Candriam Sustainable Investment Conference.

Florence Pisani & Emile Gagna

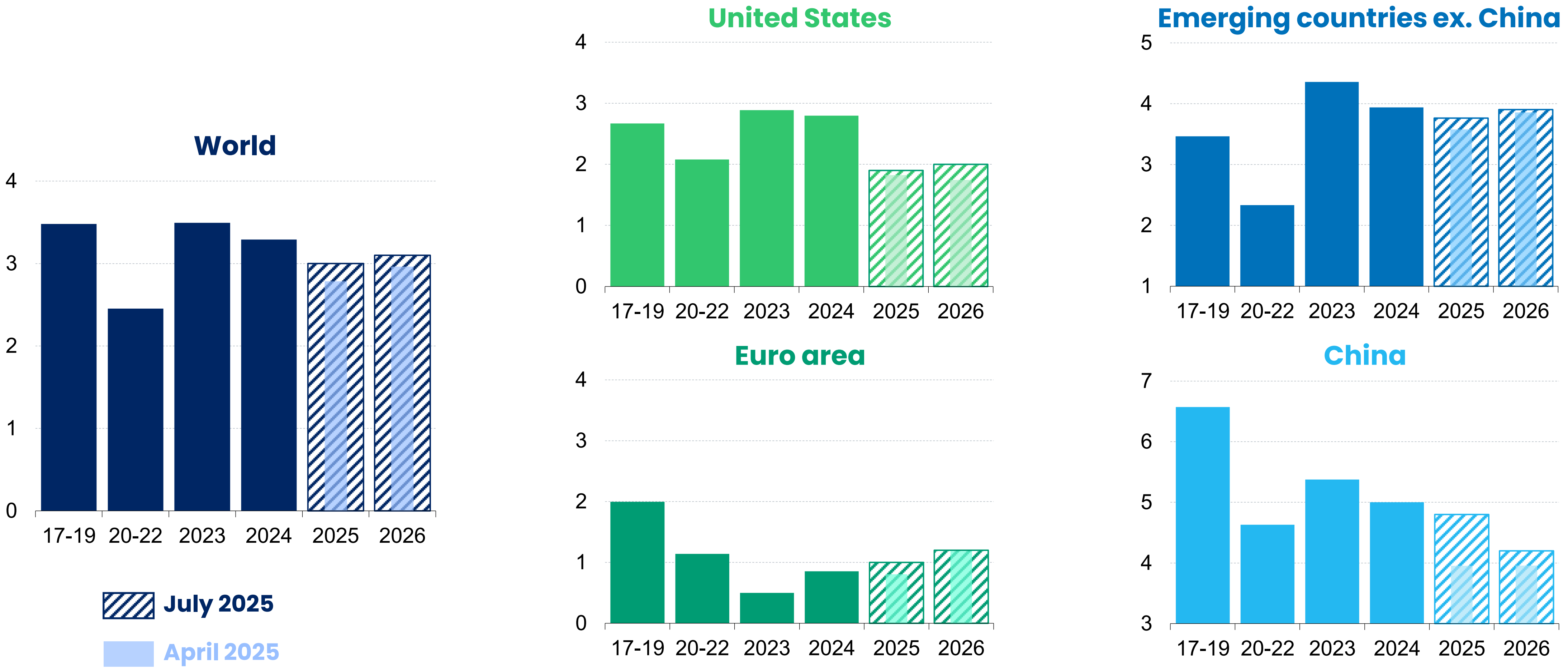
Amsterdam - September 30, 2025

1 Global economy

Resilient… for now!

The IMF has barely revised its growth forecasts since last April

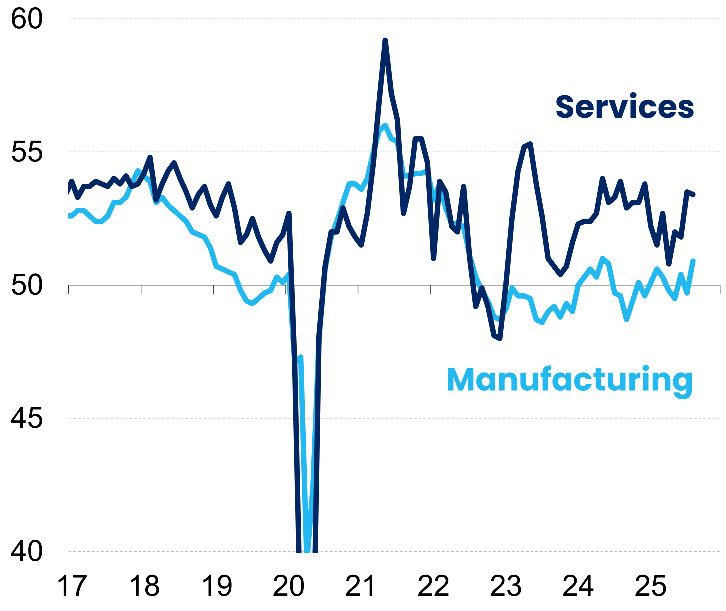
IMF GDP growth forecasts
(% annual rate, July 2025)



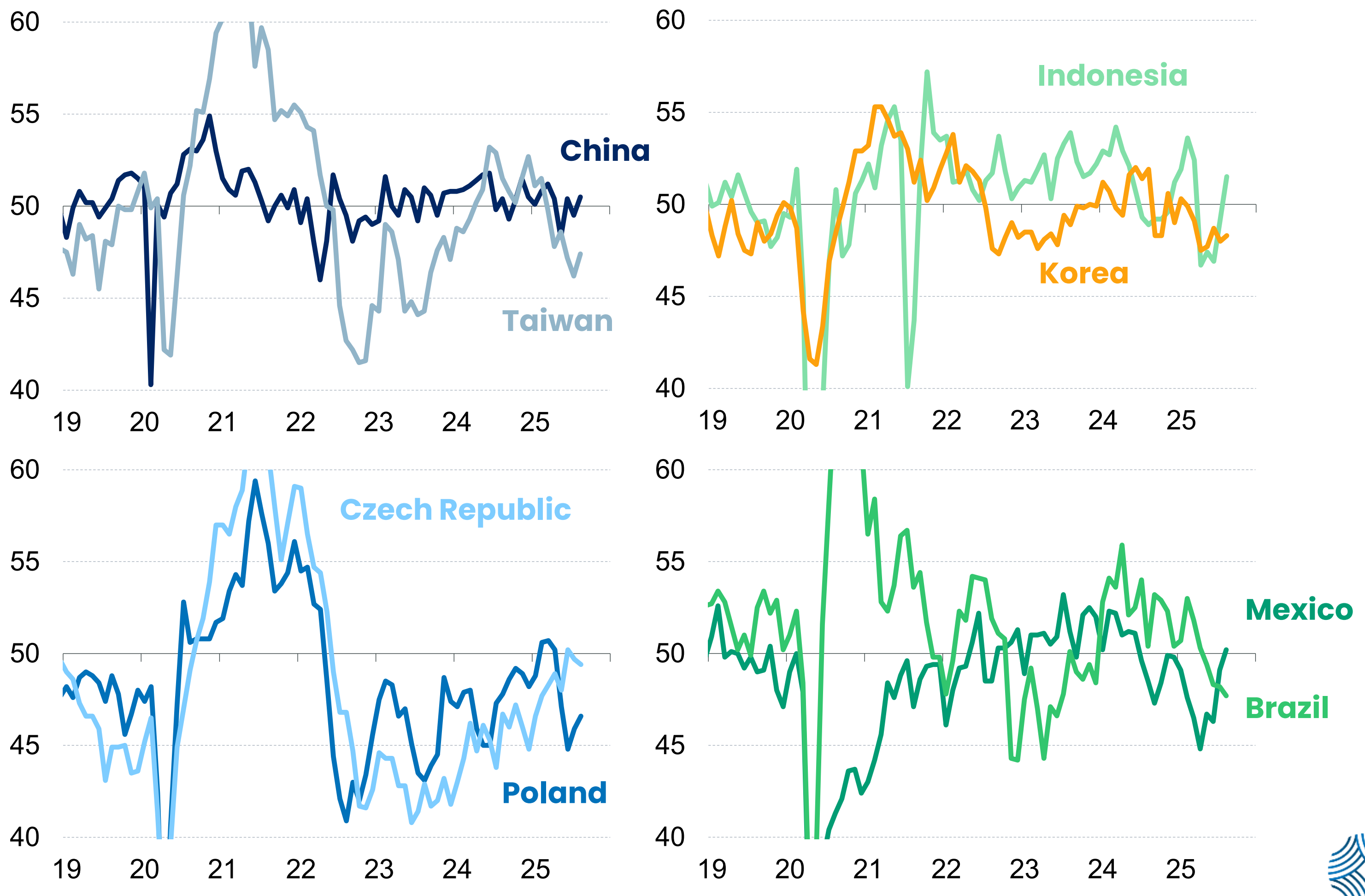
Sources: IMF, Candriam SEPTEMBER 2025

Activity has been sluggish in the manufacturing sector but has remained resilient in the service sector

World PMI
(%)

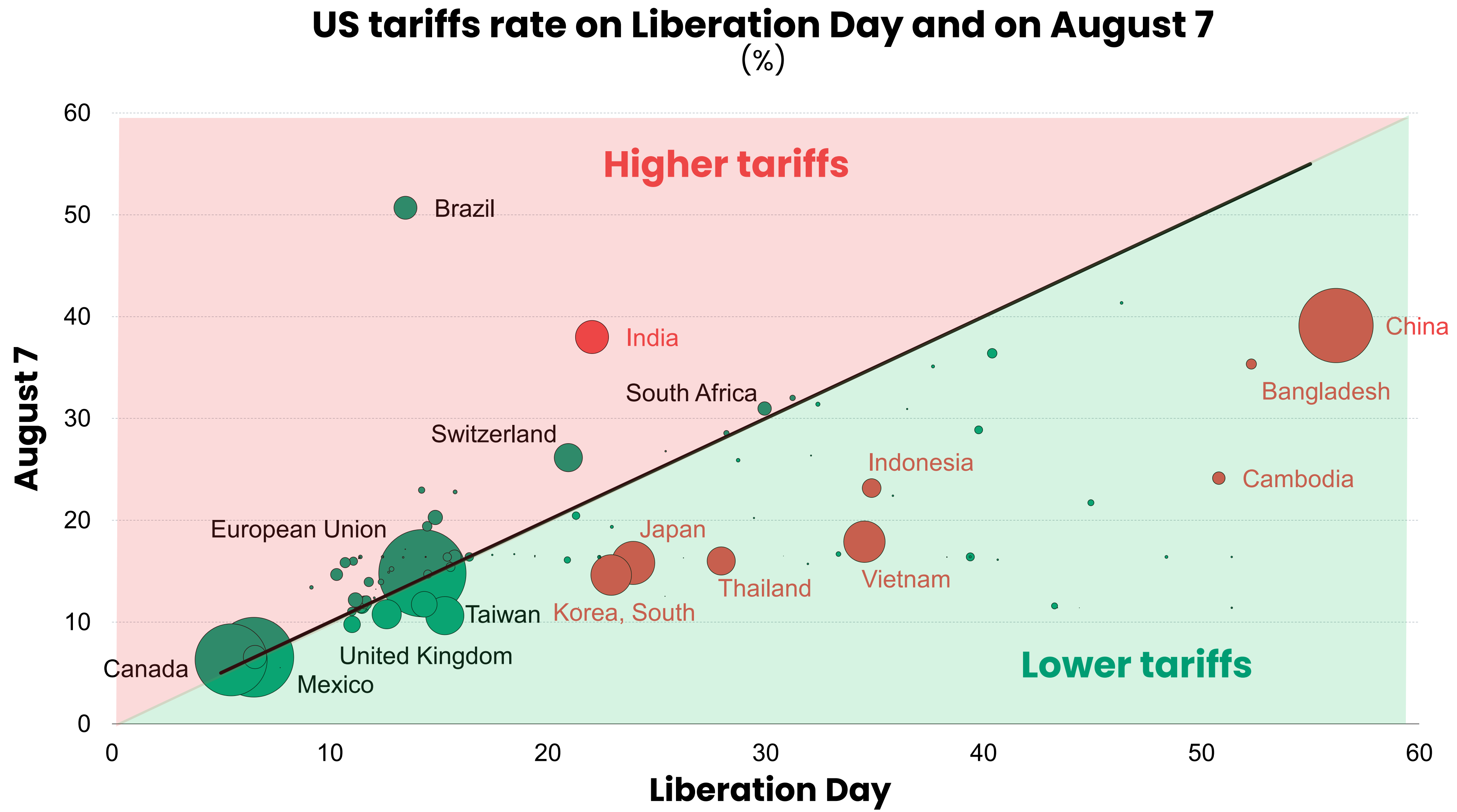


Manufacturing PMI indices in some emerging countries
(%)



Sources: Bloomberg, Candriam   SEPTEMBER 2025

Despite some de-escalation since Liberation Day, the rise in US tariffs is significant (I)



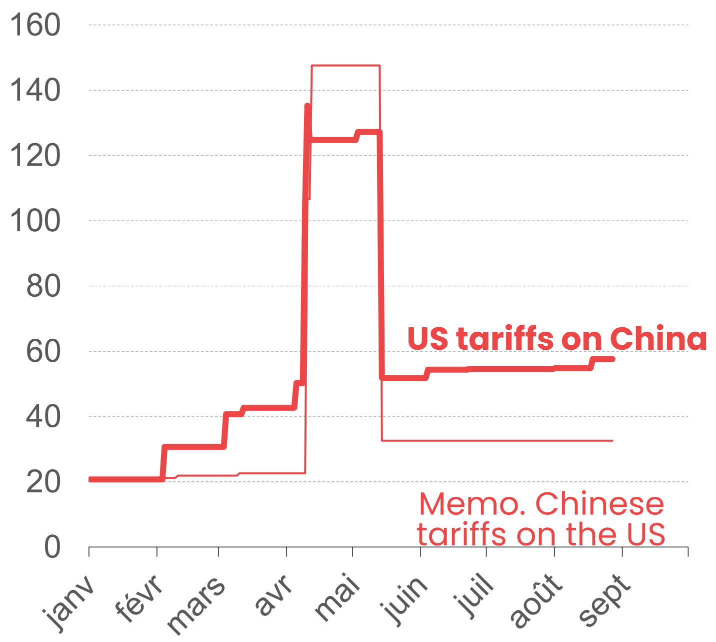
Bubbles' area is proportional to countries' share in US imports

Sources: Census Bureau, Candriam SEPTEMBER 2025

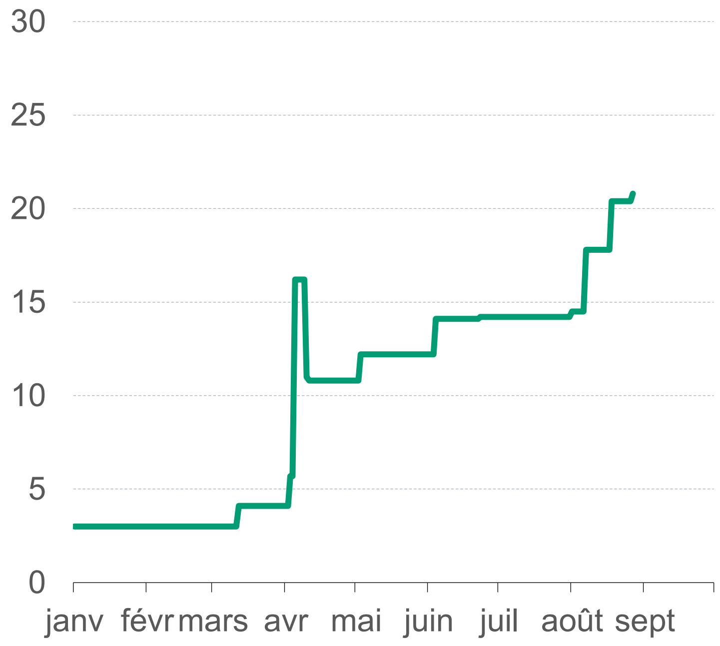
Despite some de-escalation since Liberation Day, the rise in US tariffs is significant (II)

Evolution of US tariffs rate in 2025
(%)

China



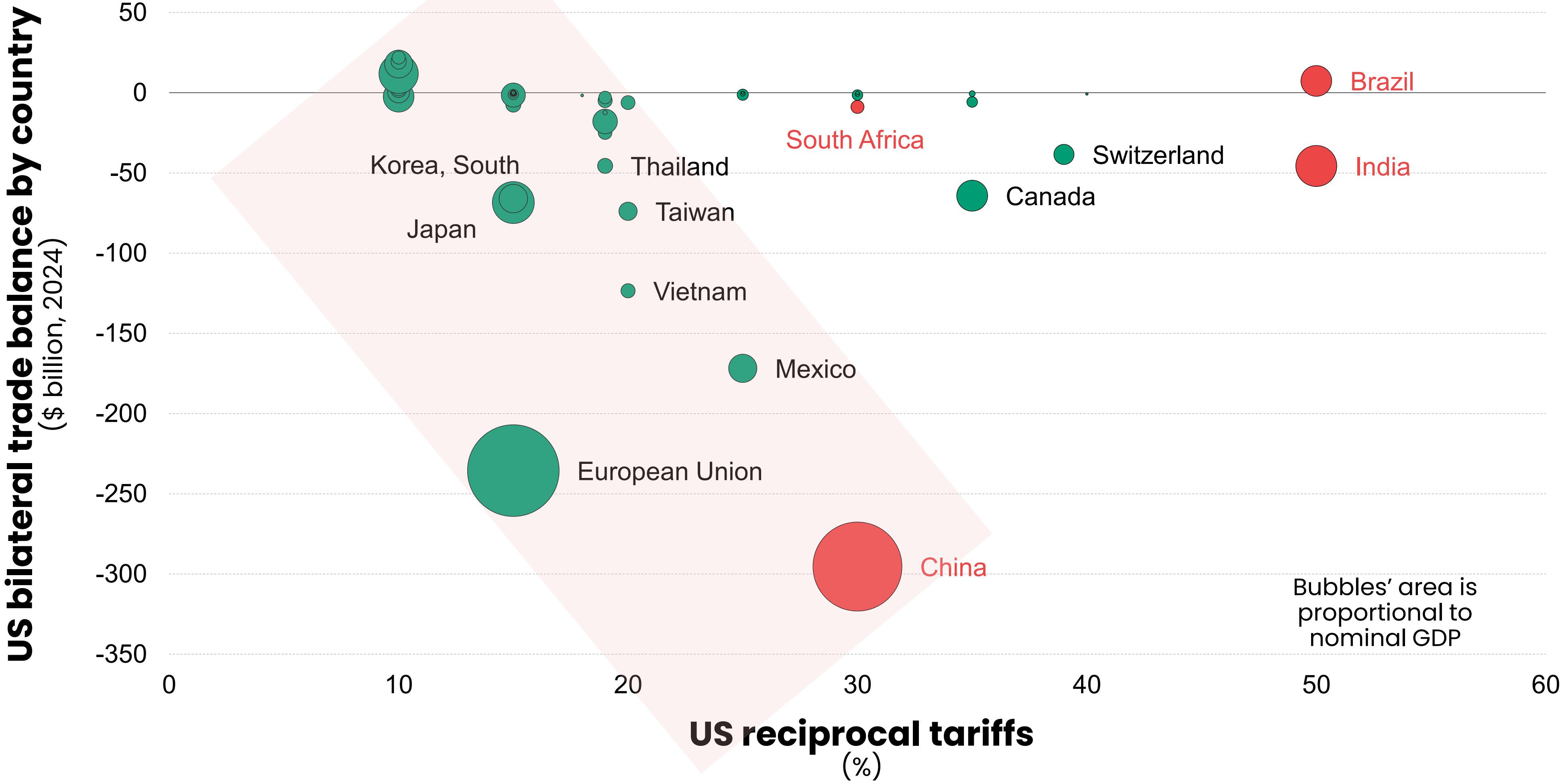
Rest of the world



Sources: PIIE, Candriam SEPTEMBER 2025

While countries assigned higher tariff rates were mostly the ones that contributed more to the US trade deficit… some countries were hit for political reasons!

US reciprocal tariffs and bilateral trade balance by country

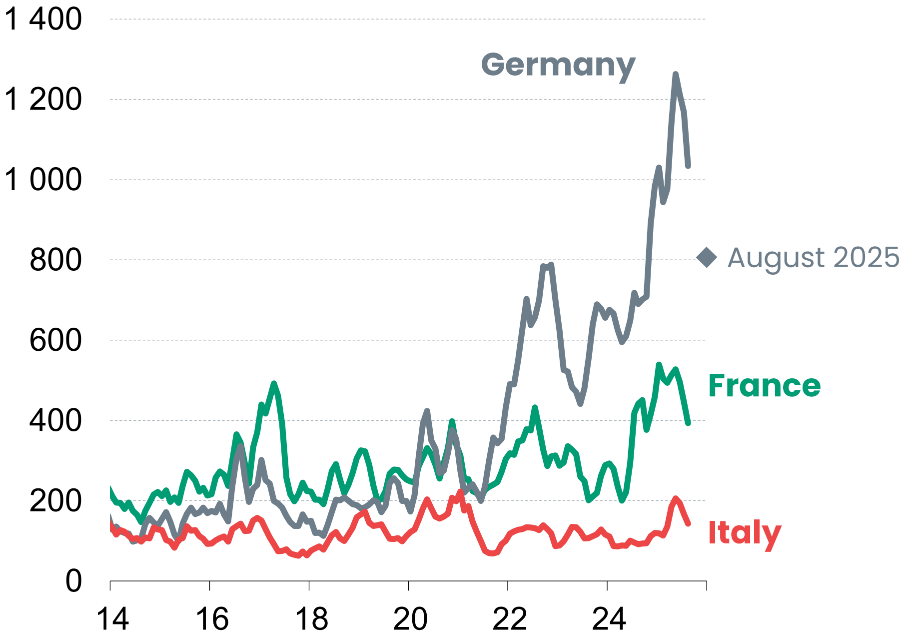


Sources: Census Bureau, Candriam SEPTEMBER 2025

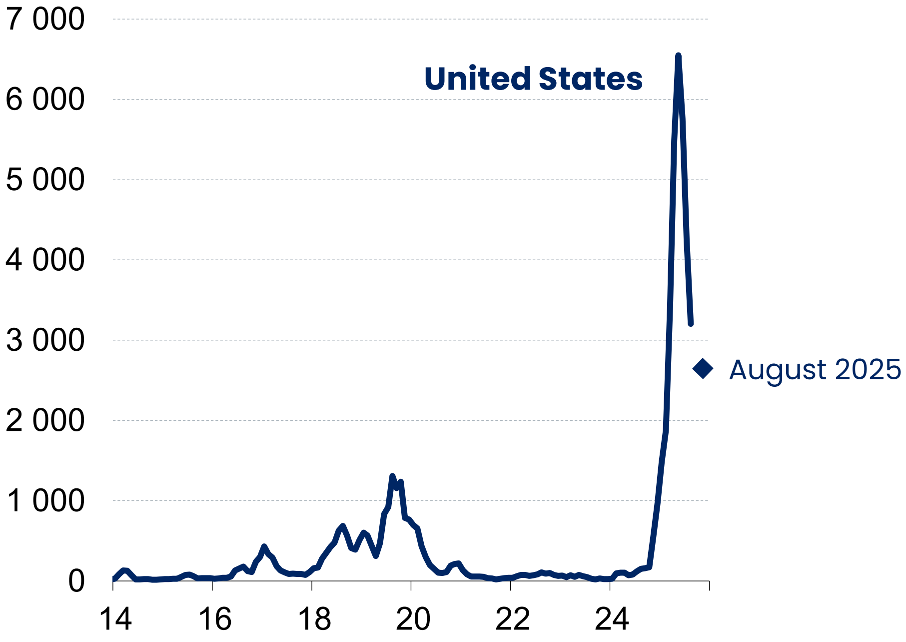
Uncertainty has receded… but remains elevated!

Political uncertainty indices
(3-month moving average)

Economic policy



Trade policy

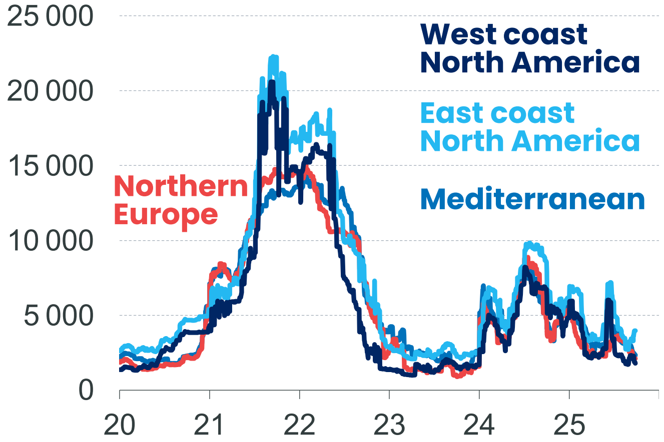


Sources: Bloomberg, Candriam SEPTEMBER 2025

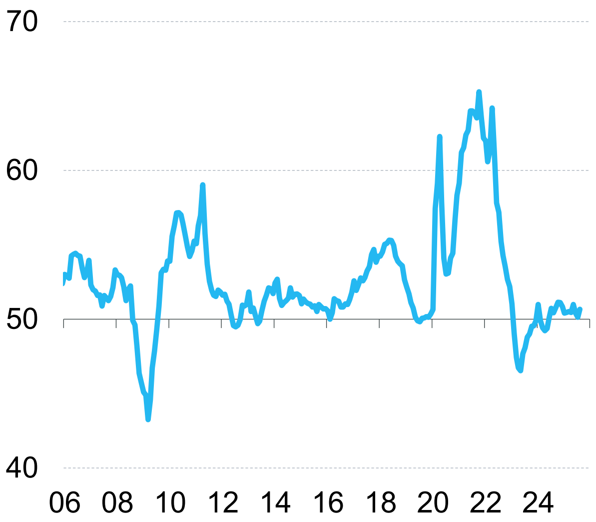
Despite trade turbulences, there has been no sign of supply chains tensions… so far

Harper shipping index
(January 2019 = 100)

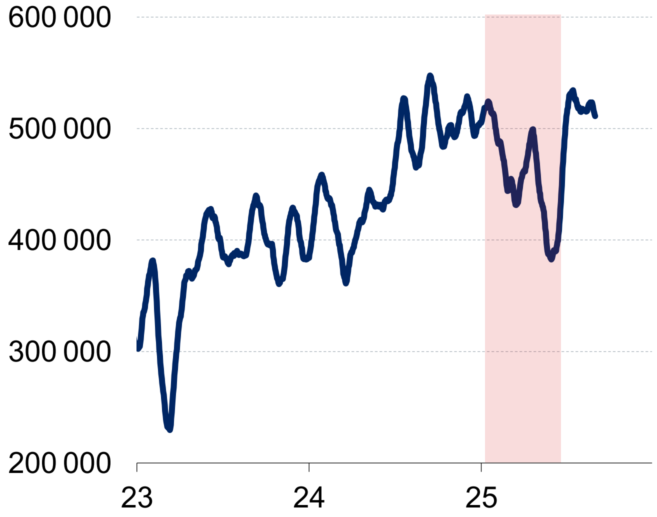
Freight costs
($ per 40-foot container, from China & East Asia to…)



Global suppliers' delivery time
(manufacturing PMIs)

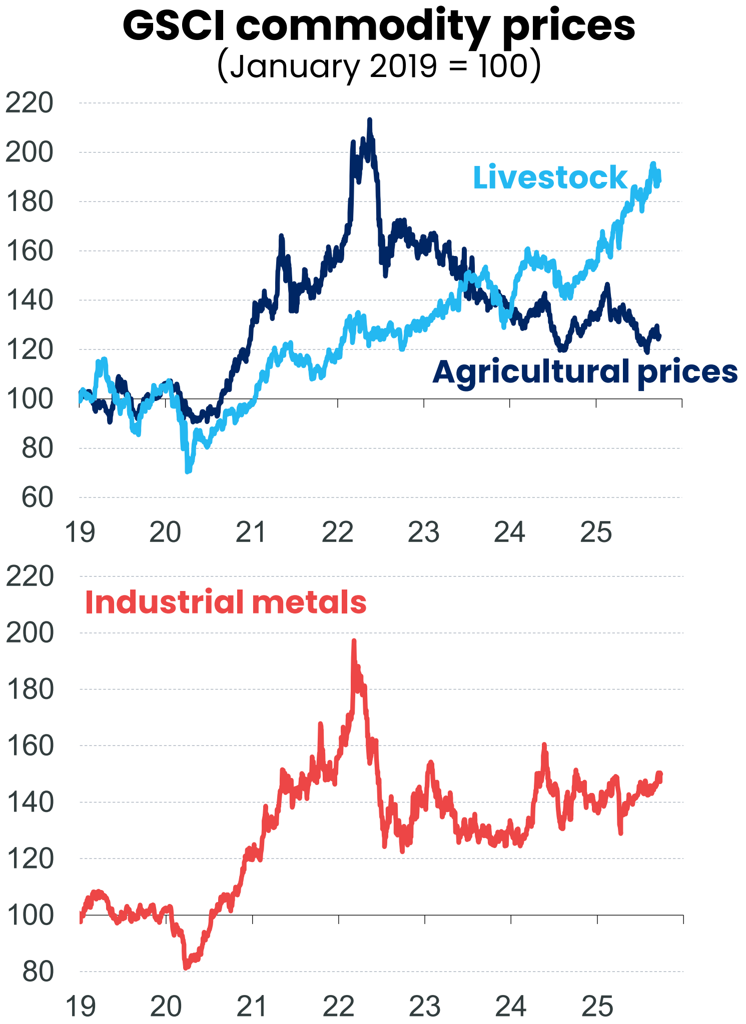


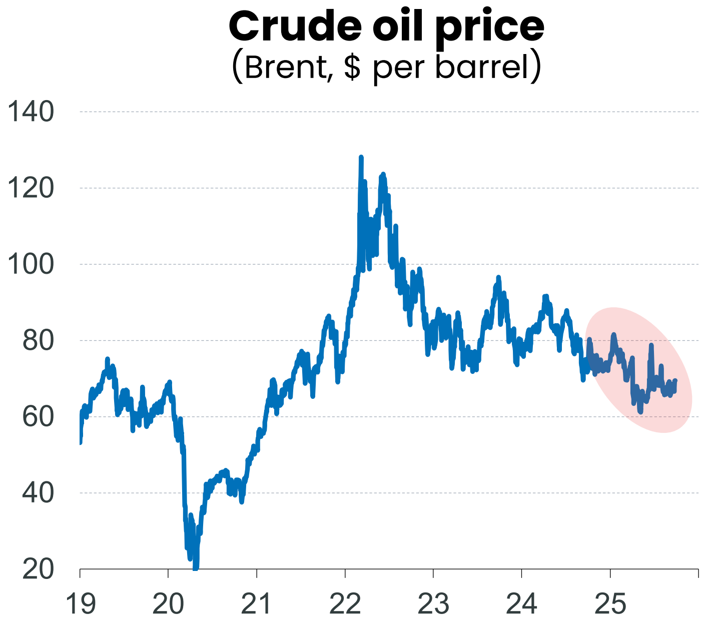
Container ship tonnage departures from China to the US
(twenty-foot equivalent unit, 30-day moving average)

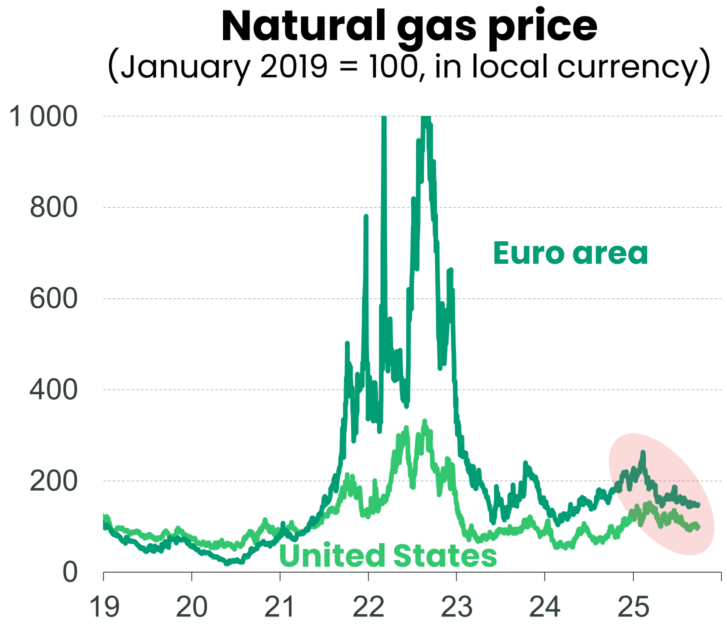


Sources: LSEG Datastream, JP Morgan, Bloomberg, Candriam SEPTEMBER 2025

The recent fall in energy prices should cushion the tariffs' shock somewhat



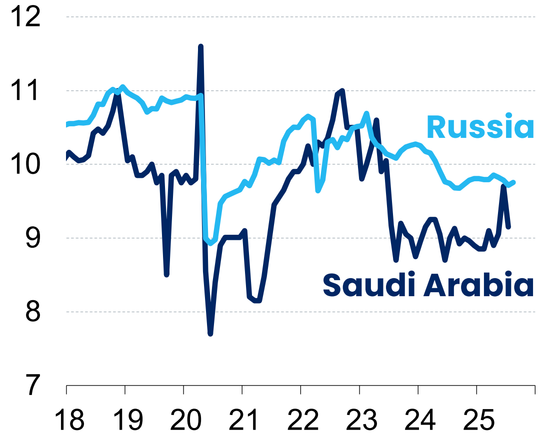


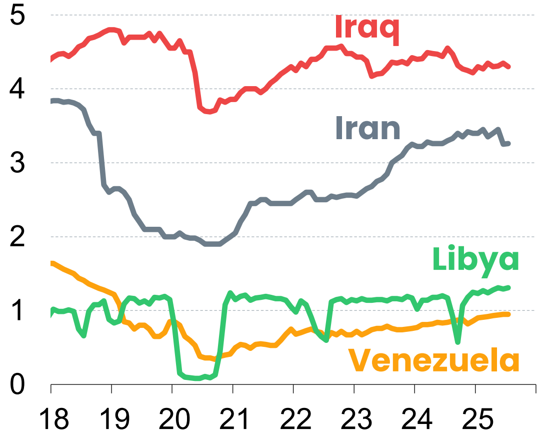


Sources: LSEG Datastream, Candriam SEPTEMBER 2025

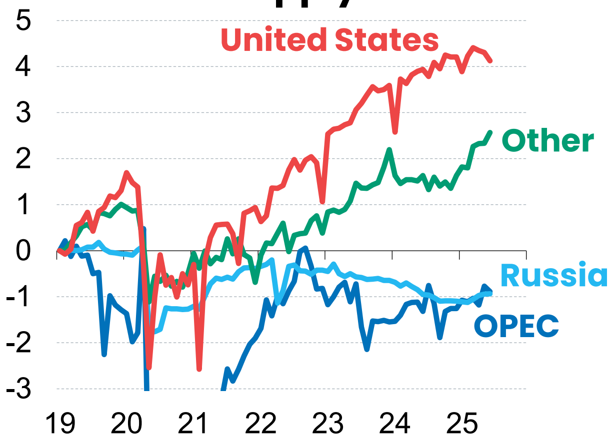
Given the rise in OPEC+ production and weaker oil demand, oil prices could stabilize around $60 per barrel

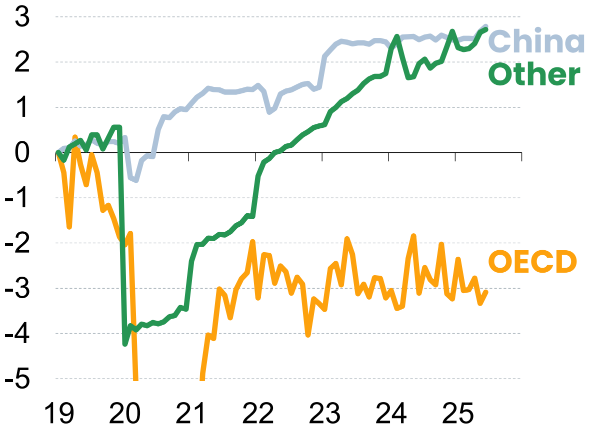
OPEC+ crude oil production
(million barrels per day)





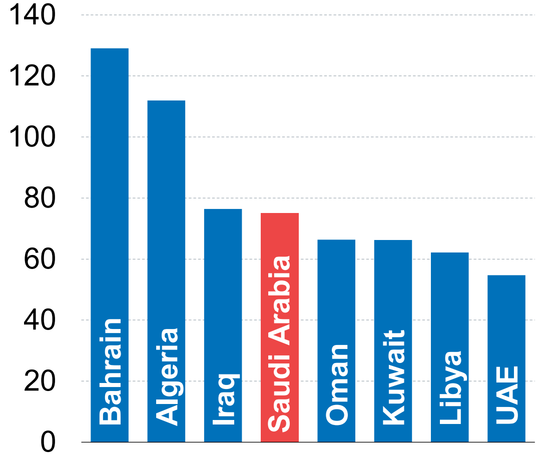
Cumulated change in global oil supply and demand
(million barrels per day, since January 2019)





OPEC spare capacity
(million barrels per day)

Breakeven fiscal oil price by country
($ per barrel)

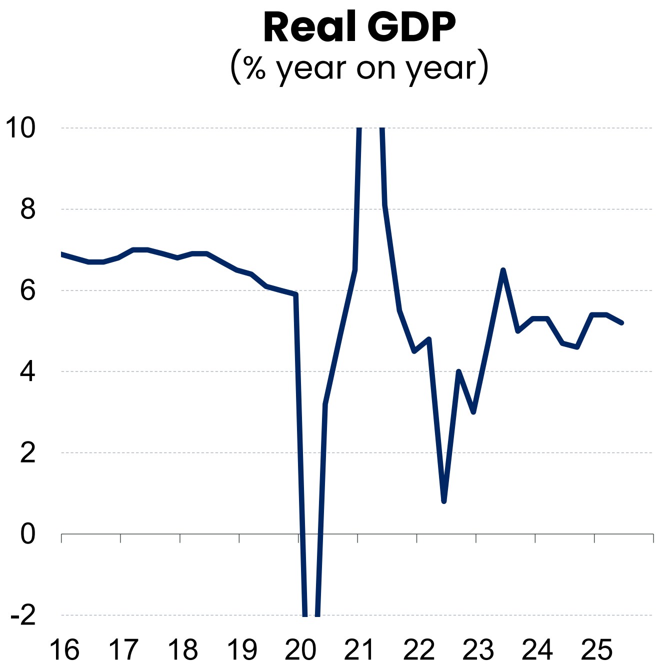


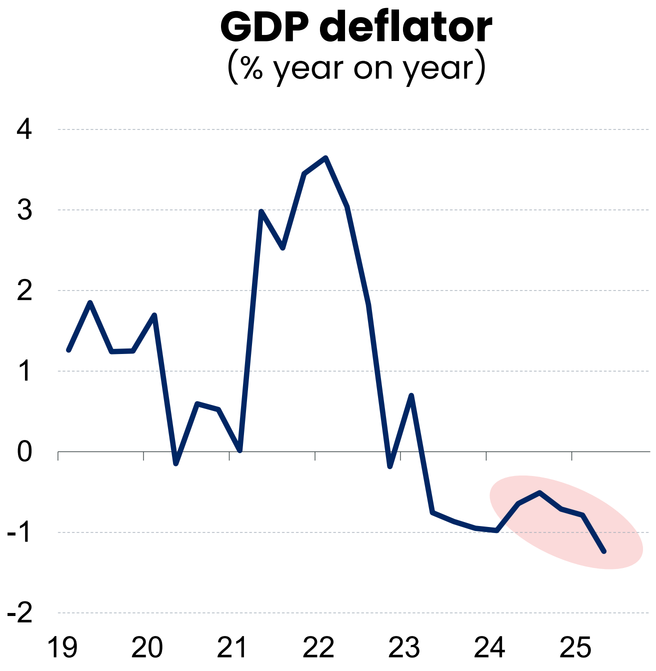
Sources: LSEG Datastream, EIA, Candriam SEPTEMBER 2025

2 China
Confronting “Neijuan”*...

(*) Neijuan is the Chinese term for “involution”, a concept from sociology that refers to a society that can no longer evolve, no matter how hard it tries. Today it refers to excessive and self defeating competition among Chinese companies.

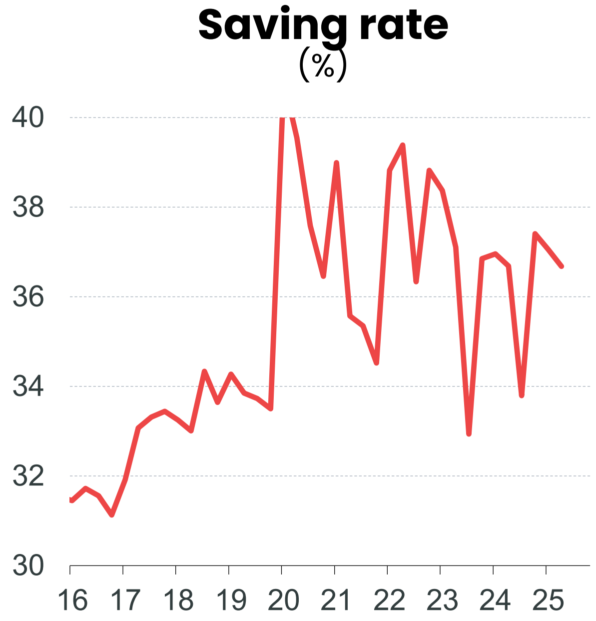
While GDP growth was still solid in Q2, deflation worsened

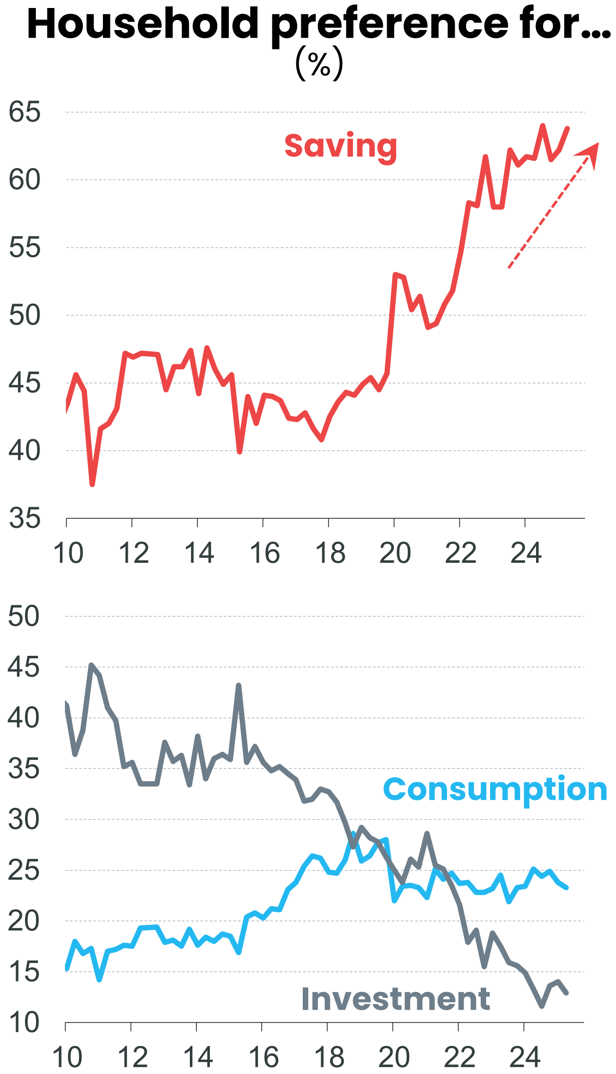


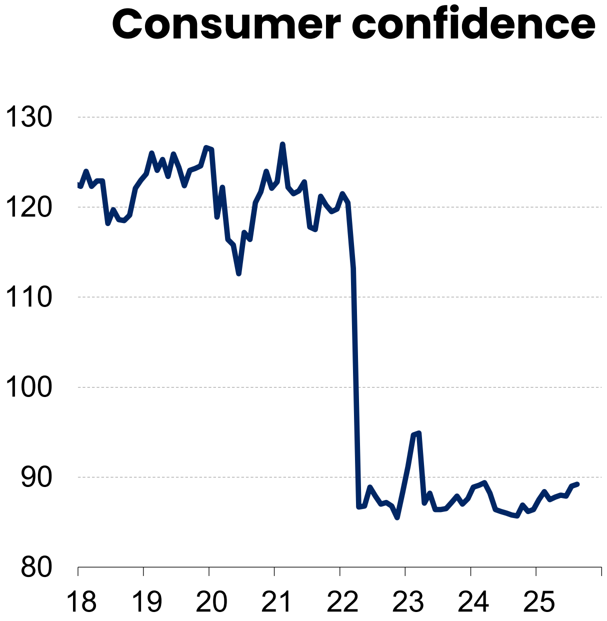


Sources: LSEG Datastream, Candriam

China is still suffering from a saving glut







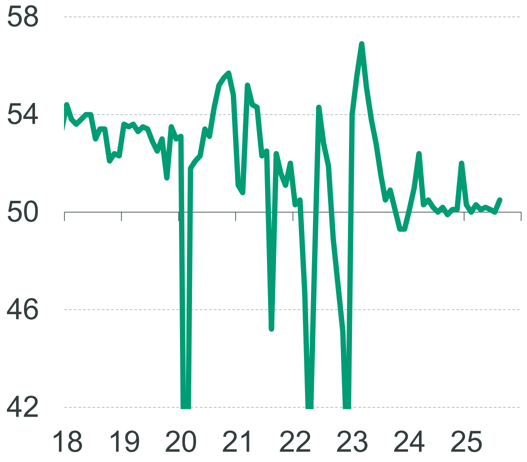
Sources: LSEG Datastream, Candriam SEPTEMBER 2025

Latest surveys remain weak

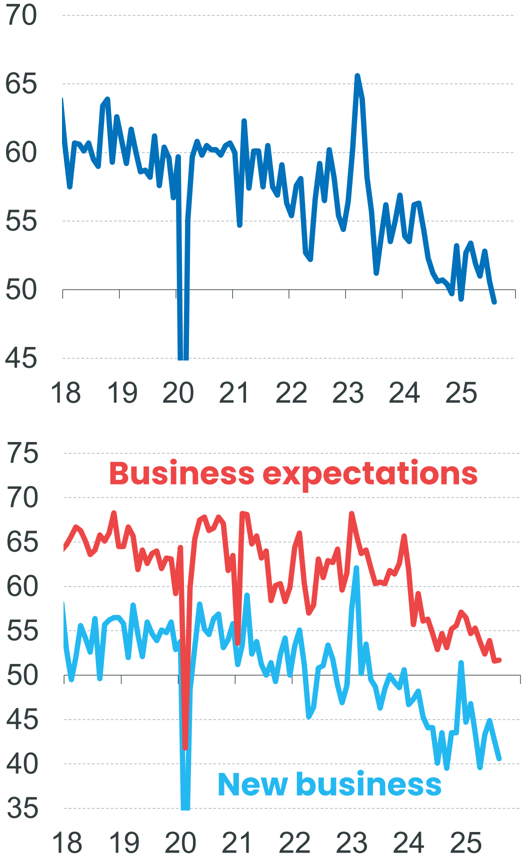
PMI index
(NBS)

Manufacturing

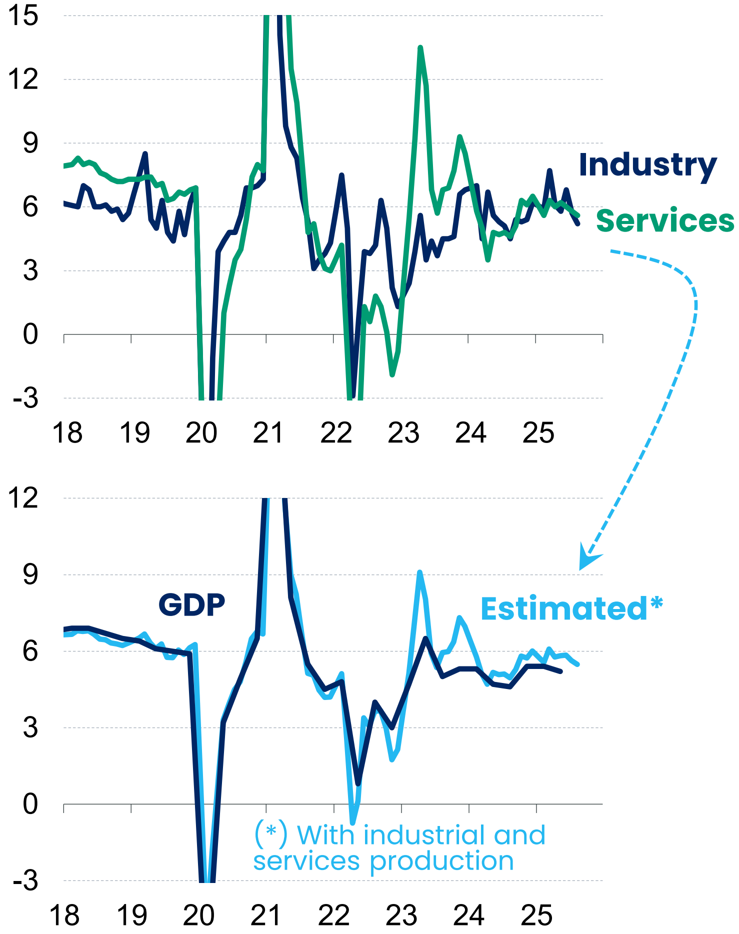
Services



Construction PMI



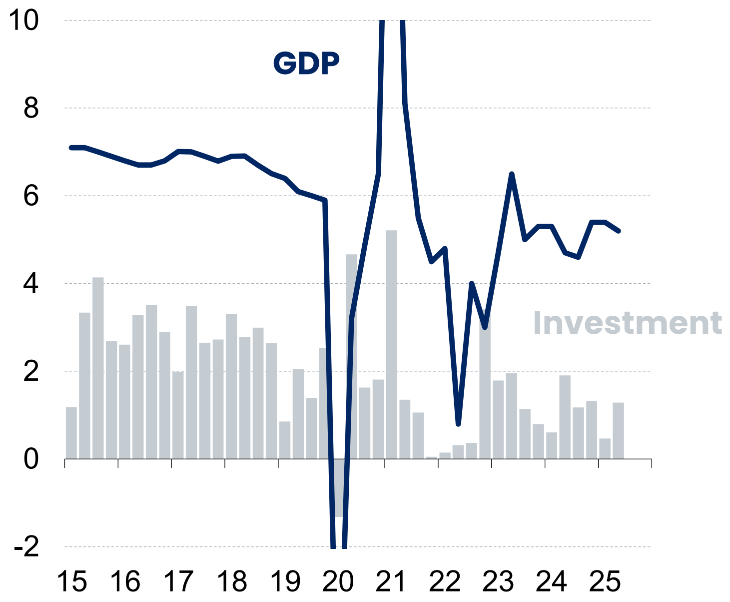
Monthly output and GDP
(% year on year)



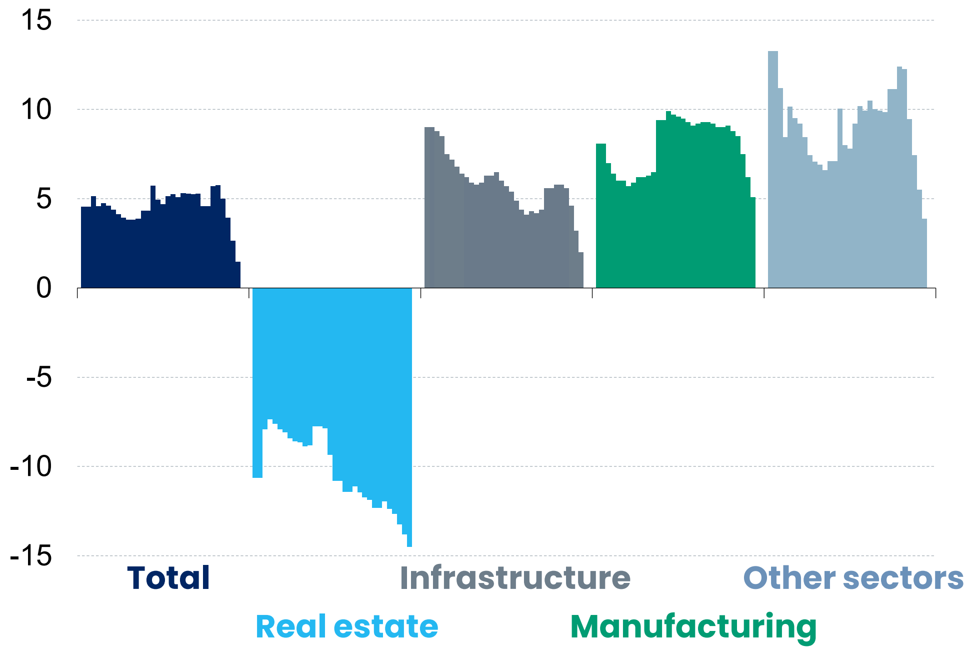
Sources: LSEG Datastream, Haver Analytics, Candriam

Business investment has recently weakened…

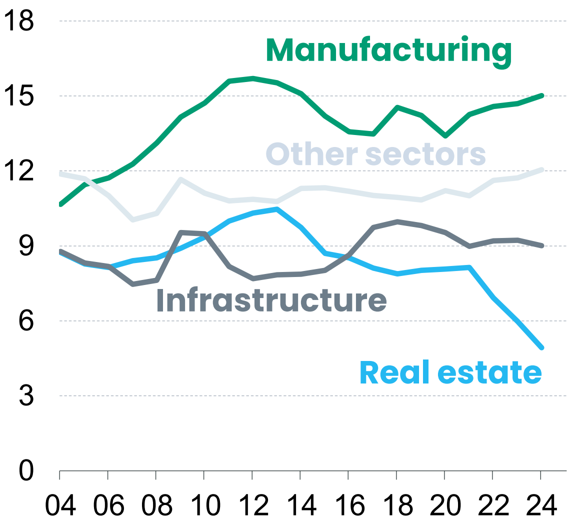
Contribution to real GDP growth
(% year on year)



Fixed asset investment by industry
(% year on year growth of investment cumulated since the start of the calendar year, January 2023 – August 2025)



Investment share by sector
(% of GDP)

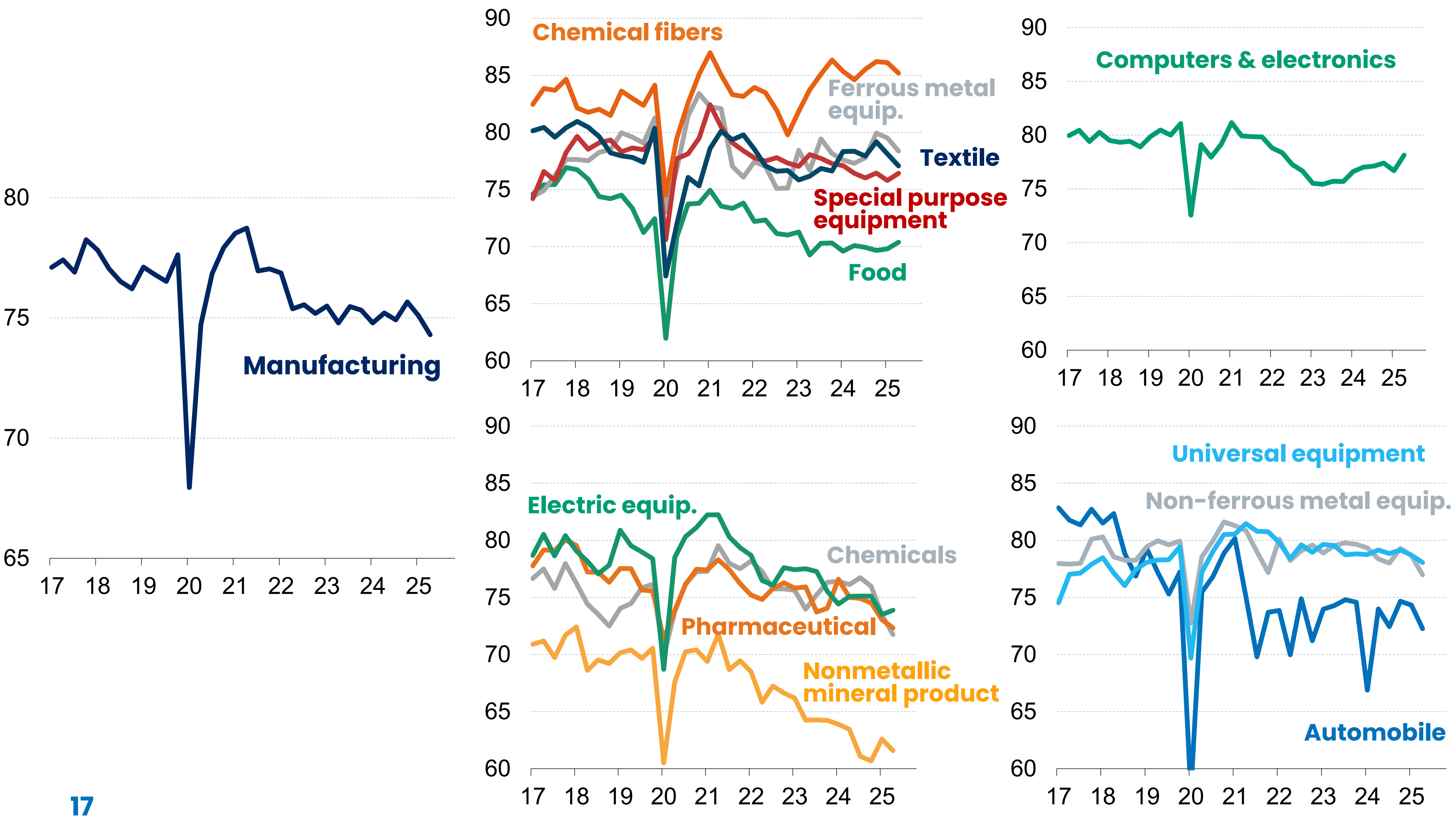


The launch of several mega-projects – notably **the mega-dam project, the construction of railway connecting Xinjiang and Tibet…** – could boost infrastructure investment and support GDP by 0.2-0.3% over the coming year.

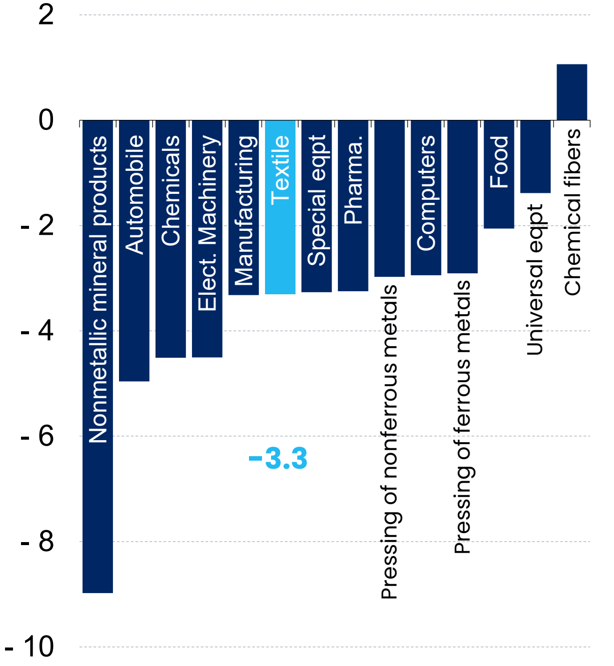
Sources: LSEG Datastream, Haver Analytics, Bloomberg, Candriam SEPTEMBER 2025

… and is unlikely to be very dynamic as overcapacities involve a myriad of sectors and products

Capacity utilization rate
(%)



Capacity utilization rate
(% change over 2019 Q4 – 2025 Q2)

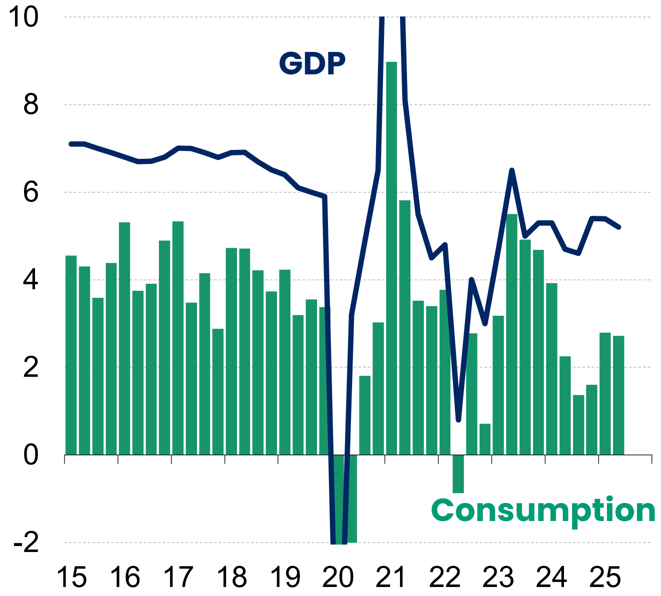


In the 6th meeting of the Central Commission for Financial and Economic Affairs on July 1, **policymakers attributed the deflation to involution, excessive competition and overcapacity**.
To tackle this, the CCP leadership pledged to build a "unified national market", **impose tougher regulations on "low prices and disorderly competition"** and "phase out backward production capacity in an orderly manner".

