

Global Economic Scenario analysis from Schroders

David Rees, Head of Global Economics at Schroders

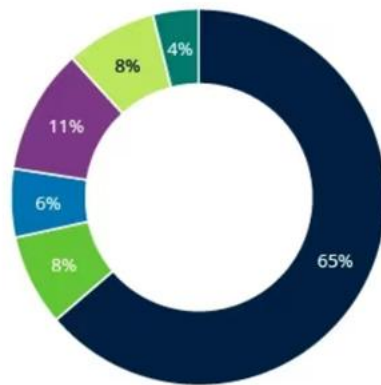
Economic and policy uncertainty remains elevated.

The Schroders Economic group explore 6 possible economic scenarios for the next quarter.

US soft patch has the highest probability outside of our baseline

Scenario probabilities

%



■ Baseline ■ Aggressive rate cuts ■ Higher tariffs ■ US soft patch ■ Dollar down ■ Global fiscal crisis

Source: Schroders, September 2025. 616221

US economic growth has held up well

Baseline

Summary

We remain relatively optimistic on the global economic outlook and expect growth of 2.5% in 2025 and 2.7% in 2026. Tariffs may be higher than we originally expected, meaning that export-driven economies could face a soft patch. But the US labour market remains in good shape, while evidence of a cyclical pick-up continues to emerge in Europe. Export-driven economies may face a soft patch as trade flows normalise.

Macro impact

Inflation in the US is likely to remain elevated at 2.8% this year and 3.3% next year. In addition to this week's cut, the Fed is expected to cut rates again in December and keep rates on hold next year. In comparison, we think the ECB and BoE are already at the end of their policy easing cycles.

Higher tariffs

Summary

Despite positive talks this week, trade negotiations with China could still break down meaning that the 145% tariff on goods is reinstated in Q4 of this year. At the same time, the deal with the EU falters before it is signed, while the US imposes more levies on certain sectors. The US effective tariff rate rises much further than in our baseline, while trading partners respond with retaliatory tariffs.

Macro impact

Deflationary: A sharp slowdown in global trade, aggressive cuts in capex and a collapse in confidence result in a global recession. Higher tariffs cause goods inflation to surge, notably in the US, but weaker growth and lower commodity prices eventually pull inflation down. Against this backdrop, the Fed keeps interest rates on hold while central banks elsewhere deliver more easing than our baseline forecast.

Aggressive rate cuts

Summary

Intense political and market pressure forces the Fed to cut interest rates aggressively despite the US economy remaining robust. In this scenario, the Fed is assumed to cut rates more aggressively than the baseline from Q3 onwards.

Macro impact

Reflationary: Global growth is boosted as rate cuts increase US demand. But further stimulus into an economy that already faces capacity pressures means that rate cuts fuel higher inflation rather than stronger real growth in the US, eventually forcing the Fed to hike rates again in 2026.

Dollar down

Summary

Investor concern over Trump's policies reduces the demand for US assets which, against a backdrop of large twin deficits, leads to a further 20% depreciation of the dollar by the end of 2026. This causes increased borrowing costs in the US as investors require a higher term premium to hold US debt.

Macro impact

Productivity boost: Tighter financial conditions lead to weaker US growth relative to the baseline, while inflation rises due to higher import costs. However, other parts of the world benefit from the disinflationary impulse from the weaker dollar. In particular, emerging markets benefit from lower inflation and interest rates that result in stronger growth.

US soft patch

Summary

Uncertainty over the business environment causes US companies to stall hiring and capex spending plans in the second half of this year. At the same time, the slowdown in the labour market results in consumers saving more and a stagnation in the US economy and fears of a recession.

Macro impact

Deflationary: A soft patch in the US economy from Q3 onward leads to a slowdown in activity to ease capacity constraints. As inflation falls back, central banks have scope to ease monetary policy. With the Fed cutting rates more aggressively than in our baseline, this leads to a recovery in US growth in the second half of 2026.

Global fiscal crisis

Summary

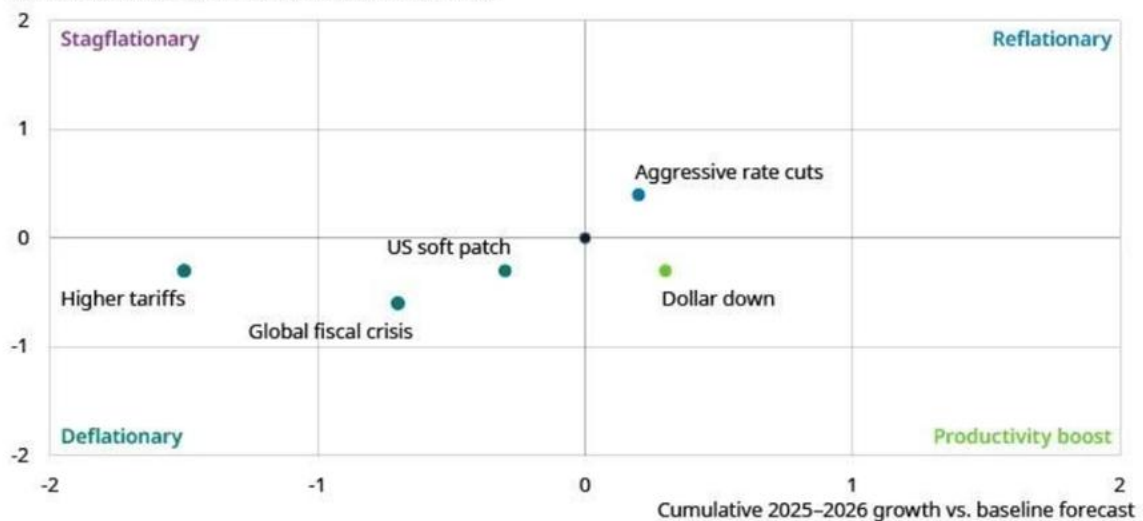
While Trump's large fiscal package turned out to be less damaging than the market had feared, weaker demand for US Treasuries causes long-term yields to rise sharply. Contagion pulls yields higher globally, exacerbated by concerns about debt sustainability in markets such as the UK, France and Japan.

Macro impact

Deflationary: Higher term premiums across the global economy cause financial conditions to tighten, which reduces household disposable income and corporate capex spending. This results in a decline in growth and inflation, which allows some central banks to cut rates in 2026.

Scenario grid

Cumulative 2025–2026 inflation vs. baseline forecast



Source: Schroders, September 2025. 616221