Think Strategically

Five Issues & Five Answers that will drive the 2025 Global Outlook

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The Global Outlook 2025

The global economy enters 2025 at a pivotal juncture, marked by a transformative United States electoral process, high inflation, high interest rates, resilient economic growth, a transformation of the economic fundamentals, and a recalibration of many themes. Drawing from our insights and data-driven analysis, Birling Capital presents a comprehensive view of the challenges and opportunities shaping the year ahead. This report integrates strategic perspectives, actionable recommendations, and quantitative forecasts to empower policymakers, investors, and corporate leaders with the tools to navigate an evolving economic landscape.

Issue 1: Global Growth Projections

The IMF forecasts global GDP growth at 3.2% for 2025, reflecting a rebound in emerging markets and developing economies. Advanced economies are projected to grow at a more modest 1.8%, constrained by persistent inflation and tighter monetary policies.
The IMF forecast includes the following results:

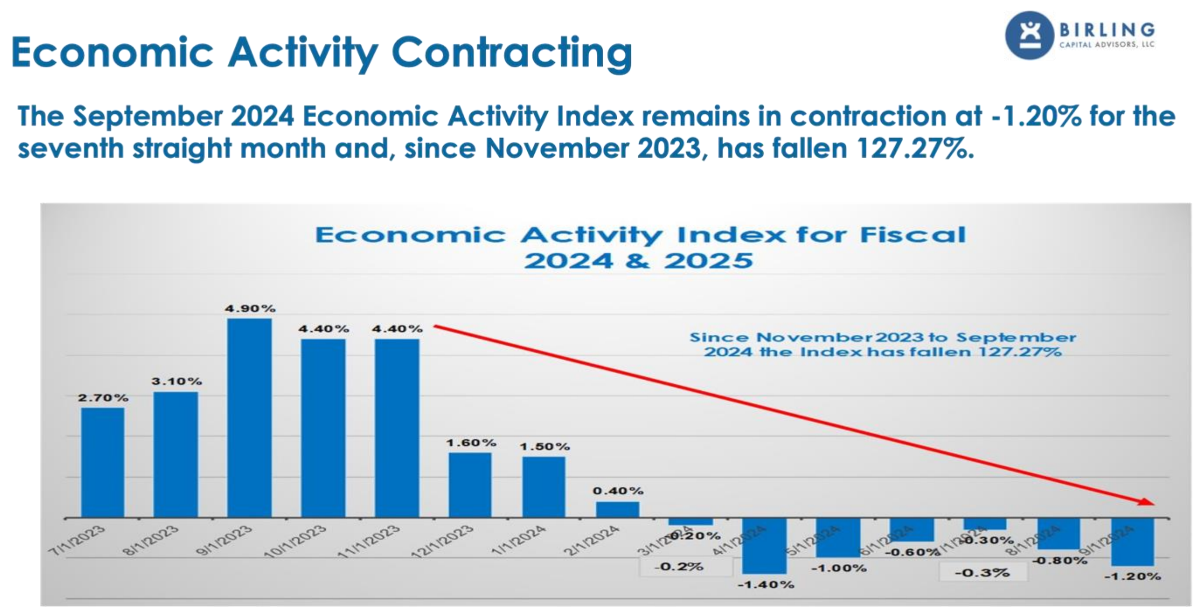
	2024	2025
World Output	3.20%	3.20%
Advanced Econimies	1.80%.	1.80%
USA	2.80%	2.20%
Euro Area	0.80%	1.20%
Germany	0.00%	1.30%
France	1.10%	1.10%
Italy	0.70%	0.80%
Spain	2.90%	2.10%
Japan	0.30%	1.10%
United Kingdom	1.10%	1.50%
Canada	1.30%	2.40%
China	4.80%	4.50%
India	7.00%	6.50%
Russia	3.60%	1.30%
Brazil	3.00%	2.20%
Latin Am & Caribbean	2.10%	2.50%
Mexico	1.50%	1.30%
Puerto Rico	1.00%	-0.80%

Birling Capital supports the IMF's projected gradual but steady global growth. Emerging economies, particularly in Asia and Latin America, are expected to drive expansion, supported by robust domestic demand and structural reforms. The key contributors are China's shift towards consumption-led growth and India's sustained economic momentum. Meanwhile, advanced economies face headwinds from restrictive monetary environments and demographic pressures.

In terms of Puerto Rico, the Puerto Rico Planning Board has a forecast of 2.80% GDP for 2024 and 1.40% GDP for 2025. Compared to the IMF forecast for 2024 of 1.00%, the PR Planning Board Forecast is 64.28% higher for 2024, and at 1.40% for 2025, while the IMF predicts a contration of -0.80% for 2025, a 157.14% decrease.

