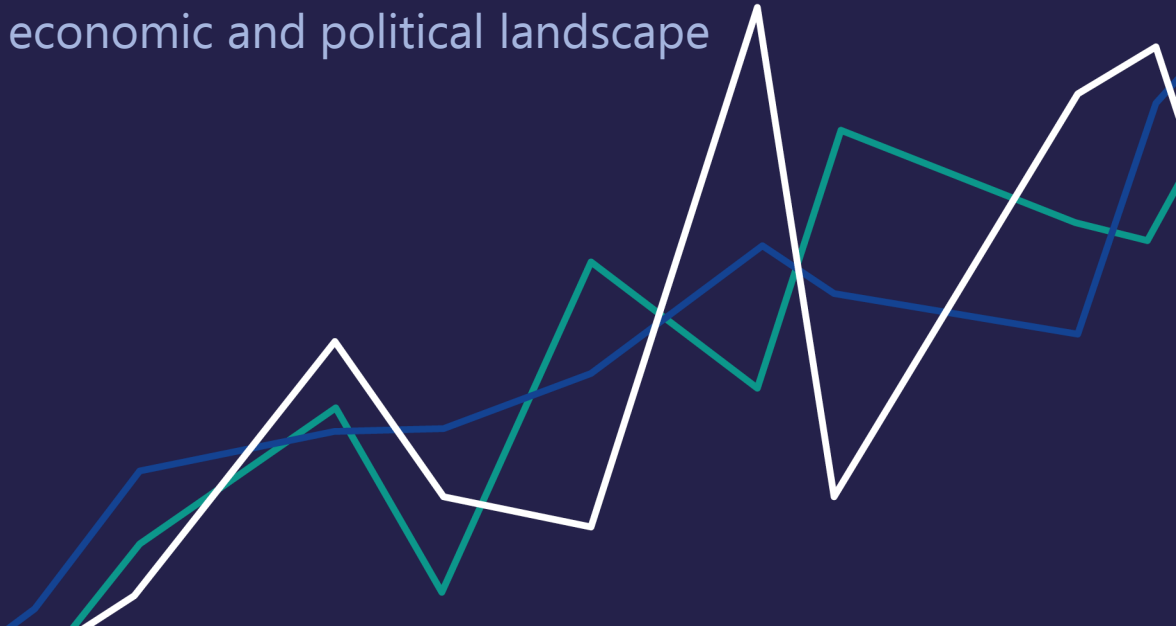


The World in 2025

Risk and opportunity in a new economic and political landscape



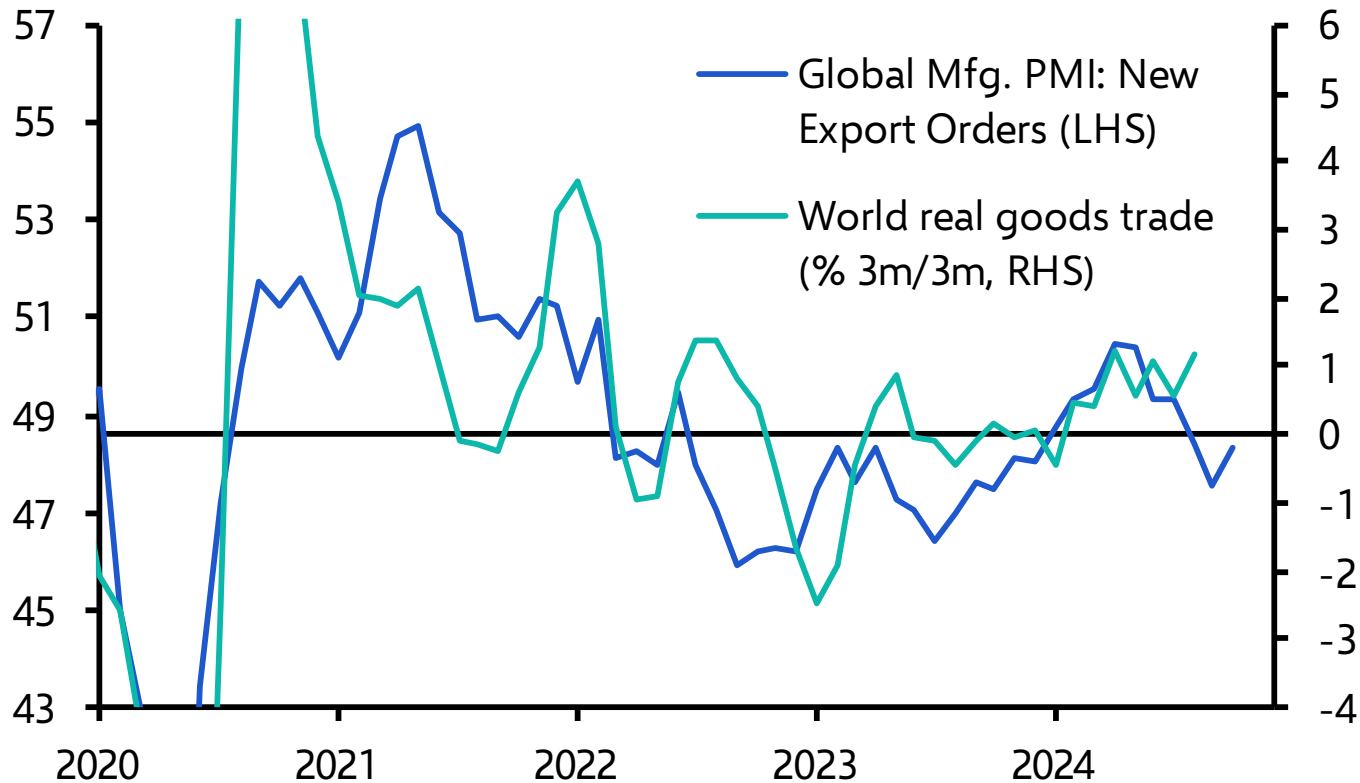
Five Macro Themes for 2025

- Tariffs won't cause a slump in global trade.
- Soft landing in sight as growth holds up and inflation stays contained.
- Most central banks will continue to cut gradually, but ECB and BoC to go the extra mile.
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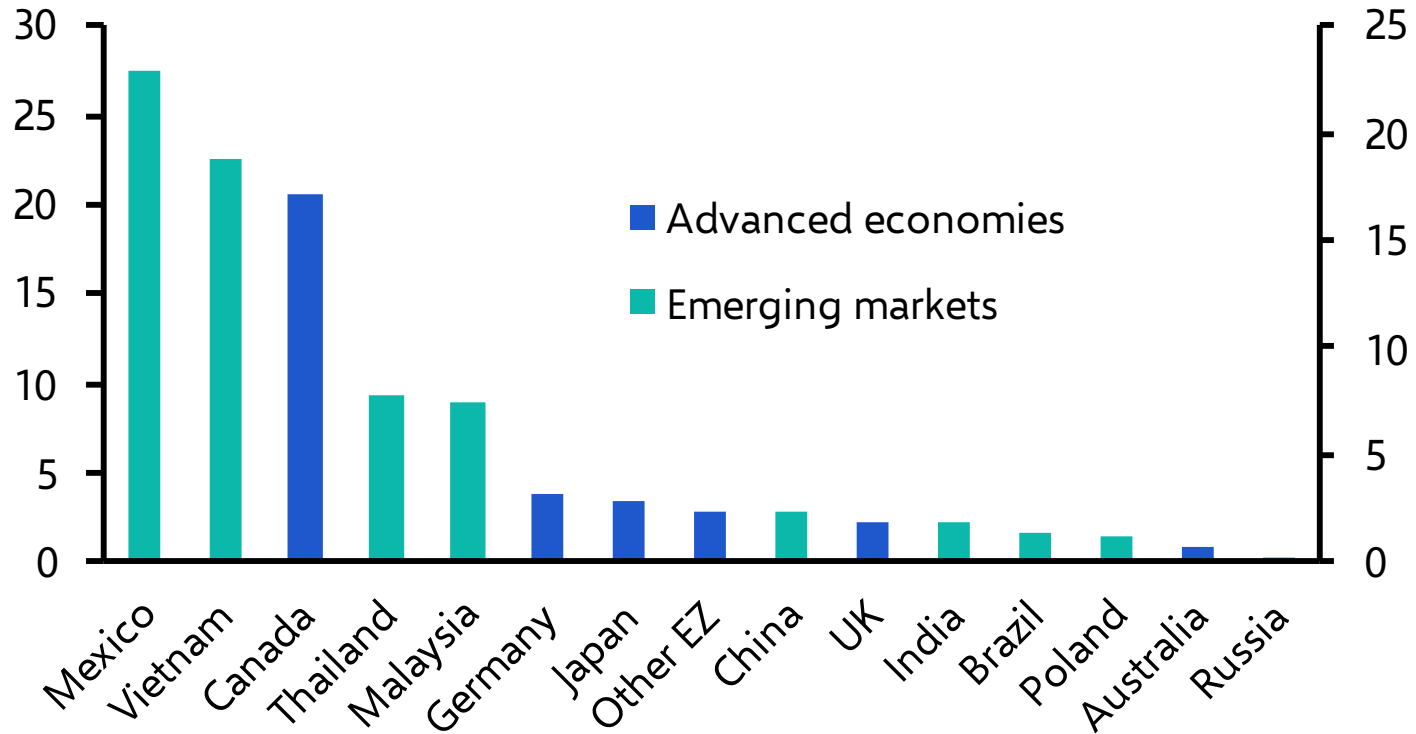
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Global Manufacturing PMI New Export Orders & World Trade



