ECONOMICS
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MARKETING COMMUNICATION

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Contents

Global economic outlook: The art of muddling through

At mid-year, the global economic outlook is weaker than at the start of the year – mainly due to renewed protectionism in the United States, which has jarred global trade and generated widespread policy uncertainty.

But as long as the US manages to avoid a recession (25% risk), the global economy looks set for continued – albeit unspectacular – expansion, as past energy shocks fade and central banks further ease monetary policy.

If no new risks materialise, increased public spending on infrastructure and defence can support global trade and production and further narrow the transatlantic growth gap, which had already started last year.

Narrowing growth gaps. US growth looks set to slow over the medium term, as trade tariffs impair supply potential and harm real activity, while momentum in Europe continues to improve gradually. We expect the UK somewhat to outperform a Eurozone held back by structural challenges in core economies. While China is likely to continue to slow on trend, growth should remain fast by Western standards, as Japan grows at slightly above its low potential.

Price pressures converge towards 2%. Global inflation moderated in 2024, after the 2022-23 surge. Over the medium term, we expect inflation to stay elevated in the US, at slightly above the 2% target, while price moderate towards target in the UK and Japan. Inflation is likely to remain close to target in the Eurozone and pick up modestly in China, as the recent bout of disinflation fades.

Central banks aiming for neutral. In the US, we look for two 25bp cuts from the Federal Reserve in 2H25 and two more in 2026, to lower the upper limit of the Federal Funds Rate corridor to 3.5% by end-2026. In the UK we expect the Bank of England to cut twice more in 2025, to take the Bank Rate to 3.75%. In the Eurozone, we project just one more cut from the European Central Bank to take the deposit rate to 1.75% by end-2025, followed by two 25bp increases in 2026.

Two-sided risks. While the diffusion of AI raises the hope of faster productivity growth in advanced economies, we need to watch the risk that Washington's erratic trade policies tip the US into recession and impair global growth further. In addition, we need to monitor a host of tail risks linked to growing East-West geopolitical tensions and political disenchantment across the Western world.

This document reflects our latest economic projections, which can be found here

Figure 1: Peel Hunt real GDP projections (% YoY, 2 July vs 6 January)

	2025		2026		Cumulative	
	02-Jul	*06-Jan*	*02-Jul*	*06-Jan*	*02-Jul*	*06-Jan*
North America						
US	**1.4**	*2.0*	**1.5**	*2.0*	**2.8**	*4.0*
Asia and Oceania						
China	**4.5**	*4.5*	**4.2**	*4.3*	**8.8**	*8.8*
Japan	**0.9**	*1.2*	**0.7**	*0.9*	**1.6**	*2.1*
Europe						
UK	**1.3**	*1.4*	**1.5**	*1.8*	**2.7**	*3.2*
Eurozone	**1.3**	*1.1*	**1.3**	*1.4*	**2.5**	*2.5*
Germany	**0.5**	*0.5*	**1.1**	*1.2*	**1.6**	*1.7*
France	**0.4**	*0.8*	**0.9**	*1.1*	**1.3**	*1.9*

Cumulative totals may appear out by 0.1pp due to rounding. Annual data. Source: Peel Hunt

CONFERENCE CALL

If you would like to join our 2025 Global Economic Outlook mid-year update conference call hosted by Kallum Pickering, Peel Hunt Chief Economist:

REGISTER HERE

Date: Thursday 3 July 2025
Time: 10:00-10:45 EST,
15:00-15:45 BST,
16:00-16:45 CET

Format: Zoom webinar – dial-in details will be shared after registering.

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Overview: the art of muddling through

Global economic outlook has weakened since the start of the year, due to US protectionism

At mid-year, the global economic outlook is weaker than it was at the start of the year. This is mainly due to the renewed protectionist stance in the United States, which has jarred global trade and generated widespread policy uncertainty (Figure 2). Beyond the temporary confidence shock in April when President Trump's so-called 'Liberation Day' tariffs were first announced, but quickly paused in the wake of serious financial market stress, economic activity in major economies has remained resilient and will likely continue to do so.

We look for sustained global growth, Europe picks up modestly, US slows, Asia faces challenges

As long as the US manages to avoid a recession (25% risk), the global economy looks set for continued – albeit unspectacular – expansion, as past energy shocks fade and central banks take further steps to ease monetary policy. In Europe, we expect growth to accelerate gradually over the medium term. Germany is undertaking a major fiscal expansion, reversing years of underinvestment in infrastructure and defence, while the United Kingdom is also stepping up investment in public infrastructure and housing. Although US momentum looks set to slow as trade tariffs impair momentum, we look for the Fed to lean into slower growth later this year – which should help to lift growth again after a lag. While China is likely to continue to slow on trend, growth is set to remain fast by Western standards, as Japan grows at slightly above its low potential.

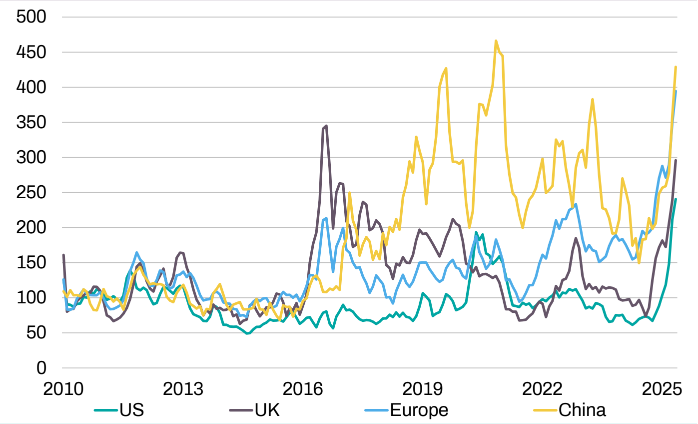
Transatlantic growth gaps narrow as global trade and production expand

Our outlook for better growth in Europe and moderate growth in the US implies a continued narrowing of the transatlantic growth gap that had started last year already. The growth gap appeared in 2022 and 2023, when Europe stalled amid a severe gas shortage and US growth was boosted by the then-president Biden's massive fiscal stimulus. As long as no new risks materialise, the unwinding of past shocks can open the door for healthier gains in global trade, production, and investment – as signalled by rising global equities (Figure 3).

