



GLOBAL CREDIT

# Dispatch from Washington

The Algebris Bullet | October 2025



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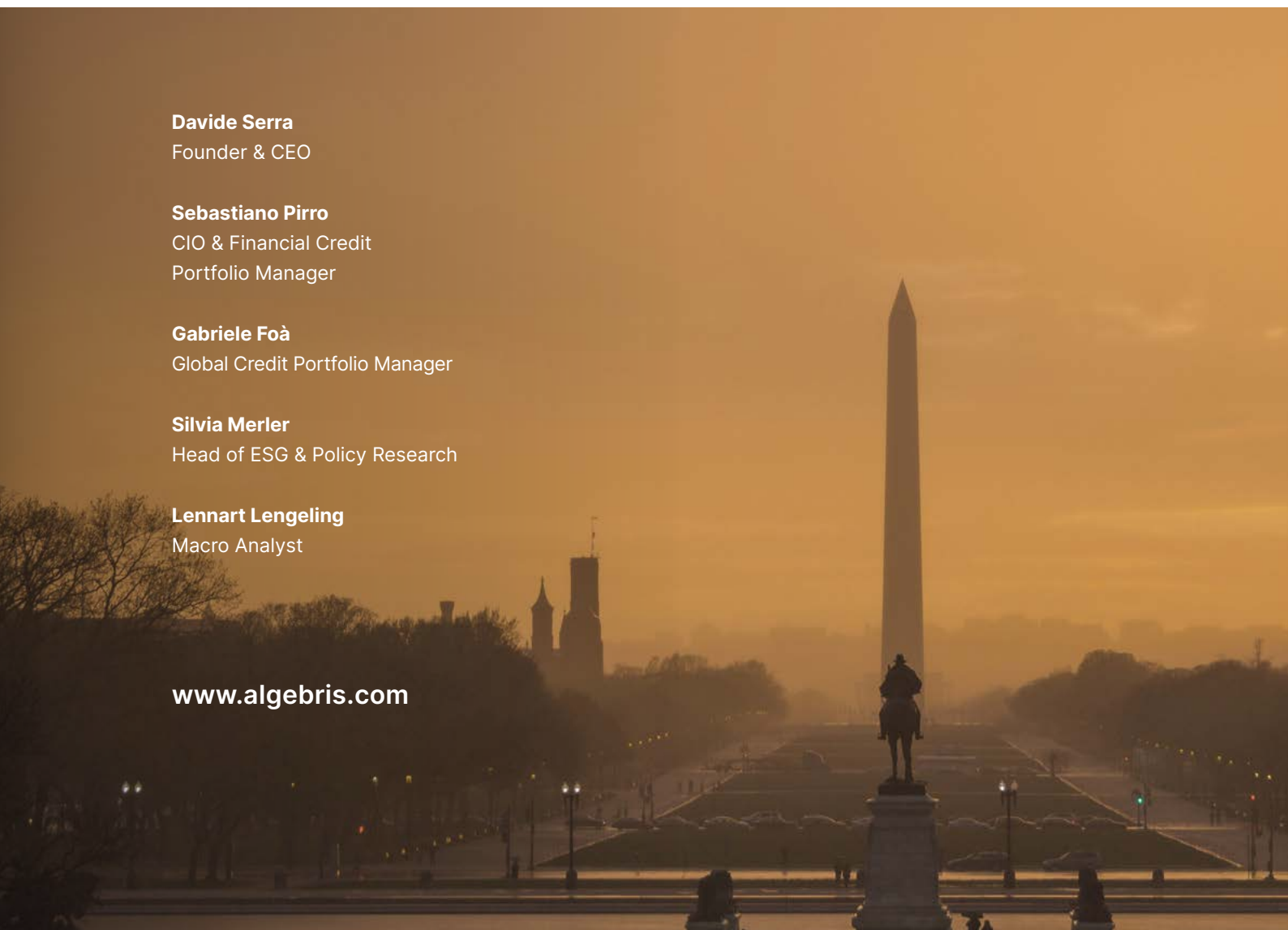
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# In this report

