



# Reaching for the moon from shaky ground

Advanced Economies Outlook 2026

Triodos  Investment Management

The global economy in 2025 has presented a striking paradox. Despite deepening policy uncertainty, mounting trade tensions and growing economic fragmentation, economic activity has remained remarkably robust. Equity markets have been buoyed by an unprecedented boom in AI investment that could reshape industries and has raised hopes for future productivity gains. Yet beneath this surface strength lie widening inequalities, ecological strain and rising geopolitical risks. The question for 2026 is whether this uneasy equilibrium can hold.

# Reaching for the moon from shaky ground

The global macroeconomic narrative of 2025 is a tale of two stories. Both true, both unfolding simultaneously.

On one side lies instability. This has undoubtedly been the year of President Trump and his erratic policy shifts. Chief among them are the sweeping import tariffs, which, despite being partially offset by new trade deals and the restraint shown by other countries, have lifted **the average effective US tariff rate to 18.0%**, the highest since 1934. The world is moving decisively towards greater protectionism and fragmentation. Across advanced economies, tighter immigration policies are constraining labour supply, while right-wing populism is testing the resilience of democratic institutions. Meanwhile, governments are stretching their fiscal limits, pushing public finances into increasingly uncertain territory.

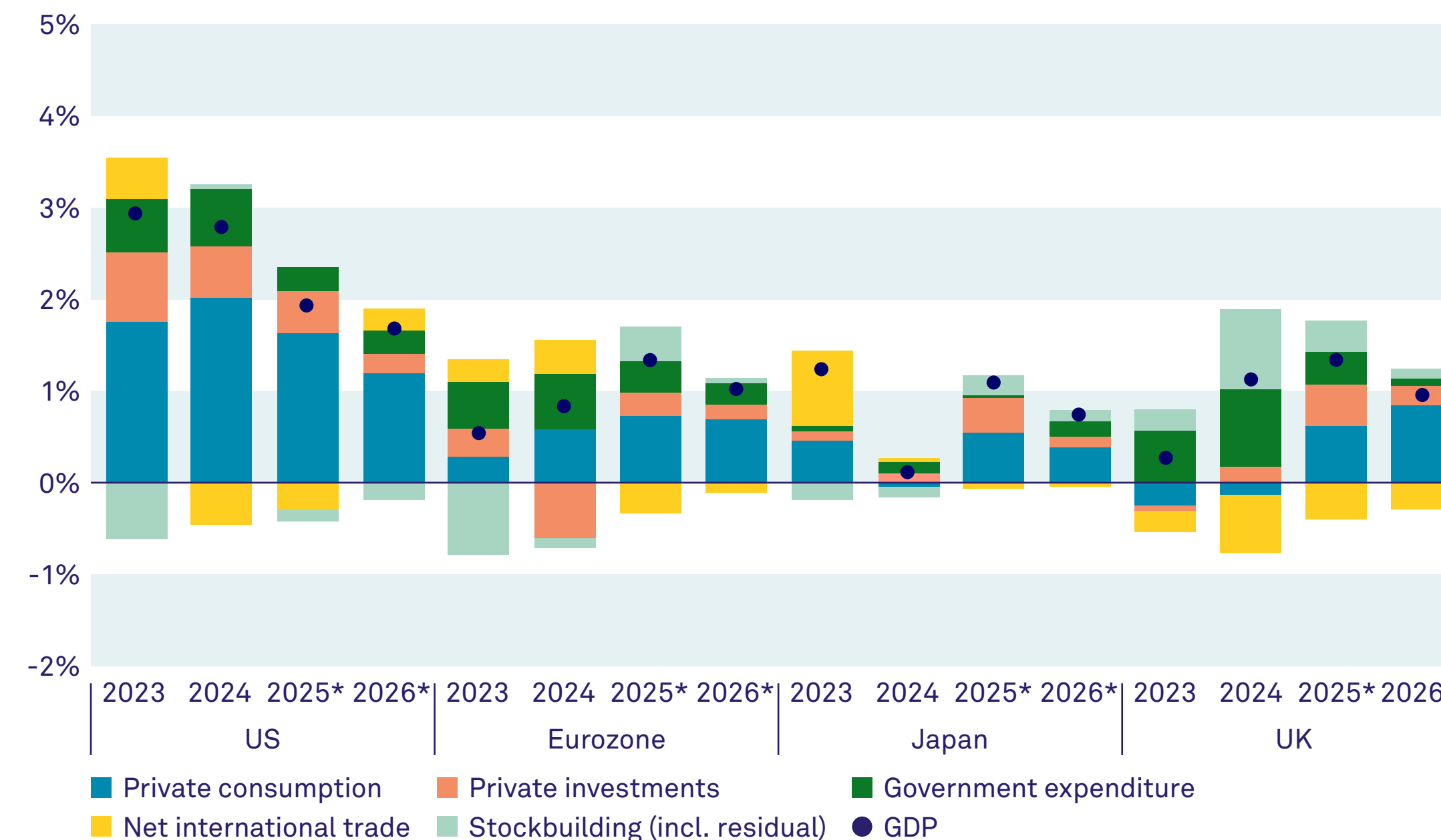
Yet on the other side, optimism still reigns. Global equity markets have once again soared to record highs, rebounding with astonishing speed from the tariff scare in April. Despite elevated US trade barriers, no major economic slowdown has materialised. So far, global trade volumes continue to expand, driven by companies' rapid adjustments in supply chains and production methods. At the centre of this buoyancy lies the Artificial Intelligence (AI) boom, which has reached unprecedented scale. AI-driven investment surged, supporting global growth while raising hopes for a long-awaited surge in productivity. Expectations of

