KPMG Global Economic and Geopolitical Outlook

Webcast recap

24 September 2025 broadcast

KPMG International | kpmg.com

Contents

Introduction

On 24 September 2025, KPMG hosted its latest ***Global Economic and Geopolitical Outlook*** webcast: a quarterly program designed for global business leaders to help navigate the complexities of the current economic and geopolitical landscape. The program, drew over 2,000 executives and decision-makers representing 79 countries.

Regina Mayor, Global Head of Clients and Markets at KPMG International, served as moderator and set the tone for the event, emphasizing the need for clarity amidst current complexities. "Manage through the complexity," she remarked, "every day you navigate geopolitical uncertainty, economic shifts, business challenges, and how you make decisions in real time. That's exactly why we gather each quarter."

The webcast brought together a global panel of KPMG professionals, including:

- **Stefano Moritsch**, Global Geopolitics Lead, KPMG International
- **Diane Swonk**, Americas Regional Chief Economist, KPMG in the US
- **Yael Selfin**, Europe, Middle East and Africa Regional Chief Economist, KPMG in the UK
- **Dr. Brendan Rynne**, Asia Pacific Regional Chief Economist, KPMG Australia; and
- **Svilena Tzekova**, Global Head of Corporate Services, KPMG in the UK

Throughout the webcast, our panelists discussed assessments and forecasts for the global economy, setting the stage for understanding and action in the global business realm.

Navigating uncertainty is a daily challenge. We gather quarterly to identify key signals and help you connect the dots to drive informed decision-making.

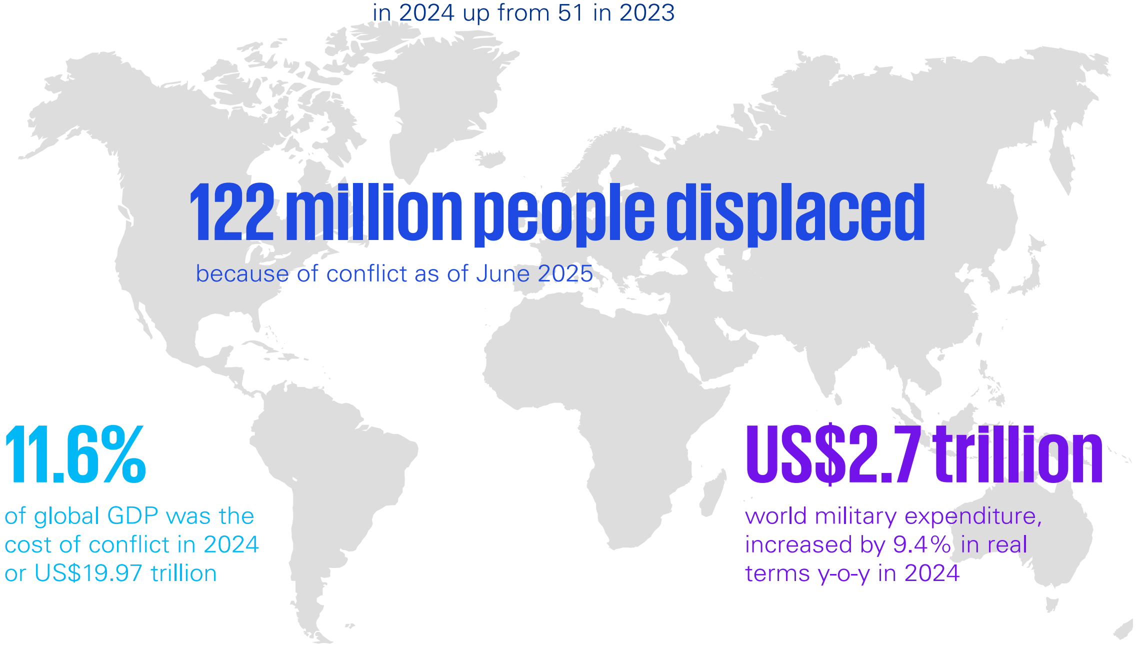
Global geopolitical outlook

In an era where uncertainty is the only constant, Stefano Moritsch, KPMG's Global Geopolitical Lead, urged executives to rethink risk, resilience and opportunity in a world marked by conflict, fragmentation and shifting alliances. "Multilateralism today looks much like Manhattan traffic: jammed, noisy and going nowhere fast," Stefano remarked.

Rising conflict and the defense industry's transformation

Stefano began with a stark assessment of global conflict trends. "We had sixty-one conflicts in 2024, up from 51 in 2023, and that trend is going to continue," he noted, referencing data from the Institute for Economics and Peace. This escalation is not just a headline — it's reshaping the defense sector, with global defense budgets now surpassing $2.7 trillion, a record high. Stefano put it plainly, "Achieving 3.5 and then 5 percent GDP spending towards defense by 2035 will mean the creation of new industries and new companies that European NATO allies don't really have now." For executives in manufacturing, aerospace, and technology, this signals both risk and opportunity: new supply chains, market entrants, and innovation will be required to meet evolving security demands.

61 conflicts
in 2024 up from 51 in 2023



122 million people displaced
because of conflict as of June 2025

11.6%
of global GDP was the cost of conflict in 2024 or US$19.97 trillion

US$2.7 trillion
world military expenditure, increased by 9.4% in real terms y-o-y in 2024

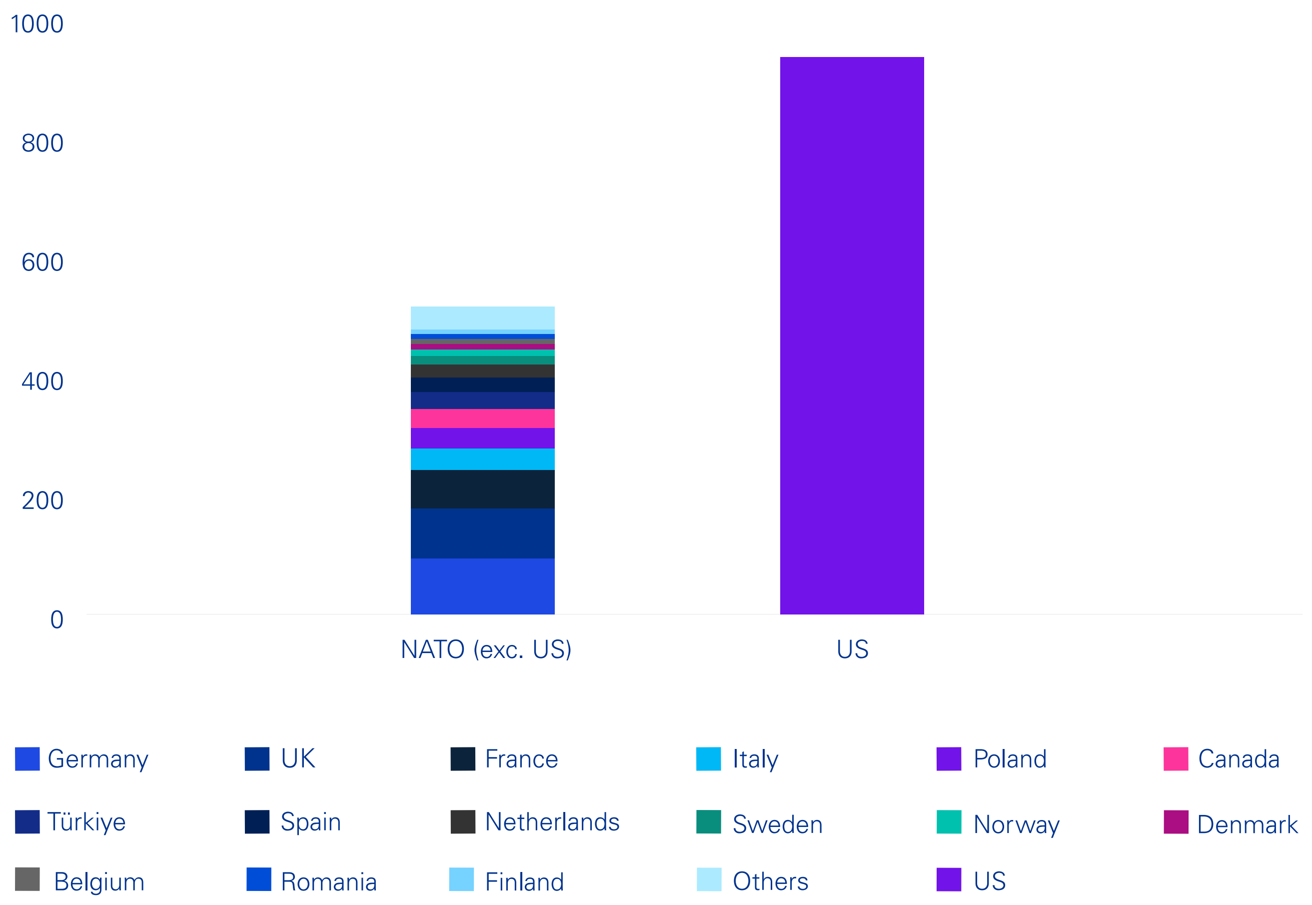
Source: Institute for Economics & Peace; UNHCR, SIPRI; NATO

