Swiss Re
Institute

Macro and insurance market outlook

Growth in the shadow of (geo)politics

Charlotte Mueller, European Chief Economist, Swiss Re,
11th February 2025

Global economic outlook: US public policy to accentuate global economic divergences

- **US growth outperformance is set to persist**: This is supported by the **recent stabilization of the US labor market**. Structural and **geo/political headwinds** will continue to **constrain Europe and China**
- **Inflation likely to stay structurally higher:** Last mile of **US disinflation remains tricky**; US public policy proposals imply stickier inflation
- **Greater monetary policy divergence: Fed to slow the pace of rate cuts whilst ECB cutting cycle remains on track**. The Fed will ease policy more cautiously given uncertainty around the new political policies. The Fed has gone from "data dependency" to "policy dependency" mode
- **Key economic risks: Global risks skewed to the downside. Geo/political** challenges with uncertainty over higher **trade tariffs** and **fiscal sustainability** in the US likely to result in **more volatility for inflation and bond yields**

	Swiss Re Institute			**Consensus**	
	2024	**2025**	**2026**	**2025**	**2026**
Real GDP (% change)					
Global	2.8	2.7	2.6	2.8	2.7
US	2.8	2.2	2.1	2.2	2.0
Euro area	0.7	0.9	1.1	1.0	1.2
UK	0.8	1.1	1.5	1.2	1.4
CPI inflation (% change)					
Global	5.1	3.4	3.1	4.3	3.6
US	2.9	2.5	2.4	2.6	2.5
Euro area	2.4	2.0	2.0	2.1	1.9
UK	2.5	2.8	2.4	2.6	2.2
10y Gov. bond yield (year-end, %)					
US	4.4	4.2	4.2	4.3	4.2
Euro area	2.4	2.4	2.6	2.3	2.3
UK	4.6	4.5	4.7	3.7	3.4
Central bank rate (year-end, %)					
US	4.4	3.9	3.4	3.8	3.5
Euro area	3.0	1.8	1.8	2.0	2.0
UK	4.8	4.0	3.5	4.1	3.9

SRI forecasts and Bloomberg Consensus as of end January 2025. IMF used for global GDP and CPI consensus; GDP growth is based on the FX-weighted aggregation method.

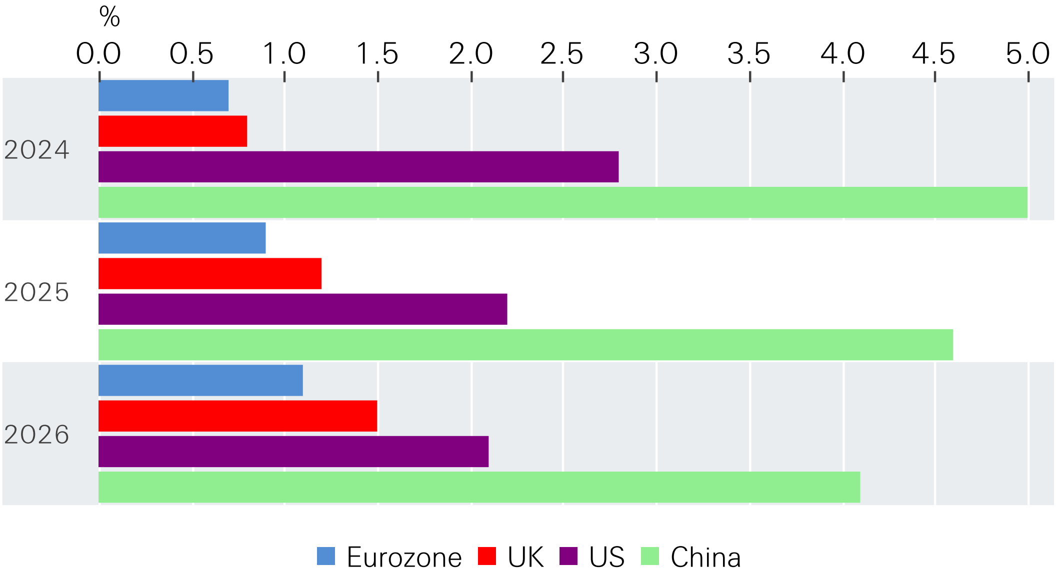
Source: Bloomberg Consensus, IMF, Swiss Re Institute

Swiss Re Institute baseline forecasts for 2025: global divergences continue

Widening gaps in growth and inflation outcomes is leading to greater central bank divergences globally

GDP growth

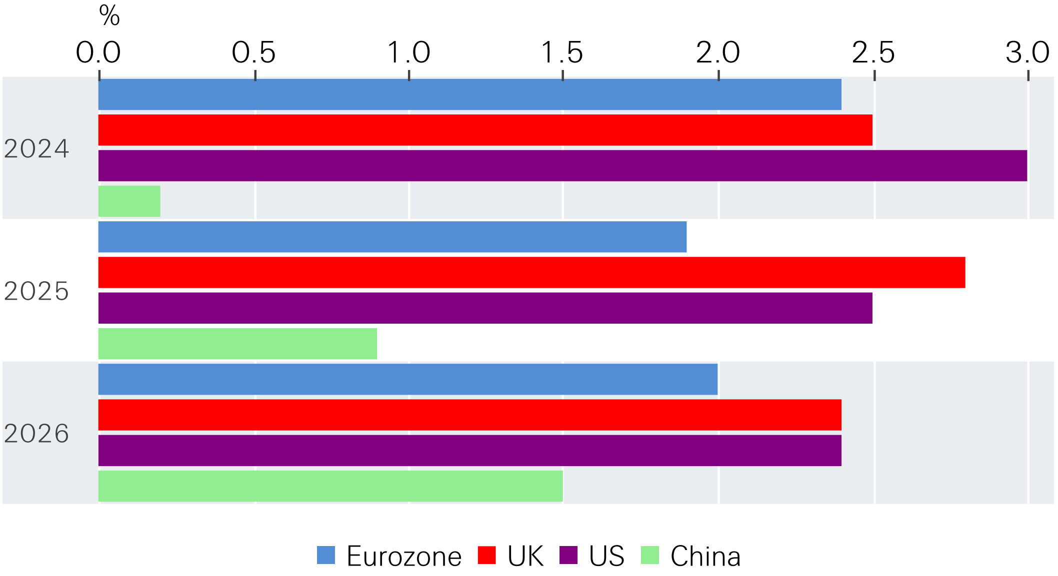
US growth outperformance to persist over Europe



Sources: Macrobond, Swiss Re Institute

CPI inflation

Disinflation will progress in the West, but US policy shifts may reignite upward pressures



Sources: Macrobond, Swiss Re Institute

Alternative scenarios to the baseline: three key potentials other paths to watch

2 key downside scenarios

More severe global recession	1970s style stagflation	AI induced productivity revival
Global demand shock	**Higher and more persistent inflation for longer**	**Tech driven productivity growth revival**
> Tariffs trigger global recession > Demand shock brings inflation down faster	> Permanent supply-side shocks > Middle East oil price shock? > Wage-price spirals > De-anchoring of inflation expectations	> Higher capital investment > Resilient growth, benign inflation

In the shadow of (geo)politics

High uncertainty around potential post-US election scenarios, but either way, US public policy is set to accentuate global economic divergences

Swiss Re
Institute

New US administration will affect economy through 4 key policy channels

Higher **tariffs**

Tighter **immigration** policies

Fiscal policy: full extension of the 2017 TCJA

Deregulation

Potential scenarios based on Trump's campaign policy proposals, capturing prioritization of trade policy changes and immigration vs fiscal changes

		Baseline	Full protectionism	Full fiscal
Narrative		- Tariff and immigration agendas mobilized 1H25, but **most aggressive proposals avoided**. Fiscal agenda gets priority in 2H25 with TCJA extension - **Upside growth risks offset** by **downside pressure** from higher tariffs - **Tariffs have only mild inflationary impact** due to incomplete pass through and FX changes - **Only 2 Fed cuts in 2H2025** due to **upside inflation risks** and solid economy - **10y yield remains elevated** on fiscal concerns tied to TCJA extension	- 2H25 **even broader tariff increases with even greater emphasis on China and** fiscal agenda pursued in 4Q25 with **TCJA extension** - **Full pass through** of tariffs to consumers and supply chain realignment - Significant **hit to consumer spending 2Q25-2Q26;** unemployment rate rises sharply - **Fed cuts once in 25 then below neutral in 2026** and maintains **accommodative** policy in 2027 but doesn't go to ZLB. 10y yield remains elevated in 2025 on sticky inflation	- 1H25 **broad tariff increases with emphasis on China**. From 2Q25, focus on fiscal agenda, **beyond TCJA extension** - **Stronger growth in 2025**, but **slowdown** in 2026/27 as higher 10y yield **tightens financial conditions** - **Higher inflation** in 2025 as tariffs and bolstered demand outstrip supply. **Inflation expectations** de-anchor from 2026, **prompting Fed hikes in 2027** - **10y yields rise sharply later in 2025** and contribute to 2026 growth slowdown. **Fed cuts below neutral in 2026** as labour market slows. **QE restarts in 2027** to limit rise in long-end bond yields
Policy priorities	1	**Additional 30% tariffs on existing tariffs on China; selective tariffs up to 25% on some other trade partners. Measured China retaliation**	**Additional 50%-60% tariffs on China + broad tariffs on all other trade partners (reciprocal tariff levels charged). All countries retaliate tit-for-tat**	**TCJA fully extended, further personal and corporate tax reductions (incl. deregulation)**
	2	**TCJA fully extended, but no additional fiscal expansion**	**TCJA fully extended, but no additional fiscal expansion**	**Baseline + additional 20% on China + 10% broad tariff on all other trade partners. China retaliates tit-for-tat**
	3	**Net immigration of 750k/year**	**Net immigration of 500k/year**	**Net immigration of 750k/year**

US impact	Baseline			Full protectionism			Full fiscal		
	2025	**2026**	**2027**	**2025**	**2026**	**2027**	**2025**	**2026**	**2027**
Real GDP (% change)	2.2	2.1	1.9	1.3	0.4	1.4	3.0	2.0	1.5
CPI inflation (% change)	2.5	2.4	2.3	3.5	3.4	3.2	3.0	3.5	4.5
10y yield (YE, %)	4.2	4.2	4.2	4.6	2.8	3.8	5.0	5.5	6.3
Policy rate (YE, %)	3.9	3.4	3.1	4.1	2.4	2.4	4.4	2.9	3.4
Unemployment rate (YE %)	4.3	4.1	4.0	4.7	5.4	5.0	3.9	4.6	5.2

Tariff scenarios for 2025 show risks of lower premiums, higher claims growth for insurers

		1. Baseline: heading towards escalatory tariffs			3. Full protectionism (all out trade war)		
Tariff assumptions		**Broad tariff increases with emphasis on China** (additional 30%); **varying tariffs** on others			**60% additional broad tariff on China, blanket new tariffs on all other countries** too; **full retaliations**		
Economic impact in 2025		**US**	**Eurozone**	**China**	**US**	**Eurozone**	**China**
	Real GDP	2.2%	0.9%	4.6%	1.3%	0.4%	3.0%
	Inflation	2.5%	2.0%	0.9%	3.5%	1.9%	1.6%