While price pressures are likely to remain modest, we need to keep an eye on sources of renewed inflation risk

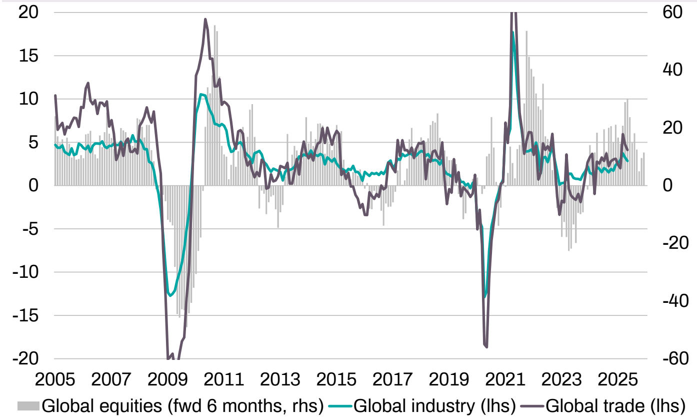
While inflation is likely to remain somewhat elevated near term in the US and the UK, price pressures across global economies look likely to remain under control, as past supply shocks fade and demand momentum remains modest. However, the threat of serious dislocations to global trade flows coming from US protectionism, and the risk of fresh energy supply shocks owing to heightened geopolitical tensions, keep alive the potential for renewed inflation spikes and disruptions to real economic activity. That said, the story of the past few years for major economies is one of resilience and adaptation in light of enormous shocks.

Figure 2: Economic policy uncertainty (2010 = 100)



Three-month moving average. News-based measure of policy uncertainty. Source: PolicyUncertainty.com

Figure 3: Global equites lead trade and production (% YoY)



Global trade based on world trade merchandise exports. Global equities based on Dow Jones Global Index. Monthly data. Source: CPB NBEPA, Dow Jones.

Forecast summary: growth gaps narrow

Although we continue to expect a broadening economic expansion across major economies, with the exception of China and the Eurozone (where peripheral economies have enjoyed solid momentum), our headline calls are weaker than at the start of the year. Directionally, our base case remains unchanged: moderating growth in the US and China and cyclical expansions in the UK, Eurozone, and Japan (Figure 4). *Bloomberg consensus in brackets.*

Although our headline calls are weaker than at the start of the year, directionally, our base case remains unchanged

- For the **UK**, we forecast YoY real GDP growth of 1.3% (1.1%) in 2025, 1.5% (1.2%) in 2026 and 1.6% (1.5%) in 2027.
- In the **Eurozone**, we project real GDP growth of 1.3% (1.0%) in 2025, 1.3% (1.1%) in 2026 and 1.5% (1.5%) in 2027, with **Germany** at 0.5% (0.2%), 1.1% (1.1%) and 1.7% (1.7%), and **France** at 0.4% (0.5%), 0.9% (0.8%) and 1.2% (1.3%), respectively.
- In the **US**, we expect growth in real GDP of 1.4% (1.5%), 1.5% (1.6%) and 1.8% (2.0%) in 2025, 2026, and 2027 respectively.
- We look for real GDP growth in **China** of 4.5% (4.5%) in 2025, 4.2% (4.2%) in 2026 and 4.0% (4.1%) in 2027.
- In **Japan,** we project a real GDP gain of 0.9% (0.8%) in 2025, followed by a rise of 0.7% (0.8%) in 2026 and a further 0.8% (0.8%) gain in 2027.

UK GDP: above consensus: We project 1.3%, 1.5% and 1.6% in 2025, 2026 and 2027, respectively

Eurozone GDP: above consensus: We project 1.3%, 1.3% and 1.5% in 2025, 2026 and 2027, respectively

US GDP: below consensus: We project 1.4%, 1.5% and 1.8% in 2025, 2026 and 2027, respectively

China GDP: in line with consensus: We project 4.5%, 4.2% and 4.0% in 2025, 2026 and 2027, respectively

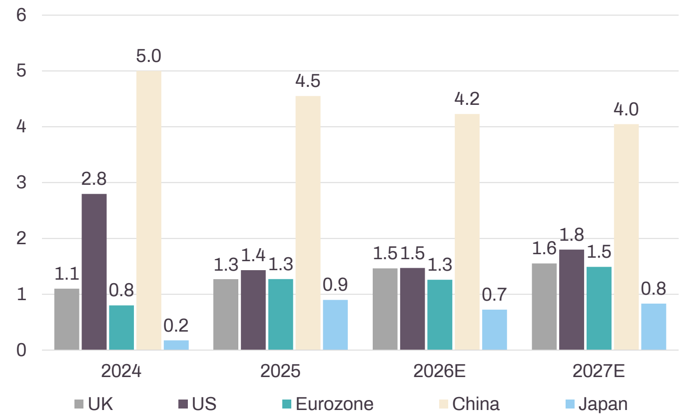
Japan GDP: in line with consensus: We project 0.9%, 0.7% and 0.8% in 2025, 2026 and 2027, respectively

Inflation moderated in 2024 after the 2022-23 surge. Looking ahead, we expect inflation to stay elevated in the US, while prices moderate towards target in the UK and Japan. Prices are likely to remain close to target in the Eurozone and pick up modestly in China as the recent bout of disinflation fades (Figure 4).

- In the **UK,** we expect inflation to ease from 3.2% in 2025 to 2.0% in 2027.
- In the **US,** we look for inflation to soften from 3.0% in 2025 to 2.5% in 2027.
- For the **Eurozone**, we project inflation at close to 2% from 2025 to 2027.
- In **China**, we look for inflation to rise from 0.1% in 2025 to 1.4% in 2026.
- In **Japan**, we expect inflation to drop from 3.2% in 2025 to 1.8% in 2027.