The war in Ukraine, described by Stefano as "a war of attrition," continues to reverberate across industries. Failed peace talks and escalating drone attacks — some breaching NATO airspace — have forced direct responses from NATO allies. The implications for logistics, energy, and cross-border investment are profound, as "conflict is no longer circumscribed to regional issues. It is becoming ubiquitous, a global problem, and boardrooms are forced to closely monitor impacts on supply chains, investment strategies and operations."

In the Middle East, Stefano highlighted the fragile ceasefire between Hamas and Israel, brokered by the US, noting that while the "12-day war" had limited business impact, the region remains volatile. The energy and logistics sectors, in particular, must contend with persistent risks tied to Iran's nuclear ambitions and the ongoing conflict between Israel, Hamas and other militant groups in the region.

Multilateralism today looks much like Manhattan traffic: jammed, noisy and going nowhere fast.

NATO vs.US military expenditure, 2024



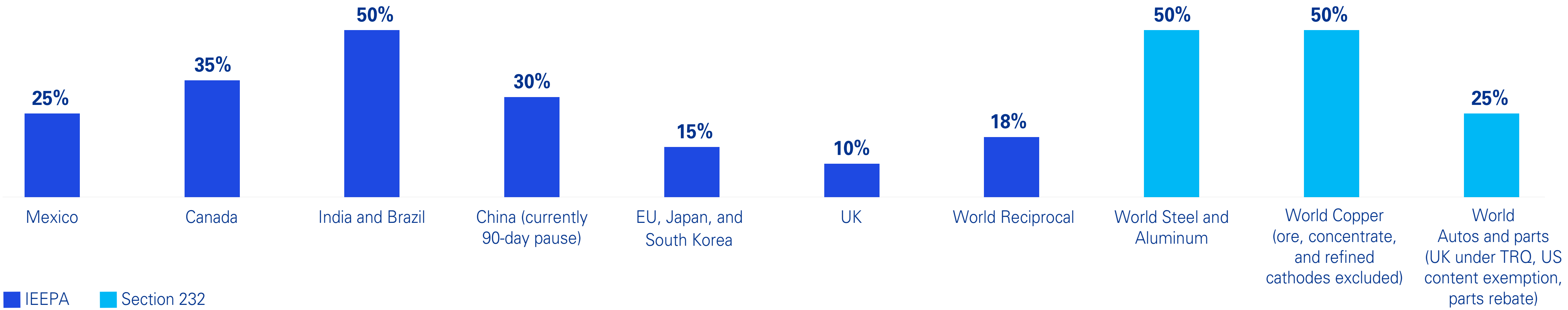
Source: Institute for Economics & Peace; UNHCR, SIPRI; NATO

Trade fragmentation: The new normal for global commerce

Turning to trade, Stefano painted a picture of growing fragmentation and regulatory complexity. "By July, the US average effective tariff rate reached 18 percent, the highest since 1934," he reported, with some countries — such as Brazil and India — facing tariffs up to 50 percent. This has triggered a wave of strategic realignment: "China is redirecting exports away from the US, up 6 percent to Europe, up 25 percent to Mexico and Canada." The European Union and the UK are actively negotiating new trade agreements, while BRICS nations seek alternative partnerships to mitigate tariff exposure.

For leaders in manufacturing, retail, and logistics, these shifts mean higher costs, disrupted supply chains, and the need for agile market strategies. Stefano described the US-China relationship as "the most important trade and geopolitical relationship of our century," noting recent diplomatic efforts to de-escalate from the April tariffs which, if fully implemented, would amount to a "mutual trade blockade." Yet, he cautioned, "this shift is marking at least a temporary departure from a rules-based multilateral trade liberalization system to a flurry of ad hoc trade deals, often driven by national interests rather than economic efficiency." The result: "globalization isn't dead, but it's definitely more expensive."

Tracking US tariffs (as of 27 August 2025)



Source: Trump Tariff Tracker, Atlantic Council, September 2025.

Note: USMCA-compliant imports from MEX/CAN are temporarily exempt from IEEPA tariffs, energy and potash face lower rate of 10%. For auto 232 tariffs, USMCA-compliant auto parts are fully exempt, but for USMCA-compliant finished vehicle imports, non-US content still faces a 25% tariff.

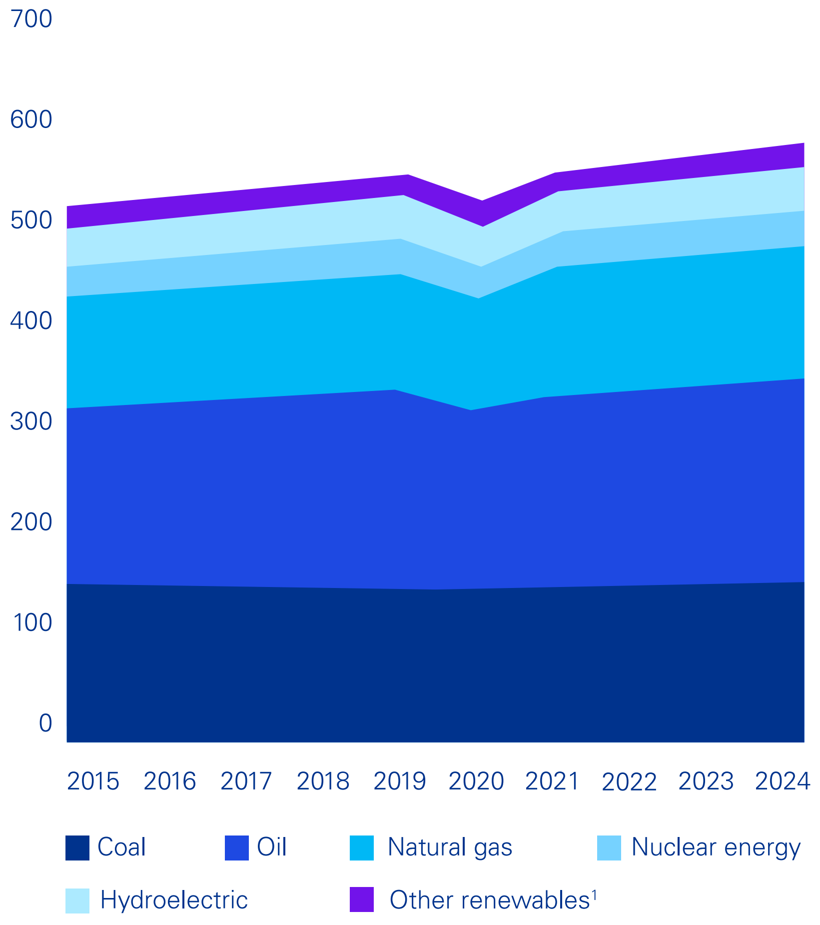
Energy transition: Messy, fragmented, and full of trade-offs

