

Macro Outlook

NOISE OF RUMORS

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In the US, the near-term outlook remains resilient, anchored by solid domestic demand. Looking ahead, although the Iran conflict is creating a more challenging outlook, we believe the strength of the US economy in weathering the energy shock is ample. Higher energy prices are lifting headline inflation, but core inflation continues to normalise, with limited risk of second-round effects.

In the EA, despite a relatively solid starting point growth-wise, the Iran conflict is worsening the short-term outlook, with geopolitical tensions weighing on high-frequency indicators. Incoming data point to a loss of momentum, prompting downgrades to our H1-2026 EA GDP growth forecasts. While a temporary ceasefire has driven a sharp correction in energy prices, risks remain skewed by negotiation outcomes. Inflation dynamics are dominated by energy, while core inflation continues to ease, limiting second-round risks.

In China, Q1 GDP and March activity data were mixed amid the global energy shock, and the breakdown suggests China's economy remains bifurcated; manufacturing and exports remain strong, while housing activity and consumer spending continue to lag. Despite the Q1 outturn, we do not make adjustments to our real GDP growth profile for the remainder of 2026.

On inflation, reflecting higher energy prices, we lift to the upside our 2026 headline CPI forecast (annual average) to 1.0% y/y (from 0.9% prior baseline).

We expect the Fed to remain on hold at the April meeting as economic data remain solid, inflation is rising, but the path of deceleration for core inflation remains unchanged and geopolitical instability in the Middle East presents risks to both sides of the Fed's mandates. Beyond April, we stick to our baseline of three rate cuts, with risks tilted towards two in 2026, as we believe disinflation progress will be more pronounced than what most Fed' members have in mind.

We expect the ECB to remain on hold at the April meeting, and we stick to our call of one rate cut in Q4 2026/Q1 2027, as we think that downside risks to growth are more prominent compared to upside risks to inflation.

At the Q1 Monetary Policy Committee (MPC) meeting, the PBOC reiterated a measured easing stance, signaling a preference for calibrated and targeted easing. We see oil shocks as less of a constraint on modest policy easing, given the continued weakness in domestic demand.

GROWTH & INFLATION

US – As if there were no war

The near-term outlook remains resilient, anchored by solid domestic demand. Looking ahead, although the Iran conflict is creating a more challenging outlook, we believe the strength of the US economy in weathering the energy shock is ample. Higher energy prices are lifting headline inflation, but core inflation continues to normalise, with limited risk of second-round effects.

The near-term outlook points to resilience, led by still solid domestic demand.

Domestic demand remained solid in Q1.

- Personal income for February came in at -0.1% m/m from 0.4% in January. However, the decline is primarily attributable to only two components, namely: personal dividend income (from 1.9% m/m in January to -1.7% in February), which is part of the aggregate of personal income receipts from assets, and personal current transfer receipts (-0.4% m/m). This latter component tends to pay back in February following the one-off upswing in the first month of the year, when various government support measures take effect. In fact, the underlying composition of the personal income breakdown was fairly solid. Excluding the two volatile components, personal income for February was 0.2% m/m, broadly in line with the past four months.
- Nominal personal spending for February came in roughly in line with our tracking estimate at 0.5% m/m from 0.3% m/m in January. Real personal spending rose to 0.1% m/m from 0.0% in January. The breakdown shows a 0.2% m/m increase in spending on real goods, following two months of negative readings. Here, the rebound was driven primarily by spending on durable goods (largely due to spending on motor vehicles). Spending on services edged down slightly to 0.1% m/m from 0.3% in January. However, spending on discretionary services rose in February from -0.3% m/m to +0.1%.
- The latest credit card transaction data, as of the first half of April, report an increase in private spending momentum.
- The low-hiring, low-firing labour market equilibrium continues to hold. Considering the drag from the strikes in February, as well as the drag from poor winter weather, the March NFP data represent a correction from those temporary factors and a return to trend job growth. Indeed, given the strong m/m volatility of NFP numbers year-to-date, taking the average of the last three months (68k), we note that we are broadly in line with the 2025 average (excluding the two months affected by the government shutdown).

