



Quarterly Outlook Update 2026-27: Stretching the limits

Allianz Research
*End of Q4 2025 updated economic and capital
markets outlook*
17 December 2025



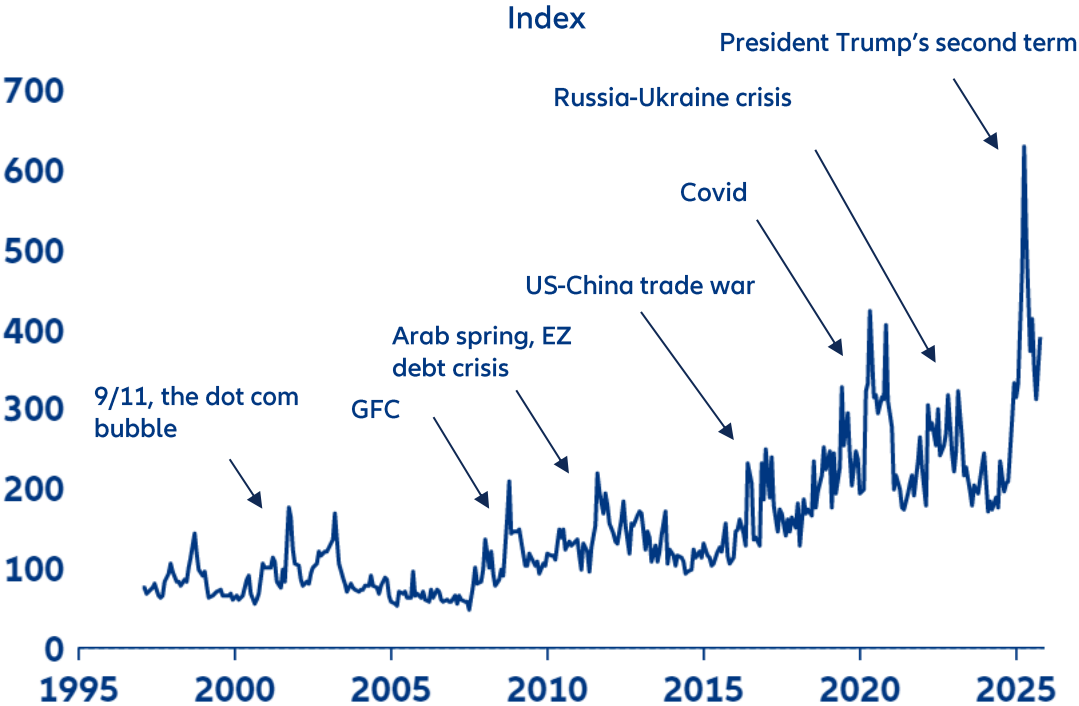
Global Outlook 2025-27: Stretching the limits

- 1 **Global GDP** growth remains strong... for now, at 2.9% in 2026 with two thirds of the upside revision coming from the US and China.
- 2 **The US economy** is increasingly running on two speeds: the impact of the trade war is compensated by AI and the US consumer benefits from fiscal and monetary easing.
- 3 **China** is all about exports – despite the trade war, but domestic demand will continue to struggle despite higher fiscal stimulus.
- 4 **The Eurozone** remains on a moderate growth path amid structural challenges, with the German stimulus only progressively bearing fruits and France avoiding further fiscal stress (by a thin margin).
- 5 **Monetary and fiscal policy:** Loose fiscal policy everywhere but monetary policy divergence is increasing.
- 6 **Global trade** surprised on the upside amid positive trade deals and rerouting.
- 7 **The emerging markets** rally is set to consolidate in 2026, but the monetary easing cycle has peaked and piling-up vulnerabilities (current account deficits, debt maturing wall) ask for greater selectivity.
- 8 **Global corporates** head into 2026 on a strong momentum: As many firms have deleveraged, they have room to increase borrowing to fund necessary capex, with an investment cycle catching up in Europe.
- 9 **Capital markets** hold up despite a late cycle, with equity performance expected to decelerate but not falter and rates moving sideways.
- 10 **Downside risks: institutional, geopolitical and financial.** Geopolitical tensions (Ukraine, Middle East, NATO-Russia, China-Taiwan), US institutional uncertainty, AI equity correction, de-dollarization, turbulence in private credit markets and "Truss-style" risks in government bonds loom.

Global macro 2025-2027

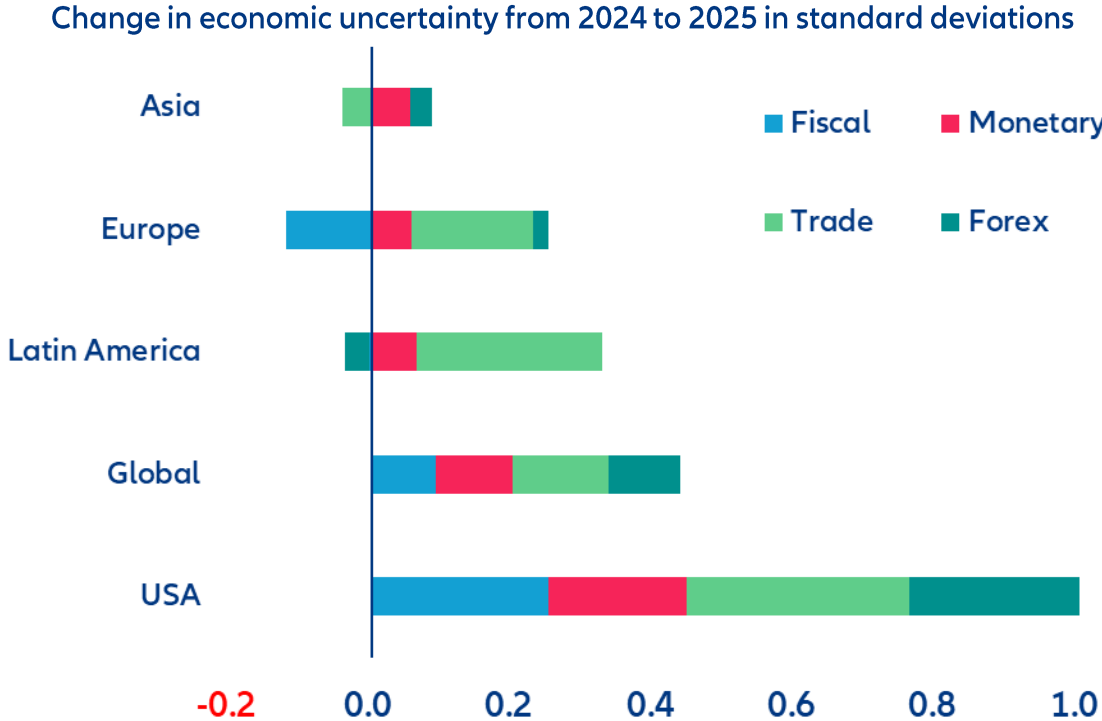
Uncertainty remains as high as during Covid-19

Global policy uncertainty moderated from record-high levels, but prevails at very high levels



Sources: LSEG Datastream, Allianz Research

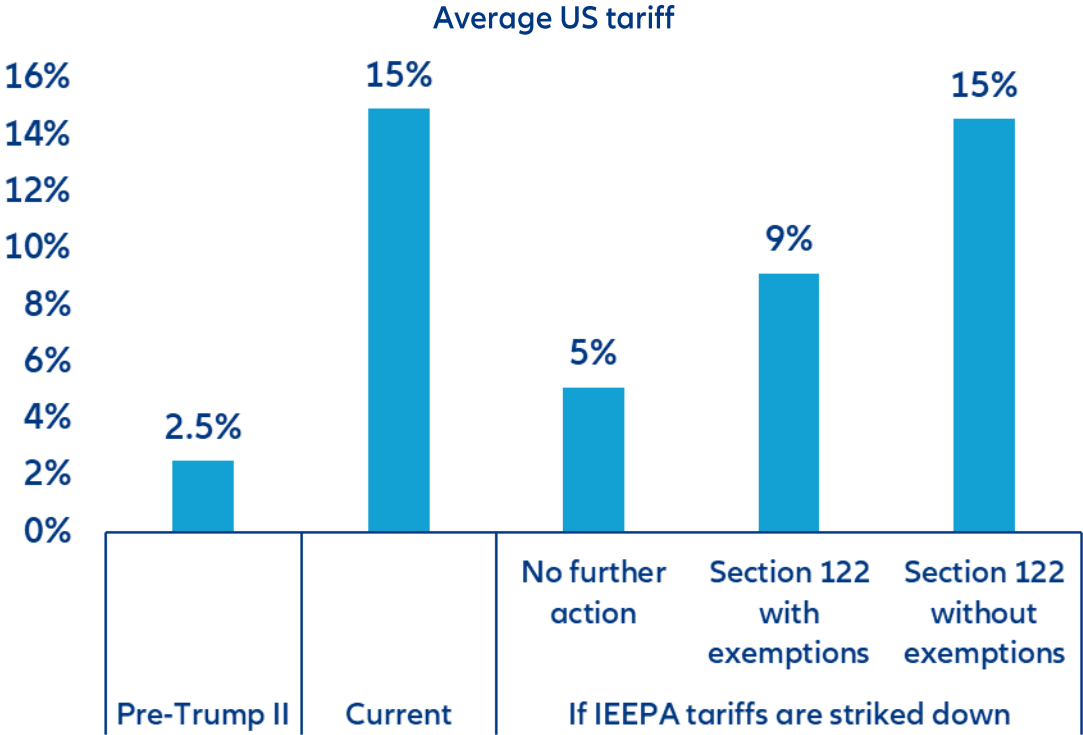
Trade policy remains the main source of uncertainty in 2025



Sources: GDELT, Allianz Research

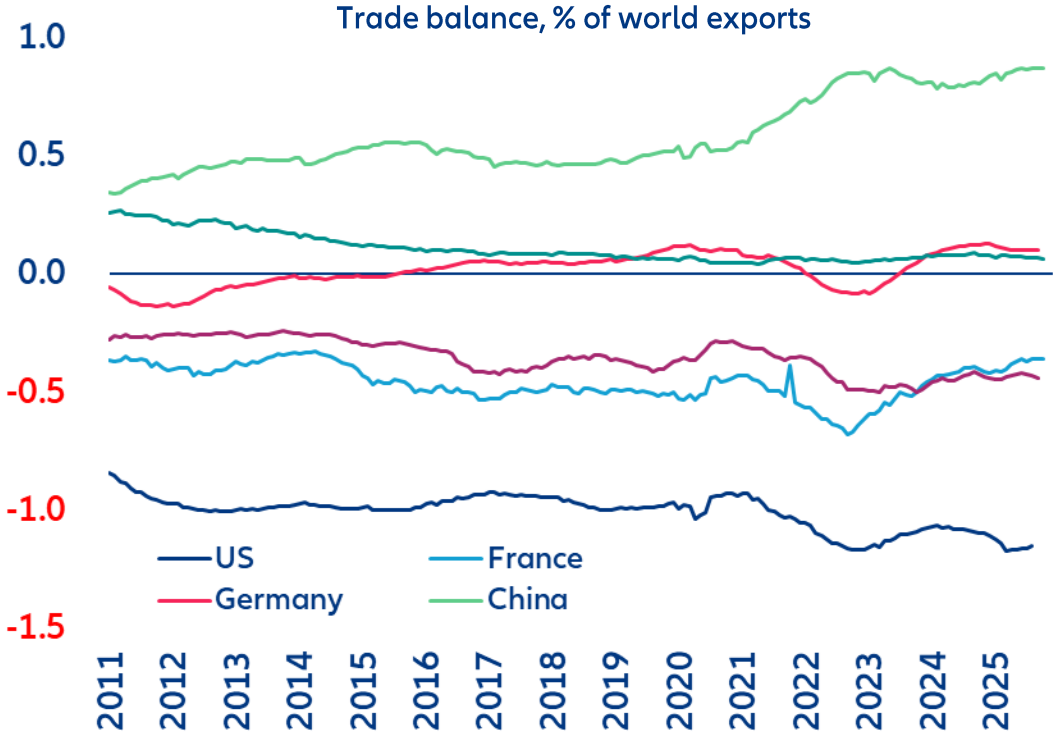
US tariffs ultimately likely to stay elevated, but below previous expectations

The Supreme Court may come to a decision on IEEPA tariffs in Q1 2026



Sources: various, Allianz Research

Despite the US tariffs, China reached a record-high surplus of USD1trn in Q4 2025, up 21.6% y/y

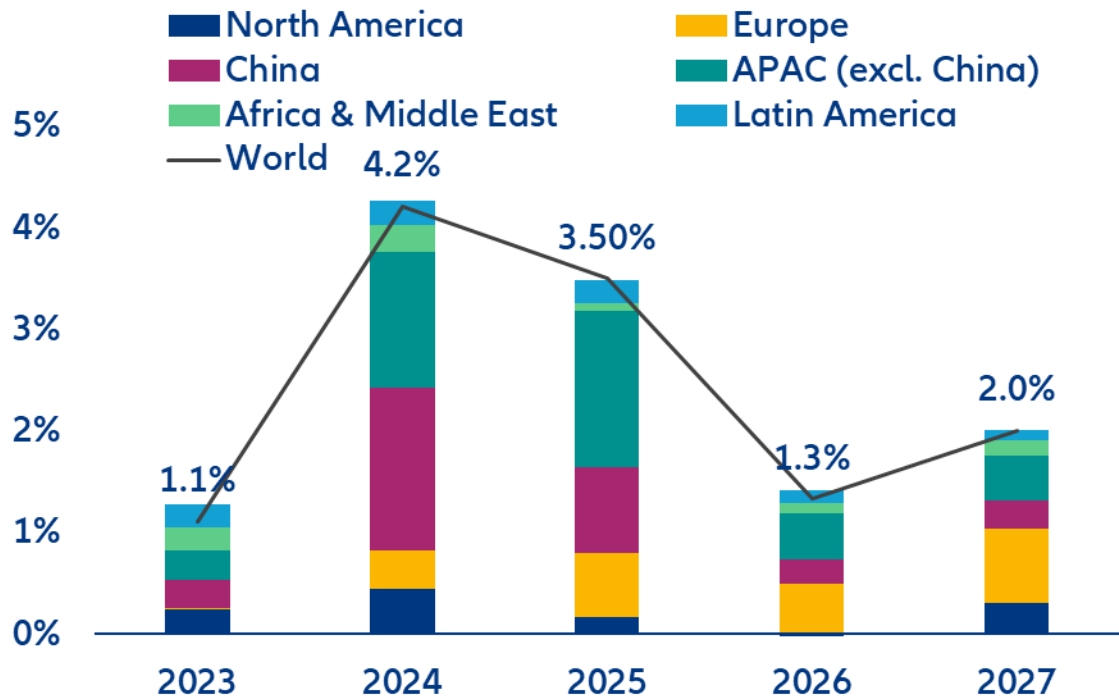


Sources: LSEG Datastream, Allianz Research

Half of the revision in global trade growth powered by lower tariffs, rerouting and AI boom

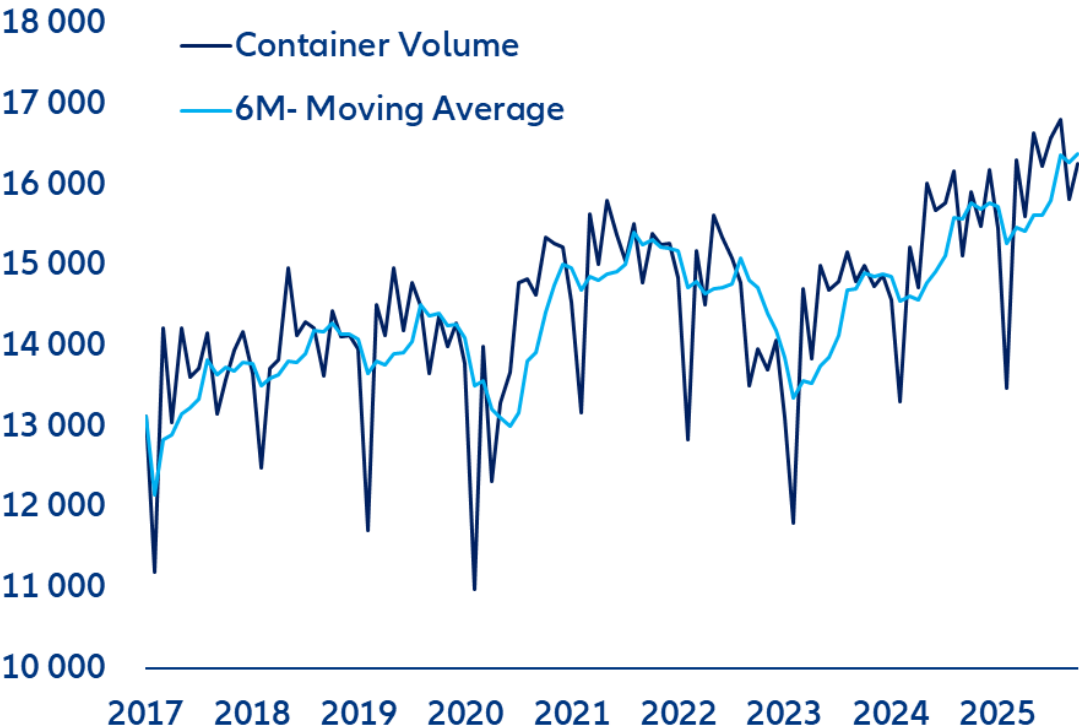
Global trade of goods and services proved to be more resilient than expected, notably thanks to Asia and Europe

Annual change of trade in goods and services (volume terms)



The trade war pushed volume of containers back to 2017 highs, mainly driven by Asia

Worldwide loaded container shipping volumes by region (in TEUs)



Sources: US Census Bureau, US Bureau of the Fiscal Service, Allianz Research
Notes: 2025-2027 is Allianz Research Forecast

Sources: CTS, Allianz Research

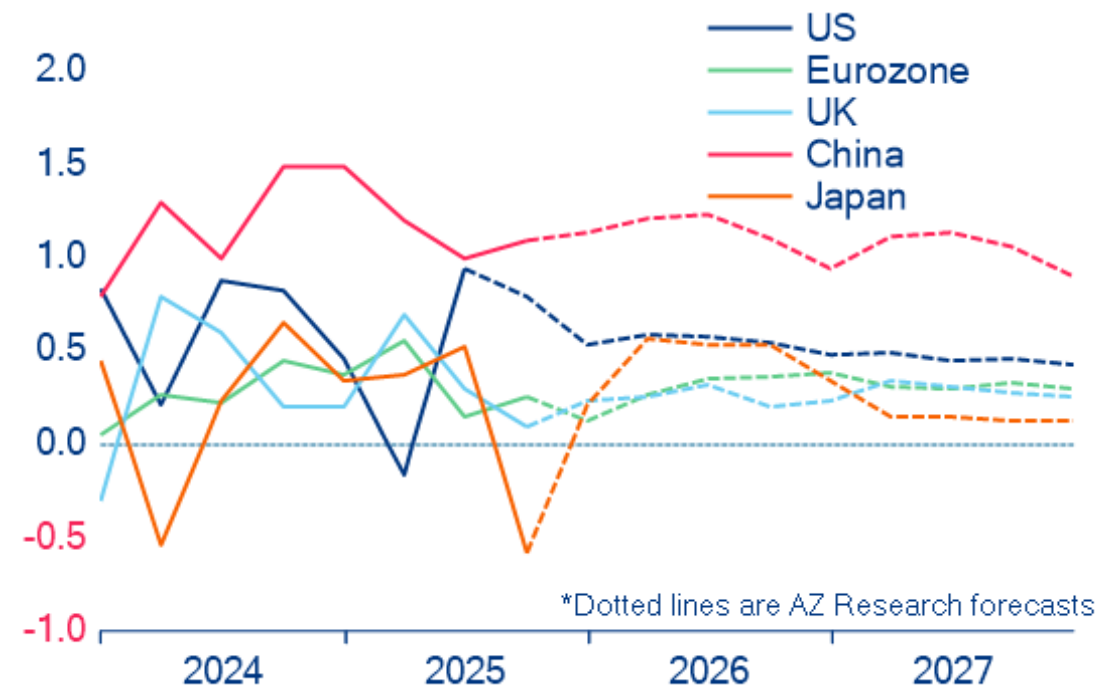
The US and China are powering global growth

80% of the upside revision in global growth is due to the US, China and Japan

Growth (yearly %)	2023	2024	2025f	2026f	2027f
Global	2.9	2.9	3.0	2.9	2.8
USA	2.9	2.8	2.1	2.5	2.0
Latin America	2.1	1.8	2.5	2.3	2.5
Brazil	3.2	3.0	2.4	2.2	2.2
UK	0.3	1.1	1.4	1.0	1.2
Eurozone	0.6	0.9	1.4	1.1	1.4
Germany	-0.7	-0.5	0.2	0.9	1.3
France	1.6	1.1	0.8	1.1	1.1
Italy	1.1	0.5	0.6	0.8	1.0
Spain	2.5	3.5	2.9	2.1	2.0
Central and Eastern Europe	1.3	2.3	2.3	2.6	2.7
Poland	0.2	3.0	3.4	3.8	2.6
Russia	4.1	4.3	0.9	2.0	2.0
Türkiye	5.1	3.3	3.4	3.5	3.8
Asia-Pacific	4.5	4.1	4.5	4.2	4.0
China	5.4	5.0	5.0	4.7	4.4
Japan	1.2	-0.2	1.4	1.4	1.0
India	8.8	6.7	7.4	6.5	6.3
Middle East	2.1	1.8	2.5	3.1	3.3
Saudi Arabia	0.6	2.0	3.8	3.9	3.7
Africa	2.7	3.4	3.9	3.9	4.0
South Africa	0.8	0.5	1.1	1.3	1.5

But US growth should slow down ahead while Europe looks steady at low levels

GDP growth, qoq in %



Sources: LSEG Datastream, Allianz Research

The balance of risks is on the downside

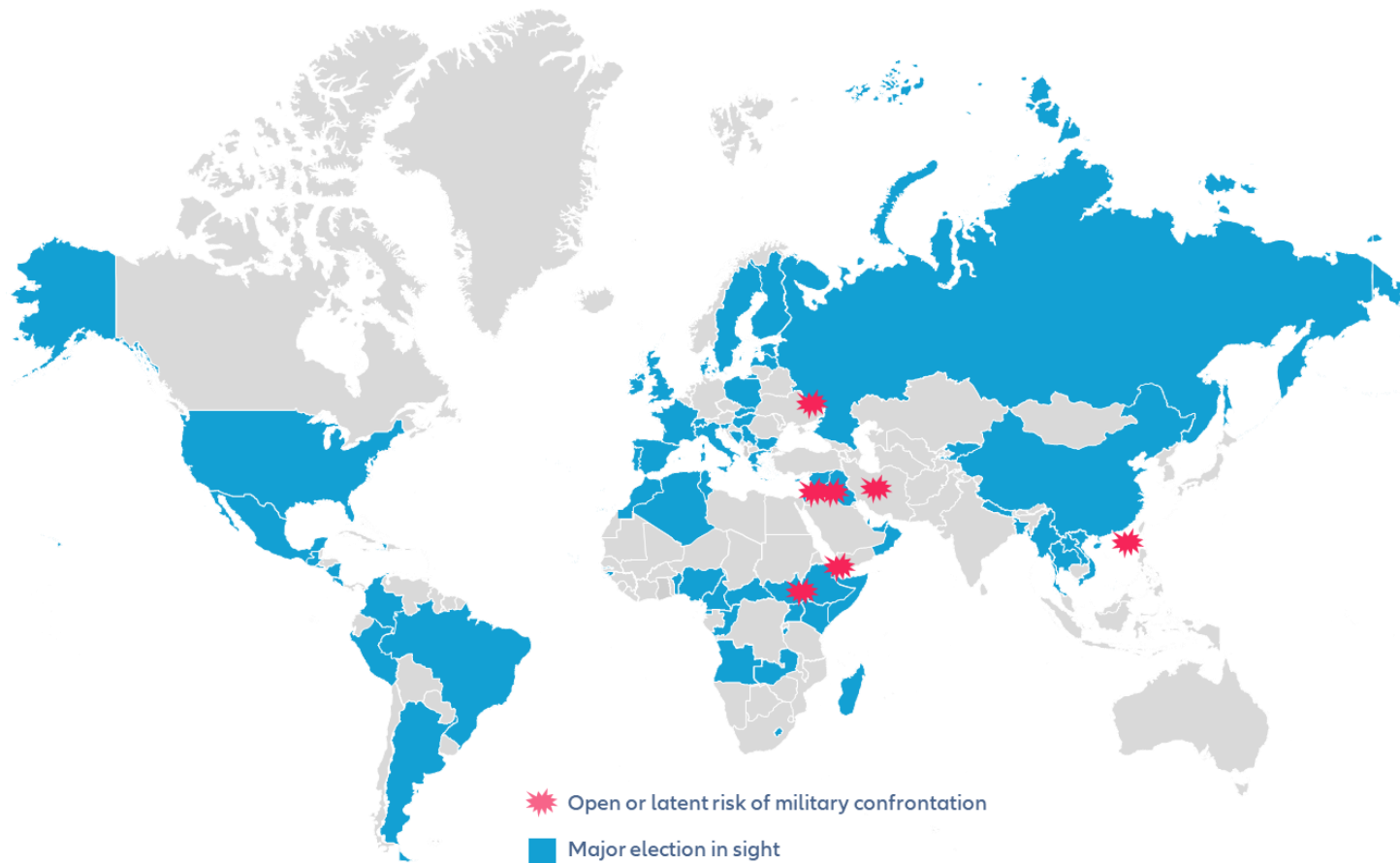
Main events that will shape 2026

	January-March	January	January	February	February	May	July	November	November
	Supreme court on Fed's Lisa Cook's ousting	Supreme Court Ruling on IEEPA Tariffs	Dutch pension reform	US government shutdown	4 years of war in Ukraine	End of Fed Chair Jerome Powell's term	USMCA review	US Mid-Term Elections	China-US trade truce expires
Baseline scenario	Rejected	Ruling against, but White House finds alternatives (average tariff at 15%)	Limited impact as it is priced in	No or limited shutdown	Truce or negotiated peace reached by 2025 or 2026	Kevin Hassett or similar candidate succeeds	Higher regional & US content thresholds	Democrats take House, Republicans keep Senate	Trade truce extended or it becomes permanent
Most likely alternative scenario	Case admitted – Fed independence damaged	Ruling against with effective tariffs from 5% if no further action or 9% if usage of section 122 with sectorial exemptions	Reduced demand for long-dated EGBs and interest rate swaps push up the long end of the yield curve	Extended shutdown (new record) with US negative economic impact	Escalation, NATO gets involved, China invades Taiwan	Highly dovish / politicized candidate takes over with inflationary risks to follow in 2027	Negotiations break down – tariff and non-tariff barriers increase	Democrats win both House and Senate	Renewed tariff hikes potentially back to 100%

Risks throughout 2026 and 2027

	De-dollarization shock reloaded	AI bubble burst	Private markets	Truss moments	German stimulus	Banking deregulation	US immigration policy	ECB governing council rotation
Baseline scenario	No Revenge Tax or similar policy that triggers de-dollarization	Soft landing of the stock market	Stable	High deficit countries (FR, US, UK) continue to issue debt without market turmoil	Stimulus hitting bureaucracy wall delivering only 0.9% GDP growth in 2026	USD2.6tn in capital relief from a decline of 2pp in the CET 1 ratio to 14% against 16% in Europe	Continued tight immigration policy leading to population growth at 0.2%	End of Lagarde term, replaced by a balanced Governor
Most likely alternative scenario	Revenge tax scares off international investors, weaker dollar, higher rates	AI bubble burst triggering corrections in the S&P 500 of up to 25-30% late 2026	Bank run on private debt causes market turbulence	In one or more high-deficit country, markets loose trust causing FX and rates volatility	Full blown stimulus triggers with high multiplier lifts growth to 2-3% in 2026	Europe is joining the deregulation efforts and eases Basel III rules in 2027-28	Loosening of deportation policy to limit high labor shortages in some sectors	A hawkish Governing member takes over

More than 60% of global GDP will have key political events in 2026-27



NB – Other key elections to watch: Denmark (2026) · Vietnam (2026) · Morocco (2026) · Nigeria (2027) · Finland (2027) · Switzerland (2027) · Poland (2027) · Tunisia (2027)

2026-27: Main political events



7 May 2026: Local elections

- Testing ground for Premier Starmer policies with a risk of political and financial market turmoil should the Labor party loose significantly.



By Oct 2026: General election

- First election to take place since 2023 October 7th attacks. PM Netanyahu coalition continuation in question which could impact the entire region.



4 Oct 2026: General election

- President Lula is running for re-election, and there is still no candidate for the opposition. Other presidential elections in LatAm earlier in 2026: Costa Rica, Peru and Colombia.



November 2026: US mid-term elections

- Democrats take House, Republicans keep Senate
- Fiscal policy changes limited



11 – 18 April 2027 - Presidential election

- Risk of legislative elections being organized in 2026 following the local elections in March 2026.
- Presidential election could lead to an anti-establishment party taking over



By Aug 2027 - General election

- PM Pedro Sánchez plans to run in 2027, but political fragility could trigger a snap election and open the door to a conservative government.

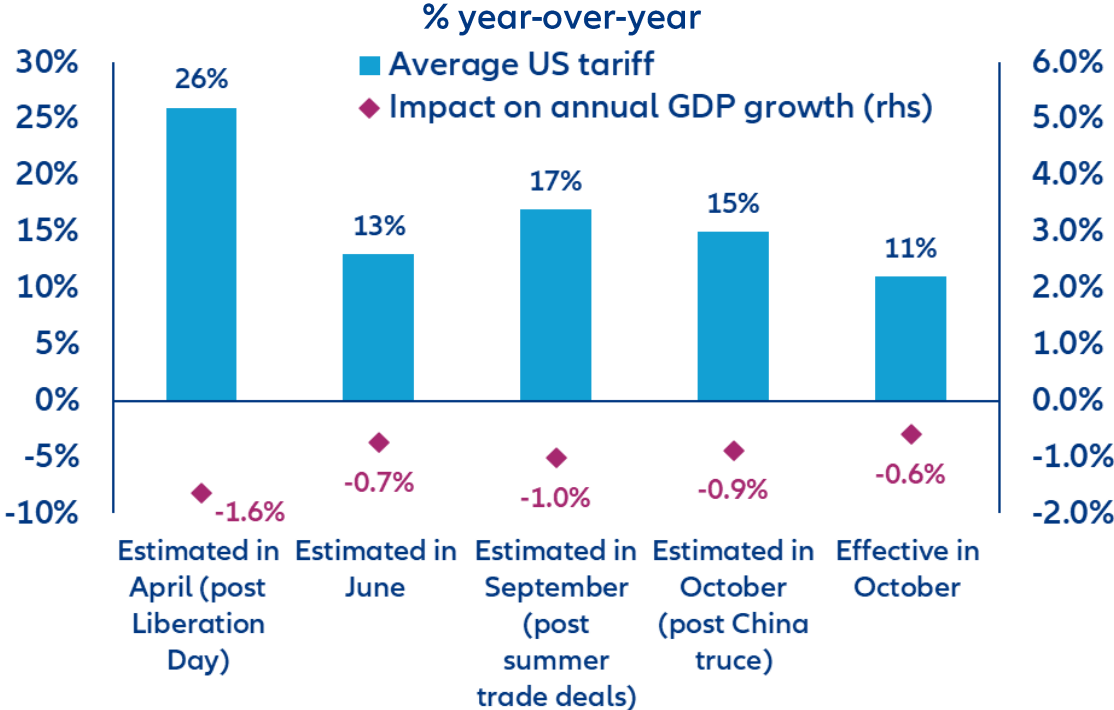


By Dec 2027- General election

- Giorgia Meloni's party still leads the polls by a wide margin over opposition groups (the Democratic Party and Five Star Movement).

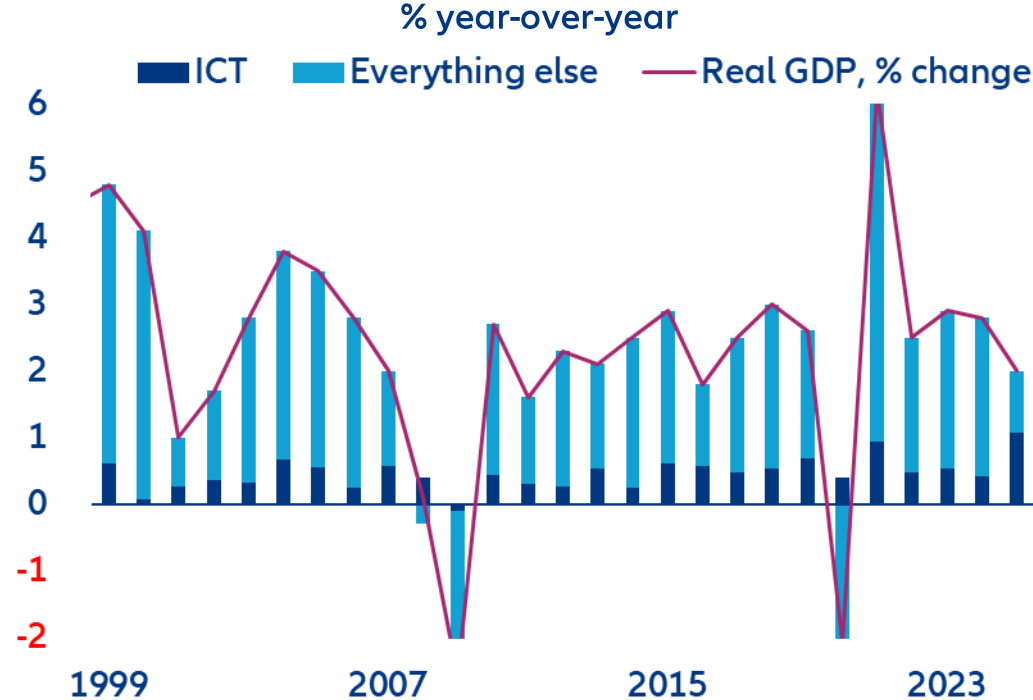
The US economy is increasingly two-speeded

The US trade war impact has been revised down to only -0.6pp in 2025 thanks to trade deals...