Stefano's outlook on energy and climate policy was pragmatic, if not sobering. "The United Nations is asking governments to submit updated climate plans for 2035… 95 percent of the countries missed the deadline. Even the European Union, a pioneer in the energy transition, has delayed those pledges." The energy sector faces a 'messy, regionally fragmented' transition, with renewables being added but not replacing fossil fuels. "More than 80 percent of global energy demand" is still met by traditional sources, and as Stefano put it, "the uncomfortable truth is the transition will not be linear. It will be messy, regionally fragmented and full of trade-offs. Energy security, affordability and growth compete with decarbonization efforts. And that also means that traditional fuels, oil and gas in particular, are not disappearing anytime soon."

For utilities, oil & gas, and renewables, this means navigating a landscape where policy, technology, and market forces are in constant flux. Investment decisions must strike a balance between decarbonization goals and pragmatic considerations of energy security and affordability.

Global primary energy consumption

Exajoules



Note: 1. Includes, Biofill, solar, wind, geothermal, biomass

Source: The disorderly energy transition, KPMG – Energy Institute, In association with KPMG International and Kearney. "2025 Statistical Review of World Energy."

Top geopolitical signals to watch

- Rising global conflict, with 61 active conflicts in 2024 and record-high global defense budgets, especially in Europe and the Middle East.
- Escalation risks in Ukraine and the Middle East, including drone attacks breaching NATO airspace and fragile armistices.
- Shifting trade alliances and regulatory fragmentation, with the US, EU, China, and other major economies pursuing ad hoc trade deals and higher tariffs.
- Energy transition challenges, with delayed climate commitments and energy security concerns overtaking decarbonization as a policy priority.

Business as the beacon in a divided world

Stefano closed with a call to action for global leaders: "We are probably in one of the most divided geopolitical periods since the Cold War, but history shows that business leaders often can help drive stability where politics cannot." His advice: "Sit back calmly, continue to monitor this trend, and keep confident and cautious optimism for the future." For board members, C-suite leaders, and public sector executives, the message is clear — resilience, adaptability, and strategic investment are paramount. As geopolitics casts a shadow over markets, business can be the light, driving stability and growth in turbulent times.

Regional economic signals

Americas region

If the world's economic engine is sputtering, Diane Swonk, Chief Economist for the Americas, offers a diagnosis that is both nuanced and unsparing. Diane discussed the shifting landscape of US economic policy, trade, and monetary maneuvering, while addressing implications for business leaders and policymakers.

Diane began with a candid assessment: "Changes in US economic policy have reverberated around the world. The costs of those changes, most notably in trade policy, have been borne the most by some of our closest trading partners like Canada and Mexico." Yet, "they've proven remarkably resilient, especially in Mexico. It's really been stunning to see how resilient the economy has been." This resilience, however, is not universal. Brazil, for instance, faces tariffs as high as 50 percent on about half its exports to the United States — a fact that has not gone unnoticed by the coffee sector, with Diane wryly noting, "to my own chagrin, it also includes coffee, which has gone up 20.9 percent in prices in August alone."

The legal underpinnings of US tariffs are themselves in flux. Diane explained, "The emergency powers that the president used have been ruled illegal by two lower courts. It's going to the Supreme Court in January. If the Supreme Court were to rule with the lower courts, that would mean many US importers and US firms are eligible for refunds by the Treasury with interest." For the manufacturing and retail sectors, the outcome could mean a windfall — or a new round of uncertainty, as Diane cautioned that "the administration has many levers to pull to keep the tariffs in place without using those emergency powers."

Trade, however, is only one front in the economic contest. The United States–Mexico–Canada Agreement (USMCA), scheduled for renegotiation in 2026, looms large for North American supply chains. "There's a non-insignificant chance" the agreement could lapse, Diane warned, with the focus likely to be on "content rules within the USMCA trading region of Mexico, Canada and the US." For the automotive, agricultural, and cross-border logistics industries, the stakes are high.

Diane's analysis of monetary policy was equally pointed. "We've seen central banks within the region to varying degrees start to cut rates and that is hopefully going to provide a bit of a blunt hit to the tariffs that we see as they work their way through the economy." The Federal Reserve, she noted, "cut one-quarter point finally in September," but the labor market's apparent strength is deceptive: "The unemployment rate at 4.3 percent is just not the whole story. Those workers who have a job are frozen in place. Those who do not have a job are frozen out of the labor market." The result is a labor market with "very little margin for error," where even modest layoffs could push unemployment sharply higher.

> Changes in US economic policy have reverberated around the world. The costs of those changes, most notably in trade policy, have been borne the most by some of our closest trading partners like Canada and Mexico.

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Inflation remains a persistent specter. Diane explained, "Tariffs should be a one-and-done phenomenon, a one-time boost to price levels. However, the sequential nature with which tariffs have been rolled out has meant that they're hitting in waves. It takes 6 to 18 months for the full effects of tariffs to work their way through the economy." The risk, she warned, is that "the sequential nature coming in such close proximity to the pandemic-induced inflation… runs the risk of normalizing inflation." For consumer-facing industries, this means navigating a landscape where price expectations are rising, even as aggregate spending is increasingly concentrated among the top 20 percent of households. "Consumer spending is actually accelerating in the third quarter after a very tepid start thus far. But the problem is with that acceleration of the 20 percent; 80 percent of households have seen their spending stagnate after adjusting for inflation since 2021.

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Top Americas economic signals to watch

- Legal uncertainty over US tariffs, with a pending Supreme Court decision that could trigger refunds and alter trade policy.
- USMCA renegotiation risk in 2026, with potential tightening of content rules and cost increases for cross-border trade.
- Sequential tariff shocks contributing to persistent inflation and normalization of higher price expectations among consumers and firms.
- Polarization in consumer spending, with the top 20 percent of households driving growth while the majority stagnate after inflation.
- Imminent US government shutdowns and declining foreign demand for US Treasuries, increasing volatility in funding markets.

Diane's wit surfaced as she described the paradox of American consumption: "A great example of that is August retail sales in the United States. We saw spending on restaurants after adjusting for inflation, surge; spending at grocery stores after adjusting for inflation actually contracted." The implication for the retail and service sectors is clear: inequality is not just a social issue, but a macroeconomic one, distorting demand and complicating policy responses.

