Global Views: Downside Growth Risks

Jan Hatzius
+1(212)902-0394 | jan.hatzius@gs.com
Goldman Sachs & Co. LLC

1. So far in 2026, global growth has been remarkably unremarkable. Both the world as a whole and the G3 economies are growing in line with our estimates of potential GDP. Our interpretation is that fiscal easing and the positive impulse from the AI boom have offset the negative impulse from the war in Iran and the lingering drag from higher US tariffs.

Exhibit 1: Global Growth Looks Remarkably Unremarkable

Real GDP Growth:	Annual Average					
	2025	2026		2027		Potential
	Actual	GS	Consensus	GS	Consensus	GS
DMs						
US	2.3	2.3	2.2	2.1	2.2	2.3
Euro Area	1.3	1.0	1.0	1.1	1.3	1.0
Germany	0.3	1.0	1.0	1.1	1.2	0.5
France	0.9	0.4	0.4	0.6	0.8	1.0
Italy	0.7	0.8	0.9	0.7	0.7	0.8
Spain	2.6	2.6	2.6	1.9	2.1	1.9
Japan	1.2	0.9	0.8	1.2	0.8	0.6
UK	1.2	1.6	1.3	1.5	1.2	1.4
Canada	1.9	0.9	1.0	1.8	1.7	1.5
Australia	2.0	1.9	2.0	1.8	1.6	2.4
EMs						
China	5.0	4.6	4.6	4.6	4.4	4.5
India	7.3	7.6	7.5	7.3	6.8	6.6
Brazil	2.3	1.8	1.9	1.0	1.5	2.1
South Korea	1.1	3.4	3.5	2.6	2.6	2.4
Mexico	0.5	1.4	1.4	1.8	1.8	2.1
World	2.9	2.7	2.6	2.7	2.7	2.7

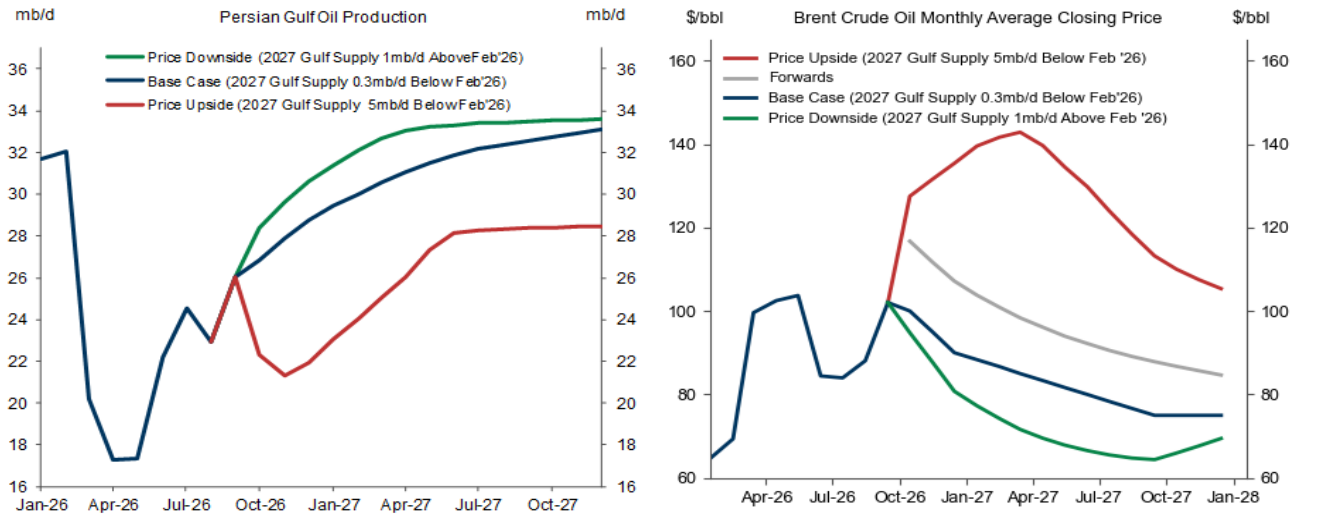
Note: Global GDP growth rates aggregated using market exchange rates.