The Economic Activity Index Tells A Dire Story

We do not need to go very far to determine if the IMF forecast is correct since the Puerto Rico economic story is developing right in front of our eyes, as the Economic Activity Index has recorded seven consecutive months of contractions since March 24 at -0.20%, April at -1.40%, May at -1.00%, June at -0.60%, July -0.30%, August -0.80% and September 2024 at -1.20%, with this evidence we do not envision Puerto Rico achieving the PR Planning board forecast of 2.80% GDP or even the 2025 1.40% GDP. Even with Birling Capital's GDP forecast for 2024 at 1.50% and 2025 at 1.20%, we must conclude with the worsening scenario; our numbers must be redrawn.



President-Elect Trump and Governor-Elect Gonzalez a Long Road Ahead

In the United States, as President-Elect Trump has made many of the key government appointments for the US, we can envision a glimpse of what a Trump 2.0 Presidency will look like. Some key confidence indexes have already gained a giant boost; the National Federation of Independent Business, or the NFIB Small Business Index, jumped 8 points to 101.7, its highest reading since June 2021. The result marked a significant recovery from October's 93.7 and broke a 37-month streak of readings below the long-term median of 99.

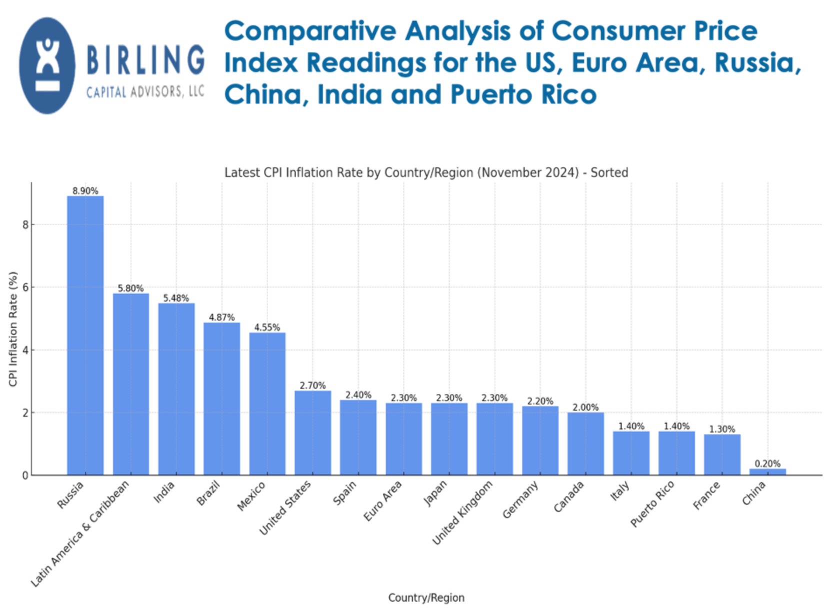
Governor-Elect Jennifer Gonzalez has just finished the transition hearings, and we await the 143 appointments she must make to organize her incoming government; a lot is riding on her success.

Issue 2: Monetary Policies Behind Inflation Reduction

Inflationary pressures are expected to transition from acute to structural, with energy transition costs, labor shortages, and reconfigured supply chains acting as persistent drivers. Over the past few years, global central banks have implemented a combination of tightening monetary policies and structural reforms to combat inflation. Key measures include:

1. **Interest Rate Hikes:** Central banks, including the Federal Reserve and the European Central Bank, raised interest rates aggressively between 2022 and 2024. This strategy increased borrowing costs, cooled demand, and curbed price pressures.
2. **Quantitative Tightening:** Many central banks scaled back bond-buying programs initiated during the pandemic, reducing liquidity in financial markets and stabilizing inflation expectations.
3. **Exchange Rate Interventions:** Some nations, particularly emerging markets, used currency interventions to stabilize imported inflation, mitigating the effects of rising commodity prices.
4. **Supply Chain Resilience Initiatives:** Governments and central banks supported policies to enhance supply chain efficiency, reducing cost-push inflation driven by supply bottlenecks.
5. **Targeted Fiscal Policies:** In economies like India and Brazil, fiscal measures were aligned with monetary tightening, ensuring inflation control without stifling growth excessively.

How Monetary Policies Affected Inflation Readings:



- **United States:** The Fed's aggressive rate hikes, reaching 5.25% by 2024, were instrumental in reducing inflation to 2.7%. Higher borrowing costs slowed consumer spending and housing market activity, effectively curbing demand-driven inflation.
- **Euro Area:** The European Central Bank's focus on balancing rate increases with targeted bond purchases kept inflation at 2.3%, mitigating the impact of energy price shocks.
- **India:** The Reserve Bank of India's targeted measures, combining interest rate adjustments with fiscal interventions, helped bring inflation to 5.48% while sustaining strong economic growth.
- **Brazil:** Coordinated fiscal and monetary tightening brought inflation down to 4.87%, supported by proactive exchange rate stabilization policies.
- **China:** The People's Bank of China maintained accommodative policies, resulting in lower inflation of 0.2%, reflecting subdued domestic demand and falling producer prices.