The bond market, too, is sending signals. "Foreign central banks, including those in our own backyard, are no longer buying as many Treasuries… For the first time since the 1990s, gold bullion is now larger on central bank balance sheets abroad than treasury bonds." This shift, Diane argued, "reflects concerns about inflation that we're starting to see out there," and raises the cost of government borrowing.

Diane concluded with a nod to the enduring importance of trust in markets, quoting Adam Smith: "Trust is essentially the oil of the market machine." As the US faces yet another government shutdown, she warned that "showdowns over the budget have become commonplace. That doesn't mean they're not important in the erosion of trust that we've seen over decades in institutions both in the US, throughout the region and abroad."

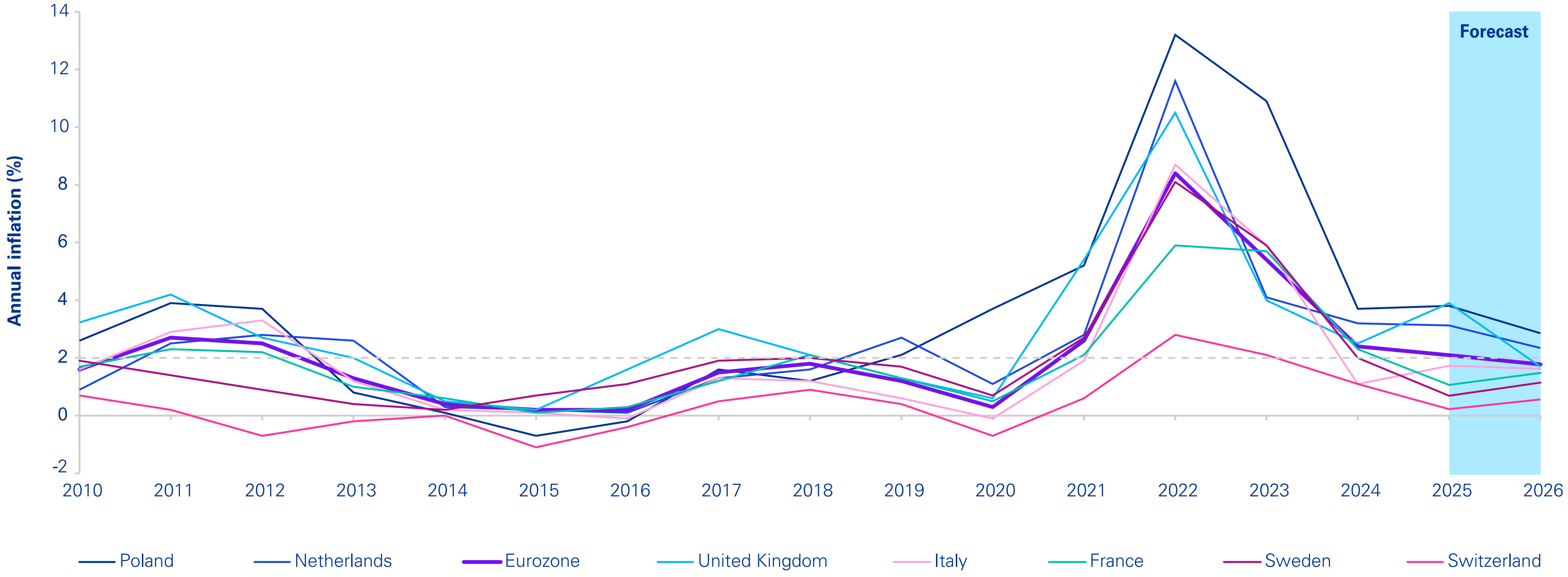
Looking ahead, Diane forecasts "a mild bout of stagnation, nothing like the 1970s in response to tariffs, but living it has proven much harder in real time." For executives, the message is clear: policy, inflation and inequality will continue to shape the economic landscape, demanding vigilance, adaptability and a keen eye for both risk and opportunity.

Europe, Middle East, Africa region

In a world where economic certainties are increasingly rare, Yael Selfin provided a measured, data-rich overview of Europe's economic landscape — one marked by cautious optimism, persistent headwinds, and the perennial challenge of striking a balance between growth and fiscal discipline.

Yael opened with a note of reassurance: "If you look at my first chart here, you'll see that inflation in Europe is largely way below the peak we saw around 2022." While food prices have recently ticked up, she expects "inflation to continue moving towards the different targets of central banks that center around the 2 percent." For boardrooms and finance chiefs, this signals a reprieve from the inflationary surges that have haunted recent years, though the respite is not without caveats.

Interest rates, Yael noted that while monetary easy is well underway, the European Central Bank is expected to cut once more in December and the Bank of England potentially following suit. "We have probably finished the easing cycle in Europe well ahead of the US," she observed. Yet, she cautioned, "rates for most businesses are going to stay well above the levels we saw only up to 2022," a reality that will weigh on capital investment and strategic planning across sectors.



Inflation targets: Eurozone (2%) Sweden (2%), Switzerland (0%-3%), Poland (2.5%), UK (2%)

Source: Eurostat, ONS, FCO, KPMG projections.

Turning to the labor market, Yael highlighted a paradox familiar to executives on both sides of the Atlantic: "Unemployment is relatively low and below the average that we've seen before, just before the pandemic across many European economies." This should, in theory, support consumer spending. However, she pointed to a "big question mark" over household savings rates, which remain elevated. "The big question for us at the moment is whether that decrease in interest rates will encourage households to save less and spend a little bit more," she mused, noting that "consumer confidence is still relatively weak across many European economies." For consumer goods, retail, and services, the implication is clear: pent-up demand may not materialize as robustly as hoped.

Public spending, particularly on defense and infrastructure, emerged as a central theme. "There's a big push in Europe when it comes to public spending, especially around the theme of defense," Yael explained, citing Germany's "very large budget that is covering not only defense but also infrastructure spending." The potential for these investments to drive both short-term GDP and long-term productivity growth is significant. There are also EU funds that need to be spent before the end of the current budget period at the end of 2026, which could help support activity especially in some of the smaller economies. However, Yael was quick to temper expectations: "It remains to be seen how much of it will be spent."

Fiscal constraints loom large. "We have some of the large economies like France and the UK, with very high debt and deficit, and that will restrict government spending in the coming years," Yael warned. While the European Commission has allowed a modest relaxation of the fiscal rules, and "generally we will probably see a more relaxed attitude to public sector finances in Europe and definitely a resolve to spend more on defense and related areas such as infrastructure and dual-use technology.

Looking ahead, Yael's outlook was measured but not bleak. "We expect most countries to either grow at a similar level to what we're expecting this year in 2026 or maybe even more strongly than this year. So, I'd describe 2026 as you're planning ahead as a relatively positive year for Europe." The real test, she suggested, will be "how far public spending will pick up and what is that additional spending that we're expecting is going to be on, whether it will drive stronger growth in the medium to longer term and then ultimately how will we pay for that additional spending given that the fiscal envelope is relatively tight overall in Europe." For executives, the message is clear: Europe's economic path is neither boom nor bust, but a careful negotiation between ambition and constraint. The coming years will demand agility, fiscal prudence, and a keen eye on both Brussels and Washington.

Trade, too, is in flux. "The US is a major trading partner for the European economies," Yael reminded her audience. While the EU has negotiated what she described as "a relatively good deal with the US," tariffs will still bite. "We expect the EU economy as a whole to be about 1 percent smaller by the end of 2026 because of the US tariffs," she stated, with the impact varying by country and sector.

