



A Horizons Briefing:

Is an AI bubble about to burst?

Macroeconomic Outlook Q3 2026



Executive Summary

Earlier fears of a prolonged Middle East-driven energy shock have eased as markets adapted more effectively than expected to supply disruptions, leaving oil, inflation expectations and growth forecasts well below crisis assumptions.

Beyond energy, elevated AI-driven valuations pose a growing market risk, relying on exceptional growth to justify current prices.

Given this, three broad messages emerge from our analysis:

01

AI valuations are a substantial macro risk

Frontier compute performance has grown around 2.5x a year since 2019, and the capital chasing may have become detached from realised revenue. Leading AI and technology names could need sales growth of up to 1,370% to return to the S&P 500 norm of 3.6x sales. Concentration is more than double the Dot-com peak, with the Magnificent 7 above a third of index value, and positioning is polarised: retail keeps buying passive ETFs while institutions cut exposure and raise cash.

Three plausible triggers for an AI market correction stand out. Slower diffusion: Among large US corporations, 88% have deployed AI, yet more than half of CEOs report no measurable revenue or cost benefit over the past twelve months. Chinese competition: Chinese AI models are closer to matching US capability at lower cost per task, while US labs are valued at around USD 7.4tn, compared with USD 455bn for their Chinese peers.

A rate shock, independent of AI's performance: with most AI company valuations dependent on profits expected 10 - 20 years from now, if interest rates rise, future profits could become worth less in today's terms, which could push valuations down even if AI performs well commercially.

02

AI correction could transmit more forcefully than the Dot-com bust

The channels are the same – household wealth, business investment and credit, but the balance has shifted. In 2000-01, consumption barely deviated from trend because housing was around 57% of household wealth and kept appreciating, whereas equities are a far larger share of wealth today. Software and information processing now account for almost 40% of US private domestic investment, up from under 20% in 2015, and in 2000 the contribution of business investment to GDP growth was smaller at 38%, compared with 80% today. Banks look less directly exposed because AI capex has been largely funded from hyperscaler cash flow, reducing direct financial contagion risks. However, policy space is also narrower than in 2000, with inflation above target and elevated debt burdens limiting the fiscal response.

As a result, our projections show that a significant AI-driven valuation shock in 2027 could slow US GDP growth materially, with outcomes ranging from modest positive growth of around 0.3% to a mild contraction of around 1.0%, depending on the severity of the correction and its impact on investment and financial conditions.

03

The energy shock has been absorbed, but not resolved

Crude oil and LNG prices remain materially below our Q2 forecast. The economic impact of the disruption has been smaller than initially feared, supported by stronger US LNG exports, a partial recovery in flows through the Strait of Hormuz, and improving services activity. As a result, GDP forecasts have seen only modest downgrades, while markets generally expect interest-rate cuts to be delayed or more limited, rather than a broad return to monetary tightening.

However, the exposure has not gone away. US inventories continue to draw down toward the level below which further releases require an emergency declaration, and several mitigating forces such as reserve releases, fuel switching, and spare OPEC capacity are temporary. The crisis appears to be in stasis, with the consequences, on current trajectory, delayed rather than averted.

Bottom line

The key question for markets is no longer just whether the global economy can absorb an energy shock, but whether it can justify the expectations embedded in AI-related valuations. The first challenge has, for now, proven manageable.

The second remains unresolved. While energy markets are still exposed to renewed disruption, the larger medium-term risk lies in a world where expectations for AI continue to run ahead of realised returns. The consequences of such a reassessment could be more economically significant than many investors currently assume.

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Section 1.1:

Are we facing an AI bubble?

What are the key characteristics of an asset market bubble?



1. Huge tech advancements

Expectations of transformational progress pull in capital faster than it can be deployed.



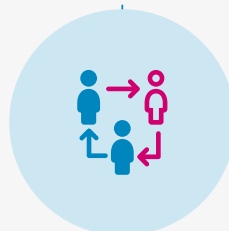
2. Saturated, competitive market

Many entrants chase the same pool of demand.



3. Sky-high valuations

Share prices detach from actual profits.

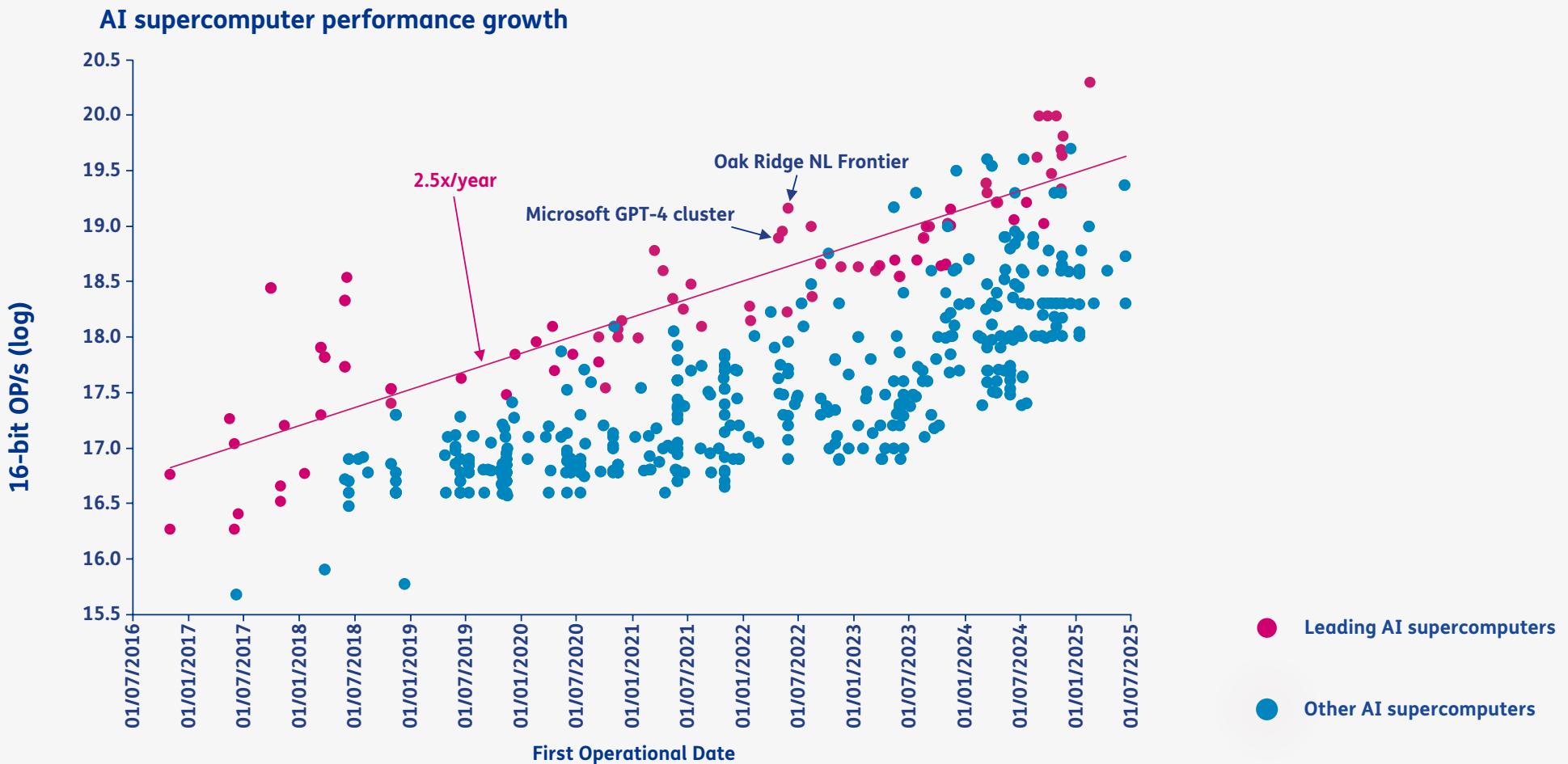


4. Retail exuberance

Late-cycle inflows from mainly non-professional investors mark the final leg.

1. AI capabilities are advancing at an extraordinary pace

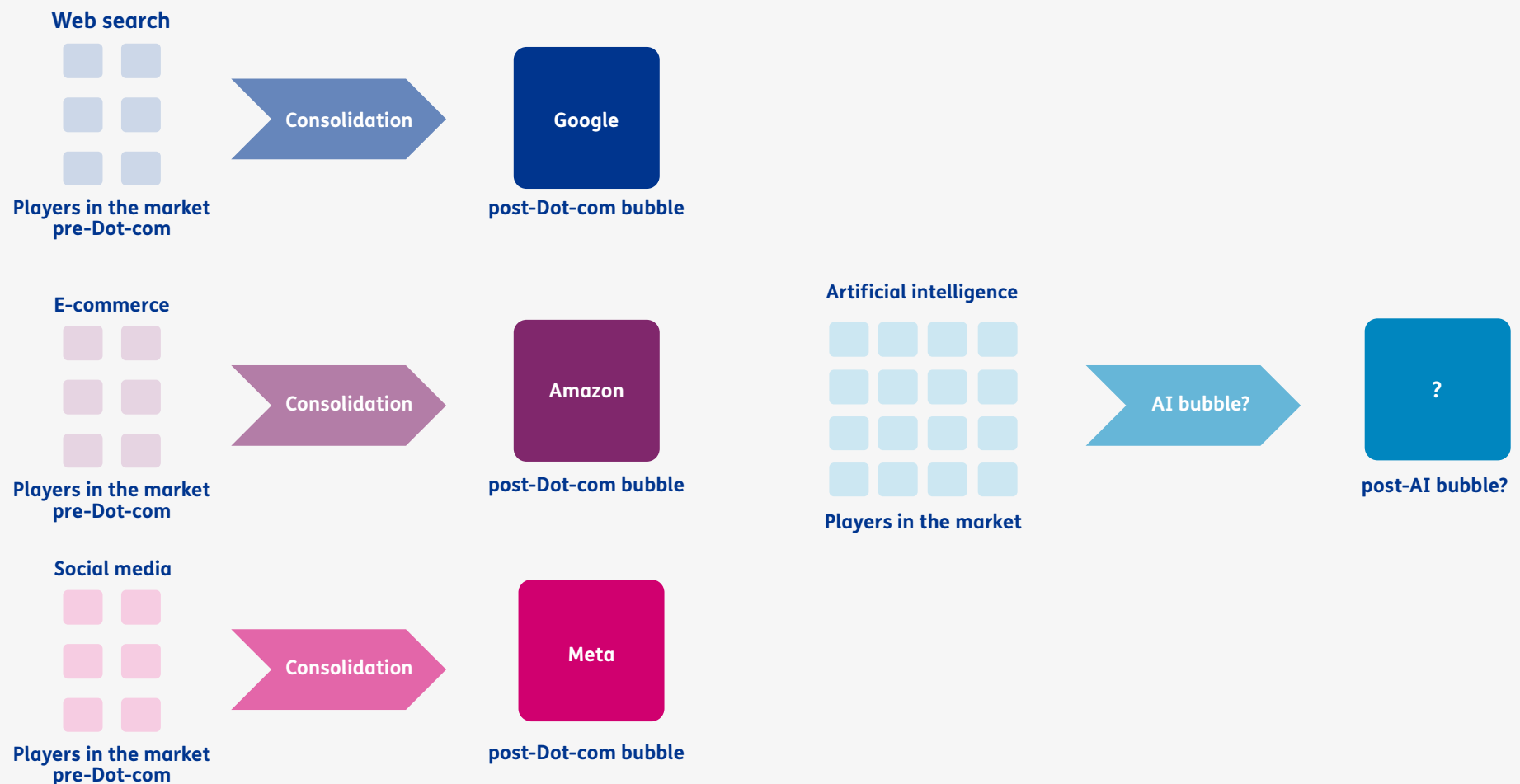
The performance of leading AI supercomputers has increased by around 2.5x per year since 2019, demonstrating the exceptional pace of advancement at the technological frontier. The continued scaling of compute is enabling increasingly capable AI models and expanding the range of tasks that can be automated or augmented by AI. Progress is occurring across the broader AI ecosystem, but developments at the frontier remain particularly rapid, with systems such as Microsoft's GPT-4 cluster and Oak Ridge National Laboratory's Frontier supercomputer illustrating the pace of innovation. These advances have significant implications which are driving growing demand for data centre capacity, electricity infrastructure and advanced semiconductor supply chains.



2. Oversaturated market expected to consolidate

The Dot-com bubble did not eliminate the internet. Instead, it accelerated a period of consolidation in which many highly valued firms disappeared, while a small number of companies emerged as dominant long-term winners. Search, e-commerce and social media all followed this pattern, eventually coalescing around market leaders such as Google, Amazon and Meta.

If AI is experiencing a similar period of excess investment and elevated valuations, a correction would not necessarily imply that the technology has failed. Instead, it could mark the beginning of a consolidation phase in which capital, talent and market share become concentrated among a much smaller number of firms. The key risk for investors is therefore likely not that AI proves unimportant, but that current valuations assume too many eventual winners.

