

US economic and geopolitical outlook

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Global Economic Outlook

Outlook: Headline growth resilience will persist despite labor market weakness. A deeper easing cycle next year adds further upside growth risks

- **Economic growth: US economy remains resilient on consumption and AI-supported investment strength.** However, immigration tightening and a **prolonged government shutdown** presents further **downside risk** to the labor market.
- **Inflation: Tariff impacts will peak in the US this quarter,** while **spending resilience and Fed easing** adds further **upside risk** to near-term inflation prints. 2% more likely to serve as a floor than a ceiling in the coming years.
- **Monetary policy and interest rates:** We maintain **one additional Fed cut this year** and expect a **return to neutral in 2026, with risk of deeper cuts** if the labor market slows further.
- **Key economic risks: A sharper US labour market slowdown** presents a downside risk to growth **in the near term.** However, a **deeper easing cycle in 2026** would enable a **reacceleration in growth** and introduces further **upside to risk assets.** **Sectoral tariff uncertainty** persists.

Figure 1: Key growth forecasts*

SRI vs Consensus Forecasts

	Swiss Re Institute			Consensus	
	2024	2025	2026	2025	2026
Real GDP (% change)					
US	2.8	2.0	2.0	1.8	1.8
Eurozone	0.8	1.3	1.3	1.3	1.1
China	5.0	4.8	4.5	4.8	4.2
CPI (% change)					
US	3.0	2.8	2.8	2.8	2.9
Eurozone	2.4	2.1	1.8	2.1	1.8
China	0.2	0.2	0.5	0.0	0.8
10y Gov. Bond Yield (%)					
US	4.6	4.2	4.2	4.2	4.1
Eurozone	2.4	2.7	2.9	2.8	3.0
China	1.7	1.7	1.9	1.6	1.6
Central bank rate (%)					
US	4.4	3.9	3.1	3.7	3.2
Eurozone	3.0	2.0	2.0	2.0	2.0
China	1.5	1.2	1.2	-	-

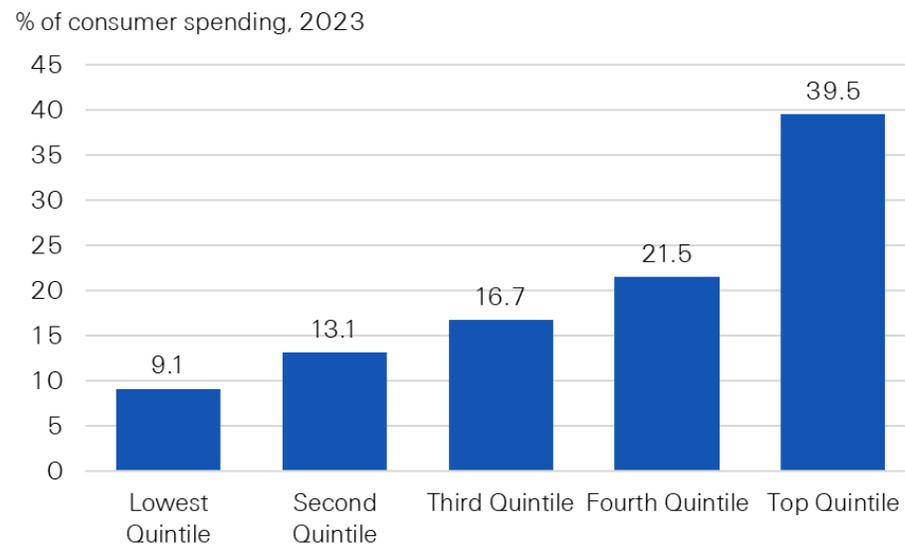
Sources: Bloomberg Consensus, Swiss Re Institute

Note: SRI forecasts as of 1 October; Bloomberg Consensus as of 16 October

Growth: The increasingly K-shaped US economy presents headline resilience, but vulnerabilities beneath the surface

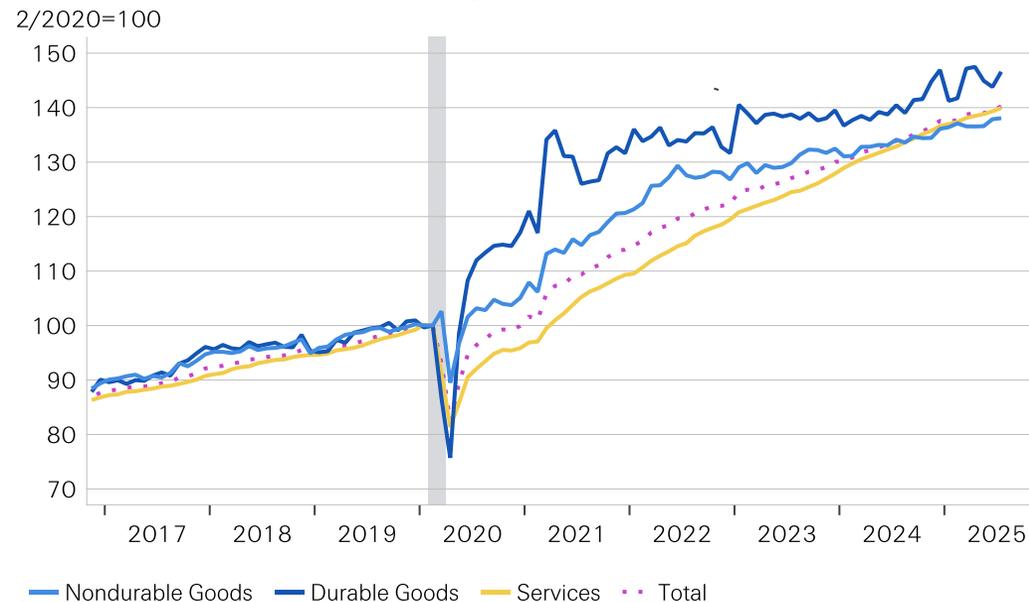
- US economy is increasingly **K-shaped**. **Tariffs and a weakening labor market** disproportionately hurt lower income consumers, while wealthier households are insulated thanks to **high asset prices and lower relative leverage**
- Imbalances are also evident across sectors**. **Manufacturing and housing have largely been in recession for two years**, but we expect lower interest rates and fiscal stimulus measures will help stabilize laggards