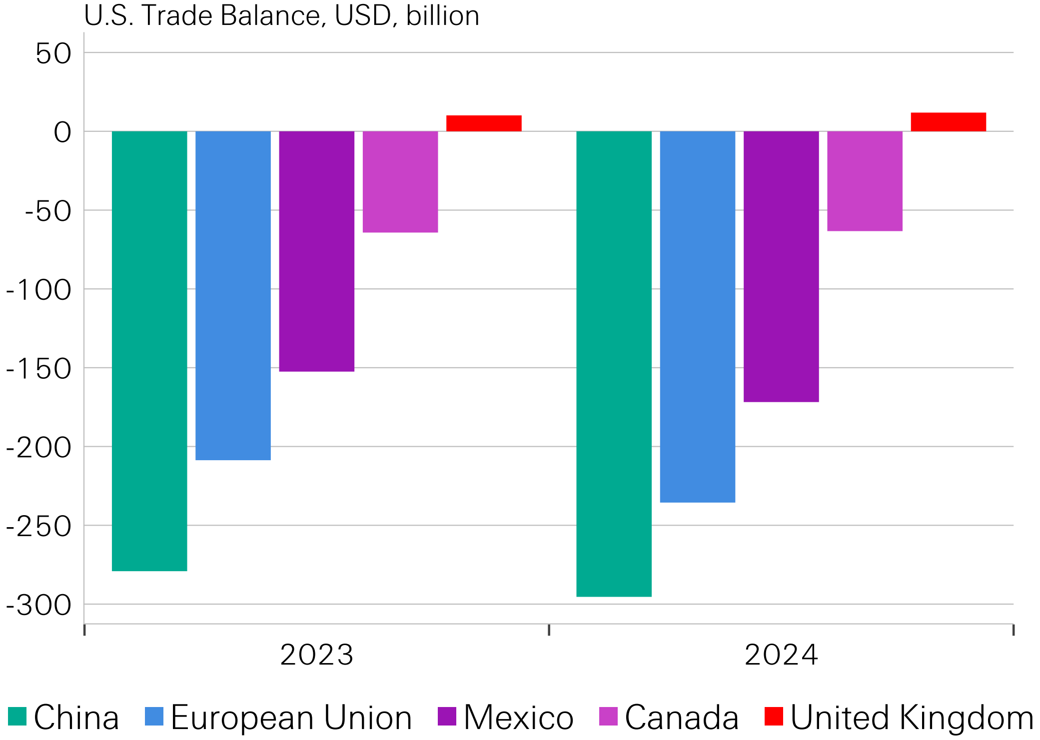
	1. Baseline: heading towards escalatory tariffs		3. Full protectionism (all out trade war)	
Insurance impact	**US**	**Europe**	**US**	**Europe**
Property	🟡	⚫	🔴	🟠
Motor (own damage)	🟡	⚫	🔴	🟠
Casualty	⚫	⚫	🟠	🟡
Specialty (MAT, Credit & Surety)	🟠	🟡	🔴	🔴
Premium impact	• Property and specialty most impacted due to slowing economic activity • Reduced trade flows impacting Marine and Credit & Surety		• Significant impact on premium volume across all lines • Short term outlook for the insurance industry severely impacted	
Claims and reserve impact	• In the US, higher inflation for construction and auto parts costs and wages • Slightly higher claim costs for short tail property and motor lines		• In the US, substantial increase in claims across all lines • Repricing of inforce risks to reflect high claim costs	

Note: Scenarios are not exhaustive and do not represent complementary outcomes summing to 100%.
Scenarios assume tariff policies are not unwound over the forecast horizon.
Source: Swiss Re Institute

⚫ Limited impact 🟡 Small negative impact 🟠 Moderate negative impact 🔴 Significant negative impact

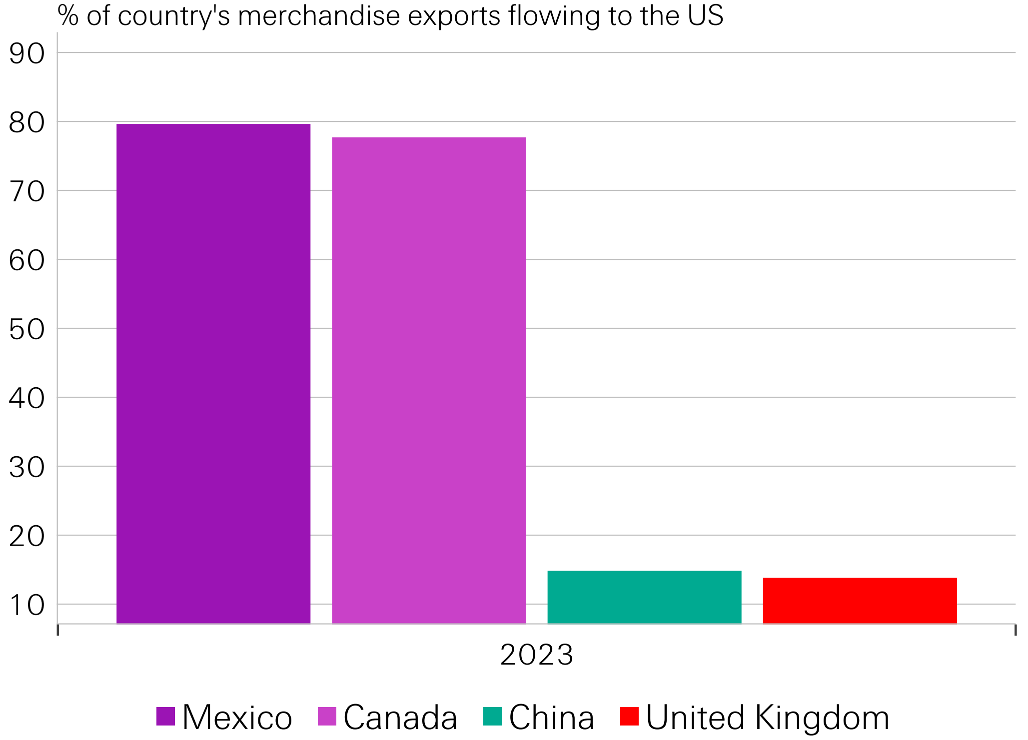
The UK is less likely to face US tariffs vs the EU (left chart), and the GDP hit would be smaller with the % of total UK goods exports going to the US still rather low (right chart)

The UK cannot be blamed to run a trade surplus vis-a-vis the US



Source: USCB, Macrobond, Swiss Re Institute

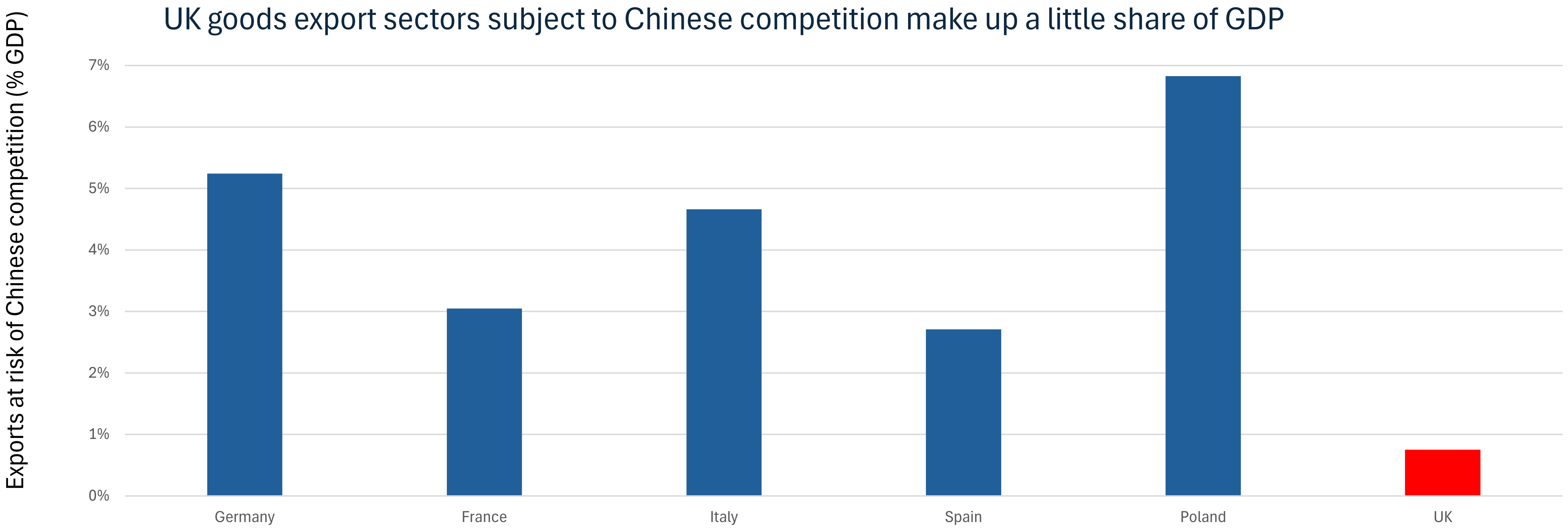
Merchandise Exports to US make up only a smaller share in the UK



Source: COMTRADE, Macrobond, Swiss Re Institute

Note: Right-side chart shows the total % of goods exports of each listed country that goes to specifically the US, e.g. 15% of Chinese total goods exports go to the US and the rest of their exports go to other countries. See all here the table: Visualizing China's Dependence on U.S. Trade

And what about China? The UK is not as exposed as other European countries to Chinese competition



Methodology: By looking at RCAs, we count the number of merchandise-exporting sectors where each country retains a relative comparative advantage. Then, out of these, we filter for those where China enjoys an even higher RCA, signaling competition. The aggregate export value of these sectors, divided by the total GDP of the country, yields our figure for the economic value of exports exposed to Chinese competition, as a percentage of GDP. *Source*: UNCTAD, Swiss Re Institute

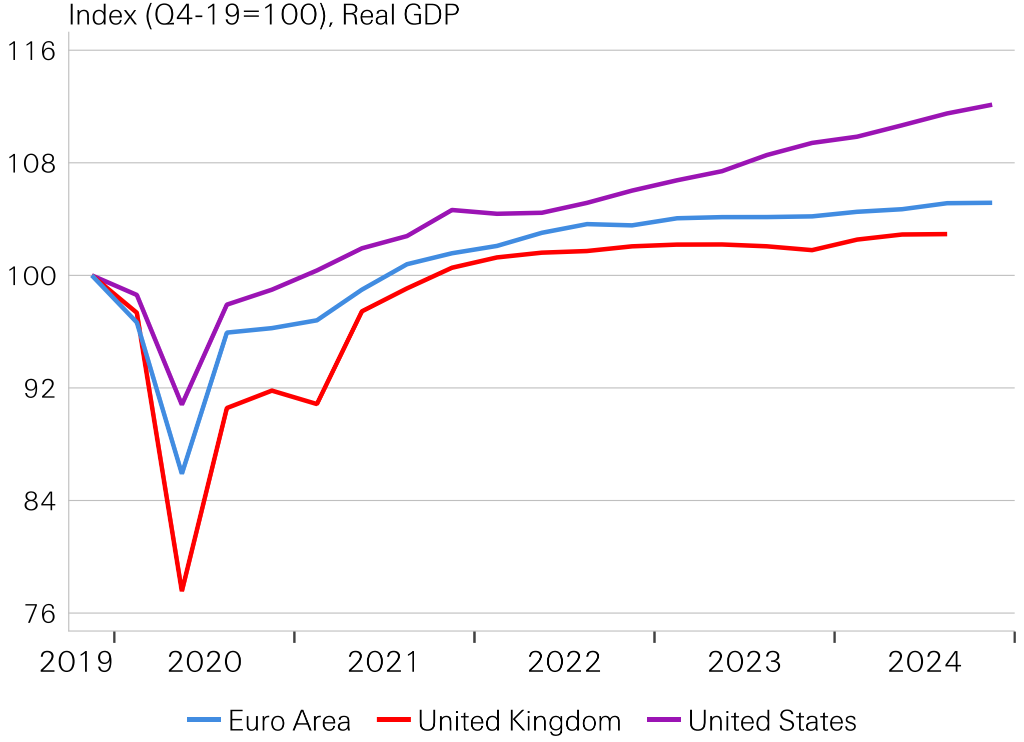
Economic Growth

Growth divergences continue: Europe lagging other major economies, faced with both cyclical and structural headwinds.

Swiss Re
Institute

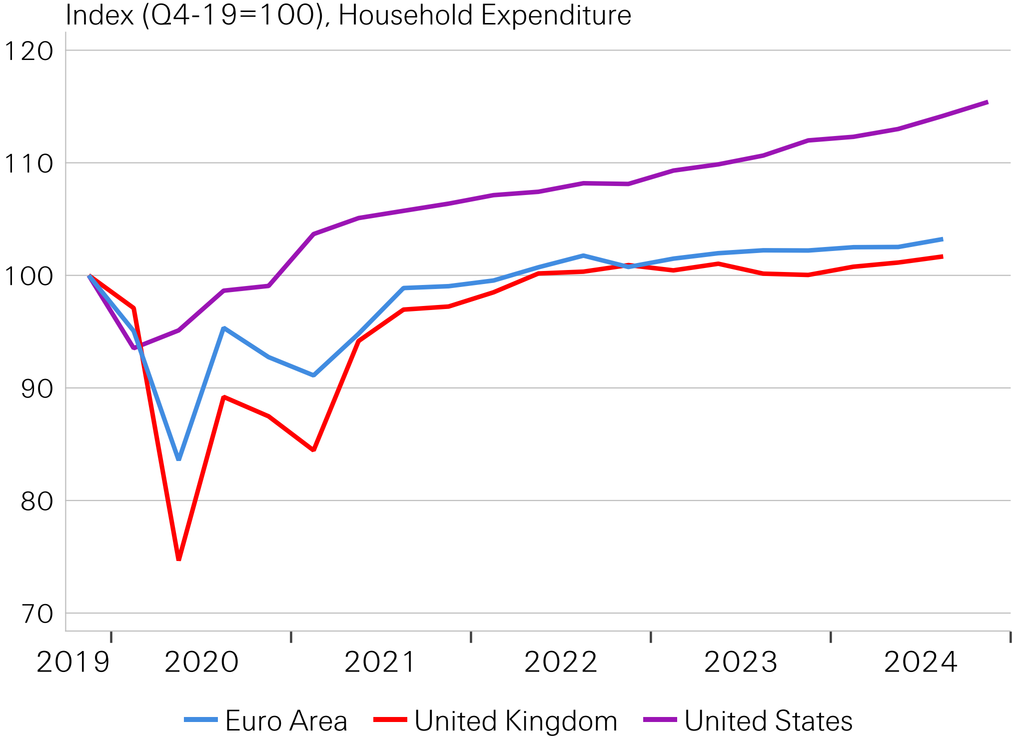
The UK's post-pandemic recovery has not been as strong as hoped. US consumer strength helps explains the US outperformance since the pandemic

