

Global Macro Outlook

Between the data and a hard place

Fidelity Multi Asset
Global Macro and Strategic Asset Allocation Team
August 2025



Glossary

AI	Artificial intelligence	FOMC	Federal Open Market Committee
APxJ	Asia-Pacific ex-Japan	FX	Foreign exchange
AT1	Additional Tier 1 bonds	GDP	Gross domestic product
B/S	Balance sheet	HICP	Harmonised Index of Consumer Prices
BOE	Bank of England	HY	High yield
BOJ	Bank of Japan	IG	Investment grade
CBO	Congressional Budget Office	IT	Information technology
CH-AI	China Activity Indicator	JCB	Japanese government bonds
CPI	Consumer Price Index	LATAM	Latin America
DM	Developed market	MENA	Middle East and North Africa
EA	Eurozone area	MOM	Month-on-month
EC	European Commission	OECD	The Organisation for Economic Co-operation and Development
ECB	European Central Bank	P/E	Price-to-earnings
EM	Emerging market	PBOC	People's Bank of China
EMD	Emerging market debt	PCE	Personal consumption expenditures
EMEA	Europe, the Middle East and Africa	PMI	Purchasing Managers' Index
EV	Electric vehicle	PPI	Purchase Price Index
FCI	Financial condition index	VIX	CBOE Volatility Index
Fed	US Federal Reserve	YCC	Yield curve control
FI	Fixed income	YOY	Year-on-year
FLI	Fidelity Leading Indicator		

Global Macro Outlook

Between the data and a hard place

- **US effective tariff rates continue to rise:** President Trump has sent letters/deals to most major trade partners, pushing the announced effective rate above our baseline of 15%; with risks still skewed to the upside due to impending sectoral tariffs (pharma, semis, etc), **effective tariff rates are moving towards ~19%.** However, we don't expect the observed tariff rate to exceed 15% as transshipment, redirection of demand, and supply curtailment will all work to lower the rate.
- **In the US, 'Slowdown' odds for H2 2025 continue to rise:** Evidence that the tariff drag is as much a negative demand shock as a supply shock is mounting, with growing weakness in the US housing and labour market. Accordingly, we believe there is now no chance of a reflationary scenario for the rest of the year (down from a 5% chance). We raise the probability of our new US 'Slowdown' scenario (30% to 40%), and reduce our conviction in an intense stagflationary scenario (inflation over 3.5%) to 40% (from 45% previously). **Our strong conviction (>90%) that growth will remain significantly below trend for the rest of the year remains unchanged.**
- **Fed to splinter as political pressure ratchets up:** We believe the Fed will break into three distinct camps over the rest of the year. Diverging incentives and political pressure will push some FOMC members to start disagreeing more forcefully with Chair Powell's current 'on hold' stance. We believe a narrow majority of the FOMC still sits in the institutionalist/'on hold' camp (inflation risks > labour market concerns + willingness to pushback against fiscal dominance) alongside Powell. **We continue to believe the Fed will cut once this year in December, which is now against the consensus of a September start to a cutting cycle.** Beyond 2025, we think the underlying composition of the Fed will turn decisively dovish as two new Governor seats open up (and possibly more), including the Fed chair.
- **ECB to cut once more this year despite 'positive' US/Europe trade deal:** Underlying growth in the Euro area remains soft, despite recent resilience. While the medium-term fiscal outlook has become more favourable for growth, tariff headwinds are likely to weigh on the near-term growth outlook. Risks to inflation remain skewed to the downside as a result of the strength of the euro and excess goods from East Asia reorientating to the Single Market, justifying our more dovish view on the ECB rate path than market pricing.
- **China growth stabilisation more credible post-deal:** The extension of the trade truce reduces pressure on China to deliver new fiscal easing. Exports and industrial activities continue to outperform expectations despite the slower than expected recovery in domestic demand. We maintain our view that the government targets **Controlled Stabilisation (growth ~4.5%) through reactive, incremental policy rather than aggressive support. Fiscal easing has pivoted into more targeted easing for households.** More fiscal easing could be forthcoming in Q4 if downside pressures mount.
- **Asset allocation views:** With uncertainty high and an increased likelihood for volatility ahead, these are the times when diversification matters. **We are neutral equities, overweight government bonds, and underweight credit.** We prefer emerging market equities as well as EM local currency government bonds, and high yield bonds.

Source: Fidelity International, August 2025.

2025 Growth forecasts

We lift our outlook to balanced for emerging markets after relatively benign trade deals being struck. We still see downside risks to DMs largely due to the US.

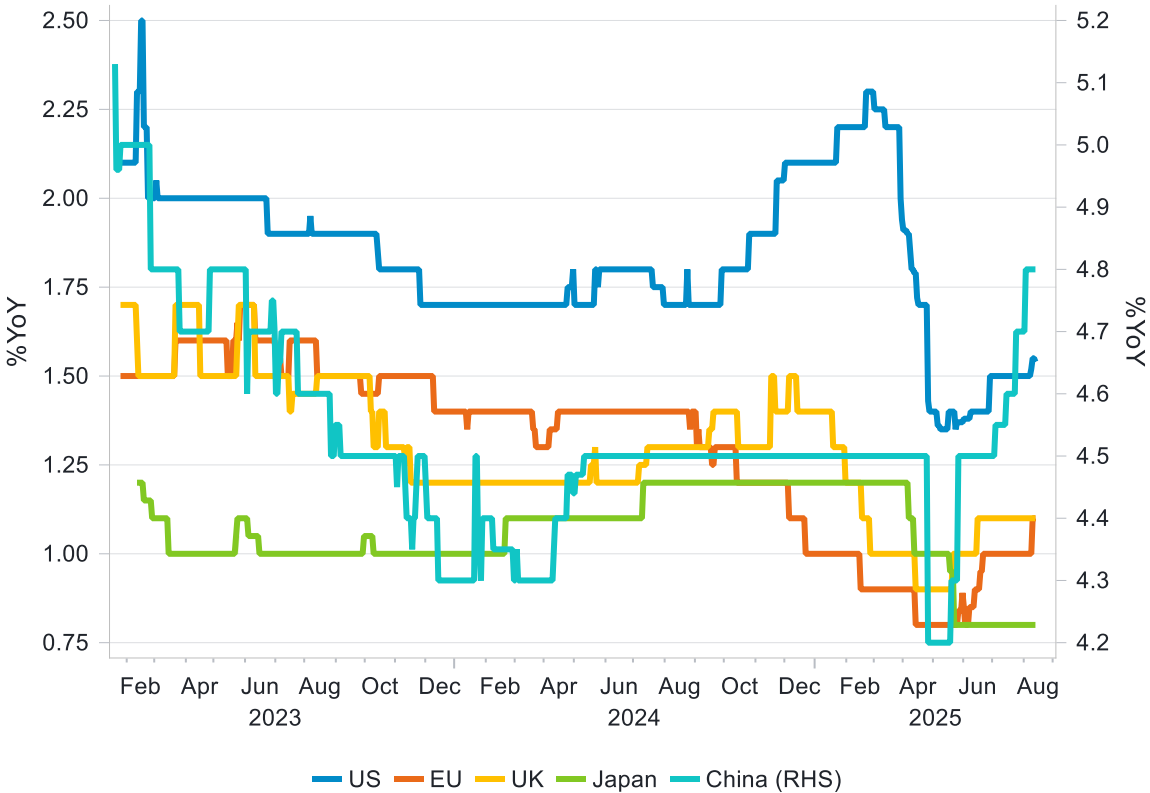
2025 Growth (%YoY)	BBG Consensus*	Fidelity Upside Case	Fidelity Downside Case	Risk Assessment vs Consensus
Global	3.3	3.8	2.4	Downside
Developed markets	1.3	1.9	0.5	Downside
US	1.6	2.6	0.5	Downside
Eurozone	1.2	1.3	0.5	Downside
UK	1.1	1.5	0.6	Balanced
Japan	0.8	1.2	0.2	Balanced
Emerging markets	4.7	5.1	3.7	Balanced
China	4.8	5.0	3.5	Balanced
India	6.4	7.2	6.0	Balanced
Brazil	2.3	2.8	1.5	Balanced
Mexico	0.3	1.5	-0.9	Downside
Turkey	2.9	3.5	1.5	Downside
Indonesia	4.8	5.1	4.6	Downside

Source: Fidelity International, Bloomberg, August 2025. Note: these scenarios and risk assessment are not intended to be exact growth forecasts, but rather illustrations of potential outcomes based on particular assumptions about a number of variables, including supply side risks, monetary and fiscal policies and associated multipliers, corporate and consumer behaviour. Given significant uncertainties related to how the cycle might evolve, these scenarios are subject to change. DM, EM and global aggregates are calculated including only countries that appear in the table, giving rise to potential differences vs aggregate consensus numbers quoted on Bloomberg, which include a wider universe. For India we use Fiscal year 2026 numbers. We will be revising growth numbers and risk assessment continuously, as signals evolve, and more information becomes available *BBG consensus as of 21 August 2025.

Global growth and inflation consensus forecasts for 2025

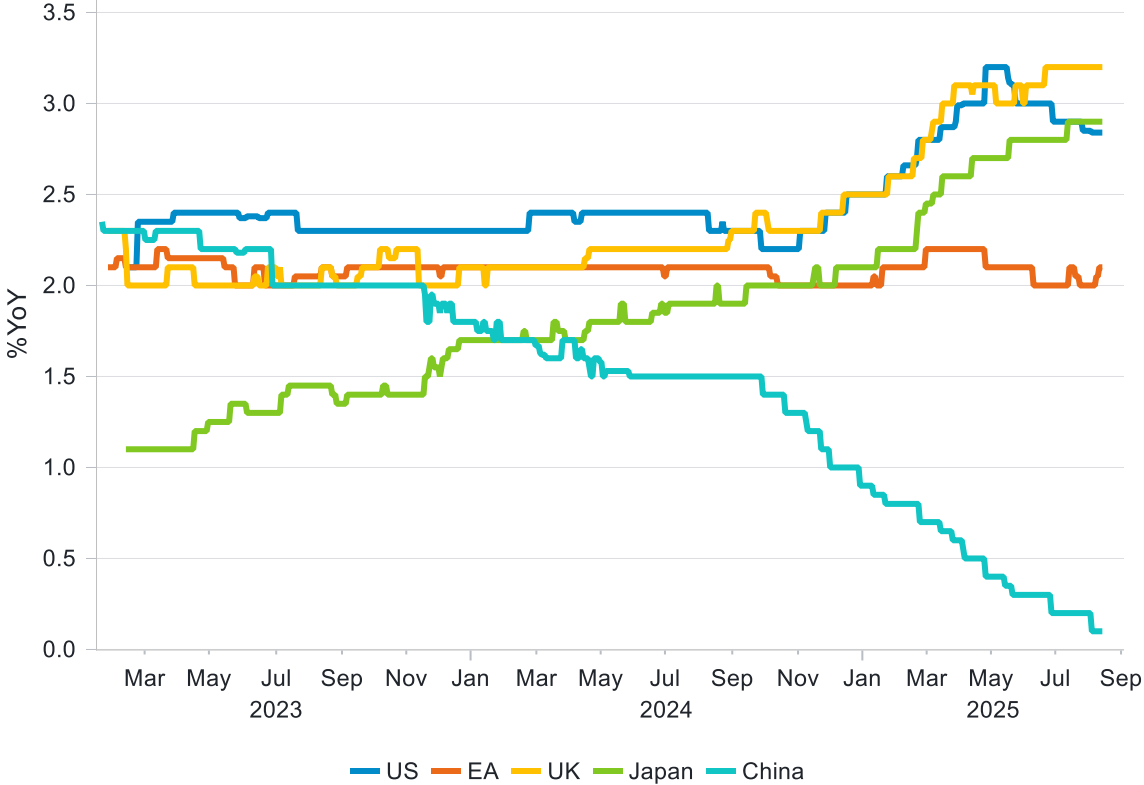
Consensus around global growth has turned uniformly weak across countries, while inflation expectations are more divergent

2025 real GDP growth Bloomberg consensus forecast



Source: Fidelity International, Macrobond, Bloomberg, August 2025.

2025 CPI inflation Bloomberg consensus forecast

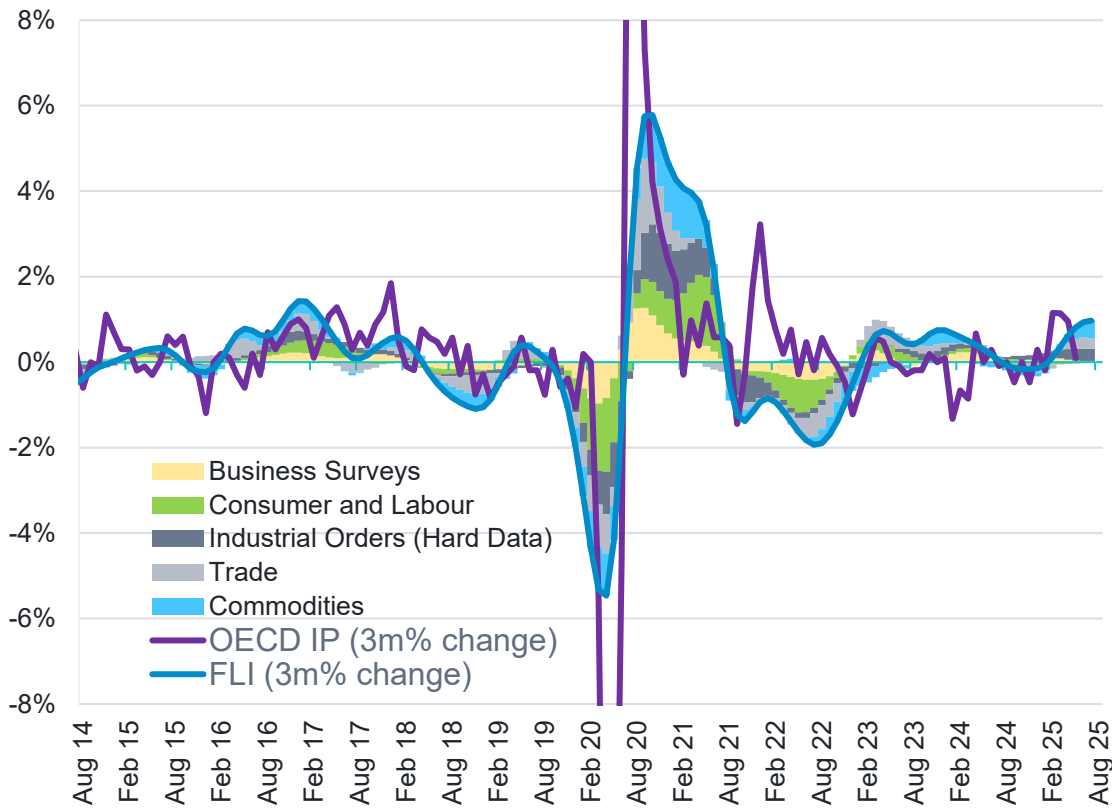


Source: Fidelity International, Macrobond, Bloomberg, August 2025.

Global leading indicators

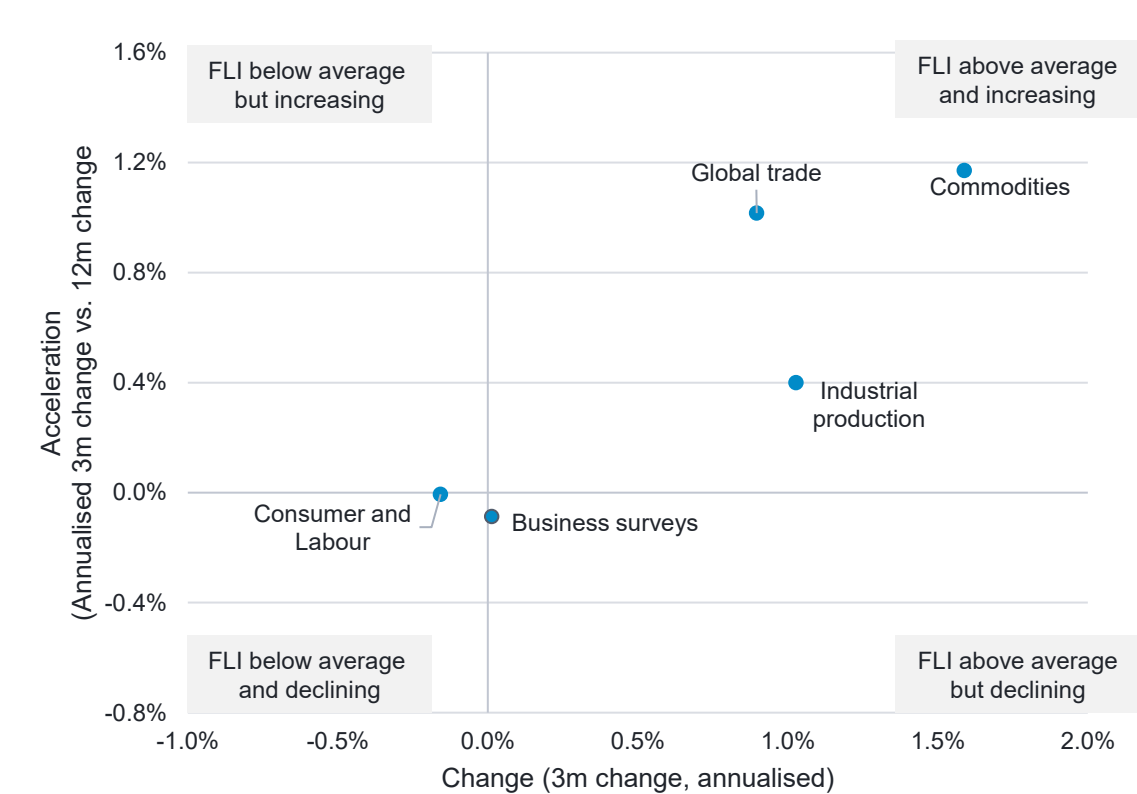
FLI remains upbeat due to front-loading effects still visible in global trade and industrial production. However, this is likely to reverse as we start seeing reversal of front-loading in coming months

Fidelity Leading Indicator (3m% change) vs OECD IP



Source: Fidelity International, FIL Global Macro Team calculations, Haver Analytics, August 2025.

Fidelity Leading Indicator: Components split

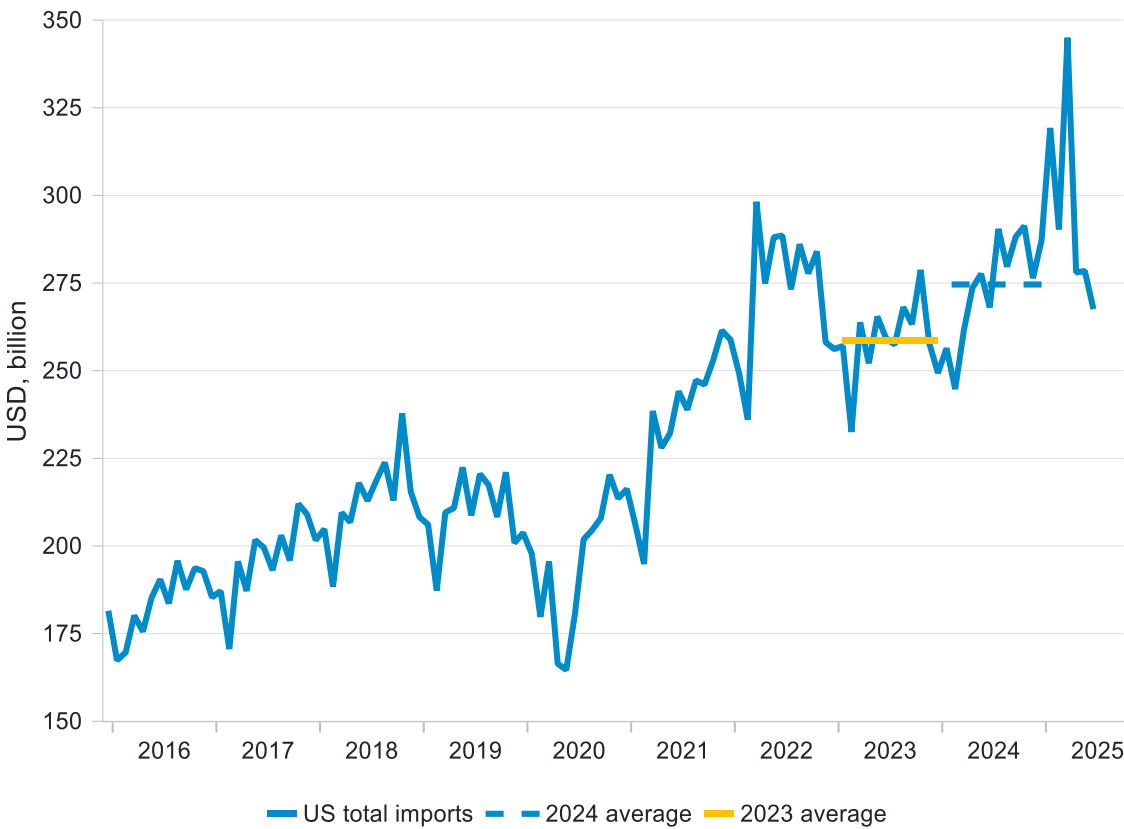


Source: Fidelity International, FIL Global Macro Team calculations, Haver Analytics, August 2025.

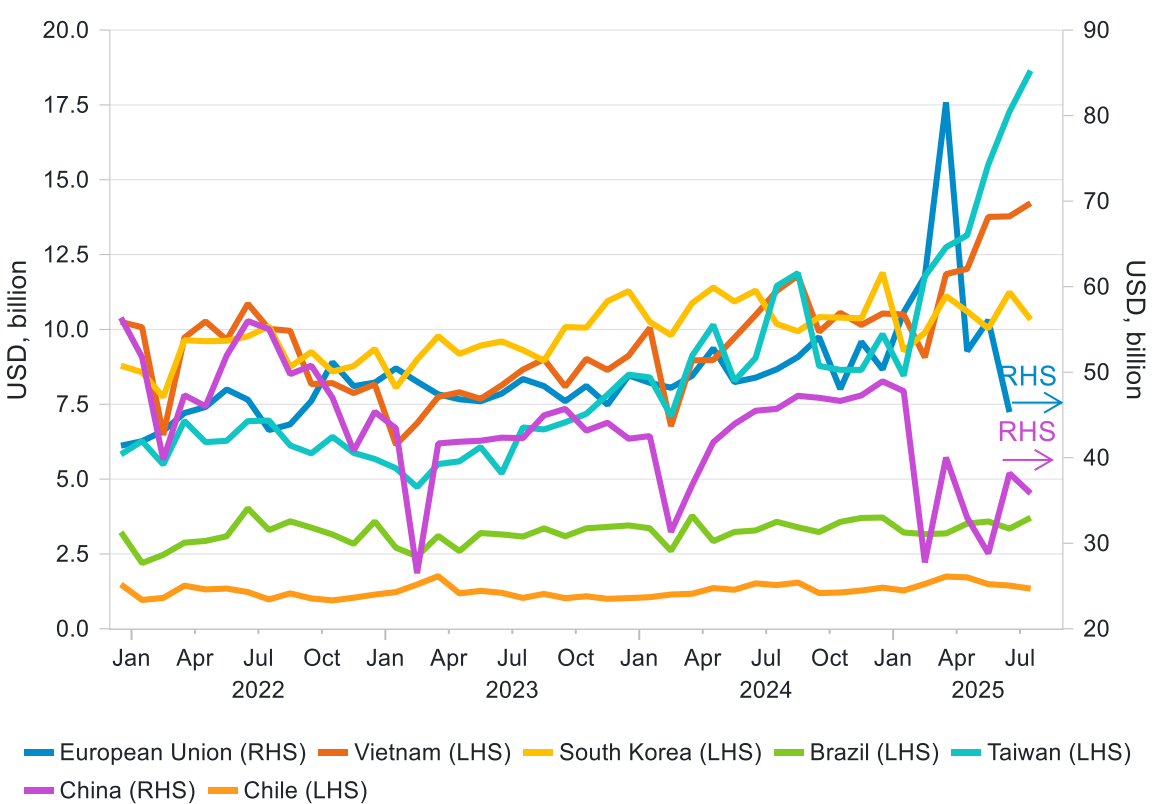
US imports are starting to slow and have fallen below 2024 levels

Exports from EU and China have fallen sharply as front-loading effects start reversing and are likely to weigh on overall trade and production activity

US total imports



Exports to the US



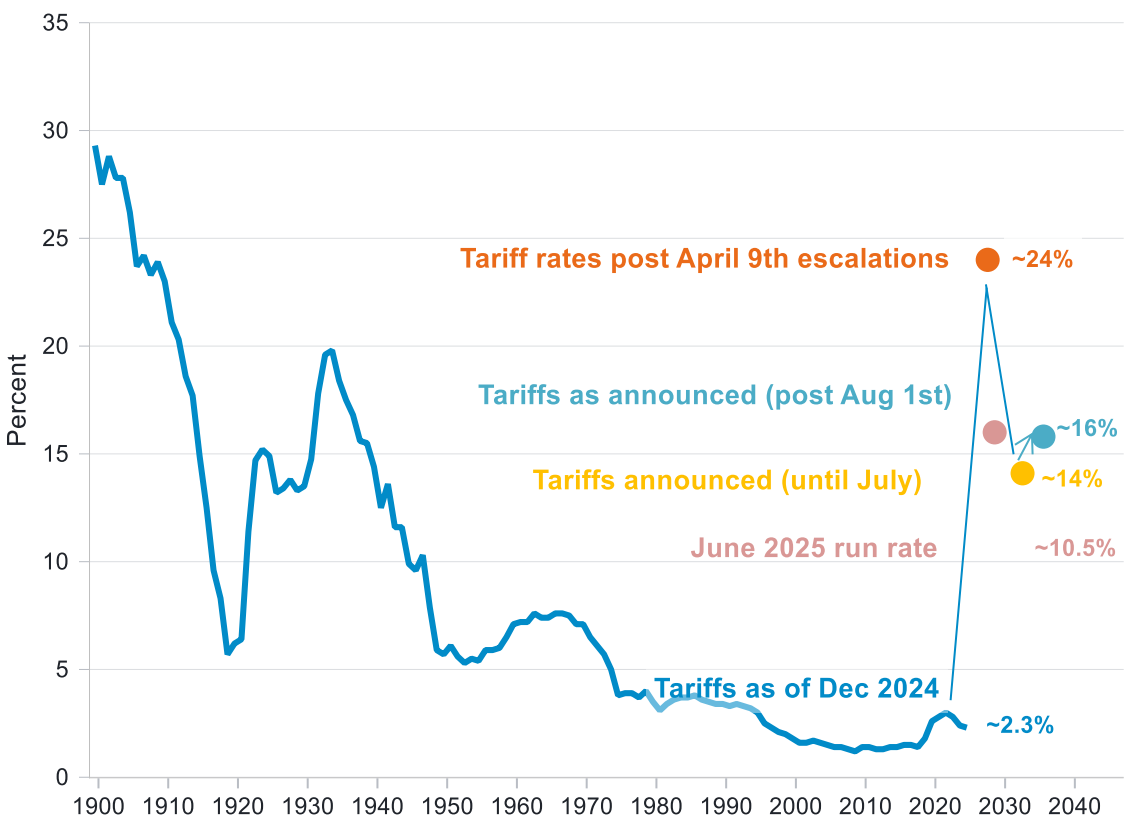
Source: Fidelity International, Macrobond, USCB, August 2025.

Source: Fidelity International, Macrobond, Bloomberg, Central Bank of Chile, General Department of Customs, Vietnamese General Statistics Office, KCS, MDIC, Taiwan Ministry of Finance, MOF, USCB, August 2025.

US tariff rates likely to increase to ~16% with risks further skewed to the upside

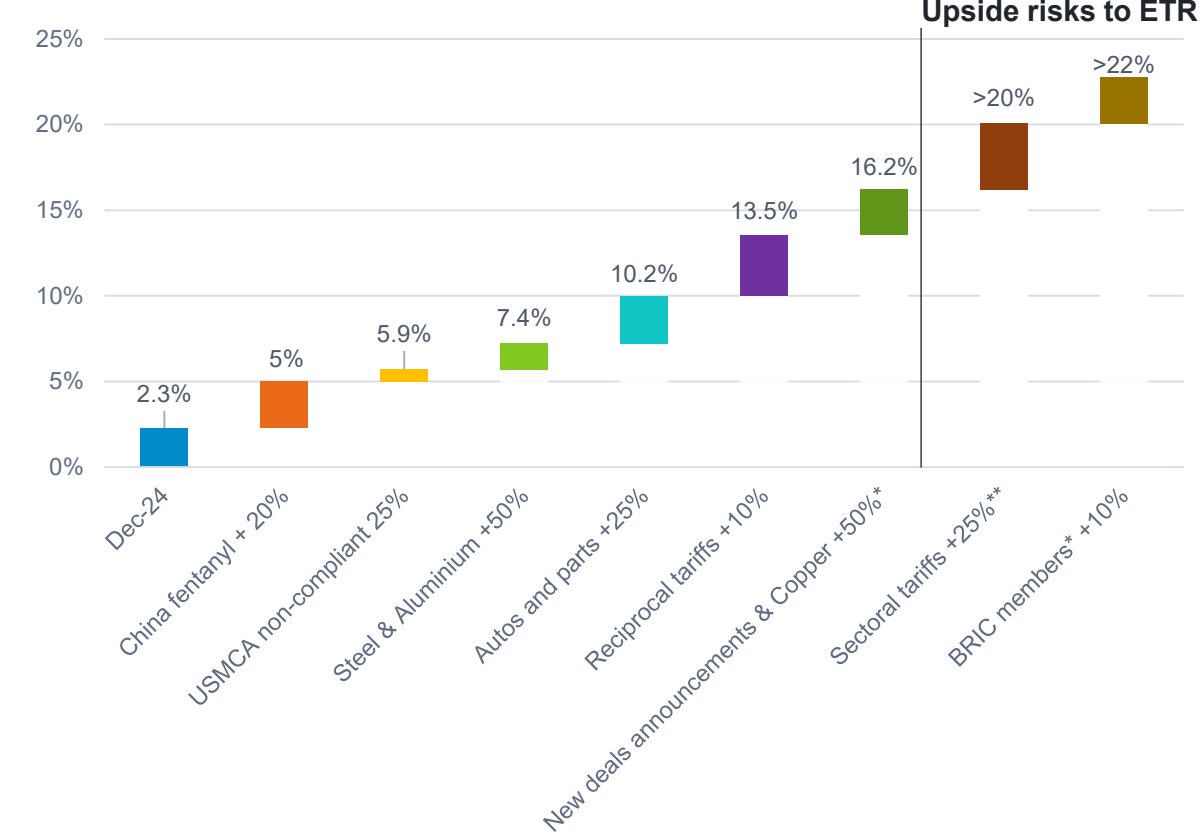
Sectoral tariffs and final deal with China are still pending which could increase effective tariff rates above 20%

US effective tariff rates



Source: Fidelity International, FIL Global Macro Team calculations, Macrobond, USITC, August 2025.

