AllianceBernstein

Global Economic Research

Global Macro Outlook

Second Quarter 2025

The Macro Picture

Contents

Uncertainty remains the dominant theme in the global economy and across financial markets. The early months of the Trump administration have brought dramatic, rapid policy changes at unpredictable intervals both inside and outside the United States. The changes, though, are not necessarily those that financial markets appear to have expected. Rather than an initial focus on tax cuts and deregulation, as was the case in the first Trump administration, Trump 2.0 has instead prioritized cutting government spending and imposing more severe tariffs than was the case eight years ago.

With US policies thus far focused on measures that are likely to slow growth rather than boost it, US financial markets have largely reversed the initial post-election surge. In contrast, European financial markets have surged, buoyed by more growth-friendly fiscal policy. Meanwhile, Chinese markets have stayed steady as authorities discussed measures designed to offset US tariffs and reiterated a stable growth target for 2025. With the US combining tariffs with government cuts and Europe and China using domestic policies to support growth, the case for US exceptionalism is obviously weaker today than it seemed at the start of the year, and financial markets have responded accordingly.

In the US, the pace of policy changes has been fast, furious and unpredictable. That unpredictability itself is good reason to expect growth to slow. Economic actors crave certainty about the policy framework, and that certainty has been in short supply of late. In terms of specific policies, one can argue about the longer-term impact of reducing government employment and spending. But in the near and medium term, doing so is likely to slow growth. Real time data on the magnitude of government spending and employment cuts is in painfully short supply, but it's evident that there has been at least some disruption to government activity, which is likely to spill over into related industries. Reduced spending from those who have lost government or related jobs—or those who fear they will—will likely have some impact on growth as well.

As we have noted in previous quarters, trade restrictions are likely to slow growth everywhere, including the US. The frequent, if irregular, drumbeat of tariff announcements in the US has had a visible impact on consumer sentiment. While most survey respondents still assess the current situation reasonably favorably, future expectations have fallen sharply as households have become concerned that goods are poised to get more expensive. Consistent with that, survey measures of inflation expectations have surged, in some cases rising above the level of expectations that prevailed even during the worst of the inflation shock of the last few years. While we think those surveys exaggerate the magnitude of the coming rise in prices, the concern implicit in the data suggests that the growth outlook has deteriorated.

Still, it isn't all doom and gloom. Market-based measures of inflation expectations have been more stable than consumer surveys, which generally can be volatile. Plus, deteriorating consumer confidence does not always translate into weaker consumption. And the increasingly partisan political environment appears to have made consumer confidence surveys somewhat less reliable gauges to future activity than they used to be. The best predictor of consumption is still income, and the labor market remains robust, keeping incomes consistent with stable spending patterns over time. As a result, while we have long expected growth to slow, we expect that slowdown to be moderate rather than severe and still see a soft landing rather than a recession.

Slower growth and rising inflation expectations put the Federal Reserve in an uncomfortable position. Should the central bank respond to the risk of slower growth by easing monetary policy? Or address the risk of higher prices by tightening it? For the time being, we expect the Fed to do neither; instead, it's more likely to watch and wait to see the actual impact of real and proposed policy changes before moving one way or another. In our view, the rise in prices is likely to be relatively manageable, and we therefore still believe that the Fed will cut rates in 2025. And, because we believe the growth slowdown will be limited, we expect the pace of cuts to be gradual and their scope modest rather than the sort of aggressive easing that would be necessary to combat a more profound slowdown.

While the US has gotten most of the attention, policymakers around the world have not been idle in the face of a changing environment. Countries threatened with tariffs have imposed their own countermeasures, as would have been expected. But there have been unexpected policy innovations as well. In response to the US administration's lack of enthusiasm for continuing to support Ukraine, Germany announced more stimulative fiscal policy in the short term and a major increase in long-term investment in military and defense infrastructure. Both are likely to boost growth both now and in the future. Chinese policymakers remained committed to a relatively ambitious 5% growth target for 2025, one which implies more stimulative fiscal policy than previously thought.

And central banks around the world have continued to ease policy even as the Fed has been more patient. We have seen rate cuts in Canada, Europe, Scandinavia and both Australia and New Zealand. While none of the policy measures can completely protect an economy against the receding global tide, we expect that the measures that have been taken should help local economies muddle through the global trade conflict. As a result, we're not forecasting a recession in any major economy—developed or developing—in 2025.

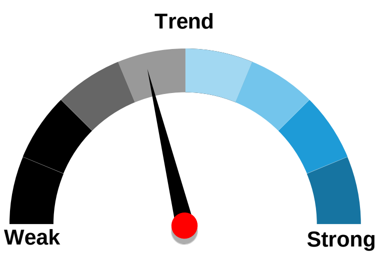
More growth-positive policies occurring outside the US than in it has been the primary driver of financial markets thus far in 2025, with many global assets meaningfully outperforming US counterparts. We don't expect that trend to continue in the long term, however. It appears to us that US financial markets are now priced for a more moderate growth outcome than was the case a few months ago. That means that the path forward will depend more on the data than on expectations around the policy framework. That will take months to materialize, of course, and we anticipate that financial markets will be choppy in the meantime.

All that said, the range of economic and market outcomes is uncomfortably wide, and the distribution of probabilities across the spectrum is unusually flat. It is simply a very uncertain environment, and it will remain so until the policy framework becomes more stable and predictable. In the meantime, financial markets are likely to be volatile, as indeed they were in the first quarter. Volatility goes both directions of course, as the divergent performance of US and European assets in the first quarter demonstrated. It will be challenging for investors to know whether optimism or pessimism will prevail any given day or week. We think it's better to focus on the longer term and try to screen the signal from the noise.