increased defence and infrastructure spending across advanced economies also added to investors' optimism.

We expect this uneasy combination of robustness and risk to result in a global economic expansion of 3.2% in 2025. That is underwhelming by historical standards but still impressive given the turbulence, and roughly in line with last year's pace, when there were no sizable tariffs or such heightened uncertainty. For 2026, we expect global growth to ease slightly to around 3%, as we expect the drag from tariffs to increase in the next few months. We also anticipate that concerns about unsustainable public debt levels will persist, with the potential to flare up suddenly and create meaningful disruptions. Yet as the year progresses, we expect the optimistic narrative to again take the upper hand, fuelled by continued AI enthusiasm and investment and, in some regions, stronger defence spending.

But when you reach for the moon, you'd better do it from stable ground. Sadly, in 2025, the world has become more unstable. An overshoot of the global warming target of 1.5°C is **now inevitable**, while large parts of the world population do not benefit from the current AI-boom. In fact, it threatens their jobs and democratic rights. Geopolitically, the race for AI dominance has added another layer to already elevated global tensions. In 2026, we expect all these tensions to be reflected in patterns of consumption, investment and trade (see figure 1).

Figure 1 GDP growth (year-on-year) - expenditure components



\* 2025 and 2026 are estimates Source: NiGEM, Triodos Investment Management

## Richest households keep spending

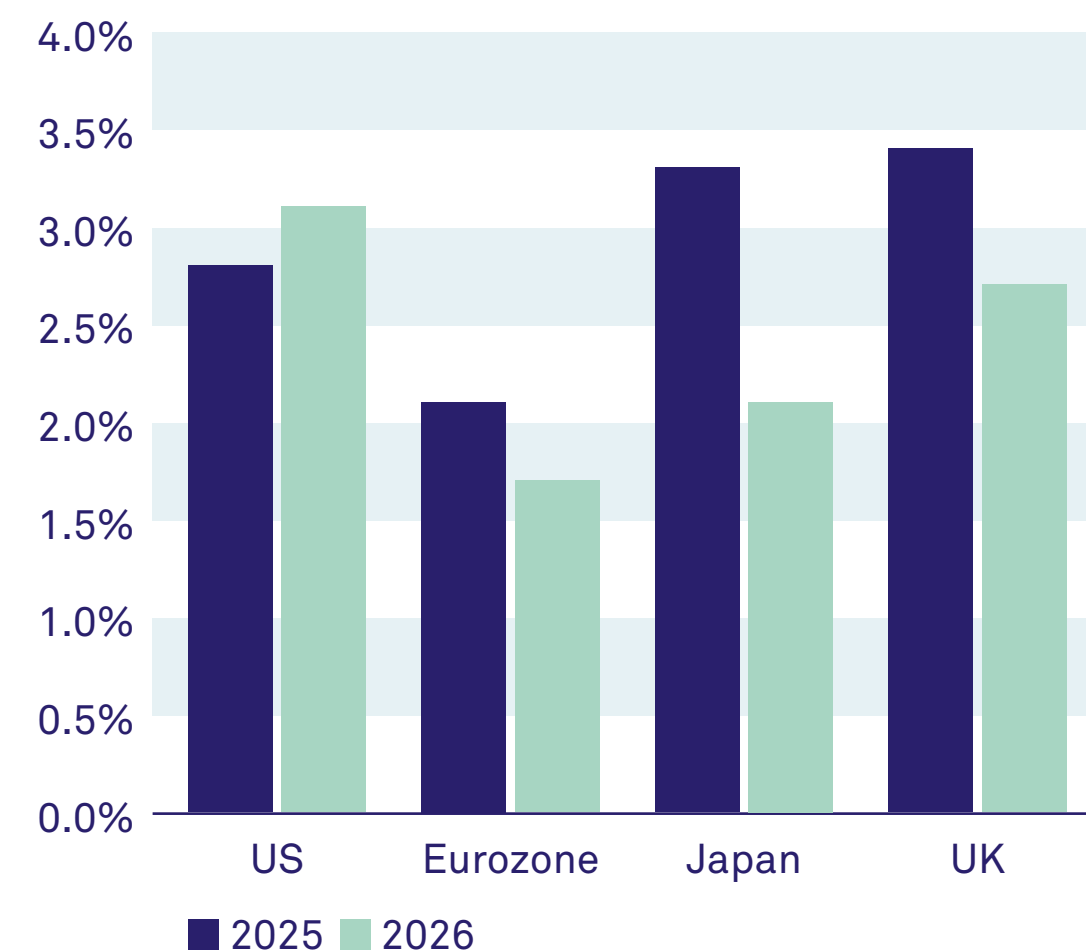