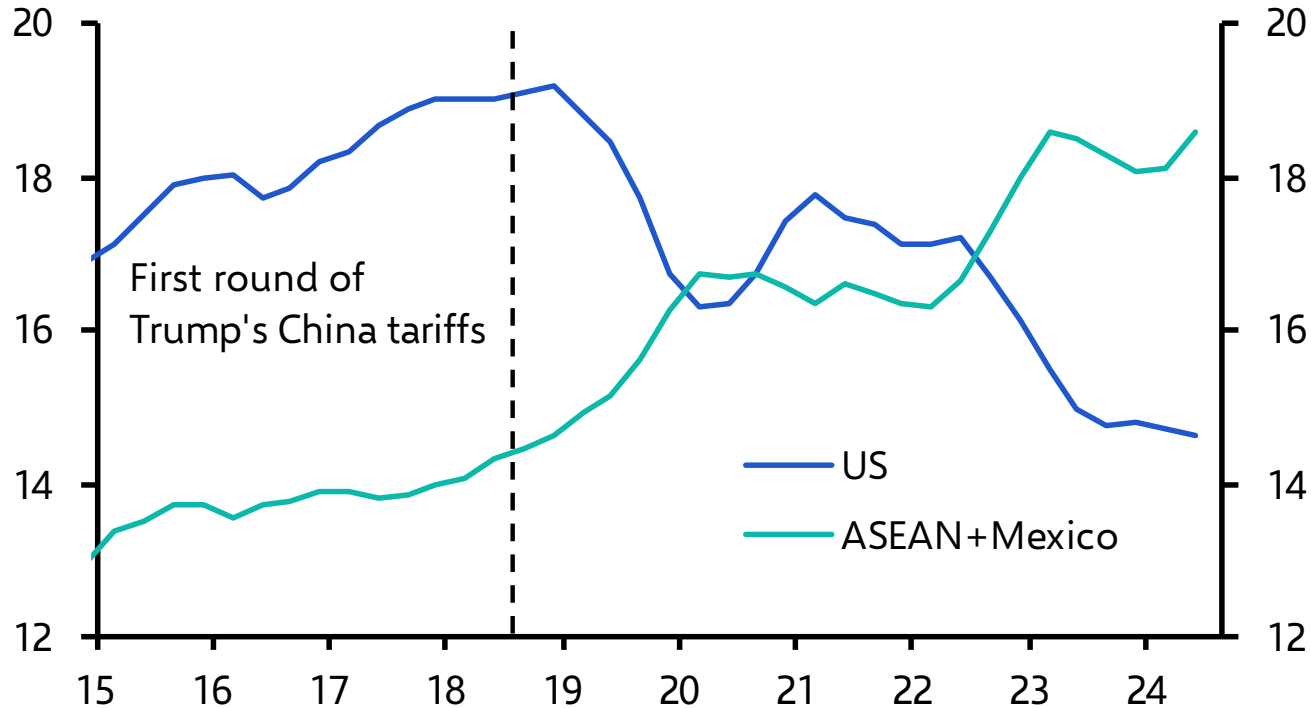
Sources: LSEG, Capital Economics

Goods Exports to the US (% of home GDP, 2023)



Sources: LSEG, Capital Economics

China Exports by Destination (% of total, rolling 12m)

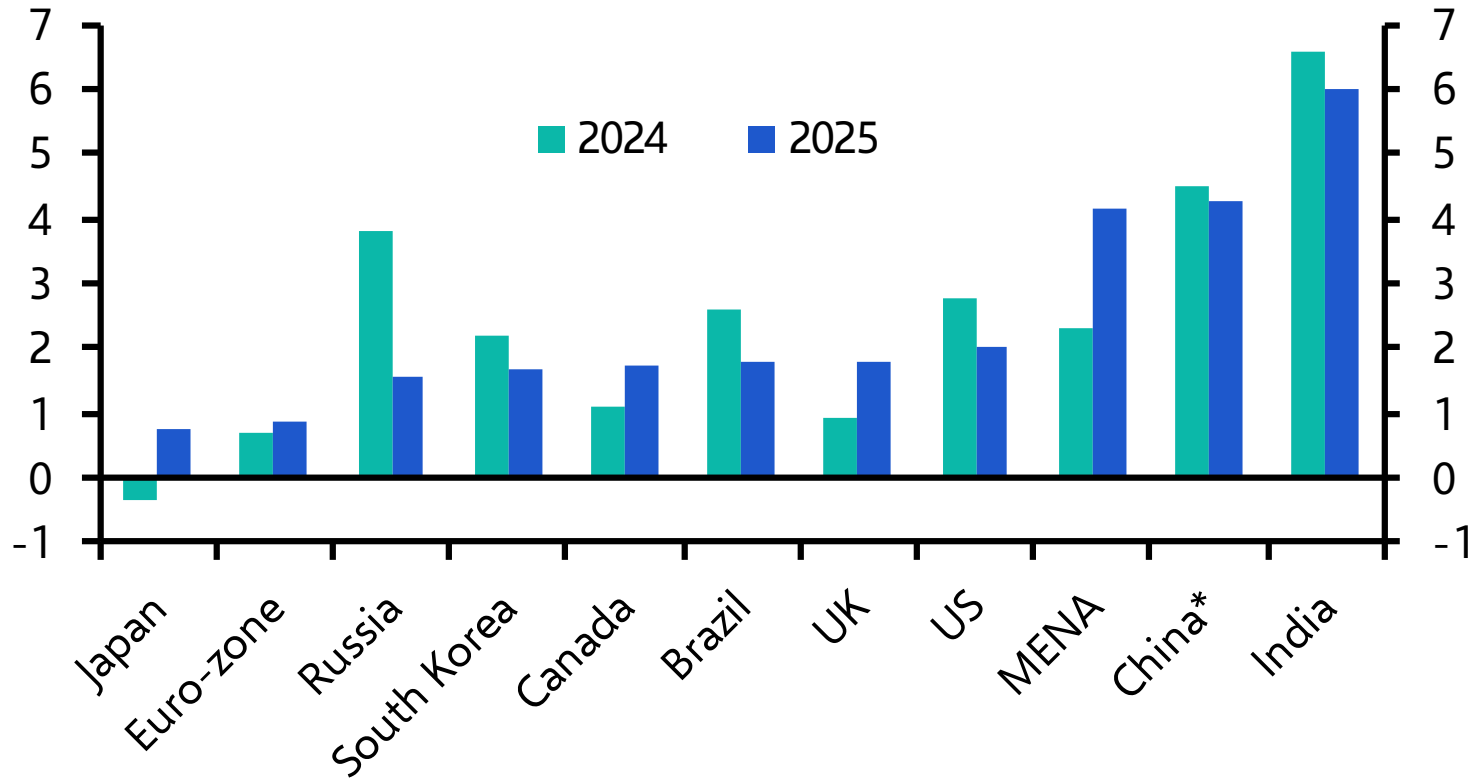


Sources: LSEG, Capital Economics

Five Macro Themes for 2025

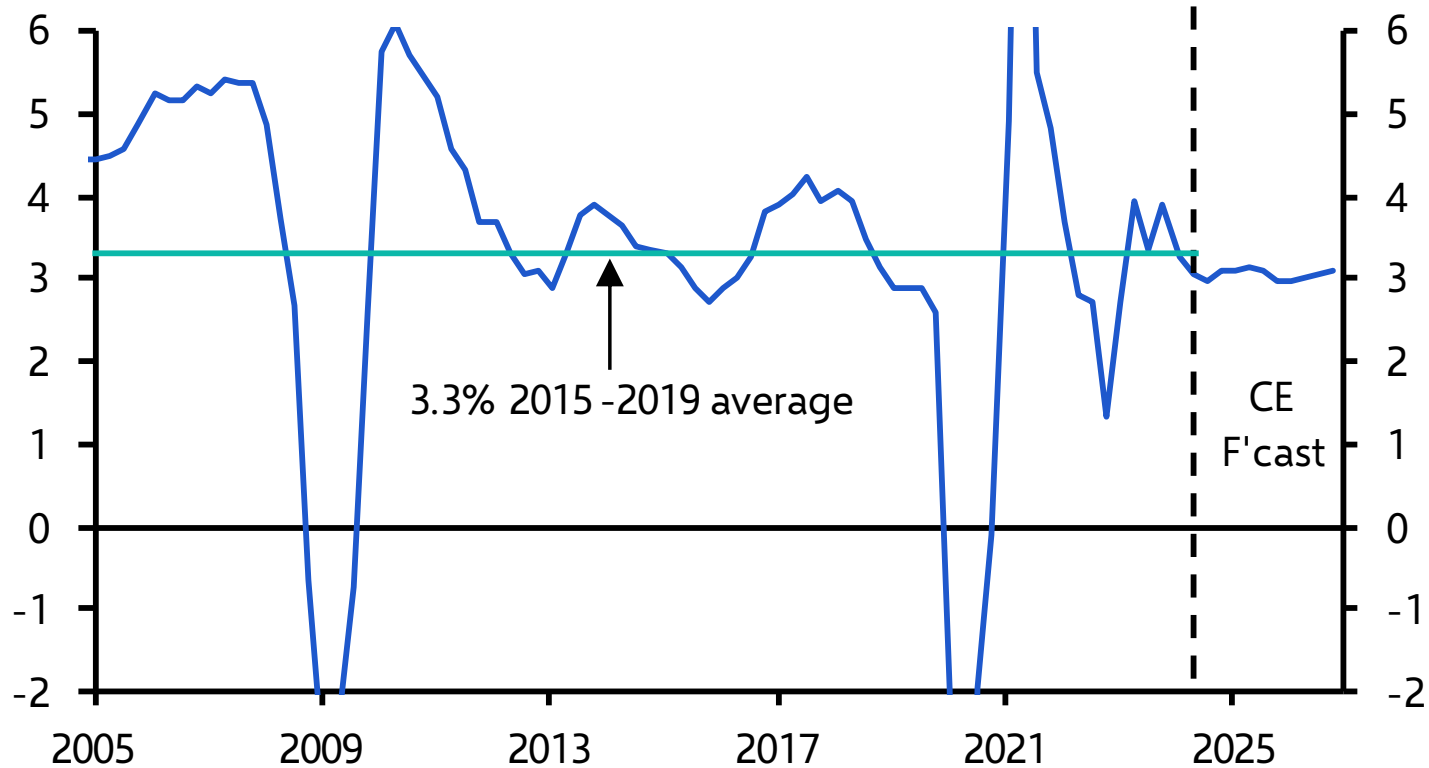
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GDP by Major Economy (% y/y)



