No more fireworks

The US economy in 2026

January 2026

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Economics

Growth deceleration

Narrowing transatlantic gap: real GDP growth (% yoy)

— US
— Eurozone
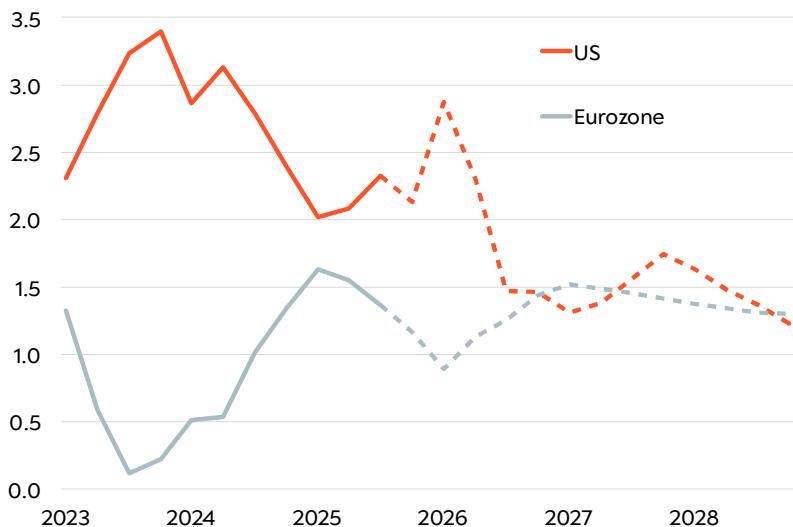
Sources: Eurostat, BEA, Haver Analytics. Dashed: Berenberg forecasts

Sudden stop to immigration


■ Net immigration into the US (millions of people)
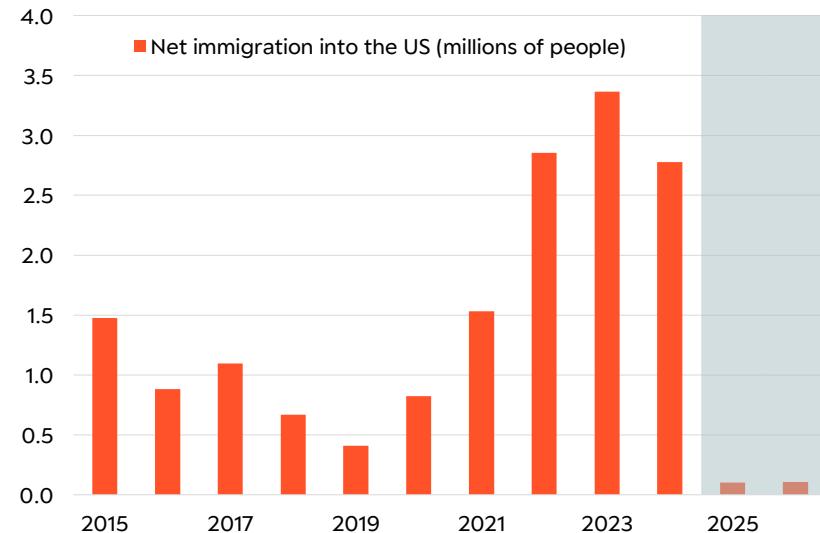
Shaded area are projections. 2025 value is the average of CBO's immigration estimate and American Enterprise Institute's median estimate. 2026 value constructed same way as 2025 except the –140k adjustment from the new H1B visa restriction. Values 2024 and prior are CBO's estimates. Sources: Congressional Budget Office, American Enterprise Institute. Berenberg calculations

- President Donald Trump's anti-growth policies, tariffs and an immigration crackdown, will continue to weigh on economic activity in 2026.

- Without artificial intelligence (AI) related investment, a rebound from the government shutdown, accommodative financial conditions and fiscal stimulus from the One Big Beautiful Bill, the US economy would likely stagnate this year.

- We expect US real GDP growth to slow from 2.4% in 2024 (on a Q4/Q4 basis) to 2.1% in 2025 and further to 1.5% in 2026.

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Consumer: bad vibes

Consumer not in a great mood...

— Consumer sentiment on current economic conditions
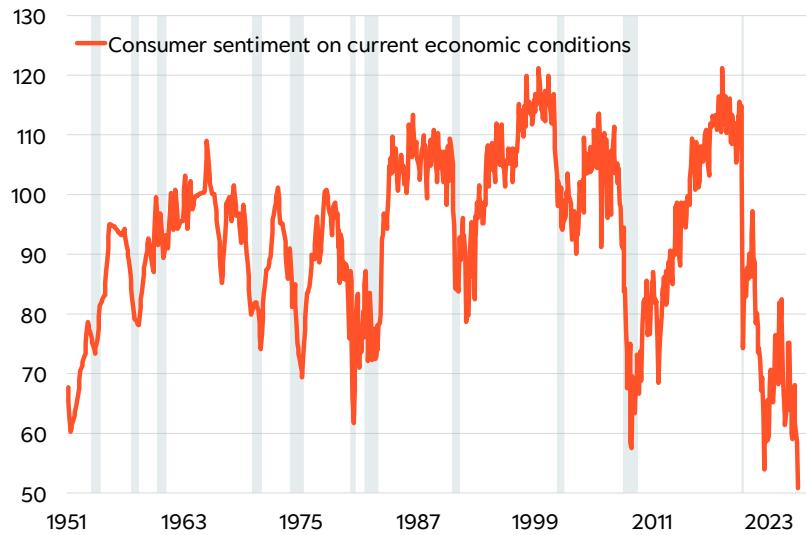
Shading indicates recession. University of Michigan consumer sentiment: current economic conditions. Index, Q1 1966 = 100. Sources: University of Michigan, Haver Analytics, Berenberg,

... because prices are too high
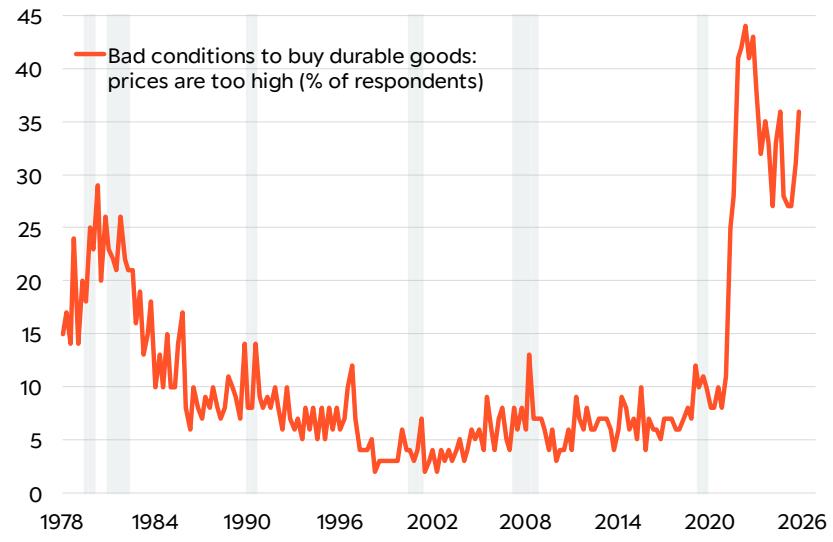
— Bad conditions to buy durable goods: prices are too high (% of respondents)

Shading indicates recession. Sources: University of Michigan, Haver Analytics, Berenberg

- Consumer sentiment on current economic conditions is the lowest since 1950s.

- While inflation has cooled from 8-9% yoy in mid-2022 to around 3% yoy today, consumers are still facing prices that are roughly 30% higher than they were in April 2020.

- The affordability crisis has never gone away.

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Consumer: ... but still spending

Retail spending on the rise
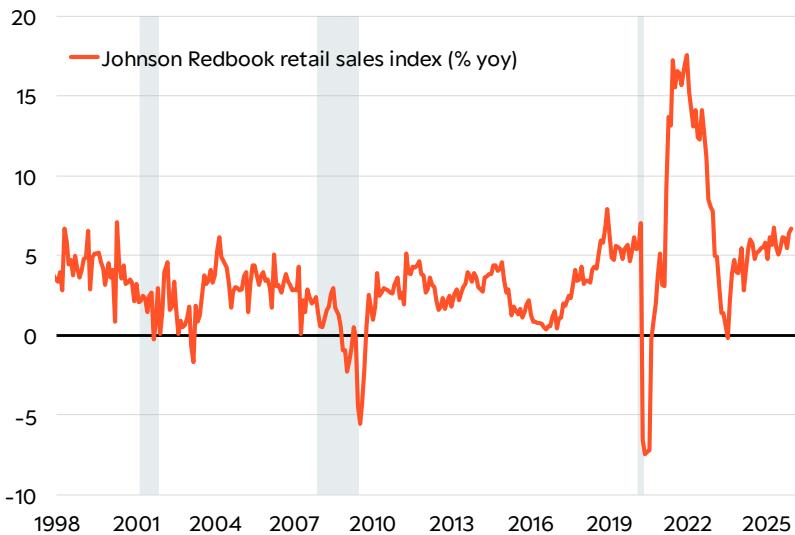
Johnson Redbook retail sales index (% yoy)

Shading indicates recession. Sources: Federal Reserve, Haver Analytics, Berenberg

Consumption growth holds firm

Consumer spending (% yoy, inflation-adjusted)
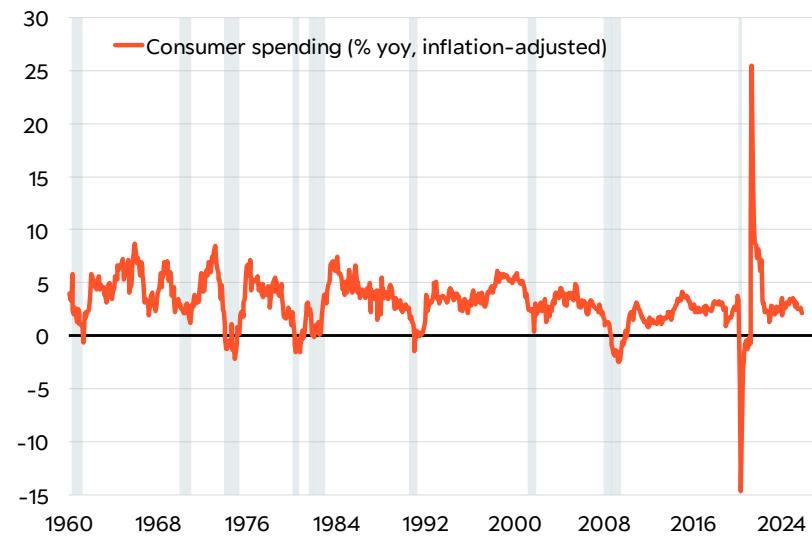
Shading indicates recession . Sources: BEA, Haver Analytics, Berenberg

- In the face of slower job growth, poor consumer sentiment, elevated credit card and auto delinquency rates, and slowing population growth, aggregate consumption growth still holds firm.

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A wealth-driven, bifurcated consumer base

The K-shaped consumer

High income ($100K+)
Overall retail spending
Middle income ($60K-100K)
Low income ($0-60K)
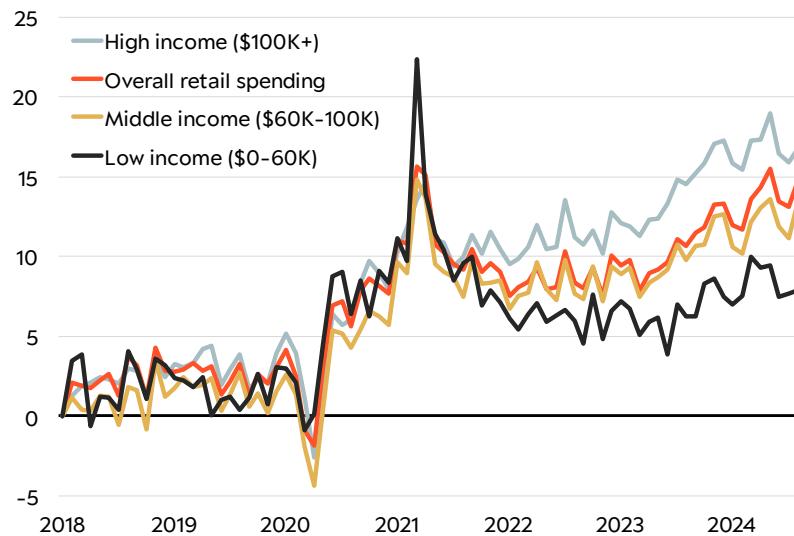
% change since January 2018. Adjusted for inflation and seasonality. Sources: Federal Reserve, Hoke et al 2024, Berenberg

Current value of stock market investments, by income group


Top third
Middle third
Bottom third
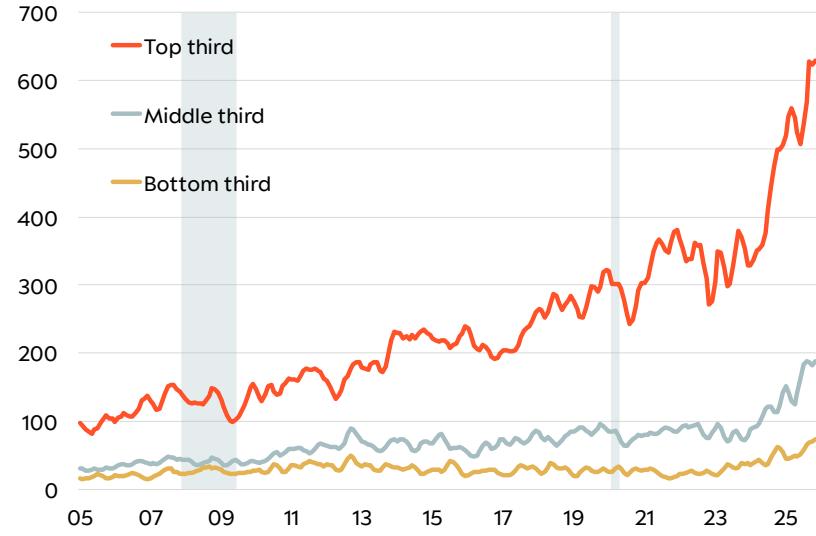
In $ thousands. Median value of stock market investments. Three-month moving average. Shading indicates recession. Sources: University of Michigan, Berenberg

- As the Fed fell behind the curve and failed to put the post-pandemic inflation bunny back into the hat, high and persistent rises in consumer prices acted as a heavy tax on the poor. Meanwhile, the Fed more than doubled its balance sheet from $4.2trn at the start of 2020 to $8.9trn by mid-June 2022 through a massive quantitative easing programme.

- Households at the top wealth decile, which hold nearly 90% of equity market wealth and feel less pressure from inflation, benefited from rising asset prices. "Wall Street" thrived while "Main Street" struggled.

- While a bifurcated consumer base may again support robust consumption in 2026, slowing inflation-adjusted income growth and recent tepid employment gains suggest consumption growth will be slower this year than in 2025.

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What if the equity market enters a correction?

Equity market exposure, by wealth percentile group
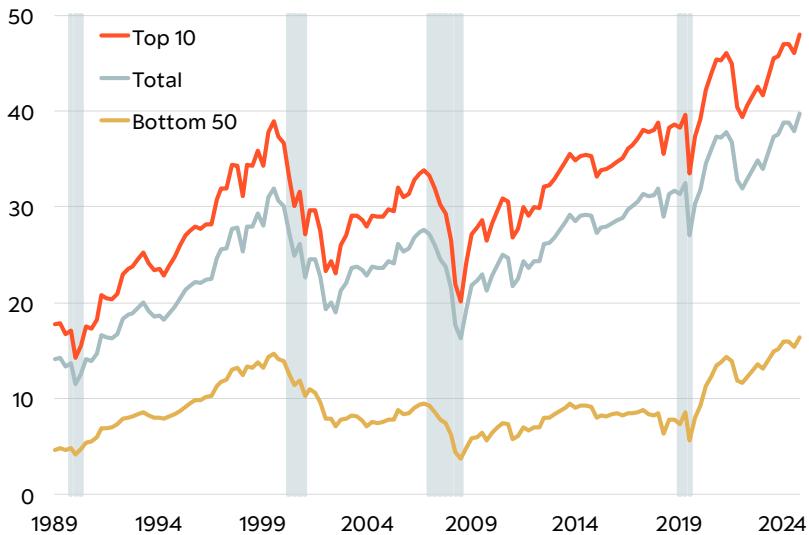
Shading indicates recession. In %. Corporate equities and mutual fund holdings as a share of financial assets. Financial assets = total assets less real estate and consumer durables assets. Sources: Federal Reserve, Berenberg

## The 70+ age group owns 40% of stock market wealth
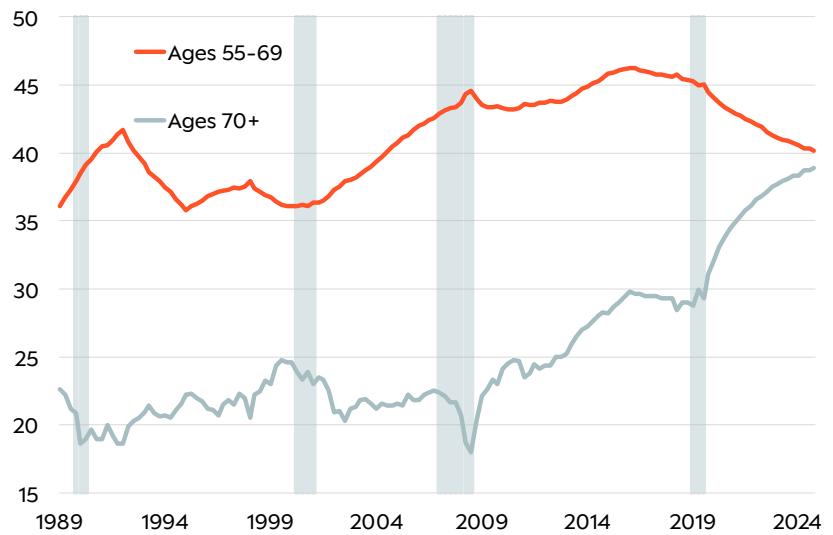
Shading indicates recession. In %. Stock market wealth = Corporate equities and mutual fund holdings. Sources: Federal Reserve, Berenberg

- Consumption, which makes up nearly 70% of US GDP, now relies more on spending by wealthy households and their spending depends heavily on gains in the equity market. This dependence exposes the US economy to a major risk, because a sharp equity market correction could push the US towards a recession potentially more severe than the downturn after the dot-com bubble burst.

- Unlike in 2000 and 2001, when the US ran a budget surplus, it now runs around 6% budget deficits and lacks the fiscal space to fight a downturn. Automatic stabilisers alone (the tax and spending shifts that occur as the economy recedes) would push US deficits to about 8% in the event of a recession.

- The next crisis, when it occurs, could be a challenging one.

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Strong balance sheet overall

Net worth to income ratio at near-record highs

Ratio of net worth to disposable personal income

Shading indicates recession. Sources BEA, Haver Analytics, Berenberg

Household debt relative to income back to 1996 levels
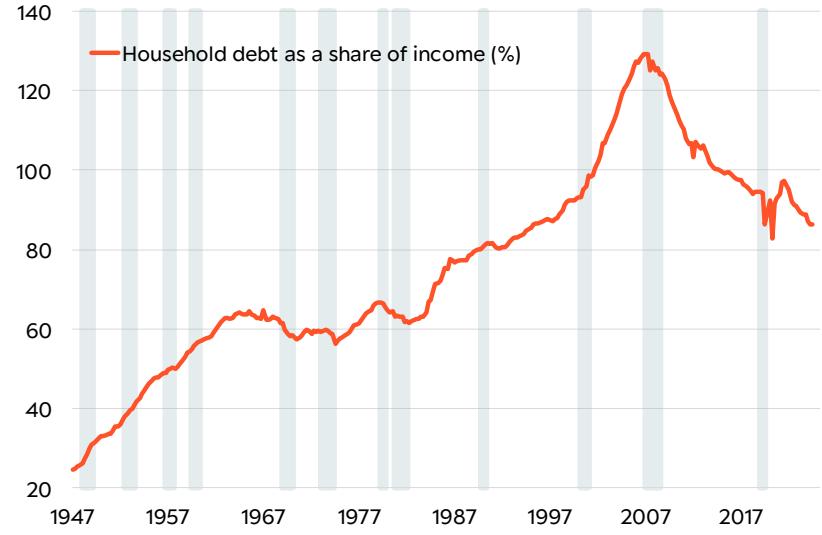
Household debt as a share of income (%)

Shading indicates recession. Sources: Federal Reserve, Haver Analytics, Berenberg

- Households' net worth-to-income ratio, now above 7.5, continues to rise as asset price appreciation outpaces income growth.

- Household debt as a share of income has continued to decline from its peak during the Global Financial Crisis and has returned to its 1996 level.

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Good time for credit expansion?

Banks are more willing to lend to consumers...

FRB Senior Loan Officer Survey: Net share of respondents reporting increased willingness to make consumer installment loans (%)
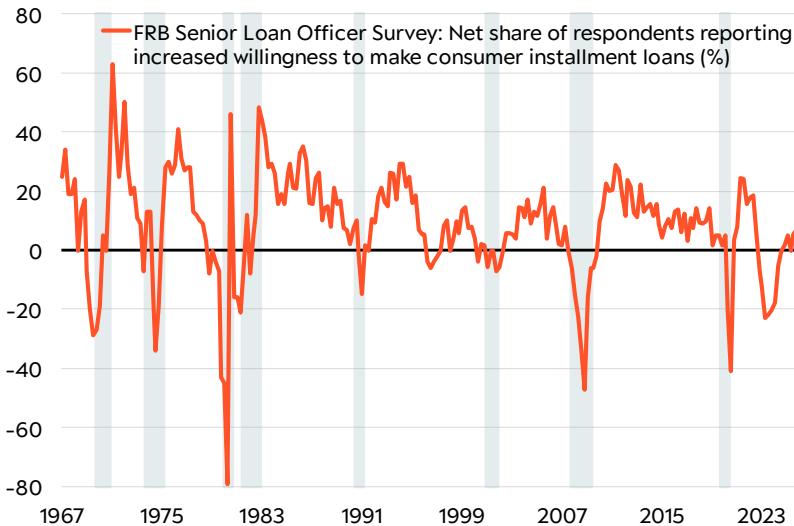
Shading indicates recession. Sources: Federal Reserve, Haver Analytics, Berenberg

... but credit card delinquency rates highest since 2011

Credit cards: new seriously delinquent (90+ days) balances (% of current balance)
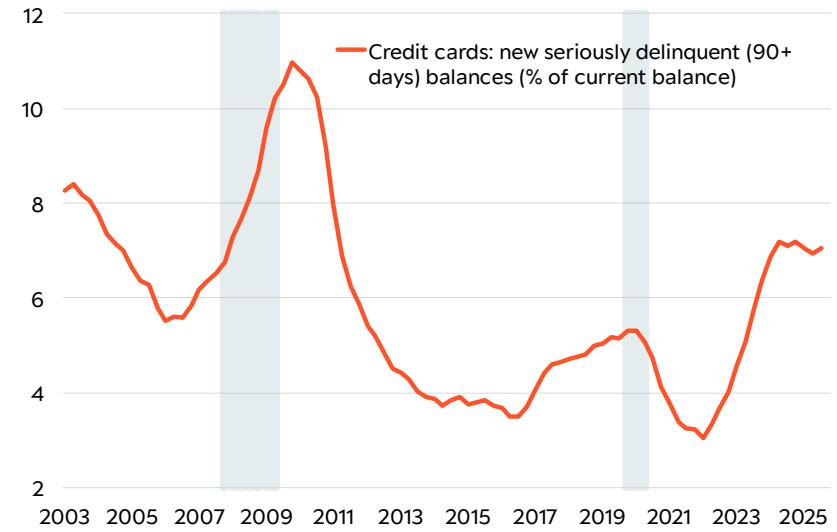
Shading indicates recession. Sources: New York Fed, Equifax, Haver Analytics, Berenberg

- According to the Senior Loan Officer Opinion Survey, banks are increasingly willing to offer consumer installment loans, even as credit card delinquency rates reach 15-year highs.

