

RESEARCH REPORT



Rewriting America's Economic Rule Book

Signals Through Unsatisfactory Noise

OCTOBER 2025



M Capital Group

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EXECUTIVE SUMMARY

U.S. ECONOMICS

A New U.S. Journey

The surface strength of the U.S. economy in mid-2025 belies a more fractured internal picture. Second-quarter GDP growth rebounded to 3.3%, but much of the gain stemmed from trade dynamics and one-off service sector strength. Indicators of core demand and private sector vitality remain subdued. Economists and markets alike are debating whether this marks the start of a renewed expansion, or a temporary lift masking a slower-moving slowdown.

Recent labor market data, including steep revisions to prior job growth and a significant July slowdown, have sharpened focus on the limits of this rebound. Household balance sheets are becoming more fragile under the combined weight of high interest rates, persistent inflation in key services, and weakening wage momentum. Delinquency rates on unsecured credit have climbed meaningfully, and financial stress is becoming increasingly concentrated among younger and lower-income cohorts.

Meanwhile, corporate balance sheets are showing signs of fatigue. Rising default volumes, especially among highly indebted firms, and reduced refinancing appetite signal the tightening grip of higher-for-longer financing costs. Business investment remains cautious, particularly in sectors exposed to trade friction or input volatility.

Consumer behavior is becoming more segmented. While the upper-income tier continues to spend on experiences, much of the population is reining in discretionary outlays. Retail performance has been uneven, and forward confidence indicators point to a fragile mood heading into the final stretch of the year.

Policy remains a dominant force shaping the current cycle. Washington's pivot toward trade protectionism, manifested in sweeping tariffs and industrial reshoring initiatives, has redrawn the competitive map. But these efforts are not without cost: input inflation, global retaliation risk, and declining manufacturing sentiment are all raising questions about near-term competitiveness.

The Federal Reserve added its first rate cut since 2023 in September, lowering the federal funds rate to 4.00%–4.25%. Chair Powell emphasized caution, framing the move as a modest adjustment rather than the start of an easing cycle. Markets remain divided on whether another cut comes in December or slips into 2026, underscoring the unsettled macro backdrop.

From Old Norms to New Realities

The U.S. economy is undergoing a structural recalibration, moving away from the playbook that defined the post-2008 era. As globalization retreats and the long shadow of pandemic-era stimulus fades, the emerging landscape is marked by tighter financial conditions, fractured supply chains, and policy-driven industrial restructuring. While headline GDP growth in Q2 2025 offered a brief reprieve, deeper indicators point to a maturing cycle defined more by adjustment than acceleration.

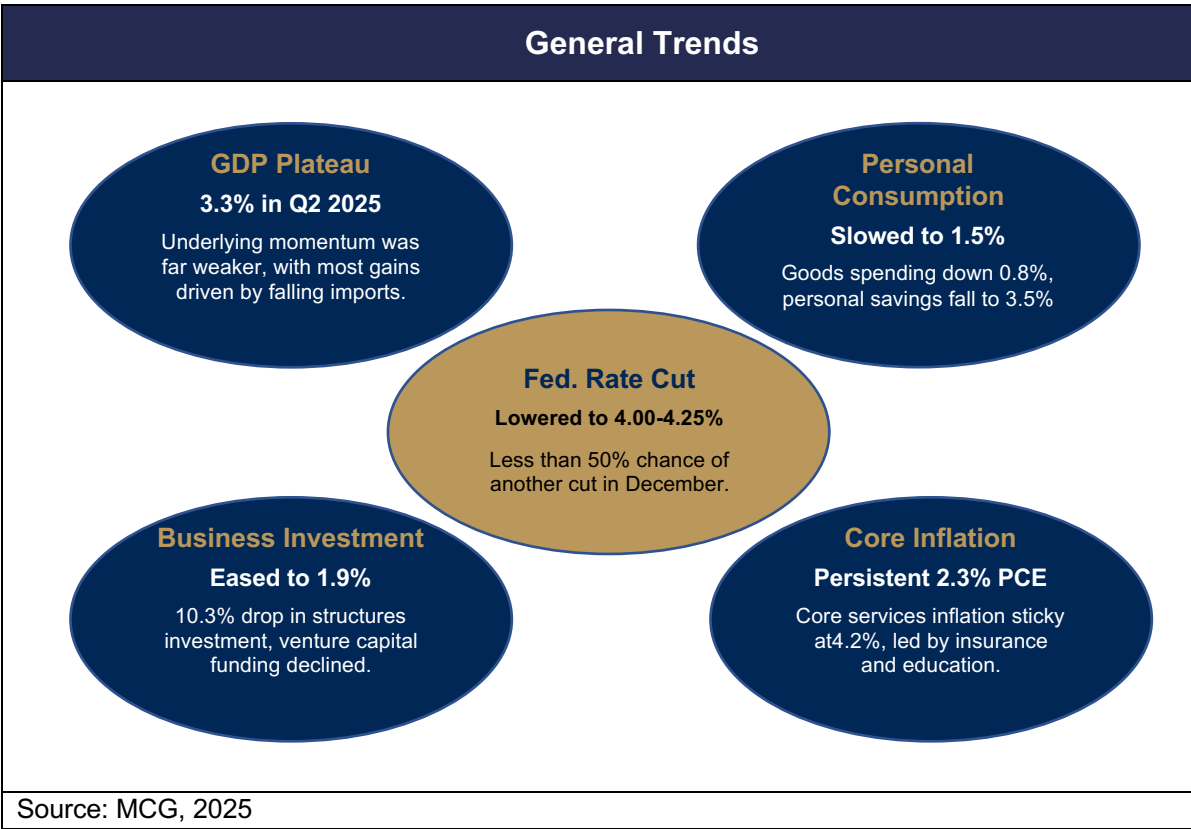
Legacy growth engines have been materially re-priced: the ISM Manufacturing PMI slid to 48.0 in July, signaling contraction, while industry studies estimate that recent tariff measures could raise factory input costs by 2.0–4.5% and have already driven steel and aluminum prices up roughly 30% year-to-date. Aggregate modeling places the tariff burden on U.S. manufacturing at about \$328 billion per year, and the resulting uncertainty shows in firms' capital plans, investment in structures contracted 10.3% in Q2 even as equipment spending rose modestly. Surveys of corporate strategy reveal only ~20% of firms expect significant reshoring to the U.S., with a larger share (around 30–40%) planning partial "friend-shoring" shifts instead. Venture funding and other private-capital channels have also cooled (VC funding remains roughly 35% below peak), reinforcing a shift from expansionary capex to defensive, compliance, and localization spending.

Private-sector resilience is wearing thin. High debt servicing burdens, a slowing labor market, and declining retail momentum have strained household consumption. Firms, particularly those dependent on global input chains or carrying high leverage, face rising financial fragility, with U.S. non-financial corporate debt now exceeding \$13.5 trillion (about 46% of GDP) and the median interest coverage ratio for small and mid-sized firms falling below 3.0x, its weakest since 2010. Policymakers have offered only limited relief: the Federal Reserve delivered a small September rate cut, lowering the federal funds rate to 4.00%–4.25%. Chair Powell framed the move as cautious, underscoring that further easing will depend on sustained disinflation in core services. Markets remain divided over whether another cut will follow in December or slip into 2026.

At the same time, deeper structural currents are reshaping the outlook. AI adoption, though still nascent—shows early signs of redefining productivity dynamics, while labor force participation remains historically weak. A shrinking working-age population and tighter immigration controls are compounding labor shortages, particularly in critical domestic sectors. These shifts, paired with persistent inequality and wealth concentration, are reinforcing disparities between well-capitalized firms and the rest of the economy.

This moment represents not a cyclical pause but a directional shift. The U.S. is transitioning from a model of scale and efficiency toward one of resilience and strategic alignment. Whether that shift can deliver inclusive growth or simply deepen structural divides will define the next phase of the American economic story.

The Main Indicator Revisited



- **GDP Plateau:** Headline GDP growth reached 3.3% in Q2 2025, but underlying momentum was far weaker, with most gains driven by falling imports. Final sales and domestic demand remain soft, suggesting a fragile base for continued expansion.
- **Slower Personal Consumption:** Real personal consumption growth slowed to 1.5% annualized, with goods spending down 0.8%. The personal savings rate has fallen to



3.5%, near its post-pandemic low, while revolving credit balances have climbed 7.9% year over year, pointing to mounting household vulnerability.

- **Cooling Business Investment:** Nonresidential fixed investment growth eased to 1.9%, dragged by a 10.3% drop in structures investment. Venture capital funding has declined 35% year over year, and equipment orders are down 4.1%, underscoring hesitation on long-term capital commitments.
- **Labor Market Normalization:** Payroll growth slowed to 73,000 jobs in July, the weakest since 2020 outside pandemic anomalies. Average hourly earnings are rising at 3.6% year over year, still below headline inflation in high-cost regions, indicating reduced real wage power.
- **Persistent Core Inflation:** Overall PCE inflation is at 2.3% year over year, but core services inflation remains sticky at 4.2%, led by insurance (+11.4%) and education (+5.6%). These structural costs are preventing a quicker return to the Fed's 2% target.
- **Federal Reserve's Interest Rate Path:** The Fed lowered the funds rate to 4.00–4.25% in September, its first cut since 2023. Futures markets now price less than a 50% chance of another cut in December, reflecting uncertainty over core inflation and labor market durability. Diverging views within the FOMC reflect the challenge of balancing inflation control with signs of economic softening.
- **Tariffs & Domestic Manufacturing:** New tariffs have sharply raised input costs, weighing on industrial output despite public investment. Manufacturing activity continues to contract, and firms are reassessing the benefits of reshoring.
- **Trade & Supply Chain Paradigm:** Global supply chains are becoming increasingly fragmented as firms adapt to tariffs, regulation, and geopolitical risk. The shift favors resilience over efficiency, at the cost of complexity and higher costs.

GLOBAL ECONOMICS

Across the world economy, a strategic reordering is underway. In place of integrated global efficiency, governments and firms are prioritizing resilience, autonomy, and alignment with trusted partners. Supply chains are being redesigned for redundancy and geopolitical flexibility, even at the cost of economic efficiency. Strategic subsidies, industrial policies, and regulatory barriers are replacing traditional comparative advantage in critical sectors such as semiconductors, clean energy, and defense manufacturing.

Financial infrastructure is also fragmenting. With the rise of parallel platforms, such as Society for Worldwide Interbank Financial Telecommunication ("SWIFT") versus China's Cross-Border Interbank Payment System ("CIPS"), companies are increasingly required to comply with dual legal and regulatory frameworks. The result is a growing divergence in how global business is conducted, particularly in finance, tech, and digital infrastructure.

Geopolitical conflicts, including those in Ukraine, the Red Sea, and the Sahel, are reshaping physical trade routes and driving up insurance and transport costs. Oil prices have held above

\$95 per barrel in recent months, while LNG has become increasingly volatile amid shipping delays and supply risks. Currency instability, seen in the yen and lira, has further pressured emerging markets, especially those with high external debt exposure. Rising defense spending is straining budgets globally and redirecting capital away from growth investments.

A deeper decoupling is forming across regulation, technology, and capital flows. Export controls on semiconductors, tighter audit restrictions, and the growing use of the renminbi in cross-border settlements (up 4.2% year-on-year) are advancing the formation of parallel innovation ecosystems. As this unfolds, the post-WTO, rules-based global system is giving way to a bloc-based, security-oriented landscape.

Mega-regional trade agreements are stepping into the void left by multilateral stagnation. The Regional Comprehensive Economic Partnership ("RCEP"), which links ASEAN with China, Japan, South Korea, Australia, and New Zealand, now covers nearly 30% of global GDP. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership ("CPTPP") binds 12 economies and accounts for over 14% of global output. These blocs offer stable regulatory frameworks and growing local-currency FDI activity, with ASEAN–Africa trade alone growing 26% year-on-year.

Geostrategic chokepoints, particularly the Red Sea and Strait of Hormuz, have become increasingly risky, heightening global supply chain exposure. Even temporary disruptions have had outsized effects on food and energy prices. In fragile states, capital outflows are amplifying sovereign credit risks and liquidity pressures.

The energy transition, while politically urgent, is encountering material delays. Renewable projects are facing cost inflation, grid congestion, and supply bottlenecks, especially for rare earths and copper. While AI and climate-aligned sectors continue to attract capital, legacy industries like semiconductors, basic materials, and discretionary consumer goods are underperforming amid a lack of policy clarity and softening demand.

At the same time, South–South trade is accelerating, supported by regional financial integration. New cross-border settlement systems, such as India's UPI, the UAE's e-Dirham, and Central Bank Digital Currencies ("CBDCs"), are reducing reliance on traditional dollar-dominated systems. But fragmentation in regulatory standards and infrastructure still presents headwinds for smaller firms and low-income economies.

