

Global Investment Strategy outlook 2026

The macro playlist: global market and economic outlook for the upcoming year

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Our outlook and key themes for 2026

- **Global growth drivers in 2026 and beyond**: innovation and strong institutions are key to sustainable growth; optimism masks fragility as productivity gains remain elusive and correction risks rise.
- **US growth**: post-pandemic exceptionalism is fading; immigration constraints and sustainability questions surrounding the AI investment boom call for selective focus on productivity-driven firms.
- **Japan**: inflation and governance reforms signal progress; domestic reinvestment in digitisation, decarbonisation and fusion is critical amid diplomatic and inflation risks.
- **Bonds**: high global debt and accelerating issuance heighten duration risk; investors should diversify and maintain buffers against shocks.
- **Currencies and current accounts**: imbalances persist; RMB undervaluation and potential currency flexibility could trigger reserve shifts away from USD and ease yen pressure.
- **Asia's energy advantage**: China's renewable surplus may become a strategic asset in the AI race; energy efficiency could overtake transistor density as the key constraint.
- **Europe**: private-sector fusion breakthroughs are expected to shorten commercialisation timelines; institutional innovation and shared debt instruments could strengthen fiscal integration.

Introduction: 2026 and the latent opportunity in global challenges

The global economy will enter 2026 with a combination of resilient activity and underlying structural uncertainty. Liquidity remains abundant and valuations rich, but broader productivity gains remain elusive. Against this backdrop, the US economy has outperformed its pre-COVID-19 trend growth in the post-pandemic period, assisted by proactive fiscal stimulus. Looking ahead, while the US economy has potential to achieve structural gains from technological innovation, such gains may not be inconsistent with the risk of an economic slowdown.

Meanwhile, relative global policy divergences and valuation dispersion create opportunities to seek and identify mispriced beta—instances where overly cycle-dependent assumptions underpin low-cost equity financing. Surplus-rich Japan and Asia have potential for sustainable, productivity-driven growth. At the same time, a critical yet underappreciated driver of long-term productivity frontiers lies in the AI-energy nexus and the transition to zero-carbon energy sources, including nuclear fusion. Finally, Europe's quiet transformation—marked by accelerated integration, deregulation and an increasingly unified bond market—could redefine global reserve dynamics.

1. What could drive economic growth in 2026 and beyond?

The 2025 Riksbank Prize in Economic Sciences underscored the *zeitgeist* of innovation-fuelled economic growth, recognizing laureates Mokyr, Aghion and Howitt for their research on the history of economic growth and the elements that enable "creative destruction". According to Mokyr's research, sustained growth, as experienced in post-Industrial Revolution economies, is historically rare; Aghion and Howitt's models show that its durability depends on institutional design and innovation incentives.

One paradox characterising current economies and markets (particularly among developed economies) is that even amid robust expansion and buoyant markets, productivity growth remains elusive. Another is the coexistence of robust liquidity and economic sentiment and escalating economic uncertainty.

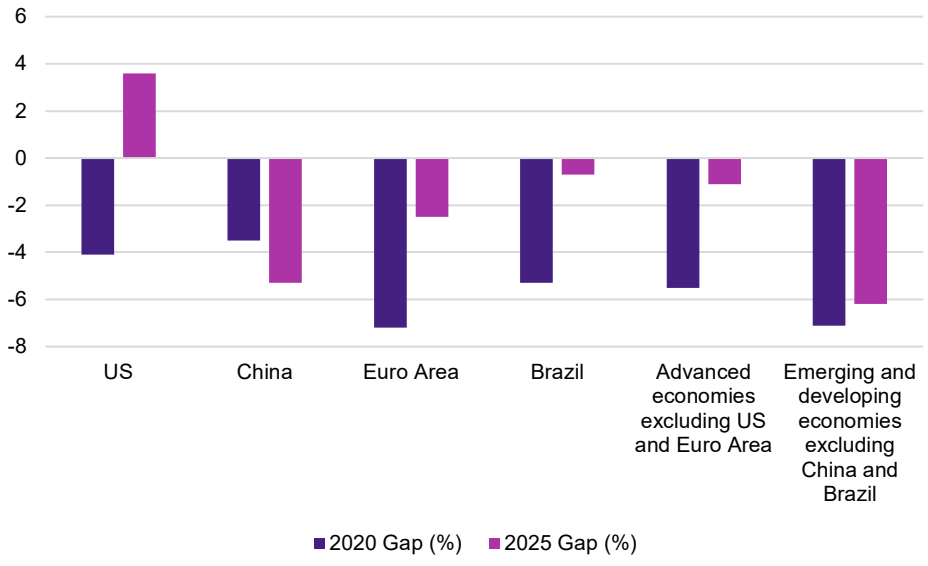
The persistence of positive sentiment reflects ample liquidity and strong corporate balance sheets, but could prove myopic considering rising public debt, low productivity and high-stakes macro policy in major economies such as the US. Uncertainty remains a headwind for productivity, even as markets appear buoyant.

