Flash Economics

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Six questions regarding the economic outlook and the market outlook for 2026

The six questions are as follows:

1- Will US growth further be supported by high-earners' consumption and by wealth effects?

2- Will inflation remain subdued in the United States despite tariffs and the decline in immigration?

3- Can the euro zone hope for reasonably strong growth in 2026?

4- Is there a risk of a public debt crisis in the United States or in the euro zone?

5- Will stock market indices advance further in 2026?

6- Will the prices of copper, gold, silver and platinum continue to rise, and will the price of oil continue to fall?

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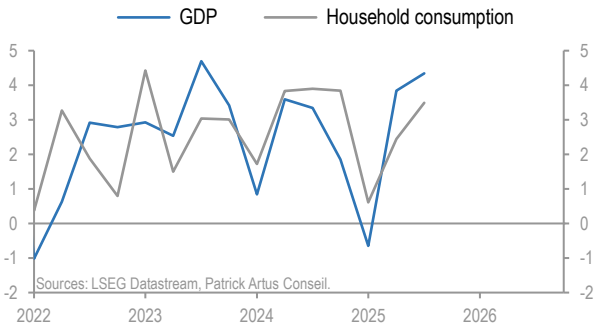
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First question: will US growth remain strong in 2026?

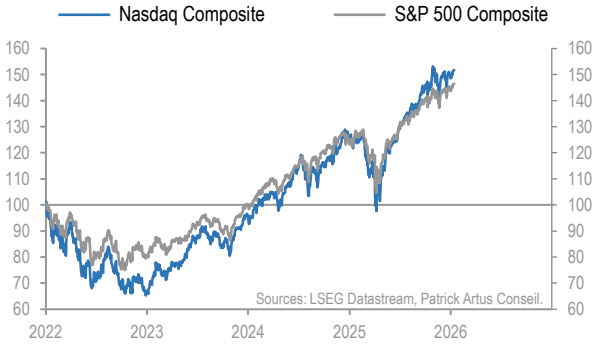
Growth in the United States has been strong (at an annualised rate of 3.8% in the second quarter and 4.3% in the third quarter) since the second quarter of 2025, essentially as a result of the growth in household consumption (**Chart 1**).

Chart 1
United States: Annualised quarterly % change in real GDP and household consumption



Only consumption by the top 10% of Americans by income is increasing (year on year, the top 10% of Americans by income increased the value of their consumption by 18.7%, while the remaining 90% of Americans increased their consumption by only 0.5%). This situation can be compared **with the concentration of share ownership**: the top 1% of Americans by wealth hold 50% of shares; 87% of Americans with an income above 100,000 dollars per year hold shares, compared with 28% of Americans with an income below 50,000 dollars per year. **Stock market indices rose sharply again in 2025** (**Chart 2**), which increases the wealth and consumption of the richest Americans.

Chart 2
Stock market indices (01.01.2022 = 100)

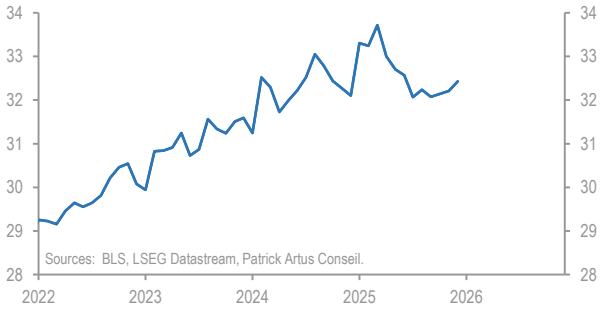


The extension of the strong growth observed in 2025 in the United States will therefore depend on stock market performance. Analysts' consensus forecasts a further rise in stock market indices, but there are concerns about the overvaluation of technology stocks (the Nasdaq P/E ratio is 34) and the massive investment needs to develop artificial intelligence tools, which will increase financing costs for tech companies.

Second question: will inflation remain low in the United States despite tariffs and the decline in immigration?