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European economy projections

			GDP
	2024	2025	2026
Austria	-1.3	0.1	1.1
Belgium	1.0	1.1	1.2
Denmark	3.7	2.4	1.8
France	1.1	0.6	0.6
Germany	-0.2	0.2	1.2
Ireland	1.2	10.6	0.2
Italy	0.5	0.6	0.7
Luxembourg	0.4	1.1	1.8
Netherlands	1.0	1.4	0.7
Norway*	0.6	1.6	1.9
Poland	2.9	3.4	3.3
Portugal	1.9	1.9	2.1
Spain	3.2	2.7	2.0
Sweden	0.9	1.3	2.1
Switzerland	1.3	1.2	1.4
United Kingdom	1.1	1.2	1.1

Note: Year-on-year growth rate in real GDP. *Norway is measured as mainland GDP

Source: KPMG projections using the Oxford Economics Global Economic Model, 2025.

Top EMA economic signals to watch

- Accelerated defense and infrastructure spending, especially in Germany, with possible implications for long-term growth and productivity.
- Interest rates stabilizing at higher levels, with European central banks nearing the end of their easing cycle.
- Subdued consumer confidence and uncertainty over whether lower rates will boost spending, given high household savings rates.
- Fiscal constraints in large economies, like France, and the UK, limiting future public spending, despite temporary EU deficit leeway.
- Tariff impacts expected to reduce EU GDP by about 1 percent by end of 2026, with country-level variation based on US export exposure.

Asia-Pacific region

In a region famed for its dynamism, Brendan Rynne offered a nuanced portrait of Asia-Pacific's economic fortunes — one where resilience is real, but so too are the cracks beneath the surface. "Generally, I think we'd argue that the ASPAC region has held up pretty well for the first half of 2025," Brendan began. Still, he was quick to add that the expected fallout from US trade policy "really hasn't materialized to the extent previously anticipated." The reason, he suggested, is less about economic immunity and more about timing: "Many of those tariffs are in fact lower than what was originally anticipated earlier in the year."

The ASPAC region has held up pretty well for the first half of 2025, but the expected fallout from US trade policy really hasn't materialized to the extent previously anticipated.

Brendan's analysis was unsparing in its detail. He divided the region's economies into three categories: those outperforming expectations, those maintaining steady growth, and those falling behind. "Unfortunately, there are more countries in the falling behind category in ASPAC than those that are running ahead," he noted, singling out New Zealand and Vietnam as cautionary tales. New Zealand's economy, he observed, "shrank by a touch under 1 percent in the second quarter of this year," a contraction "nearly three times as worse" as anticipated. The malaise was broad-based, with "the construction sector remaining in decline, the manufacturing sector being hurt by slowing goods exports and the services sector remaining weak as tourism stagnates." The upshot: markets are now pricing in steeper rate cuts, with the Reserve Bank of New Zealand potentially slashing rates by 50 basis points.

Vietnam, too, faces headwinds. The government's ambitious target of "low to mid 8 percent GDP growth in 2025" is likely to be missed, with Brendan forecasting "growth is more likely only to be around 7 percent." Exports to the US fell by 16 percent between May and August, a stark reminder of the region's exposure to shifting trade winds. Traditional export sectors — textiles, footwear, wood products — have all recorded negative growth, while the government scrambles to accelerate public investment and capital deployment.

Yet not all is gloom. Taiwan and Japan, Brendan noted, have outperformed, at least in the short term. Taiwan's "strong year-to-date growth" was driven by "front-loading of export activity," though he warned that "the latest PMI data suggests business conditions across Taiwan's manufacturing sector continued to worsen in August." The divergence between "buoyant exports and sluggish domestic consumption" is becoming "increasingly stark," raising questions about the durability of growth should household spending fail to recover.

Japan, long the region's economic outlier, now finds itself in a rare position of strength. "Japan has been the odd man out economy for the past 35 years. However, it now appears that Japan is finally escaping the clutches of secular stagnation," Brendan remarked. He credited structural reforms, particularly the "increase in the female participation rate," for underpinning a "self-sustaining link between labor income and consumer spending." The Bank of Japan, meanwhile, remains an outlier among central banks, with policy rates poised to rise even as other central banks cut.

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China, the region's heavyweight, presents a study in contrasts. GDP grew by 5.3 percent in the first half of the year, "exceeding the government's 2025 growth target of around 5 percent." Yet, Brendan cautioned, "the second half does look challenging." Exports face tariff headwinds, the property market downturn is "weighing on household confidence," and "consumption is likely to stay weak." Despite a 300-billion-yuan stimulus program and further fiscal injections on the horizon, retail sales growth is slowing, and "real estate investment continues to be a major drag," down 13 percent year-over-year in August. The specter of "involution" — a phenomenon characterized by overproduction and price wars — has led to deflationary pressures, particularly in the electronics and automotive manufacturing sectors.

For executives in manufacturing, construction, consumer goods, and financial services, Brendan's message is clear: the region's famed resilience is being tested by a confluence of trade disruptions, sectoral imbalances, and policy divergence.

"ASPAC remains a regional powerhouse for economic activity," he concluded, but warned that "the region's high dependency on goods manufacturing and trade… will hurt economic growth in the short term."

Looking ahead, the Asia-Pacific's path will be shaped by its ability to adapt — whether through policy innovation, sectoral rebalancing, or deft navigation of global trade currents. For boardrooms and policymakers, the imperative is to remain vigilant, agile, and ready to seize opportunity amid uncertainty.

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Top Asia-Pacific economic signals to watch

- Mixed growth performance: Japan and Taiwan outperforming expectations due to front-loaded exports, while New Zealand and Vietnam lag due to weak construction, exports, and tourism.
- China's growth exceeding targets in H1 but facing headwinds from tariffs, property market weakness, and subdued consumption.
- Central banks in the region adjusting rates, with Japan considering hikes while others prepare for cuts amid slowing growth.
- Export slowdowns, especially to the US, and government stimulus measures in China and Vietnam to support growth.
- Risks from "involution" and deflation in China, with price wars and overcapacity in key sectors like electronics and autos.

How organizations can respond

As global volatility becomes the new normal, Svilena Tzekova delivered a clarion call for organizations to respond with precision, agility, and a relentless focus on value. "Organizations are being really, really choiceful in terms of how they weather the geopolitical and economic challenges," Svilena argued, underscoring the imperative for leaders to act decisively amid uncertainty.

Svilena's framework for organizational response is built on three pillars: efficiency, effectiveness, and experience. Drawing on research across 250 senior leaders, she revealed that "84 percent of them… told us their number one priority is cutting costs and driving efficiencies." This statistic, she noted, is not just a reflection of economic headwinds but a signal that cost discipline is now a strategic lever for survival and growth.

Efficiency: Reinventing the operating model

In the pursuit of efficiency, Svilena spotlighted the reinvention of shared services and the rise of new delivery models. "Offshoring and nearshoring are still very topical, notwithstanding the challenges tariffs might potentially present," she observed. Still, the real disruption is coming from "no shoring"— the delivery of activities through digital tools, particularly agentic AI, which "removes the location dependency from the picture." This shift, she warned, will "fundamentally rewire how business services are delivered," disrupting traditional business process outsourcing (BPO) models and moving the focus from labor arbitrage to "intelligence arbitrage."

