

# Executive Briefing

Macroeconomic and strategic  
business outlook

May 21, 2026

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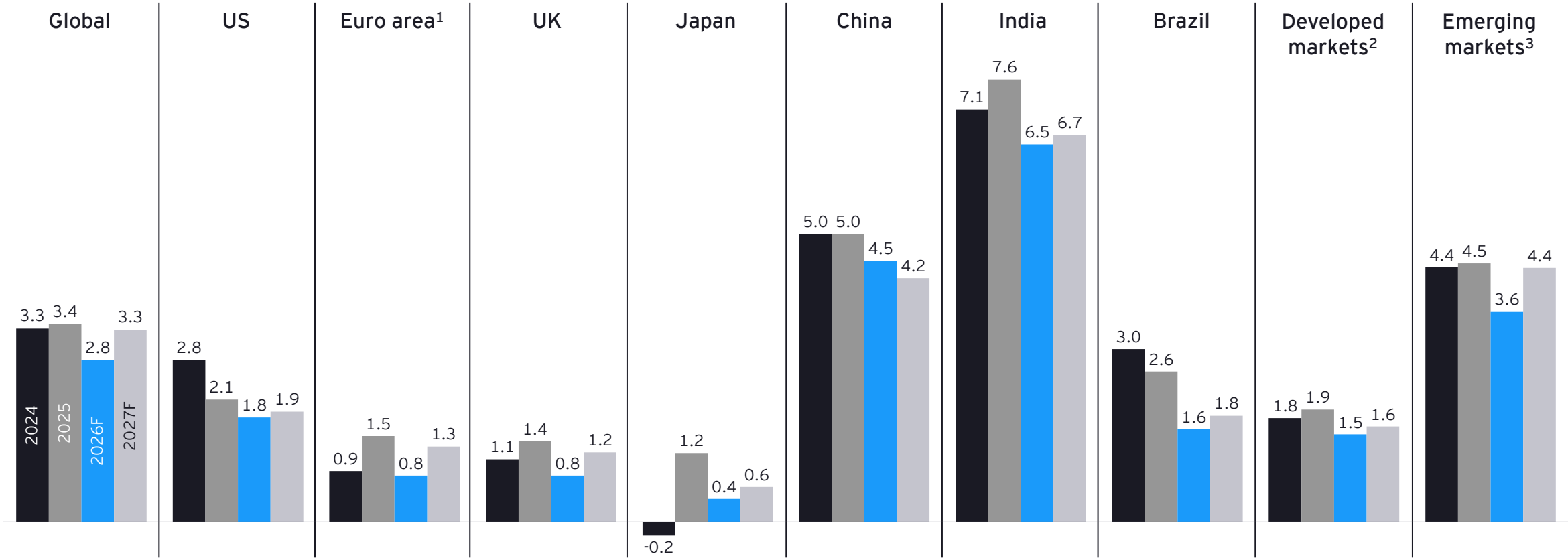
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# The Middle East conflict will leave a visible but highly uneven imprint on the global economy, reflecting differences in exposure and resilience across regions

Global overview

Year-over-year (y/y) percentage change in real GDP  
2024-27F



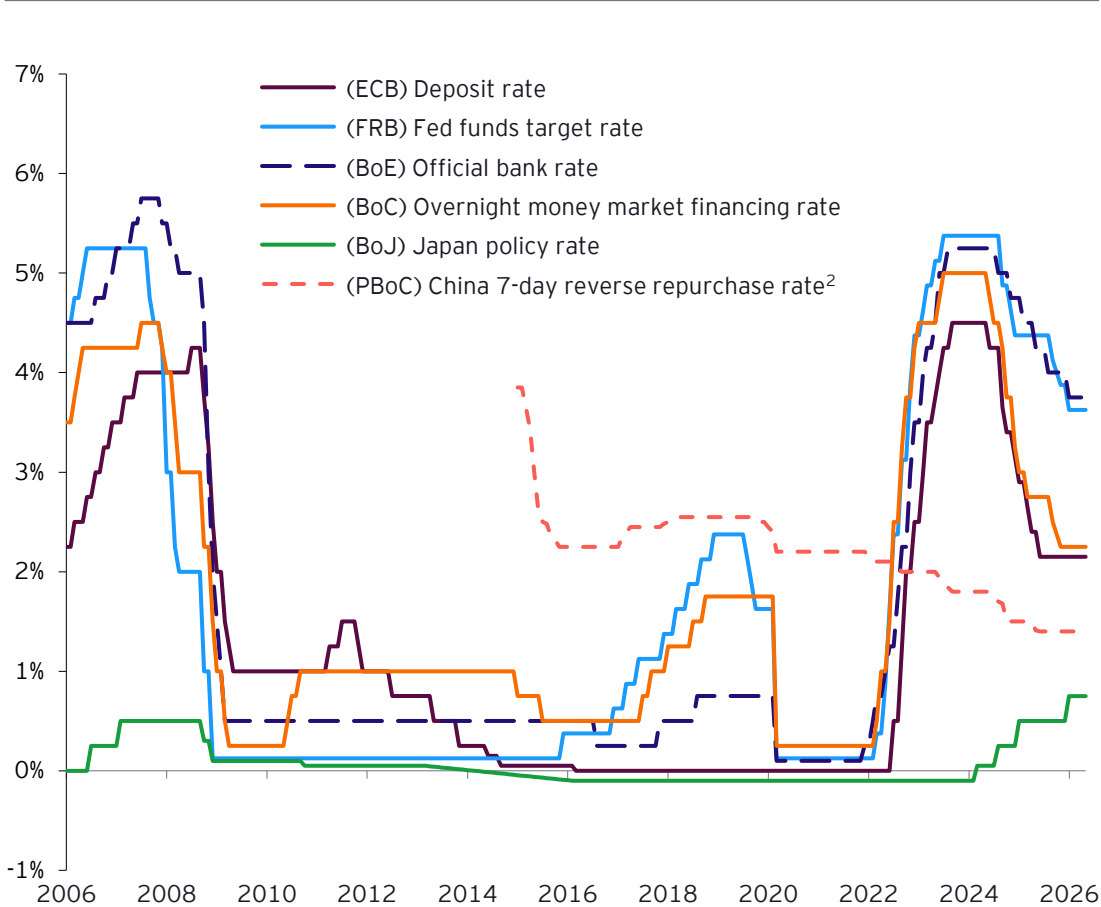
1. Euro area includes 20 countries.  
 2. "Developed markets" according to the definition of advanced economies from the International Monetary Fund (IMF).  
 3. "Emerging markets" is the rest of the world.

Source: EY-Parthenon

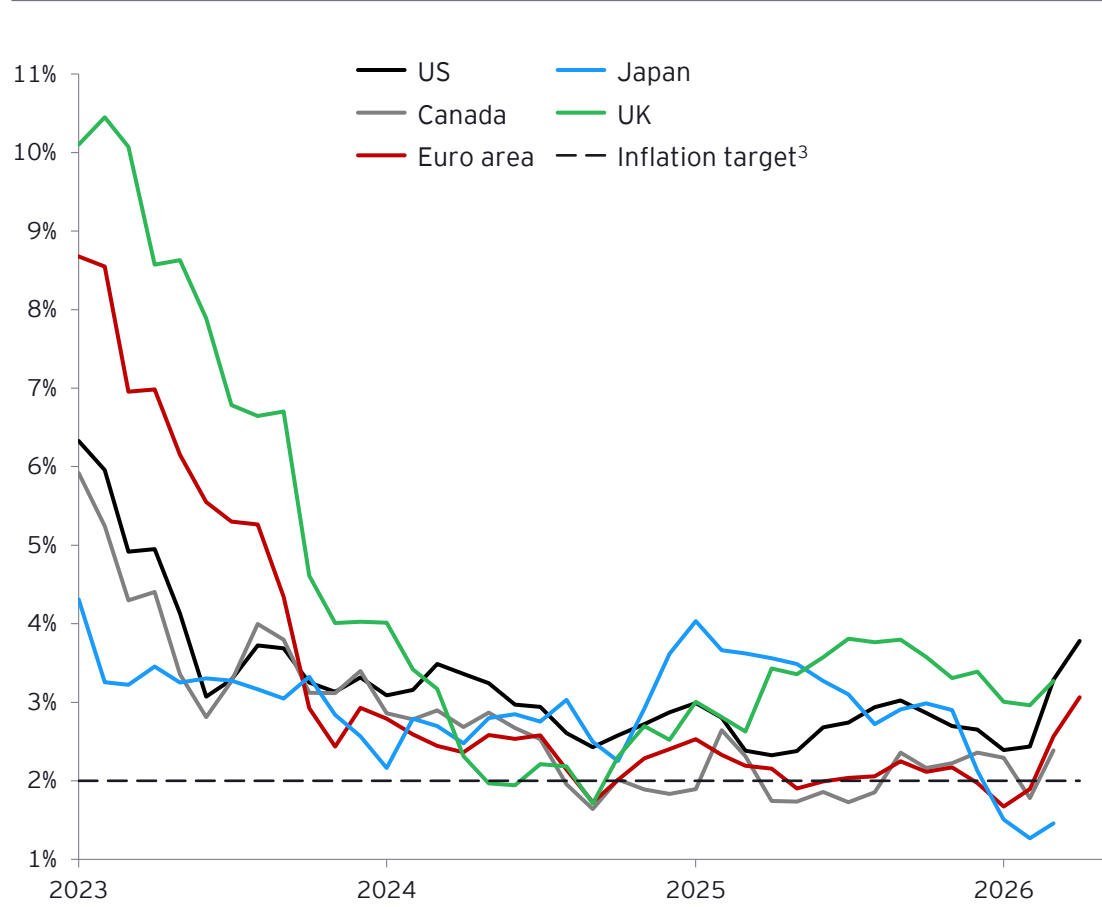
# Surging energy prices are reviving stagflationary fears, pushing central banks toward a more hawkish stance as inflation pressures re-emerge

Global overview

Central bank rates  
January 2006-May 2026<sup>1</sup>



Y/y headline Consumer Price Index (CPI) growth rate  
January 2019–April 2026

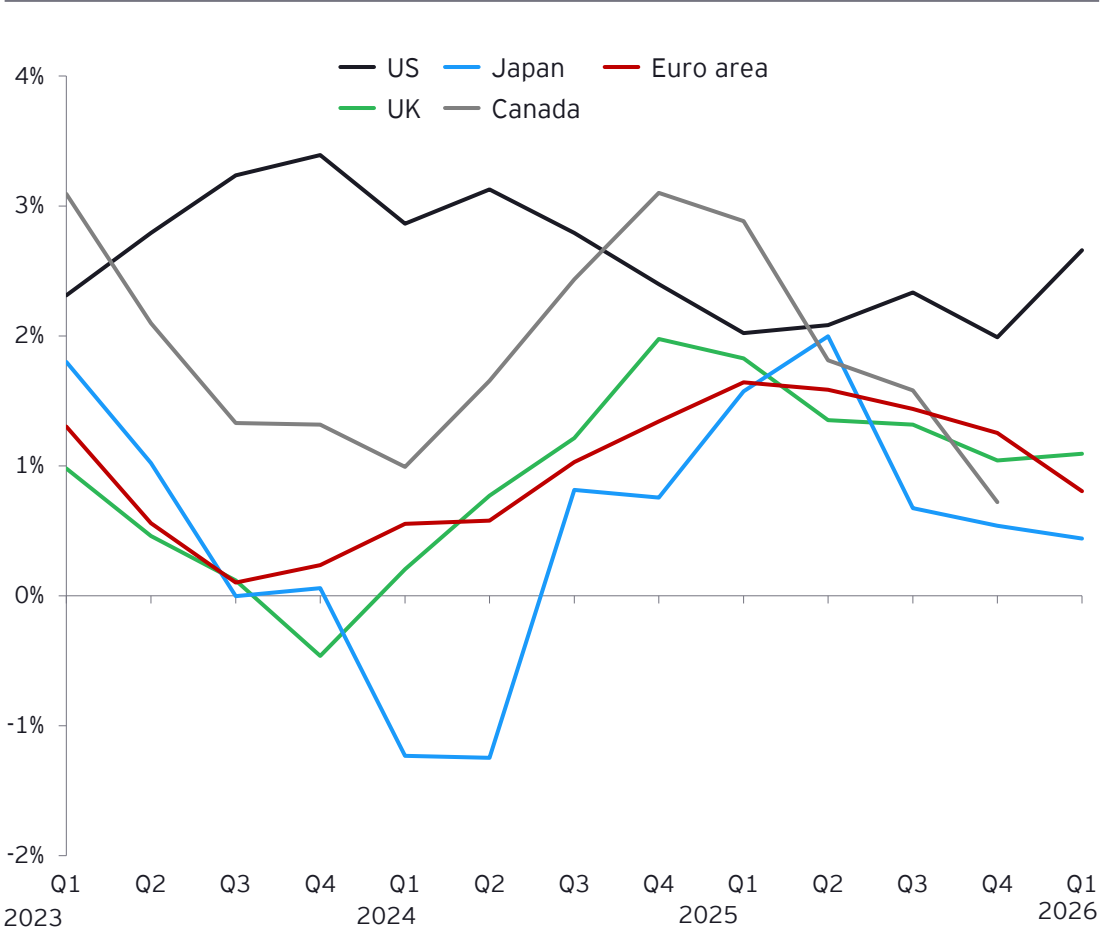


1. Most recently available data points shown for all central banks.  
 2. People's Bank of China (PBoC) data starts in 2015.  
 3. Inflation target for Federal Reserve Board (FRB), European Central Bank (ECB), Bank of England (BoE), Bank of Canada (BoC) and Bank of Japan (BoJ).  
 Source: U.S. Bureau of Labor Statistics; RBC Wealth Management; Bloomberg (US, Canada and Eurozone consensus forecasts)

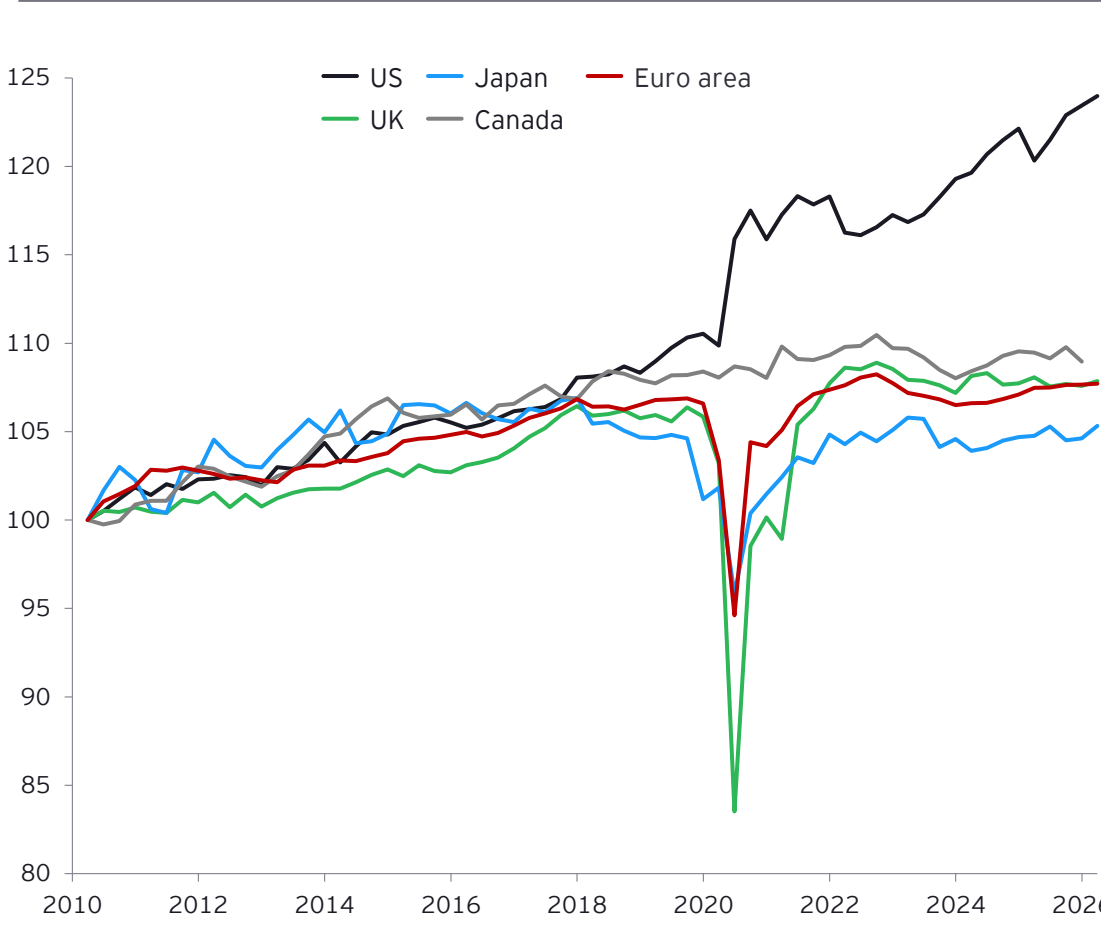
# Stronger productivity growth and strong AI investment underpin US resilience despite an increasingly challenging global backdrop subject to supply shocks

Global overview

Y/y real GDP growth  
Q1 2023-Q1 2026



Productivity across economies  
Q1 2010-Q1 2026 (2010 Q1 = 100)



Source: Statistical offices of respective countries; EY-Parthenon

# The US economy remains robust on the surface, but the Middle East conflict is fueling renewed inflation pressures, leading to an income squeeze and a higher cost of capital

## US outlook

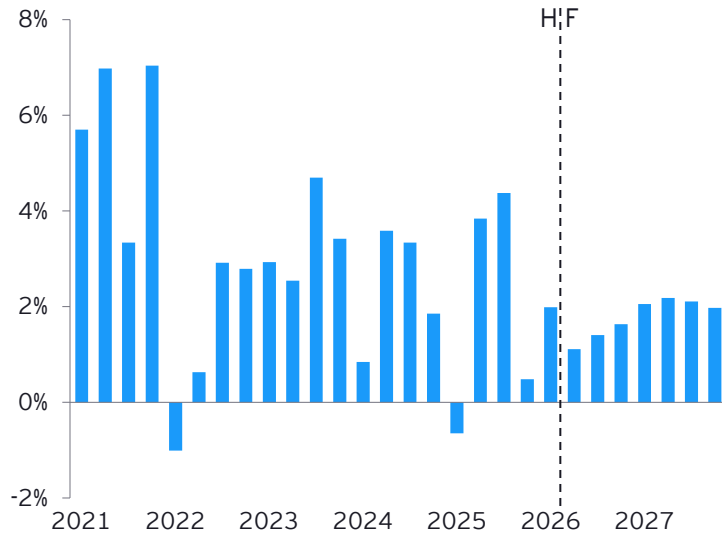
Growth erosion	<ul style="list-style-type: none"> <li>Successive supply shocks are testing the price of growth and leading to a gradual erosion of economic momentum. Fortunately for the economy, the three “A-pillars” of growth – affluent consumers, AI investment and asset price appreciation – continue to provide a solid but increasingly narrow foundation for growth. The risk is that an economy with a narrow base is more susceptible to headwinds.</li> <li>While we continue to anticipate a gradual normalization of energy and commodities production and trade flows in the coming months, we maintain our below-consensus call for real GDP growth of 1.8% this year. We have raised our inflation forecast, with headline personal consumption expenditures (PCE) peaking around 4.0% before falling to 3.7% in Q4, while core PCE is expected to end the year at 3.0% y/y.</li> </ul>	<b>Real GDP</b> 2026: 1.8% 2027: 1.9%
Inflation acceleration	<ul style="list-style-type: none"> <li>Despite an easing in direct military confrontation in the Middle East following a ceasefire, trade flows through the Strait of Hormuz remain effectively constrained, and a broader Middle East peace agreement has yet to materialize. The longer the Middle East conflict lasts, the more severe and broad-based inflationary pressures are likely to become. In the coming months, we anticipate higher fertilizer prices will contribute to higher food price inflation, while higher transportation and production costs, stemming from elevated energy and input costs, are likely to be passed through to goods and services prices.</li> </ul>	<b>Headline CPI inflation</b> 2026 Q4 y/y: 3.8% 2027 Q4 y/y: 2.1%
Income squeeze	<ul style="list-style-type: none"> <li>With wage growth easing to 3.6% y/y in April, real wage growth adjusted for CPI inflation turned negative at -0.2% y/y. The combination of job growth averaging 21,000 per month over the last 12 months and negative real wage growth means that real disposable income is contracting – a real income squeeze. Household budgets are coming under increasing pressure from higher inflation and a softer income backdrop. As a result, more consumers are turning to savings and credit to sustain spending, trends that are becoming increasingly difficult to maintain.</li> </ul>	<b>Real consumer spending</b> 2026: 1.8% 2027: 1.7%
Jobless expansion	<ul style="list-style-type: none"> <li>The labor market remains stuck in a fragile, low-growth equilibrium. Hiring has cooled and become more selective, while the steady unemployment rate reflects ongoing labor supply constraints and the absence of broad-based layoffs. The result is a labor market that is no longer a growth engine, but also one that is not signaling a material deterioration. We expect payroll growth to average around 20,000 per month in 2026, with the unemployment rate drifting toward 4.7% by year-end.</li> </ul>	<b>Unemployment rate</b> 2026 Q4: 4.7% 2027 Q4: 4.5%
Delicate Fed transition	<ul style="list-style-type: none"> <li>Incoming Fed Chair Kevin Warsh faces a challenging backdrop as steady labor market conditions alongside rising inflation risks raise the bar for rate cuts and support a prolonged pause. Our expectation remains that the Fed will stay on hold throughout the rest of the year, and we do not exclude the possibility of more regular dissents at upcoming meetings, including from the Fed Chair.</li> </ul>	<b>Fed funds rate</b> Current: <sup>1</sup> 3.625% 2026 Q4: 3.625% 2027 Q4: 3.125%
Recession risk	<ul style="list-style-type: none"> <li>Rising long-term interest rates, driven by persistent inflation pressures, higher term premia, fiscal concerns and growing political pressure on the Federal Reserve, represent a notable risk to the US outlook. A slowing labor market, mounting stress in private credit markets, and growing uncertainty around the pace and magnitude of AI-related labor displacement also warrant attention.</li> </ul>	<b>Recession odds</b> 40%

