Macro Outlook

STRESS TEST

AUTHORS

Fabio Fois
Head of Investment Research & Advisory
fabio.fois@animasgr.it

Matteo Gallone
Junior Macroeconomist
matteo.gallone@animasgr.it

Valerio Ceoloni
Senior FX/EM Strategist
valerio.ceoloni@animasgr.it

Chiara Cremonesi
Senior Rates Strategist
chiara.cremonesi@animasgr.it

We expect the US economy will avoid recession in 2026. We forecast growth to begin re-accelerating in Q4 this year, led by expansionary fiscal policy, easier monetary policy conditions and strong consumer balance-sheets, especially among high earners. Our constructive view critically relies on the working assumption that the recent slowdown in hiring reflects a paradigm shift within the US production function rather than signalling the late stage of the post-pandemic economic cycle. That said, given the "low hiring, low firing" labour market equilibrium the US economy is currently experiencing, we expect growth momentum to return to potential more slowly than it would normally have, had tariffs not been imposed.
Regarding inflation, assuming growth momentum does not reach potential by Q4 next year and that the tariff shock is temporary, we continue to expect the Fed's inflation target to be within reach by end of Q3 2026.

In the EA, our macro narrative remains intact: we continue to expect an economy that grows only modestly for now but hopefully accelerates next year, supported by the German fiscal impulse and improving external demand. However, risks remain skewed to the downside.
Meanwhile, we expect disinflation in services to continue, which should result in core inflation undershooting by the end of the first half of 2026.

In China, with most of August's data still pending, our macro-outlook remains unchanged. Trade slowed sequentially in August, mainly due to a decline in shipments to the US. However, we expect redirection of trade toward ASEAN countries to provide growing support for Chinese external trade heading into 2026. Fiscal stimulus remains in place, with targeted loan subsidies to households and service-sector businesses bolstering domestic momentum amid persistent deflationary pressures, which we expect to continue throughout 2026.

Monetary policy wise, we expect the Fed funds rate to decline slightly below neutral (2.75-3.0%) by the end of Q3 2026, with risks tilted toward an even faster adjustment.

We expect the ECB to deliver a rate cut in December, bringing the depo rate to 1.75% - the lower end of the neutral range - and then to remain on hold throughout 2026, with risks skewed towards one more rate cut throughout the forecast horizon.

Finally, after easing in Q2, the PBoC will likely pause through Q3 before resuming cuts in Q4 amid re-emerging risks to the 2025 growth target. Meanwhile, a dovish shift in the Fed could provide unexpected support to the yuan, with USDCNY expected to hover near 6.5 through 2025-2026.

Marketing Communication. For professional clients or qualified investors only.
Completed: 19 September 2025

GROWTH & INFLATION

US – Tech on me

We expect the US economy will avoid recession in 2026. We forecast growth to begin re-accelerating in Q4 this year, led by expansionary fiscal policy, easier monetary policy conditions and strong consumer balance-sheets, especially among high earners. Our constructive view critically relies on the working assumption that the recent slowdown in hiring reflects a paradigm shift within the US production function rather than signalling the late stage of the post-pandemic economic cycle. That said, given the "low hiring, low firing" labour market equilibrium the US economy is currently experiencing, we expect growth momentum to return to potential more slowly than it would normally have, had tariffs not been imposed.
Regarding inflation, assuming growth momentum does not reach potential by Q4 next year and that the tariff shock is temporary, we continue to expect the Fed's inflation target to be within reach by end of Q3 2026.

We expect the US economy to avoid recession in 2026. Incoming data and policy developments over the past few years remain consistent with an economy set to begin re-accelerating from Q4 this year, after having absorbed the recent headwinds stemming from trade and immigration policies pursued by the new administration.

Domestic demand data have shown signs of improvement. After experiencing significant uncertainty caused by the policies of the Trump administration, both consumer and corporate spending increased in Q2. Furthermore, indicators for Q3, such as retail sales, personal spending, and orders point to continued growth in both areas.

Favourable fiscal policy, easier monetary policy and financing conditions, along with still strong household balance sheets, should continue to support private domestic demand going forward, in our view.

A low hiring, low firing equilibrium. The relatively low unemployment rate and stable JOLTS data indicates little labour market slack, explaining why modest payroll job gains can still be consistent with full employment. This is further influenced by a deceleration in the labour force due to policy-related changes in immigration.

