OUTLOOK
10 November 2026

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Contacts

Madhavi Bokil +1.212.553.0062
Exec Dir-Credit Strategy & Standards
madhavi.bokil@moodys.com

Gabriel Agostini +1.646.947.9933
VP-Credit Strategy & Standards
gabriel.agostini@moodys.com

Radhika Ramalingam +91.80.6885.8306
Lead Credit Associate
radhika.ramalingam@moodys.com

Susmi Thomas +91.80.6885.8019
Sr Credit Associate
susmi.thomas@moodys.com

Ning Loh +852.3758.1668
MD-Credit Strategy
ning.loh@moodys.com

» Contacts continued on last page

Global Macro Outlook 2027-28

Stable global growth will mask considerable variation in trends across economies

Summary

The global economy continues to expand at a steady pace as investment, well-functioning credit markets and private sector adaptation outweigh shocks. But there are downside pressures. Energy costs are higher, household purchasing power is under pressure, monetary policy is more hawkish, and higher sovereign yields will increasingly feed through to the real economy as companies and households refinance debt. These pressures reduce the margin for error but do not derail our baseline of continued expansion.

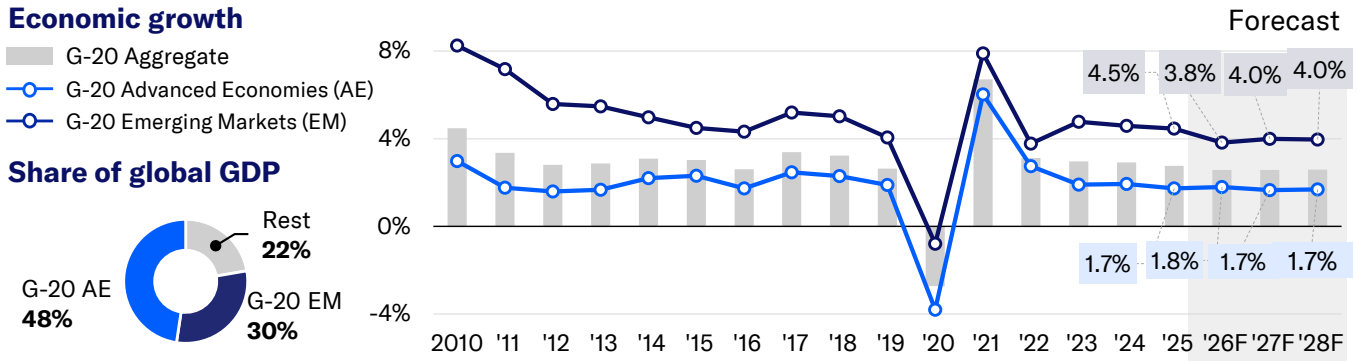
» **Stable global growth will mask considerable disparity across economies.** Global growth will likely slow to 2.6% in 2026 from 2.8% in 2025, then stabilize around that pace in 2027 and 2028. Advanced economy growth will hold around 1.7%, with major advanced economies broadly on trend after a soft 2026 for some. Emerging market growth will decelerate from 4.5% in 2025 to 3.8% in 2026 before recovering to around 4%. Beneath these aggregates, US (Aa1 stable) growth will return to trend after a multiyear stint above it, while euro area growth will pick up to 1.4% by 2028 from 1.1% this year. China's (A1 stable) structural growth slowdown is likely to continue. AI investment spillovers have strengthened Mexico's (Baa3 stable) growth outlook, while a broadening private investment cycle supports India's (Baa3 stable) prospects.

» **Investment will remain a key source of demand, but is largely sustaining trend growth rather than generating an acceleration.** Spending on artificial intelligence (AI), digital infrastructure and defense, alongside efforts to strengthen energy security, supply chains and domestic industrial capacity, will support activity. Higher financing costs and weaker household purchasing power will offset some of this impetus. The longer-term payoff will hinge on whether this investment cycle delivers adequate returns and stronger productivity growth.

» **Higher cost of living and borrowing will weigh on demand even as inflation moderates.** Headline inflation will ease as oil prices peak and hover within our $90-$110/bbl range before beginning to decline in mid-2027. Central banks will opt for limited hikes rather than a sustained tightening cycle.

» **A prolonged energy shock, renewed trade and geopolitical tensions, rising bond yields or disappointing returns on AI investment could weigh on growth.** Emerging markets are particularly exposed, albeit to varying degrees. Persistent cost-of-living pressures could also deepen social and political stresses and fuel policy uncertainty. However, a durable Middle East ceasefire that brings energy prices down more quickly, or stronger productivity gains from AI, would lift growth above our forecasts.

Exhibit 1
G-20 annual growth



Source: Moody's Ratings

Exhibit 2
Macroeconomic outlook for G-20 economies, 2027-28F

G-20 Economies	Real GDP Growth [1] Annual average, %							Inflation YoY, %			Unemployment Annual average, %		
	2025		26F		27F	28F	2026 Target[2]	26F	27F	28F	26F	27F	28F
G-20 AE	1.7	--	1.8	--	1.7	1.7							
US	2.3	▲	2.3	--	2.0	2.0	2.0%	3.4	2.8	2.2	4.2	4.3	4.2
Euro area	1.3	--	1.1	--	1.4	1.4	2.0%						
Japan	1.2	--	0.7	--	0.9	0.6	2.0%	2.2	2.0	2.0	2.6	2.5	2.5
Germany	0.2	▲	1.3	--	1.3	1.3	--	2.8	2.6	2.1	4.0	4.0	3.8
UK	1.2	▲	1.4	--	1.2	1.4	2.0%	3.1	3.4	2.3	4.9	4.8	4.7
France	0.9	▼	0.2	▼	0.7	1.2	--	2.5	2.0	1.8	8.3	8.2	8.0
Italy	0.6	▲	0.8	--	0.6	0.8	--	3.3	2.8	2.0	6.0	6.2	6.2
Canada	1.9	--	1.0	--	1.8	1.8	2.0% (+/-1.0%)	2.8	2.3	2.0	6.6	6.4	6.2
Australia	2.0	--	1.9	--	1.6	2.1	2.0% - 3.0%	4.5	3.0	2.5	4.7	4.9	5.0
Korea	1.1	--	3.7	--	2.6	2.0	2.0%	2.7	2.5	2.0	2.8	2.8	2.8
G-20 EM	4.5	--	3.8	--	4.0	4.0							
China	5.0	--	4.5	--	4.2	4.0	around 3%	1.0	1.0	0.5	--	--	--
India	7.3	▲	7.0	▲	7.0	7.0	4.0% (+/-2.0%)	4.5	4.3	4.0	--	--	--
Brazil	2.6	--	2.0	▼	1.6	2.2	3.0% (+/-1.5%)	4.6	4.5	3.8	--	--	--
Russia	1.0	--	0.6	--	0.7	0.7	4.0%	6.0	5.0	4.5	--	--	--
Mexico	0.5	▲	2.0	▲	2.1	2.0	3.0% (+/-1.0%)	3.7	3.9	3.5	--	--	--
Indonesia	5.1	--	5.2	--	4.9	5.0	2.5% (+/-1.0%)	3.4	2.5	2.5	--	--	--
Turkiye	3.7	▼	2.7	--	3.7	3.8	5.0% (+/-2.0%)	31.0	27.3	22.0	--	--	--
Saudi Arabia	4.6	▼	-2.8	▼	5.1	6.0	USD Peg [3]	2.1	1.9	2.2	--	--	--
Argentina	4.5	▼	2.9	▼	3.0	2.5	-- [4]	29.3	22.5	14.0	--	--	--
South Africa	0.9	--	1.1	--	1.6	2.0	3.0% (+/-1.0%)	4.3	3.7	3.1	--	--	--
All	2.8	--	2.6	--	2.6	2.6							

