Helaba

Markets and Trends 2026

Global Economy – A new shuffle of the cards

Research & Advisory, November 2025



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The Editorial for 2026: Global economy – A new shuffle of the cards



Each year, our economic and capital market outlook is built around a central theme that serves as a metaphor for the prevailing environment in the year ahead. This time, we have chosen playing cards as our guiding motif – an apt symbol for today's global economy, which increasingly resembles a vast and complex card game. In the past, all players seemed to hold similar cards: the rules were clear, and everyone knew their role. Today, however, the deck is being reshuffled and redealt. The rules are changing – even mid-game – and uncertainty has taken a seat at the table.

> *"The rules are changing – even mid-game – and uncertainty has taken a seat at the table."*
> *Dr Gertrud Rosa Traud*

However, this starting point also offers opportunities. provided new strategies are developed to seize them. Those who adapt swiftly, remain alert, and play their new cards wisely stand the best chance of emerging as winners. Our baseline scenario, "Global economy – A new shuffle of the cards," encompasses both risks and opportunities, with the latter expected to prevail. We assign a 70 % probability to this scenario, reflecting a slightly higher degree of confidence than in our outlook for 2025. But what underpins this increased optimism?

Baseline scenario: Global economy – A new shuffle of the cards

In many respects, 2025 has been a watershed year – geopolitically and in terms of trade policy, security, diplomacy and – for US citizens and investors in the United States – the principles of the rule of law and the separation of powers, the foundations of which had, until recently, been taken for granted. To describe today's world as merely a new hand would be an understatement; it is an entirely new game, and the occupant of the White House continues to change the rules in every round to serve his own interests.

Having faced little resistance so far, Donald Trump has no incentive to alter his tactics in 2026 – particularly with regard to tariff policy. It would therefore be naive to assume that he will refrain from imposing, or at least threatening, further trade restrictions. The most plausible assumption, however, is that the world will once again avoid a cycle of escalation and that, at least when it comes to their breadth, the most significant protectionist measures now lie behind us.

Strategy has become the key to success

In many ways, it may appear as though Donald Trump alone dictates the rules of the game. Yet this could not be further from the truth: his most formidable opponent, China, is equally adept at playing – but does so with far greater subtlety. Germany, still one of the world's strongest economies, finds itself on the sidelines of this duel, making it all the more essential for Europe to develop a collective strategy. In doing so, however, it must avoid being unsettled by the cards it holds and instead play them wisely.

Five themes set the tone for 2026

Both structural and cyclical challenges are set to dominate in 2026. Germany, in particular, will be able to play the cyclical card as rising real wages and fiscal stimulus measures prompt a recovery that should allow the country to get back up to speed with the rest of the euro zone. Whether this card will also be a winner in subsequent years is uncertain as that would require an interplay between the four structural cards: public finances, competitiveness (including in artificial intelligence), the global trade regime and security policy. Here, a truly pan-European approach will be crucial to achieving success.

Negative scenario: The house of cards collapses

Our negative scenario illustrates how fragile the game can be. Several risks materialise simultaneously – geopolitical tensions escalate, and structural weaknesses deepen. Cards that once looked promising lose their value: the economy slips into recession, volatility and declining prices take hold of financial markets, public finances come under strain, and international collaboration becomes increasingly difficult.

Probabilities for economic and capital market scenarios

Baseline Scenario	Negative Scenario	Positive Scenario
A new shuffle of the cards	The house of cards collapses	An ace yet to play
		
70 % Probability	**20 %** Probability	**10 %** Probability

Source: Helaba Research & Advisory

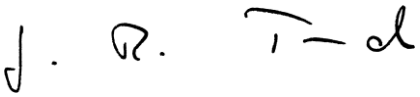
Players realise that they have been dazzled by seemingly attractive cards. Yet the foundations of the house of cards – built on the pillars of the economic cycle, competitiveness, public finances, the global trade regime and security policy – prove unstable and it collapses. We assign a probability of 20 % to this negative scenario.

Positive scenario: An ace yet to play

In our positive scenario, the global economy draws an ace from its sleeve. It overcomes the effects of recent crises, driven by investment and innovation underpinned by AI-enabled productivity gains and renewed growth momentum. Greater international cooperation, improved competitiveness, sounder public finances and a more stable trade regime create a virtuous circle. As geopolitical tensions recede, everyone around the table is able to play their best cards and benefit from the favourable conditions. We put the probability of this upside scenario at 10 %.

Seize the opportunities that the new year deals you – but bear in mind that success not only depends on holding the right hand, but also on playing it with the right strategy. In this spirit, I wish you every success in your investment decisions in 2026.

Yours,



Dr Gertrud Rosa Traud
Chief Economist/Managing Director

Baseline scenario: A new shuffle of the cards (70 %)

US President Trump's policies have abruptly upended the game rules that have governed the global economy for decades. His erratic approach has created an environment of chaos, uncertainty and confusion. As a result, 2026 is set to be another year of damage control. Yet the disruption also offers an opportunity for players to discard outdated practices and experiment with new strategies – provided they have the willingness to adapt and the courage to take risks.

In many respects, 2025 has been a **watershed year** – in terms of geopolitics and trade policy, of security and diplomacy as well as – for US citizens and investors in the United States – the principles of the rule of law and the separation of powers, the foundations of which had, until recently, been taken for granted. To describe today's world as merely a new hand would be an understatement; **it is an entirely new game**, and the occupant of the White House continues to change the rules in every round to serve his own interests.

Having faced little resistance so far, Donald Trump has no incentive to alter his tactics in 2026 – particularly with regard to **tariff policy**. It would therefore be naive to assume that he will refrain from imposing, or at least threatening, further trade restrictions.

Just like in 2025, it is reasonable to assume that the world will once again manage to **avoid a cycle of escalation** in 2026 and, the most significant protectionist measures now lie behind us. For certain sectors and countries, however, Washington is likely to make further changes to the rules of the game. We do assume that the US administration will refrain from launching an impatient campaign along the lines of "we want to see results NOW!" – even though the US trade deficit is unlikely to show any meaningful improvement.

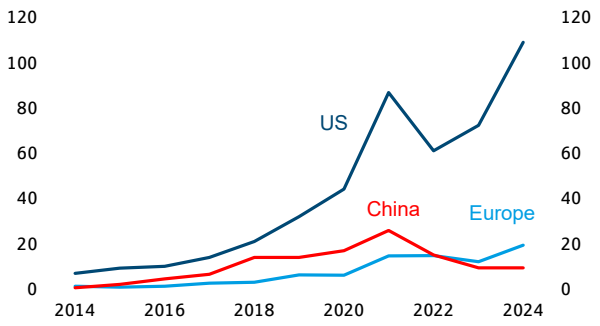
AI: The global economy goes all in!

A boom in one particular sector, from which the United States benefits more than its competitors, has provided Trump with economic policy headroom: **Artificial intelligence**. Here, the stakes could hardly be higher, with a trillion-dollar jackpot having meanwhile accumulated on which the fortunes of a large part of the global economy and financial markets depend. Not since the dot-com bubble of the late 1990s has any technology triggered such an enormous surge in investment and equity valuations. Yet a significant share of the current economic momentum and the rising value of financial assets is riding on the promises of the major tech companies and their champions in politics, the media and academia.

But will AI deliver what it promises? We assume that investment activity in the United States – and, to a lesser extent, in China and Europe – will once again be fuelled by a continuing AI boom in 2026. The issue of artificial intelligence also plays a central role in our alternative scenarios.

US races ahead in AI investment

Private AI investment, USD (billions)



Sources: AI Index Report 2025, Helaba Research & Advisory

In the United States, **deregulation** and the **cutting of red** tape appear to be primarily driven by the government's ideological or pecuniary motives and, as such, are unlikely to generate meaningful productivity gains. Within the European Union, the debate over the need to **address excessive regulation** has been going on for some time, and the new German government has signaled its commitment to structural reform. In practice, however, tangible progress remains limited. The EU's carbon-based border adjustment tax and the directive that requires companies to report social and environmental impacts along their entire value chain are both scheduled to take effect in 2026, despite being almost certain to provoke renewed tensions with the United States. Meanwhile, France is backtracking on reform, and Germany is hesitant to act. In short, there remains considerable room for improvement.

New game, new tactics: Free trade or industrial policy?

This situation raises the question: **Will the other players** at the table **regain their form in the economic policy game** in 2026? In 2025, China held a particularly strong hand in countering Washington's aggressive tactics. As the US' principal rival, it appears well positioned in 2026 to defend its interests at the global poker table.

> *"Who has all the cards? […] There is more than one game. […] We are going to play other games with other players."*
> *Mark Carney on Canada's relationship with the United States*

Greater question marks surround the **EU**: In the first round in 2025, the Commission effectively folded in the face of President Trump's demands. There may have been good reasons for this, not least the EU's dependency on the US in security policy. Yet even if many of Ursula von der Leyen's promises ultimately prove to be empty, a less steep increase in US tariff barriers has been **bought at the price of sweeping concessions**. These include abandoning the WTO's previously sacrosanct 'most-favoured-nation' principle, whereby any preferential trade arrangements granted to one country must also be extended to all other trading partners.

With the United States now playing by its own rules, the rest of the world must decide how to respond. In recent years, China has faced growing criticism for playing with a **stacked economic-policy deck**. Yet the conclusion most players have drawn is not to pressure Beijing to play fair, but rather to adopt similar tactics themselves. Increasingly, many countries, including the United States and the European Union, are turning to the very instruments of **industrial policy** they once accused China of using against them. In that sense, China's "game plan" has, for the time being, won the day.

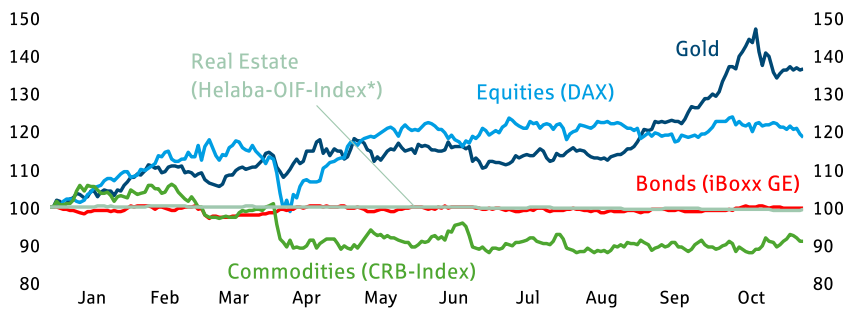
Circumstances are prompting the need to find alternative approaches. One potential path could involve **new trade structures** in which the EU, Japan, Canada, South Korea, the United Kingdom, and select emerging economies pursue policies grounded in free-trade principles – even if this means, where necessary, bypassing both the US and China.

