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MACROECONOMIC *view*

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Global economy – Between risks and resilience



KEY HIGHLIGHTS:

- Last April, the world was heading towards recession and the markets towards crash
- Six months later, the worst has been avoided. The global economy has shown its resilience
- This is due to the absence of an escalation in customs duties and the boom in AI
- However, there are doubts about the level of market valuations
- Debt trajectories are unsustainable in the United States and France
- On a macroeconomic level, caution remains the order of the day.



It is still a little early to take stock of 2025, but if we compare current economic conditions with what was anticipated six months ago, it is clear that the worst has been avoided. In terms of the economic cycle, the worst-case scenario is a recession. In terms of the markets, it is a crash. After the announcement of 'reciprocal tariffs' in early April, these risks were very much present. At one point, US stock market indices hit the critical threshold of a 20% decline from peak to trough. As the shock could lead to stagflation, i.e. both weighing on activity and creating inflation, the economic outlook was revised accordingly. In the days and weeks following Liberation Day, the consensus cut its US growth forecasts by 0.8 points for 2025 and raised its inflation expectations by 0.4 points. The IMF lowered its global growth forecasts by 0.5 percentage points for 2025 and 0.3 percentage points for 2026.

Where do we stand six months later? On the financial markets, there has been no crash. Valuations are often at historic highs, from certain stock market indices to gold. Curiously, these are two assets that are supposed to react to diametrically opposed risks. But let's move on. In the real economy, there has been no recession. The dominant theme is resilience. In its October forecasts, the IMF revised its global growth forecast upwards by 0.2 percentage points for 2025, following a similar revision in July. In short, the global economy has not deviated significantly from its normal trend of real GDP growth of just over 3%.

Why this resilience? There is a combination of factors.

First, the tariff shock is certainly unprecedented in scale, but it is less severe than initially announced. After a period of tension between the United States and China, the two giants recognised their mutual interest in making compromises and tactical retreats (the famous TACO effect). This truce is fragile, as new friction in recent days has shown, but it has lasted for six months. There have been no disruptions to global supply chains. Many other countries have entered into trade agreements with the Trump administration, accepting higher tariffs in exchange for greater visibility. In short, the United States has raised its tariffs and the rest of the world has refrained from retaliating. This lack of escalation has mitigated the effects of the shock and reduced uncertainty.

Secondly, international trade players took advantage of the delay between the announcement and the implementation of tariffs to engage in circumvention manoeuvres. US importers massively increased their purchases of foreign goods before the initial wave of tariffs (April) and then before the final wave (August). As long as these inventories are not depleted, the impact on retail prices is minimal. China has rerouted some of its exports to compensate for the closure of the US market. The result is paradoxical: in H1 2025, global trade was rarely so dynamic (apart from the technical rebounds of 2009 and 2020). According to the CPB, which specialises in these issues, the volume of trade in goods grew by around 6% per year until the summer of 2025, twice the rate of global GDP growth. Since the 2008 financial crisis, trade has generally grown slightly slower than GDP.



Thirdly, the strength of the US economy owes much to the investment boom linked to the artificial intelligence revolution. There is also a direct link with the dynamism of global trade. According to the WTO, the boom in trade in semiconductors, servers and telecommunications equipment accounted for nearly half of the increase in trade in goods in H1 2025. Although it is accepted that AI will have a positive impact on productivity – albeit over an indeterminate time horizon – more and more observers are also pointing out similarities with the dot.com bubble (concentration, valuations). When asked about this recently, the Fed chairman cautiously noted that share prices were quite high. For the record, more than three years passed between his predecessor Alan Greenspan's famous remark about 'irrational exuberance' in December 1996 and the bursting of the bubble in March 2020. For now, asset price inflation is creating a wealth effect that benefits certain categories of consumers.

However, the resilience of the global economy may be undermined because many of the positive factors mentioned above are difficult to extrapolate. Given the levels reached, a market correction is possible and would tighten financial conditions. There have been several recent bankruptcies in the United States, bringing back bad memories (excessive debt, questionable accounting practices). There are also signs that the pace of AI-related spending is moderating, particularly in the construction of data centres.

The recent strength of global trade is not structural. In reality, tariff and non-tariff barriers have never been higher in decades. This will make trade less fluid and more costly in the future. The negative effects of the shock are simply delayed. In this regard, Europe is under particular pressure. On the one hand, its products are less competitive in the United States. On the other hand, it faces competition from China in sectors where it once held a strong position. These two phenomena are reinforcing each other. The more China demonstrates its

technological lead, the more the United States closes its market to it, and the more China pushes into the European market. The pincer movement is tightening. In contrast, the factors that could strengthen European growth remain hypothetical to date: effective and rapid implementation of the German recovery plan, and a revival of consumer spending after the end of the inflation shock.

The US economy is not without its vulnerabilities either. The gaps between sectors and agents have grown to extraordinary proportions: AI is booming, construction is in deep slump, the top 20% are spending frenetically, while the rest of consumers are worried about weakening employment and fear a surge in inflation. Against this backdrop, economic policy remains disruptive, whether in terms of trade, central bank independence, migration policy or international relations. Overall, the balance of risks is tilted to the downside. Torn between conflicting imperatives (too high inflation, weaker labour market), the Fed cut rates in September and has every reason to continue in this direction in the coming months.

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