Growth forecast adjustment from the previous report
▲ Upward ≥ 0.3 pp --No adjustment ▼ Downward ≥ 0.3 pp

1. See our previous Global Macro Outlook, 27 August 2026. 2. The European Central Bank targets symmetric inflation of 2% over the medium term; the US Federal Reserve aims for inflation of 2% over the longer term. 3. Exchange rate arrangement is conventional peg to the US dollar. 4. The Central Bank of Argentina is targeting gradual disinflation under the country's IMF program. 5. Excluding Ireland, the euro area will grow 1.1% in 2026 and 2027 and 1.3% in 2028, following 1.0% growth in 2025.
Source: Moody's Ratings

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

Our baseline is a steady expansion in a high-risk environment

Our baseline assumes the global economy continues to expand at a steady pace over the forecast horizon as it adjusts to a new macroeconomic regime and more frequent shocks. However, the strength and durability of the expansion will depend on the capacity of households, companies and financial markets to absorb them.

Our forecasts rest on a specific set of assumptions: Oil prices remain high and volatile, around $90-$110/bbl for the first half of 2027, before gradually declining as energy market stress subsides. In addition to limited policy rate hikes, we expect long-term bond yields to decline from current highs but remain elevated. Specifically, we assume the global benchmark 10-year US Treasury yield will fluctuate around 4.5%-5.0% for much of the coming year because of strong supply of sovereign and corporate issuance, eventually settling around 4.25%-4.50%.

Behind this baseline are three general features of the global economy. The first is the relentless series of shocks that consumers, businesses and governments have had to absorb. The second is their remarkable adaptability, which has sustained global economic resilience. The third is the wide disparity across countries beneath seemingly steady global growth, with some economies slowing, others accelerating and a few maintaining relatively robust growth.

Economies have largely withstood a more challenging operating environment. Companies have rerouted trade and diversified sourcing in response to tariff hikes. As disruptions to the Strait of Hormuz and Red Sea constrained energy flows, supplies were rerouted, production increased where possible and efficiency gains accelerated. Supportive financial conditions and broadly accommodative fiscal and monetary policies also helped sustain activity. Against this backdrop, sound household and corporate balance sheets and robust banking systems in most major economies underpin stability.

Importantly, US consumer spending and AI investment have anchored global demand, particularly for economies in the technology supply chain. The AI investment supercycle, which has helped offset some of these pressures, will moderate as the buildout slows in 2027. US hyperscaler capex is set to grow by about 25% next year, still robust but down sharply from more than 100% in 2026. Greater investor scrutiny of its scale and returns could reinforce that moderation.

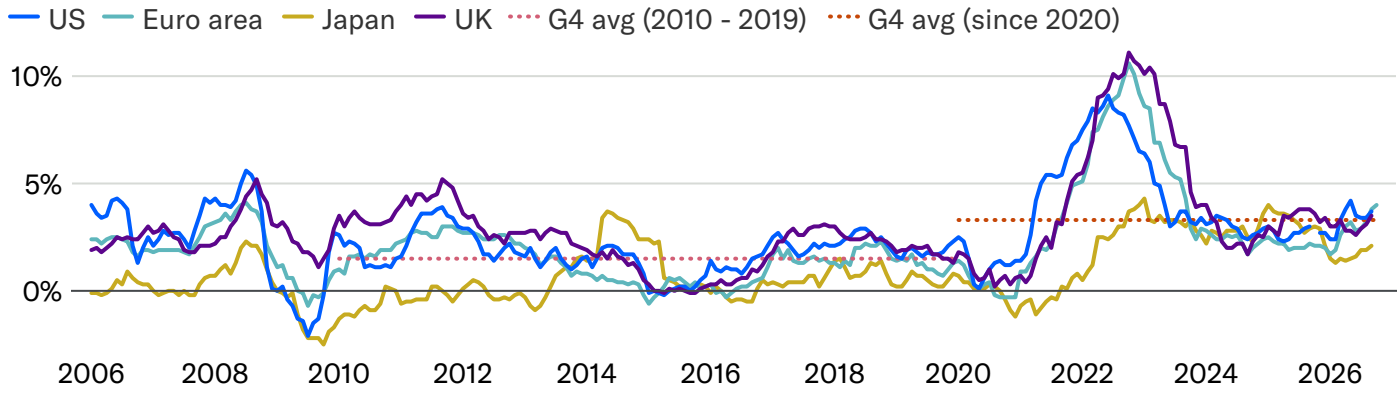
Resilience has limits, and some prominent risks could push the global economy off its expected path. Financial conditions have tightened, while Europe and Asia remain vulnerable to energy supply shortages. Although not our baseline, Europe could again face wintertime price pressures with natural gas storage at its lowest level in more than five years. Escalation of the Middle East conflict alongside the Russia-Ukraine war has strained energy markets and pushed oil prices sharply higher. Bond yields have surged as investors demand greater compensation for inflation, fiscal, political and geopolitical risks. Renewed inflation pressures have pushed central banks toward tighter policies since September, adding to borrowing costs. None of these pressures changes our baseline expectation of continued expansion, but together they leave the outlook more sensitive to further shocks than it was a year ago.

Emerging markets face a more challenging external environment heading into 2027. Higher energy prices, elevated global interest rates and persistent trade and geopolitical uncertainty are adding to inflation and financing pressures. At the same time, concerns over the returns on AI investment have emerged as an additional source of volatility. According to the Institute of International Finance, nonresident portfolio flows to emerging markets recorded $33.8 billion in outflows in October, following $19.3 billion in September, with the pullback concentrated in equities, particularly in Asia. Unlike earlier episodes of pressure, the October outflows occurred even as US Treasury yields fell and the dollar was broadly stable. As investors become more selective, economies with strong domestic growth drivers, credible policy frameworks and solid buffers should remain relatively resilient.

Inflation will moderate, allowing central banks to ease rates after limited hikes

Headline inflation has picked up again across major advanced economies as higher energy costs feed into consumer prices (see Exhibit 3). We expect energy and other supply pressures to keep inflation volatile and sticky in 2027, but tighter monetary policy and increasingly price-sensitive consumers will limit broader pass-through to other prices. Inflation should gradually moderate through 2028.