US: Share of consumer spending by income cohort



Source: Swiss Re Institute, Consumer Expenditure Survey, BLS

US: Consumption in line with trend

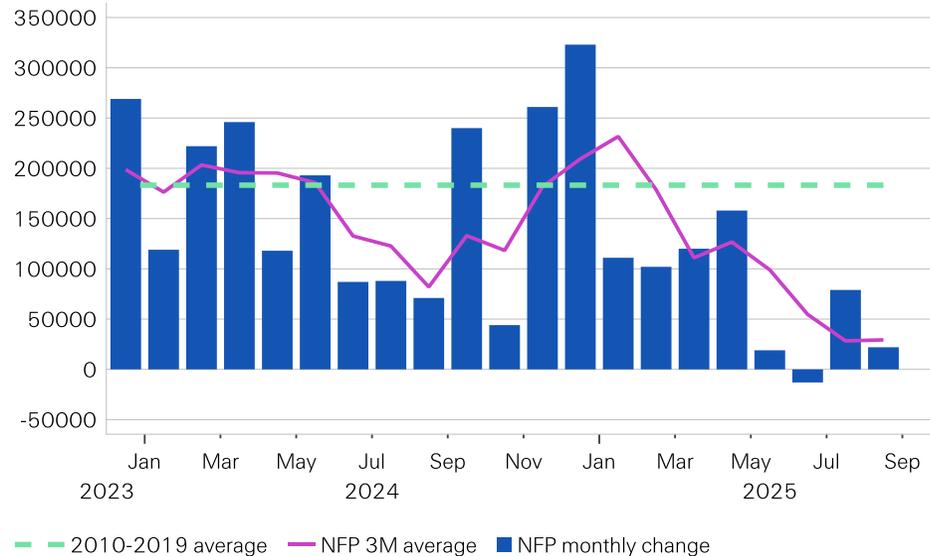


Source: BEA, Macrobond, Swiss Re Institute

Labor market: K-shaped economy will also keep employment conditions imbalanced, while cyclical and structural pressures weigh on hiring

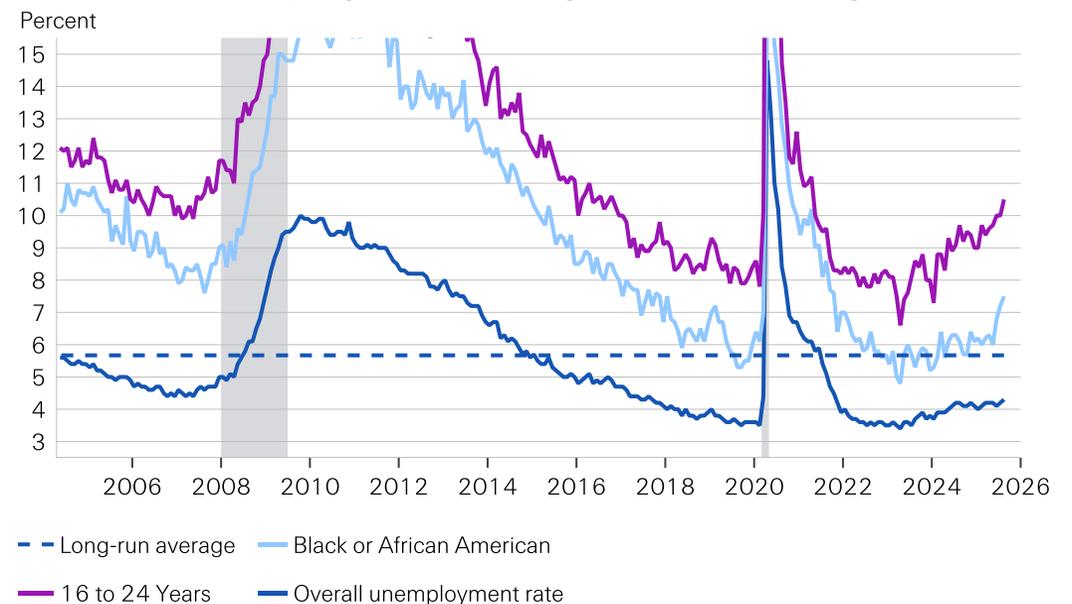
- The **low hire, low fire** labor market is here to stay. **Wage growth** remains above pre-pandemic trends. **Policy uncertainty** weighed on labor demand over the summer, while **immigration controls** will maintain a **low level** of job growth
- **The unemployment rate is historically low**, but there are **strong divergences** beneath the surface. **Rate cuts** will help some pockets of the job market, but overall risks skew to the downside due to both cyclical and structural factors