To us, the signal is a global economy that is well positioned to absorb the shocks that the next few months will bring. Yes—the policy framework will be a challenge, but the economic starting point matters. We believe that the starting point this time is robust enough to limit the downside risks in all but the most severe scenarios. That doesn't mean there will be no consequences to the uncertainty, only that we don't expect them to be overly disruptive.

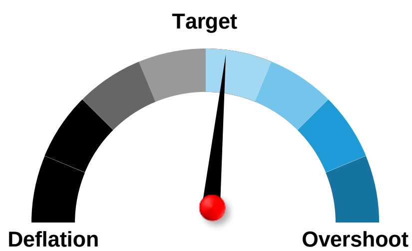
Global Macro Outlook: The Next Six Months

Economic Activity



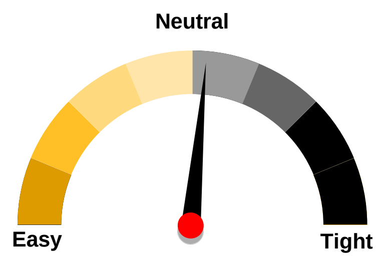
- Global growth will continue to slow in the face of trade restrictions and policy uncertainty.

Inflation



- Underlying inflation will continue to slide toward target, but tariffs may boost broader measures of prices.

Monetary Policy



- Most central banks will continue to cut rates toward, but not beyond, estimates of neutral in the coming months.

Global Forecast

Forecast Overview

Key Assumptions

- **Financial:** We don't anticipate that either financial sector or financial market turbulence will meaningfully impact global economic performance.
- **Geopolitical:** We expect geopolitical tension to persist but not be disruptive to the global economy or financial markets.
- **Monetary Policy:** We assume that most major central banks will continue to cut rates at a gradual pace; most seem likely to stop cutting upon reaching neutral rather than moving into outright stimulus.

Central Narrative

- **Global Growth:** Growth is slowing and will continue to do so as the policy environment remains uncertain.
- **Inflation:** Underlying inflationary pressure will continue to fade, but tariffs are likely to boost the price level in the near term.
- **Yields:** Yields remain caught between slow inflation progress and gradually slowing growth and are unlikely to move outside recent ranges as a result.
- **USD:** The dollar is likely to be rangebound until the data prove or disprove US exceptionalism.

Key Upside Risks

- If policy uncertainty fades, it would pave the way for renewed business investment.
- Global fiscal policy has turned more stimulative, especially in combination with easier monetary policy.

Key Downside Risks

- The trade war shows little sign of nearing an end.
- Inflation expectations, should they rise durably, could force central banks away from supporting growth.

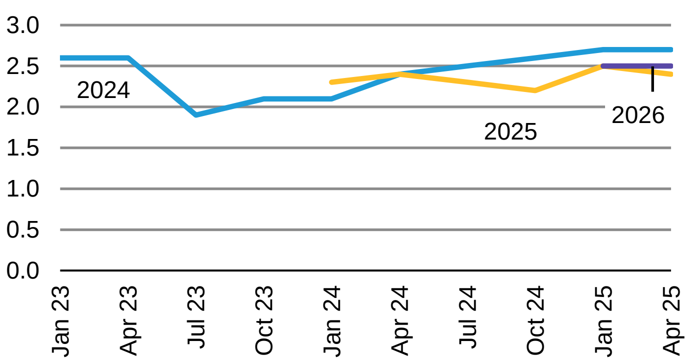
AB Growth and Inflation Forecasts (Percent)

	Real GDP Growth		CPI Inflation	
	2025	2026	2025	2026
US	1.4	1.7	3.3	2.5
Euro Area	0.5	1.0	2.0	2.0
Japan	1.3	1.3	2.6	2.0
China	4.8	4.5	0.5	1.0
Global	2.4	2.4	3.2	2.9
Industrial Countries	1.3	1.4	2.8	2.4
Emerging Countries	4.0	3.9	3.9	3.6
EM ex China/Russia	3.5	3.7	7.0	6.2

*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)

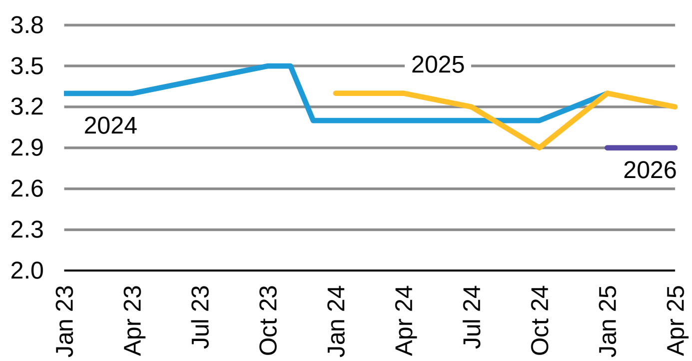
Forecasts Through Time

AB Global Growth Forecasts by Vintage



As of March 31, 2025
Source: AB

AB Global Inflation Forecasts by Vintage



As of March 31, 2025
Source: AB

US

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)	
	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F
US	1.4	1.7	3.3	2.5	3.63	3.38	4.00	3.75

- The US economy appears to be slowing. The possibility of large-scale government layoffs and fiscal restraint partially explains the slowdown; so too do trade and tariff policies. Consumer sentiment has fallen in response to policy changes; the extent to which the deterioration in sentiment will translate into reduced consumption remains in question.
- There's still some downward momentum in inflation, but tariffs are likely to push some prices higher in the coming months, obscuring the underlying trend. Monitoring inflation expectations will be key to assessing the longer-term impact of trade policy.
- Slower growth and higher prices comprise an uncomfortable mix for the Fed. The central bank is well positioned to wait for more information on how economic crosscurrents play out, though we expect rate cuts to resume later this year.

