Advanced Economies Outlook 2027

Growth for the few, power for the fewer



Triodos Investment Management

The global economy continues to grow. But who captures the gains, and who holds the power? In 2027, we expect a further surge in AI capital expenditure and easing energy prices to provide a modest boost to global growth, despite ongoing geopolitical instability. Yet rising output is not the same as shared prosperity. Wealthy asset owners capture a disproportionate share of the gains, while control over Big Tech is concentrated in an even smaller group. Meanwhile, climate change and nature degradation increasingly threaten the foundations on which this growth depends. The challenge is therefore to curb the concentrations in wealth and power and to transition to an economic system that reduces inequality while staying within planetary boundaries.

Growth for the few, power for the fewer

It may by now sound like a broken record, but in 2026 the global economy once again held up better than expected. Despite another major energy supply shock, caused by the US-Israeli war against Iran, economic activity remained surprisingly robust. Alternative shipping routes, diversification of supply chains, higher oil production outside the Middle East and strategic reserves cushioned the disruption of shipping through the Strait of Hormuz. Electrification and renewables have also reduced the global economy's oil intensity, while corporate and household financial buffers helped sustain spending.

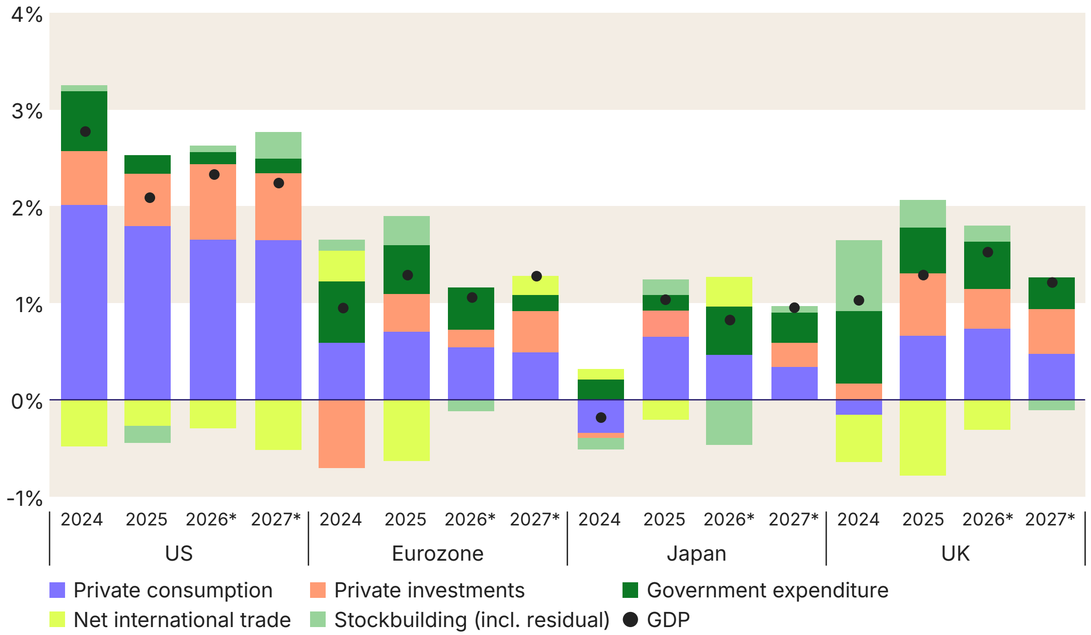
Meanwhile, enthusiasm about AI buoyed global economic activity through surging capital expenditure and rising equity markets. Still, there is no evidence yet of broad-based productivity improvements from AI. Overall, we expect global growth of 3.2% in 2026, strengthening to 3.5% in 2027 as energy price pressures ease and AI business investment provides another boost. Yet, these figures conceal sharp divides: globally, net energy exporters and countries integrated into AI supply chains benefit, while energy importers with limited AI exposure fall behind. Within the major advanced economies, the US should remain the fastest-growing, at 2.3% in 2027, only slightly below the pace in 2026. Eurozone growth should improve to 1.3% and Japan's to 1.0%, while UK growth slows to 1.2% (figure 1). The global acceleration in 2027 therefore does not imply a broad-based upswing across advanced economies, but mostly originates from Emerging Markets.

