

An uneasy calm takes hold in the global economy

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Global growth is set to hold steady in 2026 amidst elevated risks. How will key shifts shape growth drivers?

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Global growth had defied pessimism in 2025. Despite trade tensions, geopolitical shocks and repeated warnings of slowdown, the world economy has continued to expand at a steady pace. That resilience has created a sense of calm as we look ahead to 2026 – however, it is a calm that deserves closer scrutiny.

Global growth in 2026 is expected to remain at 3.4 per cent, unchanged from 2025. Yet the drivers that carried the economy this far are losing momentum, and new ones are taking shape. This makes 2026 a year of transition.

Economic resilience is not a guarantee for 2026

Much of the resilience seen in 2025 reflected two factors. The first was a wave of export front-loading, as firms rushed shipments to the US ahead of potential tariff increases. The second was consumer behaviour that was more robust than expected, supported by easing inflation, strong labour markets and monetary easing. Together, these forces helped cushion the global economy through a period of exceptional uncertainty.

In 2026, we expect exports to play a smaller role as front-loading fades. While the consumer will stay resilient in 2026, growth will increasingly be supported by domestic investment and fiscal policy.

This transition coincides with a turning point in global monetary policy. Most central banks are nearing the end of their rate-cutting cycles as disinflationary progress slows. As such, monetary policy, which has played a central role in sustaining growth, will no longer create the same momentum.

Fiscal policy returns to centre stage

As monetary support recedes, fiscal policy is returning to the fore. In several major economies, including across Europe, governments are expected to increase spending on defence and infrastructure. This shift has the potential to spur growth as monetary policy becomes less supportive and export momentum fades.

However, it also brings constraints into sharper focus. Economies with limited ability to increase public spending may face greater market scrutiny if growth weakens, especially at a time when borrowing costs remain structurally higher than in the past. With yield curves expected to stay steeper for longer, countries reliant on external funding are likely to face greater pressure than those able to draw more heavily on domestic savings.

Strong growth in the US, limited room for easing

The US sits at the centre of this shift. Its economy continues to show notable resilience, with consumption remaining the largest contributor to growth and the overall consumer demand holding up well. Strong capital spending – supported by corporate tax incentives and the push to adopt artificial intelligence – has helped sustain growth even as trade policy uncertainty remains elevated. This has prompted us to raise our 2026 US growth forecast to 2.3 per cent from 1.7 per cent previously.

At the same time, the US continues to diverge from other major economies on inflation. While inflationary pressures have eased across much of the world, they are building more clearly in the US as more businesses pass tariff-related costs to consumers. Recent data shows goods inflation picking up earlier than expected. This limits the US Federal Reserve's room to ease further, and we do not expect any rate cuts from the Fed in 2026, unlike consensus expectations of at least two more cuts.

Policy uncertainty in the US may also intensify as a closely watched Supreme Court decision on the legality of tariffs imposed under the International Emergency Economic Powers Act could impact the trade landscape and fuel further market volatility. Further risks around the US midterm elections and the leadership transition at the Federal Reserve in May could also influence investor sentiment and the direction of policy in the year ahead.

Asia faces a shift in growth drivers

China's outlook reflects a different set of dynamics. Growth is expected to soften but remain solid, supported by technology-led investment, productivity gains and a stronger policy focus on boosting domestic consumption.

While export growth is likely to moderate this year, the diversification of trade partners and a recent easing in US-China trade tensions should provide some support. Disinflationary pressures are likely to persist reflecting excess capacity and efficiency gains.

Across the rest of Asia, 2026 marks a shift in growth drivers. Export-led expansion, which carried much of Asia through 2025, is giving way to investment-driven growth particularly investment linked to semiconductors, data centres and AI supply chains should help cushion the slowdown, but it is unlikely to fully replace the earlier boost from external demand.

A more stable trade environment and relatively soft energy prices could also provide additional support.

Europe faces a slower and uneven recovery

In Europe, growth remains subdued despite some recent upgrades to the outlook. We have raised our 2026 euro-area growth forecast slightly to 1.1 per cent from 1.0 per cent, reflecting resilient consumer spending and the expected spillover from Germany's fiscal stimulus. Even so, trade pressures from US tariffs and rising competition from China are weighing on export prospects, while growth remains uneven across the region.

Fiscal policy is beginning to play a larger role, with Germany's stimulus providing an important source of support. However, the impact on activity is likely to build only gradually, with the full effects not expected until 2027.

Elevated risk, wider extremes

Overlaying this economic transition is a heightened risk environment. Trade policy uncertainty remains elevated, while geopolitical tensions persist across multiple regions. These conditions point to a year characterised by wider extremes. The probability of outsized outcomes, both positive and negative, is higher than usual.

A renewed escalation in trade tensions, a setback to investment sentiment or financial market corrections could quickly undermine growth. Conversely, faster-than-expected gains from AI-related productivity or continued diversification of global trade could lift growth beyond expectations.

Recent geopolitical events in Latin America and the Middle East are adding another layer of uncertainty for global energy markets.

Navigating the transition

The forces shaping 2026 are less about where growth is headed, and more about how we get there. As monetary policy steps back and fiscal policy and investment take the lead, the requirements for sustained growth become more demanding and the margin for missteps narrows. How well this transition is managed will determine whether today's uneasy calm can be sustained, or whether sharper swings lie ahead.

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