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Content

Executive Summary

The global economic outlook remains fragile due to the convergence of monetary policy, geopolitics, and international trade.

The apparent cyclical improvement in Europe should not be interpreted as a fully entrenched shift in trend, but rather as a still-fragile window of opportunity. Yes, the euro area is expanding more than expected, but growth remains underpinned by temporary fiscal stimulus, only nascent monetary easing, and a more supportive exchange rate. The real test will come when the fiscal consolidation required under the revamped EU framework coincides with the unavoidable normalization of Germany's fiscal stance. Without a sustained enhancement of productive potential through innovation, Europe risks once again relying on external drivers to maintain its growth momentum.

The weakening of the US dollar provides partial relief for the global financial system.

Its depreciation generates a dual effect: it eases financial conditions for sovereigns and corporates with foreign-currency liabilities, yet it also heightens vulnerability in emerging economies already exhibiting signs of external strain. For now, the monetary divergence between a Fed in cutting mode and an ECB that has effectively reached neutrality is not problematic. However, its future trajectory may increasingly test this balance, particularly as inflation expectations adjust to the sizeable US fiscal package and to tariff-related price effects that, for the time being, have not fully materialised. At the same time, the Bank of Japan's stance—still at odds with that of other major central banks—is beginning to translate into a contraction of domestic liquidity.

Commodity-price volatility remains a key determinant of global economic performance.

Gold has regained relevance as a safe-haven asset amid rising risk aversion, while copper—supported not only by the energy transition but also by accelerating demand from AI-related infrastructure—signals looming structural supply tensions that, if persistent, could trigger second-round inflationary pressures. This environment implies tighter operating margins for metal-intensive industries and greater exposure to exogenous price shocks. Added to this is the intensifying contest for control over semiconductor supply chains—not only in Taiwan, but also in access to the rare-earth mining capacity essential for lithium, cobalt, and nickel production.

The Fed's easing cycle is shaping a more benign environment for higher-quality sovereign and corporate issuers.

In fixed income, the Fed's easing cycle is shaping a more benign environment for higher-quality sovereign and corporate issuers. However, it would be imprudent to assume that this phase guarantees a sustained reduction in risk. Markets continue to demand higher risk premia from sovereigns with more deteriorated fiscal profiles (such as the United States or France), with inevitable repercussions for their domestic corporate sectors.

Geopolitical risks

Ukraine: No Meaningful Progress Toward Peace

Progress toward a negotiated settlement in Ukraine remains virtually nonexistent, despite sporadic diplomatic manoeuvres. Russia has rejected any ceasefire that would freeze current front-line positions and continues to condition negotiations on formal recognition of its control over the Donbas. Meanwhile, informal contacts between the United States and Russia produced no tangible results, as Washington focused primarily on containing further military escalation. In this context, President Zelensky's "Victory Plan"—which calls for Ukraine's integration into NATO and additional security guarantees—was met with caution by Western allies, underscoring the absence of a shared roadmap for a negotiated end to the conflict.

Despite worsening military and humanitarian conditions, prospects for a formal peace process remain distant. Moscow continues to insist that its territorial gains form the baseline for any talks, while Kyiv and its Western partners reject concessions that would legitimise Russia's occupation. Intensified strikes on Ukraine's energy infrastructure and the direct deployment of North Korean troops in support of Russia have further hardened positions on both sides. As we have highlighted in our macroeconomic reports since 2022, the conflict has entrenched itself into a prolonged war of attrition.

Palestine: The Gaza Ceasefire Exposes the Fragility of the Trump Peace Framework

The 10 October ceasefire in Gaza—embedded within the US "20-Point Peace Plan" and mediated by Egypt, Qatar, and Turkey—formally halted hostilities, enabling an initial hostage–prisoner exchange and a temporary increase in humanitarian aid flows. The subsequent phases envisioned the demilitarisation of Gaza, the deployment of an Arab-led international stabilisation force, a technocratic transitional administration, and a reconstruction programme of roughly USD 70 billion, with a conditional pathway toward Palestinian statehood. However, implementation is uneven: lethal incidents have continued despite the ceasefire, aid deliveries were scaled back, and the Rafah crossing has been intermittently closed at critical junctures. Although some detainees were released, unrecovered bodies and unidentified hostages continue to undermine trust between the parties. In short, the process exists on paper and has produced verifiable steps, but its practical traction remains limited.

