Swiss Re Institute

Global Economic Outlook

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Key numbers

1 | 2 | 3

Key letters

R I F

Happy anniversary…!

September 22, 1985

Economic outlook | Weakening US hard data risks greater monetary policy accommodation before year-end barring inflation surprises

- **Economic growth: US hard data** confirm slowdown. Tariff impacts have not peaked as the current effective tariff rate will rise from 12% to 15%. Euro area growth supported by front-loaded fiscal stimulus

- **Inflation: US tariffs to lift inflation** in H2-2025; offset by strong euro, trade diversion, and weak demand in Europe, while China continues to export disinflation

- **Monetary policy and interest rates: Weak US labor market** underpins expectations of **two Fed cuts** in H2-2025; ECB likely one more cut to neutral. **BoC to also cut this week** given cracks in the labor market; PBoC expected to ease again to sustain growth

- **Key economic risks: Tariffs restrain US consumption**; heavy AI capex could flip from boost to drag; worsening labor market slack. Upside risks: fading trade tensions, fiscal support and in Canada increased USMCA compliance

SRI vs Consensus Forecasts

	Swiss Re Institute			Consensus	
	2024	**2025**	**2026**	**2025**	**2026**
Real GDP (% change)					
US	*2.8*	1.7	1.8	1.6	1.7
Eurozone	*0.9*	1.2	1.3	1.1	1.2
Canada	*1.5*	0.9	0.4	1.3	1.3
China	*5.0*	4.8	4.3	4.8	4.2
CPI (% change)					
US	*3.0*	2.8	2.8	2.8	2.8
Eurozone	*2.4*	2.0	2.0	2.1	1.9
Canada	*2.4*	2.2	2.6	2.0	2.1
China	*0.2*	0.2	0.8	0.1	0.9
10y Gov. Bond Yield (%)					
US	*4.6*	4.2	4.2	4.2	4.1
Eurozone	*2.4*	2.7	2.9	2.7	2.9
Canada	*3.2*	3.3	3.4	3.3	3.3
China	*1.7*	1.7	1.9	1.5	1.5
Central bank rate (%)					
US	*4.4*	3.9	3.4	3.8	3.3
Eurozone	*3.0*	1.8	1.8	1.8	1.8
Canada	*3.3*	2.8	2.8	2.4	2.4
China	*1.5*	1.2	1.2	-	-

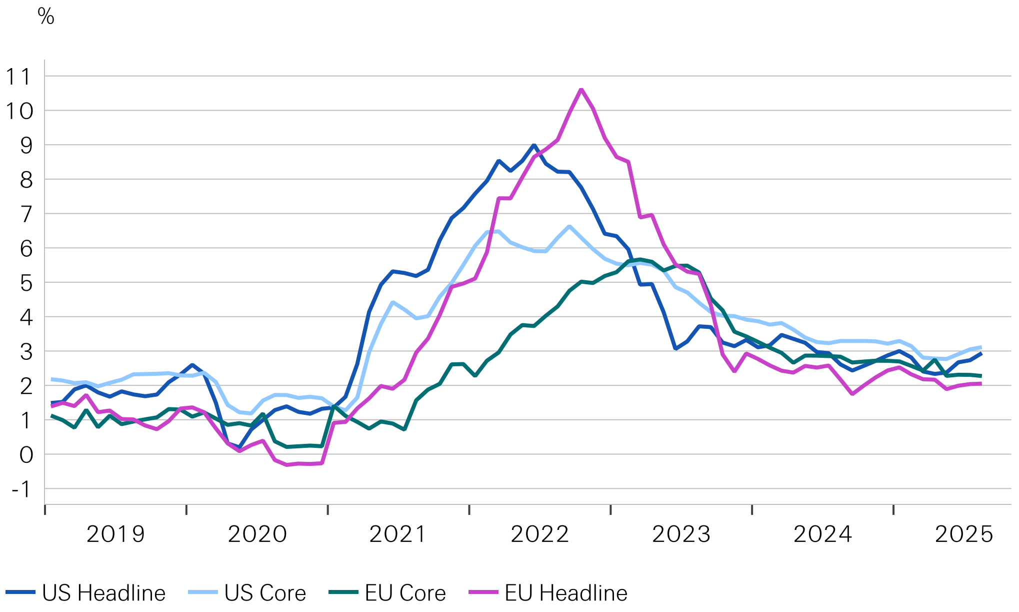
SRI forecasts as of 5 August, and Bloomberg Consensus as of 25 August. IMF used for global GDP and CPI consensus, where GDP is FX-weighted and CPI is PPP-weighted. SRI's global GDP and CPI are both FX-weighted.

Source: Bloomberg Consensus, IMF, Swiss Re Institute

Global inflation is moderating, but the last mile to 2% will be long given sticky core inflation

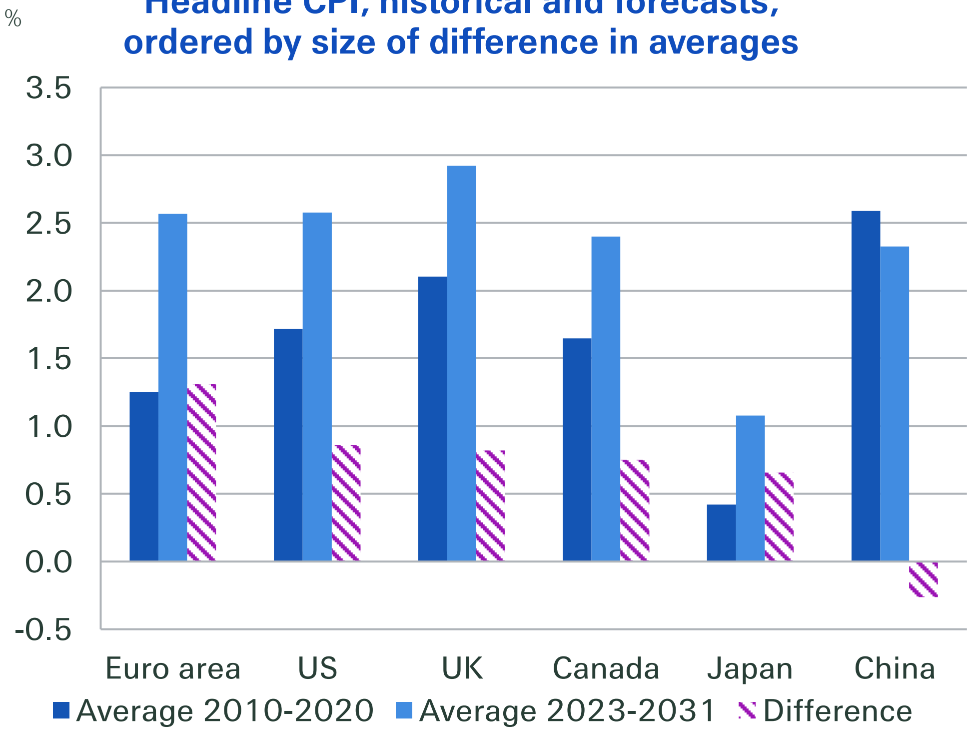
- Headline inflation moderated sharply in the summer of 2023, but the **easy disinflation is over**
- **Core inflation will remain elevated** until labour markets show more sustained signs of weakening. We see **structural factors with the 3Ds (demographics, digitalisation and deglobalisation) supporting stickier inflation** and **lower growth in the medium to long term**