US: Job growth slowed sharply over the summer



Source: NBER, BLS, Macrobond, Swiss Re Institute

US: Unemployment rate dynamics differ by cohort

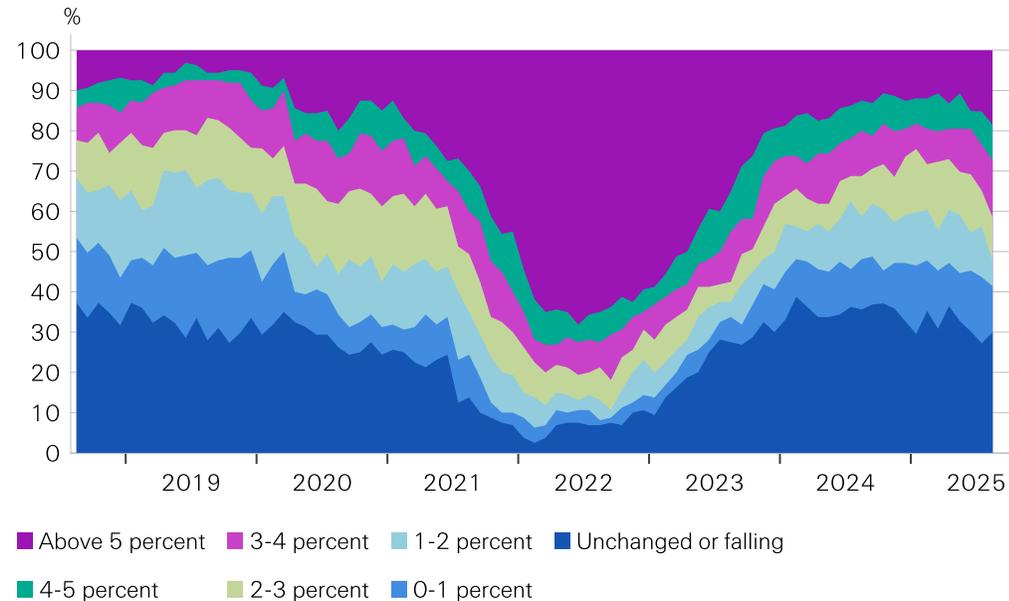


Source: BLS, Macrobond, Swiss Re Institute

Inflation: 2% is more likely to be a floor than ceiling in the new policy regime, with stubborn services and policy uncertainty adding upside risks

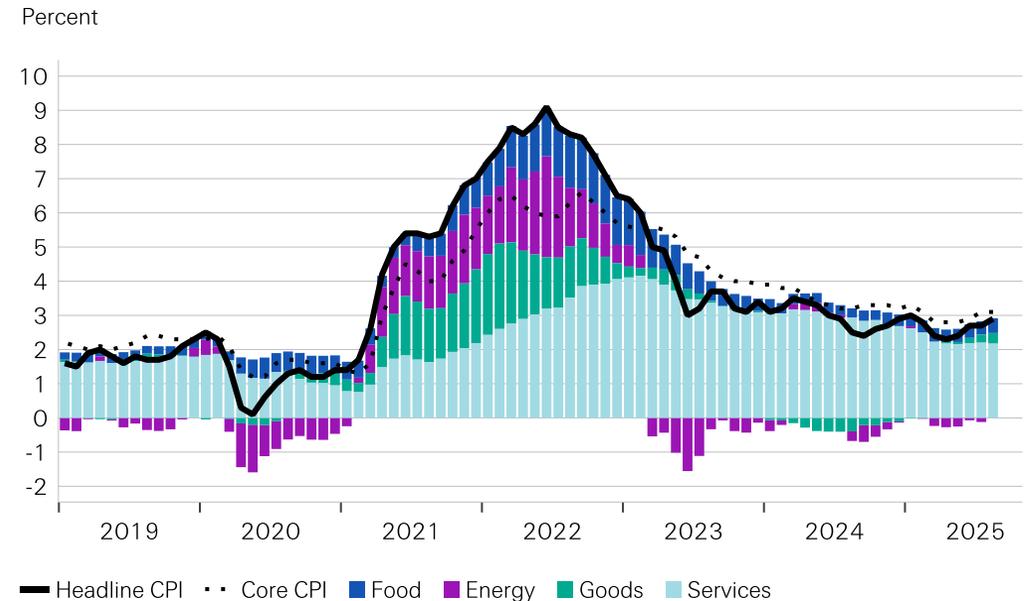
- **A larger than usual share of prices in the US economy are growing above 2% year over year** on a combination of durable business pricing power, near full-employment conditions, rising goods prices as tariffs take hold, and structural pressures
- **Contributions are primarily from services, while energy prices are less oppressive. Services are larger share of the overall inflation basket and** more relevant for the outlook than tariffs alone

