

INSIGHTS SIGNALS FROM EUROPE'S FRONTLINES

Daleep Singh, PGIM's Vice Chair and Chief Economist, travelled across London, Amsterdam, Stockholm, Copenhagen, Geneva, Zurich and other European hubs, hosting a series of client roundtables to exchange views on the forces shaping the global economy in 2026.

Across cities, similar themes emerged: concerns about an overheating U.S. economy, questions about the durability and dividends of the AI investment super-cycle, recognition of accelerating geoeconomic fragmentation, and keen interest in what all of this means for managing portfolios in a more contested and uncertain world. Drawing on these conversations, the snapshots below reflect the areas top of mind for European investors, and Daleep's perspective on how to interpret them.



RUNNING HOT: THE U.S. ECONOMY

The U.S. narrative has moved from expectations of modest below trend growth to a likely overheating scenario. Nominal GDP momentum is being fuelled by two powerful engines.

First, the AI capex cycle continues to accelerate. Hyperscalers are forecast to spend roughly \$700 billion this year, contributing close to half of U.S. real GDP growth. Second, household spending remains well supported by the accumulating wealth effect from rising asset prices, despite the slowdown in labour income gains.

Together, AI-related capex and consumption by the wealthy look set to accelerate inflation-adjusted GDP growth towards 2.5%, comfortably above potential.

TWIN STIMULUS ENGINES

Both monetary and fiscal policy will likely add further fuel.

Monetary policy will shift in a dovish direction. No matter the ultimate choice for leadership of the Federal Reserve, unrelenting pressure from the White House (and possibly Congress) will push the policy path into stimulus territory, with interest rates drifting toward 2.5% by late 2026 - below what markets consider neutral.

On the fiscal side, the approach to the 2026 midterms creates a narrow window for another injection of stimulus to address mounting affordability concerns. Targeted consumer support, strategic incentives tied to AI infrastructure and reshoring priorities, and measures to cushion cost of living pressures could all feature in an additional package. The result would be a positive fiscal impulse of roughly 50–75 basis points to growth in 2026.





DOLLAR BLUES AND BOND VIGILANTES

Roundtable discussions across the board dissected the structural direction of the U.S. dollar. Many investors see scope for 5–10% annual depreciation as global portfolios slowly rebalance away from overweight dollar exposures. Today, the dollar represents around 60% of global FX reserves despite the U.S. accounting for only a quarter of world GDP. A long running, incremental diversification into other reserve currencies could push its share closer to 50% over the next decade.

On the rates side, long-end government bond yields may face upward pressure if nominal growth remains strong. Higher inflation risk premia and wider fiscal risk premia could reprice the back end of the curve. While term premia appear low, investors noted that disorderly spikes may be short lived given the tools available to policy institutions. The U.S. Treasury, for example, can influence long-end yields through reductions in issuance maturity, its buyback program, or a new “market functioning QE” program to anchor long-end Treasury yields and assure the effective transmission of monetary policy – all of which would have the flavour of de facto “financial repression”.

THE AI CONUNDRUM

The AI capex cycle remains front and centre for investors. Unlike previous capex booms – such as telecoms – the current cycle is underpinned by companies with strong balance sheets, high profitability and scalable business models. This raises the probability that the investment wave endures, potentially delivering sustained productivity improvements.

Policy support is reinforcing this trajectory. Governments increasingly view datacentre capacity and digital infrastructure as strategic assets, strengthening incentives for private investment.

While there may be isolated stress among smaller ecosystem players, systemic disruption appears unlikely.

Europe, however, remains a laggard in AI scale. Despite world class research institutions and regulatory leadership, the region trails in private investment, compute availability and ecosystem depth. This gap is shaping strategic conversations across European boardrooms.





THE DIVERSIFICATION TRADE

European investors, who historically maintain large allocations to U.S. assets, are reassessing portfolio construction through a scenario based lens. This is not a retreat from U.S. innovation leadership, but rather a recalibration aimed at building portfolio resilience.

Tail-risk hedging strategies including strengthening portfolios with defensive currencies such as the Swiss franc and Japanese yen, increasing allocations to real assets with inflation protected cash flows, and exploring emerging illiquid opportunities in advanced manufacturing, robotics and battery technology are options for investors.

Some reserve managers are incrementally adding gold or experimenting with alternative currency arrangements, though these steps remain modest relative to the scale of the dollar's global role.

