

## ECONOMIC OUTLOOK

### GLOBAL ECONOMY

*The global economy is forecast to slow marginally this year due to what the IMF has termed a 'swift escalation of trade tensions', although the IMF now adds that 'a new wave of credible trade agreements could...lift medium term growth'. Global growth is forecast to be 3.0% this year, with 'risks to the outlook remaining tilted to the downside'.*

*The IMF is anticipating US growth of 1.9% this year and 2.0% in 2026, although the US administration is expecting higher growth on the back of fiscal stimulus and new incentives for investment. Growth across Europe and in Japan is forecast to remain subdued, with most major central banks likely to lower rates further.*

**The global economy** is forecast to slow marginally this year, according to the latest estimates provided by the International Monetary Fund (IMF). Global growth is forecast to be 3.0% this year and 3.1% in 2026 (both marginally below the long-term trend rate but slightly above the IMF's previous forecasts). In the IMF's words, 'the global economy has continued to hold steady', with recent 'macroeconomic data turning out better than expected'. While this year's lower growth has been due to what the IMF has termed 'the swift escalation of trade tensions and extremely high levels of policy uncertainty', it now notes that 'a new wave of credible trade agreements could usher in a broader reform momentum to lift medium-term growth'. Growth in the advanced economies is forecast to be 1.5% this year, with 'risks to the outlook remaining tilted to the downside'.

In the case of the US, growth rebounded in the June quarter after falling in the March quarter, to be up 0.6% for the first half of 2025. The IMF is forecasting growth of 1.9% for the whole of 2025 and 2.0% for 2026, although the US administration is aiming for a higher rate of growth than this, with fiscal stimulus, reduced regulation and incentives for investment aimed at propelling growth going forward. Growth for the euro zone is forecast to remain weak (1.0% this year and 1.2% in 2026), although higher than in 2023 and 2024; while Japan is forecast to grow by only 0.7% this year and 0.5% next year. While annual US inflation was still an elevated 2.7% in July, the central bank appears likely to lower interest rates at its September meeting.

### AUSTRALIAN ECONOMY

*The Australian economy entered a per capita recession in 2023 and has continued to remain weak ever since, with the economy contracting again on a per capita basis in the March quarter. With inflation finally falling back within the RBA's target range, interest rates have been cut three times this year.*

**The Australian economy** remains weak, with growth of a mere 0.2% in the March quarter, after growth of only 1.3% in 2024. On a per capita basis, the economy sank back into recession with a contraction of 0.2% after minuscule growth of 0.1% in the December quarter, which in turn followed seven consecutive quarters of contraction. While the Reserve Bank (RBA) has kept a lid on inflation until recently by running a tight monetary policy, on 12 August it lowered the 'cash rate' for the third time this year (to 3.6%). However, the annual inflation rate jumped up to 2.8% in July, which could prevent the RBA from cutting interest rates again at its next meeting in late September, despite the weak state of the economy, with no productivity growth.

### MARKETS

*Major share markets mostly rose in 2024 but have been highly volatile since the announcement in April of US tariff hikes. However, most markets had recovered strongly by late August and could see further rises this year if trade deals are completed and if inflation falls further.*

**Most share markets** were on a broadly upwards trend from October 2023 right through 2024 on the assumption that interest rates had peaked and would soon begin to be reduced. This year has so far seen high volatility, especially after the US move to introduce unprecedented tariff hikes on most imports. Up to 28 August, market movements have included rises across most markets, including 11% for the broad US market (S&P500) and 12% for the technology-focused Nasdaq, 13% for the UK, 21% for Germany, 5% for France, 7% for Japan, 2% for India, 15% for China and 10% for Australia.

*Major sovereign bond markets saw yields rise after the end of 'quantitative easing' in 2022. However, since then slow growth in key economies has encouraged investors back into these 'safe havens' in many instances.*

**Major sovereign bond markets** have been volatile for some time, with yields (interest rates) rising and falling in line with the outlook for inflation. The US 10-year Treasury bond yield fell to a record low of 0.54% on 9 March 2020 during the pandemic but touched 5.0% in October 2023 before sliding down, then rising again. It was 4.20% on 28 August this year. Similarly, the Australian 10-year bond yield was 0.57% on 8 March 2020 but was 4.29% on 28 August this year. Some bond markets could see yields fall further (and prices rise) over coming months if growth remains soft and if inflation continues to fall back towards targets.

### FIDUCIAN FUNDS

*Fiducian's diversified funds are above benchmark for growth assets (shares and property), while cash is underweight.*

**Fiducian's diversified funds** are currently above benchmark for international shares, slightly above benchmark for listed property and around benchmark for domestic shares. Exposure to bond markets is close to benchmark, while cash holdings have been lowered to below benchmark.