External demand proved to be mixed-to-weak.

- Imports rose \$15.2bn (+4.3% m/m), turning positive after declining in the prior month. Meanwhile, exports grew \$12.6bn (+4.2% m/m), a smaller move than in imports, leading to the widening of the headline deficit. In addition, exports were largely affected by a sharp increase in gold exports (which are not included in GDP statistics).

Against this backdrop, while domestic demand data for February have developed in line with our baseline assumptions, the trade balance report was weaker than our previous GDP tracking assumptions, and we are lowering our Q1-26 GDP tracking estimate to 2.9% q/q SAAR (from the prior estimate of 3.1%).

Looking ahead, our baseline for 2026 remains unchanged. Although the Iran conflict is creating a more challenging outlook, we believe the strength of the US economy in weathering the energy shock capably is essentially due to the fact that: 1) the economy is much less dependent on oil today; 2) the supply disruptions and shortages experienced so far by the US economy are structurally narrower than those experienced in the past (1960, 1970, 2022).

This is supported by the fact that if, in our modeling framework (see [WAR GAMES](#) - March 31, 2026), we incorporate an energy price profile (Brent and natural gas prices) that evolves in line with current market-priced futures curves (as of April 13), the deviation from our current baseline would be marginal. Indeed, the annual 2026 real GDP forecast would be 2.3% compared to 2.4% in our current baseline.

Higher energy prices are hitting headline inflation, but core inflation remains unaffected. In March, headline CPI inflation rose to 0.9% m/m, the highest print since mid-2022. The print was unsurprisingly boosted primarily by higher gasoline prices. Meanwhile, core CPI inflation printed a more moderate 0.2% m/m - unchanged from February, with core goods inflation moving largely sideways amid another month of used car deflation - the fourth in a row. On the other hand, core services inflation decelerated to 0.2% m/m - reflecting broad-based weakness in the supercore basket - despite an uptick in core shelter (RPR+OER) and the volatile airfares category.

Our baseline for core inflation remains unchanged. By incorporating the current futures curve into our profile, we forecast headline CPI to peak at 3.6% y/y in May 2026 and then slow to 3.1% by December 2026. However, in the current environment, we believe that the path of deceleration for core inflation remains unchanged. Beyond some volatility driven by certain components such as airfares (due to trends in jet fuel prices), we believe that tariff pressures will continue to ease in core goods, while core services inflation will continue to proceed with a broad-based normalization toward pre-COVID levels.

Although more evidence is needed to draw a firm conclusion, we believe that the risks of pass-through from high energy prices into the core inflation basket are limited compared to past supply shocks. Indeed, the economy's starting point makes it unlikely that there will be large second-round effects on inflation. In both the 1970s and 2021-2022, the labor market was very tight, and wage growth accelerated sharply. The current economic backdrop means there is less flammable tinder to spread the inflation flames.

ANIMA baseline. We are lowering our Q1-26 GDP tracking estimate to 2.9% q/q SAAR (from the prior estimate of 3.1%). The sequential growth forecasts for the rest of the year are left unchanged. Our annual 2026 growth forecast stands now at 2.4% (vs 2.5% prior baseline).

Our baseline for core inflation remains unchanged. For H1-26, we expect core PCE to average 2.6%, and 2.2% in H2-26, which is consistent with an annual average of 2.5%.

EA – Downside risks are mounting

Despite a relatively solid starting point, the Iran conflict is worsening the short-term outlook, with geopolitical tensions weighing on high-frequency indicators. Incoming data point to a loss of momentum, prompting downgrades to our H1-2026 EA GDP growth forecasts. While a temporary ceasefire has driven a sharp correction in energy prices, risks remain skewed by negotiation outcomes. Inflation dynamics are dominated by energy, while core inflation continues to ease, limiting second-round risks.

