Helaba



ECONOMY AND CAPITAL MARKETS 2027

GLOBAL ECONOMY IN THE LAB – EAGER EXPERIMENTATION

HELABA RESEARCH, NOVEMBER 2026

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Editorial Date: 6 November 2026

EDITORIAL: GLOBAL ECONOMY IN THE LAB



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 chose the laboratory. Just as in the global economy, risks and opportunities coexist in the lab, trial and error are essential. Innovation is being rewarded – and many surprises or disruptive factors ultimately turn out to be nothing more than noise in the process of progress.

Admittedly, some scientists are currently creating uncertain experimental conditions. Nevertheless, amidst all the smoke, one should not overlook the opportunities bubbling away in the test tube. Our baseline scenario, 'Eager Experimentation', demonstrates the resilience of the growth experiment. Although there are numerous hazardous substances, these do not prevent the global economy from continuing to grow: the laboratory remains intact.

Baseline scenario: Eager Experimentation

In the global economic laboratory, the Bunsen burners are flickering and geopolitical vapours are obscuring visibility. Yet the grand experiment proceeds with remarkable stability. Despite the 2025 trade conflict, the 2026 war in Iran and rising interest rates, the product of the economic formula is growth.

> *Despite the hazardous substances, the laboratory remains intact – the growth reaction is happening.*
>
> *Dr Gertrud Rosa Traud*

Reckless individuals failed to seize control of the laboratory and cause the experiment to fail. More decisive, is another process within the economic laboratory: the industrial cycle. After years of little reaction, the heat of reaction from the AI experiment led to a broader upturn in global industry. The export-driven German economy is particularly likely to benefit from this, because many formulas rely on German ingredients. At the same time, it becomes apparent that, following the so-called 'Liberation Day', globalisation is more robust than anticipated, with world trade functioning even beyond China's export successes. The trade truce between the US and China also appears stable enough to avoid blowing up the laboratory immediately.

Many influencing factors – but not highly reactive

Of course, there are also dangerous substances on the shelf: high public debt limits fiscal maneuver. However, there will be no harsh consolidation, and the interest rate solution will not be applied in highly concentrated doses. At the same time, another powerful reaction is taking place, which economists refer to as 'technological progress' – currently taking the form of artificial intelligence above all else. Whether investment in AI will continue to ramp up, whether profits will exceed expectations or whether a political and cultural backlash will cool the reaction are major unanswered questions in this experimental year of 2027. In the baseline scenario, however, the general assumption is that the AI reaction will not be highly exothermic. It will not release enormous amounts of energy in a short space of time.

Thanks to lower energy prices, inflation is likely to ease over the course of the year, strengthening purchasing power and relieving the pressure on central banks to further raise interest rates. Overall, the global economic landscape remains risky, but the 2027 experiment has a good chance of proceeding in a controlled manner rather than explosively.

Negative scenario: Laboratory Accident

In the negative scenario, the global economy resembles a high-risk experimental setup: numerous players with conflicting objectives and explosive substances – a situation in which even minor mistakes could trigger an accident. A toxic mix of political decisions and market developments leading to a recession is imaginable. The geopolitical situation resembles an overheated mixture: Ukraine, Iran, Taiwan, North Korea, and mounting tensions between Russia and NATO. At the same time, AI threatens to transform from a beacon of hope into a smoldering fire: if productivity and profit expectations are not met, investment could abruptly stop, creating a significant demand gap.

Probabilities for the economic and capital market scenarios

Baseline scenario Eager experimentation	Negative scenario Laboratory accident	Positive scenario The Golden Formula
		
70 %	20 %	10 %

Source: Helaba Research

Added to this are the issue of unstable public finances. Looming over it all is a US President in 'mad scientist' mode, particularly in relation to China, where stable trade policy is far from certain. In this situation, the experiment is spiraling out of control.

Positive scenario: The Golden Formula

After years of failed attempts and exposure to numerous hazardous substances, achieving a positive outcome by 2027 seems almost like alchemy. Yet, in the global economic laboratory, this feat is achieved. Defying all expectations, the scientists discover the golden formula. There are no new geopolitical shocks, and existing conflicts lose their explosive power as people become accustomed to them. In some places, the situation even improves.