Risks of imminent surge remain limited. Jobless claims continue to trend in line with the past few years, while continuing claims remain well below levels seen during previous business cycle recessions. Meanwhile, labour hoarding persists. The vacancy-to-unemployed ratio has stayed above 1 for some time, while net hiring (hires minus firings) remains close to zero.

We maintain our view that the labour market is a lagging indicator. While the slowdown in hiring momentum warrants close monitoring, we do not consider it a sufficient condition to justify a fundamentally negative outlook for the US economy over our forecast horizon (through 2026).

Let's be clear: we acknowledge that, on the surface, a less favourable hiring environment may seem discouraging. However, as discussed below, we believe that every cloud has a silver lining.

Paradigm shift within the US production. A key pillar to our constructive macro baseline through 2026 is the assumption that the US economy is undergoing a structural transformation. In a Cobb-Douglas production function framework, we believe domestic businesses are responding to the AI-driven boost in total factor productivity (TFP) by reallocating the relative weights of production inputs.

With little room for further price increases at the consumer level, corporates appear to have opted to sharply reduce hiring (lower labour contribution) as a way to protect margins from below.

At the same time, in order to preserve output, firms appear to have capitalised on AI-driven gains in total factor productivity by ramping up investment in the artificial intelligence sector.

The policy environment has supported this shift in direction:

1) On the one hand, favourable tax regimes, including the CHIPS Act (2025) and the Big Beautiful Bill (2025), have facilitated the transition of businesses toward a more capital-intensive production function. The hiring slowdown fell below the pre-COVID average in 2024 is symptomatic of an economy where: 1) consumer spending remains resilient, but there is limited scope for further price increases, and 2) corporates retain strong fiscal incentives to substitute labour with investment in technology.

2) On the other hand, the 2025 trade war has exacerbated the trade-off between price increases and margin compression faced by companies, placing additional pressure on the US labour market, given the limited room or appetite among consumers and businesses to absorb the tariff shock.

Cherry on the cake. Against this backdrop, the productivity gains observed since Q1-23 suggest that the corporate bet, leveraging AI-driven improvements in total factor productivity, was well placed.

Inflation-wise, we continue to expect the Fed's inflation target to be within reach by mid-2026. For several reasons:

1) The output gap is likely to remain negative throughout the forecast horizon. While growth momentum is expected to start accelerating in Q4 this year, we anticipate it will end 2026 still below potential on a quarterly basis.

2) We expect the tariff shock to be temporary. Incoming data along the goods and services price chain continue to suggest that tariff pressures are gradually easing. To us, this is consistent with businesses struggling to fully pass tariffs onto consumers.

3) We expect the services sector to remain on a disinflationary trend. That includes both housing and non-housing components, as wage growth is unlikely to re-accelerate amid balanced labour market.

ANIMA baseline. Our forecast for H2 2025 remains unchanged. We expect Q3 GDP growth to slow at 1.0% q/q SAAR (unchanged vs the prior forecast) from 3.3% in Q2. For Q4 2025 we forecast 1.3% (unchanged from the prior baseline). This is consistent with an annual growth rate of 1.7%. For Q1 2026 we expect real GDP growth at 1.4% q/q SAAR, and we project growth at 1.6%, 1.7% and 1.9% for Q2, Q3 and Q4 2026, respectively. This came consistent with an annual growth rate of 1.6%.

We expect core CPI at 3.0% y/y in Q3 2025 and 3.1% in Q4 2025. This remains consistent with an annual average of core CPI at 3.0%. For H1-26 we expect core CPI to average at 2.8%, and 2.4% in H2-26. This is consistent with an annual average of 2.6%. We expect the y/y % run rate to touch the 2% at the end of Q3-26. In core PCE terms, we expect 3.0% y/y for Q3 2025 and 3.3% for Q4 2025, consistent with an annual average of 2.9%. For H1-26 we expect core PCE to average 2.6%, and 2.3% in H2-26. This is consistent with an annual average of 2.5%.