Near-term outlook clouded by the Middle East conflict. Despite the reasonably favourable starting point for growth, the Iran conflict is creating a more challenging outlook. Geopolitical tensions are beginning to take their toll on incoming high-frequency activity data.

- The EC survey for March came with a broad-based deceleration, aligning with the March PMIs in indicating a loss of momentum at the end of Q1. The economic sentiment indicator wiped out the entirety of its post-September 2025 rebound, plunging 1.6pts to 96.6. The setback was overwhelmingly driven by a drop in consumer confidence, finalised at -16.3 (a 4.0pt drop from February).
- The monthly hard data on the supply side point to something similar: in Germany and Spain, IP data were softer than expected in February at -0.3% m/m and -0.1%, respectively.

Against this backdrop, in line with our nowcast estimate, we downgrade our baseline forecast for Q1-26 EA real GDP growth to 0.2% q/q (-0.1pp from previous estimate) and we are lowering our forecast for Q2-26 to 0.2% q/q (-0.1pp from the previous estimate).

Baseline H2-26 unchanged for now... Looking ahead, given that the drivers of Europe's recovery momentum (German fiscal spending and Spain's outperformance) continue to be on track, our baseline outlook for H2-26 remains unchanged, and we expect growth to average on the lower end of 0.4% q/q.

Incorporating our new estimates for H1-26 and leaving our estimates for the H2-26 unchanged, our forecast for real GDP growth in 2026 stands now stands at 1.0% (vs 1.2% in the prior baseline).

... **but downside risks are looming.** However, given that the situation in Iran remains highly fluid, we are starting to quantify how much the energy shock would affect our baseline for H2-26. According to our modelling framework (see [WAR GAMES](#) - March 31, 2026), if energy prices (Brent and TTF) were to evolve in line with current market-priced futures curves (as of April 13), our annual real GDP growth forecast for 2026 would come in at 0.8% (vs. 1.0% in our current baseline).

Headline inflation under pressure; core can make it. On inflation, headline HICP rose to 2.5% y/y in March, from 1.9% y/y in February. The acceleration across components was driven exclusively by a sharp upswing in energy inflation, which swung to +4.9% y/y from -3.1% y/y in February, chiefly reflecting higher fuel prices. The impact on gas and electricity prices is likely to continue more forcefully over the coming months. Elsewhere, inflation pressures eased: non-energy components decelerated in March, with food, alcohol and tobacco inflation slipping by 0.1pp to 2.4% y/y.

Core inflation declined to 2.3% (-0.1pp from February). The easing in core inflation reflected declines in both core goods (-0.2pp to 0.5% y/y) and services (-0.2pp to 3.2% y/y) inflation. Much of the upward push for services inflation generated by the Olympic Games in Italy in February was offset in March.

Our outlook for core inflation in 2026 remains unchanged, and we believe there is room for core prices to fall slightly below the target threshold by the end of the year. Given current conditions, we believe that the rise in energy prices will remain confined to headline inflation. Indeed, the scale of indirect and second-round effects will be shaped by demand conditions - through firms' pricing power - and by labour market tightness, which governs households' ability to extract stronger wage growth. Relative to 2022, when post-pandemic pent-up demand, highly expansionary fiscal and monetary policies, and exceptionally tight labour markets amplified pass-through

risks, the current macroeconomic environment appears, at face value, far less supportive of the emergence of such effects.

ANIMA baseline. Incorporating our new estimates for H1-26 and leaving our estimates for the H2-26 unchanged, our forecast for real GDP growth in 2026 stands now at 1.0% (vs 1.2% in the prior baseline).

