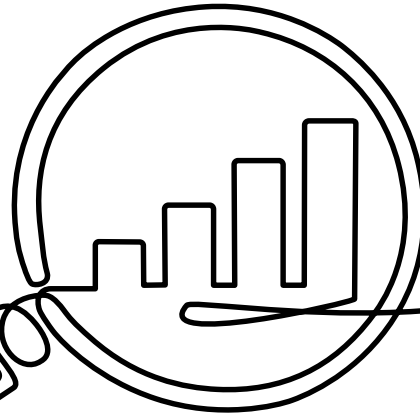




Macro convictions



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2026: a year of geoeconomic adjustment, not upheaval

As 2025 comes to an end, it does so on a note of cautious optimism after a tumultuous period of trade wars and tentative truces. Many countries struck rapid-fire tariff deals with the US to avert an all-out trade war, including China's last-minute trade truce with the US at the end of October. These deals have calmed financial markets, but they did not resolve the underlying geoeconomic tensions. Instead, global trade is fragmenting into rival blocs, and policymakers worry that a new storm could be brewing. In our view, the baseline scenario for 2026 is one of continued geoeconomic friction without it erupting into a full-blown trade war. Policymakers and businesses will need to navigate this new normal. As the saying goes: hope for calm but prepare for (some) turbulence.

HIGHER TARIFFS ARE HERE TO STAY

Washington's protectionism is not a temporary tactic but a sustained strategy. Higher US tariffs are seen by Trump as a multi-purpose tool, to encourage the reshoring of industry, to shrink trade deficits, and to put pressure on China and Europe to concede ground. If the US Supreme Court were to strike down US tariffs imposed under the International Emergency Economic Powers Act (IEEPA), the Trump administration would likely use other US laws to keep tariffs at high levels. In our view, trade-policy uncertainty will remain elevated in 2026, although its peak has likely passed.

US-CHINA RIVALRY HARDENS

The latest US-China trade truce is a tactical pause rather than a durable peace in the trade war. While providing some immediate relief, the temporary easing of tariffs and export controls is unlikely to prevent a broader process of economic decoupling, especially in high-tech sectors and critical resources. 2025 saw the concept of “weaponized interdependence” playing out. China successfully retaliated against US chip sanctions by leveraging its dominance in critical minerals. In the coming years, the rivalry between the US and China is likely to intensify in emerging technologies, such as AI, quantum computing and biotech. Realistically, one should expect further protectionist measures sooner or later, as each superpower tries to slow the other’s progress.

EUROPE CAUGHT IN A PRECARIOUS “SANDWICH” POSITION

The EU has been squeezed between security dependence on Washington and economic dependence on Beijing. This delicate balancing act may be tested again soon, for two reasons. First, Chinese companies might divert some of their exports from the US to Europe. Second, the new US-EU trade framework brought some short-term relief but created political obligations, such as massive energy purchases and foreign direct investment (FDI), which Europe may struggle to fulfil in 2026/27. Trump could therefore claim that the EU is failing to hold up its end of the deal and again threaten the introduction of higher tariffs.

GLOBAL ECONOMY TO SHOW ADAPTIVE RESILIENCE IN 2026

We expect global GDP to rise 3.1% yoy in 2026 and 3.2% in 2027 after 3.2% in 2025. While more protectionism will trigger some negative demand effects, the private sector continues to show a remarkable capacity to adapt. For instance, European companies front-loaded exports early in 2025, while their US peers reorganised supply chains to blunt the impact of higher tariffs. Furthermore, companies may get used to heightened policy uncertainty, which would reduce the negative impact on the global economy. Although the trend in annual global goods trade growth might decline to 2-3%, from 4%,

