

What's in store for the global economy in 2026?

Resilience or rupture?

After a rapid shift in the Australian economic landscape over recent weeks, this week has finally been a little quieter – leaving aside the political developments in Canberra of course! Thankfully, this provides an opportunity to step back and recap our view on the global economy for 2026.

Amid all the trade tensions and geopolitical risks emerging in 2025, economic growth was remarkably resilient. Global real GDP growth is estimated to have averaged around a 3.3% pace, in line with the growth experienced in 2024. Headwinds from the higher US tariffs and increased geopolitical uncertainty were largely offset by a surge in AI-related investment, fiscal stimulus and more supportive financial conditions. This was not just a US story; the stronger tech-demand supported growth in many economies, particularly chip exporters, with Taiwan real GDP growth rising to a stellar 8.6% in 2025.

Looking ahead, we expect more of the same in 2026, with global growth expected to remain around a 3.3% pace. Fiscal policy in many economies – particularly in the US, Germany and Japan – is set to become more supportive this year following fiscal packages enacted last year, or in Japan's case in coming weeks after Prime Minister Takaichi's comprehensive victory over the weekend. Defence spending is also continuing to ramp up, particularly after NATO members committed to lift spending to 3.5% of GDP by 2035 and EU leaders reformed their fiscal rules. Capital expenditure by the AI hyperscalers is forecast to continue to climb, rising to around US\$650-700 billion in 2026, and providing a similar boost to global growth as seen last year.

Turning to our country views in more detail, growth in the US economy is expected to remain solid in 2026. Real GDP growth is forecast to average around a 2.6% pace, up from a likely 2.2% pace in 2025. President Trump's One Big Beautiful Bill is forecast to add almost ½ppt to growth this year, with a similar boost expected from AI-related investment. Labour market conditions, which exhibited signs of weakness in 2025, are likely to stabilise and potentially improve modestly later in the year. This week's delayed January employment report supported our view, with non-farm payrolls rising 130,000 in January, the best result seen since late 2024.

US inflation is expected to remain above the Fed's target, with the core PCE deflator forecast to only moderate from 2.8% in November 2025 to 2.6% by Q4 2026 and not reach the 2% target until 2028. Given the sticky inflation outlook, we expect only one further rate cut by the Fed in June to take rates to 3.375%. Our view is that the new Fed Chair is likely to face difficulties in convincing other FOMC members to support more than one rate cut given above-target inflation and stabilising labour market conditions, although we acknowledge the risks are heavily skewed towards two rate cuts this year.

In Europe, we expect moderate growth to continue in 2026. Although a recovery is expected to emerge in Germany this year, euro area growth is expected to be constrained by easing momentum in Spain, the Netherlands and Ireland, and ongoing modest growth in France and Italy. Overall, we expect euro area real GDP growth to average a 1.2% pace in 2026, a little below the 1.5% growth seen in 2025 largely due to base effects. Core inflation in the euro area is expected to fall from 2.2% seen in January 2026 to the 2.0% target by H2 2026. The ECB is likely to continue to view monetary policy as in a 'good place' and is expected to keep rates unchanged at 2.0% throughout the year.

In the UK, modest growth is forecast to continue in 2026. Real GDP growth is expected to average around a 1.1% pace, close to the 1.3% growth recorded in 2025. Underlying inflationary pressures have been slow to dissipate in the UK, although inflation pressures are expected to ease more quickly in 2026 reflecting recent budget policies and softening labour market conditions. QIC forecast the UK core CPI inflation rate to fall from 3.2% in December 2025 to 2.4% by the end of 2026, before falling close to the 2% target in 2027. With inflationary pressures moderating we expect two cuts by the Bank of England this year to take rates to 3.25%.

Growth in China was surprisingly resilient in 2025, with authorities managing to hit their annual growth target of 5.0%. However, domestic demand has been much weaker, reflecting sluggish consumer spending and declining private sector investment. QIC expect demographic headwinds and ongoing domestic challenges will see growth in China slow to around a 4½% pace in 2026, although there are risks that authorities could unleash more supportive fiscal policies to prop up growth.

Where could we go wrong with our 2026 outlook? What could undermine the ongoing resilience narrative and cause a rupture in the global economy? Three key risks spring to mind:

- (1) Any disappointment around the potential of AI: This would significantly undermine the equity market given current valuations, and likely lead to a sharp pullback in private sector investment, higher unemployment and much weaker consumer spending; or
- (2) An escalation in geopolitical tensions or political instability: While the global economy shrugged these risks off in 2025 and early 2026, the situation remains fragile and further protectionism, the shift to trading blocs or the outbreak of new conflicts could cause significant negative supply shocks across the global economy; or
- (3) A sharp rise in bond yields: Should governments aggressively ease fiscal policy or undermine the independence of central banks, markets could become increasingly concerned around the sustainability of government debt and increase inflation expectations, term premia and bond yields.