Sources: LSEG Datastream, Haver Analytics, Candriam SEPTEMBER 2025

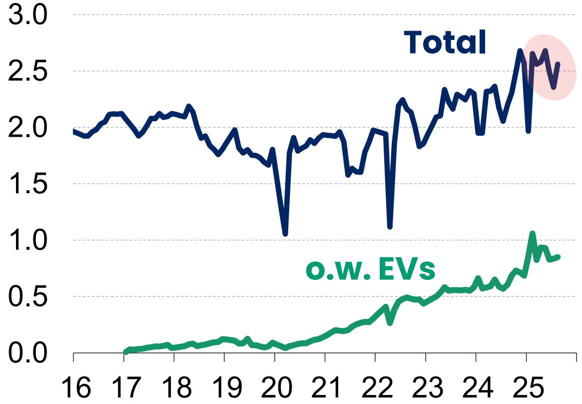
Consumption was still solid in Q2 thanks to the trade-in program, but its impact is fading

Contribution to real GDP growth
(% year on year)



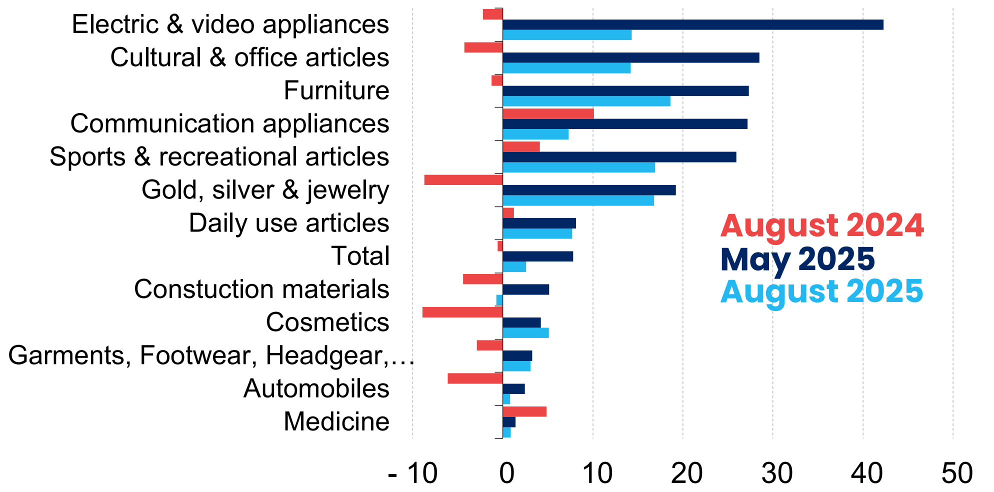
Retail sales
(volume)

Car sales
(million units)



Retail and car sales

(% year on year, nominal)



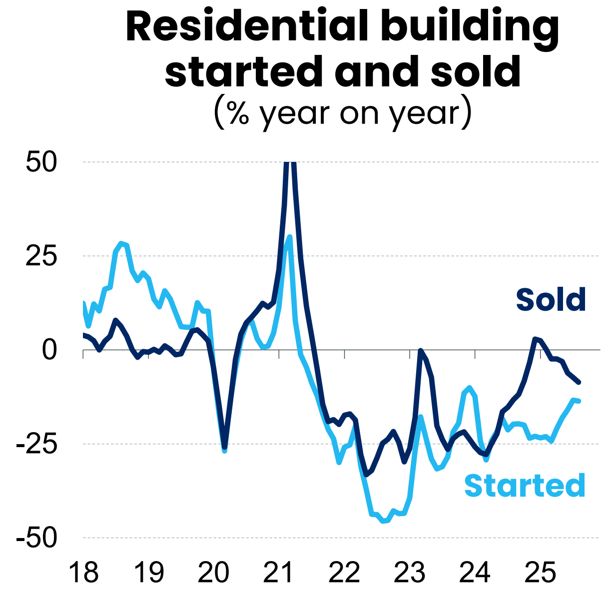
A new **campaign against extravagance** started from late May in China. The tighter implementation of the "Eight-Point Regulation" has sent a chilling effect on consumption into the summer, with an obvious slowdown in restaurant revenue and tobacco, beverage & alcohol sales in June.

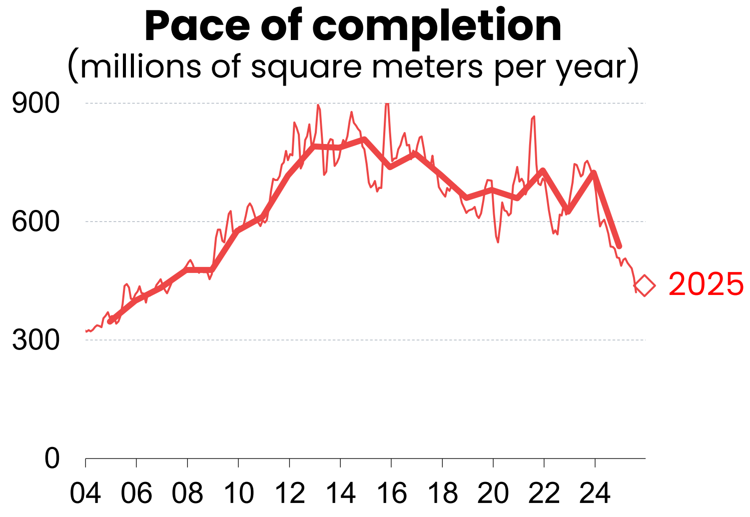
The national childbirth program was announced on July 28 . The program offers RMB3600 per year for each child under the age of 3, starting from 1 January 2025. It is expected to support GDP growth by close to 0.1%.

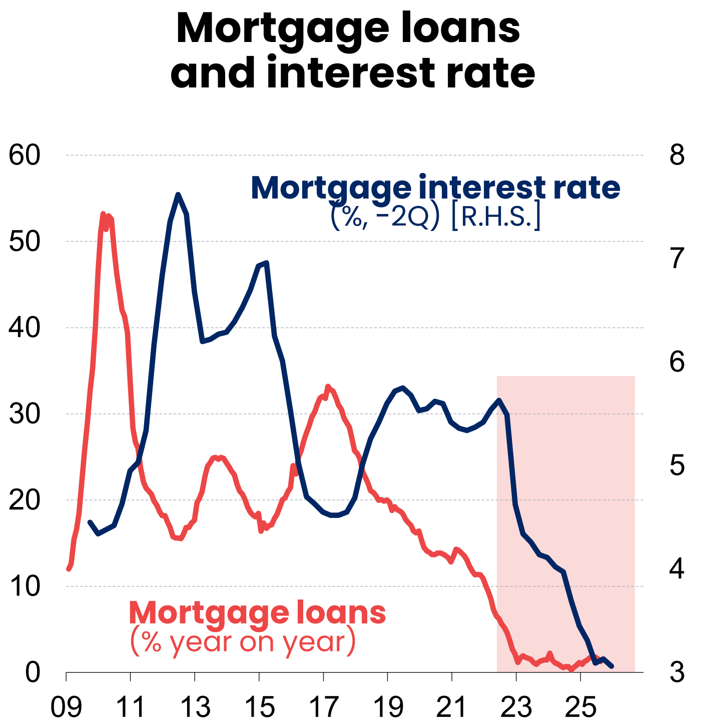
In August, China's government announced it will **subsidize interest rates on some consumer loans** for purchases worth up to Rmb50,000 ($7,000). Individuals will receive a 1% cut on interest rates, which are normally about 3% for 1-year consumer loans.

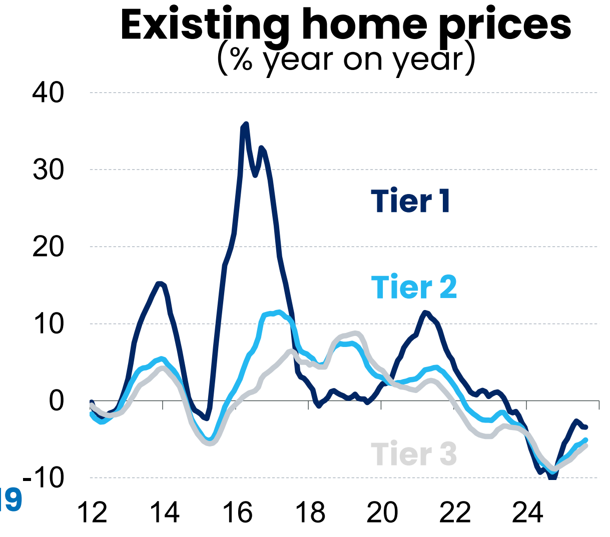
Sources: LSEG Datastream, Bloomberg, Candriam

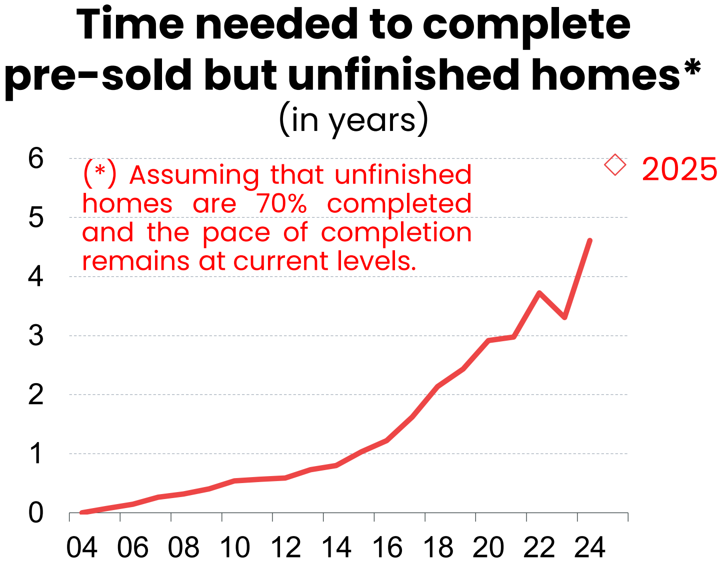
Residential investment continues to curb activity…
as monetary policy has little traction on mortgage loans





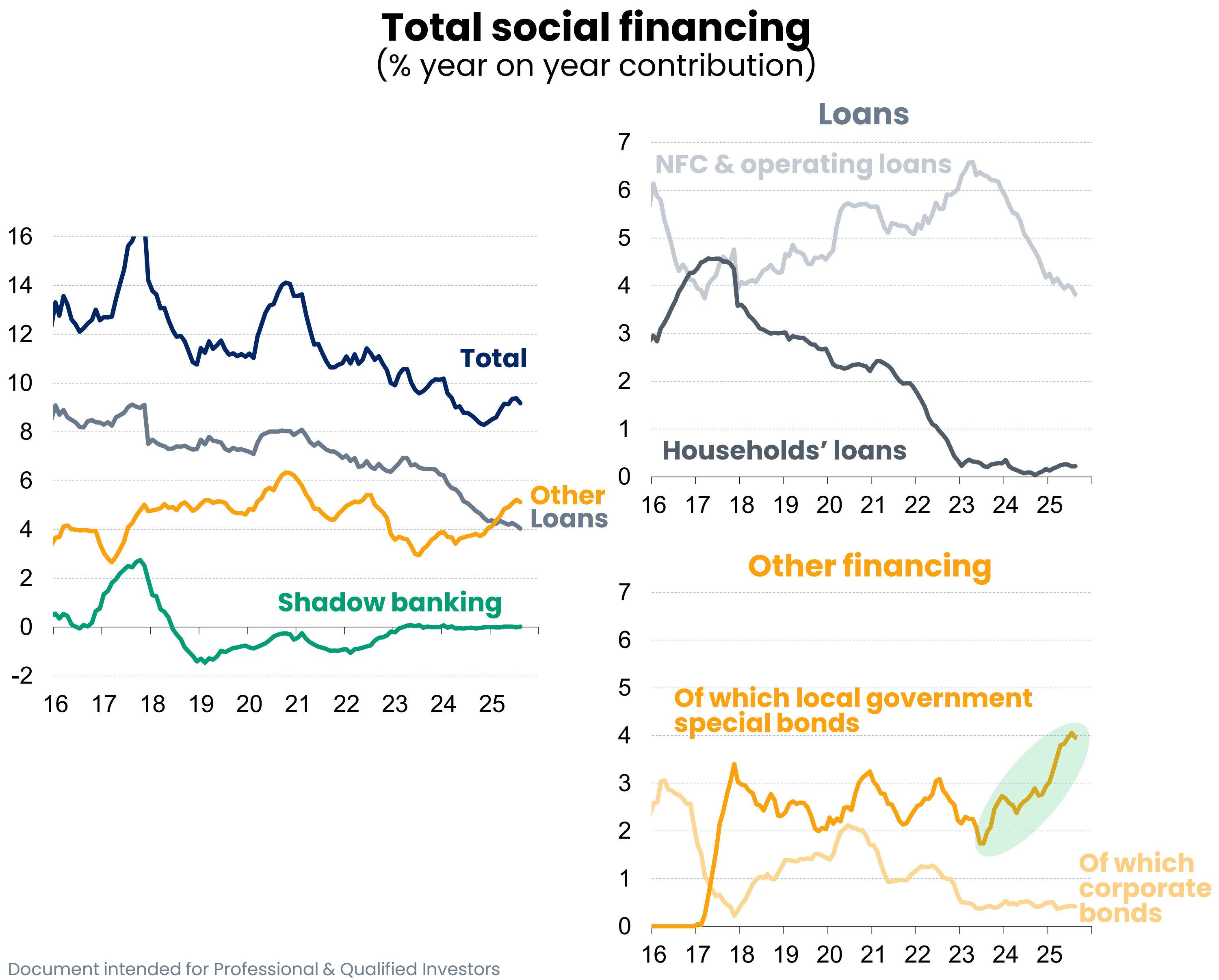


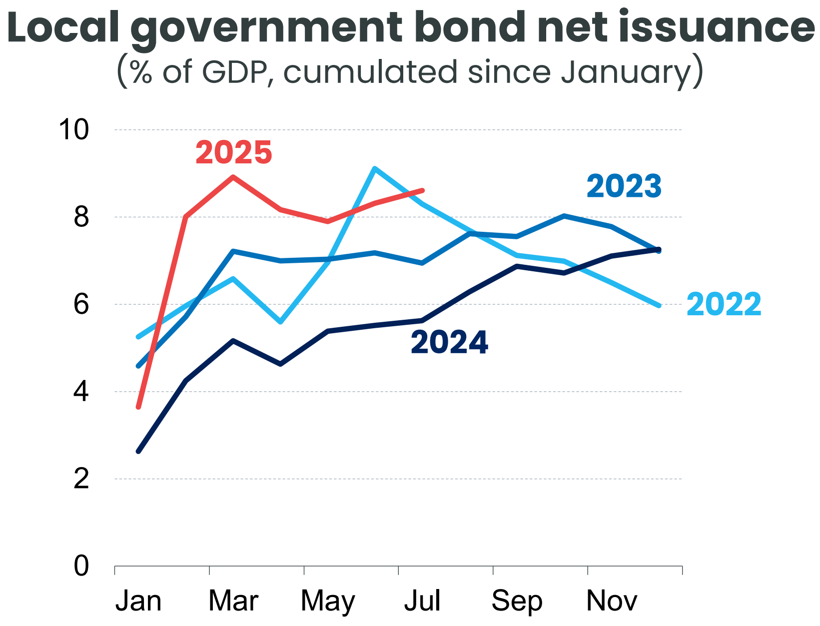




Sources: LSEG Datastream, Candriam SEPTEMBER 2025

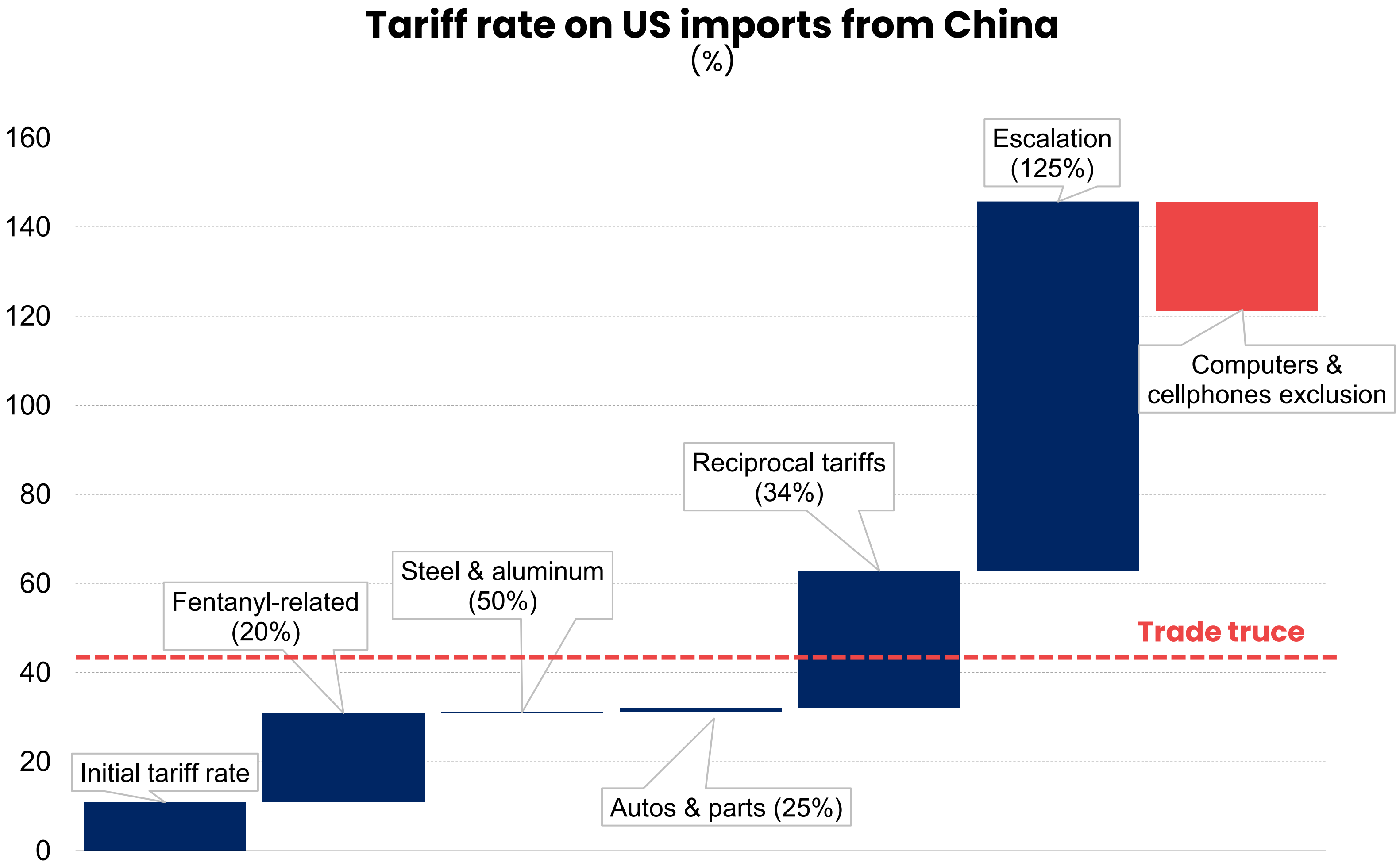
Credit to domestic private agents is lackluster

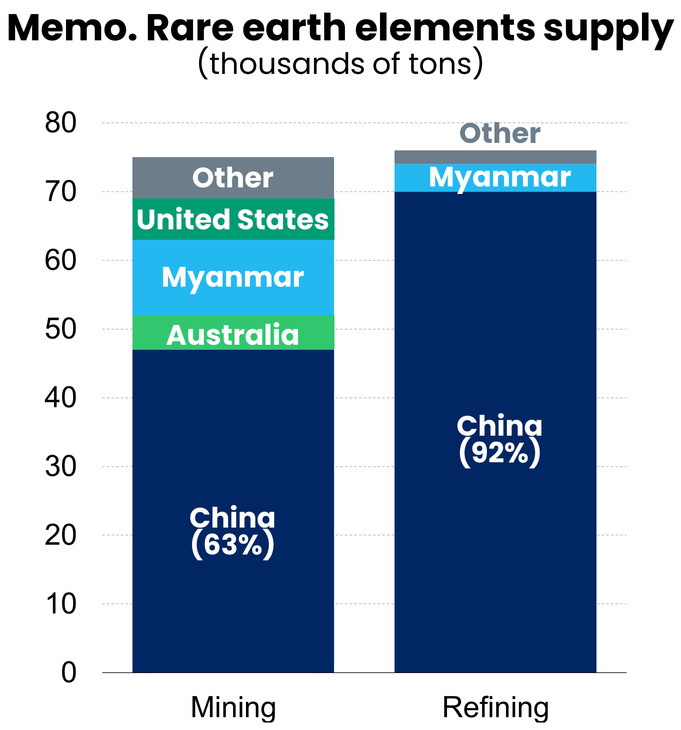




Sources: LSEG Datastream, Candriam SEPTEMBER 2025

The tariff truce was extended by another 90 days to November 10

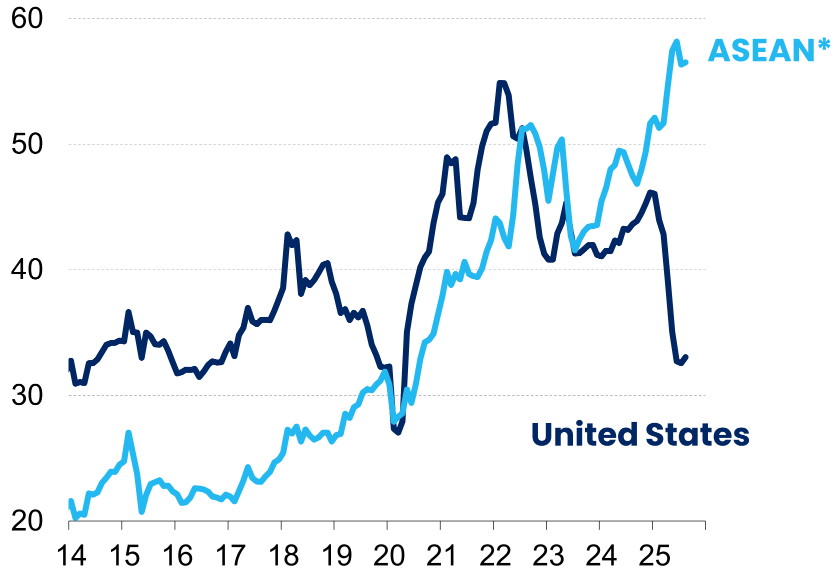




Sources: Census Bureau, IEA, Candriam

China tries to circumvent tariffs, but this will not be enough to prevent a decline in the contribution of external trade to growth

China's exports to…
($ billion, 3-month moving average)

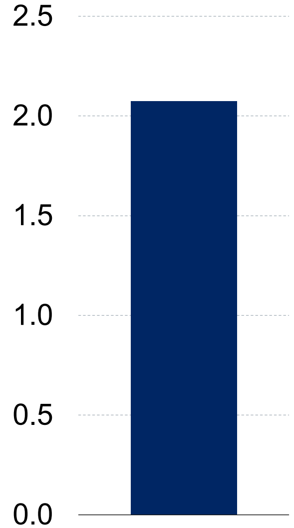


(*) Indonesia, Vietnam, Laos, Brunei, Thailand, Myanmar, the Philippines, Cambodia, Singapore and Malaysia

Simple transshipment is set to decline…
Transshipped goods are subject to a 71% tariff rate and enforcement has toughened.

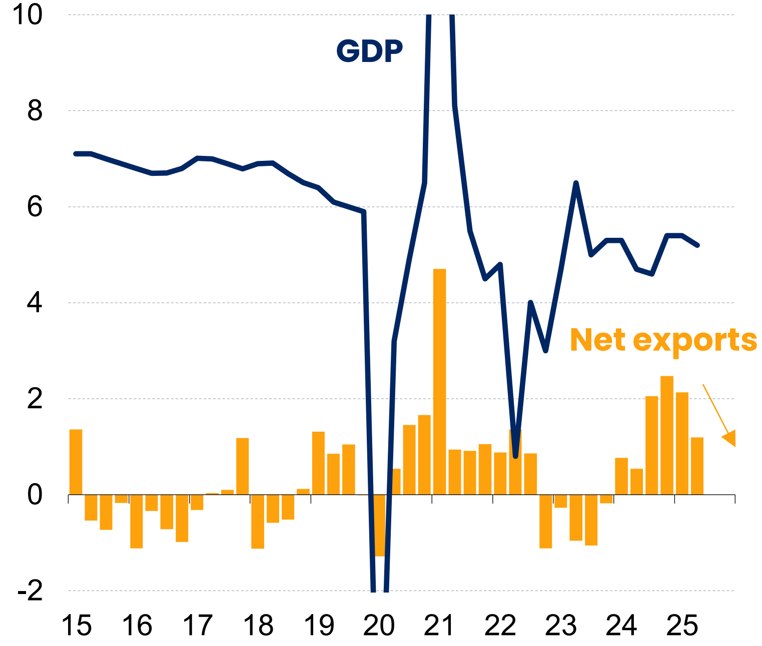
…but supply chain transfers are accelerating

Chinese value added in China exports to the United States
(% of China total VA in 2019)



A 30% increase in US tariffs on Chinese goods would subtract 1% to Chinese GDP growth.

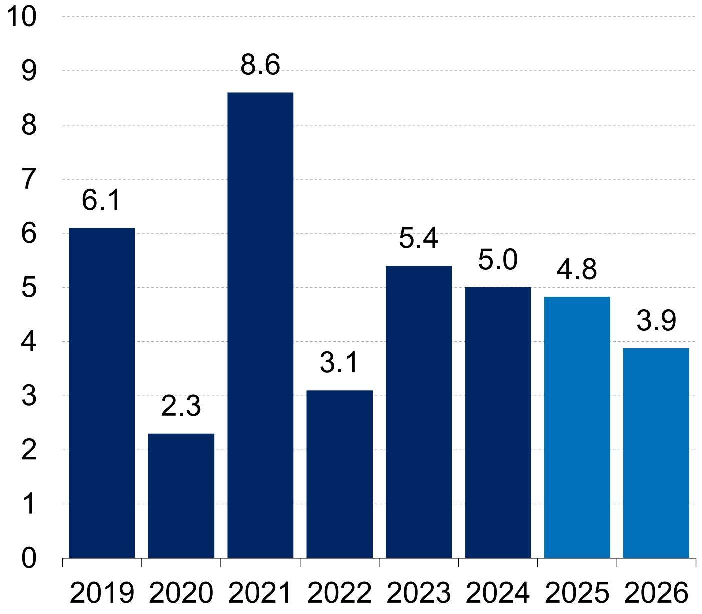
Contribution to real GDP growth
(% year on year)



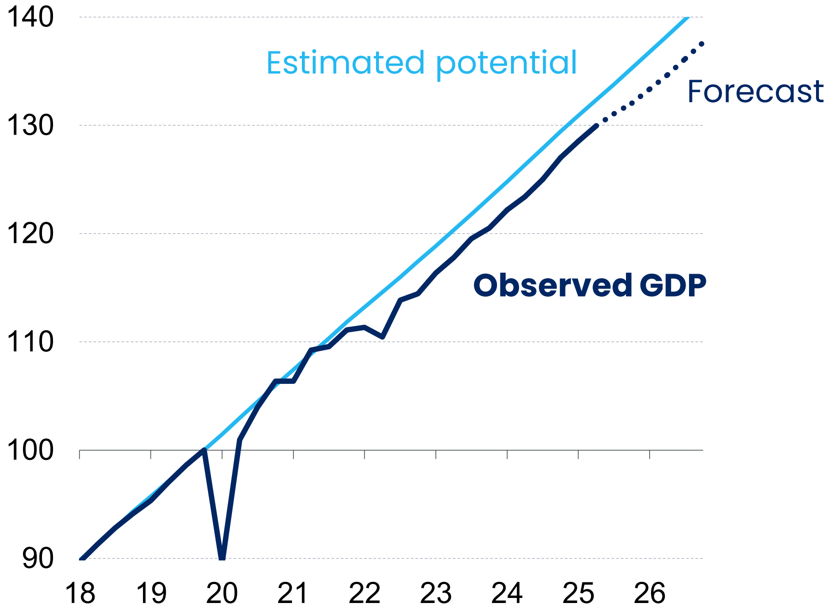
Sources: LSEG Datastream, Bloomberg, Citi Research, Candriam SEPTEMBER 2025

Without more stimulus in H2 2025 though, growth is set to decelerate

Real GDP growth
(%, annual average)



Real GDP
(2019 Q4 = 100)



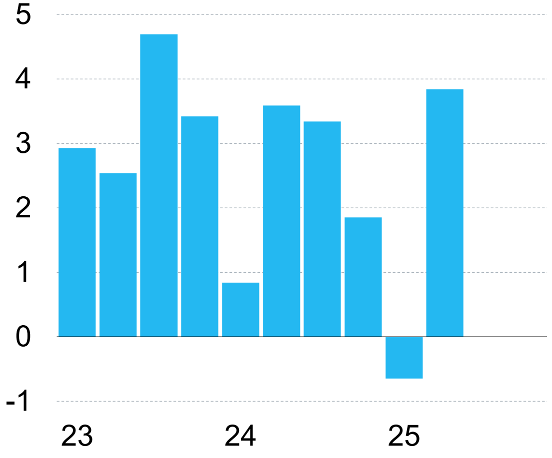
Sources: LSEG Datastream, Candriam

3 United States

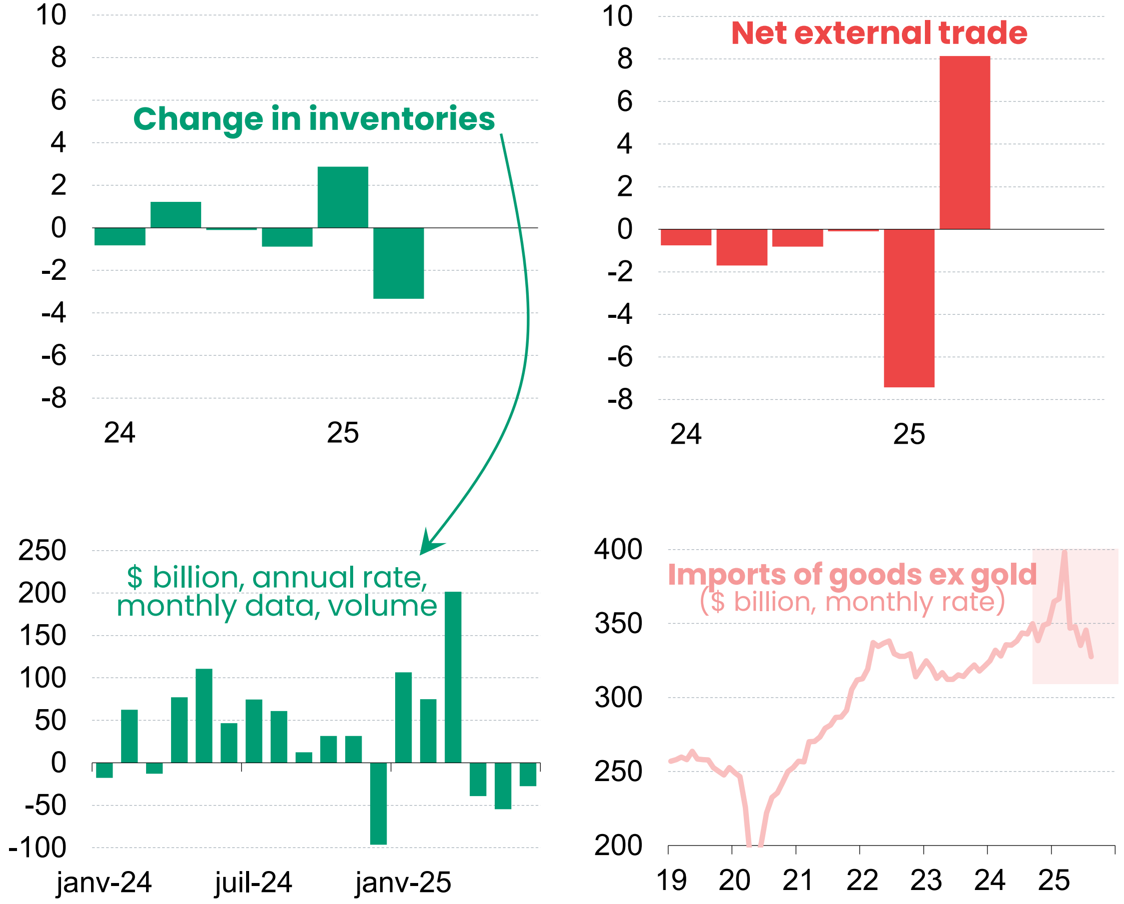
More rate cuts to come...

GDP data have been blurred by D. Trump's tariff policy

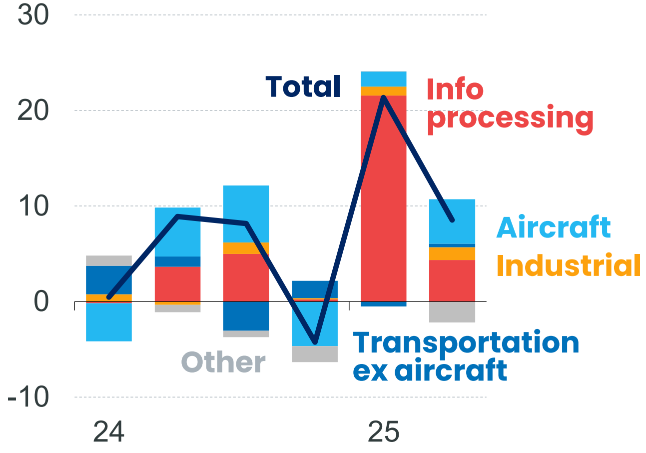
Real GDP
(% quarter on quarter, annual rate)



Contribution to real GDP
(% quarter on quarter, annual rate)

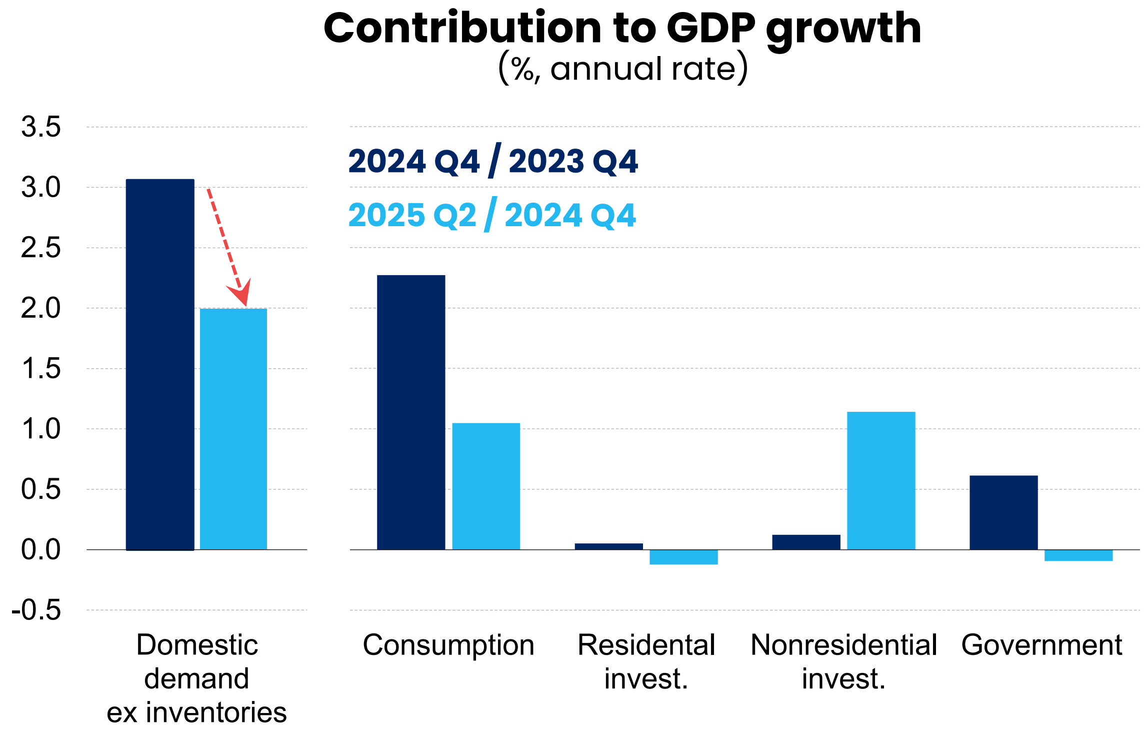


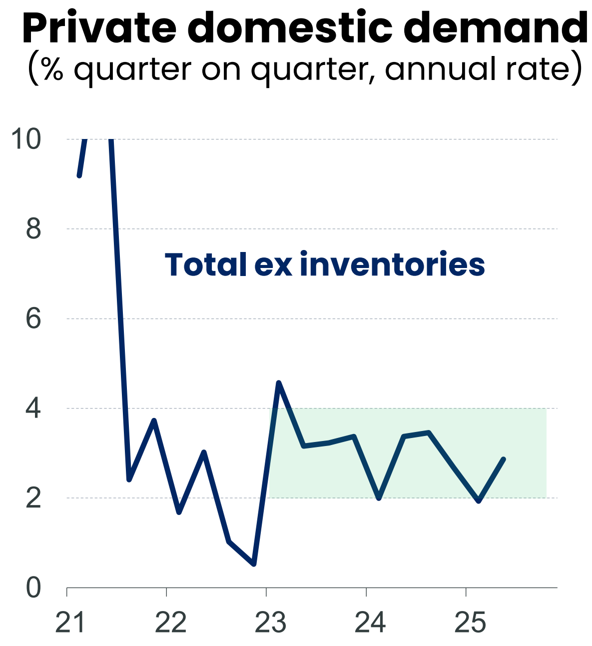
Contribution to equipment investment
(% quarter on quarter, annual rate)



Sources: LSEG Datastream, BEA, Candriam SEPTEMBER 2025

Domestic demand has decelerated somewhat but private domestic demand has remained resilient in H1 2025

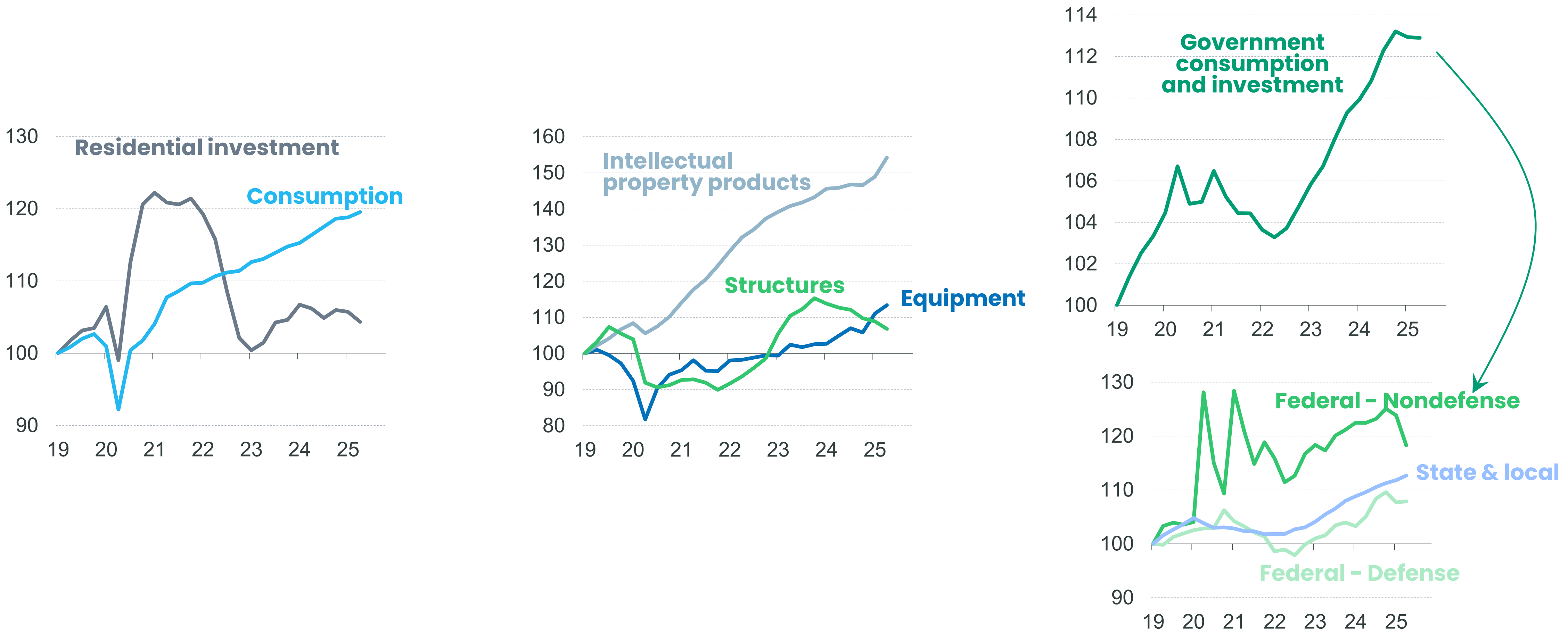




Sources: LSEG Datastream, BEA, Candriam SEPTEMBER 2025

Memo. Components of domestic demand

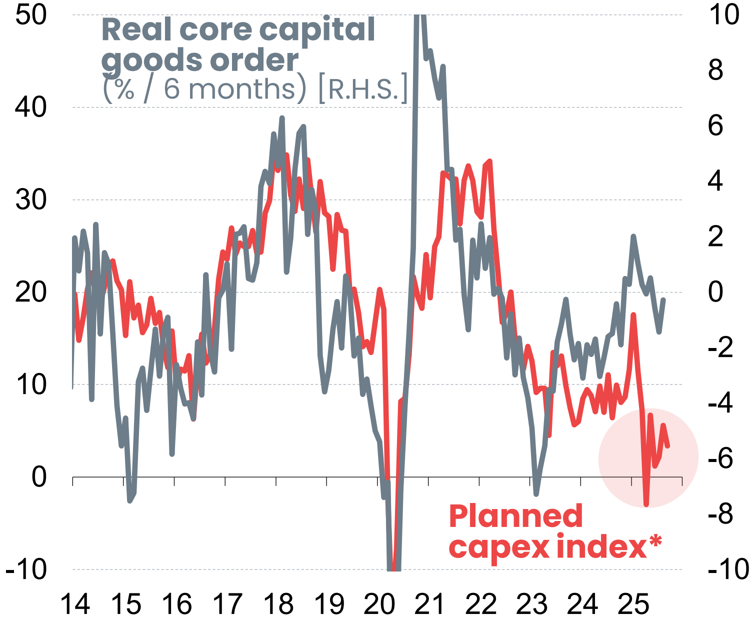
Final domestic demand components
(2019 Q1 = 100)



Sources: LSEG Datastream, BEA, Candriam SEPTEMBER 2025

Despite being cautious, firms have kept on investing

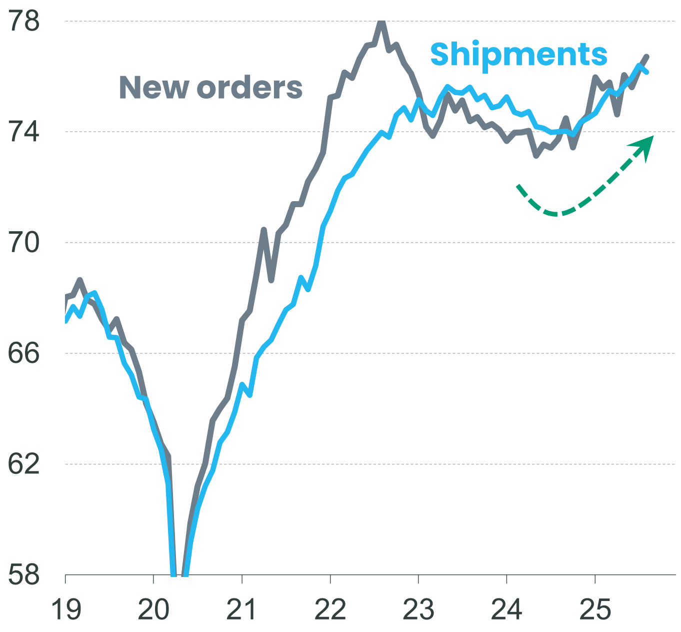
Real core capital goods orders and planned capex



(*) Weighted average of various regional surveys (New York, Philadelphia, Dallas, Kansas, Richmond) by economy size.

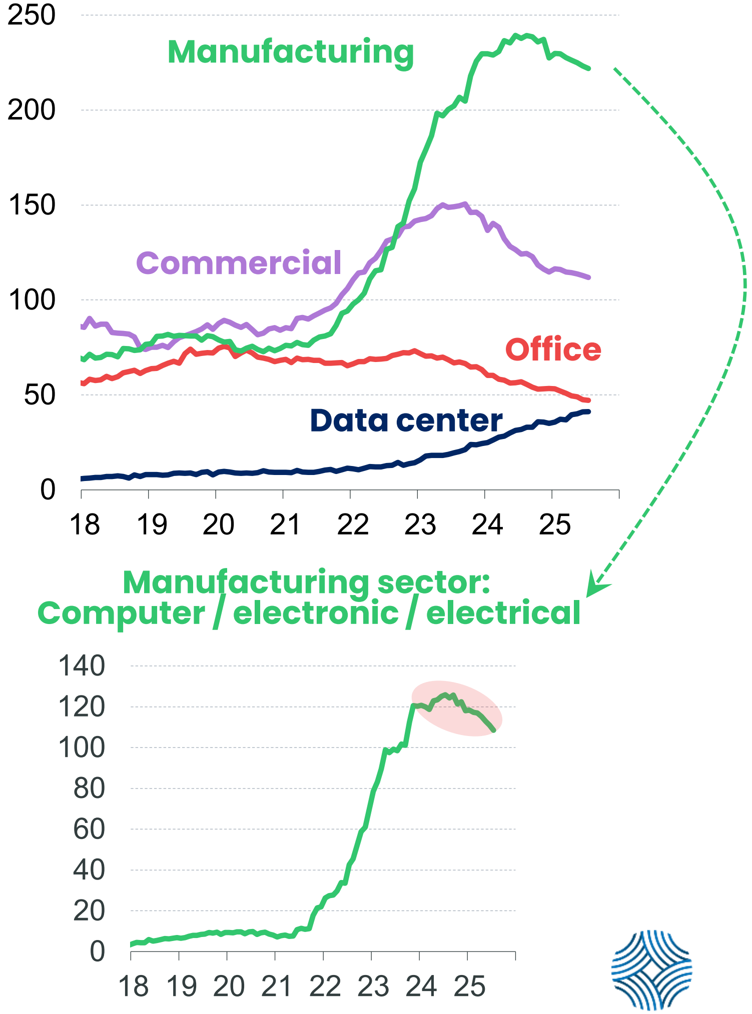
Core capital goods shipments and orders

(nondefense ex aircraft, $ billion)



Private investment in non-residential structures

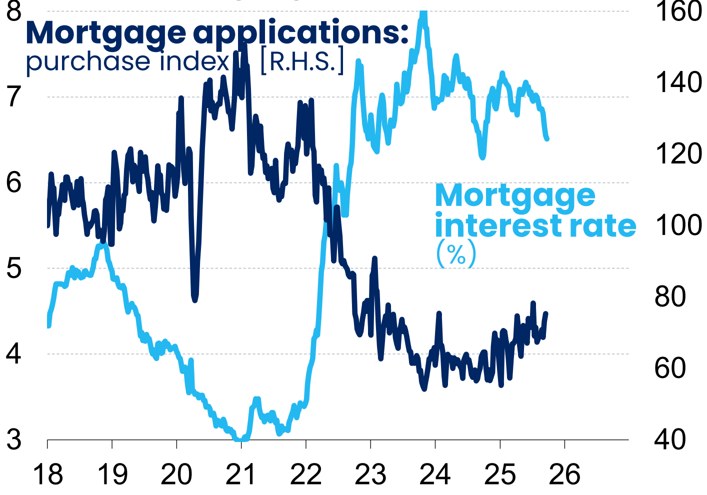
($ billion, current prices, annual rate)



Sources: LSEG Datastream, Census Bureau, Candriam SEPTEMBER 2025

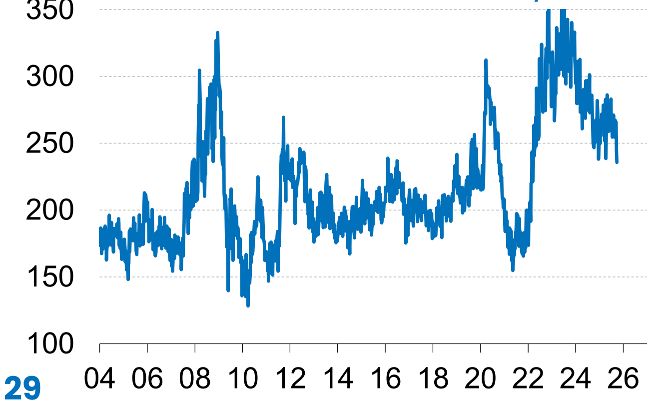
With mortgage rates and home prices still elevated …

Interest rates and mortgage applications



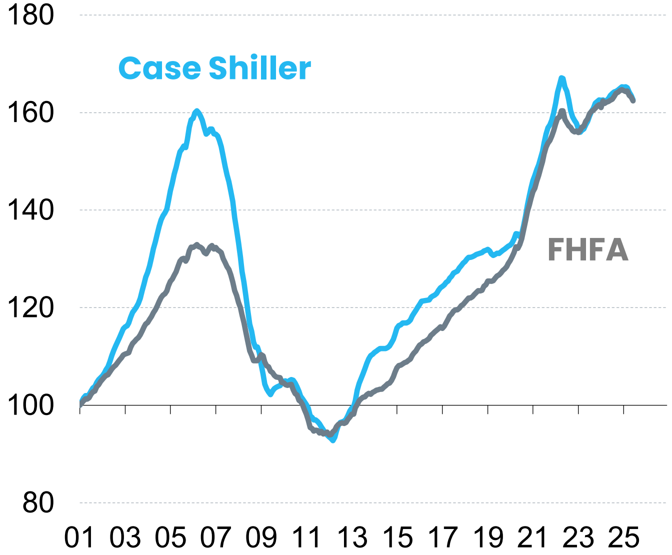
Mortgage spread

(basis points, 30Y mortgage minus 10Y US Treasury)



Home prices

(deflated by CPI, January 2002 = 100)



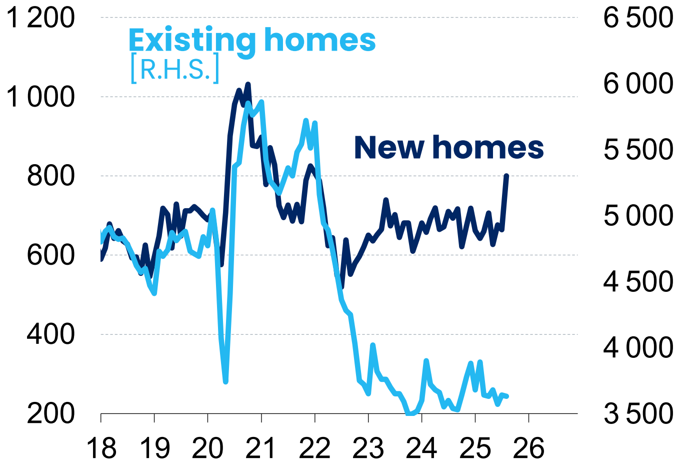
Mortgage service on a median priced home

($, monthly)

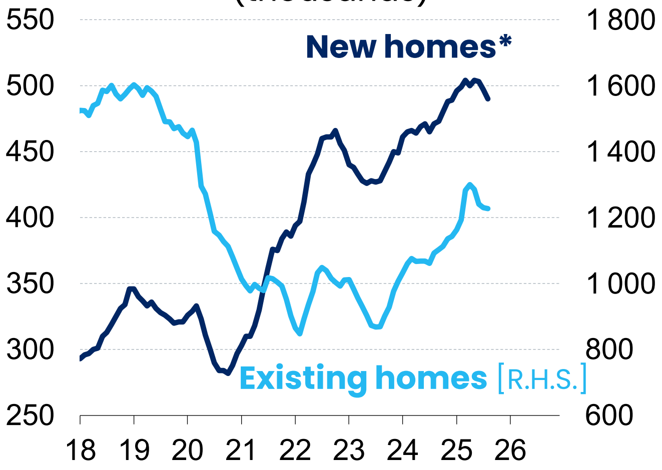
Sources: LSEG Datastream, Candriam SEPTEMBER 2025

… residential investment is unlikely to provide much support

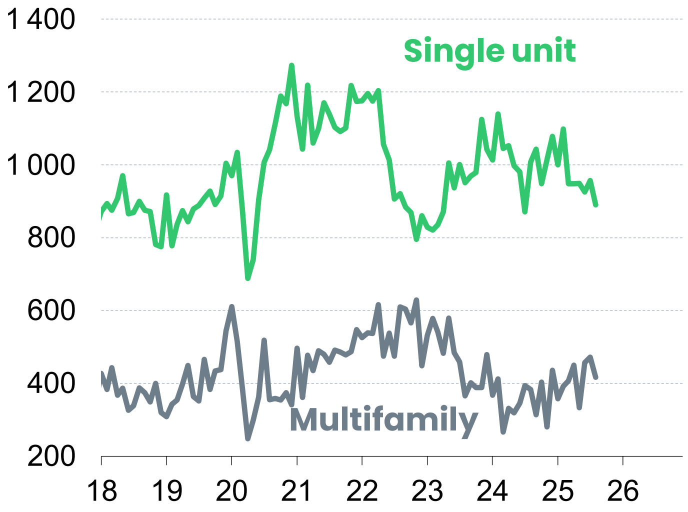
Existing and new home sales
(thousands, annual rate)



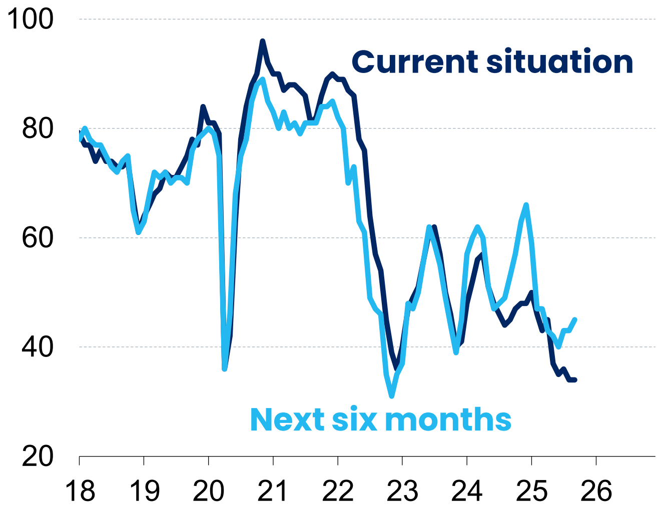
Homes available for sale
(thousands)



Housing starts
(thousands, annual rate)



NAHB survey
(new home sales)



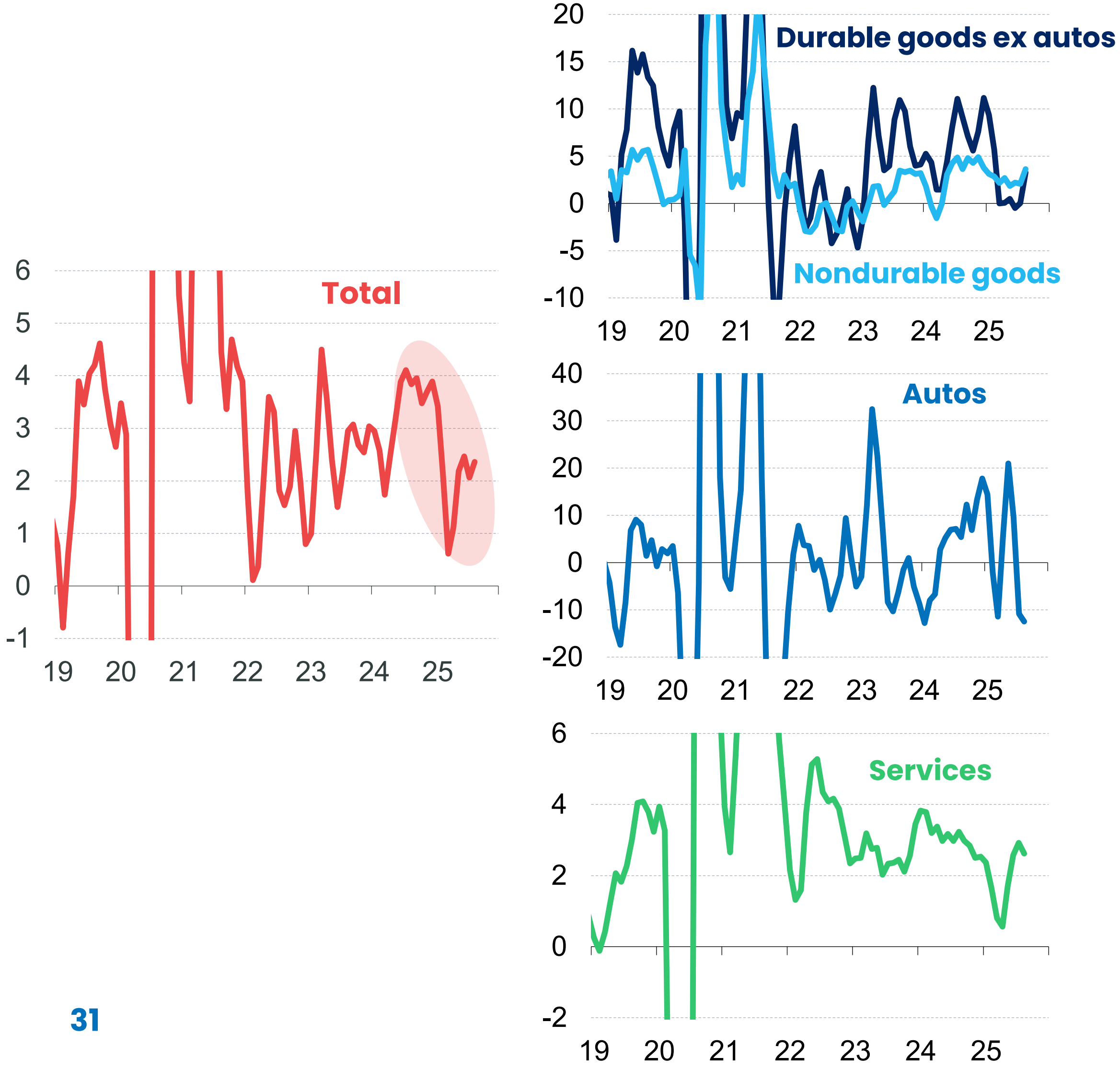
(*) The unsold inventory for newly built homes was 499,000 units in July, which represented a 9-month supply at the current sales pace.