The main bottlenecks to consolidating peace are political and security-related. Hamas conditions any disarmament on the end of the occupation; Israel insists it will unilaterally define Gaza's security architecture, excluding the Palestinian Authority and tightly conditioning the deployment of foreign forces. Adding to this, a severe humanitarian catastrophe—extensive infrastructure destruction, confirmed famine, and mass displacement—makes civilian relief a prerequisite for any durable stabilisation. Regional frictions (Lebanon/Hezbollah, the West Bank) and the direct confrontation between Israel and Iran heighten the risk of spillover and a breakdown of the fragile equilibrium achieved so far.

Latin America: Could Venezuela Become the Beginning of a Wider Conflict?

US–Venezuela relations have entered a phase of acute tension, marked by a significant build-up of US military assets in the Caribbean, tighter economic sanctions, and increasingly confrontational rhetoric on both sides.

Washington justifies its actions as part of a strategy to dismantle narcotrafficking networks and criminal organisations linked to Nicolás Maduro's regime, even designating the Cartel of the Suns and other Venezuelan groups as foreign terrorist organisations. Simultaneously, the Trump administration is not ruling out direct military intervention—US naval deployments continue to expand—although diplomatic channels remain nominally open, constrained by deep mutual distrust and international pressure. Caracas has responded with military mobilisation, appeals to international bodies, and a nationalist resistance narrative aimed at bolstering domestic and external support. Taken together, these dynamics significantly raise the risk of a broader regional conflict.

Trade War: A Period of Moderate Calm Following the US–China Rare Earths Agreement

Key breakthroughs in the tariff negotiations between the United States and China unfolded between July and November 2025. After months of heightened tensions, both sides agreed in July to extend the tariff freeze. On 30 October, the US announced a substantial reduction in tariffs and declared an end to the "tariff war." On 9 November 2025, both countries confirmed tariff cuts and a mutual suspension of port duties for one year.

The agreement introduced a temporary reduction in US tariffs from 145% to 30% for 90 days, while China lowered its duties from 125% to 10% during the same period. Additionally, Beijing suspended its export restrictions on rare earth elements for one year. Still, the underlying reality is fragile: once the agreement expires, the dispute could easily reignite, reviving inflationary pressures.

Political Instability: From the US Government Shutdown to France's Inability to Pass Fiscal Consolidation

United States

Institutional fragility—evidenced by the second-longest government shutdown in US history and repeated attacks on the Federal Reserve's independence—raises the risk of erratic economic policymaking. Compounding this is the Supreme Court litigation over the legality of tariffs imposed under the International Emergency Economic Powers Act (IEEPA), which adds legal uncertainty that could reshape the US trade framework.

France

Parliamentary paralysis—five prime ministers in three years—and a minority government relying on tactical abstentions have complicated the approval of the 2026 budget, designed around a core priority: fiscal consolidation. The government proposes EUR 17 bn in spending cuts and EUR 14 bn in additional revenues through tax reforms and the removal of various exemptions. Social transfers and pensions would be indexed below inflation. Even with these measures, the deficit would remain around 4.7% of GDP (5.4% in 2025).

Emerging Markets and Developed Asia

Signals are mixed. Argentina has granted President Milei a strengthened mid-term mandate to pursue fiscal consolidation, deregulation, and disinflation, albeit at high social cost and with strong reliance on external support—heightening sensitivity to political shocks.