Source: Bloomberg, Goldman Sachs Global Investment Research

2. Our standing global GDP forecasts project more of the same in 2027, as lower energy prices offset fading tailwinds from fiscal policy and AI. But the balance of risks is on the downside. The most immediate concern is that, far from subsiding, energy prices have again climbed sharply on fears of renewed Middle East escalation. The prices of gasoline, diesel, jet fuel, and European/Asian natural gas are now near or even above their March/April highs, with likely negative effects on consumers and energy-importing economies more broadly.

Investors should consider this report as only a single factor in making their investment decision. For Reg AC certification and other important disclosures, see the Disclosure Appendix, or go to www.gs.com/research/hedge.html.

Exhibit 2: Oil Price Risks Are Skewed to the Upside

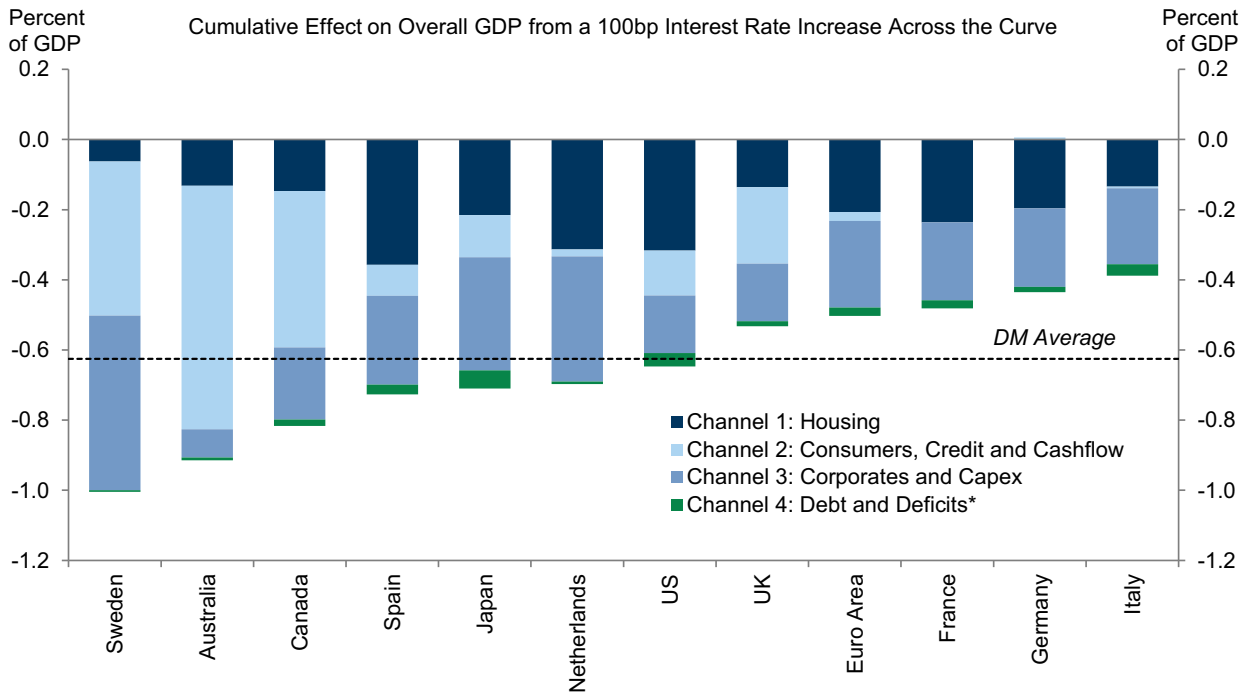


Source: Goldman Sachs Global Investment Research

3. Although we don't expect significant fiscal policy changes in 2027, the consequences of large-scale deficits—coupled with AI-linked borrowing and central bank hikes—have started to show up more clearly in higher longer-term interest rates. The moves have been mostly orderly, but the increase since early 2026 averages a sizable 100bp across DM yield curves. If sustained, we estimate that this increase will subtract a cumulative 0.6% from GDP via weakness in housing, consumer durables, and business investment. (Only part of the drag is incorporated in our standing forecasts because we expect bond yields to pull back as central banks deliver fewer hikes than priced in markets.)

