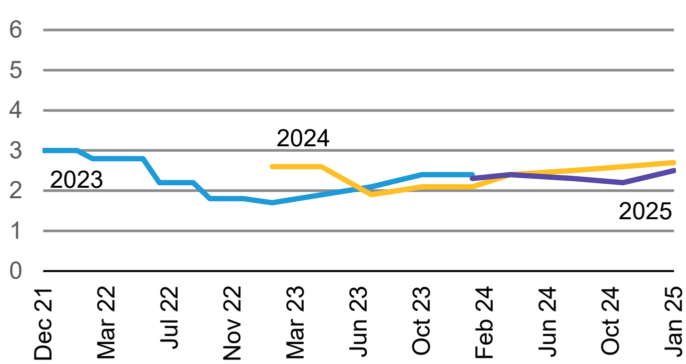
AB Growth and Inflation Forecasts (Percent)

	Real GDP Growth		CPI Inflation	
	2024	2025	2024	2025
US	2.4	1.6	3.1	3.3
Euro Area	0.3	0.5	2.3	1.9
Japan	0.3	1.3	2.4	1.8
China	4.6	4.5	0.8	1.0
Global	2.6	2.4	3.2	3.3
Industrial Countries	1.6	1.5	2.7	2.7
Emerging Countries	4.0	3.9	7.6	4.1
EM ex China/Russia	3.5	3.7	15.1	7.5

*US GDP forecasts presented as 4Q/4Q; others YoY; US CPI reflects core inflation; others are headline. As of January 2, 2024
Source: AllianceBernstein (AB)

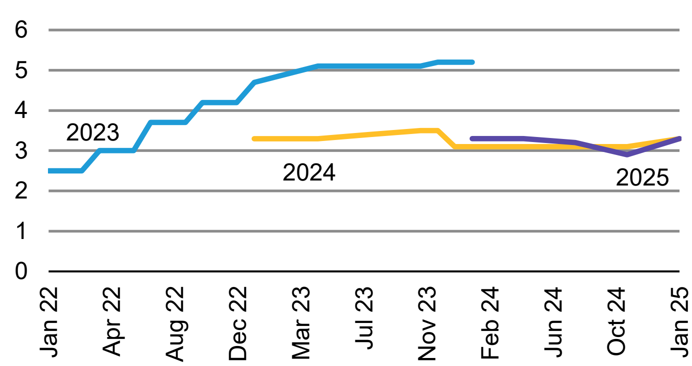
Forecasts Through Time

AB Global Growth Forecasts by Vintage



As of January 1, 2025
Source: AB

AB Global Inflation Forecasts by Vintage



As of January 1, 2025
Source: AB

US

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)	
	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F
US	2.4	1.6	3.1	3.3	4.38	3.625	4.57	3.75

- The US economy remains remarkably resilient, slowing only modestly despite headwinds ranging from political uncertainty and geopolitical turmoil to elevated inflation and interest rates. Strength in the labor market has kept the consumer in good shape, and as goes the consumer, so goes the US economy.
- While growth has slowed only modestly, inflation has come down relatively quickly. Although the path is unlikely to be linear, we expect disinflation to continue in the coming quarters, boosting household real incomes and helping to keep the expansion intact. While tariffs are likely to push prices up, it's best to think of them as a one-off price level adjustment rather than as a persistent source of inflationary pressure.
- With growth slowing slightly and inflation falling somewhat more, the Fed has been able to start cutting rates. While the process of easing is likely to slow in 2025, we expect it to continue, which should provide insurance against a more profound slowdown.

Risk Factors

- Trade policy, in light of election results, is likely to change significantly. The imposition of tariffs poses downside risks to global growth and upside risks to US prices. Markets seem largely to believe that the threat of tariffs is more bark than bite; if that proves incorrect, the reaction could be relatively large.
- Fiscal policy is likely to remain a source of concern, with no end to large deficits in sight. That will keep bond markets on edge and is very likely to cause bouts of market volatility; that volatility could slow business investment and thus impact growth.