US effective tariff rates

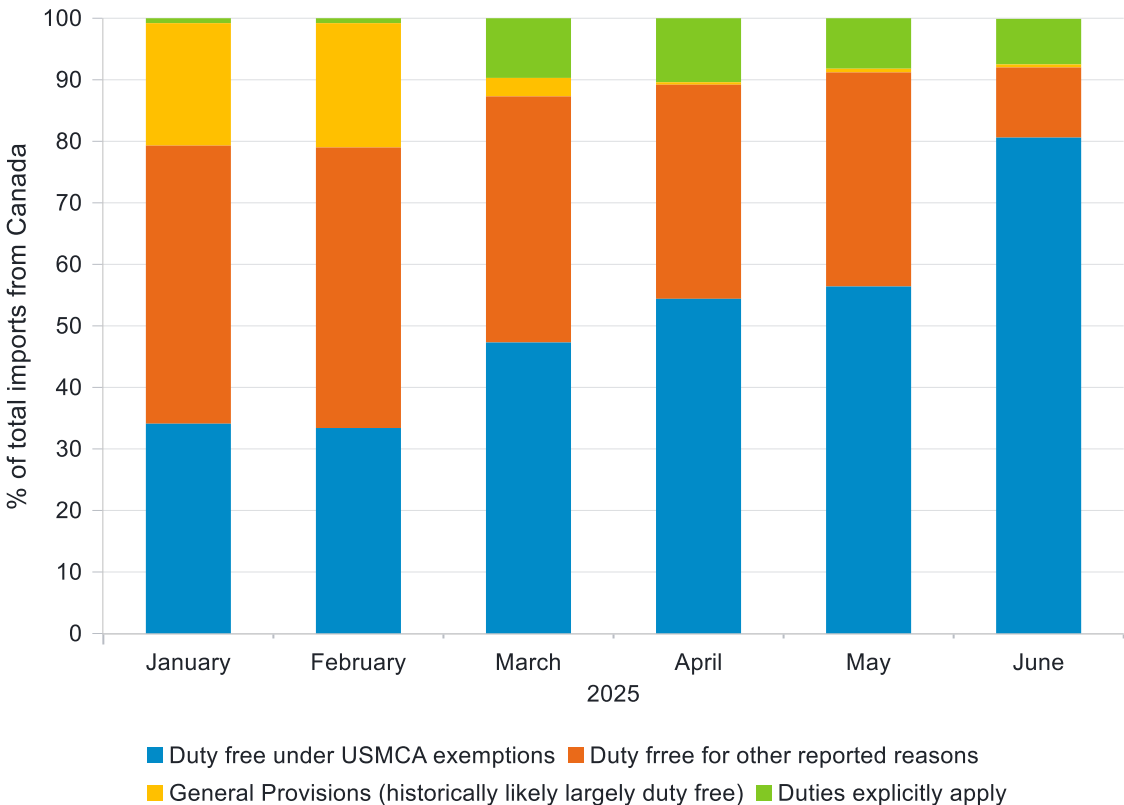


Note:*New deal announcements include 50% tariffs on India.** Sectoral tariff assumes 25% tariffs on pharmaceuticals, semiconductors/electronics, agriculture products. BRIC members include Brasil, Russia, India, China, South Africa, Egypt, United Arab Emirates, Ethiopia, Indonesia, and Iran. BRIC partners include Belarus, Bolivia, Cuba, Kazakhstan, Malaysia, Nigeria, Thailand, Uganda, Uzbekistan and Vietnam.
Source: Fidelity International, USIT, July 2025.

Underlying import shares have shifted quickly from within and across countries ...

...and are likely to keep observed tariff rates lower than the announced effective rates.

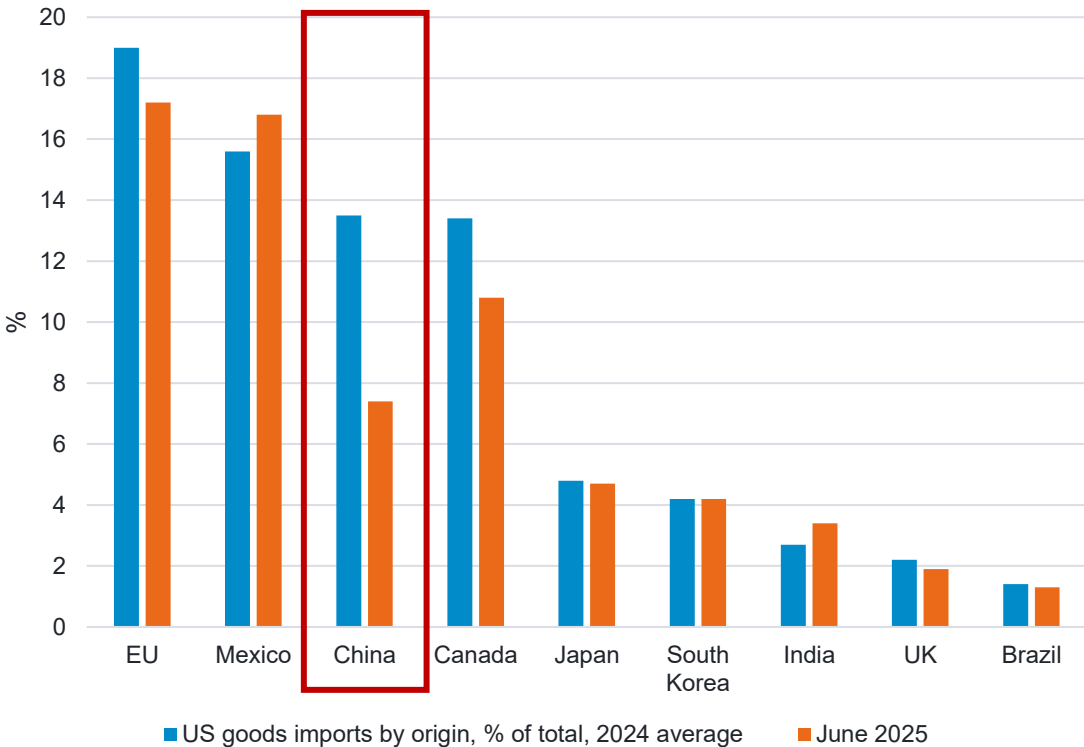
US imports from Canada by tariff provision



Source: Fidelity International, Macrobond, U.S. Census Bureau, August 2025.

Imports from China have collapsed recently

US import shares from countries 2024 vs June 2025

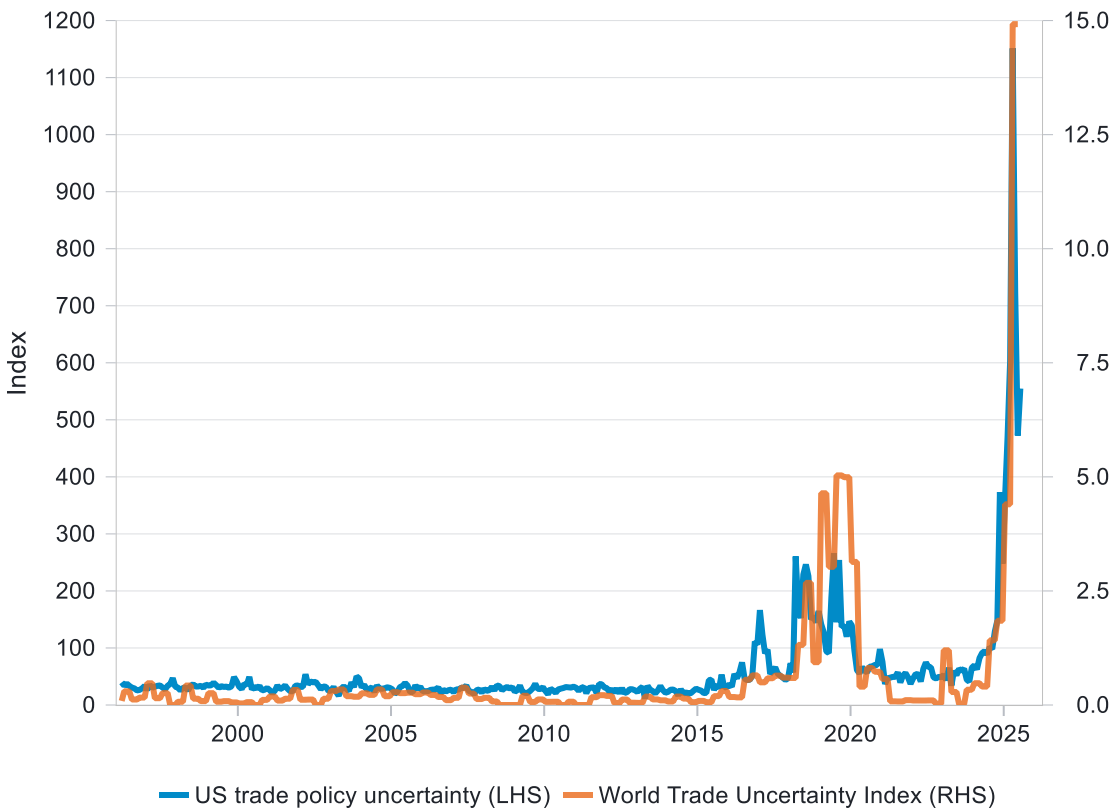


Source: Fidelity International, U.S. Census Bureau, August 2025.

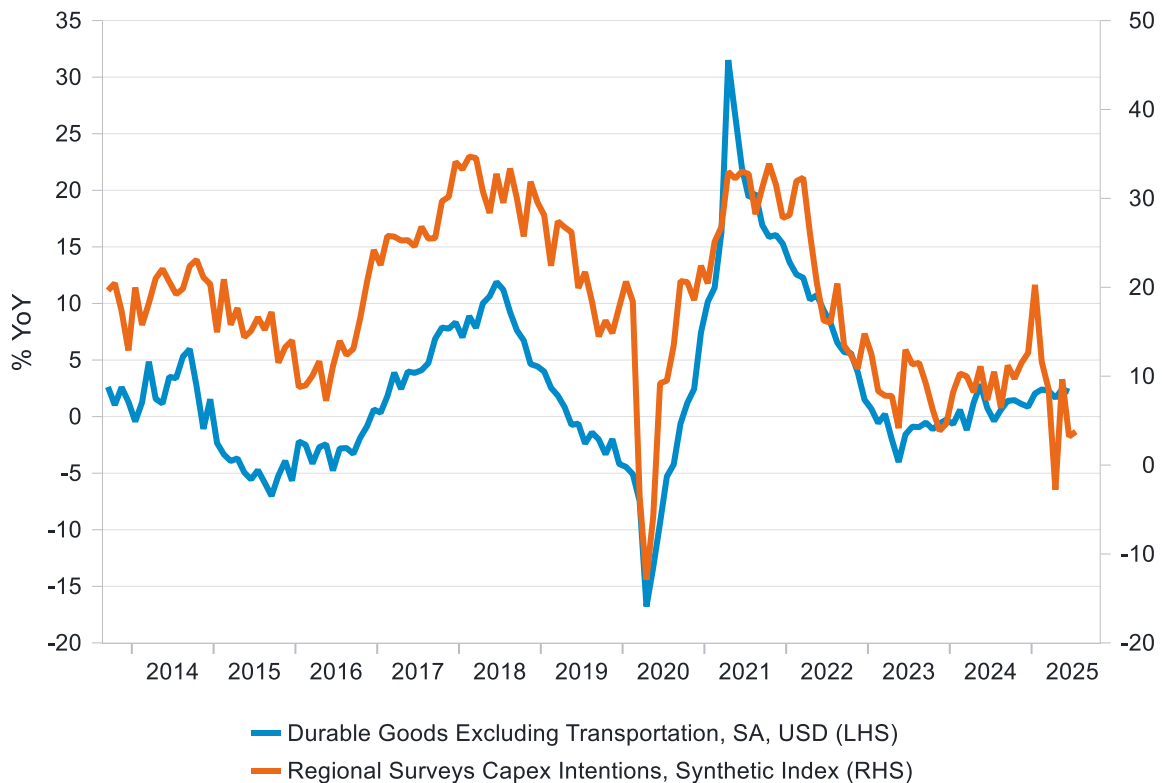
Trade uncertainty has eased from peak levels as most major trade deals announced

However, uncertainty remains elevated and capex decisions remain soft as a final deal with China and sectoral tariffs remain in play.

US and world trade uncertainty index



US Capex intentions 6 months ahead



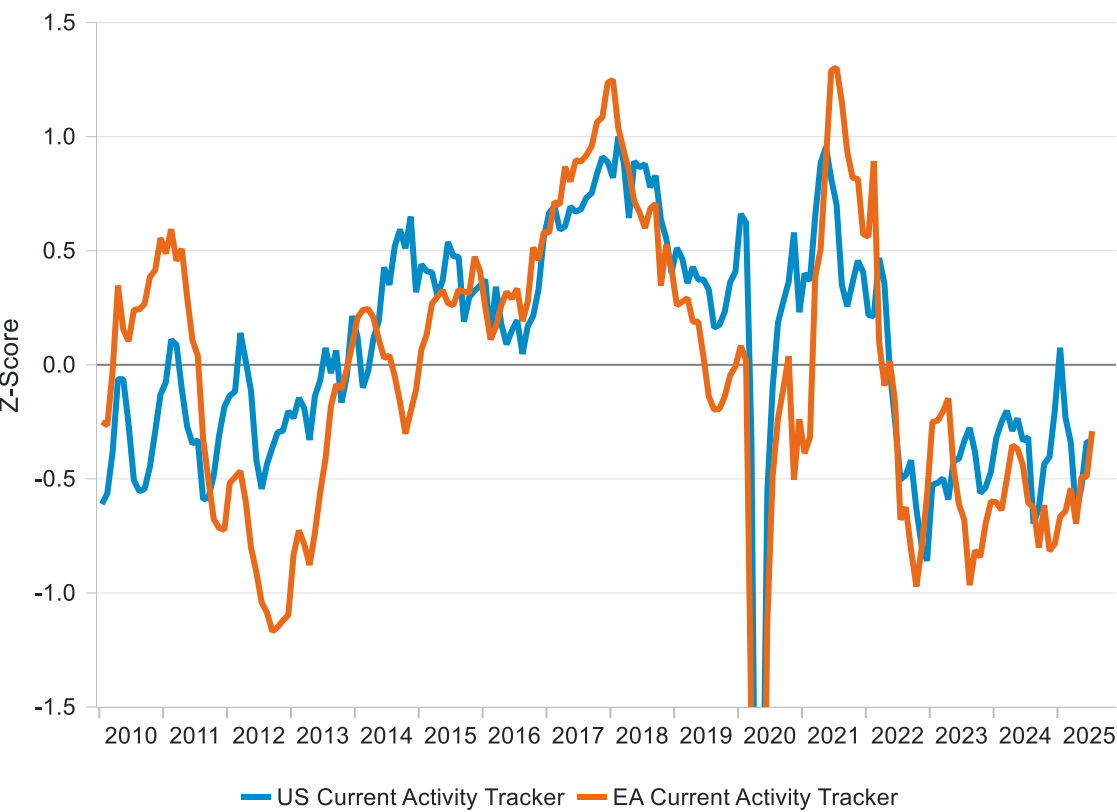
Source: Fidelity International, Macrobond, Matteo Iacoviello, Economic Policy Uncertainty, August 2025.

Source: Fidelity International, Macrobond, USCB, ISM, Dallas Fed, Kansas City Fed, New York Fed, Philadelphia Fed, Richmond Fed, August 2025.

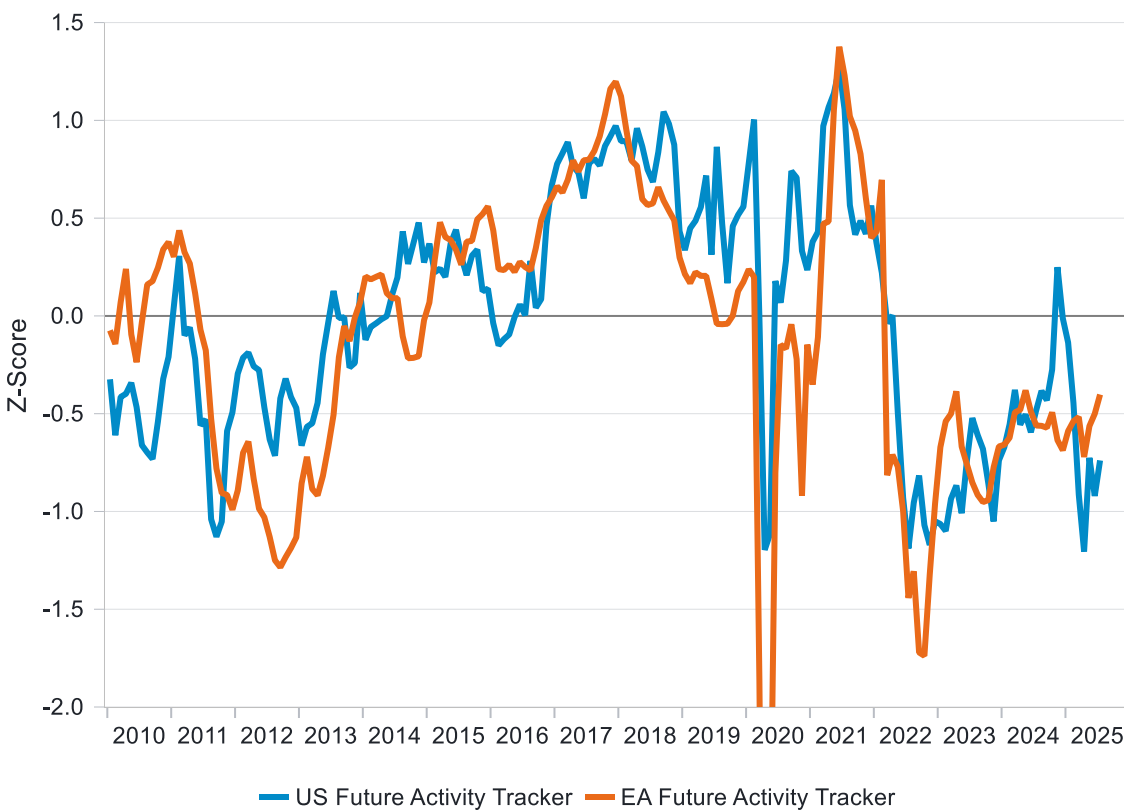
Our activity trackers have improved notably from their April lows...

...though sentiment remain weak compared historical trends

Current activity trackers: US and euro area



Future activity trackers: US and euro area



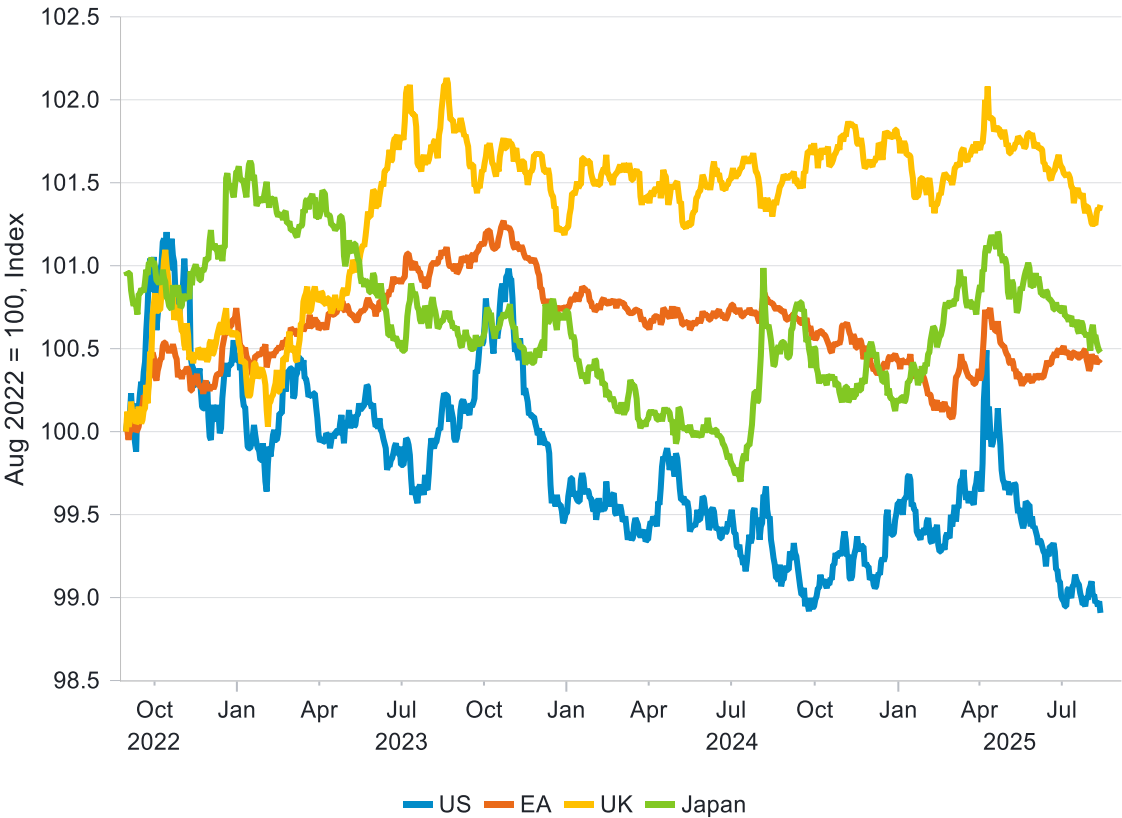
Source: Fidelity International, FIL Global Macro Team calculations, Macrobond, August 2025.

Source: Fidelity International, FIL Global Macro Team calculations, Macrobond, August 2025.

Financial conditions remain benign, particularly for the US...

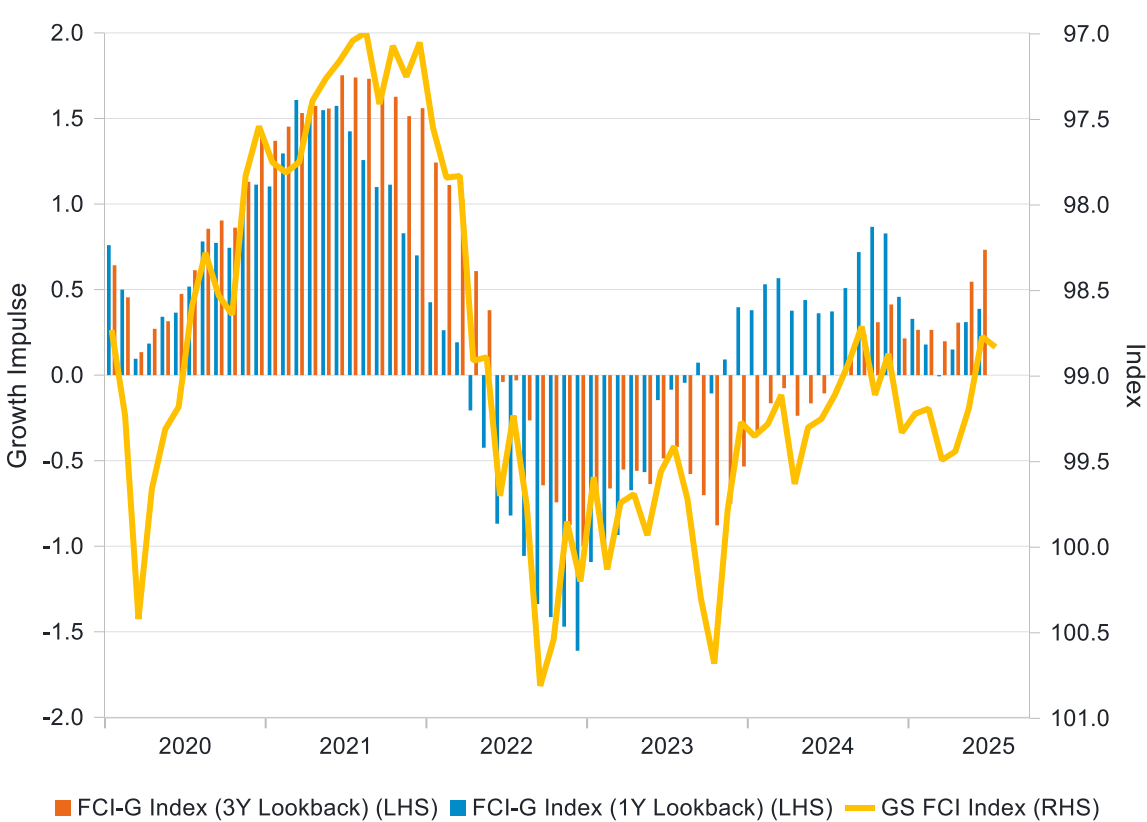
... as data remains resilient and tariff effects are yet to show up meaningfully

GS financial conditions indices (FCI)



Source: Fidelity International, Macrobond, Bloomberg, GS, August 2025.

Federal Reserve's financial conditions index

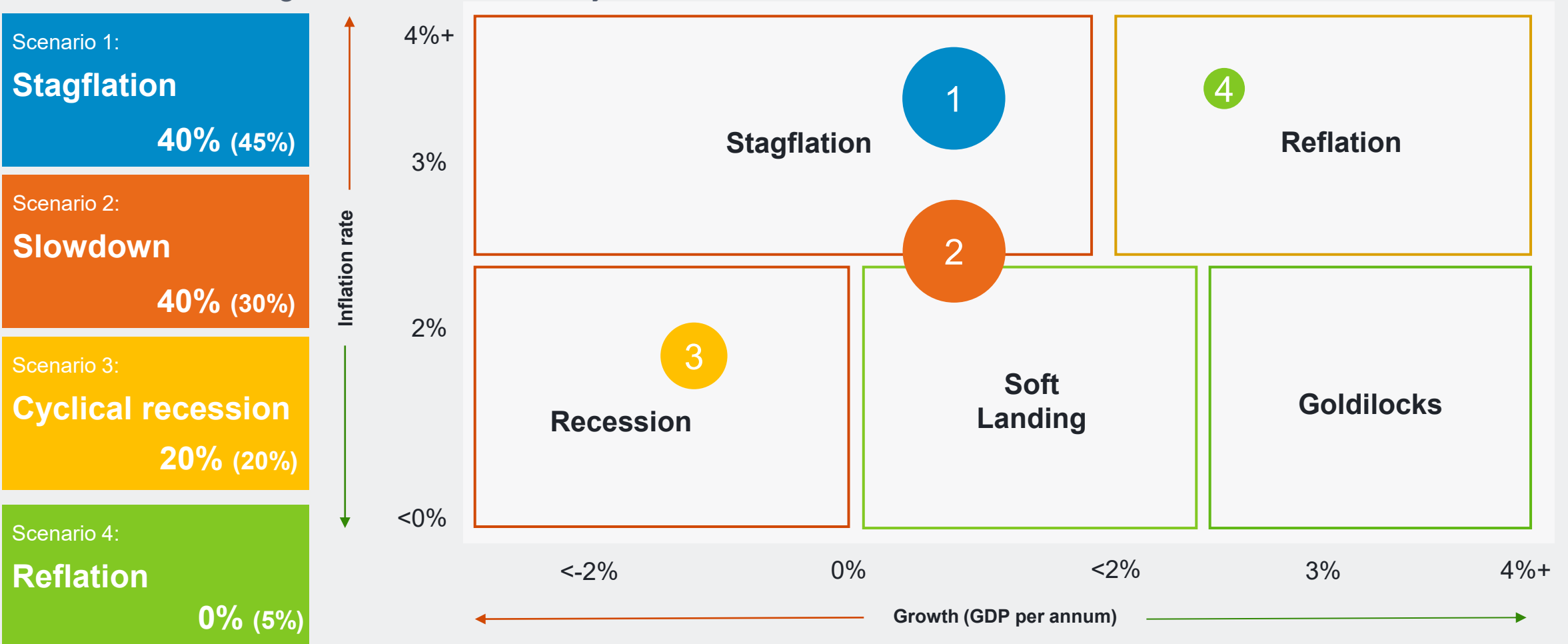


Source: Fidelity International, Macrobond, Bloomberg, Federal Reserve, August 2025.

US Macro Outlook

Scenarios for the US in 2025

We see slightly lower confidence in upside inflation risks for 2025 as they shift to 2026 and marginally raise our confidence in a US growth slowdown this year.

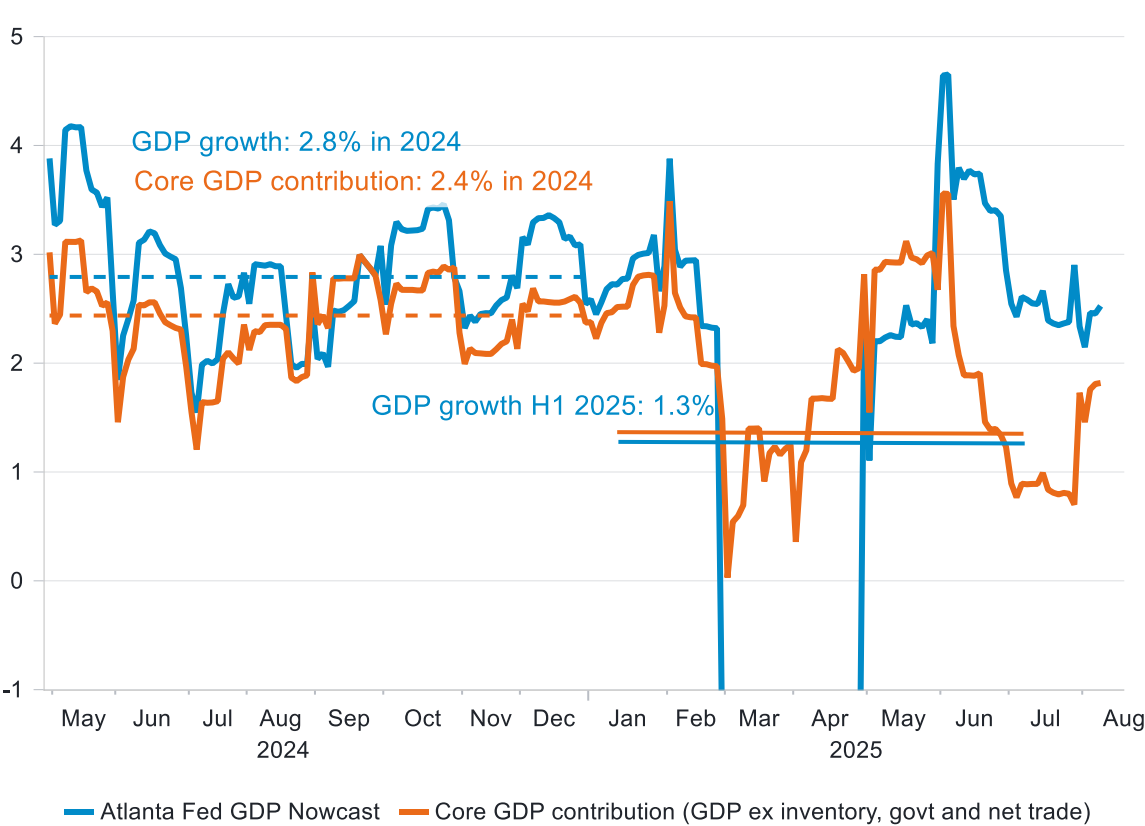


Note: Brackets reflect previous probabilities. Inflation rate measured by US Core Personal Consumption Expenditures Price Index.
Source: Fidelity International, August 2025.