US: CPI basket shows slightly broader inflation



Source: BLS, Macrobond, Swiss Re Institute

US: Consumer Price Index Contributions

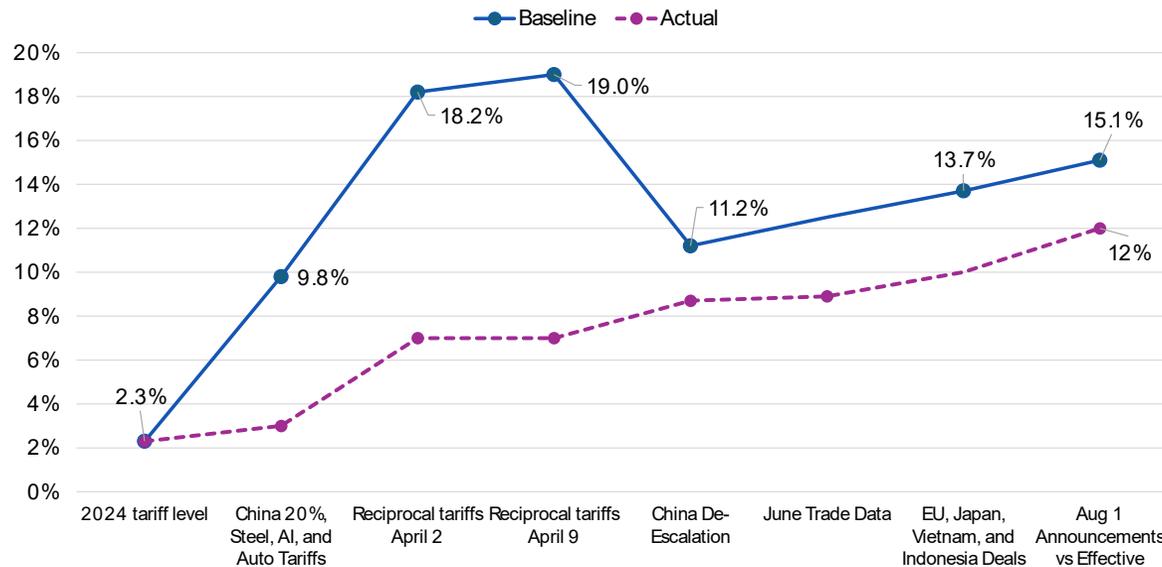


Sources: BLS, Macrobond, Swiss Re Institute

Tariffs and trade: Trump's tariffs have bent, not broken, the global trade system. Risks are for more structural inflation over the medium term

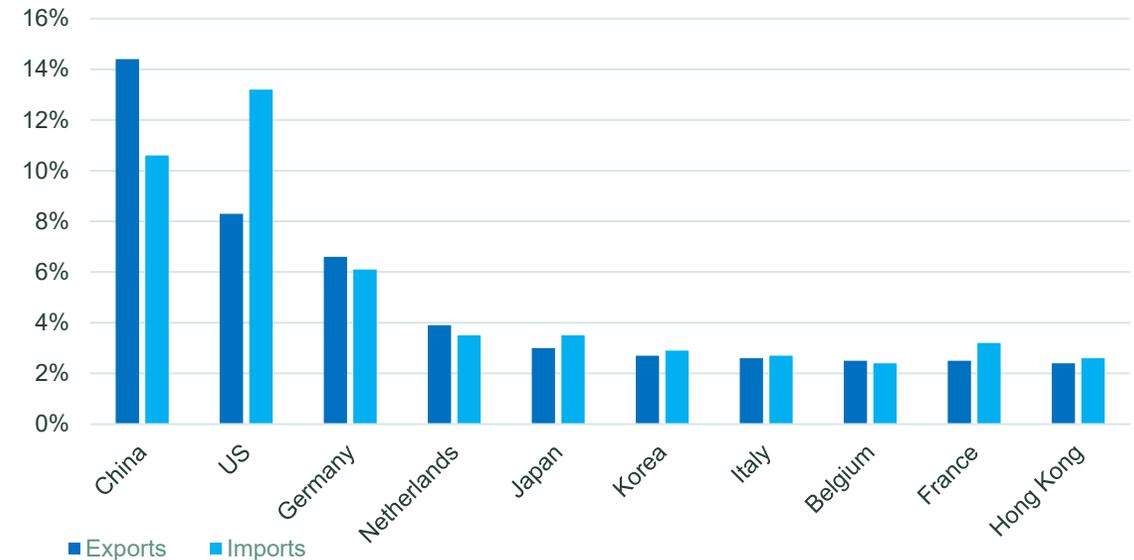
- The **top 10 importers account for 53% of global trade**, with the **US only 13% of world imports** and **8% of world exports**. Tariff policy shifts alone are **unlikely to destabilize** the global trading system
- **US effective tariff rate increase from 2.3% to 12%** has raised the **global average by 1.3ppts**, 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 2ppts**

Current vs expected US effective tariff rate



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

Leading exporters and importers in world merchandise trade in 2022

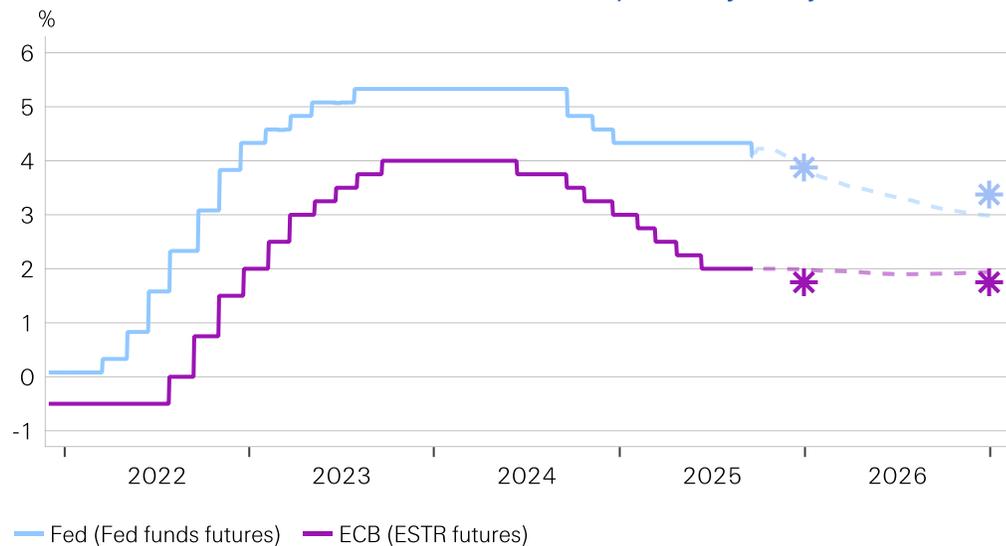


Source: World Trade Organization, Swiss Re Institute

Interest rates: Fed to provide greater policy accommodation over the coming months to offset slowing growth