Overview

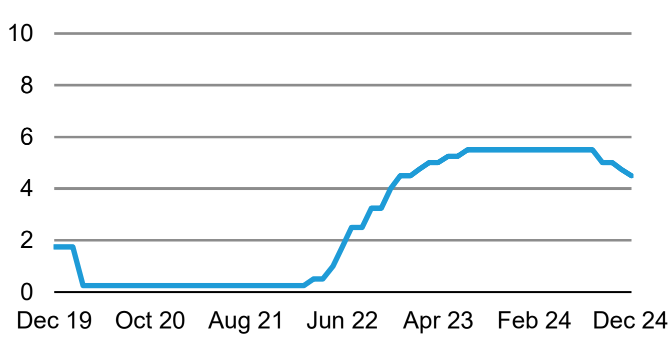
After focusing on the presidential election for several months, attention now shifts to assessing its impact. We believe that a trade war is coming; we take seriously the incoming administration's pledge to impose tariffs in the pursuit of policy objectives. The US is a relatively closed economy, meaning that trade is a smaller part of its GDP than for many large global peers. This means the trade war is less likely to be impactful in the US than elsewhere, but not without some impact. Tariffs will push prices higher and, with inflation already above target, the consumer response will be telling. Will a renewed push higher in prices disrupt what has been the strongest sector of the economy? Or will households power through the trade war as they have every other headwind in recent years. We suspect the truth is somewhere in between; growth will slow but not in a disruptive way.

While the impact of trade barriers on consumption is uncertain, the effect on prices is less so. Tariffs increase prices as a rule. The uncertainty now has to do with magnitude not direction. Our expectation is that tariffs will result in a one-off adjustment to the price level but that they are unlikely to generate durable inflation pressure; recall that inflation measures the change in prices, not the level. Thus, we anticipate that inflation will be higher in 2025 because of tariffs but that the upward pressure will not persist into the medium term. That should allow the Fed to look through the impact and continue cutting rates as they focus more on underlying price pressures than those specifically impacted by trade policy.

Fiscal dynamics will matter, too. It seems likely that the incoming administration will push for tax cuts; with the budget deficit already very large, additional fiscal stimulus poses risks. Bond markets may respond poorly to the possibility of higher deficits and more government debt, which could cause broader market and economic volatility.

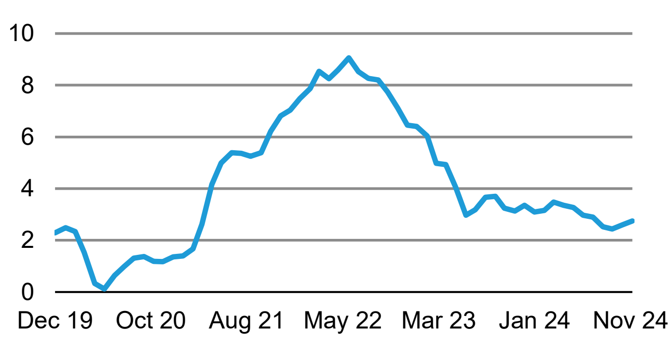
In short, there is no shortage of risks moving into 2025. The good news is that the economy starts in a strong position, with growth solid, inflation slowing and the Fed well positioned to respond to emerging risks in either direction. Despite the possibility of volatility, we believe that the US is in a better position than other major economies moving into the new year and we expect that to boost the dollar against other major currencies.

Federal Funds Target Rate (Percent)



As of December 31, 2024
Source: AB

US CPI YoY (Percent)



As of December 31, 2024
Source: AB

China

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F
China	4.6	4.5	0.8	1.0	1.50	1.50	1.68	2.35	7.30	7.75

Outlook

- After several quarters of weakness, the policy easing of the past few quarters appears to be having an impact and growth seems to be stabilizing. Stability is not the same thing as acceleration, of course, and growth is likely to remain lukewarm in the coming months. The likelihood of US tariffs clouds the picture still further.
- Inflation remains negative, and weak domestic demand gives little reason to expect it to increase dramatically. While that provides ample room for both fiscal and monetary stimulus, it also poses risks to the consumption outlook.
- Policy framework remains key. Authorities have pivoted to a more explicitly expansionary stance, indicating a willingness to support growth going forward, but the mechanics of that support remain uncertain.