As the IMF points out, strong institutions and policy frameworks—fiscal, monetary and governance—may be instrumental to converting positive sentiment into durable economic growth, rather than short-term bursts. For investors, the tension between optimism and fragility suggests that valuations may not fully reflect the risk of a correction. While timing remains unpredictable, the probability of a repricing event is rising. Until such a catalyst materialises, the tension between sentiment-fuelled cyclical buoyancy and the more random realisation of structural productivity gains will remain a central market theme.

2. US growth: fading exceptionalism

As the IMF has pointed out before, the US post-pandemic growth pattern has proven "exceptional" as it was the only large economy to outperform its pre-pandemic trend (Chart 1). The outperformance was followed by a surge in cross-border investment—both direct and portfolio. While recent fiscal stimulus may extend the growth cycle, the rate of growth could continue to slow, on average.

Chart 1: Real GDP versus pre-pandemic trend



Source: IMF World Economic Outlook, April 2025

On the positive side, the US remains an energy producer and a major investor in technological innovation. However, recent immigration policies have reduced labour supply growth, thereby decreasing a key structural driver of productivity. Employment data prior to the recent government shutdown already showed that both supply of and demand for labour were weakening.

Such conditions may provide an argument for taking an increasingly selective approach towards new investments in the US and seeking firms that are likely to contribute to long-term productivity, even amid a slowdown in near-term growth. We outlined the characteristics of firms with such resilience in "Hyperscaler Investment Rush: Cyclically Cautious, Structurally Selective".

3. Japan: from Abenomics to sustainable growth

As we outlined in Japan's leadership race and confluence of global stock market optimism, Japan is at a different juncture than at the start of Abenomics in 2012. Both domestic demand and wage growth are firming, and inflation has been above the Bank of Japan (BOJ)'s target for three years running. Corporate governance reform has progressed and firms' investments in future productivity are becoming evident.

Since 2011, Japan has made the transition from an exporter to an investor nation, with investment income surpluses dwarfing trade surpluses; much of this capital flowed abroad to higher-growth economies. Now, with inflation entrenched, Japan faces a new set of challenges: investing domestically once again to bolster productivity and keep production costs contained. Some investments, thanks in part to recent industrial policy, have already been dedicated to digitisation as well as to decarbonisation—strategic moves considering Japan's structural labour supply shortages and status as a net energy importer.

The overall picture may be benign for Japan, with a recovery set in motion and supported by capacity-building momentum. Conveniently for Japan, private-sector breakthroughs in nuclear fusion occurred in Europe in 2025. Prime Minister Sanae Takaichi's focus on investing in nuclear fusion through government-industry consortia may further enhance Japan's energy sustainability. Such investments would be in line with Japan's decarbonisation roadmap and frontier efficiencies in advanced materials—potentially becoming a next-generation productivity catalyst by generating clean baseload energy for AI-scale computing.

That said, the road to sustainable growth is not free of risk. One challenge is subduing inflation, in which a cheap yen plays no small part. Fighting inflation falls squarely within the BOJ's remit, requiring the government to preserve central bank independence. A greater political challenge for the government is balancing diplomatic relations with larger trade partners, and given the fractiousness of US-China ties, this will be challenging. However, success would allow Tokyo to benefit from both sides of the US-China AI investment race and secure a role in Asia's regional emergence at a time of increasing global uncertainty.

4. Back to bonds: the next elephant in the room

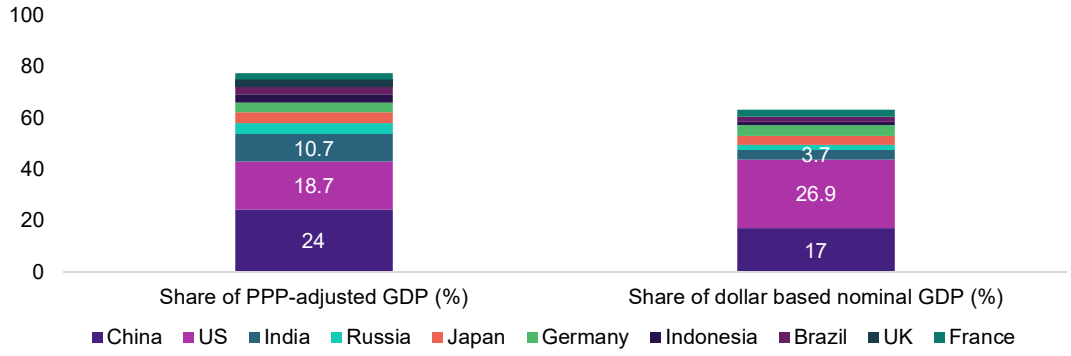
As we have consistently pointed out, global debt-to-GDP ratios remain high and fiscal policy among developed economies continues to be expansive. Yet bond markets have remained stable. However, as issuance accelerates, duration risk rises as well. The front-loading in US Treasury issuance during Treasury General Account replenishment exposed a potentially higher cost of maintaining the "exorbitant privilege" of the US's premier reserve-issuer status.