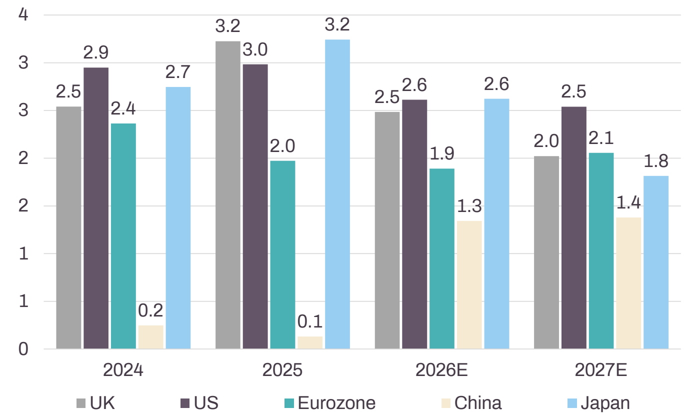
Tariffs to keep inflation somewhat elevated in the US, while price pressures largely converge to 2% elsewhere

Figure 4: Peel Hunt projections for real GDP (% YoY)



Peel Hunt projections for 2025-27. Annual data. Sources: ONS, BEA, Eurostat, China National Bureau of Statistics, Cabinet Office of Japan

Figure 5: Peel Hunt projections for inflation (% YoY)



Peel Hunt projections for 2024-26. Annual data. Sources: ONS, BEA, Eurostat, China National Bureau of Statistics, Cabinet Office of Japan

Assumptions and risks

At the start of the year, we argued that our calls for sustained economic growth across major economies rested on three key assumptions, which – in different ways – have been tested. We set out these assumptions and discuss what has changed:

Since the start of the year, we have tested the key assumptions upon which our call for sustained global growth rested

1. **That inflation remains sufficiently under control for central banks to normalise monetary policy further.** Amid uncertainty about the scale of tariff-driven inflation, the Fed has been forced to pause its rate cutting cycle – but we expect it to resume cuts in 2H and into 2026. In the UK, although inflation has risen towards 3.5% on the back of higher energy prices, the BoE has continued to ease policy gradually. In the Eurozone, where inflation looks stable at close to 2%, the ECB has managed to lower rates by enough to turn monetary policy actively easy.

First, that inflation remains sufficiently under control for central banks to normalise monetary policy further

2. **That economies mostly adjust to trade frictions.** This remains an open question. In response to a financial market panic in April, Washington paused its Liberation Day tariffs (ends 9 July) – but the risk that tariffs could increase sharply again after the pause ends looms large. With the exception of China, other economies have not retaliated to US tariffs in a major way. If the final result is that the US unilaterally puts up import barriers, but the rest of the world remains mostly open, we expect major economies and financial markets to adjust and muddle through.

Second, that economies mostly adjust to trade frictions

3. **That major economies do not suffer serious bouts of financial instability.** In January we highlighted the need to monitor closely the small but serious risk that misguided fiscal policies in the US and France could amplify inflation and debt sustainability concerns, and that a tantrum in the US Treasuries market could badly destabilise global financial markets. While French bond markets have remained calm, the April US Treasury market rout serves as a reminder of the risks associated with excessive public deficits and debt when inflation risks are elevated.

Third, that major economies do not suffer serious bouts of financial instability

Two-sided macro risks. We keep our standard macro risks unchanged since the start of the year. On the upside, the diffusion of artificial intelligence (AI) could lift productivity and generate positive growth surprises. On the downside, we need to watch the danger of a US recession (25% risk) and that a renewed bout of inflation forces the Fed to keep monetary policy tighter for longer.

Two-sided macro risks: while AI raises the hope of faster productivity growth, we need to watch the US recession risk

Tail risks in the age of instability

In addition to the two-side macro risks set out above, we need to keep a close eye on five serious downside tail risks:

Mind the tail risks: political disillusionment combined with growing geopolitical tensions make for an uneasy backdrop

1. A US lurch towards extreme isolationism during Trump's second term;
2. An uncontained tit-for-tat trade war between the US, Europe and China;
3. A spillover of the Russian-Ukraine war into a NATO member.
4. A broadening of the Israel-Palestine conflict into neighbouring countries; and
5. Any attempt by China to annex Taiwan using military means.

Note that tail-risk four temporarily materialised during the recent 12-day war between Israel (with US support) and Iran.

In focus: central banks

After a decade of disinflation following the 2008 global financial crisis, central banks fell far behind the curve in 2021, as the global economy enjoyed a V-shaped recovery from the pandemic and price pressures started to build again. Inflation became a serious problem in 2022 following the Russian invasion of Ukraine, as a global gas shortage produced the worst bout of energy price inflation since the 1970s oil crisis. To contain the huge price shock, the Fed and the BoE raised their policy rates by more than 500bp, while the ECB lifted rates by more than 400bp.

The era of low inflation and low interest rates ended abruptly when major central banks fell behind the curve in 2021

More recently, major Western central banks have reduced rates gradually towards neutral levels – that is, where policy is neither expansionary nor contractionary (Figure 6). However, the process is slow-going.

More recently, central banks have been gradually reducing interest rates towards neutral

Whereas the Fed is on pause amid fears of a tariff-related inflation spike, the BoE remains cautious in the face of lingering domestic price pressures and sticky wages (Figure 7). In the Eurozone, where inflation has returned to the 2% target, the ECB has managed to reduce rates slightly below neutral.

The Fed is on a temporary pause, the BoE is still gradually cutting, while the ECB has managed to turn its policy easy

In open advanced economies, global forces matter just as much as domestic conditions in shaping inflation trends. Worsening labour shortages linked to ageing populations and de-globalisation are likely to keep inflation slightly above central banks' 2% targets for as far as the eye can see, with the risk of occasional bursts of inflation if and when geopolitical risks materialise.

Inflation trends in major economies are influenced by global factors as well as domestic forces

- In the UK, we expect the **BoE** to reduce the Bank Rate from 4.25% to 3.75% by end-2025. In 2026 and 2027, we expect the BoE to keep the Bank Rate unchanged at 3.75%.

We look for two more cuts from the BoE to reduce the Bank Rate to 3.75% by end-2025 . . .

