Clouds are forming for the global economy

Weekly Market Compass | March 25, 2025

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Key takeaways

Global growth

The Organisation for Economic Co-operation and Development lowered its projections for 2025 and 2026 global gross domestic product growth.

US expectations

The Federal Reserve lowered its expectations for US growth and increased its projections for both inflation and unemployment for 2025.

German spending

German lawmakers passed a critical spending package that helps clear the way for 1 trillion euros in debt financing for defense and infrastructure spending.

The Organisation for Economic Co-operation and Development (OECD) sees clouds forming for the global economy, Federal Reserve expectations indicate an increased risk of stagflation in the US, and the Bank of England is taking a hawkish tone due to global uncertainty. Meanwhile, both Germany and China took steps toward greater fiscal stimulus that could improve sentiment for stocks. Here's what we learned last week, and what I'm watching next.

The OECD lowers its projections for global growth

Last Monday, the OECD came out with an interim report revising its economic forecasts. It recognizes that clouds are forming. While the global economy had remained resilient, recent activity indicators showed signs of a softening of global growth prospects, business and consumer sentiment had weakened in some countries, and indicators of economic policy uncertainty had risen markedly around the world. This has caused some revisions to growth projections.

In its report, the OECD:

- Lowered its projections for 2025 global gross domestic product (GDP) growth from 3.3% to 3.1% and for 2026 from 3.3% to 3.0%.[1]
- Forecasted US economic growth would slow to 2.2% in 2025 before easing to only 1.6% in 2026. This was a downward revision of its previous forecasts of 2.4% and 2.1%, respectively.[1]
- Forecasted that the Mexican economy will contract 1.3% this year — a huge change from its prior forecast of 1.2% growth.[1]
- Forecasted that Canada's growth rate would slow to 0.7% this year and next, well below the previous forecast of 2.0% for both years.[1]
- Upped its forecast for 2025 Chinese GDP growth from 4.7% to 4.8%. It kept its forecast for 2026 growth at 4.4%.[1]

The most important takeaway is that the OECD warned that significant changes had occurred in trade policies that, if continued, would hit global growth and cause a rise in inflation. This is a valuable reminder that tariff wars can hurt global economic growth, especially if they're prolonged. However, I think the far greater issue is dramatic cuts to government spending. We'll want to follow that closely.

Fed expectations reflect concerns about economic growth

Last Wednesday, the Federal Reserve (Fed) decided to keep rates unchanged, but that was expected. I was focused on what we would learn from the new "dot plot" (which charts Fed members' expectations for rates in the coming year and beyond) as well as the press conference.

The dot plot reflected lower expectations for growth and higher expectations for both inflation and unemployment. The obvious takeaway is that the risk of stagflation has increased. The Fed also expects a median of 50 basis points in rate cuts this year. This suggested to me a dovish tilt, as the Fed seems more concerned about negative impacts on growth than a resurgence in inflation.

That theme also came across in the press conference, as Chair Jay Powell seemed dismissive of a potential resurgence in inflation, using the now-famous term "transitory" to describe it. (I agree that tariffs are unlikely to cause sustainable price increases so long as they are short-lived; recall that price increases stemming from tariffs in the first Trump administration were temporary.) In addition, Powell warned again that job creation has been low. So far, that's been matched by a relatively low level of job cuts, but if job cuts were to pick up, that would create an imbalance that would cause an increase in unemployment. Clearly, the Fed is more concerned about growth, in my opinion.

Bank of England takes a hawkish tone

The Bank of England (BOE) also held rates steady when it met last week and seemed more hawkish than expected. The most important takeaway is that — spoiler alert — the BOE recognizes there has been a significant increase in uncertainty in the global economy.

While recognizing two-sided growth and inflation risks, the Bank of England — unlike the Fed — seems more concerned about the risk of a resurgence in inflation. This syncs with what we've heard recently from BOE policymakers. In a speech several weeks ago, Deputy Mayor David Ramsden warned that there was an increased risk of inflation rising given increasing wage growth.[2]

It's a difficult time to be a central banker, and so I empathize with the BOE. I appreciate its articulated willingness to be flexible about the path of monetary policy this year. I expect (likely) budget cuts in the UK will create some growth headwinds (and exert some downward pressure on inflation) that'll cause the BOE to be more worried about growth than an inflation resurgence, just like the Fed. This, in turn, will likely necessitate more monetary policy easing than is currently expected. Stay tuned.