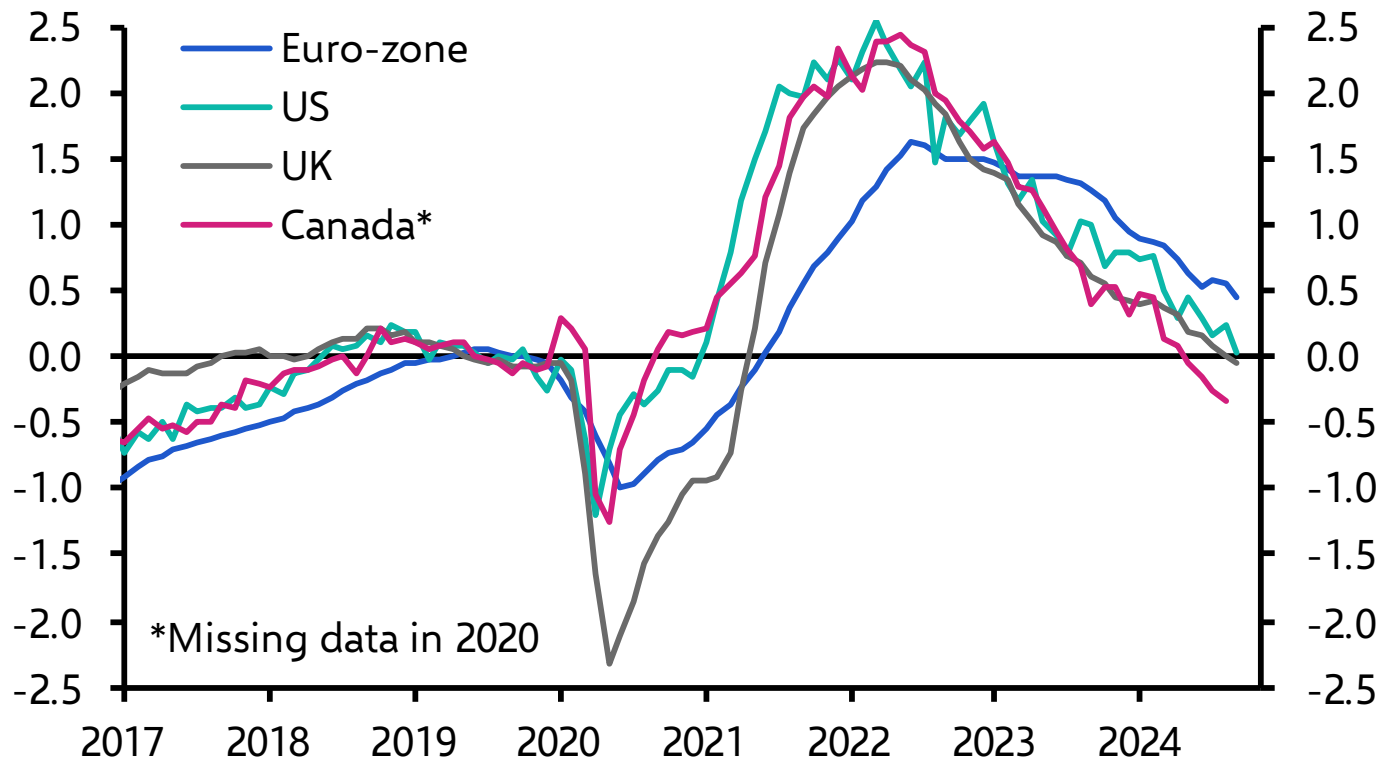
Sources: LSEG, Capital Economics, *CE Activity Proxy measure

World GDP (% y/y)



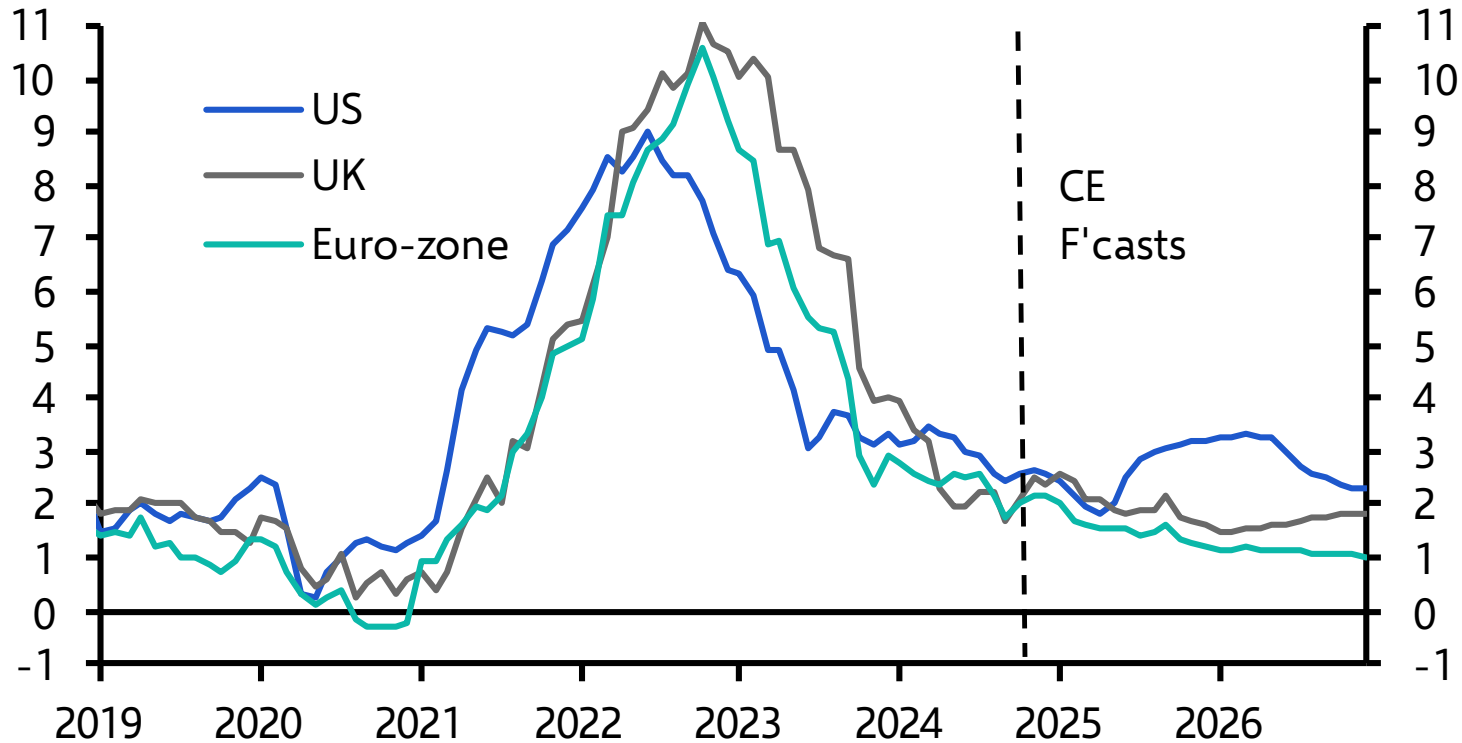
Sources: LSEG, Capital Economics

Vacancy Rates (Standard deviations from 2019 level)



