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Half-Time Outlook 2026-27: AI Holds the Score, Growth Slows to +2.5%

Allianz Research
End of Q2 2026 updated economic and capital markets outlook

8 July 2026

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Half-Time Outlook 2026-27: AI Holds the Score, Growth Slows to +2.5% (1/2)

1 **Yellow card only: As the Middle East conflict de-escalates – despite temporary flare-ups – we expect only a mild slowdown in global growth in 2026 to +2.5%, followed by a rebound to +2.9% in 2027, broadly in line with our previous baseline outlook. AI is strongly propping up the global economy, offsetting the drag from the energy shock and the trade war.** The energy shock is still working through balance sheets, with consumer purchasing power recovering only in Q4 2026 and firms' profitability still exposed. The US is set to grow at +2.1% in 2026 supported by energy exports, a savings rate at its lowest since 2008, AI investment (a third of growth) and fiscal support (7.3% deficit). The Eurozone (ex-Ireland) will grow by just +0.9% in 2026 but rebound to +1.2% in 2027, held back by higher energy dependence, minimal AI offset and subdued growth in Germany as bold reforms are needed on top of the fiscal stimulus. China will stay resilient at +4.7%, led by exports and high-tech manufacturing, but faces headwinds from weak domestic demand and US tariffs. Global trade of goods will avoid a recession, growing by +2.9% in volume terms in 2026 and +2.4% in 2027 as the US trade war reloads with Section 301 following the expiry of Section 122 from 24 July, raising the US effective tariff rate from 8% to 13%.

2 **Has inflation been knocked out? The peak should already be behind us.** With oil flows normalizing and crude prices even falling back below pre-war levels, the energy shock should prove short-lived, limiting second-round effects on broader inflation and avoiding a repeat of the 2022 inflation surge. We still expect some volatility during US-Iran negotiations triggering temporary oil price spikes but overall we see them dropping to USD75/bbl and USD67/bbl by the end of 2026 and 2027. Gas prices are still higher compared to pre-war levels, but with EUR41/MWh expected at the end of 2026 and EUR32/MWh in 2027 they remain in the trading range of the past three years. This suggests a far more muted inflationary impact than in 2022, when prices surged by over 500% to above EUR300/MWh. Headline inflation should therefore reach central bank targets in 2027 in major economies. We expect the ECB to stay on hold at 2.25% (around neutral) after having already delivered one insurance hike in June, while the Fed will raise policy rates at least once this year to 4.0% amid persistent inflation, driven by strong AI-related investment demand, before a normalization back to 3.5% in H2 2027.

3 **The goalposts are shifting for corporates: Earnings held up in Q1 2026 but the delayed impact will hurt down the line.** Most European sectors posted positive EPS growth in Q1, while US earnings were buoyed by AI-driven tech. But a profitability squeeze might be building: Turnover growth was revised down for 12 out of 16 sectors, led by pharma (-2.0pps to 0%), utilities (–1.6pps), and motor vehicles (–1.3pps). Only electronics (+1.7pps to 11%), information & communication services (+0.7pps) and food & beverages (+0.4pp) bucked the trend. The auto sector remains most exposed via elevated net leverage meeting higher rates. Against this backdrop, we expect global insolvencies to increase by +4% in 2026 before plateauing in 2027.

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4 **Capital markets are playing the advantage, largely looking through near-term risks.** US rates should gradually decline to 4.35% by the end of 2026 and 4.1% in 2027 as inflation pressures and monetary tightening fade next year. German Bunds will hover around 3% amid ongoing supply pressures from quantitative tightening and a high fiscal deficit around 4% of GDP – above Italy and Spain. Equities remain supported by nominal growth and AI upside, although valuations leave little room for disappointment and relative value becomes more relevant. After strong year-to-date gains, further upside in 2026 looks limited with our full-year forecast of 13% total return for the S&P500 and 14% for the Eurostoxx, but in 2027 we see ongoing solid performance of 11% on both sides of the Atlantic. EM stocks are leading the charts (29% total return expected for 2026) driven by the strong weight of top South Korean and Taiwanese semiconductor companies in the index. Credit markets should continue to deliver attractive carry, even as ultra-tight spreads leave valuations stretched and skew risk to the downside. Rising issuance and falling interest coverage ratios are likely to drive a mild widening in spreads over the next two years – but elevated carry should still be enough to offset those valuation losses. Private markets remain a story of rising dispersion, with AI-related infrastructure and high-quality private credit outperforming more challenged segments.

5 **More shocks ahead? The number of risks ahead has certainly not decreased.** AI is doing the heavy lifting that geopolitics and fiscal policy cannot. But it is also concentrated, unevenly distributed and itself a source of downside risk if delivery disappoints as it would hit trade, investment and consumption. In addition, global policy uncertainty remains well above trend, with many risks ahead including a reloaded escalation of the trade war, US midterm elections, a subdued German fiscal push and polarization ahead of upcoming elections in key European countries. Climate risks remain omnipresent – the latest heatwave in Europe has passed, but risks of a severe El Nino year are still looming. Labor markets are still tight, but the medium-term outlook is more fragile. In several European economies, AI-driven layoffs could outweigh productivity gains, ultimately weighing on growth.

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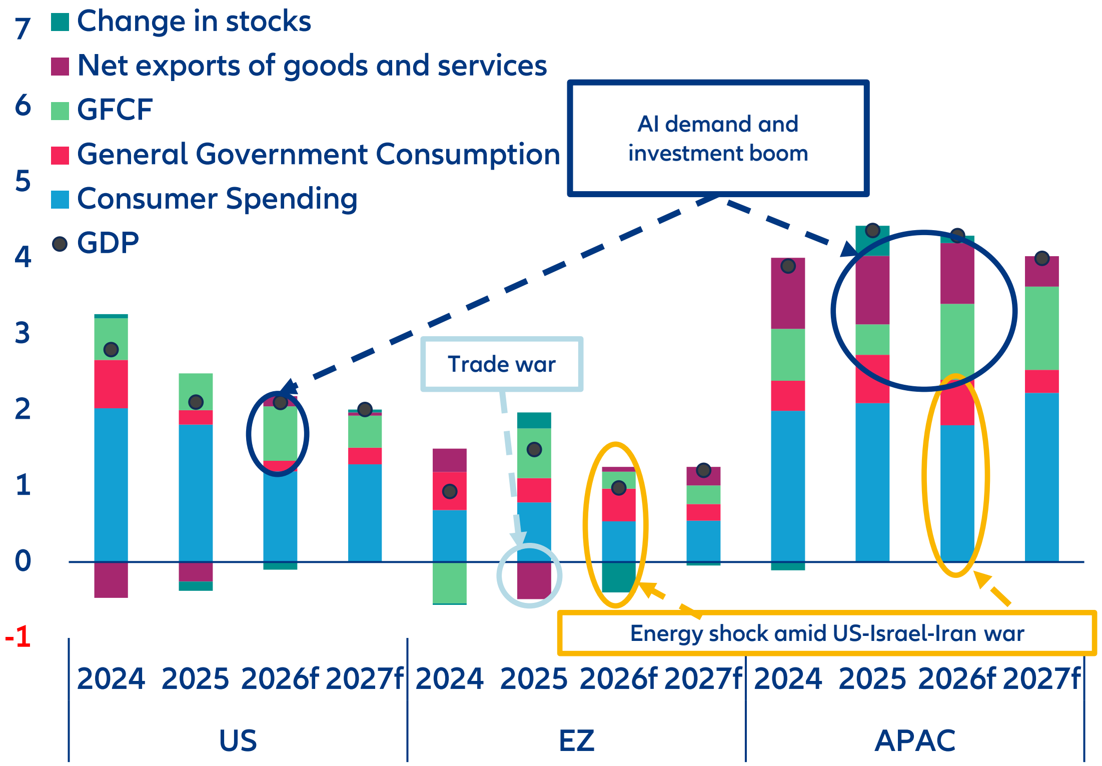
The ongoing AI boom keeps economic growth resilient in the current polycrisis environment

Three shocks, three regions, one winner

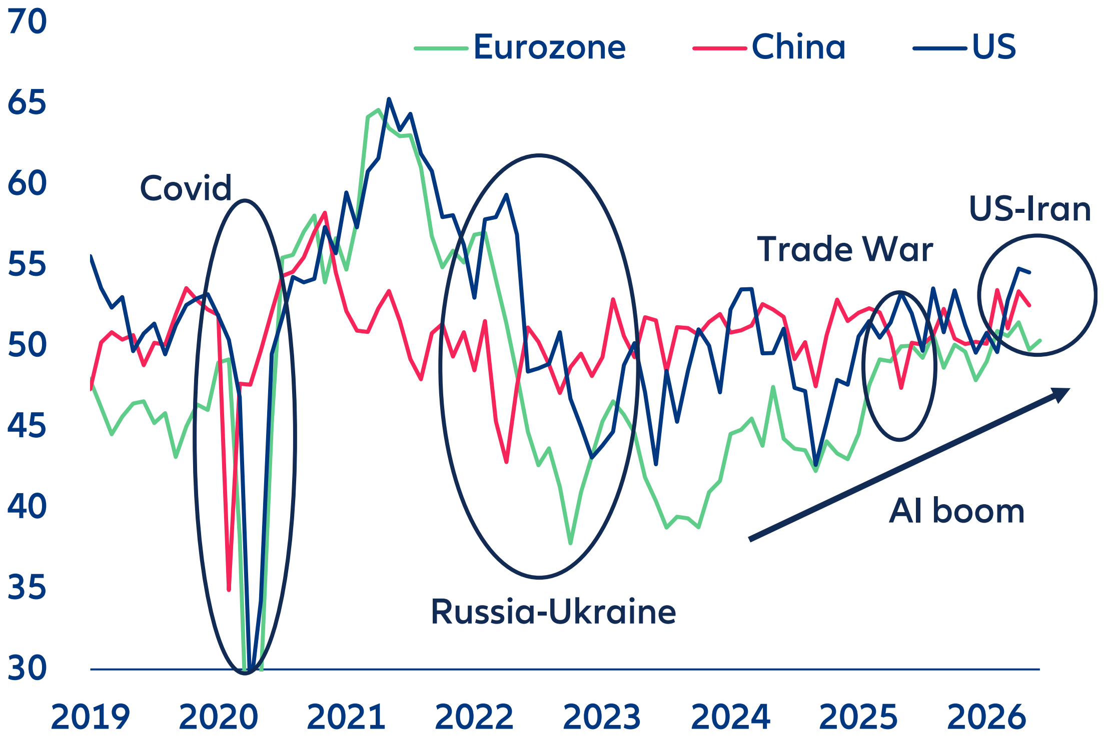
Contribution to annual GDP growth, %



Sources: LSEG Datastream, Allianz Research.
Note: for EZ forecast we use the DE, FR, IT, ES to have a proxy of component breakdown.

Manufacturing new orders picking up amid AI buildout & frontloading and despite global shocks

PMI new orders manufacturing index



Sources: LSGE Datastream, Allianz Research

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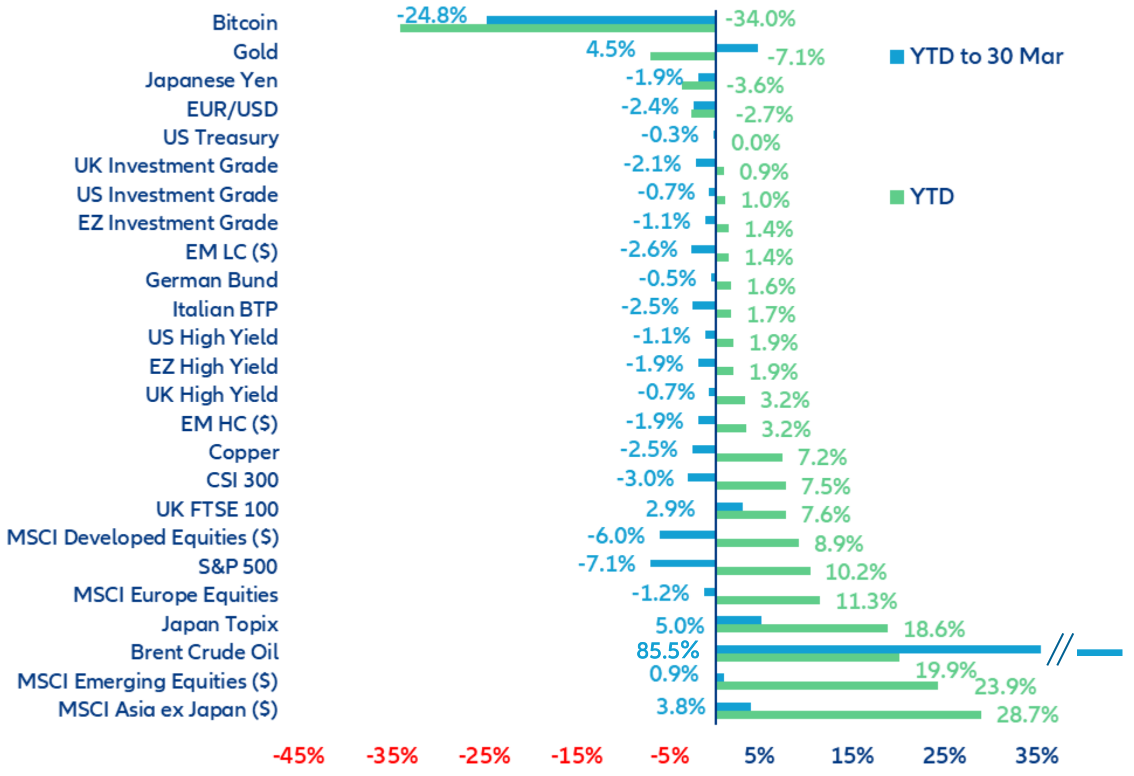
Markets ride the AI euphoria while disconnecting from uncertainty and risks ahead

Markets swung from fear to cheer despite a plethora of risks ahead

Total return of selected assets, %



Sources: LSEG Datastream, Allianz Research. Data as of 01/07/2026

Global economic policy uncertainty considerably above trend

Index

Sources: LSGE Datastream, Allianz Research

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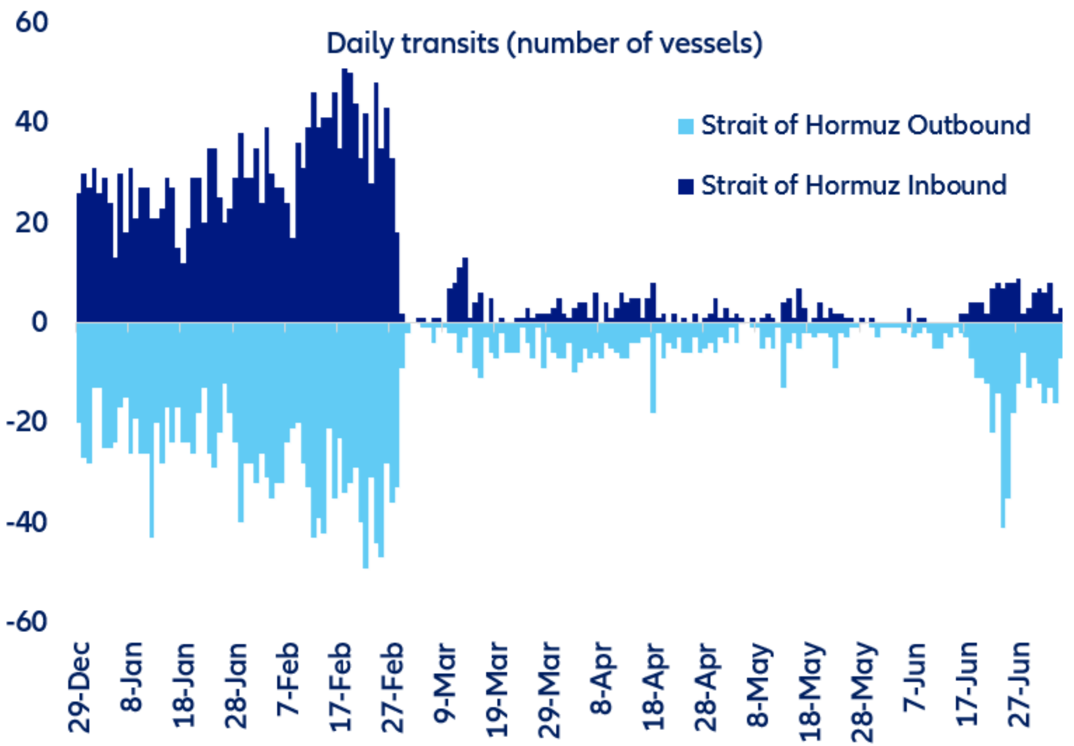
Hormuz normalization will be slow, frictional, and reversible

Hormuz traffic remains far below pre-war levels but is slowly increasing

Number of Vessels crossing Hormuz Strait (7 day rolling total)



Sources: Bloomberg, Allianz Research

Past evidence suggests a gradual, phased reopening — security normalization takes longer than physical clearance

Previous event	Situation	Initial flow recovery	Full normalization period	Notes
1980s Iran-Iraq conflict	Hormuz was a warzone (mine-laying and ship attacks)	~20-30% within weeks	Several (3 to 4) months	Naval escorts & mine clearance needed
2019 US-Iran tensions	Ship attacks and sabotage. No mine-laying reported	Partial flow (30%-50%) within a week	Several weeks	Insured vessels resumed first
2021 Suez Canal blockage	Ever Given ship got stuck for 6 days. 100% operational blockage	Partial flow within hours	The backlog fully cleared in 2 weeks (over 400 ships were delayed)	Smaller vessels could sometimes move around shallow areas
2026 Feb - Jun US-Iran conflict	Hormuz is a warzone (mine-laying and ship attacks)	15-30% initially (3–6 mn bpd)	2 to 5 months (cautious scale-up)	Dependent on security guarantees

Sources: Allianz Research

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Oil markets are well-supplied, but super-glut remains a risk

Brent Matrix: Supply normalization drives prices lower

USD/BBL

DEMAND SHOCK (Mbpd)

SUPPLY SHOCK (Mbpd)

S \ D	-5	-4	-3	-2	-1	0	1	2	3	4	5
-5	$85	$90	**$95**	$100	$105	$110	$115	$120	$125	$130	$135
-4	$80	$85	**$90**	$95	$100	$105	$110	$115	$120	$125	$130
-3	$75	$80	$85	$90	$95	$100	$105	$110	$115	$120	$125
-2	$70	$75	$80	$85	$90	$95	$100	$105	$110	$115	$120
-1	$65	$70	$75	$80	$85	$90	$95	$100	$105	$110	$115
0	$60	$65	$70	$75	$80	**$85**	$90	$95	$100	$105	$110
1	$55	$60	$65	$70	$75	**$80**	$85	$90	$95	$100	$105
2	$50	$55	$60	$65	$70	**$75**	$80	$85	$90	$95	$100
3	$45	$50	$55	$60	$65	$70	$75	$80	$85	$90	$95
4	$40	$45	$50	$55	$60	$65	**$70**	$75	$80	$85	$90
5	$35	$40	$45	$50	$55	$60	$65	$70	$75	$80	$85

Hormuz closed: supply down ~5 Mbpd, demand down ~3 Mbpd.

Pricing around MoU: normalizing supply & demand.

2026 Q3: demand normalizes, higher supply.

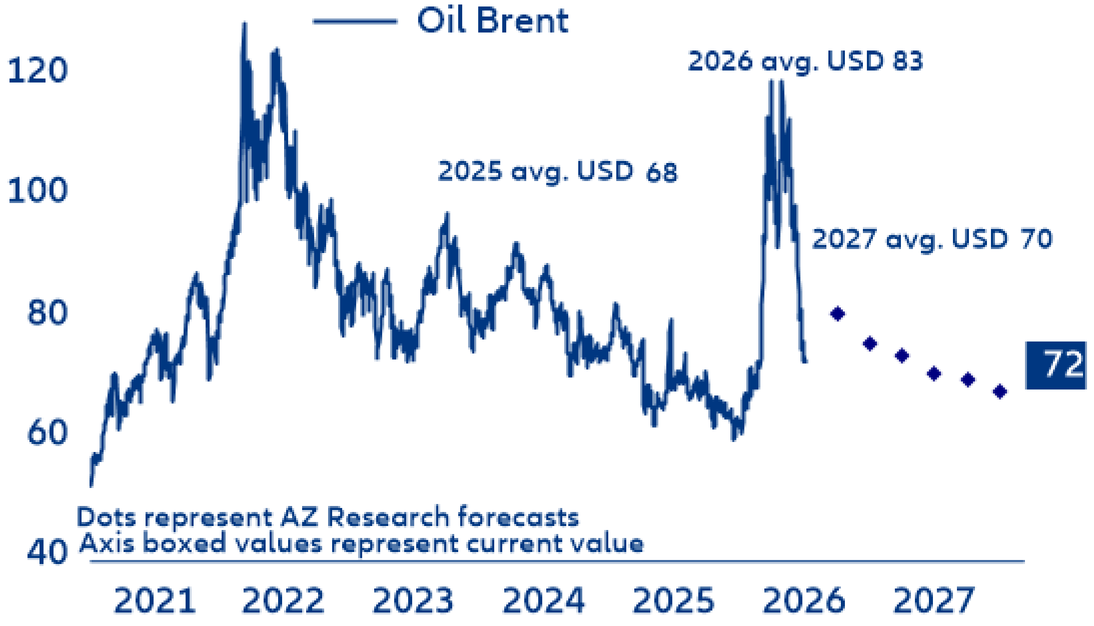
2026 Q4: further supply increase.

2027: supply up via Iran, OPEC and non-OPEC (e.g. Venezuela); demand boosted by restocking.

Source: Allianz Research

Brent forecast

USD/BBL



Sources: LSEG Datastream, Allianz Research

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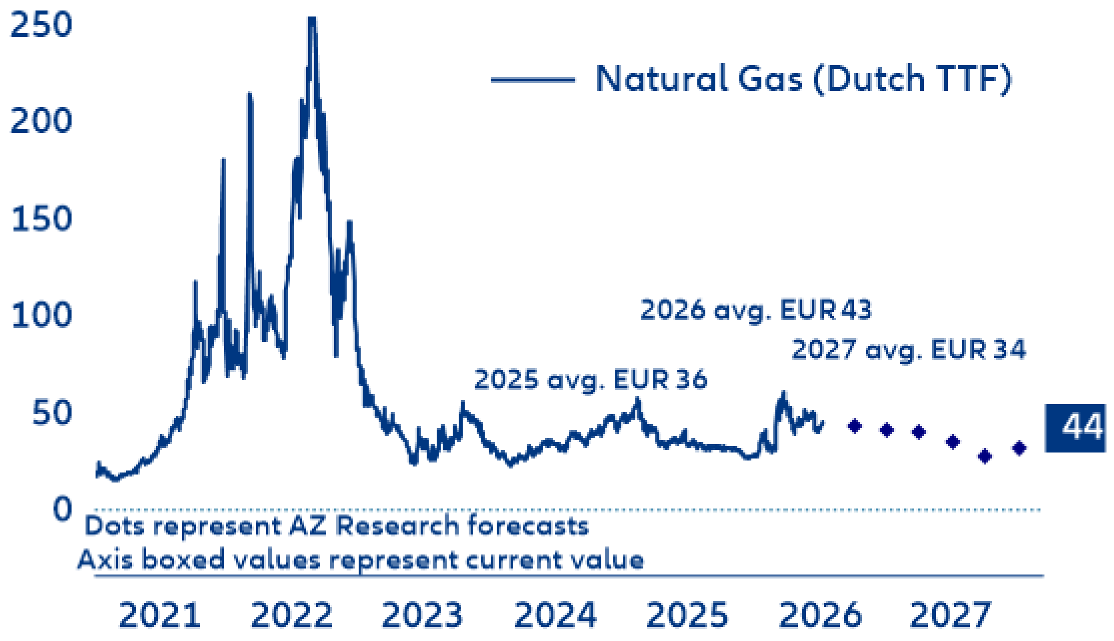
Gas prices will remain above pre-war levels by 2027

Natural gas forecast

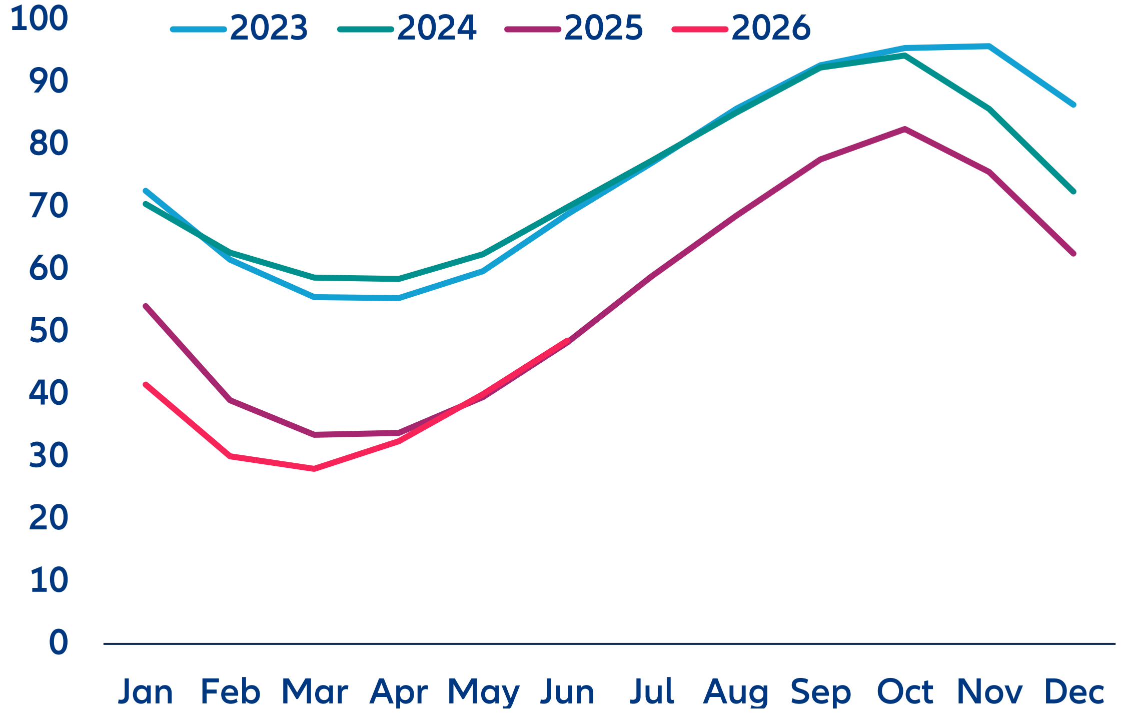
EUR/MWh



Sources: LSEG Datastream, Allianz Research

EU will be able to further catch up its gas restocking

%



Sources: AGSI, Allianz Research

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Inflation is likely to return to pre-war levels in 2027

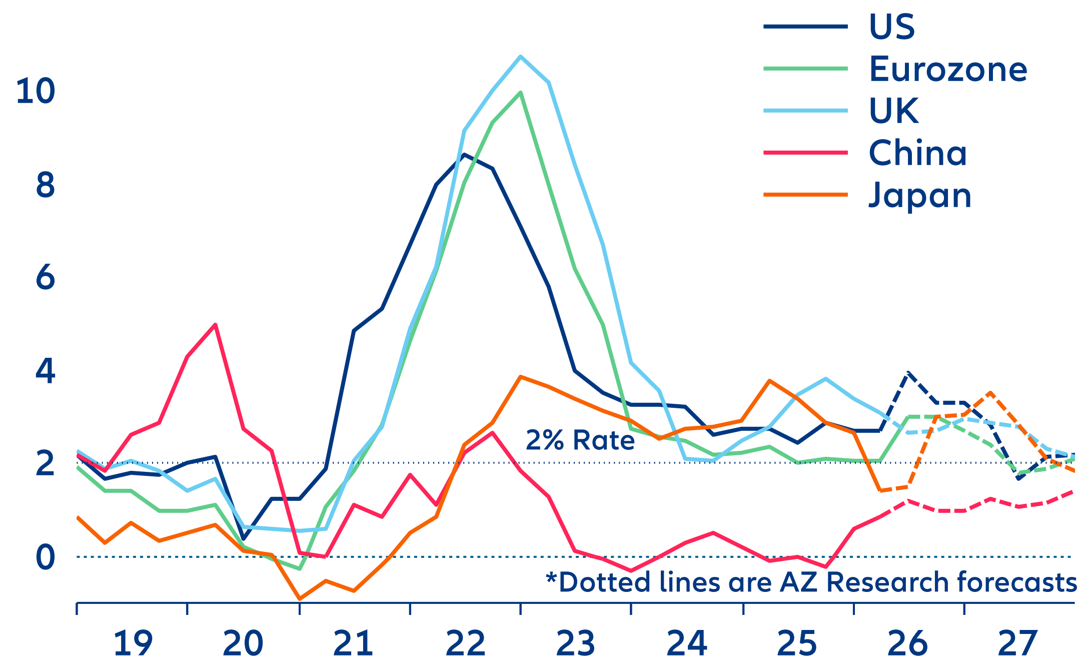
Inflation rate forecasts

%

Inflation (yearly %)	2023	2024	2025	2026f	2027f
Global	**6.1**	**4.7**	**3.8**	**5.1**	**3.3**
USA	**4.1**	**3.0**	**2.7**	**3.3**	**2.2**
Latin America	**14.8**	**16.6**	**7.6**	**4.0**	**3.3**
Brazil	4.6	4.4	5.0	4.7	3.7
UK	**7.4**	**2.5**	**3.4**	**2.9**	**2.5**
Eurozone	**5.5**	**2.4**	**2.1**	**2.7**	**2.1**
Germany	6.0	2.3	2.2	2.6	2.2
France	4.9	2.0	0.9	1.7	1.3
Italy	5.7	1.0	1.5	2.7	2.1
Spain	3.6	2.8	2.7	3.1	2.1
Central and Eastern Europe	**11.2**	**3.9**	**5.0**	**4.4**	**3.3**
Poland	11.6	3.8	3.8	3.0	2.6
Russia	5.9	8.4	8.7	7.0	7.0
Türkiye	53.4	60.0	35.2	31.2	22.2
Asia-Pacific	**3.1**	**2.2**	**1.3**	**2.3**	**2.1**
China	0.2	0.2	0.1	1.0	1.2
Japan	3.3	2.7	3.2	2.4	2.2
India	5.7	5.0	2.2	4.5	4.0
Middle East	**16.5**	**10.6**	**13.8**	**17.8**	**10.2**
Saudi Arabia	2.5	1.5	2.0	2.5	2.4
Africa	**17.0**	**15.1**	**8.7**	**10.2**	**11.4**
South Africa	5.9	4.5	3.2	4.3	3.9

Inflation close to peak in US and EZ

Quarterly inflation y/y in %

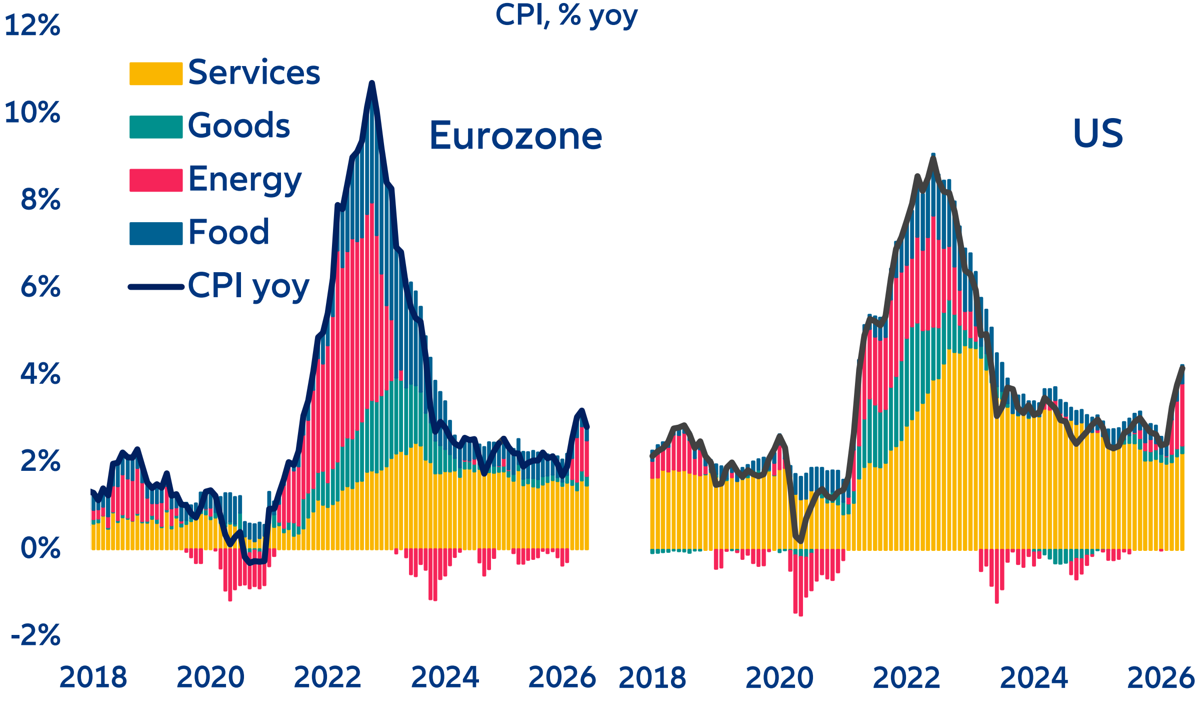


Sources: LSEG Datastream, Allianz Research

The contained energy shock will not lead to second round effects but other risks loom for inflation

2026 energy shock is much smaller than 2022 with second round effects also expected to be marginal

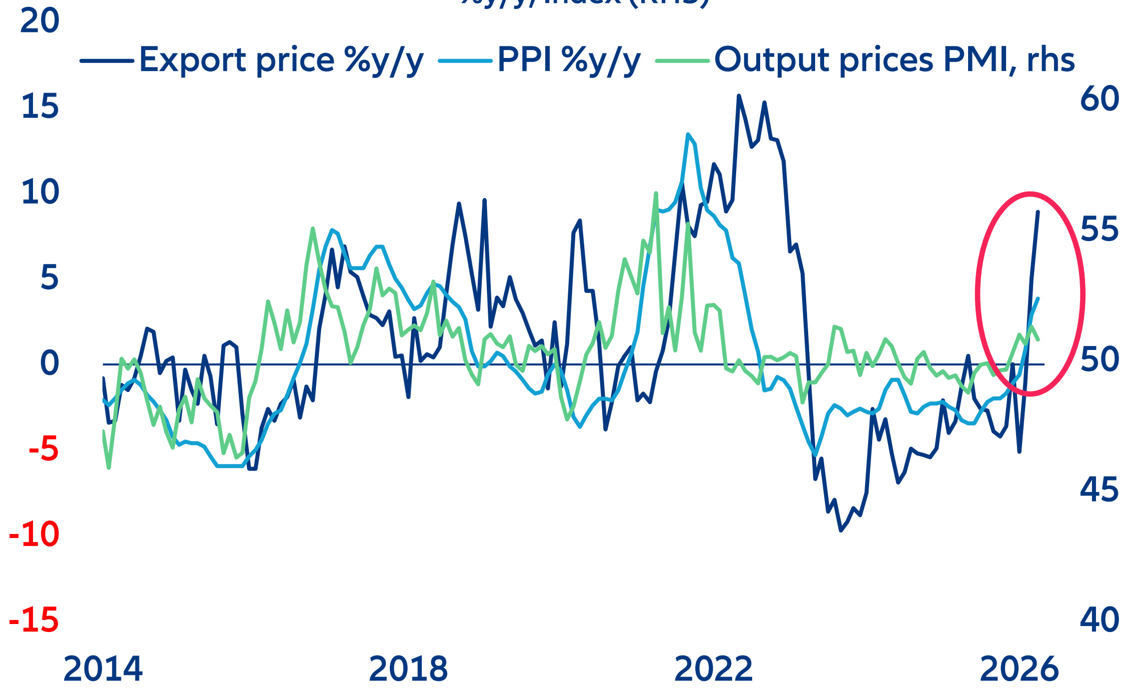
CPI, % yoy



Sources: LSEG Datastream, Allianz Research. Note: for the US latest available data is for May, for the Eurozone data go until June (preliminary estimate)

Higher producer prices in China could feed into imported inflation going forward

%y/y, Index (RHS)



