2026 Outlook Illuminate Transcript

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TRANSCRIPT

Host: Today, we're diving into the 2026 Global Macroeconomic Outlook. It paints a picture of a world grappling with expensive geopolitical rivalries, the rise of AI, and a blurring line between public and private markets. Are we heading for a productivity boom or just more muddling through?

Guest: It's a complex interplay of forces, that's for sure. Fiscal dominance is really reshaping the landscape.

Host: Fiscal dominance?

Guest: Exactly. Governments are spending big, and that's putting pressure on central banks and long-term interest rates.

Host: The report highlights the "Era of Fiscal Dominance and the End of Central Bank Innocence." Can you elaborate on what this means for our listeners?

Guest: Geopolitical tensions are driving record defense budgets, industrial policy is expanding, and populism is on the rise. All of this compels major economies to run historically high deficits. The problem is, these deficits create demands for low monetary policy rates, which undermines central banks' ability to control inflation.

Host: The outlook also suggests we "Carry On: Lean Into Structural Growth." What kind of investment strategies are best suited for this environment?

Guest: With steeper yield curves, stretched market valuations, and economies reconfigured for structural growth, diversified portfolios constructed for carry and income are warranted. Think about investments that can generate income in a higher-rate environment.

Host: Let's talk about AI. The report mentions a potential "$7 trillion global AI-buildout." Is this a boom or a bubble?

Guest: It's both, potentially. The massive investment in AI could lead to near-term over-investment risks. However, historical precedent suggests that it will ultimately seed a productivity boost that determines growth trajectories, debt dynamics, and the future winners and losers across global industries and corporations.

Host: Let's zoom in on the U.S. The report talks about "Two Sides of AI-related Capex." What's the story there?

Guest: AI-related capital expenditure has provided a solid contribution to GDP growth. However, some tentative evidence indicates that early-career workers in vulnerable sectors are absorbing a bigger hit. For example, the recent increase in the unemployment rate for tech workers in the 20- to 30-year cohort is far greater than the industry's overall rate.

Host: What about Europe? The report suggests "Tailwinds May Forestall Looming Risks." Are they out of the woods?

Guest: Euro area growth of 1.4% through late 2025 approached potential with inflation essentially at target. This leaves the ECB in a good place early in 2026. However, cracks remain below the surface: private sector dynamism remains weak with rising unemployment in Germany and France.

Host: Japan seems to be reassessing its monetary policy. What's the significance of the Bank of Japan's recent moves?

Guest: The BoJ raised its policy rate to 0.75% in December, marking its highest level in nearly 30 years. The question is, has the BoJ re-assessed its estimated neutral policy range? Such a reassessment would rhyme with other increases in estimated global neutral rates since 2020.

Host: China and emerging markets are driving global trade. How are they adapting to the U.S.-imposed tariffs?

Guest: Much of the increase in Chinese exports reflects trade redirected from the U.S. towards Asia, Africa, and Europe as authorities adapt to higher tariffs via export diversification. This has supported Chinese growth, even as domestic demand remains sluggish.

Host: The report outlines several economic scenarios. What's the base case, and what are the key risks?

Guest: The base case is a "Muddle Through" scenario for the U.S., Euro Area, and China. In the U.S., the key risk is an "Overheating" scenario amid the potential combination of accelerating monetary and fiscal stimulus that prompts a material, above-trend acceleration in growth while inflation exceeds 3.5%.

Host: Let's dig a little deeper into the "Productivity Boost" scenario. What would that look like?

Guest: Accelerating growth amid weak employment indicates that the economy is expanding through efficiency gains rather than labor accumulation. Yet, further confirmation will be needed before heralding the arrival of a productivity boom.

Host: The report mentions potential investment opportunities in emerging markets, particularly in Latin America. Can you expand on that?

Guest: When viewed through the lens of geopolitical dynamics, election outcomes may result in investment opportunities. This is particularly true for U.S./Latin America relations, where U.S. policy priorities related to immigration, trade, security enabled some Central and South American countries to benefit.

Host: So, what's the key takeaway for investors as we head into 2026?

Guest: Be prepared for a world of fiscal dominance, potential productivity boosts from AI, and a blurring line between public and private markets. Diversification and a focus on income-generating assets will be crucial.

Host: That was a great discussion.

IMPORTANT INFORMATION

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