The UK was hit more strongly by the pandemic, and also saw a more muted recovery



Source: BEA, ONS, Eurostat, Macrobond, Swiss Re Institute

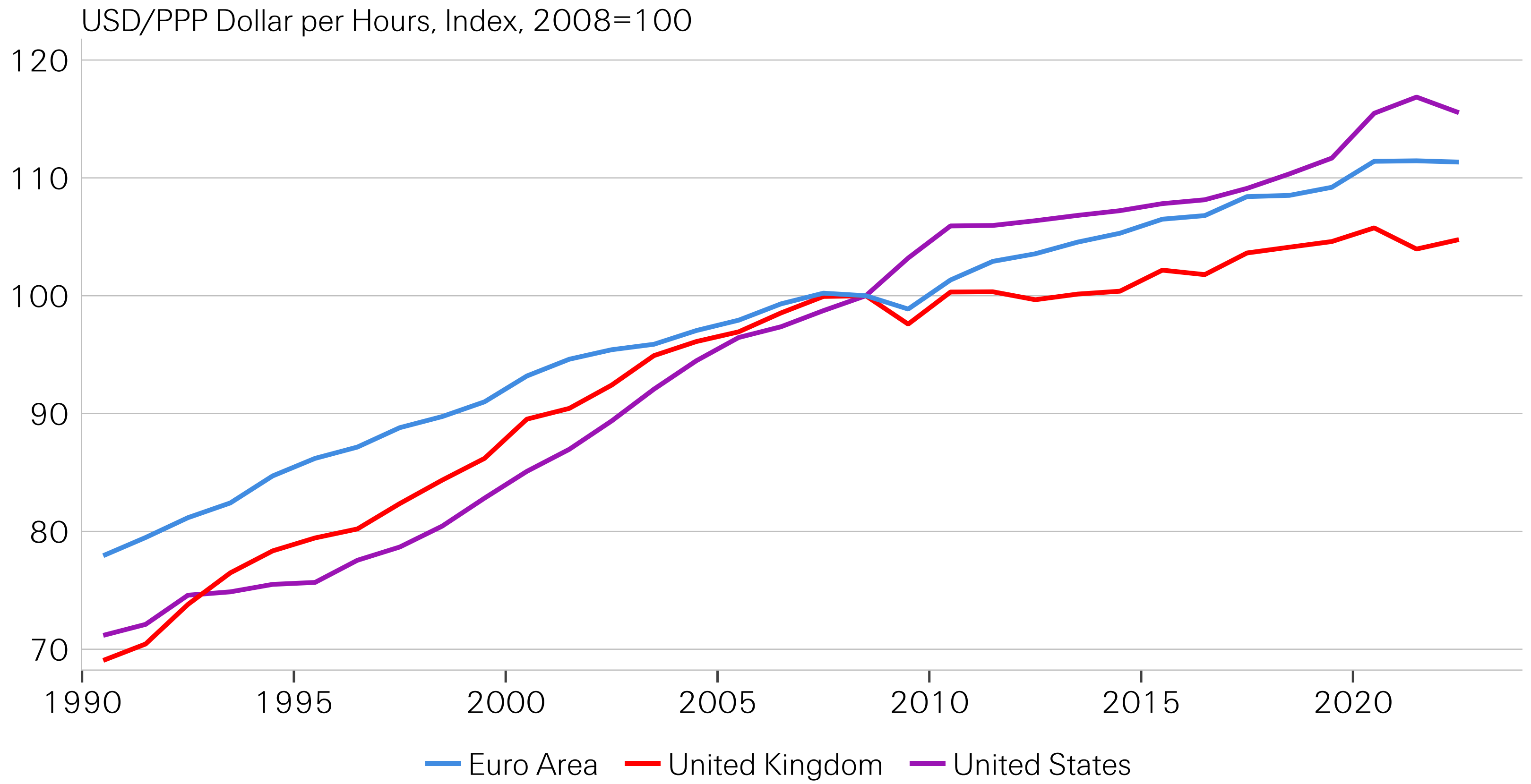
Consumer strength helps explain the US outperformance



Source: BEA, ONS, Eurostat, Macrobond, Swiss Re Institute

Productivity growth (the engine of long-term growth) has also stalled in the UK

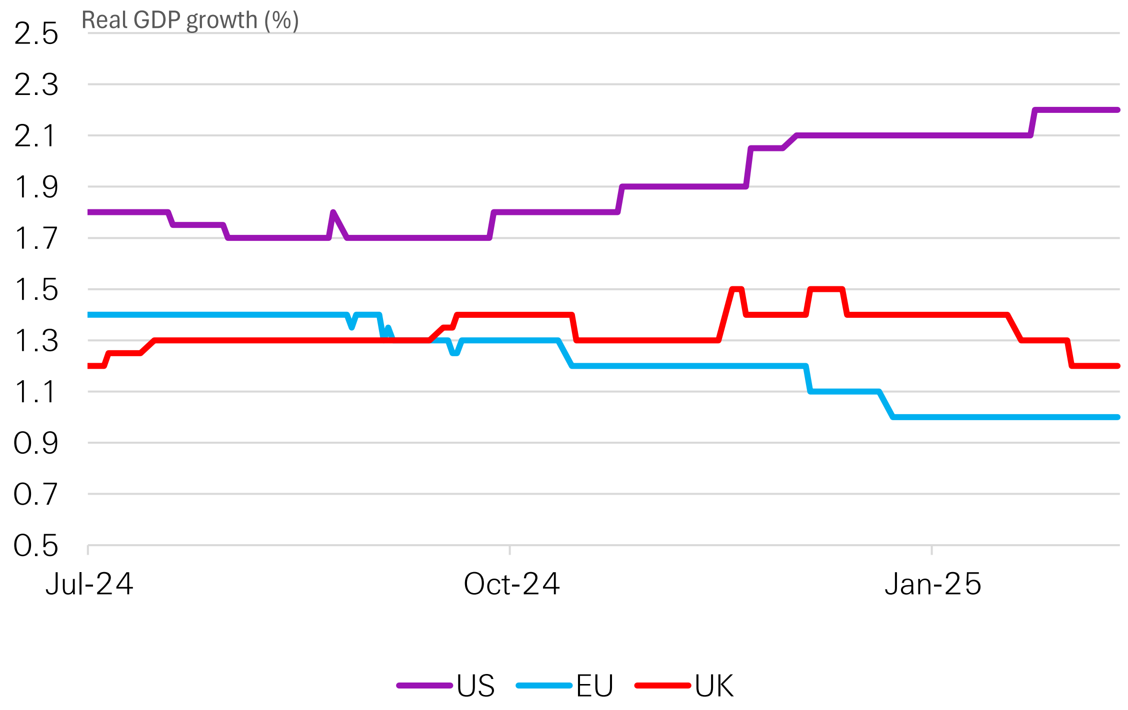
Labor Productivity Growth has significantly stalled in the UK since the 2008 GFC, relative to peers



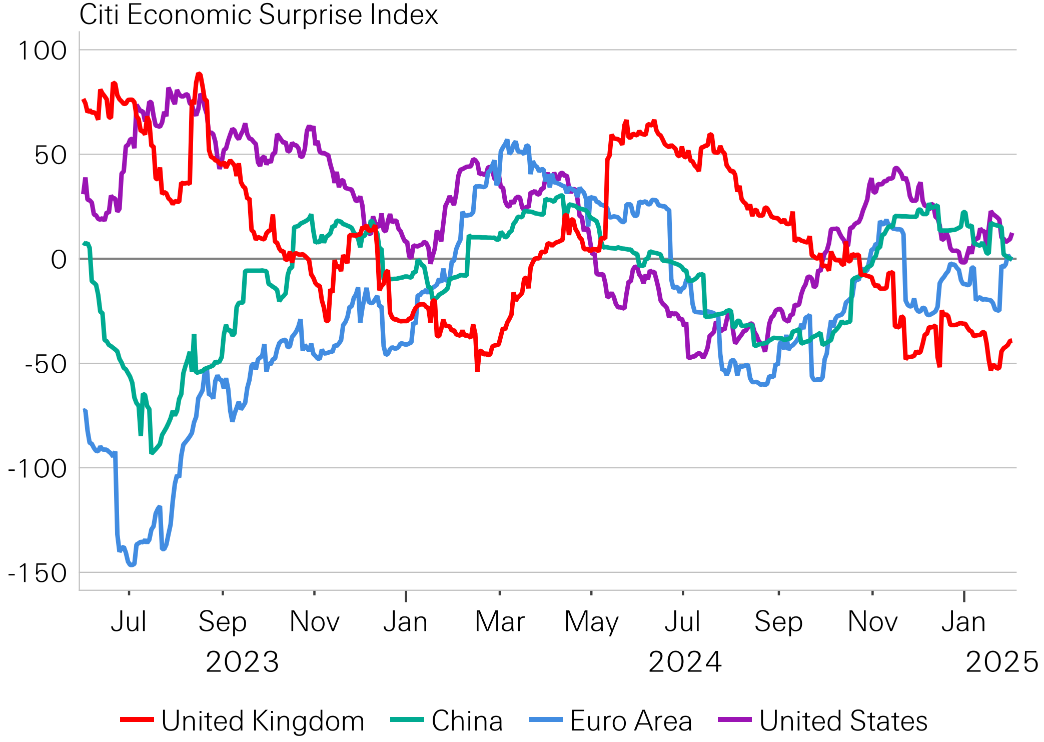
Source: Long-Term Productivity Database, Macrobond, Swiss Re Institute

Have we reached (and passed) peak pessimism in Europe?
European equity markets believe we have passed peak pessimism

US vs European consensus GDP growth forecasts for 2025 stand at peak divergence



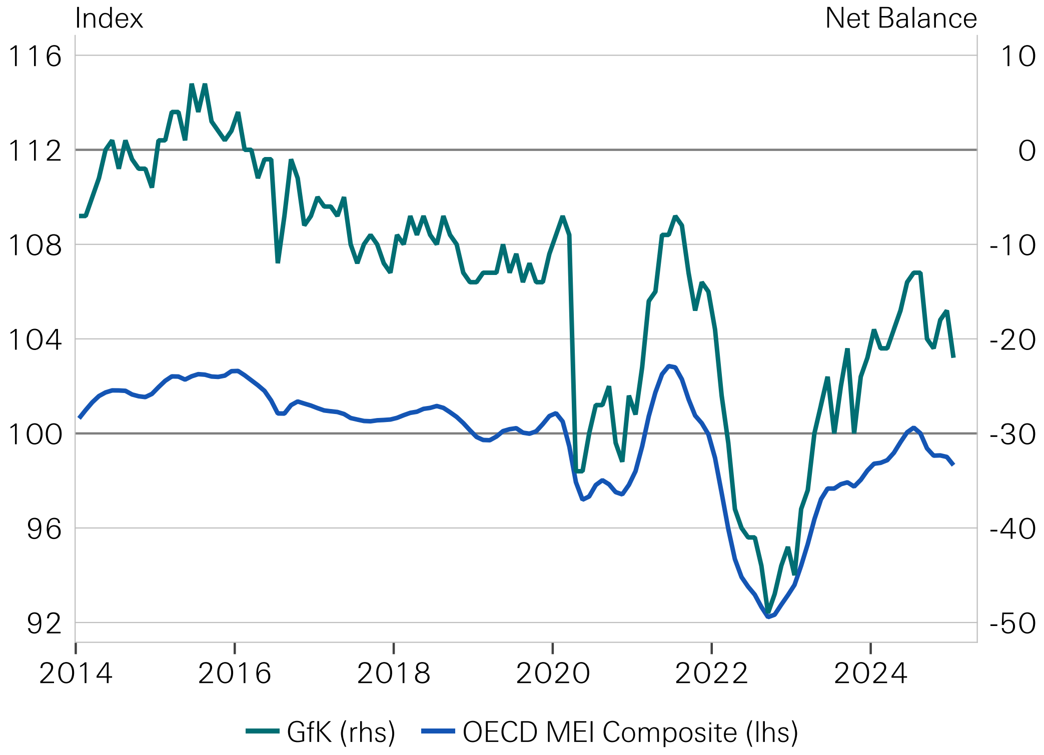
Have downside data surprises in Europe potentially bottomed out?