We spent the week in Washington, D.C. for the IMF Annual Meetings, meeting with policymakers, central bankers, and investors from around the world. The global macro backdrop remains cautiously optimistic: U.S. growth is slowing gently, Europe and China are stable and accommodative fiscal and monetary policies continue to support markets. AI, emerging markets, trade tensions, and upcoming elections in Latin America were key discussion points, shaping both policy expectations and market sentiment. Market positioning can be qualified as “uncomfortably long”, as investors are wary of tight valuations but can’t, or don’t want to, fight the technicals. Long gold, short US dollar, and curve steepeners remain popular trades.

# Dispatch from Washington

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## Global Macro

The overall feeling coming from the meetings is that the global economic outlook is solid but not booming. The broad consensus is that the U.S. is slowing gently, while Europe and China are not collapsing. Fiscal and monetary policies remain exceptionally accommodative for this point in the cycle, helping explain the ongoing market bullishness.

Inflation remains the main risk to this constructive backdrop, though it would need to re-accelerate meaningfully to derail it. The idea of easing policy with inflation slightly above target is now widely accepted, but any renewed inflationary momentum would be problematic.

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## Fed

The Fed's tone is firmly dovish, though the more extreme positions in the FOMC remain isolated. While tariff-related inflation is viewed as a risk, it has yet to show meaningfully in the data, and GDP and activity are expected to soften in line with weaker labor trends. The strong contribution from AI-related capex implies that other components of growth remain subdued. Politically, Kevin Hassett is seen as leading the race for Fed Chair and favored for his dovish leanings, technical competence, and ability to build consensus. A key development to watch is the Court decision on the ousting of Lisa Cook, which could then trigger a reshaping of the FOMC as several regional Fed governors will be appointed next year. This shift could hand Trump-aligned policymakers a working majority on the Board, potentially paving the way for a full institutional takeover.

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## Artificial Intelligence

AI was a dominant theme across all macro discussions. There is widespread bullishness on sustained infrastructure spending and on the growing contribution of AI capex to GDP growth. The perception that AI explains roughly 60% of the recent U.S. growth boost reinforces the belief that the macro backdrop can remain solid even as the Fed cuts rates to support other segments of the economy.



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## Europe

The early excitement on Europe is fading rapidly. Depletion of Germany's fiscal plan is progressing too slowly to become a macro game-changer. Growth is neither collapsing nor accelerating as fiscal optimists had hoped. The ECB remains in wait-and-see mode, not yet comfortable enough to adopt a more dovish stance. When it eventually moves, it is likely to deliver two or three cuts rather than just one, potentially in Q1 2026, assuming data begin to soften in Q4 2025.

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## Ukraine

A quick resolution of the conflict between Russia and Ukraine remains out of reach, as Trump's leverage over Putin appears limited. However, risks are skewed to the positive side: a combination of renewed military pressure of using Tomahawks and potential sanctions relief could push Putin toward a compromise. Trump is achieving meaningful milestones on foreign policy, and with the Middle East situation largely stabilized, a stronger focus on Russia is possible. A further constructive sign is that Zelensky has reportedly agreed to step down after the war, paving the way for Zaluzhny, currently Ukraine's ambassador to the UK, to potentially become the next president.

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## Russia and Europe

Russia remains intent on defending its sphere of influence but has no clear intention of hurting Europe. The recent drone incidents in the Eastern

region of Europe should be read as a response to European threats regarding weapons sent to Ukraine and unlocking of Russian frozen reserves. An immediate military threat to Europe is not perceived, though if escalation were to occur, it would likely come through Eastern Europe. The debate over lending out Russia's frozen assets has stalled, making such a move increasingly unlikely.