EA – Looking for support

Our macro narrative remains intact: we continue to expect an economy that grows only modestly for now but hopefully accelerates next year, supported by the German

fiscal impulse and improving external demand. However, risks remain skewed to the downside.
Meanwhile, we expect disinflation in services to continue, which should result in core inflation undershooting by the end of the first half of 2026.

Moving sideways today, picking up tomorrow Incoming hard data for Q3 point to growth momentum that remains sluggish. Accordingly, we lower our area-wide Q3 estimate from 0.1% to flat and reduce our Q4 forecast by 0.1 percentage points (now expecting 0.1% quarter-on-quarter, down from 0.2% previously). However, we believe that in 2026, area-wide economic momentum will have room for improvement compared to the sluggish trend experienced this year. **There are several reasons for this:**

1) **Surveys are beginning to show steady improvement**, including the PMIs and key national surveys such as the German IFO, particularly in manufacturing. Moreover, the forward-looking components of the surveys, including the manufacturing orders/inventory gap and the expectations components, indicate a further pickup ahead. While the surveys remain at low levels, the recent dynamics are encouraging.

2) **The joint EU-US statement on the trade deal provided little new information but helped further reduce trade policy uncertainty**. This should support two key areas: 1) Consumer and business confidence could improve from the rather low levels observed during 2025. 2) A decrease in global trade tensions could stimulate export activity.

3) **We believe that German fiscal policy remains on track to expand sharply**. Following a “clean-up” session in the budgetary committee on 4th September, the budget is likely to be approved before the start of the autumn season. We therefore expect fiscal policy to support growth from the end of this year and throughout 2026. On the expenditure side of GDP, the fiscal boost will be reflected in higher public and private investment, as well as increased public consumption. The net result is a re-ignition of animal spirits: indeed, German confidence surveys have continued to improve, particularly in sectors exposed to the stimulus (such as manufacturing and construction). This can be interpreted as a sign that the fiscal package may boost private-sector willingness to invest, as illustrated by the recent "Made for Germany" initiative.

Bottom line. Against this backdrop, we continue to expect an economy that barely grows for now but hopefully accelerates next year, supported by the German fiscal impulse and improving external demand. In numbers, we forecast euro-area growth averaging between 0.0% and 0.1% H2 2025 and between 0.3% and 0.4% in 2026.

Risks remain skewed to the downside.

1) Uncertainty continues to decline but will likely remain far from fully normalised. The EU-US trade deal is fragile, with new threats already emerging from the US side. It is hard to see consumer and investment activity recovering strongly in this context.

2) We see risks regarding the German government's ability to accelerate spending from the fiscal package as much as announced.

The inflation descent continues. Based on the August HICP print, we do not see any signals that would significantly alter our forecast. The most important takeaway is the continued decline in services inflation, which slowed down for the third consecutive month with a broad-based composition, that is, a slowdown in underlying services (non-tourism-related items).

Undershooting the destination. We expect headline inflation to fall below target from November 2025 onward. The main driver of this deceleration will be energy prices, as wholesale energy market prices have dropped on average by approximately

4.6% across the curve. Consequently, this should help keep energy inflation in deflation territory throughout most of our forecast horizon, also supported by a favourable base effect. In contrast, we expect FAT inflation to remain sticky until the end of this year, based on leading indicators such as upstream food prices, PMIs and EC survey selling price expectations, before slowing down during 2026. We maintain our forecast for annual average core inflation at 2.3% for 2025 and forecast 1.8% for 2026. We expect NEIG prices to remain in line with the pre-COVID norm following the uptick in July and August, which was mainly driven by sales season-related issues. The rerouting of Chinese exports to Europe should act as a normalising force for NEIG inflation. More importantly, we expect disinflation in services to continue. Wages and profit margins are normalising, and we believe that in 2026 the annual repricing process for regulated services prices will provide a further downward push.

ANIMA baseline. We now forecast EA real GDP growth at 0.0% in Q3 2025 (down from 0.1% previously) and 0.1% in Q4 2025 (down from 0.2% previously). This aligns with an unchanged annual 2025 forecast of 1.2%. For 2026, we project growth of 0.3% for H1 2026 (quarter-on-quarter average) and 0.4% for H2 2026. This results in an annual 2026 forecast of 1.0%, slightly below the 1.1% consensus.