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Exhibit 3: Higher Bond Yields Are Likely to Weigh on Global Growth

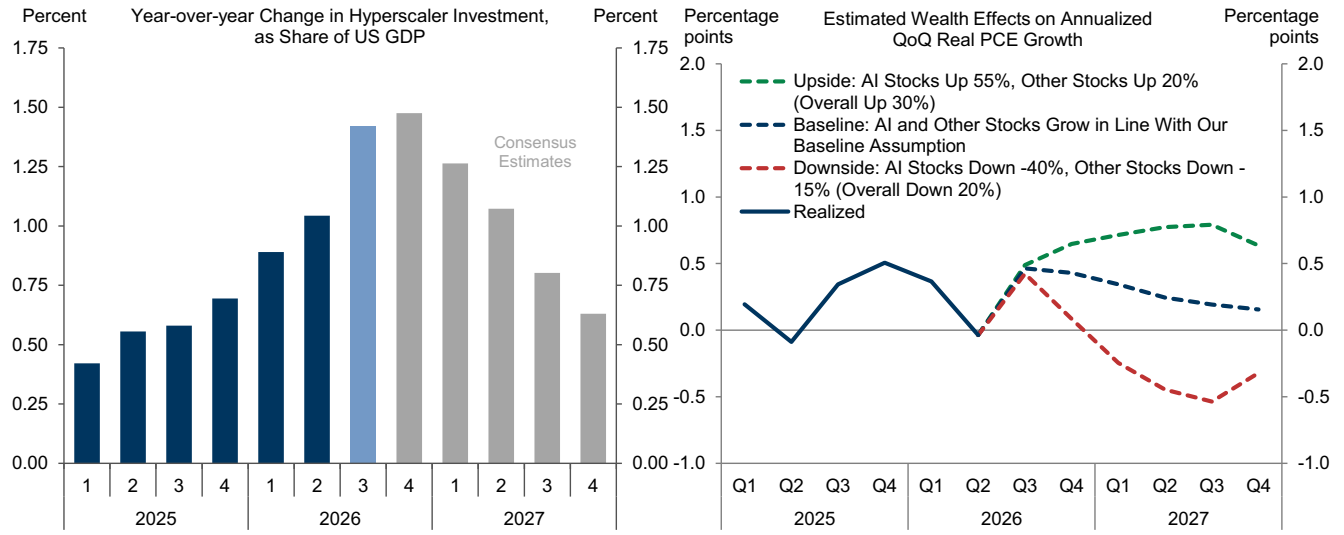


*We apply our estimate of the 2027 rise in interest expenses and assume that governments on average consolidate fiscal balances by 0.2pp for every 1pp increase in interest expenses, in line with Debrun and Kinda (2016).

Source: Goldman Sachs Global Investment Research

4. The growth impulse from the AI boom was set to peak in late 2026 or early 2027 even before concerns around the sustainability of the AI investment boom intensified in recent weeks. Although AI investment is still rising rapidly, we expect the increase as a share of GDP to slow over the next year. Alongside the fading boost from last year's increase in US depreciation allowances, this will weigh on capital spending growth, especially in the US. AI has also boosted US consumer spending growth via a positive wealth effect worth an estimated 0.4pp (or 0.25% of GDP) over the past year. This impact is likely to decline over the next year, gradually if stocks perform in line with our strategists' reasonably upbeat expectations but more sharply if AI-related stocks continue to decline.

