MAKING SENSE OF *THIS* WORLD

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IMF Meetings' Key Takeaways: Economic "Fragile Resilience" Affects Market Sentiment

Last week, the annual meetings of the IMF and World Bank took place. As happens every three years, on this occasion they were held outside Washington – in Bangkok. The meetings had an overarching theme, which can be summarised as "Fragile Resilience". In their recent publications, the IMF and World Bank highlighted how the global economy had been resilient in the last few years, in the face of some of the largest shocks in recent history: the trade shock initiated by the "reciprocal tariffs" announcement made by US President Donald Trump on 2 April 2025, and the oil shock deriving from the war in Iran, initiated by the US-Israeli attacks of 28 February 2026.

Countering these shocks, a number of cushions have allowed the global economy to absorb their impact. First and foremost, the AI revolution and the investment in data centres it is generating. Secondly, the fiscal space that some countries had, which allowed governments to partially offset the impact on companies and households. Thirdly, monetary policy, which could be eased to some extent by the major central banks.

But the IMF now warns that these shock absorbers have almost all been exhausted. First, doubts abound as to whether AI companies will really be able to generate the returns on their massive investments that they are currently promising. The risk is that open-weight models will eventually prevail, especially those made in China. Secondly, the level of debt and deficit reached by some of the most advanced economies, including – or especially – the US, does not allow additional fiscal easing by governments: bond vigilantes are out in force, as shown by the rise in long-term yields at the international level. Thirdly, central banks have had to focus on their primary objective of containing inflation, which was pushed above target in most countries as a result of the rise in energy prices.

The IMF has summarised all this in a sentence: "Growth has endured so far, but rising inflation and narrowing buffers demand policy action now", and a warning, encapsulated in the IMF Managing Director's speech: "Rebuilding Buffers Without the Luxury of Time". We summarise all this with an expression that seems an oxymoron: "fragile resilience" – the global economy has proven resilient, but this resilience is now vulnerable to further shocks as the shock absorbers have been nearly exhausted, and so now it is fragile.

What's the impact of all this on global economic activity and inflation? As the latest World Economic Outlook says, "global growth is projected to slow to 3.1 percent in 2026 and rebound to 3.4 percent in 2027. Global headline inflation is projected to rise notably to 4.7 percent in 2026 before easing to 4.1 percent in 2027."

Financial markets have also shown notable resilience in the face of such repeated shocks: equity markets have reached new all-time highs over the last few years, even as long-term rates rose to levels unseen in three decades.

Our Recent Publications

- *The AI Investment Boom and the Risk of Crowding Out, by Nato Balavadze, 15 October 2026*
- *The SEC's Regulatory Experiment: Integrating Blockchain into US Equity Markets, by Ridipt Singh, 14 October 2026*
- *Global Aluminium Market Under Pressure, by Nato Balavadze, 13 October 2026*
- *Turkey and Hezbollah's Pragmatic Engagement in a Changing Levant, by Giorgio Cafiero, 9 October 2026*

Looking Ahead

The Week Ahead: UK Inflation Rate To Rise; Consumer and Economic Sentiment To Fall In US And EZ

In the US, in October, Michigan Consumer Sentiment is expected to edge down to 46.3 (*p:* 48.1).

In the EZ, in October, ZEW Economic Sentiment Index is likely to decline to 24.2 (*p:* 25.8). Consumer Confidence is expected to increase to -16 (*p:* -16.5).

In the UK, in August, unemployment rate is expected to increase to 5.0% (*p:* 4.9%). In September, headline and core inflation rates are likely to rise to 3.4% y-o-y (*p:* 3.1%) and 2.7% y-o-y (*p*: 2.6%). In October, GfK consumer confidence is seen rising to -12 (*p:* -13).

The Quarter Ahead: Trump Waives Key Russia Sanctions; Cost-of-Living Protests In Europe

Trump waived key provisions of the Graham Act, suspending tariffs of up to 500% on Russian imports and 100% on major buyers of Russian energy, including China and India. The decision follows a separate easing of sanctions on Russian diesel exports amid supply shortages and rising fuel prices linked to the Middle East conflict. While existing sanctions remain in place, Ukrainian President Zelenskyy condemned the move as benefiting Russia. The decision also drew criticism from Democrats ahead of November's midterm elections.

Cost-of-living protests spread across Europe. Hundreds of thousands protested across France, Belgium, Italy and Portugal over rising living costs, low wages, housing affordability and deteriorating public services. France saw more than 550,000 demonstrators, bringing together students, trade unions and Yellow Vest activists. Tens of thousands rallied in Lisbon over soaring housing costs, while protests in Belgium and Italy led to clashes with police. The demonstrations reflect growing economic discontent and mounting pressure on European governments.

Last Week's Review

Real Economy: Inflation Increased In US And EZ; IP Rose In UK And US And Shrank In EZ

In the US, in September, headline and core inflation rates increased to 3.7% y-o-y (*c:* 3.6%; *p:* 3.4%) and 2.6% y-o-y (*c:* 2.5%; *p:* 2.4%). In September, retail sales advanced by 6.3% y-o-y (*p:* 5.6%). In September, IP increased by 2.2% y-o-y (*p:* 1.6%).

In the EZ, in September, headline and core inflation rates increased by 3.8% y-o-y (*c:* 3.8%; *p:* 3.2%) and 2.5% y-o-y (*c:* 2.5%; *p:* 2.4%). In August, IP shrank by 1.1% y-o-y (*c:* -0.3%: *p:* -0.1%). In September, among the largest EZ economies, headline inflation rate: *i)* rose by 3.1% y-o-y (*c:* 3.0%; *p:* 2.4%) in France*; ii)* increased to 3.3% y-o-y (*c:* 3.3%; *p:* 2.9%) in Germany.