Risk Factors

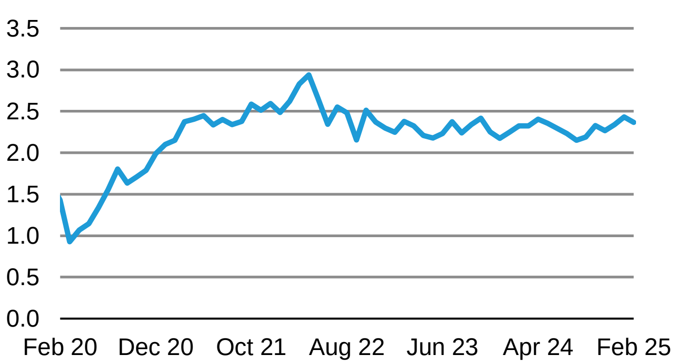
- Policy uncertainty is elevated and is likely to remain so. Uncertainty alone restrains activity, and policy changes in place so far offer additional restraint. If diminished confidence in the outlook translates into reduced consumption, the economy could struggle to maintain its footing.
- Tariffs are not strictly inflationary in that they boost the price level but don't impact the rate of change in prices after the one-off impact of their imposition. If, however, that change in the price level corrupts inflation expectations, the Fed will not be able to support growth and may find itself having to tighten policy to keep expectations in check.
- There are positive outcomes in play as well: it's possible that restrictive trade policies and/or profit-friendly regulatory and tax policies lead to accelerating business investment that would boost growth.

Overview

The first few months of the Trump administration have brought both expected volatility and surprises. Financial markets responded to the election by assuming that the incoming administration's priorities would be tax cuts and deregulation: profit- and market-friendly stances. Instead, the priority has been on fiscal cuts and tariffs, both of which point to slower growth. The result has been a poor quarter for equity markets in particular. While the direction of travel from the policy choices to date is clear—slower growth and higher prices—the magnitude is not. The economy started in a very strong position, and the labor market remains robust. That has kept household incomes steady and should allow consumers to manage through the turbulence. As a result, we don't expect a recession this year, but rather somewhat slower growth.

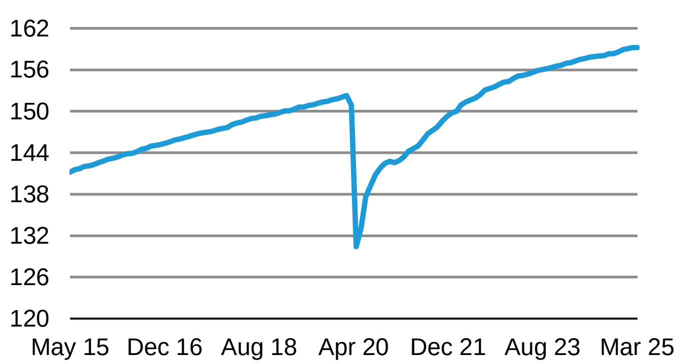
The inflation side of the story is complicated. Underlying prices pressures continue to ease, driven by diminishing shelter inflation. But tariffs will boost prices on imports and goods that compete with imports, and that will delay progress toward the Fed's inflation target. Will it also delay rate cuts? It depends much on inflation expectations. If expectations move meaningfully higher, the Fed will not be in a position to cut rates as we currently envision it will. The news on that front is mixed: some surveys of consumer inflation expectations have moved higher, but market-based measures generally have not. For now, we're content to forecast rate cuts resuming later this year. Content, but not comfortable. The outlook is murky enough in general that no forecasters can be truly comfortable with their ability to predict what comes next in this ever-changing environment.

Breakeven Inflation (Percent)



As of March 31, 2025
Source: AB

Employment (Millions)



As of March 31, 2025
Source: AB

China

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F
China	4.8	4.5	0.5	1.0	1.25	1.25	2.00	2.25	7.35	7.65

Outlook

- China's economy appears to have started the year on a relatively strong note, with domestic demand solid during the first few months of 2025, including the holiday season. Strength is relative, of course. This is not the Chinese economy of a decade ago, and growth is still on a gradually decelerating path that will likely continue for many years.
- Inflation remains a challenge in China—not because it's too high, but because it is too low. Nominal GDP (growth plus inflation) remains very low by historical standards and is probably a better reflection of the lack of underlying momentum than is the real GDP figure.

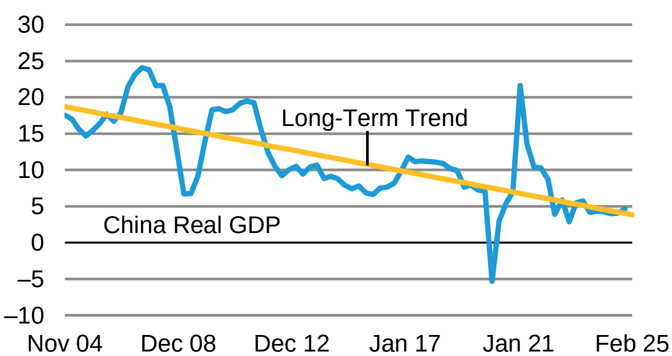
Risk Factors

- Trade tensions with the US come at a particularly inopportune moment. With growth momentum already sluggish, the loss of export revenue is not helpful to an already tepid domestic economy.
- Low inflation can easily slide into deflation; were that to be the case it would pose longer-term questions, given how difficult it is to end deflation once started.

