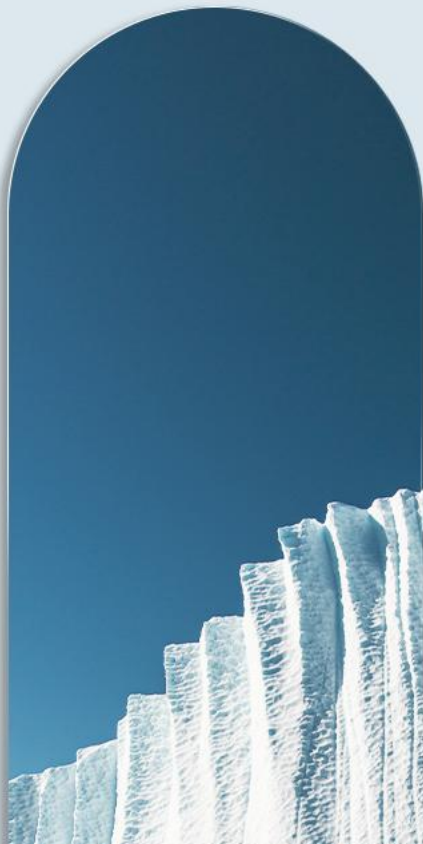


The Macroscope.



December 2025



1

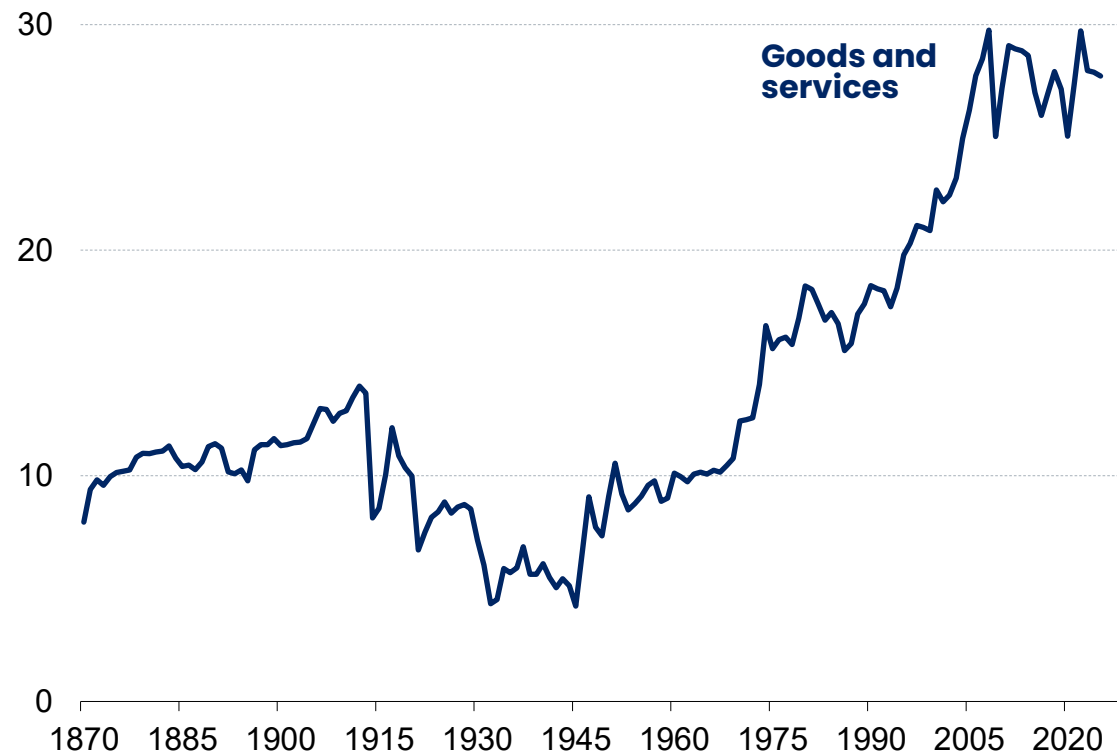
Global economy

US tariffs: much ado about nothing... for now!



The US tariffs increases occurred in a highly globalized world with complex supply chains...

Trade globalization
(average of world exports and imports of goods and services as a % of GDP)



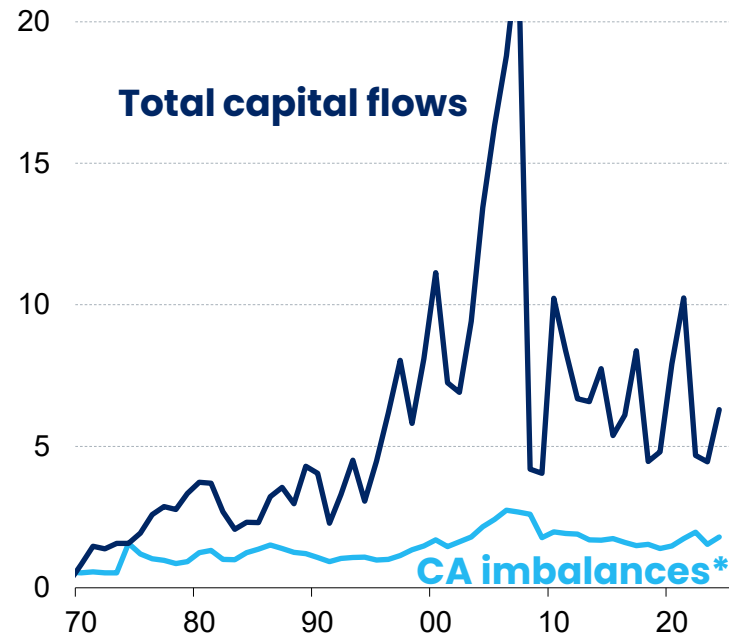
Sources: Our World in Data, IMF, Candriam



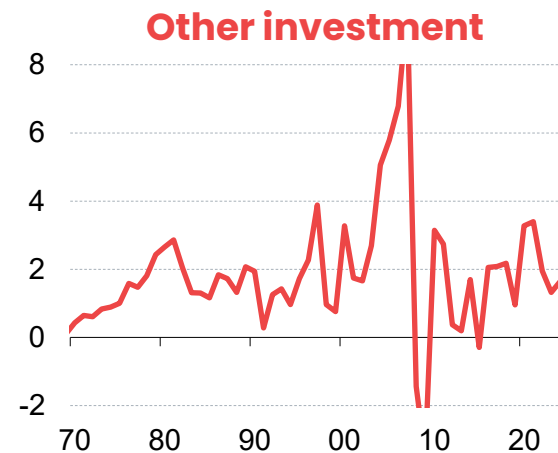
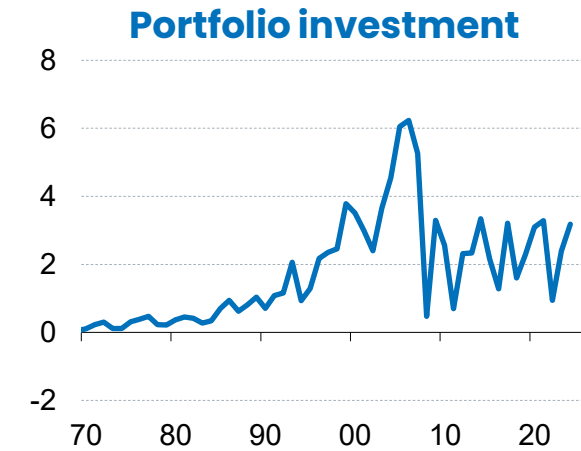
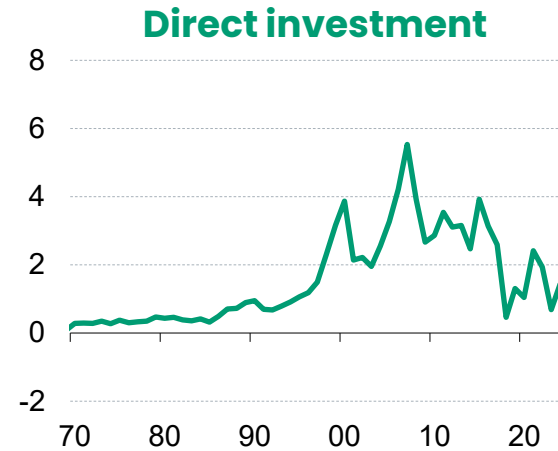
... and large international capital flows

Global capital flows

(half-sum of the absolute values of net acquisition of assets and of the absolute values of net increase in liabilities, % of world GDP)



(*) Half-sum of the absolute values of current account balances of all 181 countries of the IMF database.



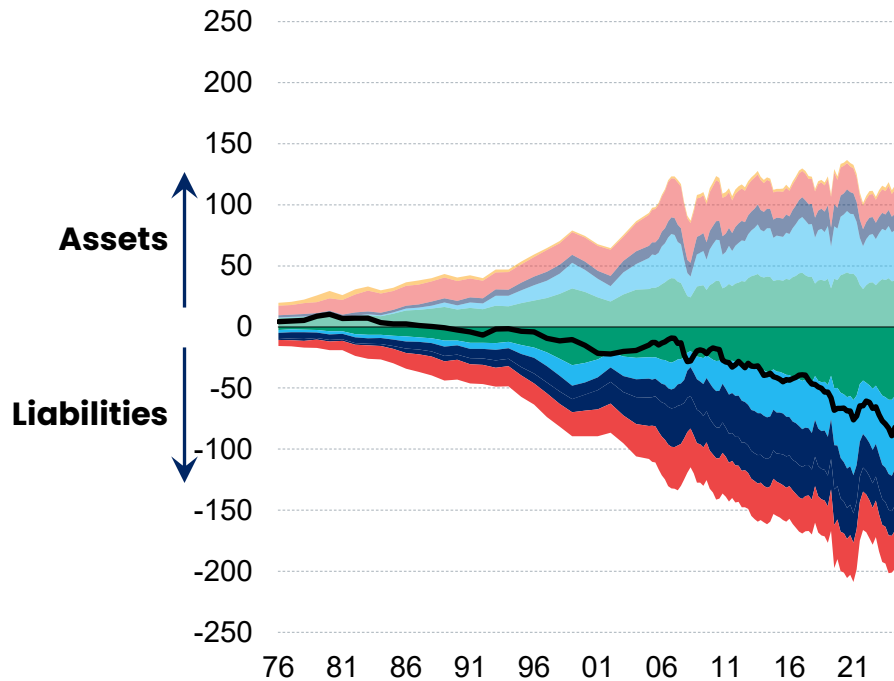
Sources: IMF, World Bank, Candriam



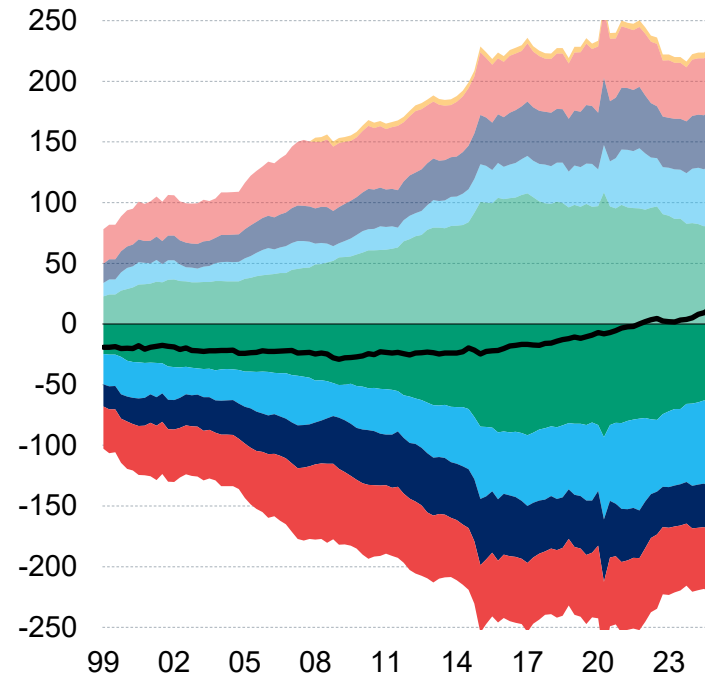
Memo. External positions in the largest economies

External position
(% of country or area GDP)

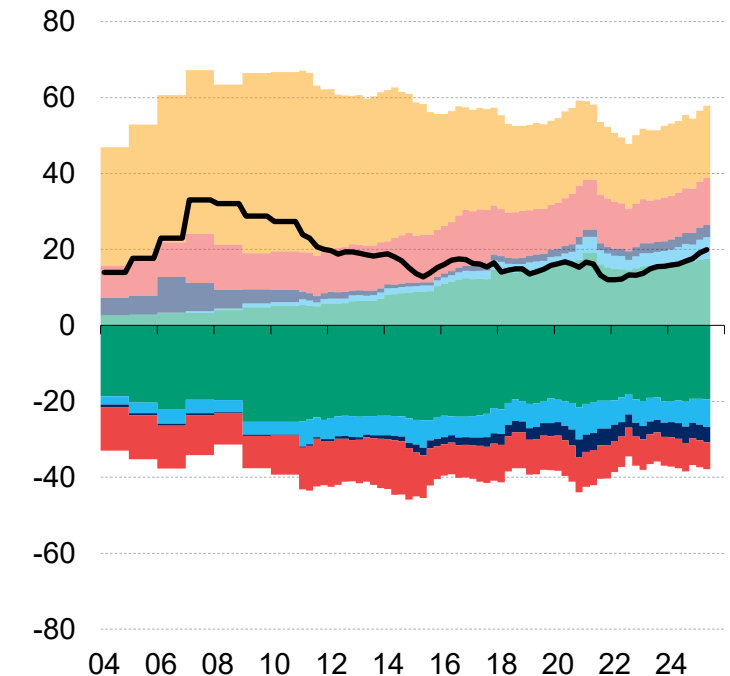
United States



Euro area



China



Net position

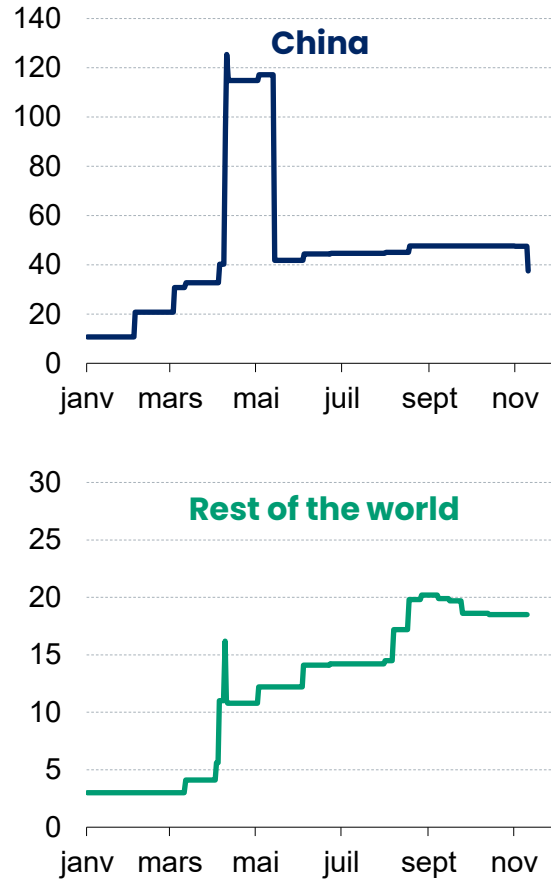
Direct investment
Equities and funds
Debt securities
Other investment
Reserves

Sources: BEA, Eurostat, Haver Analytics, Candriam

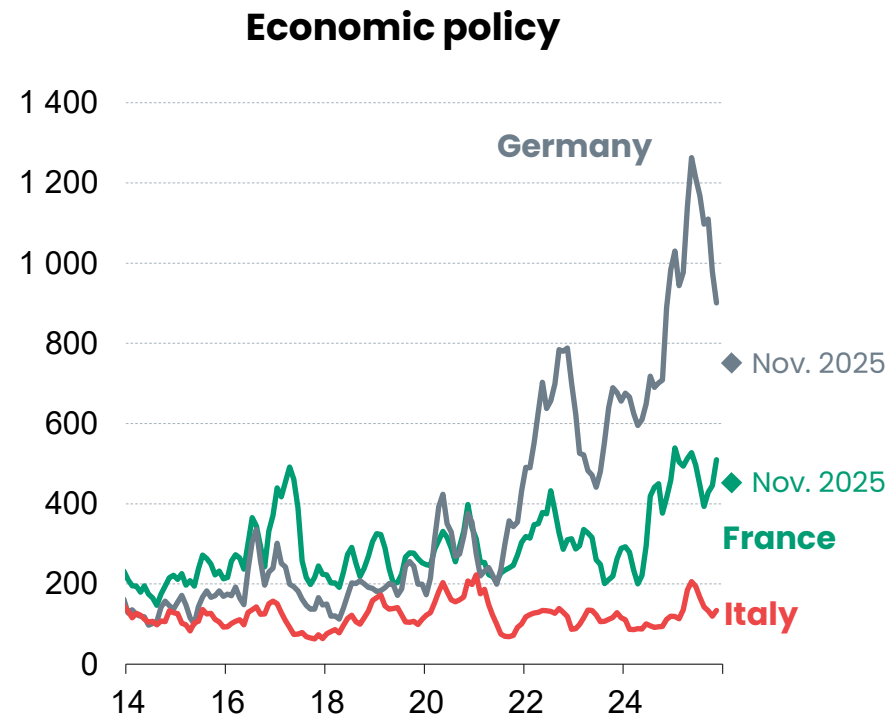


After a peak in April, uncertainty seems to be receding

Evolution of US tariffs rate in 2025
(%)



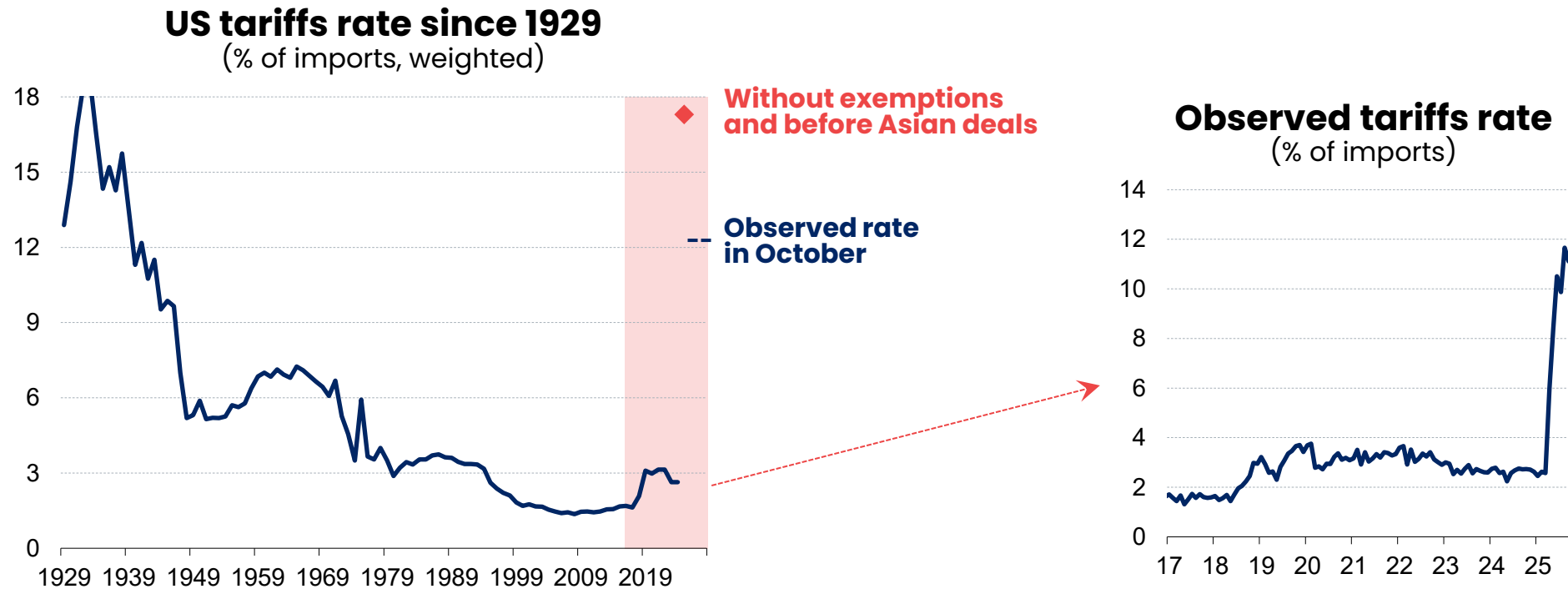
Political uncertainty indices
(3-month moving average)



Sources: PIIE, Bloomberg, Candriam



While significant, the increase in the average US tariffs rate is lower than feared a couple of months ago

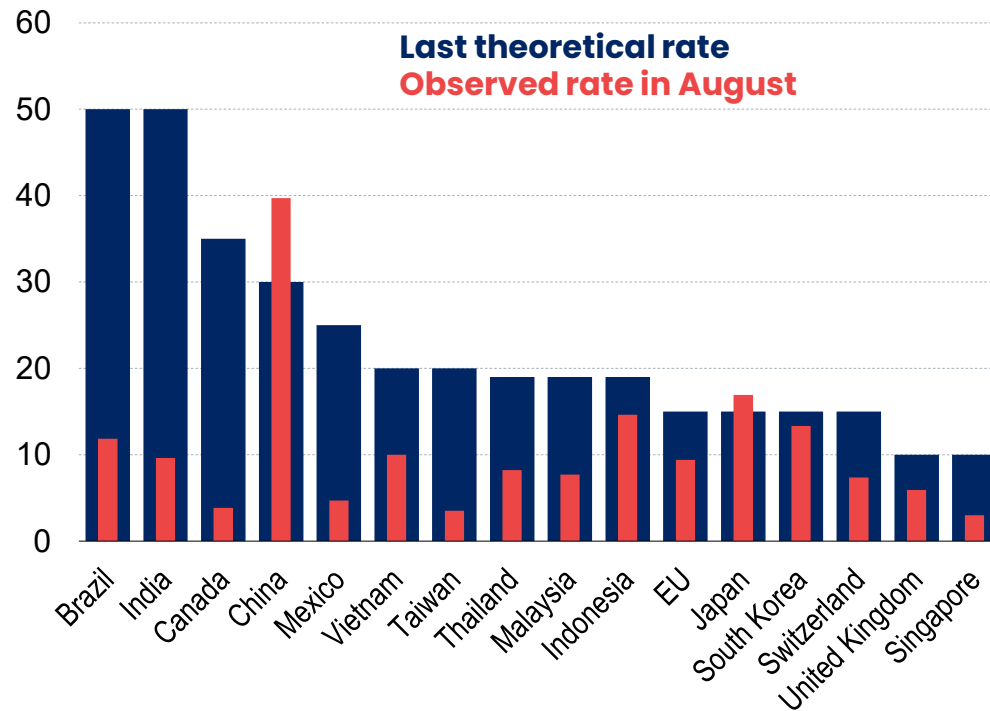


Sources: Census Bureau, US Treasury, Candriam



The US Administration has struck deals, granted many exemptions and de-escalated with China

US theoretical and observed tariffs rates
(%)



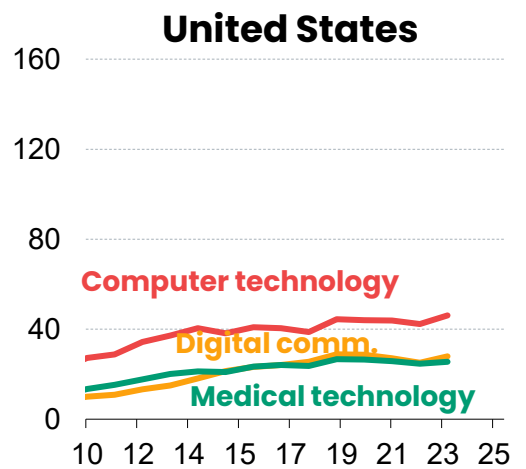
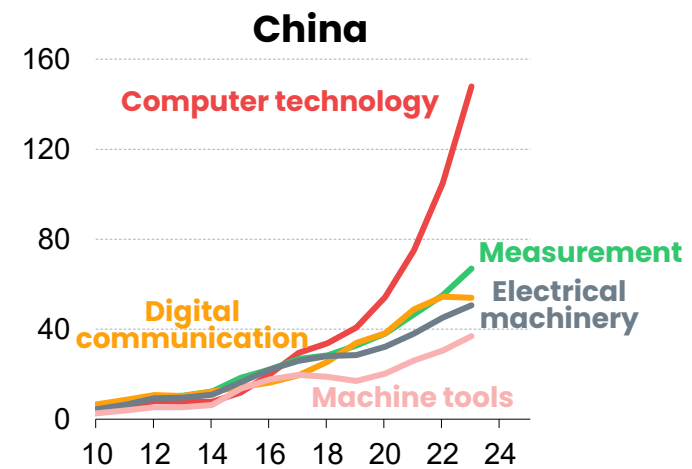
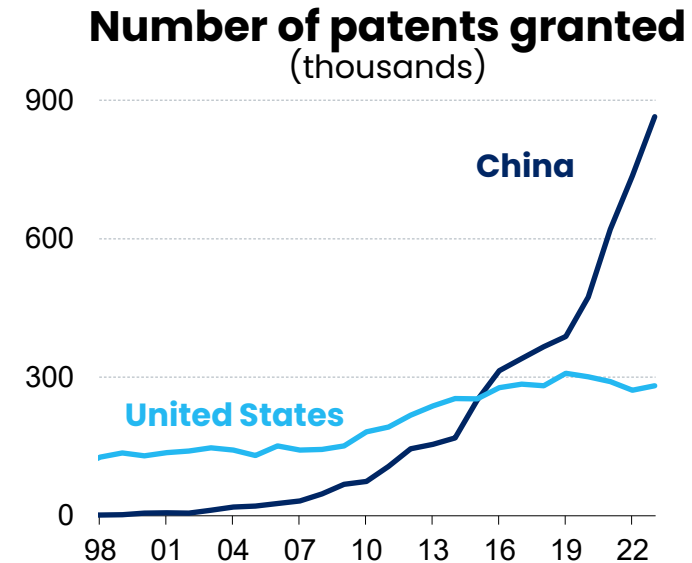
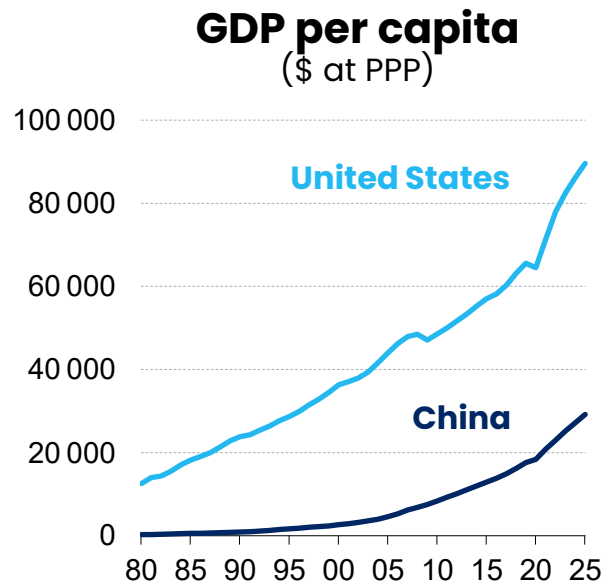
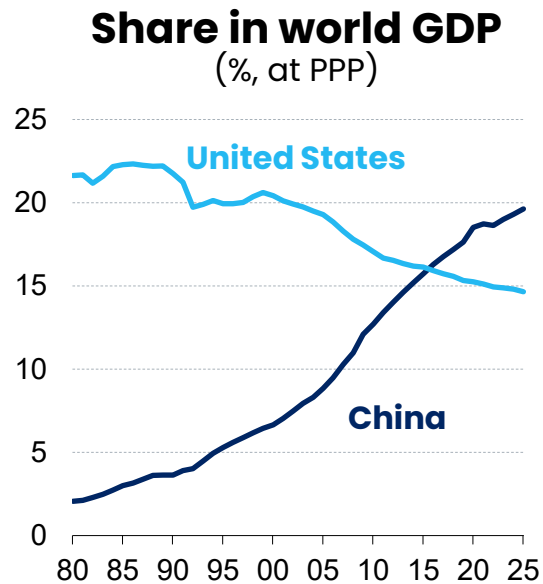
Tariffed share of goods imports
(dutiable value in % of custom value)



Sources: Census Bureau, USITC, US Treasury, Candriam



Still, the rivalry between the two superpowers is far from over

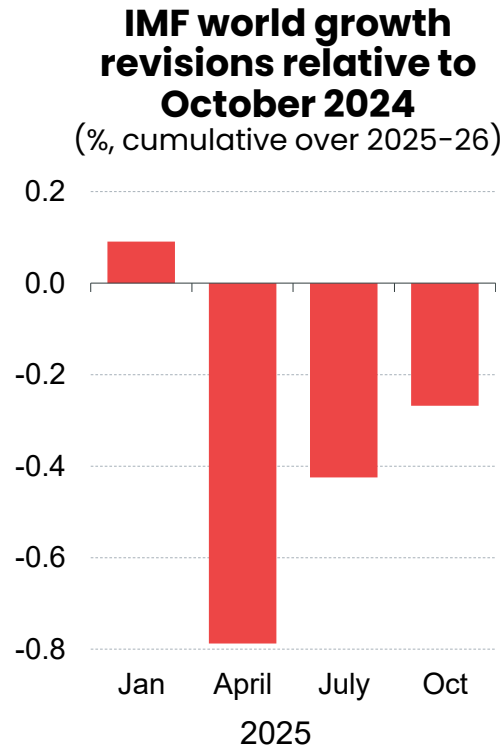
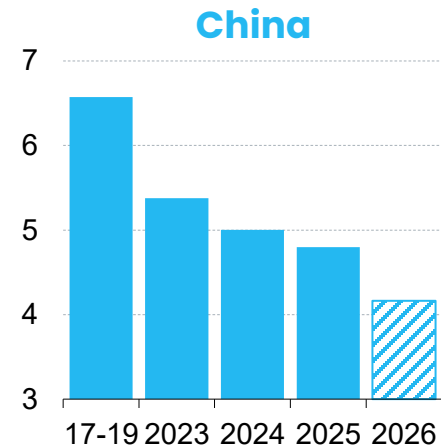
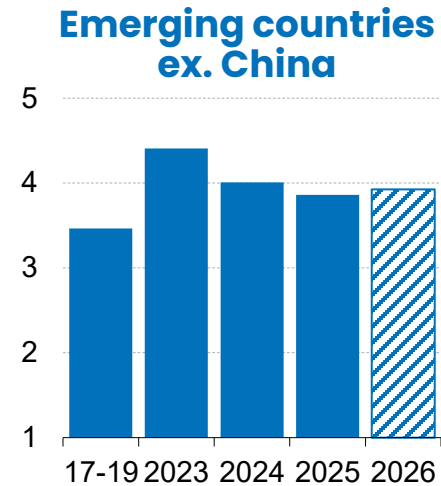
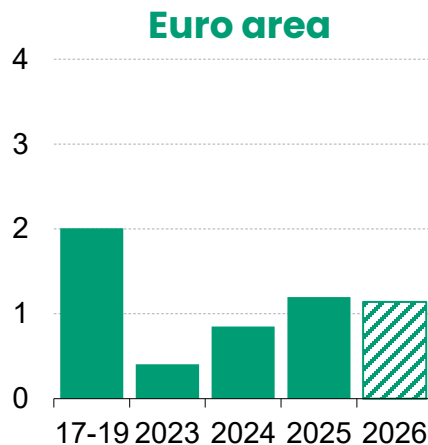
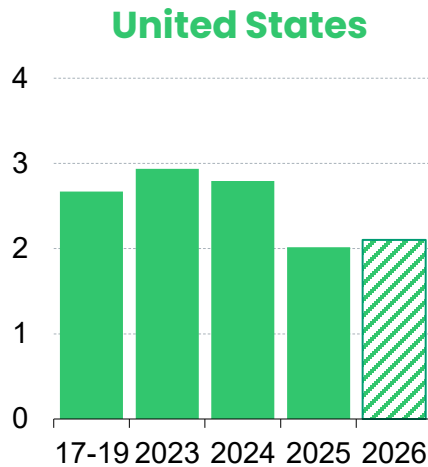
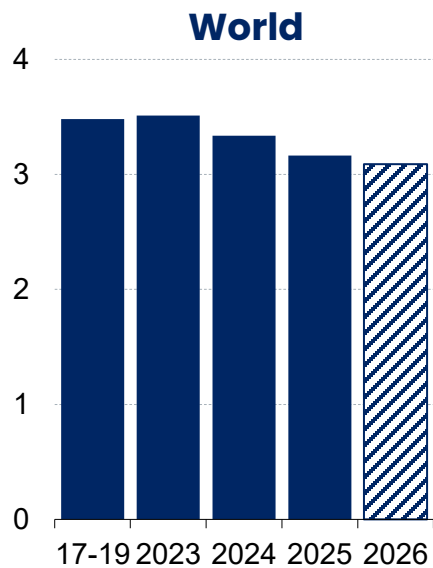
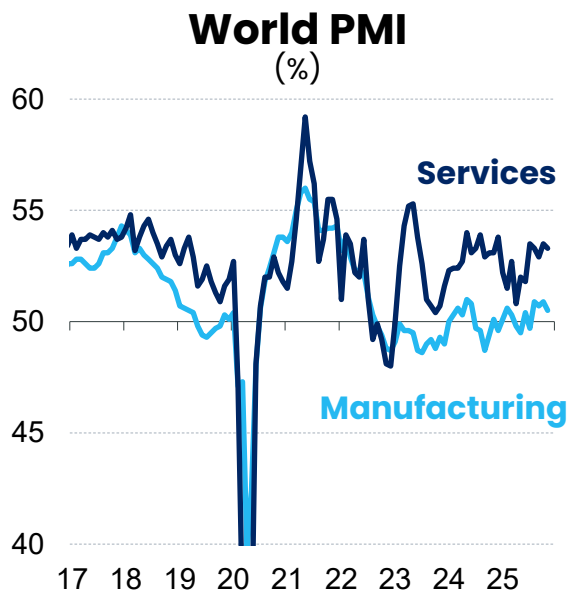


Sources: IMF, WIPO, Candriam



With most countries having refrained to retaliate, activity at the world level has been resilient... so far!

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

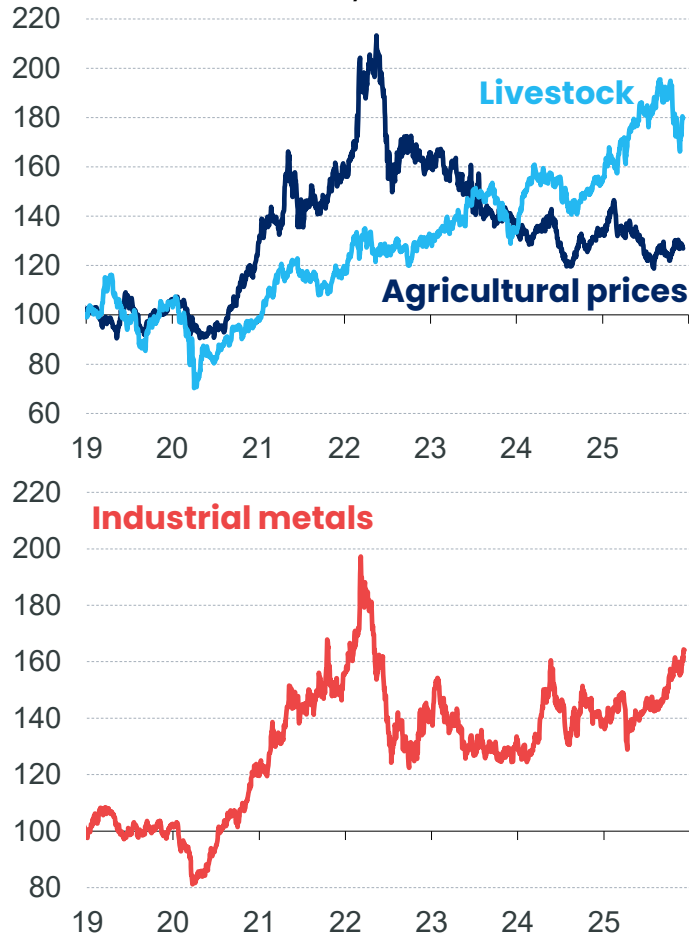


Sources: Bloomberg, IMF, Candriam



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

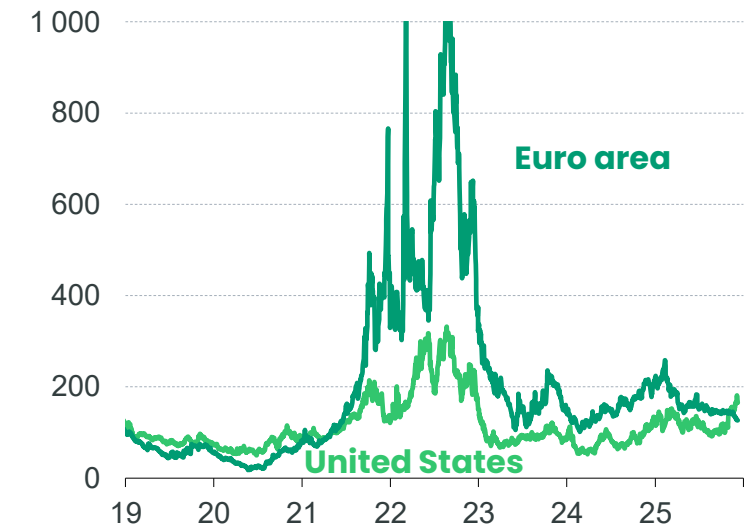
GSCI commodity prices
(January 2019 = 100)



Crude oil price
(Brent, \$ per barrel)

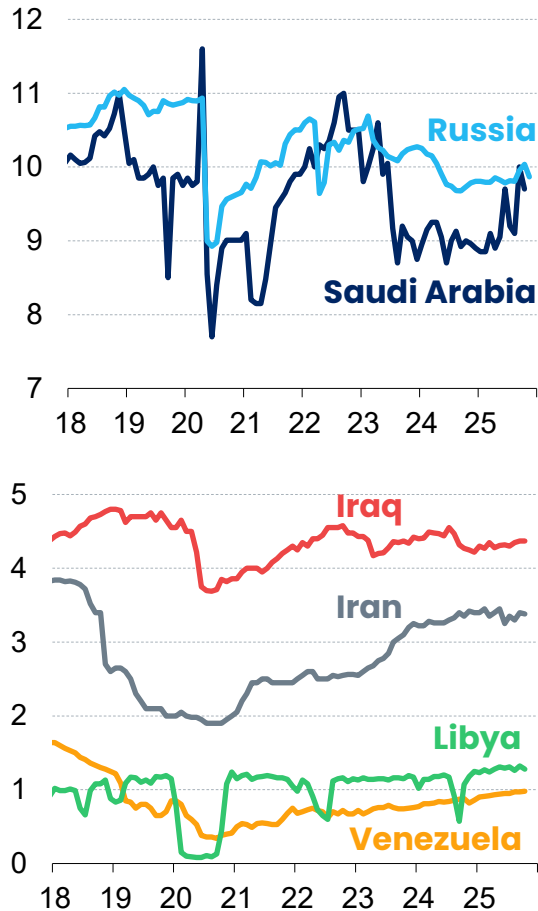


Natural gas price
(January 2019 = 100, in local currency)

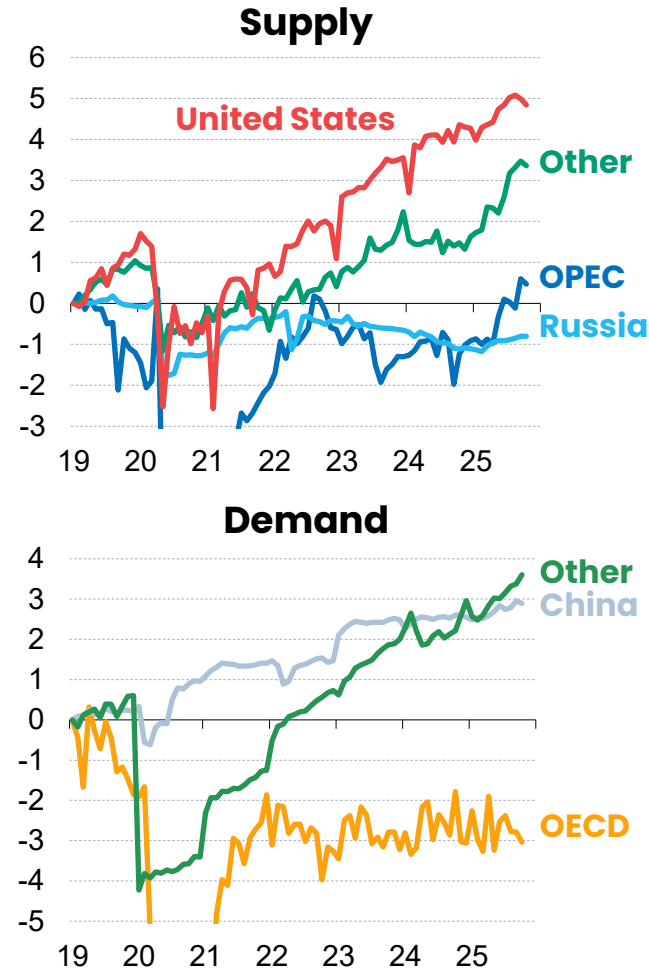


The ongoing rise in OPEC+ production has the potential to push oil prices closer to \$50 per barrel (I)

OPEC+ crude oil production
(million barrels per day)



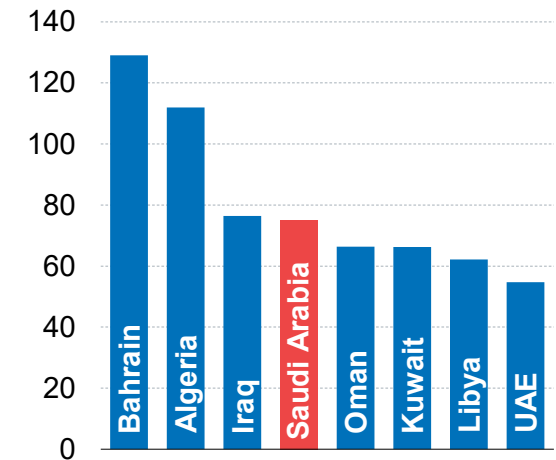
Cumulated change in global oil supply and demand
(million barrels per day, since January 2019)



OPEC spare capacity
(million barrels per day)

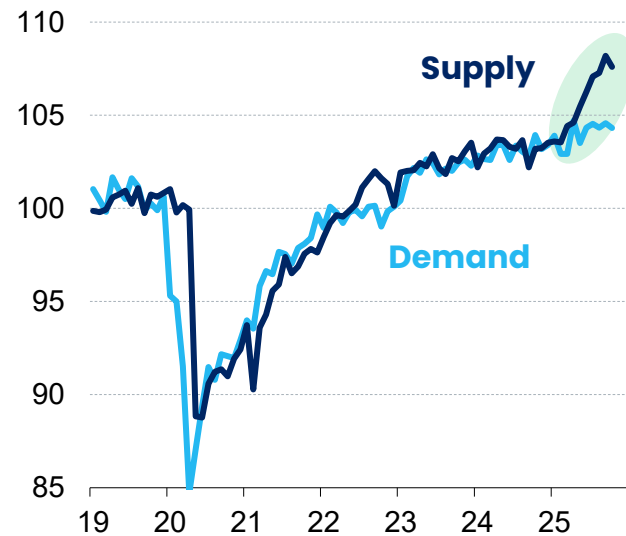


Breakeven fiscal oil price by country
(\$ per barrel)

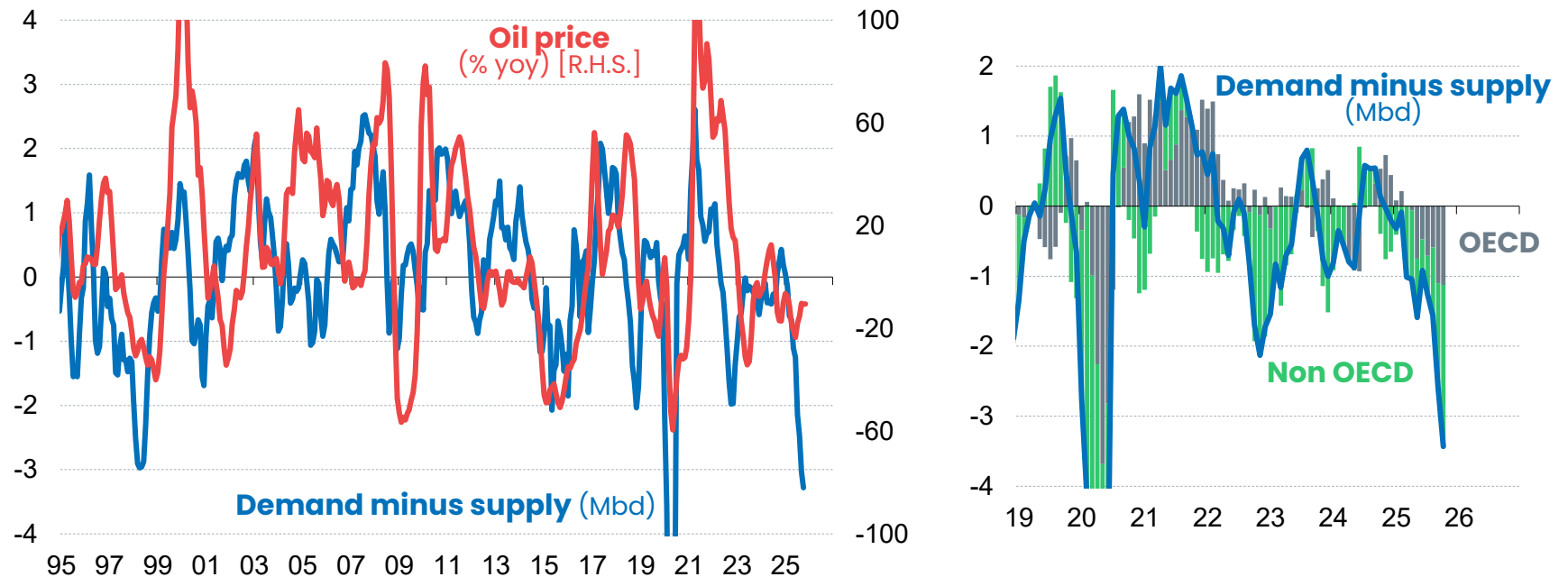


The ongoing rise in OPEC+ production has the potential to push oil prices closer to \$50 per barrel (II)

Global oil supply & demand
(million barrels per day)

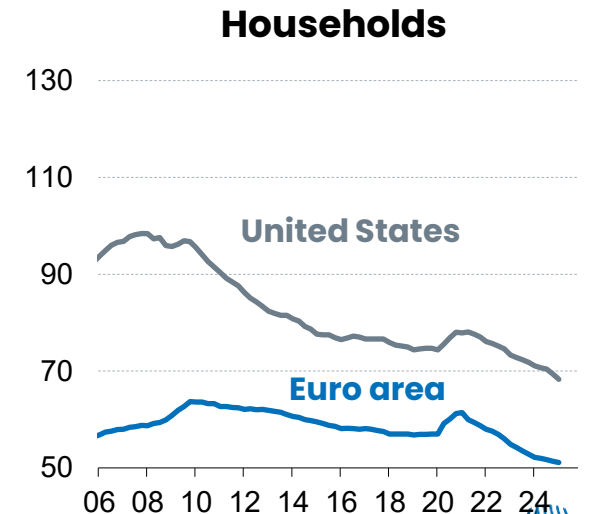
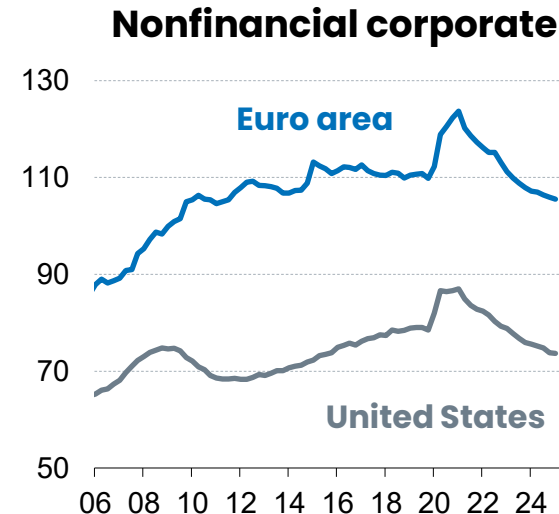
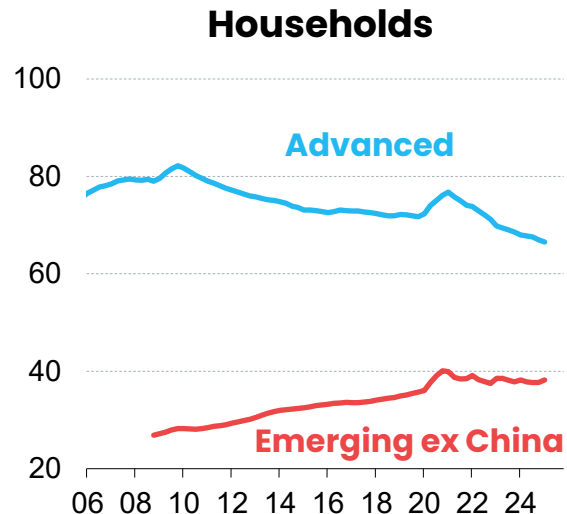
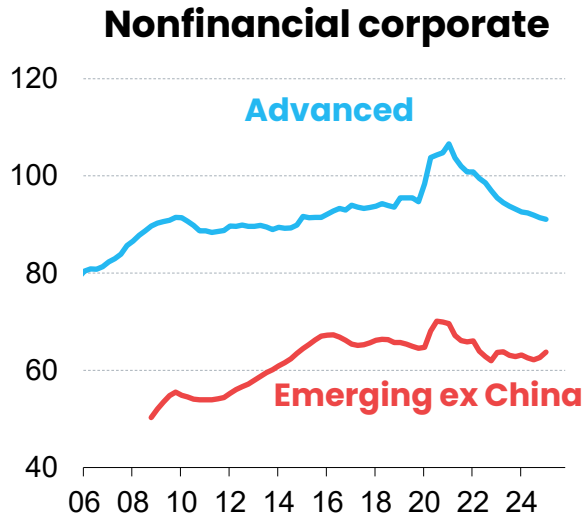
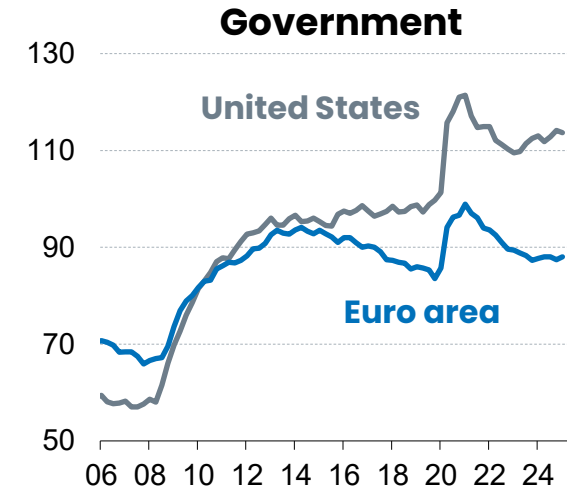
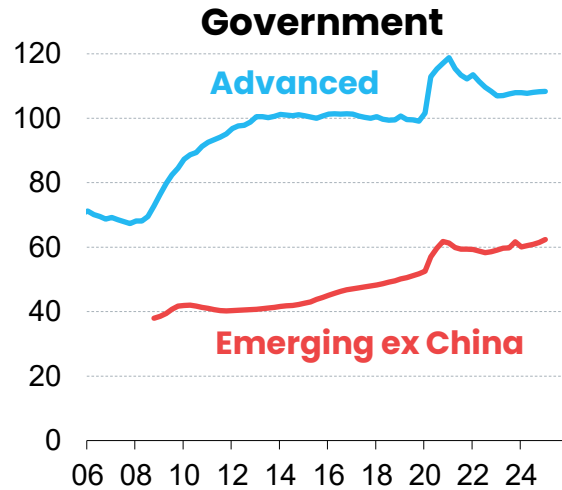


Supply / demand imbalance & oil price



The rise in public debt is the new worry... and the new normal as long as private agents deleverage...

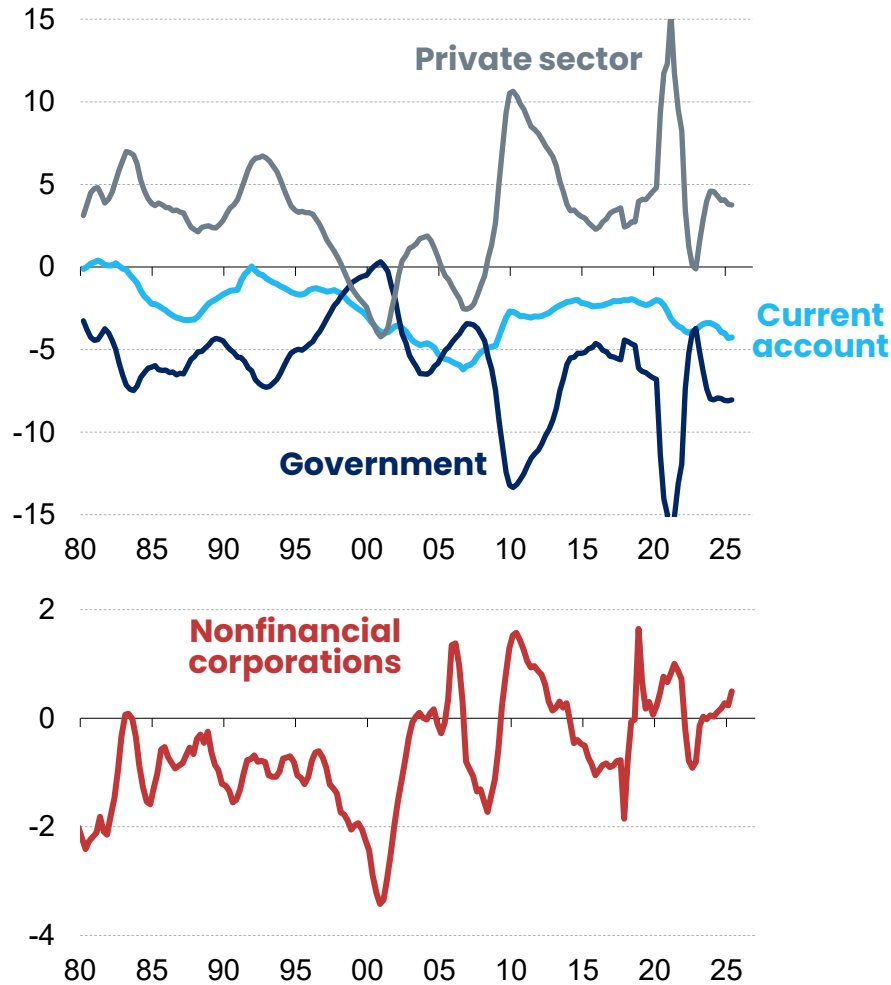
Debt to GDP ratios
(%)



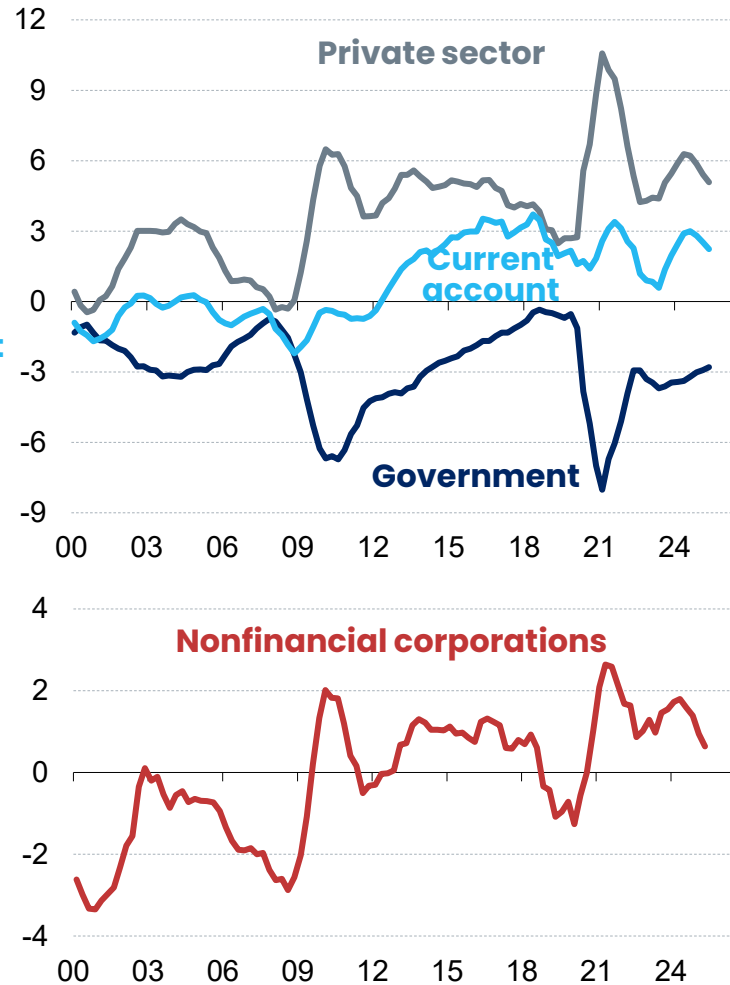
... and continue to spend less than they earn!

