Executive Briefing

Macroeconomic and strategic business outlook

March 24, 2026

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EY Parthenon

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The Middle East conflict will weigh on the US economy through higher energy prices, tighter financial conditions, elevated uncertainty and renewed supply chain stress

Economic outlook

One supply shock after another	▪ The US economy has so far demonstrated resilience in the face of successive shocks, expanding by 2.2% in 2025, but the Middle East conflict introduces a more complex and potentially more damaging headwind. This is not a textbook oil shock. It is a multidimensional disruption. ▪ The magnitude and duration of flow disruptions through the Strait of Hormuz and the risk of growing damage to oil production, refining capacity, liquefied natural gas (LNG) fields and liquefaction infrastructure suggest a more persistent inflationary impulse, extending beyond a short-lived energy price spike. While the US remains relatively insulated compared with Europe and Asia and could see some offset from increased shale production, the net macroeconomic effect is likely to be negative. ▪ In this environment, we have lowered our 2026 GDP growth forecast by 0.4 percentage points (ppt) in total, reflecting both the direct effects of the conflict and weaker momentum entering the year. We now expect real GDP growth of 2.0% in 2026, with growth slowing from 2.0% year over year (y/y) in Q4 2025 to 1.7% by Q4 2026. At the global level, we have revised our global GDP growth outlook to 3.0% in 2026 from 3.3% previously.	**Real GDP** 2026: 2.0% 2027: 1.9%
Energy inflation impulse	▪ We now expect Brent crude oil to average $88 per barrel in Q2 (about $20 higher than our pre-conflict baseline), easing to $75 in Q3 and $72 in Q4 (still $7 higher than pre-conflict). Financial markets are also adjusting. We anticipate a roughly 3%–5% appreciation in the US dollar alongside modest downward pressure on both equity and bond prices, reflecting higher expected inflation and a reduced path for Fed easing. We have revised our headline personal consumption expenditures (PCE) inflation forecast higher, to 2.9% year over year in Q4, approximately 0.4ppt above our prior estimate.	**Headline CPI inflation** 2026 Q4 y/y: 2.8% 2027 Q4 y/y: 2.1%
Jobless expansion	▪ The expansion remains increasingly jobless. Only 116,000 jobs were added in 2025, while real disposable income growth has slowed and consumer spending is shifting toward essentials. Temporary support from tax refunds and fiscal measures may provide a near-term cushion, but rising gas prices and higher inflation will limit the upside to growth while muted job and wage growth continue to constrain income growth.	**Real consumer spending** 2026: 1.9% 2027: 1.8%
Fed on hold	▪ The Federal Reserve kept the federal funds rate unchanged at a target range of 3.50%–3.75% at the March 17–18 Federal Open Market Committee (FOMC) meeting. With core inflation still running meaningfully above the Fed's 2% target and little evidence of a sustained and decisive move lower, the Committee is firmly inclined to maintain its current policy stance. ▪ Against a backdrop of elevated inflation risks and a distinctly cautious, "once burned, twice careful" policy mindset, our baseline now incorporates just one rate cut of 25 basis points (bps) in 2026, likely in December. It is entirely plausible that the Fed delivers no rate cuts this year.	**Fed funds rate** Current:[1] 3.625% 2026 Q4: 3.375% 2027 Q4: 3.125%
Recession risk	▪ Downside risks have risen materially. A prolonged Middle East escalation that keeps oil above $100 could push inflation toward 5%, cut growth by more than 1% and sharply raise recession risks. Trade policy uncertainty, lingering inflation pressures, and emerging vulnerabilities in AI-linked investment and private credit add to the downside. We now place the probability of recession at 40%, with risks skewed higher if the conflict intensifies.	**Recession odds** 40%

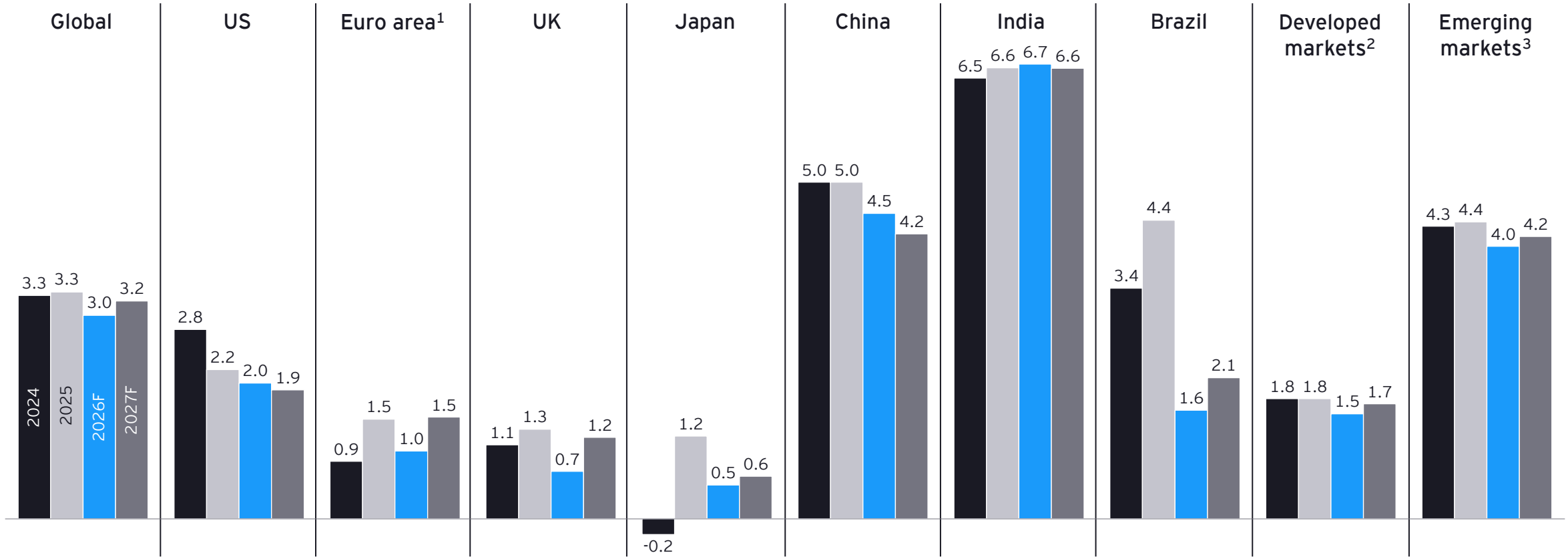
1. Midpoint of target range as of March 20, 2026.

Source: EY-Parthenon

The Middle East conflict will leave a visible but highly uneven imprint on the global economy, reflecting differences in exposure and resilience

Economic outlook

Y/y percentage change in real GDP
January forecast, 2024-27F



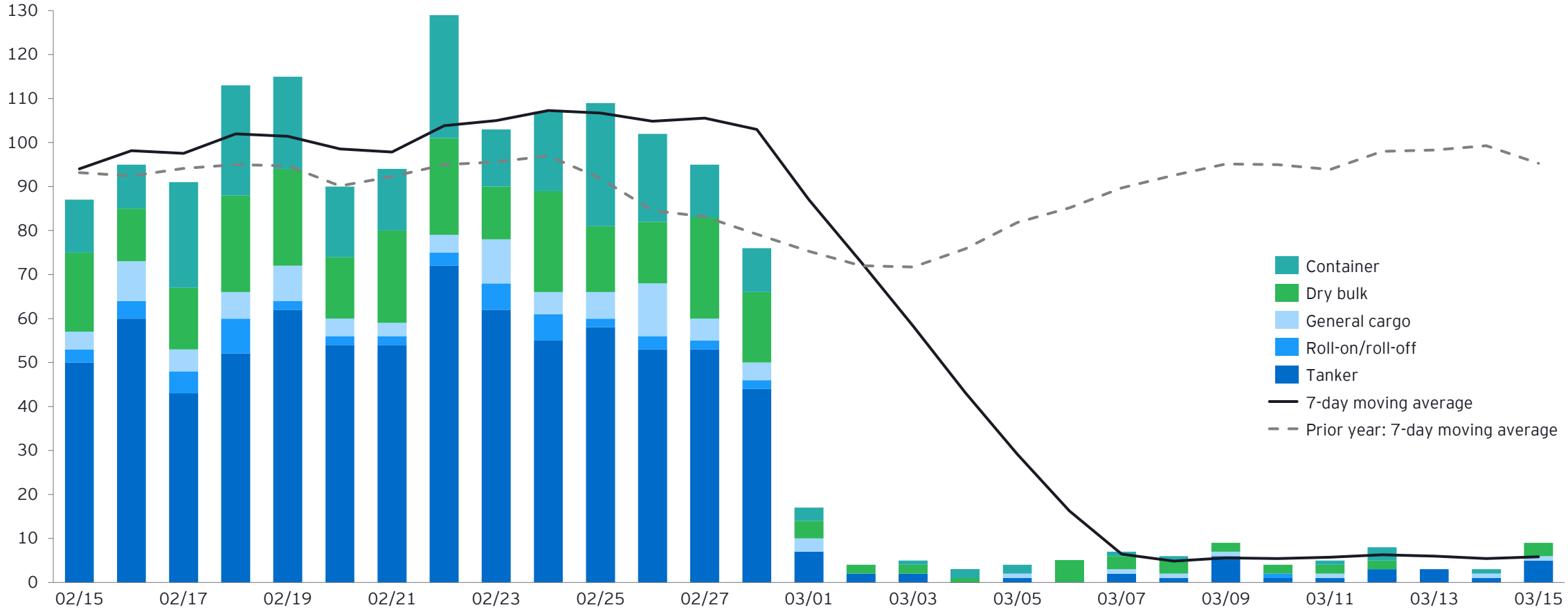
1. Euro area includes 20 countries.
2. "Developed markets" according to the definition of advanced economies from the International Monetary Fund (IMF).
3. "Emerging markets" is the rest of the world.

Source: EY-Parthenon

The Middle East conflict has led to a near-complete halt of traffic through the Strait of Hormuz, a vital artery of global trade

Middle East conflict

Number of ship arrivals by vessel type through the Strait of Hormuz
February 15, 2026–March 15, 2026

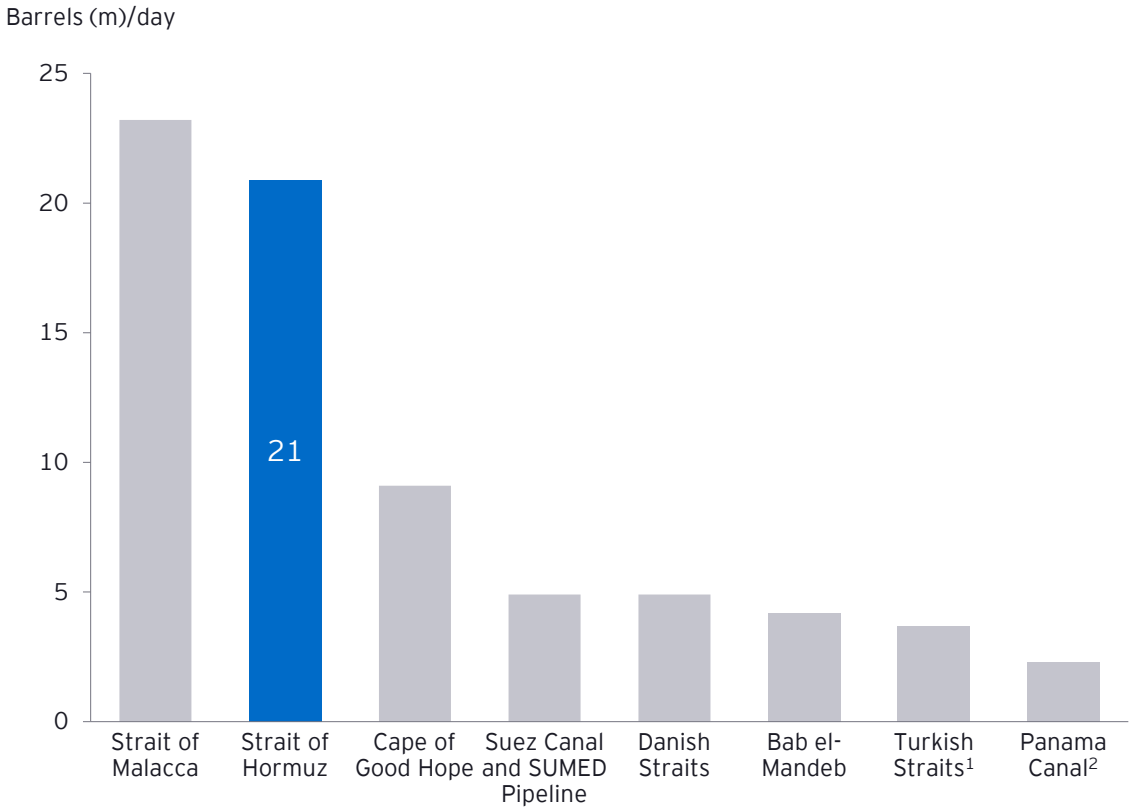


Source: UN Global Platform; PortWatch

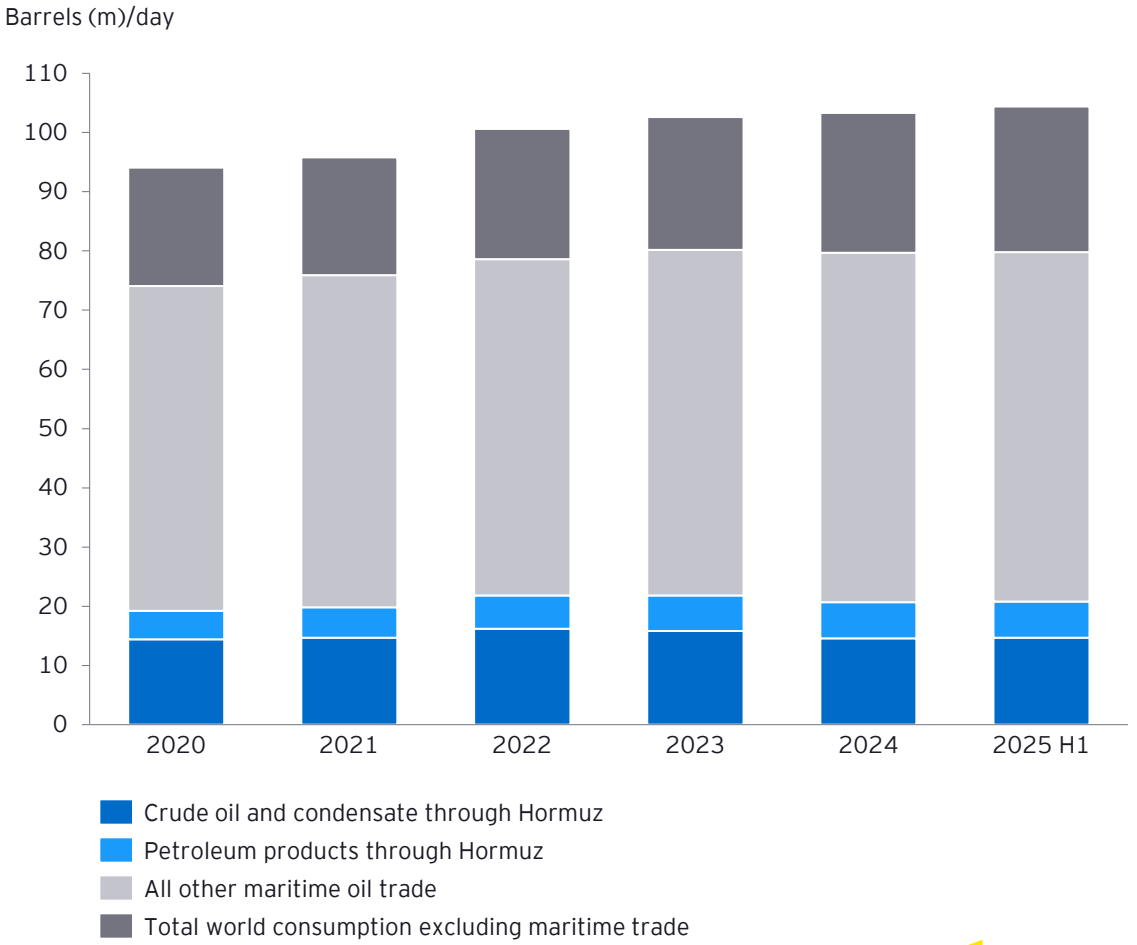
Around 25% of global seaborne crude flows and around 20% of global LNG trade transit through the Strait of Hormuz

Middle East conflict

Volume of crude oil and petroleum transported through world chokepoints
2025 H1



Volume of crude oil, condensate and petroleum products transported
2020-25 H1



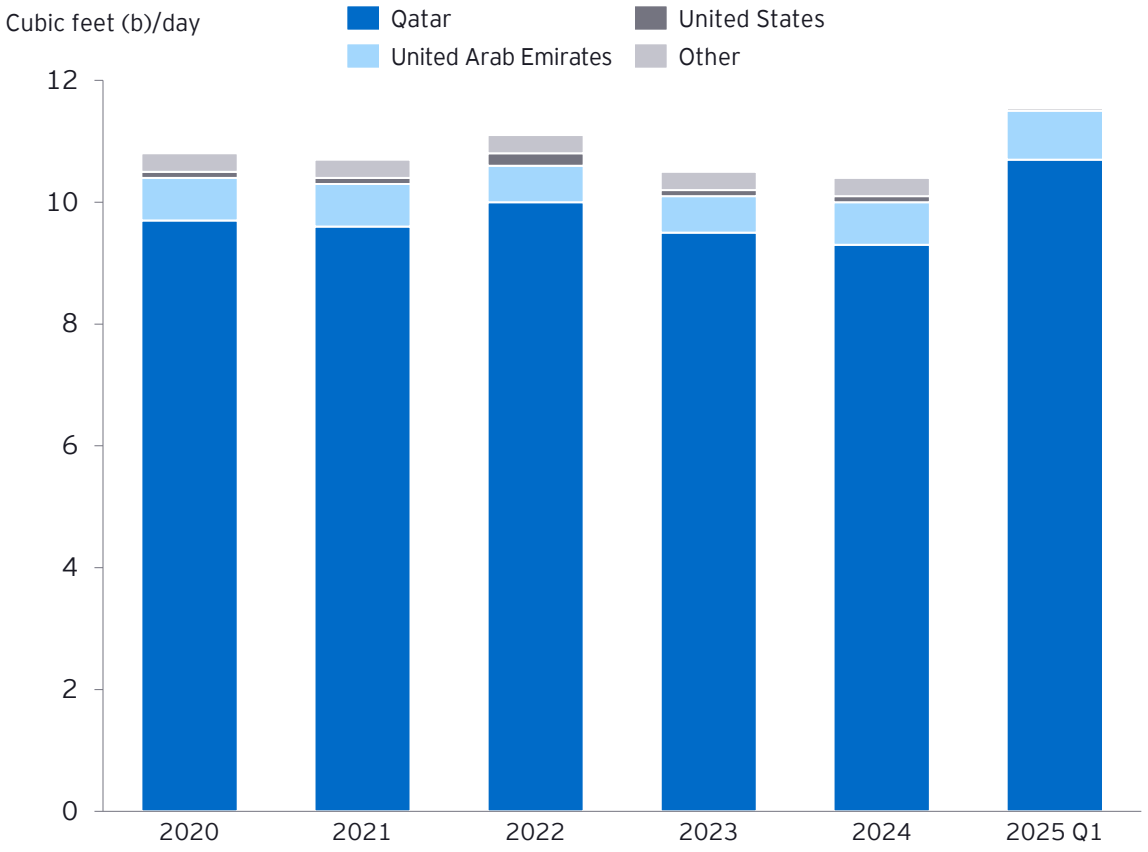
1. Dardanelles.
2. By fiscal year (October 1 through September 30).