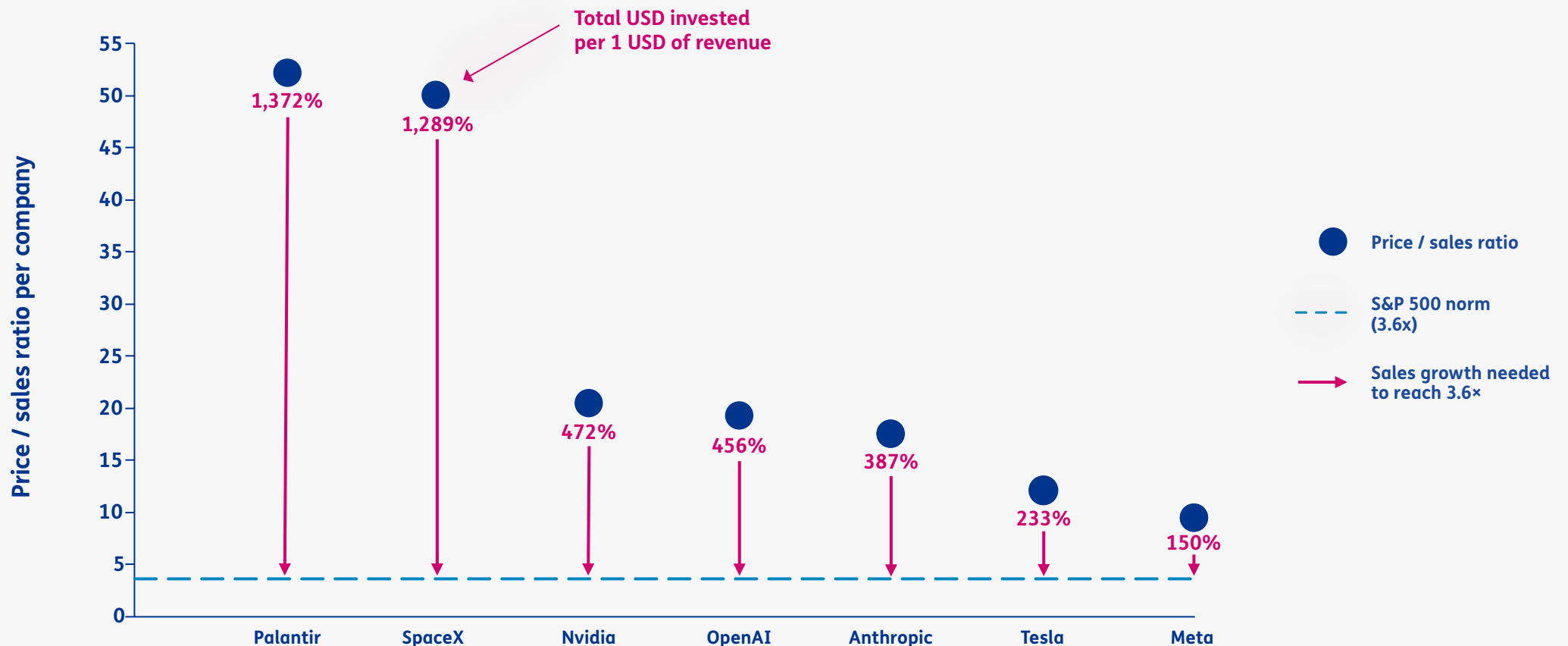


3. Justifying today's investments needs extraordinary sales growth

The market's optimism towards AI is reflected in exceptionally high revenue multiples, with investors paying many times current sales for leading AI and technology companies. To justify these valuations, companies would need to deliver very substantial revenue growth over the coming years, far above levels typically seen in more mature sectors.

This echoes patterns observed during the Dot-com era, when valuations were increasingly supported by expectations of future growth rather than current earnings. While some firms may ultimately grow into these valuations, the scale of growth embedded in current prices raises the risk of a future market correction and sector consolidation if expectations prove overly optimistic.

What investors pay today vs the sales growth needed to justify it



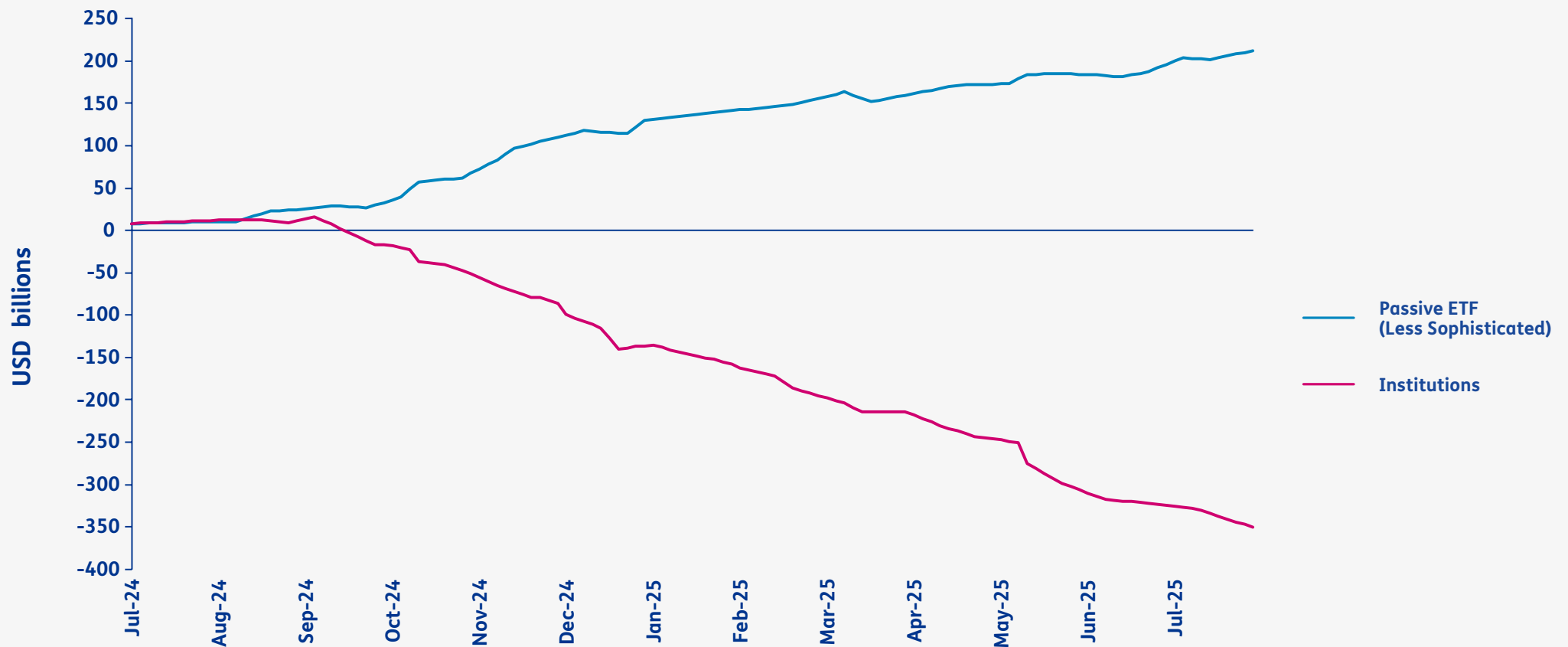
4. Retail investors race to enter, whilst institutions pull back

Investor positioning is becoming increasingly polarised. Retail investors continue to deploy significant capital into equity markets through passive ETFs, while institutional investors have steadily reduced exposure and increased cash holdings.

This divergence suggests that much of the recent market optimism is being driven by less sophisticated individual investors, while professional investors remain more cautious about current valuations and prospective returns.

Similar dynamics were evident during previous periods of market exuberance, including the latter stages of the Dot-com boom. While this does not necessarily signal an imminent correction, it highlights growing concern among institutional investors that market prices may be running ahead of underlying fundamentals.

Cumulative capital flows S&P 500 – Retail versus Institutions

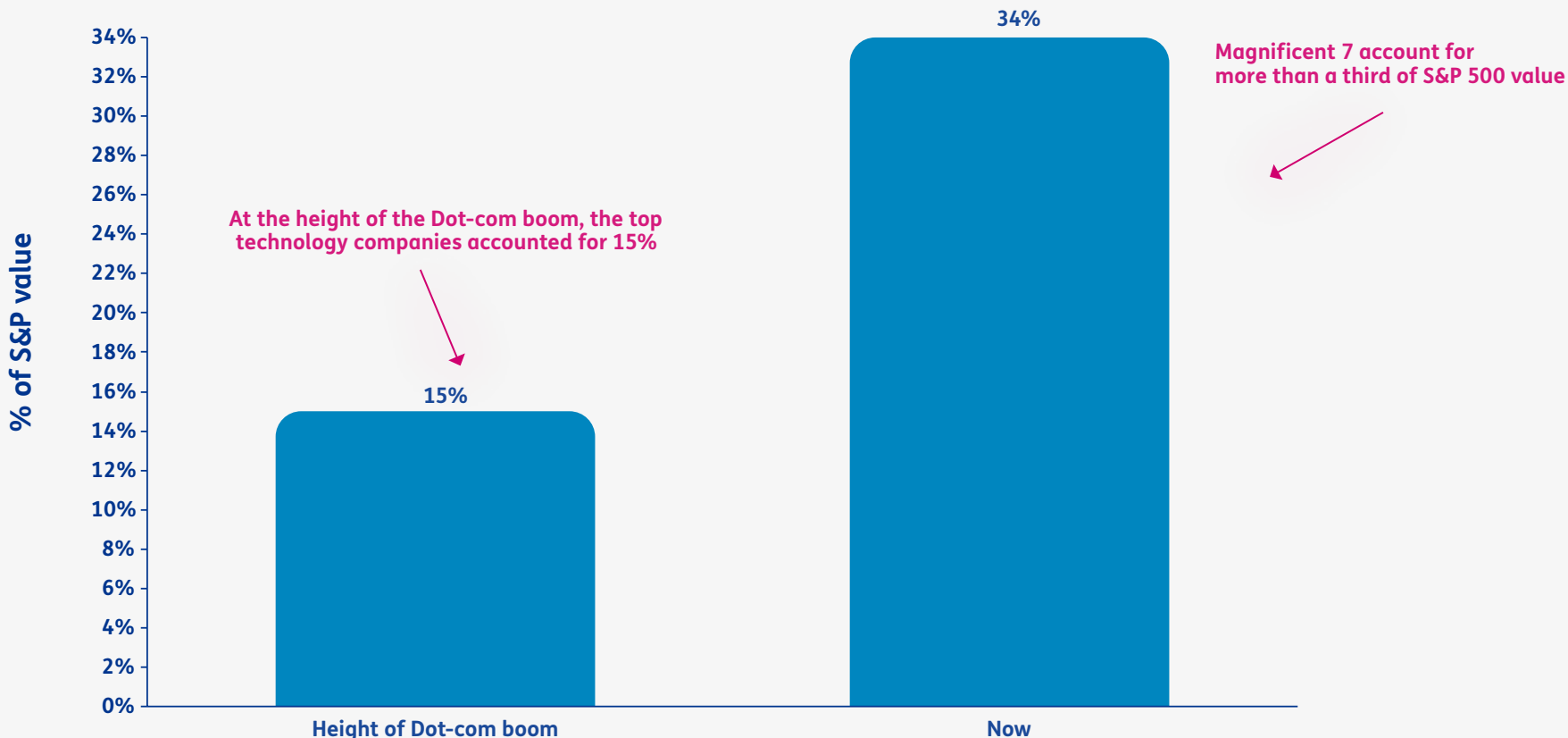


At the same time, market concentration has surpassed Dot-com era

The concentration of market value within a small group of technology companies has reached unprecedented levels. The largest technology firms now account for more than a third of the S&P 500's value, more than double the concentration seen at the peak of the Dot-com boom.

This reflects investor confidence that a handful of firms will capture a disproportionate share of the economic value created by AI. However, it also increases market vulnerability, as broader equity performance has become increasingly dependent on the earnings and growth expectations of a small number of companies. While this concentration may be justified if AI delivers on its long-term potential, it leaves markets more exposed to any reassessment of growth expectations than in previous technology cycles.

Top technology companies' share of S&P 500 value



Section 1.2:

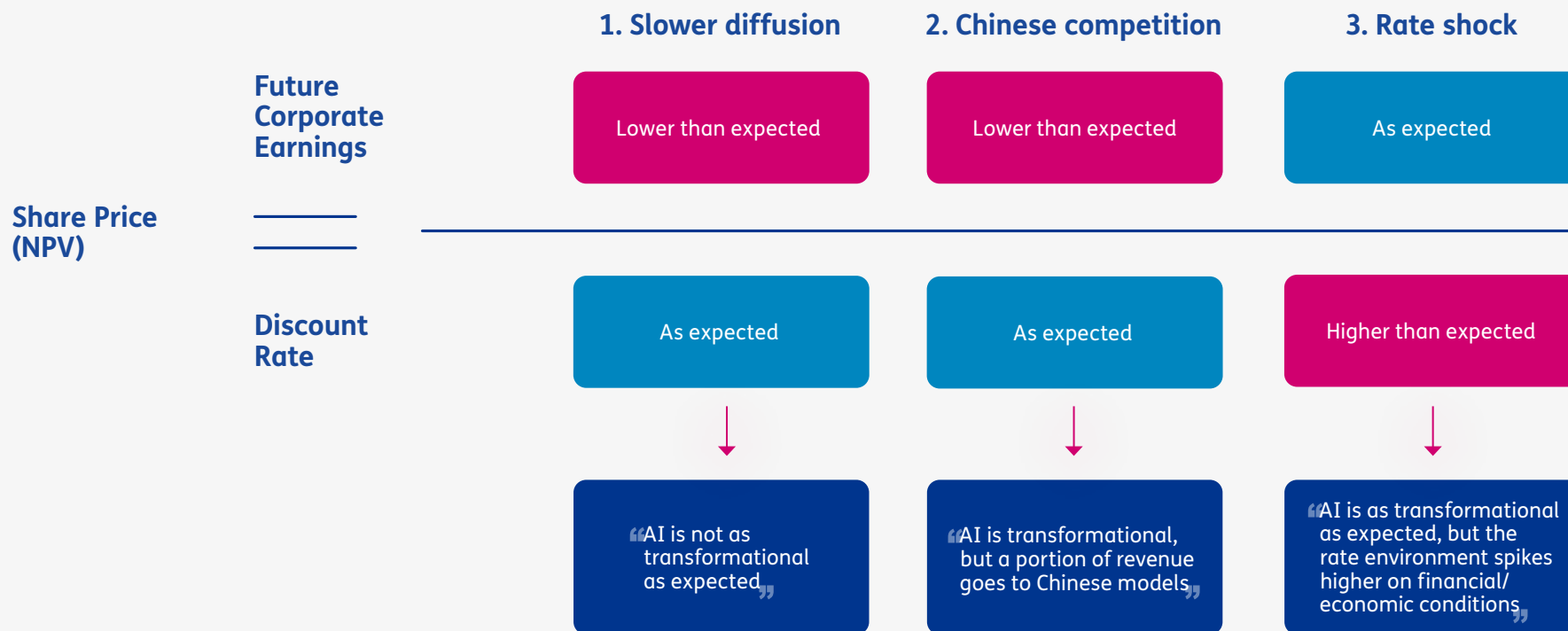
How could it burst?

Three AI bubble bursting scenarios

There are several plausible paths through which AI-related valuations could come under pressure without undermining the long-term value of the technology itself.

1. One scenario is slower-than-expected AI diffusion, where adoption and monetisation fail to match the pace currently embedded in market expectations.
2. Another is intensified competition, particularly from Chinese firms, which could reduce the share of profits captured by today's market leaders even if overall AI adoption remains strong.
3. Finally, a deterioration in the macroeconomic environment with a sharp rise in interest rates (and therefore discount rate) could reduce the value of future earnings, resulting in lower valuations despite AI continuing to deliver on its revenue promise.

