

Top five surprises of 2025

6

Looking
back at
2025

1

The big stick returns, marking a harder edge to American trade policy

Washington's tariffs signalled that protectionism is no longer a tactical flourish but a central plank of United States (US) policy, aimed as much at reshaping supply chains as projecting geopolitical muscle. The scale and breadth of the measures have intermittently unsettled markets, raising questions about global price pressures, investment flows and the resilience of trading partners caught in the crossfire.



2

A surprisingly sturdy expansion in a fractured trade world

Escalating tariffs, disrupted global supply chains and rising input costs were expected to squeeze margins and dampen export volumes, with many forecasters pencilling in softer growth. Instead, domestic demand proved more durable than anticipated, buoyed by steady labour markets, resilient consumer spending and a faster-than-anticipated pivot by firms toward alternative suppliers.



3

Record polarisation pushes America into its longest shutdown

The record shutdown underscores that America's political machinery is straining under both division and mounting fiscal pressures. Markets had anticipated brinkmanship, but few expected a freeze of this duration, particularly given the economic stakes associated with delayed federal spending, stalled services and growing concerns over the US debt ceiling and potential default.



4

From anti-establishment outsiders to governing insiders

Parties born from street-level anger and anti-elite rhetoric now oversee treasuries, negotiate trade deals and set immigration policy. For markets, the real shock is that the same groups once dismissed as unprepared or too volatile now show a level of institutional staying power that makes them far harder to unseat through normal missteps, infighting or public backlash.



5

Strategic promiscuity redraws the global trade map

Faced with escalating tariffs, geopolitical tensions and weaponised supply chains, countries moved with unusual agility to ink new bilateral deals. Even long-standing alliances loosened their exclusivity in favour of flexible, multi-directional arrangements. The result was a trade landscape that shifted faster than most models anticipated, revealing a world far less anchored to traditional blocs, than policymakers or markets had assumed.



Top five trends for 2026 ↑ 5

Looking
ahead
to 2026

1

The post-war liberal order continues its quiet unravelling

Populist surges are increasingly shaping government, with centre-right and far-right parties consolidating their grip on power. This brings pressure on judicial independence, media pluralism and central-bank autonomy. The world may look calmer, aided by quick, face-saving ceasefires as war fatigue sets in, yet feel more precarious as institutional guardrails are dismantled for geopolitical leverage, leaving politics more brittle beneath the surface.



2

Global central banks stop marching in step

Global growth and inflation will likely appear deceptively average, masking divergent macro stories and forcing central banks into opposing directions. China is expected to keep easing as deep industrial overcapacity generates powerful disinflation. In contrast, Japan will likely keep tightening to defend a fragile escape from deflation. Europe is set to remain cautious in reducing interest rates further as disinflation could have further to go, while the extent of US easing will hinge on lingering inflation risks.



3

Bond markets write the cheque for fiscal excess

The era of governments borrowing cheaply amid ultra-low yields and endless quantitative easing is over, with public debt in advanced economies breaching 110% of gross domestic product (GDP). Bond markets, no longer passive buyers, are rewarding fiscal hawks while finally exacting a steep price for fiscal profligacy.



4

Politics' expanding grip on core institutions

With governments under pressure from slow growth, heavy debt loads and restless voters, independence at central banks, regulators and state entities will come under renewed strain. Politicians may push for looser monetary conditions or policy shifts to ease short-term pain, often at the expense of long-term credibility. For investors, this raises the risk of policy whiplash, higher volatility and distorted price signals as political calendars, rather than economic fundamentals, increasingly steer markets.



5

The global stakes of the 2026 US midterm elections

The 2026 US midterms will dominate the political calendar, shaping fiscal policy, trade priorities and regulatory risk for years to come. With Congress up for grabs, markets will scrutinise whether voters entrench divided government or hand either party a clearer mandate. A stronger Republican showing could accelerate the push for spending cuts, deregulation and tougher trade enforcement, while Democratic gains would bolster industrial-policy spending and a more interventionist regulatory stance.

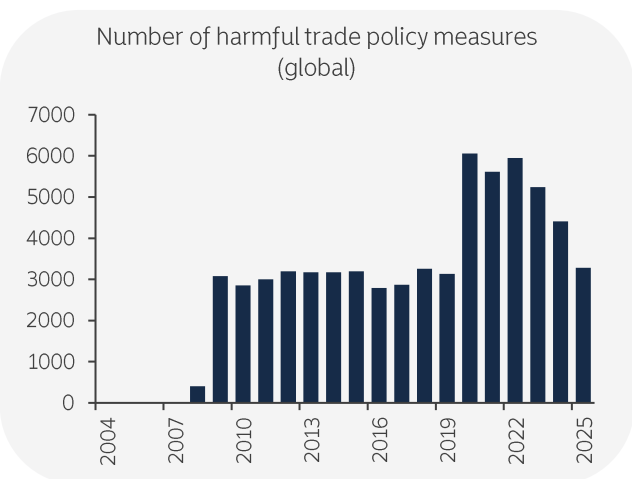


Looking back at 2025:

Economic surprise #1: The big stick returns, marking a harder edge to American trade policy

- Washington is again leaning heavily on tariffs, signalling that the shift toward a more defensive trade stance is now a settled feature of US policy rather than a temporary tactic. Measures that were once occasional negotiating tools have become part of a broader push to redirect supply chains and assert strategic priorities. While the number of new harmful trade policy measures introduced has reduced in recent years, the number remains structurally higher. Moreover, a number of bilateral trade deals have been negotiated in this new era of protectionist policies.
- The wider scope of tariffs has periodically unsettled markets, prompting renewed questions about the outlook for global inflation, the direction of investment flows and the ability of affected economies to cope with a more fragmented trading environment, particularly as actual tariff rates continue to lag effective rates.
- Higher tariffs have already started positively contributing to US government coffers but the share of customs duties to overall government revenues remains under 2%.

Chart 1: A more protectionist environment is marked by a structurally higher level of harmful trade measures



Source: Global Trade Alert, Momentum Investments

Chart 2: Actual tariffs have lagged the effective rates due to delayed payments, litigation and shipping times