U.S. ECONOMICS



A NEW U.S. JOURNEY

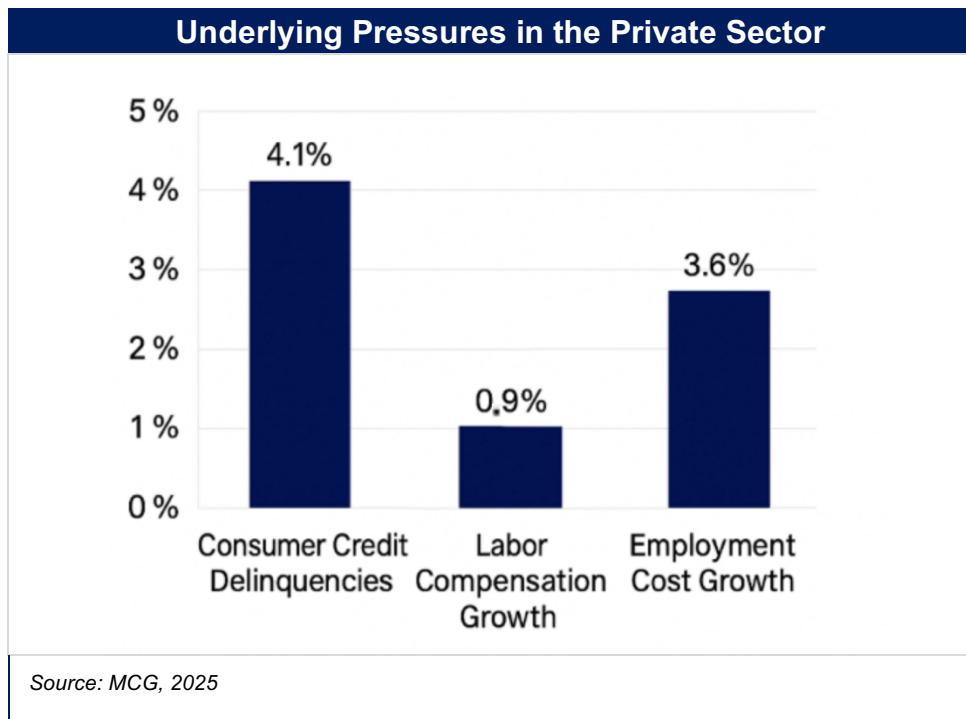
Post-Volatility Stabilization

The U.S. economy posted a stronger revised growth in Q2 2025: real GDP rose at an annualized rate of 3.3%, up from the earlier estimate of 3.0%, following the Q1 contraction of -0.5% . This surge was again driven primarily by a sharp reduction in imports and a pick-up in consumer spending, though investment and exports partially offset these gains. Real final sales to private domestic purchasers were revised up to $+1.9\%$, signaling somewhat firmer private demand than previously thought. Inflation continued its moderation: the PCE price index rose 2.0% , core PCE held steady at 2.5% , and the GDP deflator came in at 1.8% . In mid-September, the Federal Reserve reduced its benchmark rate by 25 basis points to a new range of 4.00% – 4.25% , its first policy easing since late 2024, an adjustment clearly reflecting concerns about weakening labor and demand pressures.

Private Sector Fragilities

Beneath the GDP recovery, stress is building across both household and corporate sectors. Consumer credit delinquencies are at a post-2010 high, with subprime and younger borrowers most exposed. Household balance sheets are weakening under the weight of higher interest payments and slower wage growth. Household debt reached $\$18.20$ trillion in Q1, rising $\$167$ billion; credit card balances fell by $\$29$ billion and auto loans by $\$13$ billion, while mortgages and student debt increased. The use of credit cards and buy-now-pay-later services has surged, masking the deterioration in real disposable income. Credit-card 30-day delinquency hit 14.1% overall, 20.1% in lowest-income ZIPs; 90-day delinquency reached 12.3% overall. On the

corporate side, defaults and bankruptcies are rising sharply, particularly among highly leveraged private equity-backed firms that borrowed aggressively during the era of ultra-low rates. Corporate defaults surged to ~\$27 billion in Q2. Refinancing activity has slowed considerably, and tighter credit conditions are now affecting even mid-sized businesses. Labor compensation growth slowed to just 0.9% in Q2. Annual employment cost growth is running at 3.6%, below levels needed to support robust real consumption growth.



Rising consumer credit delinquencies, now standing at 14.1% of all credit card debt (the highest level since the Great Recession), with severe (90-day) delinquencies at approximately 12.3%, coupled with slowing labor compensation growth (only 0.9% quarter-on-quarter) and annual employment-cost growth of 3.6%, highlight mounting financial stress across U.S. households and corporations, despite broader economic recovery.

Diverging Consumption Behavior

Consumer spending patterns are now increasingly segmented. Retail sales growth slowed to just 0.2% in June, with durable goods purchases falling for a third straight month. High-income households continue to spend on services like travel and dining, but middle- and lower-income consumers are pulling back, shifting toward discount retailers, and increasing their reliance on credit. The Conference Board's Consumer Confidence Index rose to 97.2 in July, reflecting moderate optimism, but forward-looking expectations remain below 80, a threshold historically

linked to recessionary conditions. The data reveals a bifurcated consumer landscape, healthy at the top, stretched at the bottom.

Trade Realignment and Tariff Pressures

Trade policy in mid-2025 has undergone a seismic transformation, reshaping the U.S. industrial economy. Since reentering office, President Trump has enacted sweeping tariffs, including a 10% baseline reciprocal tariff on nearly all imports, with surcharges as high as 145% on Chinese goods, and rates of 25–35% on Canada and Mexico, as well as 25% on Indian imports beginning August 1. Many sectors now face 50% duties on steel, aluminum, autos, and copper, elevating costs across manufacturing value.

These measures are part of a strategic pivot toward industrial sovereignty, including reshoring semiconductors, EV, and defense-related production, but come with economic friction. Analyses from the Washington Center for Equitable Growth warn that U.S. factory input costs may rise by 2% to 4.5%, with steel and aluminum prices jumping nearly 30% year-to-date in sectors like auto and construction. The imposition of copper tariffs in early August is expected to significantly burden manufacturers, given the U.S.'s dependence on copper imports (~50% of domestic needs) and limited domestic capacity.

The result is heightened inflation risk and squeezed margins for manufacturers who rely on imported intermediate goods. Elevated input costs are dampening business investment and prompting cautious financial planning as companies absorb unexpected surcharges. Equitable Growth data indicates that affected imported inputs are concentrated in manufacturing, with 19 of the 25 most tariff-exposed U.S. subsectors in manufacturing.

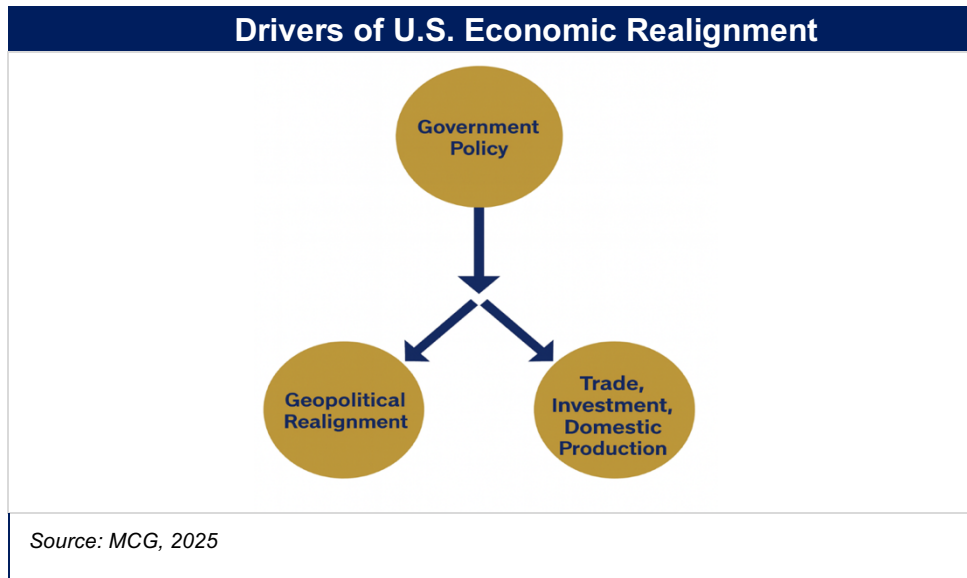
CHIPS Act and Inflation Reduction Act aimed at boosting domestic production, the national ISM Manufacturing PMI remains below 50, signifying continued contraction for a sixth consecutive month. The broader economic implications are significant: tariff-driven inflation is estimated to reduce real U.S. GDP by 0.3–0.4 percentage points, and households face an average annual cost increase of US\$ 1,270, with potential surges above US\$ 3,800 depending on the scenario.

Monetary Patience and Policy Ambiguity

After holding steady through mid-2025, the Federal Reserve delivered its first rate cut in September, lowering the federal funds target range by 25 basis points to 4.00%–4.25%. The decision reflected growing evidence of labor market cooling and softer consumption, even as core services inflation remains sticky around 3.4%–3.5%. Chair Jerome Powell reiterated the Fed's data-dependent stance, stressing that the September move should not be viewed as the start of a rapid easing cycle. Internal divisions persist, with some FOMC members advocating a more aggressive response to rising credit stress, while others caution that premature cuts risk

reigniting price pressures. Markets now expect a gradual path of easing, with futures pricing in another potential reduction in December, but no consensus on the pace of cuts through 2026.

Structural Repositioning



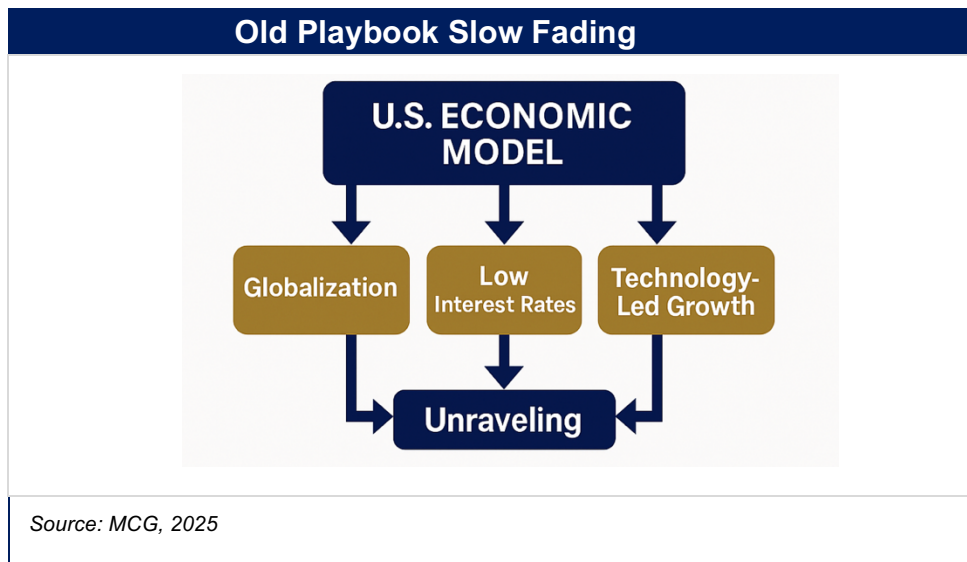
The emerging economic landscape represents less of a return to pre-pandemic norms and more of a strategic repositioning. Growth appears resilient on the surface, but much of it is driven by government policy and geopolitical realignment rather than robust private-sector fundamentals. As consumers navigate rising debt burdens and uneven wage gains, and businesses face higher costs in a deglobalizing trade environment, the U.S. is entering a phase that demands caution and adaptability. The road ahead will be shaped not only by cyclical dynamics but by structural transitions in trade, investment, and domestic production. This new journey is more than a recovery, it's a realignment.

FROM OLD NORMS TO NEW REALITIES

The Slow Fade of the Old Playbook

The U.S. economic model of the past decade, built on globalization, low interest rates, and technology-led expansion, is showing visible cracks. By the second half of 2025, the post-pandemic rebound has largely run its course, leaving a more fragile equilibrium. The IMF and OECD now project full-year U.S. growth at just under 2.0%, reflecting slowing productivity, weaker consumer momentum, and persistent trade headwinds from supply chain reconfiguration.

Fiscal and monetary support that once fueled recovery are fading. The September rate cut to 4.00%–4.25% marked the Fed's first policy easing in over a year, a move prompted by softening labor data and credit stress. Yet Chair Jerome Powell has underscored that further cuts will depend on clearer evidence of disinflation, especially in core services ex-housing, which remain elevated near 3.5%. While a minority of FOMC members argue for faster easing to address private-sector strain, the majority continues to emphasize caution. Markets are now pricing in only a gradual path of reductions, with uncertainty over whether the next move comes in December or slips into 2026.



Compounding the uncertainty is a growing divergence between public and private sector health. While public infrastructure investment, defense outlays, and reshoring incentives continue to support GDP mechanically, the private sector is under strain. Credit delinquencies are at their highest level in over a decade. Consumer debt servicing costs have surged alongside interest rates, disproportionately impacting low-income borrowers. Retail sales rose just 0.2% in June, with durable goods spending down for a third straight month. Corporate bankruptcies, especially among leveraged buyouts and venture-backed firms, are on the rise. The Employment Cost Index increased only 0.9% in Q2, and year-over-year wage growth of 3.6% is no longer enough to support real income gains in major metropolitan areas.