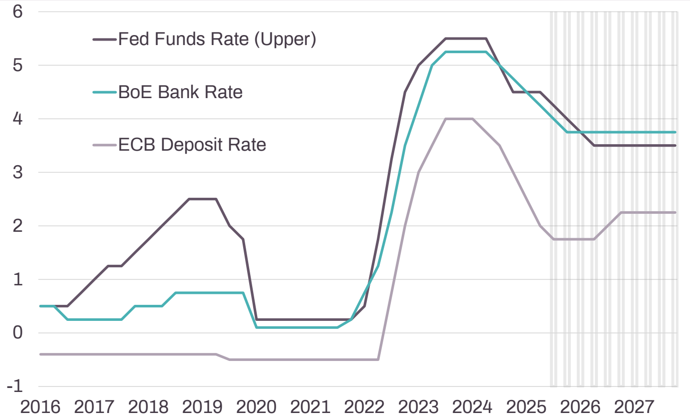
- In the US, we look for two more 25bp cuts from the **Fed** this year to take the Funds Rate upper limit to 4.0% by year end – followed by another 50bp of cuts next year to take the upper limit to 3.5% by end-2026. We expect the Fed to remain on hold in 2027.

. . . four more Fed cuts to 3.5% – with two in 2H25 and two in 2026 . . .

- In the Eurozone, we project that the **ECB** will cut the deposit rate from 2.00% to 1.75% by end-2025, before raising rates again by 50bp in 2026. We do not expect any policy rate adjustments in 2027.

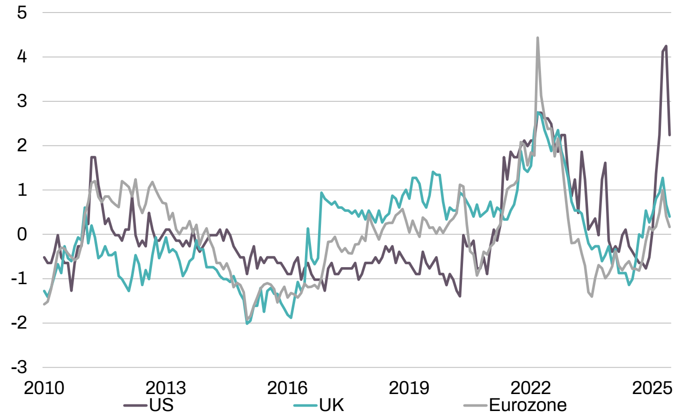
. . . and just one more cut from the ECB to take the deposit rate to 1.75% by end-2025

Figure 6: Central bank rates (%)



Shaded area shows projection. Quarterly data. Sources: Federal Reserve, ECB, BoE, Peel Hunt

Figure 7: Survey-based consumer inflation expectations



One year ahead expectations in standard deviations from mean. Monthly data. Source: University of Michigan, GfK, European Commission

UK: wobbling towards sustained gains

Although the UK benefits from significant private sector balance sheet strength, and hence a capacity to enjoy a sustained period of healthy consumption and investment-led growth, underlying confidence remains fragile after a decade of shocks. Recovery momentum has been haphazard since 2023 (Figure 8). But, as long as downside risks do not materialise, momentum should steady as the expansion matures.

Although the UK benefits from significant balance sheet strength, confidence remains fragile after a decade of shocks

We project real GDP growth of 1.3% in 2025, picking up to 1.5% in 2026 and 1.6% in 2027. Compared to our start-of-year calls, our current calls are lower in 2025 by 0.1pp and 2026 by 0.3pp. The downgrades mostly reflect a softer outlook for household spending after an unanticipated rise in the savings rate in recent quarters (Figure 9). Risks are tilted to the downside near term.

Our calls for gradually improving growth are lower than at the start of the year – households remain cautious

Despite lingering caution, we continue to expect real consumption to accelerate as real wage gains lift purchasing power, interest rates decline further, and the growing distance of time from past shocks allows households to abandon their caution, reduce saving rates, and increase credit consumption. As confidence rises, consumer demand should expand towards durable retail goods, big-ticket discretionary items such as cars and white goods, as well as home improvement.

Rising real incomes, easing credit conditions and fading shocks should support a pick-up in demand and confidence

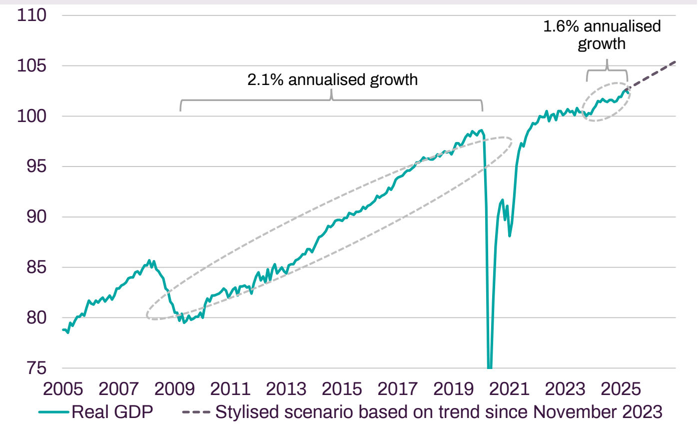
The outlook for investment remains positive. The government's planned expansion of public investment should underpin multi-year gains in infrastructure spending, while recovering housing demand lifts residential construction. Business investment can continue to rise along its longer-term trend, but faces risks if policymakers decide to raise taxes further and crimp profitability. The outlook for trade and production is mixed, after a long period of weakness, a headwind from slower US momentum and the heightened risk of another energy price shock if Middle East tensions escalate further.

The investment outlook is positive, but hinges on no significant further tax increases on businesses

The labour market picture is complex. Against a backdrop of strong wage gains, which are a boon for consumers, employment looks set to fall near term as the government's anti-employment tax and regulatory policies lower labour demand – pushing up unemployment modestly. Over the medium term, employment is set to rise as the economy expands. However, the pace of longer-run employment gains and real wage growth is uncertain and hinges on how much the UK can raise productivity growth rates and undertake a cycle of capital deepening.