Source: U.S. Energy Information Administration

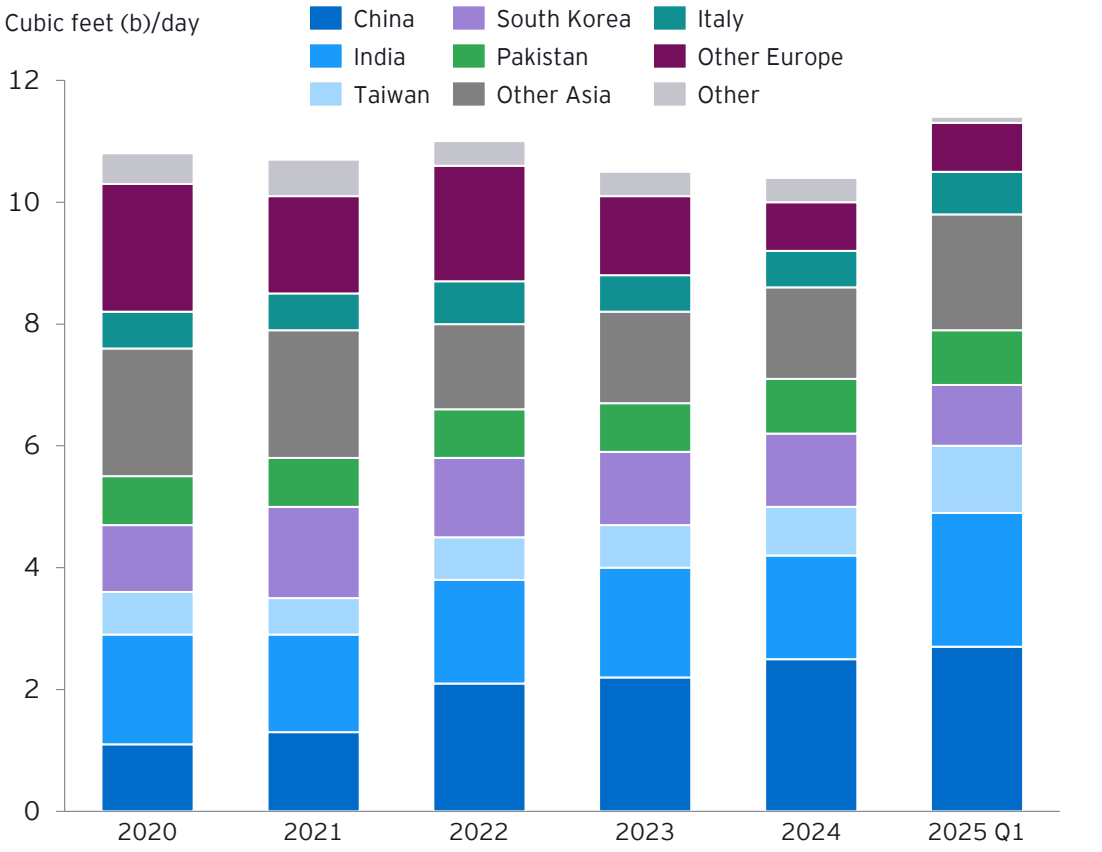
The vast majority of LNG transiting Hormuz originates from Qatar, with smaller volumes from the UAE, and most of it is destined for Asia and Europe

Middle East conflict

Volume of LNG transported through the Strait of Hormuz by origin
2020-Q1 2025



Volume of LNG transported through the Strait of Hormuz by destination
2020-Q1 2025

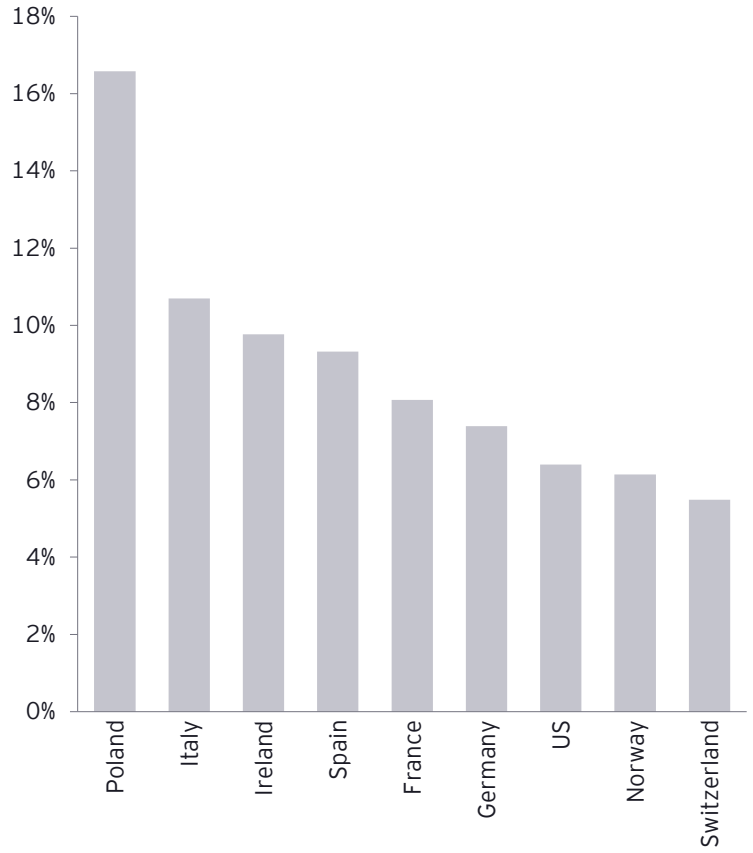


Source: U.S. Energy Information Administration; EY-Parthenon

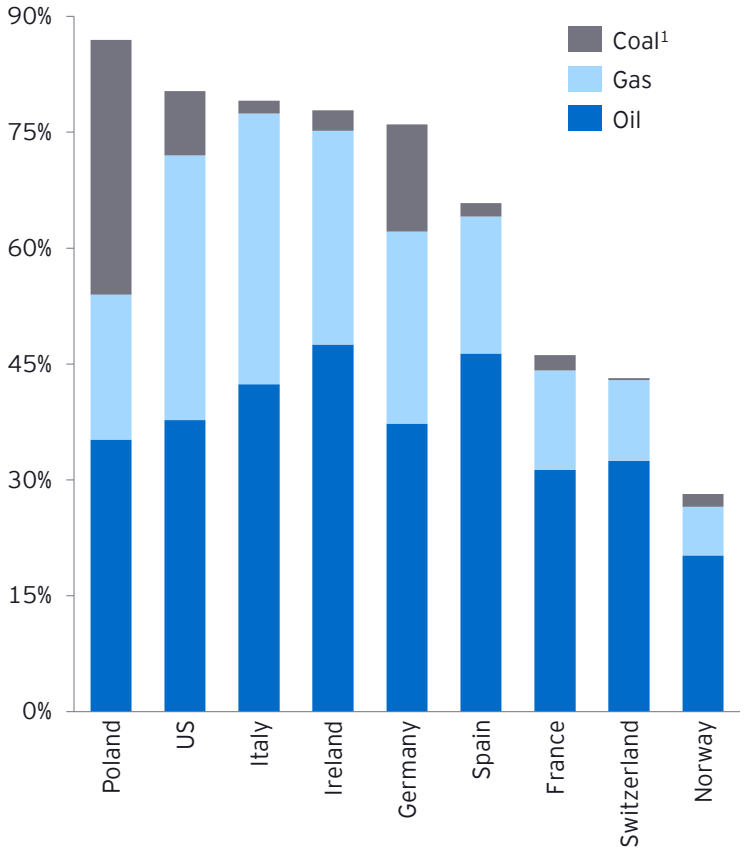
Country-specific impacts on CPI inflation depend on the share of fossil fuels in the energy mix, the weight of energy in the CPI basket and the degree of energy price regulation

Middle East conflict

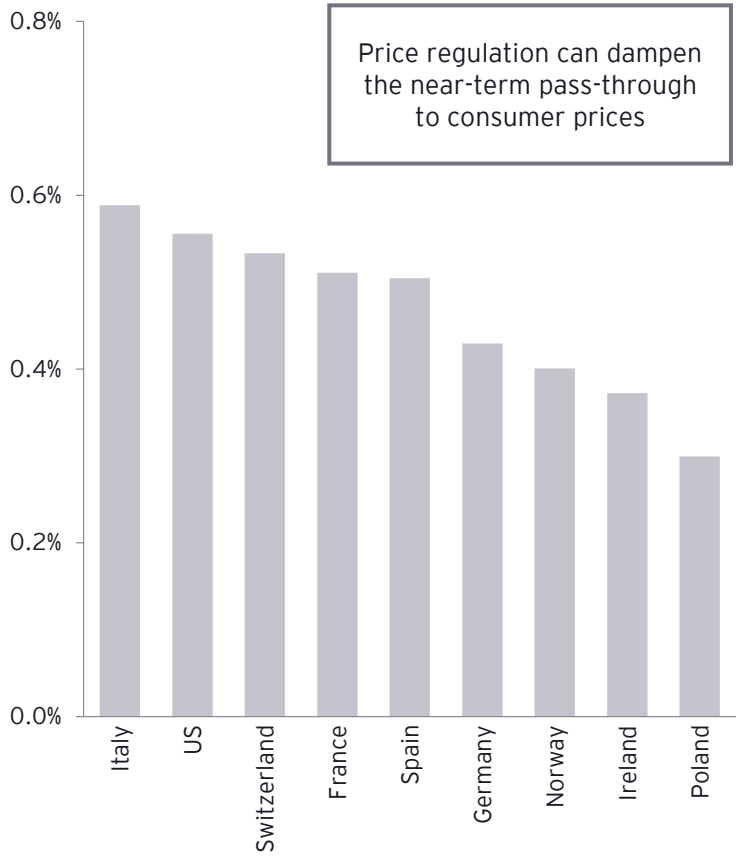
Percent share of energy in the Consumer Price Index (CPI) basket
2025



Percent share of fossil fuels in the energy mix
2024



Estimated average annual response of consumer energy prices to a 1% increase in underlying energy commodity prices[2]



1. While Gulf countries are not a major supplier of coal, its price has increased due to a rise in oil and gas prices.
2. Underlying energy commodity prices are demand-weighted prices of oil, natural gas, coal and electricity. The chart shows 2026 response of energy CPI to a shock assumed under the severe scenario.

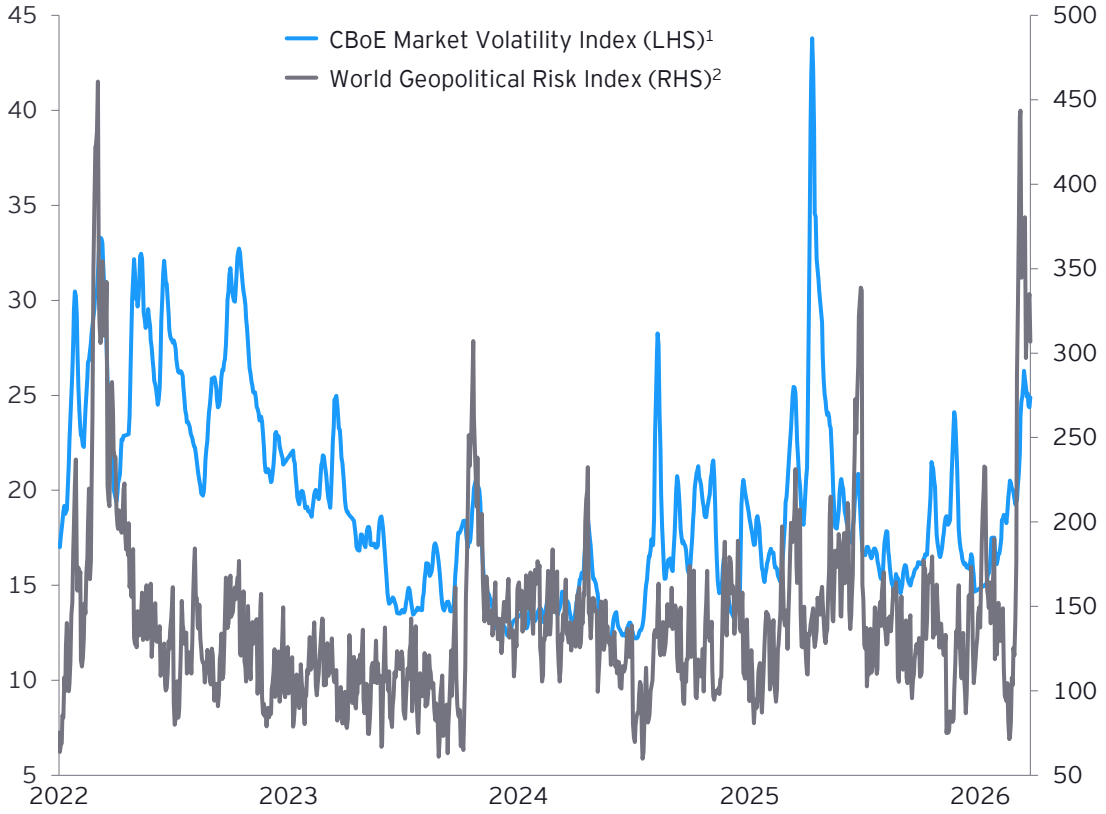
Source: Oxford Economics; EY Economic Analysis Team (EAT)

The Middle East conflict is lifting energy prices, fueling market volatility and leading to a gradual tightening of financial conditions

Middle East conflict

ICE Dutch TTF natural gas and ICE Brent crude oil price
January 1, 2022–March 23, 2026

Five-day moving average CBOE Market Volatility Index (VIX) and Five-day moving average World Geopolitical Risk Index
January 1, 2022–March 23, 2026

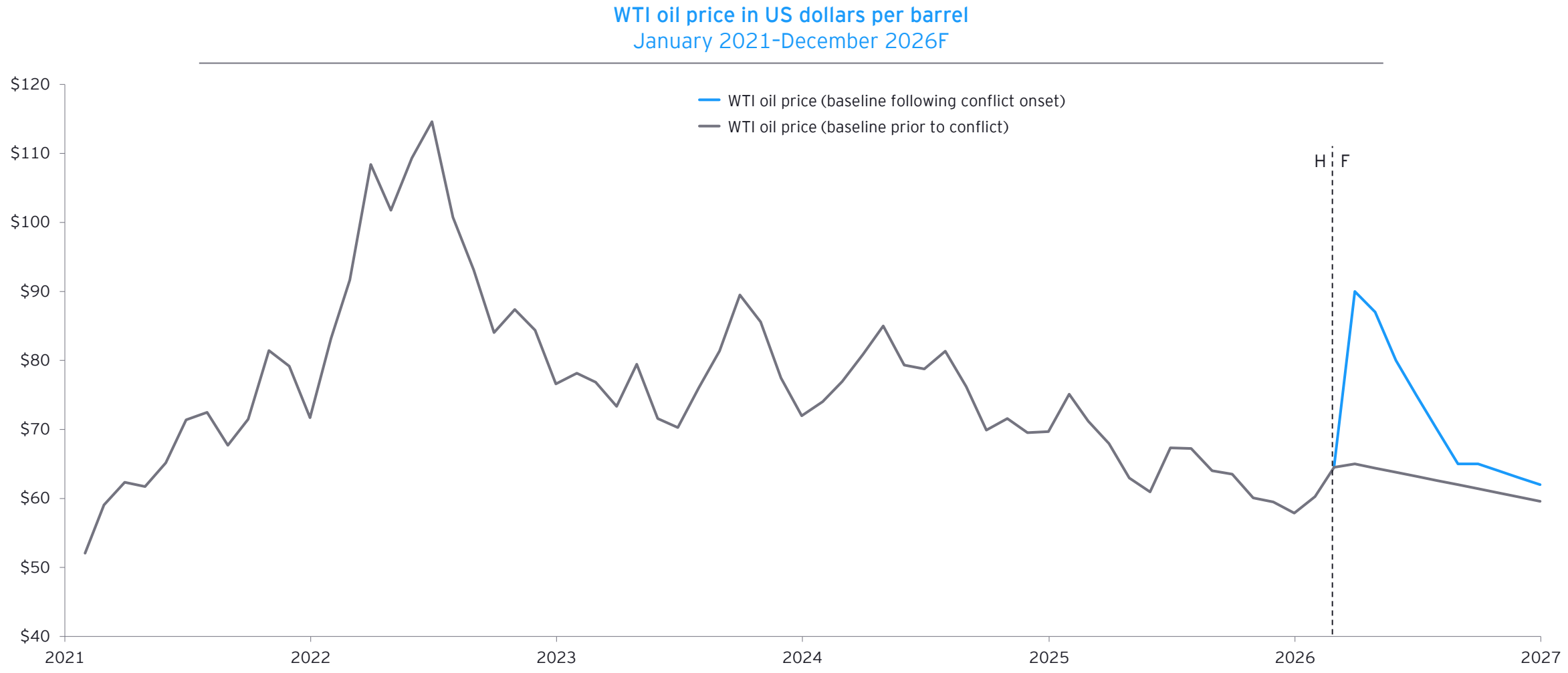


1. Implied volatility of S&P 500 options, commonly used as a measure of expected equity market volatility.
2. Text-based index measuring global geopolitical risk based on the frequency of related terms in major international news sources.

Source: Federal Reserve Board; Bloomberg; Intercontinental Exchange; CBOE Global Markets; EY-Parthenon

Our new baseline assumes WTI oil prices will average $80 in Q2, about 25% higher than in our prior baseline, before falling back below $70 by Q4 2026

Middle East conflict

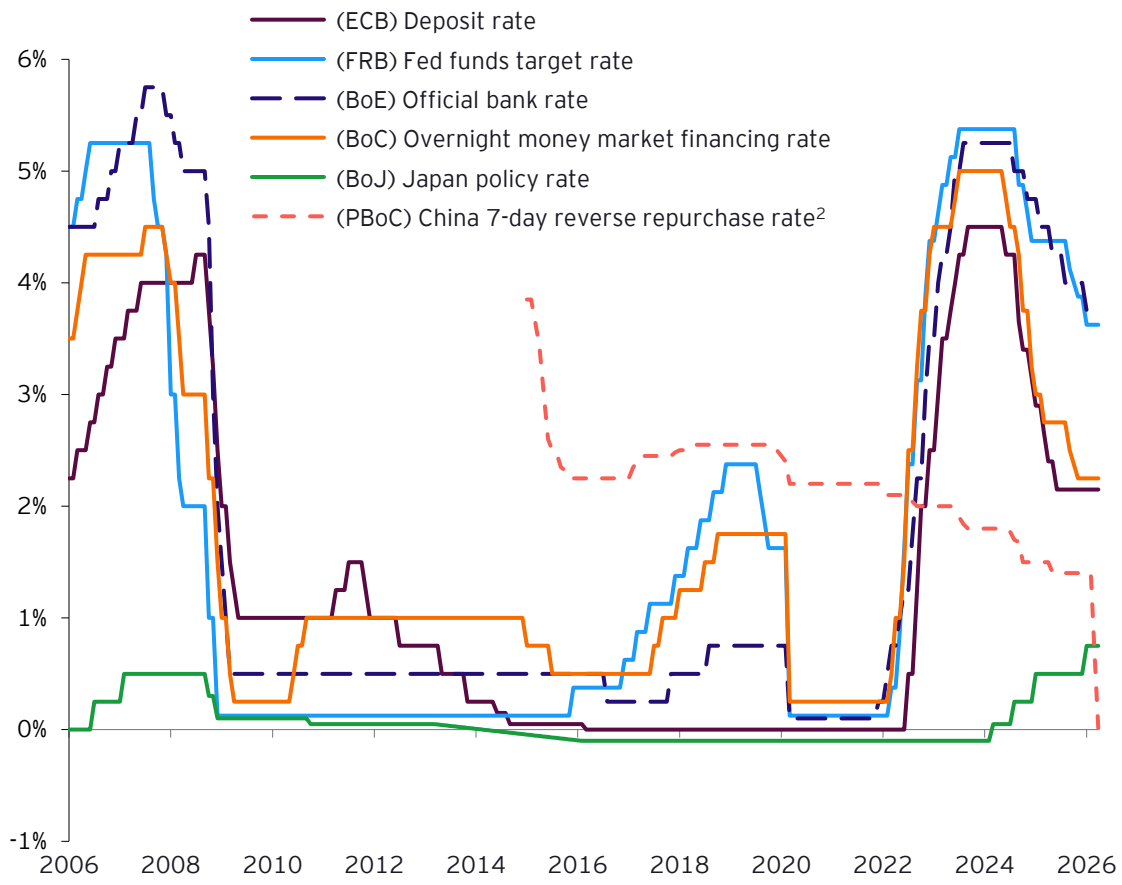


Source: U.S. Energy Information Administration; Chicago Mercantile Exchange; EY-Parthenon

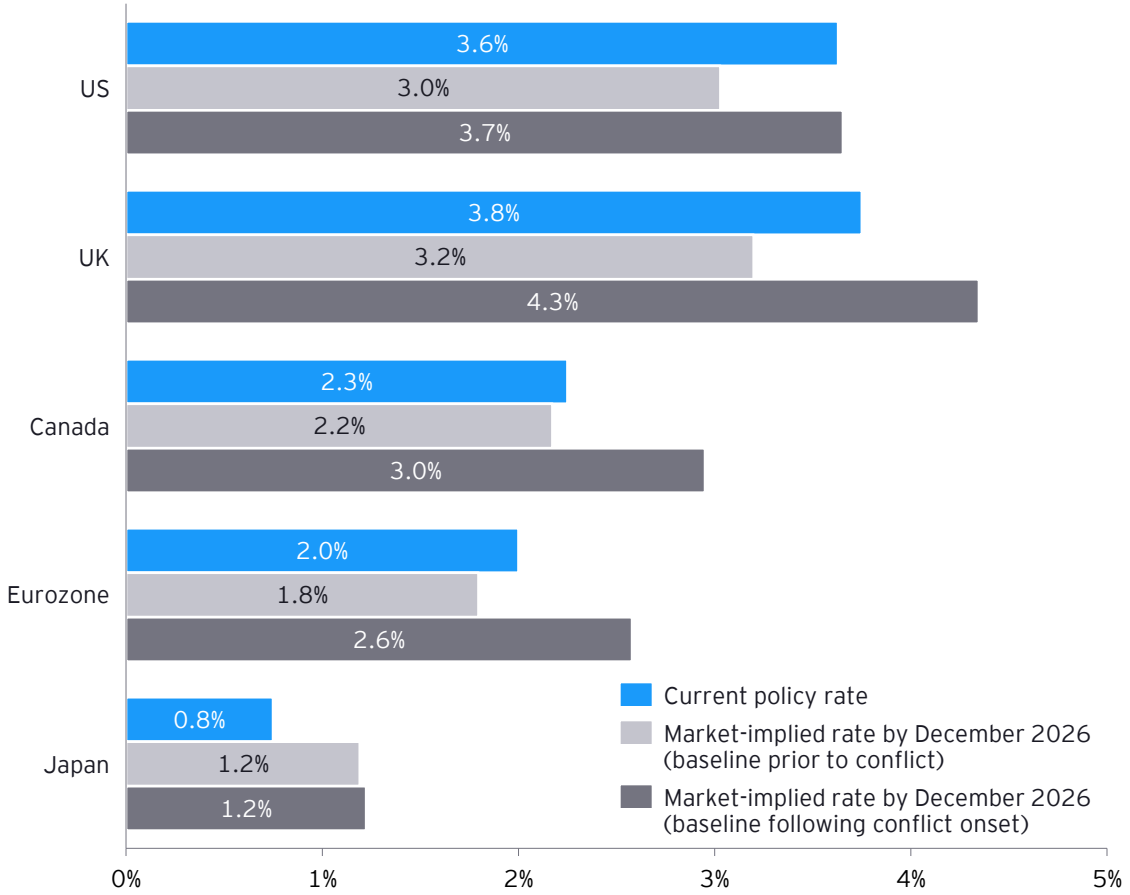
Surging energy prices are reviving stagflationary fears, prompting markets to price in rate hikes from several central banks and reinforcing a "higher-for-longer" outlook

Middle East conflict

Central bank rates
January 2006–March 2026[1]



Current policy rates and market-implied rates
As of March 23, 2026



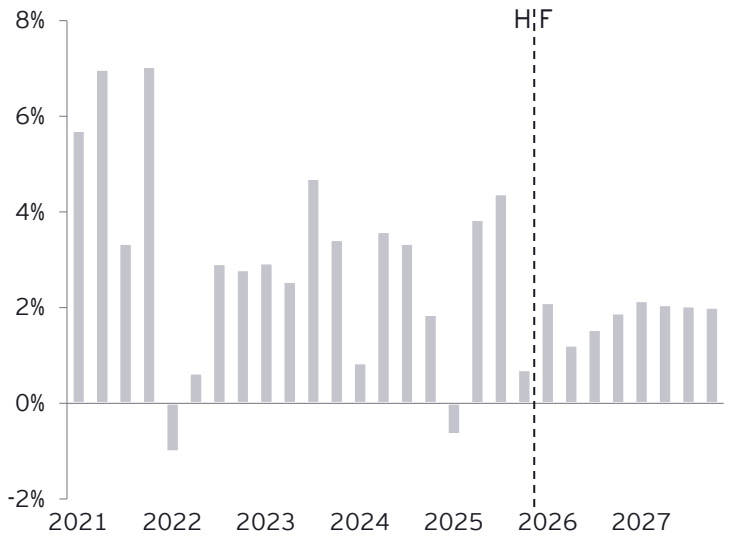
1. Most recently available data points shown for all central banks.
2. Data starts in 2015.