The Trade Reset and Manufacturing Dilemma

Beyond the headlines of new tariff policies, what is unfolding across the U.S. industrial landscape is a more subtle, but equally disruptive, shift: the growing fragmentation of global supply chains and the structural limits of policy-driven reshoring. Manufacturers are not only adjusting to higher costs, but also to a more volatile and less predictable trade environment, where sourcing strategies, production footprints, and investment decisions are increasingly driven by political

considerations rather than economic efficiency. One estimate pegs the aggregate cost burden at \$328 billion per year, equivalent to nearly 5¢ of every manufacturing revenue dollar diverted to tariffs.

Manufacturers are finding sourcing unpredictable and inefficient. Nearly 17% of U.S. machinery imports come from China, meaning critical equipment and rare-earth components are now subject to sweeping penalties, delaying project launches and increasing costs. Rather than full reshoring, many firms pivot toward "ally-shoring" (or friendshoring), shifting production to aligned economies like Mexico, Vietnam, India, and Thailand. According to Bank of America, 30%+ of firms surveyed expect partial production swaps within a year, but only 4% foresee significant nearshoring to the U.S. itself.

Despite the government's efforts to encourage domestic manufacturing, many firms report difficulty accessing the inputs they need at competitive prices or on scale. Latest analysis from the Washington Center for Equitable Growth finds that new trade duties could raise factory input costs by 2% to 4.5%, intensifying margin pressures and prompting some layoffs or plant closures. In some cases, this has resulted in delays in project execution, scaled-back capital plans, or even reconsideration of U.S. expansion altogether. The tight coupling between tariff escalation and global retaliation has also forced businesses to rethink logistics strategies. Rather than reshore fully, several multinationals are exploring "ally-shoring" options in countries with trade agreements or tariff exemptions, creating more complex and costly supply webs.

What was once a relatively integrated global production system is now giving way to regional blocks, segmented rules, and jurisdiction-specific compliance risks. For industries with long lead times, such as aerospace, heavy equipment, or automotive, the lack of visibility around future trade policy is impairing strategic planning. Some firms have begun to shift capital expenditure from productive assets to compliance and localization infrastructure, increasing overhead and slowing innovation.

Ultimately, the trade reset has exposed the limits of tariffs as a tool for industrial renewal. While they may protect certain sectors in the short term, they have also introduced long-term inefficiencies, reinforced supply vulnerabilities, and diverted private capital into non-productive channels. The dilemma for U.S. manufacturing is not just higher costs, but a deeper structural challenge: how to thrive in a world that is becoming more fragmented, politicized, and resistant to the old logic of global scale.

Emerging Foundations: Technology, Demographics, and Inequality

While the old economic order fades, new forces are beginning to define the contours of what comes next. The first is the slow but steady integration of artificial intelligence ("AI") and automation into business operations. While only 7% of U.S. firms have adopted AI in a meaningful way as of mid-2025, those that have are showing outsized productivity gains, particularly in finance, logistics, and business services. The diffusion of these technologies is

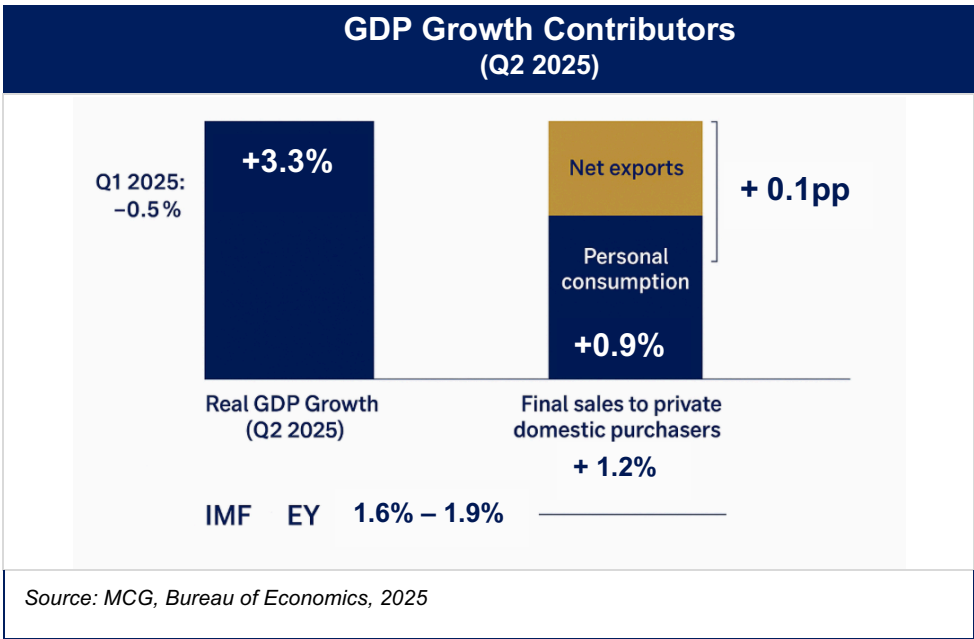
expected to accelerate in the coming years, potentially offsetting some of the inflationary pressure from labor shortages and trade constraints. However, this transition is uneven, and it threatens to widen disparities between capital-rich firms and the broader economy.

Demographic dynamics are intensifying labor market stress: overall participation has slipped to 62.2%, while prime-age workforce participation stands at 83.4%, and even older cohorts are working less, around 38% for ages 55+ and 19.8% for 65+. Meanwhile, the foreign-born labor force has contracted by roughly 735,000 workers since January 2025, reducing immigrant representation in the U.S. workforce from 19.8% to about 19.1%, compounding shortages in sectors like construction, healthcare, and manufacturing and accelerating shifts toward automation or relocation.

Meanwhile, inequality remains entrenched. The top 10% of households now account for approximately 50% of consumer spending, reflecting the growing financial weight of affluent consumers. Low- and middle-income households, suffering from slower wage gains (~3.7% in June), higher living costs, and depleted resilience buffers, are cutting discretionary spending and relying more on credit. Wealth concentration remains severe: the top 10% hold ~67–71% of aggregate household wealth, while the bottom half holds just 2.5%.

As labor participation declines and inequality widens, the transition to a more automated, policy-constrained economy may well heighten disparity, rewarding firms that can invest in AI and automation, while leaving smaller businesses and overstretched workers behind.

GDP GROWTH PLATEAU

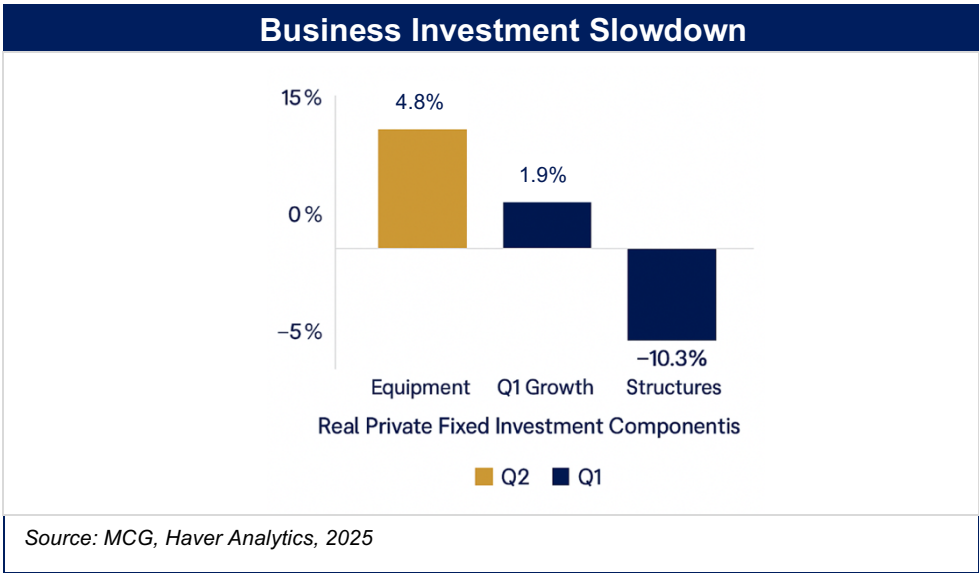


The majority of the U.S. GDP growth stemmed from a dramatic decline in imports, particularly from China and Mexico, rather than broad-based expansion in domestic demand. Final sales to private domestic purchasers rose by just 1.2%, indicating tepid consumer and business activity when stripped of inventory and trade distortions. The Bureau of Economic Analysis’ preliminary data further revealed that net exports alone contributed nearly 2.1 percentage points to headline growth, while personal consumption, typically the engine of the U.S. economy, contributed less than 1.0 point. While GDP may suggest economic resilience, the plateauing of core domestic drivers points to a soft undercurrent. Forecasters at the IMF and EY now project full-year U.S. growth to average between 1.6% and 1.9%, below 2024’s 2.8%, citing fading fiscal stimulus, weaker private investment, and ongoing trade dislocation.

SLOWER PERSONAL CONSUMPTION

Personal consumption remains the main driver of U.S. growth but is losing momentum. Real spending grew just 1.4% in Q2, with year-over-year growth slowing to 2.4%. Services demand is holding up, supported by higher-income households, while goods spending has weakened. Durable purchases have stabilized but remain below late-2024 levels. Real disposable income rose only 0.9% over the past year, trailing core inflation. The savings rate fell to 3.5%, and households are leaning more on credit: card balances are at record highs, and delinquencies among younger borrowers are the worst since 2010. The slowdown is gradual, but household fatigue is clear.

COOLING BUSINESS INVESTMENT



Business investment, once a pillar of post-pandemic recovery, is now visibly decelerating. Real private fixed investment increased only 1.9% in the second quarter, a sharp deceleration from double-digit growth in Q1. This figure masks divergent trends within its components. Equipment investment grew by 4.8%, driven in part by demand for AI-capable computing infrastructure and logistics upgrades. However, investment in structures, factories, offices, and commercial buildings contracted by 10.3%, marking the fourth consecutive quarterly decline. Several factors underline this retrenchment. Elevated interest rates, persistent input cost inflation, and heightened uncertainty around trade policy have eroded business confidence. Tariffs on imported construction metals like steel and copper have raised project costs by as much as 30% year-to-date, according to industry surveys. Moreover, supply chain instability and project delays have further discouraged long-term capital commitments. Venture capital funding, which once fueled startup growth and tech infrastructure, has declined substantially, down over 35% from its 2022 peak. Collectively, these headwinds are reinforcing a cautious investment climate, with many firms shifting toward asset-light strategies or deferring expansion altogether.

LABOR MARKET NORMALIZATION

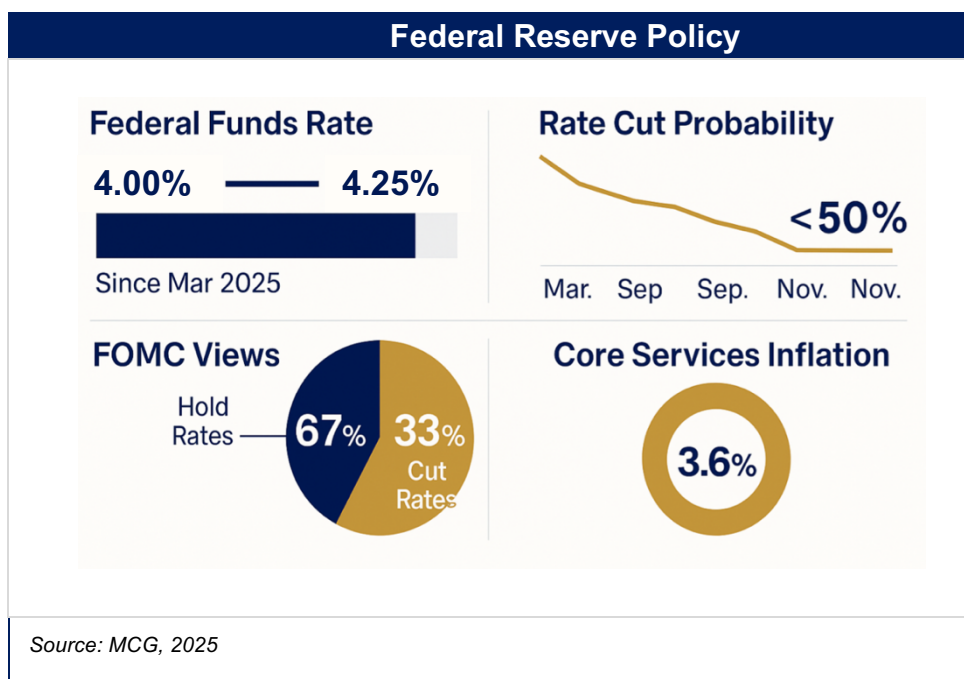
Following two years of tight labor conditions, the U.S. job market is showing signs of normalization, but it gradually slows down. July payrolls grew by just 73,000, far below the 150,000 monthly average from Q1 and Q2. Previous months were also revised downward significantly, highlighting a broader cooling trend. The unemployment rate ticked up to 4.2%, its highest level since early 2022. Labor force participation declined slightly, especially among older workers and those without college degrees, reinforcing longer-term demographic pressures. Wage growth also moderated: the Employment Cost Index rose only 0.9% in Q2, and year-over-year compensation growth slowed to 3.6%. In high-cost urban areas, this is insufficient to maintain real purchasing power. Sectors that led the recovery, retail, logistics, and construction, are now shedding jobs or freezing hiring. Manufacturing employment has contracted in three of the last four months, as factory orders soften and input costs rise. While the labor market remains historically tight by some measures, the trajectory points to a steady cooling, and employers are becoming more selective in new hiring.

