

Key Views Global Monthly October 2026

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The global economy remains resilient in the face of a succession of shocks. While the energy shock is back with a vengeance, its effects are more idiosyncratic now, and more impactful for Europe than the US. Meanwhile, a capex troika centred around AI, defence and the energy transition are continuing to drive growth, which is expected to hold roughly around trend rates in advanced economies. The global investment surge is also supporting growth in China, although imbalances there continue to fan trade tensions with the EU. Against this backdrop, inflation will remain somewhat elevated over the coming months, and this should keep central banks leaning hawkish, with the ECB, Fed and BoE expected to raise rates further. Our base case sees central banks resuming rate cuts in late 2027.

Head Macro Research / senior economist eurozone

Eurozone

Eurozone growth remains resilient despite persistent high energy prices, with underlying growth (excluding Ireland's) expected to remain modest but steady through Q4. Strong September PMI data suggest momentum remains firm for now, but we expect growth to soften in 2027 as elevated energy costs and further ECB tightening increasingly weigh on activity. Beneath the aggregate picture, country divergences remain pronounced, with France continuing to underperform while Spain remains a key growth outperformer, and Germany expected to continue to see support from defence spending.

The Netherlands

The first half of 2026 ended stronger than expected, given geopolitical uncertainty and higher inflation. We expect growth to moderate somewhat as cyclical pressures are rising. The Dutch economy is resilient, in part because of recent economic momentum and because the private sector deleveraged and built considerable buffers. Structural bottlenecks continue to hamper actual and potential growth. Following the upward revision to our energy-price assumptions, we have upgraded our inflation forecasts. Still, the pass-through to the broader inflation basket is limited compared to 2022.

UK

The government led by new PM Andy Burnham continues to ride high in the polls, and the economy has performed better than expected in recent months. This honeymoon period will be tested by the budget announcement on 28 October, with tax rises likely to rebuild fiscal buffers, and limited room for bold measures to ease cost of living pressures. Meanwhile, though inflation is expected to stay elevated over the coming months, the much looser labour market means that a renewed pickup in wage growth looks much less likely than in 2022-23.

US

Headline growth and private demand remain solid, predominantly on the back of the AI investment boom, although consumption remains resilient. The labour market is solid, but not hot. Overall tepid labour demand is in balance with a stagnant labour force. The disinflation process continues but is losing pace. Energy and food inflation remain elevated for some time, although breadth and momentum are

showing encouraging signs. Inflation is projected to get within reach of the 2% target in Q2 of 2027 before gradually picking up somewhat.

China

Following weak July/August data, recent PMIs point to an improving growth momentum, with past government support filtering through. Export growth remains strong on the back of the global AI boom, but domestic supply-demand imbalances keep worsening. Beijing recently tweaked its support stance somewhat, taking some targeted measures. While a step in the right direction, these are more about safeguarding growth rather than forcefully strengthening demand/tackling imbalances. Meanwhile, US-China trade relations have stabilised somewhat following the September Trump-Xi summit, while EU-China relations are at a critical juncture.

ECB

While we expect the ECB to extend its tightening cycle, higher bond yields are doing some of the heavy lifting, reducing the need for back-to-back rate hikes. At the same time, limited evidence of broader second-round inflation effects suggests the Governing Council can afford a more measured pace of tightening. We expect two rate hikes in December and March, taking the deposit rate to 3%. In late 2027 we expect the ECB to begin gradually lowering rates, once it becomes clear that second round inflation effects have been contained and with the economy likely to have lost momentum.

Fed

Warsh's communication style means the future path of the Fed's policy rate is surrounded by more uncertainty than usual. We do not think the September hike was an isolated event, but at the same time, recent data flow reduced the urgency to hike further. We expect the Fed to hike once more in the December meeting, keeping the upper bound of the Federal Funds rate at 4.25% until the end of next year, where inflation running a lot closer to target gives room for some easing in response to increasing unemployment.

Bank of England

The BoE has had the luxury to be patient so far, but more persistent high energy inflation raises the risks of inflation expectations becoming de-anchored. Given the UK economy has also been faring better recently, the BoE now looks poised to respond, and we now expect two rate hikes over the coming months, with a 25bp hike expected in November and another in February, to coincide with the BoE's Monetary Policy Report and forecast updates. Similar to the Fed and the ECB, we expect rate cuts to resume in Q4 2027 as the energy shock eases.

Bond yields

The recent rise in European bond yields and widening of EGB country spreads mainly reflect growing fiscal concerns, while US bond yields drifted wider due to a combination of a resilient US economy and persistent inflation fears. Looking ahead, we expect bond yields across both sides of the Atlantic to fall as markets move closer to our less hawkish monetary policy outlook and start to price-in cuts for Q4 2027. Curves should steepen as markets increasingly price in our central bank views and term premia rises, which should partially offset the expected decline in yields in the long end of the curve.

FX

Developments in interest-rate markets have pushed EUR/USD lower. First, interest-rate differentials between the US and the eurozone have widened, supporting the US dollar against the euro. Markets are pricing in more rate increases from both the Fed and the ECB than we expect. If market expectations move closer to our forecasts, this should support EUR/USD. Second, fiscal and political uncertainty in France has widened spreads between France and Germany, which has also weighed on the euro. Sentiment towards EUR/USD may remain negative in the near term, but we do not expect the sell-off to continue. We therefore maintain our end-2026 forecast of 1.15.

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