In advanced economies, concern about rising public debt levels limits fiscal room for manoeuvre at a time that climate extremes increasingly threaten economic growth. Europe is highly exposed as the world's fastest-warming continent, while the US is most exposed to the El Niño "super cycle". But rising temperatures are a global challenge, and recent developments do not bode well: August 2026 was the joint hottest month ever recorded globally. We estimated that Europe's extreme summer could have cost the EU roughly EUR 180 billion.

Frustration with elevated prices not enough to curb spending

In 2026, household consumption remained the main driver of growth across advanced economies, despite a sharp decline in consumer confidence. In the US, confidence fell to its lowest level since records began, mostly because of higher energy prices as a result of the conflict in the Middle East. Confidence also weakened elsewhere, although in Europe it remained above the lows recorded during the 2022 energy shock.

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



* 2026 and 2027 are estimates Source: NiGEM, Triodos Investment Management

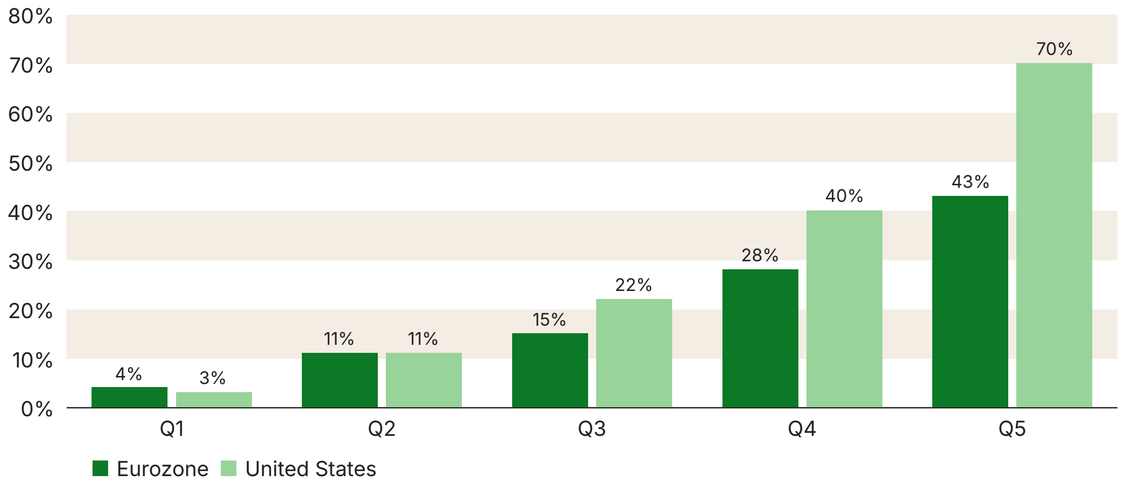
The divergence between sentiment and spending largely reflected household finances. In the eurozone, the UK and Japan, wage growth outpaced inflation, supporting real disposable incomes.

US consumers maintained spending by drawing down their savings, despite falling real incomes. Recent research suggests the weak confidence reflects frustration with elevated price levels rather than expectations of worsening economic prospects.

Rising asset prices also supported consumption, particularly among wealthier households (figure 2). Strong equity markets, driven partly by optimism about AI, benefited those holding most financial assets. This wealth effect – higher asset values make households feel wealthier and more inclined to spend – is more pronounced in the US, where the top 10% of households by income account for almost as much discretionary spending as the bottom 70% combined. Strong consumption figures therefore need not signal a broad improvement in living standards. Instead, they may conceal a growing dependence on the spending of those who have benefitted most from rising markets. Indeed, the US reliance on affluent consumers reflects a wider pattern of persistent and increasing extreme global wealth inequality.

In 2027, consumption should remain an important growth driver, as we expect an exhaustion-driven de-escalation of the war against Iran and sustained AI optimism. We expect oil prices around USD 80 per barrel towards year-end 2027. Delayed energy-cost pass-through, AI-related demand and the combination of global warming and the El Niño "super cycle" should nevertheless keep inflation firmly above 2% across advanced economies (figure 3). Heat and drought reduce output while pushing up prices, disproportionately burdening vulnerable households.