In 2025, household consumption once again proved to be the main engine of economic growth across advanced economies. This is striking given the sharp deterioration in consumer sentiment. Following

Trump's tariff announcements, US consumer confidence plunged to its lowest level in more than 40 years and has since recovered only marginally. Confidence also weakened in other major economies, though less dramatically and with partial rebounds later in the year. Yet real personal disposable income

gains ultimately outweighed psychological factors. Wage growth continued to outpace consumer price inflation in most advanced economies, supported by tight labour markets. Real personal disposable income has by now recovered from the pandemic-induced surge in prices in all major economies except Japan. In Japan, where inflation this year again exceeded wage growth, households sustained spending by drawing down savings.

The wealth effect – rising asset prices make households feel wealthier and thus more inclined to spend – also played a decisive role. The stellar performance of global financial markets boosted consumption among the wealthiest households. **Recent research indicates** that the top 10% of US households, who hold the majority of financial assets, now account for nearly half of all US consumer spending, the highest share since the late 1980s. While this concentration has bolstered aggregate consumption, it masks growing inequality and financial strain among lower-income groups. In the eurozone, wealth inequality did not increase any further in recent years, even if it remains high with the **richest 5% of households holding a steady 45% of net wealth**, whereas the wealth of non-homeowners grew less than their homeowners counterparts. Such imbalances have continued to feed support for populist movements across advanced economies.