Sources: LSEG Datastream, Candriam SEPTEMBER 2025

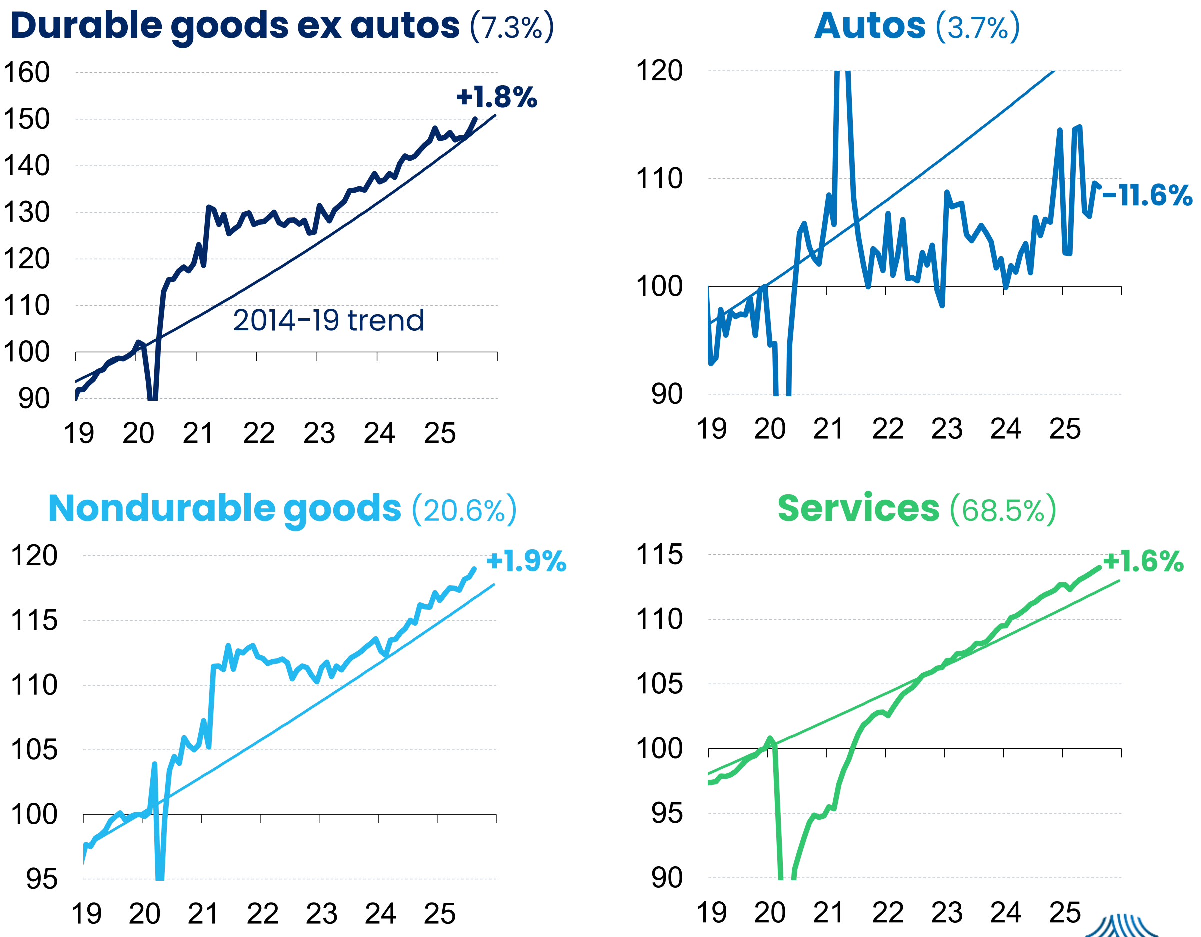
Consumer spending growth has slowed from last year

Real consumption

(% growth over 3 months at annual rate, 3-month moving average)



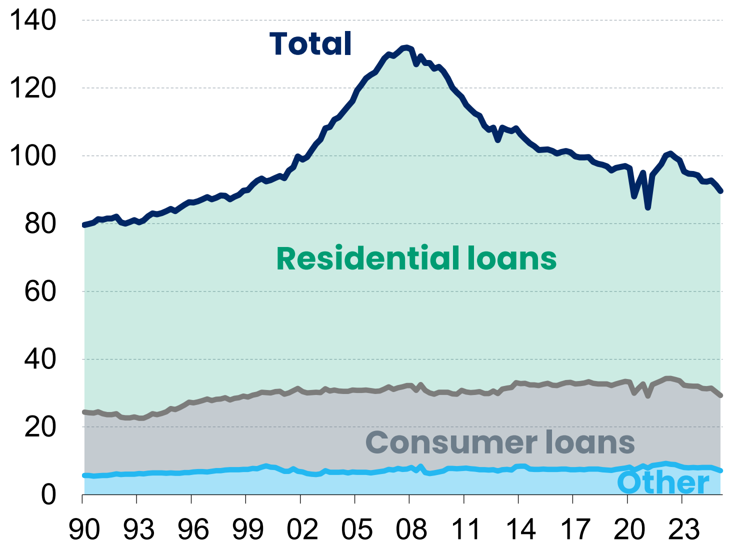
(December 2019 = 100)



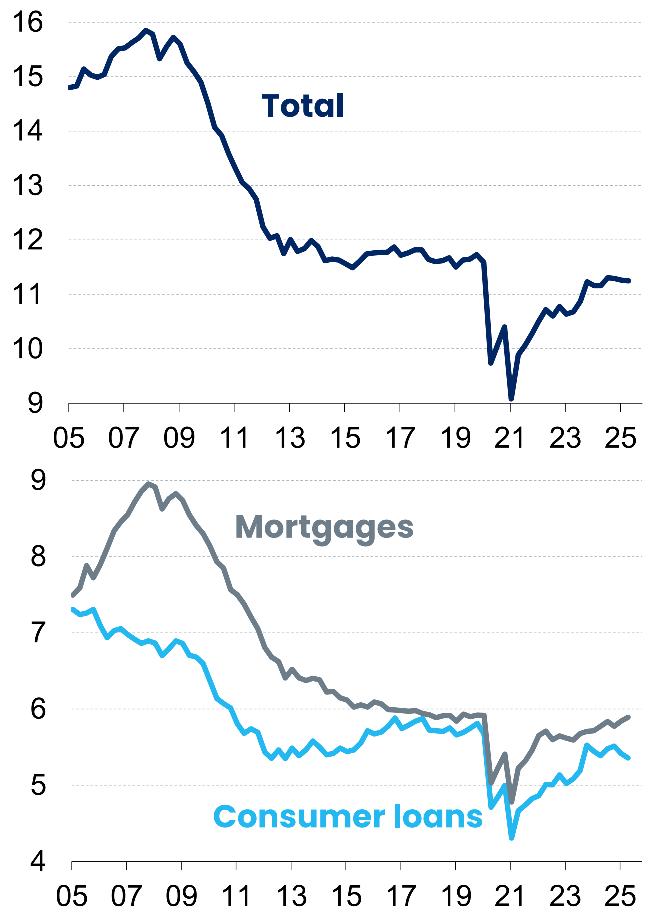
Sources: LSEG Datastream, Candriam SEPTEMBER 2025

While household balance sheet remains solid…

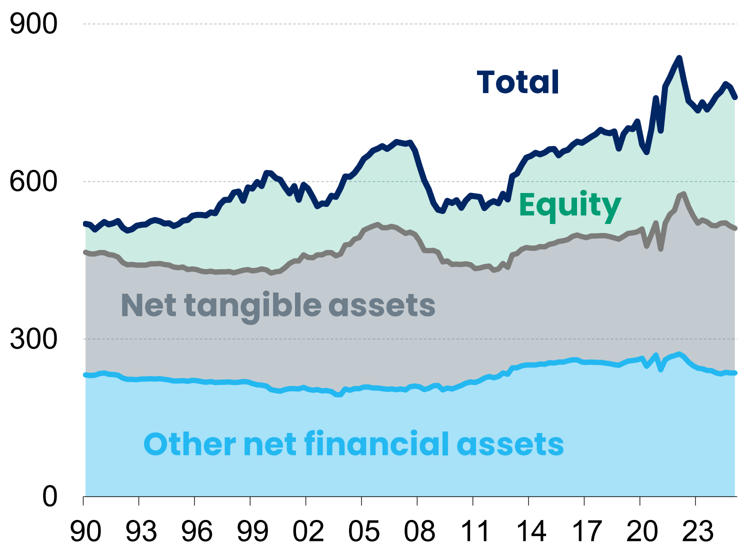
Household debt
(% of disposable income)



Household debt service
(% of disposable income)



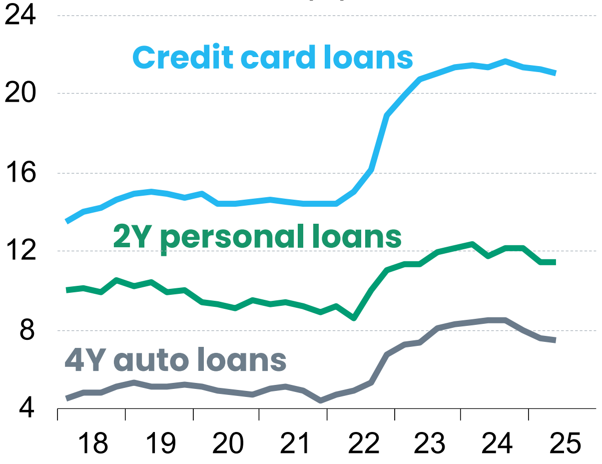
Household net wealth
(% of disposable income)



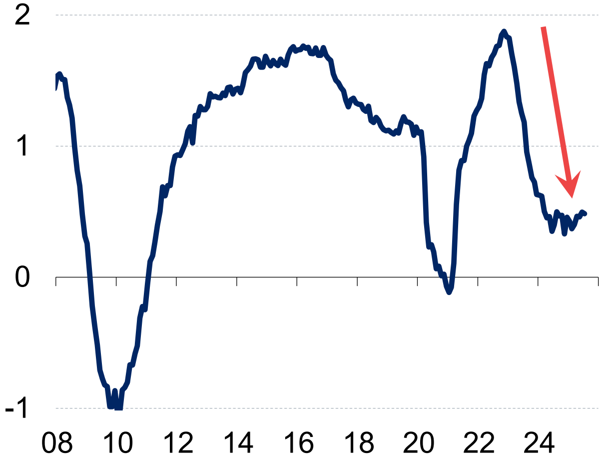
Sources: LSEG Datastream, Candriam SEPTEMBER 2025

… high interest rates are curbing consumer credit and Trump’s crackdown on student loans repayments is not helping

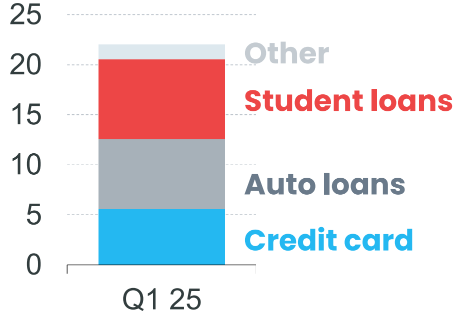
Interest rate on consumer credit
(%)



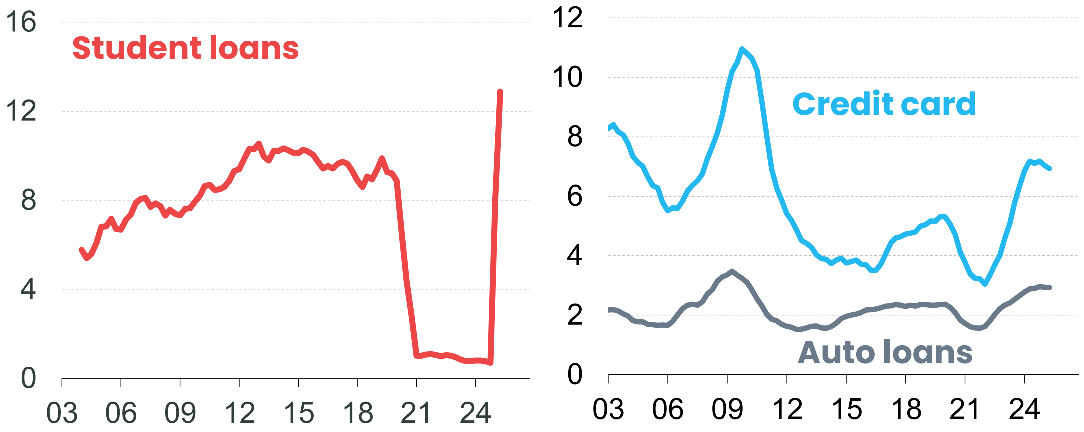
Consumer credit
(% of disposable income, 12-month moving average)



Outstanding amount
(% of disposable income)



New 90-day or more delinquency rates
(% of outstanding loans)



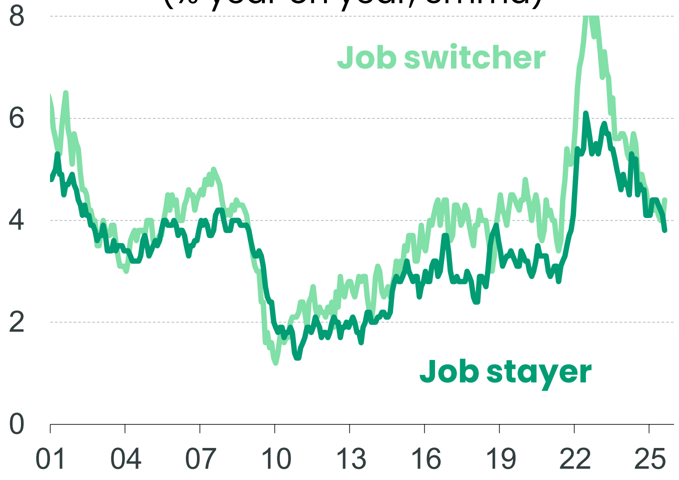
According to the Department of Education there could be almost 10 million borrowers in default in a few months. When this happens, almost **25 percent of the federal student loan portfolio will be in default**.

If repayments return to their pre-covid trend, that would represent **$40bn annualized in additional student loan repayments (i.e. 0,15% of GDP)**. If some borrowers have to catch up on past delinquencies, this number could double.

Sources: LSEG Datastream, FRBNY, Federal Reserve, Candriam

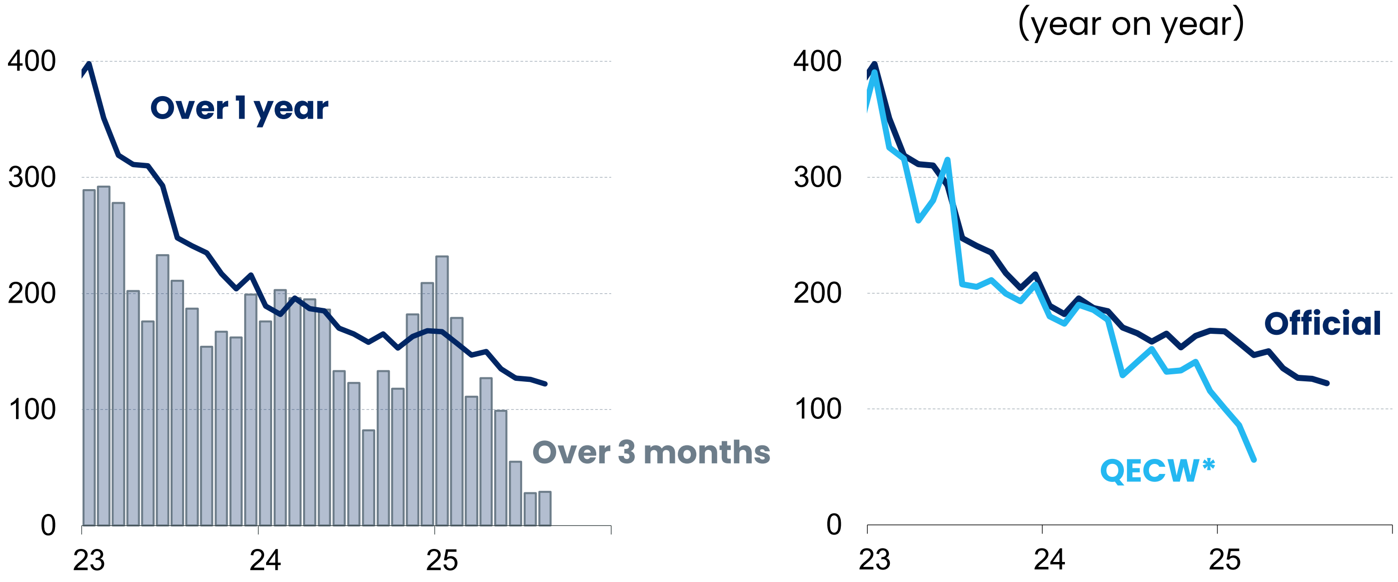
Wage growth is still resilient, but the labor market is softening

Atlanta Fed median wages
(% year on year, 3mma)



ECI wages
(% annual rate)

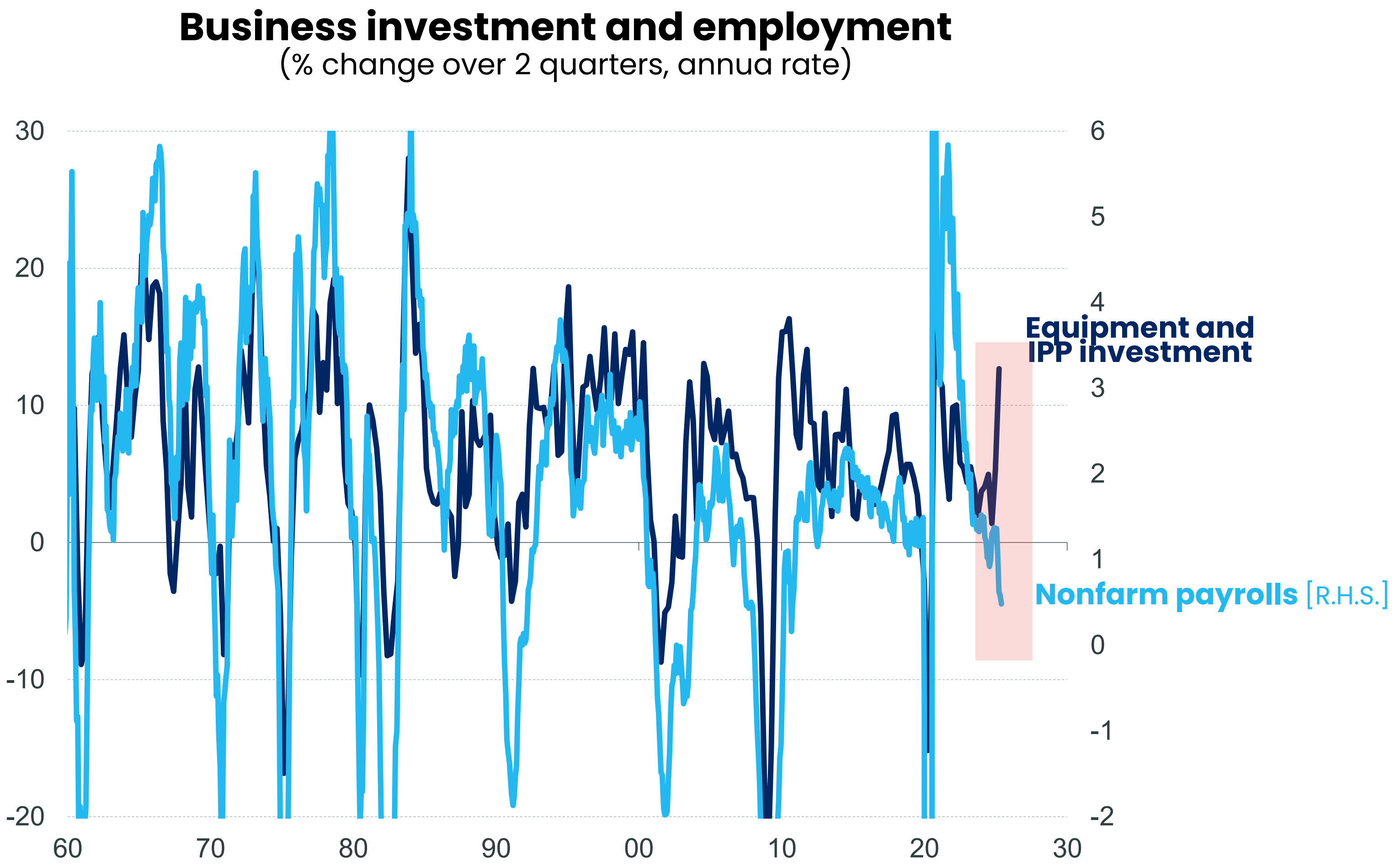
Job creations
(thousands, monthly rate)



(*) Quarterly Census of Employment and Wages. This series is used to re-benchmark the nonfarm payrolls' employment.

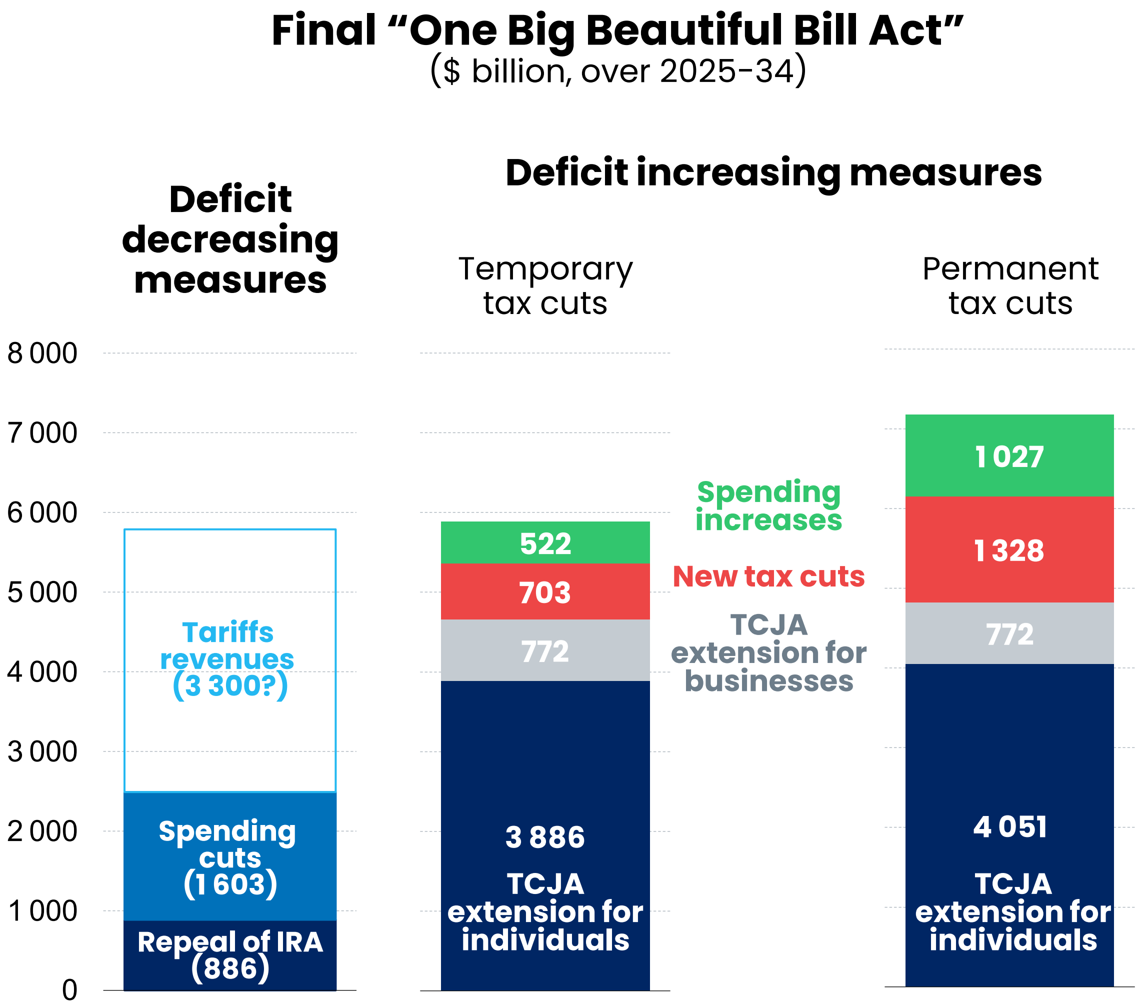
Sources: LSEG Datastream, BLS, Atlanta Fed, Candriam

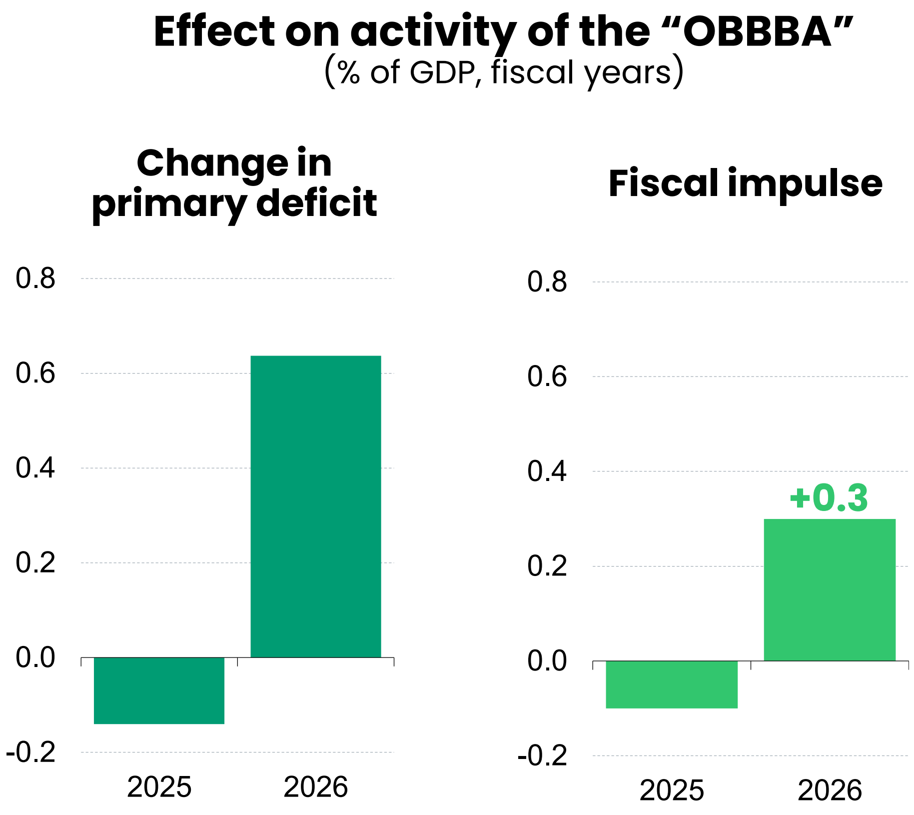
The current juxtaposition of strong investment spending and weak hiring is rather unusual



Sources: LSEG Datastream, BLS, Atlanta Fed, Candriam SEPTEMBER 2025

Despite some new tax cuts, the "One Big Beautiful Bill Act" should only moderately support activity

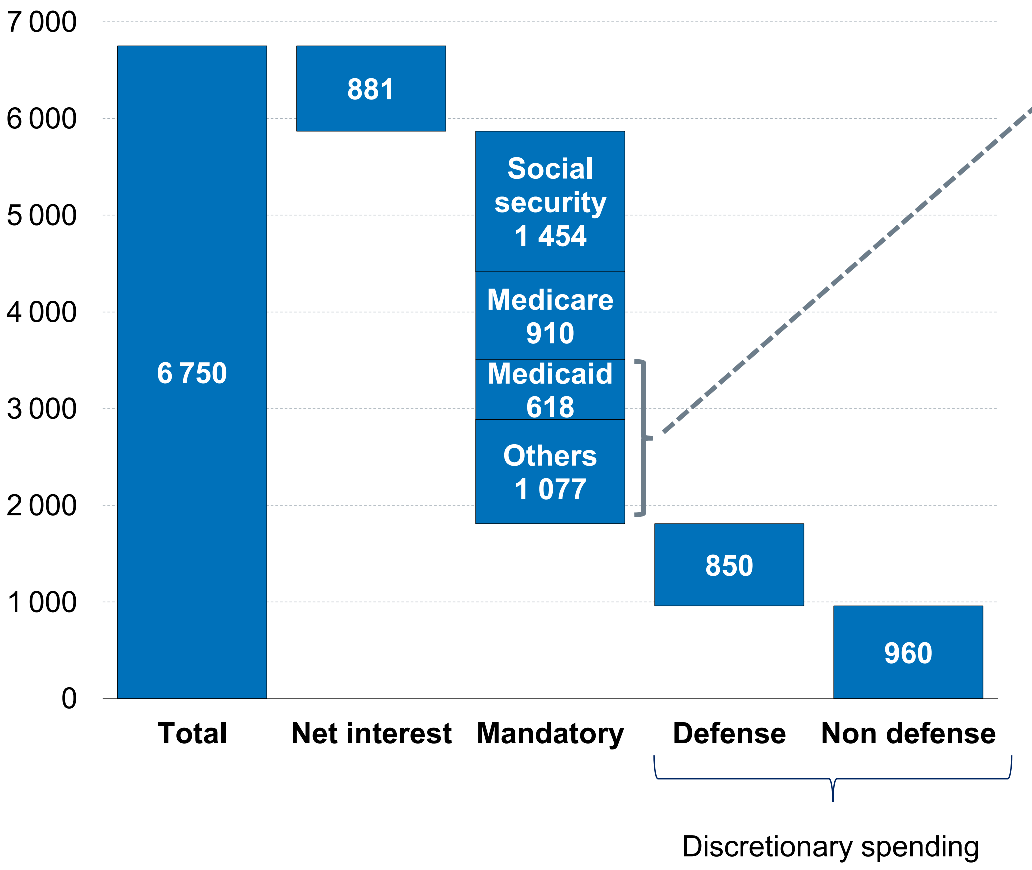




Sources: CRFB, CBO, Candriam

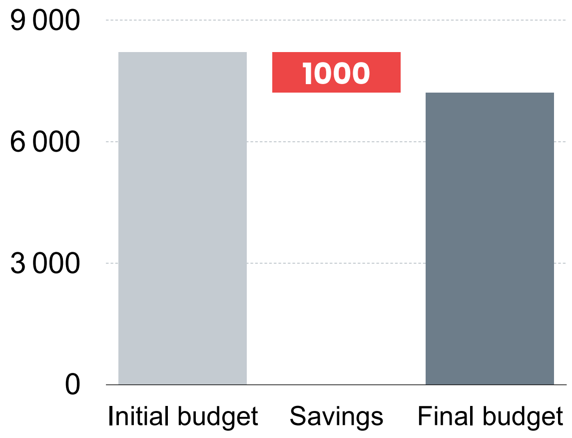
N.B. Most spending cuts are targeted on lower income households

Federal government outlays in 2024
($ billion, fiscal year)



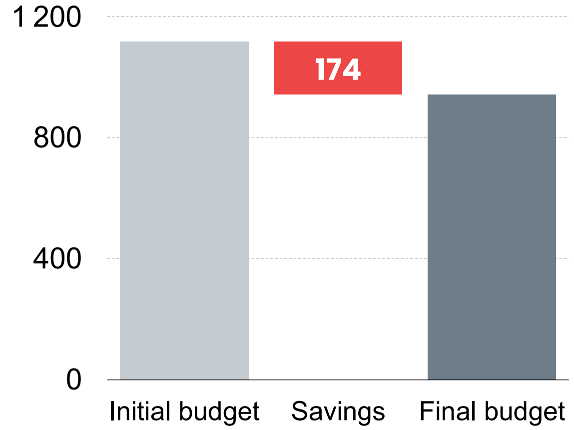
Spending cuts embedded in the final OBBBA
($ billion, over 10 years)

Medicaid



According to the CBO, 10 million Americans are expected to lose health insurance over the next decade:
- 7.5 million people should lose Medicaid coverage,
- 2.1 million people should shed Affordable Care Act coverage.

SNAP*



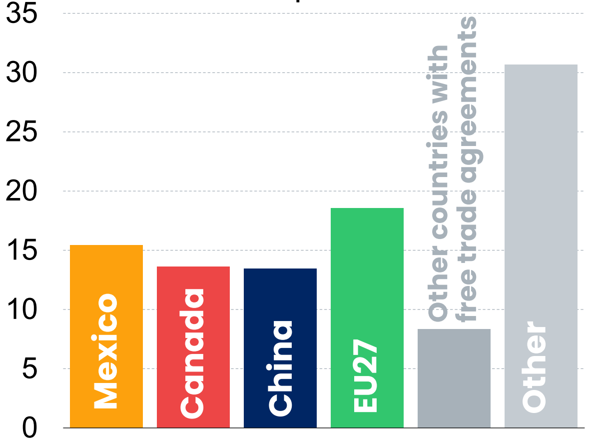
CBO estimates that participation in SNAP will be reduced by roughly 2.4 million people in an average month over the 2025-2034 period.

*Supplemental Nutrition Assistance Program

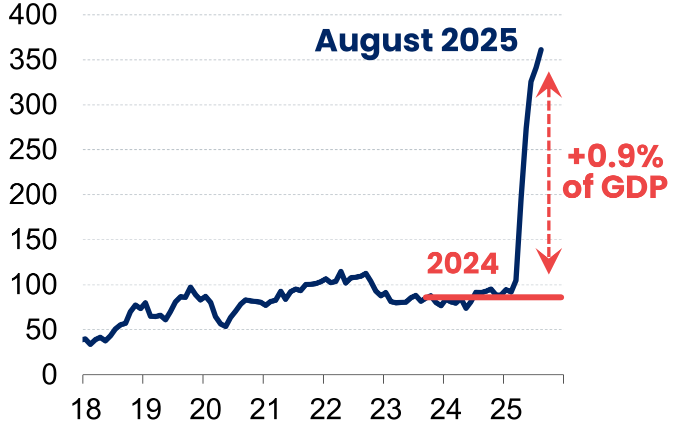
Sources: CBO, CRFB, Candriam SEPTEMBER 2025

With the average US tariff rate set to go back to Smoot-Hawley levels, price increases are likely to weigh on purchasing power

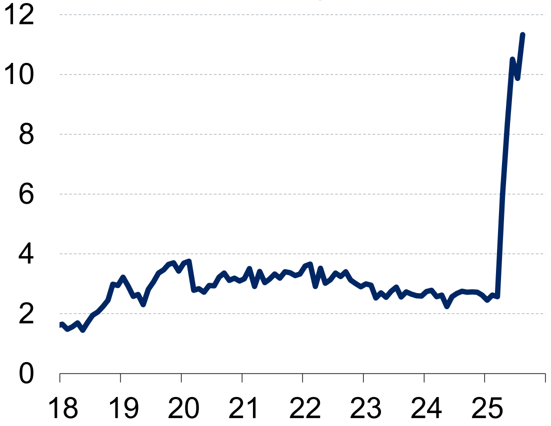
US import by country or region of origin
(% of imports, 2024)



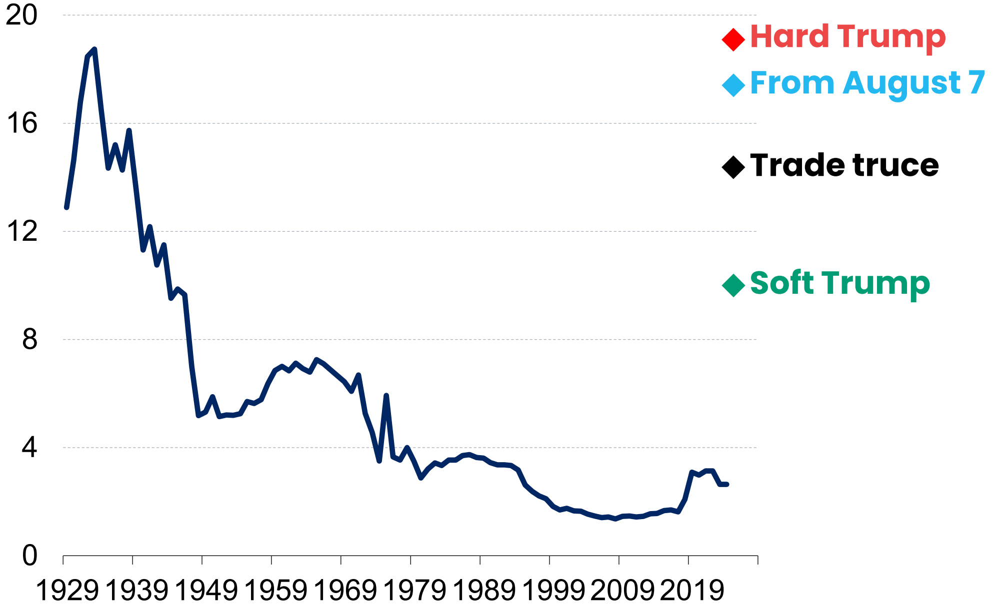
Average monthly tariff revenues
($ billion, annual rate)



Average monthly tariff rate
(% of imports)



Average tariff rate
(% of imports, weighted)



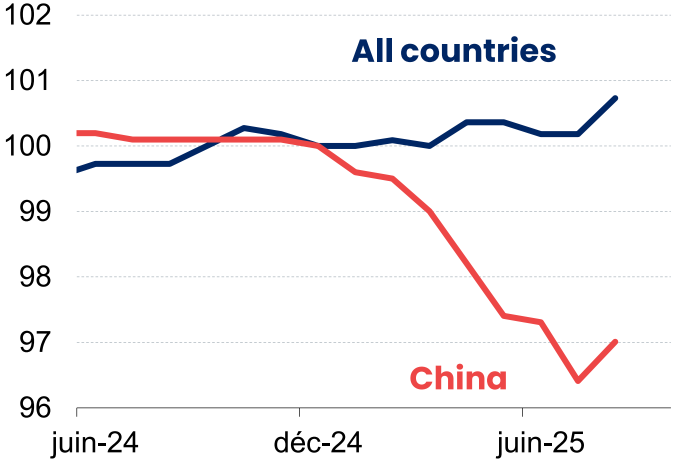
Sources: BEA, Census Bureau, Treasury, Candriam SEPTEMBER 2025

So far, the rest of the world seems to have only absorbed a tiny part of the rise in US tariffs

Import prices by industry and country of origin

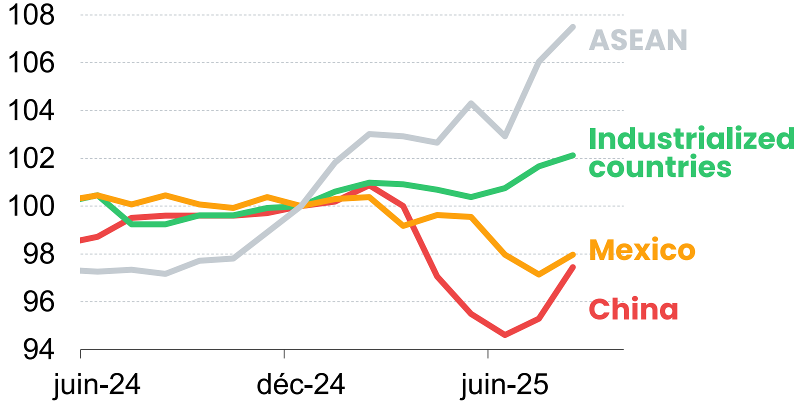
(December 2024 = 100)

All industries

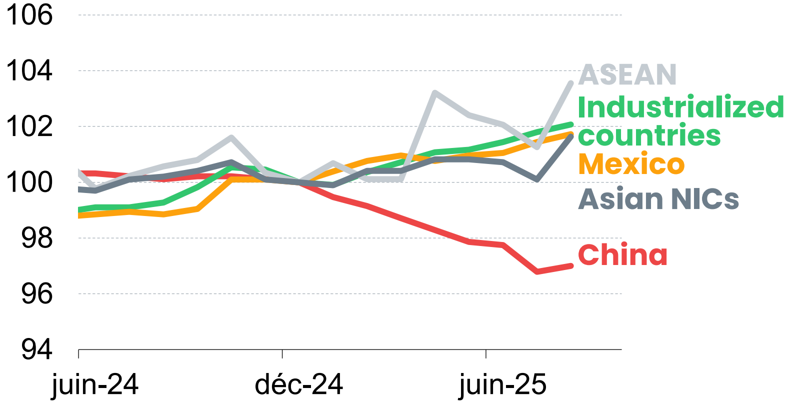


So far, Chinese exporters seem to have reduced their prices by 3% on average (out of a 30% rise in US tariffs rate). This leaves most of the tariff bill to US domestic agents.

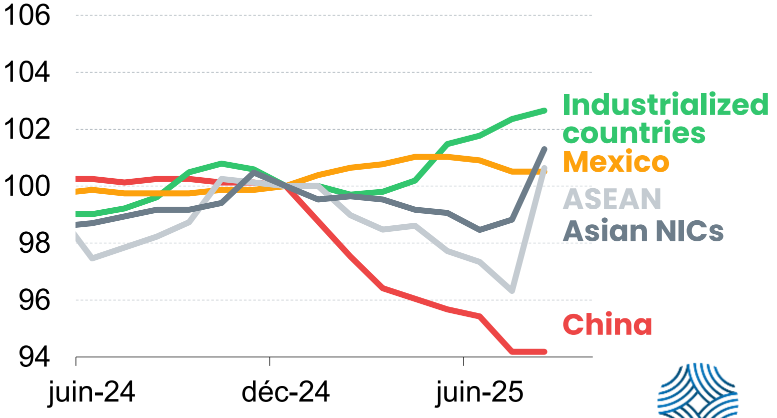
Food and textile manufacturing



Manufacturing of metal, machinery, computer, electronic, electrical & transport equipment, furniture…

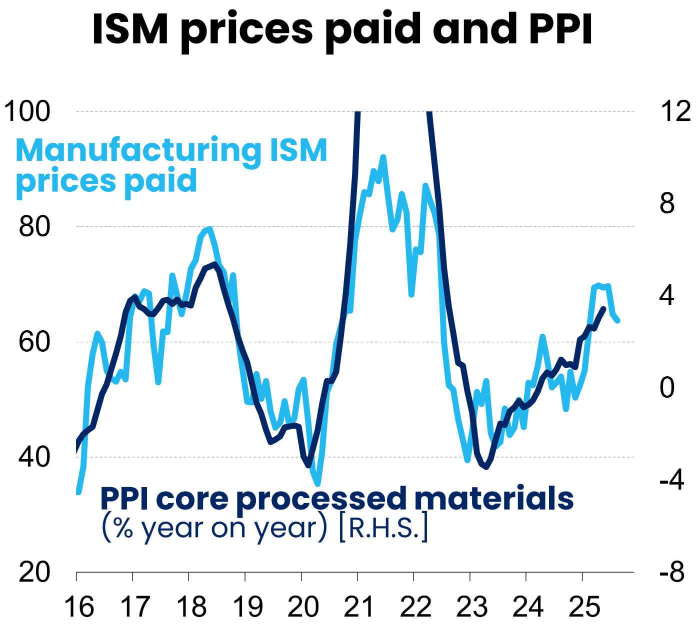


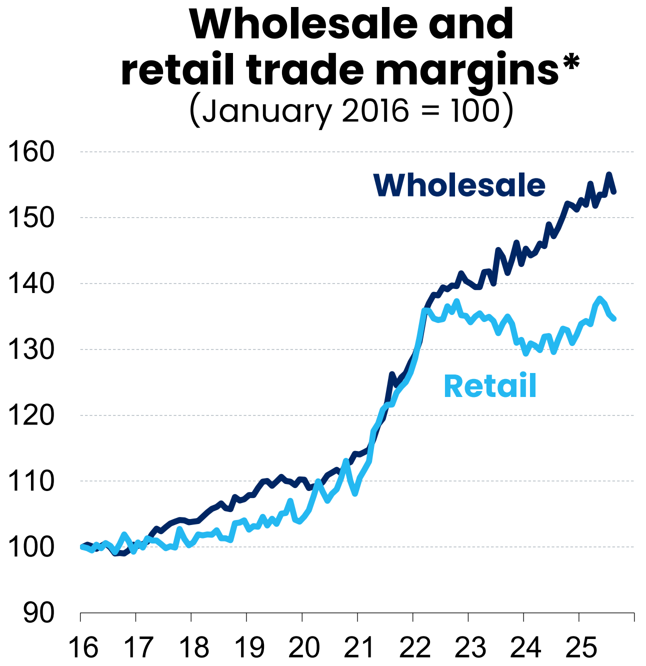
Of which: Manufacturing of computer and electronic products



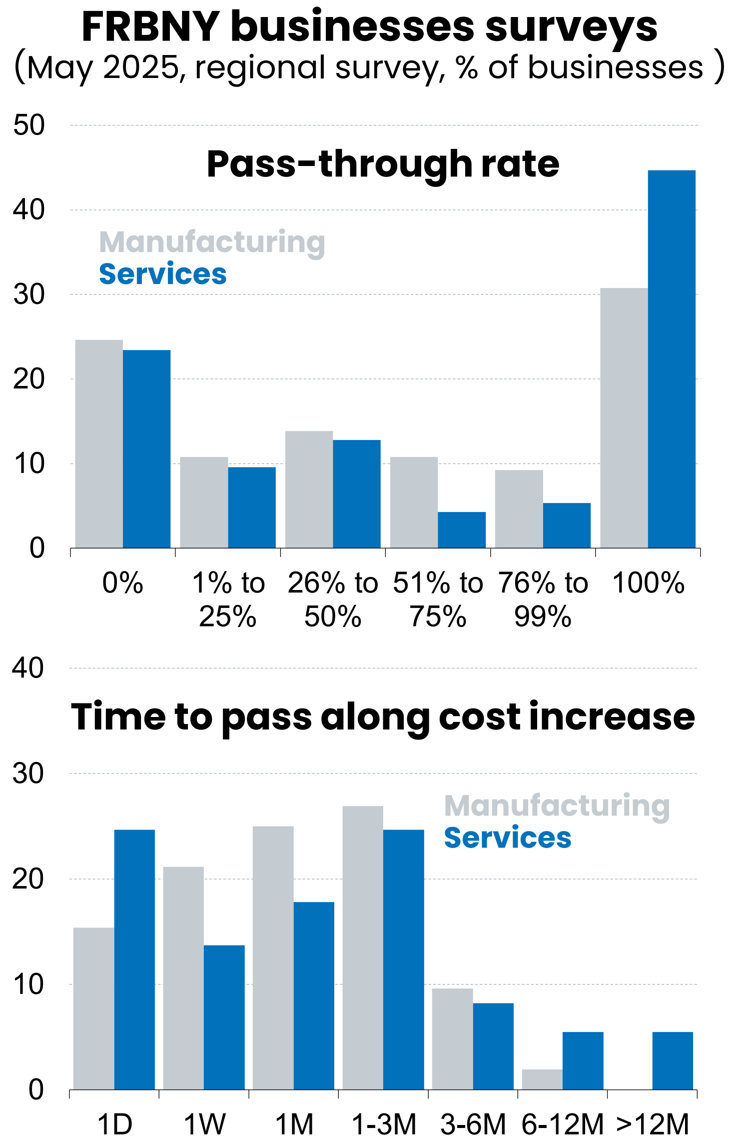
Sources: BLS, Candriam

The pass-through rate from US producers to consumers will be key for inflation in the coming months





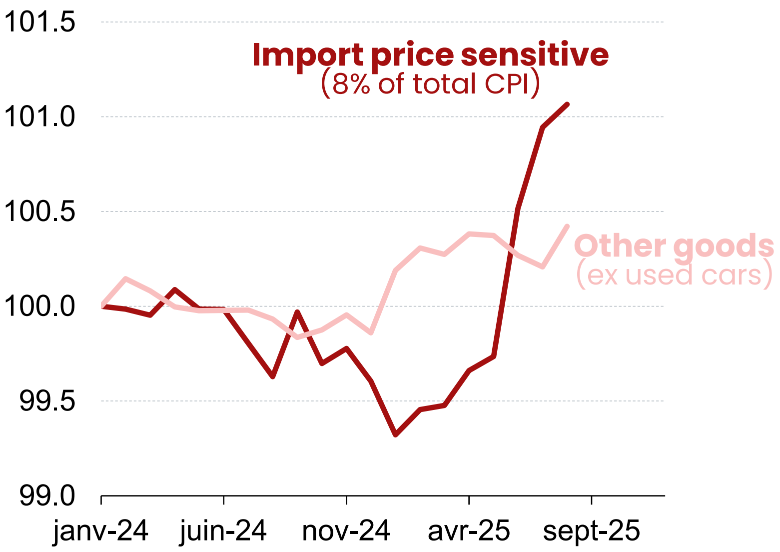
(*) Producer price index for the trade sector is calculated as selling price less acquisition price of products.



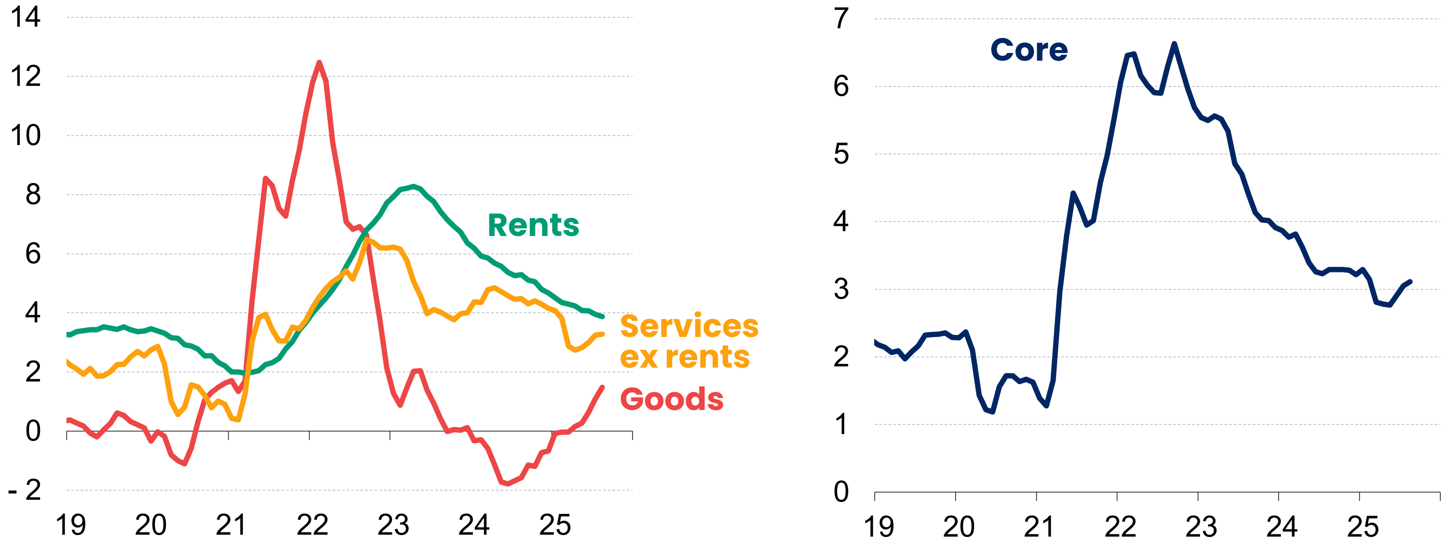
Sources: LSEG Datastream, BLS, FRBNY, Candriam

Core goods prices have started to rise… especially for imported goods

Core goods price
(January 2024 = 100)

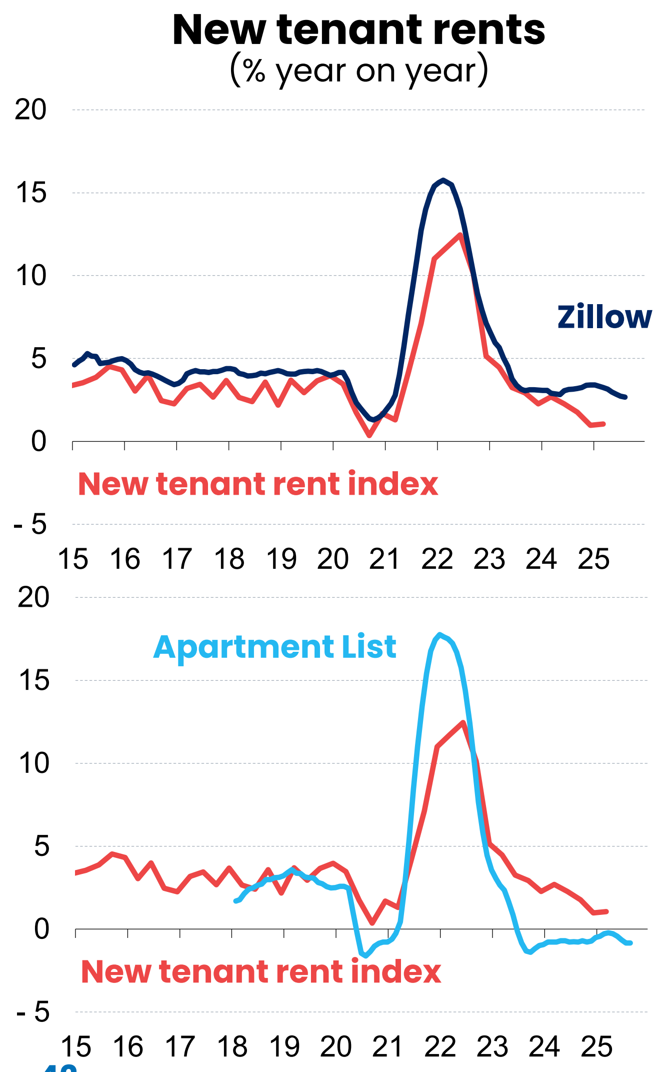


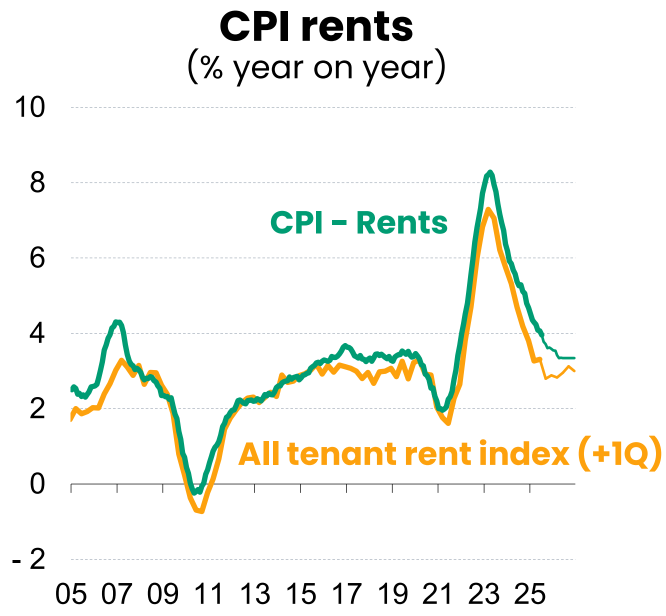
Core CPI inflation
(% year on year)

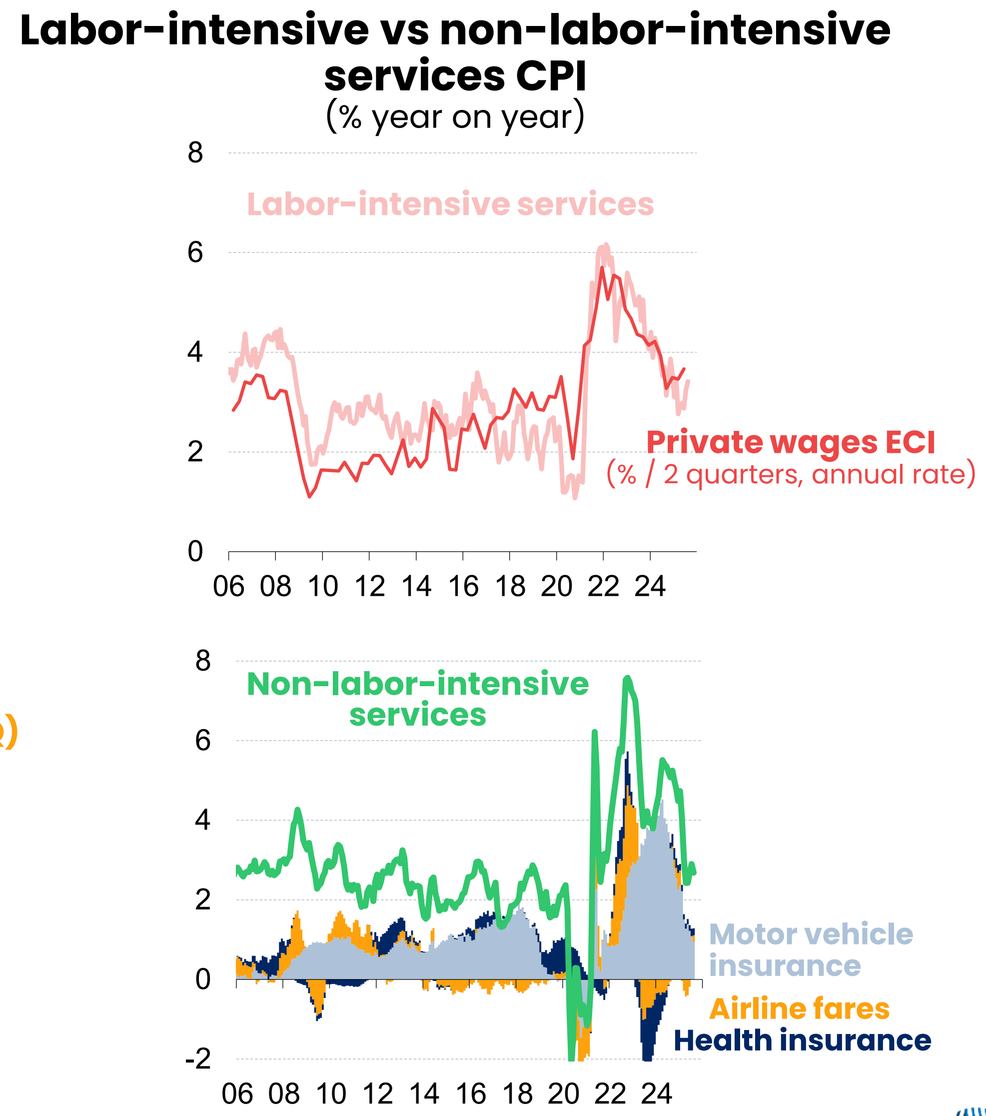


Sources: LSEG Datastream, BLS, Candriam SEPTEMBER 2025

Rents and services inflation have no reason to fall much further

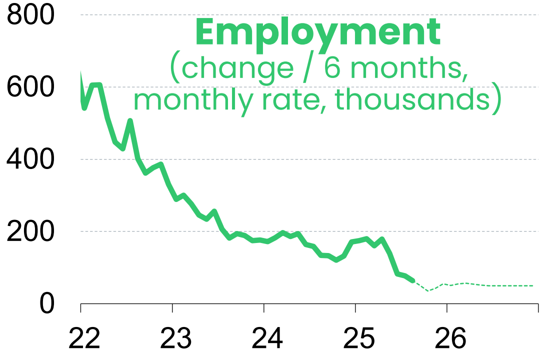


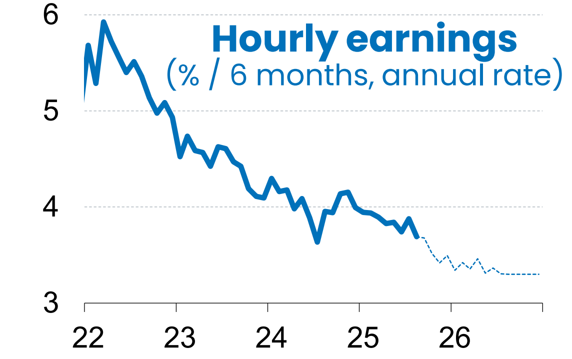


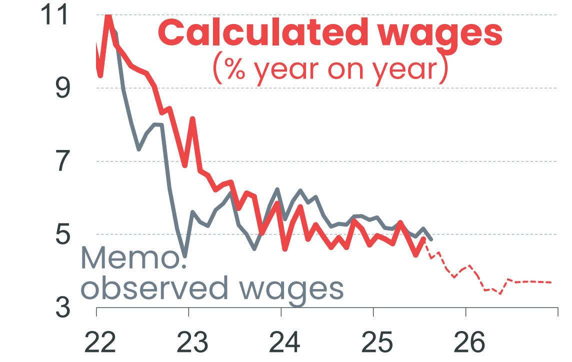


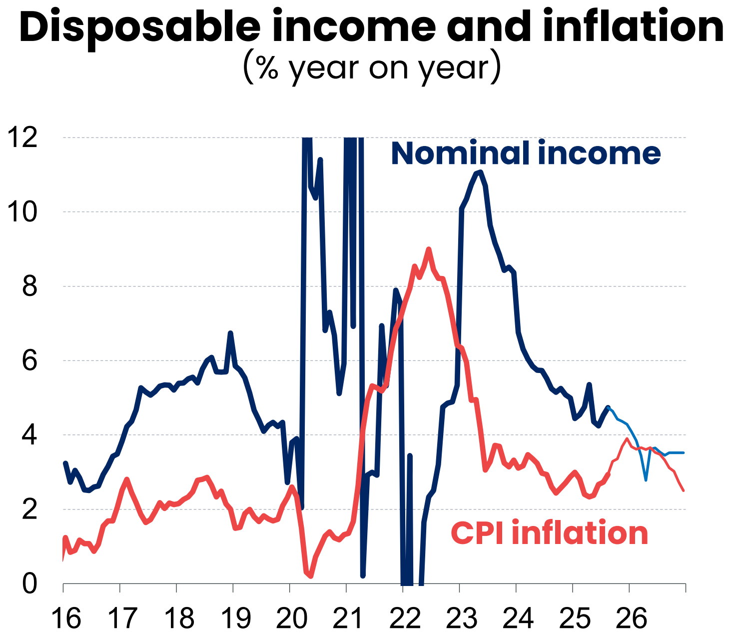
Sources: LSEG Datastream, BLS, Candriam

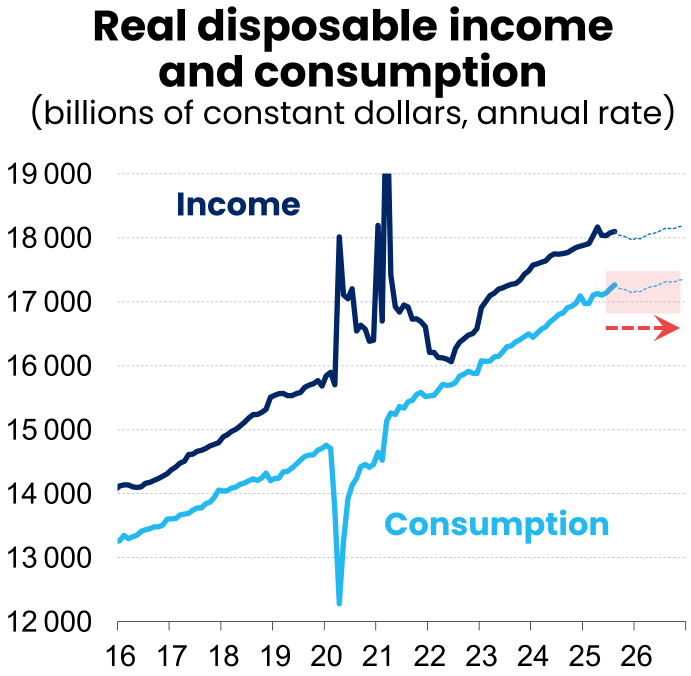
The squeeze in households purchasing power due to tariffs is likely to slow down consumption further

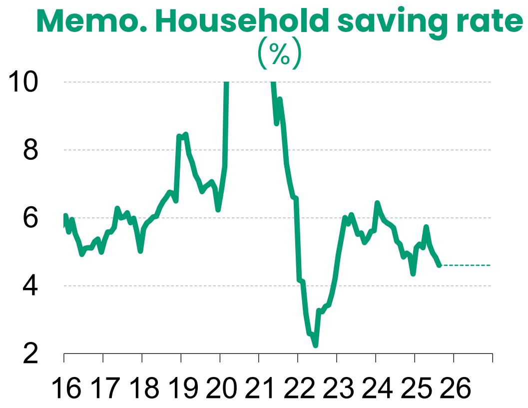








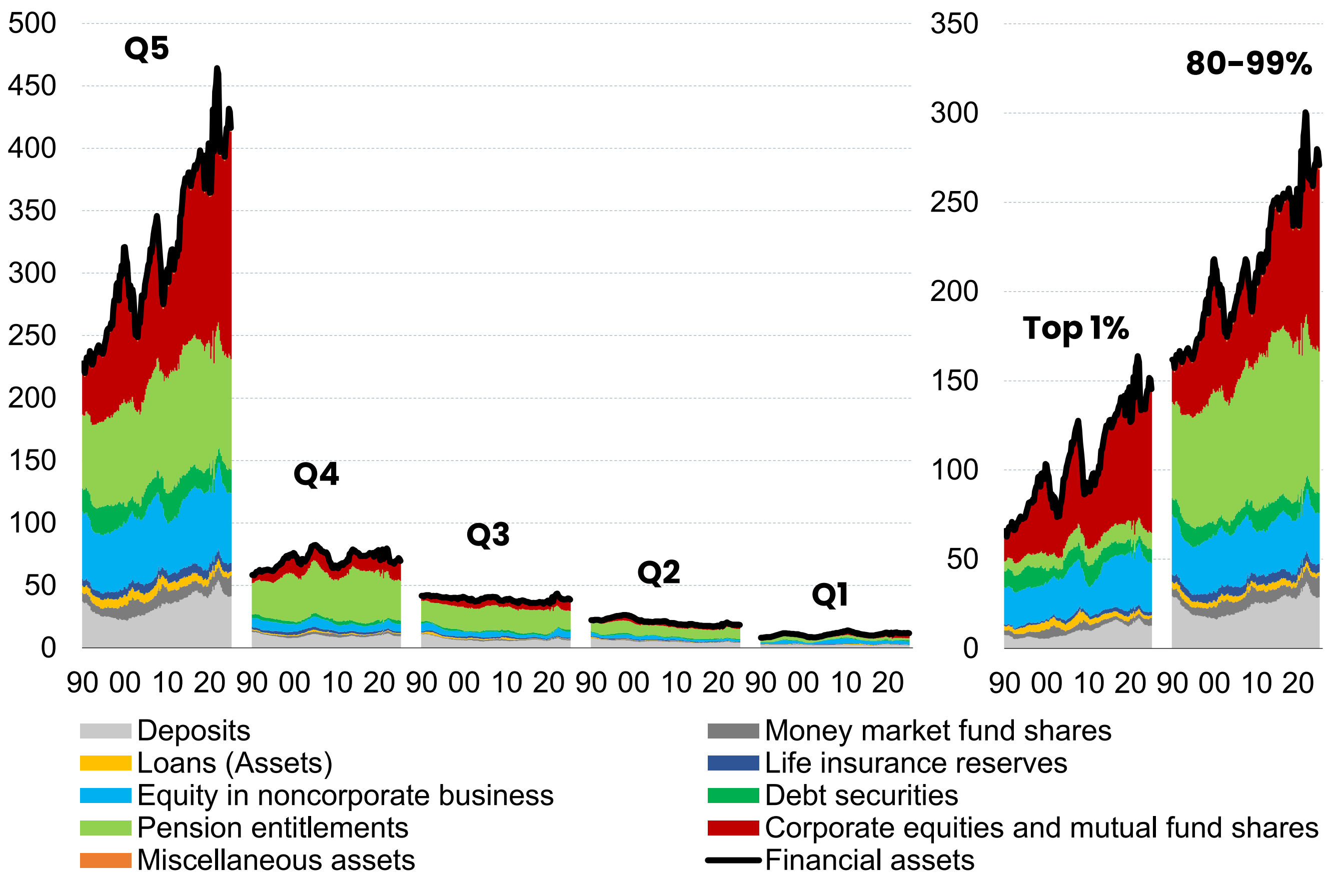




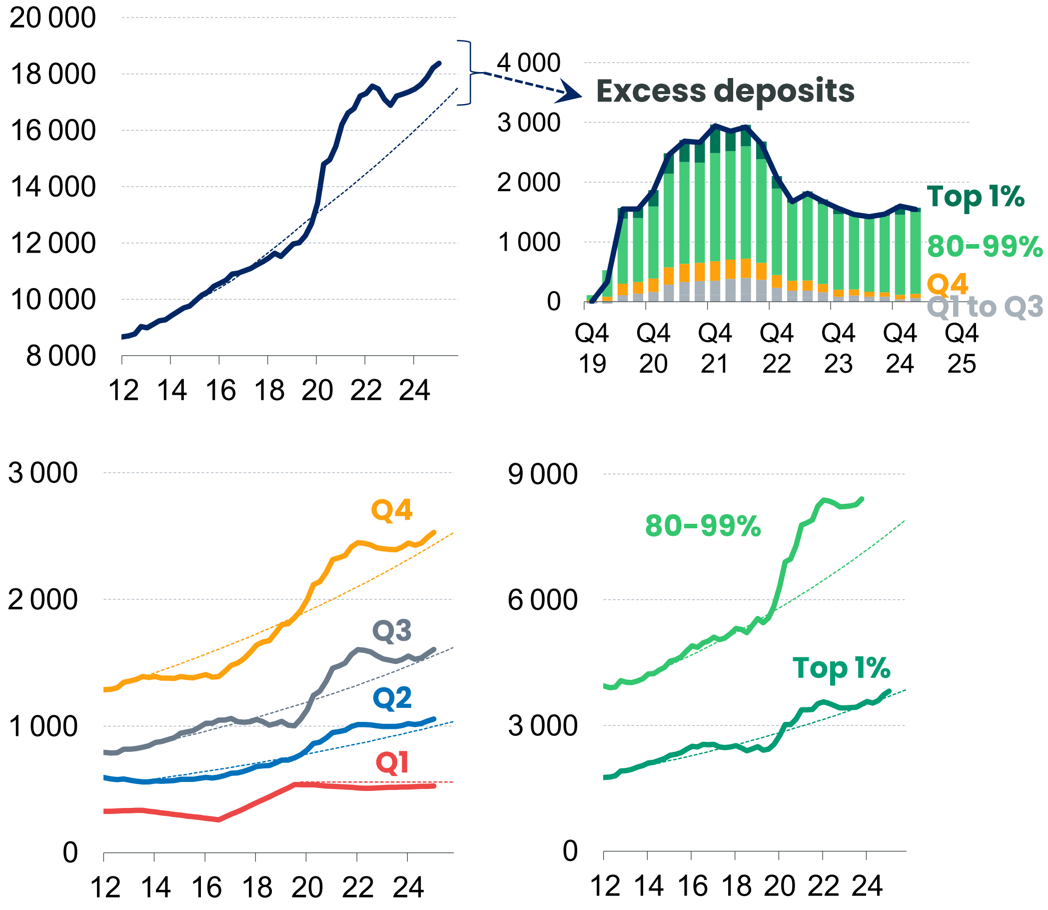
Sources: LSEG Datastream, BLS, BEA, Candriam SEPTEMBER 2025