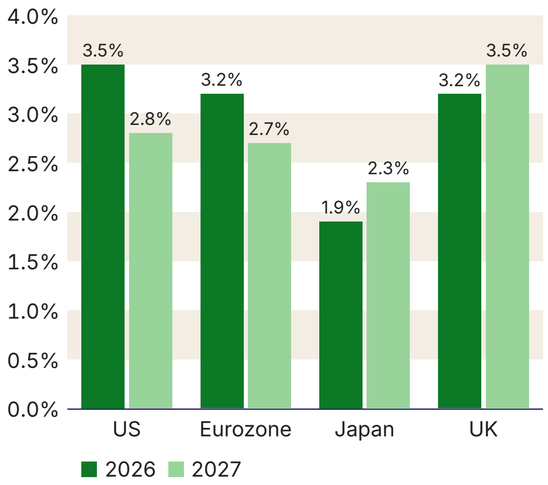
Figure 2 **Financial market participation – financial instrument ownership by income quintile**



Source: AllianceBernstein, ECB, Triodos IM. Q1 lowest income quintile, Q5 highest income quintile.

In the US, the eurozone and Japan, we expect real disposable income to grow in 2027. In the UK, delayed energy-price effects should reduce real incomes, although we expect savings drawdowns to sustain consumption. Tight labour markets are set to support spending, as we do not expect widespread AI-related job displacement in 2027; so far, there is no broad evidence of it.

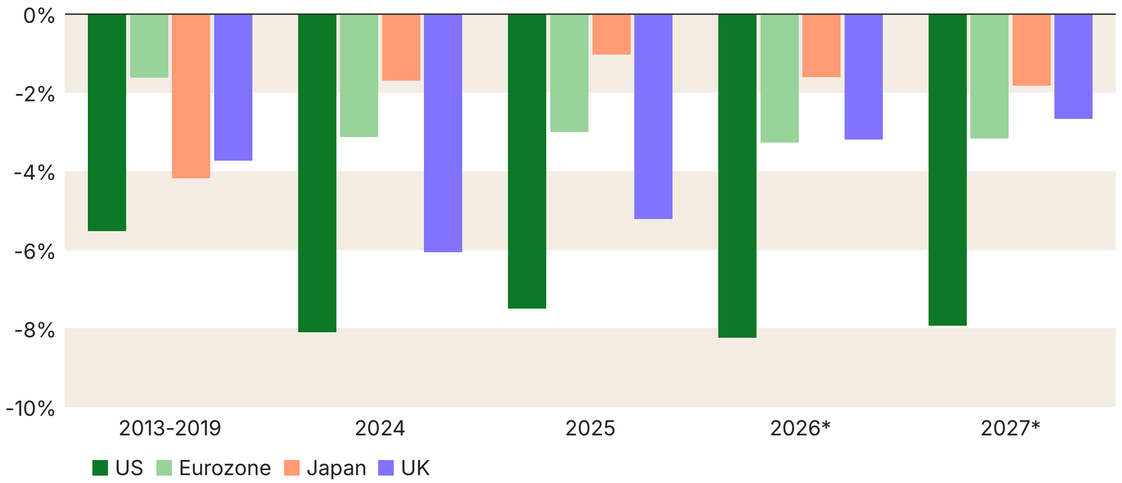
Figure 3 **Headline inflation** (year-on-year)



Source: NiGEM, Triodos Investment Management

US consumption is increasingly vulnerable to a reversal in AI-driven market sentiment, with the market capitalisation of the tech sector accounting for nearly half of the S&P 500. Still, our base case is that earnings growth will support AI equities in 2027, because to date earnings growth has been healthy and EPS growth expectations for 2027 are not unrealistic. Although household equity exposure is lower outside the US, households

Figure 4 Government budget balance (% of GDP)



* 2026 and 2027 are estimates Source: NiGEM, Triodos Investment Management

in Europe and Japan to some extent do hold US technology shares. Financial stress could also spread internationally, making the global AI market concentration a broader risk to consumption.