US and EU CPI measures



Sources: BLS, Eurostat, Macrobond, Swiss Re Institute

Headline CPI, historical and forecasts, ordered by size of difference in averages

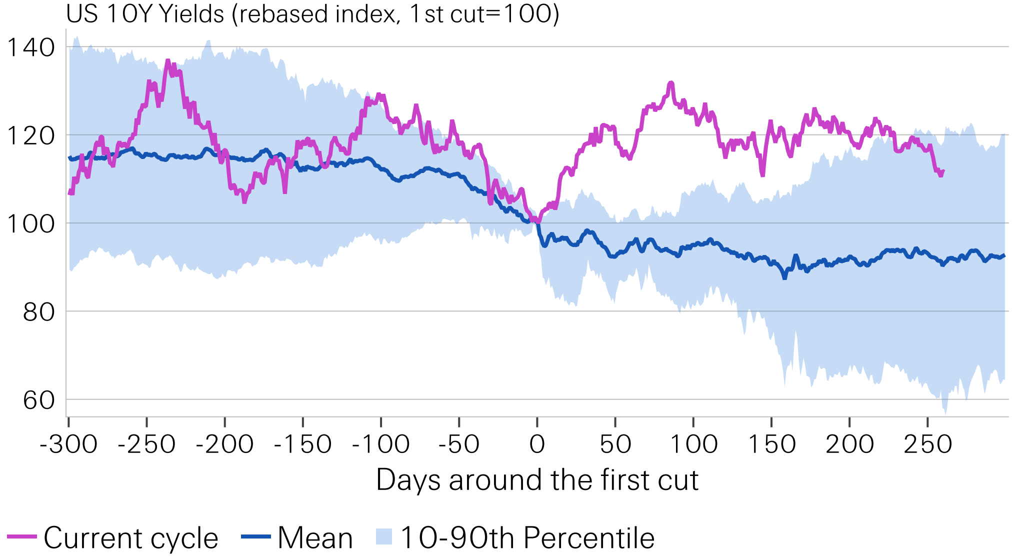


Source: Bloomberg, Swiss Re Institute

Watch out for interest rate shock(s). The 10-year Treasury bond yield remains disconnected from the Fed funds rate relative to history

- **US 10-year yields have fallen on average 40 bps during the first 100 days in past cutting cycles, but this cycle has so far seen as much as a 116bps *increase***
- While near-term US inflation is moderating, **inflation expectations have risen sharply in recent months** and even before the US election. **Further upside is likely** if tariff policies are implemented durably

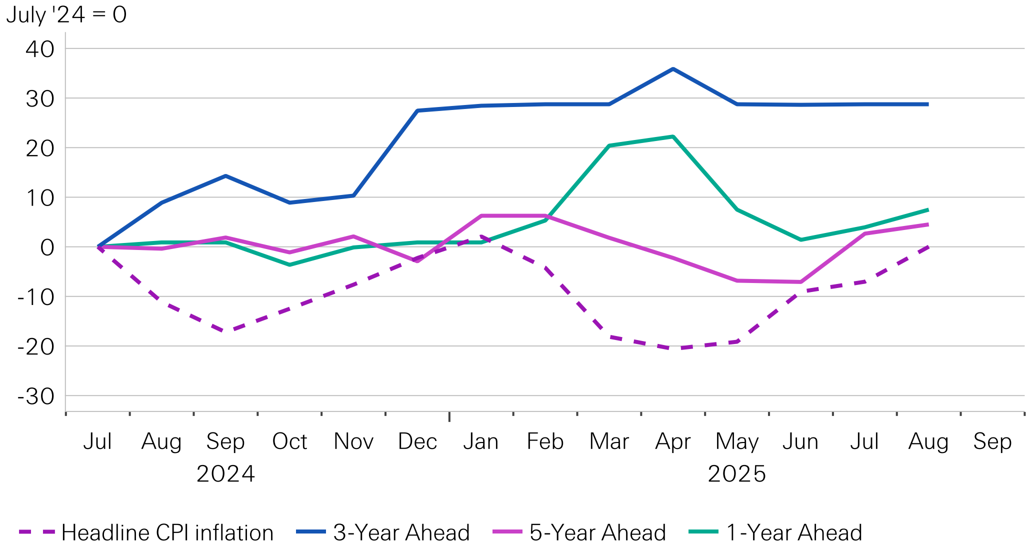
Long-dated bond yields have disconnected from Fed policy rates



Source: U.S. Treasury, Macrobond, Swiss Re Institute

US: Inflation and inflation expectations

Inflation expectations began to pick up in late summer 2024

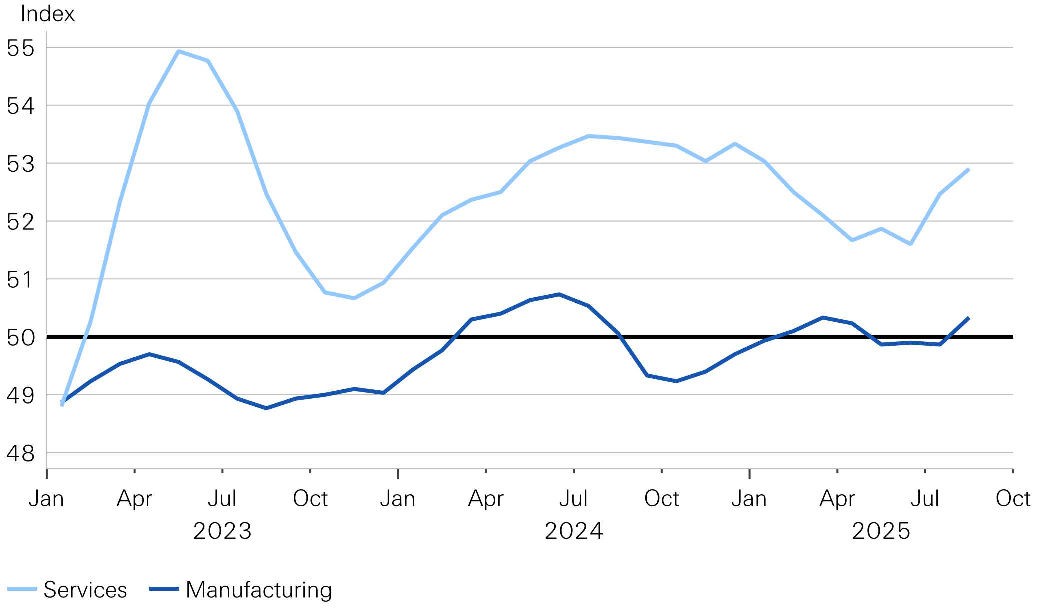


Source: New York Fed, BLS, Macrobond, Swiss Re Institute

Resilience: Global activity is absorbing policy shocks well (for now), but structural resilience is weaker with the debt overhang