Sources: Oxford economics, Allianz Research

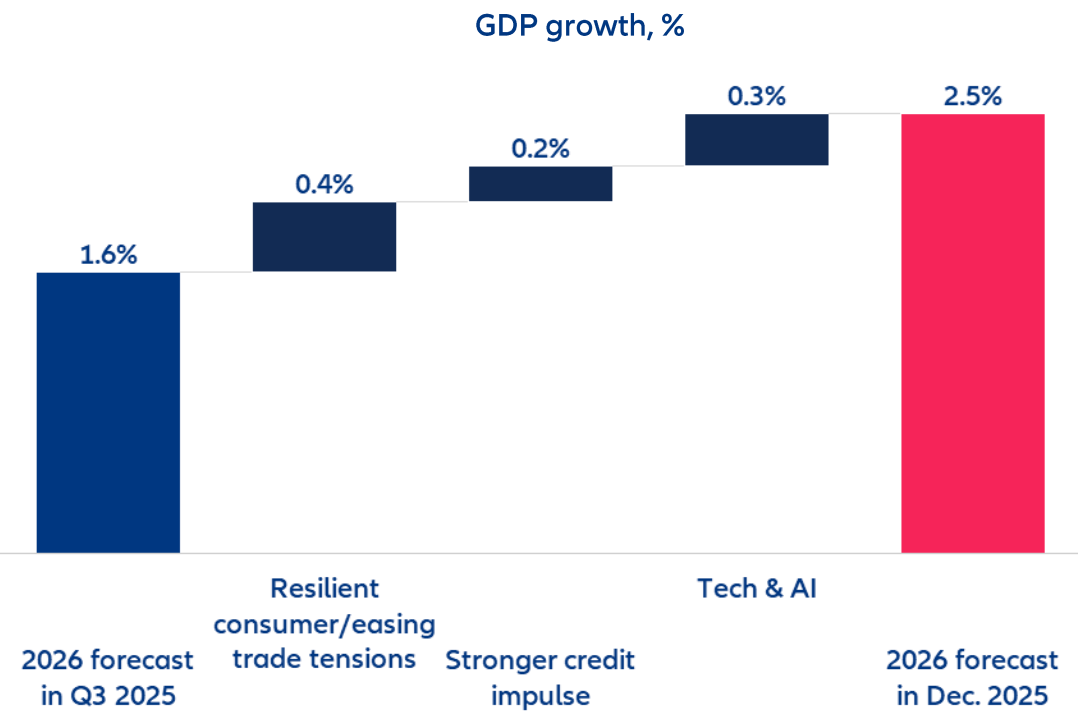
...while ICT (incl AI) is powering more than 50% of GDP growth in 2025, i.e. +1.1pp contribution overall



Sources: BEA, Allianz Research
Note: Data in 2025 is derived from Q1 and Q2 GDP. ICT is made up of both manufacturing (computers, semi-conductors, etc) and services (software and data processing, computer systems design, etc) activities.

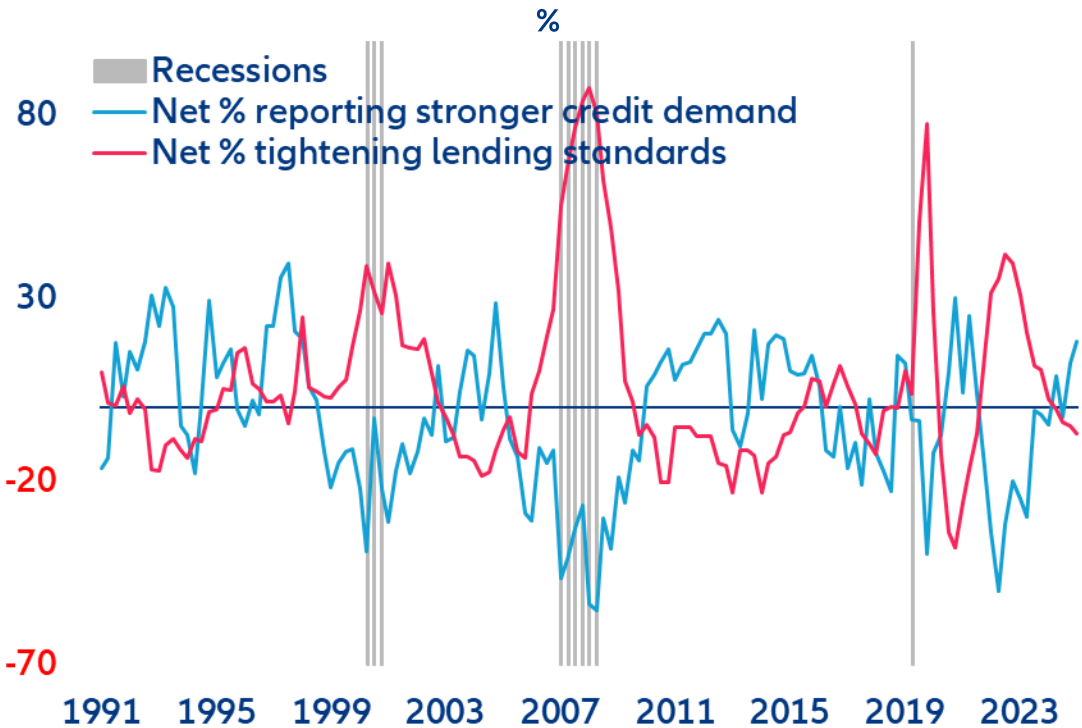
US policy tailwinds and fading uncertainty should bring higher support to growth in 2026

Stronger policy pass-through, AI and lower tariffs lead to higher growth expected in 2026; carryover from 2025 at 1%



Sources: LSGE Datastream, Allianz Research

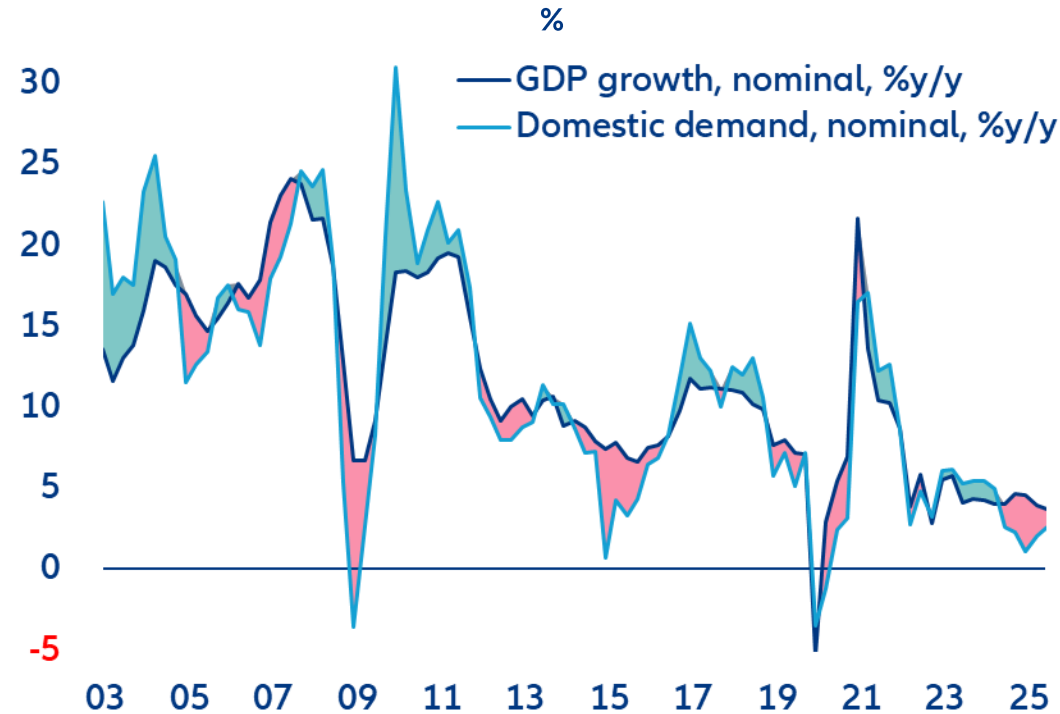
Banking surveys point to a pick-up in credit demand and easing of credit standards



Sources: LSGE Datastream, SLOOS Fed survey, Allianz Research

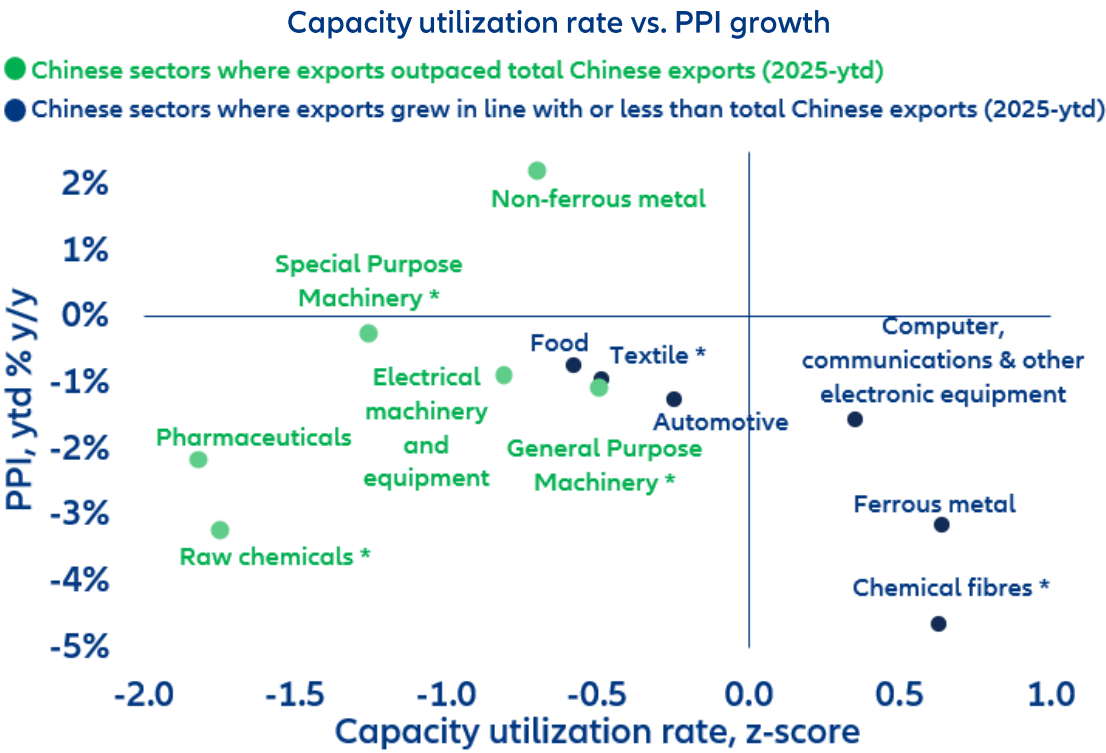
China: resilient growth thanks to external competitiveness, while domestic demand is soft

China's growth has been supported by the rest of the world over the past year, with consumption and investment (particularly real estate) generally weak



Sources: National Bureau of Statistics of China, Chinese Customs, Allianz Research

Sectors in more acute overcapacity have been outperforming in terms of exports

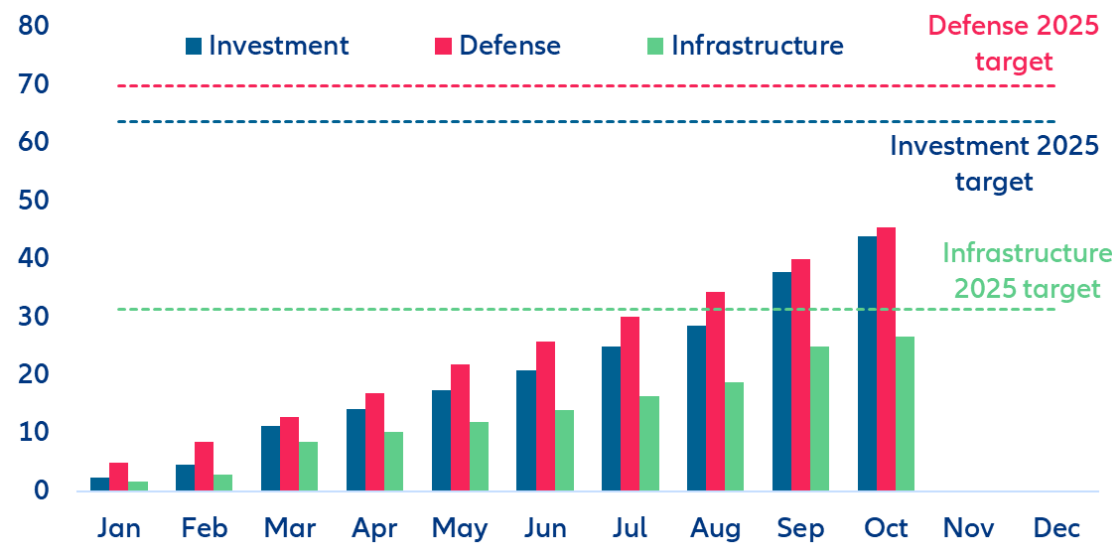


* Historical data from 2021, instead of 2018
Sources: National Bureau of Statistics of China, Chinese Customs, Allianz Research

German growth potentially squandered by slower fund utilization

YTD expenditure accumulates fast but not fast enough to reach targets

Cumulative core budget 2025, central government expenditure in EUR, bn



Sources: Bundesministerium der Finanzen, Allianz Research.

Our baseline outlook sees a gradual implementation of additional funds with low impact on growth

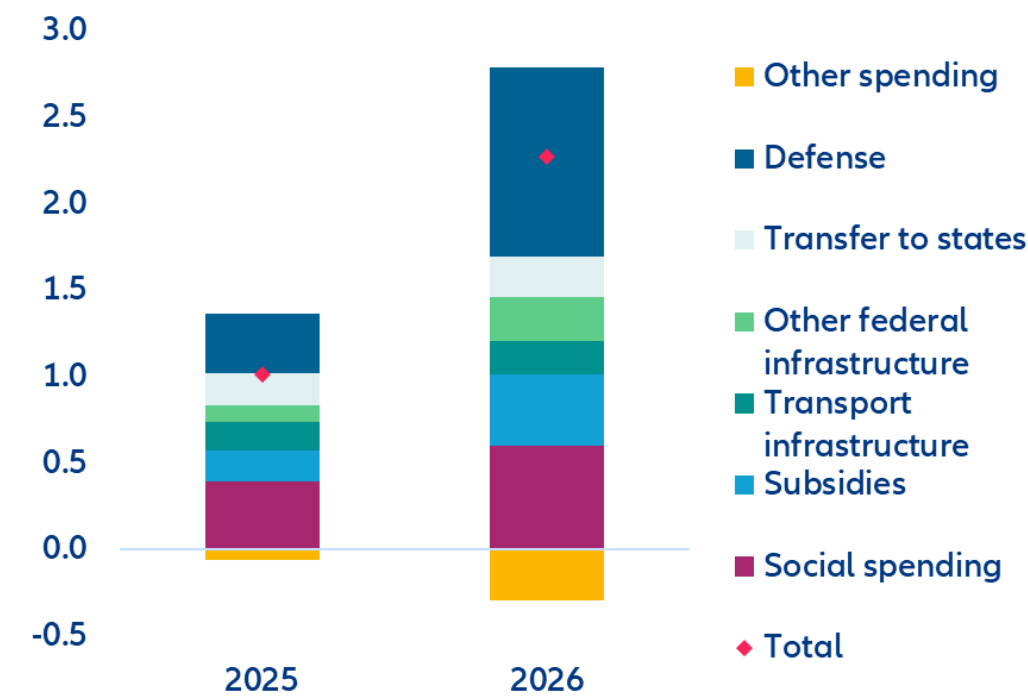
		in pp				Our baseline
implementation year		base GDP growth	defense package	infrastr. package	total GDP growth	
low multiplier	gradual	2025	0.1	0.1	0.0	0.2
		2026	0.4	0.1	0.4	0.9
		2027	0.7	0.1	0.5	1.3
high multiplier	low	2025	0.1	0.1	0.2	0.4
		2026	0.4	0.1	0.9	1.4
		2027	0.7	0.1	0.9	1.7
	gradual	2025	0.4	0.2	0.2	0.8
		2026	1.2	0.3	1.0	2.6
		2027	1.5	0.3	1.1	3.0
	full	2025	0.4	0.2	0.3	0.9
		2026	1.2	0.3	1.4	3.0
		2027	1.5	0.3	1.4	3.3

Sources: Allianz Research. Notes: The baseline includes GDP growth from implemented industrial policy (30% super-depreciation, R&D investments, red tape) and continued effects of the trade war. Assumptions on low multipliers are 0.6 for defense, 1.0 for infrastructure, 0.15 for super-depreciation, 0.1 for R&D investments and 0.03 for red tape, while the high multipliers are 0.4, 1.5, 0.4, 0.2 and 0.08 respectively.

German economy held back by political priorities that could further decrease its competitiveness

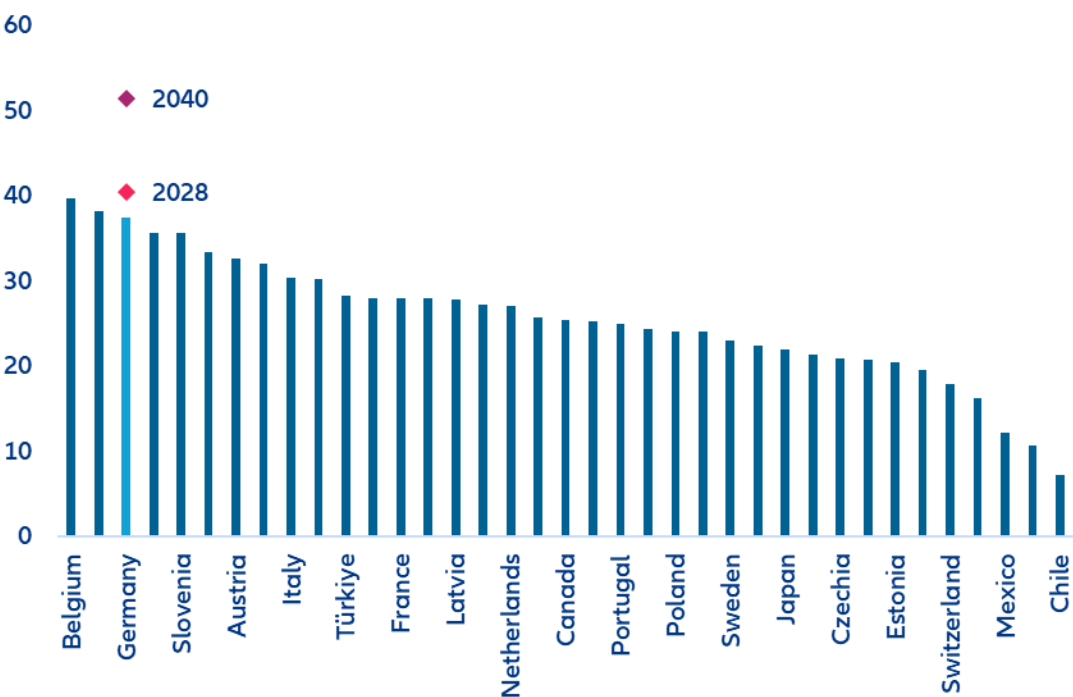
Fiscal expansion in core budget less investment-oriented than originally assumed

Change in estimated federal core expenditure compared to 2024 in % of GDP



Non-wage labor costs could increase above 50% by 2040 with the decided pension reform

Personal income tax and employee SSC as % of gross wage earnings

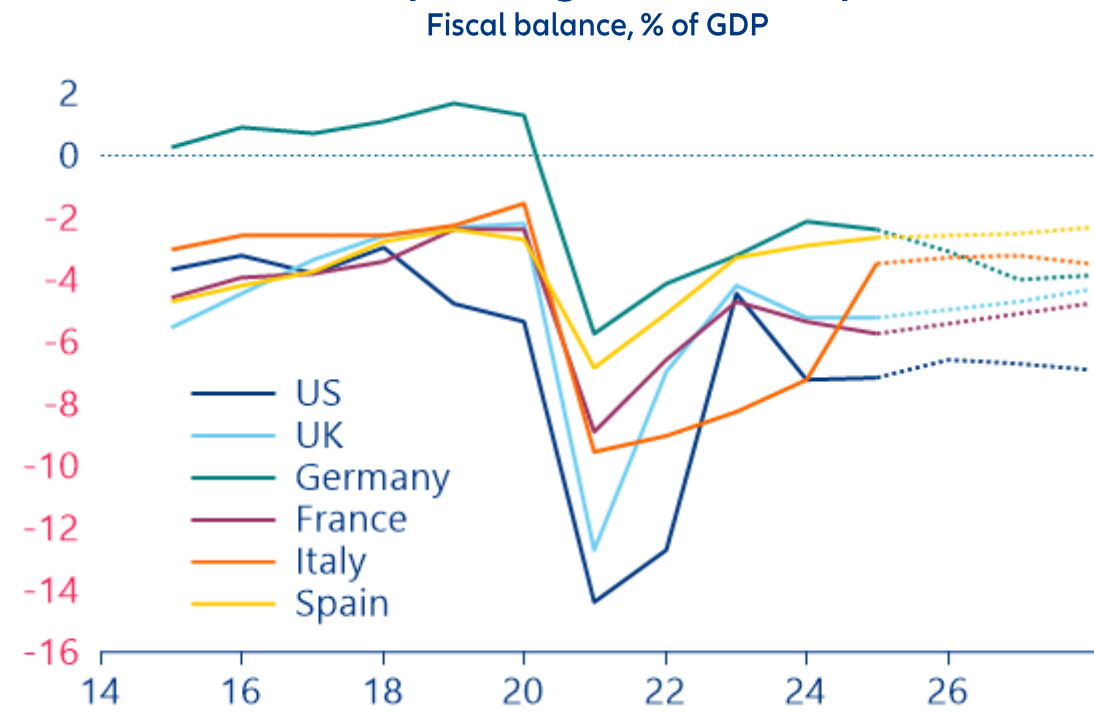


Sources: Dezernat für Zukunft, Allianz Research

Sources: OECD, Destatis, Allianz Research

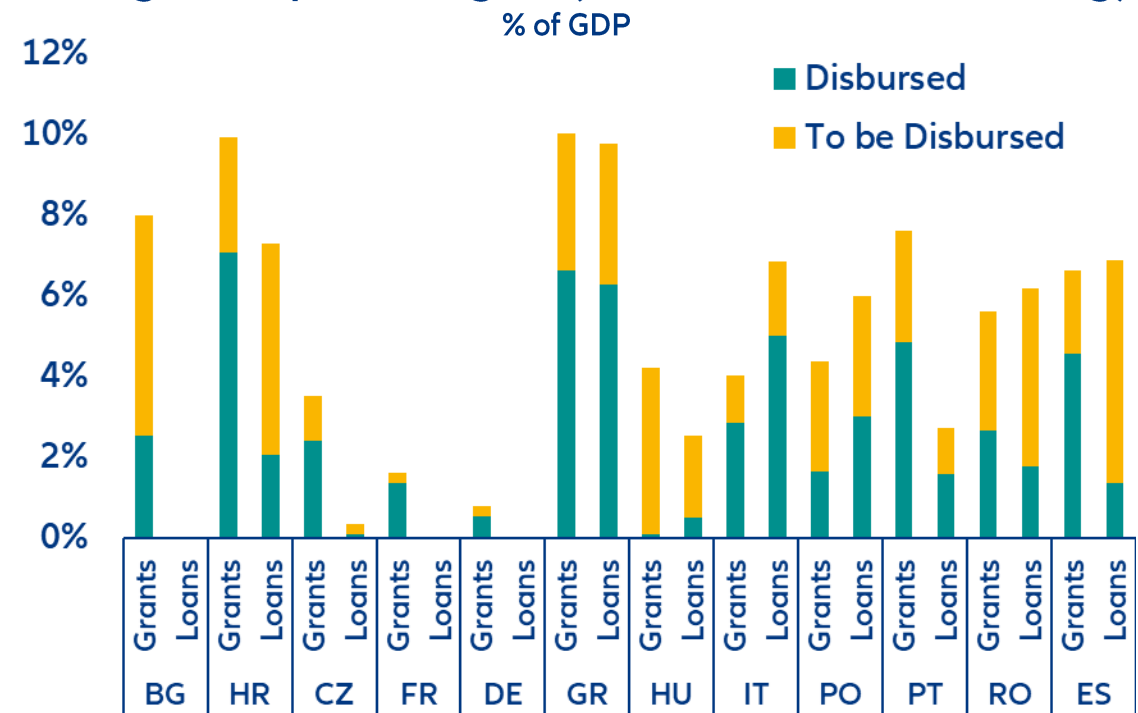
Increasing fiscal policy divergence between US and Europe

German deficit above Spain's and Italy's: higher increases in social spending rather than productive areas



Sources: LSGE Datastream, Allianz Research

One year to go on NGEU; several countries at risk of missing absorption targets (40% of funds outstanding)

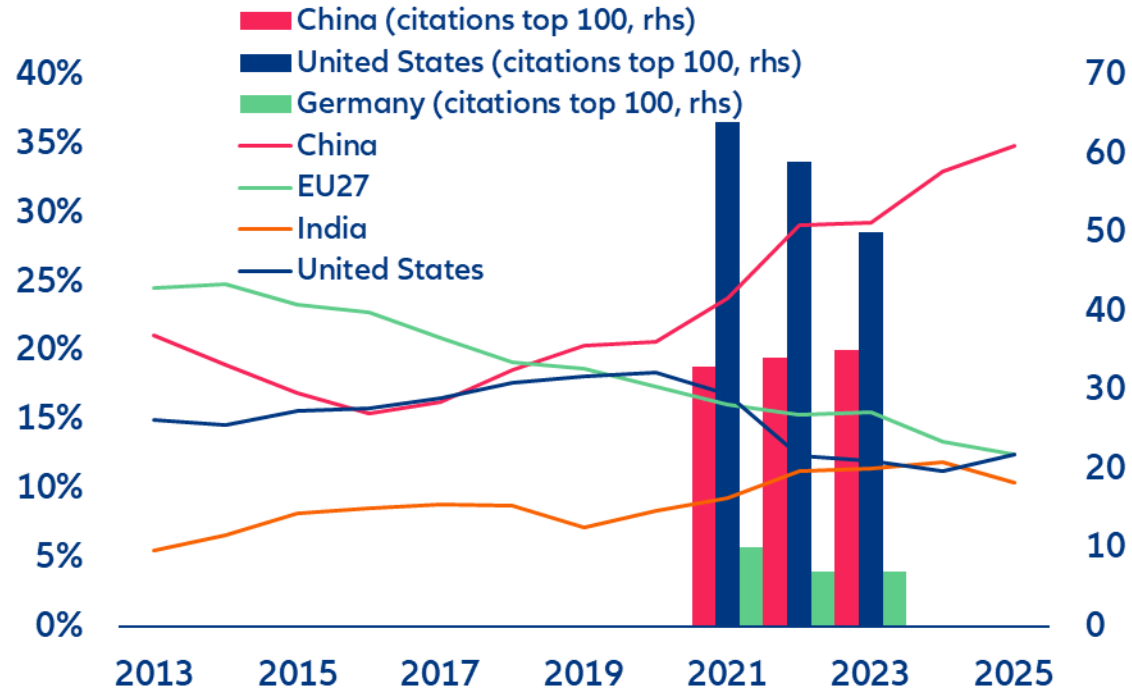


Sources: European Commission, Allianz Research

The US and China in the AI race, Europe still a laggard

China leads in the volume of academic publications on AI, while academic publications from the US are the most cited

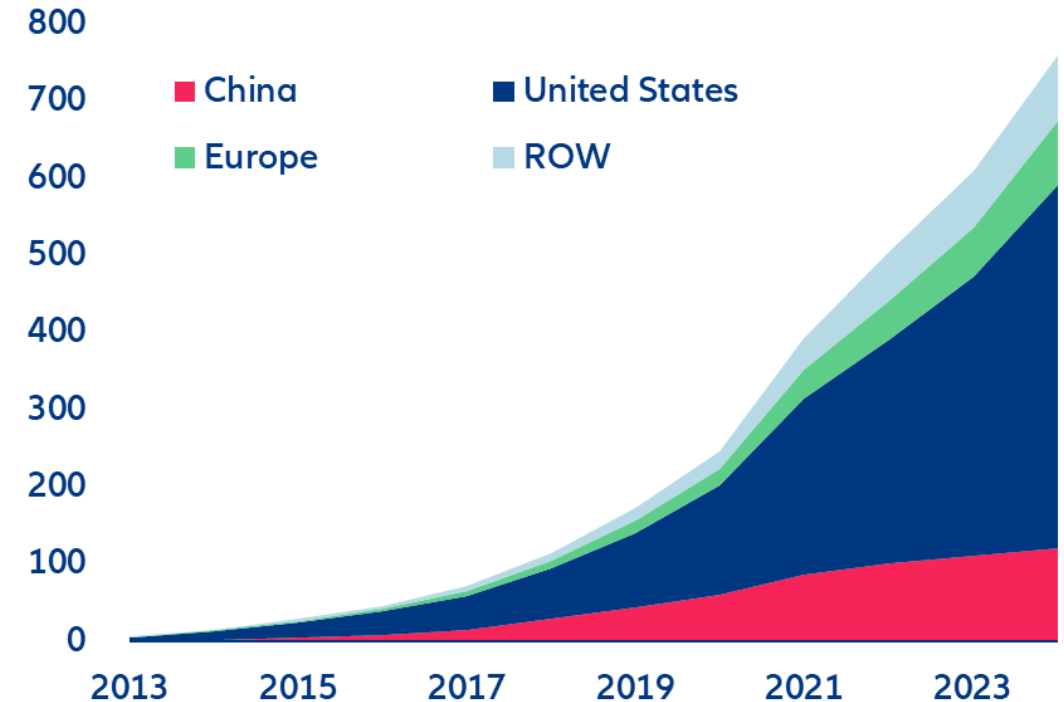
per country publication shares lhs & top 100 most cited AI publication rhs



Sources: OECD.AI GPAI, Stanford HAI, OpenAlex, Allianz Trade

AI private investments in China are second largest after the US, and far ahead of Europe

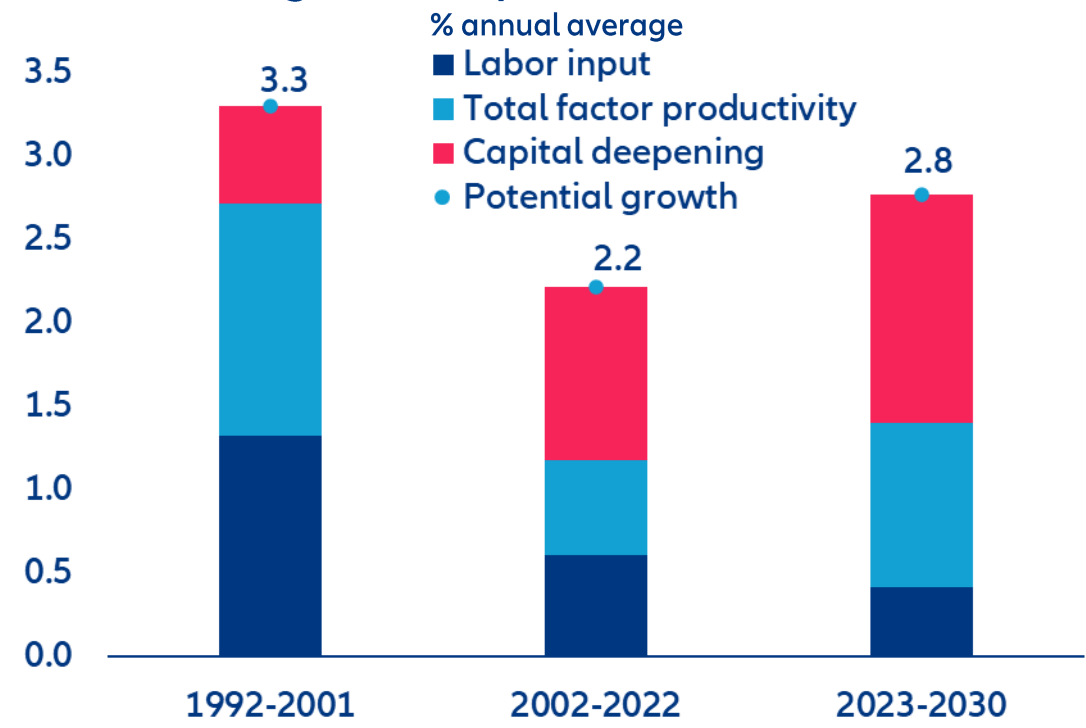
cumulative USDbn, per country breakdown



Sources: Quid, Stanford HAI, Allianz Trade

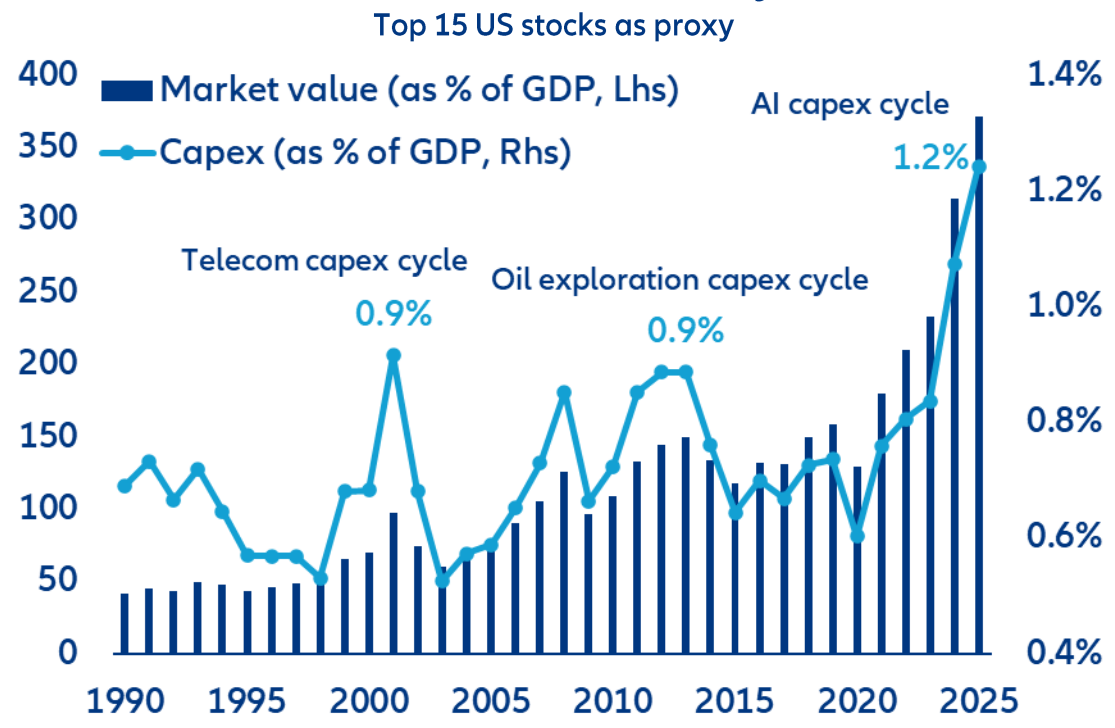
Intensive AI capex cycle will support higher productivity gains

Investment intensity of the US economy is deepening, TFP growth expected to accelerate



Sources: LSGE Datastream, Allianz Research
Note: capital deepening represents the growth of non-residential capital stock over labor input. Labor input is the growth of total working hours.