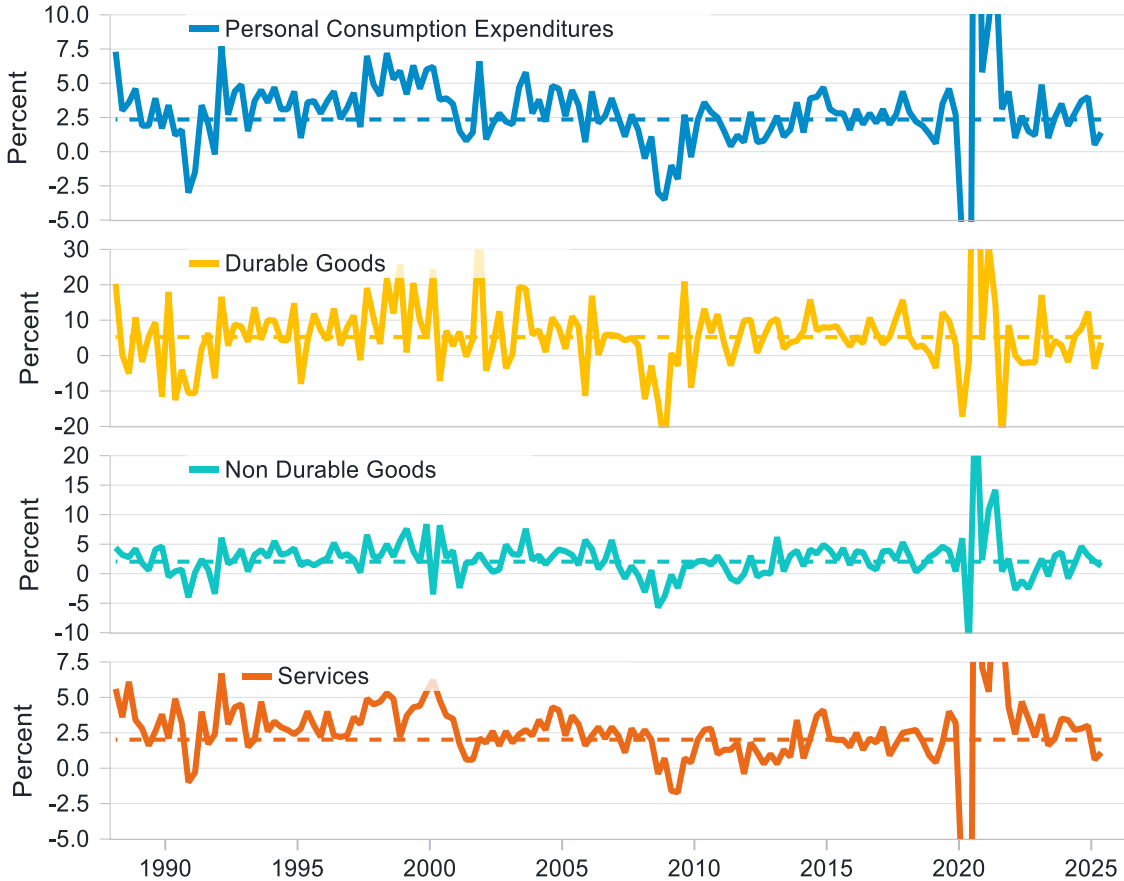
US GDP growth in H1 2025 has moderated to half of last year's pace...

...with a notable slowdown in consumer spending and we expect this to moderate further in H2 2025

US GDP tracking (%QoQ, Saar)



US Real Personal Consumption - components (%QoQ, SAAR)



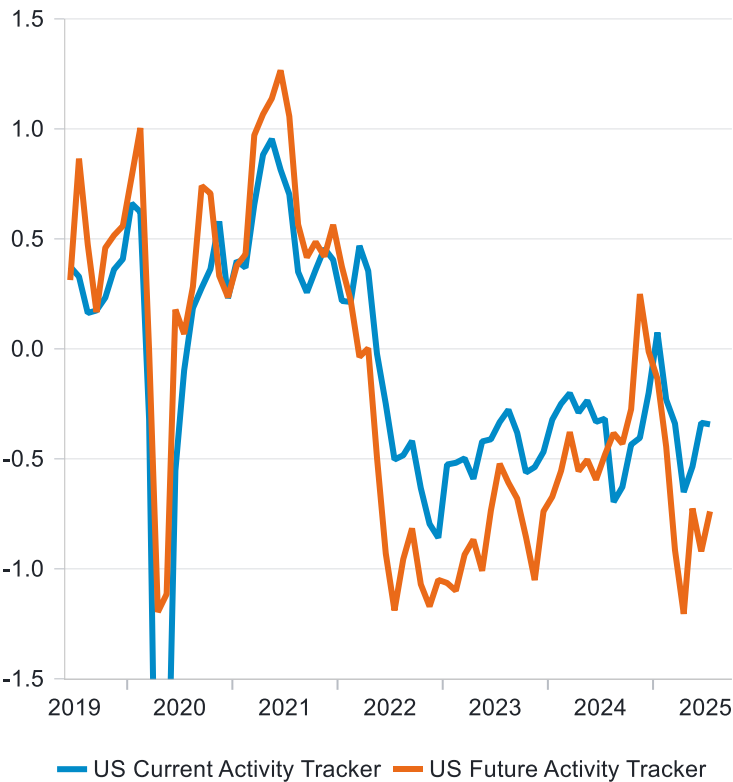
Source: Fidelity International, Macrobond, Federal Reserve Bank of Atlanta, August 2025.

Note: dotted lines indicate pre-Covid trend growth (average of 2000-2019)
Source: Fidelity International, Macrobond, Macrobond, U.S. Bureau of Economic Analysis (BEA), August 2025.

US activity trackers show sentiment remains contained at weaker levels...

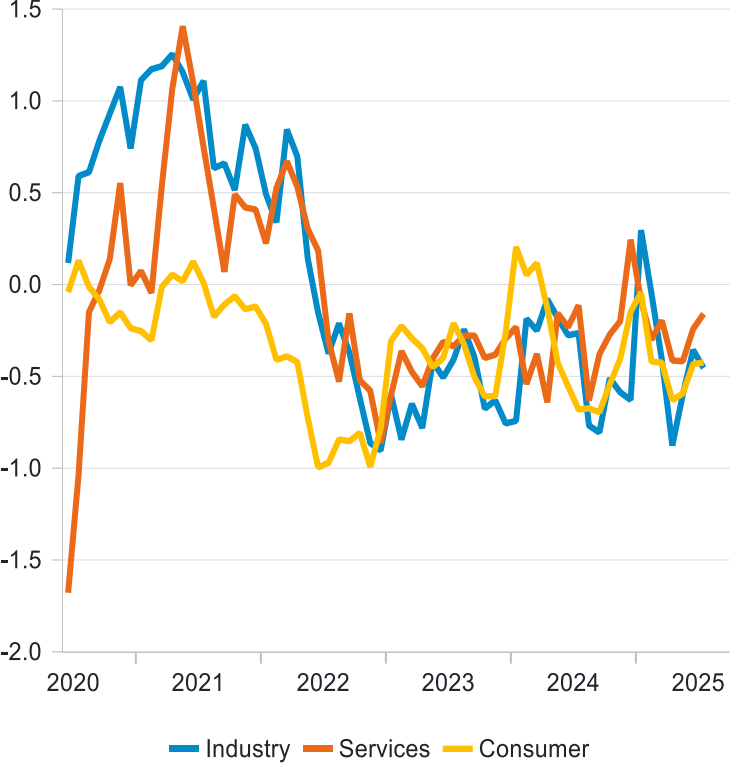
...although they have improved notably from liberation day lows

US: CAT and FAT



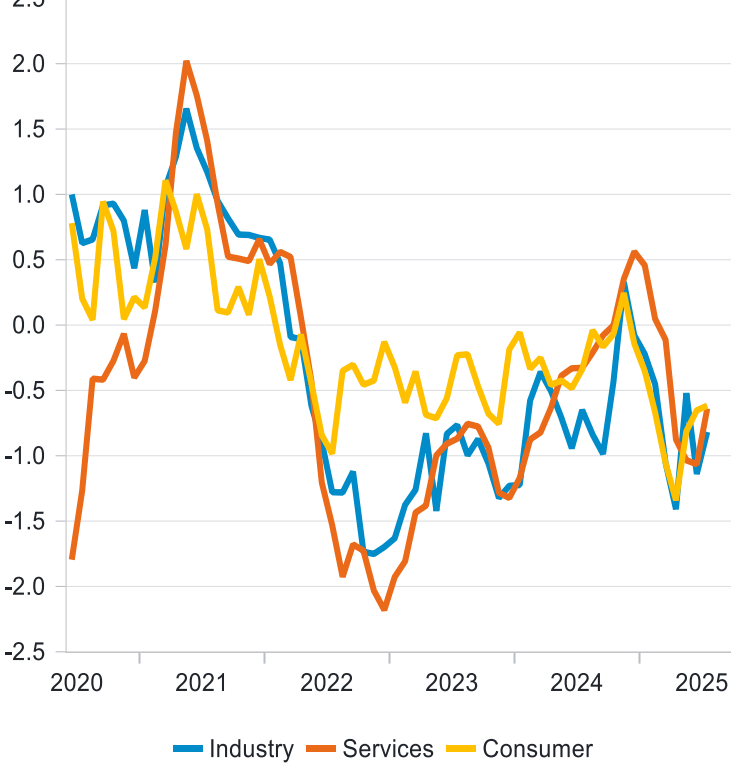
Source: Fidelity International, FIL Global Macro Team calculations, Macrobond, August 2025.

US Current Activity Trackers



Source: Fidelity International, FIL Global Macro Team calculations, Macrobond, August 2025.

US Future Activity Trackers

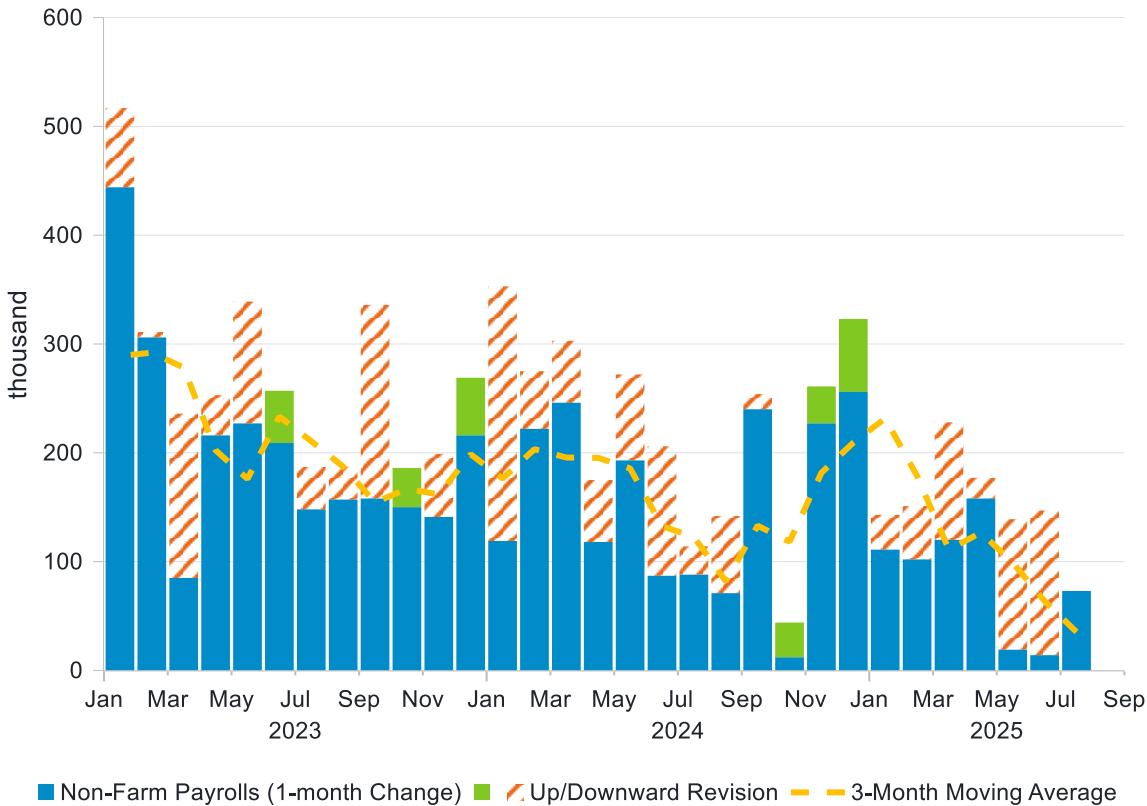


Source: Fidelity International, FIL Global Macro Team calculations, Macrobond, August 2025.

Initial payrolls have been overstated by ~53K each month on average since 2023...

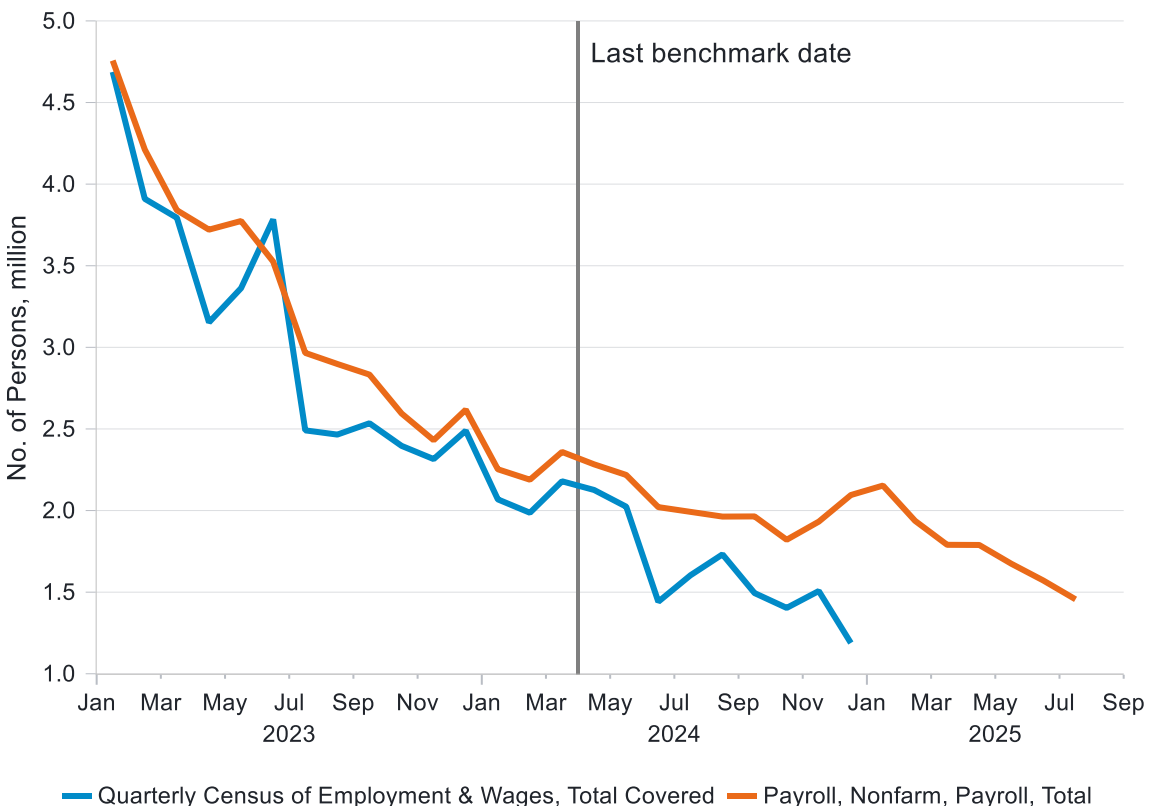
...and it appears more downward revisions are likely to come ahead based on QCEW data

US Non-farm payrolls



Source: Fidelity International, Macrobond, BLS, August 2025.

US employment, payrolls vs QCEW (12M change, NSA)

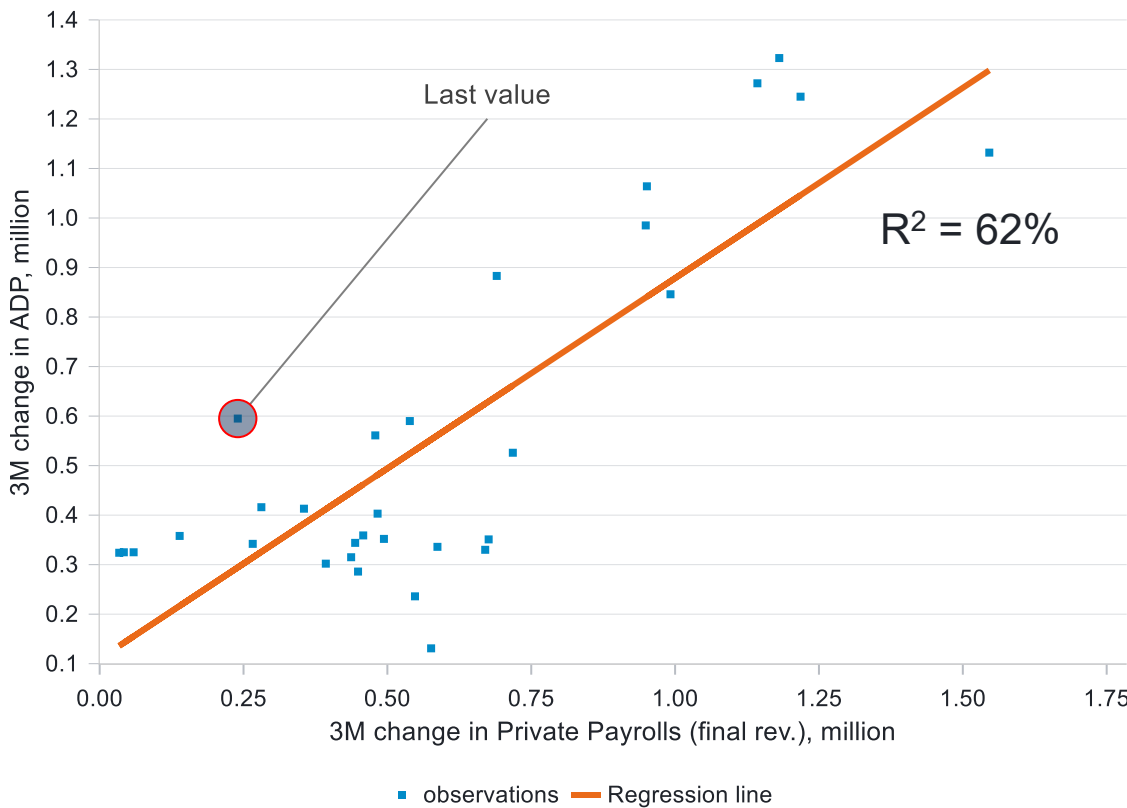


Source: Fidelity International, Macrobond, BLS, U.S. Bureau of Labor Statistics (BLS), August 2025

ADP and other private estimates look more accurate...

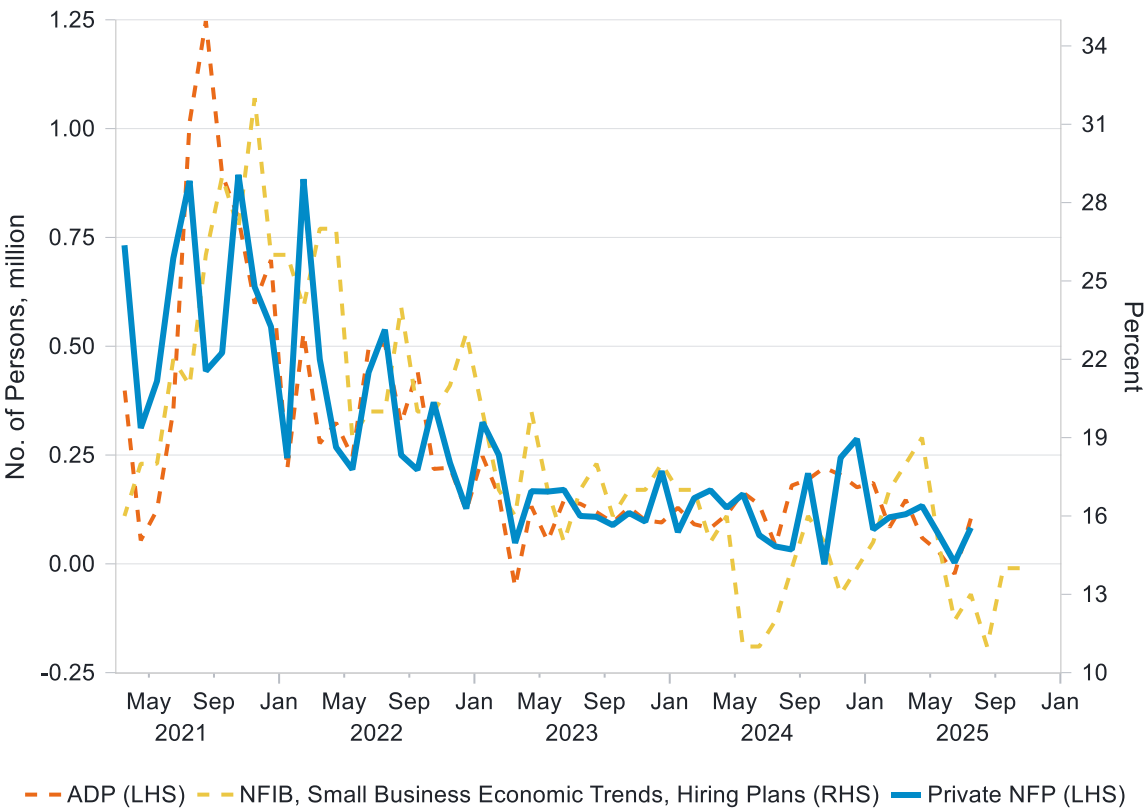
...once we consider revisions; lead indicators suggest there is more downside in coming months

ADP vs Private Payrolls (final revision)



Source: Fidelity International, Macrobond, BLS, ADP, August 2025.

US Private Payrolls, ADP and NFIB

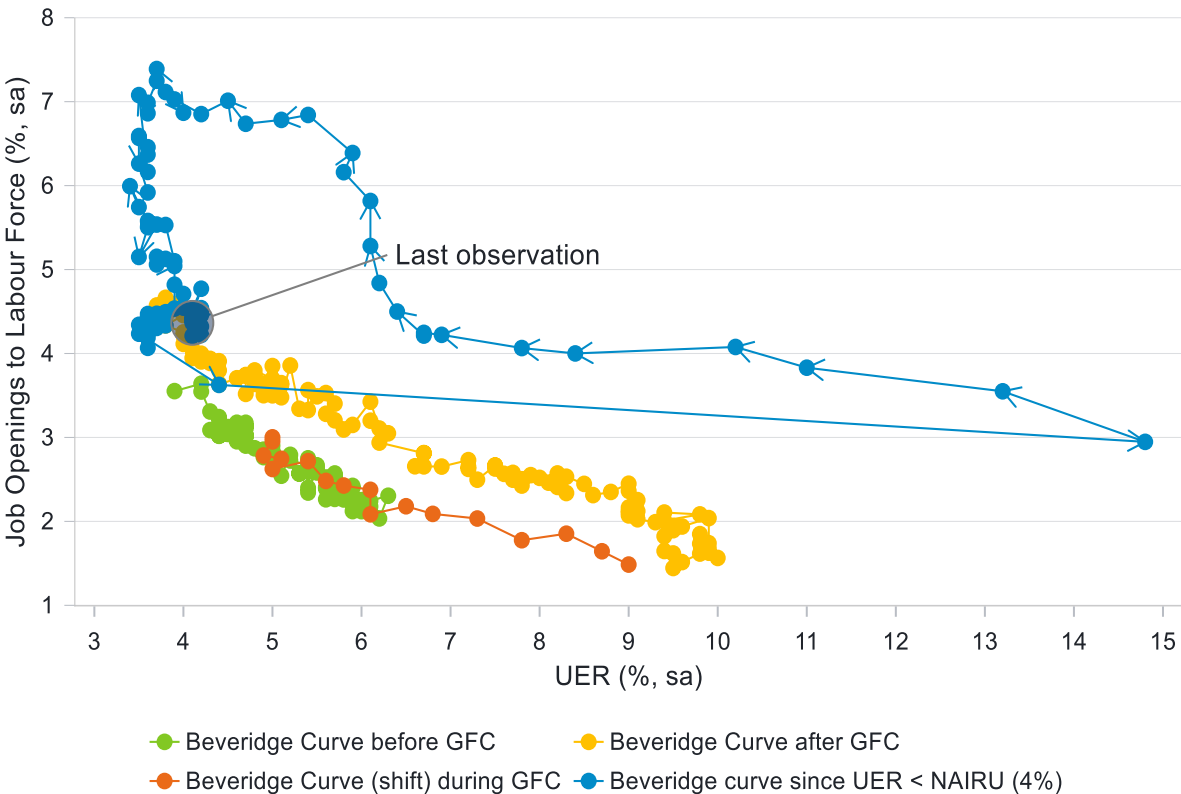


Source: Fidelity International, Macrobond, NFIB, BLS, ADP, August 2025.

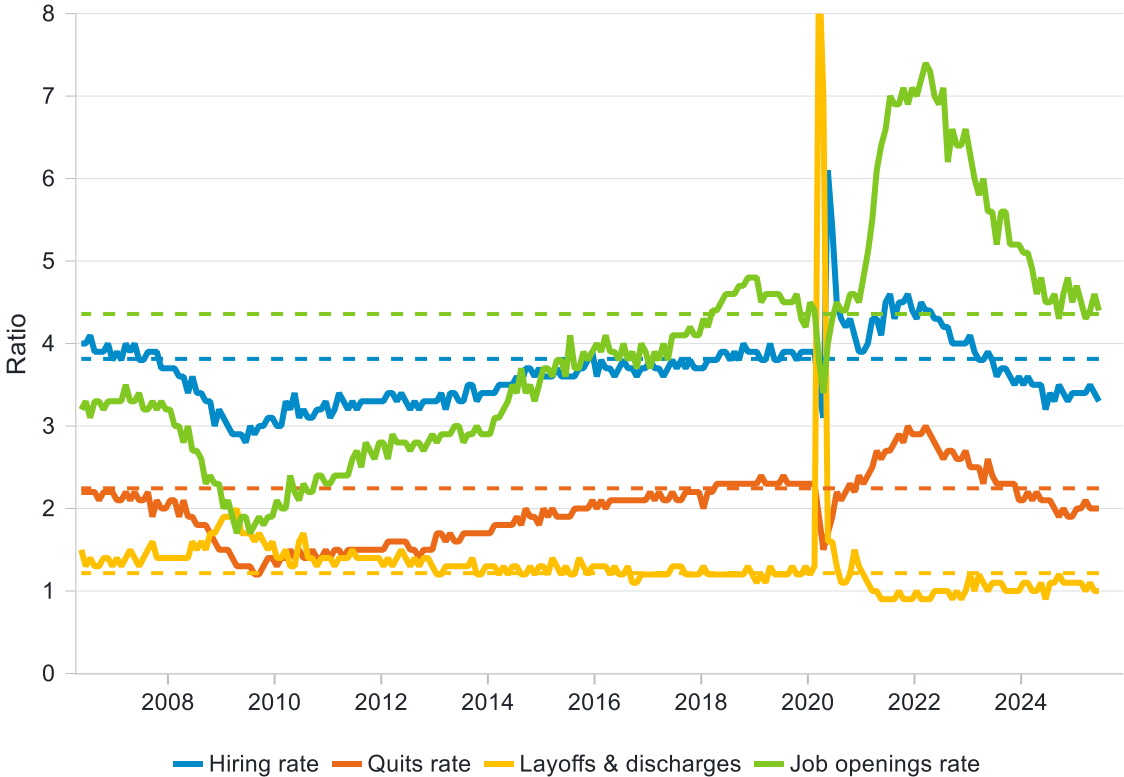
There has been limited churn in the labour market with low hiring and firing...

...for nearly a year now. However, we remain close to the inflection point with downside risks elevated

US Beveridge curve



JOLTS data show sideways movement since past few months



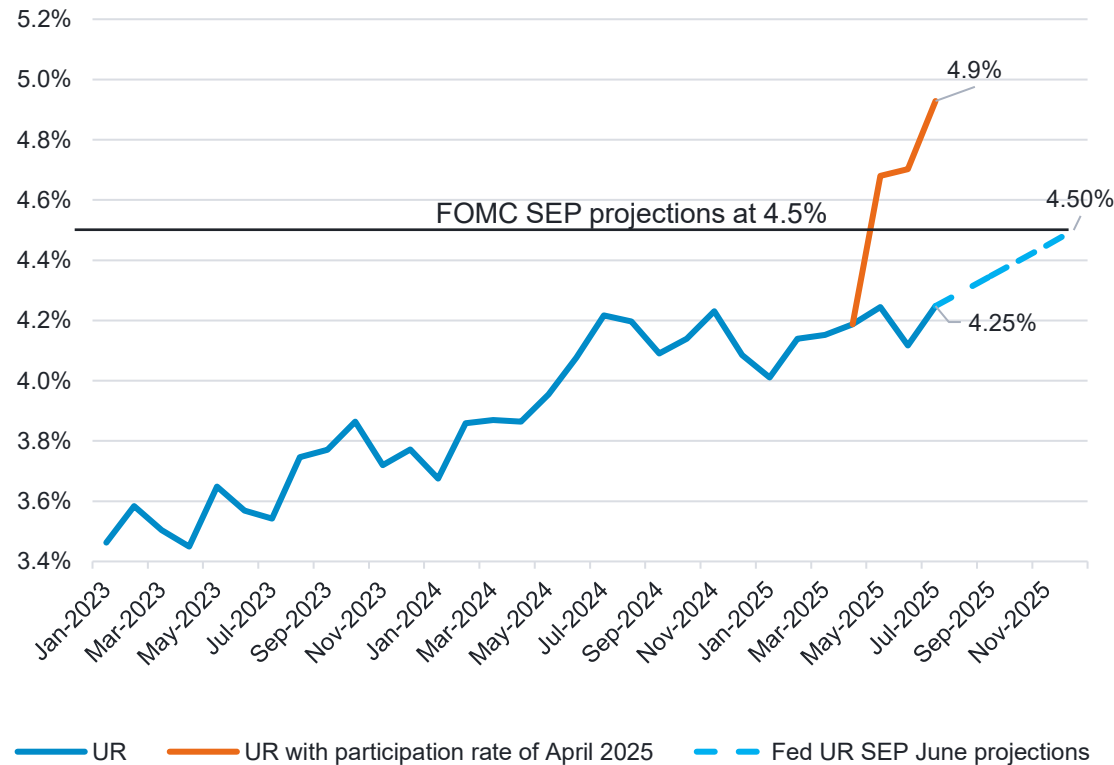
Source: Fidelity International, Macrobond, BLS, August 2025.

Note: dotted lines are pre-COVID averages between 2017-2019
Source: Fidelity International, Macrobond, U.S. Bureau of Labor Statistics (BLS), August 2025.

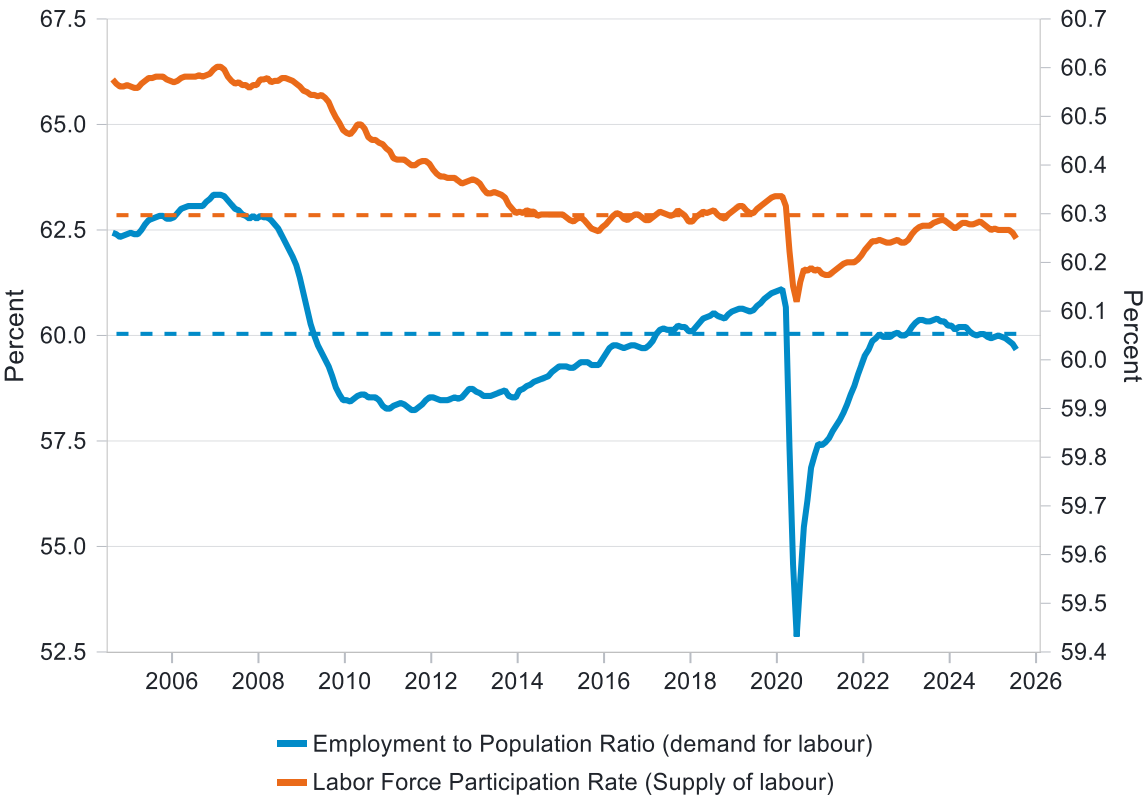
UR is key which remains low and is still 30bps below FOMC June SEP

Both demand and supply side effects have fallen simultaneously

US Unemployment rate



Employment to population and labour force participation rate



Source: Fidelity International, BLS, August 2025.