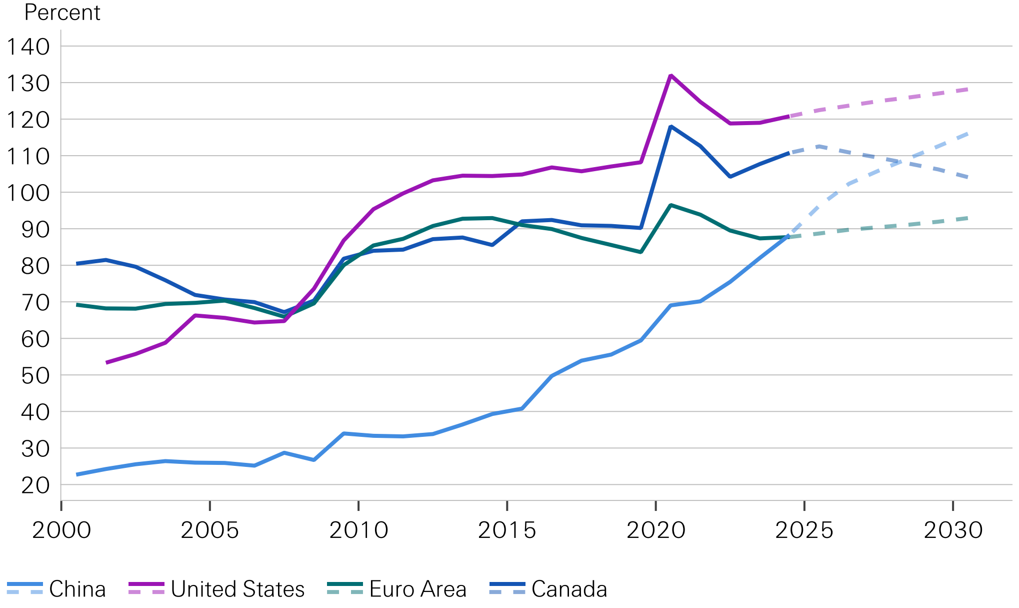
- **Global composite PMI** rose to 52.9 in Aug-25, while **euro area manufacturing returned to expansion** at 50.7 thanks to **domestic demand** offsetting soft exports
- Peaks in **debt-to-GDP ratios** have **eased slightly** post-pandemic, but levels in the US and other advanced economies remain well above pre-2008 norms

Global manufacturing and services PMIs show strength



Source: S&P Global, Macrobond, Swiss Re Institute

Debt-to-GDP ratio

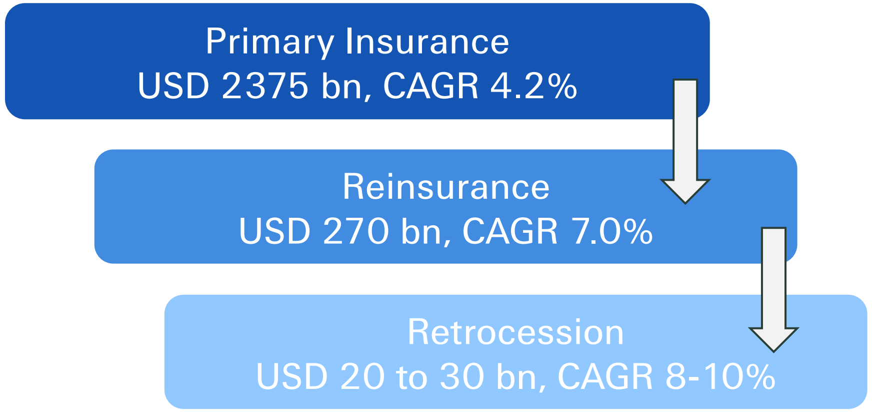


Source: IMF, Macrobond, Swiss Re Institute

Renaissance in risk transfer & Re-industrialisation: P&C market structure is supported by higher rates of wholesale risk transfer and structural increase in real investments

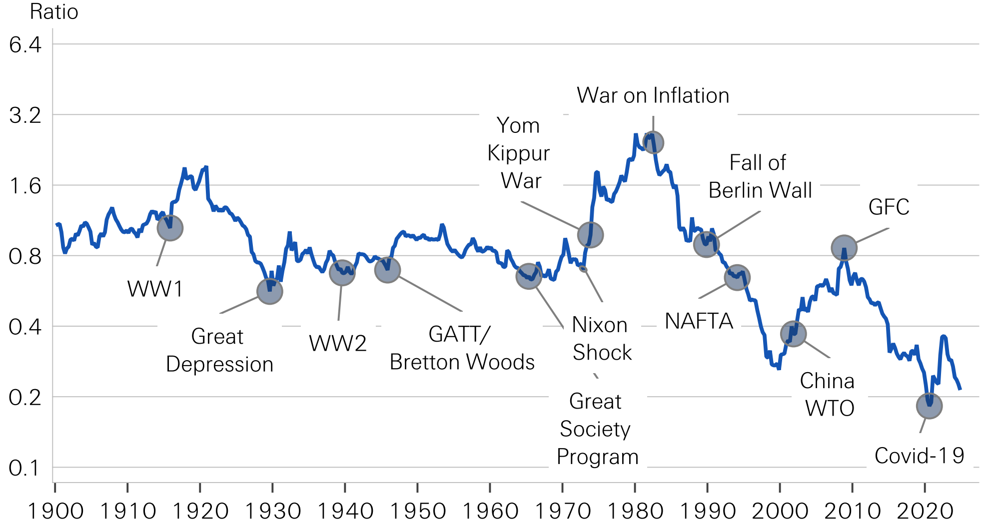
- **Cession rate are increasing structurally, as the risk pool becomes riskier** (e.g. faster ceded business growth in US property and liability) and also as more fragmented carriers cede proportionally more
- **Reindustrialisation across different industries and a ramp-up of the defence spending in Europe** implies a **revival of the real economy**. This comes at a time when **valuations of real assets vs financial assets close to the lowest in history** and stretched fiscal balance sheets