Overview

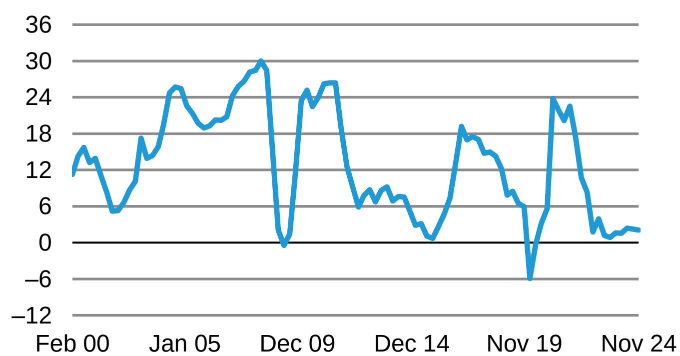
China's economic picture for 2025 may, in the end, not be very different than 2024. Top-line real GDP growth will likely be stable at around 5%, as per the official government target. But the underlying momentum is weaker than that, with domestic demand the biggest question. Early signs from this year are encouraging, but the scope for an acceleration in growth seems very limited to us. Low or even negative inflation is giving households incentive to save not spend, leaving the official sector to do most of the heavy lifting. We believe that the government will continue to spend, using fiscal policy to add some demand to the economy, and that is an important part of hitting the growth target. Trade tensions make the task even more challenging, however, given the important role that net exports played in last year's growth. While we cannot know with certainty the end game for tariffs, the path seems very clearly to head toward more restrictive trade. One of the key questions for China to answer this year is whether authorities will allow the exchange rate to weaken. Doing so would serve the dual purpose of pushing up domestic prices of imported goods and offsetting some of the impact of tariffs placed on Chinese goods.

China Economic Growth (Percent)



As of March 31, 2025
Source: LSEG Datastream

China Nominal Growth (Percent)



As of March 31, 2025
Source: LSEG Datastream

Euro Area

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F
Euro Area	0.5	1.0	2.0	2.0	2.00	2.00	2.75	2.80	1.05	1.07

Outlook

- Growth this year should be mild, but the medium-term outlook has considerably improved amid fiscal reforms in Germany.
- Inflation will sustainably reach target in 2025, as domestic price pressures are easing. Although uncertainty is high, increased fiscal spending could increase price pressures in the medium term.
- The European Central Bank (ECB) will continue to cut this year although the pace of cuts could be reduced as rates approach neutral level. Medium-term risks to inflation from fiscal policy weaken the case for rates below 2%.
- In the context of higher spending, European yields and particularly Bund yields have shifted higher and will remain closer to 3% in the medium term.

Risk Factors

- Downside risks to growth remain relevant in the near term. Trade policy uncertainty, tariffs and geopolitics are an immediate threat to growth.
- As inflation eases and growth remains modest, the ECB could be pushed to cut more aggressively, below 2%, in case an exogenous shock hits the economy.
- Higher spending at the European level, and more specifically in Germany, represents a clear upside risk to our medium-term outlook. However, the plan could disappoint if not implemented and allocated efficiently, in which case the boost to growth could be delayed.

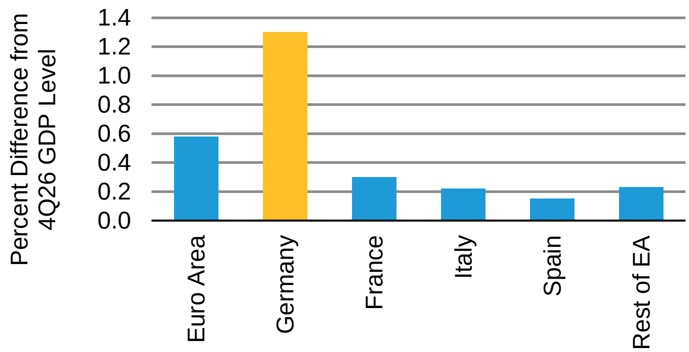
Overview

The situation at the European level is evolving rapidly and significantly. At the start of the year, we maintained a cautiously optimistic outlook for the eurozone economy, driven by inflation trending towards target and expectations of continued monetary easing. As real incomes improve, consumption has been poised to benefit. However, risks were clearly tilted to the downside, stemming from both domestic and international factors. These risks remain relevant in the near term: households are still prioritizing savings, trade policy uncertainty remains high, private demand continues to face constraints, and potential tariffs on European goods are still a looming threat. That said, fiscal reforms in Germany could provide much-needed support to the economy, both domestically and regionally. Specifically, the €500 billion infrastructure spending plan over 12 years is expected to boost Germany's medium-term growth prospects due to its large multiplier effects. While the positive impact on neighboring countries may be limited, overall regional growth should improve in the coming years. Additionally, European countries are likely to increase defense spending. The European Commission has announced the suspension of fiscal rules to facilitate this, potentially unlocking up to €600 billion in fiscal space. While the details remain unclear, defense spending generally yields lower productivity with relatively modest multipliers, and much of the military equipment is imported. Though Europe may seek to support its domestic industries, these changes will take time to implement.

In summary, the fiscal stimulus's impact on the eurozone is likely to be modest in 2025, although it could help mitigate immediate downside risks from negative geopolitical developments by improving sentiment. From 2026 onward, depending on the implementation of infrastructure and defense spending, the eurozone's growth prospects are expected to improve, primarily through the positive effects on Germany's economy. Expansionary fiscal policy will result in wider deficits and debt-to-GDP ratios. The deficit at the European level is expected to stay close to or above 3% of GDP. However, apart from defense spending, countries will likely continue efforts to consolidate, particularly those under excessive deficit procedures. The exception to this trend is Germany, whose spending plans extend beyond defense. As a result, the recent upward movement in European yields is likely to be permanent, with Bund yields expected to remain in a range between 2.75% and 3.1%.