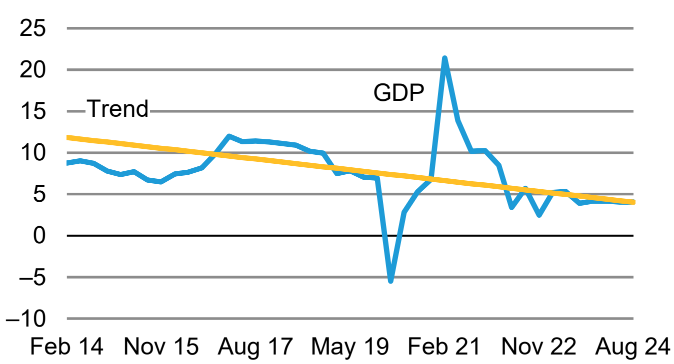
Risk Factors

- The obvious risk for China is that global trade tensions and the imposition of tariffs in the US could cause significant harm to growth. The economy is not well positioned to absorb additional shocks.
- While policymakers are clearly aware of the risks and appear willing to take steps to address them, the elasticity of the Chinese economy to stimulus appears to have diminished: it takes more support to generate growth than it used to. The risk remains that policymakers will do too little too late.

Overview

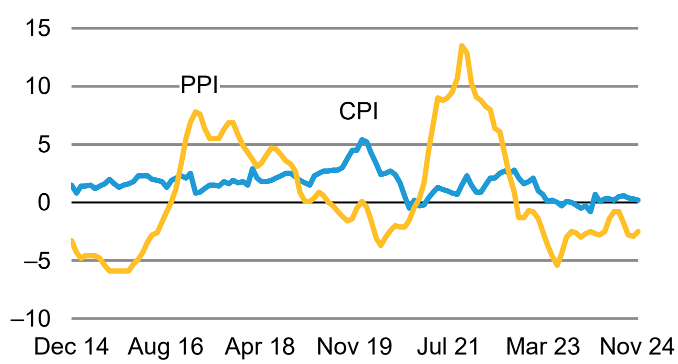
China's economy stabilized late in the year, with policy support doing enough to manage the downside. That's good news, but we expect more support will be needed. The US is likely to impose tariffs that hurt the Chinese economy, and it isn't clear what measures the Chinese government will take in response. One possible channel is through foreign exchange; during the trade turmoil in 2018, the yuan depreciated by more than 5%, offsetting some of the impact of the tariffs imposed at that time. Policy stimulus itself is not without risks. The most effective way to boost growth would likely be to boost the housing sector, but there is already significant overcapacity and overleverage there. Boosting a sector where there is already an imbalance increases risks in the future even if it might boost growth now. Still, while the exact mechanics of supporting growth remain to be determined, we believe the key variable is willingness. Chinese policymakers have a lot of levers they can pull and they may need to do a bit of trial and error to find the right combination. We are encouraged by the recent shift in the policy stance to a more explicitly pro-growth framework and view the continuation of that as key to the economic outlook.

China GDP and Long-Term Trend (Year-over-Year Percent)



As of August 15, 2024
Source: LSEG Datastream

China CPI and PPI (Year-over-Year Percent)



As of November 15, 2024
Source: LSEG Datastream

Euro Area

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F
Euro Area	0.3	0.5	2.3	1.9	3.00	1.75	2.36	1.90	1.04	1.02

Outlook

- Growth should be marginally better next year, but the outlook remains weak with strong downside risks.
- In this environment, inflation should sustainably reach target by mid-2025, despite apparent short-term persistence in core components.
- We think the ECB will cut at every meeting until hitting 2%, before slowing easing in search of the neutral rate. Ultimately, a low-growth environment will push the ECB to deliver more cuts.

Risk Factors

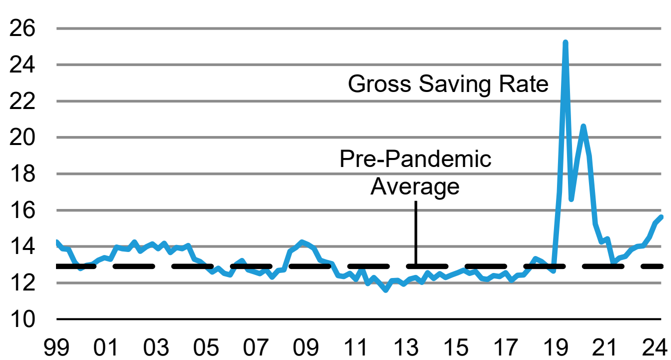
- Downside risks to growth remain the most salient for the eurozone. While domestic economic risks have been weighing for some time now, political and trade uncertainty are adding to the balance.
- Trade tariffs, if fully implemented, have recessionary risks mostly for Germany. While the rest of the region should continue to outperform, the regional drag could be powerful. Meanwhile, political instability in Germany and France could weigh on private demand.
- The war in Ukraine and its prospect is another unknown, but an end to it would generally be positive and could help lower energy prices for Europe.