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Inflation: goods deflation in the rear-view mirror

Tariff-induced increase in retail prices

Index. Cavallo, Llamas, Vazques, 2025. Dotted lines denote trend. Sources: Harvard Pricing Lab, PriceStats, Berenberg
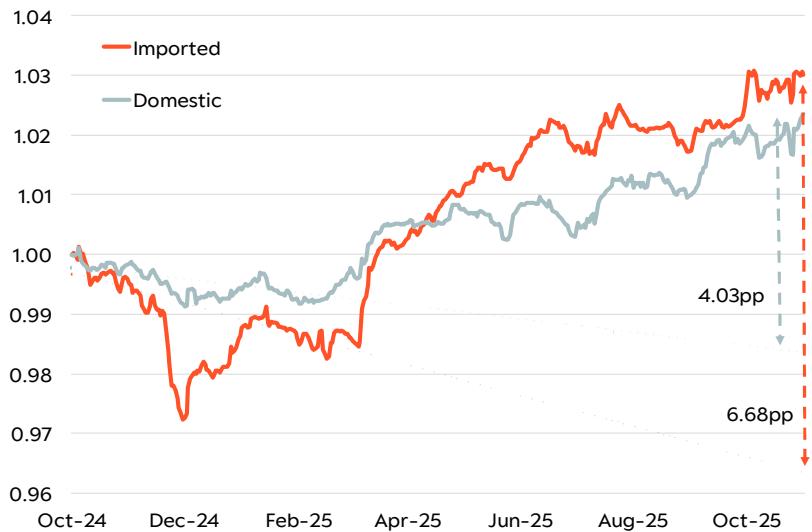
Core goods inflation highest since 2012 outside of pandemic

Sources: BEA, Haver Analytics, Berenberg
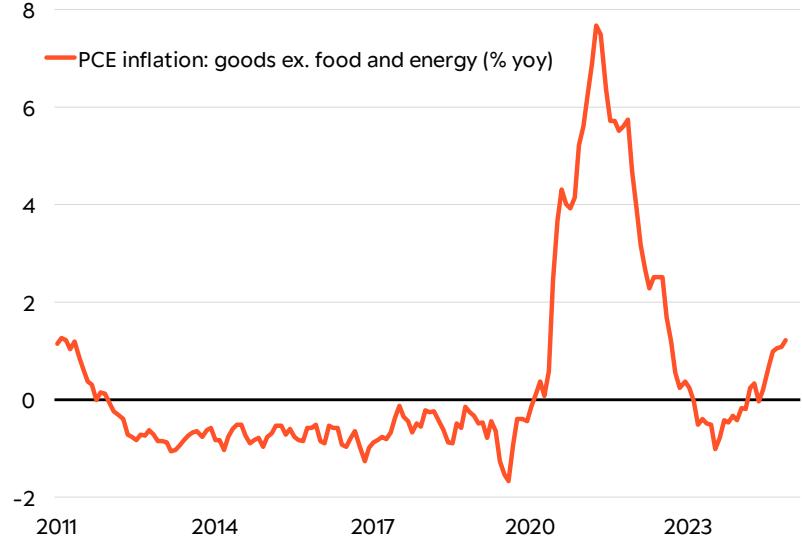
- As many anticipated, tariffs proved inflationary and pushed up prices for both imported and domestic goods.

- The tariff sting is not over. Businesses have so far likely passed around half of the tariff costs to consumers. With fears of a sharp pullback in consumer spending likely in the rear-view mirror, firms should continue to pass through remaining costs in the first half of this year.

- Goods inflation should peak around mid-2026 and gradually ease thereafter.

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Inflation: closer to 2% than you think

Shelter disinflation intact

- Median rent paid for new apartment leases (% yoy, LHS)
- PCE housing price index (% yoy, RHS)
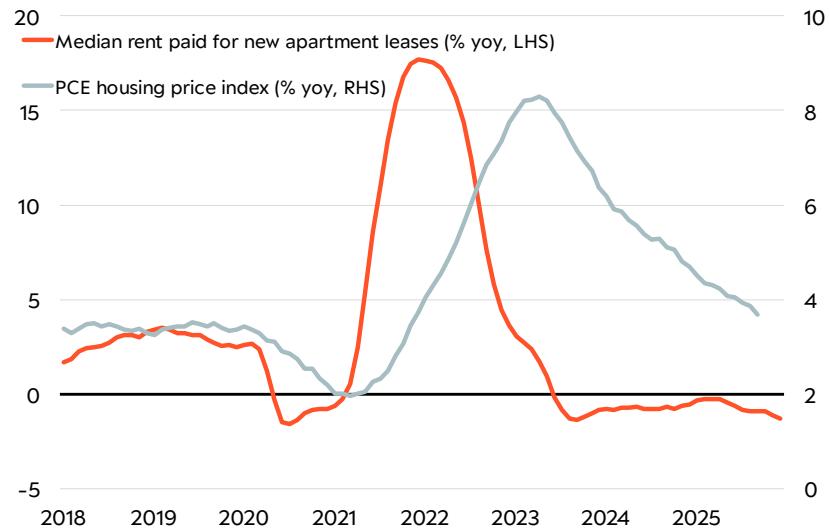
Sources: BEA, Apartment List, Haver Analytics, Berenberg

Nothing the Fed can do about this

- Portfolio management and investment advice services price index (% yoy)

PCE price indices. Sources: BEA, Berenberg

- It is not so much a forecast, but rather a fact, that shelter inflation in the US will continue to disinflate. This is due to how the Bureau of Labour Statistics (BLS) measures shelter inflation. It tracks rent paid by both new and existing tenants. Rent inflation for new tenants is currently in deflationary territory, while rent for existing tenants remains high enough compared to last year to keep shelter inflation sticky and elevated. Eventually, when people move and become new tenants, shelter inflation will align with market rents.

- Portfolio management fees contributed more than 20bp to annual core PCE inflation as of September 2025. However, these fees are directly linked to equity market gains, rather than underlying supply-and-demand dynamics in the economy.

- If shelter inflation and portfolio management fees were excluded, core PCE inflation would have been 2.3% yoy in September, rather than 2.8% yoy.

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Inflation: is 3% the new 2%?

Stuck above 2%
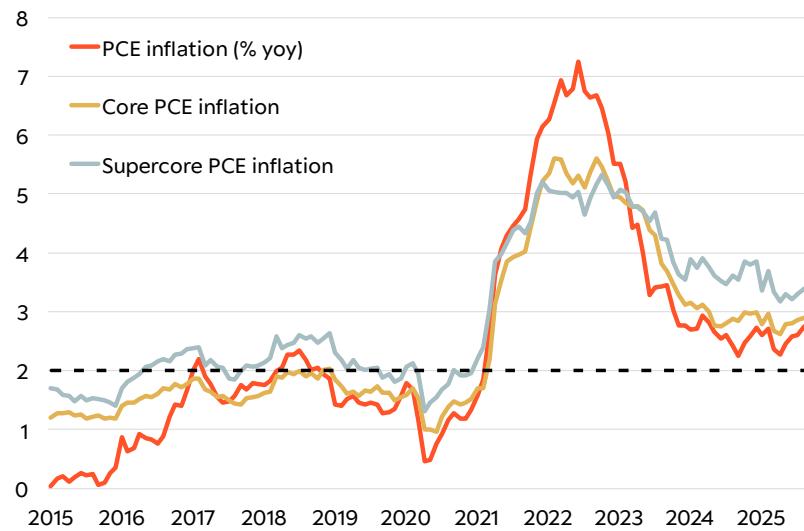
Supercore inflation = services excluding shelter and energy. Market-based core PCE inflation = headline excluding food, energy and non-market-based services. Sources: BEA, Haver Analytics, Berenberg

Trend is not your friend anymore
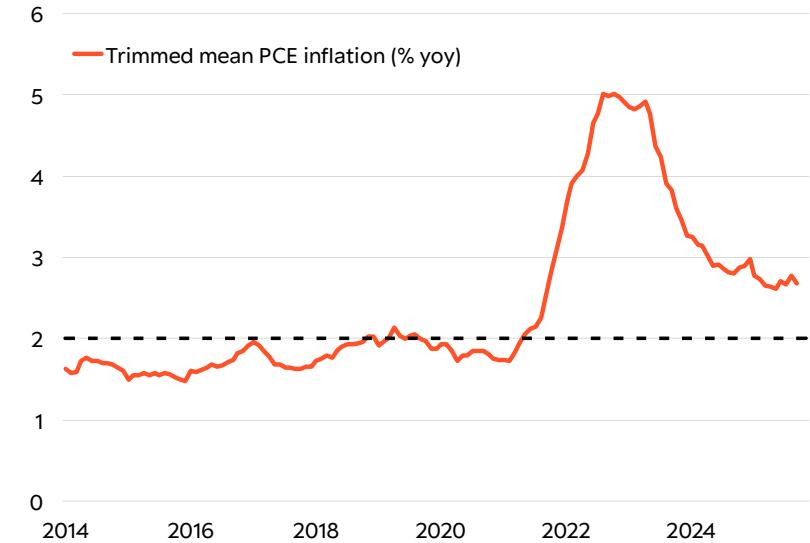
The trimmed mean PCE inflation, calculated by the Dallas Fed, is a measure of trend inflation that attempts to remove idiosyncratic price movements. Sources: BEA, Dallas Fed, Haver Analytics, Berenberg

- The headline PCE inflation has remained above the Fed's target of 2% yoy since March 2021.

- The downward trend in underlying inflation made the Fed confident at the start of 2025 that it would soon reach its 2% target. However, since then, trend inflation has moved in the wrong direction.

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Inflation: who is responsible?

A broad-based increase in prices
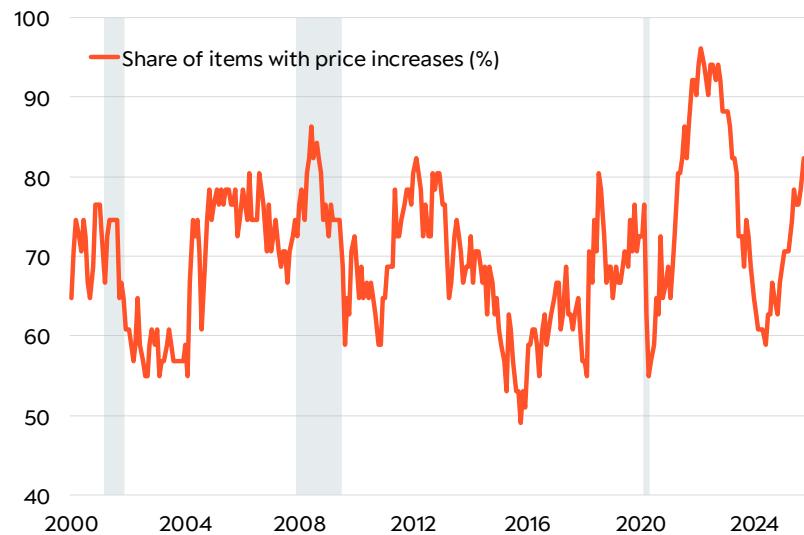
Smoothed with 3-month moving average of 12-month inflation diffusion indices. Shading indicates recession. Sources: BEA, San Francisco Fed, Haver Analytics, Berenberg

Inflation is more of a demand-story than supply
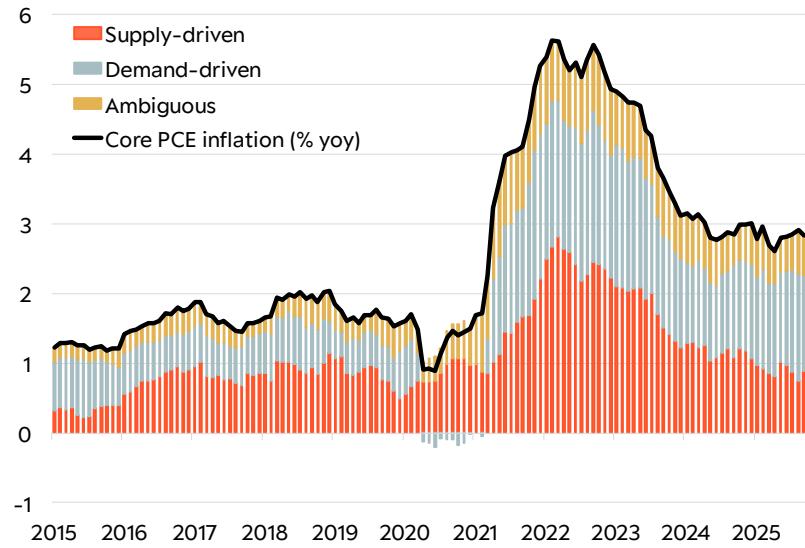
Sources: San Francisco Fed, Haver Analytics, Berenberg

- Over 80% of items within the personal consumption expenditure categories have seen price increases compared to the previous year.

- According to the San Francisco Fed (Shapiro, Adam Hale, 2022b), demand factors are more responsible for the elevated inflation readings than supply factors.

Return of greed-flation?

Businesses report rising input costs...

ISM services prices index
(% balance; >50 denotes increasing)
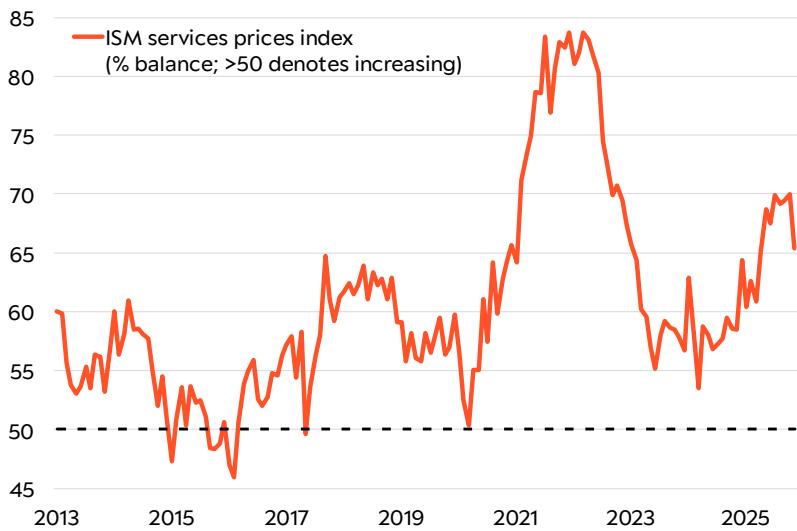
Sources: ISM, Haver Analytics, Berenberg

... and they could raise prices more than they need to

Inflation-adjusted retail/wholesale profit margin index (2019 = 100)

Trendline
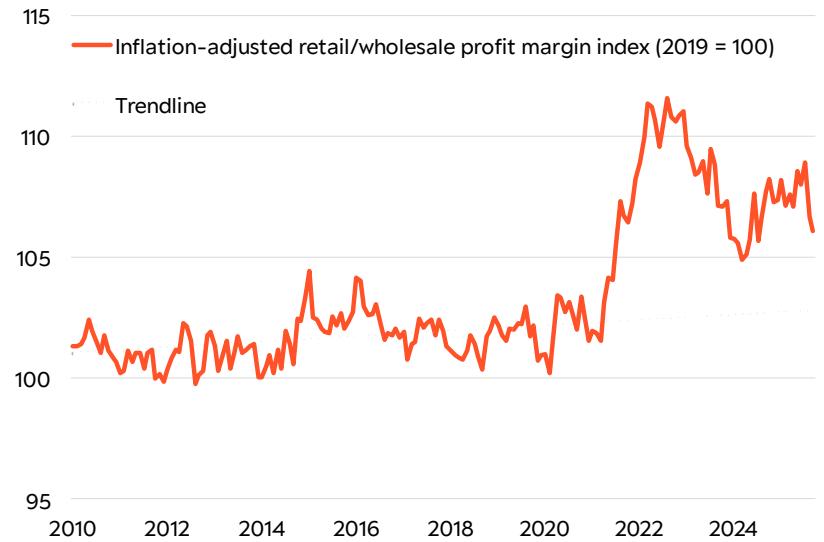
Sources: BLS, Haver Analytics, Berenberg calculations

- Tariffs could drive inflation higher through opportunistic pricing, similar to what occurred in the aftermath of the pandemic.

- Companies may raise prices even if tariffs do not directly affect them, taking advantage of a more permissive price-setting environment.

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Inflation expectations: anchored, so far

10-year inflation breakeven does not look alarming...
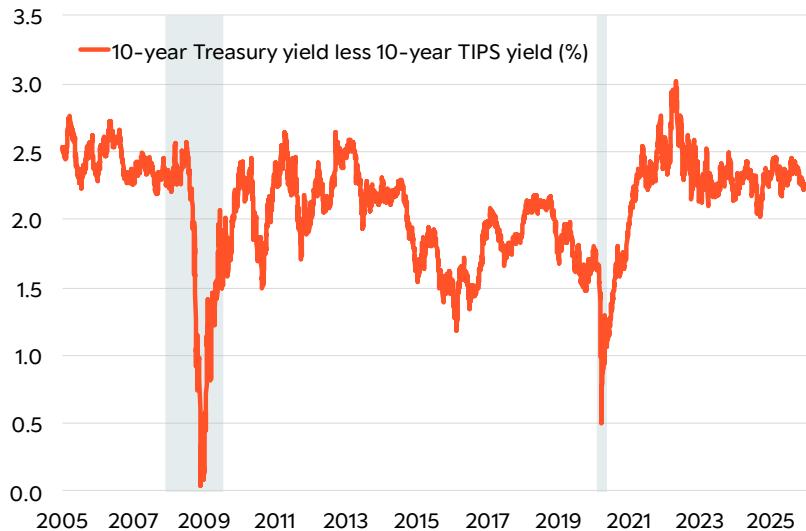
Legend: 10-year Treasury yield less 10-year TIPS yield (%)

Daily data. Shading indicates recession. TIPS = Treasury Inflation Protected Securities. Sources: Federal Reserve, Haver Analytics, Berenberg

... and neither does the 5-year, 5-year forward rate

Legend: Average annual expected inflation from 5 to 10 years in the future (%)
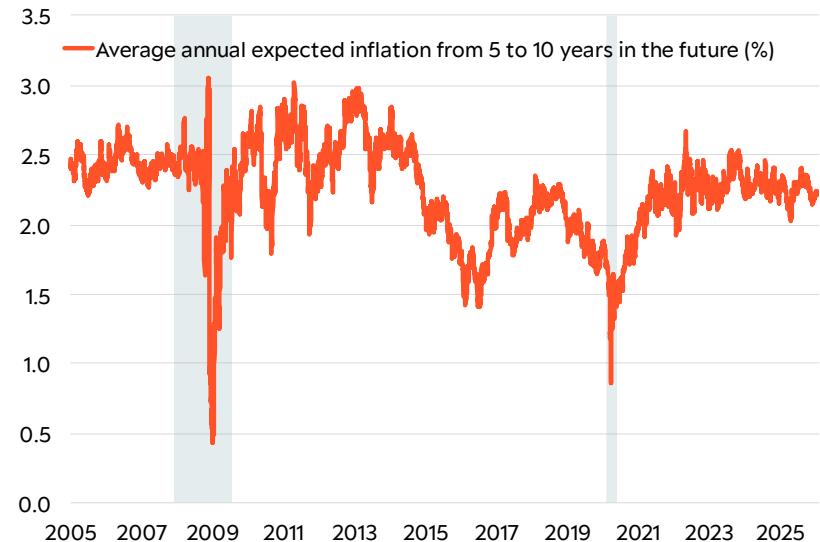
Daily data. Shading indicates recession. Derived from TIPS markets. Sources: Federal Reserve, Haver Analytics, Berenberg

- Long-term inflation expectations matter a great deal to the Fed. A de-anchoring of expectations would not only make it harder to bring inflation back to the 2% target, but it would also breach the Fed's third mandate to maintain "moderate long-term interest rates."

- If inflation expectations were to rise toward 3%, the Fed may have to raise its policy rate corridor even in a weak labour market.

- For now, market-based measures of long-term inflation expectations are holding steady at reasonable levels.

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The T-word

Swaps market prices in a transitory inflation

USD inflation swap zero coupon (1Y)
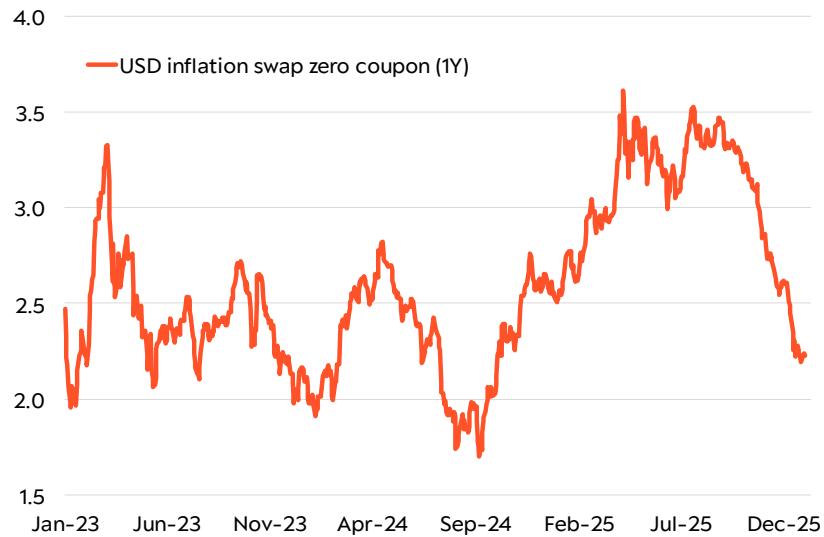
In %. Sources: Bloomberg, Berenberg

The Fed called post-pandemic inflation "transitory"

Global supply chain pressure index (standard deviation points)

PCE inflation (% yoy)
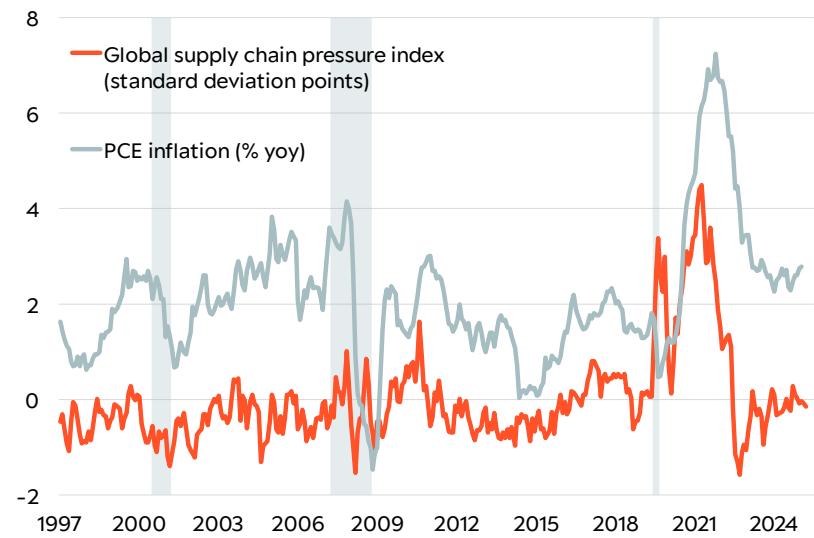
Shading indicates recession. Sources: New York Fed, BEA, Haver Analytics, Berenberg

- After mischaracterizing post-pandemic inflation as transitory (T-word) and falling behind the curve, the Fed has little room to make another mistake before unanchoring long-term inflation expectations.

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Slower job growth under Trump 2.0

The "new normal" of 30–40k monthly job gains

Nonfarm payrolls (mom change, thousands)
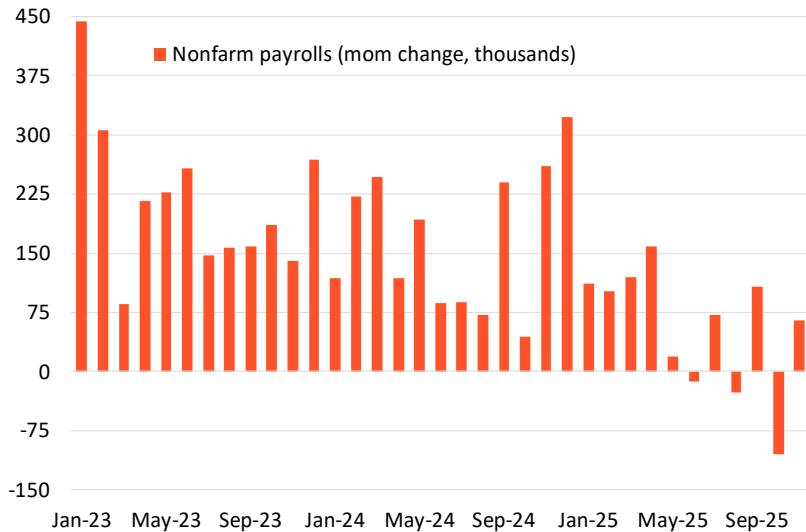
Sources: BLS, Haver Analytics, Berenberg.

Unemployment rate likely peaked in November
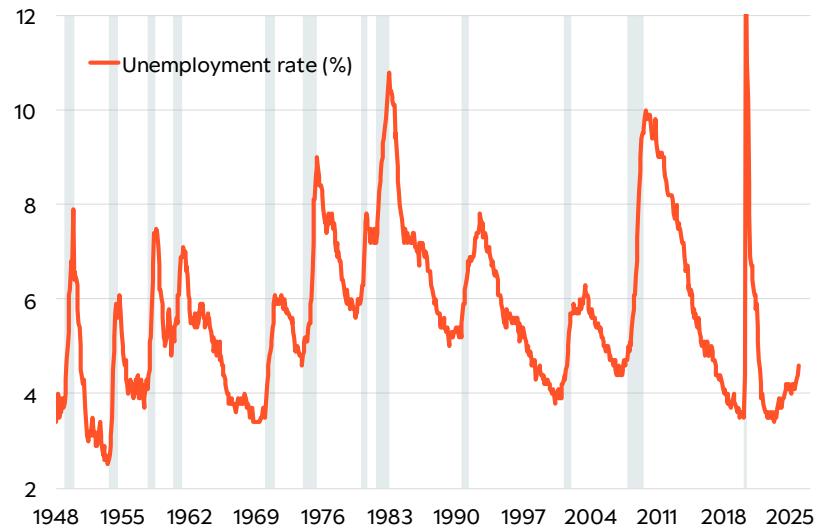
Unemployment rate (%)

Shading indicates recession. Sources: BLS, Haver Analytics, Berenberg.

- While employment gains in 2026 should be tepid, the unemployment rate will likely fall from its current level of 4.6% in November and stay stable at around 4.3% for most of the year.

