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The IMF's WEO – A Silver Lining Amid the Chaos

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Melissa Ochoa Cárdenas
Investment Strategist

The IMF's WEO – A Silver Lining Amid the Chaos

> In its latest World Economic Outlook, the IMF projects moderate global growth through 2026, supported by resilient private sectors and trade deals, though trade tensions and policy complexity remain key concerns.

> Some of the downside risks mentioned in the report include parallels to the dot-com bubble, weak Chinese real estate, and fiscal pressures, while upside potential stems from reduced policy uncertainty and AI-driven productivity gains.

> Emerging markets have been resilient, a trait attributed to both favorable external conditions and improved policy frameworks.

As is customary, the IMF recently published its Fall update to the World Economic Outlook – WEO.

Even if this report usually tends to garner much attention from market participants, this year's WEO seems to be even more relevant, considering the ever-changing environment. Thus, we wanted to explore what has changed since the last forecast update from July, what the IMF now expects going forward, and how these views may have a potential impact on markets and assets alike.

One of the first things that the report highlights is that six months after Liberation Day, the global economy has remained resilient, underpinned by an agile private sector and the negotiation of trade deals. This led to the **IMF projecting global growth at 3.2% for 2025 and 3.1% for 2026, only a moderate slowdown from the 3.3% pace observed in 2024.**

Moreover, the IMF underscored that it would be premature and incorrect to dismiss the effects of the tariff shock since trade tensions are still lingering over the global economy, and their effects could increase over time. Furthermore, the IMF considers that trade policy is not the only factor shaping a complex outlook, but rather is part of a mix that also contains changes in migration policies, shocks to the labor market, accommodative financial conditions, and the observed boom in AI.

Meanwhile, the IMF is projecting that China's growth will decline modestly, while in the euro area, the IMF highlighted the role Germany has played in boosting growth in the region in 2025. On another note, the IMF stressed that emerging markets and developing economies have benefited from easier financial conditions together with observed USD weakness, exhibiting significant resilience. Still, the IMF recognizes that, **even if the outlook may seem positive for these regions, the tariff shock is denting what were considered lackluster growth prospects. So much**

so that global growth is expected to slow in 2025, and risks for the second half of the year are tilted to the downside.

Regarding said risks, the IMF highlighted the striking parallels that exist between today's AI boom and the dot-com bubble of the late 1990s, tepid Chinese prospects with a real estate sector that remains weak and an economy that is on the verge of a debt-deflation cycle, a daunting situation regarding the world's public finances, and the increased pressure on policy-setting institutions. On that last point, the IMF stated that **"trust in central banks and in their ability to deliver price stability allows inflation expectations to remain well anchored even when the economy is hit by large shocks, [...]"** something we noted in our previous quarterly call, and a point that continues to be in the spotlight for 2025.

In contrast, the IMF highlighted potential upside risks that could materialize, such as the reduction of policy uncertainty due to clearer and more stable bilateral and multilateral agreements, which in turn could result in a 0.4% increase in global output in the near term.

Another upside risk mentioned by the Fund was the potentially positive effect of AI in total factor productivity that could result in an additional 0.4% increase in global output in the near term. Lastly, **the IMF discussed the importance of global cooperation in a world recently shaken by geopolitical tensions, while emphasizing the need for an adaptive and pragmatic multilateral system.**

Turning to the updated growth forecasts that are summarized on Table 1, the IMF expects growth in the U.S. to slow to 2.0% in 2025 while remaining steady in 2026, due to lower effective tariff rates, a fiscal boost from the One Big Beautiful Bill Act, and easing financial conditions. For the euro area, the Fund projects a modest increase in growth to 1.2% in 2025 and 1.1% in 2026. Meanwhile, the IMF expects Japan to grow 1.1% in 2025, whereas China is expected to grow 4.8%, equivalent to a 0.8 pp increase versus the April estimate. This revision is occurring amid the escalation of trade tensions that are expected to be fully offset by the observed front-loading in international trade and robust domestic consumption supported by fiscal expansion this year.

Table 1:
Updated WEO projections

	Real GDP (% YoY)			CPI (% YoY)		
	2024	2025	2026	2024	2025	2026
United States	2.8	2.0	2.1	3.0	2.7	2.4
Euro Area	0.9	1.2	1.1	2.4	2.1	1.9
China	5.0	4.8	4.2	0.2	0.0	0.7
Japan	0.1	1.1	0.6	2.7	3.3	2.1
Mexico	1.4	1.0	1.5	4.7	3.9	3.3
Canada	1.6	1.2	1.5	2.4	2.0	2.0
Brazil	3.4	2.4	1.9	4.4	5.2	4.0
Argentina	-1.3	4.5	4.0	219.9	41.3	16.4
Colombia	1.6	2.5	2.3	6.6	4.9	3.5
Chile	2.6	2.5	2.0	3.9	4.3	3.1
Peru	3.3	2.9	2.7	2.4	1.7	1.9
Uruguay	3.1	2.5	2.4	4.8	4.7	4.5

Source: IMF – October WEO

Turning our attention to Latin America, the IMF expects the region to grow by 2.4% in 2025, while exhibiting a minor setback in 2026 to 2.3%. Growth in the region is expected to be mainly propelled by Mexico, whose GDP forecast was upwardly revised by 1.3pp in comparison to the April WEO. In contrast, Brazil is expected to exhibit slower growth in 2026, in part due to the higher tariff rate on its exports to the U.S.