Note: Dotted lines are pre-covid averages (2015-19)
Source: Fidelity International, Macrobond, BLS, August 2025.

Wages/earnings along with average work week have remained strong in recent months

This line chart compares two inflation indicators from January 2021 to September 2025. The Y-axis represents the percentage change annualised (%3M annualised), ranging from 1 to 7. The X-axis shows time in months, with labels for Jan, May, and Sep for each year from 2021 to 2025.

- Average Hourly Earnings (Blue line):** Shows high volatility, starting at approximately 5.5% in Jan 2021, peaking at nearly 7% in May 2021, and ending at approximately 4.0% in Sep 2025.
- Employment Cost Index - private Wages & Salaries (Orange line):** Shows a more step-like pattern, starting at approximately 3.5% in Jan 2021, peaking at approximately 6.2% in May 2021, and ending at approximately 4.2% in Sep 2025.

Both indicators show a general downward trend over the period, with a notable dip in late 2023 and a recovery in early 2024.

The chart displays the average weekly hours worked in the U.S. from 2016 to 2025. The solid blue line represents the average weekly hours worked, and the dashed blue line represents the 3-month average. The Y-axis is labeled 'Hours' and ranges from 34.1 to 35.0. The X-axis shows years from 2016 to 2025. The data shows a significant peak in 2021, followed by a decline and then a recovery in 2024.

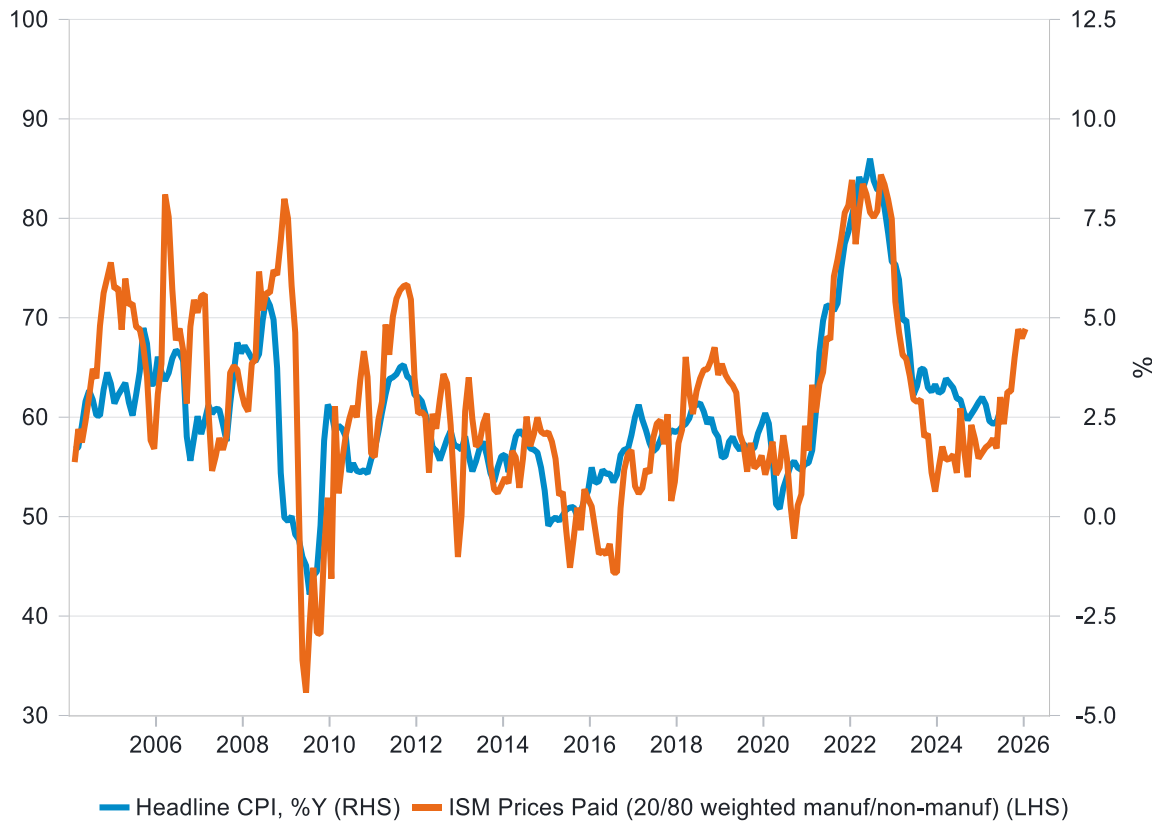
Year	Average weekly hours worked (Solid Line)	3 month average (Dashed Line)
2016	34.40	34.40
2017	34.40	34.40
2018	34.40	34.40
2019	34.40	34.40
2020	34.10	34.30
2021	34.95	34.85
2022	34.40	34.40
2023	34.40	34.40
2024	34.30	34.30
2025	34.30	34.30



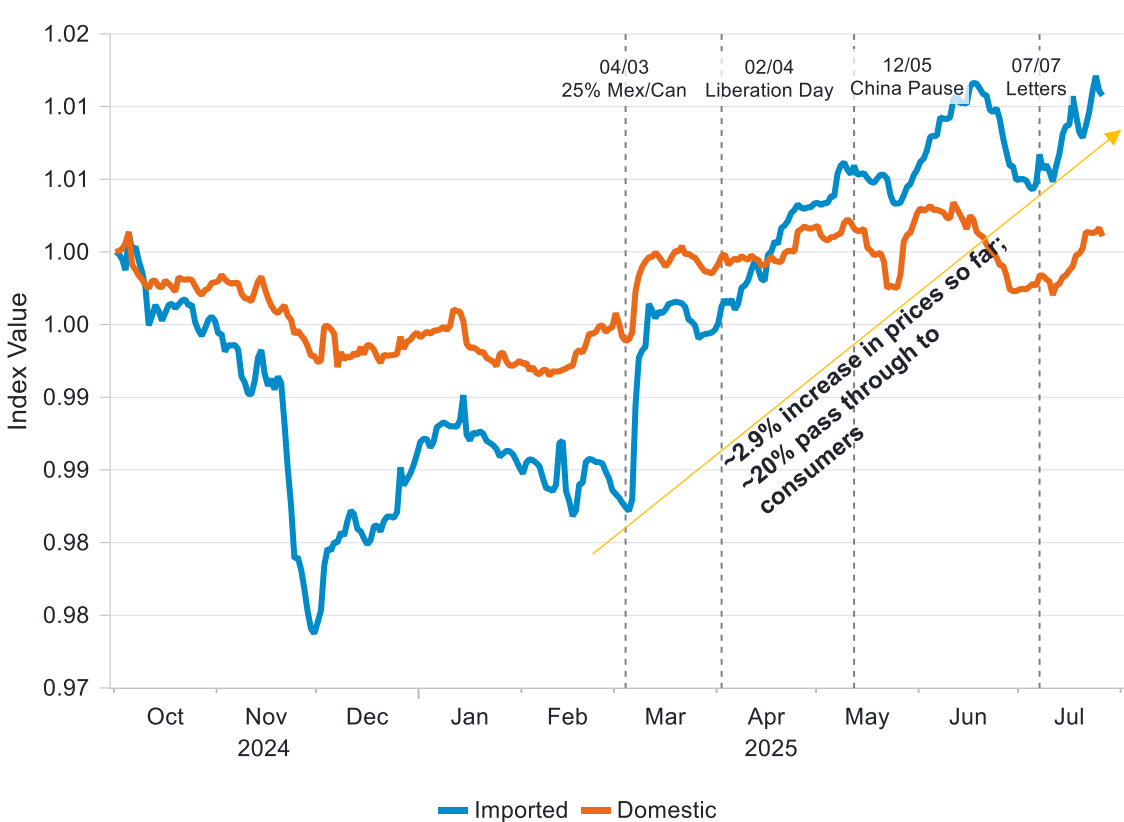
Businesses are reporting elevated price pressures and appear to be...

...absorbing the tariff pain, while pass through to consumers has been limited so far.

CPI and ISM price paid



Tracking short run effects of tariffs on consumer prices



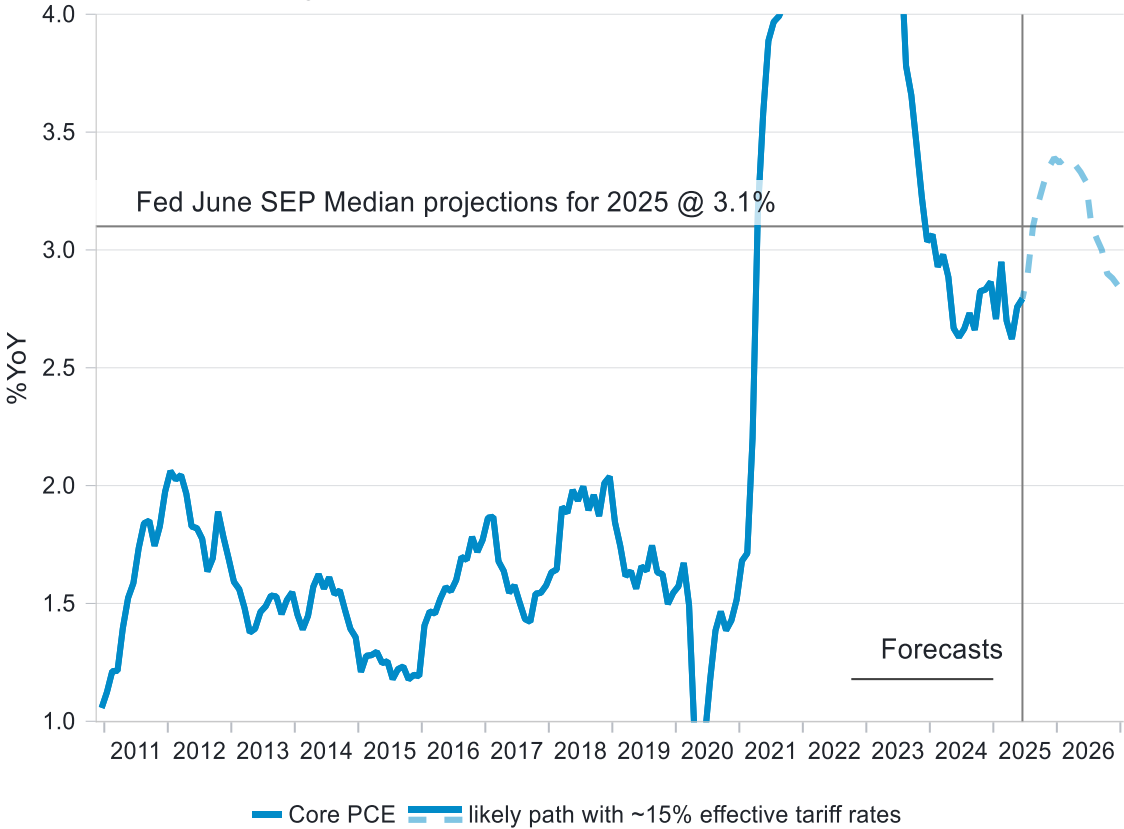
Source: Fidelity International, Macrobond, ISM, BLS, August 2025.

Source: Fidelity International, Macrobond, Cavallo, Llamas & Vazquez (2025), PriceStats - State Street, August 2025.

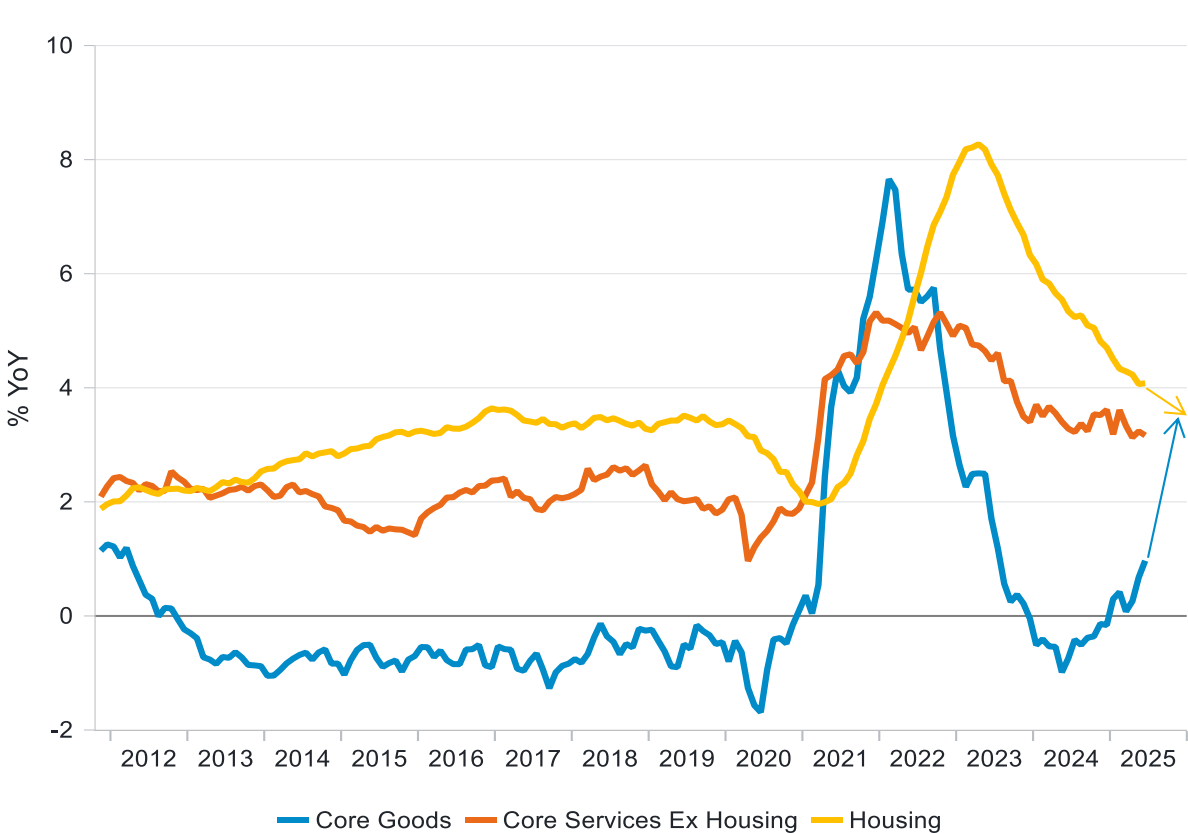
We continue to expect inflation to surprise to the upside this year...

...however, the split between goods and services will be crucial for the Fed call

US Core PCE projections (%YoY)



US Core PCE – components split



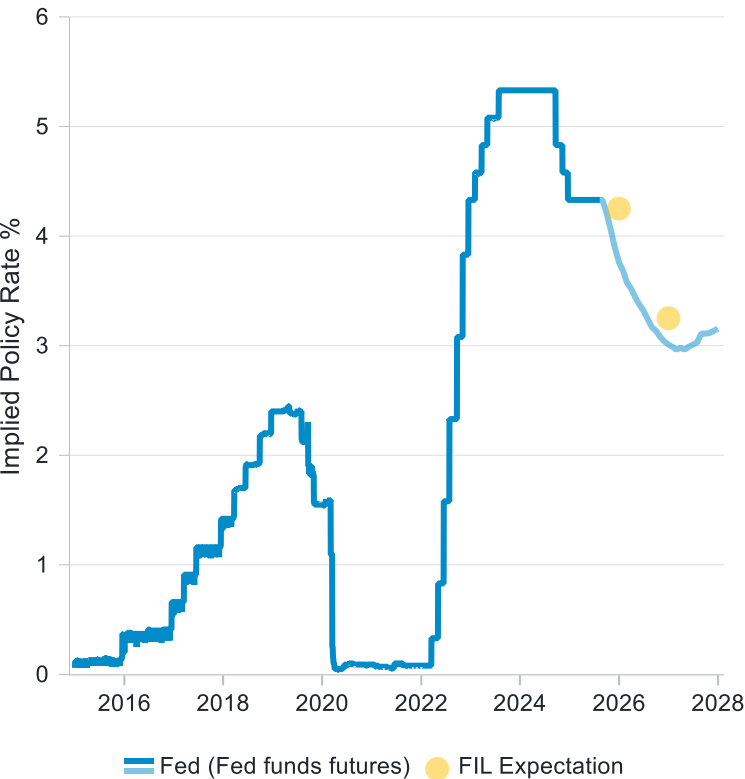
Source: Fidelity International, FIL Global Macro team calculations, Macrobond, Goldman Sachs GIR, BEA, August 2025.

Source: Fidelity International, Macrobond, BEA, U.S. Bureau of Economic Analysis (BEA), August 2025

Majority of FOMC still believes inflation risks outweigh labour market concerns

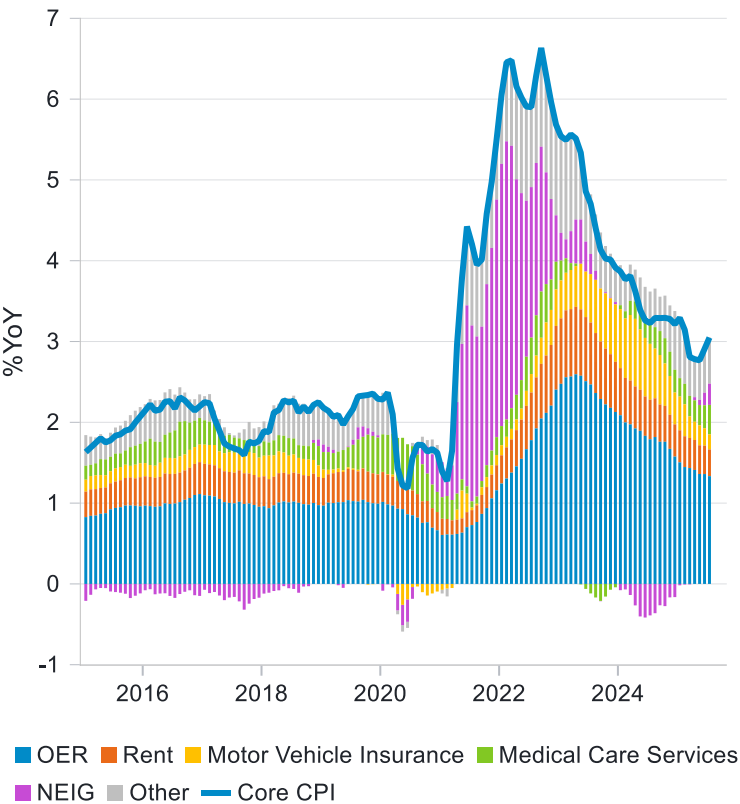
As long as the economy remain steady the Fed is likely to wait and assess implications from tariff uncertainty

Fed Market Pricing



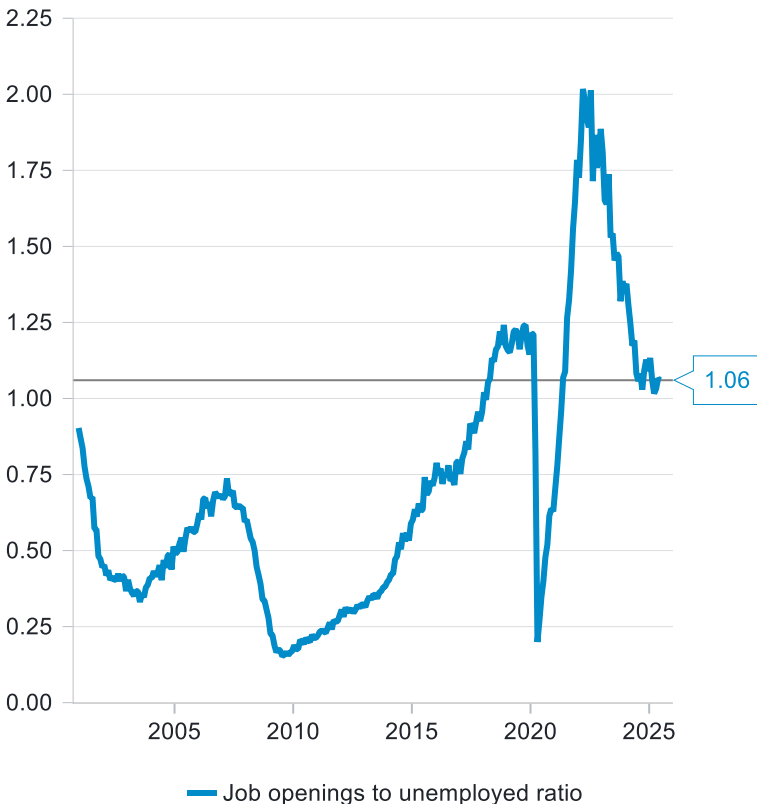
Source: Fidelity International, Macrobond, Federal Reserve, CME, August 2025.

Core CPI is back above the 3% handle...



Source: Fidelity International, Macrobond, BLS, August 2025.

...while labour market is still balanced






Source: Fidelity International, Macrobond, BLS, August 2025.

FOMC getting divided into three camps

September cut is in play with data on inflation and labour market to determine the final decision



Voter in both years / Voter in 2025 Only / Voter in 2026 Only / Non-voter in both years

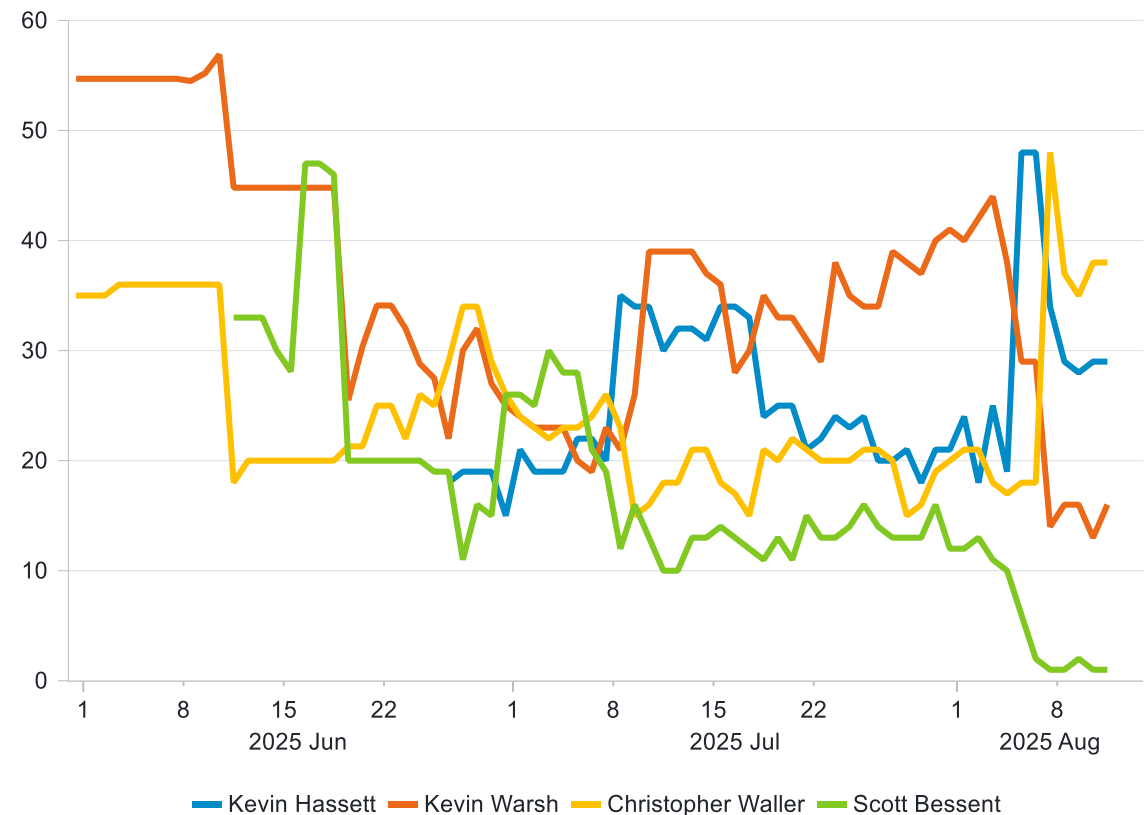
Resurrected Cutters	Labour market Doves	Hawks/institutionalists
<div></div> <div><u>Advocating for cuts as much to get the attention from the President:</u></div> <div><ul style="list-style-type: none">▪ Waller▪ Bowman▪ Stephen Miran (?)</div>	<div></div> <div><u>Putting more weight on the weakening labour market fundamentals:</u></div> <div><ul style="list-style-type: none">▪ Cook▪ Jefferson (?)▪ Barr (?)▪ Paulson (?)▪ Kashkari▪ Daly</div>	<div></div> <div><u>Adhering strictly to the dual mandate, and inclined to keep rates elevated for longer:</u></div> <div><ul style="list-style-type: none">▪ Powell▪ Williams▪ Collins▪ Schmid▪ Musalem▪ Goolsbee▪ Hammack▪ Logan (?)▪ Bostic▪ Barkin</div>

Note “?” next to the name indicates we have not heard their comments post the July FOMC and payrolls report. For Stephen Miran the “?” is reflective of whether he gets confirmed on the Fed seat before the September FOMC
Source: Fidelity International, Federal Reserve, August 2025.

Talks around new Fed chair and composition of Fed gain traction

However, there are risks that Powell stays beyond his chair term likely affecting administration planning

Polymarket bets for who will be the next Fed chair



Bios of key candidates

Christopher Waller, Fed Governor

A Fed governor and former academic, Waller has worked inside the Federal Reserve System for over a decade and is well respected there. His willingness to back a cut in July might appeal to Trump, but his support for a large cut ahead of the presidential election may be less fondly remembered.

Kevin Hassett, Chair of National Economic Council

Hassett has Fed and academic experience and has served in both Trump administrations. He is often seen on US television networks defending the administration's policies and is regarded as a close ally of the president – even though he supported a half-point cut ahead of the presidential election.

Kevin Warsh, Hoover Institution

A former Fed governor with Wall Street roots, Warsh missed out to Powell in 2017 and is seen as a favourite this time. His credibility is enhanced by his role at Stanford University's Hoover Institution but his hawkishness – he has criticized the expansion of the Fed's balance sheet – counts against him.

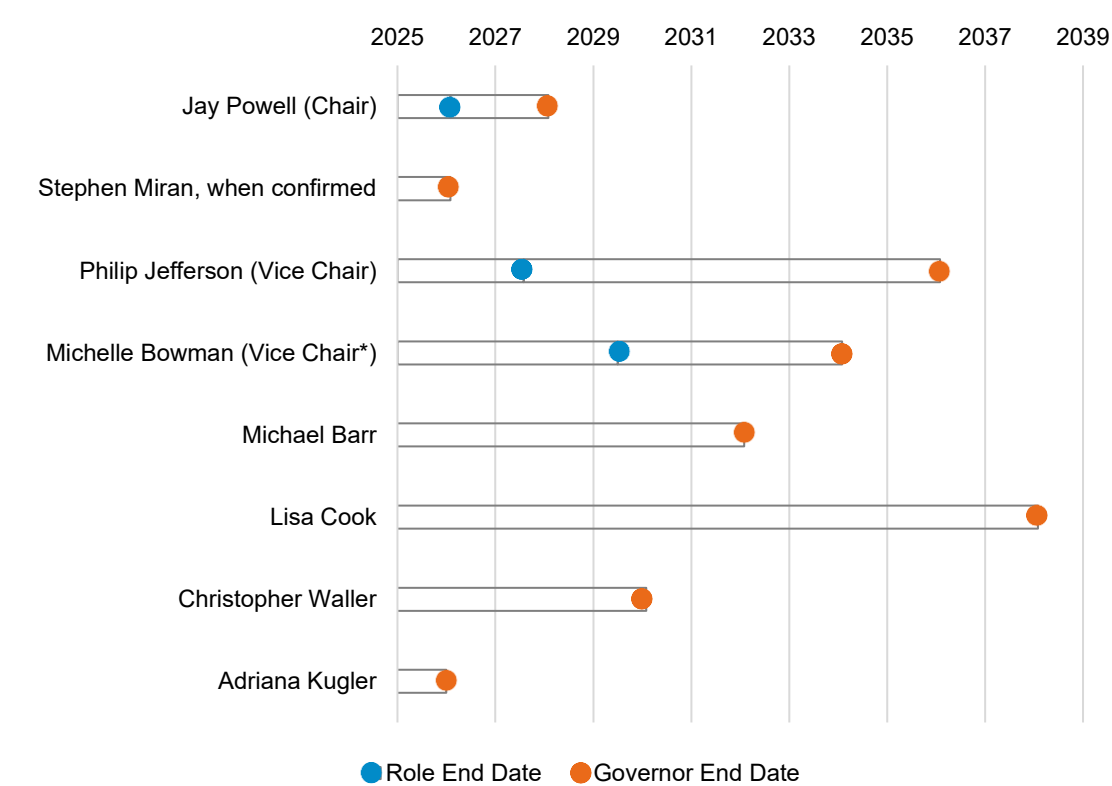
Source: Fidelity International, Bloomberg, Polymarket, August 2025.

Source: Fidelity International, FT research, August 2025.

Risk that Powell stays beyond his chair term likely affecting administration planning

If Powell does leave when his term expires, then others on the Board of Governors may follow

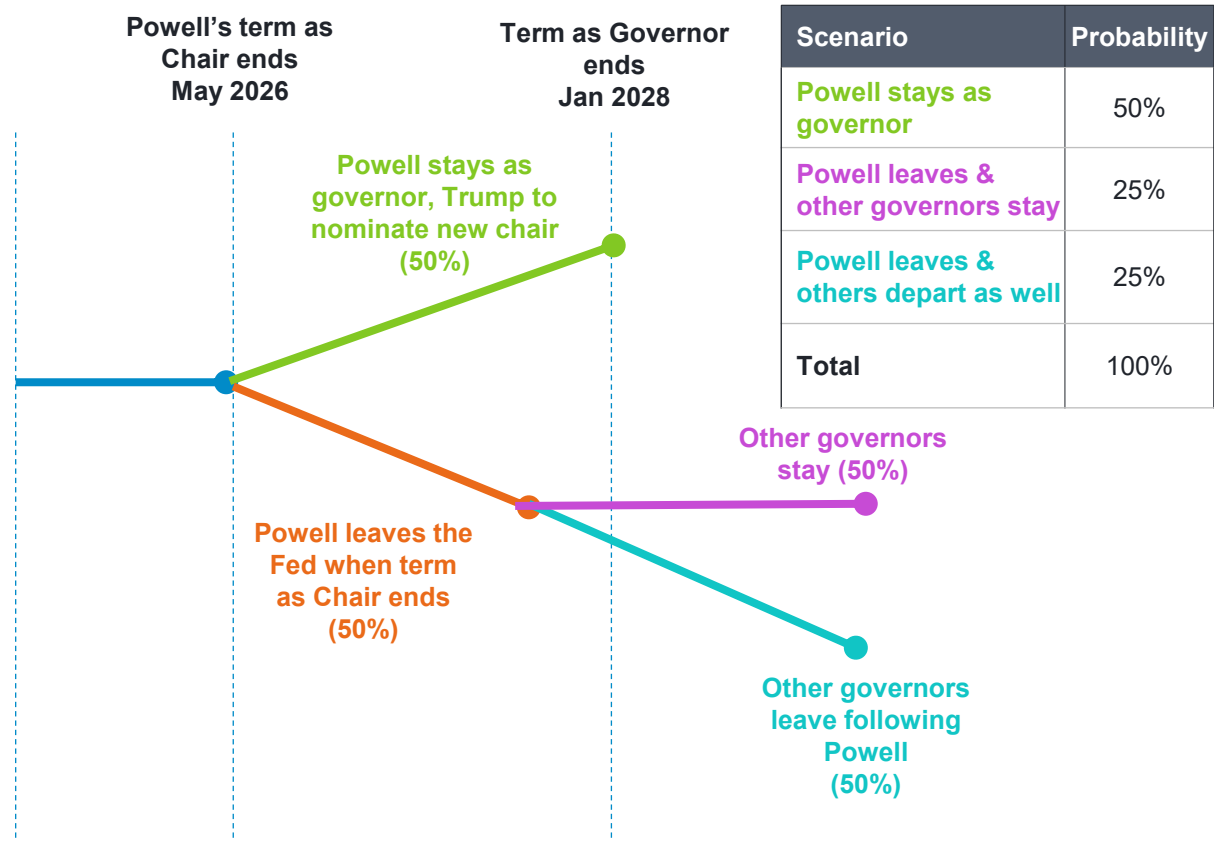
Only two Fed governors' seats will fall vacant before 2029



*for supervision

Source: Fidelity International, Federal Reserve, August 2025.