Source: Respective country or jurisdiction central banks; Bloomberg; EY-Parthenon

Softer labor market trends and higher inflation will likely constrain economic activity in 2026, with partial offsets from AI investment and a modest fiscal impulse

US outlook

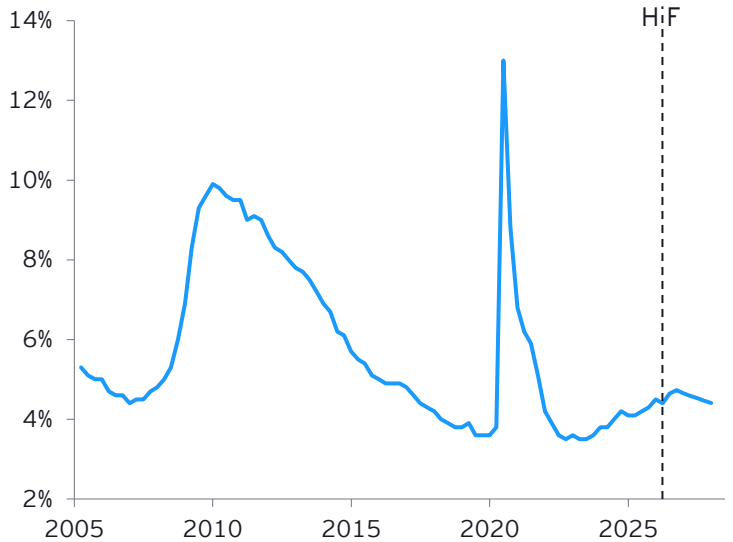
US quarter-over-quarter (q/q) annualized real GDP growth
2021-27F



GDP growth

2025: 2.2%
2026F: 2.0%
2027F: 1.9%

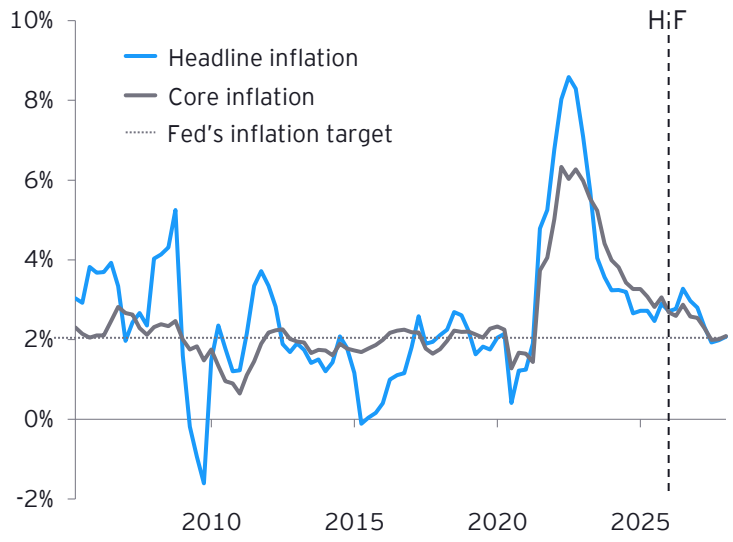
US unemployment rate
2005-27F



Unemployment rate

Q4 2025: 4.5%
Q4 2026F: 4.6%
Q4 2027F: 4.4%

US y/y percentage change in CPI
2005-27F



Headline CPI inflation (y/y)

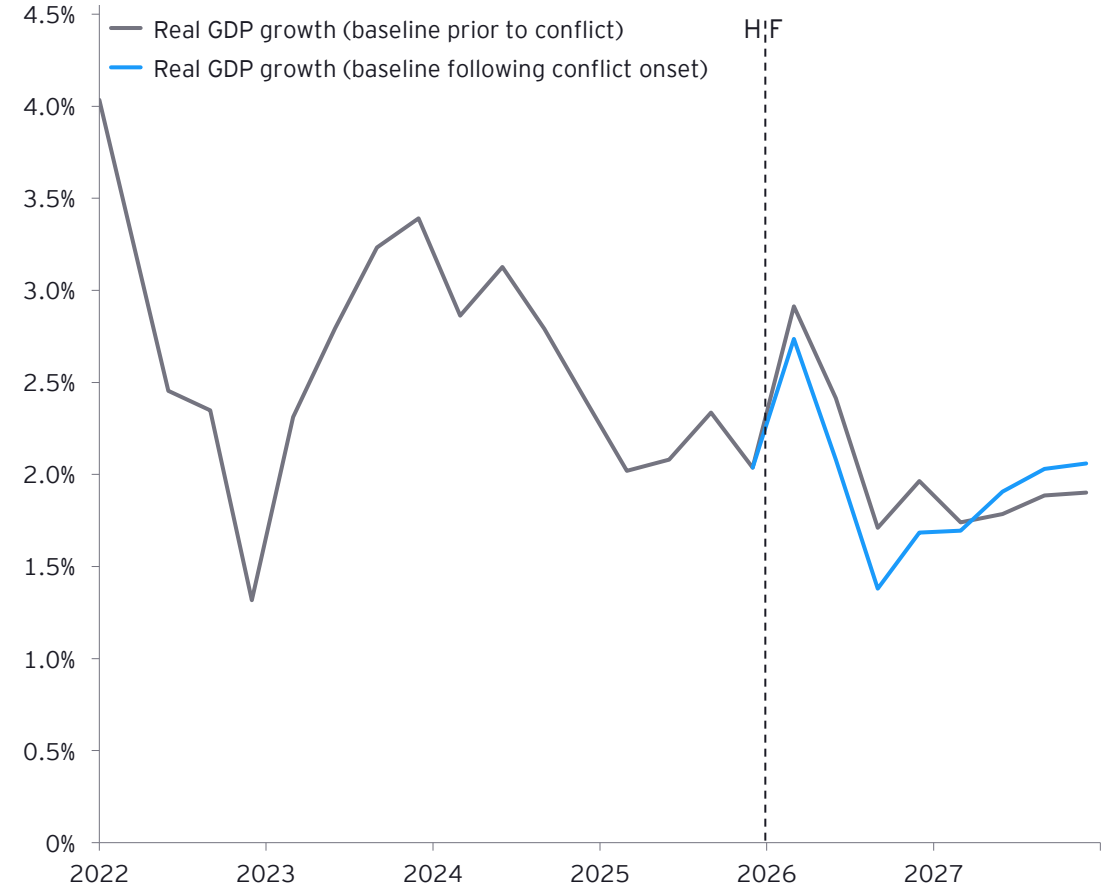
Q4 2025: 2.7%
Q4 2026F: 2.8%
Q4 2027F: 2.1%

Source: EY-Parthenon

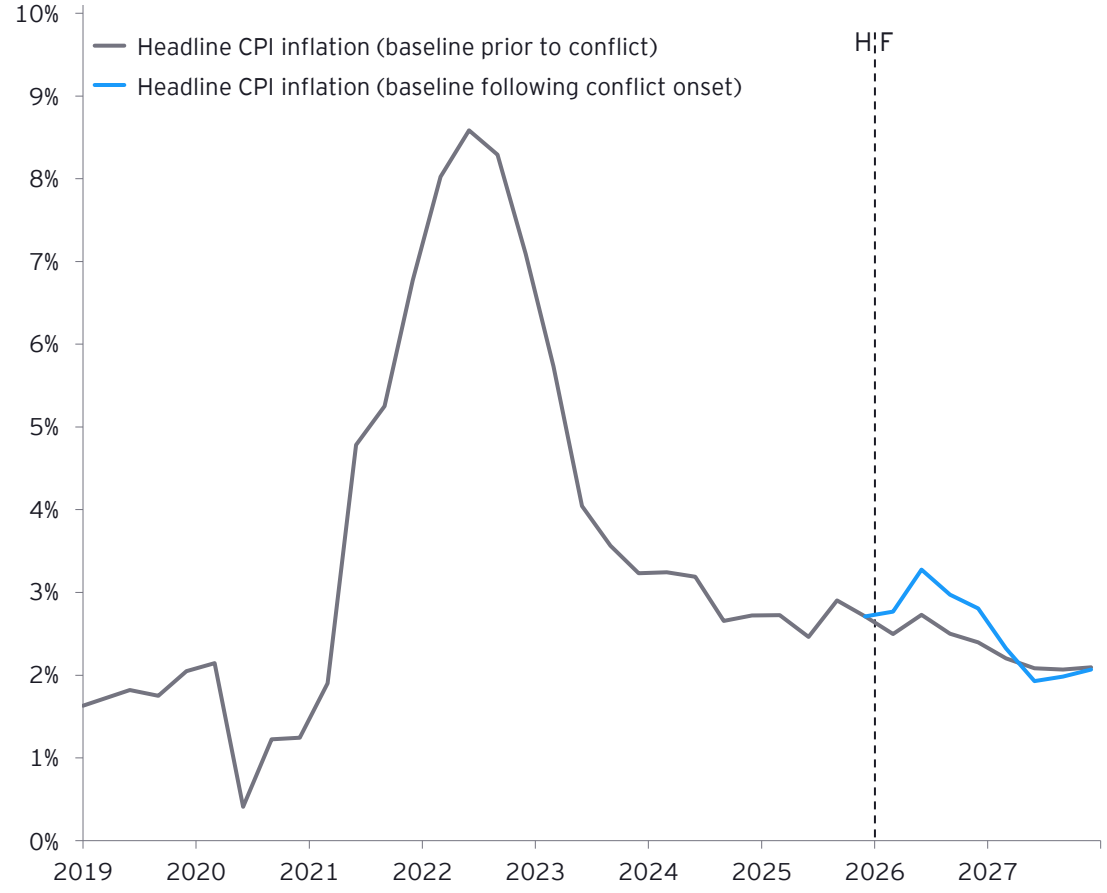
Our new baseline foresees real GDP growth 0.3ppt lower by Q4 2026 at 1.7% y/y and headline PCE inflation 0.4ppt higher at 2.9% y/y

US outlook

US y/y percentage change in US real GDP
2022-27F



US y/y percentage change in headline[1] CPI inflation
2019-27F



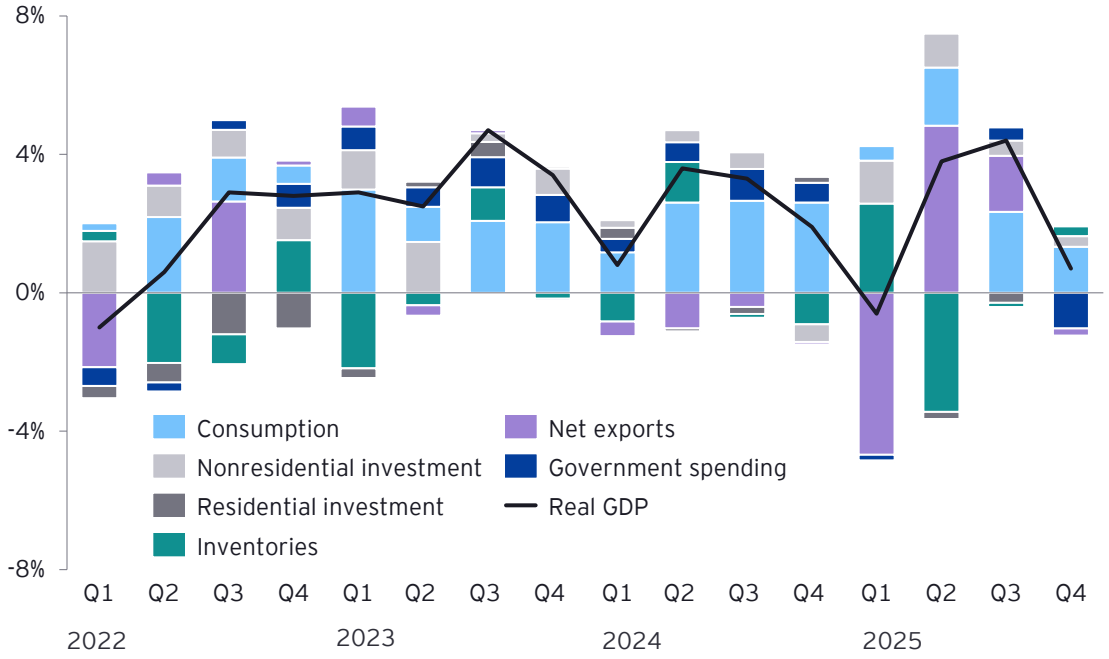
1. Headline CPI includes the prices on a fixed basket of goods. Core CPI removes the CPI components that can exhibit large amounts of volatility from month to month, such as food and energy.

Source: U.S. Bureau of Economic Analysis; EY-Parthenon

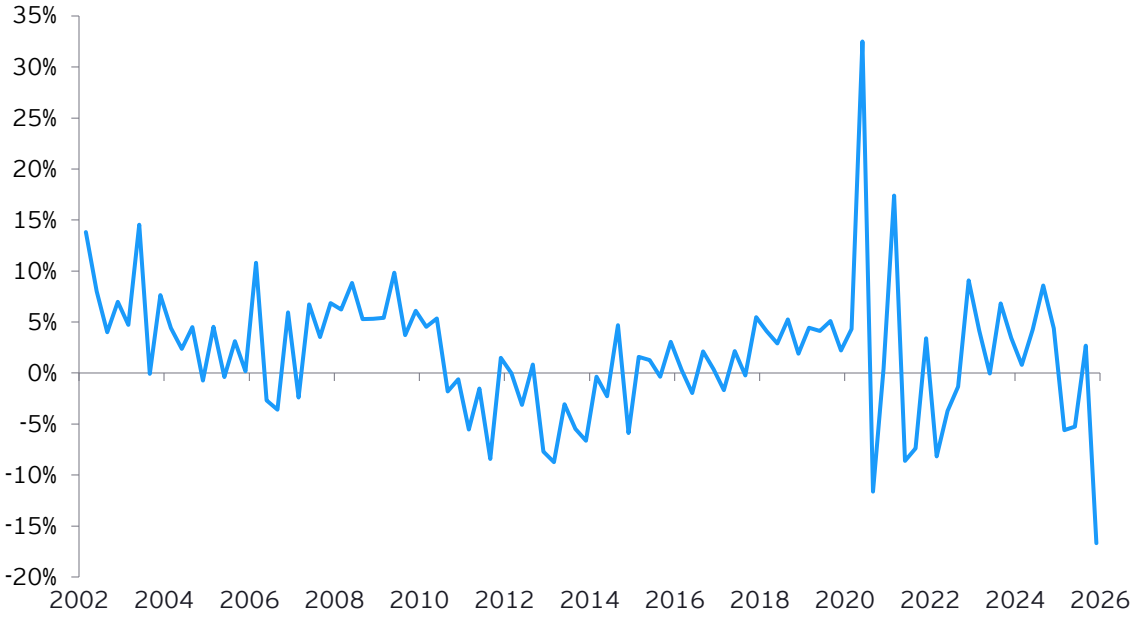
Following an otherwise strong year for the private sector, the US economy lost steam at the end of 2025 as the longest government shutdown on record weighed on activity

US outlook

US real GDP growth contributions (q/q annualized)
Q1 2022-Q4 2025



US real federal government spending growth (q/q annualized)
Q1 2002-Q4 2025



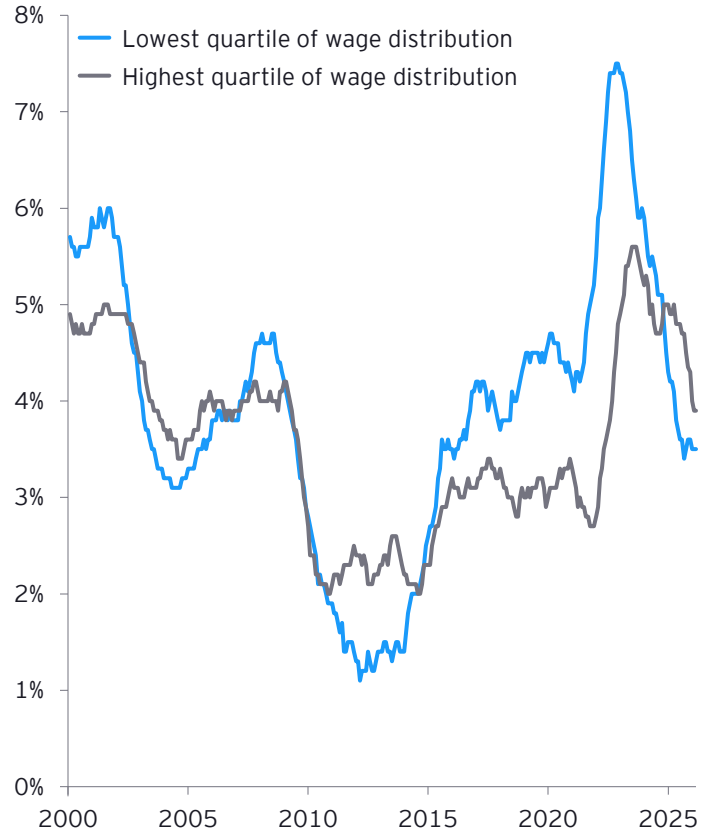
- Real GDP grew by a downwardly revised 0.7% in Q4 2025 following an impressive 4.4% expansion in Q3. For the full year, real GDP rose by 2.1% despite trade gyrations and a rare constellation of supply shocks stemming from a new US trade regime, rapid artificial intelligence (AI) adoption and a historic plunge in immigration.
- The disappointing end to the year largely reflected a self-inflicted drag from the longest government shutdown in US history, but private sector demand also softened modestly. Government spending subtracted 1.0ppt from real GDP growth, reflecting a shutdown-induced 17% plunge in federal outlays – a drag expected to be reversed in Q1 2026, providing a temporary boost to GDP growth.

Source: U.S. Bureau of Economic Analysis; EY-Parthenon

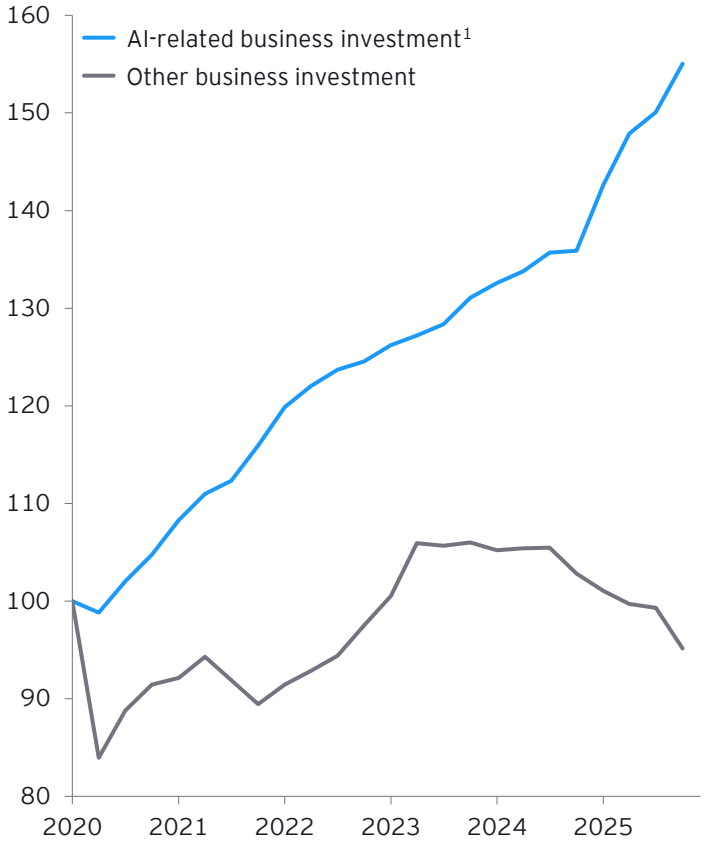
The US economy's three narrow "A-pillars of growth" — affluent consumers, AI-driven investment and asset-price strength — are becoming more fragile

US outlook

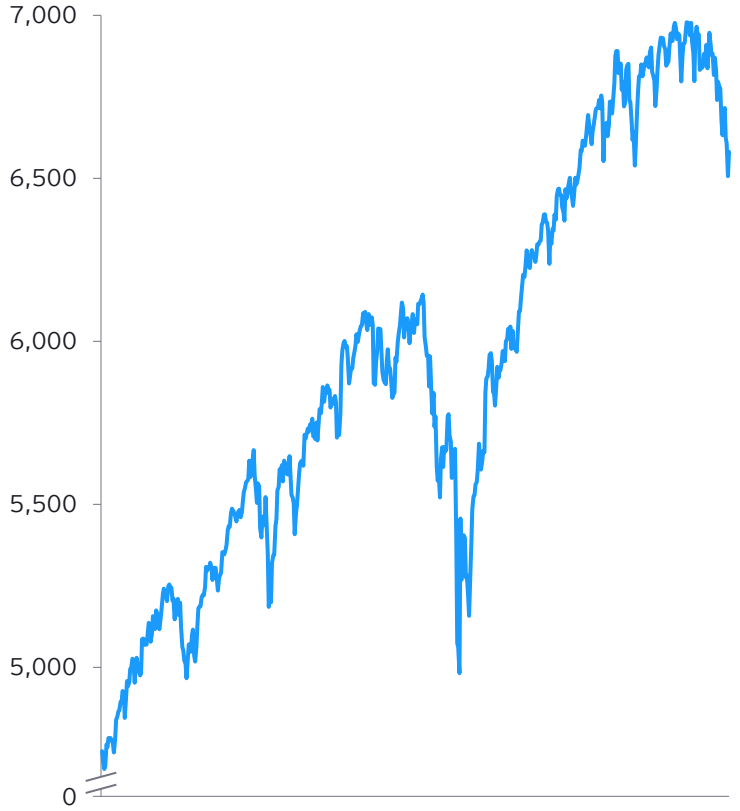
Y/y Atlanta Fed's Wage Growth Tracker
January 2000–February 2026



US real nonresidential fixed investment
Q1 2020–Q4 2025 (2020 Q1 = 100)



S&P 500 stock market index
January 1, 2024–March 23, 2026



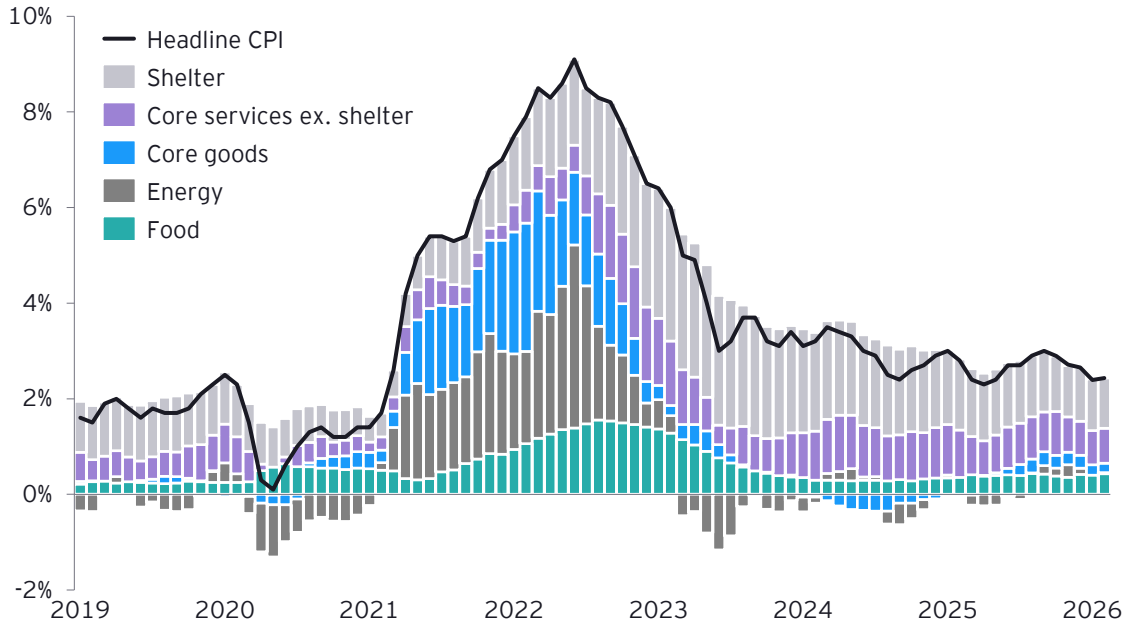
1. Includes investment in software, R&D, computer and peripheral equipment, communication equipment, data centers, and power infrastructure.