Risk chain, global premium growth 2024, CAGR 2014-24



Source: Swiss Re Institute

Real Assets/Financial Assets

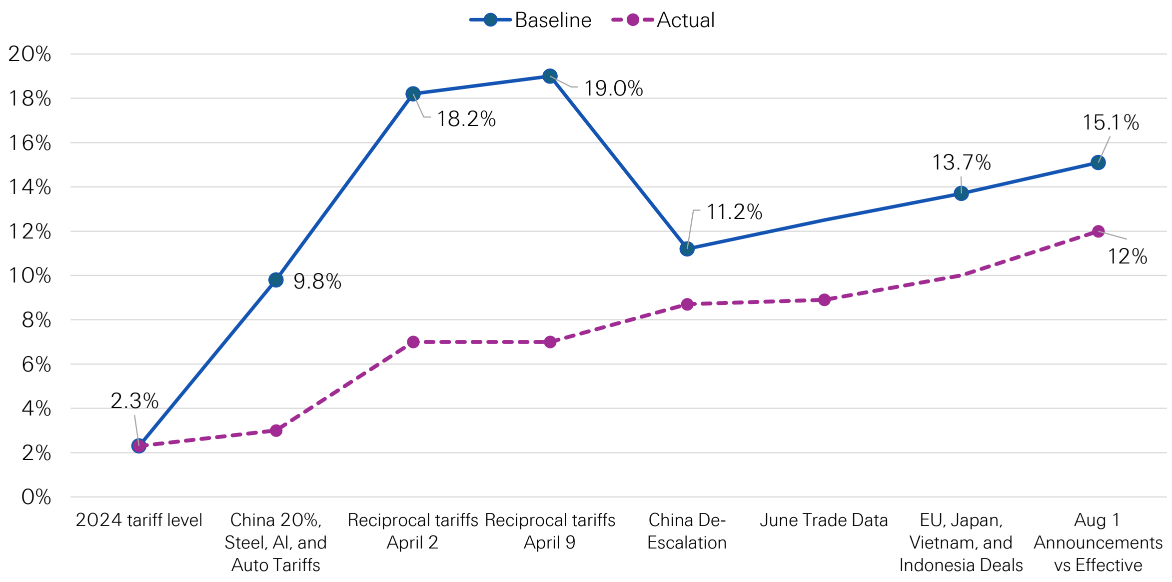


Note: Real assets include commodities and US real estate. Financial assets include the S&P 500 and 10y Treasury bond, all indexed at 100 in 1910.
Source: Macrobond, Swiss Re Institute

Fragmentation: Trump's tariffs have bent, not broken, the global trade system, while industrial policy changes have risen sharply before already

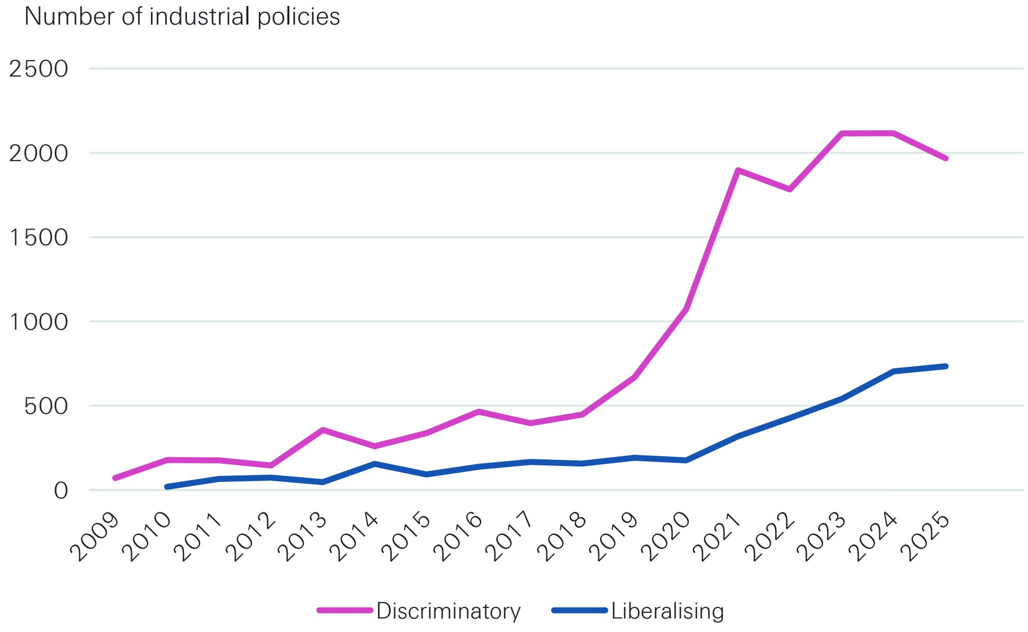
- The **top 10 importers account for 51% of global trade**, with the **US** only **13% of world imports** and **8% of world exports. Tariff policy shifts on goods alone are unlikely to destabilize** the global trading system
- **US Effective Tax Rate** increase from **2.3% to 12%** has raised the **global average by 1.3pp**, so far a modest shift with mostly narrow, sector-specific knock-ons. Even if US effective tariffs rose toward **18%**, the implied **global increase would likely stay under 2pp**

Current vs expected US effective tariff rate



Source: US Census, US Treasury, US HTS, USITC, Morgan Stanley, Swiss Re Institute

Growth in industrial policies



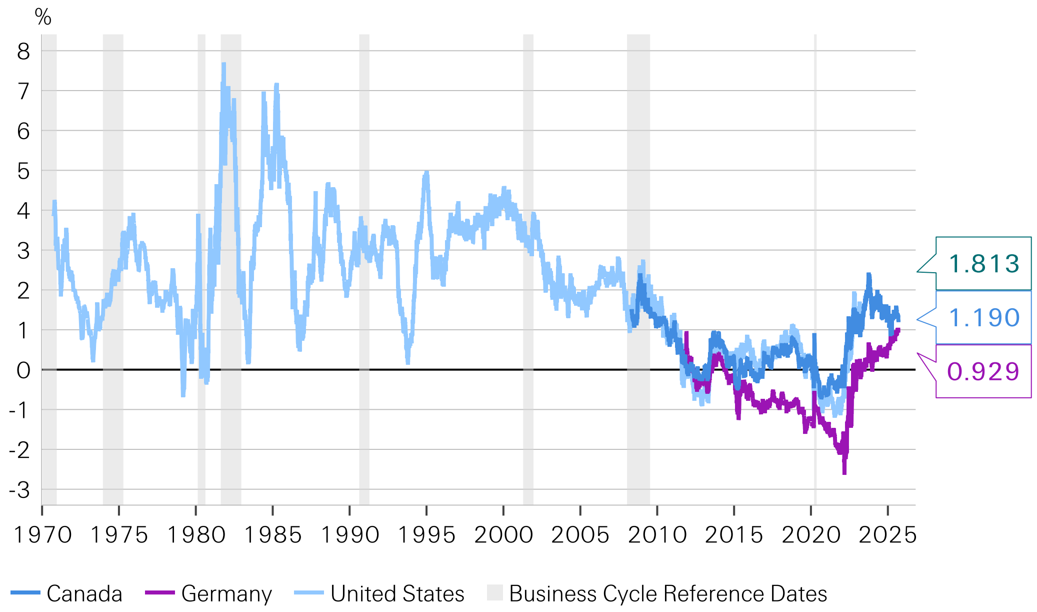
Source: Global Trade Alert, Swiss Re Institute