POLICY PIVOTS

A major geopolitical theme is the world's drift toward regional spheres of influence. With domestic constraints limiting large scale U.S. legislation, foreign policy may take centre stage under the so-called "Donroe Doctrine," which emphasises safeguarding Washington's influence in the Americas. In response, China and Russia may see an opportunity to reinforce their own regional spheres introducing long-term instability risks.

This fragmentation is the new reality, with some market commentators arguing it may even forestall conflict through pragmatic deal making. But history offers few examples where competing great power spheres coexist peacefully. Splintering the global system shrinks markets, reduces efficiency and weakens incentives for innovation. The balance of power tends to erode gradually, and then abruptly.





WHAT DALEEP SEES IN EUROPE

Europe currently operates near macro equilibrium: inflation close to target, growth near trend, and policy rates broadly aligned with the European Central Bank's definition of neutral. Under baseline conditions, little policy urgency exists.

The main swing factor is the U.S. overheating scenario. Should it materialise, the ECB may deliver modest additional rate cuts, though less aggressively than the Federal Reserve. Market pricing understates this risk.

European fixed income markets offer steep yield curves, generating attractive carry and rolldown opportunities with some insulation from global volatility. At the sovereign level, spreads between peripheral and core markets may continue to compress, supported by improving debt metrics in parts of Southern Europe and persistent fiscal strains in countries such as France and Germany.

PGIM CONTRIBUTOR

Daleep Singh, Vice Chair and Chief Global Economist

IMPORTANT INFORMATION

These materials are for informational or educational purposes. All investments involve risk, including the possible loss of capital.

Past performance is not a guarantee or a reliable indicator of future results.

PGIM is the principal asset management business of Prudential Financial, Inc. and a trading name of PGIM, Inc. and its global subsidiaries and affiliates. PGIM, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission (the “SEC”), and is a Prudential Financial, Inc. (“PFI”) company. Registration with the SEC as an investment adviser does not imply a certain level or skill or training. PFI of the United States is not affiliated in any manner with Prudential plc, incorporated in the United Kingdom or with Prudential Assurance Company, a subsidiary of M&G plc, incorporated in the United Kingdom. Prudential, PGIM, their respective logos and the Rock symbol are service marks of PFI and its related entities, registered in many jurisdictions worldwide.