On inflation, we incorporate the current level of market pricing data for gas and oil into our energy HICP profile for 2026. Relative to our March's baseline profile, our new headline HICP forecast for 2026 (annual average) now stands at 2.5% (vs 2.0% in prior baseline). On the other hand, we are only mechanically lifting our baseline for core inflation, mainly reflecting the mechanical impact of certain highly energy-sensitive components (i.e., airfares due to fluctuations in jet fuel prices). We forecast core HICP at 2.1% (annual average), from 2.0% prior baseline.

CHINA – Bifurcating

Q1 GDP and March activity data were mixed amid the global energy shock, and the breakdown suggests China's economy remains bifurcated; manufacturing and exports remain strong, while housing activity and consumer spending continue to lag. Despite the Q1 outturn, we do not make adjustments to our real GDP growth profile for the remainder of 2026. On inflation, reflecting higher energy prices, we lift to the upside our 2026 headline CPI forecast (annual average) to 1.0% y/y (from 0.9% prior baseline).

Bifurcated economy: Q1 GDP and March activity data were mixed amid the global energy shock, with the breakdown suggesting that China's economy remains bifurcated, supported by strong manufacturing and exports, but with housing and consumer spending remaining weak.

- Real GDP growth rose to 5.0% y/y in Q1 (0.5pp higher than consensus and our forecast) from 4.5% y/y in Q4. However, we believe that the deviation from expectations is mostly due to a technical issue: the NBS lowered its sequential growth estimate for Q1-25 (to 1.1% q/q non-annualised from 1.2% q/q non-annualised previously) but raised it for Q2-25 (to 1.1% from 1.0% previously) – making the year-on-year rate more favourable in 2026. Although this appears to be a common practice, as the magnitude of revisions was still within the historical range, we believe the actual volatility in sequential growth between Q1 and Q2-25 could be larger than the official data suggest.
- Industrial production remained fairly stable in the first quarter of the year, with a three-month moving average of 6.1% y/y, driven by resilient manufacturing activity.
- Export activity remains strong, with a 3-month moving average in March at +15% y/y — driven by an increase in exports primarily to the European Union.
- Nominal retail sales growth declined to 1.7% y/y in March from 2.8% in January-February, with year-on-year growth in online goods sales and restaurant sales revenue both slowing.
- Most property activity data remained subdued in March, despite a slight improvement from January-February. Year-on-year contractions of new home starts and completions narrowed to -17.4% and -19.0%, respectively, in March from -23.1% and -27.9% in January-February, while new home under construction growth remained flat at -11.7% y/y.

PPI inflation has been impacted by higher oil prices. PPI turned positive for the first time since late 2022, registering +0.5% y/y in March from -0.9% in February. Breakdown data indicate that the rebound was mainly led by raw materials and mining,

i.e. two of the most energy-intensive categories within the PPI data breakdown. The visible rebound in PPI is consistent with the surge in the official manufacturing PMI input prices, which have risen to a four-year high.

However, we believe that the pass-through of higher oil prices remains largely confined to the headline level. Indeed, the PPI breakdown indicates that consumer-goods-related PPI stayed firmly in contraction in March, underscoring the limited pricing power of downstream producers and the difficulty of passing higher input costs on to consumers. Moreover, the March NBS manufacturing PMI survey suggests that although input prices have risen sharply across manufacturing sectors, pass-through to output prices has so far remained relatively muted. Notably, the gap between output prices and input prices reached a four-year wide gap in March, indicating that profitability in downstream sectors has come under increasing pressure. In that regard, core CPI inflation edged lower to 1.1% y/y in March from 1.8% in February and from an average of 1.3% in January-February, reflecting limited second-round effects from the energy shock on core inflation.

ANIMA baseline. Against this macro-backdrop, we maintain our y/y % growth forecast for coming quarters (including Q2). While the NBS's smoothing of sequential historical growth estimates for Q1 and Q2-25 has contributed to year-on-year real GDP growth in Q1-26, base effects will be less favourable in Q2-26 than prior to the revision. As such, despite the Q1 GDP beat, we do not make adjustments to our real GDP growth profile for the rest of 2026. Our full-year projection now stands at 4.9% (annual average, vs the 4.8% prior baseline).