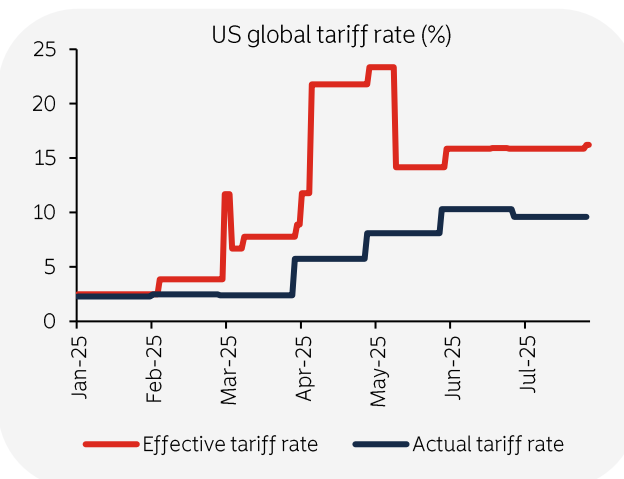
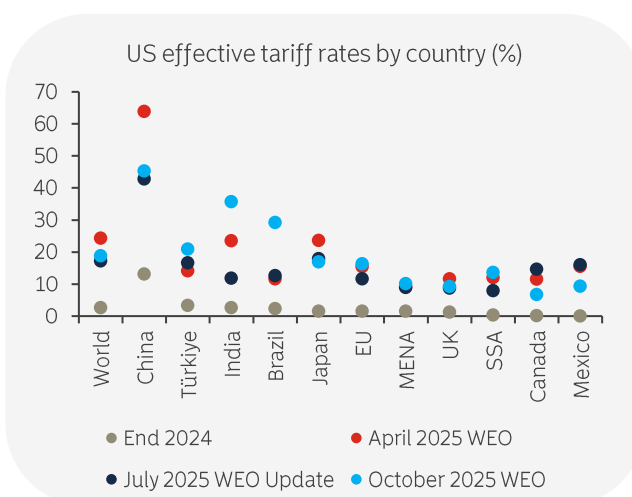
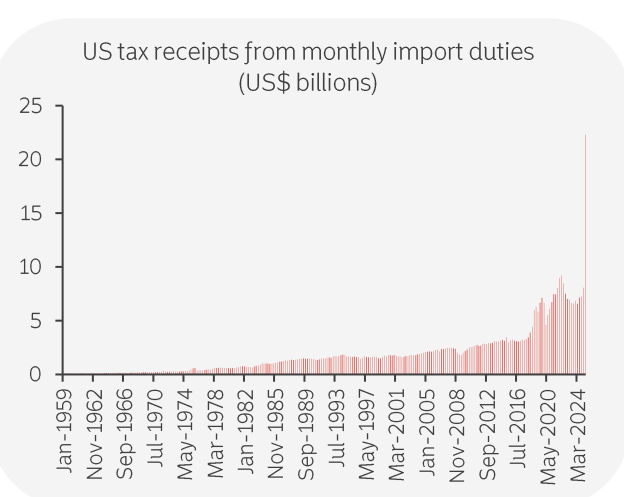
Source: International Monetary Fund (IMF), Momentum Investments, actual rate = duty paid on imports at customs as a share of the value of imports ³

Chart 3: US effective tariff rates are lower than those announced on Liberation Day for some countries



Source: IMF, Momentum Investments, MENA = Middle East and North Africa, SSA = Sub-Saharan Africa, WEO = World Economic Outlook

Chart 4: Tariffs have driven a surge in import duties, but this won't be enough to arrest the US debt problem



Source: Federal Reserve of St. Louis, Momentum Investments, data up to April 2025

Looking back at 2025:

Economic surprise #2: A surprisingly sturdy expansion in a fractured trade world

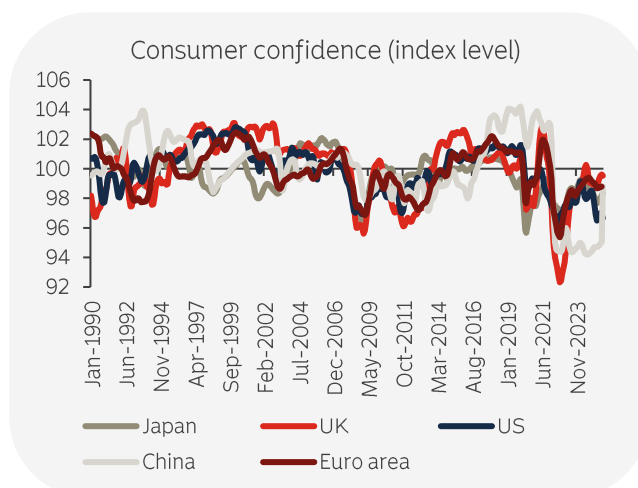
- Despite a more fragmented trading environment, growth held up better than many had expected, despite subdued business and consumer confidence measures. Trade volumes have additionally not dipped by as much as initially anticipated due to an increase in transshipments as China continues to circumvent direct trade routes into the US.
- Higher tariffs, supply chain snags and rising input costs appeared likely to erode corporate profitability and weigh on exports, leading forecasters to prepare for a softer growth patch. Yet a sharper slowdown failed to materialise. This shift in expectations has shown up strongly in the rise in expectations for 'no (economic) landing' in the Bank of America (BofA) Global Fund Manager Survey in recent months.
- Domestic demand remained firm, supported by stable employment, steady household spending and a quicker-than-expected shift by businesses toward new sourcing arrangements. While growth in the major regions remained firm in the second half of the year, growth is expected to have softened in the second half of 2025 as negative trade effects and the US government shutdown filtered into weaker economic activity.

Chart 5: A patchy recovery in business sentiment, but confidence remains in the doldrums



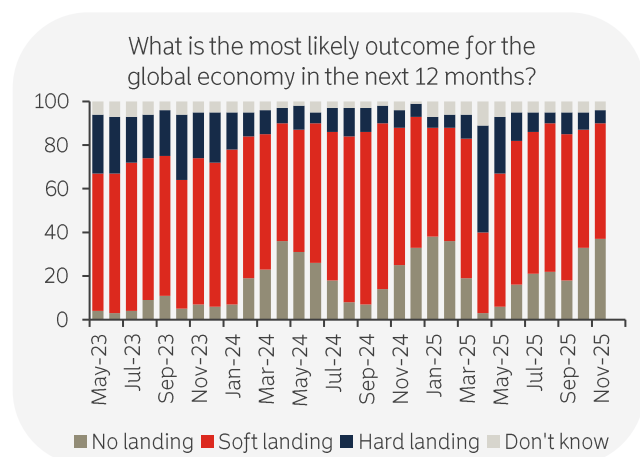
Source: Organisation for Economic Cooperation and Development (OECD), Momentum Investments

Chart 6: Consumers are feeling less gloomy, but not yet upbeat



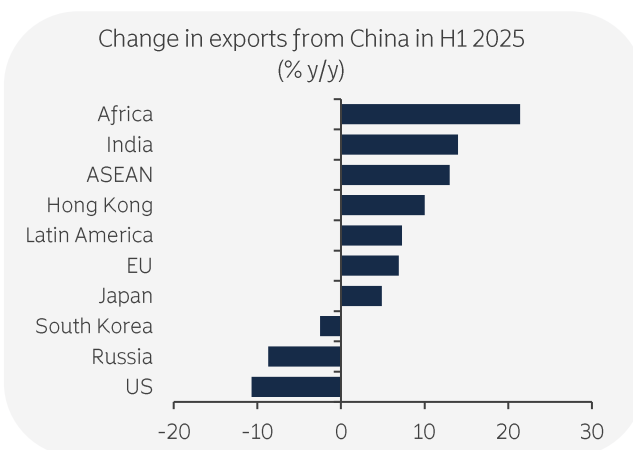
Source: OECD, Momentum Investments, data up to August 2025