Source: Citi, Macrobond, Swiss Re Institute

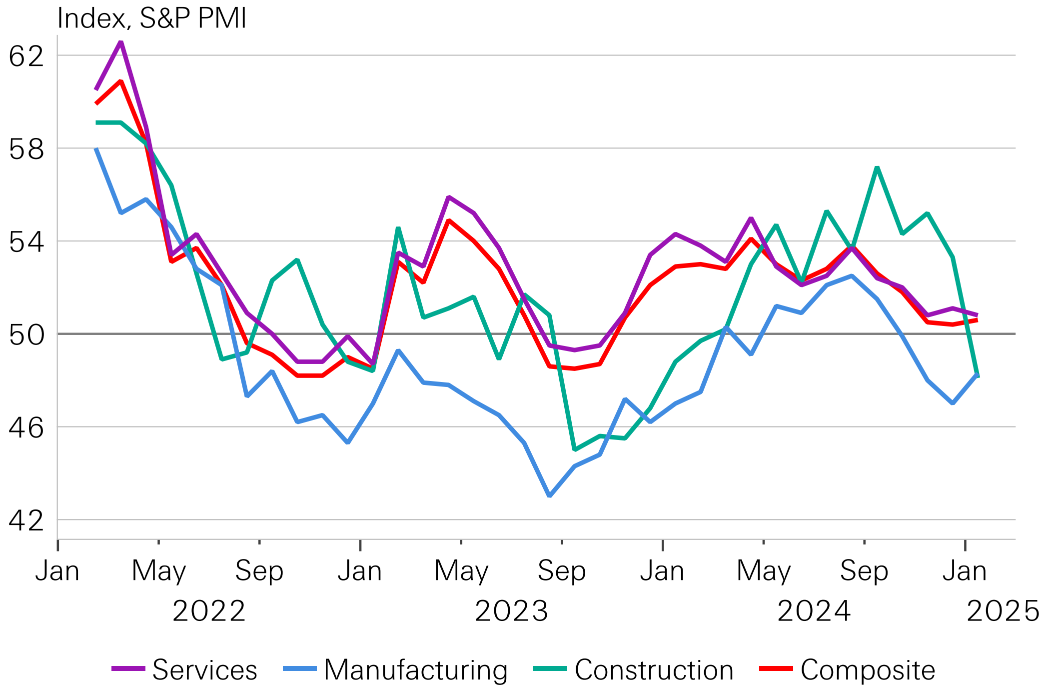
Green shoots on the horizon? Confidence across consumers and firms could improve amid lower interest rates and rising real incomes, but overall the rebound is likely to stay muted

Consumer confidence has been improving, but remains below pre-COVID levels



Source: OECD, GfK, Macrobond, Swiss Re Institute

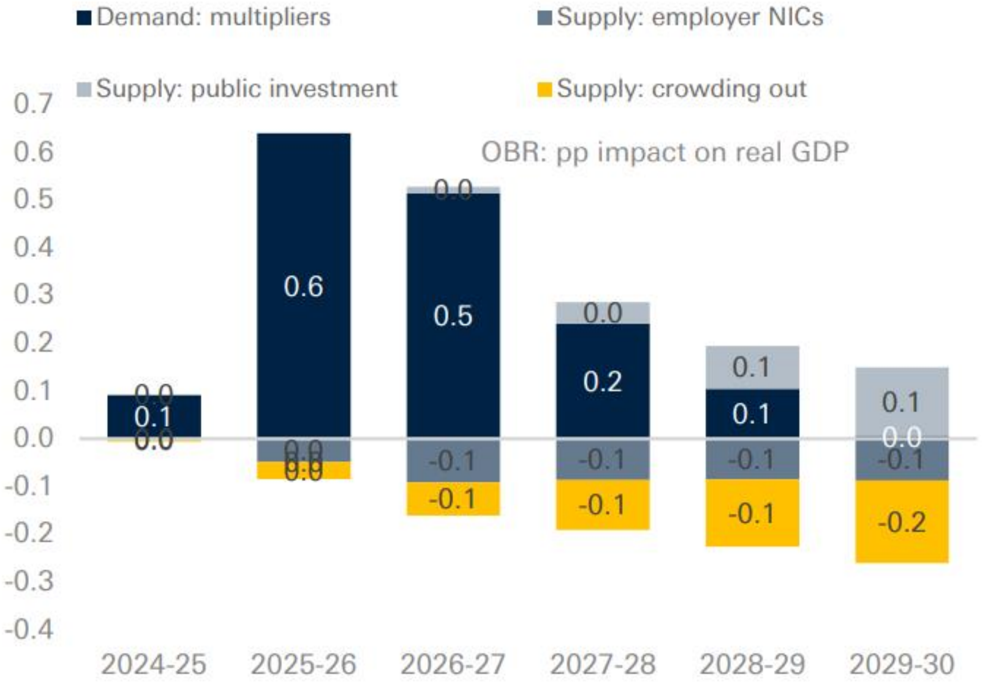
Business Sentiment has been improving, but remains just marginally in expansionary territory



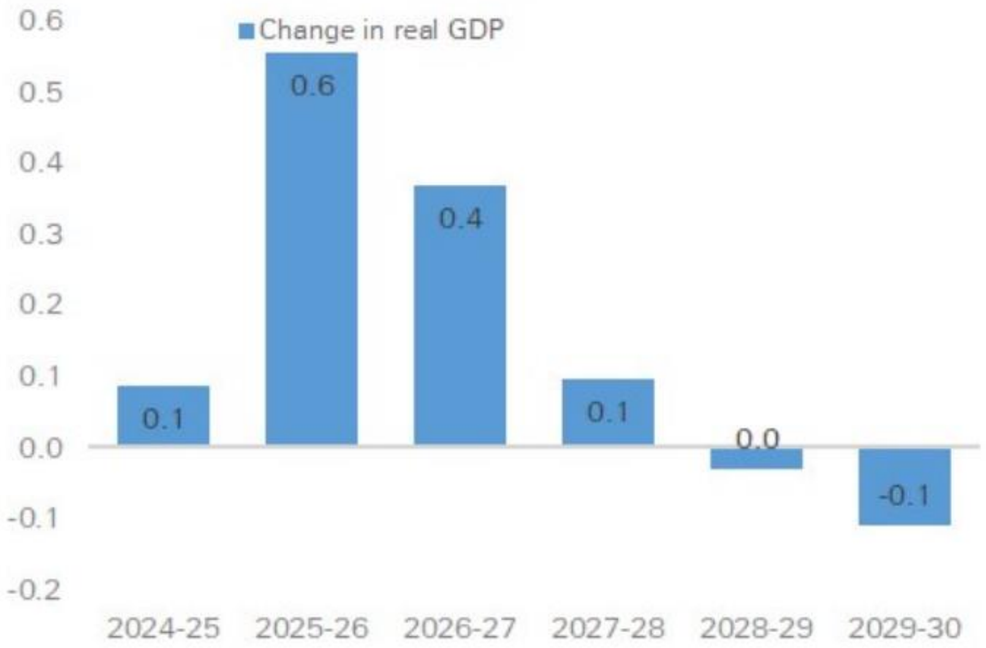
Source: S&P Global, Macrobond, Swiss Re Institute

New Labour government: the last Autumn Budget will be growth-fuelling in the short-term, but not necessarily over the mid- to long-term

Policy measures are not all growth positive



Real GDP lift will be temporary over the next two years, and after drag on output



Swiss Re Institute

Source: Deutsche Bank, OBR, Swiss Re Institute

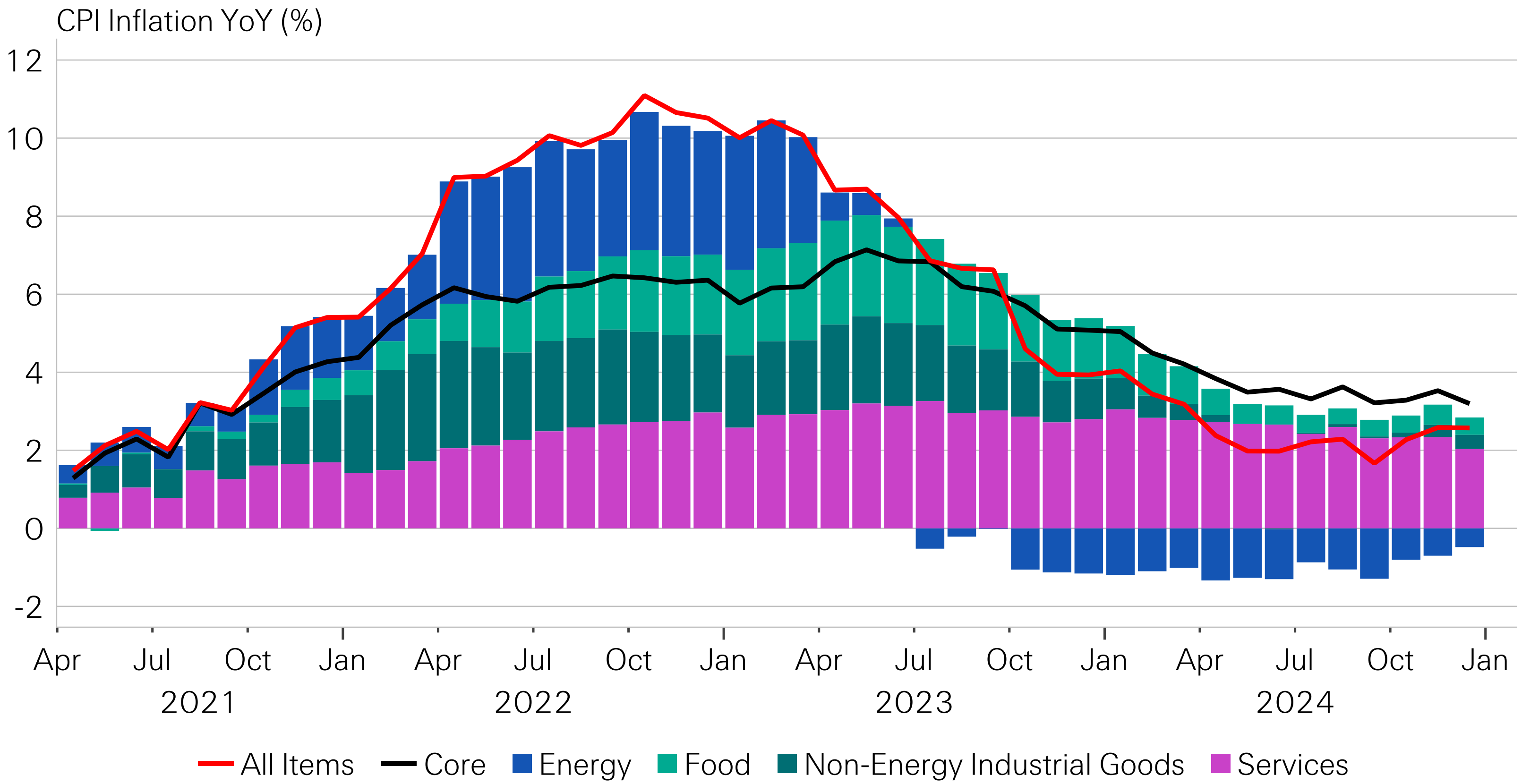
Inflation

The last mile is proving more difficult and “bumpy”

Swiss Re
Institute

Inflation has eased, but the last mile is proving more difficult. Still "sticky" services inflation has prevented the return to the BOE's 2% inflation target