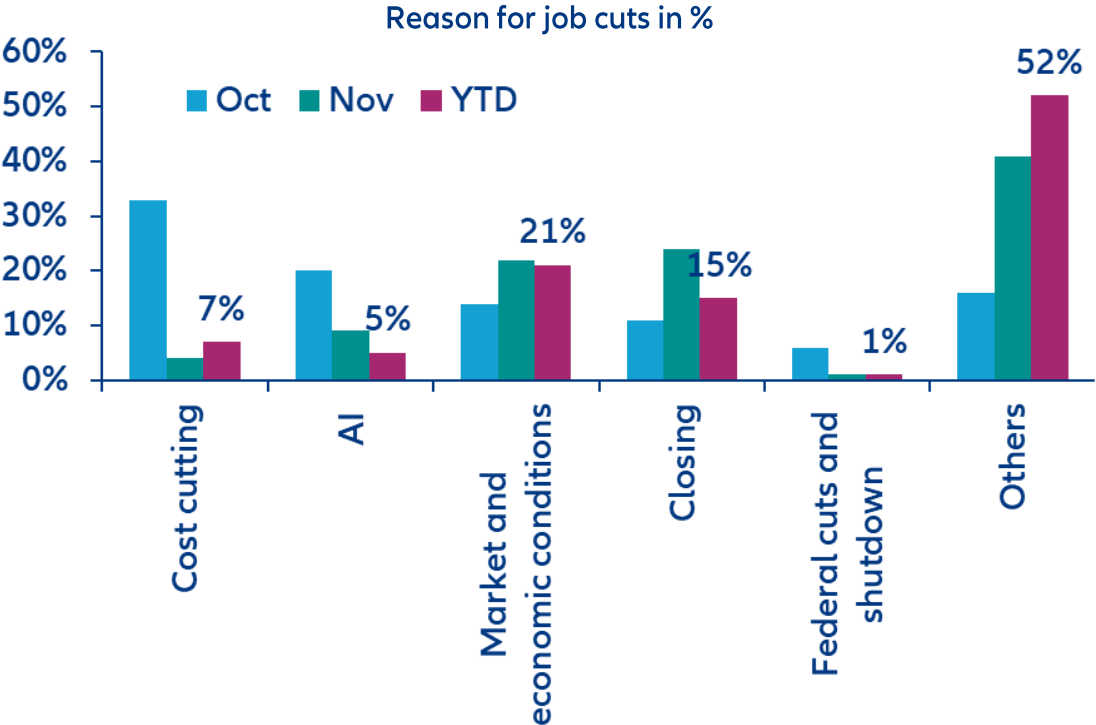
AI capex pace is far more intensive than former telecom and oil cycles



Sources: LSEG Datastream, Allianz Research

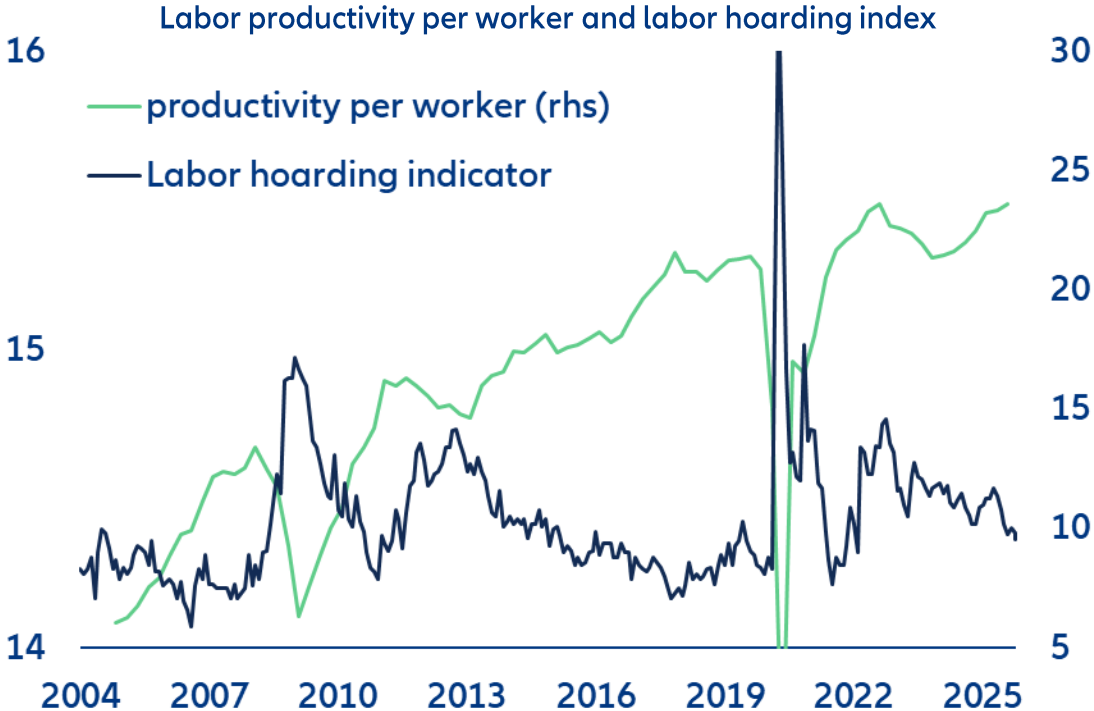
From labor hoarding to labor layoffs amid AI?

In the US, AI-driven cuts limited for now but MIT study finds AI could replace 12% of the workforce*



Sources: Challenger, Allianz Research
*<https://doi.org/10.48550/arXiv.2510.25137>

In the Eurozone, mild signs that recent productivity gains reduce labor hoarding

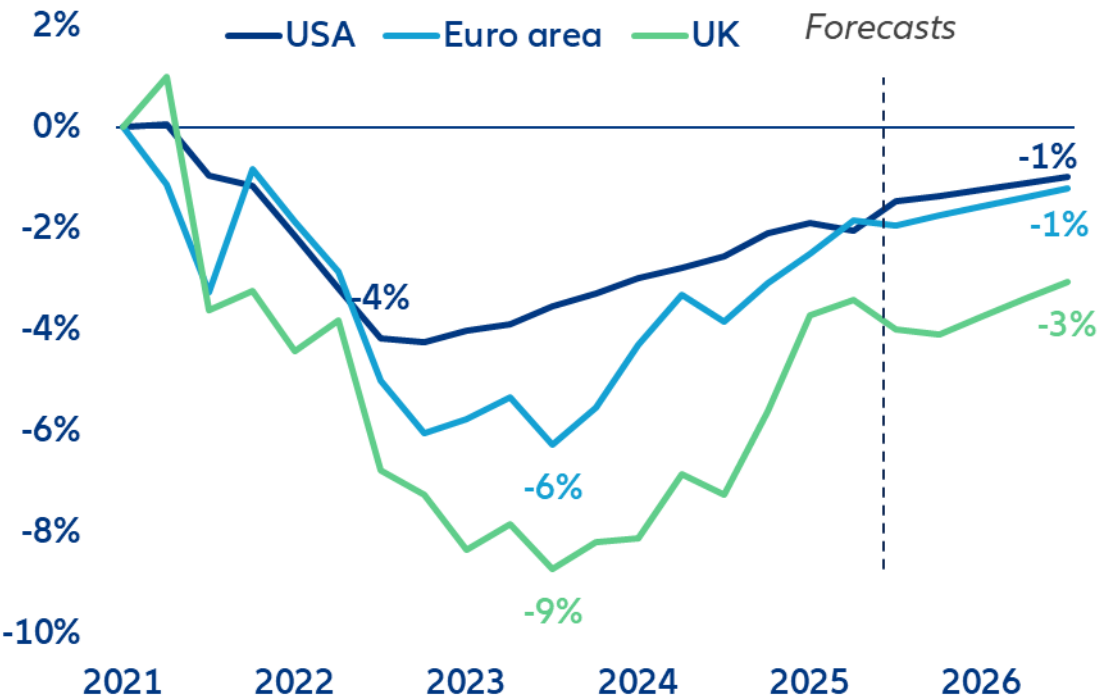


Sources: LSEG Datastream, European Commission, Allianz Research. The labor hoarding indicator reports the (weighted) % of firms which expect their output to decrease, but their employment to increase or remain unchanged.

Is the consumer back?

Household purchasing power has improved but post-Covid inflation effects are still visible

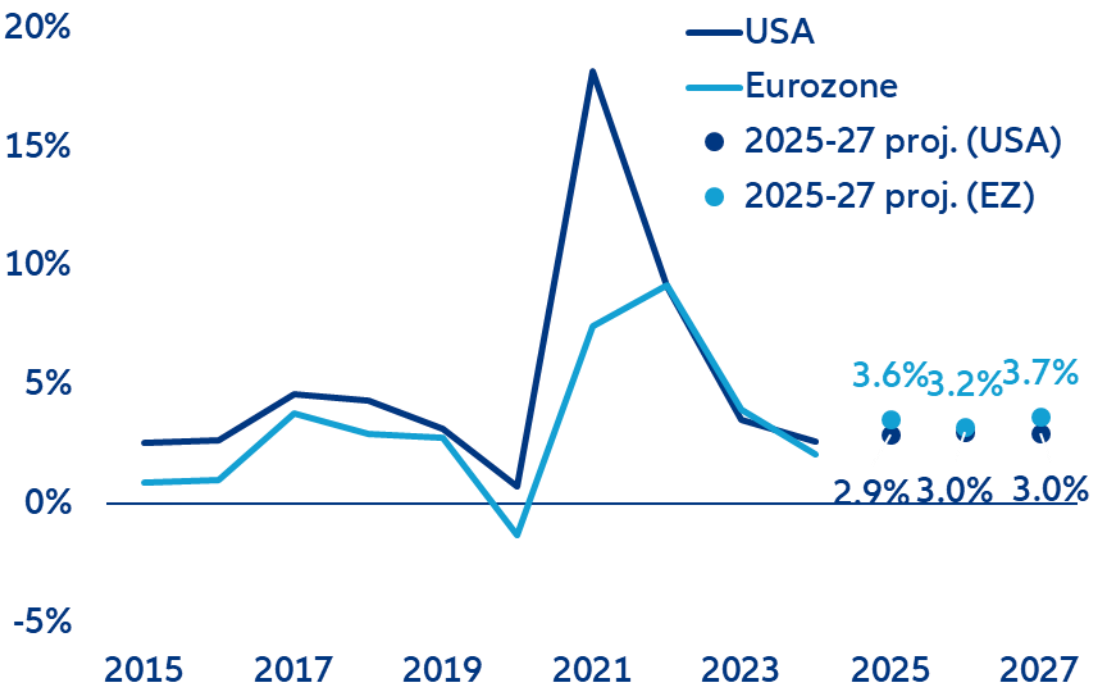
Real wage growth



Sources: US Census Bureau, US Bureau of the Fiscal Service, Allianz Research

US sales growth to stall under new tariff regime, Eurozone consumption to take off

Retail sales in value, yoy% growth

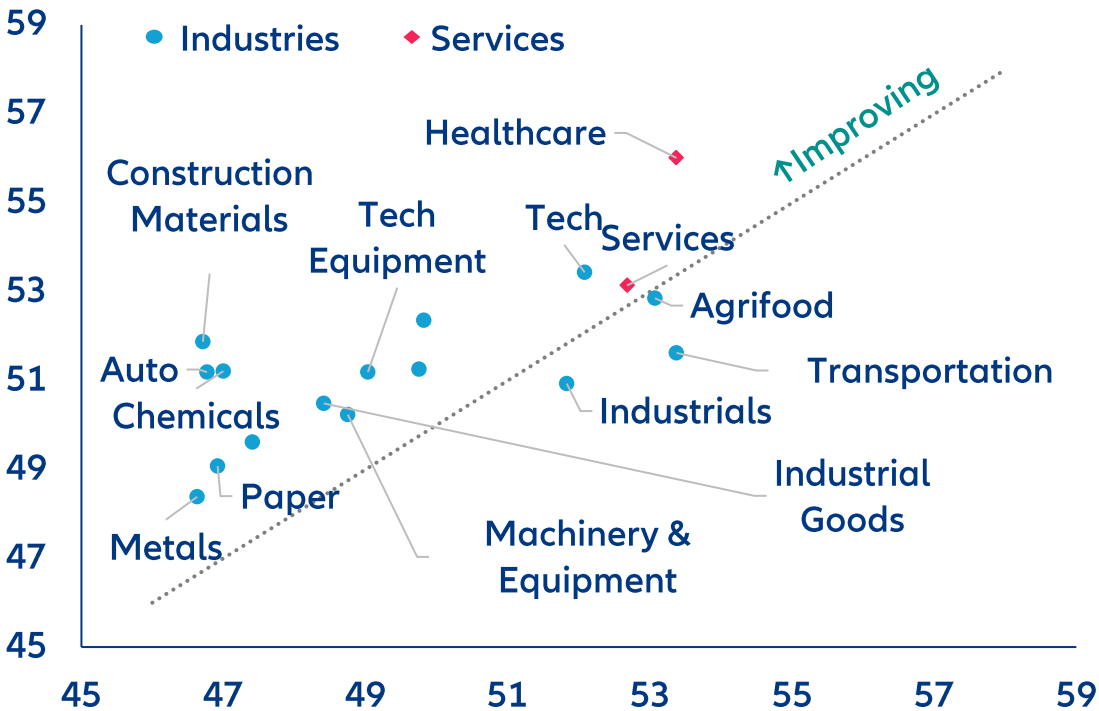


Sources: Eurostat, BLS, Allianz Research

Global manufacturing rollercoaster in 2026 ?

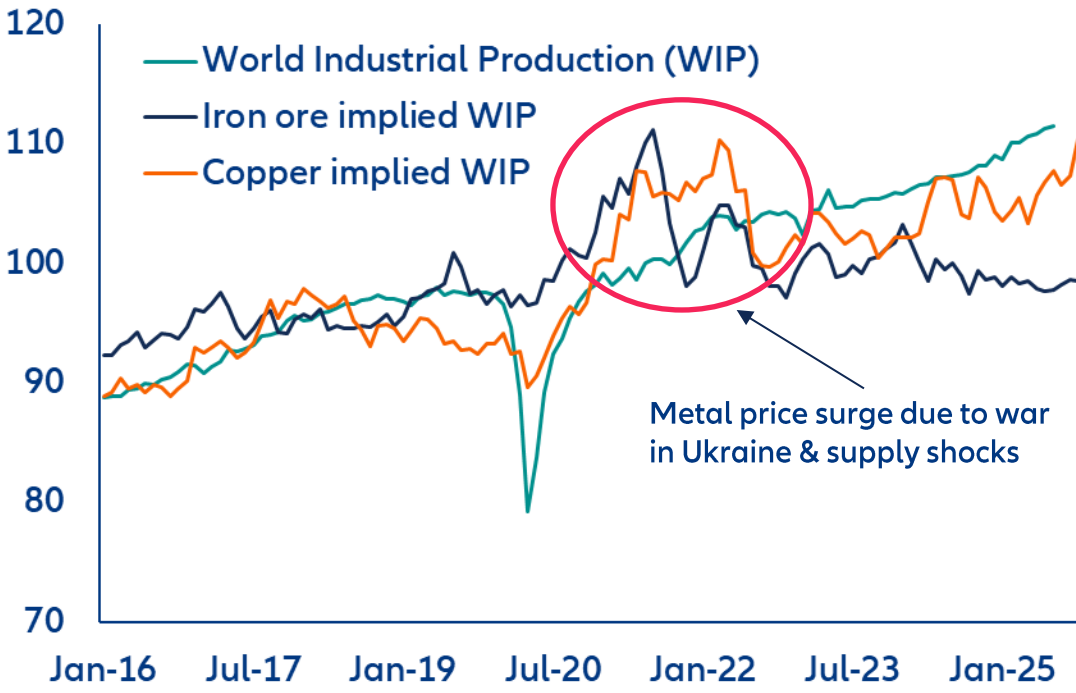
Despite improvement, global manufacturing lags services in demand

PMI new orders, latest y-axis vs 1y ago x-axis



Sources: LSEG Workspace, Allianz Research

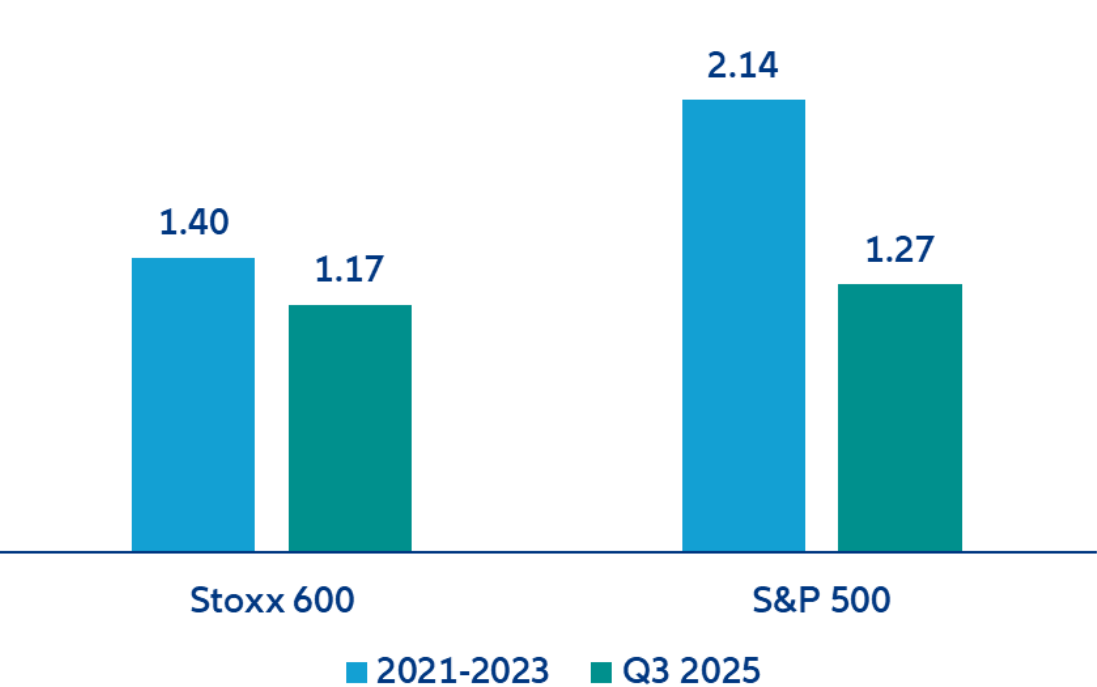
The long-run relation between metal prices and industrial production has broken down, pointing to a slowdown



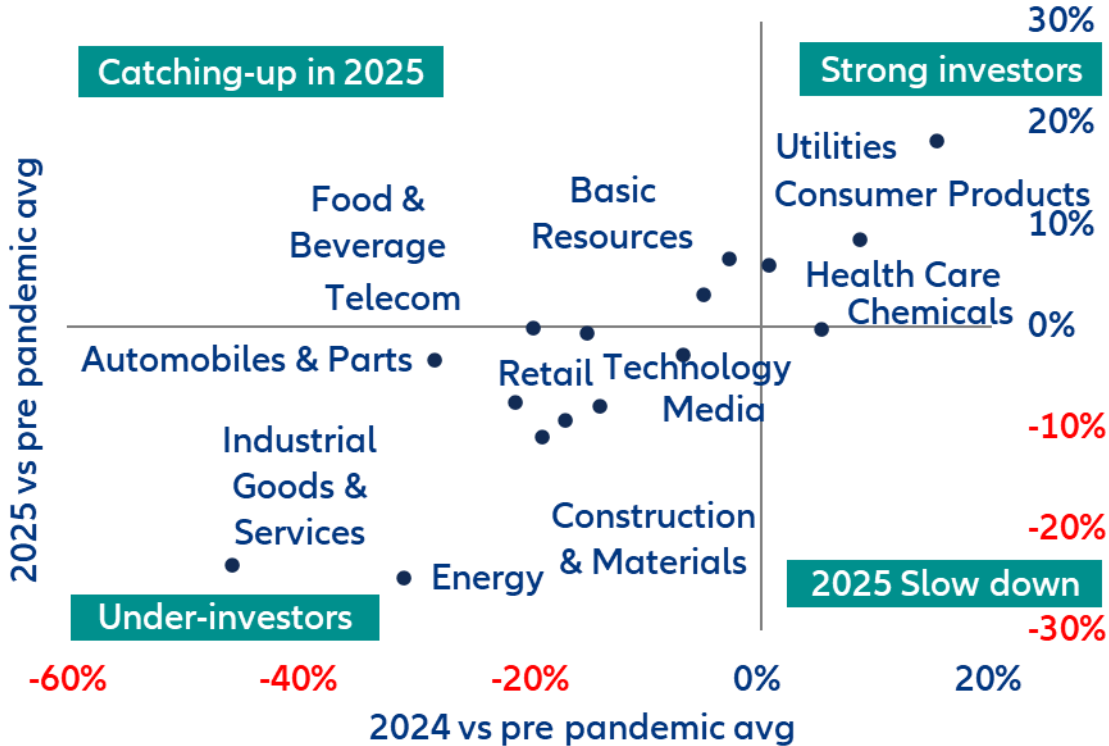
Sources: LSEG Workspace, Allianz Research
Note: Implied WIP are obtained by modelling WIP using metal prices in standard regression models. Over the long-run metal prices are good predictors of the global manufacturing cycle.

After deleveraging, investment cycle ahead?

Most firms reduced leverage over the recent period
Debt-to-equity ratios



“Under-investing” sectors in Europe should catch up
Reinvestment ratios in Europe

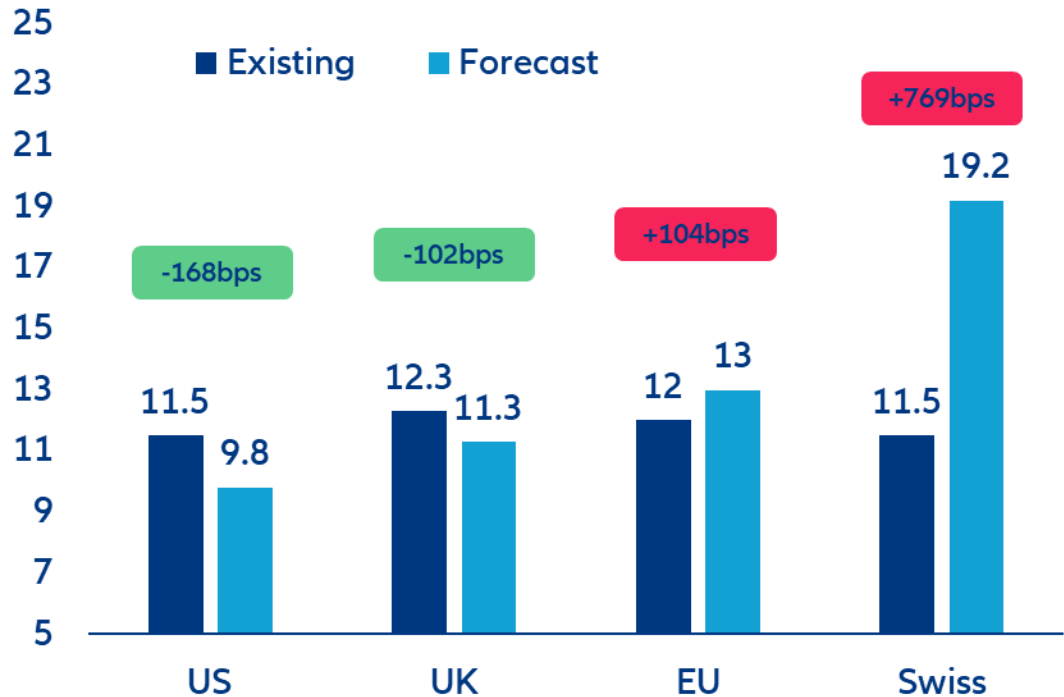


Sources: Bloomberg (European listed companies by sector), Allianz Research
Note: The reinvestment ratio measures how much of a company’s available cash is being reinvested back into the business, mainly through capex

The great divergence in bank (de)regulation

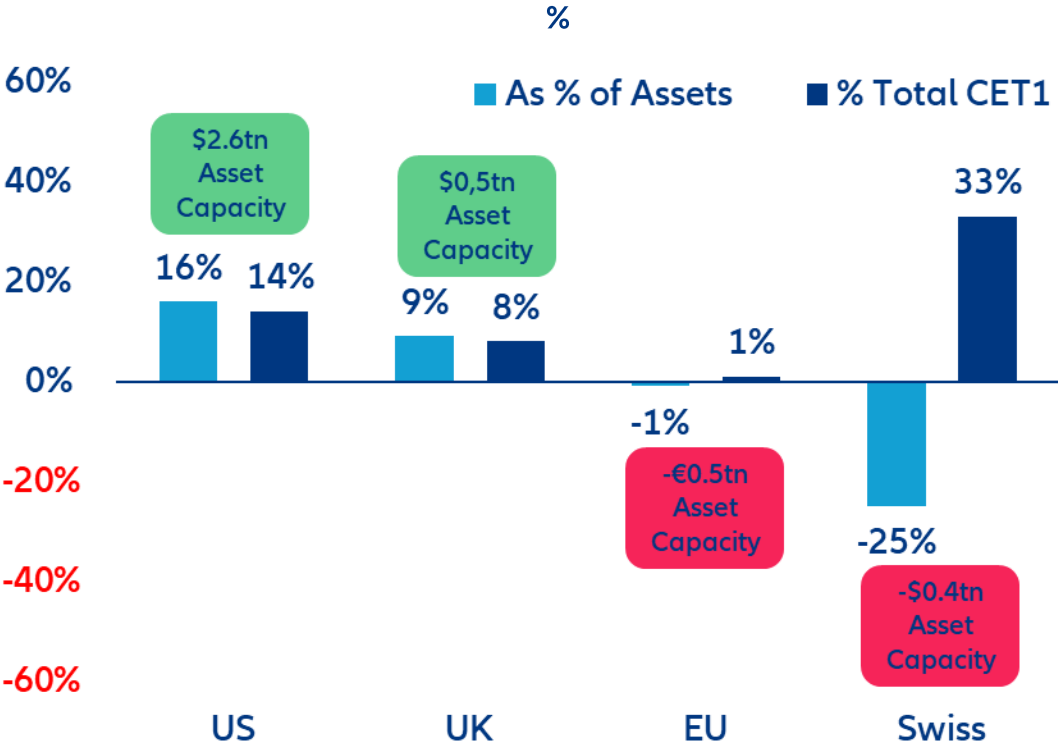
In the US, bank deregulation is estimated to free-up about USD2.6trn in capital relief, and USD500bn in the UK

Expected changes in US, UK, EU and Swiss requirements on bank CET1 levels (%)



Sources: Alvarez and Marsall, US Census Bureau, US Bureau of the Fiscal Service, Allianz Research

US could support global liquidity and credit conditions...if risk appetite follows

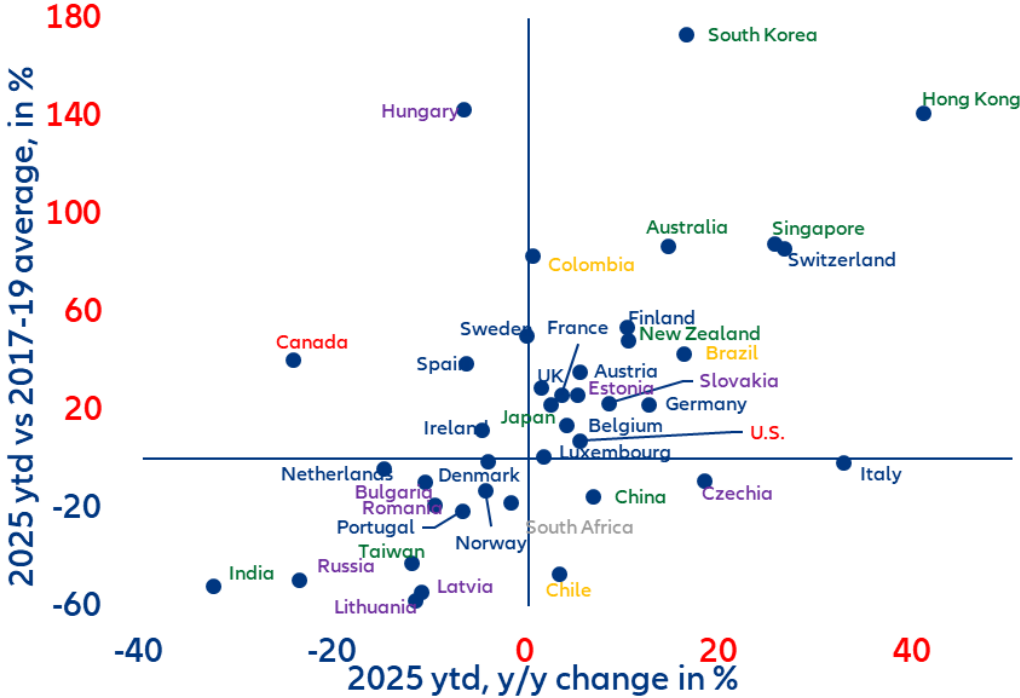


Sources: Alvarez and Marsall, US Census Bureau, US Bureau of the Fiscal Service, Allianz Research

Business insolvencies to peak globally by 2027, with most countries ebbing in 2026

Business insolvencies continue to surge in most countries in 2025 despite already high levels

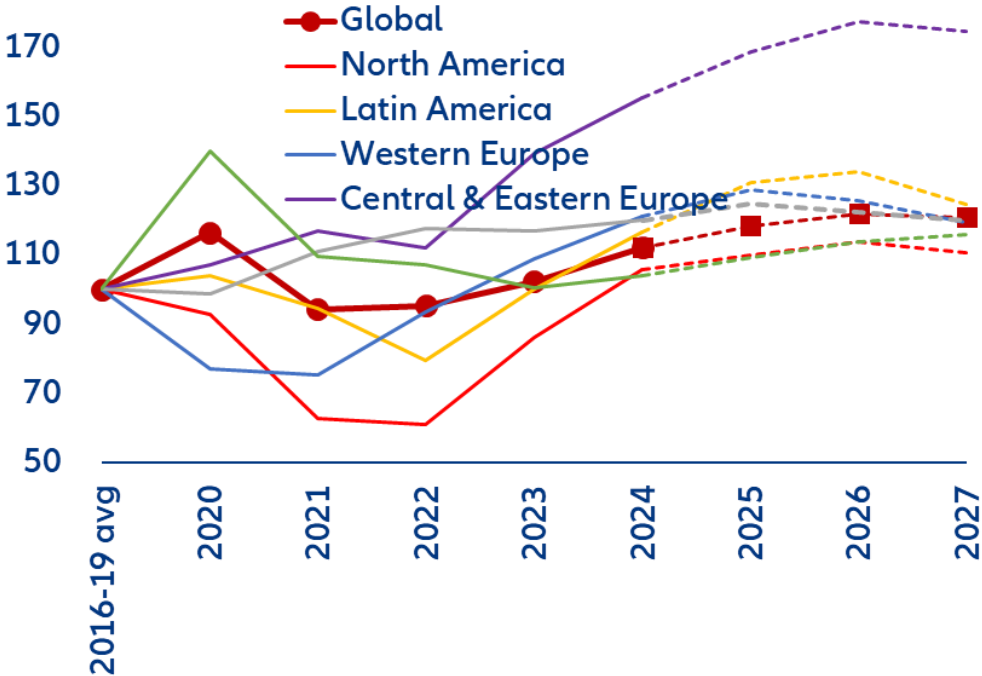
Latest figures by country as of early December