Chart 7: Fund managers are increasingly factoring in the probability of 'no landing' in the global economy



Source: BofA, Momentum Investments

Chart 8: Trade redirection, including transshipments, has prevented a collapse in global trade volumes



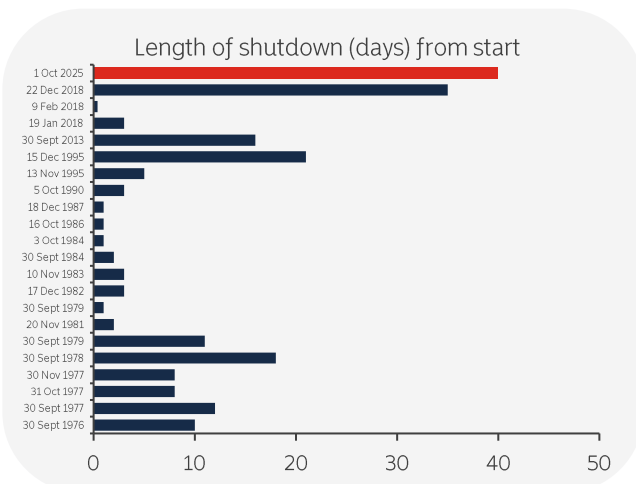
Source: General Administration of Customs (China), Momentum Investments, ASEAN = Association of Southeast Asian Nations

Looking back at 2025:

Economic surprise #3: Record polarisation pushes America into its longest shutdown

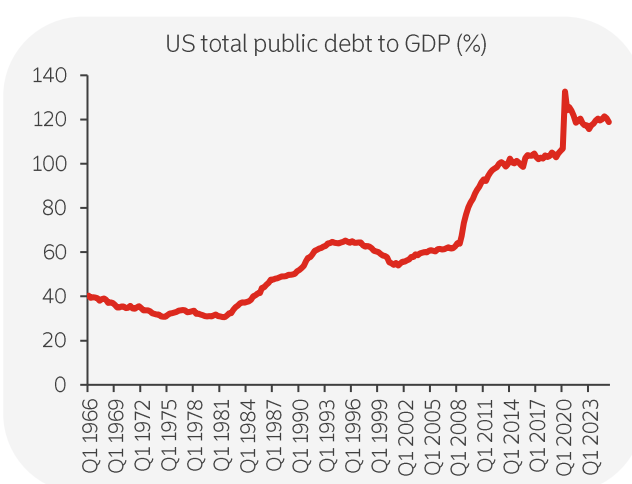
- America's latest, and longest, government shutdown has exposed how deeply political polarisation and fiscal pressures are now corroding the machinery of governance.
- Markets were braced for some end-of-deadline theatrics, but few anticipated a stoppage of this scale, especially with federal spending frozen, key public services idled and renewed concerns emerging over the debt ceiling and even the faint possibility of a technical default.
- The episode also casts a harsher light on America's long-term fiscal trajectory. Rising interest costs are consuming a growing share of federal revenue, while ageing-related pressures, from healthcare programmes to Social Security, are set to widen structural deficits absent meaningful reform.
- Against this backdrop, the intensifying partisan divide makes the prospects of durable fiscal consolidation ever more remote, raising the risk that future standoffs become more frequent, more disruptive and harder for markets to shrug off.

Chart 9: The longest US government shutdown in history disrupted the economy



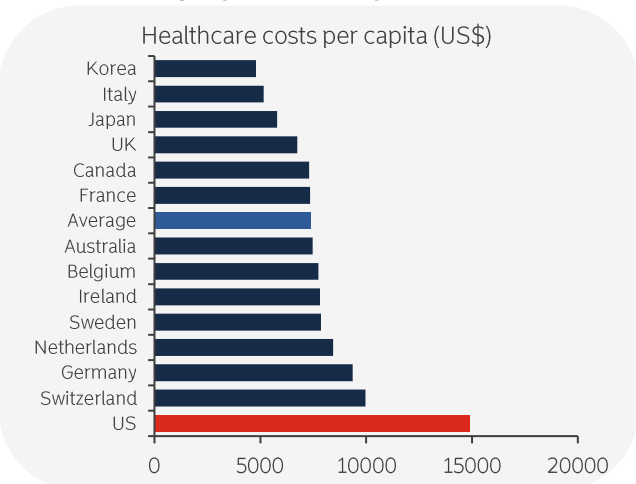
Source: US Congressional Research Service, Momentum Investments

Chart 10: Outsized US public debt has risen above US\$38 trillion



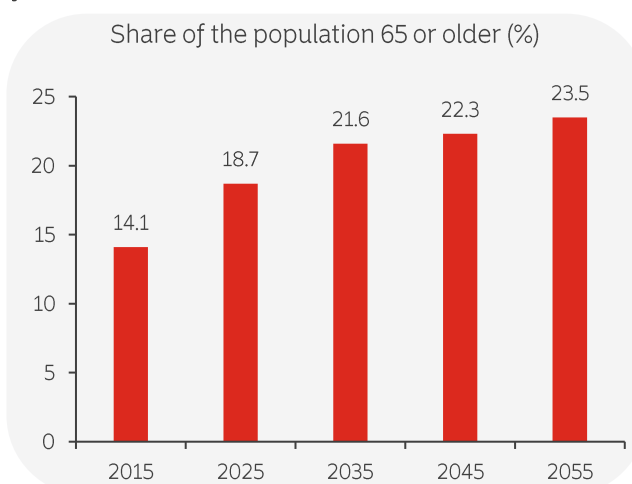
Source: Federal Reserve Bank of St. Louis, Momentum Investments, data up to Q2 2025

Chart 11: US per capita healthcare spending is almost twice the average of other wealthy nations



Source: Peterson Foundation, Momentum Investments

Chart 12: A demographic headwind is facing the US fiscus



Source: Peterson Foundation, Momentum Investments

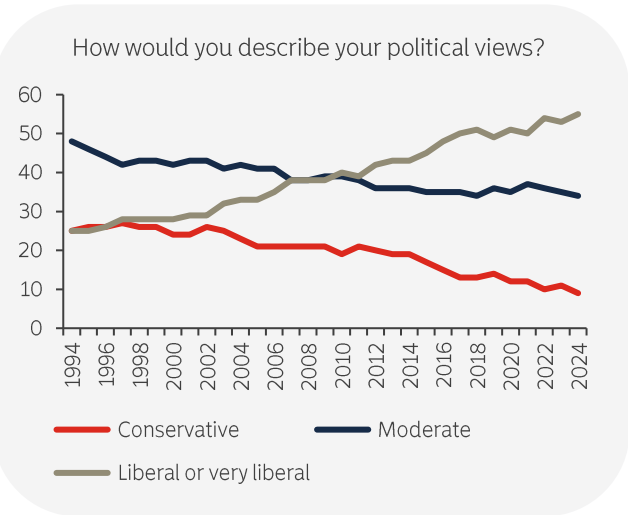


Looking back at 2025:

Economic surprise #4: From anti-establishment outsiders to governing insiders

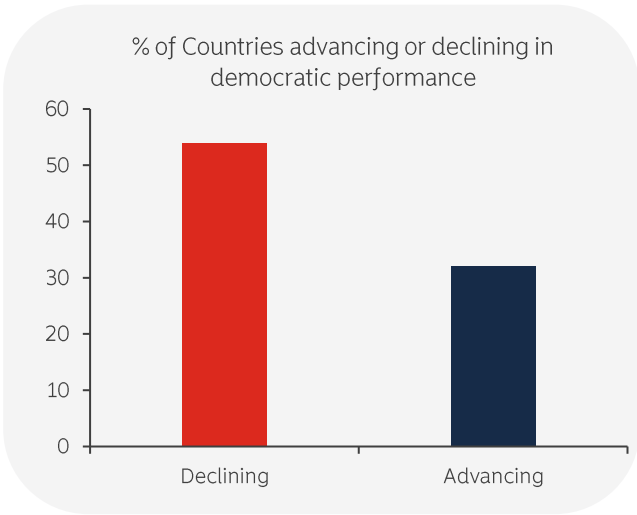
- Parties that once channelled frustration with political elites have moved from the electoral margins into the centre of government, drafting budgets, steering trade policy and reshaping migration rules.
- For investors, the surprise is not their arrival but their durability. Movements previously written off as inexperienced or inherently unstable have proved far more resilient in office than expected, less prone to burning out through internal rifts or voter remorse.
- Their entrenchment signals that the political realignment they represent is likely to persist rather than fade with the next electoral cycle. In America, record polarisation across the political spectrum leaves less room for across-the-aisle negotiation on key issues between the Republicans and Democrats in federal and state government.

Chart 13: Partisans have become increasingly politically polarised



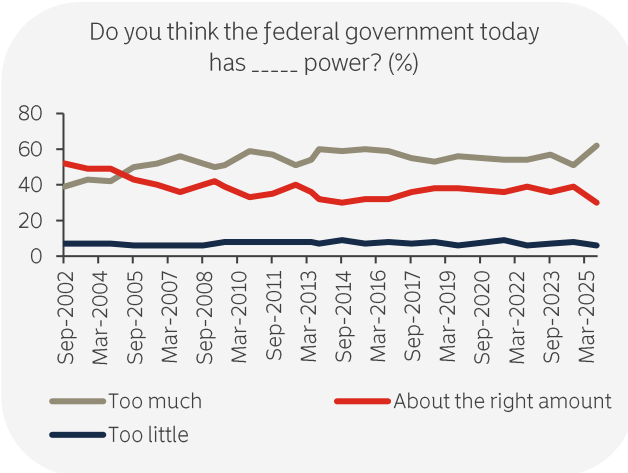
Source: Gallup, Momentum Investments

Chart 14: Global patterns show that democracy around the world continues to weaken



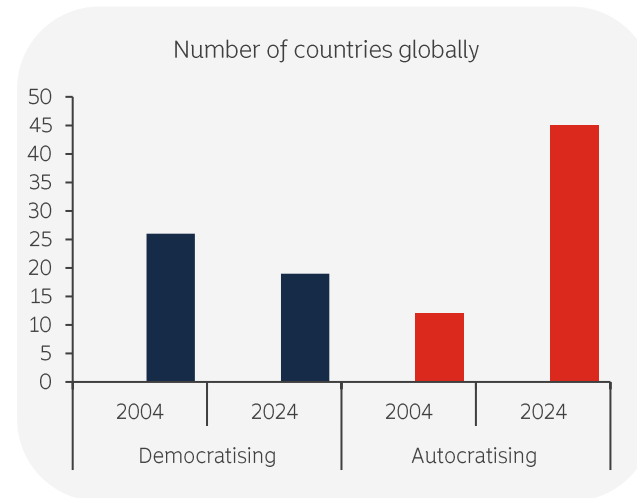
Source: International IDEA, Momentum Investments

Chart 15: Americans perceive that the government has too much power



Source: Gallup, Momentum Investments, data up to September 2025

Chart 16: A global trend of autocratisation is sweeping across nations



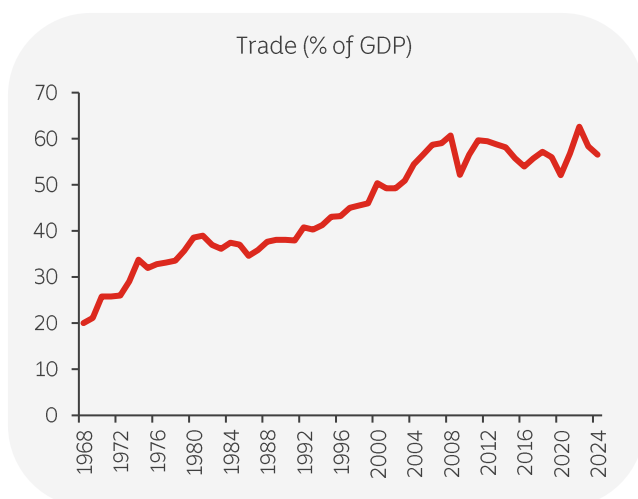
Source: V-dem, Momentum Investments

Looking back at 2025:

Economic surprise #5: Strategic promiscuity redraws the global trade map

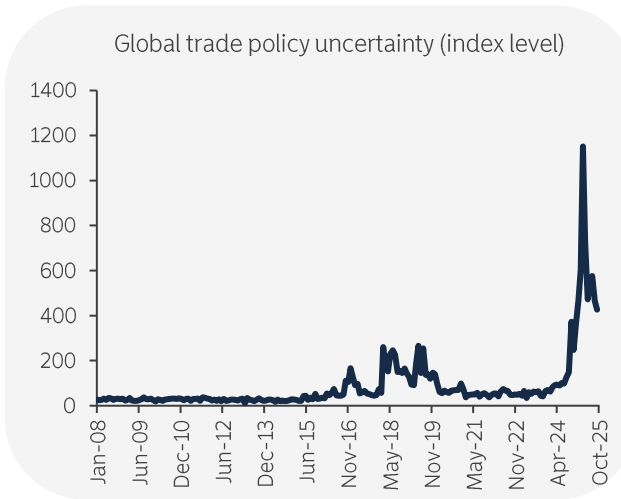
- Countries, confronted with rising tariffs, geopolitical friction and the growing use of supply chains as leverage, responded with an uncommon burst of deal-making, preventing a steeper drop off in the global trade to GDP ratio.
- Governments that once relied heavily on familiar partnerships began striking agreements across a wider range of counterparts, diluting the exclusivity of old alliances in favour of more flexible, opportunistic arrangements.
- The pattern that emerged was a trade system reshaping itself far more quickly than many analysts had predicted, exposing how loosely the global economy is now tethered to the traditional blocs that long defined it.
- Consequently, the global trade policy uncertainty index partly retraced an earlier spike reached during the announcement of Liberation Day tariffs in April 2025.