On inflation, reflecting higher energy prices, we lift to the upside our 2026 headline CPI forecast (annual average) to 1.0% y/y (from 0.9% prior baseline).

MONETARY POLICY

Fed – No rush

We expect the Fed to remain on hold at the April meeting as economic data remain solid, inflation is rising, but the path of deceleration for core inflation remains unchanged and geopolitical instability in the Middle East presents risks to both sides of the Fed's mandates. Beyond April, we stick to our baseline of three rate cuts, with risks tilted towards two in 2026, as we believe disinflation progress will be more pronounced than what most Fed' members have in mind.

We expect the Fed to remain on hold at the April meeting. Since the March meeting, economic data have confirmed solid activity, the unemployment rate edged down and while headline inflation increased, core inflation continues to normalise, with limited risk of second-round effects. Meanwhile, Fed' rhetoric has remained basically unchanged, with most members seeing risks to both sides of the Fed's mandates stemming from geopolitical instability in the Middle East and acknowledging that in the current scenario monetary policy remains well positioned.

We stick to our baseline of three rate cuts, as we believe disinflation progress will be more pronounced than what most Fed' members have in mind. That said, we continue to see risks that the Fed only delivers two rate cuts, especially if the Middle East conflict drags on and the US economy remains in good shape.

ECB – Taking it easy

We expect the ECB to remain on hold at the April meeting, and we stick to our call of one rate cut in Q4 2026/Q1 2027, as we think that downside risks to growth are more prominent compared to upside risks to inflation.

We expect the ECB to remain on hold at the April meeting and to stick to its rhetoric at the March meeting. Since the last meeting, in general ECB's members' rhetoric has been well balanced, with President Lagarde clarifying the reaction function of the ECB in different energy price scenarios at the ECB and Its Watchers conference on 25 March ([Navigating energy shocks: risks and policy responses](#)). Meanwhile, geopolitical tensions have started triggering a loss of momentum in economic activity in the EA and downside risks to growth are looming. This, coupled with easing core inflation, should be enough for the ECB to look through the temporary spike in energy inflation at this stage, while continuing to monitor indicators of pass-through from energy prices to core inflation.

Against this backdrop, we stick to our call of one rate cut over the forecast horizon. We think that downside risks to growth are more prominent compared to upside risks to inflation, but we now think that such a cut will not happen until Q4 without ruling out that it may be postponed to Q1 next year. Unless growth slows down more significantly than expected, the ECB will want to make sure that the increase in energy prices does not lead to indirect or second-round effects on inflation (our baseline).

PBoC – Measured easing stance

At the Q1 Monetary Policy Committee (MPC) meeting, the PBOC reiterated a measured easing stance, signalling a preference for calibrated and targeted easing. We see oil shocks as less of a constraint on modest policy easing, given the continued weakness in domestic demand.

A measured easing stance was again emphasised. The PBOC held its Q1 MPC meeting on March 26, with the statement released on March 31. The PBOC reaffirmed its measured easing stance. Meanwhile, the PBOC reaffirmed the importance of structural monetary policy tools (i.e., relending facilities), placing greater weight on targeted credit support. The overall tone remains broadly in line with the Q4 monetary policy report (released on February 10), emphasizing the need to carefully calibrate the strength, pace, and timing of policy implementation.

We see oil shocks as less of a constraint for modest policy easing, given the continued weakness in domestic demand (driven by the prolonged property market contraction and soft consumption). Against this backdrop, we now expect the PBoC to deliver a 10 bp policy rate cut in Q3 and a 50 bp RRR cut in H1, reflecting its commitment to an accommodative policy stance amid weak domestic demand, but we will watch closely the pace of the PPI rebound, core CPI, and the equity market to gauge the likely timing of these moves.

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