



Q3 2025

Key takeaways

- Emerging markets prove resilient despite economic uncertainty
- China: diversified export markets and a growing technology sector bolster the economy
- Geopolitical tensions remain the key risk factor for economic growth

Number in focus



There are now 41 days left of the 90-day tariff truce in the US-China trade dispute. Negotiations are likely to be difficult, as China is unlikely to make concessions without getting something in return. In addition, China's industrial policy measures – in particular state subsidies – offer the US leverage to impose new tariffs under Section 301, which targets unfair trade practices. On a positive note, however, the establishment of stable communication channels has so far prevented an escalation. Another round of prohibitively high tariffs therefore seems unlikely.

Chart in focus



- Emerging Market Export Volume Index

-Emerging Markets Manufacturing PMI New Export Orders

Sources: Macrobond. Swiss Life Asset Managers. Last data point: 04/2025

is driven by front-loading effects ahead of potential further tariff increases on 9 July, the date on which the 90-day suspension of comprehensive tariffs expires. At the same time, however, survey data paints a very different picture: the PMI indicator for export orders stands below the 50-point mark, pointing to a slow-down. In the second half of the year, we therefore expect front-loading shipments to come to an end and

exports to decline.

The emerging markets' export sector has proven re-

markably resilient so far this year and continued to

post strong growth in the second quarter of 2025. This

Resilience in a demanding environment

Emerging markets are facing a challenging economic environment. Trade tariffs are weighing on exports - as survey data already suggests (see Chart in focus) - and are making investment decisions difficult in a climate of ongoing uncertainty. Economic momentum is therefore likely to cool in the second half of the year, but a sharp downturn is not expected. Instead, we anticipate a gradual slowdown, as several factors are underpinning the resilience of emerging markets. First, Chinese exports are likely to decline only moderately despite high US tariffs. In May, China recorded yearon-year export growth of 4.8%, even though exports to the US plummeted by more than 30% as a result of the 145% trade tariffs imposed until mid-May. This resilience is both a reflection of the broad diversification of trading partners and the effect of goods being rerouted via third countries to circumvent US tariffs. This strategy remains a stabilising factor, although it could come under pressure if Donald Trump applies tariffs to those third countries - primarily in Asia - to limit the indirect inflow of Chinese goods. Second, India continues to assert itself as the world's fastest-growing major economy, recording impressive growth of 7.4% in the first quarter. This is despite a strict regulatory environment that is hindering industrial development. If India exploits the opportunities that arise - for example through the global shift of supply chains and production sites away from China - a strengthening of the industrial sector could further boost growth. Third, a significant proportion of emerging markets are only marginally affected by US tariffs. Most countries in Latin America - with the exception of Mexico - import

Chart 1: China: slump in exports to the US but

Chart 2: Moderate inflation rates give central banks scope for further rate cuts



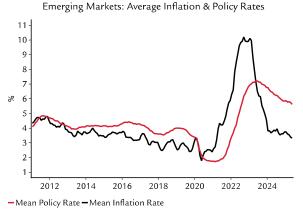
To ASEAN (Association of Southeast Asian Nations)

Sources: Macrobond, Swiss Life Asset Managers. Last data point: 05/2025

more from the US than they export to it and are therefore less exposed to potential trade barriers. At the same time, the region is benefiting from China's efforts to shift its trade relations away from the US: some Latin American countries could step up their exports of raw materials to China and, in doing so, benefit from this realignment. Fourth, emerging markets' currencies are remarkably stable, especially against the US dollar. This has a positive effect on the debt sustainability of countries with US dollar-denominated debt. In addition, currency strength - combined with weak global demand and the inflow of cheap Chinese goods - is contributing to low inflation. This in turn strengthens consumer purchasing power, offering central banks scope to cut interest rates further to support the domestic economy. However, one risk remains: a sharp rise in energy prices - for example due to an escalation in the Middle East (see page 3) - could reignite inflation.

China: high-tech innovation as a new growth driver

The Chinese economy faces several challenges – not only from the trade conflict with the US, but also from deflationary pressure due to weak consumer sentiment triggered by the real estate crisis. Nevertheless, the country is proving resilient: it can avoid a slump in exports because it has successfully diversified its trading partners. At the same time, China is actively working on new sources of growth, as the real estate sector will no longer play this role in the future. Consequently, banks have redirected their lending from the real estate sector to industrial projects, with the result that the high-tech industry has gained considerable momen-



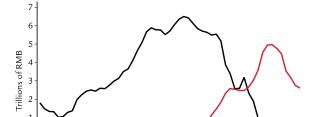
Sources: Macrobond, Swiss Life Asset Managers

tum. Today, China is not only a leader in electric vehicles, solar panels and batteries, but also holds more than 50% of the global market share in areas such as chemical production, shipbuilding, industrial robotics, drones and biotechnology. Several factors suggest that China will be able to maintain its technological leadership. The most important is human capital: every year, around 3.5 million students graduate with a STEM degree (science, technology, engineering and mathematics). Another key advantage is China's unique position globally with fully integrated supply chains - a critical factor for rapid prototype development and flexible production adjustments. In addition, technological innovation is the government's top strategic priority. State support for high-tech industries is correspondingly generous, and the digital ecosystem - with a tech-savvy population - creates ideal conditions for innovation. China's innovative strength has global ramifications: the world benefits from cutting-edge technology - at falling prices. At the same time, however, China's innovative strength also means growing competitive pressure and closer economic ties with an authoritarian state. This is likely to prompt other countries to further diversify their supply chains and adopt broader industrial policy countermeasures.

Geopolitical tensions as the main risk

The geopolitical environment remains unpredictable and continues to pose the greatest macroeconomic risk. Not only is it unclear how Donald Trump's trade conflict will develop, but two military conflicts are also shaping the global economic landscape. There is still no end in sight for the war in Ukraine, mainly because neither the US nor the EU are exerting sufficient pressure on Putin. Accordingly, the Russian economy has so far proved surprisingly resilient, allowing the Kremlin to continue the war (see Chart 4). This new risk environment in the heart of Europe is forcing many countries to significantly ramp up their defence spending. Although these investments are necessary for security reasons, they are a burden on public finances and are unlikely to bring any long-term productivity gains. The second conflict is the war between Israel and Iran. Concerns about possible disruptions to the oil supply in this resource-rich region are already leading to a risk premium on energy prices. In an extreme case Iran could see its existence threatened and respond by attacking the oil infrastructure of the Gulf states or by blocking the Strait of Hormuz, a vital shipping corridor through which around a quarter of the world's seaborne oil is transported. In such a scenario - which we consider rather unlikely - oil prices could rise well above USD 100 per barrel, with corresponding inflationary pressure at a global level.

Chart 3: China's banks are shifting their lending from real estate to the industrial sector



China: year-on-year change in outstanding bank loans, by sector

-Industrial sector - Real estate

2020

2022

2024

Chart 4: Russia's foreign currency reserves are rising, allowing Putin to continue the war in Ukraine



2016

2012

2014

Economic Research



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