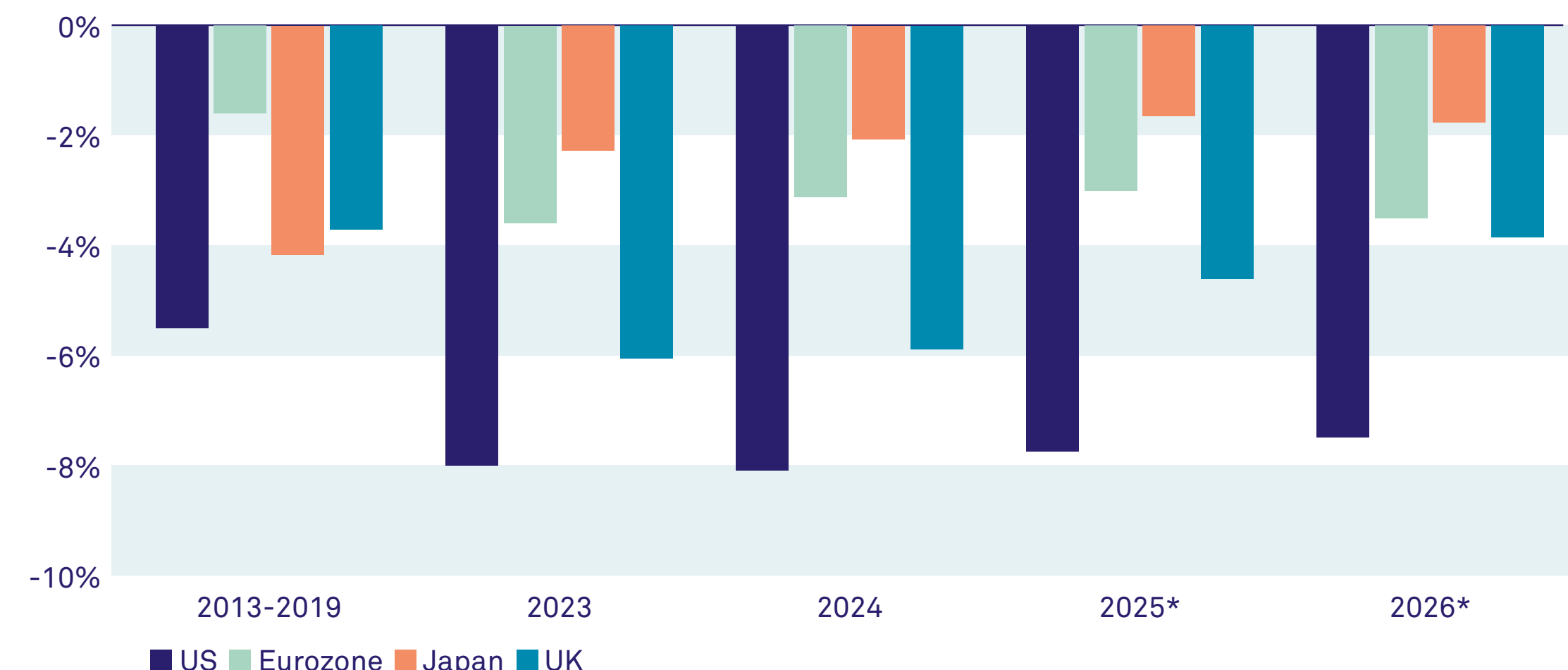
Figure 2 Headline inflation (year-on-year)



Source: NiGEM, Triodos Investment Management

Looking to 2026, the spending power of richer households is likely to keep the global expansion afloat, especially in the US. Still, US consumption growth is set to moderate as pre-tariff inventory build-ups fade, leading companies to increasingly pass higher import costs on to consumers. That will push inflation higher and erode real income gains. Even so, consumption should continue to expand, supported by still-loose fiscal policy (Trump’s One Big Beautiful Bill) and a modest recovery in consumer sentiment from its record-lows.

Figure 3 Government budget balance (% of GDP)



\* 2025 and 2026 are estimates Source: NiGEM, Triodos Investment Management

In other advanced economies, however, inflationary trends are expected to move in the opposite direction (see figure 2). In the eurozone, disinflationary forces are likely to dominate in 2026, driven by a strong euro, more limited demand from the US and potential Chinese product dumping as a result of overcapacity and US trade restrictions. This environment should yield another year of positive real income growth, reinforced by ongoing labour market tightness. We expect similar dynamics in the UK and Japan, where inflation is projected to fall sharply, creating space

for continued consumption growth. However, fiscal developments will vary (see figure 3): in the UK, fiscal consolidation efforts, necessitated by higher borrowing costs, will likely temper the overall boost in demand. In the eurozone, the fiscal deficit is expected to widen moderately as Germany begins implementing its defence and infrastructure investment plans. But France and Italy are likely to proceed more cautiously given their already fragile fiscal positions.