At the same time, the impact of AI is greater than anticipated. Additional investment, multiplier effects, rising share prices and broader application are also boosting sectors that have so far been largely unaffected. The industrial cycle appears to be stronger and more extensive than expected, while global trade is proving to be more dynamic than forecasted – a self-reinforcing upswing is taking hold. Even remaining geopolitical tensions are acting as a catalyst: the EU is using the current environment to establish itself as a reliable partner, access new markets and diversify supply chains. Higher growth is easing distributional conflicts, bolstering tax revenues and weakening populism.

There is bubbling, crackling, banging and hissing. Yet, behind all the smoke and mirrors, there are reactions taking place that could create desirable economic and capital markets products. Don't let the antics of mad scientists and dangerous substances put you off experimenting – trust in the robust economic process!

Yours,



Dr Gertrud Rosa Traud
Chief Economist/Managing Director

BASELINE SCENARIO: EAGER EXPERIMENTATION (70 %)

There's no doubt about it – the global economy has seen calmer times. Currently, visibility in the lab is limited, a geopolitical haze is rising from the Erlenmeyer flasks. Confidence in the lab team's expertise has been shaken. However, the global economy has proven to be unexpectedly resilient for some time now. With the support of the industrial cycle and some luck regarding potential new shocks, "Experiment 2027" is likely to surprise the numerous pessimists in a positive way.

No long brainstorming required: The current **list of potential dampeners and disruptive factors** for the global economy seems to contain at least **as many elements as the periodic table**. Despite all these challenges and undeniable problems, we expect 2027 to be a **reasonably good year for global growth**. The world economy has already weathered unexpected shocks in 2025 (trade conflict) and 2026 (war with Iran), which many saw as serious threats to growth and the financial markets. Even the inflation and key interest rate shock of 2021–2023 did not trigger a recession, as had occurred in previous cycles.

Notably, the **hope for a solid cyclical performance** is not really based on an optimistic assessment of **the "lab technicians"**. In 2027, we can again expect to see several **unconventional experimental set-ups**, particularly in **Washington**. Although Donald Trump will have to make certain concessions to the new Democratic majority in both houses of Congress following the **mid-term elections**, he has, in any case, mostly ignored Congress in many key policy areas since taking office in 2025. He is likely to continue doing so in the second half of his term. He retains considerable leeway in this regard, particularly when it comes to foreign and security policy.

Elections in other key countries, including France, Italy and Poland, may **designate some new and inexperienced lab teams**. In particular, the French presidential election could send someone into the lab who will first need to familiarise themselves with basic security protocols. However, as in Italy, the responsibilities of the office may ultimately lead to a **pragmatic approach**.

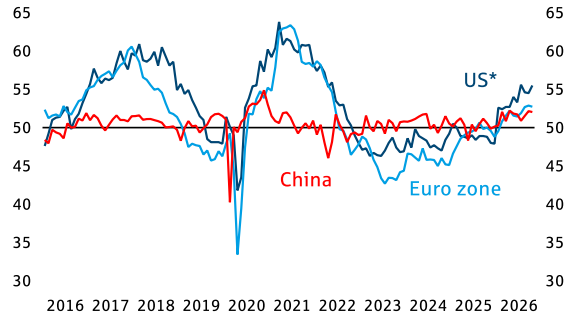
The industrial cycle and global trade as drivers

Even if the key input factors (reactants) for the global economy and financial markets have been successfully identified, it is impossible to predict exactly **in what combination and sequence** they will come together in a given year, and thus what the consequences will be.

The **industrial cycle** is set to emerge as a **key driver** in 2027. After years in which momentum was heavily concentrated in AI-driven sectors, there are signs that the long-awaited, repeatedly stalled by shocks, **broader upturn in global industry** is finally on the horizon. Despite its structural problems, Germany's **manufacturing- and export-oriented economy** will benefit disproportionately from this.

