

EDITORIAL

2026 ECONOMIC OUTLOOK: CLEAR SKIES BUT DON'T UNFASTEN YOUR SEATBELTS YET

Most years fade into the background as soon as a new one starts. Not 2025: a year of epochal shifts, in which the macroeconomy was the dog that did not bark. What to expect in 2026? The shocks of 2025 will not be undone, but neither will they be repeated. Instead, their effects will work their way through the system, in ways that are unlikely to be linear and smooth. In the baseline scenario, the macroeconomy will remain a dog that does not bark, either out of alarm or joy. However, there are a few potential path changers to look out for. Chances are, then, that 2026 will not feel any smoother on a day-to-day basis than its predecessor. However, that will not mean good outcomes cannot be reached for those who keep their heads.

Most years fade into the background as soon as a new one starts. Not 2025: a year of epochal shifts, in which the macroeconomy was the dog that did not bark. Contrary to initial fears, there were no recessions –indeed solid growth prevailed almost everywhere– and no out-of-control inflation either. Labour markets proved resilient, and both stock and bond markets offered ju returns, especially in emerging markets. Yet, it was a year of pivotal shocks. Some were truly unexpected shifts, but most crystallised changes that had been years in the making.

The line between friends and foes became blurred. The 80-year-old rules-based multilateral economic order was splintered by its lead architect. US exceptionalism and the dollar's safe-haven role appeared challenged, and the dollar depreciated by 11% in nominal effective terms, the most since 1973. AI optimism became a key driver of investment and market valuations. The US GENIUS Act brought stablecoins and digital ledger technology (DLT)-based finance into the mainstream. Europe's illusions of global power and sovereignty were shattered, but its ambitions rekindled, and it has started at last to position itself for the massive heave required to deliver. Ultimately, powerful market forces and policy reactions (monetary, fiscal and structural) to the geo-economic shocks offset the uncertainty they caused.

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Our baseline scenario¹ is broadly more of the same: Steady growth in the US and the Eurozone (around 1.9% and 1.6%, respectively, the lowest differential in years, and better spread out than in 2025 across the Eurozone), and in most emerging markets; slight slowdowns can be expected in China, Japan and the UK. Inflation will remain well above target in Japan, the UK, the US and a number of emerging markets, but will, in most cases, head in the right direction, while staying on target in the Eurozone. There will be far fewer central-bank rate cuts globally, but that is because monetary policy will have reached a broadly neutral stance after being restrictive for three years. Fiscal policy, for its part, will be broadly neutral, keeping debt-to-GDP ratios rising in most countries and putting further upward pressure on long-term bond yields.

THE KNOWN UNKNOWNS

The Federal Reserve. President Trump is set to announce very soon his choice of successor for Fed Chair Jerome Powell when his mandate ends in May. This is a consequential decision, but, as things stand, not the biggest risk to Fed independence: all of the shortlisted candidates are qualified economists with policy-making experience, and they will need to persuade a majority of the members of the Fed's decision-making bodies² in order to impact Fed decisions. Equally, if not more important, will be the decision from the Supreme Court on the President's authority to dismiss Fed Governors, as ruling in favour of the White House would open the door to fundamental changes in the governance of the Fed. The case will be heard this month, with a decision likely by late spring. Markets have, thus far, not shown signs of doubting the Fed's ability to keep inflation under control; were this to change, downward pressure on the dollar would intensify and the term premium in long bond yields would rise further, steepening the yield curve.

Global trade. The US Supreme Court is imminently expected to deliver its ruling on the legality of nearly all of the bilateral tariffs imposed by President Trump last year. The likelihood of a decision against the administration is deemed high by trade experts. This would trigger a new wave of uncertainty, as the administration would be forced to seek alternative legal bases and to reconfigure its tariff structure, with a target-product focus instead of a country one. It would also create a large shortfall in the US federal budget, especially if the government has to refund paid tariffs. This could lead to an outright stimulative fiscal stance, along with higher long-term interest rates. Another important landmark for US trade policy will be the renegotiation of its agreement with Canada and Mexico (USMCA), with potential collateral impact on other trade partners, notably China. Outside the US, however, we expect the continuation of efforts by many countries to liberalise trade among themselves. Particularly interesting will be the growing change of mood in the UK in favour of seeking reduced trade barriers from the EU. The key downside risk is a flare-up of protection measures against Chinese exports, which keep gaining global market share. Experience from 2025 suggests that China could retaliate with export restrictions on critical parts of global supply chains, potentially causing production disruption and inflationary pressures.

¹ See : [Economic Outlook 2026-2027 in Advanced Countries: Solidity test and Emerging countries: economic growth remains solid but is not enough to stabilise public debt](#)

² Depending on the topic, these bodies are the Fed's 7-member Board and, for monetary policy in particular, the 19-member Federal Open Market Committee (FOMC), including Board members and 12 regional Fed chairs, 5 of whom vote (by annual rotation).



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AI. Will the frenzy around AI build-up and adoption continue, supporting lofty AI-adjacent stock valuation gains, and possibly leading to energy and semi-conductor shortages, and hence inflationary pressures? Or will we see a correction, as optimism over profits and productivity gains wanes, dealing a sharp blow to growth in the US and other countries, particularly in Asia where it has been largely fuelled by the AI boom?

Geopolitics. The prospect of a lasting ceasefire between Russia and Ukraine seems closer than ever. While its timing and robustness remains highly uncertain, peace would unleash significant geo-economic dividends for the region, both from a reduced risk premium and from reconstruction efforts, along with continued investments in collective security. 2026 will also be an election-heavy year, with national ones in Colombia (March and May), Hungary and Peru (April), Lebanon (May), Sweden (September), Brazil and Israel (October), the US (November) and likely Japan, and local ones with potential national ramifications in France (March) and UK (May).

THE UNKNOWN UNKNOWNS

Scientific breakthroughs. We are living in a golden age for science. AI and ever-increasing computing power are accelerating the pace of discoveries across scientific fields. Life sciences, materials and clean-energy are all ripe for pivotal breakthroughs, with potential macroeconomic impacts.

Wars and regime changes. The world is more conflict-prone without a global hegemon keen to dissuade aggression or a functional security council. The year opened with US-driven regime change in Venezuela, inevitably raising the odds of sudden change in other regimes, whether domestically or externally driven. A key lesson from history is that such events, disruptive as they are for those directly impacted, do not necessarily have global macroeconomic impact. They do, though, when critical supply chains — notably oil — are disrupted.

Chances are, then, that 2026 will not feel any smoother on a day-to-day basis than its predecessor. However, that will not mean good outcomes cannot be reached for those who keep their heads. Economists will be helped in this by celebrating the anniversaries of two of the most foundational writings of our dismal science: Adam Smith's *The Wealth of Nations*, turning 250 in March, and John Maynard Keynes' *General Theory of Employment, Interest and Money*, turning 90 in February.

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