Overview

The eurozone economy should pick up modestly in 2025, as inflation sustainably reaches target and monetary easing continues. This environment should favor household consumption as real incomes improve, while investment should also benefit from lower rates although less visibly and with a relative delay. That said, risks are clearly tilted to the downside. From a domestic point of view, private demand remains weak as cumulative inflation and tight monetary policy continue to weigh. Households remain precautious and prefer to save. Momentum into 2025 is therefore shaky and could delay the foreseen recovery. Additionally, structural challenges in the manufacturing sector and political uncertainty in Germany and France are also sources of weaknesses that could last longer. From that point of view, Germany's political outlook looks more optimistic than France's, as a new coalition could lead to much-needed fiscal support. The growth outlook is also threatened by heightened trade policy uncertainty and potential tariffs that would hit the region hard, especially through its impact on Germany. Universal tariffs could be recessionary for the latter and drag significantly on the rest of the region. I expect the EU to enter into some form of negotiations to limit this risk.

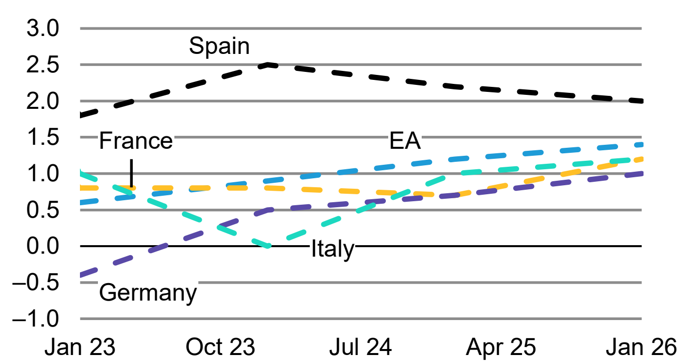
With inflation back to target in 2025, growth picking up but remaining fragile and both subjected to serious headwinds, we think the ECB is set to remove monetary policy restrictiveness and cut fast to neutral. On the latter, our view is that a pre-pandemic level still structurally holds, and we think the ECB will have to cut to below 2% by year-end 2025. How far they should go is still uncertain, but certainly far enough to avoid recessionary and undershooting risks. Meanwhile, quantitative tightening will continue to run in the background and will even accelerate as reinvestments under the Pandemic Emergency Purchase Programme will be discontinued at the end of 2024.

Europe Personal Savings



As of June 30, 2024
Source: AB

Europe Private Consumption Forecast (Year-over-Year Percent)



As of November 30, 2024
Source: AB

UK

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F
UK	0.5	1.0	2.5	2.3	4.75	3.75	4.56	3.80	1.25	1.24

Overview

In the UK, growth should pick up more strongly as the Autumn Budget is expected to have an expansionary impact. Private consumption should also be supportive as real incomes are markedly above pre-shocks levels. CPI inflation will probably be kept above target, as core disinflation will be slow and high employment costs would be an additional upward pressure. That said, uncertainty is high and risks around our baseline are so far balanced. We think the balance of risks in 2025 will be determined by the impact of the Budget and the outlook for the labor market, with risks that the latter is not just rebalancing but weakening. Labor market data remain unreliable, but job vacancies are back to pre-pandemic levels, which suggest it is broadly at equilibrium. Meanwhile, underlying price pressures should continue to ease, but at a slow pace as private sector wage growth remains high.

We continue to think quarterly cuts remain the most appropriate pace for the Bank of England (BoE), as well as the one that provides the most flexibility to respond to risks on either side of the baseline. The BoE's decision to remain on hold in December confirms our assessment and we expect the next cut in February 2025.

Japan

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F
Japan	0.3	1.3	2.4	1.8	0.25	0.50	1.10	1.25	157	150

Overview

The Japanese economy remains off-cycle with the rest of the developed world. Policymakers are still working to get inflation sustainably higher after decades of deflation. Progress on that front has been encouraging enough for the Bank of Japan (BOJ) to start raising interest rates, albeit only tentatively. We expect that to continue, but only to a limited extent: Japan's demographics and the low rate of potential growth make it very likely that the terminal policy rate in Japan will be well below the global average. That should keep markets more focused on the behavior of Japanese investors than on the performance of the Japanese economy. The yen's weakness, slower growth and lower yields provide ample incentive for Japanese investors to look overseas to generate returns. After a hiccup following the first BOJ hike, the tendency for Japanese money to be invested abroad appears to have resumed. We doubt that the BOJ will be able to raise interest rates enough to reverse this trend durably.