Sources: LSEG, Capital Economics

Headline Consumer Price Inflation

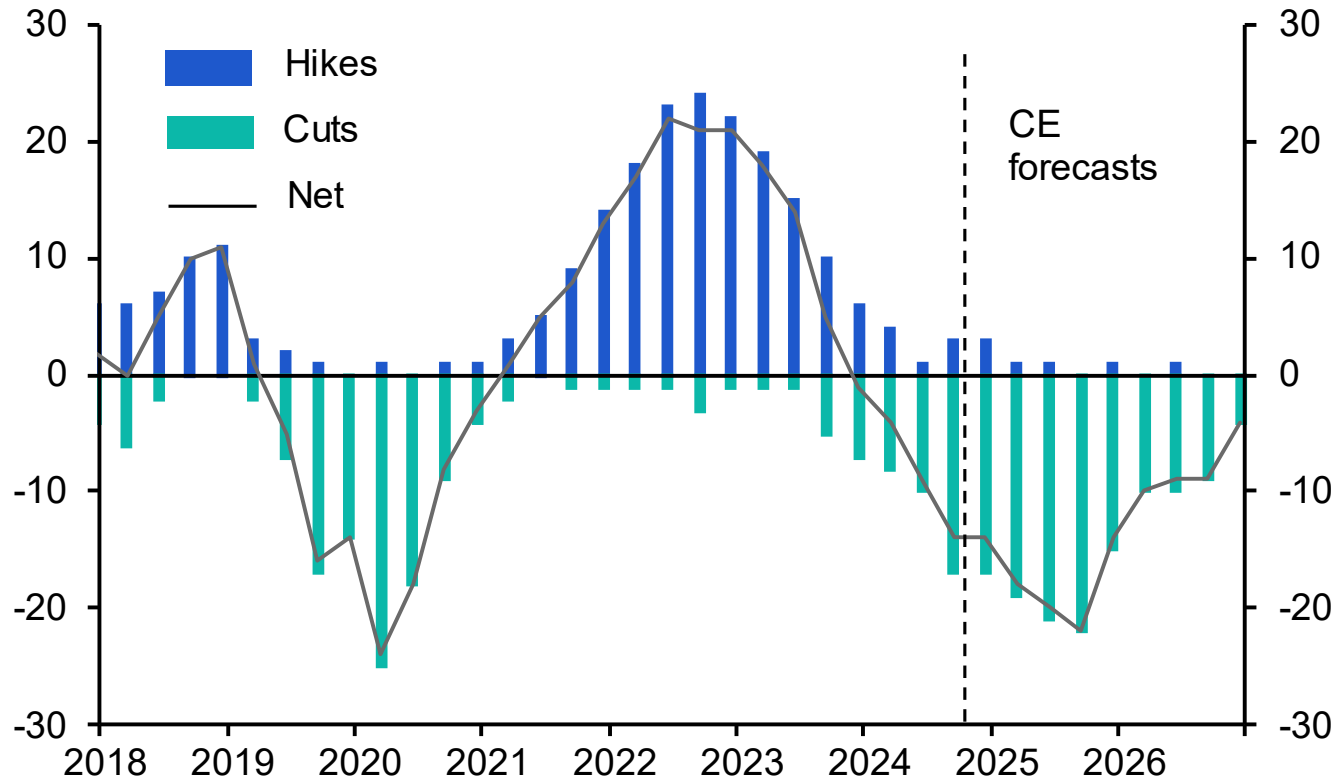


Sources: LSEG, Capital Economics

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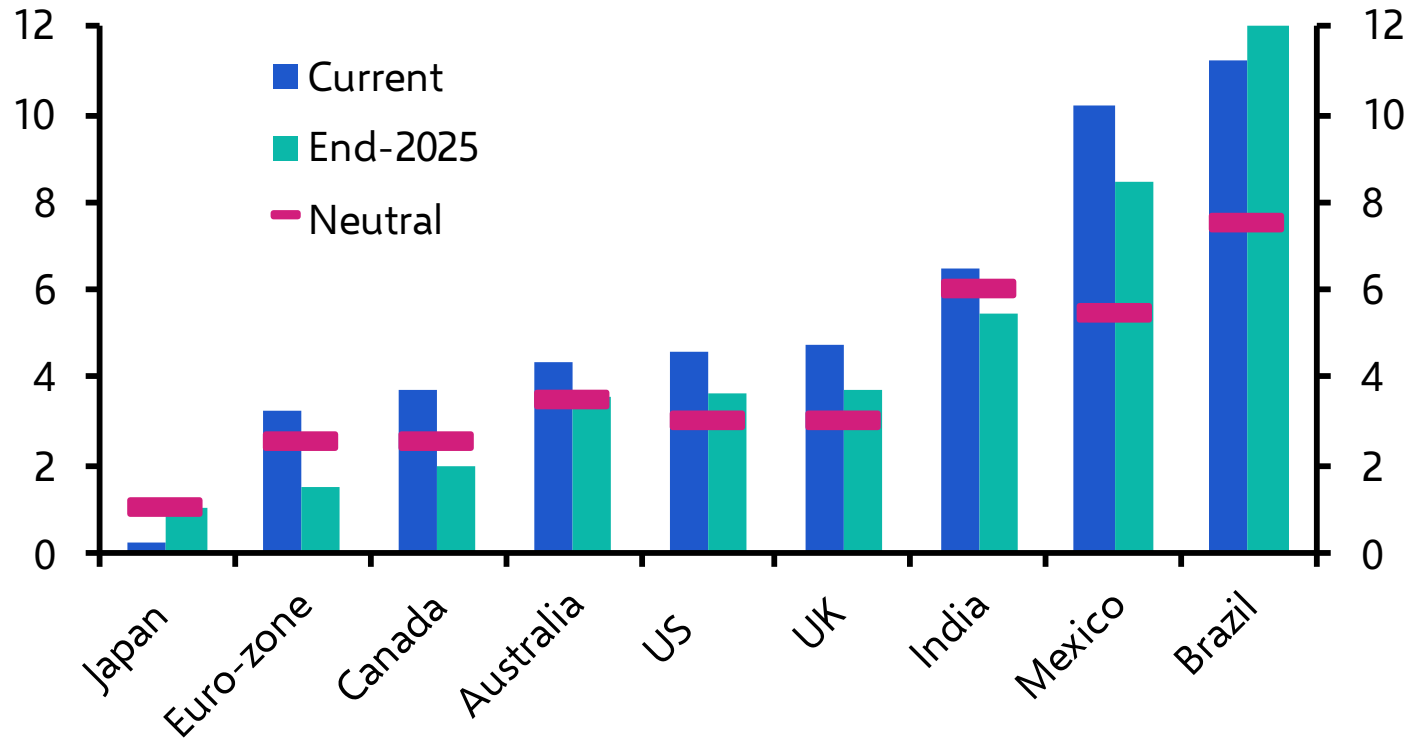
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Numbers of Rate Cuts/Hikes by Major Central Banks



Sources: LSEG, Capital Economics

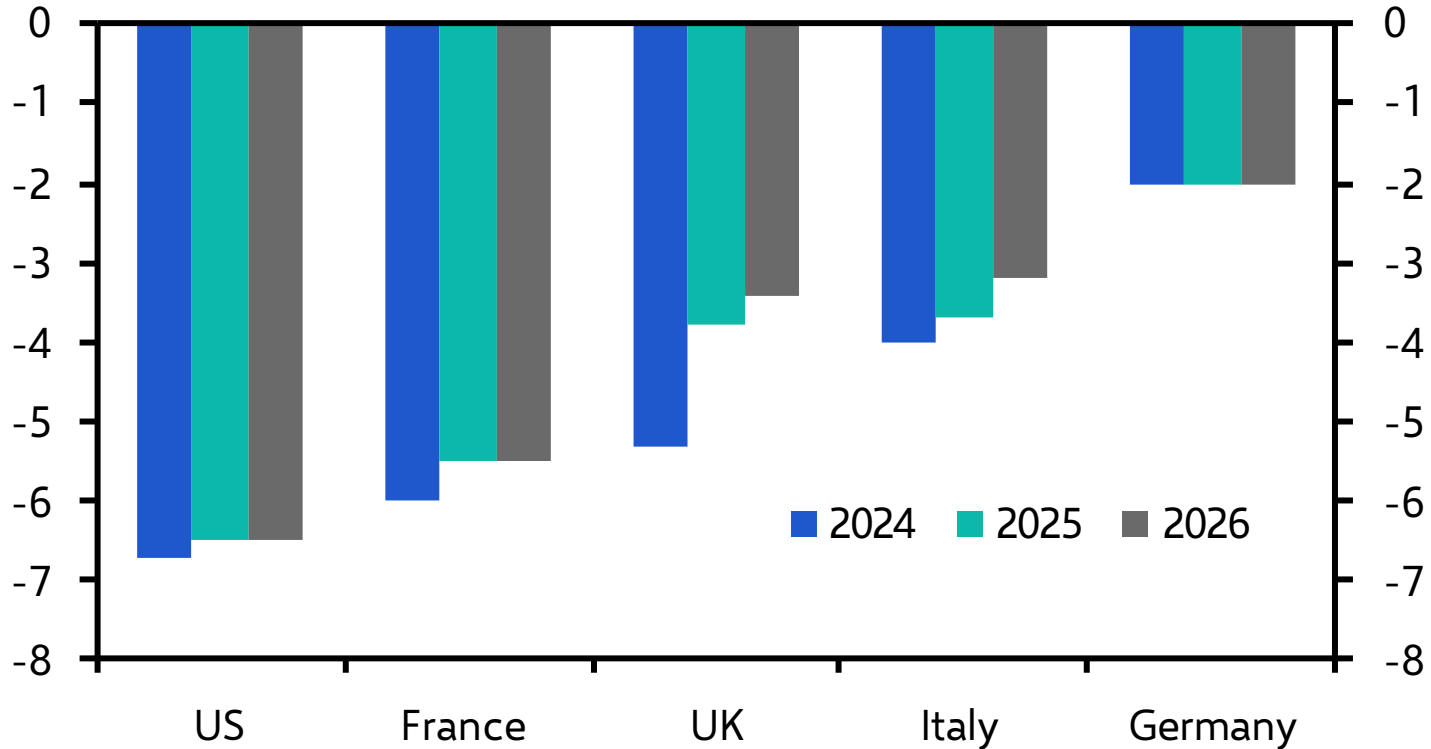
Projected Policy Rates Vs. Neutral (%)



Five Macro Themes for 2025

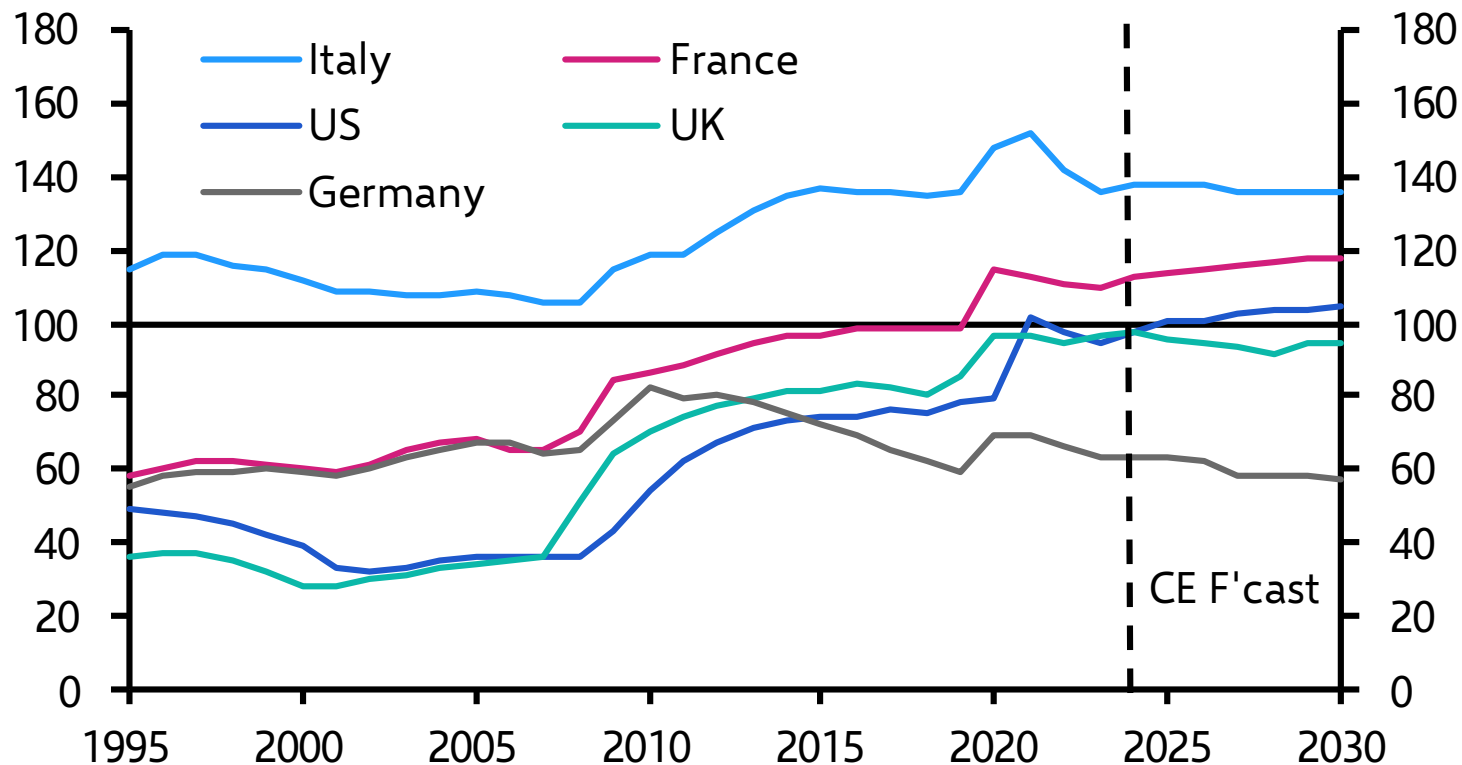
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Government Budget Balance (% of GDP)



Sources: LSEG, Capital Economics

Gross Government Debt (% of GDP)