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Labour supply growth drought

Demographics matter
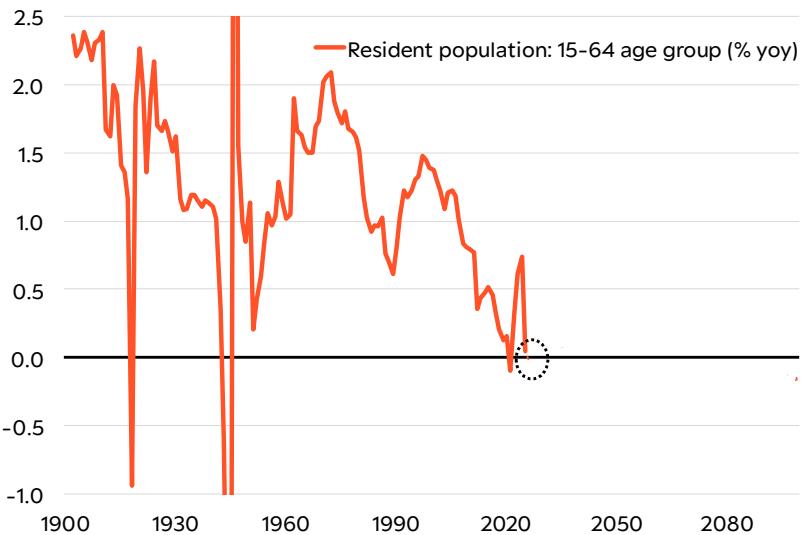
Dotted lines are projections from the Census Bureau. Sources: Census Bureau, Haver Analytics, Berenberg

Labour force participation rate, by age group (%)
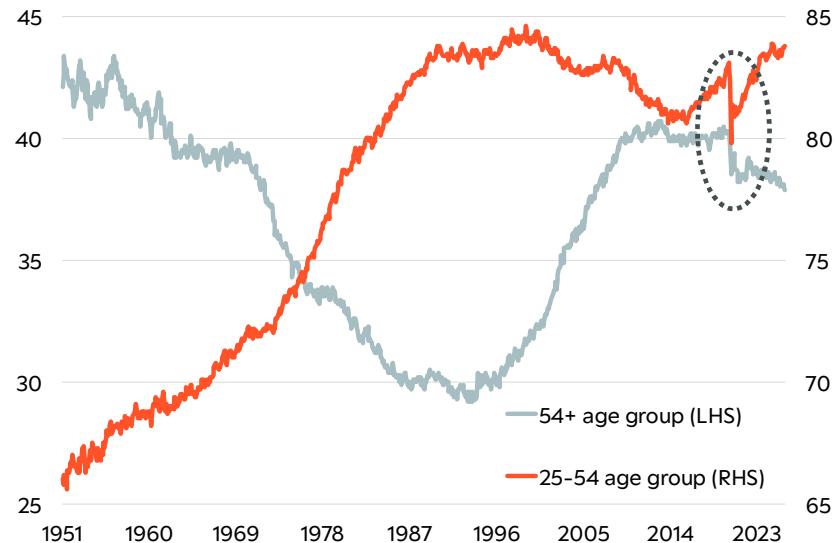
Sources: BLS, Haver Analytics, Berenberg

- For the first time since the 1918 Spanish Flu, the Second World War and the COVID-19 pandemic, the US resident working age population may decline on a year-over-year basis in 2026.

- President Donald Trump's immigration policies have set the US up for little to no labour force growth, leaving productivity to carry the weight of economic expansion.

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No flow no glow

Immigration is key to the labour market

Foreign-born labour force participation rate (%)

Domestic-born labour force participation rate (%)
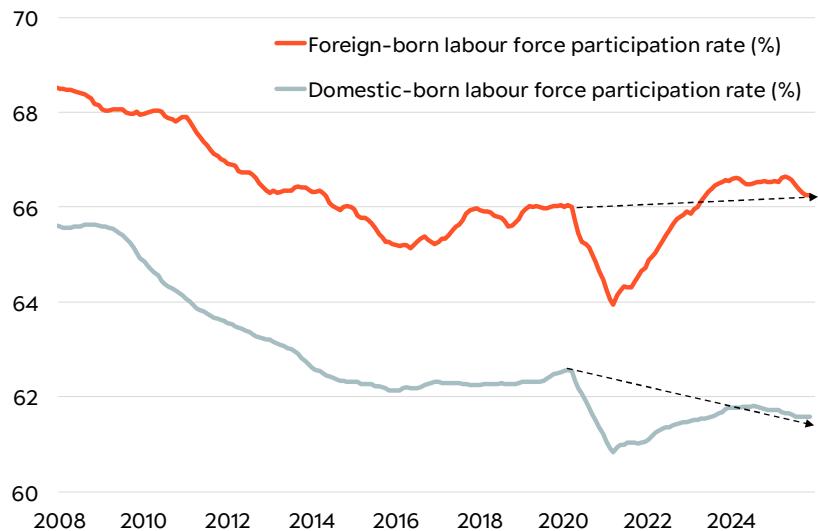
12-month moving average. Sources: BLS, Haver Analytics, Berenberg

Economic impact of Trump's immigration policies

Scenarios	2025 GDP impact	2027 GDP impact	2025 PCE inflation impact	2027 PCE inflation impact
Baseline scenario	−0.81	−0.49	0.15	0.06
High interior deportation	−0.83	−0.84	0.15	0.12
Self-deportation wave	−1.01	−0.45	0.18	0.06
Mass interior deportation	−0.89	−1.49	0.16	0.21
No interior deportation	−0.75	−0.38	0.14	0.05

Sources: Dallas Fed, Berenberg

- The post-pandemic surge in immigration was a key factor in helping the US economy remain resilient to Fed rate hikes. The increase in labor supply also helped slow wage growth and ease inflationary pressures.

- However, restrictive immigration policies under Trump 2.0 are now slowing growth and contributing to inflation.

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Weak labour demand

Year-over-year change in employment, by industry

Education and Health Services
Leisure & Hospitality
Retail Trade
Other Services
Construction
Financial Activities
Utilities
Wholesale Trade
Transportation & Warehousing
Information
Mining
Professional & Business Services
Manufacturing
Government

-200 | 0 | 200 | 400 | 600 | 800
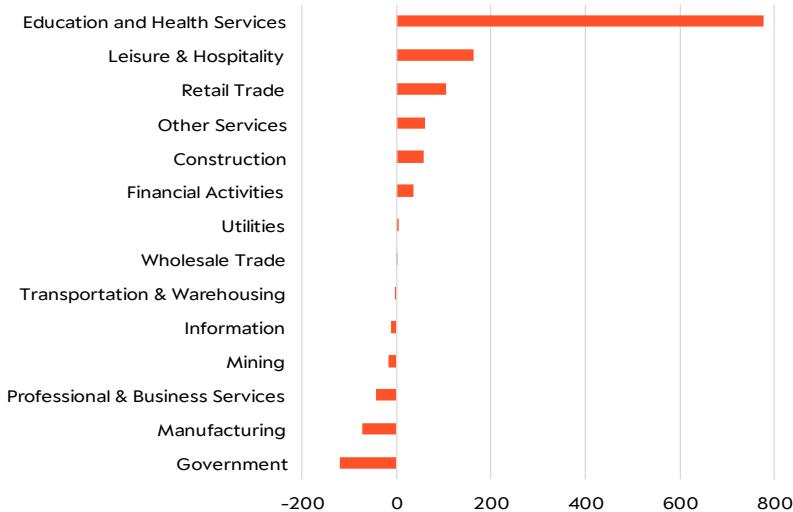
In thousands. Sources: BLS, Haver Analytics, Berenberg

Businesses' hiring plans have improved but remain weak

Berenberg hiring plans index (>0 denotes above long term average)

President Trump takes office
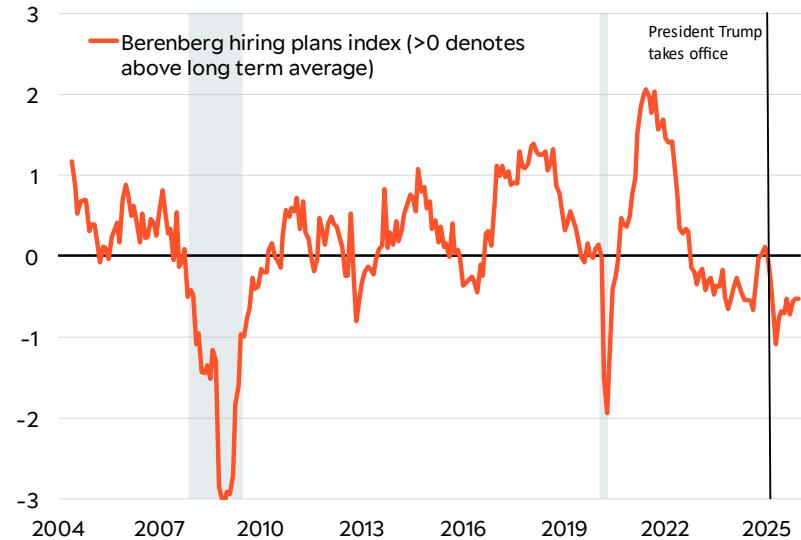
Average of z-scores of businesses' hiring plans. Shading indicates recession. Sources: Census Bureau, Challenger, Gray & Christmas, Dallas Fed, Kansas City Fed, New York Fed, Philadelphia Fed, Chicago Fed, Richmond Fed, NFIB, Cleveland Fed, Business Roundtable, NABE, NAM, Haver Analytics, Berenberg.

- The elevated uncertainty under Trump 2.0 and the hype around artificial intelligence have left firms in a "wait-and-see" mode.

- Labor demand softened significantly over the past year but may recover slightly due to fiscal stimulus from the One Big Beautiful Bill, resilient economic activity, and accommodative financial conditions.

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Another year of low-hire, low-fire

Hires rate has declined sharply since early 2022
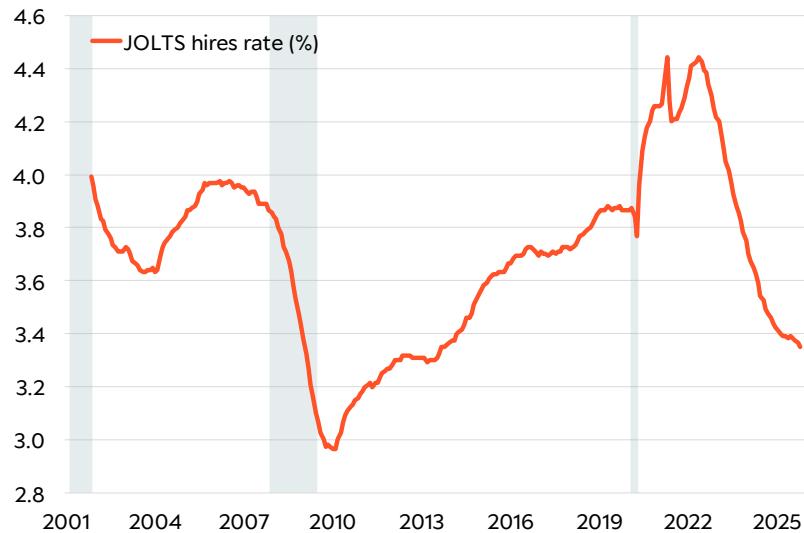
12-month moving average. Shading indicates recession. JOLTS = Job Openings and Labor Turnover Survey. Sources: BLS, Haver Analytics, Berenberg

Layoff rate at historical lows
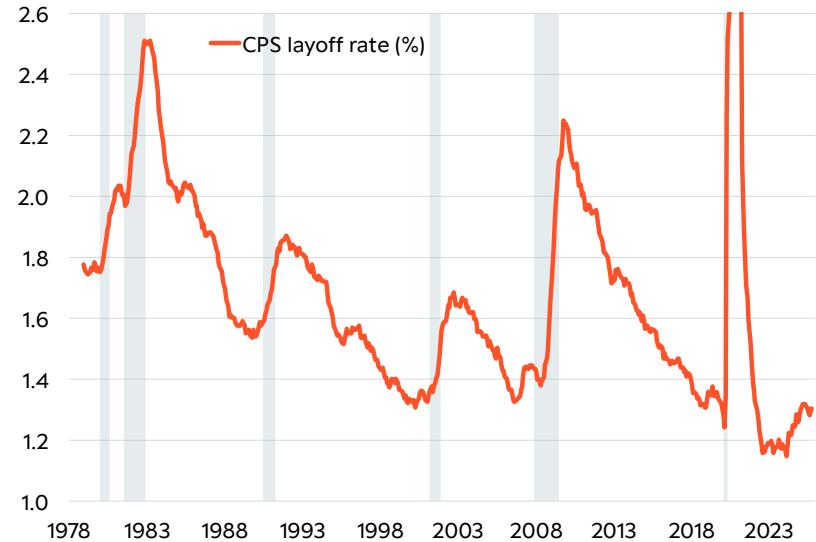
12-month moving average. Shading indicates recession. CPS = Current Population Survey. Sources: Ellieroth & Michaud, BLS, Haver Analytics, Berenberg

- The labour market is stuck in a "low-hire, low-fire" phase but still roughly in balance.

- Businesses, still scarred by post-pandemic labour shortages, hesitate to let go of workers.

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Labour market holding the line

Initial claims: steady as she goes
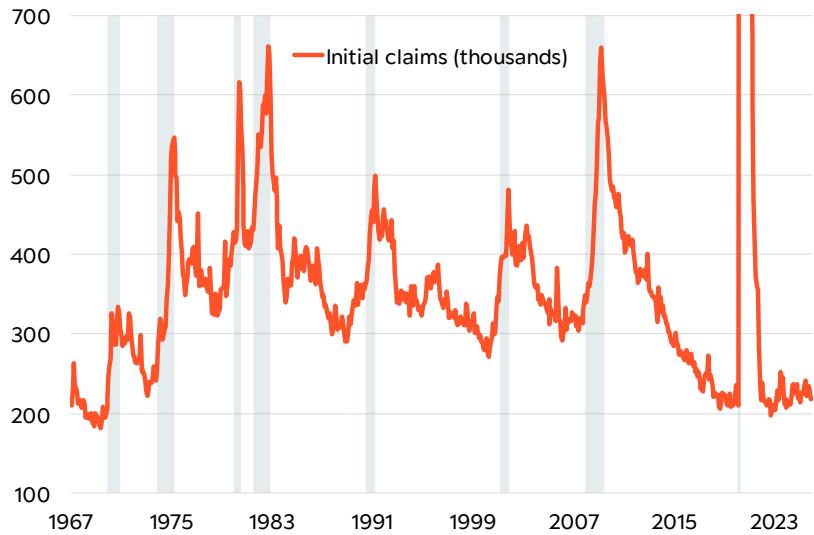
Initial claims refer to number of people who apply for unemployment benefits for the first time. Aggregated monthly. Shading indicates recession. Sources: Department of Labor, Haver Analytics, Berenberg

Continued claims: coming down from the peak?
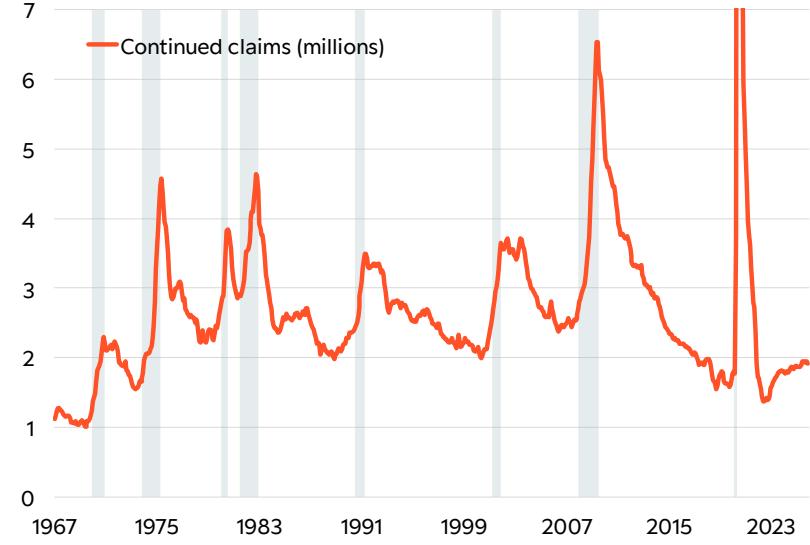
Continued claims refer to the number of people who have already filed an initial claim and have been receiving unemployment benefits. Shading indicates recession. Sources: Department of Labor, Haver Analytics, Berenberg

- First-time applications for unemployment benefits remain at historically low levels and have been broadly stable over the past 2-3 years.

- Continued claims (those who filed for unemployment benefits before and continue to claim them) appear to have peaked in July but remain elevated compared to recent years.

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How soft is the labour market?

Labour market activity gradually deteriorating

Kansas City Fed labour market conditions indicator: activity (>0 indicates above long-run average)

Shading indicates recession. The Kansas City Fed labour market conditions indicator measures overall labour market health based on 24 indicators. Sources: Kansas City Fed, Haver Analytics, Berenberg
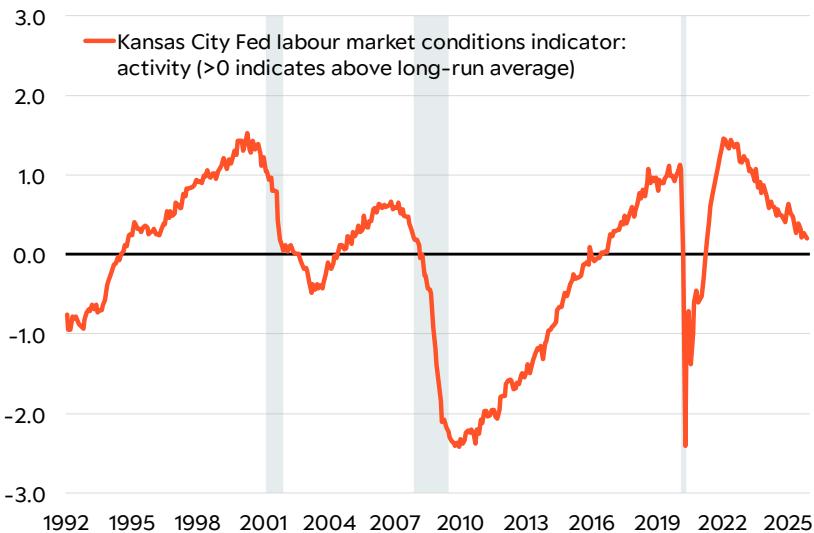
Long-term unemployment rises as hiring slows

Unemployed for 27 weeks and over (% of total unemployed)

Shading indicates recession. Sources: BLS, Haver Analytics, Berenberg
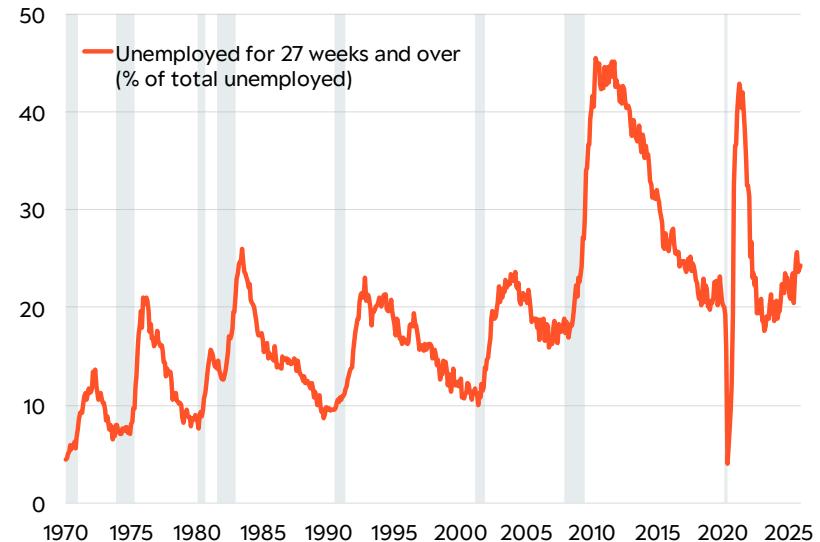
- The extensive US labour market data allows the construction of ultra-bearish views by focusing on selective indicators. Even when the nonfarm payroll report shows strong headline figures -- solid job gains and low unemployment rate -- it remains possible to present a negative outlook. Common examples include highlighting the rising number of people working part-time for economic reasons, job losses in temporary help agencies, a downward trend in average weekly hours, negative revisions to prior months' employment gains, and stall-speed hiring in "key" industries.

- To cut through the noise, the Fed will likely continue relying on broader measures of labor market health, such as the Kansas City Fed's labour market conditions indicator.

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The $100k H1B blunder

H1B beneficiaries approved in FY2025, by industry

Industry	
Professional, scientific, and technical services	~170
Manufacturing	~47
Information	~43
Finance and insurance	~38
Educational services	~30
Retail trade	~24
Health care and social assistance	~19
Construction	~3
Transportation and Warehousing	~2

(x-axis: 0, 50, 100, 150)
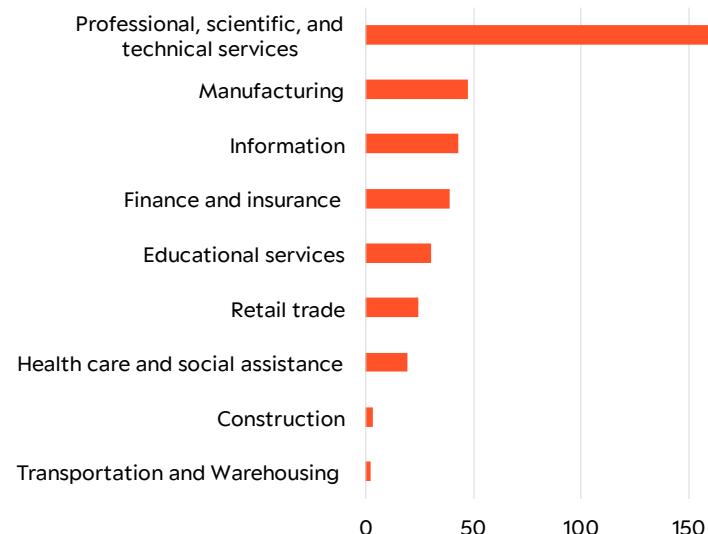
In thousands. Sources: US Citizenship and Immigration Services, Berenberg

H1B beneficiaries approved in FY2025, by company

Company	
Amazon	~13.5
Meta	~6.3
Microsoft	~6.2
Tata Consultancy Services	~6.1
Google	~5.5
Apple	~5.4
Walmart	~3.2
Cognizant Technology Solutions	~3.1
JP Morgan	~3.0
Deloitte	~3.0

(x-axis: 0, 5, 10, 15)
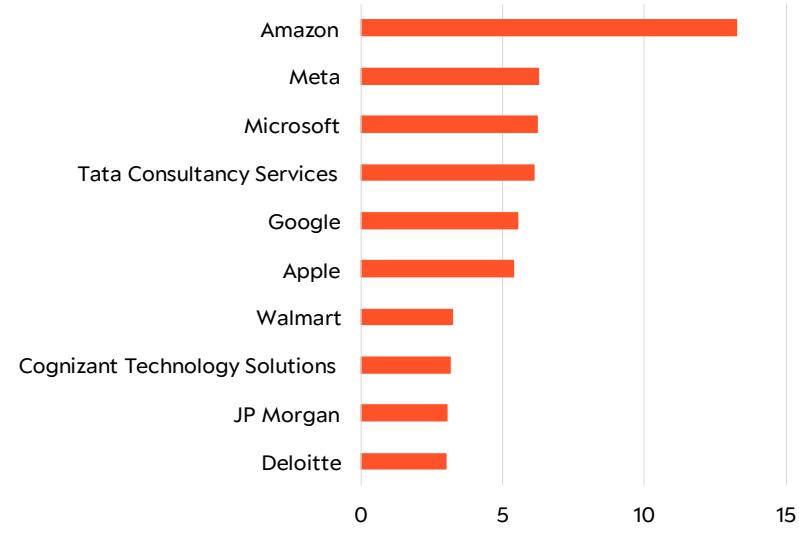
In thousands. Sources: US Citizenship and Immigration Services, Berenberg

- Late September, President Donald Trump signed a proclamation requiring a $100k application fee to obtain an H1B visa (a US work visa for skilled foreign professionals).

- Big Tech firms, which lead capital expenditure on AI, rely most heavily on the H1B visa programme.

- Between 1990 and 2010, H-1B holders accounted for 30% to 50% of all US productivity growth (Peri et al. 2015). That is remarkable, considering that by 2000 the US had only a little over 350k H1B visa holders (around 0.1% of the population).