### AI investment continues, instability increases

Aggregate data on private investment supports the optimistic side of the global economic narrative. Across advanced economies, private investment contributed positively to growth in 2025. However, this expansion was driven largely by the AI-related capital expenditure boom originating from the US. In other sectors, investment momentum has been more fragile: heightened policy uncertainty and new trade barriers have delayed business spending, while housing investment has contracted in most major advanced economies under the weight of elevated interest rates. In the eurozone, cyclical recovery dynamics provided modest tailwinds, and investment received some additional support from the region's shift toward a more active EU industrial policy, following Mario Draghi's report highlighting Europe's lagging competitiveness and lack of self-sufficiency.

Looking ahead to 2026, this sectoral divergence is expected to persist, be it a touch less. Government spending on defence and infrastructure should be of some support for business investment in Europe later on in 2026. Corporate profit margin developments also help: in the eurozone, the UK and Japan, margins have stabilised in 2025 and are creeping up slightly, while in the US they continued to grow. That said, term premia will likely continue to build amid ongoing concerns

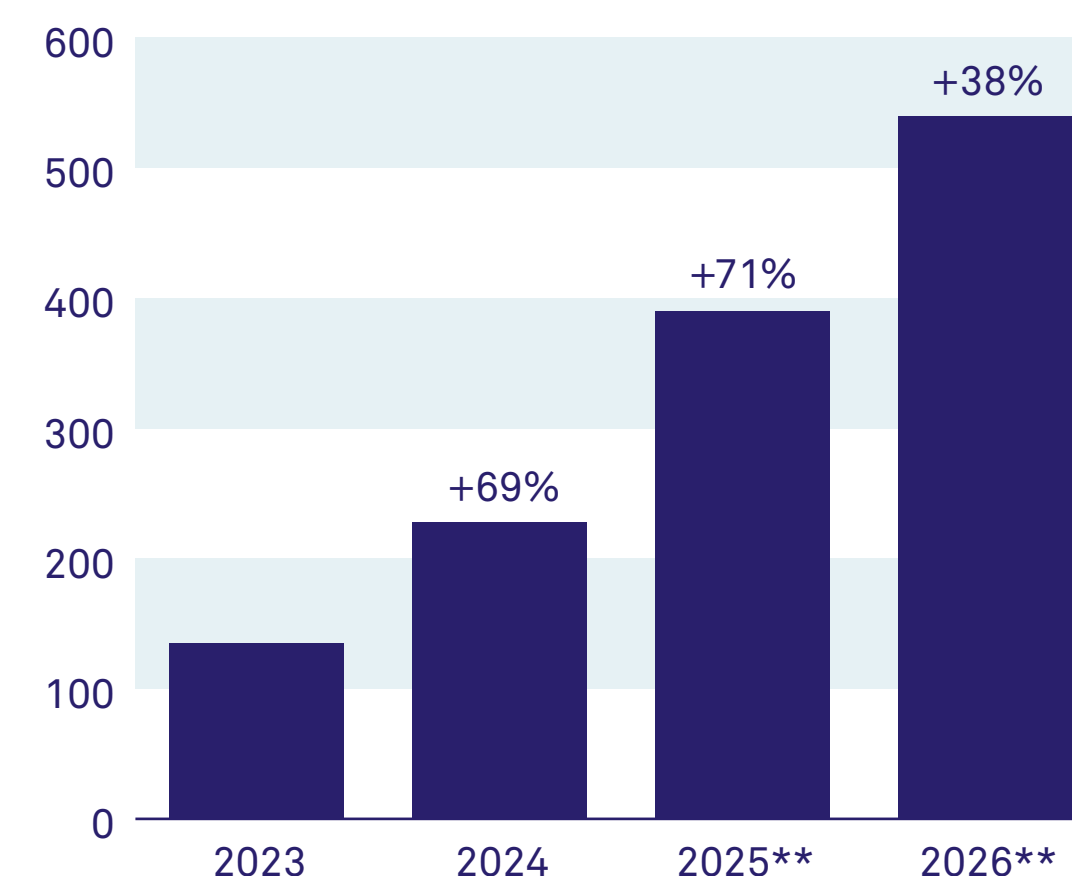
about the sustainability of public debt, keeping long-term interest rates elevated across advanced economies. Rate cuts by the Federal Reserve, the Bank of England and the ECB may provide some offsetting downward pressure here. In the US, we anticipate the Federal Reserve will lower rates despite renewed inflationary pressures, driven by a softening labour market and the ongoing political pressure to do so.