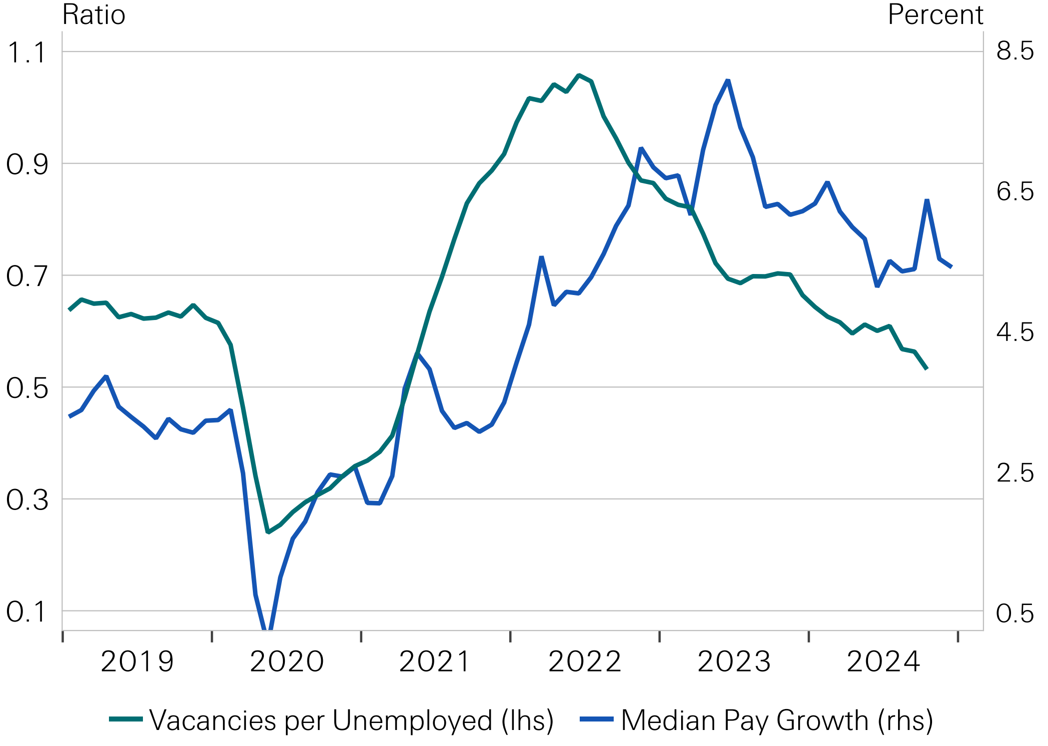
UK "core" CPI inflation remains more elevated than overall headline CPI



Source: ONS, Macrobond, Swiss Re Institute

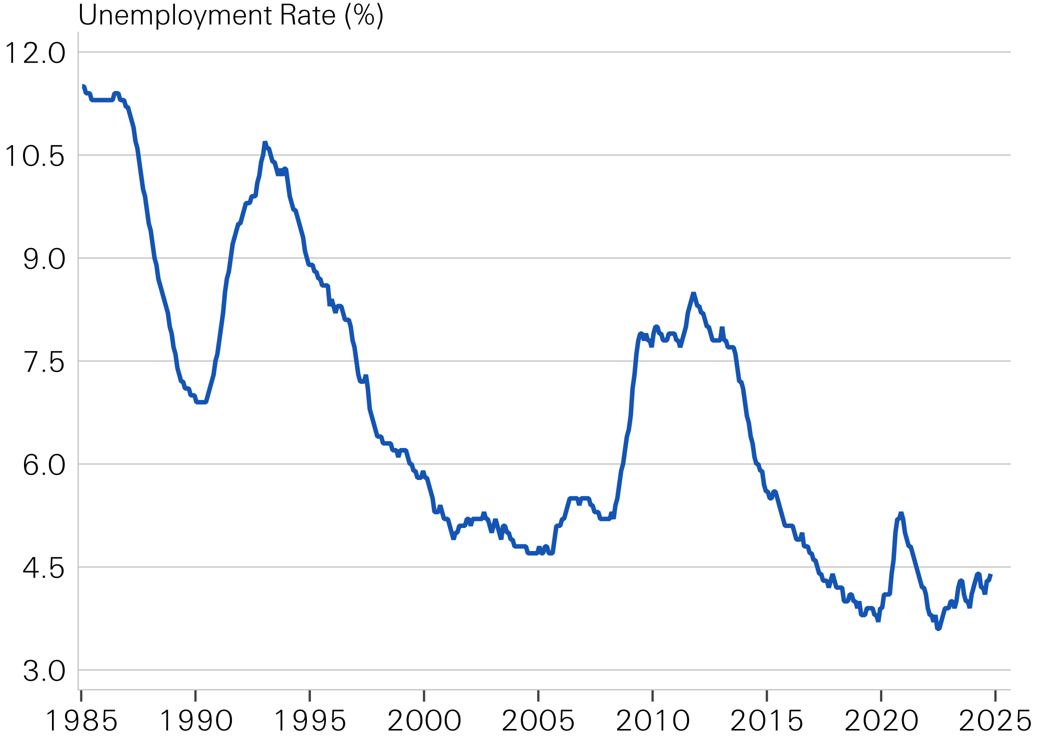
Further softening in the labour market could help lower "sticky" services inflation in the medium-term

Falling labor market tightness is driving wage growth moderation, but with a delay



Source: ONS, Macrobond, Swiss Re Institute

Unemployment has ticked up, but remains historically low



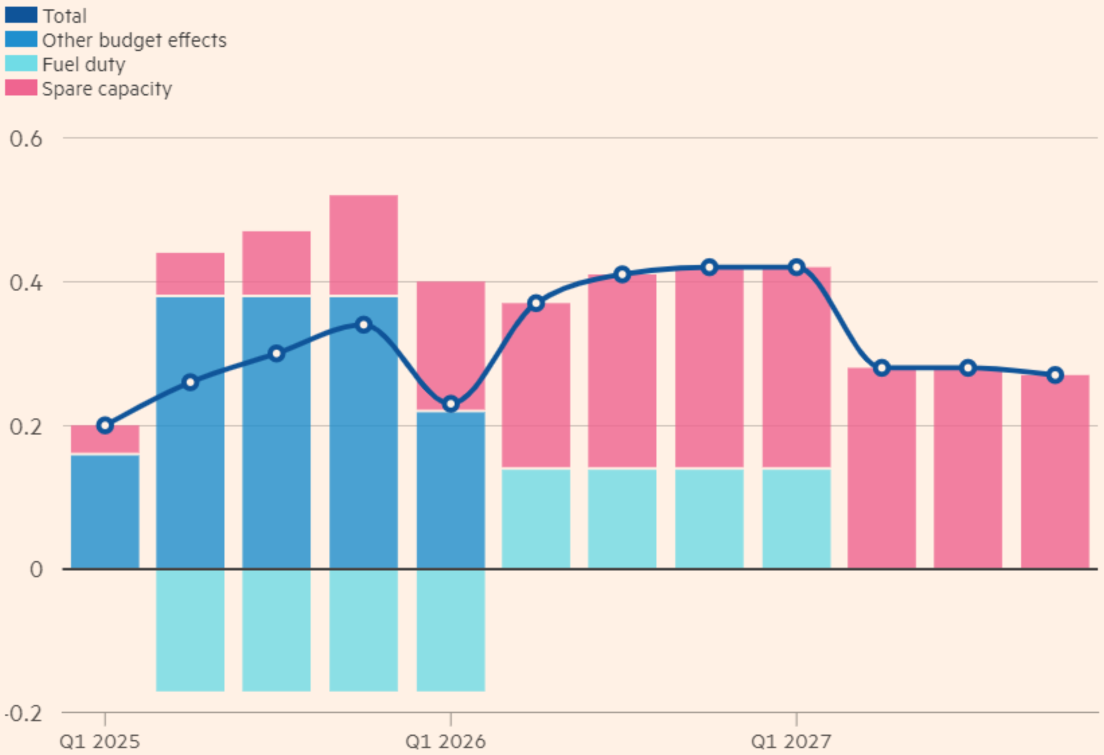
Source: ONS, Macrobond, Swiss Re Institute

The Autumn Budget is estimated to raise CPI inflation

first via level-increases, then by reducing the margin of spare capacity in the economy

The Budget is expected to raise inflation by just under half a percentage point at the peak

Impact of the Autumn 2024 Budget on UK CPI inflation forecast, percentage points



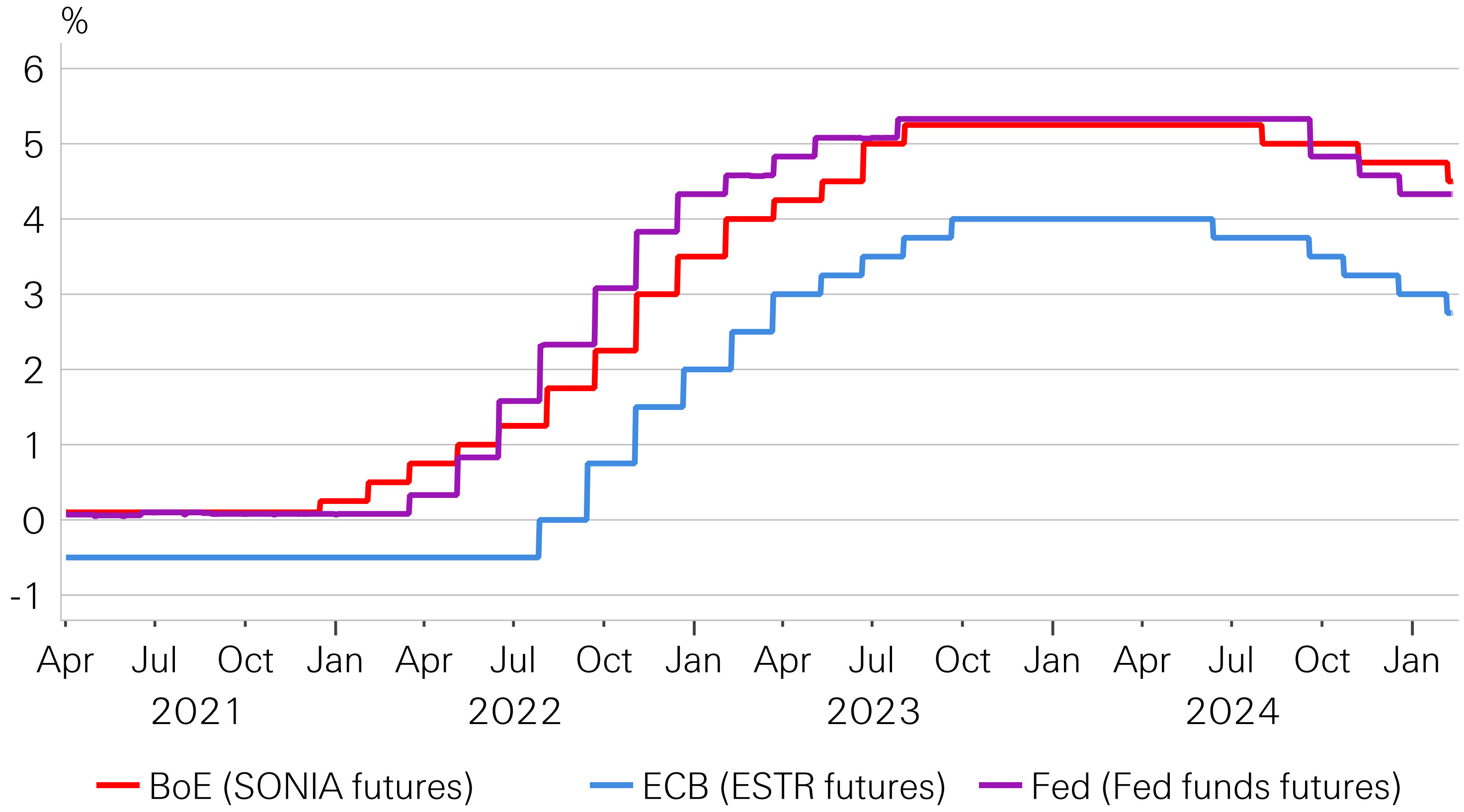
©FT

Source: Bank of England • Other effects include the rise in the cap on single bus fares, the rise in vehicle excise duty, VAT on private school fees and change in employer NICs

Interest rates

Greater central bank divergences: the Fed has slowed the pace of interest rate cuts, while especially the ECB is set to continue with more rate cuts

Further interest rate cuts are likely, but less so from the Fed in the US

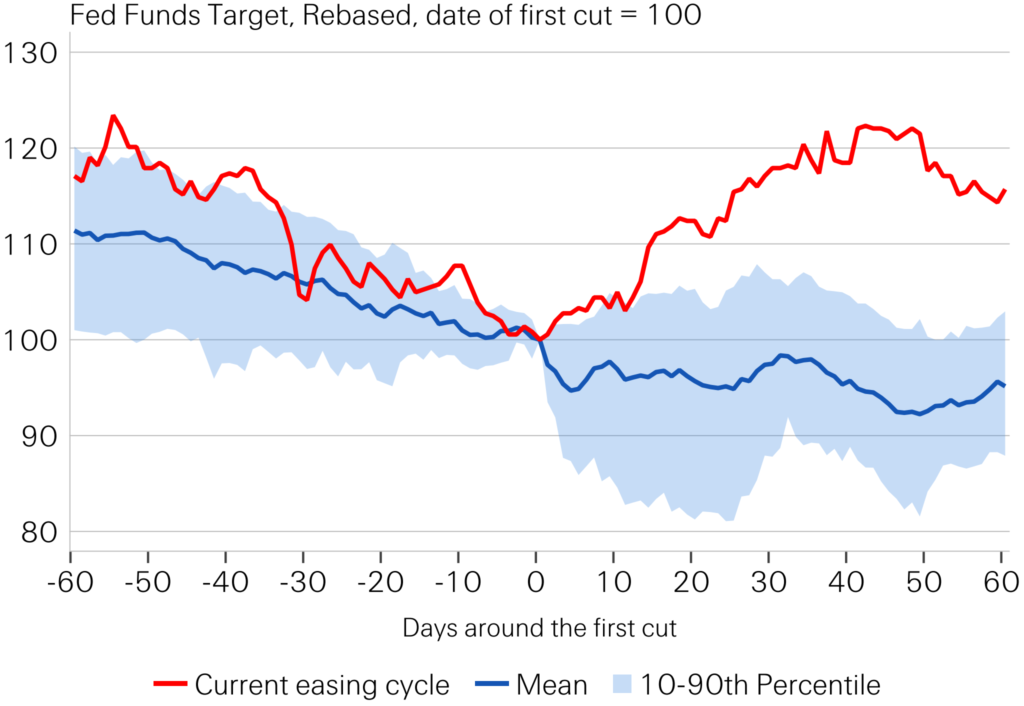


Source: Macrobond, Swiss Re Institute

BUT… monetary policy and government bond yields have decoupled!