Board of Governors decision tree



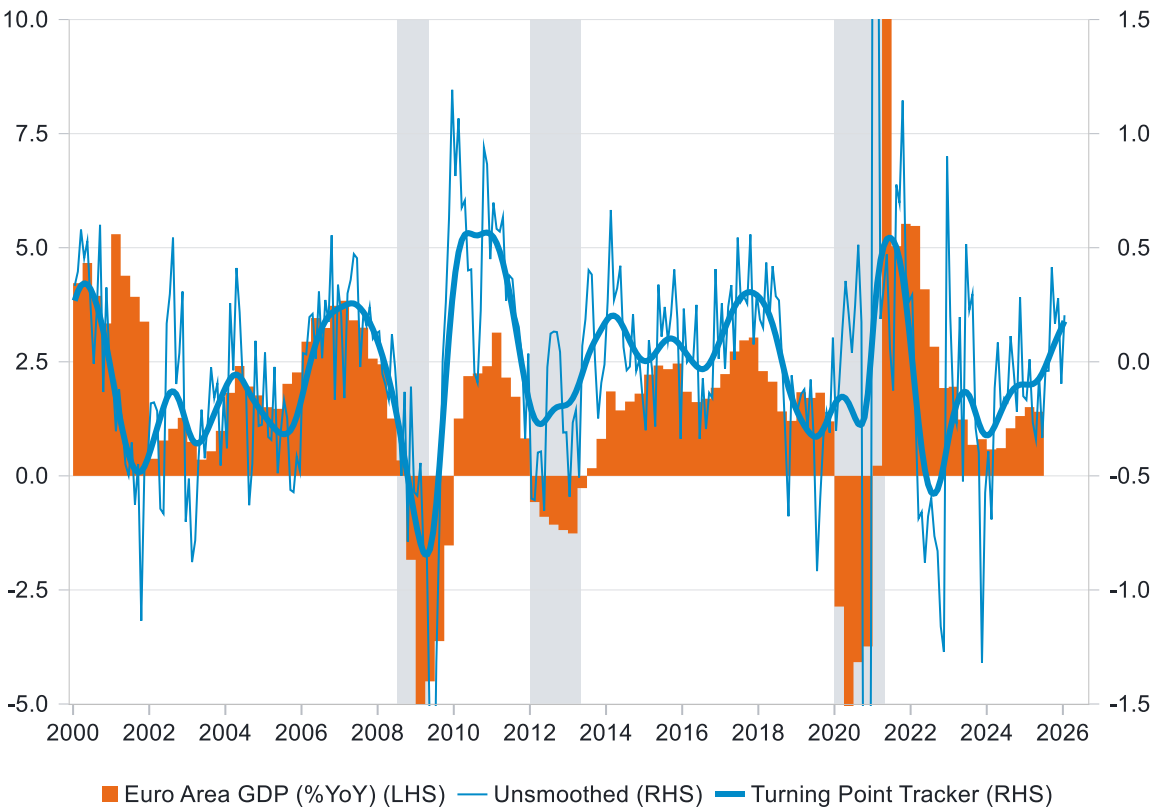
Source: Fidelity International, August 2025.

Europe Macro Outlook

EA: Growth in Q1 was robust led by front-loading, and is now reversing...

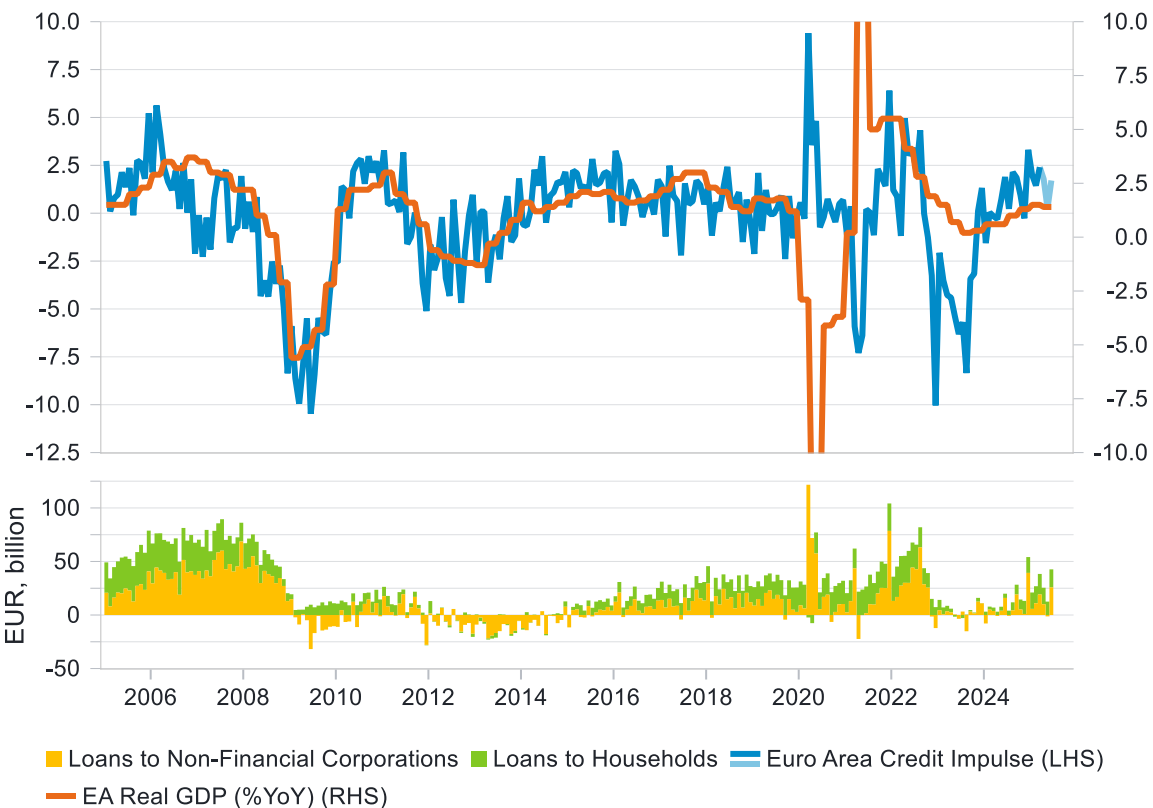
...but underlying growth remains at trend. Credit cycle remains supported, and activity is showing resilience

Turning Point Tracker showing signs of improvement ..



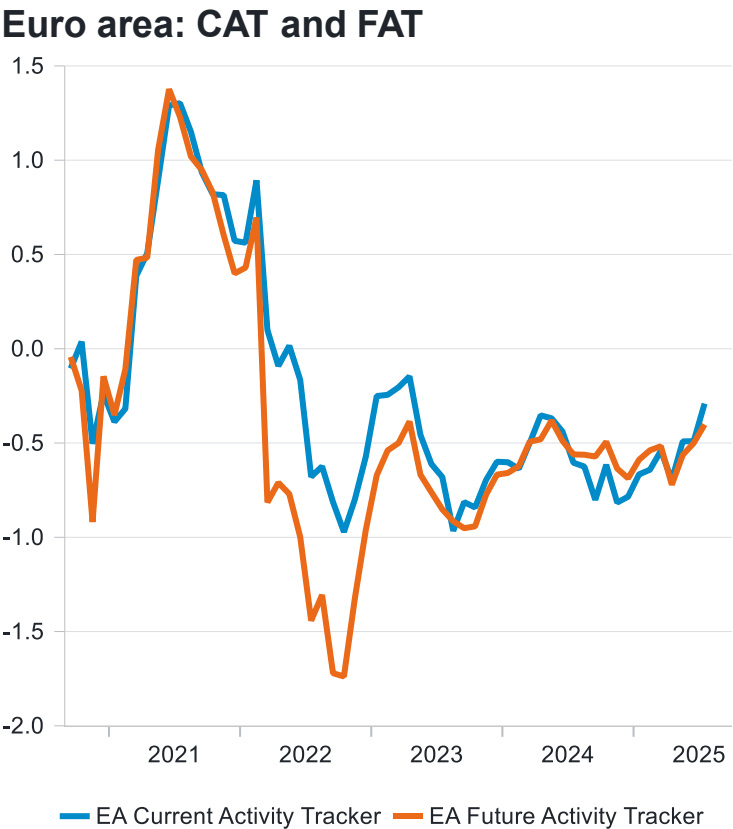
Source: Fidelity International, Macrobond, DG ECFIN, Eurostat, S&P Global, August 2025.

... and credit growth seems to have picked up on lower rates.

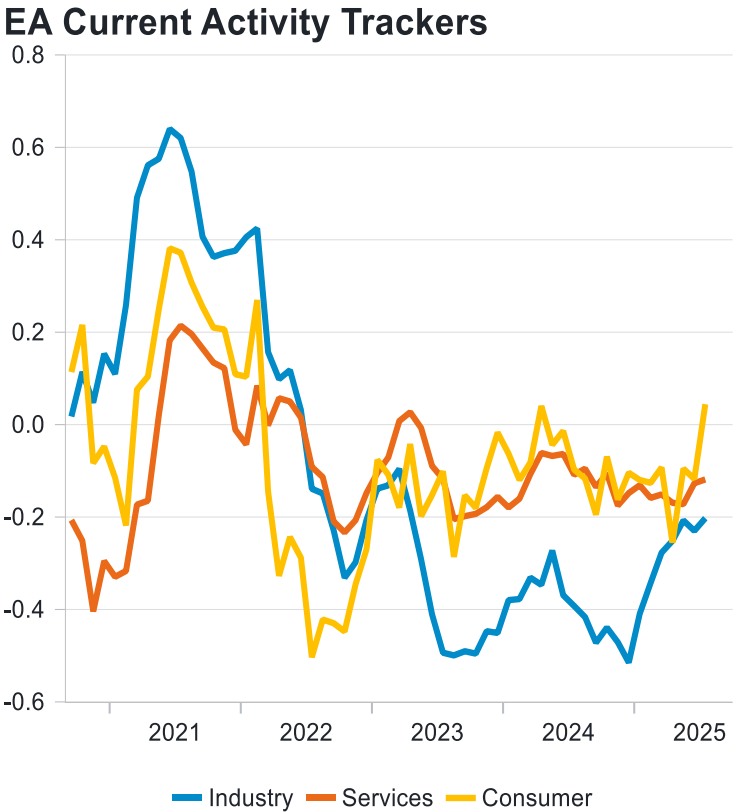


Source: Fidelity International, Macrobond, ECB, Eurostat, August 2025.

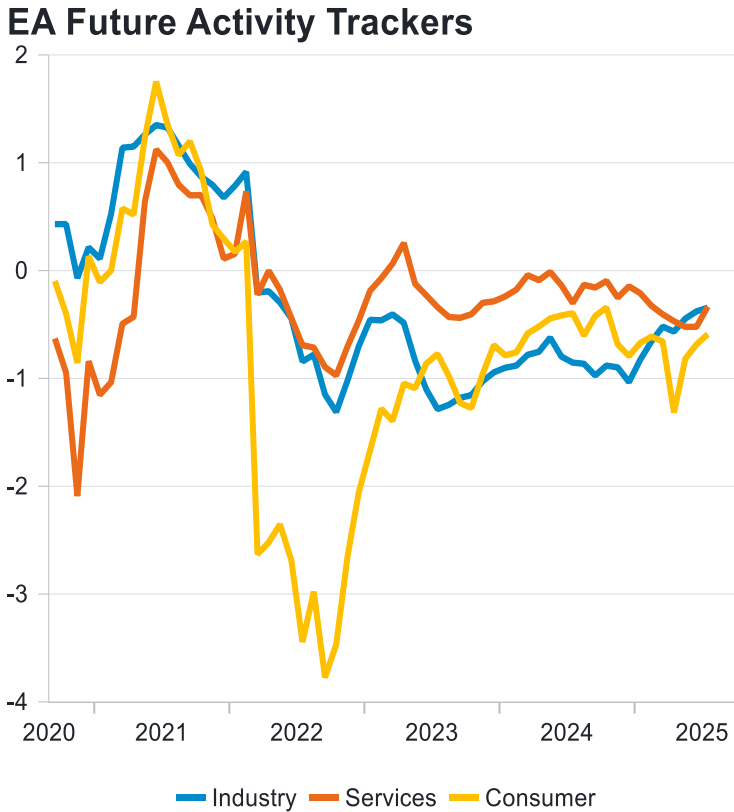
EA: Activity trackers showing signs of positive breakout as US trade negotiations conclude



Source: Fidelity International, FIL Global Macro Team calculations, Macrobond, August 2025.



Source: Fidelity International, FIL Global Macro Team calculations, Macrobond, August 2025.

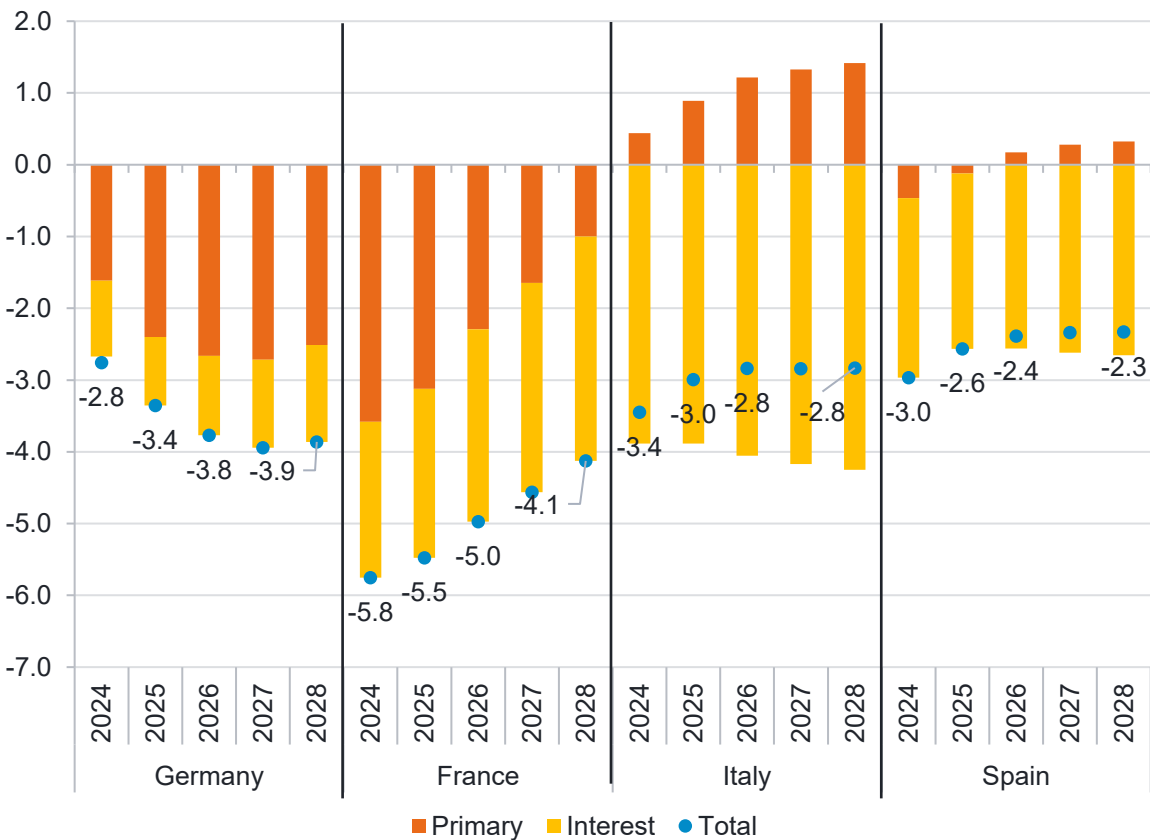


Source: Fidelity International, FIL Global Macro Team calculations, Macrobond, August 2025.

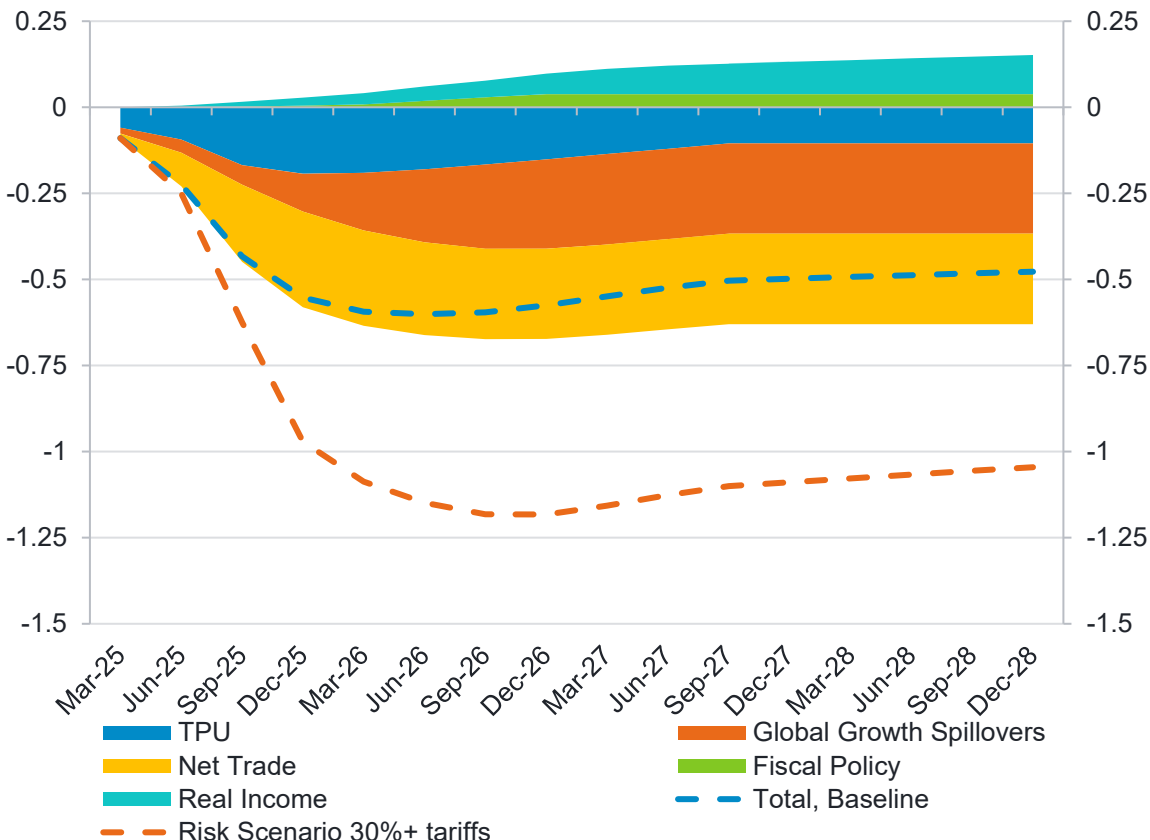
EA: Fiscal impulse turns neutral to slightly positive from restrictive earlier...

...with most of it driven by Germany. Headwinds from tariffs will be an H2'25 story.

EMU4 fiscal deficit as % of GDP



Effect of trade tensions on EA real GDP level (% QoQ)

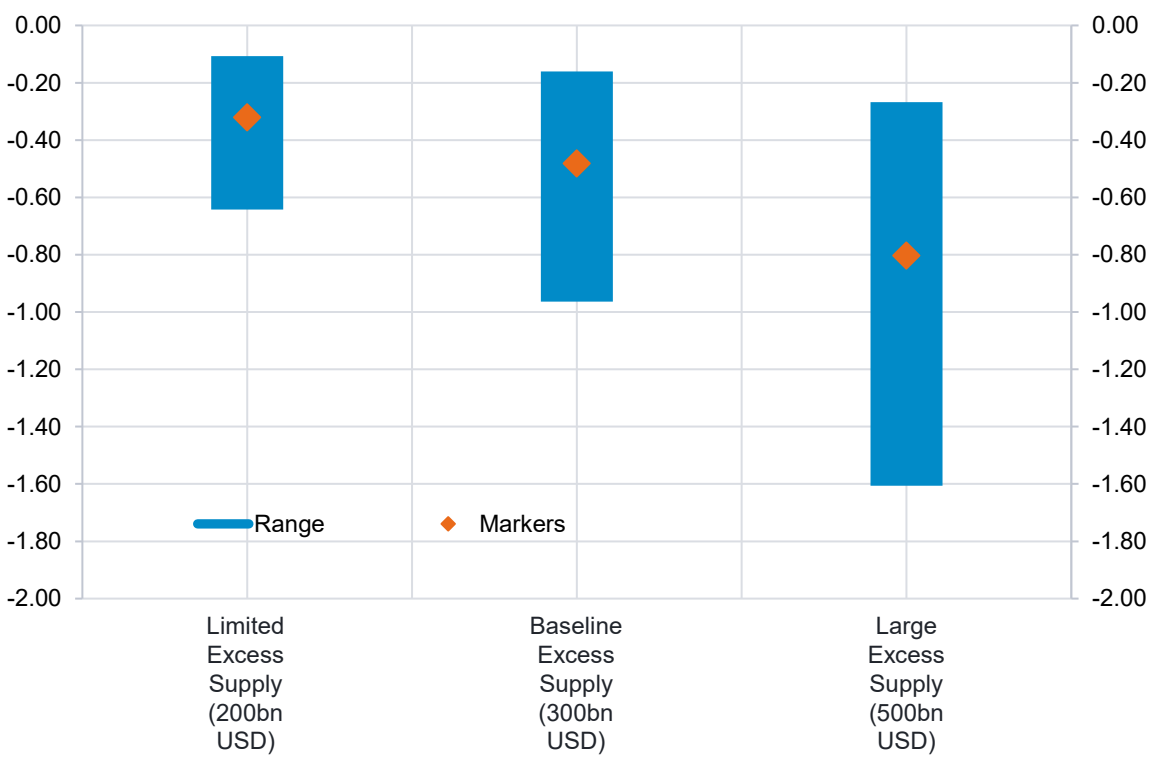


Source: Fidelity international, Goldman Sachs GIR, Haver Analytics, August 2025

Source: Fidelity International, Goldman Sachs GIR, Haver Analytics, Census Bureau, August 2025

EA: Inflation likely to surprise to the downside as excess East Asian goods get redirected into the single market as a result of US tariffs

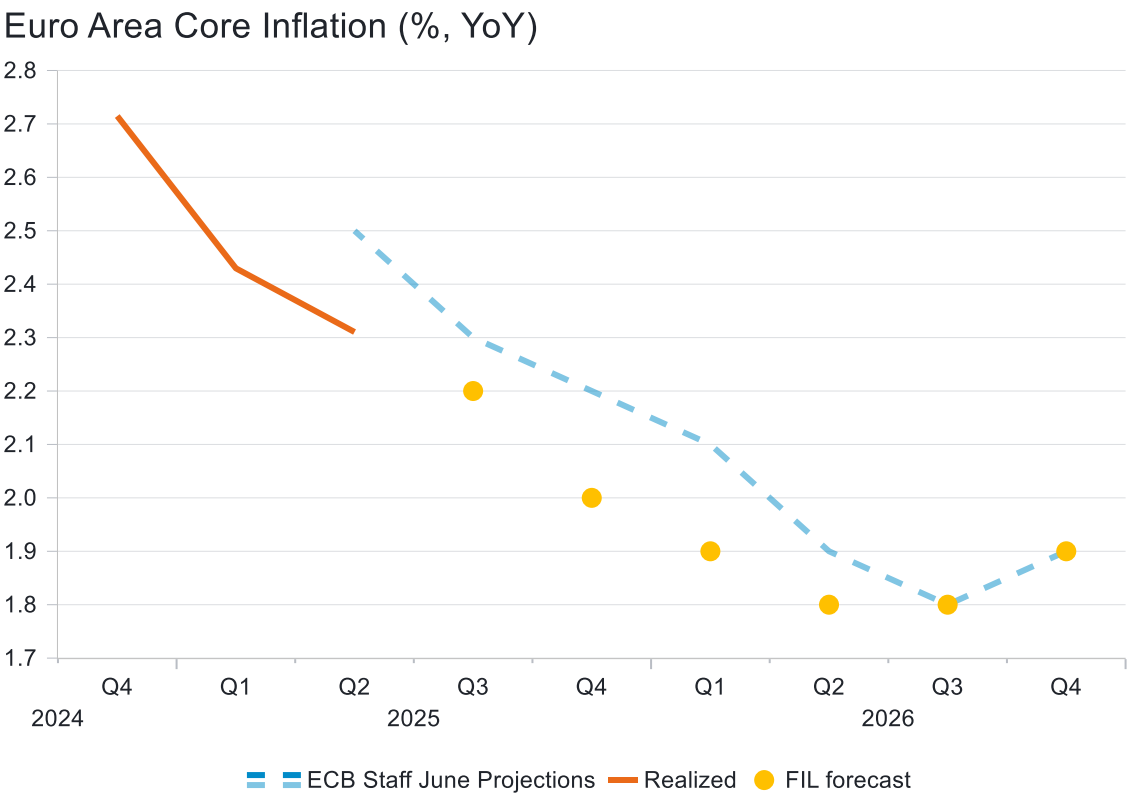
Effect of Goods Excess Supply on EA20 Core Prices: Scenarios



*Range based on possible elasticities of prices to low-wage country import share

Source: Fidelity International, Goldman Sachs GIR, Haver Analytics, ECB, Bloomberg, June 2025.

Inflation will reach target faster than the ECB expects

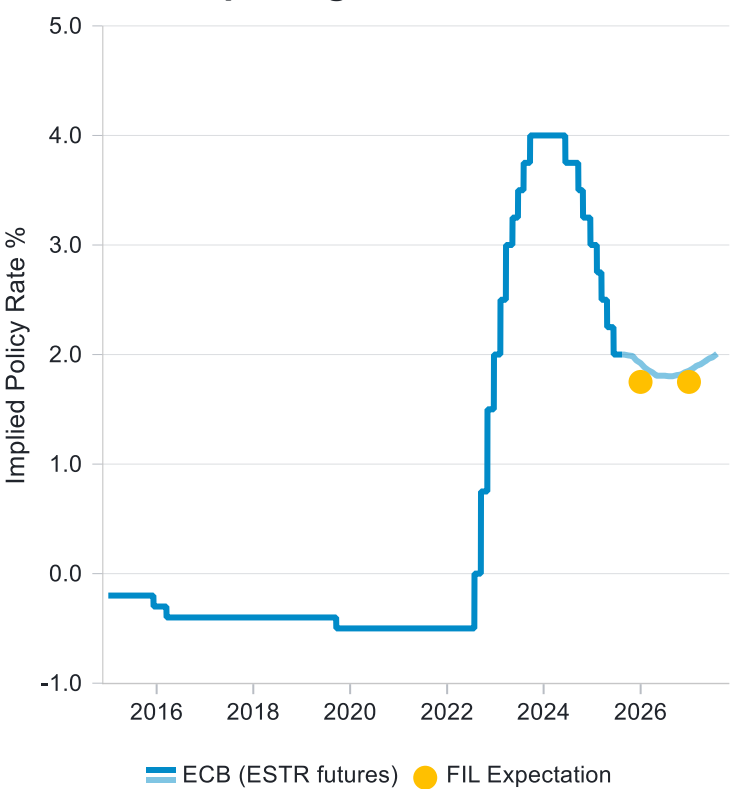


Source: Fidelity International, Macrobond, ECB, Eurostat, August 2025.

The ECB will continue cutting as growth and inflation backdrop looks constructive

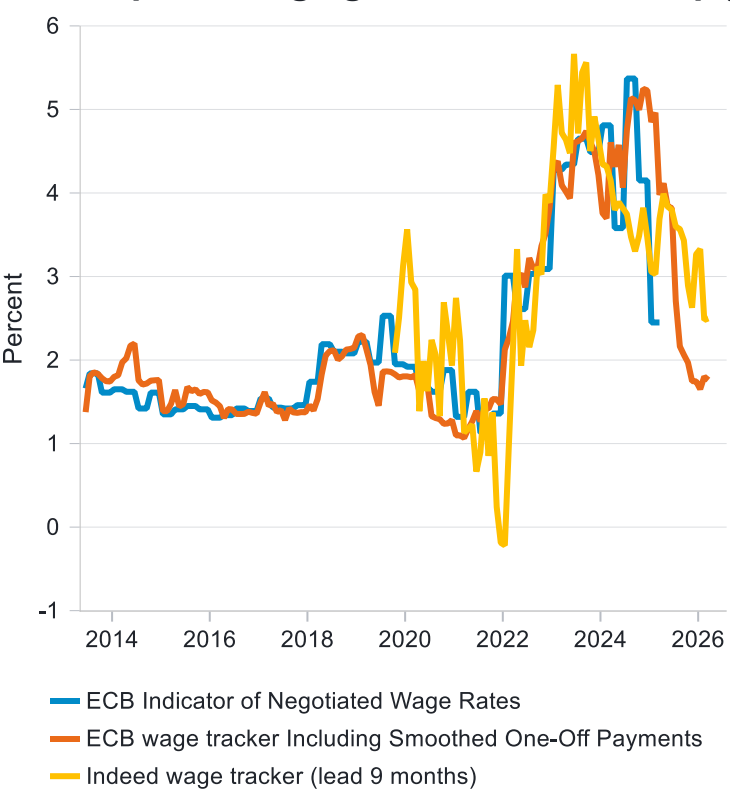
We expect the ECB to maintain its quarterly cutting cadence, with an easing path to 1.75%

ECB market pricing



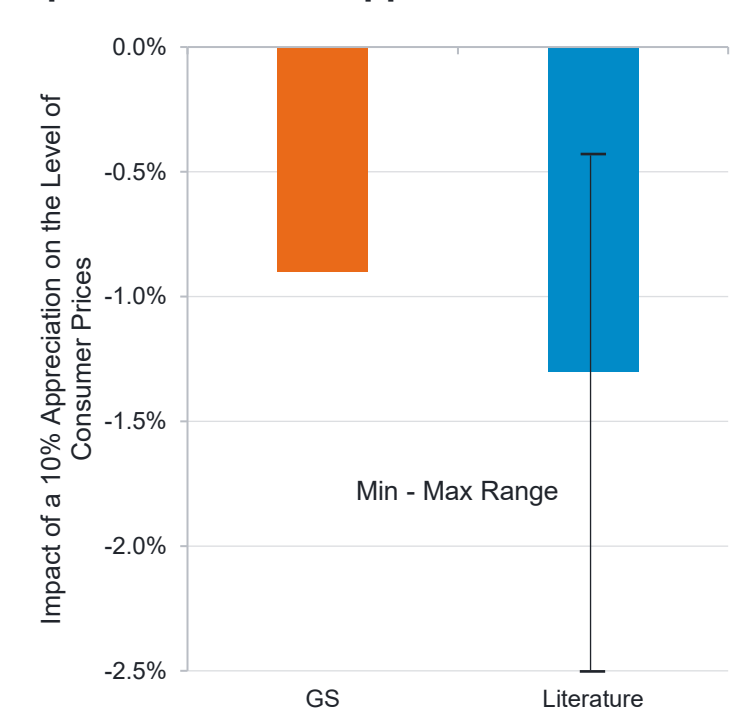
Source: Fidelity International, Macrobond, ECB, ICE Futures Europe, August 2025.