Svilena emphasized the growing importance of partner ecosystems, noting, "No one's got the full answer and therefore you need to bring the right capabilities to the table, and you might need to involve multiple parties." For sectors such as financial services, technology, and global business services, this means rethinking vendor relationships and investing in digital maturity.

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Effectiveness: Breaking down silos and accelerating decision-making

Effectiveness, in Svilena's view, is about "pace, agility in a changing climate, and agility particularly in decision making." She identified a persistent challenge: "Every function operates in isolation," driven by misalignment between executive and functional leaders. While executives push for "enterprise-wide transformations," functional leaders often prefer incremental improvements within their domains. This disconnect, she argued, is "partly a consequence of cultural factors and norms and partly a consequence of how the organizations are currently structured."

To overcome these barriers, Svilena advocated for organizing around value streams — structuring teams and operations to follow where value is created and eroded, rather than along traditional functional lines. She cited emerging trends, such as the convergence of HR and IT, as evidence that forward-thinking organizations are already moving in this direction.

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Experience: Orchestrating human and digital capabilities

Beyond cost and productivity, Svilena urged leaders to focus on "delivering superior experience for customers, suppliers, employees and for the broader stakeholders as a means of differentiation." She highlighted that up to 50 percent of services are now delivered virtually or on demand. Still, she cautioned that "the human capabilities are equally important and as is the interplay, the orchestration between human and digital capabilities."

Digital maturity, she argued, is the key enabler: "Less digitally mature organizations are most likely to perpetuate the functional silos and where the digital maturity increases, this is where the appetite and the scope for transformation increases as well." The path forward, she suggested, is to redesign roles for flexibility, blend physical and digital environments, and leverage both internal and external talent through talent marketplaces.

A call to action for leaders

Svilena's message to business executives and boardrooms is unambiguous: the future belongs to those who can optimize efficiency, effectiveness, and experience in tandem. "Technology and technology adoption are a massive lever across all three E's," she concluded, but it must be paired with workforce transformation and a willingness to break down entrenched silos. In a world of contradictory signals, the organizations that thrive will be those that act with clarity, invest in digital maturity, and orchestrate their human and technological assets with purpose.

Technology and technology adoption are a massive lever across all three Es — Efficiency, Effectiveness, and Experience - but it must be paired with workforce transformation and a willingness to break down entrenched silos.

5 strategic moves businesses leader can make now

- Prioritize cost efficiency through digital reinvention and "no shoring" models
- Break down functional silos by organizing around value streams, not departments
- Accelerate decision-making and foster agility at all levels
- Invest in digital maturity and partner ecosystems to drive transformation
- Blend human and digital capabilities to deliver superior stakeholder experiences

Roundtable discussion

The webcast concluded with a moderated discussion and Q&A session, where the speakers addressed questions from the audience. Moderator Regina Mayer posed several audience submitted questions to the panel.

AI and labor markets: The productivity paradox

The discussion opened with a focus on artificial intelligence and its impact on labor markets. Diane Swonk invoked the "Solow Paradox," noting, "We can see the computer age everywhere but in the productivity statistics." She revealed that in the first half of the year, AI investments accounted for over one-third of US GDP growth — "0.5 percent of a 1.4 percent average growth rate"— yet adoption among large firms had actually deteriorated. Diane cautioned that the gap between technological potential and realized productivity is often due to organizational silos: "Companies adopt technologies before they know how to use them and also suffer a setback in productivity growth instead of the gains we want to see."

Workforce strategies: Breaking down silos for innovation

Building on Diane's analysis, Svilena Tzekova argued that "you can't see the benefit of innovation and AI adoption unless you reorganize your workforce." She stressed the critical link between HR and technology departments, stating, "That link with the HR department is absolutely critical and the only way to get that return is actually look at that organization's redesign." Svilena's research highlighted that digital maturity is a key differentiator: organizations that perpetuate functional silos struggle to realize the full value of AI and innovation, while those that blend human and digital capabilities are better positioned for transformation.

Risk frameworks: Distinguishing cyclical from structural volatility

Turning to risk management, Yael Selfin provided a framework for distinguishing between cyclical and structural volatility. "One of the things that is really helpful when you have an independent central bank… is that there's an inflation target," she explained. This allows executives to separate short-term price shocks from long-term trends. Yael emphasized that productivity growth and demographic shifts — such as aging populations — are structural forces that shape output and investment decisions. "If you have an uplift in the gross trend in productivity, you will see stronger growth and vice versa," she noted, urging leaders to look beyond headlines and focus on underlying economic fundamentals.

Climate commitments vs. energy security: Pragmatism over ideology

The roundtable's final segment addressed the collision between climate commitments and energy security. Stefano Moritsch argued that "pragmatism is in a way overtaking ideology," especially as governments grapple with the energy trilemma: security, affordability, and sustainability. He observed that the world is far from a unified regulatory approach — "We don't have a global carbon price that would help business plan for the future"— and that energy transition is "more twists and turns… a winding road rather than a linear trajectory." Stefano's analysis was particularly relevant for executives in energy-intensive sectors, as he highlighted the need to navigate fragmented policies and balance carbon management with business value.

Key takeaways

For global leaders, the webcast's message was clear: success in today's environment requires a willingness to challenge legacy structures, invest in digital maturity, and adopt risk frameworks that distinguish signal from noise. As AI, energy, and economic volatility reshape the landscape, those who act with clarity and pragmatism will be best positioned to thrive.

01 | **Break down organizational silos to unlock AI value:** The roundtable discussion underscored that digital transformation and AI adoption yield results only when organizations redesign their workforce and foster collaboration between HR and technology functions. As one expert noted, "You can't see the benefit of innovation and AI adoption unless you reorganize your workforce." Leaders should prioritize cross-functional integration to accelerate productivity and innovation, especially in sectors facing rapid technological disruption.

02 | **Distinguish cyclical shocks from structural change:** Executives should separate short-term volatility from long-term trends by focusing on central bank targets and productivity growth. This distinction is vital for investment and risk decisions in industries exposed to inflation, labor market shifts, or demographic change. Leaders should build risk frameworks that identify which disruptions are transient and which require strategic adaptation.

03 | **Balance growth ambitions with resilience:** With AI investments now driving over a third of US GDP growth, the temptation to pursue rapid innovation is strong. However, premature technology adoption without organizational readiness can undermine productivity. Leaders should ensure that digital maturity and workforce capabilities keep pace with investment, particularly in global markets where competitive advantage is shifting.

04 | **Adopt pragmatism in energy and sustainability strategy:** The panel highlighted that energy transition is no longer linear, with governments prioritizing security and affordability alongside climate goals. "Pragmatism is overtaking ideology," Stefano observed, urging executives in energy-intensive sectors to adapt to fragmented regulatory environments and balance carbon management with business value. Leaders should remain flexible and scenario-driven in sustainability planning.

05 | **Leverage contradictory signals as strategic intelligence:** The roundtable revealed that resilience often coexists with volatility — robust consumer spending may mask underlying inequalities, and resilient markets can hide sectoral weaknesses. Leaders should dig beneath headline metrics to identify actionable signals, using data-driven analysis to inform capital allocation, talent strategy, and market entry decisions across regions.

Sector outlooks

Different sectors face unique challenges and opportunities in today's complex environment. By understanding these sector outlooks, global leaders can better navigate the challenges and opportunities facing their respective industries and make informed strategic decisions.