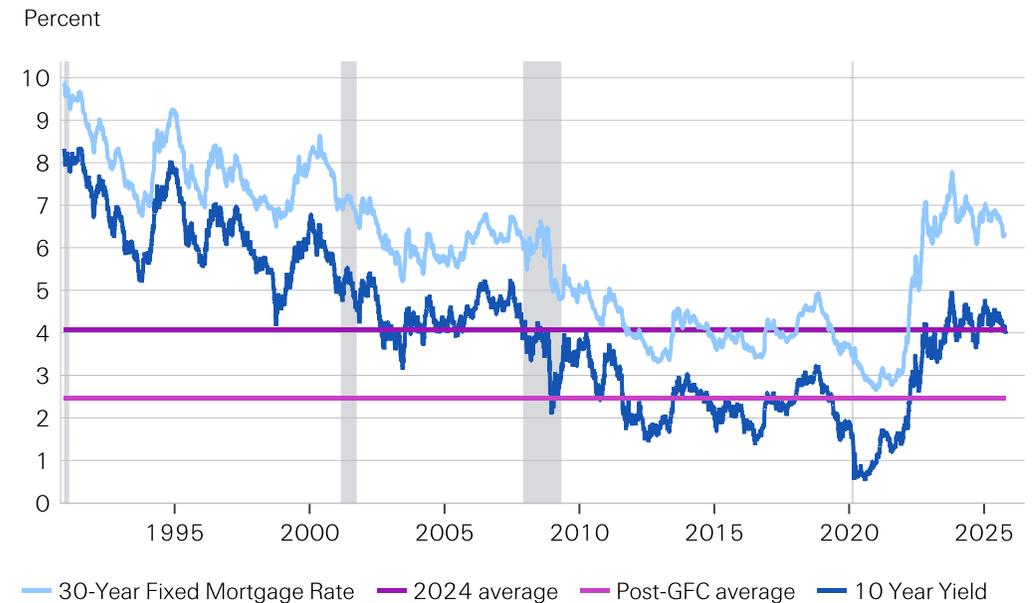
- We expect the Fed will lower its policy rate by **100bps before year end 2026** to offset further labor market softening. Risks are for a deeper easing cycle, particularly amid leadership changes in May
- The 10-year Treasury yield, conversely, is likely to remain elevated due to more **structural factors**. This will provide minimal support to still-elevated **mortgage rates**, and **further upside risks** will persist over the coming years