Fiscal support will vary across advanced economies (figure 4). Elevated French and UK government bond yields and political instability in these countries will likely force consolidation efforts that should temper demand. Meanwhile, Germany is set to continue implementing its defence and infrastructure plans. In the US, Democratic congressional majorities may constrain spending plans, although we expect the deficit to remain broadly unchanged as the Democrats historically lean away from fiscal austerity.

AI investment reaches new highs, but the pace of growth slows

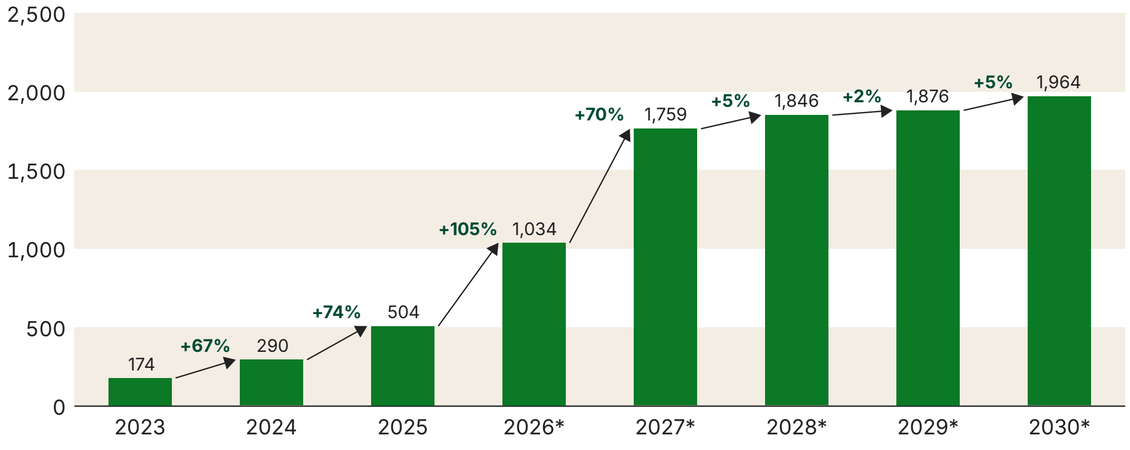
In 2026, AI's role in sustaining economic growth has been particularly direct through business investment. AI-related capital expenditure generated around a third of US growth, after accounting for imports. The UK appears to have benefited more from this trend than the eurozone, which has a more limited presence in fast-growing AI-related sectors. In Japan, sizeable exposure to AI demand has been offset by weak domestic demand, cautious companies and high energy costs. Beyond AI-related investment, policy uncertainty and elevated interest rates have restrained business investment.

In 2027, we expect the capital expenditure of hyperscalers – companies investing heavily in building data centres worldwide – to reach USD 1.8 trillion (figure 5). Investment should therefore remain an important driver for global growth. Public opposition to data centres, supply constraints, greater dependence on debt financing by the tech companies and disappointing tech earnings could delay expansion. Extreme weather and climate-related natural disasters could also pose significant risks to the AI infrastructure build-out. Where electricity networks and water supplies are already under pressure, higher prices and competition for access could also delay projects or raise costs.

It is important to realise that another year of record capital expenditure does not automatically provide a larger boost to GDP growth; what matters is the increase in spending compared with the previous year. Equally important is the fact that more AI infrastructure does not automatically translate into global productivity gains in 2027. So far, the AI boom has not yet delivered broad-based productivity gains. **Surveys suggest** adoption is broad but also shallow. We therefore do not expect global labour productivity to rise above trend in 2027. The risks may even be to the downside, with global warming increasingly **weighing on productivity**.

Beyond technology, defence and infrastructure spending, lower energy prices and strong corporate profit margins should support investment. Margins rose during 2026 and reached multi-decade highs in the US and Japan. US corporate profits accounted for almost 15% of GDP in mid-2026, their highest share since World War II and twice the share recorded in the 1980s. In the other major advanced economies, profits as a share of GDP have remained relatively stable. This points to a worrying shift in

Figure 5 Hyperscaler capital expenditure 2023-2030 (USD billion)



* 2026-2030 are estimates Source: UBS, Triodos Investment Management. Hyperscalers are Alphabet, Amazon, SpaceX, Alibaba, Oracle, Tencent, Baidu, Microsoft, Meta, Nebius and CoreWeave.

the distribution of income in the US, with capital capturing a larger share at the expense of labour.