Source: U.S. Bureau of Economic Analysis; Standard & Poor's; EY-Parthenon

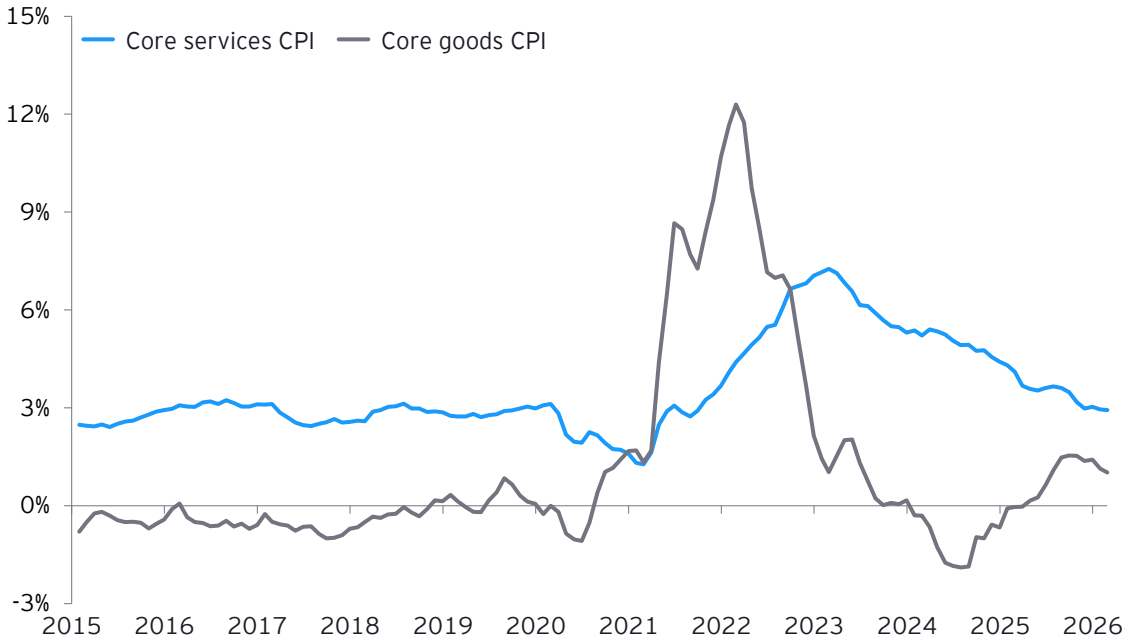
Before the Middle East conflict, inflation remained above the Fed's 2% objective, reflecting lingering tariff pass-through and pockets of services inflation stickiness

Inflation

US y/y percentage change in headline CPI, contribution by category[1]
January 2019-February 2026



US y/y percentage change in core goods and services CPI
January 2015-February 2026



- The latest CPI report pointed to moderate price pressures in February, with headline inflation unchanged at 2.4% y/y and core inflation steady at 2.5% y/y. Core CPI rose 0.2% month over month (m/m), driven in part by higher airfares, which increased 1.4% m/m following a sharp 6.5% gain previously.
- Despite inflation appearing benign, the data must be interpreted with caution. Inflation remains understated by lingering distortions from the government shutdown, tariff pass-through continues to be uneven amid trade policy volatility, and the conflict in the Middle East has already triggered a sharp increase in gasoline prices, which adds further inflationary pressure in the pipeline.

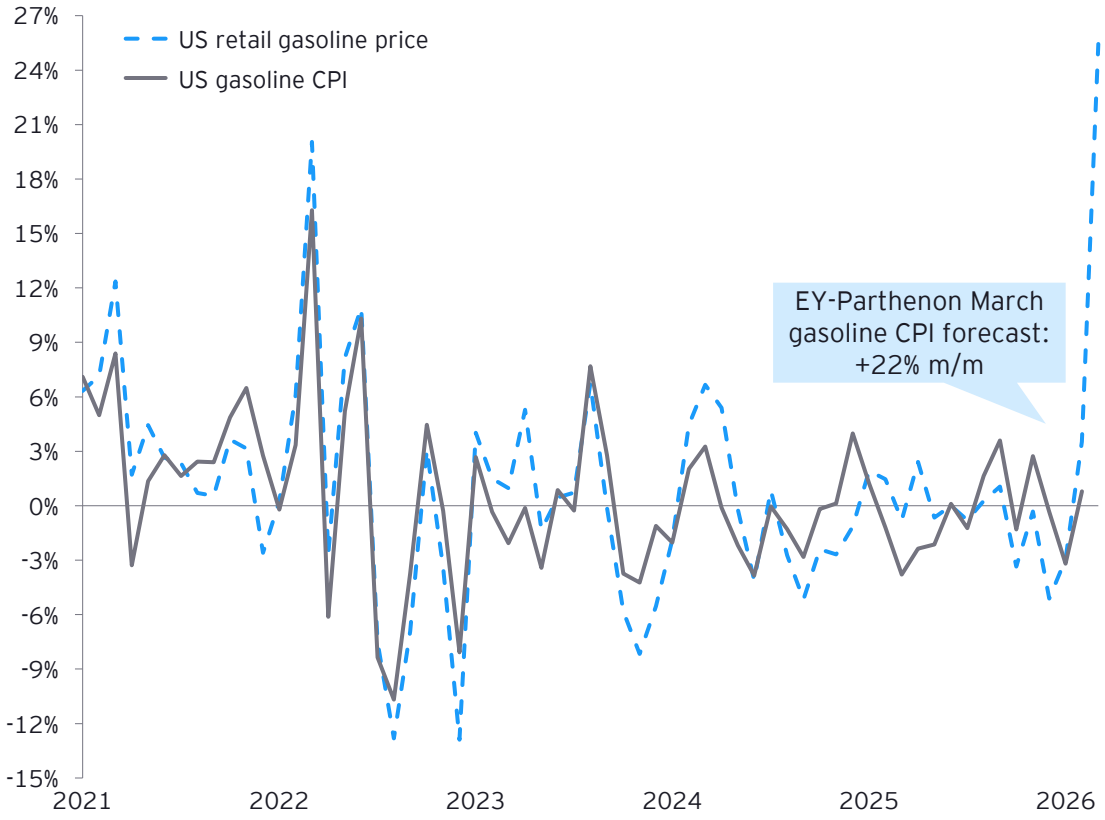
1. Headline CPI includes the prices on a fixed basket of goods. Core CPI removes the CPI components that can exhibit large amounts of volatility from month to month, such as food and energy.

Source: U.S. Bureau of Labor Statistics; EY-Parthenon

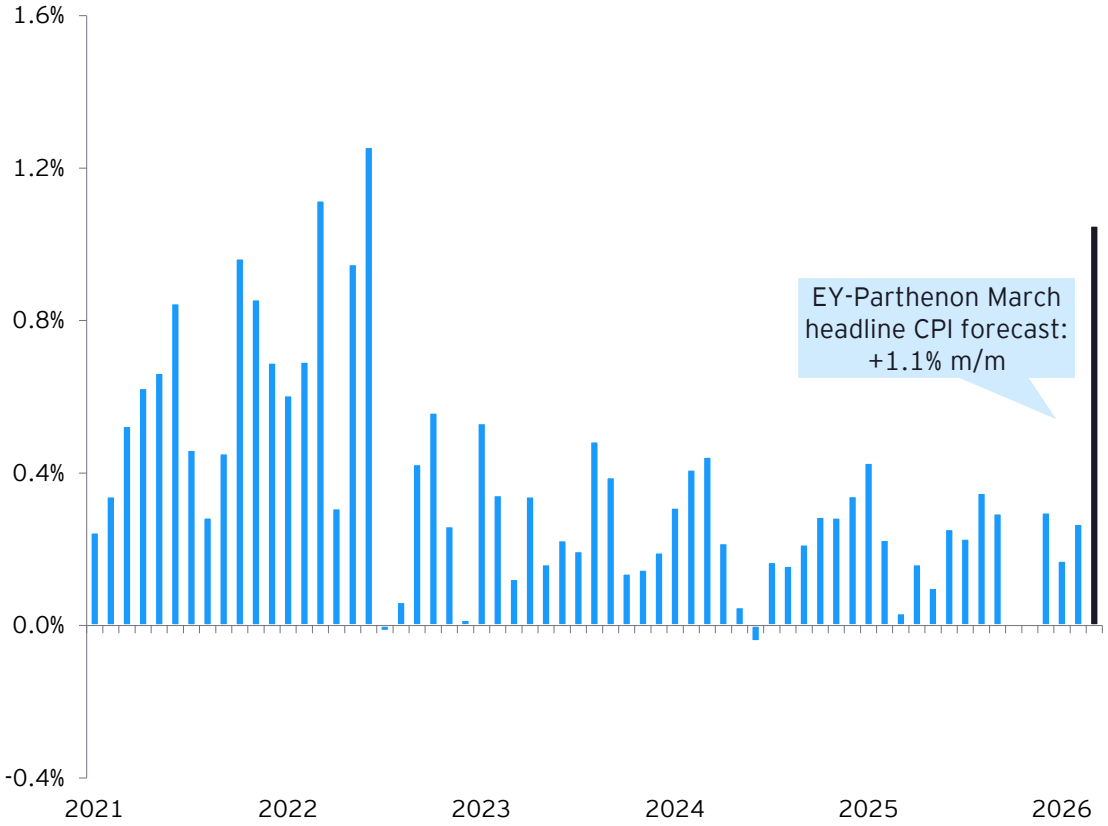
Headline CPI will likely jump by over 1% m/m in March and push inflation to 3.5%; higher gasoline prices will account for roughly 0.6ppt of the monthly increase

Inflation

US m/m percentage change in retail gasoline price and gasoline CPI
January 2021-March 2026F



US m/m percentage change in CPI (of all items)
January 2021-March 2026F

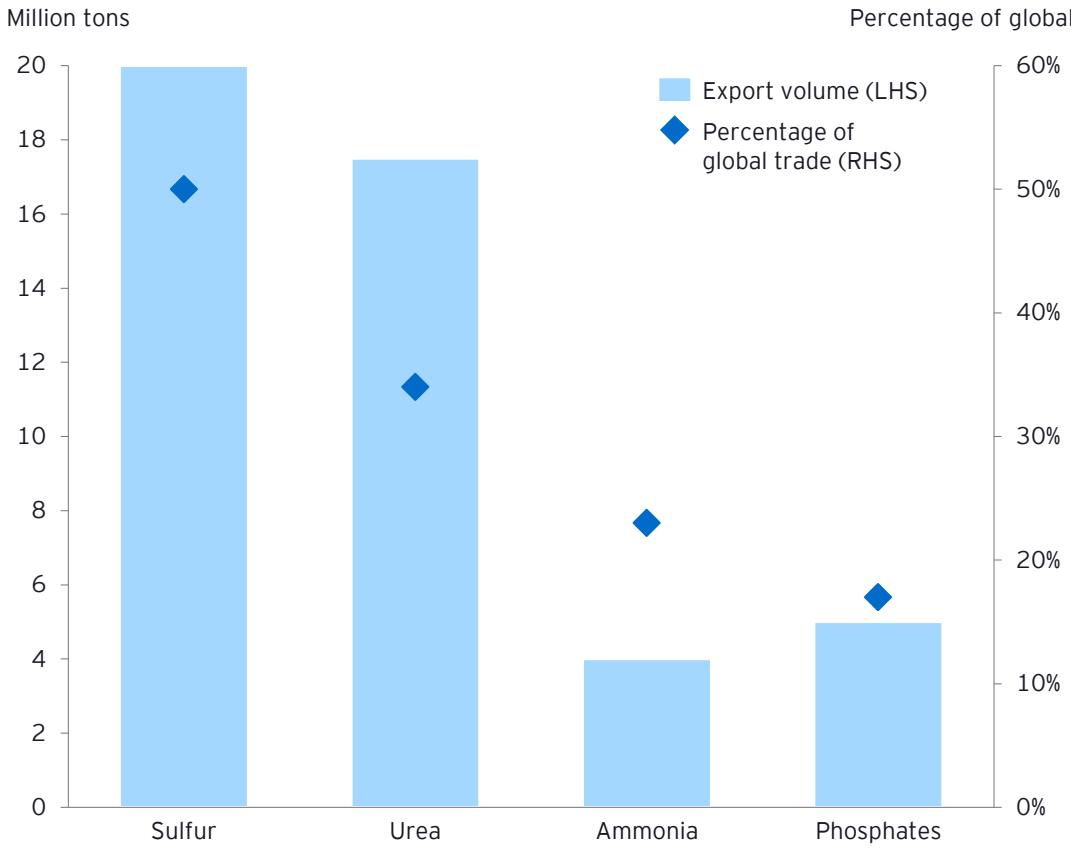


Source: U.S. Energy Information Administration; U.S. Bureau of Labor Statistics

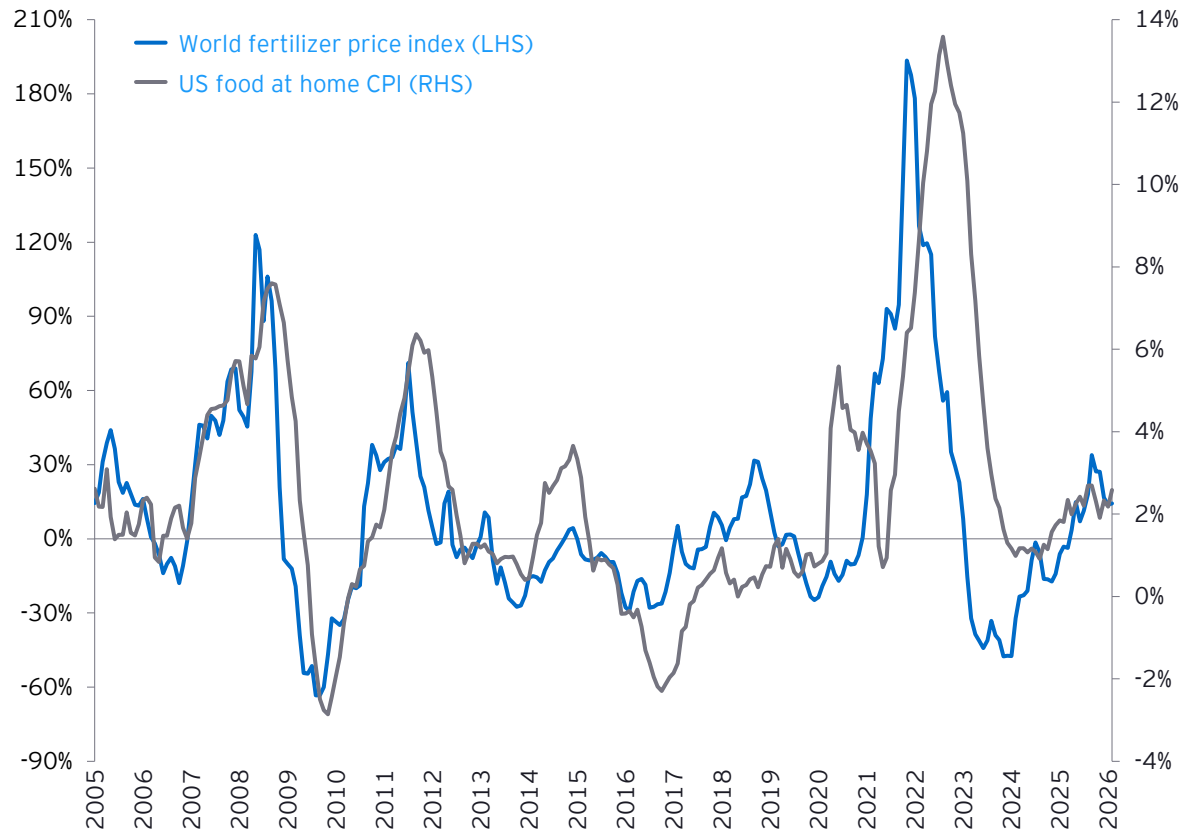
Higher energy and fertilizer prices are likely to directly and indirectly (via transportation costs) lead to higher food price inflation in the coming months

Inflation

Combined fertilizer exports from Bahrain, Iran, Iraq, Kuwait, Qatar, Saudi Arabia and UAE
2024



Y/y percentage change in US food at home CPI and world fertilizer commodity price index
January 2005–February 2026

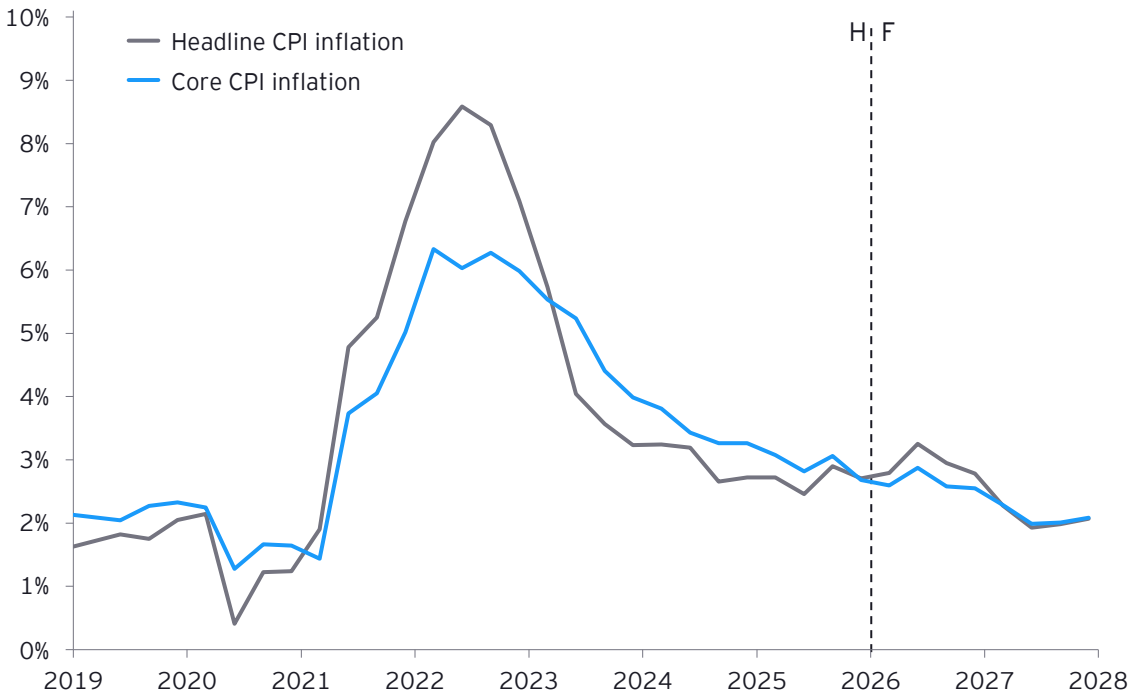


Source: U.S. Bureau of Labor Statistics; CRU Group; IMF; Argus Media

At a minimum, headline inflation will surpass 3.5% in March and end 2026 just under 3.0%; the risk of a more pronounced and prolonged inflation rise is significant

Inflation

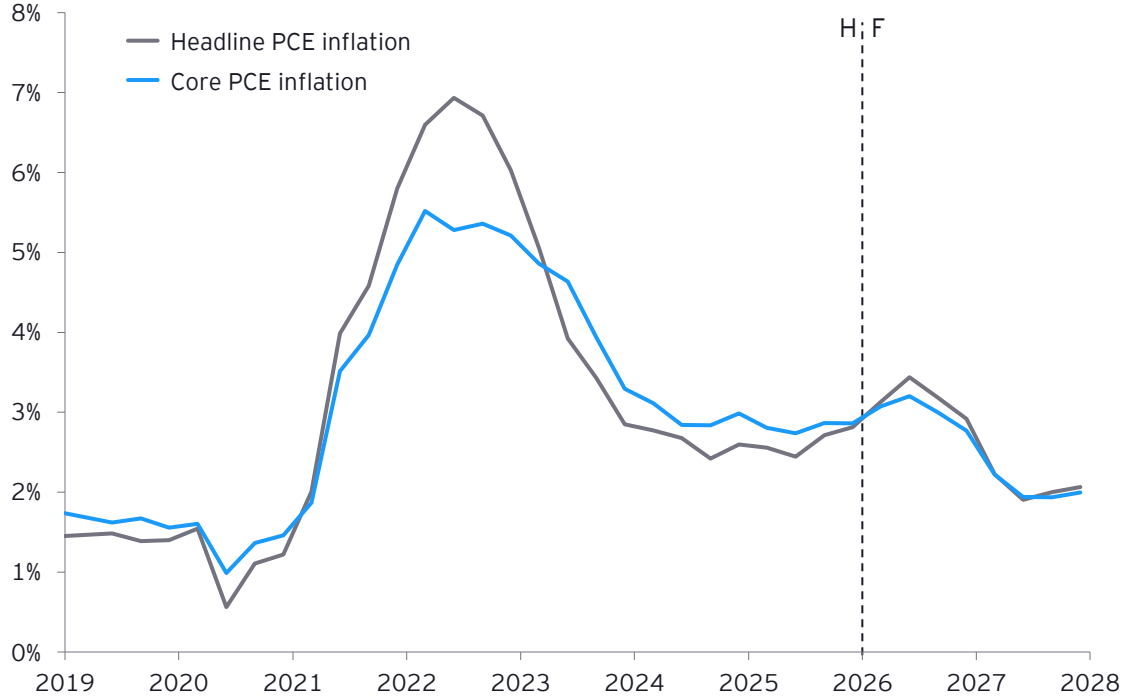
US y/y percentage change in CPI inflation
2019-26F



