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India Leads as Global Economy Slows Amid Tariff Risks

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The global economy is expected to slow moderately over the next two years as new trade barriers and shifting policies create fresh challenges, according to a report from Capital Economics.

In the United States, President Trump's renewed tariffs are forecast to weigh on economic activity. U.S. GDP growth is predicted to ease to 1.5% on an annualized basis. At the same time, core inflation is expected to rise above 3% by the end of the year, driven by higher prices for imported goods. This increase in inflation will likely keep the Federal Reserve from cutting interest rates until 2026.

Europe is also facing headwinds. Although Germany plans to loosen fiscal policy next year, the Euro-zone economy is expected to remain sluggish, with growth staying below 1%. The European Central Bank is likely nearing the end of its easing cycle as inflation stabilizes around target levels.

China's growth outlook has weakened as well. Slower export demand and reduced government spending are projected to bring GDP growth down to 3% by 2026, from nearly 5% last year.

By contrast, India is emerging as a bright spot in the global landscape. Supported by strong domestic demand and ongoing economic reforms, India's GDP is forecast to grow at an average rate of 7% over the next two years, making it the fastest-growing major economy in the world.

Japan is taking a different path. As inflation continues to exceed forecasts, the Bank of Japan is expected to resume raising interest rates before the end of this year. Rates could reach 1.5% by 2027 as policymakers focus on containing price increases.

Canada faces the risk of a mild recession as trade tensions with the U.S. create uncertainty for exporters and weigh on business confidence.

In the Middle East, the recent ceasefire between Iran and Israel has reduced immediate risks to Gulf economies. However, lower oil prices and tighter budgets are still expected to limit growth across the region.

Commodity markets are forecast to soften, especially oil, as global supplies increase. However, tariffs could push metals prices higher in the short term.

Overall, Capital Economics expects the global slowdown to remain moderate if trade disputes stay contained. For investors, this environment will require careful planning and focus on regions with stronger economic momentum.