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Hardline immigration under Trump 2.0

Deportations on surge

Arrests by Immigration and Customs Enforcement (ICE)
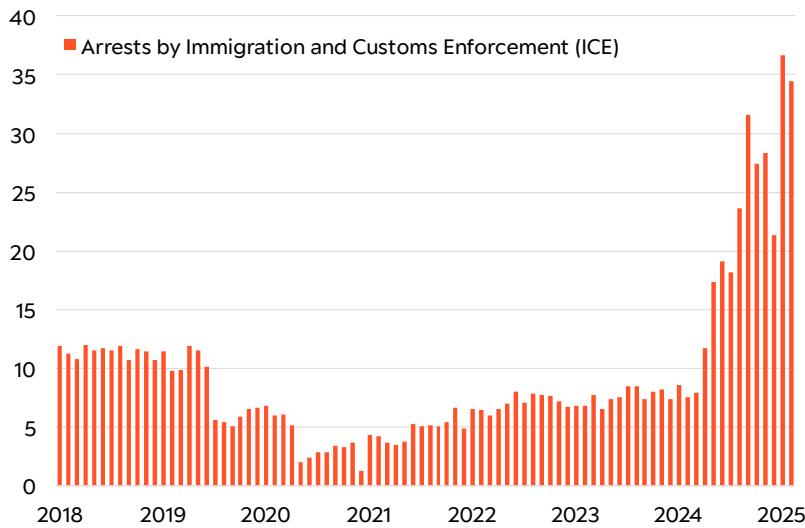
In thousands. Sources: Immigration and Customs Enforcement, Haver Analytics, Berenberg

Border encounters at record low levels

Southwest land border encounters (thousands)
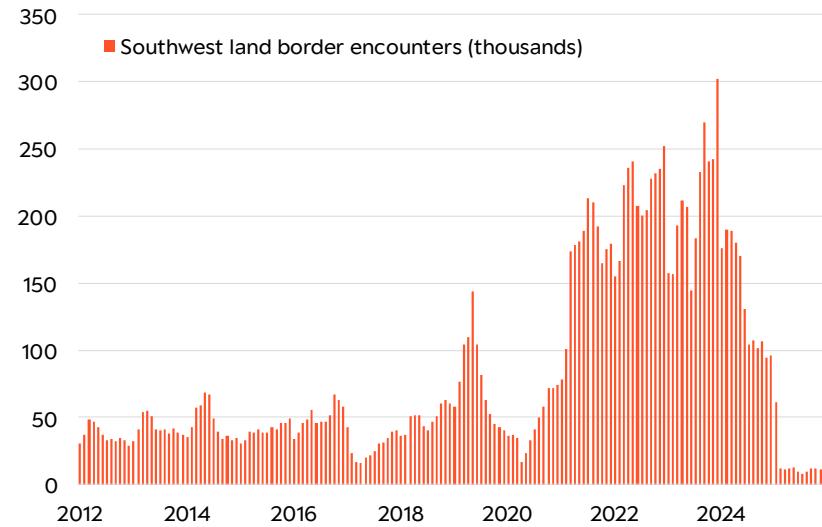
In thousands. Sources: Customs and Border Protection, Haver Analytics, Berenberg

- Trump delivered on one of his key campaign promises: clamping down hard on undocumented immigration.

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Fewer tourists and international students

Much fewer tourist arrivals than last year

Legend: Tourist arrivals to the US (% yoy)
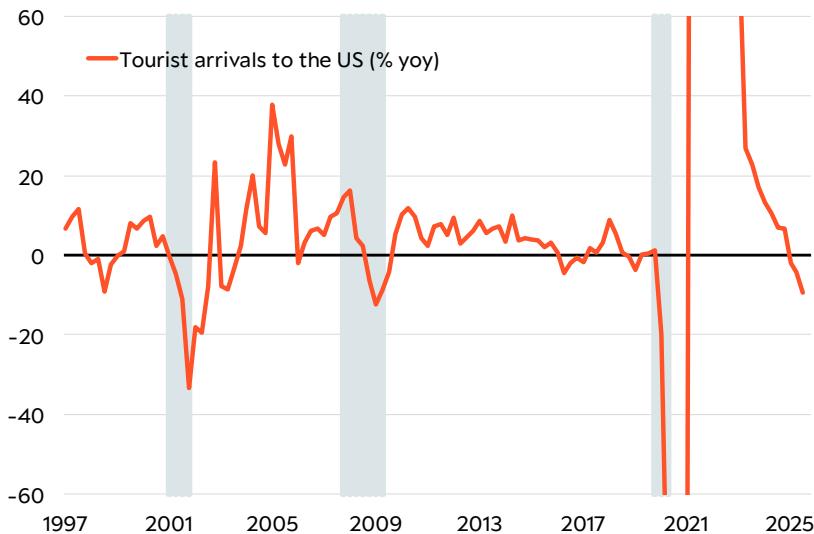
Shading indicates recession. Sources: National Travel and Tourism Office, Haver Analytics, Berenberg

Student visas peaked in June 2024

Legend: Number of issued student visa (thousands)
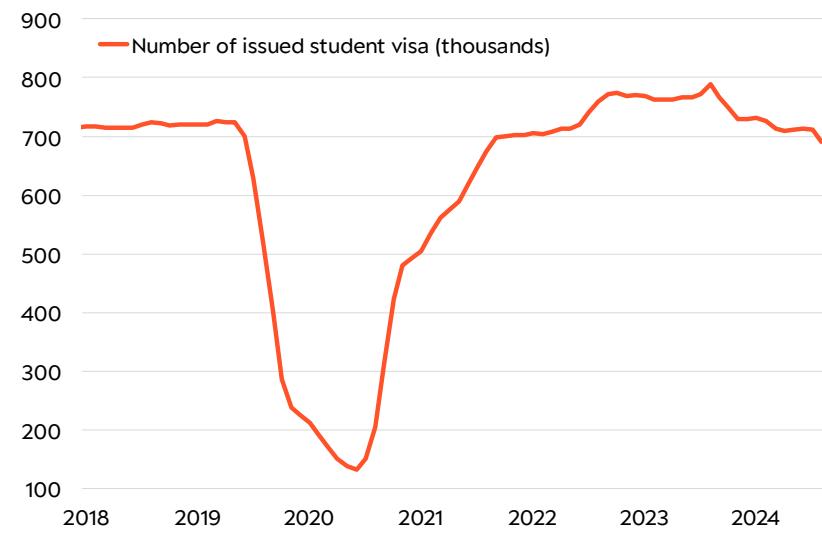
12-month moving total. F-1, M-1 and J-1 visas. Sources: US Department of State, Berenberg

- An unwelcoming environment for foreigners has led to a decline in international student and tourist arrivals.

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Where do foreign-born workers work?

Foreign-born share of employment, by occupation

Building and grounds cleaning and maintenance
Farming, fishing, and forestry
Construction and extraction
Computer, engineering, and science
Food preparation and serving related
Healthcare support
Production
Transportation and material moving
Personal care and service
Installation, maintenance, and repair
Healthcare practitioners and technical
Management, business, and financial
Sales and related
Office and administrative support
Education, legal, community service, arts, media
Protective service

0 5 10 15 20 25 30 35 40 45

Based on 2023 data. Sources: Census Bureau, Berenberg

Foreign-born share of employment, by industry

Construction
Professional and business services
Other services
Transportation and utilities
Leisure and hospitality
Manufacturing
Agriculture, forestry, fishing, and hunting
Wholesale and retail trade
Educational and health services
Financial activities
Information
Mining
Public administration

0 5 10 15 20 25 30
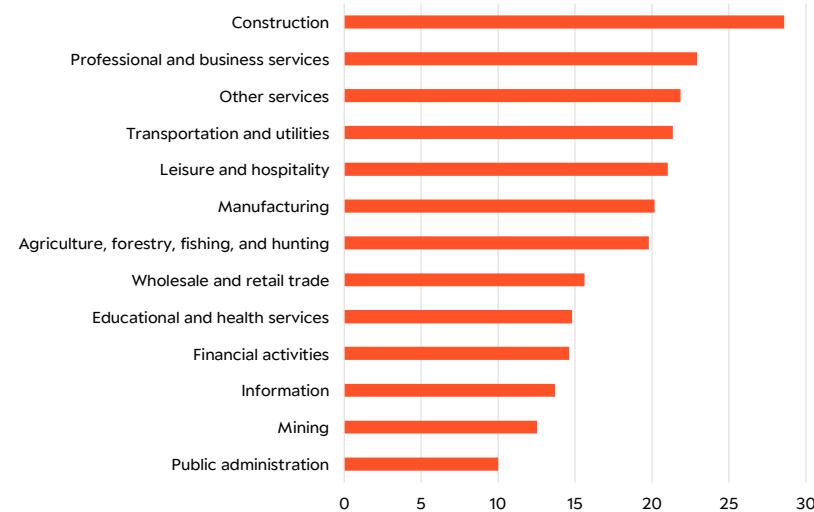
Based on 2023 data. Sources: Census Bureau, Berenberg

- The immigration crackdown could result in severe labor shortages in key industries such as construction, professional and business services, healthcare, agriculture, transportation, and manufacturing.

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Making sense of job revisions

Size of recent revisions nothing too extreme

Legend:
- Average non-benchmark revision to nonfarm payroll gains (thousands, LHS)
- Average absolute non-benchmark revision to nonfarm payroll gains (% of employment, RHS)

Shading indicates recession. Annual averages. Non-benchmark revisions refer to the difference between third (last) release and first release of monthly nonfarm payroll gains. Sources: BLS, Berenberg

2025 benchmark revisions likely similar to 2024

Legend:
- Final benchmark revisions
- Preliminary benchmark revisions

In thousands. Shading indicates recession. Sources: BLS, Berenberg
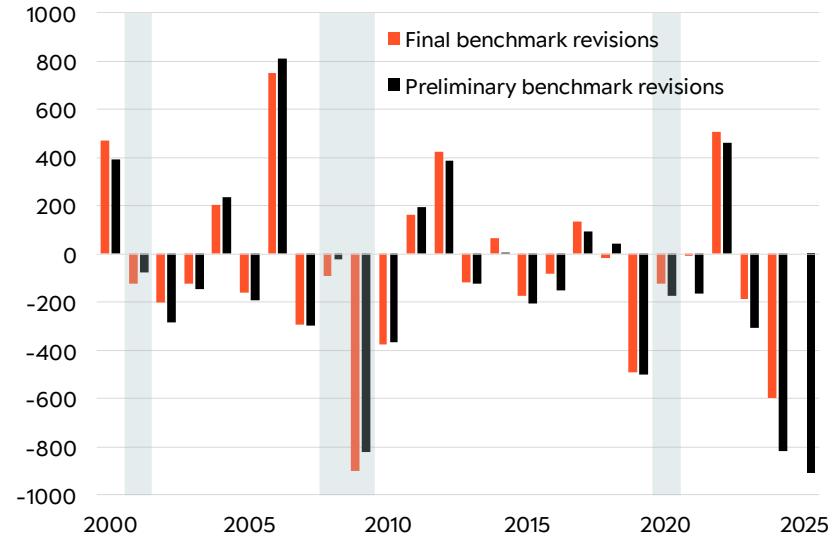
- In the aftermath of the pandemic, monthly non-benchmark revisions to nonfarm payroll gains have not landed at the extreme end of the historical range.

- Revisions have skewed downward, but jumping to conclusions based solely on downward revisions during the pandemic or the 2008 global financial crisis – while ignoring upward revisions in the 1980, 1990, and 2001 recessions – misreads the data.

- Downward revisions are not inherently procyclical. Forecasting a major economic downturn based on them would simply add to the long list of labour market indicators that predicted a recession in 2023 and 2024, which never materialised.

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Time to worry about data quality?

Current Population Survey response rate (%)
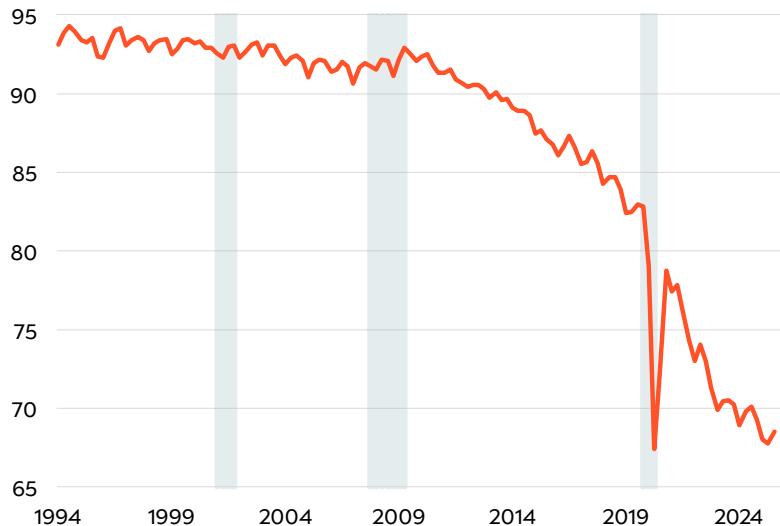
Shading indicates recession. Sources: BLS, Haver Analytics, Berenberg

JOLTS response rate (%)
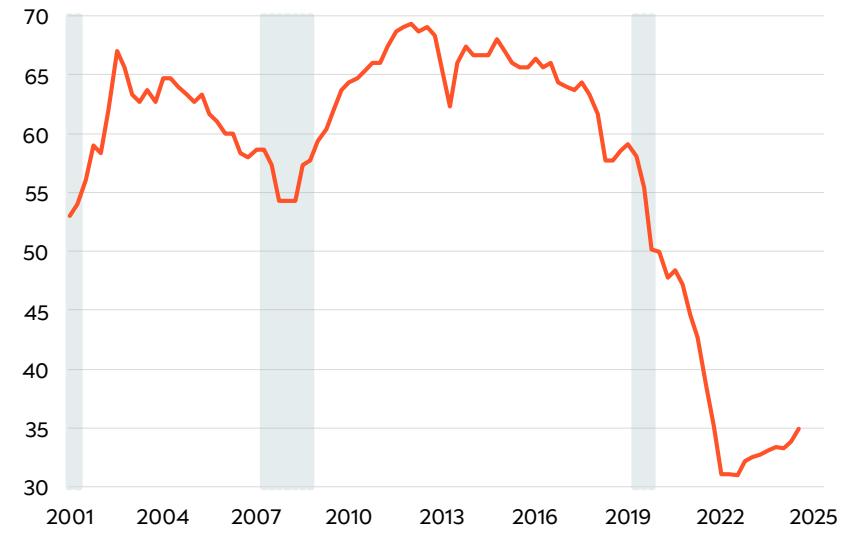
Shading indicates recession. JOLTS = Job Openings and Labor Turnover Survey. Sources: BLS, Haver Analytics, Berenberg

- If response rates remain low, collection rates vary by release and the government struggles to estimate jobs from new businesses, then naturally analysts and markets may place greater weight on private data.

- For now, government data remains the gold standard and the basis for Fed's decision-making. However, the outlook for data quality is not encouraging. The federal hiring freeze and already tight budgets, does not support meaningful improvement in data collection or processing.

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Wage growth eased but likely to pick up

Job-switching wage premia close to zero
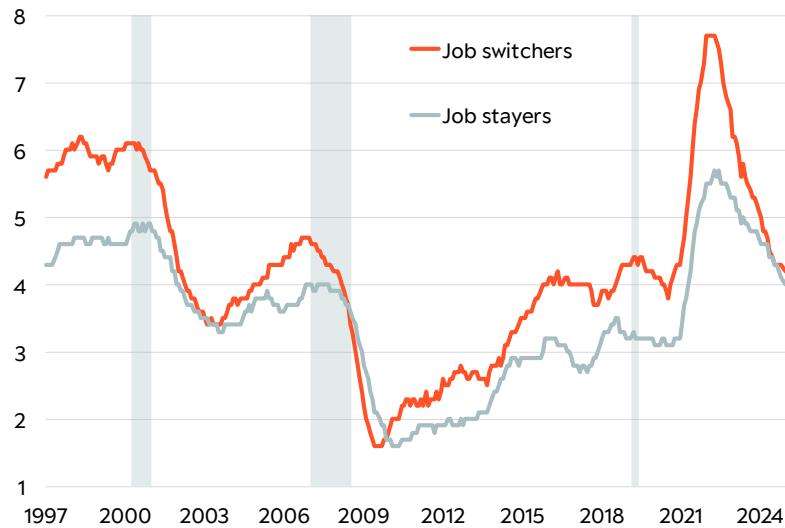
% yoy. 12-month moving average of median wage growth. Shading indicates recession. Sources: Atlanta Fed, Haver Analytics, Berenberg

Wage growth have eased across all occupations
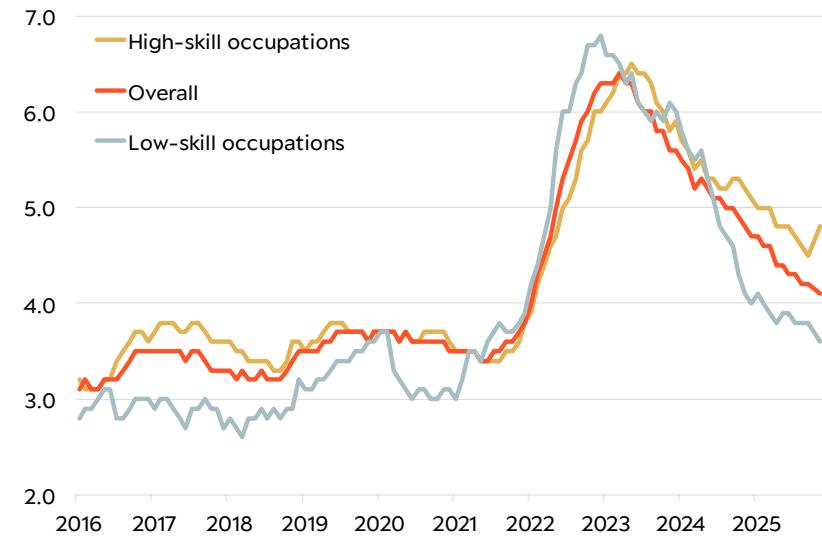
% yoy. 12-month moving average of median wage growth. Sources: Atlanta Fed, Haver Analytics, Berenberg

- The gap between job-switcher and job-stayer annual wage growth has narrowed, as workers can no longer easily quit their jobs and switch to higher-paying roles.

- The post-pandemic surge in immigration helped ease wage growth across both high- and low-skill occupations.

- A drought in labor supply due to the immigration crackdown will likely drive renewed wage pressures.

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Making room for the AI boom

Spending more on data centers than hospitals

Data centre
Hospital
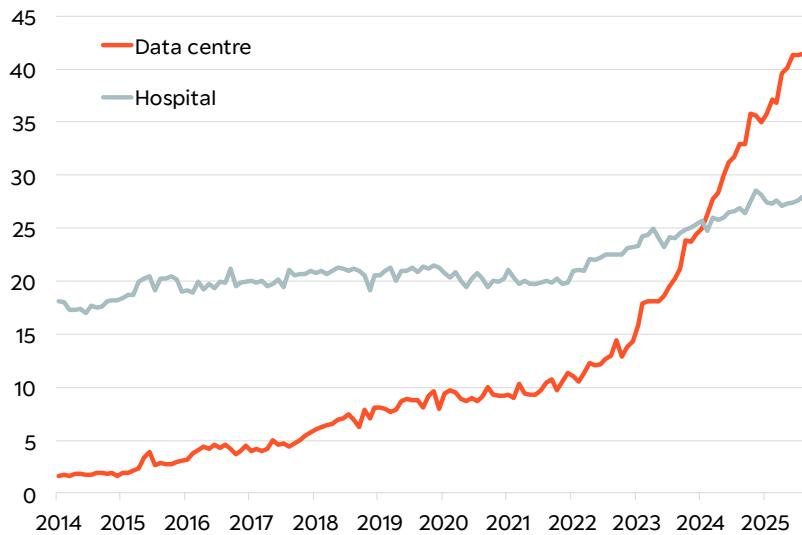
In $bn; value of private construction put in place; seasonally adjusted, annualised.
Sources: Census Bureau, Haver Analytics, Berenberg

Production is stagnant except for high-technology

Selected high-technology production
Nonenergy production
Energy production
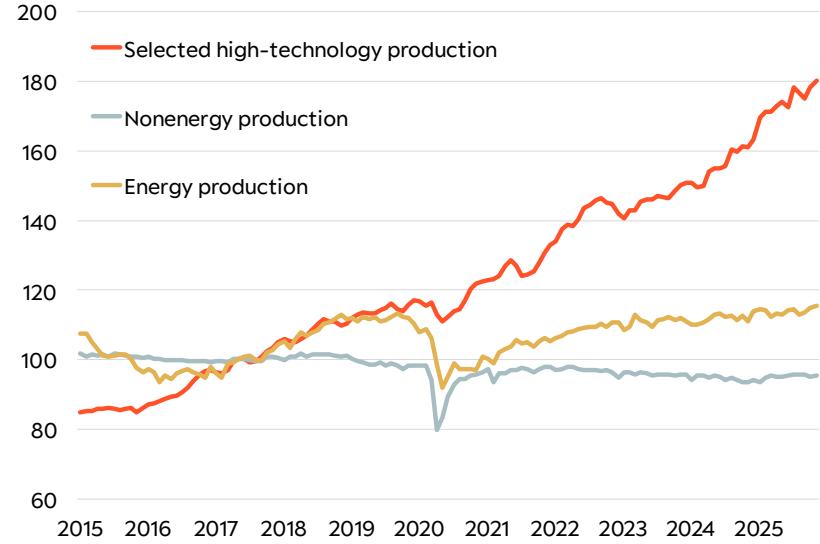
Index, 2017 =100. Selected high-technology industries are computers and peripheral equipment, communications equipment, semiconductors and related electronic components. Sources: Federal Reserve Board, Haver Analytics, Berenberg

- Without an inflow of workers supporting US GDP growth, rises in productivity must do all the heavy lifting. The macro data point to a clear bet: the US has pinned its hopes for productivity gains on artificial intelligence.

- For now, the artificial intelligence hype shields the economy to some extent from the impact of tariffs and uncertainty as investment in the sector remains relatively inelastic.

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AI adoption increasing but still low

Businesses increasingly plan to adopt AI

— Share of businesses planning to use AI in the next 6 months (%)
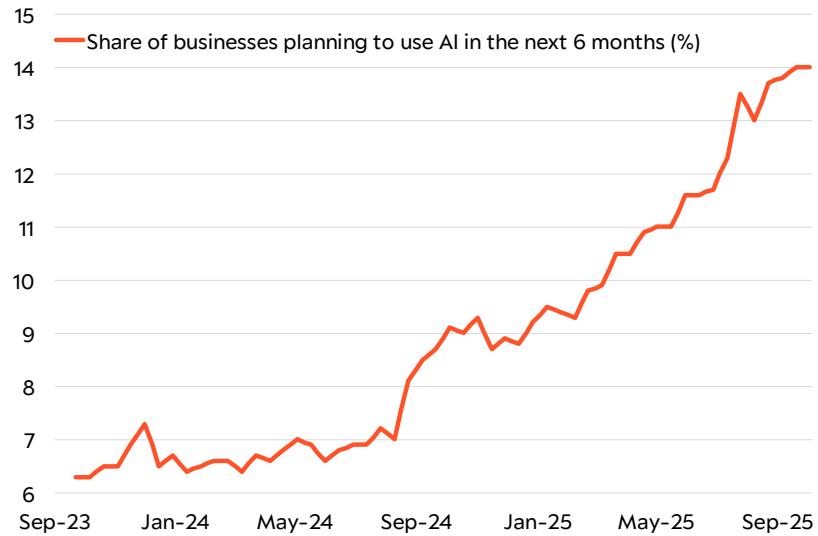
Sources: Census Bureau, Haver Analytics, Berenberg

AI adoption concentrated

■ Expected AI use (% of firms)

Other Services—except Public Administration
Accommodation and Food Services
Arts, Entertainment, and Recreation
Health Care and Social Assistance
Educational Services
Administrative/Support /Waste Management/...
Professional, Scientific, and Technical Services
Real Estate and Rental and Leasing
Finance and Insurance
Information
Transportation & Warehousing
Retail Trade
Wholesale Trade
Manufacturing
Construction
Utilities
Mining, Quarrying, and Oil and Gas Extraction
Agriculture, Forestry, Fishing and Hunting

Sources: Census Bureau, Haver Analytics, Berenberg

- The full impact of AI on productivity growth will take time to materialize as more companies adopt the technology.

- According to the Census Bureau's Business Trends and Outlook Survey, fewer than 15% of businesses plan to use artificial intelligence in the next six months.

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Capex — the good and the bad

Tech giants expected to ramp up capex spending
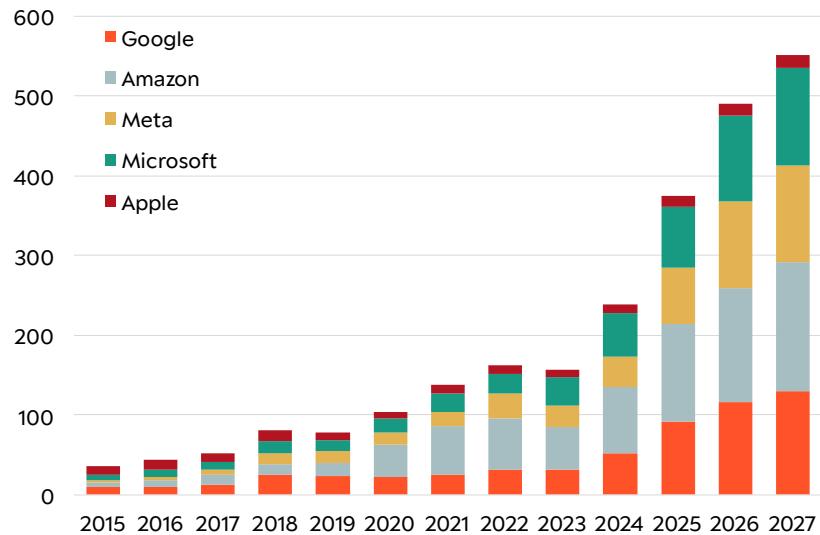
In $bn. Capital expenditures. 2025, 2026 and 2027 are Bloomberg consensus forecasts. Sources: Bloomberg, Berenberg

Businesses' capex plans improved but remain weak
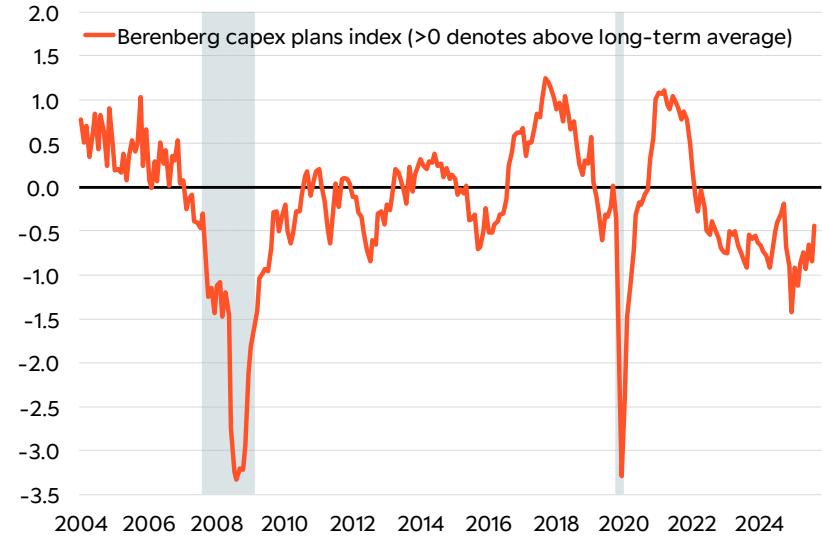
Average of z–scores of businesses' capex plans. Shading indicates recession. Sources: NABE, NAM, Business Roundtable, Chicago Fed, Dallas Fed, Kansas City Fed, New York Fed, Philadelphia Fed, Richmond Fed, NFIB, Haver Analytics, Berenberg

- Tech giants are expected to increase their capex spending as they make room for the AI boom.