Net lending (+) or borrowing (-) by agents
(% of country or area GDP)

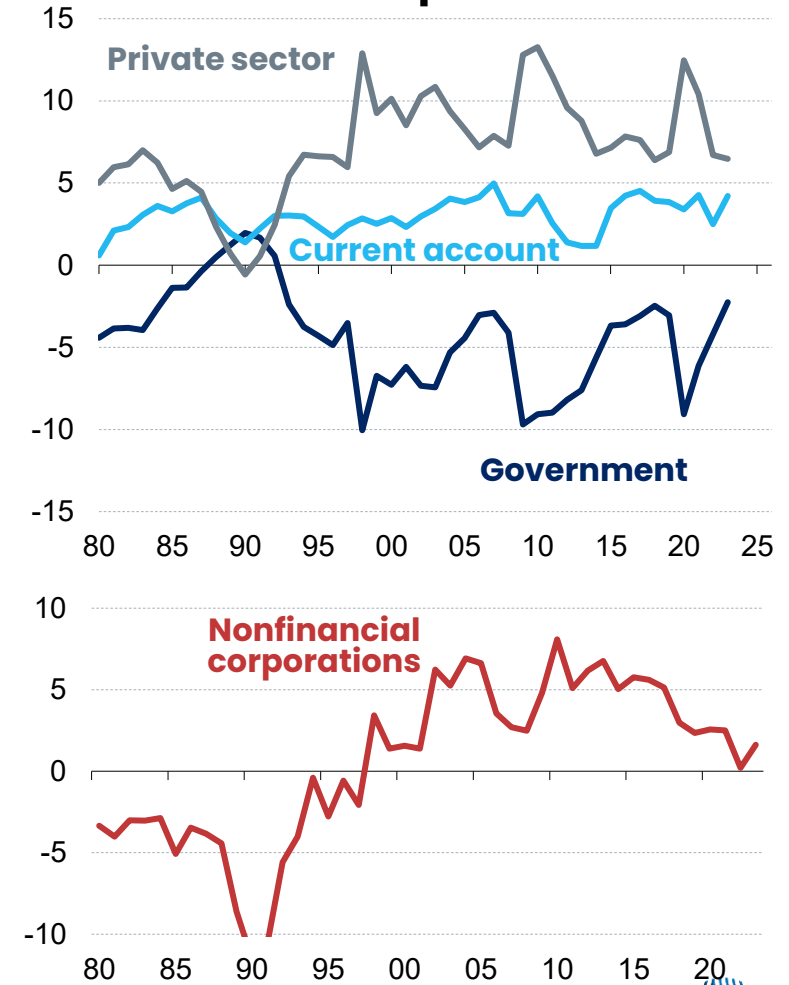
United States



Euro area



Japan



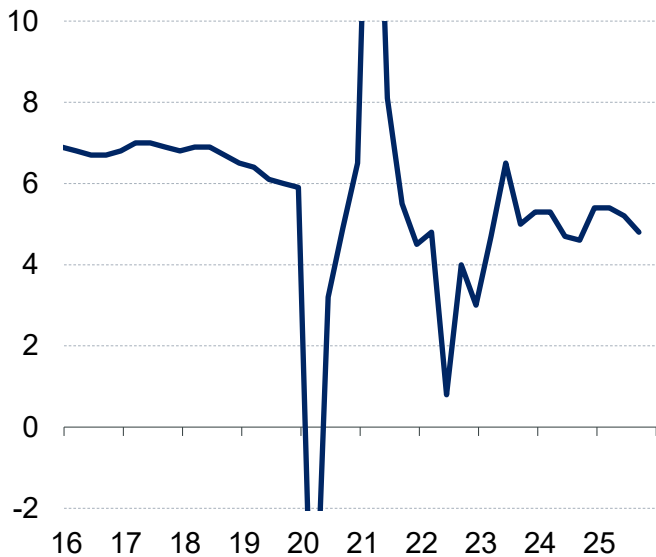
2 China

A trade truce amidst growing rivalry

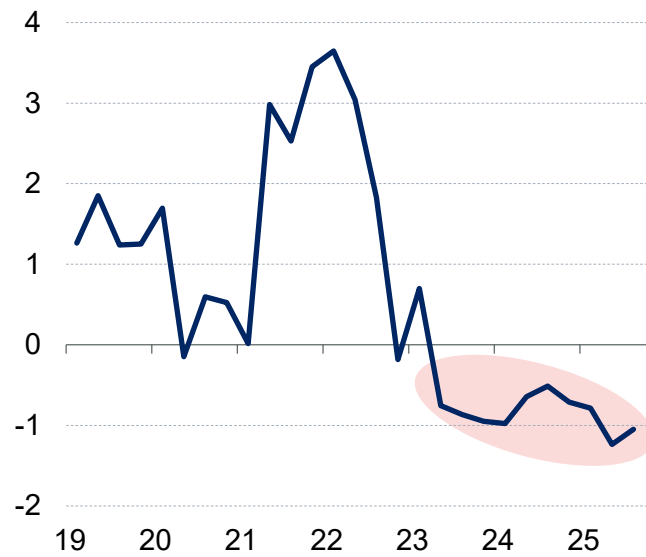


While GDP growth was still solid in Q3, deflation is well alive

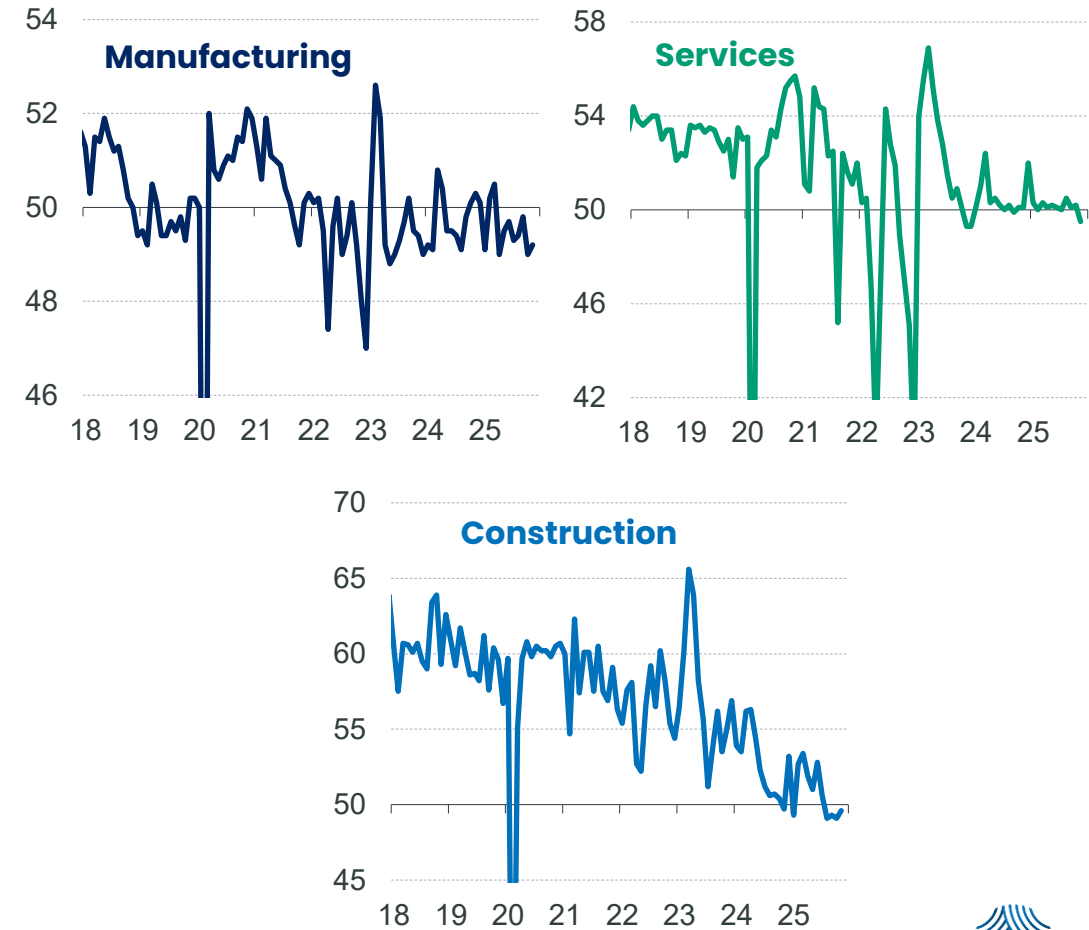
Real GDP
(% year on year)



GDP deflator
(% year on year)



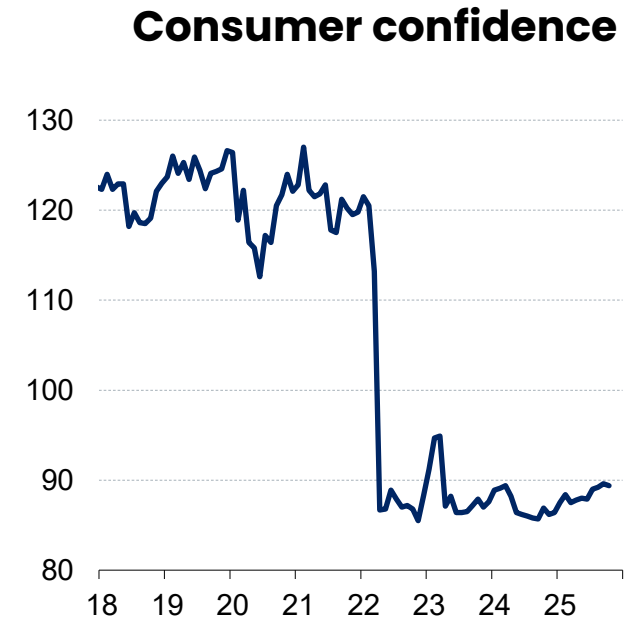
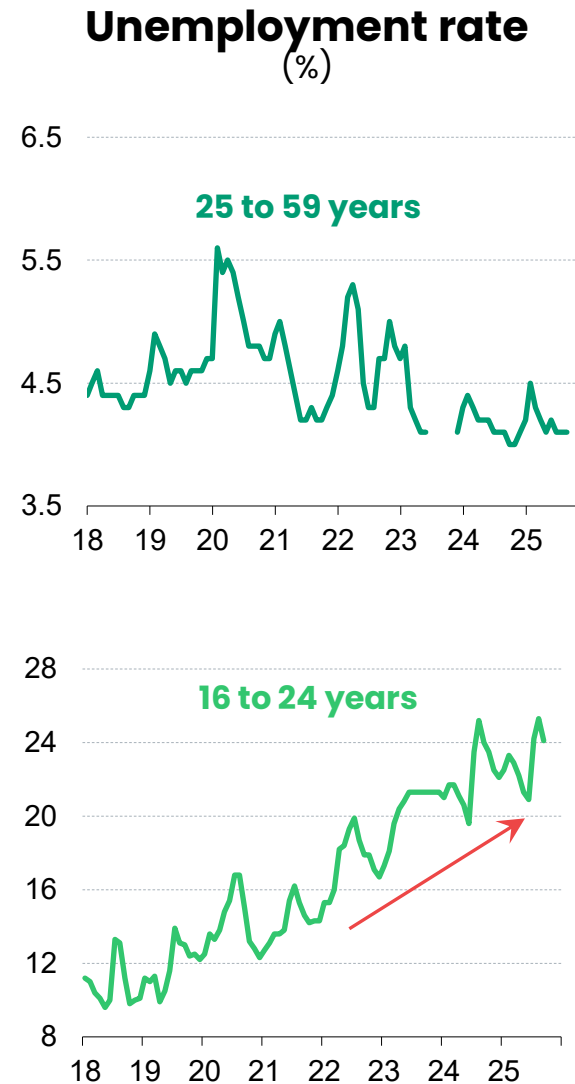
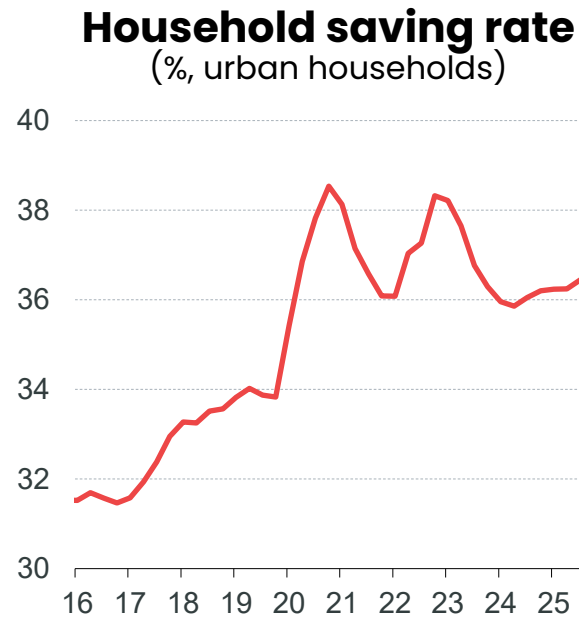
PMI indices
(NBS)



Sources: LSEG Datastream, Haver Analytics, Candriam



China is still suffering from a saving glut

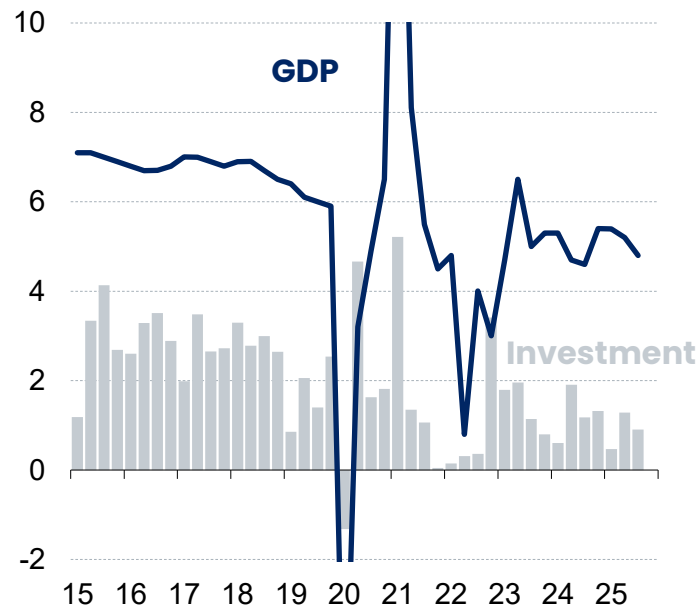


Sources: LSEG Datastream, Bloomberg, Candriam

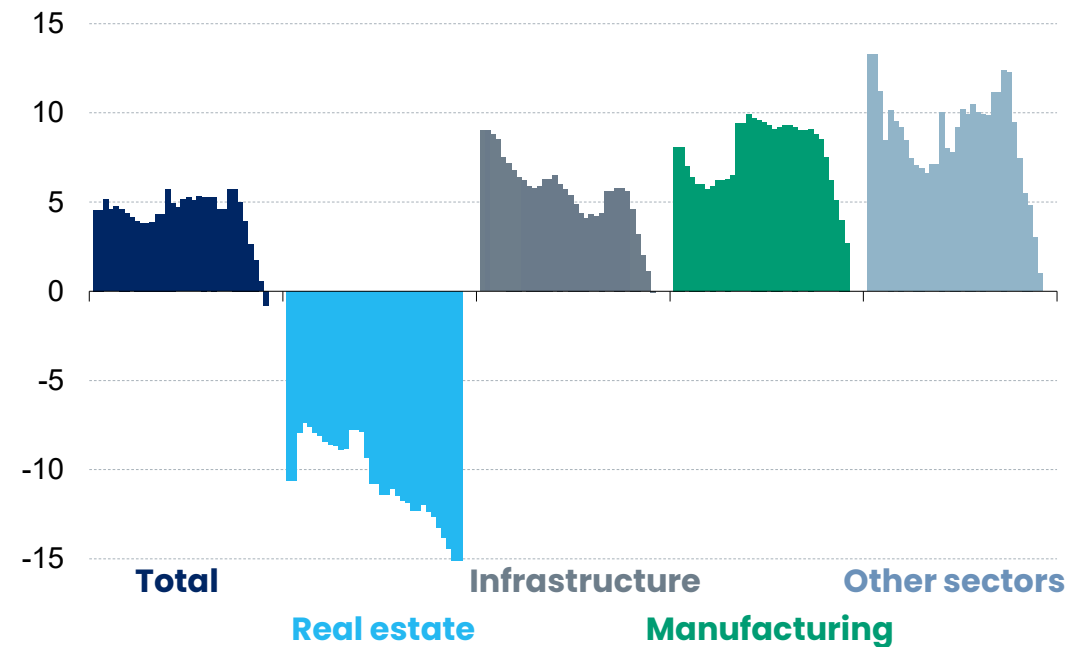


The *Neijuan** policy is now holding back business investment...

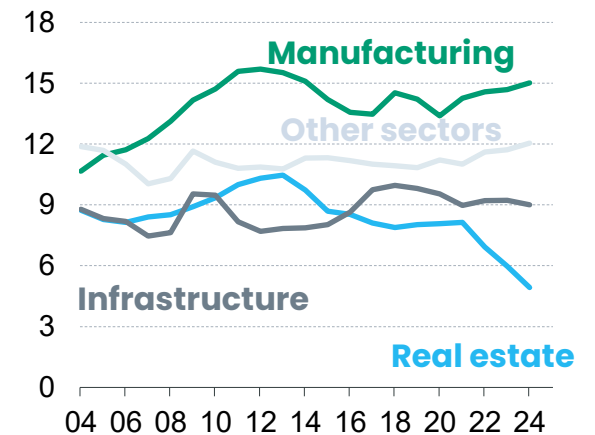
Contribution to real GDP growth
(% year on year)



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



Investment share by sector
(% of GDP)

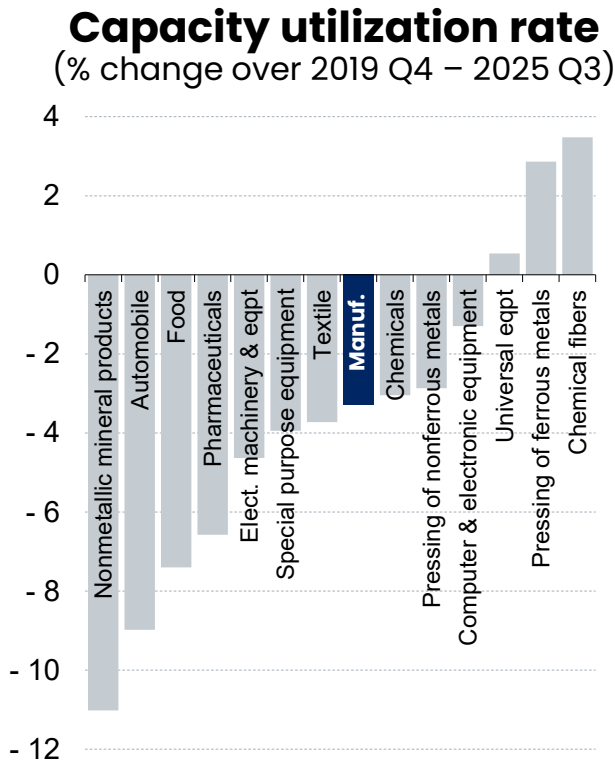
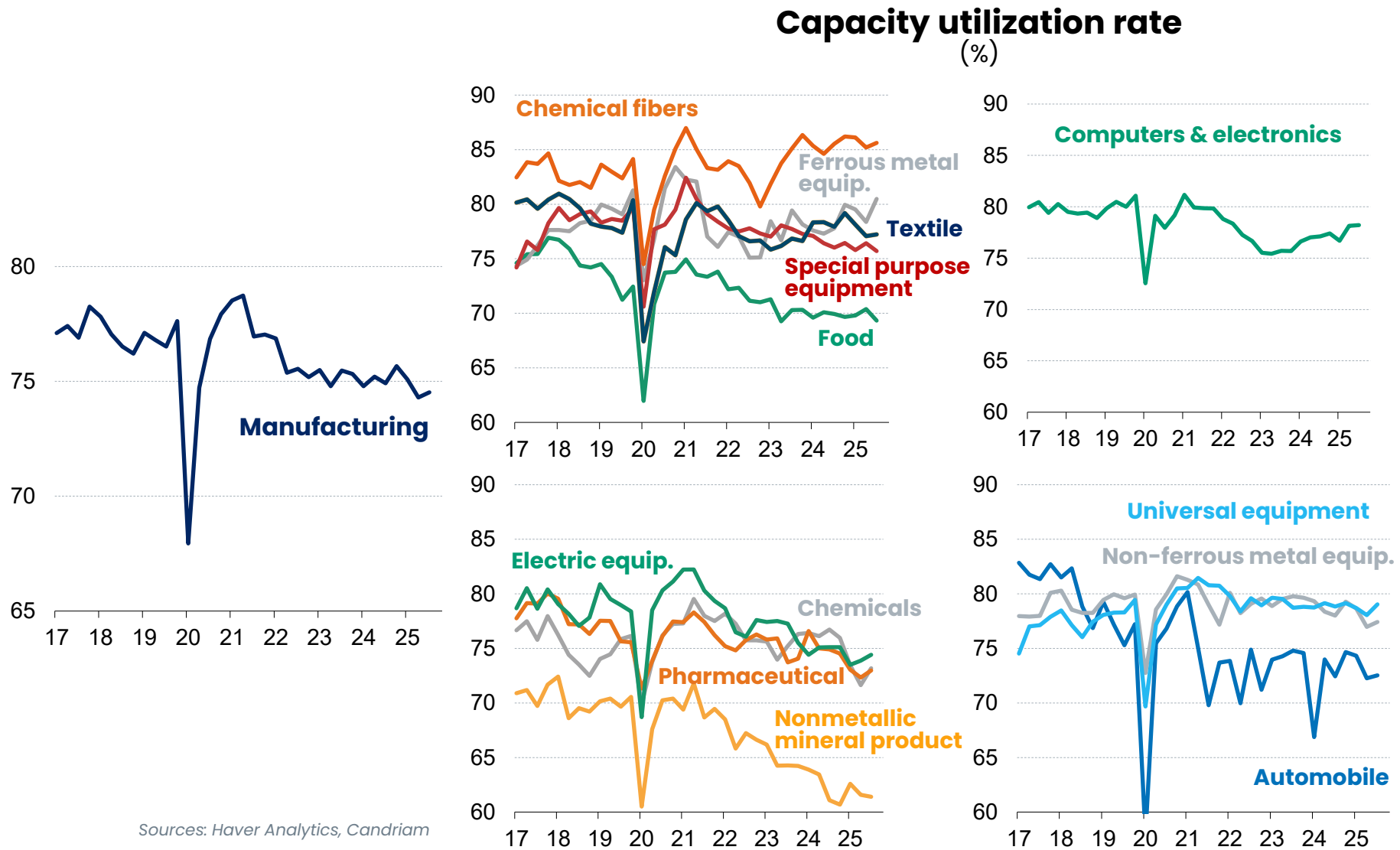


(*) *Neijuan* is the Chinese term for “involution”, a concept from sociology that refers to a society that can no longer evolve, no matter how hard it tries. Applied to the individual, it means that no matter how hard someone works, progress is impossible.

Sources: LSEG Datastream, Haver Analytics, Bloomberg, Candriam



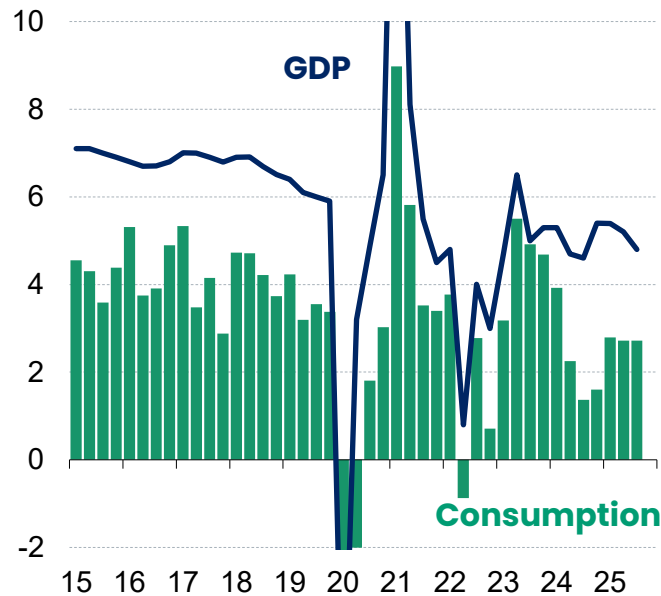
... as overcapacities affect a myriad of sectors and products



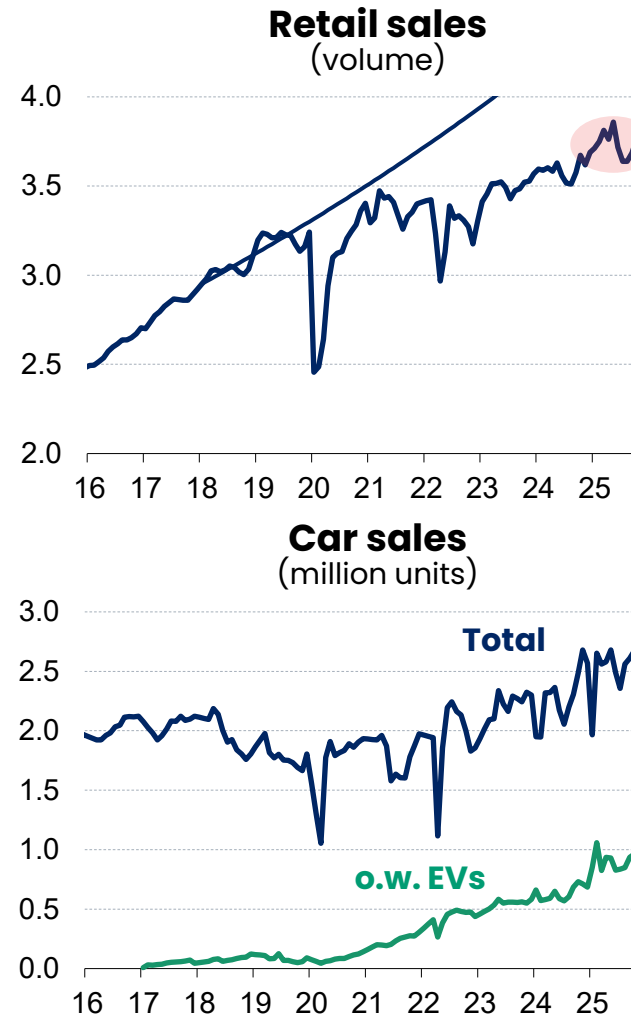
In the 6th meeting of the Central Commission for Financial and Economic Affairs on July 1, **policymakers attributed the deflation to involution, i.e. excessive competition and overcapacities.**

Trade-in programs for the purchase of durable goods have supported consumption, but their impact is fading

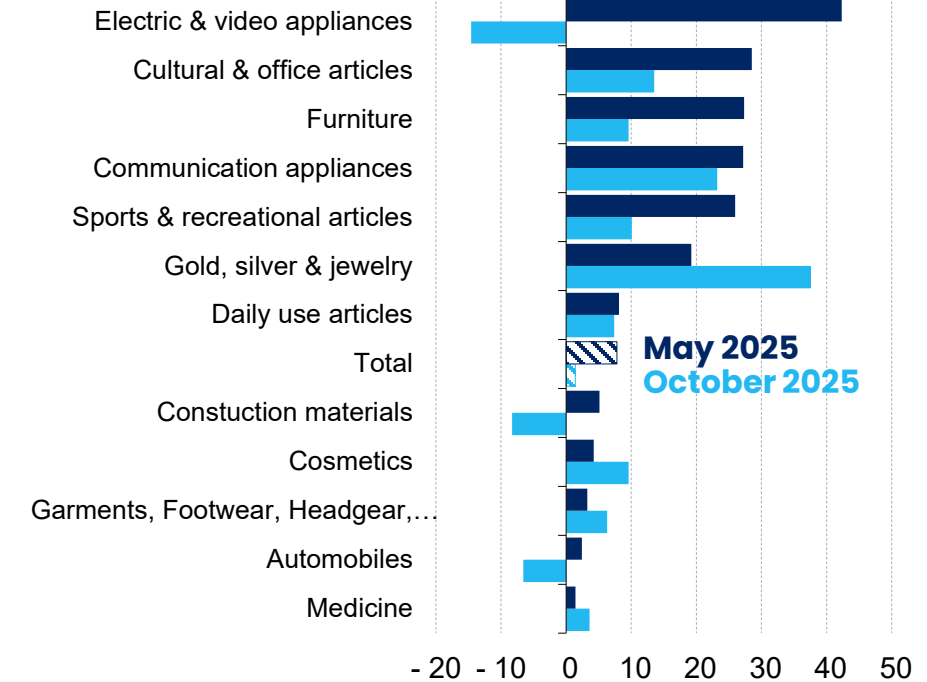
Contribution to real GDP growth
(% year on year)



Retail and car sales



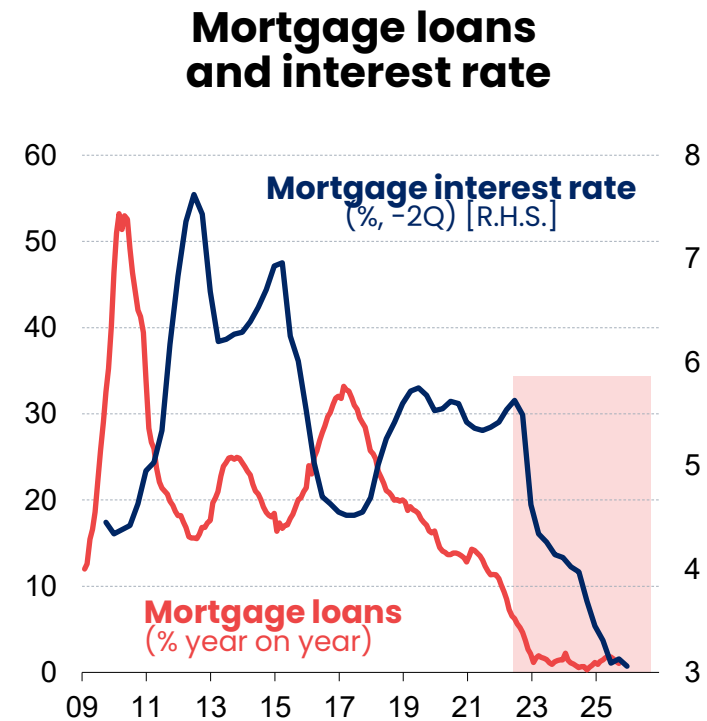
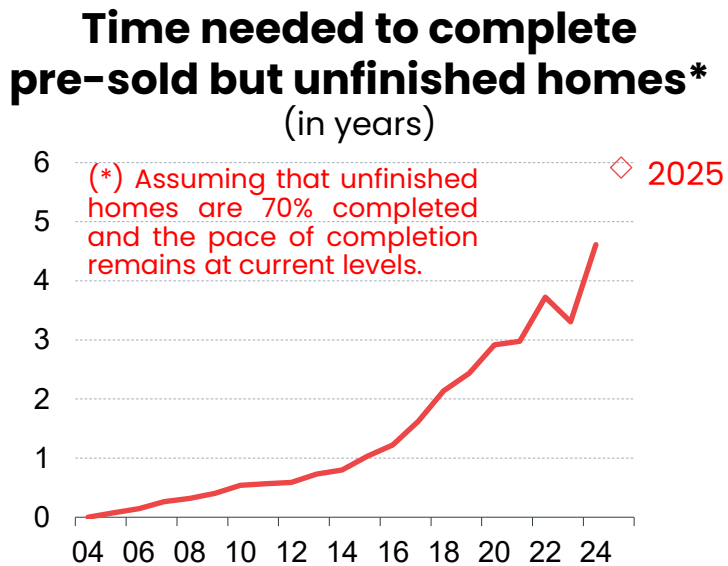
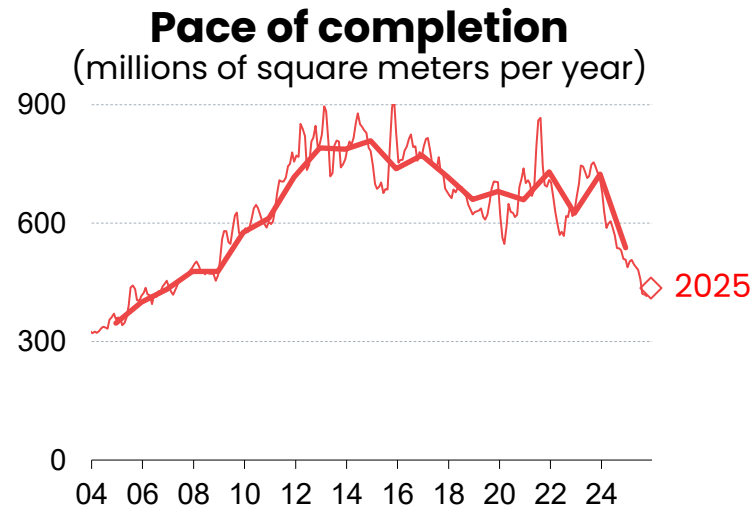
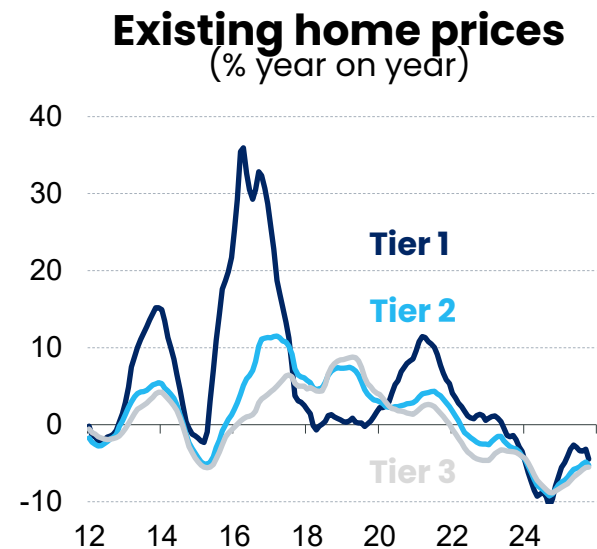
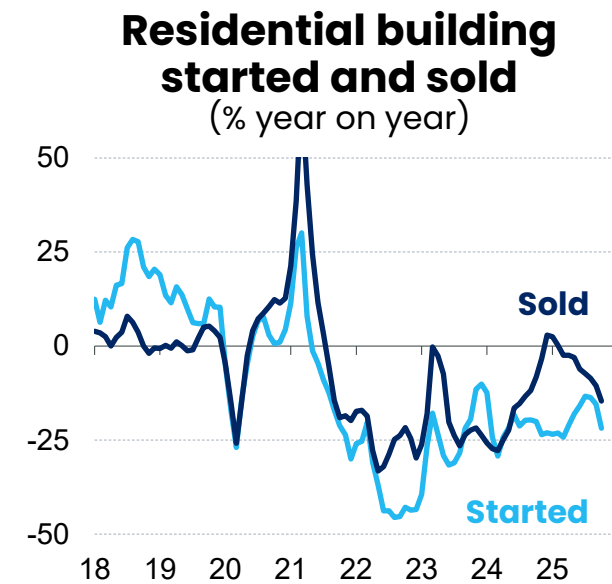
(% year on year, nominal)



Sources: LSEG Datastream, Bloomberg, Candriam

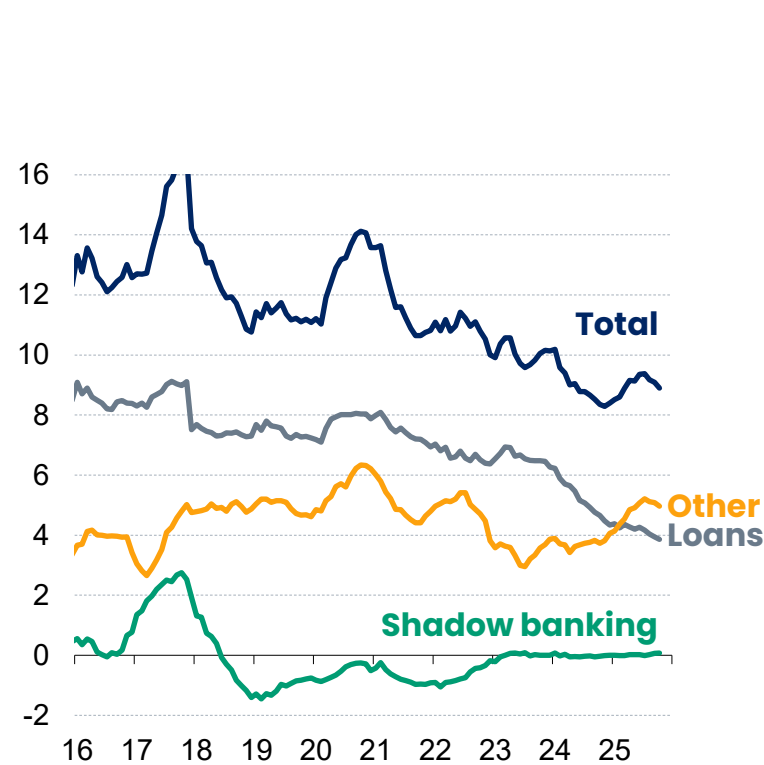


Residential investment continues to curb activity

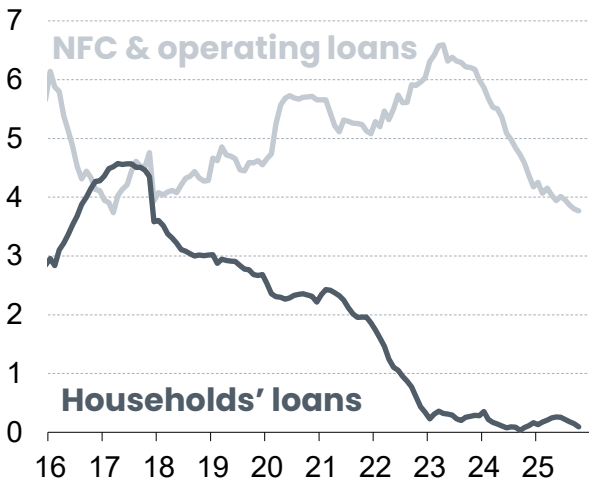


Credit to domestic private agents is lackluster

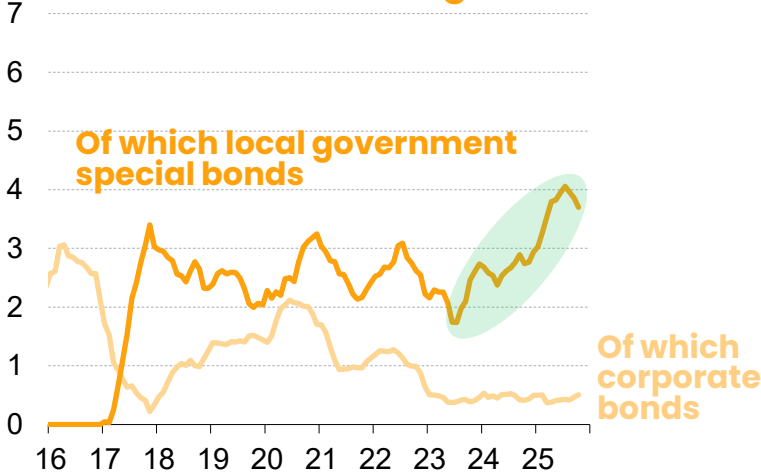
Total social financing
(% year on year contribution)



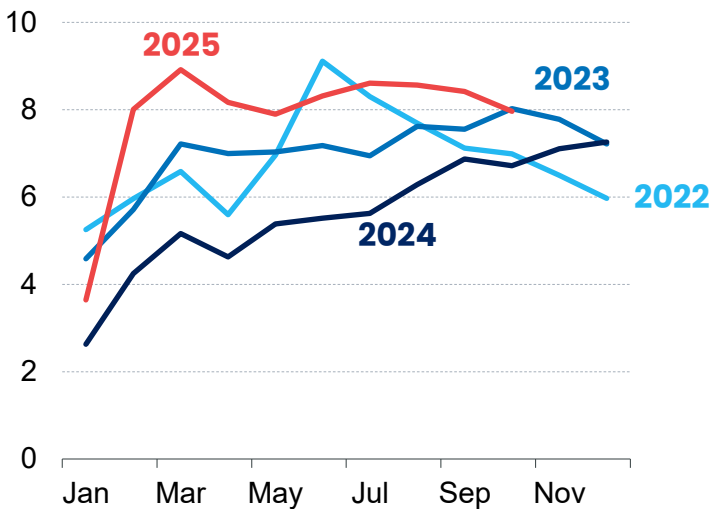
Loans



Other financing



Local government bond net issuance
(% of GDP, cumulated since January)



Sources: LSEG Datastream, Candriam

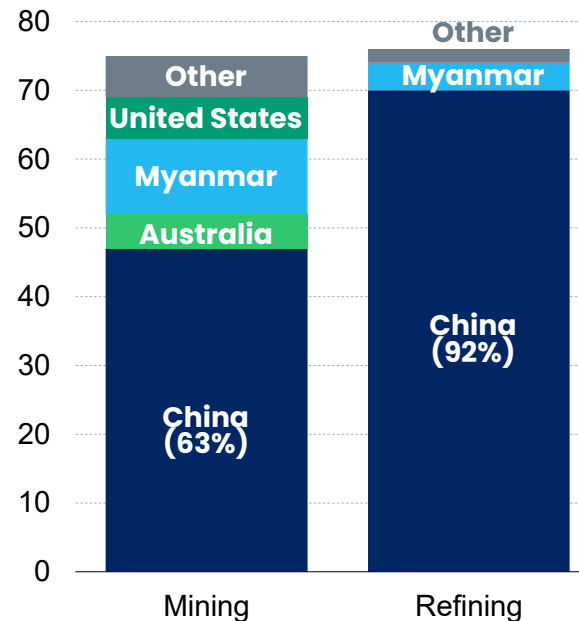


Having learned to escalate and retaliate, China has – at least temporarily – won the trade war, keeping relatively easy access to restricted technology



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

Rare earth elements supply
(thousands of tons)



The trade truce was extended for one year in the Kuala Lumpur agreement

Fentanyl tariff: The US remove the 10% fentanyl tariff. Based on previous tit-for-tat measures, China removes the 10-15% retaliatory tariff on US farm goods.

Reciprocal tariff: The 90-day pause on 24% (out of 34%) reciprocal tariff is extended by one year.

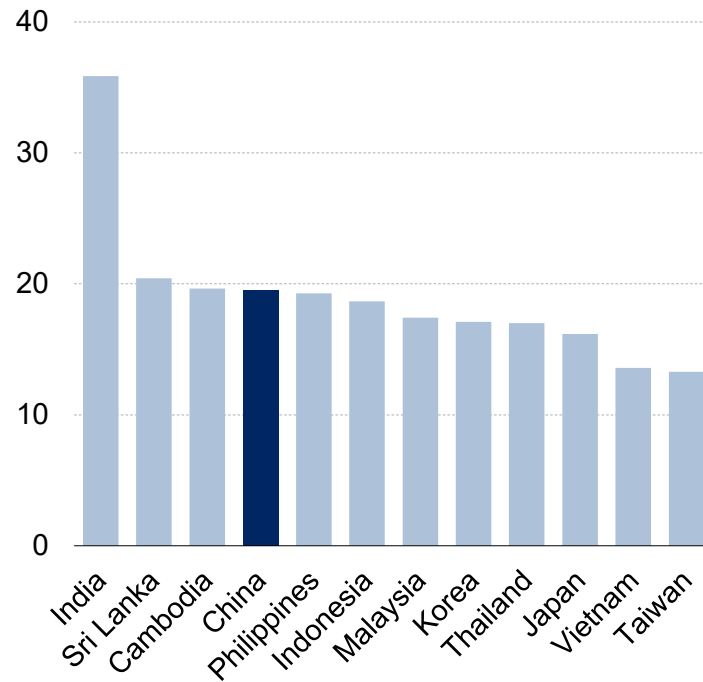
Export controls: The US suspend the implementation of its "50% affiliate rule" for one year*. In return, China suspends the implementation of related export controls announced on October 9 for one year.

(*) By applying the Affiliates Rule, more than 20,000 Chinese subsidiaries and indirectly owned entities (as against 1,300 today) would have fallen under the same export control restrictions as their listed parent companies.



While the increase in tariffs for China is not way above its Asian competitors, net exports contribution is likely to continue to decrease

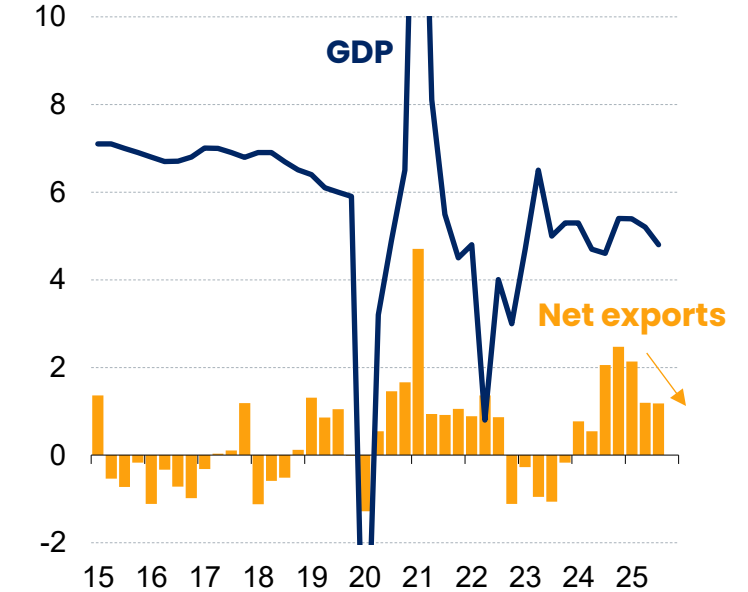
Increase in US tariffs (%)



China REER
(January 2024 = 100)



Contribution to real GDP growth
(% year on year)



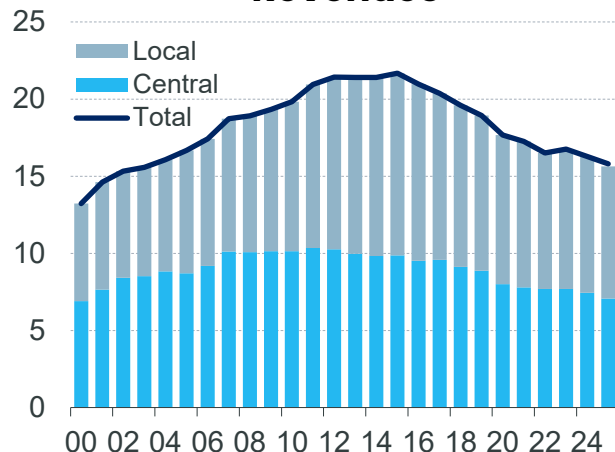
Sources: USITC, LSEG Datastream, Bloomberg, Candriam



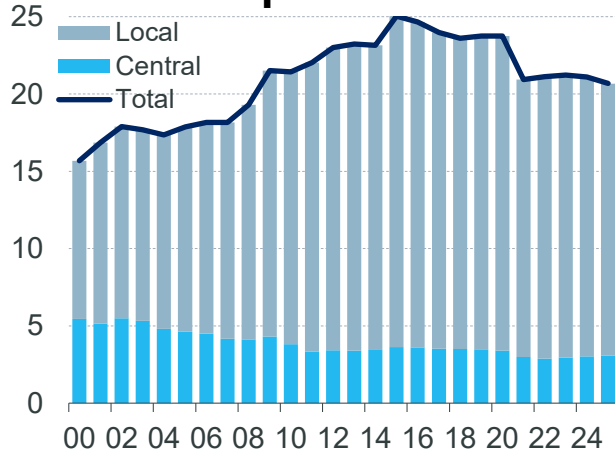
Chinese authorities will continue to cautiously support the economy...

General Budget
(% of GDP)

Revenues

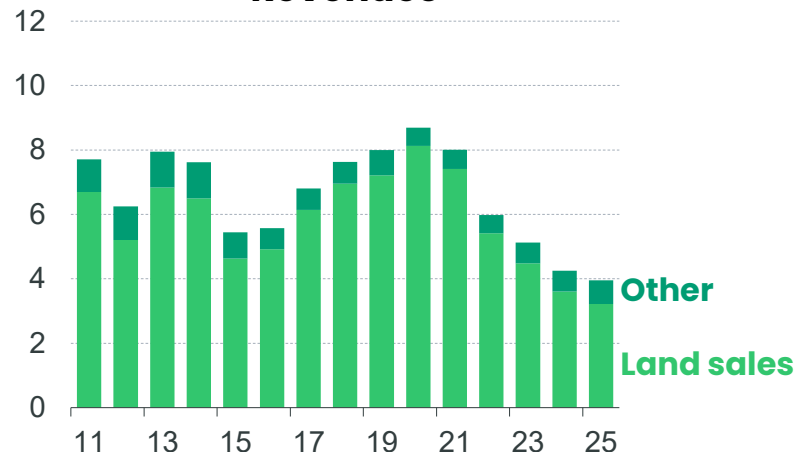


Expenditures

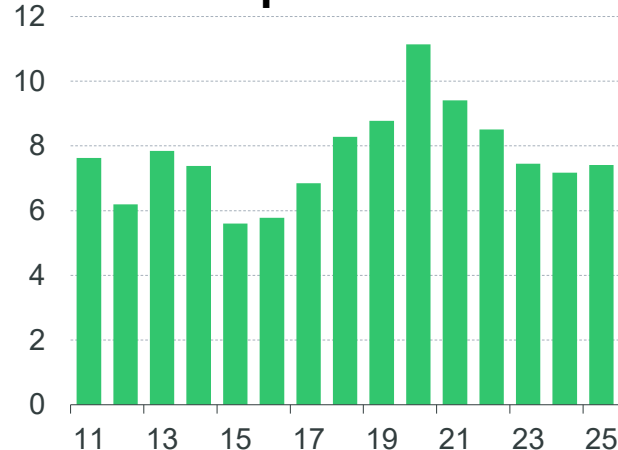


Government Funds Budget
(Local governments, % of GDP)

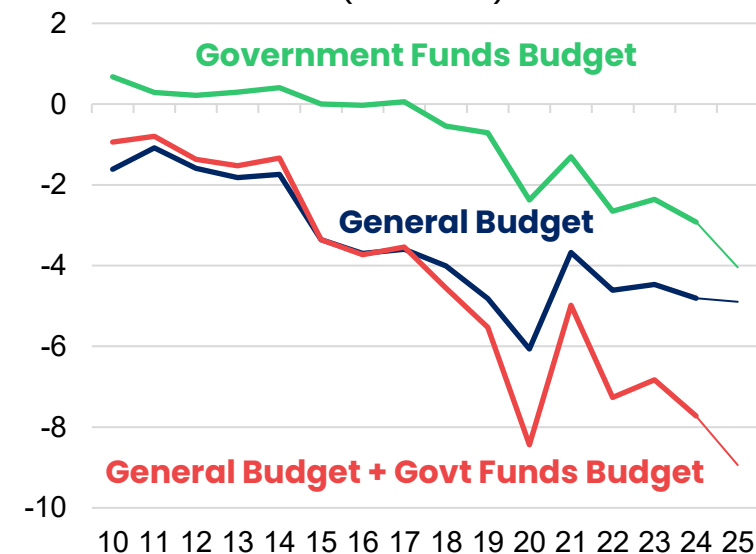
Revenues



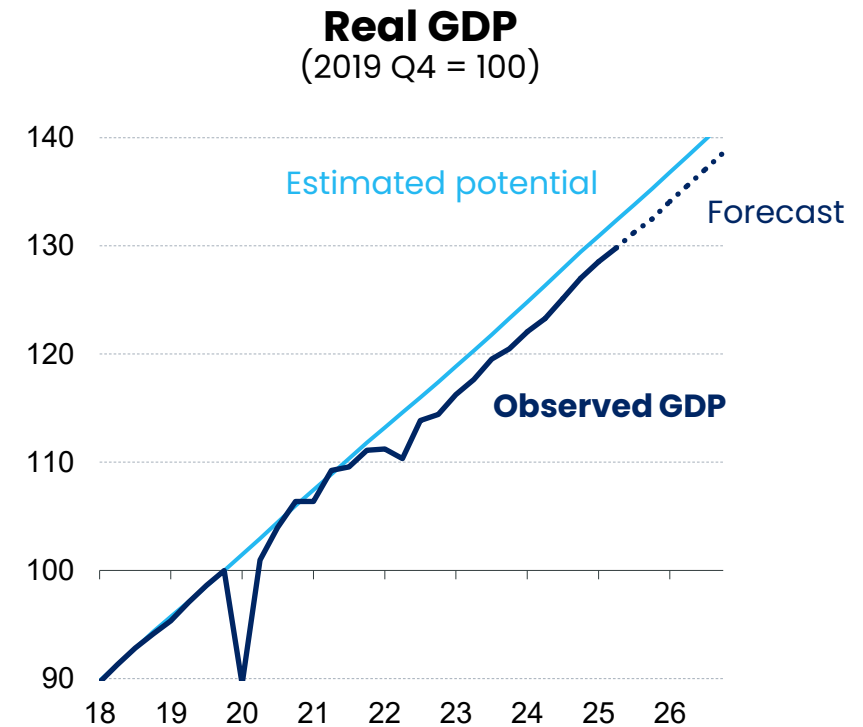
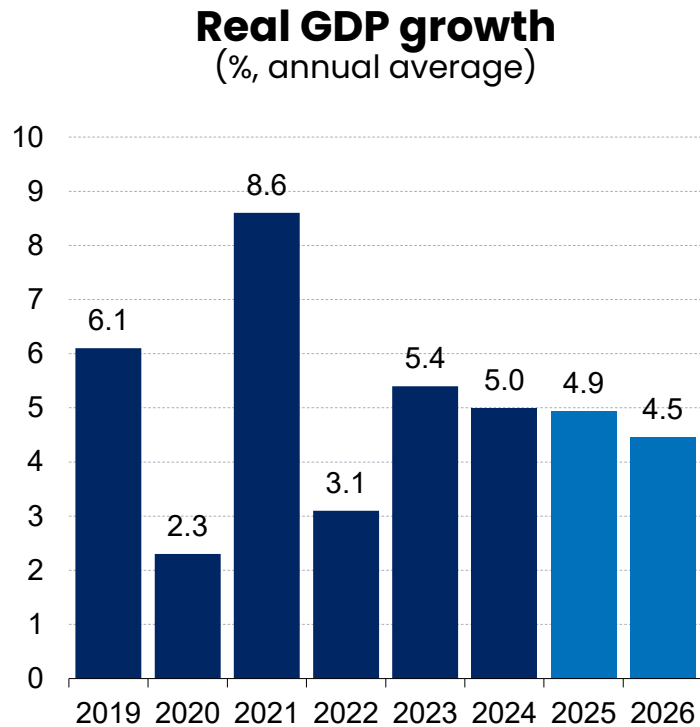
Expenditures



Government balance
(% of GDP)



... in order to maintain GDP growth close to their target

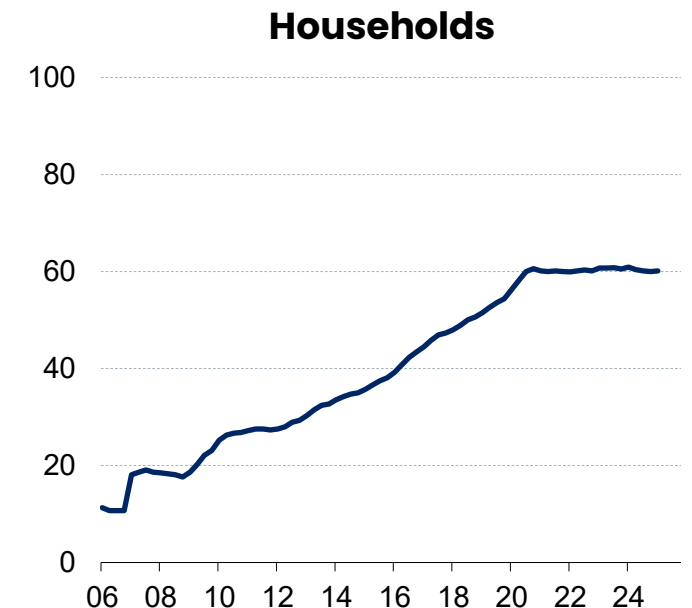
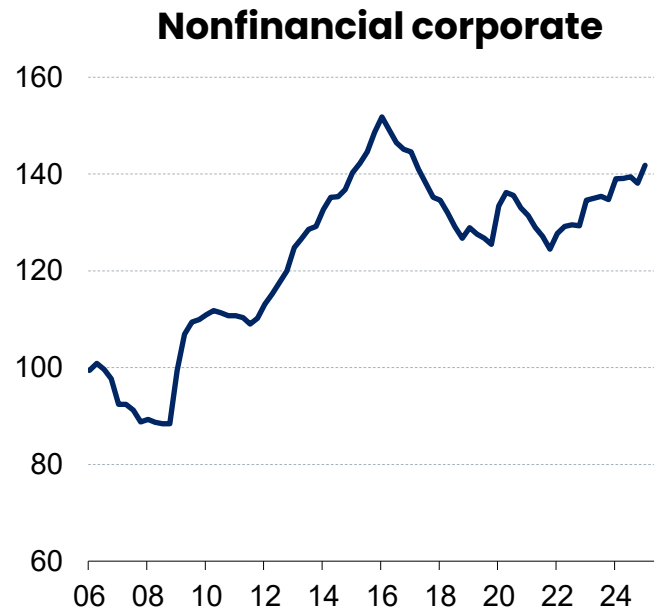
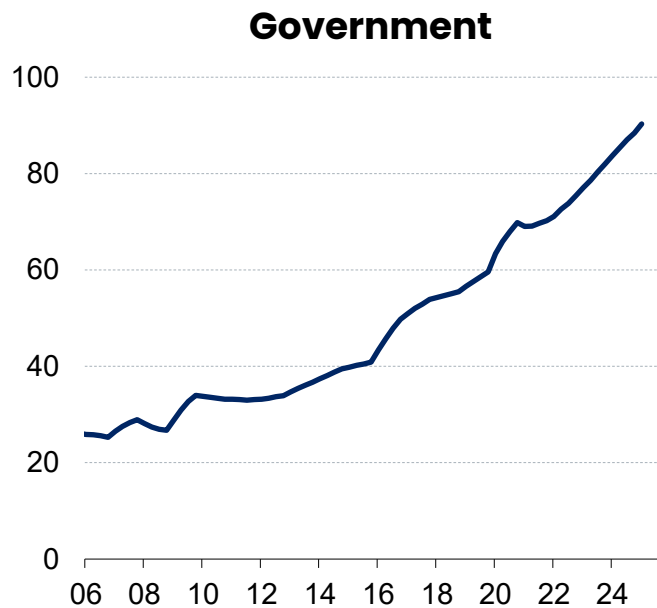


Sources: LSEG Datastream, Candriam



Memo. As long as private agents financial savings rate remains elevated, China's public debt will continue to rise

China debt to GDP ratios (%)



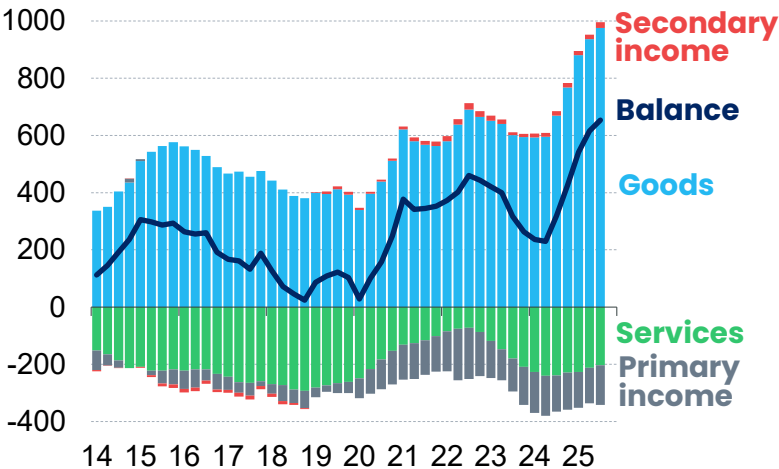
Sources: LSEG Datastream, BIS, Candriam



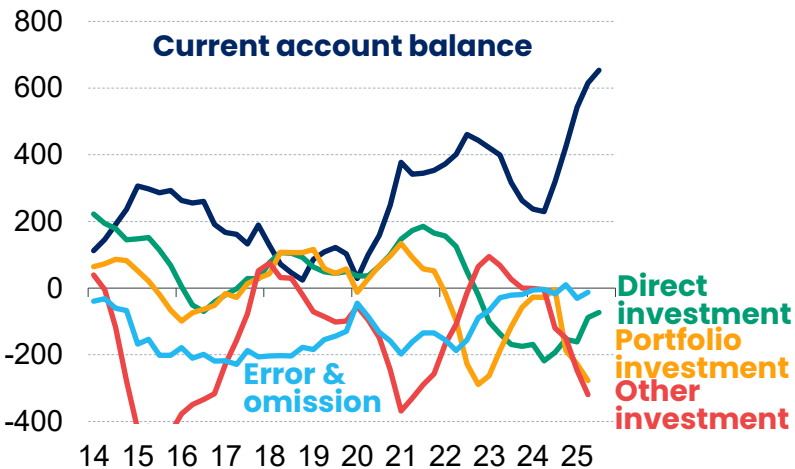
Memo. China balance of payments

Balance of payments
(\$ billion, smoothed over 1-year, annual rate)

Current account balance



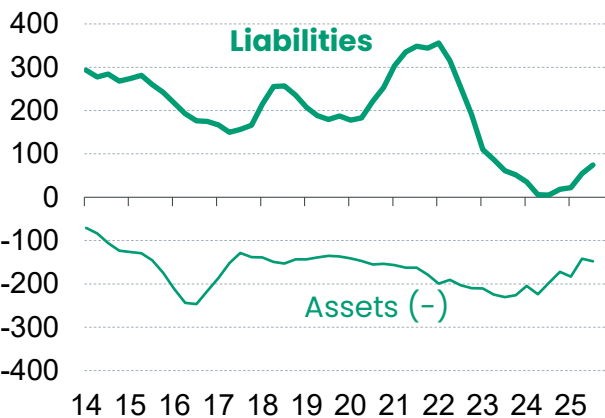
Financial account balance



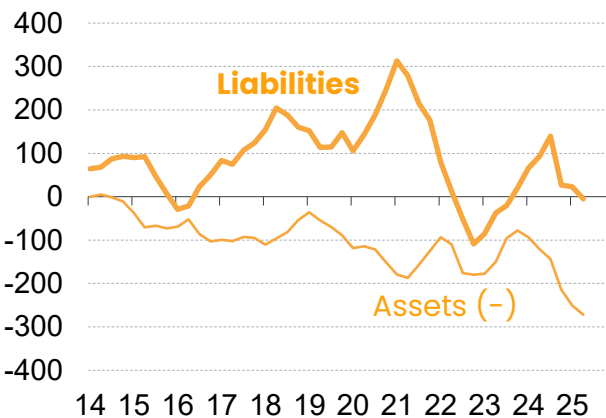
FX reserves
(\$ billion)



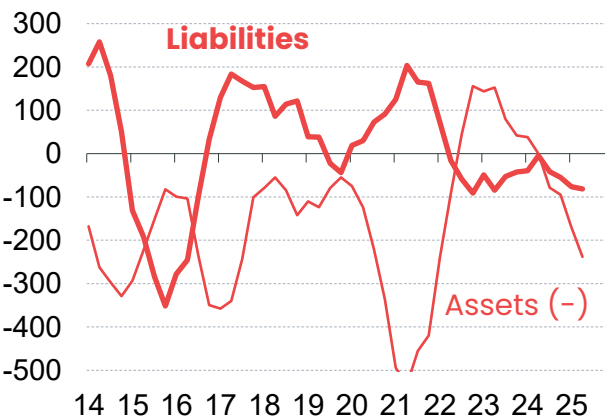
Direct investment



Portfolio investment



Other investment



Sources: LSEG Datastream, Candriam



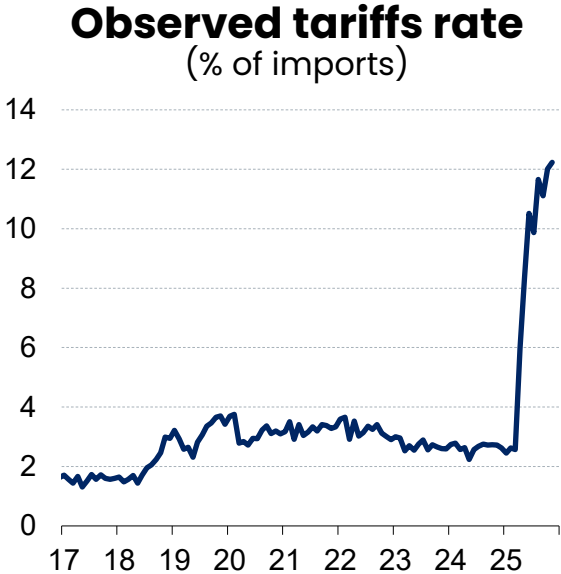
3 United States

A tale of two economies...



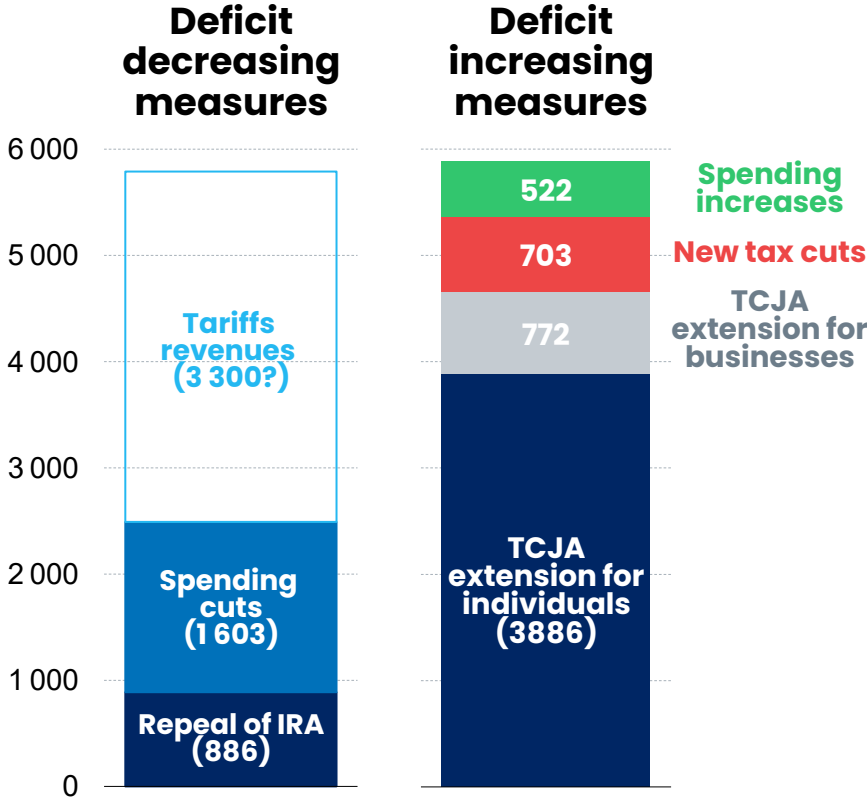
D. Trump has delivered on its agenda

Higher tariffs



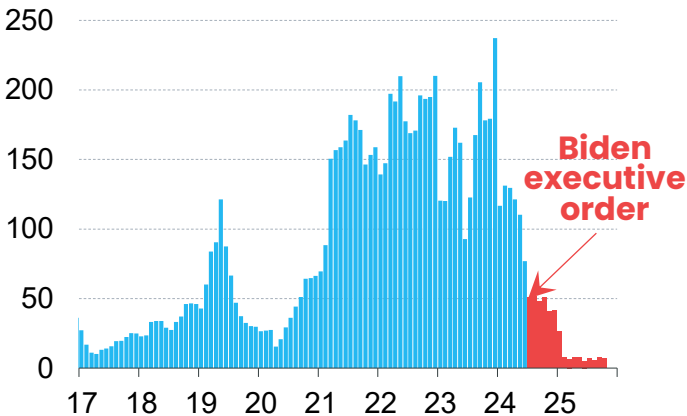
No tax on tips...

“One Big Beautiful Bill Act” (\$ billion, over 2025–34)

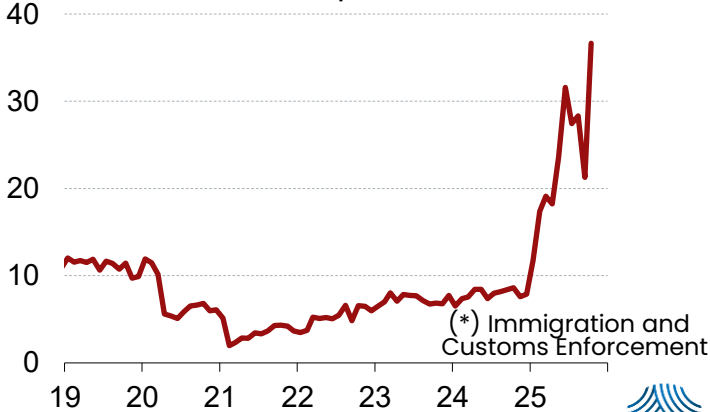


Deport undocumented immigrants

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



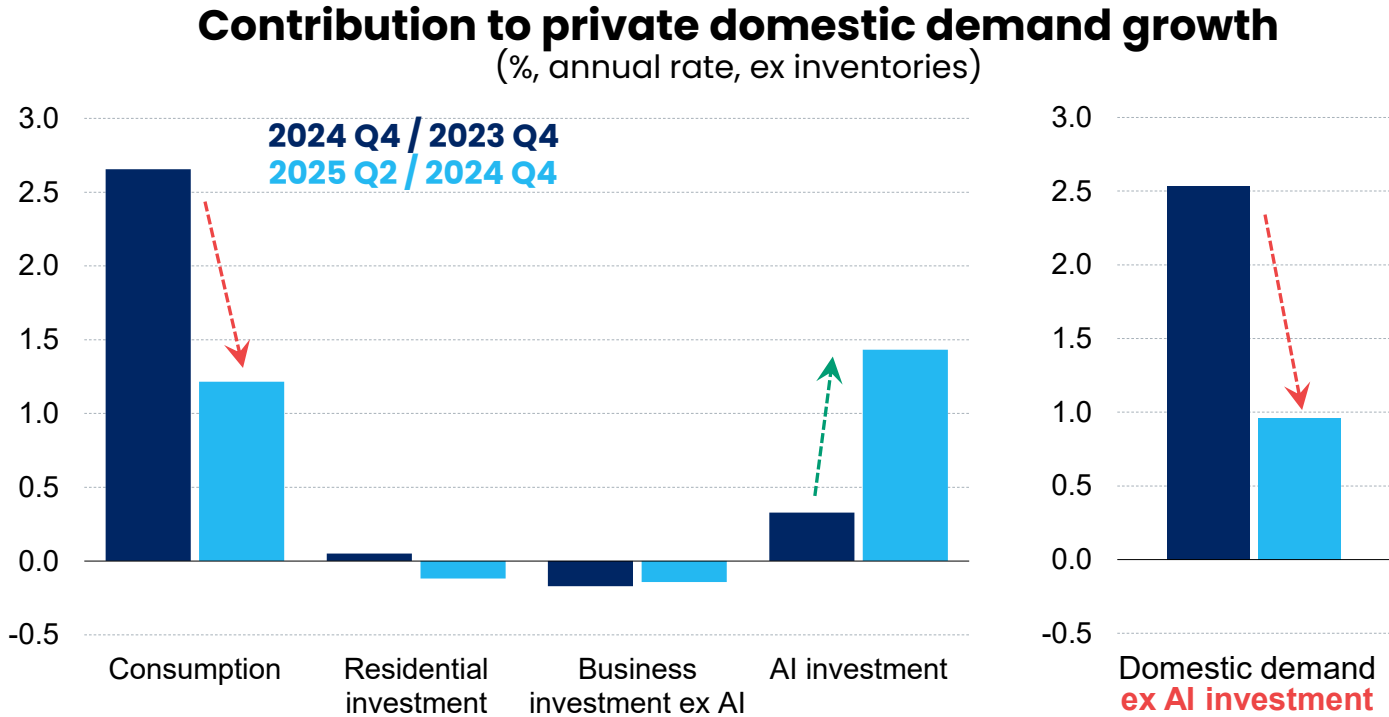
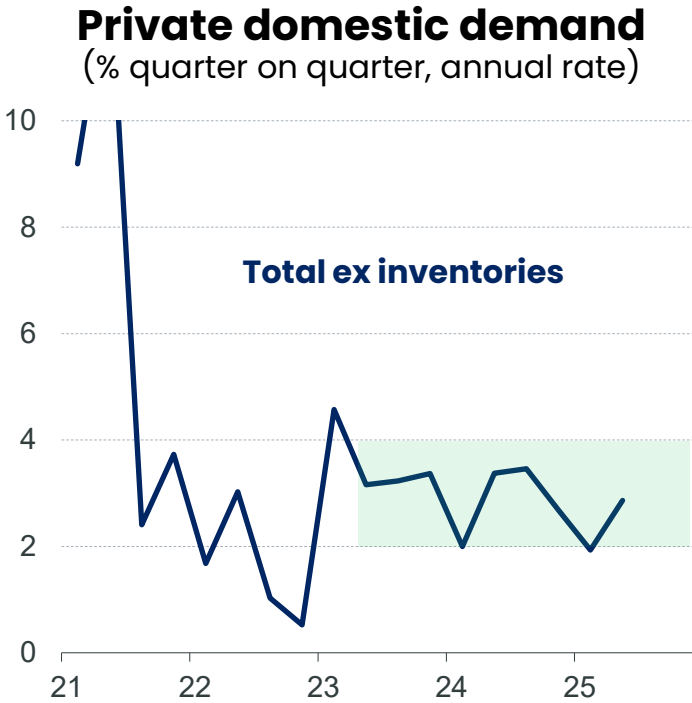
ICE* arrests (thousands per month)



Sources: US Treasury, CRFB, Customs and Border Protection, TRAC Immigration, Candriam



Private domestic demand has remained resilient in H1 2025... but its drivers have changed!