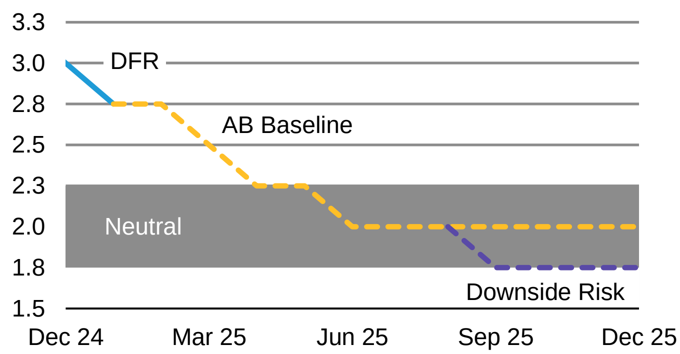
Given the limited immediate impact of fiscal policies, the ECB is likely to continue rate cuts. The case for a slower pace of cuts had already been developing as the ECB nears a neutral policy stance, with growing divergences in its level. Domestic inflation is expected to ease, necessitating further adjustments in monetary policy. However, the inflationary and expansionary effects of fiscal policy will likely be reflected in the ECB's forecasts, weakening the case for cuts below 2%.

Europe Growth
Germany's spending to spillover



As of March 31, 2025
Source: Bloomberg and AB

Europe Inflation
ECB rate outlook



As of March 31, 2025
Source: ECB and AB

UK

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F
UK	0.4	0.8	2.5	3.3	3.75	3.25	4.80	4.20	1.27	1.25

Overview

In the UK, the chancellor is expected to announce spending cuts relative to the autumn budget to restore fiscal headroom to its previous level. Lower growth, higher borrowing and net interest costs have probably played out in shrinking the headroom against the deficit rule. While fiscal policy should remain more expansionary than it has been under the Conservatives, the growth impulse we expected in autumn will likely be weaker. In addition, anecdotal evidence pointing to a negative impact from the budget on employment is building up. Firms might cut hiring plans as they are due to face higher labor costs as soon as the second quarter. The balance of risks for the growth outlook has tilted to the downside. The labor market seems to be in balance and moving sideways but could weaken and negatively affect consumption. Meanwhile, we expect temporary cost push factors and higher energy prices to keep CPI inflation above 3% in 2025 before resuming its downward trend. That said, the risks of second-round effects are limited, which should allow underlying price pressures to ease further. The Bank of England is set to cut gradually and carefully, in line with our baseline of quarterly cuts.

Japan

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F
Japan	1.3	1.3	2.6	2.0	1.00	1.25	1.75	2.00	142	135

Overview

The Bank of Japan raised its policy interest rate, sparking significant, if short-lived, market volatility. While the response to the first hike may have been unwelcome, we don't believe it will prevent additional tightening in the coming quarters. Will that be enough to impact the economy in a meaningful way? Probably not. More likely is that the coming leadership transition will be impactful, depending on whether the new prime minister chooses to chart a different economic course. In the meantime, it will be financial market behavior that is more likely to attract attention. Will higher rates in Japan spark a further unwind of the carry trade? Will Japanese investors repatriate overseas funds as domestic rates rise? We think there may be some change, but with Japanese rates likely to remain well below the global standard, we don't expect a sea change in investor behavior.

Emerging Markets

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F
EM ex China/Russia	3.5	3.7	7.0	6.2	12.04	8.99	8.59	8.16	—	—
Asia	4.5	4.6	2.9	3.1	4.14	4.15	4.90	4.92	—	—
LATAM	2.0	2.1	8.8	7.1	22.49	13.92	11.48	10.16	—	—
EEMEA	2.4	2.5	13.0	10.2	17.95	14.85	8.99	8.51	—	—

Outlook

- We think tariffs will have a stagflationary impulse, but the net effect will depend on the level and duration, and the extent to which targeted countries retaliate.
- EM currencies—as the first line of defense to tariffs—have been relatively resilient as the unwinding of US exceptionalism took the wind out of the US dollar's sails.

Risk Factors

- A few EM countries have been in the Trump administration's crosshairs. Mexico has unsurprisingly been in the center of the tariff debate, while US relations with Panama, South Africa and Ukraine have been challenging.
- Financial market risk premiums could remain elevated if tariff and geopolitical risks escalate.

While it was known that President Trump would use tariffs as a negotiating tool to bolster US competitiveness, the haphazard process to date has led to a surge in economic policy uncertainty. Emerging-market (EM) currencies—as the first line of defense—have been relatively resilient as the unwinding of US exceptionalism took the wind out of the US dollar's sails. Meanwhile, constructive policy signals out of Europe and China increased the prospect of a more balanced global growth mix. It still seems reasonable to expect tariffs to have a stagflationary impulse, but the net effect will depend on the level and duration of tariffs, and the extent to which targeted countries retaliate. A few EM countries have been in the Trump administration's crosshairs. Mexico has unsurprisingly been in the center of the tariff debate, while US relations with Panama, South Africa and Ukraine have, for example, been challenging.