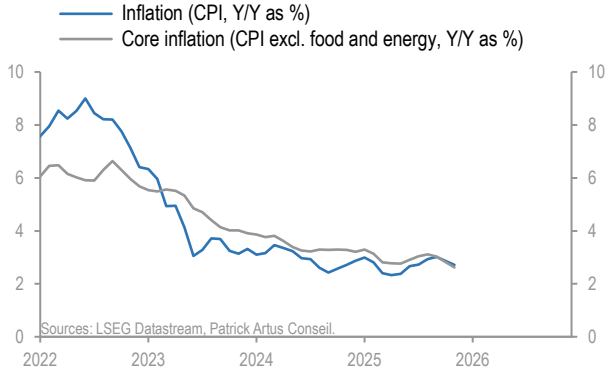
A strong surge in inflation in the United States was expected due to **the increase in tariffs** (tariffs as a percentage of total U.S. imports rose from 2.2% to 16.8% in 2025) and the decline in the immigrant population (**Chart 3**).

Chart 3
United States: Foreign-born labour force
(in millions of persons)



However, inflation continued to decline (**Chart 4**), with core inflation falling to 2.6% in November 2025.

Chart 4
United States: Headline inflation and core inflation (as %)



Tariffs are fully passed through into import prices. However, there is no consensus on the proportion of the increase in import prices that is reflected in household consumption prices. Estimates of the effect of the tariff increase on inflation range from 0.4 to 1.2 percentage points (with a pass-through ranging from 35% to 95%). If producers and retailers reduce their margins to limit the rise in consumer prices, profit margins will fall, which is bad news for U.S. stock markets. If price increases are merely delayed, Donald Trump's popularity will continue to decline.

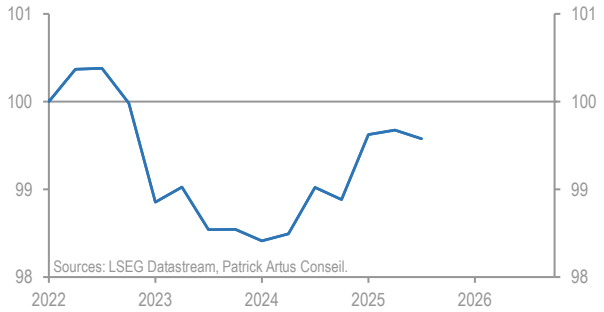
Third question: can the euro zone hope for reasonably strong growth in 2026?

Growth in the euro zone was expected to be 1.3% in 2025, and forecasts (from the European Commission and the ECB) see growth of 1.2% in 2026.

However, it is doubtful that euro zone growth will be that strong in 2026:

- **Labour productivity increased by 1.2% in 2024 but has been stagnating again since the first quarter of 2025** (**Chart 5**).

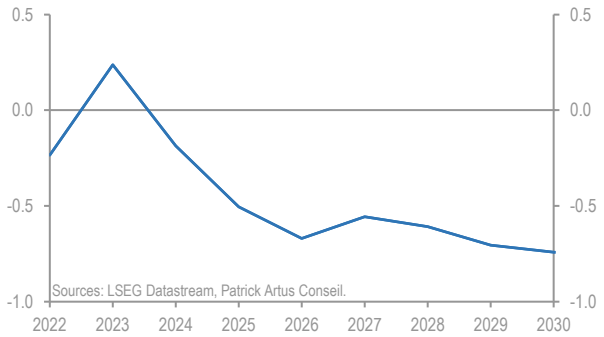
Chart 5
Euro zone: Real labour productivity per hour worked
(2022.Q1 = 100)



Average annual growth in 2025 was boosted by this productivity increase in the first quarter of 2025. But this increase is limited to the beginning of 2025;

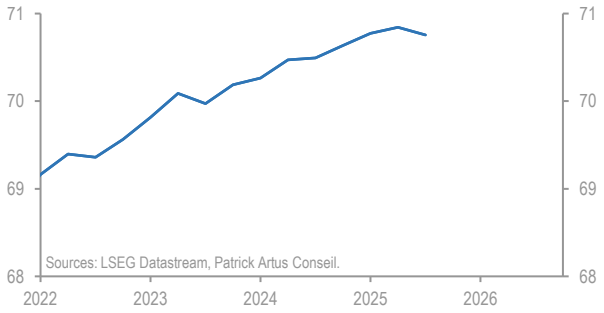
- **The working-age population has been declining since 2024** (**Chart 6**);

Chart 6
Euro zone: Population aged 15 to 64 (Y/Y as %)



- **The employment rate has increased recently by an average of 0.45 percentage points per year** (**Chart 7**), which adds 0.65 percentage points per year to real GDP.

Chart 7
Euro zone: Employment rate of population aged 15 to 64 (as %)



Overall, with stagnant productivity, a declining working-age population, and an increase of 0.45 percentage points in the employment rate, which incidentally seems to stop in the second half of 2025, **one cannot expected real GDP growth above 0.7% in 2026**.

