Contactus@
ausbil.com.au

ausbil

Mid-year Global Economic & Global Equity Outlook

Global SmallCaps & Global Listed Infrastructure

July 2025

Ausbil Investment Management Limited
ABN 26 076 316 473
AFSL 229722
Level 27
225 George Street
Sydney NSW 2000
GPO Box 2525
Sydney NSW 2001
Phone 61 2 9259 0200

Global Economic Outlook

Following the onslaught of tariffs, Ausbil went into the 'war room' on April 2nd to map out and navigate economic and investment strategy. As a result, we implemented a risk management framework based on scenario analysis. We did the same successfully during the Pandemic.

Within our base case scenario, our key assumption is that the Trump administration will negotiate on a bilateral basis with willing countries to adjust their respective tariff levels lower, toward the minimum 10% level, with the Fed cutting by up 50 to 75 basis points. For completeness, our bear case assumes that higher tariffs remain with little downward negotiation (this is not our view), and central banks are late to cut rates to offset the growth impact, leading to a shallow technical recession. Our bull case assumes new bilateral negotiations result in effective tariffs falling below the 10% average, with multiple rate cuts from the Fed totalling more than 75bps, with the US economy achieving 2.5% year-average growth in calendar 2025, and a faster decline in the rate of core inflation to target. Our 'bull case' scenario has been ascribed a 20% probability by Ausbil, the 'bear case' a 15% probability, and our 'base case' scenario a 65% probability.

Jim Chronis
Chief Economist, Associate Director – Debt and Diversifieds

Subsequent developments from our updated scenario analysis have validated our base case assumptions and conclusions, with follow-up tariff relief announcements from President Trump, and seventy-five countries currently in bilateral negotiations with the US, markedly subduing market volatility, and seeing a return in market confidence, reflected in the outperformance of global equity markets.

Ausbil's view of the US economy is that tariffs will have a downward drag on growth in the near term before growth begins to build again at the end of 2025, and into 2026. We think that the chance of a US recession is lower than the market is ascribing given the mitigating factors discussed below. With the hard monetary tightening undertaken by global central banks in 2022 and 2023, monetary authorities have significant room to stimulate should this be needed. Of course, we will keep a watchful eye on this and make any necessary adjustments as events unfold.

Our base case for which we currently ascribe a 65% probability sees the US economy avoid recession, though suffering a materially weak June quarter of stalling growth, before growth begins to strengthen as the tariff shock is absorbed, and countries negotiate better outcomes. Underpinning this view is a number of assumptions that we think the market has ignored, including faster tariff relief through bilateral negotiation, the US tax reduction act, Federal Reserve rate cuts to support the economy, and targeted assistance through tariff exemptions for key industries critical to the defence sector as part of the industrial military complex.

Under this scenario, the key question is what shape and duration the recovery will take. Ausbil sees within our base case three potential sub-scenarios, including a V-shaped recovery (where growth rebounds quickly after a weak quarter), a U-shaped recovery (where it takes at least two or three quarters for growth to turn around), and a 'tick swoosh' shaped recovery that takes longer. At this stage, it is too early to determine what type of recovery we will get, as it depends on the world's ability to reverse some of the new tariff imposts through negotiation.

Under our base case, Ausbil has revised the US growth outlook to a lower 1.7% for calendar 2025. This average run rate masks the dynamic profile in quarterly annualised growth rates, which will see a materially weak to stalling Q2'25, followed by a recovery starting in Q3'25 which accelerates into Q4'25, setting up a higher exit growth rate moving into 2026. As Chair Powell views the tariff impact on core PCE inflation as predominantly transitory, the Fed will be able to cut rates. This will function as a circuit breaker to the tariff shock, arresting collapsing consumer and business sentiment, and redress the pause in investment plans and the tightening in financial conditions from its impact on aggregate demand for goods and services. In total, this reduces the risk of a negative feedback loop on domestic activity, triggered through stalling employment hiring, slowing investment and consumer hesitancy to spend.

Reading the Street's opinions on inflation, most commentators are calculating near-term upward tariff inflation pressure, but they are not making any notable adjustments to inflation for energy price falls, nor their expected slowing of growth. In other words, the market is adding tariff inflation contribution to the unadjusted base inflation level of 2.7-2.8%. In our view, this is unrealistic and too simplistic. Base inflation will be lower should growth slow and interest rates reduce.

As illustrated in Table 1, tariffs were the catalyst for Ausbil to lower 2025 growth forecasts for the US to 1.7% (from 2.2%) and global growth to a range of 3.0%-3.3% (from 3.5%). The higher tariff situation confronting China will see the authorities 'forcibly' deploy additional expansionary policy measures in meeting their resolute 5% growth target and to alleviate the expected drag to export facing industries. For context, Ausbil still sees Chinese growth at 4.6% for 2025 (unchanged from our forecast made in 2024).