Chart 17: Global trade share of GDP has largely moved sideways



Source: World Bank, Momentum Investments

Chart 18: The global trade policy uncertainty index has retraced from its earlier peak



Source: SARB, Bloomberg, Momentum Investments

Chart 19: Countries are embarking on more bilateral and free trade agreements



Source: IMD World Competitiveness Centre, Momentum Investments

Chart 20: Trade ties with the US and China are meaningful but are diversifying



Source: Bloomberg, Momentum Investment

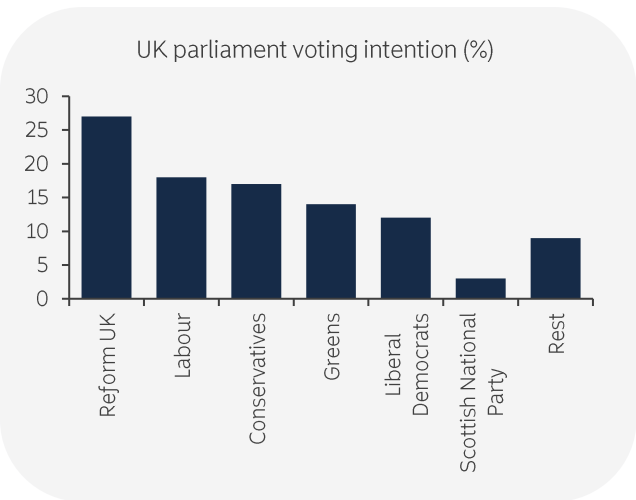


Looking ahead to 2026:

Economic trend #1: The post-war liberal order continues its quiet unravelling

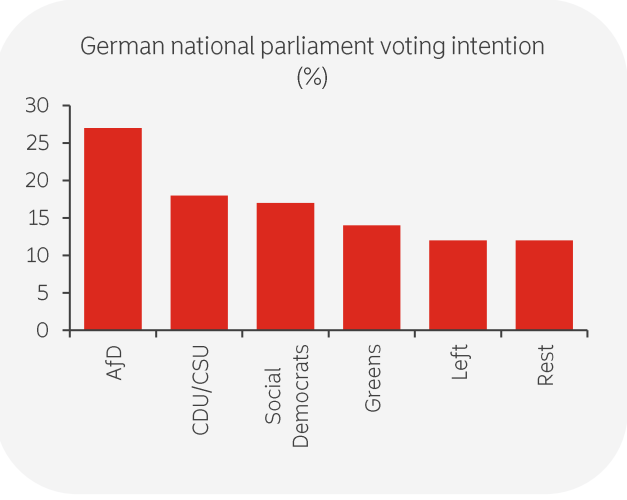
- The architecture of the post-war liberal order is loosening piece by piece, even if the shifts are quieter than the headlines suggest.
- A growing number of governments are being steered by populist or hard-right formations, and their consolidation in office is placing steady strain on institutions once considered untouchable. Courts, public broadcasters and central banks are feeling the pressure as political leaders test the limits of independence in pursuit of short-term advantage.
- On the surface, the world can appear calmer. Brief ceasefires and negotiated war pauses offering the impression of stability as conflicts drag on. Yet the underlying landscape is more fragile. As long-standing institutional safeguards are weakened or repurposed for geopolitical bargaining, the system becomes more vulnerable to shocks, leaving global politics more brittle than the momentary lulls in tension might imply.

Chart 21: Polls in the UK show centrist parties under strain



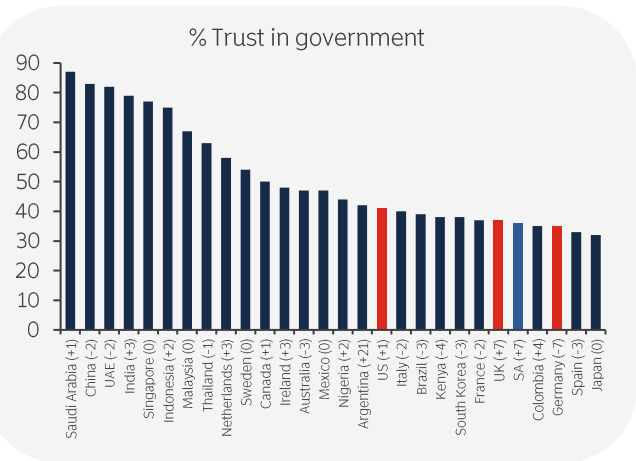
Source: Politico (07 December 2025), Momentum Investments

Chart 22: Polls in Germany show the far right making gains



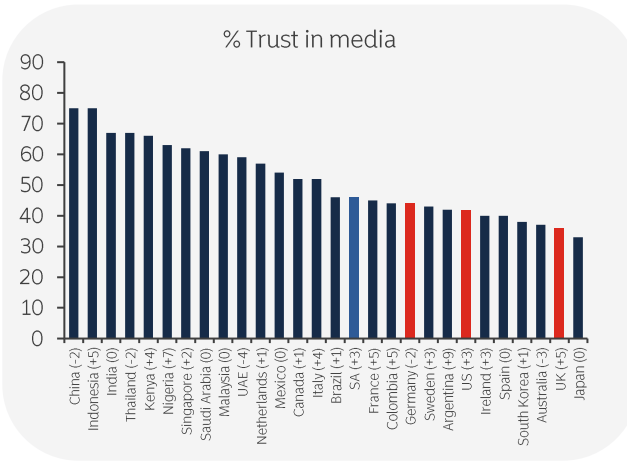
Source: Politico (07 December 2025), Momentum Investments

Chart 23: Citizens' trust in governments operating in democracies are falling behind



Source: 2025 Edelman Trust Barometer, Momentum Investments, numbers in brackets = shift between 2024 and 2025

Chart 24: Citizens' trust in media is dropping in response to trends like fake news



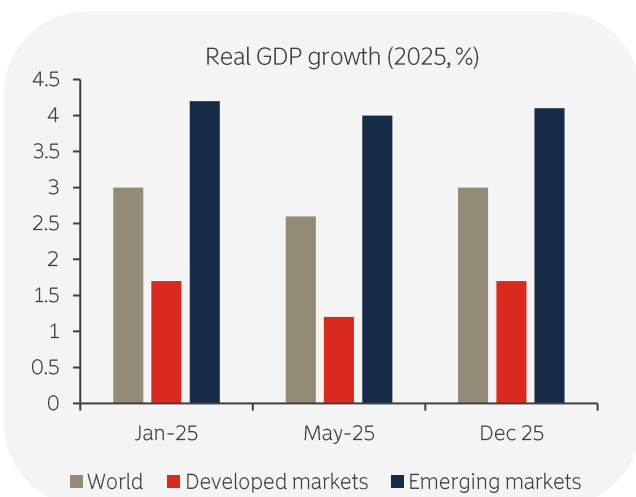
Source: 2025 Edelman Trust Barometer, Momentum Investments, numbers in brackets = shift between 2024 and 2025