Central banks little more than spectators in 2026

Central banks, which have been the dominant players in recent years, are no longer as relevant in this new game. Fiscal policy, particularly in the United States but also in the EU, is increasingly testing the envelope in terms of debt. This is raising the acute issue of **fiscal dominance**: Can monetary policy still act independently and focus on its core remits, such as ensuring price stability? Or are governments forcing it into a more marginal, **accommodative role** under the threat of national bankruptcy and financial crisis? In the medium term, that could place upward pressure on inflation if central banks assist governments in a process of "debt reduction".

Performance 2025: Gold and equities outperform the competition

Indexed to 31 December 2024 = 100, total yield in Euro



Sources: LSEG, Helaba Research & Advisory

This turns out well in our baseline scenario, as it appears unlikely that central bankers will be forced to deviate from an appropriate policy stance – at least not in 2026. **Inflation** is expected to remain close to target in the euro zone (ECB) or to move towards it in the United States (Fed) over the course of the year. **Economic momentum** in the US is likely to slow, while in the euro zone – and particularly in Germany – capacity constraints should remain limited after years of economic weakness, even if the anticipated recovery takes hold. This will be especially true if fiscal expansion is complemented by long-overdue structural reforms.

Overview of forecast in baseline scenario

In 2026, the **global economy** is expected to grow at roughly the same pace as in the previous year, with German growth finally beginning to pick up. At around 1.5 %, Germany will no longer act as a drag on the euro zone, which should record a similar rate of expansion. In the United States, we expect GDP to increase by around 2 % in 2026, as in 2025. China's economy is likely to expand by about 4.3 %, a somewhat slower pace than in 2025, although concerns about the reliability of its official growth data have once again intensified.

While consumer prices in China are essentially flat, the different advanced economies are dealing with **inflation** to varying degrees. In Germany and the euro zone, the annual rate of price increases is projected to remain slightly above the ECB's 2 % target. In the US, inflation is expected to move closer to the Fed's goal. However, with an average rate of about 2.7 %, US inflation is expected to remain closer to the 3 % mark. With a policy rate of 2 %, the **ECB** has reached a neutral monetary stance. The **Fed** is moving in the same direction, with rates expected to settle around 3.5 %. Both central banks will need to act carefully to avoid perceptions that they are seeking to support rising government debt through low interest rates.

Selected forecasts for 2026

Euro zone					Germany					USA				
GDP growth, %	1.4				GDP growth, %	1.5				GDP growth, %	2.0			
Inflation, %	2.1				Inflation, %	2.1				Inflation, %	2.7			
Q1 - Q4					Q1 - Q4					Q1 - Q4				
Deposit rate, %					3M Euribor, %					Federal Funds Rate (mid-point), %				
2.00	2.00	2.00	2.00		2.00	2.00	2.05	2.10		3.63	3.38	3.38	3.38	
USD / Euro					10y Bunds, %					10y Treasuries, %				
1.15	1.20	1.20	1.20		2.80	2.80	3.00	3.00		4.30	4.30	4.50	4.50	
EURO STOXX 50, index value					DAX, index value					S&P 500, index value				
5,500	5,600	5,700	5,800		23,500	24,000	24,500	25,000		6,500	6,600	6,700	6,800	

Source: Helaba Research & Advisory

German real estate prices are expected to continue rising in the coming year. Residential properties remain in short supply – particularly in major metropolitan areas – sustaining upward pressure on prices. However, with affordability unlikely to improve, the potential for additional gains is limited. Retail properties are likely to benefit from higher consumer spending, while stronger economic activity should stabilise demand for office space.

Given the current interest rate environment, a significant rise in **bond market** yields appears unlikely. However, the growing supply is likely to encounter increasing investor scepticism, prompting them to demand higher risk premiums. In total, steeper yield curves can therefore be expected on both sides of the Atlantic. By the end of 2026, 10-year government bond yields are projected to stand at around 3.0 % in Germany and 4.5 % in the US.

Equity markets have already priced in much of the potential upside by largely valuation-driven price increases. Further gains will depend on significant improvements in corporate earnings. However, the predominance of downward revisions in the current reporting season gives reason for caution. Therefore, we expect equity markets to move broadly sideways in 2026, with the DAX likely to end the year at around 25,000 points.

There is little prospect that **gold** will see a repeat of its extraordinary record-breaking performance in 2026. Nevertheless, the precious metal will continue to be supported by the Fed's ongoing interest rate cuts and the weakness of the US dollar. For these reasons, demand is likely to remain strong and new records could be set.

The decline in the **US dollar** is expected to continue. The US interest rate advantage will diminish as the Fed implements further rate cuts, and the country's growth edge over the euro zone is likely to narrow. Ongoing policy uncertainty under President Trump will continue to weigh on the currency. By the end of 2026, the euro-dollar exchange rate is projected to settle at around 1.20.

Patrick Franke

Negative scenario: The house of cards collapses (20 %)

Although the global economy and financial markets have weathered the shocks of 2025 remarkably well, this resilience may not last. Fresh disruptive forces are likely to surface in 2026, whether from familiar sources or entirely unexpected ones. Yet it is precisely this period of relative calm that could lull players into a false sense of security, encouraging them to take greater risks or act with less caution in the months ahead.

Fortunately, among the major advanced economies, there are currently **few signs of private-sector imbalances** of the kind that have often led to recessions in the past – such as prolonged real estate booms, exceptionally low savings rates or excessive corporate investment and leverage. As a result, the most significant risks of a sudden correction are likely to originate in the **political sphere** and from uncertainty over the question if the current **hype surrounding artificial intelligence** has gone too far – that is, whether corporate valuations, particularly in the high-tech sector, have risen to unsustainable levels.

Political savvy: a rare commodity

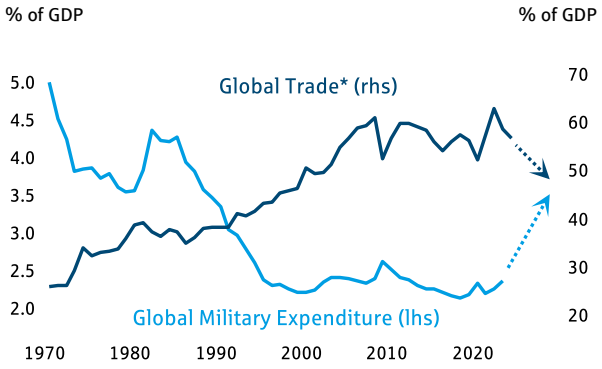
For anyone who followed the events of 2025 it should be obvious that the political arena could again become a major source of disruption in 2026. A confidence shock due to policy changes could take numerous forms. To begin with, geopolitical tensions – most notably the **trade dispute** between the United States and China – could resurface. That said, the EU also has an increasingly fraught relationship with both the US and China.

> *"You don't have the cards!"*
> *Donald J. Trump*

Added to this is the risk of a **constitutional crisis** in the United States – a scenario once regarded as highly improbable. Such a crisis could arise, for instance, if the administration were to defy a court ruling. Even without a shock of this magnitude, however, financial markets may begin to fundamentally question the competence of the US government, particularly with regard to fiscal policy and the long-term **sustainability of sovereign debt**.

Europe, too, faces a number of latent risks. **Debt-to-GDP ratios** are climbing, while the growing strength of populist parties is undermining **political stability**. The European Commission is walking a fine line between domestic pressures within member states and mounting competitive challenges from the United States and China. In **Germany**, the government of Friedrich Merz could collapse, for example because of a lack of courage to push through reforms, if forthcoming state elections weaken the coalition parties, or if it succumbs to short-term patronage politics. Even the long-anticipated fiscal stimulus – financed by an enormous rise in government borrowing – could yet fail to materialise.

Greater confrontation, less co-operation



*sum of exports and imports of goods and services
Sources: LSEG, Helaba Research & Advisory

House of cards largely propped up by "AI" card

The exuberance surrounding **artificial intelligence** is emerging as a potential vulnerability in the global house of cards. Should enthusiasm give way to disillusionment, the current boom could prove to be a bubble – one that, much like the dot-com era, might trigger a stock market correction and possibly a **recession**. The higher the expectations placed on a transformative technology, the greater the risk of disappointment; and rarely have hopes run as high as they do for AI. However, as much of the investment has been financed from cash flow and non-bank creditors have played a key role in providing capital, the odds are good that a **banking crisis can be averted** – even if markets are forced to adjust to a more sober reality.

As concerns surrounding US banks in the spring of 2023 and again in the autumn of 2025 demonstrated, even the most robust supervisory framework may fail to detect emerging problems until it is too late. New **growth areas within the financial system**, such as providers of private credit operating outside the traditional banking sector, could harbour risks that remain poorly understood due to limited historical experience, particularly if these players are less transparent than euro stablished lenders.

Overview of forecasts in the negative scenario

In our negative scenario, the global economy slips into **recession**. Germany, with a very export-oriented economy, is disproportionately affected by trade conflicts. Following three years of stagnation, German GDP shrinks by around 2 % in 2026, and the euro zone economy as a whole also suffers a sharp contraction. The impact on the US economy is less severe, but unemployment rises steeply there as well.

Inflation is tempered by falling oil prices and weak economic activity. The rate of price increases declines in both Germany and the euro zone. In the US, the effect of protectionist policies on consumer prices offsets other disinflationary pressures to some extent.

> "*Trust is like a house of cards: It takes a lot of time and patience to build it; but even the slightest disruption can bring it all crashing down.*"
> *Florian Bauer*

In this challenging fundamental environment, **central banks** play their familiar trump cards: The **ECB** continues to cut interest rates, reducing the deposit rate to 1.25 % while maintaining balance sheet stability. Across the Atlantic, the **Federal Reserve** lowers its policy rate to below 2 %.

Bond markets register sharp price gains. Heightened uncertainty drives robust demand for safe-haven assets such as US Treasuries and German government bonds, even as many investors remain sceptical of high sovereign debt levels. This support helps prevent an inversion of yield curves. Due to falling inflation expectations and markedly lower policy rates, the yield on 10-year US Treasuries falls to 2 %, while that on 10-year German government bonds declines toward 1 %.

Elevated valuations mean that **equities** are acutely vulnerable to negative surprises from issues such as geopolitics, trade policy, the economic cycle and artificial intelligence. Following a slump in corporate earnings, rising investor risk aversion leads to a contraction in valuations. Equities enter a bear market, with the DAX temporarily falling to 16,000 points.

The boom on the **German real estate market** comes to an abrupt standstill and property prices begin to decline. Residential prices fall only modestly due to a continued shortage of supply; in contrast, office and retail properties experience substantial losses amid a weak economic environment. Even lower borrowing costs can do little to offset this downward trend.

As a safe-haven asset, demand for **gold** soars. However, with the US dollar simultaneously strengthening, the precious metal's performance is weaker in dollar terms than in euros. Nonetheless, in this scenario, gold is expected to rise above the USD 6,000 per troy ounce mark.