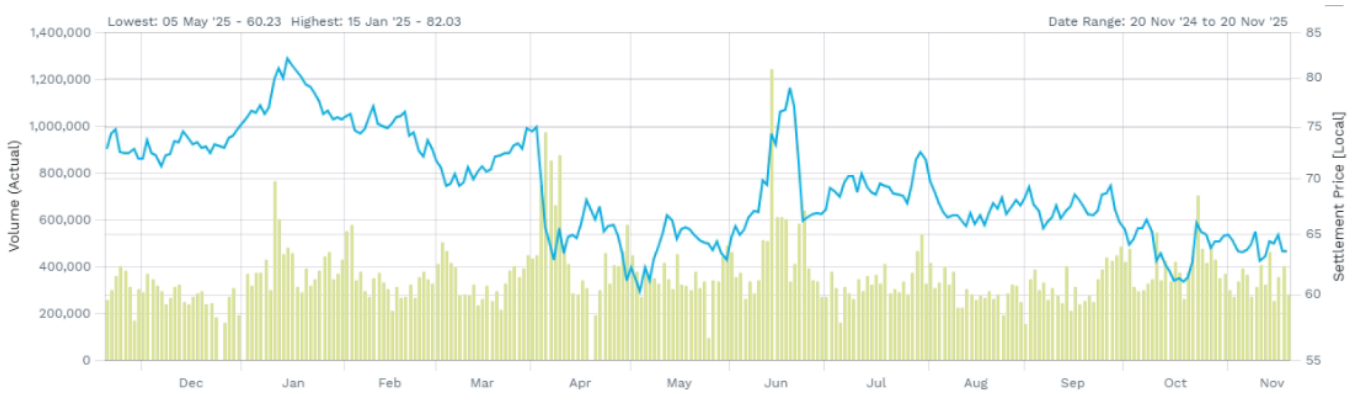
Japan

Japan has reached a historical milestone with Takaichi becoming its first female prime minister, although she leads an extremely weak government: a fragile coalition with key committees controlled by the opposition, all amid persistent inflation and a Bank of Japan that continues tightening. Japanese equities remain near record highs, but pressure on sovereign bond yields is mounting. However, the recently, and expected, announce of a fiscal package of $135B has improved its performance, at the same time it poses a risks over future stability as it not very clear the financial resources (more debt?). Let's see.

Commodities

Oil: Our baseline points to a gradual moderation in prices.

We project Brent crude to average USD 65/bbl in 2025 and USD 60/bbl in 2026. This trajectory is underpinned by a global supply surplus—estimated at 2.3 mb/d in 2025, widening to 4.0 mb/d in 2026—against a backdrop of global demand that remains resilient but ultimately subdued. That said, risks are firmly tilted to the upside. Any escalation of the conflicts in the Middle East or Ukraine, or the introduction of new and tighter sanctions on Russia, could quickly reverse the expected downward trend in prices.



Electricity and Natural Gas: A more comfortable outlook, though AI-driven data centres introduce a new source of demand pressure.

Europe's energy landscape has benefited from substantial relief, with natural gas prices declining on the back of exceptionally high storage levels. However, a new and powerful demand driver has emerged: the rapid expansion of AI-driven data centres. The exponential growth of these facilities is exerting upward pressure on electricity consumption and, by extension, on natural gas demand as a flexible generation source.

Metals

Gold and Silver:

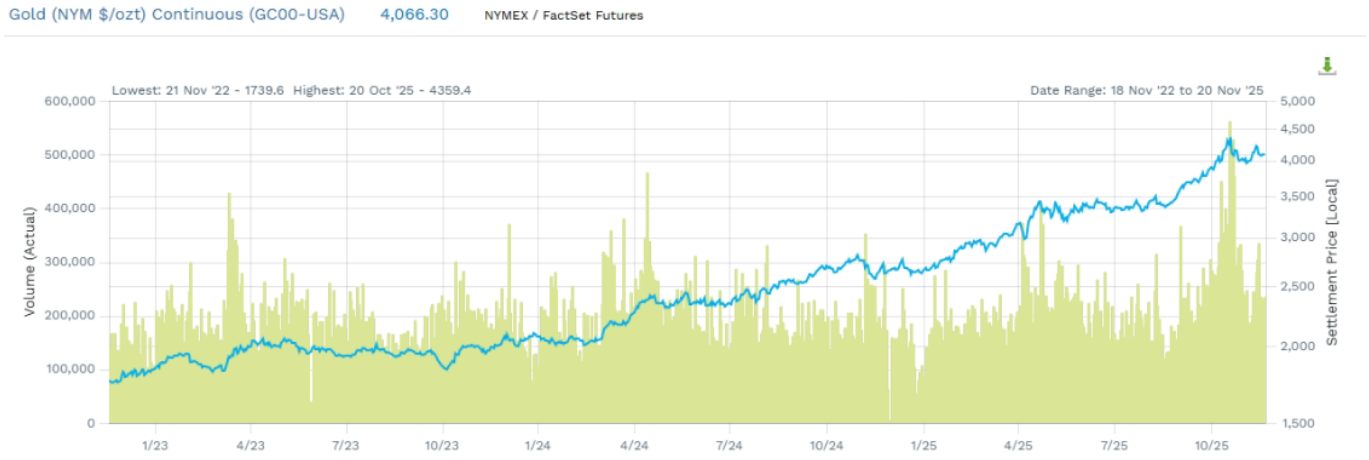
Gold and silver staged an exceptional rally, reaching all-time highs in the second half of 2025. This performance reflects their dual nature. First, their role as premier safe-haven assets amid heightened geopolitical uncertainty and a weakening US dollar. Second—and particularly in the case of silver—their importance as critical industrial inputs in fast-growing applications such as solar energy.

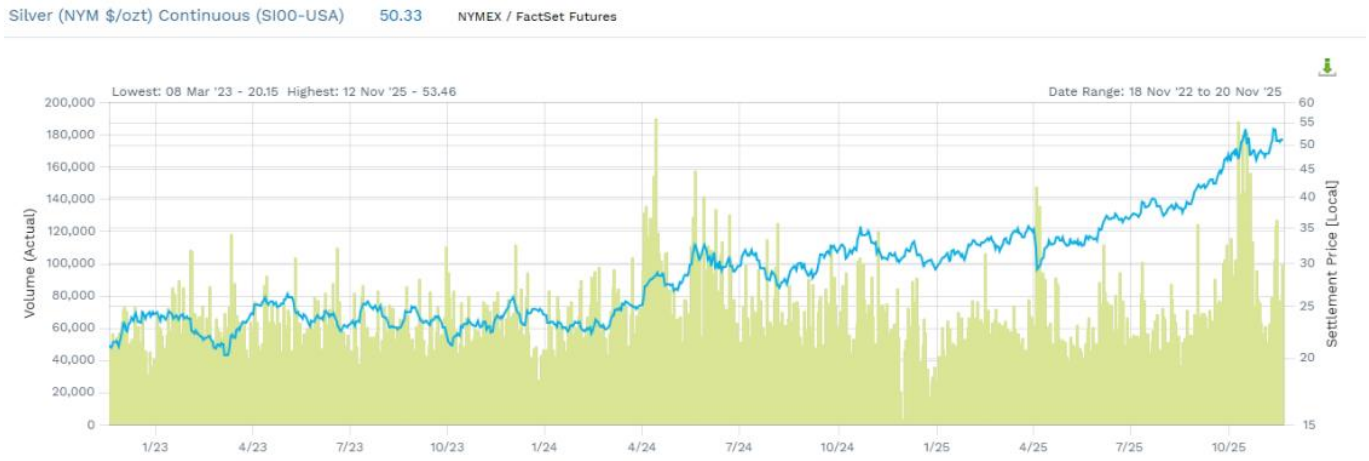
Industrial Metals (iron ore, copper, and steel):