1. Midpoint of target range as of May 2026.

# Surging AI investment and affluent consumers will drive growth in 2026 even as rising cost pressures and elevated interest rates cap economic momentum

US outlook

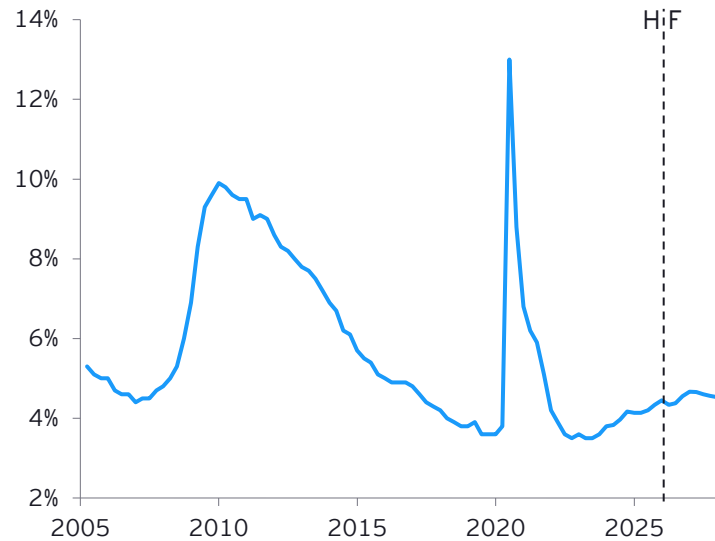
US quarter-over-quarter (q/q) annualized real GDP growth 2021-27F



**GDP growth**

2025: 2.1%  
 2026F: 1.8%  
 2027F: 1.9%

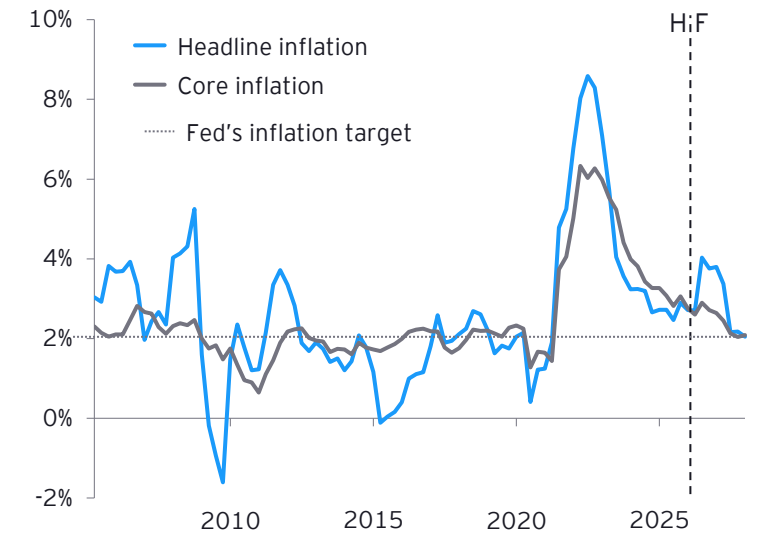
US unemployment rate 2005-27F



**Unemployment rate**

Q4 2025: 4.5%  
 Q4 2026F: 4.7%  
 Q4 2027F: 4.5%

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



**Headline<sup>1</sup> CPI inflation (y/y)**

Q4 2025: 2.7%  
 Q4 2026F: 3.8%  
 Q4 2027F: 2.1%

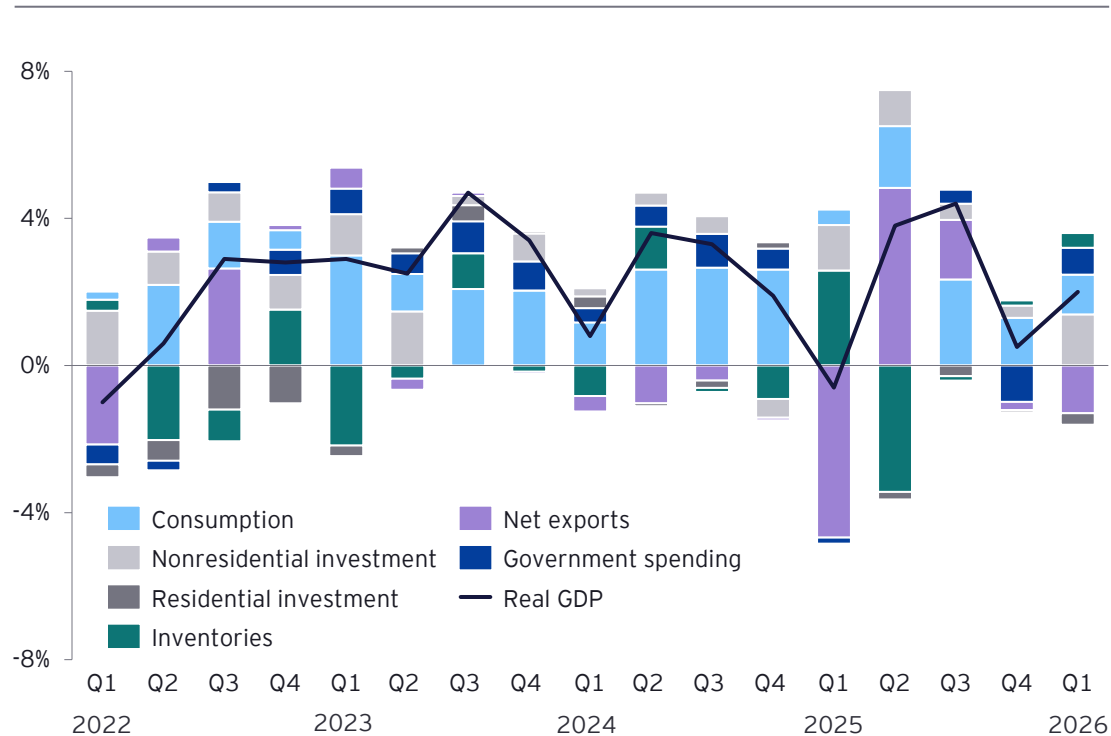
1. Headline CPI includes the prices on a fixed basket of goods. Core CPI removes the CPI components that can exhibit large amounts of volatility from month to month, such as food and energy.

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

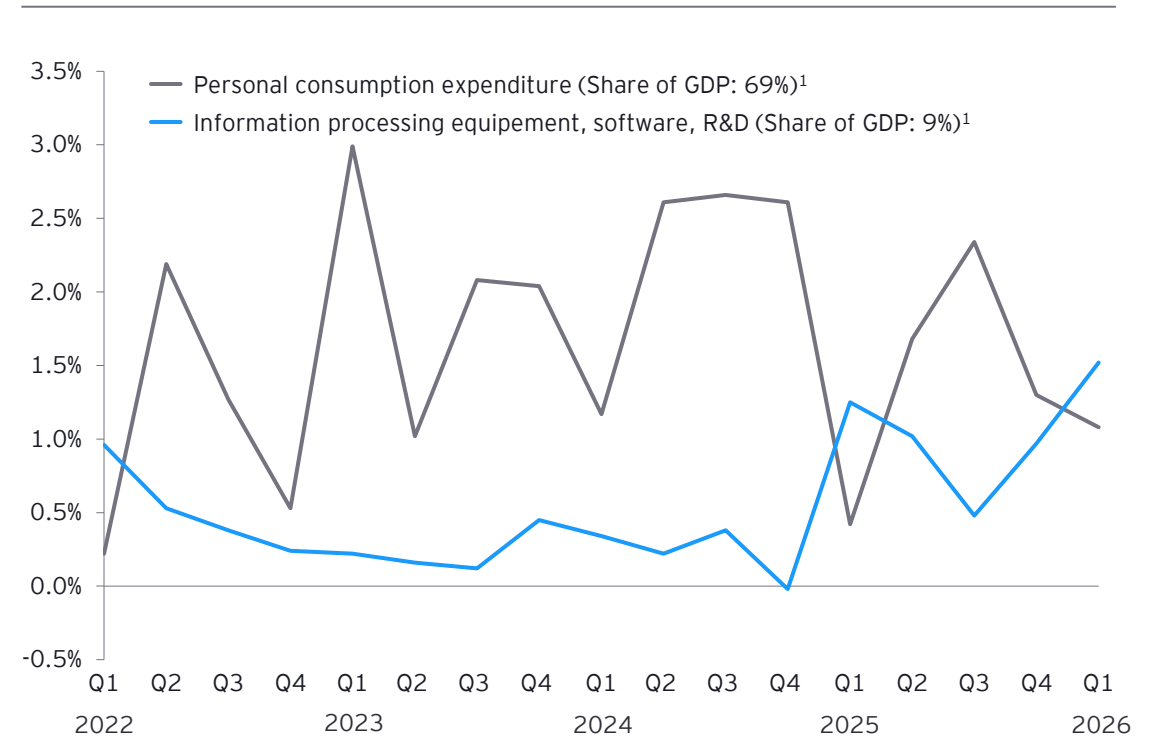
# GDP growth was solid at the start of the year, but is increasingly concentrated and uneven as AI-driven strength masks broader softening

US outlook

US real GDP growth contributions (q/q annualized)  
Q1 2022-Q1 2026



US real GDP growth contributions (q/q annualized)  
Q1 2022-Q1 2026



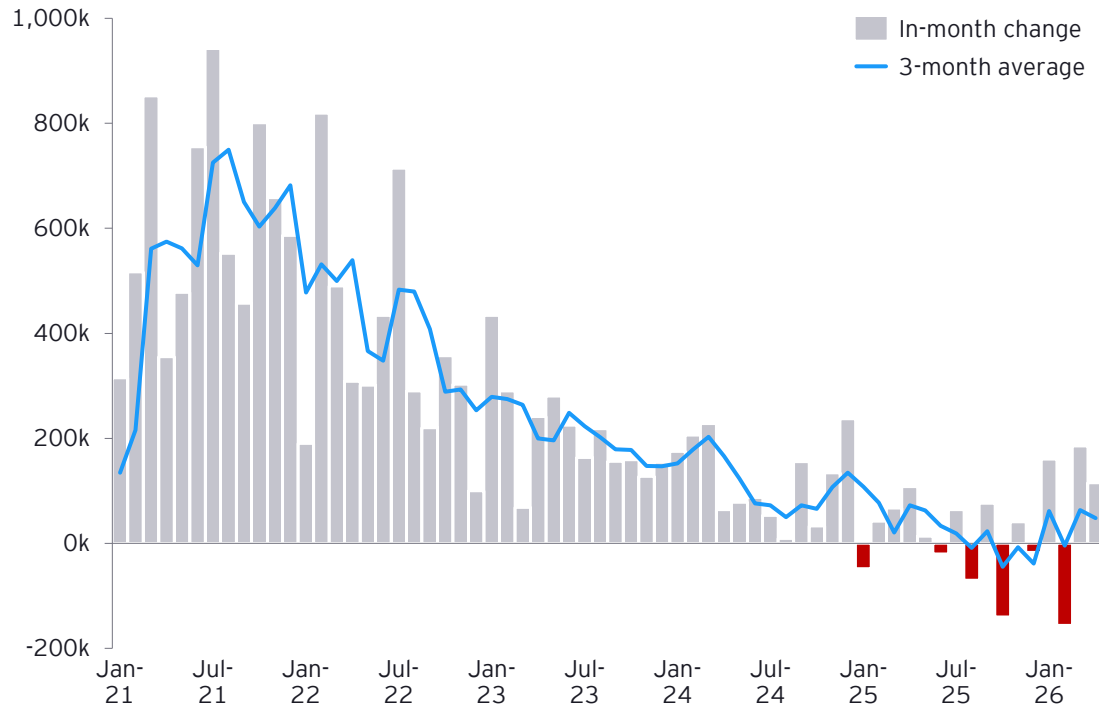
- Real GDP grew at a moderate 2.0% annualized pace in Q1 2026, following a weak 0.5% increase in Q4 2025. The rebound from the government shutdown lifted headline growth, but a surge in imports following the International Emergency Economic Powers Act (IEEPA) Supreme Court ruling meant net trade was a significant drag. Business investment in AI-related equipment and software contributed 1.4 percentage points (ppt) to real GDP growth, while consumer spending contributed only 1ppt.
- Overall, private sector demand showed firmer momentum at the start of 2026. However, it reflects an uncomfortable balance where the three narrow A-pillars of growth – affluent consumers, AI-investment and asset price gains – mask an uneven and more fragile economic foundation.

1. As of 2025.  
Source: U.S. Bureau of Economic Analysis; EY-Parthenon

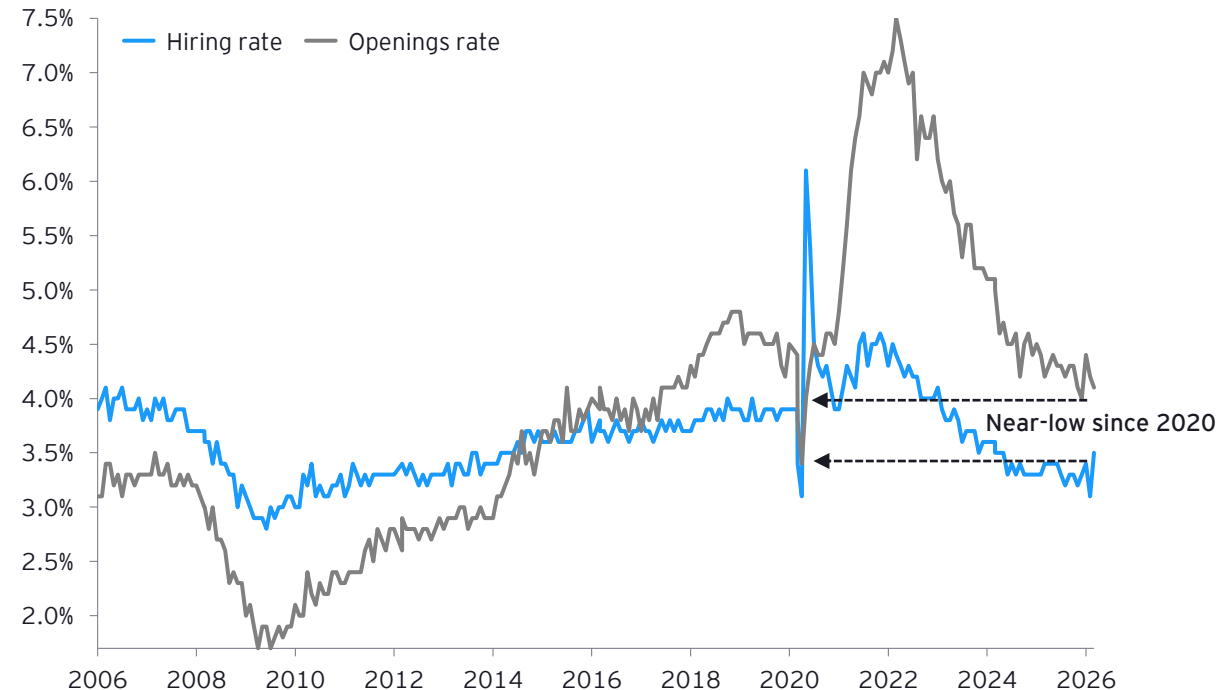
# The labor market is stuck in a fragile low-growth equilibrium with very selective hiring and no broad-based layoffs, but cost control via reduced wage growth

## Employment

US month-over-month (m/m) change in total nonfarm employment  
January 2021-April 2026



US hiring and openings rate  
January 2006-March 2026

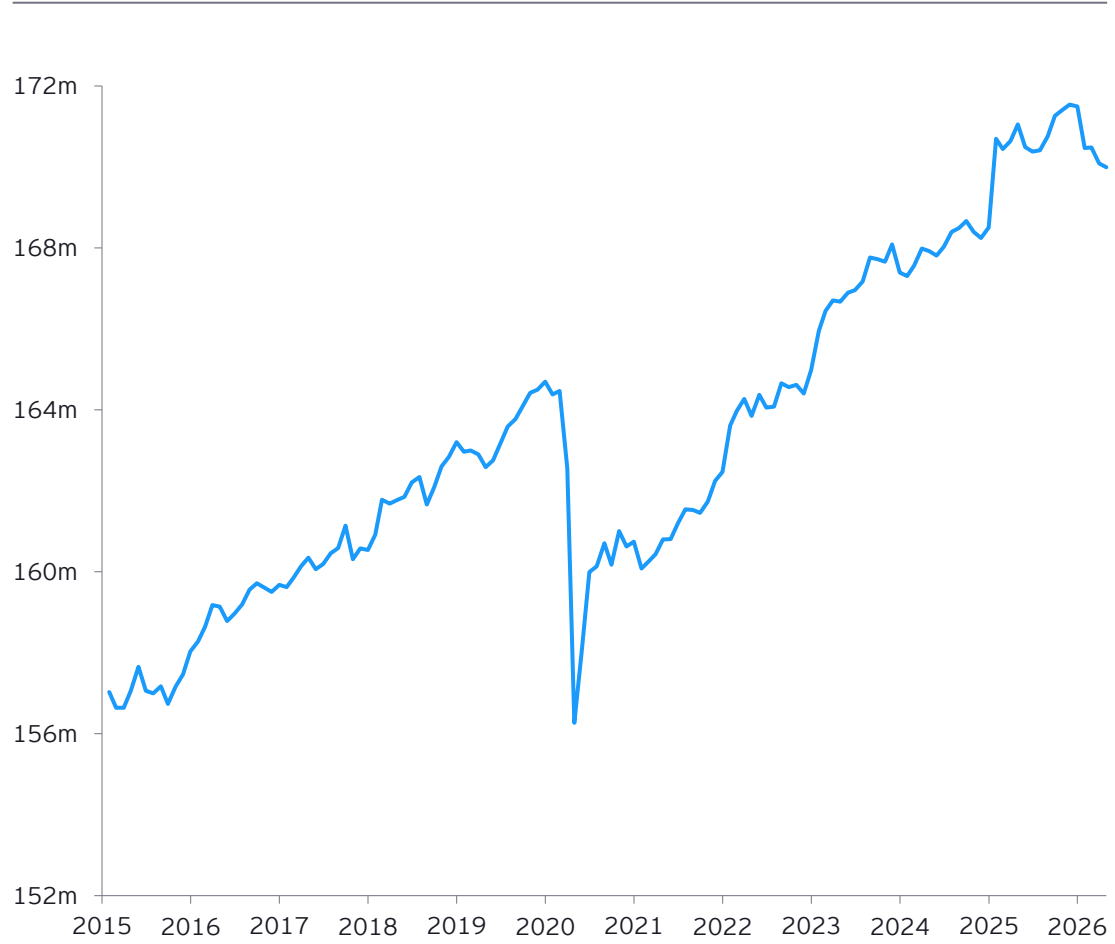


- The April jobs report points to a labor market that has stabilized, with payrolls rising 115,000 following an upwardly revised 185,000 gain. The unemployment rate is holding steady at 4.3%. Still, despite signs of stabilization, the upside surprise in April's payrolls was narrowly concentrated and reflects some pockets of resilience rather than a broad-based strengthening in hiring.
- Looking ahead, we expect the labor market to remain largely frozen in 2026, with selective hiring, slower wage growth and job gains slightly below breakeven, pushing the unemployment rate modestly higher toward 4.7% by year-end.