Sources: national statistics, Allianz Research

The global rise in insolvencies to reach +6% and +3% in 2025 and 2026, before a limited decrease in 2027

Global and regional insolvencies, annual indices* (basis 100: 2016-19 avg)

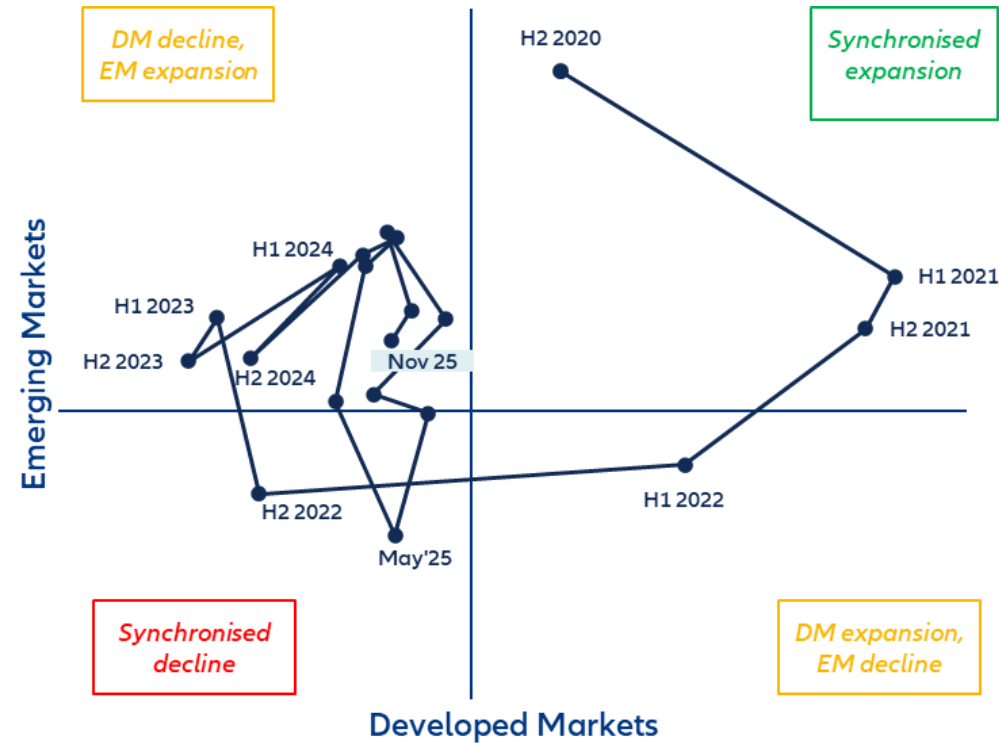


Sources: national statistics, Allianz Research

The cycle in emerging markets overall continues to be positive, but not all are in the same position

EMs should continue to register steady growth in 2026 (+3.7%, +0.1pp above 2025)

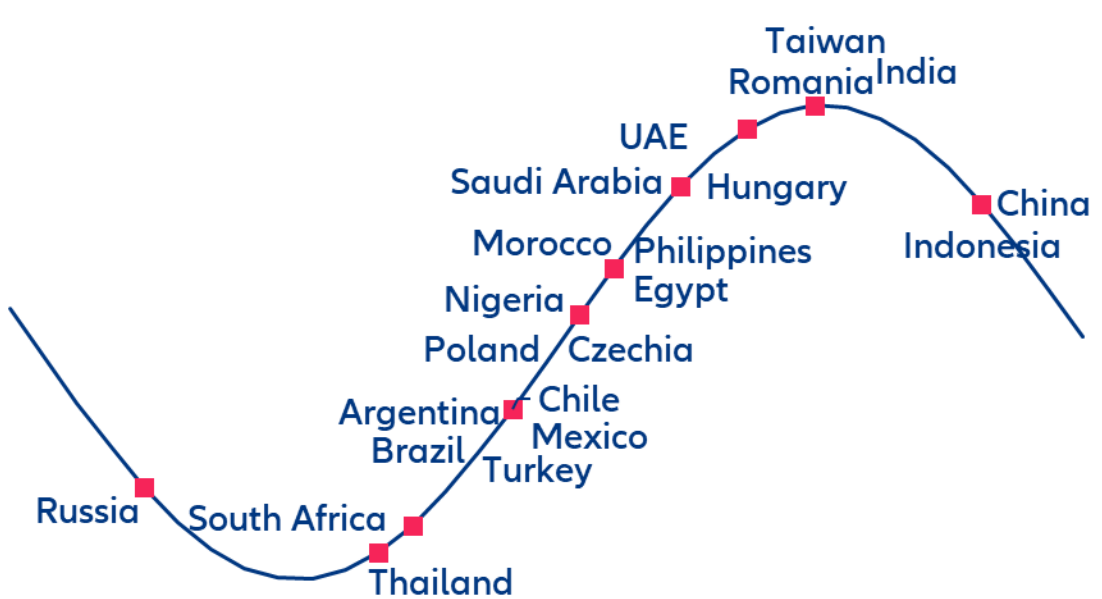
Demand in manufacturing sector, PMI index, new orders + backlog of work



Sources: S&P Markit PMI, Allianz Research

Most EMs expanding within their business cycle, with a few close to peaking or slowing down

Business cycle, Index



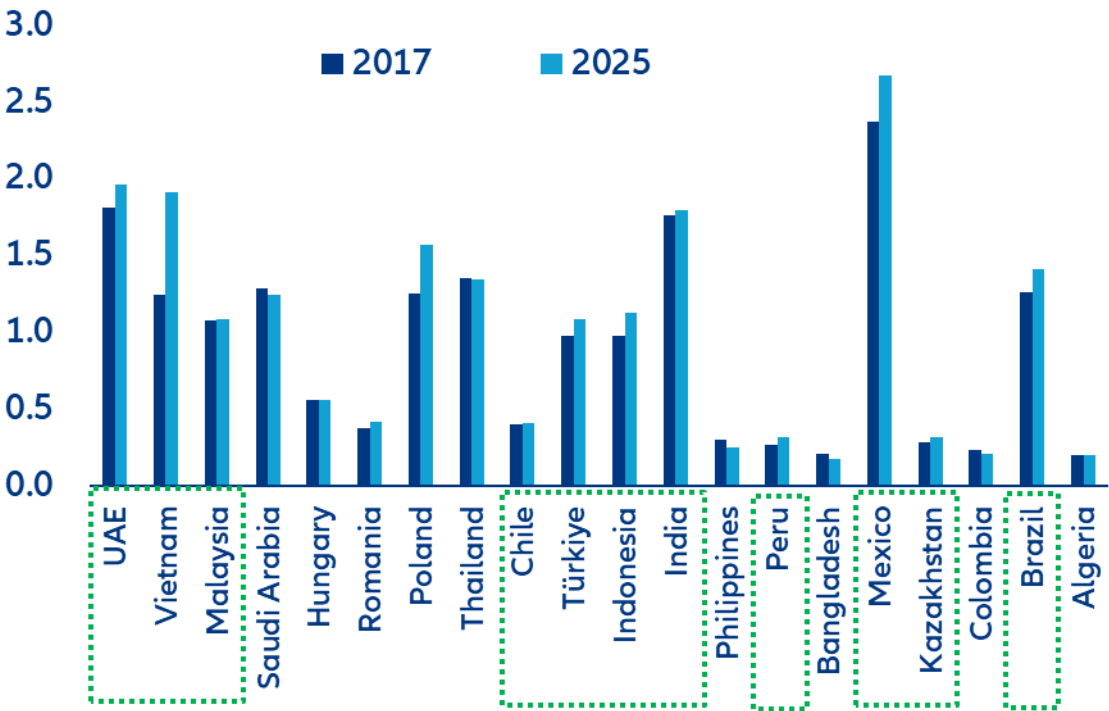
Note: Country position within the business cycle assessed from quarterly GDP growth momentums.

Sources: Allianz Research

Multilateralism is not entirely dead

Some Next Generation Trade Hubs are capturing a greater share of global trade

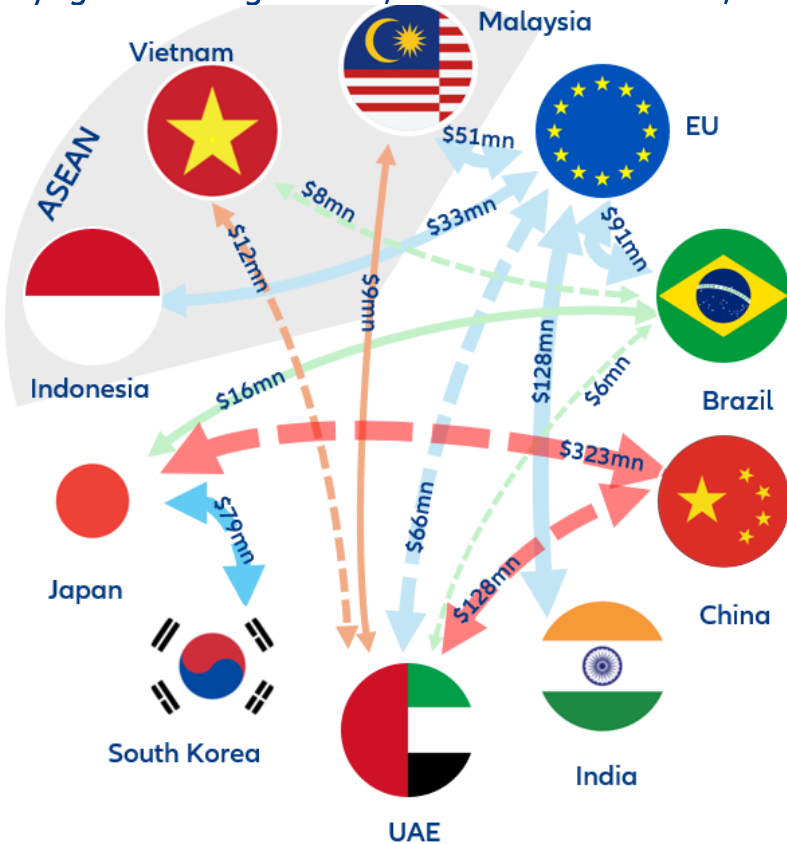
Exports by main trade hub in % of total world exports



NB: The chart shows Allianz's ranking of the Next Generation Trade Hub
Sources: LSEG, Allianz Research

Close to 30% of total global trade currently under FTA negotiations or with an agreed FTA in 2025

Open/signed FTA negotiations, bilateral trade volumes, USD mn



Notes: dashed lines indicate an FTA without an announced date beyond 2025. Brazil-EU FTA is in the framework of the MERCOSUR-EU.
Sources: WTO, Allianz Research

Disinflation everywhere, but in the US

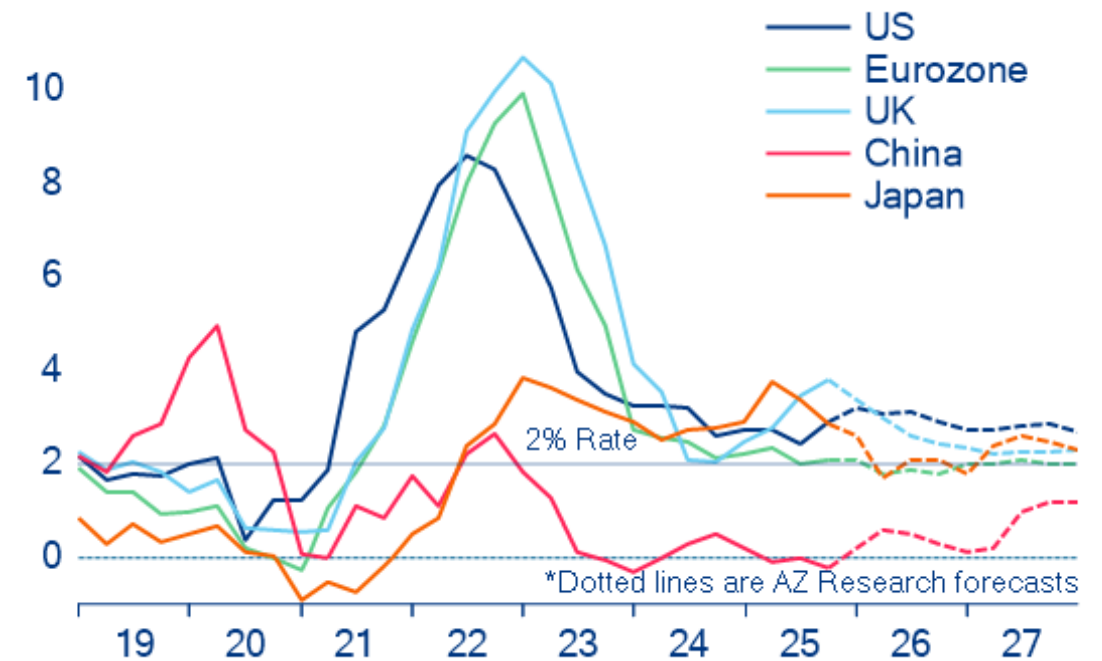
Inflation rate forecasts

%

Inflation (yearly %)	2023	2024	2025f	2026f	2027f
Global	6.1	4.5	4.0	3.5	3.0
USA	4.1	3.0	2.8	3.0	2.8
Latin America	14.8	16.6	11.1	9.2	4.9
Brazil	4.6	4.4	5.3	4.3	3.1
UK	7.3	2.5	3.4	2.6	2.3
Eurozone	5.4	2.4	2.1	1.9	2.0
Germany	6.0	2.3	2.2	2.1	2.2
France	4.9	2.0	0.9	1.3	1.6
Italy	5.6	1.0	1.6	1.7	2.0
Spain	3.5	2.8	2.6	2.1	2.1
Central and Eastern Europe	11.0	3.9	5.0	3.9	3.2
Poland	11.4	3.8	3.9	3.1	2.9
Russia	5.9	8.4	8.9	6.1	2.6
Türkiye	53.9	58.5	35.0	25.1	15.7
Asia-Pacific	3.1	2.2	1.3	1.6	1.9
China	0.2	0.2	0.0	0.4	0.9
Japan	3.3	2.7	3.2	1.9	2.4
India	5.7	5.0	2.5	4.2	4.4
Middle East	16.3	10.4	17.3	12.4	9.1
Saudi Arabia	2.5	1.5	1.9	2.6	2.2
Africa	16.9	15.0	11.5	9.1	7.5
South Africa	5.9	4.4	3.1	3.0	3.1

Inflation to stay above target in US and the UK

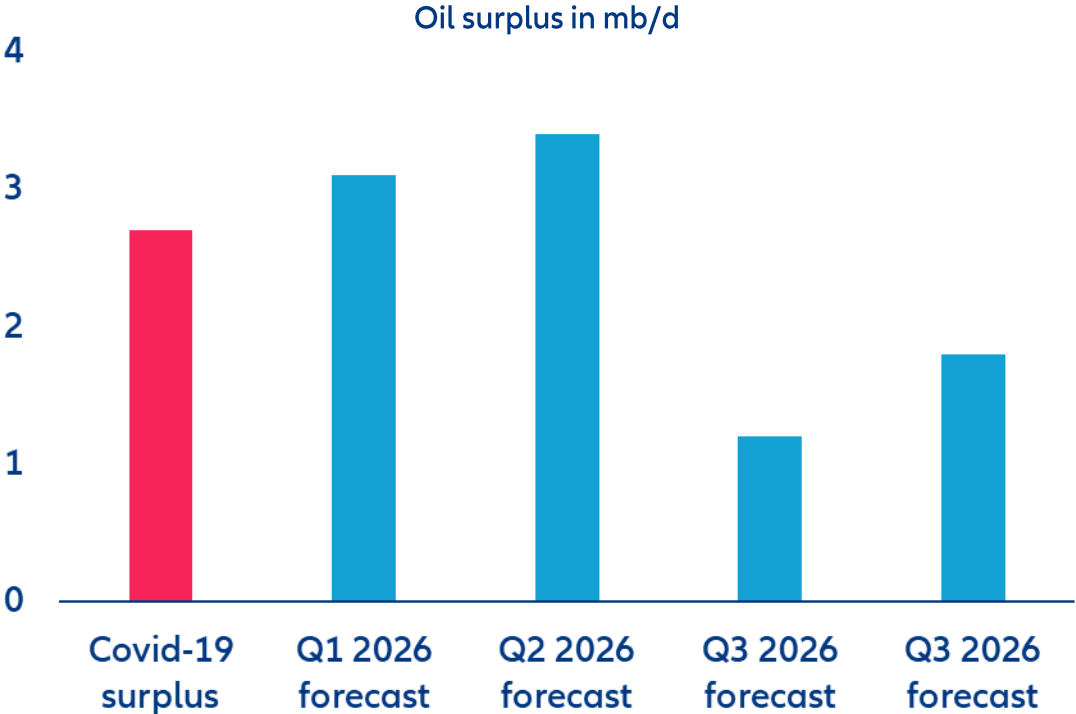
Quarterly inflation yoy in %



Sources: LSEG Datastream, Allianz Research

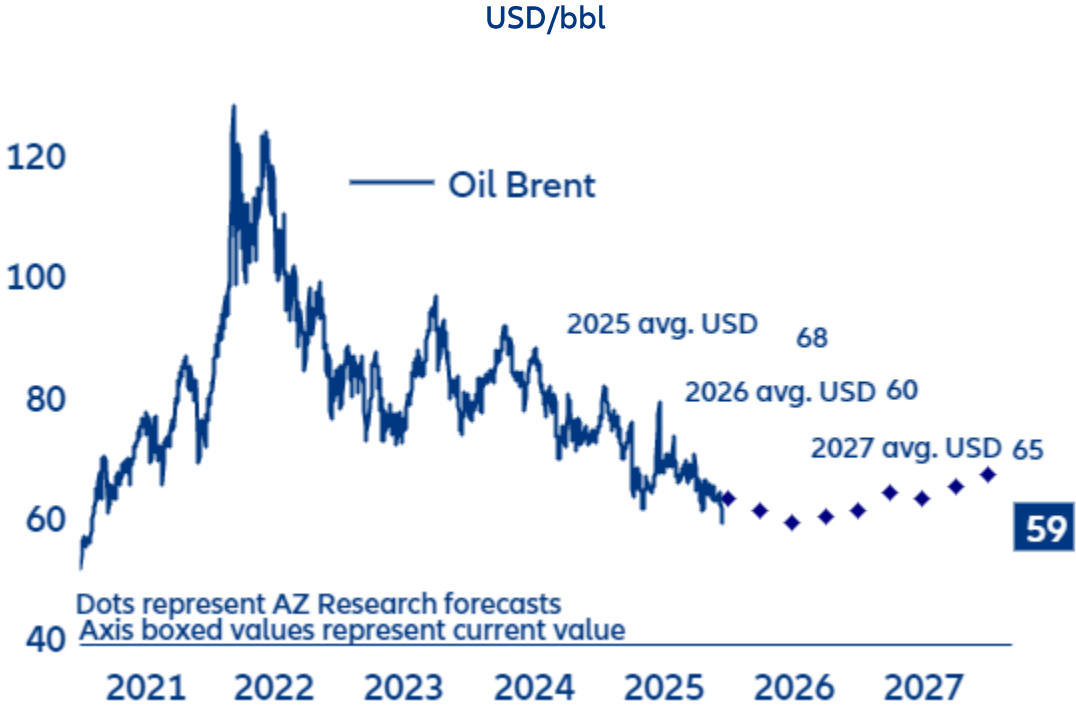
Oil prices should decrease slightly but not crash

Oil “super-glut” forecasts looks very pessimistic for 2026



Sources: IEA, Allianz Research

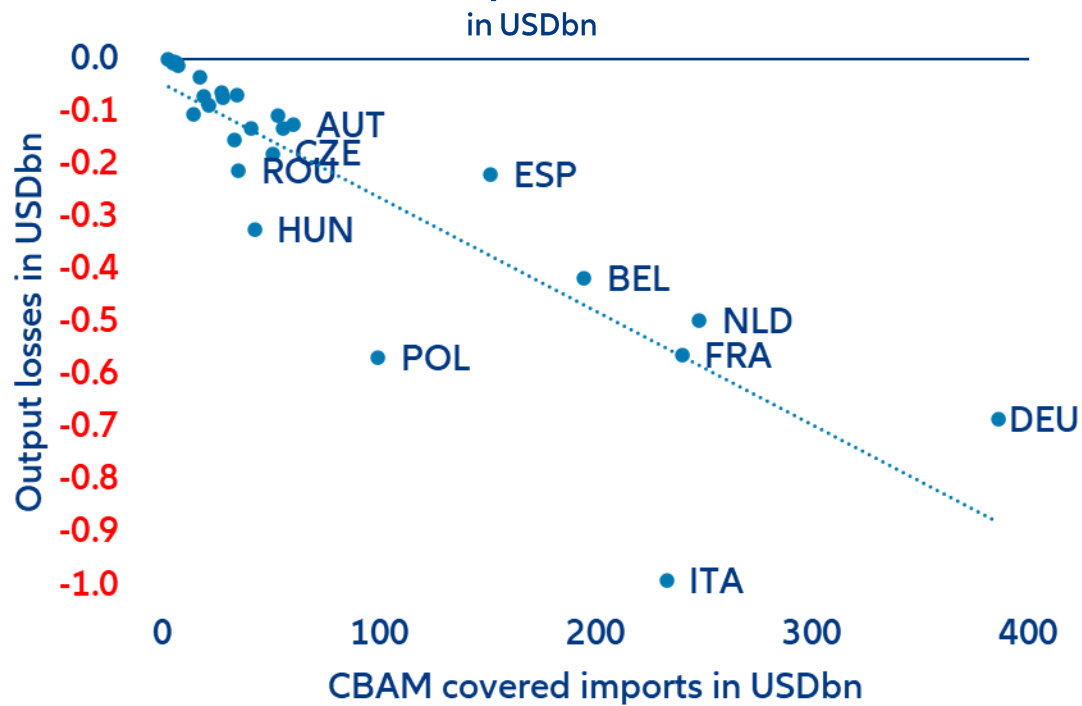
As demand should stay steady, prices should consolidate only modestly



Sources: LSEG Datastream, Allianz Research

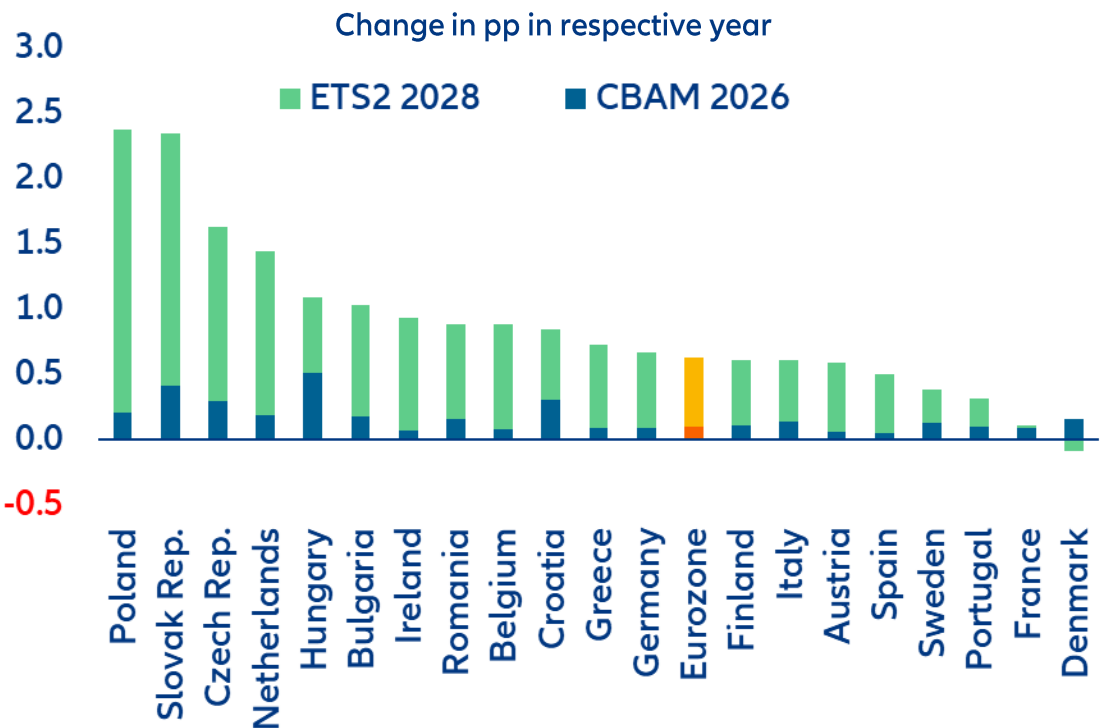
CBAM levies and ETS2 phase-out pose upside risks to European inflation

Output losses are largest in countries with a strong CBAM import structure



Sources: UNComtrade, OECD ICIO, OECD IOT, World Bank, BEA SUT, Allianz Research

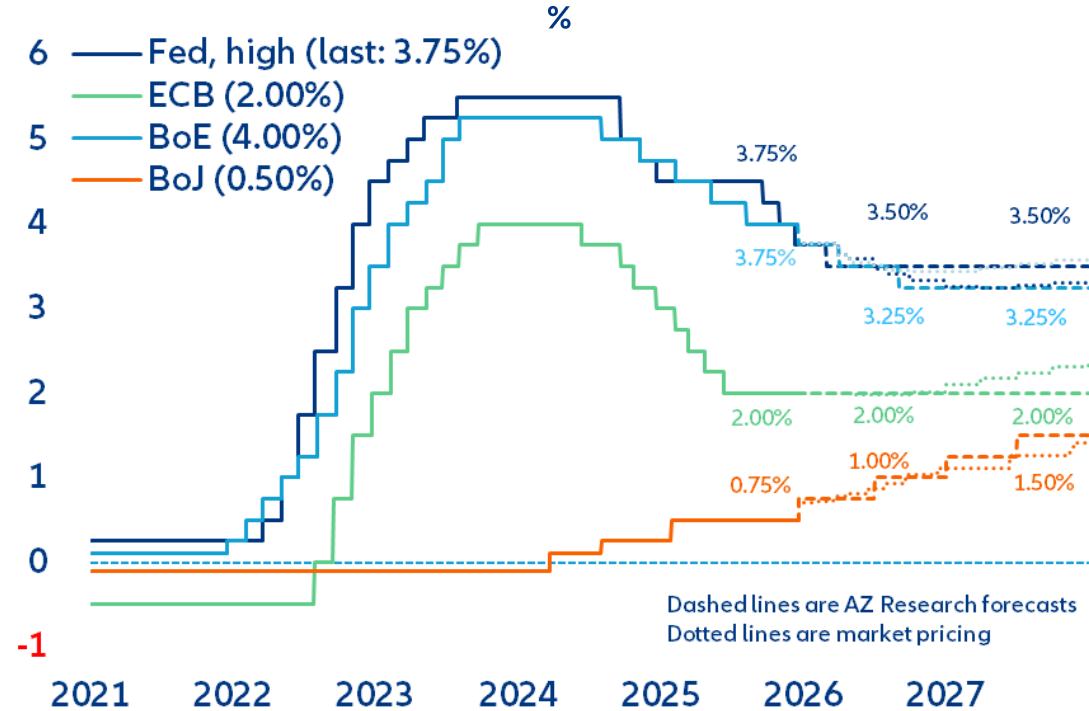
Full pass-through of CBAM and ETS2 add upside risk to inflation



Sources: Oxford Economics, Allianz Research. Note: We model the impact of CBAM coming into force in January 2026 as a terms-of-trade shock on carbon-intensive imports, and ETS2 in January 2028 as an assumed EUR 59/t CO₂ price shock applied to the share of emissions covered by the emissions trading system.

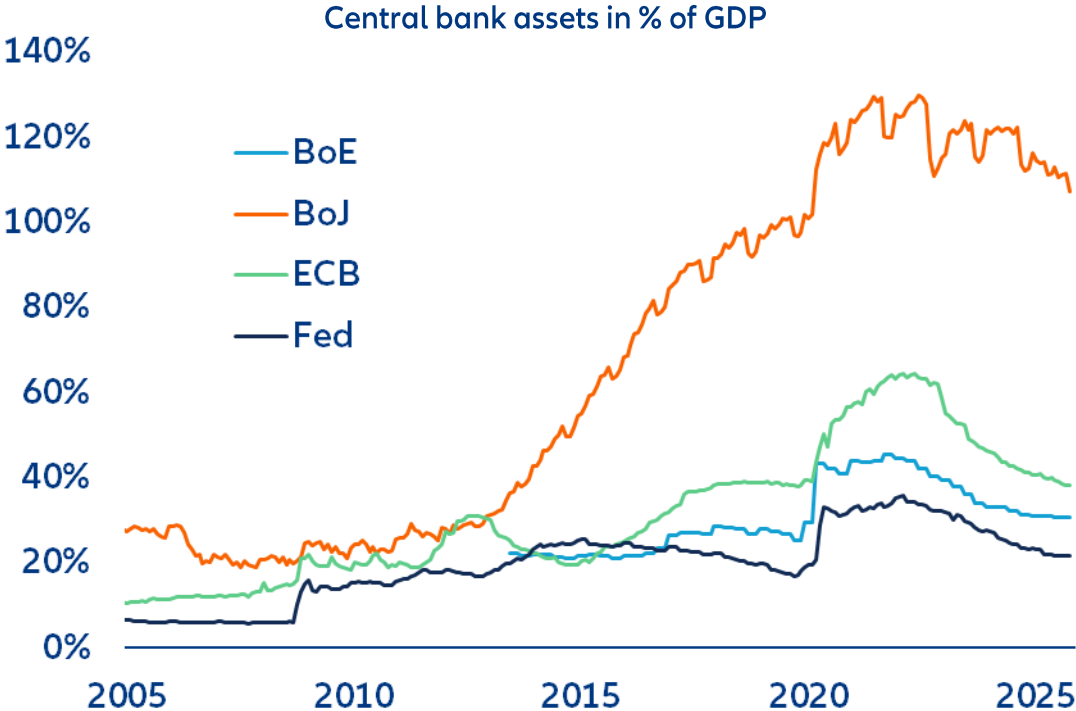
Central bank divergence ahead

Fed and BoE to continue the rate-cutting cycle into 2026, ECB on hold and BoJ hiking against the trend



Sources: LSEG Datastream, Bloomberg, Allianz Research
Notes: Dashes = Allianz Research Forecast, Dotted=Market expectations

Quantitative tightening (QT) outside of the US will continue amid large central bank balance sheets

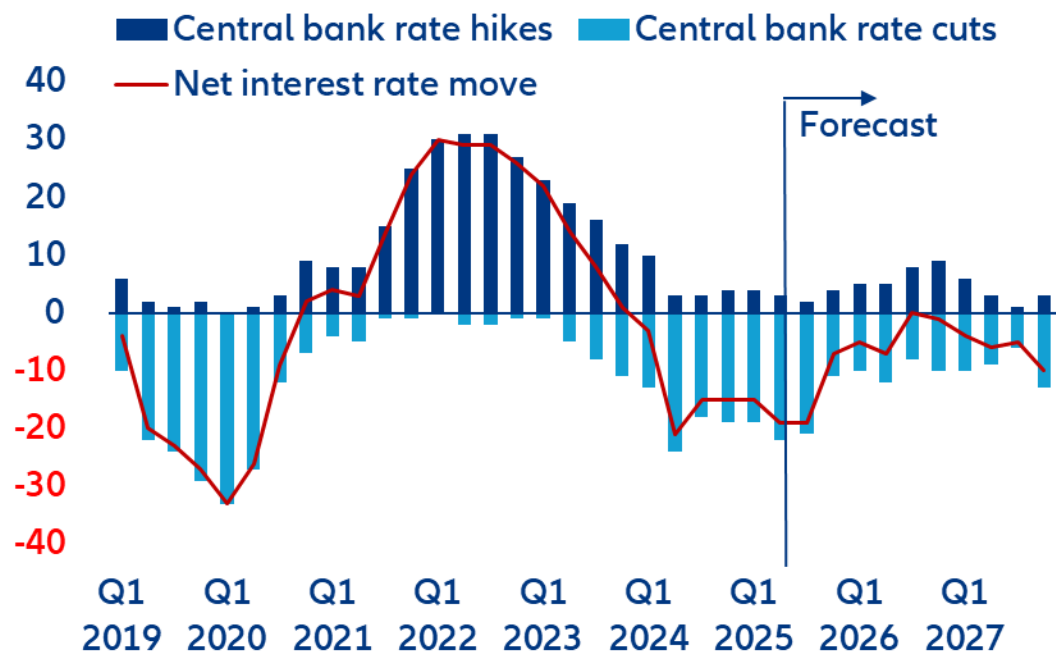


Sources: LSEG Datastream, Allianz Research
Notes: The ECB is reducing its government bond portfolio by EUR41bn on avg. per month, the BoJ by JPY3.3tn, the BoE by GBP6bn, while the Fed has stopped QT since Dec 2025. The Fed has announced on 10. Dec 2025 to buy USD40bn per month in bills as part of liquidity management, not QE but it still lowers the supply of government debt.