Of course, high income earners could continue to spend, especially if the stock market is resilient…

Household financial assets by income quintile
(% of total disposable income)



Household deposits by income quintile
($ billion)

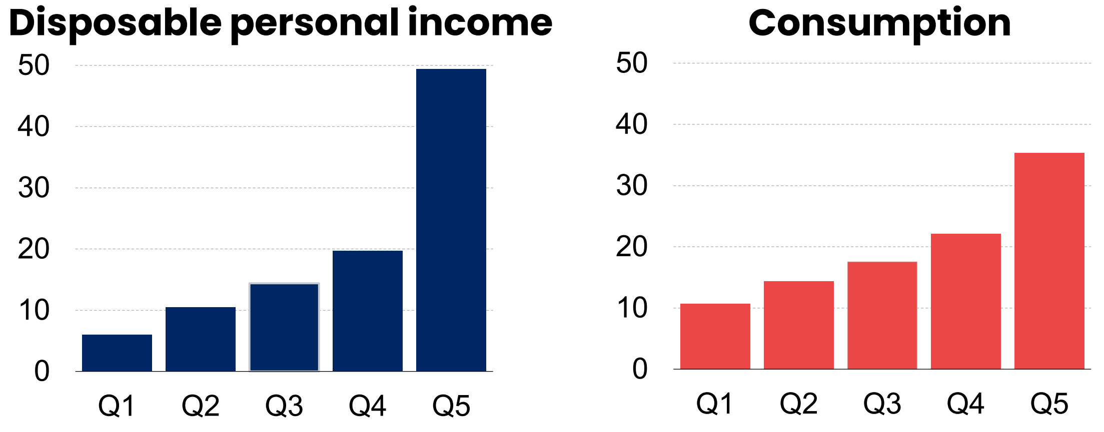


Sources: LSEG Datastream, FRBNY, Federal Reserve, Candriam SEPTEMBER 2025

… preventing too sharp a slowdown in consumption

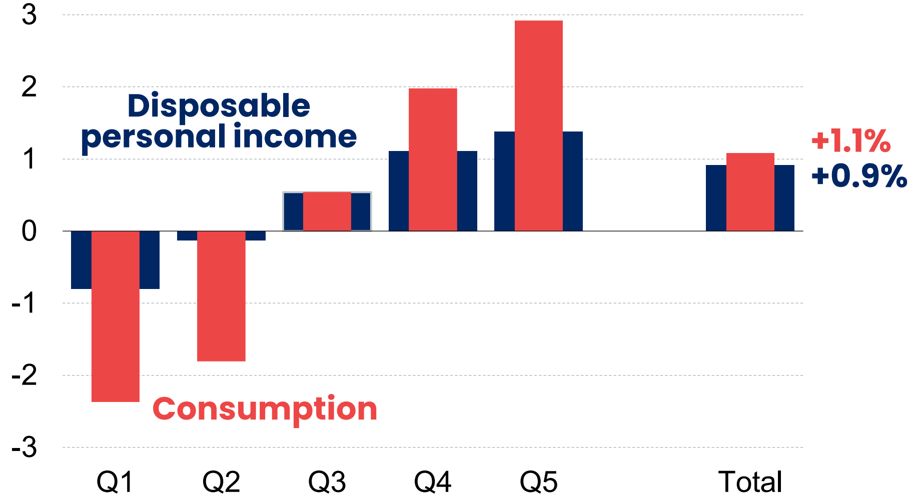
Share of income or consumption by income quintile

(%, 2023)



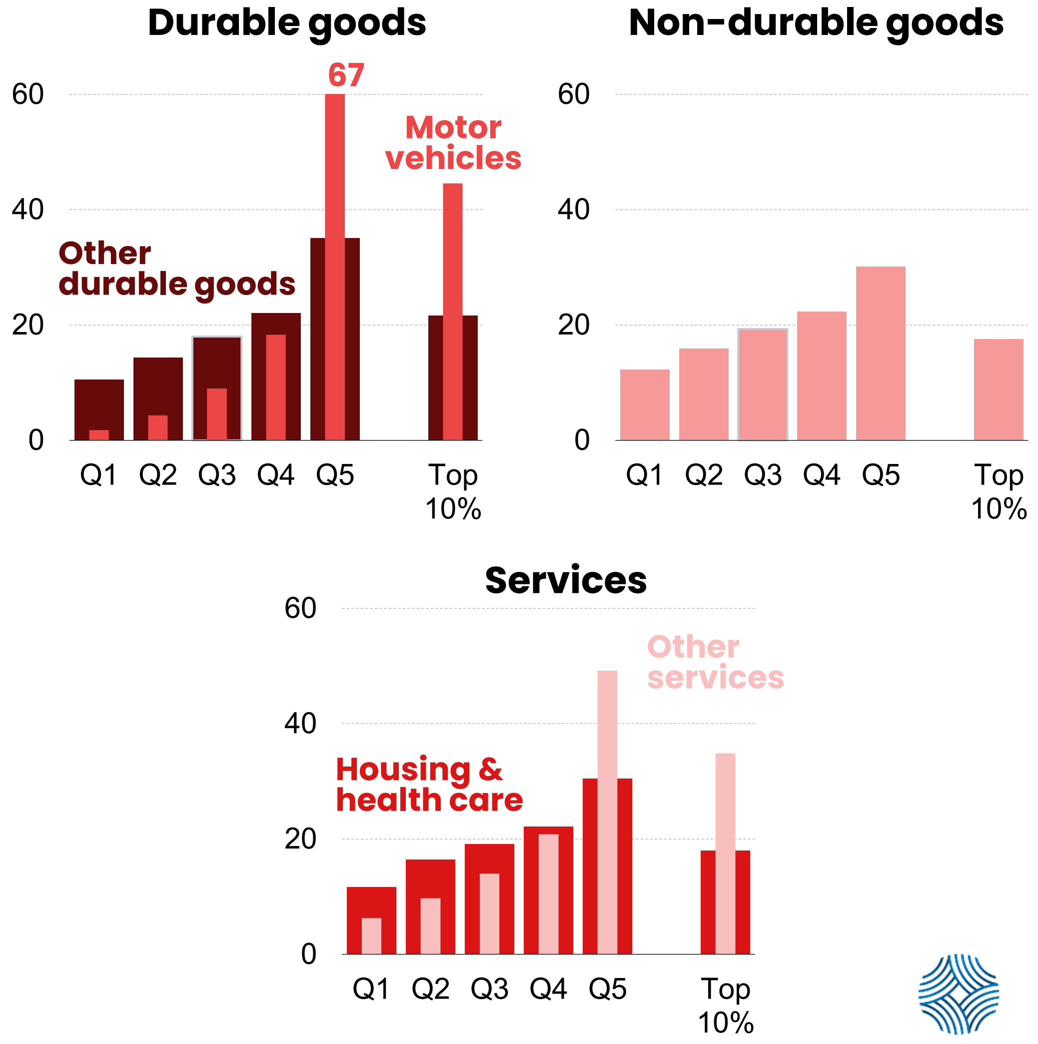
Real income and consumption growth per quintile in 2025

(%, Q4/Q4)



Share in consumption

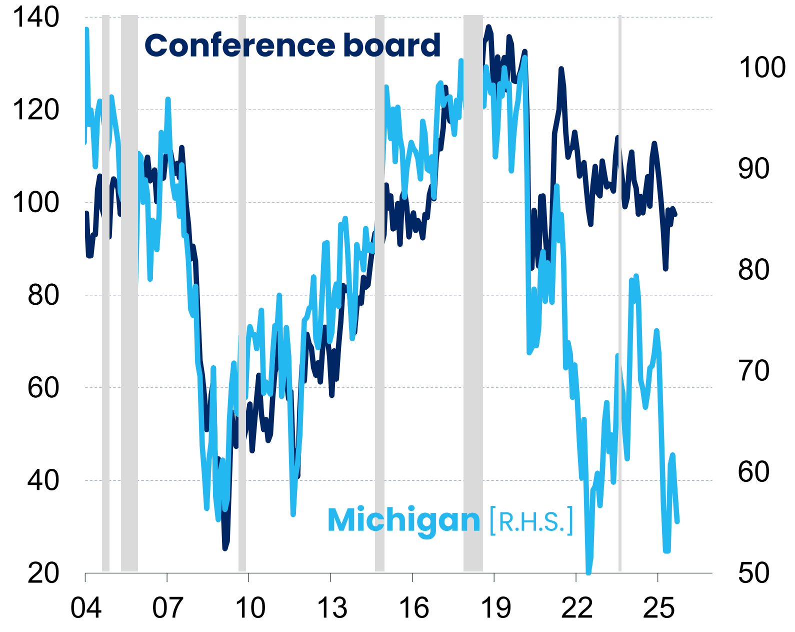
(%, by consumption quintile, 2023)



Sources: LSEG Datastream, BLS, Candriam

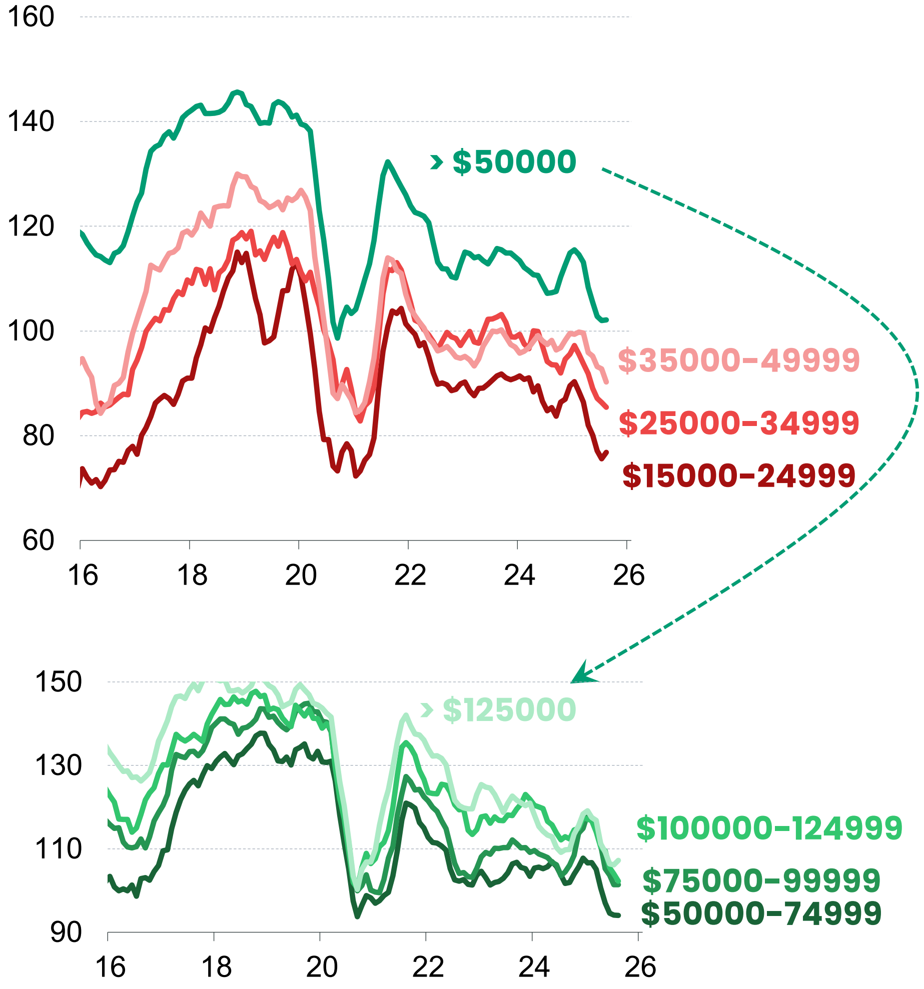
The recent erosion of consumer confidence for most households calls however for some caution

Consumer confidence



Consumer confidence by income

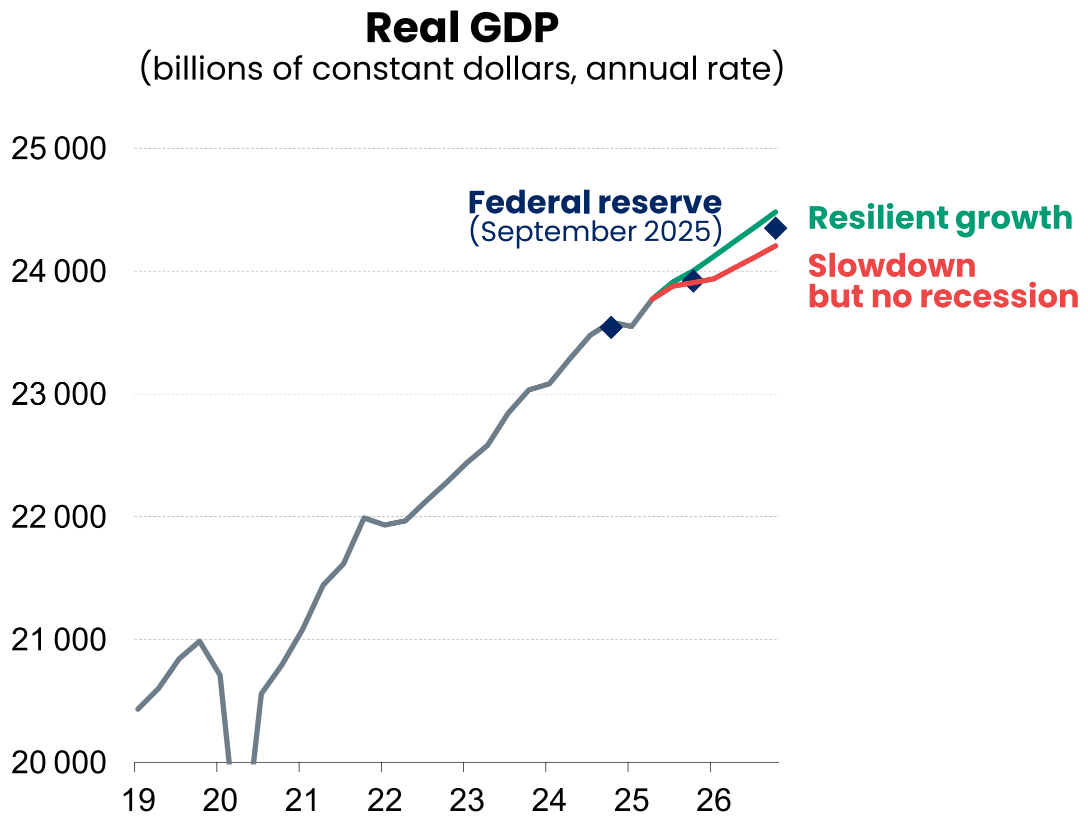
(Conference Board survey)

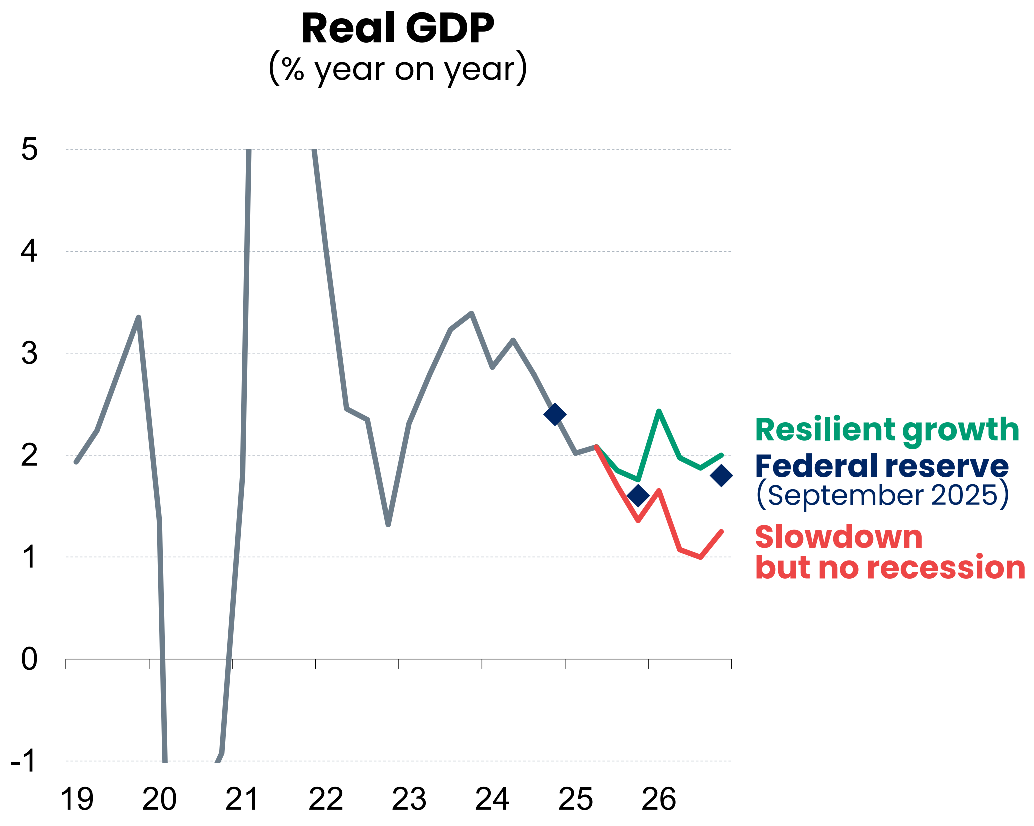


Michigan Survey

Sources: LSEG Datastream, Bloomberg, Candriam SEPTEMBER 2025

We continue to expect growth to slow down further… but a recession should be avoided

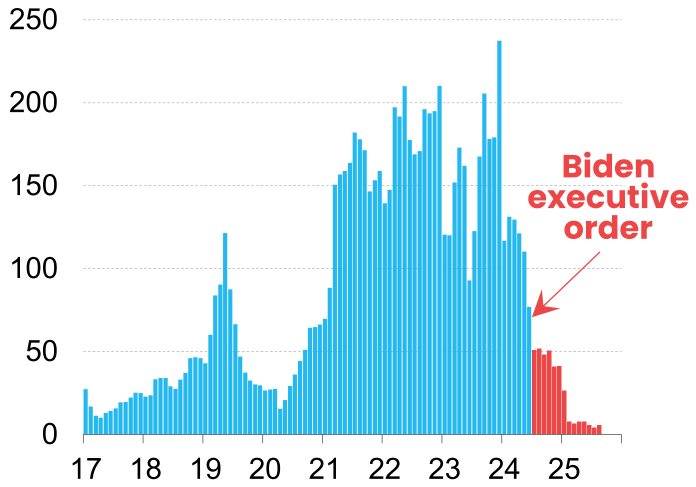




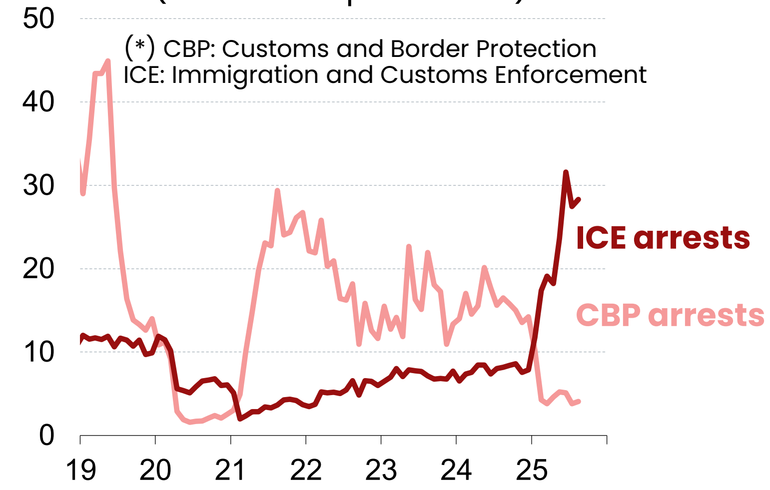
Sources: LSEG Datastream, Federal Reserve, Candriam

Tougher immigration policy complicates the task of the Fed

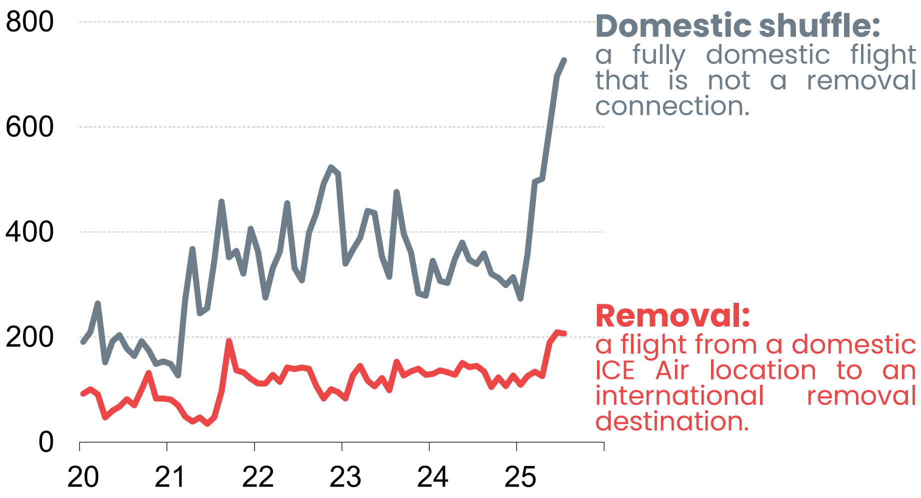
Southwest land border encounters between ports of entry
(thousands per month, adults only)



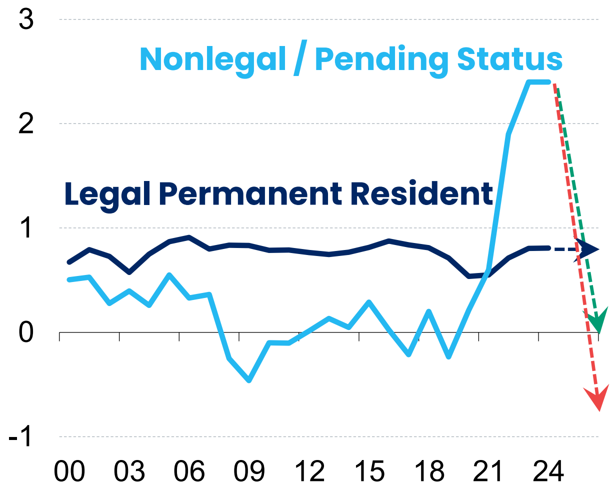
ICE & CBP arrests*
(thousands per month)



ICE air flights by month



Net immigration by type
(year on year, millions)

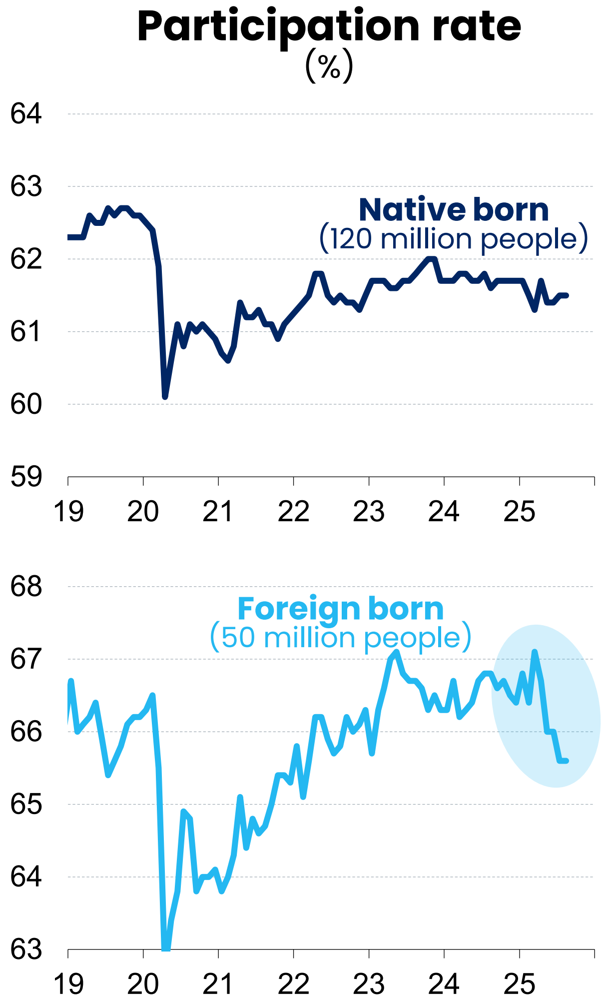


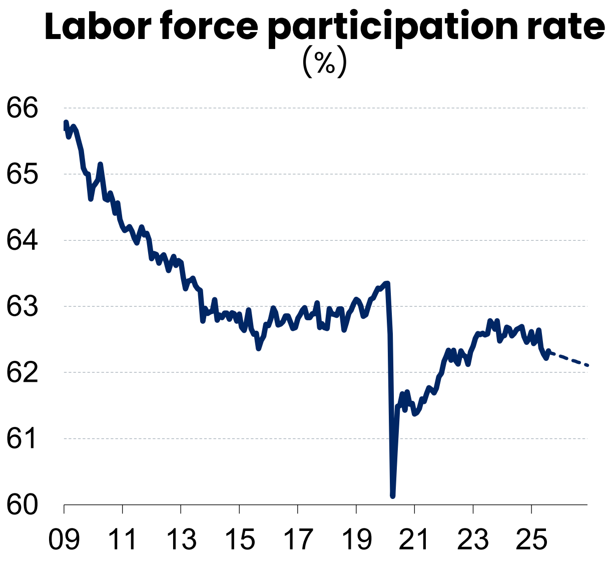
If illegal immigration is halted, the working-age population would only grow by +0.6% (as against a 1% annual increase over 2022-24).

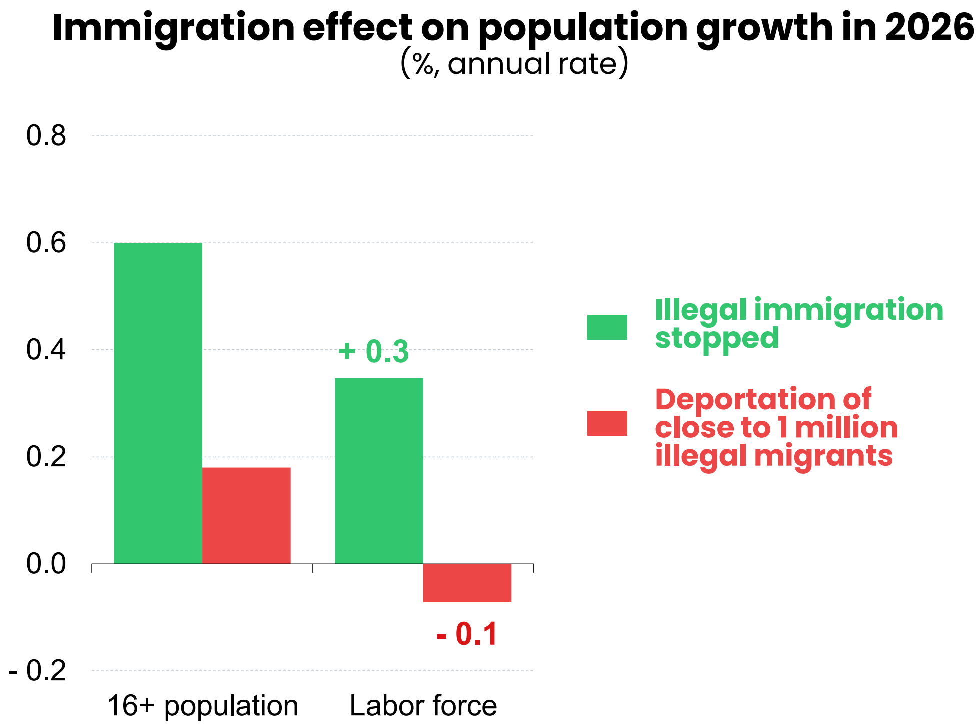
The deportation of close to 1 million illegal migrants would bring the working-age population growth down to 0.2%.

Sources: Customs and Border Protection, TRAC Immigration, Witness at the Border, CBO, Candriam

With immigration put to a halt and the decline in the participation rate of foreign-born individuals… the labor force rate of growth is likely to slowdown materially







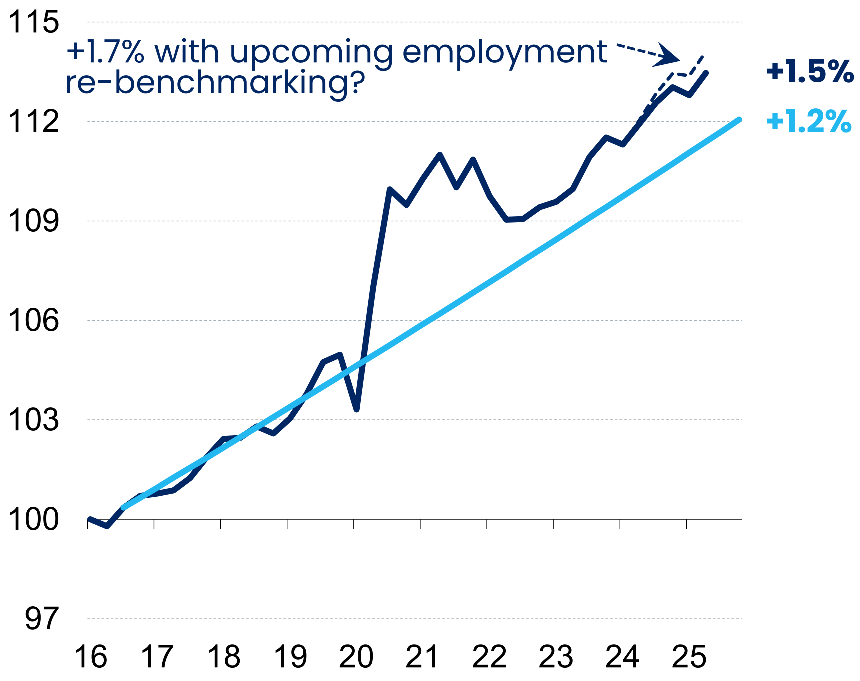
To stabilize the unemployment rate, nonfarm payrolls will have to:

- **Increase by 50,000** at a monthly pace if Illegal immigration is stopped
- **decrease by 10,000** at a monthly pace if 1 million migrants are deported

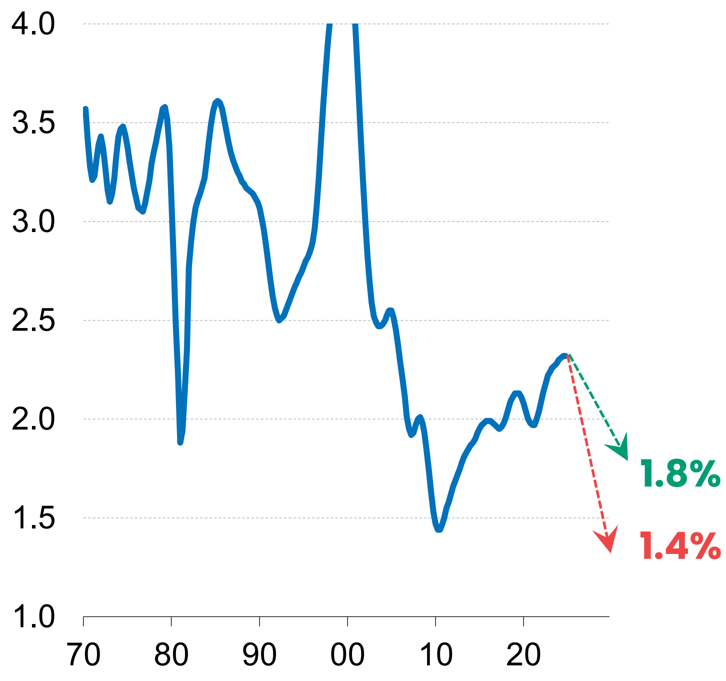
Sources: Brookings, BLS, Candriam SEPTEMBER 2025

The recent pick up of productivity gains could partly offset weaker population growth

Real GDP per employee
(2016 Q1 = 100)



Potential growth
(%, CBO)



Given the slowdown in immigration, the potential rate of growth of the United States is estimated to be 2% at best:

0.3%	+	1.5 / 1.7%	=	1.8 / 2.0%
Labor force population		Real GDP per employee		Potential growth

Removing 1 million illegal migrants per year would reduce potential growth to 1.5% at best:

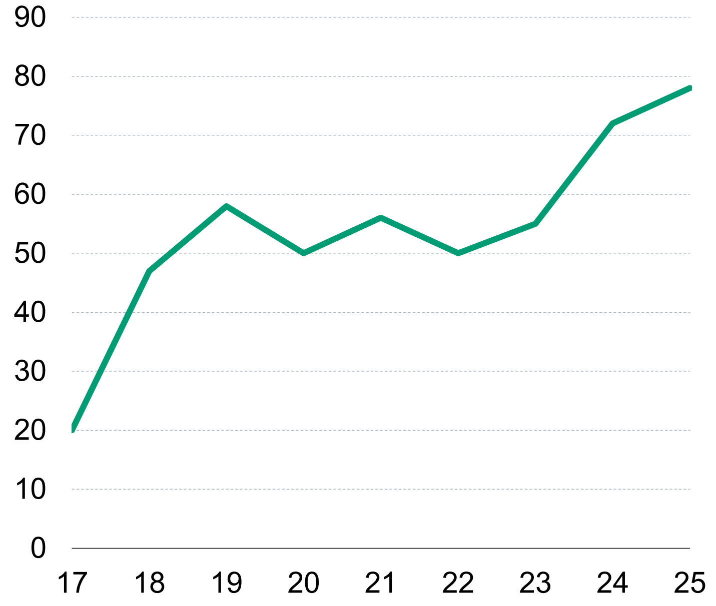
-0.1% + 1.5 / 1.7% = 1.4 / 1.6%

Sources: LSEG Datastream, CBO, BLS, Candriam SEPTEMBER 2025

The impact of AI on productivity is difficult to gauge but is unlikely to show in 2026 as adoption is still at an early stage

Organizations that have adopted AI in at least 1 business function*

(% of respondents)

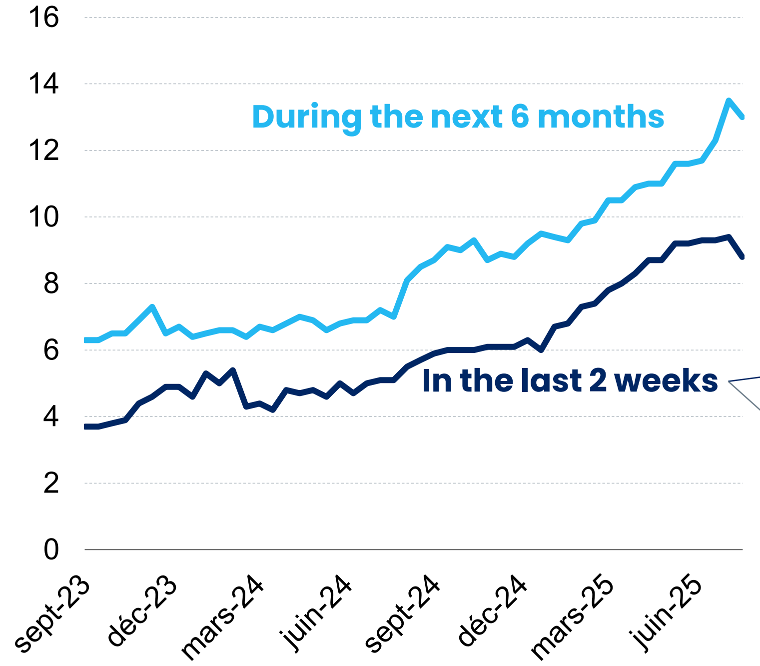


(*) Mc Kinsey sample is worldwide with a heavy representation of large corporations.

Note that "only" 8% of respondents say they have adopted AI in 5 or more business functions.

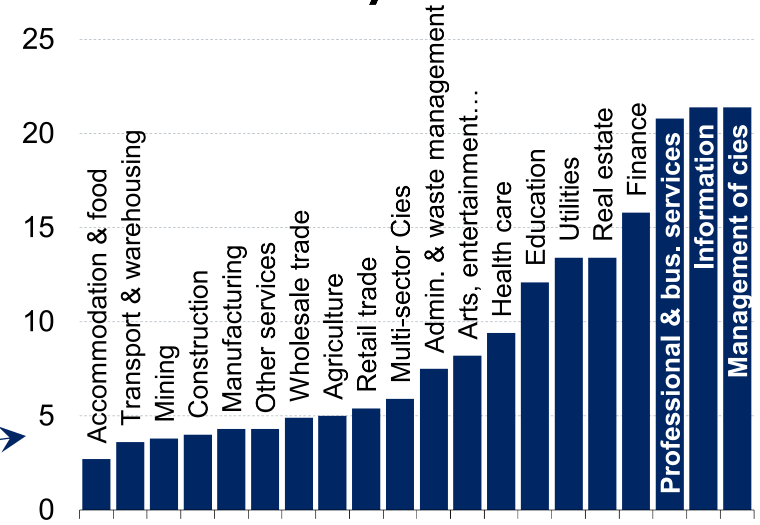
Did or will your business use Artificial Intelligence (AI) in producing goods or services**?

(%)

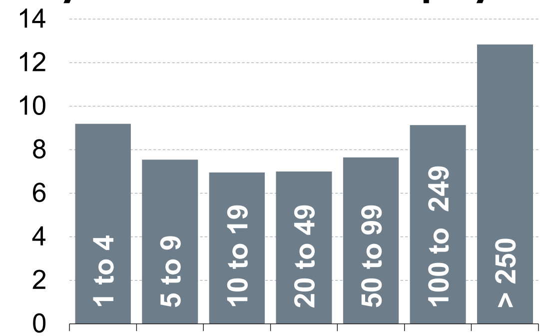


(**) Examples of AI: machine learning, natural language processing, virtual agents, voice recognition, etc.

By sector



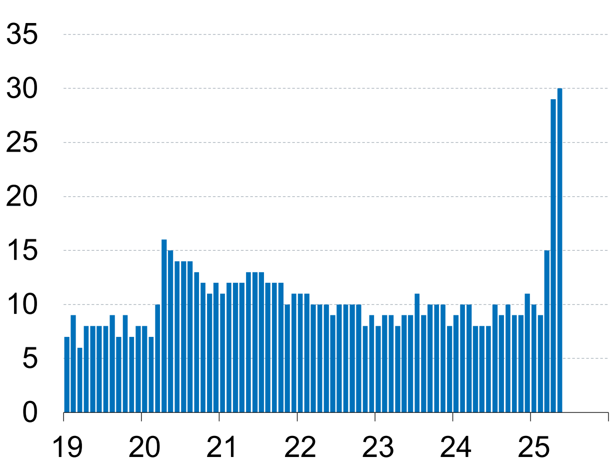
By number of firm's employees



Sources: Mc Kinsey, Census Bureau, Candriam   SEPTEMBER 2025

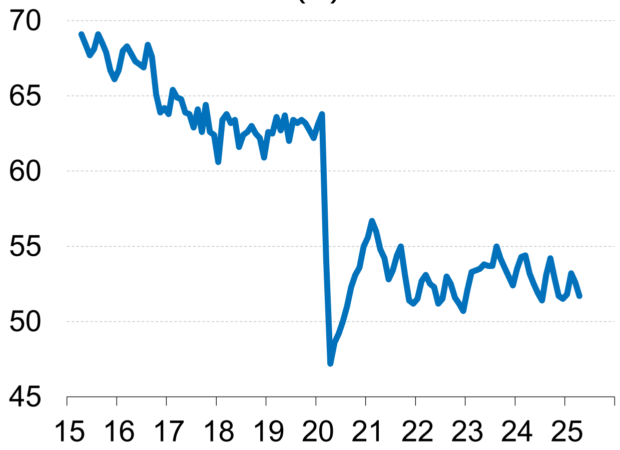
Beyond uncertainty on the supply side, data quality is also complicating the task of the Fed

Share of imputation sources for the commodities and services price survey
(%)

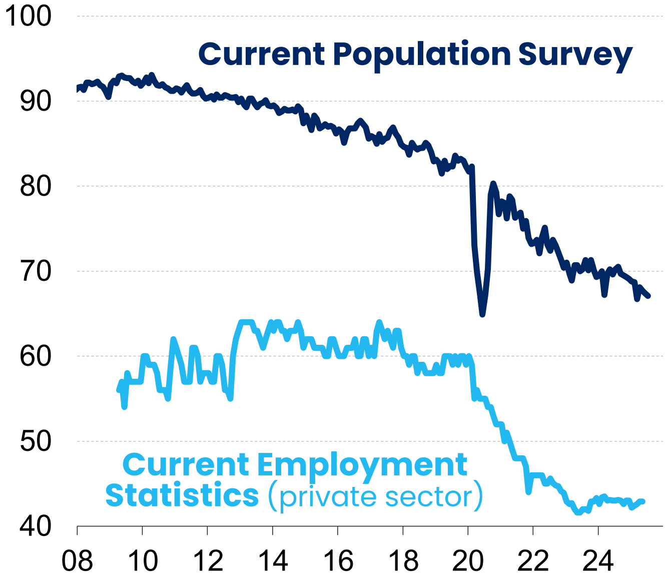


BLS has reduced sample collection in areas across the country as current resources can no longer support the collection effort.
The number of imputed items increased in April due to these actions.
The impact on total CPI will be minimal, but this may increase the volatility of subnational or item-specific indexes.

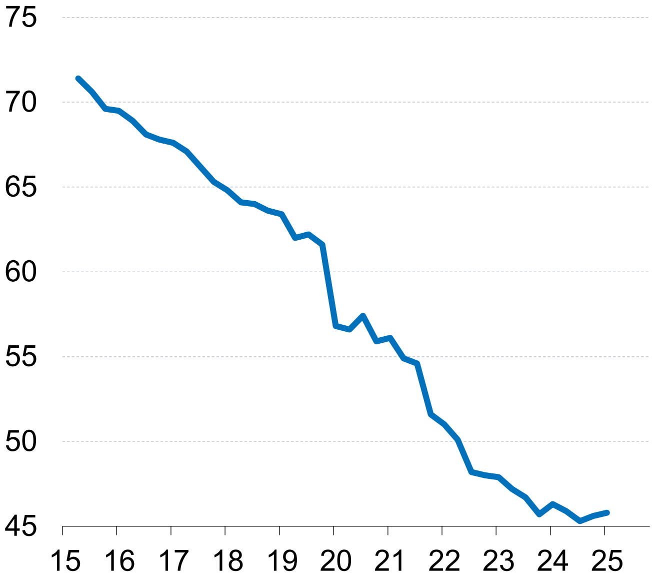
CPI response rate
(%)



Employment surveys response rate
(%)



Employment Cost Index response rate
(%)

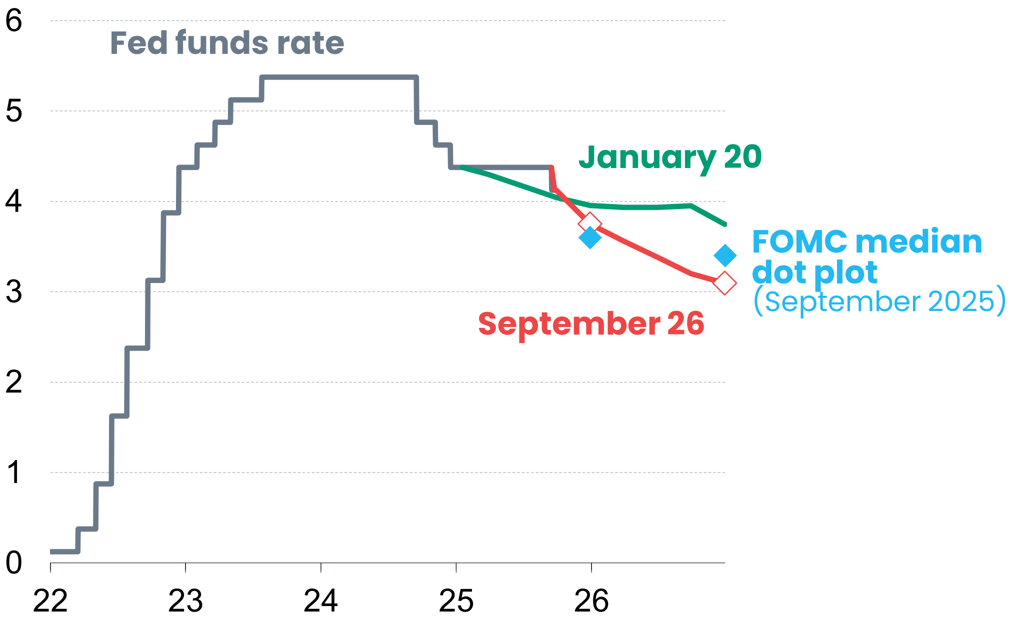


Sources: BLS, Candriam SEPTEMBER 2025

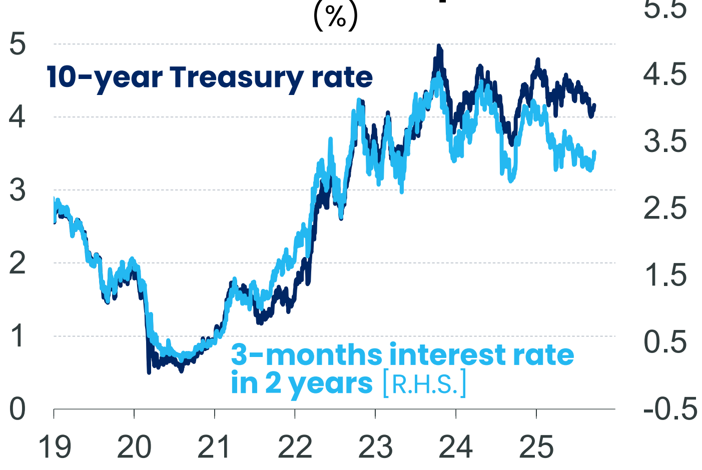
With the unemployment rate creeping up, the Fed has resumed normalizing its monetary policy

Unemployment rate
(%)

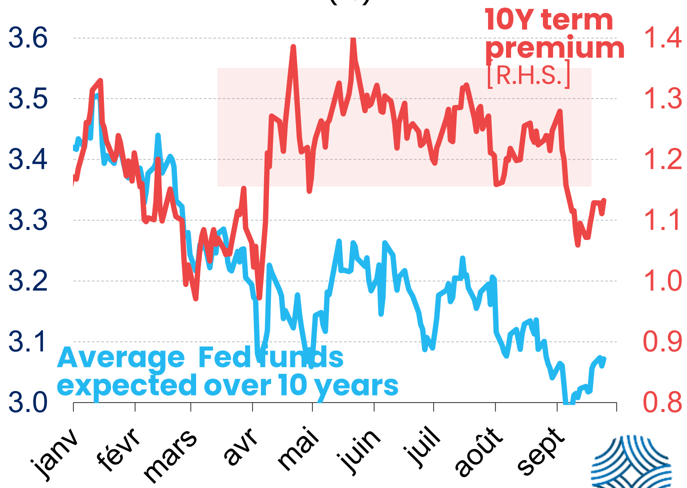
Fed funds rate and expectations
(%)



10-year Treasury rate and Fed funds rate and expectations
(%)



Memo. 10-year Treasury rate
(%)



Overall, while the **labor market appears to be in balance**, it is a curious kind of balance that results from a marked slowing in both the supply of and demand for workers. This unusual situation suggests that **downside risks to employment are rising**. And **if those risks materialize, they can do so quickly** in the form of sharply higher layoffs and rising unemployment.
Chair Jerome H. Powell, August 22, 2025

The Fed could turn more dovish if the FOMC is reshuffled!

Federal Open Market Committee (FOMC) members

Board

- **Kugler** → Left 6 months before the term of her mandate
- **Cook** → D. Trump tries to fire her

One of them should be replaced by Miran (currently chair of the Council of Economic Adviser) and D. Trump will have to fill in the remaining vacant seat

- **Powell (Chair)** → His Chair mandate ends in May 2026, but his Board member mandate runs until January 2028

The Chair usually leaves the Board at the end of its mandate… but this is not an obligation

- **Waller** → Currently runs an unexpired term ending in January 2030, he can be reappointed thereafter

Expected as the next Chair, he will not leave the FOMC

- **Jefferson (Vice Chair)**
- **Bowman**
- **Barr**

NY Fed president (permanent member)

- **Williams** **New York**

Regional Fed presidents (rotating basis)

- **Collins** **Boston**
- **Goolsbee** **Chicago**
- **Schmid** **Kansas**
- **Musalem** **St Louis**

If D. Trump manages to reshuffle the Board, all 12 regional Fed presidents are at risk of not being recertified by the Board in February 2026.
Subject to the approval of the Federal Reserve Board of Governors, the president is appointed by the Reserve Bank's Class B and C directors.

With 2 newly appointed Board members, the balance of power within the FOMC would shift in favor of D. Trump's as he already has 2 nominees at the Board (Waller and Bowman).
Benefiting from a majority at the FOMC, Trump could be tempted to remove some of the 12 regional Fed presidents.

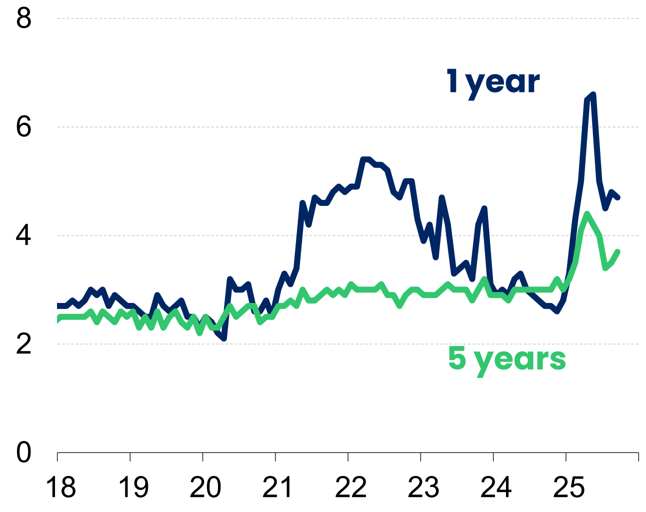
If Powell resigns, then D. Trump will benefit from a 5-2 majority within the FOMC.

Waller has been asking for rates cuts for months, he would run a much more dovish – and much less data dependent – Federal Reserve.

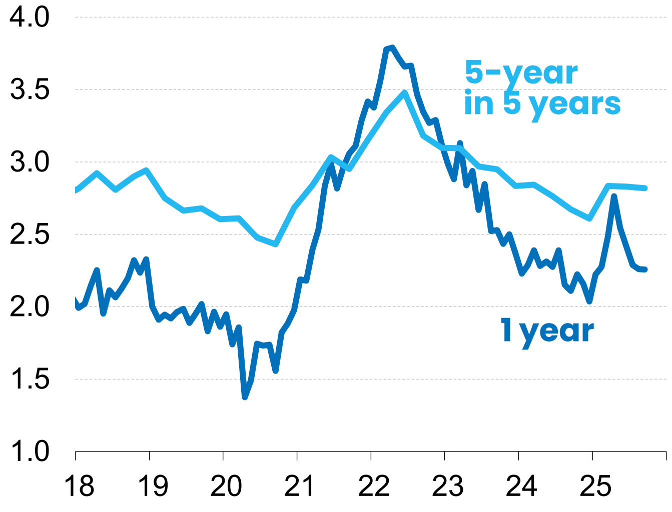
Sources: Federal Reserve, Candriam SEPTEMBER 2025

Memo. Some measures of inflation expectations

Households' inflation expectations
(%, annual rate, Michigan survey)



Business inflation expectations
(%, annual rate, Atlanta Fed)

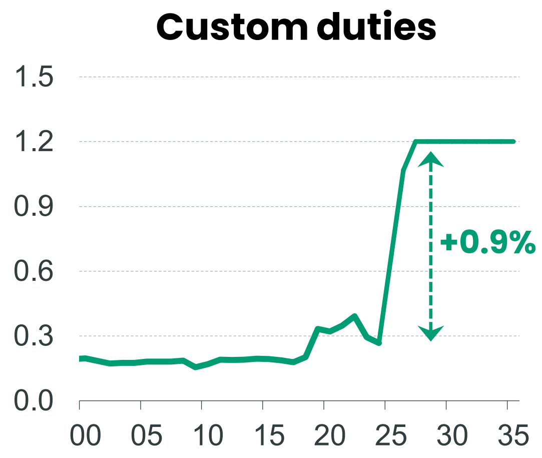


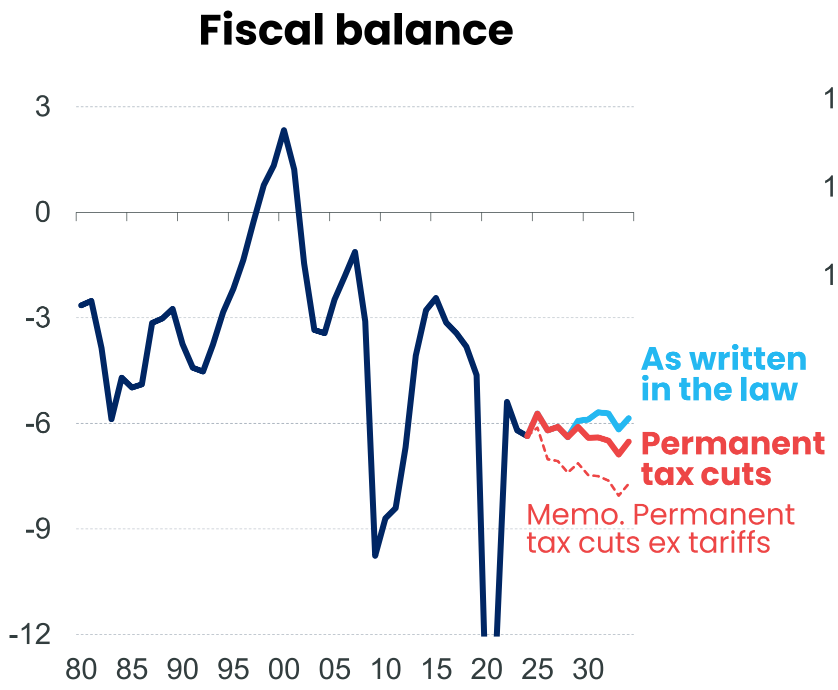
Markets' inflation expectations
(Inflation-linked swaps, %)

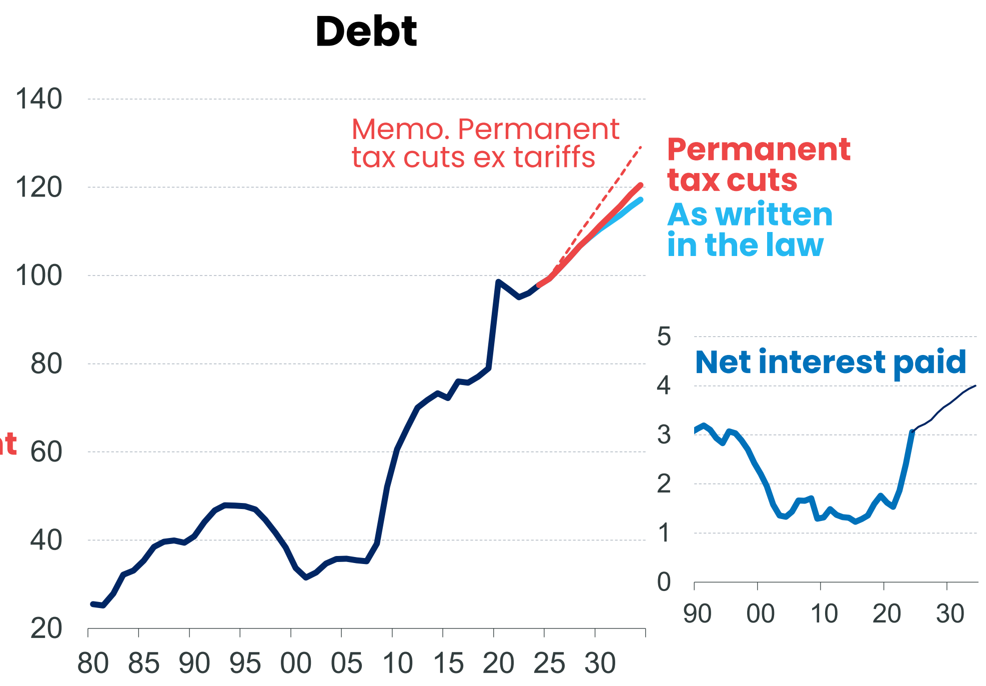
Sources: LSEG Datastream, Atlanta Fed, Candriam SEPTEMBER 2025

Memo. The OBBBA will further deteriorate the budget balance

Federal government fiscal balance and debt
(% of GDP)







Sources: CBO, Candriam SEPTEMBER 2025

Memo. The President has many options to decide on tariffs

Possible unilateral presidential actions on trade

Possible Action	Description	
Sec 201 of Trade Act of 1974	Safeguard measures permit temporary tariffs or quotas on products if **domestic industry is seriously and substantially injured/threatened by a surge of imports**	Solar cells and modules Large residential washing machines
Sec 337 of Tariff Act of 1930	ITC-led investigations typically are used with **IP-related issues**; while the ITC is independent, the president can influence it through appointments	
Sec 338 of Tariff Act of 1930	Impose new/additional duties on imports from countries that have taken unreasonable or discriminatory actions that disadvantage U.S. commerce	**Easy to use**, but tariffs limited to 50%
Sec 307 of Tariff Act of 1930	Customs and Border Protection (CBP) has authority to prohibit US imports of products mined, manufactured, or produced with **forced labor**.	
Sec 232 of Trade Expansion Act of 1962	Commerce Secretary can determine if imports pose a **threat to "national security,"** and president can decide to impose tariffs or quotas on such imports.	**Requires detailed investigations except for steel & aluminum** Tariffs must also be terminated after 4 years unless an extension is approved by USTR
Sec 122 of Trade Act of 1974	President may deal with "large and serious" trade deficits by imposing **temporary (up to 150 days) tariffs and/or quotas of as much as 15%**	**Could be utilized as a means to quickly impose universal tariffs on a temporary basis**
Section 301 of Trade Act of 1974	Provides wide authority for USTR to respond to **unfair trade practices** by imposing tariffs and quotas.	**Requires detailed investigations except for China**
Trading with Enemy Act of 1917	President may use TWEA to regulate commerce and freeze/seize foreign assets; does not permit tariffs and requires US to be **at war**	
Int'l Emergency Economic Powers Act of 1977	President may use IEEPA to regulate commerce and freeze/seize foreign assets, given **"unusual or extraordinary" international threats**	**The easiest and broadest** **Unlimited duration**
Anti-Dumping, Countervailing Duties	US industries may petition Commerce Department or ITC for dumping; Commerce also can self-initiate. Administration could apply anti-circumvention investigations. US can impose anti-dumping or countervailing duties to offset the dumping or subsidization	

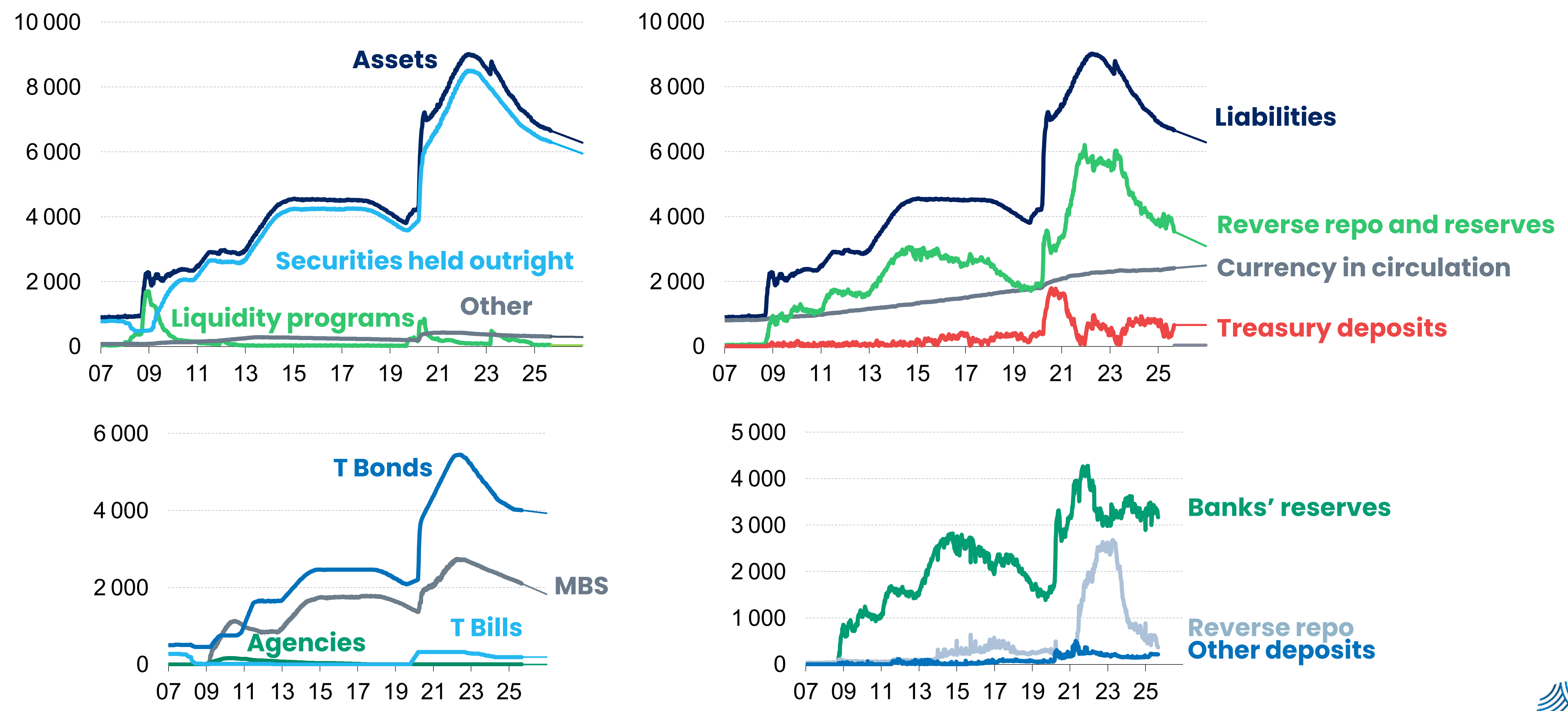
Congressional actions on trade

Reduce de minimis threshold	Imports of goods valued under $800 (per person, per day) are exempt from US tariffs	"de minimis" imports are estimated to be about $40-50bn per year (o.w. 64% from China)
Rescind China's Permanent Normal Trade Relations status (PNTR)	The PNTR status makes imports from China subject to base WTO tariff rates	There is support in Congress to revoke PNTR with China. This would increase tariffs on Chinese imports to an average rate of 40% as currently applied to North Korea, Cuba, Russia, and Belarus

