

Market Snapshot

Global Economic Outlook - Update

Snapshot

- ❑ Economic activity should remain robust, supported by significant capital expenditure in AI, increased defence spending and infrastructure initiatives, particularly in the US and the eurozone.
- ❑ While AI may offer long-term disinflationary benefits, its near-term impact is decisively inflationary, driven by supply constraints in energy and electronic components. Inflation should be generally lower next year.
- ❑ Potential risks include geopolitical instability, the possibility of an "AI bust," and concerns over debt sustainability in major economies.

Economic growth driven by AI, infrastructure and defence investments

Global growth is currently showing surprising resilience, particularly within the manufacturing sector, fuelled by a powerful surge in AI-related capital expenditure and increased defence spending. In the United States, growth remains robust, underpinned by resilient consumer spending and the ongoing AI investment cycle. The eurozone is experiencing similar resilience, primarily driven by infrastructure and defence initiatives. In Asia, Japan's growth is expected to remain above potential as the AI boom offsets energy-related headwinds, while China is anticipated to implement countercyclical measures to target GDP growth of at least 4.5%. Although the Swiss economy remains stable and the UK is remarkably resilient, slower growth is expected for the second half of the year. For emerging economies, such as China and India, we anticipate relatively stable growth. In its latest World Economic Outlook, the IMF also forecasts resilient growth. Its projections are generally more conservative than our own, particularly for Japan and the eurozone (see table).

ECONOMIC GROWTH OUTLOOK

GDP Growth %

	2026		2027	
	BNP Paribas	IMF	BNP Paribas	IMF
United States	2.2	2.3	2.3	2.3
Japan	1.0	0.7	1.2	0.7
United Kingdom	1.2	1.3	1.3	1.2
Switzerland	2.0	1.9	1.7	1.2
Eurozone	1.1	1.1	1.5	1.2
Germany	1.1	1.3	1.3	1.1
France	0.5	0.4	1.0	0.7
Italy	0.9	0.8	0.8	0.6
Emerging				
China	4.6	4.5	4.5	4.0
India**	6.7	7.0	6.9	7.0
Brazil	1.9	2.2	1.3	1.9

** Fiscal year

Source: BNP Paribas, IMF World Economic Outlook - 13.10.2026

The IMF's latest global growth forecast is unchanged from a year ago and April, at 3.1% for 2026 and 3.4% for 2027. Asia is the standout winner, expected to account for 68% of global growth in 2026. The IMF incorporates almost no boost into its five-year baseline but presents an upside scenario in which it does. The mantra is that "the US needs to save more, China to consume more, and Europe to invest more".

Inflation should come down but only gradually

The inflationary environment remains complex. While AI is expected to be disinflationary over the long term through productivity gains, its near-term impact is decisively inflationary, driven by supply constraints in energy and electronic components (specifically semiconductors). In the US, core inflation is forecast to remain well above the 2% target this and next year. The eurozone may face an inflation peak around the turn of the year, fuelled by resilient growth and elevated autumn energy prices.

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INFLATION OUTLOOK

CPI Inflation %

	2026		2027	
	BNP Paribas	IMF	BNP Paribas	IMF
United States	3.4	3.6	2.3	2.8
Japan	2.0	2.0	2.5	2.6
United Kingdom	3.2	3.3	3.2	2.8
Switzerland	0.6	0.7	0.7	0.8
Eurozone	3	3.1	2.8	2.8
Germany	2.7	2.7	2.6	3.1
France	2.4	2.4	2.3	2.2
Italy	2.9	3.3	2.1	2.8
Emerging				
China	1.0	1.0	1.2	1.4
India*	5.0	5.0	4.6	4.4
Brazil	4.5	4.4	4.6	4.1

* Fiscal year

Source: BNP Paribas, IMF World Economic Outlook - 13.10.2026

Simultaneously, producer price pressures are building in Europe and Japan, increasing the risk that energy shocks will spill over into other CPI components. Conversely, inflation in China is expected to remain below its 2% target despite industrial deflation. In Japan, excluding policy-driven factors, inflation is likely to remain meaningfully above the 2% threshold. The IMF's outlook is largely aligned with ours, although they anticipate a slower decline in US inflation and a more rapid decrease in Brazil and India. They expect global headline inflation to rise to 4.7% in 2026, mainly due to energy and food, before easing to 4.1% in 2027.

Key Risk Factors

We believe the primary risks to our baseline scenario are skewed towards upside inflation and downside pressure on financial assets. Geopolitical instability continues to leave energy markets precarious, with EU gas prices remaining a critical focal point. A systemic risk of particular concern is a potential "AI bust"; a disorderly pullback in capital expenditure could trigger an earnings downgrade cycle and a significant equity market drawdown. Furthermore, debt sustainability is an increasing concern for the US and France, and to a lesser extent, Germany, where primary balances are insufficient to stabilise debt-to-GDP ratios. The IMF echoes these concerns, stressing that the priority for the coming decade must be to "rebuild supply-side resilience, restore fiscal space, lift growth potential, and ensure that the next decade is defined by growth and shared prosperity."

Outlook for central banks and yields

Due to resilient economic growth, sustained high energy prices and high-interest rate volatility, we added in late September one 25bp hike to our US Fed and ECB forecasts. We now see a BoE hike in November (previously December). We expect one more rate hike for ECB and two for the Fed (December and January).

Central Bank Policy Rate	Previous 12-month target	New 12-month target	Market 12-month expectations
Fed	4.25%	4.50%	4.65%
ECB	2.50%	2.75%	3.21%
BoE	3.75%	3.75%	4.80%
BoJ	1.75%	1.75%	1.98%

Sources: BNP Paribas WM, LSEG Refinitiv, bloomberg

US 10-year government bond yields have sold off aggressively across the curve since mid-summer. The primary driver of US yields remains the real yield, likely reflecting expectations of increased capital demand in the coming years. A higher term premium and growing deficits and debt has likely also contributed. Breakeven inflation remains stable. We revised our 12-month target up to 4.75%. A further market push towards 5.50% could offer a more attractive entry point. In the eurozone, the 10-year German government bond yield has also risen significantly. This trend is driven by the same fundamental factors as in the US. We are probably close to peak levels. Our 12-month target was revised up to 3%. We see a similar pattern for UK yields and our target is 4.65%. We remain Positive on core eurozone and UK government bonds and investment grade bonds.

Government Bond yield (10-year)	Previous 12-month target	New 12-month target	Market 12-month expectations
United -States	4.50%	4.75%	5.31%
Germany	2.75%	3%	3.56%
United-Kingdom	4.40%	4.65%	5.63%

Sources: BNP Paribas WM, Bloomberg



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