PERSISTENT CORE INFLATION

Headline inflation has moderated substantially, but core inflation remains sticky. In Q2, the PCE price index rose by 2.1% on an annualized basis, down from 3.4% in Q1. Core PCE, which excludes food and energy, rose by 2.5%, still above the Federal Reserve's long-run target. Monthly data from June showed core PCE rising 0.3%, a modest acceleration driven in part by tariffs on consumer and industrial goods. Core services inflation, particularly in areas like insurance, housing maintenance, and education, remains elevated. Economists note that while goods disinflation has largely played out, services remain structurally prone to cost pressures,

especially amid labor shortages and regulatory bottlenecks. The trimmed mean PCE, a more refined measure, remains above 3.0%, indicating persistent underlying price growth. These figures suggest that while the inflationary surge of 2022–2023 is over, the economy may be settling into a new baseline of structurally higher inflation, especially if tariffs continue to ripple through supply chains.

FEDERAL RESERVE'S INTEREST RATE PATH

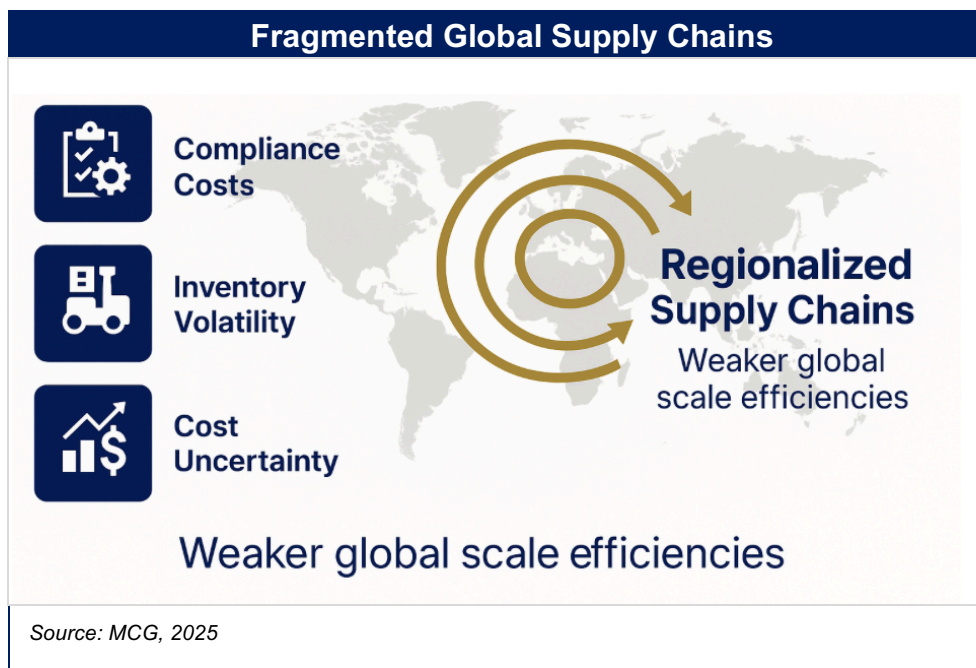


The Federal Reserve ended its prolonged holding pattern in September, cutting its benchmark interest rate by 25 basis points to 4.00%–4.25% after maintaining 4.25%–4.50% since March. The move reflected growing evidence of labor market cooling and rising credit stress, even as core services inflation excluding housing remains stubbornly elevated around 3.5%–3.6%. Chair Jerome Powell emphasized that the committee remains “data dependent” and framed the cut as a cautious adjustment rather than the start of a rapid easing cycle. Internal divisions remain visible, with some FOMC members calling for faster action and others warning against undermining disinflation progress. Futures markets now assign just above a 50% probability of another cut by December, but uncertainty persists, leaving investment-sensitive sectors like housing, private equity, and industrial real estate in a state of hesitation.

TARIFFS & DOMESTIC MANUFACTURING

The reimposition and expansion of tariffs under President Trump's renewed trade doctrine have fundamentally reshaped the cost structure of U.S. manufacturing. Beginning in mid-2025, the administration implemented a baseline 10% reciprocal tariff on most imports, alongside sector-specific surcharges of 25% to 145% on goods from China, India, Mexico, and Canada. Particularly impacted are steel, aluminum, autos, and copper, industries critical to construction, energy, and transportation. According to data from the Washington Center for Equitable Growth, input prices for steel and aluminum have risen over 30% year-to-date. These increases are squeezing margins, delaying new investment, and leading to widespread cost pass-through to consumers. The ISM Manufacturing PMI has remained below 50 for six consecutive months, indicating contractions across the sector despite strong public subsidies under the CHIPS and Inflation Reduction Acts. While these programs have helped anchor some high-tech investment, particularly in semiconductors and EV battery production, broader industrial activity remains subdued. Many firms are reassessing reshoring strategies and shifting toward "ally-shoring" in countries with favorable trade terms, such as Vietnam or Poland. The ultimate outcome has been inflationary rather than stimulative, with trade friction now estimated to reduce real GDP growth by 0.3 to 0.4 percentage points annually.

TRADE AND SUPPLY CHAIN PARADIGM



What's underway is not just a change in trade policy, but a foundational shift in the global supply chain architecture. In Q2, imports plunged, skewing GDP growth upward due to tariffs, shipping delays, and firms pre-stocking ahead of restrictions, while exposing deeper logistical bottlenecks. A 2025 survey by the Manufacturing Leadership Council finds that 43% of manufacturers report negative supply-chain impacts from tariffs, with 19% warning of significant disruption. The cost structure has also deteriorated: the KPMG Tariff Pulse Survey shows 57% of U.S. companies facing shrinking gross margins because of tariffs. More than 30% of firms now rank trade and tariff risk as their top business concern, up markedly from just 8.3% in the last quarter. In response, 60% of companies are actively restructuring supply chains for resilience rather than efficiency, adopting measures such as digital traceability and regional sourcing reshuffles.

GLOBAL ECONOMICS



ECONOMIC SOVEREIGNTY IN A SPLIT WORLD

Recalibrating Global Supply Chains Amid Strategic Realignments

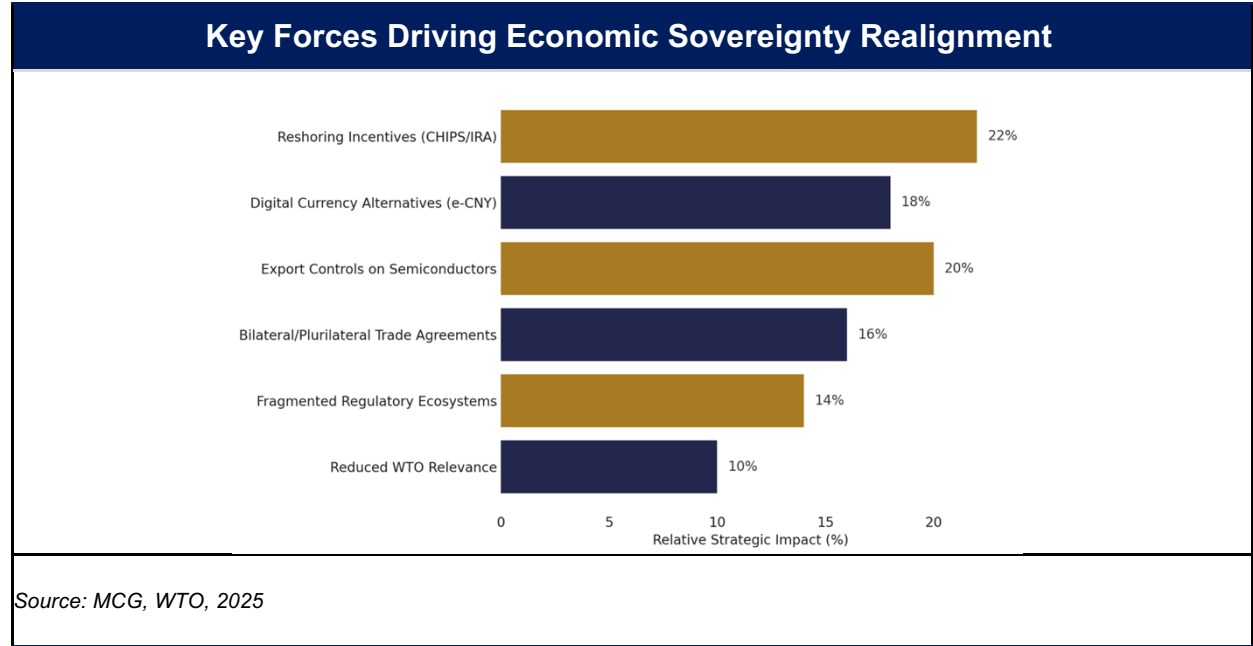
The post-pandemic economic recovery has accelerated a global shift from efficiency-driven globalization toward resilience-based regionalization. The former global order, built on the premise of frictionless cross-border trade and comparative advantage, is being redefined by strategic considerations such as national security, technological independence, and political alignment. Critical industries, including semiconductors, pharmaceuticals, rare earths, and clean energy components, are at the center of this transformation. Governments across North America, Europe, and parts of Asia have begun reengineering supply chains by offering subsidies, imposing export controls, and reshoring production capabilities.

The Inflation Reduction Act and the CHIPS and Science Act in the United States, along with similar initiatives in the EU and Japan, represent a fundamental policy pivot toward economic sovereignty. These interventions are designed not only to mitigate supply chain vulnerabilities exposed during recent crises but also to reduce strategic dependencies on geopolitical rivals. As a result, the geography of manufacturing and sourcing is being permanently altered, with companies recalibrating cost-benefit analyses to reflect new layers of political risk.

Economic sovereignty in the current global context extends beyond physical goods and into the digital and financial domains. Diverging national policies around data governance, digital infrastructure, and payment systems are producing parallel economic universes. China's

development of its own digital currency (e-CNY), along with its establishment of the Cross-Border Interbank Payment System (“CIPS”), offers an alternative to the SWIFT system and has reduced dependence on the U.S. dollar for regional trade. Simultaneously, export controls on advanced semiconductors by the U.S. and its allies are prompting countries like China to accelerate domestic innovation in chip design and manufacturing, further deepening technological bifurcation. The result is an emerging dual-track system in which multinational companies must comply with competing standards and navigate fragmented ecosystems. This divergence is especially pronounced in areas such as 5G infrastructure, cloud services, and artificial intelligence governance. These developments have significant implications for capital flows, investment screening mechanisms, and global regulatory coordination, as financial and digital infrastructures become tools of statecraft.

Beyond state-backed digital currencies, the rise of cryptocurrencies and stablecoins as mediums for cross-border settlement is adding a new dimension to global trade. Several emerging market economies are exploring or adopting stablecoins pegged to major currencies for trade invoicing, citing lower transaction costs and insulation from foreign exchange volatility. Private-sector stablecoins, alongside blockchain-based payment platforms, could facilitate faster settlement times and reduce reliance on traditional banking intermediaries. However, widespread adoption may also complicate regulatory oversight, create new channels for capital flight, and challenge existing monetary policy frameworks. The proliferation of these instruments has the potential to reshape the global financial architecture, particularly in regions seeking alternatives to dollar-denominated trade.