Sources: Nomura, Barclays, Covington, Candriam

Memo. Federal Reserve balance sheet

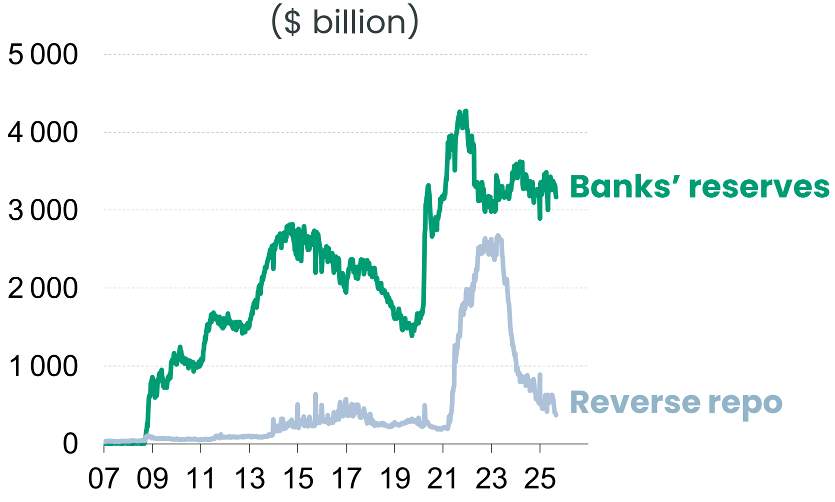
Balance sheet of the Federal reserve
($ billion)

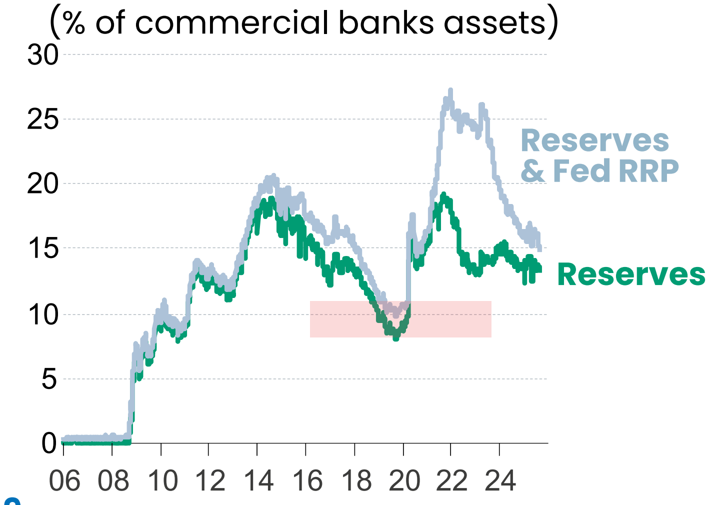


Sources: LSEG Datastream, Federal Reserve, Candriam SEPTEMBER 2025

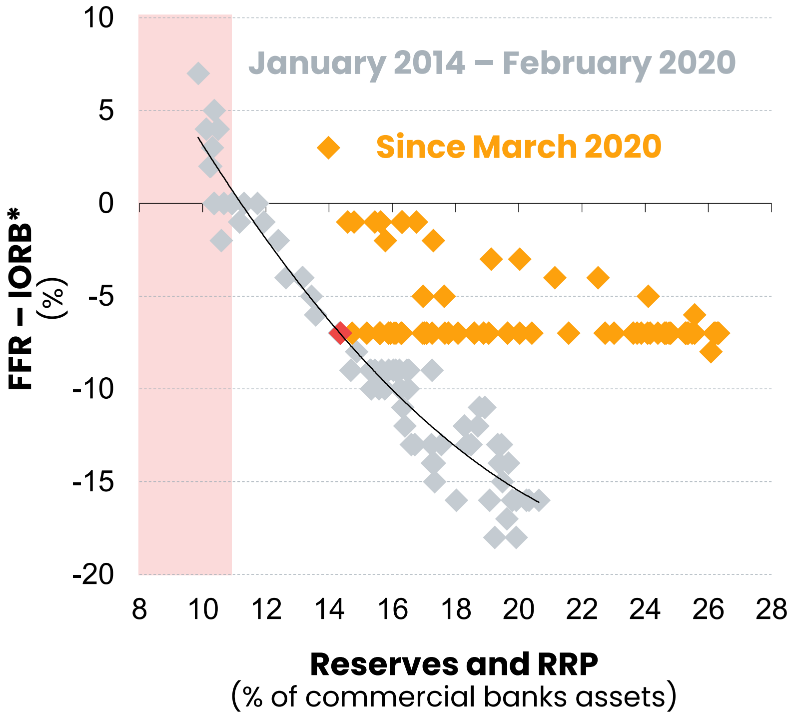
Memo. Federal Reserve balance sheet

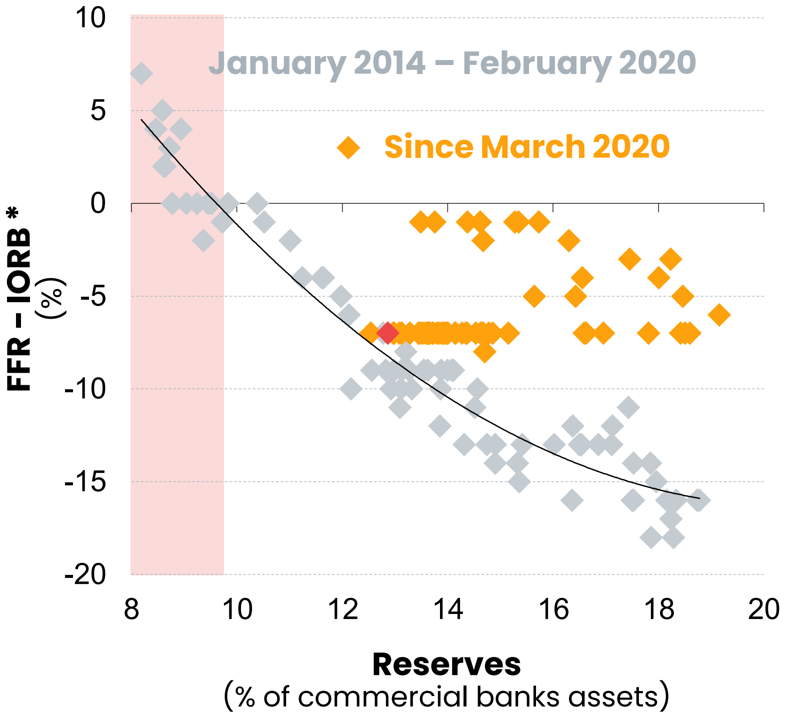
Central bank liquidity





Central bank liquidity and tensions on Fed funds rate





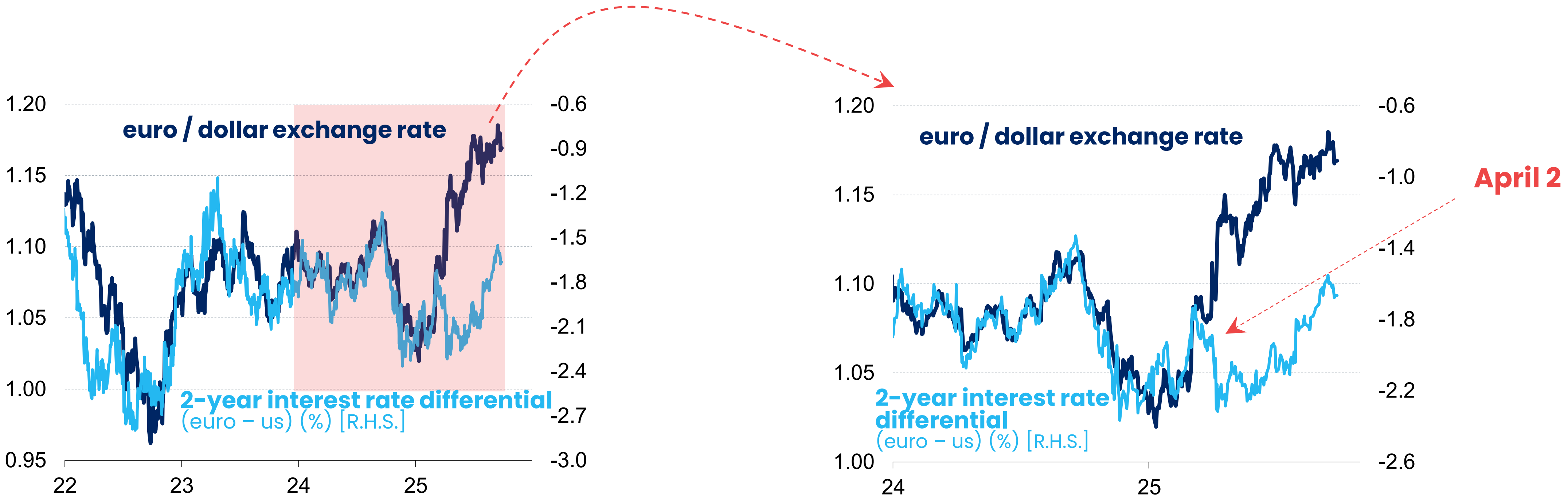
(*) Fed funds rate minus interest rate on reserve balance

Sources: LSEG Datastream, Federal Reserve, Candriam SEPTEMBER 2025

Focus. The US dollar

Since April 2, the euro/dollar exchange rate no longer follows interest rate differentials

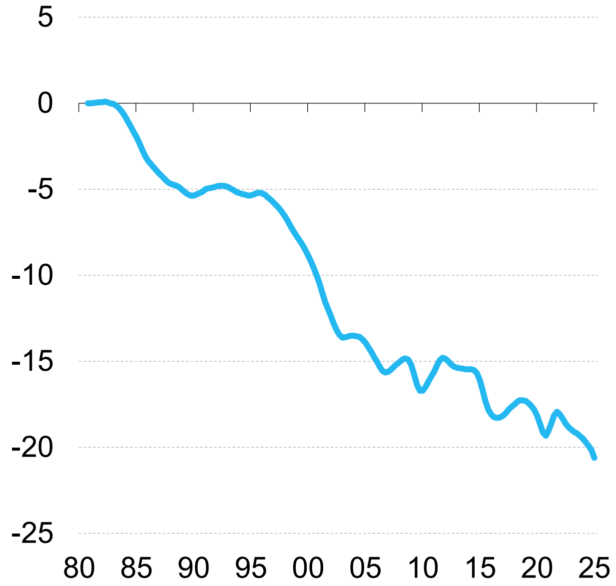
Interest rate differentials and euro dollar exchange rate



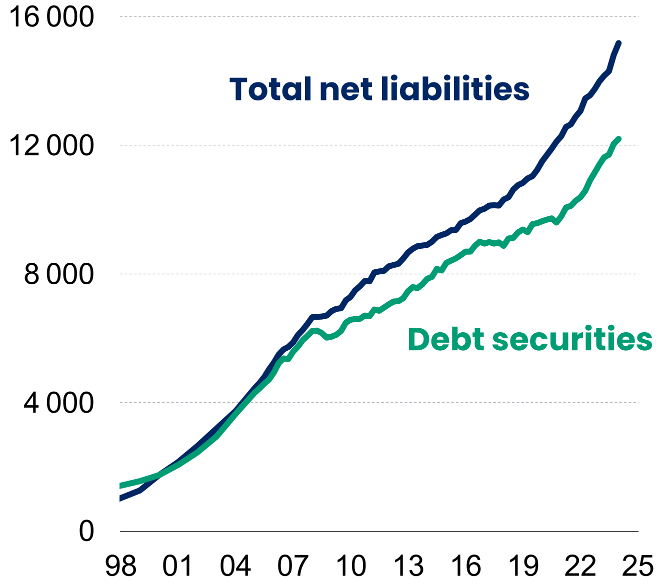
Sources: LSEG Datastream, Candriam SEPTEMBER 2025

Eroding confidence in the dollar is a dangerous game!

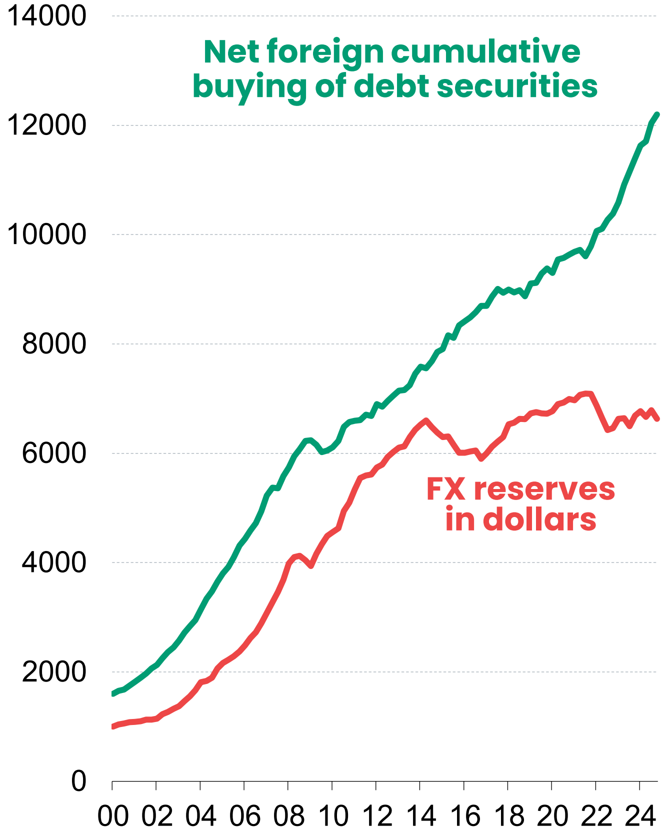
Cumulated US current account balance since 1980
(% of world-ex US GDP)



Net liabilities of the United States vis-à-vis the rest of the world
(cumulative flows since 1998, $ billion)



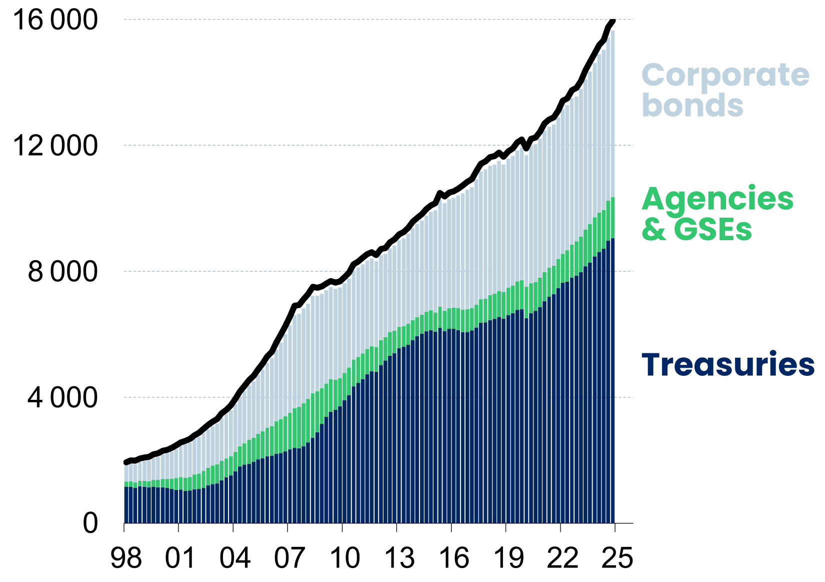
Financing of the US current account deficit and dollar-denominated foreign exchange reserves
($ billion)



Sources: LSEG Datastream, Candriam SEPTEMBER 2025

Foreign holders of US debt securities have become more "return-sensitive"

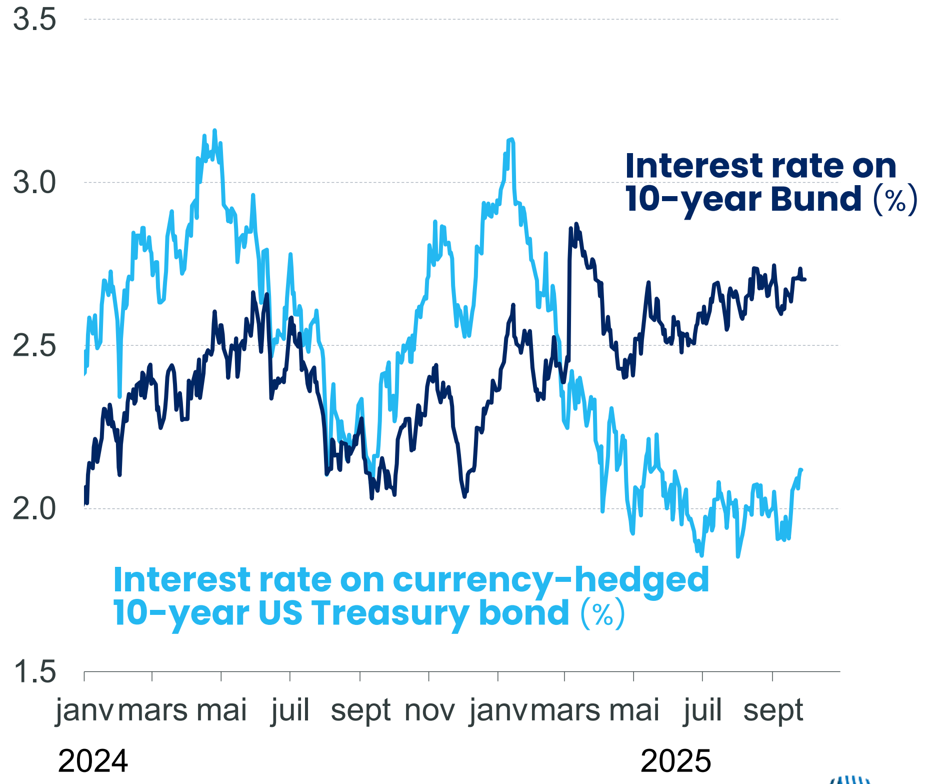
Gross foreign cumulative buying of US debt securities
($ billion)



While foreign exchange reserve accumulation has slowed, ***foreign asset accumulation of countries maintaining persistent current account surpluses occurs more and more through sovereign wealth funds***.

Whereas reserve managers invest principally in Treasuries, sovereign wealth funds are more likely to take some credit risk. This might have led to a shift towards more "return-sensitive" buyers.

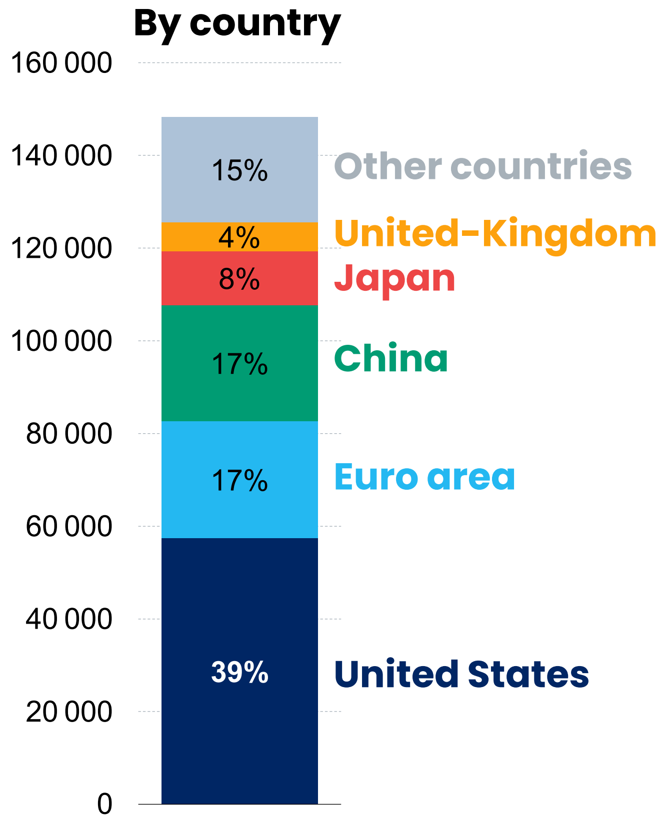
Comparison of an investment in US Treasury securities and in German government securities from the point of view of a European investor

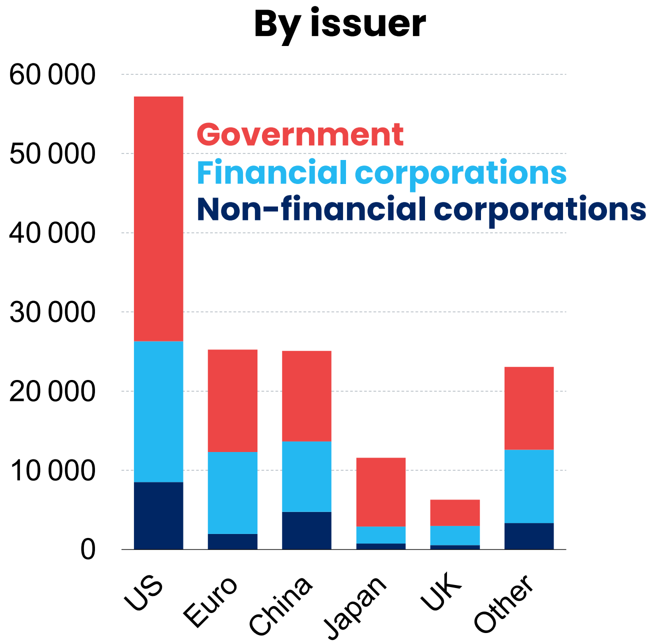


Sources: LSEG Datastream, Bloomberg, BIS, Candriam SEPTEMBER 2025

While large-scale foreign liquidation of Treasury holdings appears quite unlikely for lack of credible alternative…

Size of world debt market
($ billion, end 2024)





Large-scale foreign liquidation of Treasury holdings appears unlikely as there is no credible alternative to US Treasuries in the global financial system: no other asset is seen to be as safe, stable, and liquid, as well as available in quantities sufficient to meet the enormous global demand for safe assets.

Sources: Federal Reserve, Candriam

… some of the forces which supported the dollar are likely to be less supportive in the future

D. Trump's "America First" policies are prompting other major economies to step up their stimulus policies to support growth (fiscal bazooka in Europe, but also in China).

➔ **Other regions of the world will have fewer excess savings to export.**

➔ At the same time, with growing US fiscal deficits, the risk of an excess supply of US Treasury securities seems more real than the risk of a shortage.

"Wall Street consensus that an Administration has no means by which to affect the foreign exchange value of the dollar, should it desire to do so, is wrong. **Government has many means of doing so, both multilaterally and unilaterally**."

Stephen Miran
(A User's Guide to Restructuring the Global Trading System)

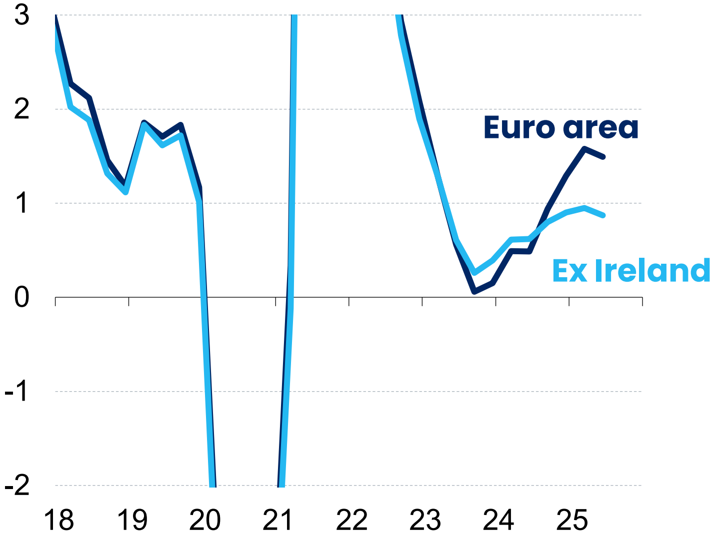
➔ **The idea of a grand Mar-a-Lago accord risks eroding confidence in the dollar.**

Source: Candriam

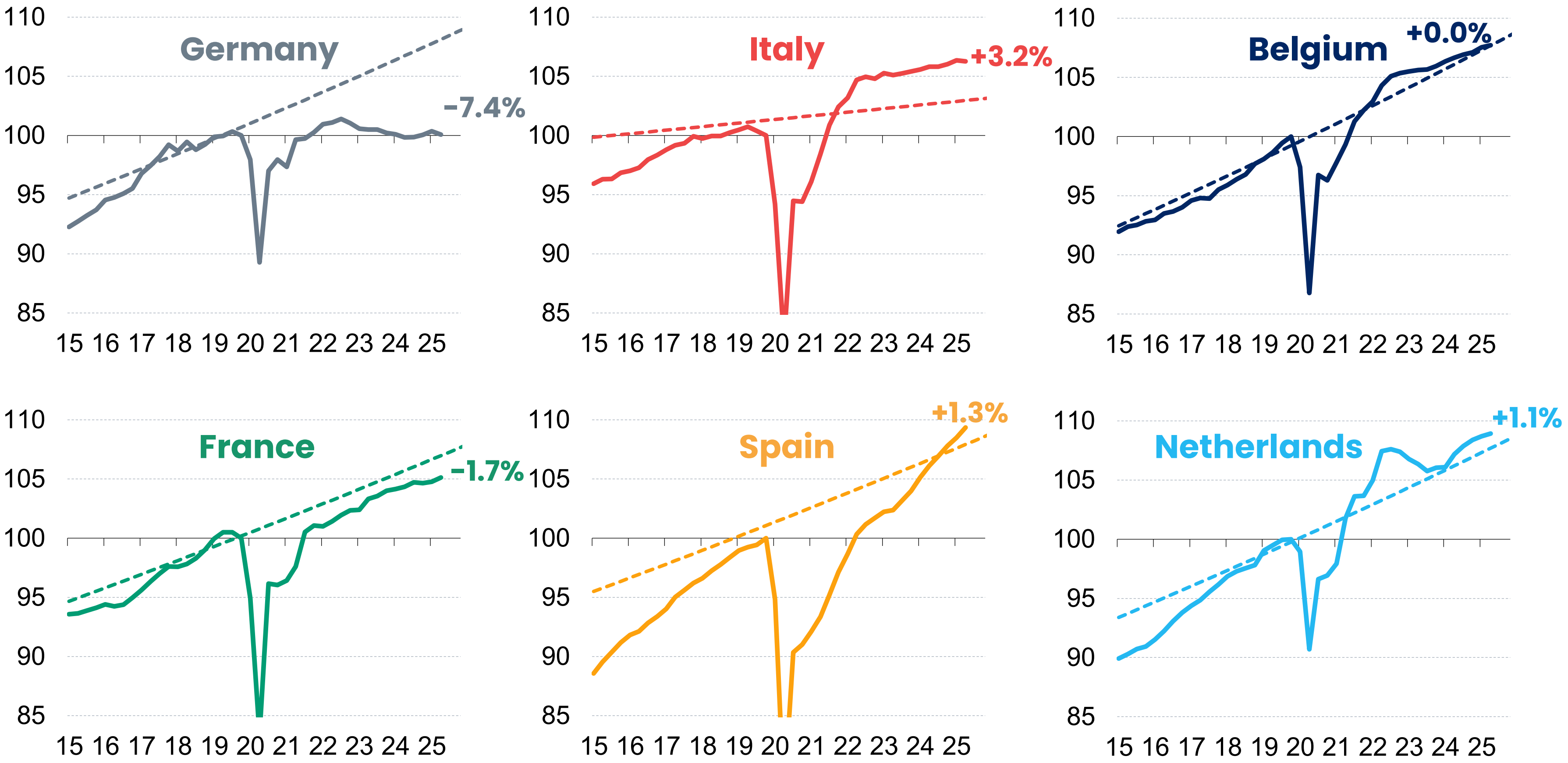
4 Euro area
Challenged by Trump Administration…

In H1 2025, GDP grew moderately in the euro area and remained well below its pre-covid trend in Germany

Real GDP growth
(% year on year)



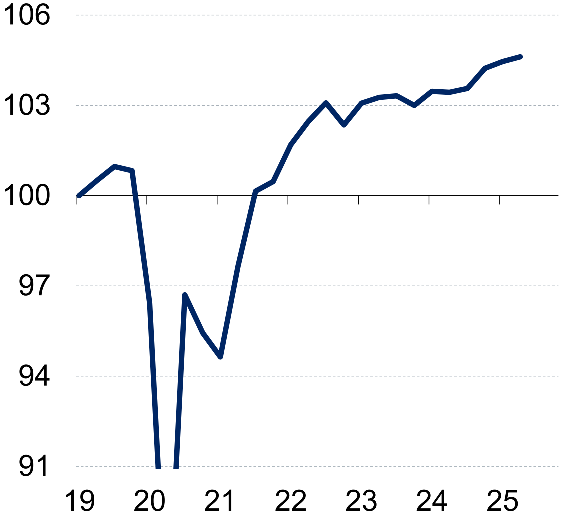
Real GDP
(compared to 2004-2019 trend, 2019 Q4 = 100)

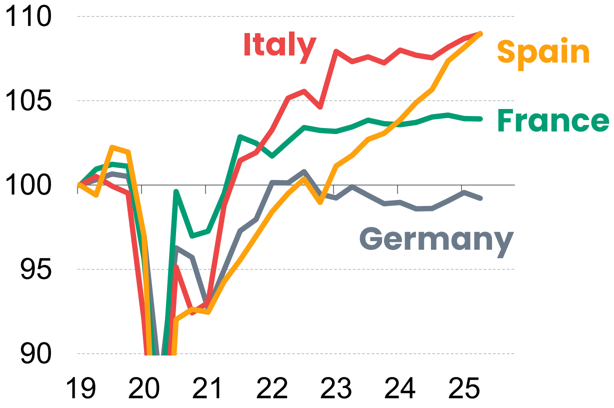


Sources: LSEG Datastream, Candriam SEPTEMBER 2025

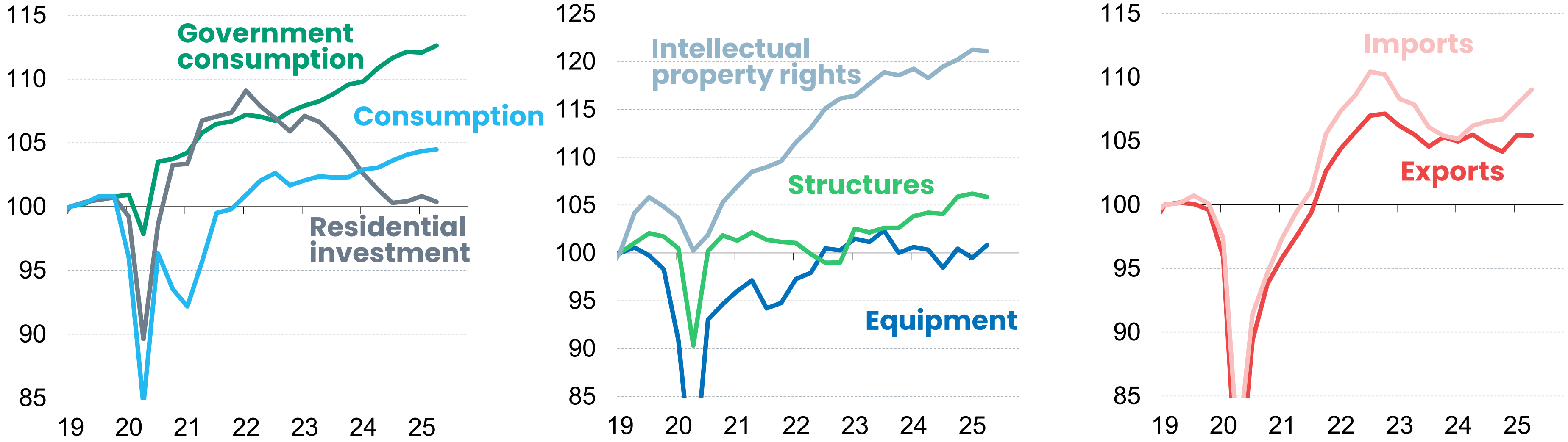
Domestic demand has barely accelerated

Domestic demand
(ex inventories and government consumption)



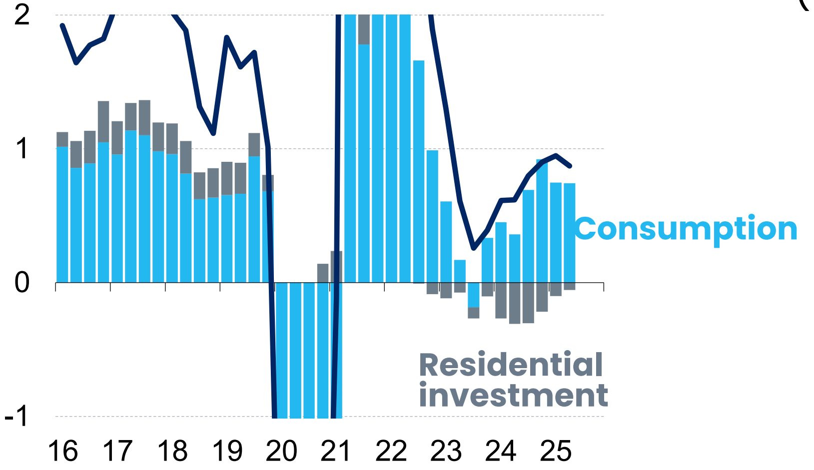


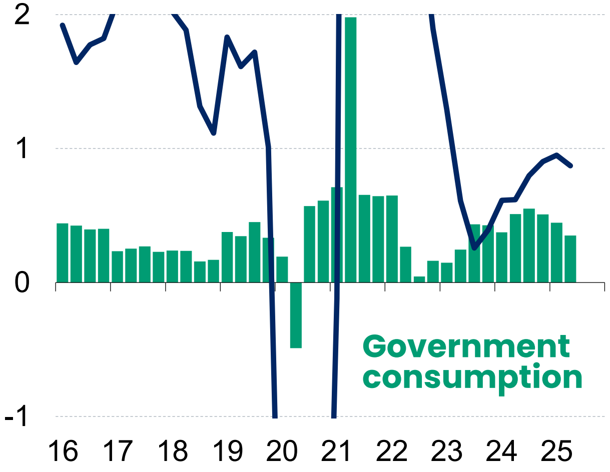
Euro area ex Ireland GDP components
(2019 Q1 = 100, volume)

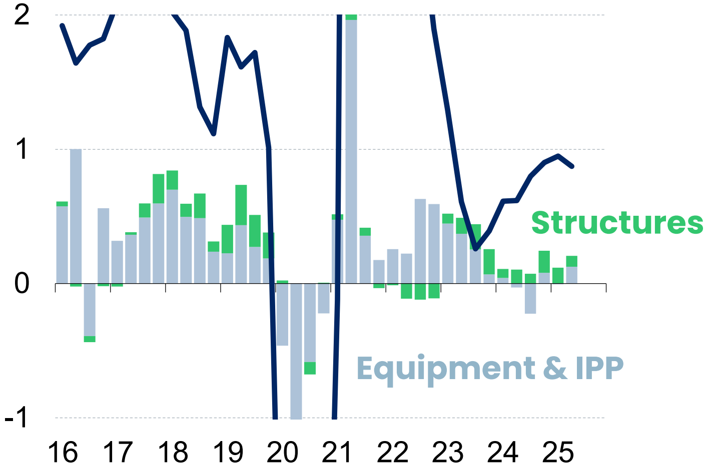


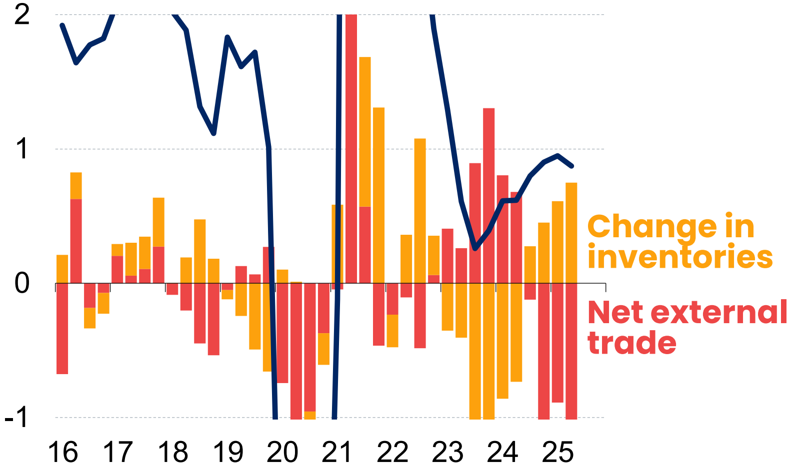
Memo. Components of GDP growth

Euro area ex Ireland GDP components
(% year on year contribution, volume)







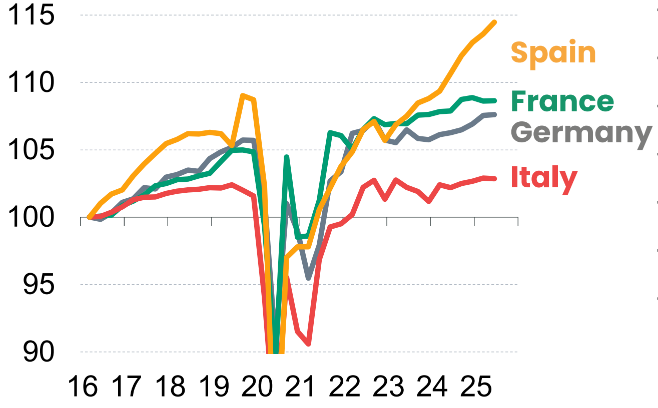


Sources: LSEG Datastream, Candriam SEPTEMBER 2025

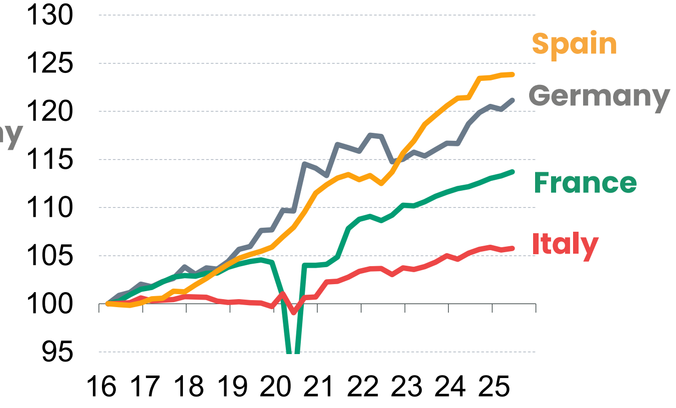
GDP components' evolution has been rather different across countries

(2016 Q1 = 100, volume)

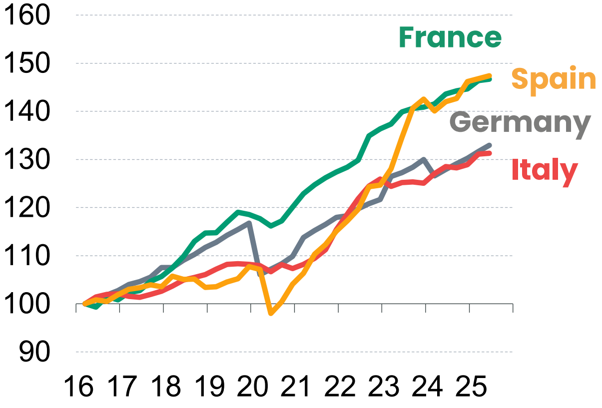
Private consumption



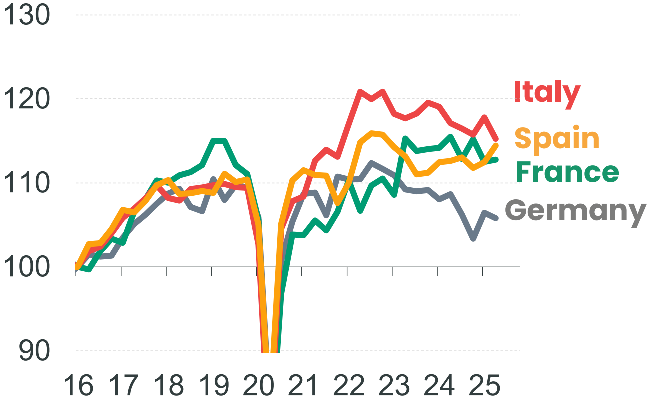
Government consumption



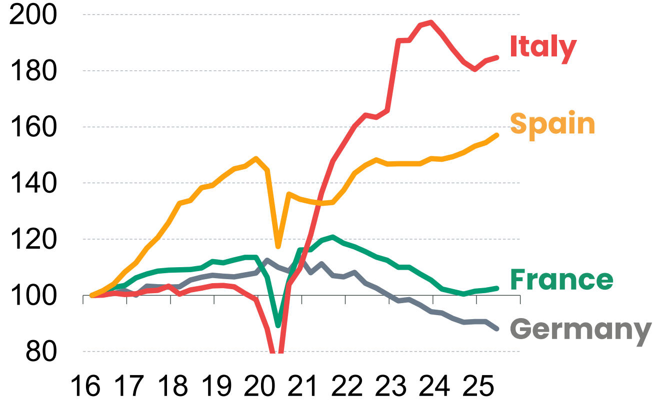
IPP investment



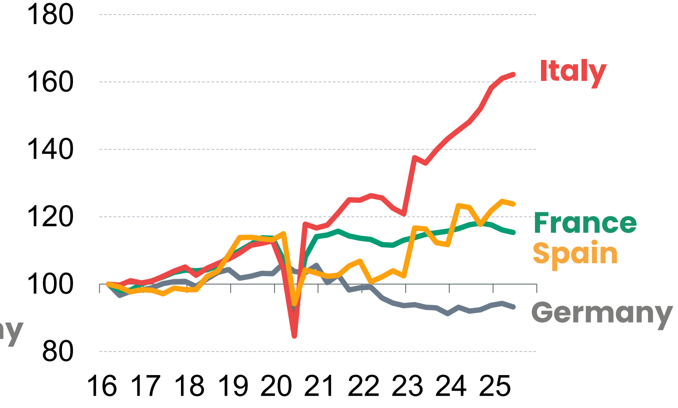
Exports of goods



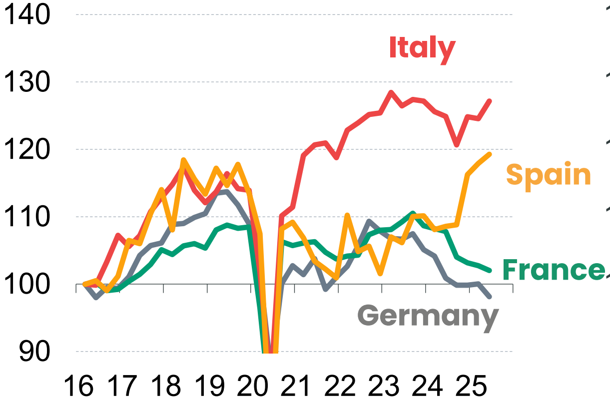
Dwellings



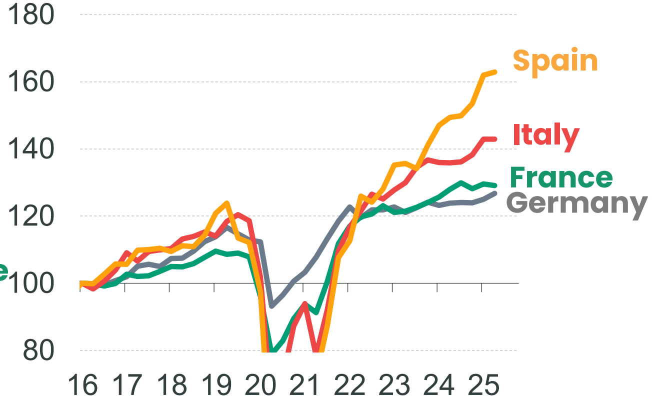
Non-residential building



Equipment investment



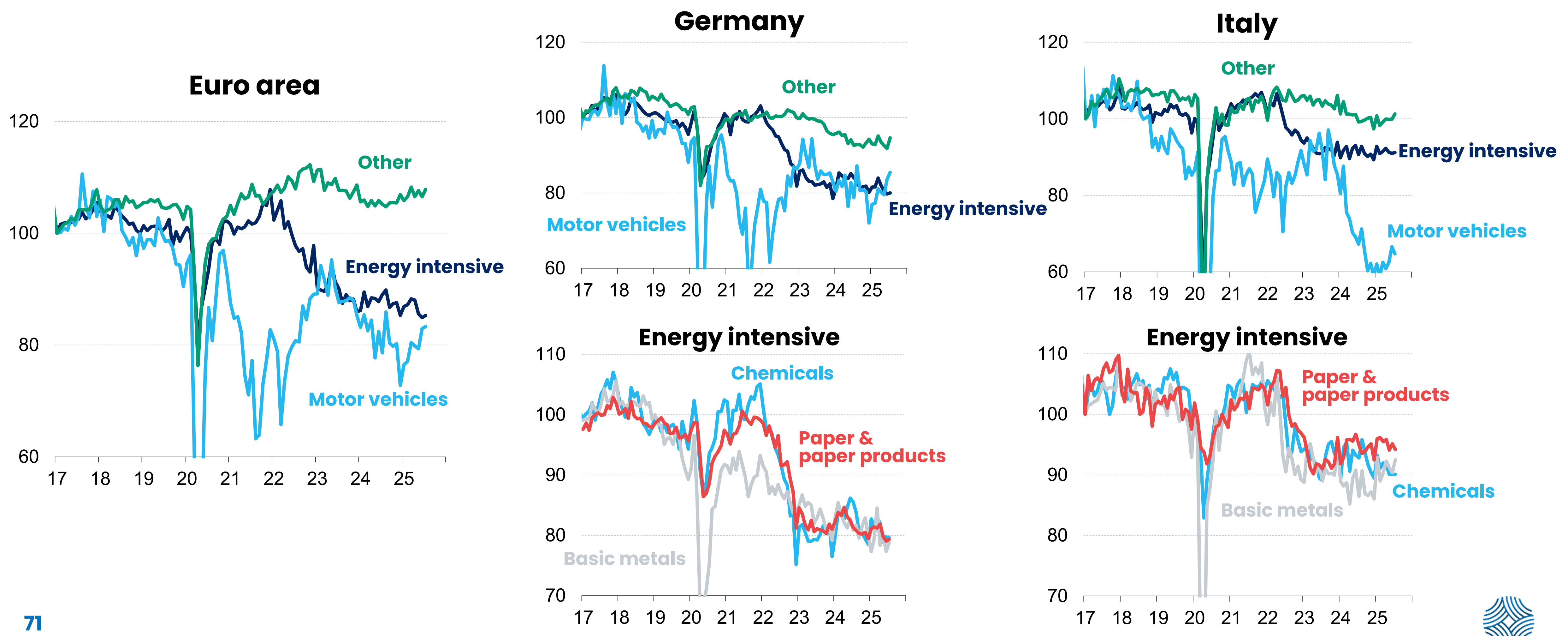
Exports of services



Sources: LSEG Datastream, Candriam SEPTEMBER 2025

Industrial activity is depressed, especially in energy intensive industries…

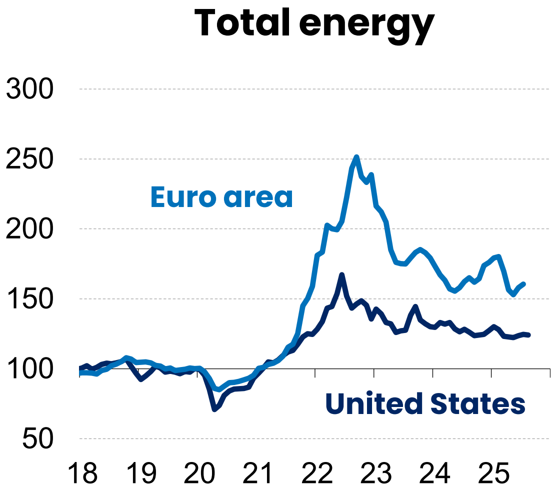
Industrial production by sector
(January 2017 = 100)

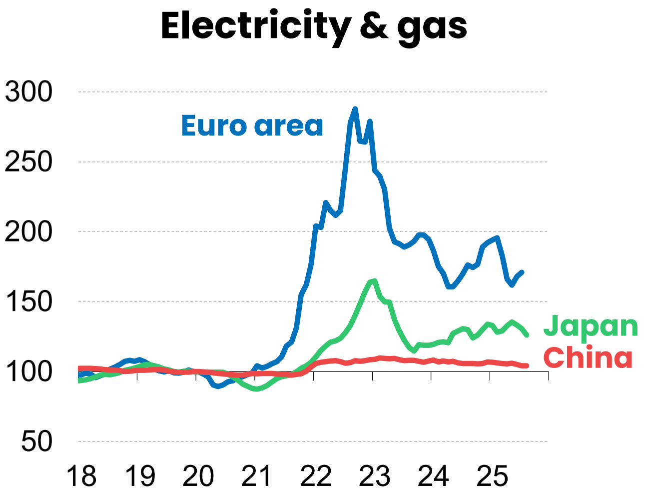


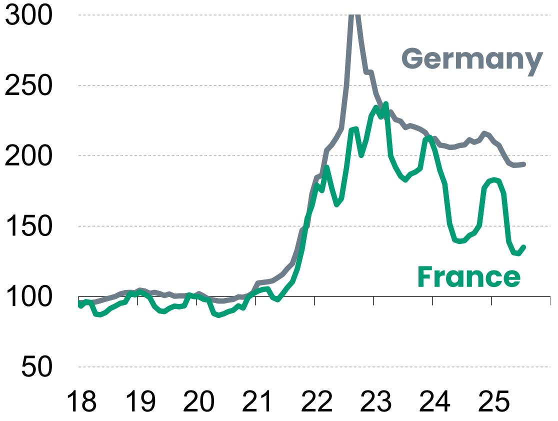
Sources: Eurostat, Candriam SEPTEMBER 2025

… as euro area energy prices are still way above prices in the rest of the world

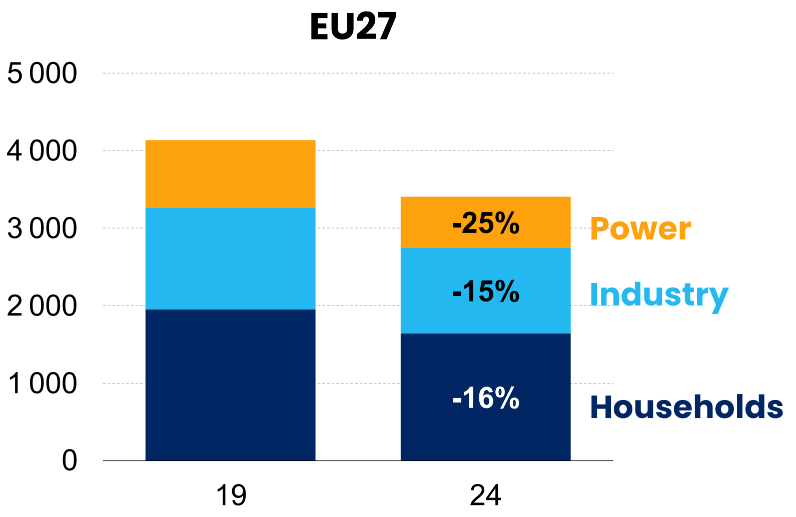
PPI energy
(December 2019 = 100)

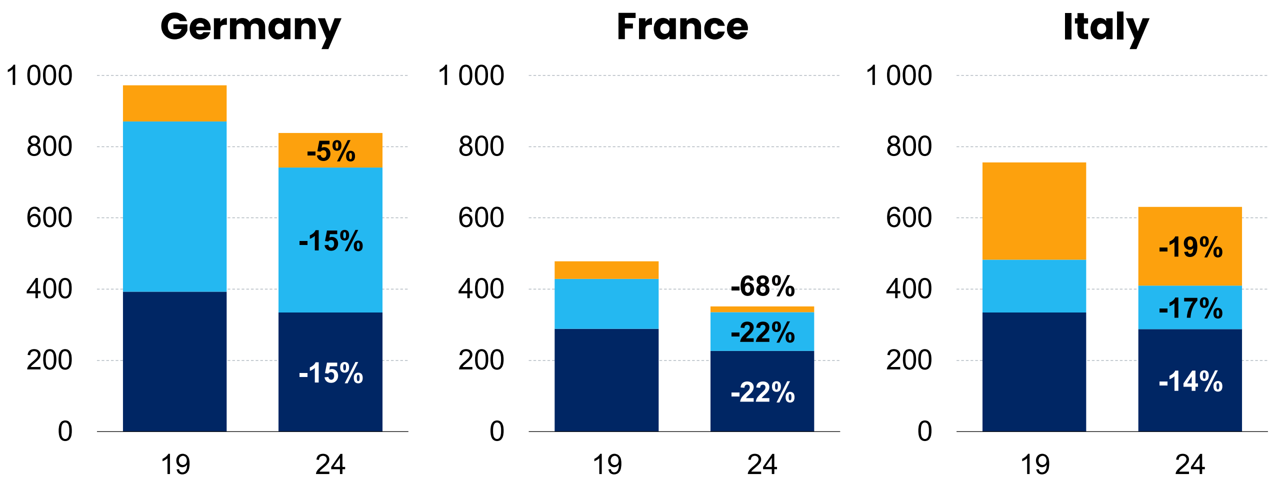






EU natural gas consumption
(TWh)

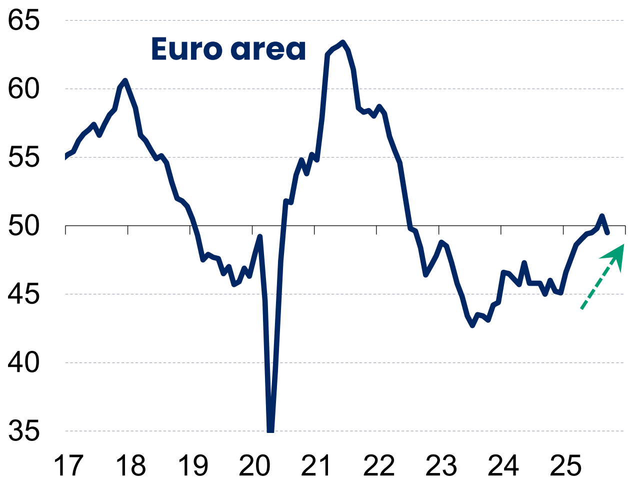


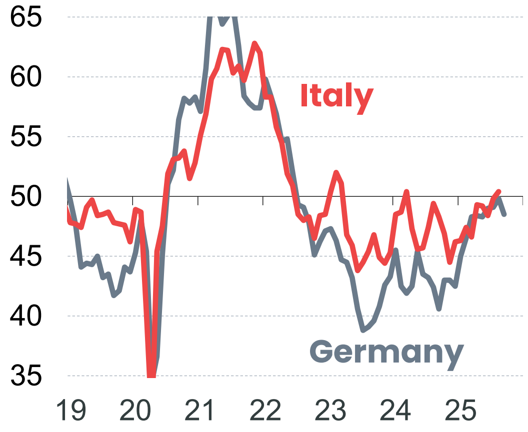


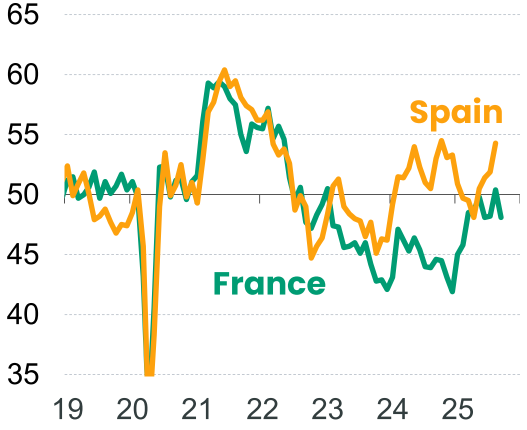
Sources: LSEG Datastream, Eurostat, Candriam SEPTEMBER 2025

PMI indices have continued to point to moderate growth (I)

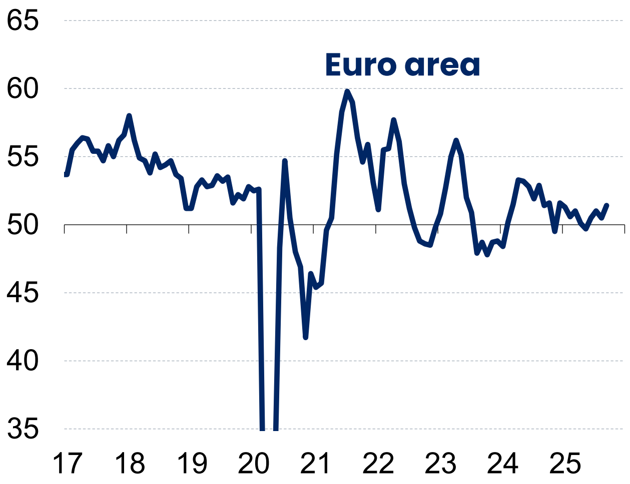
Manufacturing PMIs

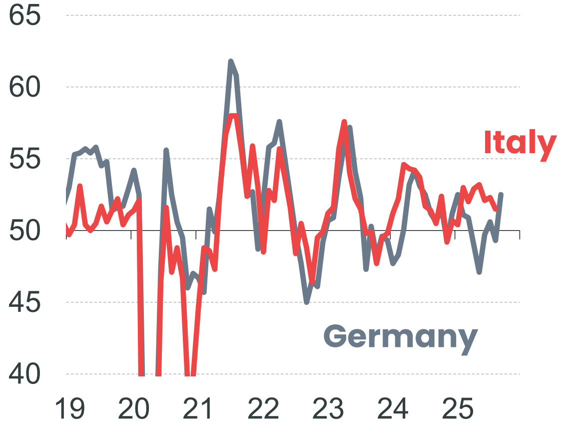


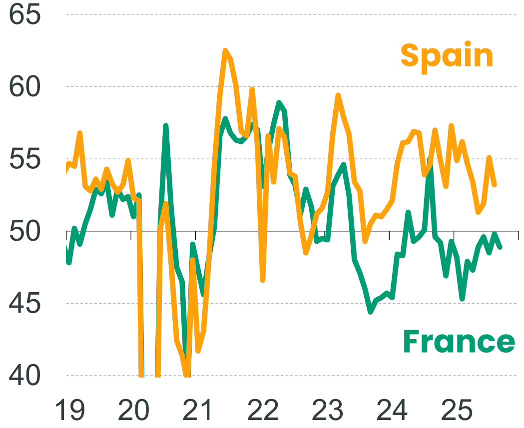




Services PMIs





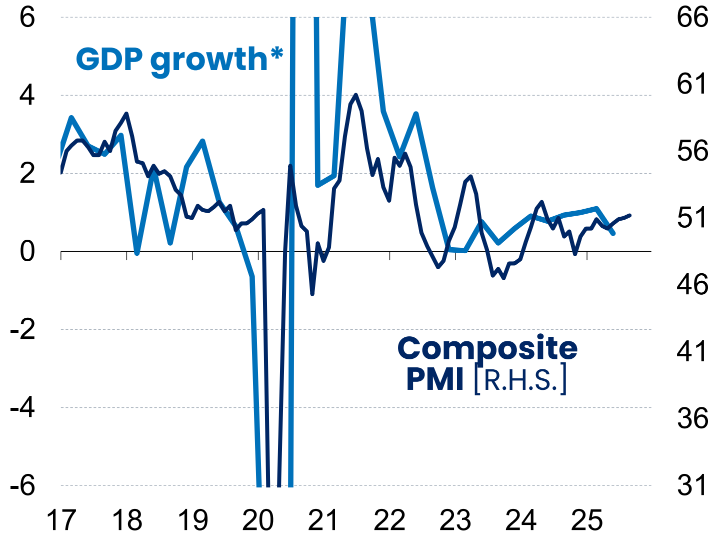


Sources: *Bloomberg, Candriam* SEPTEMBER 2025

PMI indices have continued to point to moderate growth (II)