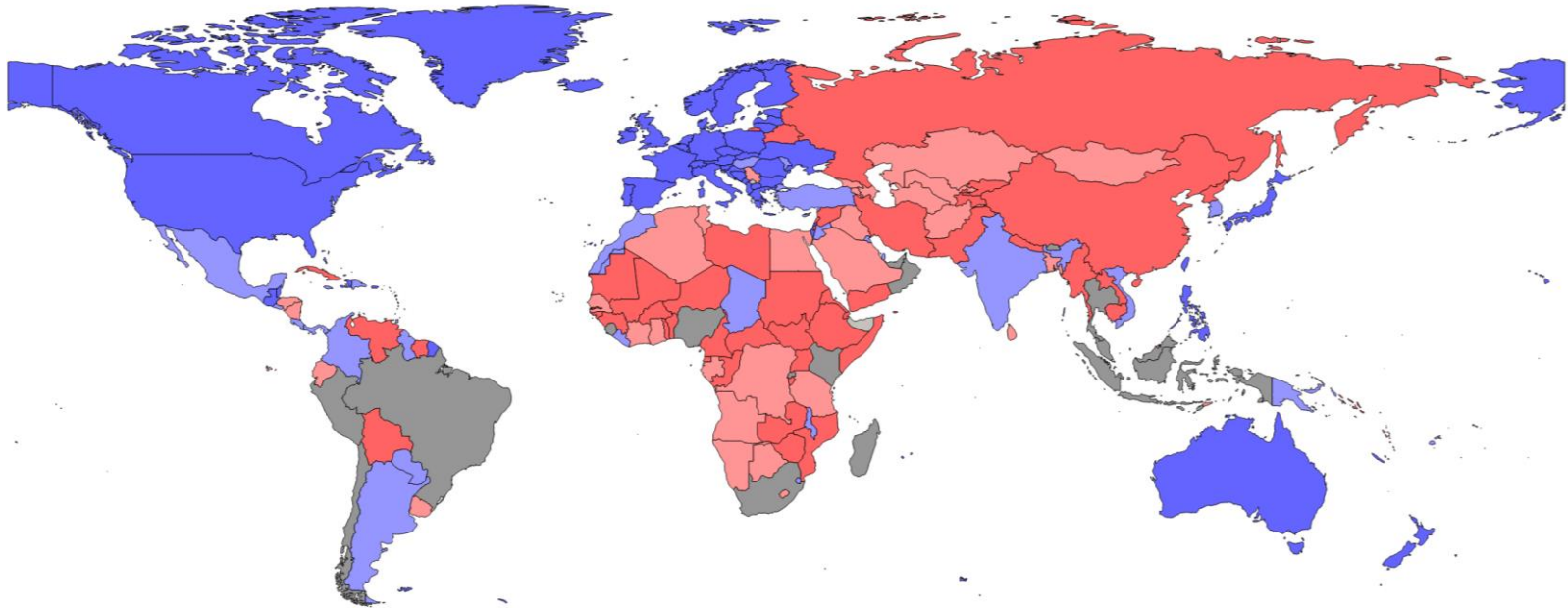
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Capital Economics Classification of Global Alignment in 2025

● US & allies ● Leans US ● Unaligned ● Leans China ● China & allies



Source: Capital Economics

Geopolitical Flashpoints

- 2025 is likely to be a year of major geopolitical shifts and shocks:
- Strong possibility of a US-brokered ceasefire in Ukraine.
- Hopes for further de-escalation in the Middle East, but Iran tensions a wildcard.
- Intense US/China rivalry.
- Conflict over Taiwan?
- Events next year will be important for future trade relationships and growth paths, but the immediate economic effects will probably be limited.

Macro Conclusions

- Tariffs won't cause a major pullback in world trade, but there will be big effects for some.
- Soft landings for most economies: slowdown in the US and China offset by stronger growth in MENA and the UK.
- Rate cuts to continue. ECB and Bank of Canada to cut below neutral, but Fed easing limited by inflation risks.
- High debt profiles will prevent fiscal stimulus.
- Geopolitical shifts could be important for the future, but we doubt they'll have major effects in 2025.

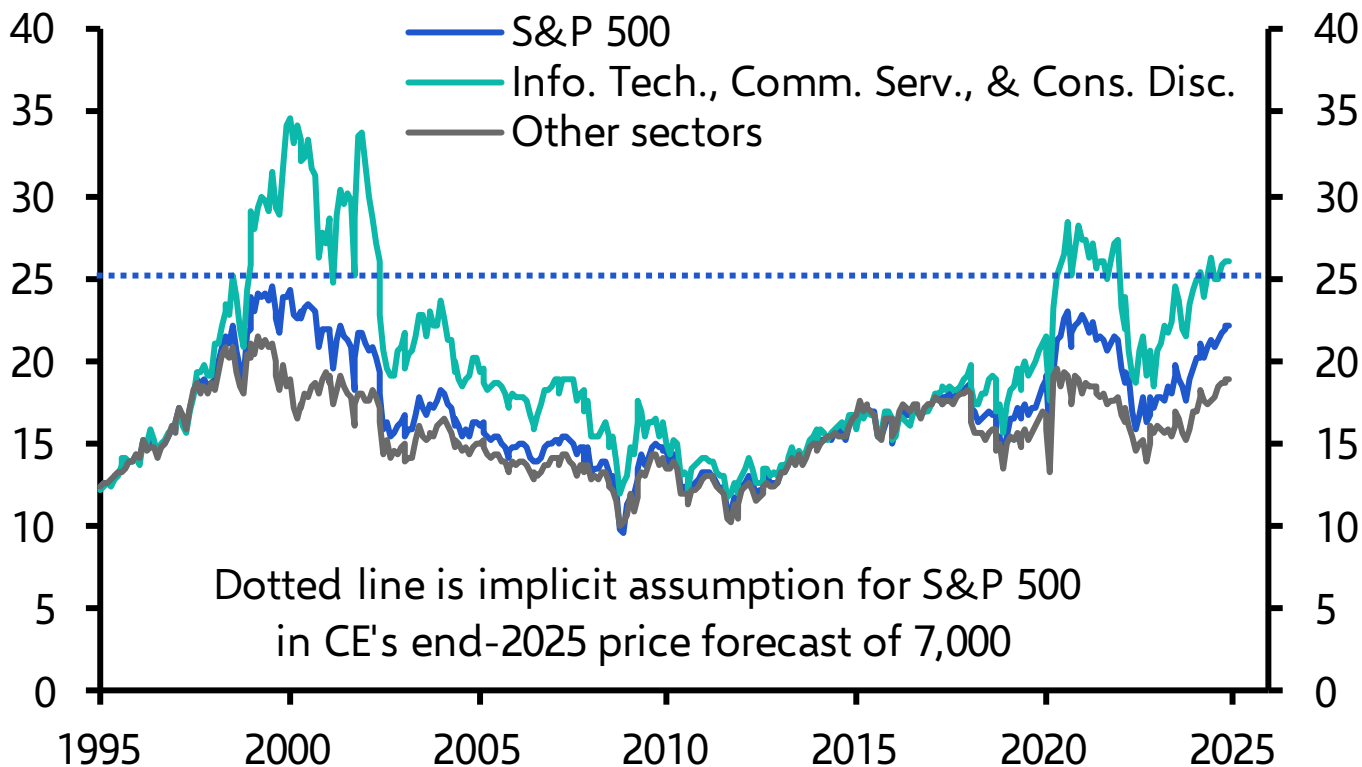
Three Financial Market Themes for 2025

- The S&P 500 will rally further and outperform benchmark indices outside the US.
- Bonds will ultimately benefit from looser monetary policy, despite fiscal policy risks.
- Donald Trump won't get the weaker dollar he wants.

Three Financial Market Themes for 2025

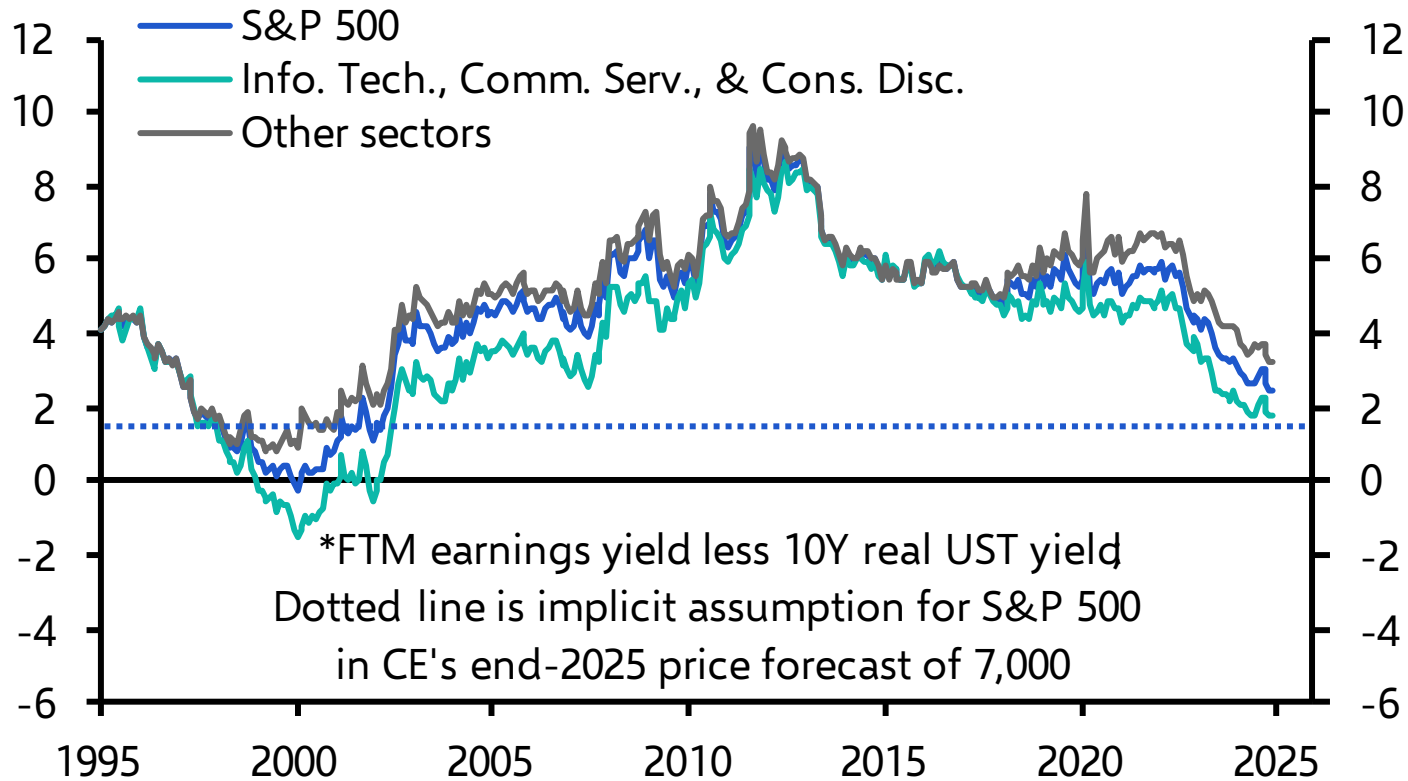
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S&P 500 Price/FTM Earnings Ratio