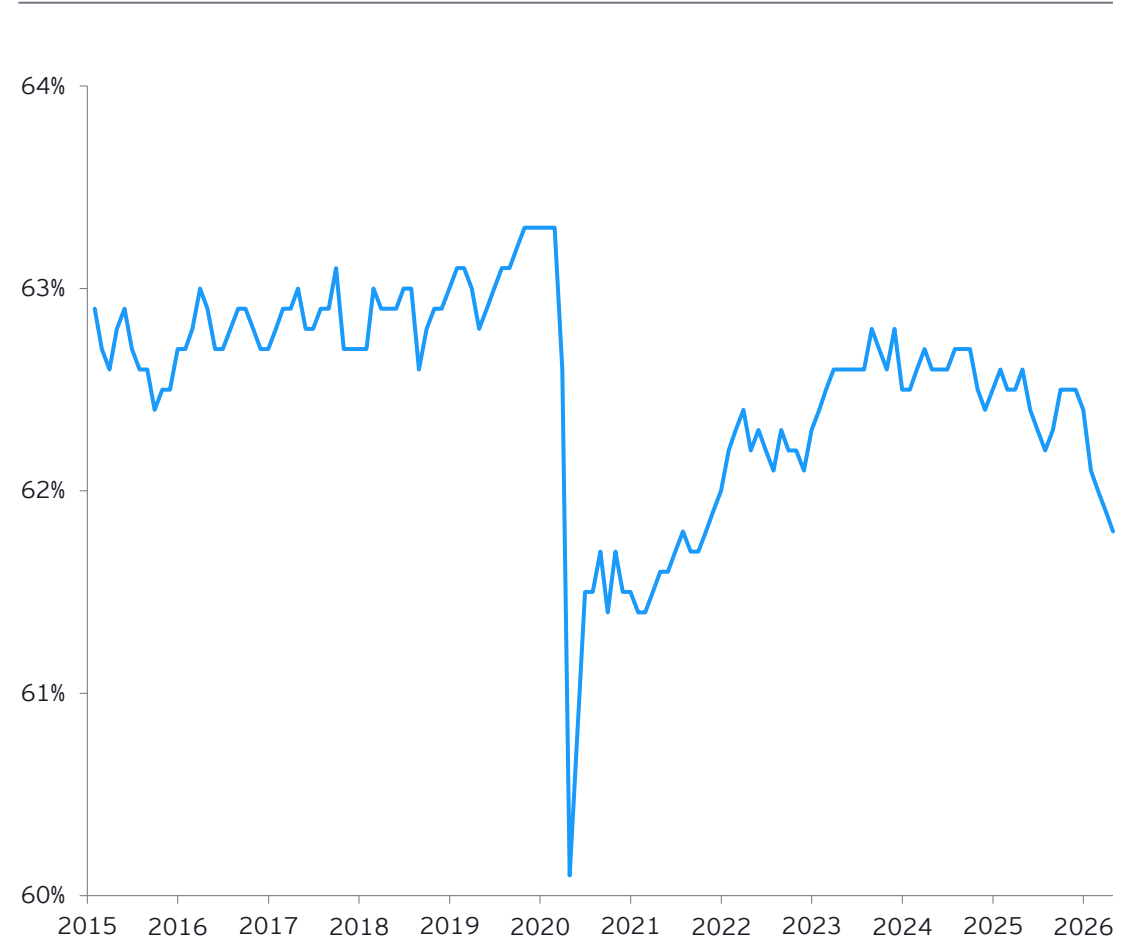
# Labor force participation continues to edge lower as slower population growth, aging demographics and a net migration plunge keep labor supply structurally tight

Employment

US three-month average labor supply  
January 2006-April 2026



US labor force participation rate  
January 2015-April 2026

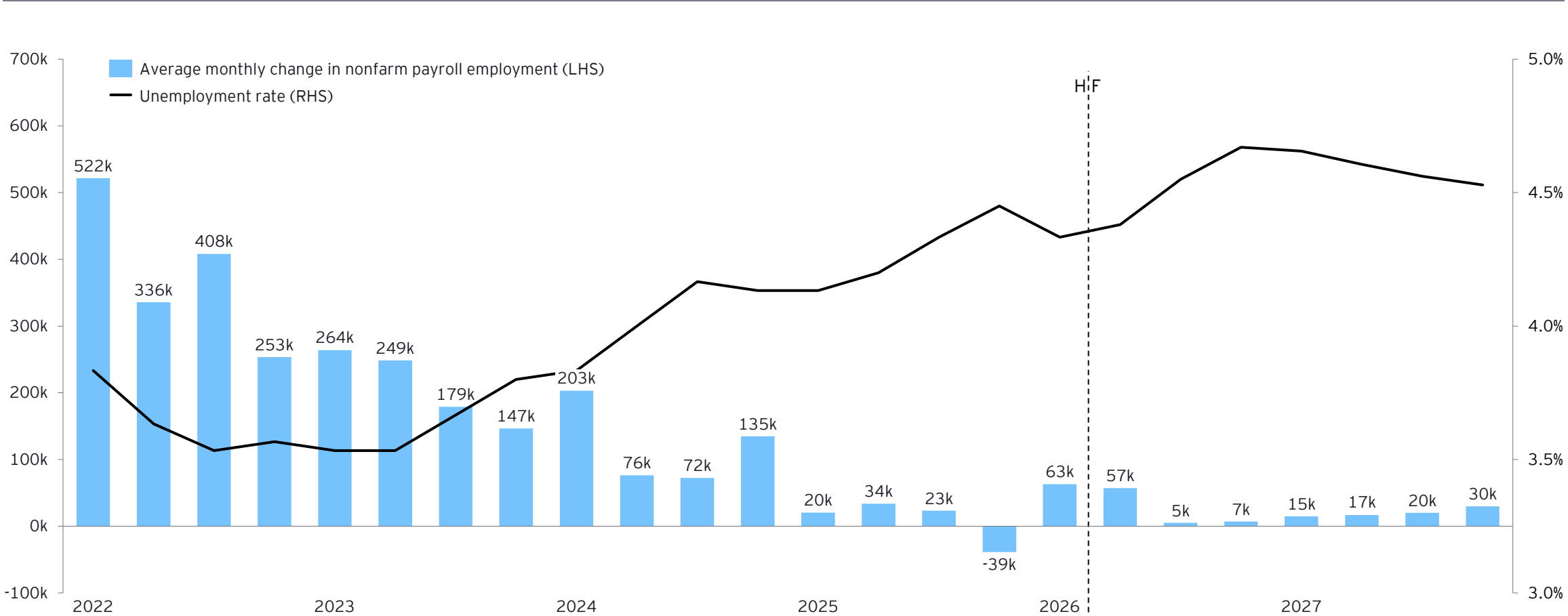


Source: U.S. Bureau of Labor Statistics; EY-Parthenon

# The labor market is expected to remain frozen in 2026, reflecting selective hiring, compressed wage growth and strategic workforce resizing

Employment

US average monthly change in total nonfarm employment and unemployment rate  
Q1 2022-Q4 2027F

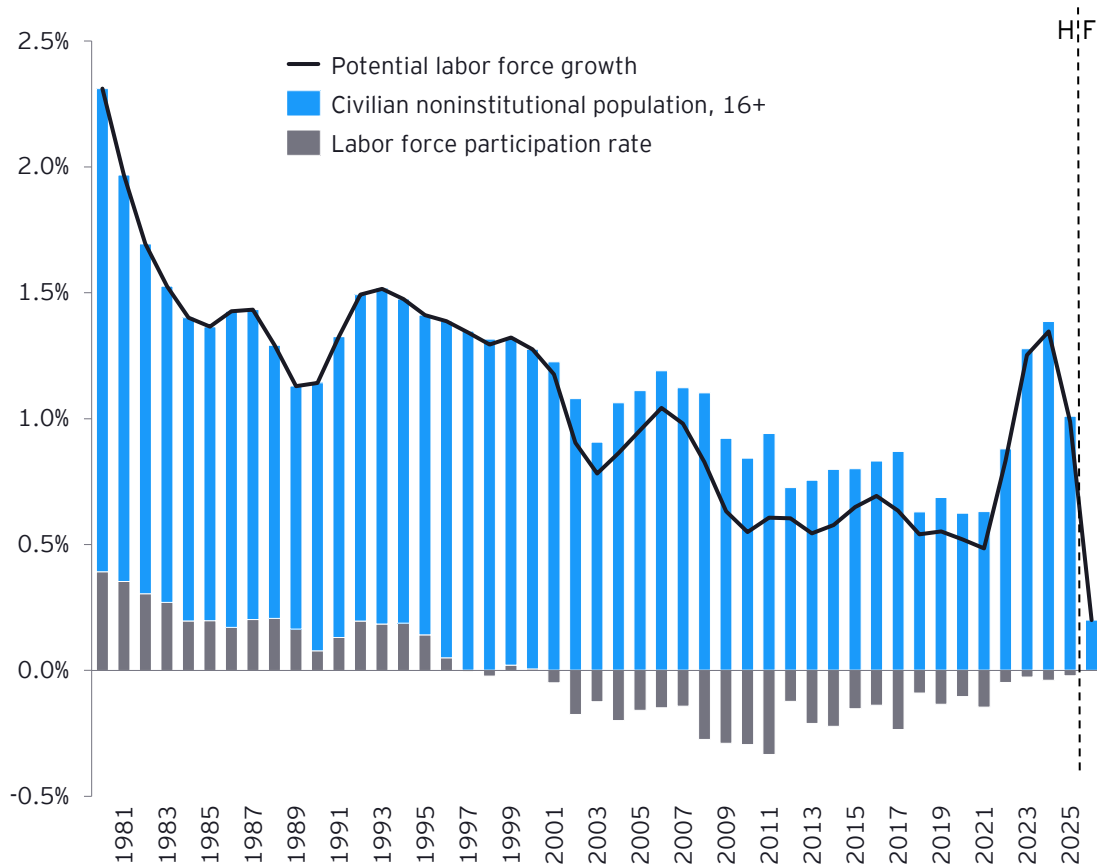


Source: U.S. Bureau of Labor Statistics; EY-Parthenon

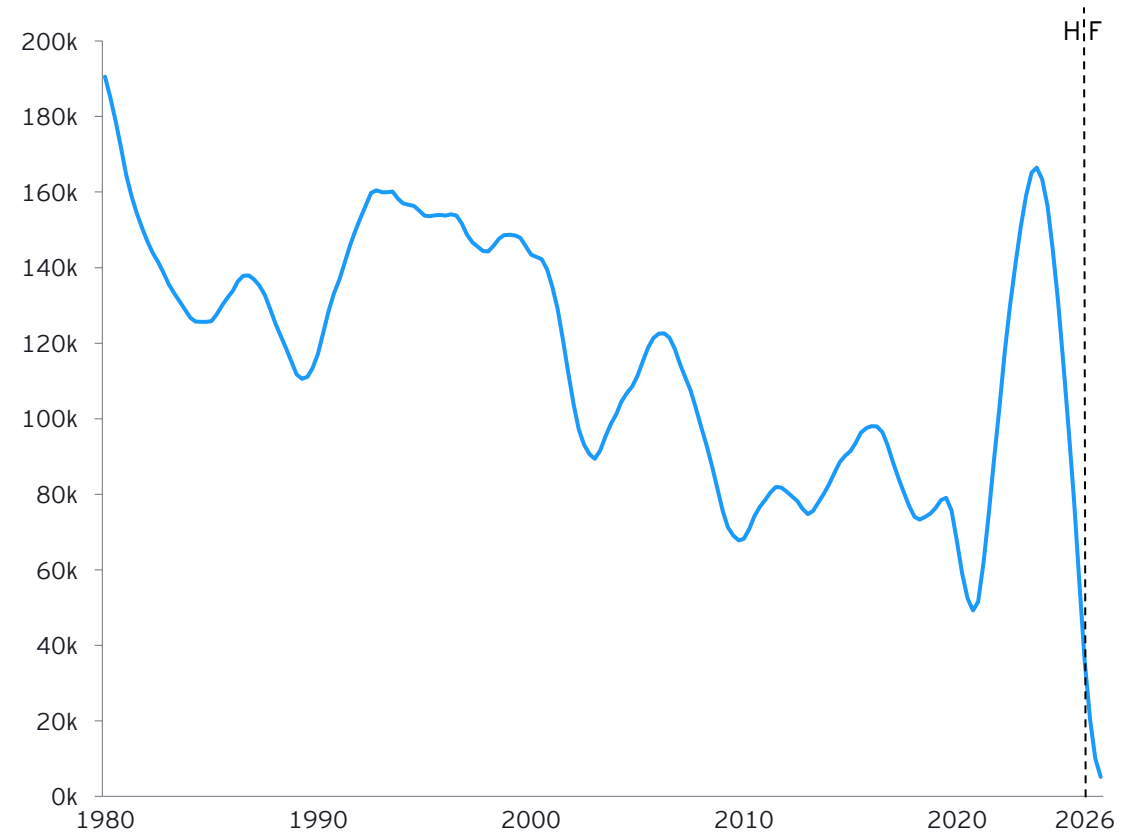
# A historic slowdown in net migration and aging demographics are reshaping labor supply, reducing the breakeven pace of job growth needed to hold the unemployment rate steady

Productivity

US potential labor force growth  
1980-2026F



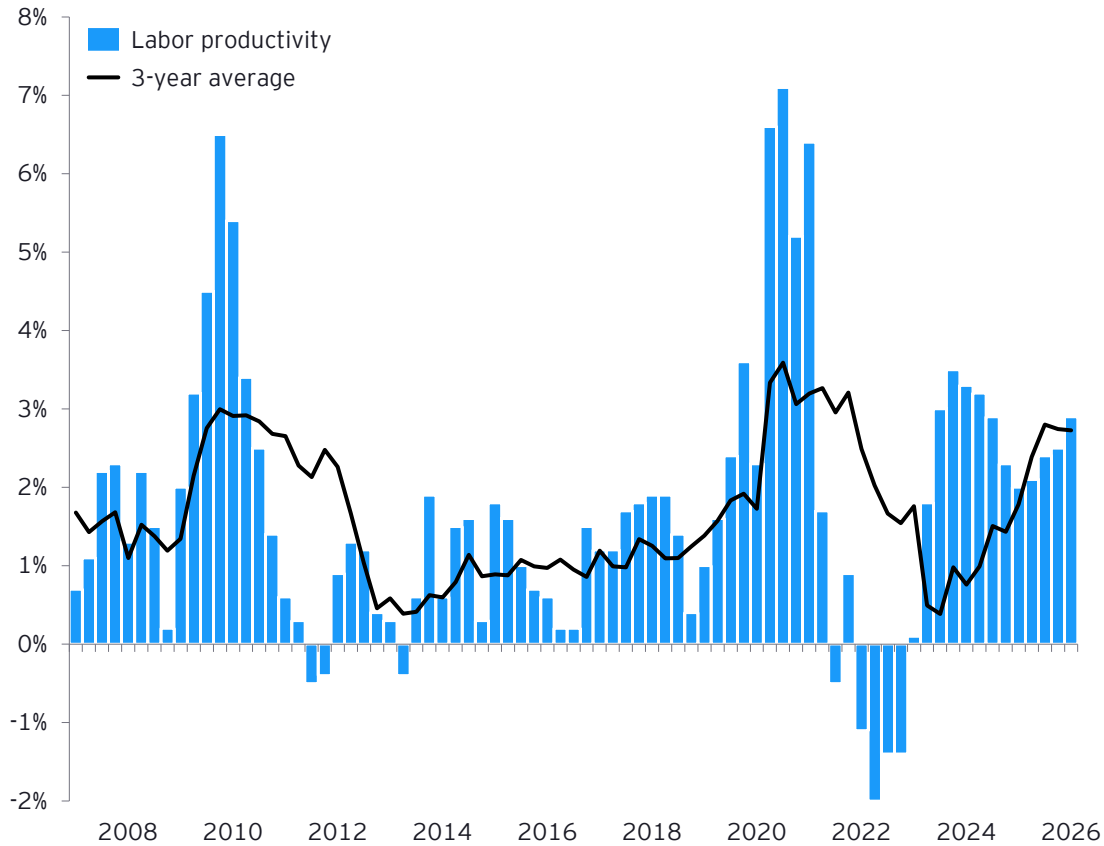
US breakeven pace of employment growth (monthly change)  
Q1 1980-Q4 2026F



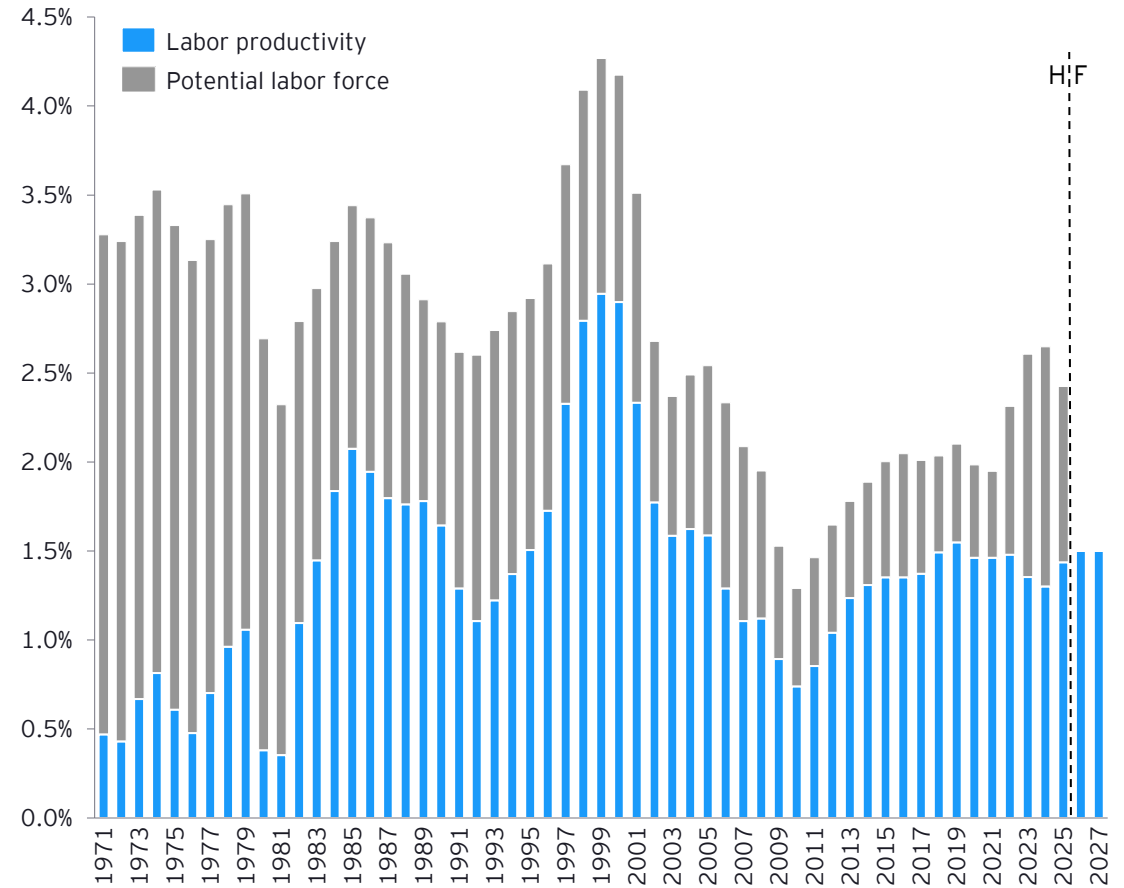
# With labor force growth slowing to near zero due to aging demographics and plunging net migration, potential output growth depends increasingly on productivity growth