ECB expects wage growth to slow sharply



Source: Fidelity International, Macrobond, ECB, Indeed Hiring Lab, August 2025.

ECB under-estimating disinflationary impulse from Euro appreciation

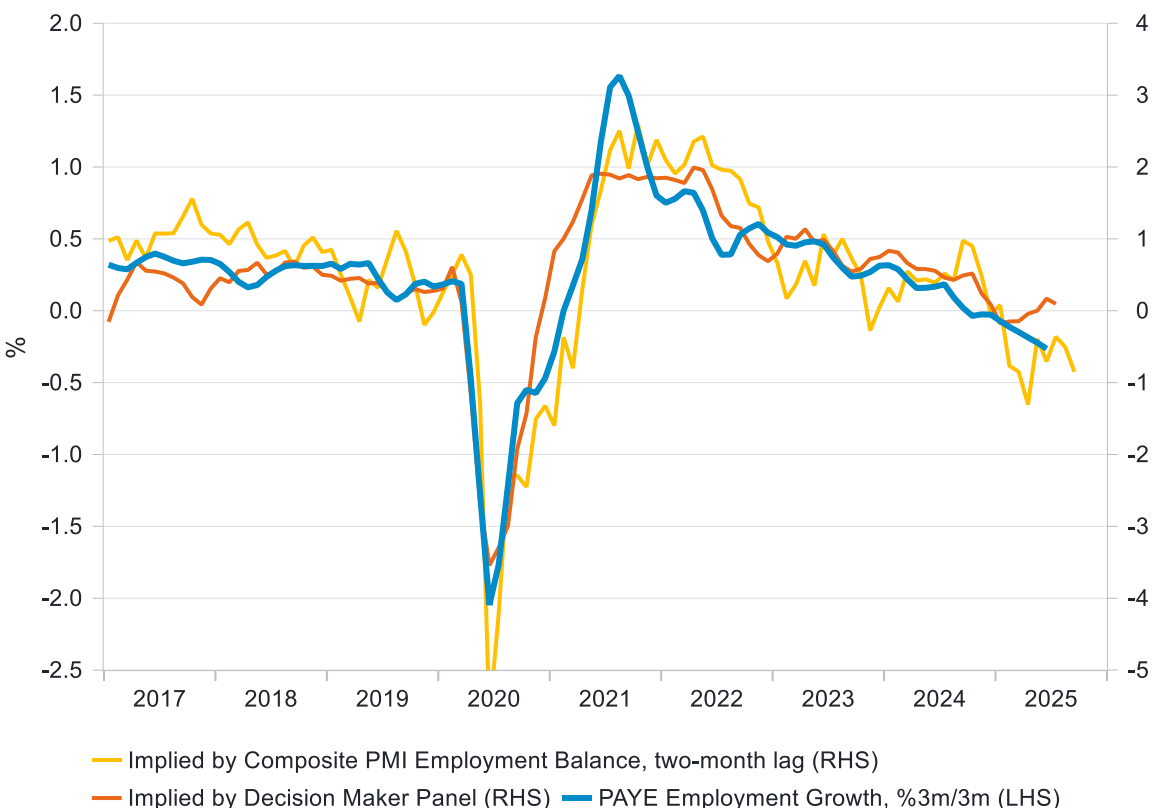


Source: Fidelity International, Goldman Sachs GIR, Haver Analytics, ECB, Bloomberg, August 2025.

UK: While data quality is poor, the labour market is weakening...

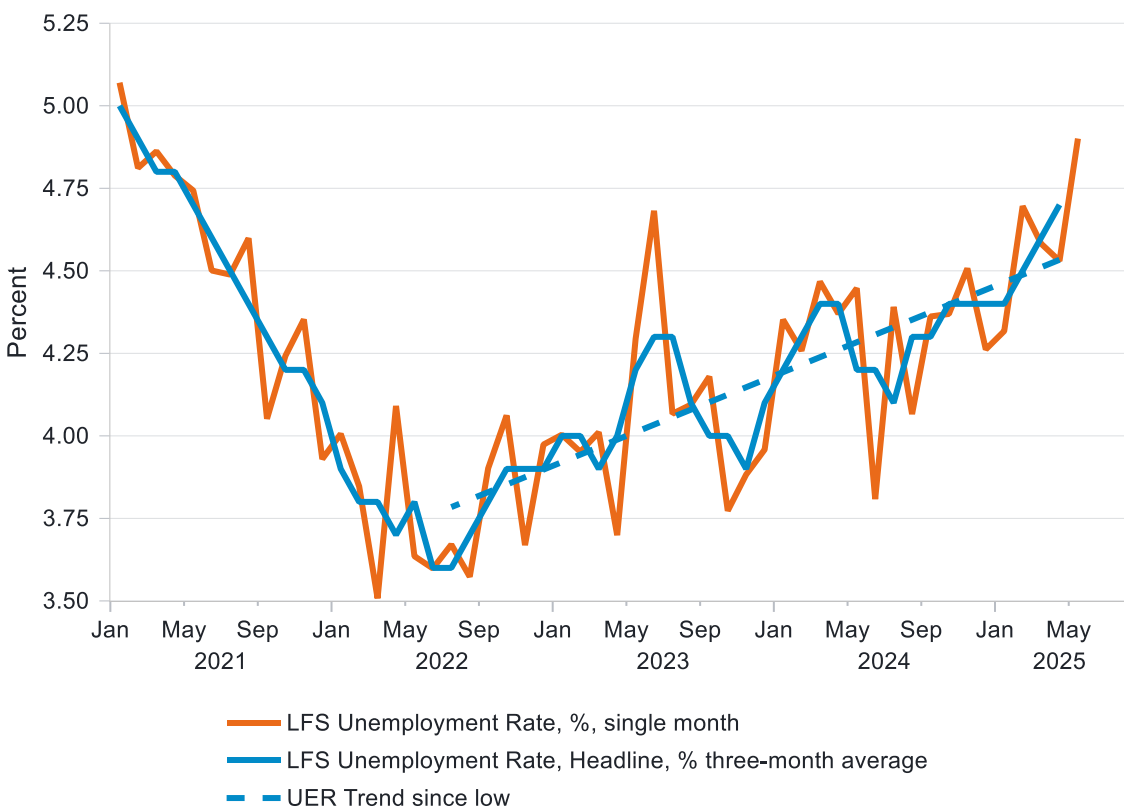
...with leading indicators suggesting some moderation.

Employment growth trends continue to show softness...



Source: Fidelity International, Macrobond, S&P Global, BoE, ONS, August 2025.

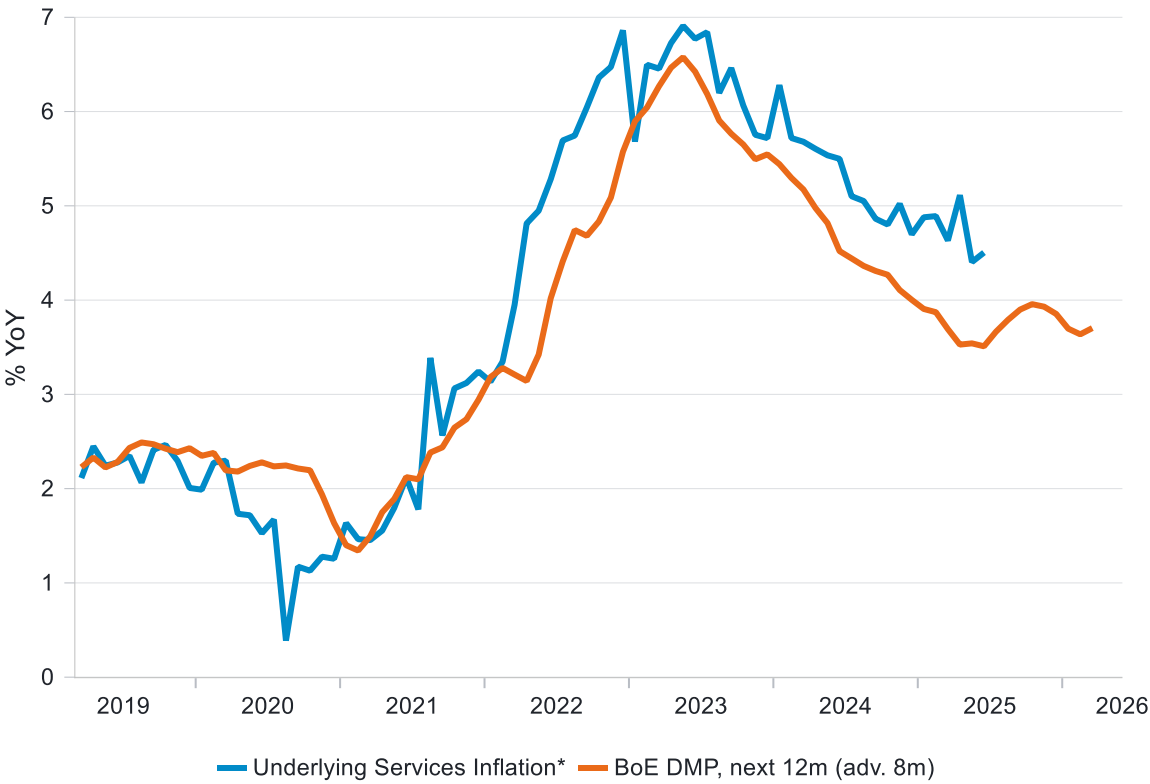
...whilst unemployment is continuing to rise



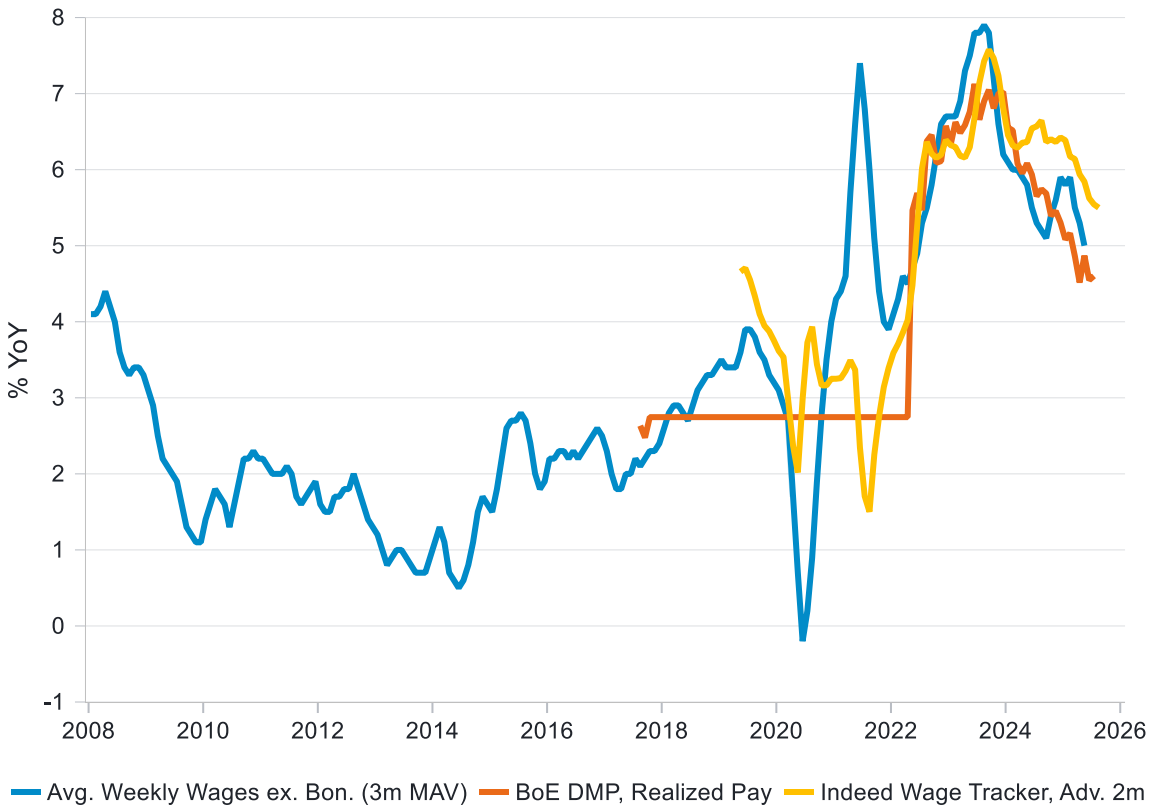
Source: Fidelity International, Macrobond, ONS, August 2025.

Underlying price pressures, away from regulated prices, are now starting to show decent moderation

Services inflation is falling more rapidly



Wages remain elevated but are starting to moderate

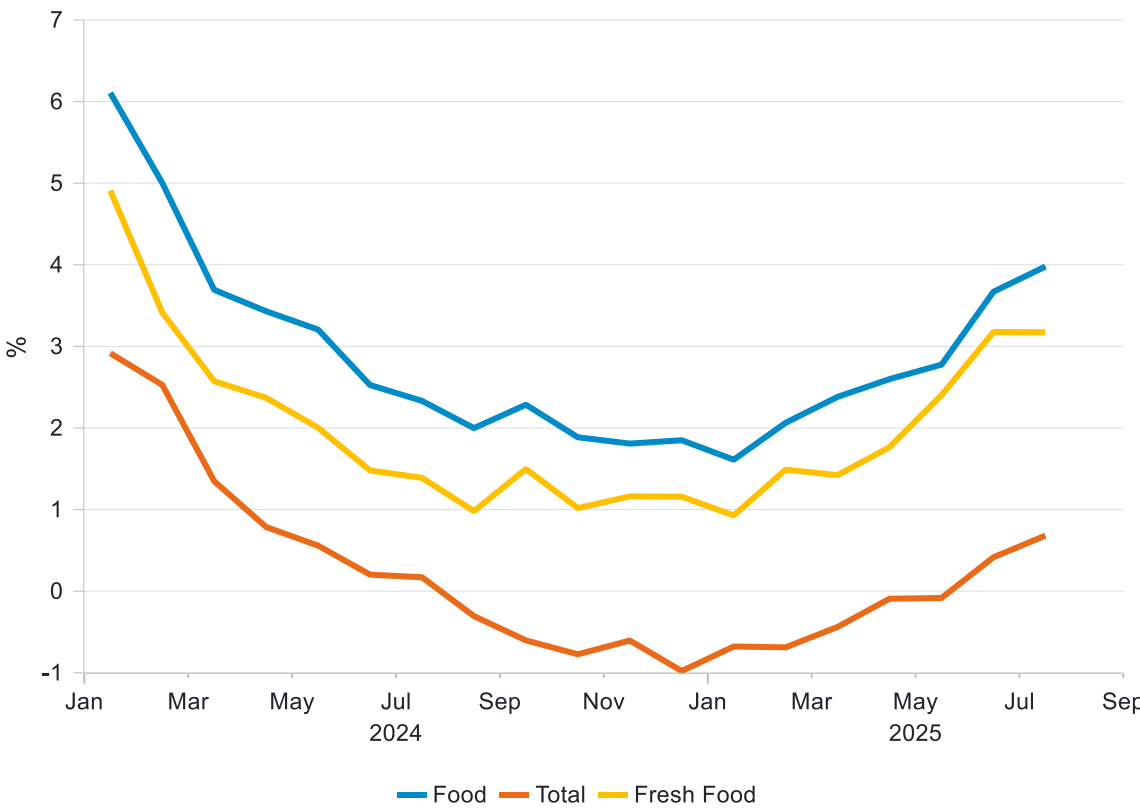


* ex Airfares, Education, and Package Holidays
Source: Fidelity International, Macrobond, ONS, BoE, August 2025

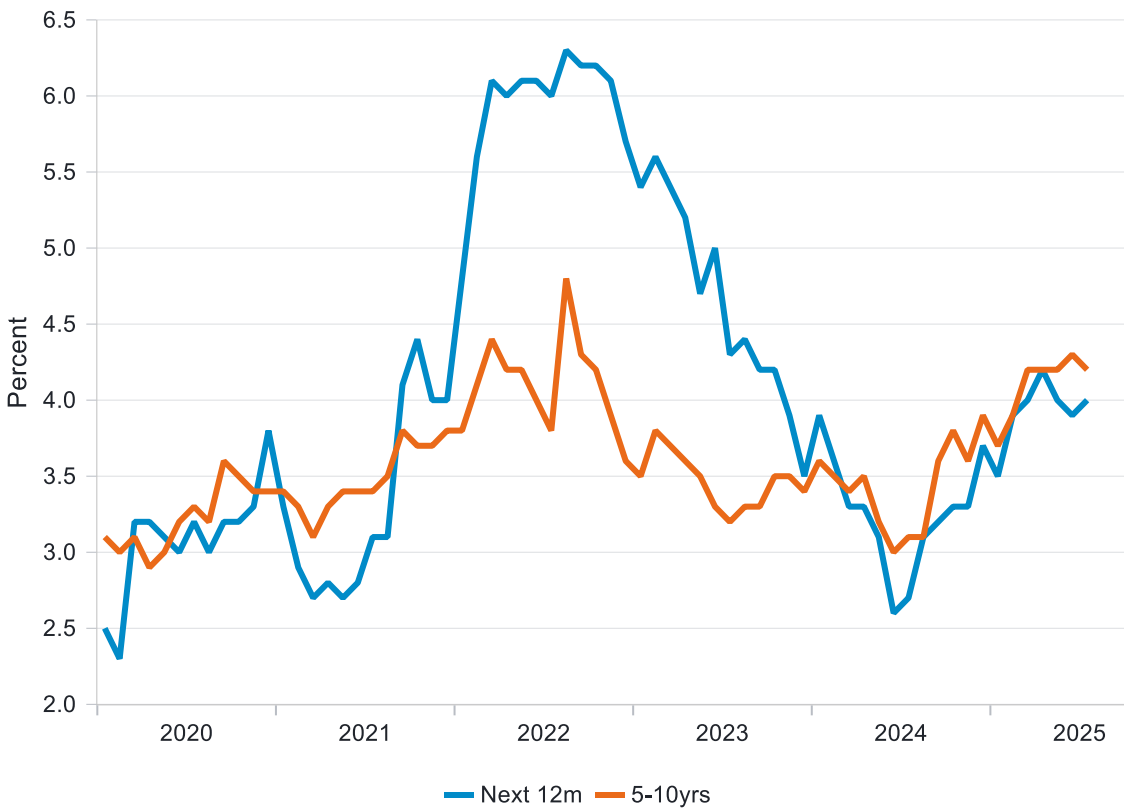
Source: Fidelity International, Macrobond, ONS, BoE, Indeed Hiring Lab, August 2025.

Incredibly weak potential growth combined with overexposure to volatile external prices has turned the UK into an inflationary ‘price taker’ economy

Timely shopping data shows food prices are high & accelerating



Which is likely to push inflation expectations higher as well



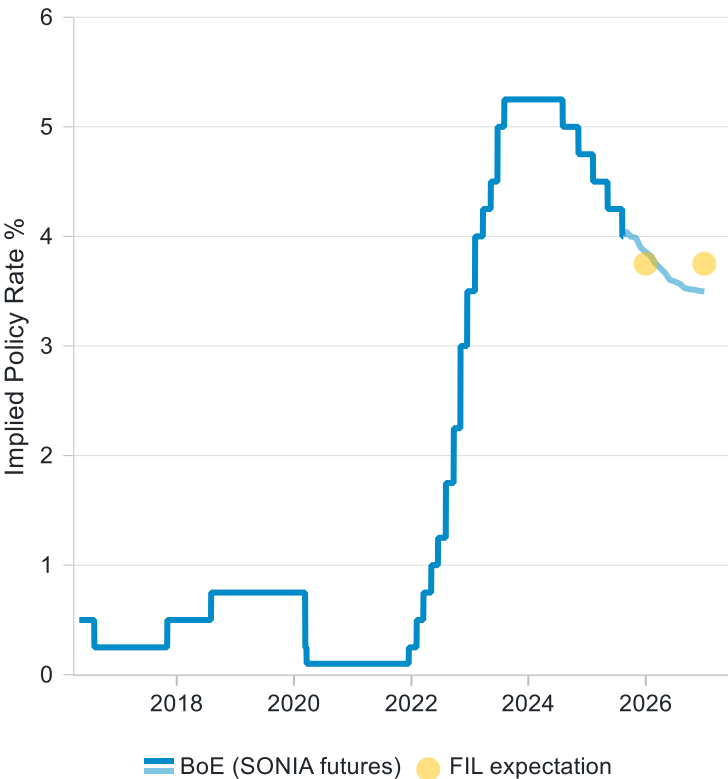
Source: Fidelity International, Macrobond, BRC, August 2025.

Source: Fidelity International, Macrobond, YouGov, August 2025.

BoE: Will cut once more this year to counterbalance a growing global fiscal shock

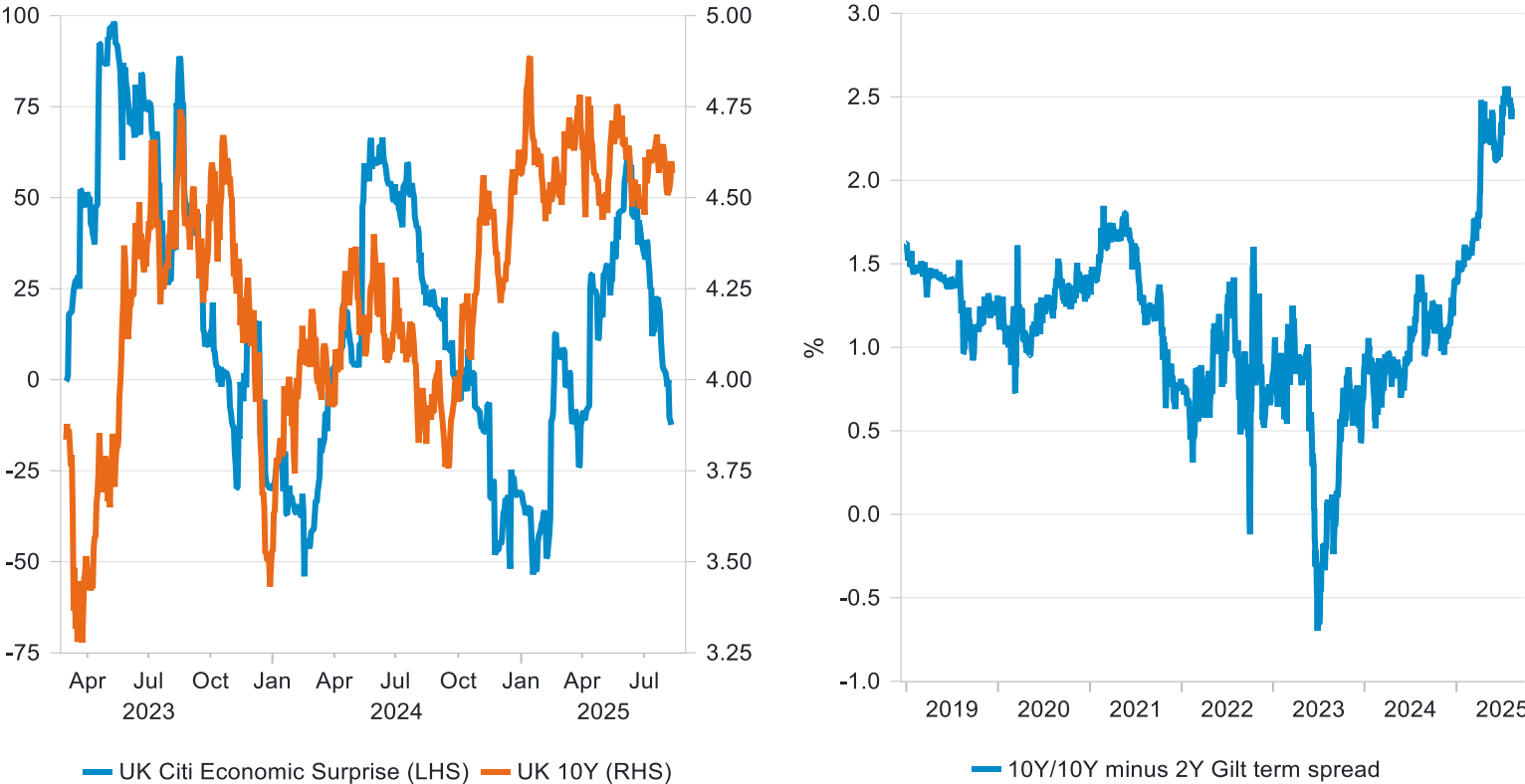
Whilst a strict focus on inflation would suggest no cuts, the weakening labour markets give them room to cut

BoE market pricing



Source: Fidelity International, Macrobond, BoE, ICE Futures Europe, August 2025.

Yields breaking from fundamentals and rising term premia suggests a global fiscal factor is keeping yields elevated



Source: Fidelity International, Macrobond, Bloomberg, August 2025

Source: Fidelity International, Macrobond, Bloomberg, August 2025

China Macro Outlook

Three scenarios for China in 2025

Balancing act in shifting landscape

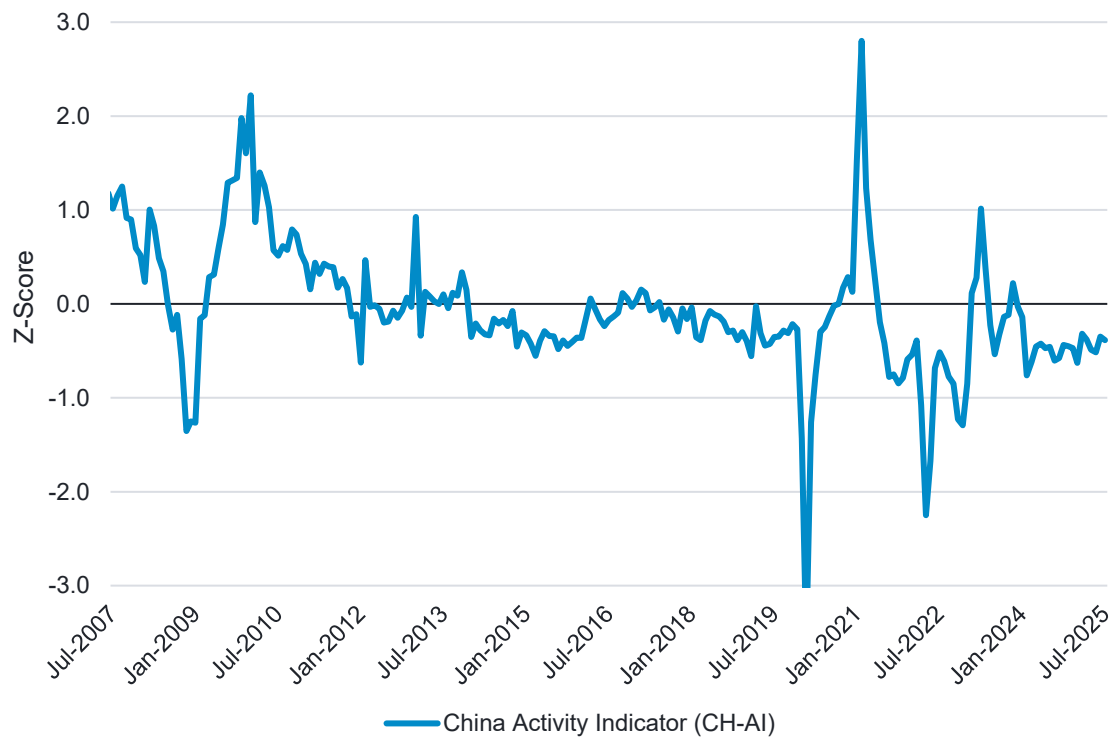
	Growth	Inflation	Monetary policy	Fiscal policy
Scenario 1: Controlled Stabilisation 55%	<p>The pace of recovery gradually gains momentum as consumption improves. The property sector stabilises on stronger stimulus. Industrial activities and exports face more challenges from rising tariffs uncertainties. Real GDP growth stabilises around a lower government's target.</p>	<p>CPI and PPI rebound softly on the back of a gradual recovery in domestic demand. Inflation stabilises slightly below target over the medium term.</p>	<p>The PBoC cuts benchmark rates and the reserve requirement ratio to support growth. It also manages liquidity by buying and selling government bonds in the secondary market.</p>	<p>Policymakers accelerate the fiscal easing to support domestic demand. It will continue with gradual de-risking plans to resolve structural issues in local government, property and banking sectors.</p>
Scenario 2: Serious Slowdown 35%	<p>The economy faces stronger headwinds from domestic structural issues and a developed market slowdown. Potentially rising geopolitical tensions (such as a steep tariff increase on Chinese exports) could be another major shock to growth and may lead to a severe slowdown in the broader economy.</p>	<p>Both CPI and PPI gradually fall into deflation well below government targets.</p>	<p>The PBoC delivers limited or no rate cuts as it prioritises currency stability over domestic easing.</p>	<p>Policymakers are slow to introduce sufficient fiscal support for growth due to limited fiscal policy room and a rigid fiscal framework.</p>
Scenario 3: Reflation 10%	<p>The recovery becomes more broad-based and gains momentum with a more dovish policy setting. The property sector takes the lead from a strong monetary policy push. The initial impulse is strong, driven by optimism on property and consumer sectors. Growth may rebound above target.</p>	<p>Both CPI and PPI recover and gain momentum with strong domestic demand rebounding to match or beat the government target.</p>	<p>The PBoC eases monetary policy more aggressively with consecutive benchmark rate and reserve requirement ratio cuts. The system is flushed with liquidity to accommodate broad-based re-leveraging.</p>	<p>Policymakers explicitly bail out stressed local governments and property sector companies, leading to renewed optimism in re-leveraging. They also aggressively expand fiscal deficits to support domestic demand.</p>

Source: Fidelity International, August 2025.

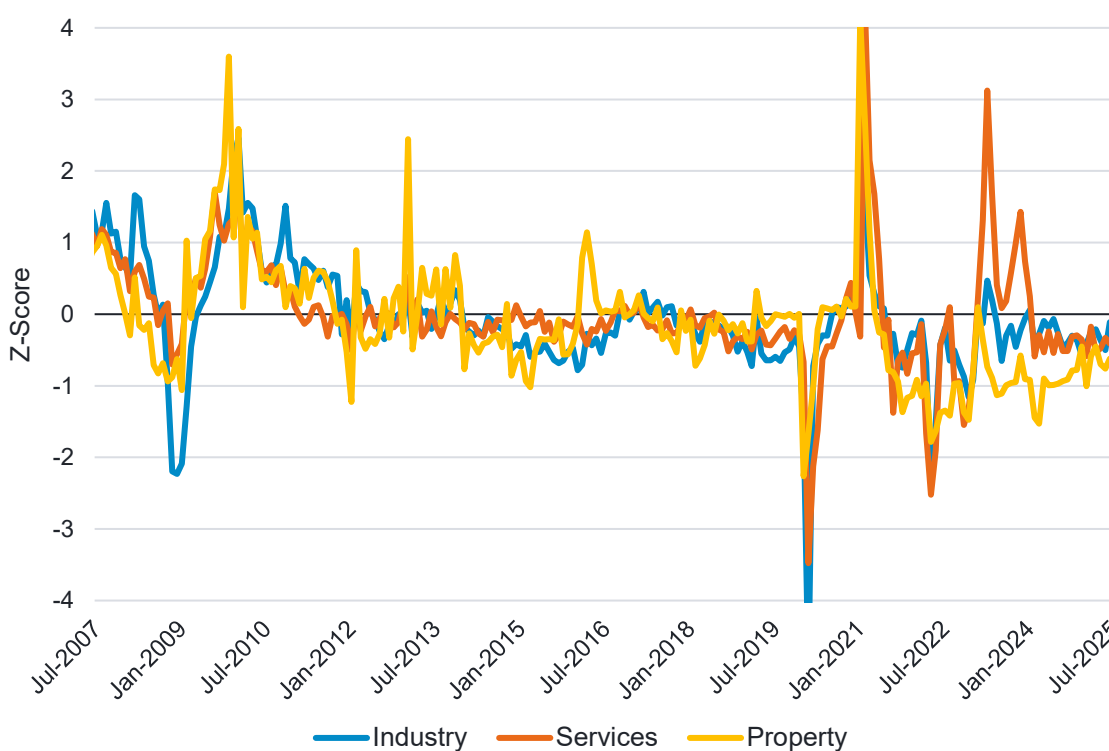
China activity indicator remains steady in July...