Looking ahead to 2026:

Economic trend #2: Global central banks stop marching in step

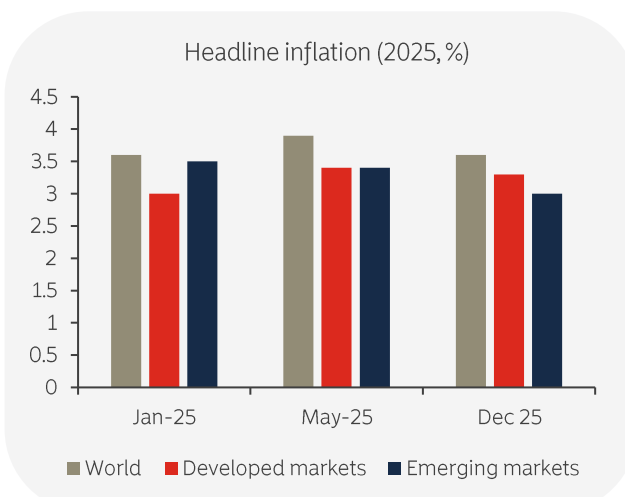
- Global headline figures may suggest an unremarkable year, but the apparent calm conceals widening divergences beneath the surface. With growth and inflation moving along increasingly different trajectories, central banks are drifting out of sync.
- China is set to maintain an easing bias as excess industrial capacity continues to exert powerful disinflationary pressure. Japan, by contrast, is likely to tighten further to safeguard its tentative exit from decades of price stagnation. In the Eurozone, policymakers are still wary that disinflation has possibly not fully run its course, and as such another one or two more cuts cannot be fully excluded. In the US, the pace and depth of any easing will depend on whether residual inflation pressures prove persistent. The result is a monetary landscape no longer defined by coordinated cycles, but by an uneven mix of domestic constraints and region-specific risks. Meanwhile, a highly divided monetary policy committee at the Bank of England continue to debate persistent price pressures and job market concerns.
- Futures markets and overnight indexed swap spreads are indicating three cuts in the US by the end of 2026, no shift in interest rates in the Eurozone, two cuts in the UK and two hikes in Japan.

Chart 25: Markets expect growth in emerging markets to be more than double that of developed markets



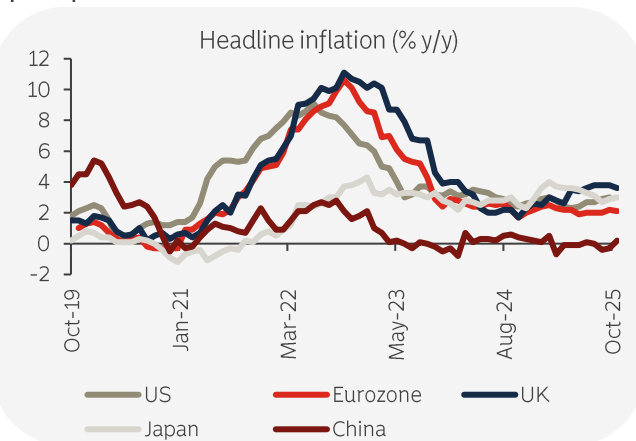
Source: Bloomberg, Momentum Investments

Chart 26: Markets' expectations of inflation softened in the second half of the year



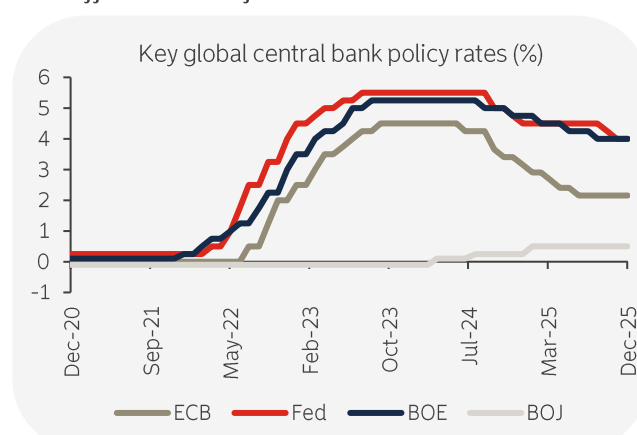
Source: Bloomberg, Momentum Investments

Chart 27: China still grappling with near-deflation, while price pressures remain in the UK



Source: Bloomberg, Momentum Investments

Chart 28: Central bank policy divergence growing in line with differentiated inflation trends



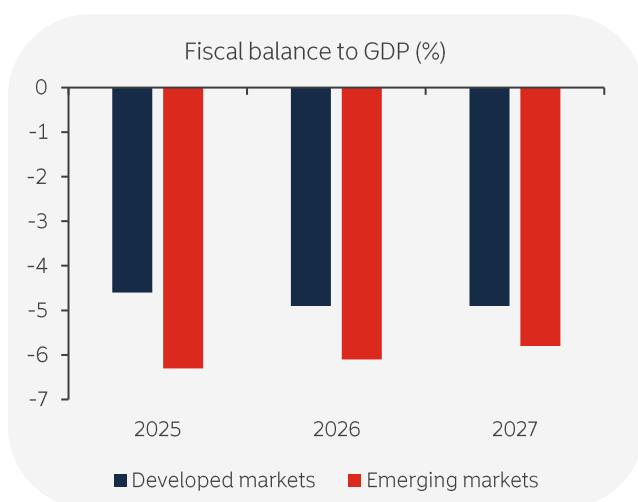
Source: Bloomberg, Momentum Investments, Fed = Federal Reserve, BOE = Bank of England, BOJ = Bank of Japan

Looking ahead to 2026:

Economic trend #3: Bond markets write the cheque for fiscal excess

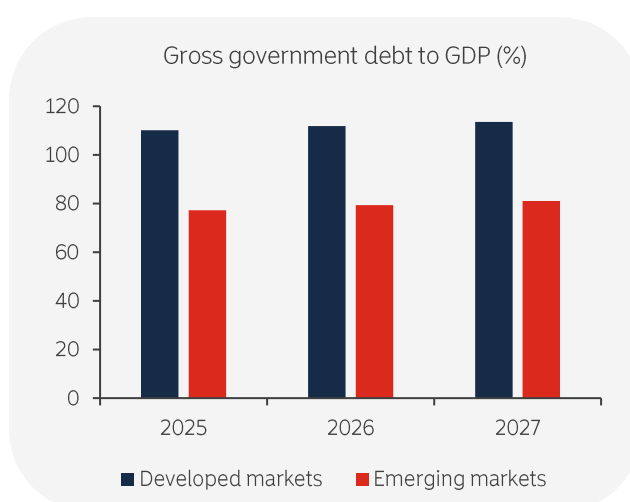
- The period in which governments could rely on ultra-low borrowing costs and abundant central-bank purchases is over..
- Debt ratios in advanced economies have climbed past 110% of GDP, and investors are no longer treating fiscal slippage with benign indifference. Instead, bond markets are differentiating more sharply. Countries demonstrating credible budget discipline are seeing more favourable financing conditions, while those continuing to run large deficits are finding that the bill for past excesses is finally coming due.
- French government bond yields ran higher in 2025 as debt neared 120% of GDP given years of lavish government spending. This follows on two years of government instability making it difficult to pass a budget through a fractured parliament.