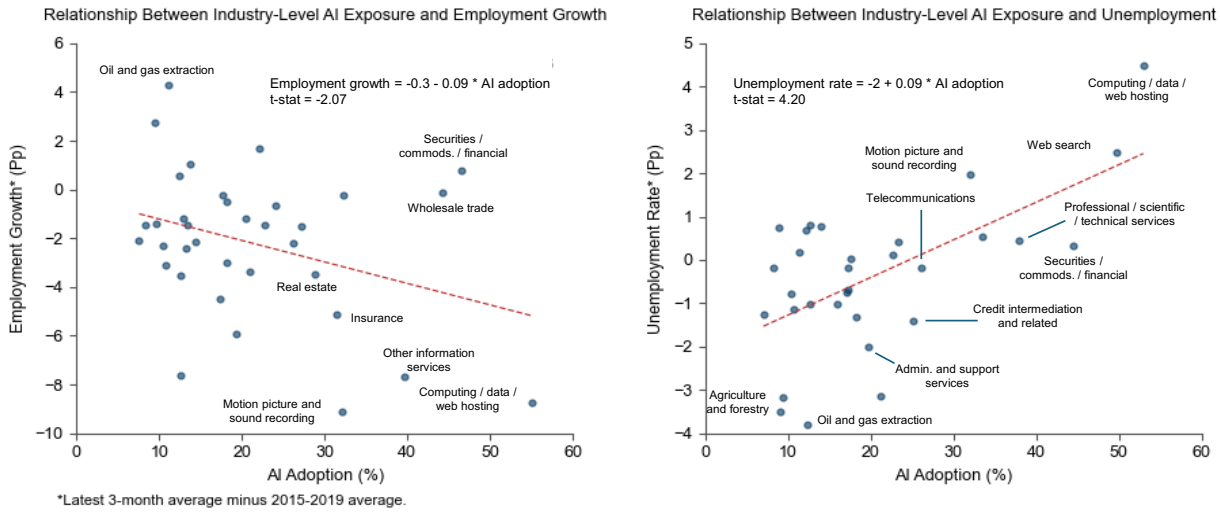
Exhibit 4: Passing the Peak Impulse from the AI Boom



Source: Goldman Sachs Global Investment Research

5. Our own base case remains that AI investment will ultimately pay off in terms of higher productivity and economywide profits. However, one key channel for this payoff is labor market disruption, which has negative near-term macroeconomic effects. And while DM labor markets still look solid in aggregate, we are starting to see clearer signs that the AI impact is spreading beyond the technology sector. Across nonmanufacturing industries, the share of US firms that have adopted AI in regular business functions now shows a statistically significant negative correlation with employment growth and a statistically significant positive correlation with unemployment.