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## Tariffs

The U.S. administration's current tariff framework applies approximately 15% on allies, 20% on Southeast Asia, 35% on China, and 50% on adversarial countries. A 100% tariff on China remains a negotiating lever intended to extract more favorable terms on trade deals. The IEEPA tariffs are highly likely to be struck down by the Supreme Court on November 5th, but the same effective rates are expected to persist via reformulated measures or alternative legal provisions. The administration is well-prepared for this scenario and has a contingency plan that avoids the need for refunds. Tariffs are viewed as a key revenue source and would take priority over equity markets if Trump had to choose between the two.

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## US and China

The recent escalation between the U.S. and China was among the most closely examined points. China retains the upper hand thanks to its dominance in rare earths. There is a small risk that the Trump–Xi meeting does not take place, as Trump seems more eager for it than Xi. Relations are likely to continue deteriorating, primarily through non-tariff measures, including IP restrictions, competition for strategic partners, and regulatory barriers. No major rebalancing or stimulus is expected in China in the near term, suggesting the cold trade war will persist. At the same time, China is accelerating its diversification away from the U.S., with strong private and subnational activity in Latin America and Southeast Asia. Chinese FDI in countries like Brazil, Colombia and Indonesia has risen sharply and commodity demand from these regions has doubled in response.

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## USMCA

The next major chapter in the trade saga begins with the USMCA renegotiation in December. The key question is whether Trump intends to maintain the existing framework or use the process to deepen integration with Canada, often called “the 51st state”, while redefining terms with Mexico. Investors

expect aggressive rhetoric and threats of steep tariff hikes before any substantive deal materializes as part of the negotiating strategy of the U.S. administration.

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## Government Shutdown

In the discussions to find an agreement to end government shutdown, Democrats have effectively framed the issue around healthcare, shifting public perception in their favor. The shutdown is likely to end on October 31st, as extending it into November would limit healthcare access. Trump is expected to maintain a hard stance until the last moment, but markets remain indifferent, as the debt ceiling is not a concern for the moment.