Emerging Markets

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F
EM ex China/Russia	3.5	3.7	15.1	7.5	13.13	10.09	8.39	7.96	—	—
Asia	4.7	4.5	3.5	3.2	4.84	4.54	4.87	4.85	—	—
LATAM	1.7	2.1	31.3	8.7	23.35	15.39	12.08	10.02	—	—
EEMEA	2.7	2.3	17.0	12.4	21.13	15.33	8.01	7.74	—	—

Overview

The EM growth outlook for 2025 remains firm. However, downside risks increased because of potential US policy shifts under a Trump presidency and pressure they could put on China and Europe specifically, and global trade more generally. With monetary policy support likely to dwindle in 2025, the burden to sustain growth momentum could increasingly shift to fiscal policy against an uncertain external backdrop.

Asian economies might, at face value, be at the epicenter of potential trade disruptions. The growth outlook for key growth engines like India and Indonesia has already deteriorated due to idiosyncratic headwinds and policy uncertainty. More forceful fiscal policy might have to be deployed to minimize global headwinds. The relatively strong external buffers of many Asian economies provide a bit more wiggle room and should dampen the financial market implications to some extent.

For economies in Latin America, we expect the focus to shift from monetary policy, inflation and a busy electoral calendar to fiscal policy and external trade as protectionism—resulting from potential US policies—takes center stage. In 2024, Mexico, Brazil and Panama saw increased spending drive up debt. Chile, Colombia and Peru cut spending, but revenue underperformance meant debt remained elevated. In Brazil, the confidence crisis that emerged at the end of 2024 because of government spending plans prompted aggressive monetary tightening and is likely to lead to tighter monetary conditions for the foreseeable future. A more forceful cut in nondiscretionary government spending would be required in Brazil to ease concerns about debt dynamics. Mexico is balancing promising near-shoring prospects with demands from the incoming US administration on trade and border security to avoid tariffs, possibly resulting in a mutually beneficial deal. However, the risk for Mexico's external sector is high due to its dependence on the US market as a destination of manufacturing exports and the main source of foreign direct investment.

Despite relatively solid domestic demand and easing inflation, the 2025 growth outlook for Czechia, Hungary, Poland and Romania—key economies within the Central and Eastern European (CEE) markets—is clouded by weak external demand and the need for fiscal consolidation. Czechia and Hungary face heightened vulnerability due to their high exposure to Germany's sluggish manufacturing sector, while Poland's more diversified export base provides a slight buffer. All four countries—with Hungary, Poland and Romania subject to the EU's excessive deficit procedure—must continue tightening their fiscal policies in 2025 to avoid potential credit-rating downgrades, though the extent of consolidation will differ. Poland and Romania are likely to delay significant adjustments until after key elections in the first quarter of 2025. Hungary consolidated its fiscal accounts in 2024, but with parliamentary elections scheduled for early 2026 and Prime Minister Orban potentially fighting for political survival, risks are skewed towards higher deficits again in 2025. Czechia, having already reduced expenses in 2024, is best positioned to achieve a sub-3% of GDP fiscal deficit in 2025. Given the challenging growth environment and a dovish ECB stance, monetary policy will likely remain a relatively important prop for CEE economies.

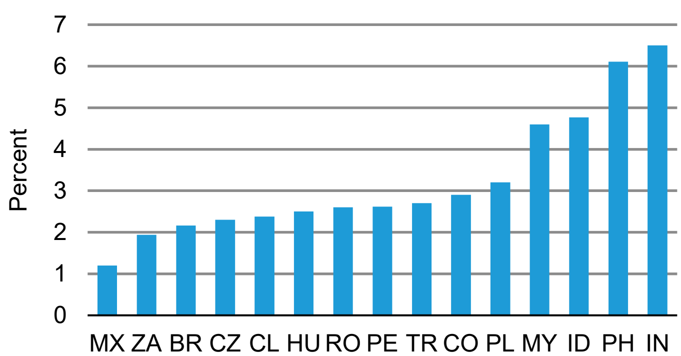
In Turkey, the economic teams at the Finance Ministry and the Central Bank (CBRT) seemingly enjoy ongoing support from President Erdogan. They'll likely continue their policy efforts to reduce inflation and the post-earthquake deficit going into 2025. For now, real currency appreciation is a key policy tool for achieving disinflation. That said, at some point in late 2025, the CBRT will likely face the difficult policy task of allowing greater FX weakness to prevent competitiveness losses without undermining inflation expectations.