Fourth question: is there a risk of a public debt crisis in the United States or the euro zone?

In the United States, the public deficit in 2025 was 5.8% of GDP, but the budget deficit in 2026 will exceed 7% of GDP, due to the additional spending and tax cuts scheduled in the "Big Beautiful Bill." The U.S. fiscal situation would be further worsened if the Supreme Court overturns the tariff increases and if the announced household aid (2,000 dollars per household, or 270 billion dollars in total) is actually implemented.

In the euro zone, the public deficit was 3.2% of GDP in 2025, with a deficit of 3.3% of GDP expected in 2026. Germany will see its public deficit increase sharply (3.7% of GDP in 2026), while France will remain with a high public deficit (probably above 5% of GDP, following 5.4% in 2025).

The problem for the United States and the euro zone is that **Japanese investors, who have been major buyers of U.S. and European public debt, are likely to turn away from these government papers to invest in domestic debt,** due to rising interest rates in Japan (2.10% for the 10-year rate, 3.40% for the 30-year rate) and the stabilisation of the yen-dollar rate since mid-November 2025.

Of course, a default on U.S. or given European governments' debt cannot be envisaged, but it is reasonable to expect that demand for government debt from non-residents will be lower in 2026 than in 2025 in both the United States and the euro zone, **which will imply a continued rise in long-term interest rates in the United States and the euro zone** (**Charts 8/9**).

Chart 8
Japan: Interest rate on 10-year and 30-year government bonds (as %)

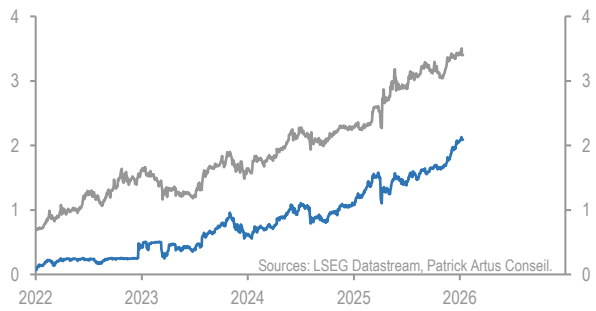
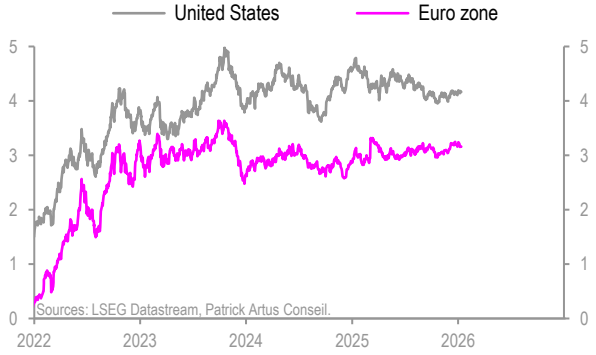


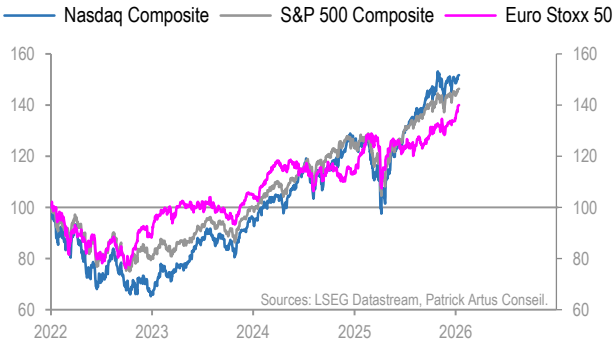
Chart 9
Interest rate on 10-year government bonds (as %)



Fifth question: will stock market indices rise further in the United States and Europe in 2026?

The rise in U.S. and European stock market indices was strong in 2025 (+17.5% for the Nasdaq Composite, +17.3% for the Euro Stoxx 50, +14.7% for the S&P 500, **Chart 10**).

Chart 10
Stock market indices (01.01.2022 = 100)



This rise is generally explained by:

- **The strong increase in earnings per share in the United States** (+14% for the S&P in 2025, but only 4% for the Euro Stoxx);
- **The low valuation of European stocks** (P/E ratio of 28 on current earnings for the S&P 500, P/E ratio of 16 on current earnings for the Euro Stoxx).