Headline CPI inflation (y/y)

Q2 2026F (peak): 3.3%
Q4 2026F: 2.8%

US y/y percentage change in PCE inflation
2019-26F



Headline PCE inflation (y/y)

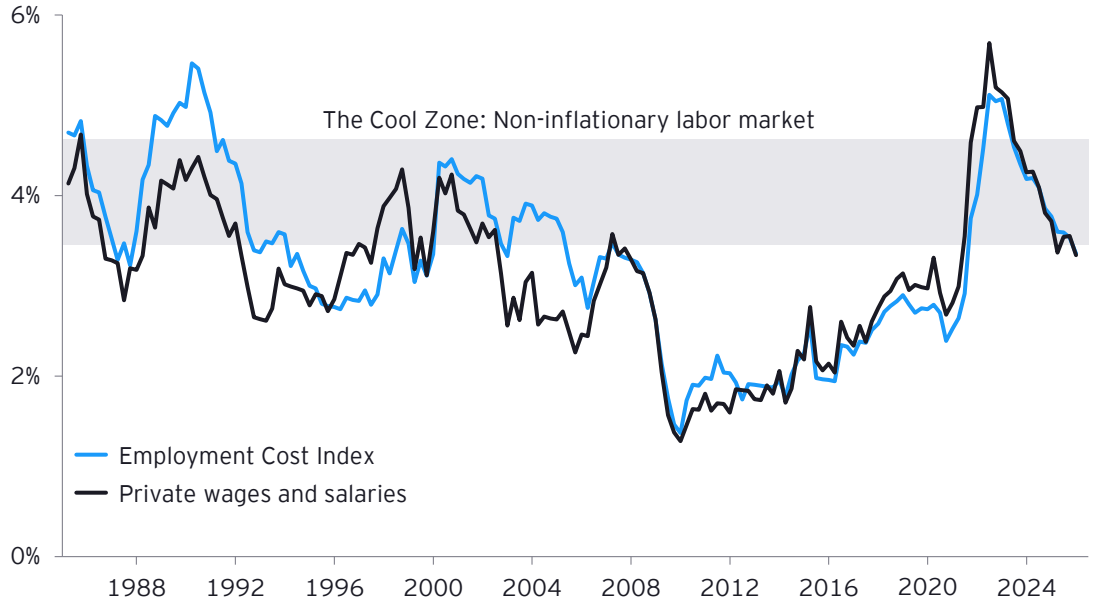
Q2 2026F (peak): 3.4%
Q4 2026F: 2.9%

Source: U.S. Bureau of Labor Statistics; EY-Parthenon

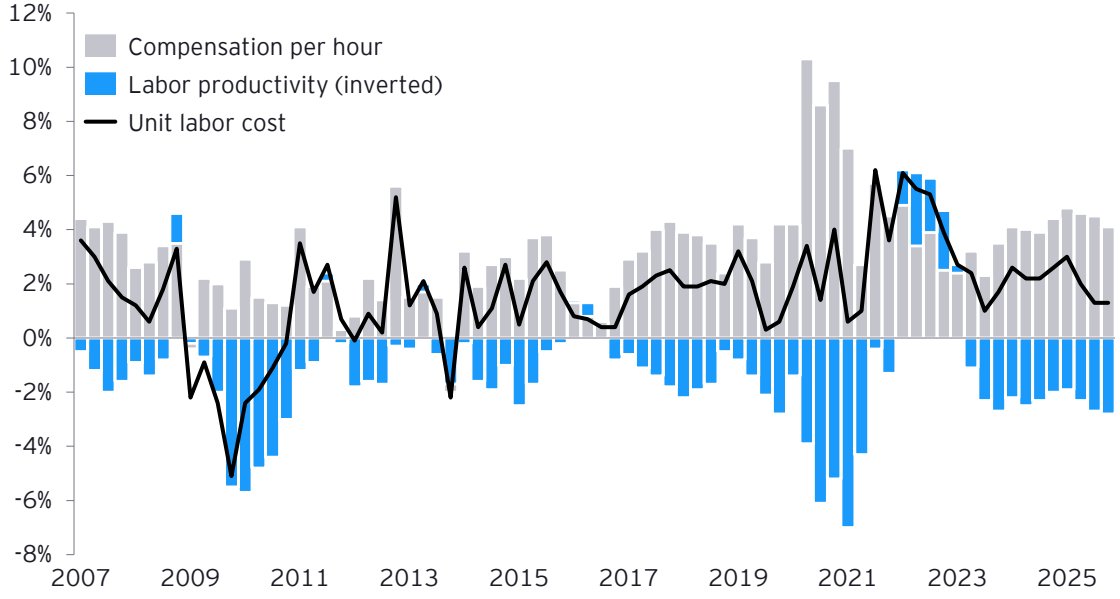
The labor market is acting as a buffer against second-round inflation effects as wage growth remains constrained; it is, however, a double-edged sword for spending

Inflation

US y/y growth in Employment Cost Index and private wages and salaries
Q1 1985-Q4 2025



US y/y growth in unit labor cost decomposition
Q1 2007-Q4 2025

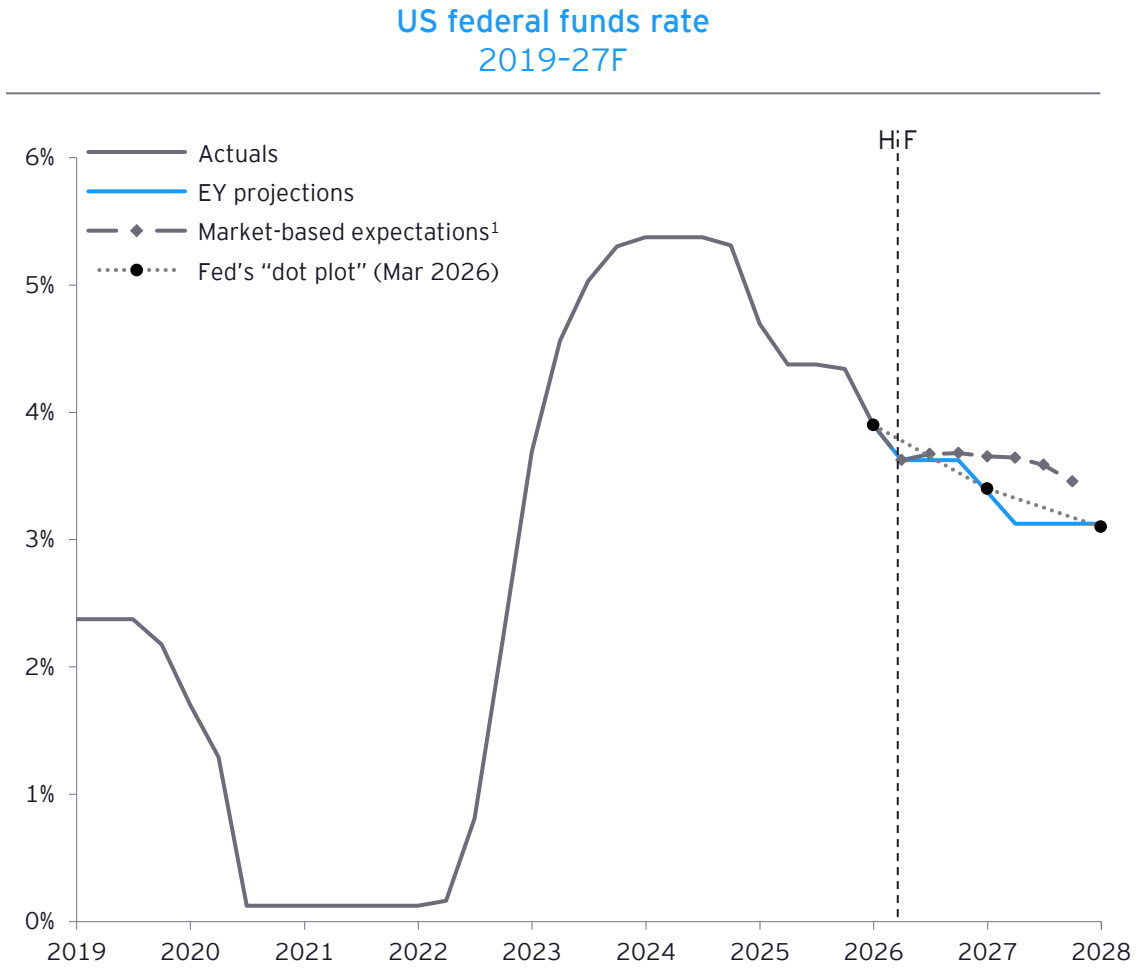


- Business leaders continue to prioritize cost discipline as tariffs, elevated input costs and high interest rates put pressure on profit margins. Labor cost discipline is being enforced through slower wage growth, lower starting pay, reduced hiring, performance-based layoffs, and the non-replacement of retirees and job-leavers. Strong productivity growth is helping to offset these labor costs, as evidenced by unit labor costs remaining unchanged at 1.3% y/y in Q4 2025.
- Wage inflation as measured by the Employment Cost Index (ECI) eased 0.1ppt to 3.4% y/y in Q4 2025, the slowest reading since Q2 2021, while private sector wage growth eased 0.3ppt to 3.3% y/y, the slowest since Q1 2021. We anticipate both measures easing further toward 3.0% range in 2026 – a pace below the roughly 4% threshold typically associated with 2% inflation alongside 2% productivity growth.

Source: U.S. Bureau of Labor Statistics; EY-Parthenon

With higher energy prices likely to keep inflation elevated and the labor market holding up, we foresee a longer Fed pause and only one rate cut this year in December

Federal Reserve



- The Federal Reserve kept the federal funds rate unchanged at a target range of 3.50%–3.75% at the March 17–18 FOMC meeting. Only Governor Stephan Miran dissented in favor of additional easing.
- Fed Chair Jerome Powell said little and appeared non-committal during the press conference. He reiterated that, with policy close to neutral, or even slightly restrictive, the Fed is in a good position to "wait and see" how yet another supply shock will influence economic activity.
- The current Fed stance is clear. With core inflation well above the Fed's 2% target and little evidence of a decisive and sustained move toward that goal, policymakers will maintain their current policy setting. Scenario discussions took place during the meeting, including the possibility of introducing a two-sided statement, but officials appear inclined to defer any meaningful change in their reaction function until the next meeting.
- Powell also addressed his future, noting that if his successor is not confirmed by the end of his term (May 15, 2026), he would remain Fed Chair pro tempore, as the law allows. He stressed that he has no intention of leaving the Board of Governors until the U.S. Department of Justice (DOJ) investigation "is well and truly over with transparency and finality." As for whether he would remain a governor after his chairmanship ends, he indicated that no decision has been made.
- In light of upside risks to inflation and a hawkish "once burned, twice careful" stance among most Fed officials, our baseline features only one 25bps rate cut in 2026, likely in December. It is entirely plausible that the Fed delivers no rate cuts this year, and there is a non-negligible chance that a rate hike — not a cut — could be the next policy move.

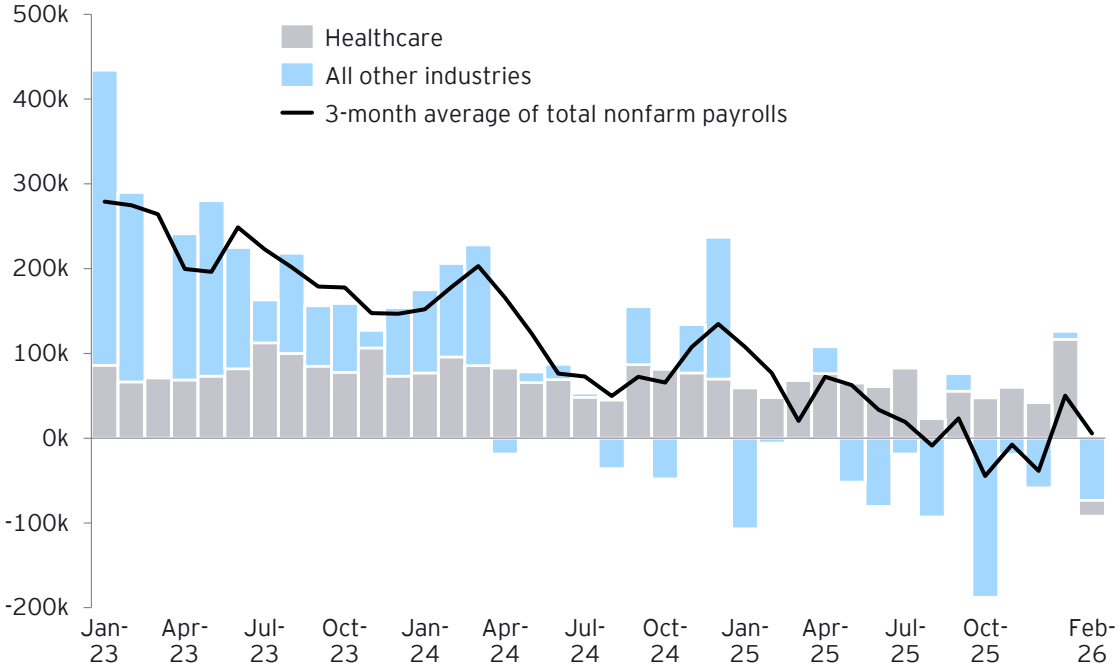
1. Based on Bloomberg analysis, as of March 23, 2026.

Source: Bloomberg; EY-Parthenon

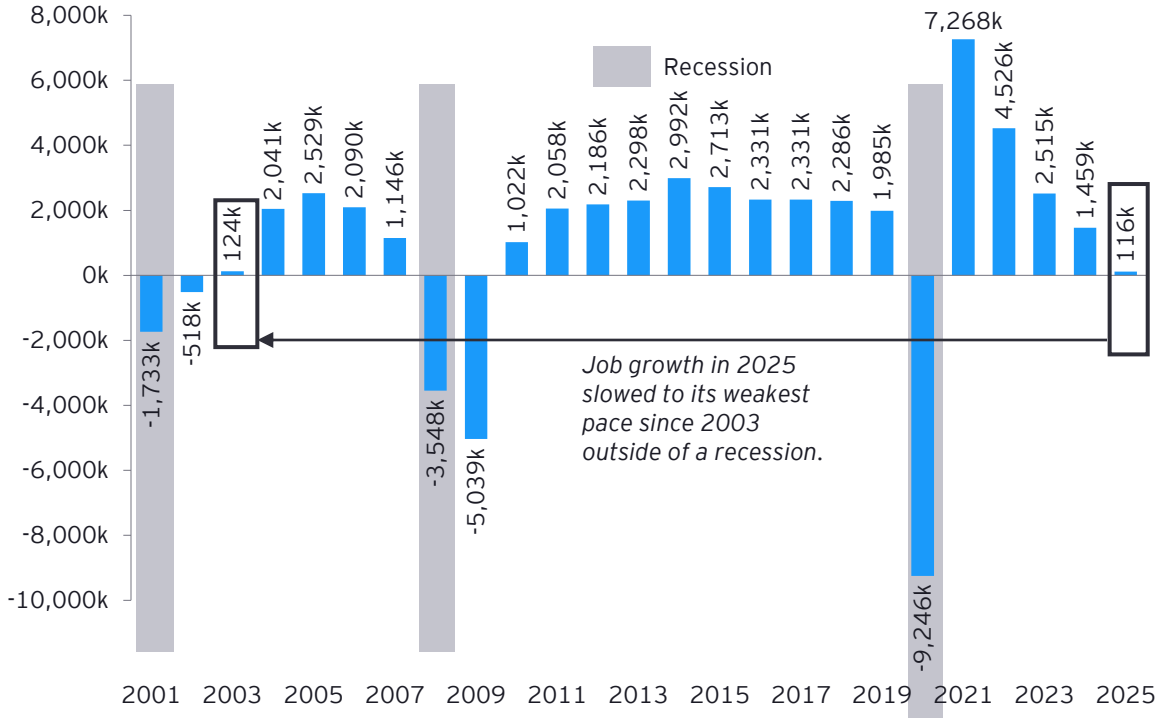
February's sharper-than-expected hiring slowdown raised concerns about labor market weakness, as temporary weather and strike effects exposed a fragile foundation

Employment

US m/m change in total nonfarm employment
January 2023–February 2026



US y/y change in total nonfarm employment
2001–25



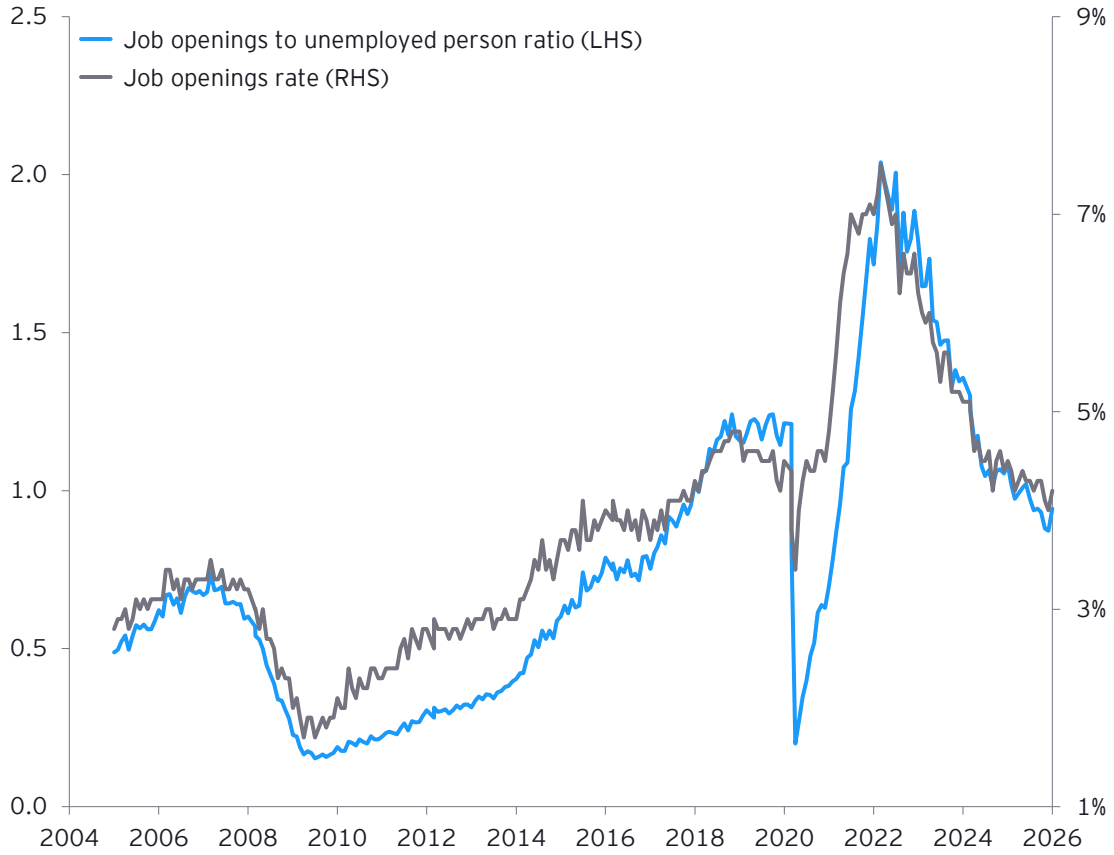
- Nonfarm payrolls fell by 92,000, mostly unwinding January's gains and revealing broad-based weakness. Downward revisions of 69,000 over the previous two months provide further evidence of weakening momentum as the three-month average of job gains slipped to 6,000 jobs, well below the breakeven pace of roughly 30,000 needed to keep unemployment stable. The unemployment rate rose 0.1ppt to 4.4%.
- While some of the weakness was due to temporary factors such as an unusually harsh winter weather and strike-related disruptions in healthcare, the downside surprise illustrates what can happen when the foundation of job growth becomes increasingly concentrated — even modest shocks can produce outsized employment swings.