Financial repression in real terms next? Real rates are still positive, but "real" financial repression could be an eventual tool to deal with the public debt burden

- **Inflation-adjust interest rates are positive in most jurisdictions** and have **increased the real cost of funding**

- **High public debt levels and sustained large fiscal deficits are not sustainable.** Historically, **financial repression** helped reduce debt burdens, which would be very challenging for insurers; **especially if it we were to enter a "real financial repression" area**. **Japan's yield curve control (YCC) applied in the US is not un-thinkable and would be a form of "real" financial repression**

Evolution of 10y Real Yields



Source: U.S. Treasury, Macrobond, NBER, Bloomberg, Swiss Re Institute

Fed & US policy tracker: Fed independence is becoming increasingly worrisome

Degrees of severity →

Policy dimension				
TARIFFS	**Limited** Limited tariffs only on non-allies	**Escalatory** Effective US tariffs rise to around 15%, but lower than initially proposed tariffs on allies	**Aggressive** Permanent implementation of April 2 tariffs (partially negotiated down); effective tariff ~20%	**Prolonged trade war** No exemptions or negotiations, full retaliation; effective tariff >30%
TAXES & NON-TRADE BARRIERS	**Status quo** Limited/no change from the 2017 version of the Tax Cuts and Jobs Act	**Escalatory** BEAT Tax reforms 2.0 with more discriminatory tax on non-US domiciled companies	**Aggressive** Adoption of legislation imposing reciprocal taxes or prohibiting use of common tax credits	**Contagion** Complete re-write of the US tax code to discriminate against foreign companies US profits
FED INDEPENDENCE	**"Watch stage"** Vocal criticism of rate path; rising perception of pressure	**Pressure** Political appointments to Fed, firing governors	**Interference** Active intervention in rate setting; Fed compelled to delay tightening or fund spending	**Structural breakdown** Formal erosion of Fed independence, incl. overrides and legal changes
CURRENCY REALIGNMENT	**No formal action** No request for currency realignment	**Coordinated** Coordinated dollar weakening across all major countries	**Allies-only** Coordinated dollar weakening across allies only (ex. China)	**Unilateral** US forces devaluation via unilateral action/global monetary decoupling
DEBT RESTRUCTURING	**No restructuring** Status quo; holders of US long dated debt not asked to swap for zero coupon bonds	**Mild restructuring** Mild version of original proposals with new issuance at lower but not zero-coupon levels	**Gov-only** Restructuring only for Gov't holders of 10y+ UST	**Aggressive/default** Restructuring hitting government and investor holdings of 10+ USTs; effective US default
INDUSTRIAL POLICY	**Targeted intervention** Targeted subsidies and tax credits; "friend-shoring"; some export controls	**National preference & discrimination** "Buy American" scaled up; import restrictions on critical tech inputs	**Mandated reshoring/localization** incl. restrictive licensing for outbound investment and tech sharing	**Extraterritorial enforcement/ tech weaponization** incl. sanctions, investment & export bans, extraterritorial rules
SECURITY GUARANTEES	**Status quo** Limited/ no change in effective security guarantees	**Burden-shifting** Maintain security guarantees but shift cost burden to allies (pay to be safe)	**Pullback** Significant reduction of security guarantees - pull away for Europe, maintain for Asia	**Full withdrawal** Complete removal of US military support umbrella across Asia and Europe

Source: Swiss Re Institute

Key takeaways

Global economic growth momentum holds for now, but structural resilience is weaker, downside risks higher and **real rates** could come under **pressure**

Tariff uncertainty keeps downside risk elevated with **structurally higher inflation,** especially in the US as the **Fed's independence is likely to come under further pressure in 2026**, exposing also the **risk of upside long-term interest rate shocks**

Insurers benefit from **higher long-term yields and the capex boom with the re-industrialization but need to price in higher structural inflation**

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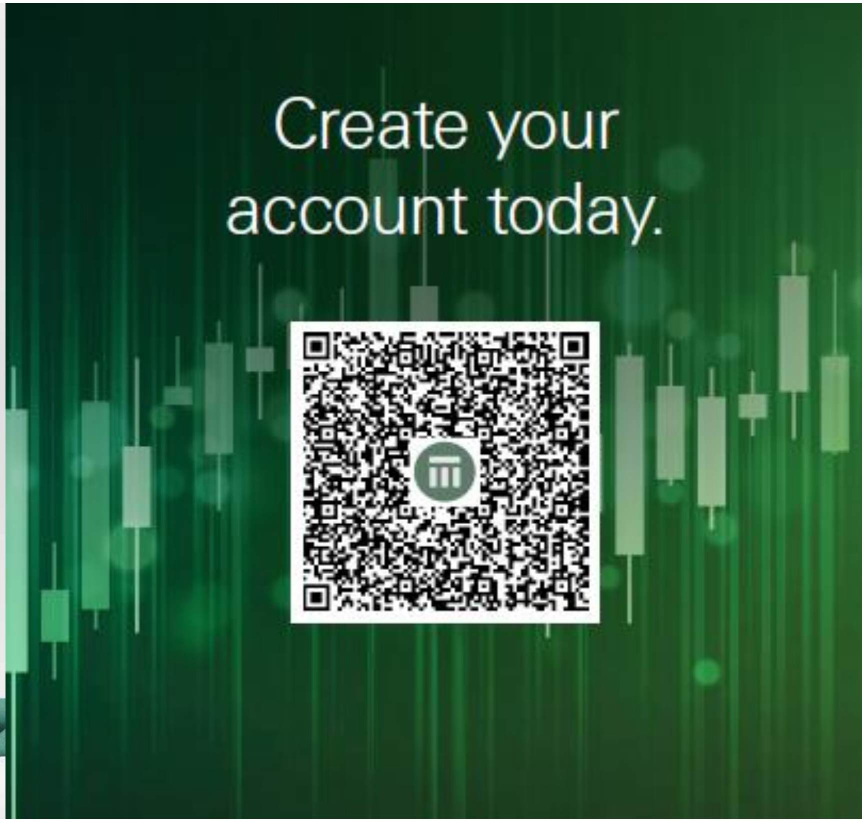
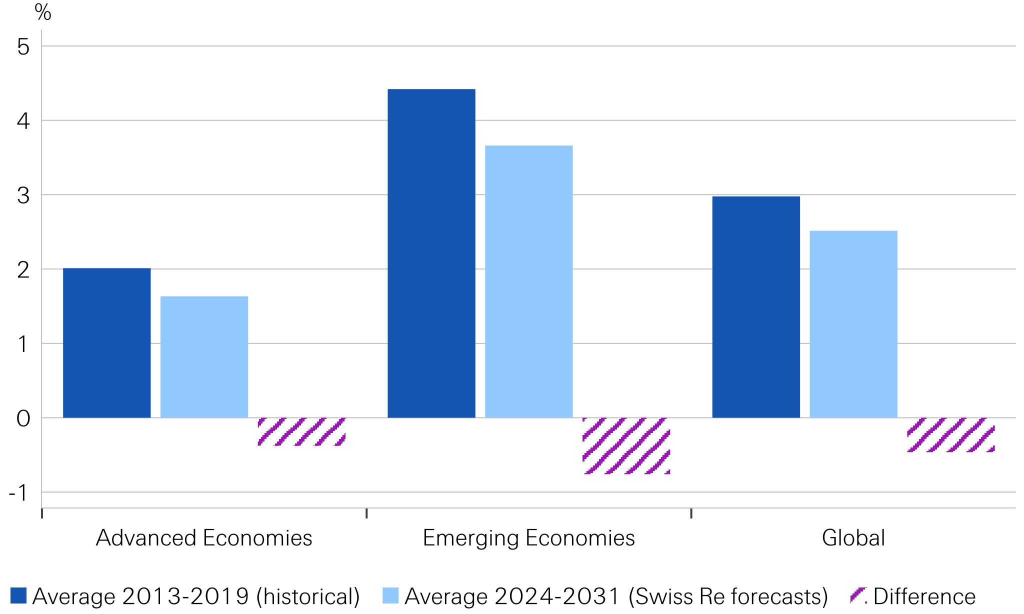