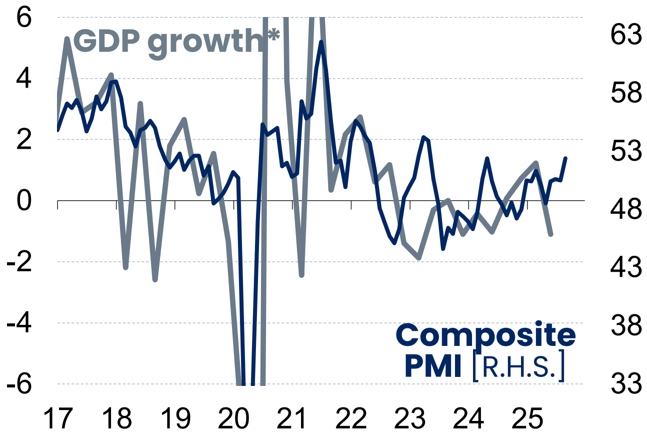
Composite PMIs and GDP growth

Euro area ex Ireland

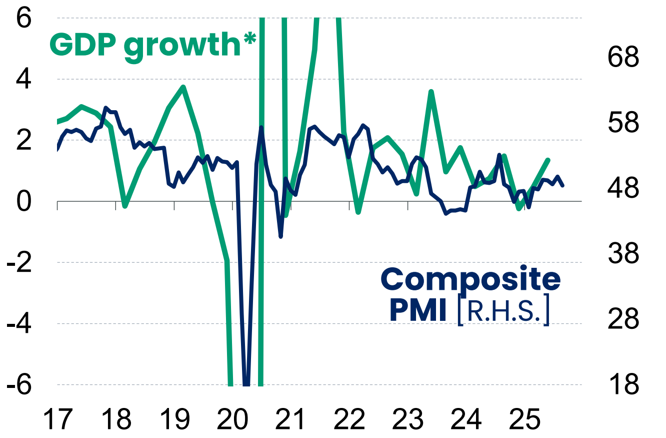


(*) %, quarter on quarter, annual rate

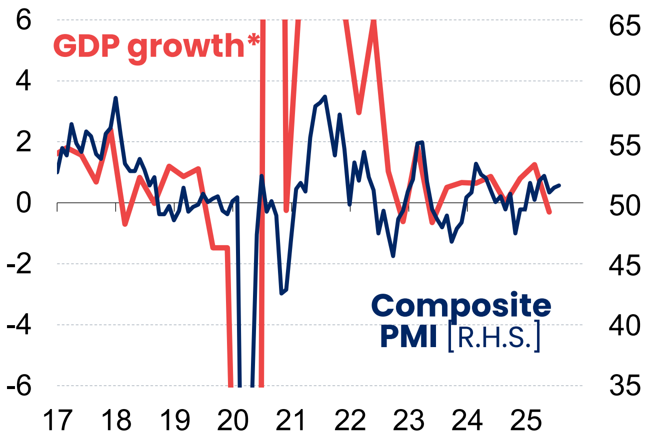
Germany



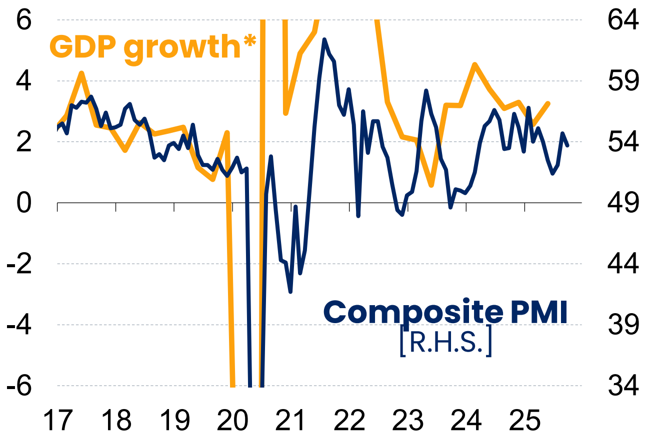
France



Italy



Spain

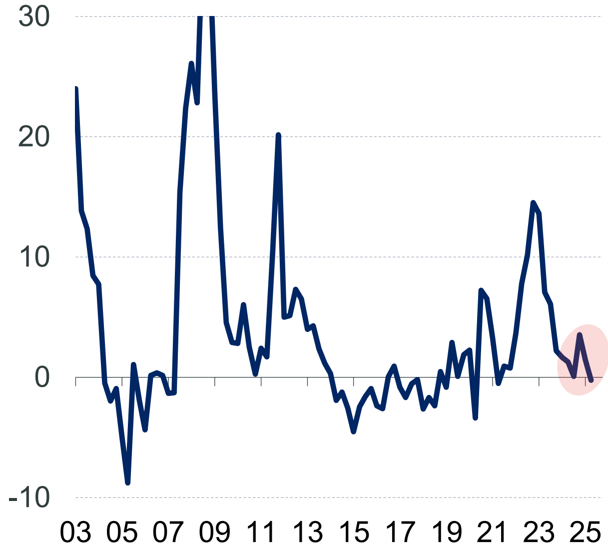


Sources: Bloomberg, Candriam SEPTEMBER 2025

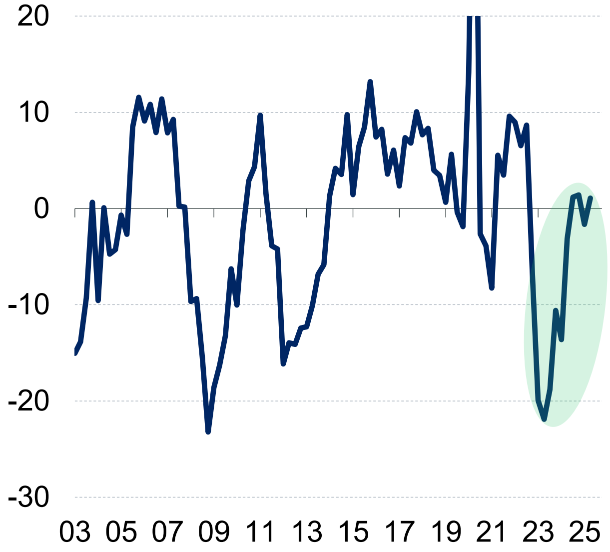
Loans to firms have picked up

Changes in credit standards to enterprises and demand for loans

Net % of banks reporting a tightening of credit standards

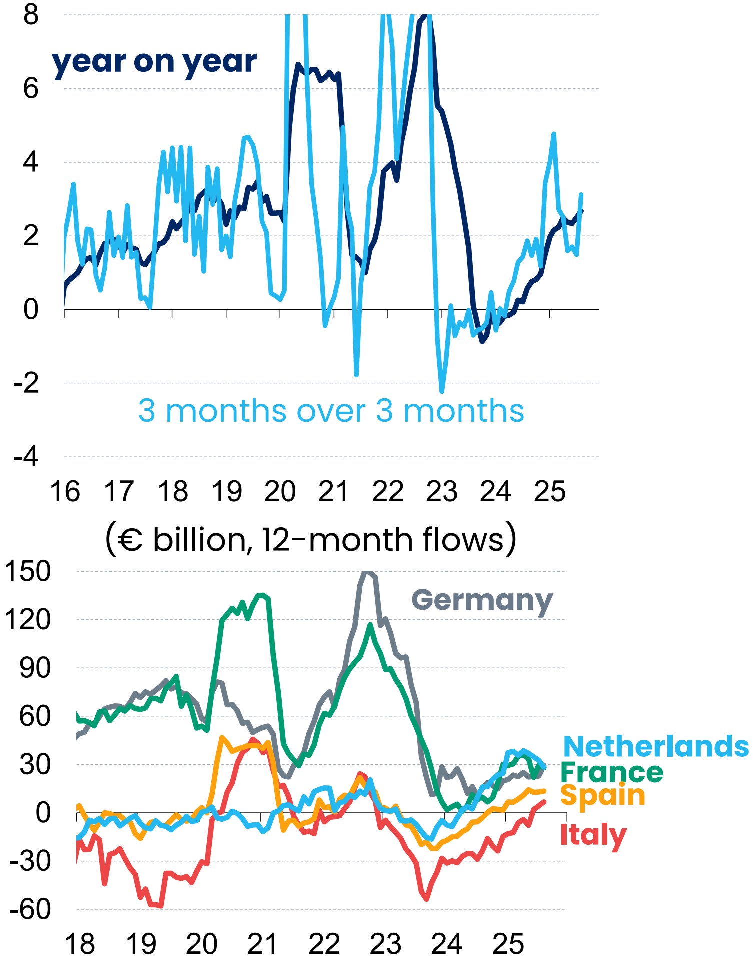


Net % of banks reporting an increase in demand



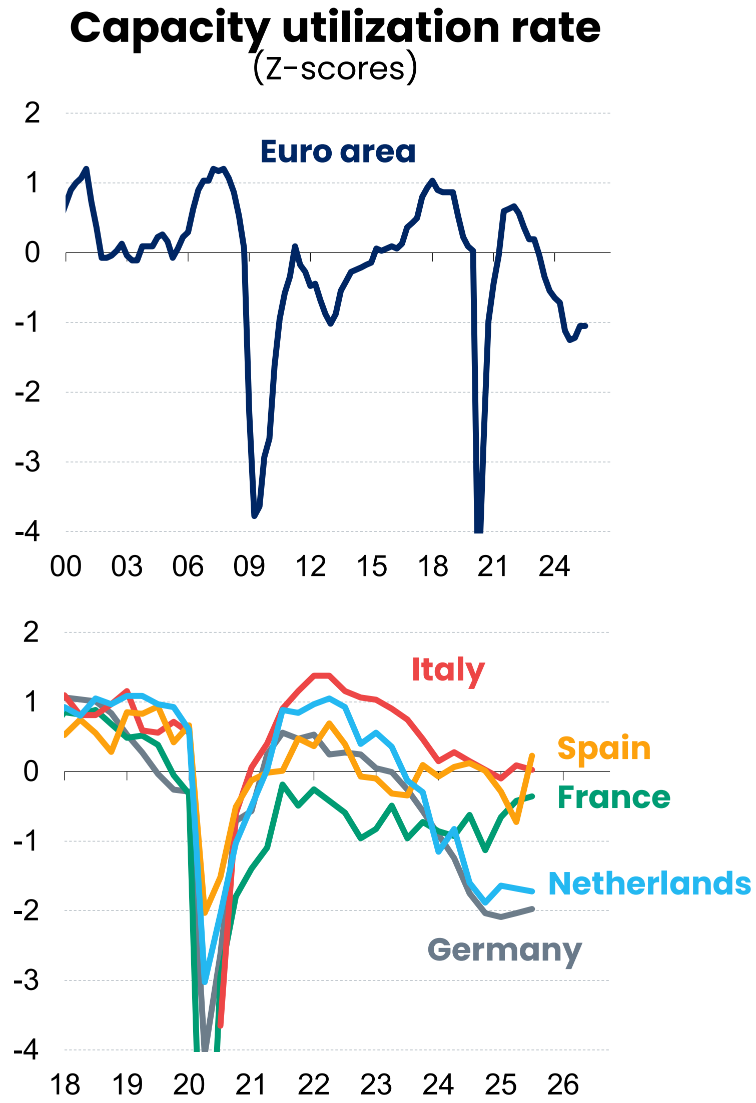
Loans to non-financial corporations

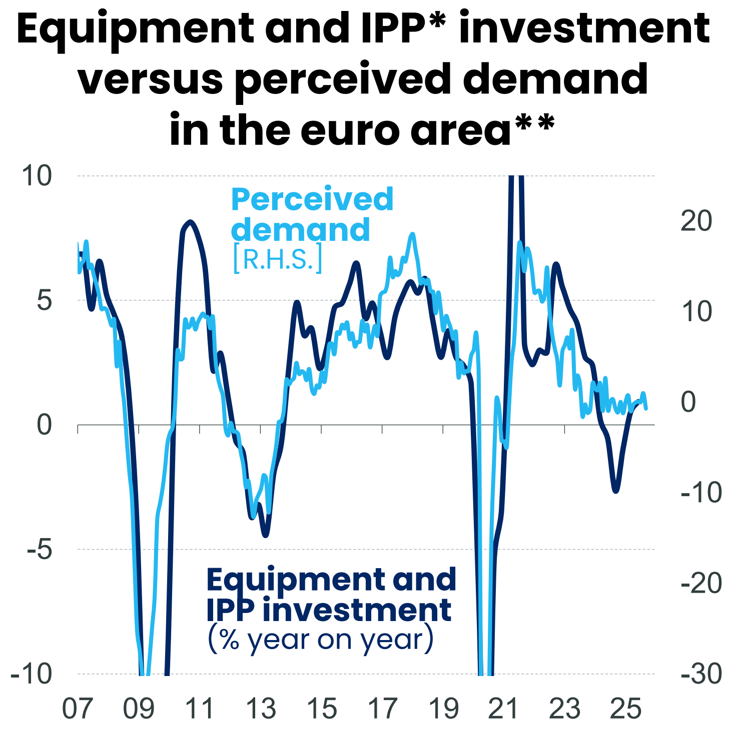
(%, annual rate)



Sources: LSEG Datastream, Candriam SEPTEMBER 2025

Still, business investment has little reasons to gain momentum (I)





(*) Investment in intellectual property products
(**) Germany, France, Italy and Spain

Sources: LSEG Datastream, Candriam

Still, business investment has little reasons to gain momentum (II)

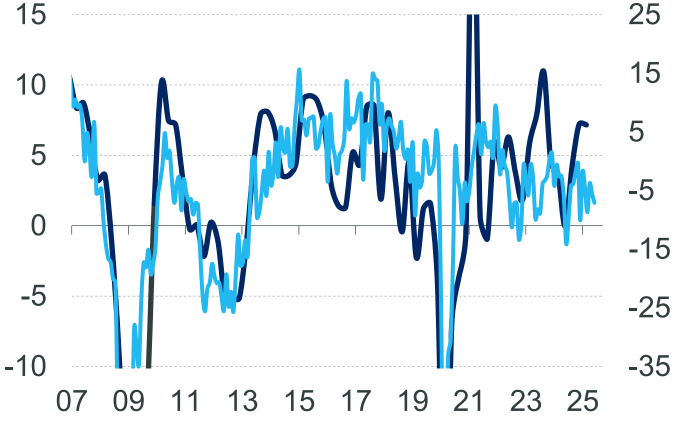
Equipment and IPP* investment versus perceived demand

Germany

France

Italy

Spain



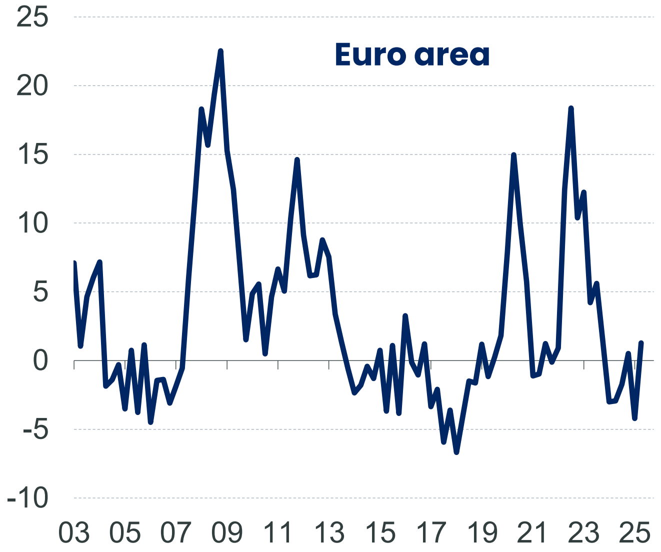
Equipment and IPP investment (% year on year) **Perceived demand** [R.H.S.]

(*) Investment in intellectual property products

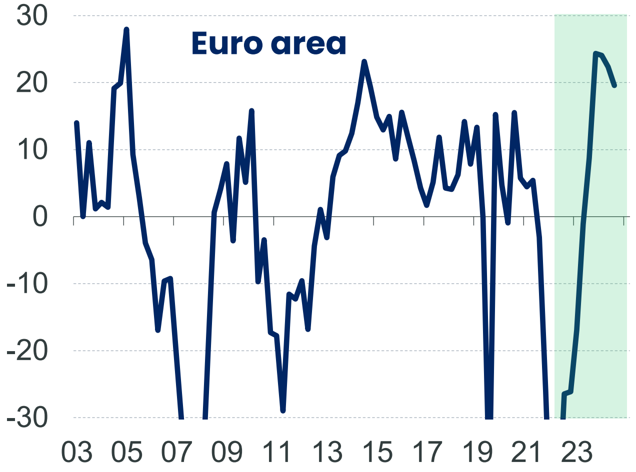
Sources: LSEG Datastream, Candriam SEPTEMBER 2025

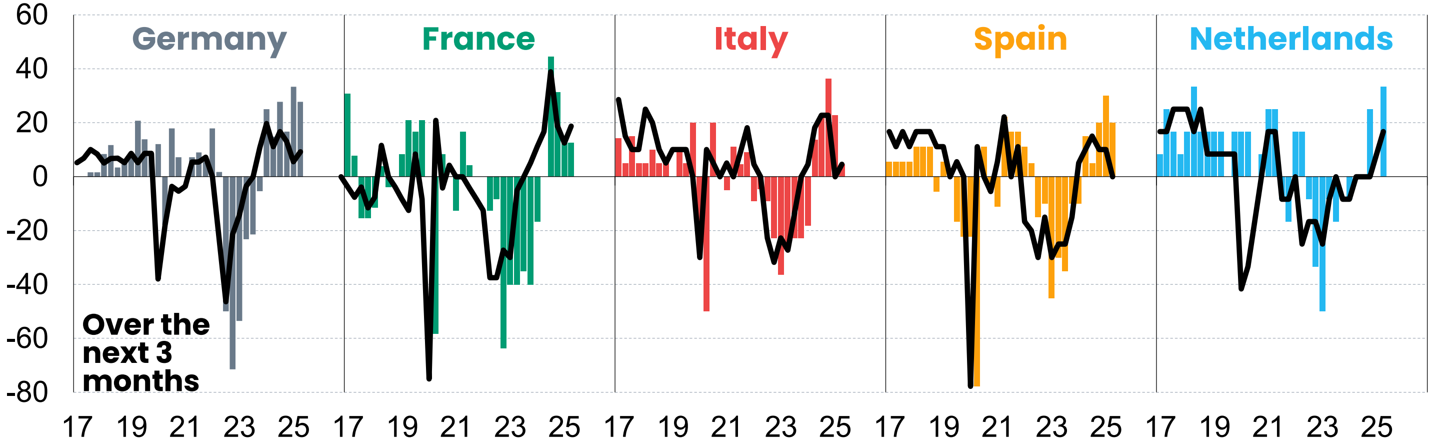
Lending conditions for mortgage loans have eased

Changes in credit standards for house purchase loans
(net % of banks reporting a tightening of credit standards)



House purchase loans demand
(net %)

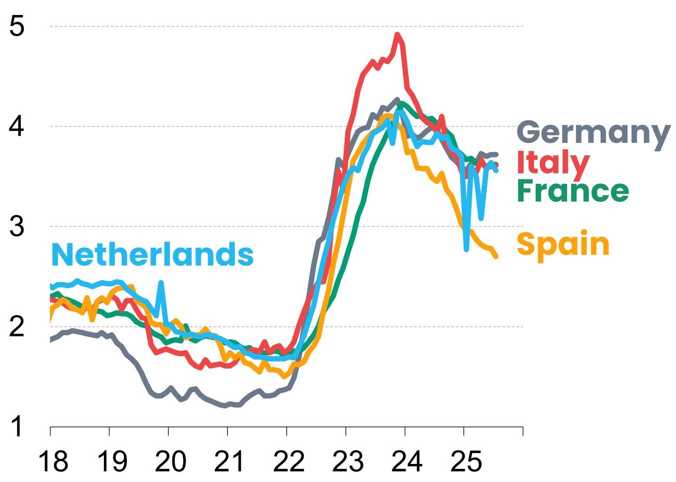




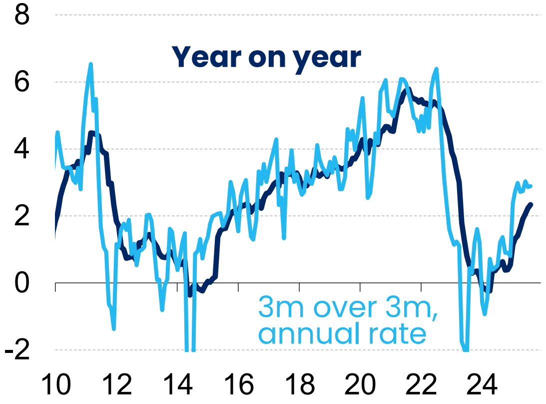
Sources: LSEG Datastream, Candriam SEPTEMBER 2025

Mortgage loans demand has recovered, especially in Spain and the Netherlands

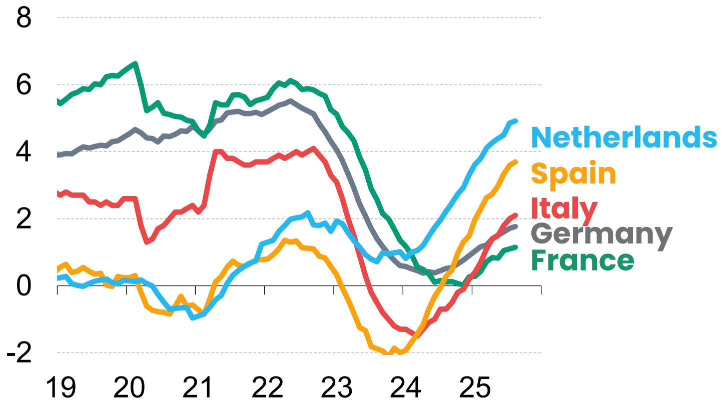
Mortgage interest rates
(%, new business)



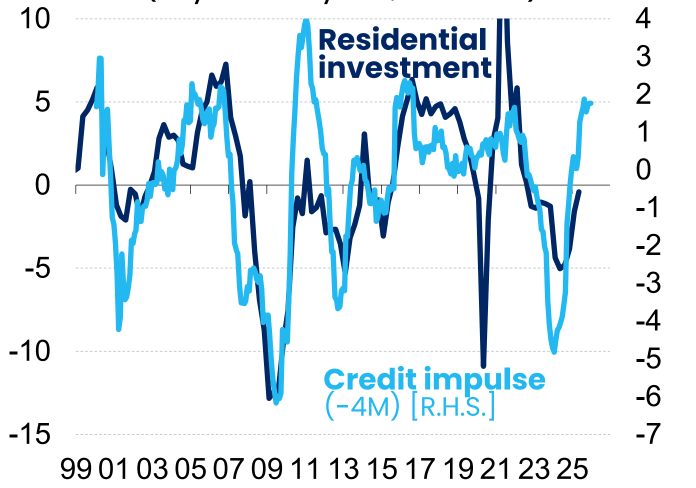
Loans for house purchase in the euro area
(%)

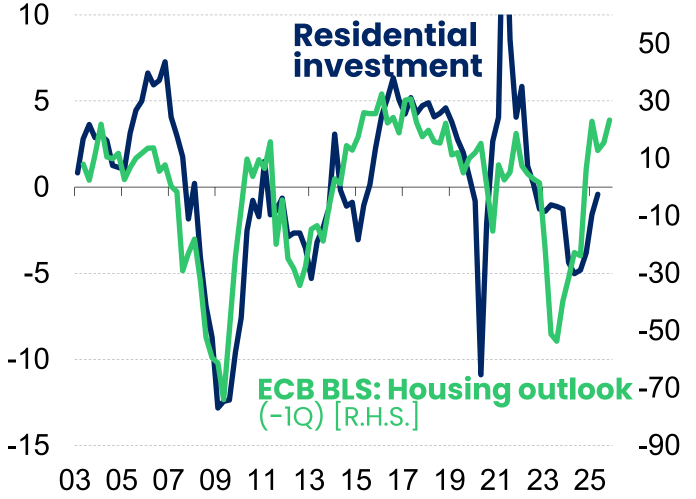


Total loans to households
(% year on year, adjusted for securitization)



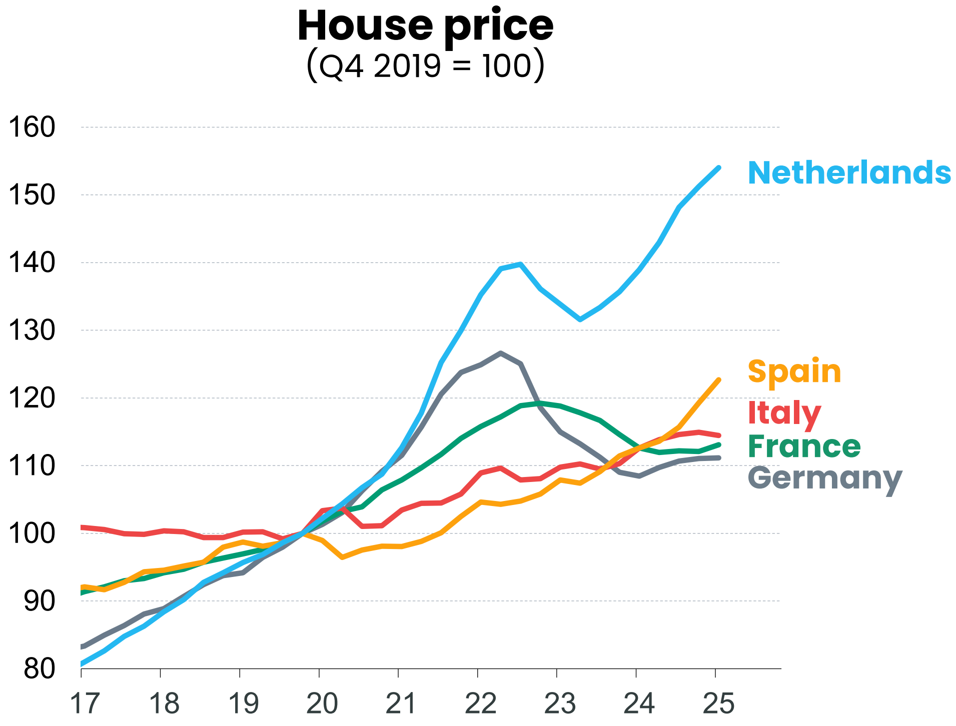
Euro area residential investment
(% year on year, volume)

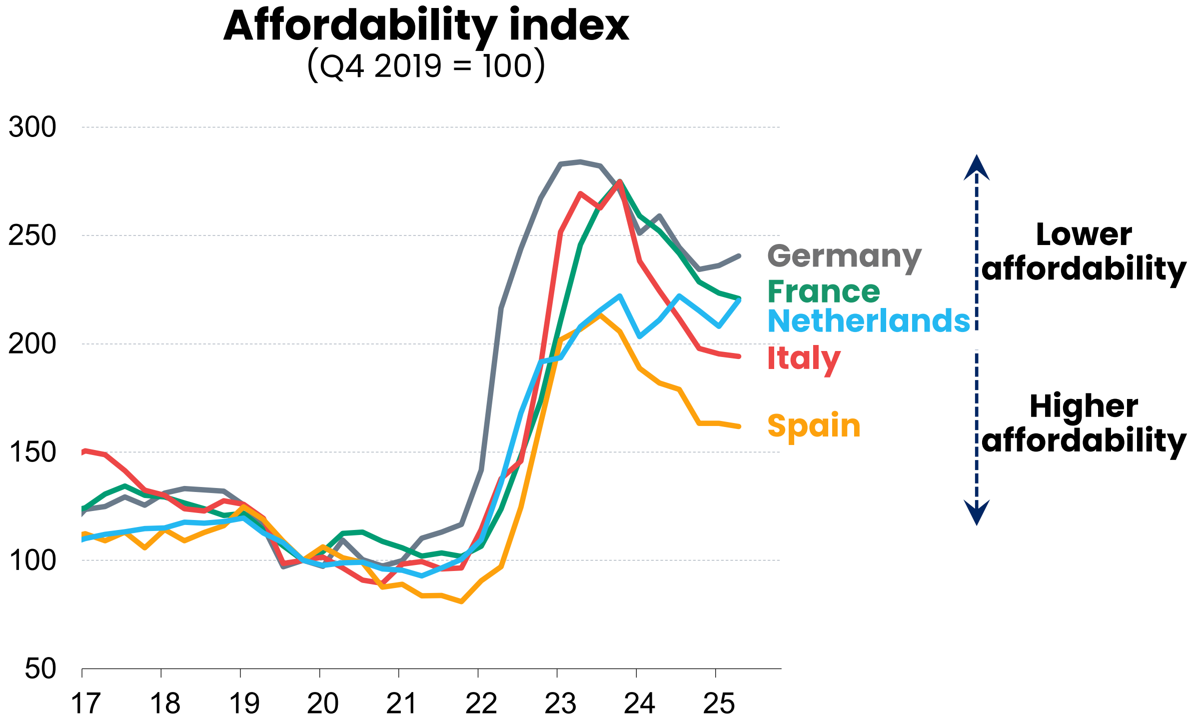




Sources: LSEG Datastream, ECB, Candriam SEPTEMBER 2025

With elevated house prices though, residential investment can only moderately support activity

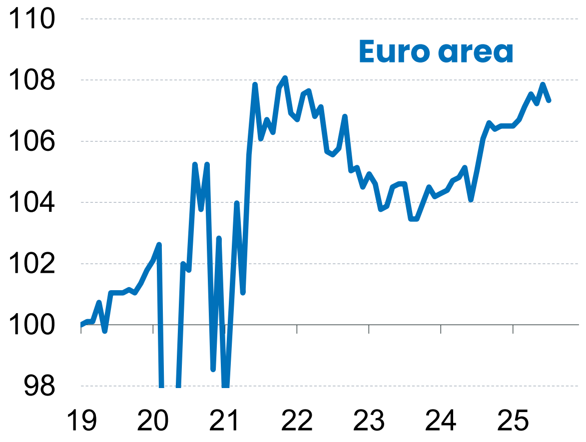




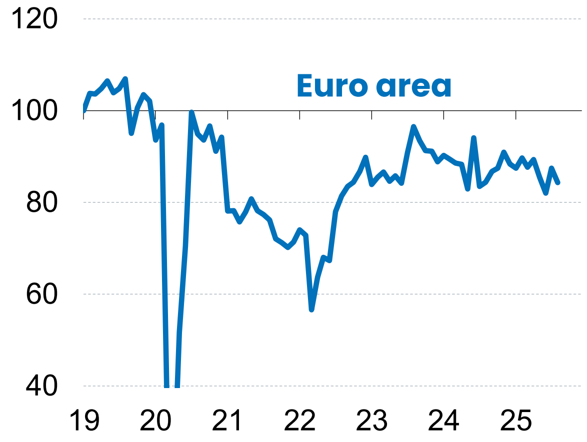
Sources: LSEG Datastream, ECB, Candriam

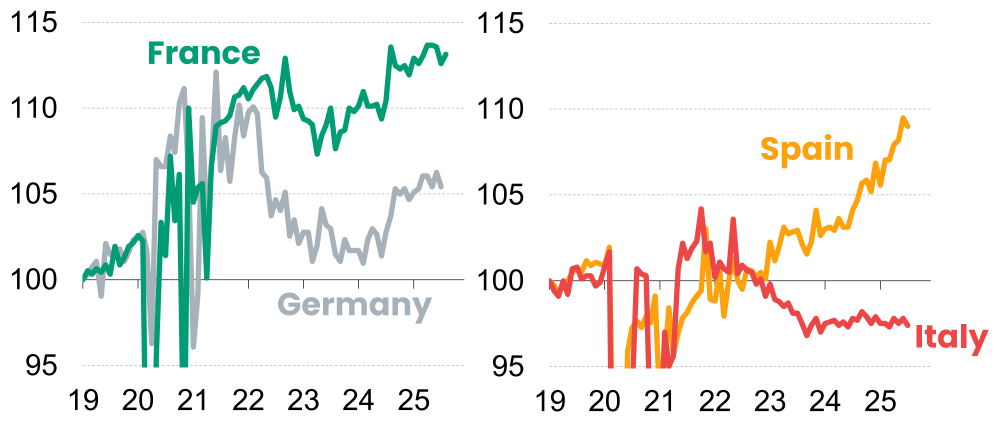
Retail sales have been better oriented... largely thanks to Spain!

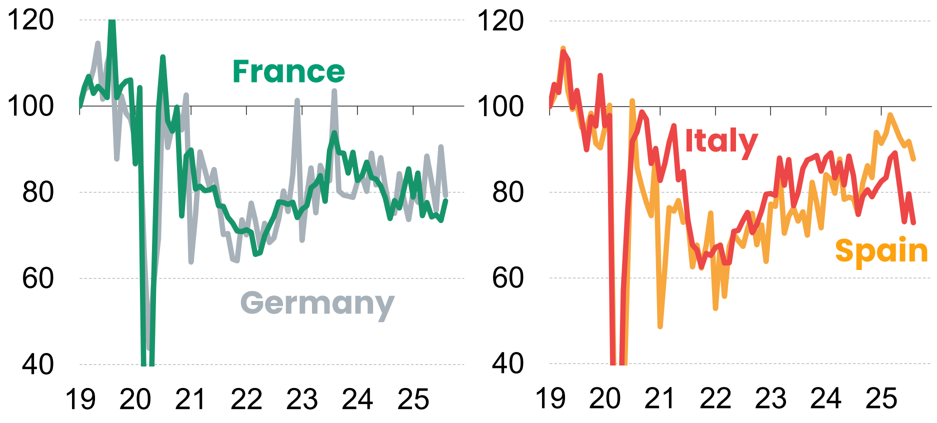
Euro area retail sales
(January 2019 = 100, ex motor vehicles, volume)



New car registrations
(January 2019 = 100)



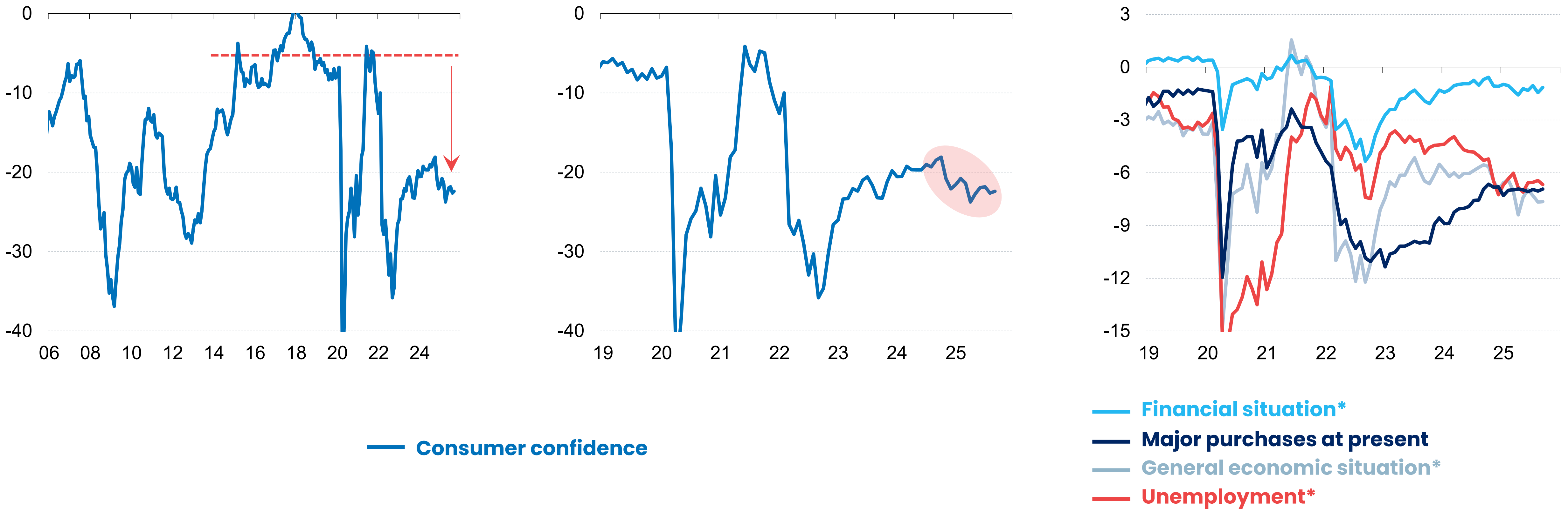




Sources: Eurostat, LSEG Datastream, Candriam SEPTEMBER 2025

Household confidence remains subpar

Consumer confidence in the euro area

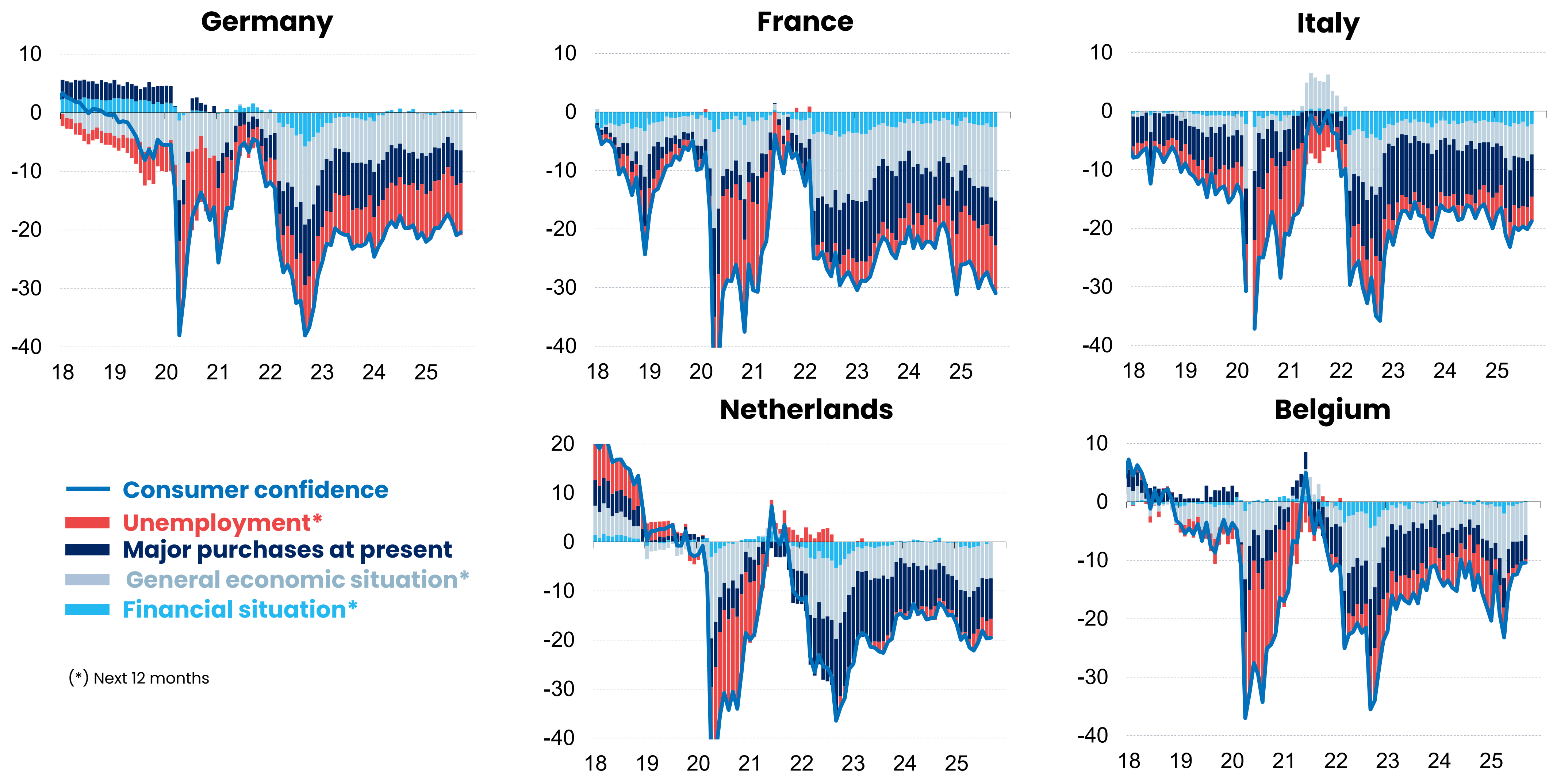


(*) Next 12 months

Sources: *LSEG Datastream, Candriam*

Memo. Household confidence by country

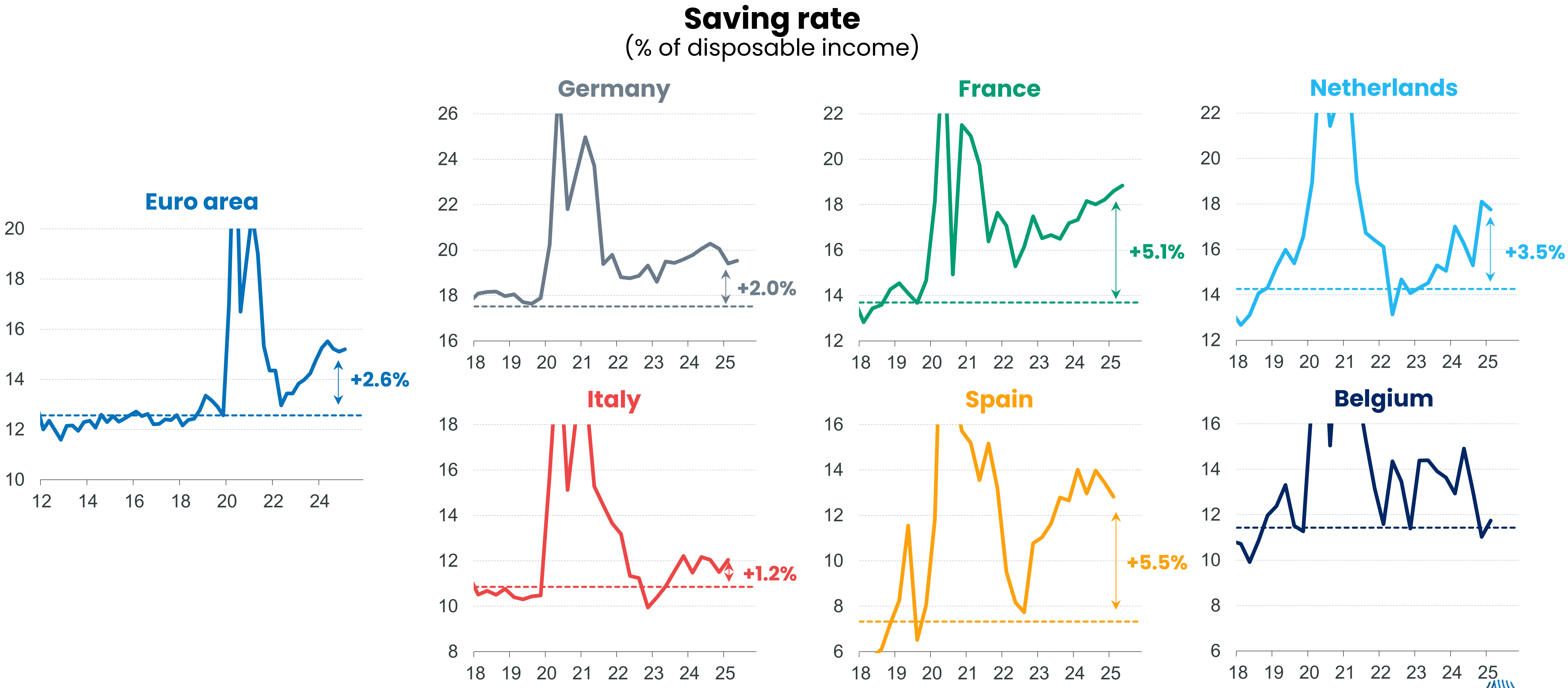
Consumer confidence by country



(*) Next 12 months

Sources: *LSEG Datastream, Candriam* SEPTEMBER 2025

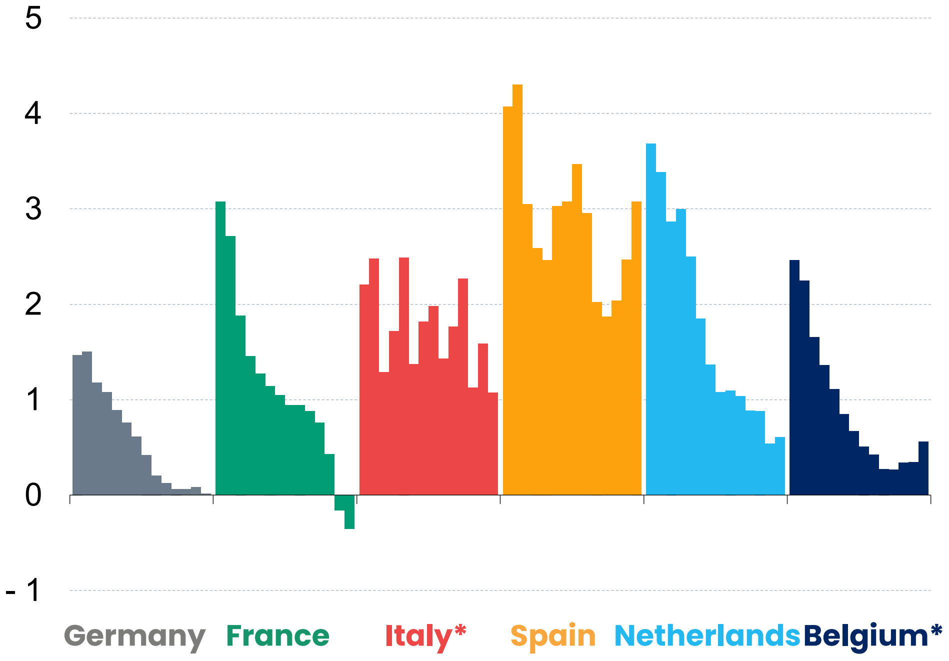
Households have continued to put money aside



Sources: LSEG Datastream, Candriam SEPTEMBER 2025

Job creations have continued to slow

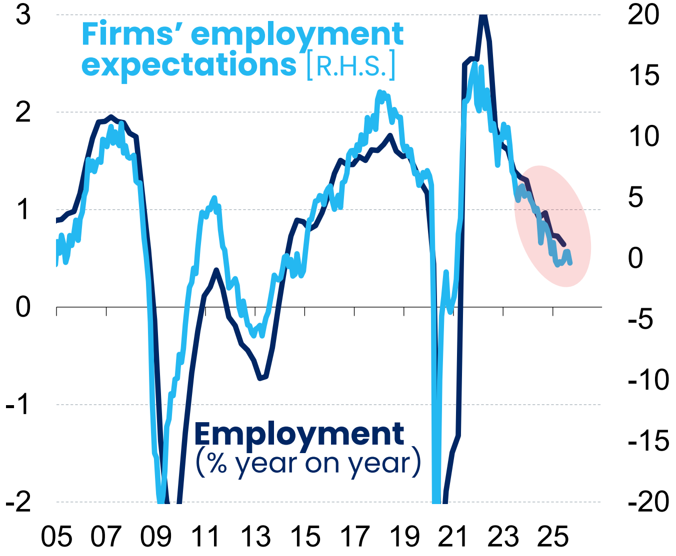
Employment growth
(% year on year, 2022 Q1 – 2025 Q2)



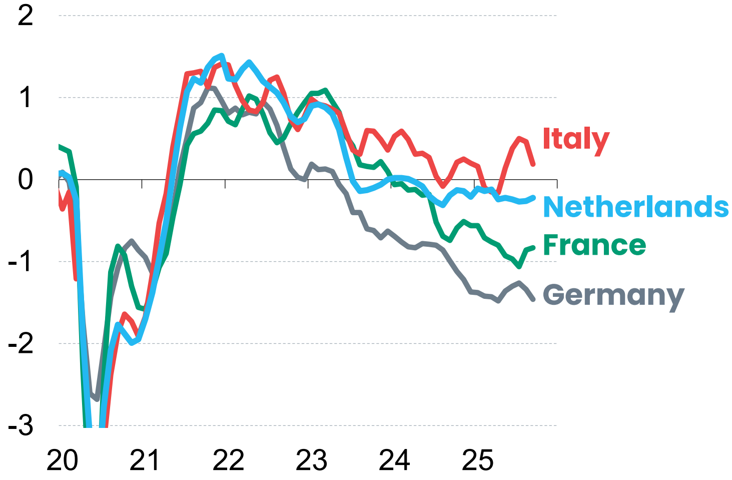
(*) Last data: 2025 Q1

Employment and firms’ expectations
(EC survey)

Euro area



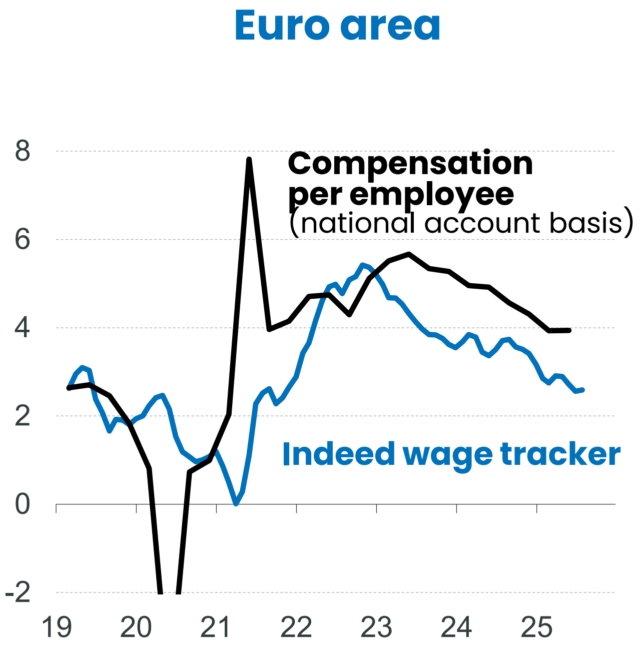
Firms’ expectations by country
(Z-scores, 3-month moving average)

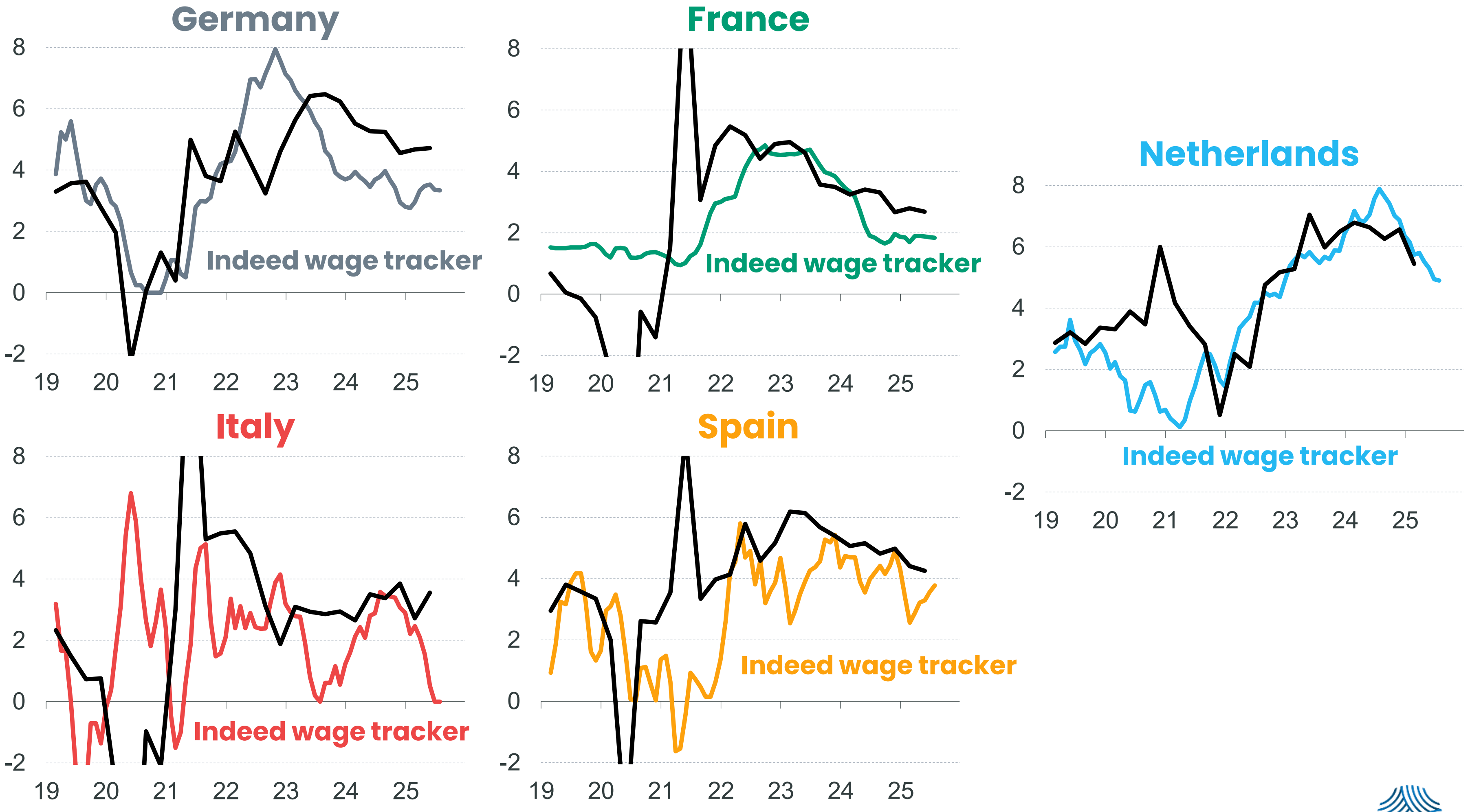


Sources: LSEG Datastream, Candriam SEPTEMBER 2025

Wages have kept on decelerating…

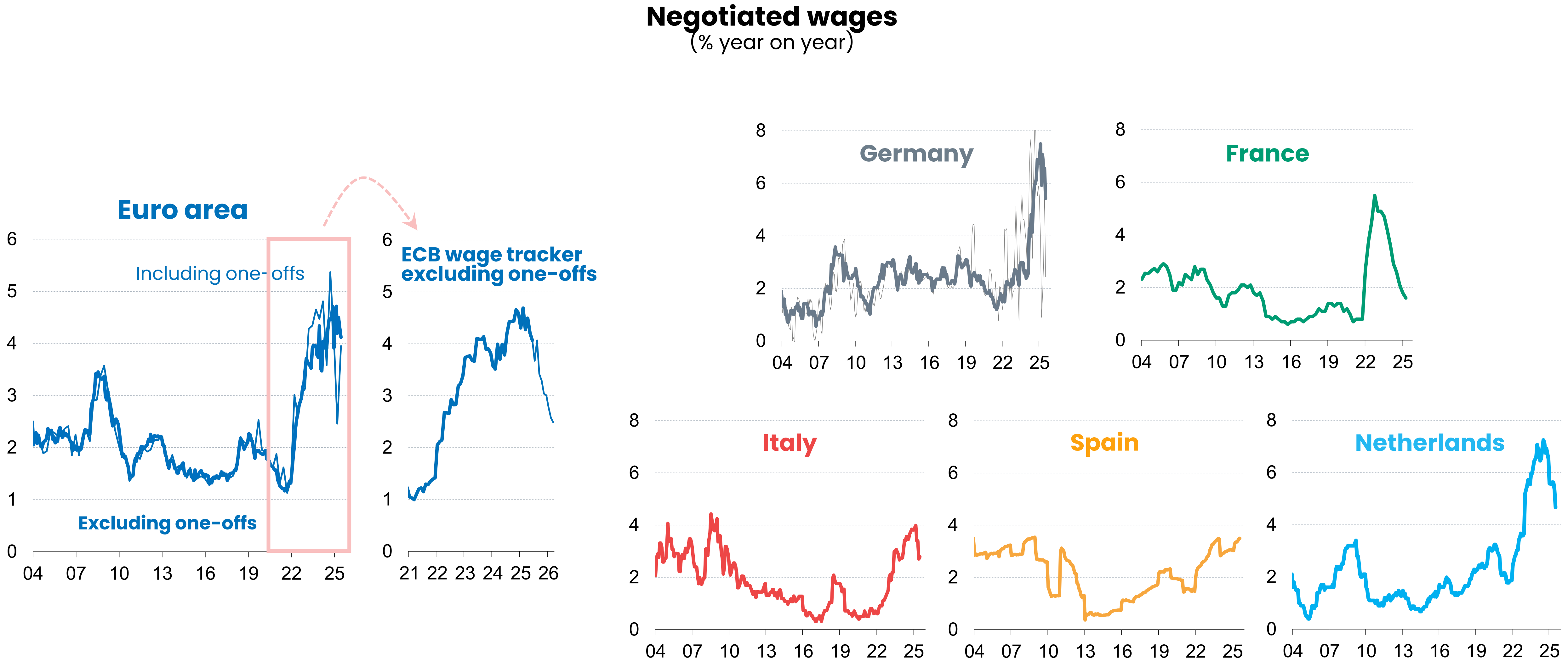
Compensation per employee
(% year on year)





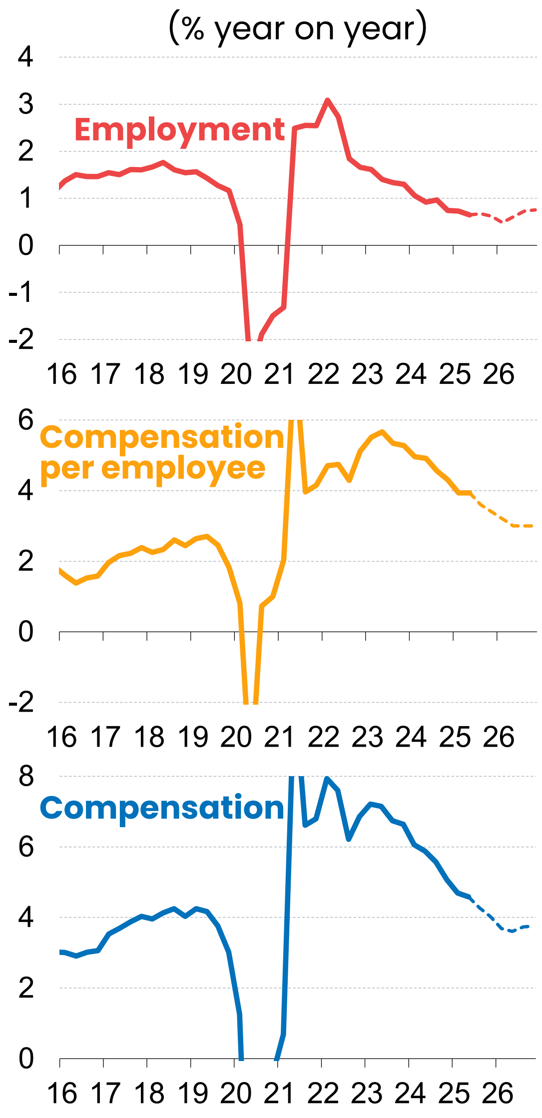
Sources: LSEG Datastream, Indeed, Candriam SEPTEMBER 2025

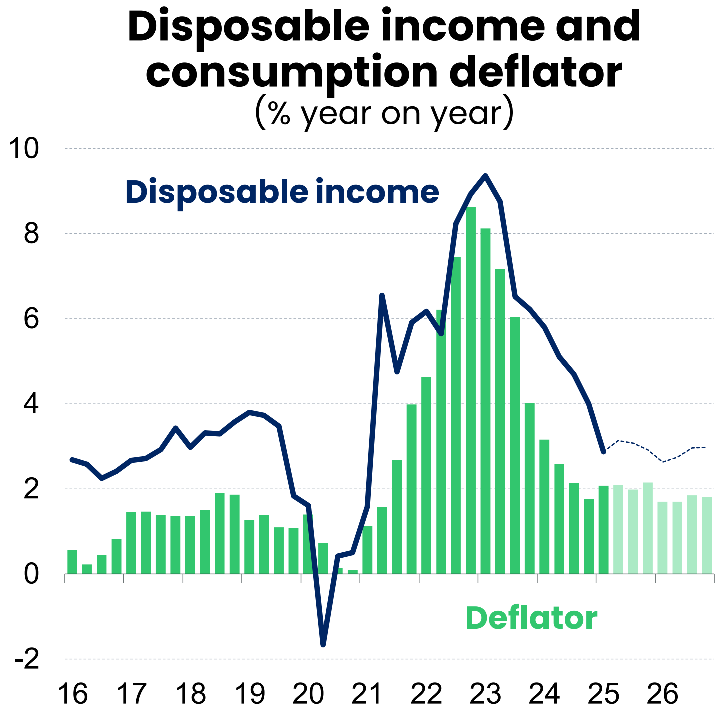
… and negotiated wages point to further slowdown

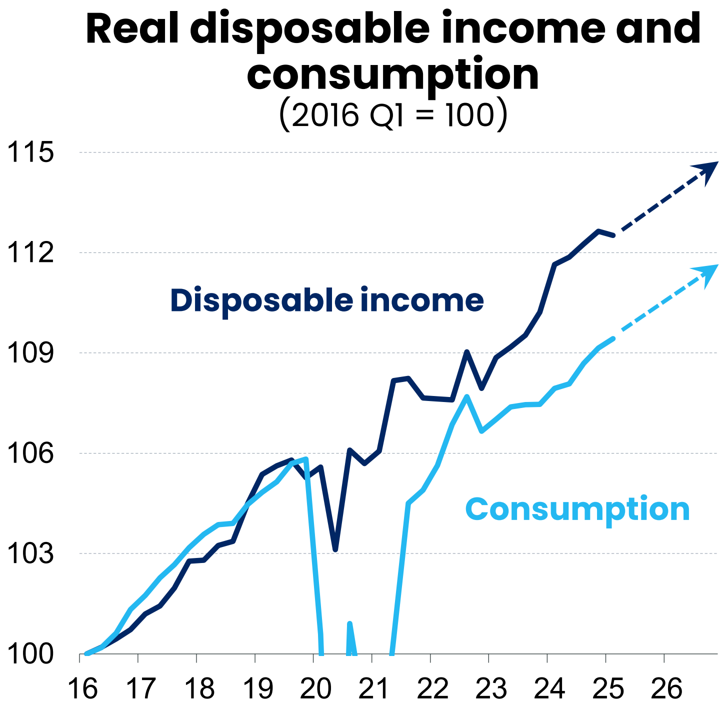


Sources: LSEG Datastream, Candriam SEPTEMBER 2025

Still, real disposable income should allow consumption to grow moderately



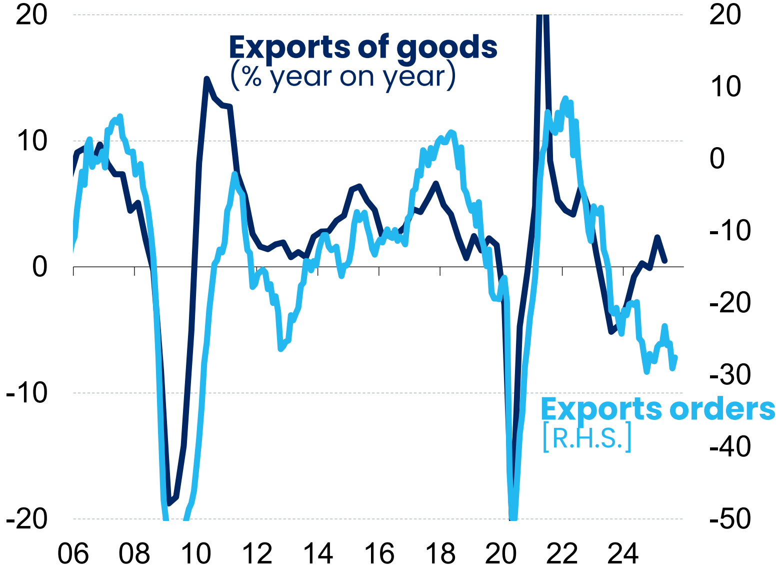




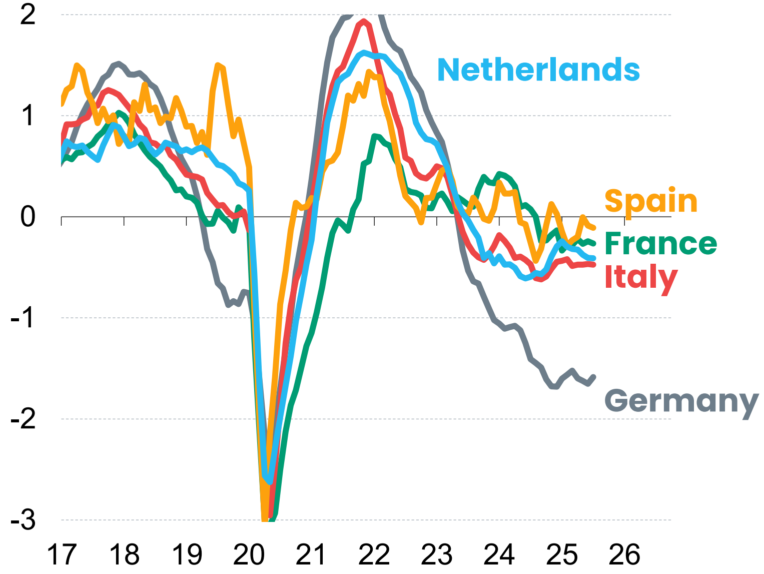
Sources: LSEG Datastream, Candriam

On the external front, headwinds are intensifying

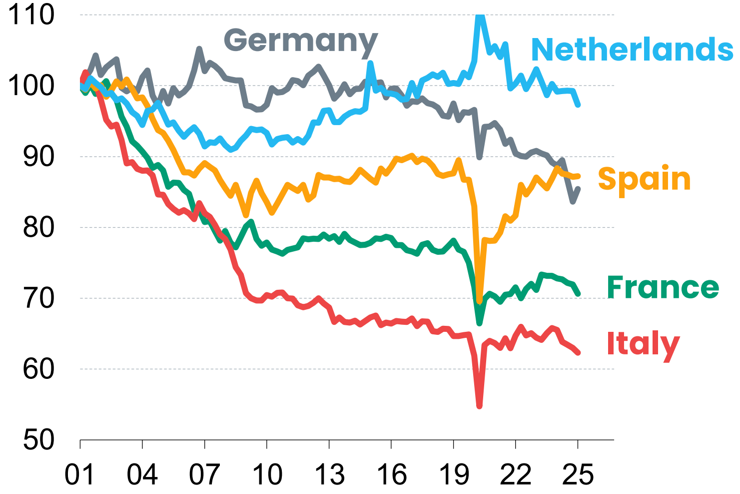
Exports of goods and orders



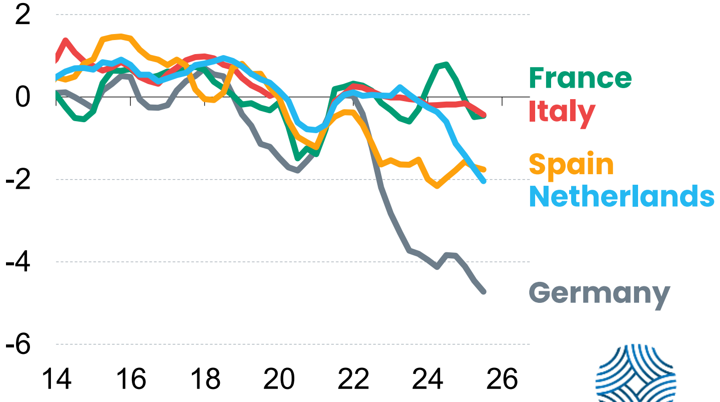
Export orders
(EC survey, Z-scores)



Export market shares index
(2001 Q1 = 100)



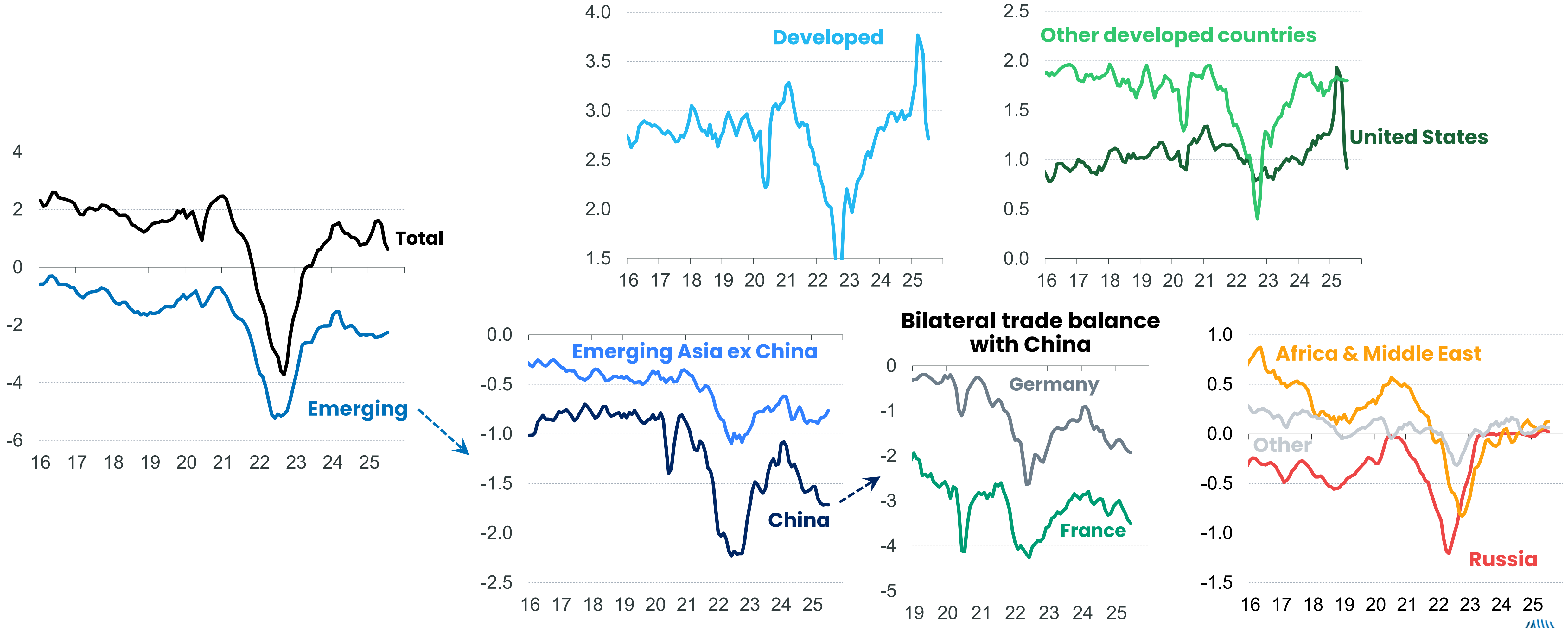
Competitive position
(outside the EU, EC survey, Z-scores)



Sources: LSEG Datastream, Candriam SEPTEMBER 2025

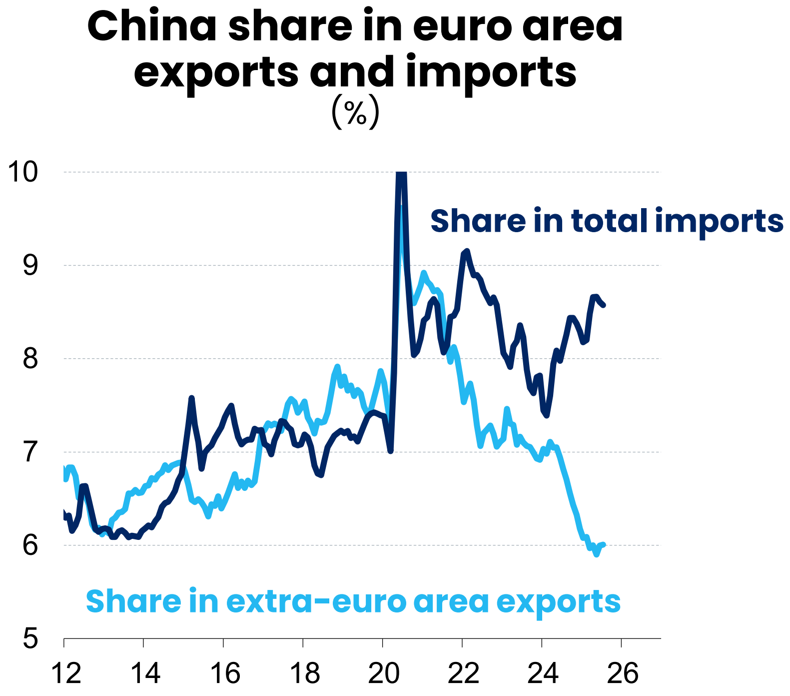
Euro area external balance has deteriorated mainly with emerging economies… and especially China!