As the primary source of US imports, Mexico has been at the forefront of tariff uncertainty. The US administration has twice postponed the implementation of tariffs on Mexican goods and has praised Mexican officials, including President Sheinbaum, for their handling of negotiations. Additionally, by putting on hold tariffs on goods covered under the USMCA treaty until further review, the US administration is demonstrating restraint and acknowledging the need to minimize disruption in key sectors such as the automotive and chemical industries. If reciprocal tariffs are enacted on April 2 without exemptions for Mexican goods under USMCA, we anticipate a limited response from the Mexican government in terms of retaliatory tariffs, likely targeting specific industries rather than implementing a comprehensive retaliatory strategy. However, the ongoing uncertainty surrounding tariffs is negatively impacting business sentiment in Mexico, which is already facing economic challenges due to fiscal restraint. Real GDP growth is expected to remain under pressure in 2025. In response to economic weakness, Banxico has already cut rates by 200 basis points (bps) and we expect at least 100 bps in further easing during 2025.

Panama has become an unexpected focus for the US administration, as President Trump has repeatedly emphasized the need to regain territorial control over the Panama Canal. The primary concern for the US administration is the ownership of two ports serving vessels that transit the canal, which are owned by a company based in Hong Kong. This raises concerns about potential influence from the Chinese government over the canal's operations, which are crucial for US national security. Although recent news reports suggest that ownership might shift to a consortium of US-led companies, pressure regarding the canal's ownership could persist, potentially having serious implications for Panama's political, financial and economic stability.

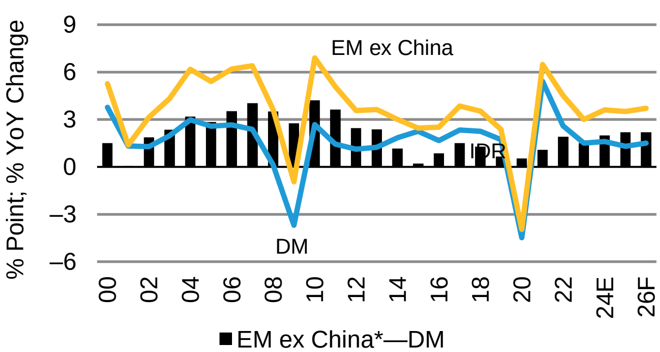
South Africa has been on the Trump administration's radar owing to a variety of long-standing contentious issues. Tension between the two countries has not been triggered by tariff threats. Rather, it stems from geopolitical fractures that seemingly trace back to disagreements related to the war in Gaza (South Africa instigated a genocide case against Israel at the International Court of Justice), South Africa's relatively strong relationship with China and rumors that it is aiding Iran's nuclear program. President Trump's criticism of South African domestic policies and the decision not to send high-level US political representation to the G20 meetings held in South Africa in February added to the acrimony. That was followed by the expulsion of the South African ambassador to the United States (because of his criticism of President Trump's foreign policy) in March. The souring relations were accompanied by the cancellation of virtually all USAID, which impacts South Africa's HIV/AIDS programs, the US's withdrawal from the Just Energy Transition Plan (cutting funding for SA) and the likely loss of preferential trade with the US under the African Growth and Opportunity Act (AGOA). The net effect of the geopolitical and economic headwinds that have been triggered by the new US administration will take time to trickle through the South African economy. Sturdy relations with key trading partners like Europe and China provide a counterbalance on the growth front, but financial market risk premiums could remain elevated if the tension with the US persists.

The Central and Eastern Europe (CEE) growth outlook for the remainder of 2025 and into 2026 is, on balance, positive. External developments—such as Germany's latest fiscal stimulus and prospects for a ceasefire in Ukraine—are likely to be growth supportive in 2025, while tariffs will continue to pose risks. In early March, the German government approved historic fiscal stimulus—including a €500 billion infrastructure and climate fund—signaling an end to decades of austerity. Germany's ZEW key economic sentiment hit a two-year high in March 2025 on these positive signals of future spending. This will matter for CEE: Germany is the largest export market for Poland, Czechia and Hungary, with CEE industries deeply embedded in German supply chains. Sectors like steel, machinery, and automotive parts are likely to see rising orders as German investment projects ramp up. Among CEE countries, the Czech economy is especially leveraged to Germany's cycle, with roughly one-third of Czech exports going to Germany. Thus, while the German economy is still sluggish, the planned fiscal boost improves the external demand outlook for late 2025 and beyond.

The possibility of a Ukraine ceasefire also emerged as a potential positive catalyst later in the year. In mid-February, ceasefire negotiations gained momentum, boosting regional market confidence. An end to the war would bolster CEE economies via multiple channels: improved investor confidence, resumption of normal trade routes and lower energy prices. For the CEE region—highly exposed to energy price swings and bordering the conflict—an end to hostilities could thus lift industrial output and cross-border investment. For instance, Ukraine's reconstruction (we project +5% GDP for Ukraine in 2026 if fighting ends) could open opportunities for Polish and Czech construction and manufacturing firms. Yet, prospects for an actual ceasefire remain uncertain and may only materialize later in 2025, given the likely necessity for lengthy negotiations as the gap between Ukrainian and Russian conditions for a ceasefire remains very large.

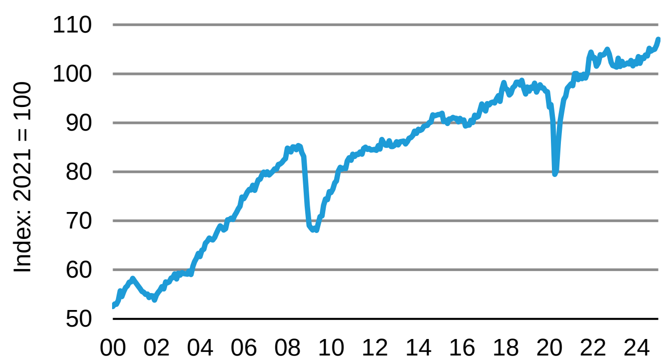
Not all is rosy across CEE as global trade tensions pose a risk to the region's growth outlook. In the first quarter of 2025, the new US administration signaled a hard line on trade: President Trump's team announced reciprocal tariffs on major trading partners effective April 2025. CEE policymakers are wary as a US–EU tariff war could hit CEE economies disproportionately. These countries are highly open and manufacture many trade-sensitive goods (autos, machinery, electronics) often shipped indirectly to the US via Western Europe. Should broad US tariffs materialize (the Trump administration even floated a 200% duty on European alcohol unless a dispute is resolved), CEE's export growth could be dented in sectors from automotive (a pillar for Czech and Polish industry) to metallurgy (Hungary and Poland). This tariff risk factor is tempering what is otherwise an improving growth trajectory for the region in 2025.