Productivity

US y/y percentage change in labor productivity  
Q1 2007-Q1 2026



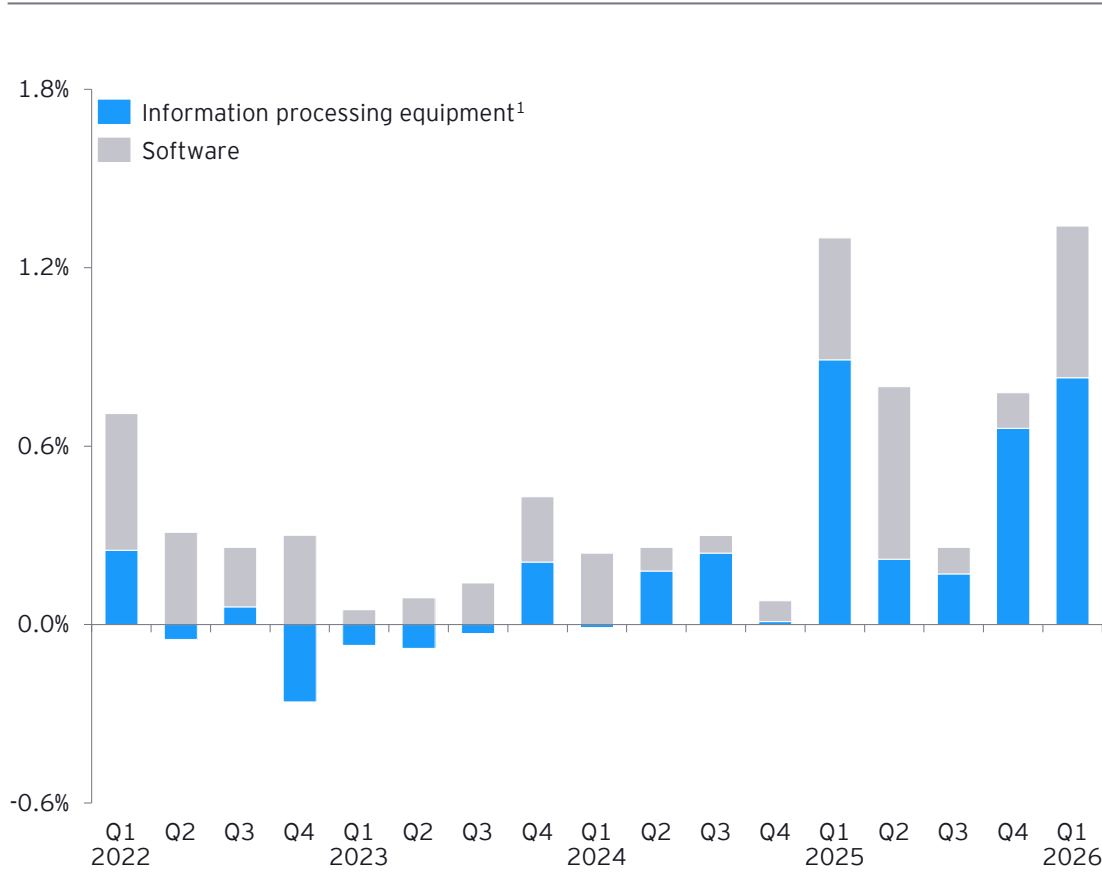
US contribution to real potential GDP growth  
1971-2027F



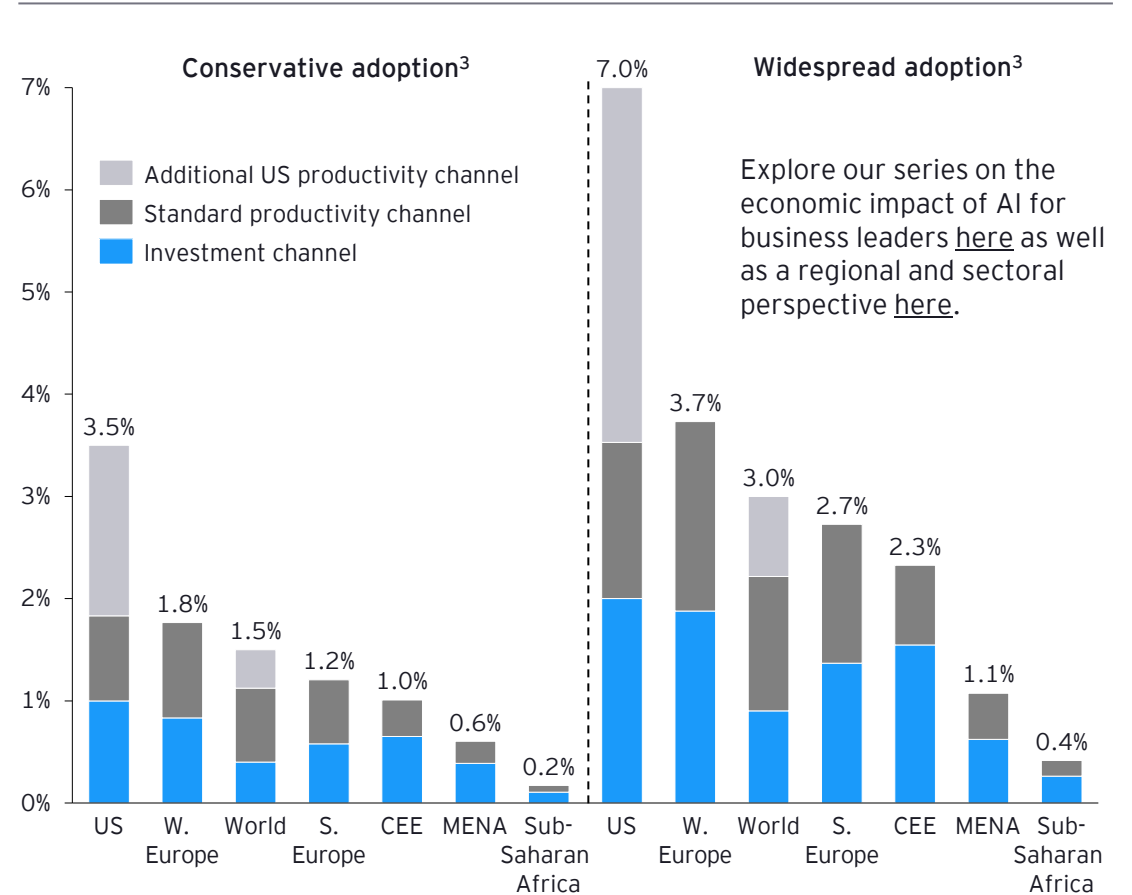
# AI is emerging as the strongest supply-side offset to a slowing economy, with notable prospects for faster global growth, but also downside risks

## Productivity

**US information processing and software investment contribution to real GDP growth (q/q annualized) Q4 2021-Q1 2026**



**Impact of AI on real GDP level relative to no-AI scenario (percentage) 2033F<sup>2</sup>**

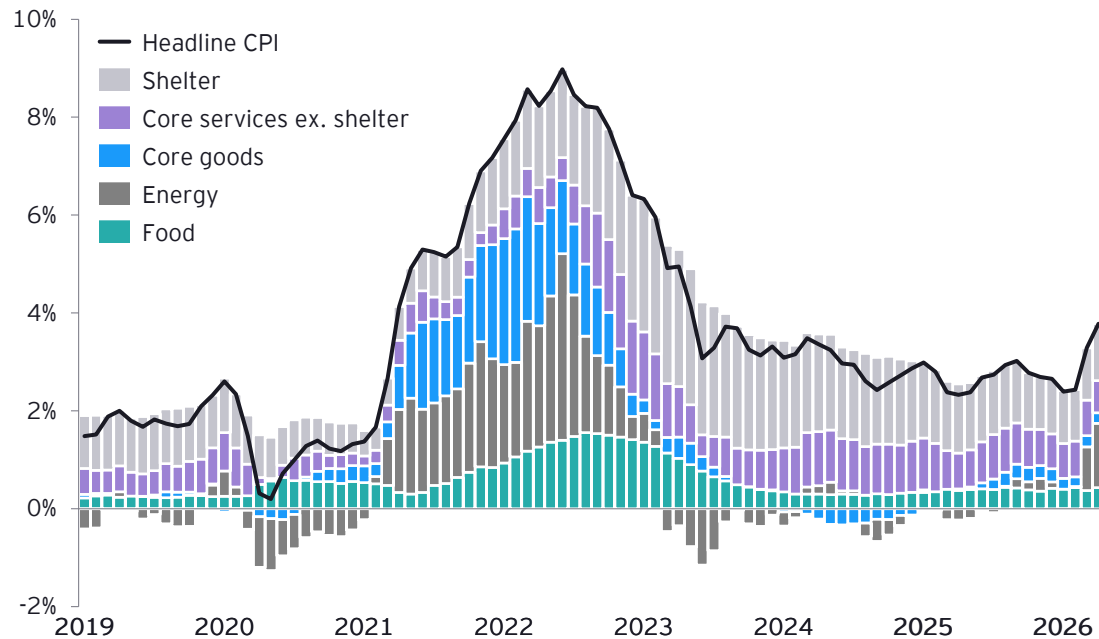


1. Includes investment in software, R&D, computer and peripheral equipment, communication equipment, data centers, and power infrastructure.  
 2. The conservative scenario assumes 60% slower integration, based on existing relationship between AI and information and communication technology (ICT) adoptions.  
 3. The productivity channels are computed using a refined approach of Acemoglu (2024) as described [here](#).

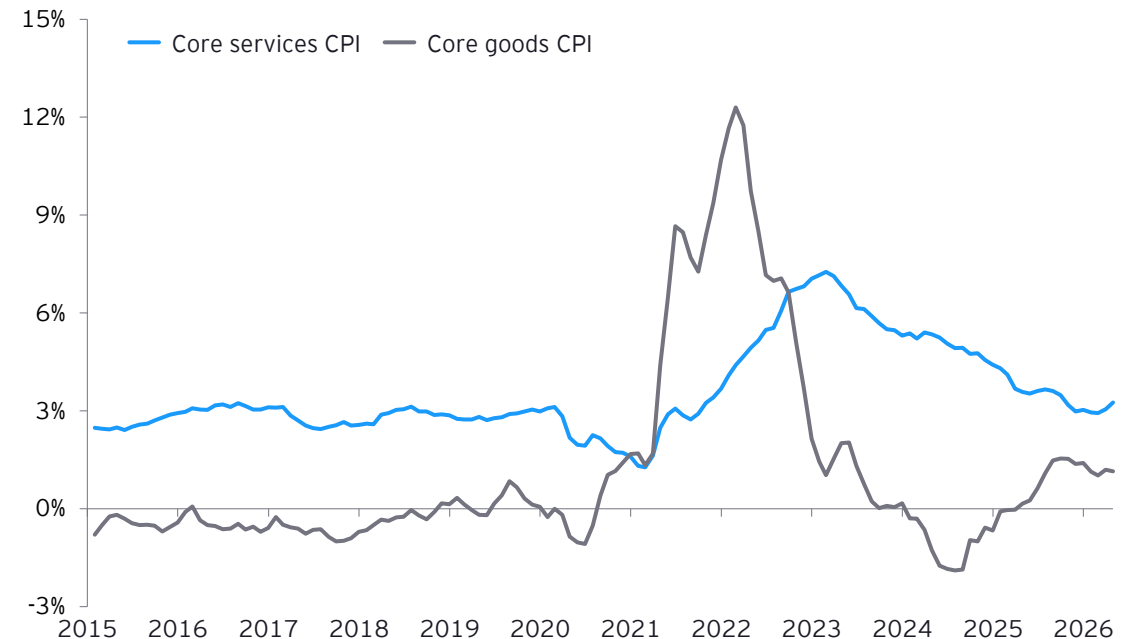
# The lingering Middle East conflict is putting sustained upward pressure on headline inflation, now close to 4%, while core inflation remains relatively contained for now

## Inflation

US y/y percentage change in headline CPI, contribution by category<sup>1</sup>  
January 2019–April 2026



US y/y percentage change in core goods and services CPI  
January 2015–April 2026



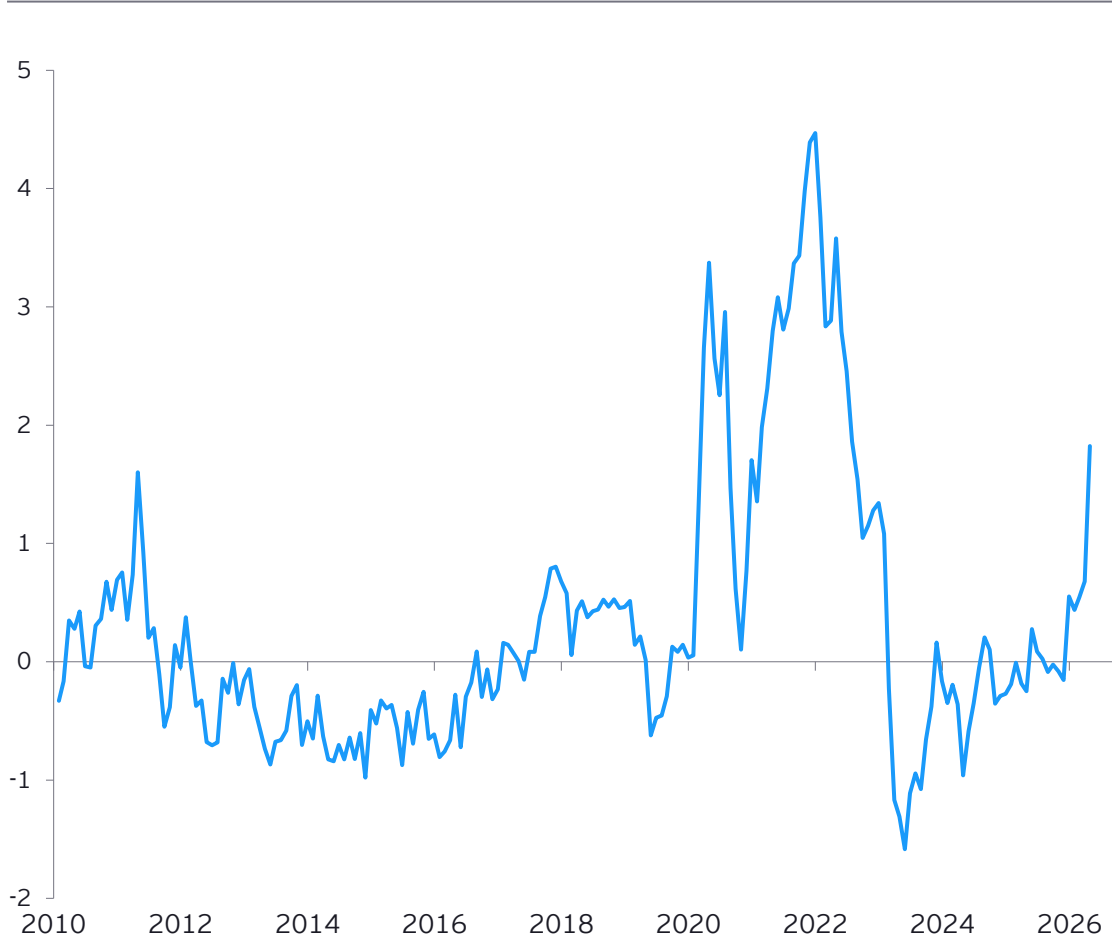
- Headline CPI rose more than expected in April, up 0.6% m/m after an outsized 0.9% gain in March. Annual inflation climbed 0.5ppt to 3.8% y/y, driven by higher energy and food prices and some early pass-through effects into core inflation from higher airfare costs.
- The Middle East conflict is adding a new inflationary impulse on top of tariff-related pressures while increasing uncertainty around the outlook. Energy and food inflation are expected to firm further, driven by higher transportation and production costs. Looking ahead, we expect these supply-driven pressures to push headline CPI toward a peak of around 4.2% y/y in the coming months, before easing gradually to 3.8% by year-end.