Global industrial recovery

Purchasing Managers' Indices Manufacturing



*ISM

Sources: Macrobond, Helaba Research

Another development that does not always receive sufficient attention in the media or among the wider public is helping with this. Some 18 months after Donald Trump's "Liberation Day", **globalization** is faring significantly better than one might have hoped. **Global trade** is thriving, and this phenomenon is not limited to China's export performance. So far, all those geopolitical conflicts have not altered the fact that international trade is growing faster than production (see Special, p. 23). Even for the strained relationship between the **US and China**, the most likely scenario for 2027 appears to be a continuation of the **trade "truce"**.

Stable burdens

While **other factors** that have a less than positive effect are also likely to play a role in 2027, we do not look for them to **have a significantly greater impact than in 2026**. These include the strained state of **public finances** in many industrialised countries and in China. Therefore, neither the US nor the EU are planning any economic stimulus programmes. However, significant fiscal consolidation measures are also not likely. A lower US deficit would primarily be the result of political deadlock between the President and Congress, rather than of targeted austerity measures. Following the surge in 2026, we **do not expect long-term interest rates** to rise further in 2027, which will mitigate additional strains caused by increased financing costs.

> *"Only a fool makes no experiments!"*
> *Charles Darwin*

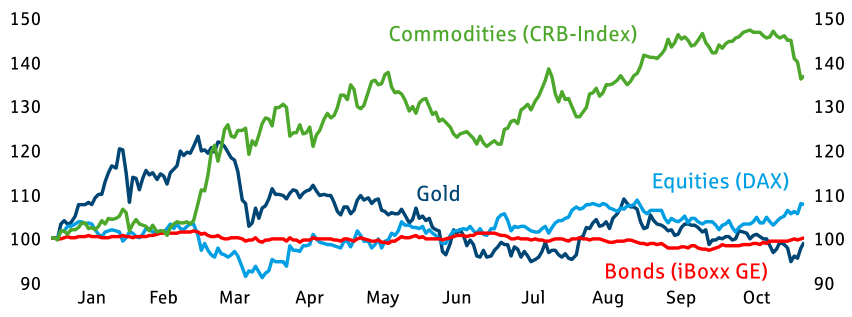
Then there is the process that economists rather dryly refer to as **"technological progress"**, yet which is one of the most important drivers of economic development. Currently, this is primarily embodied by **artificial intelligence**, the opportunities and risks of which are the subject of heated debate. It is important to distinguish between short-term and long-term consequences. Looking ahead to 2027, the following questions are at the forefront: Will **investment in AI** continue to increase, or will it reach its peak? Will **AI company profits** fall short of expectations, or exceed them? And will the political and cultural **backlash against the new technology**, which is particularly noticeable in the US, continue to gain momentum?

Less inflation – and less state intervention?

Inflation is likely to decline in major industrialised countries in 2027, primarily due to **lower energy prices**. This will strengthen households' purchasing power and enable **central banks** to keep an eye on the growth picture. We anticipate a further modest tightening of monetary policy in 2026. Key interest rates should thus be at the upper limit of the "neutral zone" or slightly in restrictive territory in 2027. We consider current market expectations regarding further interest rate rises by the ECB and the Fed in 2027 to be exaggerated.

Performance 2026: Commodities in the fast lane

Indexed to 31 December 2025 = 100, total return in euro



Sources: LSEG, Helaba Research

In 2027, another key issue will once again be the search for the **right balance between state intervention and private initiative**, which is a necessary condition for sustainable growth. While the **EU** has recently made much of its **commitment to reducing bureaucracy**, this has not been matched by action. Meanwhile, a **more active industrial policy** is steadily increasing the scope for government intervention.

The increased focus on **security** in the face of ongoing military and hybrid threats is playing into the hands of the state anyway. The climate transition will not be achievable as planned without regulatory guidance or additional public investment. In **Germany**, the **reform process**, which could strike a better balance between private initiative and the state, as well as unleashing additional growth potential, is stalling.

Overview of forecasts in the baseline scenario

The **global economy** is expected to maintain roughly the same pace in 2027 as in the previous year. Both Germany and the euro zone are expected to grow by 1.4 %. China is expected to act as a dampening factor, with its economic output likely to lose momentum relative to 2026 and to grow by just 4 %. We expect the US economy to grow by approximately 2 %, at a similar rate to the previous year.