Exhibit 3
Inflation is running high across advanced economies
Headline inflation (y/y %)

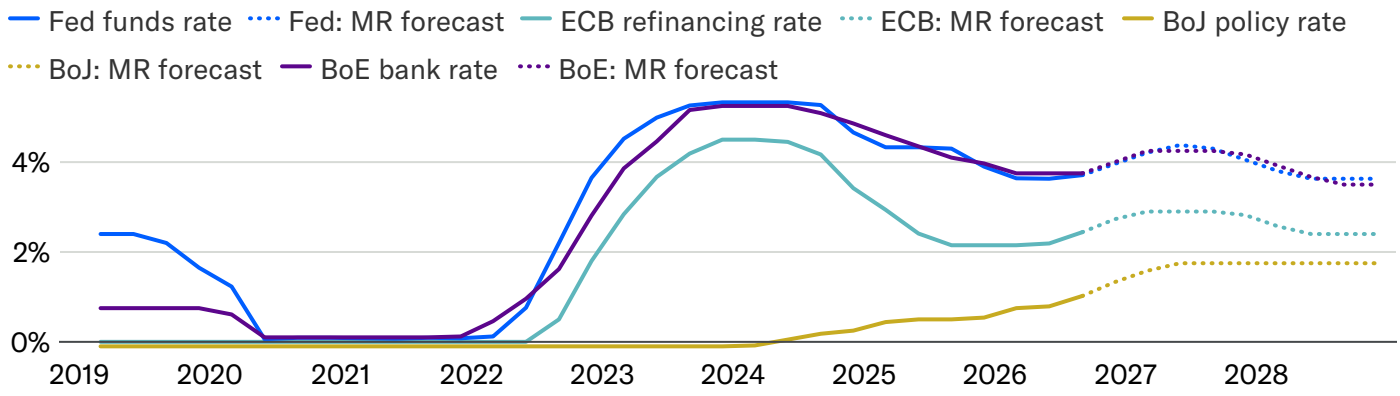


Sources: Haver Analytics and Moody's Ratings

For central banks, this means limited hikes to keep inflation expectations in check rather than a prolonged tightening cycle. Major advanced economy central banks have taken a firmer stance over the past three months as renewed inflation pressures complicate their policy outlooks. The Fed, European Central Bank (ECB) and Bank of Japan (BoJ) each raised rates by 25 basis points (bp) in September and the Bank of England (BoE) followed with a 25 bp hike in November.

We expect one more increase each from the Fed, ECB and BoE before year end, and potentially another Fed hike in the first quarter of 2027 if inflation stickiness in services persists. Provided inflation trends improve through 2027, central banks should be in a position to pivot to easing by the second half of 2027 (see Exhibit 4).

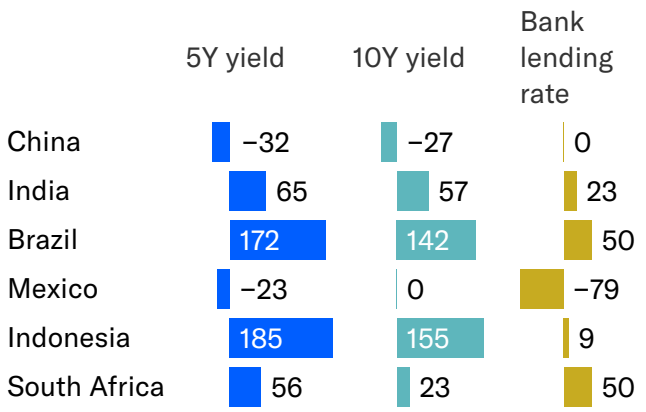
Exhibit 4
Central banks will opt for limited hikes rather than a sustained tightening cycle
Policy rates (%)



Sources: Haver Analytics and Moody's Ratings

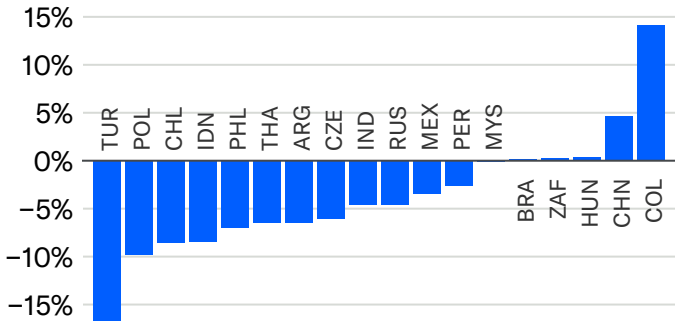
Emerging market central banks are facing greater external constraints going into 2027 because of higher global rates and exchange rate pressures (see Exhibits 5 and 6) and will remain cautious about easing before other global central banks pivot. The timing will vary and depend on domestic inflation and currency pressures. Central banks in India and South Africa (Ba2 positive) are tightening in response to external pressures from global rate increases. Mexico's central bank unexpectedly cut rates in November despite peso depreciation, but indicated that an extended pause would be appropriate as external and inflation risks remain elevated. Meanwhile, Brazil (Ba1 stable) policymakers have less room to ease because of domestic constraints alongside external conditions.

Exhibit 5
Several emerging markets have seen bond yields and bank lending rates rise
YTD change in interest rates (bp)



Sources: Haver Analytics and Moody's Ratings

Exhibit 6
EM currencies have depreciated
YTD % change in EM exchange rates vs. USD



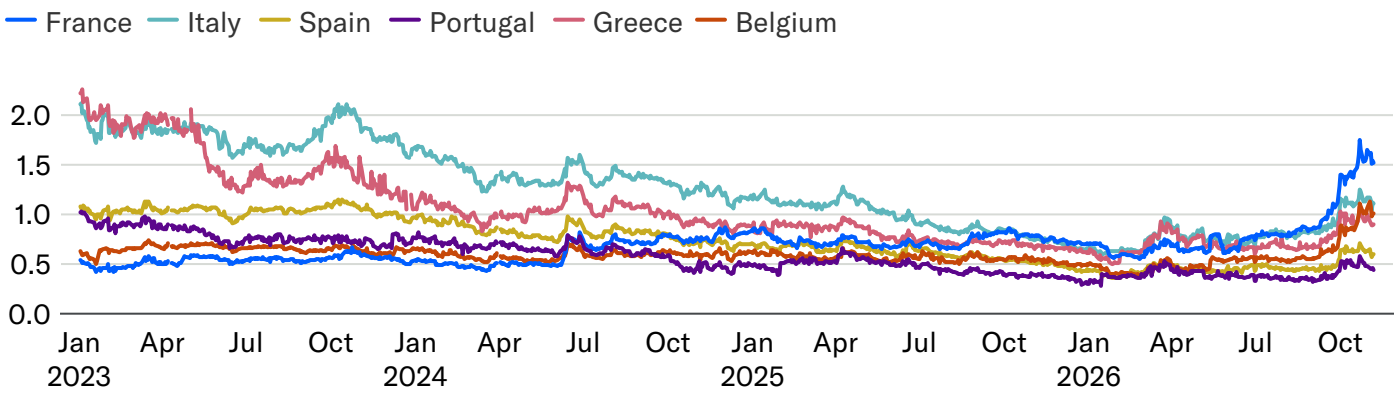
Negative values indicate depreciation. Data as of 6 November 2026.
Sources: Wall Street Journal, Haver Analytics and Moody's Ratings

China remains an important exception. Weak domestic demand and low inflation, which we expect to fall to just 0.5% by 2028, will keep monetary policy supportive throughout the forecast period. We expect further targeted credit support (e.g. targeted and supplementary lending facilities), but these supply-side measures are unlikely to significantly change the growth or inflation outlook.