Central bank policy rates
SRI forecasts and market-implied trajectory



Source: Macrobond, Swiss Re Institute

US: 10-year Treasury yield and 30-year mortgage rate

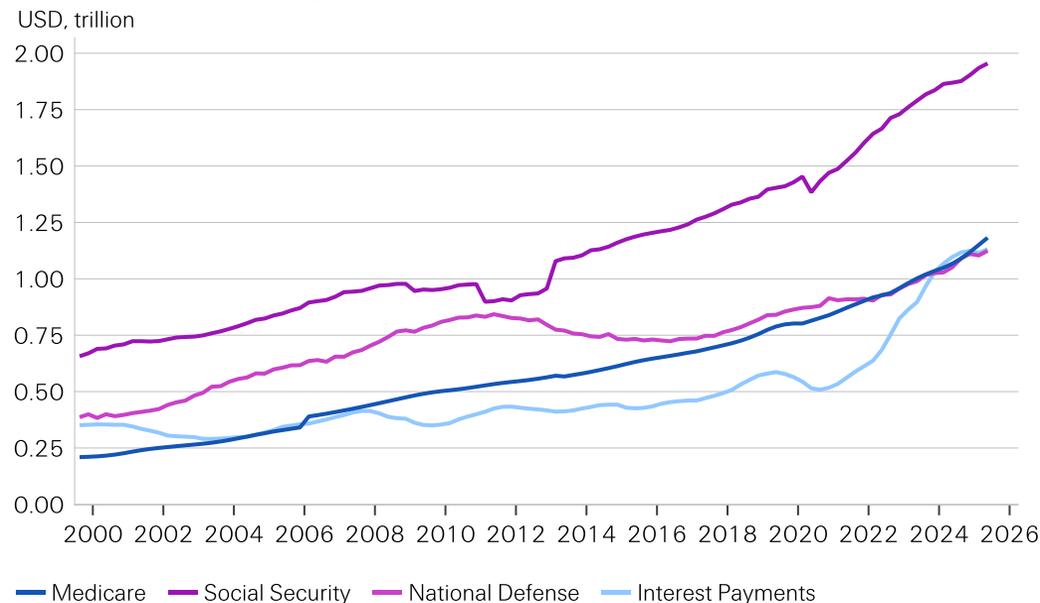


Sources: U.S. Treasury, Freddie Mac, Macrobond, Swiss Re Institute

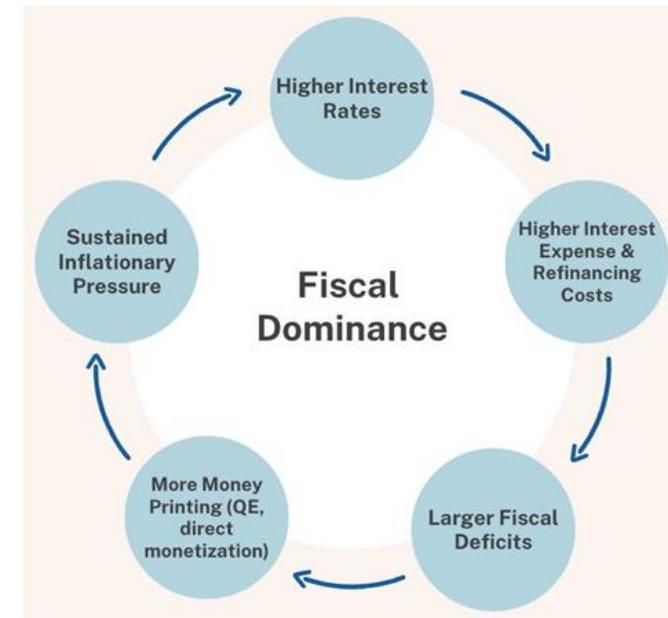
Debt: US debt trajectory is unsustainable, with no easy solutions. This raises structural risks of higher inflation, a weaker dollar, and higher interest rates

- The U.S. debt trajectory is on an **unsustainable path**, with rising deficits driven by **entitlement spending, interest costs**, and limited political appetite for fiscal restraint. This leaves no easy solutions, as **tax hikes and spending cuts carry significant economic and political trade-offs**
- Persistent fiscal imbalances raise structural risks of **fiscal dominance**, where monetary policy is constrained by the government's need to finance debt. This can lead to adverse economic outcomes as **markets demand greater compensation for fiscal risk**

US: We spend more on interest than defense



Source: BEA, Macrobond, Swiss Re Institute

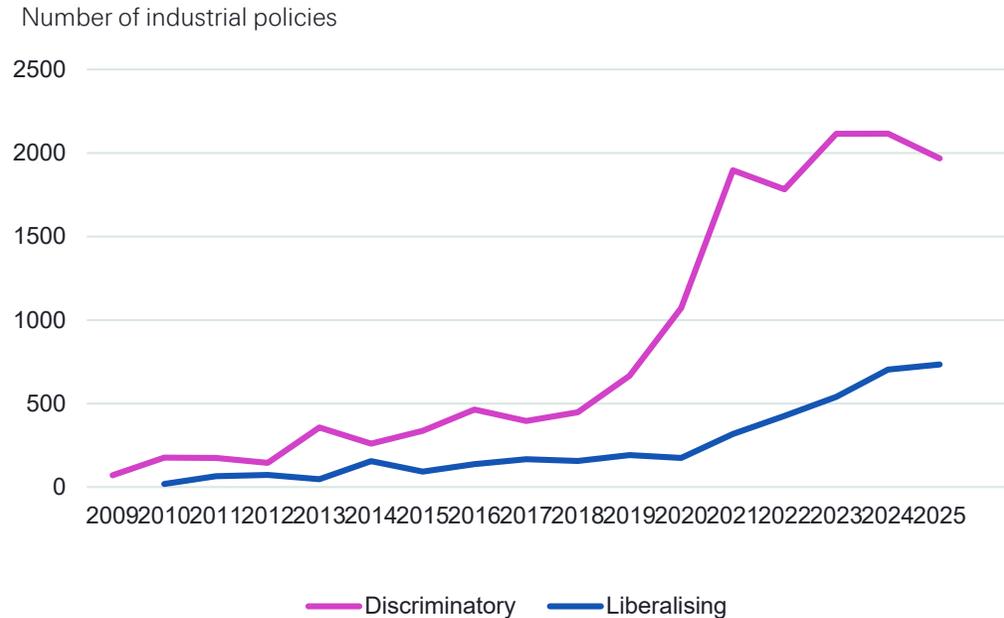


Source: Lynn Alden

Industrial policy: US strategic alignment means greater fragmentation, posing risks of higher inflation and financial diversification out of the US