The EM rally to consolidate in 2026, calling for selective and tactical positioning

USD and Fed gave room for EM central banks, supporting debt markets and growth. EM easing to decelerate now

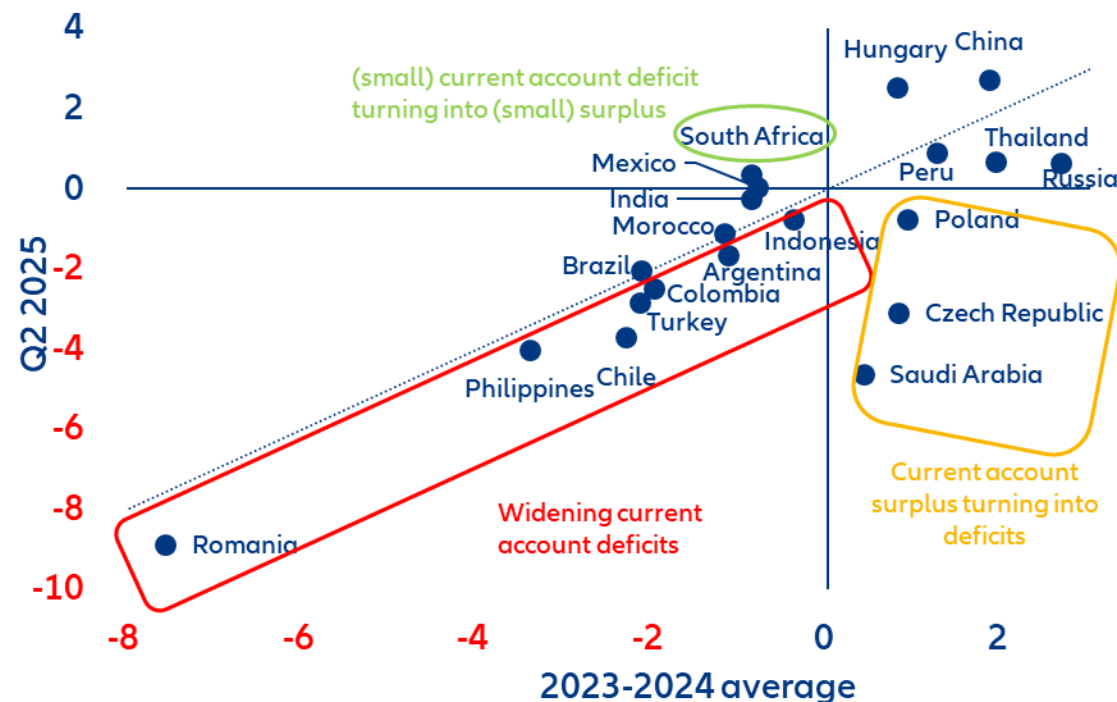
Net number of countries hiking/cutting policy rates across 40 EMs



Sources: LSEG Datastream, Allianz Research

External positions are generally solid in EMs, but current account deficits are widening in a few countries

Current account balance as % of GDP, Q2 2025 vs. 2023-2024 average

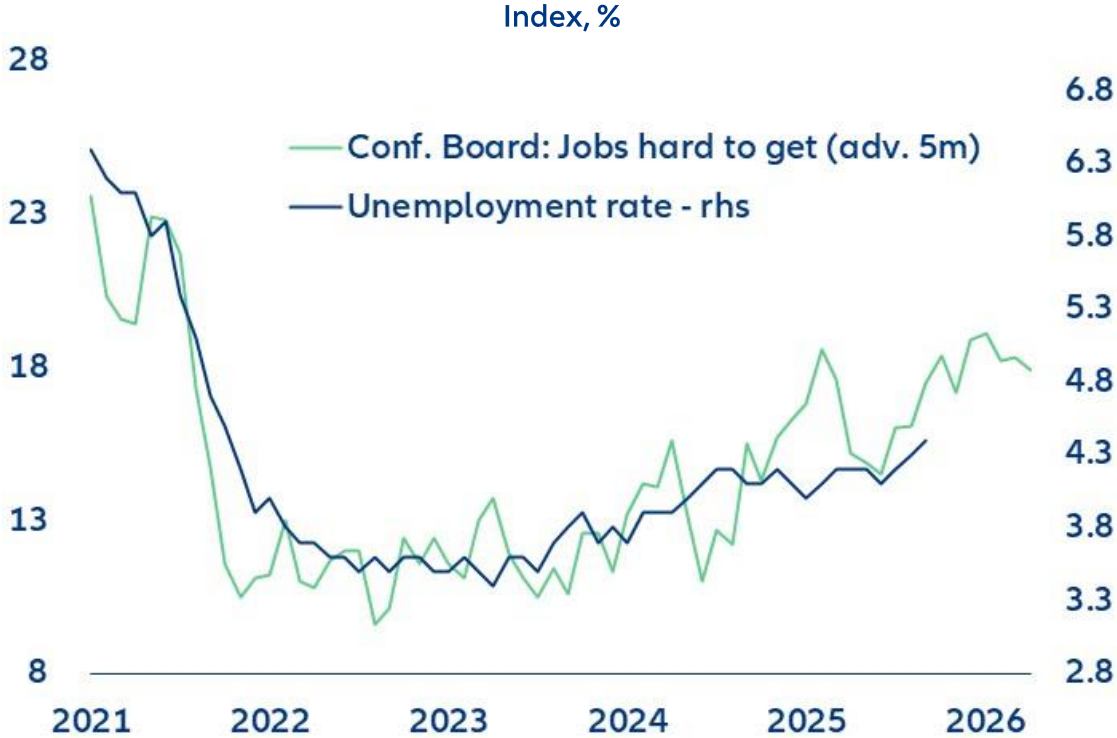


Sources: LSEG Datastream, Allianz Research

Regional outlooks 2025-2027

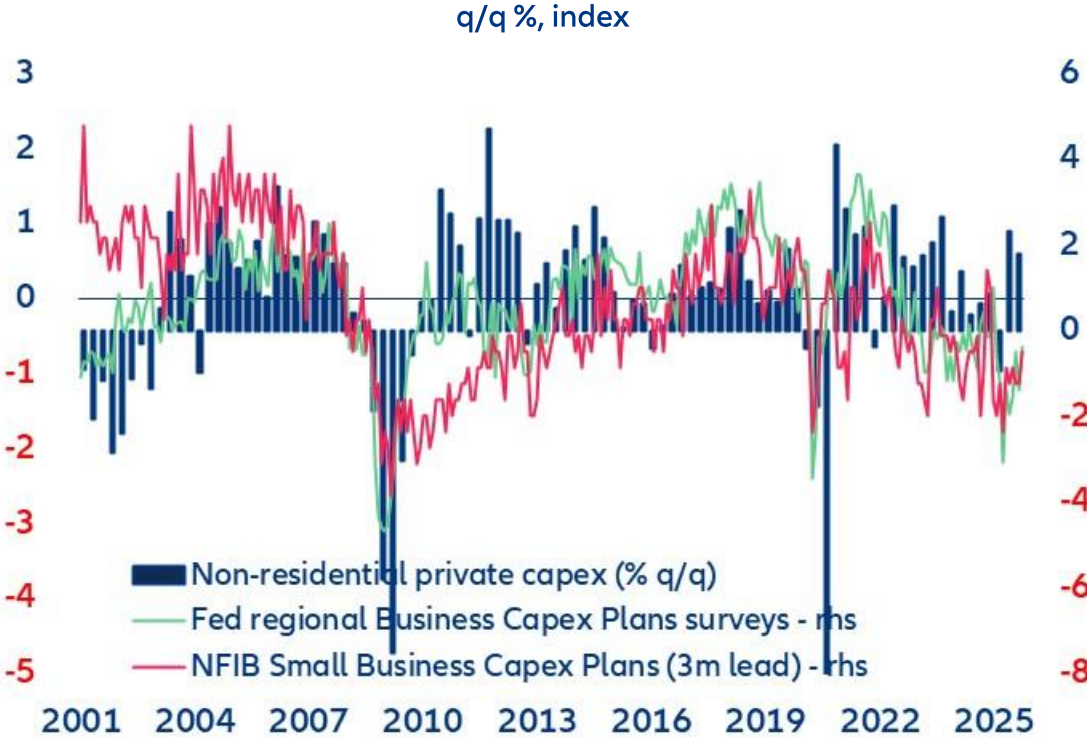
US: weakness in labor market a key risk, but credit cycle and easing uncertainty to the rescue

The unemployment rate is expected to continue to rise, but below 5%



Sources: LSGE Datastream, Allianz Research

Capex plans are recovering amid lower uncertainty, lower short-term borrowing costs



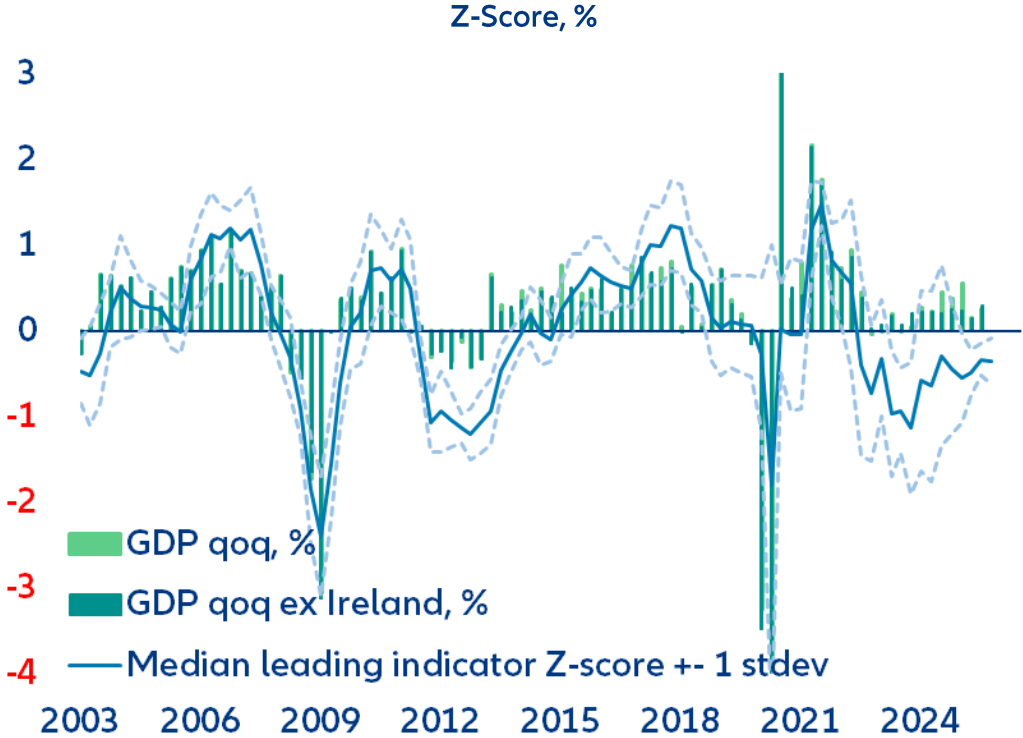
Sources: LSGE Datastream, SLOOS Fed survey, Allianz Research

Trump presidency 12 months on: where do we stand?

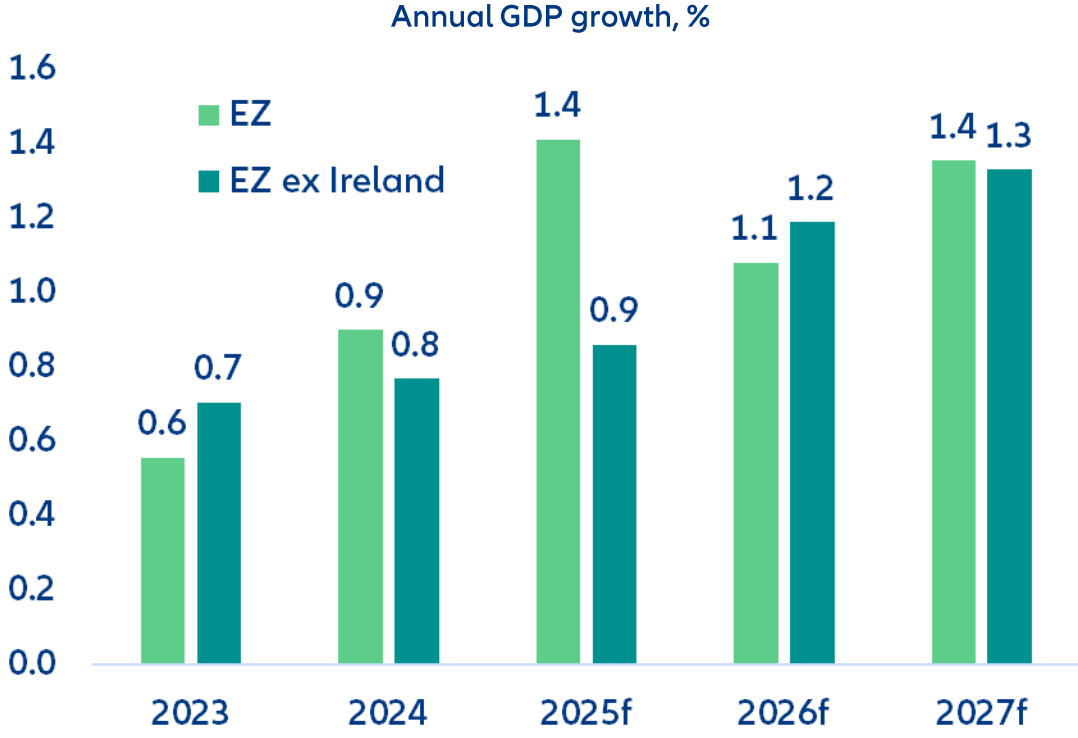
Policies	What has been done?	What's next?	What does it mean?
Fiscal	<ul style="list-style-type: none"> • OBBB Act enacted ; kicking in from H2 2025 (corporate tax cuts) and rolling into 2026 (households tax cuts); modest net fiscal easing (0.5% GDP) • OBBB funded by new customs receipts • DOGE federal jobs cuts ; marginal impact on spending 	<ul style="list-style-type: none"> • With new spending and tax priorities already set in the OBBB, and with potential victory of Democrats in the mid-term elections end-2026 , scope for further significant fiscal changes is limited 	<ul style="list-style-type: none"> • Federal deficit likely to marginally increase next year, but tariff rebuke by Supreme Court could leave a hole in US public finances • OBBB supports aggregate demand and adds tailwind to inflation
Monetary	<ul style="list-style-type: none"> • Fed Board of Governors composition is shifting towards a more dovish setup • Attempts to fire Fed governor L. Cook have been stayed by the courts ; Supreme Court has ruled that Cook can stay on as governor while the mortgage fraud allegations against her are properly investigated 	<ul style="list-style-type: none"> • L. Cook more likely to remain protected by Supreme Court • J. Powell to be replaced as Fed Chair in May 2026 • White House unlikely to capture a majority of the 12-person FOMC voting committee 	<ul style="list-style-type: none"> • Fed likely to remain dovish in short-term despite stubborn inflation • Effective firing of L. Cook could mean rates around 2.5-3% by mid-2026 (vs 3.5% expected) • Short-term boost to GDP growth
Trade	<ul style="list-style-type: none"> • Effective US tariff rate settling at around 10-14% • DMs generally get more favorable rates than EMs 	<ul style="list-style-type: none"> • Country tariffs potentially rebuked in court (Q1 2026) • Pending sectoral tariff investigations 	<ul style="list-style-type: none"> • Tariffs contribute to keep US inflation above target ; squeezing margins for some businesses
Deregulation	<ul style="list-style-type: none"> • Crypto assets deregulation • Weakening of bank stress tests • Genius Act (stablecoins) 	<ul style="list-style-type: none"> • Banking deregulation (incl. Enhanced Supplementary Ratio) • Elimination of quarterly earnings reports requirement from publicly traded companies • Pensions / Retirement Account deregulation 	<ul style="list-style-type: none"> • It is far from certain that banks will respond to the incentives of holding more Treasuries. Some banks may direct freed capital toward lending, investments in MBS/corporates, or shareholder returns instead of purchasing Treasuries. • Increased financial stability risks
Immigration	<ul style="list-style-type: none"> • Unauthorized immigration flows fell to a standstill • Ramped-up deportations of illegal aliens 	<ul style="list-style-type: none"> • Application fee for H-1B visas (legal immigration for highly-skilled foreign workers) 	<ul style="list-style-type: none"> • Labor force growth weakening ; population growth could slow toward zero • Upside risks to inflation and wage growth, downside risks to economic growth

Eurozone: Leading indicators remain weak but German stimulus should re-accelerate the region

Leading indicators still point to subdued growth in the near-term



2025 growth was substantially distorted by Ireland. Excluding it shows a gradual acceleration of growth.



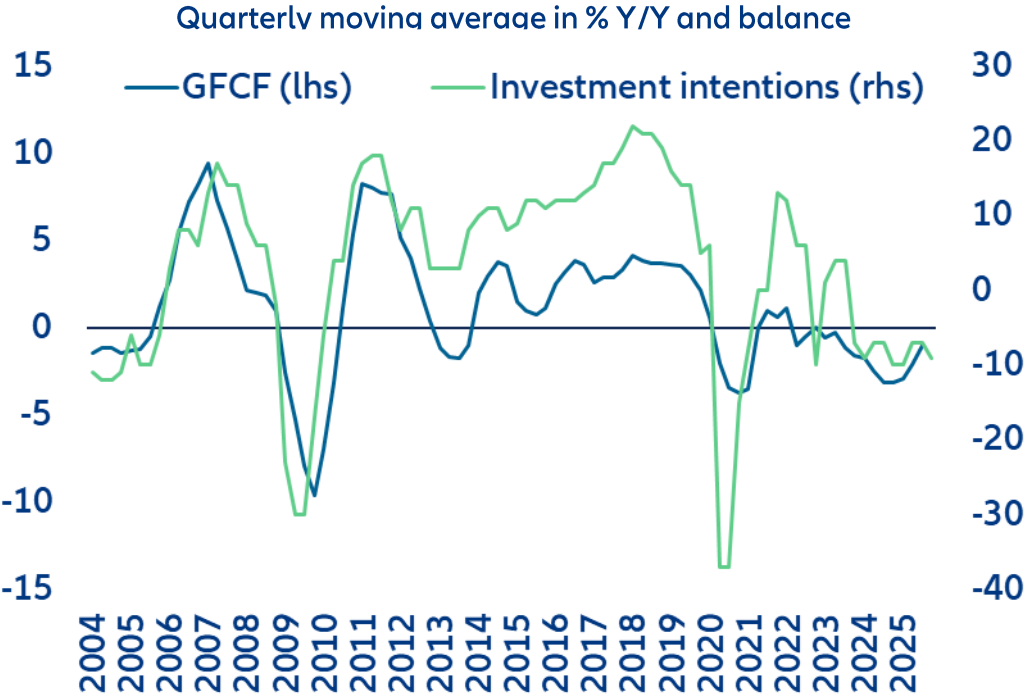
Sources: LSEG Datastream, Allianz Research

Notes: Leading indicators cover PMIs, credit demand, monetary aggregates growth, consumer confidence and economic indicators

Sources: LSEG Datastream, Allianz Research

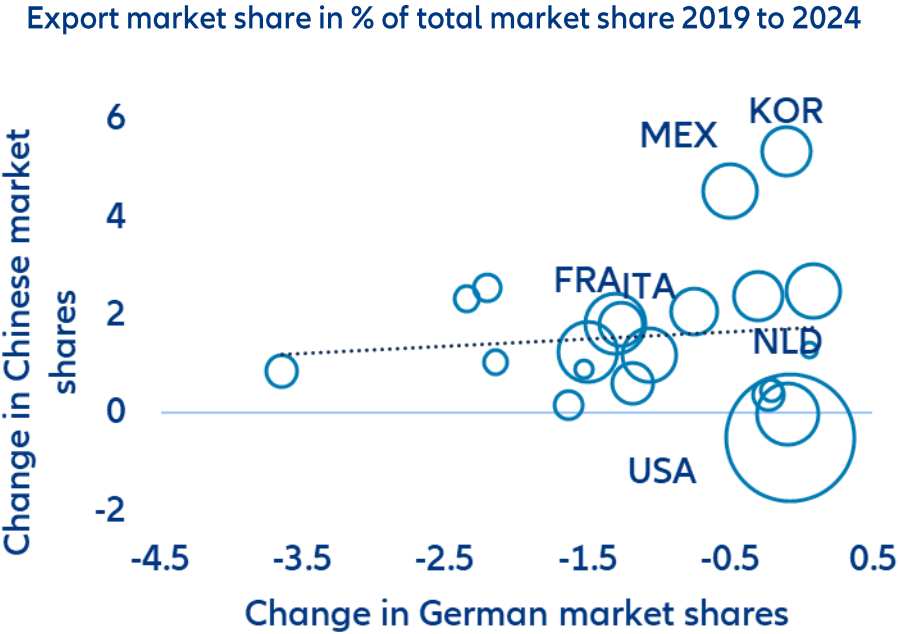
German economic sentiment remains volatile, with export competitiveness being lost

Investment intentions remain low



Sources: DIKH, LSEG Workspace, Allianz Research

German industry lost competitiveness in all its top 20 export markets

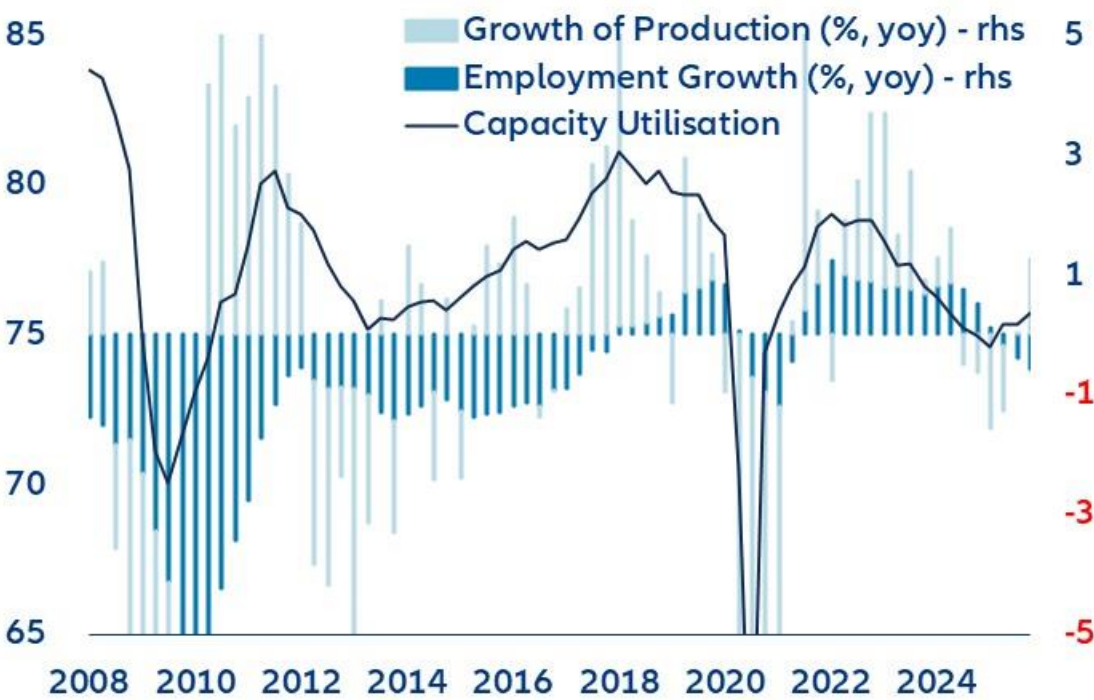


Sources: UNComtrade, Allianz Research. Notes: Bubble size is overall market potential of partner countries in 2024.

France: Gentle growth acceleration ahead, but politics a lingering risk

The manufacturing cycle is picking up

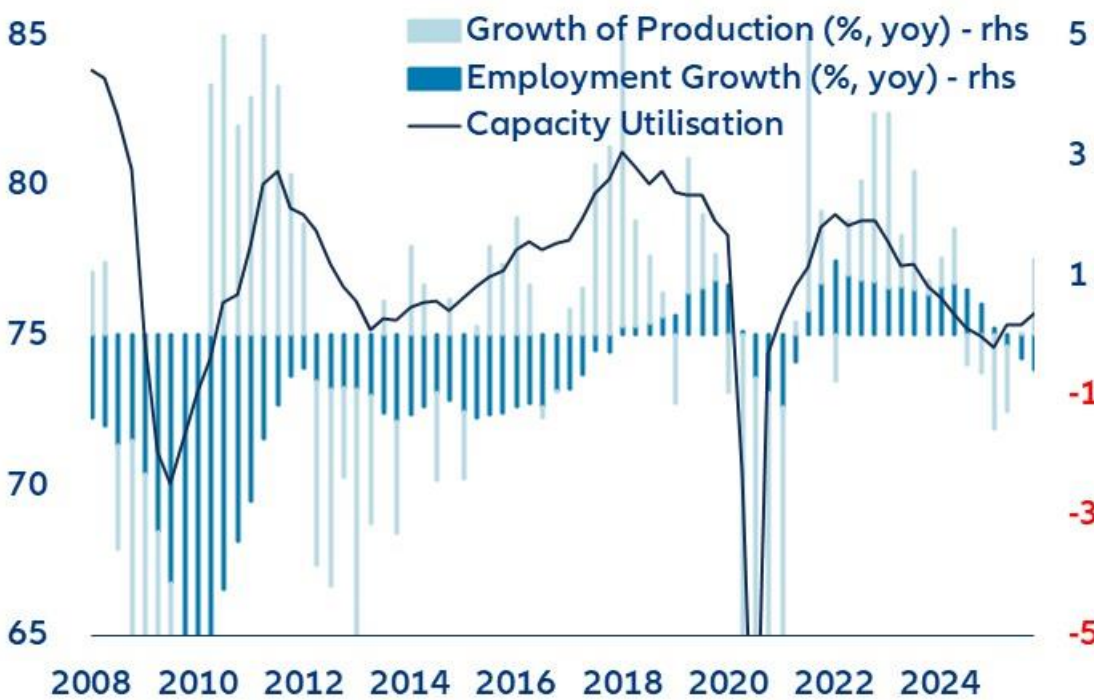
Index, y/y %



Sources: LSGE Datastream, Allianz Research

Economic policy uncertainty remains high

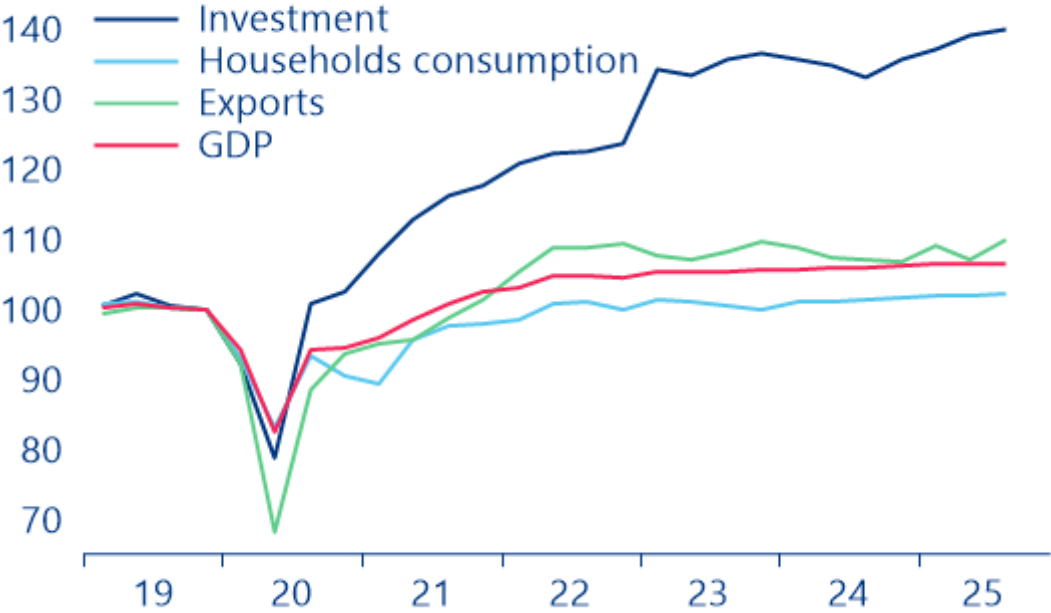
Index, bps



Sources: LSGE Datastream, Allianz Research

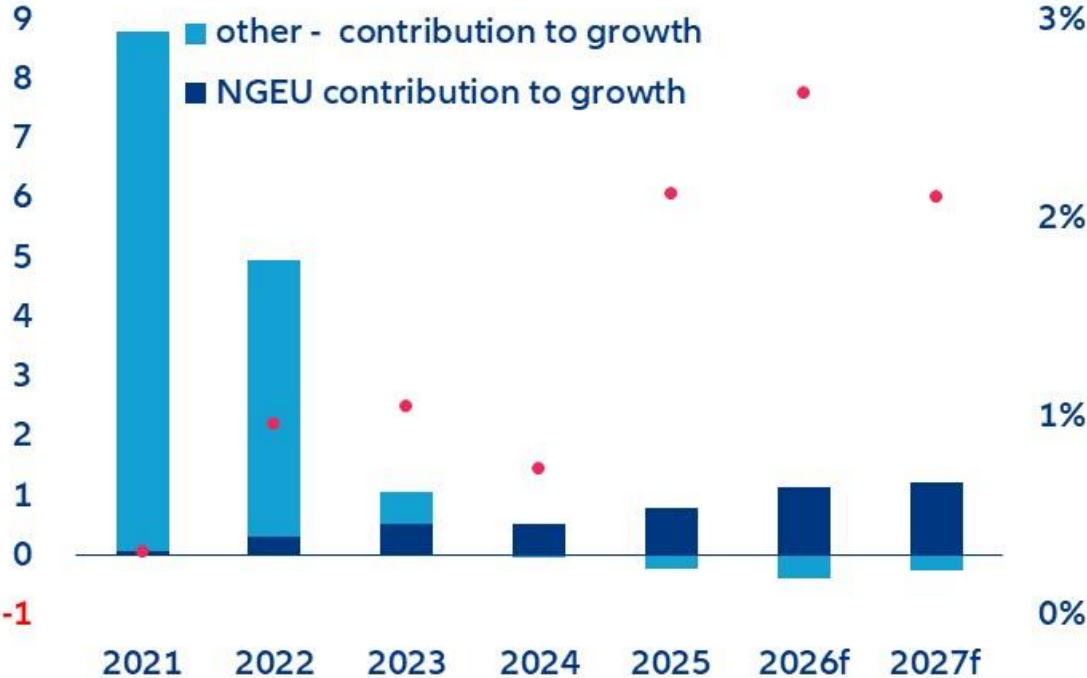
Italy: Fiscal support from NGEU to fade while economic effects are set to last beyond 2026

Consumption paused while “Superbonus” and NGEU investments fuel growth
GDP and components, 2019=100



Sources: LSEG Datastream, Allianz Research

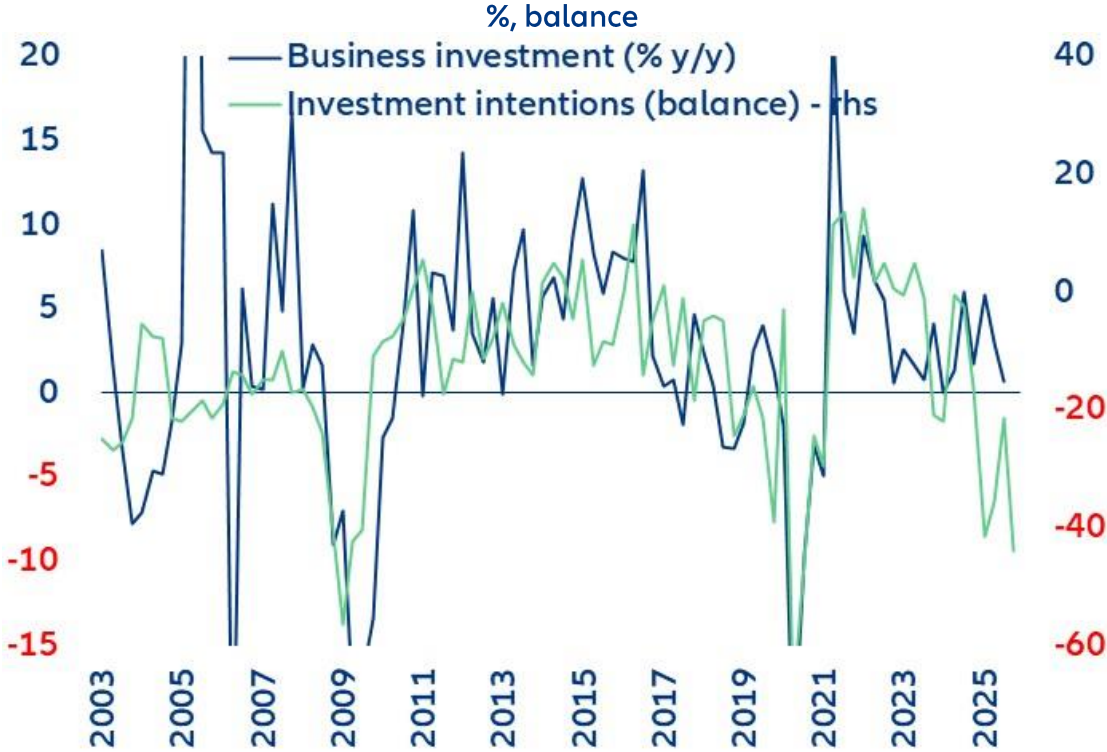
Complete absorption of the EUR194bn NGEU envelope is plausible, with benefits extending beyond 2026
GDP growth contribution