Troubled economic times and geopolitical crises once again place the **US dollar** at the forefront as a safe-haven currency – despite the uncertainties stemming from President Trump's policies. The dollar's role as a refuge asset outweighs potential countervailing factors, such as more aggressive US interest rate cuts. In this scenario, the euro-dollar exchange rate declines to 1.05 by the end of 2026, though it remains above parity.

Patrick Franke

Positive scenario: An ace yet to play (10 %)

The chances of a better-than-expected 2026 appear as remote as ever. Yet, like a gambler with their back against the wall on the brink of losing their last stake, the global economy may still have one last shot at drawing a winning card. Artificial intelligence could potentially play a decisive role.

For all the undeniable challenges facing the global economy, fate may still have a **positive surprise** in store. Could the biggest disruptor of 2025 yet emerge as an unexpected source of hope? A year ago, one could have dismissed Donald Trump's campaign rhetoric on trade with the reassurance that "he doesn't really mean it". At the end of 2025, that is no longer possible. The likelihood of the US President now calling for a broad rapprochement in the trade conflict is about as slim as his embracing the role of a champion for net zero. In any event, there is no returning to the status quo ante – a conclusion that likely extends to security policy as well. Once the genie is out of the bottle it cannot be pushed back inside.

That said, both sides in the pivotal **US–China conflict** have signalled a basic willingness to engage in dialogue. A **deal** that not only eases the risk of short-term escalation but lifts global sentiment in the medium term is therefore entirely conceivable. The United States could make a positive impact simply by refraining from announcing new punitive measures against its trading partners on an almost weekly basis, as has often been the case in 2025. Several ongoing negotiations with other countries could also reach a successful conclusion, resulting in a modest **reduction in global trade barriers**. In this context, the upcoming review of the North American free trade agreement could prove particularly beneficial. For companies, such progress would help to reduce uncertainty and curb the prevailing tendency to adopt a "wait-and-see" approach.

> *"Where there is no risk, there is no reward. Where there is no game, there is no life!"*
> Martin Luther

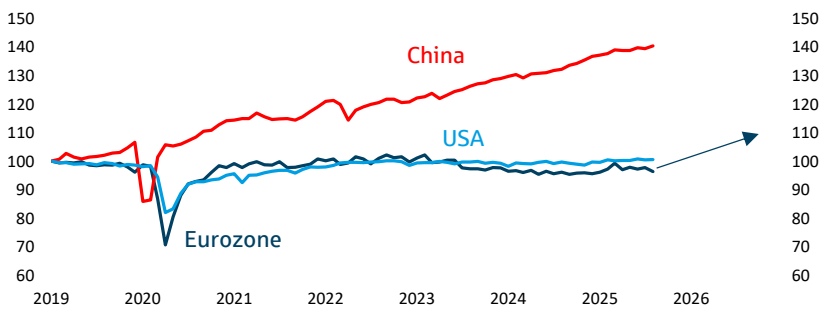
Likewise, countries on this side of the Atlantic could play their part in supporting economic momentum. In the EU, a determined effort to **cut red tape and advance structural reforms** would provide a meaningful boost to growth. In **Germany**, ensuring the efficient and effective use of government stimulus funds could help maximise the "bang for the euro". The key priority should be investment that strengthens productivity and enhances Germany's appeal as a business location, rather than consumption-driven spending that delivers only temporary and unsustainable growth.

Industrial recovery and AI as beacons of hope

A long-awaited **recovery in global industry** could provide the world economy with a much-needed lift. Global manufacturing has been in the doldrums for some time already: Since the energy price shock of 2022, industrial production in advanced economies has largely stagnated, with emerging markets – particularly China – serving as the primary drivers of global manufacturing growth.

Industrial production: Plenty of upside potential

Industrial production excl. construction, indexed to January 2019 = 100



Sources: Macrobond, Helaba Research & Advisory

Furthermore, **artificial intelligence** has the potential to drive a new wave of growth. Its significant capacity for disruption promises substantial **productivity gains.** However, despite the increasingly widespread adoption of AI, these have yet to materialise. This may be about to change in 2026, which would in turn justify the high valuations of major technology firms. Should equity prices continue to rise, the resulting growth in financial wealth could further strengthen overall sentiment.

Finally, **public finances** would also benefit from a stronger economy. This would not just reduce concerns about the sustainability of sovereign debt but could also help to alleviate pressure, particularly in Europe, on governments to make difficult choices between spending priorities such as defence, climate policy and infrastructure.

Overview of forecasts in the positive scenario

The global **economy** bounces back. Medium-term growth prospects also improve, supported by technological advances, targeted investment – particularly in AI – and structural reforms. Germany benefits in particular from the recovery in manufacturing industry and enjoys a robust and sustained upswing. Momentum in the euro zone economy as a whole also accelerates. Both in Germany and the wider euro zone, gross domestic product rises by more than 2 % in 2026.

Despite stronger productivity gains and a decline in protectionism, inflationary pressure is greater in this scenario than in our baseline forecast. **Inflation rates** rise above central bank targets, with the average annual rate in Germany and the euro zone exceeding 3 % in 2026.

With trend growth accelerating, the neutral policy rates also move higher. Central banks therefore adjust their monetary easing stance and return to a slightly restrictive **monetary policy**. The ECB increases its policy rate toward 3.5 %, while the US Federal Reserve raises rates to around 5 %.

Bond market prices decline markedly. As inflation rises and key rates are swiftly hiked, the yield on 10-year US Treasuries surpasses 5 %, and 10-year German government bonds reach 4 %. Although yield curves steepen, the effect is moderated by strong economic growth, which casts sovereign debt levels in a more favourable light.

A rebound in industrial activity, coupled with productivity gains driven by artificial intelligence, supports above-average growth in corporate profits. With earnings on an upward trajectory, investors remain comfortable with elevated corporate valuations, driving a sharp increase in equity prices. By the end of the year, the **DAX** reaches the 29,000-point mark.

The **German real estate market** is boosted by robust economic growth. Rising purchasing power more than offsets the impact of higher mortgage rates, which sends residential property prices soaring and significantly fuels residential construction. Demand for retail and office space also picks up noticeably in this favourable economic environment, driving up transaction volumes and prices.

> *"You only go around once, but if you play your cards right, once is enough."*
> *Frank Sinatra*

Gold loses its status as the king on the table as receding geopolitical risks, a resurgent global economy and rising interest rates erode the appeal of the non-interest-bearing, safe-haven asset. The yellow metal dips below the USD 3,000 per troy ounce mark.

The euro gains as geopolitical risks take a back seat, particularly relative to the safe-haven **US dollar**. Economic growth in the euro area narrows the gap with that of the United States, while interest rate hikes by the ECB provide additional support to the single currency. As a result, the euro-dollar exchange rate rises to 1.30.

Patrick Franke

Monetary policy: High uncertainty – the neutral rate is the trump card

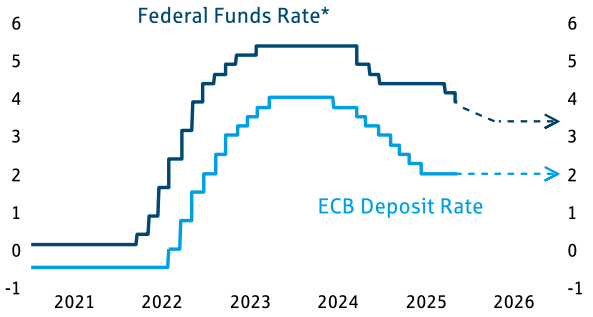
With the ECB having delivered, the Fed remains in rate-cutting mode. Once it reaches a neutral policy rate, it may also lay down its cards and adopt a wait-and-see stance.

Having achieved an interest rate of 2.0 % – the European Central Bank's **inflation target** that also reflects the neutral policy rate – the bank's Governing Council has manoeuvred itself into a **favourable holding position**. Given the significant level of uncertainty, the ECB is wise **not to lay all its cards on the table**. At the same time, **futures markets** are betting on an end to interest rate cuts.

On the **inflation** front, there is limited room for further monetary easing, as there are no signs of deflationary pressures across the euro area. On the contrary, several geopolitical developments could soon push inflation expectations higher. To avoid undermining investor confidence, the ECB must therefore **act carefully**. This will be particularly important in 2026, when **political pressure** on the US Federal Reserve is expected to intensify and government bond markets come under greater scrutiny. The ECB should avoid any perception that it is supporting sovereign debt through overly accommodative interest rates.

Policy rates in neutral territory

Policy rates, % (from November 2025: forecasts)



*midpoint of target range
Sources: Macrobond, Helaba Research & Advisory

Overall, in an environment such as this, the likelihood of a prolonged **period of monetary policy stability** is greater than that of renewed **easing**. At the same time, the risk of European central bankers being compelled to **tighten** policy again is limited.

> *"We should be at 1 %. We should be less than 1 %."*
> *Donald Trump on what he considers an appropriate US key interest rate*

Fed in somewhat awkward predicament

The **US central bank** finds itself in a distinctly different position – partly as a result of President Trump's tariff policies. The disinflationary trend in the United States came to an end as early as the summer of 2024. Since then, inflation – as measured by the consumer price index – has stabilised at around 3 %, remaining well above the Fed's price stability target. There is broad consensus that **US trade tariffs** will cause an increase in prices, though the effect on **inflation** should be only temporary and not spark a **sustained surge** of the magnitude seen in 2021/2022.

That said, this outcome is far from assured. **Inflation expectations** remain less firmly anchored than the Federal Reserve would prefer, which explains the central bank's cautious stance and the delay before **labour market concerns** eventually prompted a resumption of rate cuts. We expect the Fed to continue along this path, albeit only as long as the combination of solid economic growth and elevated inflation permits.

%	Q1/26	Q2/26	Q3/26	Q4/26
3M Euribor	2.00	2.00	2.05	2.10
ECB Deposit Rate	2.00	2.00	2.00	2.00
Fed Funds Target Rate	3.63	3.38	3.38	3.38

Source: Helaba Research & Advisory

The Fed Funds target rate is projected to **decline to around 3.5 %** by mid-2026. Any further monetary easing would depend on a material weakening of economic activity – or on the central bank giving in to the President's demands to adopt a more expansionary stance not warranted by underlying conditions. There is a risk of **Trump exerting greater influence** on the Fed when its current Chairman Jerome Powell's term of office expires in May. In our baseline scenario, however, we do not anticipate a significant erosion of the Fed's **independence** in the coming year. Such a development, were it to occur, would have far-reaching implications for financial markets.

Ulf Krauss, Patrick Franke

Government bonds: No carte blanche for rising debt

Fiscal policy has emerged as a wild card for bond markets. Yet with policy rates expected to hold steady, the odds of a significant rise in yields remain low.

