Global financial outlook: A world balancing on *slower* growth and *rising* debt risks

"It's good until it's not, it works until it doesn't."
- Barbara Ann Webber, a former Credit and Financial Analyst, March 2018.

Insights

Every day, headlines are filled with unsettling news. From market volatility and economic uncertainty to geopolitical tensions and rising interest rates, these stories often cast a shadow over decision-making. While most investors are aware of these risks, it's common to turn a blind eye and simply hope things will improve.

Here, we're taking a different approach. Rather than relying on hope or wishful thinking, we're confronting these concerns directly.

The global economy is entering a period defined by slower growth, higher financial-stability risks from hyperscalers and increasingly difficult policy trade-offs.

After several years of pandemic-driven volatility, supply chain shocks, inflation flare-ups and aggressive monetary tightening, 2025 as we know it, has shaped up to be at a transitional but fragile phase. The headline concern today is not an imminent crisis or crash per se, but a troubling mix of subdued global growth, elevated public & private debt and rising leverage in critical parts of the financial system that could magnify any future shock.

1. Global growth is losing momentum

Most major forecasts now predict that global GDP growth will slow to one of its weakest levels outside major crisis years. The Peterson Institute for International Economics (PIIE) expects growth to slow to 2.7% to 2.9% this year. Advanced economies are cooling, emerging markets are facing softer external demand amidst fluctuating commodities prices. Trade tensions continue to suppress cross-border investment and confidence. Although not (yet) recessionary, it is persistent enough to reduce economies' buffers against unexpected shocks.

2. Debt levels are becoming a structural risk

Public-debt ratios across many countries are now near historic highs. Years of (some wasteful) pandemic spending, slower growth and higher interest rates mean governments are spending significantly more just to service existing debt, let alone new ones in the pipeline. For many, debt-service costs are becoming the fastest growing item in the national budget! High debt is not inherently a crisis trigger but becomes dangerous when combined with weaker growth, rising refinancing costs, lower investor appetite for longer duration bonds and, of course, policy uncertainty.

3. Financial market vulnerabilities are quietly building

Where beneath the surface of global markets, instability risks are increasing particularly in non-bank financial institutions. Many of these players operate with far less transparency than traditional banks. Sound familiar? High leverage in the debt markets particularly through derivatives and leveraged relative value strategies remains worrisome. The risk is not necessarily that these institutions will fail but that forced deleveraging could trigger market swings large enough to spill over into the broader economy.

4. Policy trade-offs are becoming increasingly uncomfortable

Central banks and indeed governments now face one of the most complicated policy environments in years:

- Inflation is lower but not fully subdued
- Growth is weakening and labour especially in the US, is worsening but not enough to justify aggressive stimulus
- Public debt is high, limiting fiscal space
- Financial risks are rising, yet tighter regulation may itself create instability in the short term.

This means the margin for policy missteps is narrowing.

5. Markets may be entering a "repricing phase"

Equities and bond markets have enjoyed post 2022, long periods of optimism, supported by expectations of falling inflation, future rate cuts and soft-landing scenarios. But as the situation softens and debt-related risks become more visible, markets may begin to reassess valuations. We think the following situations would trigger a repricing:

- A sharp move in global bond yields
- A shock, geopolitical or otherwise, affecting energy (electricity, oil etc) or trade flows
- A credit event involving a highly leveraged entity or corporate borrower
- An unexpected policy surprise from a major central bank.

We have seen some of the above but not all simultaneously, but that is not to say it won't happen. The signs of the above are abound already. So, what should we watch for now? The following indicators matter most over the next 12 months:

- Debt-service ratios and refinancing needs across major economies
- Leverage and liquidity conditions in bond markets
- Corporate-credit spreads which is a leading indicator of stress
- Central bank communication about rate cut timing
- Trade and geopolitical developments especially around supply chains and tariffs
- Cross asset correlations

The global economy today is not in crisis, but it is more fragile than headline numbers suggest. Slower growth, high debt and pockets of financial leverage create a landscape where small shocks can have outsized effects. The new year now hinges on whether policymakers can navigate these challenges without triggering the very instability they are trying to prevent.

The most opportunistic action to take now:

1. Position for lower growth, expect higher volatility within an environment of falling interest rates but keep the optionality for a correction
2. Increase high-quality income exposure via investment-grade bonds with shorter durations and strong cash flow generating equities
3. Add selective defensives such as healthcare, consumer staples, utilities especially electricity generating ones and (some) quality tech
4. Maintain dry powder ~ 10% plus in cash through Money Market Funds & capital guaranteed short-term structured deposits
5. Avoid high-leveraged, speculative assets for the next six to ninemonths
6. Diversify geographically and reduce concentrated single country debt and/or market risk.

Conclusion

A world that is stable – until it isn't. *Bring it on!*