Implications for Trade Architecture and Multilateral Institutions

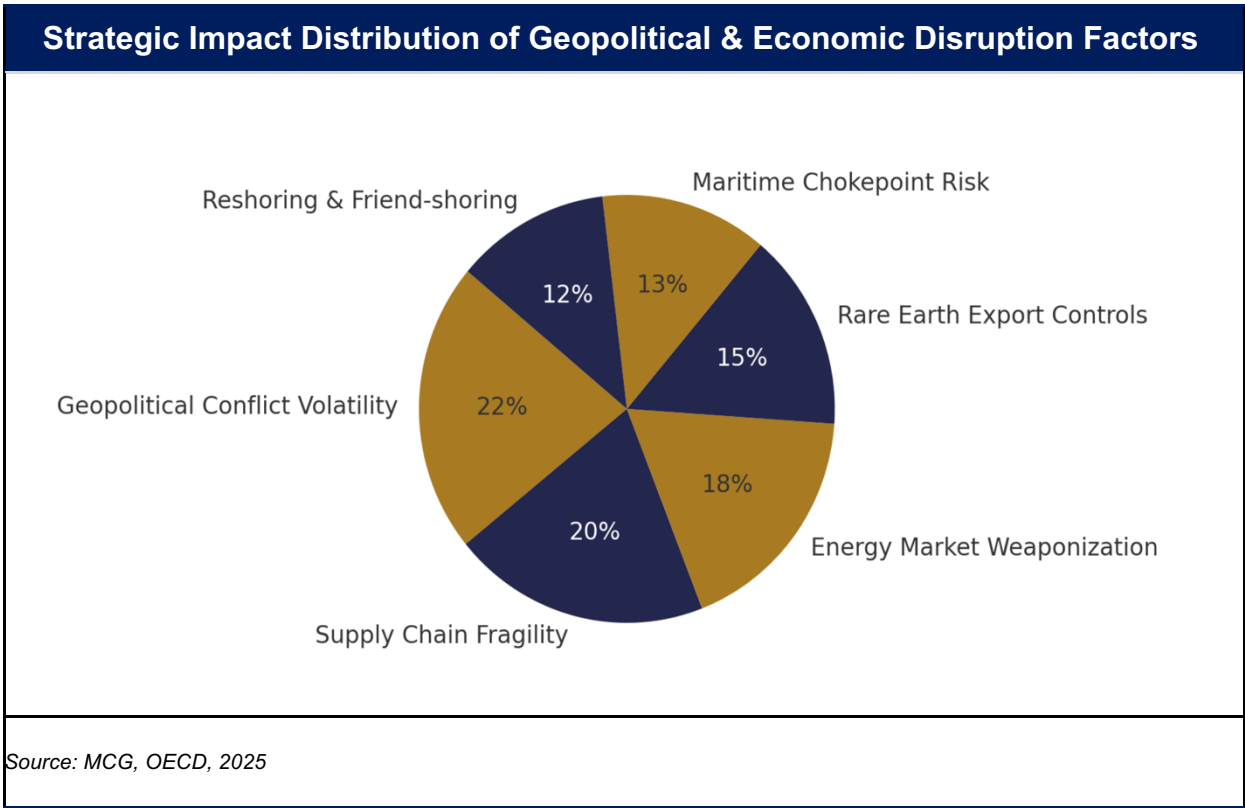
The reassertion of national economic control has challenged the foundational assumptions of post–World War II multilateral institutions. The World Trade Organization (“WTO”), already weakened by long-standing deadlocks in dispute resolution and trade liberalization negotiations, faces an existential crisis amid rising protectionism and regionalism. Recent years have witnessed a proliferation of bilateral and plurilateral trade agreements aimed at insulating economies from external shocks and aligning with like-minded partners. These include frameworks such as the Indo-Pacific Economic Framework (“IPEF”), the EU–Mercosur agreement, and the Regional Comprehensive Economic Partnership (“RCEP”), each reflecting an emerging preference for agility over universality.

Moreover, trade policy is increasingly intertwined with national security, climate policy, and labor standards, rendering traditional tariff-based analysis insufficient. As global economic governance becomes more fragmented, multinational firms and investors must contend with a less predictable and more politicized landscape. This shift necessitates a reevaluation of long-term strategies, as the rules-based international order gives way to a more contested and multipolar economic environment.

POWER PLAYS AND MARKET SHOCKS

Strategic Conflict Zones Rewriting Global Risk Maps

In 2025, geopolitical tensions intensified across multiple regions, directly impacting commodity flows, investment risk premiums, and the operational calculus of global firms. The Russia–Ukraine conflict, now entering its fourth year, continues to disrupt grain exports and energy transit routes, with Ukrainian wheat exports down by 42% year-on-year according to the UN FAO. Simultaneously, hostilities in the Red Sea corridor have escalated, with over 15% of global container traffic rerouted in Q2 2025 due to Houthi-linked drone attacks, according to Lloyd’s List Intelligence. The Eastern Mediterranean remains volatile due to renewed friction between Israel and Hezbollah, heightening the regional risk premium on energy and logistics assets. These concentrated flashpoints, while geographically localized, are creating outsized ripple effects across capital markets and insurance sectors. Institutional investors have responded by demanding a 120–150 bps risk premium on sovereign debt from high-exposure regions, while multinational corporations are increasingly incorporating political risk insurance into baseline operational budgets.



Energy and Resource Markets as Levers of Geopolitical Power

Energy geopolitics remains a central axis of global risk in 2025, with OPEC+ states leveraging production quotas for strategic advantage. Brent crude prices rose above US\$ 95/barrel in May 2025 following Saudi Arabia’s unilateral 1 million bpd production cut, while liquefied natural gas (“LNG”) spot prices in East Asia spiked 28% quarter-over-quarter due to persistent Australian export outages and surging Chinese stockpiling. Concurrently, African resource corridors—such as the Sahel region’s critical cobalt and uranium reserves—have been destabilized by coup-led regimes in Niger and Mali. According to the IEA, over 18% of global cobalt supply is currently classified as politically insecure, prompting accelerated sourcing diversification among battery and EV manufacturers. Meanwhile, Arctic drilling activity has increased by 12% compared to 2024 levels, intensifying diplomatic disputes between Russia, Canada, and Nordic nations. These developments underscore how commodity bottlenecks and supply disruptions are increasingly driven not by market fundamentals alone, but by deliberate policy moves intended to assert or contest geopolitical influence.



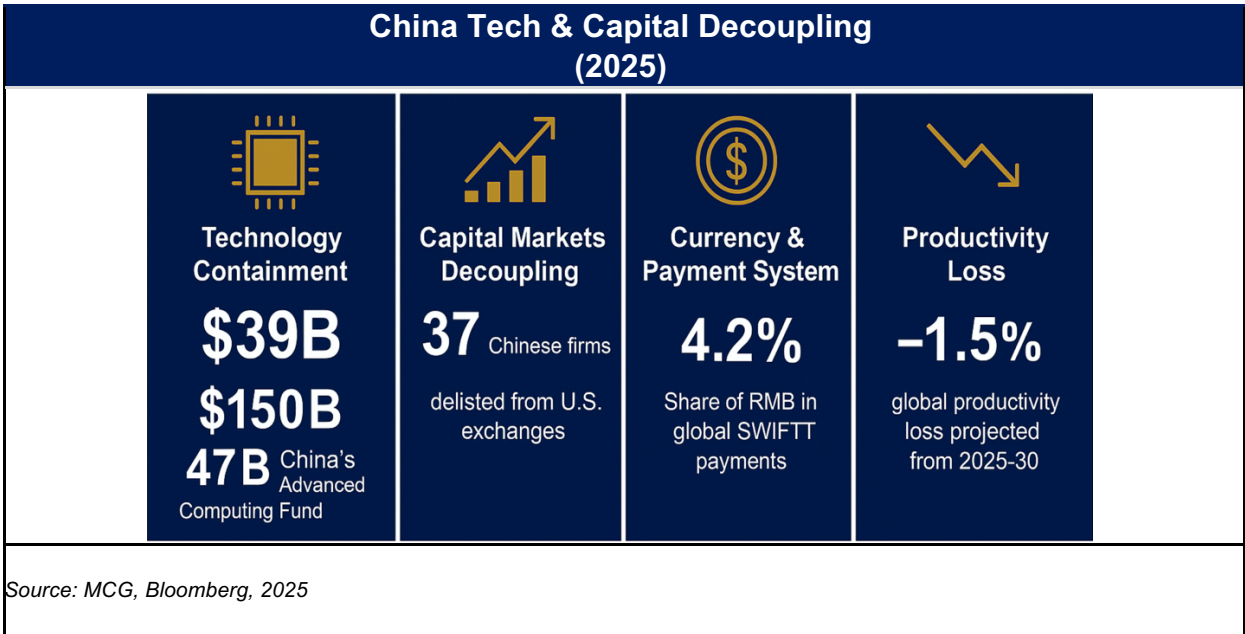
Defense Spending, Currency Shocks, and Institutional Volatility

Defense and security budgets have surged globally in 2025, further transforming geopolitical risk into an economic variable. NATO's collective defense spending is projected to reach US\$ 1.42 trillion by year-end—up 8.7% from 2024—driven by expanded commitments in Eastern Europe and increased naval operations in the Indo-Pacific. Meanwhile, cross-border currency volatility has re-emerged as a key risk vector, with the Japanese yen breaching ¥160/USD in June 2025 amid ongoing yield curve control stress, and the Turkish lira experiencing a 17% year-to-date depreciation following investor flight post-local elections. These shocks have led to major capital reallocations, with the IMF reporting a US\$ 124 billion swing toward dollar-denominated safe-haven assets in Q1–Q2 2025. Multilateral institutions themselves are also under pressure. The WTO's dispute mechanism remains paralyzed, and the BRICS Bank ("NDB") has signaled a new round of non-dollar lending initiatives, complicating coordination frameworks. In this climate, both monetary policy and global governance are being increasingly shaped by defense imperatives and political dislocation.

THE TUG-OF-WAR FOR ECONOMIC POWER

Strategic Rivalry Across Trade, Technology, and Diplomacy

The U.S.–China economic relationship is undergoing a structural transformation, moving from interdependence toward strategic rivalry. Bilateral tensions have expanded beyond tariffs and trade imbalances to encompass national security, intellectual property, critical technologies, and global influence. Measures such as the U.S. CHIPS and Science Act, which restricts advanced semiconductor exports to China, and China's Anti-Foreign Sanctions Law, reflect an escalation in the use of economic levers as instruments of geopolitical strategy. This rivalry has generated uncertainty across global supply chains, with companies reassessing sourcing and manufacturing footprints to hedge against policy-induced disruptions. At the diplomatic level, regional alliances and economic frameworks—such as the Indo-Pacific Economic Framework and China's Belt and Road Initiative—are increasingly viewed through the lens of strategic alignment, rather than economic efficiency. As both countries pursue techno-industrial self-sufficiency, mutual trust continues to erode, constraining cooperation on issues such as climate change, intellectual property enforcement, and multilateral trade reforms.



Technology Walls and National Security Overlaps

The bilateral economic rivalry has sharply focused on technological containment and digital sovereignty. In 2025, the U.S. Department of Commerce expanded semiconductor export controls to include AI training chips below 5nm, alongside a new licensing regime for cloud infrastructure providers operating in China. Simultaneously, the U.S. CHIPS Act subsidies—totaling US\$ 39 billion—have catalyzed over US\$ 150 billion in new domestic semiconductor investments by companies such as Intel, TSMC, and Samsung. China has responded with its own US\$ 47 billion “Advanced Computing Sovereignty Fund” to accelerate local innovation and reduce external dependency, according to state media outlet Xinhua. The result is a growing bifurcation in global tech ecosystems, where interoperability across cloud platforms, 5G equipment, and AI foundation models is no longer guaranteed. A recent McKinsey report estimates that global productivity could fall by up to 1.5% over the next five years due to cross-border inefficiencies created by diverging digital standards and restricted data flows.

Capital Markets Divergence and Regulatory Containment

Financial decoupling continues to advance alongside trade and tech tensions. In 2025, the U.S. Securities and Exchange Commission finalized rules that further restrict Chinese firms from listing on American exchanges unless full audit access is granted under the Holding Foreign Companies Accountable Act. As a result, 37 China-based firms have delisted from U.S. exchanges since January, triggering over US\$ 41 billion in market cap reallocation, based on data from Bloomberg. Meanwhile, Beijing has tightened outbound investment

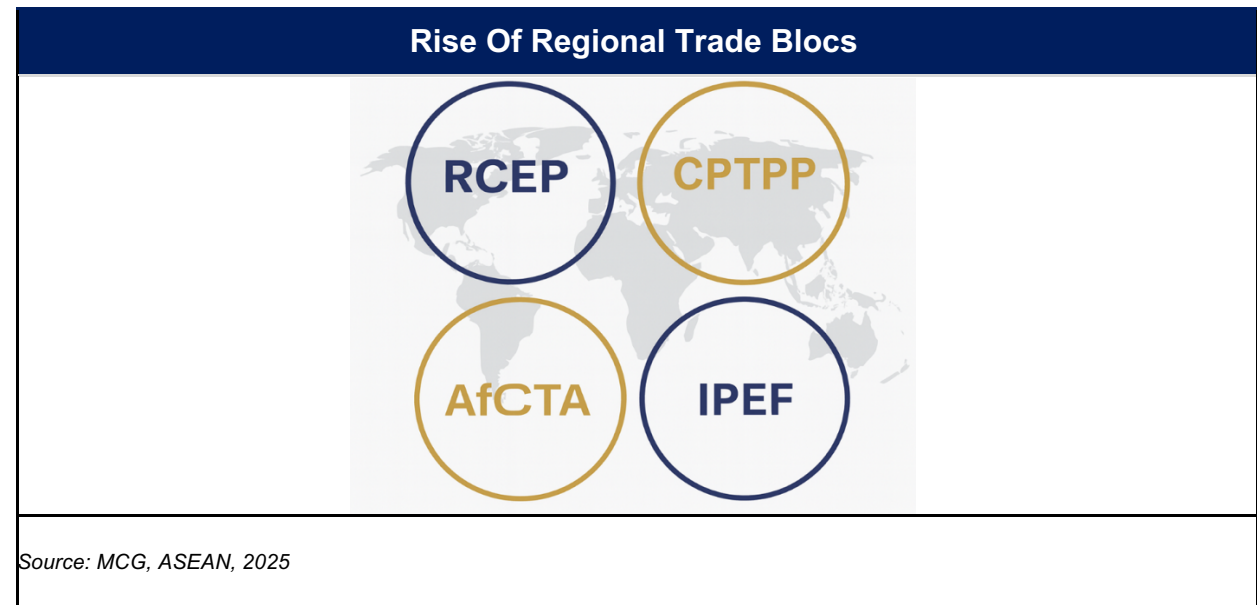


approvals, particularly for firms seeking to acquire critical infrastructure or defense-adjacent assets abroad. SWIFT data from Q2 2025 shows renminbi (“RMB”) usage in cross-border payments has risen to 4.2%—up from 2.7% a year prior—reflecting China’s push for partial de-dollarization. U.S. institutional investors are also under increasing pressure to reduce exposure to Chinese state-linked entities, as the U.S. Treasury’s OFAC added several AI and defense contractors to its sanctions list in April. These developments signal a fragmentation of capital flows driven by competing regulatory architecture.