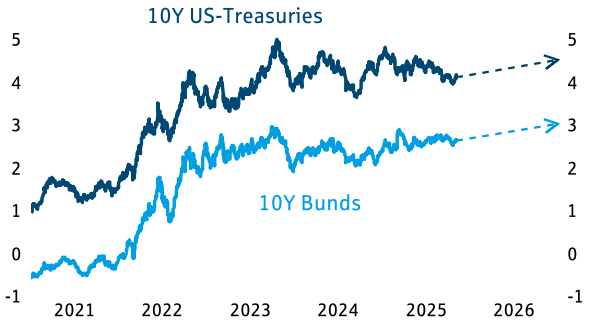
German Bunds have largely retained their yield level of the start of 2025. On the one hand, this is a remarkable feat given the global backdrop of economic and geopolitical **upheaval**. On the other hand, it reflects the ECB's decision to pause its rate-cutting cycle at 2.0 %. Meanwhile, the **correlation** between Bunds and US-Treasuries has remained relatively low – driven in particular by the impact of US tariff policy and the resulting suspension of rate cuts by the Federal Reserve. On closer examination, several **noteworthy developments** emerge. Over the course of the year, 30Y German government bonds experienced intermittent price declines exceeding 10 %. Meanwhile, investor appetite for **duration risk** has waned and government bonds are increasingly perceived as less attractive. Pension funds, in turn, have been reallocating capital towards higher-yielding asset classes. The relaxation of Germany's debt ceiling has also been a significant factor. Against the backdrop of persistently high fiscal deficits in the United States and a politically challenging environment in **France** – where the government was forced to withdraw planned pension reforms – sovereign bonds are now being viewed more critically than a year ago.

Bond market environment volatile – investors remain cautious

Governments are unlikely to be granted a **carte blanche**, as an increasing number of sovereign bond issues are already encountering **subdued demand**. What, then, are the prospects for bonds in this challenging environment? Headwinds from monetary policy are expected to remain limited, with both the ECB and the Fed likely to maintain a **neutral stance** throughout 2026. This should help curb market speculation about further rate cuts. Nonetheless, history suggests that **periods of low policy rates** rarely provide a strong tailwind for bond prices. In due course, the question of when key rates might begin to rise again will inevitably resurface – though this is unlikely to be an issue over the coming year, at least.

Yields expected to edge higher

Yields, % with Helaba's forecasts



Sources: LSEG, Helaba Research & Advisory

The ECB has been steadily winding down its **balance sheet**, while the Fed has recently paused its own quantitative tightening efforts. Over the past three years, the ECB has lowered its share of outstanding euro area government bonds from 42 % to 28 %. However, this strategy rests on a key assumption: that **France** will not require support through renewed bond purchases. Recent **inflation expectations** in the euro area, at around 2 %, remain slightly above their long-term average. As Germany's recovery gathers pace in 2026, the window for further rate cuts is more likely to close than open. In the United States, persistently elevated inflation coupled with high levels of public borrowing likewise argues against lower capital market rates and a flatter **yield curve**. Although the 10/2 spread (the difference between 10Y and 2Y yields) on German government bonds has recently narrowed to around 60 basis points, it is likely to widen in the current environment. With **defence spending** rising sharply and **welfare expenditure** remaining high across the euro area, it is doubtful that the region's debt burden will ease. Consequently, investors can be expected to seek higher **risk premiums** in an uncertain environment.

In 2026, the yield on **10Y German government bonds** will probably remain at its current level initially, though we expect it to gravitate towards 3 % as the year unfolds. At the same time, **10Y US-Treasuries** will trend towards the 4.5 % mark. Thanks to a stable outlook for monetary policy, however, we do not anticipate any significant shift in capital market rates.

%	Q1/26	Q2/26	Q3/26	Q4/26
10y Bunds	2.80	2.80	3.00	3.00
10y Treasuries	4.30	4.30	4.50	4.50

Source: Helaba Research & Advisory

Ulf Krauss

Equities: A challenging hand to play

2025 is likely to mark the third consecutive year of above-average performance. With valuations exceeding fair value, the question for 2026 is: what trumps do equities still have left to play?

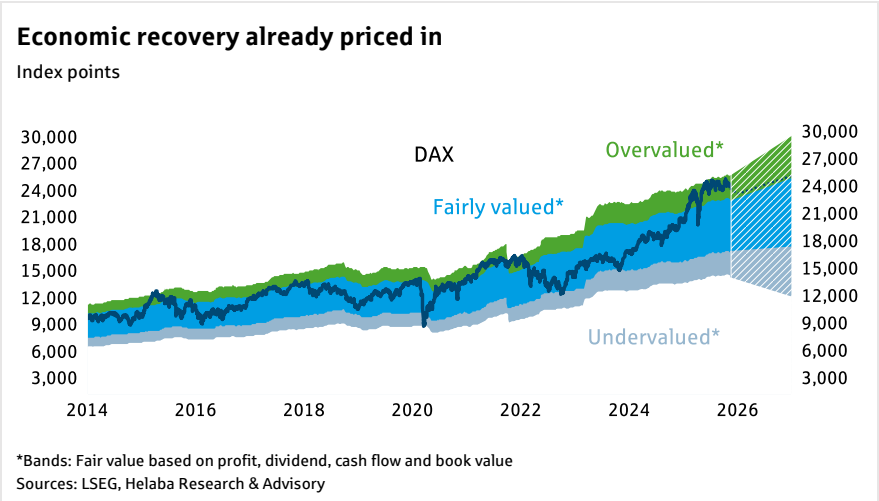
There is an old adage that "**stock markets hate uncertainty**" and with US trade policy, the ongoing war in Ukraine and the conflict in the Middle East among the key potential headwinds, it has been repeatedly put to the test. Geopolitics has become synonymous with a world in which the cards are being reshuffled. Despite numerous developments that could have triggered sharp corrections, most indexes have shown remarkable resilience. Setbacks have been brief, and many stock benchmarks have continued to notch up new highs. 2025 is likely to mark the third consecutive year of above-average price gains. Does this mean the old **stock market adage no longer holds true**?

Central banks well versed in the rules of the game

The ongoing, global wave of **interest rate cuts** has been a key driver of equity markets, paving the way for a sharp **rise in valuations**. Unlike in previous cycles, however, monetary policy easing has so far failed to translate into a meaningful acceleration of economic growth. As a result, **corporate earnings** have lagged behind, expanding at a slower pace than the overall market – a pattern often observed in the early stages of a bull market. That said, the current rally has been underway since the autumn of 2022, and many indexes have already reached elevated valuation levels. Accordingly, any further price gains will need to be supported by corresponding improvements in earnings expectations; otherwise, equity markets risk collapsing like a house of cards.

Germany is only one of several cards in the DAX deck

Euro area equities and German dividend stocks recorded strong gains, particularly in the early months of 2025, at times even outperforming other markets. A weaker US dollar, lower relative valuations compared with US equities, and Germany's more expansionary fiscal policy encouraged **international investors to reallocate capital** from US to euro assets. President Trump's announcement of punitive tariffs on his so-called "Liberation Day" triggered sharp declines in equity prices on both sides of the Atlantic. However, the losses were swiftly reversed, with both the DAX and the EURO STOXX 50 subsequently advancing from one record high to the next – despite the fact that Germany and the euro area remain highly dependent on the smooth **functioning of global trade**.



Indeed, DAX-listed companies generate roughly three-quarters of their revenue outside Germany, with around one-third originating from North America alone. However, **non-German revenue should not be equated directly with exports**, as a substantial portion is derived from local production and is therefore, at most, only indirectly affected by restrictive tariff policies. Moreover, in recent months, statistics on German exports have shown that a decline in demand from the United States was offset by exports to other regions. The **flexibility of companies with global footprints** to tap into new markets or relocate activities in response to shifting conditions likely explains, at least in part, the resilience of equities despite a pronounced deterioration in the environment for global trade.

Companies – and by extension, equities – are well positioned to benefit from a drive toward **reindustrialisation** in many regions. The competition to attract manufacturing investment is intensifying, placing greater pressure on

governments to create more favourable business environments. Over the medium to longer term, this dynamic could also help curb excessive regulation in a number of jurisdictions. In addition, equities have seen a surge in popularity as an investment asset among the under-40s in Germany. As this group is looking to accumulate long term wealth, their tolerance for risk is likely to be higher than that of the generation approaching retirement.

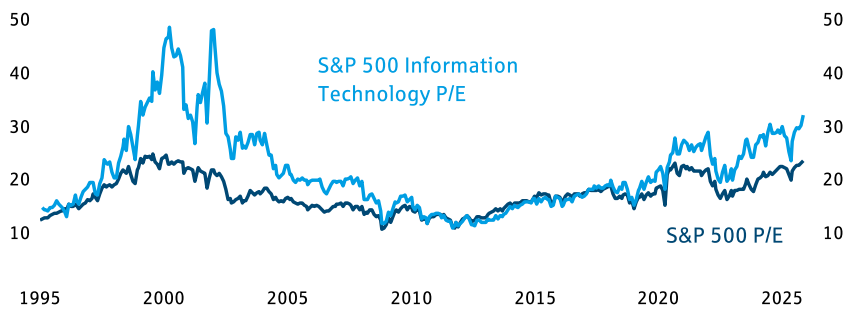
> *"Better to play a strong hand than to keep looking for jokers."*
> *German stock market adage*

Yet these structural factors will bear fruit only over the medium term, while cyclical developments will dominate in 2026. DAX and EURO STOXX 50 have largely **priced in a considerable amount of positive news** – primarily driven by valuation expansion rather than by the recovery in leading economic indicators. For equity prices to rise further, companies would need to exceed their earnings expectations; however, the predominance of downward revisions so far warrants a degree of scepticism. Accordingly, we expect equity markets to **move sideways** in 2026, with DAX closing at around 25,000 points.

Are the stakes too high for US equities?

At the beginning of the year, the S&P 500 and Nasdaq Composite initially came under pressure as elevated valuations prompted institutional investors to reallocate capital to comparatively lower-priced markets. Over the course of the year, though, the US benchmark indexes regained lost ground and reached new all-time highs, supported in part by signals from the **Federal Reserve** that it would **maintain its accommodative policy stance**.

Tech valuations lower than during the dot-com bubble



Sources: LSEG, Helaba Research & Advisory

Recently, however, concerns have been mounting over a potential bubble in the US equity market. The S&P 500 is currently trading at a price-to-earnings (P/E) ratio of around 23, while the technology sector – accounting for roughly 35 % of the index – commands a multiple of approximately 30. For comparison, at the beginning of 2000, the S&P 500 traded at a P/E ratio of about 25, with technology stocks approaching 50.