Table 1: Global growth – slower in 2025, improving growth profile into 2026

Real GDP year average %	Long run average 2010 to 2019 (pa)	2025 Ausbil (f)	2026 Ausbil (f)
United States	2.3	1.7	2.1
Japan	1.2	1.1	0.8
Europe/Area	1.4	1.6	1.8
China	7.7	4.6	4.5
India	7.0	6.5	7.0
Australia	2.6	2.5	2.8
Global GDP	3.7	3.0 to 3.3	3.2 to 3.5

Source: FactSet, Ausbil, as at April 2025, (f) denotes forecast.

We should keep in mind that in the background there are several longer-term structural drivers that are offering growth opportunities that will help drive new value supply chains across sectors. These include an increased commitment to military spending globally (as the US withdrawal of support for Ukraine and others has sparked an upward shift in defence spending in Europe, Scandinavia and other countries); increased investment in infrastructure to accommodate the growth in artificial intelligence; ongoing investment to secure independent energy security; and the increase in demand for electricity over carbon-based energy. Carbon free energy sources, primarily from renewables, are expected to become the dominant force in global energy systems, reducing reliance on fossil fuels.

Outlook for Global Essential Infrastructure

While tariffs and mixed signals from the US economy have introduced near-term uncertainty, we remain constructive on the outlook for both the US and Europe. The structural themes underpinning portfolio performance not only remain intact—they are accelerating. Notably, the increasing AI-driven buildout of data centres is driving a step-change in electricity demand, reversing decades of flat load growth. With no new coal generation coming online in North America, the resulting capacity gap will require a combination of renewables, flexible gas infrastructure, and significant investment in grid transmission—creating multiple investable opportunities across the Essential Infrastructure universe.

Against this backdrop, Essential Infrastructure remains well positioned. Its core characteristics—contracted or regulated cash flows, inflation linkage, and low earnings volatility—continue to offer defensiveness and income stability. Valuations remain attractive, particularly in areas aligned with long-term secular trends such as decarbonisation, digitalisation, and energy transition. We remain fully invested, with a continued emphasis on downside protection, capital discipline, and asset quality in an uncertain macro environment.

Tim Humphreys
Head of Global Listed Infrastructure

Jonathan Reyes
Co-Head of Global Listed Infrastructure

Natasha Thomas
Portfolio Manager - Energy and Communications

Paul Johnston
Portfolio Manager - Utilities

Outlook for Global SmallCaps

The first half of 2025 has been characterised by heightened market volatility, with a significant fall in markets as President Trump announced his broad list of country tariffs on 2 April, "Liberation Day". The decision to impose new trade barriers and significant tariffs on China and the European Union introduced fresh uncertainty into global markets, contributing to fluctuations in equity valuations. The initial reaction was significantly negative with risk assets selling off. However, markets have recovered strongly since the initial shock of Liberation Day.

We continue to be overweight Europe versus the US given the attractive valuations and potential earnings upside we see in Europe, driven by more business-friendly governments and potential fiscal spending plans coming to fruition with a focus on European infrastructure and defence. In the lead up to the NATO summit held in May, several of the main European countries including the UK and Germany, committed to higher spending as a percentage of GDP on defence, and defence-related infrastructure and support services.

Looking ahead, much still depends on the evolution of trade policy and the resilience of corporate earnings in the face of ongoing uncertainty. However, several trade deals have been finalised this quarter which has provided some stability for markets. In global small caps, we continue to see opportunities for companies that are niche leaders within their industry that we believe can deliver unrecognised earnings growth.

Tobias Bucks
Portfolio Manager - Global Small Cap

Simon Woods
Portfolio Manager - Global Small Cap

Contact Us

Institutional

Adrian Amores
Head of Global Distribution
Phone 0435 962 052
Email adrian.amores@ausbil.com.au

Fawaz Rashid
Senior Manager, Global Institutional Distribution
Phone 0401 830 483
Email fawaz.rashid@ausbil.com.au

Wholesale

Marko Matosevic
Southern Region Sales Manager
Phone 0431 340 553
Email marko.matosevic@ausbil.com.au

Syvanna Croyden
Manager Investment Research and Consulting
Phone 0466 501 590
Email syvanna.croyden@ausbil.com.au

William Orr
Business Development Manager, NSW, Wholesale Clients
Phone 0402 620 188
Email william.orr@ausbil.com.au

Andrea McGarry
Business Development Manager, QLD & NT, Wholesale Clients
Phone 0411 465 426
Email andrea.mcgarry@ausbil.com.au

Michael Peros
Business Development Manager, VIC, Wholesale Clients
Phone 0401 430 426
Email michael.peros@ausbil.com.au

William Dobson
Business Development Manager, SA, Wholesale Clients
Phone 0411 899 901
Email william.dobson@ausbil.com.au

DISCLAIMER

Contactus@
ausbil.com.au