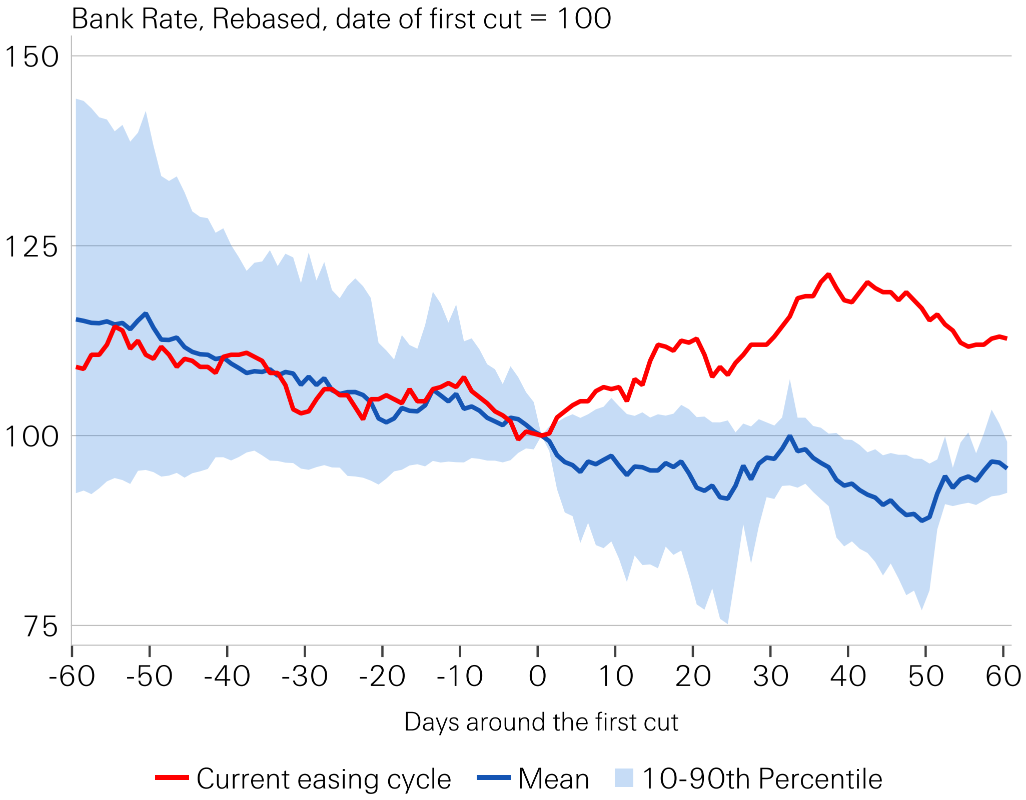
Long-end bond yields disconnected from Fed policy

Movement in US10y yield around the Fed's first rate cut



Source: U.S. Treasury, Fed, Swiss Re Institute

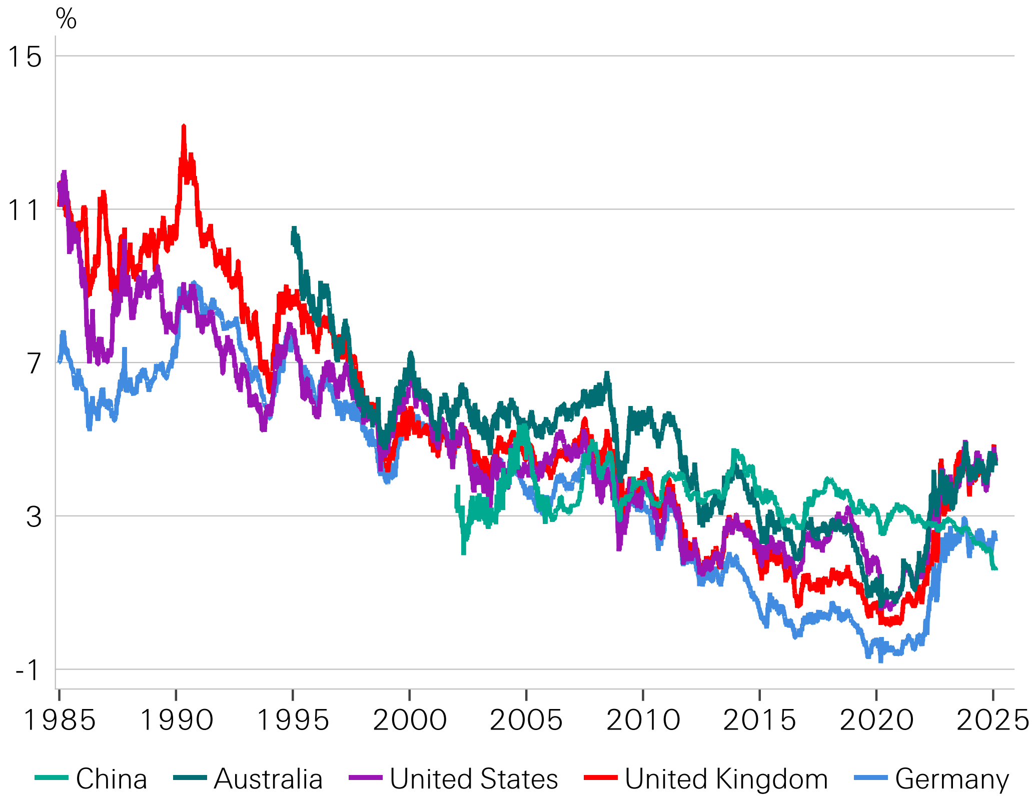
… and the same is true for the UK



Source: Macrobond, BoE, Swiss Re Institute

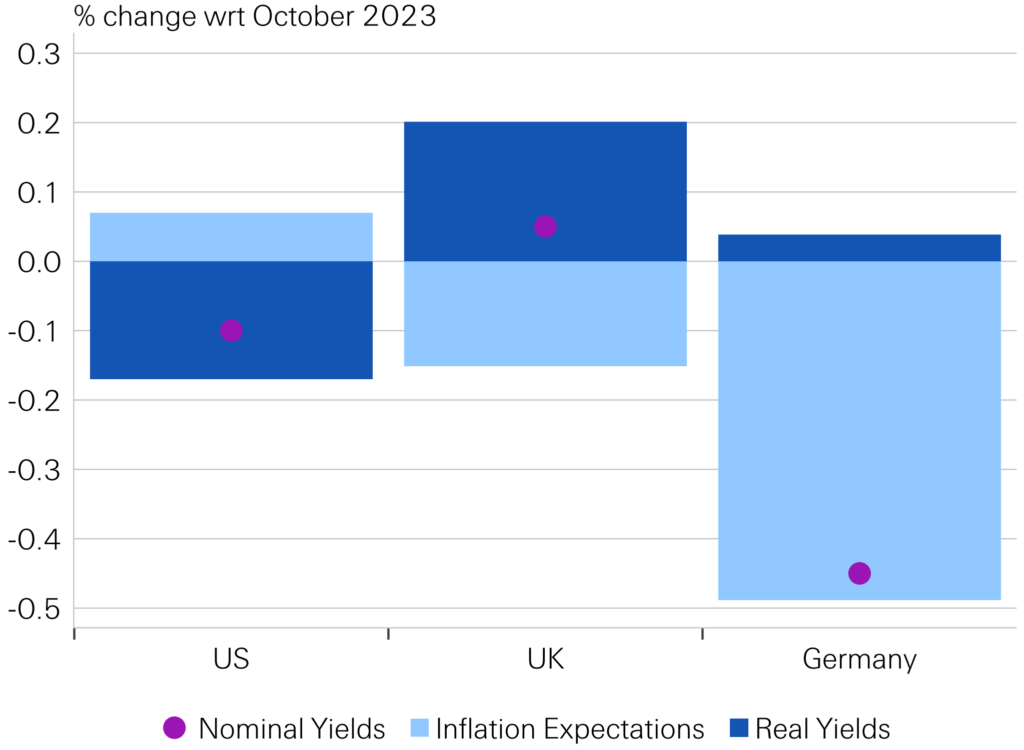
Fiscal challenges from spending imperatives are exerting upward pressure on bond yields

Bond yields to stay near current levels for now



Source: Macrobond, U.S. Treasury, Swiss Re Institute

Nominal yields have not decreased in the UK, despite monetary policy normalization

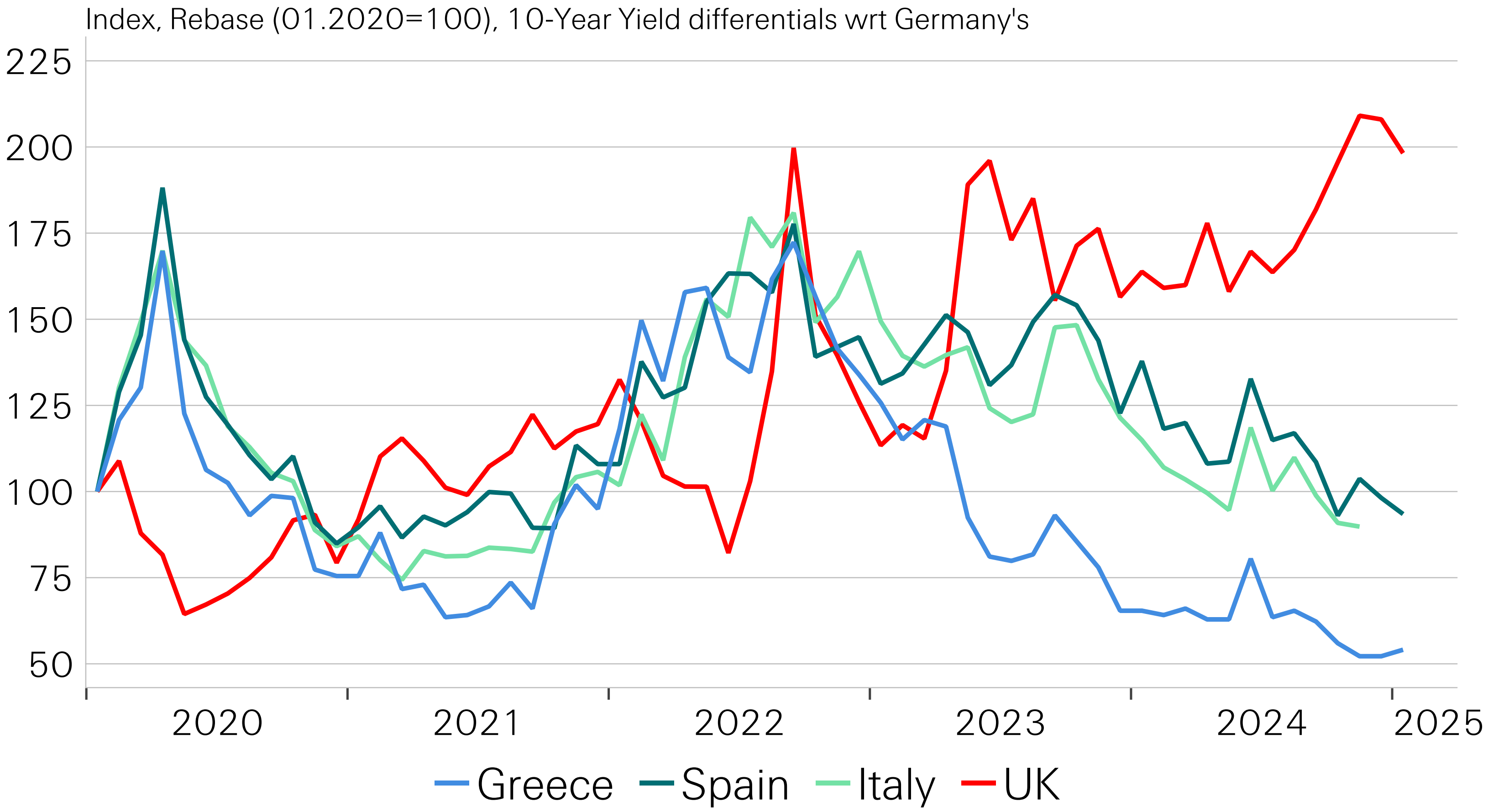


Source: Macrobond, Swiss Re Institute

Swiss Re Institute

Bond yields… the relative difference (or “spread”) compared to German sovereign bonds since the eve of the COVID-19 pandemic