Chart 29: Fiscal deficits are set to widen across developed economies



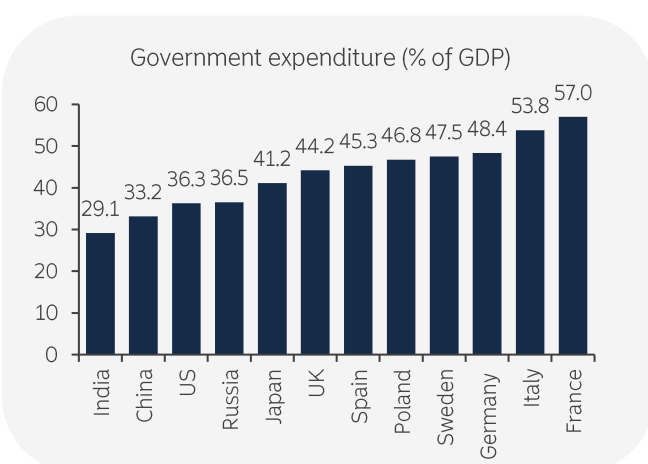
Source: IMF Fiscal Monitor, Momentum Investments

Chart 30: Debt ratios are set to climb across developed and emerging economies



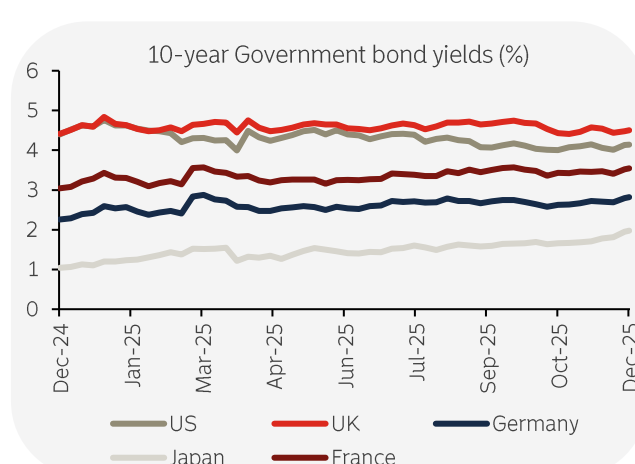
Source: IMF Fiscal Monitor, Momentum Investments

Chart 31: Lavish government spending spells trouble for future debt dynamics



Source: World Bank, Momentum Investments

Chart 32: Bond markets are becoming less forgiving of highly indebted markets



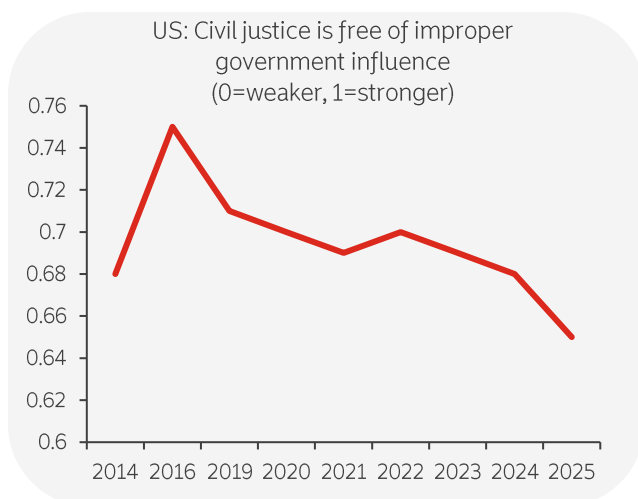
Source: Bloomberg, Momentum Investments

Looking ahead to 2026:

Economic trend #4: Politics' expanding grip on core institutions

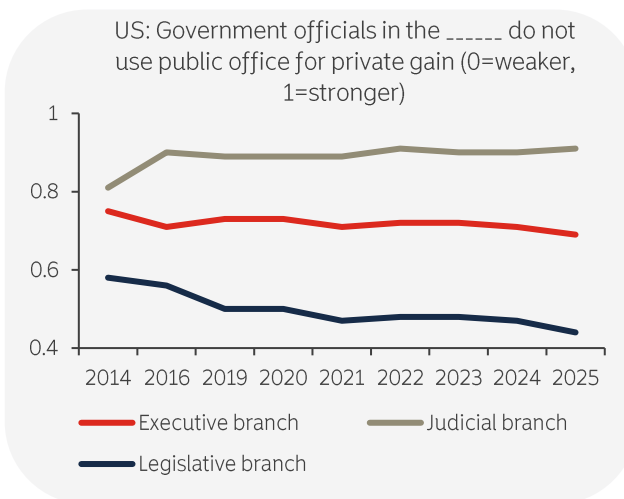
- Governments facing weak growth, rising public liabilities and increasingly impatient electorates are likely to more heavily influence institutions once treated as technocratic domains.
- Central banks, regulators and state-owned entities may find themselves nudged toward decisions that prioritise political timelines rather than economic logic, whether through pressure to keep monetary policy looser for longer or to adjust regulatory stances that cushion short-term discomfort.
- For markets, the risk is a more erratic policy environment. Shifts driven by electoral considerations tend to blur price signals, heighten volatility and complicate the task of interpreting macro trends.
- As institutional autonomy is tested, investors may need to place greater weight on political incentives when assessing the durability of policy choices once assumed to be shielded from such interference.