We now forecast EA core HICP at 2.2% in Q3 2025 (unchanged) and 2.1% in Q4 2025 (down from 2.2% in the prior baseline). Our forecast for the 2025 annual average remains at 2.3%. For 2026, we expect core inflation of 1.9% in H1 and 1.8% in H2, consistent with an annual average of 1.8%.

China – Baseline unchanged

With most of August's data still pending, our macro-outlook remains unchanged. Trade slowed sequentially in August, mainly due to a decline in shipments to the US. However, we expect redirection of trade toward ASEAN countries to provide growing support for Chinese external trade heading into 2026. Fiscal stimulus remains in place, with targeted loan subsidies to households and service-sector businesses bolstering domestic momentum amid persistent deflationary pressures, which we expect to continue throughout 2026.

Our macro backdrop remains unchanged. With most August hard data still unreleased, aside from trade figures, our overall macro-outlook remains broadly stable. The available data indicate that trade momentum softened further in August: exports grew by 4.4% year-on-year, down from 7.2% in the previous month, while imports rose by 1.3% year-on-year, compared with 4.1% previously.

A regional breakdown reveals diverging trends: exports to the United States fell sharply by 33% year-on-year, reflecting weaker demand and the impact of elevated tariffs. In contrast, shipments to the European Union and several emerging markets remained broadly stable, helping to offset some of the weakness.

Looking ahead, we expect Chinese exports to hold relatively steady through 2025, supported by continued redirection toward ASEAN economies. Nevertheless, the outlook for external trade is constrained by softening global demand and persistently high U.S. tariff rates, reaching as much as 71%.

Fiscal stimulus continues to flow. Over the summer, policymakers introduced targeted interest subsidies for households and service-sector businesses. While these measures may offer limited support to services and consumption, we believe their impact will be modest and insufficient to meaningfully boost GDP growth. In our view, fiscal easing will continue to provide marginal support to domestic demand, helping to sustain economic momentum amid persistent structural challenges, including imbalances between production and consumption, ongoing deflationary pressures,

Marketing Communication. For professional clients or qualified investors only.

and continued weakness in the housing sector. To address the housing crisis and bolster household sentiment, authorities may even task state-owned enterprises with purchasing unsold housing inventory from distressed developers.

Deflationary pressures remain entrenched. We continue to expect deflationary pressures to persist well into 2025 and likely through the first half of 2026. This outlook is driven by weak household demand, limited pricing power across both goods and services, and significant excess capacity in the manufacturing sector, all of which continue to weigh on inflation.

ANIMA baseline. We maintain our baseline and project GDP growth to slow to 4.7% y/y in Q3 before edging up to 4.9% in Q4. We anticipate full-year 2025 GDP at 5.0%, matching the pace of 2024. In 2026, we expect GDP to slightly improve toward 5.2%.

ANIMA Baseline. Against this backdrop, we have slightly revised our baseline to the downside and now expect full-year inflation for 2025 to stabilise at 0.1% (down from 0.2% previously), the same level as in 2024. On a sequential basis, we anticipate headline inflation to evolve as follows: -0.3% y/y in Q3, 0.5% in Q4 2025 and 1.1% in Q1 2026. Headline inflation is expected to recover above 0.5% next year, mainly due to positive base effects.

MONETARY POLICY

FED – Back to (slightly below) neutral

We expect the Fed funds rate to decline slightly below neutral (2.75-3%) by the end of Q3 2026, with risks tilted toward an even faster adjustment.

Specifically, we anticipate two rate cuts in 2025 (October and December), followed by three additional cuts in 2026 - 25bp each in March, June, and September - bringing the Fed funds rate slightly below neutral by the end of Q3 2026.

In the latter part of 2025, rate cuts are likely to be justified by mounting downside risks to the labour market. The continuation of the rate-cutting cycle in 2026 will likely be driven by a renewed disinflation trend following the tariff-related inflation peak (we expect inflation to converge to target by Q3 2026) even amid a reacceleration in growth. This outlook aligns with a dovish-leaning Fed, regardless of the degree of political interference from a potential Trump administration.

ECB – On hold

We expect the ECB to deliver a rate cut in December, bringing the depo rate to 1.75% - the lower end of the neutral range - and then to remain on hold throughout 2026, with risks skewed towards one more rate cut throughout the forecast horizon.