Sources: S&P, NBS, Allianz Research

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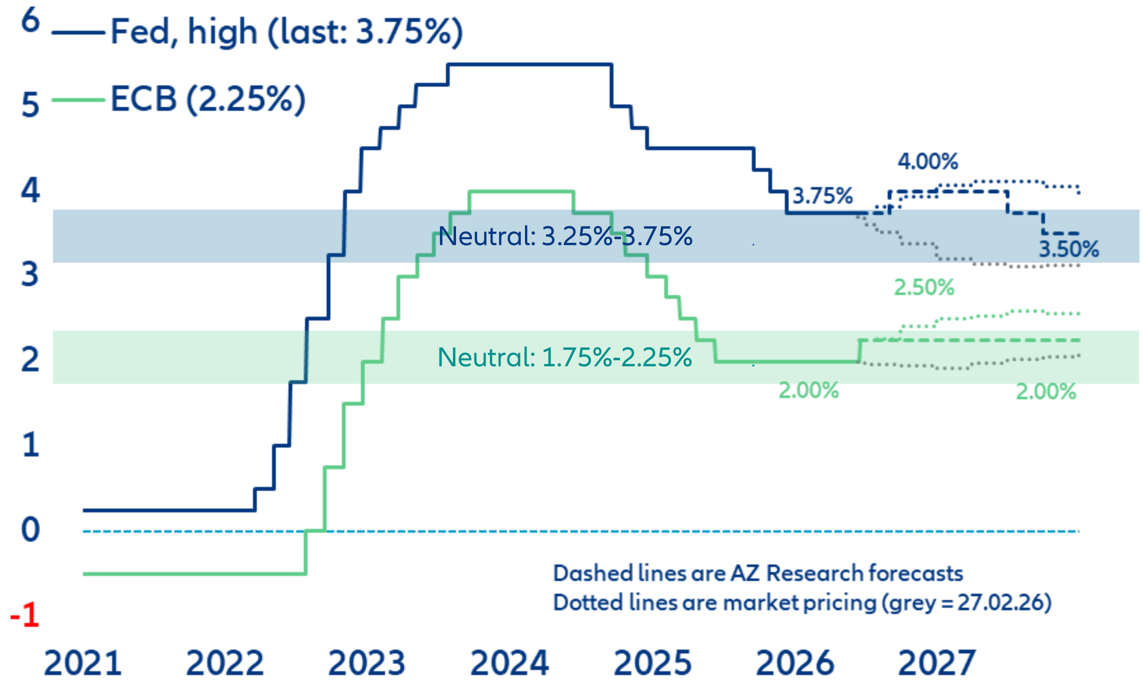
With inflation on target and economic output subdued, central banks to revert to neutral by 2027

ECB is done after one insurance hike while the Fed will deliver one hike before easing again in 2027

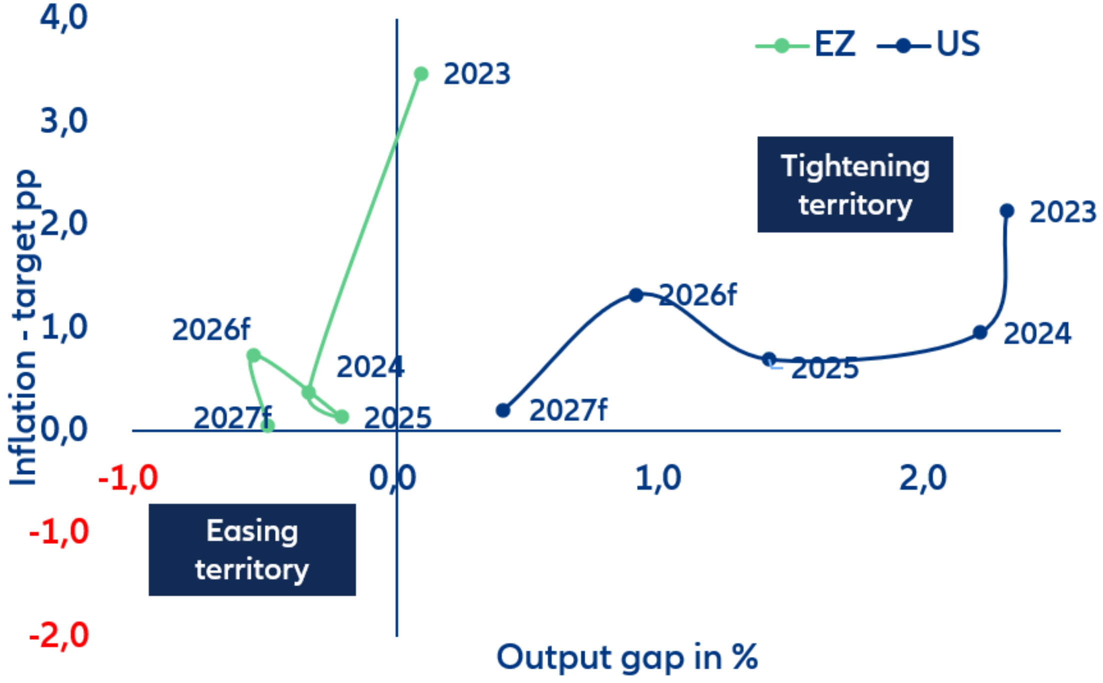
%



Sources: Bloomberg, Allianz Research
Grey dotted lines show market expectations from 27.02.2026 (pre-US-Iran-war)
Updated: 29.06.2026

Output gaps becoming more neutral by 2027 and inflation close to targets, warranting less monetary tightening

%

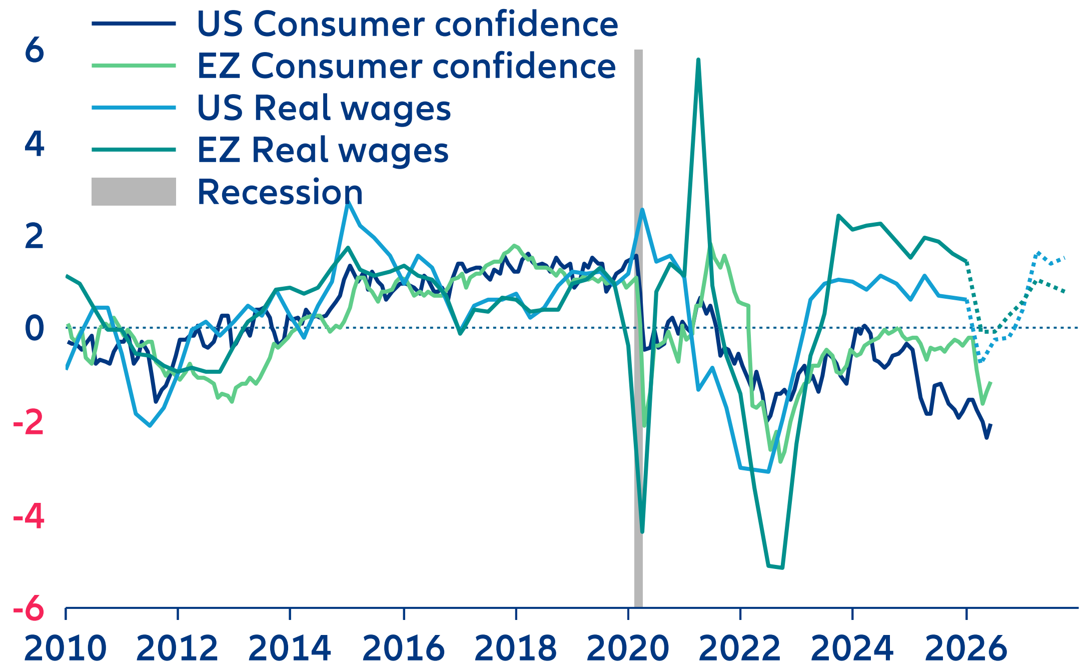


Sources: LSEG Datastream, AMECO, Allianz Research

Purchasing power squeezed, but equity wealth keeps the US consumer strong

Inflation is eating into wages again, squeezing real purchasing power and decreasing confidence

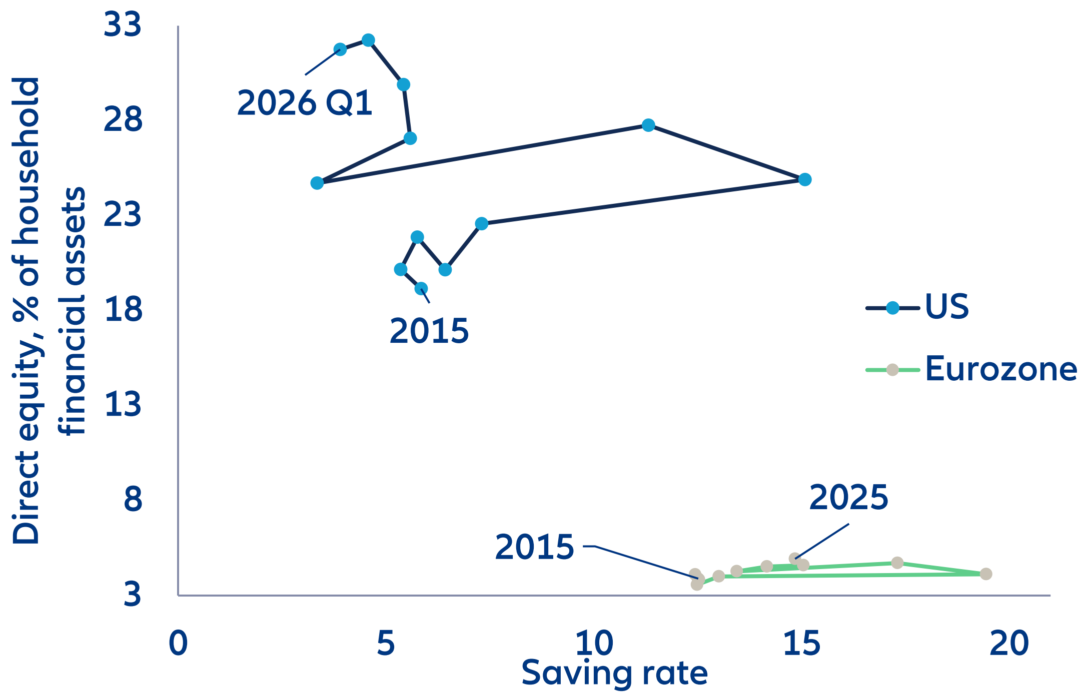
Real wage growth and standardized confidence, %



Sources: LSEG Datastream, Allianz Research
Note: Dotted lines are Allianz Research forecasts

However, US households save far less as equity holdings provide a tailwind if markets are up

Direct equity held by households vs saving rate, %



Sources: LSEG Datastream, Allianz Research
Note: Year average from 2015 to 2025. For 2026, we have only US data for Q1.

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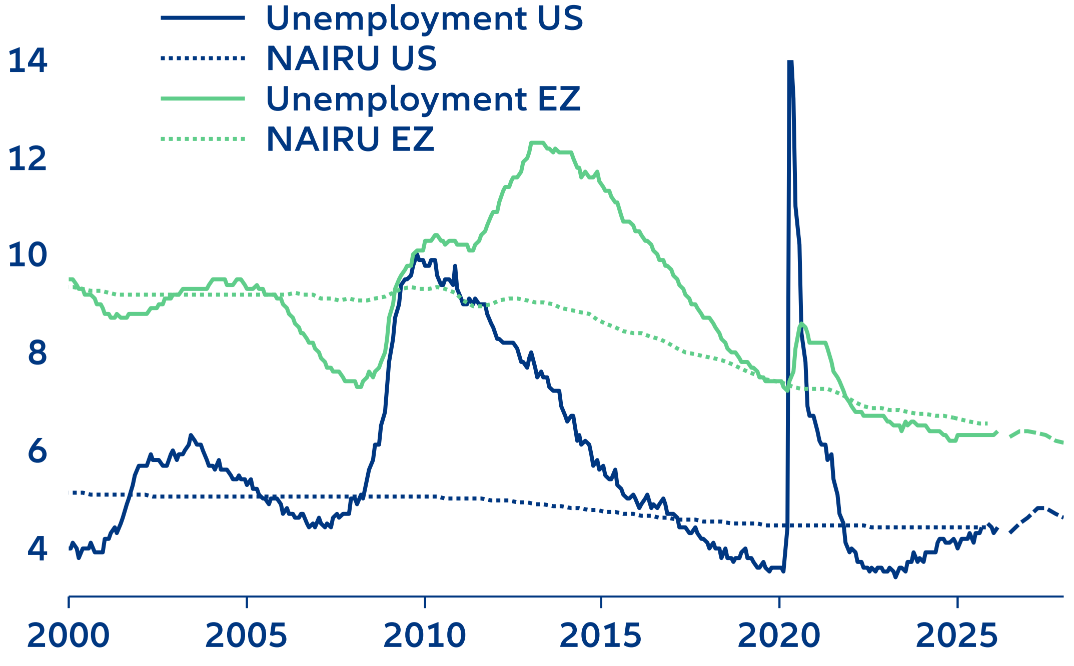
Labor markets are holding up well, but AI will significantly reshape them in the medium run

Unemployment is near its structural equilibrium on both sides of the Atlantic

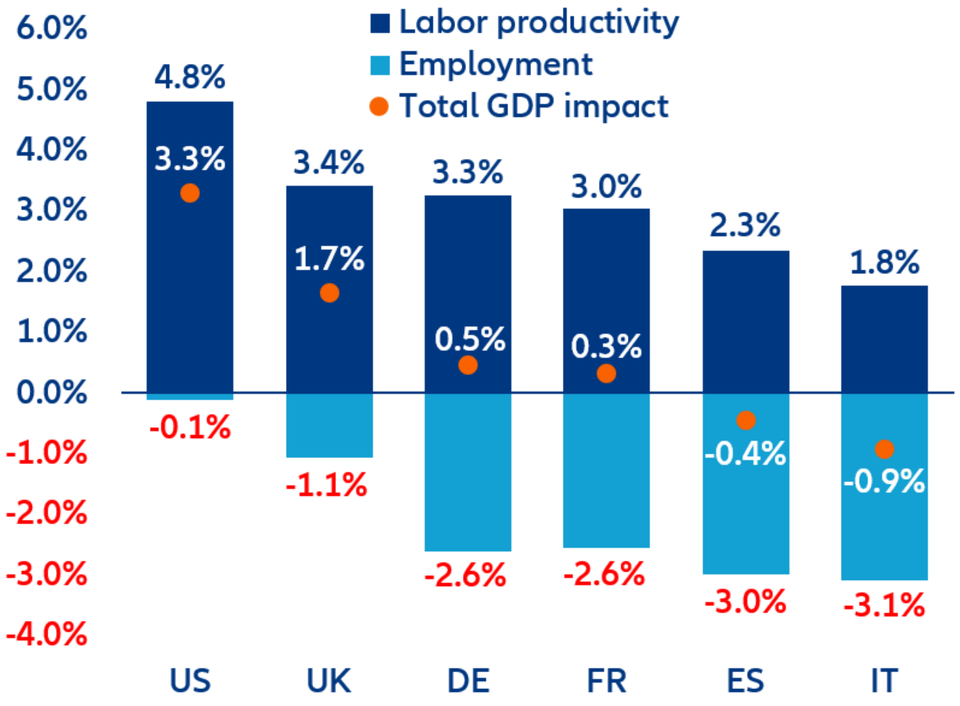
Unemployment rate vs Nairu



Sources: LSEG Datastream, Oxford Economics, Allianz Research.
Notes: Dashed line are Allianz Research forecasts. The US unemployment rate is expected to peak at 4.8% in H1-2027 as the economy continues to grow below its potential.

AI will boost productivity but hit employment with the net effect widening the US–Europe growth gap

Est. 10-year AI contribution to labor productivity, employment and GDP by 2036, % vs. no-AI baseline



Sources: LSEG Datastream, BLS, Eurostat, Allianz Research.
Note: The estimated net GDP effect assumes a production function with constant returns to scale, a labor share of two-thirds, and a capital share of one-third.

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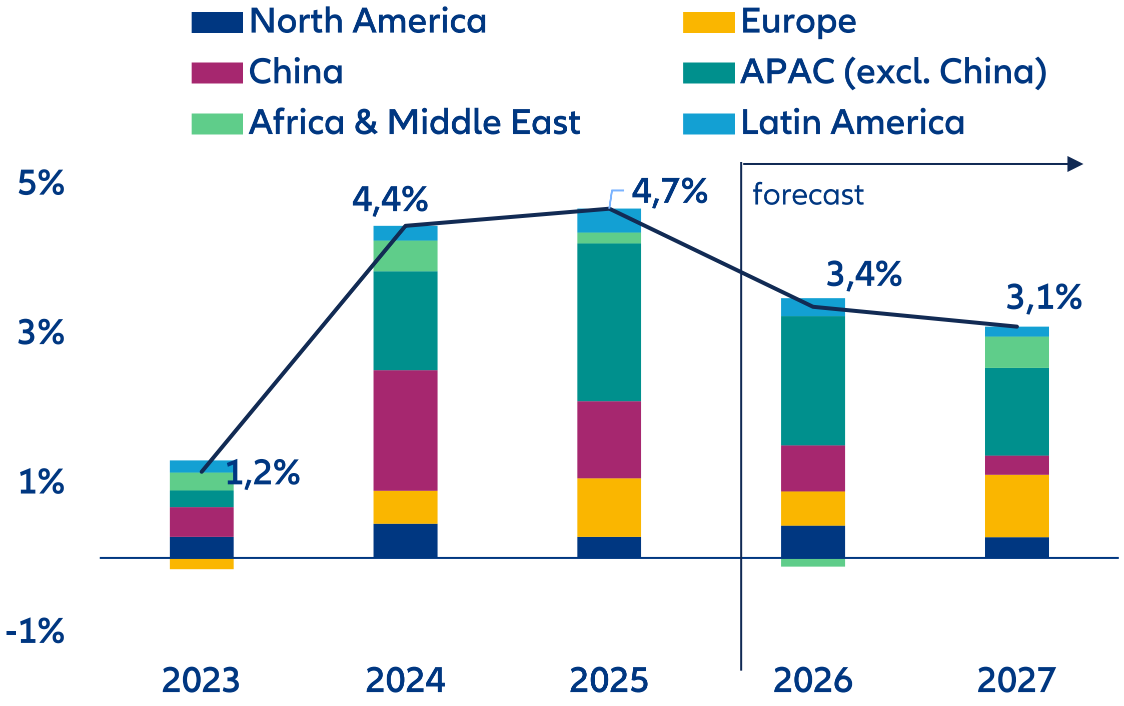
AI boom helps avoid a trade recession in 2026

Trade remains strong on the back of AI-linked supply chains

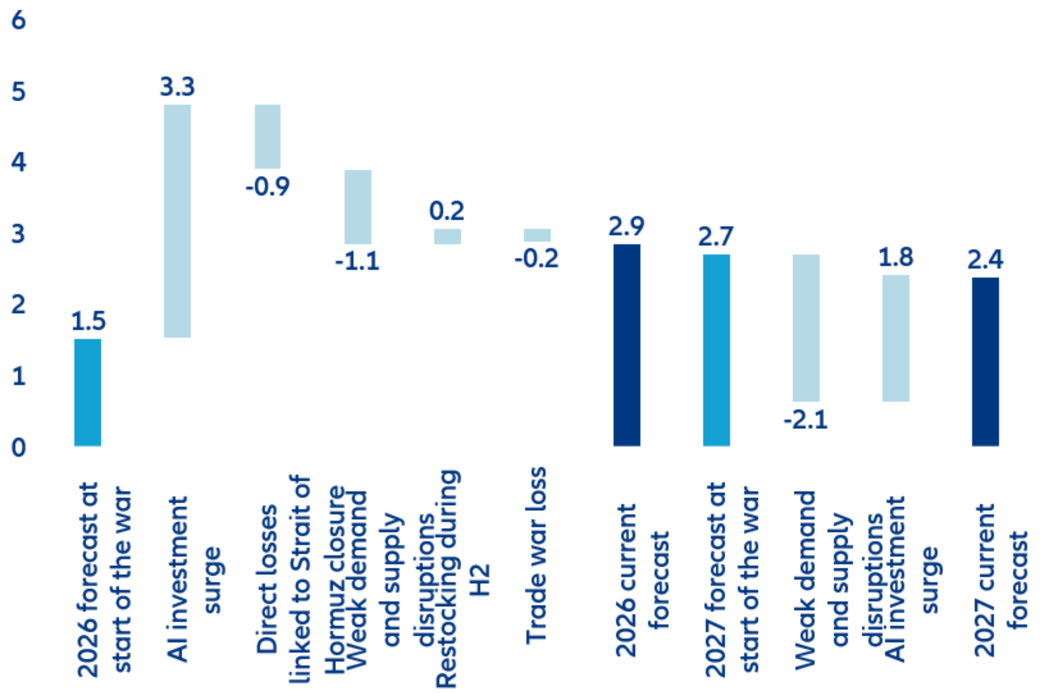
Goods and services trade growth in volume, %



Sources: Oxford Economics, Allianz Research

Trade of goods to grow by 2.9% in 2026 and 2.4% in 2027 as Hormuz closure and trade war top losses

Contribution to trade of goods in volume, pp



Note: Weak demand and supply disruptions include export bans, supply fragmentation, secondary round effects from energy shock, and climate impacts caused by El Nino
Sources: Allianz Research

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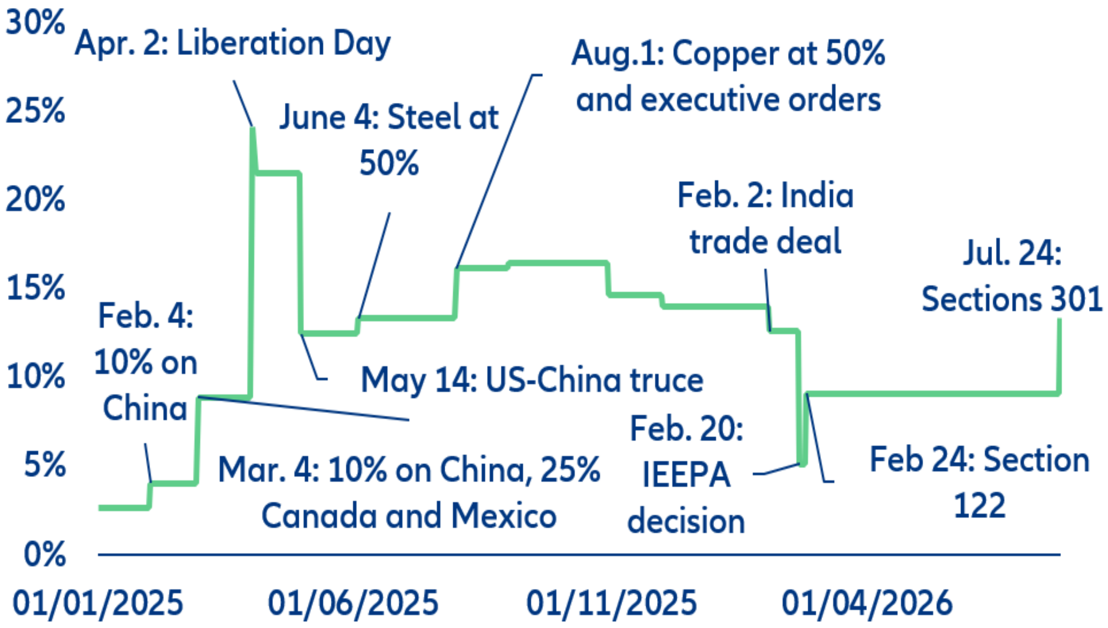
Trade tariffs will rise after July 24th but should not derail global trade

Section 301 expected to bring average US tariff rate back to pre-Supreme Court decision levels

Effective tariff rate, %



Sources: Office of the US Trade Representative, Allianz Research

Asian EMs to be the most impacted by the change to Section 301 tariff arrangement

Country	US tariff rate					Export losses	
	Pre Trump II	"Liberation Day", as of 10 April	IEEPA realized	Section 122 (current tariffs)	Sections 301, as of 24th July	2025 realized (USD bn)	2026 (USD bn)
Canada	0%	10%	4%	3%	6%	-2.6	-3.6
China	13%	130%	32%	22%	28%	-22.8	-5.4
EU	1%	10%	9%	8%	12%	-13.4	-7.7
Hong Kong	2%	98%	4%	2%	11%	-0.2	-0.1
India	2%	11%	19%	7%	18%	-4.2	-3.2
Indonesia	5%	14%	20%	15%	19%	-1.2	-0.4
Japan	1%	15%	14%	11%	15%	-5.2	-1.7
Malaysia	1%	8%	9%	5%	13%	-1.2	-1.4
Mexico	0%	4%	4%	4%	14%	-3.2	-16.3
Philippines	1%	9%	12%	5%	11%	-0.4	-0.3
Singapore	0%	5%	3%	2%	10%	-0.4	-0.9
South Africa	0%	9%	5%	3%	9%	-0.2	-0.2
South Korea	0%	13%	14%	8%	11%	-4.9	-1.1
Taiwan	1%	10%	4%	2%	9%	-0.9	-4.0
Thailand	1%	10%	9%	6%	17%	-2.2	-3.1
Türkiye	4%	13%	18%	13%	16%	-0.6	-0.3
UAE	3%	7%	16%	19%	9%	-0.2	-0.2
UK	1%	9%	7%	6%	10%	-1.2	-0.7
Vietnam	3%	13%	12%	7%	20%	-5.4	-7.9
Global	2%	26%	11%	8%	13%	-74.0	-59.0

Sources: Office of the US Trade Representative, Allianz Research

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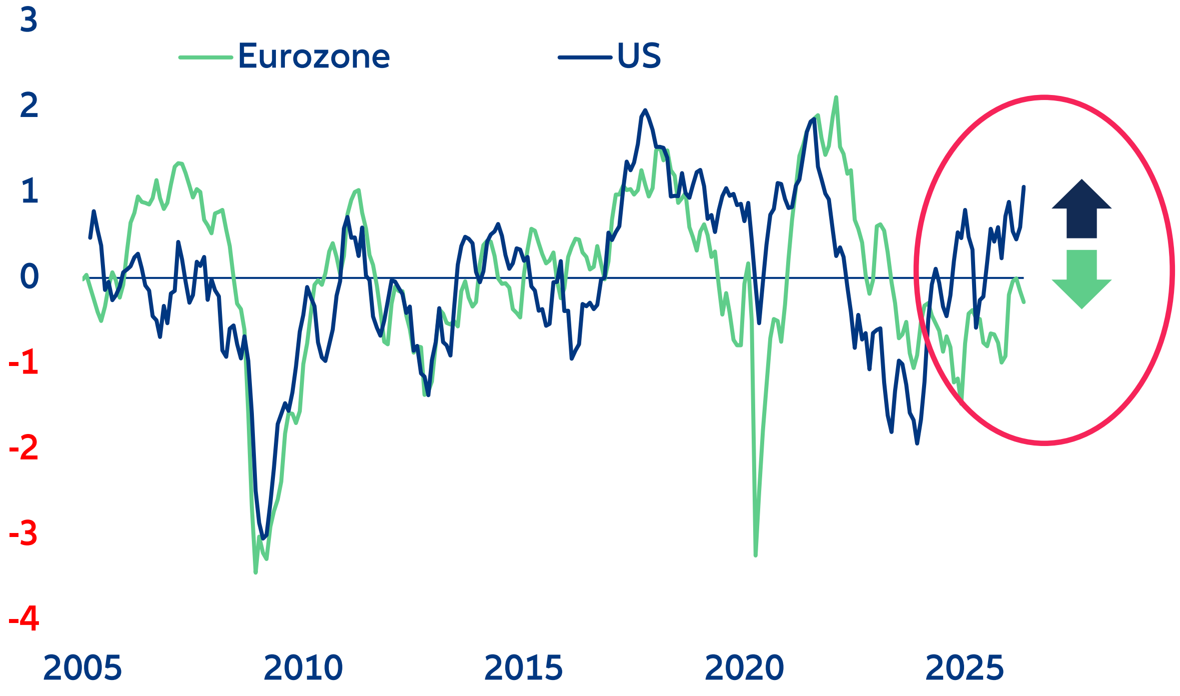
AI continues to support booming US investment, while defense capex in Europe still missing

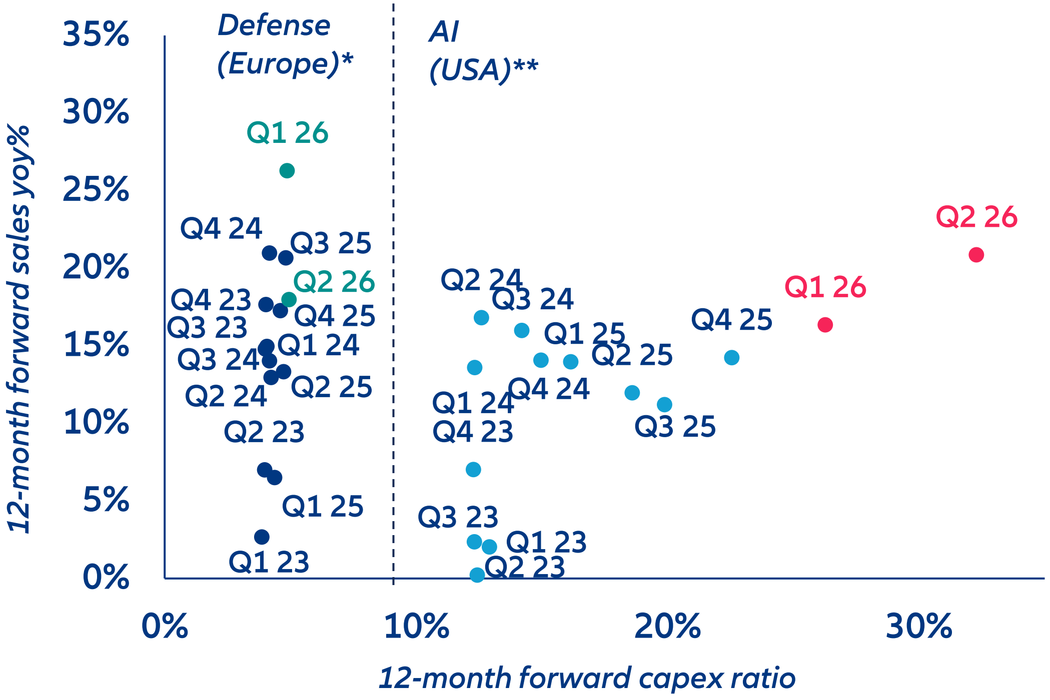
Manufacturing investment intentions are diverging between the US and the Eurozone

Capex intentions, net balance, z-score



Sources: Philadelphia Fed, European Commission, Allianz Research

Diverging stance: US firms splurge on AI infrastructure, European defense industry leverages public funding



* Top 10 European defense firms based on 2025 revenue. ** US hyperscalers (5 firms).
Sources: LSEG Datastream, Allianz Research

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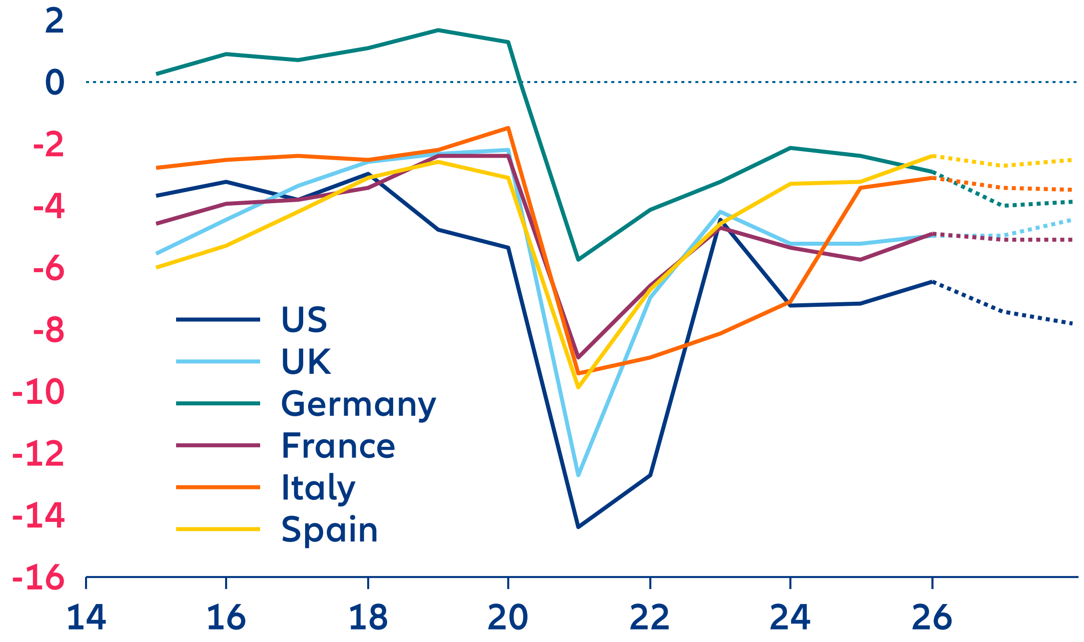
Defense, energy, and the NGEU cliff delay fiscal consolidation

Defense and energy-crisis measures prevent narrowing public balances

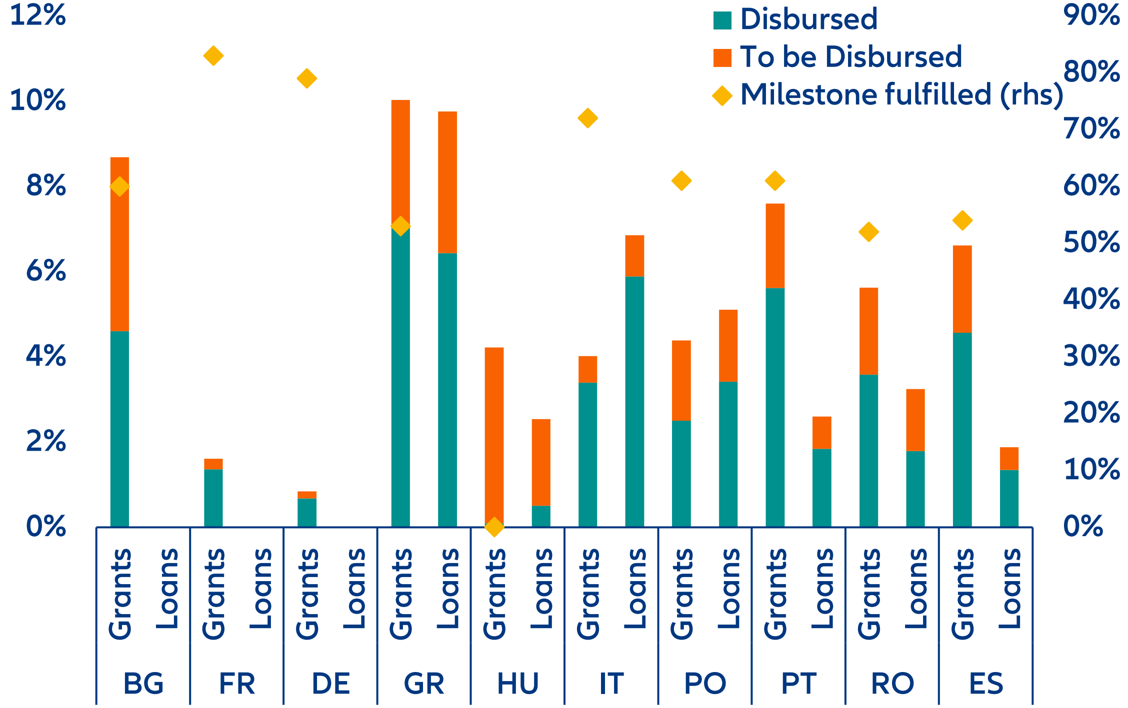
Government fiscal balance, % of GDP



Sources: LSEG Datastream, Allianz Research

After 2026, the economic benefits of NGEU persist, but the loss of grant income weighs on public finances

NGEU resources, % of 2021 GDP



Sources: LSEG Datastream, European Commission, Allianz Research. Note: Milestones and targets (M&Ts) are performance-based criteria, countries only receive disbursments once they have fulfilled these soecific steps.