While **inflation** in China remains low, many industrialised countries are struggling with high inflation. In Germany, the euro zone and the US, the rise in consumer prices will average 2.8 % – above the central banks' targets – but the year-on-year rate will fall significantly over the course of the year.

Monetary policy is likely to have been sufficiently recalibrated in both the euro zone and the US in 2026. The ECB and the Fed are then expected to adopt a wait-and-see approach to gauge the impact of slightly more restrictive financing conditions. There will likely be no room for interest rate cuts until 2028.

Selected forecasts for 2027

Euro zone			
GDP growth, %	1.4		
Inflation, %	2.8		
Q1 - Q4			
Deposit rate, %			
2.75	2.75	2.75	2.75
USD / Euro			
1.13	1.13	1.15	1.15
EURO STOXX 50, index value			
6,450	6,500	6,550	6,600

Germany			
GDP growth, %	1.4		
Inflation, %	2.8		
Q1 - Q4			
3M Euribor, %			
2.90	2.90	2.85	2.75
10y Bunds, %			
3.50	3.50	3.30	3.25
DAX, index value			
27,250	27,500	27,750	28,000

USA			
GDP growth, %	2.0		
Inflation, %	2.8		
Q1 - Q4			
Federal Funds Rate (mid-point), %			
4.13	4.13	4.13	4.13
10y Treasuries, %			
5.00	5.00	4.80	4.75
S&P 500, index value			
7,980	8,060	8,140	8,200

Source: Helaba Research

Despite the price fall in 2026, the outlook for **bonds** is not that bad. Central banks are not tightening monetary policy any further, which is boosting investor confidence. However, the continued significant rise in the supply of government bonds is preventing a sharper fall in yields. By the end of the year, 10-year German government bonds are expected to trade at around 3.25 %, while their US counterparts were trading at 4.75 %.

The positive effects of a funded pension component and AI-driven productivity improvements are likely to materialise only gradually over the medium term. Nevertheless, supported by a cyclical upswing in global economic activity, we expect global **equities** to deliver returns broadly in line with historical averages despite already high valuations in some market segments. We forecast the DAX to end 2027 at around 28,000 points.

The recovery in **the German real estate market** remains fragile and differentiation based on property quality and location continues. Higher interest rates reduce the relative attractiveness of commercial property, whose prices are likely to decrease slightly in 2027. However, the growing German economy is stabilising demand. Residential property remains in short supply, particularly in urban areas, which is pushing up prices. Nevertheless, as affordability deteriorates, the upside potential is limited.

By 2027, **gold** will recover from the interest rate shock. As opportunity costs fall and fiscal risks rise, investors will increasingly turn to gold, pushing the price above USD 5,000 in the second half of the year.

The sharp appreciation of **the US dollar** will come to an end in 2027. The gradual decline in oil prices is negatively impacting the greenback, as the US is a net oil exporter. Furthermore, Trump's erratic policies continue to undermine confidence and consequently demand for the dollar. However, capital inflows into the US, driven by the AI boom, remain a supportive factor. Therefore, the euro-dollar exchange rate will rise moderately to 1.15.

Patrick Franke

NEGATIVE SCENARIO: LABORATORY ACCIDENT (20 %)

In the baseline scenario, there is a lot of experimentation, but the result is quite impressive. However, handling sometimes highly explosive substances carries risks. The smallest mistakes can have painful consequences in such a situation. Even if everyone is working on the same experiment in 2027, which is by no means a certainty, the goals of the actors are often different or contradictory. This quickly results in a recipe for the big bang.

Given the high level of **uncertainty** and multiple **risk factors**, many observers consider a more or less spectacular **laboratory accident** in 2027 to be the most plausible scenario: if so many things can go wrong, something will go wrong! In fact, a **toxic mix** of political decisions and negative market developments that will push the global economy into recession is a serious scenario for 2027, even if, in our view, it is not the most likely one.