Source: U.S. Bureau of Labor Statistics; EY-Parthenon

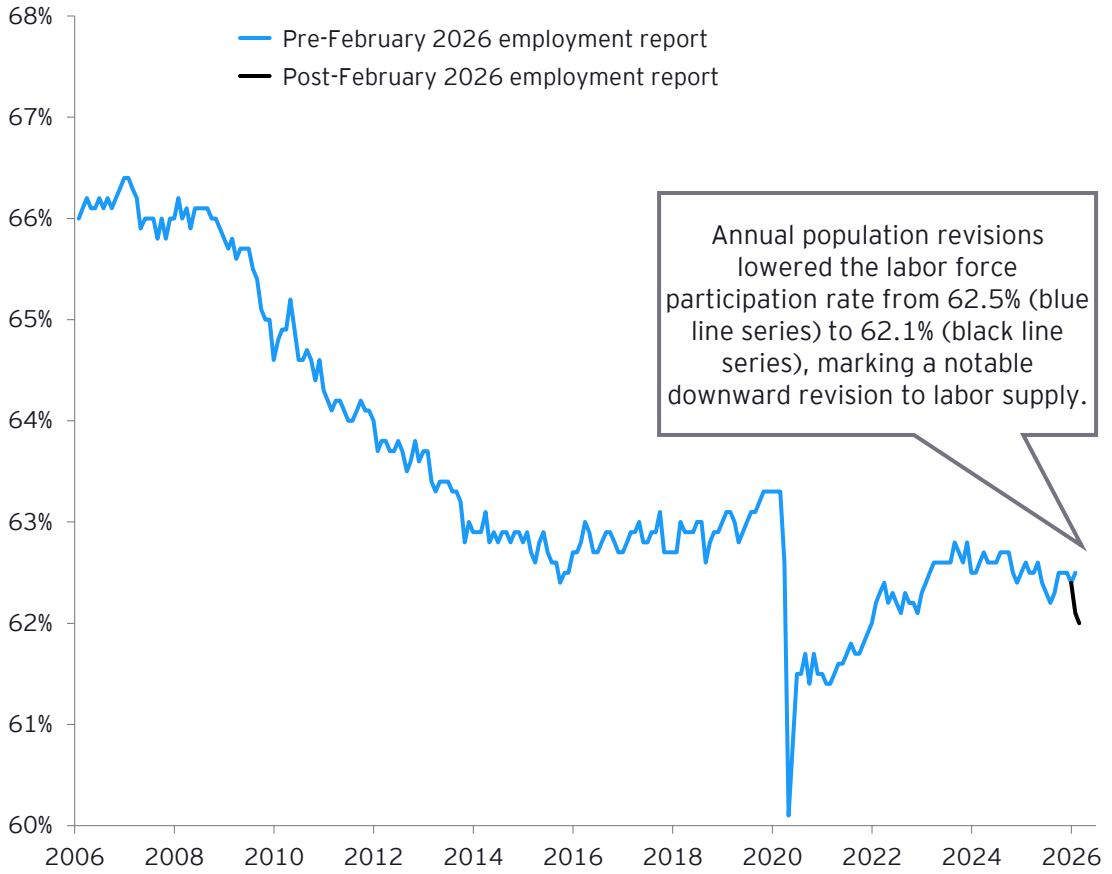
Annual revisions to population data revealed the weakest labor force participation in decades, colliding with sluggish labor demand in a fragile equilibrium

Employment

US job openings to unemployed persons ratio and job openings rate[1]
January 2005–January 2026



US labor force participation rate revisions
January 2006–February 2026



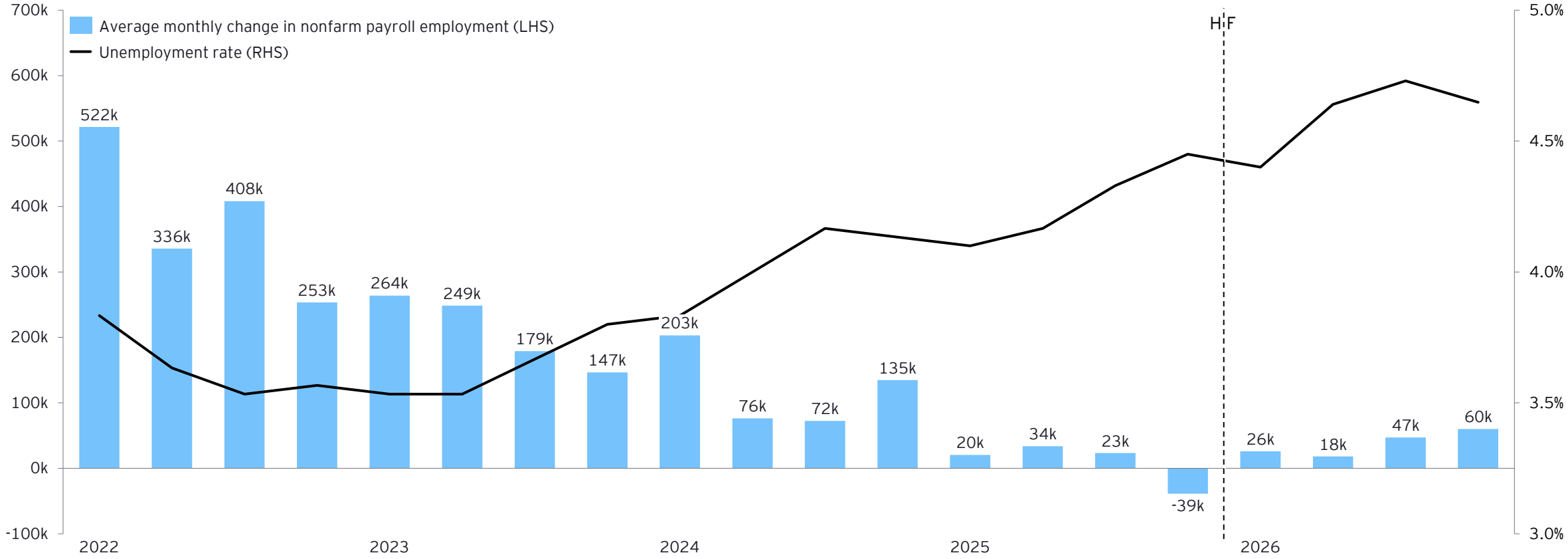
1. The job openings rate is computed by dividing the number of job openings by the sum of employment and job openings and multiplying that quotient by 100.

Source: U.S. Bureau of Labor Statistics; EY-Parthenon

We anticipate a largely frozen labor market in 2026, with selective hiring, compressed wage growth and strategic workforce resizing as labor supply remains historically strained

Employment

US average monthly change in total nonfarm employment and unemployment rate
Q1 2022–Q4 2026F

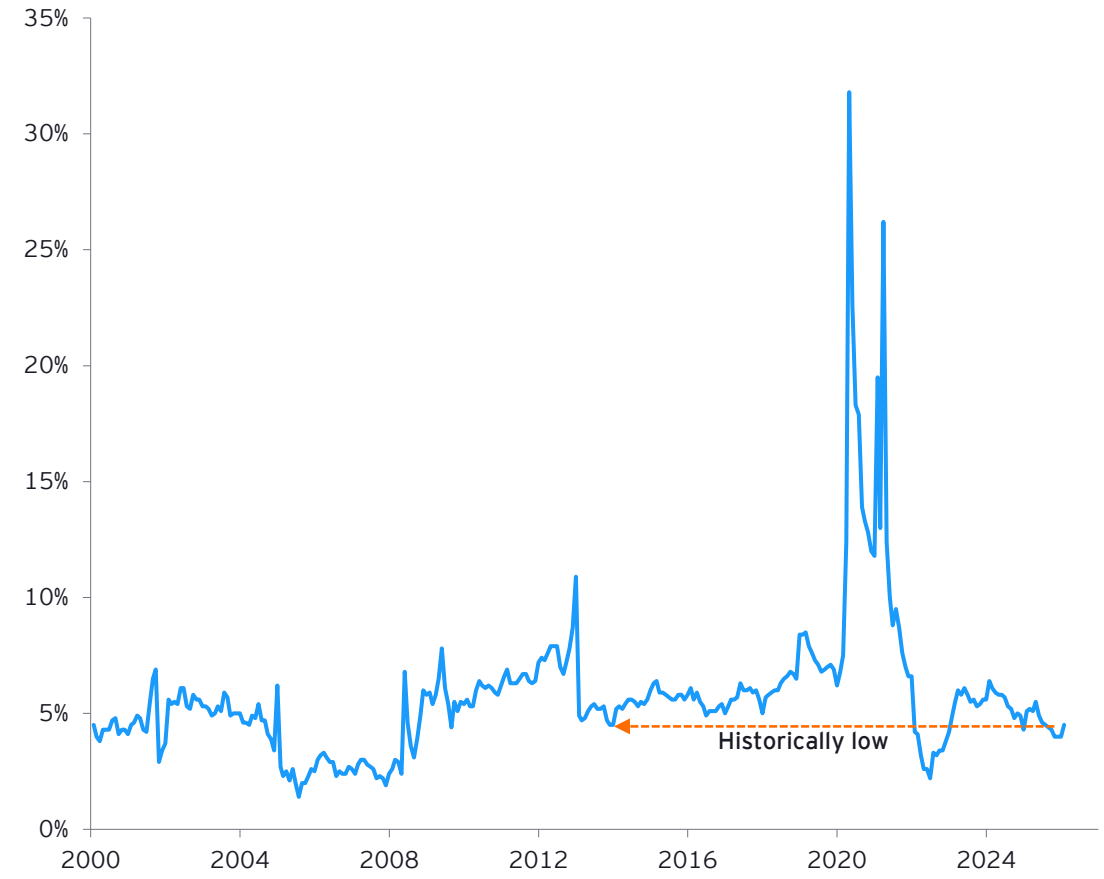


Source: U.S. Bureau of Labor Statistics; EY-Parthenon

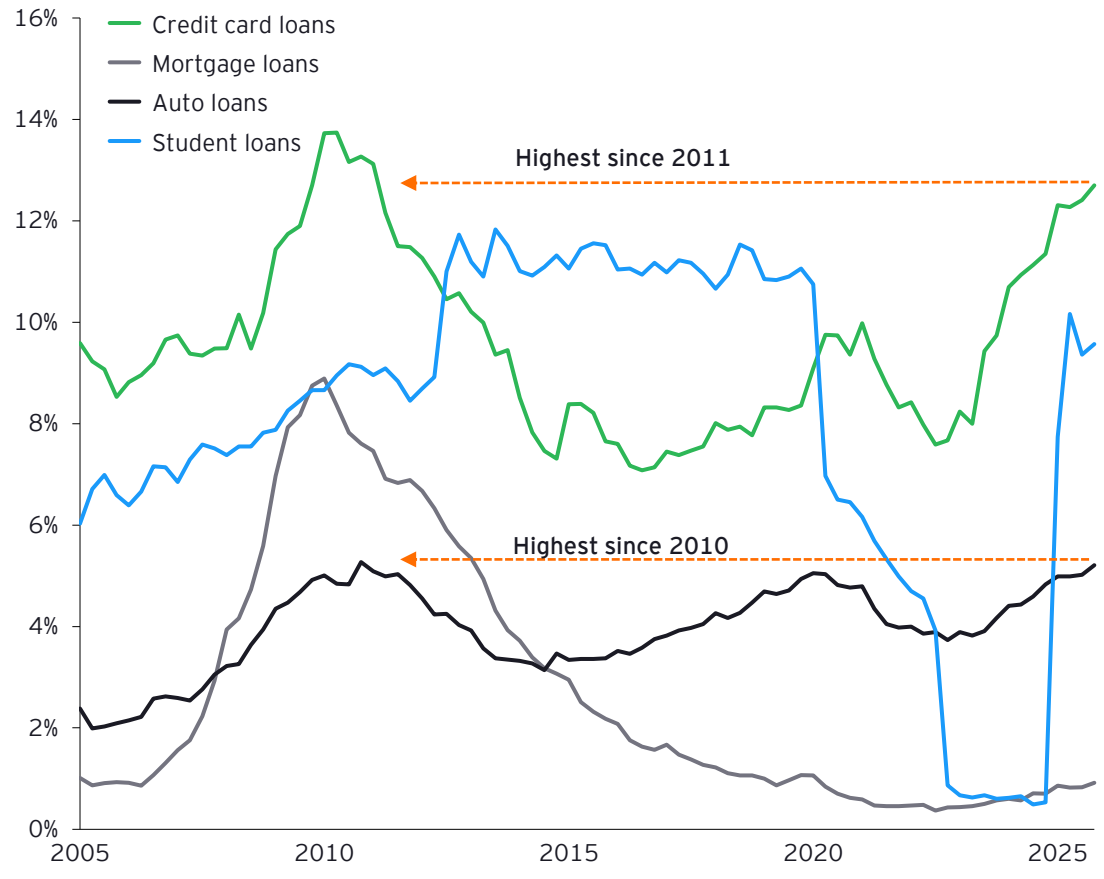
The ongoing resilience in consumer spending is being sustained through tighter budgeting, more use of savings and credit, and greater selectivity

Consumer behavior

US personal savings rate
January 2000–January 2026



Percent of balance of 90+ days delinquent US consumer loans
Q1 2005–Q4 2025



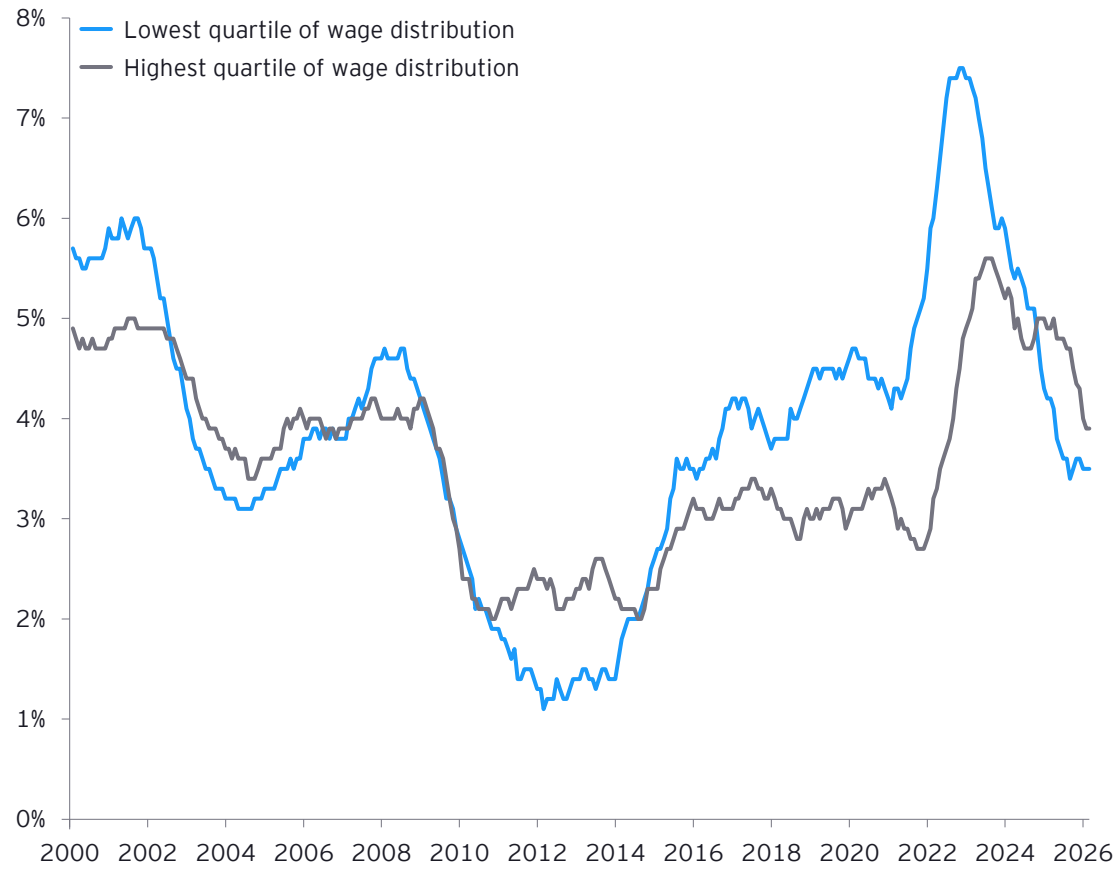
Source: U.S. Bureau of Economic Analysis; Federal Reserve Bank of New York Consumer Credit Panel; EY-Parthenon

Consumer spending remains driven by affluent consumers, benefiting from stronger wage growth and robust wealth accumulation

Consumer behavior

US ratio of corporate equities holdings to disposable personal income
Q1 2000–Q3 2025

Y/y Atlanta Fed's Wage Growth Tracker
January 2000–February 2026

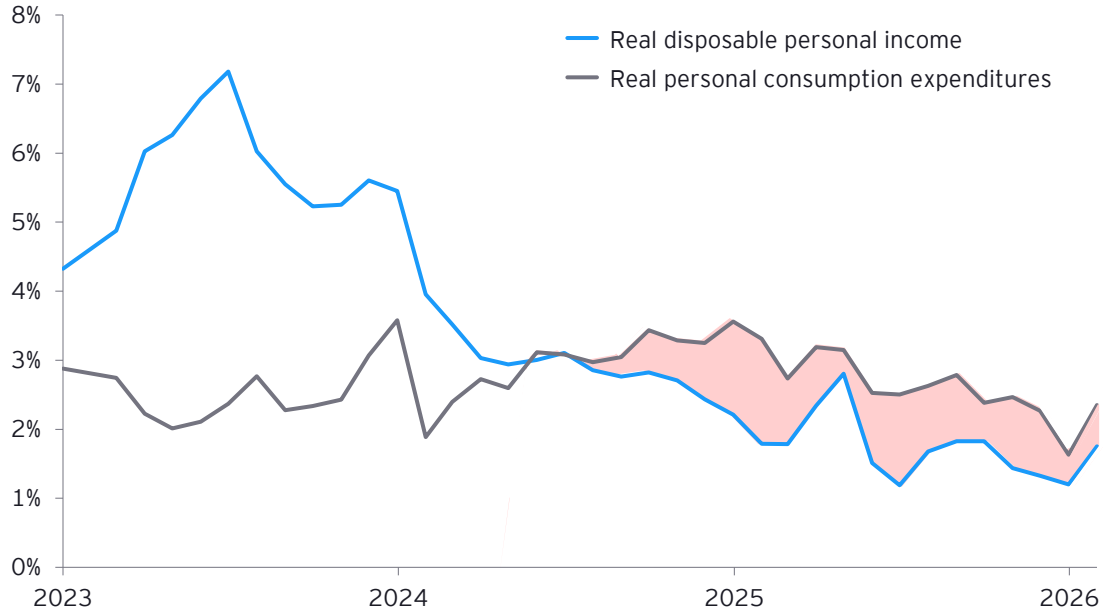


Source: Federal Reserve Board; Federal Reserve Bank of Atlanta; EY-Parthenon

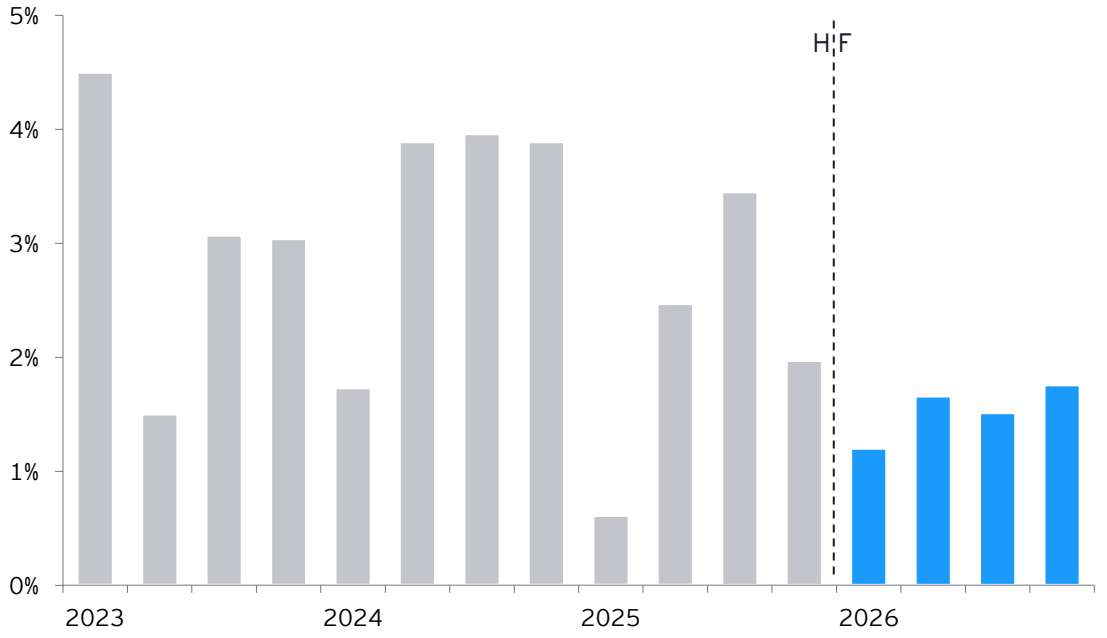
While larger tax refunds may provide a temporary boost to household income, muted job and wage growth will limit income and spending momentum going forward

Consumer behavior

US y/y percentage change in real disposable personal income and consumption expenditures
January 2023–January 2026



US percentage change in real personal consumer expenditures (q/q annualized rate)
Q1 2023–Q4 2026F



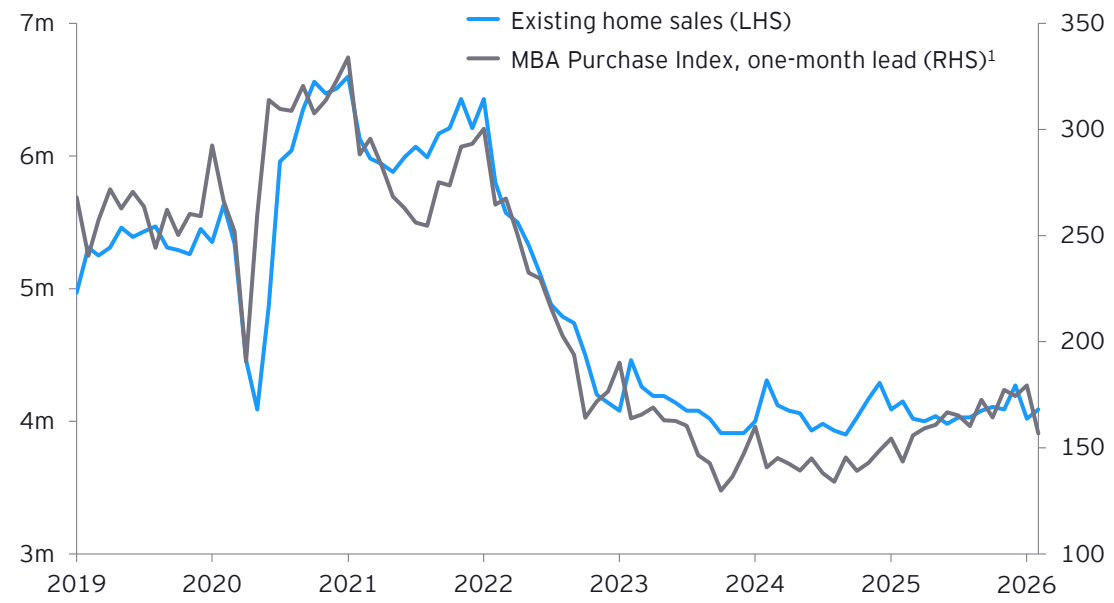
- Consumers remained selective and budget conscious at the start of the year. Consumer spending rose 0.4% m/m in January, but real spending increased just 0.1%. Spending rotated away from tariff-impacted and higher-priced goods, while services outlays skewed toward "must-do" categories — housing, utilities, healthcare and insurance — rather than discretionary items such as travel, restaurants and leisure.
- Adjusted for inflation, disposable income increased a solid 0.7% m/m. The personal saving rate edged up to 4.5% but remains well below last year's highs as households continue to rely on savings buffers to absorb higher costs. Looking ahead, we expect some moderation in consumer spending amid stretched financials and a softening labor market.

