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What's Top of Mind in Macro Research: AI market and labor impacts, US-Iran agreement, UK leadership change

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This week:

- **AI: financial market impacts, but no significant labor impacts (yet)**
- **US-Iran agreement: brighter growth, lower inflation**
- **UK: a leadership change**

Transcript

AI: financial market impacts, but no significant labor impacts (yet)

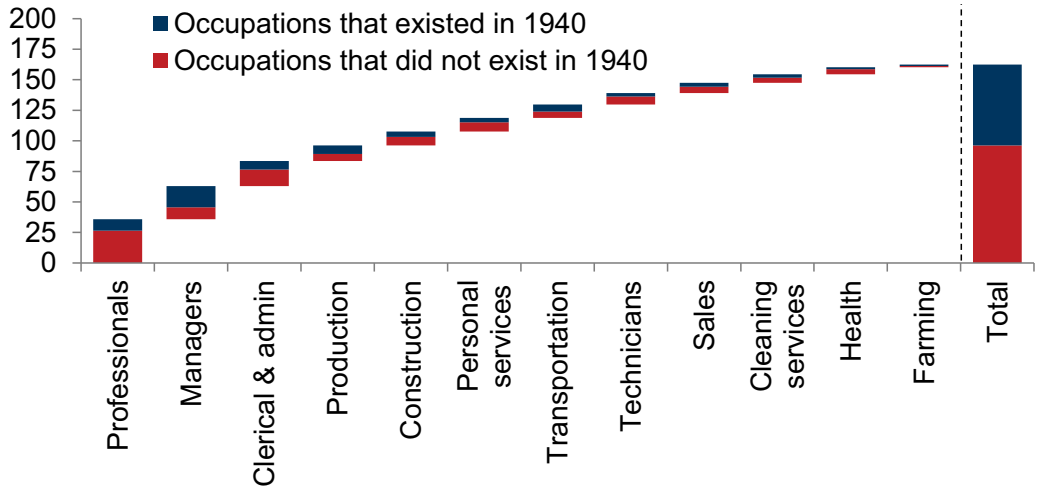
Global AI-related stocks had a very volatile week, which we think was partly catalyzed and amplified by the mechanical unwinding of leveraged ETFs in South Korea and Taiwan. Indeed, we find that the AI boom has fueled a surge in leveraged ETFs as well as options and margins lending, creating a structural shift in which pro-cyclical rebalancing by financial institutions (including LETF delta resets and dealer gamma hedging) mechanically amplifies daily price moves. More broadly, the recent price action is consistent with our view that equity volatility will rise as the AI boom extends and markets continue to run ahead of the macro, leaving the market increasingly vulnerable to any challenges to the optimistic AI macro story. Accordingly, we see value in strategies that help investors stay invested while limiting the downside, like put protection or call replacement (buying call options instead of the actual stock).

While AI continues to impact financial markets, we find that it is not yet having a significant aggregate impact on the labor market, though the potential disruption to labor ahead remains hotly debated. We estimate that more than 9% of the US labor force—around 15mn workers—could lose their jobs during a 10-year AI adoption period but believe these losses will prove temporary as AI creates many new jobs over the long term. Indeed, we find that technology has been a key driver of long-run job growth and that the US economy creates 25-35mn gross new jobs in a typical year, making it incredibly dynamic. This view contrasts with the predictions of some prominent technologists that AI could permanently eliminate a massive number of jobs as well as other economists who take less comfort from the historical precedent.

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Technological change has been a key driver of employment growth via the creation of new occupations
Employment by new and pre-existing occupations, mn



Source: Autor et al. (2022), Goldman Sachs Global Investment Research.

US-Iran agreement: brighter growth, lower inflation

The US-Iran agreement has led to a rapid recovery in oil flows through the Strait of Hormuz and reduced downside growth risks and upside inflation risks. Accordingly, we recently lowered our 12m US recession risk estimate to its long-term norm of 15% (from 25%) and revised our sequential 2H26 GDP growth forecast to a higher—but still moderate—2.0% (from 1.9%). The lower oil prices we now forecast also imply around 0.2pp/0.05pp less upward pressure on US headline/core PCE inflation this year than we previously anticipated. However, we continue to expect core PCE inflation to remain relatively stubborn—as evidenced by the May print—partly owing to continued price increases in the software/accessories category.

The agreement, together with easier financial conditions and a gradual payback from Ireland's Q1 growth contraction, also led us to raise our 2026/2027 Euro area GDP growth forecasts to 0.5%/1.2% (from 0.3%/0.9%, all yoy), though we continue to see growth risks as tilted to the downside owing to the still-uncertain energy outlook. The agreement should also improve India's macro outlook, leading us to revise our growth and inflation forecasts there as well (we now forecast CY26 real GDP growth/headline CPI inflation of 6.8%/4.4% vs. 6.5%/4.6% previously, all yoy).