If inflation refuses to subside below the Federal Reserve (Fed)'s 2% target, neither pressuring the Fed to cut rates nor to pressing it to suppress long-end yields may be sufficient to keep borrowing costs in check. Rational investors might be expected to actively manage duration, diversify within and beyond long-term government bonds and maintain adequate buffers in anticipation of interim shocks.

5. Where true imbalances lie: current accounts and currencies

Global current account surpluses have grown further, while deficits among external debtors have widened. In our Global Investment Strategy Committee Outlook Q4 2025, we pointed out the significant discrepancy between US dollar-denominated real GDP shares and purchasing power parity (PPP)-adjusted GDP shares of major economies—especially between the US and China, which in PPP terms is now the world's largest economy (Chart 2).

Chart 2: Share of GDP, PPP-adjusted versus nominal



Source: : IMF, World Bank Projections

China's largely closed capital account and the valuation of the renminbi are key contributors to the discrepancy between the two. Of course, correcting this imbalance is likely to take time. However, given China's lacklustre domestic demand, Beijing may find it opportune to consider greater currency flexibility—enabling renminbi debt issuance and absorption into global foreign reserves at a time when it is seeking consumption-enhancing fiscal stimulus measures. Given that sub-5% growth is slow for China, in addition to the renminbi's undervaluation on PPP measures, China's reserve managers may have ample reason to show interest in new renminbi issuance. Such currency flexibility could be accompanied by a renewed reallocation away from dollar reserves and offer some relief from yen weakness.

6. Energetic existentialism: renewables as Asia's sleeper hit

The US AI boom could set the scene for a productivity uplift—or a debt hangover—or both, affecting its economic cycles as a developed economy. For China, the AI race is existential in a completely different way. With a demographic cliff looming by 2035, achieving middle-income status must be realised quickly or risk being unachievable by structural, demographic-led slowdown in potential growth. China faces the challenge of moving from quantitative growth (at or around 5%) to qualitative targets and improving the circulation of economic activity. Its strategy of transitioning first to manufacturing-adjacent services sectors must succeed in creating jobs for the young to meet the demographic deadline imposed by the 2035 demographic "cliff". Policies aimed at curbing excess competition ("anti-involution") partly target achieving a wealth effect by raising capital efficiency and thereby also return on equity. If China succeeds in conquering demand-led deflation, the world's most populous economy may reap a hidden dividend from its energy policy because its years of investment in renewables may pay off. Having made strides in replacing a significant proportion of fossil fuels with renewables (solar, wind and storage), China may soon be in the enviable position of having periods of energy surplus, a critical input for the "existential" AI race. China may thus enjoy the luxury of deploying surplus renewable capacity to lower industrial energy costs, enabling it to buy time to innovate in computing power.

There are likely to be (and may have already been) spillover effects from China's energy policy within the region, which may become more evident as demand-driven deflation subsides. Asian economies, thanks to low inflation, are now able to use monetary policy to address softer demand, particularly if sustainably cheap energy continues to keep costs manageable. This dynamic may eventually contribute positively to consumer surpluses as demand recovers. It is becoming increasingly evident that "Moore's Law" (the relationship between transistor density as the defining constraint of computation efficiency) has begun to give way to "Koomey's Law" (energy efficiency per computation as the constraint).

7. Europe: ever closer fusion

It is notable that private sector nuclear fusion breakthroughs were demonstrated in Europe—notably in the UK, Germany and France. While overshadowed by US trade frictions, the AI boom and other more eye-catching developments, these private projects now aim to prototype fusion power plants by the early 2030s—a much shorter time horizon than once expected. This provides a much more concrete planning window for industrial policy. Of course, Europe continues to face complex challenges, including navigating a multi-sovereign collective toward sustained economic growth and fortifying collective security. To its advantage, Europe does have experience in this area; it has already spent decades transitioning from a coal-and-steel producing collective to an economic union. Its next challenges include fiscal and financial integration and optimising regulations to spur productivity. Thankfully, the 2024 Draghi report provides a roadmap for the latter.

Meanwhile, proposals like the Collective Defence Fund could enable a "swords-into-ploughshares" moment whereby the region may overcome the oft-cited critiques over its fragmented government bond markets. This could provide a chance to create a shared debt instrument (complementing the NextGenerationEU fund established post-pandemic) and carving a path toward a single reserve asset. As we pointed out above, dollar denomination fatigue has already started taking its toll on global reserves. As a result, now may be an opportune moment for the emergence of global reallocation vehicles. Europe's opportunity may lie in institutional innovation.

Conclusion: new opportunities in global market themes

As we near 2026, the global economy stands at the crossroads of technological acceleration and policy fatigue. Liquidity and optimism coexist with structural imbalances. The frenzied focus on compute investment risks overlooking potential breakthroughs in energy efficiency, new energy technologies and institutional innovation. Whether in Japan's capacity building and fusion drive, China's renewable surplus, Europe's quest for a reserve-enhancing fiscal union, or the resilient innovators hidden from view within the US's neighbours, the next wave of productivity is taking shape. For investors, the challenge is to separate cyclically mispriced beta from long-term alpha in a world still learning to power its next industrial revolution.

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