In terms of both their P/E ratios and the so-called PEG (price/earnings-to-growth) ratio, these stocks remain less highly valued than at the height of the dot-com bubble, despite the current **hype surrounding artificial intelligence** and seemingly elevated valuations. However, given their **ambitious growth expectations**, companies in this sector are among those least able to afford any missteps going forward. As US equities have already priced in a substantial portion of the recent rally – more so than their European counterparts – a period of **consolidation may be necessary** to prevent the formation of a bubble. For 2026, we see **limited scope for sustainable upside** in the S&P 500 and expect the benchmark index to close the year at around 6,500 points.

Few trump cards left in 2026

Index value	Q1/26	Q2/26	Q3/26	Q4/26
DAX	23,500	24,000	24,500	25,000
Euro Stoxx 50	5,500	5,600	5,700	5,800
S&P 500	6,500	6,600	6,700	6,800

Source: Helaba Research & Advisory

While structural factors continue to support equities as the most attractive asset class, their cyclical **upside for 2026 appears limited**, as much of the recent growth acceleration is already reflected in current prices. Long-term investors are advised to maintain their equity allocations within a broadly diversified portfolio.

Markus Reinwand, CFA



Gold: The king on the table

The 2025 gold rally was exceptional. Continued uncertainty surrounding the dollar will keep gold in play in 2026, as well, making it a valuable card to hold – despite the gains it has already made.

2025 is set to go down in history as a **record year** for gold, both in nominal and real terms. Although a repeat performance of 35 all-time highs and annual gains at the top of more than 60 % in US dollar terms – or more than 50 % in euro – appears highly unlikely, gold is still likely to remain a **valuable card** in investors' portfolios in **2026**. A rare combination of economic, market and geopolitical factors has recently pushed the precious metal above the USD 4,000 mark, ushering in a new era in which the question is no longer *if* another record high will be reached, but *when*.

> *"Gold is the king among assets. In a game of poker, you only win if you know when to show it."*
> *Generated using Copilot (AI)*

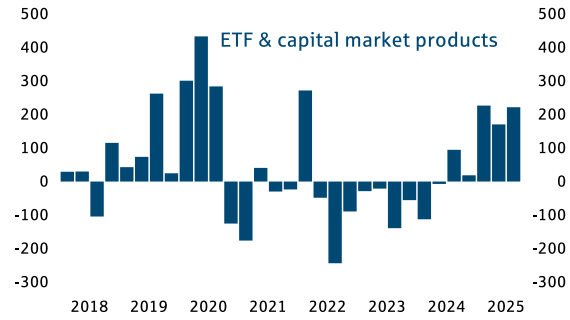
The price of non-interest-bearing gold is shaped by many forces, chief among them monetary policy. While recent Fed rate cuts have provided a tailwind, the more decisive driver has been the **weakening of the US dollar** triggered by President Trump's policies and the resulting **loss of confidence** in political discipline. His repeated attacks on the Fed and willingness to gamble with the United States' reputation as a reliable borrower have rattled investors. By justifying erratic tariff measures as a means of financing the nation's towering debt, he has effectively prompted markets to demand a **risk premium** for holding both US dollars, still the world's reserve currency, and Treasuries – assets previously considered the safest in the world.

Doubts remain in play in 2026, further changing risk/reward profile in gold's favour

Gold has long served as a safe haven alternative for investors. However, the initial surge in its price was mainly driven by political and geostrategic factors. **Central banks in emerging markets** – most notably China – have been buying gold to reduce their reliance on the US dollar. Although the pace of these purchases has moderated somewhat in 2025, it remains high by historical standards.
A significant shift away from gold is unlikely until renewed confidence or improved geopolitical stability prompts a return to the US dollar, or until a credible alternative such as the euro emerges – neither of which is expected in 2026.

Demand from investors returns

Demand for gold, tons



Sources: Macrobond, Bloomberg, Helaba Research & Advisory

For gold to set fresh records, a **rise in investor demand** will be key. Substantial inflows into gold ETFs, coupled with increased purchases of bullion and coins, have recently provided significant momentum, reversing the outflows that had weighed on prices as recently as 2024. Within portfolios, gold's risk/return profile has clearly moved back in its favour.

The US dollar and bond market are bearing the brunt of growing doubts about the **United States' political reliability**. From an asset-allocation perspective, this has likely led to a repricing of the implied risk premium – the expected additional return of higher-risk assets relative to safe investments. In this environment, equities and gold become relatively more attractive if higher returns are not offered as compensation. With the Fed expected to continue cutting interest rates, the outlook for gold remains favourable despite its exceptional performance in 2025. The precious metal is poised to reach **new record highs in 2026**, albeit at a more moderate pace than in 2025.

Price / ounce	Q1/26	Q2/26	Q3/26	Q4/26
Gold in euro	3,739	3,750	3,833	4,000
Gold in US dollar	4,300	4,500	4,600	4,800

Source: Helaba Research & Advisory

Claudia Windt

Real Estate: New cards, old problems

Three years of economic stagnation and a debt-financed stimulus package have taken their toll on the property market. Are real estate's fortunes set to improve in 2026?

Germany's economic performance has been weak for three years, rekindling talk of the country as the "sick man of Europe." In an effort to reignite growth, the government has introduced a fiscal stimulus package. While debt-financed spending is likely to give a boost to economic activity, it will also curb the potential for a decline in long-term interest rates. **How, then, will Germany's property markets perform in this shifting economic landscape?**

Full house: Market dynamics driven by housing shortage

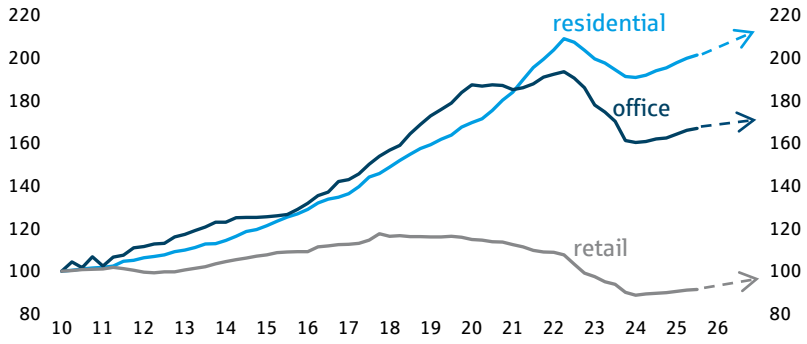
Germany's fiscal stimulus measures are particularly expected to **boost construction activity**, though they may also contribute to **above-average price increases** in the sector due to greater demand. Alongside the country's ailing infrastructure, the government has identified the housing crisis as a key societal challenge. Its objectives are to create additional living space and to reduce construction costs. Previously, the rapid growth in the cost of building had been masked by the prolonged period of low interest rates. A **"fast-track" construction initiative** will allow local authorities to build more quickly and flexibly – although success will depend on their willingness to utilise these opportunities. Further streamlining of standards and regulations, combined with targeted assistance schemes, could help lower costs, accelerate construction activity, and reduce the substantial backlog of projects.

> *"Our goal is to make housing accessible, affordable and sustainable for everyone."*
> *Coalition agreement between CDU, CSU and SPD*

Even if these adjustments to existing rules prove effective, a rapid increase in housing completions is unlikely. While the number of building permits for new dwellings has risen in recent months, recovering from a previous all-time low, it takes time for approved projects to be completed. As a result, pressure on the housing market is expected to persist. The **number of completed dwellings is likely to continue declining in 2026**, falling to around 210,000 units, with any increase in completions not anticipated until 2027.

Modest growth in all segments

vdp real estate price index for Germany, capital values, Q1 2010 = 100



Sources: vdp, Helaba Research & Advisory

Metropolitan areas are the worst affected by insufficient construction relative to demand. Consequently, the housing shortage remains a major catalyst for rising rents and property prices. While rents are forecast to continue rising sharply, the **upward trend in prices is likely to slow somewhat in the coming year**. This is because higher interest rates, lower growth in real wages and a renewed rise in purchase prices will **not lead to any further improvement in housing affordability.**

Flight to quality: Sustainable buildings hold the best cards

While the recovery in the **German commercial real estate market** is not yet as firmly established as in the residential sector, it has entered a new cycle. According to the real estate price index published by the Association of German Pfandbrief Banks (vdp), both purchase prices and rents have been rising since the summer of 2024. Structural shifts, including a greater number of people working from home, the growth of online retail and ESG requirements, continue to exert pressure on the industry.

The **German office market is showing signs of fragmenting**, with demand for high-quality space in prime locations remaining strong and lower-grade properties facing increasing pressure. Vacancy rates in the country's main

office hubs have risen from roughly 3 % in 2019 to about 8 % today. This trend is likely to moderate in 2026, as many firms have largely completed adjustments to space requirements. At the same time, **demand should stabilise**, underpinned by expectations of economic recovery. A slowdown in new construction activity is also likely to have a positive impact on demand as less new space comes to the market.

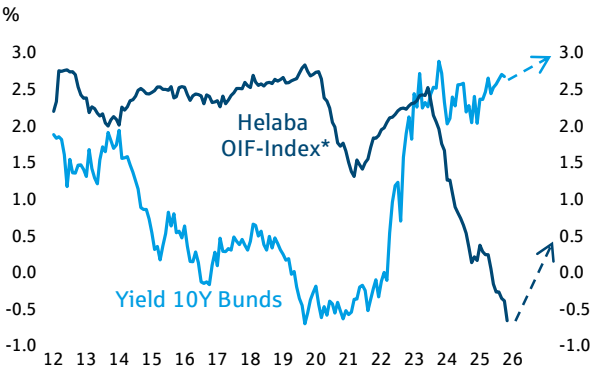
Another segment that has faced significant challenges in recent years is **stationary retail**, as online competition offers consumers greater choice and often lower prices. Consequently, bankruptcies and vacancy rates have risen, while rents and asset values have declined. At the same time, this structural shift has opened the door to **new concepts for alternative uses** that are gradually gaining ground, with property values showing renewed growth over the past several quarters. As real wages are expected to continue rising, the anticipated recovery in consumer spending should translate into a noticeable increase in retail sales next year.

The **growing importance of ESG-compliant properties** remains a key driver of construction activity in the commercial real estate sector. Sustainability criteria are increasingly being applied to both new developments and existing buildings. The industry is responding with innovative strategies such as repurposing, hybrid use and flexible space concepts. This underscores the **increasing significance of effective asset management**: not all properties are future-ready in their current form. Some are losing appeal amid shifting demand, requiring repurposing or facing the risk of becoming stranded assets.

Sitting out a round: Open-ended real estate funds playing a waiting game

Commercial real estate is showing signs of recovery, while **open-ended real estate funds are playing a waiting game.** As their valuations are determined by independent appraisers, there is an inherent time lag before market developments are fully reflected in fund performance. This is evident in current data: The “Helaba OIF-Index” – which measures the average performance of nine major mutual funds from the four leading providers – recently declined to -0.7 %. The decrease in returns, primarily due to valuation impairments in individual funds, is expected to bottom out at the beginning of 2026 and **gradually recover over the course of the year**. By year-end, we anticipate an improvement to around 0.5 %. Nevertheless, this would leave yields well below the long-term average of roughly 3 % and still lower than the yield on 10-year German government bonds.