...as services and manufacturing sector show resilience. Property sector continues to lag behind.

China activity indicator (CH-AI)



China activity indicator (CH-AI) by sector

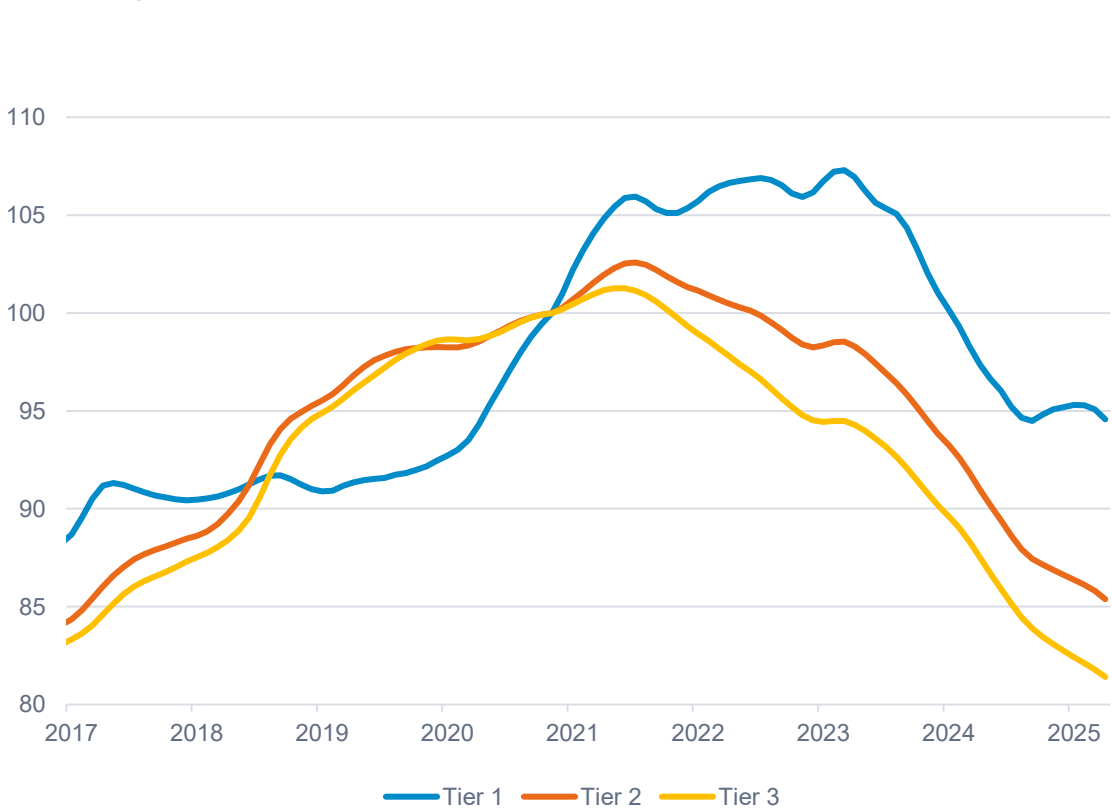


Source: Fidelity International, FIL Global Macro Team calculations, Bloomberg, Haver Analytics, Wind, August 2025.

Property sector recovery is not gaining traction

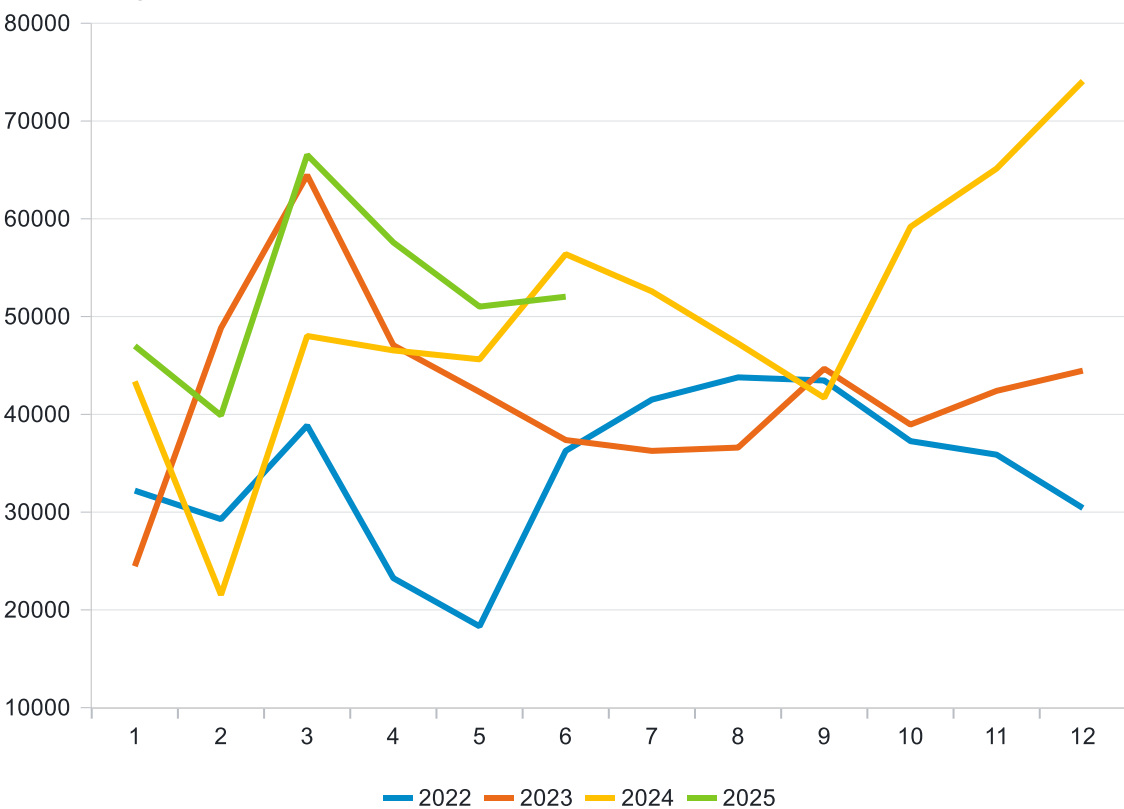
There are signs of a renewed slowdown in the property sector

Property price (Resale, Jan 2021=100)



Source: Fidelity International, Bloomberg, August 2025

Property transaction volume in Tier 1 cities

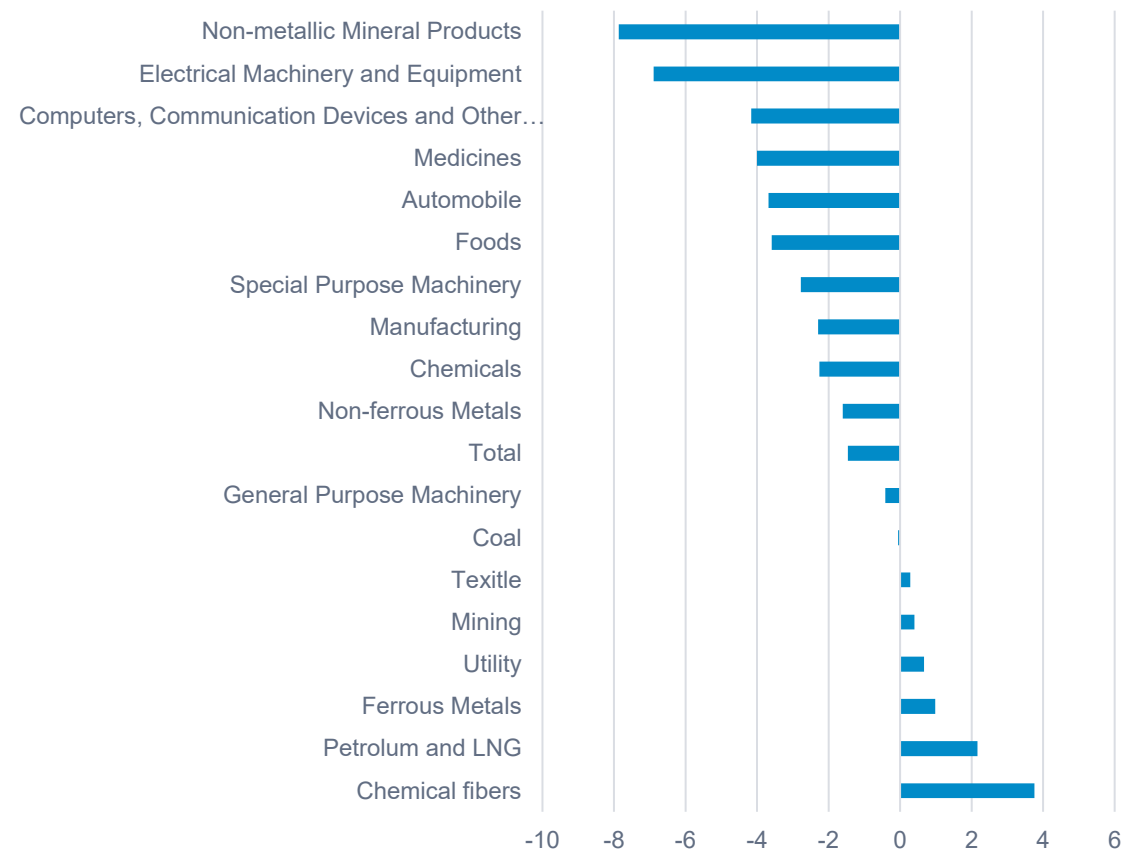


Source: Fidelity International, Macrobond, CREIS, August 2025.

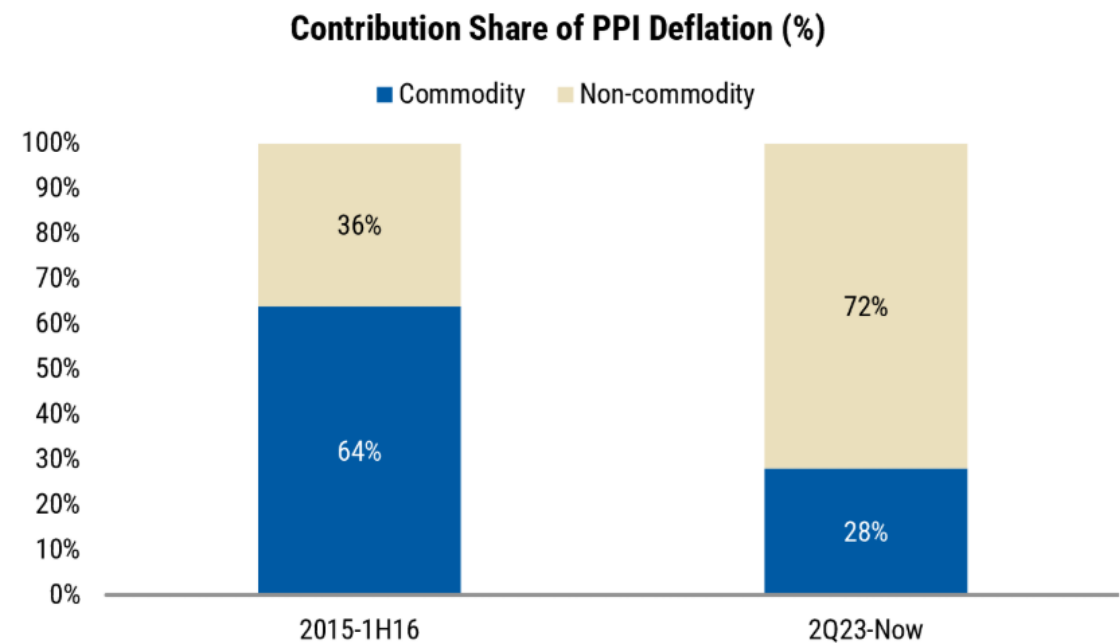
Anti-Involution Campaign may lead to mild reflation

The sectoral focus and pace of capacity reduction may differ from 2015 “Supply Side Reforms”

Capacity Utilisation (deviation from 10-year average, Q1-25)



Comparison between “Anti-involution” and “Supply Side Reform”



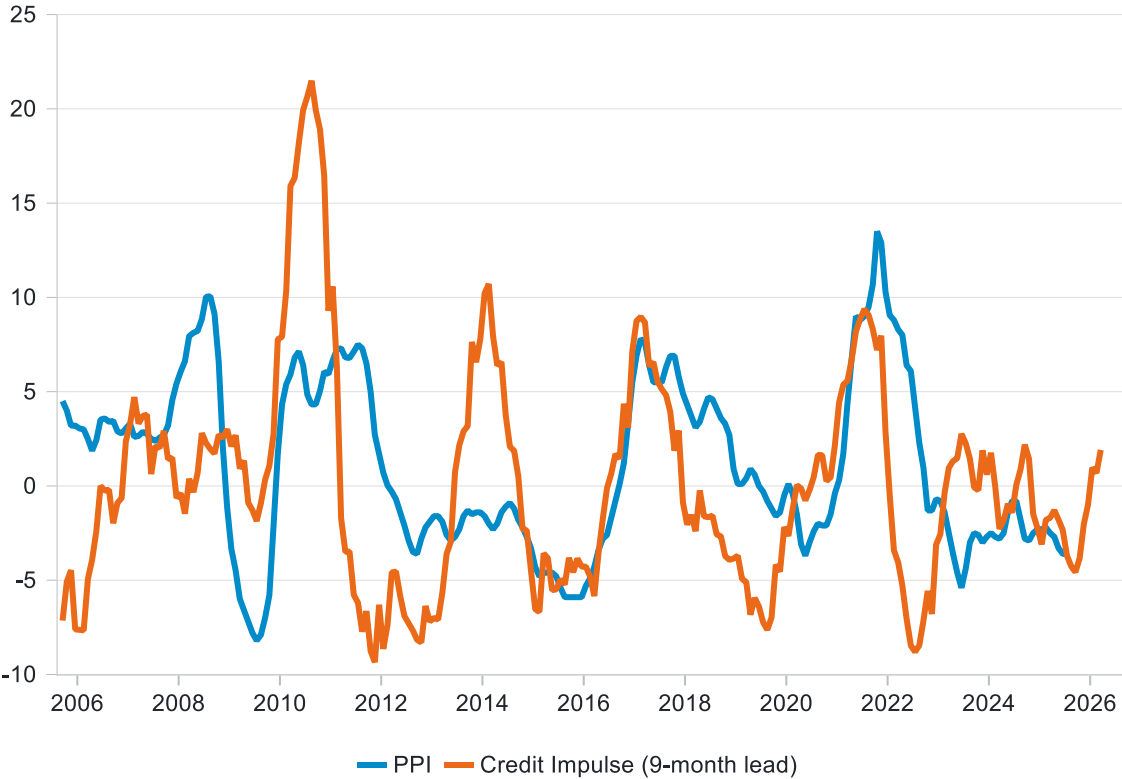
Source: Wind, Bloomberg, Fidelity International, August 2025

Source: Morgan Stanley Research, Fidelity International, August 2025

Outlook for inflation

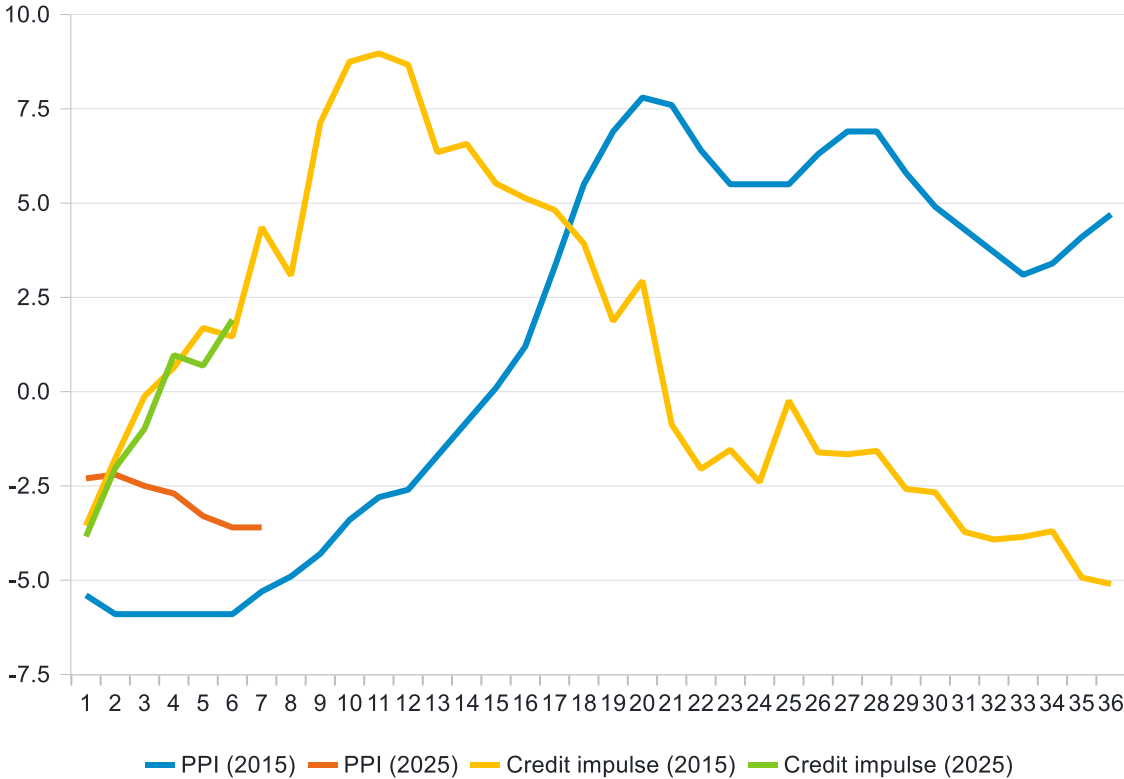
Leading indicators point to a rebound of PPI in coming months

Credit impulse and PPI



Source: Fidelity International, Macrobond, Macrobond, Bloomberg, China National Bureau of Statistics (NBS), August 2025.

PPI and Credit Impulse in 2015 vs. 2025

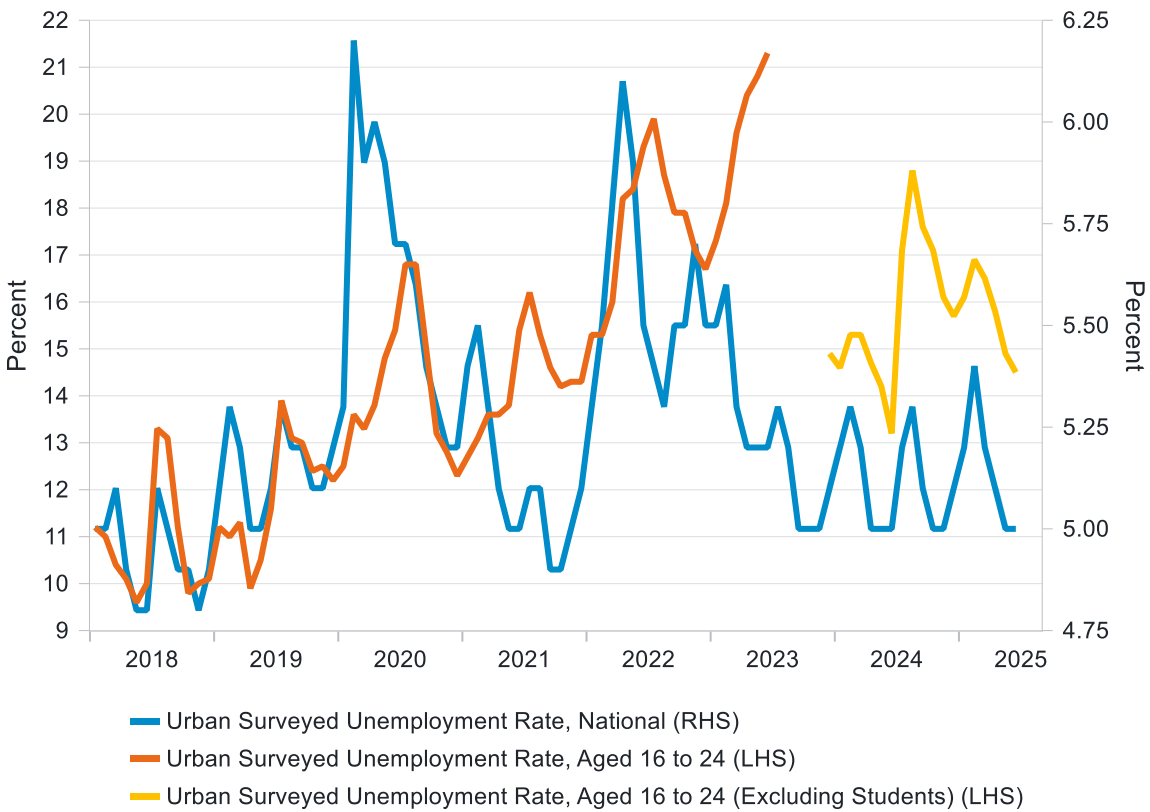


Source: Fidelity International, Macrobond, Macrobond, Bloomberg, China National Bureau of Statistics (NBS), August 2025.

Employment and wage growth

Employment and wage growth have been stabilising without significant further improvements

Unemployment Rate



Wage growth



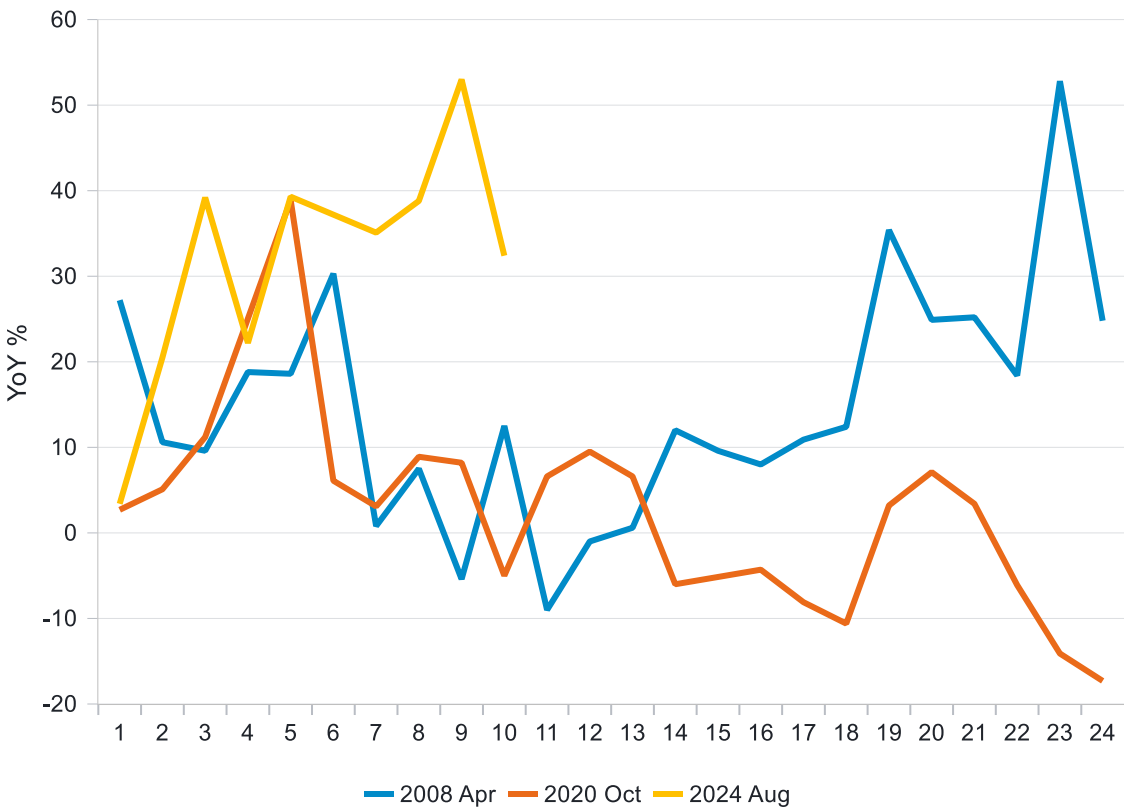
Source: Fidelity International, Macrobond, NBS, China National Bureau of Statistics (NBS), August 2025

Source: Fidelity International, Macrobond, Macrobond, China National Bureau of Statistics (NBS), August 2025.

Consumption subsidies and potential implications

More subsidies to households after the momentum of “Trade-In” program fades

Household appliance sales



Source: Fidelity International, Macrobond, NBS, August 2025.

Subsidies to households and fiscal implications

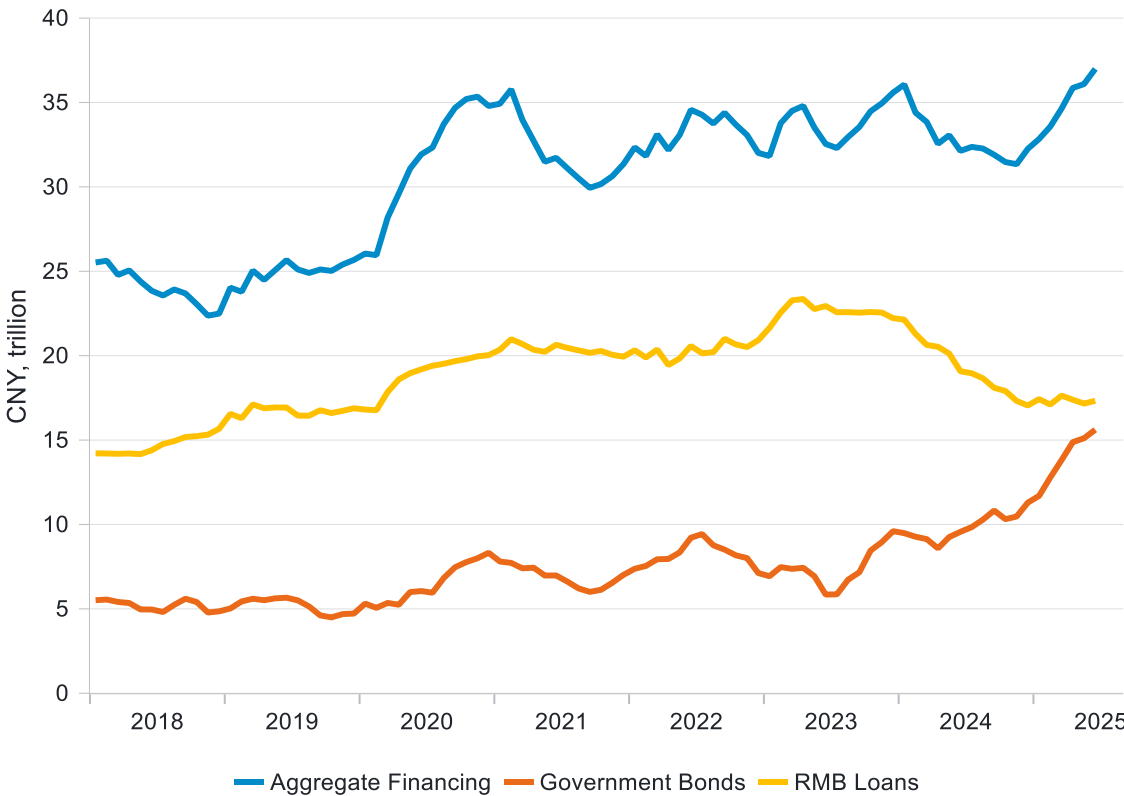
Subsidies	Details	Beneficiary	Estimated total annual outlay	Distribution
Childcare Subsidy	RMB3600 annual cash subsidy for child born after 2025 for 3 years	Households with newborn after 2025	~RM110bn annually from government budgeted expenditures	90% central government, 10% local governments
Elderly care subsidies for disabled elderly	RMB 500-800 cash vouchers monthly for services related purchases	Disabled elderly	RMB22-35.2bn annual expenditure	90% central governments, 10% local governments
Free pre-school education	1-year free pre-school education for all children	Households	~RMB40-60bn annual expenditure	Mainly from central government
Trade-in goods	RMB69bn to be distributed in Jul and Oct	Home appliance purchases	RMB300bn total for 2025	Proceeds of bond issuance

Source: Gov.cn, Xinhua News, Fidelity International, August 2025

Policy updates and key events

Incremental easing is supported by fiscal frontloading, trade negotiations remain key to the macro outlook

Aggregate financing (12-month rolling sum)



Source: Fidelity International, Macrobond, PBoC, August 2025.