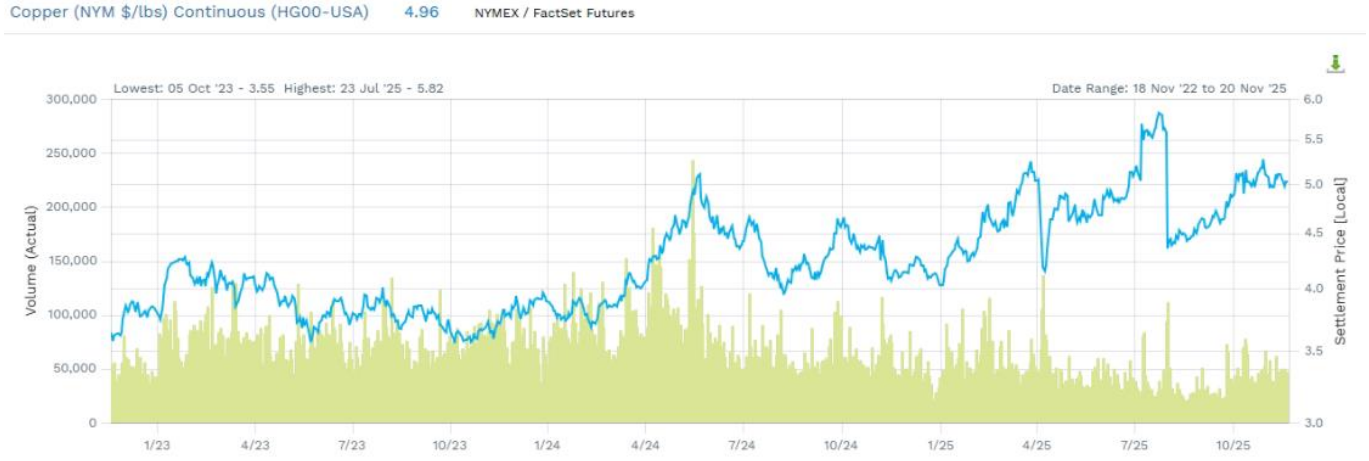
The outlook for industrial metals is markedly more differentiated. For copper, we maintain a sustained bullish view for 2025–2026, supported by structural demand stemming from the energy transition (electric vehicles, power grids) and the build-out of AI-related infrastructure. In contrast, the outlook for iron ore is decisively bearish. Price expectations for 2025–2026 point downward, weighed primarily by the persistent weakness of China's property sector. Steel fundamentals remain similarly exposed to the fragility of Chinese construction activity.

Rare Earths:

These minerals remain strategically vital for clean-energy and high-tech supply chains. China's temporary one-year suspension of export controls—agreed as part of its tariff truce with the United States—offers a short-term window of relief for dependent industries.



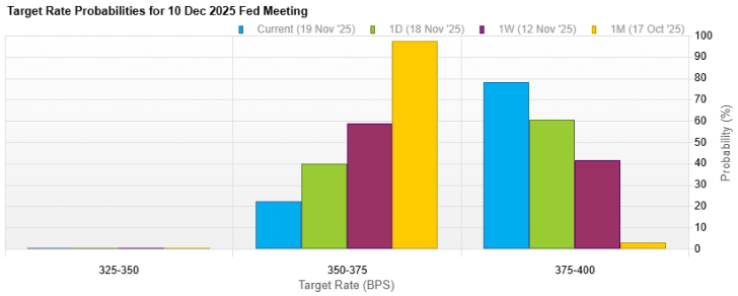




Monetary policy, Interest rates & Currencies

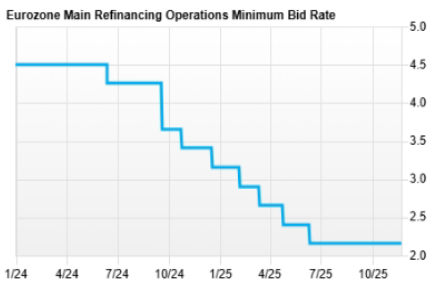
The Federal Reserve continued its rate-cutting cycle in response to a softening labour market.