In the UK, in August, IP rose by 0.8% m-o-m (*c:* -0.1%; *p*: 0.3%) and 1.6% y-o-y (*c*: 0.7%; *p:* 0.8%).

Financial Markets: Stock Prices Were Mixed; Yields and USD Declined; Oil Prices Rose, While Gold Prices Fell

Market Drivers: US stock markets ended the week mostly lower, pressured by a sell-off in AI-related shares, stronger-than-expected inflation and concerns over the sustainability of AI investment. Meanwhile, rising Middle East tensions supported oil prices and energy stocks. US Treasury yields declined as demand for safe-haven assets outweighed inflation concerns. In Europe, stocks gained as the start of the corporate earnings season shifted investors' attention towards company fundamentals, although Middle East tensions and elevated energy prices continued to influence market sentiment.

Global Equities: decreased *w-o-w* (MSCI ACWI, -1.6%, to 1,129.1). The US S&P 500 index edged down (-1.9% w-o-w, to 7,659.44). In the EZ, share prices were up (Eurostoxx 50, +0.5% w-o-w, to 6,204.23). In EMs, equities declined (MSCI EMs, -5.2%, to 1,620.63). Volatility increased to 19.91 (VIX S&P 500, 52w avg.: 19.98; 10y avg.: 19.9).

Fixed Income: *w-o-*w, the 10-year US Treasury yields were down (-14 bps to 5.10%). The 2-year US Treasury yields declined (-5 bps to 4.74%). The German 10-year bund yields edged down (-7 bps to 3.42%).

FX: *w-o-w,* the US Dollar Index declined (DXY, -0.4%, to 101.84; EUR/USD, +0.3%, to 1.12). In EMs, currencies were virtually unchanged (MSCI EM Currency Index, -0.0% w-o-w, to 1,930.1).

Commodities: *w-o-w,* oil prices increased (Brent, +5.0% to 109.7 USD/b). Gold prices declined w-o-w (-5.3% to 4,186.70 USD/Oz).

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The picture in the first page was taken from this website.

Abbreviations, Acronyms and Definitions

a	*Actual*
AKP	*Justice and Development Party, Turkey*
ann.	*annualized*
ARS	*Argentinian Peso*
avg.	*Average*
bn	*Billion*
BoC	*Bank of Canada*
BoE	*Bank of England*
BoJ	*Bank of Japan*
bpd	*Barrels per day*
bps	*Basis points*
BS	*Balance sheet*
c	*Consensus*
C/A	*Current account*
CB	*Central bank*
CBB	*Central Bank of Bahrain*
CBK	*Central Bank of Kuwait*
CBT	*Central Bank of Turkey*
CDU	*Christian Democratic Union, Germany*
CNY	*Chinese Yuan*
CPI	*Consumer Price Index*
DJIA	*Dow Jones Industrial Average Index*
DJEM	*Dow Jones Emerging Markets Index*
d-o-d	*Day-on-day*
DXY	*US Dollar Index*
EC	*European Commission*
ECB	*European Central Bank*
ECJ	*European Court of Justice*
EIA	*US Energy Information Agency*
EM	*Emerging Markets*
EP	*European Parliament*
EPS	*Earnings per share*
EU	*European Union*
EUR	*Euro*
EZ	*Eurozone*
Fed	*US Federal Reserve*
FOMC	*US Federal Open Market Committee*
FRB	*US Federal Reserve Board*
FX	*Foreign exchange*
FY	*Fiscal Year*
GCC	*Gulf Cooperation Council*
GBP	*British pound*
GDP	*Gross domestic product*
IMF	*International Monetary Fund*
INR	*Indian Rupee*
IPO	*Initial public offering*
IRR	*Iranian Rial*
JPY	*Japanese yen*
k	*thousand*
KSA	*Kingdom of Saudi Arabia*
LN	*Northern League, Italy*
M5S	*Five Star Movement, Italy*
m-o-m	*Month-on-month*
mb	*Million barrels*
mb/d	*Million barrels per day*
MENA	*Middle East and North Africa*
MHP	*Nationalist Movement Party, Turkey*
mn	*Million*
MPC	*Monetary Policy Committee*
NAFTA	*North-American Free Trade Agreement*
NATO	*North Atlantic Treaty Organization*
OECD	*Organization for Economic Cooperation and Development*
Opec	*Organization of Petroleum Exporting Countries*
p	*Previous*
P2P	*Peer-to-peer*
PBoC	*People's Bank of China*
PCE	*Personal Consumption Expenditures*
PE	*Price to earnings ratio*
PM	*Prime minister*
PMI	*Purchasing managers' index*
pps	*Percentage points*
pw	*Previous week*
QCB	*Qatar Central Bank*
QAR	*Qatari Riyal*
QE	*Quantitative easing*
q-o-q	*Quarter-on-quarter*
RE	*Real estate*
RBA	*Reserve Bank of Australia*
RRR	*Reserve Requirement Ratio*
RUB	*Russian Rouble*
SWF	*Sovereign Wealth Fund*
tn	*Trillion*
TRY	*Turkish Lira*
UAE	*United Arab Emirates*
UK	*United Kingdom*
US	*United States*
USD	*United States Dollar*
USD/b	*USD per barrel*
UST	*US Treasury bills/bonds*
VAT	*Value added tax*
VIX	*Chicago Board Options Exchange Volatility Index*
WTI	*West Texas Intermediate*
WTO	*World Trade Organisation*
w	*Week*
w-o-w	*Week-on-week*
y	*Year*
y-o-y	*Year-on-year*
y-t-d	*Year-to-date*
ZAR	*South African Rand*
2y; 10y	*2-year; 10-year*

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