Automotive

The webcast revealed that tariffs and shifting trade alliances are directly impacting automotive supply chains, particularly for firms exposed to US, EU, and Chinese markets. Asia (especially China and Vietnam) and Europe are most exposed to trade disruptions and supply chain volatility, while North American automakers should navigate evolving USMCA rules and potential cost increases. Leaders should accelerate localization strategies and explore alternative sourcing to maintain competitiveness.

The energy transition remains "messy, regionally fragmented, and full of trade-offs," with electrification and battery supply chains facing both policy support and headwinds. Automotive executives should balance investments in EV platforms with contingency plans for ongoing fossil fuel demand and regulatory uncertainty, especially in regions facing energy security risks.

Banking & Capital Markets

The panel highlighted a shift in central bank behavior, with the US Federal Reserve and European Central Bank moving at different speeds on rate cuts, and foreign central banks diversifying away from US Treasuries in favor of gold. The US faces elevated risks from government shutdowns, legal uncertainty over tariffs, and shifting central bank policies, while Latin America and emerging markets are exposed to capital flight and currency instability. This signals a more volatile funding environment and higher risk premia, requiring banks to stress-test liquidity and reassess sovereign exposures.

Persistent inflation uncertainty and sequential tariff shocks are normalizing higher price expectations among consumers and firms. Financial institutions should recalibrate credit risk models and product pricing to reflect a world where inflationary pressures may be more entrenched, especially in the US and Latin America.

Consumer, Retail & Leisure

Consumer spending is increasingly polarized, with the top 20 percent of households driving growth while the majority see stagnation after inflation. The US and Latin America are at risk from consumer spending polarization, persistent inflation, and sequential tariff shocks, while European markets face subdued consumer confidence and uncertainty around fiscal support. Retailers and leisure operators should tailor offerings to affluent segments while innovating value propositions for price-sensitive consumers.

Sequential tariff shocks and persistent inflation are reshaping demand patterns, particularly in food and discretionary categories. Leaders should enhance pricing agility and supply chain resilience to protect margins and capture shifting consumer preferences, especially in the US, Latin America, and Europe.

Energy & Natural Resources

The energy transition is not linear; fossil fuels still account for over 80 percent of global demand, and renewables are largely meeting new, not replacement, consumption. Europe and Asia are most exposed to energy security risks, regulatory fragmentation, and the challenge of balancing decarbonization with affordability, while the Middle East remains a geopolitical flashpoint with potential for supply disruptions. Leaders should adopt pragmatic strategies that balance decarbonization with energy security and affordability, investing in both traditional and renewable assets.

Regulatory fragmentation and the absence of a global carbon price complicate long-term planning. Executives should intensify scenario analysis, engage with policymakers, and leverage partnerships to navigate a "noodle bowl" of policies and capitalize on regional opportunities, with a focus on Europe, Asia, and the Middle East.

Industrial Manufacturing & Defense

Defense spending is surging, with European NATO partners targeting 3.5–5 percent of GDP by 2035, creating opportunities for new entrants and supply chains. Europe is at the epicenter of defense-driven industrial transformation, facing risks tied to supply chain realignment and regulatory fragmentation, while Asia's export-oriented manufacturers are vulnerable to US tariff shocks and shifting trade alliances. Industrial leaders should position for long-term government contracts and invest in dual-use technologies that serve both civilian and defense markets.

The speakers warned that regulatory fragmentation and ad hoc trade deals are complicating cross-border operations. Manufacturers should build flexibility into sourcing and production strategies and engage with policymakers to shape standards that support innovation and market access, with a focus on Europe's regulatory shifts and Asia's exposure to trade volatility.

Infrastructure & Transport

The webcast underscored that geopolitical fragmentation and rising defense budgets are reshaping infrastructure priorities, particularly in Europe, where public spending is shifting toward dual-use and resilience projects. Europe faces heightened risks from regulatory divergence and the urgency to upgrade infrastructure, while emerging markets may be vulnerable to capital outflows and delayed project execution as fiscal priorities shift. Leaders should anticipate increased government intervention and competition for capital and should proactively align investment strategies with evolving national security and climate agendas.

Supply chain disruptions and regulatory divergence are likely to persist, as "trade is no longer the stabilizer it once was," as Stefano noted. Executives should intensify scenario planning and diversify logistics networks to mitigate cross-border risks and capitalize on emerging regional trade blocs, with particular attention to Europe's evolving regulatory landscape and emerging market volatility.

Technology, Media & Telecommunications

The rapid adoption of AI and digital infrastructure is driving up global energy demand, intensifying the need for resilient and sustainable power sources. Asia-Pacific faces risks from export slowdowns, regulatory divergence, and energy supply constraints, while Europe and the US must contend with data localization, rising energy costs, and fragmented digital regulations. TMT leaders should prioritize energy procurement strategies and invest in efficiency to mitigate cost and reputational risks.

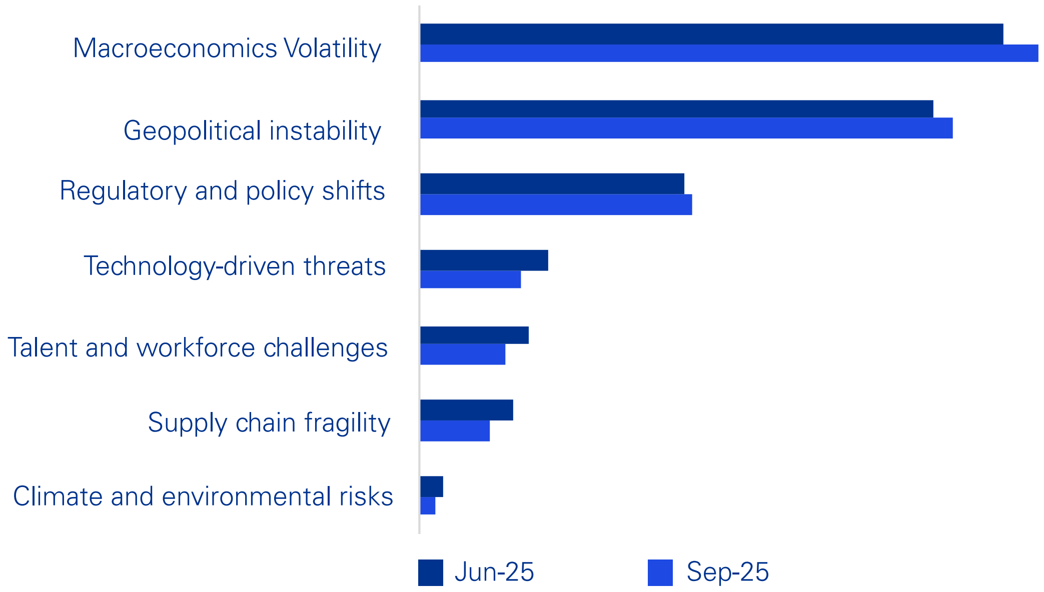
Regulatory divergence and data localization trends are fragmenting digital markets. Executives should adapt go-to-market models and compliance frameworks to navigate a world where "globalization isn't dead, but it's definitely more expensive," as Stefano observed, with particular vigilance in Asia-Pacific, Europe, and the US.