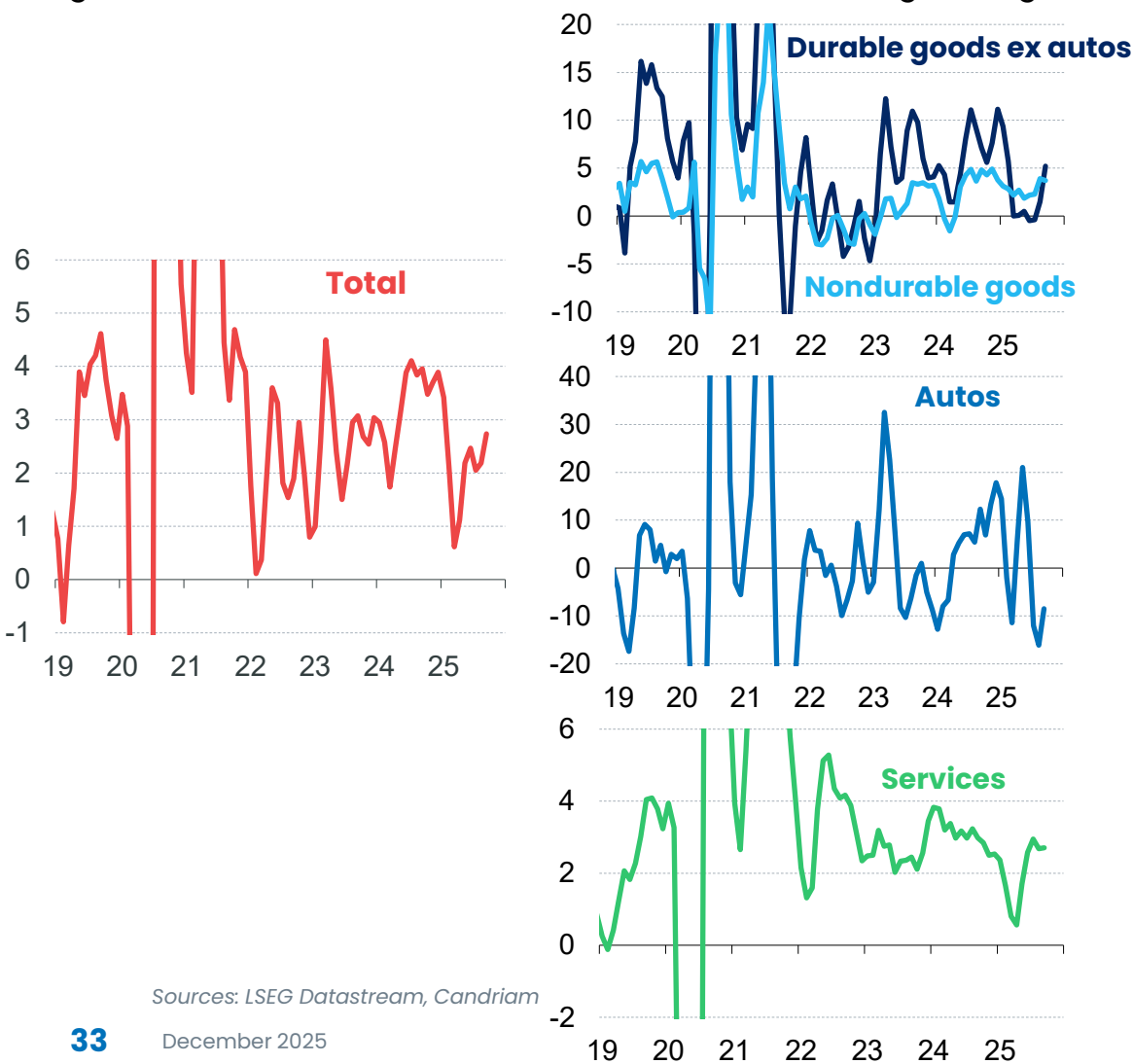
Sources: LSEG Datastream, BEA, Candriam



Consumer spending growth has slowed somewhat

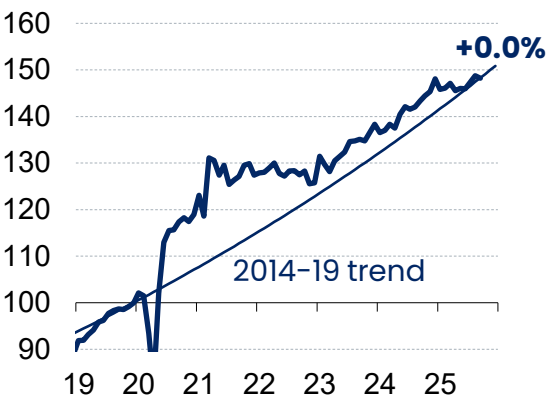
Real consumption

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

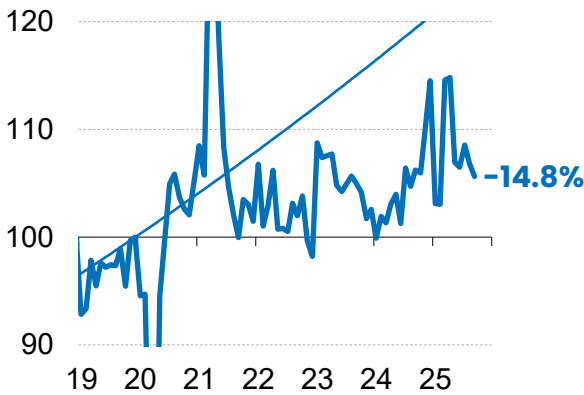


(December 2019 = 100)

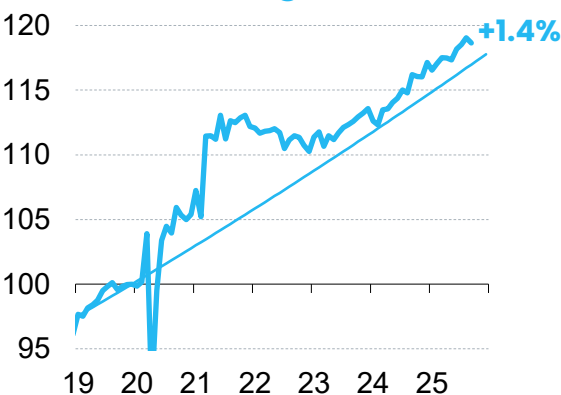
Durable goods ex autos (7.3%)



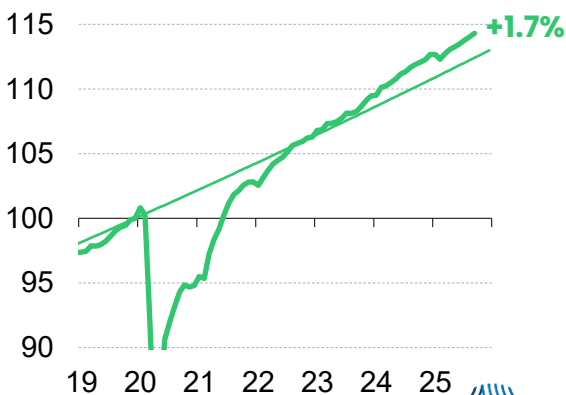
Autos (3.7%)



Nondurable goods (20.6%)

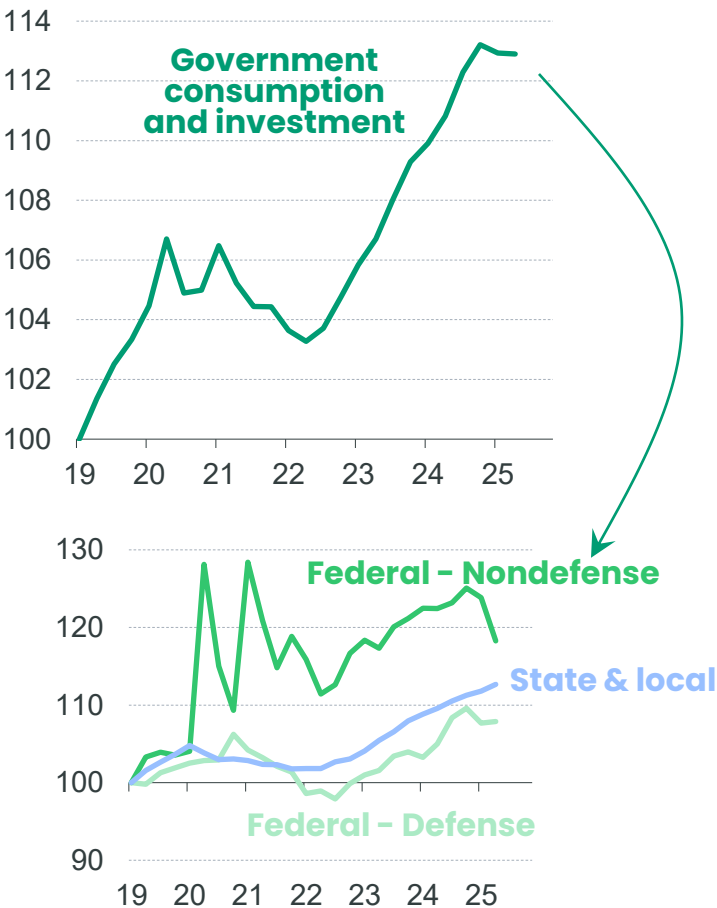
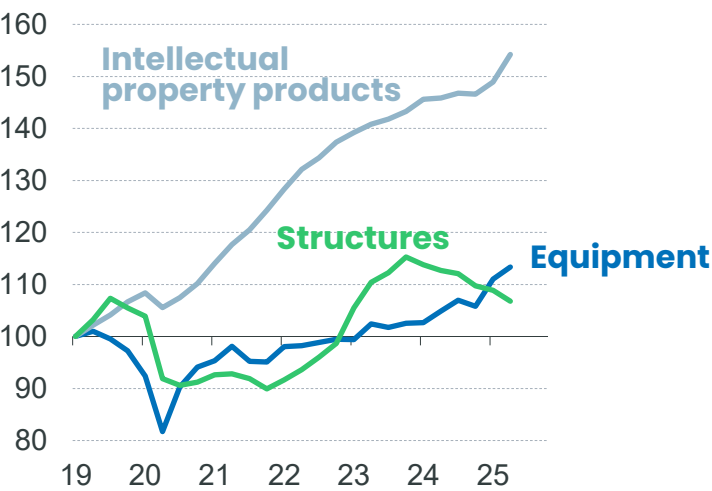
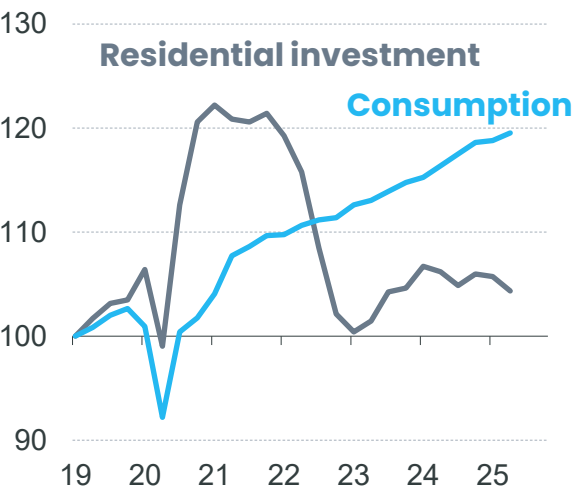


Services (68.5%)



Memo. Components of domestic demand

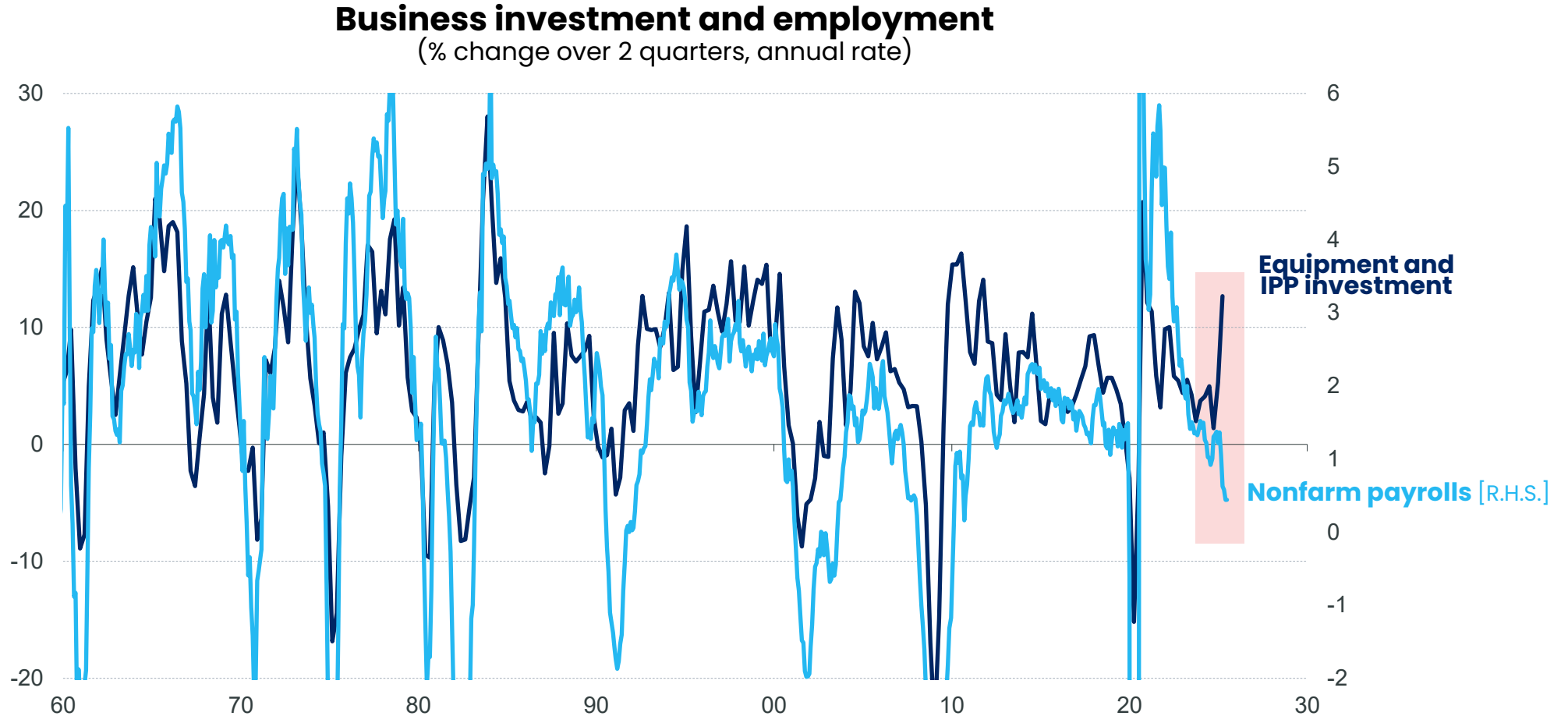
Final domestic demand components
(2019 Q1 = 100)



Sources: LSEG Datastream, BEA, Candriam



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

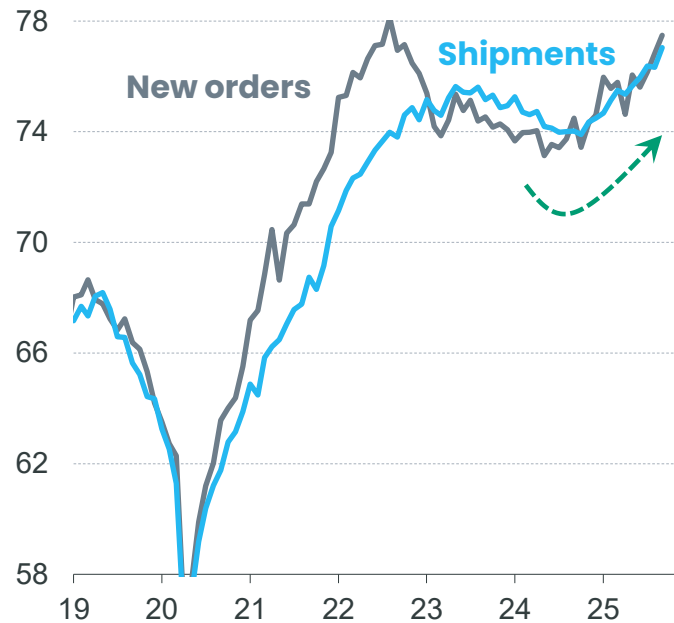


Sources: LSEG Datastream, Candriam

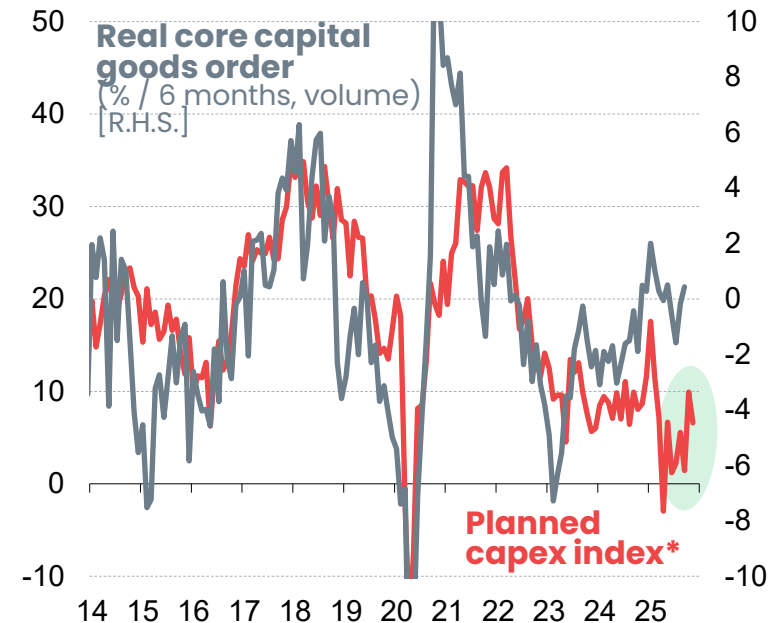


Despite uncertainty, firms have kept on investing

Core capital goods shipments and orders
(nondefense ex aircraft, \$ billion)



Real core capital goods orders and planned capex

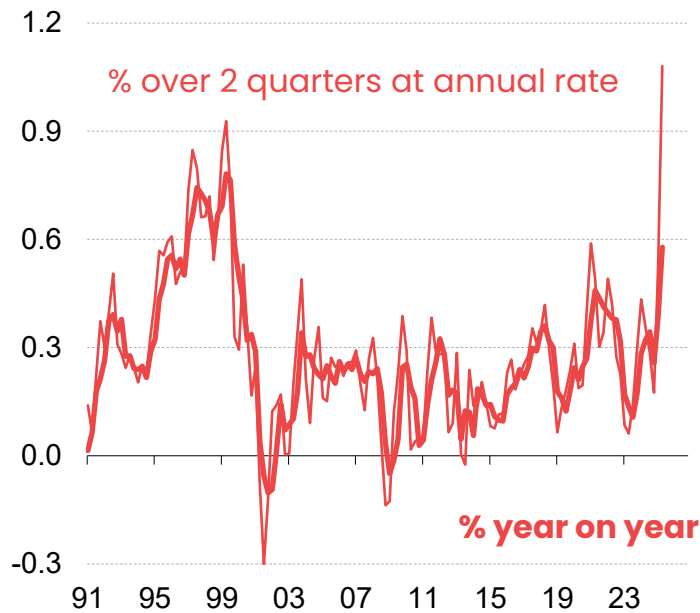


(*) Weighted average of various regional surveys (New York, Philadelphia, Dallas, Kansas, Richmond) by economy size.



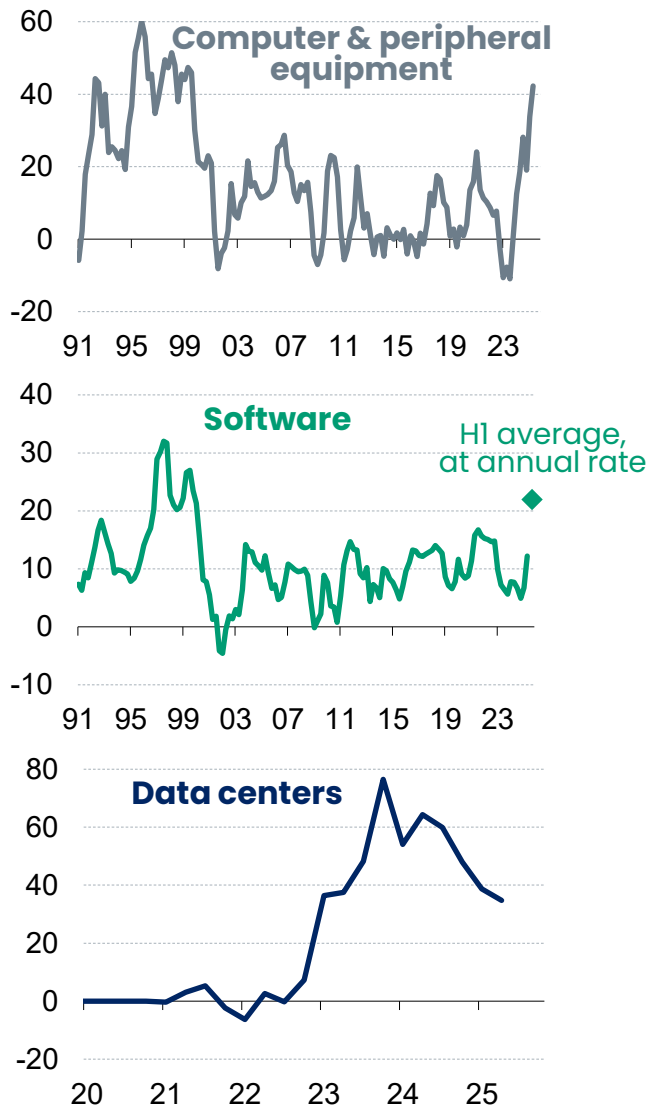
The contribution of AI investment has been impressive... although less so when corrected for net imports of computer equipment

AI related investment *direct* contribution to real GDP growth

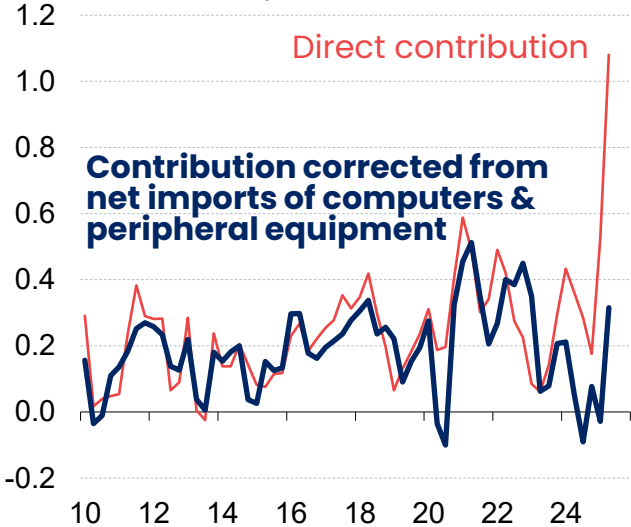


(*) Data center, computer & peripheral equipment, software.

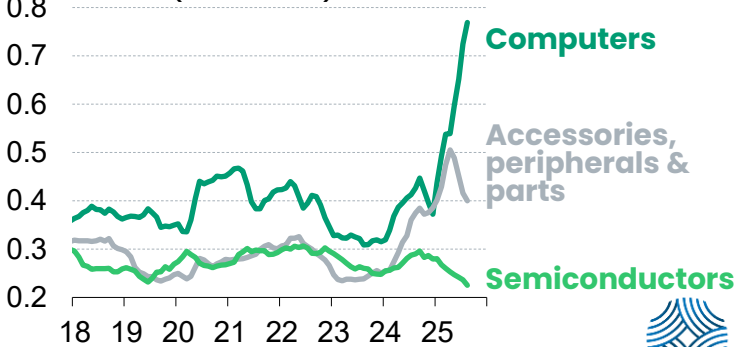
AI related investment
(% year on year, volume)



AI related investment *corrected* contribution to real GDP growth
(% over 2 quarters, annual rate)



Imports of computers & peripherals equipment
(% of GDP)



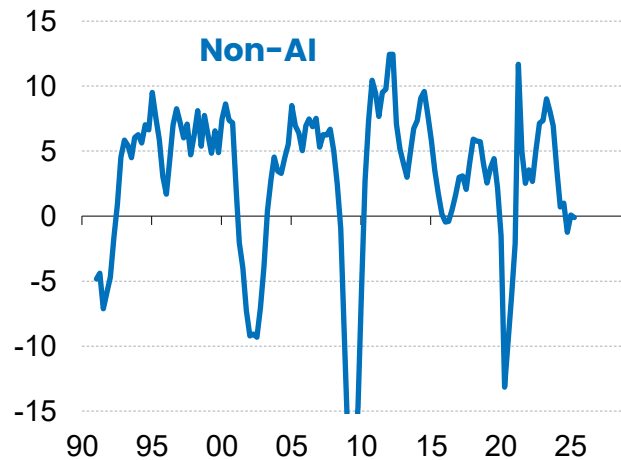
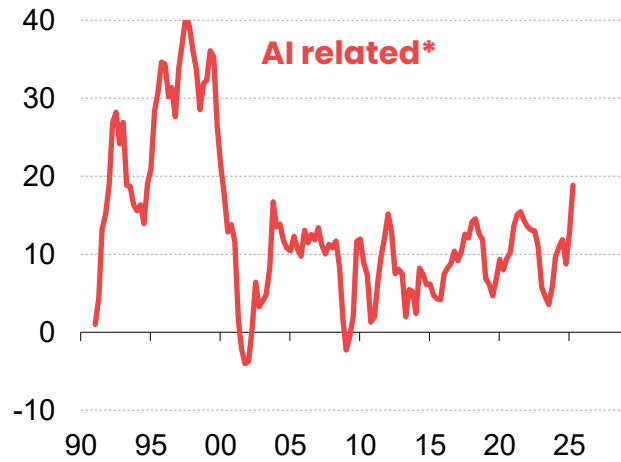
Sources: LSEG Datastream, BEA, Candriam



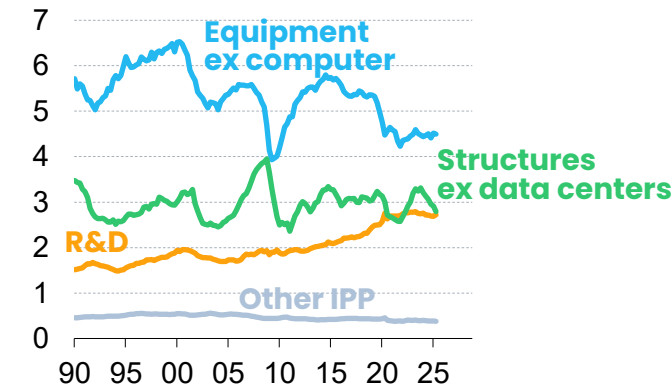
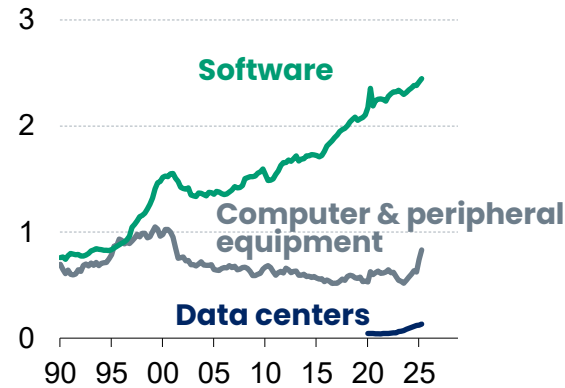
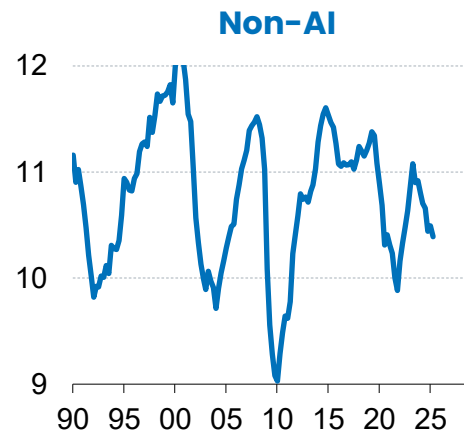
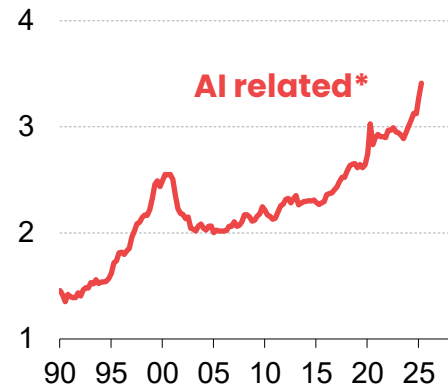
While AI investment has clearly accelerated, the rest of investment has been much less dynamic

Business investment

(% year on year, volume)

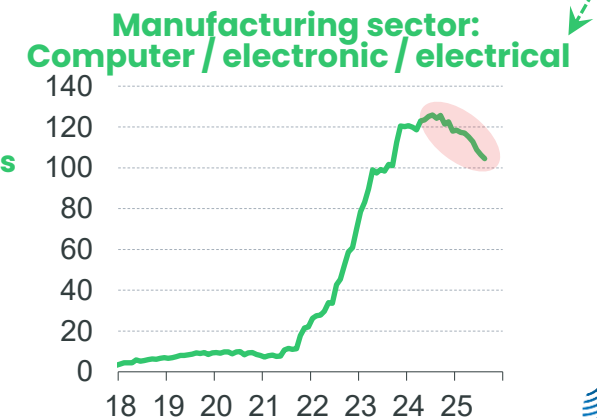
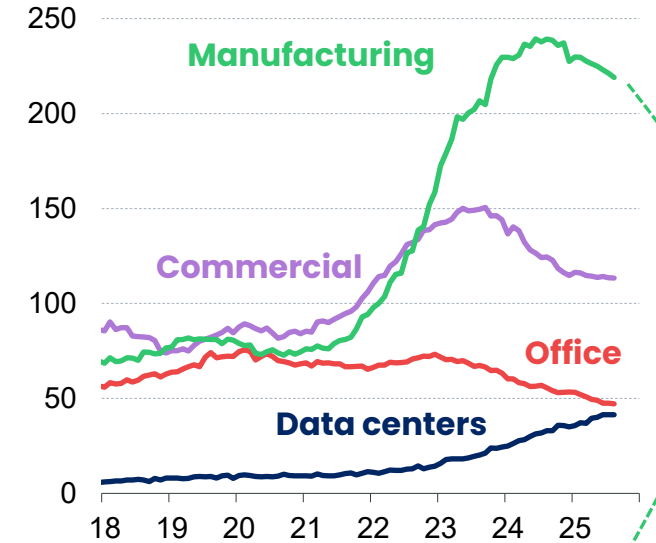


(% of GDP)

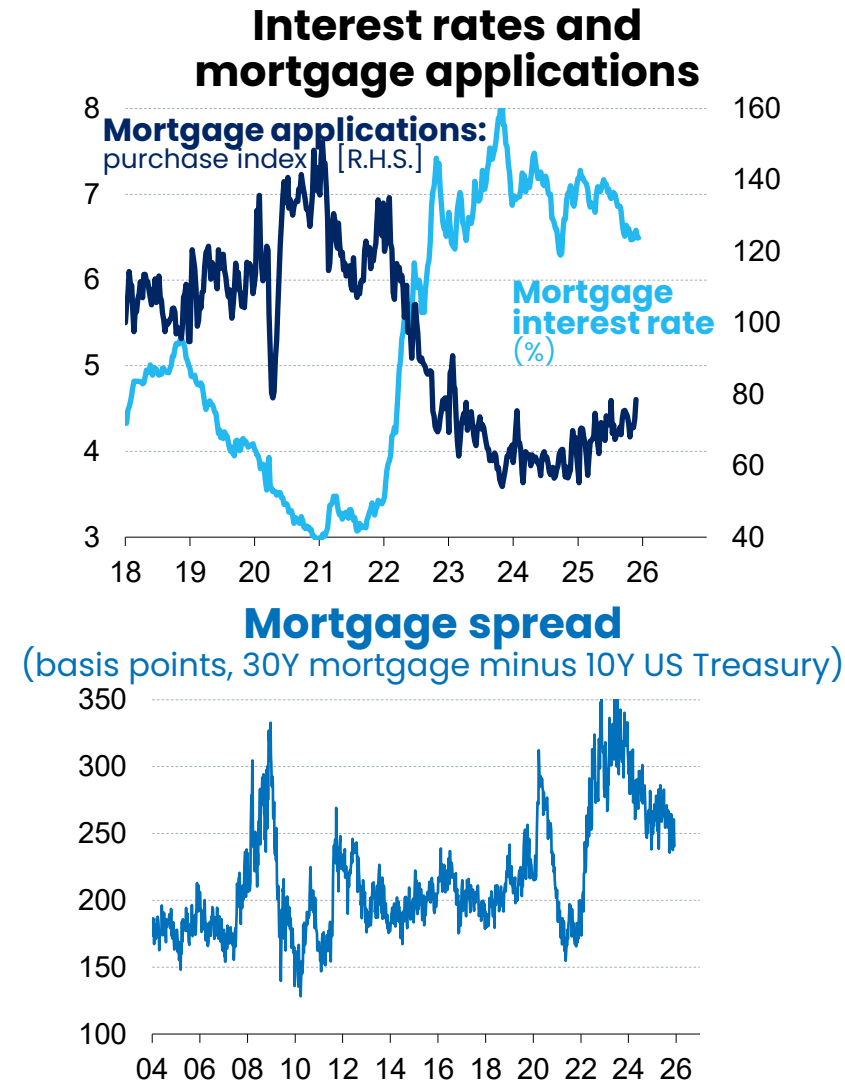


Sources: LSEG Datastream, BEA, Census Bureau, Candriam

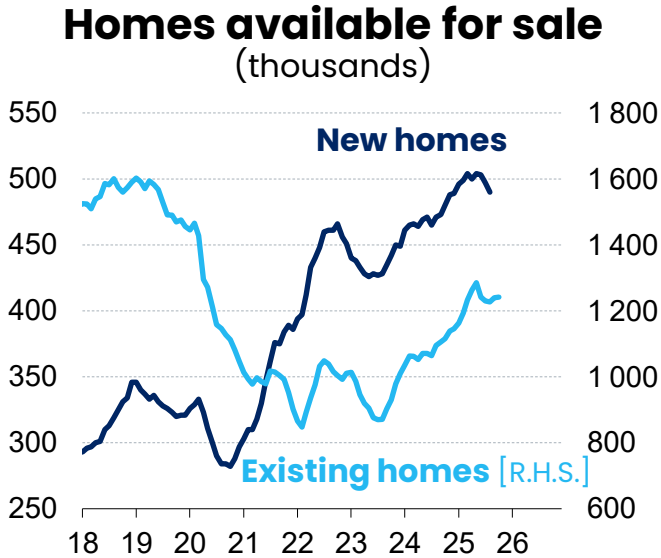
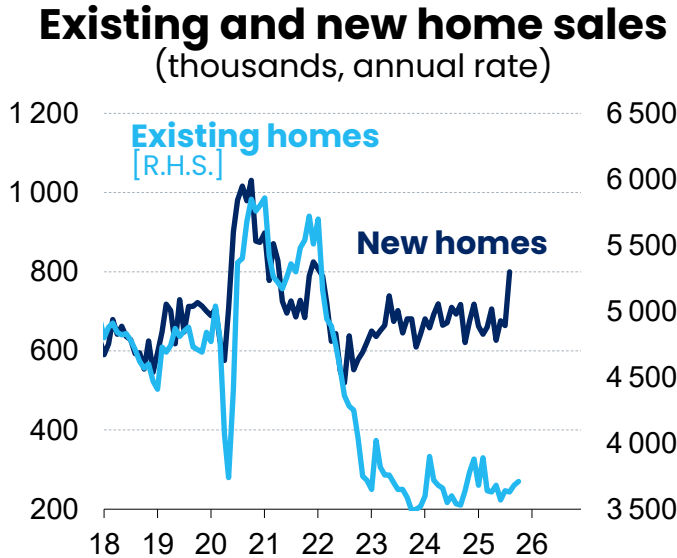
Private investment in non-residential structures (\$ billion, current prices, annual rate)



Mortgage rates have decreased...



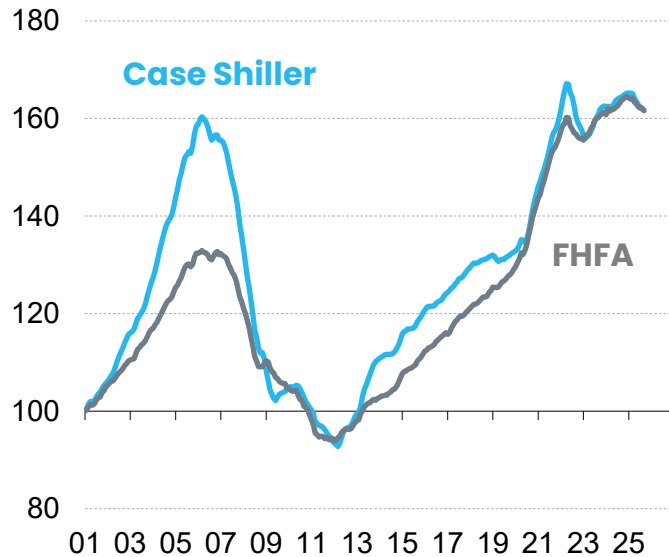
Sources: LSEG Datastream, Candriam



... but affordability remains impaired

Home prices

(deflated by CPI, January 2001 = 100)



Mortgage service on a median priced home

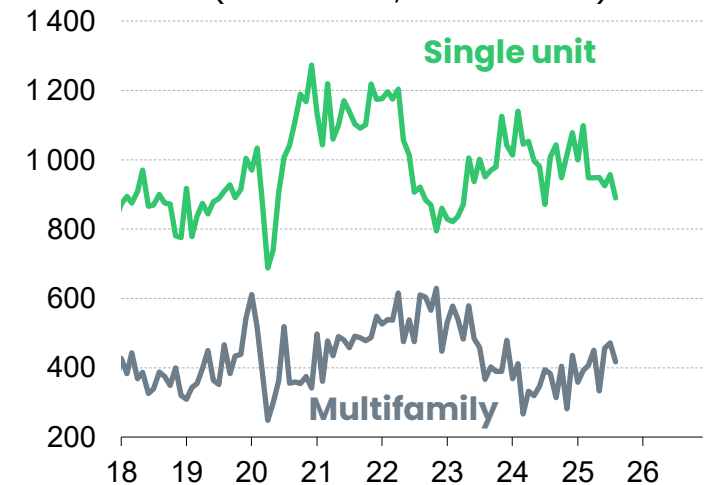
(\$, monthly)



NAHB survey (new home sales)



Housing starts (thousands, annual rate)



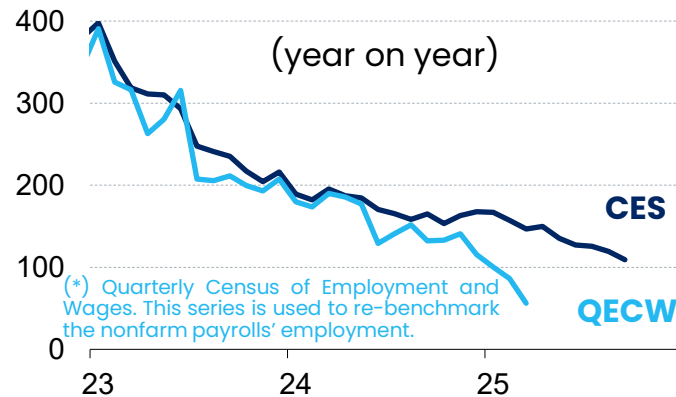
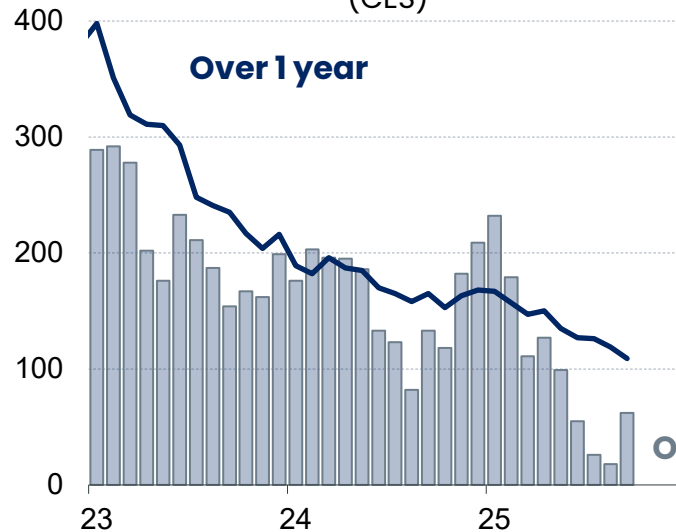
Sources: LSEG Datastream, Candriam



Job creations have clearly softened, and the unemployment rate is creeping up

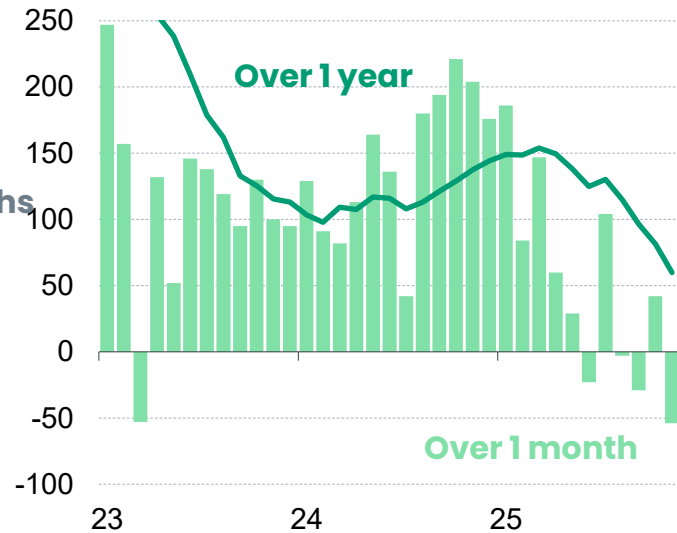
Job creations
(thousands, monthly rate)

Current Employment Survey
(CES)



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

ADP survey
(private sector)



Unemployment rate
(%)



Sources: LSEG Datastream, Chicago Fed, Candriam

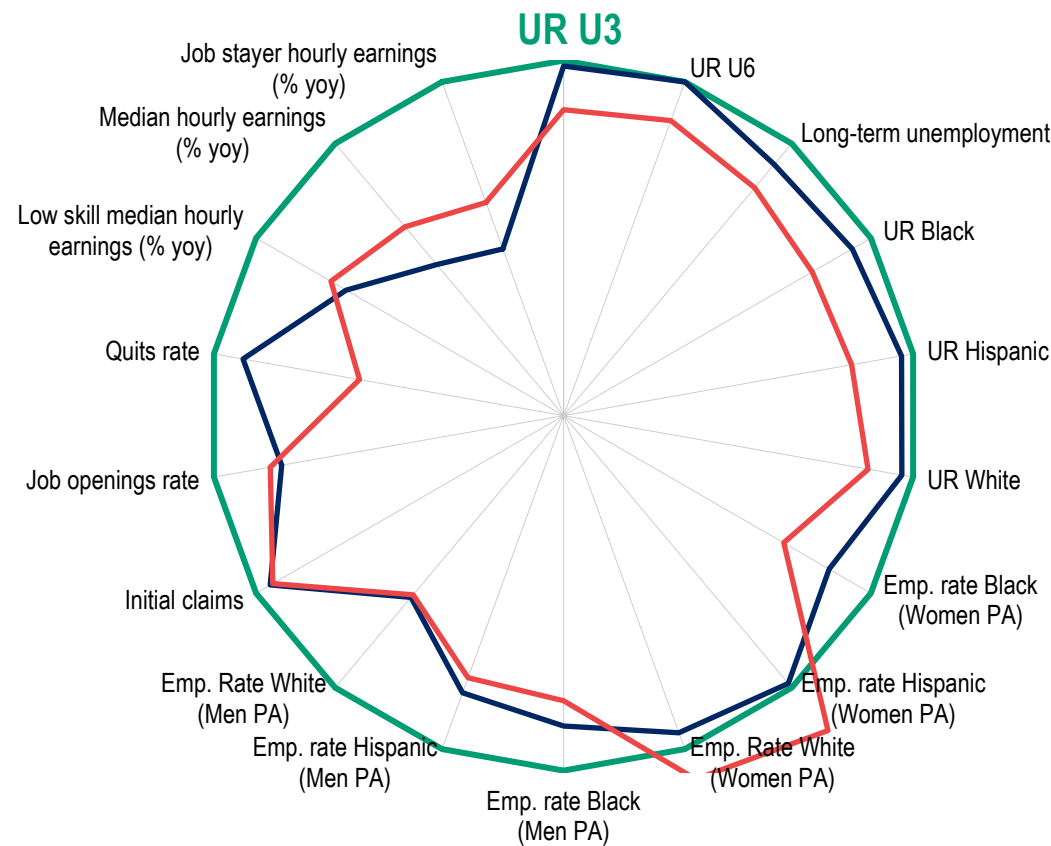


The turnover on the labor market has cooled...

Labor market turnover
(%, private sector, 3mma)



Distance to maximum employment



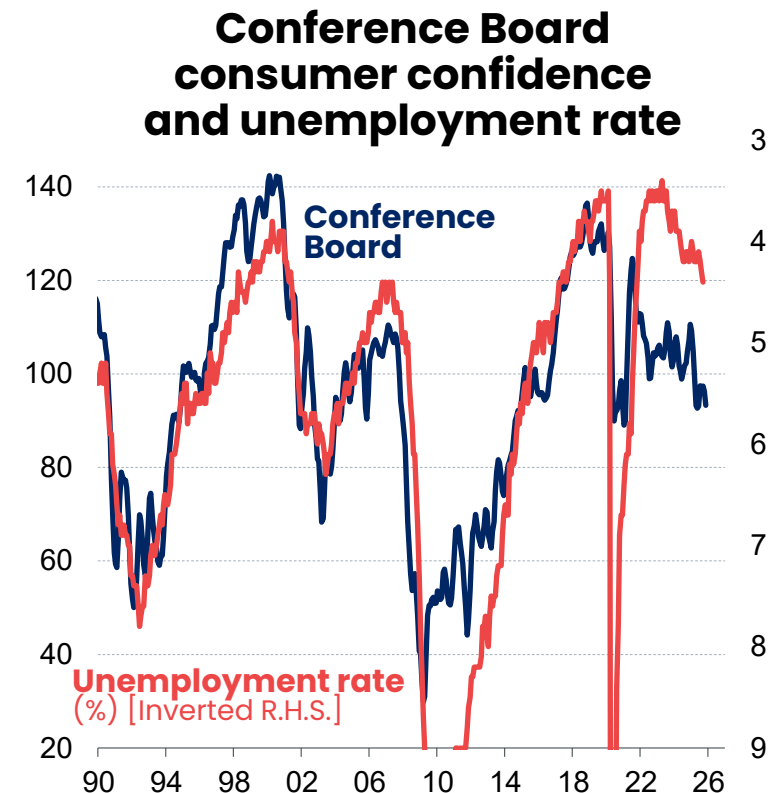
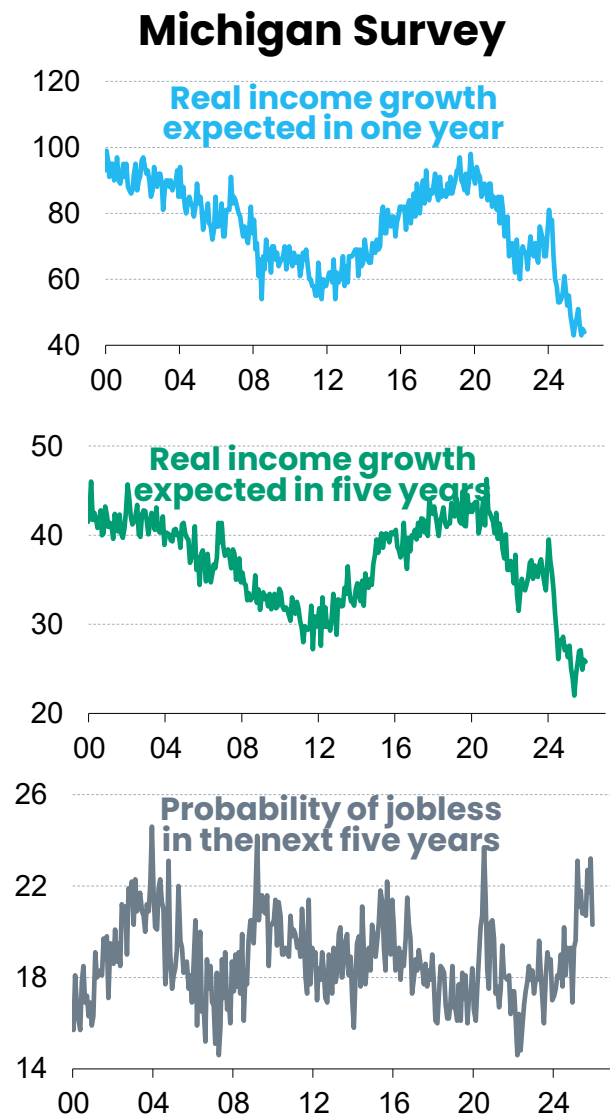
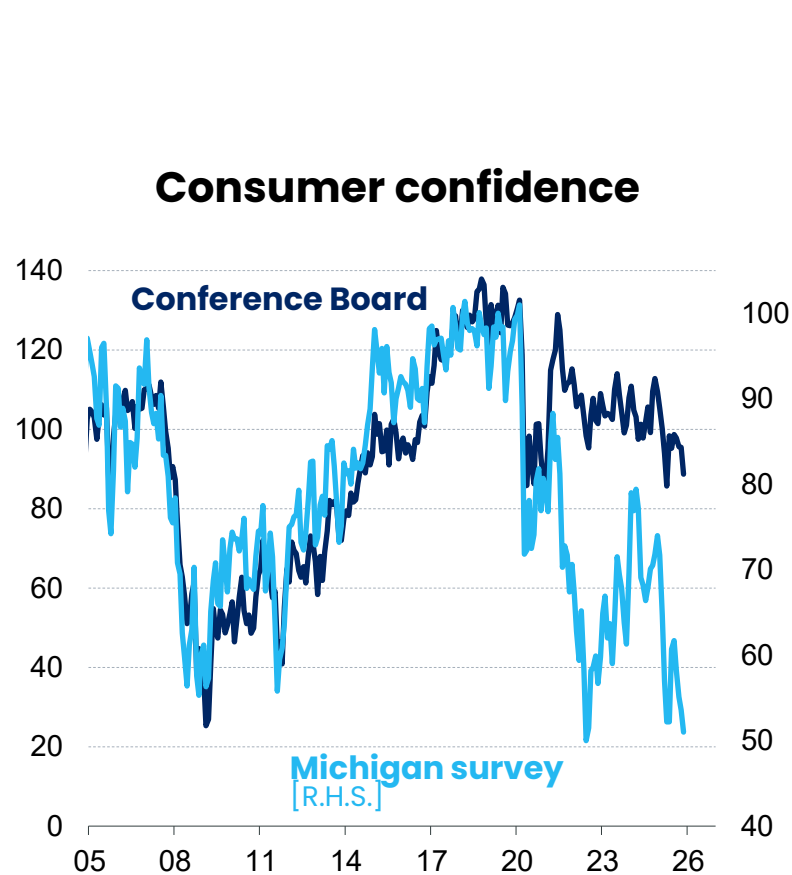
Maximum employment December 2019 Most recent data



... and wages have decelerated

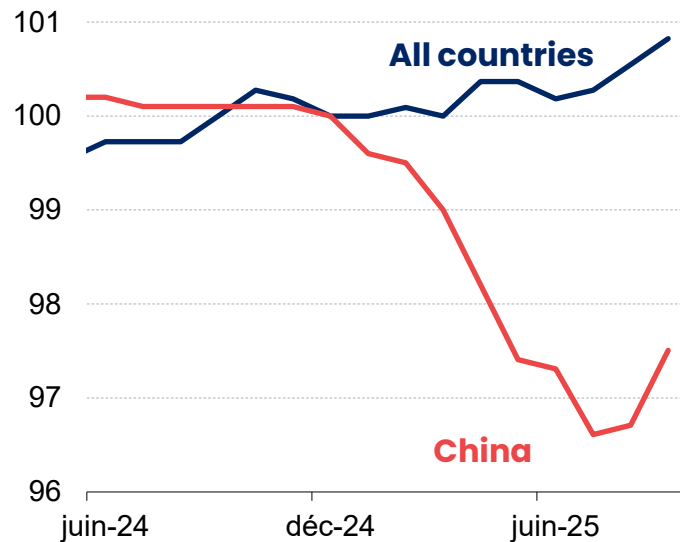


Consumer confidence has weakened

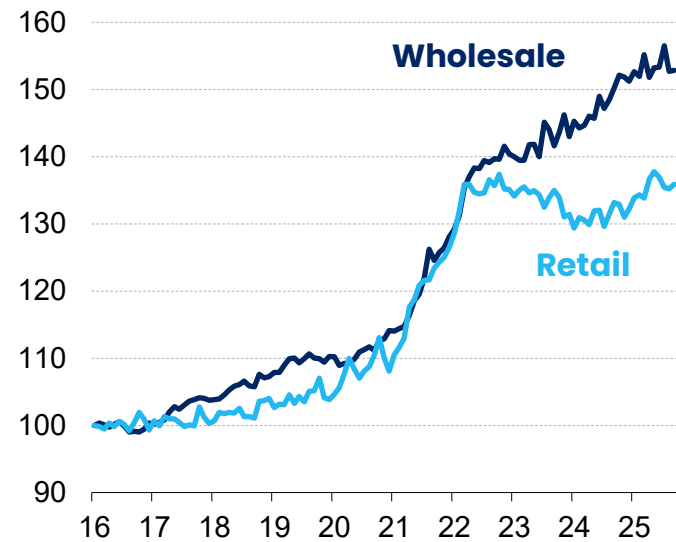


Households will bear the brunt of the cost of tariffs (I)

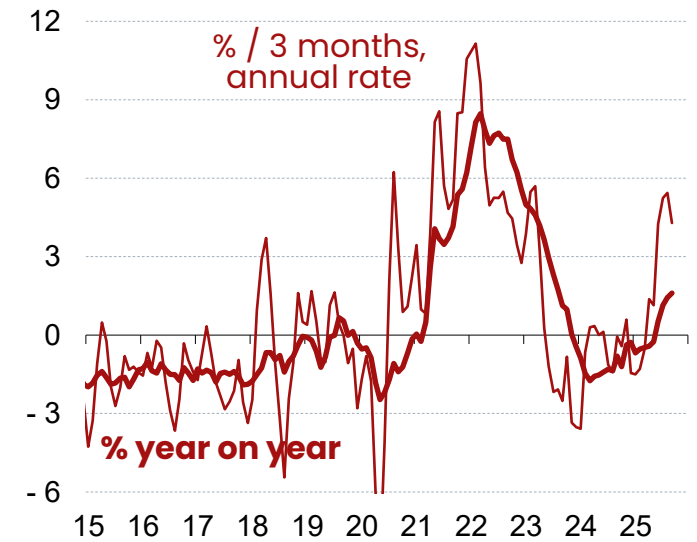
Import prices*
(December 2024 = 100)



Wholesale and retail trade margins**
(January 2016 = 100)



Prices of import sensitive goods
(CPI, ex food and energy)



(*) Tariffs are excluded from import prices.

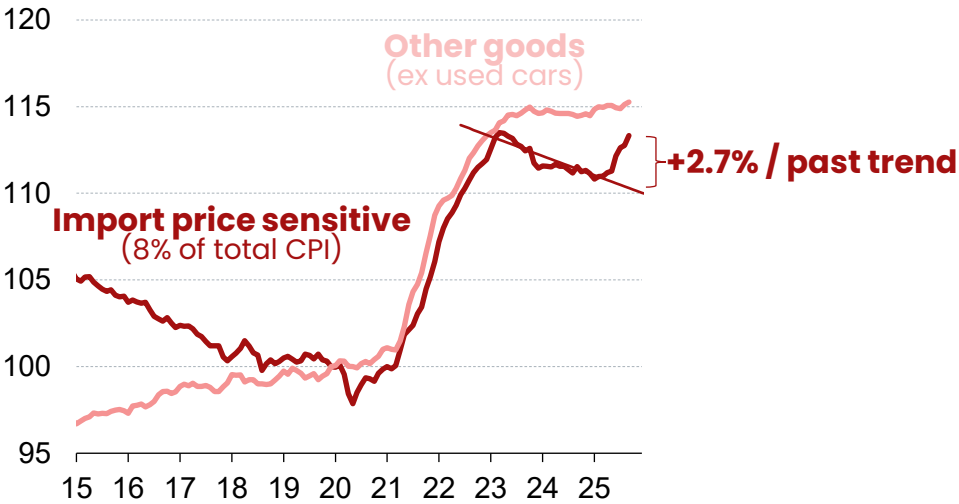
(**) Producer price index for the trade sector is calculated as selling price less acquisition price of products.

Import price sensitive goods have added 0.5% to annualized inflation over the past 3 months.

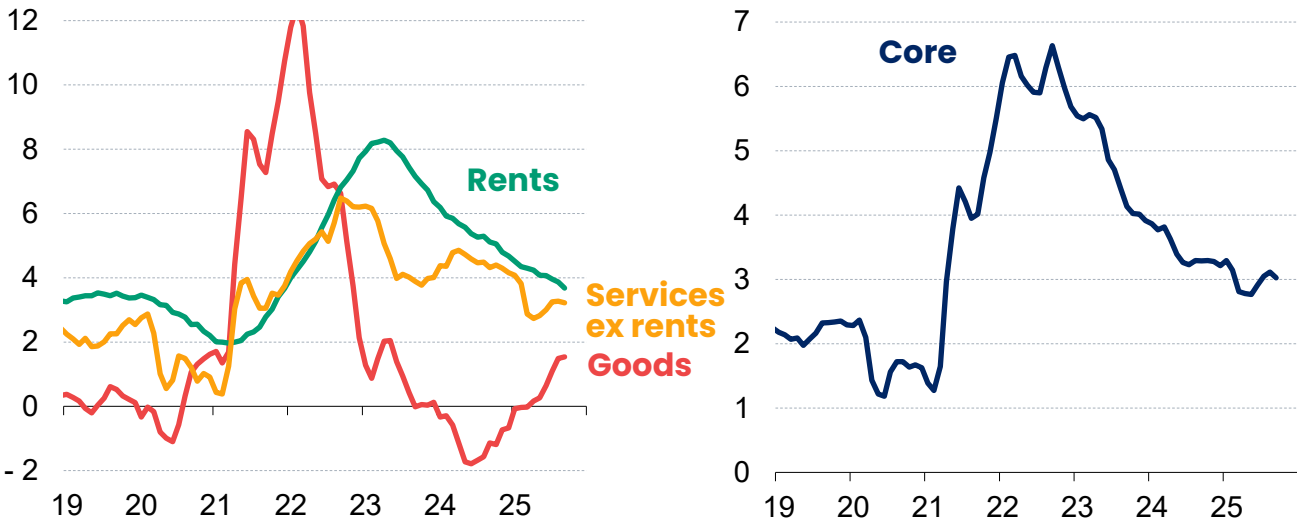


Households will bear the brunt of the cost of tariffs (II)

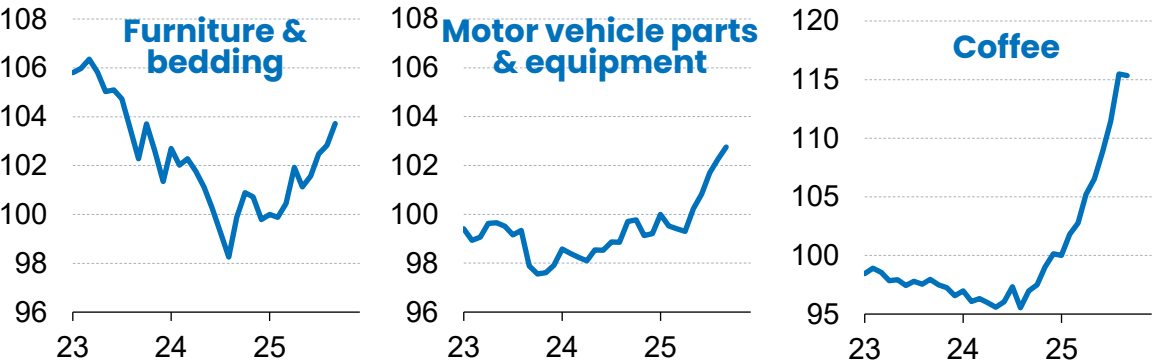
Core goods prices
(December 2019 = 100)



Core CPI inflation
(% year on year)



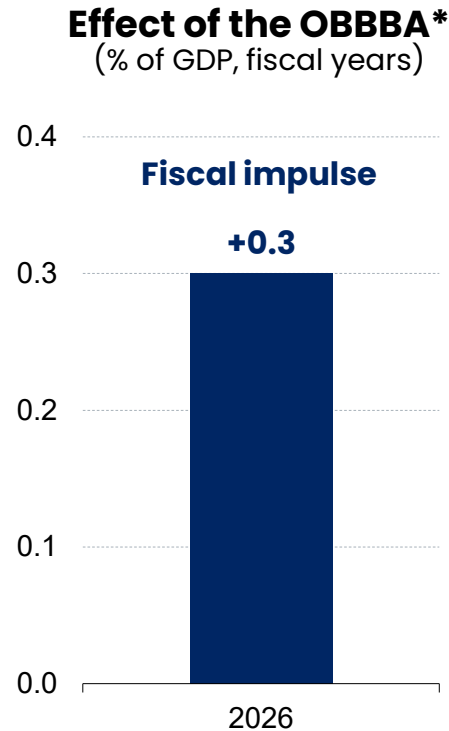
Memo. Some prices impacted by tariffs
(January 2025 = 100)



Sources: BLS, LSEG Datastream, Candriam



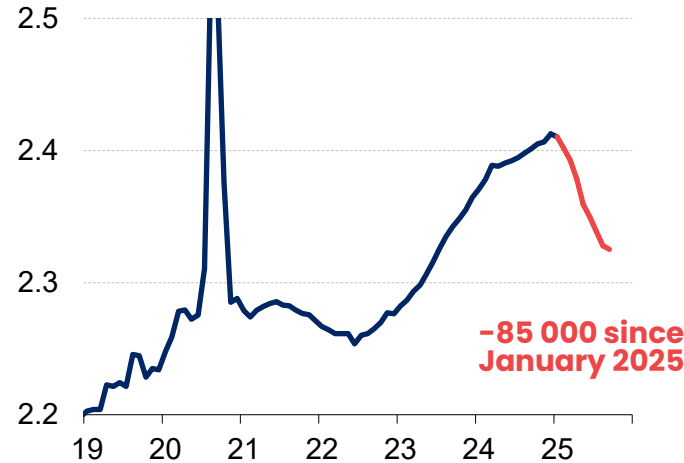
Fiscal policy will only provide a modest support in 2026



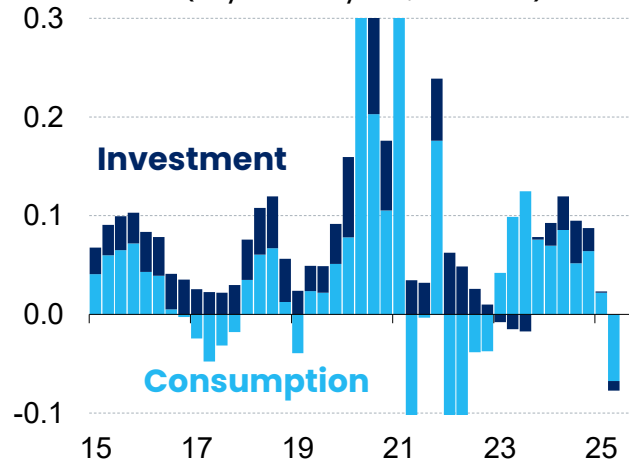
(*) One Big Beautiful Bill Act

Sources: CBO, BLS, BEA, Candriam

**Federal government employment
ex Postal service**
(millions)



**Federal government nondefense spending
contribution to GDP growth**
(% year on year, volume)



A continuing resolution has passed... until end of January 2026

Workers who have been terminated during the shutdown will be reinstated, and federal workers will receive back pay.