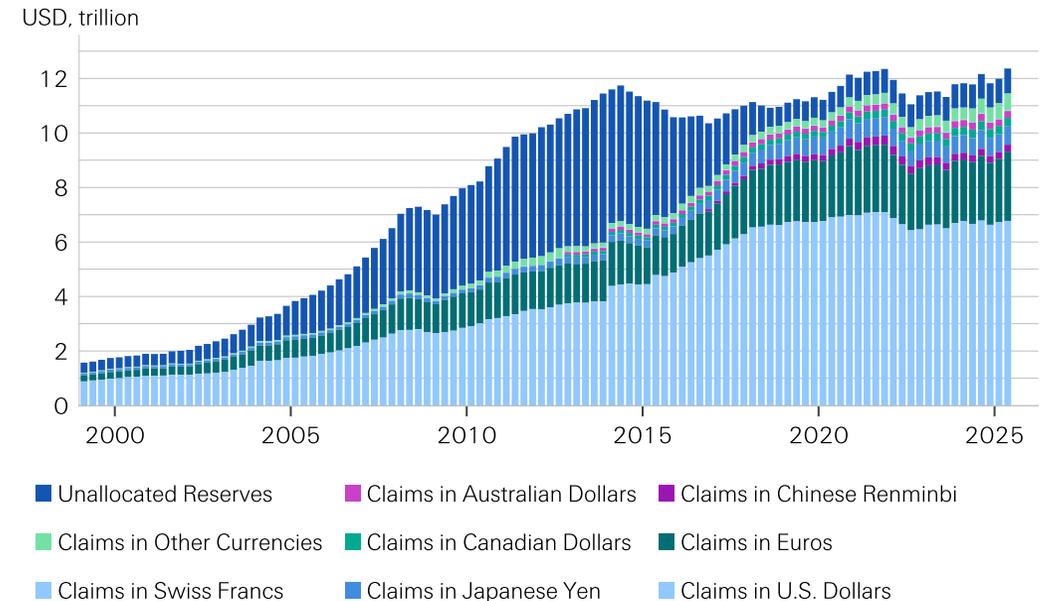
- The use of industrial policies has **risen sharply** in the past decade. As the US chip sector has surged in global significance and stock market importance, recent **US government stake purchases in private companies** is likely to broaden over the coming years
- Poorly designed industrial policies are prone to **resource misallocation** and contribute to **global economic fragmentation**. Policy changes under the guise of **national security** may encourage **greater dollar diversification**, even if it remains the reserve currency

Growth in industrial policies



Source: Global Trade Alert, Swiss Re Institute

World: International Reserves

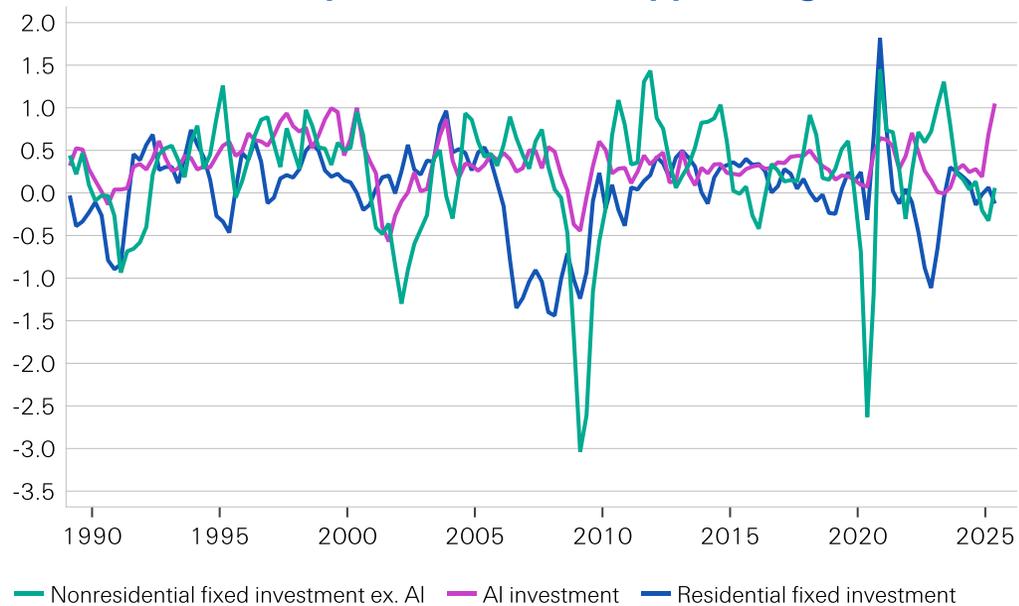


Source: IMF, Macrobond, Swiss Re Institute

AI: Economic dependency on AI poses downside risks to the economy and financial markets as capex investment slows

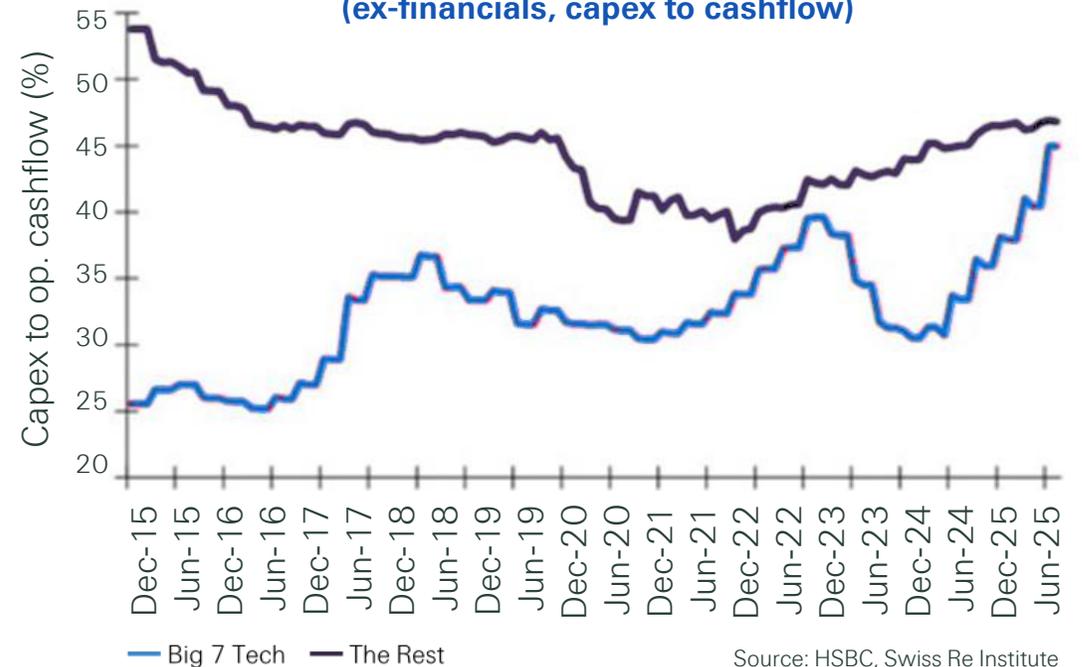
- **Significant capital expenditures** were a major support for US growth in 1 H25, driven by a **surge in AI investment** and **tariff-related frontloading** while other forms of investment flatlined
- These fading tailwinds present a **downside risk to growth** and risk asset performance in 2026 as **significant capital expenditures may slow** due to under-utilization, accelerated depreciation, and slowing enterprise adoption, which could **magnify earnings downside**

