Global Research

Global Focus – Economic Outlook H2-2026

A test of resilience

Executive Summary

Published July 2026

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A test of resilience

Will the tailwinds last?

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The global economy and financial markets showed unexpected resilience in the first half of the year; the second half will be a test of whether it can lgast. We lower our 2026 global growth forecast to 3.0% from 3.4%, primarily due to conflict-induced downgrades in the Middle East. However, we expect a stable trot for global growth in H2, as conflict-related risks have peaked. A lasting reopening of the Strait of Hormuz would reduce fears of more severe and prolonged supply disruptions.

It is not time to sound the all-clear yet

That said, we remain cautious on lingering risks. The US-Iran situation remains volatile, and the recovery in energy supply is subject to uncertainty. Meanwhile, US tariffs remain an overhang. While the focus on tariffs has faded in recent months amid the Middle East conflict and still-firm global trade, the US administration is pursuing Section 301 tariffs against multiple trade partners (after IEEPA tariffs were ruled illegal) and has threatened other tariff measures. Tariffs may no longer come as a shock, but they still pose a risk to growth.

Resilient global headline growth in H1 masks uneven performance beneath the surface. Stripping out AI-related demand, underlying growth may have been more subdued. Could a correction in AI-related equity valuations slow the investment boom? Meanwhile, if inflation stays high, policy makers will continue to face a difficult challenge even as energy-related price pressures subside. Our baseline view is steady growth in H2, but several headwinds will test whether the resilience of H1 can be sustained.

Relief or resolution?

Economic data have held up surprisingly well, despite what was probably the largest energy supply shock in history. Asia – particularly Northeast Asia – has recorded robust YTD growth underpinned by AI-related demand, even though around 80% of oil exports through the Strait of Hormuz were previously bound for the region. Inflation has risen in economies where subsidies and price controls have not been implemented, but concerns about weaker GDP activity and widespread shortages of energy and industrial materials have not yet materialised.

The recent truce offered a much-needed respite after oil reserves fell close to their lowest levels since 2003

A durable reopening of the Strait of Hormuz would materially reduce the risk of a more disorderly response to dwindling oil reserves. According to the International Energy Agency, observed global inventory drawdowns averaged around 4mb/d in March and April, versus estimated global crude oil production cuts of 12mb/d relative to pre-conflict levels. The US Energy Information Administration projected in its Short-Term Energy Outlook report in June that OECD oil inventories would fall to a record-low 50 days of supply by end-2026, even if some flows through the strait resumed in Q3. The US Strategic Petroleum Reserve (SPR) had fallen to 326mb as of 26 June; at a drawdown rate of c.1.0-1.5mb/d, that was just months away from the minimum operational limit of 150mb.

Governments are likely to boost oil reserves ahead

While the resumed flow of oil from the Middle East could lift animal spirits, the lagged effects of higher energy prices will still weigh on H2 growth. Impaired supply – including permanent energy infrastructure loss in the Middle East, the need to replenish oil reserves (perhaps to above pre-conflict levels), and logistical disruptions – may keep supply constrained. The oil supply situation remains fragile.

The forgotten front

Tariffs still lurk in the background and may continue to weigh on growth

US import tariffs have moved out of focus in recent months as the Middle East conflict has dominated headlines and global trade has proved resilient. But tariffs have not gone away, as evidenced by the recent US decision to implement Section 301 tariffs (of 10% or 12.5%) related to forced labour on 60 trade partners, likely effective in weeks. This comes after the US Supreme Court struck down IEEPA tariffs and as Section 122 tariffs (at 10%) are due to expire imminently. Net US customs duties turned to a deficit in May due to tariff refunds.

The broader risk is that the US may seek to rebuild its tariff structure using more legally durable measures. Will the looming midterm elections drive a more hawkish trade stance from the administration? A separate Section 301 investigation on industrial excess capacity may lead to further tariffs on 16 economies. According to Global Trade Alert, the proposed forced-labour tariff would result in a trade-weighted average US tariff rate of c.11% (similar to the rate under the current Section 122 tariffs). To reinstate the IEEPA trade-weighted average tariff rate of 15.6%, we calculate that the US would need to apply an additional average tariff rate of c.6.1% on those 16 economies.

Could this reignite trade friction globally? The US and China appear to have reached a fragile equilibrium on trade as both sides exercise leverage. Other US trade partners may face renewed pressure to negotiate in response to a renewed tariff push. The more aggressive use of tariffs by the US may encourage broader trade protectionism over the medium term. The EU is considering new trade measures to address China's perceived overcapacity, although we think such measures will take time to materialise. The next ministerial-level talks are scheduled for autumn 2026. On a more positive note, economies that share the goal of continued trade openness are strengthening their ties; for example, the EU and India signed a free-trade agreement in January to increase bilateral trade.