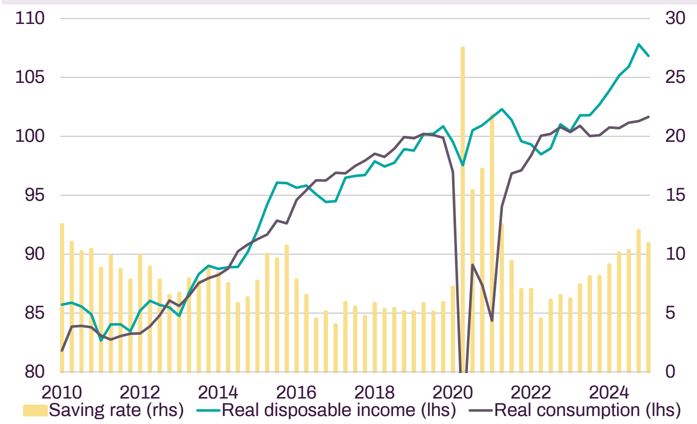
Labour market outlook mixed – while rising demand can lift employment, policy errors may push unemployment up too

Figure 8: UK real GDP – haphazard rebound since October 2023



Monthly data. Source: ONS

Figure 9: Household real incomes, consumption, and saving rate



Real income and consumption index at 2019 = 100. Savings rate in %. Quarterly data. Source: ONS

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US: self-inflicted trade shock hurts

After a period of outsized growth in 2023/24 on the back of former president Biden's massive fiscal stimulus and tech upswing, US momentum looks set to weaken over the medium term as President Donald Trump's erratic and heavy-handed trade policies harm US supply growth and overall economic dynamism.

Outsized US growth in 2023 and 2024 should give way to slower momentum, as trade tariffs add to inflation and harm dynamism

As part of our January global outlook, we highlighted the downside risks to the US economy from trade tariffs and emphasised that policy mistakes looked likely to push growth well below the lofty early-year consensus expectations. Directionally, our call has played out, and medium-term consensus expectations have fallen significantly for growth, and increased for inflation (Figure 10).

While our early-year caution about the US was directionally correct, the situation has turned out worse than feared

Although Trump has partly rolled back his so-called 'Liberation Day' tariffs, the eventual average effective tariff will likely end up in double digits and exceed our early-year assumptions – see 'Risk watch' on page 8. We have brought down our own calls during 1H25. We project real GDP growth of 1.4% in 2025, 1.5% in 2026, and 1.8% in 2027. At the start of the year, we looked for 2.0% growth per year in both 2025 and 2026 – after a solid 2.8% gain in 2024.

Although 'Liberation Day' tariffs are currently on pause, the eventual average tariff is set to exceed early-year expectations

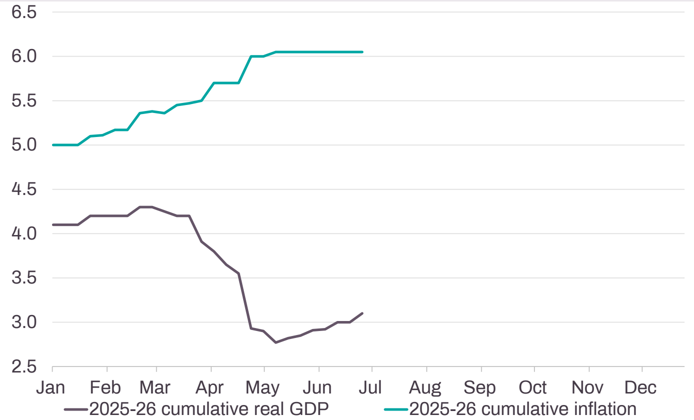
Although risks are still tilted to the downside, we reduce the probability we put on a recession from 35% to 25%, as recent data have shown a degree of resilience – despite still being weak overall. While we expect the private sector to withstand the tariff shock, and unemployment remains low, higher import levies are set to harm real earnings and crimp profits. Risks to our inflation calls of 3.0%, 2.6%, and 2.5% in 2025, 2026, and 2027, respectively, are tilted to the upside.

Although risks are tilted to the downside, we cut our recession risk from 35% to 25% on the back of recent data resilience

But the outlook is highly uncertain and hinges on the net effect of three unresolved policy questions: 1) what will be the eventual average weighted tariff and hence the size of the drag to real incomes and profit margins (Figure 11); 2) what shape will Trump's budget take once it finally passes through Congress – while further heavy borrowing looks guaranteed, the final schedule for taxes and spending cuts, and the bond market's willingness to absorb ever more US debt, is unclear; and 3) will Trump's plans to ease regulations and cut red tape provide businesses with enough relief to at least partially offset the negative tariff shock?

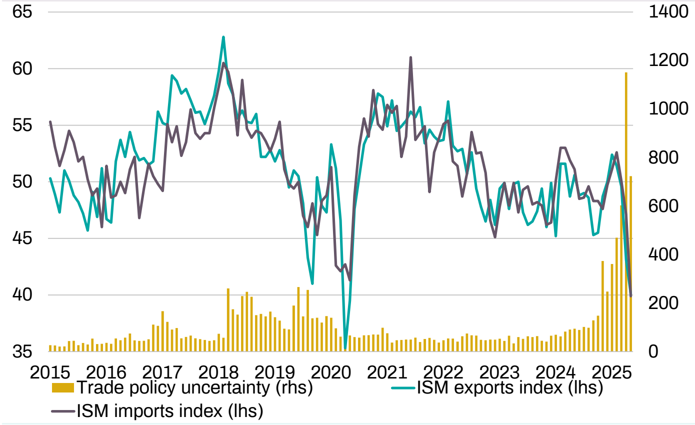
The outlook for the US remains highly uncertain – skittish markets pose risks amid elevated borrowing

Figure 10: US consensus growth and inflation expectations



Aggregate % change. Weekly data. Source: Bloomberg

Figure 11: US trade activity versus trade uncertainty



ISM, 50+ = expansion. The Trade Policy Uncertainty (TPU) Index is based on automated text searches of the electronic archives of seven newspapers. Monthly data. Sources: ISM, Matteo Iacoviello

Risk watch: geopolitics and US tariffs

Ongoing conflicts in Eastern Europe (Russia-Ukraine) and in the Middle East (Israel-Palestine), along with the US's erratic and heavy-handed trade policy, pose major headwinds to the global economy and involve a host of downside risks that could undermine an expansion in global trade and production. Emerging markets are especially vulnerable to the resultant currency swings and investment outflows, while elevated uncertainty adds to risk premia.