RISE OF THE ECONOMIC ALLIANCES

Strategic Consolidation of Regional Trade Architectures

The fragmentation of the global trade regime is accelerating the formation of regional economic alliances. The Regional Comprehensive Economic Partnership (“RCEP”), now fully ratified across its 15 member states, accounts for over 30% of global GDP and has resulted in a 7.8% year-over-year increase in intra-RCEP trade volume. Meanwhile, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (“CPTPP”) has admitted the United Kingdom, extending the bloc’s economic reach to nearly US\$ 17 trillion. These mega-regional agreements serve not only to facilitate tariff reduction and harmonize standards but also to insulate member economies from global policy volatility. According to the IMF, over 41% of global trade is now conducted within regional trade blocs, up from 34% five years ago. This realignment is shifting supply chain concentration toward geoeconomic clusters, with implications for global production networks, investment flows, and the future relevance of multilateral forums like the WTO.



Policy Convergence and Divergence Within Bloc Frameworks

Trade blocs are increasingly defining their own rules—some converging around liberalization, others around strategic protectionism. The Indo-Pacific Economic Framework (“IPEF”), spearheaded by the United States, has prioritized digital trade, anti-corruption, and supply chain transparency over traditional tariff measures, gaining traction among middle-income economies seeking infrastructure resilience. In contrast, the Eurasian Economic Union (“EAEU”) has adopted a resource-nationalist stance, aligning energy export quotas and industrial subsidies under a protectionist umbrella. These divergent orientations reflect how bloc dynamics are driven not merely by geography, but by ideology and strategic calculus. Within the EU, the Carbon Border Adjustment Mechanism (“CBAM”) is expected to generate €10 billion in annual revenues by 2026, reshaping global steel and aluminum exports. As domestic industrial policy increasingly aligns with bloc-level trade commitments, the pressure on non-aligned countries to comply with external regulatory standards—often referred to as “regulatory imperialism”—is likely to intensify.

Investment Reallocation and Bloc-Based Capital Mobility

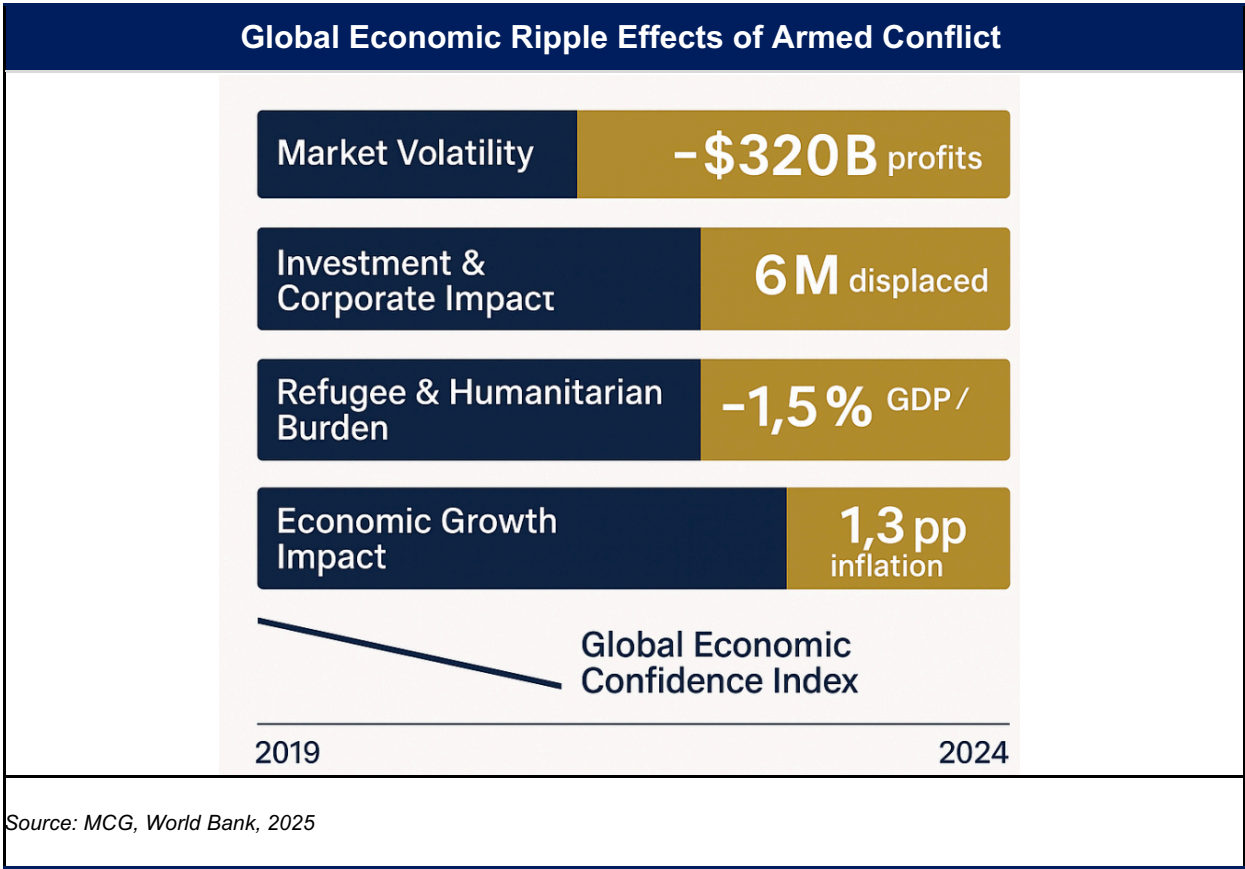
Capital flows are also being reorganized along bloc lines. ASEAN’s intra-bloc FDI rose to \$260 billion, surpassing inflows from external sources for the first time, according to UNCTAD. Similarly, Gulf Cooperation Council (“GCC”) member states have launched a US\$ 100 billion joint investment fund aimed at developing cross-border energy, port, and telecom infrastructure. These platforms provide members with preferential financing and risk-mitigated environments, making bloc membership increasingly attractive from a capital access perspective. Furthermore, currency alignment mechanisms are gaining momentum—such as the BRICS initiative to expand cross-border settlements in local currencies, which grew by 42% in value in the first half of the year. The rise of such investment pacts and settlement systems points to an emerging trend of financial deglobalization, whereby block affiliation becomes a proxy for creditworthiness and capital eligibility. For non-member states and multinationals alike, adapting to this block-first architecture will be essential to mitigating access risk and maintaining cross-border liquidity.

WAR, CRISIS, AND ECONOMIC SHOCKWAVES

Maritime Chokepoints and the Rising Cost of Trade Security

Armed conflicts have redefined the global logistics landscape by turning key maritime corridors into zones of elevated economic risk. The prolonged instability in the Red Sea has led to a 32% decline in Suez Canal shipping traffic, according to Clarkson Research, as

shipping firms increasingly reroute vessels around the Cape of Good Hope—extending voyage times by 9 to 12 days and increasing insurance premiums by 68%. Similar disruptions have been observed in the Strait of Hormuz and the Taiwan Strait, where naval activity and aerial incursions have prompted multinational logistics providers to classify these routes under Tier I geopolitical risk. As a result, container freight rates from Asia to Europe rose by 41% in Q2, while liquefied natural gas (“LNG”) spot prices in Europe climbed 23% due to delayed tanker deliveries. These developments have introduced permanent logistical risk layers into previously optimized trade routes, raising baseline costs and destabilizing just-in-time global inventory models.



Food and Energy Vulnerabilities in Conflict-Affected Corridors

Armed conflicts in key agricultural and resource-producing regions continue to exacerbate global food and energy insecurity. The ongoing war in Ukraine has disrupted over 18% of global grain exports, leading to a 14% increase in global wheat prices, based on FAO data. Meanwhile, military coups in the Sahel region have interrupted 27% of West African uranium production, affecting European nuclear energy procurement strategies. Additionally, tensions



in the South China Sea have delayed over US\$ 1.3 trillion in annual trade flow, notably impacting shipments of refined oil, coal, and fertilizer. The World Bank's Commodity Outlook notes that net importers in Sub-Saharan Africa and Southeast Asia now face double-digit inflation in core food staples, primarily driven by war-induced logistics bottlenecks and export restrictions. These vulnerabilities have forced governments to increase strategic reserves, introduce price caps, and negotiate bilateral emergency supply deals, reshaping food and energy policy frameworks to account for conflict-driven volatility.

Capital Flight, Sovereign Risk, and Credit Market Fractures

Conflict zones are producing severe capital displacement and risk repricing in sovereign credit markets. Countries directly exposed to war or political unrest—such as Lebanon, Ethiopia, and Myanmar—have experienced currency depreciations of over 25% year-to-date, alongside CDS spreads widening by 350–600 basis points. According to the Institute of International Finance, over US\$ 74 billion in portfolio capital has exited frontier markets in conflict-adjacent regions since January. In parallel, sovereign credit downgrades have accelerated: Fitch has issued negative outlooks for nine countries experiencing political instability, citing fiscal slippage and uncertain governance. Global banks have responded by tightening risk-weighted capital thresholds for trade finance and cross-border lending in these regions, reducing available credit. This systemic stress has also migrated into multilateral financing, where institutions such as the African Development Bank and Asian Infrastructure Investment Bank are restructuring disbursement timelines to de-risk regional project exposure. The cumulative effect is a contraction of affordable liquidity for fragile economies, amplifying the economic aftershocks of conflict.

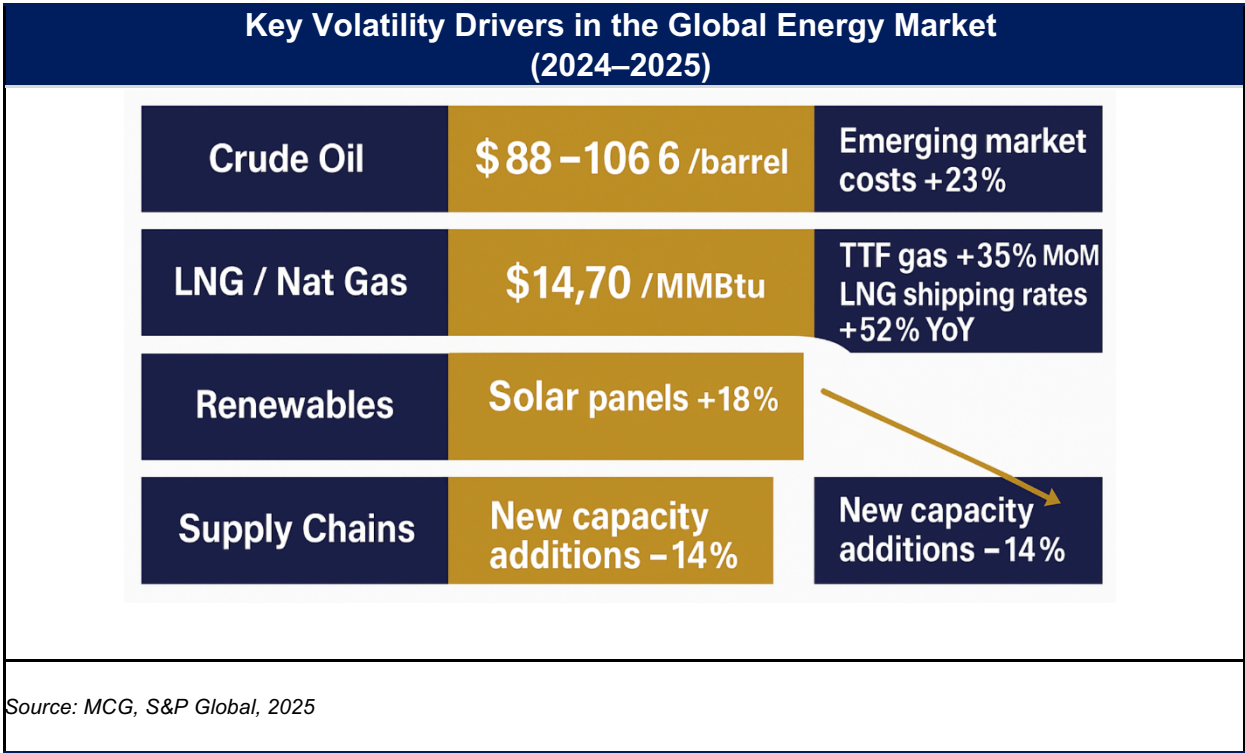
ENERGY'S WILD RIDE

Crude Oil and the Repricing of Geopolitical Risk

Volatility in global crude oil markets has returned to multi-year highs, driven by a confluence of production constraints, geopolitical friction, and supply chain bottlenecks. Brent crude futures have oscillated between US\$ 88 and US\$ 106 per barrel over the last six months, with price spikes following Saudi Arabia's announcement of extended voluntary production cuts of 1 million barrels per day through Q4. The OPEC+ alliance has adopted a more aggressive quota enforcement regime, limiting global spare capacity to just 1.5 million barrels per day—down from 4.3 million, according to the IEA. Disruptions in key export channels, including Red Sea and Nigerian offshore terminals, have added a persistent premium to futures contracts. As a result, global refining margins have tightened, while emerging market importers face a 23% increase in energy-related fiscal expenditure. The global risk premium embedded in oil pricing is now increasingly influenced by regional instability rather than fundamentals alone.