Source: U.S. Census Bureau; U.S. Bureau of Economic Analysis; EY-Parthenon

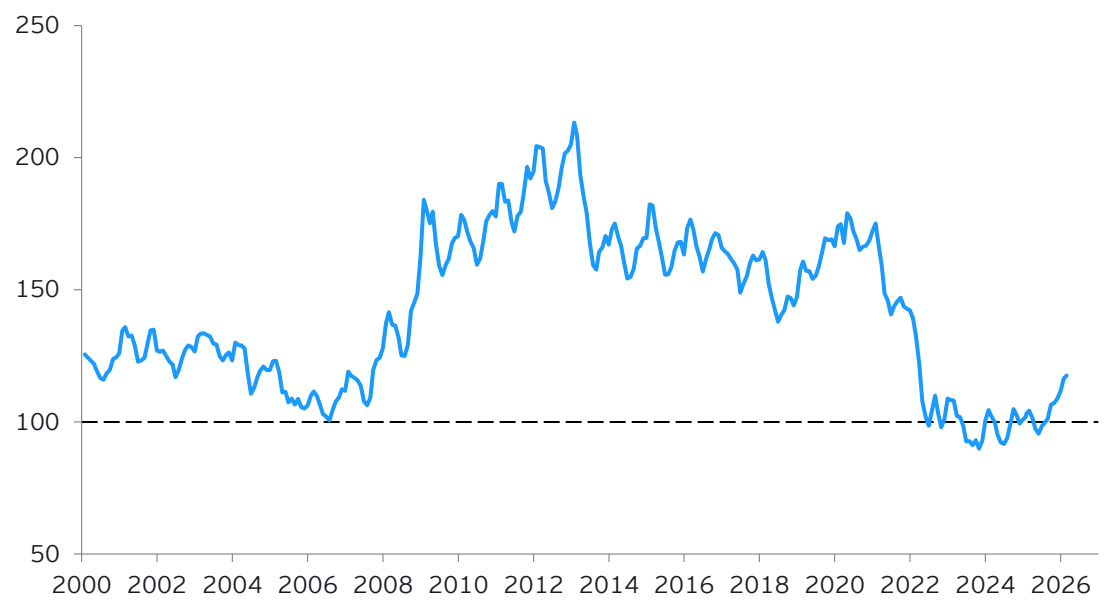
Housing demand remains depressed by low affordability and slower income growth, pushing home prices lower; renewed upward pressure on mortgage rates is a risk

Housing and real estate

US existing home sales (seasonally adjusted annual rate) and mortgage applications for purchase index (March 1990 = 100)
January 2019-February 2026



US Housing Affordability Index[2]
January 2000-February 2026



- Existing home sales edged up 1.7% m/m in February, but the rebound looks tentative. Despite affordability reaching its best level since early 2022 (117.6), underlying demand remains soft, and weaker mortgage application activity points to renewed near-term headwinds for sales.
- In February, housing affordability improved to its best level since March 2022, suggesting conditions were becoming less restrictive though not yet supportive enough to unlock a sustained pickup in housing demand. The renewed upward pressure on mortgage rates represents a key downside risk for housing demand.

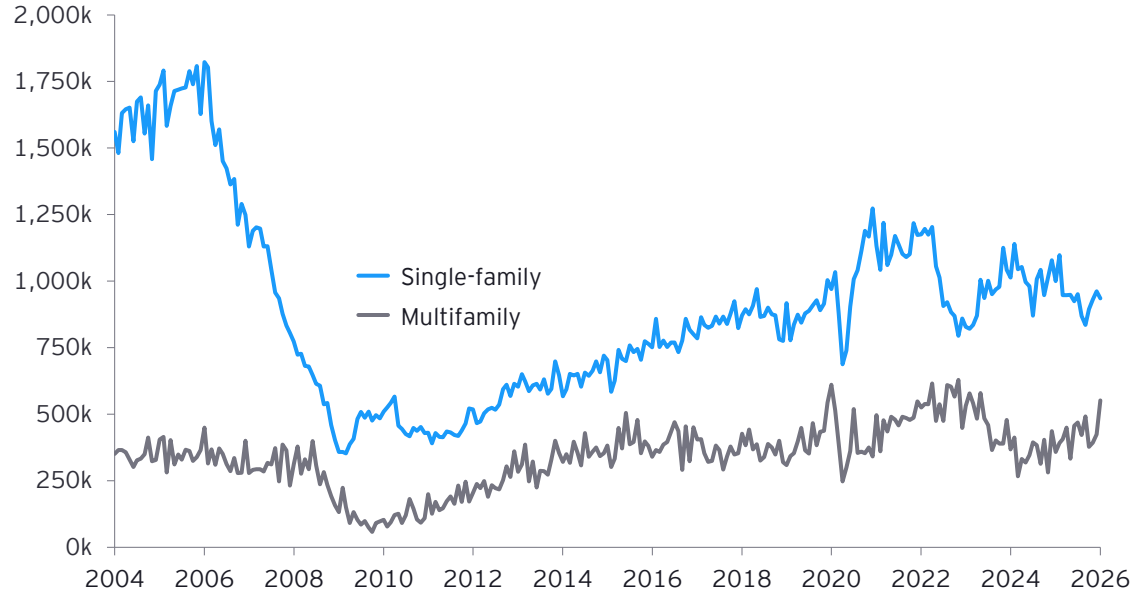
1. The index measures nationwide home loan application activity.
2. The index measures whether a typical household earns enough to afford a mortgage on a median-priced home. A value of 100 means exactly enough income to qualify; above 100 indicates greater affordability, while below 100 indicates lower affordability.

Source: National Association of Realtors; Mortgage Banking Association; EY-Parthenon

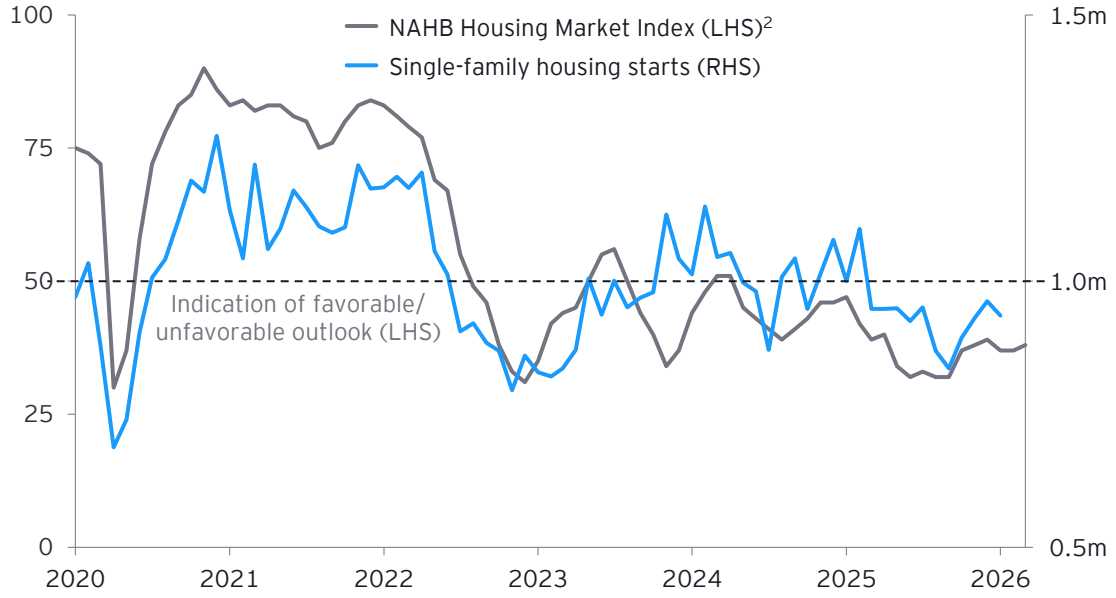
With housing demand under pressure and construction costs still elevated, builders are cautious about new starts and selective in offering homebuying incentives

Housing and real estate

US housing starts (seasonally adjusted annual rate (SAAR))
January 2004–January 2026



US single-family housing starts and home builder confidence
January 2020–March 2026[1]



- Housing starts surprised on the upside in January, rising 7.2% m/m on a surge in the multifamily segment. Single-family housing starts meanwhile were down 2.8% m/m reflecting some negative impact from the severe winter weather. Encouragingly, home builder sentiment improved in March, rising to 38, though concerns about elevated construction costs and labor shortages still remain.
- Looking ahead, the housing market is expected to recover only slowly. Although affordability may see modest improvement, these gains are likely to be tempered by a weak labor market that continues to constrain household incomes. At the same time, home builders are expected to grapple with significant challenges, including escalating construction costs, ongoing shortages of skilled labor, and persistently high regulatory and material expenses.

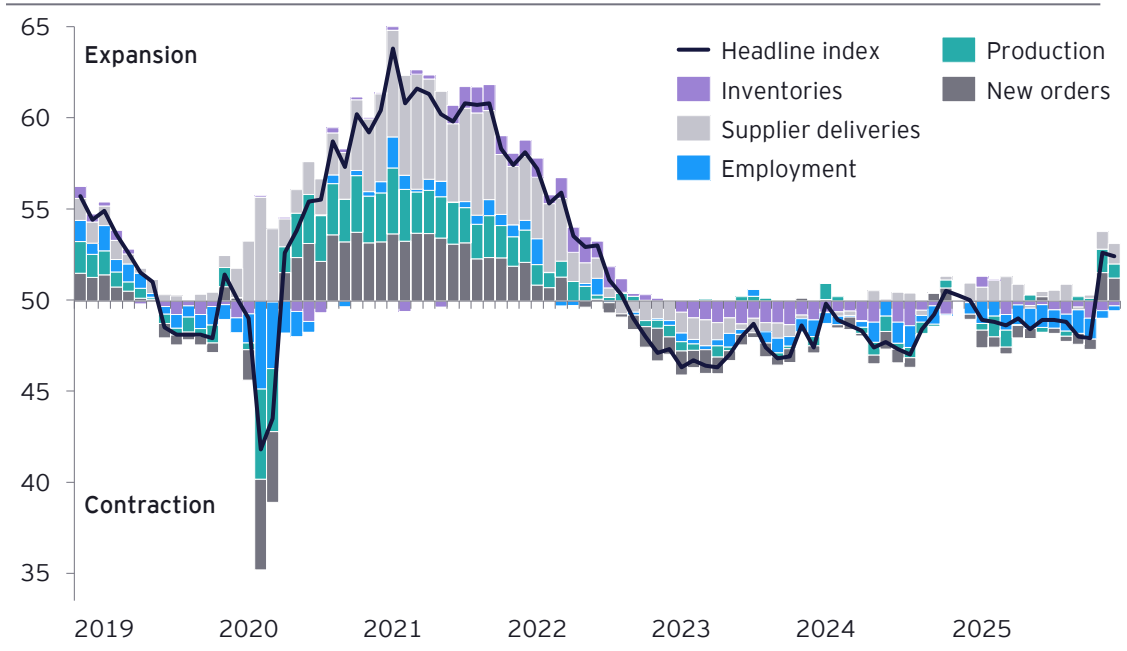
1. February data shown for NAHB Housing Market Index. December is latest and shows data point for single-family housing starts.
2. The NAHB Housing Market Index measures the current and future sales of single-family homes, as well as the traffic of prospective buyers. A reading above 50 indicates a favorable outlook on home sales, while a reading below 50 indicates a negative outlook.

Source: U.S. Census Bureau; National Association of Home Builders (NAHB); EY-Parthenon

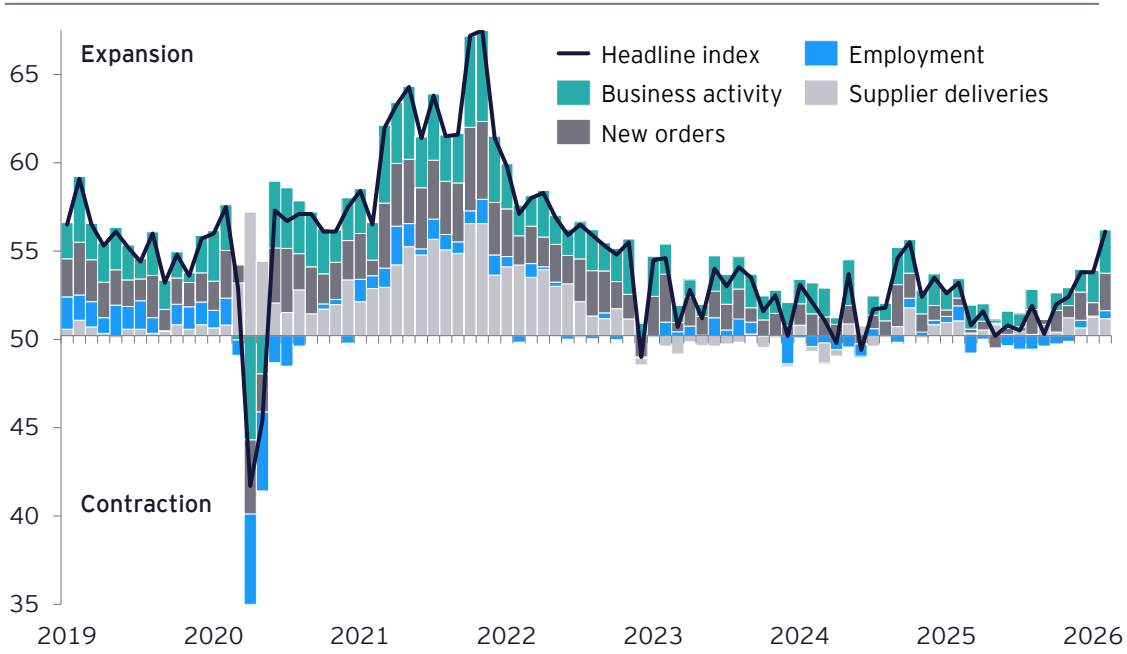
While business sentiment in the manufacturing and services sectors has firmed, activity remains constrained by elevated input costs and interest rates, and policy uncertainty

Business activity

US ISM manufacturing index by component contribution[1]
January 2019–February 2026



US ISM services index by component contribution[1]
January 2019-February 2026



- Manufacturing activity expanded for a second straight month in February, with the ISM index holding at a solid 52.4, though momentum appears to be cooling at the margin. Tariff-related uncertainty continues to weigh on demand, procurement decisions and longer-term expansion plans.
- The services sector remains the primary engine of growth. The ISM services index rose to a robust 56.1 in February, with business activity, new orders and employment all firmly in expansion. However, elevated readings in the prices index highlight persistent cost pressures, reinforcing the risk that services inflation remains sticky even as goods activity stabilizes.

1. The Institute for Supply Management measures PMI by surveying manufacturing and service firms on their orders, production, employment, deliveries and inventories. The index indicates business activity in both sectors. This is a diffusion index, with readings above 50 indicating expansion and readings below 50 indicating contraction in activity.

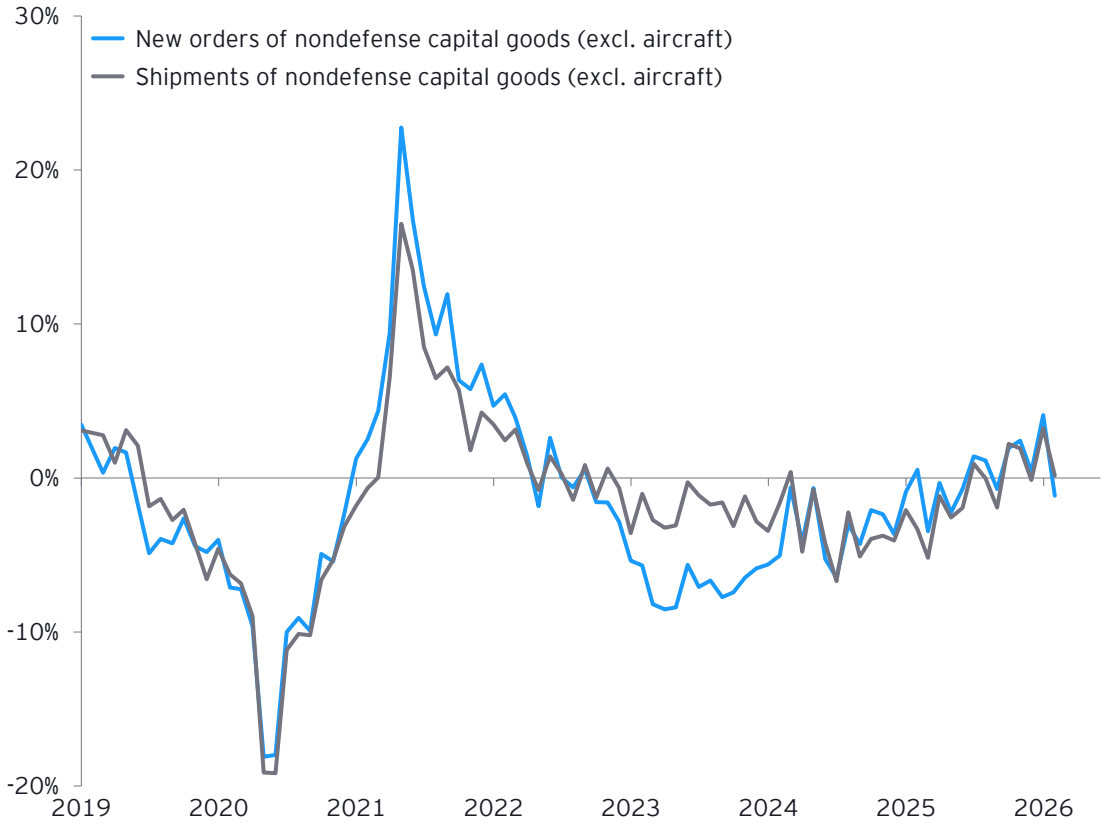
Source: Federal Reserve Board; Institute for Supply Management (ISM); EY-Parthenon

A bifurcated business investment outlook characterized by strong AI-related momentum, green shoots in capital goods, resilient equipment spending and weak structures

Business activity

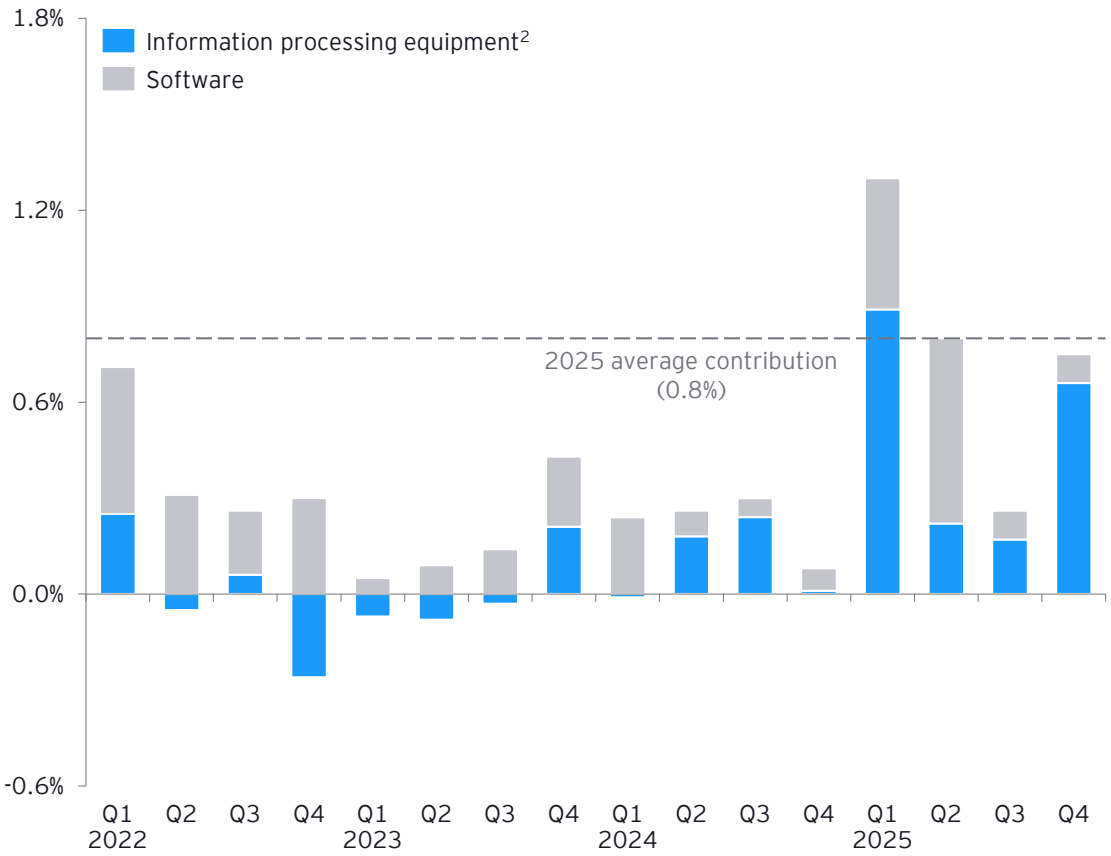
Y/y percentage change in inflation-adjusted new orders and shipments of nondefense capital goods[1]

January 2019–January 2026



US information processing and software investment contribution to real GDP growth (q/q annualized)

Q1 2022–Q4 2025



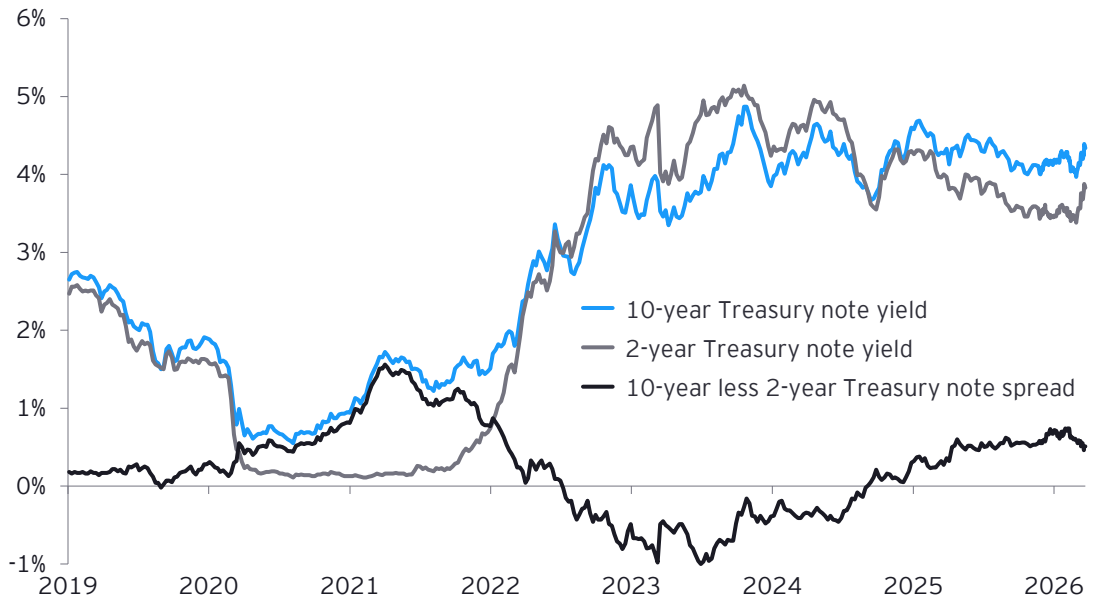
1. Orders and shipments were adjusted using Producer Price Index (PPI) for final demand of private capital equipment.
2. Includes investment in software, R&D, computer and peripheral equipment, communication equipment, data centers, and power infrastructure.