- Although businesses' capital expenditure plans have improved since the trough in April 2025, they remain weak.

Sliding construction, rising equipment spending

Bidenomics reversing

Computer /electronic/electrical construction spending
Others
Manufacturing construction spending
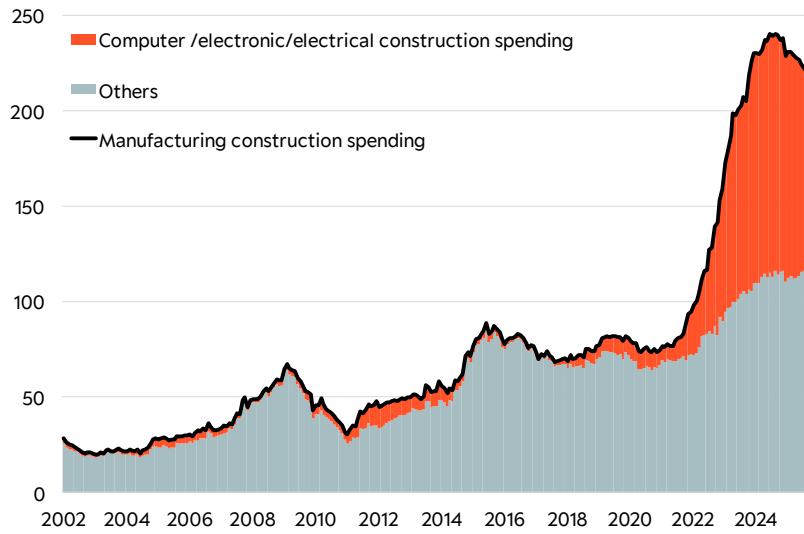
In $bn. Seasonally adjusted and annualised rate. Sources: Census Bureau, Haver Analytics, Berenberg

Capex shipments picking up

Manufacturers' shipments: nondefense capital goods ex. aircraft (% yoy)
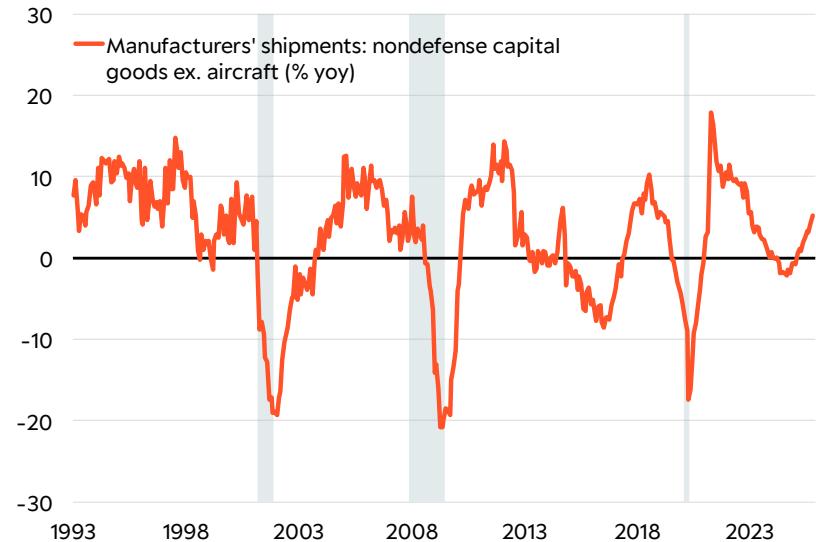
Shading indicates recession. Sources: Census Bureau, Haver Analytics, Berenberg

- The government–sponsored boom in factory construction has peaked and is likely to continue weighing on GDP growth in 2026.

- Meanwhile, the AI boom remains a key driver of higher capital expenditures. Core capex (nondefense capital goods excluding aircraft) shipments are up more than 5% yoy -- the highest since January 2023.

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A unique housing market cycle

Prisoners in their own homes
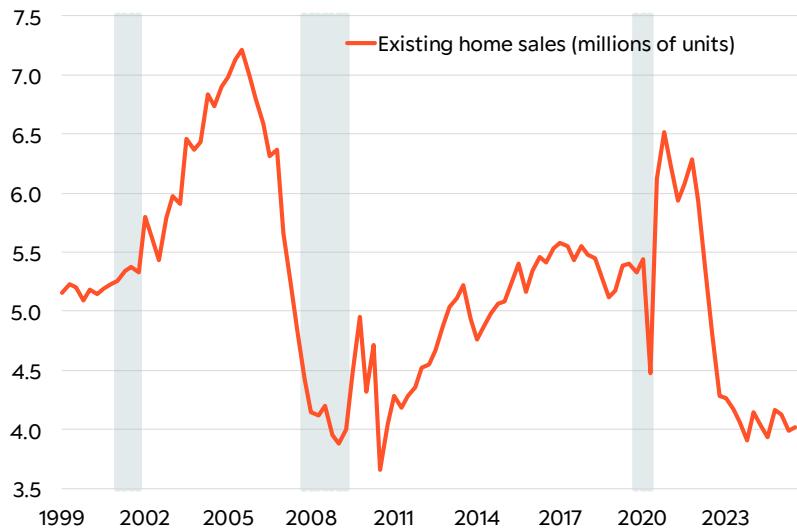
Existing home sales (millions of units)

Shading indicates recession. Sources: National Association of Realtors, Haver Analytics, Berenberg

Least affordable housing market since 1990
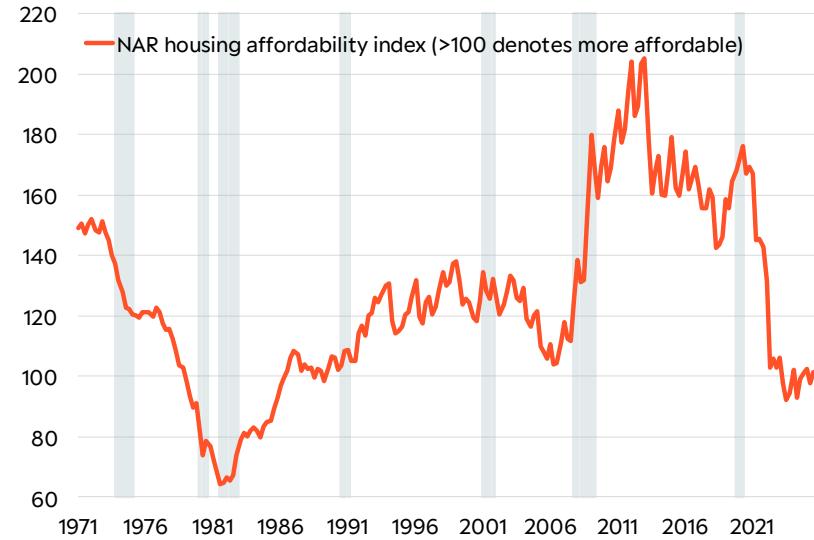
NAR housing affordability index (>100 denotes more affordable)

Shading indicates recession. Sources: National Association of Realtors, Haver Analytics, Berenberg

- Although market mortgage rates have climbed to over 6%, the mortgage rate homeowners pay on average (the effective mortgage rate) is around 200bp lower, at approximately 4%. Homeowners do not want to sell their homes and give up their low fixed mortgage rate. This has benefited homebuilders and residential investment, even if demand is poor, as would-be homeowners have no choice but to buy new homes.

- Housing affordability is at its worst levels since 1990 due to elevated home prices and high mortgage rates. New mortgage applications to purchase a house are at historically low levels.

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Strong corporate profit margins

Decomposing corporate profit margins

Legend:
- Government saving
- Dividends
- Rest of the world saving
- Corporate profit margin (%)
- Investment
- Household saving
- Statistical Discrepancy

Sources: BEA, Haver Analytics, Berenberg calculations
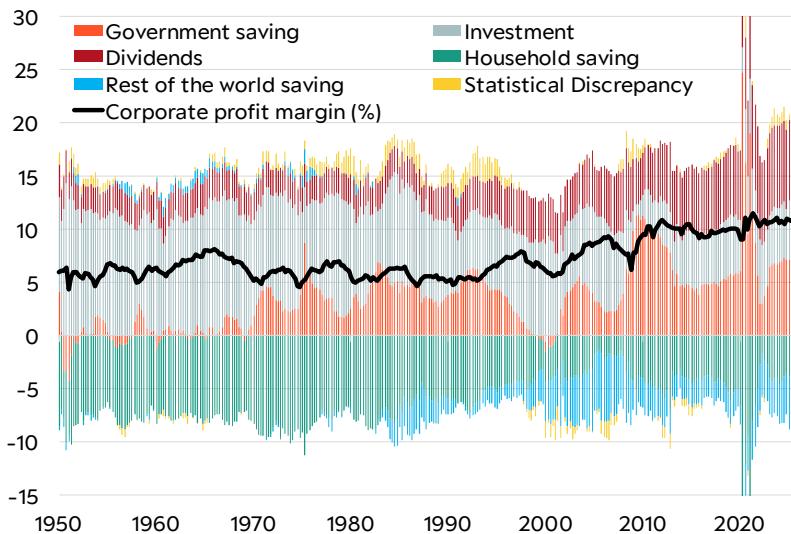
Well above the pre-pandemic margin

- Retail trade profit margin (%)

Shading indicates recession. Sources: BEA, Haver Analytics, Berenberg
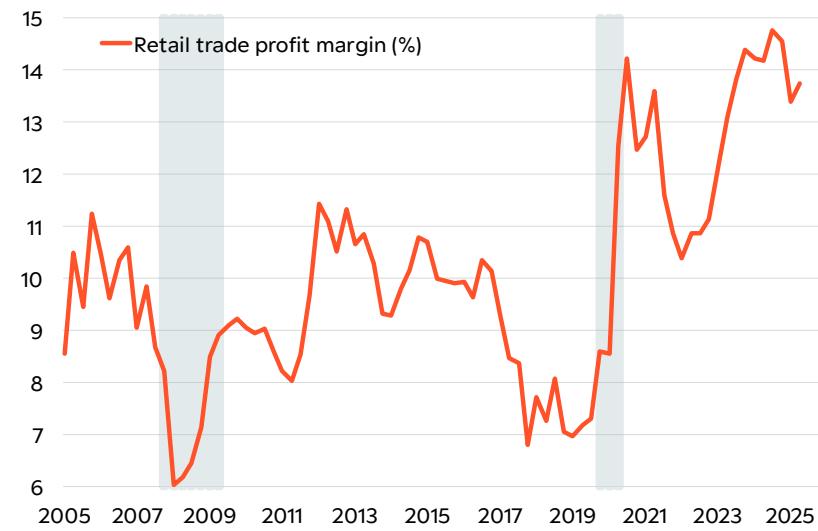
- Profit margins remain well above pre-pandemic levels despite tariff costs.
- Strong profit margins allow retailers to initially absorb some tariff costs before they raise prices, especially if they are unsure whether the tariffs will last.

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Healthy businesses overall

Bankruptcies recently ticked up but remain low

Business bankruptcy filings (thousands)
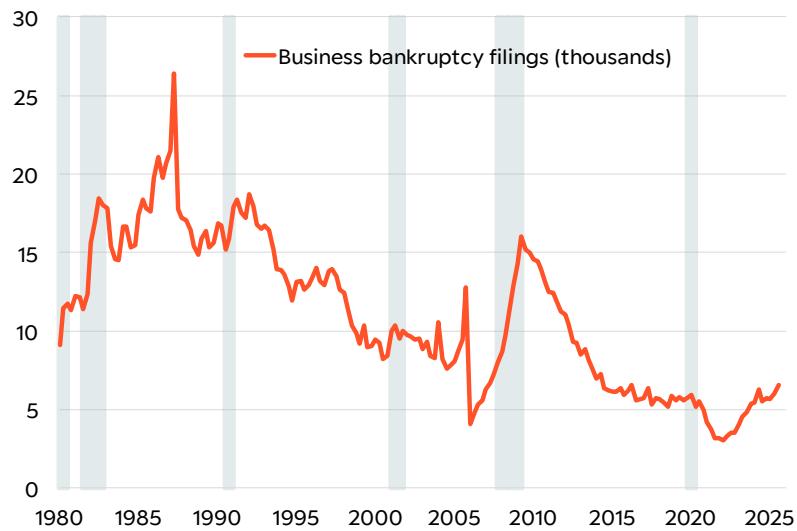
Shading indicates recession. Sources: Administrative office of the US courts, Haver Analytics, Berenberg

Interest expenses as a share of profit at record-lows

Net interest payments as a share of net operating surplus (%)
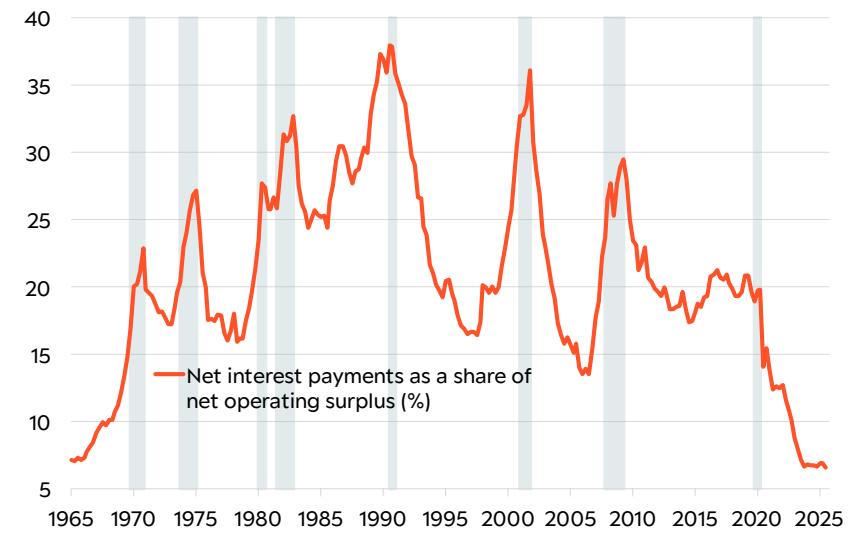
Shading indicates recession. Sources: BEA, Haver Analytics, Berenberg

- Business bankruptcy filings remain at historically low levels.

- Similar to consumers, businesses borrowed at fixed rates when borrowing costs were extremely low. Interest payments as a share of net operating surplus have plummeted since the pandemic and are now at their lowest level since the 1960s.

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Tough time to be a small business

ADP private nonfarm employment (% yoy)

Large firms (500+ employees)
Medium firms (50–499 employees)
Small firms (1–49 employees)
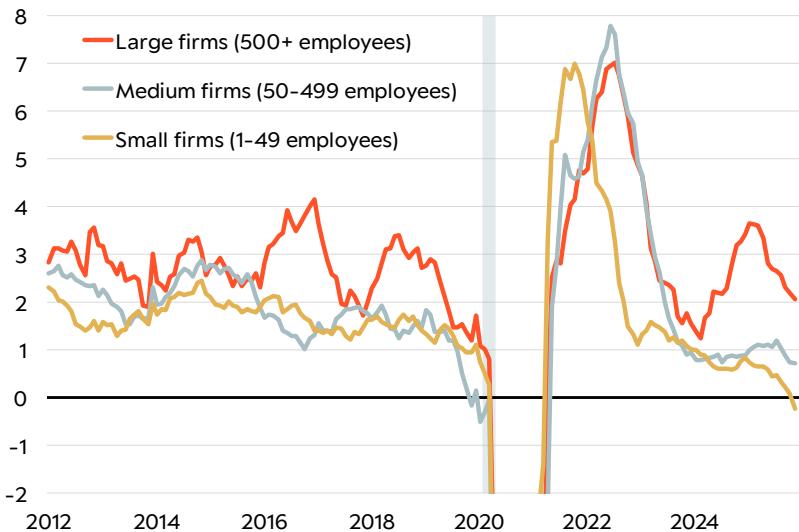
Sources: ADP, Haver Analytics, Berenberg

Small businesses' capex plans at GFC levels

Net share of small businesses planning capital expenditures next 3 to 6 months (%)
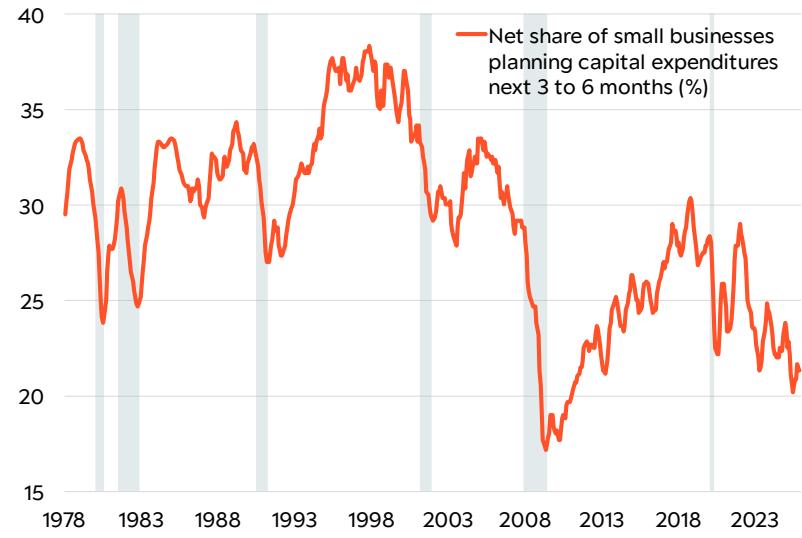
6-month moving average. Shading indicates recession. Sources: NFIB, Haver Analytics, Berenberg

- Elevated uncertainty, restrictive immigration policies, and tariffs hurt small businesses the most, forcing them to trim their workforce and pull back on future capital expenditure.

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Some good news for productivity growth

Business dynamism is back
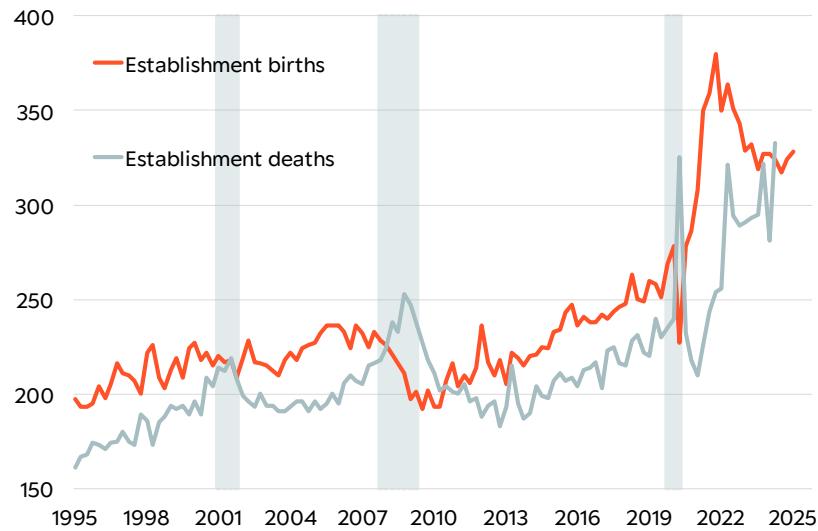
In thousands. Shading indicates recession. Sources: BLS, Haver Analytics, Berenberg

Surge in new business applications
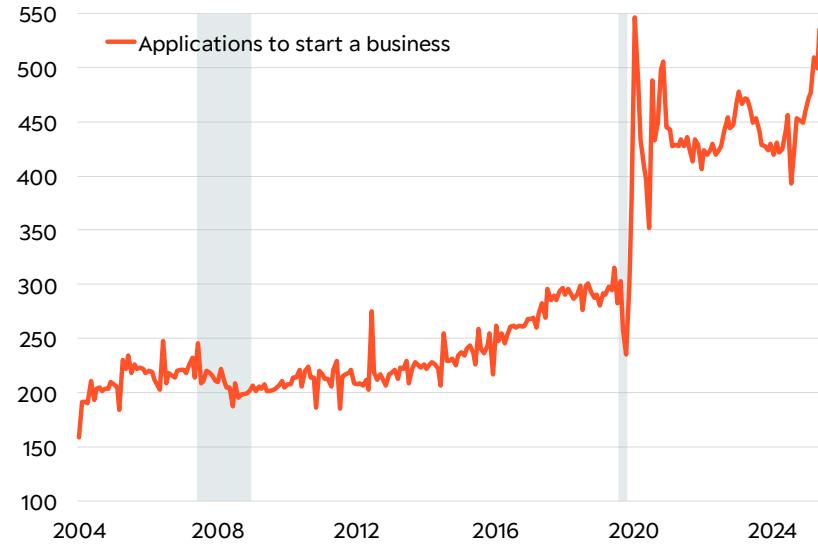
In thousands. Shading indicates recession. Sources: Census Bureau, Haver Analytics, Berenberg

- Business dynamism (the pace at which new companies enter the market and existing ones expand or exit) in the US has long been in decline, and quite sharply since 2000 (see Akcigit and Ates, 2020). However, this no longer appears to be the case since the pandemic.

- The rate at which new businesses are formed and exit the market is now 50% higher than the pre-pandemic trend. Such creative destruction enhances productivity, especially when new businesses are concentrated in high-productivity industries.

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Where do productivity gains come from?

Productivity gains by industry

Contribution to annualised productivity growth from 2022Q4 to 2025Q2 (ppts)

Categories (top to bottom): Other Services, Leisure & Hospitality, Education and Health Services, Professional & Business Services, Financial Activities, Information, Transportation & Warehousing, Retail Trade, Wholesale Trade, Manufacturing, Construction, Utilities, Mining

Axis: -0.2, 0, 0.2, 0.4, 0.6, 0.8

Sources: BEA, BLS, Haver Analytics, Berenberg. To obtain estimates for within-industry effects, we define productivity as real output per employment, which is slightly different from the usual definition of productivity in the US: real output per hours worked.

Job cut announcements due to AI

Announced job cuts by reason: Artificial Intelligence

Axis: 0, 5, 10, 15, 20, 25, 30, 35; 2023, 2024, 2025
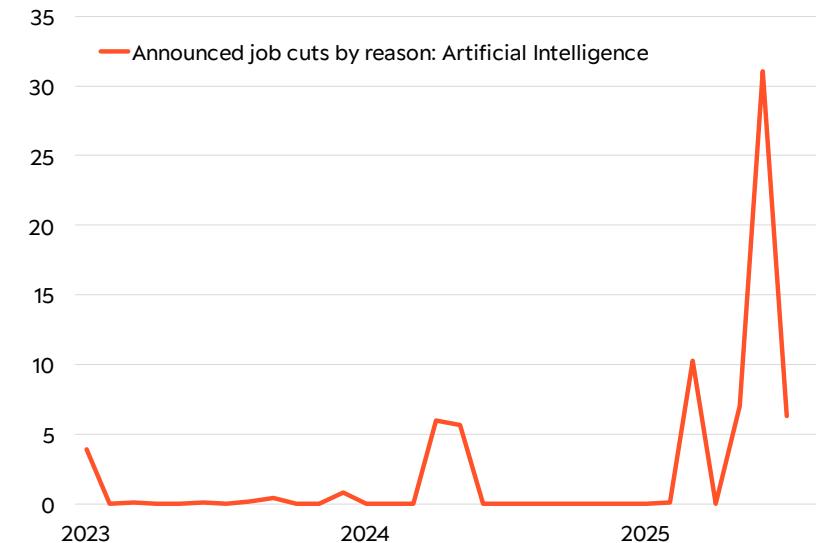
In thousands. Sources: Challenger, Gray & Christmas, Haver Analytics, Berenberg

- The largest contributors to productivity growth since Q4 2022 have been information, professional & business services, and financials. These are also the industries that use -- and are expected to use -- AI the most.

- While it might be tempting to jump to the conclusion that the adoption of AI is driving productivity growth, it is important to remember that causation could work the other way around -- companies with better productivity growth may have more room to invest in AI.