Natural Gas Dislocation and Global LNG Scramble

Natural gas markets have been marked by extreme pricing bifurcation and regional supply insecurity. Asian LNG spot prices surged to US\$ 14.70/MMBtu in early Q2, reflecting supply-side tightness caused by prolonged Australian export maintenance and higher-than-expected Japanese and Korean demand. Meanwhile, Europe’s benchmark TTF gas price climbed 35% month-over-month in April, driven by extended outages in Norwegian gas fields and delayed restocking efforts. According to Rystad Energy, global LNG shipping rates increased 52% year-on-year, further elevating end-user costs and constraining delivery schedules. The United States has maintained its position as the largest LNG exporter by volume, but regulatory pauses on new terminal approvals have capped capacity growth in the near term. Additionally, pipeline flows from Russia into the EU remain below 15% of pre-invasion levels, forcing importers to rely on diversified LNG contracts from Qatar, Nigeria, and the United States. These dynamics are fundamentally reshaping the global energy trade matrix, increasing exposure to seasonal volatility and delivery risk.



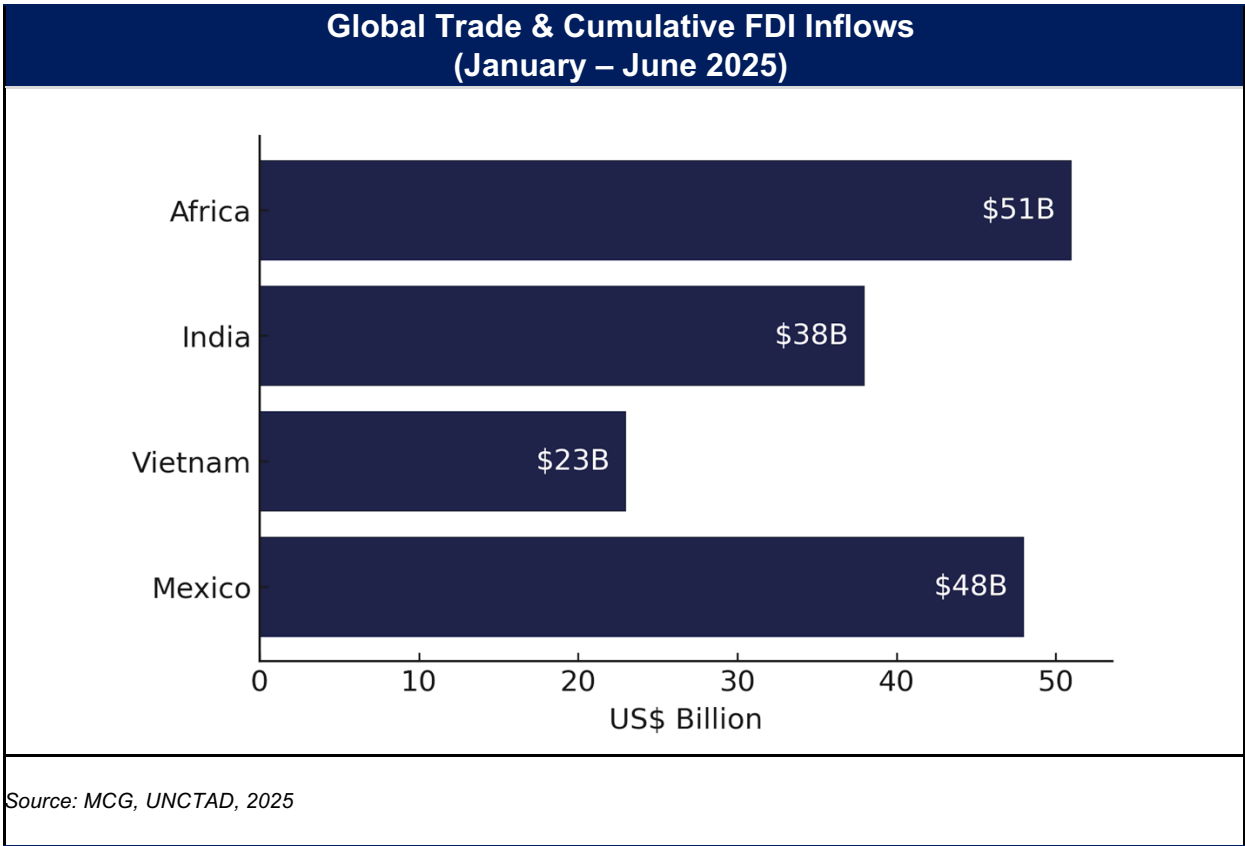
Renewable Energy Shocks and Supply Chain Pressures

Volatility has also extended into renewable energy markets, where supply chain disruptions and raw material inflation have delayed project timelines and inflated costs. Global solar panel prices rose 18% year-to-date, largely due to rising polysilicon input costs and shipping bottlenecks in Southeast Asia. Wind turbine manufacturers have reported production lags stemming from shortages of rare earth magnets and gearbox components, with Vestas and Siemens Gamesa citing 12–16week average delivery delays. Concurrently, grid congestion and interconnection bottlenecks in North America and Europe have slowed utility-scale project integration, reducing expected capacity additions by 14% compared to forecasted targets. According to Bloomberg NEF, the global levelized cost of electricity (“LCOE”) from utility-scale solar increased to US\$ 52/MWh, reversing a decade-long downward trend. Investment appetite remains strong, but timelines and cost expectations are being recalibrated amid inflationary headwinds and permitting backlogs. These frictions challenge the consistency of the global energy transition and introduce new volatility into long-term capital planning.

NEW MAPS OF CAPITAL AND COMMERCE

Shifting Trade Corridors and the Rise of South–South Commerce

Global trade flows are increasingly reorienting away from traditional North Atlantic routes toward emerging South–South corridors. ASEAN–Africa trade volume rose 26% year-over-year, led by bilateral agreements in pharmaceuticals, consumer electronics, and infrastructure development. Similarly, Latin America’s exports to Southeast Asia have doubled, fueled by agricultural commodities and clean energy inputs such as lithium and copper. China’s Belt and Road Initiative has expanded its scope, with over \$83 billion in new project financing directed toward Central Asia and Sub-Saharan Africa, reinforcing supply chain hubs beyond the G7 orbit. According to UNCTAD, developing economies now account for 41% of global merchandise trade, up from 33% a decade ago. Recent FDI data illustrates this shift: Africa attracted \$51 billion in the first half of 2024, Mexico \$48 billion, India \$38 billion, and Vietnam \$23 billion—figures now visually aligned to accurately reflect their relative magnitudes. These flows underscore a multipolar trade regime in which emerging economies trade more directly with one another, reducing reliance on Western intermediaries and reshaping global demand centers.



Cross-Border Investment Realignment and Strategic Capital Allocation

Foreign direct investment (“FDI”) flows are increasingly shaped by geopolitical risk, regulatory divergence, and industrial policy alignment. The United States, European Union, and Japan have reoriented investment screening frameworks to restrict capital outflows to sensitive sectors in non-aligned jurisdictions, resulting in a 17% drop in outbound investment toward China and Russia. In parallel, nearshoring trends are accelerating capital flows into Mexico, Vietnam, and India, each of which recorded record-high FDI inflows in the first half of the year—US\$ 48 billion, US\$ 23 billion, and US\$ 38 billion respectively. Multinational firms are not only diversifying production locations but also restructuring holding companies and tax bases to align with new global minimum tax regimes under the OECD’s Pillar Two framework. Private capital markets have mirrored this shift, with emerging market private equity fundraising rising 21%, predominantly in renewable energy, fintech, and logistics infrastructure. The strategic geography of capital deployment is now defined as much by policy alignment as by return metrics.



Financial Infrastructure Fragmentation and Currency Blocs in Formation

The globalization of financial infrastructure is undergoing controlled fragmentation, with emerging currency blocks and bilateral settlement systems bypassing traditional dollar-clearing mechanisms. The share of cross-border trade settled in Chinese renminbi (“RMB”) has reached 4.2%, up from 2.7% the previous year, according to SWIFT. The Bank of Indonesia, Central Bank of Nigeria, and United Arab Emirates Central Bank have all signed bilateral local-currency settlement agreements with China, India, and Russia, respectively. In parallel, digital payment rails such as India’s UPI and Brazil’s Pix have begun integrating with neighboring countries, expanding regional capital mobility without SWIFT intermediation. Central bank digital currency (“CBDC”) pilots across 19 countries now involve programmable cross-border tests, with the Digital Yuan and e-Dirham gaining traction in Asia–MENA trade. This decentralization of capital infrastructure is redefining how liquidity, credit risk, and transaction costs are managed across jurisdictions. Financial institutions are being forced to adapt to a world of multiple standards, variable access rights, and competing currency zones.

WINNERS AND LOSERS IN THE NEW ECONOMY

Technology Realignment: AI Expansion and Semiconductor Volatility

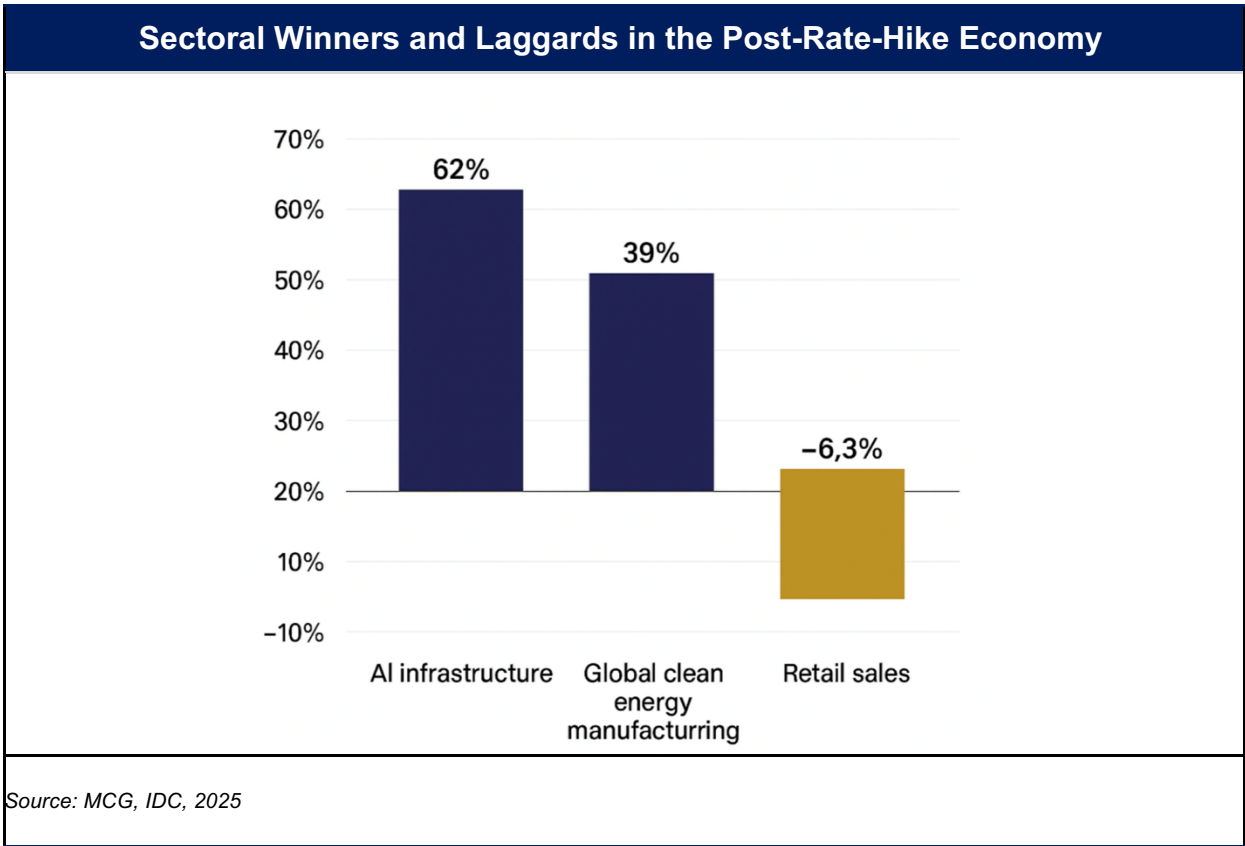
The technology sector continues to experience a bifurcated performance landscape. Artificial intelligence and automation platforms have emerged as growth leaders, with global AI infrastructure spending exceeding US\$ 238 billion, according to IDC. Cloud GPU demand rose 62% year-on-year, driven by language model training, enterprise adoption, and sovereign AI initiatives. Conversely, legacy semiconductor firms remain under pressure due to overcapacity in memory chips and lagging consumer electronics demand. Taiwan’s TSMC revised its full-year capex guidance downward by 11%, while South Korea’s SK Hynix posted an operating margin decline of 7.4 percentage points amid cyclical headwinds. Regulatory tightening in cross-border data flows and export controls on advanced chips have further segmented global supply chains, amplifying regional specialization and volatility. The divergence within tech sub-sectors signals a shift from broad-based growth to targeted, policy-aligned innovation.