Global government bond markets will remain volatile

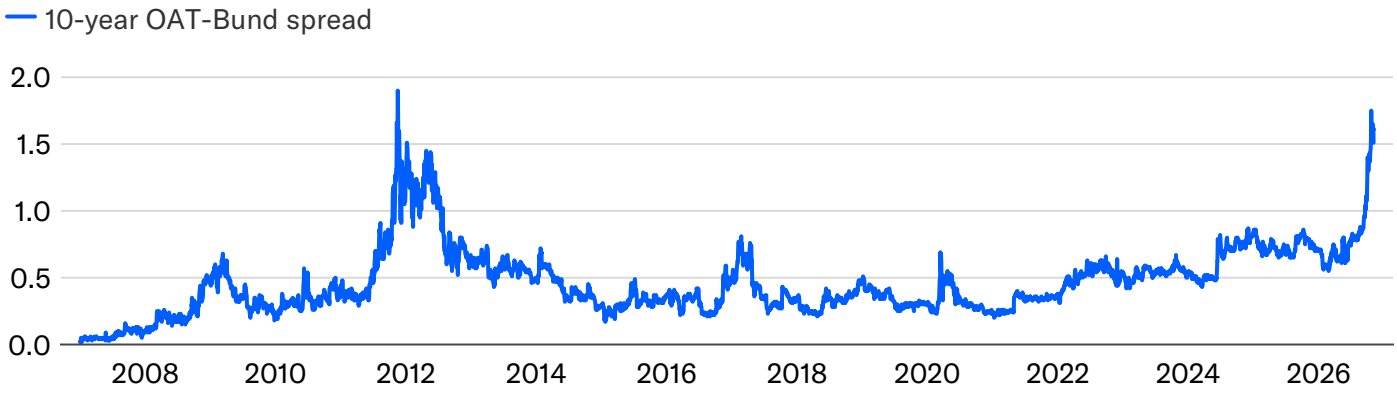
The latest sell-off in European bond markets reflects the interaction between political uncertainty and fiscal concerns. French yield spreads over German Bunds have widened sharply (see Exhibits 7 and 8), illustrating how quickly political risk can feed into sovereign risk premia. Strong investment demand, large fiscal deficits and heavy sovereign issuance are increasing demand for capital while more volatile inflation and significant fiscal, political and geopolitical risks are raising the compensation investors require to hold duration. Central banks have stepped back from government bond markets: the Fed has ended quantitative tightening but is buying mainly short-term bills, while the ECB, Bank of England and Bank of Japan continue to reduce their holdings. This leaves private investors to absorb a larger share of sovereign issuance. Together, these forces point to structurally higher and more volatile long-term yields, even as policy rates eventually stabilize.

Exhibit 7
Euro area government bond spreads have widened
Spreads over 10-year German Bunds (ppt)



Sources: LSEG, Haver Analytics and Moody's Ratings

Exhibit 8
French risk premium is nearing its 2011-12 sovereign debt crisis high
France-Germany 10-year yield spread (ppt)



Sources: LSEG, Haver Analytics and Moody's Ratings

Meanwhile, corporate credit spreads are largely contained and financing continues to flow to businesses. But narrow spreads mask the pressure from higher risk-free rates and borrowing costs. Leveraged borrowers are particularly exposed, including in the leveraged loan market where floating-rate debt transmits higher benchmark rates more quickly into interest expense. This effect is still working its way through the economy as existing debt matures and households and businesses refinance at higher rates. Higher borrowing costs will raise the hurdle rate for private investment.

Emerging market bond yields have risen alongside those in advanced economies, although generally less than in previous episodes of global rate volatility. Strong domestic investor bases, policy credibility and deeper local currency bond markets have improved resilience in many emerging markets. Nonetheless, a prolonged period of elevated global yields would tighten financial conditions, with the greatest effect on emerging economies with weaker policy buffers and greater reliance on external capital (see Exhibit 9).

Exhibit 9
Strong domestic investor bases and deeper local currency bond markets drive emerging market resilience
Values represent ppt change since 2013

Improvement ← → Deterioration

	External sector		Domestic market	
	Current account balance (% of GDP)	Short-term external debt (% of reserves)	Local currency govt bonds (% of GDP)	Foreign ownership of local currency govt bonds (%)
China	2.2	10.0	53.7	3.5
India	2.1	-9.4	11.4	1.3
Brazil	0.6	16.2	55.4	-6.3
Mexico	1.9	-25.0	22.2	-22.0
Indonesia	3.1	-4.6	18.6	-19.2
Turkiye	3.2	6.2	-10.8	-12.5
Argentina	1.2	44.2	18.9	8.9
South Africa	4.9	-1.3	39.8	-11.4

Data as of 2025 or latest available. In 2013 and 2025, China recorded a current account surplus while all others recorded deficits.
Sources: IMF, World Bank, Bank for International Settlements, Haver Analytics and Moody's Ratings

Strength and length of the expansion rests in part on the investment cycle

With household spending steady but constrained by softer labor markets, higher energy costs and elevated interest rates, investment will be a main engine of growth. AI capex growth will slow from exceptional rates, but spending levels will stay high and defense, energy security and supply-chain investment will broaden the base of support. AI infrastructure spending is concentrated in the US and Asian economies in the technology supply chain, while defense spending is supporting parts of Europe. Trade frictions, geopolitical fragmentation and concerns over access to critical resources will also drive investment in supply chain diversification, domestic industrial capacity and energy security. The strength and duration of the expansion will therefore depend partly on how this broader investment cycle evolves.

Governments increasingly seek to preserve the benefits of trade while protecting domestic productive capacity and economic security, a trend we expect to intensify over the next two years in the US, EU and emerging markets such as India, Brazil and Indonesia (Baa2 negative). At the same time, financing conditions will constrain the pace of investment. As debt raised at low rates matures, refinancing at higher rates will increase interest costs and absorb cash that might otherwise fund investment. The pressure will be greatest on highly leveraged firms with weak earnings and limited liquidity, while higher long-term yields will raise the hurdle rate for new projects. Governments face similar constraints, as high debt and rising interest costs limit fiscal flexibility amid growing spending demands. Strategic priorities will sustain investment in selected sectors, while competing demands on public resources will leave less room for stimulus or responses to future shocks.

The longer-term payoff will depend on how effectively capital is deployed. Countries with the infrastructure, skills, financing capacity and policy frameworks to turn investment into productive capacity will benefit most. Faster productivity growth than we currently forecast, including through wider adoption of AI and other technologies, would raise potential growth and strengthen the expansion.