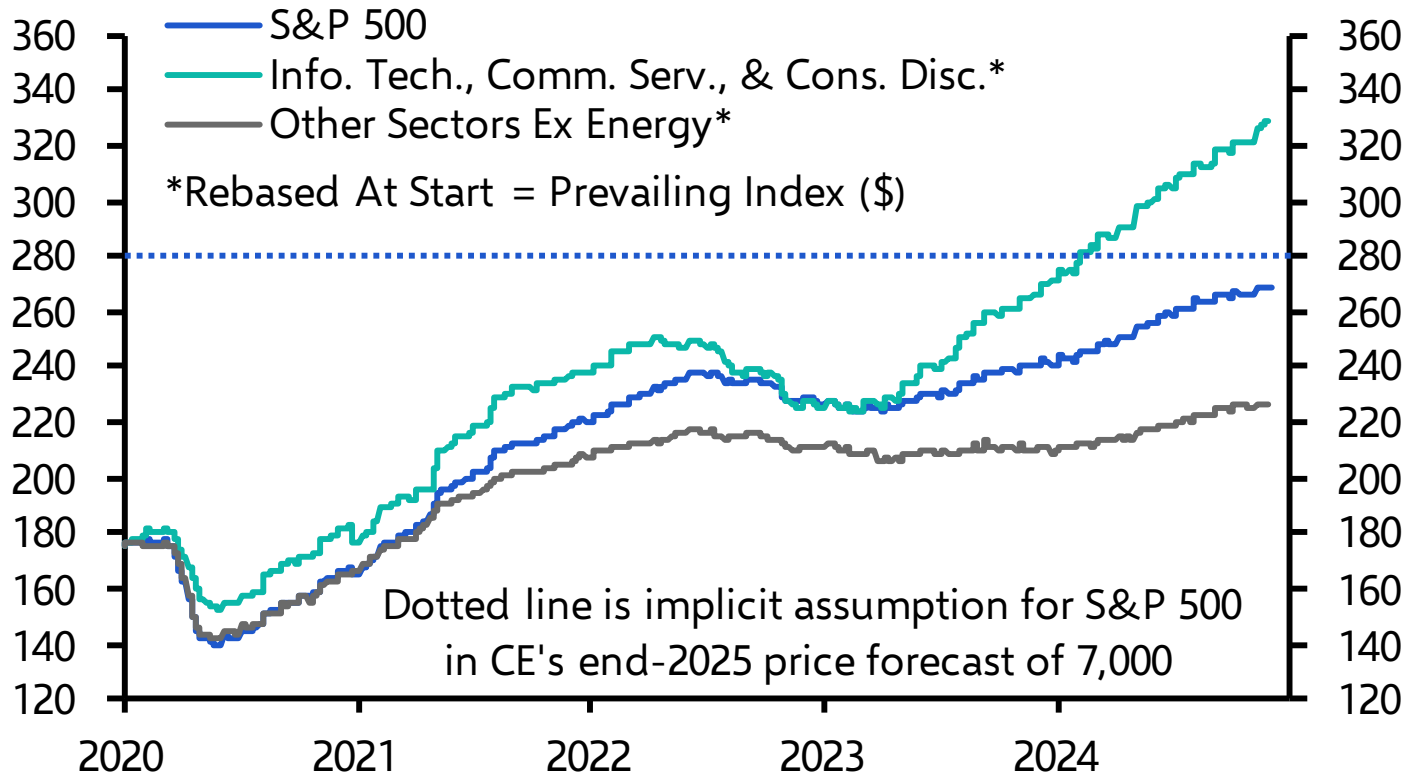


Sources: LSEG, Capital Economics

S&P 500 FTM Excess* Earnings Yields (pp)

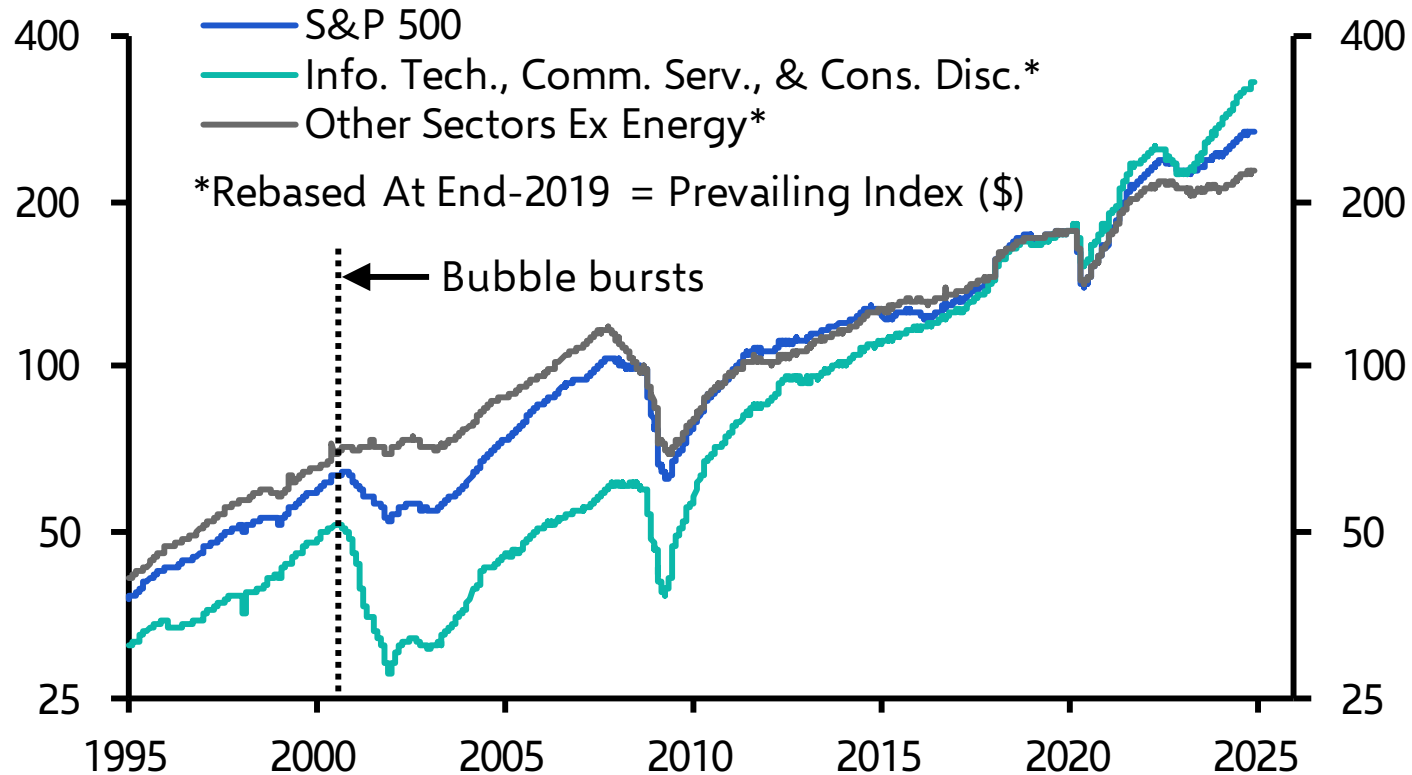


S&P 500 FTM Earnings Per Share



Sources: LSEG, Capital Economics

S&P 500 FTM Earnings Per Share (Log Scale)

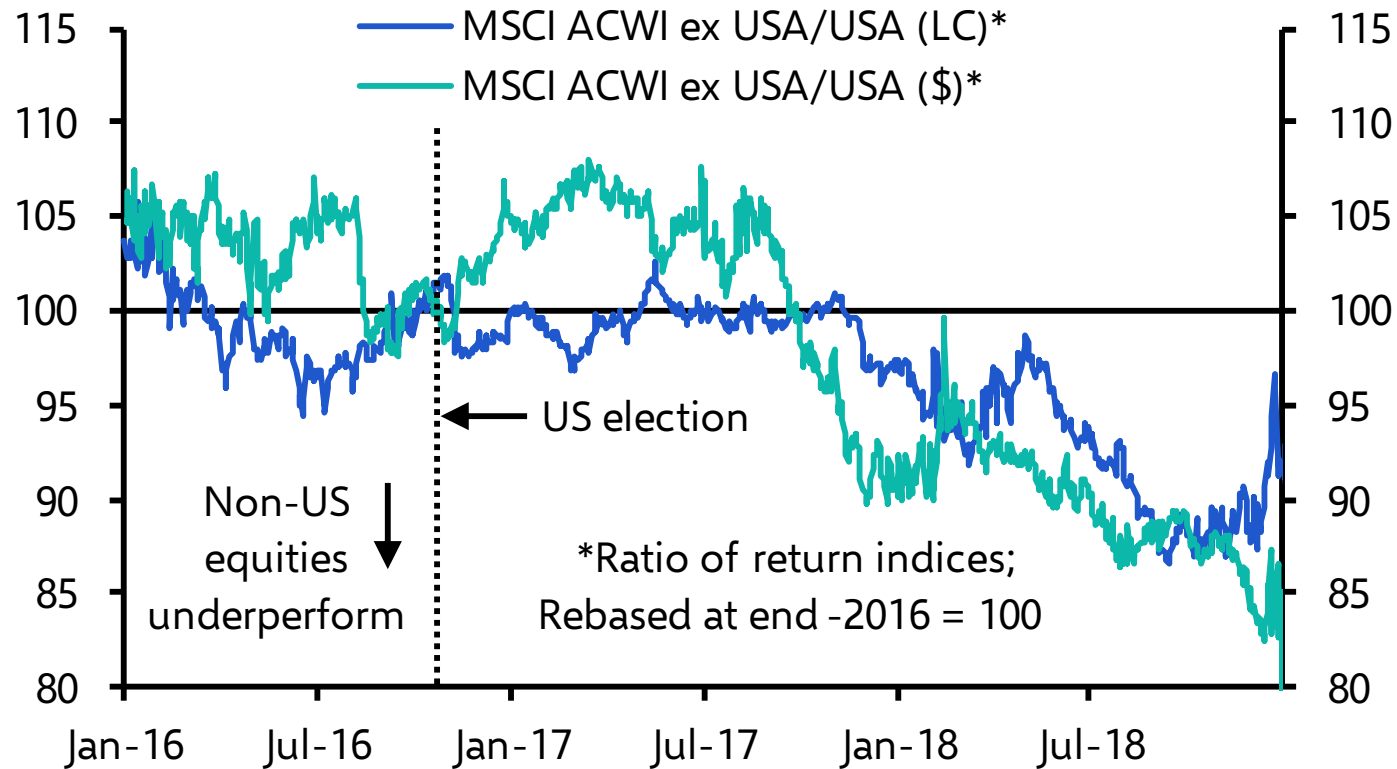


Sources: LSEG, Capital Economics

S&P 500 in 2025 – What could go wrong?

- Bond yields rise further?
- The US and/or global economy falters?
- Demand for AI softens?
- Big-tech is broken up?
- China spoils the party?

2025: Another trade war, another year of US 'exceptionalism'?