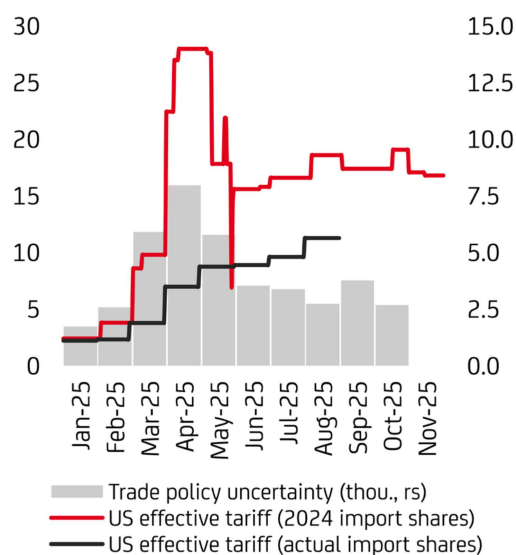
accelerating trade in services is likely to compensate for this. Further digitisation and AI could accelerate the shifting composition of global trade towards services. Meanwhile, governments have been subsidising the manufacture of strategic goods such as chips and batteries to reduce dependence on China. These efforts will dampen the negative demand effects but will also raise public debt levels. If investors demand higher yields to hold this debt, central banks could come under pressure to suppress borrowing costs.

FRAGMENTATION, LOWER GROWTH AND HIGHER INFLATION ARE LONG-TERM RISKS

The US and China are increasingly ring-fencing trade and technology within their respective spheres, with Europe caught in the middle. It is therefore likely that a structural shift will occur in the form of a fracturing of the global economy into rival blocs. A fragmented world is more prone to supply-side shocks such as tariffs and export controls, which hit production costs. Over the longer term, this implies higher and more volatile inflation and weaker growth than in the era of unfettered globalisation.

CHART 1.1: TRADE UNCERTAINTY LIKELY TO HAVE PEAKED

US TRADE POLICY UNCERTAINTY AND TARIFFS



Source: Economic Policy Uncertainty, US Census Bureau, US Department of the Treasury, The Yale Budget Lab, The Investment Institute by UniCredit



US economy: solid but K-shaped

We expect the US economy to post **solid growth** next year (2.1%) and in 2027 (2.0%) thanks to fiscal support, AI investment, some easing of policy uncertainty and favourable financial conditions. The government shutdown will weigh on 4Q25 GDP growth, but this loss is likely to be almost fully recouped in 1Q26. The main question for the outlook is whether the bigger risk is the recent weakness of employment growth or too-high inflation. We fall in the latter camp.

US economic activity has been **remarkably resilient** in 2025, despite much higher tariffs and policy uncertainty, and in large part due to strong AI investment and spending by higher-income households. Lower-income households are under some stress (the lower leg of the so-called K-shaped economy), but we don't expect this to spread. Hiring has slowed notably, although this is mainly due to lower immigration, and partly due to the impact of heightened economic uncertainty and AI investment on labour demand. To the extent lower hiring is due to lower immigration, it does not signal slack. We expect heightened economic uncertainty to ease somewhat, or at least firms to become used to uncertainty. Hiring should pick up, but with a lower elasticity to GDP growth than its historical relationship. The unemployment rate may rise, but likely not by much.