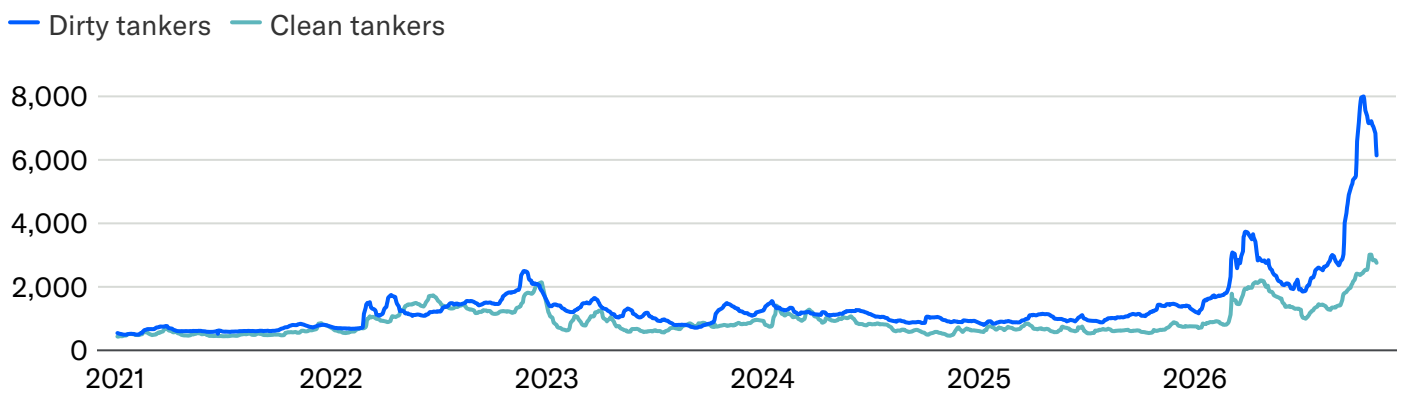
The Middle East conflict will also affect expansion durability

Nine months into the US-Israel-Iran conflict, prospects for a swift or durable resolution remain elusive. Oil and refined product exports through the Strait of Hormuz have recovered to around two-thirds of pre-conflict volumes despite ongoing hostilities, according to independent estimates, though remain highly volatile. Dark fleet transits, in which tankers shuttle oil through the Omani lane with transponders off to evade detection, have increased under the protection of costly US military escorts. In response, Iran has ramped up attacks on shipping in a bid to raise the risks and costs of the southern route and reassert control. In the first three weeks of October, there were more attacks than any comparable period since the conflict began. Tanker freight rates (see Exhibit 10) and war risk insurance premiums have surged, while transit flows remains highly uneven. On some days, volumes approach pre-conflict levels as ships cluster for safer passage through the Omani lane; on others, traffic slows to a trickle.

Exhibit 10

Tanker freight rates have skyrocketed amid Middle East turmoil

Baltic dirty and clean tanker indexes



Clean tankers carry lower-sulfur petroleum, including refined petroleum products. Dirty tankers mostly carry crude.

Sources: Baltic Exchange, Bloomberg and Moody's Ratings

Our baseline still assumes a highly contested Strait that remains prone to periodic escalation, though risks around it have become more two-sided after the US election. Bilateral arrangements between Iran and Gulf Cooperation Council (GCC) countries, dark transits under US escort and additional pipeline capacity should allow production and exports to recover gradually through 2027. But transit is unlikely to fully return to pre-conflict levels as reliance on alternative export routes increases and major importers, particularly in East Asia, diversify away from Gulf supplies perceived as increasingly risky. Higher prices should also encourage additional production outside the region and accelerate the secular shift toward renewables and electric vehicles, gradually easing market imbalances as the global economy adjusts to greater geopolitical uncertainty in the Middle East.

The pace of that adjustment remains highly uncertain. A durable military or diplomatic settlement, potentially driven by growing public opposition that weakens US willingness to sustain the conflict, could accelerate the recovery in Gulf production and exports and ease pressure on global energy markets. Significant military escalation and damage to oil production infrastructure, by contrast, could impair global supply capacity and delay a significant recovery until well into 2028 or beyond.

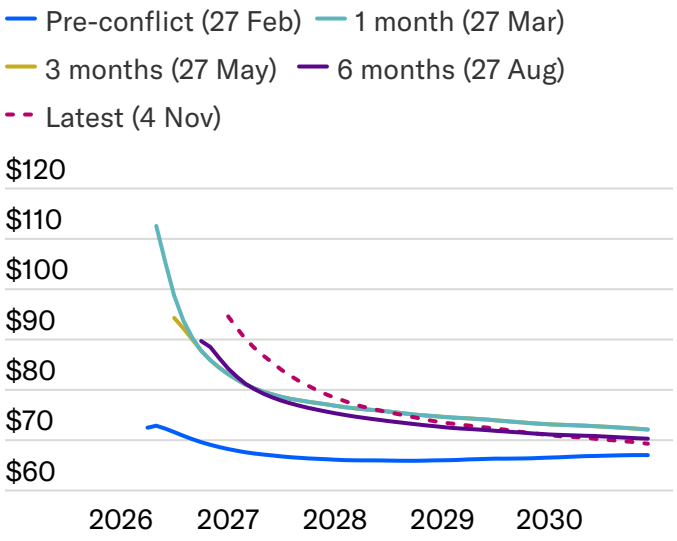
An initially oversupplied crude market, large releases from strategic reserves, brief diplomatic momentum and China's pullback from the oil market helped contain prices early in the conflict. Since then, declining inventories and the conflict's expansion to another critical chokepoint in the Red Sea have tightened oil markets. Financial markets are increasingly pricing in the prolonged disruption we have long assumed. Although Brent futures fell to about $95/bbl after the US midterm elections, spot prices averaged $124/bbl last month, their highest since June 2022, while the futures curve has shifted higher (see Exhibit 11). December 2027 futures now trade at $78/bbl, up from $76/bbl in August and $66/bbl before the conflict. Higher geopolitical risk premiums and demand to rebuild depleted inventories should keep upward pressure on prices even as supply conditions improve. We expect Brent to average $90/bbl in 2027 and $80/bbl in 2028, down from our estimate of $93/bbl this year.

Refined product markets are likely to remain even tighter, at least through the first half of 2027, keeping near-term headline inflation elevated. Export restrictions and damaged refining capacity in Russia and the Middle East have compounded supply pressures from products trapped behind the Strait. Wholesale diesel and jet fuel prices have risen roughly twice as much as crude prices since February (see Exhibit 12).

Most major economies should nevertheless continue to adapt to the energy shock. So far, they have shown considerable resilience by diversifying energy imports where possible, curbing demand for constrained fuels and, in some cases, using subsidies and price controls to buffer households and businesses. We expect these adjustments to continue, limiting the broader macroeconomic fallout even as energy prices remain elevated.