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

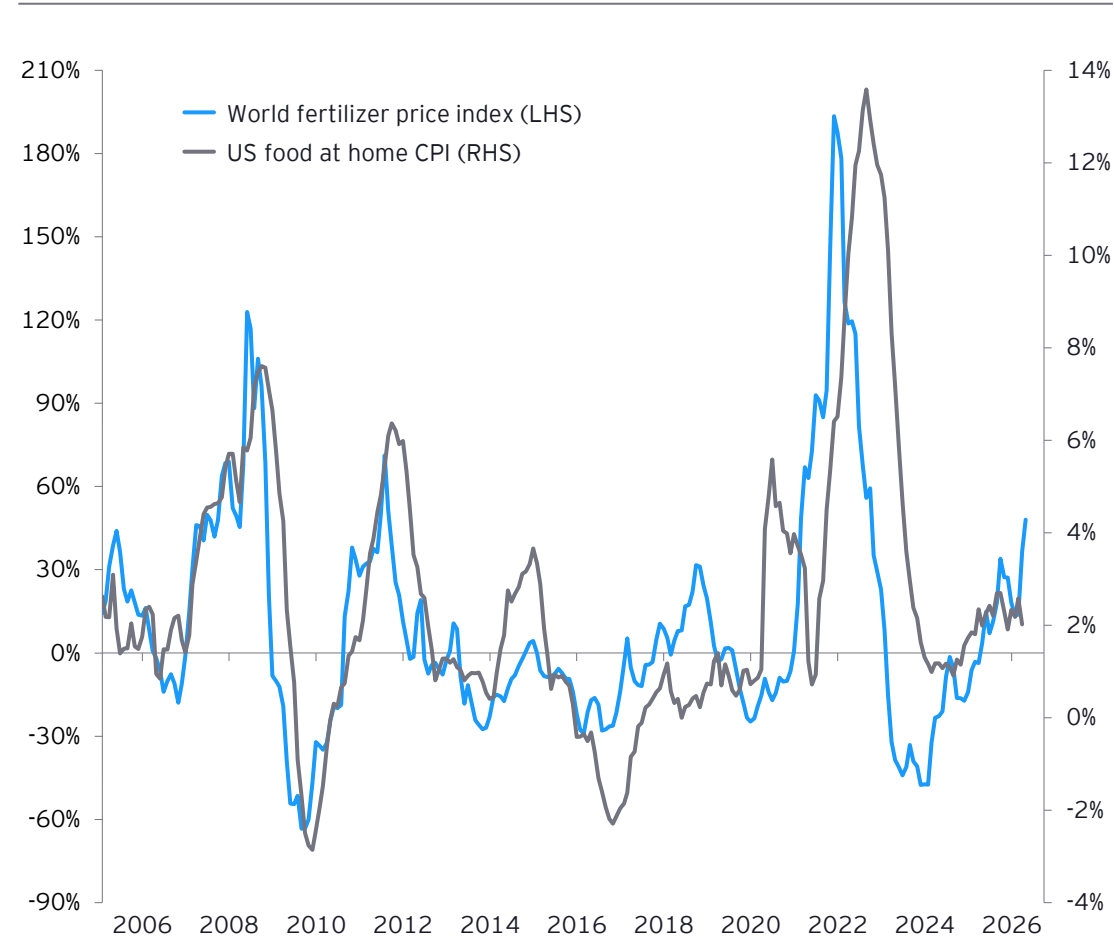
# In coming months, higher fertilizer prices will lift food inflation while increases in both energy prices and supply chain pressures will lead to some pass-through to core prices

Inflation

Global supply chain pressure index (GSCPI)<sup>1</sup>  
January 2010-April 2026



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

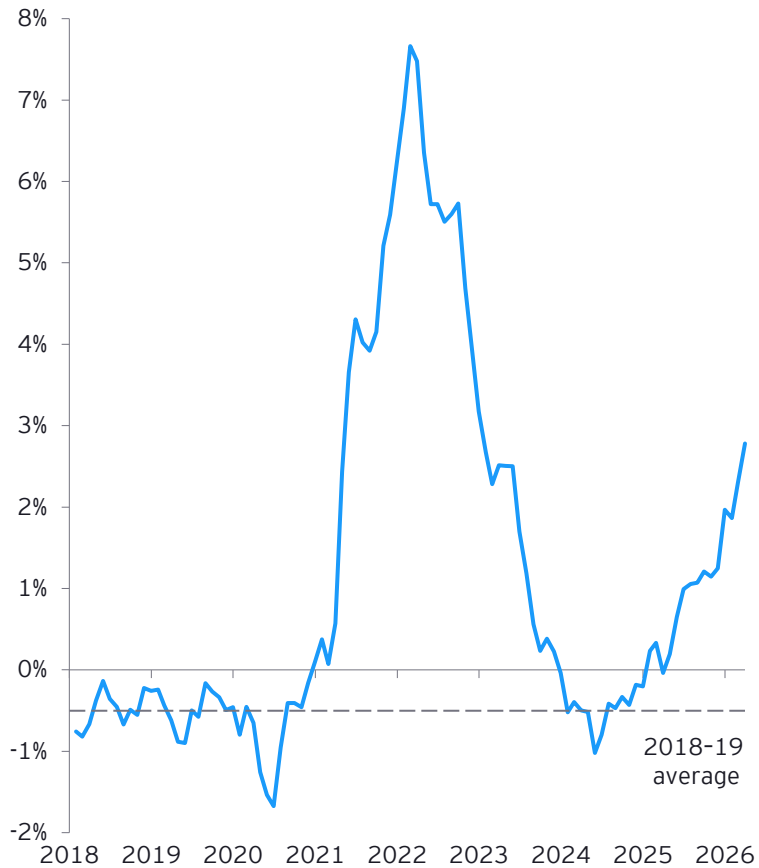


1. Index scaled by its standard deviation (0 = average value).  
Source: U.S. Energy Information Administration; U.S. Bureau of Labor Statistics; Federal Reserve Bank of New York

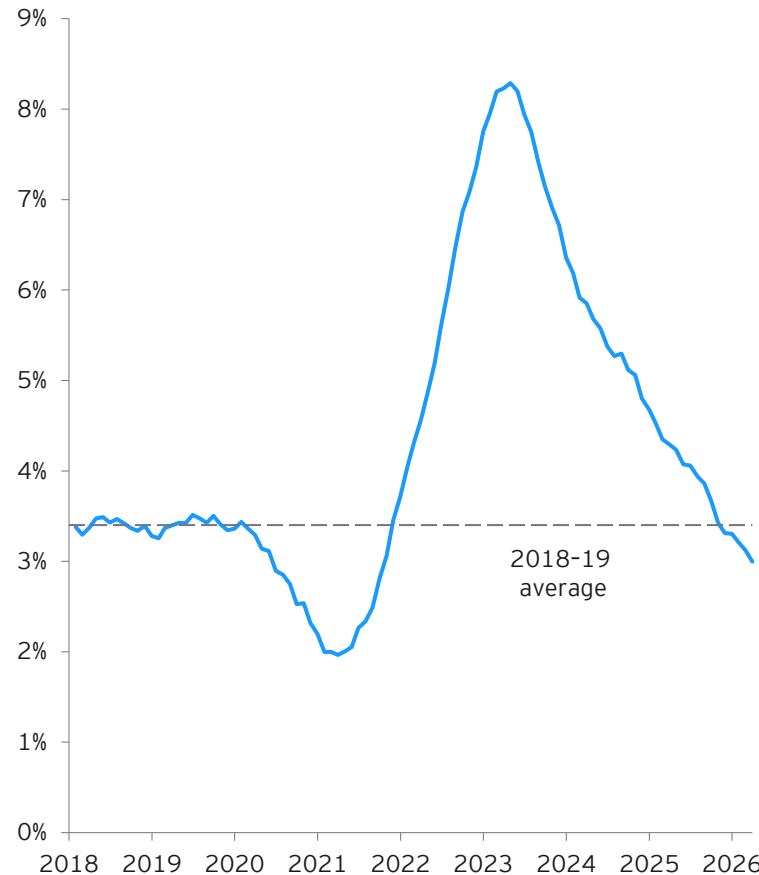
# Inflationary pressures will broaden beyond energy and food and layer on top of tariff pressures, despite disinflation from the labor market and housing sector

Inflation

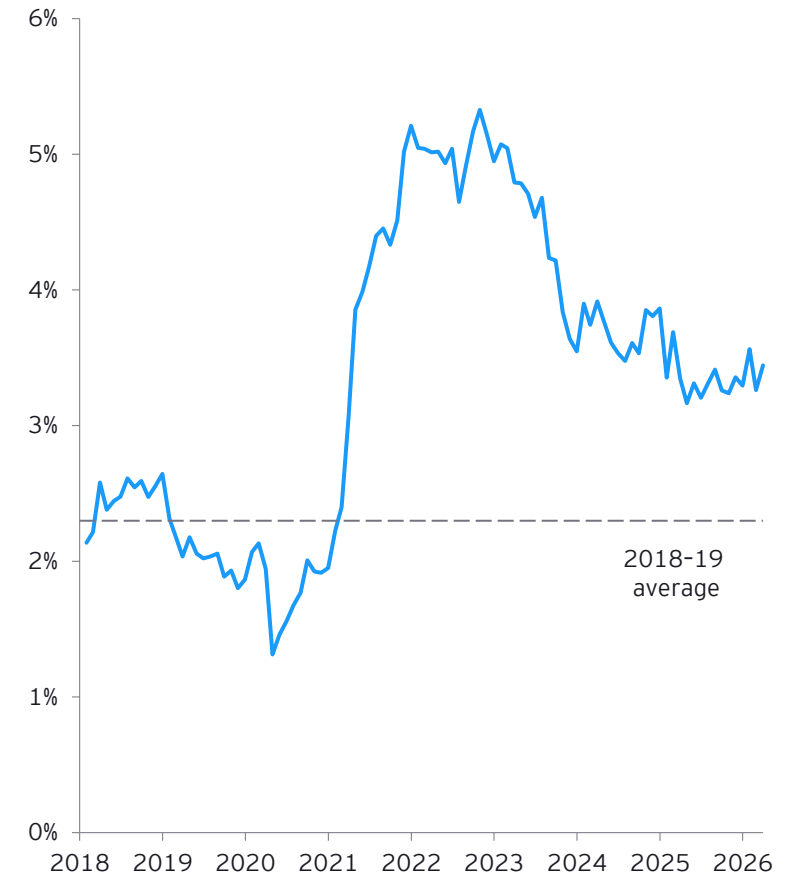
US PCE core goods inflation  
January 2018-March 2026



US PCE core housing inflation  
January 2018-March 2026



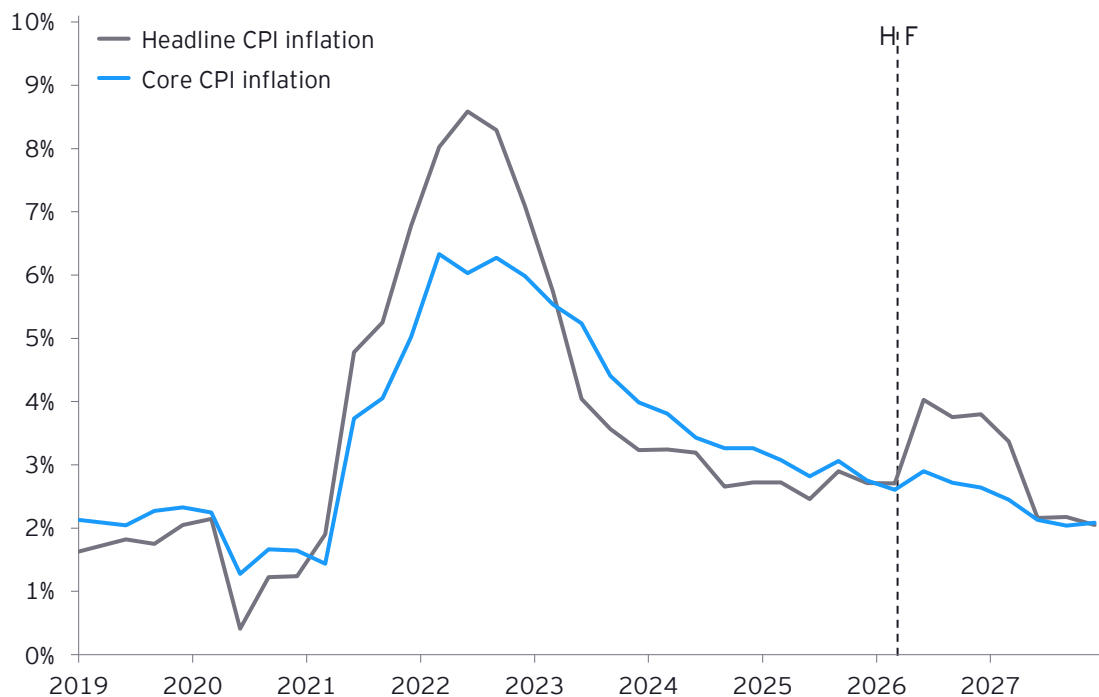
US PCE core services excluding housing  
January 2018-March 2026



# Headline inflation is poised to surpass 4% in Q2 and end 2026 above 3.5%, and the risk of higher and more persistent inflation from the Middle East conflict rise is significant

Inflation

US y/y percentage change in CPI inflation  
2019-27F

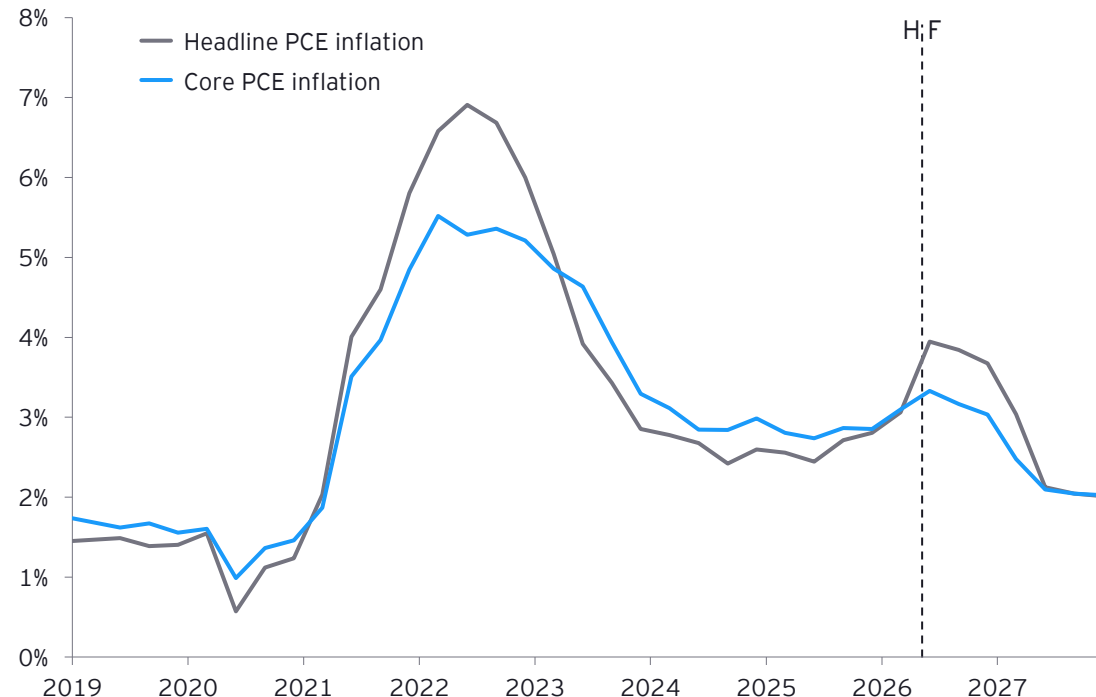


Headline CPI<sup>1</sup> inflation (y/y)

Q2 2026F (peak): 4.0%

Q4 2026F: 3.8%

US y/y percentage change in PCE inflation  
2019-27F



Headline PCE<sup>2</sup> inflation (y/y)

Q2 2026F (peak): 3.9%

Q4 2026F: 3.7%

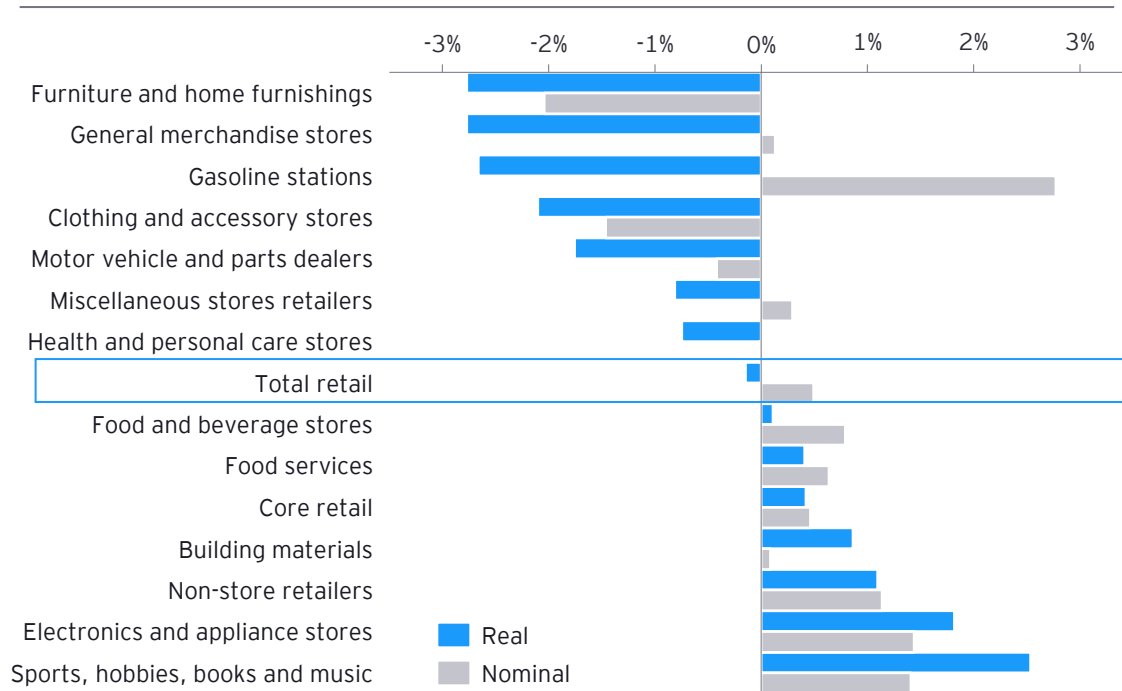
1. Headline CPI includes the prices on a fixed basket of goods. Core CPI removes the CPI components that can exhibit large amounts of volatility from month to month, such as food and energy.

2. Headline PCE includes the prices of all goods and services. Core PCE removes components that can exhibit large amounts of volatility from month to month, such as food and energy.

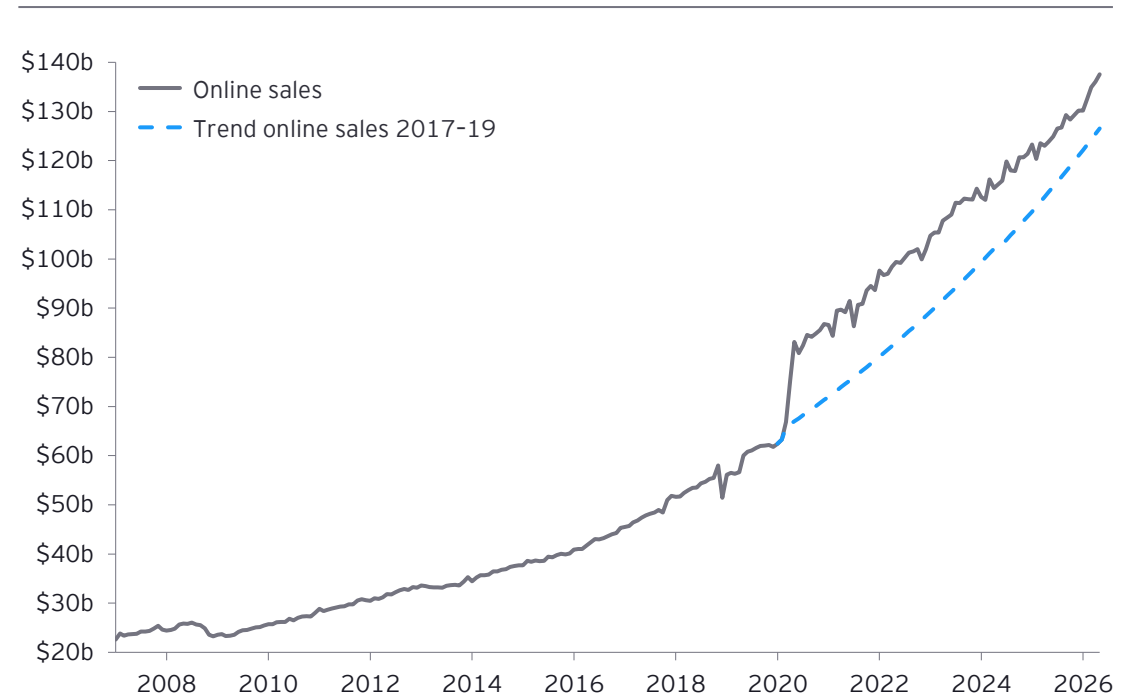
# Softer retail sales in April indicate that US consumers are acting with more prudence as price pressures intensify and labor market conditions soften

Consumer

US real retail sales m/m percentage change  
April 2026



US nominal non-store retail sales  
January 2007-April 2026



- Retail sales lost momentum in April, rising just 0.5% after March's strong 1.6% gain. Importantly, the picture was notably softer on an inflation-adjusted basis, with signs of demand destruction from rising prices emerging. Sales volumes declined in categories such as healthcare, autos, clothing, gasoline and furniture, pointing to increasing price sensitivity and some pullback in discretionary spending.
- One notable bright spot, however, was non-store sales, which continued to post solid gains, suggesting that underlying demand is holding up better in online channels even as broader retail momentum becomes more fragmented.