Open-ended real estate funds remain under strain



*total return, average of nine major open-ended German real estate funds
Sources: LSEG, Helaba Research & Advisory

The **low attractiveness compared to fixed-income investments** will continue to weigh on the funds in the future. Although net outflows are likely to continue, according to the Bundesbank, **liquidity risks are limited** due to sufficient liquid funds and long minimum holding and notice periods. Open-ended real estate funds hold around 10 % of their assets as bank deposits. This means that the proportion of liquid assets is well above the legally required 5 %.

% yoy	2022	2023	2024e	2025f	2026f
Open-ended fund index*	2.3	1.5	0.2	-0.7	0.5
Residential real estate**	7.2	-5.0	-1.3	4.0	3.5
Commercial real estate**	-0.4	-10.2	-5.3	2.5	2.5

* Helaba index für German open-ended funds (annual total return); **vdp price indices Germany (annual average), f=forecast; Sources: vdp, LSEG, Helaba Research & Advisory

Conditions in the German real estate market remain challenging despite the ongoing recovery. Residential property prices continue to benefit from a shortage of supply and commercial segments are showing signs of improvement. Market participants must, however, remain attentive to ESG guidelines and the evolving demands of users. In this respect, open-ended real estate funds remain under pressure, primarily due to competition from alternative products offering attractive returns.

Paul Richter

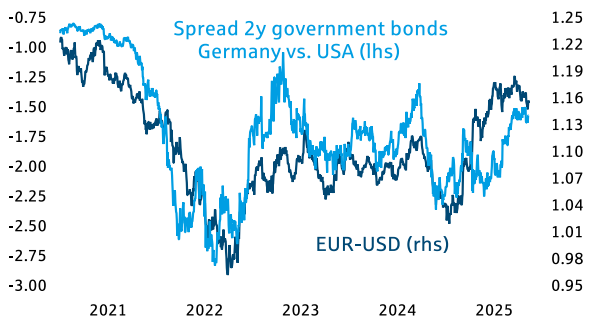
Currencies: Trump not the "trump card" for the dollar

The US dollar is reeling from uncertainty fuelled by President Trump, with little to suggest a reversal in 2026. US politics remains a source of risk, and monetary policy will be further loosened.

Despite occasional rallies, the US dollar has been the clear underperformer in 2025. Contrary to some expectations, the trade conflict initiated by President Trump, along with other policy actions, has weighed on the currency. The **greenback has faced sustained pressure from political uncertainties**, repeated policy reversals, rising US debt and concerns about the independence of the central bank and the rule of law. The primary beneficiary has been the euro, with its gains reflecting more the dollar's weakness than its own inherent strength, however.

It is difficult to envisage **President Trump** making any substantial policy shifts in 2026. His erratic behaviour, protectionist stance, expansionary fiscal policies and efforts to influence monetary policy are expected to persist. In addition, Trump will have the opportunity to appoint a new Federal Reserve Chair, although it remains uncertain who this will be and how independently they will be able to act. Nevertheless, the Chair alone cannot determine the course of monetary policy. Overall, there is little to suggest that the doubts surrounding the US dollar will quickly dissipate or that the currency will stage a significant recovery in 2026.

Declining US yield advantage as a burden



Sources: Macrobond, Helaba Research & Advisory

US interest rate advantage set to diminish

The Federal Reserve is expected to resume its interest rate cuts in 2026. Even under a new Chair, the scope of monetary easing is likely to remain limited despite persistent pressure from President Trump. However, with the ECB in a holding pattern, the US interest rate advantage over the euro area will continue to narrow. Much of this has already been priced in by capital markets, implying that volatility should remain contained. Nevertheless, the ongoing convergence in interest rate differentials is expected to weigh on the dollar. Ultimately, interest rates mirror underlying fundamentals: the **US growth advantage over the euro area is set to narrow further**. In addition to stronger stimulus in Europe – particularly in Germany – the US economy is not performing as well due to Trump.

US President Trump a liability

The influence of economic conditions, and in particular monetary policy, on the foreign exchange markets has been less pronounced since Trump took office. Exchange rates have increasingly reflected uncertainty and concern over US policy making. While Trump is no supporter of a strong dollar, he still wishes to preserve its international leadership role. Despite recent losses, the **greenback's value remains high** against many currencies. Meanwhile, there are the large US trade and current account deficits, which Trump's tariffs will do little to change.

> *"The strong-dollar policy is completely intact with President Trump. We want the dollar to be strong. What we don't want is other countries to weaken their currencies, to manipulate their trade."*
> *Scott Bessent, US Treasury Secretary*

So far, aside from heightened investor uncertainty, there has been no concrete evidence of a deliberate devaluation strategy on President Trump's part. Nevertheless, investors continue to face a degree of risk for which they are likely to demand a premium. This uncertainty, combined with prevailing monetary policy trends, will remain a headwind for the US dollar. While temporary rallies are possible – particularly during periods of turbulence in Europe – the broader trend of dollar depreciation is expected to persist, with the **euro-dollar exchange rate projected to reach 1.20 by the end of 2026**.

No clear trend for pound sterling

In 2025, the **pound sterling** was among the underperformers against the euro, despite posting gains versus the US dollar. The Bank of England has so far been cautious in easing its monetary policy stance but, unlike the ECB, is expected to lower its key rate to around 3.5 % in 2026. However, this move should have largely been anticipated by financial markets and is therefore unlikely to exert additional downward pressure on the pound.

The **UK economy has performed better than expected**, and growth is projected to slightly outpace that of the euro area again in 2026. Nevertheless, the pound sterling does have a relative disadvantage: given the country's sizeable current account deficit and Brexit, the UK remains vulnerable to uncertainty. This makes it challenging for the government to finance public spending. Although these imbalances are moderate by international standards, they have occasionally weighed on gilts and the currency. As a result, the pound remains susceptible to bouts of weakness, even in a broadly stable macroeconomic environment. Overall, the **euro-pound exchange rate is expected to move largely sideways**, while pound sterling could post modest gains against the US dollar.

vs. euro	Q1/26	Q2/26	Q3/26	Q4/26
US dollar	1.15	1.20	1.20	1.20
Japanese yen	170	170	168	168
British pound	0.88	0.88	0.87	0.86
Swiss franc	0.94	0.95	0.95	0.96

Source: Helaba Research & Advisory

Swiss franc's potential exhausted

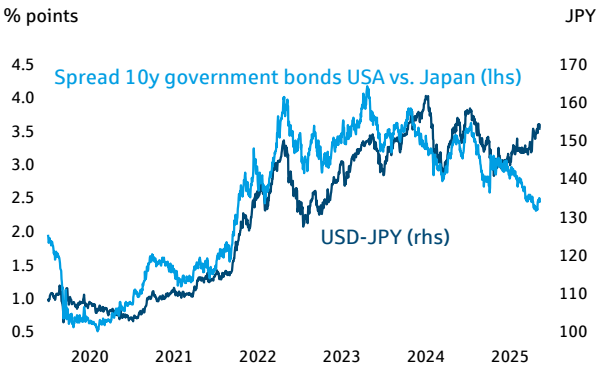
Once again, the **Swiss franc** has been among the winners on foreign exchange markets in 2025. The Alpine safe-haven currency benefited from persistent global uncertainty, despite generally positive sentiment across financial markets. This support is likely to extend into 2026, as geopolitical and economic risks are unlikely to dissipate. By contrast, the high US tariffs imposed on Swiss exports have so far had only a limited impact on foreign exchange markets.

Presumably, the Swiss National Bank will want to **avoid negative interest rates** and leave its policy rate at 0.0 %. Even so, the interest rate spread to the euro area suggests a higher euro-franc rate. Occasional **foreign exchange market interventions by the SNB** remain possible, particularly with inflation hovering around zero. Unlike in the previous years, the Swiss economy is forecast to expand at a slower pace than the euro area in 2026. Unless renewed uncertainty bolsters demand for safe-haven assets, the franc is likely to weaken modestly against the euro.

Japanese yen holds strong cards

Despite a temporary sharp appreciation, the **Japanese yen** has not been one of the top performers in 2025. A slight gain versus the US dollar stands in stark contrast to significant losses against the euro and many other currencies. But the yen could have pulled out its wild card: monetary policy. That is because the **Bank of Japan** has defied the global trend by **raising interest rates**. However, despite rising inflation, it has proceeded with extreme caution and that may have tested the patience of some investors.

Yield spreads show a clear path for the yen



Sources: Macrobond, Helaba Research & Advisory

As the **new Prime Minister**, Takaichi, is regarded as an opponent of a tighter monetary policy, there was certainly no tailwind from her. However, it is by no means a given that she will rein in the central bank and further cautious interest rate hikes can be expected. However, even regardless of Japanese policy, Japan's interest rate disadvantage is shrinking as rates are falling in the United States. The **yield spreads clearly favour the yen**, both against the dollar and the euro. Moreover, the currency appears undervalued according to long-term valuation metrics. Therefore, the cards are stacked in the yen's favour – not for the first time, it should be said.

Christian Apelt, CFA

Germany: The government must play its cards

Following years of economic decline, Germany is on the verge of a recovery – supported by rising public spending. However, the country still needs structural reforms.

The German economy has performed worse in recent years than initially estimated: A comprehensive revision of GDP data by the Federal Statistical Office revealed **Germany's economy contracted in 2023 and 2024**, including two periods of technical recession[1]. These revised figures align more closely with the prevailing pessimistic sentiment in Germany. With domestic economic growth still not gained traction over the past year, one external political factor has acted as a significant headwind for the export-oriented economy: developments across the Atlantic. Although domestic demand has increased, US tariffs have weighed on German exports to the United States. On the other hand, alongside this negative external influence, there is another political factor that is expected to provide some support to the German economy.

	2025e	2026f	2027f
GDP real, % yoy	0.2	1.8	1.6
GDP real, % yoy, working day adjusted	0.3	1.5	1.5
Private consumption, % yoy	1.0	1.5	1.0
Government spending, % yoy	2.0	2.0	2.0
Gross fixed capital formation, % yoy	-0.7	1.5	2.0
Investment in equipment, % yoy	-2.0	1.0	2.0
Construction, % yoy	-1.5	2.0	2.0
Exports, % yoy	-0.5	0.0	1.0
Imports, % yoy	3.5	1.0	1.0
Consumer prices, % yoy	2.1	2.1	2.2
Unemployment rate, %	6.3	6.0	5.3
Unemployed, thousands	2,875	2,750	2,425
Budget balance, % of GDP	-3.0	-3.5	-3.6
Current account balance, % of GDP	4.3	4.6	5.1

Sources: Macobond, Helaba Research & Advisory e=estimate, f= forecast

After federal elections in February, a constitutional amendment relaxed the statutory public debt ceiling (the so-called 'debt brake') and the **new German government**, led by Chancellor Friedrich Merz, agreed on the largest spending package in the history of the Federal Republic. This fiscal stimulus program will lead to a sharp increase in both government consumption and public investment over the next few years, thereby contributing to the economic recovery. We expect the **German economy to expand by 1.5 %** in 2026. As a result, Germany will no longer act as a drag on the economic growth of the euro zone, as it had done in recent years.