Geopolitics and US protectionism pose headwinds to global growth and involve a host of downside risks

Hot wars and trade wars threaten global trade, supply chains, and commodity markets, and disturb cross-border financial flows. Increased uncertainty impairs risk taking in financial markets and hampers private investment in the real economy. If worst-case scenarios unfold, including the unlikely event of a hot conflict between Russia and NATO, if China invades Taiwan, or there is a full-scale tit-for-tat global trade war, likely downside scenarios could involve recessions in major economies, as well as serious financial market dislocations.

Hot wars and trade wars threaten global trade, supply chains, commodity markets, and disturb cross-border financial flows

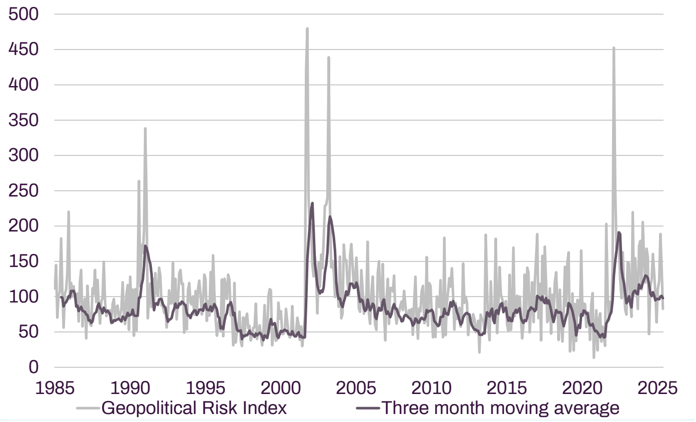
Over the coming years, global economies are set to continue to take steps to adjust to elevated geopolitical risk (Figure 12) and US protectionism (Figure 13). Three trends are already emerging: 1) Increases in defence spending: including the recent commitment by NATO members to raise spending on defence to 5% of GDP; 2) onshoring strategic industries: including semiconductors, energy, communications, and technology – this is especially the focus of the US under Trump; and 3) growing spheres of influence around the US and China – smaller economies are de facto being asked to make strategic choices between the two major global powers.

Major economies should continue to adjust to elevated geopolitical risk by increasing defence spending and onshoring

If and when risks materialise, expect sudden capital flows into safe havens – including gold and government bonds. Could such moves include the US dollar? That remains unclear. Because of the damage done to US credibility by Washington's trade tariffs, demand for the US dollar has weakened.

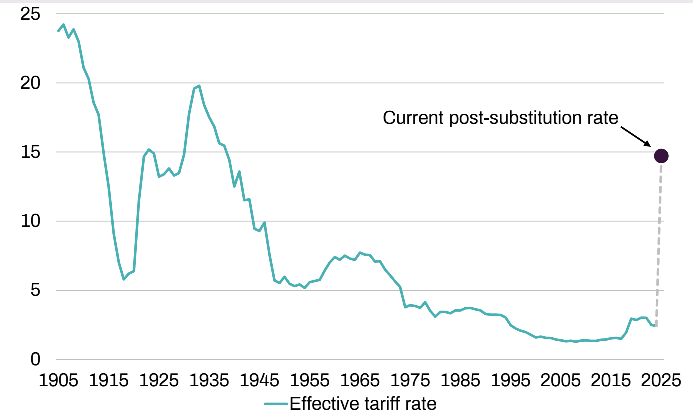
Whether the US dollar remains a safe haven remain unclear – US trade tariffs harm its credibility

Figure 12: Geopolitical risk index (1985 = 100)



The index is measure of adverse geopolitical events and associated risks based on a tally of newspaper articles covering geopolitical tensions. Monthly data. Source: Dario Caldara and Matteo Iacoviello

Figure 13: US average effective tariff rate



Customs duty revenue as a percentage of goods imports. The Budget Lab (TBL) estimates the effects all US tariffs and foreign retaliation implemented in 2025 through 16 June, including the effects of broader scope for the 50% steel & aluminium tariffs. After consumption shifts, the average tariff rate will be 14.7%, the highest since 1938. Annual data. Sources: Bureau of Economic Analysis, The Budget Lab analysis.

Eurozone: gradual growth pick-up

The export-oriented Eurozone is set for a gradual recovery, underpinned by a continued expansion in global demand, the European Central Bank's monetary easing, and a major fiscal expansion in Germany – the Eurozone's largest economy. Since our January calls, there has been little net shift in our headline growth numbers, even though the underlying story has changed somewhat.

Big picture unchanged – the Eurozone is on track for gradually accelerating growth over the medium term . . .

In 2025, we now project a rise in real GDP of 1.3%, some 0.2pp above our year-ahead call, followed by another 1.3% gain in 2026 (0.1pp lower than before). In 2027, we project growth of 1.5%. Similar to the Eurozone aggregate, our German calls are largely unchanged at 0.5% in 2025 and 1.1% in 2026 (down just 0.1pp versus January) before a healthier 1.7% gain in 2027. Note that in our latest projections we cut our German GDP call for 2025 from 0.7% to 0.5% and 2026 from 1.5% to 1.1%. Data for France, meanwhile, have disappointed. Over the course of 1H25, we have lowered our calls for 2025 GDP growth by 0.4pp to 0.4% and 2026 by 0.3pp to 0.9%. In 2027, we look for French GDP to expand by 1.2%. Strong gains in peripheral countries such as Spain and Ireland have offset weakness in France by enough to keep our headline Eurozone calls largely unchanged.