While we expect disinflation to continue and core inflation to fall moderately below target in 2026 averaging 1.9% in H1 and 1.8% in H2 - we also anticipate a reacceleration in growth, primarily driven by the implementation of the fiscal package in Germany (0.3% q/q in H1 2026 and 0.4% q/q in H2 2026). Given the slightly hawkish tilt of the Governing Council (GC), we believe the moderate undershoot in core inflation will be largely overlooked, with the reacceleration of euro area growth taking precedence in the ECB's reaction function. At the same time, we expect EA growth to remain slightly below potential in 2026, with GDP forecasted to grow 1.0% year-on-year. Moreover, even if the German fiscal stimulus effectively supports the economy, we do not anticipate it generating inflationary pressures - at least not in 2026. Against this backdrop, the hawks within the Governing Council will likely lack sufficient ammunition to shift the consensus toward rate hikes.

Against this backdrop, we expect the ECB to deliver a rate cut in December, bringing the depo rate to 1.75% - the lower end of the neutral range - and then to remain on hold throughout 2026, with risks skewed towards one more rate cut throughout the forecast horizon.

PBoC – No news is good news

After easing in Q2, the PBoC will likely pause through Q3 before resuming cuts in Q4 amid re-emerging risks to the 2025 growth target. Meanwhile, a dovish shift in the Fed could provide unexpected support to the yuan, with USDCNY expected to hover near 6.5 through 2025-2026.

A quiet Q3. Following easing in Q2, the PBoC is expected to keep policy steady through Q3, with the next rate and RRR cuts likely postponed until early Q4 as risks to the 2025 growth target may re-emerge. We anticipate about 40 bps in rate cuts and possibly one final RRR reduction, with the timing dependent on the economy's muted response to US tariffs and domestic stimulus.

A dovish Fed could ultimately boost the yuan. Meanwhile, a more dovish-than-expected Fed should help the yuan regain strength against the dollar. After Jackson Hole and recent softer US jobs data, Chair Powell appeared to prioritize growth over inflation, signaling a dovish shift. As a result, we now expect the yuan to strengthen against the dollar, with USD/CNY steadying around 6.5 through 2025-2026.

ANIMA INVESTMENT RESEARCH

FABIO FOIS
Head of Investment Research & Advisory
fabio.fois@animasgr.it

CHIARA CREMONESI
Senior Rates Strategist
chiara.cremonesi@animasgr.it

FRANCESCO PONZANO
Junior Equity Strategist
francesco.ponzano@animasgr.it

VALERIO CEOLONI
Senior EM/FX Strategist
valerio.ceoloni@animasgr.it

MATTEO GALLONE
Junior Macroeconomist
matteo.gallone@animasgr.it

COSIMO RECCHIA
Senior Equity Strategist
cosimo.recchia@animasgr.it

IMPORTANT DISCLOSURES

Marketing material for professional clients or qualified investors only. This material does not constitute an advice, an offer to sell, a solicitation of an offer to buy, or a recommendation to buy, sell, or hold any investment or security or to engage in any investment strategy or transaction. ANIMA can in no way be held responsible for any decision or investment made based on information contained in this document. The data and information contained in this document are deemed reliable, but ANIMA assumes no liability for their accuracy and completeness. ANIMA accepts no liability whatsoever, whether direct or indirect, that may arise from the use of information contained in this material in violation of this disclaimer and the relevant provisions of the Supervisory Authorities.

This is a marketing communication. Please refer to the Prospectus, the KID, the Application Form and the Governing Rules (“Regolamento di Gestione”) before making any final investment decisions. These documents, which also describe the investor rights, can be obtained at any time free of charge on ANIMA website (www.animasgr.it). Hard copies of these documents can also be obtained from ANIMA upon request. The KIDs are available in the local official language of the country of distribution. The Prospectus is available in Italian/English. Past performances are not an indicator of future returns. The distribution of the product is subject to the assessment of suitability or adequacy required by current regulations. ANIMA reserves the right to amend the provided information at any time. The value of the investment and the resulting return may increase or decrease and, upon redemption, the investor may receive an amount lower than the one originally invested. In case of collective investment undertakings distributed cross-border, ANIMA is entitled to terminate the provisions set for their marketing pursuant to Article 93 Bis of Directive 2009/65/EC.