Germany takes steps to boost defense and infrastructure spending

German lawmakers passed a critical spending package last week, helping to clear the way for 1 trillion euros in debt financing for defense and infrastructure spending. This is a dramatic departure from years of budget austerity that have negatively impacted German economic growth. I don't think we can underestimate the impact of this in terms of a fiscal impulse and continued improving sentiment for European stocks.

China focuses on increasing consumption

China will see even more fiscal stimulus this year. It announced a "Special Action Plan to Boost Consumption" last week, which comes on the heels of better-than-expected economic data for January–February. I'm encouraged by the focus on increasing consumption by strengthening demand. We'll want to follow this multi-pronged effort closely.

Looking ahead

As we head into a new week, we'll no doubt continue to see signs of the tectonic shift in fiscal stimulus around the globe. In my view, the US is on a dangerous path of continuing to aggressively cut fiscal spending while economies like Germany and China will be adding fiscal stimulus. (I'll, of course, be following signs of "brown shoots" and "green shoots" around the world.) As I mentioned before, to me this is far more important than ongoing tariff wars, as their impact is likely to be very temporary in nature, so long as they don't last for an extended period of time.

What's happening in the global economy has implications for various assets. The ongoing economic policy uncertainty and rising geopolitical risks have created increased demand for gold, which is likely to continue as these conditions show no signs of abating. There's an opportunity for stocks where there's potential for positive surprise, and that can come from greater fiscal stimulus. However, sovereign debt is likely to be punished in countries where government borrowing rises significantly — hence the rise in the 10-year German bund yield in the last several weeks. With the risk of a resurgence in inflation potentially slowing some central banks' path of easing, I believe bank loans could benefit handily.

Speaking of fiscal policy, I'll wait eagerly for the Spring Statement from UK Chancellor Rachel Reeves on March 26. It's unclear exactly what the plans are going forward — tax increases, government spending cuts, or a little of both — so this revelation will be important in assessing the state of fiscal policy in the UK. It may be creating headwinds for its economy if fiscal spending cuts are significant.

In terms of data, I'll be keen to see the US personal consumption expenditures (PCE) print; this is the Fed's preferred gauge of inflation and gives us a sense of whether consumers are right to expect inflation to rise significantly. Also important will be gauges of US consumer expectations regarding the economy and inflation (both the Conference Board and University of Michigan release this week), as well as eurozone consumer confidence. Finally, we will also get Purchasing Managers' Index (PMI) readings for a number of major economies, which can offer helpful leading economic indicators.

Dates to watch

Date	Report	What it tells us
March 24	Eurozone Manufacturing Purchasing Managers' Index (PMI)	Indicates the economic health of the manufacturing sector.
	Eurozone Services Purchasing Managers' Index	Indicates the economic health of the services sector.
	UK Manufacturing Purchasing Managers' Index	Indicates the economic health of the manufacturing sector.
	UK Services Purchasing Managers' Index	Indicates the economic health of the services sector.
	US Manufacturing Purchasing Managers' Index	Indicates the economic health of the manufacturing sector.
	US Services Purchasing Managers' Index	Indicates the economic health of the services sector.
	Bank of Japan Monetary Policy Meeting Minutes	Gives further insight into the central bank's decision-making process.
March 25	Germany Ifo Business Climate Index	Indicates early economic developments in Germany monthly.
	Conference Board US Consumer Confidence	Details US consumer attitudes and expectations for inflation, stock prices, and interest rates.