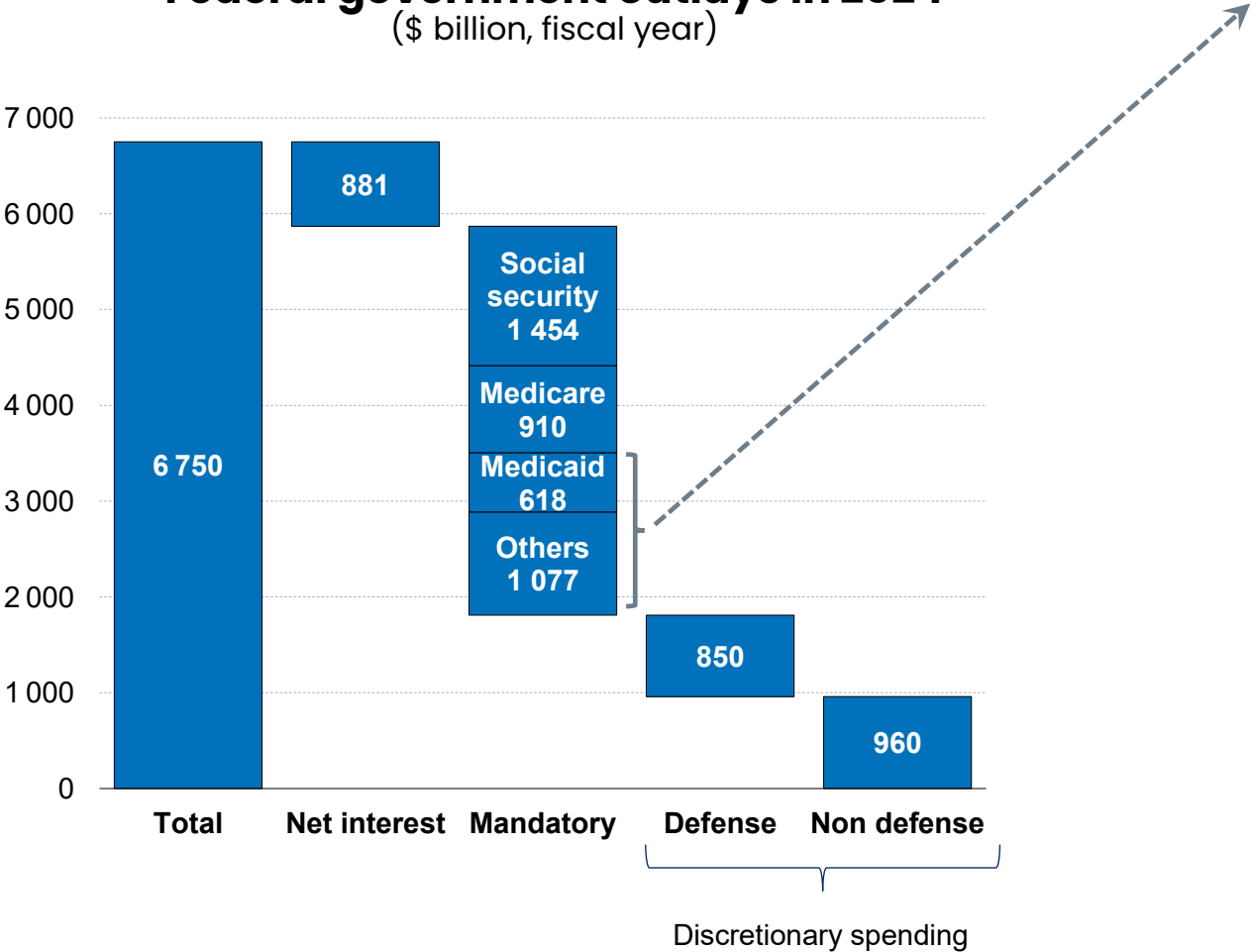
A new stopgap measure will fund the government through January 30, 2026, while three separate spending bills will cover programs related to agriculture, military construction and legislative agencies for most of 2026.

The deal doesn't extend expiring ACA subsidies. But Senator John Thune, the majority leader, will allow a vote in December on extending the expiring health insurance tax credits for a year.

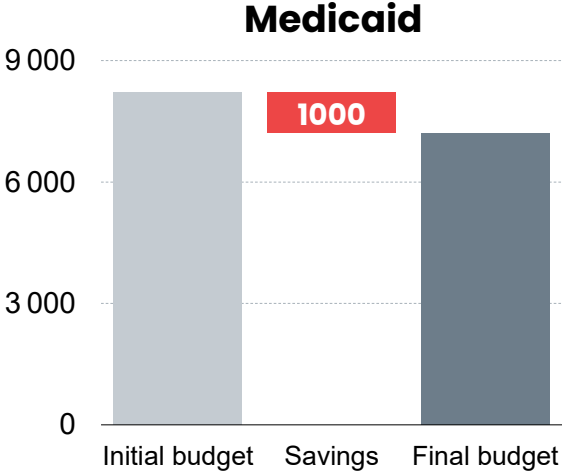


Memo. Many spending cuts are targeted on lower income households...

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

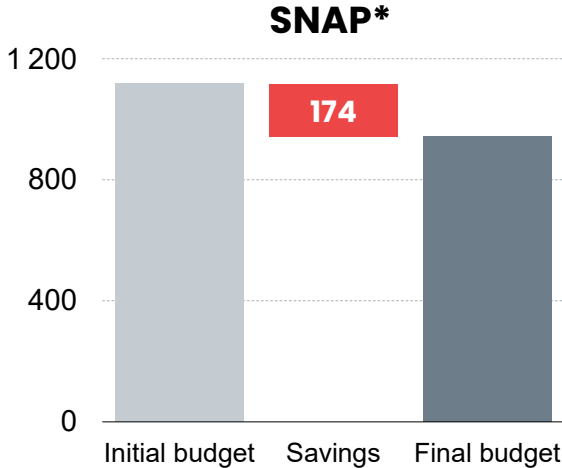


Spending cuts embedded in the final OBBBA
(\$ billion, over 10 years)



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.



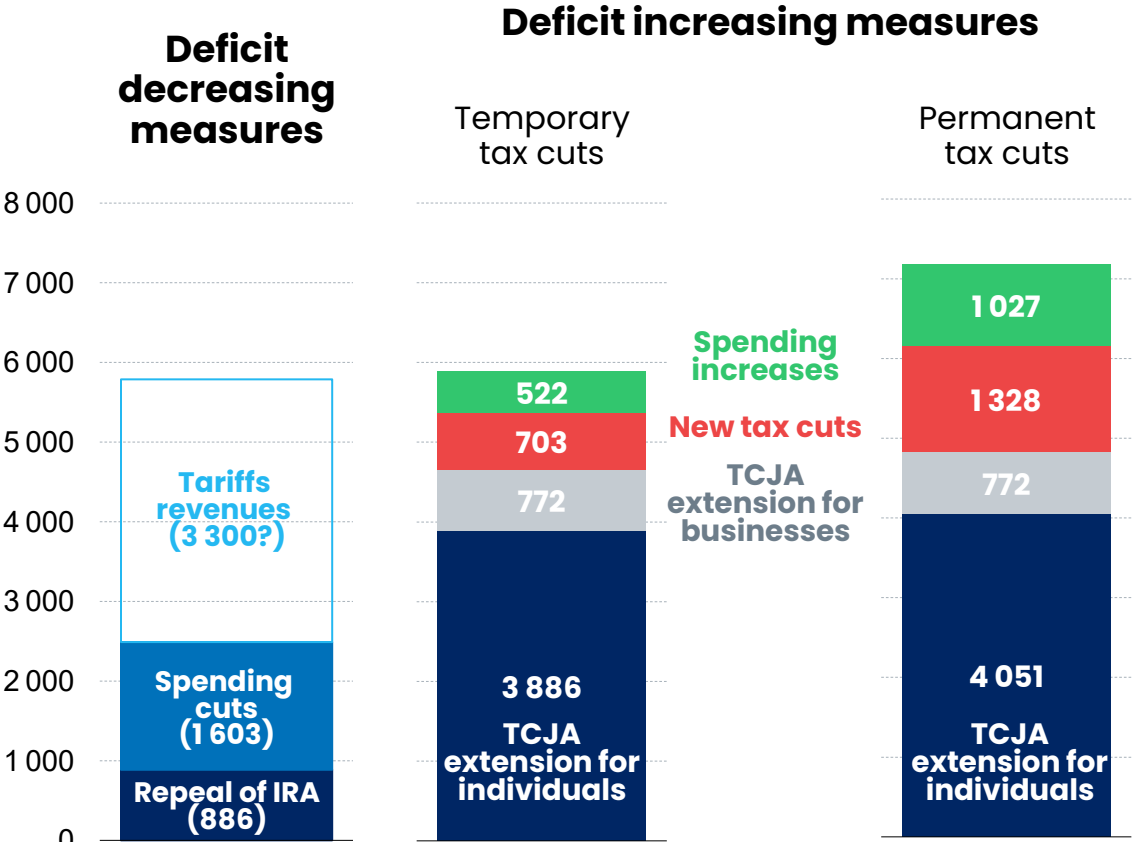
CBO estimates that participation in SNAP will be reduced by roughly 2.4 million people in an average month over the 2025-2034 period.

Sources: CBO, CRFB, Candriam



Memo. ... with most of them taking place after the midterms

“One Big Beautiful Bill Act” (\$ billion, over 2025–34)

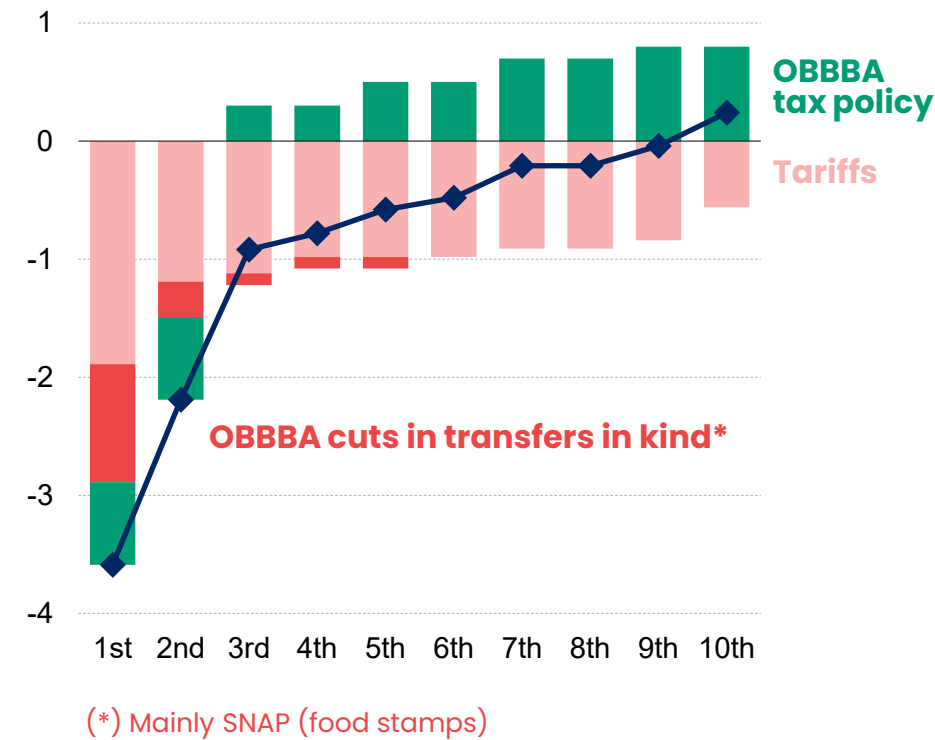


Sources: CRFB, CBO, Candriam

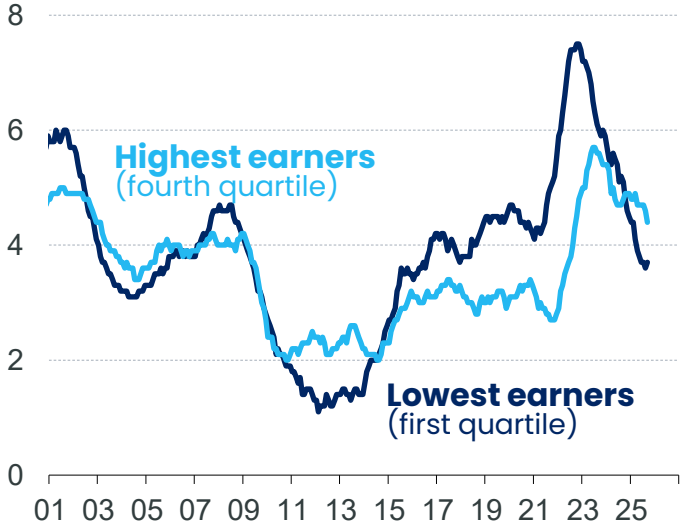
	As written in the law	If made permanent
Extend & expand TCJA individual provisions	-3 886	-4 051
Revive TCJA business provisions	-772	-772
New tax cuts	-703	-1 328
Total tax cuts	-5 361	-6 151
Repeal and reform IRA credits	540	540
Auction wireless spectrum, lease federal lands...	149	149
Other	197	197
Revenue increasing measures	886	886
Immigration and border	-176	-293
Defense	-173	-457
Other	-173	-277
Total spending increases	-522	-1 027
Health care	1 102	1 102
Education	295	295
SNAP, agriculture and other	206	206
Total spending cuts	1 603	1 603
Interest	-718	-836
Total Deficit Impact	-4 112	-5 525
Cut Taxes on Tips through 2028	-32	-84
Cut Taxes on Overtime Through 2028	-90	-227
Increase Senior Standard Deduction through 2028	-93	-222
Deduction for Car Loan Interest through 2028	-31	-97
Health Savings Account Expansions	-11	-11
Establish "MAGA Accounts"	-16	-38
Other Individual Tax Cuts	-145	-147
Total Individual Tax Cuts	-418	-826
Allow Expensing of Factories through 2028	-141	-304
Other Business & Related Tax Cuts	-144	-198
Total Business Tax Cuts	-285	-502

Lower and middle-income households are facing mounting financial strains

Effects of Trump’s policy on income, by income decile in 2026 (%)



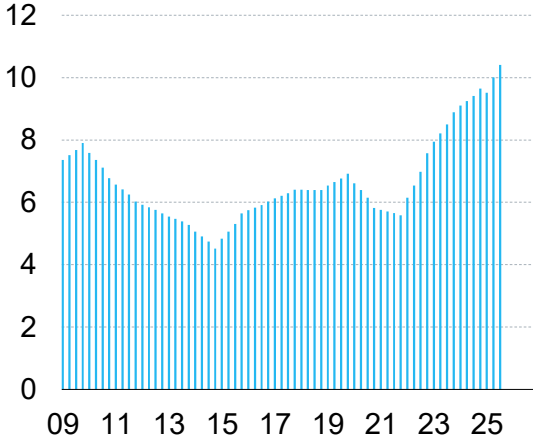
Wages (% year on year, 12mma)



Black or African American unemployment rate (%)

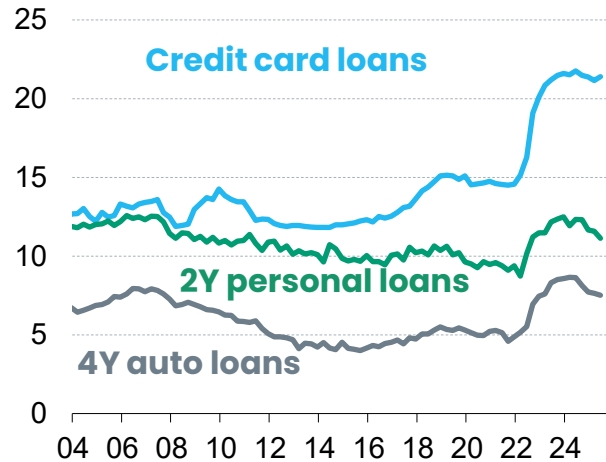


Number of auto repossession assignments (millions, annual rate)

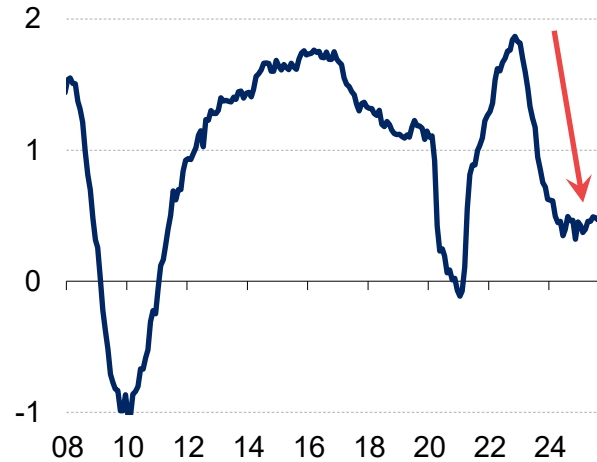


High interest rates are curbing consumer credit and cracks in student and subprime auto loans are emerging

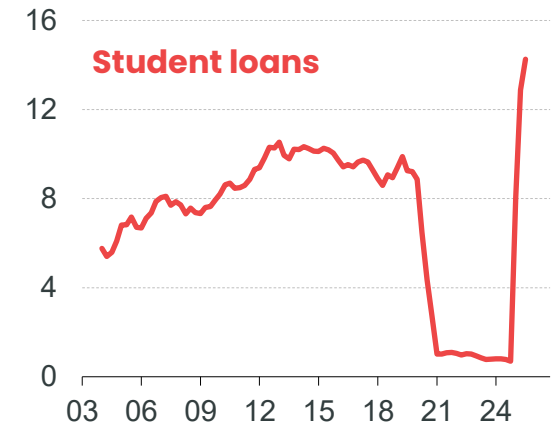
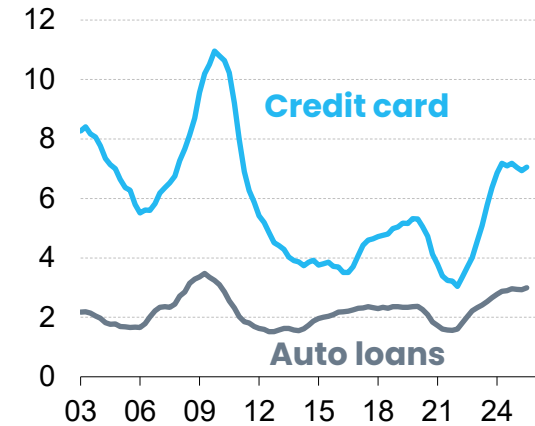
**Interest rate
on consumer credit
(%)**



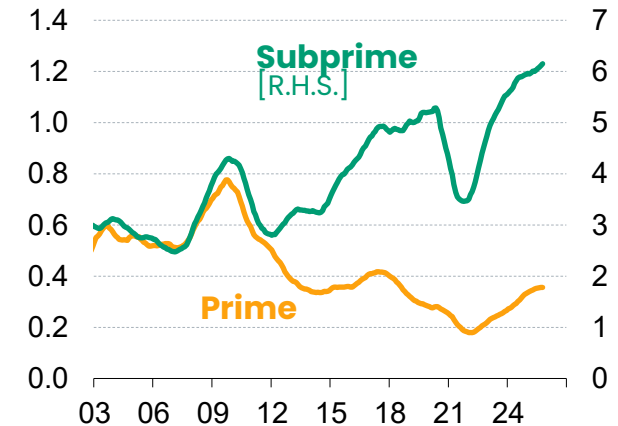
**Consumer credit
(% of disposable income,
12-month moving average)**



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



**Auto Loan 60+ delinquency rate
(%, ABS auto indices, 12 months moving average)**



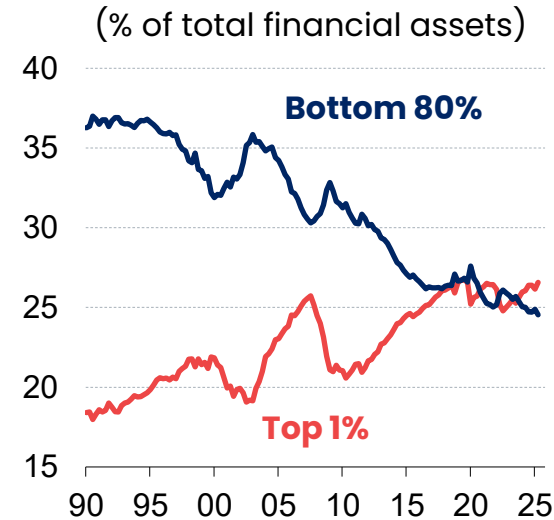
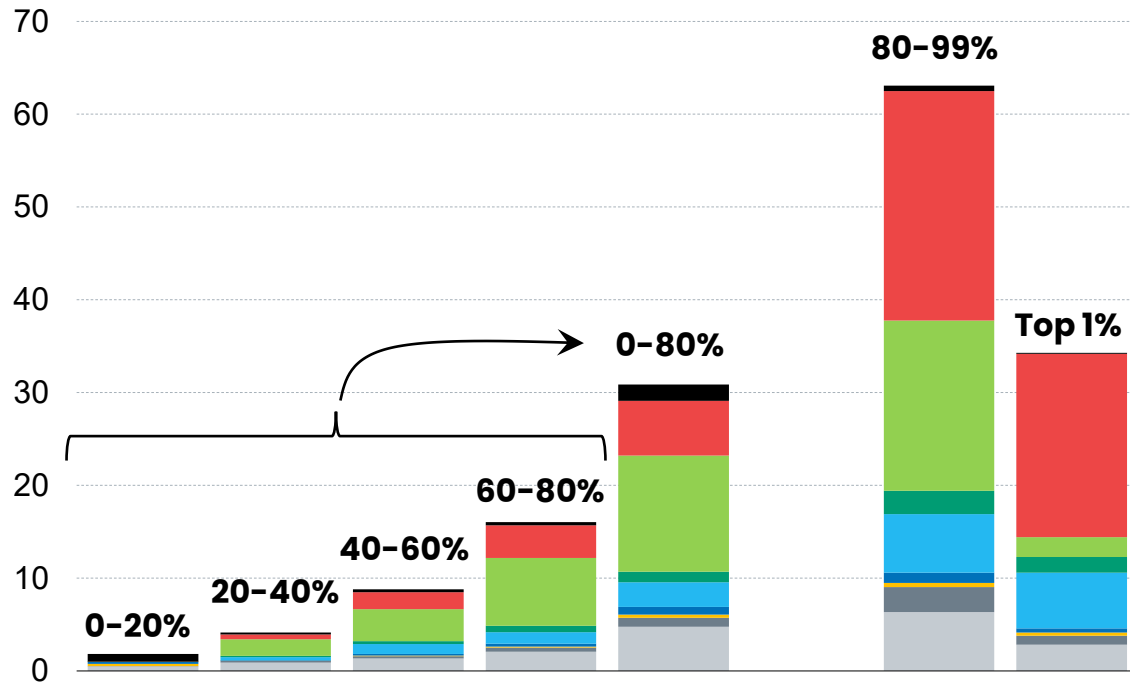
Sources: LSEG Datastream, FRBNY, Federal Reserve, Fitch, Candriam



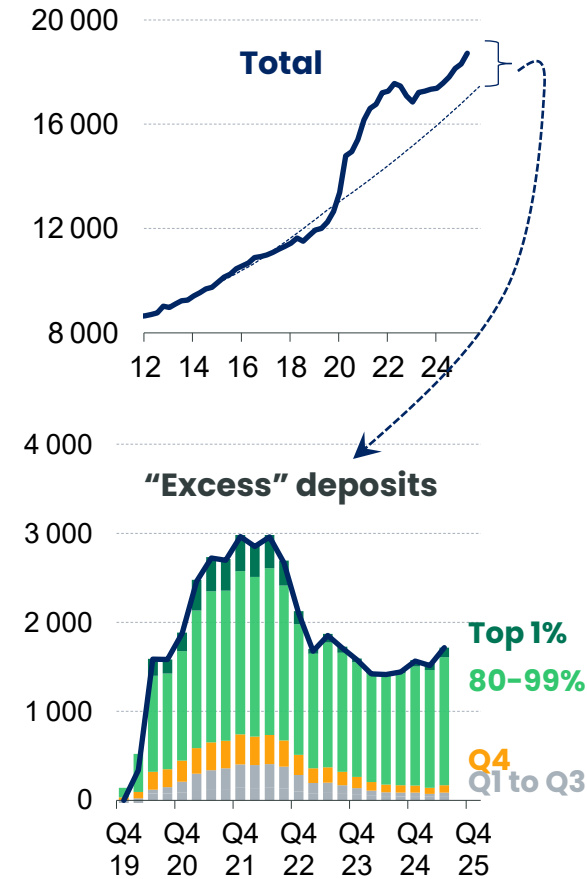
For high-income households, wealth effects have been very favorable over the last years

Household financial assets by income quintile

(\$ trillion, 2025 Q2)



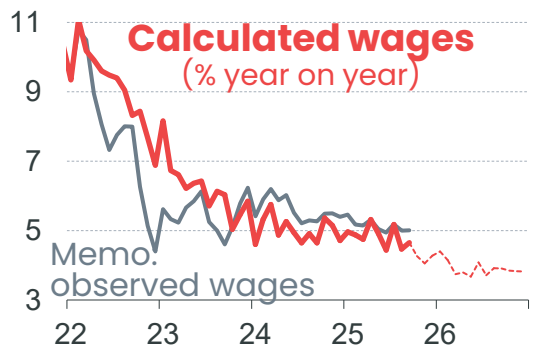
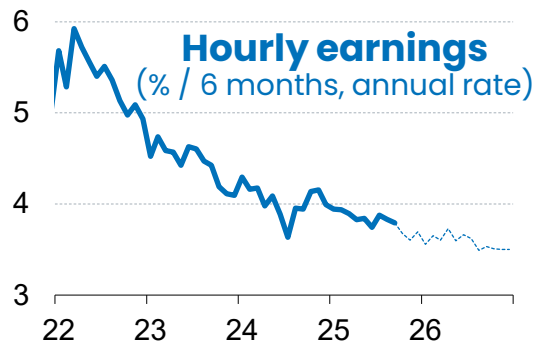
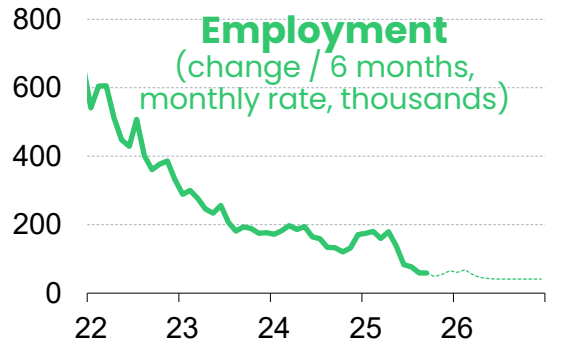
Household holdings of deposits and money market funds shares (\$ billion)



Sources: Federal Reserve, Candriam

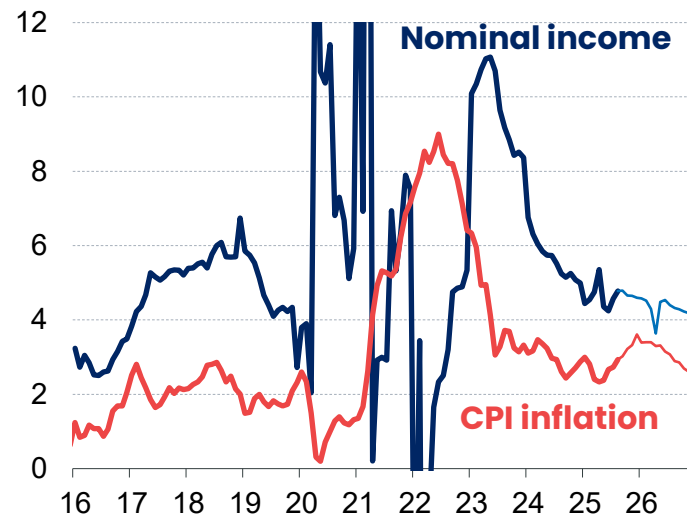


All in all, household consumption should slow... but not stall

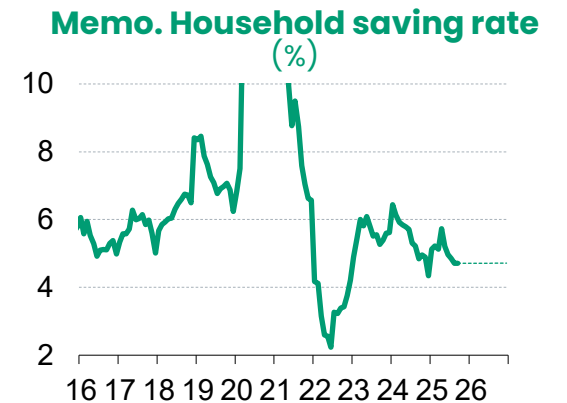
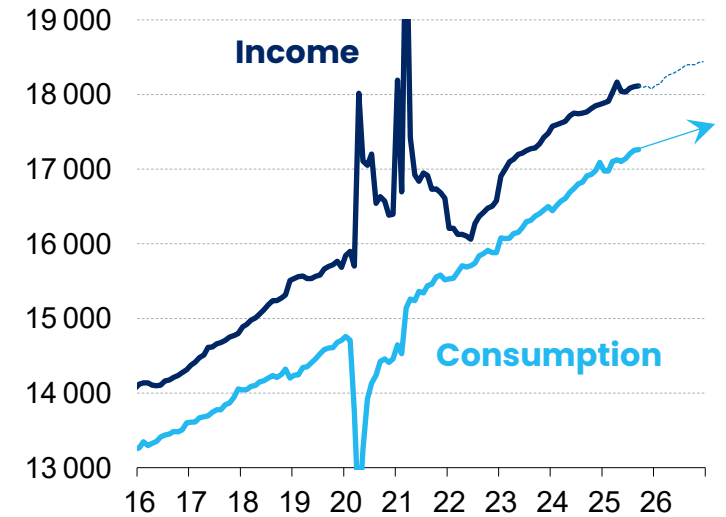


Sources: LSEG Datastream, BLS, BEA, Candriam

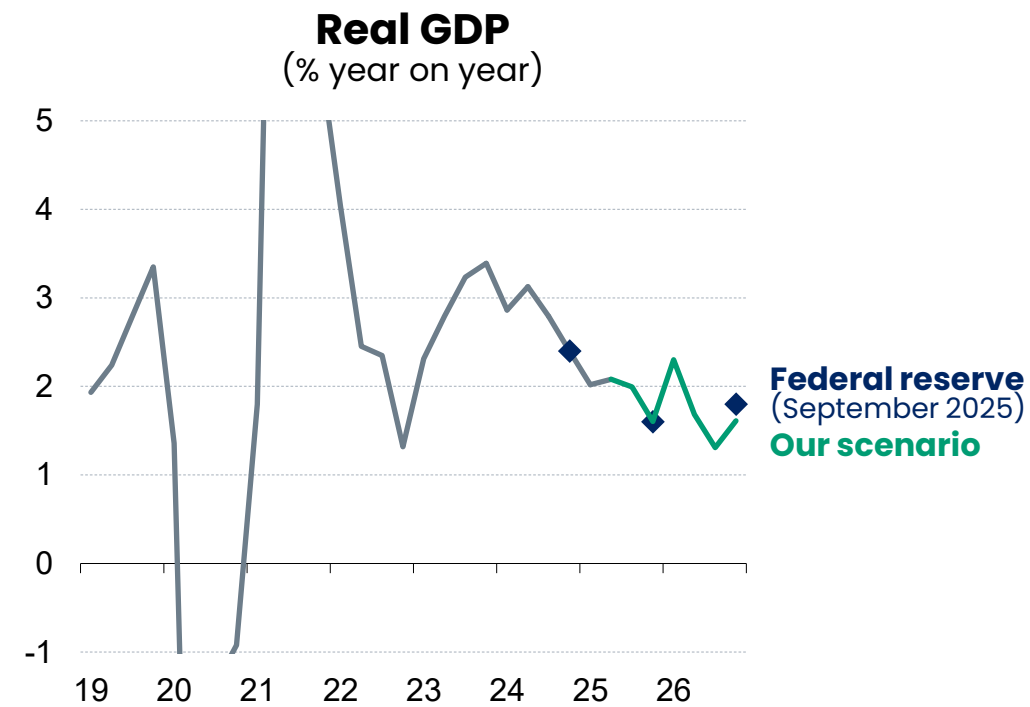
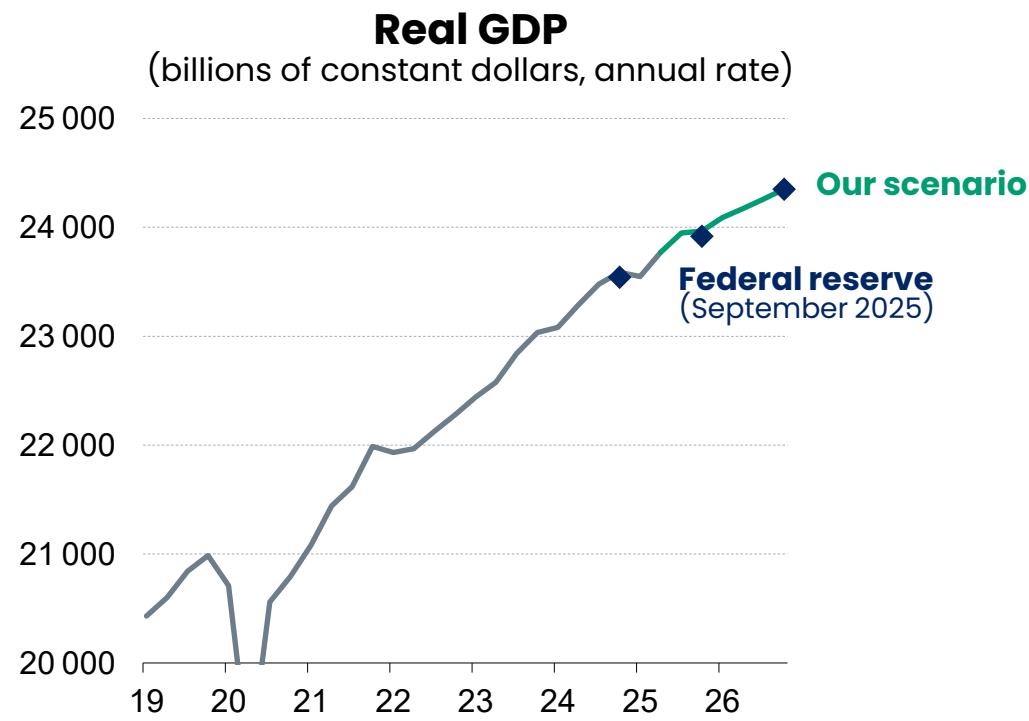
Disposable income and inflation
(% year on year)



Real disposable income and consumption
(billions of constant dollars, annual rate)



We continue to expect growth to decelerate, but a recession should be avoided

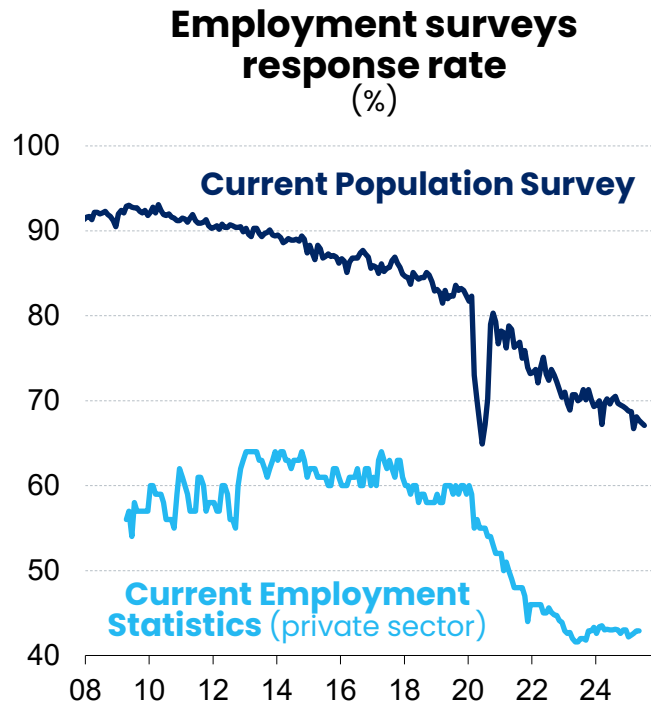


Sources: LSEG Datastream, Federal Reserve, Candriam



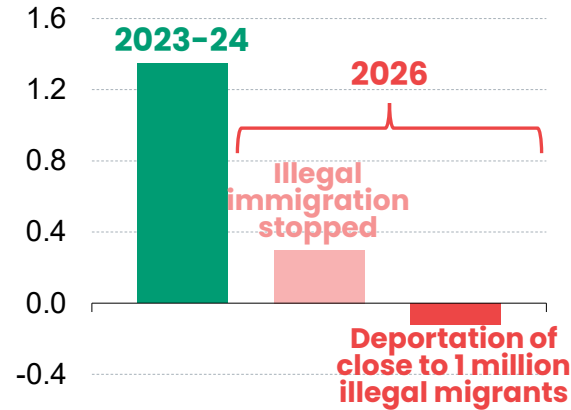
The task of the Fed is far from easy

Data quality

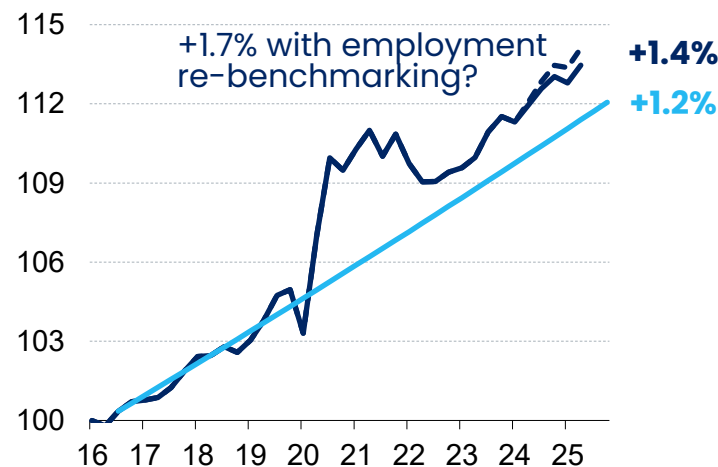


Speed limit

Labor force growth in 2026 depending on immigration policy (% annual rate)

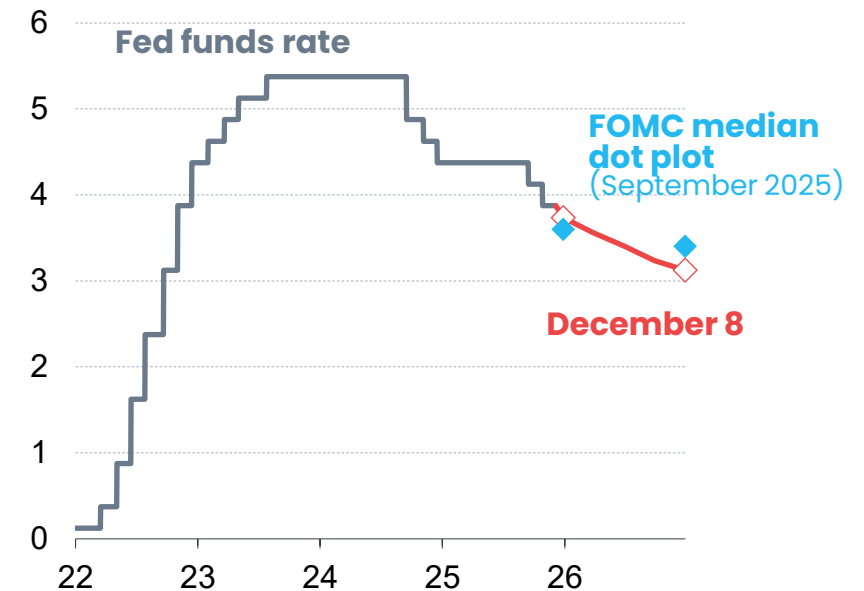


Real GDP per employee (2016 Q1 = 100)



Political pressure

Fed funds rate and expectations (%)

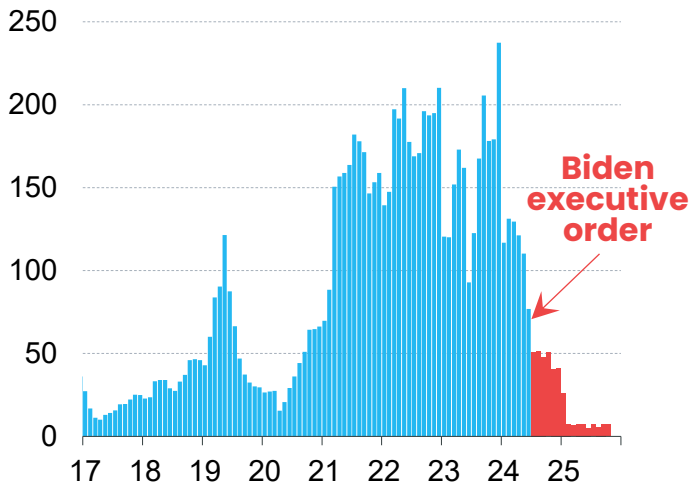


Sources: BLS, LSEG Datastream, Candriam



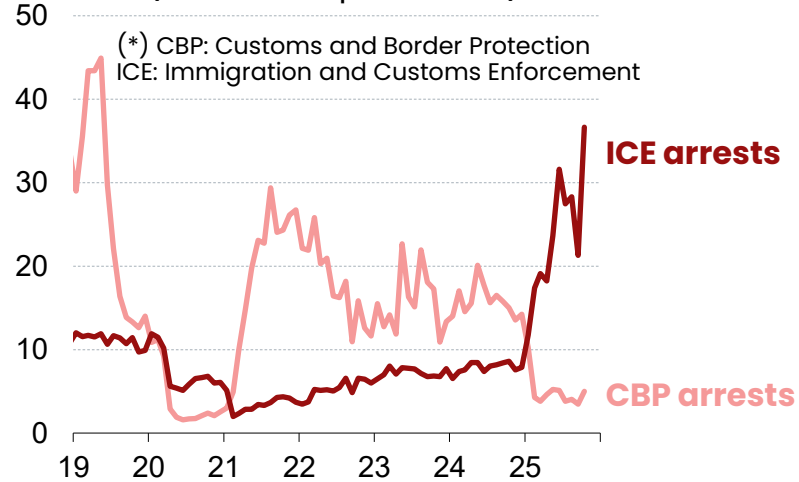
Tougher immigration policy...

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

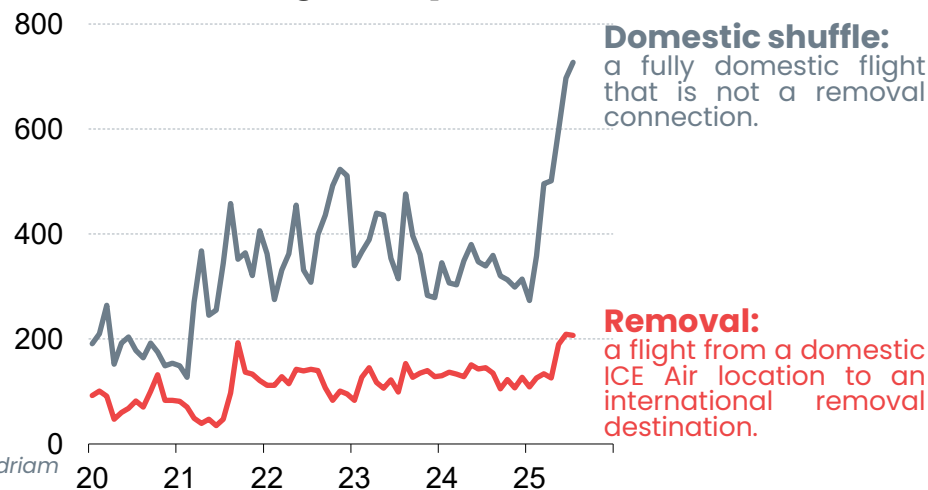


Sources: Customs and Border Protection,
TRAC Immigration, Witness at the Border, CBO, Candriam

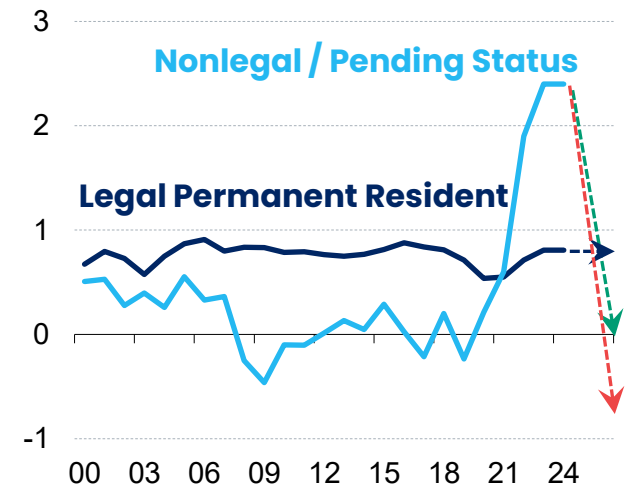
ICE & CBP arrests*
(thousands per month)



ICE air flights by month



Net immigration by type
(year on year, millions)



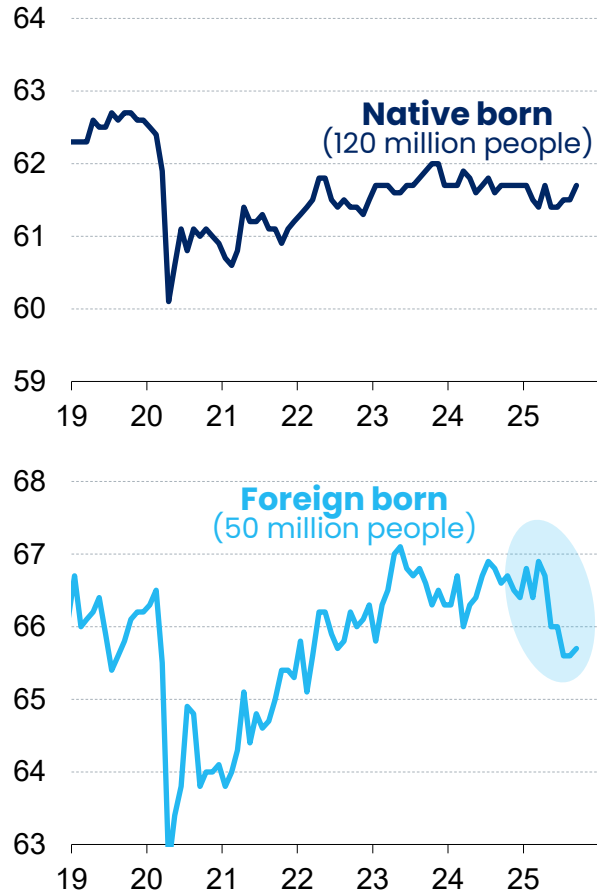
If illegal immigration is halted, the working-age population would only grow by +0.6% (as against a 1.1% annual increase over 2022-24).

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



... is curbing the growth in the labor force

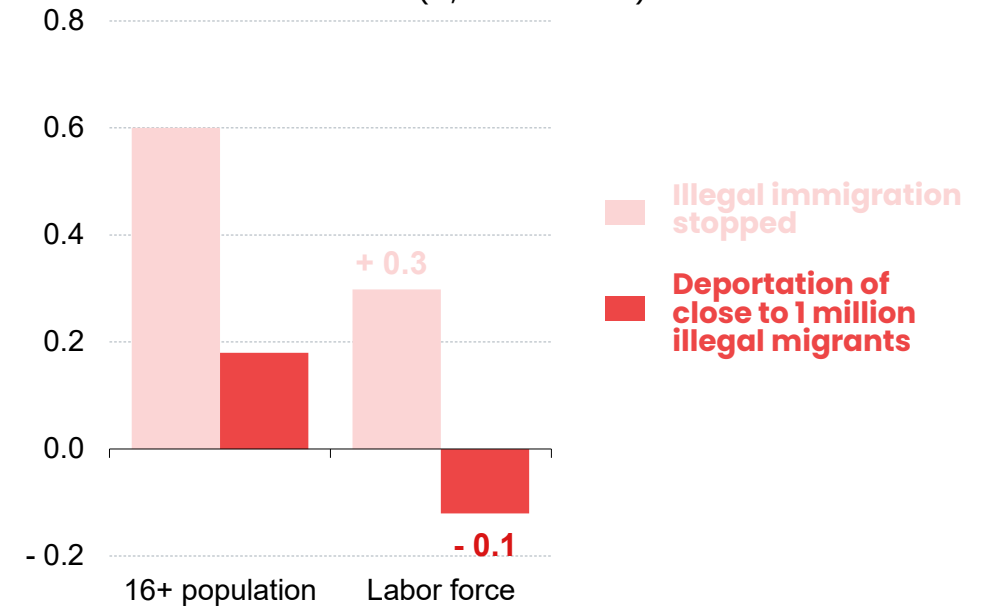
Participation rate
(%)



Labor force participation rate
(%)



**Population and labor force growth in 2026
depending on immigration policy**
(%, annual rate)



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

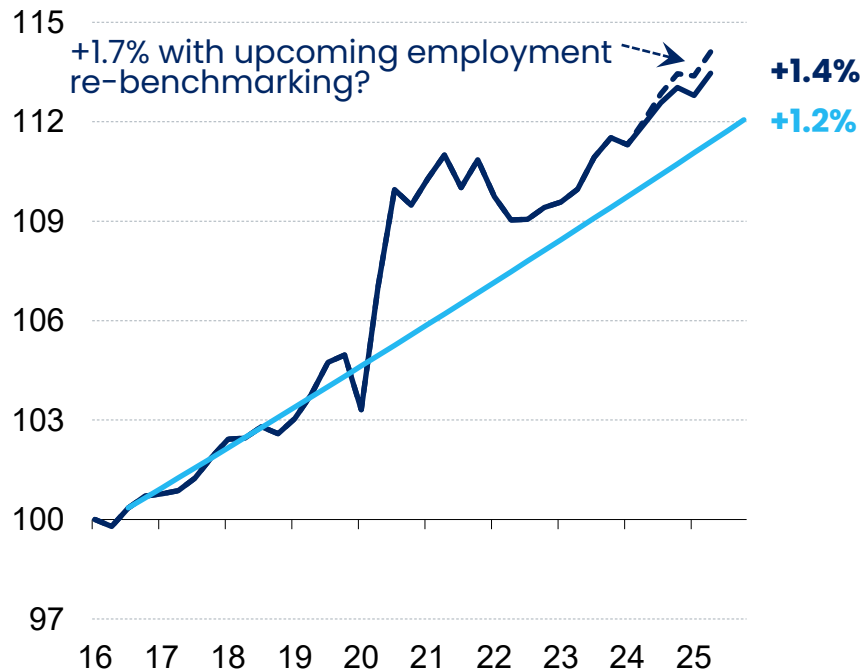
- Increase by 40,000 at a monthly pace if illegal immigration is stopped
- Decrease by 15,000 at a monthly pace if 1 million migrants are deported

Sources: BLS, Candriam

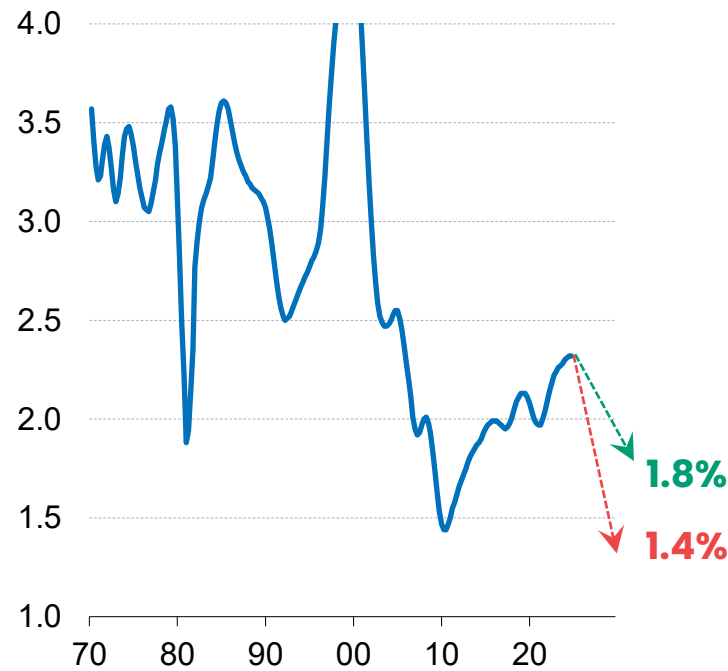


The acceleration in trend productivity is uncertain

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:

$$0.3\% + 1.4 / 1.7\% = 1.7 / 2.0\%$$

Labor force
population

Real GDP
per employee

Potential
growth

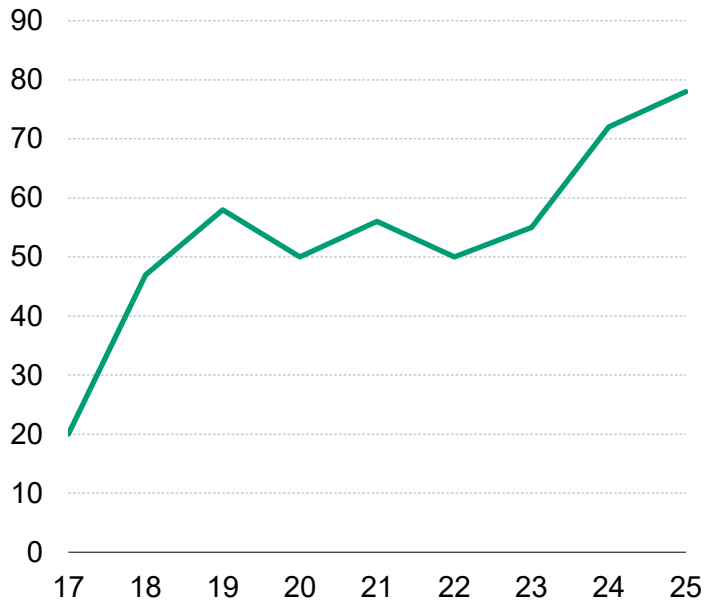
Removing 1 million illegal migrants per year would reduce potential growth to 1.5% at best:

$$-0.1\% + 1.4 / 1.7\% = 1.3 / 1.6\%$$



Memo. 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)

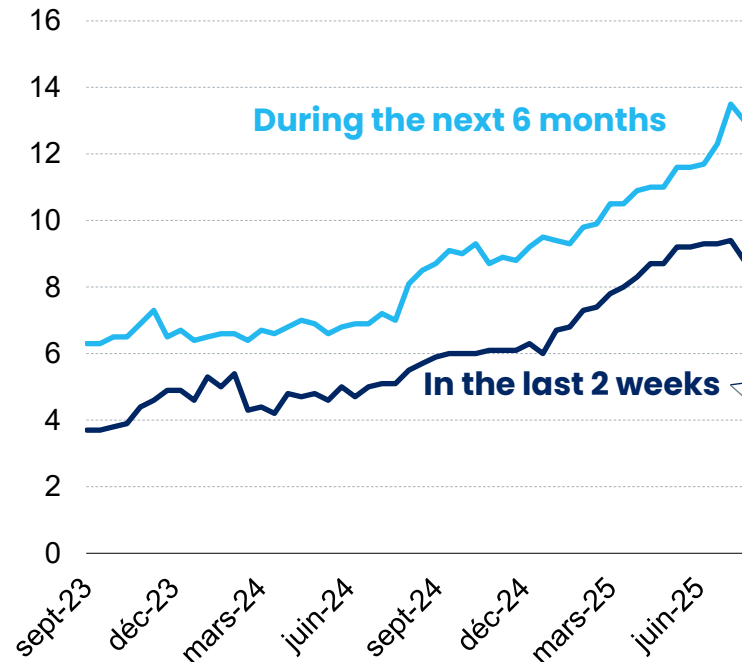


(*) Mc Kinsey sample is worldwide with a heavy representation of large corporations.

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

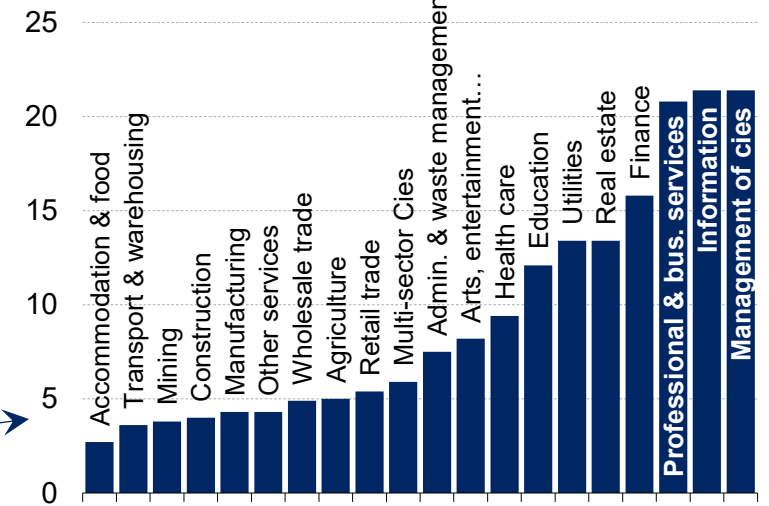
Sources: Mc Kinsey, Census Bureau, Candriam

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

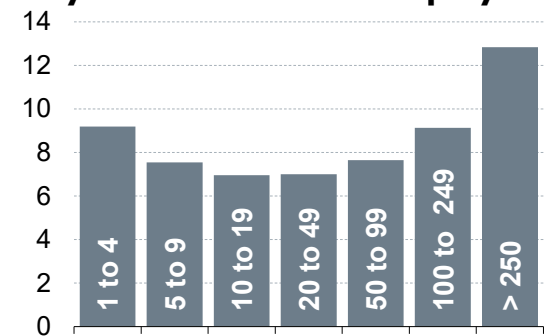


(**) Examples of AI: machine learning, natural language processing, virtual agents, voice recognition, etc.