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Tariffs not helpful for productivity gains

US imports by end-use categories, in %

Category	Value
Other goods	3.9
Consumer goods	24.1
Autos & parts	13.7
Capital goods	29.2
Industrial supplies & materials	20.1
Food & beverages	6.6

Legend: ■ Germany ■ China ■ Mexico ■ Canada ■ EU ex Germany ■ Others

Share of imported inputs in US manufacturing

- Plastics and rubber products
- Chemical products
- Petroleum and coal products
- Printing and related support
- Paper products
- Apparel, leather and allied products
- Textile mills and textile product
- Food, beverage and tobacco products
- Miscellaneous
- Furniture and related products
- Other transportation equipment
- Motor vehicles, bodies & trailers, parts
- Electrical equipment, appliances, &...
- Computer and electronic products
- Machinery
- Fabricated metal products
- Primary metals
- Nonmetallic mineral products
- Wood products

4-quarter moving average. Based on 2024 values. Sources: Haver Analytics, BEA, Berenberg calculations.

In % of total inputs. Based on 2024 values. Sources: Haver Analytics, BEA, Berenberg calculations.

- Capital goods (such as machinery, equipment, and computers) are the largest category of US imports, followed by consumer goods (e.g., apparel, appliances, furnishings).

- The US relies heavily on China and EU for consumer goods, and on Canada for industrial supplies like gas and oil. More than a third of US auto and parts imports come from Mexico.

- The US manufacturing sector imports around 20% of its inputs.

BERENBERG

A glimpse of hope: Trump in a slump

Net approval rating, in ppt
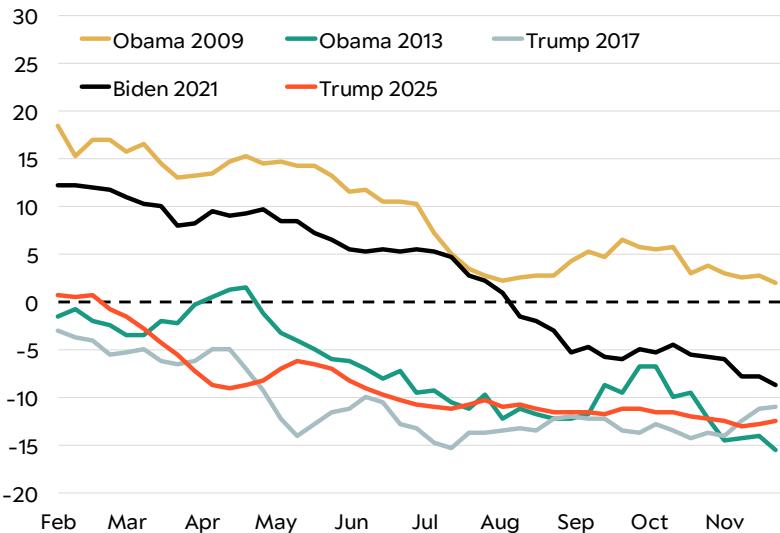
Source: YouGov/The Economist, Berenberg

Net approval by issue, in ppt
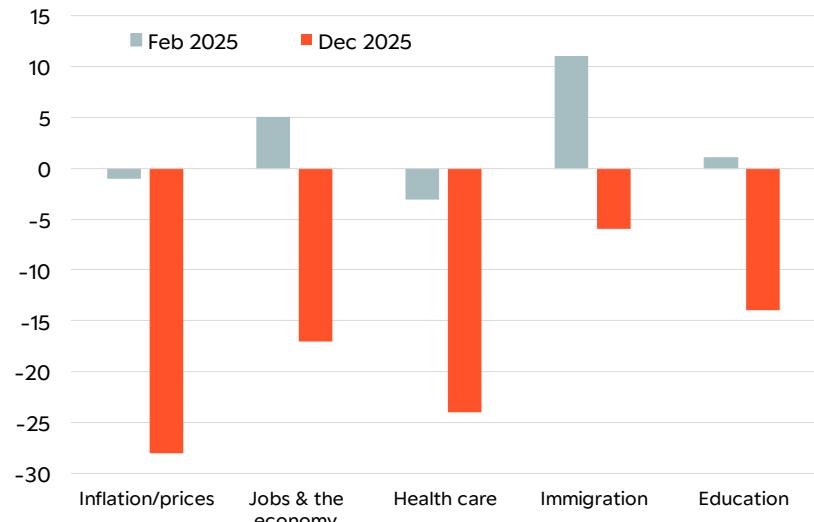
Source: YouGov/The Economist, Berenberg

- The US midterm elections are 10 months away.

- The affordability crisis and the toll post-pandemic inflation took on low-income households played a major role in Trump's re-election. Affordability has worsened since then, and the polls reflect this.

- To improve Republican chances of retaining control of the House in the November 2026 midterm elections, Trump could roll back some of his destructive policies, such as tariffs, or issue stimulus cheques ("tariff dividends") to households.

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Remember DOGE?

To infinity and beyond!
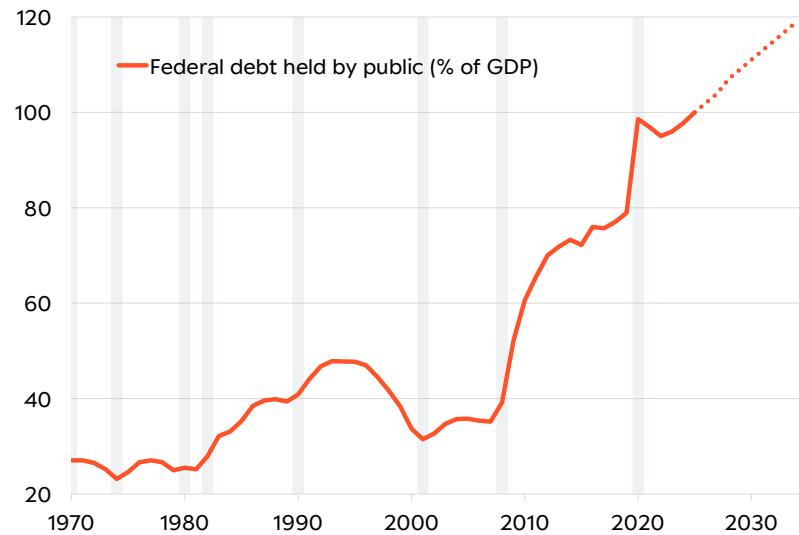
Shading indicates recession. Dotted lines are projections based on CRFB's adjusted August 2025 baseline. Sources: CRFB, OMB, Haver Analytics, Berenberg

Federal deficit ($ trillions, Fiscal YTD)
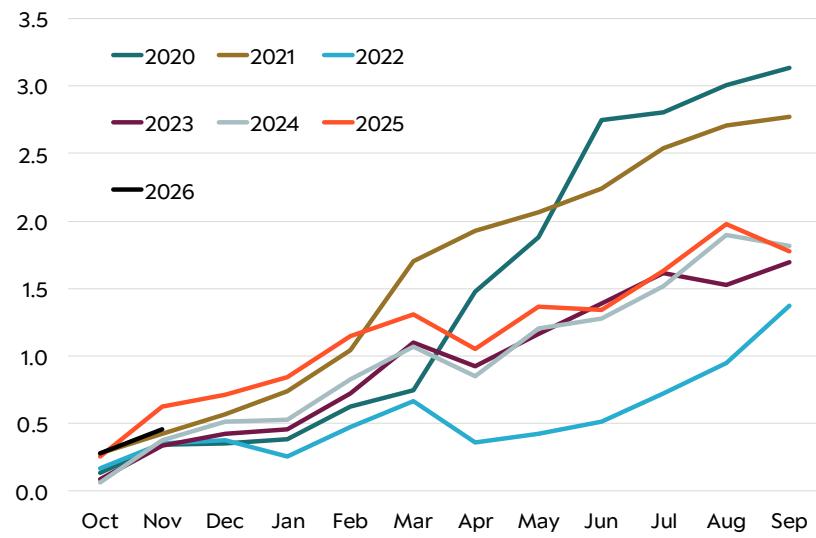
Source: US Treasury, Haver Analytics, Berenberg

- The US is a fiscal sinner, with public debt on an unsustainable path. Even after accounting for tariff revenue, the federal debt held by the public is on track to rise from its current level of 100% of GDP to 120% in less than a decade.

- Earlier this year, the Department of Government Efficiency (DOGE) promised to save $2trn in the federal budget by the end of last month. While the agency cancelled some grants and conducted federal layoffs, it claims to have only saved $200bn in FY 2025 (although the actual figure is likely closer to $100bn).

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Too much spending and not enough revenue

Fiscal deficit at near 2008 GFC levels

Federal deficit (% of GDP)

Shading indicates recession. Sources: OMB, Haver Analytics, Berenberg
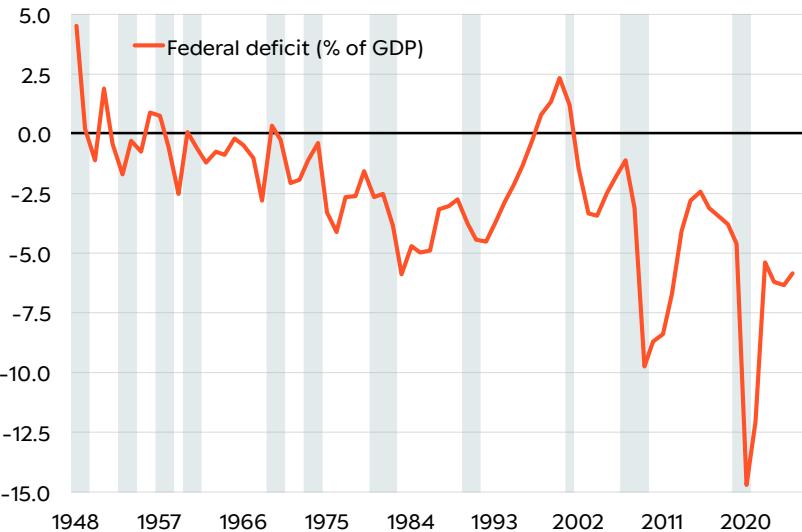
Interest rate expenses add to rising debt

Federal outlays: net interest payments (% of GDP)

Shading indicates recession. Sources: OMB, Haver Analytics, Berenberg
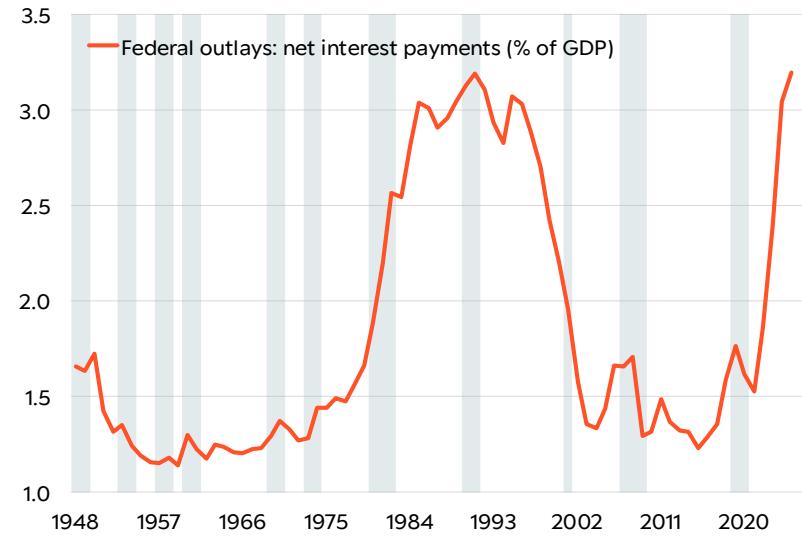
- Fiscal deficit in the US in FY2025 was just a little under 6% of GDP.

- In FY2025, the US spent nearly $1trn (more than 3% of GDP) to pay interest on its debt.

- Almost 80% of federal debt consists of bonds and notes with maturities of more than two years and fixed rates. Therefore, Fed rate cuts will not provide a major relief to the US's growing interest payments in the near term.

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Fiscal stimulus incoming

Near-term fiscal stimulus from the Trump megabill

Larger deficits

Net new spending changes
Net new tax changes
Net deficit impact (% of GDP)

Smaller deficits
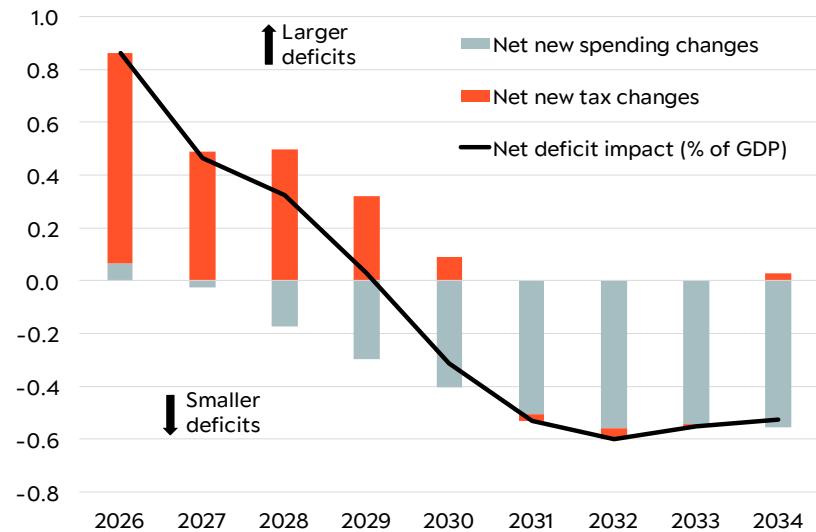
Increase/decrease in deficit as a share of GDP. Fiscal years. Sources: Congressional Budget Office, Joint Committee on Taxation, Berenberg

Major fiscal boost coming in Q1 but only temporarily

Fiscal policy contribution to qoq annualised real GDP growth (ppts)
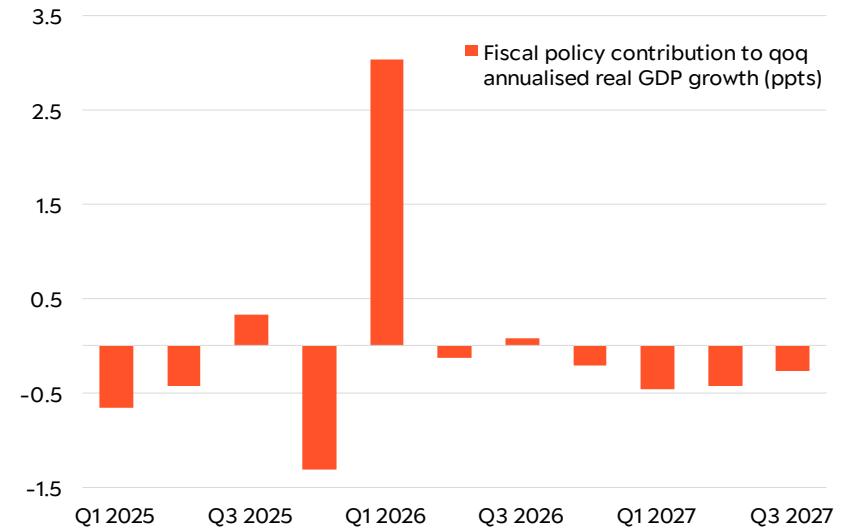
Estimates based on Hutchins Center's Fiscal Impact Measure (FIM). Negative (positive) values for FIM indicates fiscal policy lowers (pushes up) real GDP growth relative to its potential. Sources: Hutchins Center, Bureau of Economic Analysis, Haver Analytics, Berenberg

- The One Big Beautiful Bill is set to boost economic growth in 2026 by around 0.8ppt.

- Households will enjoy some extra tax refunds in the first half of the year, as some provisions in the bill are retroactive. The exclusion of tips and overtime income from taxes will also support household disposable income growth.

- Furthermore, the extension and expansion of full expensing for new capital investments and factory construction should support capital expenditure growth.

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US government has a spending problem

Breakdown of the $5.2trn revenue in FY2025

Category	Value
Estate and Gift Taxes	0.03
Miscellaneous	0.05
Excise Taxes	0.11
Customs Duties	0.19
Corporation Income Taxes	0.45
Social Insurance & Retirement	1.75
Individual Income Taxes	2.66
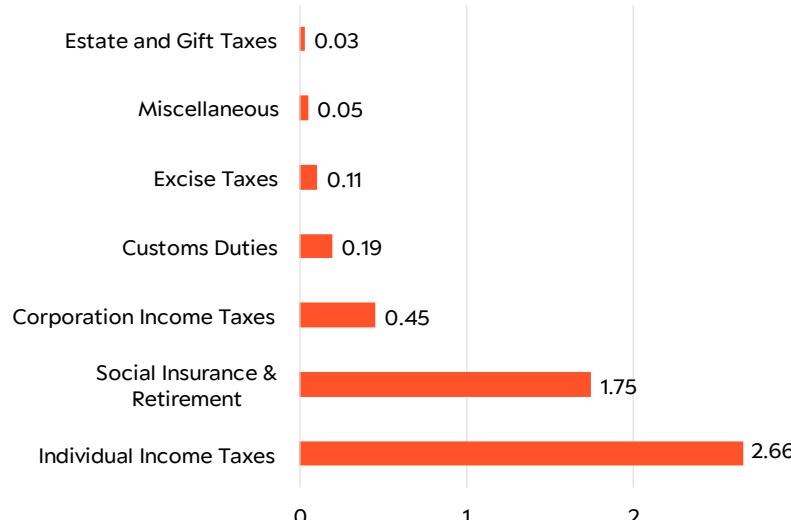
In $trn. Sources: US Treasury, Haver Analytics, Berenberg

Breakdown of the $7trn spending in FY2025

Category	Value
Other	0.87
Income Security	0.70
National Defense	0.92
Net Interest	0.97
Health	0.98
Medicare	1.00
Social Security	1.58
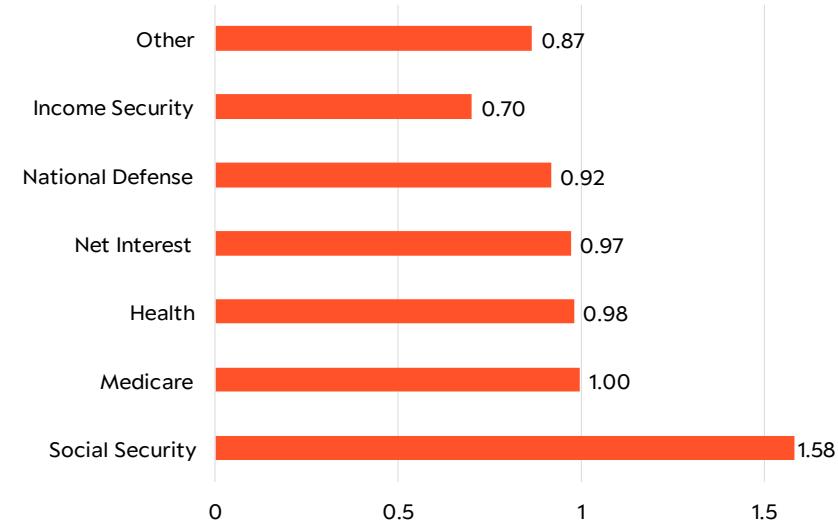
In $trn. Sources: US Treasury, Haver Analytics, Berenberg

- More than 90% of government outlays consist of nondiscretionary spending (such as healthcare and social security), interest payments, and defence spending. This leaves less than 10% of outlays available for cuts. Even if half of that is reduced and no other changes are made, the US would still face a deficit of more than 4.5% of GDP.

- The problem, therefore, is structural. Simply trimming spending without increasing taxes will not significantly reduce deficits

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Less immigration, higher budget deficits

CBO estimates immigration surge will narrow deficits

■ Projected net effect of immigration surge on budget ($ billions)
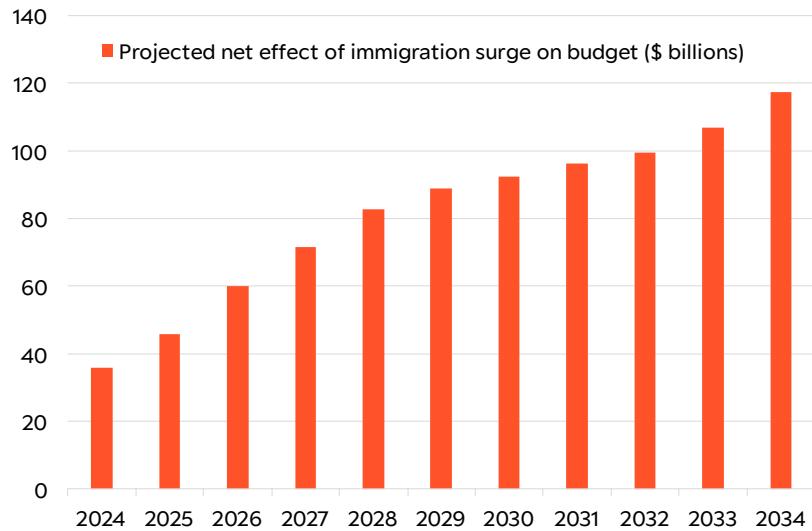
Source: Congressional Budget Office, Berenberg

More and more dependents per US worker

— Number of dependents per US worker
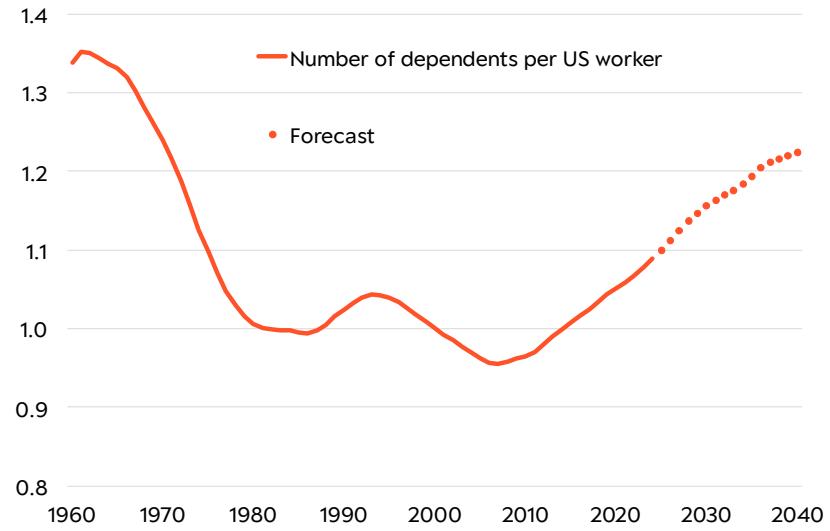
• Forecast

Ratio of dependents (people younger than 15 or older than 64) to the working-age population (those ages 15-64). Forecast based on UN medium fertility scenario. Sources: United Nations, World Bank, Berenberg

- According to the Congressional Budget Office (CBO), immigration – documented and undocumented – increases government revenue more than it adds to spending. It estimates that the recent surge in immigration could continue to reduce deficits by around $1trn over the next decade.

- Even if immigrants paid no taxes (most do, regardless of legal status), the resulting boost to economic growth would still generate sufficient revenue for the government to offset the cost of public benefits.

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Reasons to be 'tariff'ied about Trump's tariffs

Highest tariff rate since late 1930s

Average effective tariff rate (%)
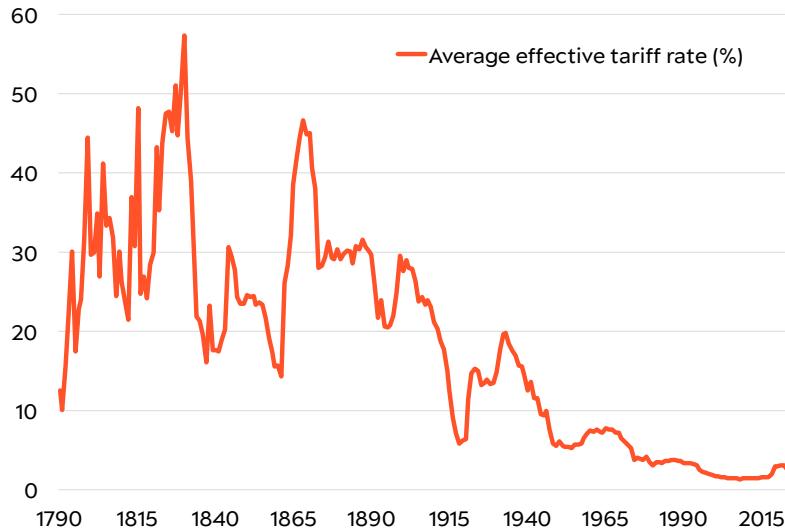
Sources: Yale Budget Lab, Berenberg

$30+ billion revenue per month from tariffs

Monthly federal receipts: customs revenue ($ billions)
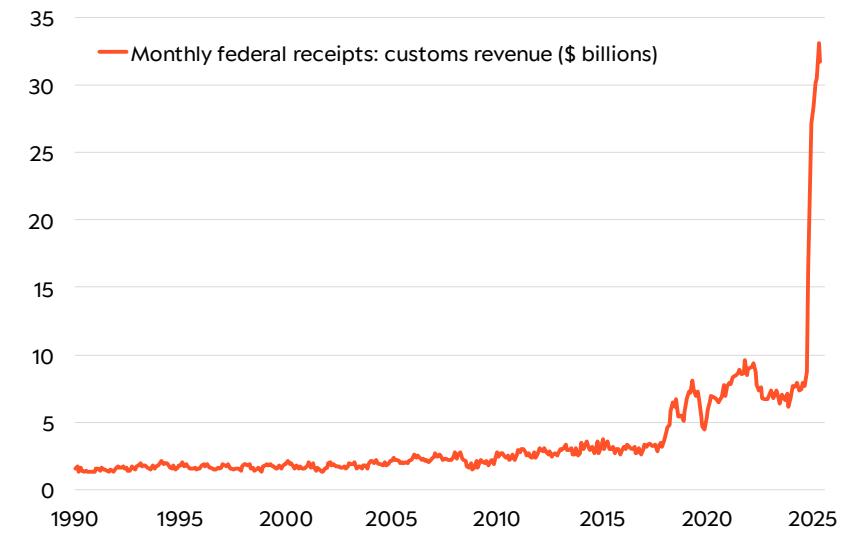
Sources: US Treasury, Haver Analytics, Berenberg

- US importers now face an average effective tariff rate of around 17%, up from 2.5% in 2024 and the highest level since 1930s. However, the collected tariff rate (tariff revenue as a share of imports) currently stands at just over 11%. Gaps in enforcement, pauses during trade talks, and exemptions for certain goods likely all contributed to this discrepancy.