Exhibit 5: AI Labor Market Impact Spreads Beyond Technology Sector

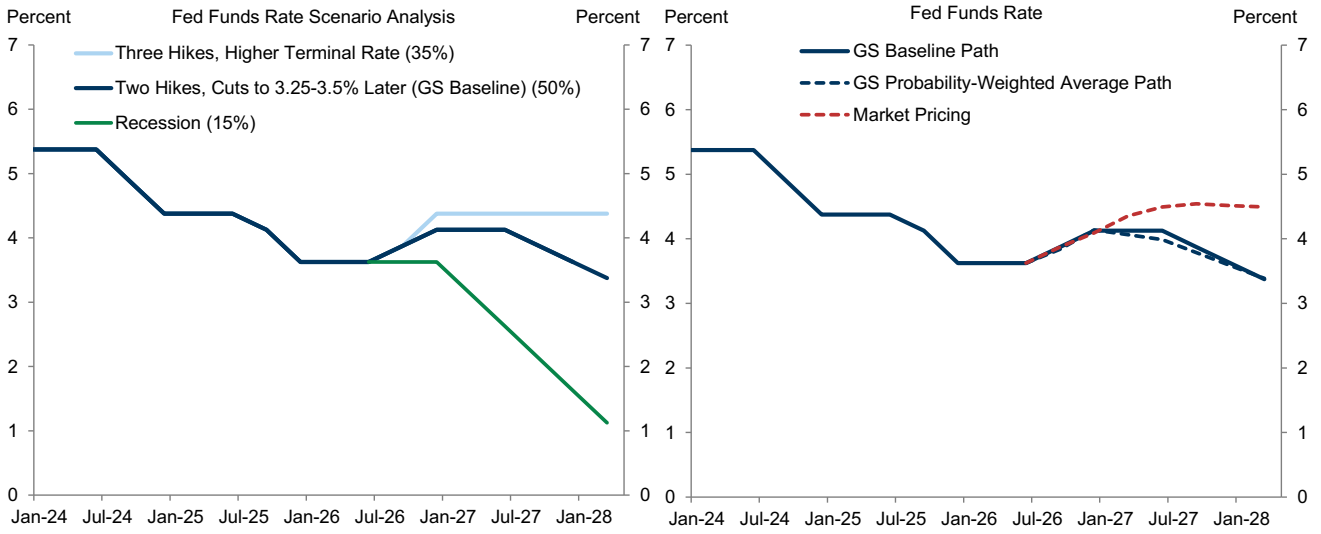


Source: Census Bureau, IPUMS, US Bureau of Labor Statistics, Goldman Sachs Global Investment Research

6. The Fed's recent signals—explicit from Williams/Jefferson and implicit from Warsh—effectively rule out a hike on October 28. But the FOMC still looks very likely to deliver another 25bp hike to 4-4.25% on December 9 because spot inflation remains too high. And while we continue to expect significant disinflation next year on the back of reduced impulses from tariffs, energy prices, and AI-related prices, the risks to our

forecast are on the upside, most obviously in energy. Higher inflation could result in another hike in March, but either way we see renewed cuts in late 2027/early 2028.

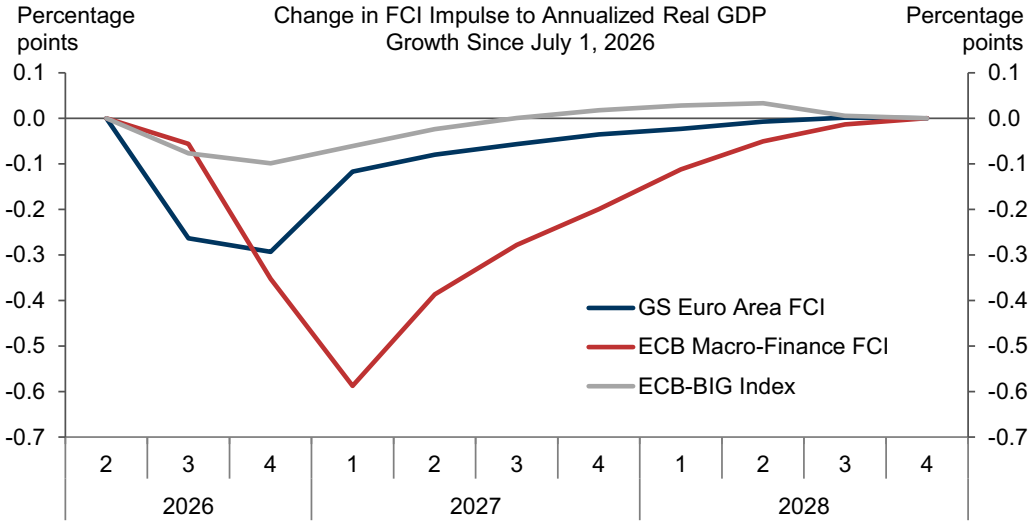
Exhibit 6: Still Expecting Fewer Fed Hikes Than Priced



Source: Bloomberg, Goldman Sachs Global Investment Research

7. Like the Fed, the ECB will likely hold rates steady next week and deliver a final hike (to 2.75%) at the December meeting. However, the turbulence in the French bond market poses somewhat greater downside risks to that call than in the US. The turbulence has tightened financial conditions to a degree that is likely to shave ¼-½pp from annualized growth in coming quarters. And if it intensifies into December, markets might perceive a hike as signaling insufficient focus by the ECB on the risk of Euro area fragmentation. While the ECB could address this issue by coupling a hike with renewed balance sheet expansion, the hurdle for such a move is high, in part because purchases of French bonds would inevitably raise concerns about moral hazard with respect to the needed fiscal adjustment.