Real GDP Growth



*Also excludes Russia from 2022
As of March 31, 2025
Source: Haver Analytics and AB

World Trade Volumes Increased Ahead of Potential Tariffs



As of March 31, 2025
Source: Haver Analytics and AB

Forecast Table

	Real Growth (%)		Inflation (%)		Official Rates (%)		Long Rates (%)		FX Rates vs. USD	
	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F
Global	2.4	2.4	3.2	2.9	4.67	3.93	4.07	3.95	—	—
Global ex Russia	2.4	2.5	3.1	2.8	4.37	3.69	4.10	4.05	—	—
Industrial Countries	1.3	1.4	2.8	2.4	2.92	2.76	3.50	3.35	—	—
Emerging Countries	4.0	3.9	3.9	3.6	7.17	5.61	4.89	4.83	—	—
EM ex China	3.3	3.4	7.1	6.0	12.58	9.47	7.63	7.19	—	—
EM ex China/Russia	3.5	3.7	7.0	6.2	12.04	8.99	8.59	8.16	—	—
US	1.4	1.7	3.3	2.5	3.63	3.38	4.00	3.75	—	—
Percent of Year-over-Year Methodology	1.8	1.6								
Canada	1.4	1.6	2.2	2.2	2.25	2.25	3.00	3.00	1.48	1.35
Europe	0.6	1.0	2.1	2.2	2.34	2.21	3.15	3.04	1.10	1.10
Euro Area	0.5	1.0	2.0	2.0	2.00	2.00	2.75	2.80	1.05	1.07
UK	0.4	0.8	2.5	3.3	3.75	3.25	4.80	4.20	1.27	1.25
Japan	1.3	1.3	2.6	2.0	1.00	1.25	1.75	2.00	142	135
Australia	2.0	2.4	2.8	2.7	3.35	3.35	4.10	4.10	0.60	0.65
New Zealand	1.4	2.5	2.2	2.2	3.00	3.00	4.25	4.25	0.55	0.55
China	4.8	4.5	0.5	1.0	1.25	1.25	2.00	2.25	7.35	7.65
Asia ex Japan & China	4.5	4.6	2.9	3.1	4.14	4.15	4.90	4.92	—	—
Hong Kong	3.5	2.7	2.2	2.2	5.75	5.75	3.80	3.85	7.85	7.85
India	6.2	6.4	4.2	4.5	5.75	5.50	6.70	6.60	87.0	89.0
Indonesia	5.0	5.2	2.5	2.7	5.25	5.25	7.00	7.00	16,500	16,700
Korea	1.6	1.9	2.0	1.9	2.25	2.50	2.50	2.50	1,440	1,420
Thailand	2.8	2.7	1.1	1.2	1.90	1.75	2.30	2.35	34.6	33.8
Latin America	2.0	2.1	8.8	7.1	22.49	13.92	11.48	10.16	—	—
Argentina	4.3	4.0	45.0	35.0	120.00	55.00	—	—	1,400.00	1,750.00
Brazil	2.2	1.7	4.6	4.5	15.00	12.75	14.35	12.50	5.50	5.50
Chile	2.4	2.5	4.1	3.8	5.00	5.50	5.50	5.50	870	850
Colombia	2.6	2.8	4.5	3.8	8.00	7.50	10.50	9.50	4,100	4,000
Mexico	0.6	1.8	4.4	4.1	8.00	7.50	10.00	9.50	20.6	21.9
EEMEA	2.4	2.5	13.0	10.2	17.95	14.85	8.99	8.51	—	—
Hungary	2.3	3.1	5.4	4.2	6.00	4.50	6.90	6.00	410	410
Poland	3.5	3.4	4.6	3.7	5.00	4.00	5.30	4.80	4.20	4.10
Russia	1.6	1.4	8.2	5.5	18.00	15.00	—	—	90.0	90.0
South Africa	1.5	1.7	3.5	4.6	7.50	7.50	10.45	10.20	18.8	19.0
Turkey	3.2	3.5	33.0	26.0	35.00	28.00	27.00	25.00	43.00	50.00

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.

Contributors

Eric Winograd eric.winograd@alliancebernstein.com	Adriaan du Toit adriaan.dutoit@alliancebernstein.com	Sandra Rhouma sandra.rhouma@alliancebernstein.com
Armando Armenta armando.armenta@alliancebernstein.com	Markus Schneider markus.schneider@alliancebernstein.com	Katrina Butt katrina.butt@alliancebernstein.com

Investment Risks to Consider

The value of an investment can go down as well as up and investors may not get back the full amount they invested. Past performance does not guarantee future results.