US: AI-related capex investment supported growth in H12!



Source: BEA, Macrobond, Swiss Re Institute

Capital expenditure of the Big 7 Tech companies vs. the rest (ex-financials, capex to cashflow)

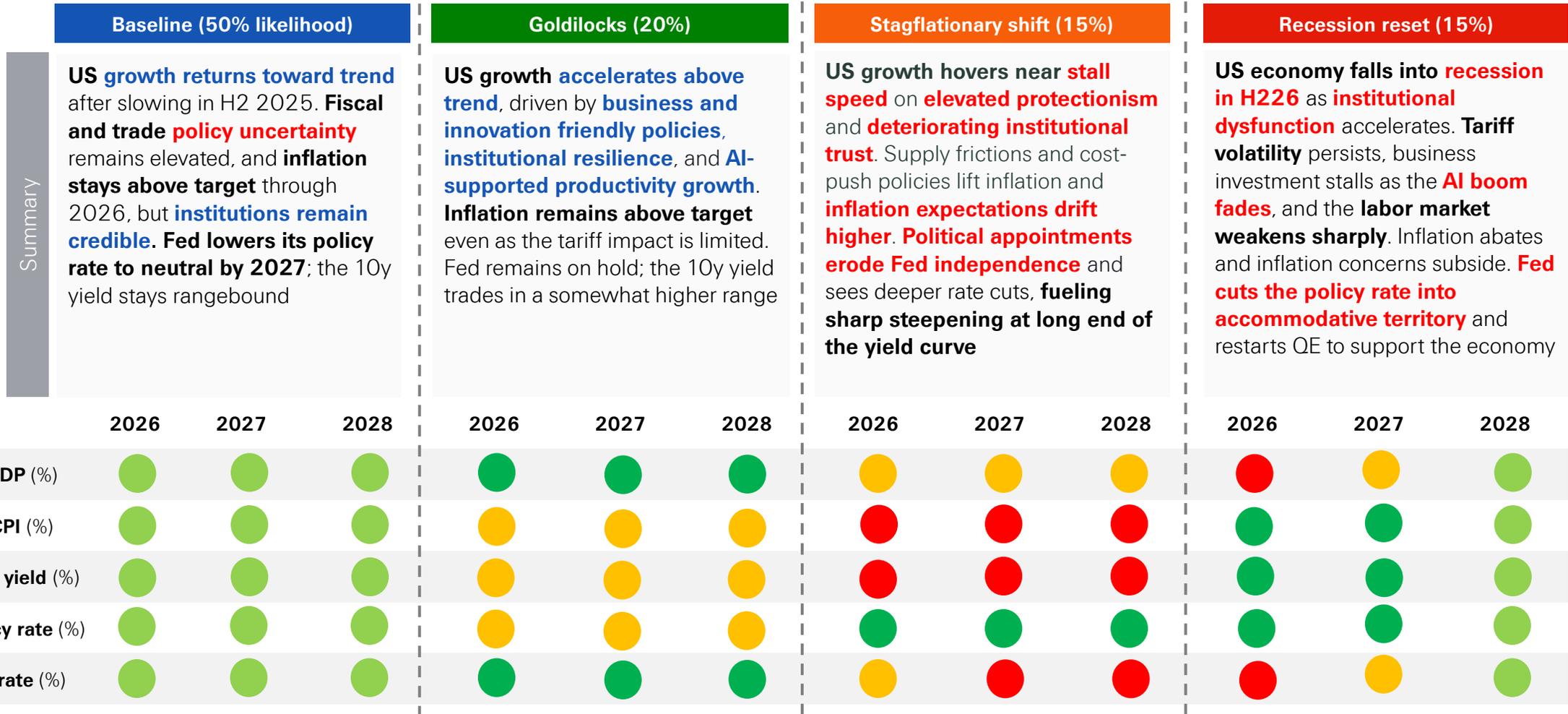


Source: HSBC, Swiss Re Institute

Mapping out the new policy regime

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 Adoption of tax changes with minor impact on Swiss Re (e.g., deduction of corporate SALT**)	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

Alternative scenario monitoring becomes more crucial amid economic uncertainty



Legend: For GDP, red denotes lowest growth while green denotes strongest. For CPI, red denotes higher inflation while greens denote lower. For the 10y yield, red notes higher yields while green denotes lower. For policy rate, green denotes lower while red denotes higher. For unemployment rate, green denotes lower while red denotes higher.

Thank you!

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