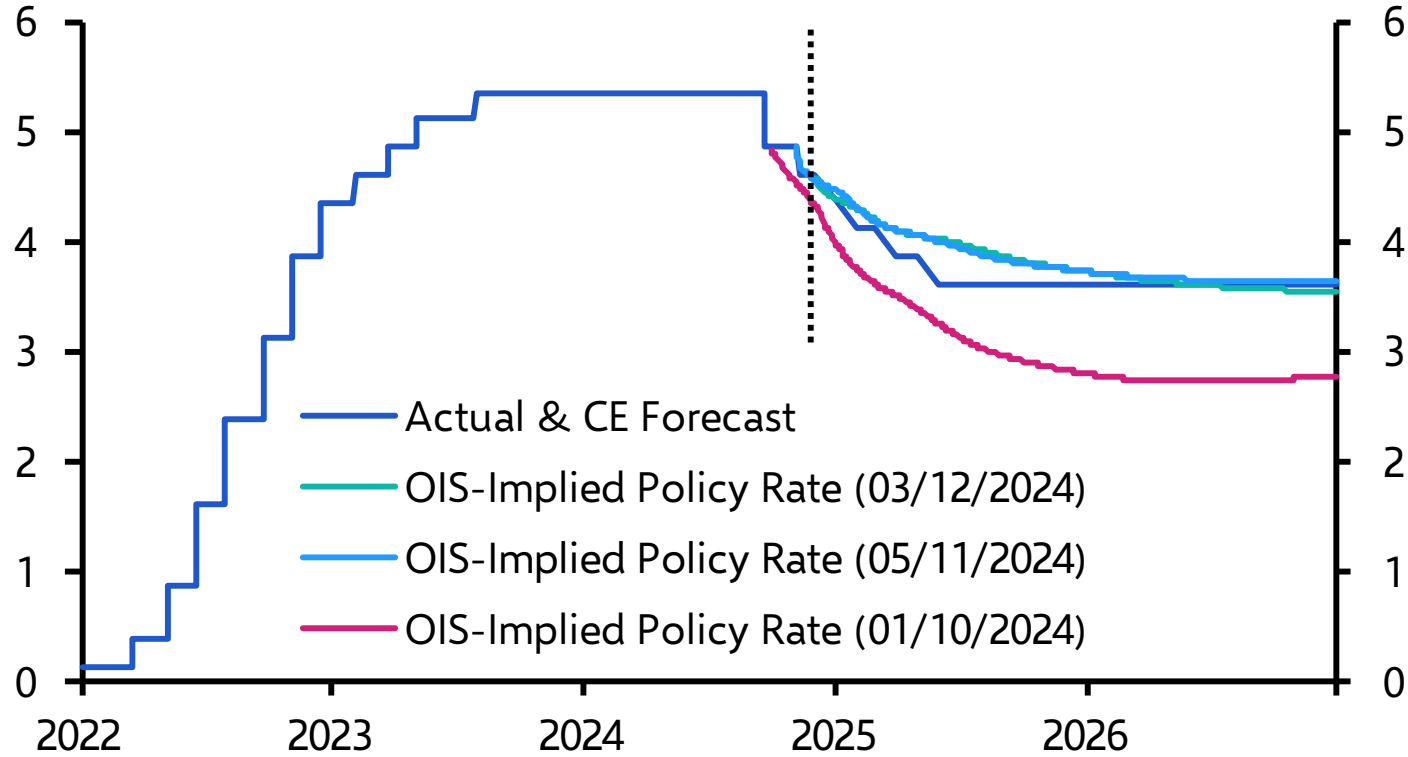


Sources: LSEG, Capital Economics

Three Financial Market Themes for 2025

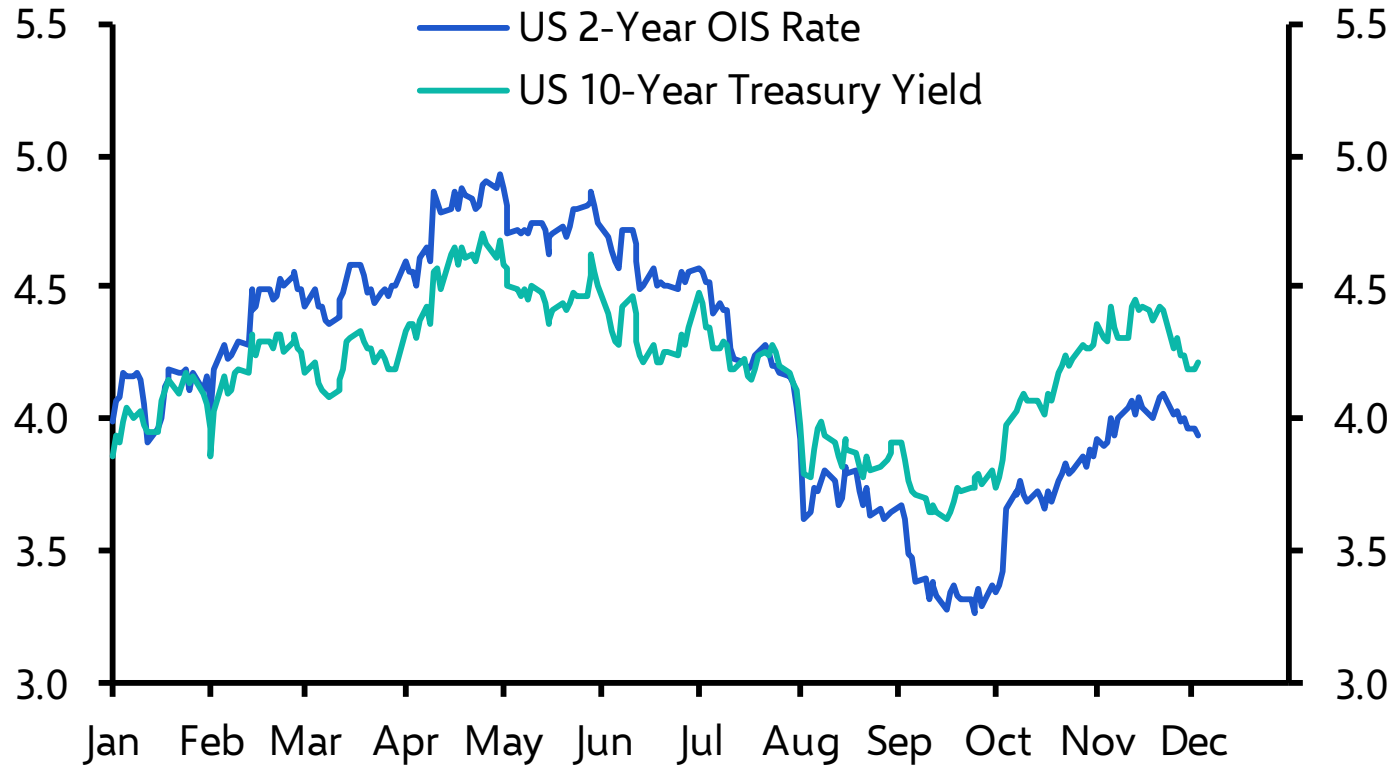
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US Policy Rate: Actual, CE Forecast, & Implied (%)



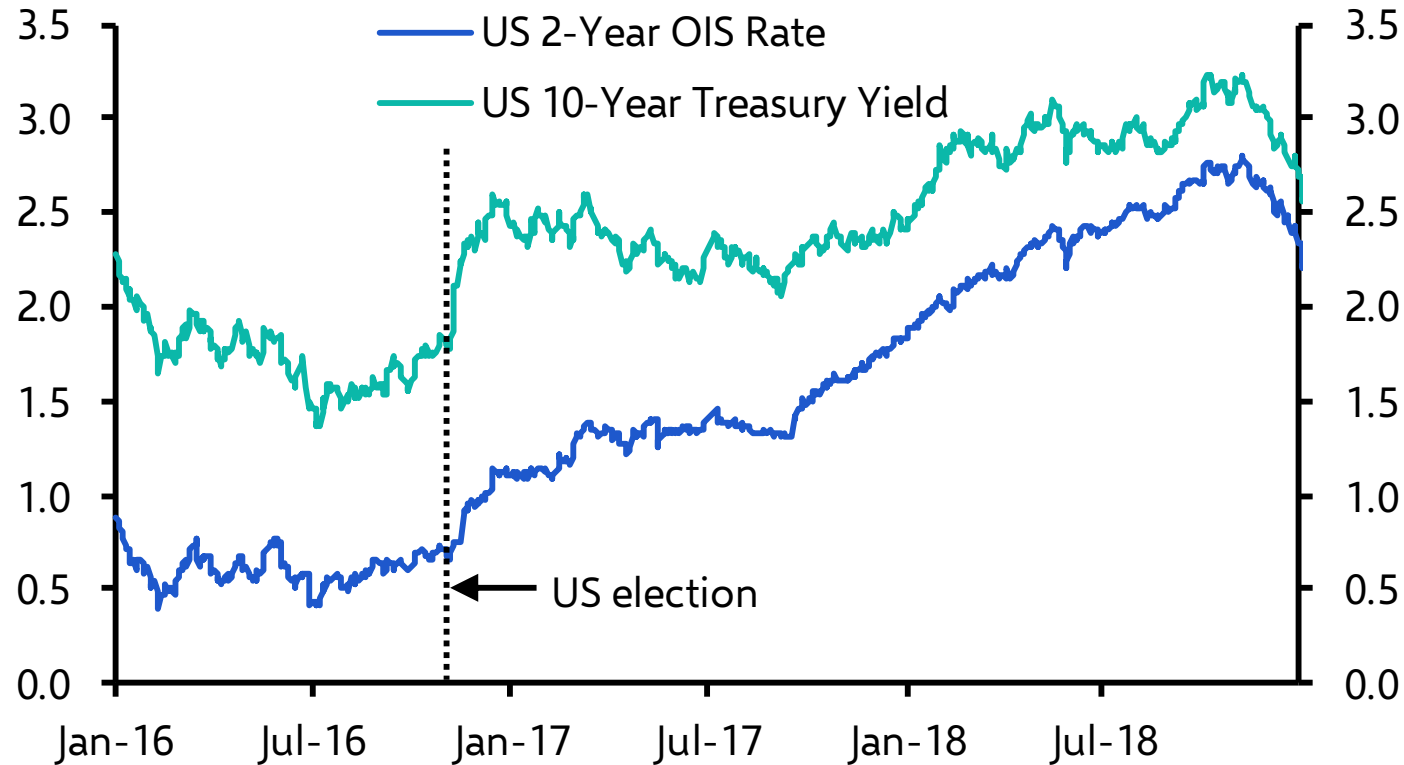
Sources: LSEG, Capital Economics

US 2-Year OIS Rate & US 10-Year Treasury Yield, 2024 YTD (%)