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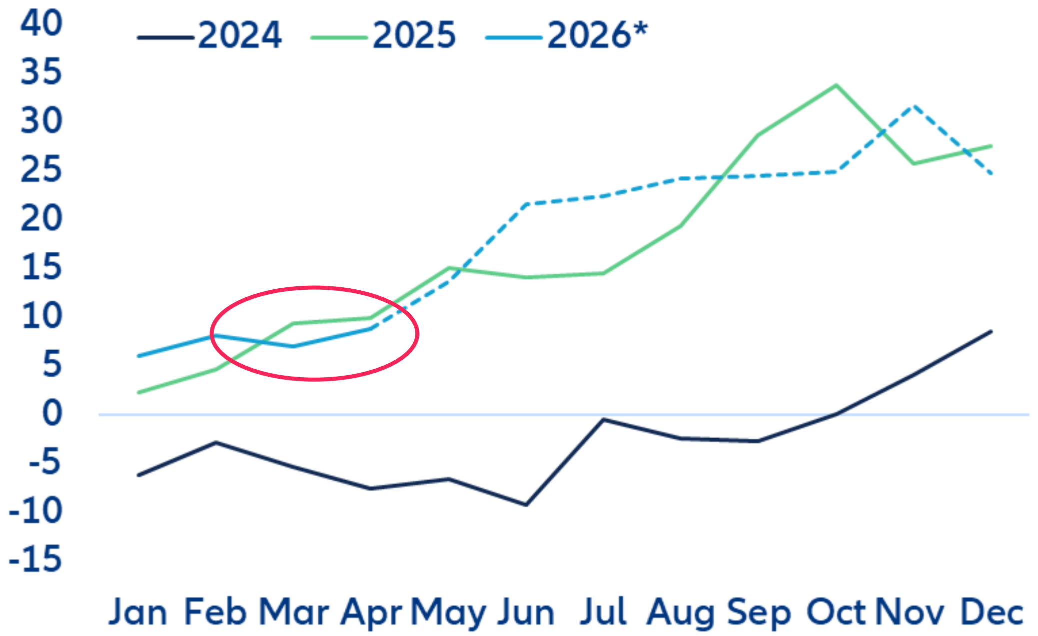
German fiscal bazooka is substantial, but implementation continues to be gradual

Fiscal expansion boosts public spending, but budget reallocations into special funds visible in 2026

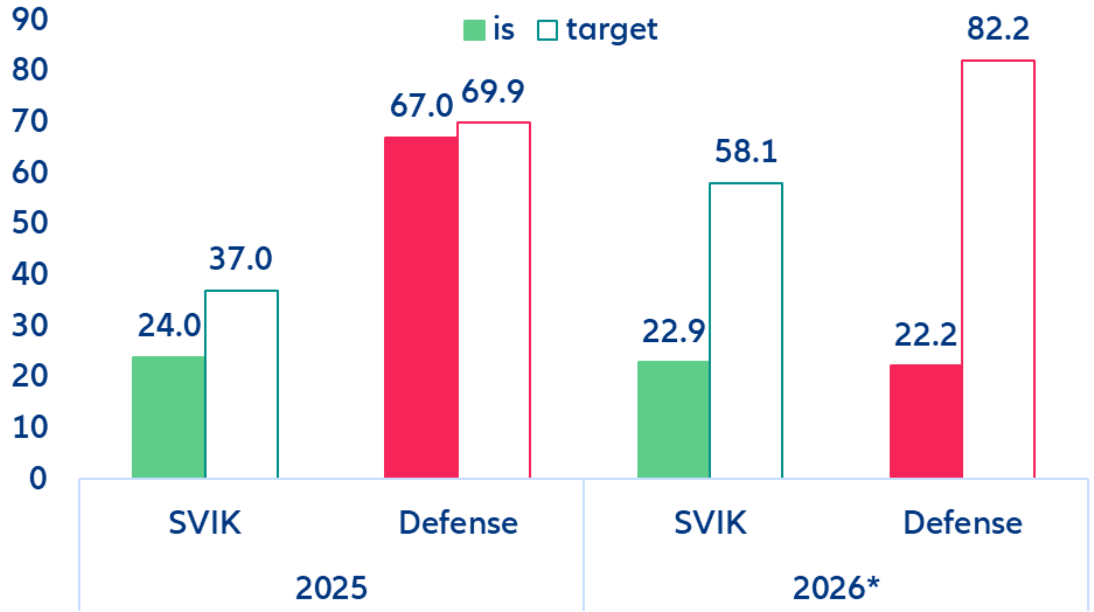
Core government budget, delta to 2023 in EURbn



Sources: Bundesministerium der Finanzen, Allianz Research. Notes: 2026* as of 31.05.2026

Gradual rollout of SVIK, with 39% of planned spending for 2026 and 27% of defense expenditure

Cumulative cash outflow SVIK (is and target) in EURbn



Sources: Bundesministerium der Finanzen, Allianz Research. Notes: 2026* for SVIK as of 31.5.2026, and defense as of April 2026. Special Fund for Infrastructure and Climate (SVIK) subtracts the 2025 expenditures from the ytd expenditures in 2026.

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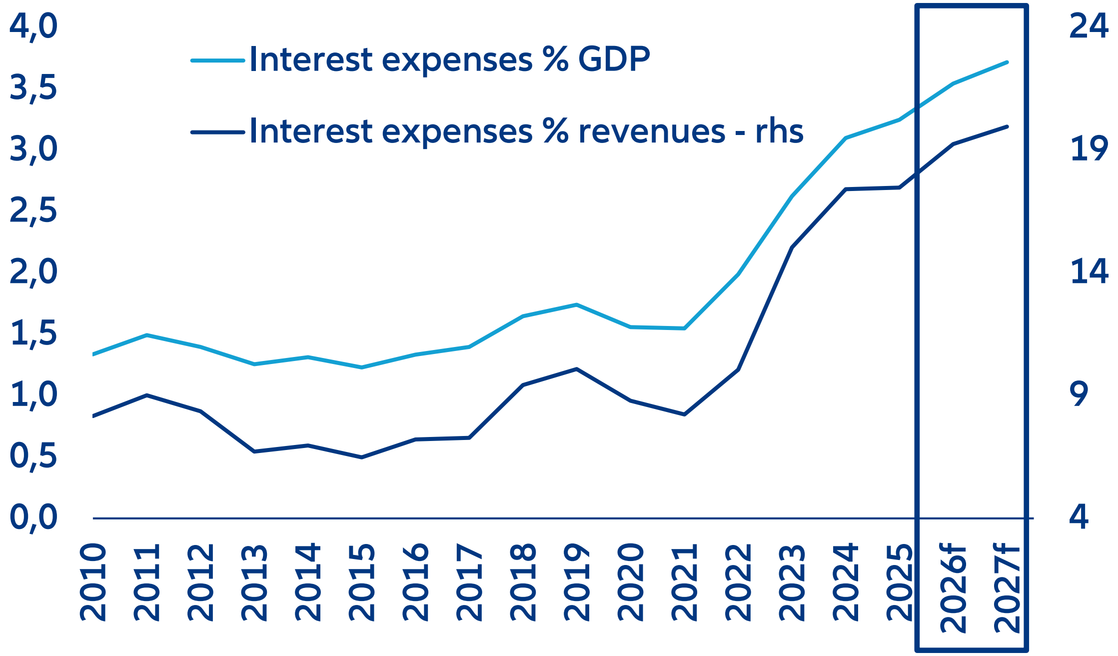
US fiscal policy stance easing in 2026, supportive of growth but increasing fiscal risks

Interest expenses are rising fast relative to GDP and revenues

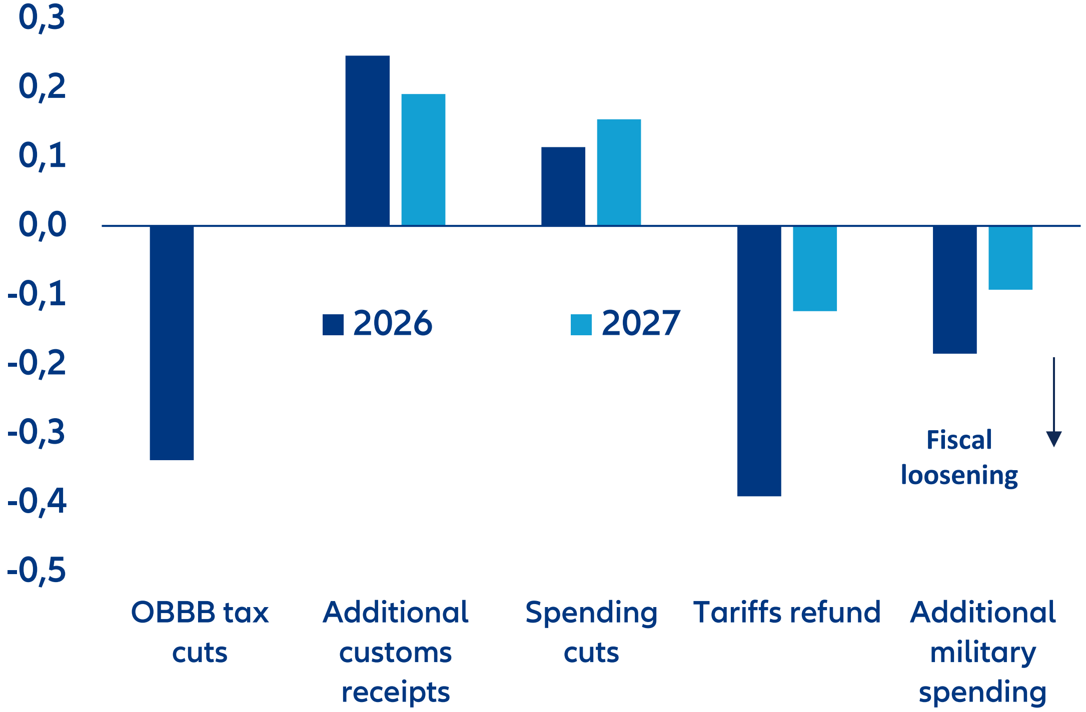
Federal government



Sources: LSGE Datastream, Allianz Research

Fiscal loosening in 2026 (0.6% GDP) is supporting households & corporates' incomes

% GDP



Sources: LSGE Datastream, Allianz Research.

Allianz

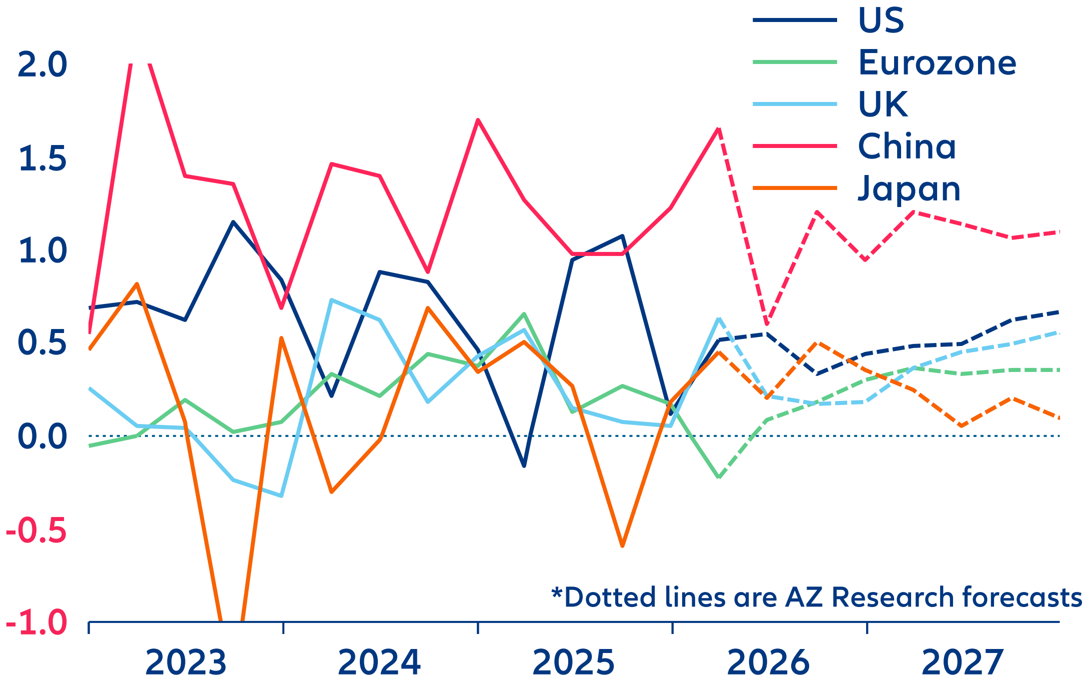
Temporary slowdown of global GDP growth

The Iran escalation hits Europe and Middle East harder than other regions

Growth (yearly %)	2023	2024	2025	2026f	2027f
Global	**2.8**	**2.9**	**3.0**	**2.5**	**2.9**
USA	**2.9**	**2.8**	**2.1**	**2.1**	**2.0**
Latin America	**2.0**	**1.8**	**2.4**	**2.3**	**2.7**
Brazil	3.3	3.0	2.6	2.0	2.1
UK	**0.3**	**1.0**	**1.3**	**1.0**	**1.4**
Eurozone	**0.6**	**0.9**	**1.5**	**0.3**	**1.2**
Eurozone excl. Ireland	**0.7**	**0.9**	**1.1**	**0.9**	**1.2**
Germany	-0.7	-0.5	0.4	0.7	1.2
France	1.9	1.4	0.9	0.5	1.1
Italy	1.0	0.6	0.7	0.6	0.7
Spain	2.5	3.5	2.8	2.2	1.7
Central and Eastern Europe	**1.4**	**2.3**	**2.3**	**2.1**	**2.4**
Poland	0.2	3.1	3.6	3.2	2.9
Russia	3.9	4.9	1.1	0.7	1.8
Türkiye	5.0	3.5	3.6	3.4	3.8
Asia-Pacific	**4.3**	**3.9**	**4.4**	**4.3**	**4.0**
China	5.4	5.0	5.0	4.7	4.4
Japan	0.7	-0.2	1.1	0.9	1.0
India	7.1	7.2	7.5	6.5	6.4
Middle East	**2.1**	**2.4**	**3.2**	**-2.1**	**5.0**
Saudi Arabia	0.5	2.6	4.5	2.7	5.3
Africa	**2.7**	**3.5**	**4.2**	**4.0**	**4.0**
South Africa	0.8	0.5	1.1	1.3	1.4

We expect normalization in growth from Q3 2026

GDP growth, q/q in %

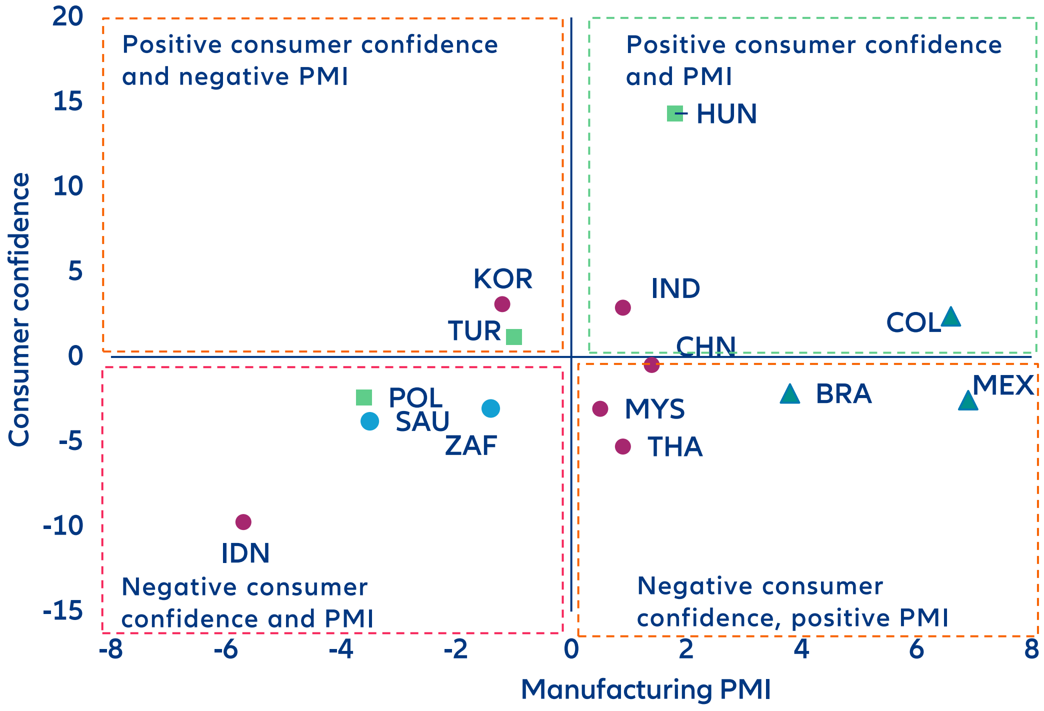


Sources: LSEG Datastream, Allianz Research

EM fundamentals hold through the energy shock

Consumers turns gloomier than firms, with Southeast Asia and Middle East hit hardest

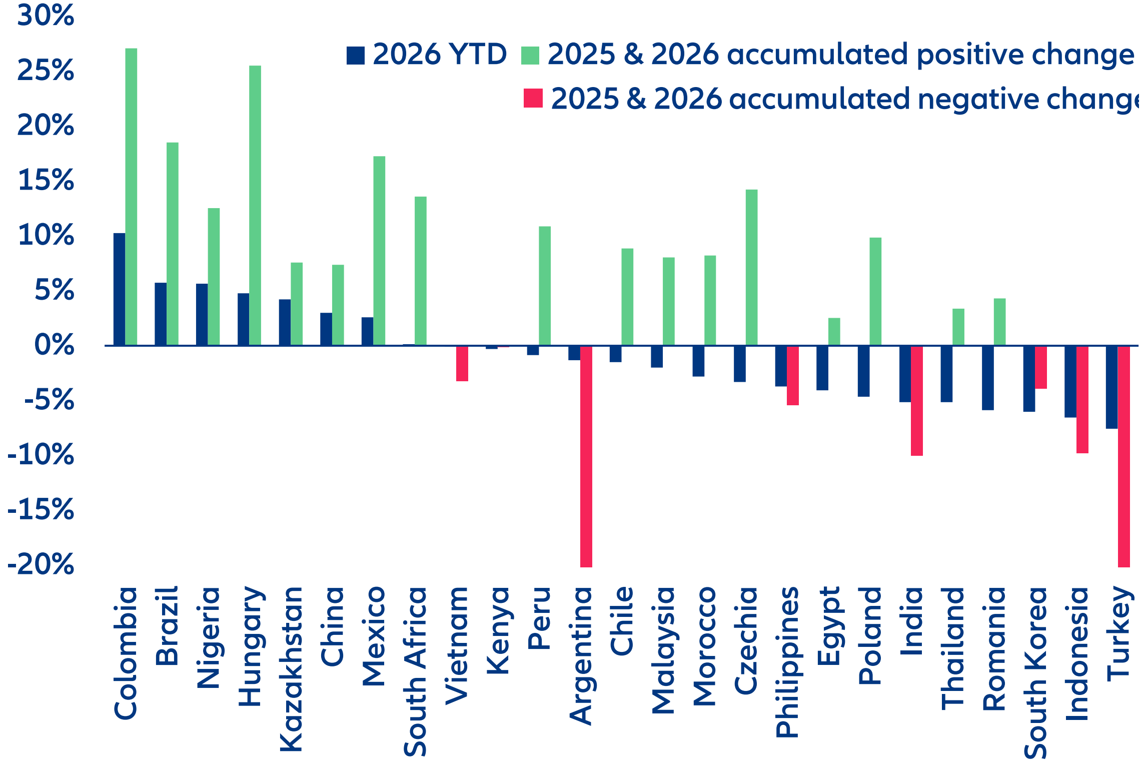
Change since start of the war (points)



Sources: LSEG, Allianz Research

EM currencies broadly hold with limited losses in Asia, Türkiye, Argentina; 2025 gains intact elsewhere

% FX change



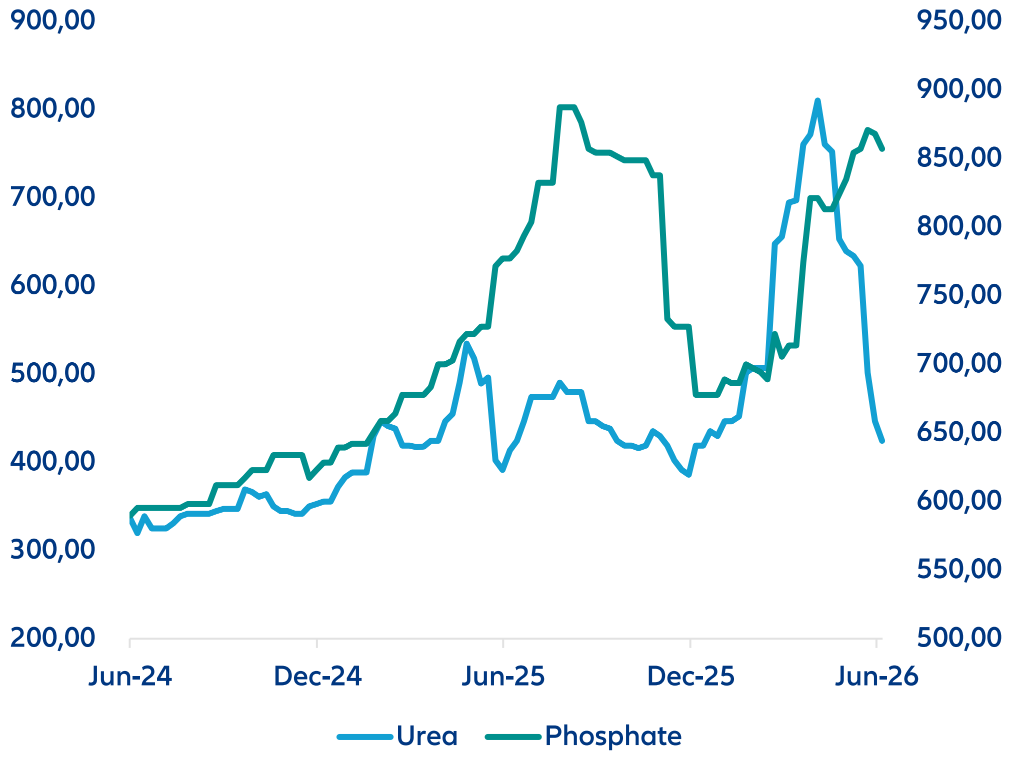
Sources: LSEG, Allianz Research

Allianz

Super El Niño could reshape the balance across countries, with higher inflation in Asia

Urea is back at prewar level but phosphate still expensive as sulfur squeeze persists

(USD/Mt)



Sources: Allianz Research

Impact of previous strong El Niño

(% deviation vs 5y trend in production)

Region	Country	Commodity	1982	1997	2015	2023
Africa	Côte d'Ivoire	Cocoa	-5	-8	-11	-7
Africa	Ghana	Cocoa	-4	-7	-9	-6
Asia	India	Rice	-3	-5	-7	-4
Asia	India	Sugar	-8	4	-14	-7
Asia	Indonesia	Palm Oil	-4	-8	-6	-3
Asia	Malaysia	Palm Oil	-5	-6	-5	-2
Asia	Thailand	Rice	-4	-6	-8	-5
Asia	Thailand	Sugar	-5	-3	-9	-5
Asia	Viet Nam	Robusta	-2	-8	-5	-3
LatAm	Argentina	Soybean	4	6	3	5
LatAm	Brazil	Arabica	2	3	5	3
LatAm	Brazil	Soybean	2	3	4	3
N.America	US	Corn	1	2	3	2
Oceania	Australia	Wheat	-15	-21	-11	-9

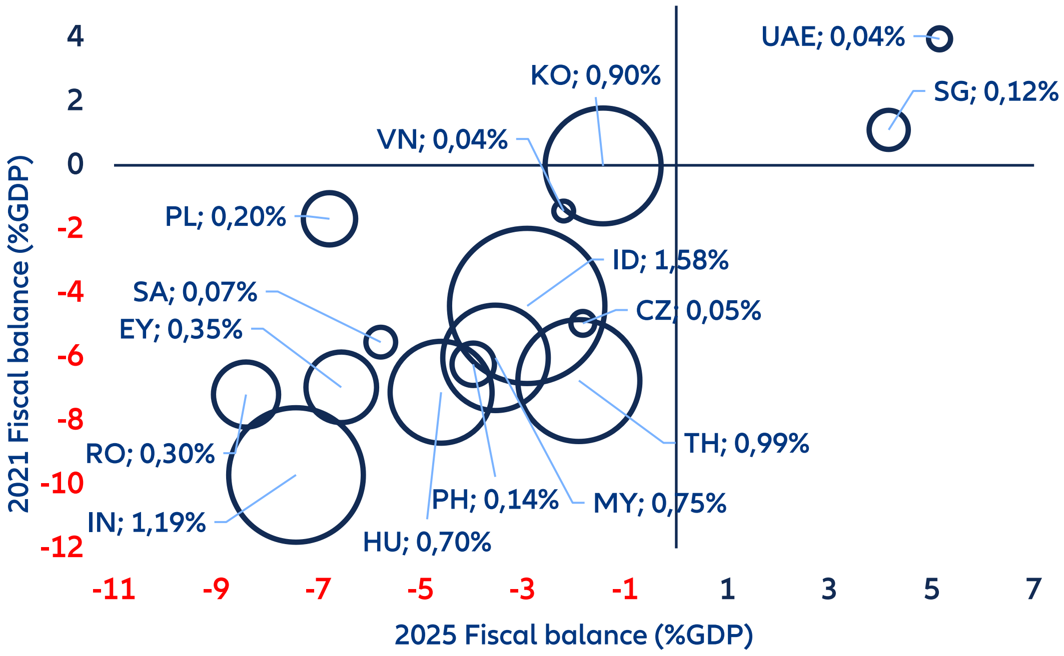
Sources: *USDA, CONAB, ICO, ICCO, FOA and Allianz Research*

Allianz

The Iran war will have taken a toll on the fiscal deficit in EMs

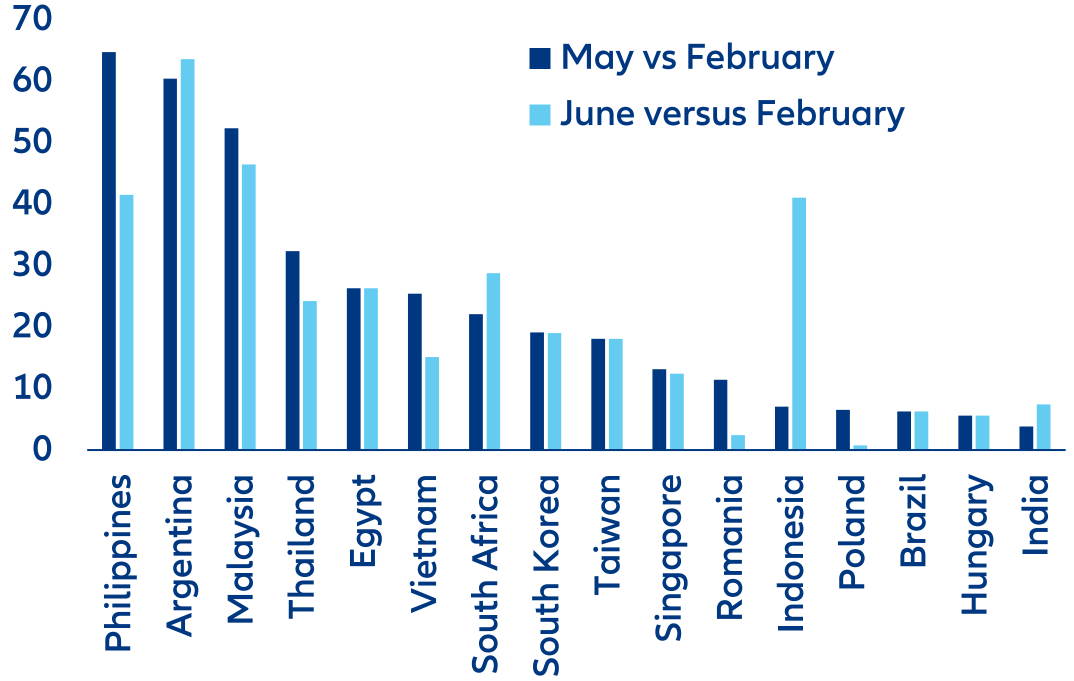
Fiscal spending increased as the closure of Hormuz persisted

Size of the bubble represent the measures announced, % of GDP



Sources: National sources, Allianz Research

Fuel prices have started easing following the US-Iran deal



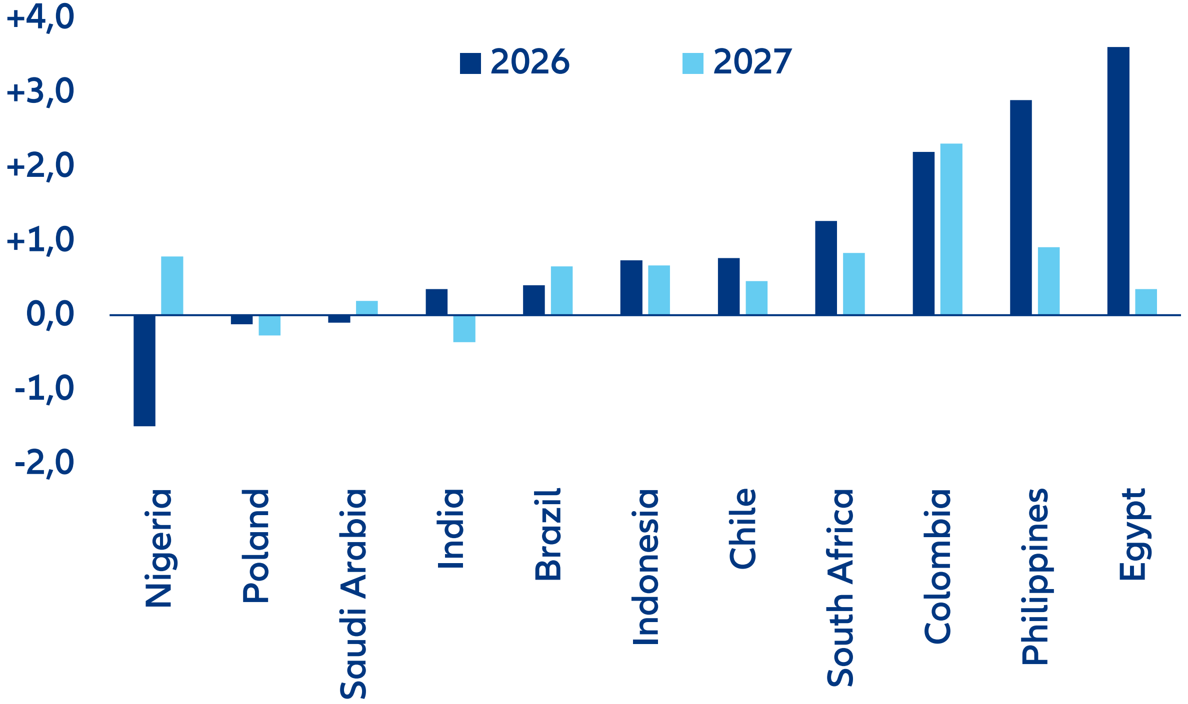
Note: Argentina, Egypt and South Africa are compared to June 2025 prices rather than February 2026. Prices shown are pump prices and do not account for subsidies that individual countries may have implemented

Sources: Gasoline prices, Allianz Research

Energy shock brings higher inflation in EMs, shifting monetary policy

Inflation expectations higher across EMs due to the war, especially in 2026

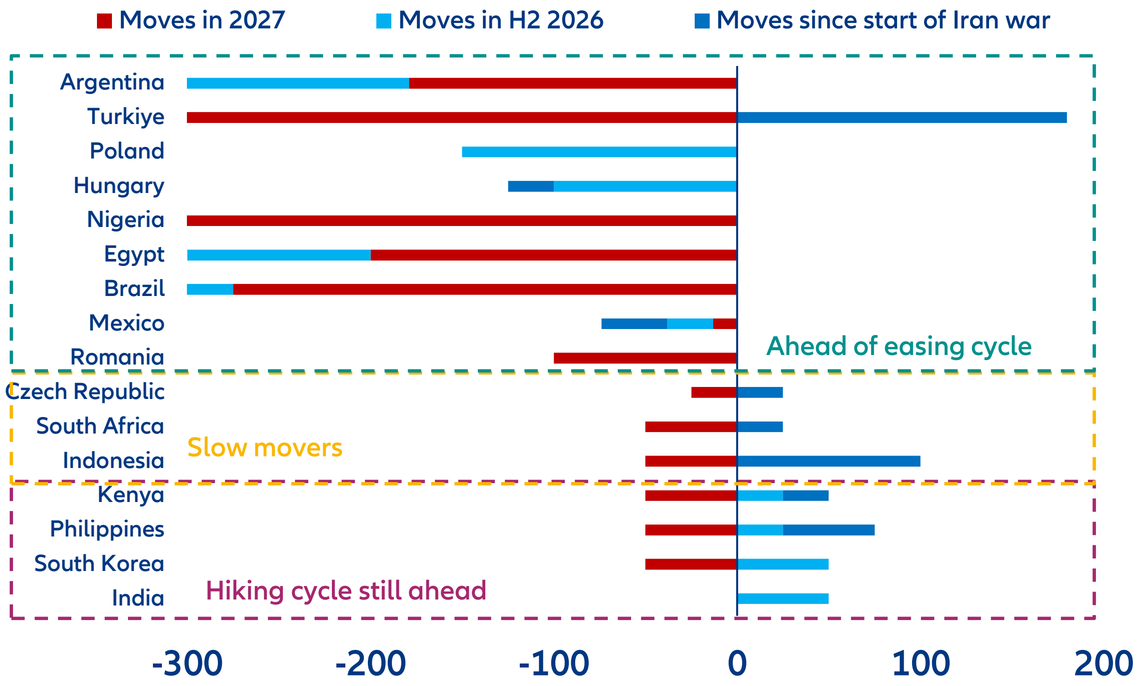
Difference between forecasts (Q4 2025 vs Q2 2026)



Sources: Allianz Research

Asia and Kenya still plan to hike through 2026 as orthodox monetary policy reigns

Interest rates moves, bps



Sources: Allianz Research

Multi-order risks remain skewed to the downside in 2026…

Allianz

JAN –
Geopolitical tensions (Latam, Iran, Greenland)

BASELINE SCENARIO

Limited escalation.

MOST LIKELY ALTERNATIVE SCENARIO

Selective sanctions and military intervention if talks fail.

FEB
4 years of war in Ukraine

BASELINE SCENARIO

Truce or negotiated peace reached by end-2026.

MOST LIKELY ALTERNATIVE SCENARIO

Escalation; NATO becomes directly involved.

JULY
US Tariffs Section 122 expiry

BASELINE SCENARIO

Section 122 lapses; replaced by Section 301 tariffs at 13%.

MOST LIKELY ALTERNATIVE SCENARIO

Section 122 lapses; replaced by steeper Section 301 tariffs at 20%.

JULY
USMCA review

BASELINE SCENARIO

Higher regional and US content thresholds.

MOST LIKELY ALTERNATIVE SCENARIO

Negotiations break down; tariff and non-tariff barriers increase.

SEPT
Monsoon season in India

BASELINE SCENARIO

Below-normal monsoon through Sept; rain deficit weighs on harvest and food prices.

MOST LIKELY ALTERNATIVE SCENARIO

Slow normalization by Sept; recovering rains ease harvest losses and price pressure.

OCT
US government shutdown

BASELINE SCENARIO

Limited shutdown in October.

MOST LIKELY ALTERNATIVE SCENARIO

Extended shutdown (new record).

NOV
US mid-term elections

BASELINE SCENARIO

Democrats take the House; Republicans keep the Senate.

MOST LIKELY ALTERNATIVE SCENARIO

Democrats win both the House and the Senate.

NOV
China–US trade truce expires

BASELINE SCENARIO

Trade truce extended, or becomes permanent.

MOST LIKELY ALTERNATIVE SCENARIO

Renewed tariff hikes, potentially back to 100%.

...and beyond

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De-dollarization shock reloaded

BASELINE SCENARIO

No Revenge Tax or similar policy triggers de-dollarization.

ALTERNATIVE SCENARIO

A revenge tax scares off investors, weakening the dollar and raising rates.

AI bubble burst

BASELINE SCENARIO

Soft landing of the stock market.

ALTERNATIVE SCENARIO

S&P 500 correction of up to 25–30% in late 2026.

Private markets

BASELINE SCENARIO

Slow but recovering PE distributions; loss rates edge higher.

ALTERNATIVE SCENARIO

PE distributions halt; private debt default rates double.

Truss moments

BASELINE SCENARIO

High-deficit countries keep issuing debt without market turmoil.

ALTERNATIVE SCENARIO

Markets lose trust in a high-deficit country, sparking FX and rates volatility.

German stimulus

BASELINE SCENARIO

Stimulus hits the bureaucracy wall; GDP growth underwhelms in 2026.

ALTERNATIVE SCENARIO

Full-blown stimulus lifts growth to 2–3% in 2026.

Banking deregulation

BASELINE SCENARIO

USD2.6tn capital relief as CET1 falls 2pp, to 14% vs. 16% in Europe.

ALTERNATIVE SCENARIO

Europe joins in, easing Basel III rules in 2027–28.

US debt ceiling

BASELINE SCENARIO

Ceiling reached mid-2027; raised near the X-date after brinkmanship.

ALTERNATIVE SCENARIO

2027 standoff drags on, lifting yields and risking a downgrade.