Consumer spending to deliver the first jolt

An increase in consumer spending, in particular, should be the initial driver for an **economic recovery** in 2026, given that private consumption accounts for at least half of GDP. Consumers seem to have gradually absorbed the inflationary shock of recent years and, with real wages rising again after a prolonged hiatus, are once again looking to spend more. As **consumer prices are** expected to continue to increase at a **modest 2.1 %** next year, real incomes will proceed to grow. Stronger demand from consumers should stimulate the wider economy. Both employment and investment activity are set to pick up, which should lead to an additional rise in demand. In turn, this is expected to boost industrial capacity utilisation, which has remained low until now. Hence, there should also be a **recovery in manufacturing industry**.

Are structural reforms on the horizon? The government is keeping its cards close to its chest

Public spending in Germany has been steadily rising for decades, and the new fiscal stimulus packages are set to accelerate this trend. **Higher borrowing will lead to broad increases in both government consumption and public investment**, thereby contributing to economic growth. Over the longer term, a central priority will be to ensure that additional funds are primarily directed toward investments that enhance the economy's long-term efficiency and productivity.

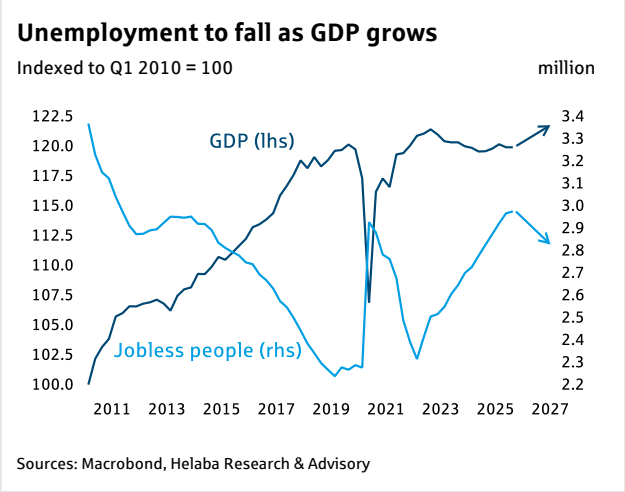
> *"It's not about the cards you're dealt, but how you play the hand."*
> *Randy Pausch*

Pressure for reform has intensified in recent years, a period marked by crises and economic stagnation. Structural challenges – including high energy costs, taxes and levies and excessive bureaucracy – remain a significant burden for German businesses and the workforce. The economic recovery could turn out to a be a "joker" for the government: as growth resumes, public criticism is likely to ease.

[1] Definition technical recession: the GDP was declining for at least two consecutive Quarters

While a stronger economy will not resolve underlying structural issues, it can create a more favourable environment for implementing reforms that might otherwise be unpopular with voters.

Labour market poised to turn the corner



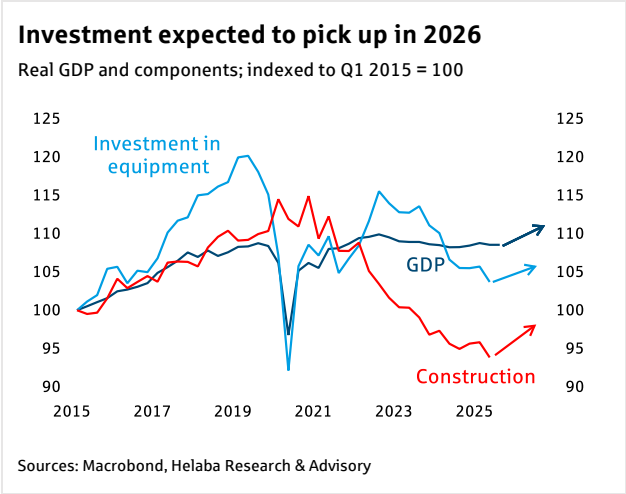
The number of jobseekers is expected to decline in the coming months as the anticipated economic upturn takes hold. At the same time, a **growing workforce** should boost aggregate purchasing power, supporting consumer sentiment and increasing demand for goods and services. This, in turn, is likely to encourage companies to expand hiring.

The jobless rate – which reached its highest level since July 2020 and has remained elevated since March 2025 – appears to have peaked. The **average unemployment rate** is projected to **fall from 6.3 % in 2025 year to 6.0 % in 2026**, with the average number of people out of work expected to decline to approximately 2,750,000 – around 200,000 fewer than currently.

More investment = more growth

Investment has been notably sluggish in recent years. Nevertheless, machinery and buildings will eventually require replacement as they wear out, creating a catch-up effect over time. **Brighter economic prospects** are also likely to encourage companies to increase capital expenditure.

Elevated public spending is expected to further support investment. A significant share is directed toward strengthening Germany's defence capabilities. While part of this **military spending** is classified as government consumption, the remainder is recorded as **public investment**, thereby contributing to fixed capital formation in machinery and equipment. Additionally, resources from the special infrastructure fund are expected to primarily support investment in public construction projects.



US policy is not dealing German exporters a favourable hand

Foreign demand for German goods is **not expected to provide any momentum for growth in 2026**, with exports to the United States having fallen significantly in 2025. During a time of trade policy uncertainty, export-focused companies should not bet everything on one card; instead, they should try to diversify their sales markets. That said, trade between European Union countries has recently picked up, presenting further opportunities for German firms. Overall, however, foreign trade is unlikely to contribute to economic growth in 2026.

Simon Azarbayjani



United States: Still going for "Vabanque!"

2026 is set to be somewhat calmer – albeit only relative to 2025. As Donald Trump has encountered only minimal resistance so far, why should he change the game plan now?

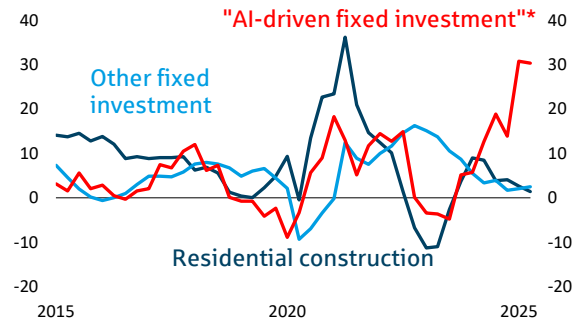
Since taking office in January 2025, President Trump has **turned the rules of the domestic policy game on their head**, eroded the rule of law, ended the US government's decarbonisation policy, undermined the independence of the Federal Reserve and effectively halted net immigration. More relevant for many foreigners, he has **disrupted the very foundations of the global geopolitical order** and pursued an **aggressively confrontational trade policy** – not only toward China but also against numerous US allies.

This **abrupt realignment** in US policies carries two broad **implications** for the economy and financial markets: **short-term cyclical effects and long-term structural consequences**. Once the US and Chinese governments stepped back from imposing prohibitive tariffs in May, the economic shock proved manageable. Despite a significant **rise in uncertainty** and Trump putting an end to the system of largely unrestricted global trade that has worked well for decades, the global economy has weathered the tariff shock better than many had anticipated. Following an agreement with China at the end of October, the previously looming threat of escalation has, at least for the time being, been removed.

Real GDP growth in the United States has slowed from the roughly 3 % seen in previous years. Looking beyond the **volatility in imports** caused by tariffs, the US economy is expected to maintain a growth trajectory of approximately 2 % for now.

AI: Going all in!

Nominal private fixed investment, % yoy



*"computers"& peripheral equipment", "communications equipment"and "structures: data centres"
Sources: Macrobond, Helaba Research & Advisory

AI is a "Trump" card!

In recent years, the US economy has benefited substantially from its "**trump card**" as a **global leader in artificial intelligence**. Investment in the technology sector, including in new data centres, now accounts for **nearly all of the growth in investment demand**. In our baseline scenario, we assume this trend will continue into 2026.

Moreover, this sector-specific boom has been a key driver of the **sharp rise in equity markets**, boosting household financial wealth and, in turn, supporting consumption. With excess savings accumulated during the pandemic depleted, and both job creation and wage growth slowing noticeably, it is clear that the rise in household wealth continues to underpin robust **consumer spending**, which was up by 2.7 % year-on-year in August 2025.

Additional support in 2026 is expected to come from **lower policy rates** (see section on monetary policy). Even prior to the first interest rate cut in September 2025, rising equity prices and a **weaker US dollar** resulted in easier financial conditions, which is likely to stimulate the economy with a time lag.

Longer-term outlook: Gloomy, not least due to fiscal policies

From a structural perspective, the **impact of Trump's policies is likely to be largely negative**. Any early hopes that markets might be liberalised, or regulatory burdens reduced have so far been dashed, as the administration's focus has been largely on pushing an ideological agenda – such as campaigns against "wokeness" and climate policy – and even on pursuing opportunities to benefit political supporters or government insiders. On the **fiscal policy** front, the US appears headed for unrestrained deficit spending: despite significant additional revenue from tariffs, Trump's tax cuts (his "One Big Beautiful Bill") are projected to push the federal deficit from an already elevated 6.5 % in 2025 to around 7 %. Rising federal debt and interest payments are becoming an increasing problem for the US, already reflected in interest rates and on foreign exchange markets.

The US government's **immigration and trade policies** are likely to weigh on growth prospects – even if AI-driven activity continues to support the economy in the coming years – and there is little indication that Trump will alter course. While zero net immigration may moderate the expected rise in unemployment (projected at 4.5 % in 2026), it will simultaneously constrain potential job growth. Continued uncertainty over trade policy, higher costs for imported goods, restricted access to the global talent pool, and protectionist measures favouring specific industries are set to undermine both the **competitiveness of US companies** and productivity growth. According to international competitiveness rankings, the US is already no longer among the top ten.

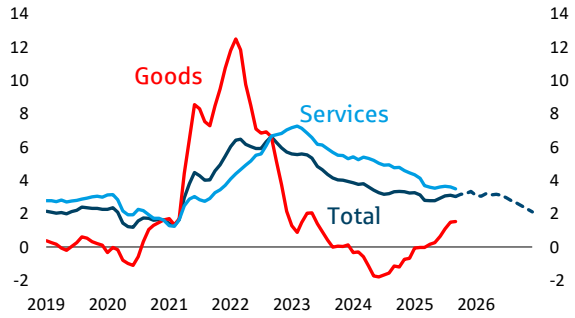
> *"I can do whatever I want!"*
> *Donald Trump*

Although the US economy is projected to **grow by around 2 % in 2026**, its potential growth rate is likely to be significantly constrained by Trump's "policy reset". Over the medium term, the substantial advantage the US held over the EU until 2024 is expected to shrink, with trend real GDP growth settling at an annual rate of just under 1.5 %.