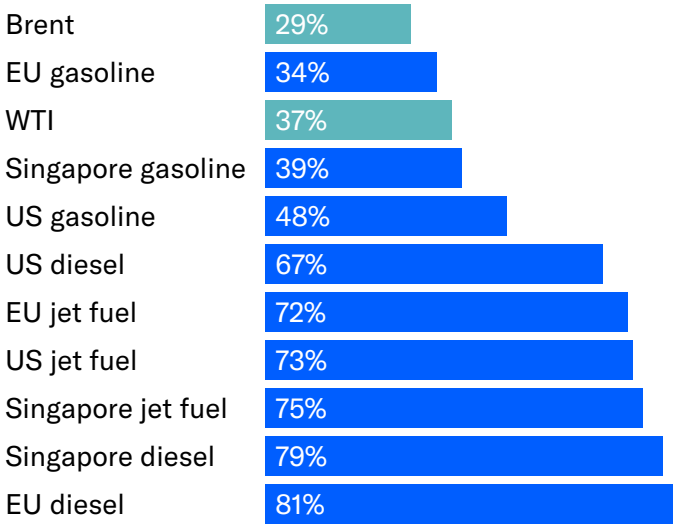
GCC countries remain more exposed. Economies with limited pipeline capacity to bypass the Strait will face continued pressure on both their oil and non-oil sectors. Oil production should recover only gradually as producers calibrate output to highly volatile export flows that remain vulnerable to renewed hostilities. Government support has helped sustain non-oil activity so far, but the conflict has weakened perceptions of regional stability that have helped attract foreign investment and tourism. Without a durable settlement that restores greater regional security, GCC development models will face increased scrutiny and, in some cases, strain over time.

Exhibit 11
Brent oil price expectations have shifted higher for longer
Brent futures curve at selected dates, $/barrel



Sources: Intercontinental Exchange, Bloomberg and Moody's Ratings

Exhibit 12
Refined oil product prices have risen more sharply than crude
% change in refined product prices since 27-Feb-26



For US and EU, US Gulf Coast and Northwest Europe benchmarks are used respectively.
Data as of 4 November 2026 or latest available.
Sources: Bloomberg and Moody's Ratings

Solid US growth will return to trend as growth engines lose momentum

US resilience remains a key pillar of global growth. Over the past two years, consumer spending and AI investment have been the main drivers and third quarter GDP data confirm both. Real GDP grew at a 3.4% annualized rate (2.1% year-on-year), with consumer spending and business investment contributing 2.5 and 1.8 percentage points (ppt), respectively. Investment in data centers, computers and peripherals alone added about 1 ppt, although much of this spending goes to imported equipment. About 86% of AI-related investment went to computers and peripherals, while imports of computers, peripherals and parts more than doubled from a year earlier. The US AI buildout is therefore supporting hardware and semiconductor producers in Asia as well as the US, while domestic investment in data centers and energy systems is boosting construction, power generation, advanced manufacturing and research and development.

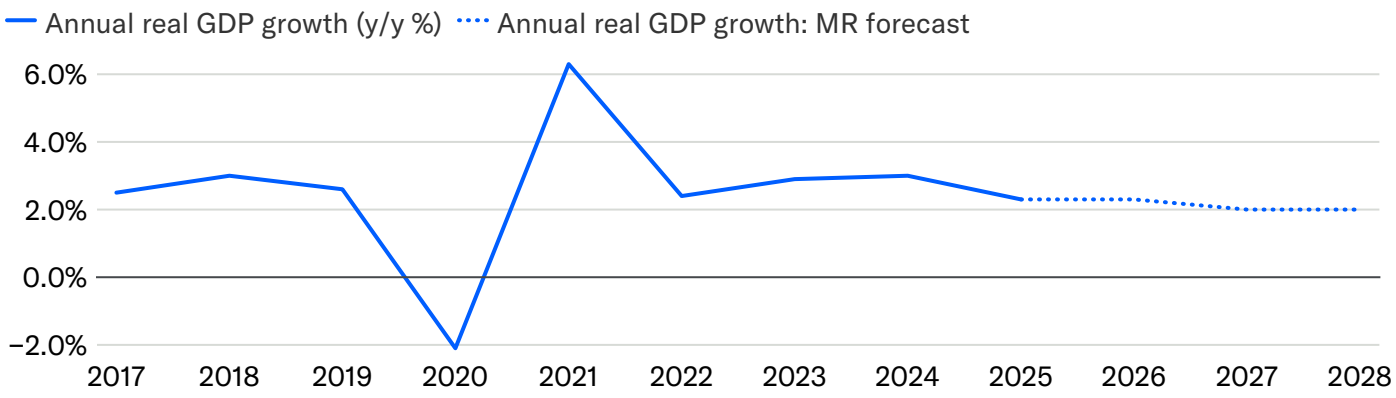
Both drivers will lose some momentum in the coming quarters. Consumer spending should continue to support growth as long as employment remains stable, but households are coming under increasing pressure. Inflation is eroding purchasing power, subdued hiring is holding nominal wage growth at around 3.0% and real wages are stagnating. In aggregate, household balance sheets remain healthy and access to credit should help prime borrowers sustain spending as income growth slows. Savings buffers have thinned for low- and middle-income households, however, leaving them more exposed to higher prices and borrowing costs. Higher interest rates and yields will make borrowing more expensive in 2027 and weigh on housing, autos and other interest-sensitive spending. We expect consumer spending growth to moderate, but continue to provide sufficient support for the economy to grow around its trend rate.

AI investment, while expected to remain high, will provide less support to growth. We estimate hyperscaler capex will reach nearly $1 trillion next year, but provide less support to GDP as growth slows from about 100% this year to 25% next year. AI has yet to deliver the economywide productivity gains needed to breakeven on investment thus far, which we estimate at about 0.2 ppt-0.8 ppt annually over the next few years. Even if those gains materialize, competition among AI providers and the pass-through of benefits to businesses and consumers mean hyperscalers will capture only a portion. Earning adequate returns will therefore depend on the scale of the productivity gains and how much of that value they can monetize. AI-related revenue and adoption spending are growing rapidly, but remain modest relative to investment. If returns disappoint, investment could slow more sharply, while a correction in AI-related valuations could weaken consumer and business spending with knock-on effects for credit. Slower labor force growth from tighter immigration policy and aging will further constrain growth.

Overall, we expect real GDP growth to slow to its trend rate of around 2% in 2027-28, after 3.0% in 2024 and 2.3% in 2025 and 2026 (Exhibit 13). Slower labor force growth from tighter immigration policy and aging will further constrain growth.