Important Information

Note to All Readers: The information contained here reflects the views of AllianceBernstein L.P. or its affiliates and sources it believes are reliable as of the date of this publication. AllianceBernstein L.P. makes no representations or warranties concerning the accuracy of any data. There is no guarantee that any projection, forecast or opinion in this material will be realized. Past performance does not guarantee future results. The views expressed here may change at any time after the date of this publication. This document is for informational purposes only and does not constitute investment advice. AllianceBernstein L.P. does not provide tax, legal or accounting advice. It does not take an investor's personal investment objectives or financial situation into account; investors should discuss their individual circumstances with appropriate professionals before making any decisions. This information should not be construed as sales or marketing material or an offer or solicitation for the purchase or sale of any financial instrument, product or service sponsored by AB or its affiliates. **Note to Canadian Readers:** This publication has been provided by AB Canada, Inc. or Sanford C. Bernstein & Co., LLC and is for general information purposes only. It should not be construed as advice as to the investing in or the buying or selling of securities, or as an activity in furtherance of a trade in securities. Neither AB Institutional Investments nor AB L.P. provides investment advice or deals in securities in Canada. **Note to Readers in Europe**: Issued by AllianceBernstein (Luxembourg) S.à r.l. Société à responsabilité limitée, R.C.S. Luxembourg B 34 305, 2-4, rue Eugène Ruppert, L-2453 Luxembourg. Authorised in Luxembourg and regulated by the Commission de Surveillance du Secteur Financier (CSSF). **Note to Readers in Japan:** This document has been provided by AllianceBernstein Japan Ltd. AllianceBernstein Japan Ltd. is a registered investment-management company (registration number: Kanto Local Financial Bureau no. 303). It is also a member of the Japan Investment Advisers Association; the Investment Trusts Association, Japan; the Japan Securities Dealers Association; and the Type II Financial Instruments Firms Association. The product/service may not be offered or sold in Japan; this document is not made to solicit investment. **Note to Australian Readers:** This document has been issued by AllianceBernstein Australia Limited (ABN 53 095 022 718 and AFSL 230698). Information in this document is intended only for persons who qualify as "wholesale clients," as defined in the Corporations Act 2001 (Cth of Australia) and should not be construed as advice. **Note to Singapore Readers:** This document has been issued by AllianceBernstein (Singapore) Ltd. ("ABSL", Company Registration No. 199703364C). AllianceBernstein (Luxembourg) S.à r.l. is the management company of the portfolio and has appointed ABSL as its agent for service of process and as its Singapore representative. AllianceBernstein (Singapore) Ltd. is regulated by the Monetary Authority of Singapore. This advertisement has not been reviewed by the Monetary Authority of Singapore. **Note to Hong Kong Readers:** This document is issued in Hong Kong by AllianceBernstein Hong Kong Limited (聯博香港有限公司), a licensed entity regulated by the Hong Kong Securities and Futures Commission. This document has not been reviewed by the Hong Kong Securities and Futures Commission. **Note to Readers in Vietnam, the Philippines, Brunei, Thailand, Indonesia, China, Taiwan and India:** This document is provided solely for the informational purposes of institutional investors and is not investment advice, nor is it intended to be an offer or solicitation, and does not pertain to the specific investment objectives, financial situation or particular needs of any person to whom it is sent. This document is not an advertisement and is not intended for public use or additional distribution. AB is not licensed to, and does not purport to, conduct any business or offer any services in any of the above countries. **Note to Readers in Malaysia:** Nothing in this document should be construed as an invitation or offer to subscribe to or purchase any securities, nor is it an offering of fund-management services, advice, analysis or a report concerning securities. AB is not licensed to, and does not purport to, conduct any business or offer any services in Malaysia. Without prejudice to the generality of the foregoing, AB does not hold a capital-markets services license under the Capital Markets & Services Act 2007 of Malaysia, and does not, nor does it purport to, deal in securities, trade in futures contracts, manage funds, offer corporate finance or investment advice, or provide financial-planning services in Malaysia. **Important Note for UK and EU Readers**: For Professional Client or Investment Professional use only. Not for inspection by distribution or quotation to, the general public. **Note to Readers in the United Kingdom:** Issued by AllianceBernstein Limited, 60 London Wall, London, EC2M 5SJ. Registered in England, No. 2551144. AllianceBernstein Limited is authorised and regulated in the UK by the Financial Conduct Authority (FCA). **Note to Readers in the United Arab Emirates, Kuwait, Kingdom of Saudi Arabia, Kingdom of Bahrain, Qatar and Oman:** AllianceBernstein Limited has established a subsidiary in the Dubai International Financial Centre (DIFC) with number 6639, which is regulated by the Dubai Financial Services Authority (DFSA). The registered office is Unit GD-GB-00-15-BC-29-0, Level 15, Gate District Gate Building, Dubai International Financial Centre, Dubai, United Arab Emirates. Promotions of financial information made by AllianceBernstein (DIFC) Limited are carried out on behalf of its group entities. This document is intended for Professional Clients or Market Counterparties only as defined by the DFSA and no other person should act upon it. The information contained herein does not constitute, and is not intended to constitute, a public offer of securities in the United Arab Emirates, Kuwait, the Kingdom of Saudi Arabia, the Kingdom of Bahrain, the State of Qatar, or Oman, and accordingly should not be construed as such. The strategies have not been approved by or licensed or registered with the Dubai Financial Services Authority, the Financial Services Regulatory Authority, the Kuwait Capital Markets Authority, the Saudi Arabian Capital Market Authority, the Central Bank of Bahrain, the Qatar Financial Markets Authority, the Oman Regulatory Authority, or any other relevant licensing authorities or governmental agencies in these jurisdictions (the "Authorities"). The Authorities assume no responsibility for the contents of this document. No offer will be made in the following jurisdictions: Kuwait, Kingdom of Saudi Arabia, Kingdom of Bahrain or Qatar. This document is intended to be read by