UK's bond yield spread has not recovered



Source: BUBA, Bank of Italy, BDE, BoE, Bank of Greece, Macrobond, Swiss Re Institute

Swiss Re Institute

Longer-term structural themes:

The 6 Ds

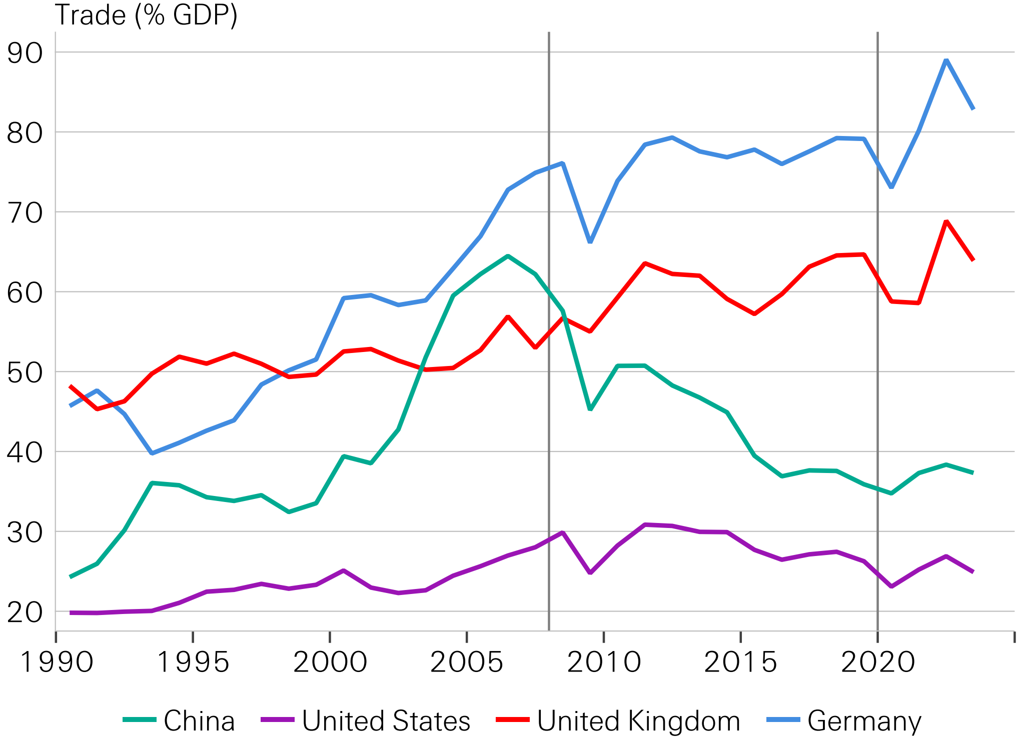
Swiss Re
Institute

Structural longer-term outlook: The 6 "Ds" speak for structurally higher inflation – *but the UK might be already well positioned to address all of them*

	Deglobalisation	**Defence**	**Decarbonisation**	**Demographics**	**Debt**	**Digitalization**
Long-term impact on Global CPI inflation:	↗	↗	↗	↗	↗	↘

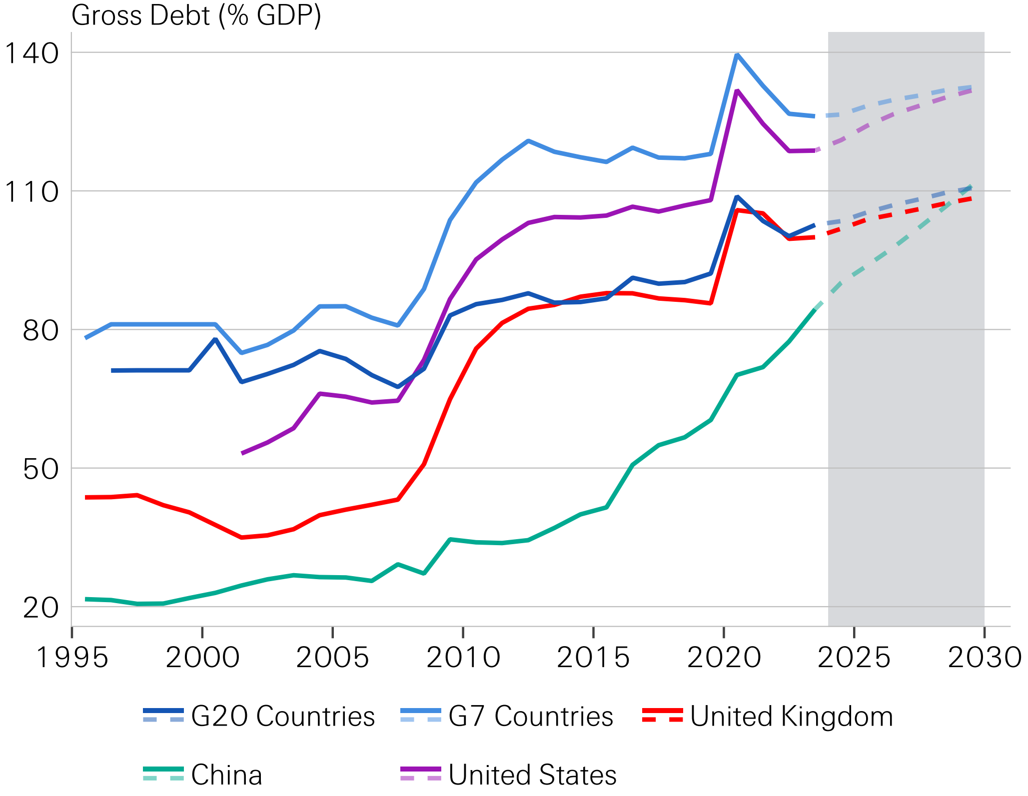
The GFC and the Covid pandemic have constituted two structural inflection points for (**D**e)globalization and **D**ebt, but…

The services-intensive UK economy resists the strongest deglobalization forces



Source: World Bank, Macrobond, Swiss Re Institute

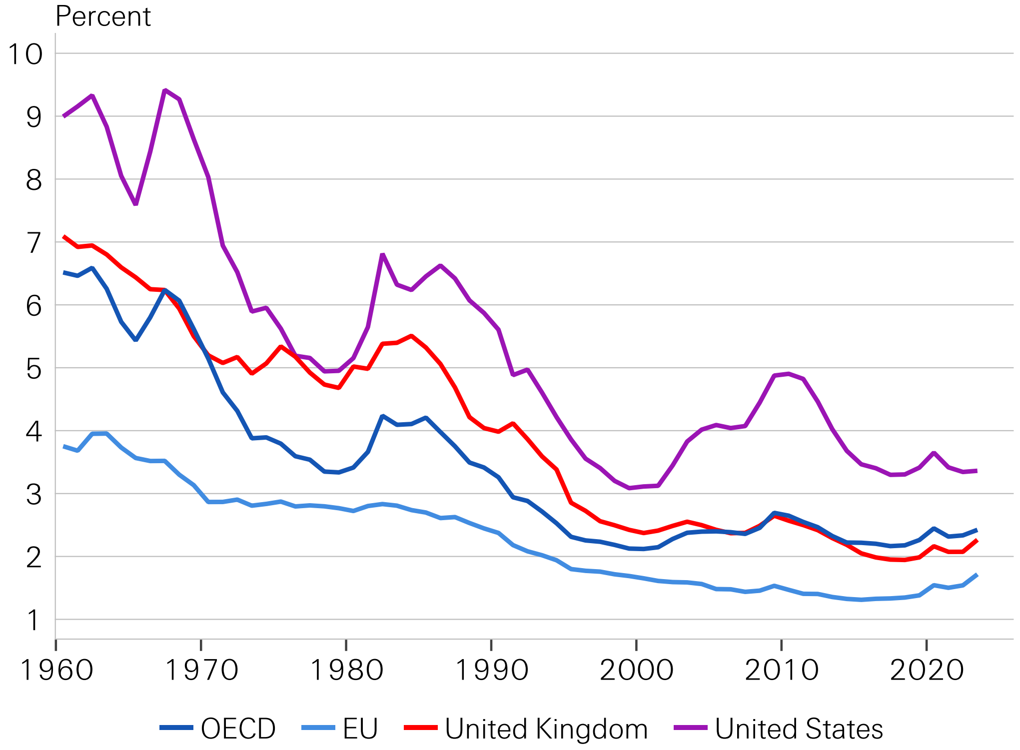
Debt-to-GDP ratios on upward path globally



Source: IMF, Macrobond, Swiss Re Institute

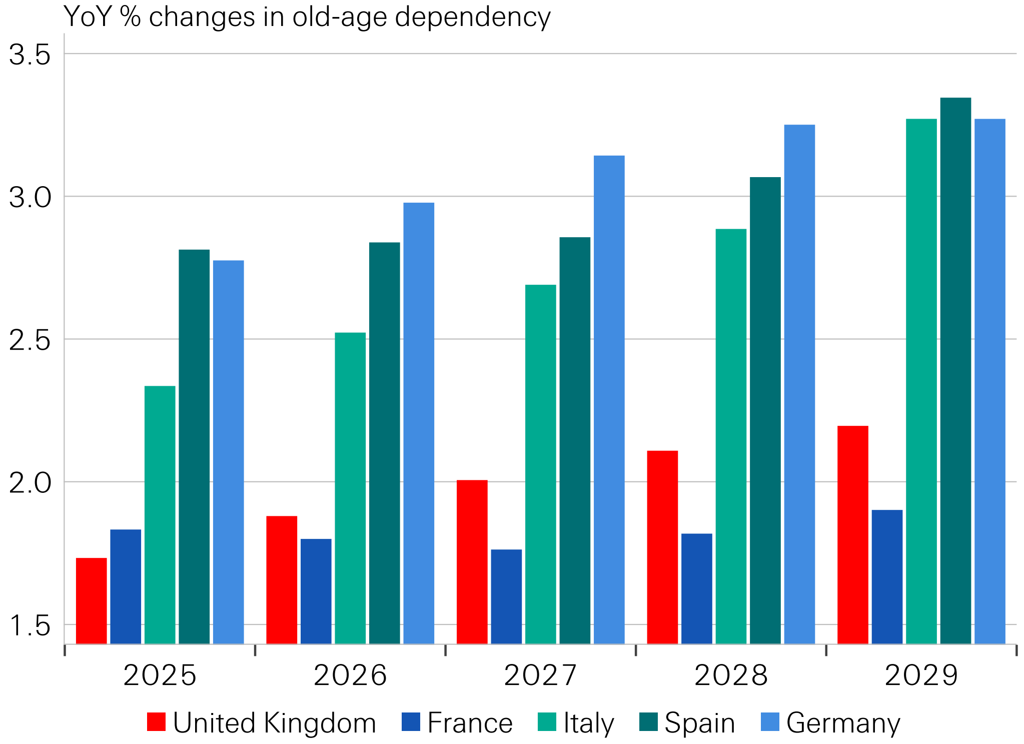
Renewed **D**efence spending imperatives and ageing **D**emographics will be exerting fiscal pressures, but…

Defence spending is being ramped up lately, but it remains historically low in advanced nations