Manufacturing and Energy Divergence: Green Winners, Industrial Laggards

Manufacturing is undergoing a structural bifurcation between energy-aligned growth sectors and traditional heavy industry. Clean tech manufacturing, particularly in battery and solar component production, has surged on the back of industrial subsidies in the U.S., EU, and China. Bloomberg NEF estimates that global clean energy manufacturing capacity grew 39%

year-on-year, with lithium-ion battery gigafactory output expanding to 1.8 TWh globally. In contrast, traditional industrials such as steel and cement continue to underperform due to carbon intensity penalties and rising input costs. The global cement industry faced a 12% contraction in export volumes, driven by CBAM-related cost escalation and sluggish construction activity in China. Capital expenditure in fossil fuel extraction is also underperforming relative to past cycles, reflecting investor rotation into ESG-compliant infrastructure. These shifts indicate a long-term reweighting of industrial growth, contingent on policy incentives, emissions compliance, and access to critical materials.

Consumer and Financial Services Repricing in a High-Rate World



Consumer-facing sectors are adjusting to the dual impact of inflation normalization and elevated interest rates. Discretionary retail has shown signs of contraction, with global apparel sales declining 6.3% year-on-year, according to McKinsey’s retail index, as households prioritize essential spending. E-commerce growth has slowed to single-digit rates, while high-yield consumer credit delinquency rates rose to 5.2% in Q2, pressuring both lenders and merchants. Conversely, financial services firms, particularly in asset management and



insurance, are benefiting from yield curve normalization. Global assets under management have grown to \$124 trillion, up 9%, with money market fund inflows capturing \$1.7 trillion in capital since January. Insurers are reporting margin expansion due to higher reinvestment yields, despite rising claims volatility linked to climate risk. These patterns suggest sectoral winners are emerging in environments where pricing power, interest rate exposure, and balance sheet leverage are tightly aligned to macro conditions.

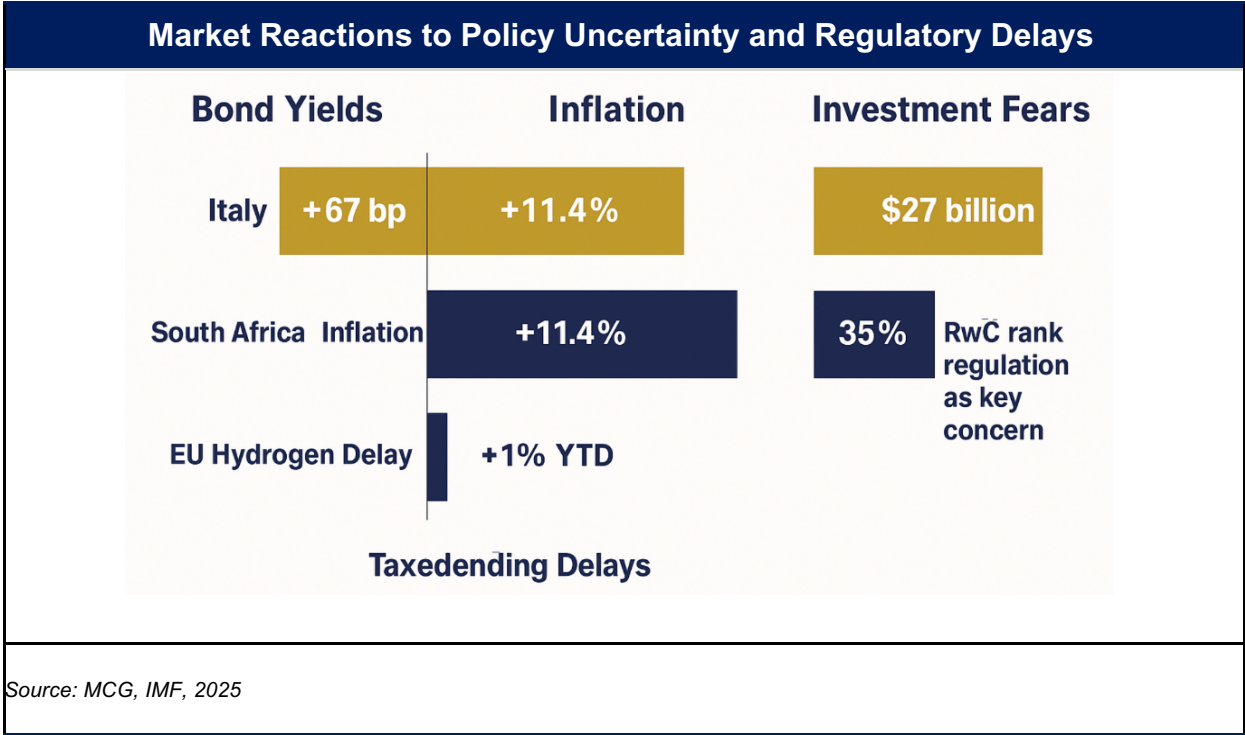
WHEN GOVERNMENTS HESITATE, MARKETS REACT

Delayed Fiscal Responses and Market Volatility Amplification

Delays in legislative and fiscal coordination are increasingly translating into pronounced asset price volatility and investor pullback. In the European Union, extended debate over energy price subsidies and bloc-wide fiscal support has led to a widening of sovereign bond spreads—Italy's 10-year yield premium over Germany climbed 67 basis points in Q2, reflecting heightened perceived risk. Similarly, in Brazil and South Africa, stalled infrastructure spending bills and social transfer reforms have coincided with sharp equity outflows and currency depreciation of 11.4% and 9.1%, respectively. According to the Global Economic Policy Uncertainty Index, composite scores have risen 18% year-to-date, with the most pronounced spikes observed in nations undergoing leadership transitions or judicial challenges to executive authority. These policy vacuums reduce investor visibility on interest rates, subsidies, and taxation, resulting in repricing across fixed income and equity markets.

Central Bank Signaling Gaps and Monetary Policy Drift

Inconsistency between central bank communications and legislative clarity has created a disjointed monetary environment in multiple jurisdictions. The Bank of England's rate pause in March, followed by an unexpected hike in May, introduced significant volatility in short-term interest rate swaps, with implied volatility in SONIA contracts reaching their highest level since the pandemic period. Meanwhile, the Reserve Bank of India has faced criticism over dual mandates as its inflation-targeting strategy conflicts with politically motivated credit easing in rural sectors. In China, opaque PBoC guidance on local government debt restructuring has added uncertainty to municipal bond valuations, suppressing issuance by over 21% quarter-over-quarter. These ambiguities are reinforcing short-termism among institutional asset managers, who are increasingly shifting allocations to cash equivalents and sovereigns with stable forward guidance. As policy divergence intensifies, monetary authorities that fail to manage expectations risk further undermining long-term price stability and capital formation.



Regulatory Overhang in Strategic Sectors

Strategic sectors—such as artificial intelligence, energy transition, and cross-border data services—are experiencing regulatory inertia that is delaying capital deployment and innovation scaling. The EU’s AI Act implementation timeline remains unclear, causing hesitation in enterprise AI adoption across health and finance sectors, where compliance burdens are expected to be highest. In the United States, the Department of Energy’s pending rule on hydrogen production tax credits has postponed over \$27 billion in proposed project commitments, as investors await clarity on emissions thresholds. Similarly, cross-border digital service taxation rules under OECD Pillar One have yet to be finalized, complicating revenue forecasts for multinational tech firms. According to PwC’s Global CEO Survey, 53% of executives cited “regulatory uncertainty” as the top obstacle to deploying long-term capex, up from 34% the previous year. Without timely regulatory clarity, first-mover advantage in innovation-heavy industries is eroded, and the broader economy faces diminished productivity growth and strategic misallocation of capital.



BEHOLD OUTLOOK



The second quarter's rebound offers clarity—but not certainty. M Capital Group believes the current momentum, while notable, may be less a reflection of durable growth and more the byproduct of compressed imports and policy scaffolding. With real final sales lagging and employment gains softening, the risk of a "silent slowdown" is rising. The firm sees early signs of a transition not to recession, but to a slower-growth equilibrium, where volatility is muted but fragility is elevated. In this setting, forward-looking investors must ask: is the economy stabilizing, or merely stalling beneath the surface?

MCG's base case remains that the old macro-order—anchored in disinflation, capital mobility, and policy convergence—is steadily unwinding. The rise of strategic tariffs, industrial policy, and supply chain reengineering could lead to a new geography of growth. Firms may not retreat from global markets but realign toward "geopolitical safe zones." In this world, scale gives way to resilience. MCG anticipates capital will flow into decentralized energy systems, regional data infrastructure, and policy-insulated production networks.

Interest rates, too, may no longer follow traditional rules. MCG sees the potential for a higher-for-longer regime—not because inflation remains uncontrolled, but because rate normalization may now coexist with persistent policy frictions and structural inflationary anchors. If tariffs continue to reshape input costs, and regulatory bottlenecks delay clean energy transitions, disinflation could prove elusive. This scenario supports a more selective view on duration risk, and a preference for cash-generating real assets over capital appreciation plays.

Consumer behavior will remain the swing factor. MCG observes a growing gap between headline spending and underlying household stability. Credit-fueled consumption, particularly among younger and lower-income cohorts, may not be sustainable. The firm is closely watching Q3 delinquency trends and employment softness in services, retail, and logistics. A bifurcated consumption landscape—resilient at the top, strained at the base—could reshape retail formats, suburban housing dynamics, and municipal tax resilience in ways that market forecasts have yet to fully internalize.

Looking ahead, M Capital Group emphasizes that strategy may matter more than certainty. MCG views the next 12–18 months not as a period for confident prediction, but for deliberate positioning. In a policy-driven, multipolar world, the emerging global economic order could reshape the way businesses, investors, and consumers operate. Trade flows may shift toward regional blocks, altering supply chain economics and market access. Capital markets could see deeper fragmentation, prompting new approaches to portfolio diversification and risk pricing. For investors, asset allocation strategies may tilt toward real assets, geopolitical “safe zones,” and policy-aligned sectors. For businesses, agility in sourcing and market targeting will be essential, while consumers may face changing price structures and product availability. In this environment, MCG expects outperformance will come from institutions able to navigate incomplete rules, monetize volatility, and adapt to a slower, more fragmented cycle. This is not a crisis forecast, but a shift in mental model—the destination may remain unclear, yet the terrain is already changing.

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¹ Sources: from various sources—M Capital Group Research, including data from “Gross Domestic Product, 2nd Quarter 2025 (Advance Estimate)”, July 2025; “US Consumer Confidence Inched Up in July”, July 2025; “Trump’s Tariffs Could Squeeze US Factories and Boost Costs by Up To 4.5%, a New Analysis Finds”, July 2025; “There are 4 Signs the Economy May be on a Weaker Footing Than the Latest Data Suggests”, July 2025; “Trump Hits Dozens more Countries with Steep Tariffs”, August 2025; “The Latest U.S. Tariff Implementations and Their Global Impact”, May 2025; “The Global Impact of Trump’s Tariff Surge on Equity Markets and Growth Outlook”, August 2025; “Case Study: U.S. Tariffs in 2025, Sectoral Shocks and Global Ripples”, May 2025; “Trump 2.0 Tariff Tracker”, July 2025; “Global Financial Stability Report”, April 2025; “European Central Bank & Bloomberg Reporting”, June 2025; “How the U.S. Can Stop Losing the Race for Clean Energy”, February 2025; “OECD FDI Statistics – First Half 2025”, July 2025; “Quarterly reports highlight solar record and progress away from gas”, July 2025; “How Rising Geopolitical Risks Weigh on Asset Prices”, April 2025; “The Broad, Continuing Rising in Delinquent U.S. Credit Card Debt Revisited”, May 2025.



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