US immigration policy

BASELINE SCENARIO

Tight policy continues, limiting population growth to 0.2%.

ALTERNATIVE SCENARIO

Looser deportation policy eases labor shortages in some sectors.

ECB governing council rotation

BASELINE SCENARIO

Lagarde's term ends by Oct 2027; a balanced Governor takes over.

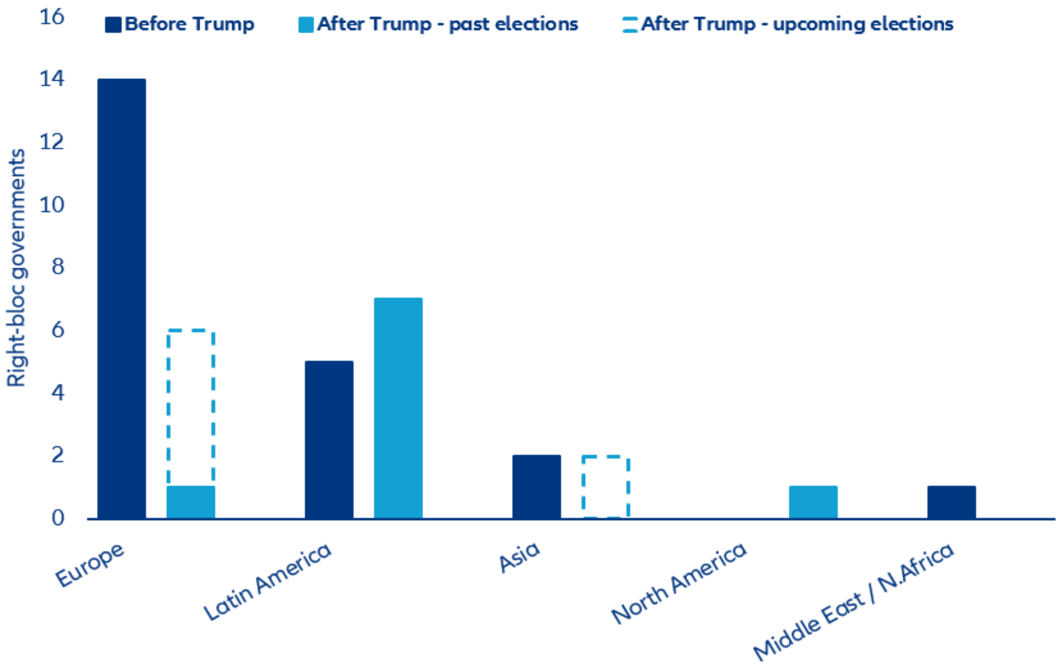
ALTERNATIVE SCENARIO

A hawkish Governing Council member takes the helm instead.

The world before and after Trump's re-election: an uneven rightward shift by 2029

The right advances in Latin America, retreats in Europe

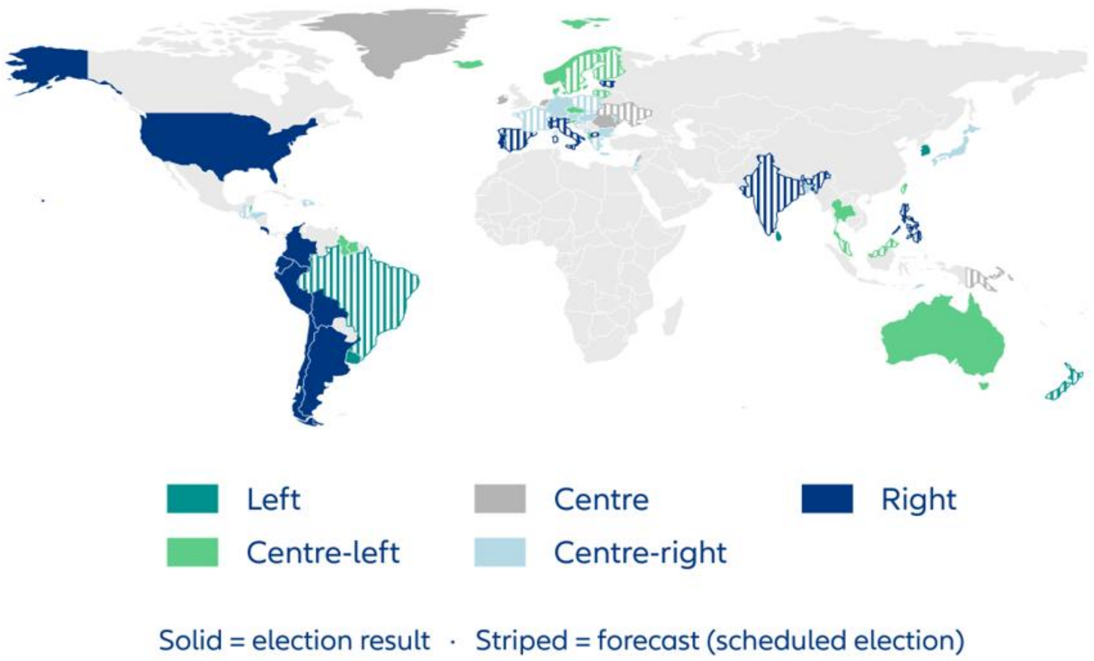
Number of Right-block governments by region, before and after Trump's re-election



Source: Allianz Research, CHES and Manifesto Project (RILE).

Right-bloc governments span the Americas and much of Europe

Political position of elected leaders worldwide, after Trump's re-election



Source: Allianz Research, CHES and Manifesto Project (RILE). Forecasts as of June 2026.

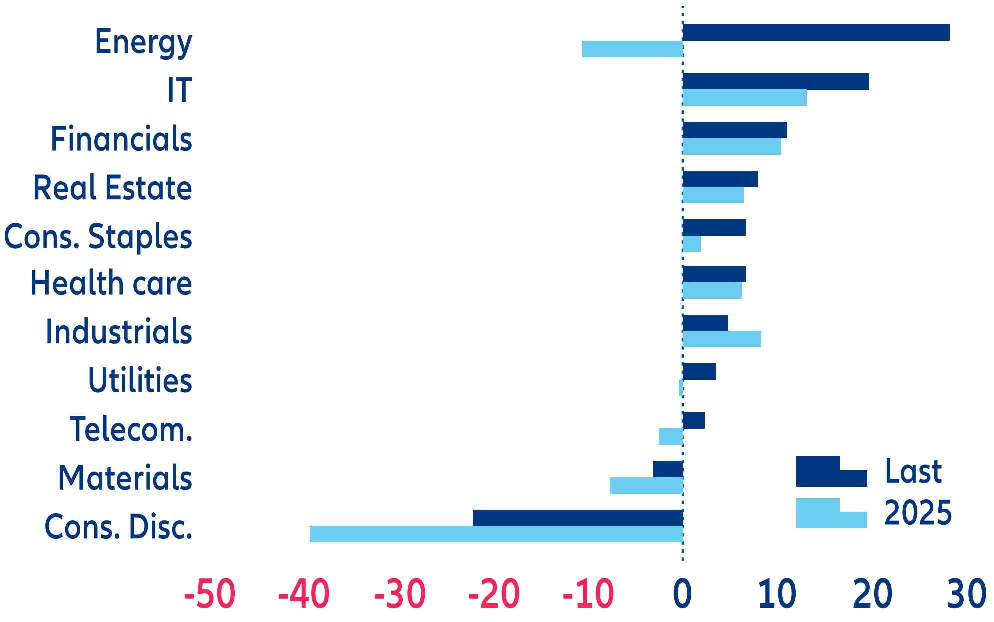
Corporate Outlook 2026-2027

Allianz

The war in Iran did not derail corporate earnings in Q1 2026

Most sectors remained resilient in Europe

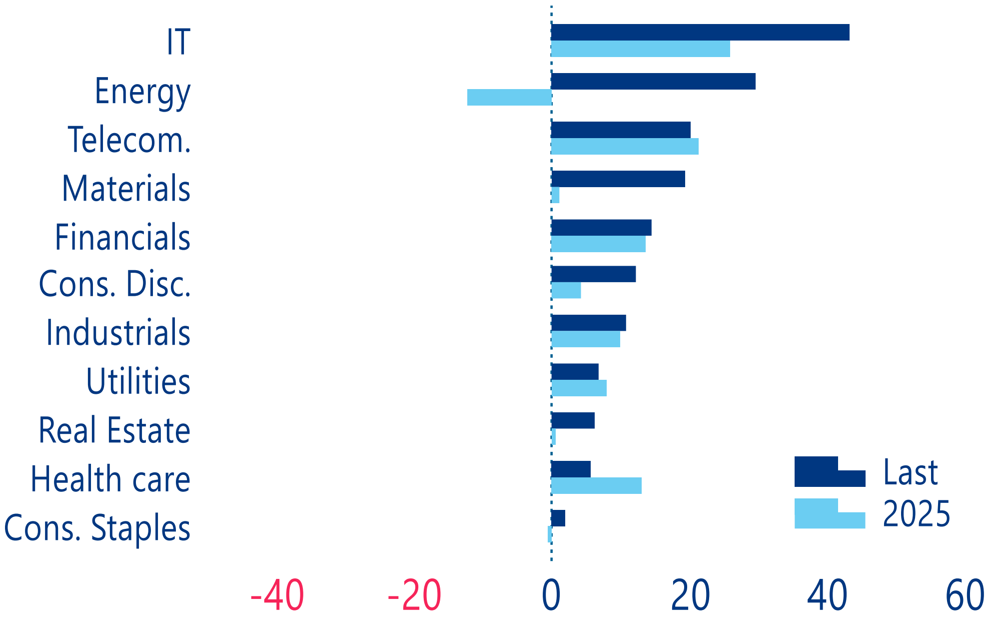
EPS growth, %



Sources: LSEG Datastream, Allianz Research

Tech continues to fuel US earnings

EPS growth, %



Sources: LSEG Datastream, Allianz Research

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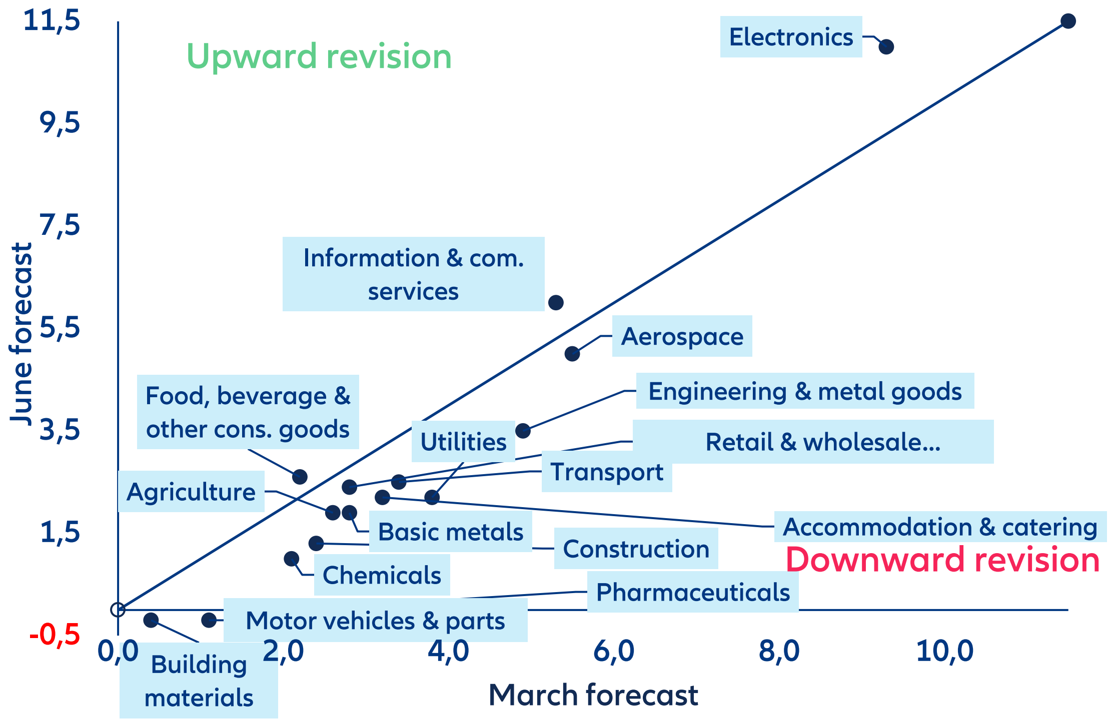
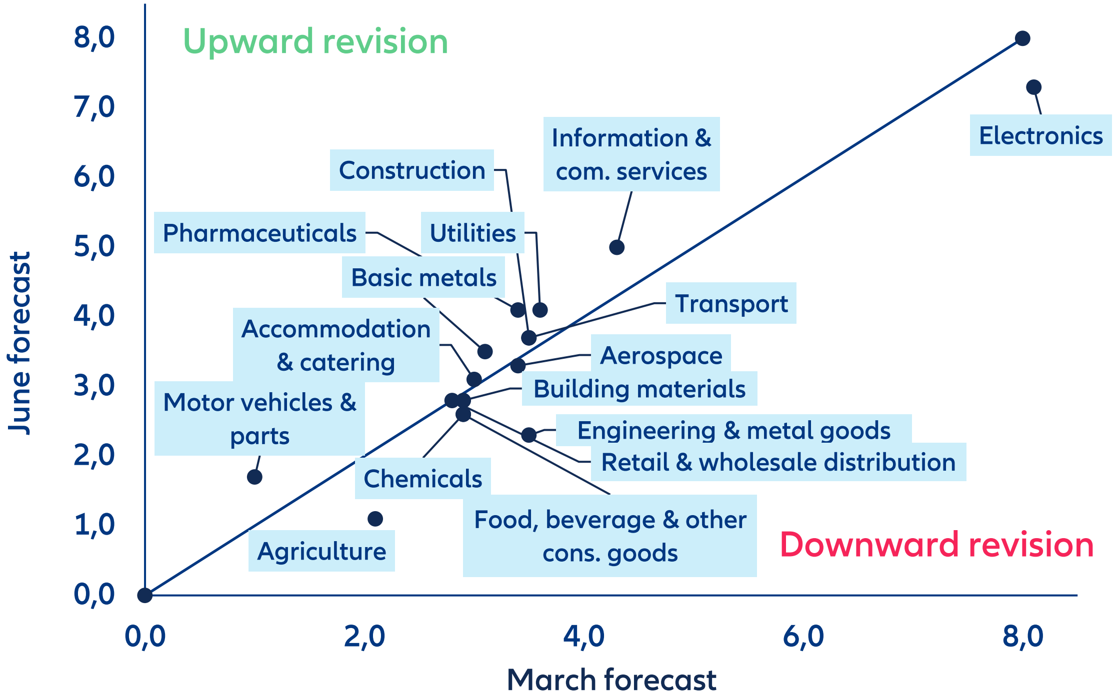
Tech drives near-term momentum; 2027 growth broadens

2026 sector outlook revisions (June vs. March)



Sources: Oxford Economics, Allianz Research

2027 sector outlook revisions (June vs. March)

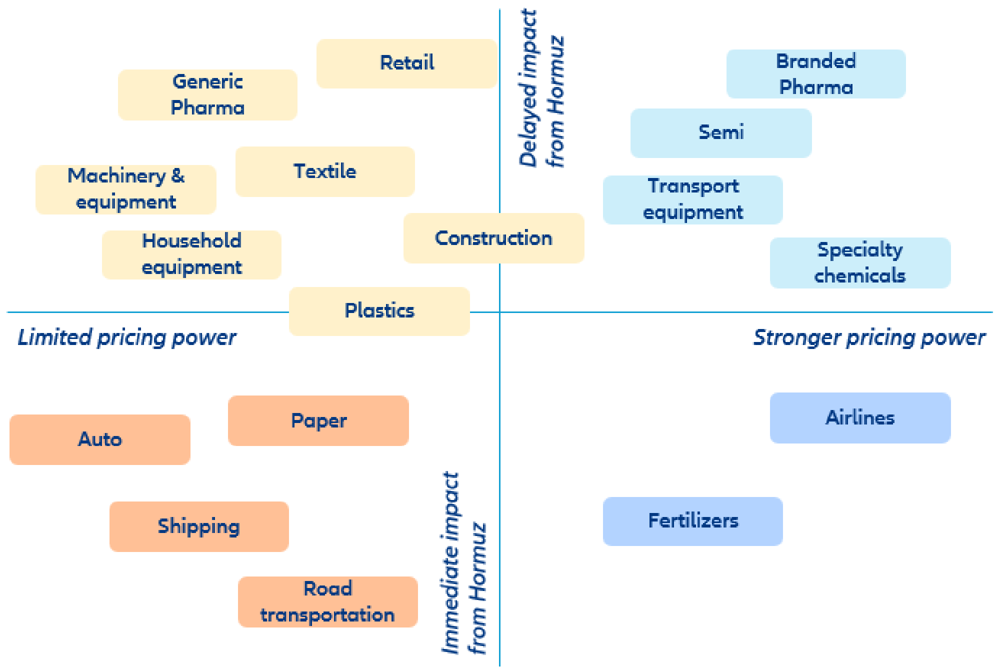


Sources: Oxford Economics, Allianz Research

Allianz

Hormuz might be open but some sectors to feel delayed impact

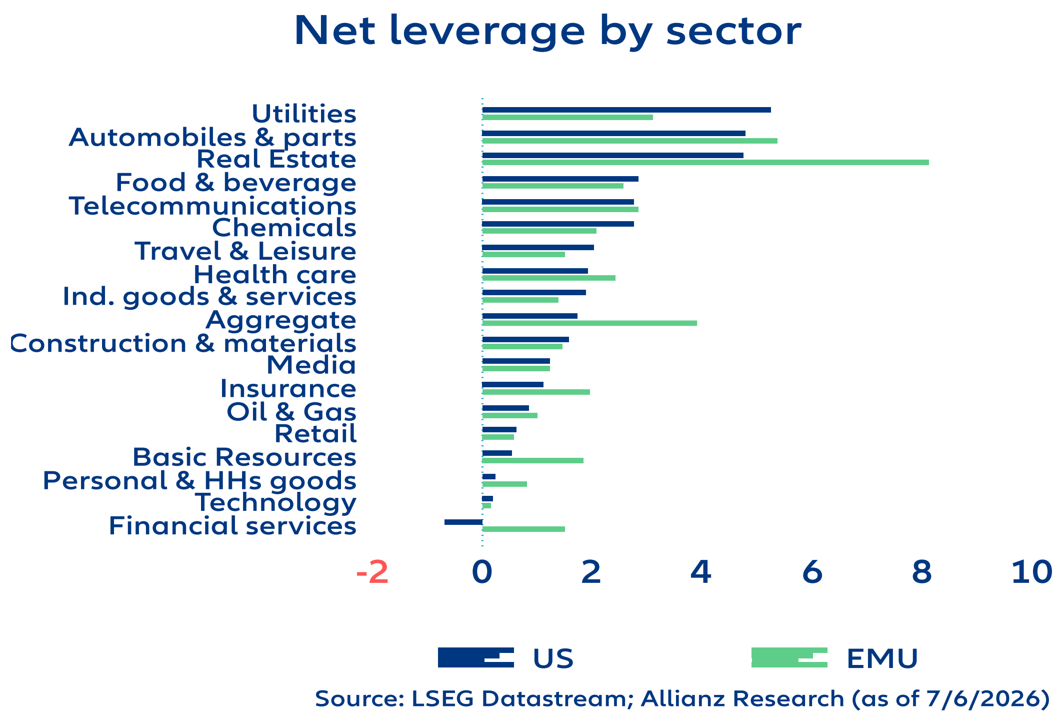
Some sectors with lagged impact from Hormuz to get challenged in Q3



Sources: Allianz Research

Auto sector particularly exposed to rising rates

Net leverage by sector



Sources: LSEG Datastream, Allianz Research

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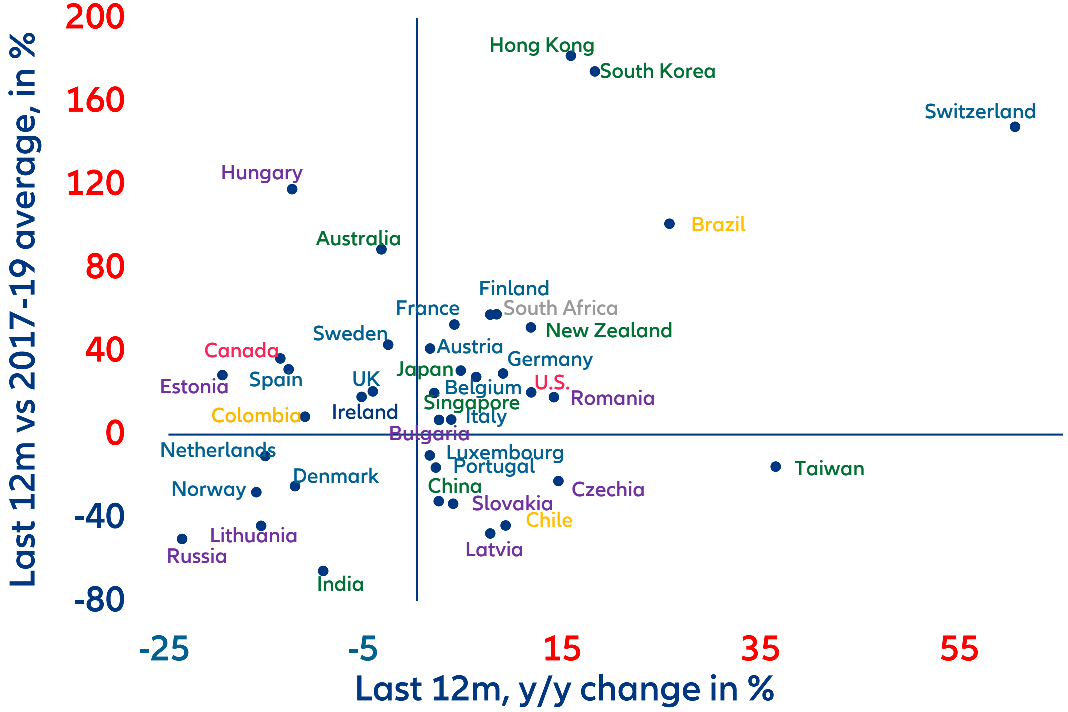
Business insolvencies are expected to rise by +4% in 2026

Business insolvencies rose by +5% YTD

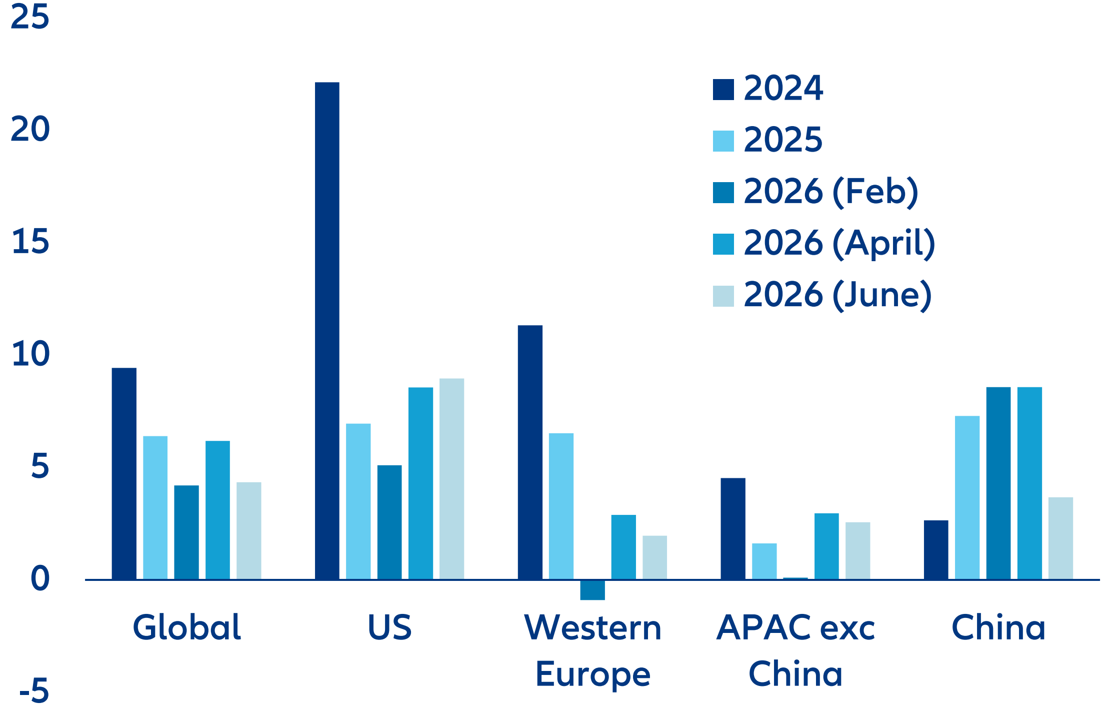
Latest figures by country as of June 2026



Sources: national statistics, Allianz Research

The global rise in insolvencies to soften to +4% in 2026 (-2pps from April) before a plateau in 2027

National (US, China) and regional (WE, APAC) insolvencies, %y/y



Sources: national statistics, Allianz Research

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2026–29: Secular trends
From structural shifts to sector opportunities

Trend	Sector opportunities
Geopolitical Fragmentation, Strategic Autonomy & Supply Chain Reconfiguration	• Defense & Aerospace • Logistics & Warehouse • Infrastructure
Energy Security, Electrification & Resource Nationalism	• Power grid (operators & distributors) • Critical minerals (process & recycling) • LNG & Renewables
Demographic Aging, Longevity & Labor Scarcity	• Healthcare & diagnostics • Biotech & wellness • Robotics & Autonomous Vehicles
AI Adoption & Digital Sovereignty	• Hyperscalers & Datacenter operators • Semiconductors' supply chain • LEO satellites
Digital Money, Tokenization & Risk Transfer	• CBDC infrastructure • Tokenized trade finance • Digital banks & credit platforms

Capital markets outlook

2026-2027

Allianz

Capital market outlook: Cautiously optimistic

Capital markets: Eurozone and US

year-end figures

EMU	Last*	Unit	2023	2024	2025	2026f	2027f
Government Debt							
ECB deposit rate	2.25	%	4.00	3.00	2.00	2.25	2.25
10y yield (Bunds)	2.94	%	2.03	2.36	2.85	2.90	3.00
10y EUR swap rate	3.00	%	2.48	2.39	2.93	2.90	3.00
20y EUR swap rate	3.23	%	2.51	2.39	3.23	3.00	3.10
Italy 10y sovereign spread	79	bps	168	117	65	80	80
France 10y sovereign spread	79	bps	53	83	71	90	60
Spain 10y sovereign spread	48	bps	97	70	44	40	40
Corporate Debt							
Investment grade credit spreads	76	bps	135	101	78	80	90
High-yield credit spreads	262	bps	395	311	270	280	315
High-yield credit spreads ex-CCC	216	bps	333	239	219	230	250
Equity							
Eurostoxx (total return p.a.)	14 ytd	%	19	10	25	14	11

US	Last*	Unit	2023	2024	2025	2026f	2027f
Government Debt							
Fed Funds rate (high)	3.75	%	5.50	4.50	3.75	4.00	3.50
10y yield (Treasuries)	4.47	%	3.87	4.57	4.16	4.35	4.10
Corporate Debt							
Investment grade credit spreads	75	bps	104	82	79	80	90
High-yield credit spreads	272	bps	334	292	281	290	325
Equity							
S&P 500 (total return p.a.)	11 ytd	%	26	25	18	13	11

Capital markets: UK, emerging markets, FX

year-end figures

UK	Last*	Unit	2023	2024	2025	2026f	2027f
Government Debt							
BoE rate	3.75	%	5.25	4.75	3.75	4.00	3.50
10y yield sovereign (Gilt)	4.80	%	3.54	4.57	4.47	4.80	4.60
Corporate Debt							
Investment grade credit spreads	80	bps	134	91	80	90	100
High-yield credit spreads	388	bps	515	364	420	430	450
Equity							
FTSE 100 (total return p.a.)	9 ytd	%	8	10	26	9	8

Emerging Markets	Last*	Unit	2023	2024	2025	2026f	2027f
Government Debt							
Hard currency spread (vs USD)	238	bps	384	325	253	245	270
Hard currency spread ex-CCC (vs USD)	165	bps	215	202	163	170	185
Local currency yield	6.09	%	6.19	6.39	5.87	6.20	6.10
Equity							
MSCI EM (total return p.a. in USD)	24 ytd	%	10	8	34	29	12

FX & Commodities	Last*		2023	2024	2025	2026f	2027f
EUR USD	1.14	$ per €	1.10	1.04	1.17	1.15	1.15
Oil (Brent)	72	$ per bl	78	75	61	75	67
Natural gas (Dutch TTF)	44	€ per MWh	32	49	28	41	32

Sources: LSEG Datastream, Bloomberg, Allianz Investment Management
Notes: Year end figures
* As of 6.Jul 2026

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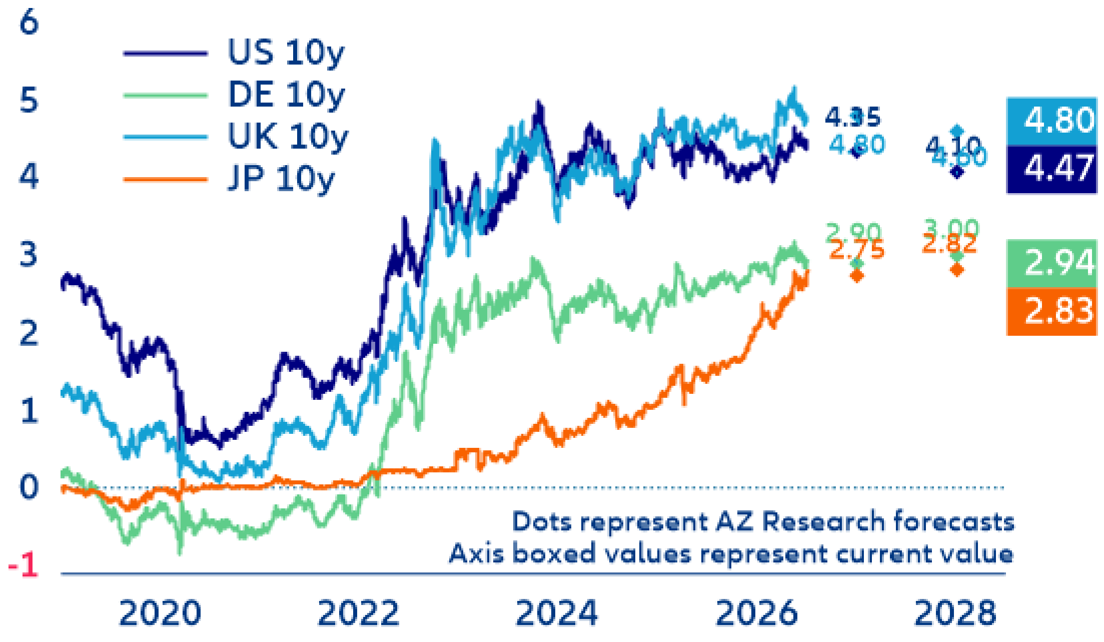
Global rates: Not much downward pressure amid high deficits and ongoing QT in Europe and Japan

Global long rates have peaked but remain in a "higher for longer" regime

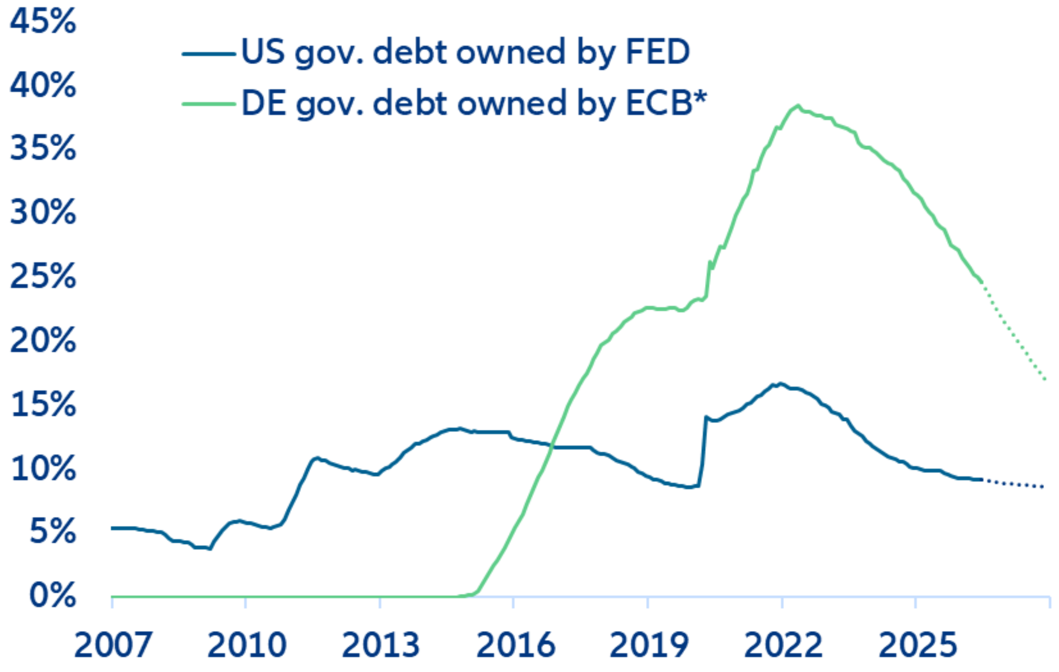
Yield in %



Sources: LSEG Datastream, Allianz Investment Management

ECB's QT program at full run-off speed spills large amounts of Bunds to markets

Share of government debt owned by central banks, %



Sources: Bloomberg, Allianz Investment Management

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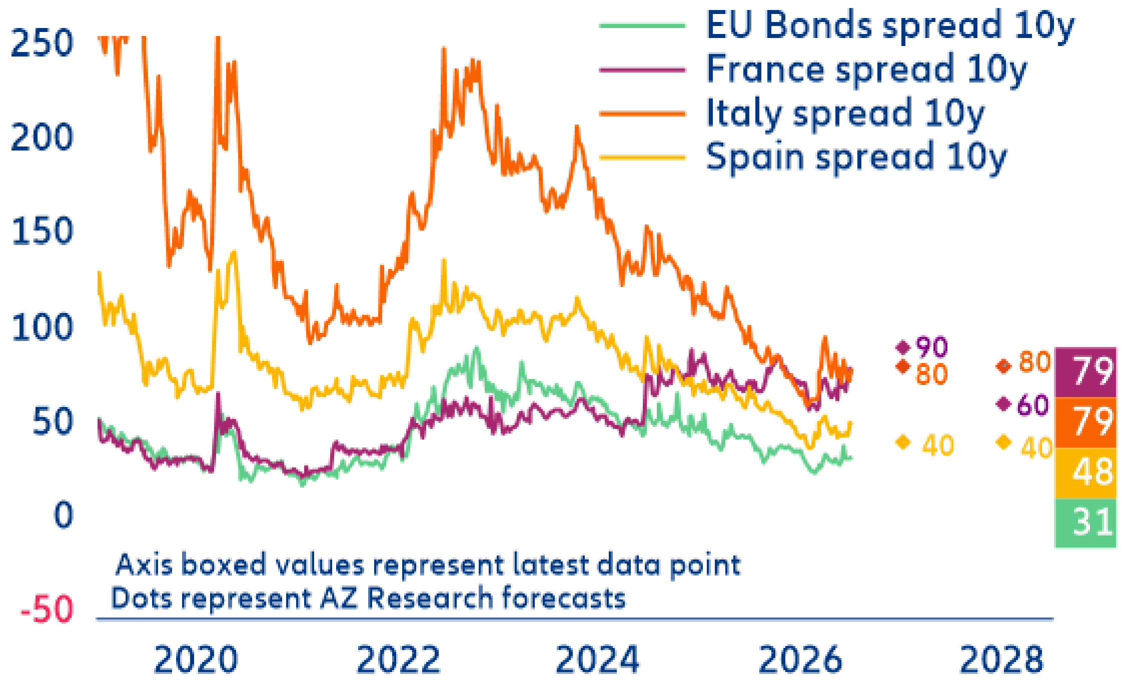
EZ spreads: French election fears will temporarily raise OAT spreads again