- While tariffs generate meaningful revenue for the government, even an optimistic estimate of $400 billion (1.3% of GDP) in annual tariff revenue ($4 trillion over 10 years) will not be quite enough to offset the fiscal damage from One Big Beautiful Bill.

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Fed: next cut is in June

One final 25bp cut in June

Fed funds target rate (%)

Berenberg projections

Implied rate by Fed funds futures
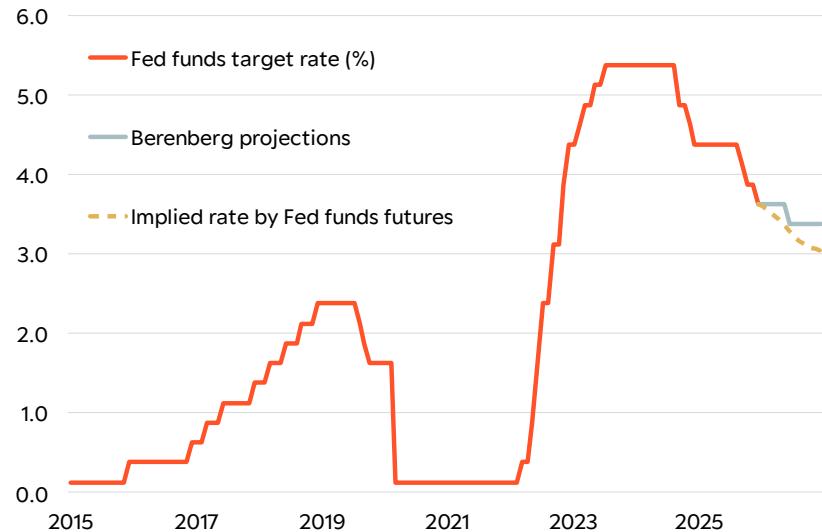
Sources: Bloomberg, Federal Reserve, Haver Analytics, Berenberg

Dazed and confused about the terminal rate

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate
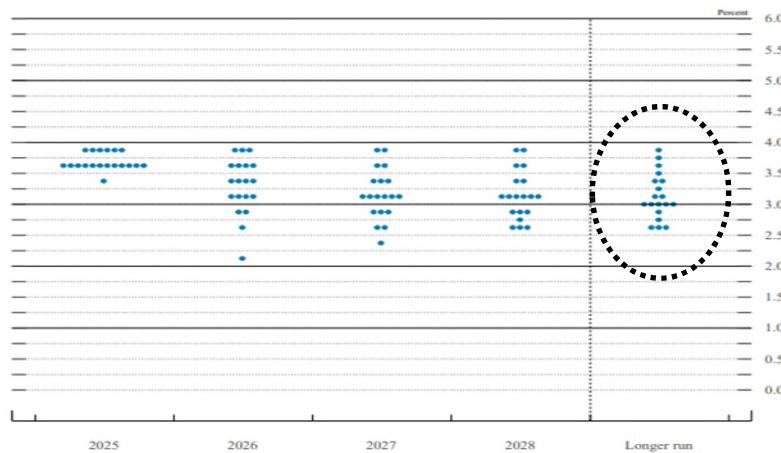
December Summary of Economic Projections. Source: Federal Reserve

- We expect the Fed to deliver only one rate cut this year: a 25bp reduction in June 2026 (taking the funds rate to the 3.25–3.50% target range), reflecting a change in Fed leadership and political pressure from Trump. After that, further cuts appear unlikely, as Fed officials will struggle to shift policy into accommodative terrain while inflation remains well above target.

- The neutral rate -- where monetary policy is neither accommodative nor restrictive -- is unobservable, and estimates vary widely. The median estimate among Fed officials places it at 3% (with a range of 2.4% to 3.9%), academic models suggest it lies between 3.0% and 4.5%, and market pricing is closer to 4.0%.

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Fed watch: no longer a snoozefest

Number of dissenting votes since 1935
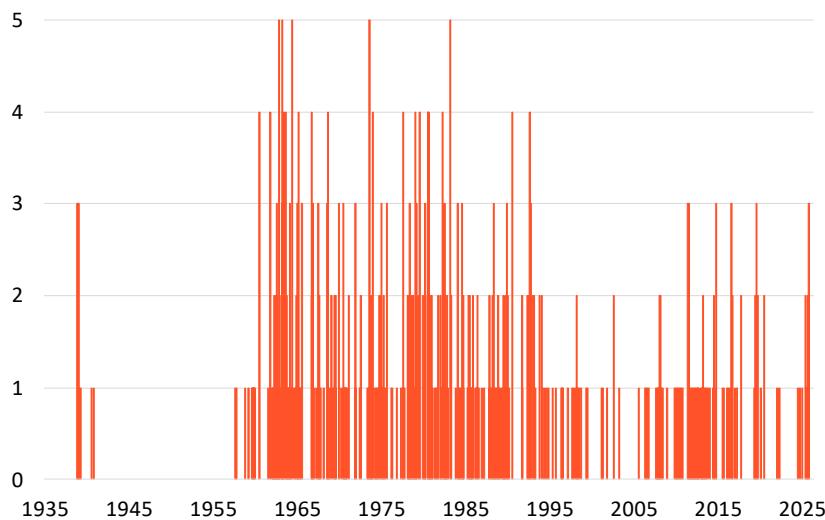
Votes at FOMC meetings. Latest data point: 10 December 2025.. Source: Federal Reserve Bank of St. Louis, Berenberg

Fed independence under threat

Source: BBC

- The last time more than three Fed officials dissented from the majority decision was in 1992, and 2026 could be the year to break that 34-year record of consensus building.

- **What happens if the Fed loses its independence?** A recent example comes from Turkey. In early 2021, President Erdogan fired central bank governor Naci Agbal after he raised interest rates in response to rising inflation. Within a year, the Turkish lira went into freefall, losing around 50% of its value against the US dollar, while inflation nearly quadrupled to above 60%, and the 10-year Turkish bond yield spiked by over 10ppt. While even in our risk case we would expect a far less extreme outcome in an advanced economy such as the US, with its reserve currency and safe haven status, this episode highlights the critical importance of central bank independence.

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Fed cut by 175bp since September 2024 but...

Treasury yields since Fed cuts began (Sep 2024)
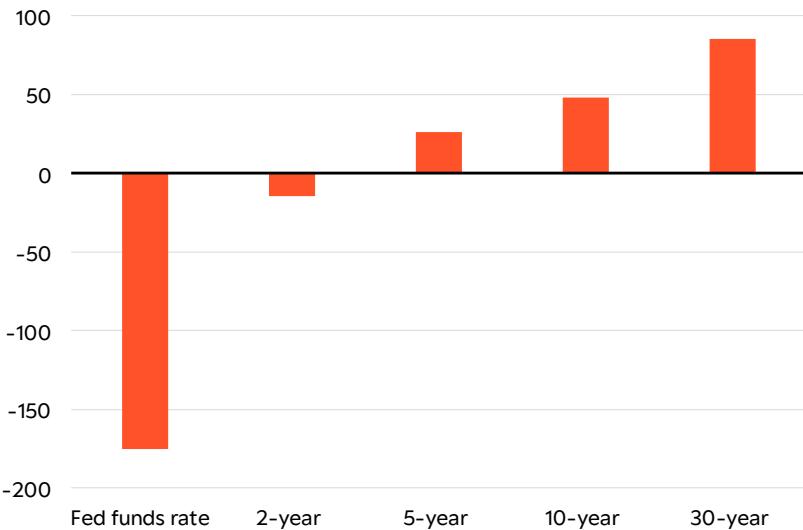
In basis points. Sources Tullett Prebon Information, New York Fed, Haver Analytics, Berenberg

Decomposing the 10-year Treasury yield
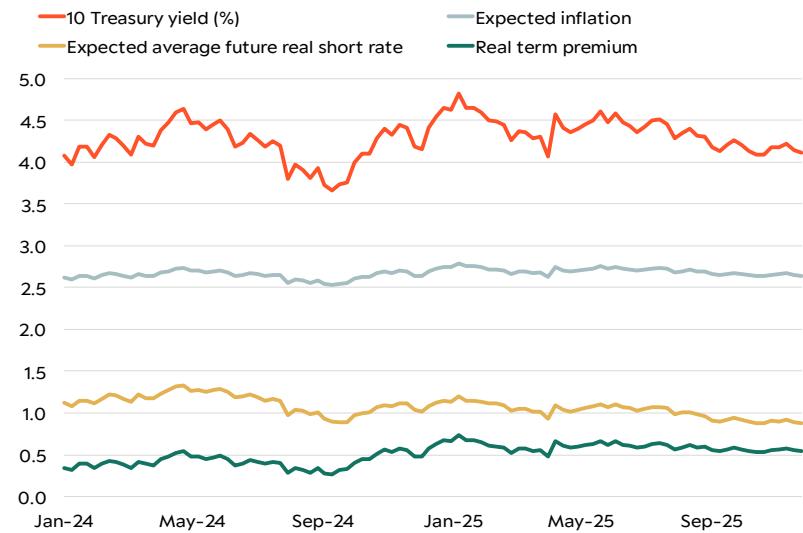
D'Amico, Kim and Wei (DKW) model. Sources: Federal Reserve, Haver Analytics, Berenberg

- Although the Fed has cut its policy rate by 175bp since September 2024, the 2-year Treasury yield is down only 15bp, while the 5-year is up 25bp, the 10-year is up 50bp, and the 30-year yield is up 85 bp.

- Of the 50bp increase in the 10-year Treasury yield since September 2024, more than half comes from a rise in the term premium, with the remainder attributable to higher expected inflation and the inflation risk premium.

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Politics and the Fed: a steeper curve ahead?

Inverted yield curve in the rear-view mirror

10-year Treasury yield less 2-year Treasury yield (%)
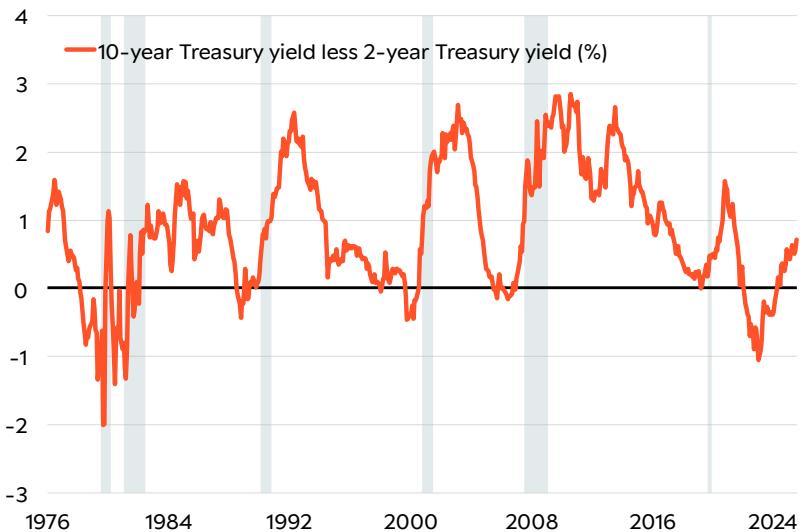
Shading indicates recession. Sources: Haver Analytics, Federal Reserve, Berenberg

A new era of fiscal dominance?

30-year Treasury yield less 5-year TIPS yield (%)
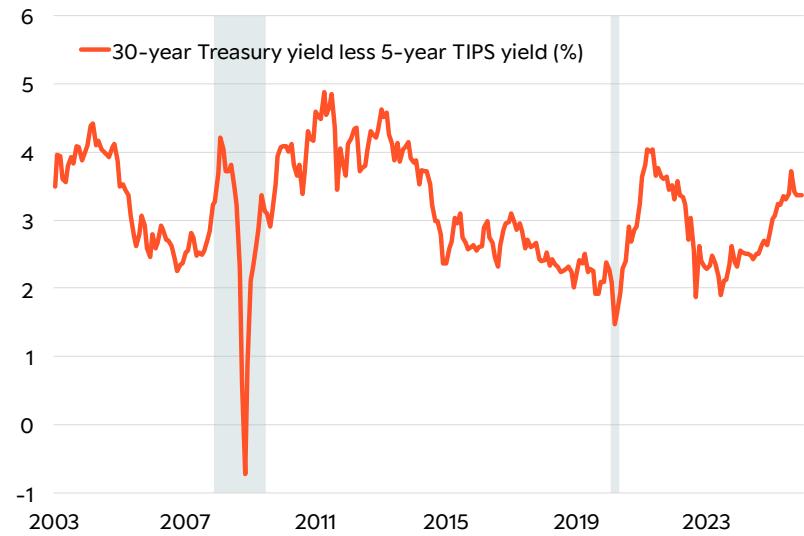
Shading indicates recession. TIPS = Treasury Inflation-Protected Securities. Sources: Haver Analytics, Federal Reserve, Berenberg

- A more politically aligned Fed could push the yield curve steeper, with the short end hovering around zero in real terms while the long end rises.

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Should we worry about money markets?

TGA drawdown incoming

Legend: Fed's total assets (LHS, $ trillions); Treasury General Account (RHS, $ trillions)
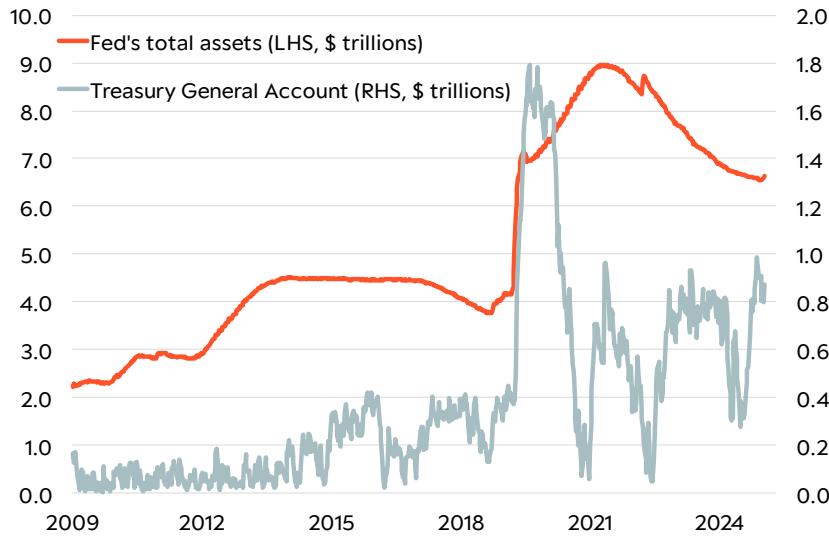
Bank reserves likely troughed in October 2025
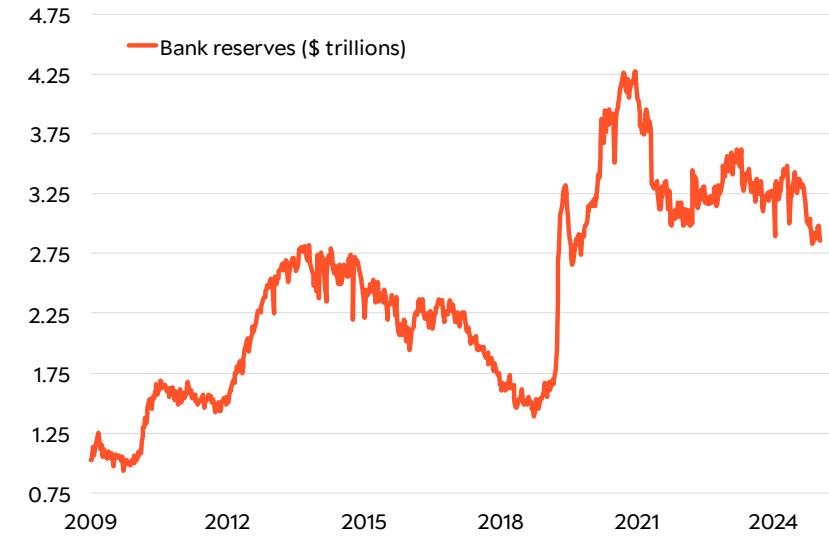
Legend: Bank reserves ($ trillions)

- The Secured Overnight Financing Rate (SOFR), the cost of overnight cash borrowing using Treasuries as collateral, spiked nearly 20bp on 31 October, marking the largest one-day jump since March 2020. The temporary stress eased partly due to the Fed's liquidity backstop measures, such as the Standing Repo Facility (SRF), and partly because month-end liquidity pressures subsided.

- The end of the government shutdown, combined with the end of the Fed's quantitative tightening (when it stops rolling off maturing securities and also begins swapping maturing mortgage-backed securities for new Treasury bills) should prevent similar pressure in money markets in the months ahead.

- However, if near-term funding costs spike again, hedge funds -- recently the dominant buyers of US Treasury securities through basis trades -- may exit these positions, pushing Treasury yields higher.

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Is monetary policy restrictive for economic growth?

Financial conditions serve as tailwinds to growth

Contribution of financial conditions to 1y ahead GDP growth (ppt, RHS)

Fed funds target rate: upper limit (%, LHS)
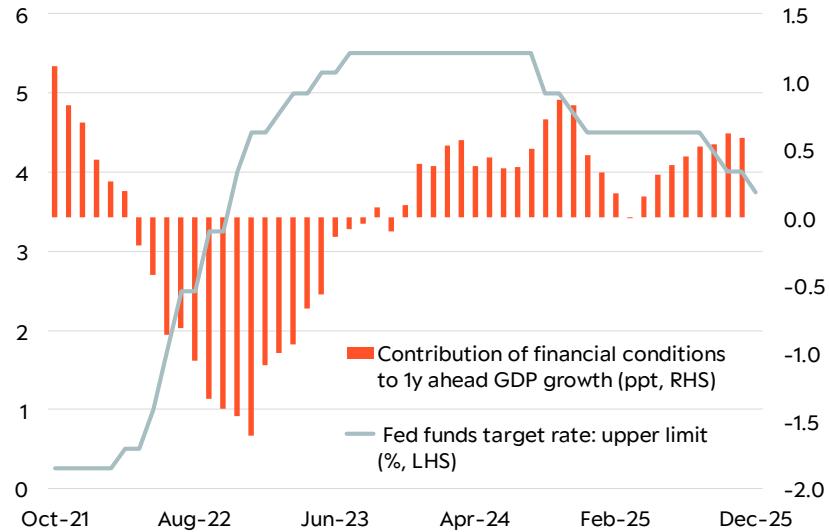
The percentage point contribution of financial conditions to GDP growth is based on the 1-year lookback model from Ajello et al. 2023. Source: Federal Reserve, Haver Analytics, Berenberg

This time is in fact different

Chicago Fed adjusted national financial conditions index (>0 denotes tighter than average)
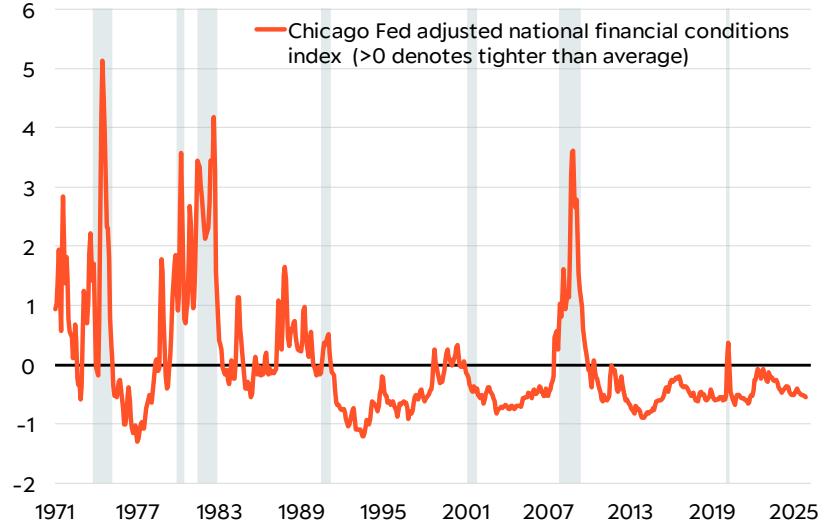
Shading indicates recession. Source: Chicago Fed, Haver Analytics, Berenberg

- Interest rates affect the economy through various channels. What matters for economic growth is the impact of policy rates on financial conditions. These conditions include the Federal funds rate, the 10–year Treasury yield, the mortgage rate, the BBB corporate bond yield, the stock market, house prices, and the US dollar.

- Unlike previous Fed rate hike cycles, financial conditions have remained accommodative. Rising asset prices and tight credit spreads have outweighed the impact of elevated borrowing costs.

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A broken economic cycle?

Remember "Powell's curve"?

Probability of US Recession 12mo ahead as predicted by near-term treasury spread (%)

3-month moving average. Shading indicates recession. Based on a Fed model (Engstrom and Sharpe, 2022) that uses the difference between the 3-month forward Treasury rate beginning 18-months ahead and the 3-month Treasury bill to estimate the probability of a recession in the United States 12 months ahead. Sources: Federal Reserve, Haver Analytics, Berenberg

... or the leading indicators?

Conference Board's composite index of 10 leading indicators (% yoy)

Shading indicates recession. Sources: Conference Board, Haver Analytics, Berenberg

- Most leading indicators, with a near-perfect track record of forecasting recessions, failed to predict the post-pandemic economic expansion.

- A surge in immigration, favorable fundamentals (such as households and businesses being "locked in" at relatively low borrowing rates), expansionary fiscal policies and accommodative financial conditions prevented higher interest rates from tipping the US into a recession.

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Rising tail risk of a recession

No sign of serious stress in labour markets yet
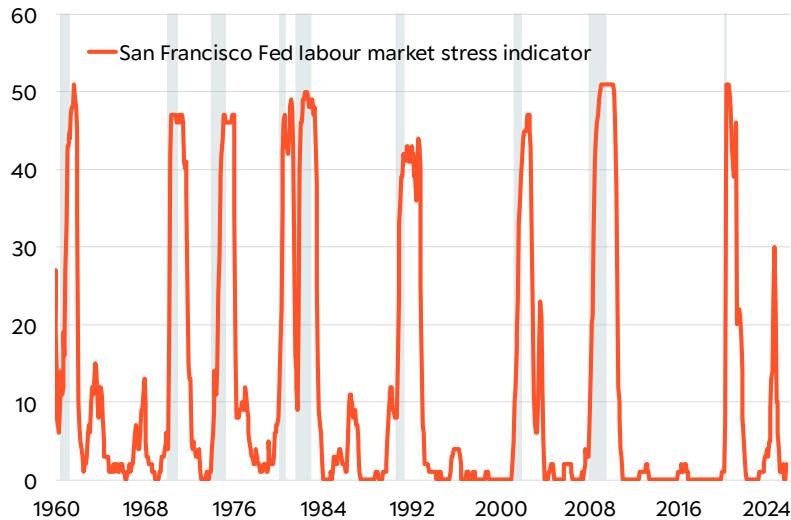
Count of states, that experience accelerating unemployment, defined in Garimella, Jordà, and Singh (2025a) as a state's unemployment rate increasing at least 0.5 percentage point above its previous 12-month low. Sources: San Francisco Fed, Haver Analytics, Berenberg

NBER recession indicators still positive on a yoy basis

NBER recession indicators	Latest value (% yoy)
Real personal income less transfer payments	0.93
Employment (establishment survey)	0.59
Real personal consumption expenditures	2.40
Real manufacturing & trade sales	1.36
Employment (household survey)	0.64
Industrial production	2.52

Sources: Federal Reserve, BEA, BLS, Census Bureau, Haver Analytics, Berenberg

- The National Bureau of Economic Research (NBER) determines whether the US is in a recession based on aggregate economic indicators, not per capita figures. Therefore, a near-flat or potentially negative population growth in 2026 mechanically increases the chance of the US falling into a recession. Without immigration support, employment could fall persistently in 2026. Inflation-adjusted incomes could also decline in the absence of job growth and rising inflation. Consumption, manufacturing and trade sales, and industrial production largely depend on household wealth gains and AI-driven investments. Ultimately, a "jobless expansion" is possible, but the risk of recession is higher, especially if the AI boom fizzles.

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Will uncertainty ever go away?