In the **United Kingdom**, information is issued by PGIM Limited with registered office: Grand Buildings, 1-3 Strand, Trafalgar Square, London, WC2N 5HR. PGIM Limited is authorised and regulated by the Financial Conduct Authority (“FCA”) of the United Kingdom (Firm Reference Number 193418). In the **European Economic Area** (“EEA”), information may be issued by PGIM Investments (Ireland) Limited, PGIM Netherlands B.V. or PGIM Limited depending on the jurisdiction. PGIM Investments (Ireland) Limited, with registered office: 2nd Floor, 5 Earlsfort Terrace, Dublin 2, Ireland. PGIM Investments (Ireland) Limited is authorised and regulated by the Central Bank of Ireland (Reference No. C470709) and operates on the basis of a European passport. PGIM Netherlands B.V., with registered office at Eduard van Beinumstraat 6, 1077CZ, Amsterdam, The Netherlands, is authorised by the Autoriteit Financiële Markten (“AFM”) in the Netherlands (Registration number 15003620) and operates on the basis of a European passport. In certain EEA countries, information is, where permitted, presented by PGIM Limited in reliance on provisions, exemptions or licenses available to PGIM Limited including those available under temporary permission arrangements following the exit of the United Kingdom from the European Union. This information is issued by PGIM Limited, PGIM Investments (Ireland) Limited and/or PGIM Netherlands B.V. to persons in the UK who are professional clients as defined under the rules of the FCA and/or to persons in the EEA who are professional clients as defined in the relevant local implementation of Directive 2014/65/EU (MiFID II). In **Switzerland**, information is issued by PGIM Limited, through its Representative Office in Zurich with registered office: Limmatquai 4, 8001 Zürich, Switzerland. PGIM Limited, Representative Office in Zurich is authorised and regulated by the Swiss Financial Market Supervisory Authority FINMA and this information is issued to persons in Switzerland who are professional or institutional clients within the meaning of Art.4 para 3 and 4 FinSA. In **Singapore**, information is issued by PGIM (Singapore) Pte. Ltd. with registered office: 88 Market Street, #43-06 CapitaSpring, Singapore 048948. PGIM (Singapore) Pte. Ltd. is a regulated entity with the Monetary Authority of Singapore (“MAS”) under a Capital Markets Services License (License No. CMS100017) to conduct fund management and an exempt financial adviser. In **Hong Kong**, information is issued by PGIM (Hong Kong) Limited with registered office: Units 4202-4203, 42nd Floor Gloucester Tower, The Landmark 15 Queen’s Road Central Hong Kong. PGIM (Hong Kong) Limited is a regulated entity with the Securities & Futures Commission in Hong Kong (BVJ981) (“SFC”) to professional investors as defined in Section 1 of Part 1 of Schedule 1 of the Securities and Futures Ordinance (“SFO”) (Cap.571). PGIM Limited, PGIM Investments (Ireland) Limited, PGIM Netherlands B.V., PGIM (Singapore) Pte. Ltd. and PGIM (Hong Kong) Limited are indirect, wholly-owned subsidiaries of PGIM, Inc. (“PGIM” and the “Investment Manager”), the principal asset management business of Prudential Financial, Inc. (“PFI”), a company incorporated and with its principal place of business in the United States. PFI of the United States is not affiliated in any manner with Prudential plc, incorporated in the United Kingdom or with Prudential Assurance Company, a subsidiary of M&G plc, incorporated in the United Kingdom. PGIM, the PGIM logo and the Rock symbol are service marks of PFI and its related entities, registered in many jurisdictions worldwide. PGIM Fixed Income and PGIM Real Estate are trading names of PGIM, a SEC registered investment adviser in the United States. Jennison and PGIM Quantitative Solutions are trading names of Jennison Associates LLC, and PGIM Quantitative Solutions LLC, respectively, both of which are SEC registered investment advisers and wholly owned subsidiaries of PGIM. Registration with the SEC does not imply a certain level or skill or training.

The information is not intended as investment advice and is not a recommendation about managing or investing assets. In providing these materials, PGIM is not acting as your fiduciary.

This document may contain confidential information and the recipient hereof agrees to maintain the confidentiality of such information. Distribution of this information to any person other than the person to whom it was originally delivered and to such person’s advisers is unauthorized, and any reproduction of these materials, in whole or in part, or the divulgence of any of its contents, without the prior consent of PGIM, is prohibited.

These materials do not take into account individual client circumstances, objectives or needs. No determination has been made regarding the suitability of any securities, financial instruments or strategies for particular clients or prospects. The information contained herein is provided on the basis and subject to the explanations, caveats and warnings set out in this notice and elsewhere herein. Any discussion of risk management is intended to describe PGIM's efforts to monitor and manage risk but does not imply low risk.

References to specific securities and their issuers are for illustrative purposes only and are not intended and should not be interpreted as recommendations to purchase or sell such securities. The securities referenced may or may not be held in the portfolio at the time of publication and, if such securities are held, no representation is being made that such securities will continue to be held.

The views expressed herein are those of PGIM investment professionals at the time the comments were made, may not be reflective of their current opinions, and are subject to change without notice. Neither the information contained herein nor any opinion expressed shall be construed to constitute investment advice or an offer to sell or a solicitation to buy any securities mentioned herein. Neither PFI, its affiliates, nor their licensed sales professionals render tax or legal advice. Clients should consult with their attorney, accountant, and/or tax professional for advice concerning their particular situation. Certain information in this commentary has been obtained from sources believed to be reliable as of the date presented; however, we cannot guarantee the accuracy of such information, assure its completeness, or warrant such information will not be changed. The information contained herein is current as of the date of issuance (or such earlier date as referenced herein) and is subject to change without notice. The manager has no obligation to update any or all such information; nor do we make any express or implied warranties or representations as to the completeness or accuracy.

Any projections or forecasts presented herein are subject to change without notice. Actual data will vary and may not be reflected here. Projections and forecasts are subject to high levels of uncertainty. Accordingly, any projections or forecasts should be viewed as merely representative of a broad range of possible outcomes. Projections or forecasts are estimated based on assumptions, subject to significant revision, and may change materially as economic and market conditions change.

© 2026 PFI and its related entities, registered in many jurisdictions worldwide.

5153630