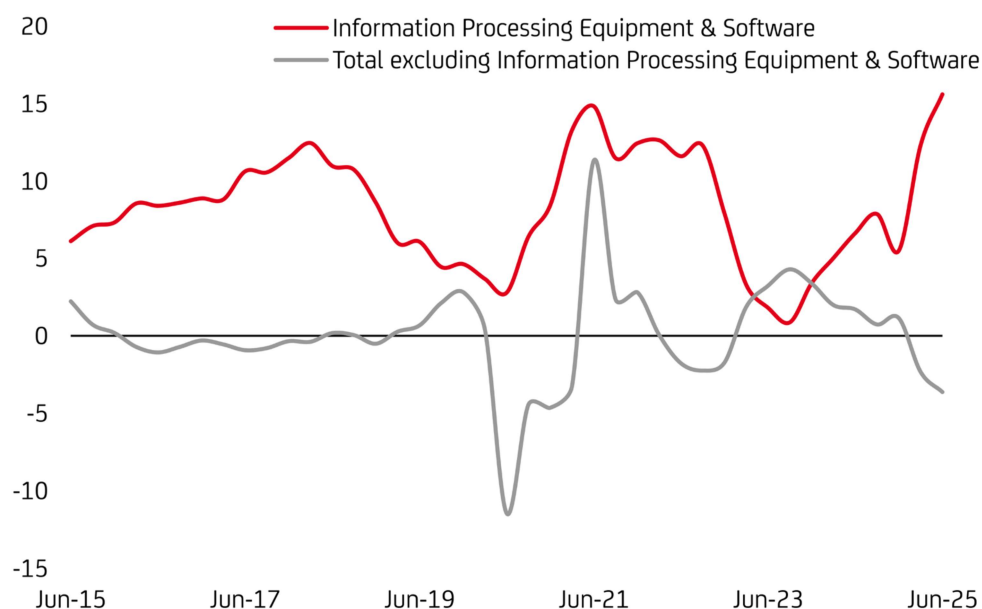


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Measures of **underlying inflation** are currently around 3%, and we expect core inflation to peak at 3.5% over the next six months. Pass-through of tariffs likely has further to run, as stockpiles from frontloading of imports are run down, and tariff-related uncertainty (which had led some firms to wait before passing on tariffs) eases. Indicators of non-housing services inflation have picked up recently, and measures of short-term inflation expectations remain elevated. The **tariff impact** should fade from the second half of next year, although we expect inflation to remain above target through 2027.

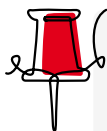
CHART 1.2: US AI INVESTMENT BOOM

US REAL BUSINESS INVESTMENT (% YOY)



Source: US Bureau of Economic Analysis (BEA), The Investment Institute by UniCredit





TRUMP WILL FOCUS ON PRESERVING MAJORITY IN CONGRESS

During Trump's first year of his second term as president, he has made sweeping changes across many functions of government and beyond, including tariffs, fiscal policy, immigration policy, regulation and foreign policy. Will his second year be simply more of the same? Trump will keep an eye on the midterm elections in November. It is **too soon to predict the outcome** (for what it's worth, current polls predict Republicans will hold on to a majority in the Senate but will narrowly lose control of the House). Some have argued that Trump should, therefore, re-focus on domestic policies and on safeguarding the economy.

We are perhaps already seeing early signs of this. Following wins by Democrats in several state elections in early November, Trump has turned his attention to the cost of living, after previously downplaying the impact of his policies (particularly tariffs) on inflation. He has proposed that a **USD 2,000 tariff rebate check** be sent to all Americans excluding high earners, supposedly financed by incoming tariff revenue, as well as 50-year mortgages, and a major rollback of tariffs on a range of food items. However, we doubt he will meaningfully lower tariffs from current levels.

Eurozone shows resilience, fiscal policy to provide support

The eurozone economy has weathered the tariff storm better than expected. Business confidence is holding up reasonably well amid continued high volatility in exports to the US. Domestic demand remains on a trajectory of slow but positive growth and the risk of a downturn in the labour market is still contained.

However, the current economic resilience should not be taken for granted. A **low business investment rate** indicates that eurozone firms are reluctant to embark on new projects, while households continue to increase their precautionary savings from already high levels. In this environment, fiscal policy will have to play a decisive role. Our working assumption is that Next Generation EU (**NGEU**) investments will fire on all cylinders ahead of the expiry of the program at the end of 2026, while the boost from Germany's infrastructure and defence programs will kick in only gradually due to implementation challenges and bottlenecks. The growth impulse from the pan-European rearmament plan will probably be small and backloaded. Households are likely to remain cautious and the growth rate of private consumption lacklustre.

Following a continuation of slow growth at the turn of the year, we project a gradual reacceleration of economic activity over the course of 2026, supported by fiscal policy, a reduction of tariff-related uncertainty and the lagged effect of ECB rate cuts. In yearly average terms, GDP will probably rise by 1.0% in 2026 and by 1.4% in 2027. At a **country level**, we expect growth of 0.9% in Germany (1.2% in non-working-day adjusted terms) next year, followed by a robust 1.8% in 2027 (non-adjusted: 1.9%). In France, we forecast growth of 0.9% for 2026 and 1.1% for 2027, while for Italy we have pencilled in 0.6% and 0.8%, respectively.

The price outlook is benign. Headline inflation will likely settle slightly below 2% in 2026-27, while core inflation resumes a downward trajectory and dips below 2% as wage growth continues to ease. Underlying price pressure might bottom out toward the end of 2026 or in early 2027.