. . . but the details have changed since the start of the year – outperformance in the periphery but underperformance in France

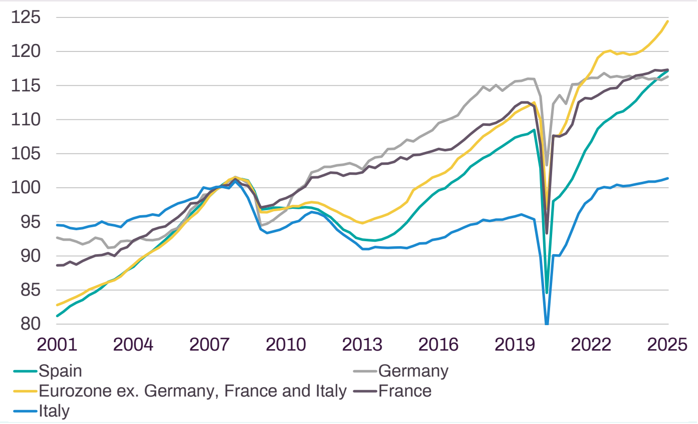
As Figure 14 shows, Eurozone GDP excluding the three major economies – Germany, France, and the extreme laggard Italy – has been growing solidly for the past two years. Whereas core economies are struggling to adjust to shifts in global production and supply and geopolitical fragmentation, peripheral economies benefit from past pro-growth policy reforms.

Peripheral economies benefit from past pro-growth reforms – while core economies face structural challenges

Although we expect improving growth momentum, the Eurozone is likely to struggle against a host of structural challenges linked to domestic policy failures (high energy prices due to a mis-managed green transition, high/distortive taxes, and overregulation) and intensifying competition from China. The gas shortage following the Russian invasion of Ukraine has amplified structural problems and accelerated a wave of de-industrialisation that started in 2018 (Figure 15). Looking at risks: on the upside, easier fiscal and monetary policies may support demand and investment by more than we expect – adding a multiplier to cyclical momentum. On the downside, risks to US-EU trade and an uncertain outlook for the Russia-Ukraine war threaten renewed supply disruptions.

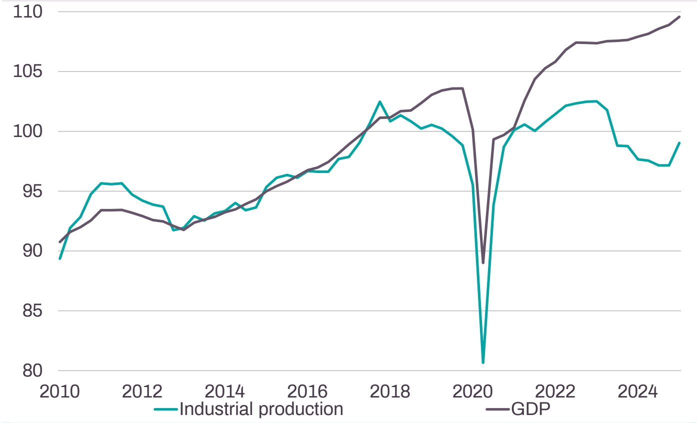
Two-sided risks: German fiscal stimulus could push up growth, but US-EU trade disruptions pose downside risks

Figure 14: Eurozone real GDP by country (2007 = 100)



Quarterly data. Source: Eurostat

Figure 15: Eurozone GDP and industrial production (2017 = 100)



In real terms. Industrial production ex. construction. Quarterly data. Sources: Eurostat

China and Japan: structural challenges

After more than four decades of almost uninterrupted growth at breakneck speed, Chinese momentum is slowing on trend. China is encumbered by a host of structural challenges: 1) increasing labour costs and shortages due to its ageing and shrinking population; 2) rising global trade barriers and geopolitical tensions that hurt demand in export-oriented industries; and 3) an impaired financial system after decades of capital misallocation.

After four decades of ultra-fast growth, China is slowing on trend as serious structural challenges mount

Although a recent improvement in retail spending momentum raises the hope that Beijing is making way with its efforts to transition towards a more domestic-services-led economy, consumers remain pessimistic after a collapse in real estate activity and Covid-19 mismanagement. Steps to ease credit and reduce borrowing costs are not yet lifting loan growth or inflation in a meaningful way – and highlight the risk that China could fall into a liquidity trap (Figure 16). We look for Chinese GDP growth to moderate from 4.5% in 2025 to 4.2% in 2026 and to 4.0% in 2027. Our calls are almost unchanged versus January, with 2026 down by just 0.1pp. Note that we upgraded 2025 by 0.3pp in our latest projections. We expect growth to remain uneven and haphazard. A re-escalation of the US-China trade war tilts risks to the downside.

While growth is set to remain fast by Western standards, it is likely to remain uneven and haphazard

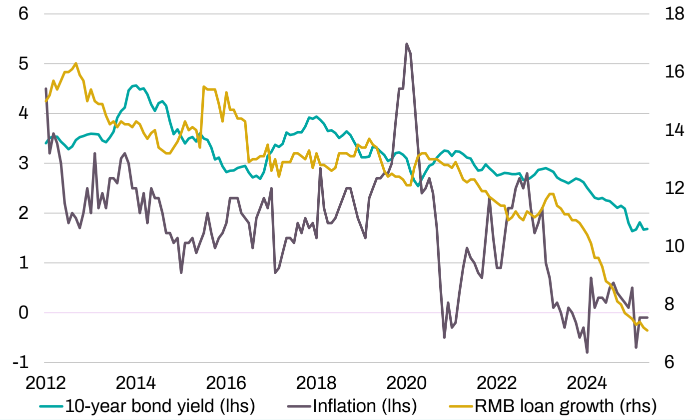
In Japan, the period since 2023 has marked the longest stretch since the early 1990s for which inflation has remained above the BoJ's 2% target (Figure 17). Although growth remains patchy, sustained reflation is still progress of sorts for an economy mired in a slow-growth, low-inflation trap for more than two decades. During the first half of the year, we lowered our 2025 call by 0.3pp to 0.9% and 2026 call by 0.2pp to 0.7%. In 2027, we look for a 0.8% rise in real GDP. A weaker US economy and the threat of faltering momentum in China tilt the risks to the downside for export-oriented Japan.

Although Japan faces headwinds, sustained reflation represents progress after decades of disinflation

Although the labour market drag from an ageing population will likely continue to restrain Japan's anaemic growth potential, it increasingly looks as if Japan is escaping the disinflation trap into which it had fallen after the asset price bubble burst in the early 1990s. While global growth uncertainties present a near-term risk, continued growth above the BoJ's 0.5% estimate of potential should allow policymakers to lift rates further in small and gradual steps. If all turns out well, the BoJ may be able to lift its main policy rate from 0.5% to close to 1.0% over the medium term.