Although our base case view remains for ongoing resilience in 2026, the global economy is fragile and any flare up of these risks could quickly cause a rupture in the economic outlook. Let's all hope that we get a few more quiet weeks in the global economy this year.

Table 1: Financial market movements: 5 – 12 February 2026

EQUITY INDEX	LEVEL	CHANGE	10-YR GOVERNMENT BOND	YIELD	CHANGE	FOREIGN EXCHANGE	RATE	CHANGE
S&P 500	6,832.8	0.5%	US	4.10%	-8.2 bps	US Dollar Index (DXY)	96.93	-0.9%
Nikkei 225	57,639.8	7.1%	Japan	2.24%	0.1 bps	USD-JPY	152.74	-2.7%
FTSE 100	10,402.4	0.9%	UK	4.45%	-10.7 bps	GBP-USD	1.362	0.7%
DAX	24,852.7	1.5%	Germany	2.78%	-6.4 bps	EUR-USD	1.187	0.8%
S&P/ASX 200	9,043.5	1.7%	Australia	4.81%	-5.0 bps	AUD-USD	0.709	2.4%

Source: Bloomberg

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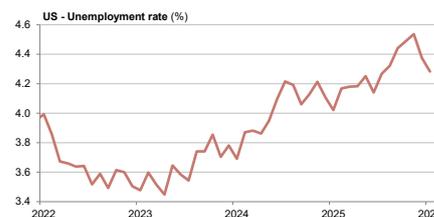
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Economic update by region

United States

US unemployment rate ticks down in January

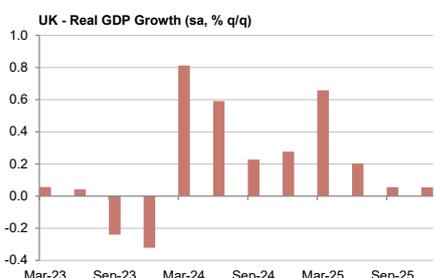
- Non-farm payrolls rose by a strong 130k in January a positive start to the new year for the US labour market which saw soft job growth over 2025. Benchmark revisions saw total payrolls growth over 2025 revised down by 403k. As a result, average payrolls growth over 2025 is now estimated at a tepid 15k per month. The unemployment rate ticked down from 4.4% in December to 4.3% in January. The recent pullback in the unemployment rate following its upward trend over much of 2025 will provide the Fed reassurance that the labour market remains in relative balance despite the weakness in employment growth.
- The value of retail sales was unchanged in December compared to November. Consumer spending has moderated in the December quarter following the strong growth seen in the September quarter.



Euro area/United Kingdom

UK economic momentum remains weak

- Real GDP in the UK rose by a modest 0.1% in the December quarter following similarly tepid growth of 0.1% in the September quarter. On an average annual basis UK real GDP rose 1.3% over 2025 due to the more solid growth seen in the first half of the year.



China/Japan

Chinese deflationary pressures continue to slowly ease

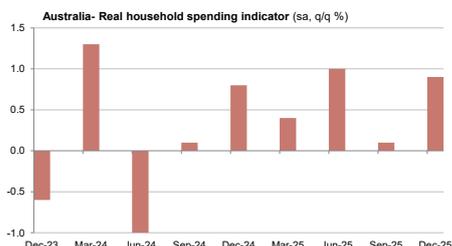
- The annual rate of consumer price inflation in China fell from 0.8% in December to 0.2% in January. However, this fall was primarily a result of differing timing of Chinese New Year celebrations and will likely unwind in February. The annual rate of producer price inflation rose from -1.9% in December to -1.4% in January. Producer price inflation has risen considerably over recent months but remains solidly within deflationary territory.



Australia/New Zealand

Australian household spending grows strongly in the December quarter

- The ABS measure of household spending fell by 0.4% in nominal terms in December, a modest pullback following the strong growth seen in October and November. Household spending rose by 0.9% in real terms over the December quarter indicating strong consumer spending growth over the quarter as consumers took advantage of the Black Friday sales season.
- The Westpac-MI measure of consumer sentiment ticked down from 92.9 in January to 90.5 in February. After briefly re-entering optimistic territory in November, consumer sentiment has since declined considerably as consumers' interest rate expectations have risen amidst the commencement of a hiking cycle by the RBA.
- The NAB survey estimate of capacity utilisation ticked down from 83.1% in December to 82.9% in January. It remains around historically high levels, indicating potential capacity constraints in the Australian economy.



Sources: ABS, LSEG, QIC

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