UK: a leadership change

Following Keir Starmer's resignation on Monday, Andy Burnham is widely expected to become the next UK prime minister, and we think a Burnham government would emphasize public investment and social care spending, adding to already-significant UK spending pressures. We believe financing this spending through tax increases would be challenging given the Labour Party's manifesto pledges. As such, we think near-term borrowing could increase and the pace of fiscal consolidation could slow, likely keeping Gilt term premia elevated, though market and monetary policy constraints should limit any fiscal loosening.

Beyond emphasizing the importance of public investment, Burnham has historically

supported closer UK-Europe integration, which we think could significantly benefit UK growth given our finding that Brexit has materially weighed on the UK economy. Closer integration would also partly reverse Brexit's structural impact on Sterling, helping offset the challenging current valuation picture, in our view.

What else is on our radar?

- We're focused on the near- and longer-term market implications of a more hawkish and less transparent Fed following Kevin Warsh's first meeting as Chair. Over the near term, we think a more hawkish FOMC stance should support the Dollar and weigh on gold prices, recently lowering our December 2026 gold price forecast to $4,900/toz (from $5,400/toz). And over the longer term, we expect a less transparent Fed to support higher FX and rates volatility and potentially increase market focus on data releases.
- We're also keeping an eye on China growth. We recently lowered our 2Q26 real GDP forecast to 3.5% (from 4.0%) on the back of weak April and May activity data but raised our 3Q26 forecast to 5.0% (from 4.5%, all qoq ann.) as we expect headwinds from higher energy prices, slower fiscal spending, and adverse weather conditions to reverse. Looking further ahead, we think establishing a virtuous cycle between tech-driven productivity gains and strong domestic demand growth will be important for China's longer-term outlook, though we note that policymakers are currently more focused on the former than the latter.
- Finally, we're tracking the space economy through our new Asia Space Economy Basket (GSSZSPCE). We find that Asian companies in the space supply chain remain underrepresented in global thematic allocations and index benchmarks, a structural gap that we believe represents a key source of alpha for these companies.

Relevant research

AI: financial market impacts, but no significant labor impacts (yet): Global Market Views (6/26/2026); Top of Mind (6/25/2026); Global Markets Analyst (6/22/2026); EM Weekly Fund Flows Monitor (6/19/2026); Asia Portfolio Strategy (6/14/2026)

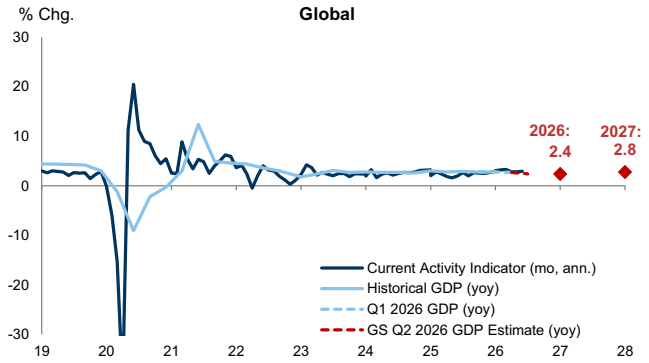
US-Iran agreement: brighter growth, lower inflation: India (6/25/2026); USA (6/25/2026); Oil Tracker (6/24/2026); European Economics Analyst (6/23/2026); Global Views (6/22/2026); US Economics Analyst (6/22/2026); Oil Analyst (6/15/2026)

UK: a leadership change: European Economics Analyst (6/24/2026); European Daily (6/22/2026); Global Markets Analyst (6/19/2026); Global Rates Trader (6/19/2026); Global Markets Daily (6/18/2026)

What else is on our radar: FX Morning Notes (6/25/2026); Asia Strategy Basket (6/23/2026); China Matters (6/22/2026); Global Rates Trader (6/19/2026); Global FX Trader (6/18/2026); Gold (6/18/2026); China (6/16/2026); China (5/18/2026)

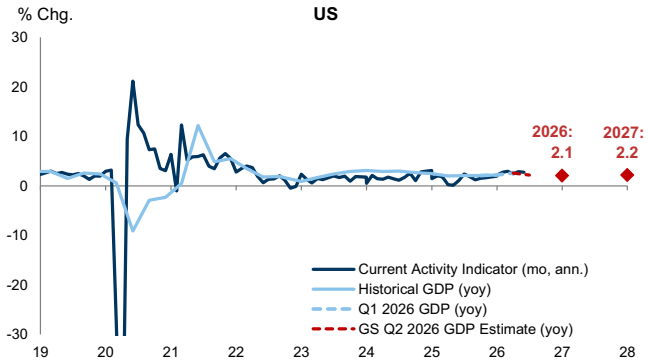
Macro at a glance

Global GDP vs. CAI



Source: Haver Analytics, Goldman Sachs Global Investment Research.