Audience insights

A snapshot of executives' concerns

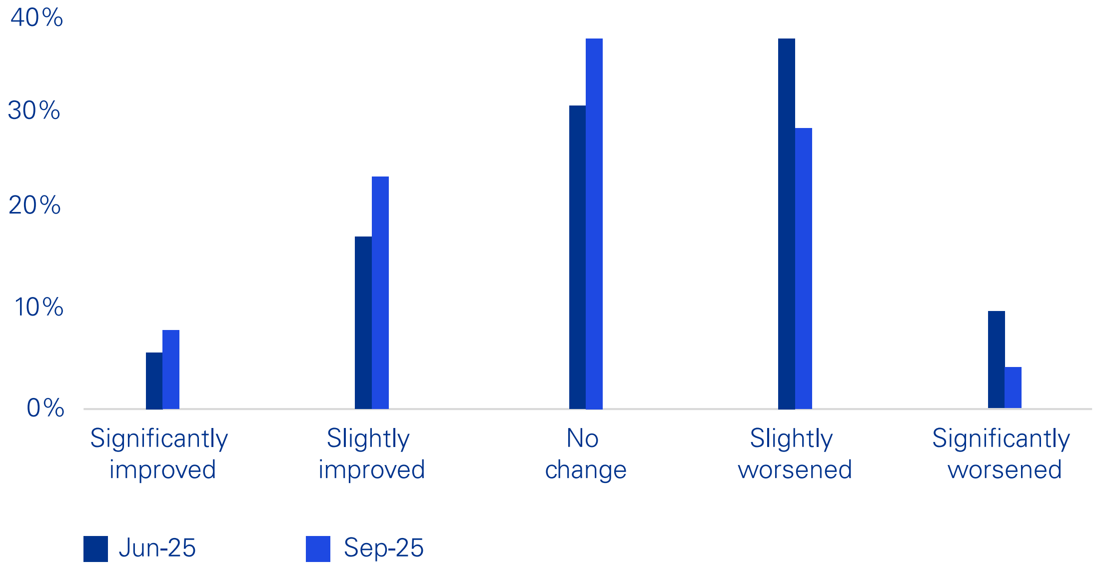
Our recent webcast polling reveals the top concerns and strategic priorities of business leaders in today's uncertain economic and geopolitical landscape. The results offer a compelling glimpse into the challenges and opportunities shaping executive decision-making.

Top external threats to businesses n=660



Source: KPMG Global Economic and Geopolitical Outlook webcast, KPMG International, September 2025.

Shifts in company growth outlook n=785



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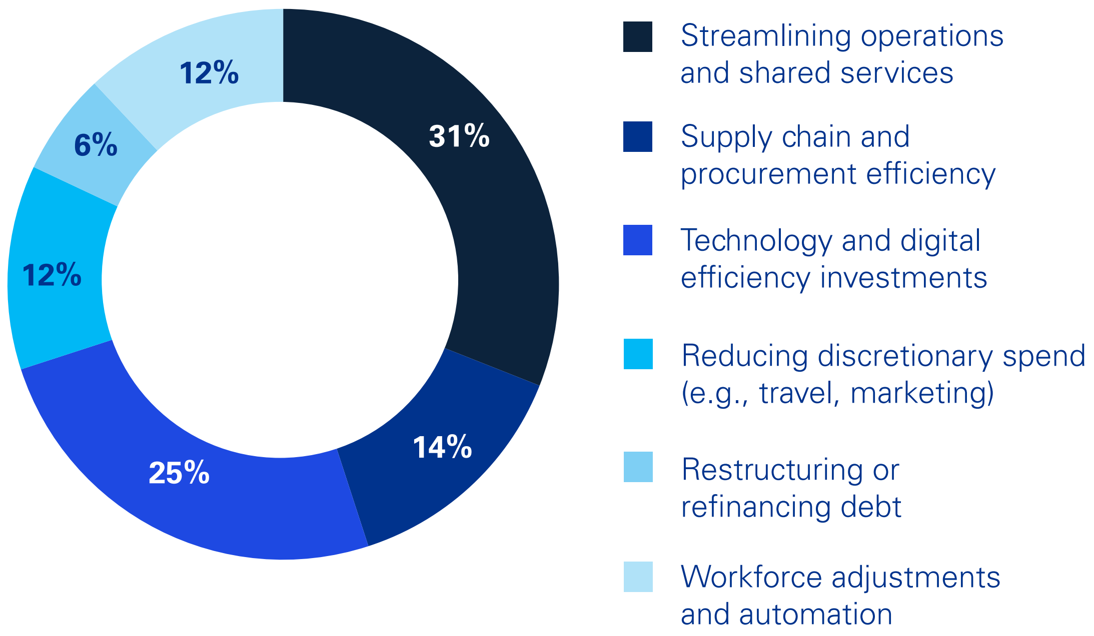
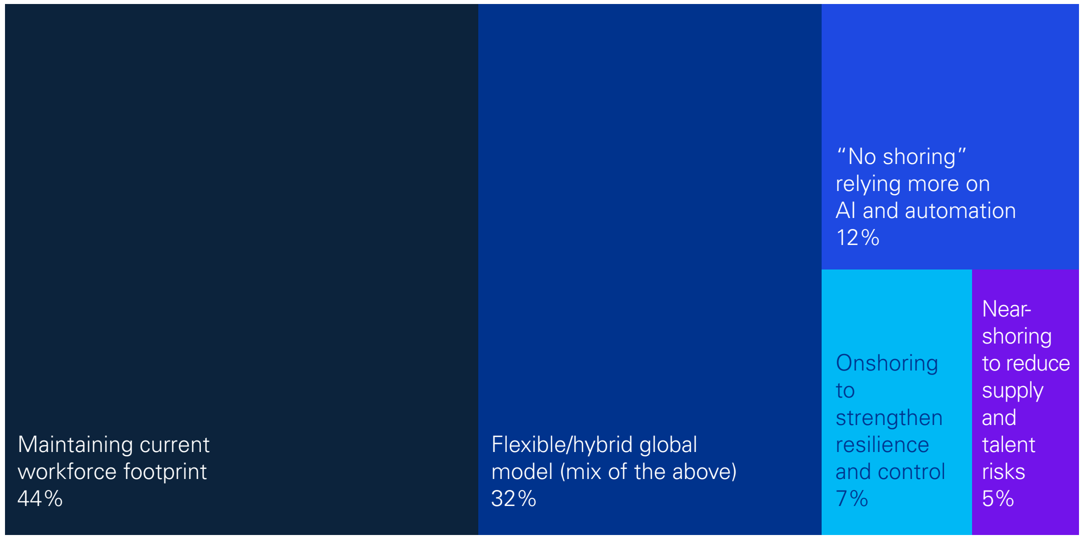
Cost reduction strategies in uncertain times n=772



Source: KPMG Global Economic and Geopolitical Outlook webcast, KPMG International, September 2025.

Workforce strategies in response to economic & geopolitical pressures n=725



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Contacts

Regina Mayor

Global Head of Clients & Markets,
KPMG International (Moderator)
rmayor@kpmg.com

Stefano Moritsch

Global Geopolitics Lead,
KPMG International
stefanomoritsch@kpmg.co.ke

Dr. Brendan Rynne

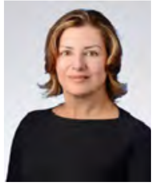
Asia Pacific Regional Chief Economist,
KPMG Australia
bjrynne@kpmg.com.au

Yael Selfin

Europe, Middle East and Africa Regional Chief Economist,
KPMG in the UK
yael.selfin@kpmg.co.uk

Diane Swonk

Americas Regional Chief Economist,
KPMG in the US
dswonk@kpmg.com



Svilena Tzekova

Global Head of Corporate Services
KPMG in the UK
svilena.tzekova@kpmg.co.uk

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