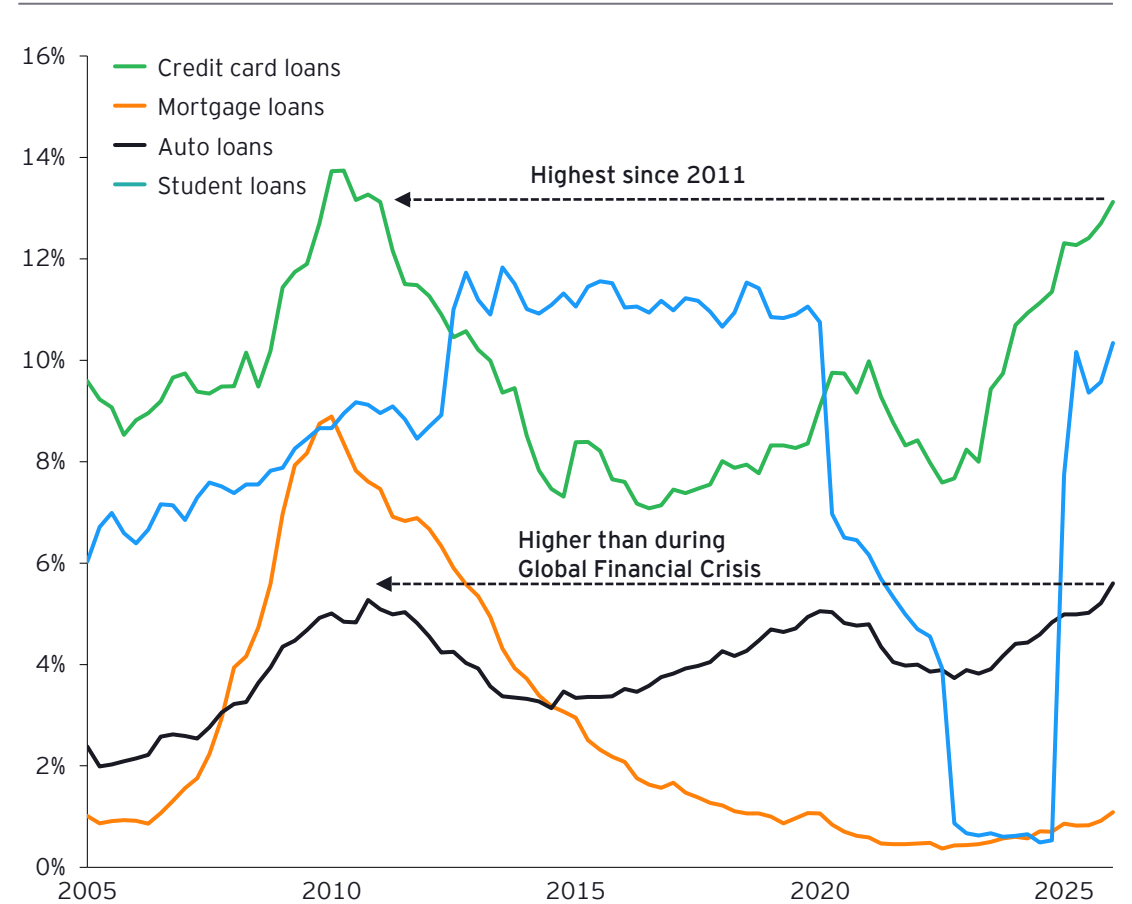
# Consumer spending resilience is partly sustained by greater reliance on savings and credit, but these are finite resources, especially with pockets of delinquency risks emerging

Consumer

US personal savings rate  
January 2000-March 2026



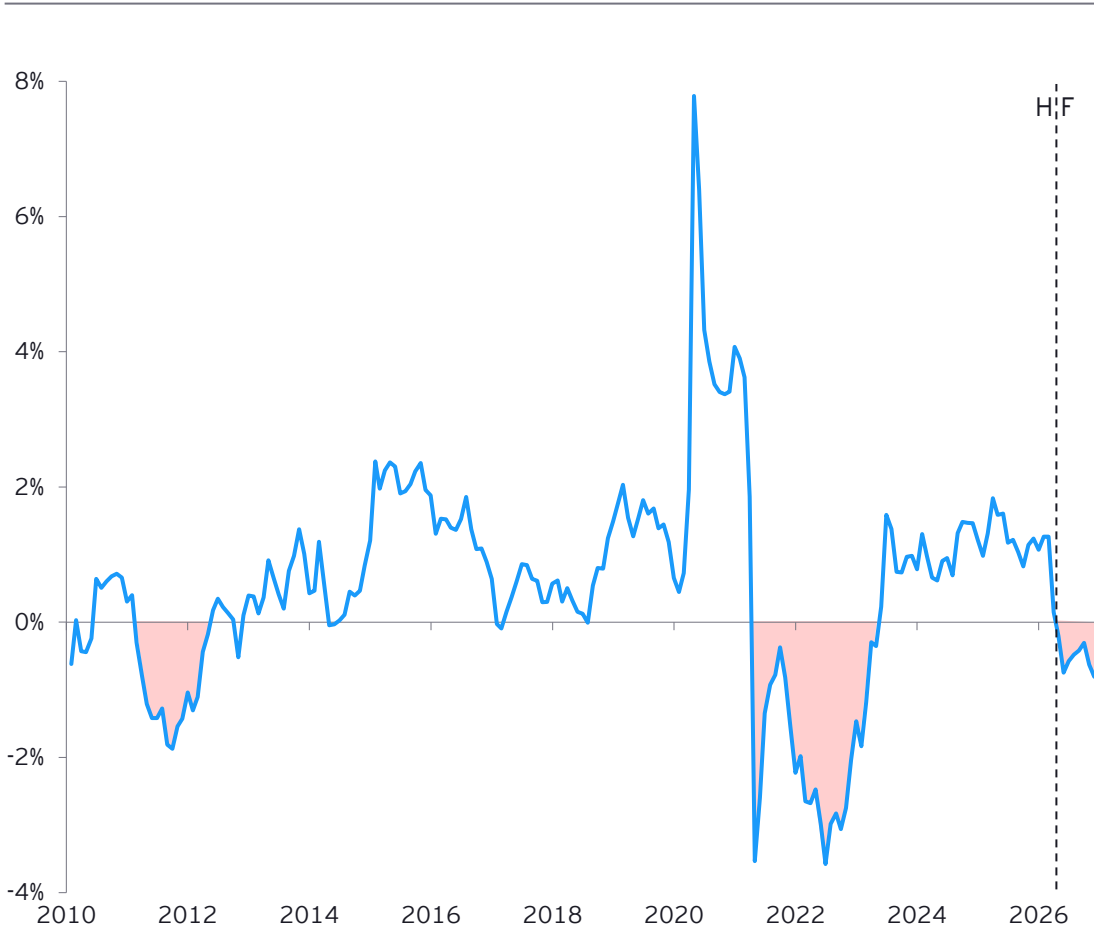
Percentage of balance of 90+ days delinquent US consumer loans  
Q1 2005-Q1 2026



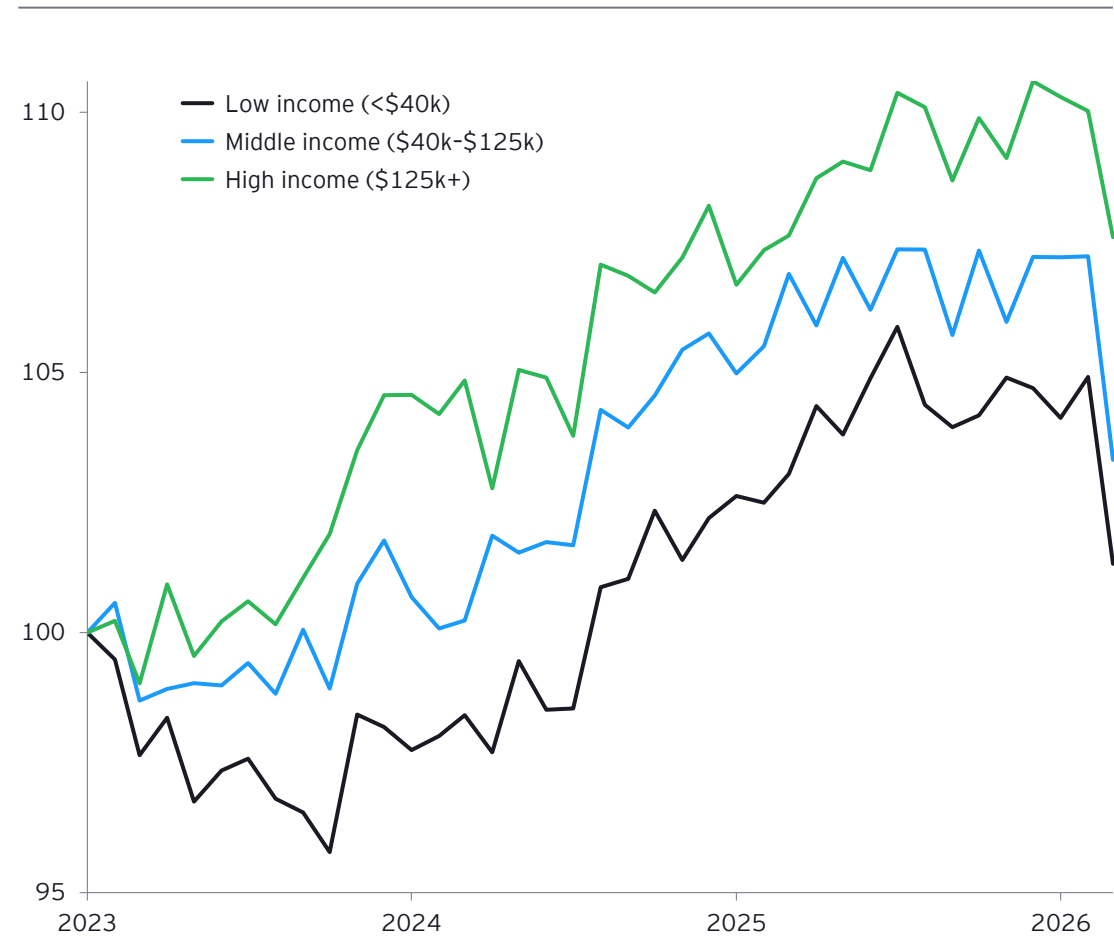
# With inflation outpacing wage growth for the first time since April 2023, lower- and median-income households are increasingly pressured

Consumer

US average hourly earnings growth deflated by CPI growth  
January 2010-December 2026F



US consumer spending by household income tranche  
(January 2023 = 100)  
January 2023-March 2026

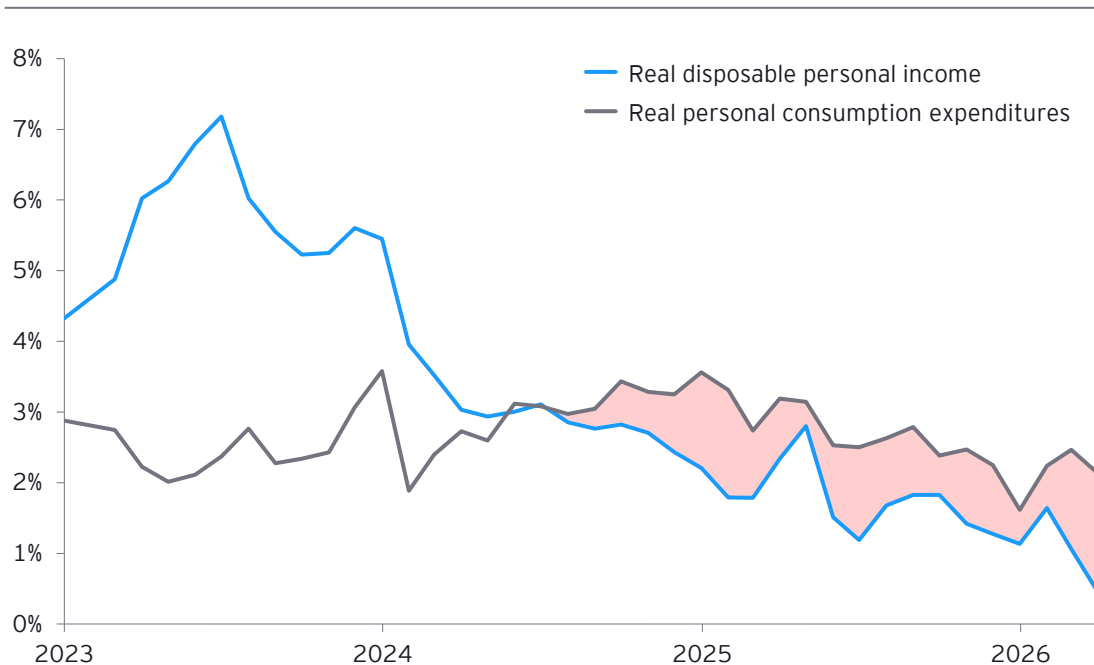


Source: U.S. Bureau of Labor Statistics; Federal Reserve Bank of New York; EY-Parthenon

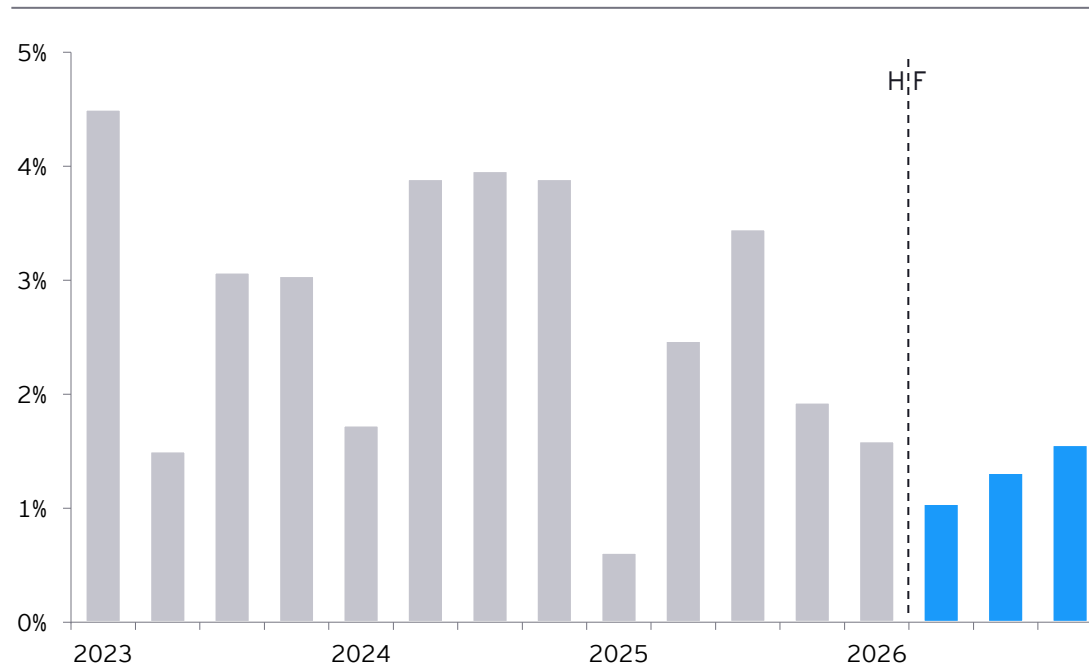
# While larger tax refunds offered a onetime lift to consumer spending early in the year, higher inflation and pressured income will cap outlays

Consumer

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



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

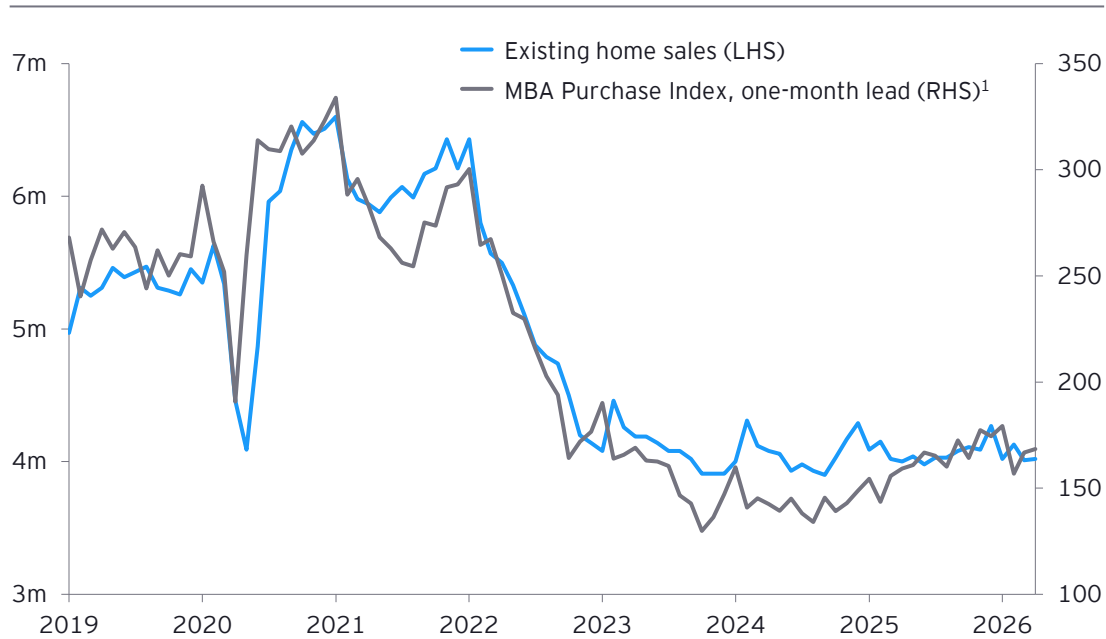


- Consumer spending rose a solid 0.9% m/m in March as households continued to spend despite surging gasoline prices, weaker income growth and heightened uncertainty. However, momentum early in the year was supported by larger tax refunds reaching households. Overall, real consumer spending is growing at a 2.1% y/y pace, but the income foundation beneath it is fragile as real disposable income is rising just 0.4% y/y.
- Looking ahead, household budgets are coming under increasing pressure from higher inflation and a softer income backdrop, with slower wage and job growth limiting purchasing power. We expect spending momentum to cool further and grow at a below-trend pace of around 1.8% in 2026, down from 2.6% in 2025.