Sources: LSEG Datastream, European Commission, ECB, Allianz Research

UK: Growth slowdown ahead should help cool inflationary pressures

Business investment intentions in the manufacturing sector have weakened



Sources: LSGE Datastream, Allianz Research

Businesses in the services sector are moderating selling prices rapidly

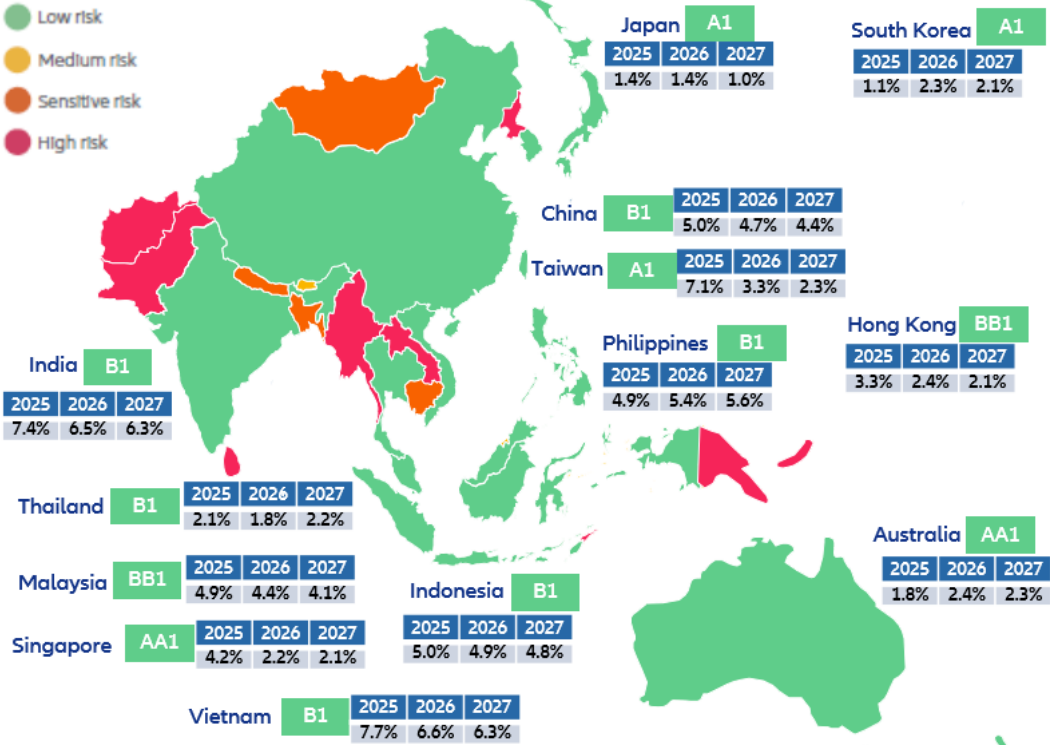


Sources: LSGE Datastream, Allianz Research

APAC: Resilient trade and monetary easing put a floor under the growth outlook, but risks remain

Asia-Pacific aggregate growth at +4.5% in 2025, +4.2% in 2026 and +4.0% in 2027

GDP growth forecasts and short-term country risk, as of December 2025



Source: national sources, Allianz Research
Notes: Country ratings composed of medium-term country grade AA-D and short-term risk level 1-4 going from low to high risk (see [Country Risk Atlas](#))

Almost all Asian exporters gained global market shares in 2025 and are easing monetary conditions

Expected change in real policy rate vs. Change in global export market shares (pp)

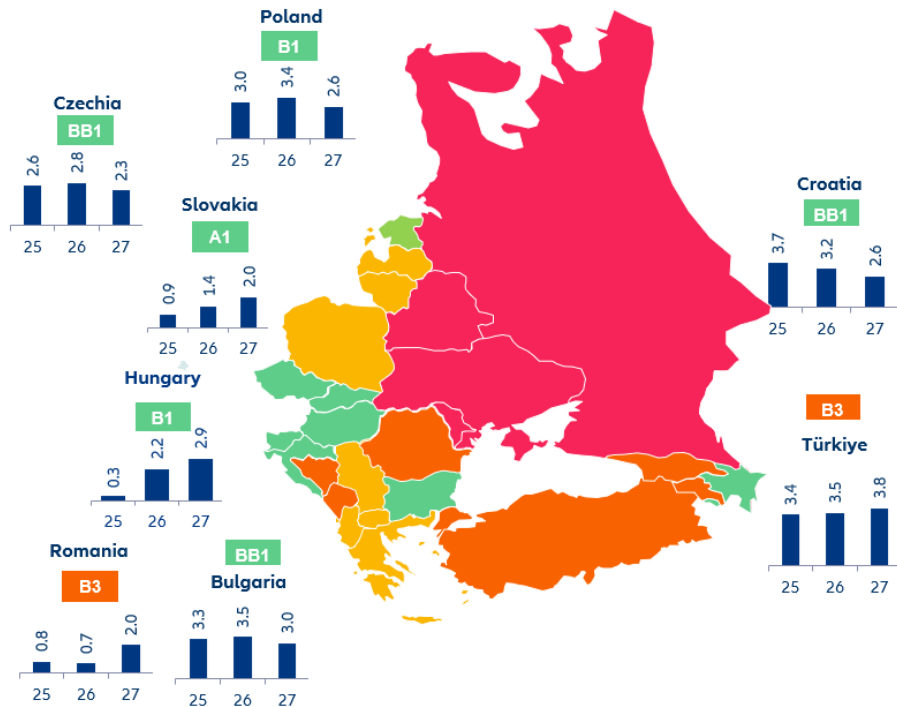


Sources: national sources, ITC, Allianz Research

Emerging Europe: Divergent recoveries and cautious policy paths as inflation eases but risks persist

Czechia and Poland lead regional growth, while Romania and Hungary face fiscal and political risks

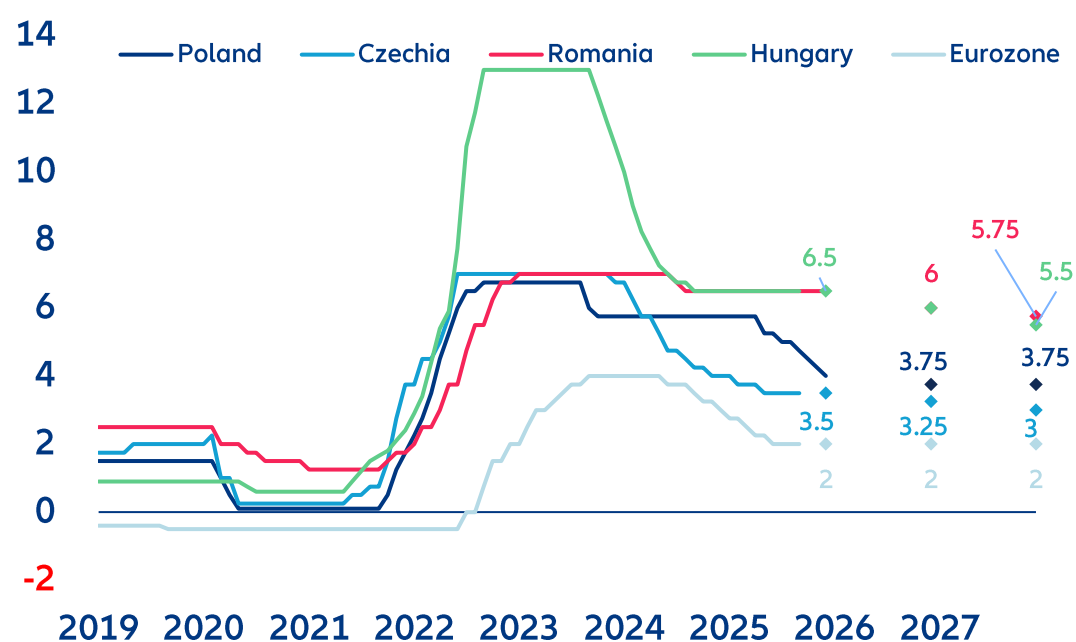
GDP growth in % and country risk ratings



Sources: Allianz Research

Monetary easing nearing completion, with central banks on hold in H1 2026, before cautious rate cuts

Policy rate, %

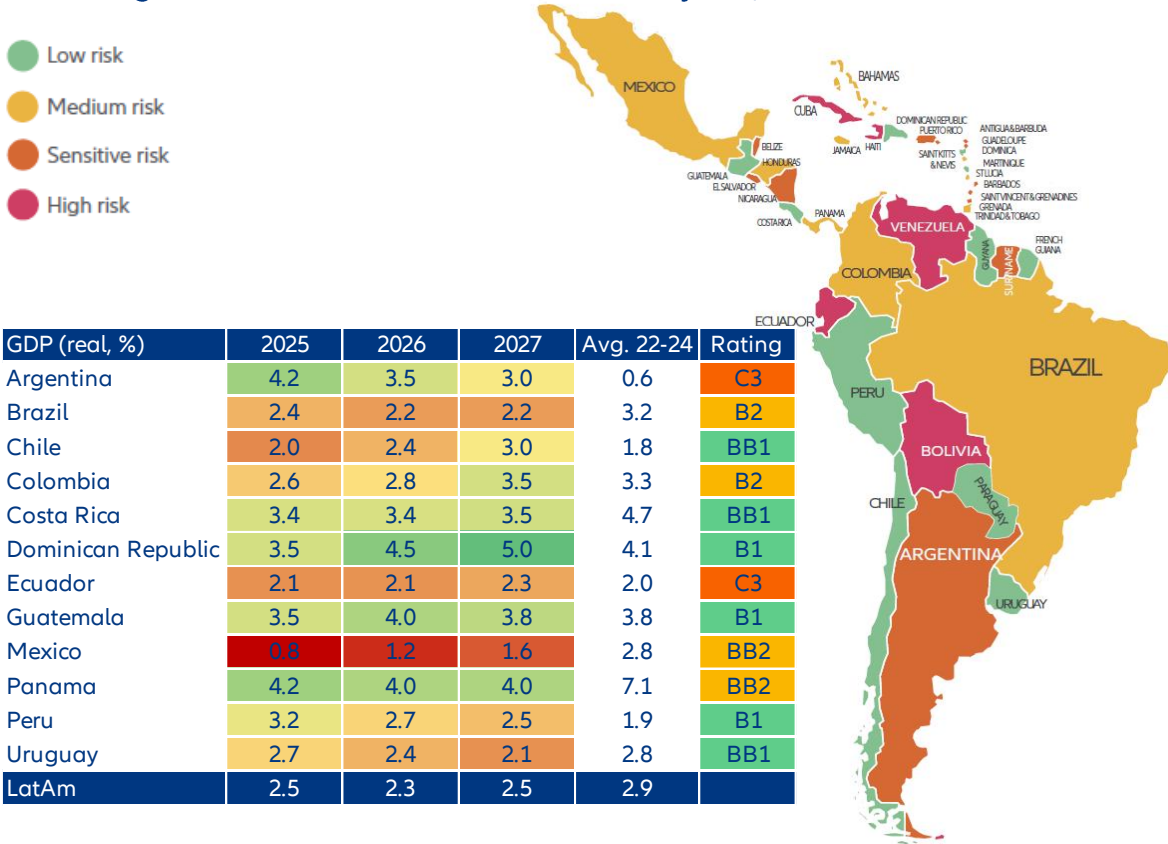


Sources: LSEG Datastream, Allianz Research

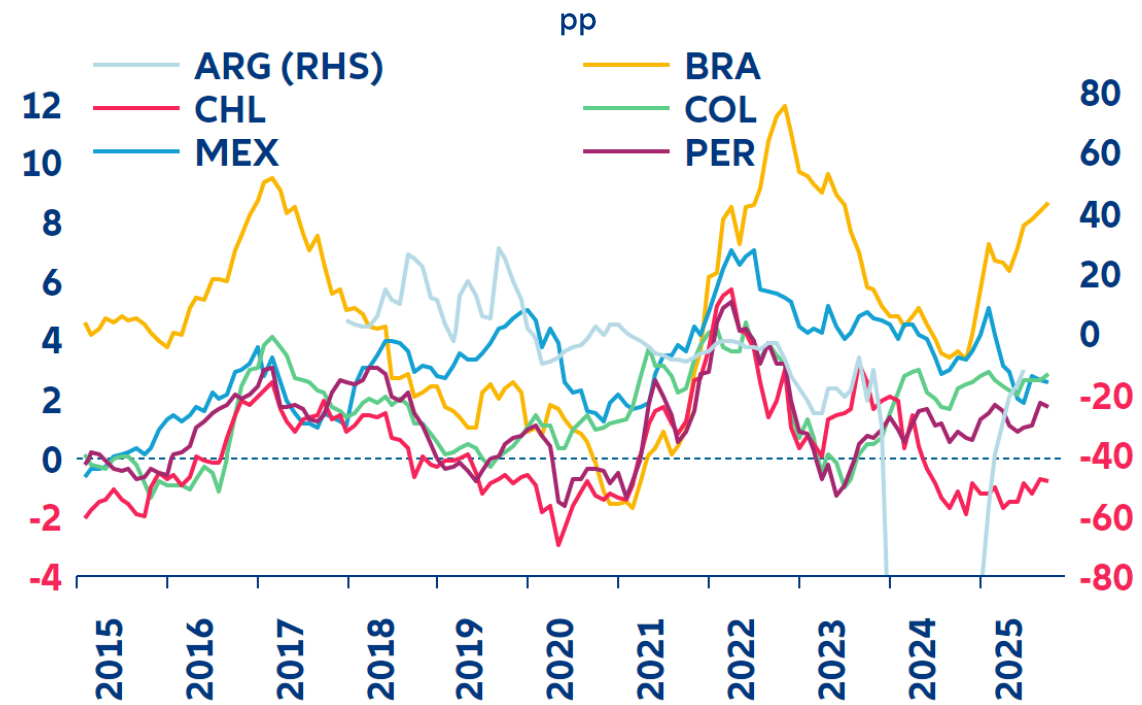
Latin America in 3D: trade-related deals, electoral duels and policy discipline

Few economies are growing faster than in 2022-2024 and the picture of short-term country risks is mixed

GDP growth forecasts and short-term country risk, as of December 2025



Real policy rate differentials with the US highlight prolonged caution in Brazil and Colombia



Sources: Central banks, national agencies, Allianz Research

Africa and Middle East: momentum builds on strong fundamentals and global conditions

Growth accelerates amid weak USD, postponed-trade war impact and improved fundamentals

GDP growth forecasts and short-term country risk, as of December 2025

Egypt

D3	2025	2026	2027
	4.6%	4.7%	4.8%

Morocco

B1	2025	2026	2027
	3.9%	3.7%	3.5%

Cote d'Ivoire

B2	2025	2026	2027
	6.0%	5.5%	5.1%

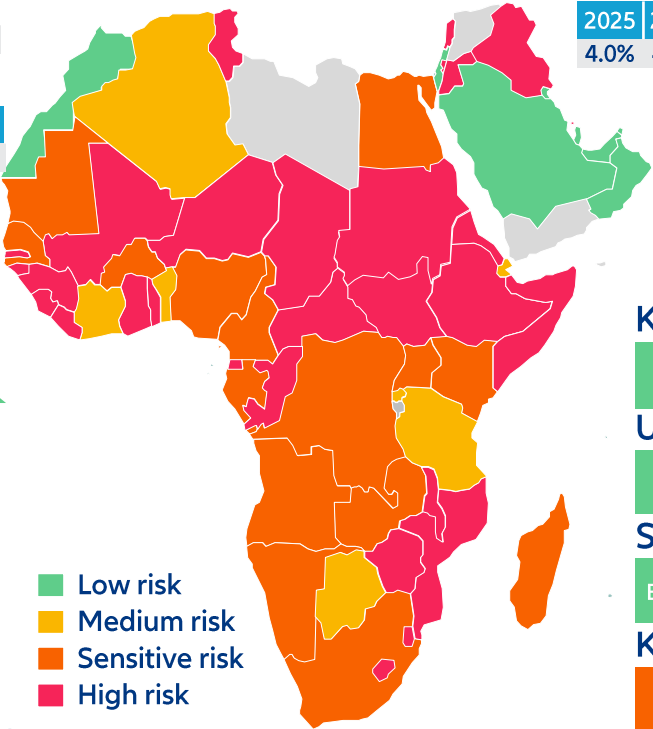
Nigeria

D3	2025	2026	2027
	3.6%	3.7%	3.8%

South Africa

B3	2025	2026	2027
	1.1%	1.3%	1.5%

- Low risk
- Medium risk
- Sensitive risk
- High risk



Africa

2025	2026	2027
4.0%	4.0%	4.1%

Middle East

2025	2026	2027
2.6%	3.2%	3.2%

Kuwait

B1	2025	2026	2027
	2.5%	3.3%	3.0%

UAE

A1	2025	2026	2027
	4.7%	5.2%	4.0%

Saudi Arabia

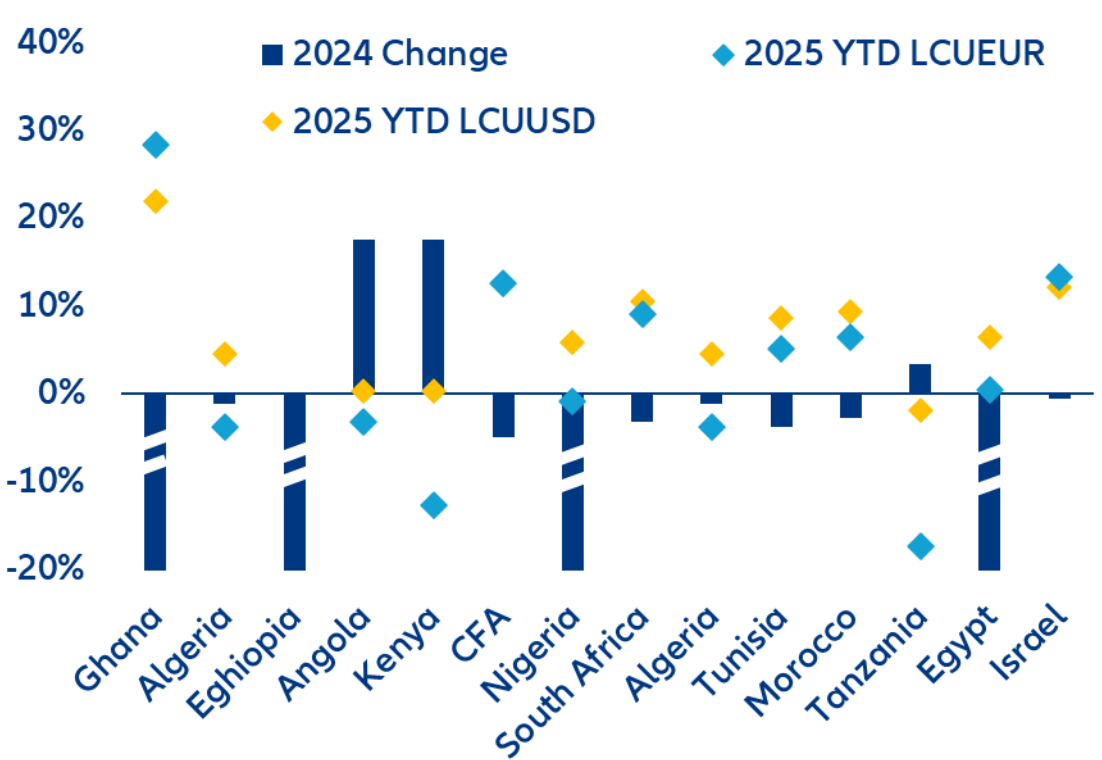
BB1	2025	2026	2027
	3.8%	3.9%	3.7%

Kenya

C3	2025	2026	2027
	4.8%	4.5%	4.3%

Regional currencies have largely outperformed USD on the back of mineral and agriculture commodity surge

% change



Source: Allianz Research

Notes: ▲ indicates country upgrade in Q4 2025. Country ratings composed of medium-term country grade AA-D and short-term risk level 1-4 going from low to high risk (see [Country Risk Atlas](#))

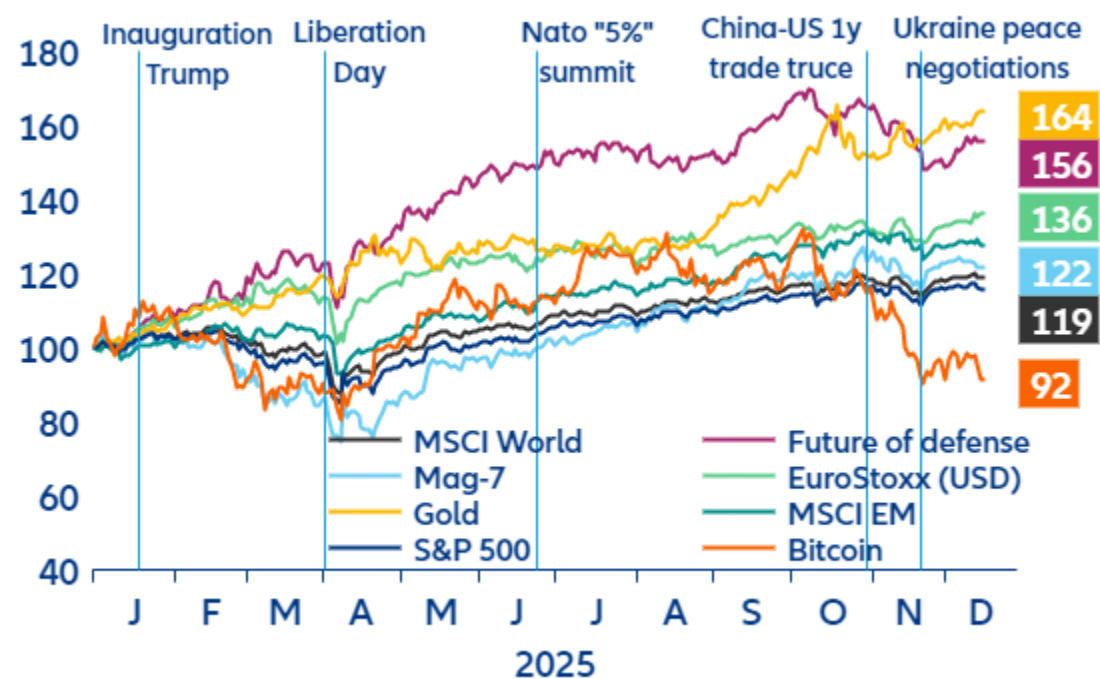
Sources: LSEG, Allianz Research

Capital Markets outlook 2025-2027

Investor sentiment in 2025 shaped by geopolitical risks and safe-haven demand

Gold and defense stocks outpaced AI (Magnificent 7) while Europe profited from a strong euro

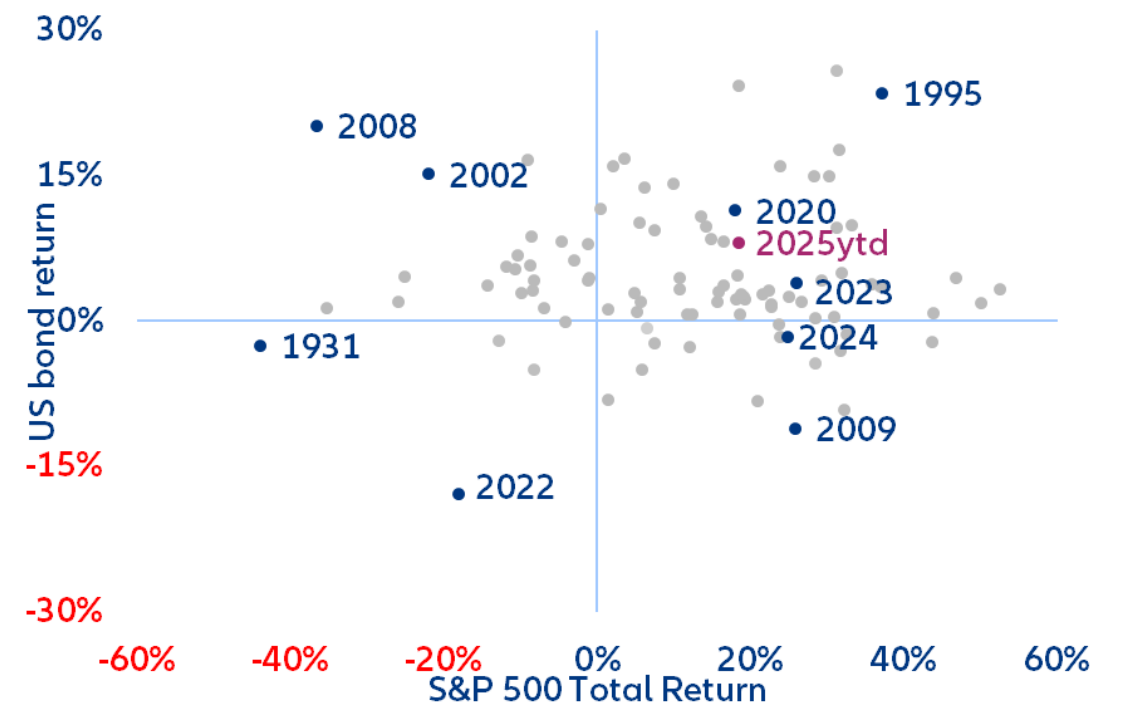
Indices in USD, normalized 100 = 1. Jan. 2025



Sources: LSEG Datastream, Allianz Investment Management, as of 15.12.2025
Notes: The Future of Defense index tracks the performance of companies worldwide that are engaged in the military or defense industry.

Positive bond–equity correlation delivers double gains for diversified investors in 2025

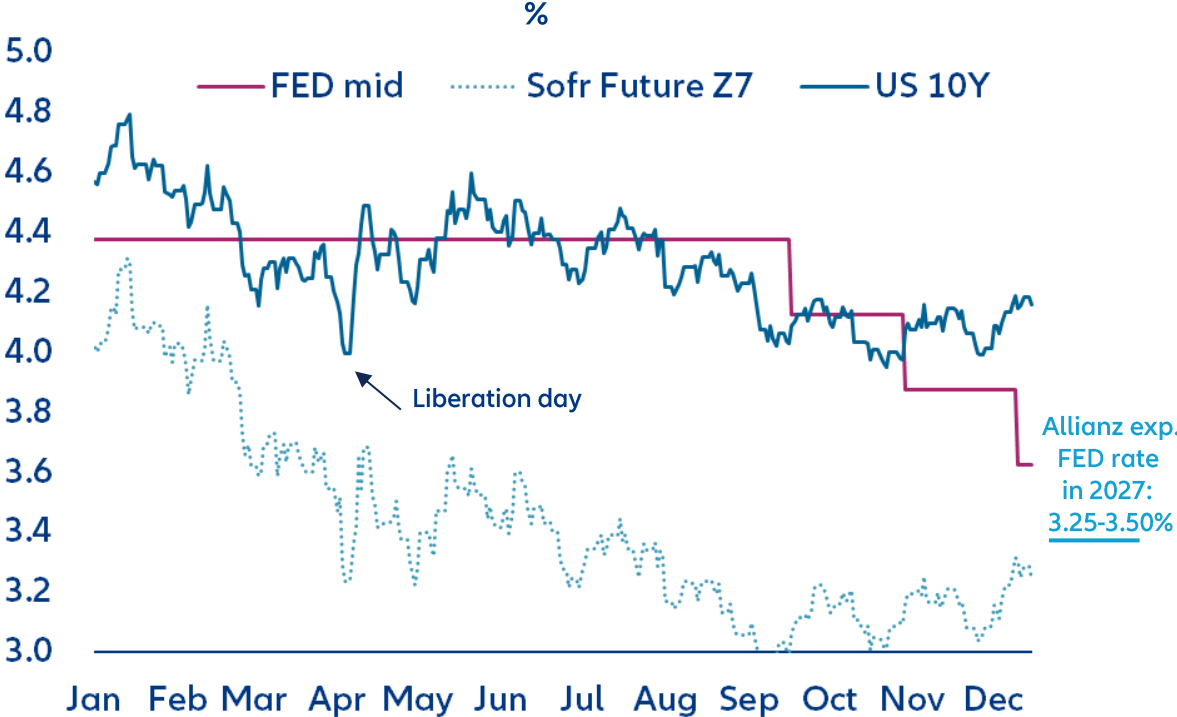
Annual total returns in % in USD



Sources: LSEG Datastream, NYU Stern, Allianz Investment Management, as of 15.12.2025

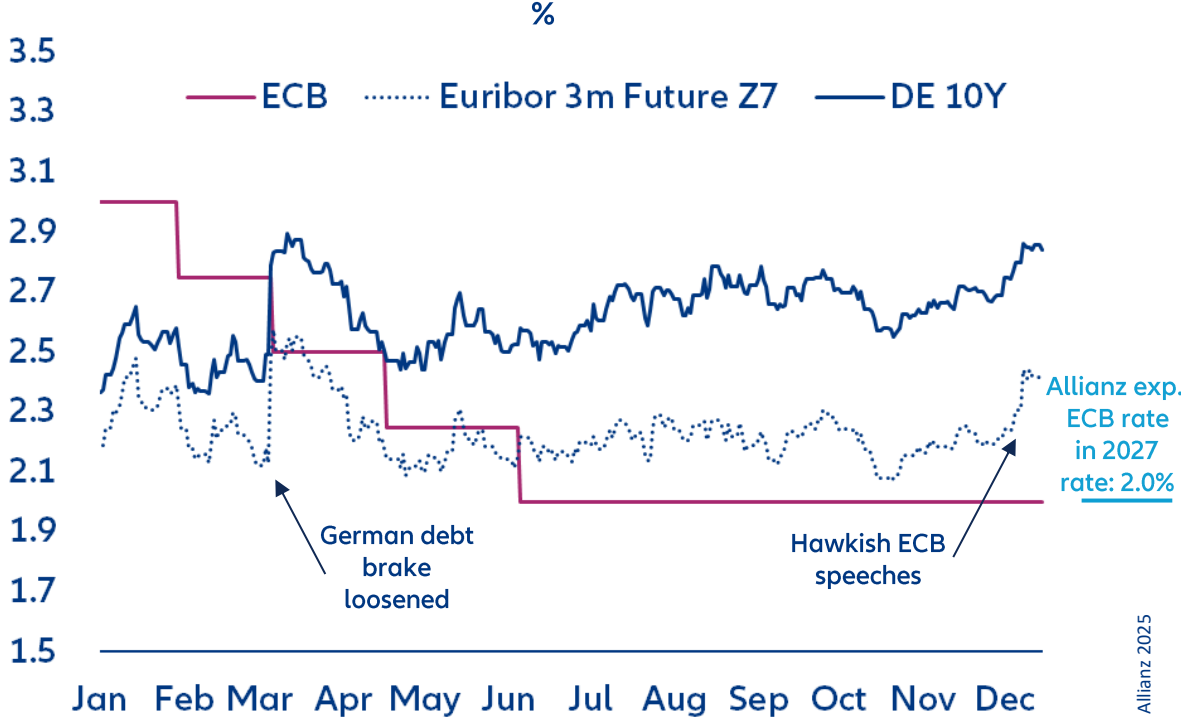
Central bank market expectations continue to drive government bond 10y yields

Despite uncertainty about next Fed governor, rate expectations remain near current levels



Sources: Bloomberg, Allianz Investment Management, as of 15.12.2025
Notes: SoFr Future Z7 proxies market expectation of the FED policy rate in Dec 2027

Hawkish central bank talk has recently pushed up ECB rate expectations above our forecast



Sources: Bloomberg, Allianz Investment Management, as of 15.12.2025
Notes: Euribor 3m Future Z7 proxies market expectation of the ECB policy rate in Dec 2027

Capital market outlook: Resilience amid late cycle

Capital Markets: Eurozone and US year-end figures

EMU	Last*	Unit	2023	2024	2025f	2026f	2027f
Government Debt							
ECB deposit rate	2.00	%	4.00	3.00	2.00	2.00	2.00
10y yield (Bunds)	2.85	%	2.03	2.36	2.90	2.50	2.50
10y EUR swap rate	2.91	%	2.48	2.39	2.90	2.30	2.30
20y EUR swap rate	3.20	%	2.51	2.39	3.20	2.50	2.50
Italy 10y sovereign spread	68	bps	168	117	70	80	80
France 10y sovereign spread	71	bps	53	83	70	90	70
Spain 10y sovereign spread	45	bps	97	70	40	60	50
Corporate Debt							
Investment grade credit spreads	76	bps	135	101	80	100	115
High-yield credit spreads	273	bps	395	311	270	350	375
Equity							
Eurostoxx (total return p.a.)	24 ytd	%	19	10	24	9	7