Impact of tariffs on inflation: Delayed, but not off the cards

In line with most analysts, we expect the burden of Trump's **tariffs** to fall primarily on **US importers and domestic consumers** – a call that is supported by the empirical evidence. However, as many tariffs only came into full effect in late summer and effective rates (tariff revenues relative to imported goods) remain well below nominal rates, the impact has been more muted than headlines might have suggested.

Prices: Tariff impact (hopefully) only temporary
Core Consumer prices (excluding energy and food), % yoy*



*forecasts from October 2025
Sources: Macrobond, Helaba Research & Advisory

Higher costs are also being passed on more gradually, as many companies are taking a cautious, wait-and-see approach in light of extreme policy uncertainty, stretching out price increases over a longer period to **protect their sales**. The downside is that this raises the risk that a one-off price level rise does feed an inflationary process.

Even in autumn 2025, inflation is higher than it would have in the absence of Trump's tariff hikes. The impact is expected to **peak in early 2026**, assuming no further escalation, before gradually easing. For 2026, we therefore project an average annual **increase in consumer prices of 2.7 %** (2025: 2.8 %). The effects of tariffs and inflation are both likely to subside over the course of the year. Headline CPI inflation should fall to around 2 ¼ % by year-end. **Rising electricity costs**, a result of the data centre boom and a simultaneous exit from low-cost sustainable energy sources, are one factor likely to prevent a more pronounced decline in inflation. We also look for labour shortages to keep **wage growth** elevated – a key cost factor across many industries.

		2024	2025e	2026f	2027f
GDP, real change	% yoy	2,8	2,0	2,0	1,5
Inflation rate	% yoy	3,0	2,8	2,7	2,5
Unemployment rate	%	4,0	4,2	4,5	4,3
Budget balance*	% GDP	-6,7	-6,5	-7,0	-7,0

*Federal incl. Social Security
Sources: Macrobond, Helaba Research & Advisory

Patrick Franke

China: Staking everything on one card

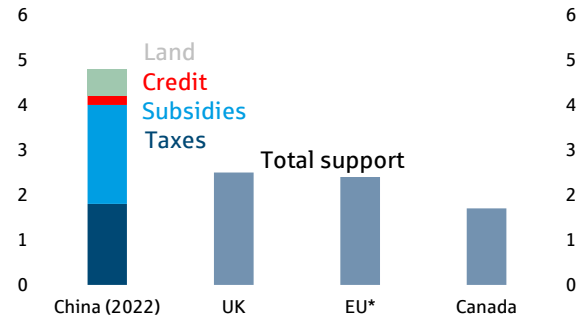
The government feels it is on a winning streak and is sticking to its aggressive export strategy. This should continue to pay off in 2026 – provided the conflict with the US does not escalate.

China currently holds the stronger hand in its stand-off with the United States, and many observers view Beijing as being in a clearly **advantageous position**. Washington's often clumsy, consistently reckless and erratic conduct has increasingly made China appear the more reliable partner – not only among emerging countries but also, increasingly, among advanced economies. The United States' abrupt turn towards isolationism has made it even more difficult, if not impossible, for them to pursue a simultaneous decoupling from China – for many countries already the most important trading partner.

This helps China not only in geopolitical terms but also in trade policy. While **goods exports** to the United States fell by 17 % in the first nine months of 2025 compared with the same period a year earlier, exports to the rest of the world rose by 10 %. This partly reflects a diversion of trade flows to the US via third countries to circumvent tariffs ("transshipment"), but it also points to an **increased focus** by Chinese companies **on alternative markets** in Europe, Asia, Africa, and South America. Consequently, companies in these regions now face pressure not only from weaker sales prospects in the United States but also from intensifying competition by Chinese exporters – both domestically and in third markets.

Fair play?

State aid to businesses, % of GDP (2021)



*average for Denmark, Italy, Ireland, France, Sweden and the Netherlands
Sources: IWF, Helaba Research & Advisory

With exports poised to grow significantly in 2025, we expect them to remain a key pillar of Chinese growth in 2026. This should be possible thanks to the temporary **"deal" with the US**, which delays a raft of additional threatened tariffs until November 2026.

Domestic demand: Only a faint glimmer of hope

> *"The ten core principles: […]*
> *Be innovative! Be cooperative! Keep your cards close to your chest!"*
> *Adapted from Sun Tzu, The Art of War*

The **domestic economy** is showing signs of stabilising; however, there is still no clear evidence of a meaningful rebound in consumer spending. Likewise, a recovery in the real estate market remains far from assured, even though there are bright spots in certain regions.

While the government has ramped up its **fiscal stimulus**, it still is not doing everything that it could. China continues to stake everything on a single card: exports. In our view, official growth figures remain overstated. According to Chinese authorities, real GDP will rise by 4.8 % in 2025. For 2026, we forecast growth of 4.3 %, which in reality reflects largely unchanged underlying momentum in the economy.

Stable price level

		2024	2025e	2026f	2027f
GDP, real change	% yoy	5,0	4,8	4,3	3,8
Inflation rate	% yoy	0,2	0,0	0,9	1,5
Unemployment rate*	%	5,1	5,2	5,0	4,9
Budget balance	% GDP	-7,3	-8,6	-8,5	-8,5

*"Surveyed" Sources: Macrobond, Helaba Research & Advisory

Excess capacity in Chinese industry and persistently weak domestic demand continue to weigh on prices. This is further exacerbated by declining **food prices**: the wholesale price of pork – an important staple – was more than 20 % lower year-on-year in autumn 2025. As a result, downward pressure on the consumer price index remains pronounced. After a flat reading in 2025, inflation is expected to edge up towards 1 % in 2026. Against this backdrop, further monetary easing appears likely.

Patrick Franke

Gross domestic product and inflation

	Gross domestic product Real change, % yoy				Consumer prices Change, % yoy			
	2024	2025e	2026f	2027f	2024	2025e	2026f	2027f
Euro area	0.8	1.4	1.4	1.4	2.4	2.1	2.1	2.2
Germany	-0.5	0.3	1.5	1.5	2.2	2.1	2.1	2.2
France	1.1	0.9	1.1	1.0	2.3	1.0	1.5	2.1
Italy	0.5	0.5	0.8	0.5	1.1	1.7	1.6	2.4
Spain	3.5	2.9	2.1	1.7	2.9	2.7	2.4	2.2
Netherlands	1.1	1.5	1.1	1.6	3.2	3.1	2.5	2.3
Austria	-0.8	0.3	1.0	1.5	2.9	3.5	2.5	2.3
Sweden	0.8	1.3	2.5	2.2	2.8	0.7	1.0	1.5
Poland	3.0	3.3	3.3	3.3	3.6	3.9	3.0	3.0
Czech Republic	1.1	2.5	2.5	2.7	2.4	2.6	2.7	2.5
Hungary	0.6	0.3	2.3	2.5	3.7	4.6	3.8	3.3
United Kingdom	1.1	1.5	1.5	1.5	2.5	3.5	2.5	2.5
Switzerland	1.0	1.5	1.0	1.7	1.1	0.2	0.5	1.0
USA	2.8	2.0	2.0	1.5	3.0	2.8	2.7	2.5
Japan	0.1	1.1	0.8	0.8	2.7	3.0	2.0	2.0
Asia ex Japan	4.7	4.5	4.2	4.0	1.5	1.0	1.7	2.1
China	5.0	4.8	4.3	3.8	0.2	0.0	0.9	1.5
India*	6.5	6.7	6.1	6.3	4.9	3.0	3.7	4.0
Russia	3.8	0.7	1.4	1.5	8.4	8.5	6.0	3.2
Turkey	3.2	3.0	3.5	4.0	58.4	29.0	21.0	9.0
Latin America**	1.8	2.3	2.0	2.4	25.7	7.6	5.3	7.5
Brazil	2.8	1.9	1.6	1.7	4.4	4.5	4.0	3.0
World	3.1	3.0	2.8	2.7	4.3	2.6	2.5	2.7

*India: Financial Year; ** Latin America ex Venezuela due to hyperinflation; e=estimate, f=forecast, GDP growth working-day adjusted if available

Sources: Macrobond, LSEG, Helaba Research & Advisory



Financial markets forecasts

	Change from end of year	latest*	Helaba forecast for end of period... Q1/2026	Q2/2026	Q3/2026	Q4/2026
Interest rates	basis points	%				
ECB refinancing rate	-100	2.15	2.15	2.15	2.15	2.15
ECB deposit rate	-100	2.00	2.00	2.00	2.00	2.00
Overnight rate €STR	-98	1.93	2.00	2.00	2.00	2.00
3M Euribor	-68	2.03	2.00	2.00	2.05	2.10
6M Euribor	-44	2.13	2.10	2.10	2.10	2.15
2y Bunds	-8	2.00	2.00	2.00	2.10	2.10
5y Bunds	11	2.26	2.40	2.40	2.50	2.50
10y Bunds	29	2.66	2.80	2.80	3.00	3.00
2y swap rate	-4	2.15	2.15	2.15	2.20	2.20
5y swap rate	12	2.37	2.50	2.50	2.60	2.60
10y swap rate	31	2.67	2.80	2.80	3.00	3.00
20y swap rate	59	2.95	3.00	3.00	3.20	3.20
30y swap rate	80	2.96	3.00	3.00	3.20	3.20
Fed funds target rate	-50	3.88	3.63	3.38	3.38	3.38
10y Treasuries	-45	4.12	4.30	4.30	4.50	4.50
Equities	in local currency, %	index				
DAX	21.0	24,088	23,500	24,000	24,500	25,000
Euro Stoxx 50	16.9	5,726	5,500	5,600	5,700	5,800
Dow Jones	12.7	47,928	45,600	46,200	46,800	47,500
S&P 500	16.4	6,847	6,500	6,600	6,700	6,800
Nikkei 225	27.4	50,843	49,800	50,600	51,400	52,000
Gold / crude oil	%					
Gold €/oz	40.5	3,562	3,739	3,750	3,833	4,000
Gold $/oz	57.2	4,127	4,300	4,500	4,600	4,800
Brent crude $/barrel	-12.7	65	65	68	71	73
Currencies	vs. euro, %	exchange rate				
US dollar	-10.6	1.16	1.15	1.20	1.20	1.20
Japanese yen	-8.8	179	170	170	168	168
British pound	-6.1	0.88	0.88	0.88	0.87	0.86
Swiss franc	1.4	0.93	0.94	0.95	0.95	0.96

*07/11/2025

Sources: Bloomberg, Helaba Research & Advisory

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