These coordinated efforts have led to significant reductions in inflation across advanced economies and specific emerging markets. However, the effectiveness of these measures varied by region due to differences in economic structure and external vulnerabilities.

IMF's Insight: The IMF warns against premature policy easing, emphasizing the importance of sustaining higher interest rates to ensure inflation stability.

Issue 3: Capital Markets and Investment Trends

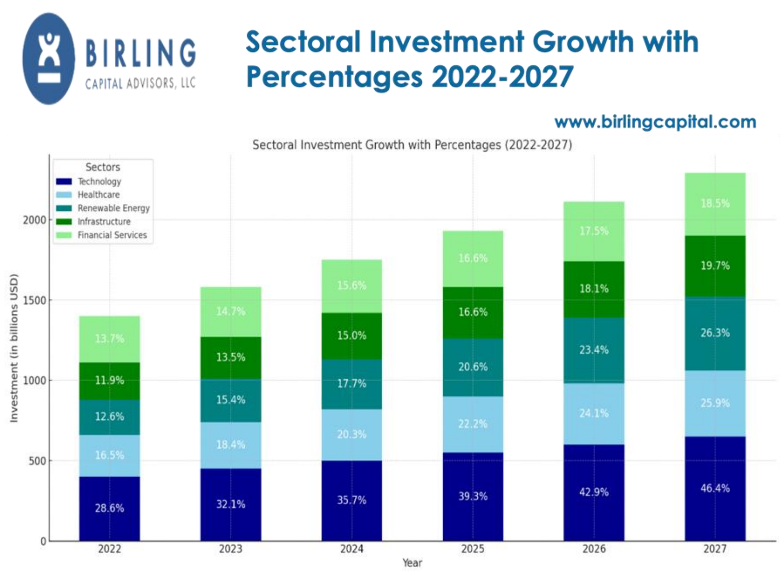
The Global equity markets are poised for selective recovery, with technology, Healthcare, and renewable energy sectors leading. Birling Capital anticipates heightened investor interest in emerging markets due to their favorable valuations and growth potential. Fixed-income markets, particularly investment-grade corporate bonds, are expected to benefit from stabilizing yields and fiscal stimulus in targeted sectors.

Investment Focus Areas:

1. **Technology:** AI and advanced analytics will redefine industries, attracting substantial capital.
2. **Green Energy:** Decarbonization initiatives and government incentives will sustain demand for renewable energy investments.
3. **Infrastructure:** Private equity and institutional investors will likely prioritize logistics, transportation, and digital infrastructure.

Key Observations:

1. **Technology Leads Investment Growth:** consistently captures the largest share of total investments, growing from 28.6% in 2022 to 46.4% by 2027.
2. **Financial Services Remain Steady:** a steady share of investment, hovering between 13.7% and 18.5% throughout the period.
3. **Renewable Energy on the Rise:** shows notable growth, with its share rising from 15.4% in 2023 to 26.3% by 2027.
4. **Healthcare's Consistent Growth:** maintains a stable upward trajectory, from 16.5% in 2022 to 25.9% by 2027.
5. **Infrastructure's Role in Stability:** grow steadily, reaching 23.4% by 2026, reflecting government and private initiatives to modernize transportation, logistics, and urban planning.



Sectoral Investment Growth with Percentages (2022-2027) chart illustrates the distribution and growth trends across five key sectors: Technology, Healthcare, Renewable Energy, Infrastructure, and Financial Services.

Issue 4: Geopolitical Risks and Opportunities

IMF's Geopolitical Assessment: Rising geopolitical tensions in the Indo-Pacific and Eastern Europe remain significant risks to economic stability. However, these dynamics could also accelerate regional trade agreements and supply chain diversification.

The Gulf Cooperation Council (GCC) countries emerge as leaders in economic diversification, leveraging ambitious Vision 2030 strategies to expand beyond hydrocarbons. The recalibration of U.S.-China relations is anticipated to ease trade uncertainties, while Africa's growing influence in global trade is underscored by its rapid urbanization and investment in digital economies.

Key Areas of Concern:

- **North America:** Trade disputes, energy security concerns, and geopolitical frictions around critical mineral exports.
- **South America:** Political instability in nations like Venezuela and Bolivia and economic challenges in Argentina.
- **Risks:** Medium in most regions due to economic vulnerabilities and localized instability.