US	Last*	Unit	2023	2024	2025f	2026f	2027f
Government Debt							
Fed Funds rate (high)	3.75	%	5.50	4.50	3.75	3.50	3.50
10y yield (Treasury)	4.18	%	3.87	4.57	4.20	4.20	4.10
Corporate Debt							
Investment grade credit spreads	80	bps	104	82	80	95	120
High-yield credit spreads	291	bps	334	292	290	345	400
Equity							
S&P 500 (total return p.a.)	17 ytd	%	26	25	17	11	8

Capital Markets: UK, Emerging Markets, FX year-end figures

UK	Last*	Unit	2023	2024	2025f	2026f	2027f
Government Debt							
BoE rate	4.00	%	5.25	4.75	3.75	3.25	3.25
10y yield sovereign (Gilt)	4.50	%	3.54	4.57	4.50	4.10	4.00
Corporate Debt							
Investment grade credit spreads	80	bps	134	91	80	100	115
High-yield credit spreads	418	bps	515	364	420	450	470
Equity							
FTSE 100 (total return p.a.)	23 ytd	%	8	10	23	5	5

Emerging Markets	Last*	Unit	2023	2024	2025f	2026f	2027f
Government Debt							
Hard currency spread (vs USD)	166	bps	215	202	170	200	210
Local currency yield	6.34	%	6.19	6.39	6.30	5.80	5.70
Equity							
MSCI EM (total return p.a. in USD)	31 ytd	%	10	8	31	11	9

FX & Commodities	Last*		2023	2024	2025f	2026f	2027f
EUR USD	1.18	\$ per €	1.10	1.04	1.18	1.16	1.18
Oil (Brent)	62	\$ per bl	78	75	62	61	67
Natural gas (Dutch TTF)	27	€ per MWh	32	49	27	32	30

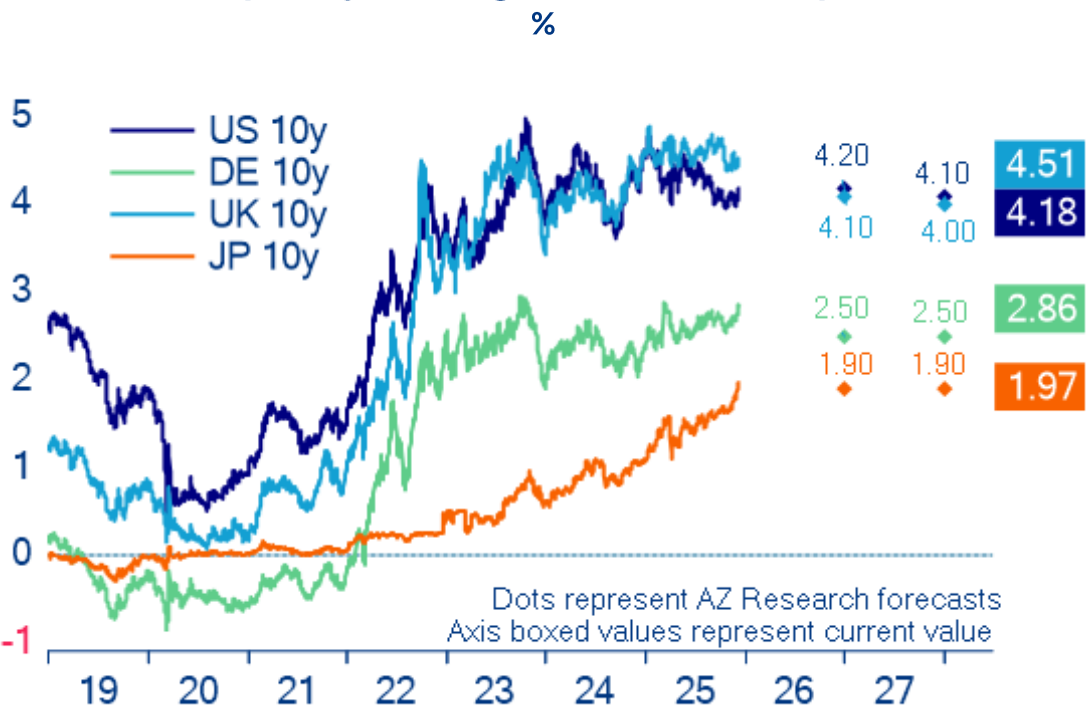
Sources: LSEG Datastream, Bloomberg, Allianz Investment Management

Notes: Year end figures

* As of 15.Dec 2025

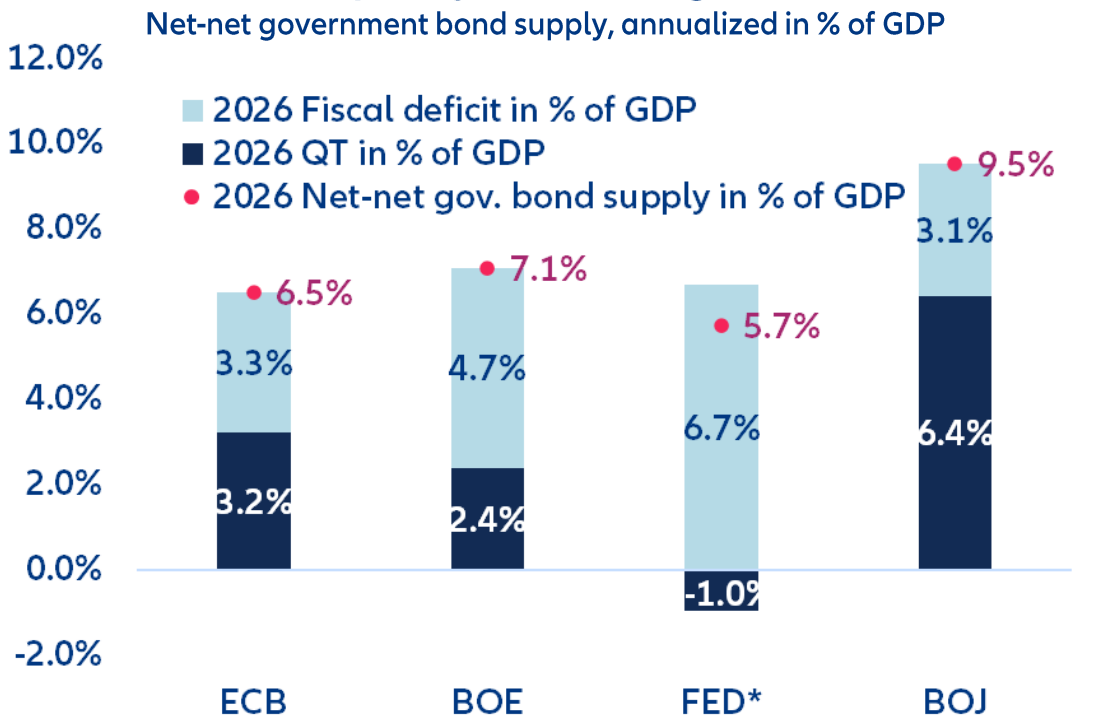
Rates staying high, with policy rate cuts coming to an end and supply pressures remaining high

Rates to stay elevated, with little downside pressure left from policy easing or inflation expectations



Sources: LSEG Datastream, Allianz Investment Management

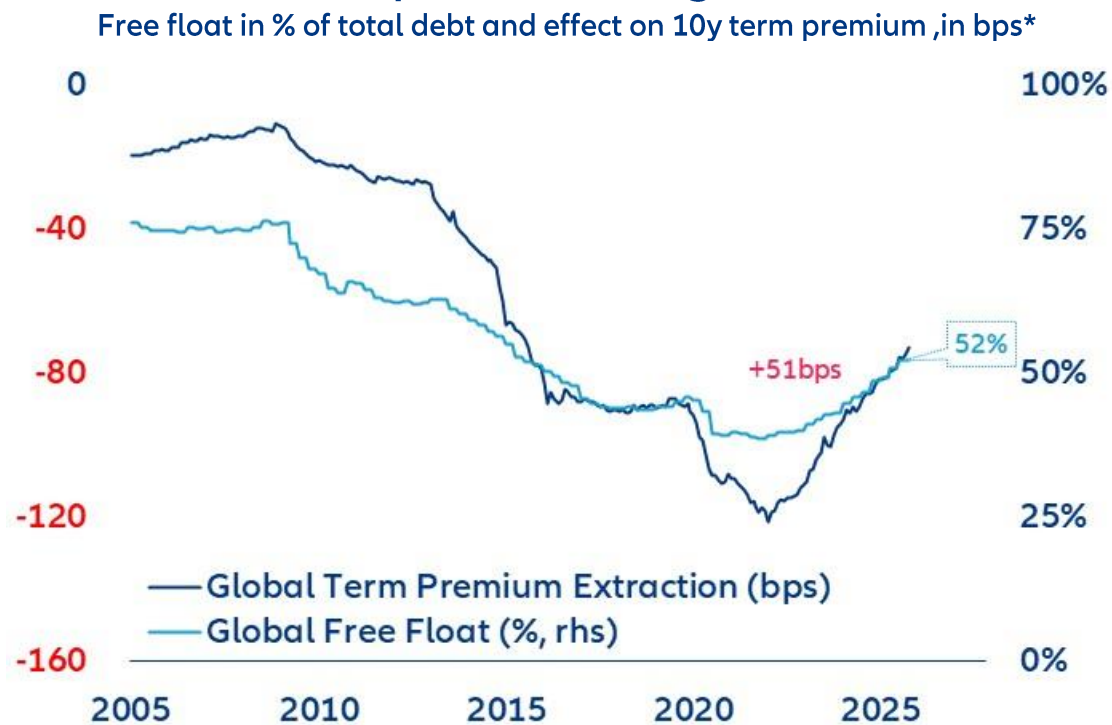
Supply pressures from both fiscal and monetary policy remain high



Sources: LSEG Datastream, Allianz Investment Management
Notes: The ECB is reducing its government bond portfolio by EUR41bn on avg. per month, the BoJ by JPY3.3tn, the BoE by GBP6bn, while the Fed has stopped QT since Dec 2025.
* The Fed has announced on 10. Dec 2025 to buy USD40bn per month in bills as part of liquidity management, not QE but still lowering the supply of government debt.

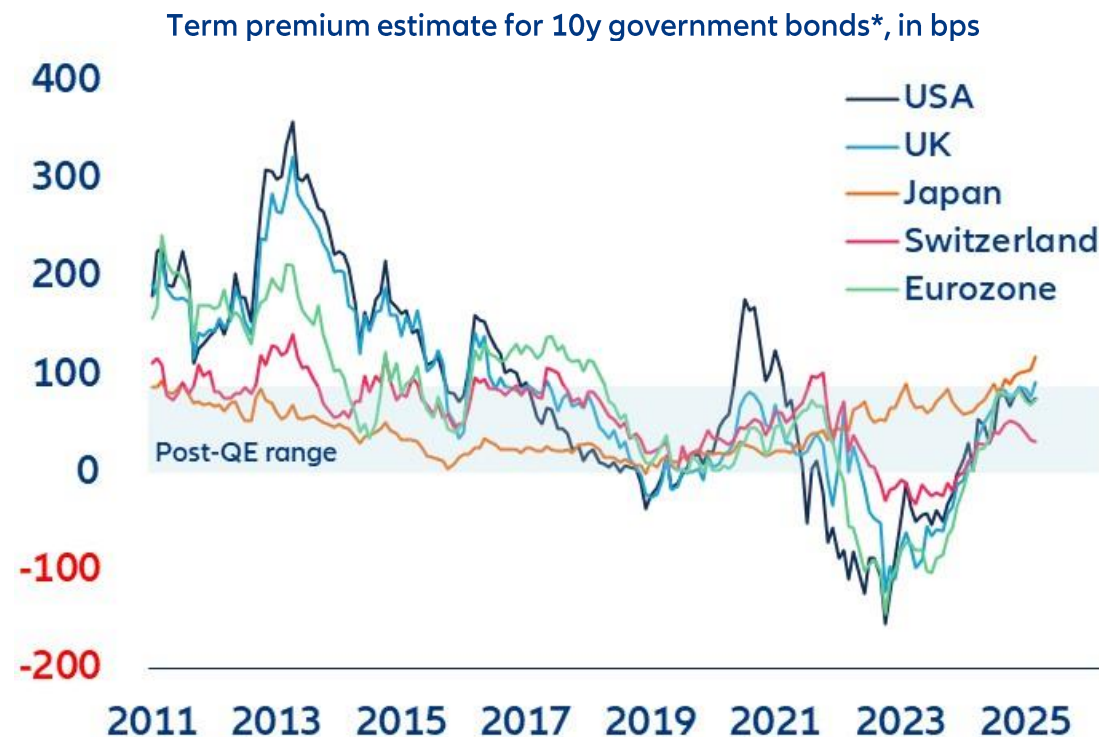
The comeback of term premia: permanent or temporary?

QT has driven global yield up by 51bps since 2022, but speed is slowing down



*For G4 countries, based on Li and Wei (2012), Eser et al. (2019)
Free Float = % sovereign bonds not held by official sector (national & foreign central banks)
Sources: LSEG Workspace, National Central Banks, IMF, Allianz Investment Management

Market have permanently priced in higher deficits – second round to come?

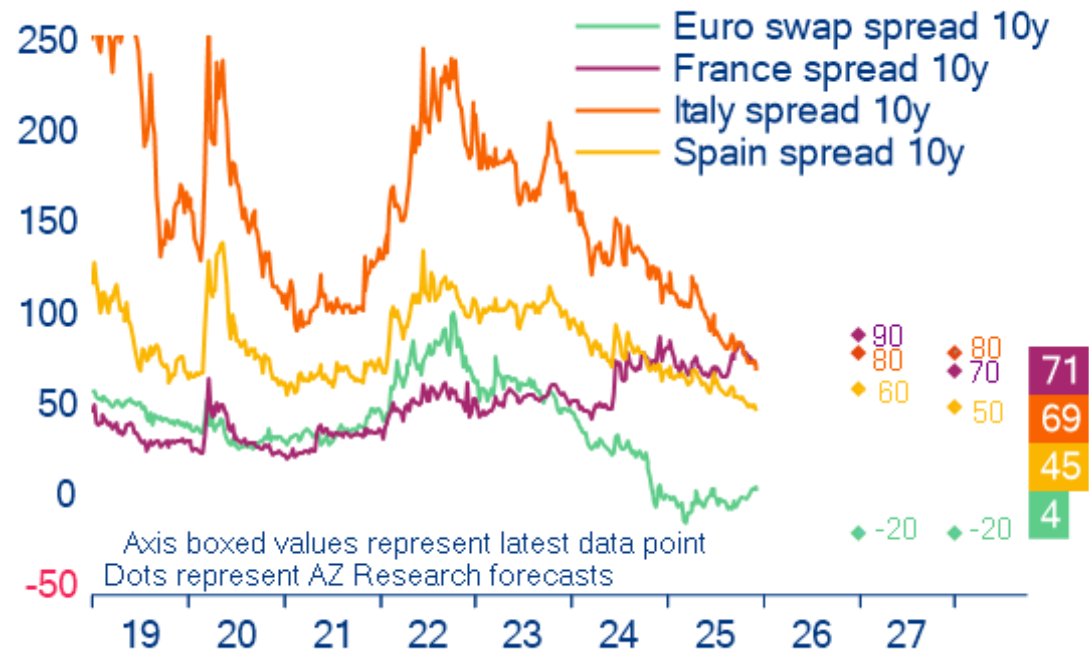


* based on Adrian, Crump and Munch (2013)
Sources: LSEG Workspace, Allianz Investment Management

Euro government bonds spreads trading tight as convergence trend prevails

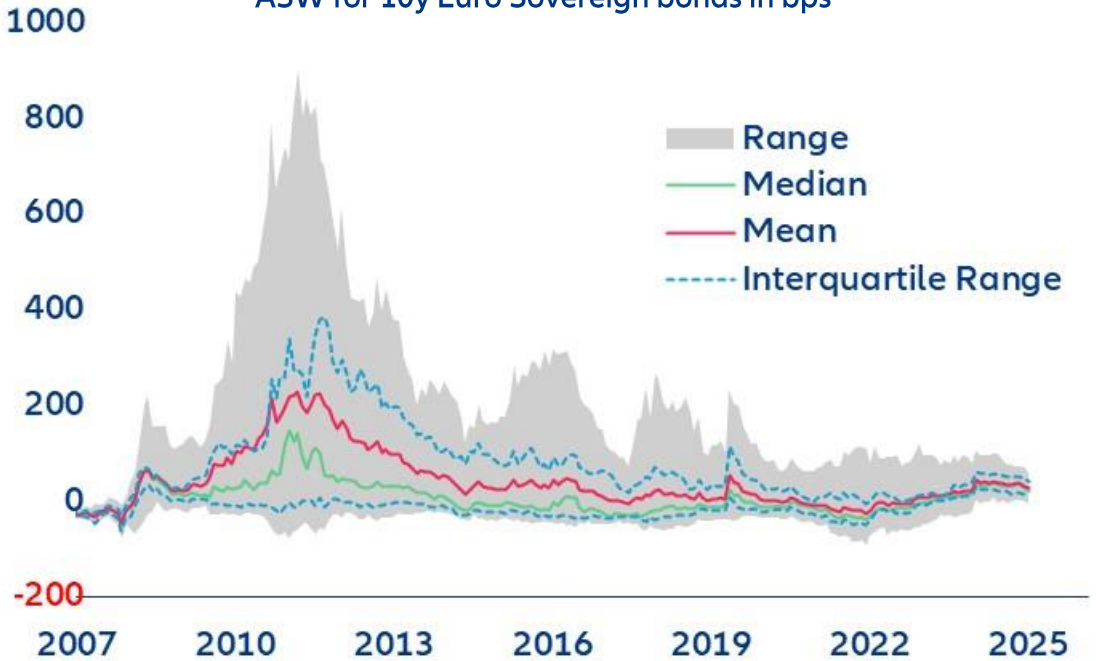
Election jitters to lift French spreads temporarily -
baseline assumes centrist presidency in 2027

Yield spreads vs. 10y German bund yields in bps



The big Euro spread convergence as markets pricing
a common fiscal basis risk

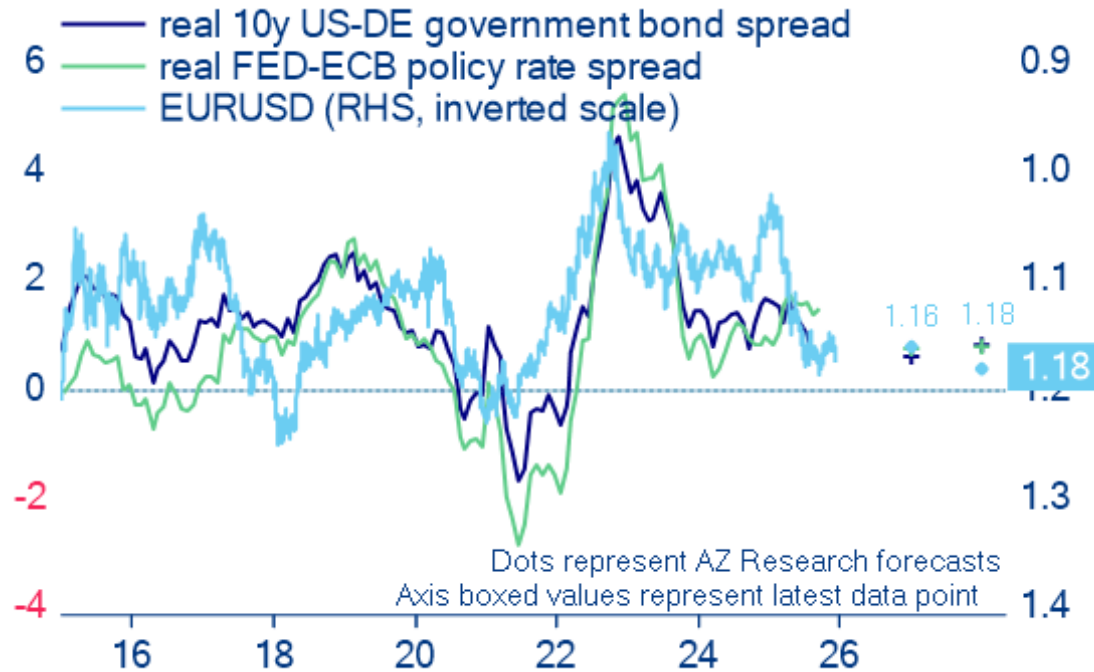
ASW for 10y Euro Sovereign bonds in bps*



Real interest rate differentials point to stable EUR/USD, but Asian currencies still undervalued

Inflation and interest rate forecasts point to a broadly stable EUR/USD going forward

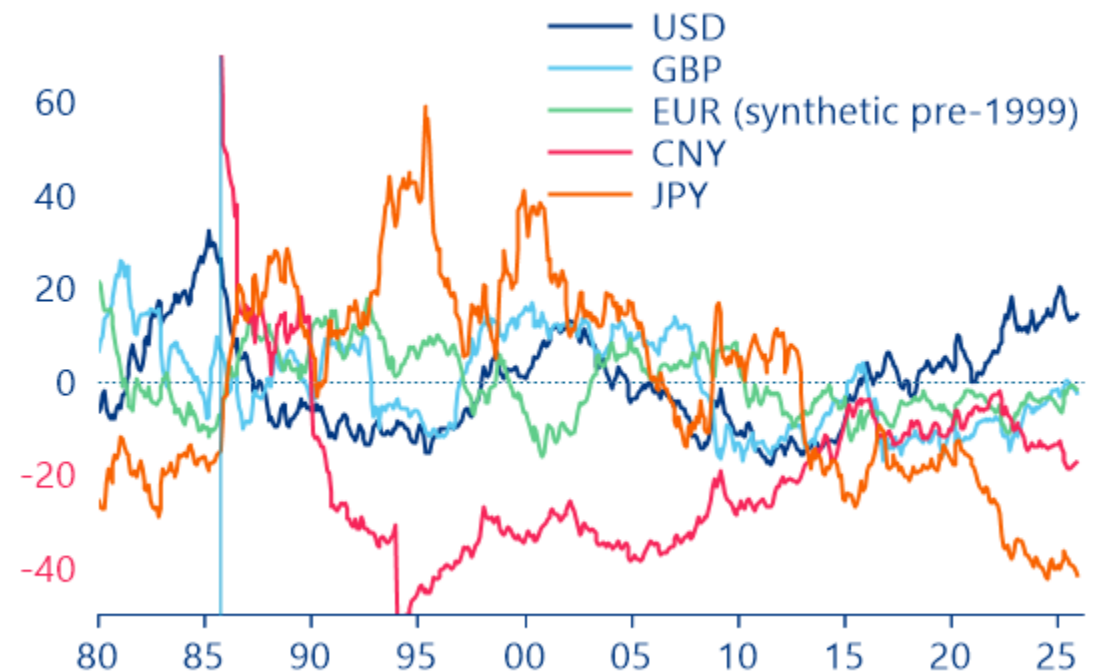
Yield differentials in pp and EUR/USD exchange rate



Sources: LSEG Datastream, Allianz Investment Management

The Chinese yuan and the Japanese yen are strongly undervalued by real effective exchange rates (REER)

REER, deviations from long-term average in %



Sources: LSEG Datastream, Allianz Investment Management

But political risks dominate alternative scenarios: EUR/USD skewed towards a weaker dollar in 2026

Upside scenario (15%)

EURUSD at 1.12

- Unwinding of hedges and realignment of EUR/USD with interest rate differentials
- ECB restarts cutting cycle
- **Triggers:** US exceptionalism continues amid Trumponomics while Eurozone outlook worsens, France political uncertainty contagion, Ukraine-Russia escalation involving Europe, additional USD demand from stablecoin dollarization

Baseline scenario (60%)

EURUSD at 1.16

- Less Fed cuts than current market expectations support the USD.
- Recent dollar appreciation was driven by hedging not actual outflows.
- **Triggers:** The market "digests" fiscal deficits, dovish but reasonable successors at Fed, no return of Mar-a-Lago accord.

Downside scenario (20%)

EURUSD at 1.25

- Loss of investor trust amid weakening US institutions and Fed independence questioned.
- Decorrelation of interest rate differentials and EURUSD continues.
- **Triggers:** Pressure on Fed independence increases with very dovish successor for Powell chosen and further replacements in FOMC.

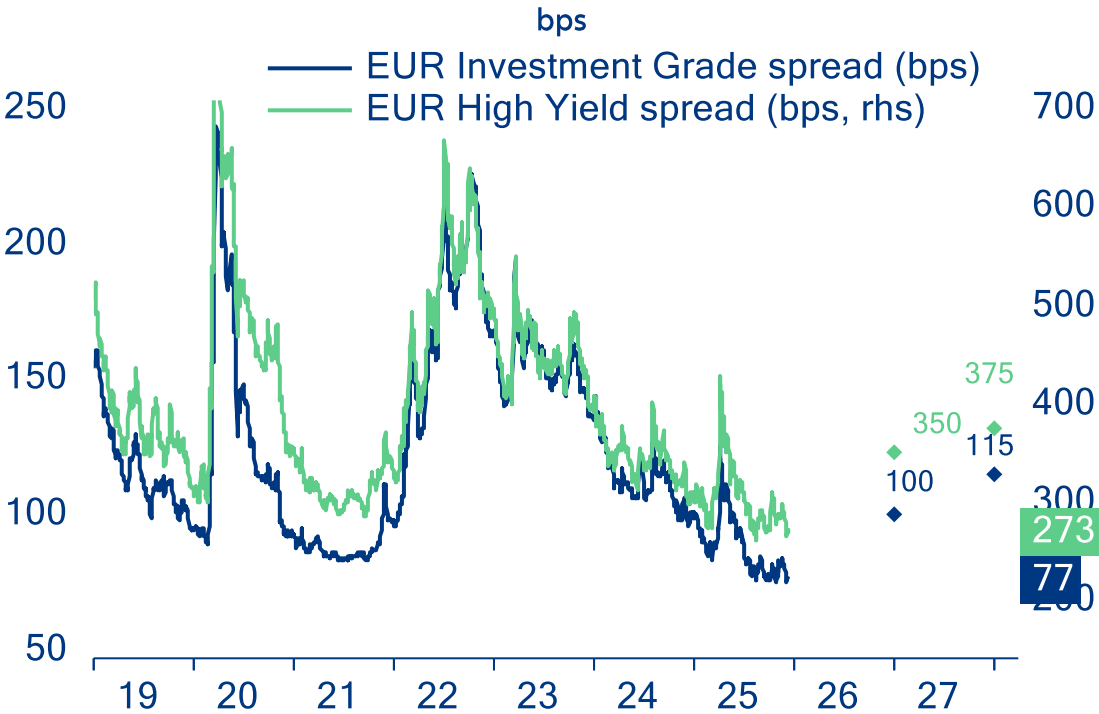
Tail risk scenario (5%)

EURUSD at 1.40

- Rapid outflows from institutional and private investors.
- Central banks shift FX reserves from USD to EUR.
- **Triggers:** Truss moment amid loss of confidence in US deficit, Fed independence abolished, revival of Mar-a-Lago accord via "revenge tax" on foreigners' US capital income or "offshore appropriation"

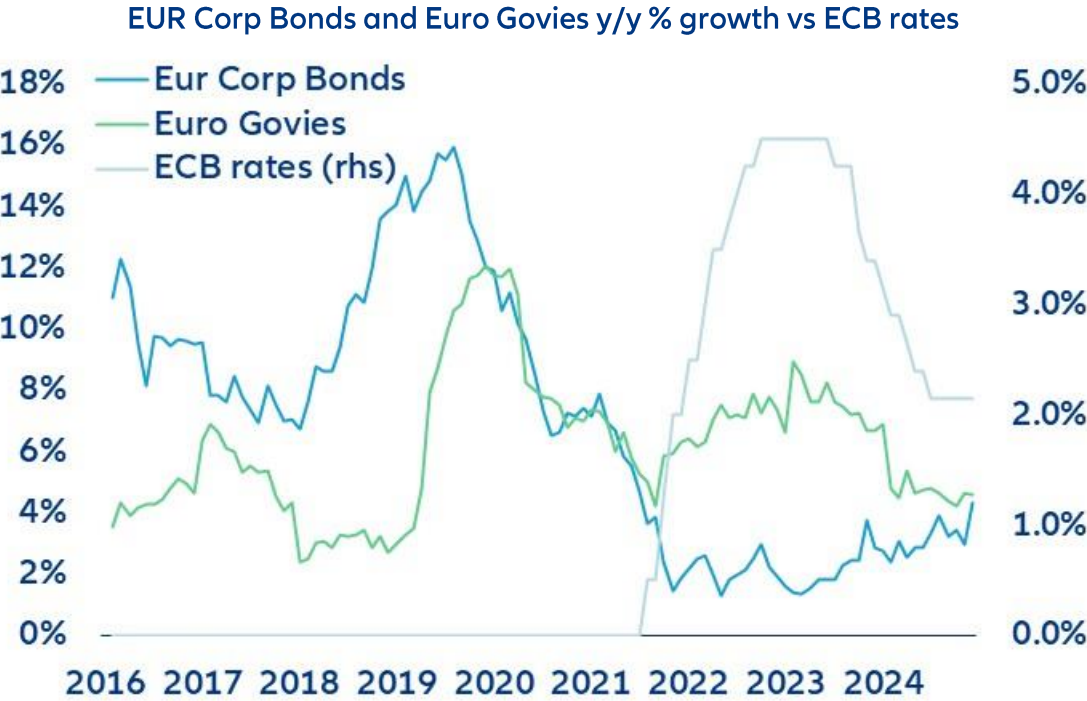
Credit: Fading technicals and normalized fundamentals drive spreads wider in 2026

Spreads are expected to slowly drift wider, driven by normalized fundamentals and valuation correction



Sources: LSEG Datastream, Allianz Investment Management

Technical fade - Euro corporate bonds net issuance picked up from historical low, after rate cuts



Sources: Bloomberg, Allianz Investment Management

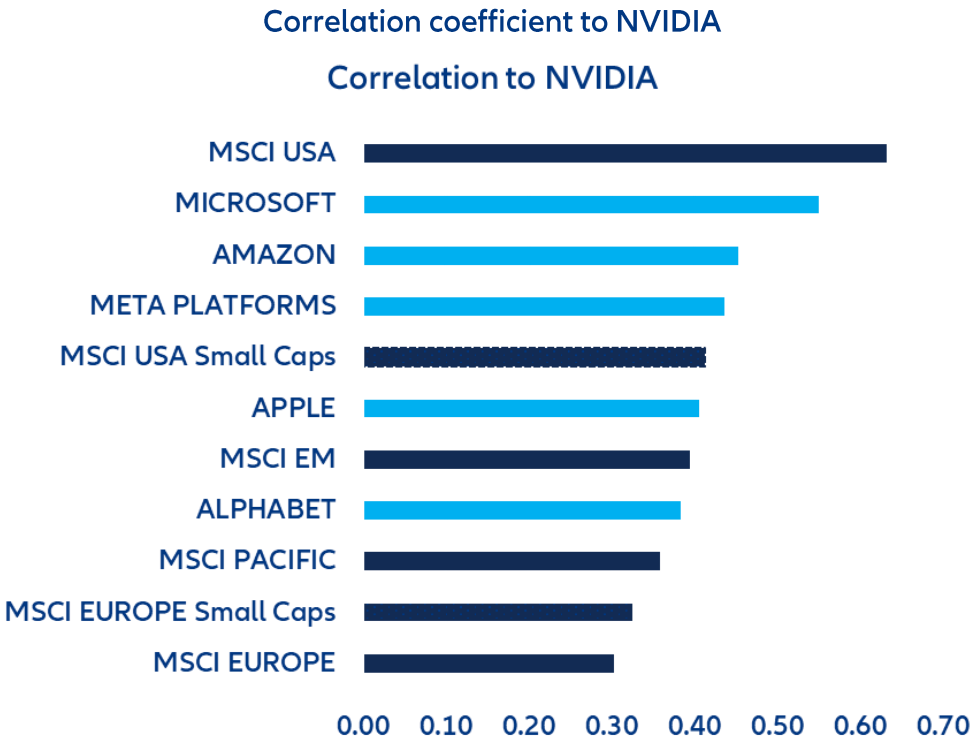
Equities: US tech continues to lead, with US and EM having most exposure to AI

Earnings growth supports solid total returns in 2026, with AI continuing to lead markets



Sources: LSEG Datastream, Allianz Investment Management

US and EMs offer strongest exposure to the AI boom while Europe and Pacific are a place to hide