AI investment has so far proven largely immune to elevated interest rates, as most spending continues to be funded from the substantial cash reserves of the major tech companies. We therefore expect AI-related investment to remain an important driver of overall investment growth, although likely more modest than in 2025 (see figure 4).

To date, there is little evidence of AI-related productivity gains, and we do not expect them to materialise in 2026. The current phase resembles the doubling of global ICT investment in the mid-1990s, which first upgraded the capital stock before new technologies spread through the broader economy and boosted productivity.

Yet, while AI and defence outlays may keep global private investment running, they also amplify the ecological and social instability. The surge in AI-related electricity and resource demand adds to environmental

**Figure 4 Capital expenditure hyperscalers\***  
(USD billions)



\* Hyperscalers are Meta, Alphabet, Amazon, Microsoft and Oracle  
\*\* 2025 and 2026 are estimates  
Source: Financial Times, Triodos Investment Management

pressures, while the ever-growing dominance of tech oligopolies – whose lobbying and social media influence increasingly distort democratic processes – deepens inequality and political polarisation. Similarly, the emphasis on defence spending risks crowding out investment in long-term sustainability. True stability does not rest on deterrence and technological leadership, but predominantly on maintaining a liveable planet and cohesive societies.

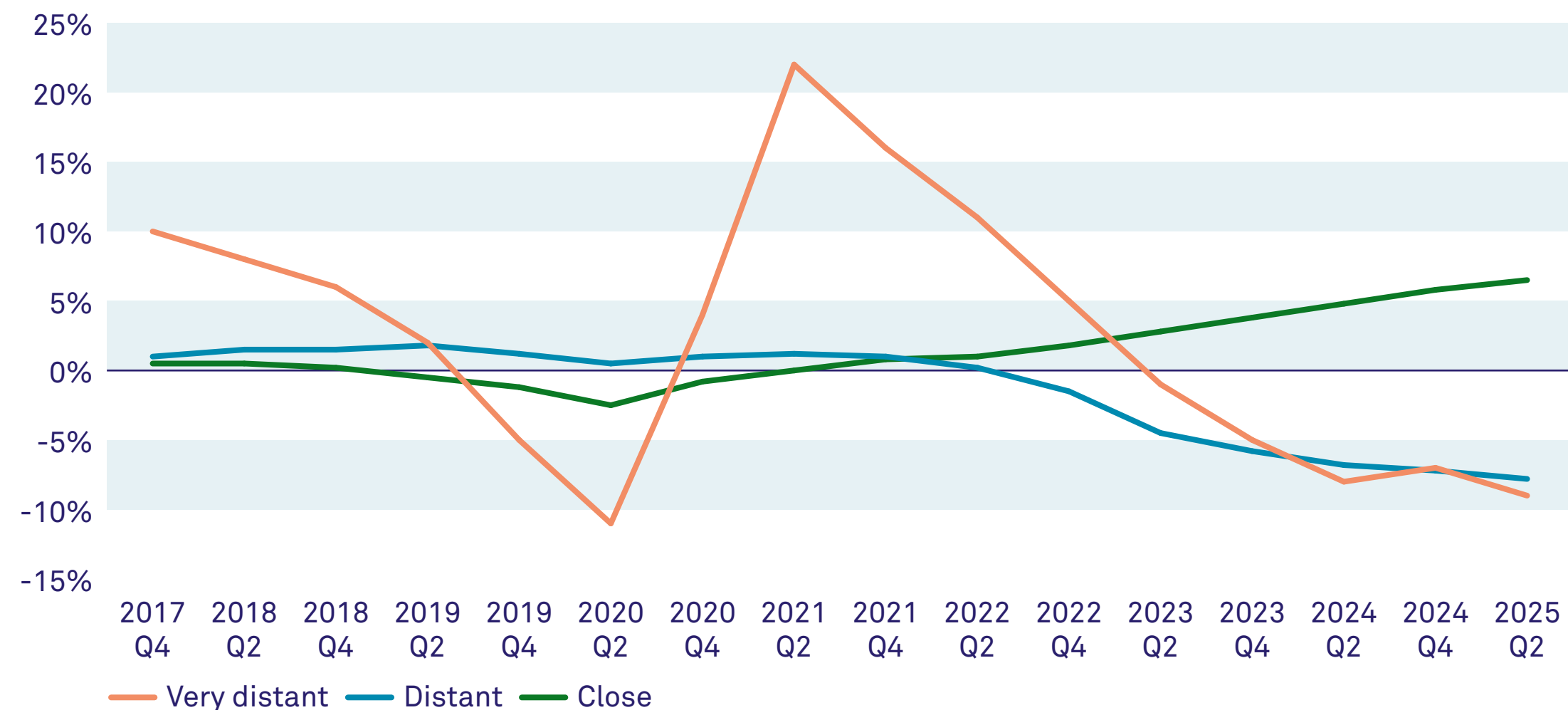
### More trade, more fragmentation

Global trade volumes expanded at a solid pace in 2025, despite the sharp rise in US tariffs and mounting geopolitical instability. Part of this resilience can be attributed to front-loading: the acceleration of trade activity early in the year before the new tariffs would take effect. Yet the broader story is one of growing adaptability, with companies demonstrating remarkable flexibility in reconfiguring supply chains and forging new commercial relationships. Although established routes **still carry more than half of global trade**, it is increasingly taking place between geopolitically aligned economies (see figure 5). This rewiring of trade flows comes at a cost, for instance by driving up the price of critical minerals essential to the energy transition.

In 2026, the full effects of the US tariffs and the broader protectionist trends are expected to become more visible, leading to more modest growth in global trade volumes. Tariff-related uncertainty will not completely fade, as there is a pending decision from the US Supreme Court on the legality of US tariffs, though we expect US tariffs to continue in one form or another.

Nevertheless, outside the US, most economies appear aware of their continued dependence on open trade. Diversification, rather than isolation, has become

Figure 5 Geopolitical distance index and change in trade flows



