

New realities, old risks

The summer has passed with the feeling that the initial impact caused by the Trump administration's economic policy decisions has been lower than initially expected. After compensating for the effects caused by «anticipation» of the tariff hikes at the beginning of the year, the snapshot of economic activity reflects an overall growth cycle that remains in an orderly landing phase and, therefore, far from the scenarios involving a recession. The significant resilience shown by the US, China and India is offsetting the weakness of the euro area, allowing global growth to maintain a cruising speed close to 3%, as reflected by the global PMI which stood at a 15-month high in August. It is true that the average US tariff is going to be much higher than it was at the beginning of the year (17% versus 2.5%) and that the levels imposed on some countries (such as Brazil, Switzerland and India) will have a negative impact on growth. The agreement with China is also yet to be finalised while the US courts reach a decision over the legal avenues used by the executive branch to justify the tariff hikes. However, for the time being the effects on growth are proving to be moderate, and with the new tariff map now laid out, the potential impact of uncertainty on economic agents' decisions has been reduced thanks to the ruling out of a trade war.

On the inflation front, in the absence of retaliation, the impact is being transmitted gradually. Even in the US, the data for Q2 reflect that companies are assuming a significant portion of the tariff hike, without it having a major impact on profits. This combination of growth and inflation will allow the widespread easing of global monetary policy towards neutral territory (–100 bps in the last 12 months) to continue – a trend which the Fed could soon join in a bid to offset the first signs of weakening in the labour market. The situation at the crossroads of the American central bank contrasts with the sense of comfort emerging from the ECB's latest messages regarding the current level of interest rates, now that inflation has stabilised at around 2%.

At this juncture, the monetary policy transmission channels could be affected by new tensions in the bond markets that are affecting the usual suspects (France, the United Kingdom and Japan) as well as the US. This reflects concerns regarding fiscal sustainability and the Fed's independence, as well as certain mismatches between market supply and demand, especially in the long part of the curve. The 30-year American bond, a key benchmark, has returned to the 5% zone and in Europe the realignment of risk premiums has been consolidated, with that of France (80 bps) lying closer to Italy's (87 bps) than Spain's (60 bps) and with the yield on the British 30-year bond at its highest this century (5.6%). Essentially, doubts remain over the fiscal margin that is available in a number of OECD countries in order to tackle the challenges of the new geopolitical scenario, the needs of the energy transition and the medium-term effects of demographics, a sphere in which trends tend to be difficult to reverse in the short term (see the [Dossier in this same Monthly Report](#)). This is in addition to the misgivings about how the problem of fiscal sustainability could contaminate monetary policy, which has been treading on thin ice in the last decade, forced to test unconventional tools as a result of assuming responsibilities that were not part of its usual remit. This emphasises even more the importance of the central banks' autonomy.

In this way, the markets' focus of attention will shift until the end of the year from the trade front to the budgetary front, at the expense of consolidating the narrative that the impact of investment in AI (the latest estimates place it at 4-7 trillion dollars by 2030) on productivity – and, therefore, on potential growth – can offset the distortions in global supply that the new geopolitical scenario will entail. In any case, these are the first strikes of the transformation process in which the world economy is currently immersed and which in the near future will test everything from the trade relations between the major economic blocs to the solidity of the institutions that have generated well-being in recent decades, starting with the independence of the central banks and regulatory bodies. Such things tend to be missed when they are already difficult to recover and – like with other important facets of life, and to paraphrase Quevedo – the lessons tend to be learnt late and painfully.

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