US GDP vs. CAI



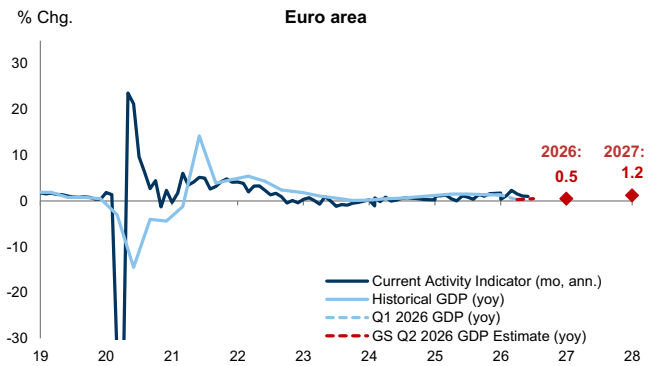
Source: Haver Analytics, Goldman Sachs Global Investment Research.

China GDP vs. CAI



Source: Haver Analytics, Goldman Sachs Global Investment Research.

Euro area GDP vs. CAI



Source: Haver Analytics, Goldman Sachs Global Investment Research.

Key GS economic and market forecasts

Economics							Markets								Equities									
GDP growth (%)	2026				2027		Interest rates 10Yr (%)	Last	E2026	E2027	FX	Last	3m	12m	S&P 500	E2026		E2027		Returns (%)	12m	YTD	E2026 P/E	
	GS (Q4/Q4)	Cons. (Q4/Q4)	GS (CY)	Cons. (CY)	GS (CY)	Cons. (CY)										GS	Cons.	GS	Cons.					
Global	2.3	--	2.4	2.5	2.8	2.6	US	4.40	4.40	4.25	EUR/$	1.14	1.14	1.20	Price	8,000				S&P 500	14	7	22.4x	
US	2.0	2.0	2.1	2.2	2.2	2.1	Germany	2.86	3.00	3.00	GBP/$	1.32	1.33	1.33	EPS	$340	$340	$385	$397	MXAPJ	20	25	14.3x	
China	4.6	4.5	4.7	5.0	4.7	4.6	Japan	2.63	2.50	2.25	$/JPY	162	160	155	Growth	24%	24%	13%	17%	Topix	10	18	19.1x	
Euro area	0.6	0.6	0.5	1.4	1.2	0.6	UK	4.57	4.50	4.35	$/CNY	6.78	6.80	6.50						STOXX 600	4	7	15.5x	
Policy rates (%)	2026				2027		Commodities	Last	2Q26	4Q26	Credit (bp)		Last	2Q26	4Q26	Consumer	2026		2027		Wage Tracker 2026 (%)			
	GS	Mkt.			GS	Mkt.											CPI (%, yoy)	Unemp. Rate	CPI (%, yoy)	Unemp. Rate	Q1	Q2	Q3	Q4
US	3.63	3.97			3.13	3.82	Nat Gas, NYMEX ($/mmBtu)	3.34	2.95	3.50	USD	IG	75	73	82	US	3.3	4.4	2.4	4.3	3.5	3.3	--	--
Euro area	2.50	2.46			2.00	2.42	Nat Gas, TTF (EUR/MWh)	40.62	47	40		HY	279	275	295	Euro area	2.9	6.3	2.4	6.2	--	--	--	--
China	1.40	1.33			1.30	--	Copper ($/mt)	13,228	13,400	13,700	EUR	IG	89	88	88	China	1.0	--	1.0	--	--	--	--	--
Japan	1.00	1.21			1.50	1.71	Gold ($/troy oz)	4,002	4,583	4,836		HY	264	277	315									

GS CAI is a measure of current growth. For more information on the methodology of the CAI please see "Technical Updates to Our Global CAIs," Global Economics Comment, September 1, 2025. Market pricing as of June 25, 2026.

Source: Bloomberg, Goldman Sachs Global Investment Research.

More from TOP of MIND

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- **Exchanges at Goldman Sachs:** We bring together experts from around the firm and beyond to discuss developments shaping industries, markets, and the global economy.
- **Macro at a Glance:** A weekly snapshot of the macro themes we're watching and our latest forecasts.