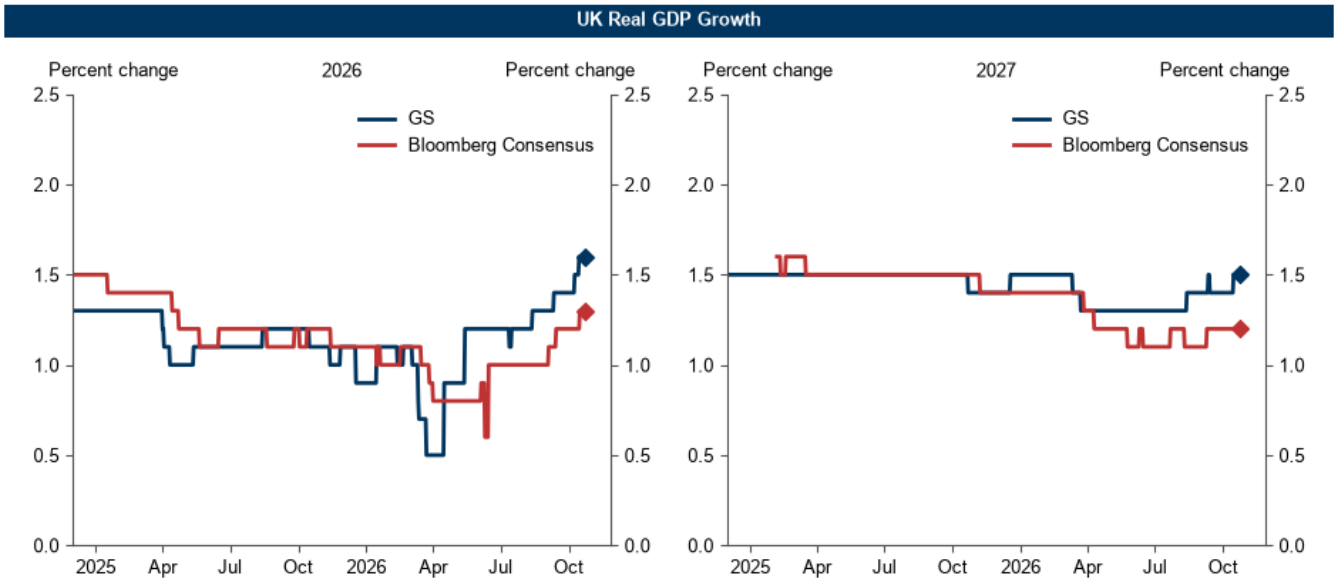
Exhibit 7: Tighter European Financial Conditions Likely to Weigh on Growth



Source: Ipsos, Goldman Sachs Global Investment Research

8. Across the English Channel, we expect the MPC to raise Bank Rate by 25bp to 4% on November 5. Consistent with our view that the UK economy is stronger than widely perceived, GDP growth has surprised on the upside this year and the unemployment rate declined to 4.7% in August on a 3-month average basis (with the volatile 1-month rate plunging to 4.1%). Rising inflation and the looming household energy price reset in January imply a significant risk of further moves, although market pricing of 4+ hikes (including November) still looks excessive. We also expect hikes in Canada and New Zealand this week and in Australia next week.