Source: U.S. Census Bureau; U.S. Bureau of Economic Analysis; EY-Parthenon

Rising Middle East tensions are spilling into markets, fueling bond volatility, higher energy prices and renewed pressure on the dollar

Financial conditions

US 10-year, 2-year, and 10-year less 2-year Treasury note spreads
January 1, 2019–March 23, 2026



US trade-weighted dollar index[1]
January 1, 2019–March 20, 2026

- Since late February and the onset of the Middle East conflict, the Treasury market has been shaped by a sharp repricing of geopolitical risk. Yields have been volatile, initially falling on heightened growth concerns before firming as the Middle East conflict pushed energy prices higher and revived inflation risks. As investors reassessed the Fed policy path and price in a more hawkish outlook, the 10-year Treasury yield has risen by 30 basis points so far in March.
- Currency markets have also seen a sharp repricing since late February, with safe-haven flows providing renewed support to the US dollar despite elevated energy-driven inflation risks. This increased demand for dollar liquidity and defensive positioning has partially offset concerns around growth, fiscal dynamics and policy uncertainty.

1. The trade-weighted dollar is a weighted average of the foreign exchange value of the US dollar against the currencies of a broad group of major US trading partners (January 2026 = 100).

Source: Federal Reserve Board; Bloomberg; EY-Parthenon

Our team has developed two anchor scenarios around the Middle East conflict that are intentionally non-exhaustive and flexible to potential developments

Risk: Spotlight on Middle East scenarios

Baseline

- Traffic through the Strait of Hormuz is temporarily halted, and regional oil and gas production, refining and liquefaction capacity is modestly impacted.
- Brent crude temporarily rises by $30 per barrel close to $90 in Q2 before falling back toward $70 in Q4 — still $5–$10 above the pre-conflict baseline.
- European natural gas prices initially surge 100% to around €60/MWh before easing on a shallow trajectory in H2.
- The US dollar appreciates 3%–5% alongside modest downward pressure on equity and bond prices, reflecting higher expected inflation and a reduced path for Fed easing.

Severe and longer-lasting escalation scenario

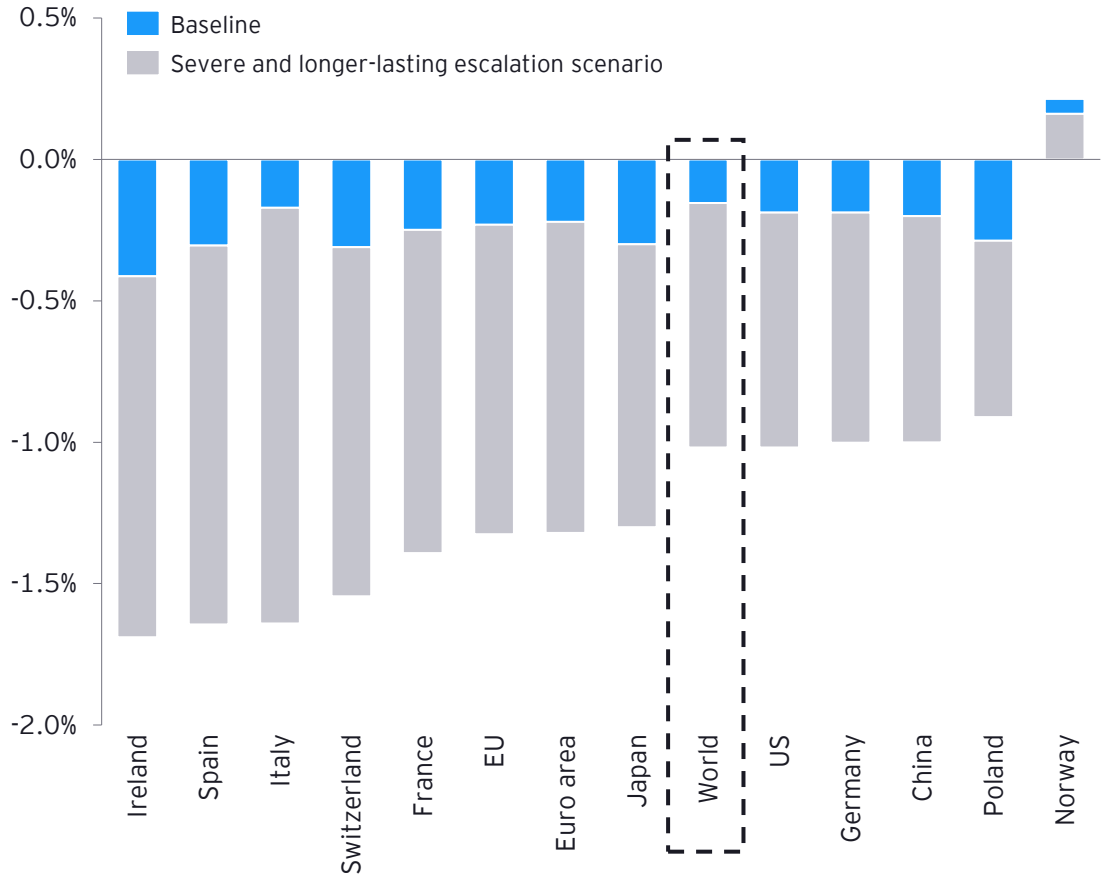
- Traffic through the Strait of Hormuz faces sustained interruption. Regional oil production is significantly curtailed, and LNG capacity is more severely reduced.
- Oil prices surge more than $50 per barrel, climbing toward $110 and remain above $100 through year-end.
- European natural gas prices rise 150% and remain more than 100% above baseline levels through year-end.
- Equities fall 10%, yields rise and the US dollar appreciates about 10% over a prolonged period.

Source: EY-Parthenon; EY EAT

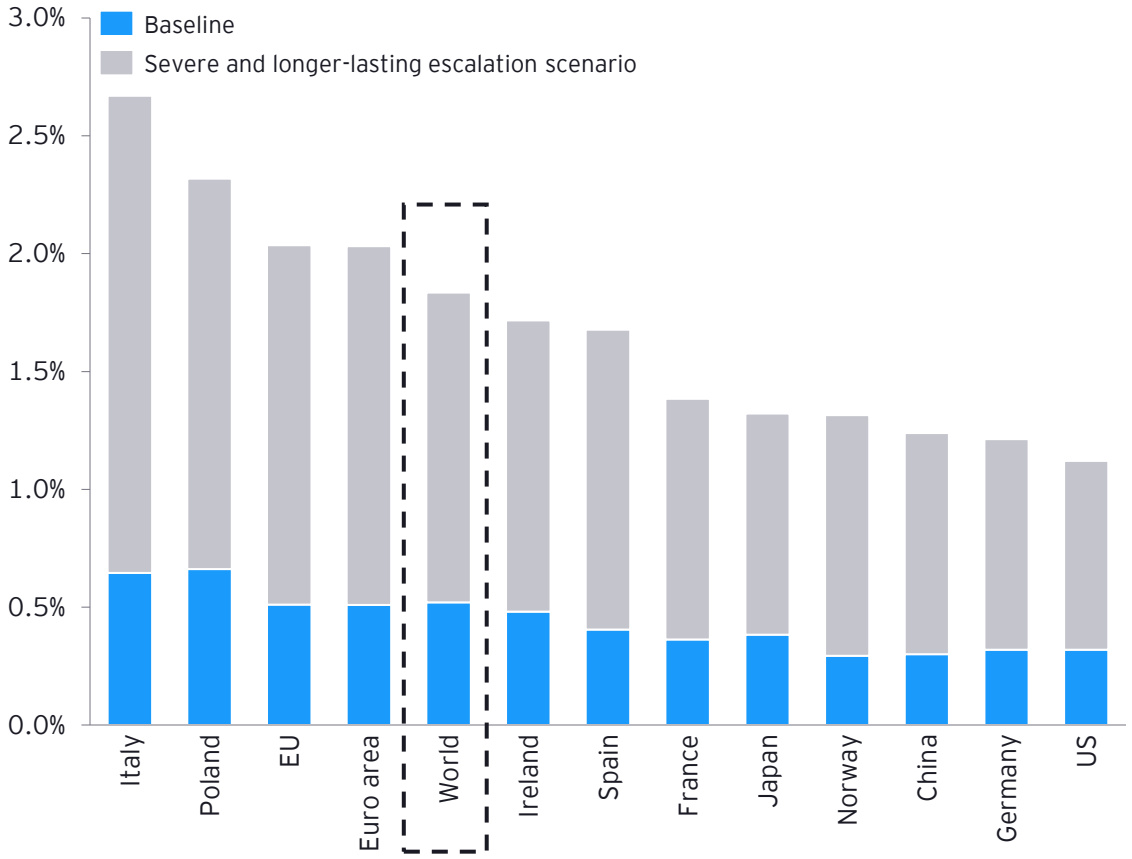
In a downside scenario where oil prices remain above $100 through year-end, the US economy would experience a 1% GDP drag while inflation would rise toward 5%

Risk: Spotlight on Middle East scenarios

Impact of the conflict in the Middle East on GDP level
2027



Impact of the conflict in the Middle East on CPI inflation
2026

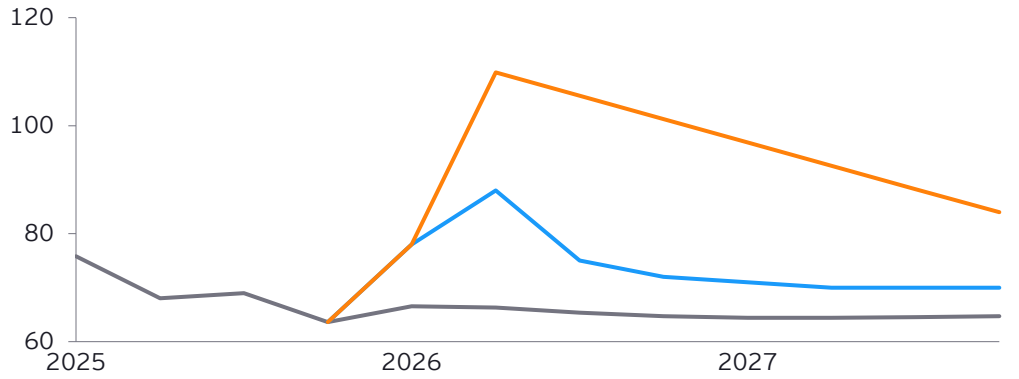


Source: Oxford Economics; EY EAT

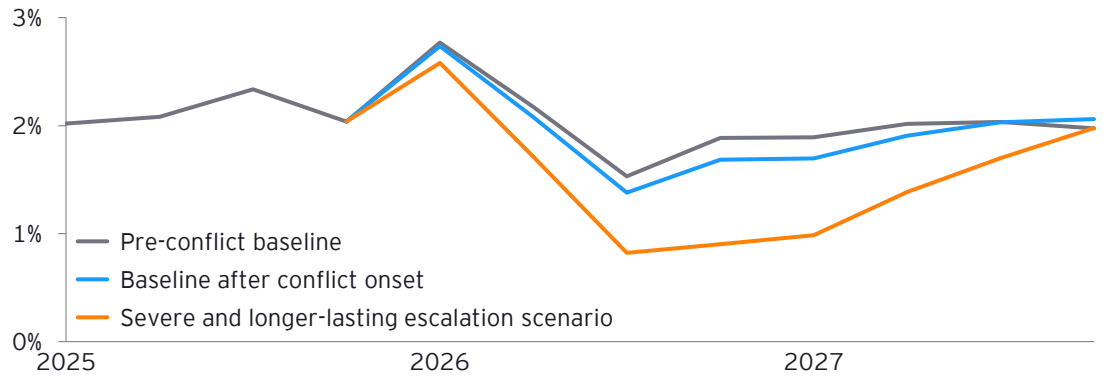
The Middle East conflict poses a serious risk to global energy markets, supply chains, inflation and economic activity: stagflation is the ultimate threat

Risk: Spotlight on Middle East scenarios

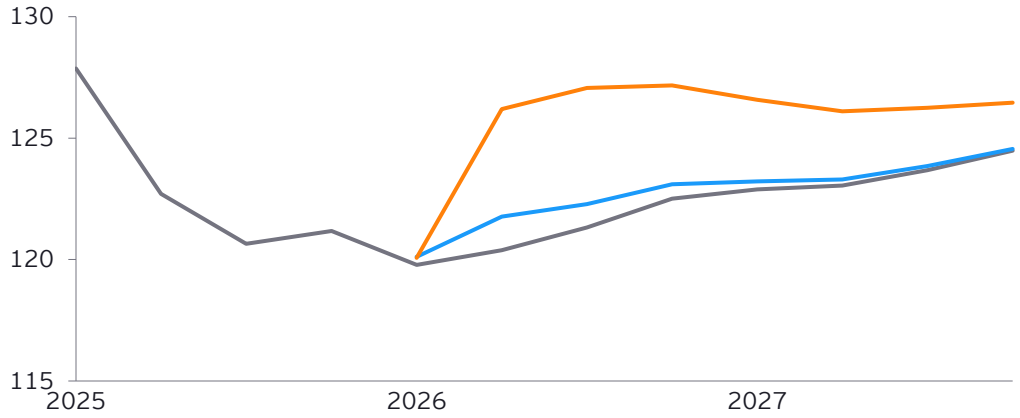
Brent crude spot price per barrel ($pb)



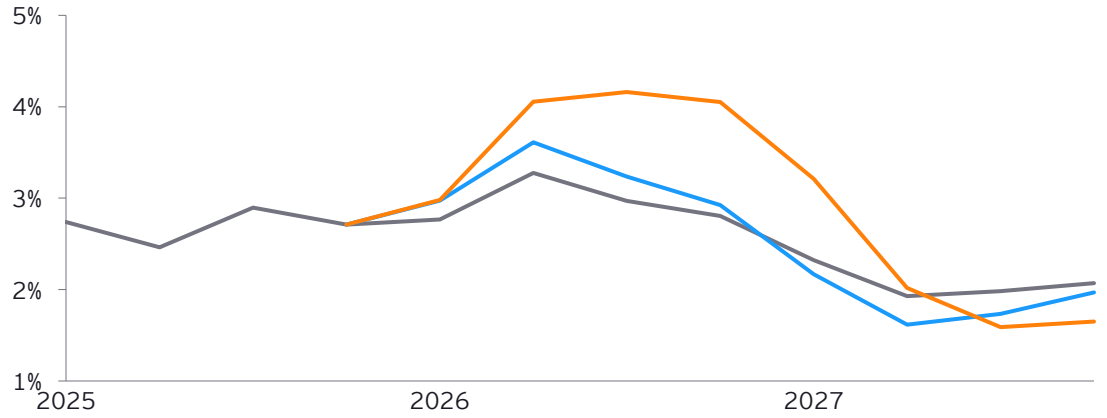
US real GDP y/y growth



US exchange rate (2000Q1=100)



US CPI y/y growth



Source: EY-Parthenon; EY EAT

Sector considerations and implications of the US outlook

Sector perspectives

Industry and sector	Perspectives
Mergers and acquisitions	▪ Concurrent divestment and integration can materially improve deal outcomes by accelerating value creation while reinforcing investor and regulatory confidence. By planning divestitures during due diligence or early integration rather than after close, companies can monetize noncore assets faster, redeploy capital more quickly into core synergy initiatives, and avoid extended periods of value leakage and management distraction. This approach also sharpens strategic focus and signals decisiveness to stakeholders. Successful execution depends on disciplined early scenario planning, well-defined separation and IT strategies, and strong centralized governance to manage operational, regulatory and cultural complexity while keeping the core integration on track. (Manish Dabas, Kasia Tadajewska and Rohith Iyer)
Private equity	▪ Deal activity is rebounding into 2026, supported by lower financing costs, narrowing valuation gaps and abundant dry powder, with leveraged buyouts and the technology and consumer sectors leading the recovery. Exit volumes and values improved meaningfully in 2025, but the large stock of aging portfolio companies means a sustained pace of exits is still needed to return cash proceeds to investors from past investments. Fundraising remains the primary constraint, as investor capital is increasingly concentrated among the largest and most established private equity firms, even as sentiment among the institutional investors who commit capital to these funds begins to stabilize. Against this backdrop, the opportunity set is improving, but outcomes will depend on discipline, selective deployment, careful underwriting and active value creation rather than multiple expansion alone. (Amar C. Mehta and Shrey Tripathi)
Manufacturing	▪ Corporate venture building enables industrial manufacturers to drive growth by leveraging existing assets such as intellectual property, data, customer relationships and supply chains to create new revenue streams or entirely new profit pools. By starting with small, scalable pilots, using proprietary data and strengthening ecosystem partnerships, companies can innovate faster and with lower risk than traditional acquisition or product-led approaches. When embedded within a commercial, growth and innovation strategy, this model helps shift manufacturers from product-centric to customer-focused organizations and turns disruption into a sustainable engine of profitable growth. (Praveen Arivazhagan)
Macro Bites	▪ The life sciences sector is entering a more volatile and supply constrained environment, where heavy reliance on imported active pharmaceutical ingredients, particularly from China and India, combined with rising trade and tariff risks, is forcing companies to rethink supply chains and accelerate onshoring or diversification. At the same time, escalating treatment costs are driving an affordability crisis, increasingly bifurcating demand between patients with and without the ability to pay. In this context, innovation is no longer optional but critical, with artificial intelligence offering significant potential to improve research and development productivity, shorten clinical trial timelines, and reduce costs, although most firms are still in an early experimental phase rather than full-scale adoption. As a result, the key priorities for life sciences companies are to build more resilient supply chains, adopt flexible partnership models to manage risk, and strategically deploy artificial intelligence to drive efficiency and sustain growth. (Ranu Carroll and Gregory Daco)

Source: EY-Parthenon

To thrive in a new economic paradigm where supply-side dynamics will influence business activity, business leaders should prioritize two core imperatives: resilience and robustness

Strategy

Strategic resilience

- **Flexible planning frameworks:** allow for rapid recalibration
- **Scenario-driven approach:** incorporate geopolitical shifts, trade disruptions and regulatory swings
- **Modular operations:** responsive pricing and cross-functional coordination to adjust to diverging market conditions across regions and sectors

Structural robustness

- **Market strategy:** strong supply networks, diversified input sources, and robust digital and operational infrastructure
- **Capital strategy:** clean balance sheets, cost discipline and liquidity management in a higher-for-longer rates environment with volatile foreign exchanges
- **Holistic AI strategy:** drive stronger productivity while focusing on talent resilience and automation

Source: EY analysis

Amid market volatility, margin durability distinguishes high performers — their outcomes reflect disciplined execution and a shared strategic approach

Strategy

Margin leadership is designed, not cyclical

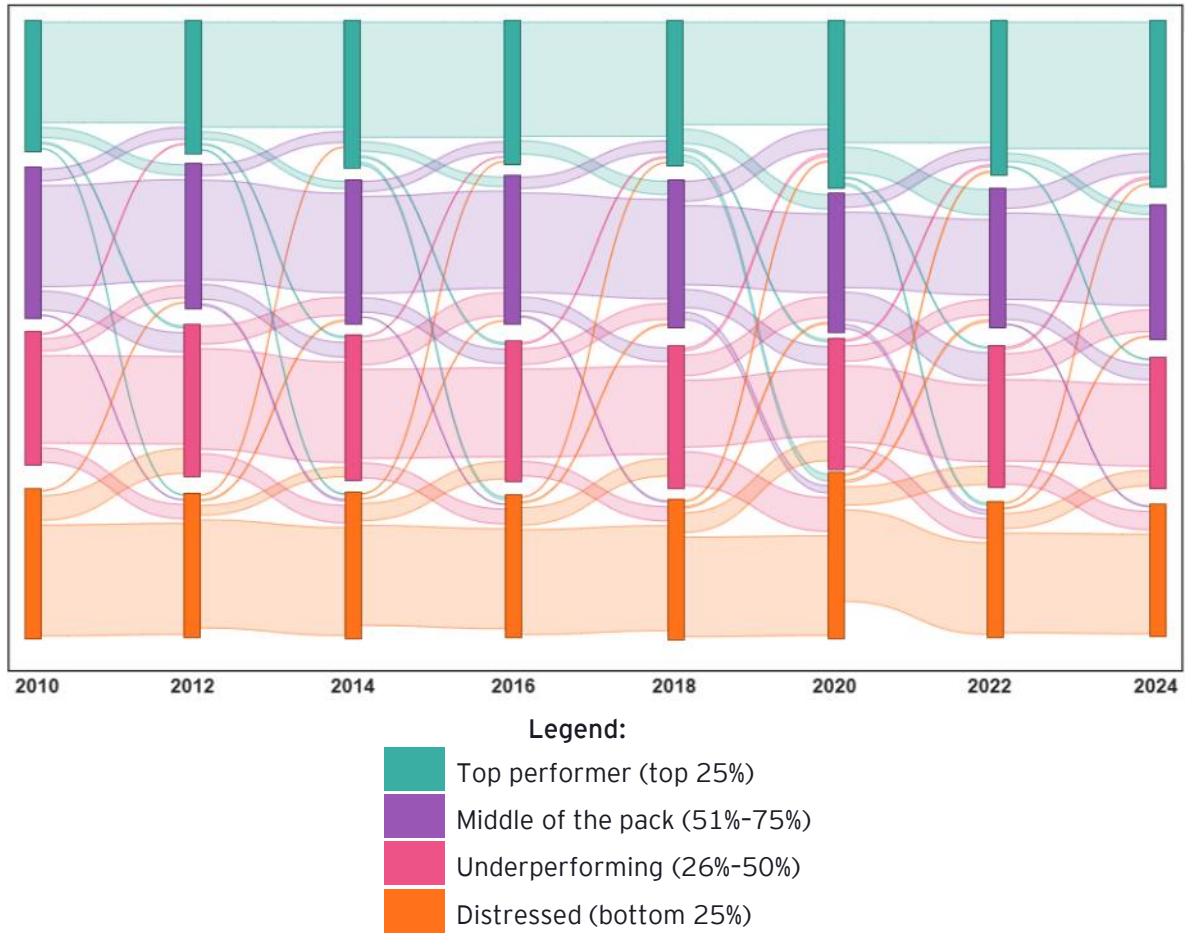
- Only ~10% of firms consistently sustain top-quartile margins through deliberate strategic architecture — not market timing.

Leaders leverage five key levers to outperform:

1. **Low capital intensity:** Superior asset productivity
2. **Recurring revenue:** Stable, predictable cash flows with customer lock-in
3. **Pricing power:** Differentiation enables premium pricing
4. **Operational discipline:** Standardization and automation drive efficiency
5. **Portfolio agility:** Active capital allocation to highest-return assets

Article: Margin resilience: The strategic architecture of the top 10%

EBITDA margin evolution for assessed cohort of US public companies[1]
2010–24



1. The trade-weighted dollar is a weighted average of the foreign exchange value of the US dollar against the currencies of a broad group of major US trading partners (January 2026 = 100).

Source: EY-Parthenon

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