

Rising Risks of Growth Slowdown as Geopolitical Tensions Intensify



- The ongoing war in Iran has increased uncertainties, disrupting global supply chains.
- The US economy unexpectedly moderated in Q4 2025.
- The US labour market recorded employment declines in February 2026.

Military action in Iran set to expose downside risks across the globe

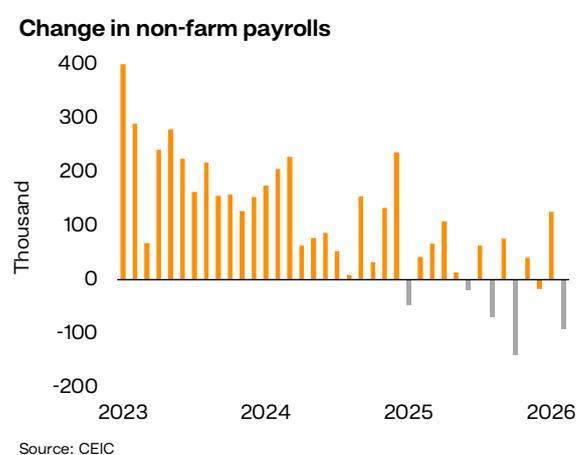
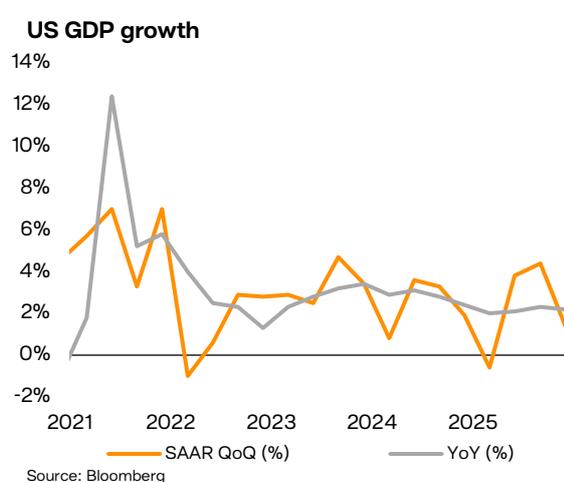
The ongoing war in Iran has disrupted important oil chokepoints, exacerbating volatility in energy and financial markets. On 28 February, the US and Israel launched wide-ranging strikes on Iran, killing the country's supreme leader. In response, Iran retaliated with attacks on Israel and US-allied states in the Gulf. The sudden escalation of geopolitical tensions led to massive selloffs in stocks and a spike in oil prices, as the Strait of Hormuz (a critical passage for nearly 20% of global petroleum) became unsafe, causing significant disruptions to the global energy supply. Furthermore, heightened uncertainty also led to a surge in the dollar.

The International Monetary Fund highlighted that a prolonged disruption to global trade and shipping routes could intensify risks for the global economy. In particular, the shock could feed into broader inflationary pressures, raising transportation and production costs for businesses and households alike. As a result, the US would face sustained inflation and weaker GDP growth, with substantial impacts on various sectors like airlines, logistics, and manufacturing. Meanwhile, the war would create a policy dilemma for the Federal Reserve (Fed) amid a difficult trade-off between inflation control and growth support.

The US economy unexpectedly moderated in Q4 2025

The US economic momentum decelerated in Q4 2025. Advance estimates indicated that the US economy grew by a seasonally adjusted annual rate (SAAR) of just 1.4% in Q4, slowing from the strong pace of 4.4% in Q3. On a year-on-year (YoY) basis, the US economy grew by 2.2% in Q4, a 0.1 percentage point (ppt) slower from in Q3. This brought the 2025 full year growth rate to 2.2%, a marked slowdown from 2.8% in 2024.