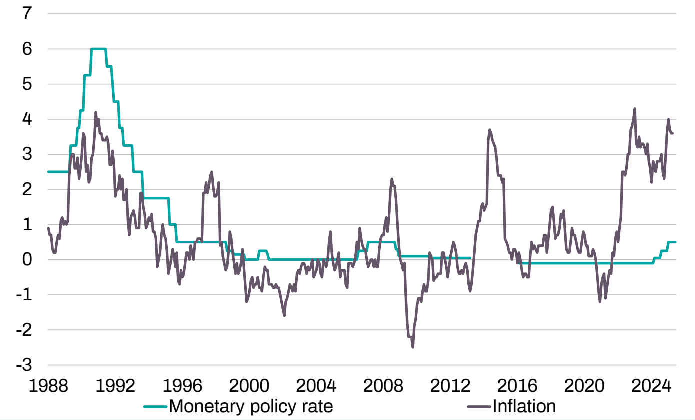
The BoJ may be able to lift its main policy rate from 0.5% to close to 1.0% over the medium term

Figure 16: China inflation, bond yields and loan growth



Monthly data. Bond yields in %. Inflation based consumer price index % YoY. RMB loan growth 12-month percent change.

Figure 17: Japan inflation and BoJ policy rate (%)



Inflation based on consumer price index in % YoY. Sources: BoJ, MIC

Summary of projections

Figure 18: Peel Hunt economic projections

	GDP				Inflation				Unemployment				Industrial production			
	2024	2025	2026	2027	2024	2025	2026	2027	2024	2025	2026	2027	2024	2025	2026	2027
North America																
US	2.8	1.4	1.5	1.8	2.9	3.0	2.6	2.5	4.0	4.3	4.2	4.2	-0.3	1.3	1.4	1.8
Canada	1.6	1.3	1.1	1.7	2.4	2.1	2.1	2.1	6.4	7.0	7.0	6.5	n/a	n/a	n/a	n/a
Asia and Oceania																
China	5.0	4.5	4.2	4.0	0.2	0.1	1.3	1.4	5.1	5.0	4.9	4.9	5.6	4.5	4.4	4.4
Japan	0.2	0.9	0.7	0.8	2.7	3.2	2.6	1.8	2.5	2.5	2.5	2.5	-2.9	0.2	0.3	1.2
India	8.2	6.3	6.3	6.6	5.0	4.8	3.8	4.2	n/a	n/a	n/a	n/a	4.4	4.1	5.3	5.2
Australia	1.1	1.8	2.3	2.5	3.2	2.5	2.7	2.6	4.0	4.1	4.2	4.3	n/a	n/a	n/a	n/a
Europe																
UK	1.1	1.3	1.5	1.6	2.5	3.2	2.5	2.0	4.4	4.7	4.6	4.6	-1.2	0.5	1.5	1.8
Eurozone	0.8	1.3	1.3	1.5	2.4	2.0	1.9	2.1	6.4	6.2	5.9	5.7	-3.1	0.6	1.0	2.4
Germany	-0.2	0.5	1.1	1.7	2.5	2.3	2.2	2.2	3.4	3.4	3.1	3.1	-4.6	-0.8	1.8	2.4
France	1.1	0.4	0.9	1.2	2.3	1.0	1.6	2.0	7.4	7.1	6.7	6.3	-0.1	-0.3	0.9	2.3

Peel Hunt projections for 2025-27. GDP, inflation (CPI basis) and industrial production data in % YoY. Unemployment rate in %. Source: Peel Hunt estimates

Figure 19: Peel Hunt financial projections

	Current	4Q25	2Q26	4Q26	4Q27	Change
Central banks						
BoE Bank Rate	4.25	3.75	3.75	3.75	3.75	-0.50
Fed Funds Rate (Upper)	4.50	4.00	3.50	3.50	3.50	-1.00
ECB Deposit Rate	2.00	1.75	1.75	2.25	2.25	0.25
10-year bond yields						
UK	4.50	4.50	4.40	4.30	4.30	-0.20
US	4.26	4.40	4.45	4.35	4.35	0.09
Germany	2.58	2.60	2.60	2.60	2.60	0.02
Japan	1.43	1.40	1.45	1.50	1.50	0.07
Currencies						
GBPUSD	1.37	1.38	1.38	1.40	1.40	2.28
GBPEUR	1.17	1.18	1.19	1.19	1.19	1.81
EURUSD	1.17	*1.17*	*1.16*	*1.18*	*1.18*	0.46

Notes: 1. Current data taken on 30 June at 12:00 BST 2. Interest rates in % 3. All estimates are for end of period 4. Currency projections may not add up due to rounding 5. Change in percentage points for interest rates and percent for currencies. Source: Peel Hunt estimates

	Recommendation distribution at Today's Date					Recommendation distribution for publications in the last 90 days				
	Total	Investment Banking Clients		Other		Total	Investment Banking Clients		Other	
Structure	No.	No.	%	No.	%	No.	No.	%	No.	%
Buy	219	115	53	104	47	304	169	56	135	44
Add	53	5	9	48	91	53	7	13	46	87
Hold	47	2	4	45	96	49	4	8	45	92
Reduce	3	0	0	3	100	5	0	0	5	100
Sell	0	0	0	0	0	0	0	0	0	0
Under Review	4	2	50	2	50	5	2	40	3	60
Outperform	32	16	50	16	50	1	0	0	1	100
Neutral	16	1	6	15	94	1	0	0	1	100
Underperform	1	0	0	1	100	0	0	0	0	0

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Add	+5-15% range expected absolute price performance over 12 months
Hold	+/-5% range expected absolute price performance over 12 months
Reduce	5-15% range expected absolute price performance over 12 months
Sell	> -15% expected absolute price performance over 12 months
Outperform	Total shareholder return expected to outperform the peer group and/or benchmark over 12 months
Neutral	Total shareholder return expected to perform in line with the peer group and/or benchmark over 12 months
Underperform	Total shareholder return expected to underperform the peer group and/or benchmark over 12 months

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