Financing conditions will not be very supportive. High public debt levels and sizeable borrowing needs of both governments and hyperscalers are likely to keep long-term interest rates elevated compared with the previous decade. Public debt has risen sharply in recent years, particularly in the US, the UK and France. The need to refinance debt at higher borrowing costs will add to the concerns about debt sustainability, especially in combination with the ongoing political instability in these countries. France appears particularly vulnerable ahead of its 2027 presidential election. Worryingly, all of this likely means politicians will see even less room to invest in climate mitigation and adaption.

Easing inflation should counter some of the upward pressures on yields. Still, inflation is only set to peak early 2027. Therefore, we expect the US Federal Reserve, the European Central Bank and the Bank of England to favour further interest rate hikes in the coming months, with the Federal Reserve tightening monetary policy slightly more. We then expect unchanged policy rates in 2027, as relatively robust growth allows the central banks to fully focus on returning inflation to target. The risks are clearly to the upside, as more persistent inflation could require further hikes.

The large dependence on AI capital expenditure makes global growth vulnerable. AI's resource requirements also add environmental pressure, while big tech oligopolies increase the risk of deepening inequality and the further undermining of democracy. Defence spending meanwhile crowds out investment in sustainability, while lasting stability requires both a liveable planet and cohesive societies.

AI boosts global trade despite fragmentation

AI infrastructure demand also lifted global trade in 2026. Semiconductors, servers and other AI-related goods **accounted for 47%** of merchandise trade growth in the first half of the year. Companies adapted to tariffs and shipping disruptions by finding alternative routes and destinations.

Trade is certainly shifting towards geopolitically aligned economies, but strategic dependencies remain. China dominates rare-earth mineral processing, while the US **imports 80%** of the rare earths it consumes. AI leadership therefore still cannot be achieved without international supply chains. In 2027, AI-related demand should support global trade growth. Western economies will at the same time continue to diversify suppliers to reduce their dependencies, but the rivalry between the US and China could increasingly pressure other countries to choose sides and limit their options. On top of that, diversification offers only limited protection to climate change and nature degradation, because these risks are global.

Within advanced economies, AI-related net imports will likely continue to weigh on US growth in 2027. Easing energy prices should on the other hand help net exports make a positive contribution in the eurozone and cease to weigh on growth in the UK. Japan's net export contribution is likely to remain limited.

Robust growth, concentrated power

Continued AI capital expenditure and easing energy prices point to robust global growth in 2027. However, high and rising public debt, elevated interest rates and geopolitical, climate and nature-related risks leave this expansion fragile and unsustainable.

The main risks to our outlook are a prolonged Middle East conflict, a sharp and prolonged reversal in the confidence in AI, and a sovereign debt crisis. Either could simultaneously weaken investment, consumption and trade. Close financial ties within the AI supply chain – with suppliers of AI labs and hyperscalers also acting as their financiers – warrant special attention. The same interconnections that have so far sustained the AI boom could amplify financial instability when sentiment turns.

Even without these risks materialising, the expected growth is unlikely to deliver broadly shared prosperity. Wealthier asset owners benefit disproportionately, while an even smaller group controls the technologies, data and platforms shaping the economy. The decisions of these actors could potentially influence elections, labour markets, tax bases and global resource consumption.

Concentrated financial gains thus go hand in hand with concentrated influence over the economy's direction. The challenge, therefore, is to curb the concentration of wealth and power and move towards a system that reduces inequality while remaining within planetary boundaries.

Real GDP growth (%)

	2025	2026	2027
Global	3.5	3.2	3.5
US	2.3	2.4	2.3
Eurozone	1.2	1.1	1.3
Japan	1.2	0.8	1.0
UK	1.2	1.5	1.2
China	5.0	4.6	4.5
India	7.8	6.3	6.4

Source: NiGEM, Triodos Investment Management

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Assets under management as at 30 June 2026: EUR 6.0 billion. Triodos Investment Management is a wholly owned subsidiary of Triodos Bank, an expert in sustainable banking.

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