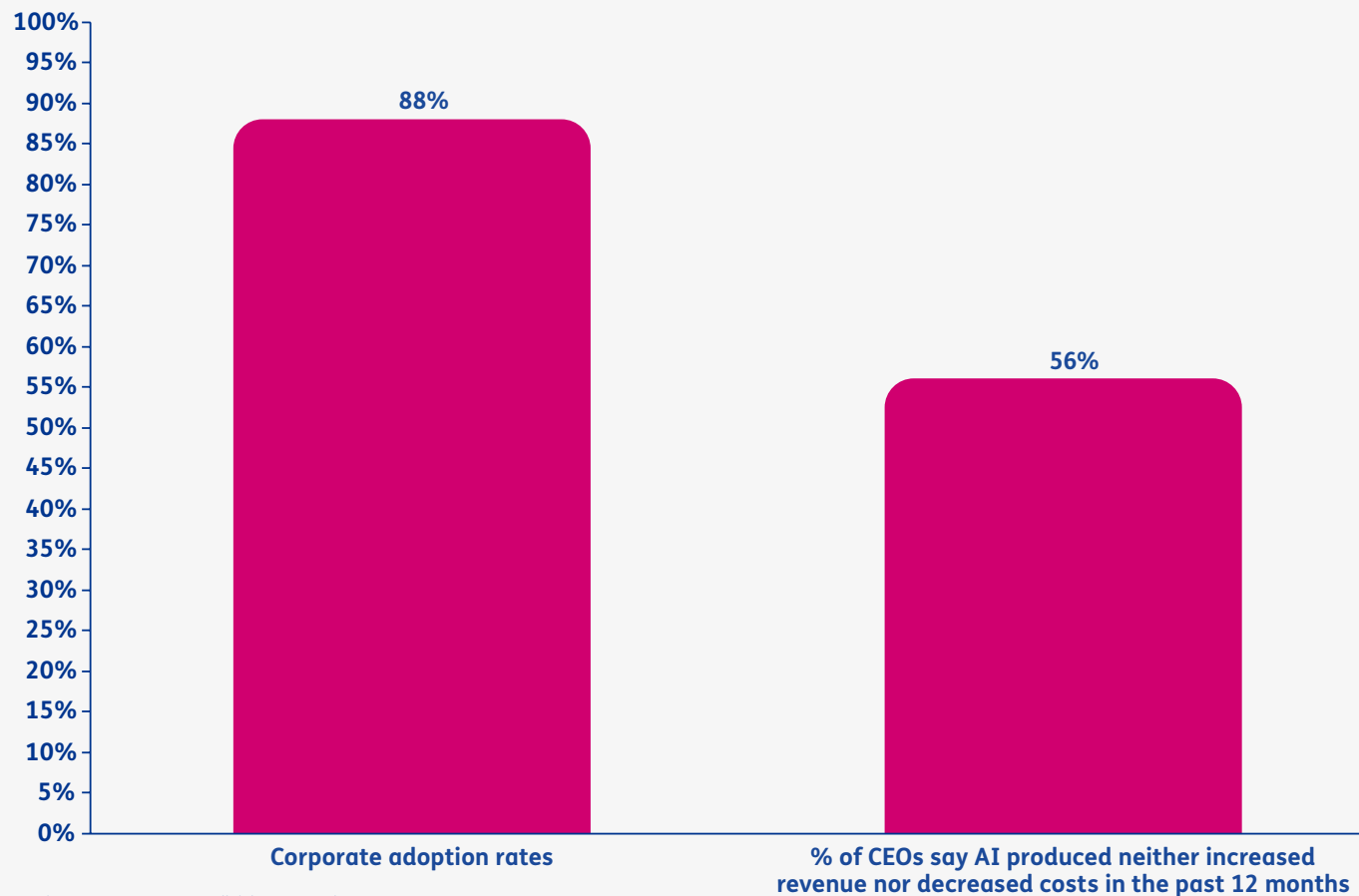
In each case, the common theme is that an AI market correction would not necessarily imply that AI has failed technologically, but that expected earnings or economic assumptions do not materialise.



1. Slower diffusion: revenue does not materialise

Large corporate AI adoption has become almost universal, with 88% of organisations reporting the deployment of some form of AI. Yet more than half of CEOs say the same technology has produced neither measurable revenue growth nor cost reduction over the trailing twelve months - posing the risk of AI failing to scale into P&L impact. This could be the same timeline error the market made in 1999-2000. In the Dot-com era, the internet did reorganise commerce but on a 10-15-year timeline, not the 2- 3-year one investors priced in. The AI cycle may face a similar mismatch. Model capability has scaled faster than almost any technology in history, but enterprise absorption is typically gated by slow-moving factors: data infrastructure, workflow redesign, change management, trust, and regulatory clarity. If these factors take time to mature, corporate use cases may simply not be ready in the timeframe the market is pricing in.

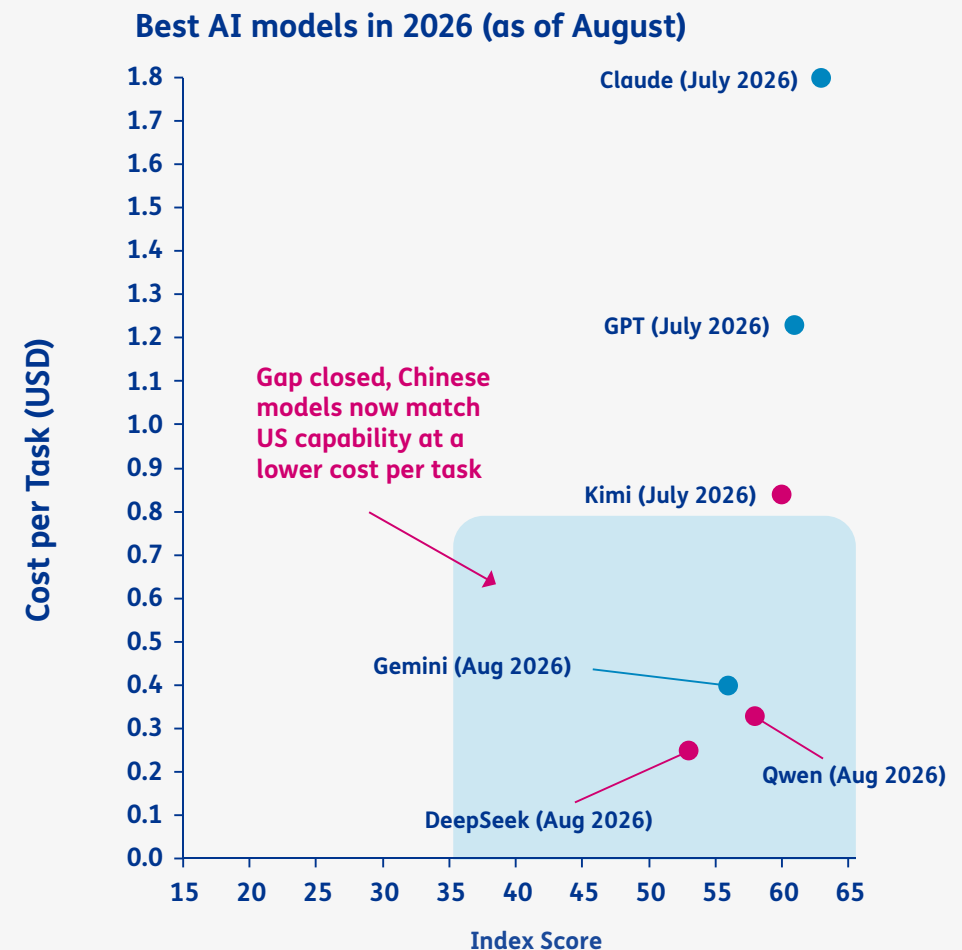
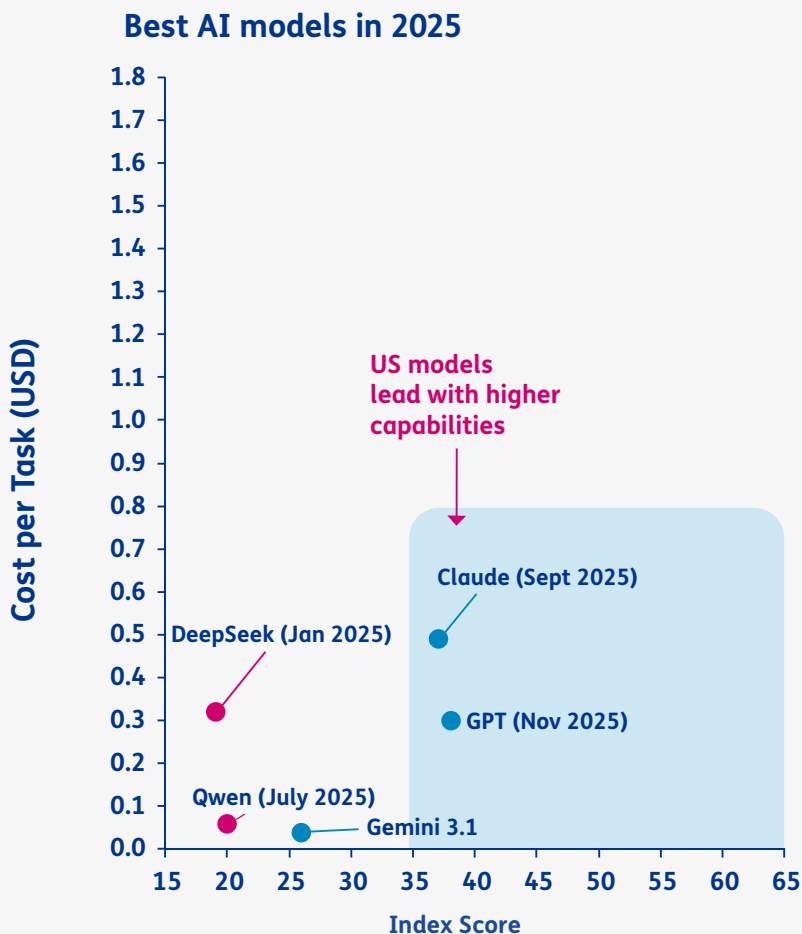
Large US corporate AI adoption versus performance



2.1. Chinese competition threatens US revenue

In 2025, the capability gap between US and Chinese models was significant. US models (e.g. Claude, ChatGPT and Gemini) occupied the upper right of the performance/cost frontier, while Chinese models (e.g. DeepSeek and Qwen) sat behind them with lower performance. The premium the market paid for US models was, at that point, justified by this performance lead.

By 2026, it is apparent that this gap has closed. Chinese models now occupy the same performance band as their US counterparts, but at a materially lower cost per task. US models continue to push capability higher, but at a cost point above the Chinese alternatives. If usage migrates toward lower-cost Chinese tokens, the revenue assumptions underpinning US AI valuations may be at risk.



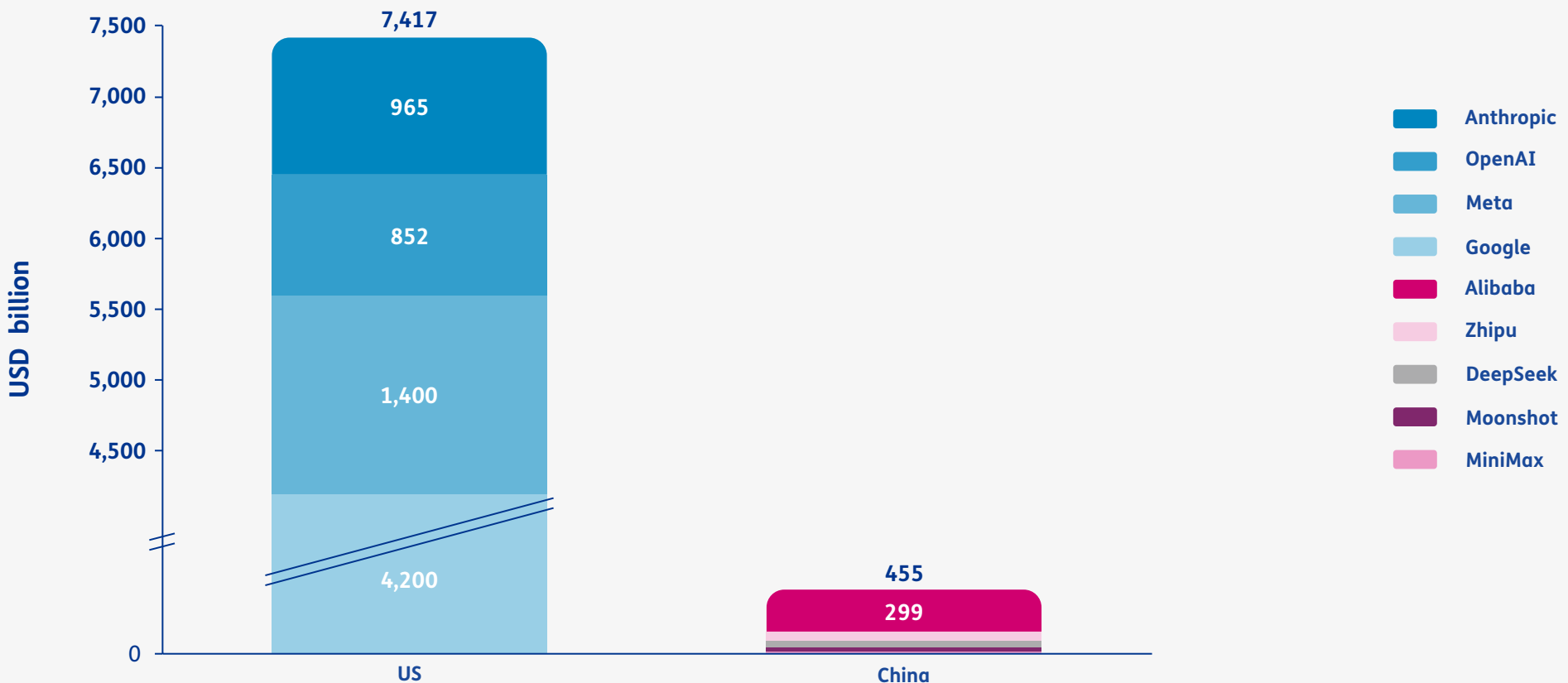
2.2. Valuations of Chinese models look much cheaper

The market valuation gap between US and Chinese AI labs is also a hard risk to ignore. US labs carry a combined valuation of roughly USD 7.4tn, and their Chinese counterparts are valued at approximately USD 455bn.

A valuation gap of this size is justified if US labs can sustain a durable advantage in performance or pricing power.

If Chinese models are now delivering comparable performance at a materially lower cost per task, the case for that premium narrows to two possible defences: either the market is pricing in advantages not yet visible in the data, or the premium is not yet fully justified by the fundamentals and is vulnerable to correction.