Sovereign spreads will reflect election risk in France but stabilize afterwards

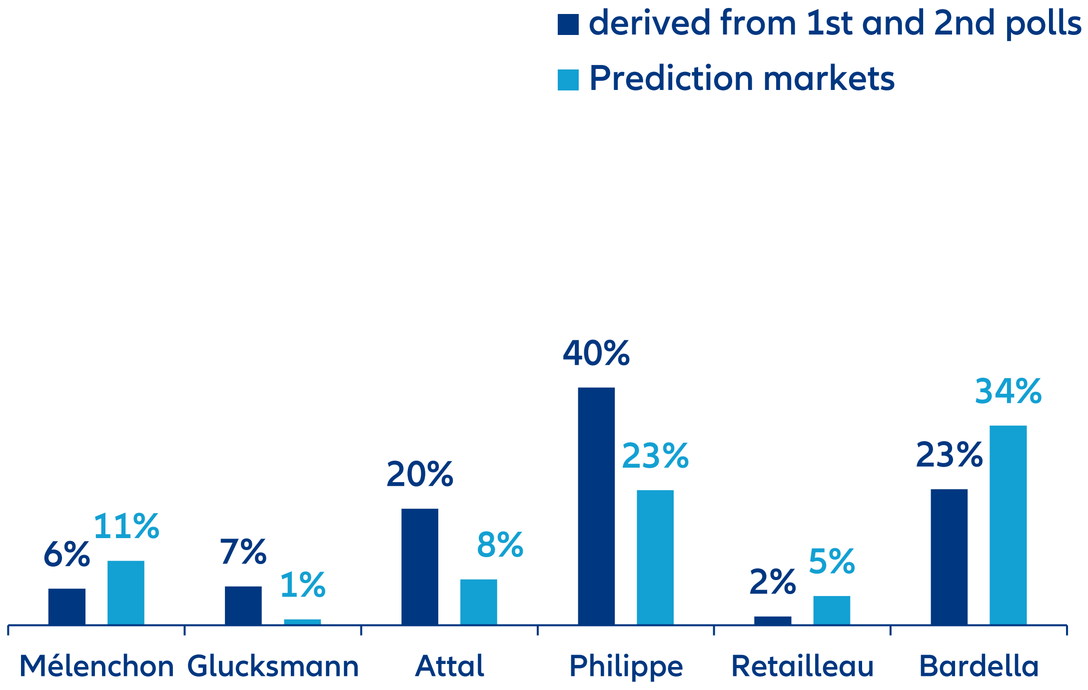
Yield spreads vs. 10y German bund yields in bps



Sources: Bloomberg, LSEG Datastream, Allianz Investment Management

French presidential election uncertainty with prediction markets overstating far-right victory

Betting market probabilities on next French president



Sources: Kalshi 25.0.2026, Wikipedia, Allianz Investment Management

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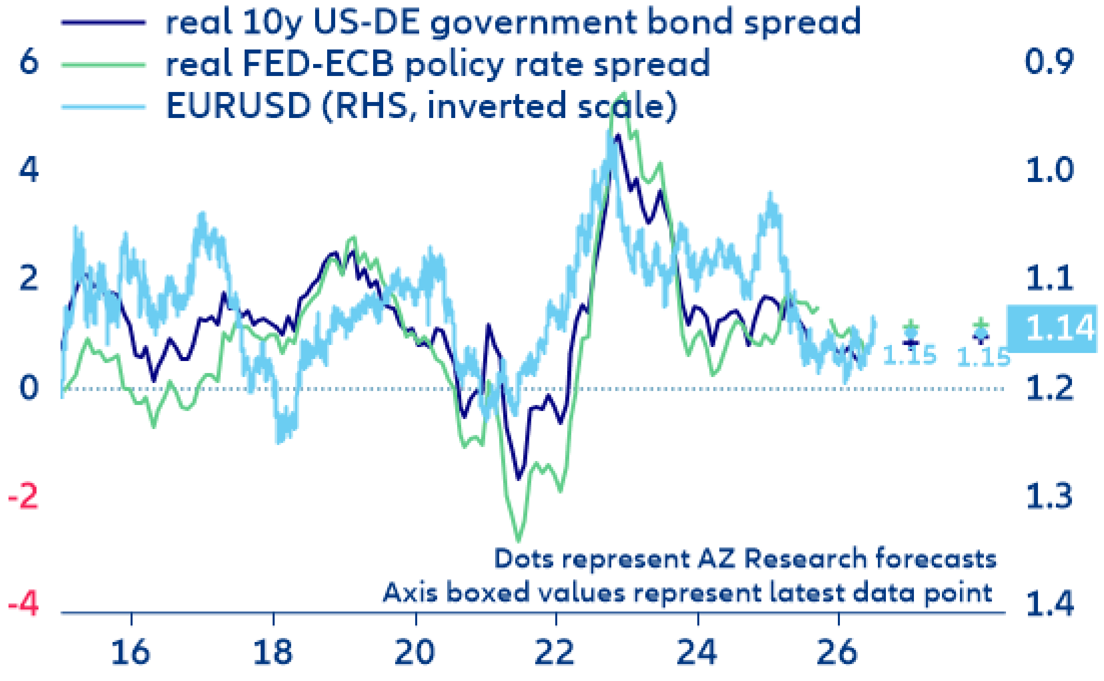
US dollar strength could return thanks to strong fundamentals but US policy uncertainty a backstop

Interest rate differentials do not point towards USD weakness anymore

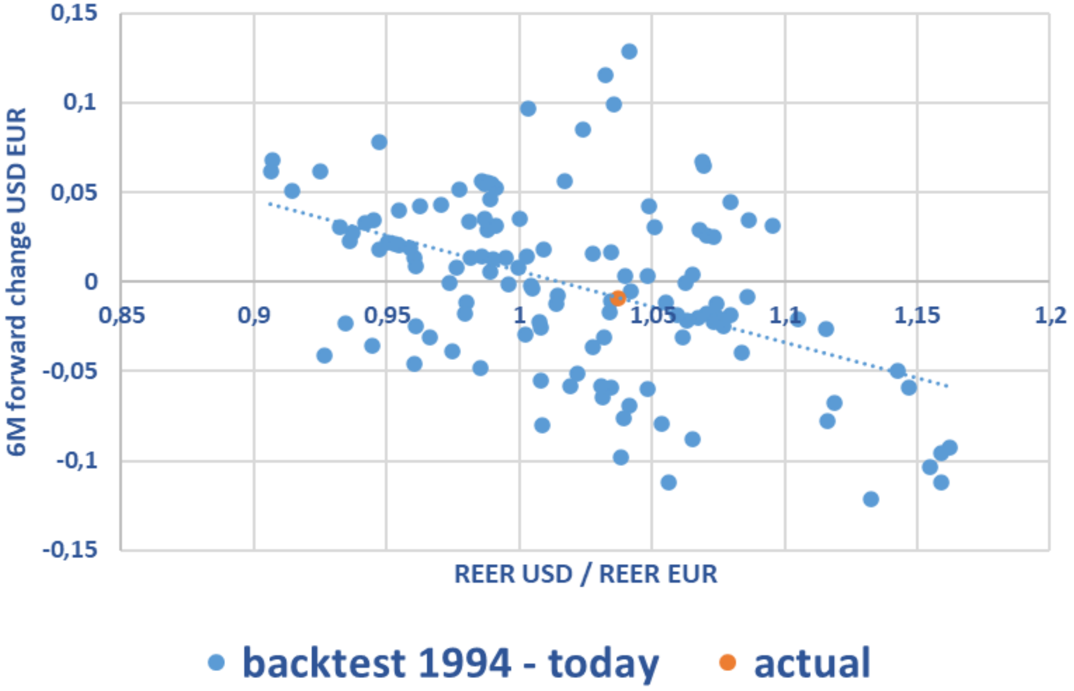
Interest rate differential in pp (LHS), EUR/USD (RHS, inverted)



Sources: LSEG Datastream, Allianz Investment Management

Real effective exchange rates see EUR/USD at fair levels currently

Historical real exchange rate differential vs 6m forward change in %



Sources: Bloomberg, Allianz Investment Management

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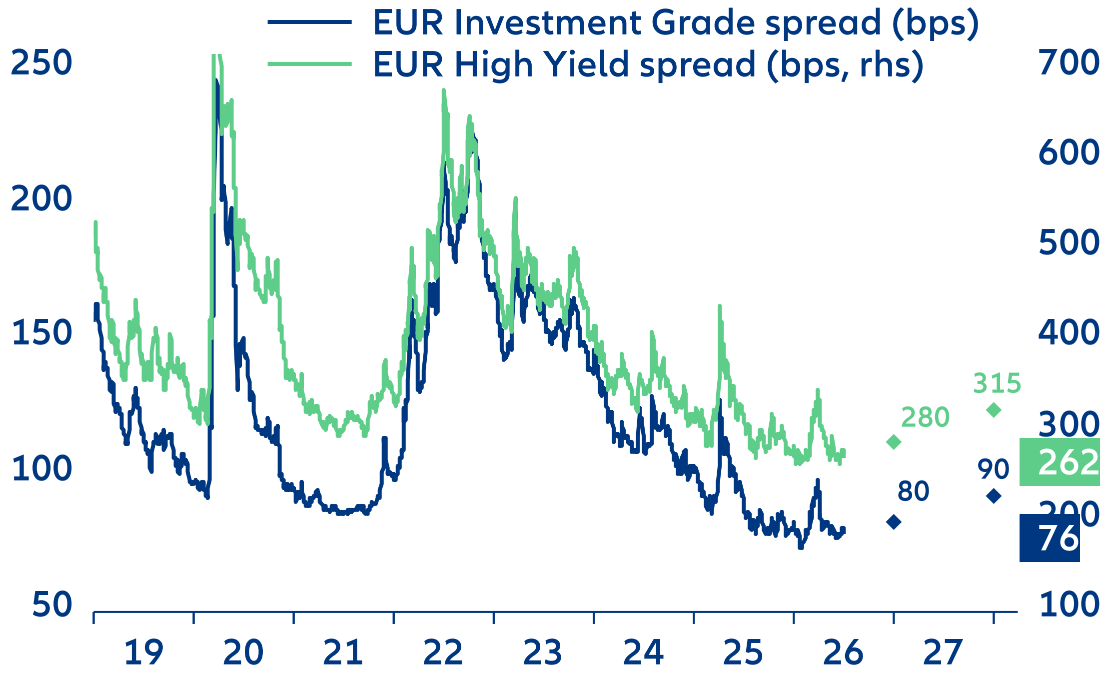
Euro credit: carry keeps paying, spreads stay tight and fundamentals hold

Spreads are expected to stay tight in 2026 and drift slightly wider driven by normalized fundamentals

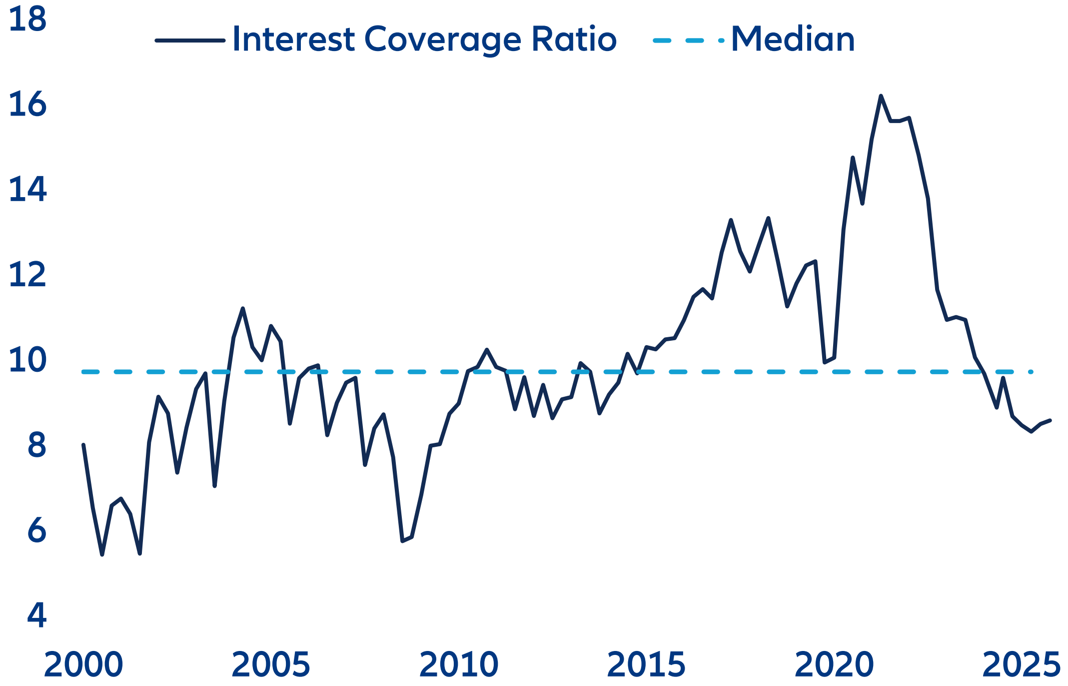
Spreads in bp



Source: LSEG, AIM-IS

Net rating upgrades prevail but interest coverage dipped below median, posing risk in macro slowdown

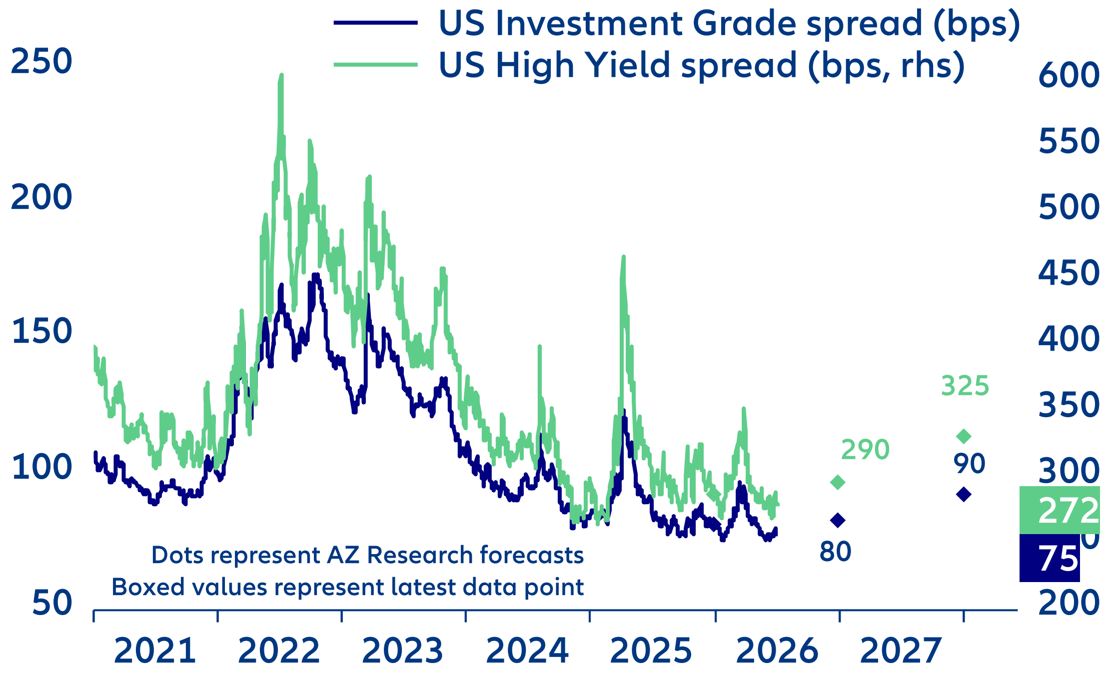
EBITDA/ Interest Expense



Source: Bloomberg, Moody's, AIM-IS

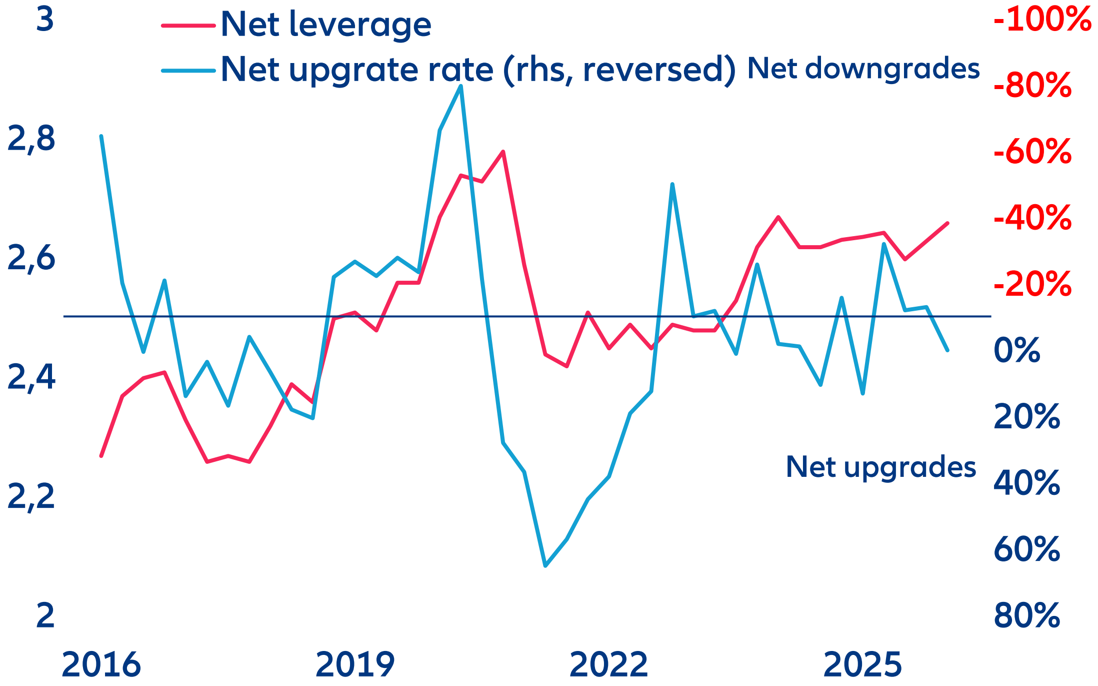
US credit: strong technicals and growth support tight spreads, while leverage worth watching

Strong demand for yield keeps spreads tight—widening only in 2027 as macro stay supportive



Source: LSEG, AIM-IS

US downgrades are easing, but re-leveraging bears watching as interest coverage already below average and AI-financing structures gain weight



Source: LSEG, AIM-IS; Note: quarterly data as of Q2 2026, net upgrade rate calculated by (upgrades# – downgrades#)/total rating actions

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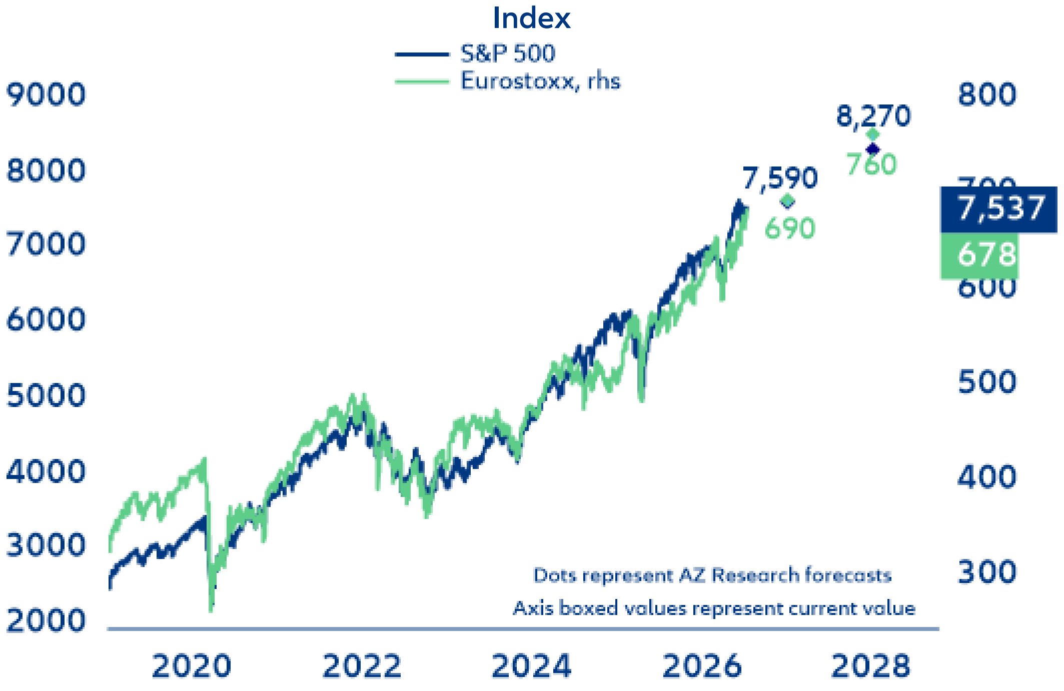
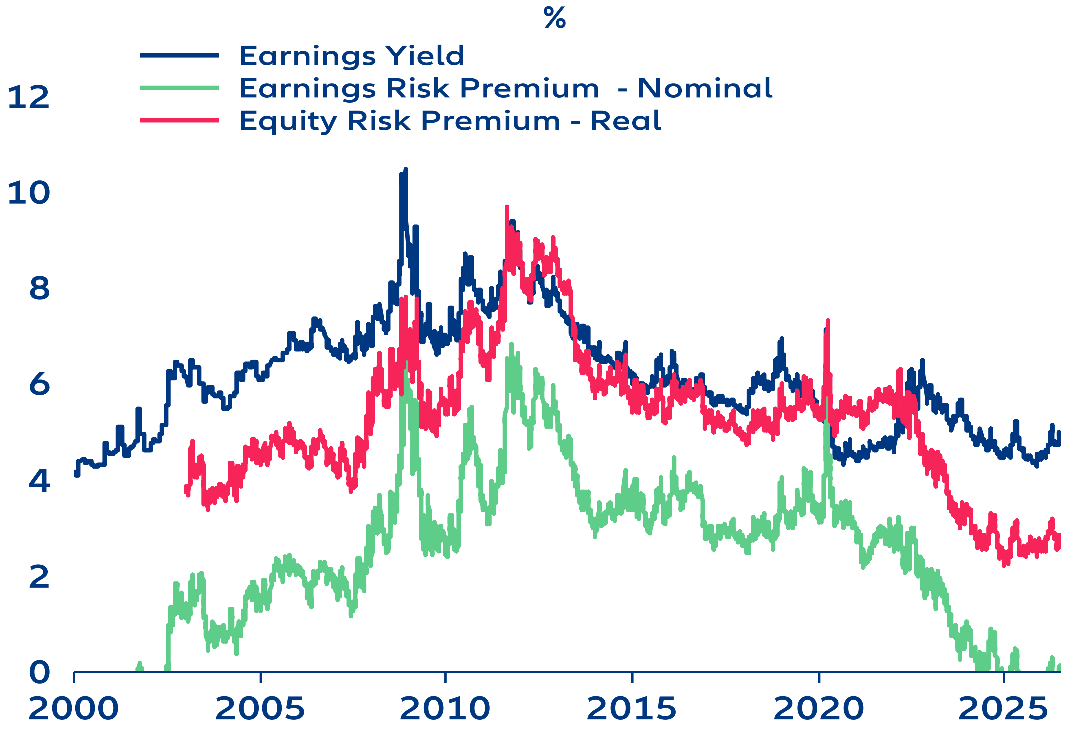
Equities: downside eased but low near-term upside

Equities had a strong first half in 2026 thanks to outstanding earnings and the semiconductor hype



Sources: LSEG Datastream; AIM GIS

Equity risk premium over nominal Treasuries is zero. Attractivity rests of on 2.6% premium to real yields.

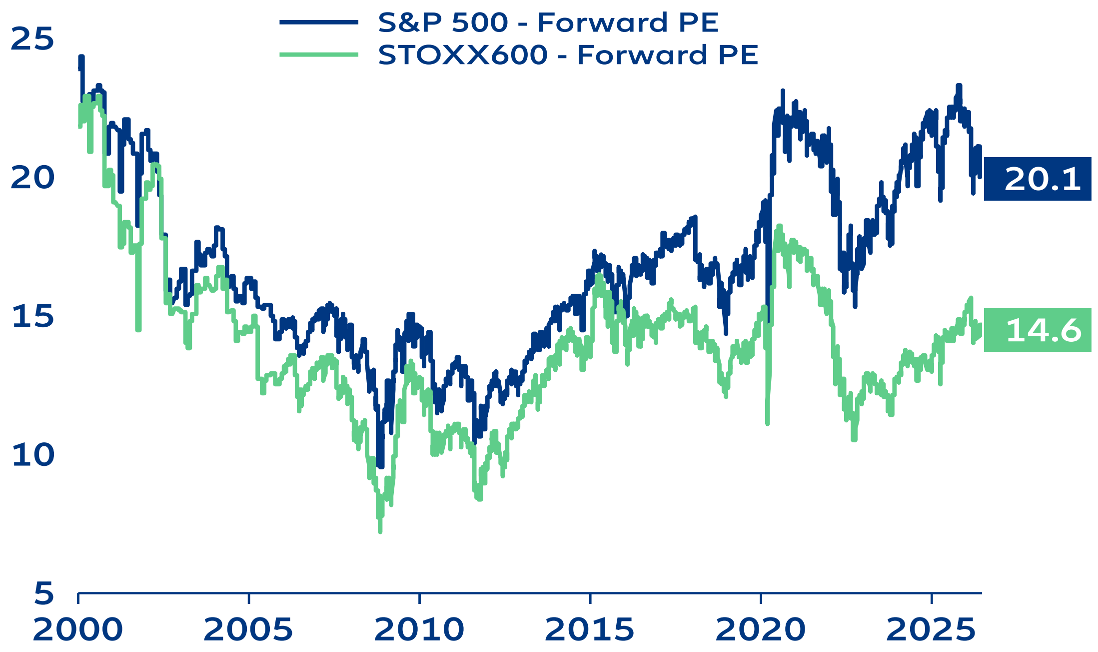


Sources: LSEG Datastream; AIM GIS

Allianz

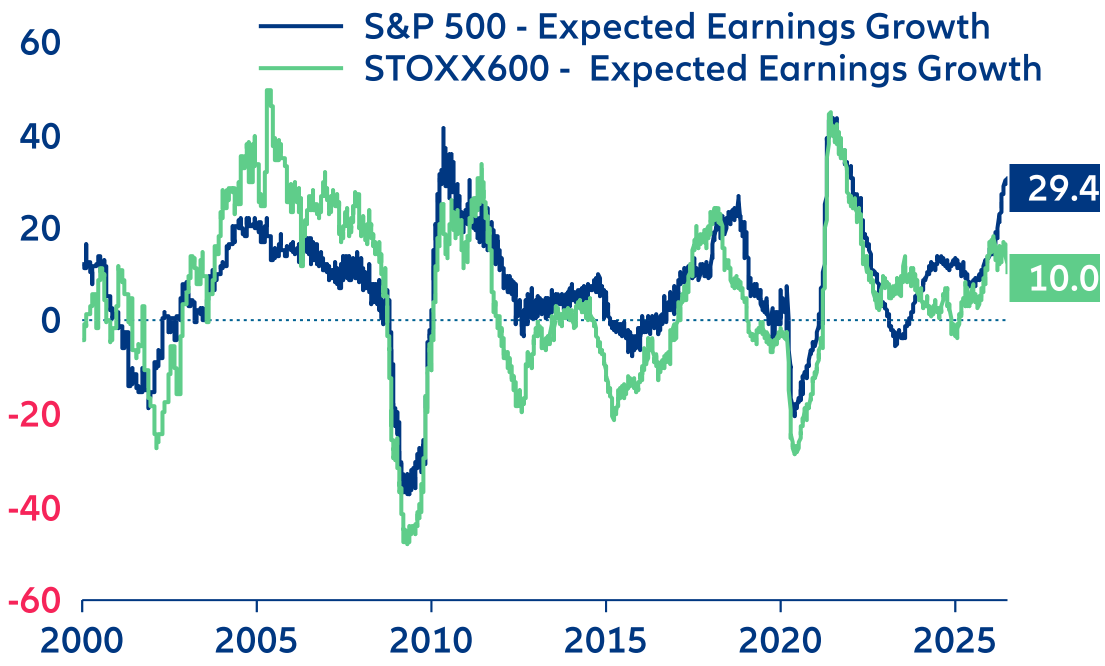
Equity fundamentals: high US valuations reflect strong growth expectations

US valuations remain at upper end and rely on AI premium and growth.



Sources: LSEG Datastream; AIM GIS

US earnings growth was previously only seen in recession rebounds. Europe is more modest.

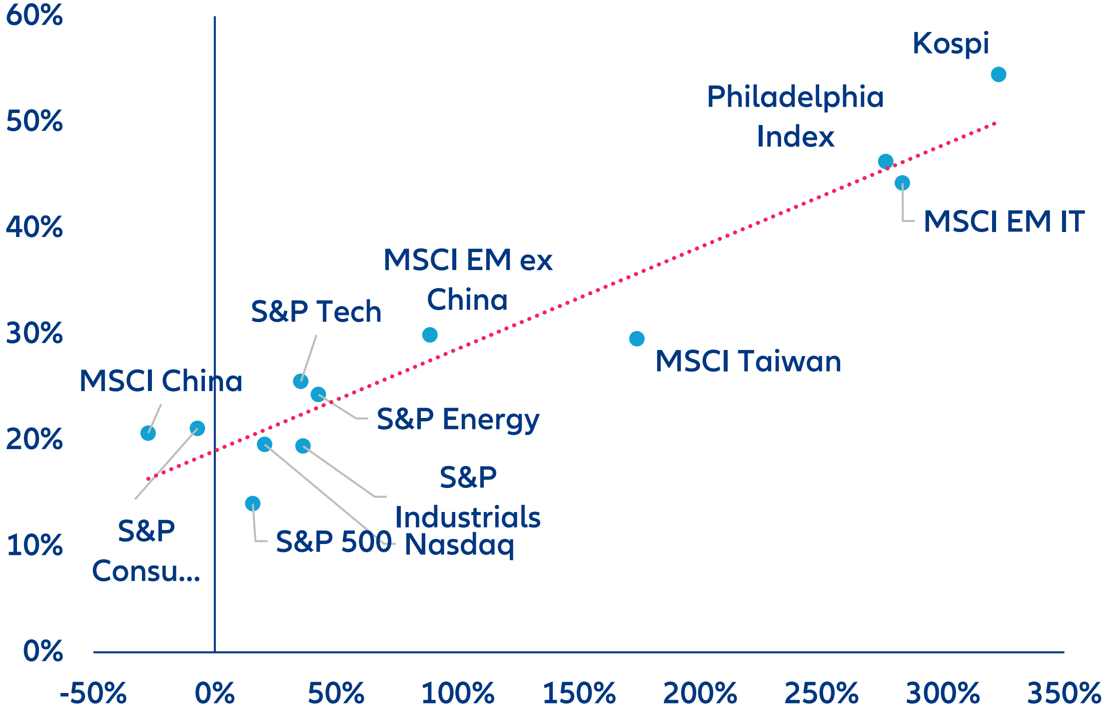


Sources: LSEG Datastream; AIM GIS

Equity markets are boosted by ongoing semiconductor boom

Semiconductors have been fueling returns & volatility

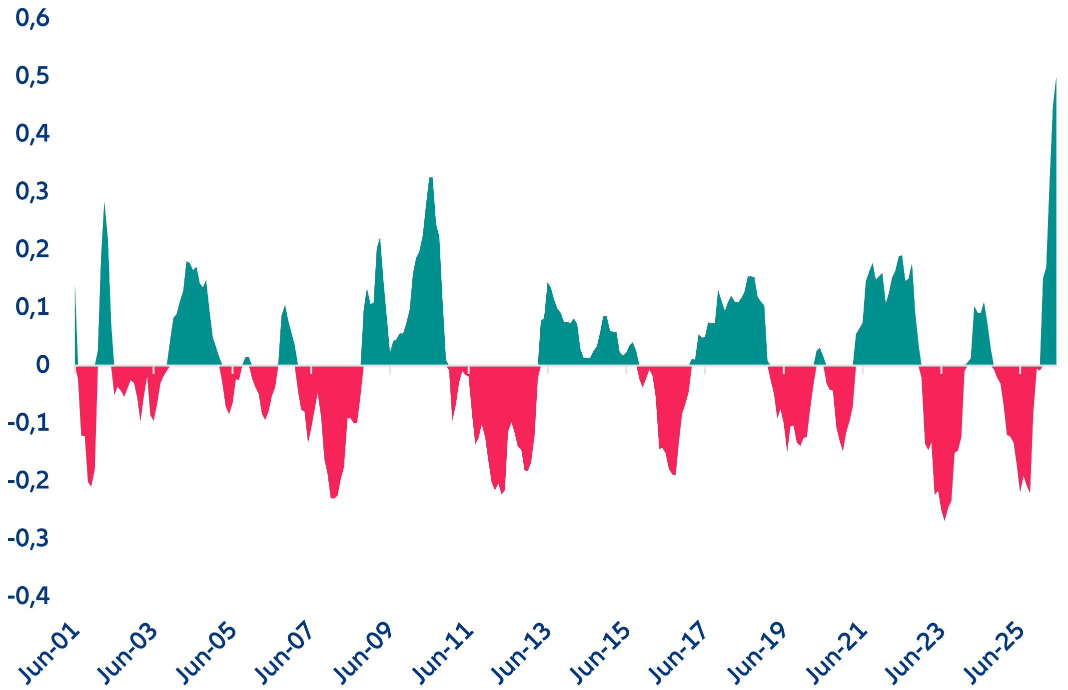
annualized returns (x-axis) vs annualized volatitility (y-axis)



Sources: LSEG Datastream, Allianz Research
As of June 24, 2026

The semi price cycle* has not peaked yet

Cycle index (HP filter)

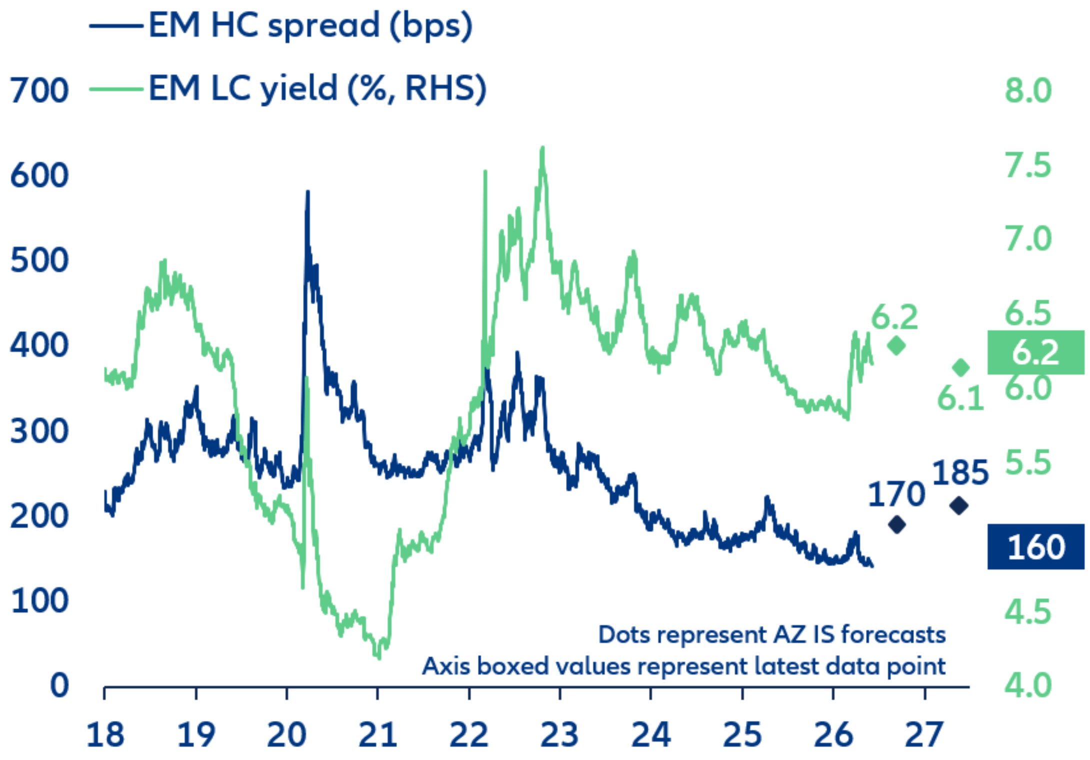


Sources: LSEG Workspace, Allianz Research
* Cyclical component extracted from long term Korean semi export prices using HP filter

Allianz

EM sovereign credit remains vulnerable to geopolitical repricing

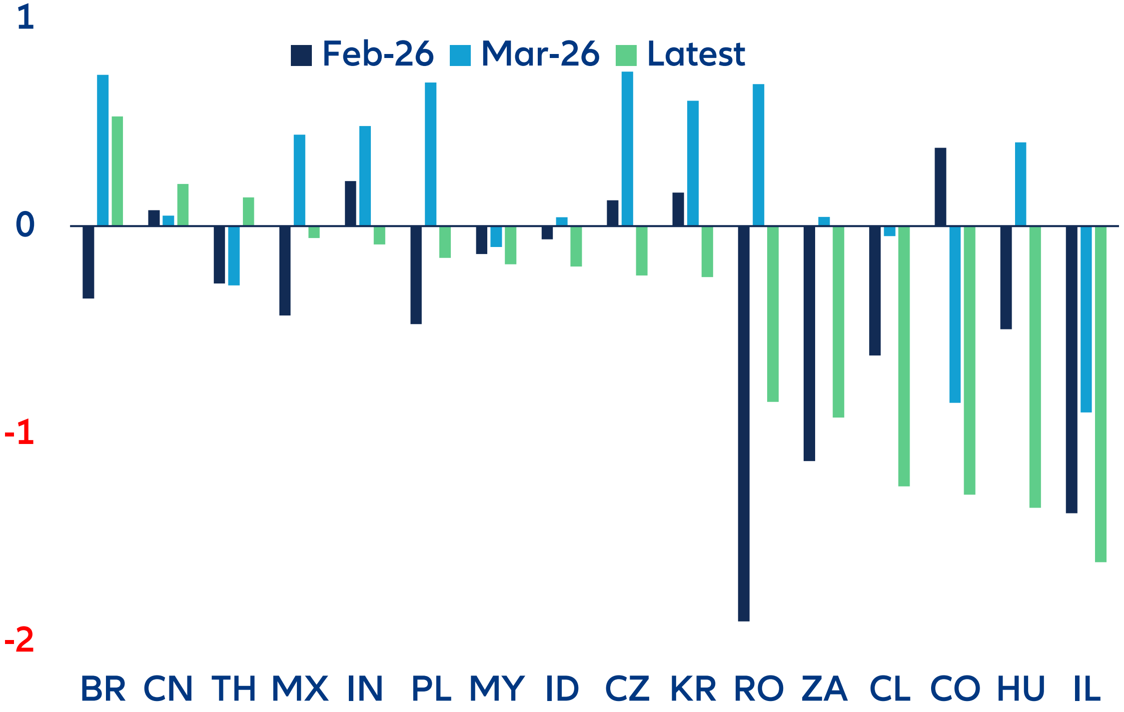
EM local markets have repriced more sharply than hard-currency credit



Sources: LSEG Datastream, Allianz Research

Several EM local markets now trade away from what fundamentals would suggest

Standardized deviation of selected local currency yield from fair value, z-score



Sources: Bloomberg, LSEG Datastream, Allianz Research

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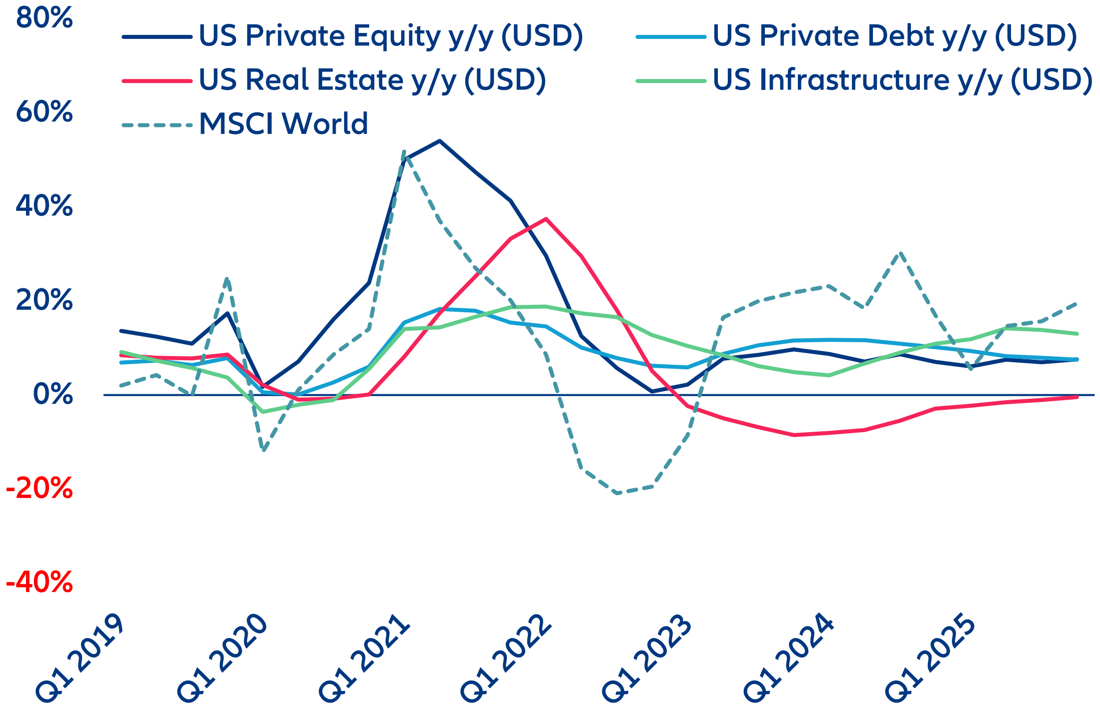
Global Private Markets – Stabilizing returns

Private markets performance has stabilized

y/y% performance for global private assets



Sources: Pitchbook LCD, LSEG Datastream, AIM-GIS-PM
Notes: Geography – Global; Data as of Q4 2025 for private assets and 9th Jan for MSCI World; Real assets includes infrastructure.