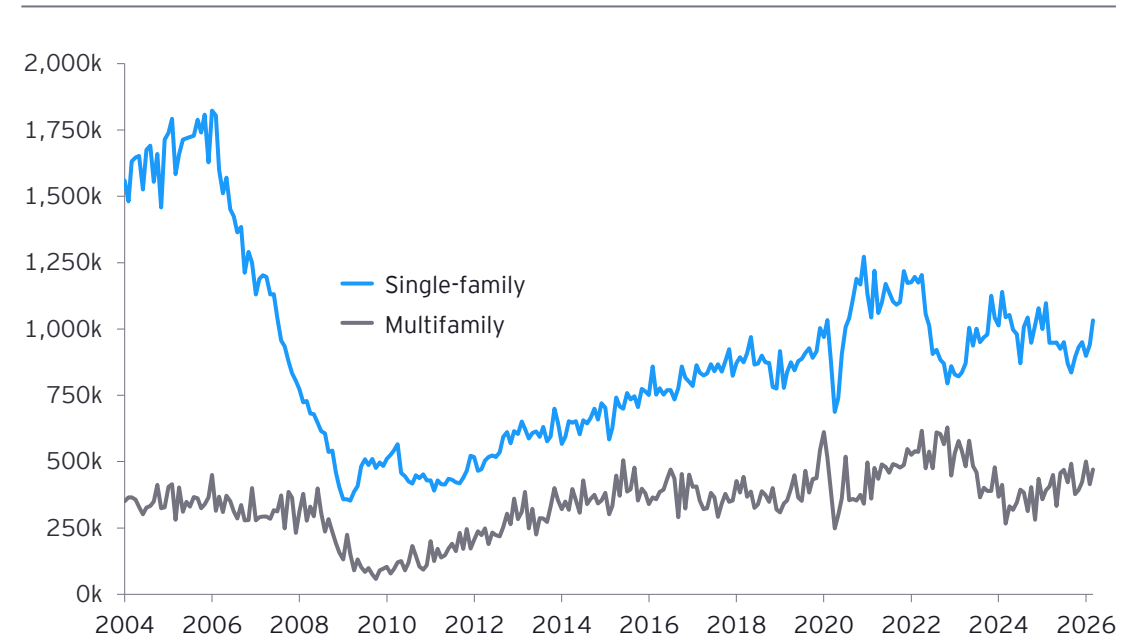
# Housing demand remains depressed by low affordability and slower income growth, pushing home prices lower; renewed upward pressure on mortgage rates is a risk

## Housing

**US existing home sales and mortgage applications for purchase index**  
(March 1990 = 100)  
January 2019–April 2026



**US housing starts**  
January 2004–March 2026



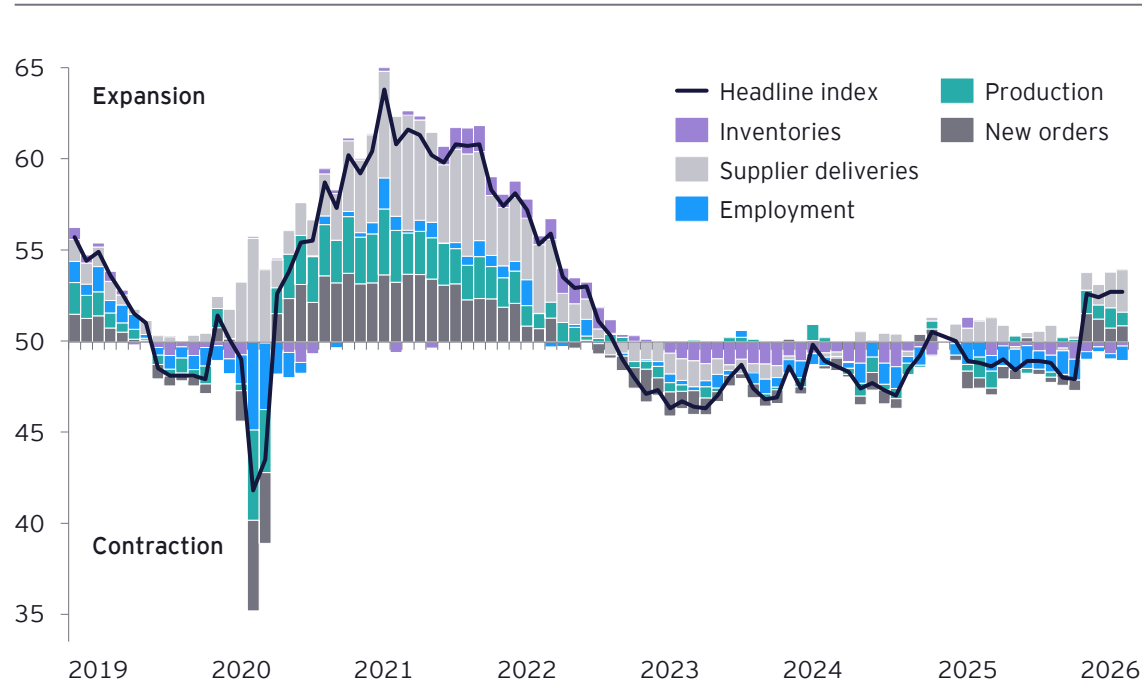
- Existing home sales edged up slightly in April, rising 0.2% m/m as demand remains subdued. Improving affordability and positive income growth have offered some support, but tight supply, cautious buyer sentiment and a renewed increase in long-term rates will cap a stronger rebound. Housing starts were much stronger than expected in March, but the uptick likely reflects a temporary catch-up rather than a sustained improvement in underlying demand.
- Looking ahead, we expect only a gradual recovery in housing. The renewed uptrend in mortgage rates will limit the recovery in affordability, while a cooling and uneven labor market and accelerating inflation will constrain income growth.

1. The index measures nationwide home loan application activity.  
Source: National Association of Realtors; Mortgage Banking Association; U.S. Census Bureau; EY-Parthenon

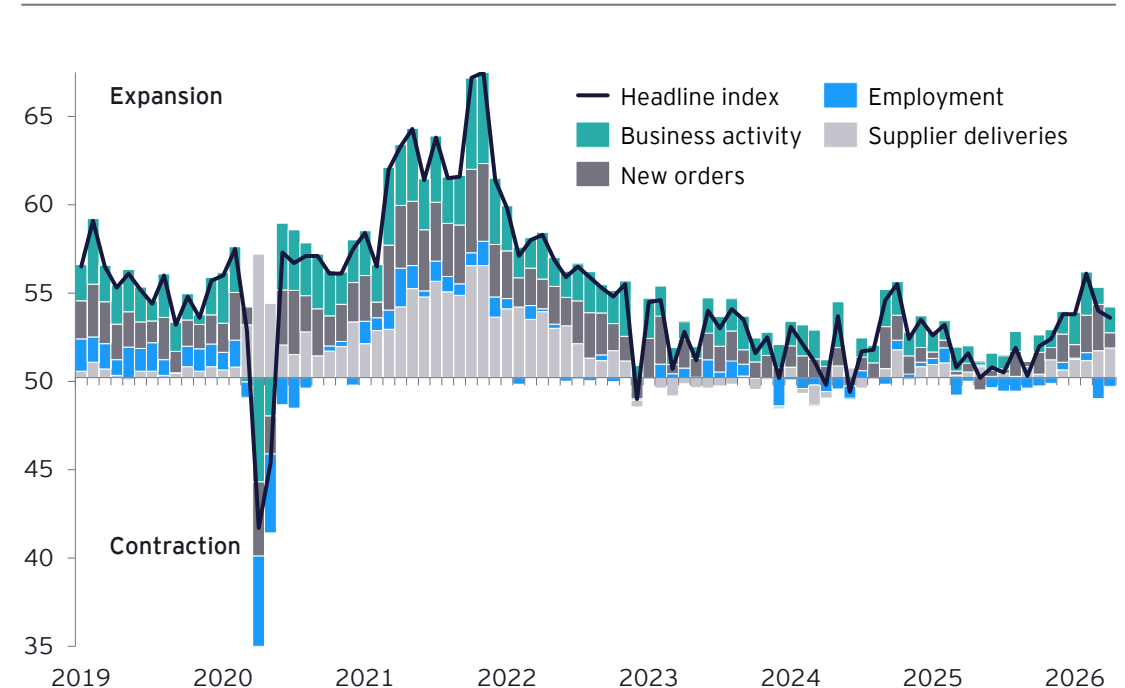
# While business sentiment in manufacturing and services has firmed, activity remains constrained by elevated input costs, higher interest rates and policy uncertainty

## Business activity

US ISM manufacturing index by component contribution<sup>1</sup>  
January 2019-April 2026



US ISM services index by component contribution<sup>1</sup>  
January 2019-April 2026



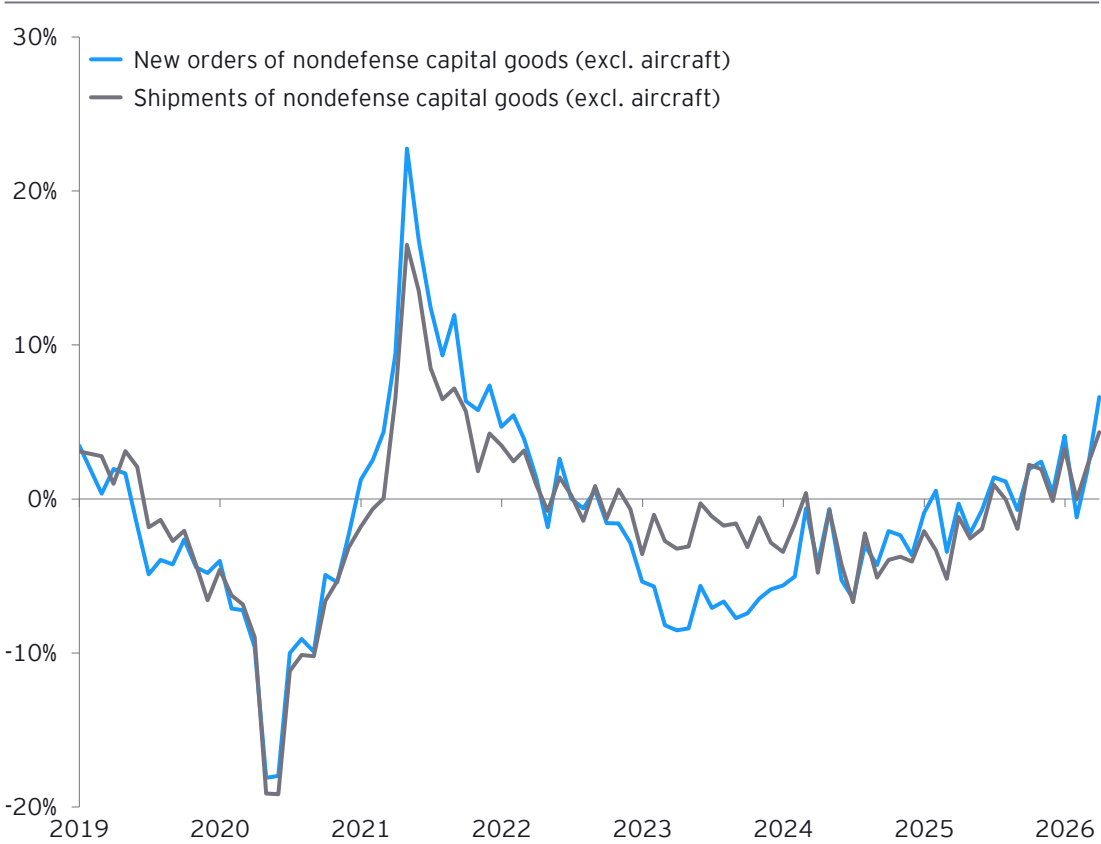
- Manufacturing activity expanded for a fourth consecutive month in April, with the ISM index steady at 52.7. New orders remained in expansion, and production also grew, though at a slower pace than in March, while price pressures stayed elevated. Employment contracted further amid ongoing cost pressures and labor constraints.
- In the services sector, activity remained firmly in expansion, with the ISM index easing slightly to 53.6. Business activity continued to grow and new orders stayed positive, but both softened from the prior month. Employment remained in contraction, with firms seemingly meeting demand through productivity gains rather than hiring. Price pressures also stayed elevated.

1. The ISM measures PMI (Purchasing Managers' Index) 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.

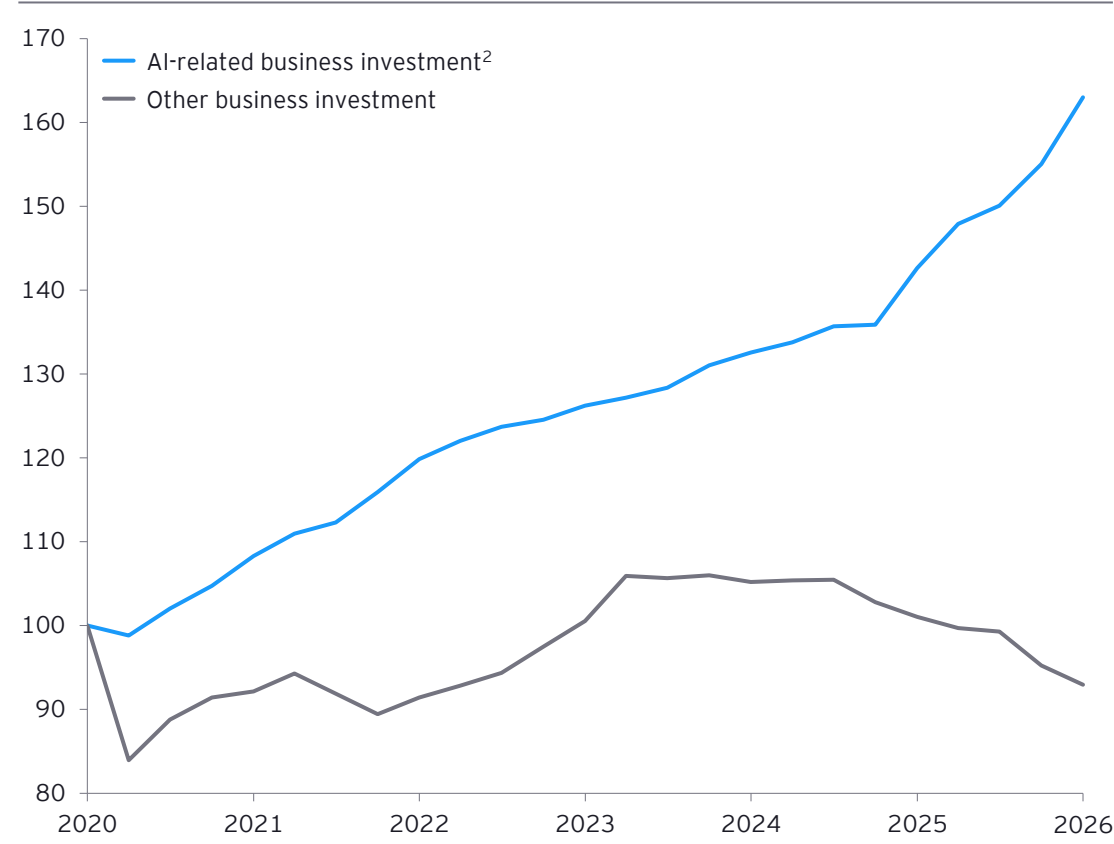
# Business investment outlook is split: AI momentum is strong, capital goods show early gains and equipment spending is resilient, but structures remain weak

Business activity

Y/y percentage change in new orders and shipments of nondefense capital goods adjusted for inflation<sup>1</sup> January 2019-March 2026



US real nonresidential fixed investment Q1 2020-Q1 2026 (2020 Q1 = 100)

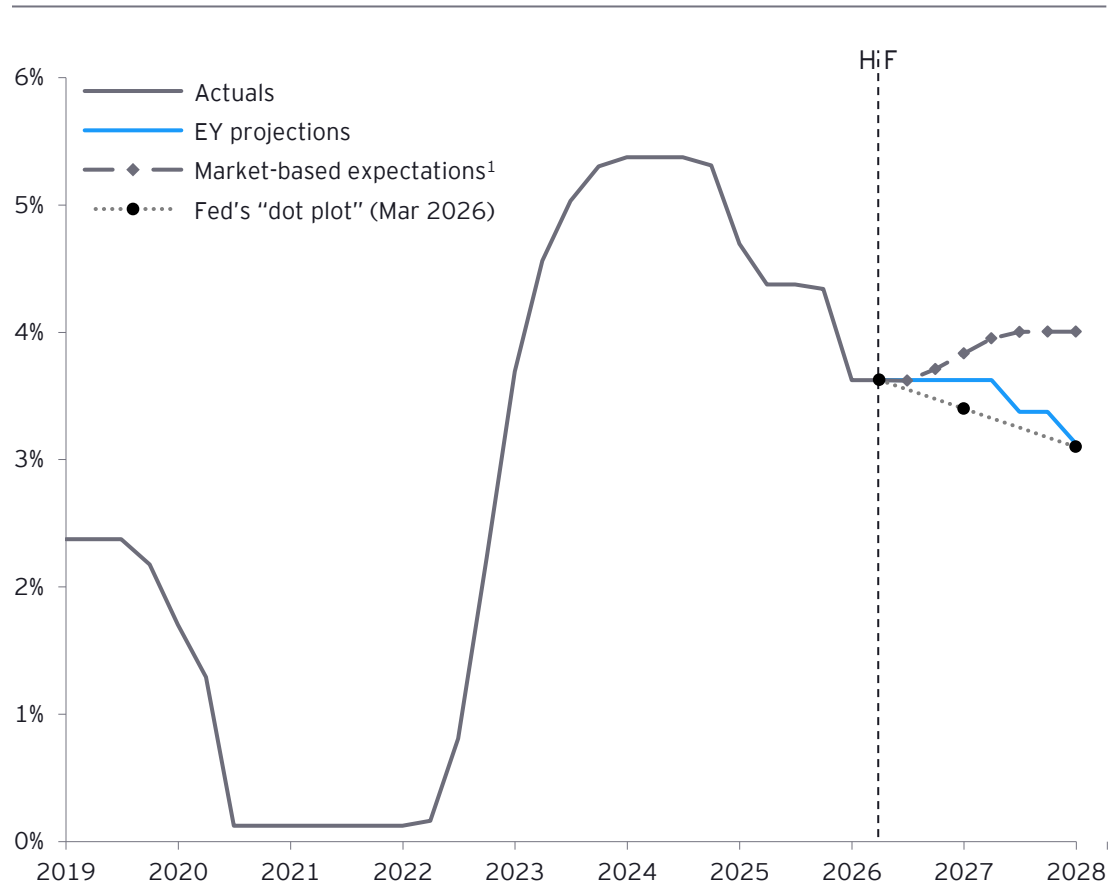


1. Orders and shipments were adjusted using Producer Price Index (PPI) for final demand of private capital equipment.  
 2. Includes investment in software, R&D, computer and peripheral equipment, communication equipment, data centers, and power infrastructure.  
 Source: U.S. Census Bureau; U.S. Bureau of Economic Analysis; EY-Parthenon

# With inflation accelerating and the labor market holding up, the Fed is set to remain firmly on hold this year, with the Chair transition unlikely to shift the policy direction

Federal Reserve

US federal funds rate  
2019-27F



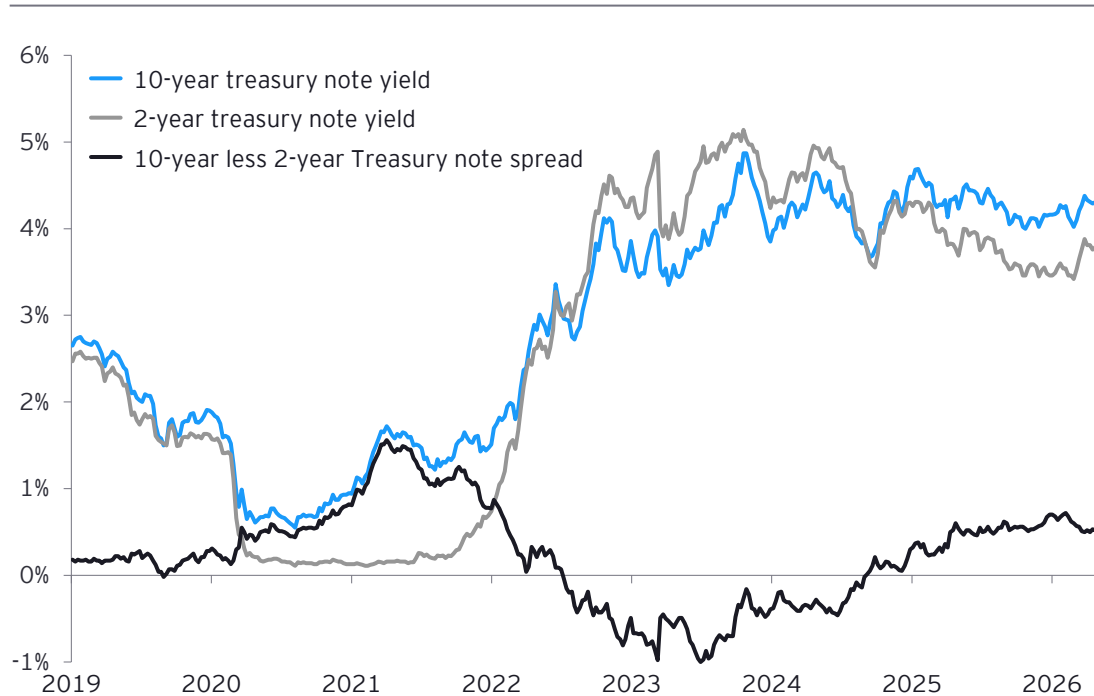
- The Fed remains firmly on hold, with policymakers viewing the current stance as mildly restrictive and well positioned to assess incoming data.
- With inflation still elevated and rising, there is little urgency to adjust policy in the near term, reinforcing a “wait and see” approach.
- The Fed is increasingly operating in an environment characterized by layered supply shocks – trade fragmentation, geopolitics, demographics – which complicates traditional demand-driven policy calibration.
- Incoming Fed Chair Kevin Warsh faces a challenging backdrop as steady labor market conditions alongside rising inflation risks raise the bar for rate cuts and support a prolonged pause.
- Despite Warsh’s dovish leanings, recent Fed communication suggests the June Federal Open Market Committee (FOMC) statement could feature a two-sided formulation acknowledging that rate hikes could be appropriate if inflation remains above target, and we would not be surprised to hear some policymakers suggest a rate hike as the next policy move.
- Our expectation remains that the Fed will stay on hold throughout the rest of the year, and we do not exclude the possibility of more regular two-sided dissents at upcoming meetings, including from the new Fed Chair.
- More broadly, Warsh has signaled a preference for reduced reliance on forward guidance (particularly the dot plot and Summary of Economic Projections (SEP)), called for a reassessment of inflation measurement, and advocated for a smaller balance sheet. He has also raised questions about the Fed’s structure, including the role of regional banks. Taken together, this suggests a more discretionary and potentially more centralized approach, with less reliance on established communication tools, implying greater institutional uncertainty rather than an immediate policy shift.