Market valuation of major AI labs in US and China



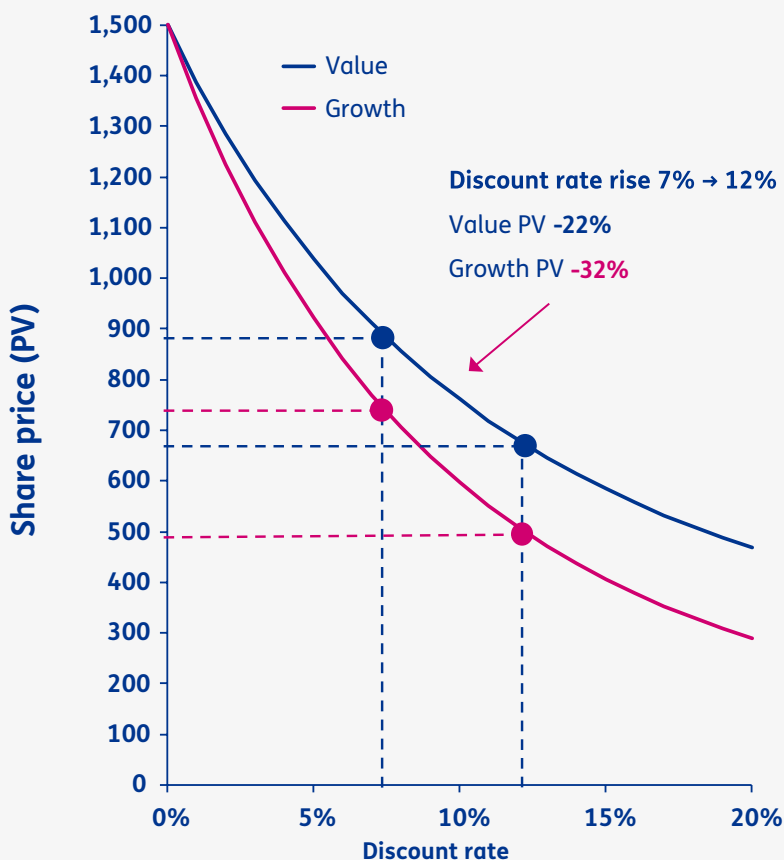
3. Rate shock: valuations take a hit

Even if corporate use cases mature as promised, and even if US earnings expectations are reached, a shift in the discount rate applied to long-dated earnings could still compress valuations sharply.

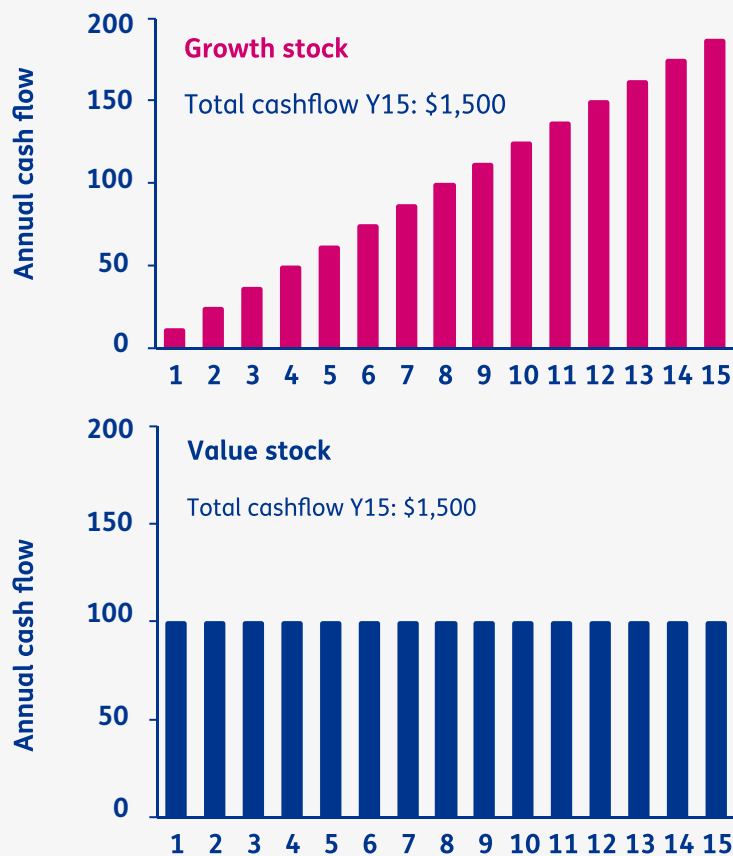
Most AI and growth-stock valuations are underwritten by profits expected 10 - 20 years out. This makes the present value of their future earnings highly sensitive to changes in the discount rate. A major inflation shock and corresponding rate-tightening cycle would mechanically lead to a major price correction.

Value vs Growth

Share price sensitivity to discount rate



Share price sensitivity to discount rate



Section 1.3:

What are the implications?

Real economy transmission mechanisms of a downturn

A correction in AI-related equity valuations would affect the real economy through three primary transmission channels:

1. **The wealth effect:** falling equity prices would reduce household wealth and consumer confidence, weighing on discretionary spending and broader demand.
2. **Business investment:** lower valuations and greater uncertainty would make firms more cautious on capital allocation, slowing investment and expansion plans.
3. **Bank lending:** higher bank losses and perceived risk could tighten financial conditions and reduce the availability of credit across the economy.

Together, these effects would slow demand, investment and economic activity, potentially amplifying any broader downturn. Importantly, these channels may be more powerful today than during the Dot-com era, given the larger role technology companies play in equity markets, corporate investment and household wealth creation.

	Definition	Economic impact of downturn
 1. Wealth effect	Equity losses erode consumer confidence	Weaker consumer discretionary spending
 2. Business investment	Falling business valuations make future revenues and returns uncertain	Firms withhold investments - capex and hiring stall, leading to lower output and GDP growth
 3. Bank lending	Under volatile conditions, banks tighten lending standards to protect their own balance sheets	Rates increase, lending shrinks significantly across the economy, amplifying the downturn

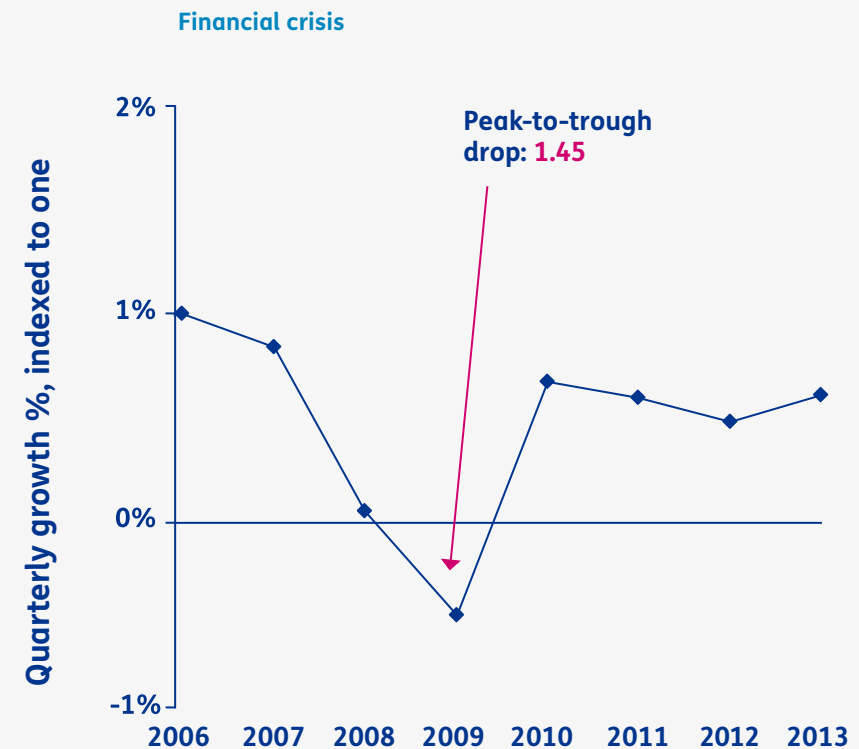
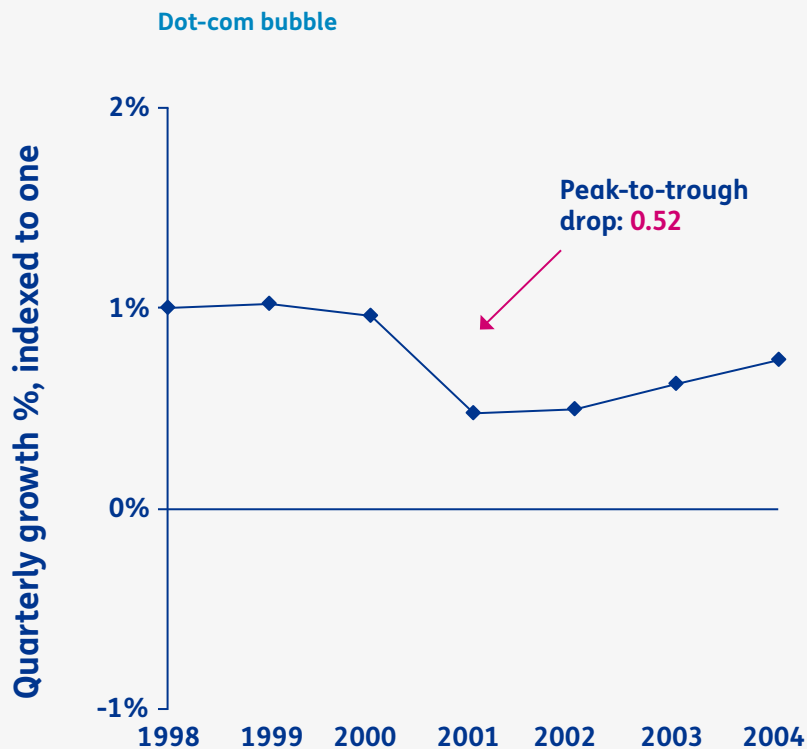
1.1 The wealth effect – downturns comparison

With consumption at roughly two-thirds of GDP, even a modest shift in household behaviour can act as a meaningful drag on growth.

During the Dot-com crash, the Nasdaq fell 78%, yet quarterly consumption growth barely deviated from trend. The Fed's assessment through 2001 was that household spending held up despite weaker income, wealth and confidence. The 2008 financial crisis saw a similar large equity drawdown, yet consumption fell sharply.

The difference suggests that this transmission channel is not fixed, but conditional on the state of the rest of the household balance sheet when the shock arrived, and whether policy had room to respond.

US household consumption quarterly growth %, indexed to one

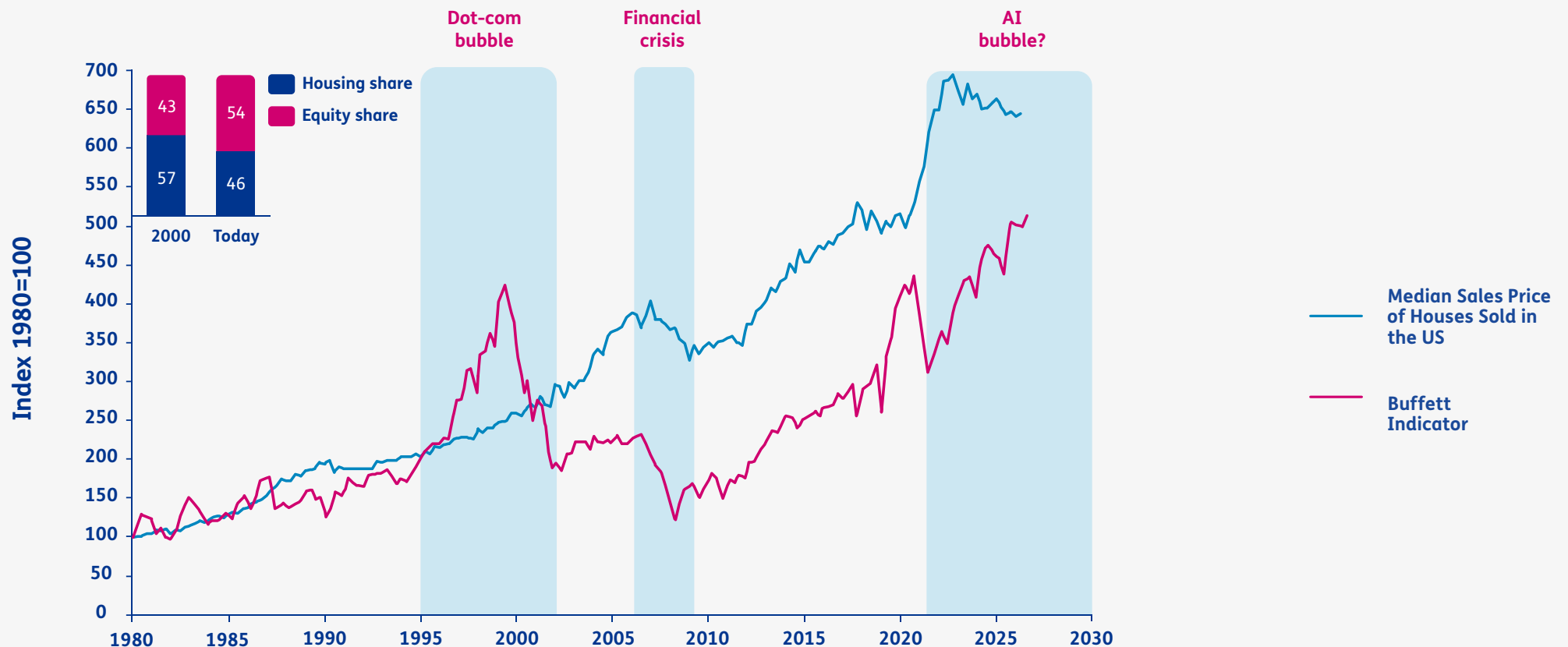


1.2 Is this time different?

The globalisation-adjusted Buffett Indicator, which divides the total US stock market value by US GDP while accounting for the foreign revenues US companies earn abroad, is a commonly used measure of equity market valuation.

Having surpassed its Dot-com era levels, it has reignited debate over whether the AI-driven rally may be exhibiting bubble-like characteristics. The wealth effect impact was insulated during the Dot-com crash with growing house prices mitigating losses for American households. Unlike in 2000, however, US households are more exposed to equities and less reliant on housing wealth (46% versus 57% in 2000). With house prices declining, housing wealth is unlikely to provide the same offset as it did during the Dot-com crash. As a result, a sharp equity correction could have a more pronounced effect on household wealth and consumption.