The outlook for South Africa remains constructive with the Government of National Unity (GNU) providing a platform for fundamental and institutional progress. We expect growth acceleration and fiscal consolidation in 2025, given monetary easing through the second half of 2024 (and more expected in 2025), recovering business and consumer confidence and reprieve from load shedding. There are, however, several idiosyncratic risks that could derail the positive momentum, including tension in the GNU and potentially fractious geopolitical alliances (i.e., China, Russia).

There are several potential geopolitical shifts on the horizon. The Middle East faces a period of uncertainty driven by deepening geopolitical realignments and lingering conflict risks. The collapse of the Assad regime in Syria has reshaped regional power balances, with Iran and Russia emerging as key losers while Turkey and Islamist factions have ostensibly gained influence. Adding to the instability are Israel's continued airstrikes against Syrian targets, along with its potential willingness to strike Iran's nuclear sites. Arab states in the Persian Gulf, unsettled by the possibility of an Israeli-Iranian confrontation, seek to avoid war and favor engagement with Iran over regime change to prevent destabilization. Iran, even further weakened and wary of international retaliation following Assad's fall, may focus on regime survival rather than escalating its nuclear ambitions. Meanwhile, the prospect of US-brokered normalization between Saudi Arabia and Israel remains contingent on tangible gestures toward the future of the Palestinian people, as the Saudi government aims to secure robust US security guarantees and economic benefits. President-elect Trump's actual foreign policy stance on Iran and a potential return to the "maximum pressure campaign" seen during his previous presidency will be a key factor to watch in 2025.

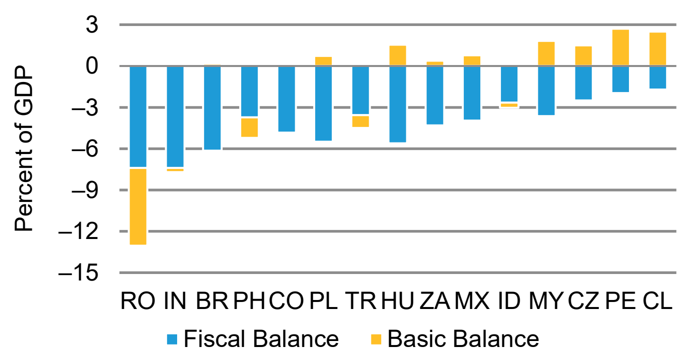
The Russia-Ukraine war could also enter a phase of cautious diplomacy and conditional pauses in fighting. Fierce combat and Russian advances through 2024 have pressured Ukraine. But the incoming US administration's willingness to use aid as leverage, Europe's more proactive planning for post-ceasefire stability and Ukraine's insistence on meaningful security guarantees collectively set the groundwork for negotiations and a possible fragile, temporary halt in hostilities. Though full peace remains distant, the outlook suggests that by mid-2025 a weak ceasefire could emerge under US mediation, European involvement and Ukrainian resilience—albeit on terms likely locking in Russian territorial gains. The risk is that this would be an unstable equilibrium, backed by international oversight preventing a total collapse or immediate renewal of large-scale offensives, but at the same time leaving fundamental disputes unresolved and the long-term durability of any settlement in doubt.