By sector

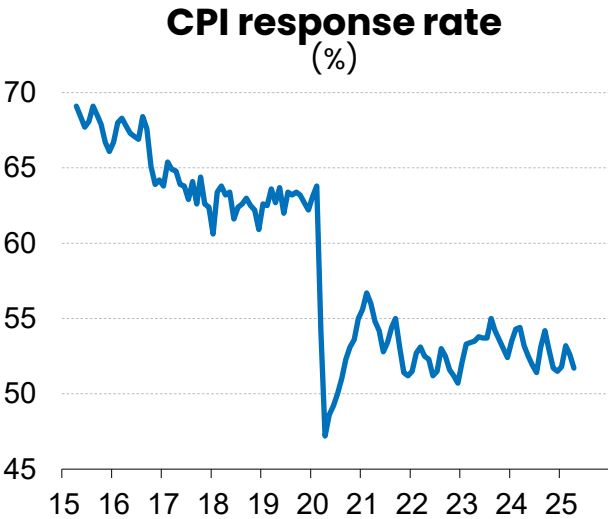
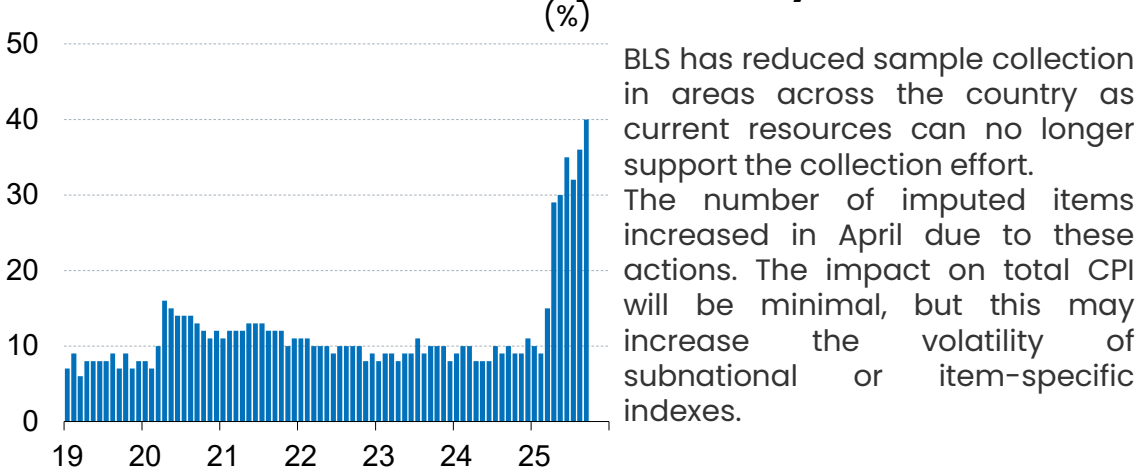


By number of firm's employees



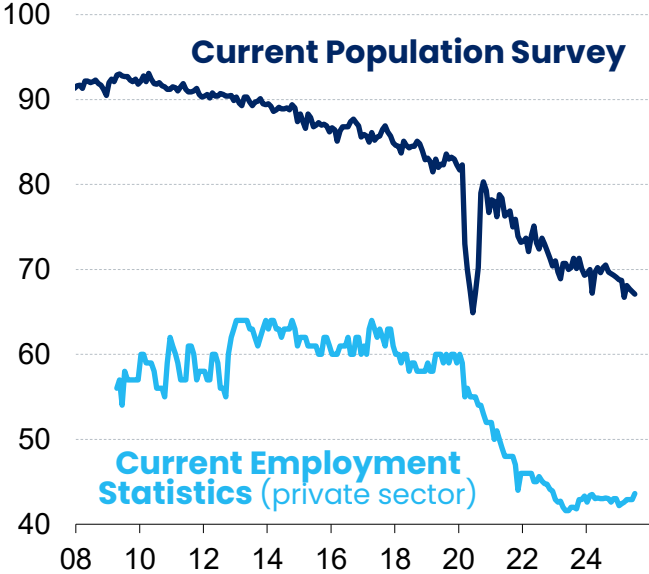
Beyond uncertainty on the supply side, data quality is also complicating the task of the Fed

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

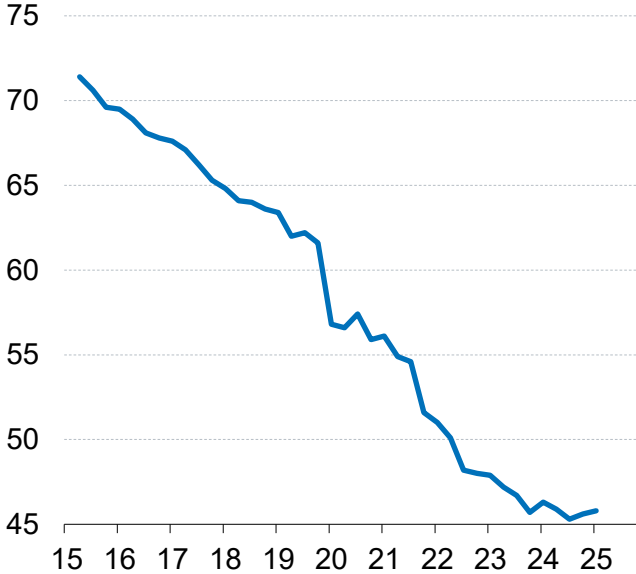


Sources: BLS, Candriam

Employment surveys response rate (%)

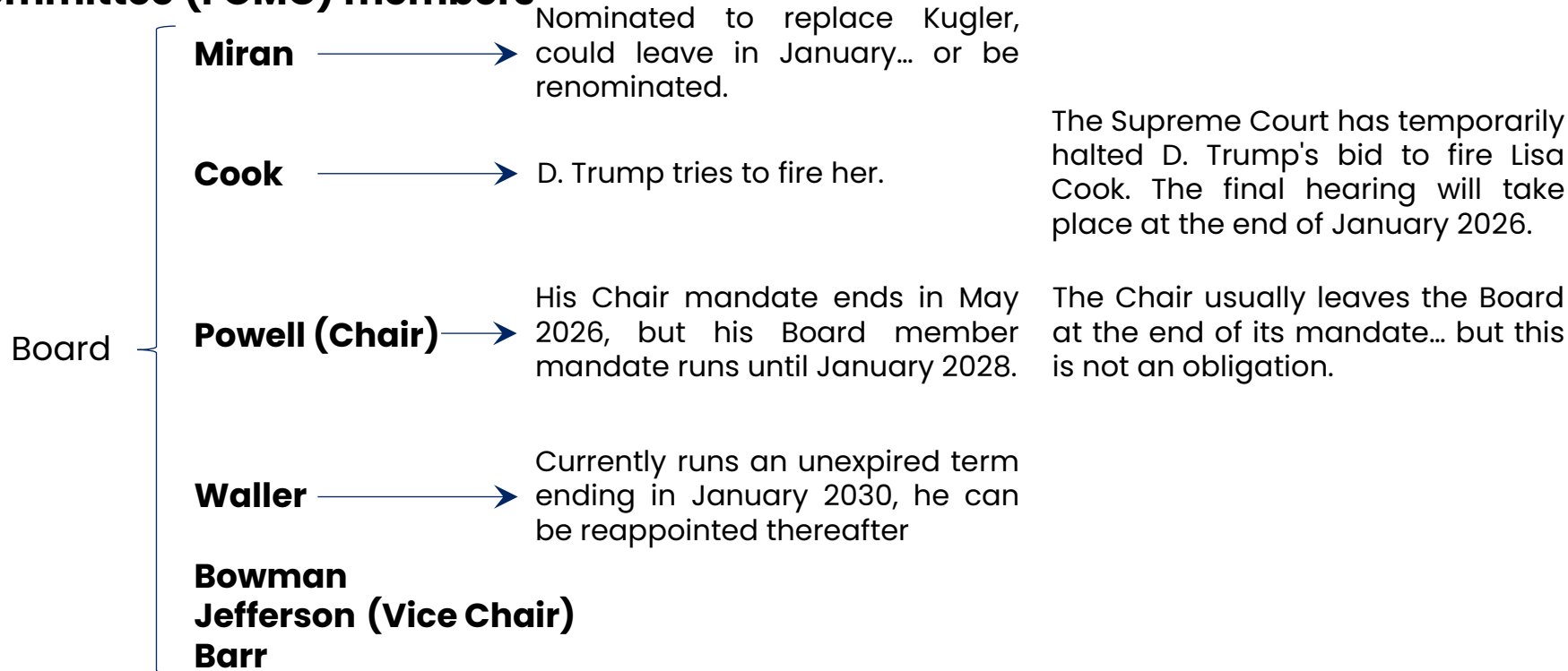


Employment Cost Index response rate (%)



The Fed could turn more dovish if the FOMC is reshuffled

Federal Open Market Committee (FOMC) members



The Supreme Court has temporarily halted D. Trump's bid to fire Lisa Cook. The final hearing will take place at the end of January 2026.

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

If Lisa Cook is dismissed before February 2026, D. Trump could be tempted to remove some regional Fed presidents to take control of the FOMC.

If Jerome Powell decides to leave the Fed in May, D. Trump will have the control of the Board of the Fed.

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, 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, regional Fed presidents are appointed by the regional Fed Class B and C directors.

Sources: Federal Reserve, Candriam

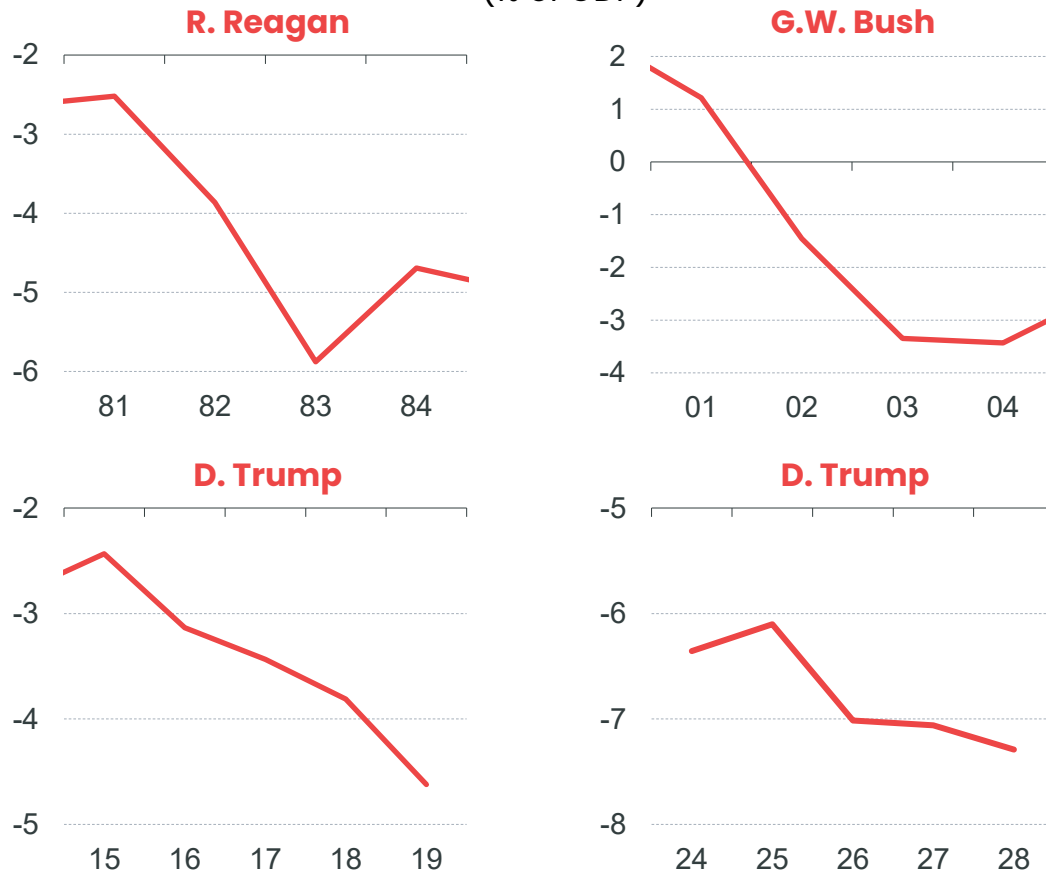


White House economic and fiscal projections are far more optimistic than any credible estimate!

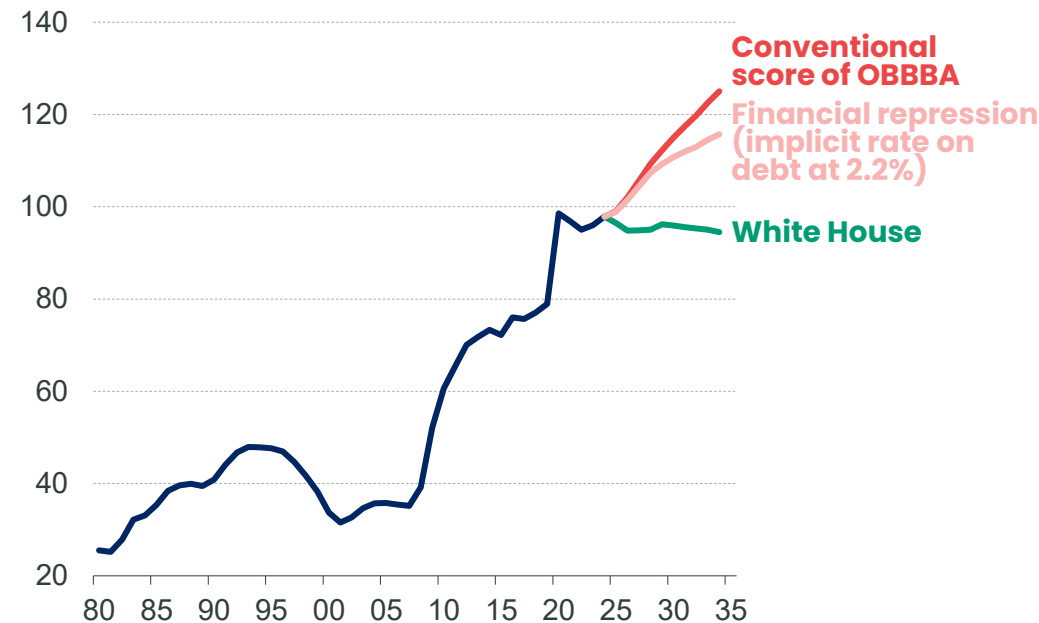
Tax cuts rarely pay for themselves!

**Federal government balance
in 4 episodes of tax cuts**

(% of GDP)



Simulated federal debt trajectories
(% of GDP)



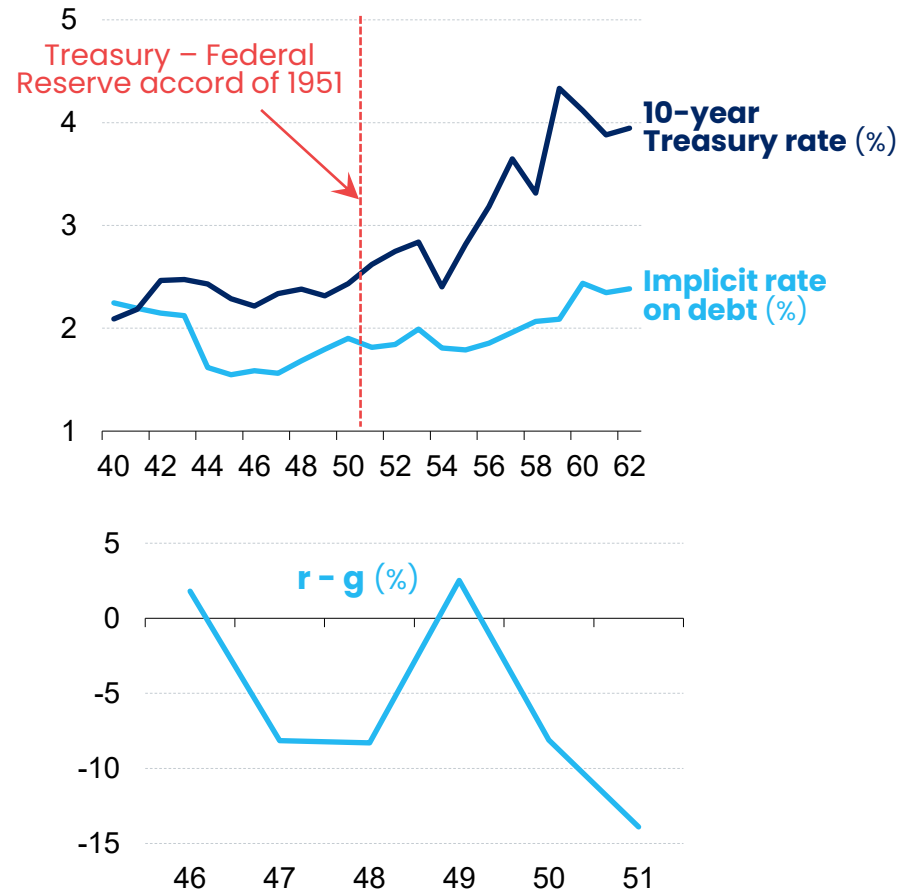
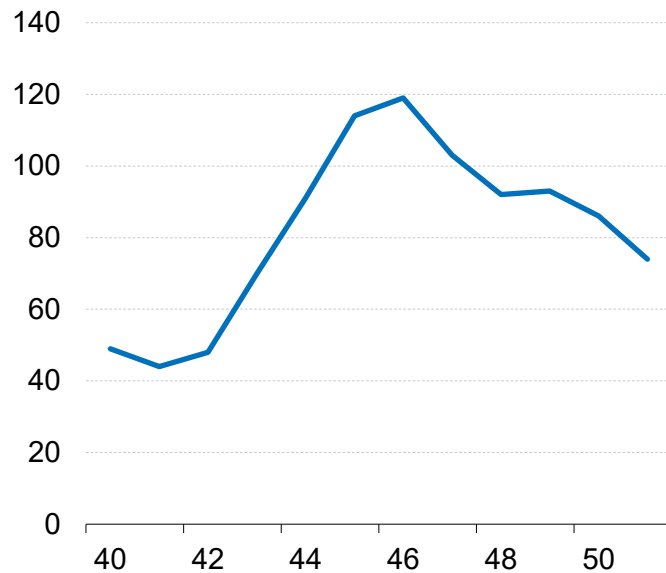
Sources: CBO, Council of Economic Advisers, Candriam



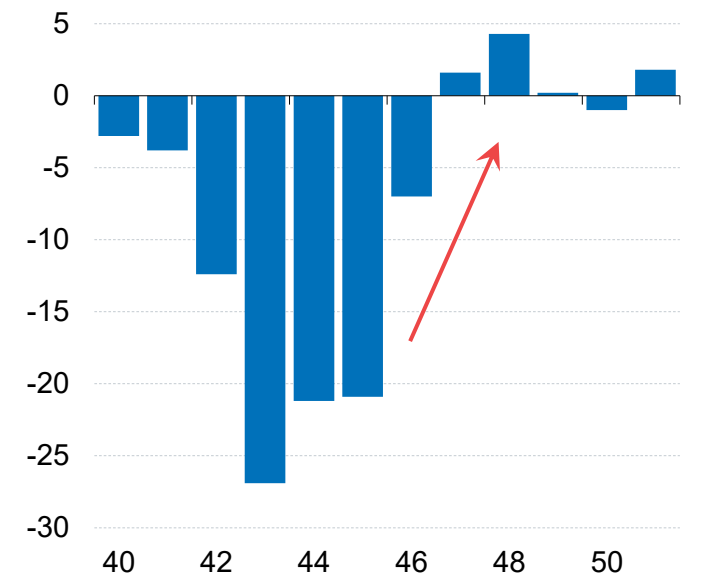
A “yield curve control regime” could help curb the rise in the public debt ratio... but the episode of the 1940s reminds us of the need to rebalance the public deficit!

Yield Curve Control: 1942 to 1951

Federal government debt
(% of GDP)



Federal government balance
(% of GDP)

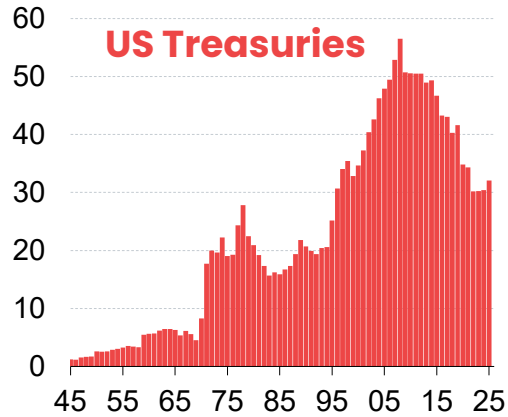


Sources: US Treasury, Candriam

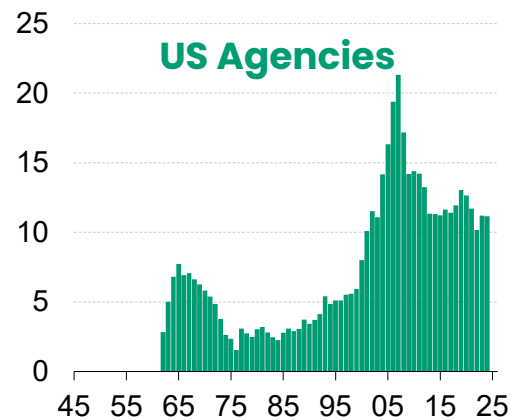


Moreover, in the 1940s, the debt was largely held domestically!

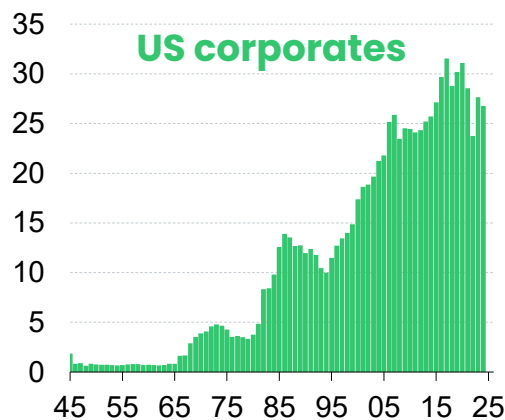
Foreign share of total debt securities outstanding since 1945 (%)



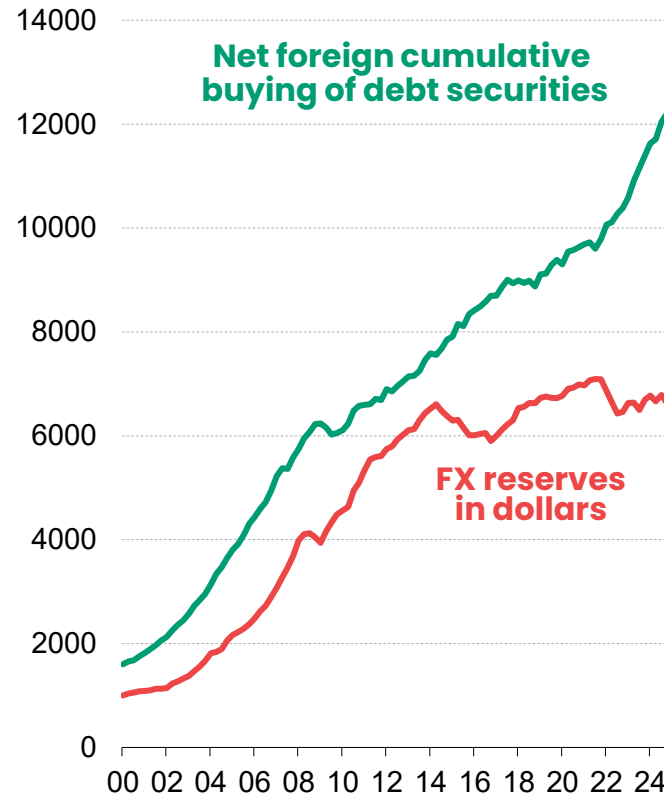
US Agencies



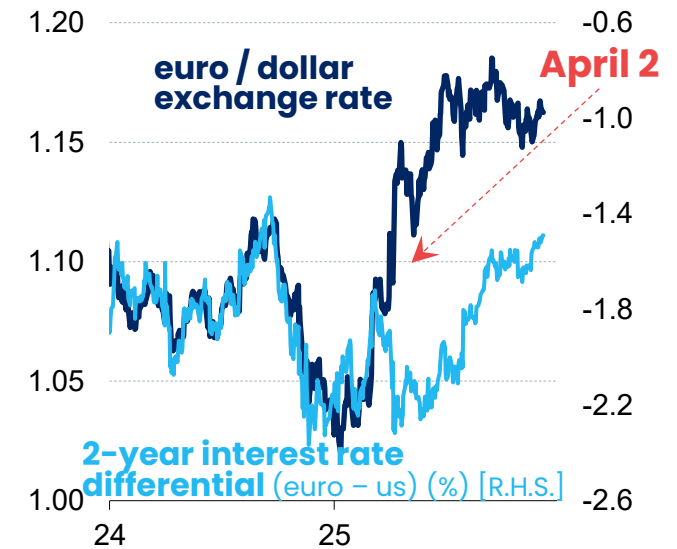
US corporates



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



Interest rate differential and euro dollar exchange rate

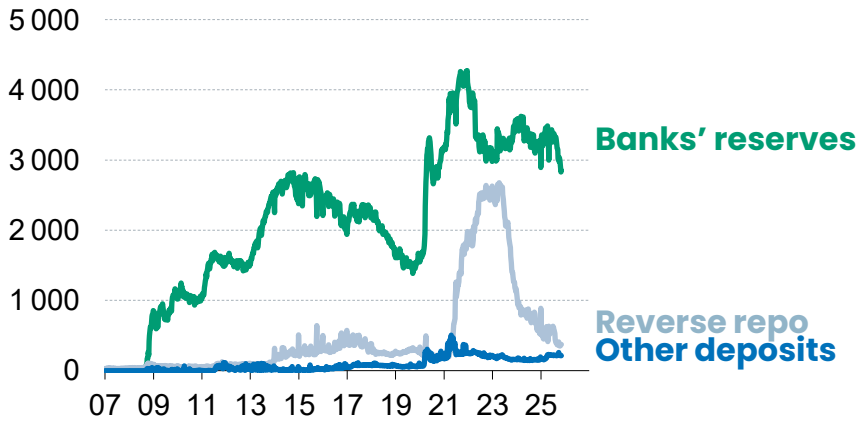
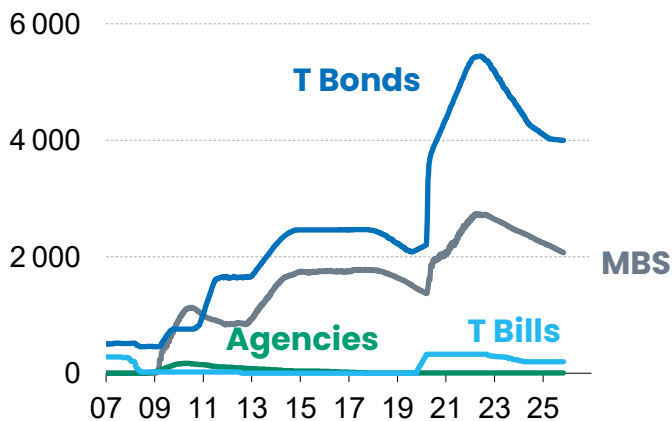
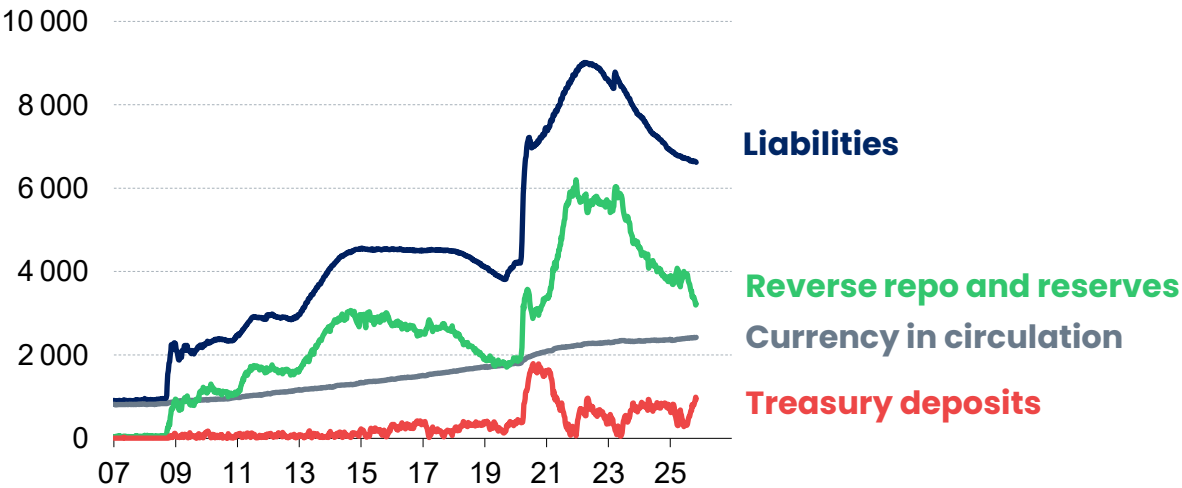
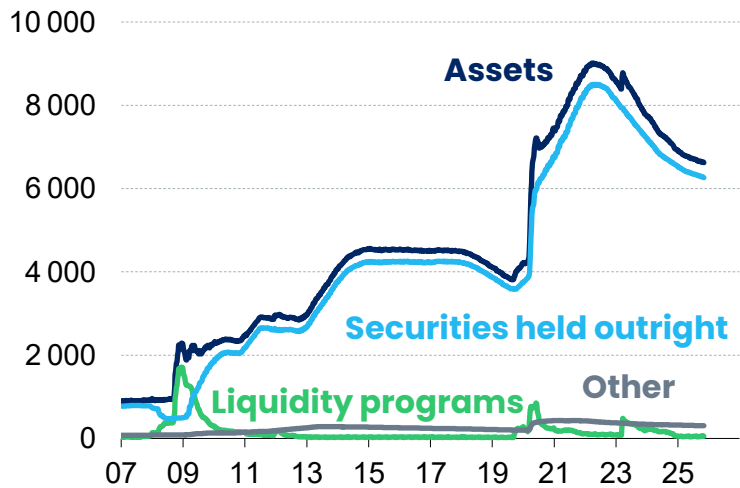


Sources: Federal Reserve, LSEG Datastream, Candriam



Memo. Federal Reserve balance sheet

Balance sheet of the Federal reserve
(\$ billion)



Sources: LSEG Datastream, Federal Reserve, Candriam



Memo. Money market

Central bank liquidity

(\$ billion)

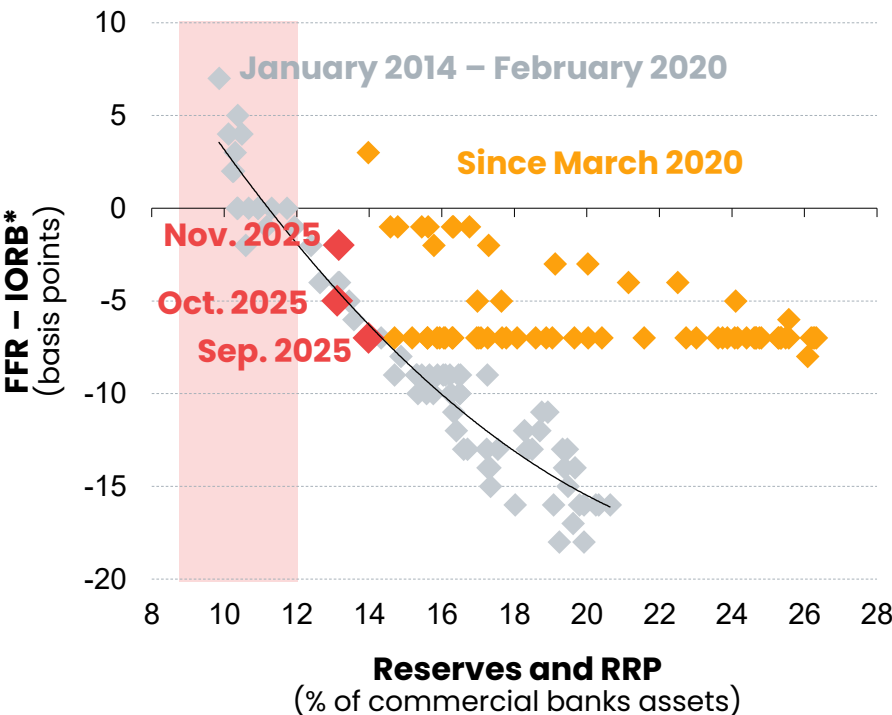


(% of commercial banks assets)



Sources: LSEG Datastream, Federal Reserve, Candriam

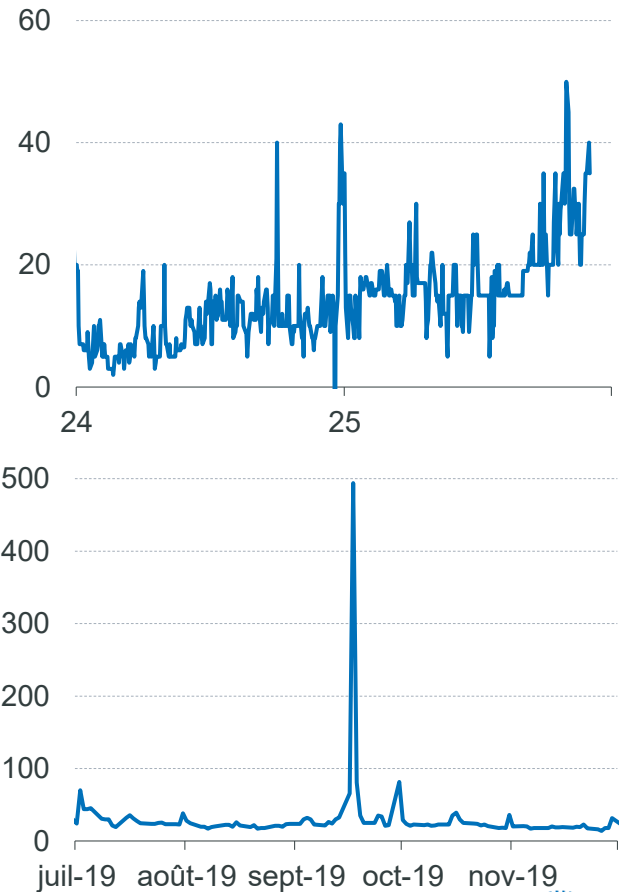
Federal Reserve liquidity and tensions on Fed funds rate



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

Repo market tensions

O/N General Collateral Repo Rate
minus Fed Reverse Repo Rate
(basis points)



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, 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



Memo. Section 122 of the Trade Act of 1974

Under the Section 122 of the Trade Act of 1974, the President can increase tariffs up to 15% (for up to 150 days, unless extended by Congress)

Product coverage must be “broad and uniform”.

Section 122 says any import-restricting action “shall be of broad and uniform application with respect to product coverage,” with only narrow carve-outs (e.g., necessary raw materials, goods in transit, binding contracts). It also forbids tailoring the measure to protect particular industries.

Country coverage is generally nondiscriminatory.

But the President may target one or more countries with large or persistent balance-of-payments surpluses and exempt others. If used against, say, Japan under that clause, the surcharge would still have to be uniform across products (aside from the limited exceptions noted above).



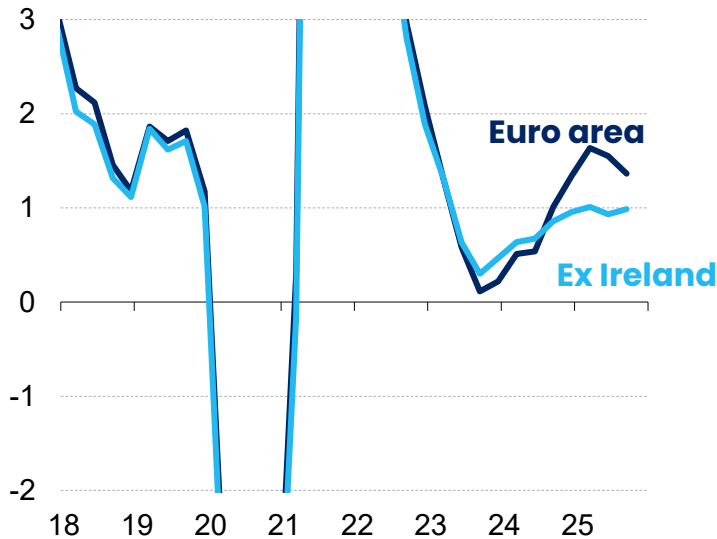
4 Euro area

Between the United States and China...



Since the beginning of 2025, GDP grew moderately in the euro area

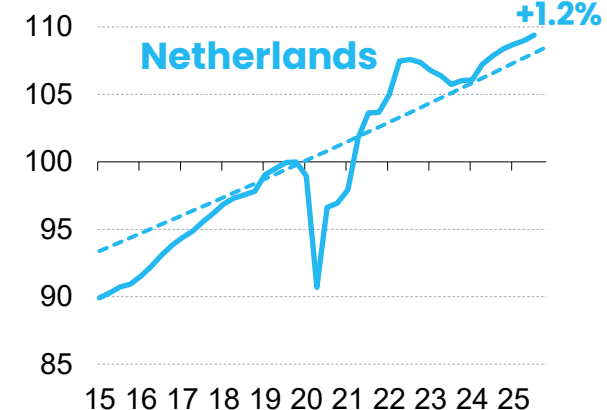
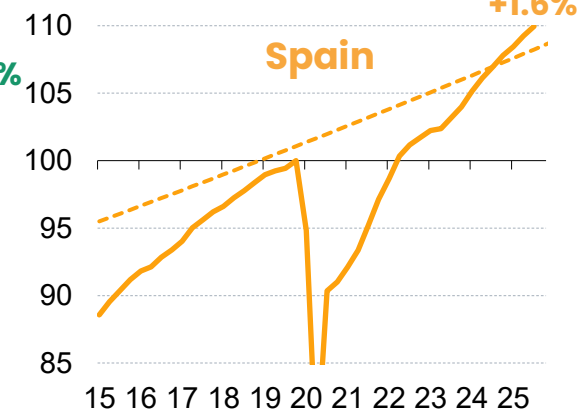
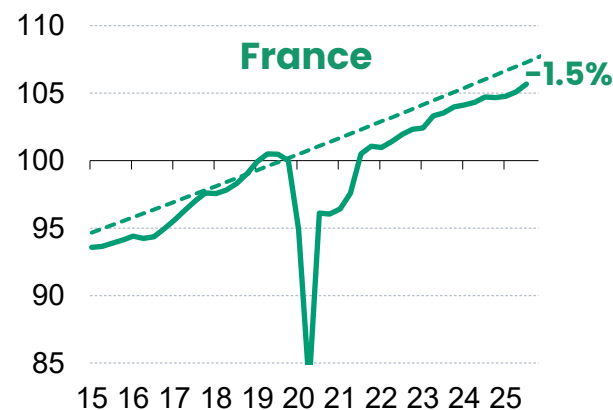
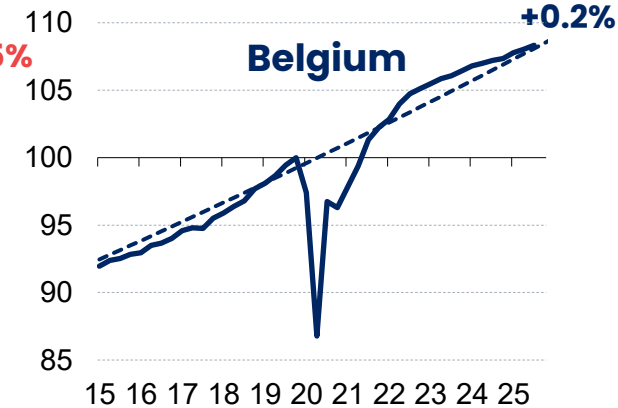
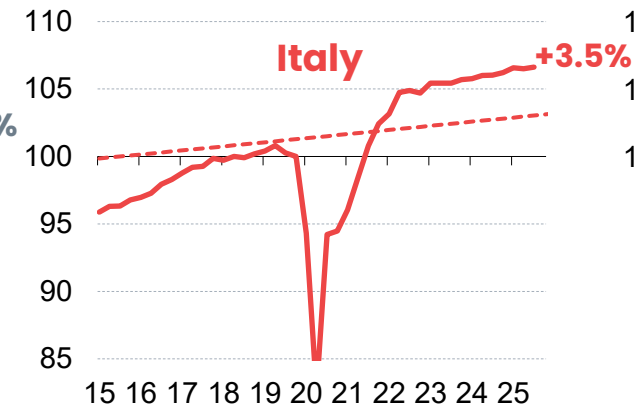
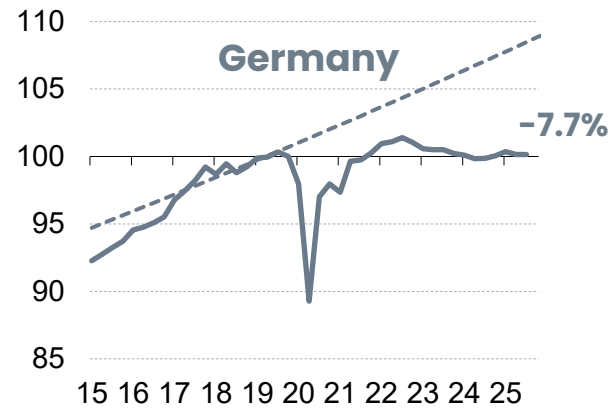
Real GDP growth
(% year on year)



Sources: LSEG Datastream, Candriam

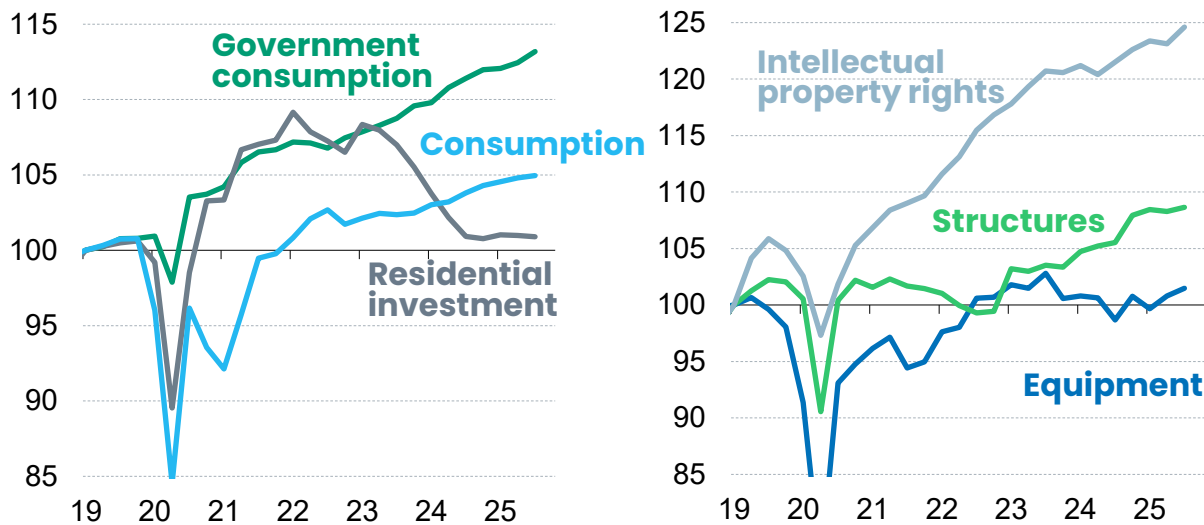
Real GDP

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

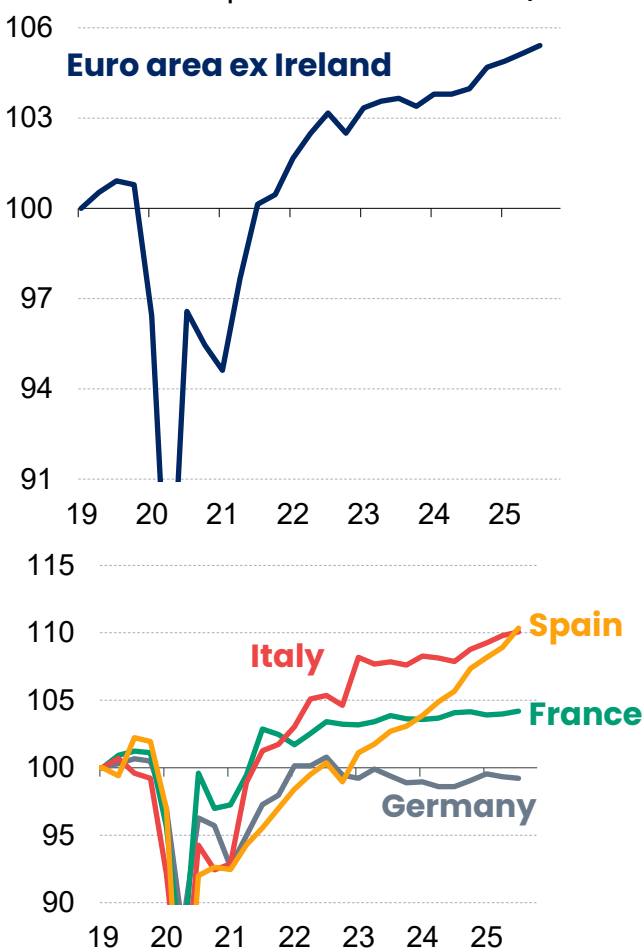


Domestic demand has barely accelerated... except in Spain

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



Domestic demand
(ex inventories and government consumption, 2019 Q1 = 100)

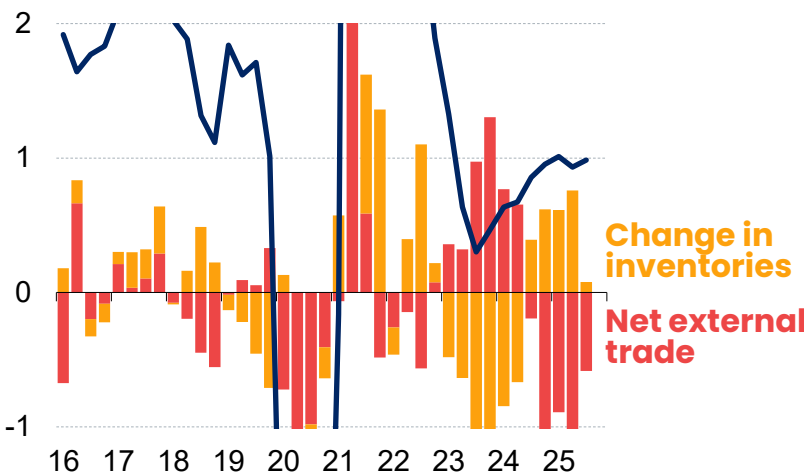
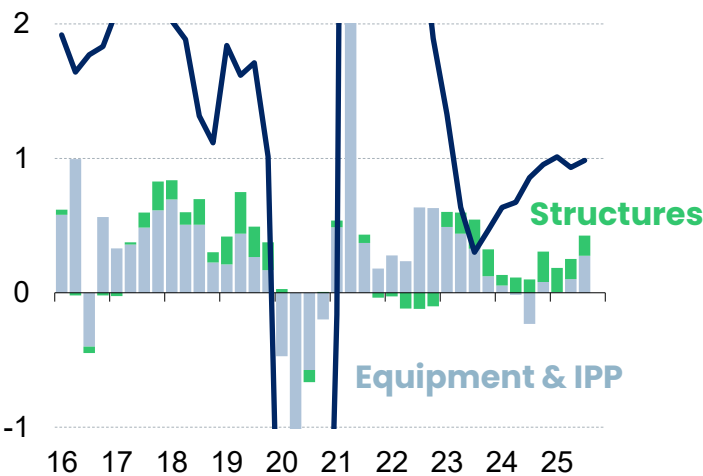
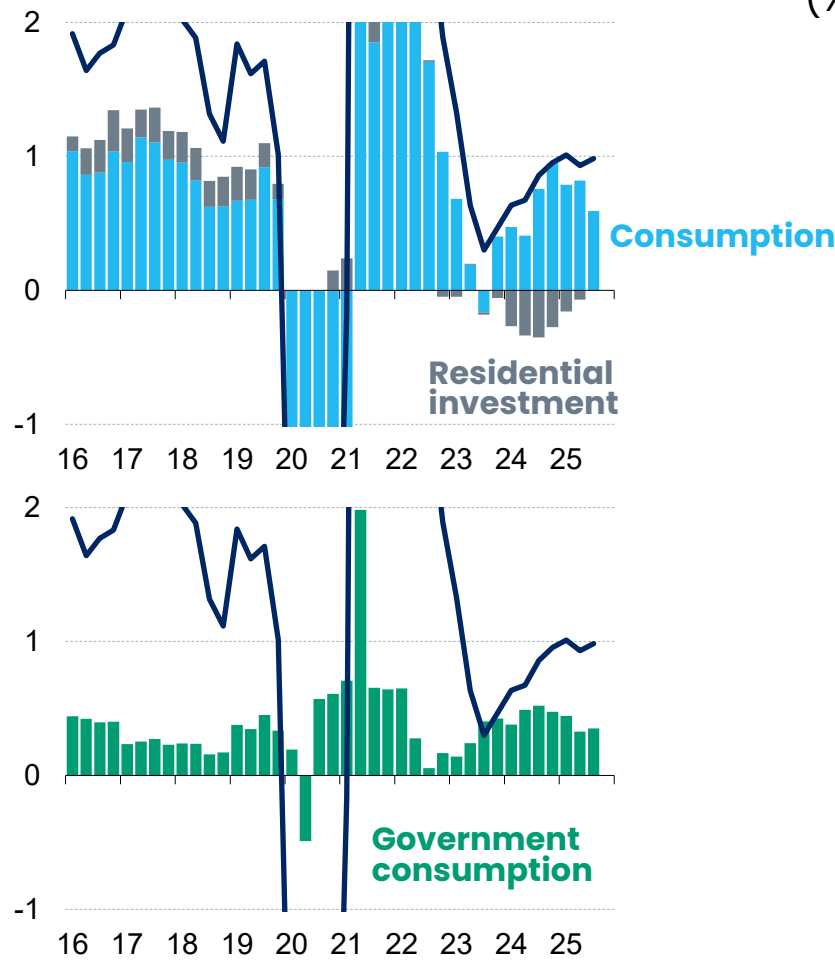


Sources: LSEG Datastream, Candriam



Memo. Components of GDP growth

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



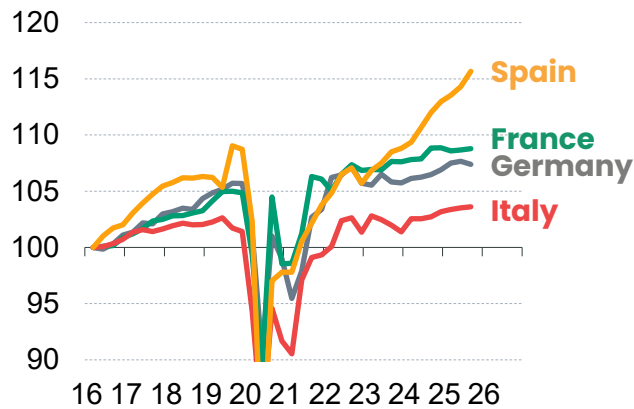
Sources: LSEG Datastream, Candriam



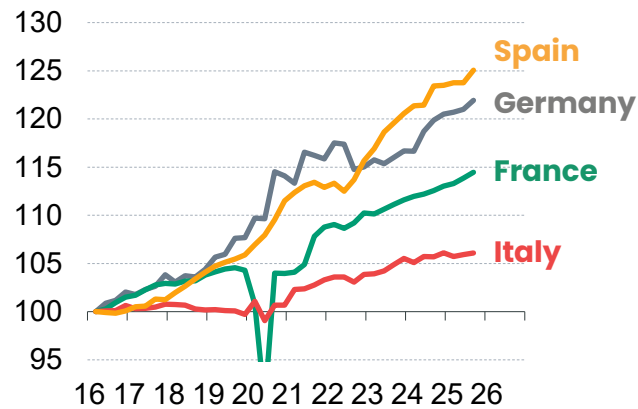
GDP components' evolution has been rather different across countries

(2016 Q1 = 100, volume)

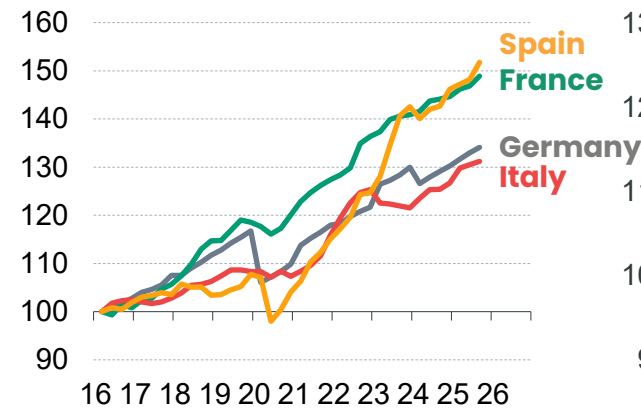
Private consumption



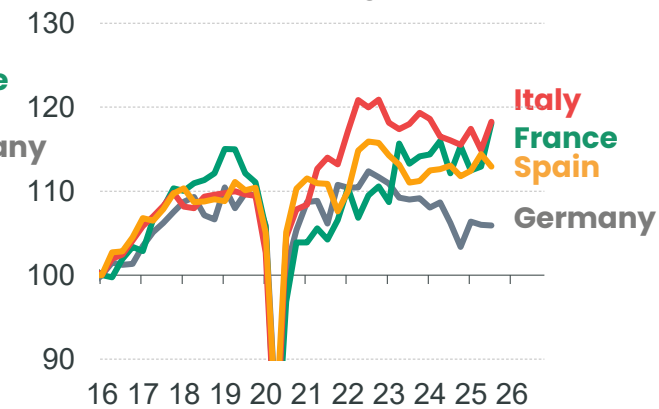
Government consumption



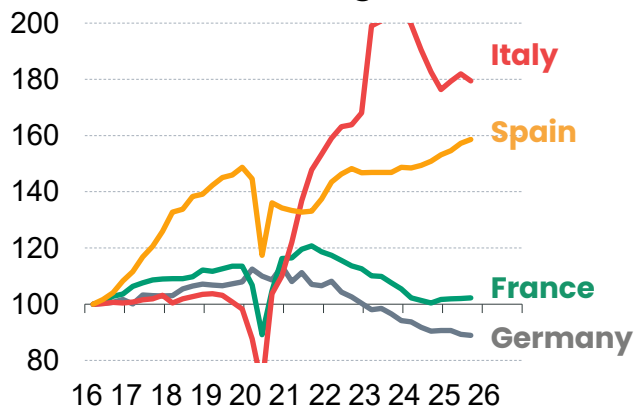
IPP investment



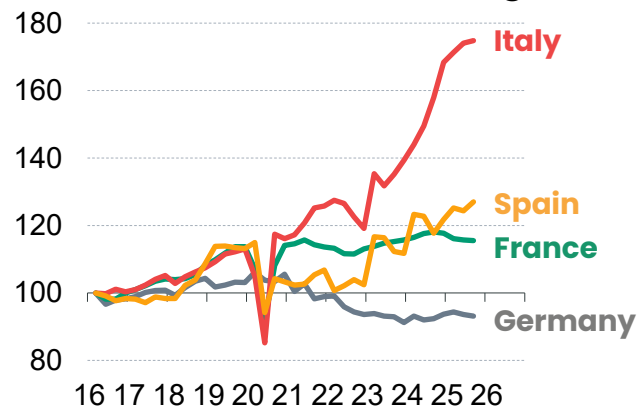
Exports of goods



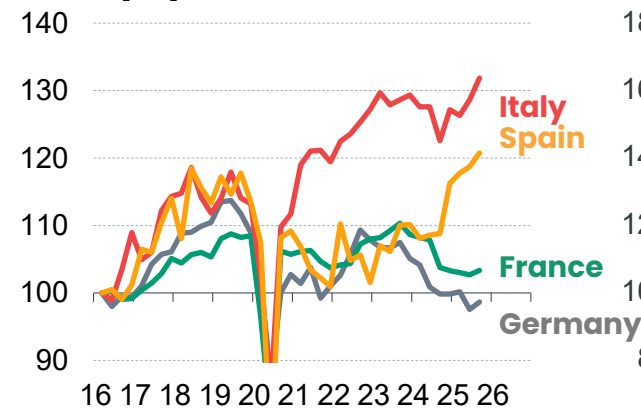
Dwellings



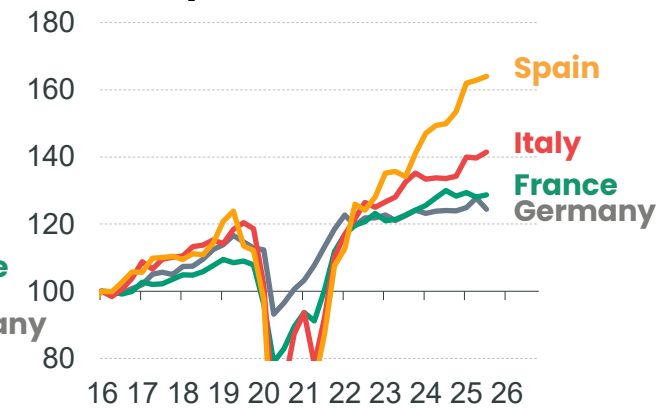
Non-residential building



Equipment investment



Exports of services

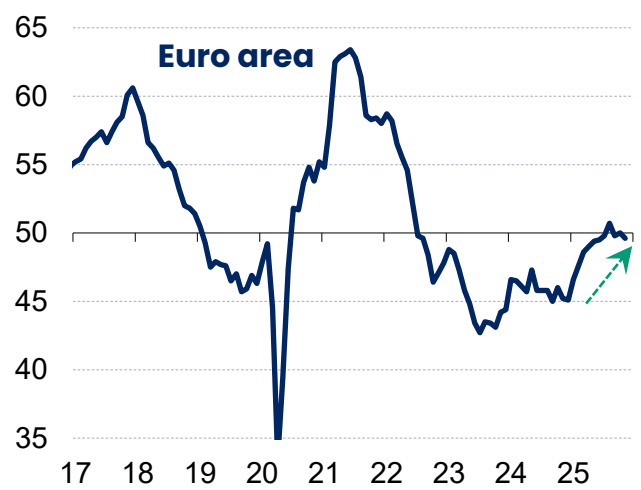


Sources: LSEG Datastream, Candriam

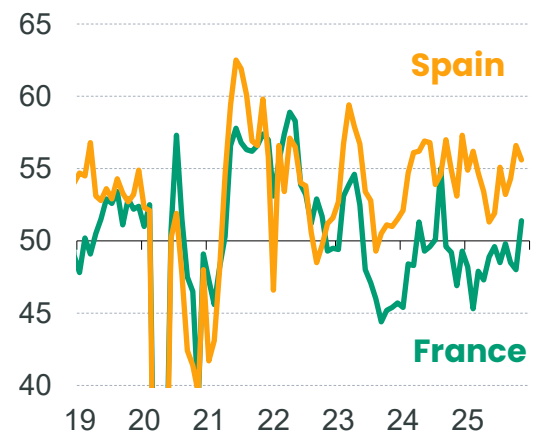
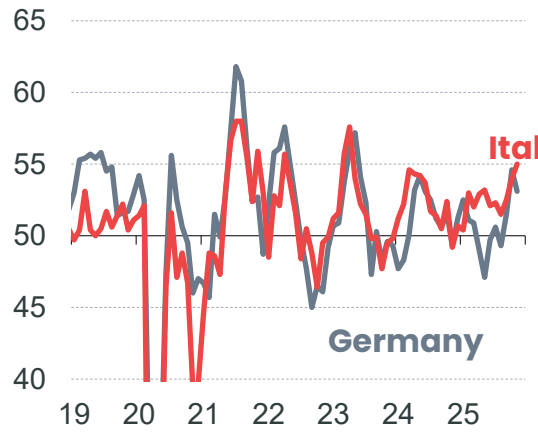
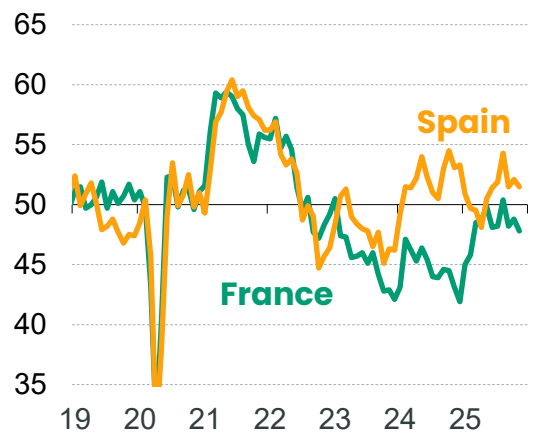
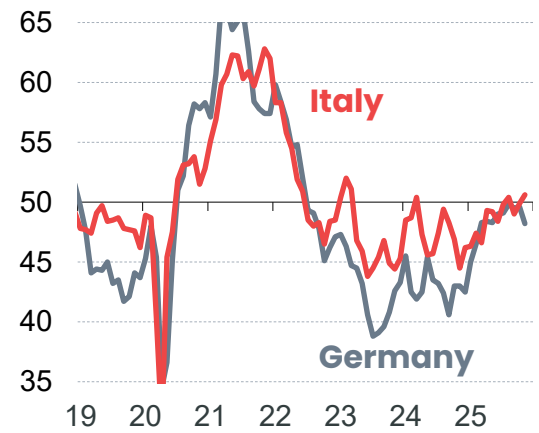
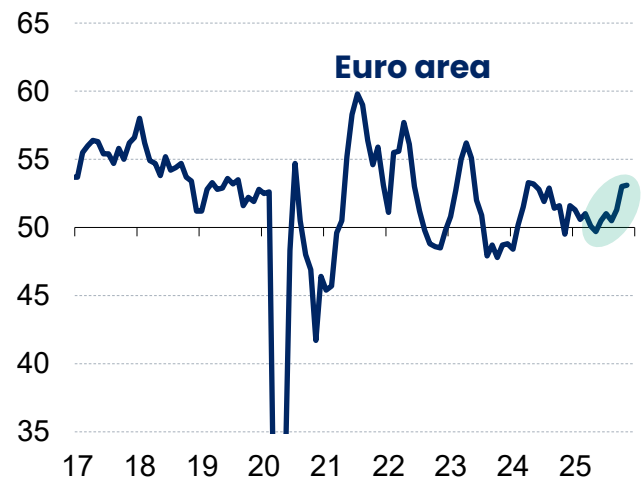


PMI indices are better oriented...