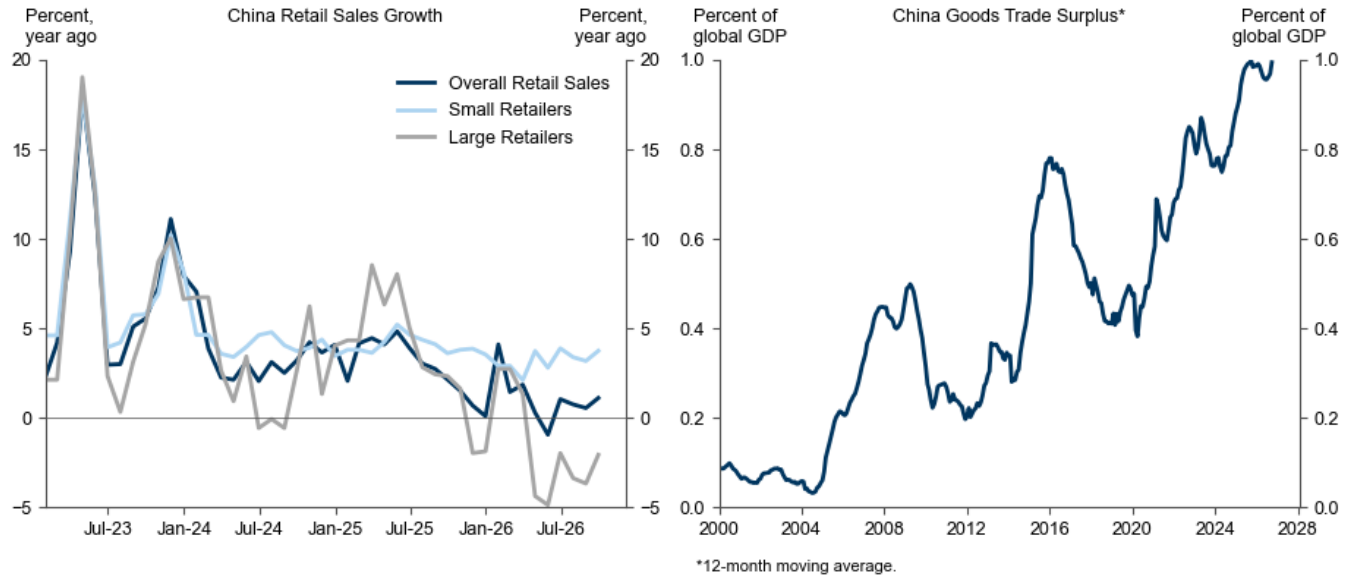
Exhibit 8: UK Growth Forecasts Have Drifted Higher



Source: Bloomberg, Goldman Sachs Global Investment Research

9. Slightly faster than expected growth in Q3 has pushed up our 2026 GDP forecast for China to 4.6%. But most activity indicators are much weaker. Both property activity and fixed asset investment are contracting year-on-year, and while nominal retail sales growth picked up to +1.1% in September, large retailers (whose sales are relatively better measured) are still posting substantial year-on-year declines. With domestic demand rising slowly at best, sustained GDP growth in the official 4.5-5% target range will require ongoing steep increases in the trade surplus. But the surplus is already at 1% of global GDP, and further increases will eat more noticeably into output and employment abroad. Ultimately, China's trading partners may respond by imposing trade barriers that weigh on Chinese exports and GDP, although the measures taken so far have been limited.

Exhibit 9: With Domestic Demand Weak, China's Trade Surplus Continues to Rise



Source: China General Administration of Customs, IMF, Haver Analytics, Goldman Sachs Global Investment Research

10. Our strongest global view is that central banks will deliver fewer hikes than currently priced. In addition, our rates strategists flag underweight positioning, diminished technical risks, and risk asset pressures as reasons why the recent rally might extend. The market's narrow breadth makes our equity strategists wary of momentum factor exposure, but they still expect the S&P 500 to resume its climb after the midterm election, as earnings continue to grow solidly. Our credit strategists remain cautious on IG technology bonds but see scope for some near-term reversal in HY given the scale of the recent selloff. Our FX strategists expect the Japanese yen to act as a hedge against further AI jitters, in part because such jitters would shrink US-Japan interest rate differentials. And our commodity strategists recommend targeted exposures to oil products and European natural gas to hedge near-term escalation risks alongside longer-term exposures to copper, gold, and select power markets to benefit from structural supply/demand imbalances.

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