EM Real GDP Growth (2025F)



As of January 3, 2025
Source: AB

Fiscal and Basic Balances (2025F)



As of January 3, 2025
Source: AB

Forecast Table

	Real Growth (%)		Inflation (%)		Official Rates (%)		Long Rates (%)		FX Rates vs. USD	
	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F
Global	**2.6**	**2.4**	**3.2**	**3.3**	**5.32**	**4.06**	**3.98**	**3.71**	**—**	**—**
Global ex Russia	2.6	2.5	4.7	3.2	4.96	3.82	4.08	3.79	—	—
Industrial Countries	1.6	1.5	2.7	2.7	3.61	2.69	3.58	3.04	—	—
Emerging Countries	4.0	3.9	7.6	4.1	7.80	6.07	4.57	4.68	—	—
EM ex China	3.4	3.4	14.3	7.0	14.01	10.34	7.44	6.90	—	—
EM ex China/Russia	3.5	3.7	15.1	7.5	13.13	10.09	8.39	7.96	—	—
US	**2.4**	**1.6**	**3.1**	**3.3**	**4.38**	**3.625**	**4.57**	**3.75**	**—**	**—**
Percent of Year-over-Year Methodology	2.8	2.0								
Canada	**1.0**	**1.5**	**2.4**	**2.2**	**3.25**	**2.25**	**3.23**	**3.25**	**1.44**	**1.45**
Europe	**0.3**	**0.6**	**2.3**	**2.0**	**3.31**	**2.13**	**2.75**	**2.26**	**1.08**	**1.07**
Euro Area	0.3	0.5	2.3	1.9	3.00	1.75	2.36	1.90	1.04	1.02
UK	0.5	1.0	2.5	2.3	4.75	3.75	4.56	3.80	1.25	1.24
Japan	**0.3**	**1.3**	**2.4**	**1.8**	**0.25**	**0.50**	**1.10**	**1.25**	**157**	**150**
Australia	**1.5**	**2.3**	**3.2**	**2.8**	**4.35**	**3.35**	**4.36**	**4.00**	**0.62**	**0.61**
New Zealand	**0.8**	**2.0**	**3.0**	**2.2**	**4.25**	**3.25**	**4.41**	**4.50**	**0.56**	**0.53**
China	**4.6**	**4.5**	**0.8**	**1.0**	**1.50**	**1.50**	**1.68**	**2.35**	**7.30**	**7.75**
Asia ex Japan & China	**4.7**	**4.5**	**3.5**	**3.2**	**4.84**	**4.54**	**4.87**	**4.85**	**—**	**—**
Hong Kong	3.5	2.7	2.2	2.2	5.75	5.75	3.40	3.85	7.77	7.85
India	6.7	6.5	5.0	4.8	6.50	6.00	6.76	6.60	85.6	86.0
Indonesia	5.0	4.8	2.8	2.5	6.00	5.50	7.00	6.80	16,132	15,800
Korea	2.2	1.8	2.9	2.3	3.00	2.50	2.87	2.70	1,479	1,275
Thailand	2.7	3.0	0.8	0.9	2.25	2.00	2.25	2.67	34.4	34.3
Latin America	**1.7**	**2.1**	**31.3**	**8.7**	**23.35**	**15.39**	**12.08**	**10.02**	**—**	**—**
Argentina	–3.5	4.0	230.0	45.0	120.00	55.00	—	—	1,031	1,500
Brazil	3.0	2.1	4.4	4.8	12.25	14.75	15.16	11.00	6.17	5.75
Chile	2.5	2.4	3.9	4.2	5.00	4.75	5.72	5.50	997	950
Colombia	1.9	2.9	6.7	4.5	9.50	8.00	10.44	10.00	4,406	4,500
Mexico	1.5	1.2	4.6	4.1	10.00	8.00	10.44	10.00	20.8	21.0
EEMEA	**2.7**	**2.3**	**17.0**	**12.4**	**21.13**	**15.33**	**8.01**	**7.74**	**—**	**—**
Hungary	1.0	2.5	3.8	4.0	6.50	4.50	6.55	5.80	412	420
Poland	2.9	3.3	3.8	4.7	5.75	4.50	5.89	4.70	4.27	4.40
Russia	3.2	1.2	7.5	5.3	21.00	15.00	—	—	113.0	120.0
South Africa	1.3	1.9	4.5	4.0	7.75	7.25	10.33	9.75	18.8	17.8
Turkey	3.0	3.4	60.2	35.0	47.50	30.00	27.46	23.00	35.35	43.00

Growth and inflation forecasts are calendar-year averages except US GDP, which is forecast as 4Q/4Q. Interest-rate and FX rates are year-end forecasts.

Long rates are 10-year yields unless otherwise indicated.

The long rates aggregate excludes Argentina and Russia; Argentina is not forecast due to distortions in the local financial market; Russia is not forecast because the local market is inaccessible to foreign investors.

Real growth aggregates represent 29 country forecasts, not all of which are shown.

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