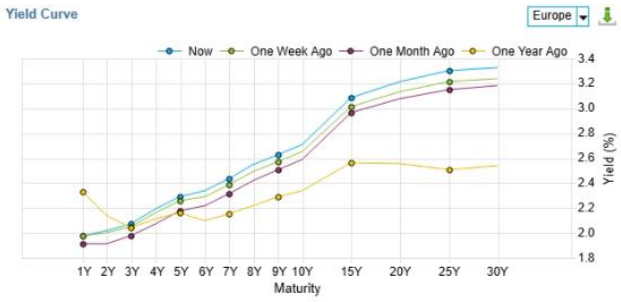
It delivered a 25 bp cut in October, bringing the policy rate to the 3.75–4.00% range. We still expect two additional cuts before year-end, with the Fed gradually moving toward a terminal rate near 3%. However, the latest employment figure—+119k in September, beating expectations—could ultimately push part of this easing cycle into 2026.



At its latest meeting, the ECB left interest rates unchanged—keeping the deposit facility rate at 2.00%—confirming that policy has effectively reached a neutral stance.

The probability of additional cuts before year-end remains low. Indeed, the current configuration of the European sovereign yield curve is consistent with a scenario in which the ECB maintains a cautious approach. The 1- to 3-year maturities, which are most sensitive to monetary policy, remain elevated relative to a year ago, signalling that markets have pushed back their expectations for rate cuts and now anticipate a slower, more data-dependent easing cycle. At the same time, the stability of the long end, which is essentially flat, suggests that inflation expectations remain well anchored and that the neutral rate lies close to current levels, even if this should not be interpreted as a rigid ceiling for future policy adjustments.





BoE: The Bank of England kept rates unchanged at 4.00%. Softer October inflation, together with the ongoing slowdown in economic activity and labour-market conditions, increases the likelihood of a rate cut before year-end.

The **12-month Euribor** has continued to stabilise, hovering around 2.22%. This trend reflects the impact of the European Central Bank's recent decision to keep policy rates unchanged following clear evidence of moderating inflation in the euro area. Compared with the previous year, the Euribor has edged slightly lower and remains within a relatively subdued range, providing relief to households and firms with loans indexed to this benchmark. Projections for year-end point to the continuation of this environment, contingent on incoming macroeconomic data and the ECB's policy stance.

Foreign Exchange: Although the slight correction path showed by the US dollar in the last weeks, the broad expectation is for a further depreciation in the coming weeks. Two key factors underpin this view. First, the narrowing of the real interest-rate differential that had previously favoured the United States, as the Federal Reserve progresses through its easing cycle. Second, the relative improvement in Europe's growth outlook, which reduces the comparative appeal of US-denominated assets. In addition to them, we can not forget the appreciation of the Japanese yen. In this context, the euro is positioned as the main appreciating counterpart to the weakening dollar. Consensus forecasts support this view, placing EUR/USD at 1.17–1.18 by end-2025 and 1.18–1.19 by end-

2026. Expectations for the British pound are likewise constructive. Forecasts centre around USD 1.35 per GBP at both end-2025 and end-2026.