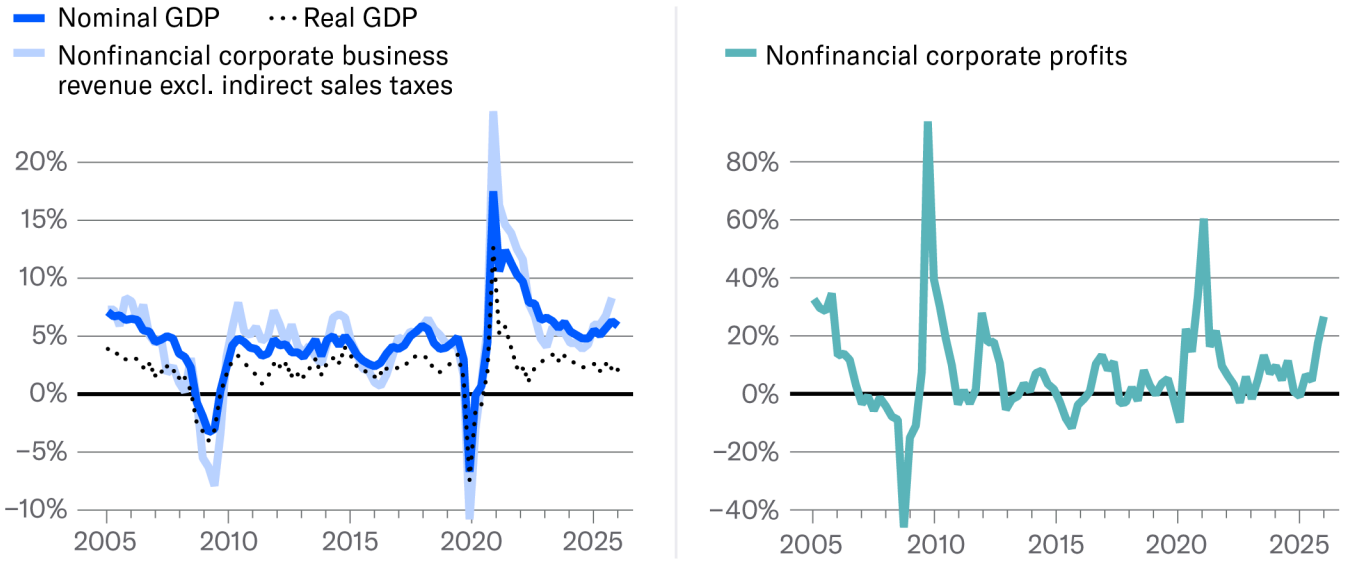
Strong nominal growth provides some buffer. Nominal GDP grew at a 5.6% annualized rate in the third quarter, compared with 3.4% in real terms. Because businesses earn revenue and service debt in current dollars, strong nominal revenue and cash-flow growth can ease the burden of existing fixed-rate debt and help absorb higher labor, input and financing costs as long as inflation does not become entrenched. For credit, the key question is whether nominal growth can stay ahead of borrowing costs, especially for leveraged companies and those with floating-rate debt or large refinancing needs. If pricing power and margins weaken, credit strains are likely to become more visible (Exhibit 14).

Exhibit 13
US growth will hold at 2.3% in 2026 before easing to 2%
Annual real GDP growth (y/y %)



Sources: US Bureau of Economic Analysis and Moody's Ratings

Exhibit 14
Strong nominal revenue growth helps extend the economic cycle
Year-over-year %



Sources: US Bureau of Economic Analysis and Moody's Ratings

Inflation remains the main challenge for monetary policy. Higher energy prices, tariffs and rising electricity demand from data centers are adding to price pressures. Headline CPI inflation rose to 3.7% in September from 3.4% in August, largely because of higher energy prices, while core inflation rose to 2.6% from 2.4%. The Fed's preferred PCE measure rose to 3.6%, with core PCE at 3.1%. We expect headline inflation to average 3.4% in 2026. A likely December rate hike, with potentially another in 2027 if inflation proves persistent, should limit broader spillovers from higher energy costs and gradually lower CPI inflation to 2.2% by 2028, in accordance with our baseline expectations and the Fed's 2% PCE inflation target.

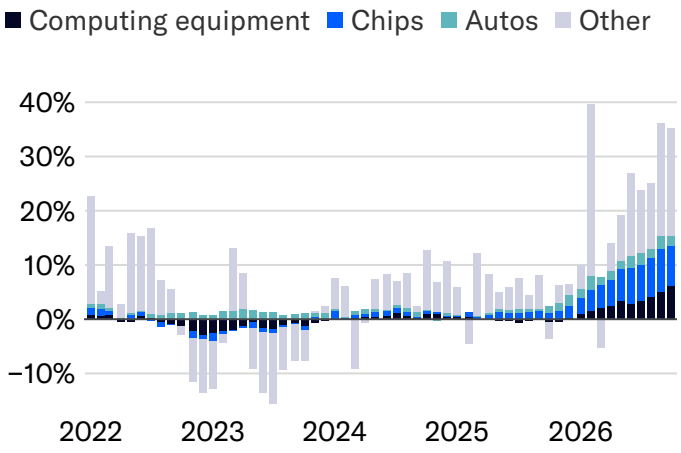
China's growth slowdown is structural

China's economy has been on a decelerating growth path for many years. We expect growth to moderate further, to 4.0% in 2028 from 4.5% in 2026. Real GDP growth picked up to 4.5% in the third quarter of 2026 from 4.3% in the second quarter as exports surged, but domestic demand remains weak. Retail sales grew only 1.1% in September, while real estate investment fell 20.6% in the first nine months of the year. Fixed asset investment growth remains in negative territory. Meanwhile, China continues to post large trade surpluses every quarter. Goods exports across the value chain, ranging from simple products to advanced manufacturing and exports, including AI and green energy technologies, are the key drivers of growth (see Exhibits 15 and 16). While factory-gate prices have edged higher, this is primarily driven by higher energy costs, with domestic demand remaining weak.

Exhibit 15

Goods exports led by AI and green technologies support China's growth

Contributions of export categories to y/y export growth (ppt)

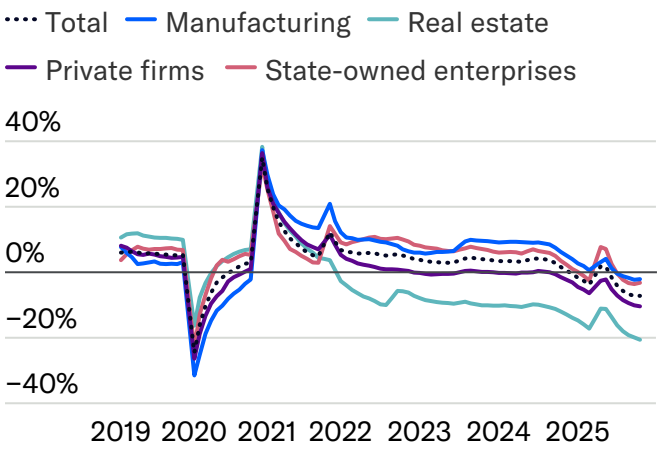


Sources: China General Administration of Customs, Haver Analytics and Moody's Ratings

Exhibit 16

Investment in China remains a drag

Fixed asset investment (YTD, y/y %)



Sources: China National Bureau of Statistics, Haver Analytics and Moody's Ratings

China's domestic demand weakness is entrenched and unlikely to reverse quickly without strong demand-focused stimulus. The property sector, now in its sixth year of contraction, continues to weigh on consumer confidence and local government finances, with recent measures to tighten presale requirements providing limited support. Consumption support including vouchers and product subsidies has done little to change cautious household behavior. Meanwhile, policies favoring strategic and high-tech industries continue to support production, leaving growth increasingly dependent on industry and external demand. China's reliance on coal and renewables for power has partly insulated industry from the energy shock, but its reliance on exports leaves it exposed to weaker global demand.

