21 November 2024 Investors Banks Savings Banks

Markets & Trends 2025: Global economy on the catwalk



- German economy to grow 0.7 percent but set to underperform euro zone again
- Structural problems continue to limit German GDP growth
- Inflation of around 2 percent to enable ECB to make further interest rate cuts
- DAX seen at around 20,500 points at end of 2025

The theme of this year's Economic & Capital Market Outlook from Helaba Research & Advisory is "Global economy on the catwalk". Just like in the fashion industry, both the economy and capital markets are characterised by cycles and trends, which will be parading on the global economy catwalk in 2025. But what will be in vogue in 2025? Are trade tariffs set to remain in fashion or are they on their way out? One name set to make a big comeback on the catwalk is Donald Trump. What will Germany's collection look like? The end of the traffic-light coalition means each couturier has to completely rethink their designs. Helaba's experts have drawn up three scenarios that will be presented under the labels of "Workwear", "Haute Couture" and "The Emperor's New Clothes".

Baseline scenario: "Workwear" (probability: 65 percent)

The basic collection, "Workwear", is going to make a big splash in 2025. While protecting against a multitude of risks, at the same time it is the perfect attire for really tackling the job at hand. The leading central banks have pivoted towards monetary easing in 2024 and, as things currently stand, policymakers appear to have succeeded in getting inflation under control without triggering a deep recession. Interest rate cuts will support a recovery in the industrial cycle. While less expansionary fiscal policies are on the agenda in Europe, President-elect Donald Trump is planning sweeping tax cuts in the United States. As before, geopolitical tensions and rising protectionism will continue to have a negative impact.

2025 should see the global economy grow at around the same rate on average over the year as in 2024 (just under 3 percent). "Following two years of stagnation, Germany is set to expand again with growth of 0.7 percent – a rate that will continue to underperform the average in the euro zone (1.2 percent)", forecasts Dr. Gertrud Traud, Helaba's Chief Economist, adding: "The principal reason for this relatively lacklustre growth is the fact that Germany's competitiveness has been eroding for years".

It is unlikely that inflation will be a dominant factor in 2025 any longer. "Prices are set to rise at a rate close to the ECB's inflation target in 2025, both in Germany (2.1 percent) as well as the euro zone as a whole (2.2 percent)", says Dr. Traud. As such, central banks will continue to pursue the course they have embarked on in 2024. The ECB will likely reduce the deposit rate to 2 percent, while in the United States, the Fed is set to trim the Federal Funds Rate to around 3.5 percent.

Asset classes in the baseline scenario "Workwear"

While interest rate cuts should provide a relatively positive environment for **bonds**, fiscal policy and other political issues will emerge as critical factors for sovereigns. Yields below 2 percent for 10-year German Bunds and 4 percent for US Treasuries are expected to be only temporary. By the end of 2025, benchmark issues are likely to be yielding around 2.5 percent and 4.5 percent, respectively.

Equities will remain attractive as falling key interest rates create additional scope for valuations. An improving global growth and earnings outlook also bodes well for a modest increase in prices in 2025. The DAX is forecast to reach around 20,500 points by the end of 2025.

In 2025, the German **real estate market** should see a modest rise in house prices with a continued high level of demand and shortage of supply. At the same time, there is likely to be a further decline in new construction. In the commercial property segment, prices should stabilise and transaction activity is set to climb again.

Gold will continue to benefit from the easing in monetary policy and ongoing geopolitical tension. For this reason, it is expected to shatter more records in 2025, even if not at the same pace as this year. At year-end, gold should be trading at just over 2,800 US dollars per troy ounce.

The political environment will be the dominant factor for the **US dollar** in 2025. Monetary policy will provide little impetus as the Fed and the ECB will reduce their key interest rates by a similar magnitude. However, US President Trump is likely to fuel volatility on the markets, particularly with his trade policies, and a strong dollar is unlikely to be his goal. The euro-dollar exchange rate should settle at around 1.10 by the end of 2025.

Negative alternative scenario: The Emperor's New Clothes (probability: 25 percent)

The global economy plunges into a recession. With an economy dependent on exports, Germany is disproportionately impacted by protectionism and disruption to supply chains. This leads to a contraction in German gross domestic product of around 2 percent in 2025. The United States, less dependent on industry and foreign trade, is not as badly affected. Unemployment rates surge, while falling oil prices and companies' dwindling price setting power dampen inflation.

In this environment, central banks respond by pursuing an even more accommodative monetary policy than in the baseline scenario. Due to considerably lower key interest rates and declining inflation expectations, the yield on 10-year German Bunds falls towards the 1 percent mark. The DAX slumps temporarily to 12,500 points. In a weaker economic environment, the correction in commercial real estate prices gathers speed again. While the performance of residential property is more stable, the recent trend towards rising house prices stops. The euro-dollar exchange rate drops as low as 0.90.

Positive alternative scenario: Haute Couture (probability: 10 percent)

Economic growth picks up sharply and, instead of the simple recovery in the industrial cycle in the baseline scenario, there is a boom. Less regulation and greater global collaboration alleviate some of Germany's structural problems, which enables the country to achieve economic growth of 2 percent in 2025. In the United States, less red tape and a more dynamic pace of innovation rapidly yield results. The US economy grows strongly in 2025.

In this scenario, the average inflation rate in German is 3.5 percent. Higher oil prices feed into consumer prices, particularly in the United States. Central banks tighten monetary policy, but that only prevents the economy from overheating. As a result of rising key interest rates and higher inflation expectations, the yield on 10-year German Bunds climbs to 4 percent. By the end of 2025, the DAX breaches 23,000 points. Real estate benefits from a strong expansion in the overall economy and a lower level of uncertainty. The euro dollar exchange rate rises as high as 1.25.

Contact



Rolf Benders

Head of Communication / Press Officer

+49 69 / 91 32 - 21 92

LinkedIn

Send a message



Ursula-Brita Krück

Deputy Press Officer

+49 69 / 91 32 - 21 92

LinkedIn

Send a message