The Buffett Indicator (Globalisation-adjusted) compared to Median Sales Price of Houses Sold for the United States (indexed 1980 = 100)

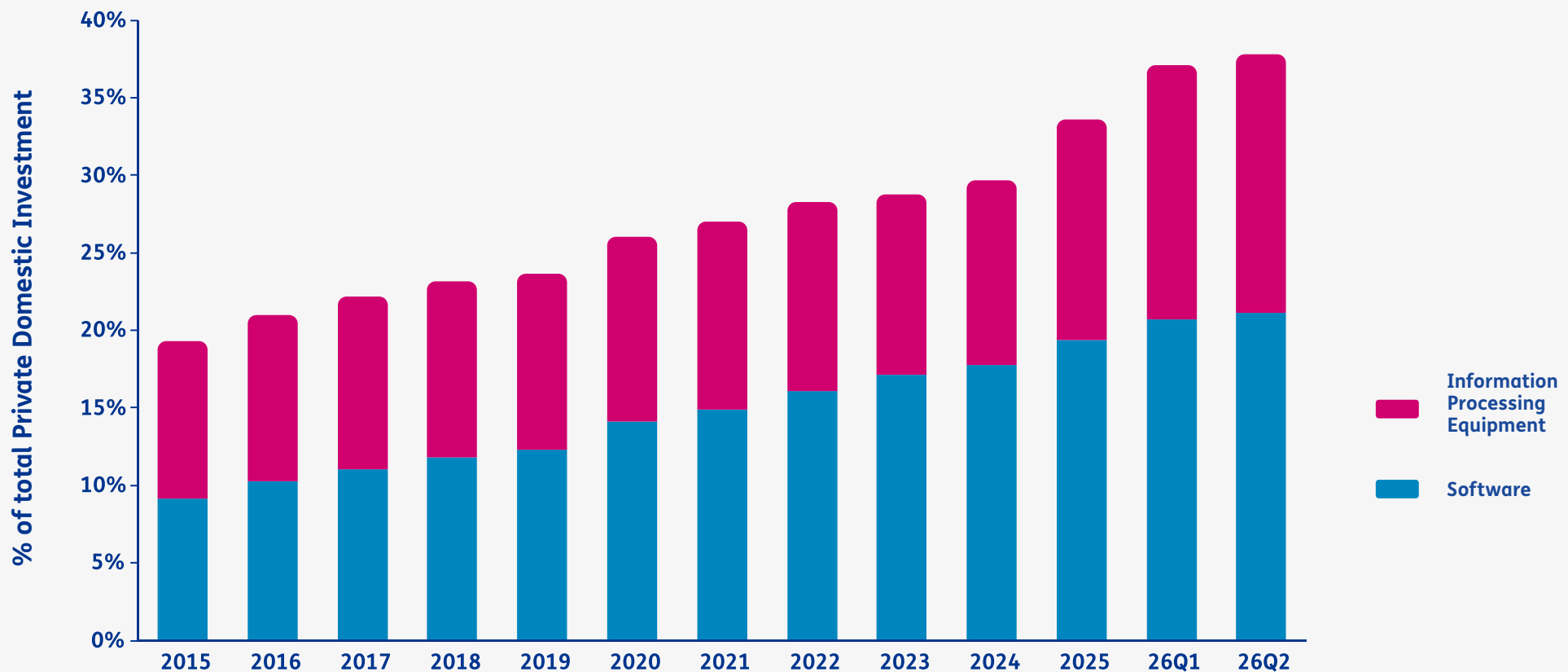


2.1 AI spending increasingly dominated business investment

Software and information processing equipment has increased steadily as a share of US private domestic investment over the past decade, rising from less than 20% in 2015 to almost 40% by Q2 2026.

This reflects the growing importance of digital infrastructure, including data centres, semiconductors and enterprise software. More recently, AI adoption has accelerated investment in computing infrastructure and related technologies. As AI capex has become a larger driver of business investment growth, the economy has become increasingly exposed to the AI investment cycle. Any sharp slowdown in AI spending could therefore weigh directly on overall investment and economic growth.

Contribution of software and information processing equipment to US private domestic investment

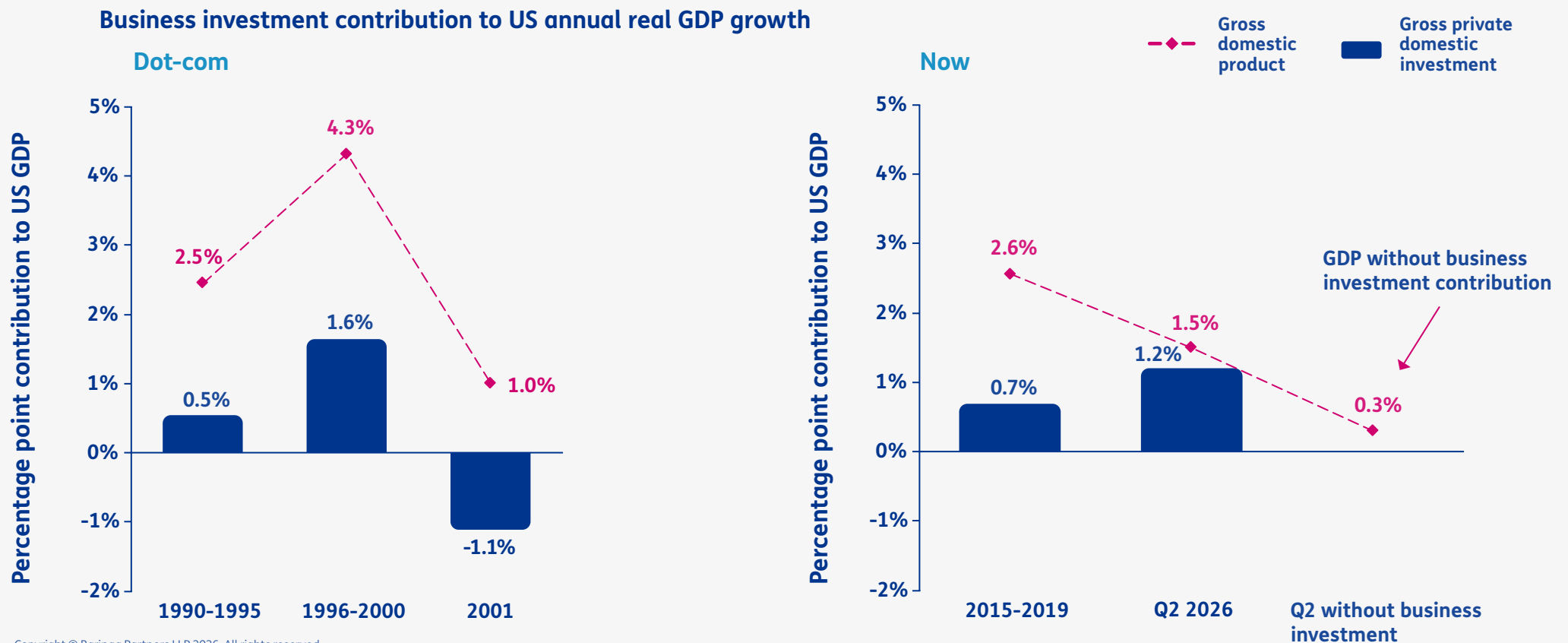


2.2 GDP much more sensitive to business investment now

Through the 1990-1995 expansion, business investment contributed an average of 0.54 percentage points (pp) to annual real GDP growth. In the years immediately before the crash, that contribution rose to 1.64 pp.

When the crash arrived, investment collapsed, and business investment subtracted 1.11 pp from GDP growth in 2001, a swing of nearly 2.75 pp.

Today, business investment's contribution has risen beyond its pre-AI baseline, from an average of 0.68 pp across 2015-2019 to 1.2 pp as of Q2 2026. That sits below the Dot-com 1.64 pp peak in absolute terms, but it represents a far larger share of today's slower-growing economy. AI-related investment is now estimated to account for roughly three-quarters of US real GDP growth in recent quarters, with consumption contributing to under a fifth. In 2000, business investment was one driver of growth. Today, it is increasingly the growth story itself. If AI-related investment simply stopped growing, US GDP growth would fall from 1.5% to just 0.3%. And history suggests investment cycles rarely stop abruptly. If business investment retrenched in line with the post-Dot-com downturn, it could push US growth into negative territory.



3.1 Bank lending - AI investment has not been reliant on bank financing

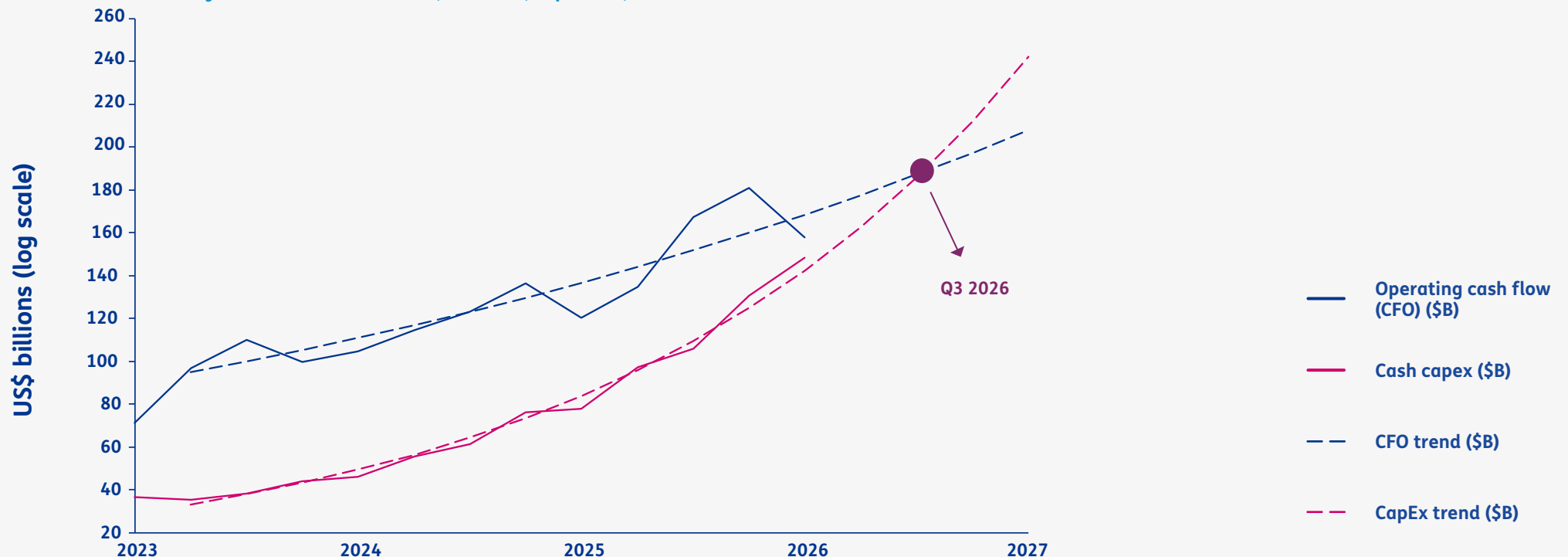
Unlike the Dot-com boom, which was largely financed through external debt and equity markets, the current wave of AI investment has so far been funded primarily through the strong operating cash flows of the hyperscalers.

As a result, a slowdown in AI spending would be less likely to transmit directly into the banking system through widespread corporate defaults. That said, signs are emerging that the funding model is evolving. Capital expenditure commitments continue to rise rapidly and, for some firms, are beginning to outpace internally generated cash flow.

This does not necessarily recreate the bank-lending dynamic seen during the Dot-com crash. Instead, a growing share of AI-related investment is being financed through private credit structures and specialised funding vehicles designed to sit outside traditional bank balance sheets. Recent examples include Meta-backed financing arrangements for data centre developments, where capital is provided through ring-fenced vehicles rather than directly by lenders. This may act to insulate the traditional banking system from any fallout, although contagion effects are still possible.

Hyperscalers' capex is on trend to outpace their cash flows by the end of 2026

Quarterly sums across Microsoft, Amazon, Alphabet, Meta and Oracle



3.2 The next credit repricing may occur beyond the banking sector

Following both the Dot-com crash and the Global Financial Crisis, banks demanded materially higher risk premia from borrowers as lenders reassessed credit risk and tightened financing conditions.

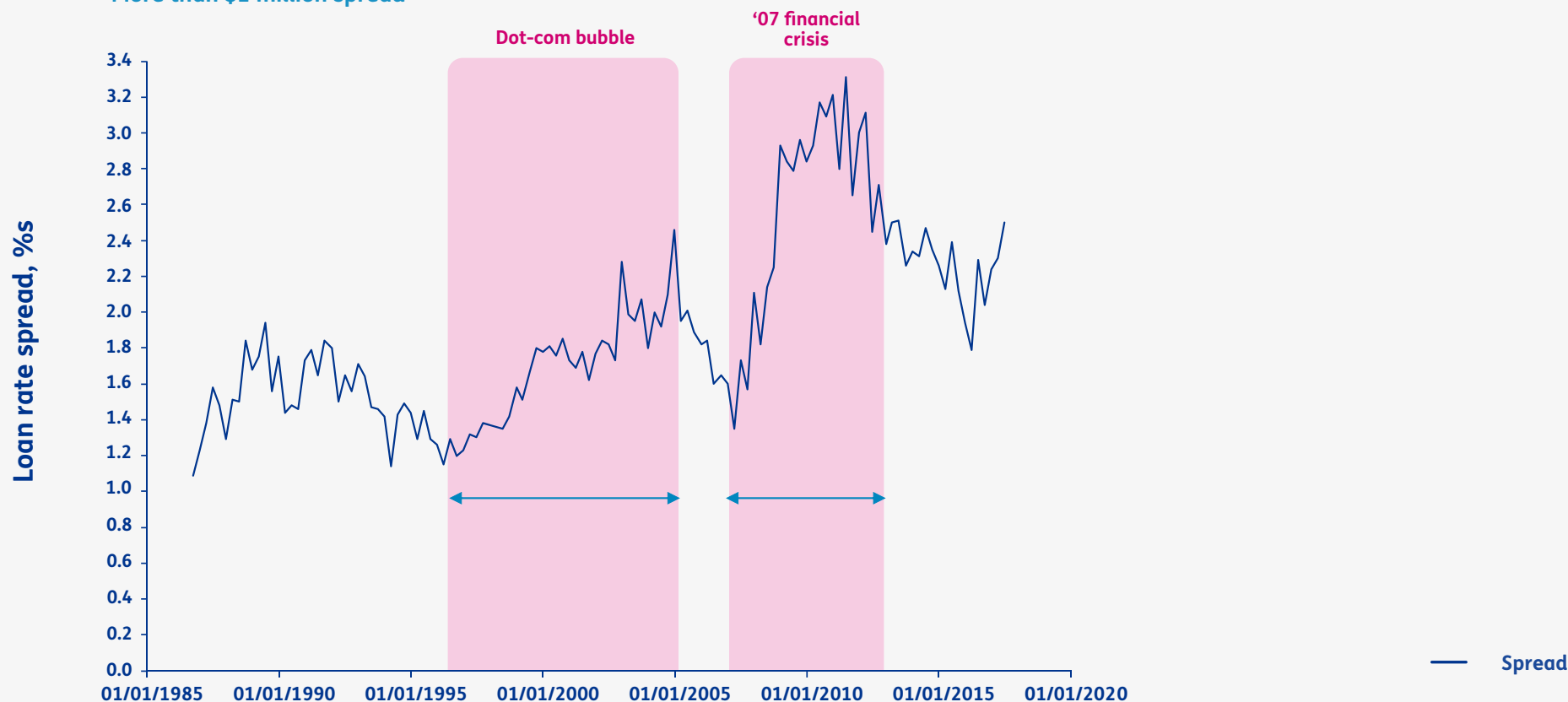
The result was a prolonged period of weaker credit creation, higher interest rates, lower investment and slower economic growth.