In terms of inflation, the IMF estimates that global headline inflation will decline to 4.2% in 2025 and 3.7% in 2026, but with some economies undergoing upward revisions in their forecasts – most notably in the U.S. and the UK. For the U.S., the Fund forecasts inflation will return to the Fed's target in 2027; however, it stresses that risks to this forecast are tilted to the upside, with existing downside risks to the labor market. For Brazil and Mexico, the Fund revised their inflation projections to the upside, to partially reflect some fiscal challenges these countries faced last year.

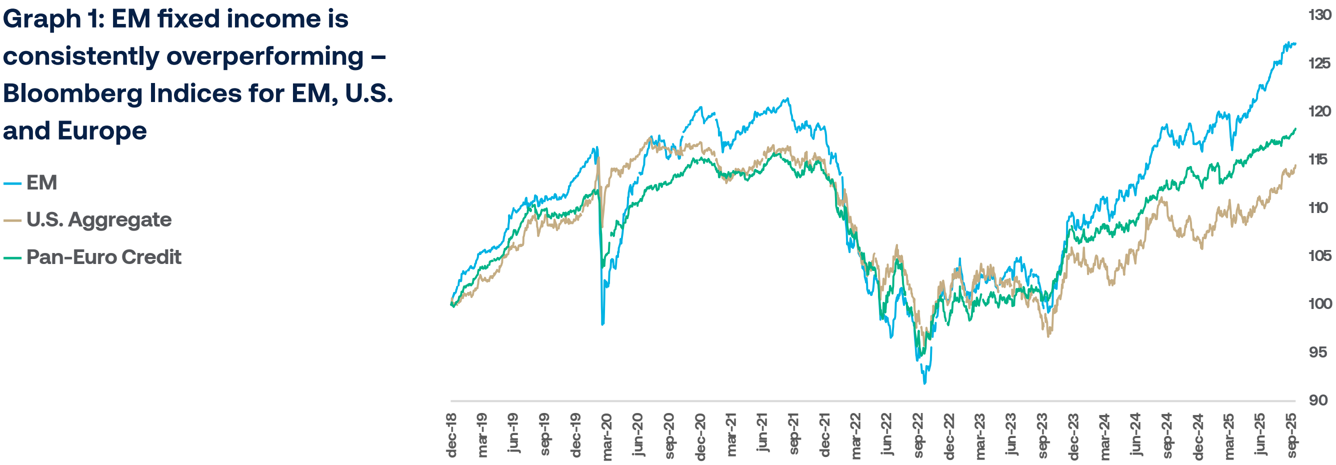
Something that caught our attention in this new edition of the WEO was the spotlight given to emerging markets (EM), allocating them a full chapter. **The Fund stressed the remarkable resilience these markets have shown to risk off shocks in recent years, with this resilience being explained by two arguments: good luck and good policies.** The good luck side of the equation stems from a perfect storm of external factors that aligned in EM's favor, such as the observed growth in advanced economies, favorable terms of trade, easier financial conditions, and spillovers from China's sustained growth. Meanwhile, the good policies argument is based on the resilience observed in investor sentiment to changes in EM's macro, monetary, and fiscal frameworks. **The IMF highlighted the adoption of inflation-targeting regimes and additional exchange rate flexibility as the main traits that allowed EM to have a higher capacity to absorb external shocks, while central banks became less sensitive to fiscal pressures and were able to depend less on foreign exchange interventions.**

Moreover, the IMF stressed that it is crucial for EM to strengthen their policy frameworks to reduce the need for excessive monetary policy tightening to contain inflation, which in turn should allow for a focus on output stabilization. On the other hand, the IMF suggests that those countries with weaker frameworks should avoid delaying monetary tightening when sustained price pressures emerge to prevent inflation expectations from de-anchoring, as well as large output losses.

Even if the model and calculation details outlined by the Fund lay outside the scope of this report, one key takeaway from the second chapter is that even if good luck has played a key role in the recent development of EM, limiting it to solely luck would be only telling half of the story. The importance of improved policy frameworks has been critical in EM enduring several risk-off shocks from the last decade, especially highlighting the aftermath of the COVID-19 pandemic and the inflation surge that followed. Furthermore, **the implementation of sound policy frameworks by EM has resulted in a positive performance in the fixed income market, with those benefits being even more visible in the last two years.** Using the Bloomberg indices as a proxy for the U.S., EM, and Europe, we have seen EM fixed income outperforming the other two geographies at an almost consistent basis over the last six years, with this beat being even more pronounced since 2024.

In sum, the IMF presented a resilient scenario for the short term but underscored the existence of several downside risks that could derail the economic recovery observed until now.

Graph 1: EM fixed income is consistently overperforming – Bloomberg Indices for EM, U.S. and Europe



Source: Bloomberg, Insigneo. Data as of October 14, 2025, where December 28, 2018 = 100

Nonetheless, the silver lining within that still uncertain scenario is represented by EM, which further solidifies our long-standing thesis that there is value outside of American assets. As we have stated on previous occasions, having a diversified approach to investing tends to be the best alternative for portfolios, not necessarily luck.

Here we have to agree with the IMF. ■

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