More uncertainty than Trump 1.0

NFIB small business uncertainty index
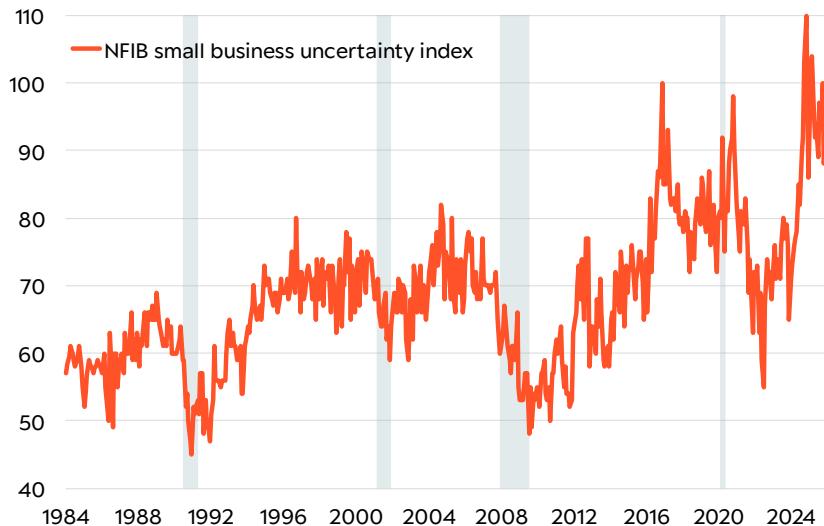
Shading indicates recession. Sources: NFIB, Haver Anallytics, Berenberg

Fed officials not too confident in their projections

Diffusion index of FOMC Participants' uncertainty assessment: Unemployment rate (>0= more uncertain)
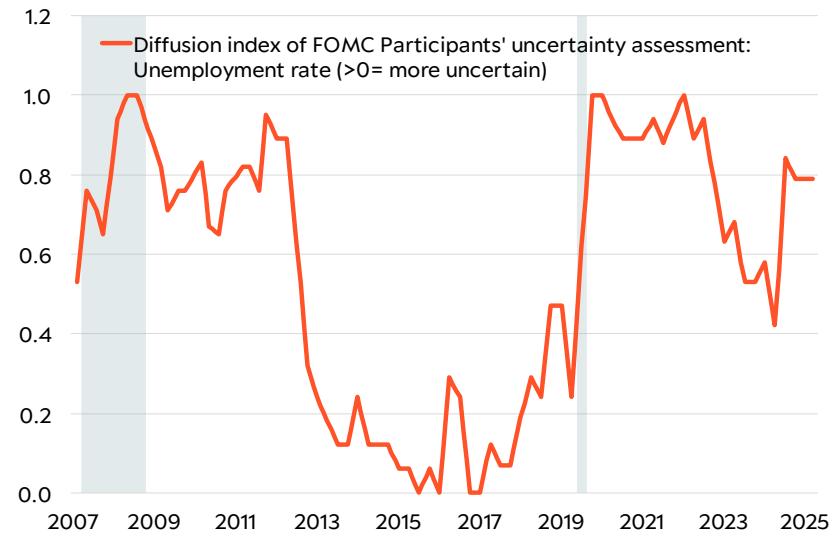
Shading indicates recession. Source: Federal Reserve, Haver Analytics, Berenberg

- Even though uncertainty around US trade and fiscal policy has eased, businesses still face heightened uncertainty about the future.

- Major policy changes related to immigration, trade, and fiscal policy make it increasingly difficult to forecast the future health of the labor market.

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Awaiting Supreme Court

US average effective tariff rate on trading partners

Legend:
- Already in place before Trump 2.0
- Not subject to Supreme Court review
- Subject to Supreme Court review

Categories (top to bottom): Canada, Mexico, Ireland, Singapore, United Kingdom, South Korea, Taiwan, Japan, Netherlands, Germany, Italy, France, Malaysia, Thailand, Vietnam, Indonesia, Switzerland, China, Brazil, India

X-axis: 0, 10, 20, 30, 40
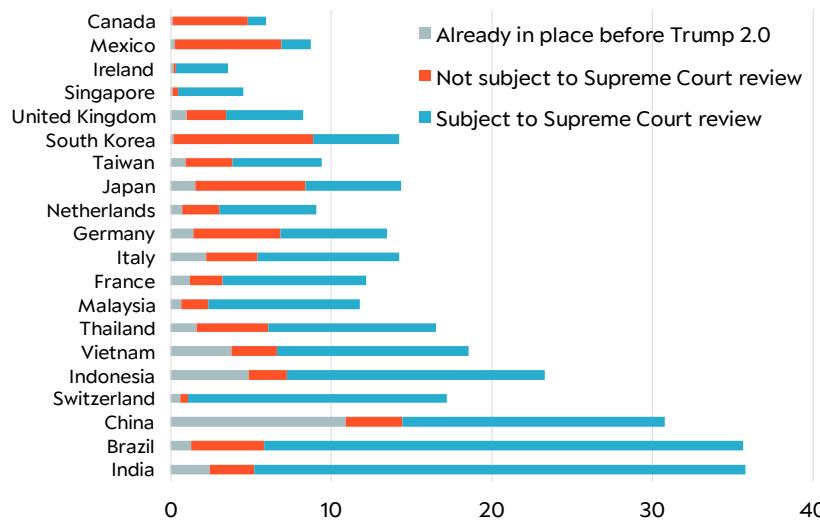
As of 1 November. Sources: Bloomberg Economics, Census Bureau, Bloomberg

30-year Treasury yield jumped on Trump/Cook news

News out that Trump fires Fed Governor Cook

— 30-year Treasury yield (%)

Y-axis: 4.87, 4.88, 4.89, 4.90, 4.91, 4.92, 4.93, 4.94, 4.95
X-axis: 17:00, 19:32, 01:02, 03:35, 06:07, 08:39

Intraday chart for August 25 and 26. UK time. Source: Bloomberg, Berenberg
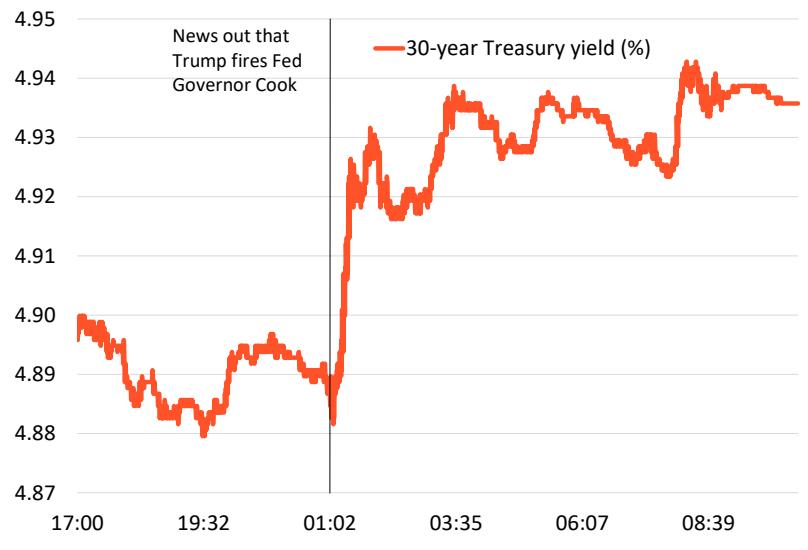
- If the Supreme Court rules out International Emergency Economic Powers Act (IEEPA) tariffs, Trump could still cite other laws to impose import taxes, so trade policy would largely remain unchanged from the past year. That said, the court could also force the Trump administration to refund businesses that have paid the IEEPA tariffs. To retaliate against the Supreme Court and raise the refund funds, Trump could potentially increase tariff rates above current levels.

- Trump landed several punches to the Fed's independence in 2025. Another punch, and potentially a more effective one, could come if the Supreme Court allows Trump to remove Lisa Cook from her role as a Governor. In addition, if Powell resigns from his Governor position when his term as Chair ends in May 2026 (he can remain on the board as a Governor until January 2028), two seats on the Fed Board would become available. Perhaps one could go to Kevin Warsh and the other to Kevin Hassett.

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Weak greenback

Official foreign exchange reserves by currency (in %)

Legend:
- US dollar
- Euro
- British pound
- Japanese yen
- Chinese Renminbi
- Other
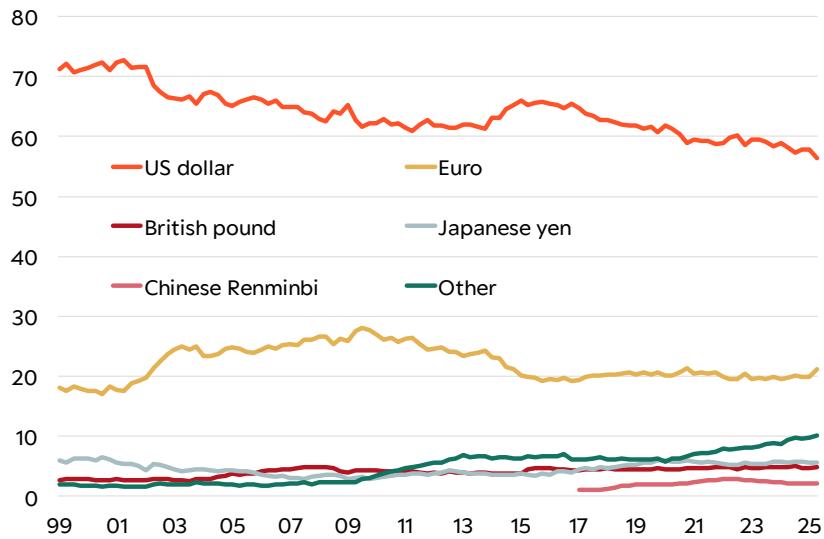
Latest data is for Q2 2025. Sources: IMF COFER, Berenberg

Trump risk premium here to stay

- 2Y US Treasury yield less 2Y German bund yield (ppt, LHS)
- US$ per Euro (inverted, RHS)

April 2 "Liberation Day"
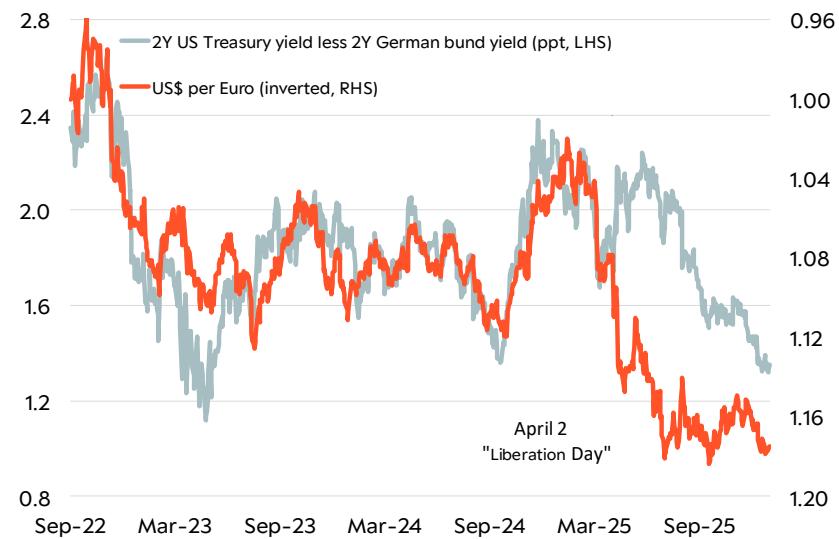
Sources: ECB, Tullett Prebon Information, Haver Analytics, Berenberg

- The loss of trust in US institutions, and the need to hedge against Trump's erratic policymaking, drove a sharp depreciation of the US dollar in 2025. The dollar lost 16% of its value against the euro since Trump took office in January -- similar to the depreciation in 2017, the very first year of Trump in the president's seat. We expect the dollar to remain weak throughout 2026 as the "Trump risk premium" should persist.

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Strong foreign demand for US assets

Foreigners continue to finance US debt

US net capital inflows: Private net purchases of US Treasuries ($ billion, 12-month total)

Shading indicates recession. Sources: US Treasury, Berenberg
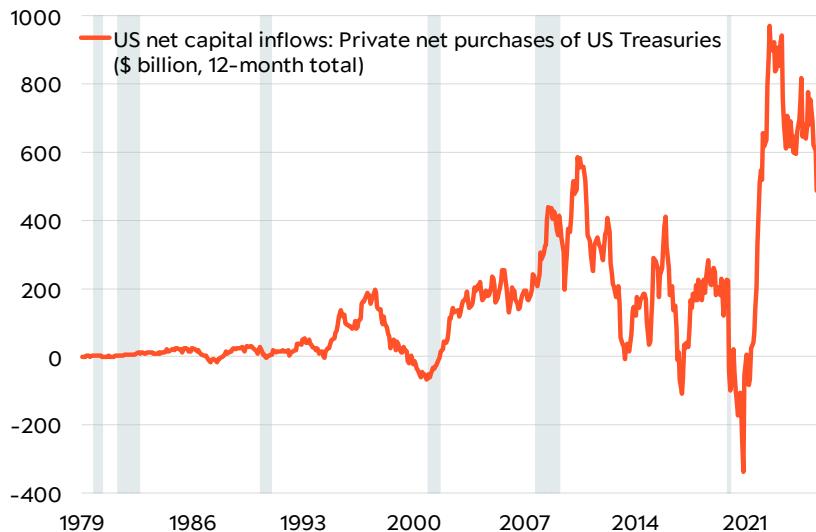
How long will foreign appetite for US equities last?

US net capital inflows: Private net purchases of US equities ($ billion, 12-month total)

Shading indicates recession. Sources: US Treasury, Berenberg
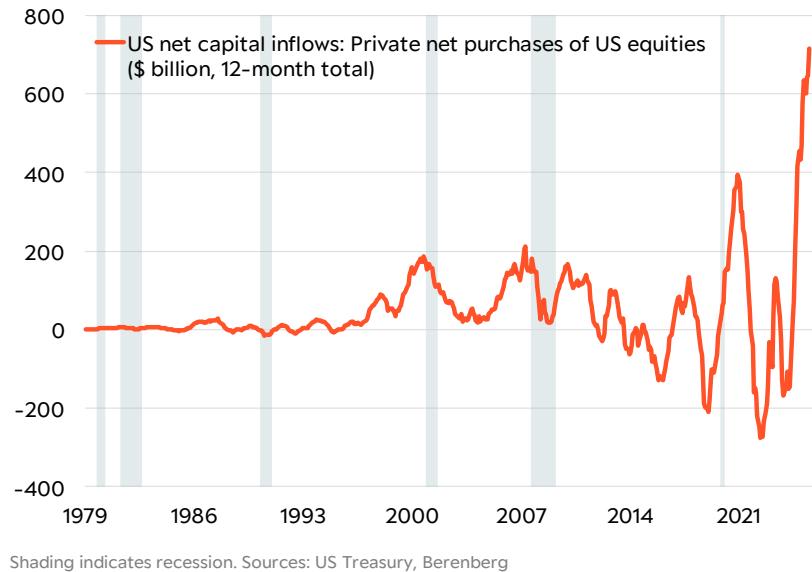
- Foreign investors continue to pile into US assets, helping keep financial conditions loose. Without these inflows, financial conditions could turn restrictive and become a drag on growth.

- A worsening fiscal situation, Trump's erratic policymaking, and "America First" policies (remember Section 899?) could divert some foreign demand away from US bonds.

- Much of the strength in foreign equity inflows reflects hype around artificial intelligence. However, if that enthusiasm fades or companies fail to deliver the promised capital expenditures, such strength in inflows is unlikely to persist.

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Key financial forecasts

	Current[1]	Mid-2026	End-2026	End-2027	End-2028
Central bank rates					
US Fed	3.50-3.75%	3.25-3.50%	3.25-3.50%	3.25-3.50%	3.75-4.00%
ECB refi rate*	2.15%	2.15%	2.15%	2.65%	3.15%
ECB deposit rate*	2.00%	2.00%	2.00%	2.50%	3.00%
BoE	3.75%	3.25%	3.00%	3.00%	3.50%
BoJ	0.75%	1.00%	1.25%	1.25%	1.25%
10-year bond yields					
US	4.17%	4.30%	4.60%	5.00%	5.00%
Germany	2.90%	2.90%	3.00%	3.10%	3.30%
UK	4.53%	4.20%	4.00%	4.30%	4.50%
Currencies					
EUR-USD	1.17	1.19	1.20	1.22	1.25
EUR-GBP	0.87	0.91	0.92	0.92	0.91
GBP-USD	1.34	1.31	1.30	1.33	1.37
USD-JPY	157	148	144	137	134
EUR-JPY	183	176	173	167	167
EUR-CHF	0.93	0.93	0.93	0.93	0.93
USD-CNY	6.98	7.08	7.08	7.08	7.08

1 Taken on 5 January at 09:15 UK time. Currency forecasts may not add up due to rounding. *The deposit rate has turned into the major ECB policy rate to steer the money market rate.

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US economic forecasts

		2025	2026	2027	2028	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	1Q27	2Q27	3Q27	4Q27
GDP	% y/y	**2.1**	**2.0**	**1.5**	**1.4**	2.0	2.1	2.3	2.1	2.9	2.3	1.5	1.5	1.3	1.4	1.6	1.7
	% q/q					-0.2	0.9	1.1	0.3	0.6	0.4	0.2	0.3	0.4	0.5	0.4	0.4
	%q/q ann.					-0.6	3.8	4.3	1.1	2.3	1.6	1.0	1.0	1.7	1.8	1.7	1.8
Private Consumption	% y/y	**2.6**	**1.9**	**1.6**	**1.5**	3.1	2.7	2.6	2.0	2.4	2.2	1.6	1.6	1.5	1.5	1.7	1.8
	% q/q					0.2	0.6	0.9	0.4	0.5	0.4	0.3	0.3	0.4	0.4	0.4	0.4
Residential Investment	% y/y	**-1.8**	**-1.0**	**0.7**	**0.5**	-0.9	-1.7	-1.8	-2.8	-2.7	-1.5	0.1	0.3	0.6	0.9	0.7	0.6
	% q/q					-0.2	-1.3	-1.3	0.0	-0.1	-0.1	0.3	0.2	0.2	0.2	0.1	0.1
Non-Residential Investment	% y/y	**3.9**	**1.7**	**1.5**	**1.1**	2.8	4.0	3.9	4.7	2.9	1.4	1.1	1.5	1.4	1.6	1.6	1.7
	% q/q					2.3	1.8	0.7	-0.1	0.5	0.3	0.4	0.3	0.4	0.4	0.4	0.4
Government Purchases	% y/y	**1.4**	**0.6**	**0.7**	**0.8**	2.7	1.9	1.1	0.0	0.5	0.8	0.3	0.7	0.6	0.6	0.7	0.8
	% q/q					-0.2	0.0	0.6	-0.3	0.3	0.2	0.1	0.1	0.2	0.2	0.2	0.2
Final Dom Demand [1]	% y/y	**2.5**	**1.6**	**1.4**	**1.3**	2.9	2.6	2.4	1.9	2.0	1.7	1.3	1.4	1.3	1.4	1.5	1.6
	% q/q					0.4	0.6	0.7	0.2	0.4	0.3	0.3	0.3	0.4	0.4	0.4	0.4
Exports	% y/y	**1.6**	**0.5**	**0.1**	**0.4**	2.1	1.5	1.5	1.2	1.2	1.6	-0.6	-0.2	-0.1	0.0	0.2	0.4
	% q/q					0.0	-0.5	2.1	-0.5	0.0	0.0	-0.1	-0.1	0.1	0.1	0.1	0.1
Imports	% y/y	**2.5**	**-3.2**	**0.5**	**0.4**	13.2	1.8	-1.8	-2.8	-10.2	-2.0	-0.6	0.6	0.6	0.6	0.5	0.4
	% q/q					8.4	-8.3	-1.2	-1.0	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.1
Net Exports [1]	% y/y	**-0.2**	**0.6**	**-0.1**	**0.0**	-1.8	-0.1	0.5	0.6	1.9	0.5	0.0	-0.1	-0.1	-0.1	-0.1	0.0
	% q/q					-1.3	1.4	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stockbuilding [1,6]	% y/y	**-0.1**	**-0.1**	**0.1**	**0.1**	0.7	-0.4	-0.4	-0.2	-0.8	0.1	0.1	0.1	0.0	0.0	0.1	0.1
	% q/q					0.7	-0.8	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	USD bn	**-1140**	**-901**	**-916**	**-919**	-440	-251	-227	-222	-223	-224	-226	-228	-229	-229	-229	-229
	% of GDP	**-3.7**	**-2.8**	**-2.7**	**-2.6**	-5.9	-3.3	-2.9	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.7	-2.7	-2.7
Industrial Production [2]	% y/y	**1.2**	**1.1**	**0.9**	**0.9**	0.7	0.5	1.6	2.1	1.3	1.1	0.9	1.1	0.9	0.9	1.0	1.0
	% q/q					1.0	0.5	0.5	0.1	0.3	0.3	0.3	0.3	0.0	0.3	0.4	0.3
Unemployment Rate [2]	%	**4.3**	**4.2**	**4.0**	**4.0**	4.1	4.2	4.3	4.5	4.3	4.3	4.2	4.1	4.0	4.0	4.0	4.0
CPI [2]	% y/y	**2.7**	**2.9**	**2.4**	**2.8**	2.7	2.5	2.9	2.8	2.8	3.1	3.0	2.8	2.5	2.4	2.4	2.6
Core PCE [2]	% y/y	**2.8**	**3.0**	**2.5**	**2.8**	2.8	2.7	2.9	2.9	3.0	3.1	3.1	3.0	2.7	2.5	2.3	2.4
Federal deficit [3]	% of GDP	**-5.8**	**-6.3**	**-6.5**	**-6.5**												
Federal debt held by public [4]	% of GDP	**101.2**	**102.5**	**103.6**	**104.4**												
Fed Funds Rate[5]	%	**3.75**	**3.50**	**3.50**	**4.00**	4.50	4.50	4.25	3.75	3.75	3.50	3.50	3.50	3.50	3.50	3.50	3.50

[1] Contribution to GDP growth [2] Period averages [3] Treasury data [4] OMB data [5] End of period [6] Annual data refers to yoy change and quarterly to qoq change

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Global economic forecasts

	Weight	GDP Growth				Inflation				Unemployment				Fiscal balance			
		2025	2026	2027	2028	2025	2026	2027	2028	2025	2026	2027	2028	2025	2026	2027	2028
World*	**100.0**	**2.6**	**2.5**	**2.4**	**2.3**												
US	26.4	2.1	2.0	1.5	1.4	2.7	2.9	2.4	2.8	4.3	4.2	4.0	4.0	–5.8	–6.3	–6.5	–6.5
China	16.9	4.9	4.3	4.1	4.0	0.0	0.9	1.4	1.6	5.1	5.0	5.0	5.0	–8.6	–8.5	–8.4	–8.3
Japan	3.6	1.2	0.6	1.0	1.0	3.2	2.1	1.9	1.7	2.5	2.4	2.4	2.4	–3.5	–3.3	–2.8	–2.4
India	3.5	6.5	6.5	6.0	6.0									–7.5	–7.5	–7.5	–7.0
Latin America	6.1	2.5	2.5	2.3	2.2									–4.0	–4.0	–4.0	–4.0
Europe	**24.5**	**1.4**	**1.2**	**1.6**	**1.3**												
Eurozone	**14.8**	**1.4**	**1.2**	**1.5**	**1.3**	**2.1**	**2.0**	**2.2**	**2.5**	**6.4**	**6.3**	**5.9**	**5.6**	**–3.2**	**–3.4**	**–3.3**	**–2.7**
Germany	4.2	0.3	0.8	1.3	1.0	2.3	2.1	2.2	2.5	3.7	3.8	3.5	3.2	–2.7	–3.4	–3.6	–3.4
France	2.8	0.8	1.0	1.2	1.1	0.9	1.4	2.1	2.4	7.6	7.6	7.5	7.4	–5.4	–5.3	–4.8	–4.4
Italy	2.1	0.6	0.7	0.9	0.7	1.7	1.8	2.1	2.5	6.2	5.9	5.7	5.6	–2.9	–2.7	–2.4	–2.3
Spain	1.6	2.8	2.2	2.4	2.1	2.7	2.4	2.4	2.5	10.6	10.1	9.5	9.1	–2.9	–2.6	–2.4	–2.4
Portugal	0.3	1.9	2.3	2.1	1.9	2.2	1.8	2.2	2.4	6.1	5.8	5.6	5.5	–0.1	0.0	0.0	–0.7
Other Western Europe																	
UK	3.3	1.3	0.7	1.6	1.7	3.4	2.2	2.0	2.3	4.8	5.3	4.9	4.4	–4.9	–3.8	–3.3	–2.9
Switzerland	0.8	1.2	1.4	1.5	1.3	0.3	0.7	1.1	1.3	2.9	2.9	2.6	2.4	0.3	0.3	0.3	0.4
Sweden	0.5	1.3	2.0	2.0	1.7	0.9	1.5	1.9	2.0	8.7	8.4	7.7	7.4	–1.3	–1.0	–0.7	–0.8
Eastern Europe																	
Russia	2.0	1.0	0.9	0.8	0.0	9.0	7.5	6.0	6.0	2.5	3.0	3.0	3.0	–2.7	–3.0	–2.5	–2.5
Turkey	1.2	2.8	2.9	2.5	2.2	35.0	25.0	20.0	18.0	9.0	9.3	9.3	9.2	–4.0	–4.0	–4.0	–4.0

Unemployment rate: Harmonised definition (ILO/Eurostat); fiscal balance: general government deficit in % of GDP excluding one-off bank support.

*At market exchange rates, not purchasing power parity. PPP estimates give more weight to fast-growing emerging markets and inflate global GDP.

Weights based on IMF World Economic Outlook 2025 GDP data for 2024. Sources: World Economic Outlook, Berenberg

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Publication date: 5 January, 2026

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