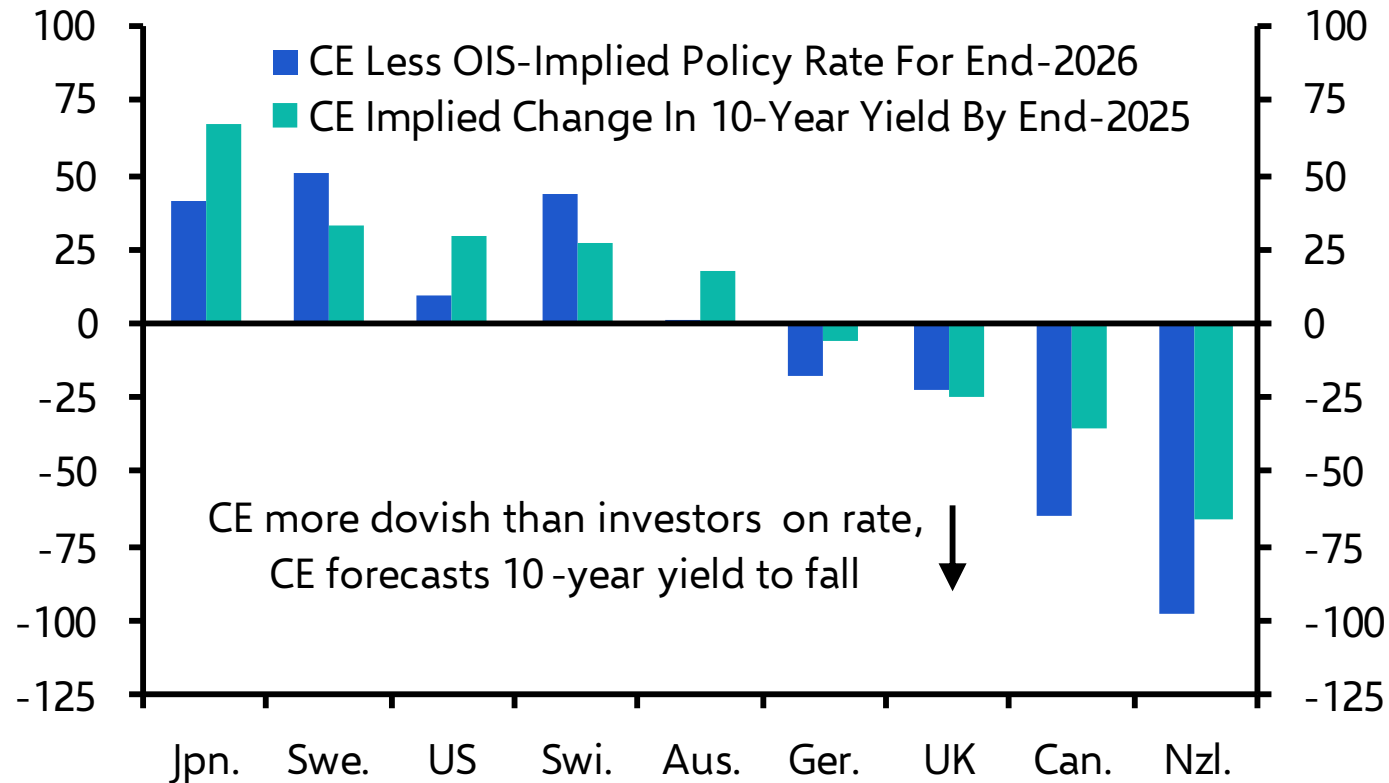
Sources: LSEG, Capital Economics

US 2-Year OIS Rate & US 10-Year Treasury Yield, 2016 – 2018 (%)



Sources: LSEG, Capital Economics

Differences Between CE & OIS Vs. Implied Change In Yields (bp)

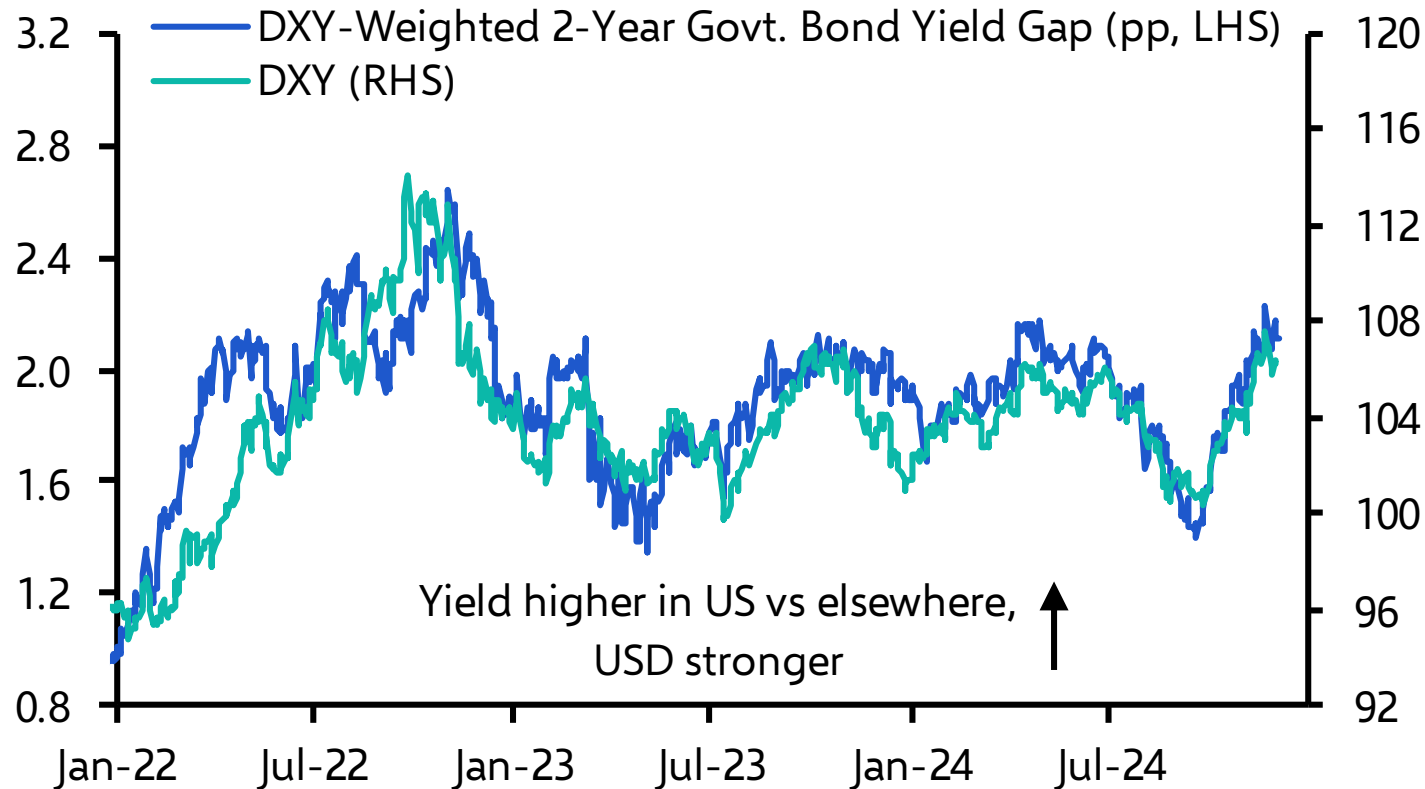


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DXY-Weighted 2-Year Government Bond Yield Gap Vs. DXY



Sources: LSEG, Capital Economics

US Less China 10-Year Government Bond Yield Gap Vs. USD/CNY

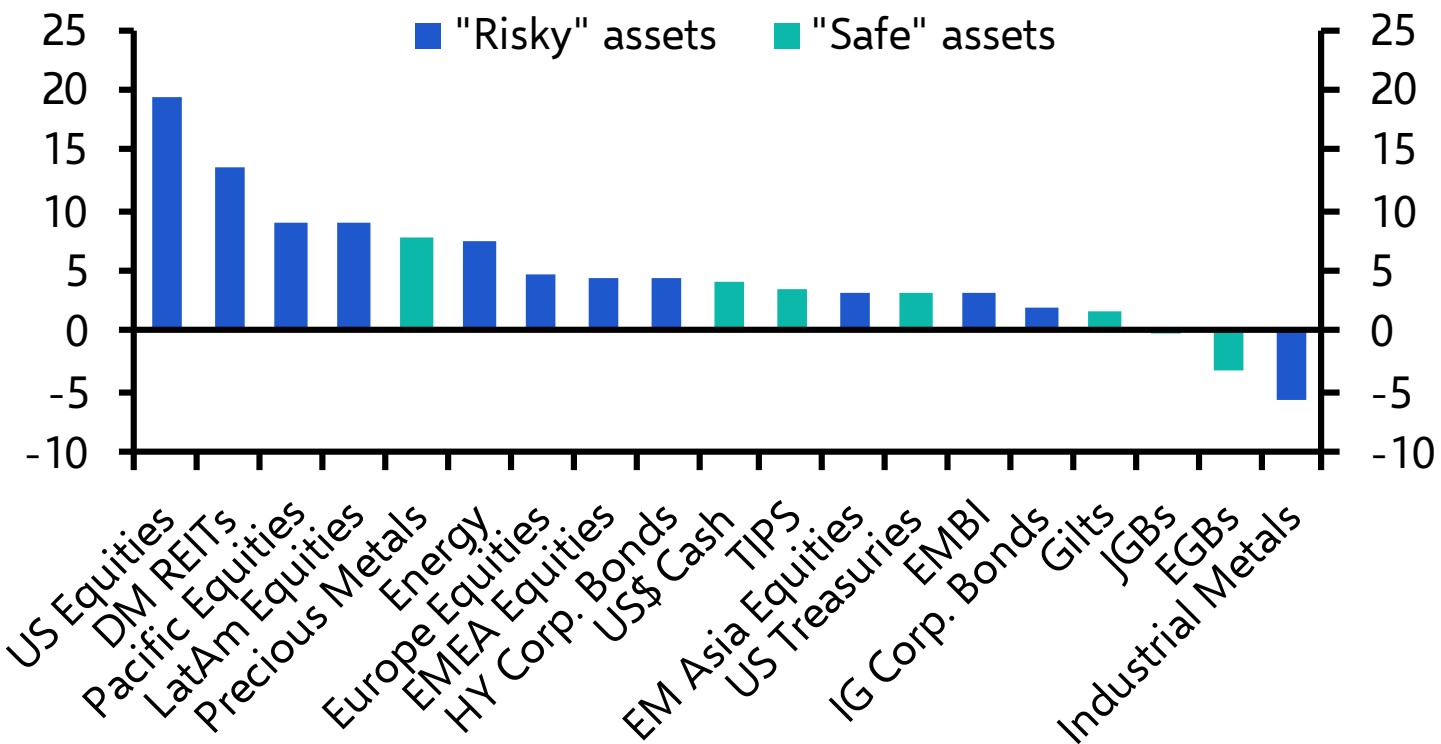


Sources: LSEG, Capital Economics

Market Conclusions

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CE Projected Total Returns (28th Nov. 2024 to End-2025, US\$, %)



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