Chart 33: Government's tentacles are increasingly creeping into civil justice in the US



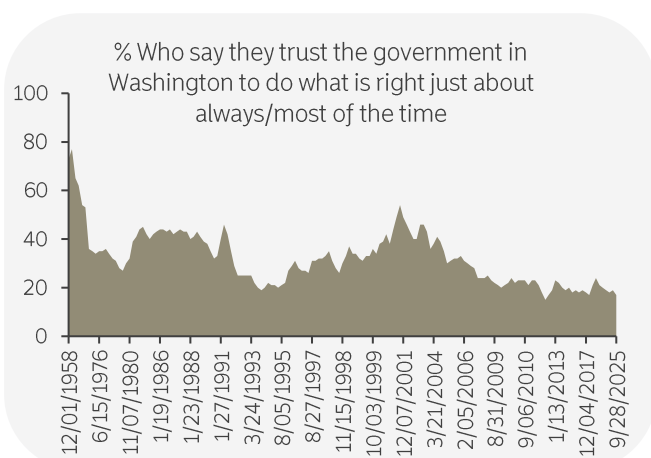
Source: World Justice Project, Momentum Investments

Chart 34: Government interference in the US is becoming a bigger concern



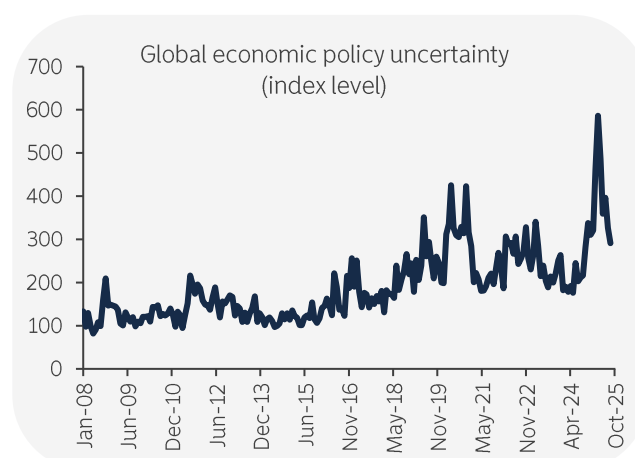
Source: World Justice Project, Momentum Investments

Chart 35: Public trust in the US government is operating close to historic lows



Source: Pew Research Centre, Momentum Investments

Chart 36: Global economic policy uncertainty could reset to a higher level structurally



Source: policyuncertainty.com, Momentum Investments

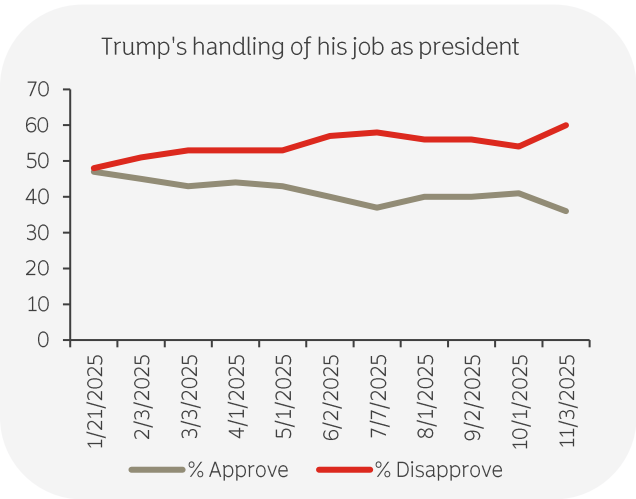


Looking ahead to 2026:

Economic trend #5: The global stakes of the 2026 US midterm elections

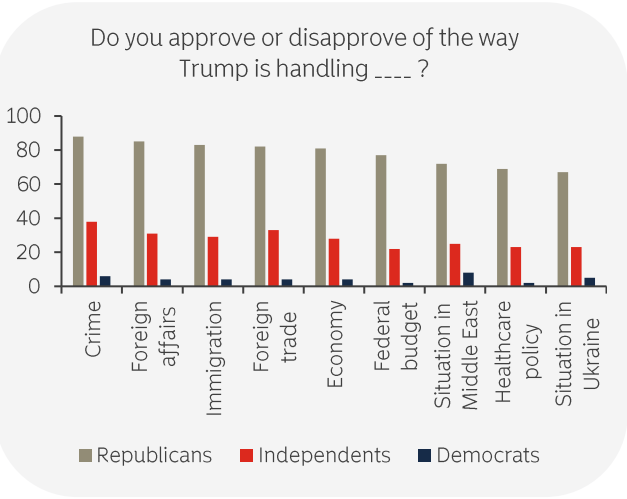
- The 2026 US midterms loom as a pivotal moment for global markets, given their potential to reset the trajectory of American fiscal choices, trade policy and regulatory ambition.
- With control of Congress genuinely contestable, investors will be watching closely to see whether the electorate extends the current gridlock or delivers a more decisive balance of power.
- A Republican advance would likely sharpen the focus on spending restraint, deregulation and more forceful trade measures. A Democratic tilt, by contrast, would reinforce Washington’s interventionist industrial strategy and a heavier regulatory hand.
- For the rest of the world, the election is less a domestic political event than a determinant of how predictable, or volatile, the US policy environment will be over the next several years.

Chart 37: US President Donald Trump’s popularity dipped after the prolonged government shutdown



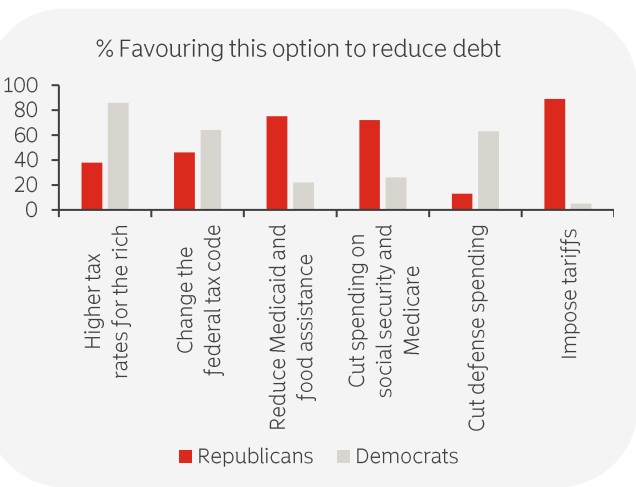
Source: Gallup, Momentum Investments

Chart 38: Large majorities of Republicans are in support of Trump’s handling of key issues



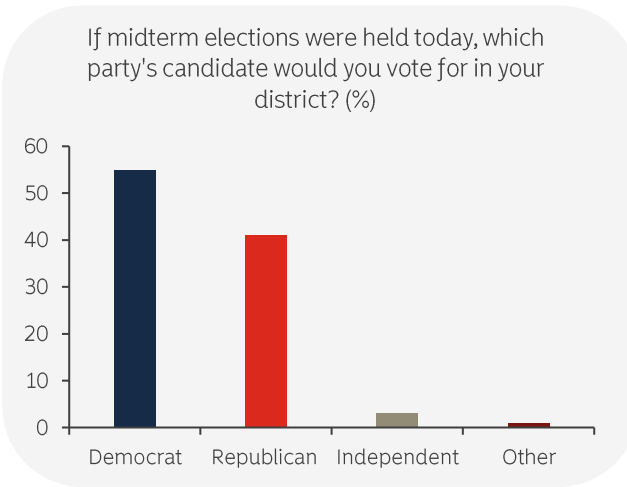
Source: Gallup (3-25 November 2025), Momentum Investments

Chart 39: Wide disparity in partisan views on how to deal with elevated US federal debt



Source: Gallup, Momentum Investments

Chart 40: Democrats have a double-digit lead against Republicans



Source: NPR, PBS News, Marist Poll (3 – 10 November 2025, 1,291 surveyed), Momentum Investments

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