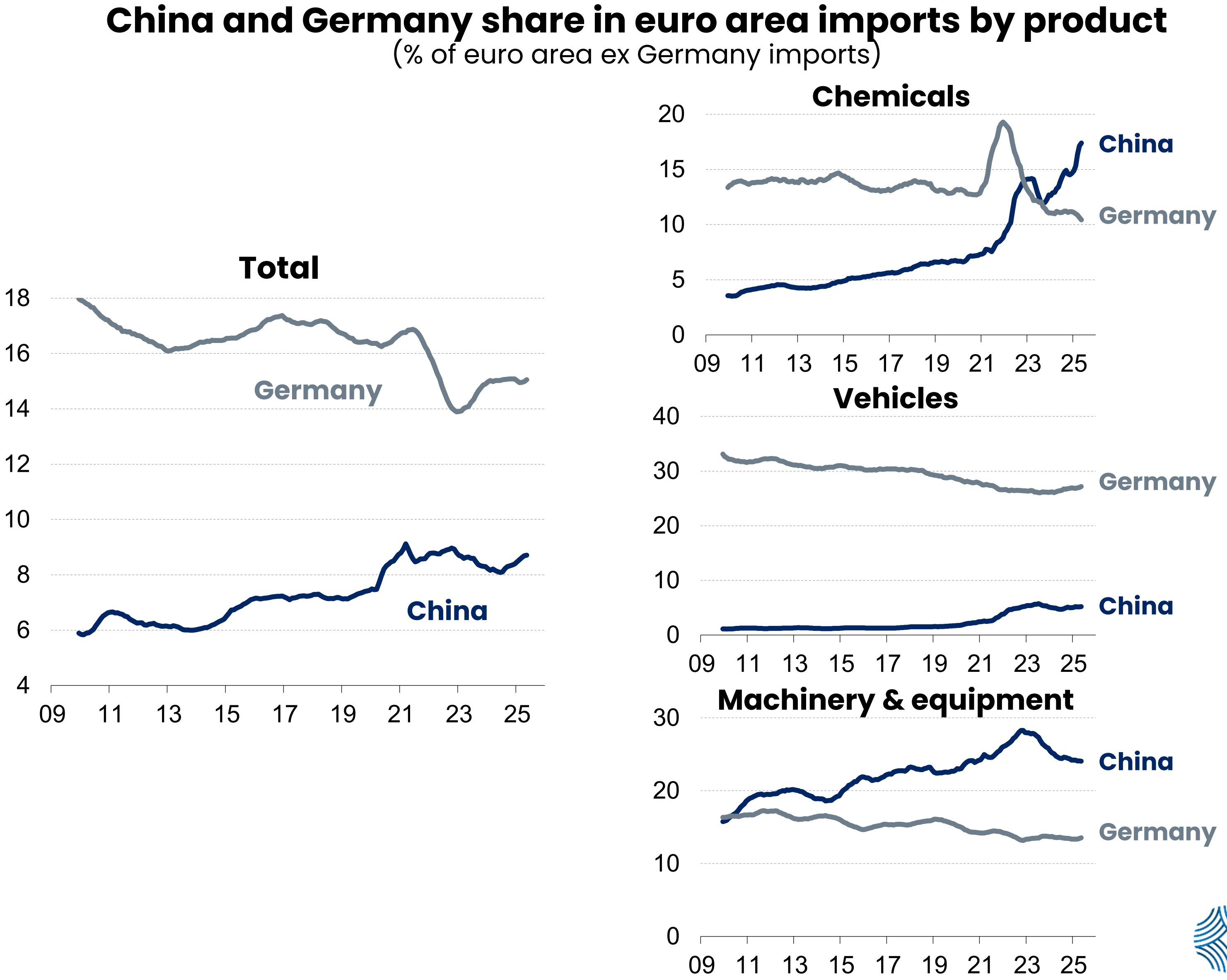
Euro area external trade balance
(% of GDP, 3-month moving average)



Sources: LSEG Datastream, Eurostat, Candriam SEPTEMBER 2025

Europe – Germany in particular – suffers from Chinese competition, notably on the European internal market

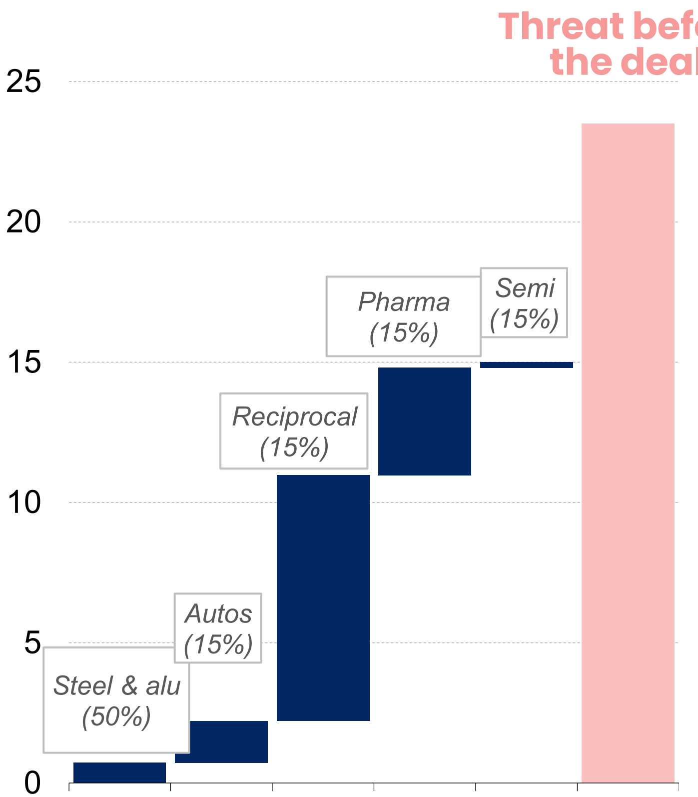




Sources: Eurostat, Candriam SEPTEMBER 2025

Despite a deal, the rise in US tariffs is significant

Tariff rate on US imports from EU
(%)

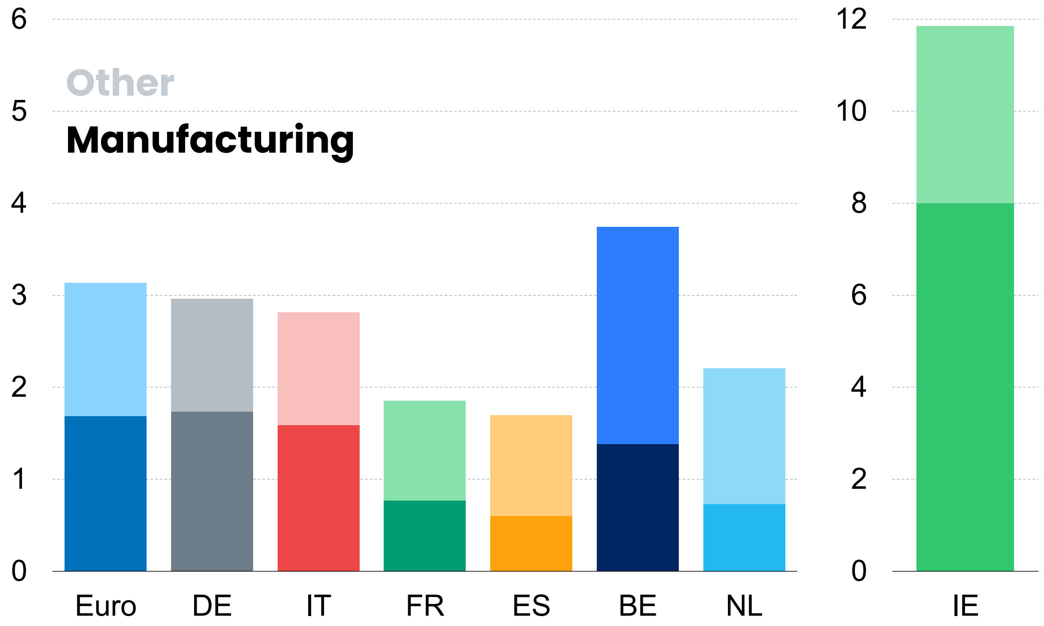


Both sides have agreed "on a **single 15% tariff rate for the vast majority of EU exports.** This rate applies across most sectors, including cars, semiconductors and pharmaceuticals."

Both sides have also agreed on "zero-for-zero tariffs on a number of strategic products. This includes all aircraft and component parts, certain chemicals, certain generics, semiconductor equipment, certain agricultural products, natural resources and critical raw materials."

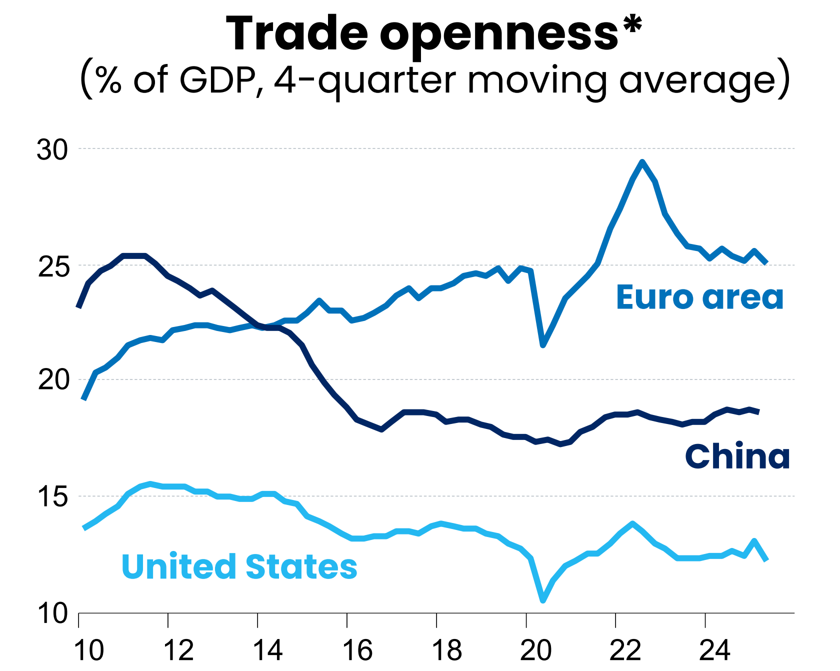
The EU is said to have agreed to purchase $750bn of energy during Trump's presidency and to boost EU investment in the US by an additional US$600bn.

Country's value-added content in exports to the United States
(% of country's GDP, 2019)

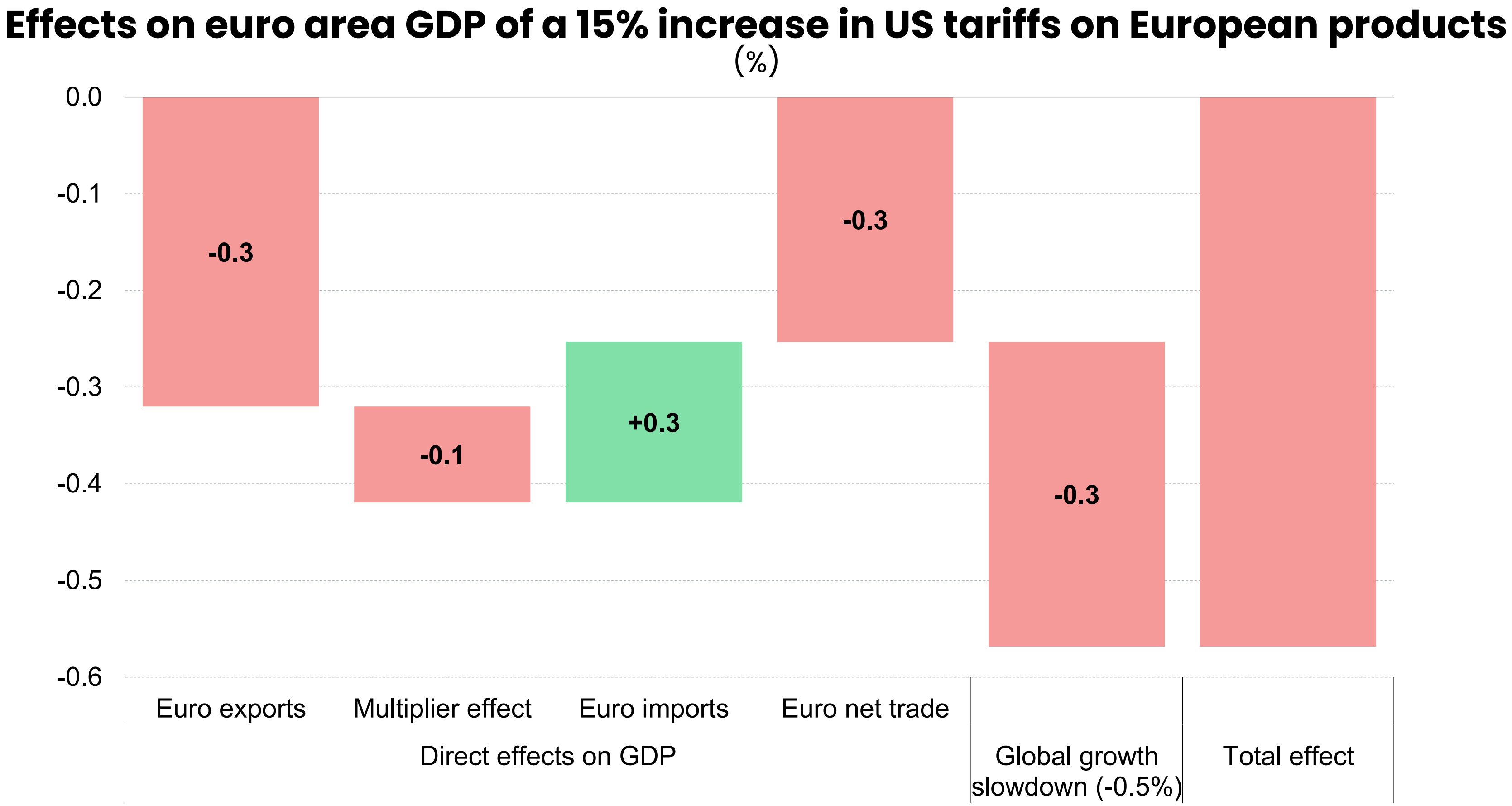


Sources: Census Bureau, OECD, TiVA, Candriam SEPTEMBER 2025

Given its trade openness, the external shock is likely to subtract 0.5% to euro area growth

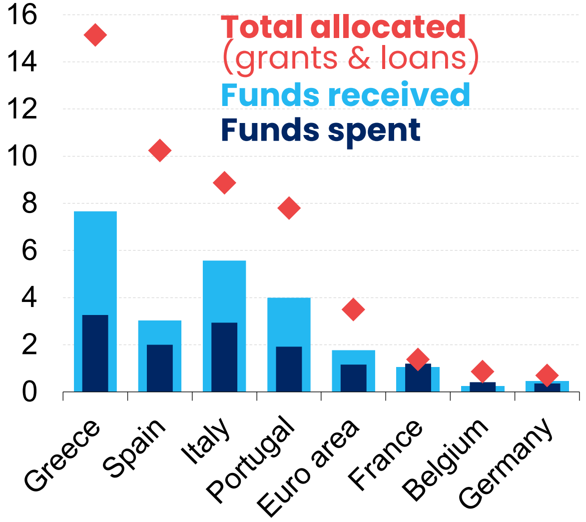


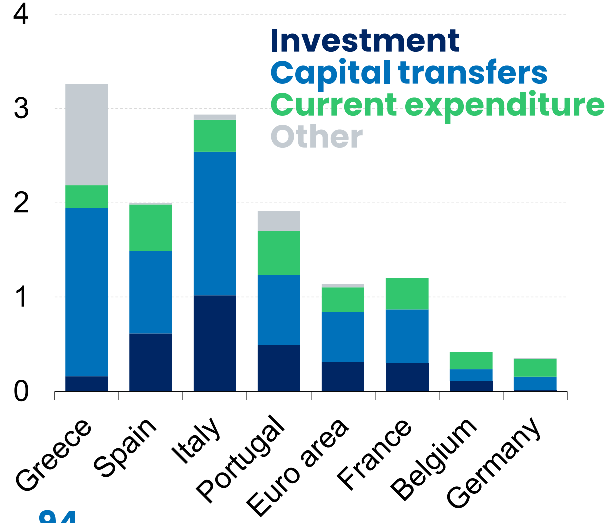
(*) Measured as the half sum of exports and imports to GDP



Sources: LSEG Datastream, Candriam

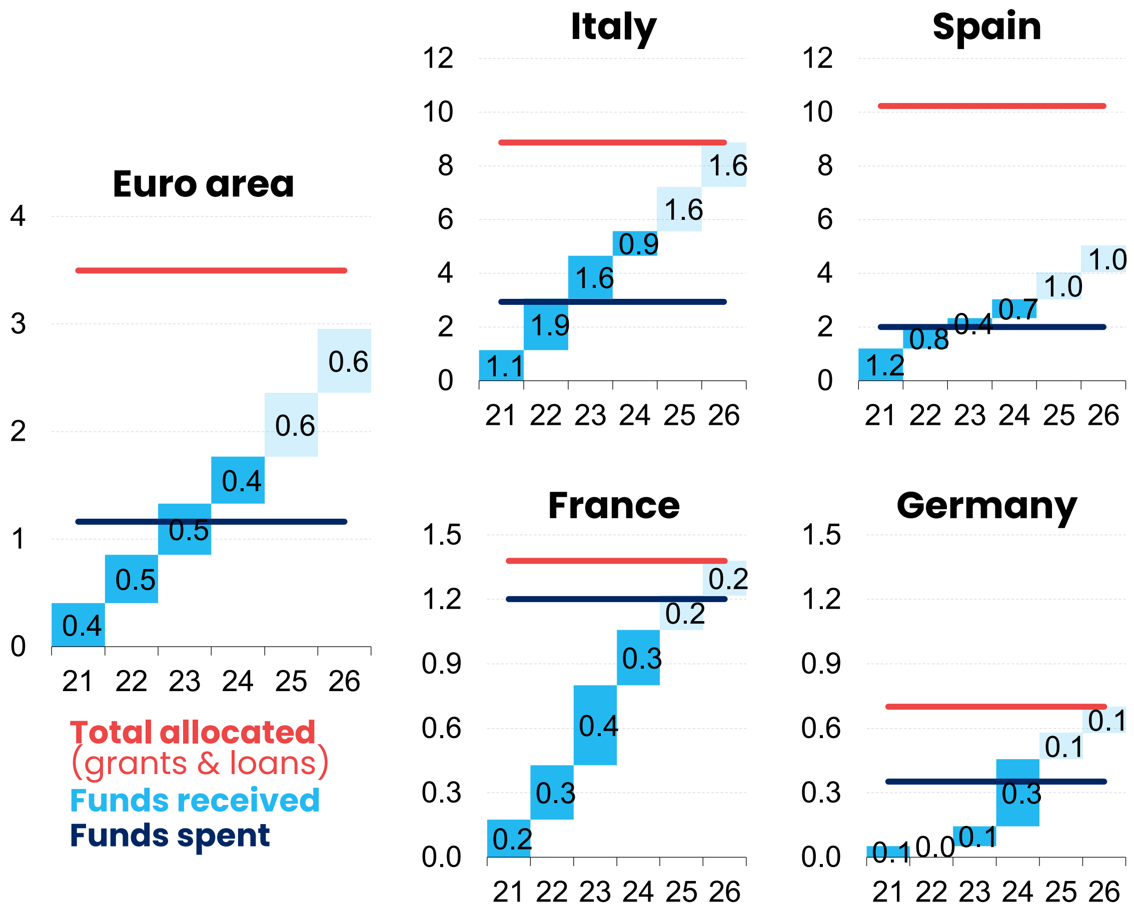
The Recovery and Resilience Facility will however provide some offset...





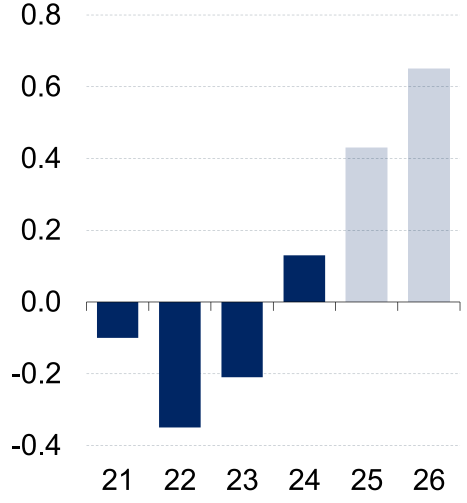
Recovery and Resilience Facility

(% of 2024 country's or area's GDP)



RRF-funded expenditure in the euro area

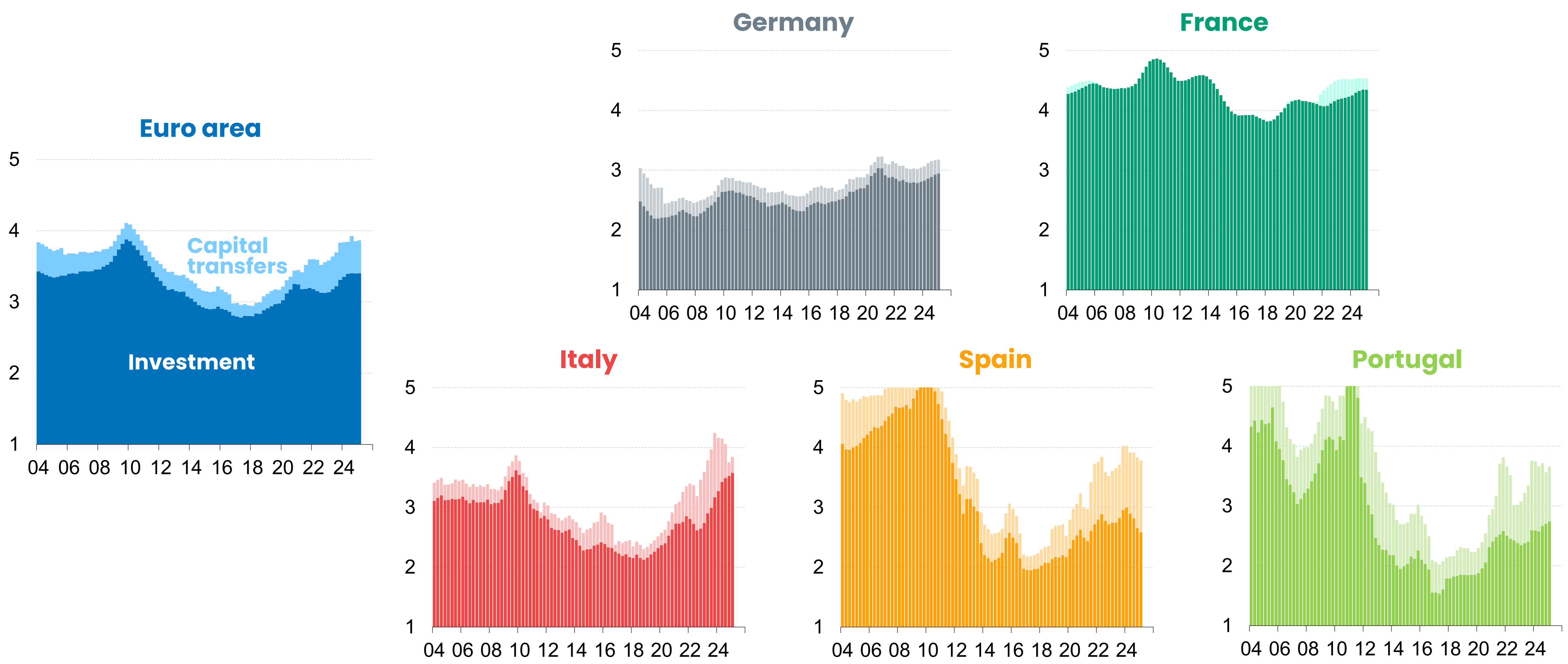
(% of 2019 GDP, actual spending minus initial ECB estimates)



Sources: Eurostat, BCE, Candriam SEPTEMBER 2025

... as governments speed up implementation before the end of the plan

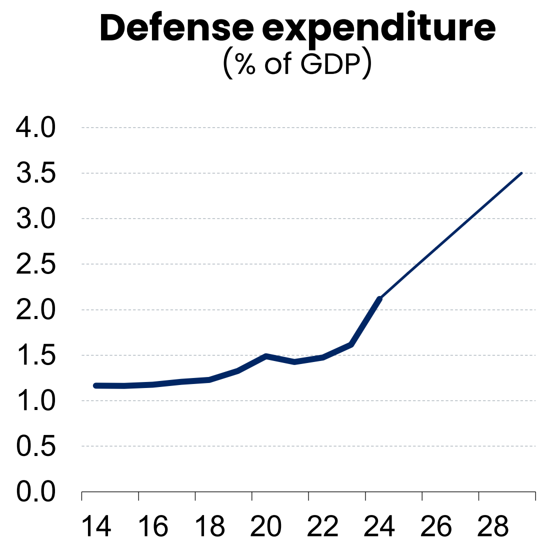
Government investment and capital transfers
(% of country's or area's GDP)

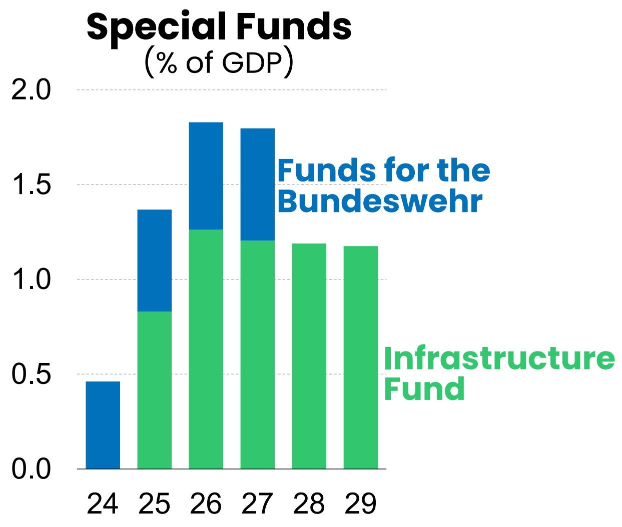


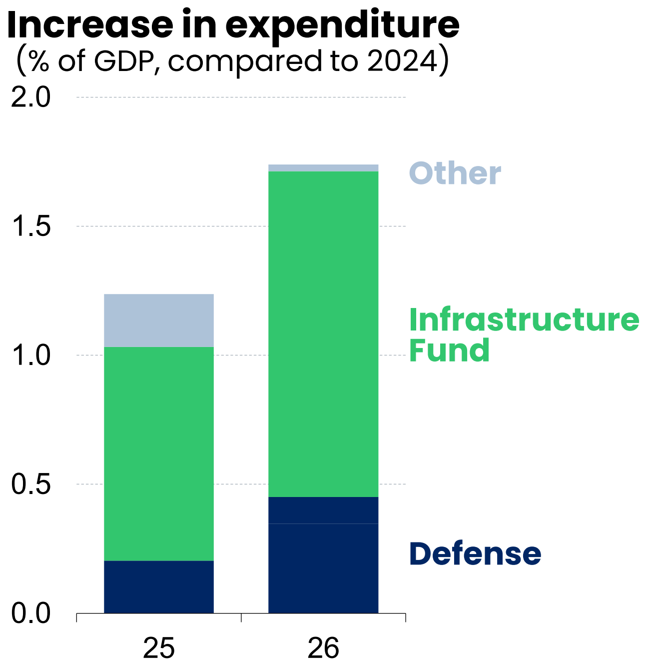
Sources: LSEG Datastream, Candriam SEPTEMBER 2025

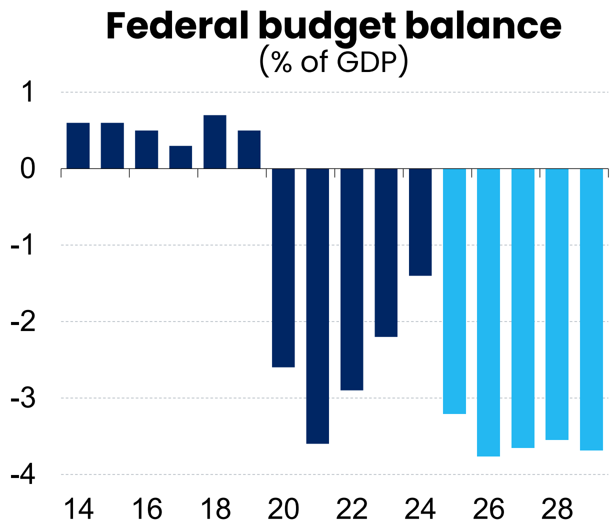
The German plan should also support activity… but probably not as quickly as hoped

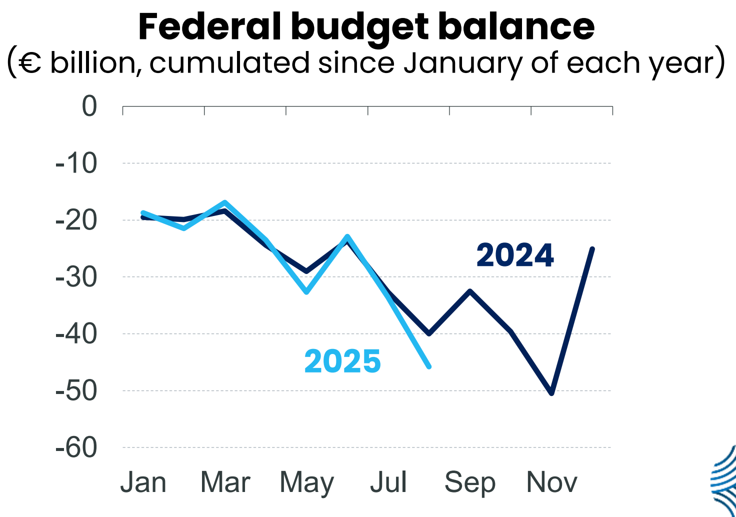
2025 federal budget





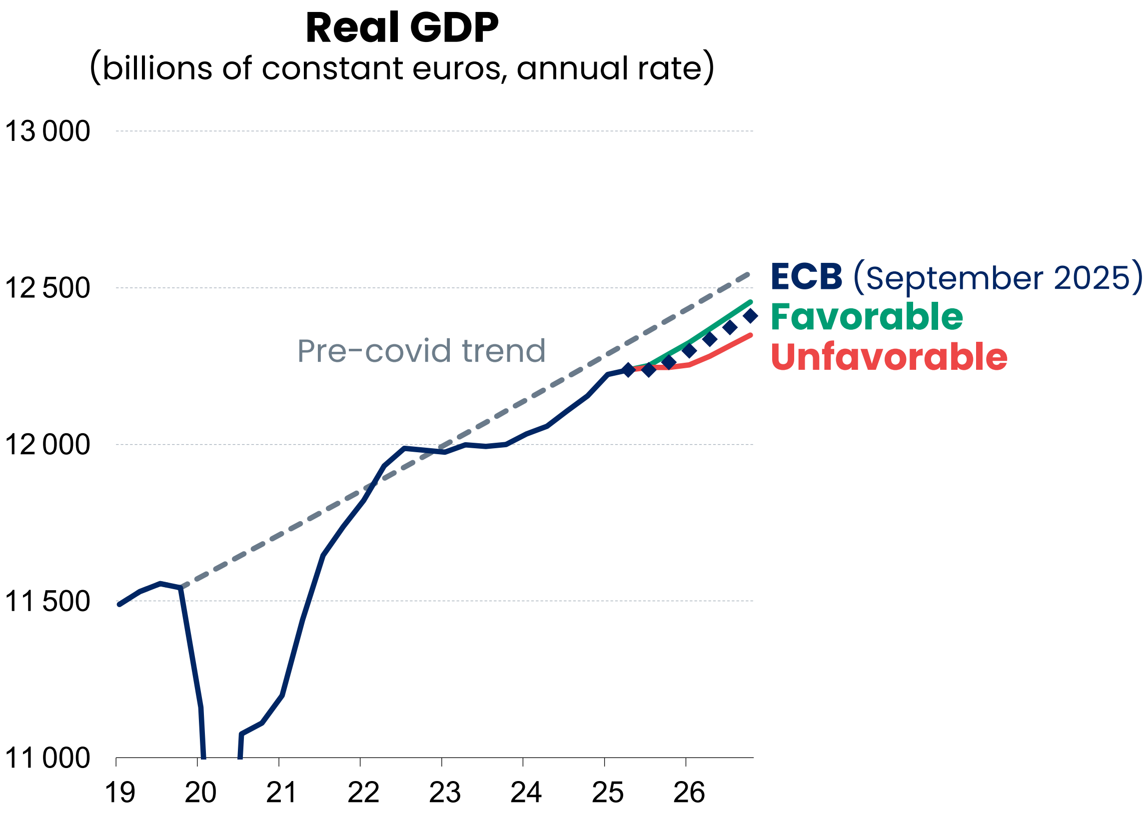


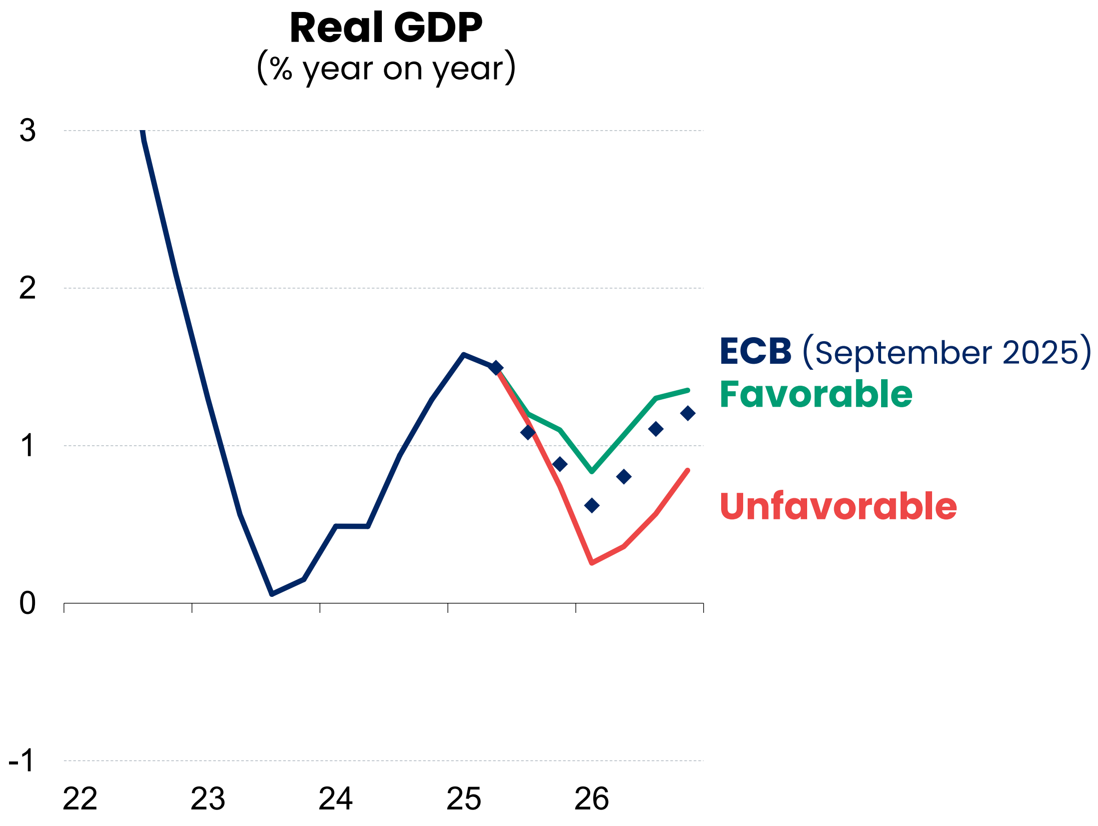




Sources: NATO, German Federal Ministry of Finance, Candriam SEPTEMBER 2025

After a slowdown, growth is set to pick up in 2026





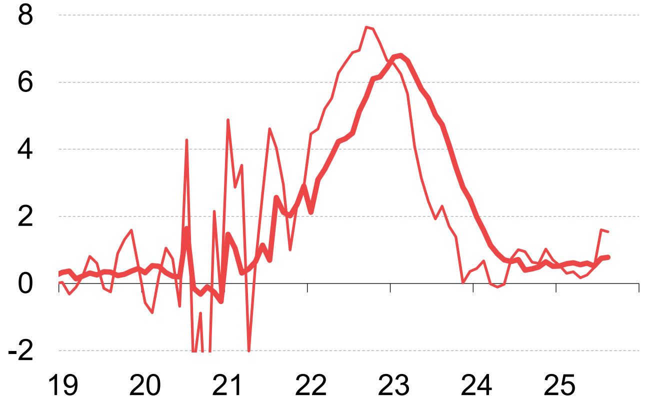
Sources: LSEG Datastream, ECB, Candriam

Consumer price inflation pressures should continue to ease

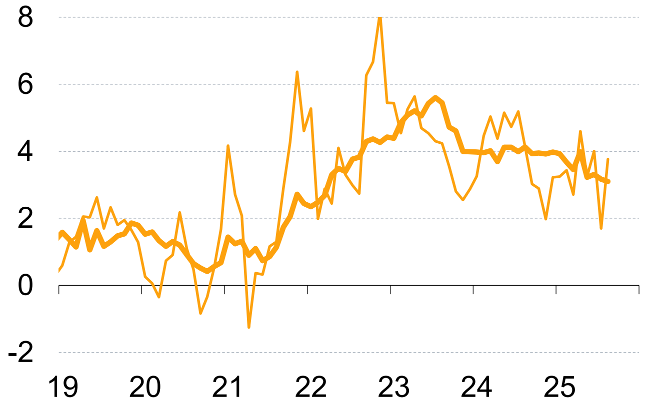
Core CPI inflation
(% annual rate)

Core inflation

Core goods

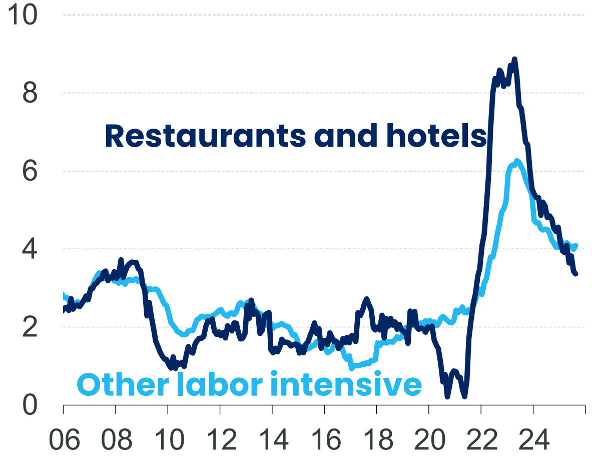


Core services

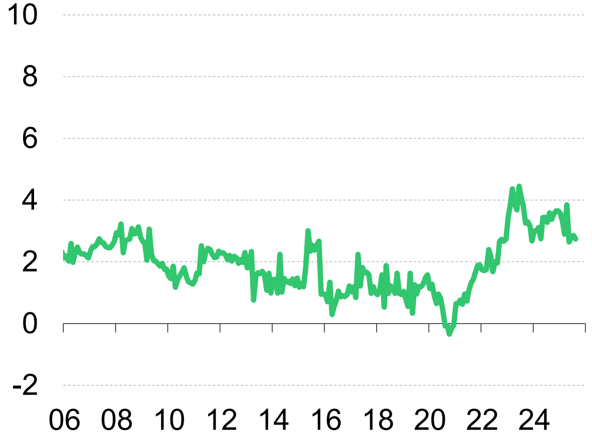


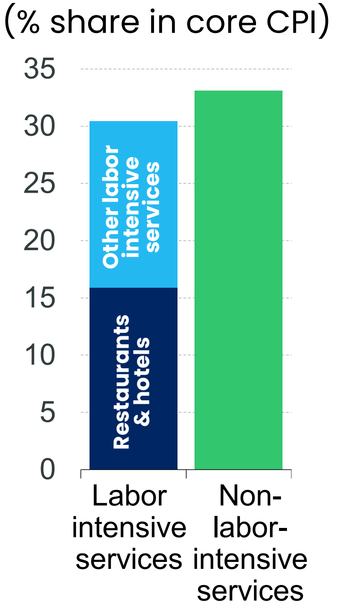
Core services CPI
(% year on year)

Labor intensive services



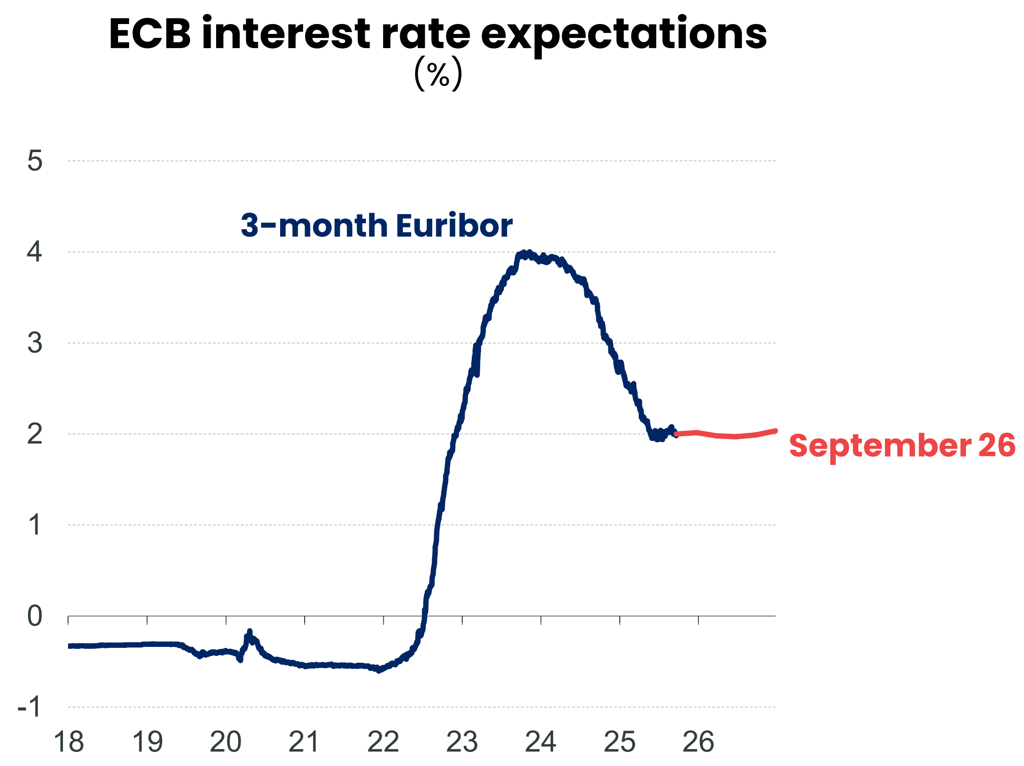
Non-labor-intensive services





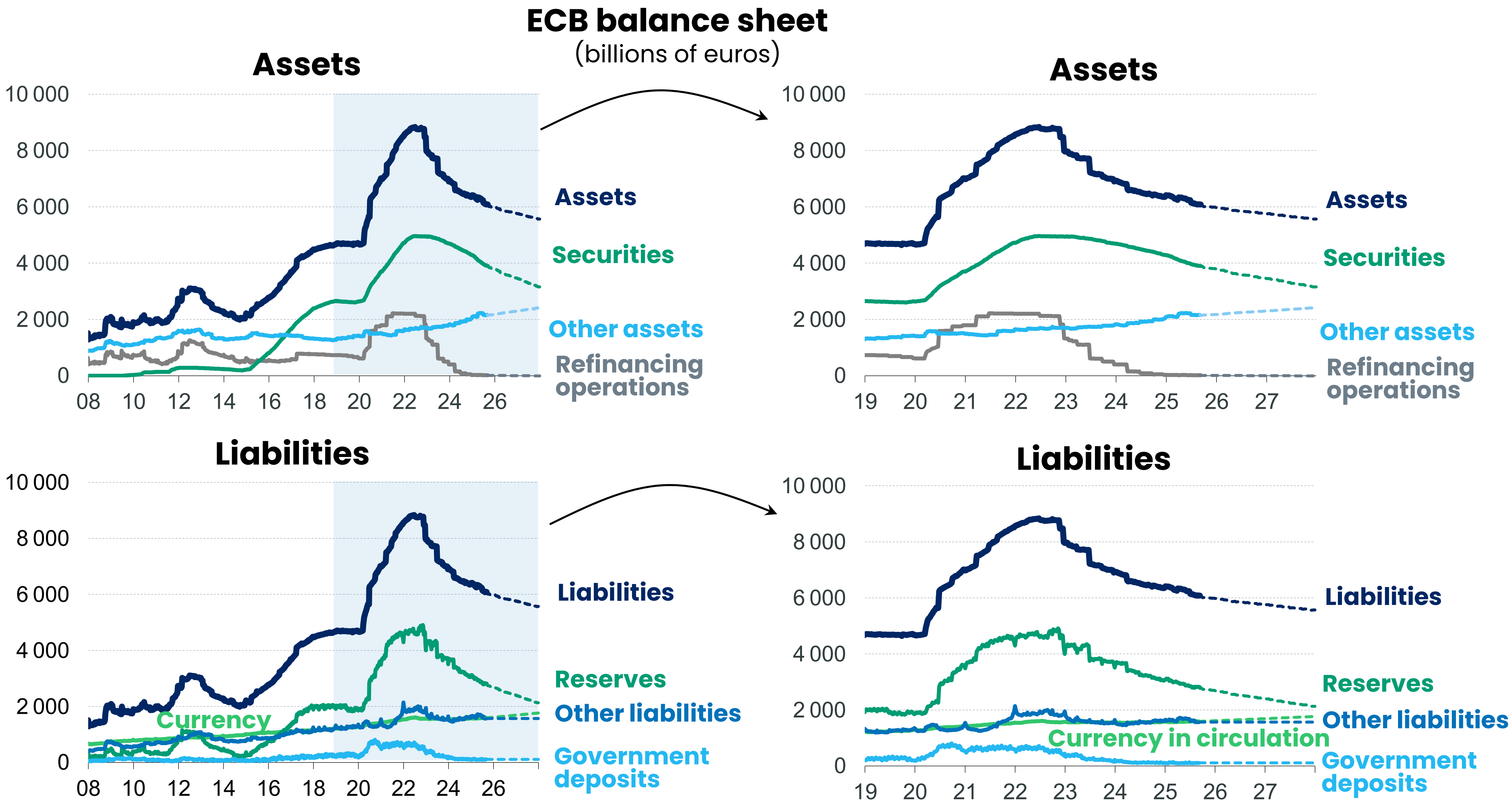
Sources: Eurostat, LSEG Datastream, Candriam

The ECB has normalized its monetary policy… but could be forced to cut rates again later



Sources: LSEG Datastream, Candriam

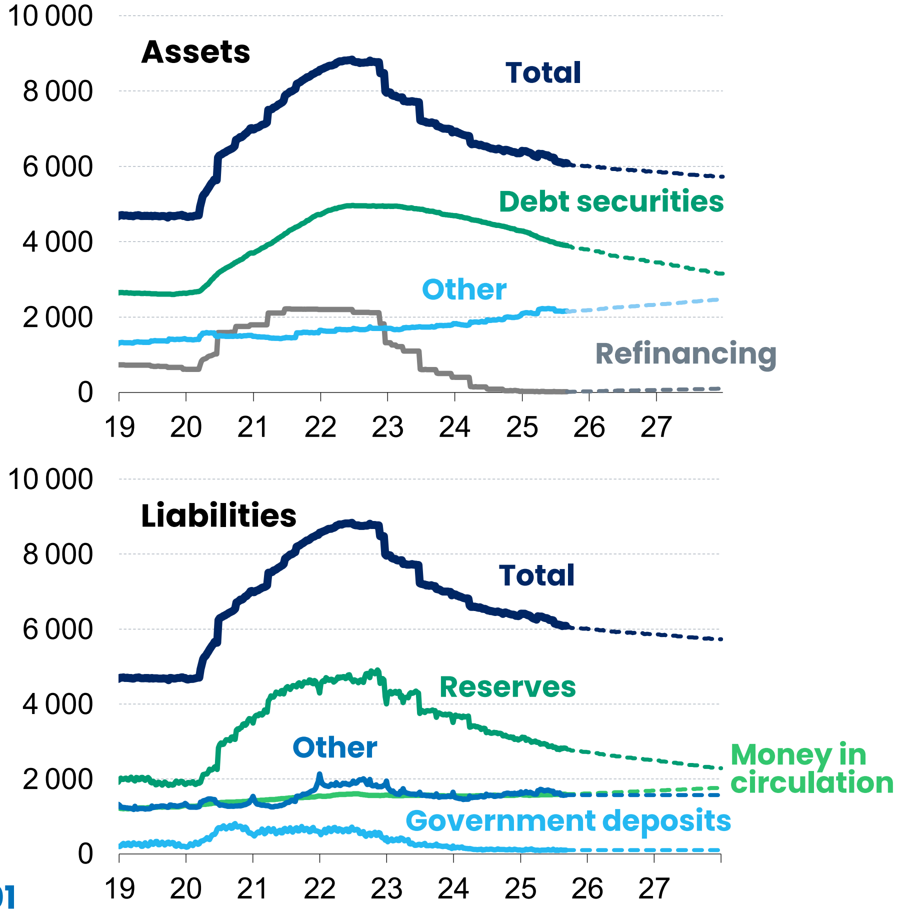
Memo. ECB balance sheet



Sources: LSEG Datastream, ECB, Candriam

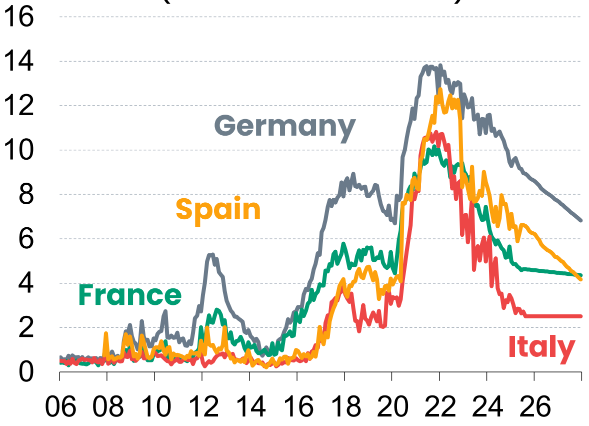
Memo. Without sufficient access to the interbank market, Italian banks will be the first to borrow again from the ECB

ECB balance sheet
(€ billion)

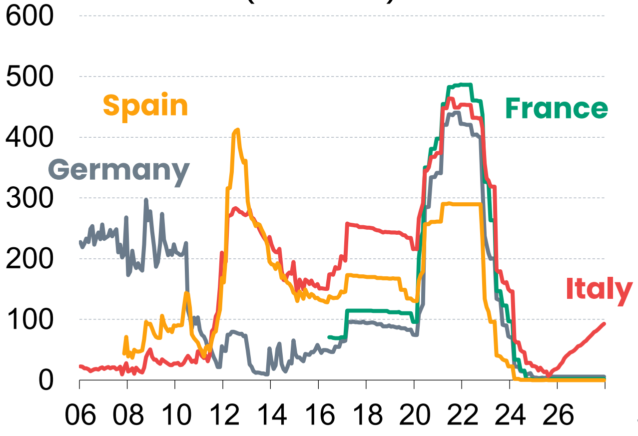


We assume banks want to held reserves worth 2.5% of their assets

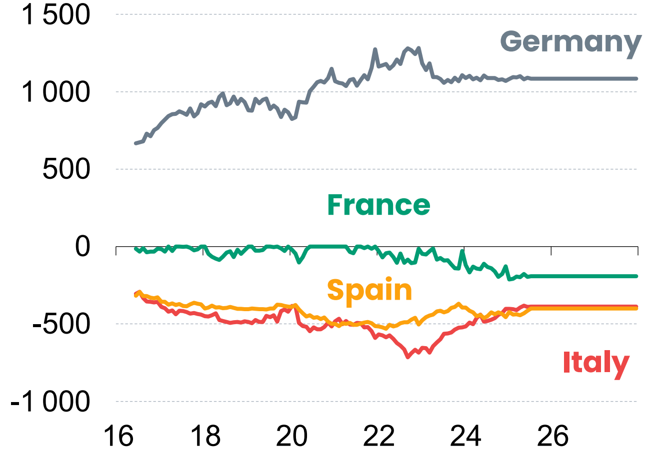
Reserves
(% of banks assets)



Refinancing
(€ billion)



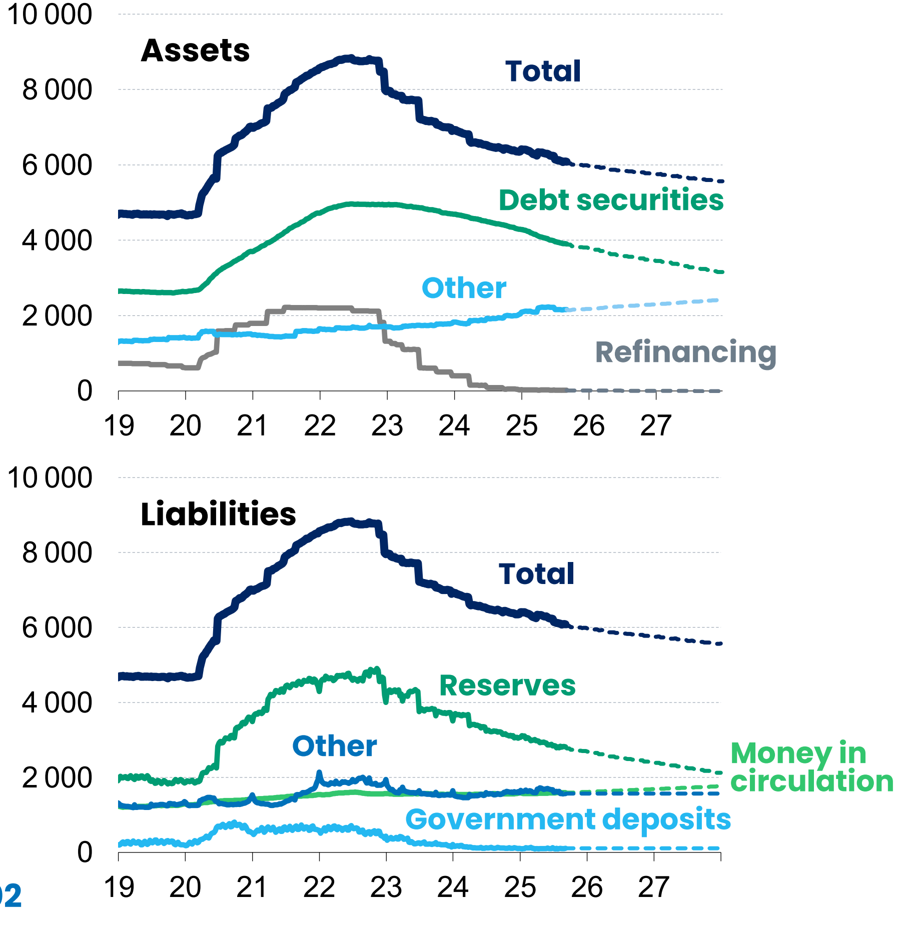
Target balance
(€ billion)



Sources: LSEG Datastream, ECB, Candriam SEPTEMBER 2025

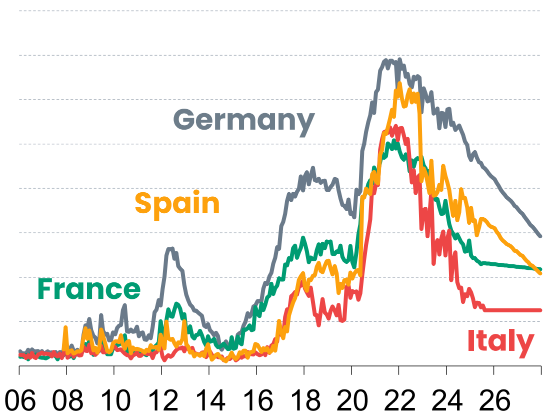
Memo. With sufficient access to the interbank market, Italian banks should not need to borrow again from the ECB

ECB balance sheet
(€ billion)

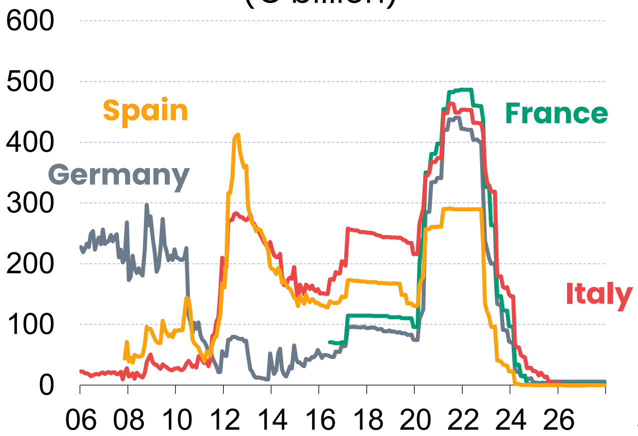


We assume banks want to held reserves worth 2.5% of their assets

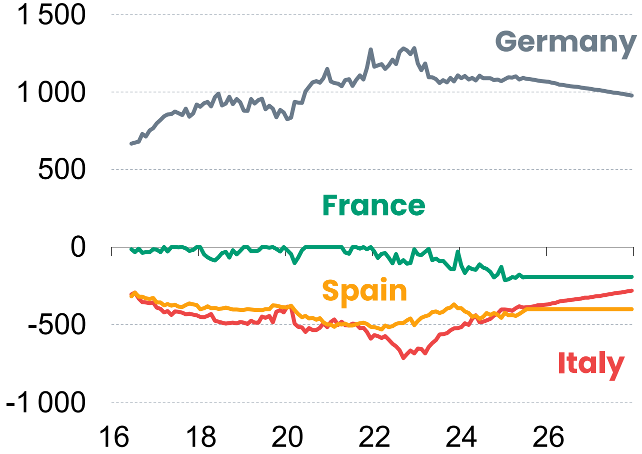
Reserves
(% of banks assets)



Refinancing
(€ billion)