Any questions?

Watch out for the 3Ds, they will worsen the growth-inflation mix

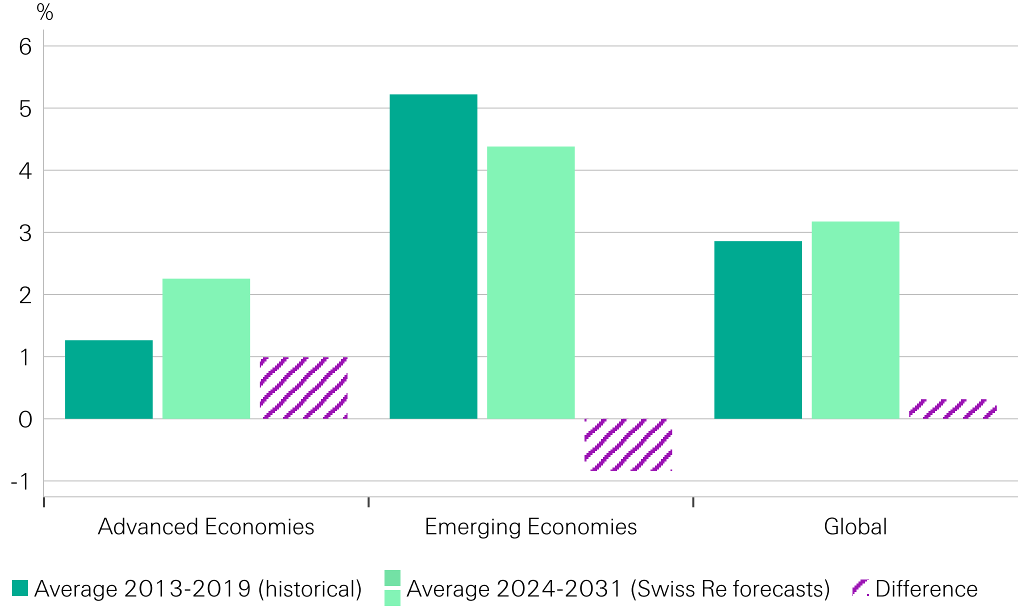
- As a **result of many of the structural mega forces with the 3Ds driven by the debt overhang, demographics and deglobalization with** parallel supply chains as a result of economic and geopolitical fragmentation, **we expect economic growth to be lower and inflation to be structurally higher going forward**