1. Based on Bloomberg analysis, as of May 19, 2026.  
Source: Bloomberg; EY-Parthenon

# Yields are rising and equities are hitting new highs on resilient earnings, highlighting diverging market and economic signals amid persistent Middle East risks

Financial conditions

US 10-year, 2-year and 10-year less 2-year Treasury note spreads  
January 1, 2019-May 15, 2026



US trade-weighted dollar index<sup>1</sup>  
January 1, 2019-May 15, 2026



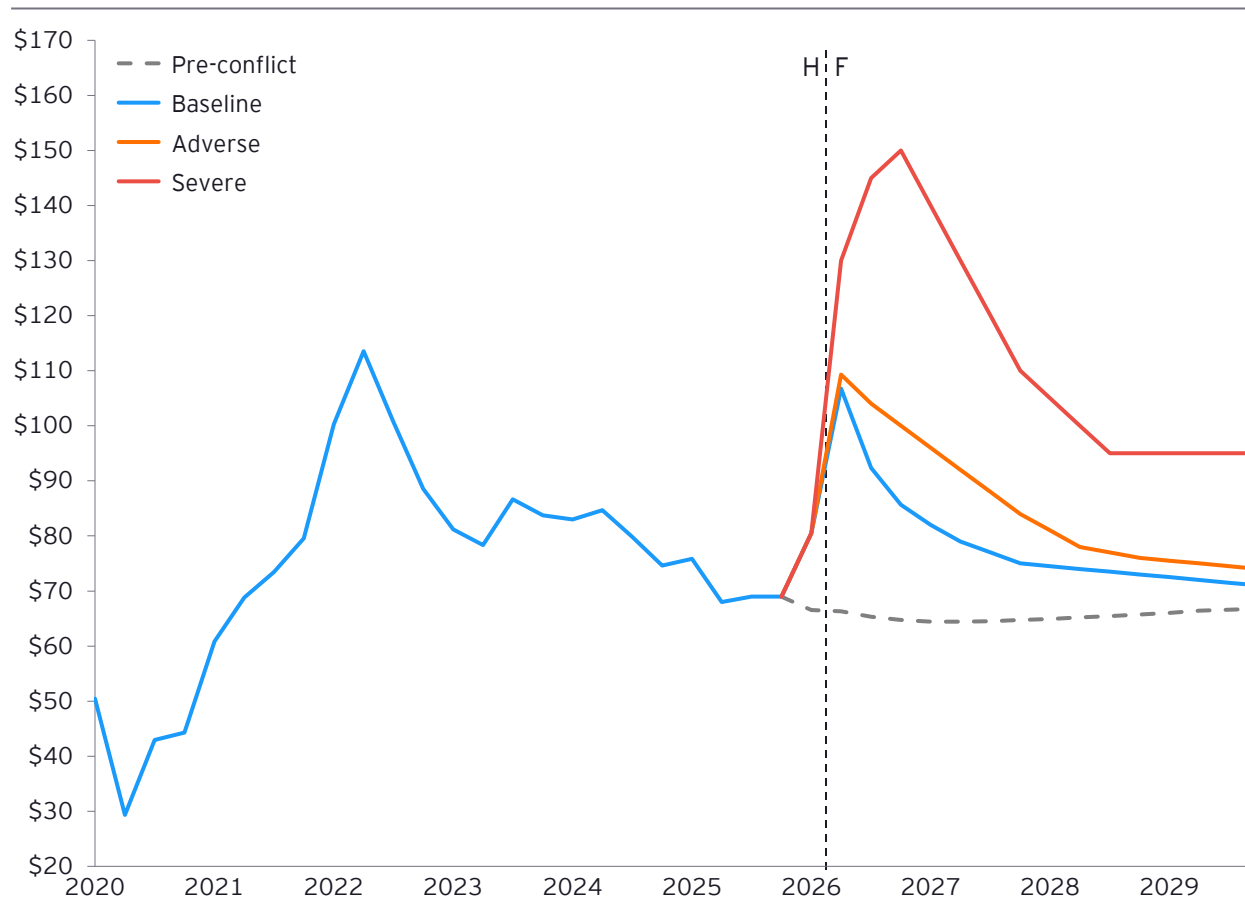
- Global bond markets have repriced sharply in recent weeks, with the US 10-year Treasury yield climbing to its highest level since early 2024 and the 30-year yield reaching levels last seen in 2007. Across sovereign debt markets, investors are demanding greater compensation for persistent inflation risks, widening fiscal deficits, elevated energy prices and heightened geopolitical uncertainty. Markets are increasingly questioning how quickly major central banks will be able to ease policy in an environment where supply-side shocks continue to complicate the disinflation process. Despite tighter financial conditions, equity markets have remained resilient, supported by strong earnings and continued AI-related investment momentum.
- Currency markets are reflecting a similar global rotation toward liquidity and defensiveness. Higher US yields and renewed geopolitical tensions have supported demand for the dollar relative to other major currencies, even as concerns around US fiscal sustainability and policy uncertainty intensify.

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).

# Downside risks to global growth and upside risks to inflation have intensified significantly amid developments in the Middle East, with recession odds around 40%

Risks and opportunities

Brent oil price in US dollars per barrel  
2020-29F



The US declares its objectives achieved and halts its strikes, signaling a willingness to return to negotiations. Iran and its proxies continue intermittent asymmetric attacks, while a coalition works to keep the Strait of Hormuz open amid a persistent risk of disruption.

## Adverse scenario

Markets respond with a moderate equity correction, rising bond yields and a firmer US dollar. Significant damage to energy infrastructure and elevated geopolitical risk leave oil, gas and petrochemical markets structurally undersupplied.

While some supply chain pressures ease, risk premiums tied to key maritime chokepoints remain elevated. Sporadic attacks on shipping continue to constrain traffic through the Strait, reinforcing persistent supply-side frictions.

High-intensity strikes persist on an ongoing or intermittent basis, with neither side willing to compromise. The conflict risks further escalation through broader geographic spillovers, additional actors, and more extensive damage to economic and energy infrastructure.

## Severe scenario

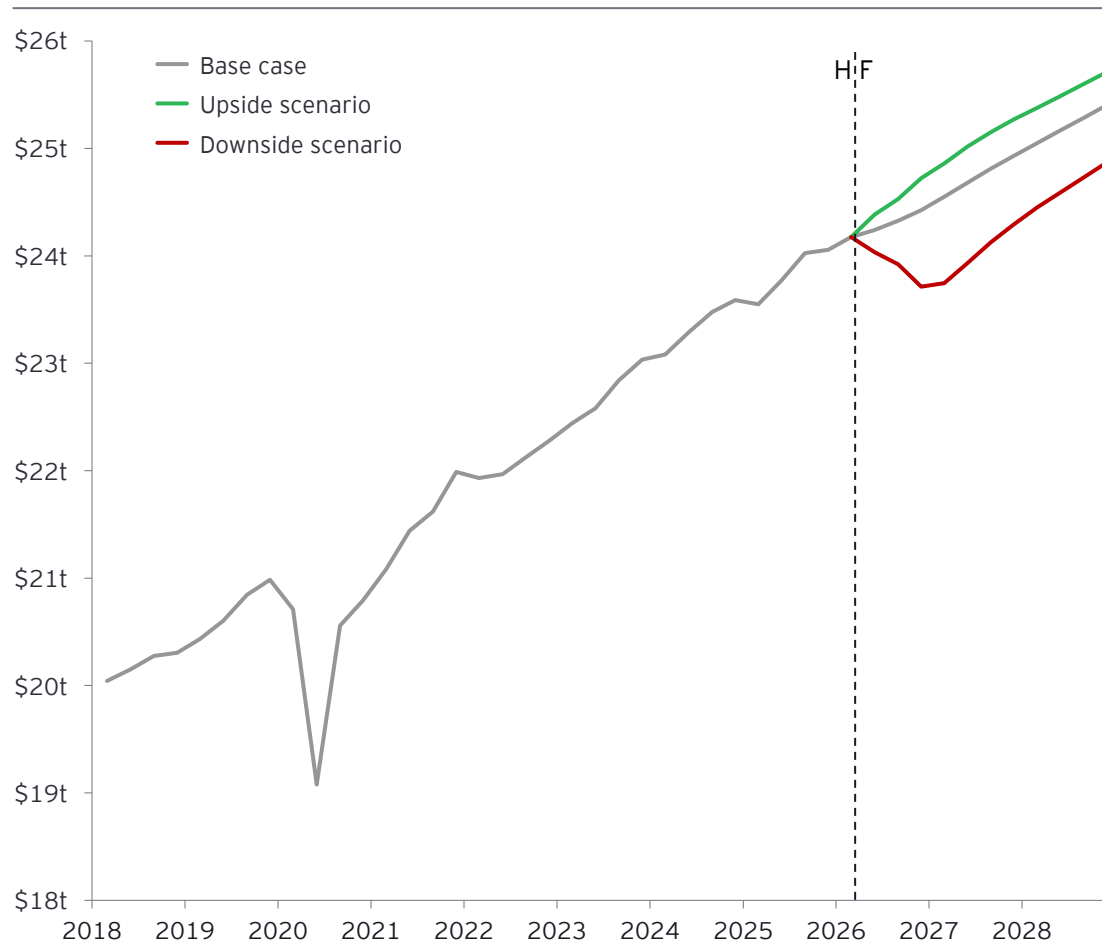
Markets react with a severe equity correction, sharply higher bond yields and pronounced US dollar appreciation. Global energy markets come under significant strain as widespread damage to production, refining and liquefaction capacity disrupts supply and prevents demand from being met.

Energy prices remain persistently elevated, with disruptions extending across logistics corridors and supplier reliability. The resulting dislocations amplify volatility and reinforce systemic supply-side pressures across the global economy.

# Downside risks stem from tightening financial conditions due to an oil price shock and an AI bubble, while easing supply shocks and stronger productivity underpin an upside case

Risks and opportunities

US real GDP  
2018-27F



## Upside scenario

A resolution of the Middle East conflict and rollback of tariffs lift business sentiment and reduce input costs, while accelerating AI adoption delivers a broad-based productivity boost across sectors. Firms leverage AI to improve efficiency, lower unit labor costs and scale output without a commensurate rise in hiring, supporting profit margins and investment. Real GDP growth gains momentum, underpinned by resilient household spending, a strong labor market, rising real disposable incomes and productivity-led income gains. Disinflationary forces take hold as productivity improvements offset cost pressures, allowing the Federal Reserve to cut rates more than previously expected while sustaining above-trend growth.

## Downside scenario

A sudden shock, triggered by escalating tensions in the Middle East, a surge in risk aversion or a renewed tariff impulse, prompts a sharp equity market correction, heightened volatility and a rapid tightening in financial conditions, while renewed inflation pressures from layered supply shocks and higher energy prices further complicate the outlook. Amid rising input costs, firms rein in both capital and operating expenditures, while hiring slows and layoffs rise. The market sell-off delivers a negative wealth shock that undermines consumer confidence, curbing discretionary spending among affluent households and exacerbating already strained conditions for lower-income households facing high prices, elevated interest rates and weakening job growth. The combined pullback in business investment and consumption ultimately leads to a recession.

### Real GDP 2026 y/y

- **Upside:** 2.5%
- **Baseline:** 1.8%
- **Downside:** 0.5%

### Unemployment rate Q4 2026

- **Upside:** 3.7%
- **Baseline:** 4.7%
- **Downside:** 7.0%

# Sector considerations and implications of the US outlook

## Sector perspectives

Industry and sector	Perspectives
<p><b>The CEO Imperative Series</b></p>	<ul style="list-style-type: none"> <li>CEOs are shifting toward more disciplined, execution-focused growth, prioritizing profitability, tighter capital allocation and resilience over rapid expansion while still investing in long-term strategic opportunities. Goeconomics has become a central driver of business strategy, directly influencing supply chains, costs and investment decisions, with leaders increasingly embedding political risk into core operating models rather than treating it as an external factor. At the same time, AI is moving beyond experimentation toward measurable value creation, with competitive advantage depending on how effectively firms translate AI investments into productivity and financial returns. Overall, CEOs are adopting a more adaptive and proactive leadership approach, recognizing that ongoing volatility is structural and balancing near-term cost pressures with longer-term transformation and growth ambitions. (<a href="#">Andrea Guerzoni, Nadine Mirchandani and Barry Perkins</a>)</li> </ul>
<p><b>2026 EY-Parthenon Growth Survey</b></p>	<ul style="list-style-type: none"> <li>Executives report a significantly tougher growth backdrop, shaped by persistent geopolitical, economic and technological volatility that has forced nearly all organizations to continuously adapt their growth strategies. While earnings have held up, delivering sustained top-line growth has become more difficult, with many initiatives falling short and internal constraints such as legacy systems and compliance burdens limiting execution.</li> <li>AI is viewed as the primary lever to reinvigorate growth, but most companies are still largely using it for efficiency rather than as a true driver of revenue expansion, revealing a gap between ambition and application. As a result, growth strategies are shifting toward more adaptive and technology-enabled models, where companies that can operationalize AI and innovate quickly are likely to outperform in an increasingly volatile environment. (<a href="#">Growth Survey</a>)</li> </ul>
<p><b>Infrastructure</b></p>	<ul style="list-style-type: none"> <li>Infrastructure has seen rapid digital adoption, but productivity gains have remained limited because systems and data are fragmented across silos, preventing information from flowing effectively and leading to inefficiencies such as rework and poor coordination. Agentic AI is positioned as a solution by creating an “intelligence layer” that sits across existing systems, connecting disparate data sources and continuously analyzing them in real time to generate decision-ready insights and improve visibility across projects.</li> <li>Rather than replacing existing infrastructure, this layer enhances coordination across organizations, functions and technologies, enabling faster, more informed decisions while keeping humans in control of judgment and accountability. Ultimately, the value lies less in automation itself and more in better insight and orchestration, which can reduce inefficiencies, accelerate project delivery and allow infrastructure systems to scale more effectively with the same resources. (<a href="#">Shane MacSweeney and Steve Lewis</a>)</li> </ul>
<p><b>Corporate strategy</b></p>	<ul style="list-style-type: none"> <li>AI is fundamentally reshaping how organizations approach productivity, shifting it from a onetime cost-cutting exercise to a continuous source of competitive advantage and growth. Organizations can raise the productivity ceiling by redesigning work around end-to-end processes rather than applying AI to isolated tasks, using AI to quickly identify inefficiencies and prioritize where to act, and simplifying low-value or transactional activities to free up capacity for higher-impact work. They should then reinvest the resulting productivity gains into innovation, growth and capability building, while embedding productivity as a continuous operating capability so that transformation becomes an ongoing source of competitive advantage rather than a onetime initiative. (<a href="#">Ashley Costa</a>)</li> </ul>

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

Strategy

## Resilience and robustness

### 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-long rates environment with volatile foreign exchanges
- **Holistic AI strategy:** drive stronger productivity while focusing on talent resilience and automation

# 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

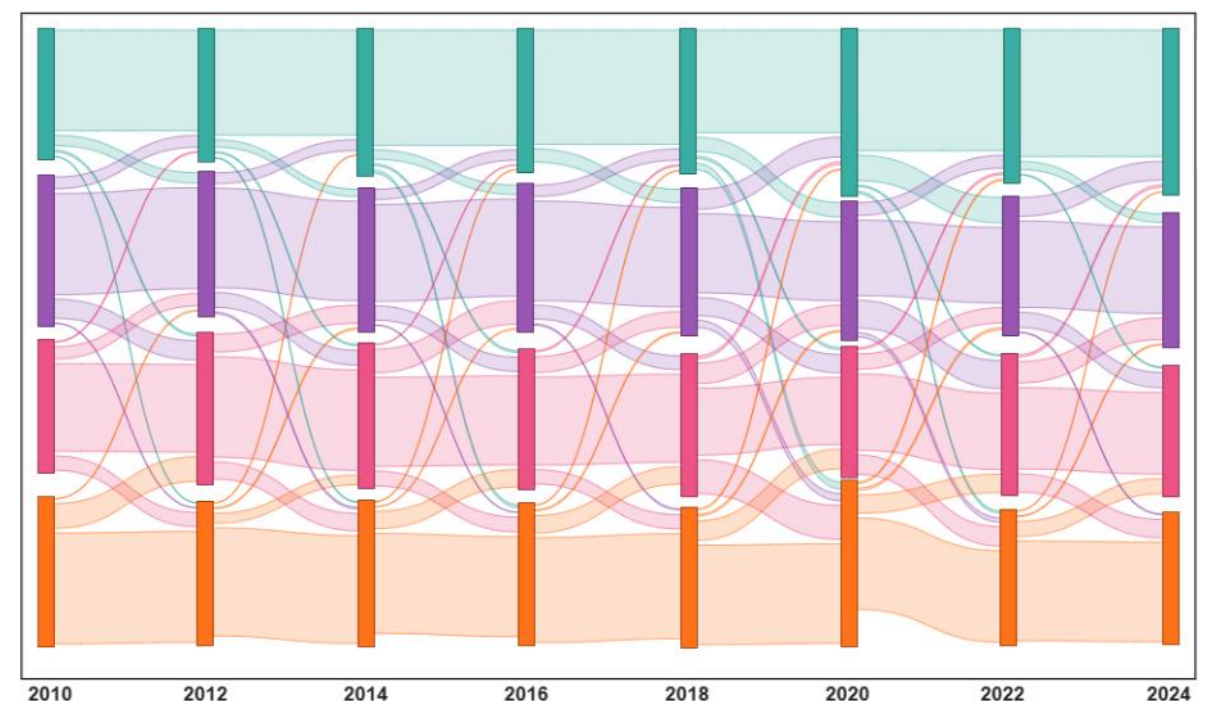
- Only ~10% of firms consistently sustain top-quartile margins through deliberate strategic architecture – not market timing.

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<sup>1</sup>  
2010-24



Legend:

- Top performer (top 25%)
- Middle of the pack (51%-75%)
- Underperforming (26%-50%)
- Distressed (bottom 25%)

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

# Meet the EY-Parthenon Macroeconomics team

Meet the team



## Gregory Daco

Chief Economist  
New York  
gregory.daco@parthenon.ey.com



## Dan Moody

Director  
Denver  
dan.moody@parthenon.ey.com



## Lydia Boussour

Senior Economist  
New York  
lydia.boussour@parthenon.ey.com



## Jun Ryu

Consultant  
Boston  
jun.ryu2@parthenon.ey.com



## Marko Jevtic

Senior Economist  
New York  
marko.jevtic@parthenon.ey.com



## Elias Sabbagh

Consultant  
New York  
elias.sabbagh@parthenon.ey.com

Explore content from our team

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Individuals above are members of Ernst & Young LLP.  
Please direct initial questions and requests to Dan, Jun and Elias.

# Meet our colleagues from across the EY network, fellow economic insight thought leaders with various geographic focus areas

Meet the team



## [Marek Rozkrut](#)

Chief Economist – Europe and Central Asia  
Warsaw, Poland  
marek.rozkrut@pl.ey.com

[Click here to explore  
content and insights on EMEIA](#)



## [Peter Arnold](#)

Chief Economist – UK  
London, UK  
parnold@uk.ey.com

[Click here to explore  
content and insights on the UK](#)



## [Cherelle Murphy](#)

Chief Economist – Oceania  
Canberra, Australia  
cherelle.murphy@au.ey.com

[Click here to explore  
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