Sources: Allianz Research, Triodos Investment Management

the new policy mantra. In the summer of 2025, the EU signed a long-delayed deal with Indonesia, eliminating high duties on industrial goods, and it is nearing a deal with India. At the same time, Western countries are recalibrating their relations with China. With the global race for AI dominance between the US and China going into a next phase, we expect increased powerplay that could force other countries to choose sides. That said, despite the political tensions, China’s ongoing innovation and expanding export base

will likely continue to provide a certain measure of stability to global trade, as does its dominance in the processing of almost all the world’s rare earth minerals.

Ultimately, the world’s trading system is becoming more fragmented, not smaller. This fragmentation may result in more regional self-reliance and reduce exposure to autocratic suppliers, but it also risks deepening global inefficiencies and undermining

coordinated responses to the climate crisis. Trade will certainly continue and likely grow further, but in an increasingly divided world.

### Imbalanced growth, AI-dependent markets

Taken together, these trends point to a global economy that appears resilient at first glance, but beneath the surface is growing increasingly imbalanced. We expect most major advanced economies to slow modestly in 2026, as the lingering effects of US tariffs will start to bite. A further surge in AI-related investment and increased defence spending will likely offset much of that drag, however, helped by a gradual easing of business and consumer anxiety as the world adapts to a ‘new normal’ of chronic policy uncertainty.

For financial markets, optimism may endure. The combination of ongoing AI investment and anticipated interest rate cuts by the Federal Reserve could keep the rally alive, as long as earnings reports of tech companies do not start to disappoint. Valuations are highly elevated, but tech capital expenditure has yet to reach the speculative extremes of the late 1990s. Even so, the rising environmental and social burden of unbalanced investment means that the ground beneath this exuberance grows more unstable.

There is room for cautious hope though: as the costs of climate change, social inequality and geopolitical volatility become harder to ignore, more investors may recognise that lasting returns depend on genuine stability. By directing capital toward real, sustainable transformation, they can help ensure that humanity’s reach for the moon does not fail because of the shaky ground beneath its feet.

### Real GDP growth (%)

	2024	2025	2026
Global	3.3	3.2	3.0
US	2.8	1.9	1.7
Eurozone	0.9	1.4	1.0
UK	1.1	1.4	1.0
Japan	0.1	1.1	0.7
China	5.0	4.8	4.3
India	6.5	6.3	6.2

Source: NiGEM, Triodos Investment Management

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## Investing in positive change

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