Economic Outlook

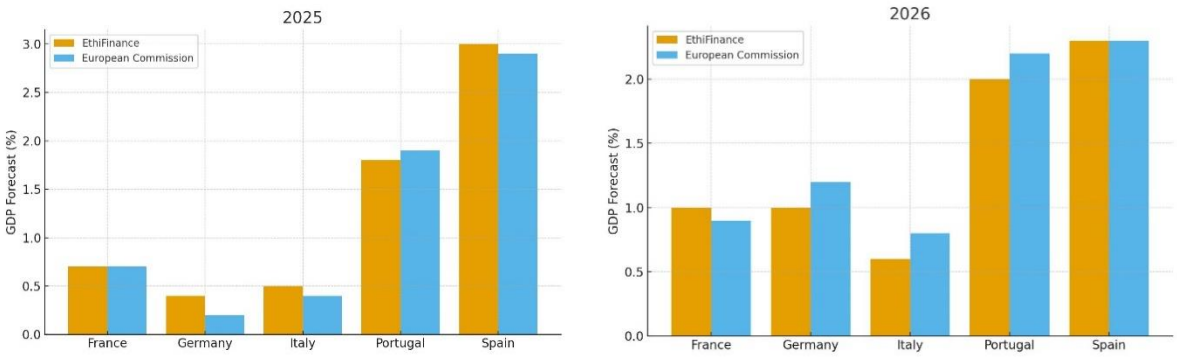
United States: The US economy has displayed notable resilience, managing to sustain slow but positive growth that, for now, keeps recession risks at bay. The main cyclical vulnerability is the weakening labour market, a factor that has already prompted the Federal Reserve to begin its rate-cutting cycle. Inflation, while gradually moderating, remains persistently above the 2% target, underscoring the challenge of restoring price stability without jeopardising growth momentum.

Eurozone: Overall, the European Union is holding up better than initially expected, with stronger-than-forecast growth for 2025 supported by several key drivers:

- Robust export performance—in part reflecting an "inventory effect",
- A dynamic labour market, aided by migration flows,
- Favourable financial conditions, and
- Continued progress on disinflation, which is helping to underpin real activity.

Against this backdrop, the European Commission projects GDP growth of 1.4% for both 2025 and 2026, rising modestly to 1.5% in 2027. However, beyond the headline macroeconomic data, there are additional findings that are particularly relevant for anticipating economic performance in 2026.

- Corporate debt in the EU has fallen significantly, reaching its lowest level in nearly two decades—72% of GDP in 2024, the lowest reading since 2006. Yet this improvement is not entirely unambiguous: a substantial part of the decline reflects the surge in nominal GDP, largely driven by past inflation dynamics.
- The war in Ukraine has had a measurable negative impact on GDP through the energy-dependence channel, mainly in those countries geographically closest to the conflict.



Germany

The German economy stagnated in Q3 2025, a result that—while an improvement from the contraction in the previous quarter—highlights the persistent weakness of its industrial sector. Even so, forecasts point to a gradual recovery, with real GDP expanding by 1% in 2026, its strongest pace in four years. This rebound is expected to be driven by higher defence spending, increased infrastructure investment, and tax cuts aimed at revitalising fixed investment, with early signs visible in September's industrial production figure (+1.3% month-on-month).

Nevertheless, substantial risks remain. The impact of US tariffs stands out as a key headwind, likely to restrain export growth, which is projected to reach only 0.8% in 2026. On the inflation front, Germany continues to move toward price stability: HICP inflation eased to 2.3% in October, and is expected to converge to the ECB's

2% target in 2026. Combined with a stable labour market—unemployment is projected at 6.2%—these factors offer a degree of macro stability. However, the fiscal picture reflects the costs of expansionary policy, with a -3.3% deficit and public debt at 64.5% of GDP projected for 2026.

In sum, while fiscal stimulus is intended to reignite Germany's industrial engine, the country's heavy dependence on export performance—now threatened by tariff exposure—makes its recovery one of the most fragile among major advanced economies.

France

The French economy showed strong resilience in Q3 2025, outperforming Germany and Italy with +0.5% quarter-on-quarter growth, its best result in more than two years. This momentum was driven primarily by robust export activity, particularly in the aerospace sector. Looking ahead, France is expected to experience a moderate recovery, with real GDP growth of 1% in 2026. While positive, this pace will remain below the average of the previous decade, constrained by fiscal consolidation, persistent political instability, and the impact of US tariffs, all of which will limit the scope for stronger expansion.