Our scenario suggests non stellar returns for private assets in the next two years

Asset			Quarterly and Yearly Return (in %)			Expected Yearly Return 2026-2027
			1y trailing return	Q3 2025 (q/q)	Q4 2025 (q/q)	
Private Equity Buyout		US	7,6%	1,8%	2,1%	8,5%
		Europe	4,2%	1,1%	2,2%	
Private Debt	*Direct Lending**	US	7.5% (510)	2,1%	1.4% (497)	530
		Europe	4.0% (518)	1,4%	1.2% (475)	
Real Estate** (Funds)	*Office*	US	-0,4%	-0,1%	-0,5%	3,0%
		Eurozone	-1,7%	-1,6%	2,0%	
Infrastructure (Funds)	*Core+*	US	13,0%	3,0%	3,2%	8,5%
		Europe	2,2%	1,8%	0,8%	

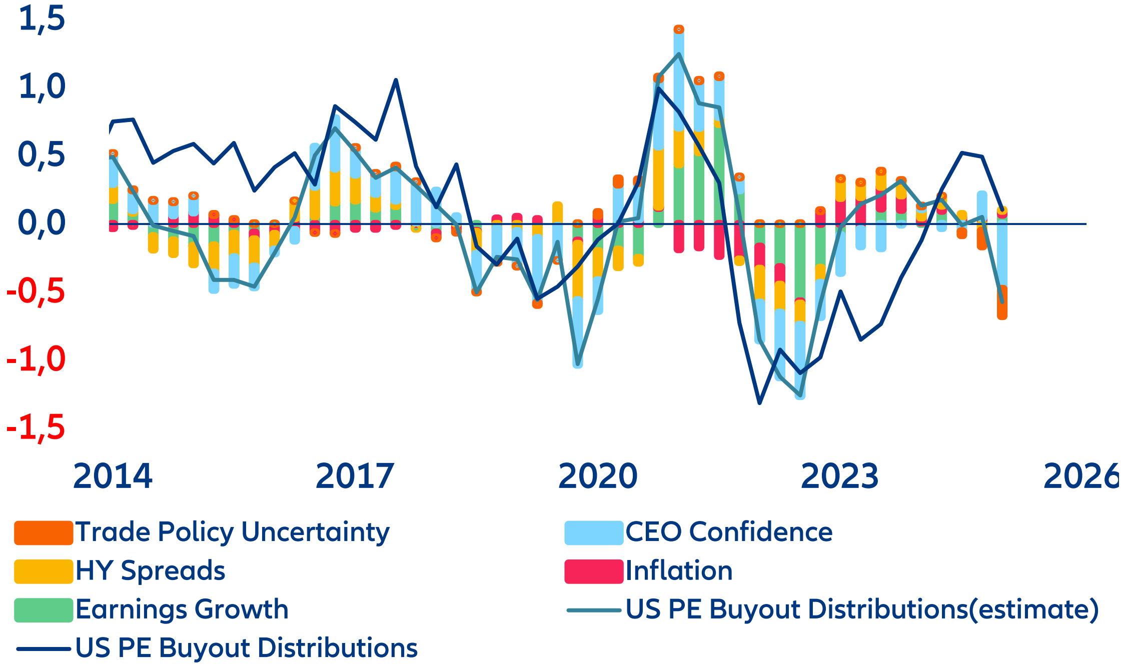
Source: AIM-GIS-PM, Pitchbook LCS, MSCI Indices /* Direct lending spread data reflects senior secured first-lien loans and unitranche facilities / **Both RE and Infra indices performance refer to broad indices not Office or Core

Allianz

Private equity should reaccelerate on operational improvements so long as rates stay contained

PE payouts to accelerate, absent fresh stagflation or geopolitical shocks

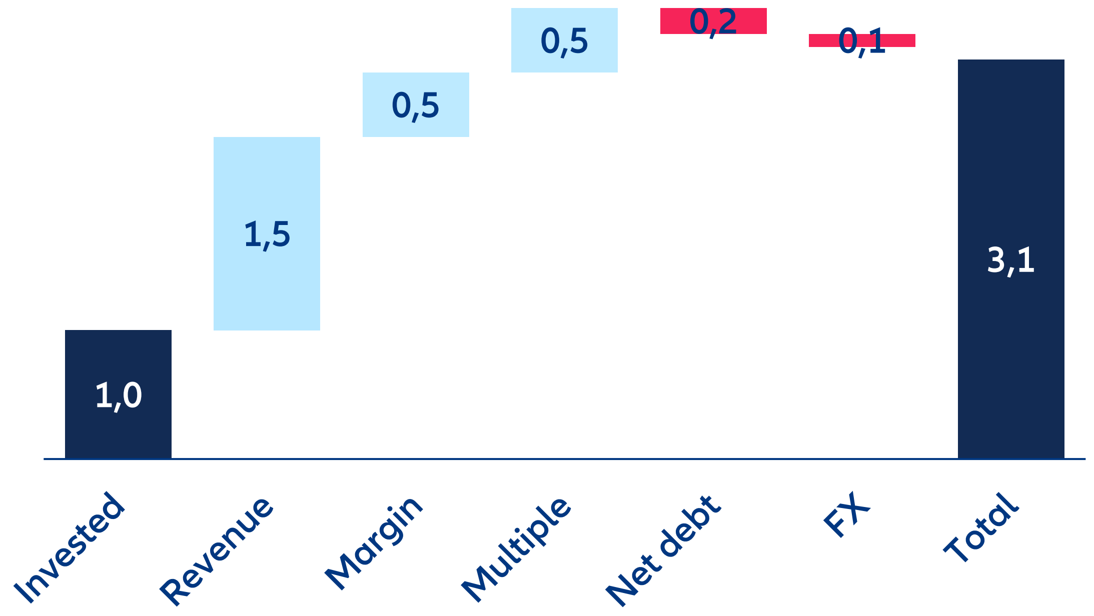
Distributions Z-score decomposition



Source: Allianz Research, LSEG Datastream, PitchBook

This cycle, PE creates value by improving businesses, not riding multiple expansion as in 2020-21

US PE value bridge for 2022-25 exits



Source: MSCI, Allianz Research, PitchBook

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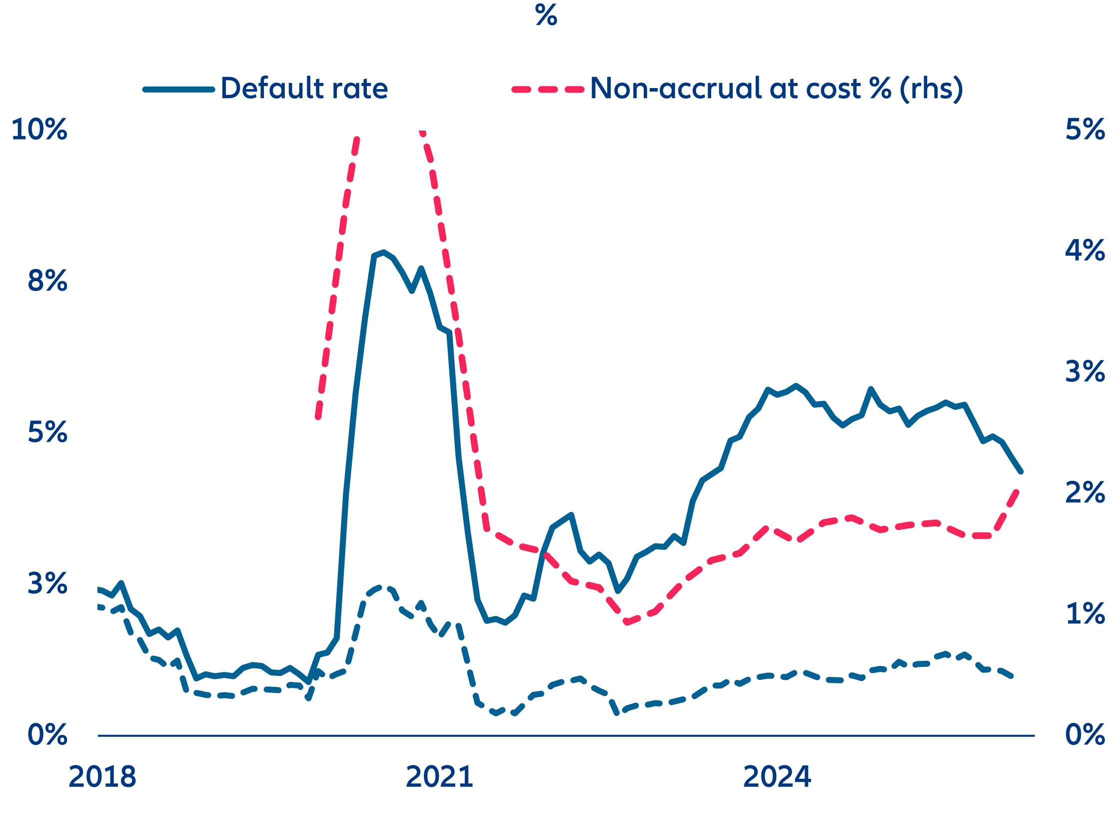
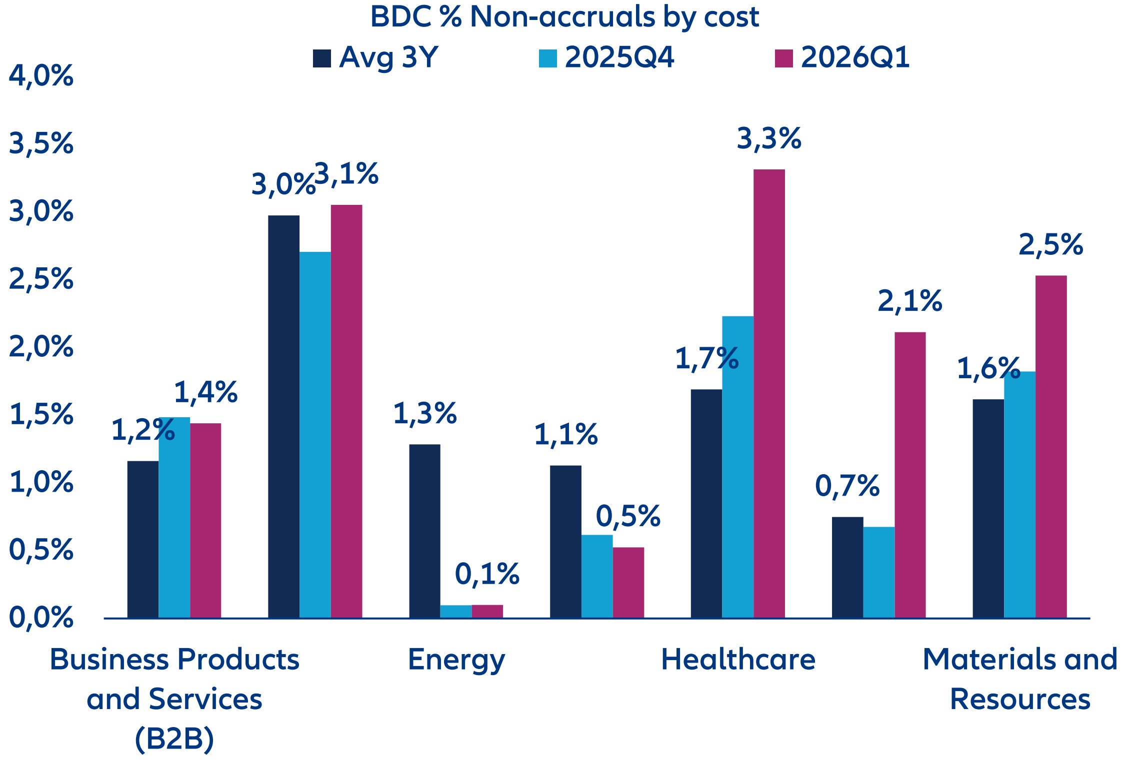
The pressure relief valve: defaults easing, while dispersion continues

Headline default rates moderate to 4.4% in Q1 2026



Sources: &P Global Ratings Credit Estimates (CE), dotted line include distressed exchanges. Non-accrual at cost for Public BDCs, Allianz Research with data from Pitchbook as of Mar 2026. AIM-IS-PM

Under the hood non-accruals drift higher in selective sectors

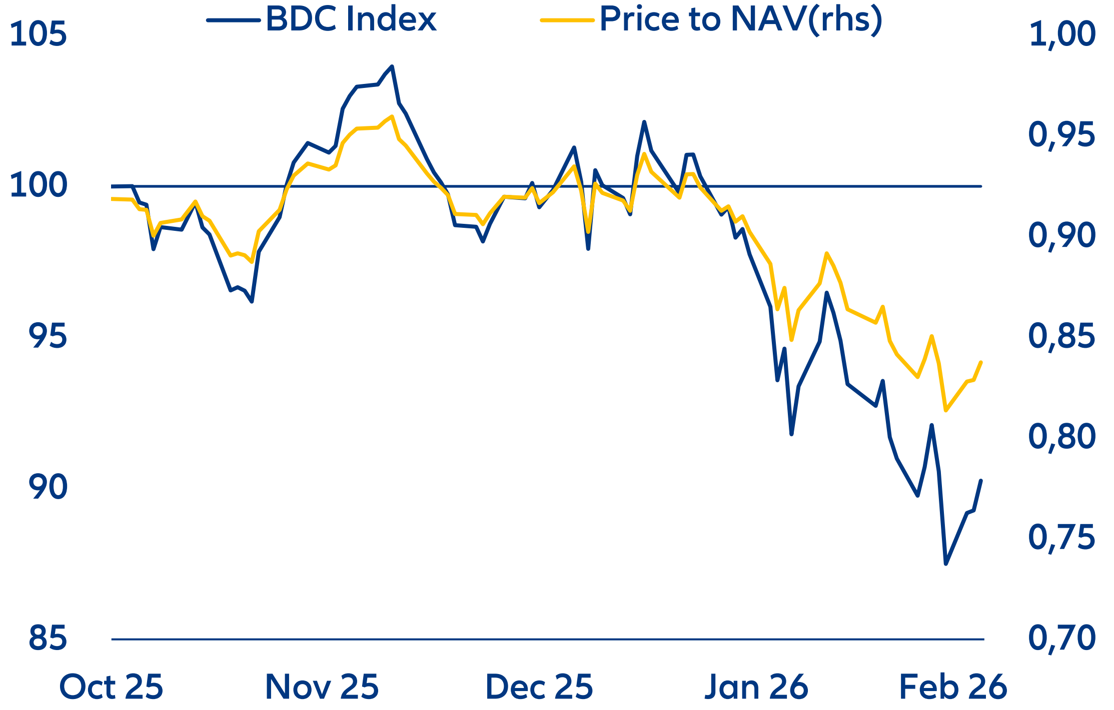


Sources: Look-through of BDC portfolios, Pitchbook. Data as of Mar 2026. AIM-IS-PM

Allianz

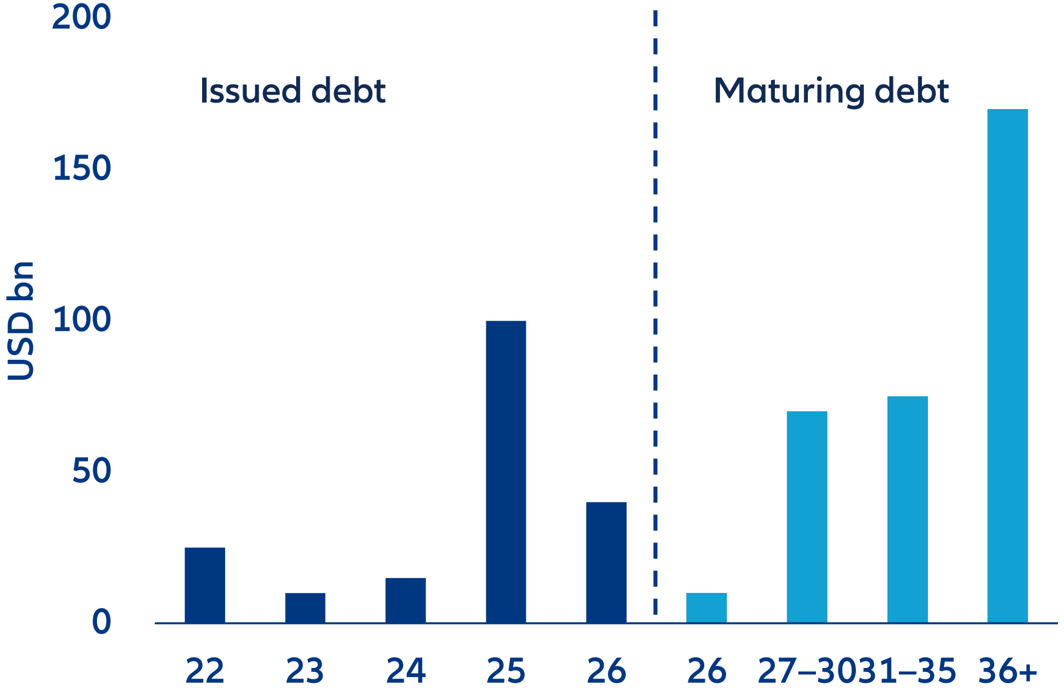
Like a river finding new ground: private credit rerouting from software to silicon

Software ~25% of private credit, BDC hit by AI disruption fears



Source: Cliffwater BDC Index (CWBDC), BIS, AIM-IS-PM

AI hyperscalers increasingly finance capital expenditures with debt

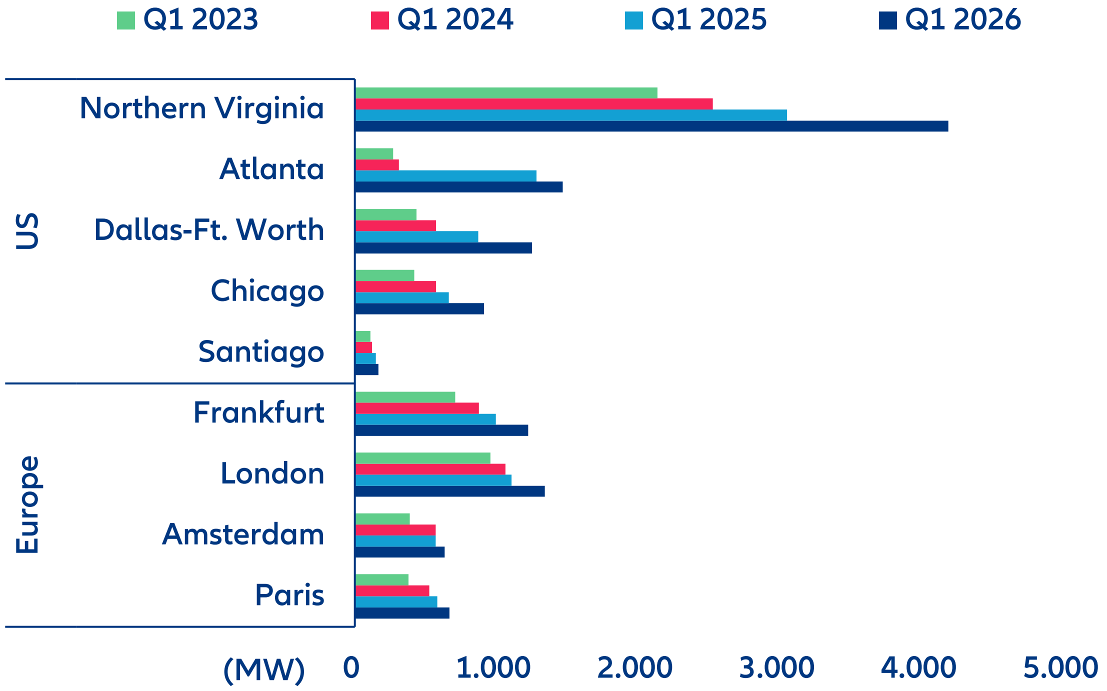


Notes: AIHs (AI hyperscalers) = Alphabet, Amazon, Meta, Microsoft and Oracle. Data as of 5 March 2026. Source: LSEG, BIS, AIM-IS-PM

Allianz

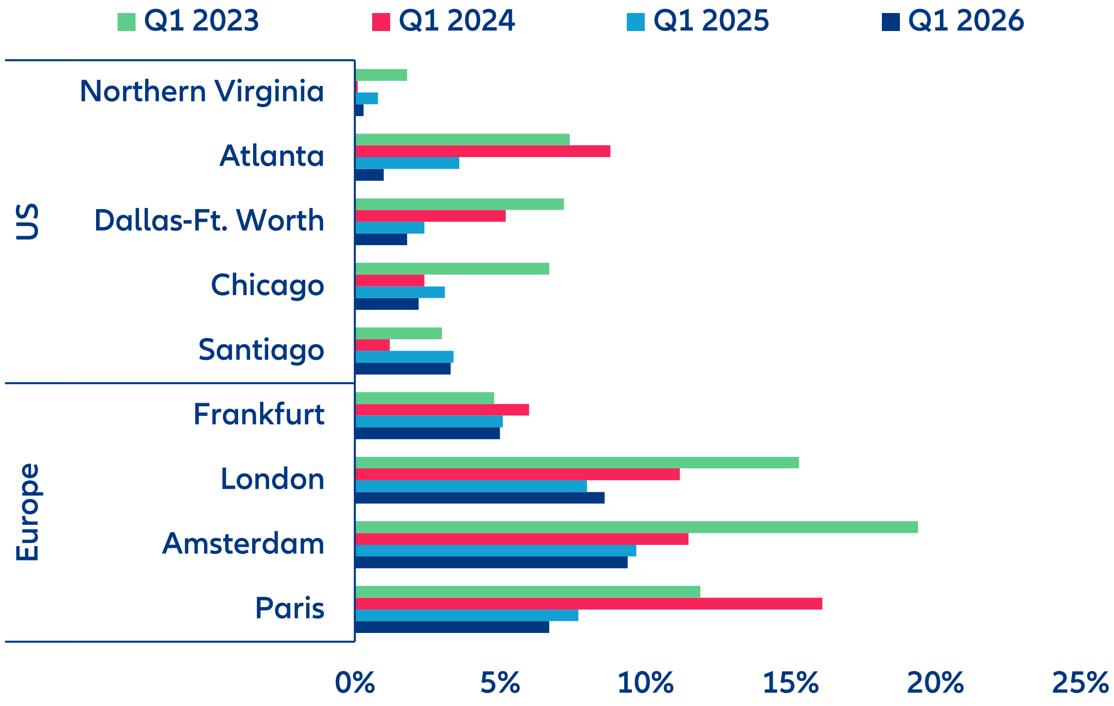
Despite strong new-build, data-center demand keeps outstripping supply

While data-center inventory surged across major markets ...



Sources: CBRE, AIM-GIS-PM

... strong demand has driven vacancy rates to record lows

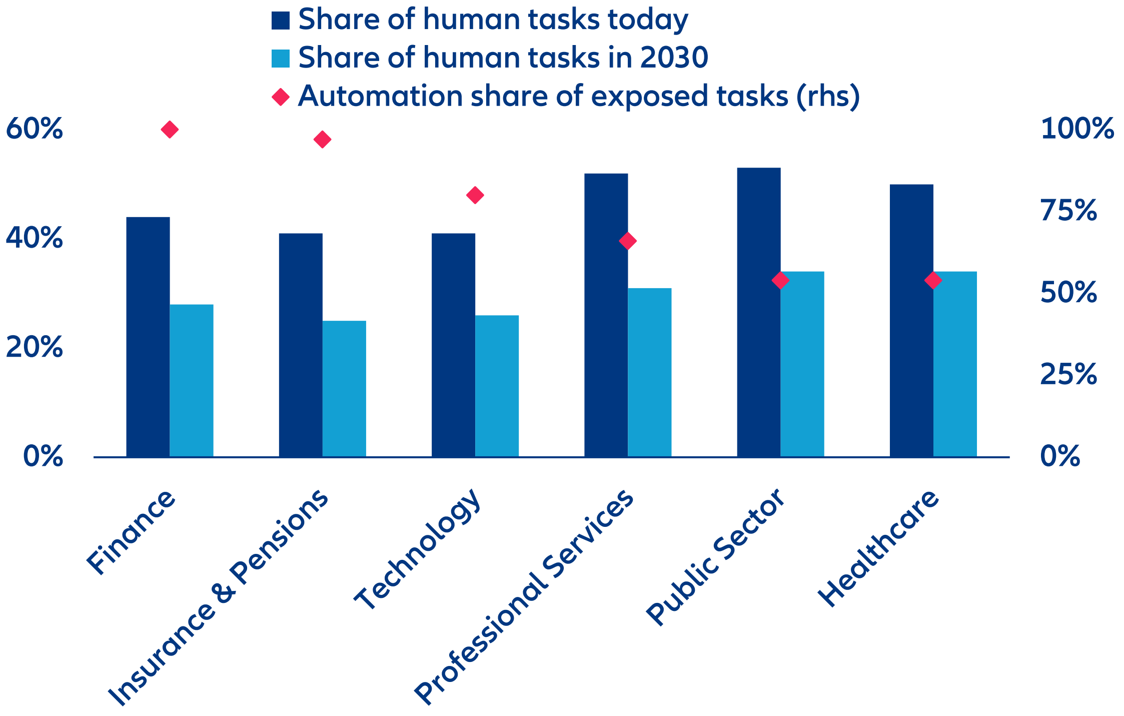


Sources: CBRE, AIM-GIS-PM

Allianz

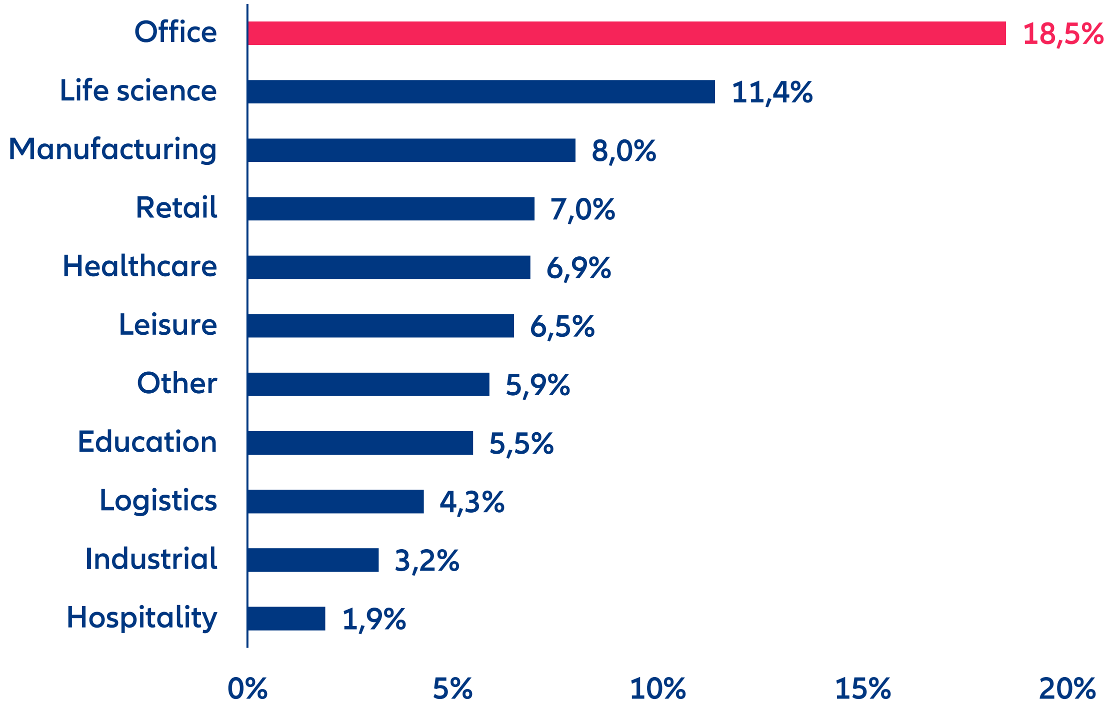
Rising AI adoption to further weigh on office demand

Office-using functions are highly exposed to AI automation and argumentation



Sources: World Economic Forum, AIM-GIS-PM

Office faces the greatest exposure risk among commercial real estate property types



Sources: Oxford Economics, Newmark, AIM-GIS-PM

** Exposures scores reflect the predicted impact of generative AI on occupations within each property sector, including an adjustment for adoption rates*

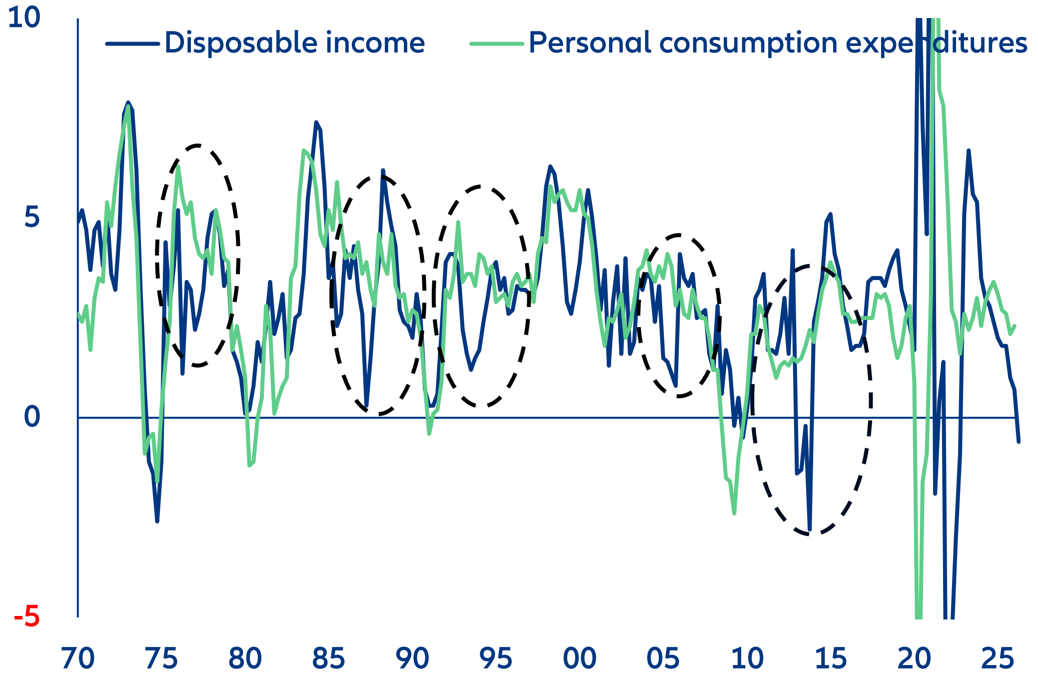
Regional outlooks 2026-2027

Allianz

US: moderate, but resilient growth to continue thanks to AI capex

US households are reducing their savings to sustain spending amid income squeeze

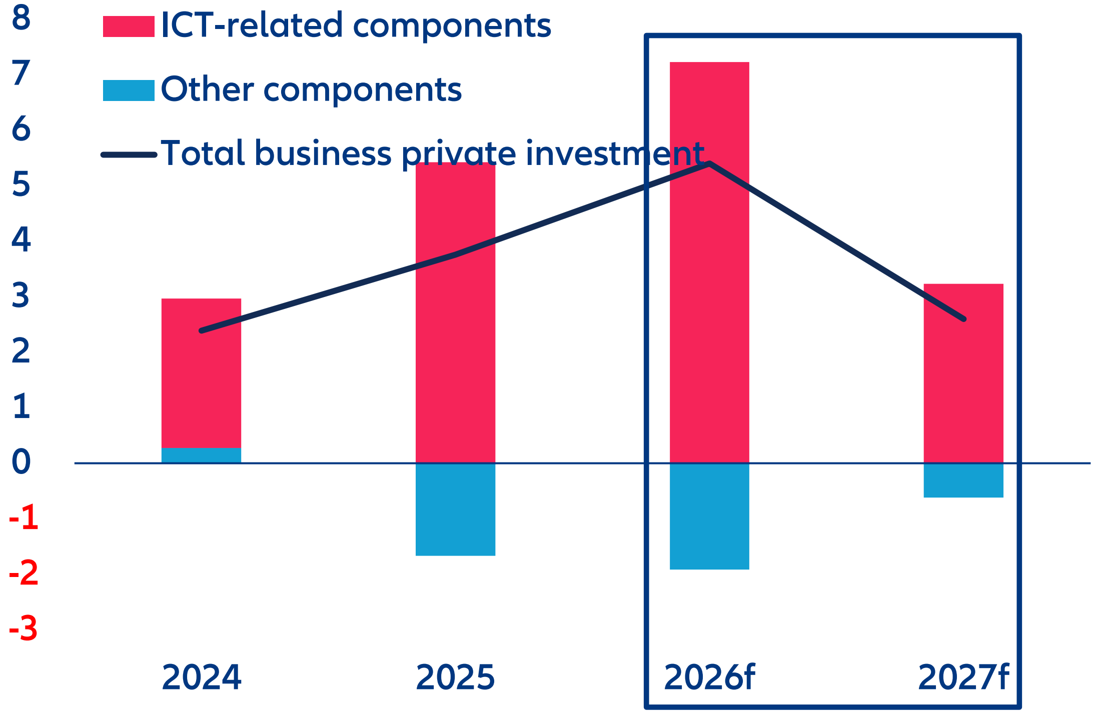
% year-on-year



Sources: LSGE Datastream, Allianz Research

AI capex strength is expected to support growth in 2026 but to fade heading into 2027

