
Economy Macro Update

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“Change is the only constant in life.”

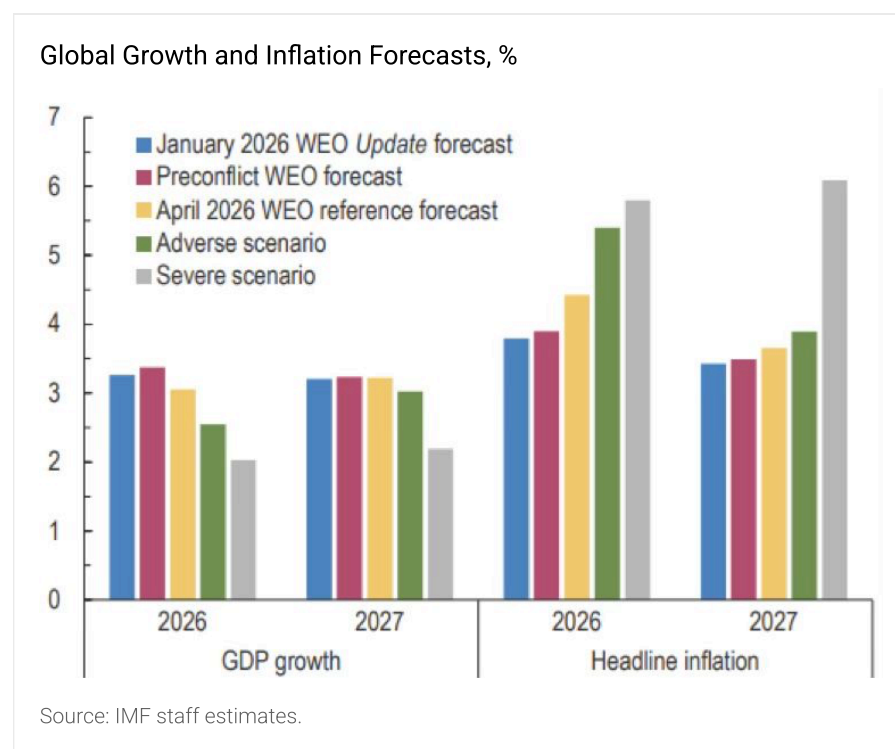
Heraclitus

The International Monetary Fund just published its April World Economic Outlook. The report is prepared twice a year for the IMF's spring and autumn meetings in April and October, respectively. However, there are updates to the forecasts in January and July. This edition is titled "Global Economy in the Shadow of War" and focuses on the risks emanating from the Iran conflict.

Global Growth Outlook

Here, we focus on Chapter 1, entitled "Global Prospects and Policies." The IMF notes that "The global economy has, to date, withstood a series of shocks, yet another one - this time a military conflict engulfing the Middle East since the end of February - is testing this resilience." The agency added that "The global economic impact will crucially depend on the conflict's duration, intensity, and scope, which are inherently unpredictable."

Similar to what the European Central Bank did at its March meeting, the IMF sets out three scenarios for the global economy: reference (baseline), adverse, and severe. Here, we discuss all three and why we believe we will remain in the reference scenario.



The Reference Scenario

From the IMF: “The reference forecasts incorporate the impact of the war, based on the assumption that the conflict will last for a few more weeks and a recovery will then gradually take hold, such that the disruptions fade and production and exports from the region normalize by mid-2026.” Oil prices are assumed to average \$82 per barrel in 2026. In this reference scenario, global growth is expected to slow modestly to 3.1% (vs. 3.3% forecast in January) for 2026 and 3.2% (unchanged from January) for 2027 vs. an estimated 3.4% in 2025.

The Adverse Scenario

In the adverse scenario, the conflict would go on longer and the increase in energy prices would be greater and more persistent than the reference scenario. Oil prices are assumed to continue rising to average about \$100 per barrel in 2026 before falling back to average about \$75 in 2027. In this adverse scenario, global growth would slow significantly to 2.5% in 2026 before recovering to 3.0% in 2027.

The Severe Scenario

In the severe scenario, the conflict would go on even longer and the increase in energy prices would be even greater and even more persistent than the adverse scenario. Oil prices are assumed to continue rising to average about \$110 per barrel in 2026 and about \$125 in 2027 before falling in 2028. In this severe scenario, global growth would slow to 2.0% in 2026 before recovering modestly to 2.2% in 2027.

The IMF notes that global growth has fallen below 2% only four times since 1980, with the latest two times during the Great Financial Crisis and the pandemic.

World Economic Outlook Growth Projections

(Real GDP, annual percent change)	2025	PROJECTIONS	
		2026	2025
World Output	3.4	3.1	3.2
Advanced Economies	1.9	1.8	1.7
United States	2.1	2.3	2.1
Euro Area	1.4	1.1	1.2
Germany	0.2	0.8	1.2
France	0.9	0.9	0.9
Italy	0.5	0.5	0.5
Spain	2.8	2.1	1.8
Japan	1.2	0.7	0.6
United Kingdom	1.3	0.8	1.3
Canada	1.7	1.5	1.9
Other Advanced Economies	3.0	2.6	2.2
Emerging Market and Developing Economies	4.4	3.9	4.2
Emerging and Developing Asia	5.5	4.9	4.8
China	5.0	4.4	4.0
India	7.6	6.5	6.5
Emerging and Developing Europe	2.0	2.0	2.1
Russia	1.0	1.1	1.1
Latin America and the Caribbean	2.4	2.3	2.7
Brazil	2.3	1.9	2.0
Mexico	0.6	1.6	2.2
Middle East and Central Asia	3.6	1.9	4.6
Saudi Arabia	4.5	3.1	4.5
Sub-Saharan Africa	4.5	4.3	4.4
Nigeria	4.0	4.1	4.3
South Africa	1.1	1.0	1.3
Memorandum			
Emerging Market and Middle-Income Economies	4.4	3.8	4.1
Low-Income Developing Countries	4.8	4.8	4.9

Source: IMF, World Economic Outlook, April 2026

Note: For India, data and projections are presented on a fiscal year (FY) basis, with FY 2025/26 (starting in April 2025) shown in the 2025 column. India's growth projections are 6.6 percent for 2026 and 6.7 percent for 2027 based on calendar year.

INTERNATIONAL MONETARY FUND

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Investment Implications

As of this writing, Brent oil has averaged about \$81 per barrel this year. With oil prices likely to continue falling due to the prospects for a more lasting peace deal, the average oil price for the entire year may very well fall short of the \$82 assumed in the reference scenario. Furthermore, we agree with the oil market's optimism regarding the end of the Iran conflict and our base case remains for a peace agreement to be struck by mid-May. This too would fit in with the IMF's reference scenario and would suggest that the damage to the global economy will remain manageable.

If the reference scenario proves to hold, we believe that markets would return to the same underlying fundamental investment themes that held before the Iran conflict. Global growth will remain relatively robust and avoid stagflation, while the Fed will eventually cut rates in H2 due to the limited second round effects of high energy prices. These developments should underscore a set of long-standing drivers that we believe are largely bullish for equities, bearish for the dollar, and feeds into curve steepening.

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