The inflation trajectory presents unique dynamics. In October, headline inflation fell to 0.8%, though it is projected to rise to 1.5% in 2026 as the effects of the energy "tariff shield"—introduced in 2022—continue to fade. France's biggest vulnerability lies in its precarious fiscal position: forecasts for 2026 point to a public-sector deficit of -5.3% of GDP and public debt rising to 118.2% of GDP. These constraints significantly limit the government's capacity to implement further stimulus, especially compared with countries with greater fiscal space. Unemployment remains structurally high, with a 7.6% rate projected for 2026.

Spain

Spain continues to stand out as one of the fastest-growing economies in the euro area, despite a slight slowdown in Q3 2025. Forecasts indicate that Spain will expand at roughly twice the pace of the eurozone average, with growth of 3% in 2025 and 2.3% in 2026, supported primarily by strong domestic demand. A moderation is expected in 2026 as the post-pandemic tourism boom begins to normalise and US tariffs weigh on export performance, with exports projected to grow 2.3%.

Inflation remains a key area to watch. Although average inflation is expected to ease to 2.1% in 2026—its lowest level in six years—underlying price pressures will keep inflation above the ECB target for a sixth consecutive year. Despite a declining trend, Spain will continue to face one of the highest unemployment rates in the region, with a 10% rate expected in 2026. On the fiscal front, Spain is projected to post a -2.7% deficit and public debt of 99.0% of GDP in 2026, reflecting a path of gradual consolidation.

Spain therefore remains a key growth engine for the eurozone, although its dynamism coexists with persistent structural challenges in pricing and labour-market performance.

Italy

The Italian economy stagnated in Q3 2025, highlighting the weak short-term growth outlook. Real GDP growth in 2026 is forecast at a modest 0.6%, representing only a slight improvement and remaining below the eurozone average. The main drags include slowing fixed investment and a high tax burden, which limits the scope for expansion. Stronger demand from major trading partners—particularly Germany—represents an upside risk, but this reliance underscores the fragility of the recovery.

Italy stands out for its moderate inflation environment. Headline inflation fell to 1.3% in October and is projected to stabilise at 1.6% in 2026, remaining below the ECB target until at least 2029 due to weak energy prices and subdued wage growth. The labour market remains relatively stable, with unemployment forecast at 6.2% in 2026.

Italy's main vulnerability remains its fiscal position. Public debt is projected to reach 137% of GDP in 2026, one of the highest ratios in the region, alongside a -2.9% fiscal deficit. These structural constraints continue to create a persistent growth gap, in stark contrast to the healthier trajectory of economies such as Portugal.

Portugal

Portugal continues to deliver a healthy growth performance, though a slowdown is expected in 2026. Real GDP is projected to expand by 2.0%, a solid figure but below the peak reached in 2025. This moderation will be driven largely by the impact of US tariffs on external demand. Despite these headwinds, domestic demand remains resilient, with private consumption expected to grow 2.5% and fixed investment 3.8% in 2026, supported by lower inflation and more accommodative monetary conditions.

Inflation in Portugal rose to 3.2% in October, its highest level in 16 months, reflecting increases in housing costs and public-service prices. However, average inflation is projected to converge to the ECB's 2.0% target in 2026. The labour market remains steady, with unemployment expected to hold at 6.1%.

Where Portugal stands out is in its strong fiscal position. Forecasts for 2026 point to a near-balanced budget (-0.1% of GDP) and a declining public-debt ratio (87.7% of GDP), giving Portugal significantly greater policy flexibility relative to its more heavily indebted peers.objetivo del BCE en 2026 (2.0%). Si bien este panorama y un mercado laboral estable, con un desempleo previsto del 6.2%, ofrecen bases sólidas, la salud fiscal refleja los costes de la política expansiva, con un déficit previsto del -3.3% y una deuda del 64.5% del PIB para 2026. En suma, mientras el estímulo fiscal busca reavivar el motor industrial alemán, su alta dependencia del sector exportador, amenazado por los aranceles, convierte su recuperación en una de las más frágiles entre las grandes economías.

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