The likely impact on the traditional banking channel is expected to be more limited, given banks' (publicly acknowledged) lower exposure to the AI boom.

However, other private sources of finance are opaque, obscuring our full knowledge of any financial contagion risks.

Commercial and industrial loan rate spreads over intended federal funds rate

More than \$1 million spread



Fiscal & monetary support is far more limited

The Dot-com downturn occurred in a policy environment that provided substantial room for intervention. Inflation was subdued, allowing the Federal Reserve to cut rates aggressively, while relatively healthy public finances gave governments greater capacity to support growth through fiscal measures.

Today, policymakers face a more constrained backdrop. Although central banks retain some scope to ease policy, inflation remains above target in many economies, limiting the scale and speed of any response.

Fiscal flexibility is also reduced, with elevated debt burdens and persistent budget deficits narrowing governments’ ability to deploy large-scale stimulus.

As a result, an AI-led market correction could encounter a less supportive policy environment than the Dot-com bust, increasing the risk that any shock is transmitted more directly into the real economy.

	1. DOT-COM ERA	2. TODAY
 MONETARY POLICY SUPPORT	 ROOM TO CUT	 CONSTRAINED ENVIRONMENT
 FISCAL SUPPORT	 ROOM TO SPEND	 CONSTRAINED ENVIRONMENT

 Constrained/deteriorating

 Easing/improving

Drivers appear to point to a larger shock than Dot-com

An AI-driven market correction would likely be transmitted through the same broad channels as the Dot-com bust, but the balance of risks has shifted materially over the past two decades.

Greater household exposure to equity markets, the growing importance of technology investment to economic growth, and more limited policy flexibility all suggest a potentially larger and more persistent impact on the real economy.

While the banking system appears less directly exposed than during previous cycles, this reflects a shift in financing structures rather than the removal of risk altogether. Increasing reliance on private capital and alternative funding vehicles changes where risks sit within the system, but does not eliminate the potential for investment, spending and credit conditions to deteriorate if sentiment weakens sharply.

As a result, even if an AI correction follows a similar market pattern to the Dot-com unwind, the broader economic consequences could be larger and longer-lasting than those experienced in 2000-01.

	1. DOT-COM ERA	2. TODAY
 WEALTH EFFECT	 RISING HOUSE PRICES - CUSHIONED	 STOCK MARKET GREATER SHARE OF WEALTH
 BUSINESS INVESTMENT	 LOWER CONTRIBUTION TO US GDP	 HIGH CONTRIBUTION TO US GDP
 BANK LENDING	 HIGH DEBT LEVELS	 NOT PRIMARY LENDERS
 COUNTER-CYCLICAL MEASURES	 EXPANSIVE	 LIMITED
NET REAL ECONOMY IMPACT	BRIEF & LIMITED	LONGER & LARGER

An AI correction could slow US GDP growth sharply

An AI correction would most likely be transmitted through weaker business investment, reduced equity valuations and tighter financial conditions.

As AI-related capex has become an increasingly important driver of US growth, any retrenchment in investment spending would have a disproportionate impact on the broader economy.

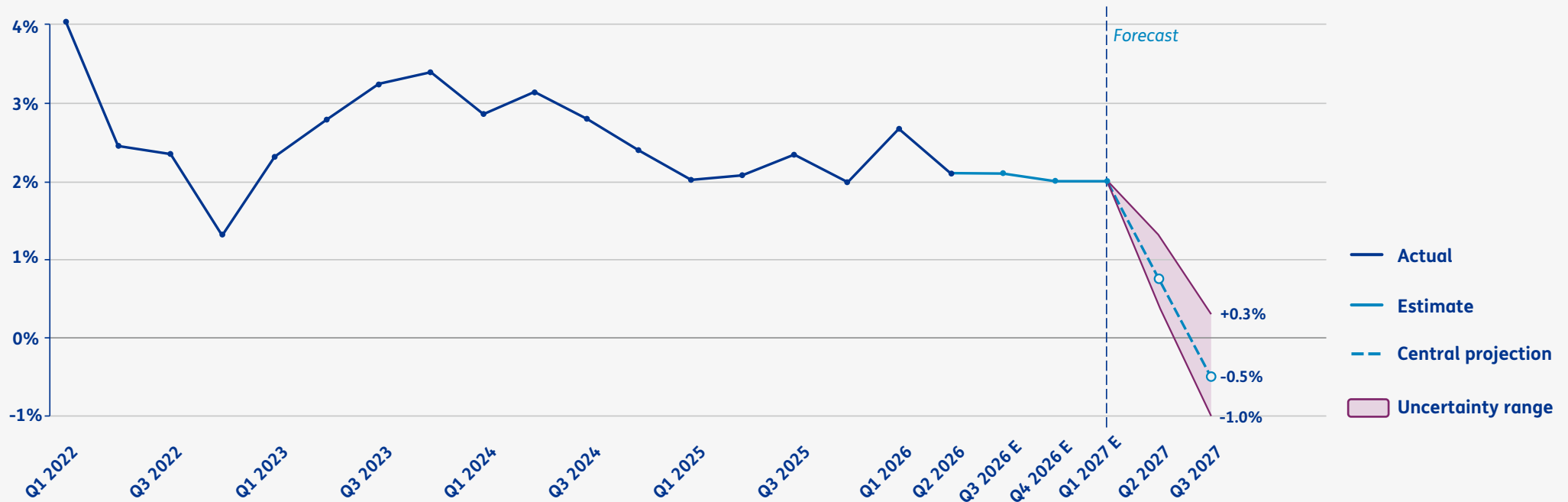
Our central scenario, should an AI correction happen in Q1 2027, assumes growth slows meaningfully as AI investment moderates, while the downside scenario reflects a sharper unwind in investment and financial market confidence.

Under these conditions, US growth could weaken sufficiently to enter a mild contraction in mid-2027.

However, outcomes remain highly uncertain. The ultimate economic impact will depend on the scale of any correction and whether underlying productivity gains from AI are sufficient to offset weaker investment and wealth effects.

Real US GDP growth – AI correction forecast

Year-on-year % change, quarterly



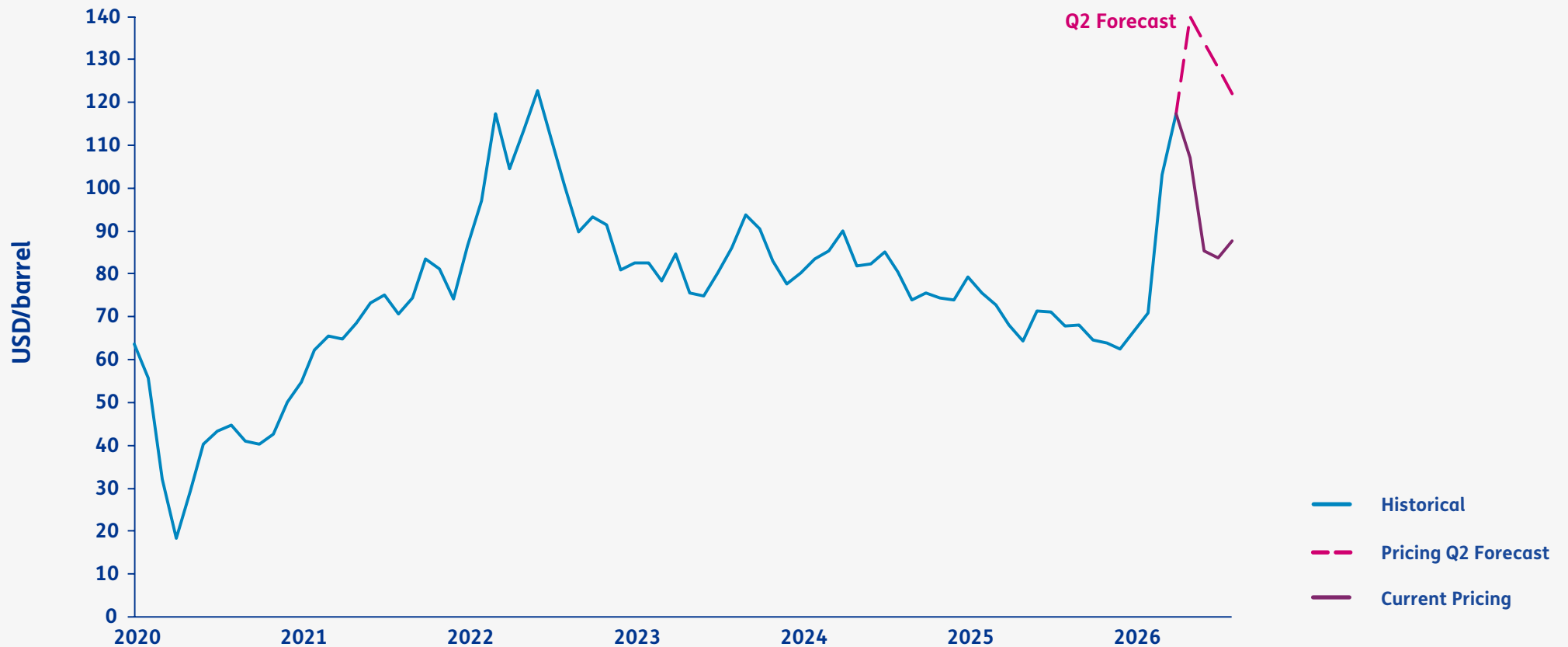
Section 2:

Middle East commodity crisis

Commodity prices have not risen as high as expected

Oil prices have increased sharply following the Strait of Hormuz supply disruption but remain materially below our Q2 forecast.

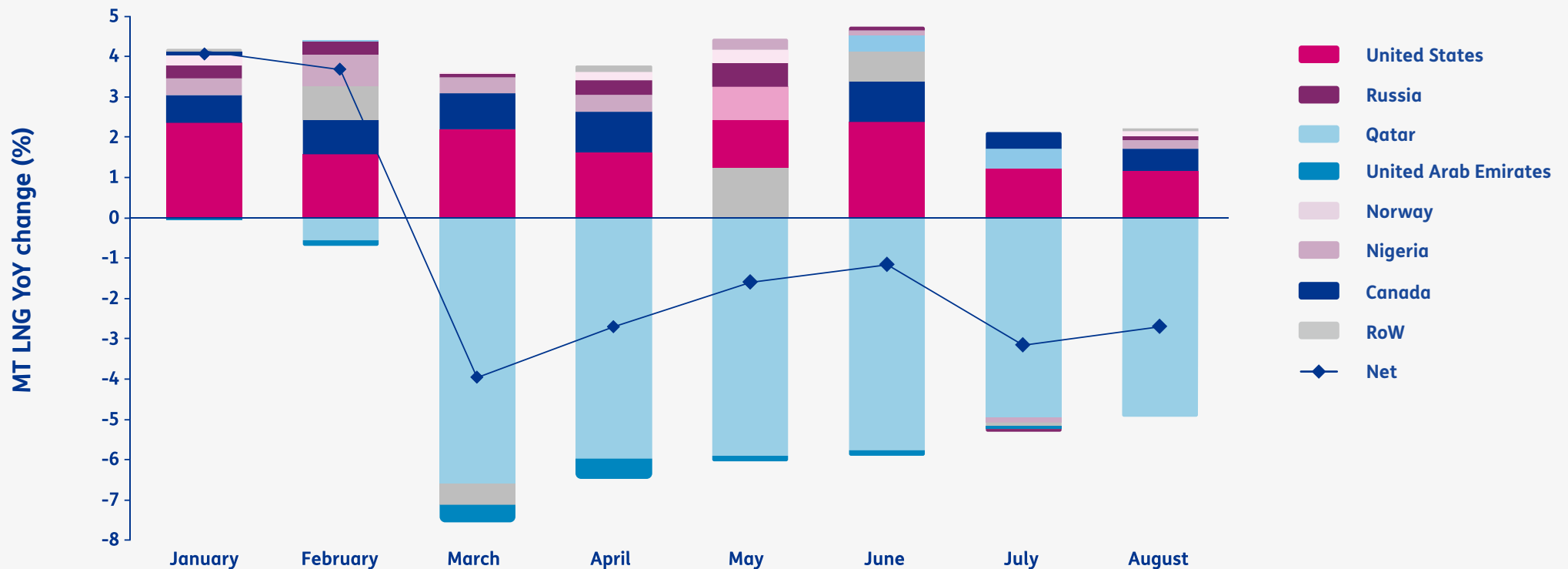
Brent Crude prices – historical versus forecast (USD/barrel)



Why? 1. North American LNG has helped absorb the shock, offsetting Qatari losses

Global LNG exports fell sharply from March following the loss of Qatari volumes through the Strait of Hormuz. However, strong and sustained growth in US exports provided some offset, helping the global market absorb part of the disruption and preventing a much deeper contraction in LNG availability. This North American supply has led to a lower-than-expected net reduction in global LNG.