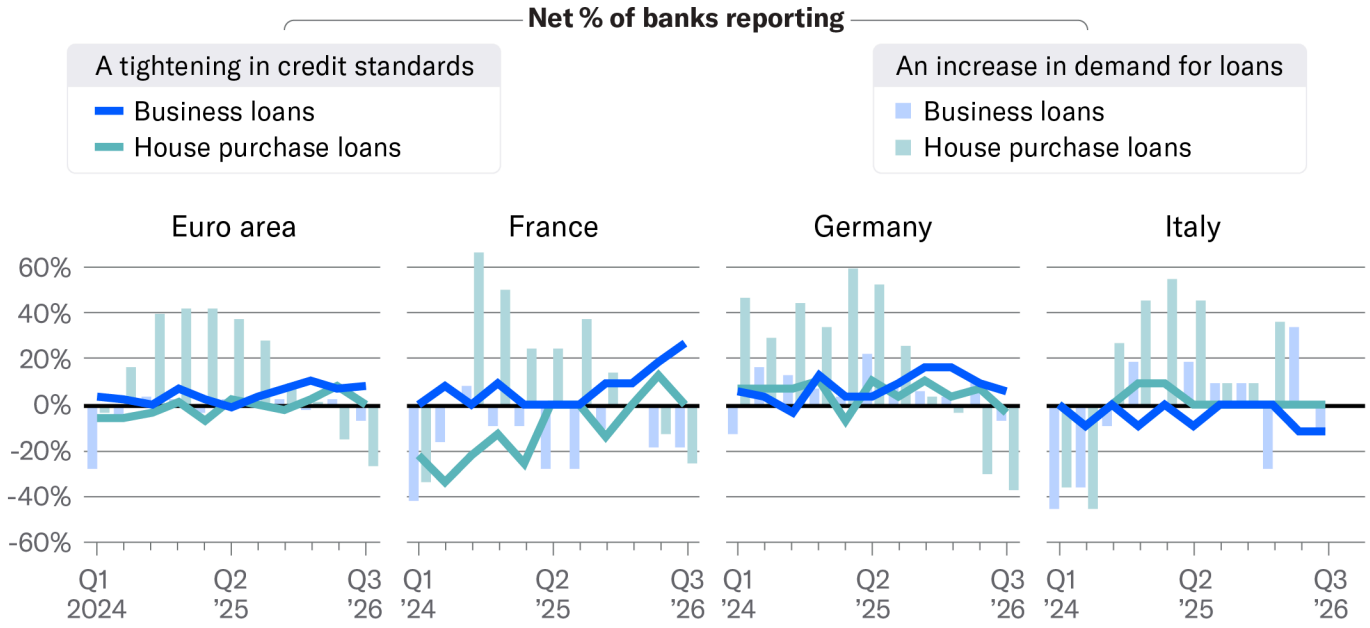
Greater trade restrictions in Europe pose an additional risk. Competitive pressure from Chinese goods is hardening the stance of European industry, including German automakers. Further restrictions would weaken export growth to a major market and reinforce China's efforts to diversify exports toward other destinations. The risk of restrictions on critical minerals or equipment for geopolitical reasons will further encourage geographic diversification.

Europe remains on a low-growth path

Weak productivity, eroding industrial competitiveness, cautious households and fiscal constraints have kept Europe on a low-growth path. Trade uncertainty and high energy costs have added to the drag. Tighter credit conditions will provide an additional constraint on growth (see Exhibit 17). We expect growth across the region's major economies to remain modest, although country paths vary. Germany's (Aaa stable) recovery will continue, supported by higher defense and infrastructure spending, while structural weakness in manufacturing and exports continue to weigh on activity. In France (Aa3 negative), political uncertainty, higher bond yields and fiscal challenges have constrained growth in 2026. We expect a modest recovery in 2027, constrained by tight lending conditions, with growth firming to trend growth rate of around 1.2% in 2028. Low productivity, demographic headwinds and high public debt will limit Italy's (Baa2 stable) expansion, while modest fiscal consolidation, subdued investment and weak productivity will weigh on UK (Aa3 stable) growth.

Exhibit 17

Euro area business lending conditions tighten further



Sources: European Central Bank, Haver Analytics and Moody's Ratings

Competitive pressure from Chinese imports remains a major headwind for European manufacturers. With the EU's goods trade deficit with China running at more than €1 billion a day, the European Commission (EC) is considering a broad set of measures to limit foreign producers' access to the single market. Alongside measures aimed at reducing hybrid car imports from China, which the EU and China agreed to cap at 350,000 a year in October, the EC is preparing safeguards covering sectors including chemicals, metals and machinery. The DiversifyEU initiative would reduce reliance on single suppliers for critical supplies, while a proposed solidarity mechanism would support member states facing economic coercion or trade retaliation.

EU leaders have also asked the EC to develop tools to quickly restrict access to the single market when trade practices harm the bloc. Given the scale of Europe's competitiveness challenge and growing political support for addressing it, trade policy is likely to become more assertive over the next two years, adding to global trade uncertainty.

Indian economy strengthens further

India's broad-based economic momentum and demonstrated resilience to the energy supply shock warrant upward revisions to our 2026-27 growth forecasts to 7% from 6.5%. Robust consumption, improving investment dynamics and strong macroeconomic fundamentals imply that the economy appears well positioned to sustain growth near 7% over the medium term. A sustained private investment boom that materially boosts manufacturing, employment and productivity could lift growth rates above our baseline. India has adjusted to the energy price shock better than previously assumed, helped by its ability to diversify crude and gas supplies and

buffer consumers from the immediate price impact through state-backed oil marketing companies and tax cuts. India is also home to the world's largest single-site refining complex, and its large and sophisticated refining capacity has helped limit fuel supply disruptions while supporting its role as a major exporter of refined petroleum products.

High frequency indicators including robust capital goods production and imports, accelerating industrial credit growth and rising capacity utilization suggest that India may be at the cusp of a new private capex cycle after several years of corporate and banking-sector balance sheet repair. Broader economic activity also remains solid, amid expanding manufacturing and services purchasing manager indexes and double-digit year-on-year growth in goods and services tax revenue, vehicle sales and merchandise exports.

Nevertheless, near-term risks persist. Household consumption remains vulnerable to intensifying and broadening price pressures, with headline inflation now close to the upper end of the Reserve Bank of India's (RBI) 2%-6% target range, while a deficient southwest monsoon and strengthening El Niño conditions will likely weigh on agricultural output and rural demand. With the RBI on track to raise rates further, tighter monetary policy could delay the recovery in private investment.

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REPORT NUMBER 1494361

Contacts

Nick Hill +33.1.5330.1029
MD-Gbl Credit Strategy & Guidance
nick.hill@moodys.com

Laura Perez Martinez, CFA +34.91.768.8216
Exec Dir-Credit Strategy & Standards
laura.perezmartinez@moodys.com

Marie Diron +44.20.7772.1968
MD-Global Sovereign Risk
marie.diron@moodys.com

Ola Hannoun-Costa +1.212.553.1456
Exec Dir-Ratings
ola.hannouncosta@moodys.com

Christian de Guzman +65.6398.8327
Exec Dir-Credit Strategy & Standards
christian.deguzman@moodys.com

Atsi Sheth +1.212.553.7825
Chief Credit Officer
atsi.sheth@moodys.com

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