Manufacturing PMIs



Services PMIs

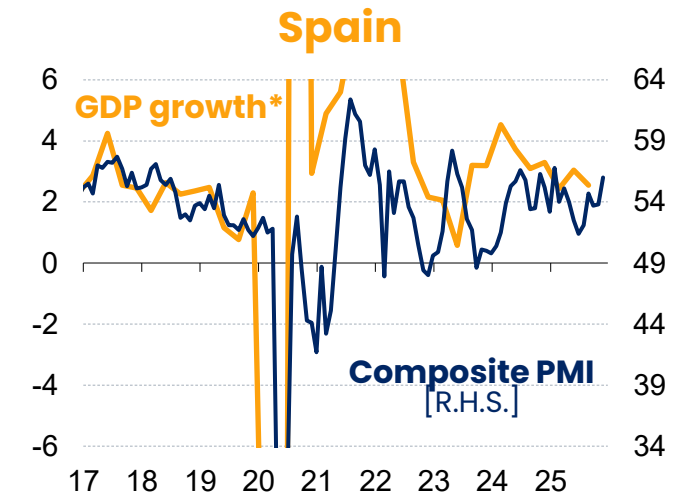
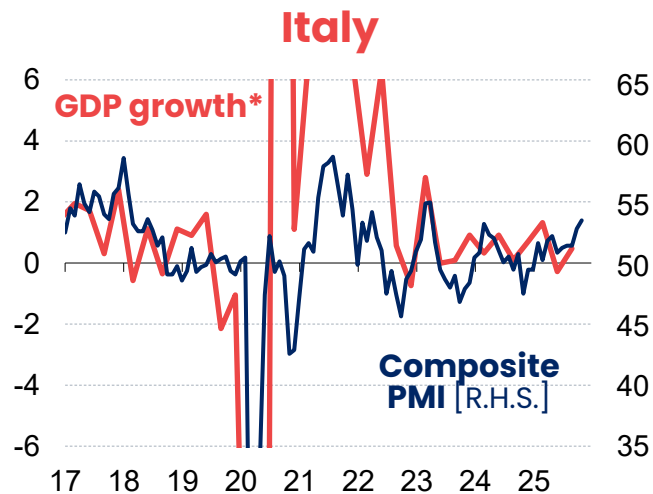
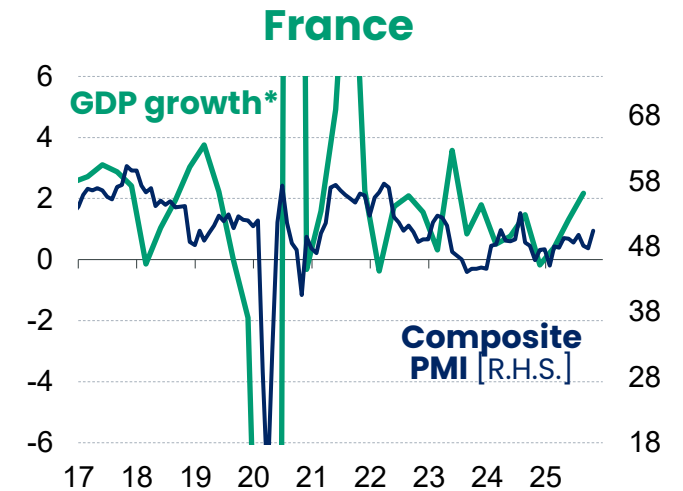
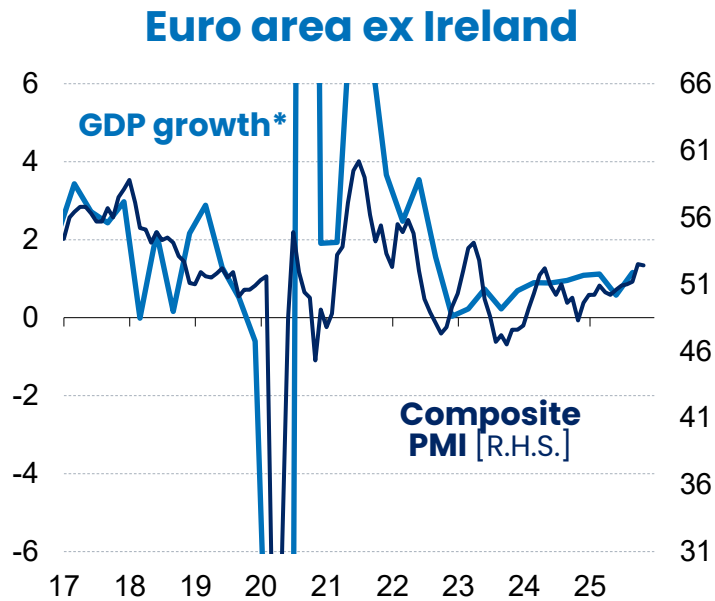


Sources: Bloomberg, Candriam



... and point to some pick up in growth... especially in Germany

Composite PMIs and GDP growth

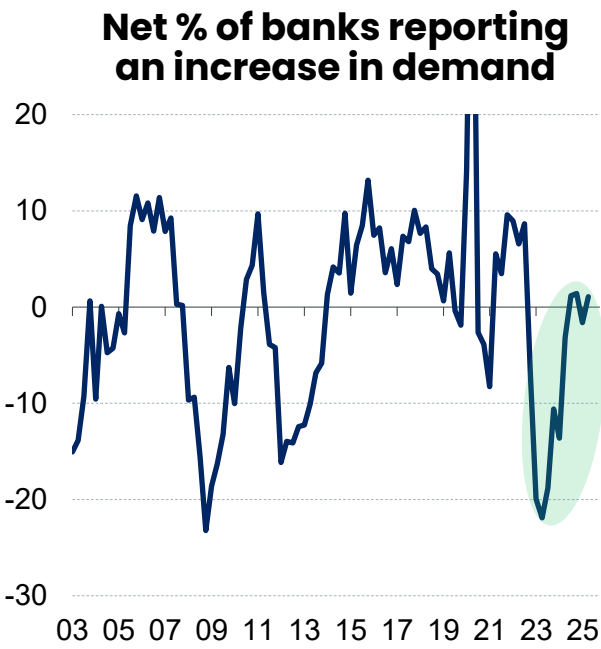
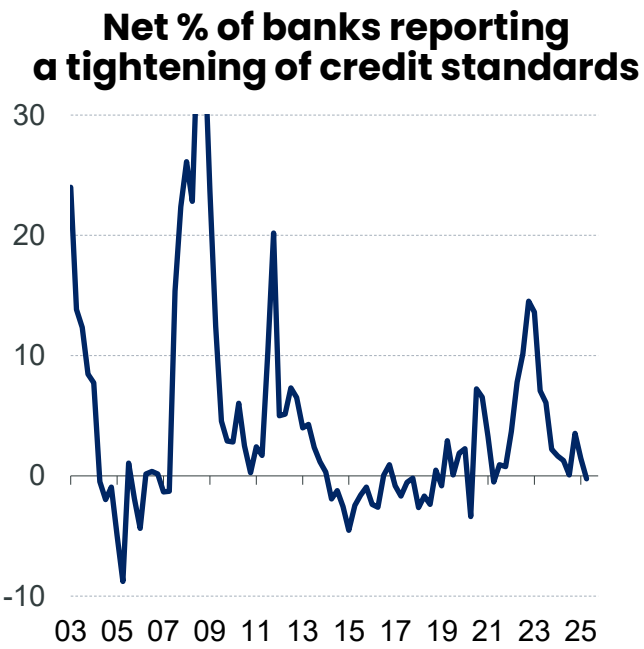


Sources: Bloomberg, Candriam

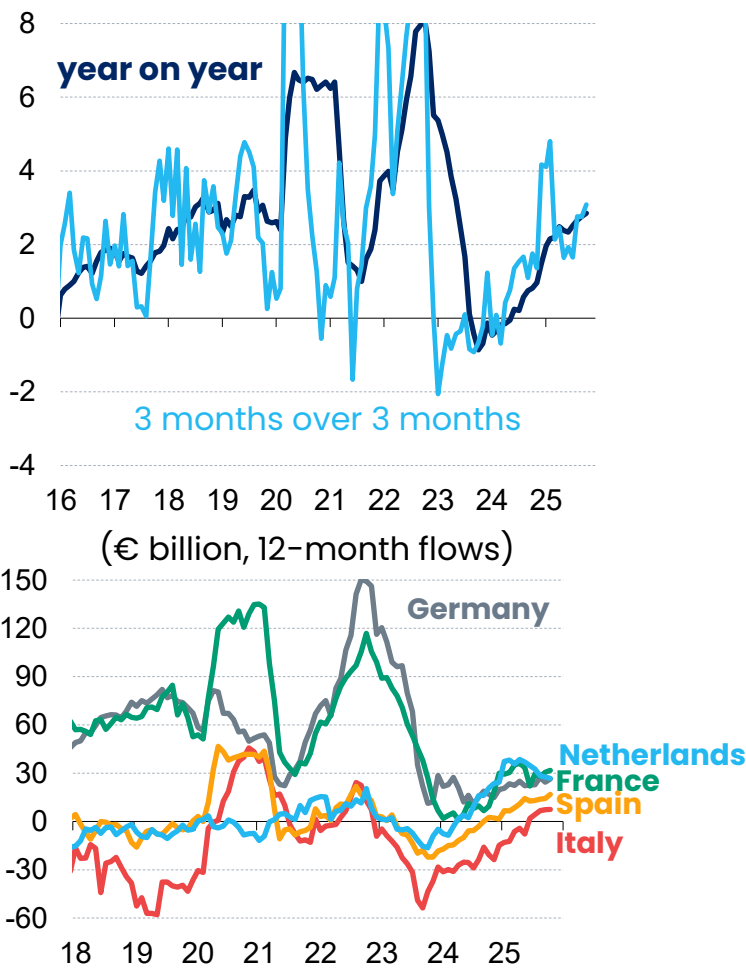


Loans to firms have picked up

Changes in credit standards to enterprises and demand for loans



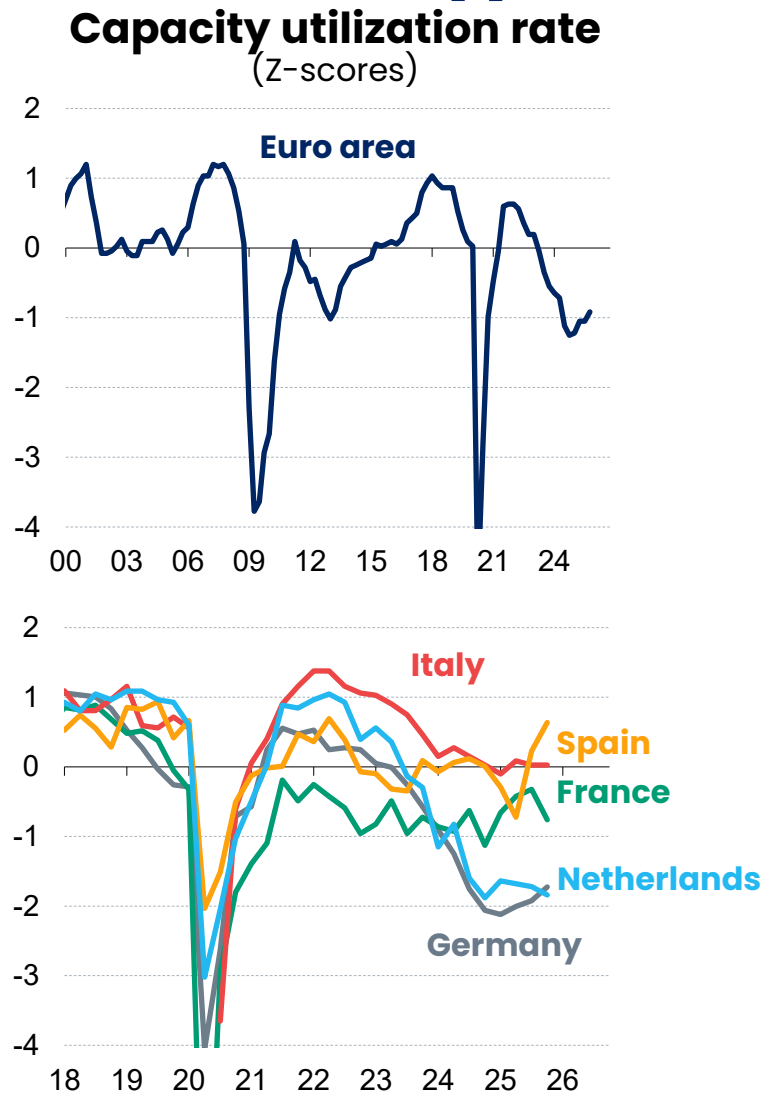
Loans to non-financial corporations (%, annual rate)



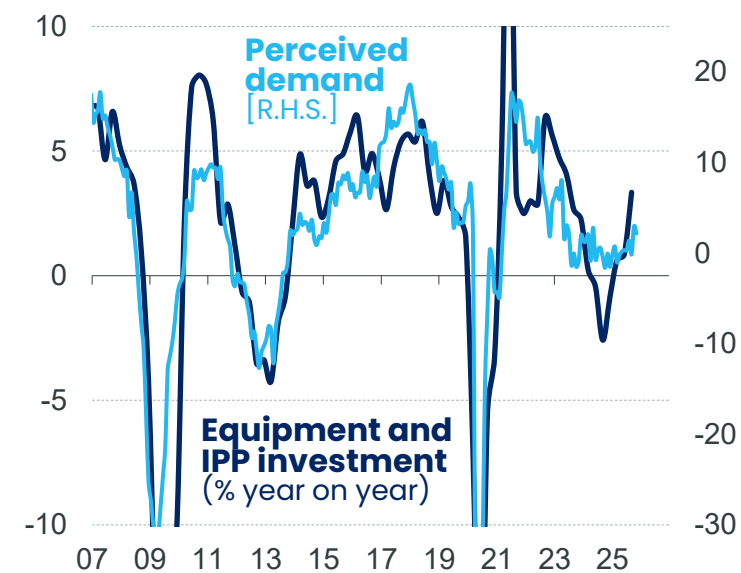
Sources: LSEG Datastream, Candriam



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



Equipment and IPP* investment versus perceived demand in the euro area**



(*) Investment in intellectual property products

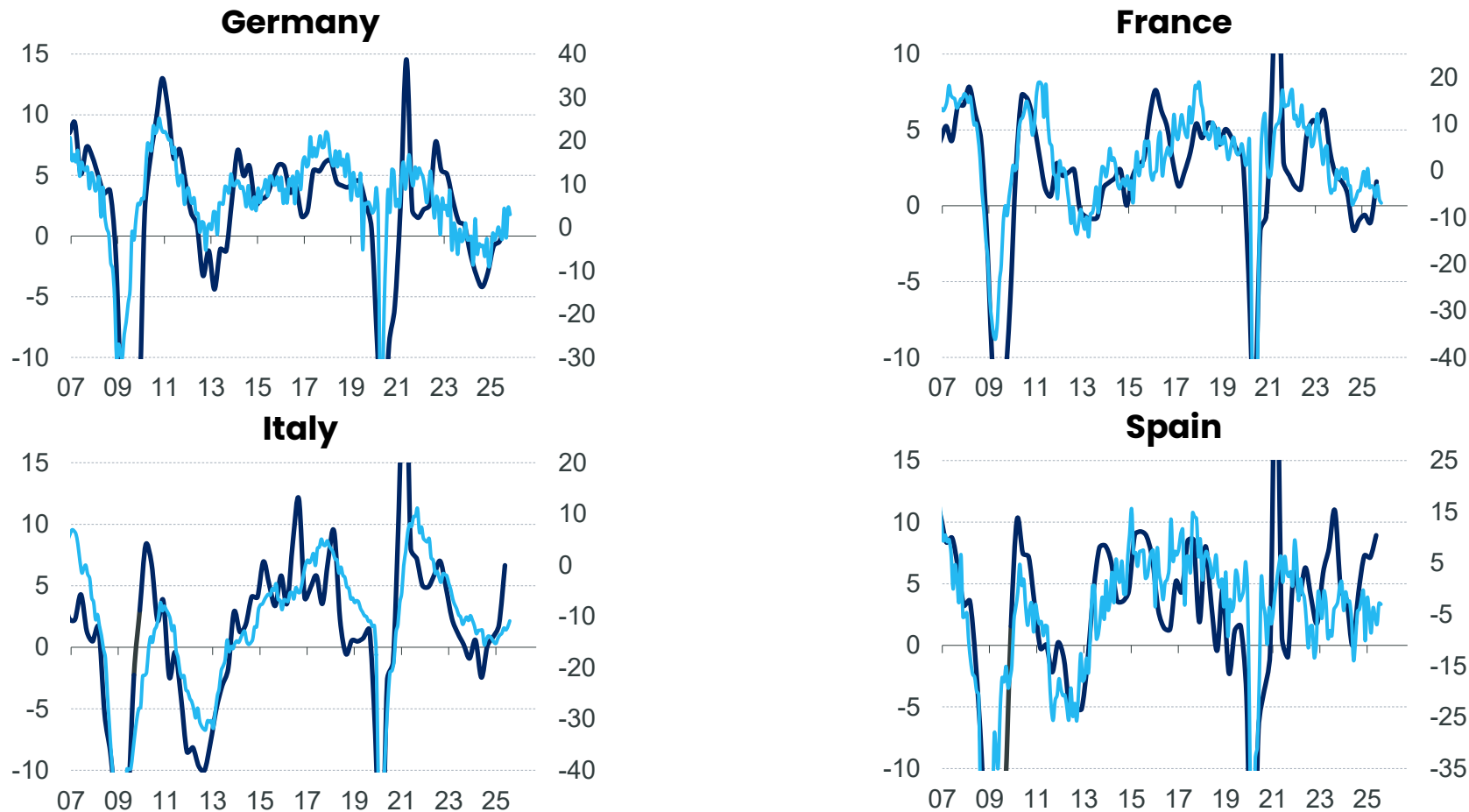
(**) Germany, France, Italy and Spain

Sources: LSEG Datastream, Candriam



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

Equipment and IPP* investment versus perceived demand



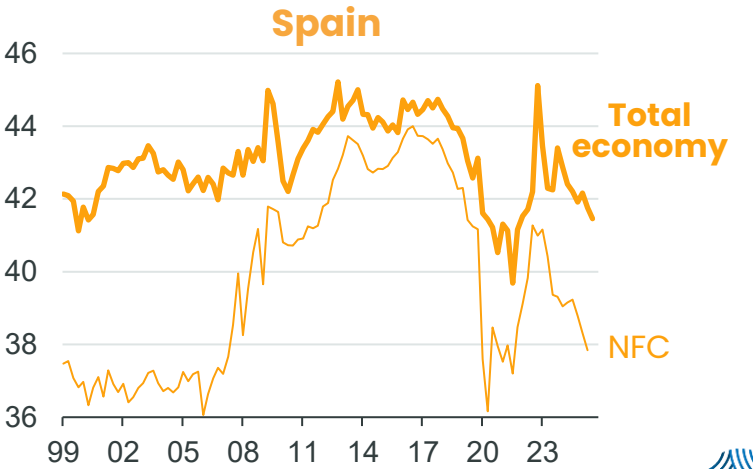
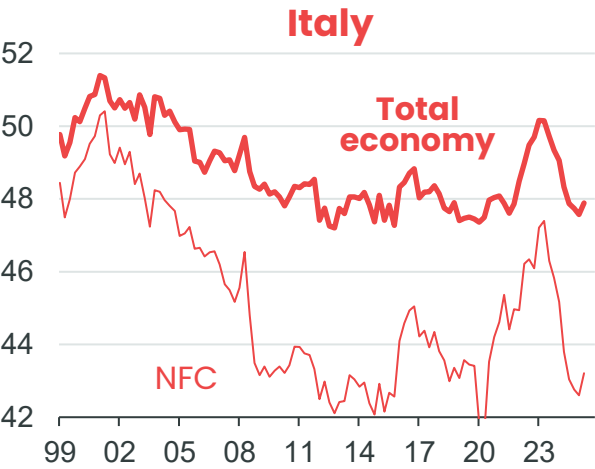
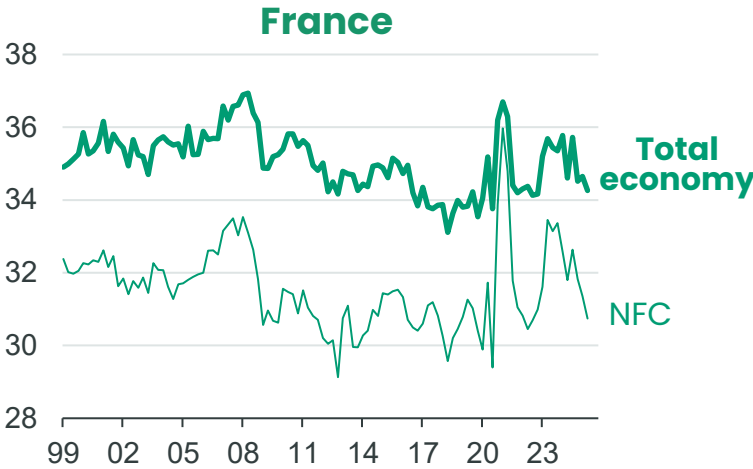
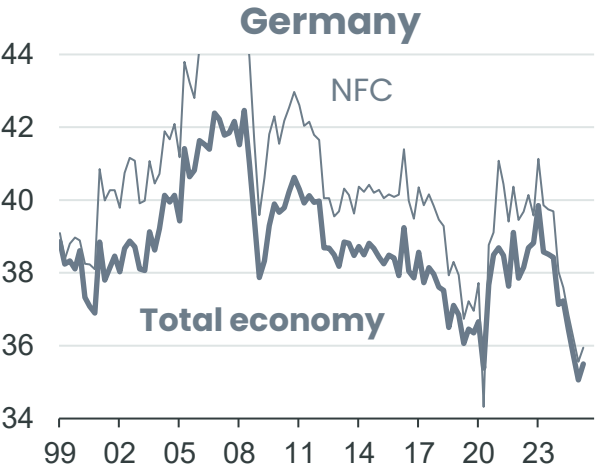
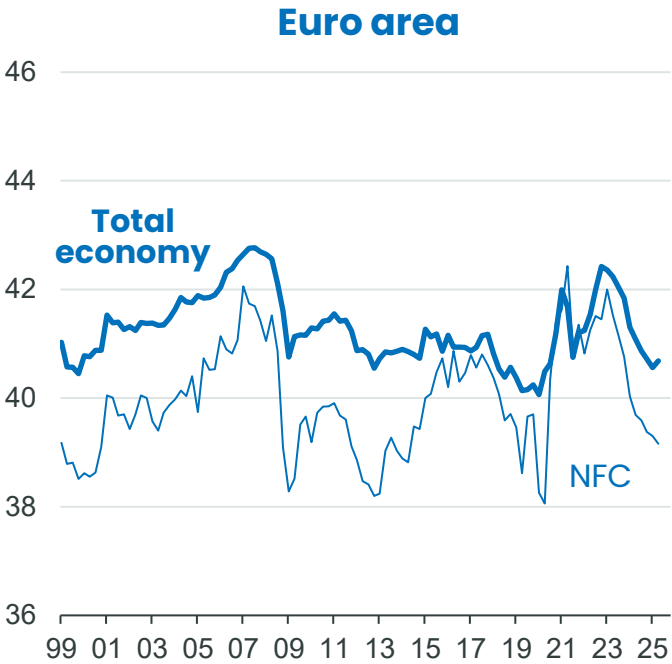
— **Equipment and IPP investment** (% year on year) — **Perceived demand** [R.H.S.] (*) Investment in intellectual property products

Sources: LSEG Datastream, Candriam



Firms operating margins have fallen

Gross operating surplus
(% of value added)

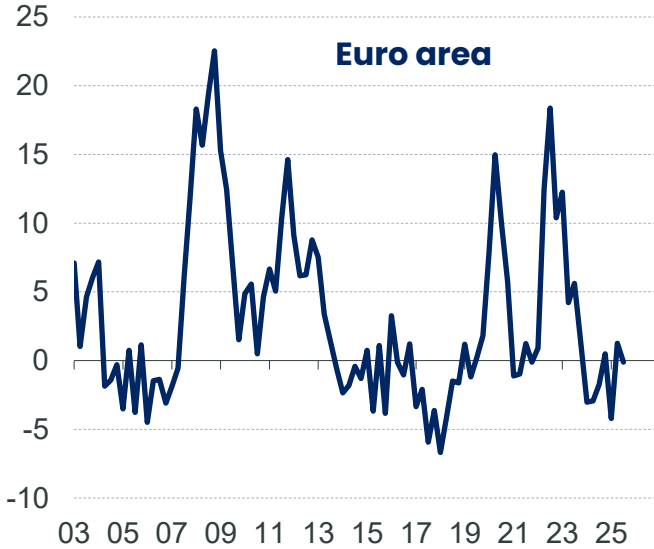


Sources: LSEG Datastream, Candriam

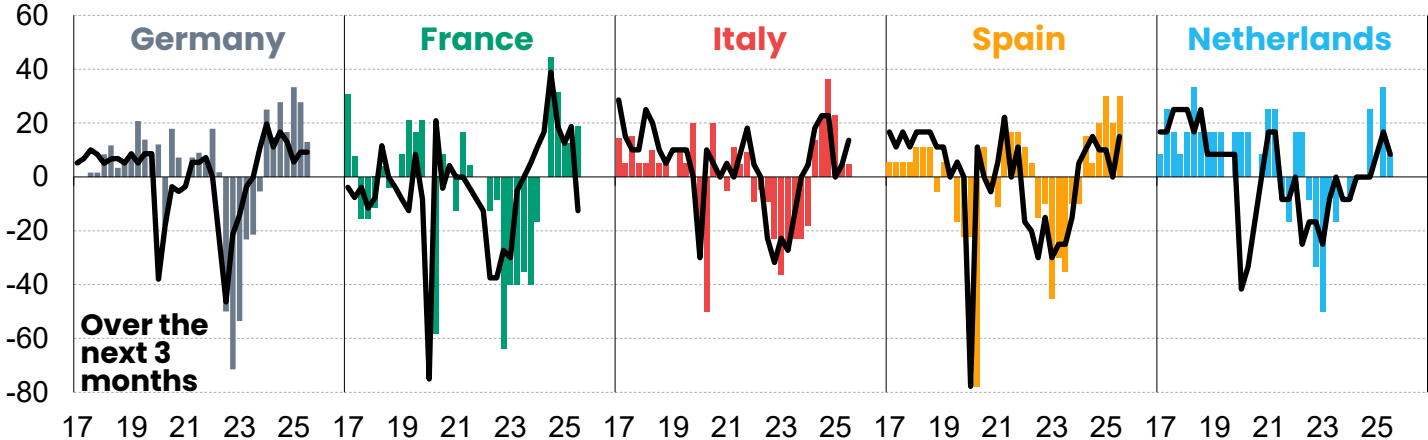
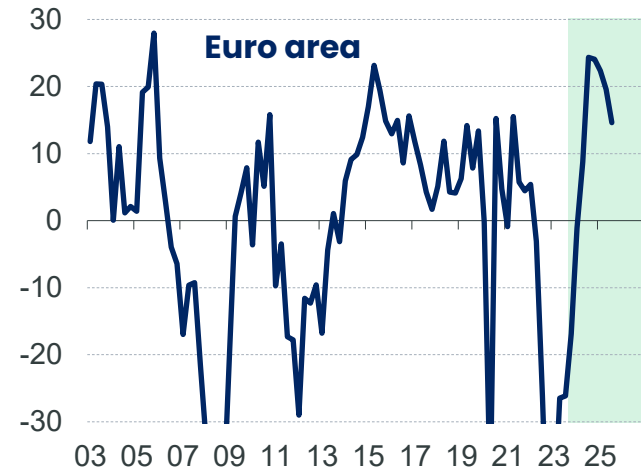


Mortgage loans demand has revived

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



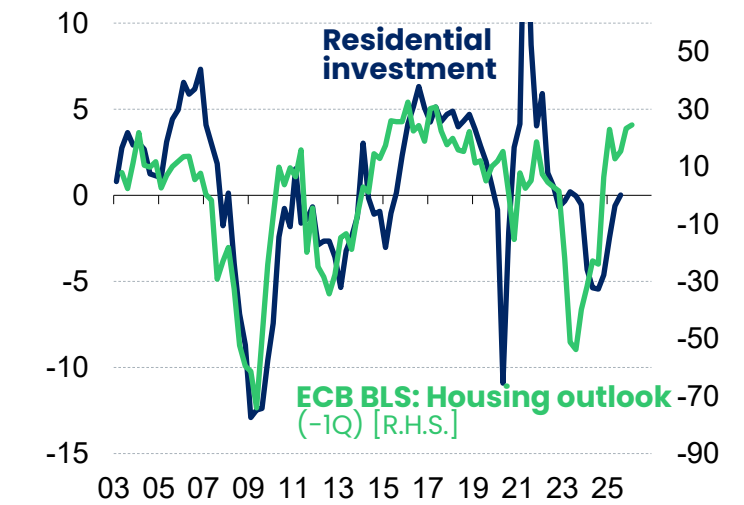
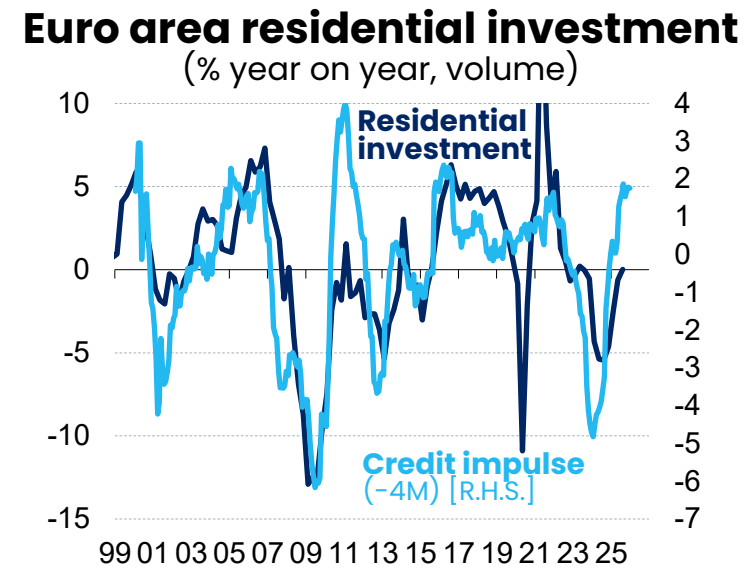
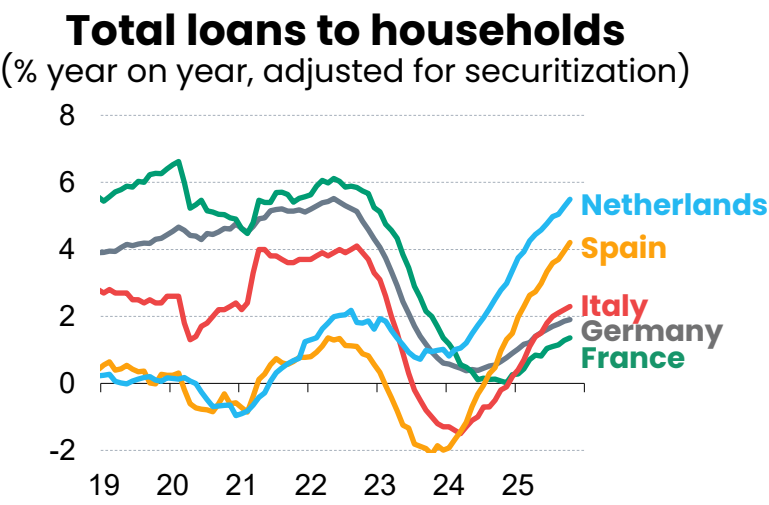
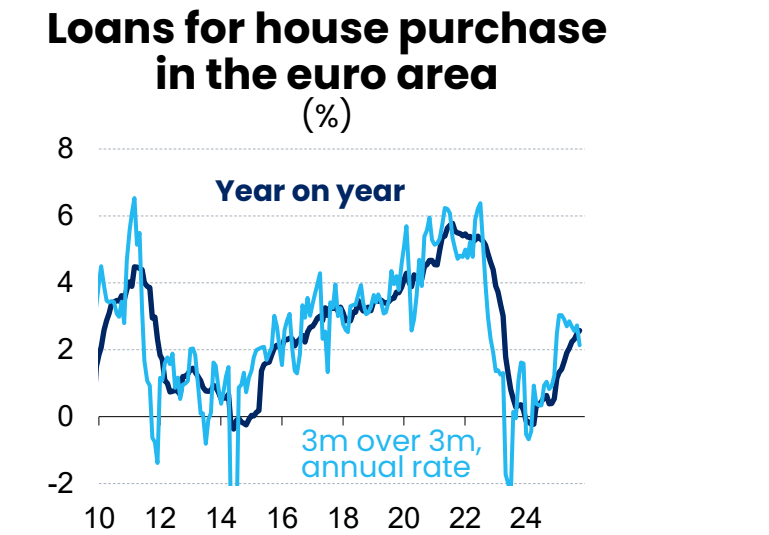
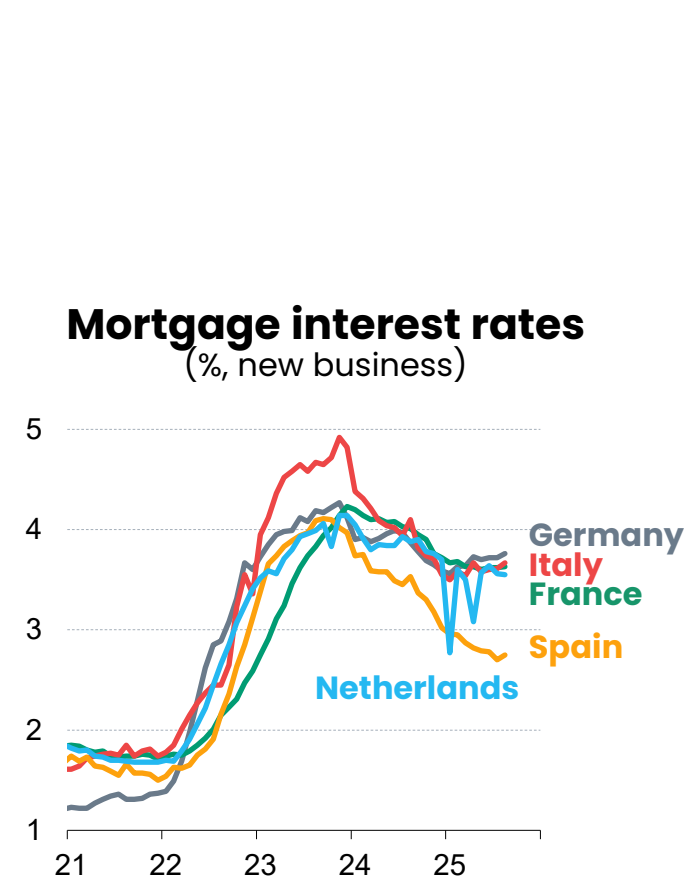
House purchase loans demand
(net %)



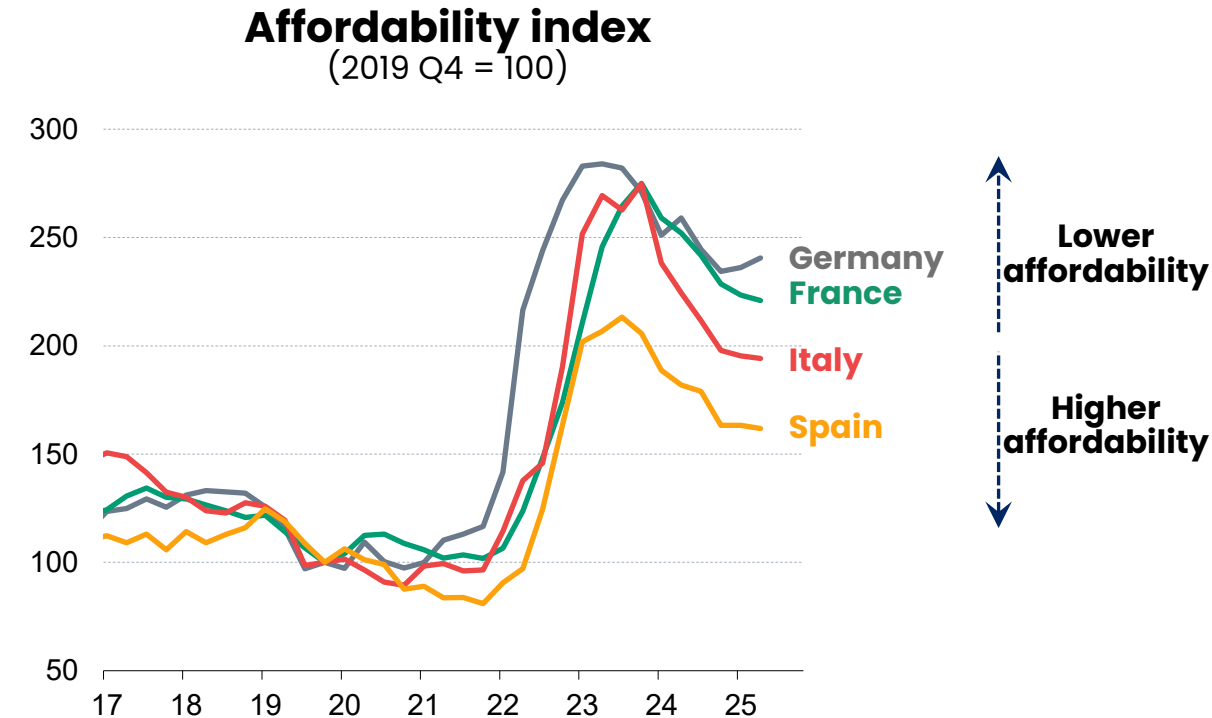
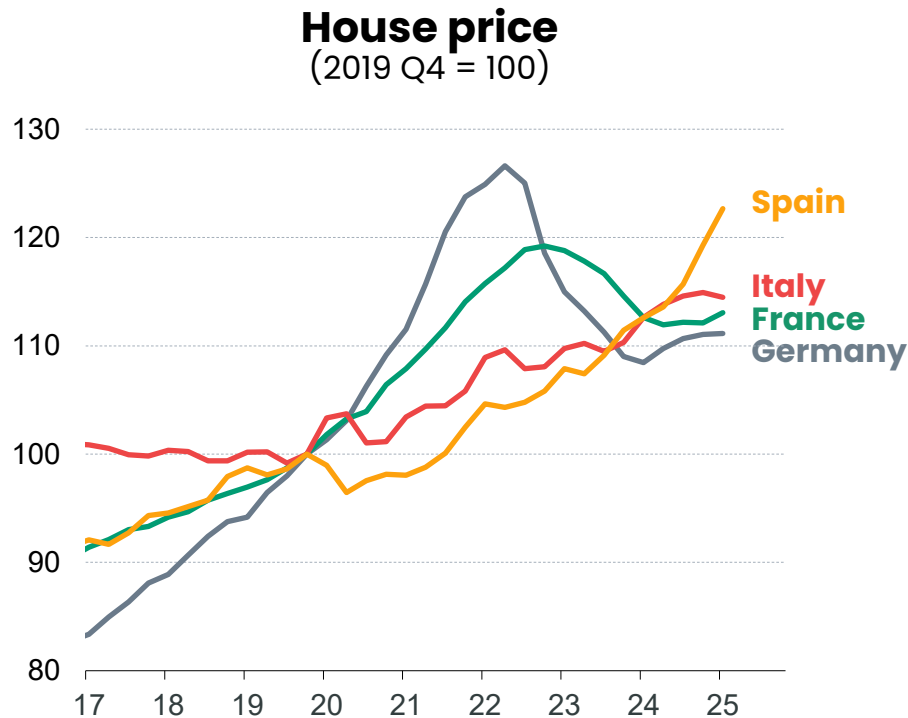
Sources: LSEG Datastream, Candriam



Residential investment should recover



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

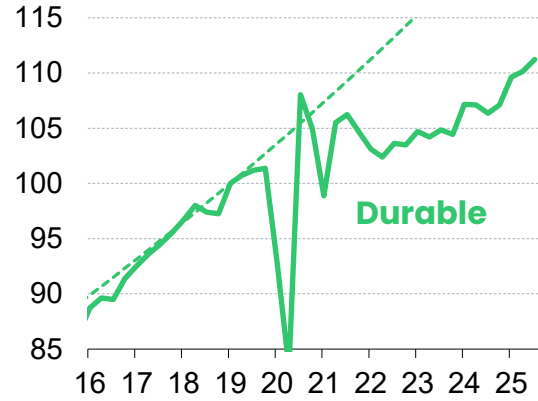
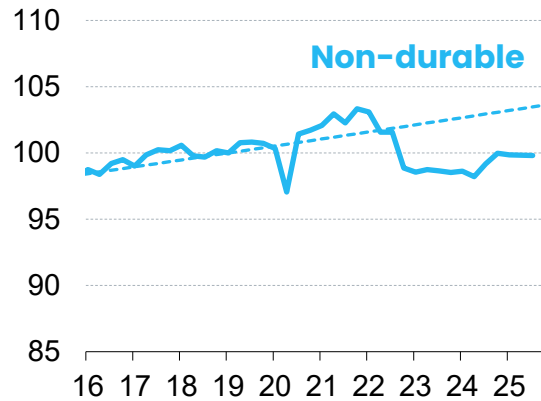


Sources: LSEG Datastream, ECB, Candriam

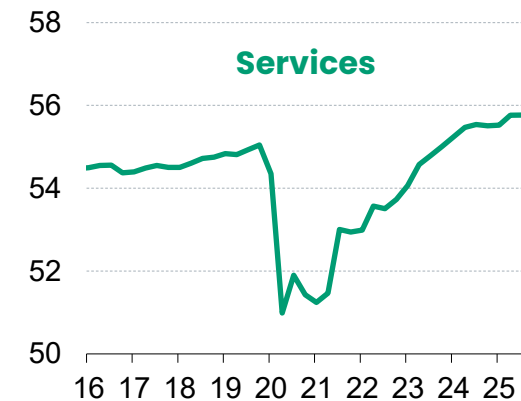
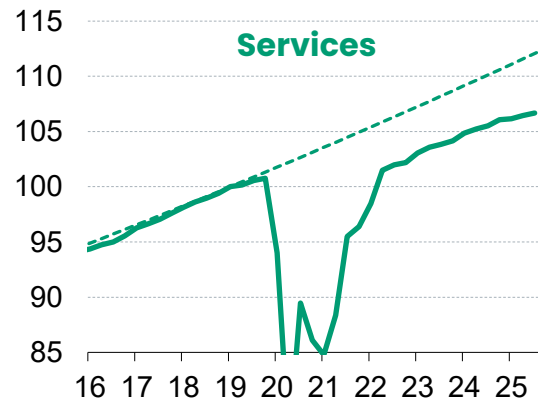
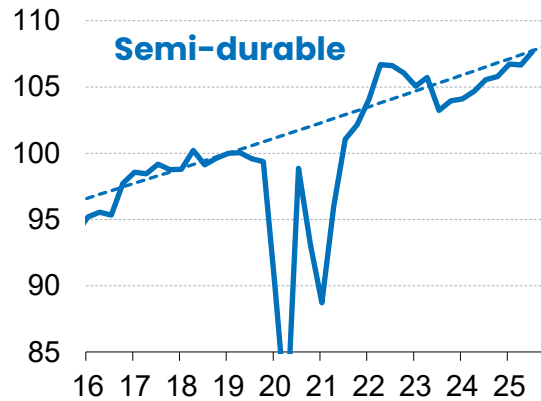
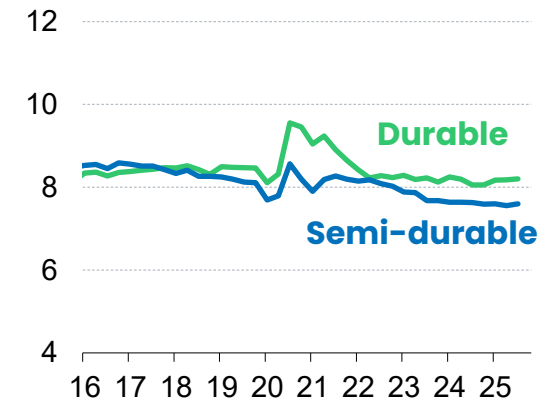
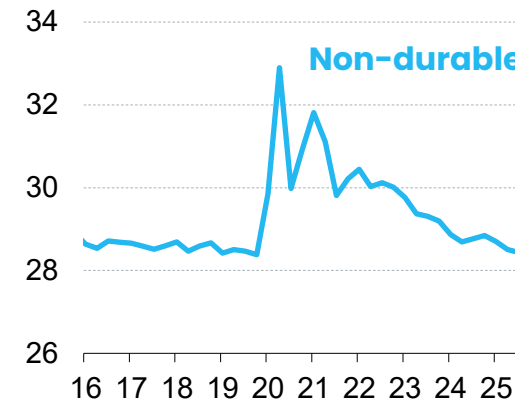


Put in perspectives, household consumption remains subpar

Real consumption
(2019 Q1 = 100)



Share in nominal consumption
(%)

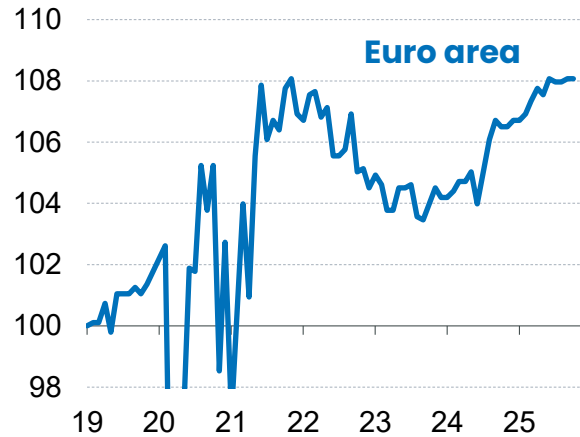


Sources: Eurostat, Candriam

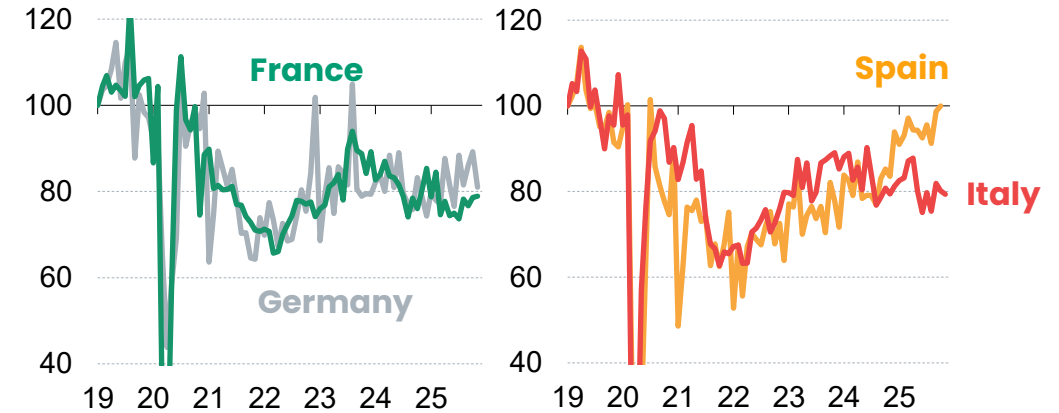
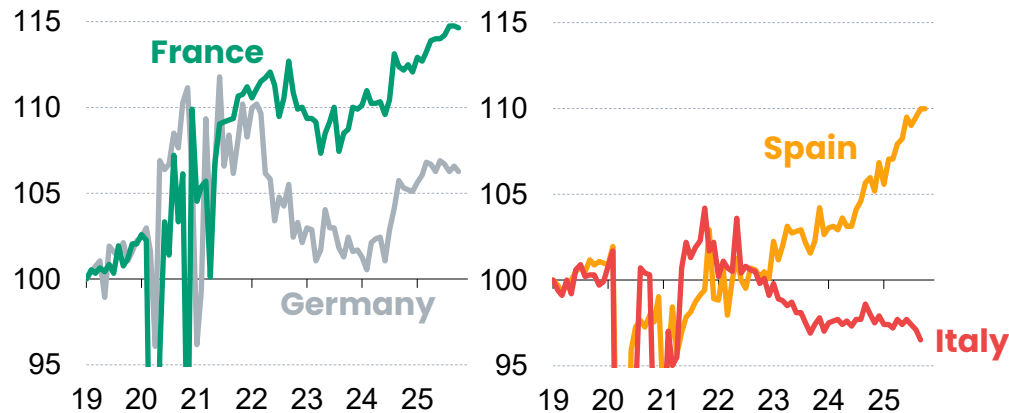


Retail sales have recently flattened

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



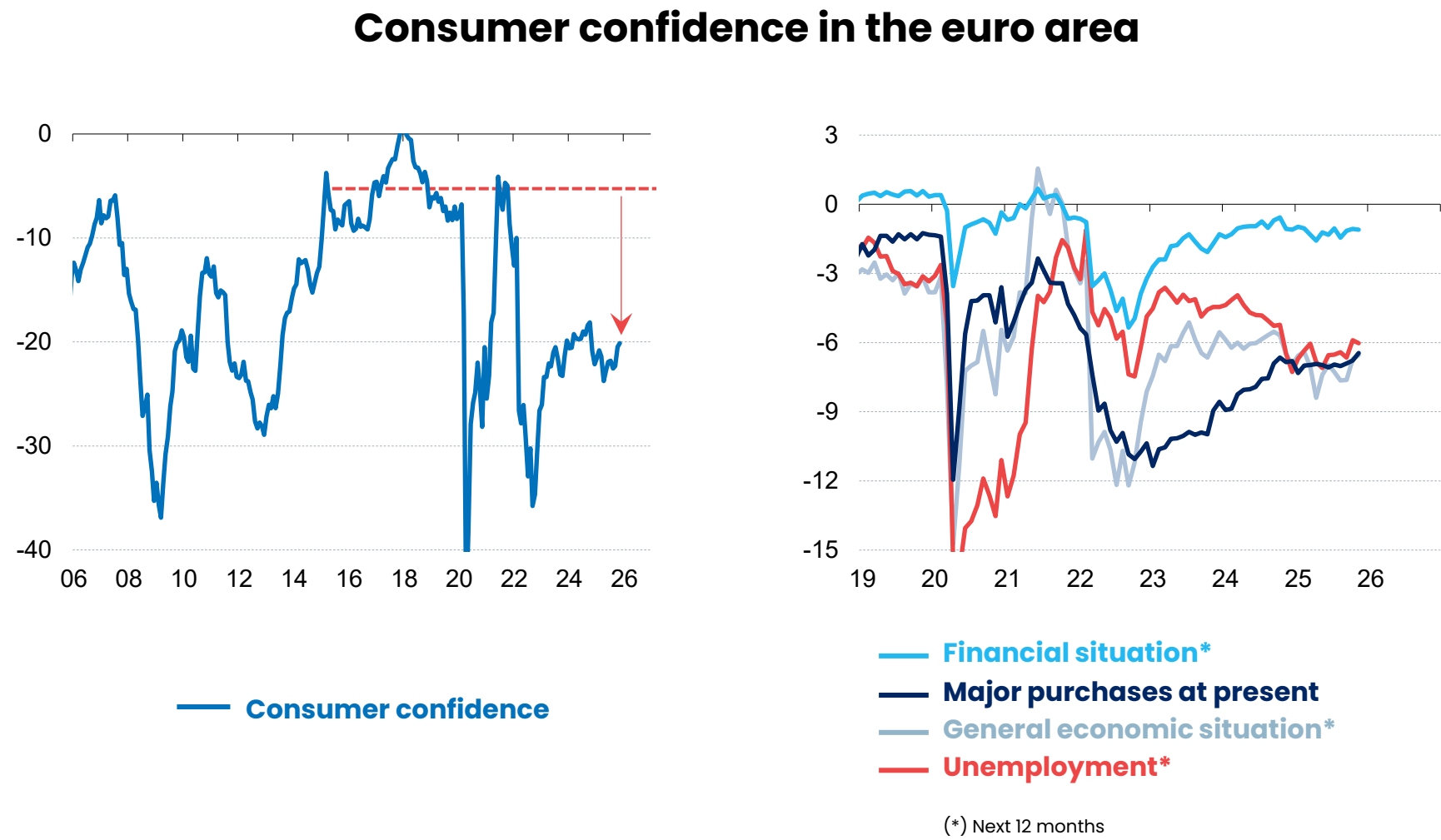
New car registrations
(January 2019 = 100)



Sources: Eurostat, LSEG Datastream, Candriam



Household confidence remains weak

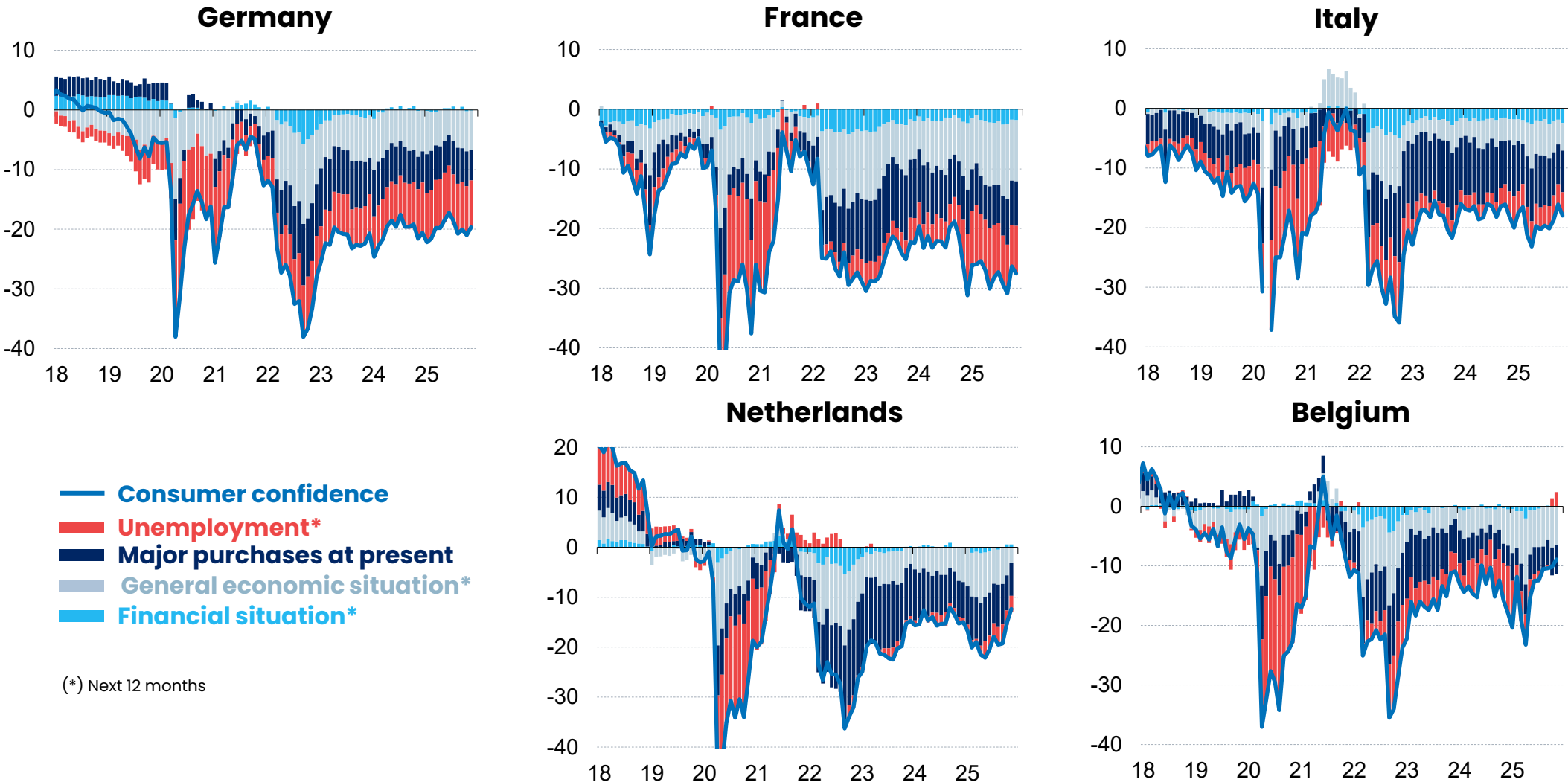


Sources: LSEG Datastream, Candriam



Memo. Household confidence by country

Consumer confidence by country



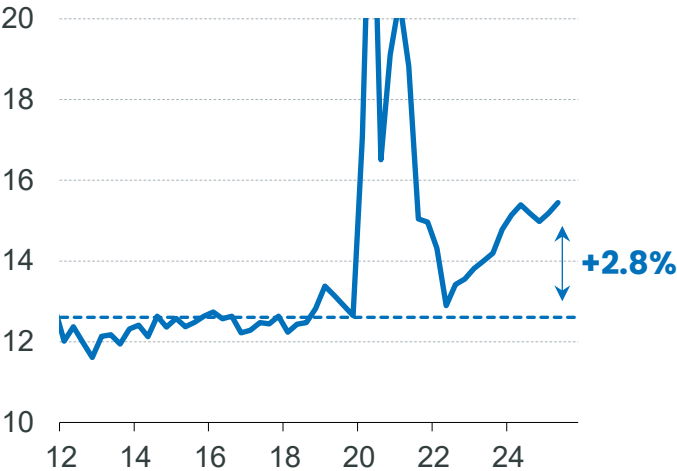
Sources: LSEG Datastream, Candriam



Saving rates stay elevated

Saving rate
(% of disposable income)

Euro area



Germany



France



Netherlands



Italy



Spain



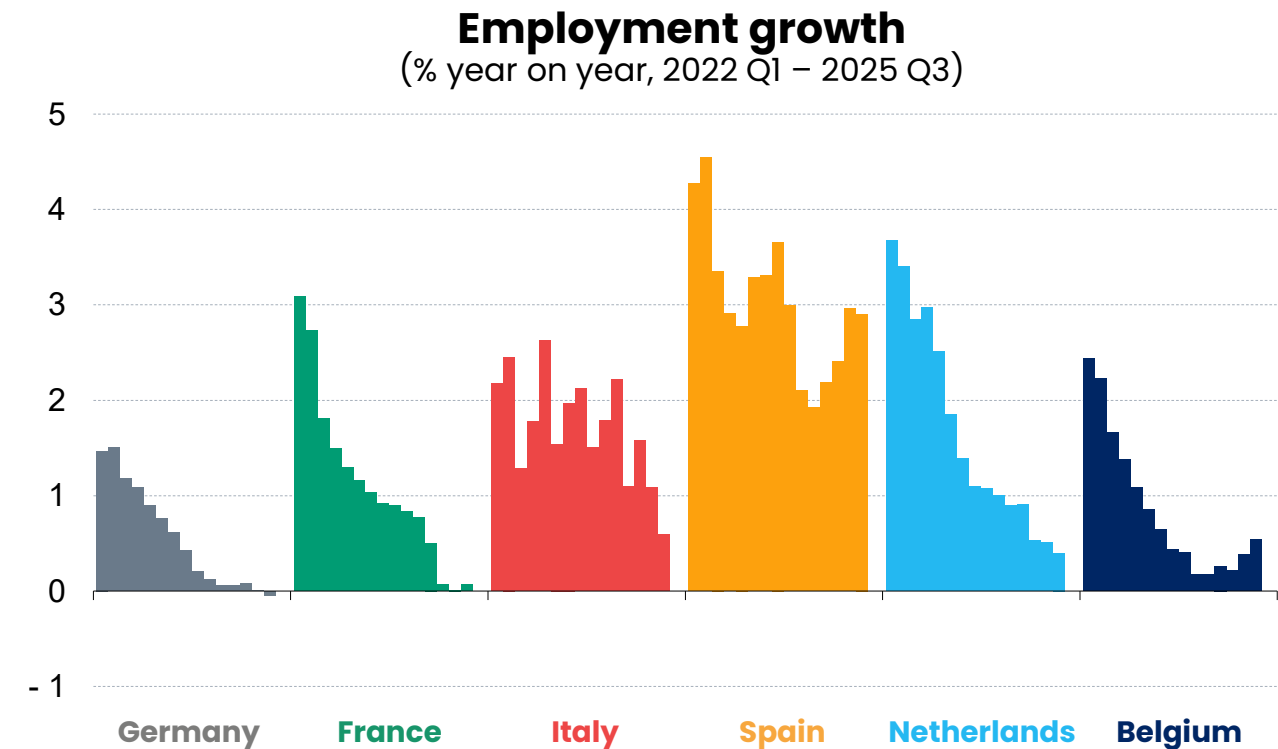
Belgium



Sources: LSEG Datastream, Candriam

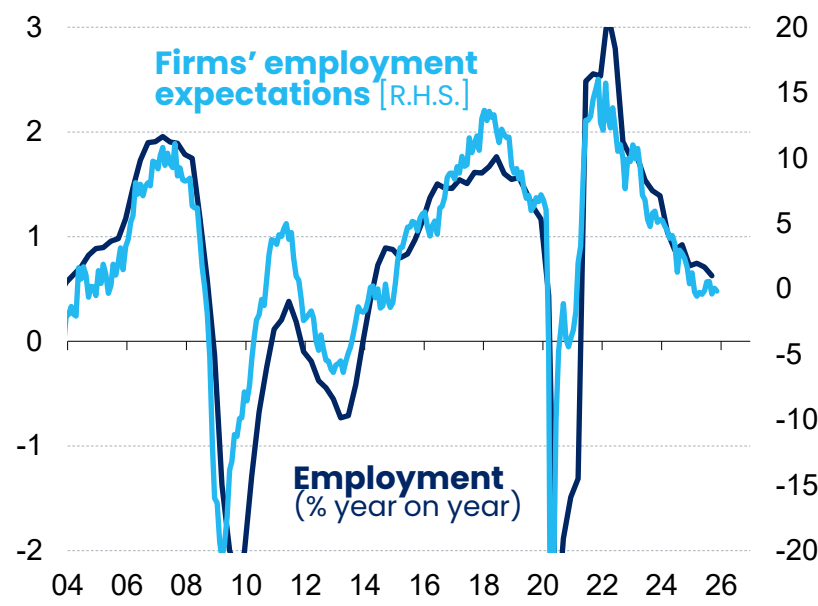


Job creations have slowed



Employment and firms' expectations

(EC survey)

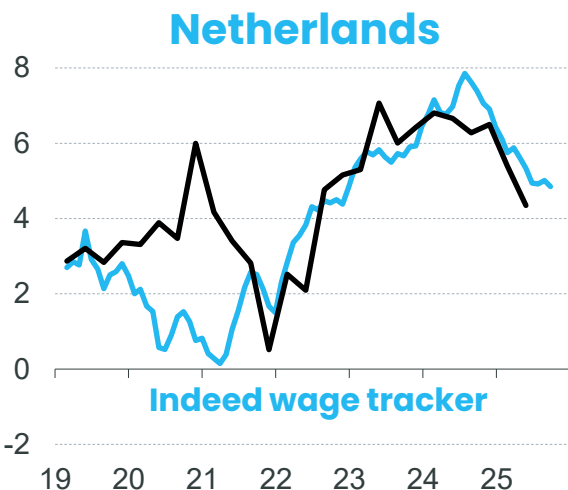
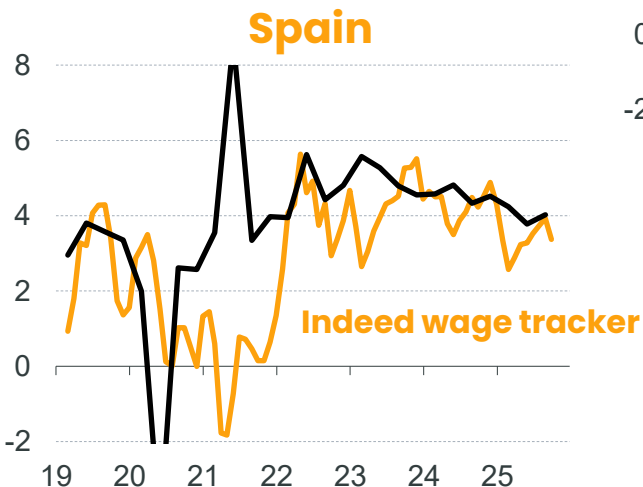
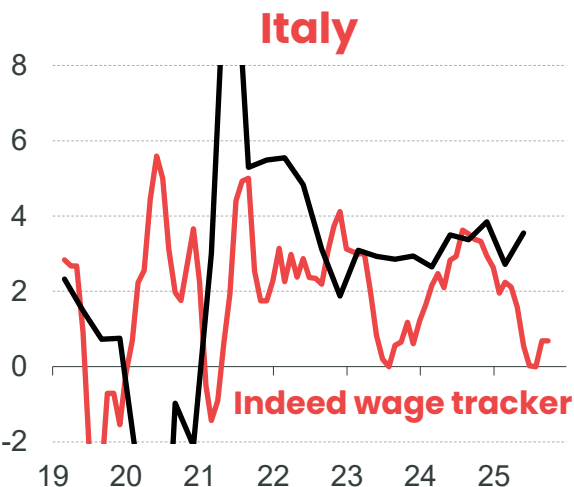
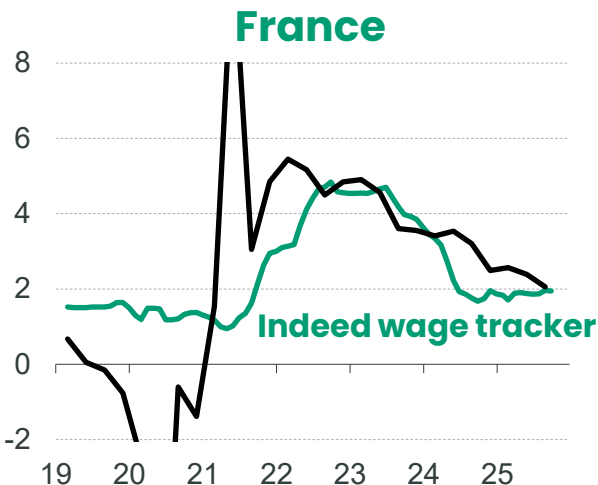
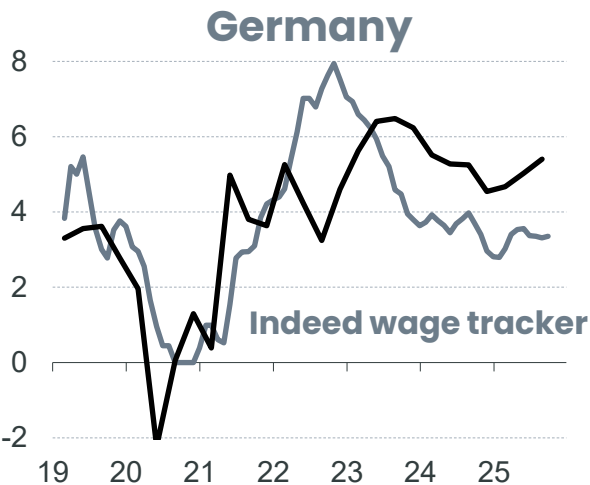
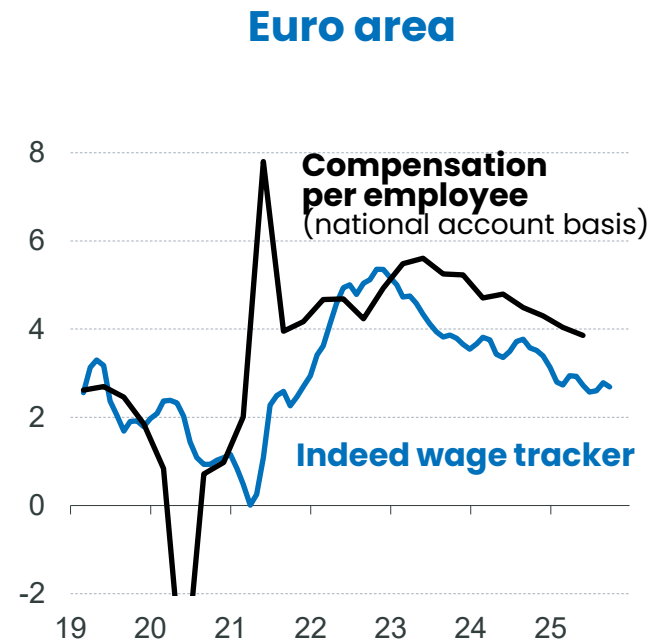


Sources: LSEG Datastream, Candriam



Wages have kept on decelerating...