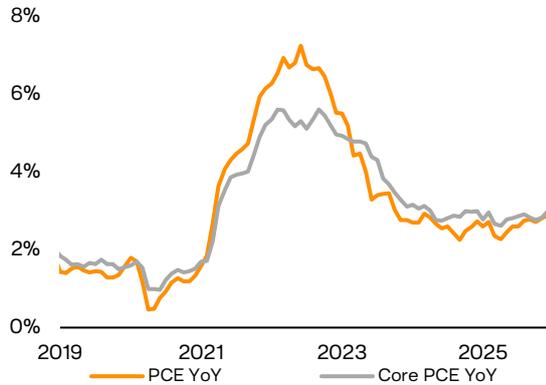
Domestic demand remained solid, while weaker exports and the government shutdown dragged down growth. Personal consumption expenditures (PCE) increased by 2.4% SAAR in Q4, down from 3.3% in Q3, continuing to serve as major growth driver for the economy. Specifically, services spending remained resilient, growing by 3.4% SAAR, while goods spending was muted (-0.1%), reflecting softer demand for durable goods. Investment surged by 3.8% SAAR in Q4, after remaining flat in Q3. PCE and investment contributed 1.58 ppts and 0.66 ppts to headline GDP growth, respectively. However, net exports contributed a significantly smaller boost to GDP growth (0.08 ppts in Q4 vs. 1.62 ppts in Q3), as export growth fell rapidly from 9.6% SAAR in Q3 to -0.9% in Q4. Government spending was another headwind, contracting by 5.1% SAAR in Q4 after expanding by 2.2% in Q3, dragging down GDP growth by 0.90 ppts. Overall, economic growth in 2025 was primarily driven by solid consumer spending and resilient business investment.



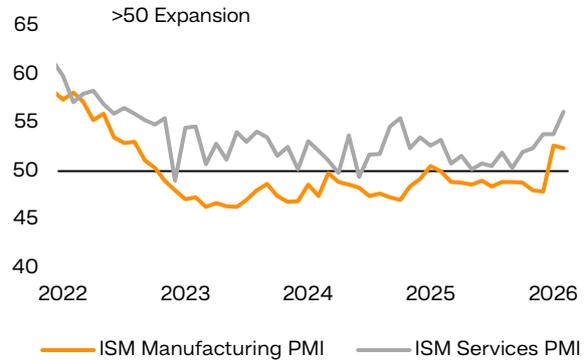
The labour market weakened amid declines in payrolls

The February US labour report pointed to a clear cooling in employment conditions. Nonfarm payrolls fell sharply by 92,000 in February, despite gains of 126,000 in January. Job gains for December were also revised down from +48,000 to -17,000. Meanwhile, the unemployment rate rose by 0.1 ppts to 4.4%. Although disruptions from a labour strike and severe winter storms may have distorted data, job losses were broad-based across industries, including manufacturing, healthcare, and hospitality. The combination of declining payrolls and rising unemployment underscored signs of weakness in labour market momentum. Wage growth held steady in February, with average hourly earnings rising by 3.8% YoY and 0.4% month-on-month (MoM) in February compared to 3.7% and 0.4% in January, respectively. All in all, the labour market report highlighted a further cooling trend, which could weigh on private consumption.

Recent inflation reports indicated an uneven disinflation trend. CPI inflation for January 2026 rose by 0.2% MoM and 2.4% YoY (December 2025: 0.3% MoM, 2.7% YoY), while core CPI inflation increased by 0.3% MoM and 2.5% YoY (December 2025: 0.2% MoM, 2.6% YoY). Additionally, PCE inflation for December 2025 climbed by 0.4% MoM and 2.9% YoY, with core PCE also up 0.4% MoM and 3.0% YoY. Taken together, the CPI and PCE reports suggested a gradual easing trajectory for inflation as compared to earlier peaks, though both price measures remained above the Fed's 2% target. Monitoring upcoming inflation dynamics and the Fed's stance during its March FOMC meeting will be crucial for gauging potential monetary policy moves.

US PCE Inflation


Source: Bloomberg, data as of 20/02/2026

ISM Manufacturing and Services PMI


Source: Bloomberg, data as of 04/03/2026

Business confidence remained firm in February

Business surveys pointed to a continued expansion in February. The Institute of Supply Management (ISM) manufacturing purchasing managers' index (PMI) remained in expansionary territory at 52.4 in February, the second consecutive monthly expansion (but only the third in the past 40 months). The ISM services PMI rose to 56.1, the highest level since 2022. The ISM surveys highlighted solid domestic demand as a main growth driver, with firmer new orders and production across both manufacturing and services sectors. Meanwhile, the S&P Global manufacturing and services PMIs both fell slightly to 51.6 and 51.7 in February, respectively, remaining in expansionary territory. Collectively, these business surveys suggested steady growth momentum in Q1, pointed to steady growth momentum in Q1, though the impacts of recent geopolitical uncertainty have yet to be fully reflected. A crucial factor shaping the economic outlook will be the timing of the war's end or the de-escalation of tensions to prevent prolonged disruptions to global energy supply chains.

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