% year-on-year

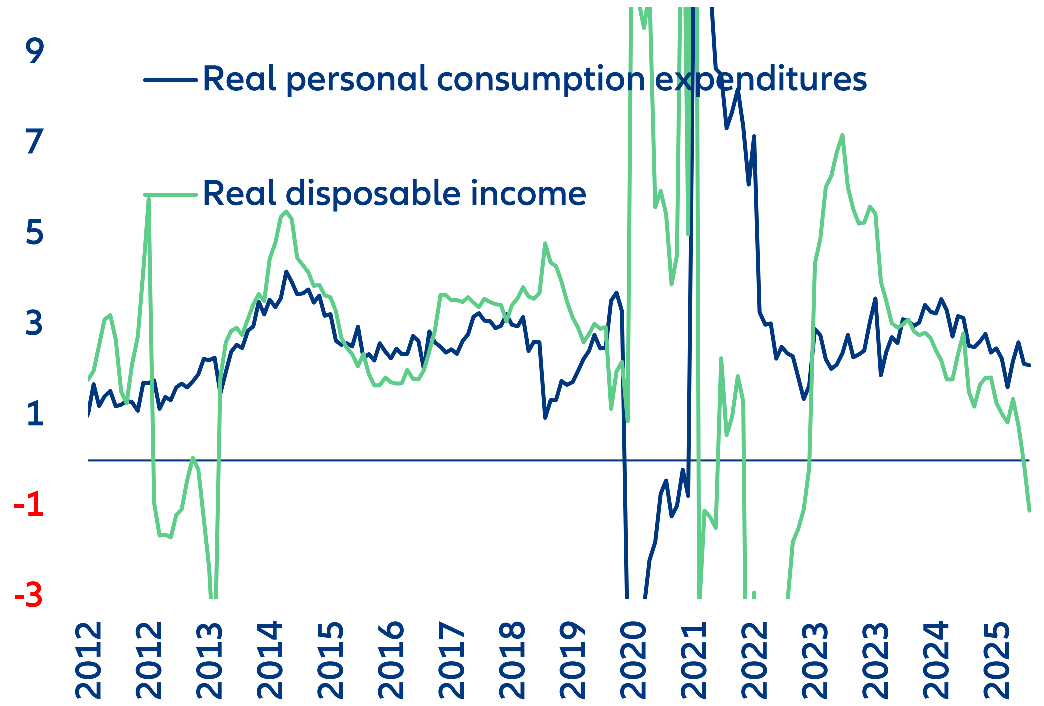


Sources: LSGE Datastream, Allianz Research

US consumers face an income squeeze, but cash buffers are elevated

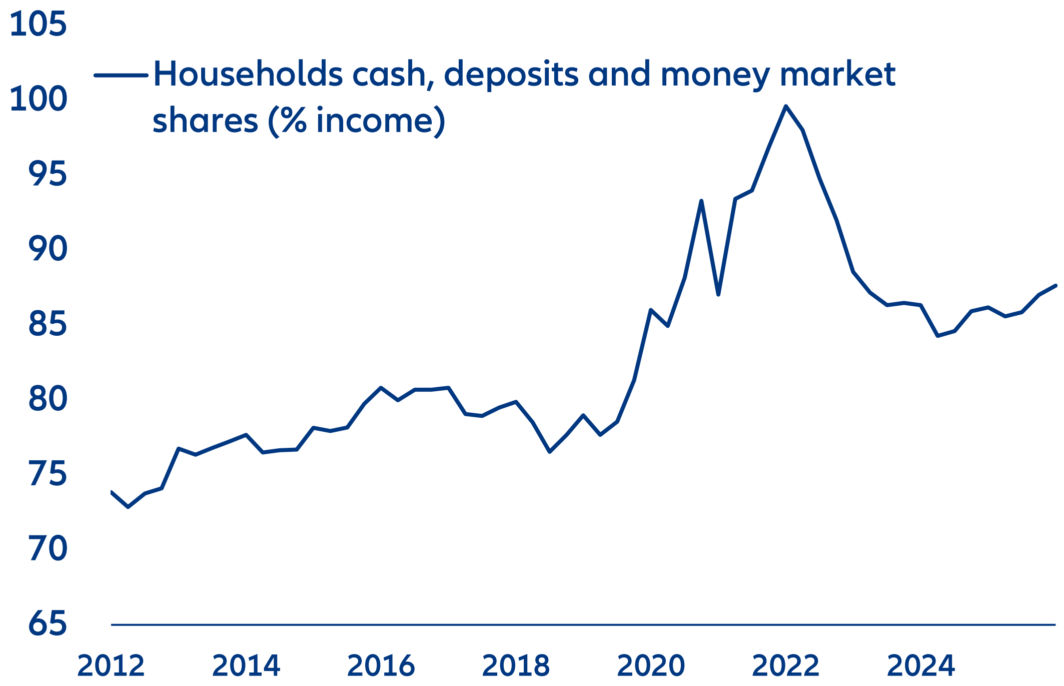
US households’ real disposable income growth has turned negative

% y/y



Sources: LSGE Datastream, Allianz Research

US households carry large liquid assets



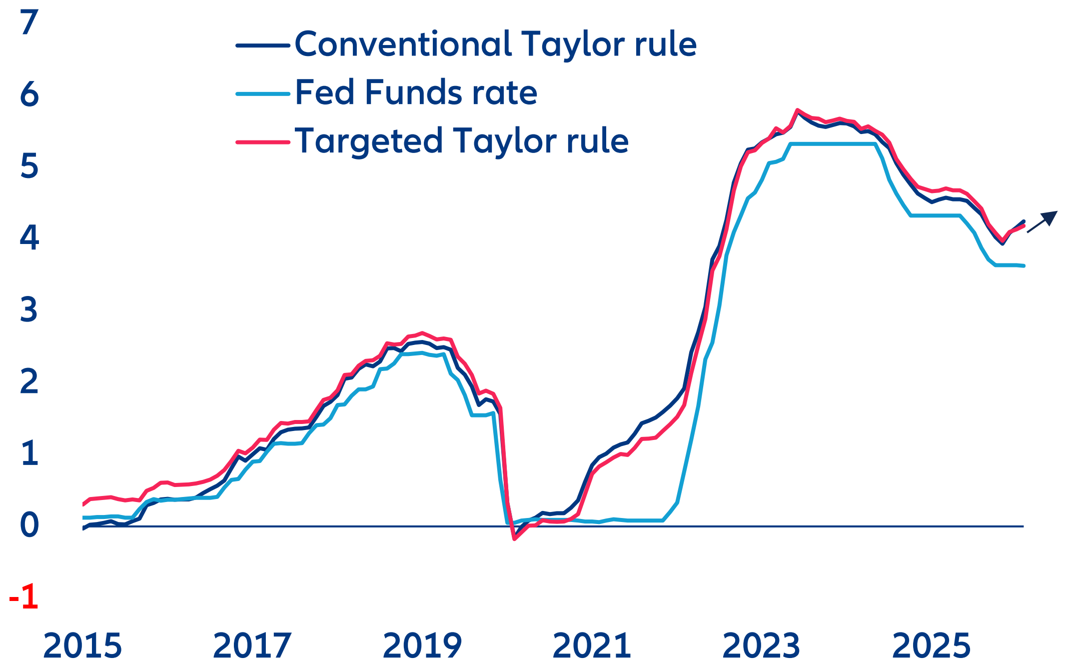
Sources: LSGE Datastream, Allianz Research

Allianz

Elevated inflation warrants Fed rate hike but shaky labor market outlook will keep FOMC cautious

Taylor rule prescribes lifting the Fed funds rate as inflation picks up, output gap still positive

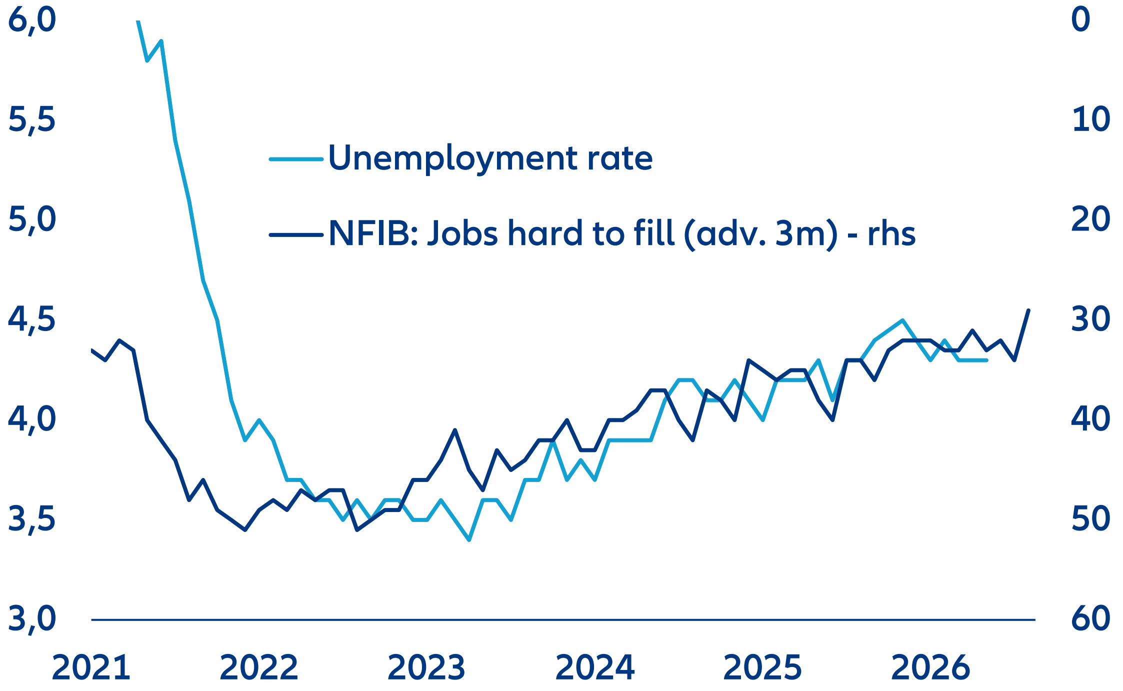
%



Sources: BIS, LSGE Datastream, Allianz Research

Note: "targeted" Taylor means less weight placed on supply-driven inflation versus demand-driven inflation.

The unemployment rate could approach 4.5% in the next few months



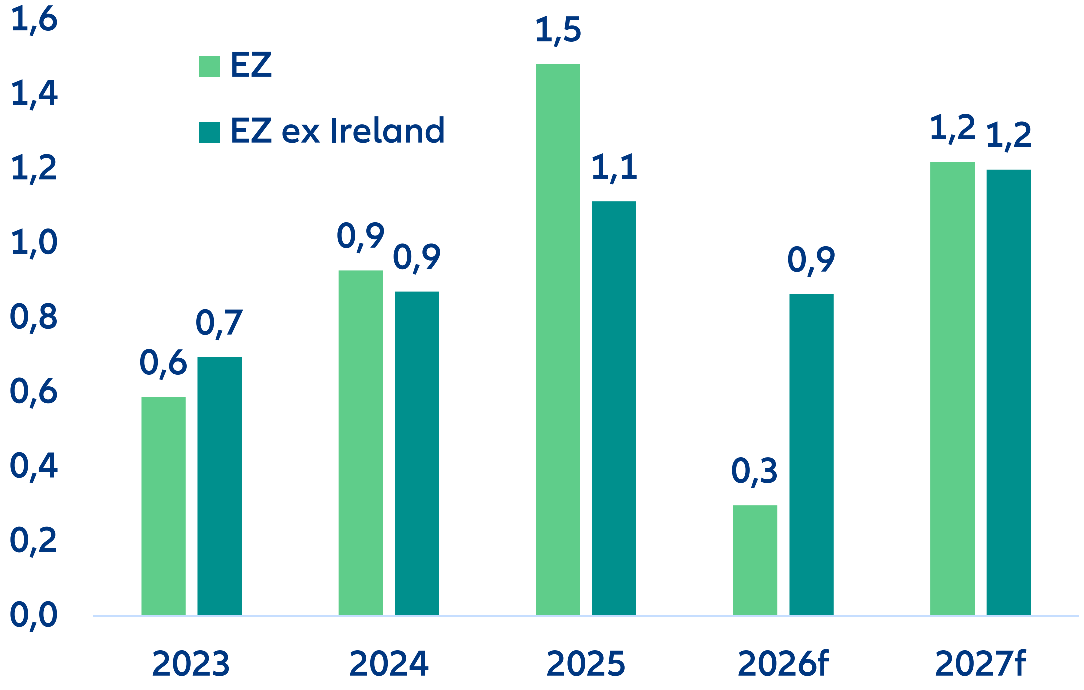
Sources: LSGE Datastream, Allianz Research

Allianz

Eurozone: 2026 looks quite resilient as 2022 fears have quickly dissipated

Despite Ireland representing only ~4% of EZ GDP, its volatility disproportionately affects the aggregate

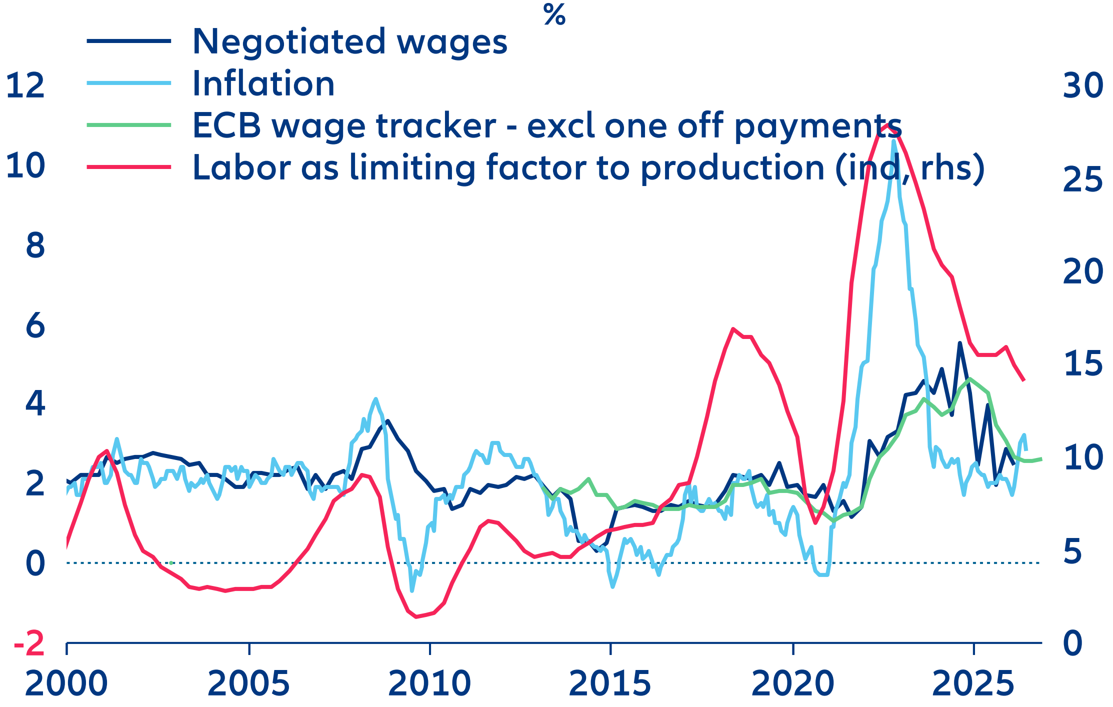
Annual GDP growth, %



Sources: Eurostat, Allianz Research

The energy shock hit a cooling economy; labor market is not as tight as in 2022

%



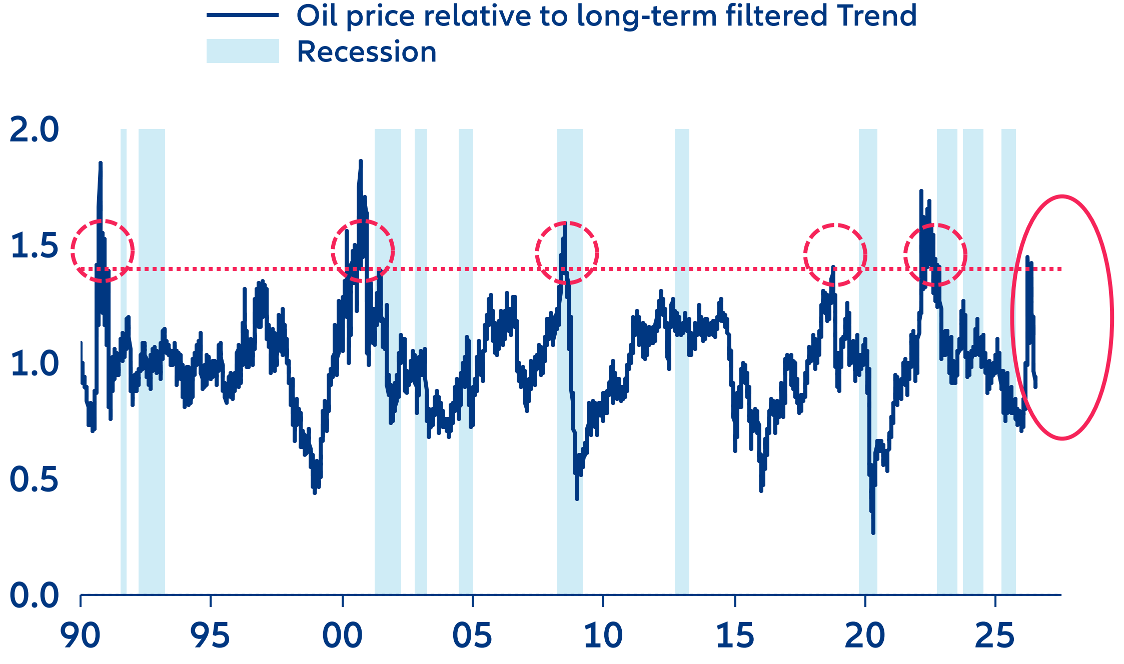
Sources: LSGE Datastream, Allianz Research

Allianz

Germany's fiscal support cushions external headwinds, but energy shock still hit

Germany has exited the danger zone of recession following the oil price shock

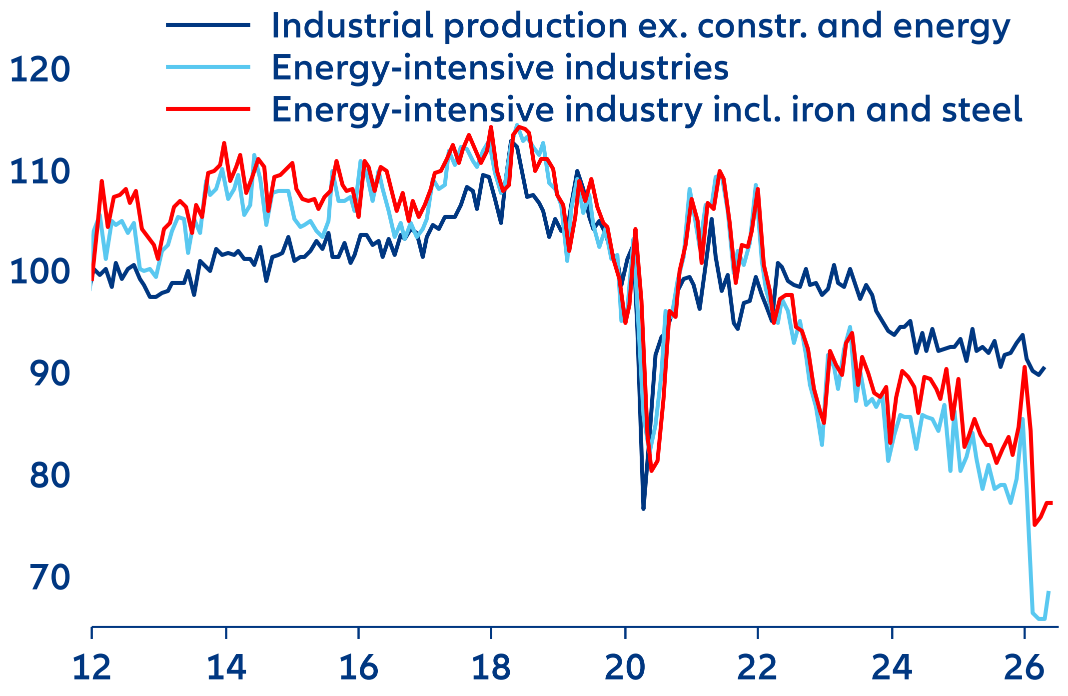
Oil price relative to long-term filtered trend and recession level



Sources: LSEG Datastream, Allianz Research

Energy dependence is exacerbating the challenges faced by energy-intensive industries

Index 2021 = 100, seasonally adjusted



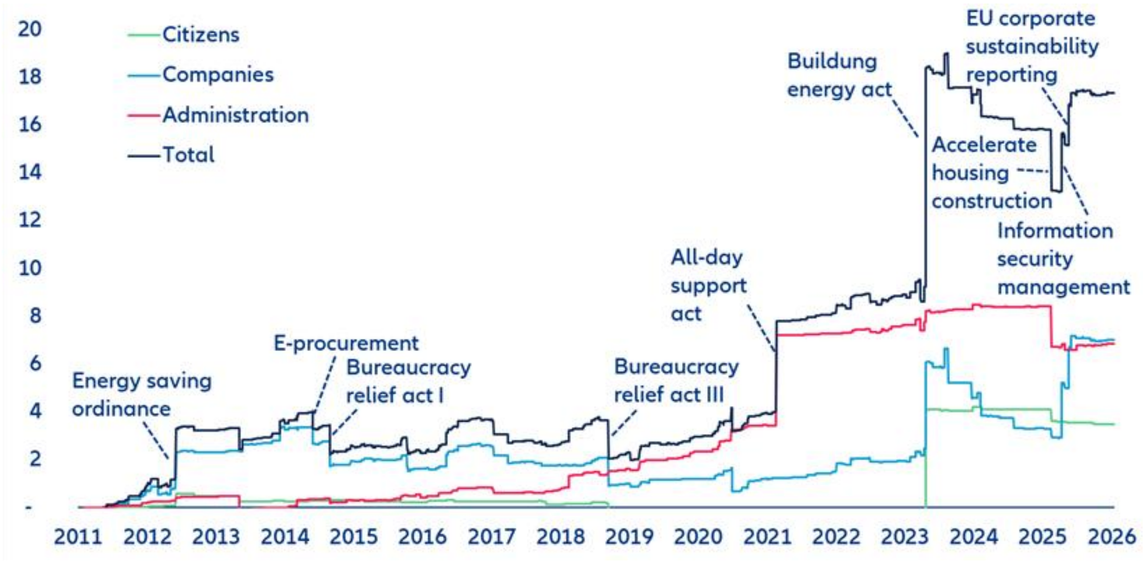
Sources: LSEG Datastream, Allianz Research

Allianz

Key policy areas must be addressed jointly as competitiveness reforms advance too slowly

Government measures to reduce bureaucracy are not showing the envisaged effect

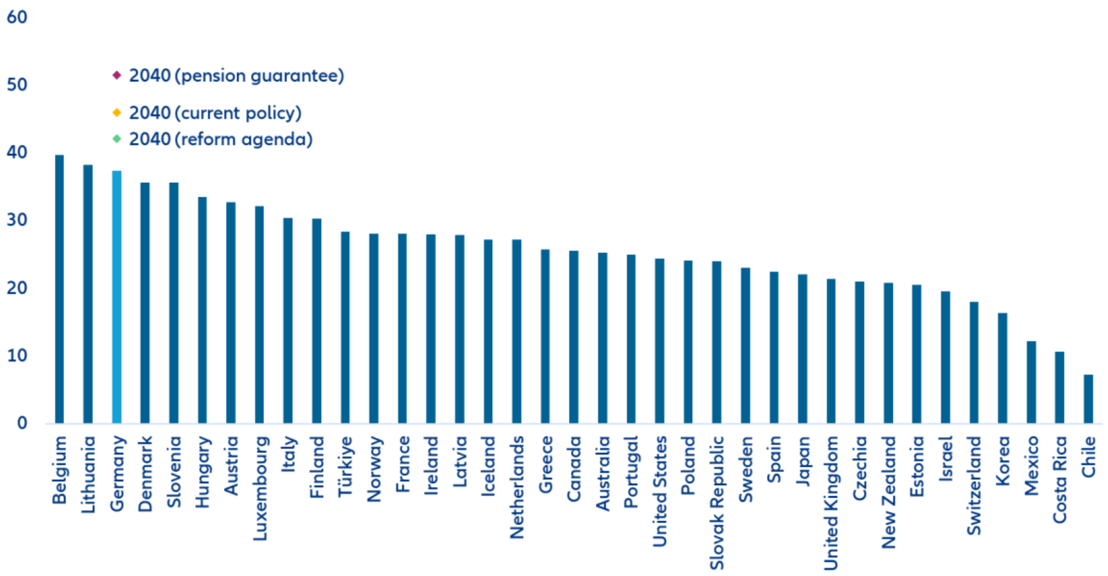
Costs in EURbn



Sources: Normenkontrollrat, Allianz Research

Labor tax wedge lowered to 42% vs. 46% by 2040 by broad pension reform, boosting long-term growth up to +0.3pp via employment and capital formation

Personal income tax and employee social security contributions, as % of gross wage earnings



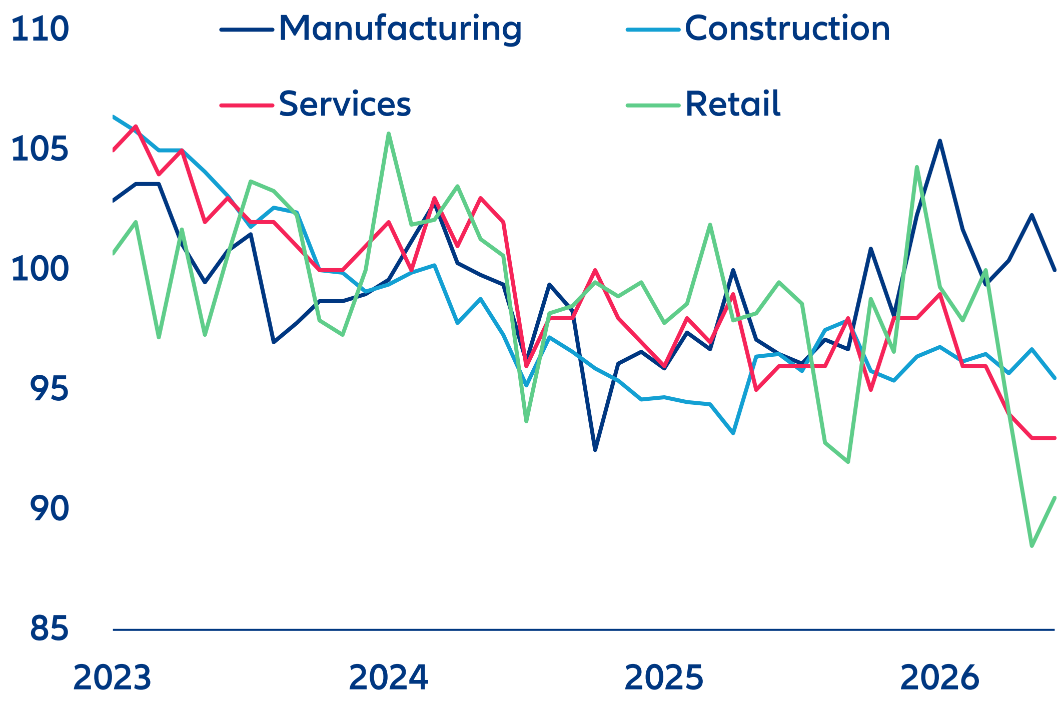
Sources: OECD, Rentenkommission, Allianz Research

Allianz

France: weak demand across most sectors should limit core price and wage pressures

Short-term business cycle is very weak except in manufacturing

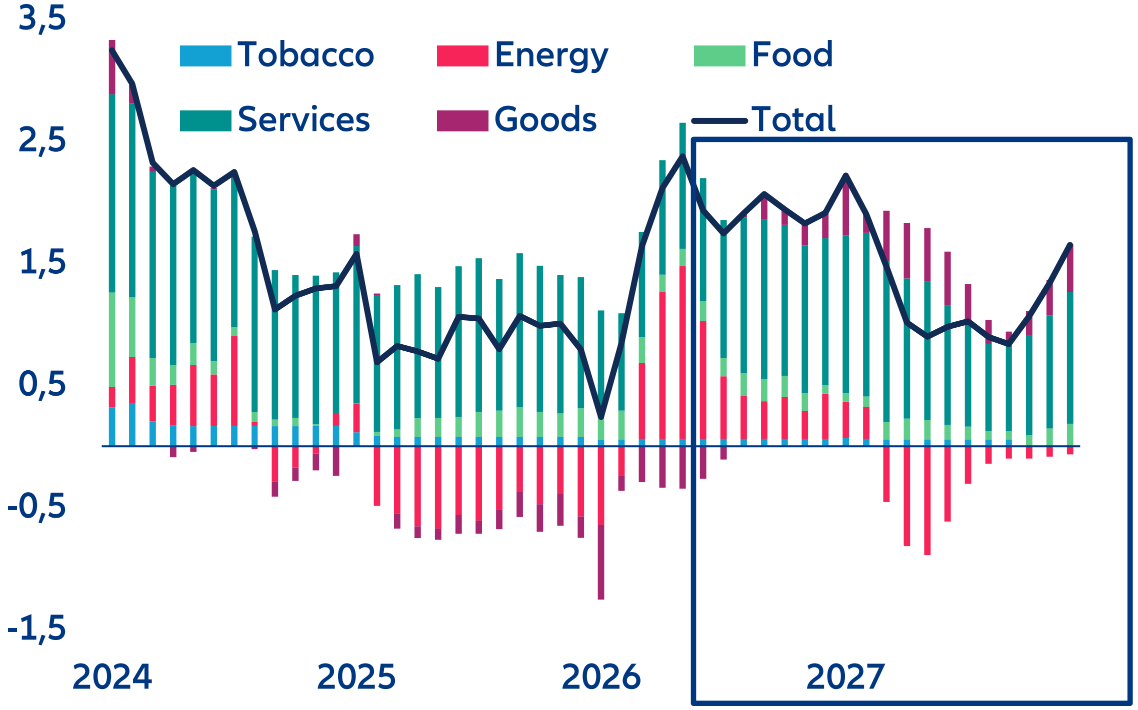
Business Indicator index



Sources: Insee, Allianz Research

Core inflation should remain contained amid weak domestic demand

% y/y

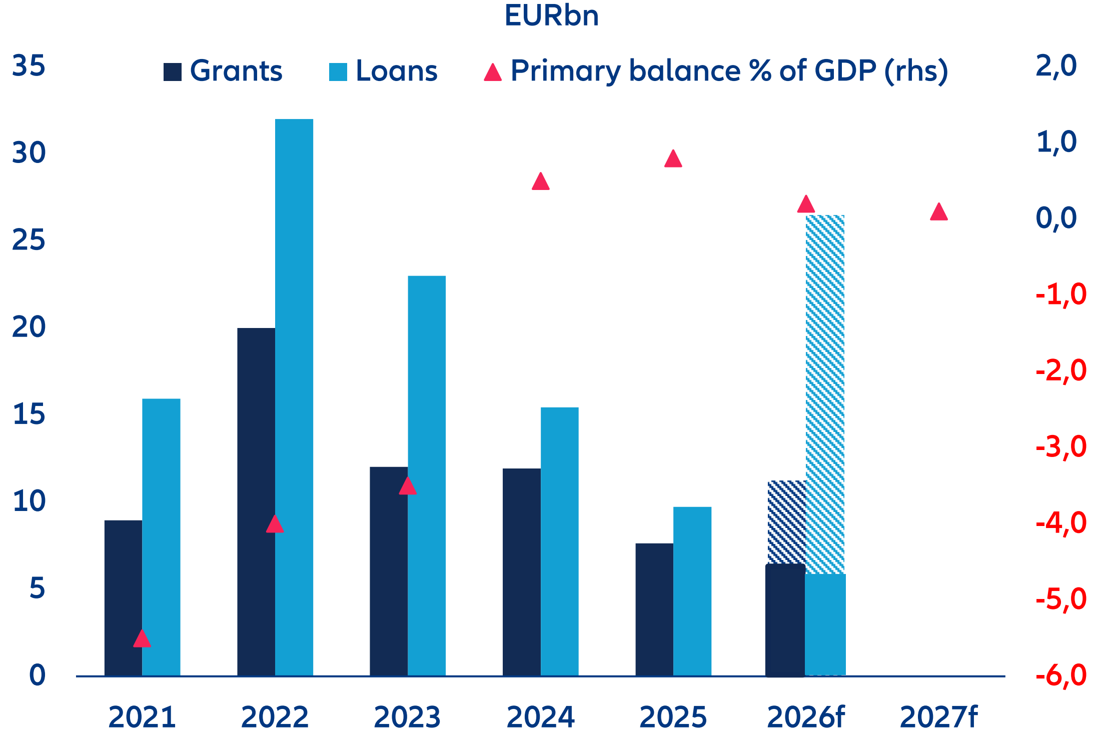


Sources: LSGE Datastream, Allianz Research

Allianz

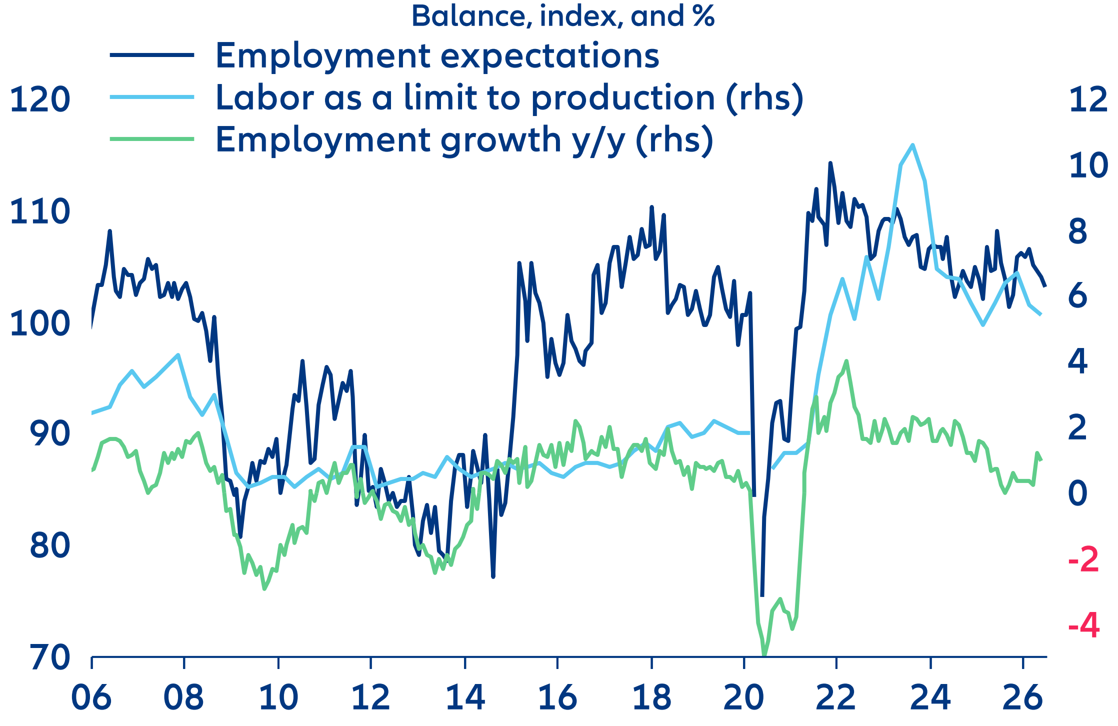
Italy: solid carry-over and NGEU final rush support the outlook ahead of 2027 election