However, there are serious doubts about the continuation of the rise in stock market indices, due to:

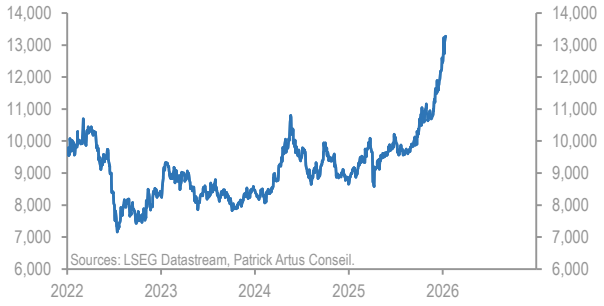
- The very high valuation of U.S. markets (Nasdaq P/E ratio of 34); the Shiller CAPE (ratio of market capitalisation to inflation-adjusted 10-year smoothed earnings) is currently 40.8, with two previous peaks at 42.9 in August 2000 and 31.5 in August 1929;
- The weakness of nominal growth in Europe (in 2025, nominal GDP growth was 6% in the United States and 3.8% in the euro zone), while long-term interest rates are much closer to nominal growth rates (4.17% for the 10-year rate in the U.S. and 3.16% in the euro zone);
- Investors' lack of awareness of the enormous investment needs related to the development of artificial intelligence, which will reduce the return on capital for technology companies.

Sixth question: what is the outlook for metal prices and the price of oil?

Some metals were stable in price in 2025 (nickel, iron, for example). But there has been:

- **A massive increase in the price of copper** (**Chart 11**), driven by strong demand for the metal (especially for data centres) and production problems (in Chile and Indonesia);

Chart 11
Copper price (USD per metric tonne)



- **A very strong increase in the prices of precious metals** (gold, silver, platinum, **Charts 12a/b**), which serve as a safe havens, but also, in the case of silver (electronic industry) and platinum (catalytic converters), have industrial uses;

Chart 12A
Gold and platinum prices (USD per Troy ounce))

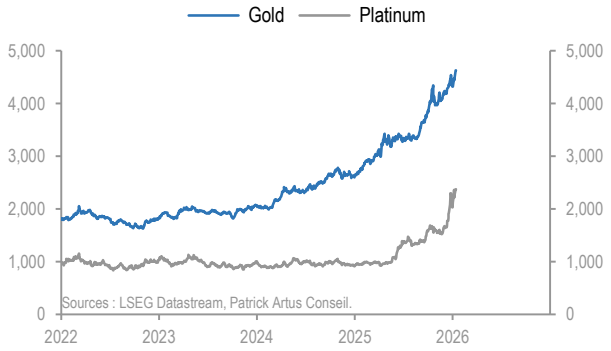
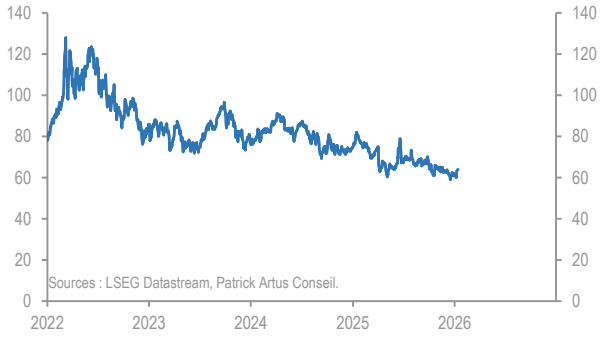


Chart 12B
Silver price (USD per Troy ounce)



- **A continuous decline in oil prices** (**Chart 13**), driven by the increase in oil production in the United States (0.3 million barrels/day) and Brazil (1.2 million barrels/day) in 2025. Estimates of global oil production surplus in 2026 range from 2 to 4 million barrels/day.

Chart 13
Oil price (Brent, $/bbl)



Copper demand should remain strong (driven by the need for electrical equipment), but the factors that have reduced supply (threats of U.S. tariffs on copper imports, which diverted flows to the United States in anticipation of the tariffs) will partially correct, leading to forecasts of a **modest increase** in the price of copper **in 2026. Precious metal prices should further be supported by global political and geopolitical uncertainty**. The surplus in oil supply will likely continue to push prices lower.

Summary: the worst-case scenario for 2026

The worst-case scenario would be a correction in the U.S. market, leading to a weakening of consumption and growth in the United States; slower growth than in 2025 in the euro zone; and tensions in the public debt market, made all the more severe by weak growth and high public deficits, resulting in rising long-term interest rates, which would further depress stock market indices.

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