Dates to watch

Date	Report	What it tells us
March 26	UK Consumer Price Index	Tracks the path of inflation.
	UK Spring Forecast Statement	Provides an update from the government on the state of the UK economy.
	US durable goods	Measures current industrial activity.
March 27	US gross domestic product	Measures a region's economic activity.
March 28	UK gross domestic product	Measures a region's economic activity.
	UK retail sales	Indicates the health of the retail sector.
	GfK German Consumer Climate	Measures the level of consumer confidence in economic activity in Germany.
	Germany unemployment	Indicates the health of the job market.
	Eurozone Consumer Confidence	Tracks sentiment among eurozone consumers.
	US personal consumption expenditures price (PCE) index	Tracks the path of inflation.
	Canada gross domestic product	Measures a region's economic activity.
	University of Michigan Survey of US Consumers	Provides indexes of consumer sentiment and inflation expectations

Notes

[1]Source: OECD Economic Outlook, Interim Report March 2025, March 17, 2025.

[2]Source: Reuters, "Wage pressures boost risk of above-target inflation, BoE's Ramsden says," Feb. 28, 2025.

Important inform

All investing involves risk, including the risk of loss.

Past performance does not guarantee future results.

Investments cannot be made directly in an index.

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

The Organisation for Economic Co-Operation and Development (OECD) is a global policy forum that promotes policies to preserve individual liberty and improve the economic and social well-being of people around the world.

A basis point is one-hundredth of a percentage point.

A bund is a debt security issued by the German federal government. It is the German equivalent of a US Treasury bond.

Investments in companies located or operating in Greater China are subject to the following risks: nationalization, expropriation, or confiscation of property, difficulty in obtaining and/or enforcing judgments, alteration or discontinuation of economic reforms, military conflicts, and China's dependency on the economies of other Asian countries, many of which are developing countries.

The Consumer Price Index (CPI) measures the change in consumer prices and is a commonly cited measure of inflation.

The Federal Reserve's "dot plot" is a chart that the central bank uses to illustrate its outlook for the path of interest rates.

Dovish refers to an economic outlook that generally supports low interest rates as a means of encouraging growth within the economy.

Monetary easing refers to the lowering of interest rates and deposit ratios by central banks.

The Eurozone Manufacturing PMI® (Purchasing Managers' Index®) is produced by IHS Markit based on original survey data collected from a representative panel of around 3,000 manufacturing firms. National data are included for Germany, France, Italy, Spain, the Netherlands, Austria, the Republic of Ireland, and Greece.

The Eurozone Services PMI (Purchasing Managers' Index) is produced by IHS Markit and is based on original survey data collected from a representative panel of around 2,000 private service sector firms. National data are included for Germany, France, Italy, Spain, and the Republic of Ireland.

Fluctuations in the price of gold and precious metals may affect the profitability of companies in the gold and precious metals sector. Changes in the political or economic conditions of countries where companies in the gold and precious metals sector are located may have a direct effect on the price of gold and precious metals.

Gross domestic product (GDP) is a broad indicator of a region's economic activity, measuring the monetary value of all the finished goods and services produced in that region over a specified period of time.

The IFO Business Climate Index is a highly regarded early indicator of economic developments in Germany, published on a monthly basis.

Inflation is the rate at which the general price level for goods and services is increasing.

Personal consumption expenditures (PCE), or the PCE Index, measures price changes in consumer goods and services. Expenditures included in the index are actual US household expenditures. Core PCE excludes food and energy prices.

Purchasing Managers' Indexes (PMI) are based on monthly surveys of companies worldwide and gauge business conditions within the manufacturing and services sectors.

The UK Manufacturing Purchasing Managers' Index (PMI) is produced by IHS Markit and is considered an indicator of economic health for the manufacturing sector. It is based on survey responses from senior purchasing executives.

Stagflation is an economic condition marked by a combination of slow economic growth and rising prices.

In general, stock values fluctuate, sometimes widely, in response to activities specific to the company as well as general market, economic and political conditions.

The risks of investing in securities of foreign issuers can include fluctuations in foreign currencies, political and economic instability, and foreign taxation issues.

The opinions referenced above are those of the author as of **March 24, 2025**. These comments should not be construed as recommendations, but as an illustration of broader themes. Forward-looking statements are not guarantees of future results. They involve risks, uncertainties and assumptions; there can be no assurance that actual results will not differ materially from expectations.