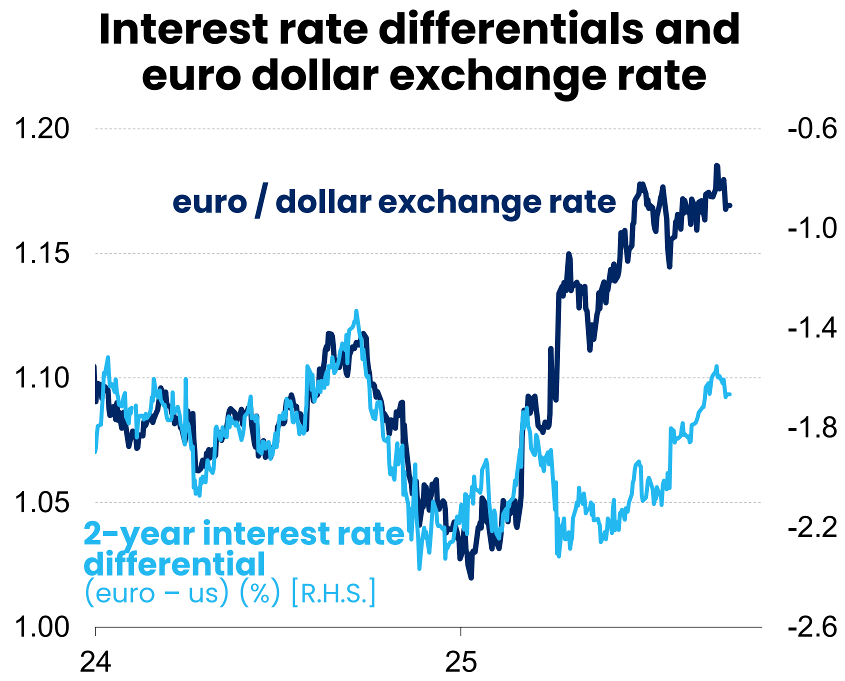


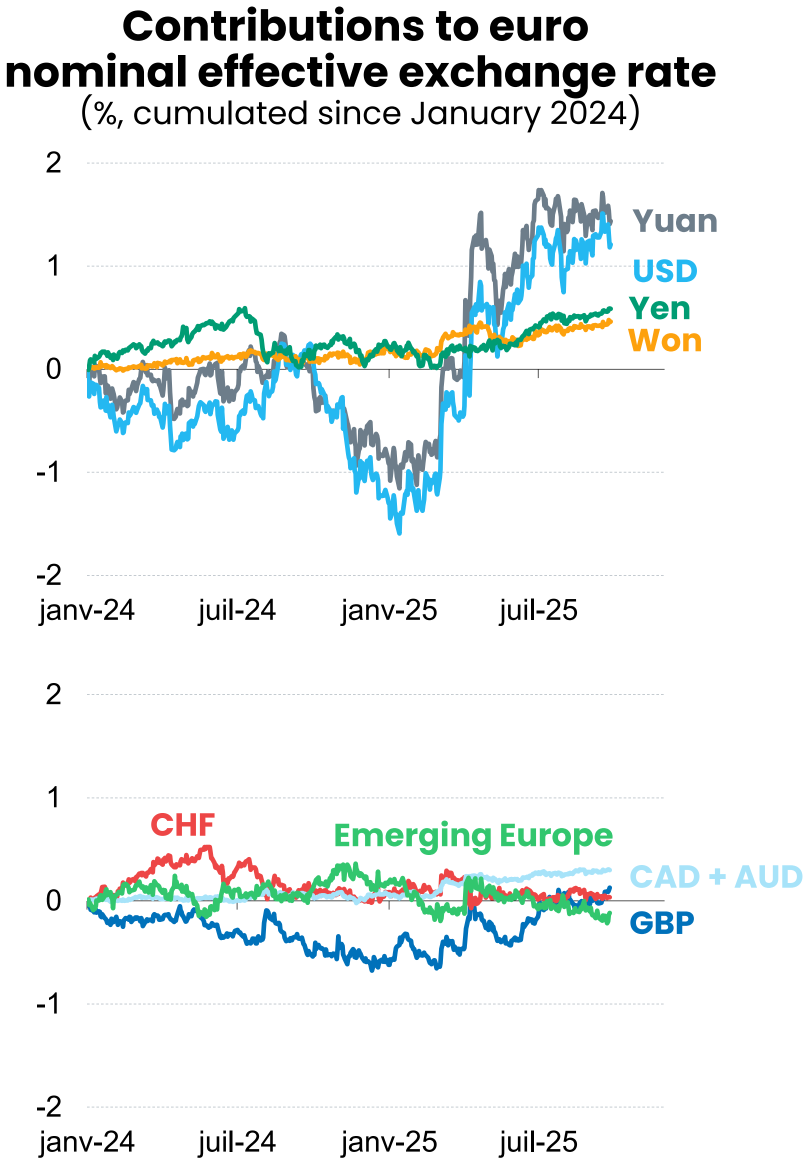
Target balance
(€ billion)

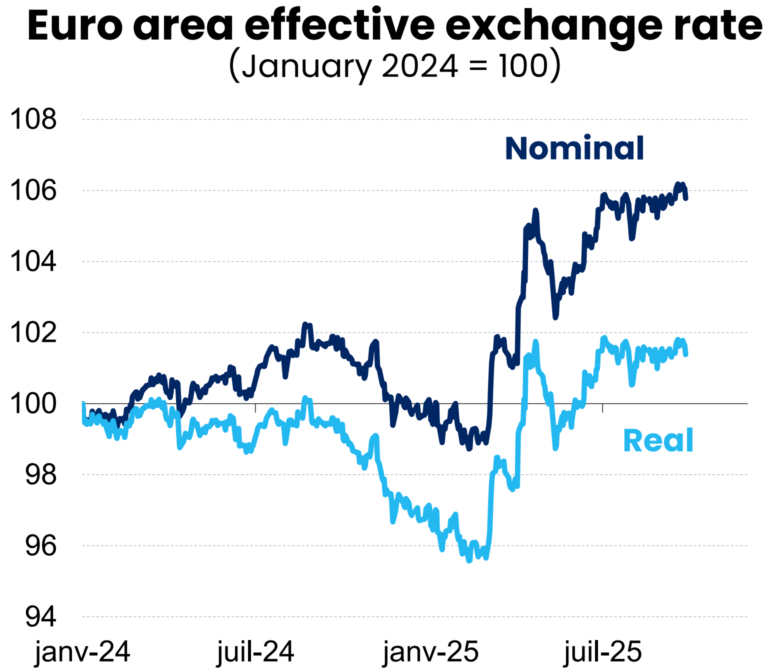


Sources: LSEG Datastream, ECB, Candriam

Euro exchange rate



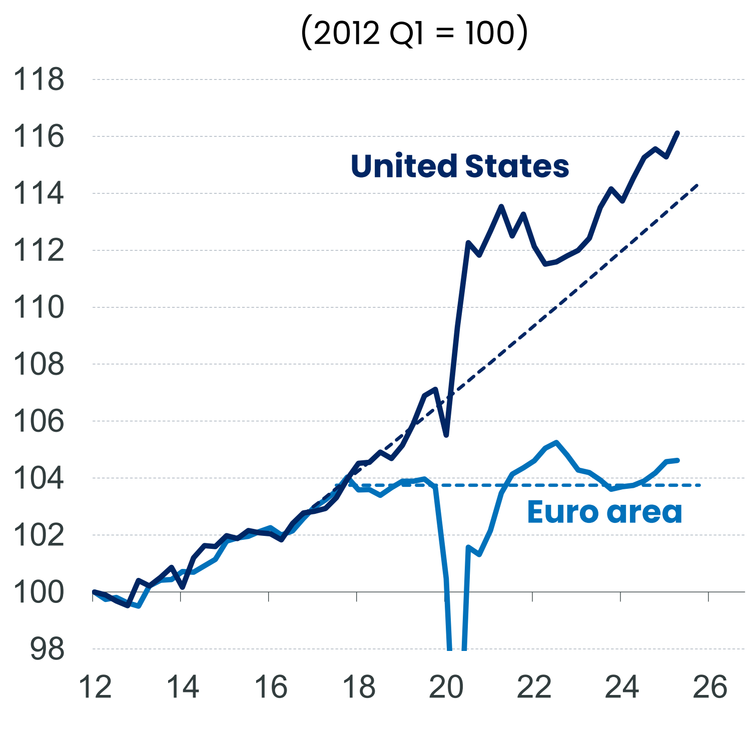


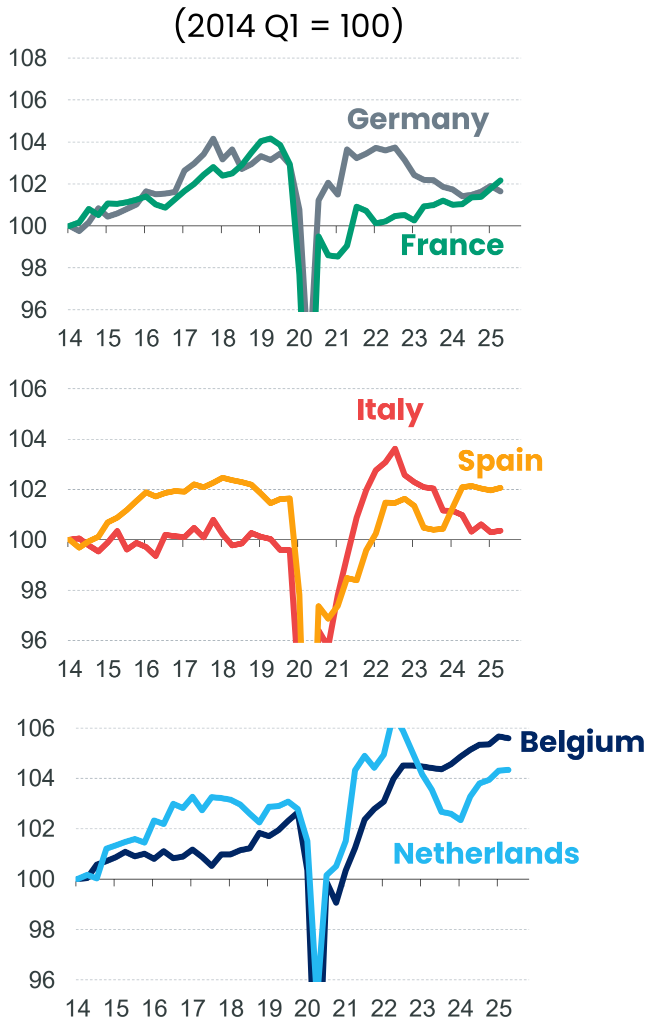


Sources: LSEG Datastream, Candriam SEPTEMBER 2025

Europe is lagging behind in terms of productivity gains and the investment gap with the US is unlikely to close…

GDP per employee

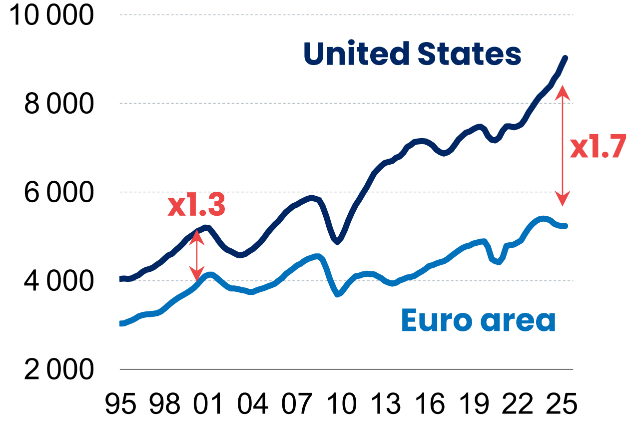




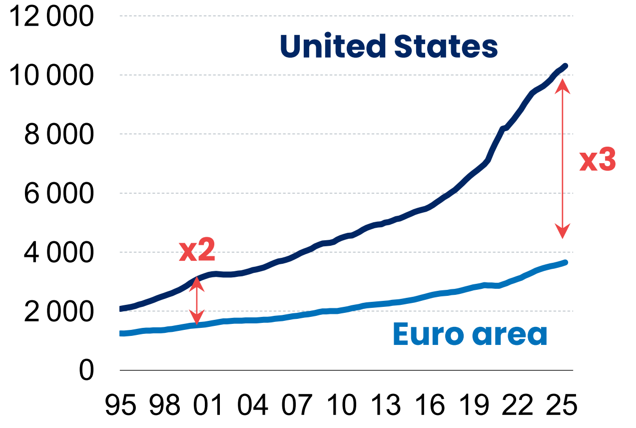
Investment per employee

(volume, in euros, 1€ = 1.2$)

Equipment



Intellectual property products

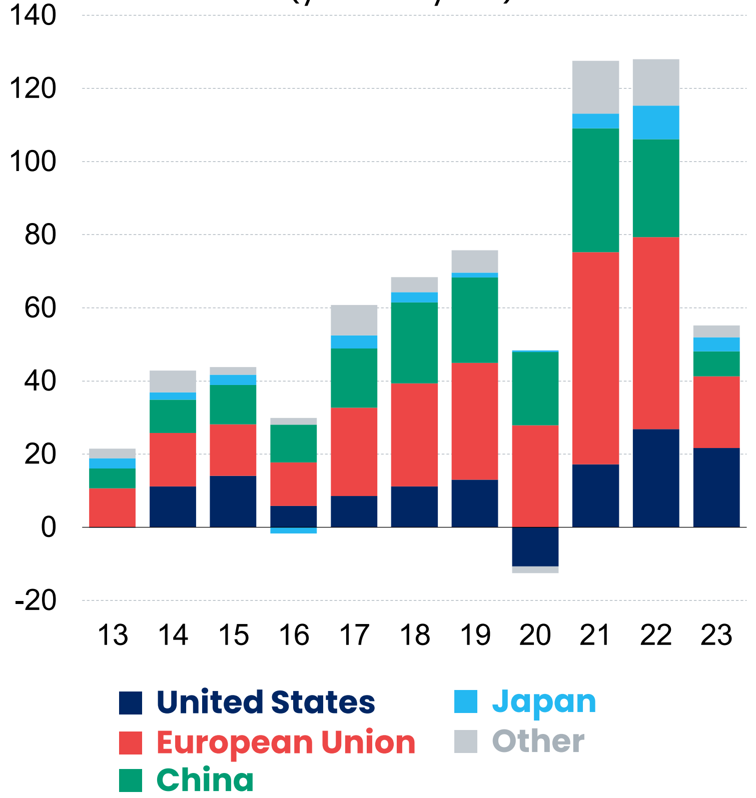


Sources: LSEG Datastream, Eurostat, Candriam

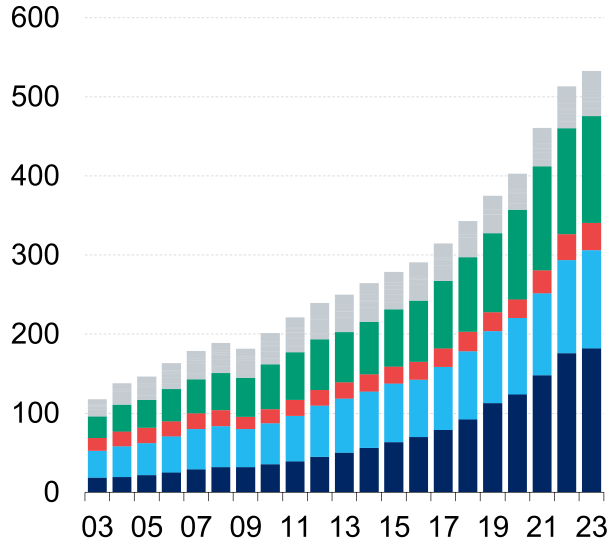
… especially in information and communication technologies

Research and development investment
(billions of 2023 euros, EC survey of the world’s top 2 000 R&D investors)

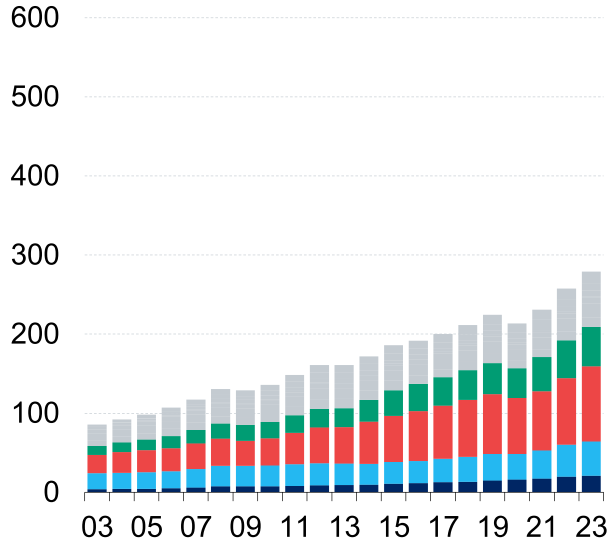
By region
(year on year)



United States



European Union

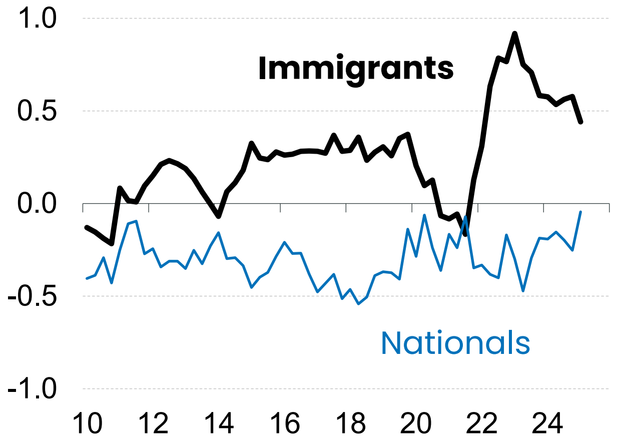


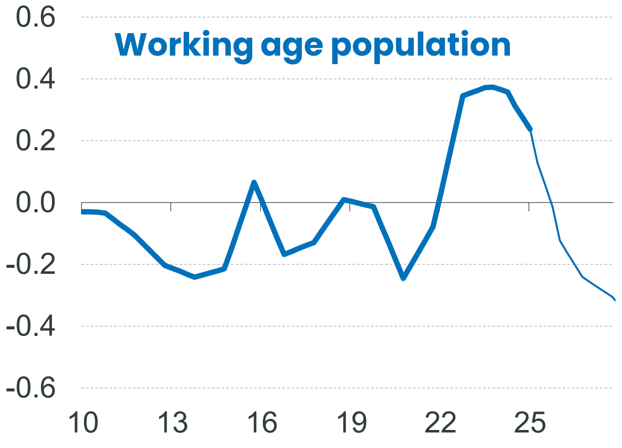
ICT services
ICT producers
Automobiles & parts
Health industries
Other

Sources: European Commission

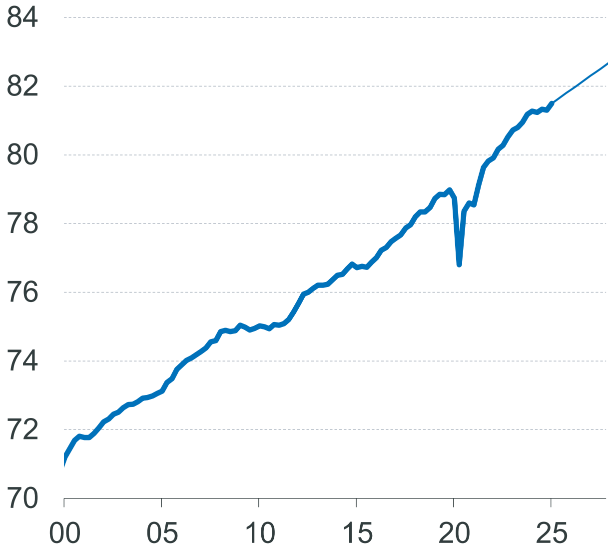
The rate of growth of the labor force is unlikely to be well above 0.5% per year

Euro area working age population
(% year on year contribution)





Euro area participation rate
(%, 15- to 64-year-old)

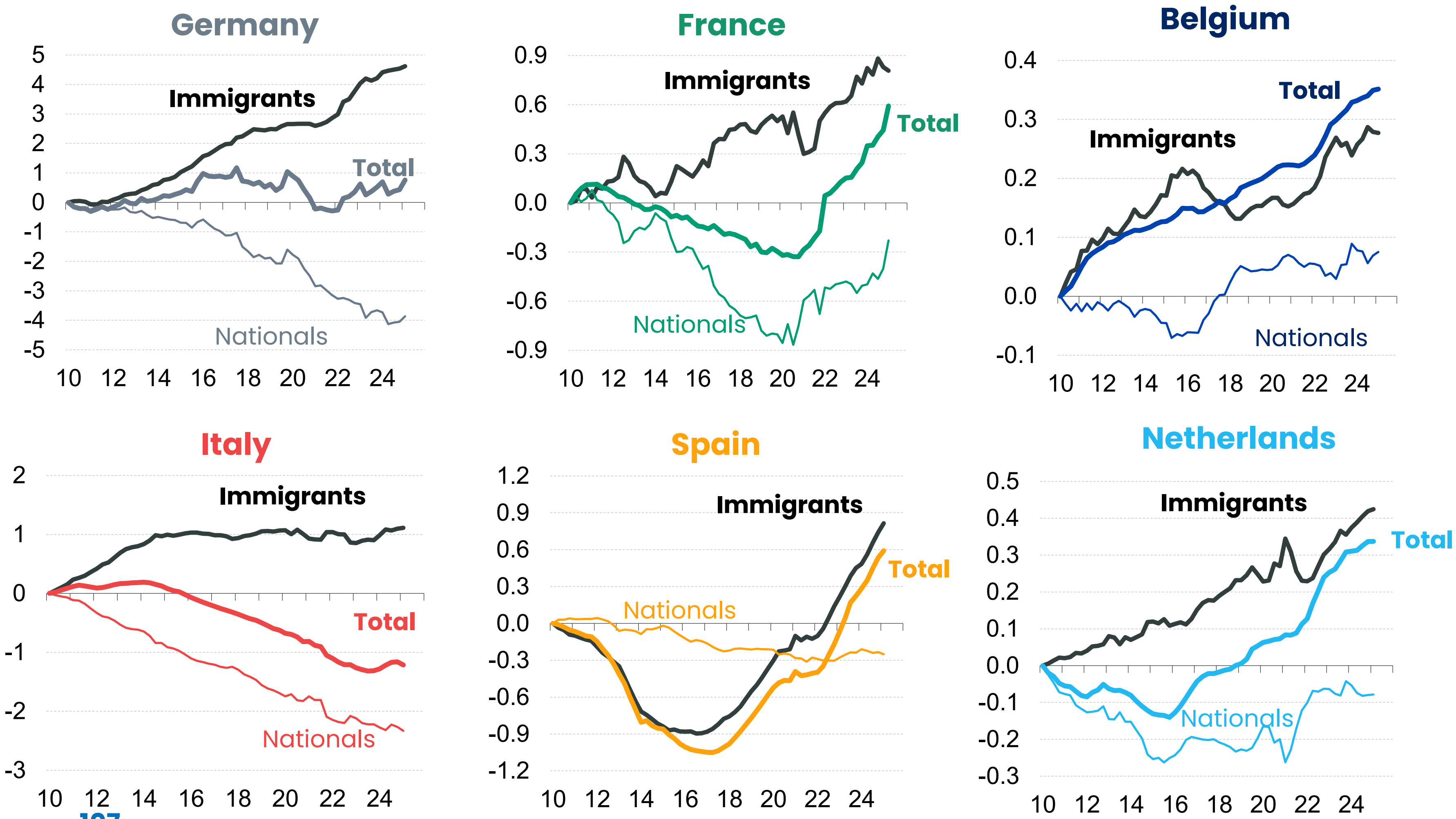


Euro area labor force
(% year on year)

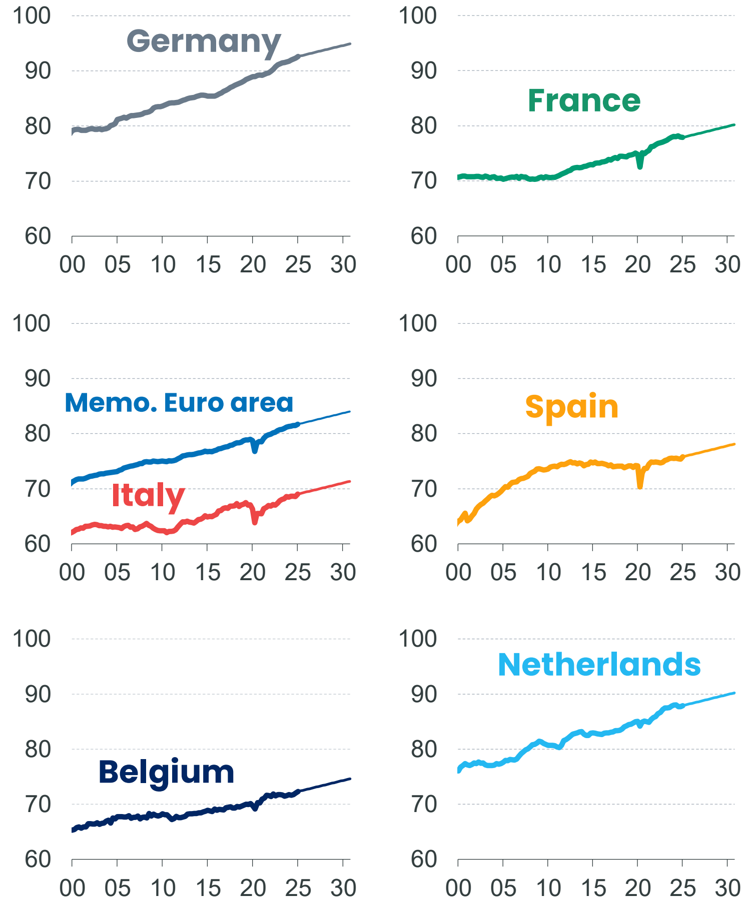
Sources: LSEG Datastream, Eusotat, Candriam

Memo. Working age population by country

Working age population
(cumulative change since 2010, in million persons)

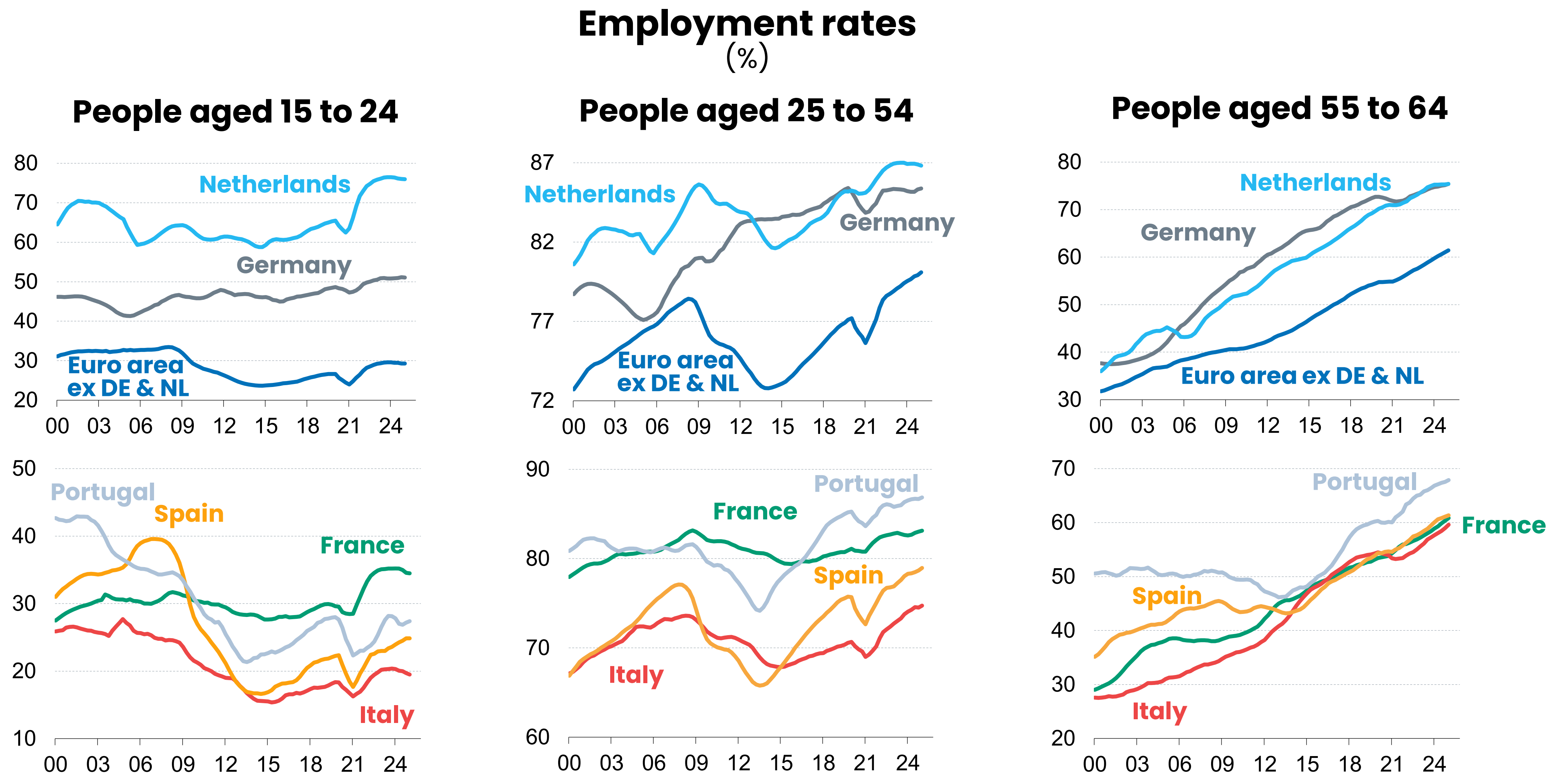


Participation rate
(%, 15- to 64-year-old)



Sources: LSEG Datastream, Eurostat, Candriam SEPTEMBER 2025

Memo. Employment rates could increase a bit further

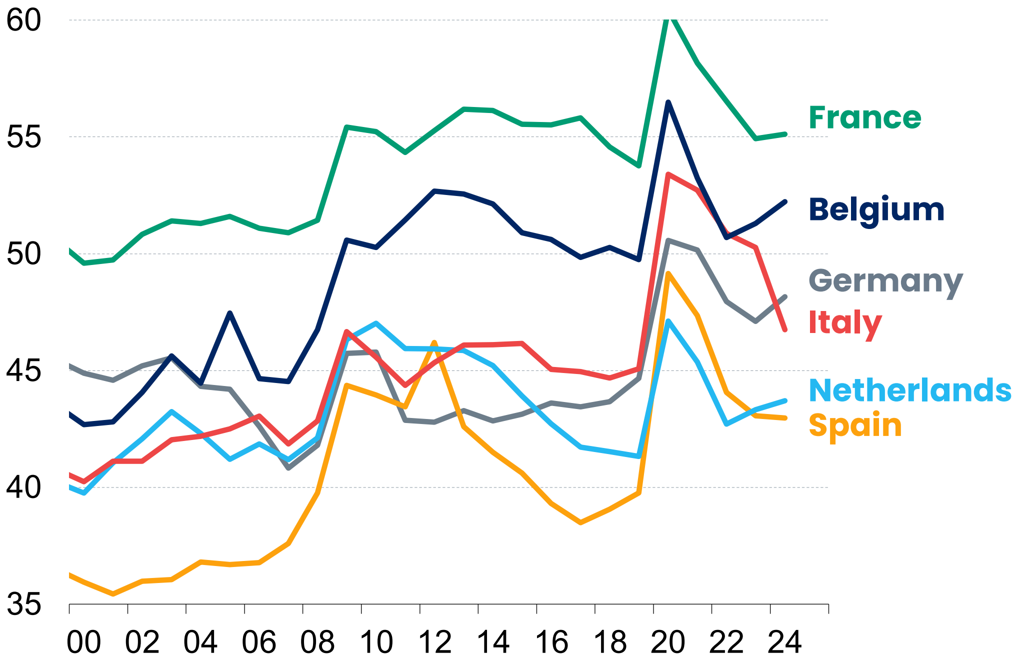


Sources: Eurostat, Candriam SEPTEMBER 2025

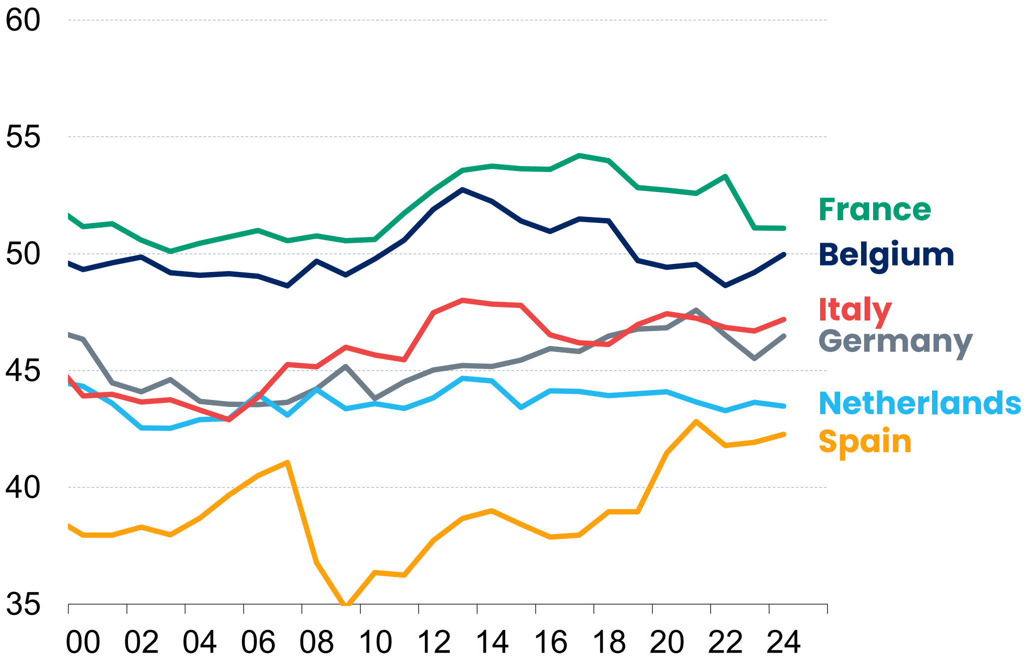
Focus. A closer look at public finances...

Government revenues and expenditures

General government expenditures
(% of GDP, ex interest paid)

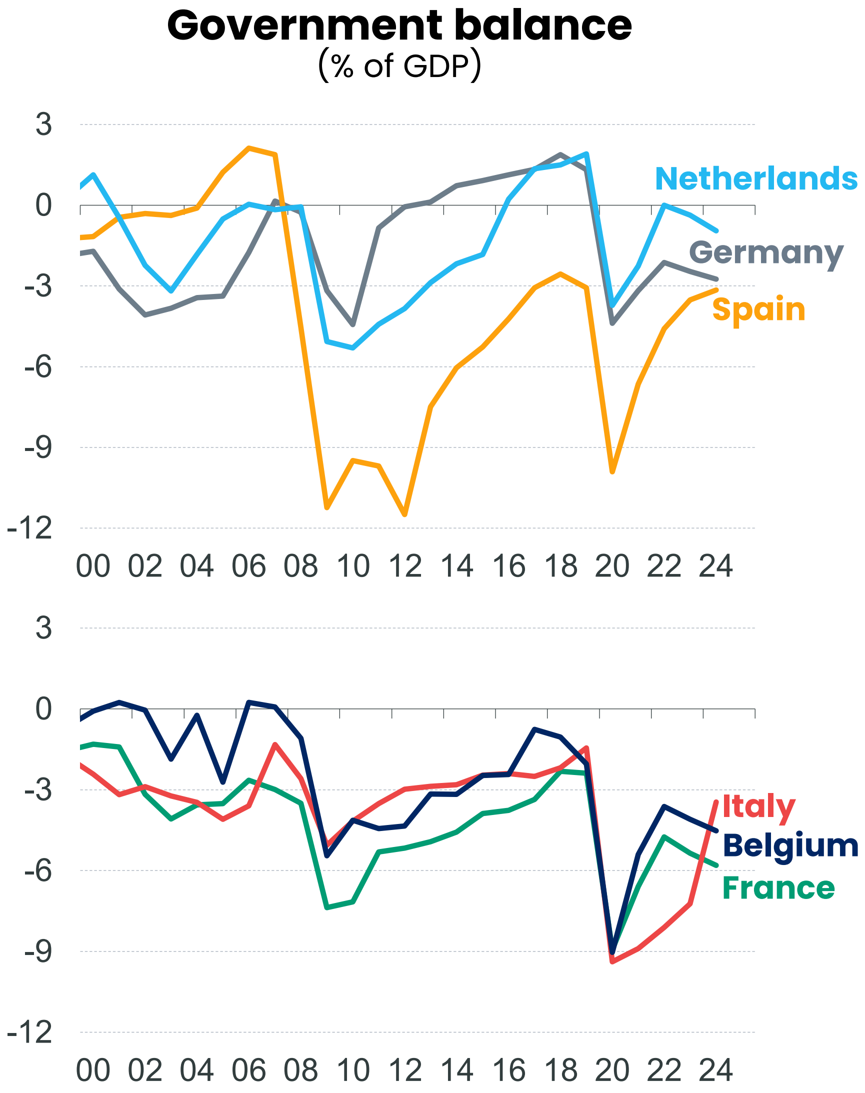


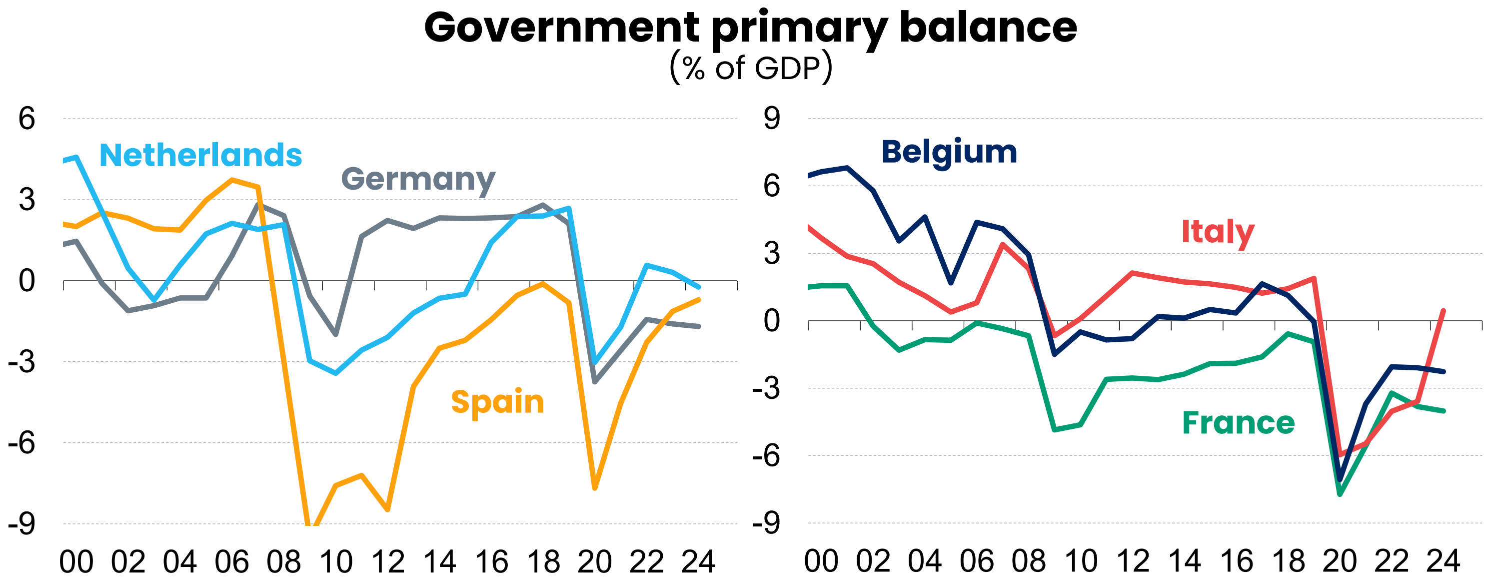
General government revenues
(% of GDP)

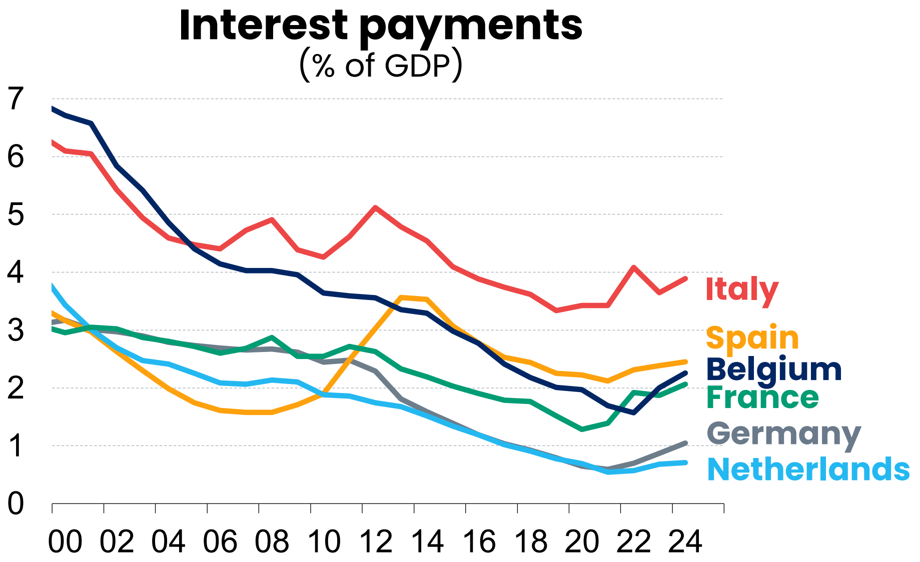


Sources: Eurostat, Candriam SEPTEMBER 2025

Government balance



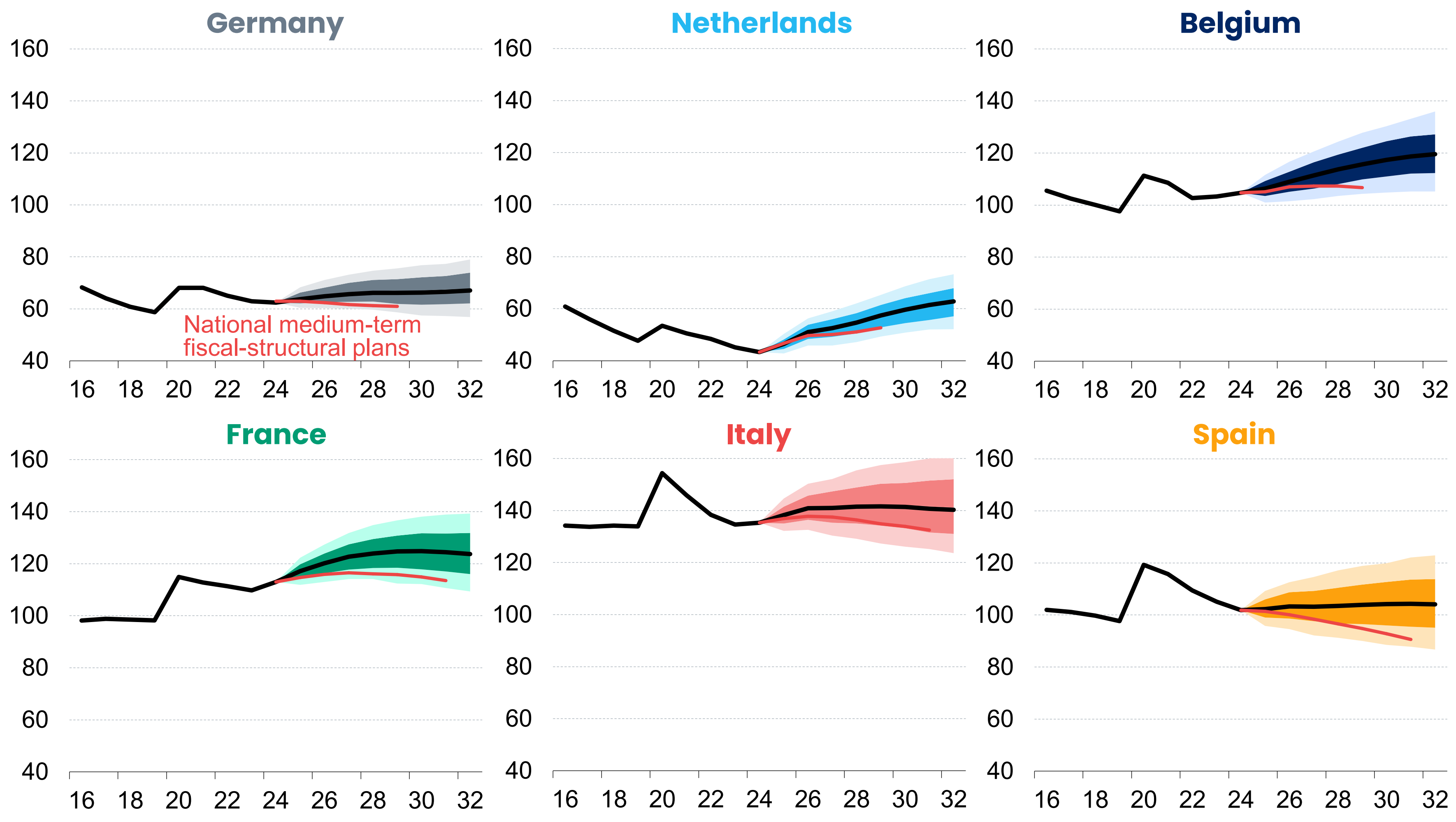




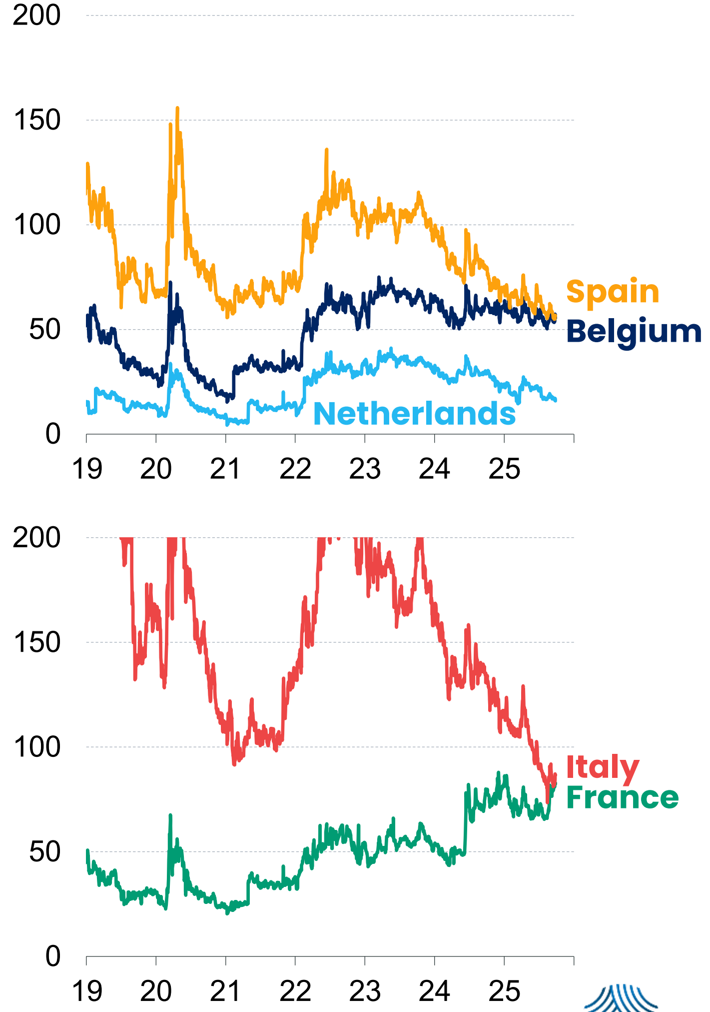
Sources: Eurostat, Candriam SEPTEMBER 2025

Public debt trajectories for euro area countries

Public debt with rising defense spending and German infrastructure fund
(% of GDP)



10-year-sovereign spreads to Germany
(basis points)

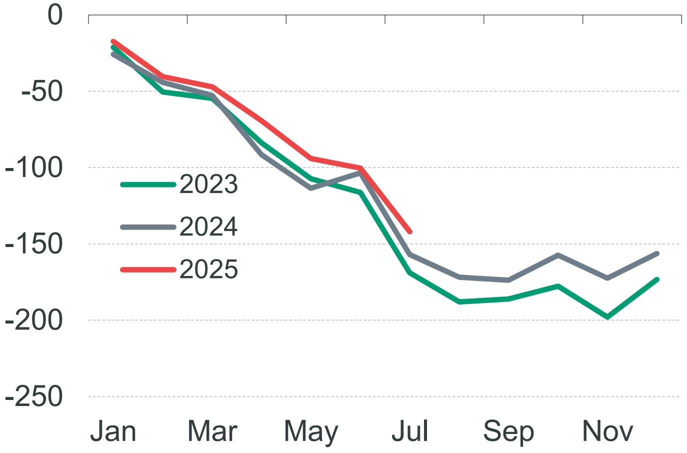


Sources: LSEG Datastream, Eurostat, Candriam SEPTEMBER 2025

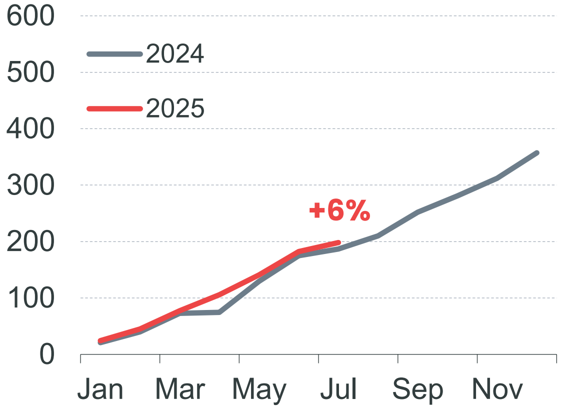
France was on track to deliver on its 5.4% deficit target for 2025

Central government budget
(€ billion, cumulated since January of each year)

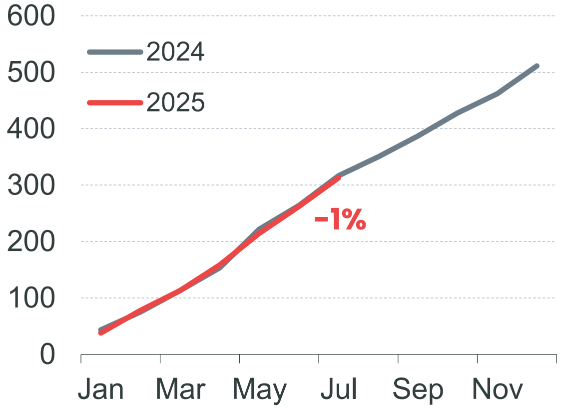
Balance



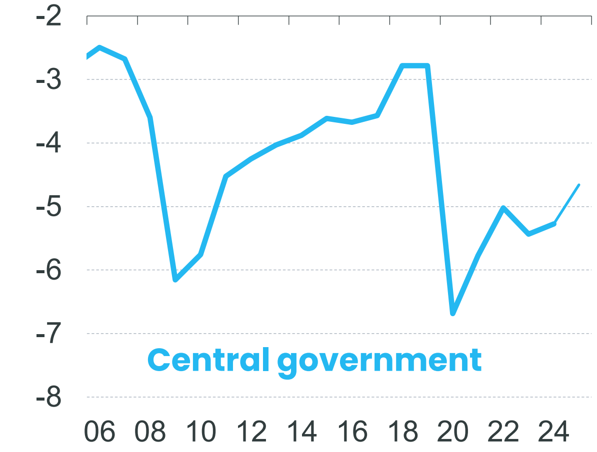
Receipts

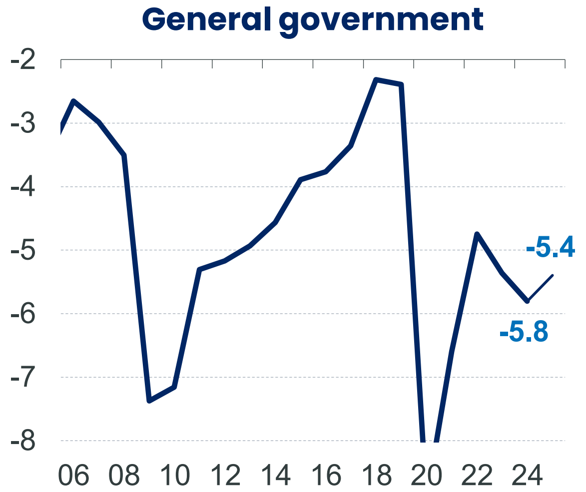


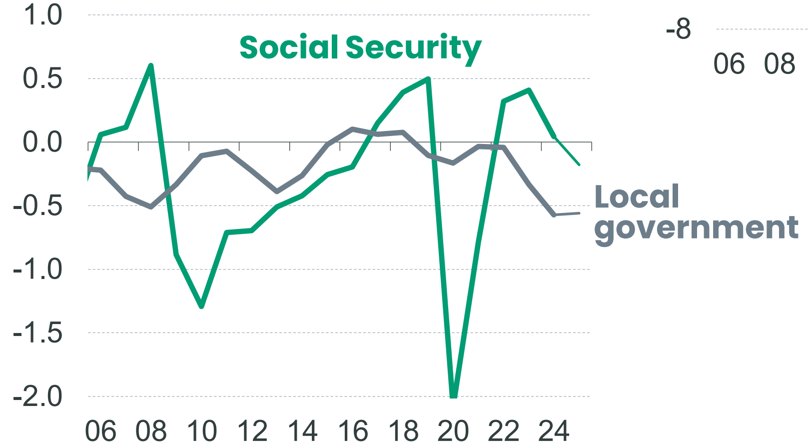
Expenditures



General government budget
(% of GDP)



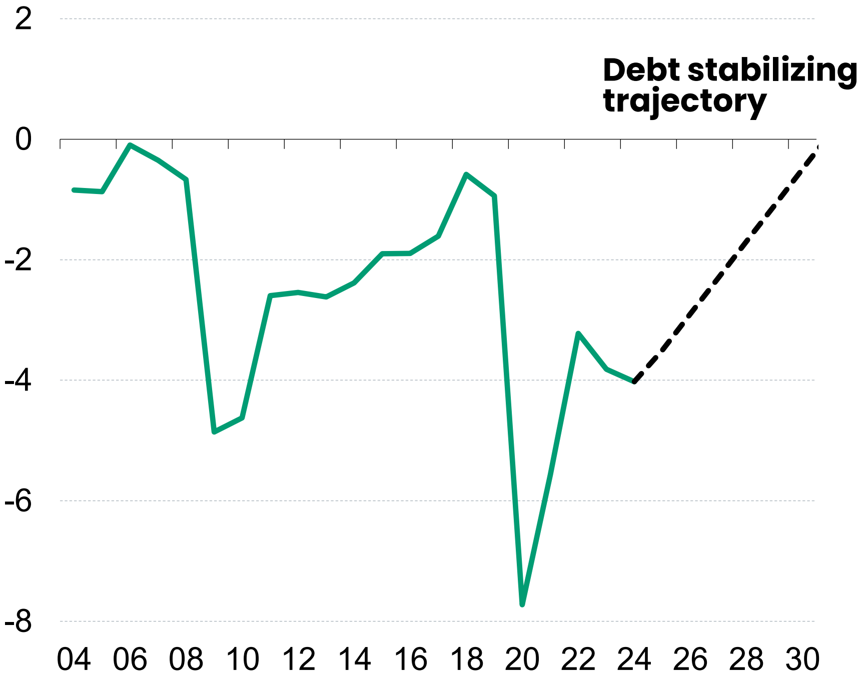




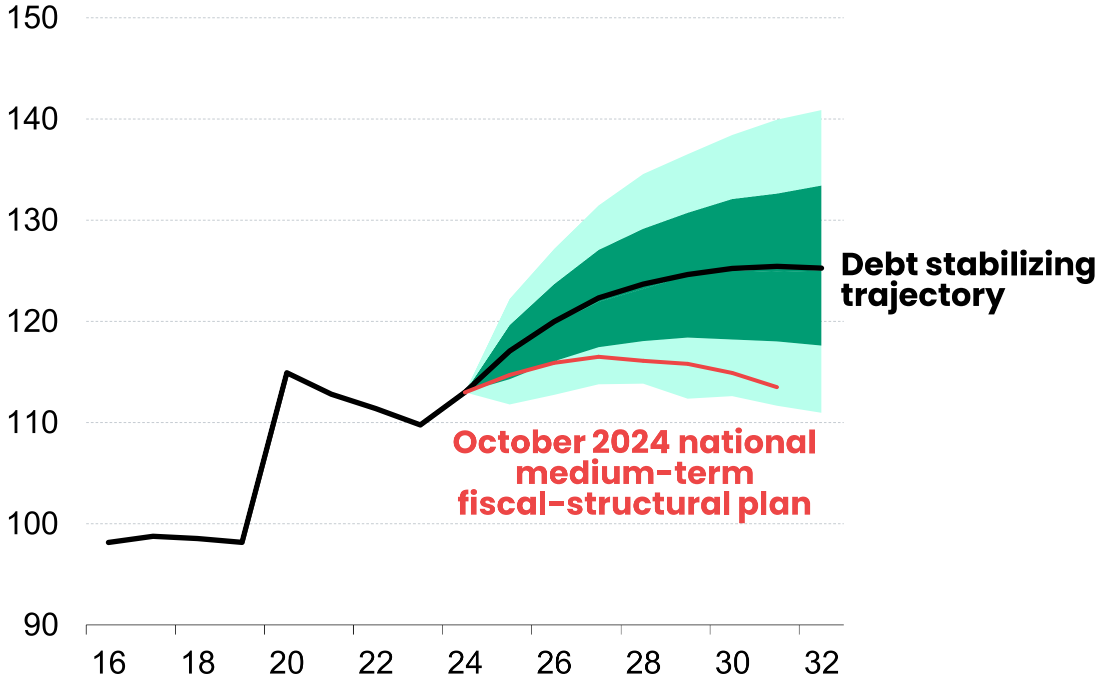
Efforts to stabilize its debt to GDP ratio remains significant

Debt stabilizing trajectory

Government primary balance
(% of GDP)



Government debt
(% of GDP)



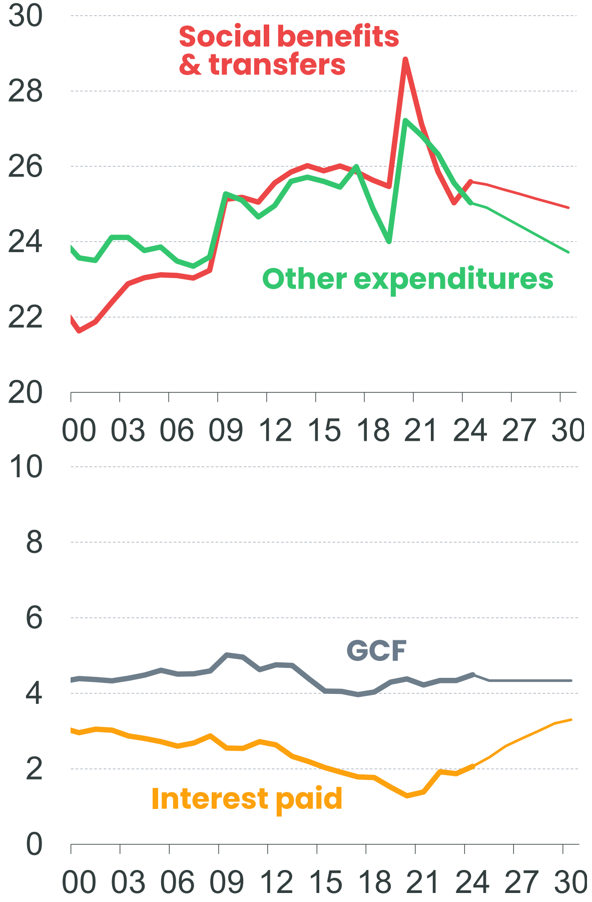
Sources: Eurostat, Candriam SEPTEMBER 2025

This can hardly be achieved by reducing spending alone

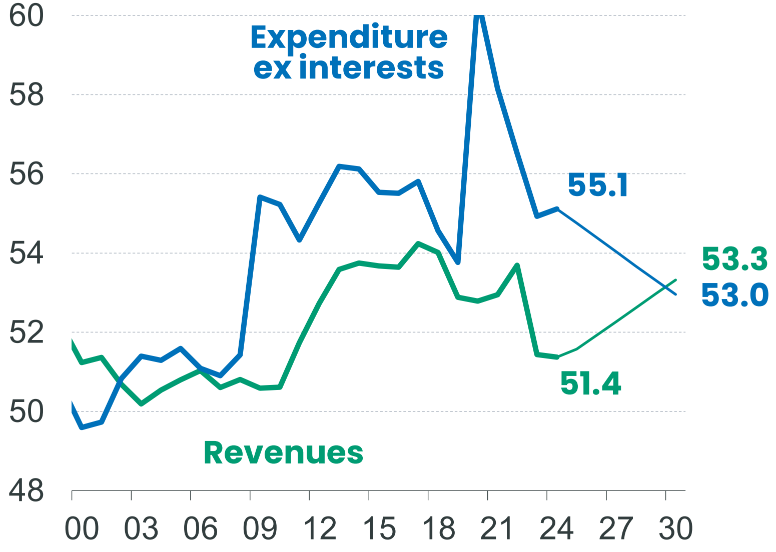
General government revenues, expenditures and balance in France

(% of GDP)

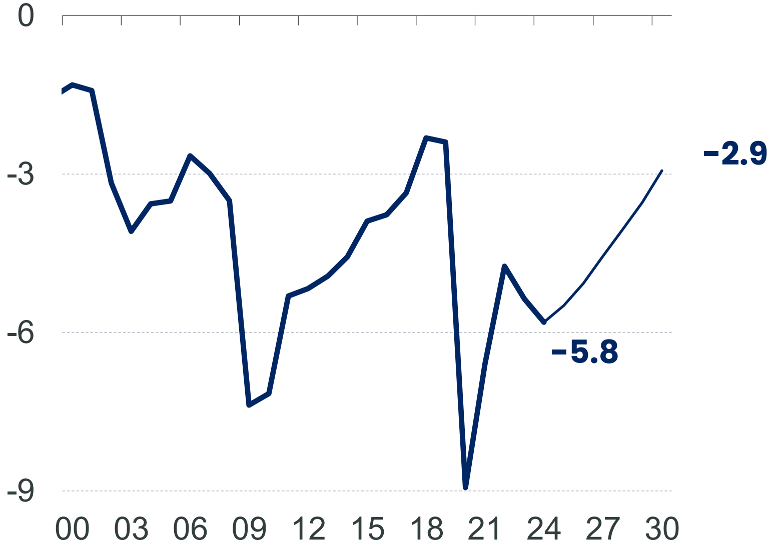
Expenditures



Revenues and expenditures



Balance



Assumptions

Social benefits & transfers: pension and health expenditures increase 0.5% slower than nominal GDP.
Other expenditures : expenditures increase 1% slower than nominal GDP.

➔ To reduce the deficit to 3% in 2030, revenues would need to increase by 25 billion euros in 2025-26, then by a further 12 billion euros each year (or 0.4% of GDP).

Sources: Eurostat, Candriam

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