Source: World Bank, Macrobond, Swiss Re Institute

The UK will be relatively shielded from growth in old-age dependency

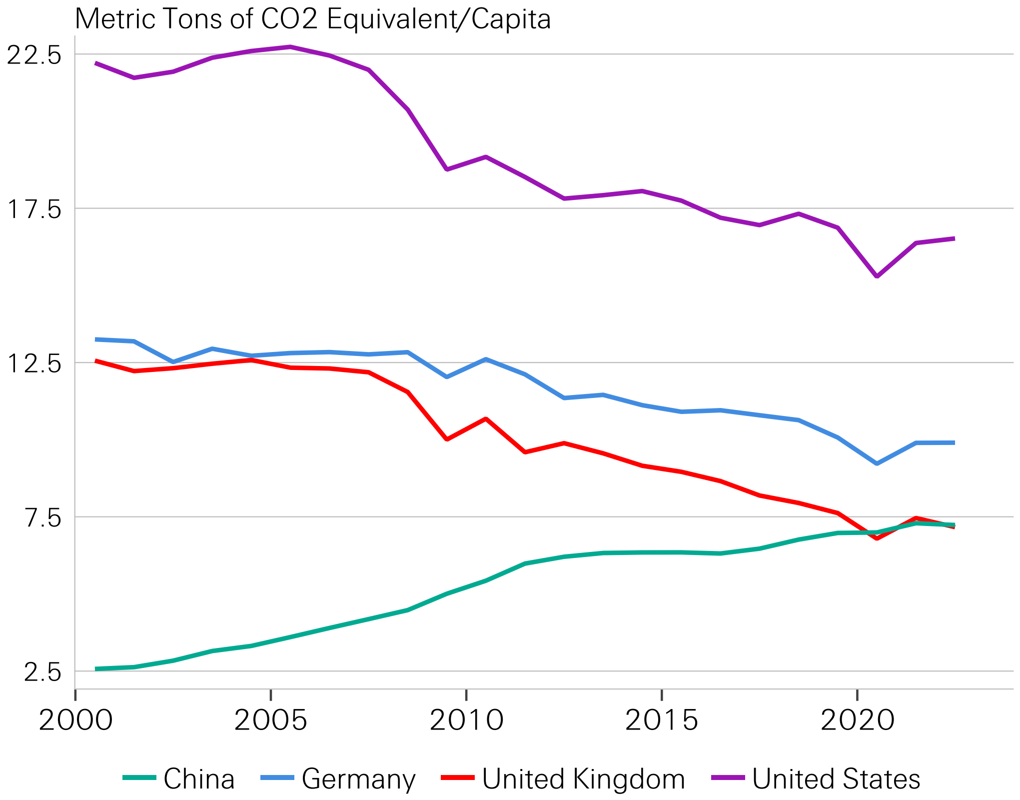


Source: UNCTAD, Macrobond, Swiss Re Institute

Swiss Re Institute

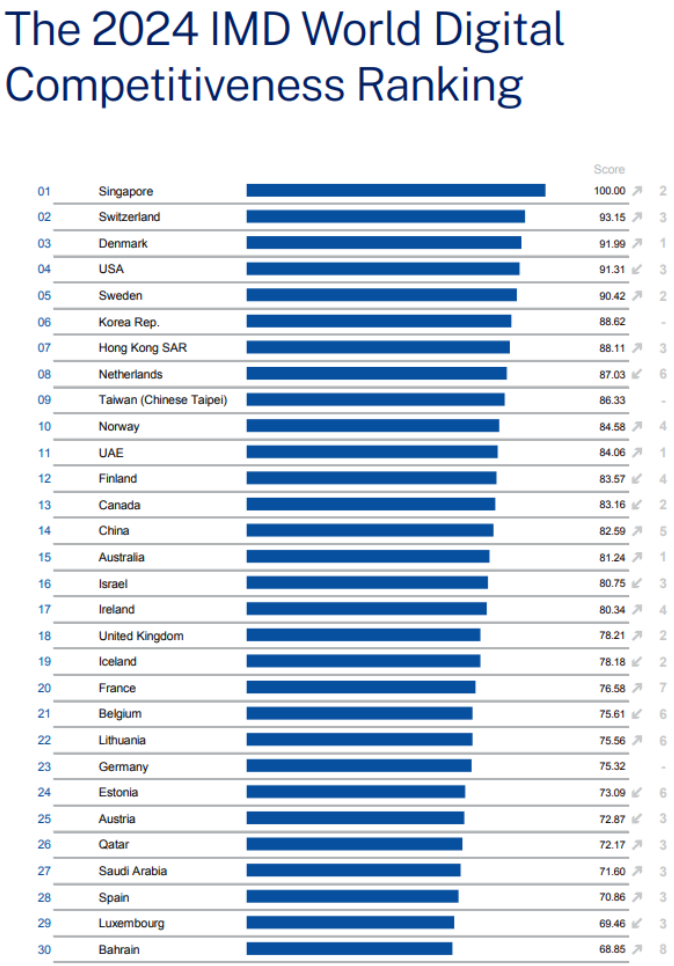
Decarbonization and **D**igitalization represent new challenges and imperatives, but…

The UK has been already getting greener, faster



Source: Our World in Data, Macrobond, Swiss Re Institute

The UK is not so badly positioned for digital competitiveness



The 2024 IMD World Digital Competitiveness Ranking

		Score		
01	Singapore	100.00	↗	2
02	Switzerland	93.15	↗	3
03	Denmark	91.99	↗	1
04	USA	91.31	↙	3
05	Sweden	90.42	↗	2
06	Korea Rep.	88.62		-
07	Hong Kong SAR	88.11	↗	3
08	Netherlands	87.03	↙	6
09	Taiwan (Chinese Taipei)	86.33		-
10	Norway	84.58	↗	4
11	UAE	84.06	↗	1
12	Finland	83.57	↙	4
13	Canada	83.16	↙	2
14	China	82.59	↗	5
15	Australia	81.24	↗	1
16	Israel	80.75	↙	3
17	Ireland	80.34	↗	4
18	United Kingdom	78.21	↗	2
19	Iceland	78.18	↙	2
20	France	76.58	↗	7
21	Belgium	75.61	↙	6
22	Lithuania	75.56	↗	6
23	Germany	75.32		-
24	Estonia	73.09	↙	6
25	Austria	72.87	↙	3
26	Qatar	72.17	↗	3
27	Saudi Arabia	71.60	↗	3
28	Spain	70.86	↗	3
29	Luxembourg	69.46	↙	3
30	Bahrain	68.85	↗	8

Insurance market implications

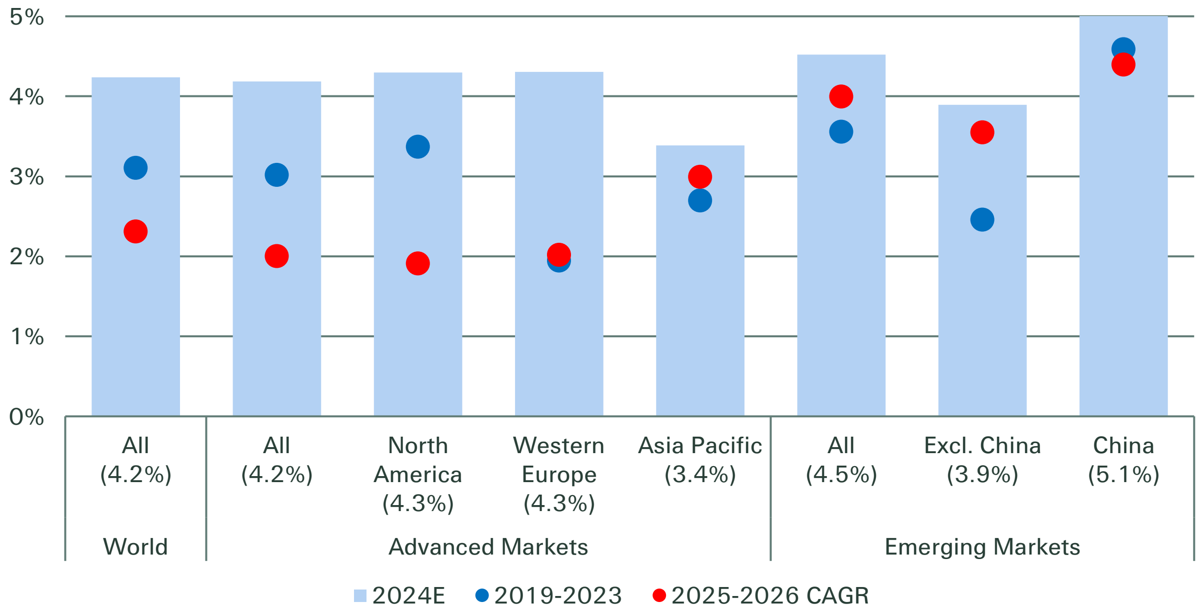
Swiss Re
Institute

Non-life primary insurance markets outlook: Global insurance premium growth to slow to an annual average of 2.3% in real terms in 2025-26 as pricing cycle eases

Global premium growth decelerating from 2023-2024 price-driven boost as pricing cycle turns

- 2025-26 premiums growth below **2019-2023 average of 3.1%** globally
- **Price moderation** will impact **Advanced Markets** the most in the next two years
- In **Emerging Markets** increasing insurance penetration and market development will support growth in the next years
- Continued growth in demand for **nat-cat covers**, with global natural catastrophe insured losses well over USD 100bn last year for a fifth consecutive year

Non-life premium growth by regions



Note: CAGR = compound annual growth rate
Source: Swiss Re Institute

Global specialty insurance outlook difficult to navigate, but there are opportunities

Key economic trends	Current impact	Medium-term impact (3-5 years)
Pricing dynamics	**Softening** after strong profitability	**Upside risks** due to higher-for-longer inflation, geopolitical risks, climate change...
Global trade	**Uncertainty and tariffs** to reduce trade growth and related insurance volume demand	Supply chains are rearranging, **globalisation to continue**
Infrastructure investment	**Constrained by tight fiscal positions** and low economic growth	**Significant investments needs** in climate adaptation, energy, replacing aging infrastructure...
Bankruptcies	Stable at **high levels in 2025-26.** Higher for longer interest rates, economic and geopolitical uncertainty	Lower interest rates will help, but **no return to pre-COVID financial conditions**. Risks in highly leveraged areas
Wages and healthcare costs	**Wages slowing down** but labour market often still tight. Feeds through to **liability payouts**	Stabler labour markets but **ongoing strong healthcare costs growth**, aging population
Social inflation	Likely to **remain high in the US** despite attempts at reform	**Spread to Europe** but without nuclear verdicts. **US to remain epicenter** due to legal system structure
Overall specialty environment	**Deteriorating slightly from strong basis**	**Uncertain environment with significant opportunities**

Source: Allianz Trade, Swiss Re Institute

Concluding fun facts: insurance sector contributions to the UK economy

- The insurance sector plays an important role in the UK economy. **Efficient regulations, investments in infrastructure and adaption to potential risks allow to maintain and nurture this role**

Contribution of the UK insurance sector

Labour market

- **320’000 jobs** in 2022
- 1% of UK total jobs

Source: TheCityUK

Economic output

- **1.5% of UK economic output**, 22% of services sector
- Similar to size of **Cyprus economy**

Source: ONS, Swiss Re

Tax contribution

- **2% of total gov’t tax income**
- 78% higher than in 2014

Source: ABI

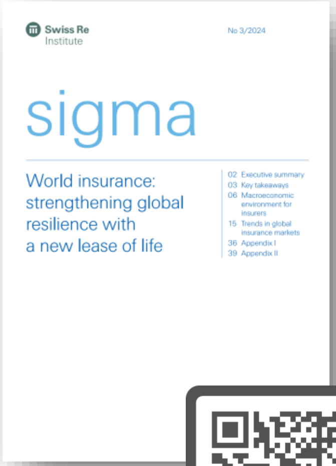
Thank you!

Be prepared for changing paths +scenarios

Get your publication today and subscribe to our research

Sigma

- Market information for managers and specialist in the (re)insurance industry



Swiss Re
Institute

No 3/2024

sigma

World insurance: strengthening global resilience with a new lease of life

02 Executive summary
03 Key takeaways
06 Macroeconomic environment for insurers
15 Trends in global insurance markets
36 Appendix I
39 Appendix II

Scan me

Expertise Publications

- Expert analysis of specific risk topics in regional markets and the global (re)insurance industry

Swiss Re
Institute

February 2024

Changing climates: the heat is (still) on

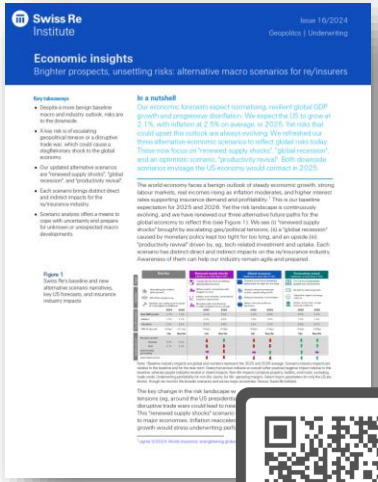
Hazard intensification set to compound economic losses

02 Executive summary
03 Key takeaways
06 The heat is on
09 Where exposure meets hazard intensification
15 Climate-change

Scan me

Economic Insights

- Key findings on macro developments and market events, and their implications for the (re)insurance industry



Swiss Re
Institute

Issue 16/2024

Geopolitics | Underwriting

Economic insights

Brighter prospects, unsettling risks: alternative macro scenarios for re/insurers

Scan me

Economic Outlook

- Monthly newsletters on global economic and financial market risk landscape and quarterly newsletters on US and European economic outlooks

Swiss Re
Institute

August 2024

Economic and financial risk insights

Strong fundamentals contrast rising volatility and heightened uncertainty around extent of rate cuts

Scan me

Legal notice