- **Eurozone:** Continued economic strain from energy dependence on imports. Geopolitical tensions related to the Russia-Ukraine conflict spilling into broader Europe. Economic repercussions from ongoing high inflation and sluggish recovery.
- **Risks:** High in Eastern Europe; Medium in Central and Western Europe.

- **Asia**
  - South China Sea disputes affecting trade and security.
  - Tensions over Taiwan continue rising and increasing militarization.
  - Economic stress in China due to slowdowns and shifts in global supply chains.
  - India's regional role is growing but faces tensions with neighbors like Pakistan.
- **Risks:** High in Southeast and East Asia; Medium in South Asia.

- **Russia and the Eastern Block**
- The Russia-Ukraine conflict continues to escalate, drawing in NATO and EU countries indirectly.
  - Political instability in neighboring former Soviet states (Belarus & Georgia).
  - Sanctions against Russia disrupt regional economies.
- **Risks:** High in Ukraine and bordering nations; Medium in Central Asia and the Caucasus.

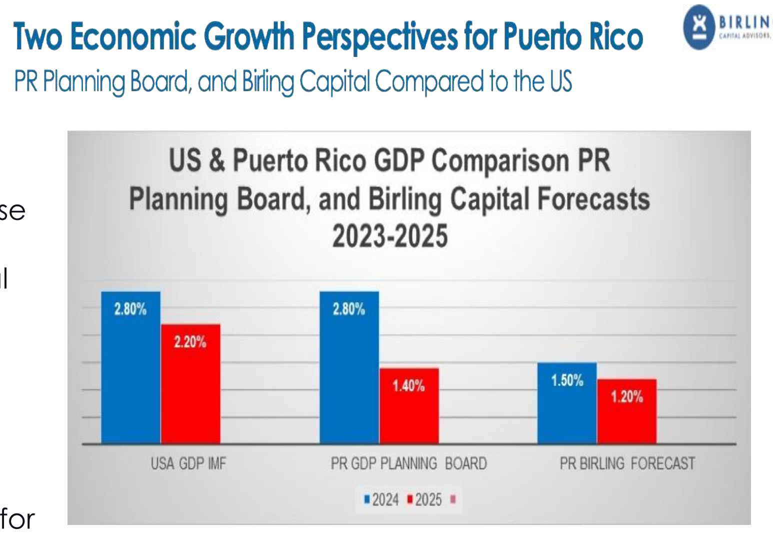
Issue 5: Structural Transformations and ESG Imperatives

The intersection of digital transformation and ESG priorities will define corporate and economic strategies in 2025. Companies that integrate sustainability into their operational and financial frameworks will enjoy competitive advantages. Green bond issuance is forecasted to exceed $1 trillion, driven by robust demand for climate-aligned investments. The IMF emphasizes the critical role of climate resilience in fostering sustainable growth, particularly in developing economies, and calls for increased international financing.

The Final Word: The 2025 Outlook Is Dependent on the Political Execution of the Economic Agenda.

The 2025 economic outlook encapsulates an environment of measured recovery, systemic transformation, and emerging opportunities. As stakeholders navigate these complexities, Birling Capital's insights are a strategic guide to fostering growth, resilience, and innovation. The global economy can thrive amidst uncertainty with disciplined analysis and forward-thinking strategies.

However, the realization of this potential is contingent on effective policy implementation. Political leadership will be critical in advancing economic reforms, addressing global challenges such as inflation, supply chain disruptions, and climate change, and fostering international collaboration. Failure to execute these agendas could result in prolonged stagnation, missed opportunities, and heightened geopolitical tensions. Conversely, successful execution will create pathways for sustained growth, stronger institutions, and enhanced global stability.



For Puerto Rico, this conclusion takes on added significance. The Puerto Rico Planning Board forecasts a 2.80% GDP growth for 2024 and 1.40% for 2025. However, recent data such as the Economic Activity Index's consistent monthly contractions suggest these targets are overly optimistic. Birling Capital forecasts Puerto Rico's GDP growth at 1.50% in 2024 and 1.20% in 2025, underlining the critical role of policy effectiveness and institutional strength. Governor-Elect Jennifer Gonzalez faces the monumental task of her government's ability to deliver meaningful reforms and foster investor confidence.

President-Elect Trump's rapid government appointments in the United States have bolstered confidence indicators; whether this optimism translates into sustained economic momentum will depend on the administration's ability to balance fiscal stimulus with inflation control and geopolitical stability.

Transformative Change is a continuous process of adapting and evolving in response to challenges and opportunities.

The Transformative change process is a key element Puerto Rico must implement to alter our economic growth prospects.

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