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## U.S. Fiscal Policy

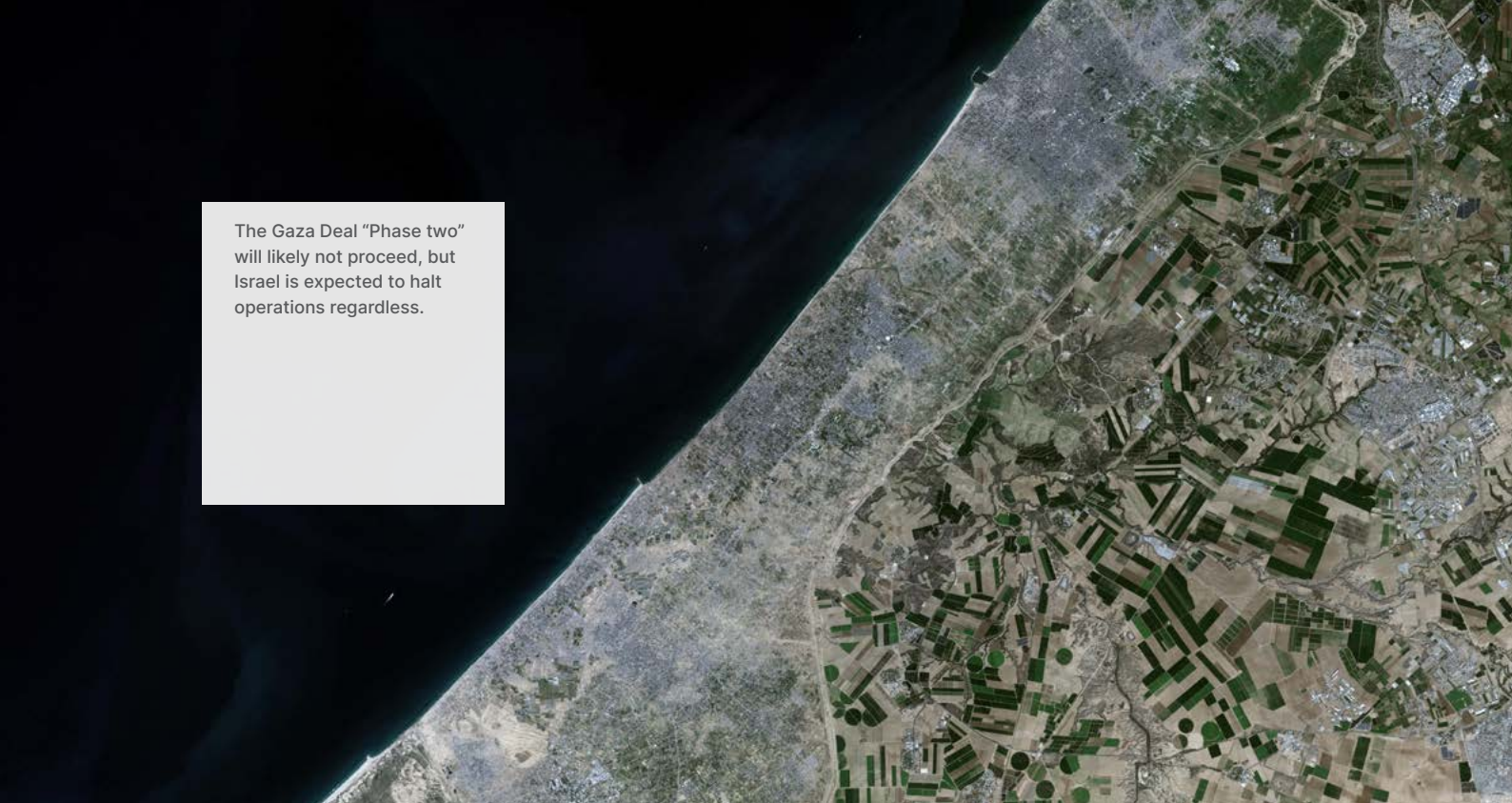
Fiscal policy received less attention than in April, partly because tariff revenues had become material. The market broadly accepts the strategy of stimulating, as legislated in the OBBB ("One Big Beautiful Bill") and funding via tariffs. U.S. growth remains slightly above 2%, below the 3% target, suggesting additional fiscal stimulus is likely ahead of the midterms, with policy focus to be centered on housing and agriculture. If long-end yields move above 5%, Bessent is reportedly open to unconventional measures including MBS purchases. Broader long-end easing policies, such as the end of QT, are expected to materialize.

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## Middle East

The Gaza Deal "Phase two" will likely not proceed, but Israel is expected to halt operations regardless. Trump has secured a strong arrangement involving Israel and Qatar, with Hamas remaining in Gaza under a "peace guarantee" from the Gulf states, Turkey and Egypt. Extremist influence in the region has reached a historic low: Iran is weakened, Houthis and Hezbollah are constrained and the Abraham Accords are no longer on the table.





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## EM Central Banks

EM central banks delivered hawkish messages despite already high real rates and a dovish Fed stance. This signals a shift toward FX-focused policies and suggests downside risks to local inflation. Broad-based rate cuts are expected only in 2026, as most EMs prefer to stay behind the curve, except for Mexico, which is cutting aggressively and will follow the FED in the cutting cycle.

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## Latin America

Latin America remains a key focus area given the upcoming elections over the next few months and the increasingly higher U.S. engagement with the region. Washington's active regional policy aims to consolidate U.S. influence, limit China's footprint in the region and secure trade and resource concessions. The IMF/ESF framework continues to be stretched to support Argentina, though conditionality remains unclear. The probability of a U.S.-driven regime change in Venezuela is rising and a wave of elections in Brazil, Colombia, Chile, and Peru next year could mark a shift to the right across the region.

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## Japan

In Japan, focus remains on the formation of the new government. The emerging consensus is that it will be more aligned with Trump and fiscally expansionary, though the implications for BOJ policy remain uncertain.





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## NOTES

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