Compensation per employee
(% year on year)

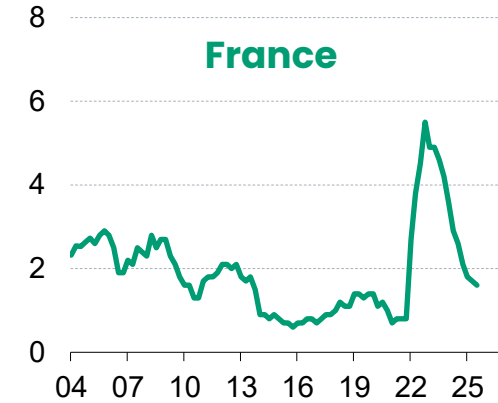
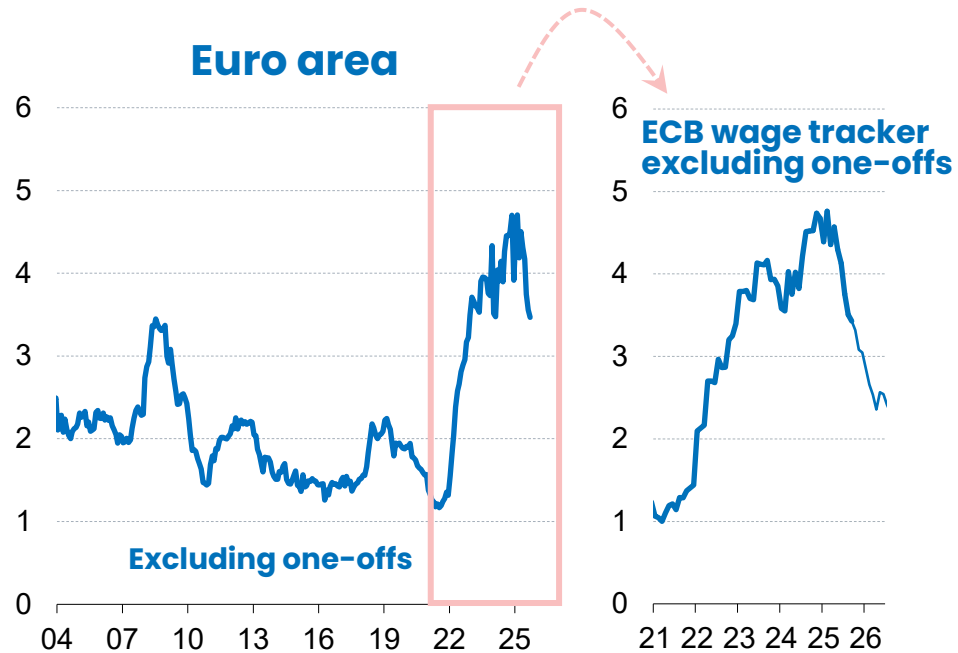


Sources: LSEG Datastream, Indeed, Candriam



... and negotiated wages point to further slowdown ahead

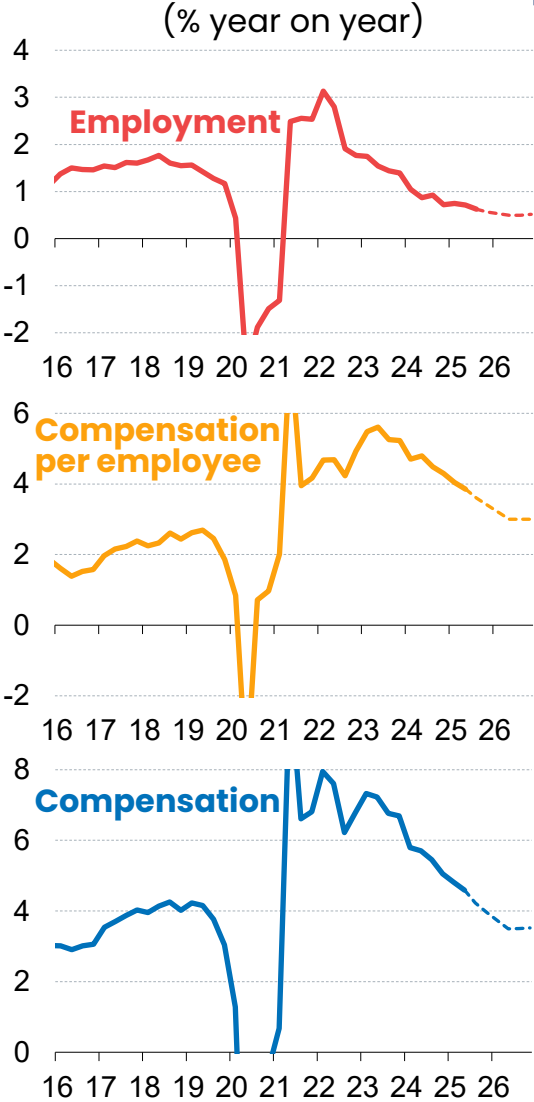
Negotiated wages (% year on year)



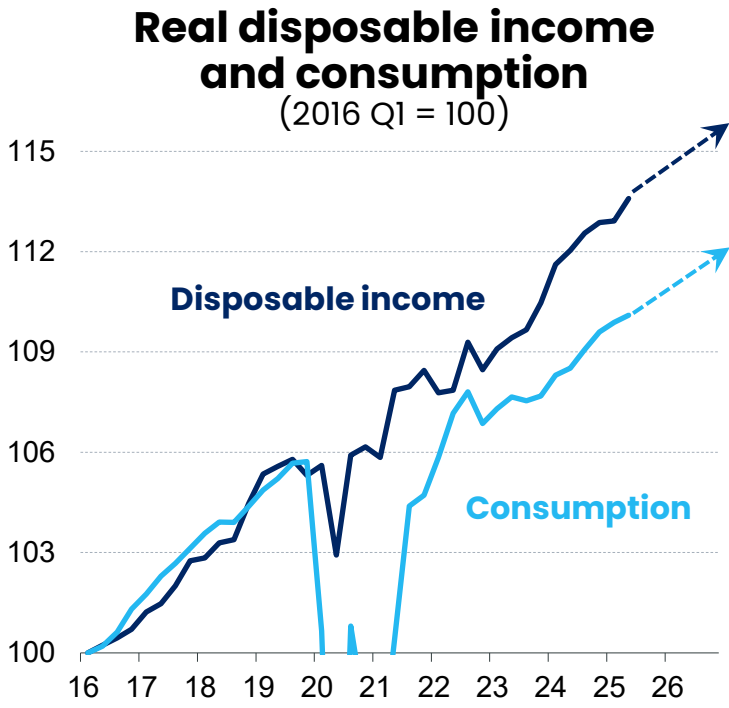
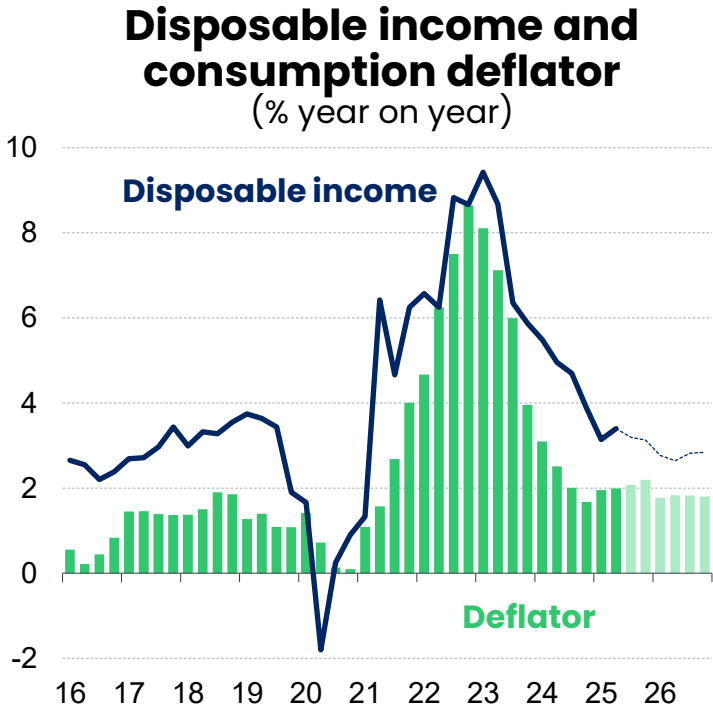
Sources: LSEG Datastream, Candriam



Moderate growth in real income should, however, enable consumption to grow at 1%



Sources: LSEG Datastream, Candriam

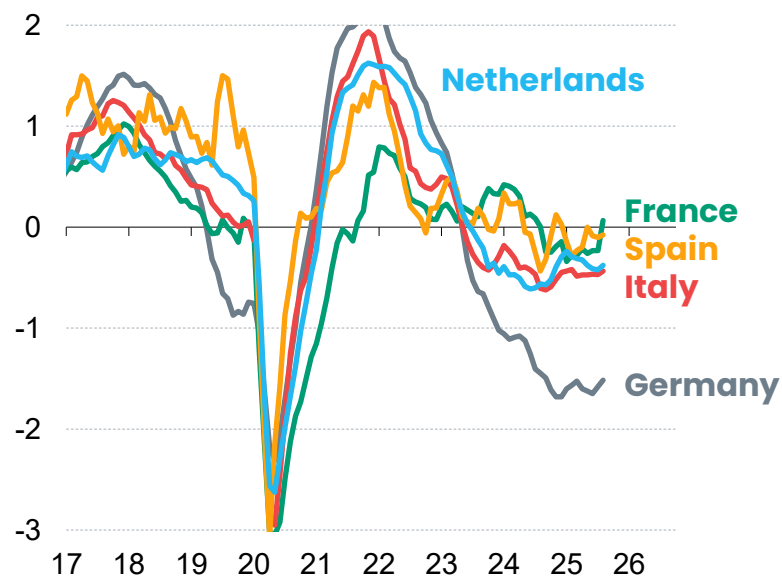


On the external front, headwinds are real

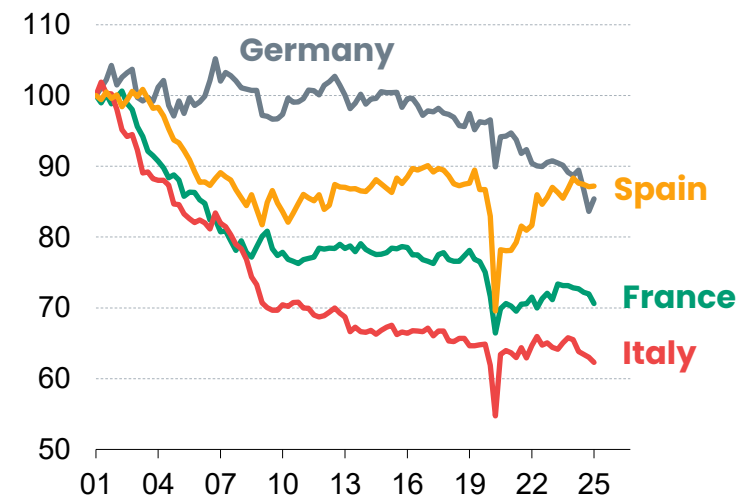
Exports of goods and orders



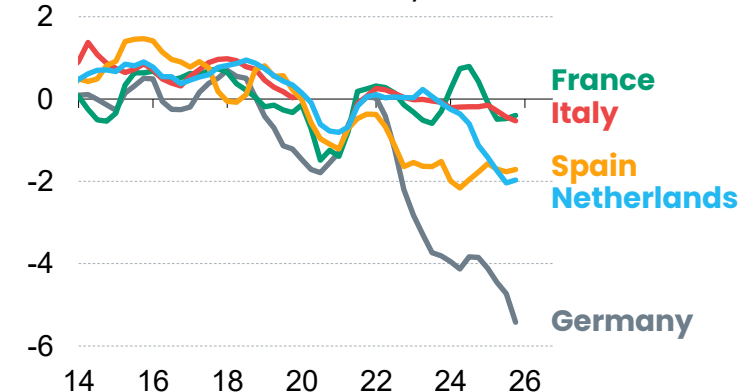
Export orders (EC survey, Z-scores)



Export market shares index (2001 Q1 = 100)



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

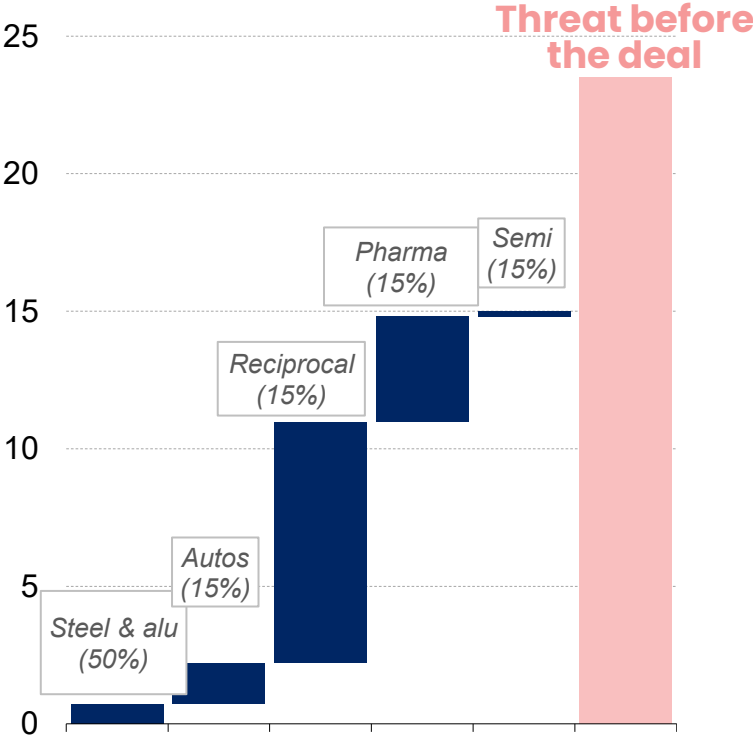


Sources: LSEG Datastream, Candriam

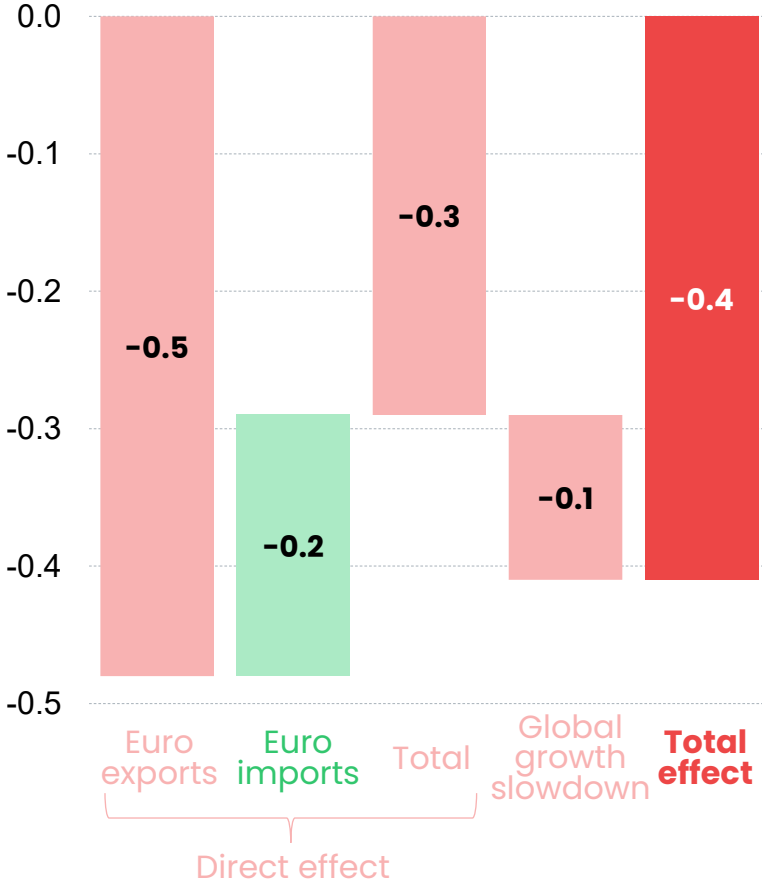


Despite a deal, the rise in US tariffs will weigh on activity

Tariff rate on US imports from EU (%)



Effects on euro area GDP of a 15% increase in US tariffs on European products (%)

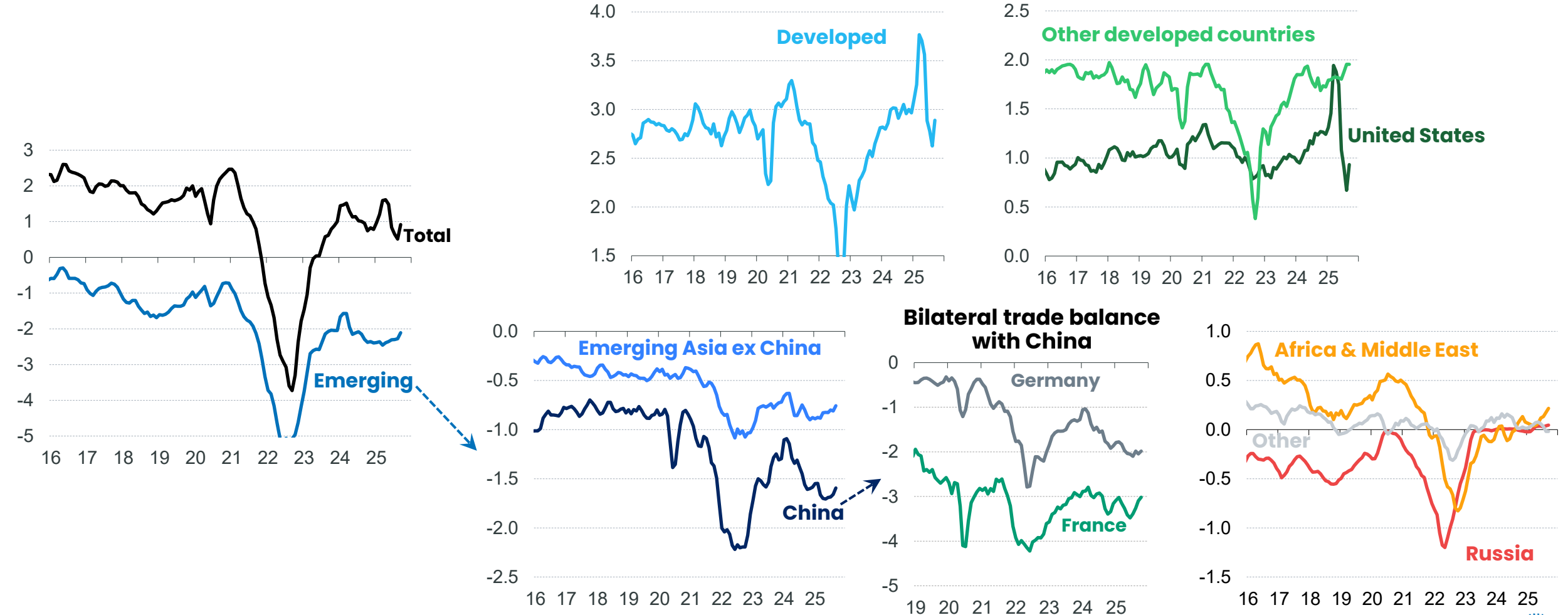


Sources: Census Bureau, Candriam



Since 2019, euro area external balance has deteriorated mainly vis-à-vis emerging economies... especially China!

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



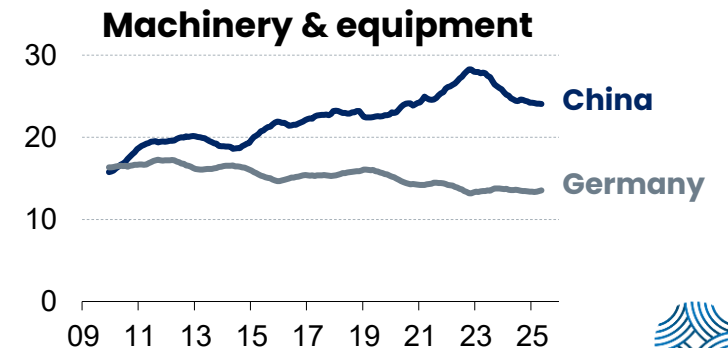
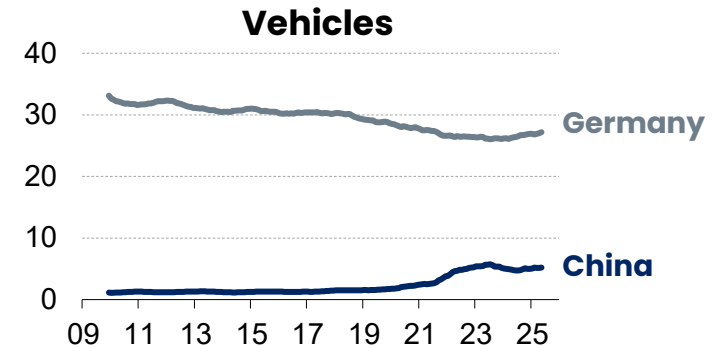
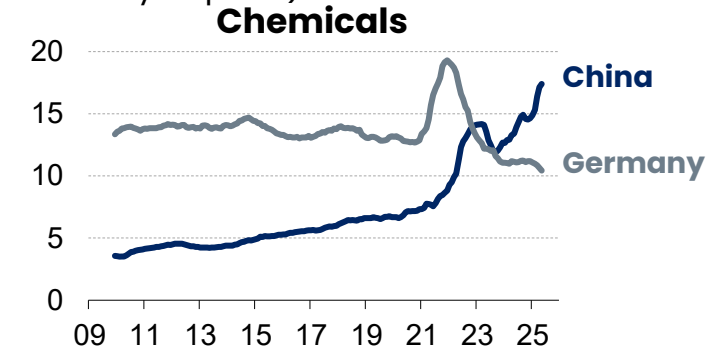
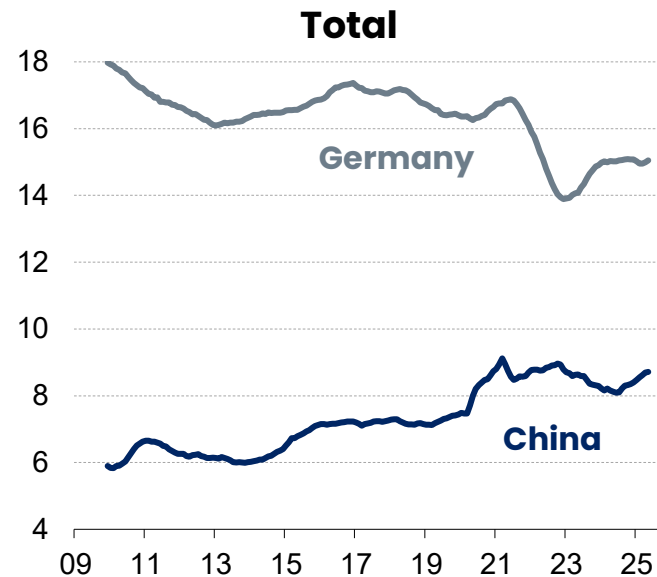
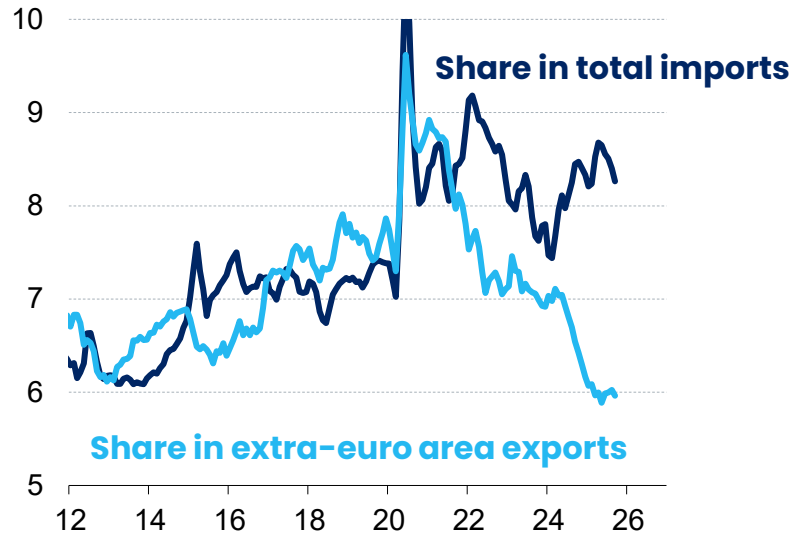
Sources: LSEG Datastream, Eurostat, Candriam



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

China and Germany share in euro area imports by product
(% of euro area ex Germany imports)

China share in euro area exports and imports
(%)

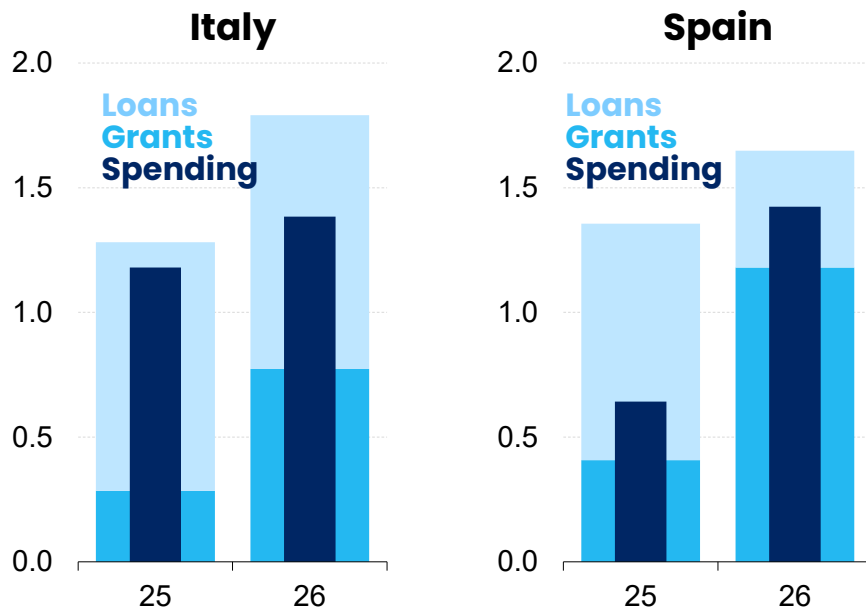


Sources: Eurostat, Candriam

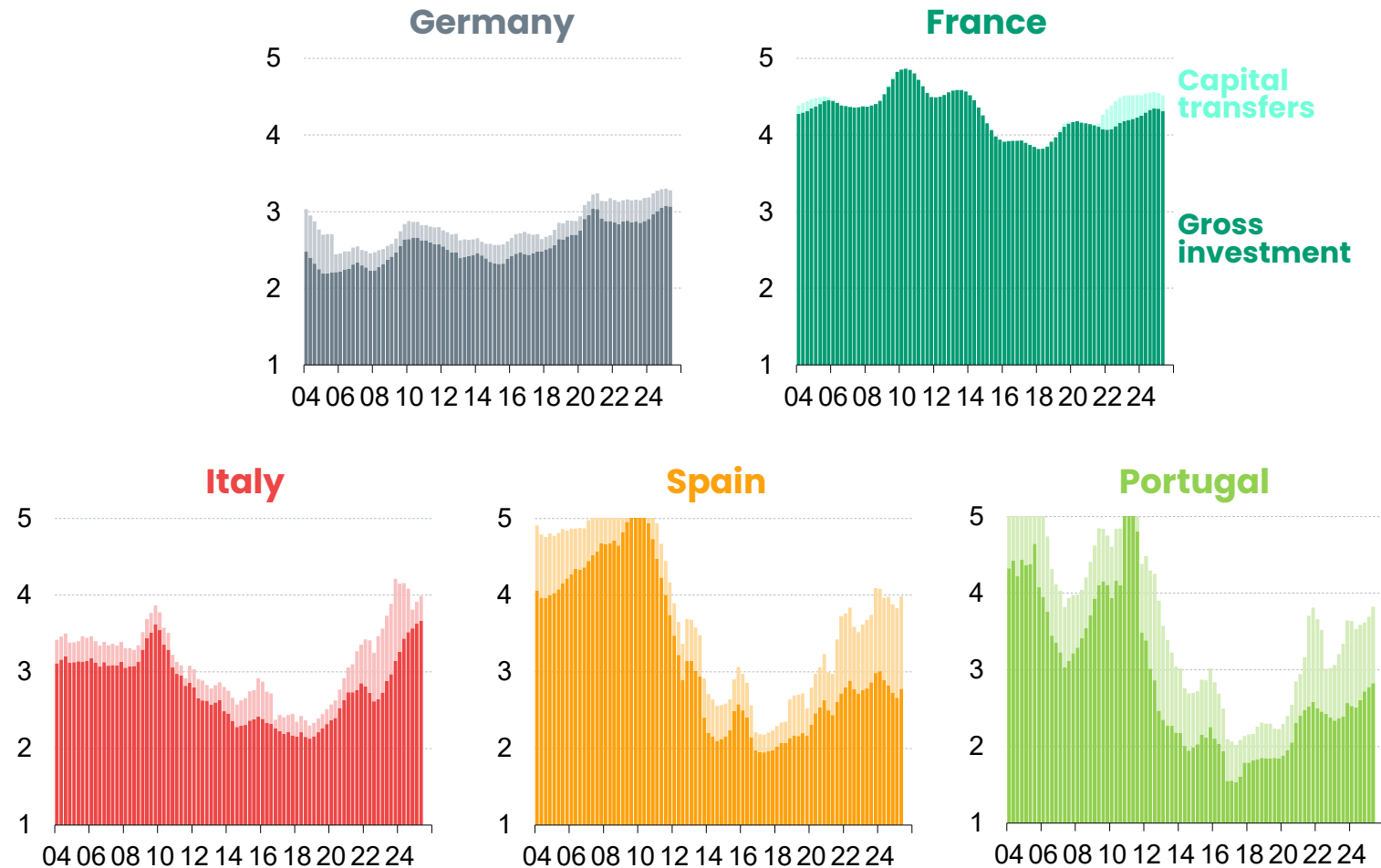


The Recovery and Resilience Facility will however provide some offset in 2026 as governments speed up implementation

Recovery and Resilience Facility (% of country's GDP)



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



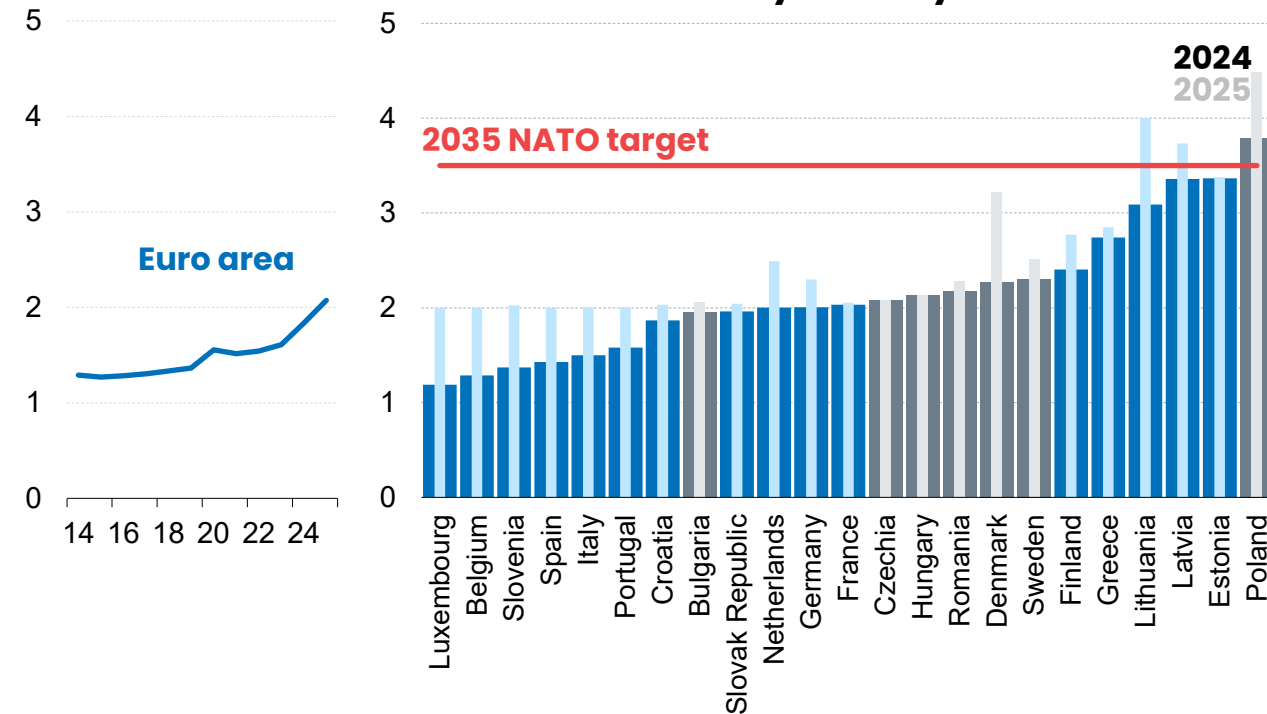
Sources: Goldman Sachs, Eurostat, Candriam



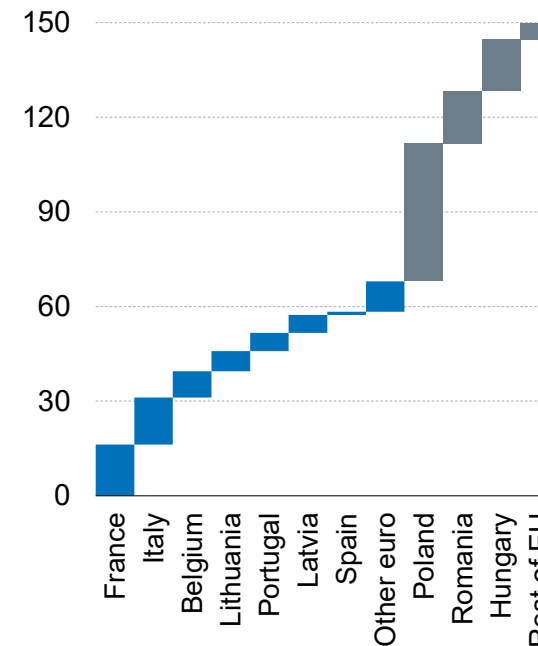
Leveraging on the activation of the National Escape Clause and on SAFE loans, EU countries should accelerate defense spending

Defense spending
(% of GDP)

By country



SAFE tentative allocation
by country
(€ billion)



"Europe needs stronger muscles, first, in terms of its defense capabilities. [...] We now need to see whether the countries of Europe are willing to surrender powers in a sphere that is as sensitive as defense in order to achieve more together. **That would also be the groundwork for joint financing.**"

J. Nagel, November 4, 2025

As of early November, 16 countries had activated the National Escape Clause to remove up to 1.5% of GDP of new defense expenditures from their deficit. While no formal request has been made yet, Italy was considering to use it. Among the large EU countries, France, Spain, and the Netherlands are the only ones that have refrained from requesting the activation of this clause.

In 2026, almost all the increase in defense spending (except for Germany and the Netherlands) will be funded through EU debt. While SAFE loans will enter national deficit and debt figures, it will help to ease funding pressure on national issuances.

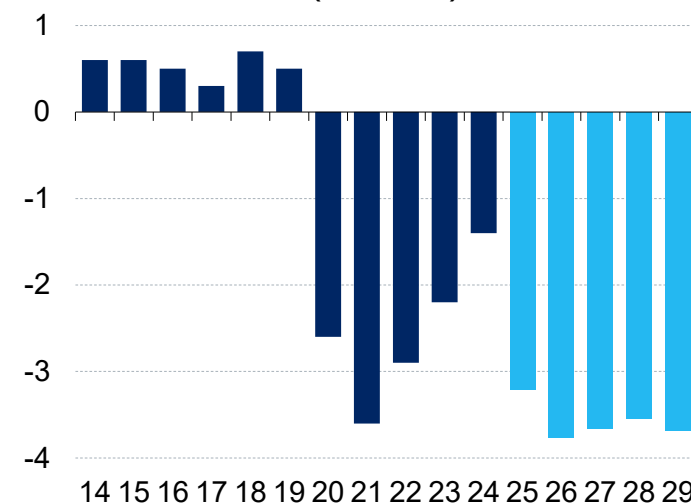
Sources: European Commission, NATO, Candriam



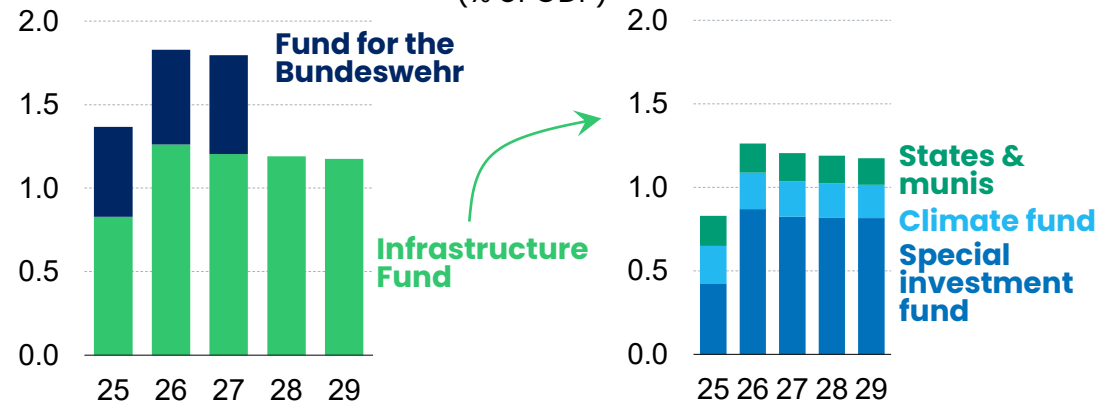
The German plan should also support activity... but probably not as quickly as hoped

2025 federal budget

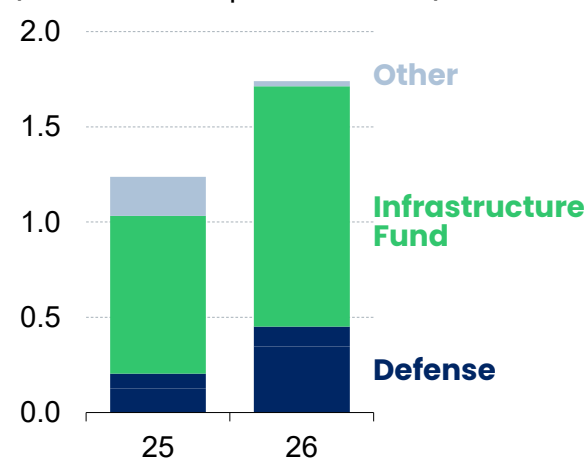
Federal budget balance
(% of GDP)



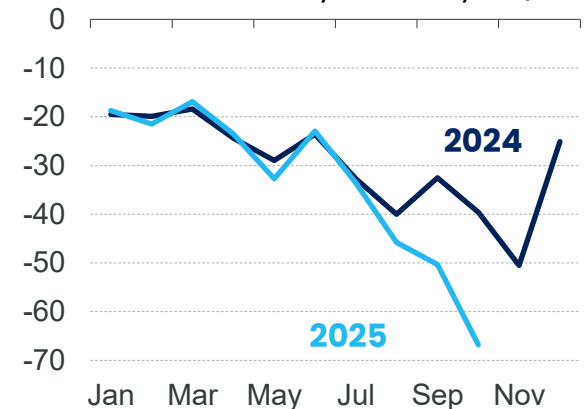
Special Funds
(% of GDP)



Increase in expenditure
(% of GDP, compared to 2024)



Federal budget balance
(€ billion, cumulated since January of each year)



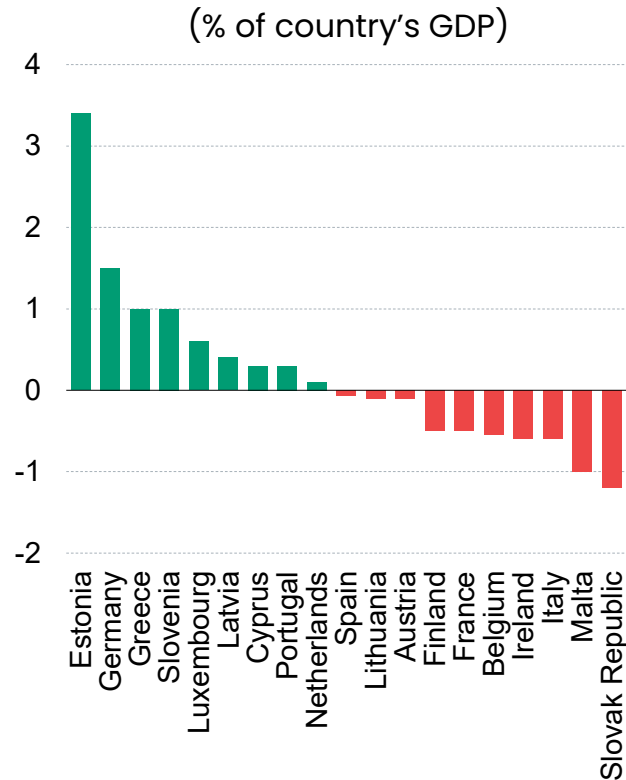
The German federal deficit widened in September and October, but largely due to financial transactions rather than higher spending on infrastructure or defense.

Sources: German Federal Ministry of Finance, Candriam

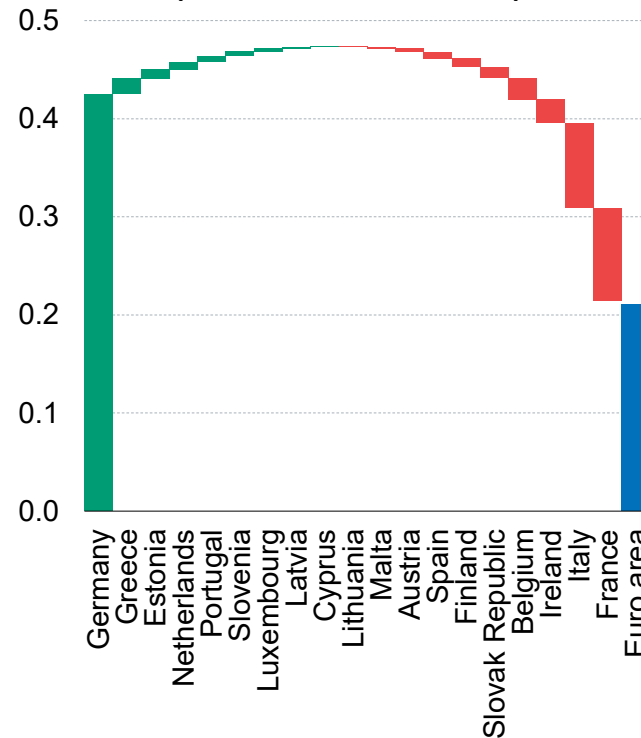


Despite the German plan, fiscal policy is unlikely to be very supportive

Fiscal impulse in 2026

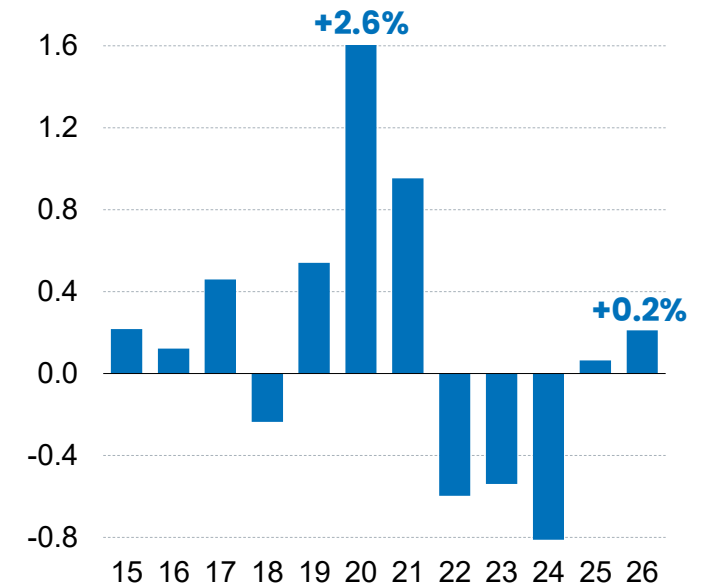


(% of euro area's GDP)



Euro area's fiscal impulse

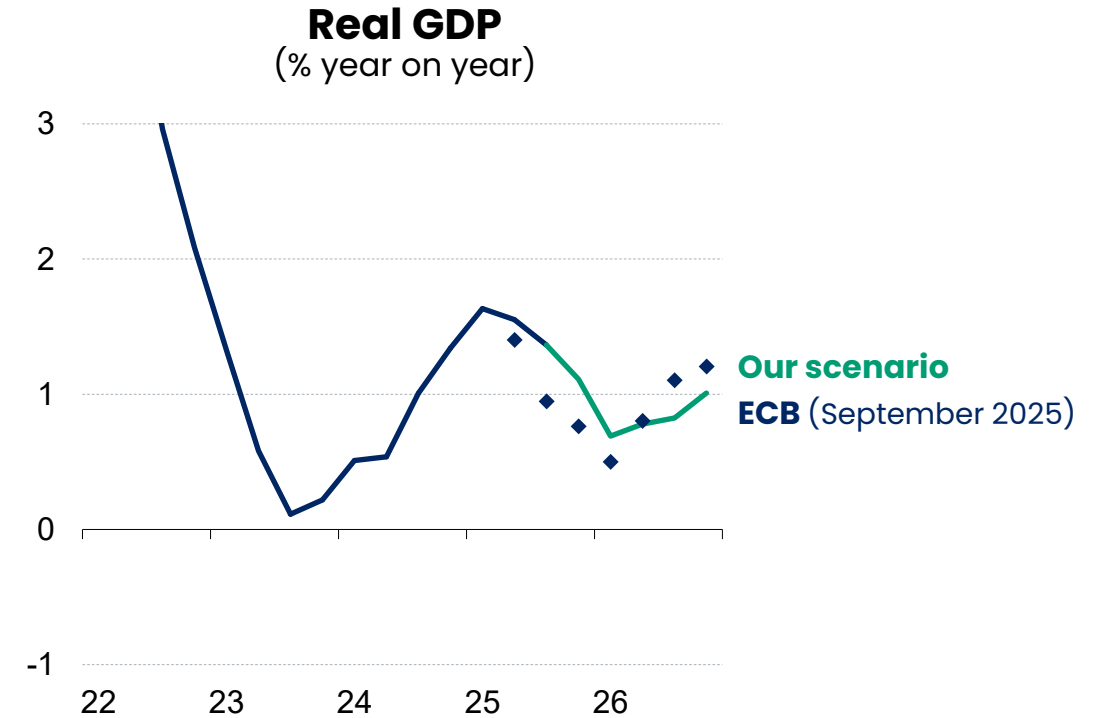
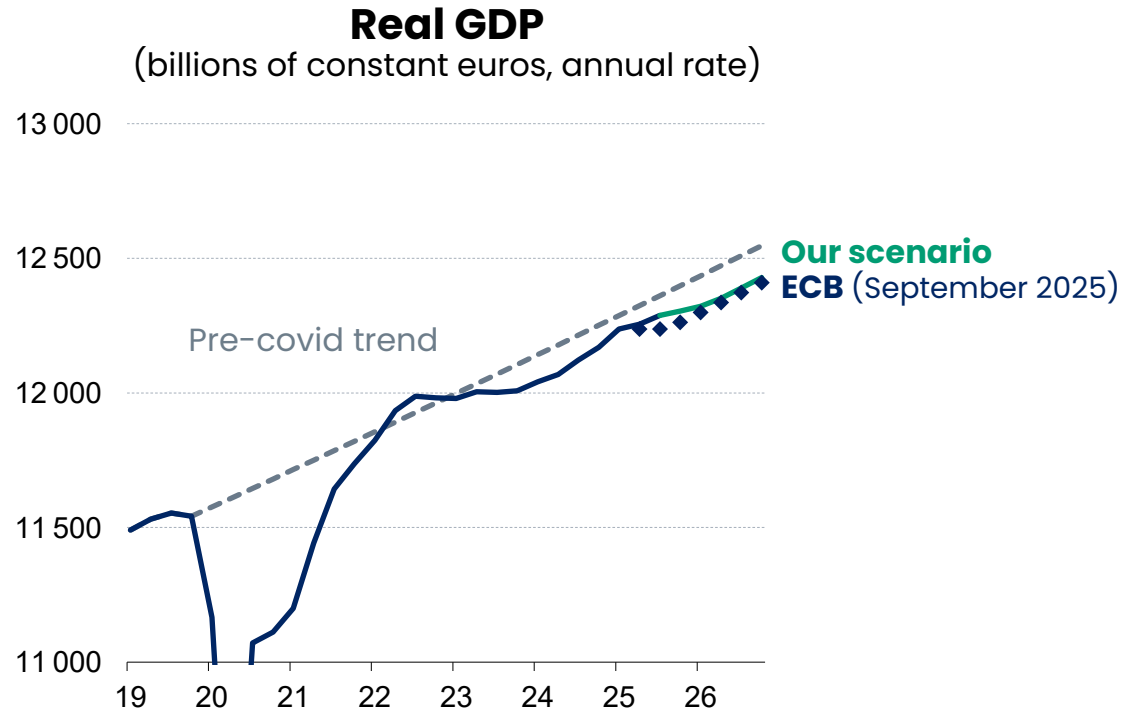
(% of GDP)



Sources: European Commission, Candriam



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



Sources: LSEG Datastream, ECB, Candriam

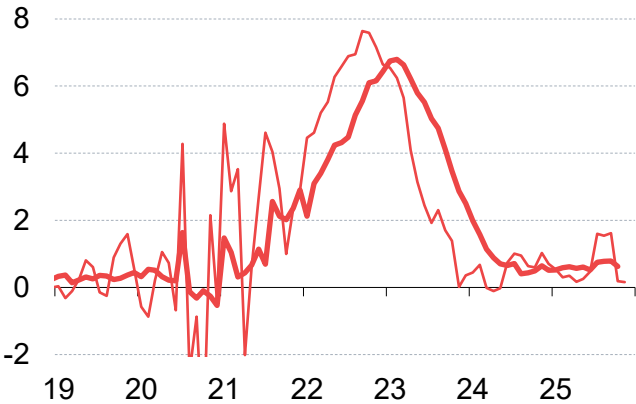


Inflationary pressures have eased

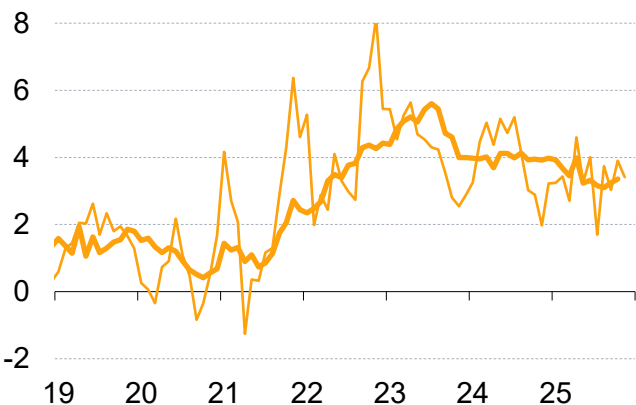
Core CPI inflation
(% annual rate)



Core goods



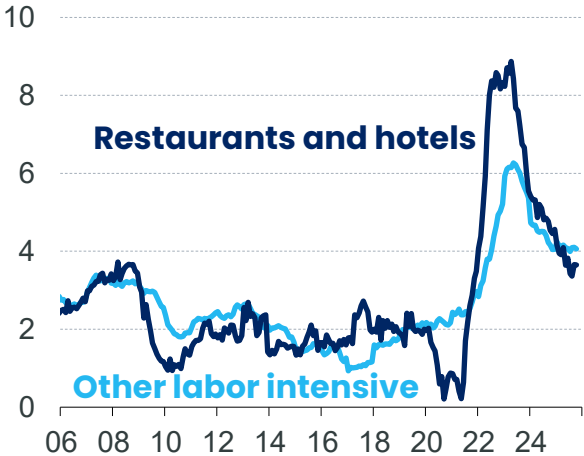
Core services



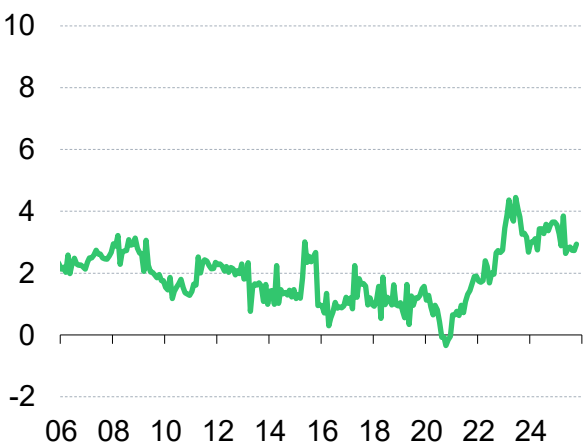
Core services CPI

(% year on year)

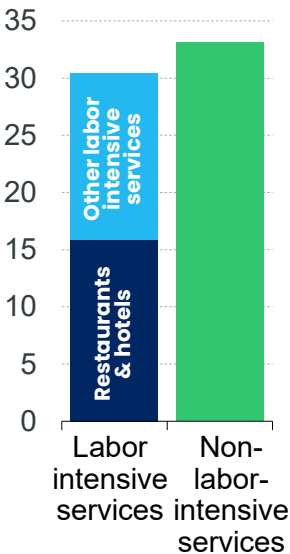
Labor intensive services



Non-labor-intensive services



(% share in core CPI)

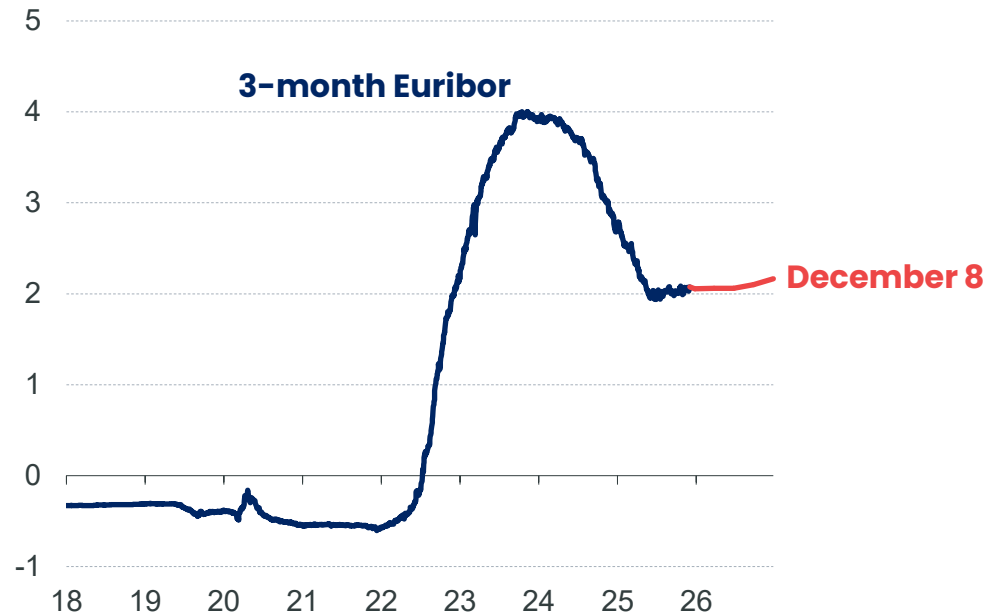


Sources: Eurostat, LSEG Datastream, Candriam

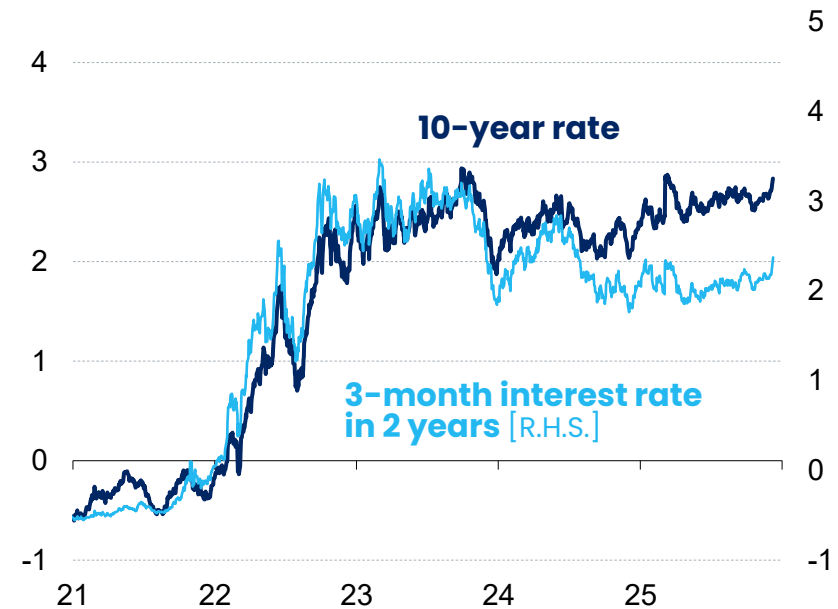


The ECB has normalized its monetary policy

ECB interest rate expectations
(%)



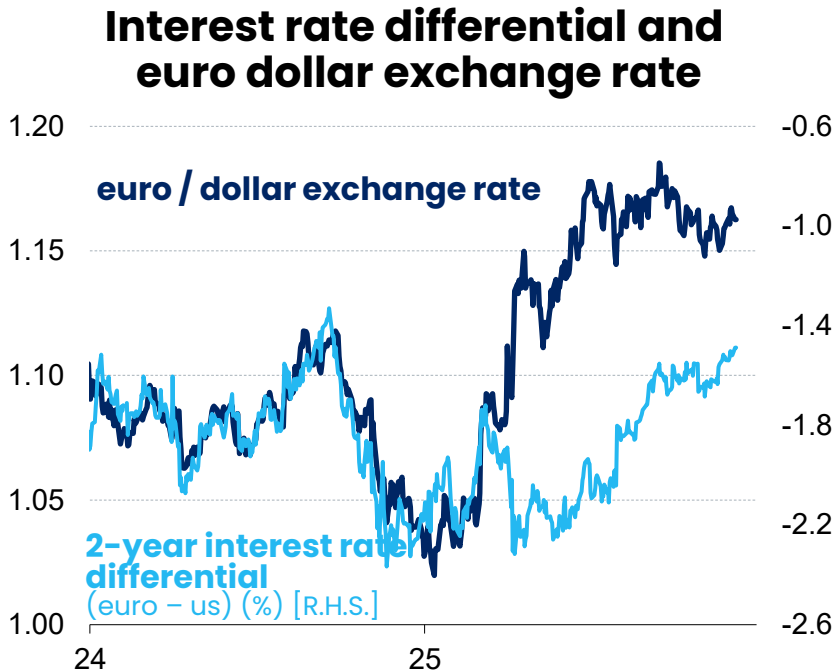
10-year German sovereign rate and short-term rate expectations
(%)



Sources: LSEG Datastream, Candriam

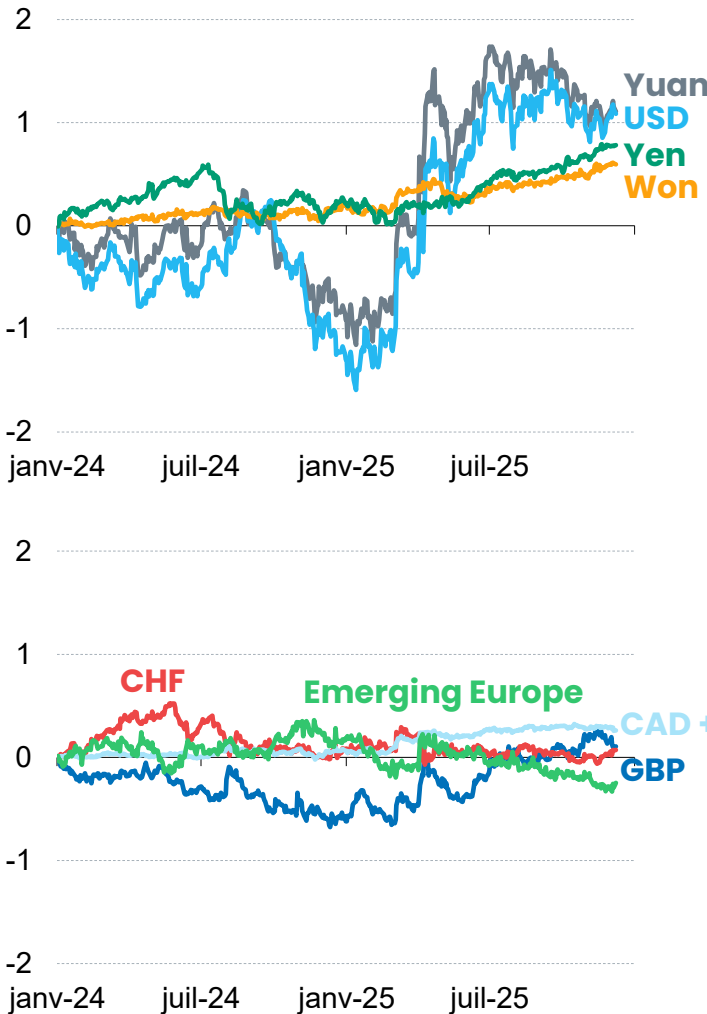


Memo. Euro exchange rate



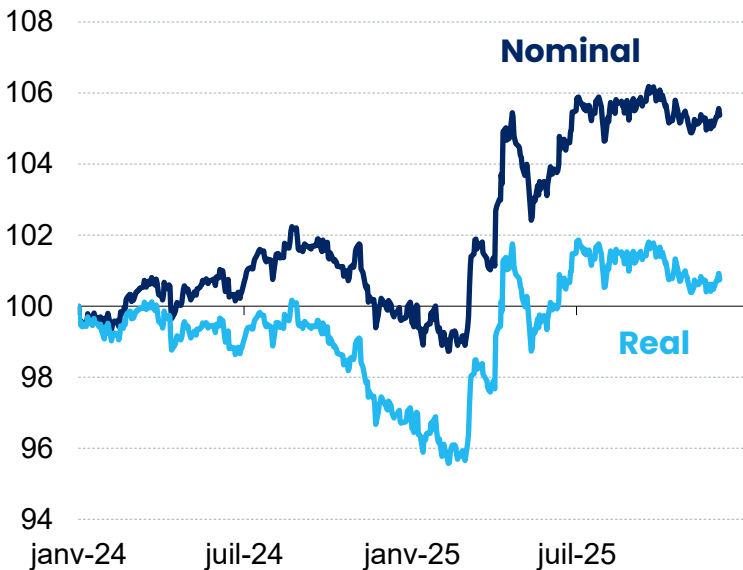
Contributions to euro nominal effective exchange rate

(%, cumulated since January 2024)



Euro area effective exchange rate

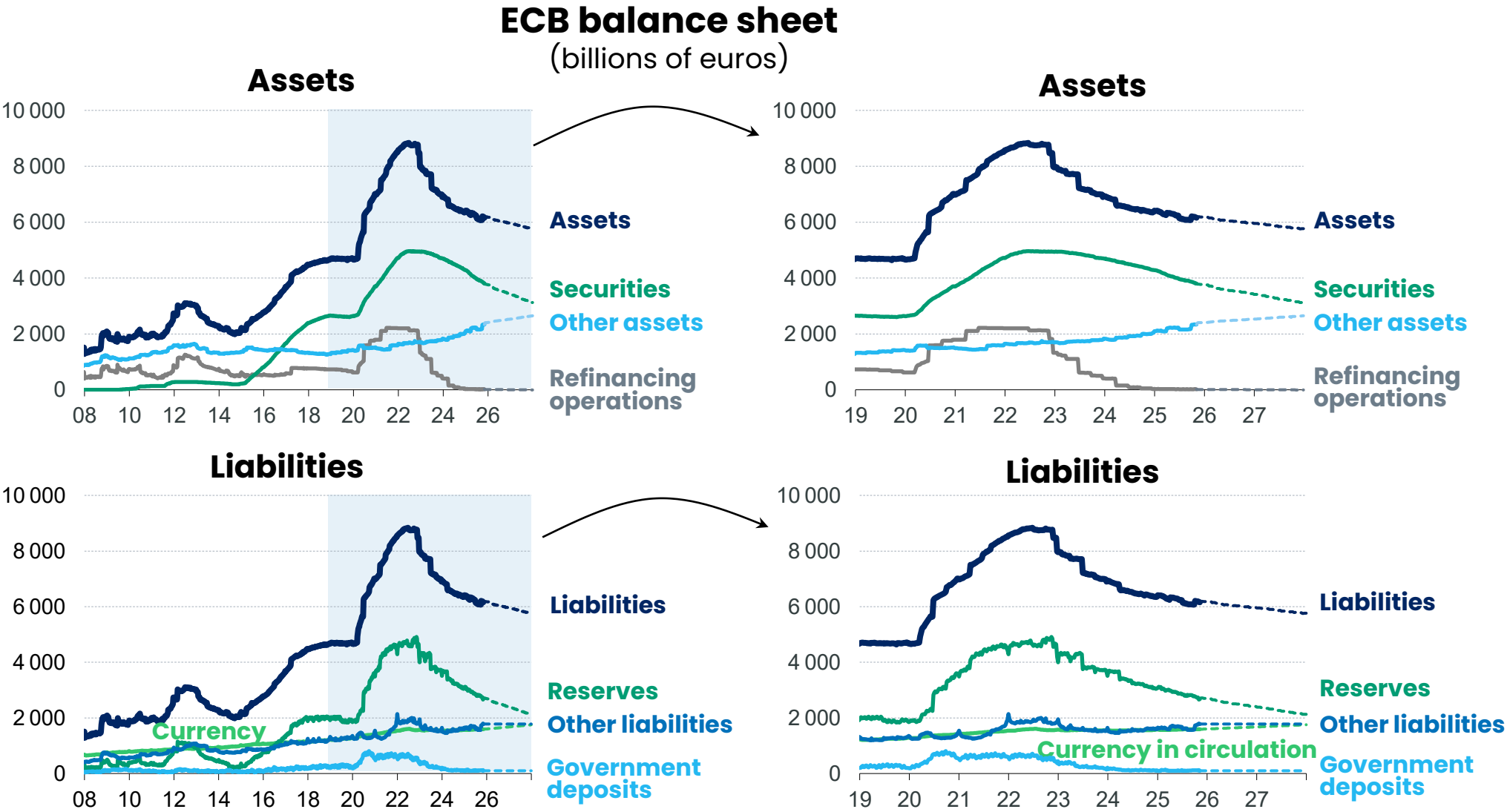
(January 2024 = 100)



Sources: LSEG Datastream, Candriam



Memo. ECB balance sheet



Sources: LSEG Datastream, ECB, Candriam



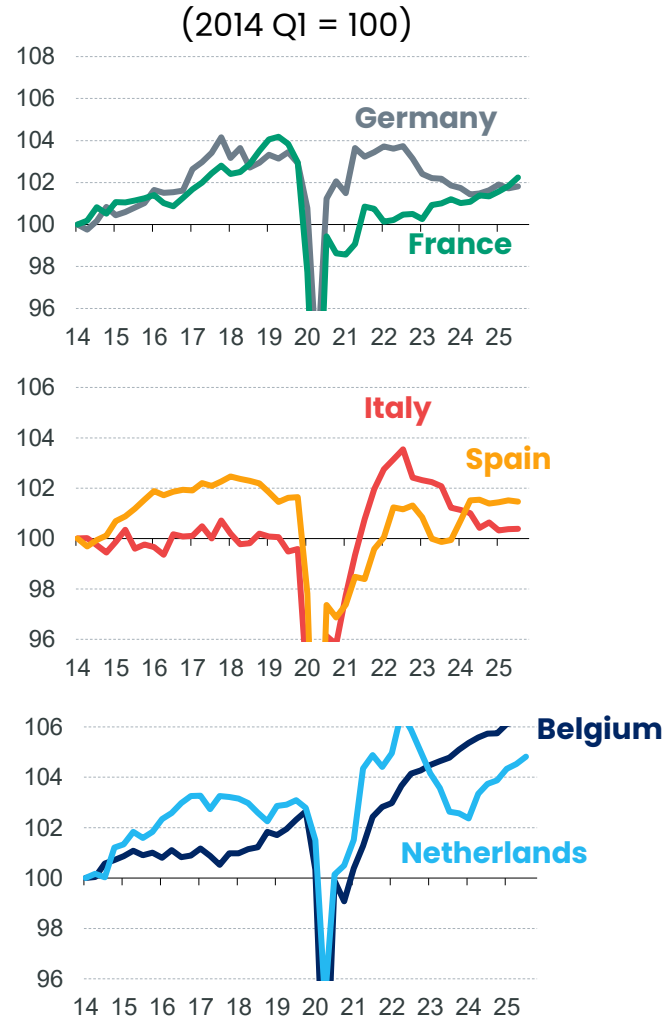
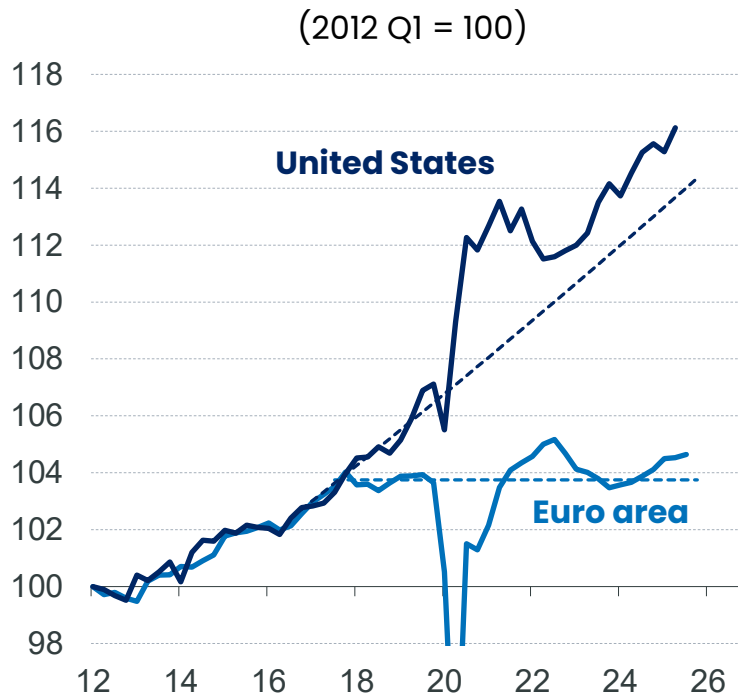


Focus. Europe lags behind the United States

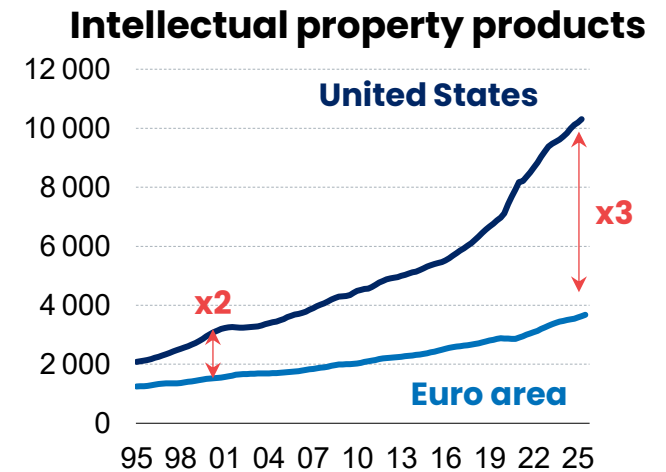
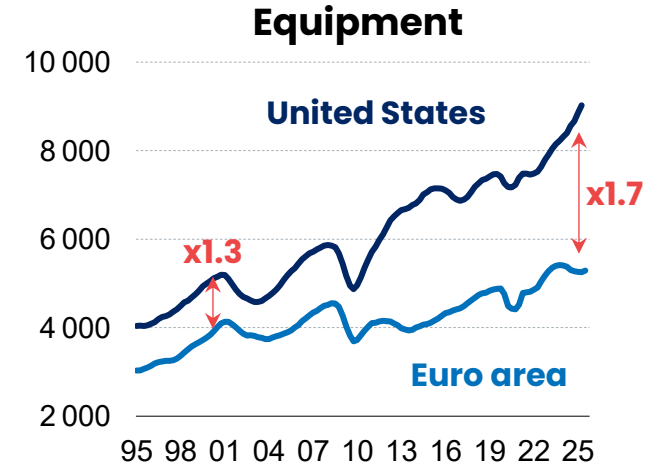


Europe is lagging behind in terms of productivity gains, and the investment gap with the US is unlikely to close...