US import demand may be even weaker excluding server equipment purchases

While tariffs are no longer likely to be a macro shock, they remain a policy overhang. Supply-chain shifts may have softened the impact of US tariffs, as reflected in the fact that current effective US tariff rates are below the 2024-based trade-weighted average. Still, US import demand appears to have softened. Goods imports have been contracting on a y/y basis for almost a year. Excluding AI-related segments such as server equipment, US import demand has weakened even more.

The narrow engine

AI-related demand is a key reason why global growth has held up better than feared. The effects are most visible in economies with exposure to the AI supply chain, including the US, Taiwan, Korea and Singapore. Asia's exports have risen strongly this year despite global economic uncertainty, with much of the strength concentrated in electronics.

Growth is concentrated in AI-related sectors

The divergence between AI strength and weakness elsewhere is also visible in investment patterns. Hyperscalers' combined planned investments are estimated at USD 650-725bn in 2026, up from an estimated USD 380-410bn in 2025. The value of newly announced semiconductor projects rose 35% in 2025, according to an UNCTAD report; in contrast, newly announced projects in tariff-exposed sectors fell 25%. Broader global economic conditions have been steady, as reflected in relatively strong labour markets. Even so, AI-related activity has clearly lifted aggregate growth, reinforcing the narrative of a K-shaped global economy.

A sharp pullback in AI exuberance would pose a risk to global financial stability and growth

While growth drivers rotate across cycles, the increasing concentration of activity in a few sectors is a growing source of risk. The war-induced energy crisis posed significant headwinds to the AI boom via higher energy costs and the risk of material shortages, in turn weighing on global growth momentum. While the reopening of the strait has reduced this risk, supply may take time to recover. The key question is, what could abruptly interrupt growth in the AI sector? Such a sharp pullback could affect global growth via both financial markets and real economic activity, considering that the market capitalisation of the 'Mag7' companies is now almost 20% of global GDP. But for now, visibility remains strong for AI-related demand to continue to support global growth this year.

Longer-term, policy makers will need to balance the uneven distribution of benefits from the AI boom. There are also rising concerns about potential job displacement amid AI adoption. Fiscal policy may have to play a role in redistributing the gains, as the anticipated economy-wide productivity benefits may take longer to materialise.

Maybe the glass is more than half full

For major developed economies, the picture is one of steady – if uneven – growth.

We expect the Fed to stay on hold in 2026 and 2027

We maintain our US growth forecast of 2.3% for 2026. But we expect the pace to slow in H2 as front-loaded spending (supported by tax refunds) wanes. Investment activity remains AI-driven. Inflation is likely to be driven mainly by energy prices; potential tariff increases are unlikely to affect prices given previous pass-through. While inflation is sticky, wage gains are moderate. As a result, we expect the Fed to stay on hold for the rest of 2026 and 2027. The November midterm elections will be pivotal; if the Democrats retake the House and/or the Senate, legislative gridlock is likely.

We recently lowered our euro-area GDP growth forecast for 2026 to 0.4% from 1.1%, given the impact of higher oil prices (and volatility in Ireland's GDP data). That said, we expect a better H2 on more stable energy prices, looser credit standards and still-supportive fiscal policy, led by Germany's ramp-up of defence spending and infrastructure investment. Net exports may remain under pressure; we expect more trade deals and new trade defence measures. The improvement in the Middle East situation reaffirms our call that the European Central Bank will keep rates unchanged in H2.

We keep our 2026 China growth forecast at 4.6%. While China started the year strong, the latest data indicates that growth may have dipped below 4.5% in Q2, versus the government's full-year target of 4.5-5.0%. Short-term policy measures may be implemented to support the target. A 25bps cut in the reserve requirement ratio is possible. Longer-term, China continues to focus on its transition towards home-grown technology and high-end manufacturing. These industries are growing at a double-digit pace, but the struggling property sector continues to weigh on the economy. Net external demand should continue to support China's growth.

We see H2 as a stable trot, though we remain cautious given still-fragile geopolitics, stretched financial markets and narrowly based growth

While we see downside risks to the outlook, growth momentum could also turn out to be stronger than we currently expect. A lasting reopening of the Strait of Hormuz, the rebuilding of damaged oil infrastructure, and investment in alternative energy supply could provide support. A more stable inflation outlook should allow central banks to turn more accommodative. AI-related activity may provide positive spillover to growth faster than expected, while further equity-market gains would reinforce wealth effects. If H2 offers a reprieve from geopolitical tensions, especially with the US administration focused on the midterm elections, the business cycle could re-emerge as the main driver of the global economy. The glass may be more than half full, and upside is possible. But for now, we lean towards caution given the still-fragile geopolitical equilibrium, stretched financial markets and narrowly based growth.

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