2026 YoY changes in global LNG exports



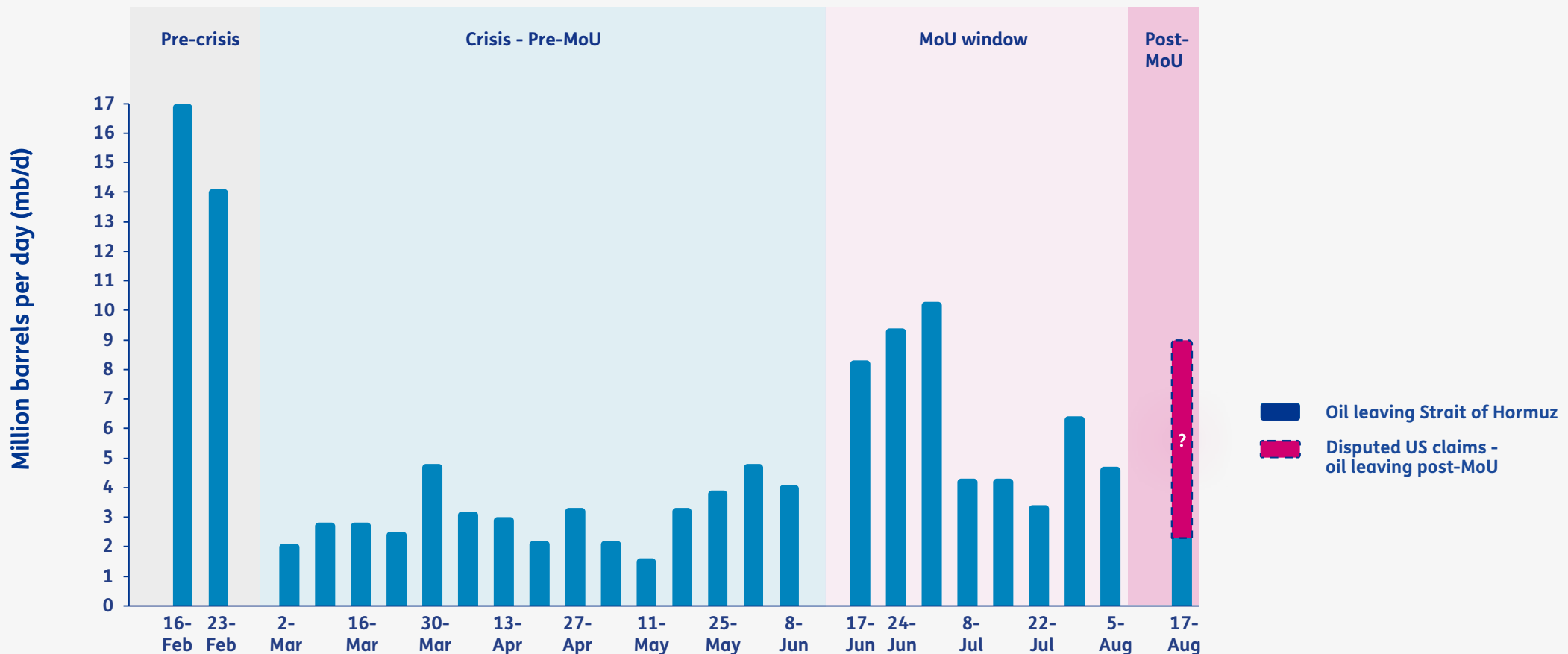
Why? 2. More products have left the Strait of Hormuz than feared

Crude oil flows through the Strait of Hormuz fell sharply after the onset of the crisis, declining from around 14-17 mb/d before the disruption to mostly 2-5 mb/d.

However, shipments recovered materially during the MoU window, briefly exceeding 10 mb/d and demonstrating that more supply could leave the region than initially feared. Flows have since eased but remain above their early-crisis lows.

At the same time, definitive volumes remain uncertain. Significant evasion of public tracking is considered widespread given the dangers of the crossing, leaving certainty limited. The US administration has repeatedly claimed crossings have risen more significantly than official statistics indicate, owing to clandestine crossings.

Crude oil leaving the Strait of Hormuz (mb/d) - 2026

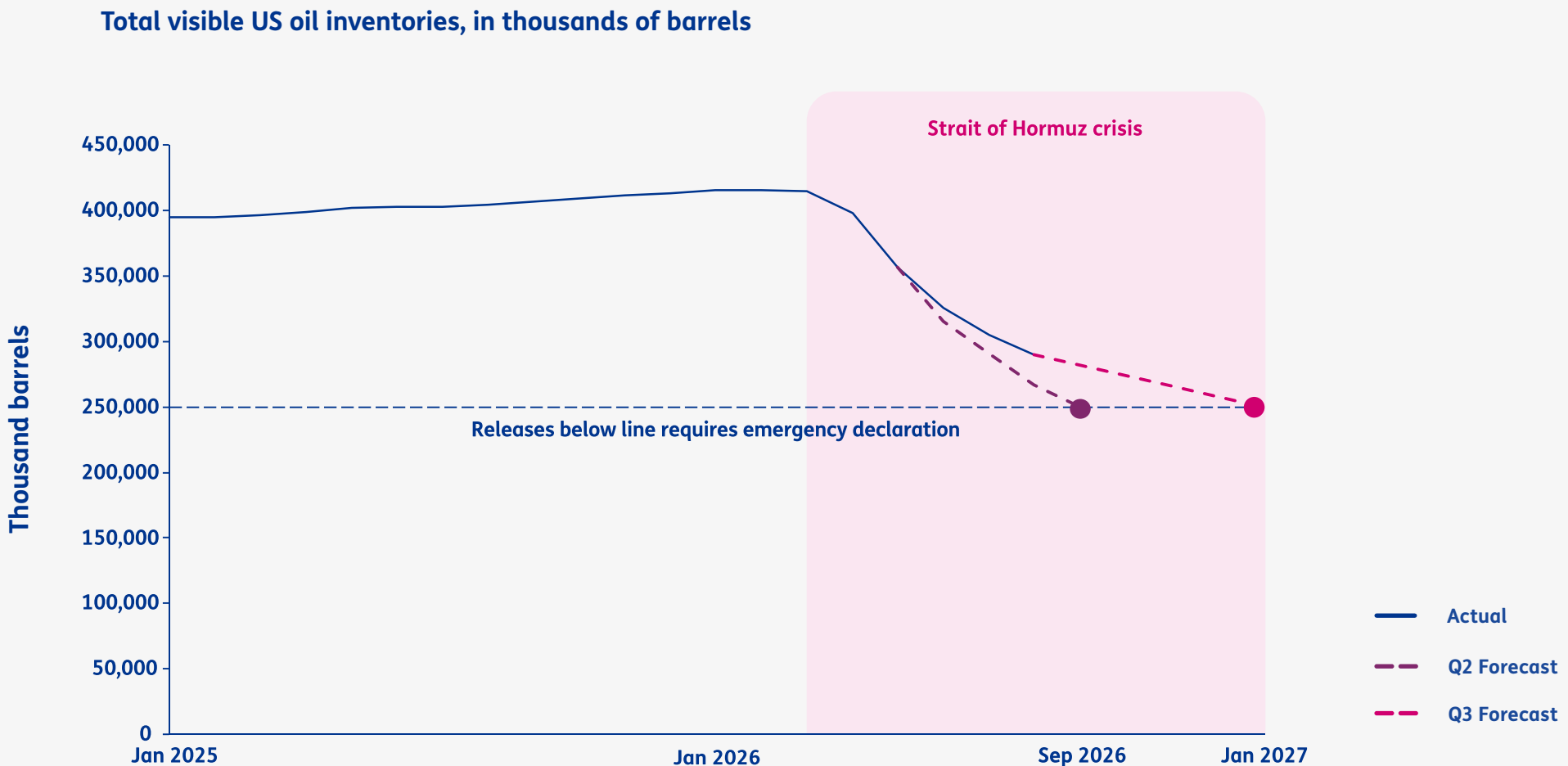


However... Inventories are still falling, signalling a delayed but not averted crisis

Although additional supply has helped absorb part of the disruption, it has not been sufficient to prevent a sustained drawdown in US oil inventories.

Stocks have fallen sharply since the onset of the Strait of Hormuz crisis, and whilst the burn rate has been slower than initially expected in our Q2 outlook, they are nevertheless declining. On current trajectory, they are on track to reach the point requiring a formal emergency declaration in January 2027.

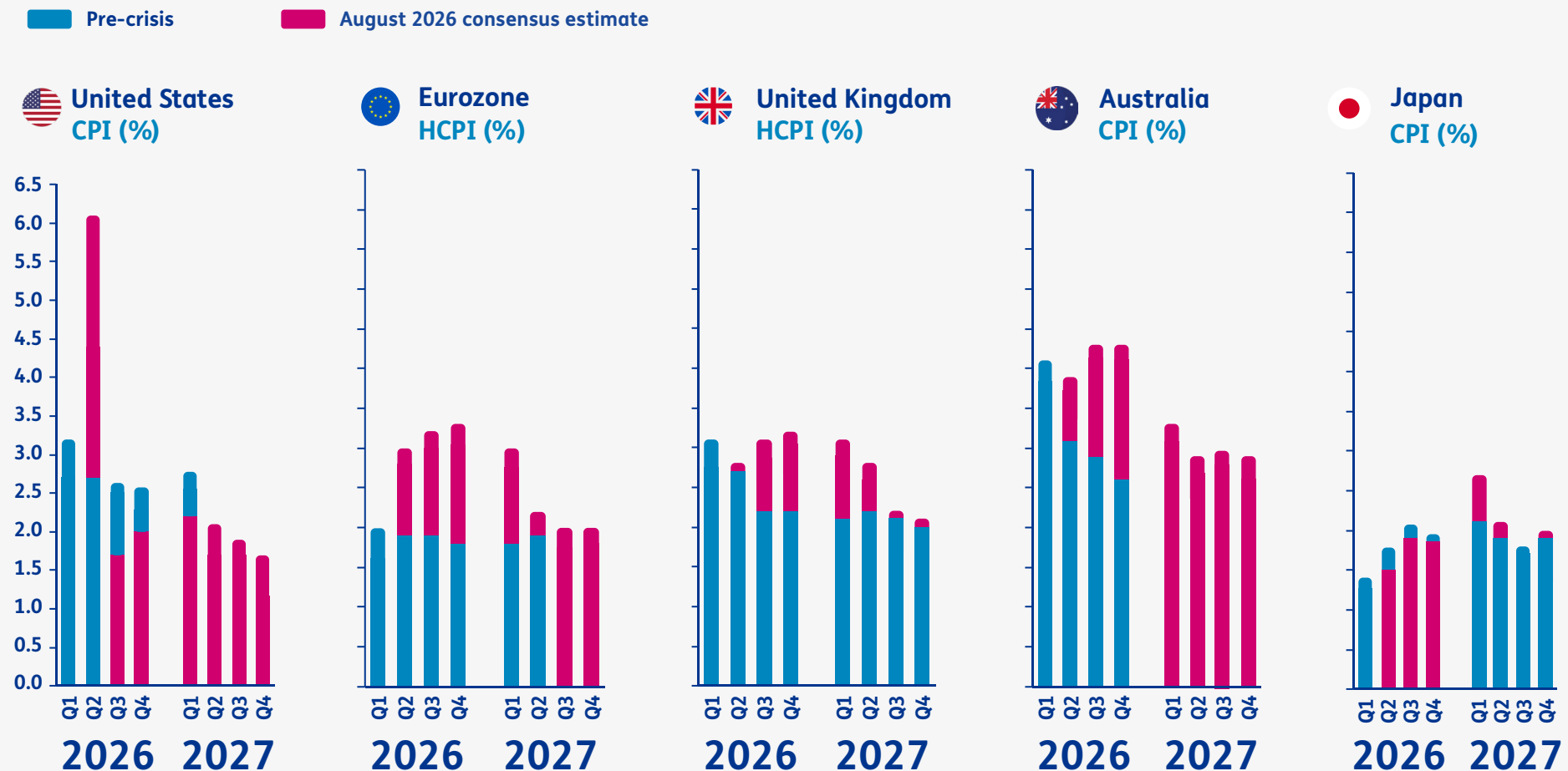
This leaves the US with a progressively smaller buffer if the disruption persists or intensifies.



Inflation expectations are still high, but markets are yet to price a sustained energy shock

Inflation expectations remain above pre-crisis levels across major economies, reflecting the pass-through of higher oil and gas prices into fuel, transport and broader input costs. However, expectations have generally moderated since the height of the crisis as energy market disruption has proved less severe than initially feared.

Markets continue to view the inflation impact as manageable and temporary rather than the start of a prolonged inflation cycle. Across most economies, inflation is expected to ease gradually through 2027 as energy markets rebalance and commodity price pressures subside. The inflation outlook remains uneven across regions. More energy-import-dependent economies, including parts of Europe and Asia, remain more exposed to sustained commodity price strength, while economies with larger domestic energy production appear comparatively insulated from further energy market volatility.

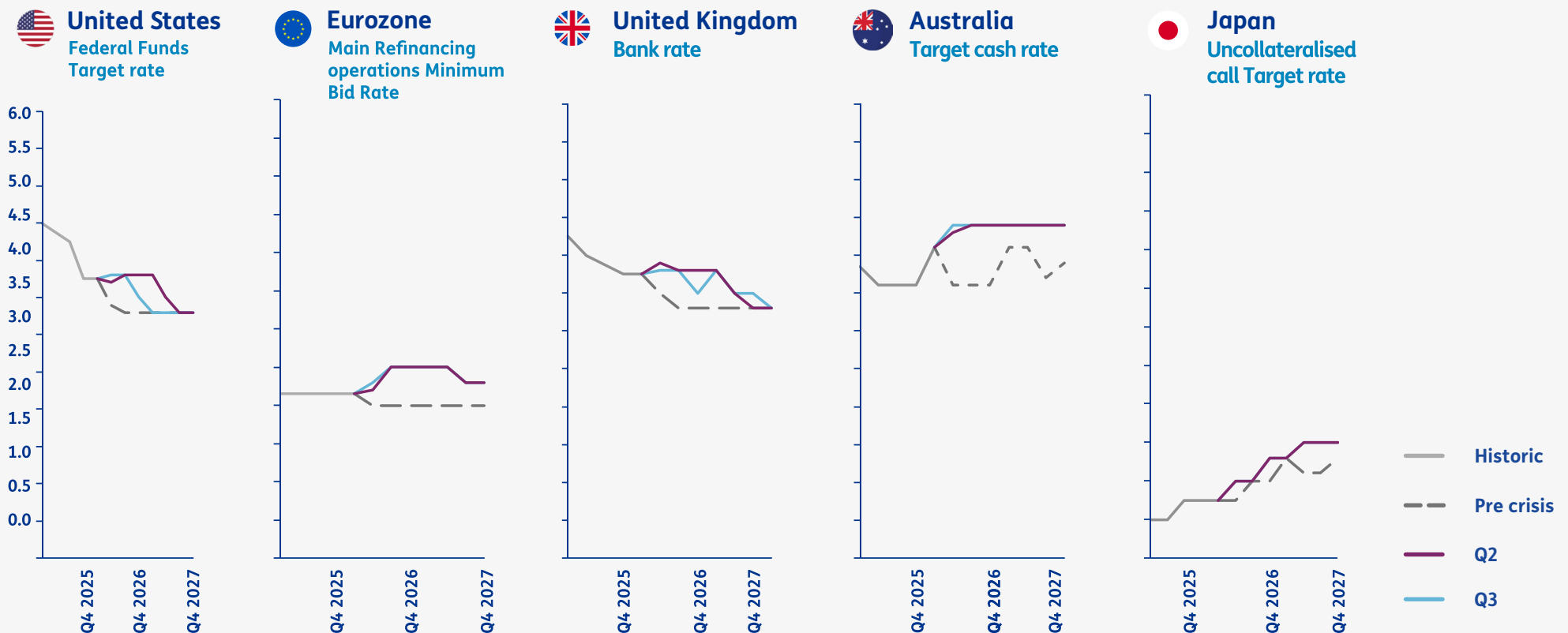


Investors scale back expectations for monetary easing

The recent energy market disruption has led investors to reassess the policy outlook across major economies. Compared with pre-crisis expectations, markets now price a higher path for policy rates, reflecting concerns that rising energy costs could keep inflation elevated and slow progress towards central bank targets.