GDP per employee



Investment per employee (volume, in euros, 1€ = 1.2\$)

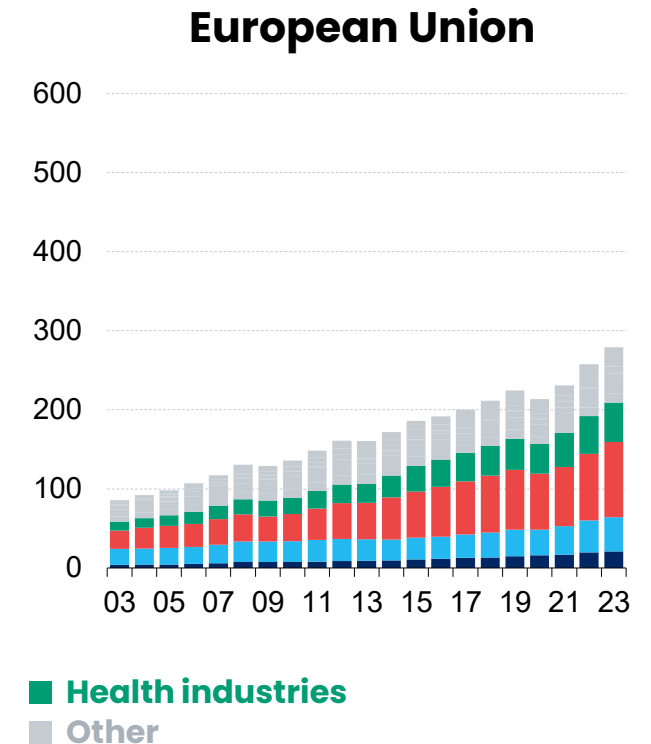
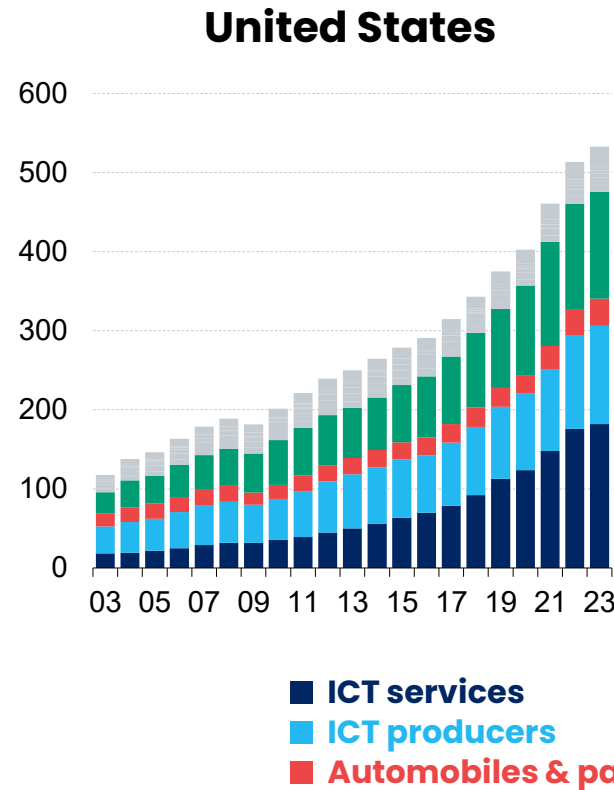
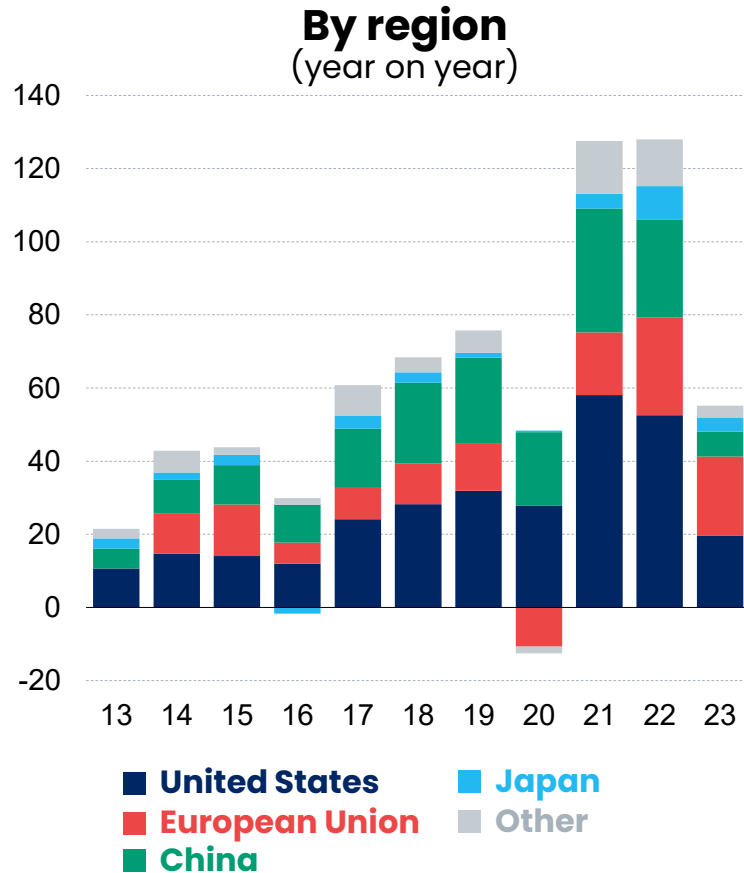


Sources: LSEG Datastream, Eurostat, Candriam



... 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)

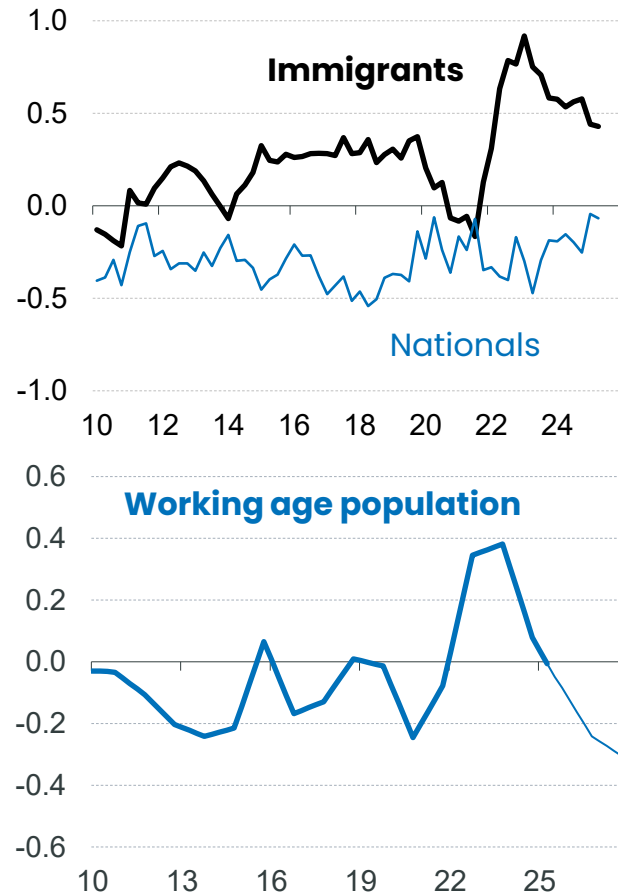


Sources: European Commission, Candriam

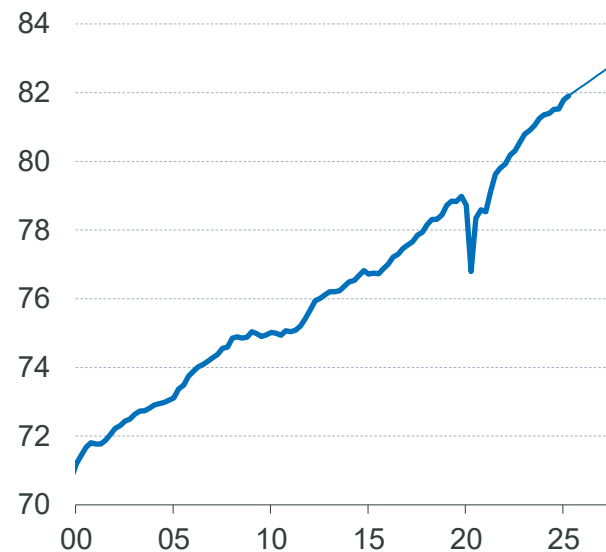


The rate of growth of the labor force is unlikely to be well above 0.5% per year

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

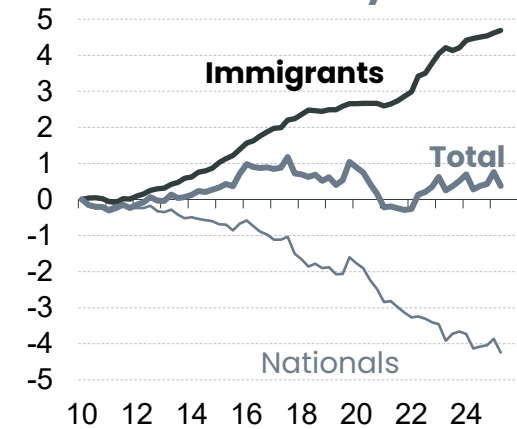
Working age population

(cumulative change since 2010, in million persons)

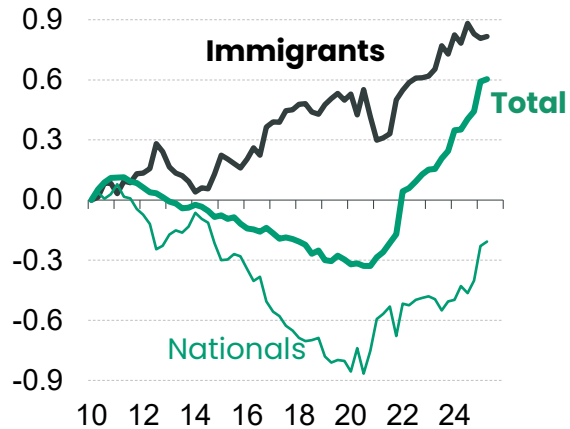
Participation rate

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

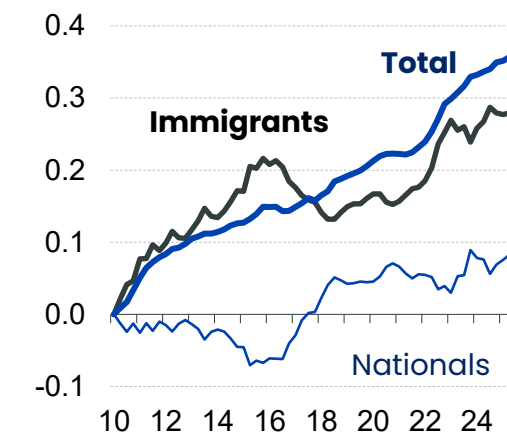
Germany



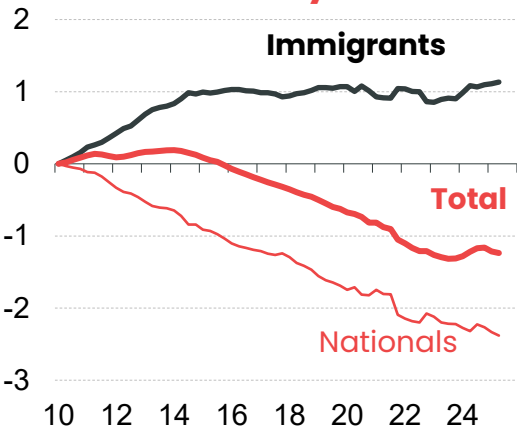
France



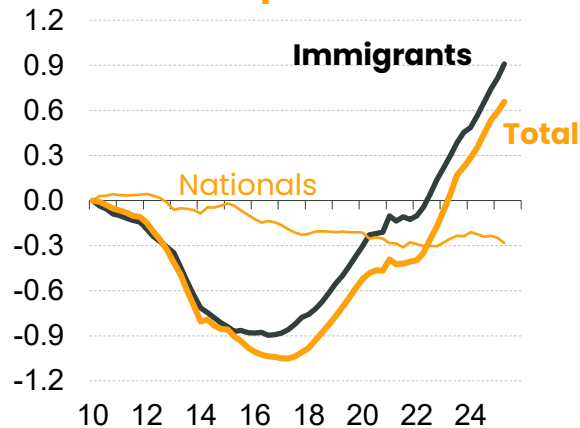
Belgium



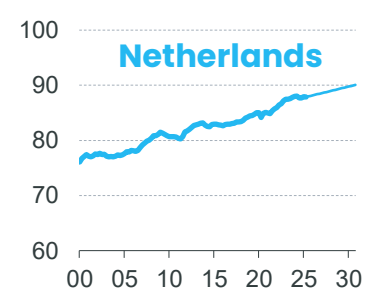
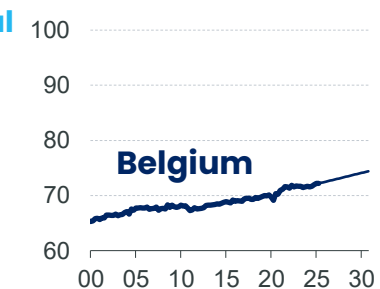
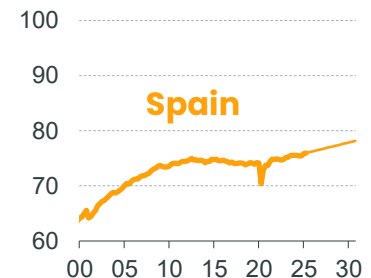
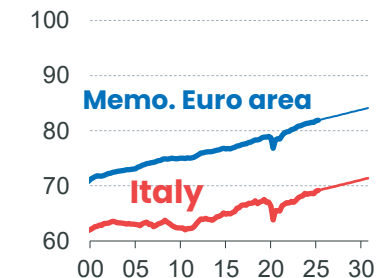
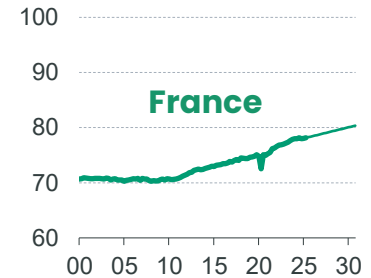
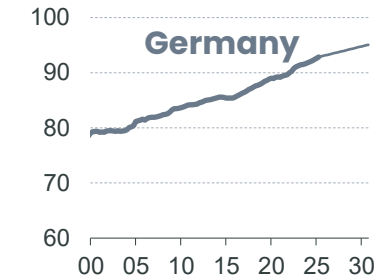
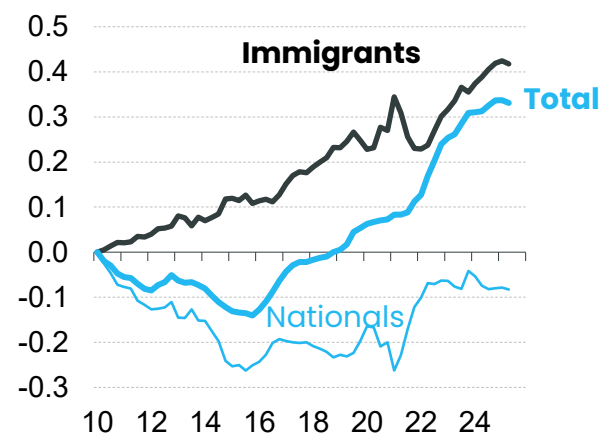
Italy



Spain



Netherlands

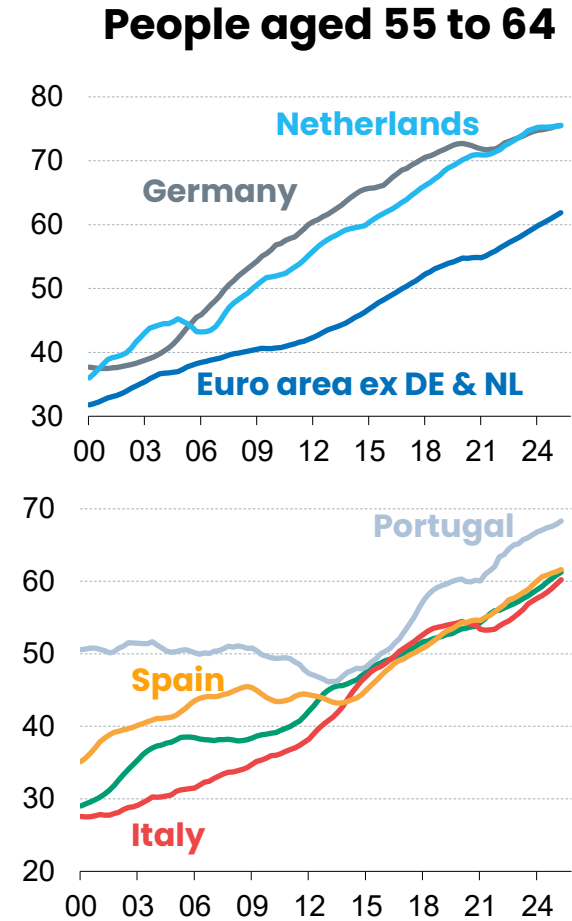
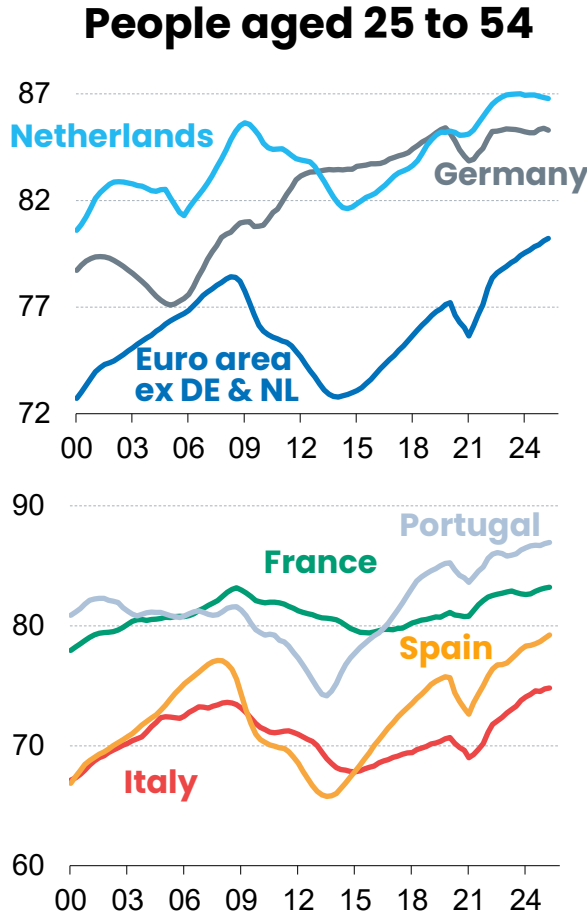
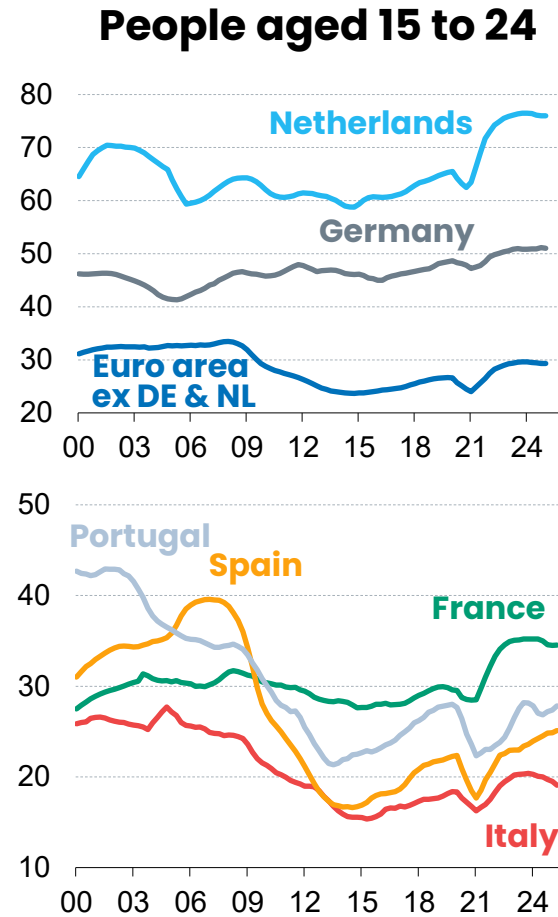


Sources: LSEG Datastream, Eurostat, Candriam



Memo. Employment rates could increase a bit further

Employment rates (%)



Sources: Eurostat, Candriam

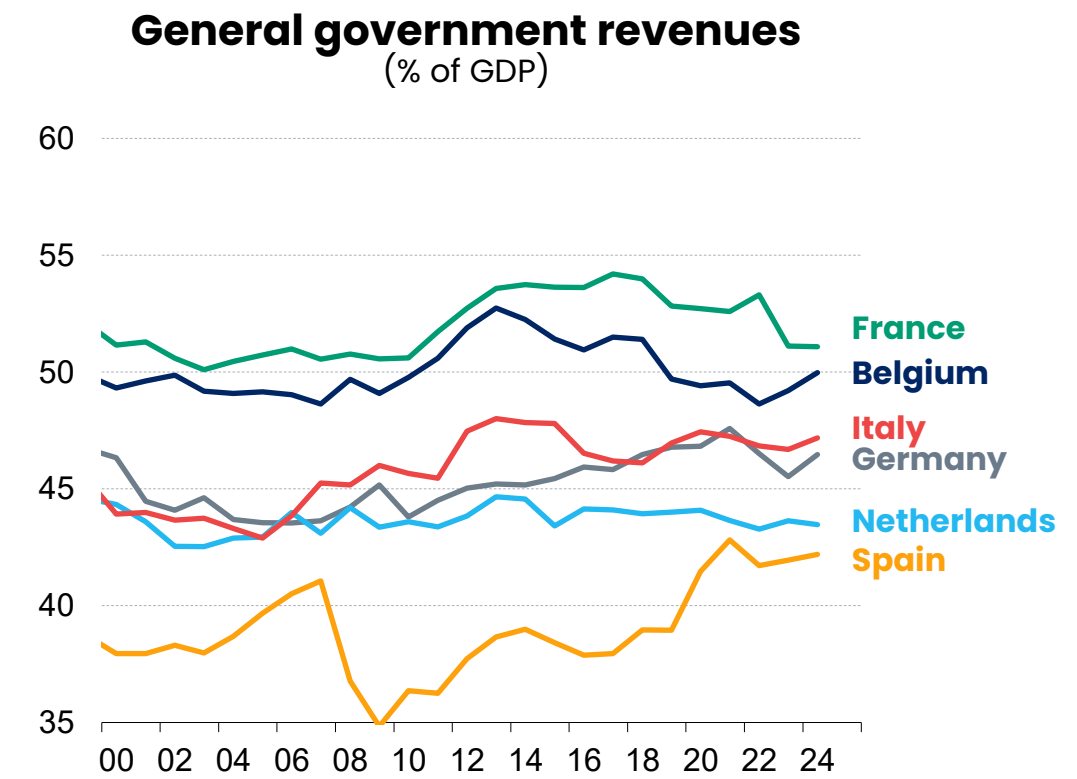
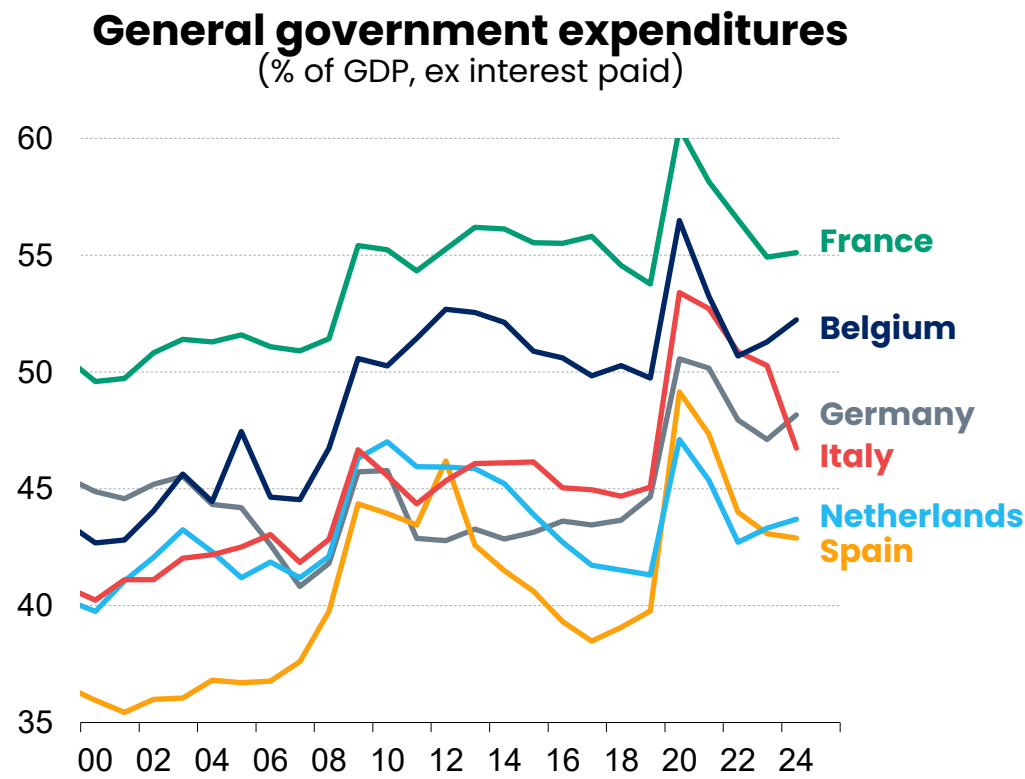




Focus. A closer look at public finances



Government revenues and expenditures

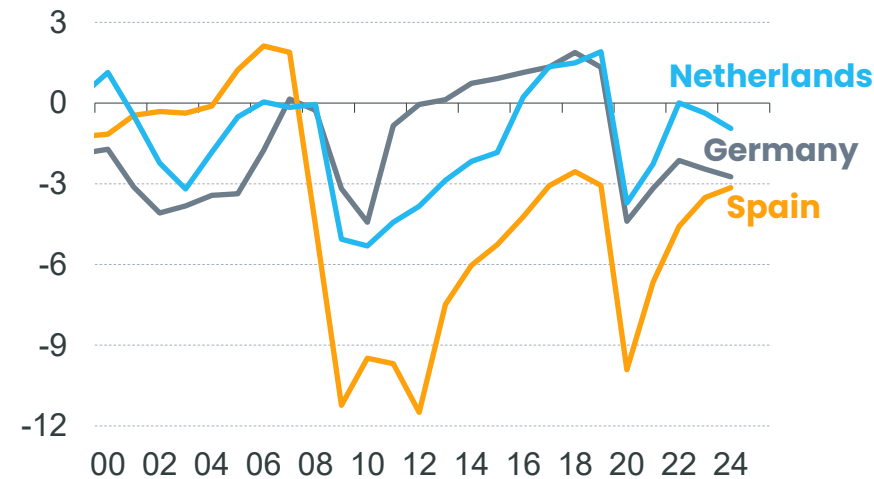


Sources: Eurostat, Candriam

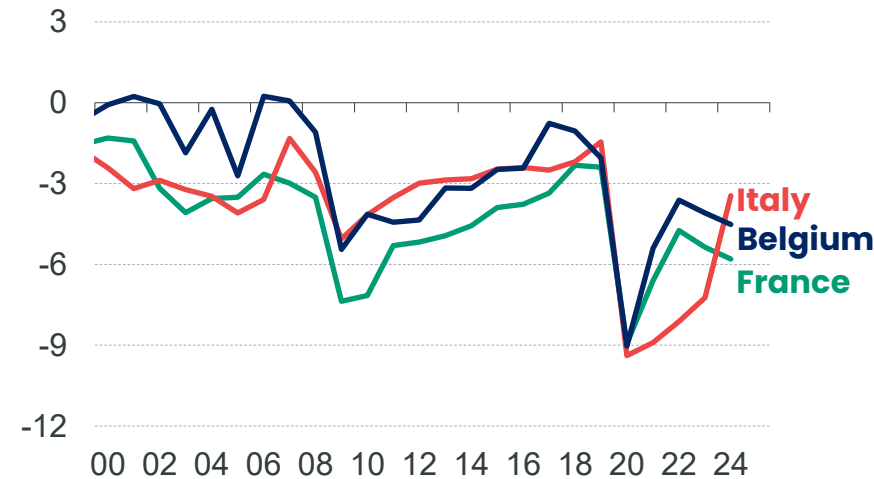
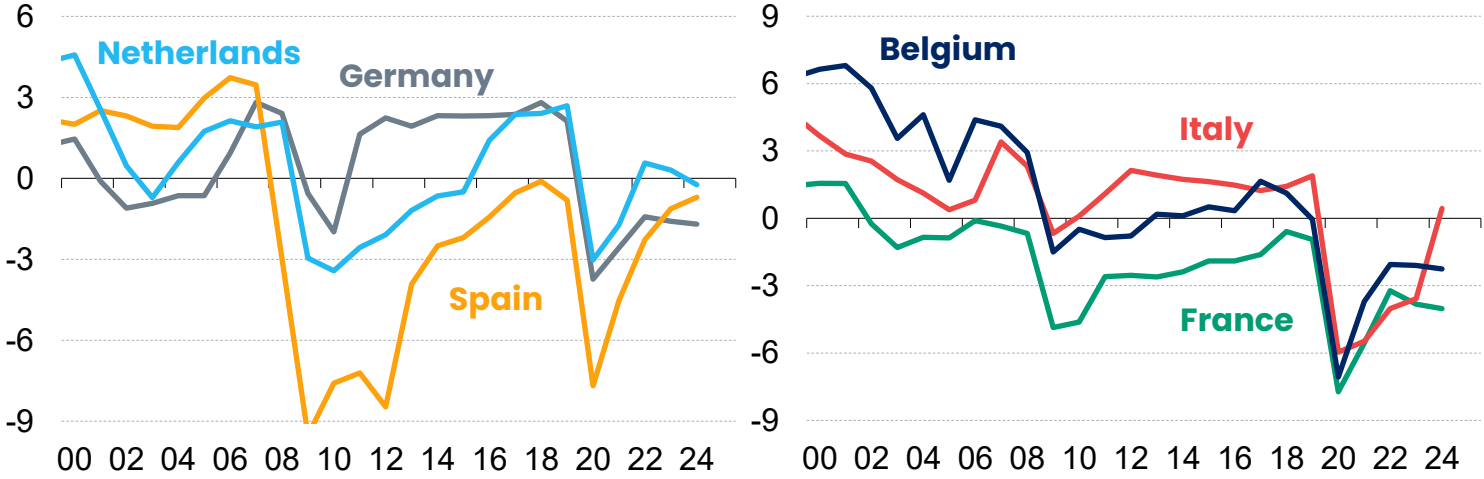


Government balances

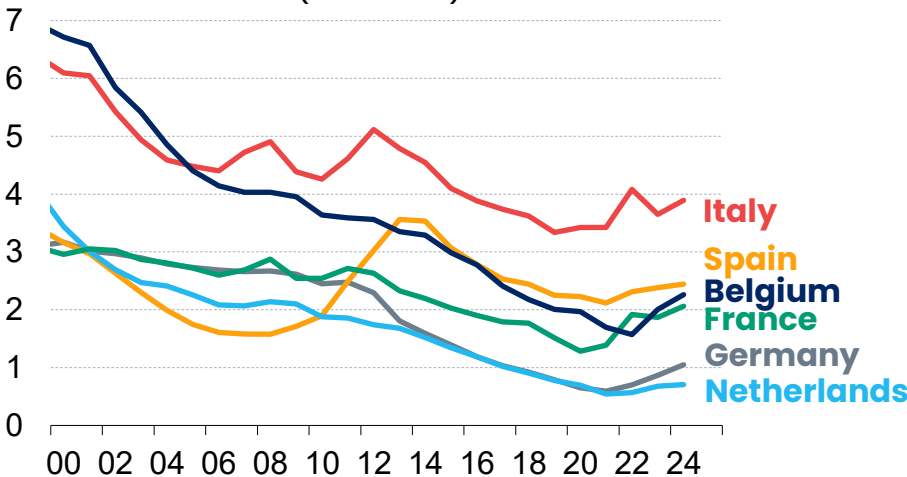
Government balance
(% of GDP)



Government primary balance
(% of GDP)



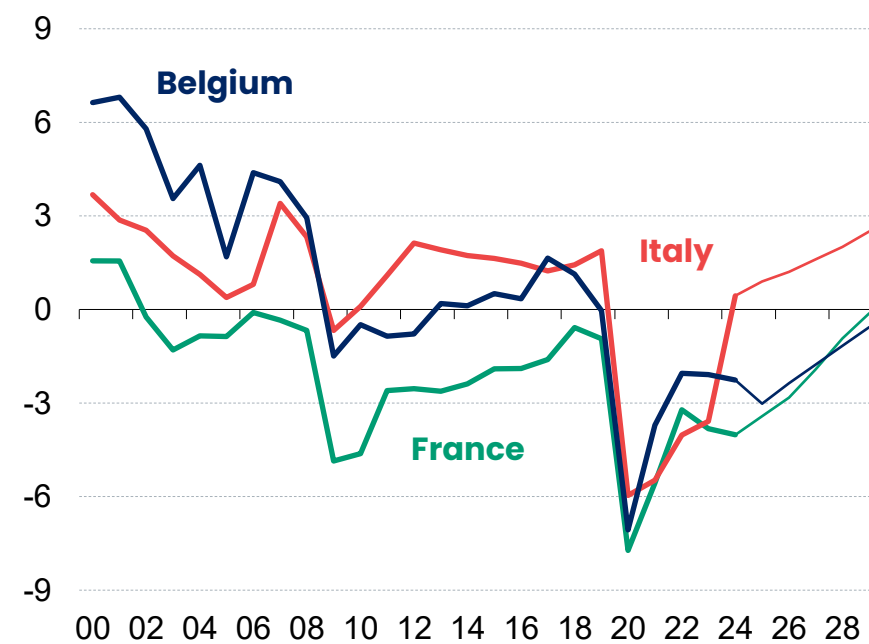
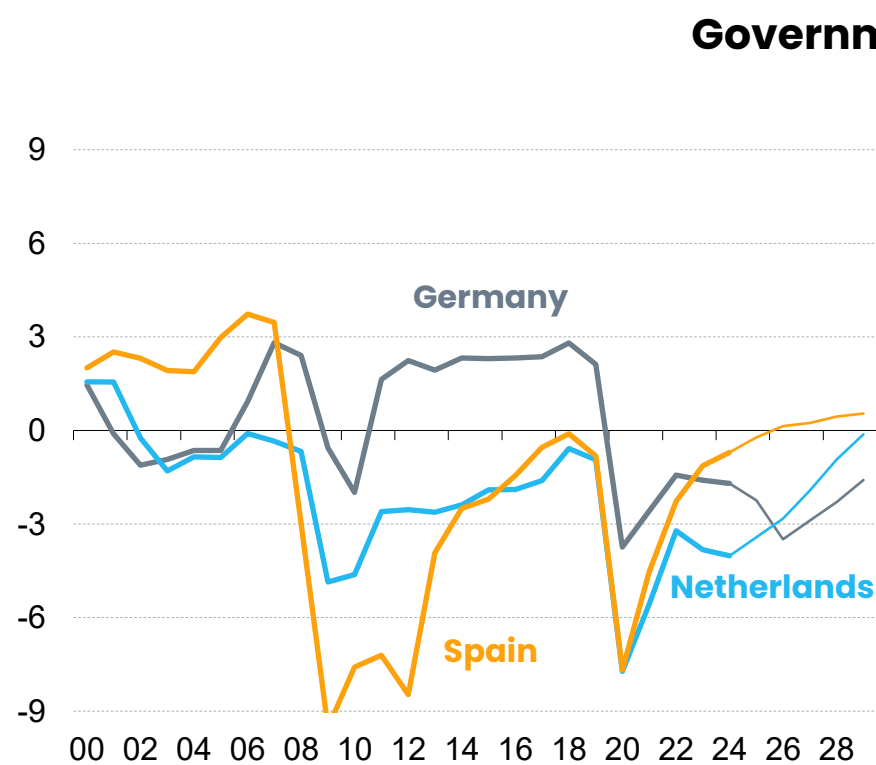
Interest payments
(% of GDP)



Sources: Eurostat, Candriam



Planned government primary balances



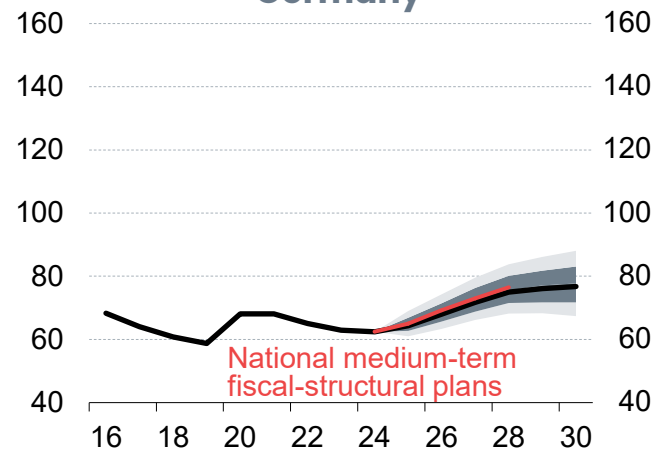
Sources: Eurostat, European Commission, Candriam



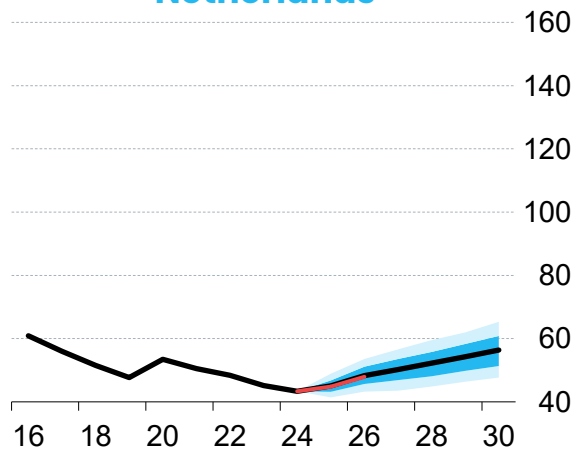
Public debt trajectories

Public debt
(% of GDP)

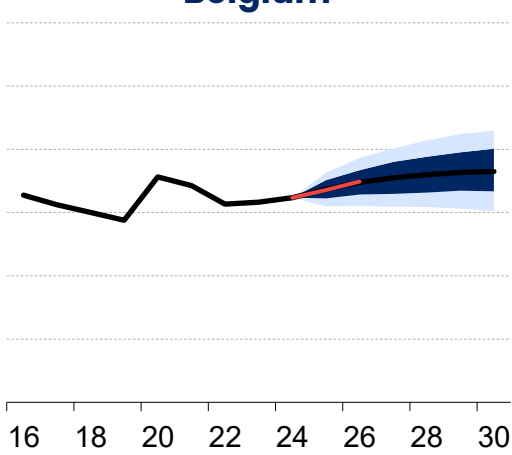
Germany



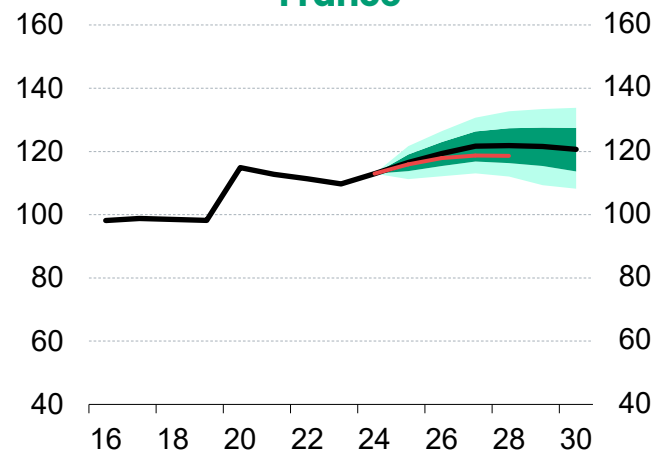
Netherlands



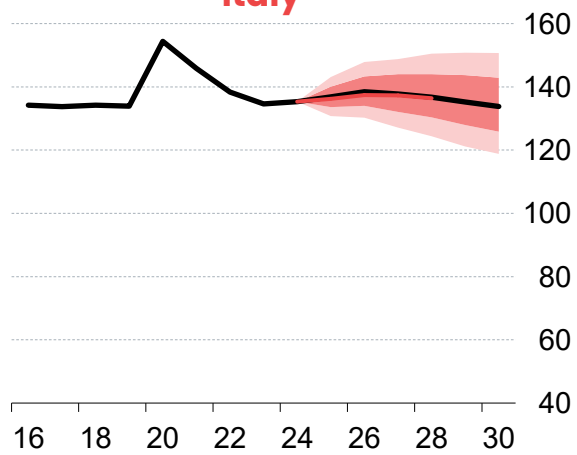
Belgium



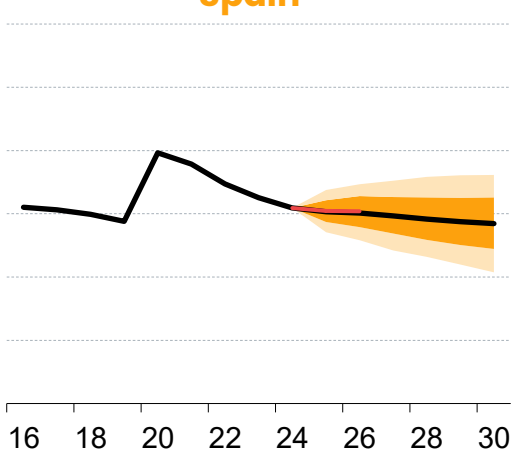
France



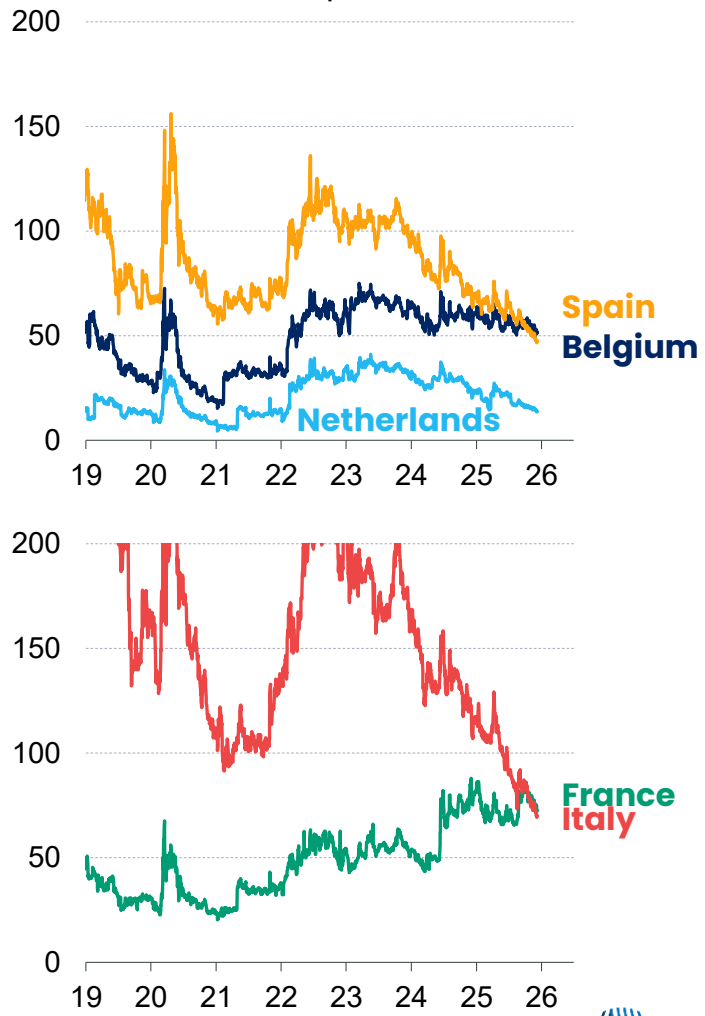
Italy



Spain



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

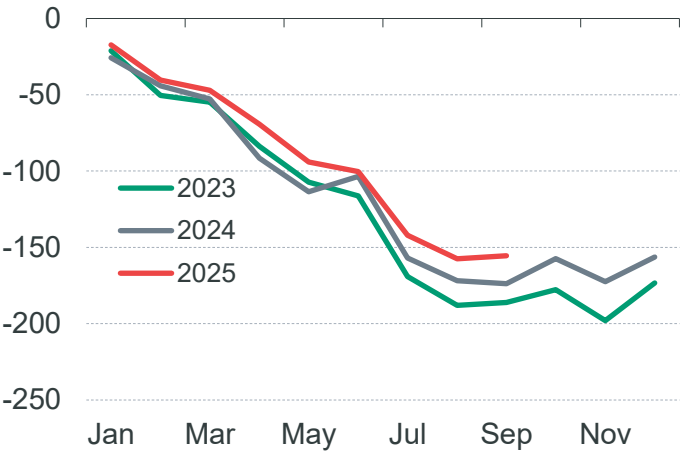


Sources: LSEG Datastream, Eurostat, Candriam

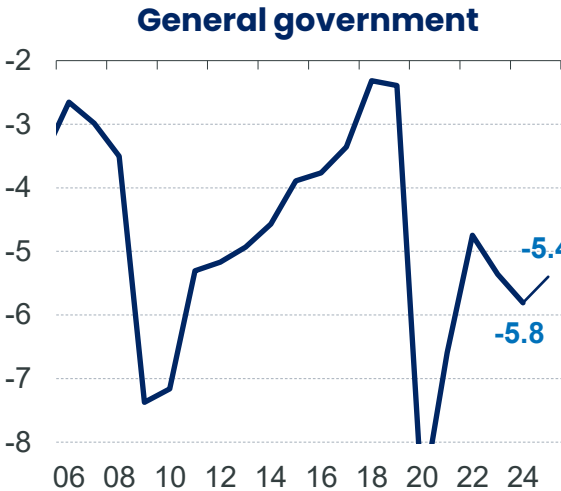
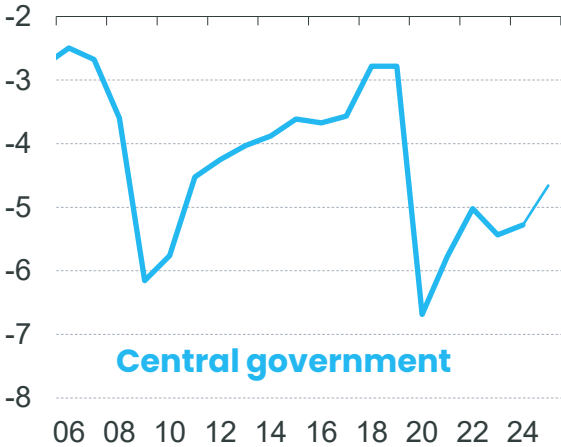


Budget balance in France

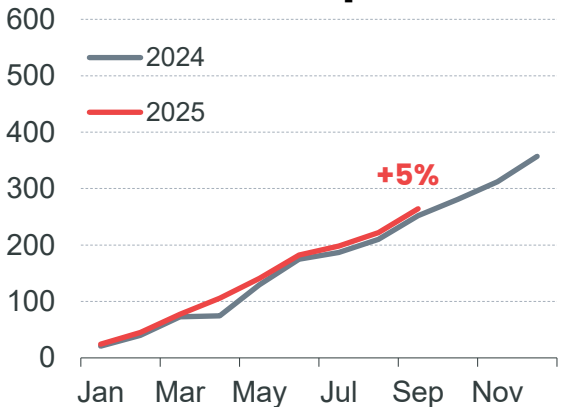
Central government budget
(€ billion, cumulated since January of each year)
Balance



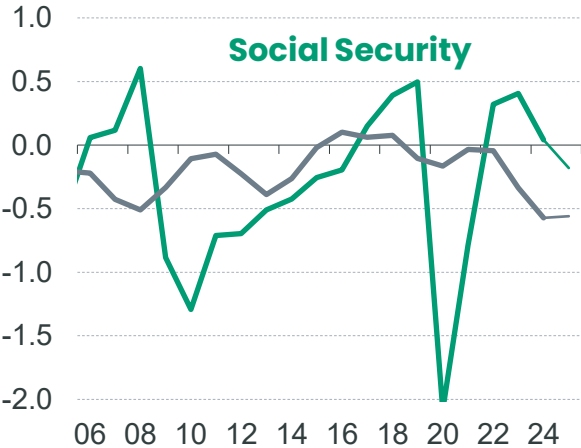
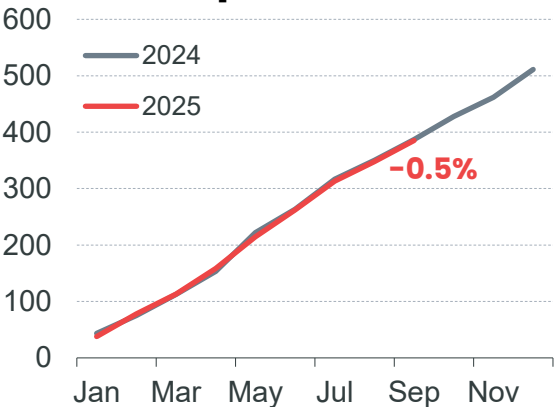
General government budget
(% of GDP)



Receipts



Expenditures

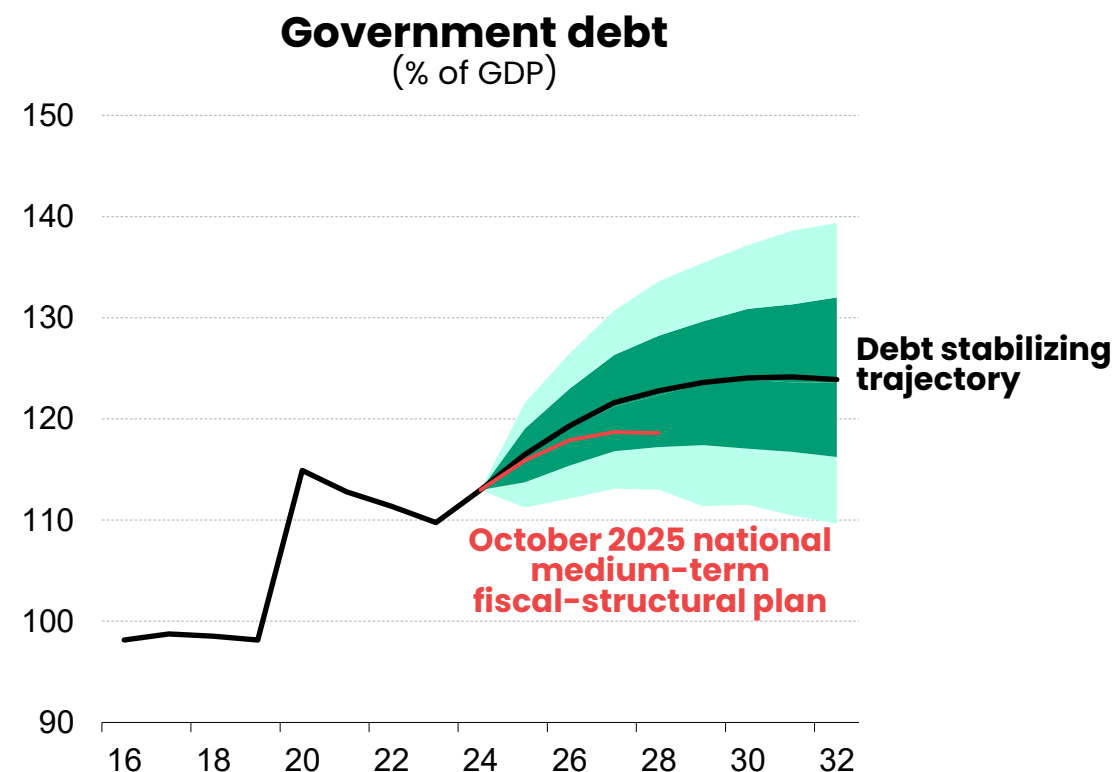
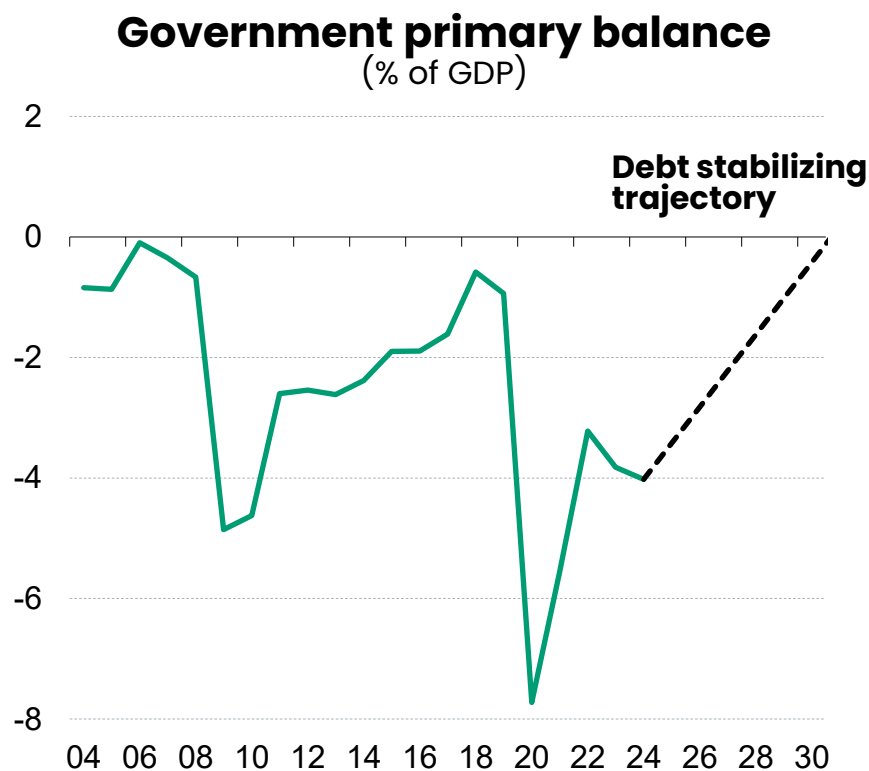


Local government



Stabilizing the public debt to GDP ratio in France will require sustained efforts over several years

Debt stabilizing trajectory

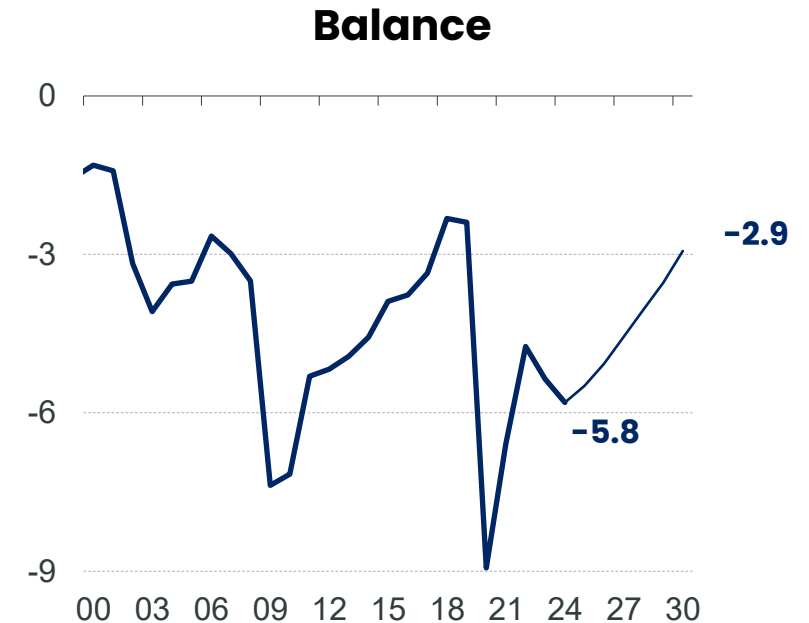
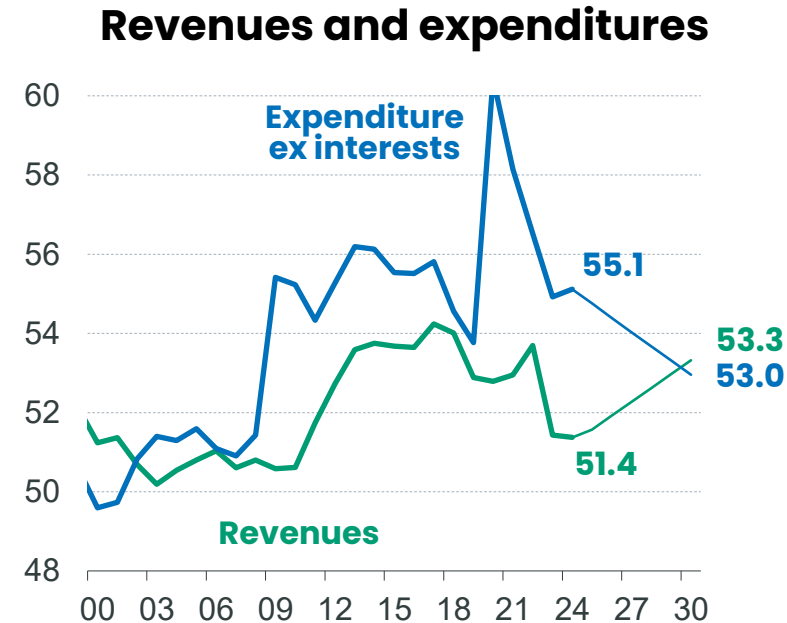
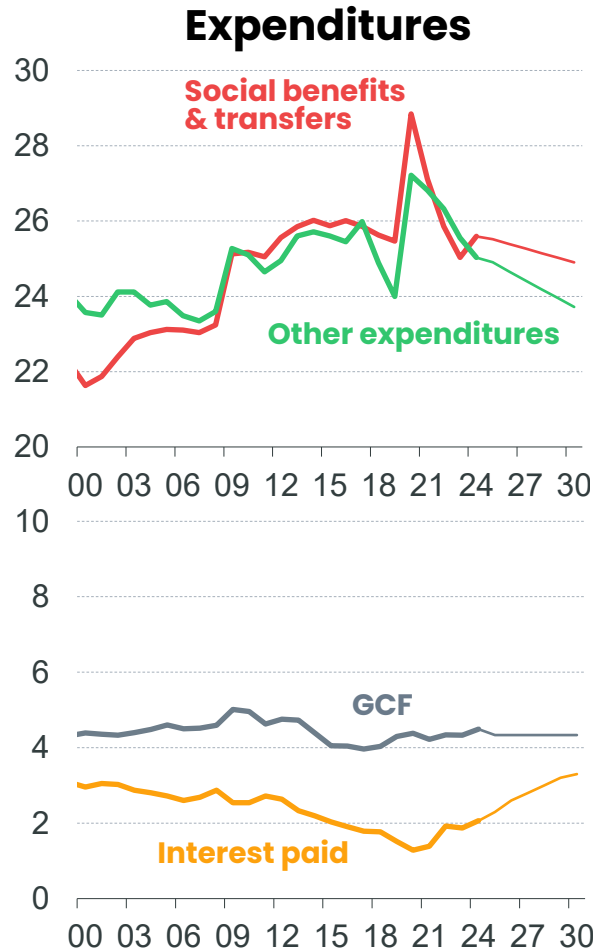


Sources: Eurostat, Candriam



This can hardly be achieved by reducing spending alone

General government revenues, expenditures and balance in France (% of GDP)



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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