Annual average real GDP growth



Source: Swiss Re Institute

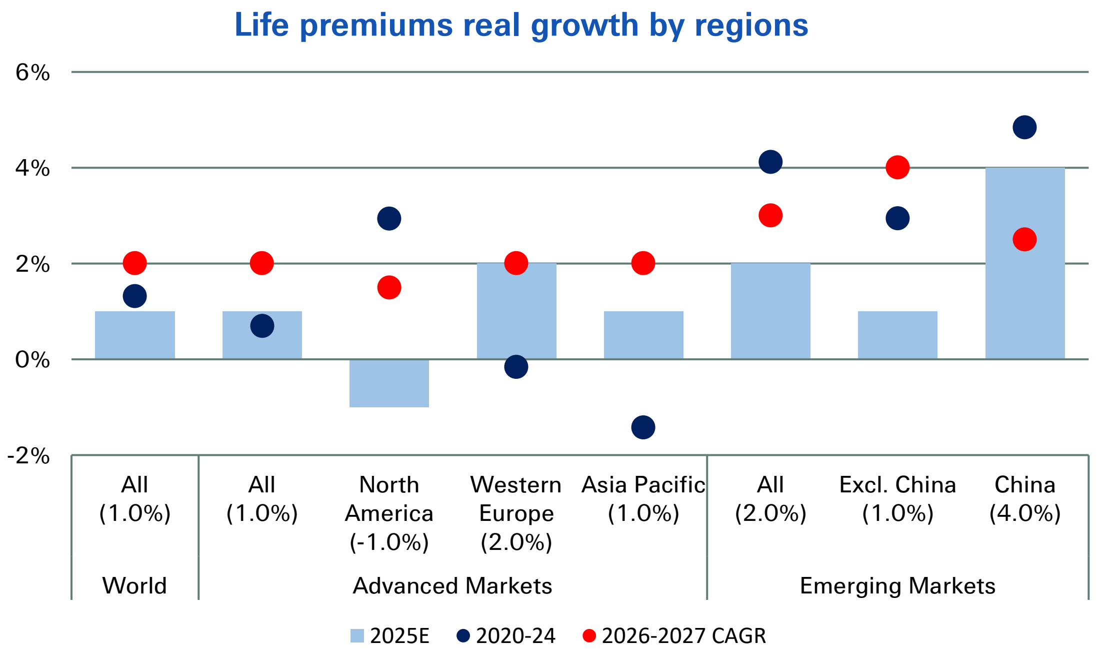
Annual average inflation

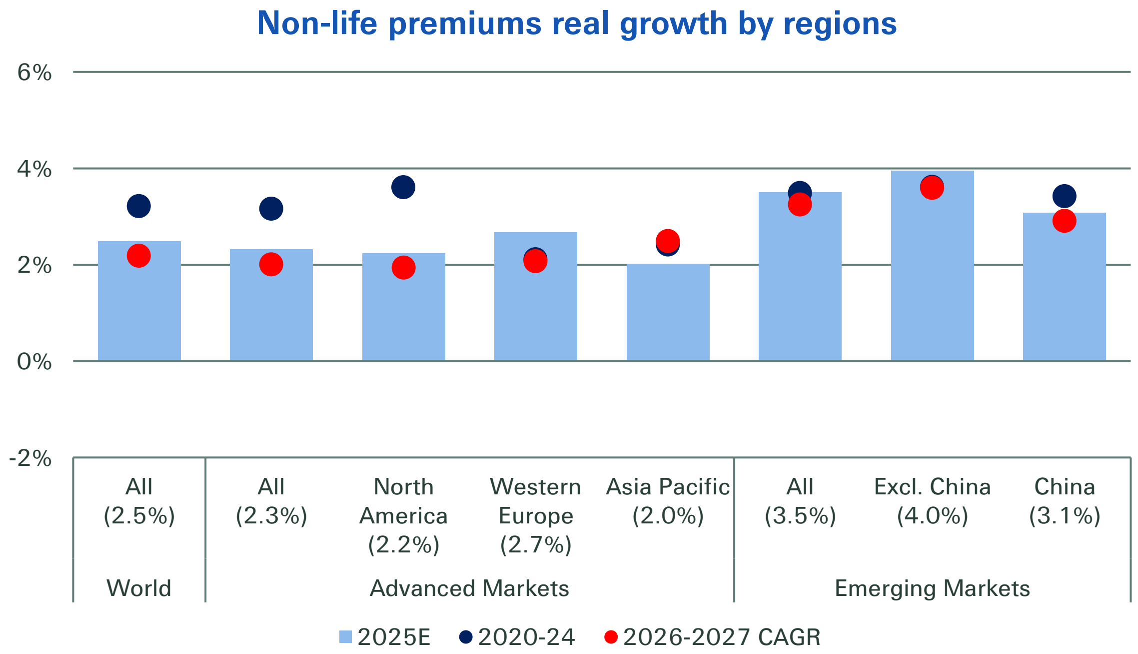


Source: Swiss Re Institute

Life premium growth set to improve, after a slowdown this year. Cyclical moderation in commercial rates and economic policy uncertainty will weigh on non-life growth

- **Life: Global real premium growth is expected to improve to 2% in 2026-27,** after slowing to 1% in 2025 (vs 7% in 2024) as demand normalizes from higher interest rates in recent years. Financial market volatility and broader economic uncertainty would continue to temper demand. But **in the near term, guaranteed-return products are attracting new flows** as consumers seek investment certainty
- **Non-life. Global real premium growth will slow to 2.2% in 2026-2027 (CAGR), down from 2.5% in 2025** and 3.2% in 2020-24. Softer pricing conditions and weaker economic momentum amid policy uncertainty will weigh on growth. The tariff-led rise in import costs and the **ongoing liability claims inflation trends** will however help **support US Casualty and personal lines**



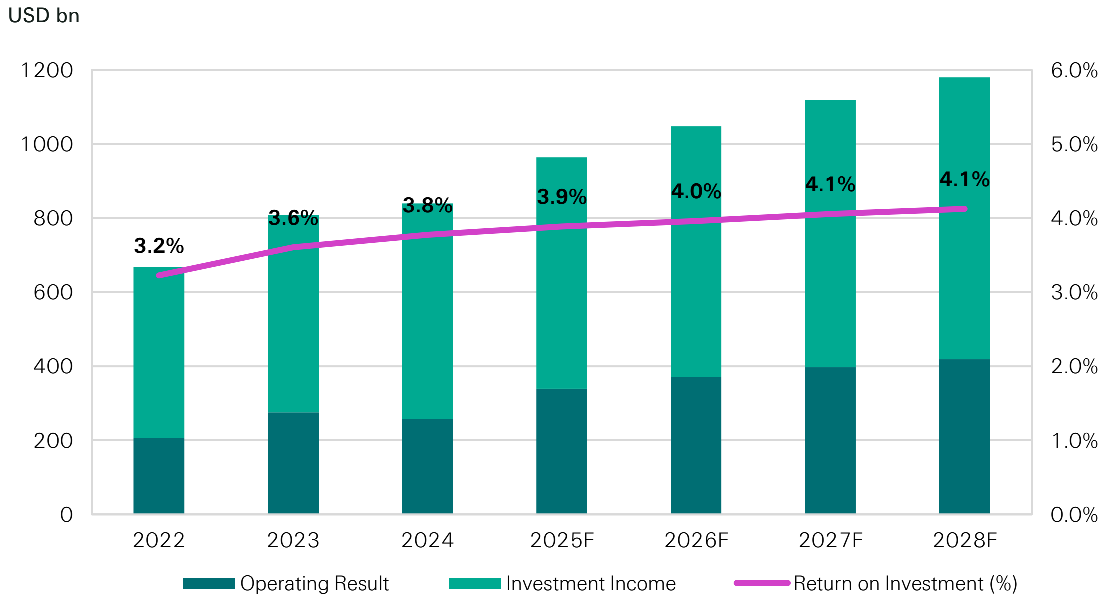


Source: Swiss Re Institute

Profitability of primary insurance sector: still strong profits in the near future, but P&C UW margins are past their peak

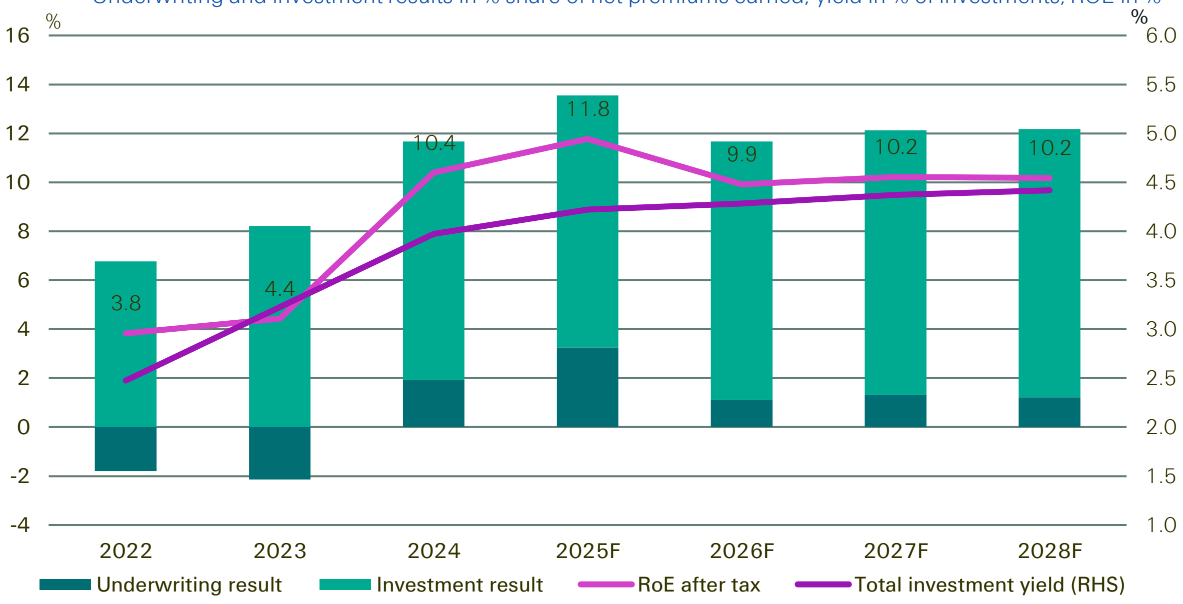
- **Strong profitability outlook for primary life insurers**. We expect **the aggregate return on investment (ROI) in top eight life markets to rise to 4.1% by 2027 (vs 3.8% in 2024),** driven by higher yields on fixed-income investments and reinvestments returns
- **2025 likely be the peak for P&C RoE (11.8%). Nevertheless, profitability will be solid in the near future** (9.9% in 2026) as price softening is partly offset by lower claims growth (at least outside of the US) and still strong investment yields