While some central banks retain scope for additional easing, the anticipated cycle is now shallower than previously forecast. The largest shifts are evident in the US, Eurozone and the UK, while Japan has seen expectations for further policy tightening strengthen. A more prolonged or fundamentals-driven repricing in oil markets would increase the risk that central banks are forced to keep rates higher for longer, or in some cases reconsider further tightening, particularly in more energy-exposed economies.

Policy rate forecasts pre- and post-crisis

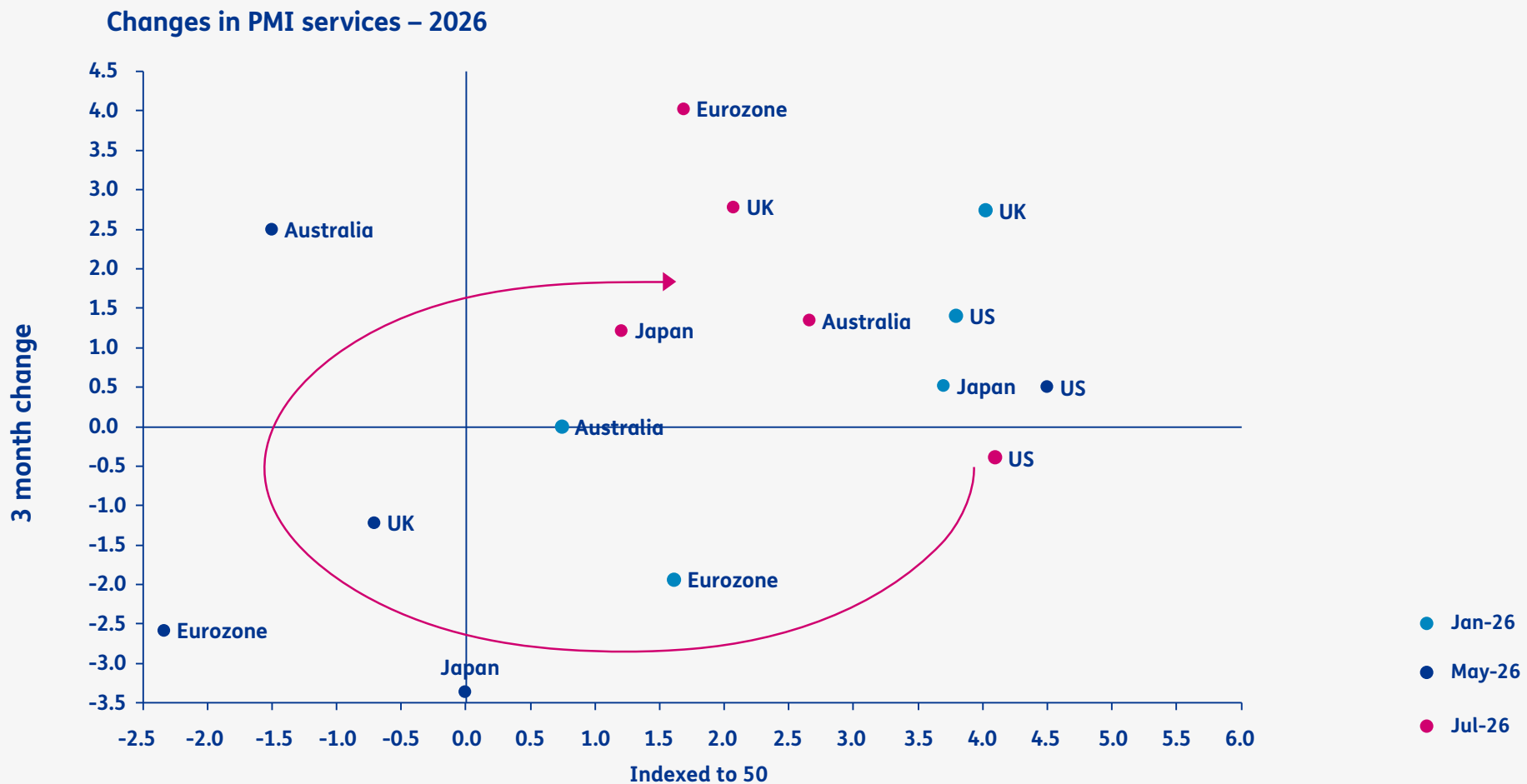


The disruption hit services demand, but the damage is fading

The energy shock triggered a sharp deterioration in services demand during the early stages of the Strait of Hormuz crisis, with flash PMI estimates weakening across most major economies.

However, subsequent surveys point to a gradual recovery as markets adjusted to the disruption and immediate supply concerns eased.

While activity remains uneven across regions, the slowdown is proving less severe and less persistent than initially anticipated, supporting the view that the shock is acting as a drag on growth rather than pushing major economies into recession.



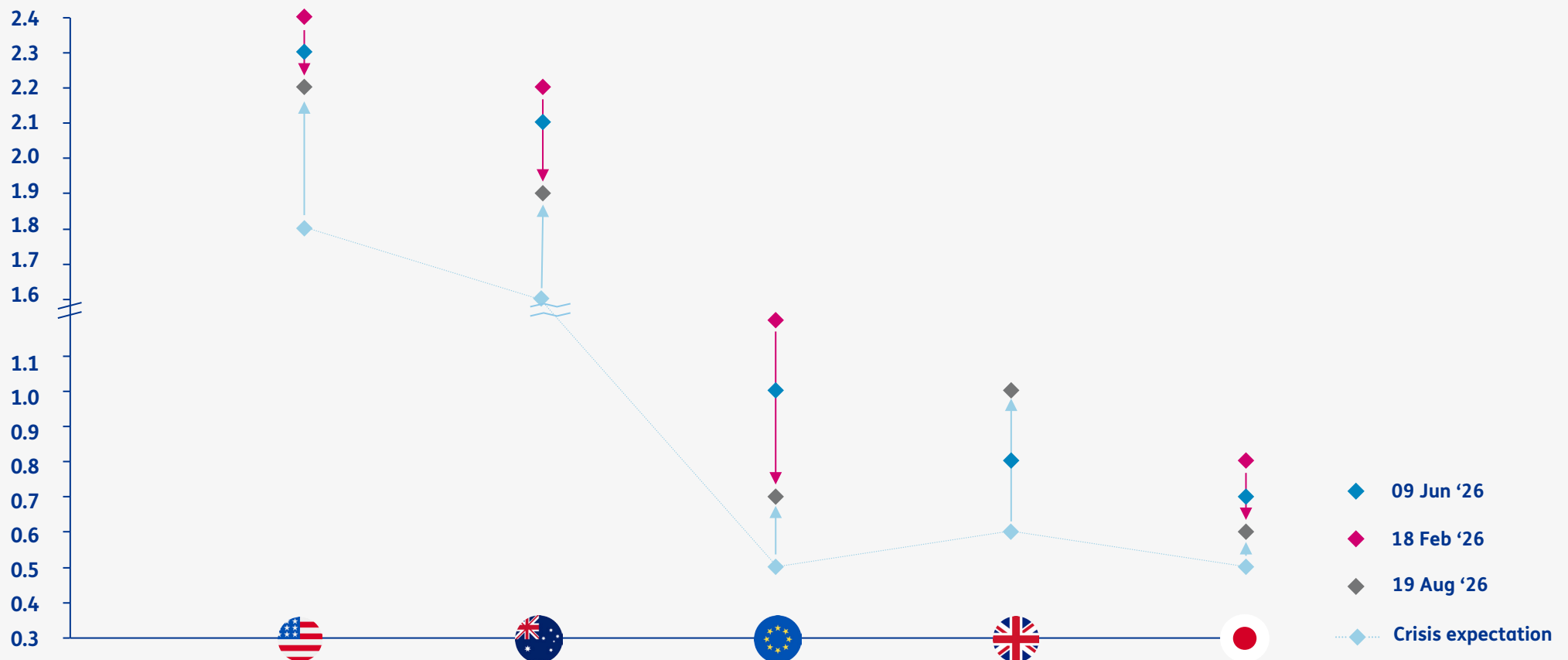
GDP downgrades are also far milder than the crisis initially implied

Growth forecasts have been revised lower across major economies since the onset of the crisis, reflecting the impact of higher energy prices and increased uncertainty. However, the deterioration has been smaller than initially feared, with forecast downgrades remaining modest relative to the scale of the disruption.

Most major economies are still expected to avoid recession, as commodity prices have remained below earlier expectations and energy supply disruptions have proved more manageable than markets feared at the height of the crisis.

The improvement relative to initial crisis expectations suggests that the global economy has so far demonstrated greater resilience to the energy shock, supported by stronger-than-expected supply adjustments and a more moderate inflation impact.

Pre- and post-crisis EY 2026 real GDP forecasts (% YoY)



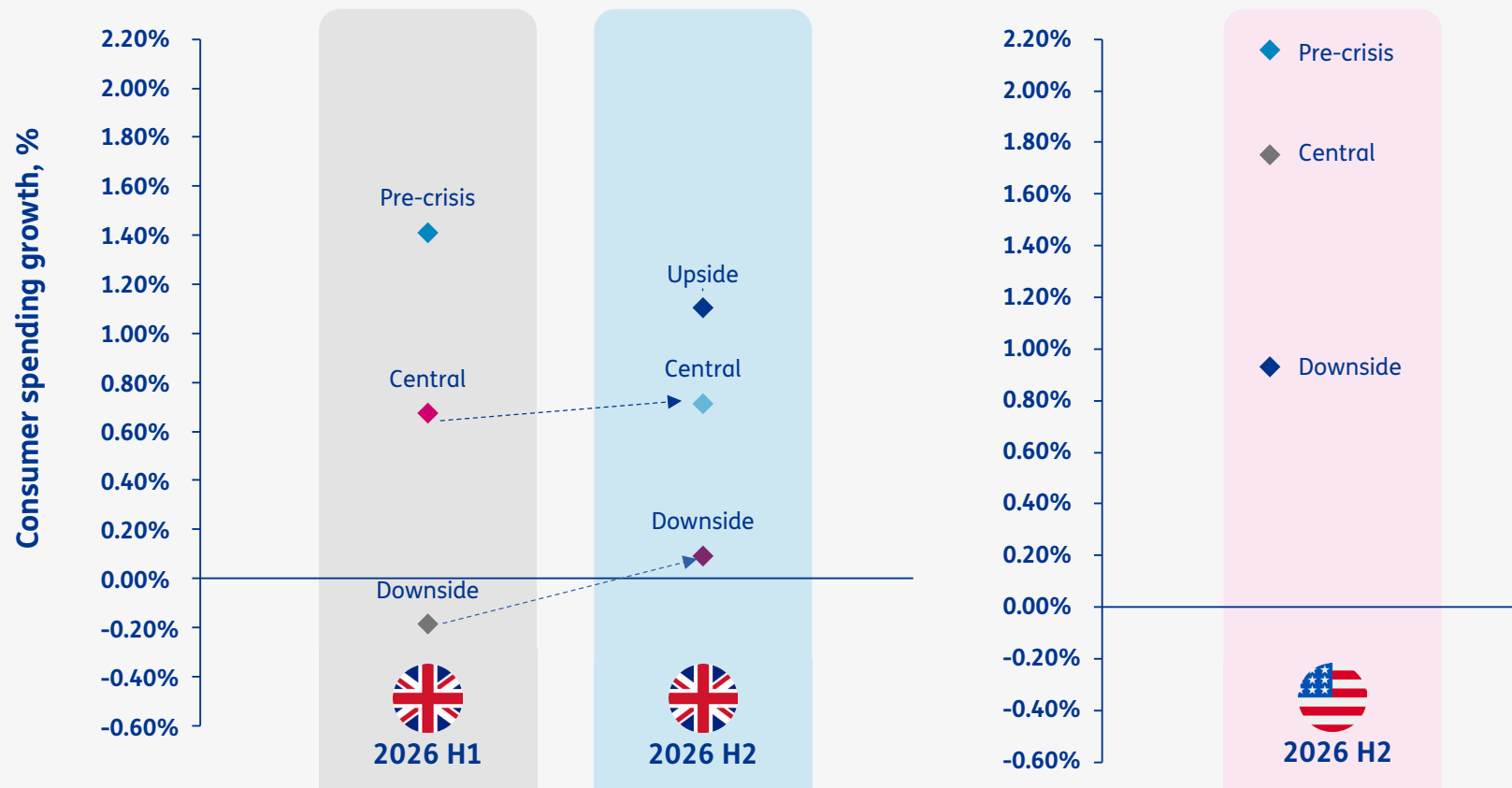
As a result, downside risks have moderated, but have not disappeared

Consumer spending expectations have improved since H1 as fuel costs, interest-rate expectations and broader inflation pressures have eased relative to earlier crisis assumptions.

The Baringa UK outlook has been revised higher across scenarios, reducing expectations of a material slowdown in household demand. The US consumer remains significantly more resilient than the UK consumer, supported by stronger income growth, lower exposure to imported energy costs and a more robust labour market. As a result, US consumer spending is expected to remain comfortably positive even under less favourable scenarios.

However, risks have not disappeared. Further disruption to global energy markets or a renewed rise in oil and gas prices could quickly reverse some of the recent improvement, particularly in more energy-exposed economies such as the UK and Europe.

Year-on-year growth in consumer spending – UK and US forecasts





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