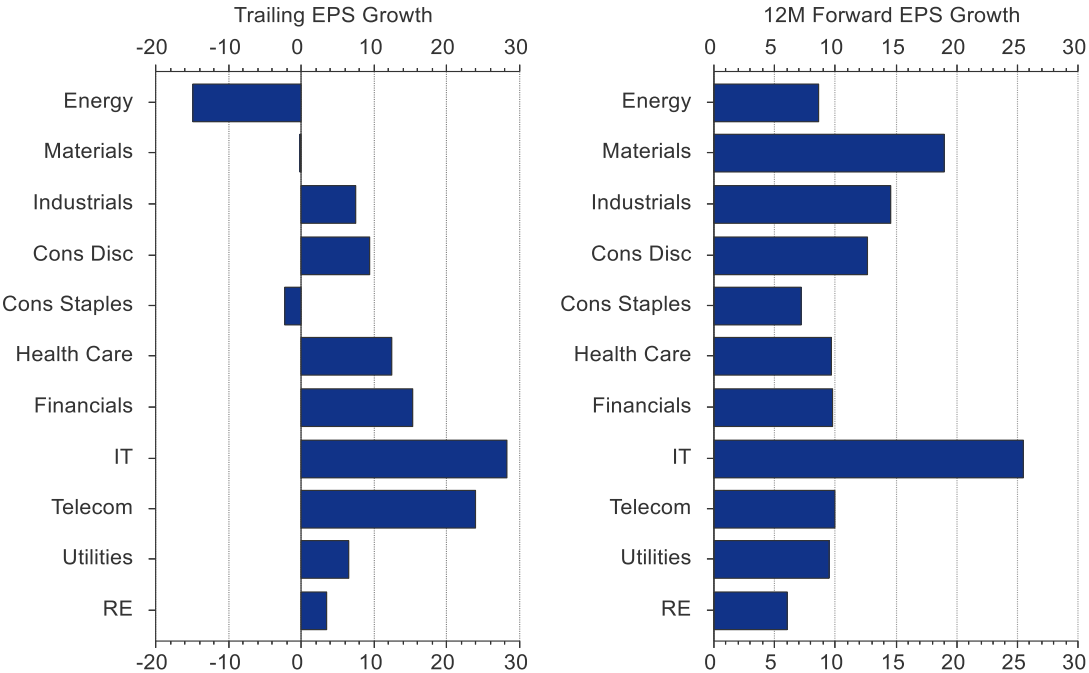


Sources: LSEG DataStream, Allianz Investment Management

AI concentration true in earnings expectations, discounting over 5Y puts US in different light

AI continues to dominate earnings growth in 2026 while breadth is expected to increase across sectors

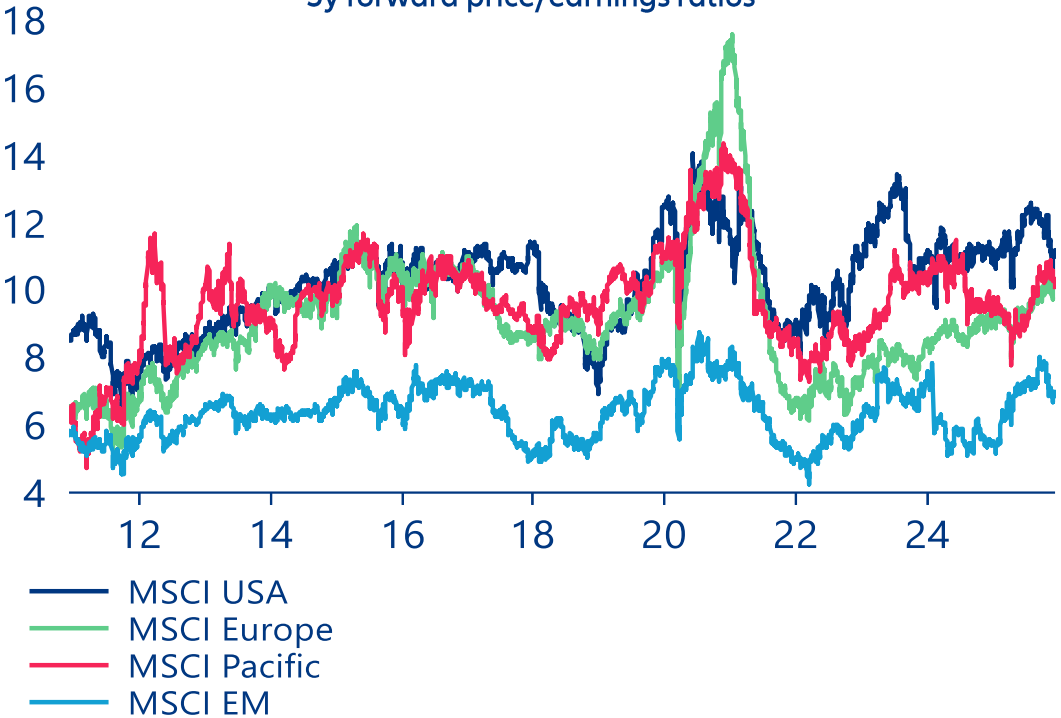
EPS growth in %



Sources: LSEG Datastream, , Allianz Investment Management

5Y fwd PE ratios put relative valuation of US in a better light – EMs are still cheap

5y forward price/earnings ratios



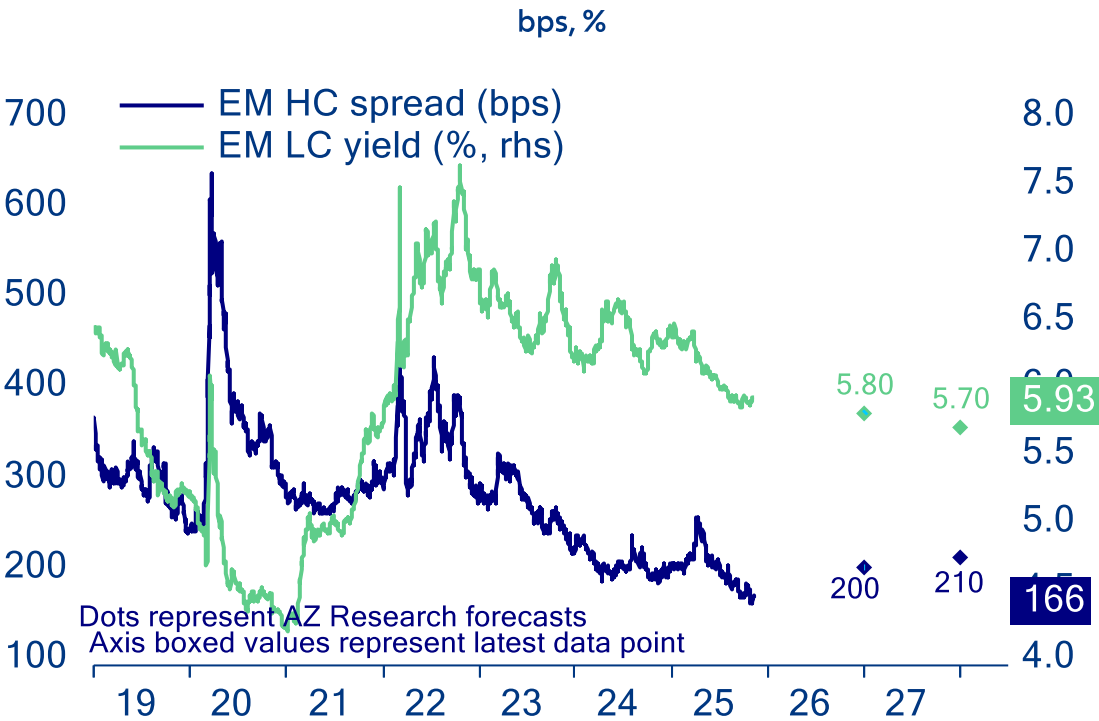
Source: LSEG Datastream; Allianz Research

AI Equity Bubble - Key Scenarios

	AI productivity boom accelerates	Soft landing of AI hype	Deflated & delayed AI boom - but not derailed + policy mistake
Probability	15%	55%	25%
Scenario in a nutshell	<ul style="list-style-type: none"> • Rapid AI adoption lifts productivity and earnings across sectors, easing cost pressures and supporting growth without reigniting inflation. • Optimism broadens beyond tech as fundamentals strengthen, productivity gains build confidence and market volatility gradually declines. 	<ul style="list-style-type: none"> • After equity markets shift back and forth between FOMO and risk-off for much of 2026, AI earnings misses at start of 2027 trigger a clear but controlled repricing of AI equities. • While the AI hype cools a bit, fundamentals remain intact. • Markets correct but avoid contagion and rotate toward quality and defensive growth. Spillover beyond tech is limited. 	<ul style="list-style-type: none"> • Significant repricing across tech and growth sectors triggered at turn of 2026/27. • In addition to fundamental setbacks challenging AI growth assumptions in terms of timing and/or magnitude, the Fed ends the party with a sharp rates increase after keeping rates to low for too long. • Growth assets experience broad repricing, volatility rises, liquidity tightens, capital spending plans are cut, weighing on real economy.
Economic impact	<ul style="list-style-type: none"> • Productivity gains offset macro headwinds; inflation eases; US and global growth strengthen. 	<ul style="list-style-type: none"> • AI investment damper together with negative wealth effects weigh on US GDP growth. 	<ul style="list-style-type: none"> • Broader investment setback and sharp slowdown in private consumption push US economy into recession, milder growth setback in Europe
Equities	<ul style="list-style-type: none"> • Global equities rise +10-15% (NASDAQ +15-20%) per annum with broad participation and positive earnings revisions. 	<ul style="list-style-type: none"> • After a volatile 2026 in which markets overall gain +10% compared to current levels, global equities decline by ~10% (NASDAQ -15% to -20%) in early 2027; V-shaped recovery within 6-9 months allowing for +5% performance in 2027 and another 10% in 2028. 	<ul style="list-style-type: none"> • ~20% global equity decline (NASDAQ -25% to -30%) triggered at turn of 2026/27. Swift central bank response helps markets to recover within 1-2 years with equity markets reaching current levels by end-2028.
Yields	<ul style="list-style-type: none"> • Mild yield increase (+10-25 bps); credit spreads tighten modestly. 	<ul style="list-style-type: none"> • Mild yield decline (0 to -20 bps), credit spreads gently widening +30bps 	<ul style="list-style-type: none"> • Treasury yields -100 to -150 bps; credit spreads +100-125 bps.

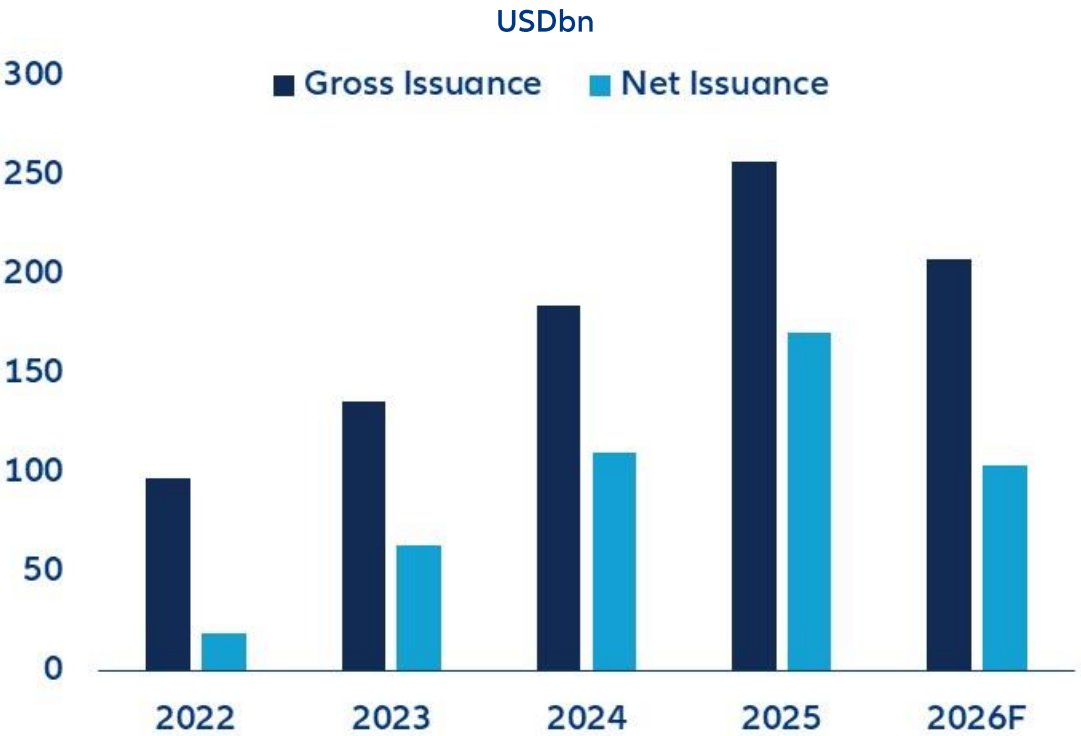
EM debt: spreads at multi-year lows vs. US credit. Technicals and fundamentals are supportive

EM spreads are hovering around all-time lows, supported by strong flows and solid fundamentals



Sources: LSEG Datastream, Allianz Investment Management

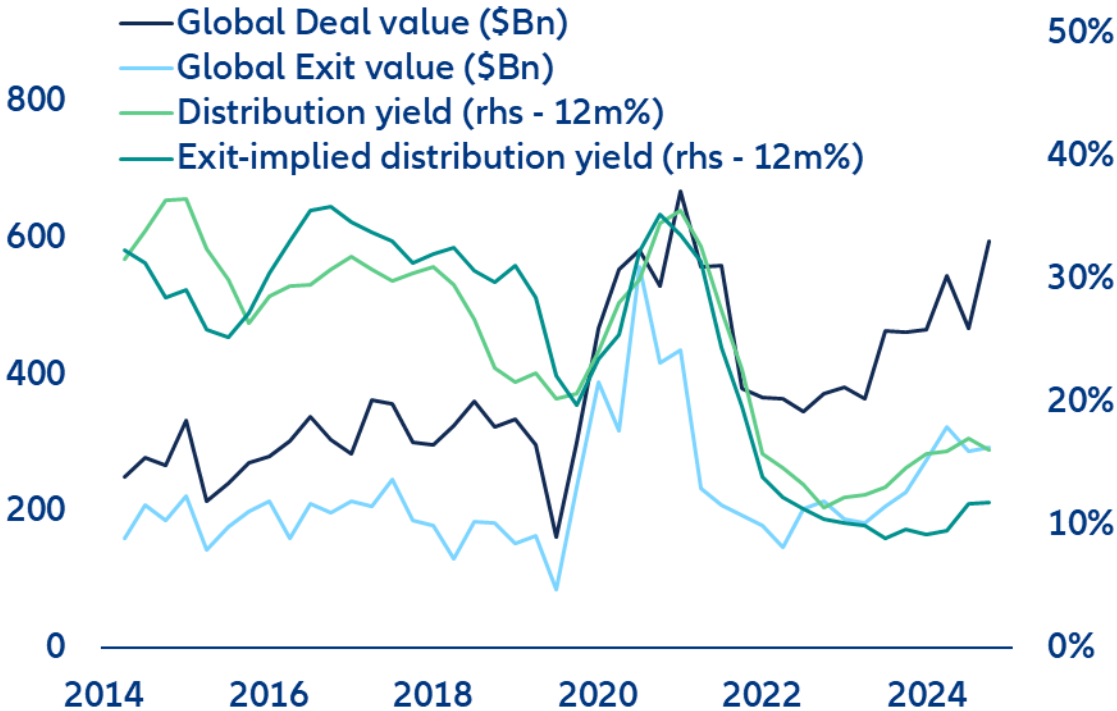
EM sovereign spreads are supported by lower projected debt issuance 2026 and healthy demand.



Sources: JPMorgan, Allianz Investment Management

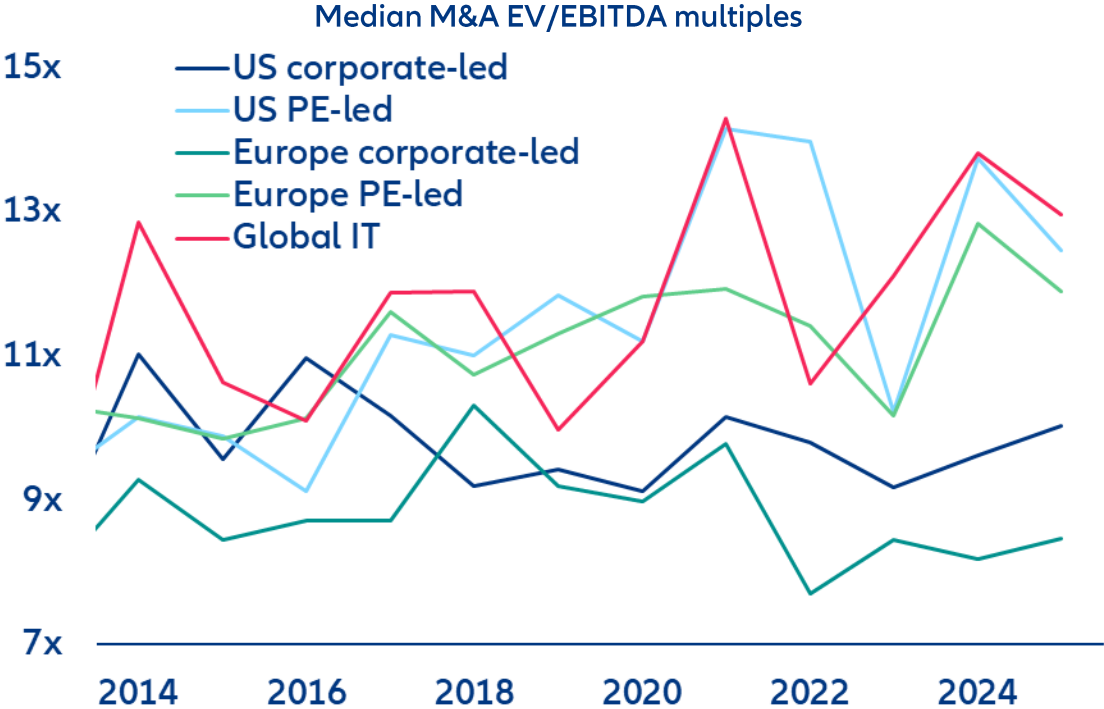
Private Equity's attraction today lies in value growth & lower valuations, not in regular distributions

The deal-exit gap widens; without liquidity solutions distributions would be lower



Source: Pitchbook, Allianz Investment Management
Note: Geography – US; Last data point Q3 2025

Global M&A valuations retreat, with IT sector remaining the most expensive

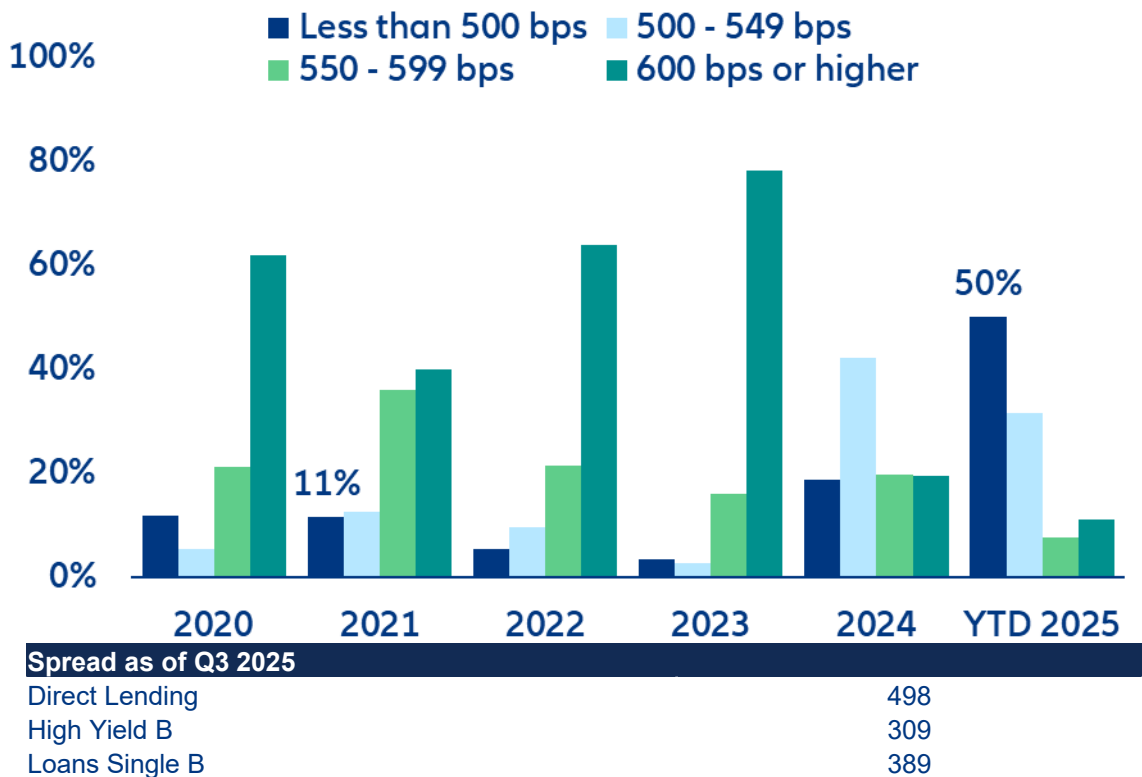


Source: Pitchbook, Allianz Investment Management
Note: Last data point Q3 2025

Direct lending: Fundamentals support a constructive stance, even as pricing calls for caution

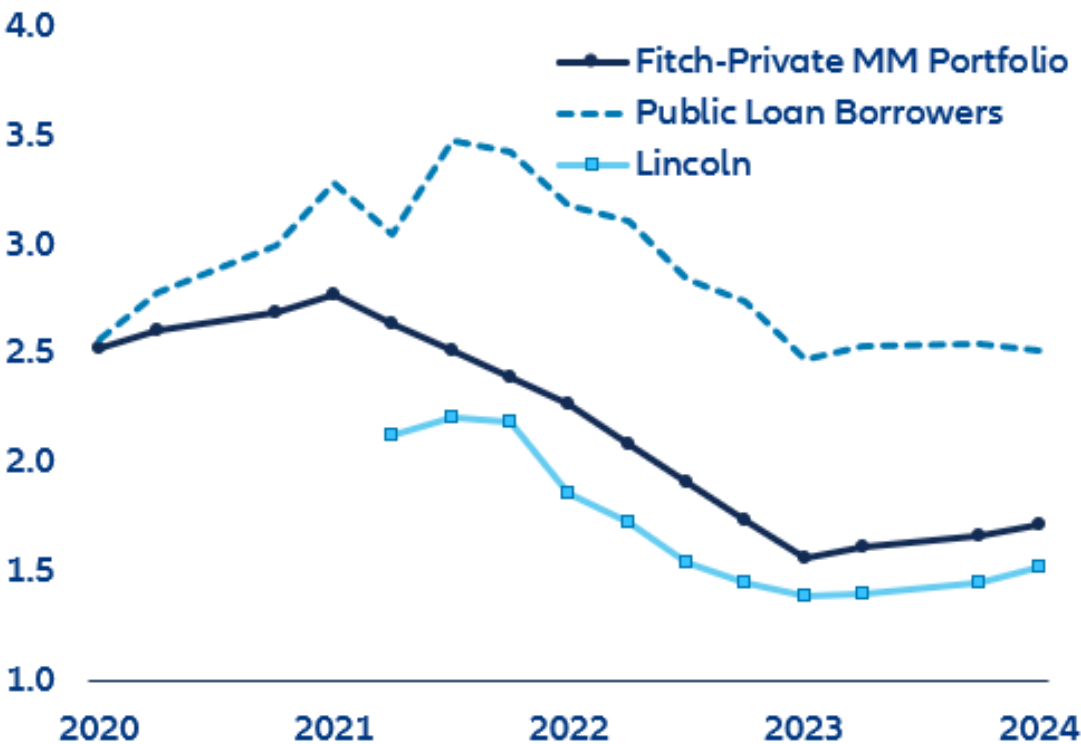
Spread compression accelerates

New-issue spread distribution of LBOs financed by direct lenders



Interest coverage trend: stabilizing, not strengthening

Interest coverage ratio, EBITDA / Interest Expense

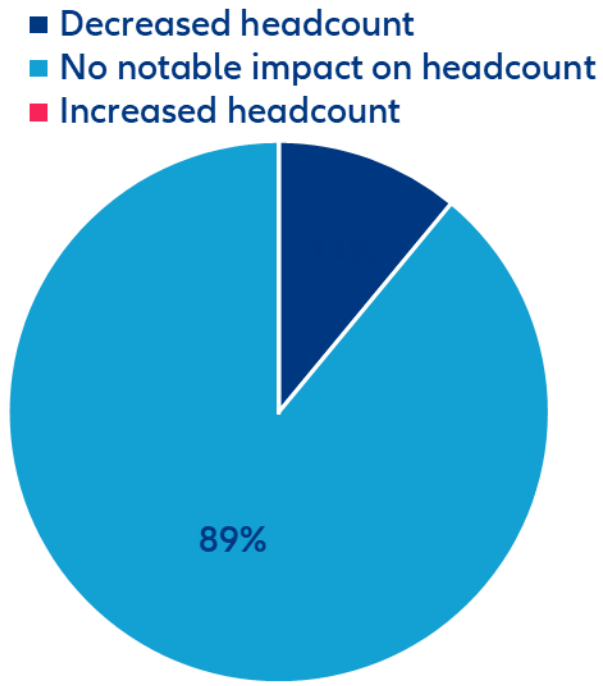


Sources: PitchBook | LCD, Allianz Investment Management. Note: Geography – US ; Data reflects Data reflects senior secured loans and unitranche facilities; as of Oct 2025

Sources: Fitch, Capital IQ, Bloomberg, Lincoln International, MS Research, Allianz Investment Management

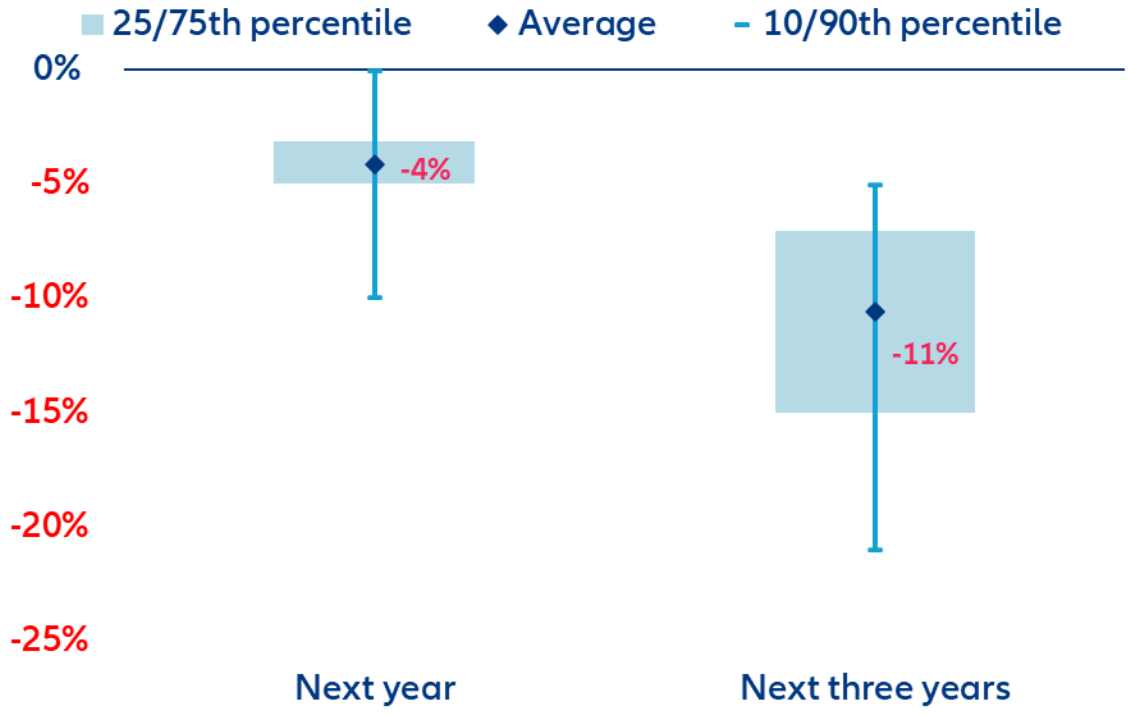
Office: AI as a new structural headwind, with limited impact today but more to come

Only 11% of US companies are actively cutting jobs today ...
%



Sources: Goldman Sachs, Allianz Investment Management

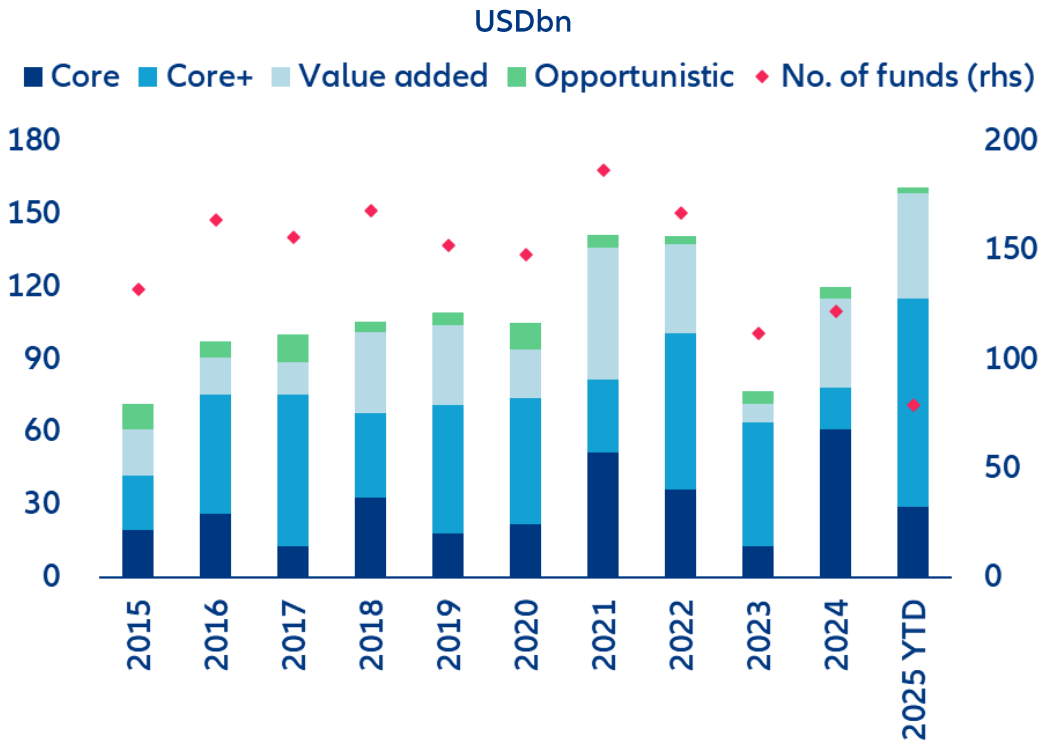
... but headcount expected to decline by -4% next year & -11% in next three years due to AI
%



Sources: Goldman Sachs, Allianz Investment Management

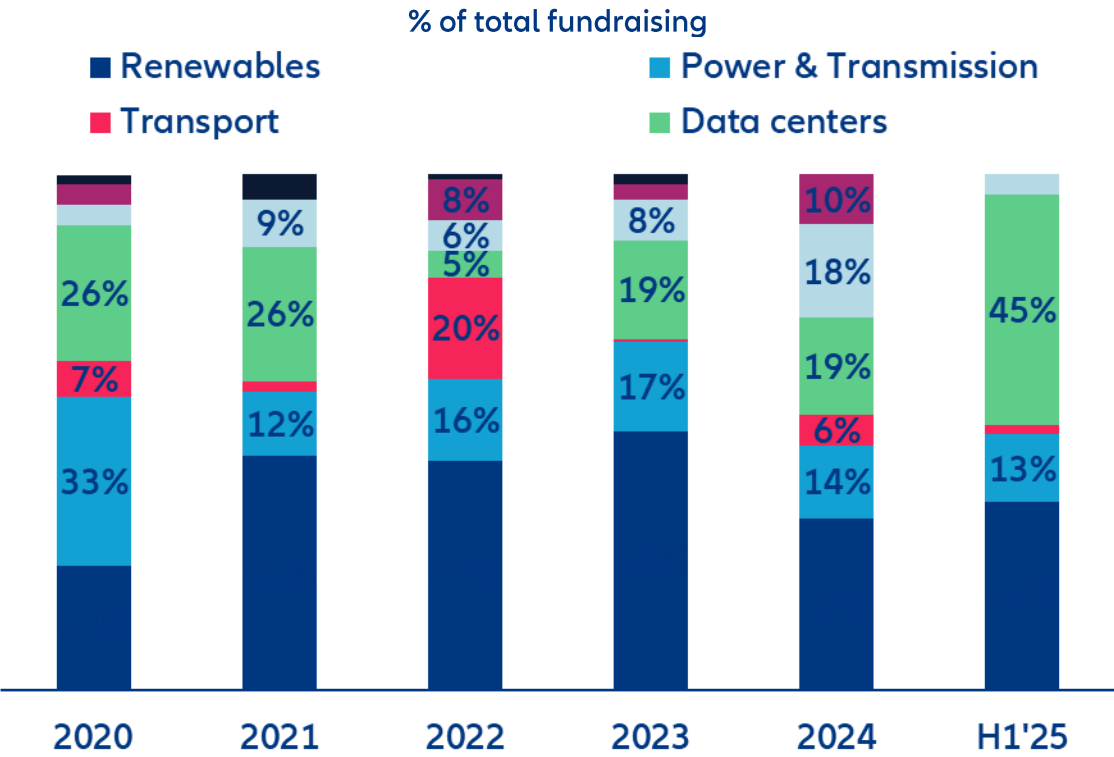
Infrastructure: capital concentrates in higher-risk, mega-funds and AI-driven data centers

Record fundraising year: strong capital inflows into higher-risk strategies and mega-funds



Sources: Preqin, Allianz Investment Management
Note: Data as of Dec 3, 2025

Fueled by AI frenzy, data centers capture 50% of H1 fundraising



Sources: Infrastructure Investor, Allianz Investment Management
Note: Data as of H1 2025