Life insurance operating results and return on investment, G8 markets



Note: The eight markets covered are US, Canada, UK, Germany, Italy, France, Japan and Australia.
Source: Swiss Re Institute

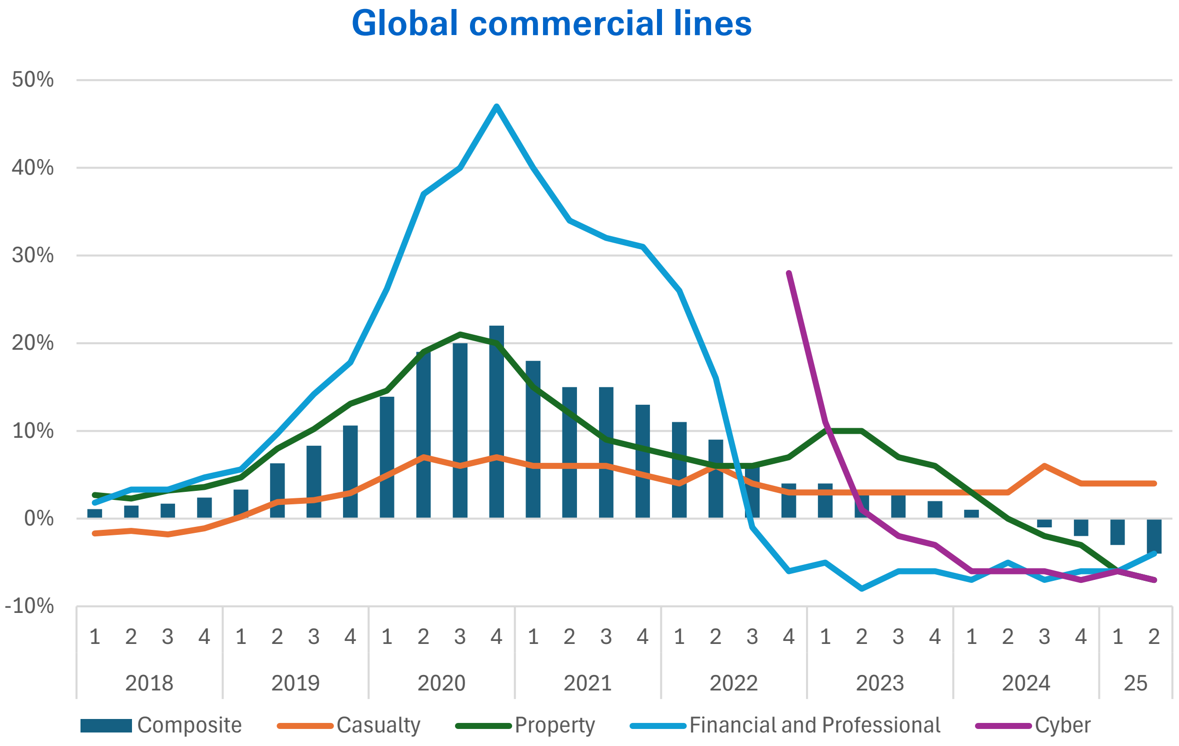
P&C insurance underwriting and investment results, 7 large markets



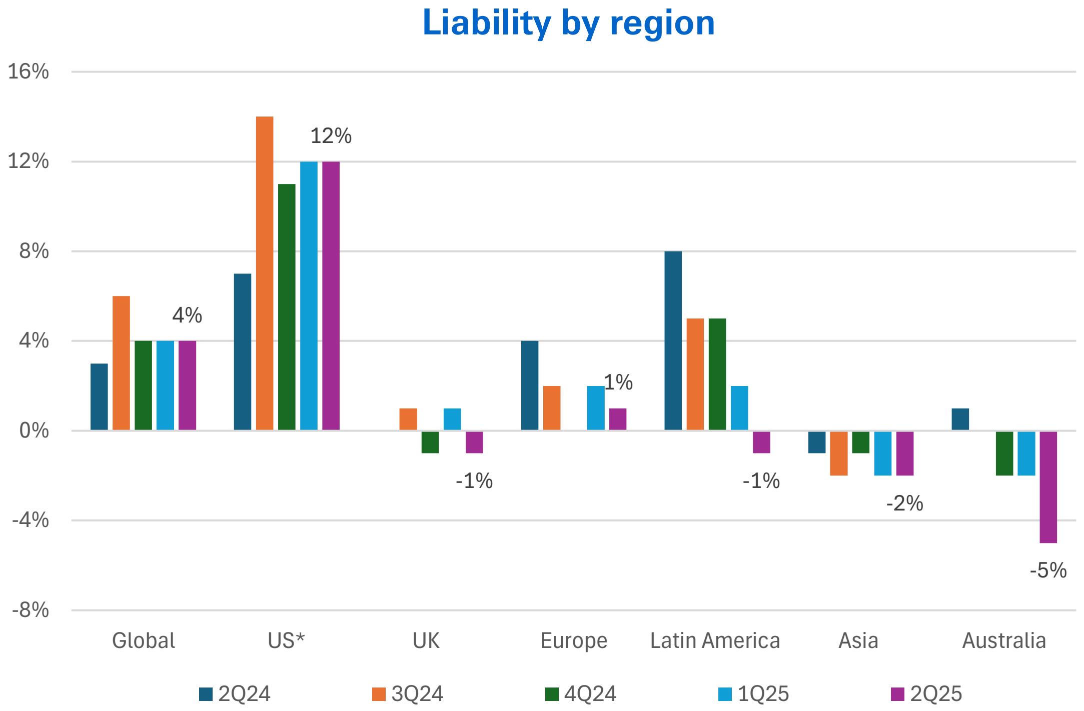
Note: The seven markets covered are Australia, France, Germany, Italy, Japan, the UK and the US
Source: Swiss Re Institute

Commercial lines pricing: Property softening accelerated in all regions, casualty softer across most regions, except US liability

- **Softening of rates in commercial lines has become broad based** with global property lines declining 7% y-o-y in 2Q2025. Financial and professional indemnity and cyber continued to develop negatively
- **Upward trend in casualty is mainly driven by US liability which continues to be challenged by social inflation.** Other regions except Europe have entered negative territory



Source: Marsh global insurance market index



* excluding workers´ compensation

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