Key events and timeline

Date	Event	Focus
14 October	End of 180-day pause on Section 301 port fees on Chinese vessels	Trade and tariff policy
31 October	APEC Summit in Korea	Geopolitics
10 November	End of another 90-day pause on US-China tariffs	Geopolitics, trade and tariffs policy
Q4-2025	Release 15 th Five Year Plan	Macro policies, medium term outlook
December	Central Economic Work Conference	Outlook and macro policy priorities for 2026

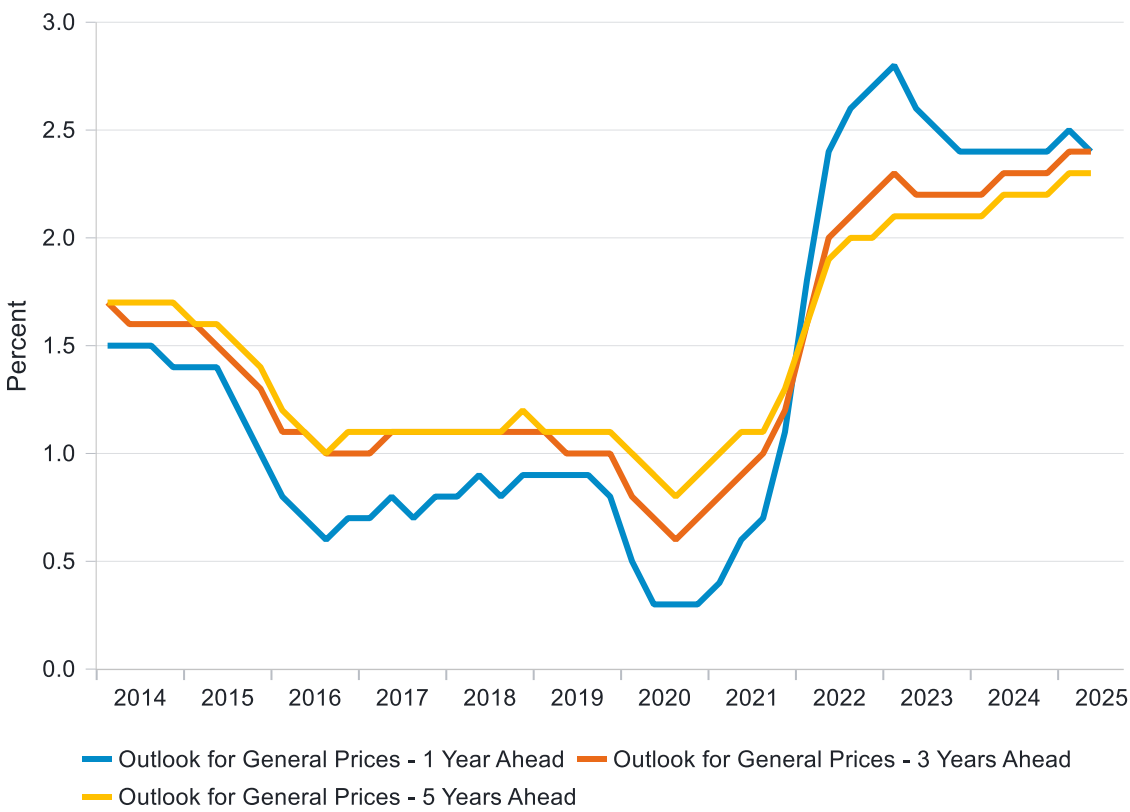
Source: Various media headlines, Gov.cn, Fidelity International, August 2025

Japan Macro Outlook

Inflation outlook

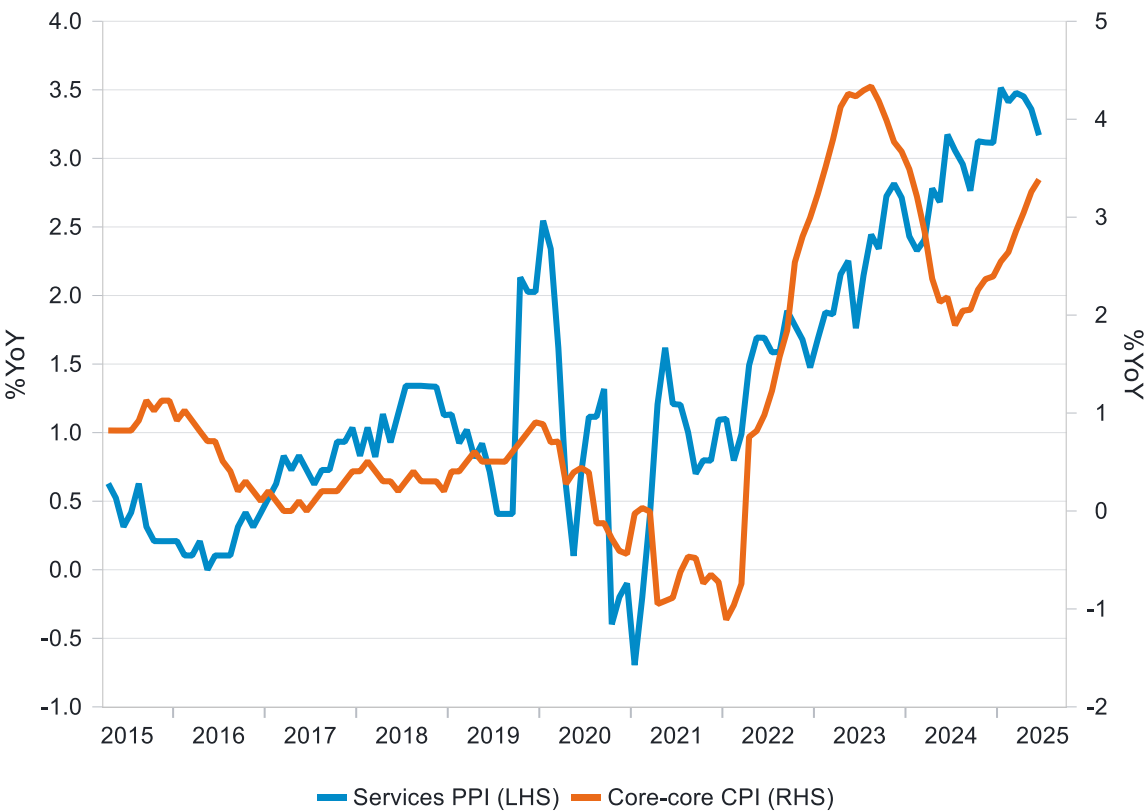
Despite uncertainties in politics and tariffs, the outlook for inflation has not changed over the long run

Tankan inflation outlook, all enterprises



Source: Fidelity International, Macrobond, BOJ, August 2025.

Services PPI and core-core CPI

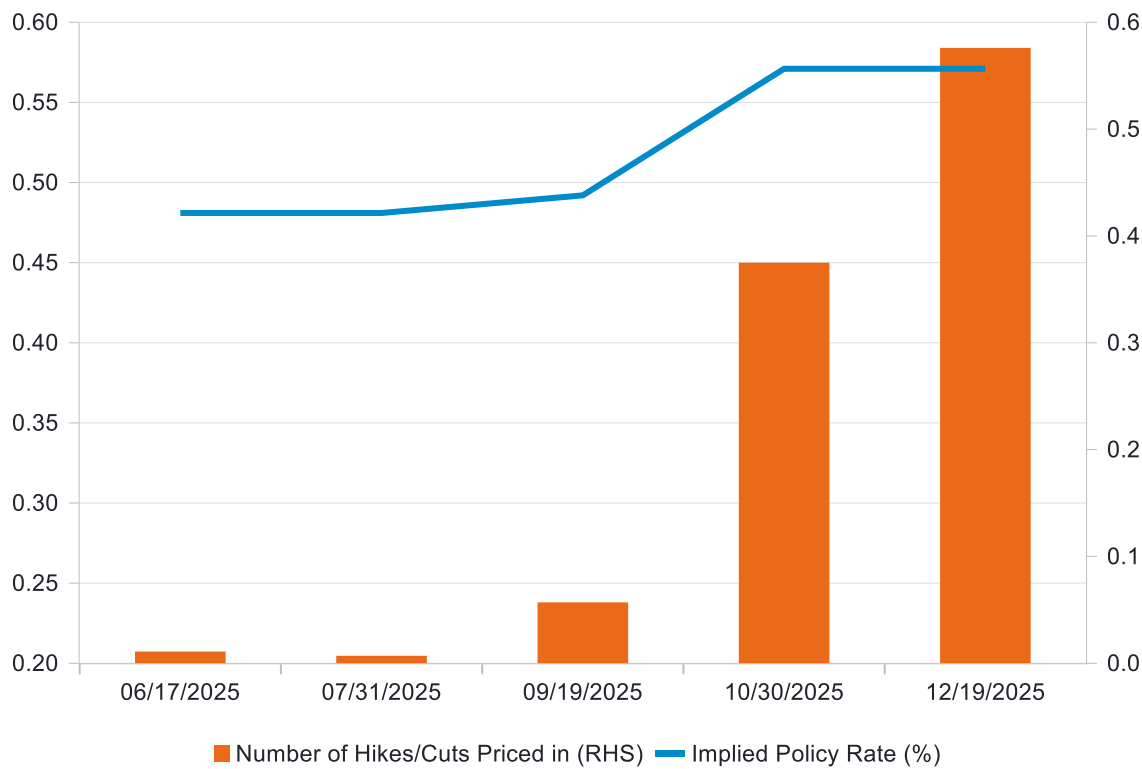


Source: Fidelity International, Macrobond, BOJ, SBJ, August 2025.

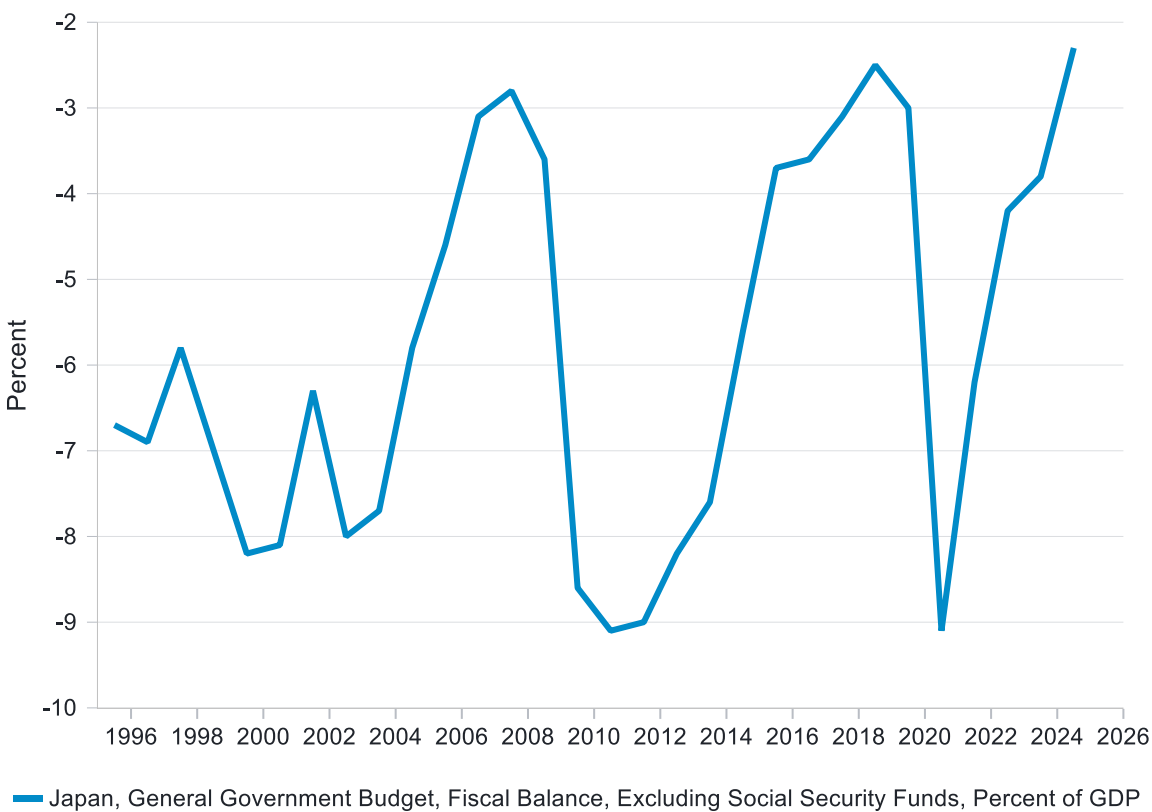
Short term volatility does not derail BOJ policy normalisation

Although the timing of hikes may get delayed if fiscals situation becomes more uncertain..

BOJ implied policy rates



Japan fiscal deficit as % of GDP



Note: Implied path as of <Property OriginalEndDate not found.>. Hikes/cuts assume 25bp increments.
Source: Fidelity International, Macrobond, Bloomberg, August 2025.

Source: Fidelity International, Macrobond, MOF, August 2025.

Investment implications

TAA views summary

		--	-	=	+	++	Summary of views
Equities	Equities			●			Maintaining neutral equities. Downside risk has eased but retracement has pushed risk assets back to rich valuations.
	US			●			We are staying neutral on the US. Policy uncertainty remains elevated, and concerns over fiscal sustainability keeps yields high. As a result, US exceptionalism remains in question.
	Europe			●			Moving Europe back to neutral. Valuations are converging after a very strong first half of the year for the region. The strengthening euro is starting to be a headwind for large cap equity earnings, while the unresolved trade conflicts with the US are also a concern.
	UK			●			Earnings revisions remain uninspiring, but the market remains at a discount and sterling weakness will support multinational large caps.
	Japan			●			Positive earnings momentum and rising dividend payouts balance out trade policy uncertainty and the chance of a hawkish BOJ surprise.
	Emerging markets				●		We stay overweight as a result of our higher conviction in China, where we believe recent rallies have been better supported by fundamentals, as well as our positive outlook on India and Korea.
	Asia Pacific ex. Japan		●				Australia's weak outlook keeps us cautious and Singapore equities are no longer attractively valued. This is our preferred funding source.
Credit	Credit		●				Credit valuations are not the most attractive compared to other asset classes.
	Investment grade		●				Spreads in IG remain very tight and we prefer the risk-reward of other areas of credit.
	High yield				●		Fundamentals remain robust and all-in-yields still look attractive, especially as rates are coming down. We prefer short-dated HY.
	Emerging market debt			●			Neutral but within emerging markets we prefer local currency as there are many regions with attractive real yields and/or steep curves.
Government bonds	Government bonds				●		We retain our overweight government bonds with a preference for EM local currency.
	US Treasuries			●			USTs look fair value, but deficit worries persist. The Fed is less inclined to cut too soon, and Treasuries have been less effective as a hedge in recent weeks.
	Euro core (Bund)			●			We stay neutral bunds, preferring regions where central banks have more room to cut rates such as Australia and New Zealand.
	UK Gilts			●			Gilts offer decent value. We don't believe they should trade at a significant premium without US-style self-induced price risks from tariffs.
	Japanese gov. bonds		●				JGBs continues to be the funding source with a moderate level of conviction. However on a hedged basis, JGB yields are increasingly interesting and offer attractive carry and roll down.
	EM local currency gov. bonds				●		There are several markets in EM, especially LatAm, with attractive valuations and high real yields. A weakening dollar also helps.
	Inflation linked bonds (US TIPS)			●			Linkers are still a decent hedge against stagflation but are less attractive given budget deficit concerns in the US.
Cash / currencies	Cash			●			Neutral cash
	US dollar		→	●			De-dollarisation theme still ongoing, but resilient growth and inflation keeps us neutral.
	Euro			●	←		We take some profits given the better short-term outlook for the dollar.
	Japanese yen			●	←		BOJ policy is too dovish for where the economy is at. Tactically neutralising given tariff uncertainty.
	Sterling		●				BOE dovish pivot has not played out, but Autumn budget should weigh on GBP strength.
	Emerging markets FX				●		A weaker dollar and positive flows towards EM equities are positive for EM FX.

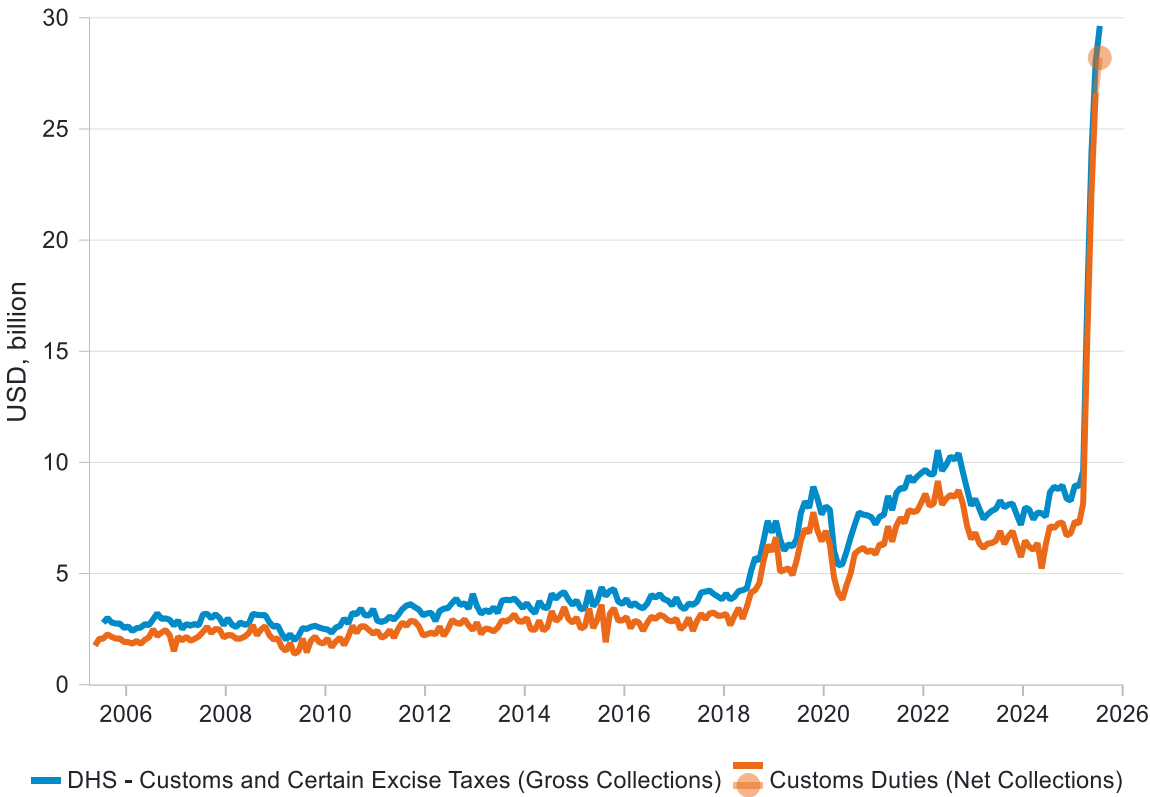
Source: Fidelity International, July 2025. Views reflect a typical time horizon of 12–18 months and provide a broad starting point for asset allocation decisions. However, they do not reflect current positions for investment strategies, which will be implemented according to specific objectives and parameters.

Appendix

Customs collections are currently tracking close to \$30 bn per month...

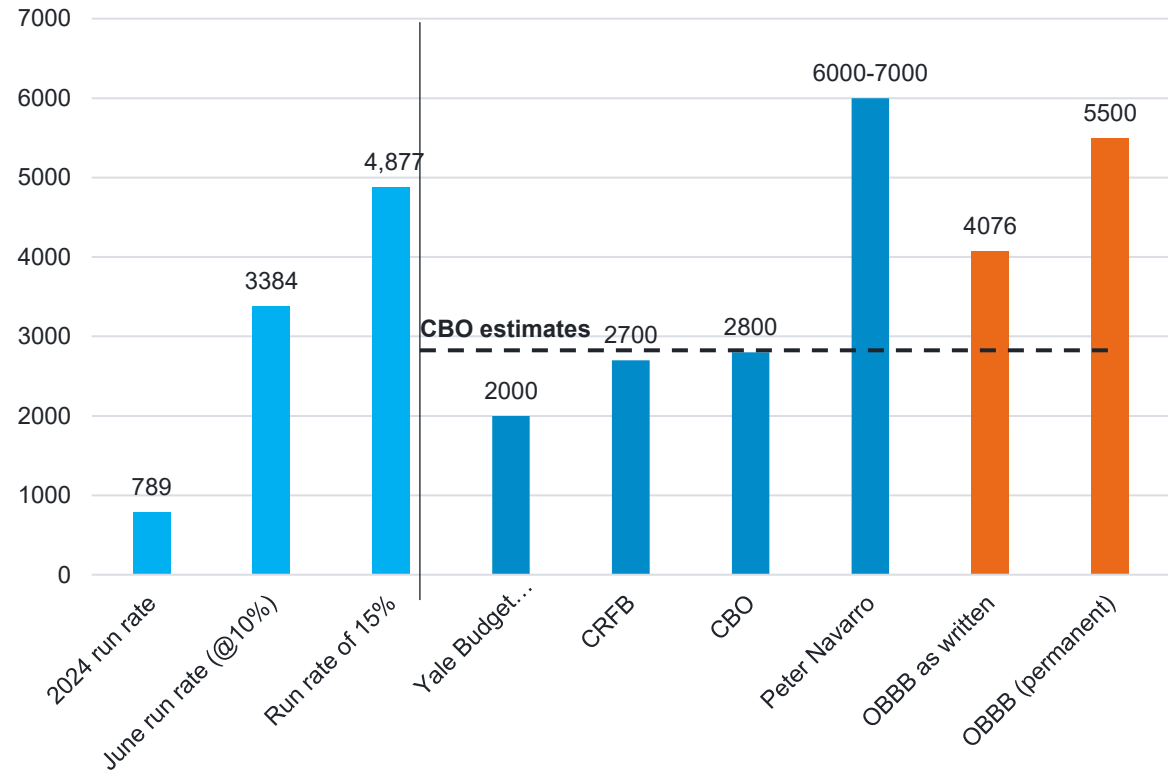
...which is ~260bn (1% of GDP) higher than last year. Observed ETR is at ~10% leaving more room for higher collections.

US custom collections



Note: dots indicate estimates for June 2025
Source: Fidelity International, Macrobond, U.S. Treasury, August 2025.

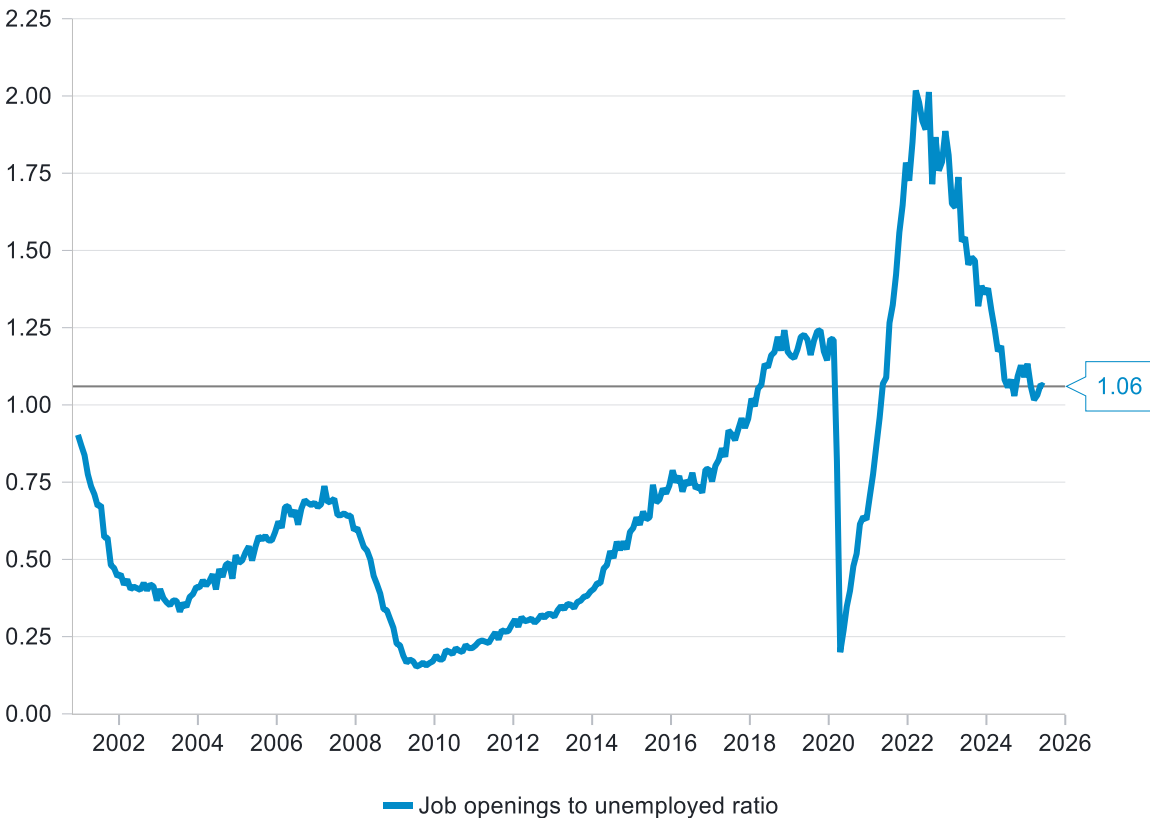
Custom revenues estimate vs OBBB (over 10-years, in \$ billion)



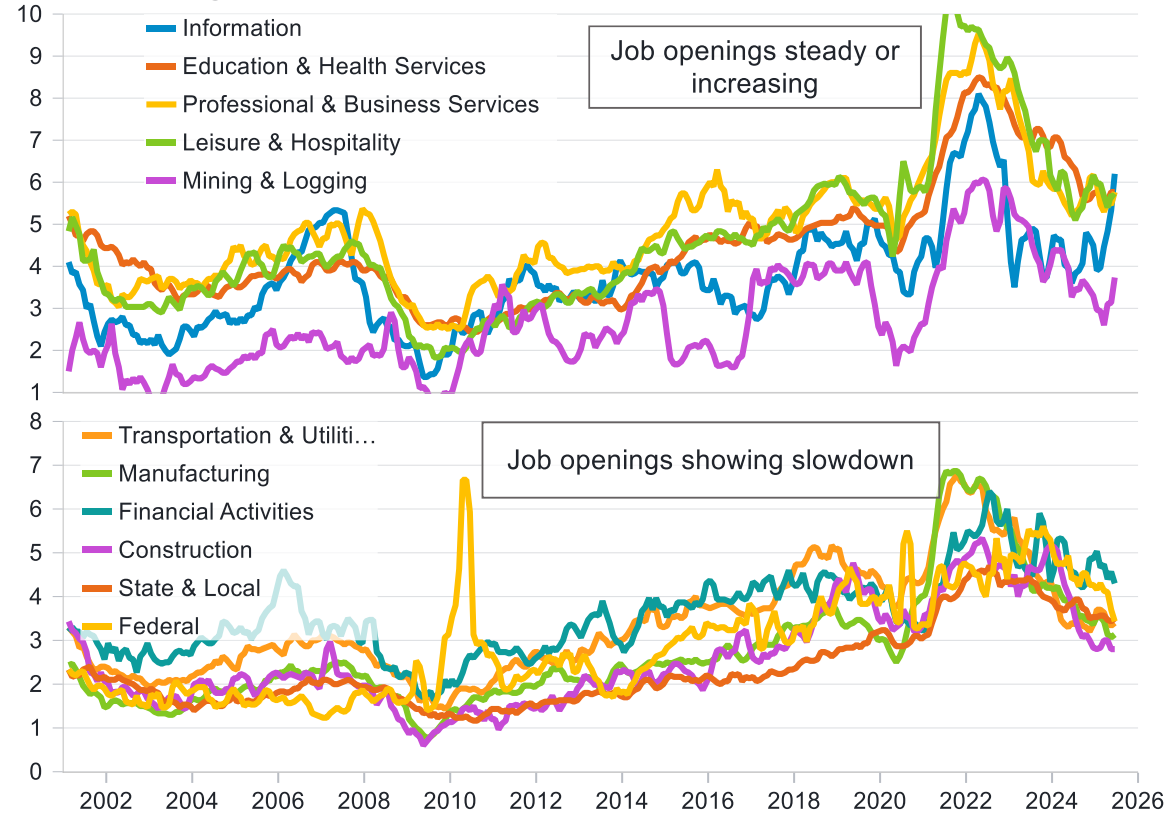
Note: latest CBO estimates as of June 4th are based on tariffs announced as of May 13th (does not include any impact from CIT rulings or 50% tariffs on Steel & aluminium). It assumes 2.5 tn in deficit reduction + 0.5 (interest saving) – 0.3 tn in negative output = 2.8 tn over 10 years.
Source: Fidelity International, CRFB, Macrobond, CBO, Yale budget Lab, August 2025.

Measures of labour market tightness

US job openings to unemployed ratio



Job openings rate as per sector



Source: Fidelity International, Macrobond, BLS, August 2025.

Source: Fidelity International, Macrobond, BLS, August 2025.

Indicators underlying our PCAs and Labour Market Tightness Indicator

Updated on a monthly basis

USA PCA Framework – Indicators used

US Current activity tracker
PMI Manufacturing - Production
PMI Manufacturing – Employment
NAHB Single Family Home Sales
Philly Fed Manufacturing Business Activity
Richmond Fed Manufacturing – Capacity Utilisation
PMI Non-Manufacturing - Business Activity
PMI Non-Manufacturing – Employment
Richmond Fed Service Sector - Revenue
Richmond Fed Service Sector – No of Employees (3mma)
UMICH Consumer Sentiment Current Conditions
Conference Board Consumer Confidence Present Situation
Mortgage Purchase Applications
US Future activity tracker
PMI Manufacturing - New Orders
NAHB Single Family Home Sales - In 6 months
Philly Fed Manufacturing - Future Business Activity
Empire State Manufacturing – New orders
Richmond Fed Manufacturing – Capacity Utilisation in 6 months (3mma)
PMI Services - New Orders
PMI Services - New Export Orders
Richmond Fed Service Sector Demand – 6 months ahead (3mma)
UMICH Consumer Sentiment Expectations
Conf. Board Consumer Confidence Expectations
Conf. Board Expectations of Buying New Home in 6M
Richmond Fed Manufacturing wages in 6 months (3mma)

Source: Fidelity International, 2025.

Eurozone PCA Framework – Indicators used

EA Current activity tracker
German Ifo Business Climate: Manufacturing
EC Industrial Confidence
EC Construction Confidence
PMI Manufacturing - Quantity of Purchase
PMI Manufacturing - Production
EC Service Confidence
PMI services
German Ifo - Business Climate: Services
German Ifo - Passenger car demand
EC Consumer Confidence
ZEW Economic Sentiment
EC Retail
EC Employment Expectation
EA Future activity tracker
German Ifo 6 Months ahead
EC Industrial Production expectations
PMI manufacturing New orders*
PMI manufacturing New Export orders*
PMI Construction New orders*
EC Services expected demand over next 3 months
EC Retail trade expected business situation
PMI services New business*
EC Consumption fin situation next 12 months
EC Consumption eco situation next 12 months
Sentix Future

Fidelity Labour Market Tightness Indicator

Dates in brackets show when indicator starts being used
NAIRU minus UR (31/3/1949)
Jobs minus workers (where JOLTS have been extrapolated prior to December 2000 using a composite Help Wanted Index) (31/1/1951)
Employment NFIB firms with positions not able to fill right now (31/10/1973)
NFIB single most important problem: percent reporting quality of labour (31/10/1973)
NFIB Businesses with few or no qualified applicants for job openings (30/04/1993)
JOLTS quits rate / hires rate (31/12/2000)
Full employment normal guesstimate minus part time work for economic reasons % employment (31/7/1955)
Conference board jobs plentiful minus jobs hard to get (31/1/1967)
Atlanta FED wage growth tracker: job switcher minus job stayer (31/3/1997)

Fidelity’s proprietary China Activity Indicator (CH-AI)

China Activity Indicator subcomponents

Sector	Indicator List	Weights
Industry	Major Ports Volumes	9.0%
	Caixin manufacturing PMI: Output	7.3%
	Manufacturing PMI: Production	7.3%
	Manufacturing PMI: Employment	6.5%
	Industrial Production	10.3%
	Total Industry	40.4%
Services	Caixin services PMI: Employees	6.5%
	Caixin services PMI: Business Activity	7.5%
	Auto sales	10.2%
	Domestic flight	8.5%
	Total Services	32.6%
Property	Residential property sales	9.7%
	Construction Starts	8.8%
	Cement Production	8.5%
	Total Property	27.0%

Source: Fidelity International, FIL Global Macro Team calculations, 2025.

Global Macro & SAA team

Powering asset allocation across Fidelity’s investment teams

Our team

Salman Ahmed Global Head of Macro & SAA	
Max Stainton Senior Global Macro Strategist	Stefan Rusev Senior SAA Strategist
Peiqian Liu Asia Economist	Edoardo Cilla CMA Strategist
Ashray Ohri Macro Strategist	Weiye Kou Associate CMA and SAA Strategist
Melody Yao Multi Asset Investment Associate	Edward Rayment SAA Research Associate

Our role

- Part of Fidelity Solutions & Multi Asset, working across Fidelity’s investment teams to feed into asset allocation decision making
- Leading research into macroeconomic and market dynamics, supporting asset allocation decisions and establishing core investment views

Evolving Fidelity’s capabilities

- Building out Fidelity’s capabilities in macroeconomic research
- Creating and maintaining Fidelity’s capital market assumptions (CMAs)

Source: Fidelity International, 2025.

Important information

All information is current as at 18 August 2025 unless otherwise stated. Not for use by or distribution to retail investors. Only available to a person who is a "wholesale client" under section 761G of the Corporations Act 2001 (Commonwealth of Australia) ("Corporations Act").

Within the slide deck the scenarios and risk assessments are not intended to be exact growth forecasts, but rather illustrations of potential outcomes based on particular assumptions about a number of variables, including supply side risks, monetary and fiscal policies and associated multipliers, corporate and consumer behaviour. Given significant uncertainties related to how the economic cycle might evolve, these scenarios are subject to change. We will be revising growth numbers and risk assessment continuously, as signals evolve, and more information becomes available.

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