NGEU grant-related revenues improved fiscal position, but expiration looms as a new headwind



Sources: LSGE Datastream, European Commission, Allianz Research

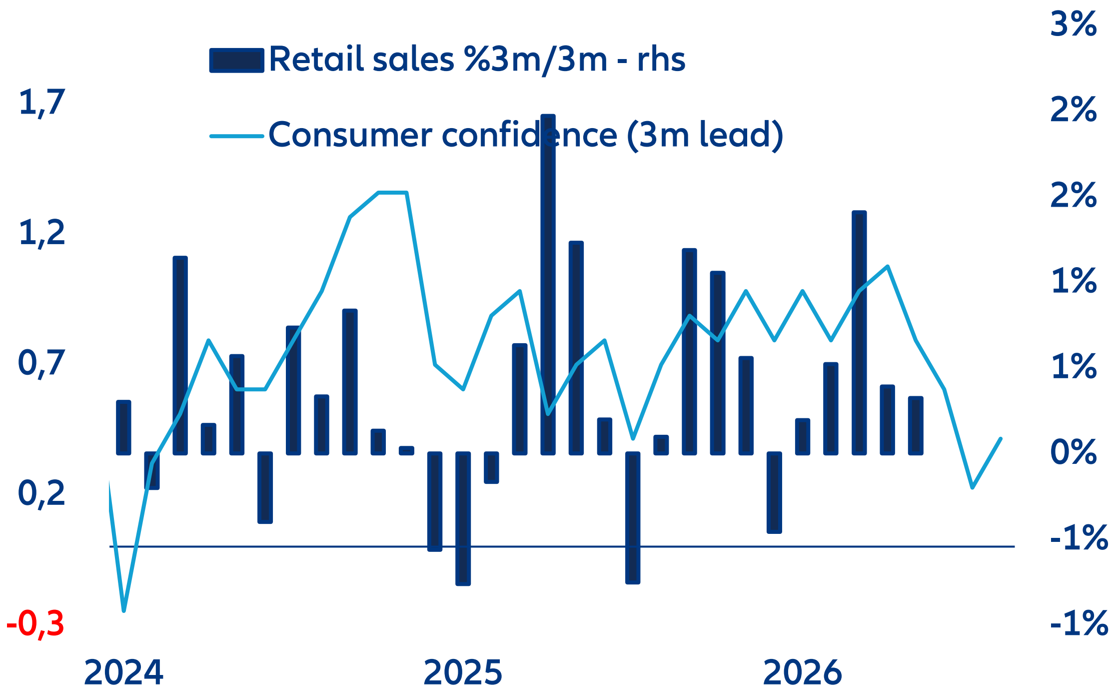
The labor market outlook remains favorable but less dynamic than in recent years



Sources: LSGE Datastream, Allianz Research

UK: growth is holding up, but core price pressures persist

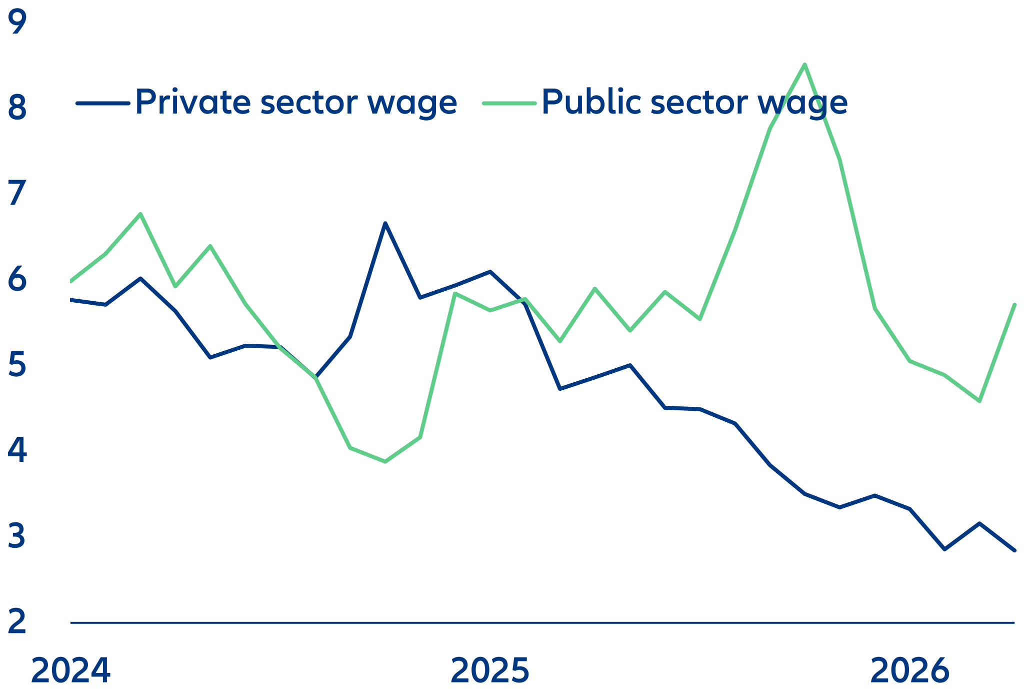
High wage growth is providing some support to consumers' spending



Sources: LSGE Datastream, Allianz Research

Strong wage growth is driven by the public sector

% y/y



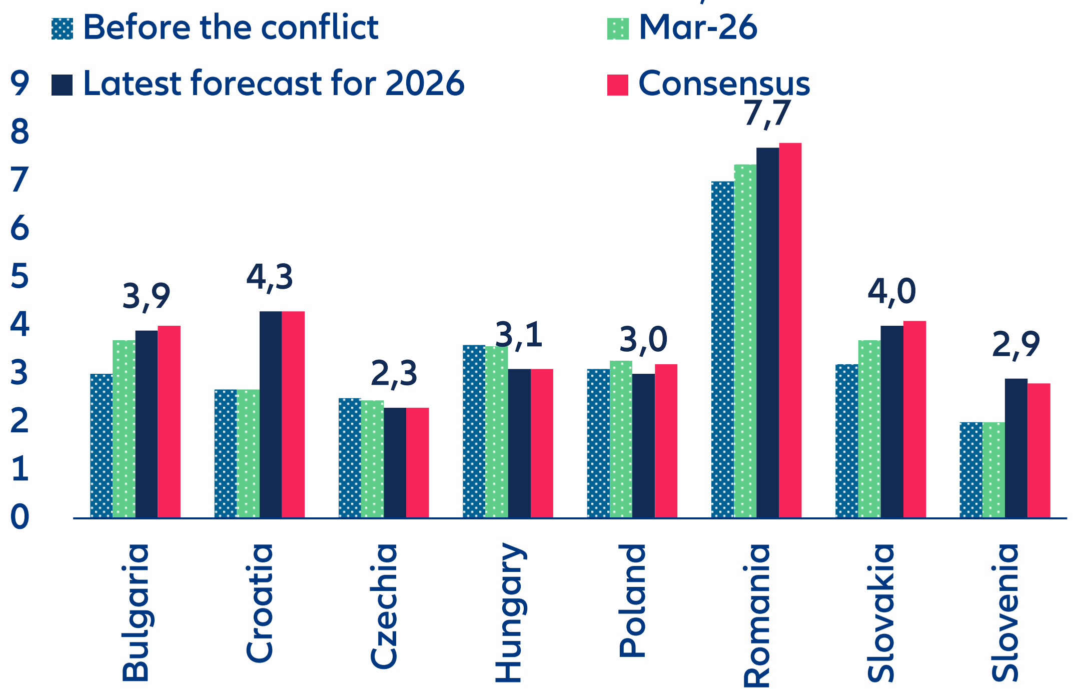
Sources: LSGE Datastream, Allianz Research

Allianz

CEE: Energy shock pushes inflation higher, government measures cushion the impact

2026 inflation is forecast higher than before the conflict, with the exception of CZ,HU and PL

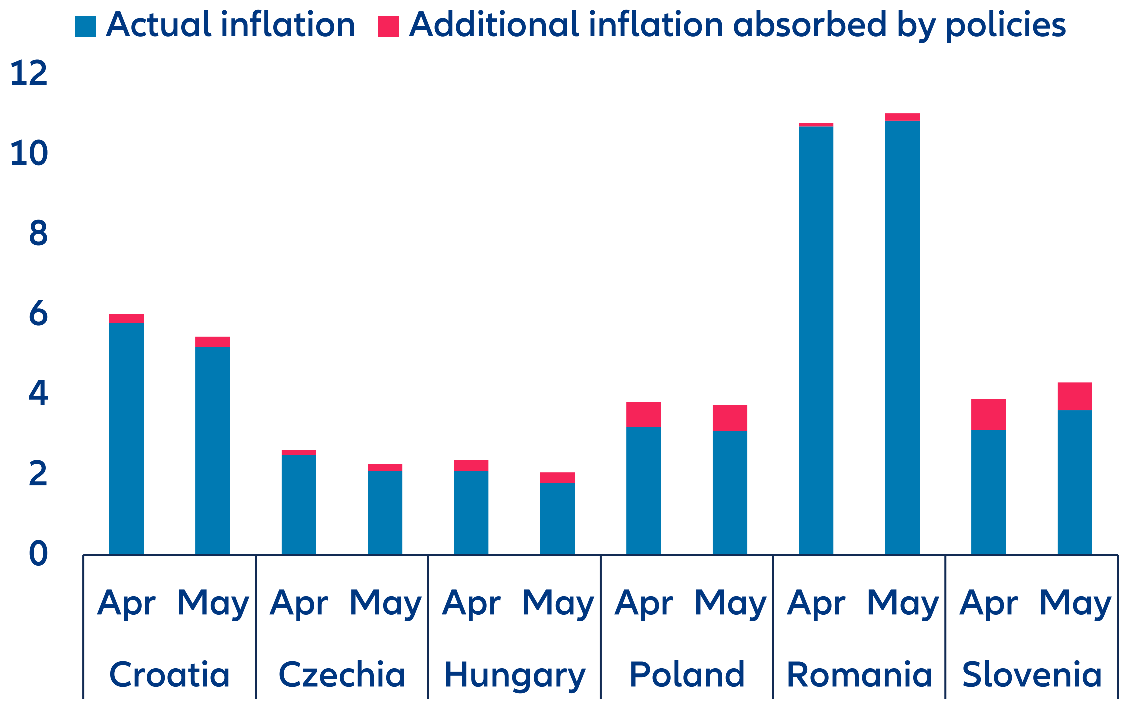
Inflation forecasts for 2026, %



Sources: LSEG Datastream, Allianz Research

Policy support is keeping headline inflation below where it would otherwise be

Actual inflation vs counterfactual inflation, %



Sources: LSEG Datastream, Allianz Research
Note: The counterfactual is built taking into account only policies that affect directly prices at the pump.

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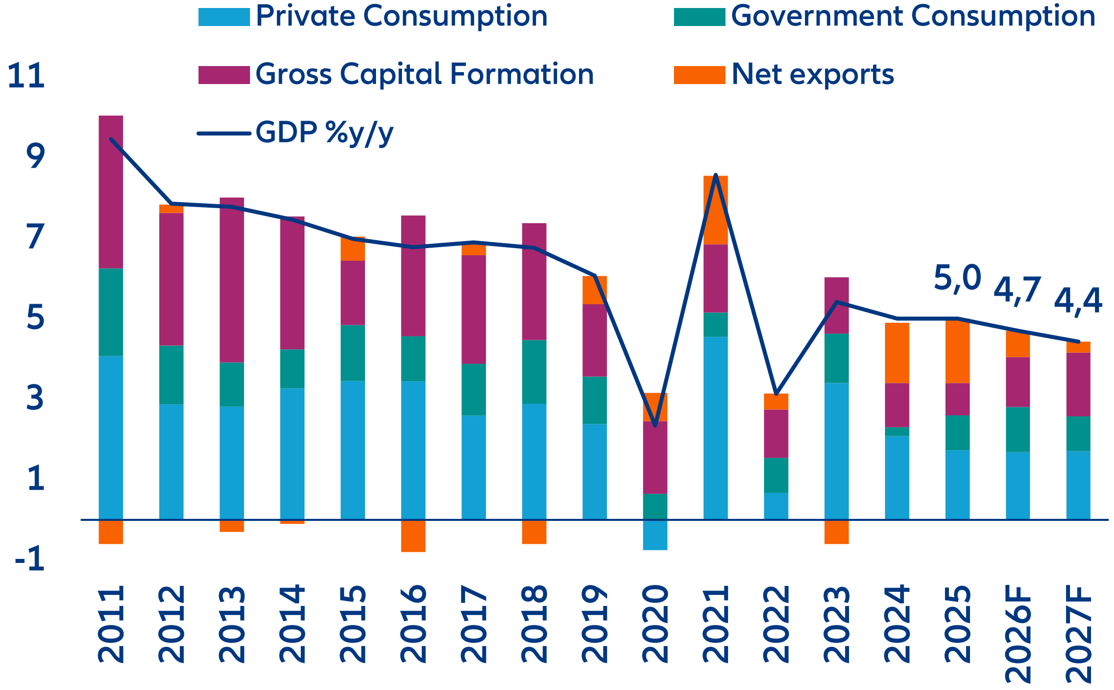
China: Resilient growth to be further supported by fiscal impulse

Chinese growth remains resilient at 4.7% in 2026, supported by strong exports

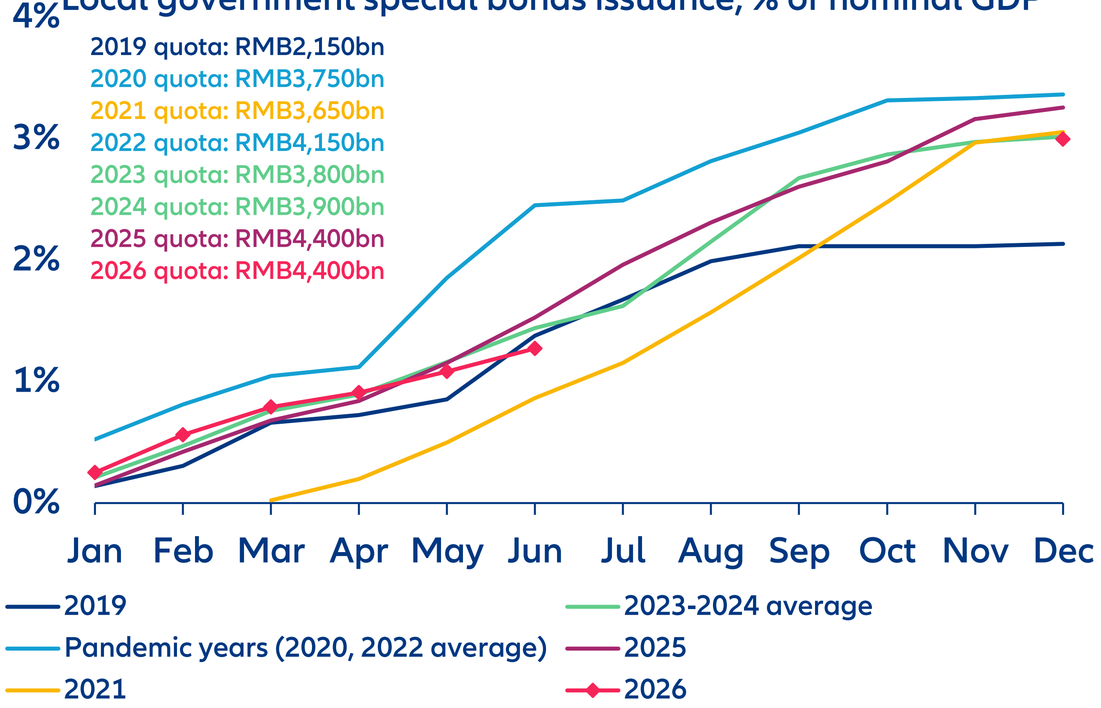
China GDP growth (%) and contributions by component (pp)



Sources: NBS, Allianz Research

Bond issuance pace slightly behind 2025, pointing to a pickup in H2

Local government special bonds issuance, % of nominal GDP



Sources: National sources, Allianz Research

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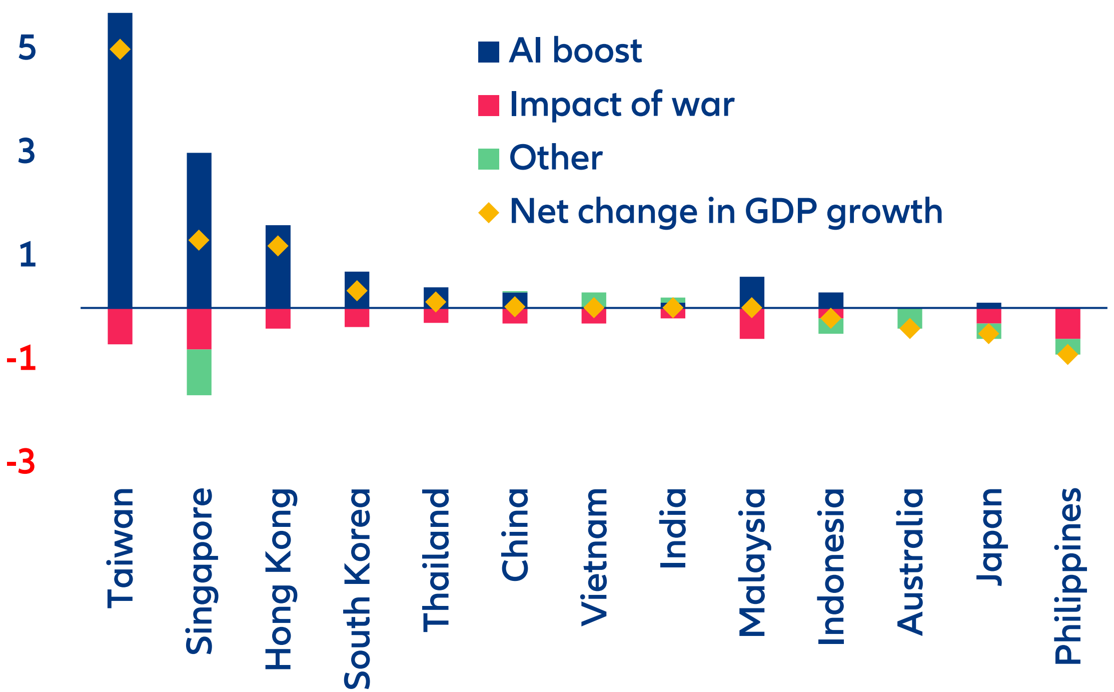
APAC: AI lifts growth to 4.3% in 2026, but inflation spillovers cloud the outlook

AI offsets 0.3pp of conflict losses, lifting APAC growth to 4.3% in 2026 but benefits are unevenly spread

Percentage point impact on 2026 GDP growth

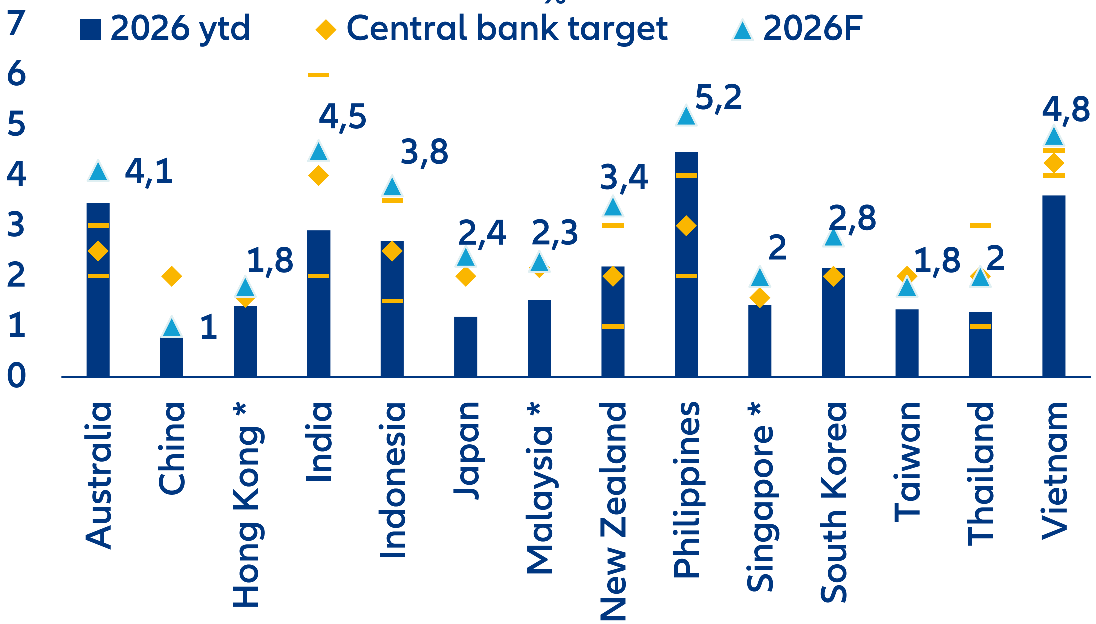


Sources: National sources, Allianz Research

Note: The comparison is made with respect to Q4 2025 forecast and only consider AI and US-Iran conflict. In some countries, such as Indonesia, internal turmoil, impact not displayed, has also impacted the country.

Inflation has already breached several central bank targets and should remain elevated throughout Q3

%



Sources: National sources, Allianz Research

Note: countries with a * do not have central bank target, historical average is taken instead

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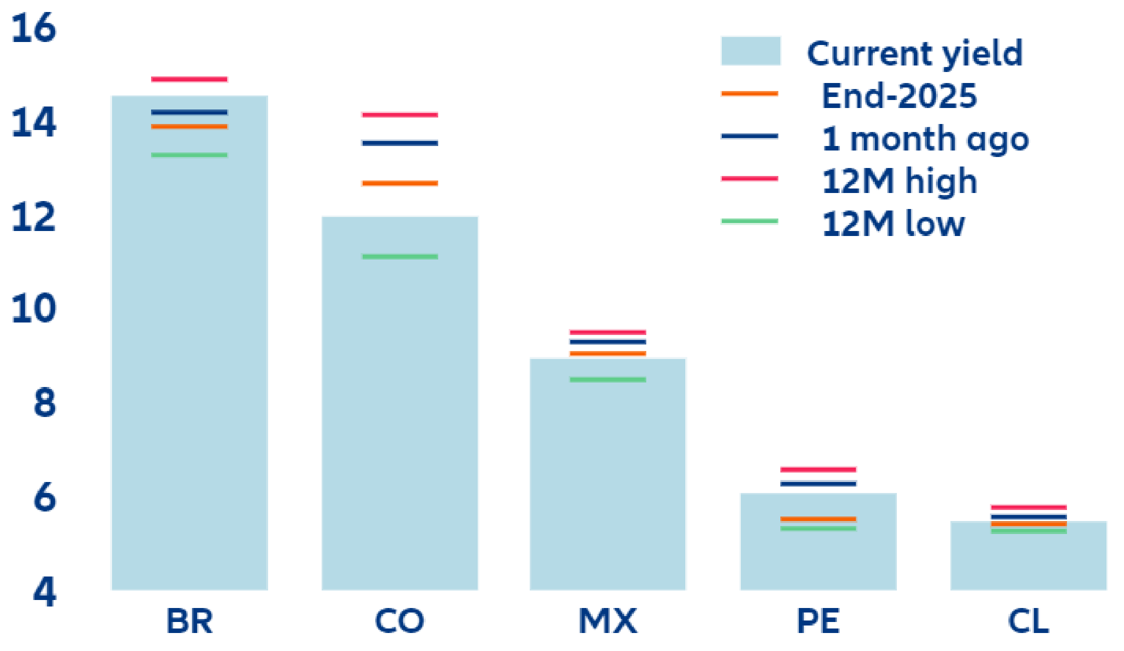
LatAm: Cost of politics higher than that of energy

The October elections are reopening the gap in bond yields between Brazil and other countries in the region

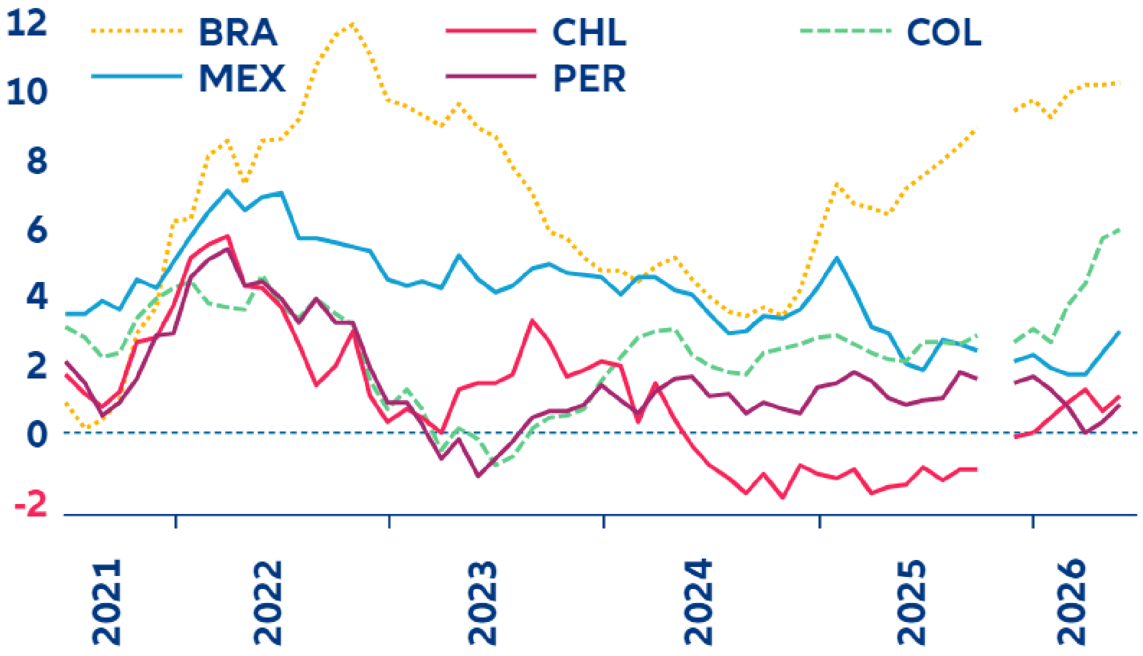
10y sovereign bond yields, pp



Source: Central banks, LSEG Datastream, Allianz Research

Real interest rates relative to the Fed are likely to narrow, but it will take longer for Brazil and Colombia

Real interest rate differential relative to the US



Sources: LSEG Datastream, Allianz Research

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Middle East: cost of war being felt across the region

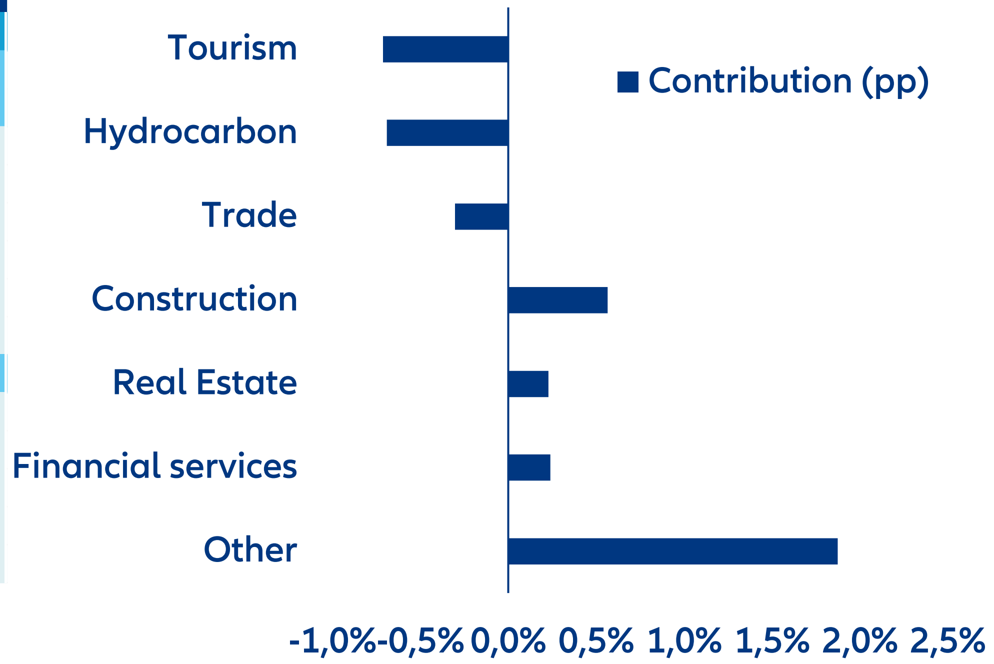
GCC economic growth more than halved while GDP losses spread through the region

%y/y

GDP growth					Inflation				
	2024	2025	2026	2027		2024	2025	2026	2027
Middle East	**2.1**	**2.4**	**-2.1**	**5.0**	**Middle East**	**10.7**	**12.7**	**18.7**	**10.0**
GCC	**3.1**	**4.5**	**1.2**	**6.2**	**GCC**	**1.5**	**1.7**	**2.6**	**2.1**
Kuwait	-1.5	2.7	-7.3	8.6	Kuwait	2.9	2.4	2.5	2.7
Bahrain	2.9	3.5	-3.7	4.6	Bahrain	0.9	-0.1	2.2	1.1
UAE	6.6	6.2	2.3	7.0	UAE	1.7	1.3	2.9	1.3
Saudi Arabia	2.6	4.6	2.7	5.3	Saudi Arabia	1.5	2.0	2.5	2.4
Qatar	2.7	2.9	-6.9	11.7	Qatar	1.2	0.5	2.9	1.5
Oman	1.6	2.4	2.4	3.4	Oman	0.6	1.0	2.5	1.7
Non-GCC	**1.8**	**1.1**	**-4.0**	**4.0**	Non-GCC	**20.9**	**28.6**	**23.2**	**12.6**
Iran	3.7	0.7	-6.1	3.2	Iran	32.5	50.6	40.0	21.1
Iraq	-1.6	0.7	-5.9	6.7	Iraq	2.6	0.3	3.0	2.3
Jordan	2.6	2.7	2.9	2.6	Jordan	1.6	1.8	2.1	1.7
Syria	-2.6	4.9	8.9	10.3	Syria	52.8	15.6	19.6	9.3
Egypt	3.1	5.1	4.3	4.6	Egypt	28.2	14.1	13.2	10.0

Source: Oxford Economics, Allianz Research

Tourism, hydrocarbon and trade main contributors to lower GDP growth in the GCC in 2026



Sources: LSEG Datastream, Allianz Research

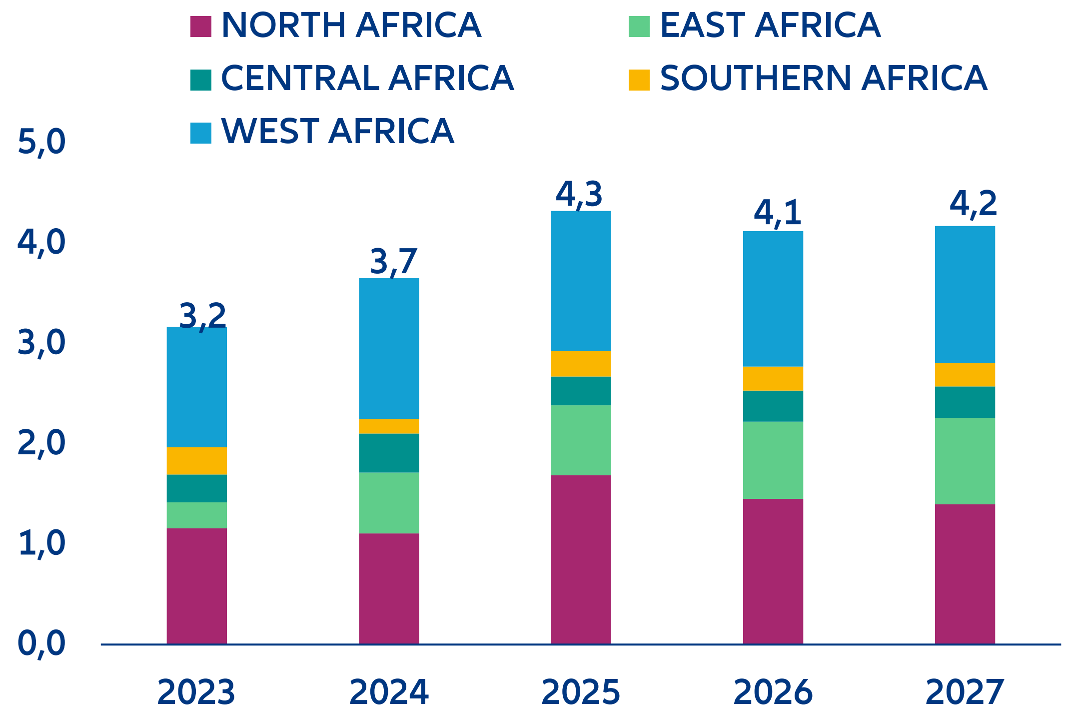
Note: Other category includes government sector, technology, manufacturing, among others

Allianz

Africa: post-Covid growth story: resilient fundamentals, AI-powered metals boom

Energy shock erases 0.2pp GDP growth but stronger fundamentals to still deliver solid growth in Africa

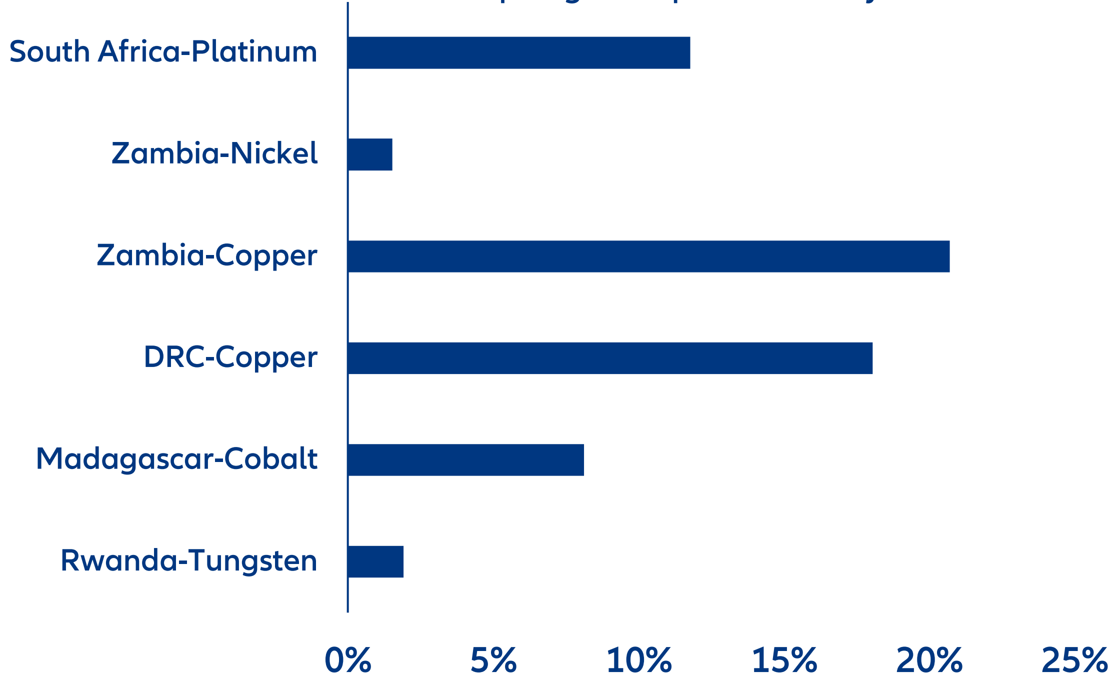
GDP growth, % y/y



Source: LSEG Datastream, Allianz Research

Metals/ minerals export growth surging on the back of the AI momentum

Contribution to export growth per commodity



Sources: LSEG Datastream, Allianz Research

Note: export growth to China used as proxy of export growth of selected commodities