> *"Two things are infinite, the universe and human stupidity, but I'm not quite sure about the universe yet."*
> *Attributed to Albert Einstein*

The **reactants and catalysts** that will be used globally in 2027 are to a large extent **highly volatile**. This starts with the **geopolitical situation**, where it is obvious that even the supply of a little energy at the wrong time or in the wrong place can lead to an explosion like the Iran conflict in spring 2026. In addition to the well-known existing and potential trouble spots such as Ukraine, Iran, Taiwan or North Korea, others have recently been added. For example, the threat of a Russian attack on NATO is being discussed more seriously than was conceivable just a short time ago. Additional shocks to the **energy markets** and to the **global flows of goods** are possible at any time.

AI: Smouldering fire instead of beacon?

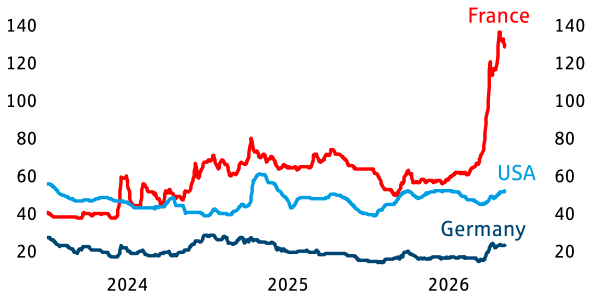
The **AI industry**, so far a pillar of the global economy, also represents a risk. For example, the "tech bros" at the top of AI companies in the US sometimes seem to act with the ethical integrity of Doctor Frankenstein. As for the new technologies, however, extreme scenarios do not have to occur to hit the global economy hard. Even a sustained **disappointment regarding expected productivity increases and corporate profits** could trigger significant spending and price corrections. If the AI boom in investment were to abruptly stop, it is unclear what could close the resulting **demand gap**.

Another experimental setup that does not inspire much confidence can be found in the area of **public finances**. In view of the lack of a credible strategy for deficit reduction in the **US** and the increasing economic policy paralysis of a major EU state such as **France,** the occupational health and safety group responsible for the global economic laboratory may well break out in a cold sweat.

Finally, there is the **US president**, whose unpredictability is unlikely to be significantly altered by the midterm elections, and who already in the first half of his second term in office repeatedly acted like a clichéd **"mad scientist"**: his goals (almost too) firmly in sight, but unpredictable and ruthless in the timing and dosage of his policy experimentation. This is especially true of the **relationship between the US and China**, where a continuation of the trade truce is anything but a foregone conclusion.

High debt poses potential dangers

CDS* 10-year government bonds, basis points



* Credit default swaps
Sources: LSEG, Helaba Research

Overview of forecasts in a negative scenario

In the negative scenario, the global economy slips into **recession** due to a series of negative shocks. In **Germany** and the **euro zone**, the economy weakens significantly, causing gross domestic product to shrink by around 2 %. The economy in Europe will take several years to fully recover from this recession. The **US economy** shrinks less sharply, but unemployment also rises significantly there.

Even though the effects of geopolitical shocks initially cause many prices to rise sharply, weak demand quickly dampens **inflation**, which quickly falls below the rates in the baseline scenario. In Germany and the euro zone, the inflation rate will average 1.5 % for the year in 2027 and will remain below the ECB's target of 2 % in 2028. In the US, lower energy prices will have a stronger impact – here, inflation will fall below 1 % in 2027.

A weak economy and soon falling inflation rates are calling **monetary policy** into action. In this context, the ECB and the Fed cut key interest rates to below the 2 % mark. However, a renewed experiment with zero or negative interest rates is not a serious option for the central banks, as the experience gained has ultimately been problematic. Depending on the development of risk premiums in the euro zone, on the other hand, the purchase of government bonds is likely to be used as a supportive measure by the ECB.

The **bond market** is seeing strong price gains, at least for bonds that serve as safe havens. Falling key interest rates are driving yields on 10-year German government bonds down to around 2%, while 10-year U.S. Treasuries are reaching the 3% mark. However, yield curves are not inverting. Risk premiums are trending higher as a result of significantly rising government deficits due to the crisis.

Given already stretched valuations, **equities** remain vulnerable to setbacks. Negative shocks related to geopolitics, trade policy, economic growth, or the monetisation of artificial intelligence could result in a significant earnings slowdown. At the same time, investors may become less willing to pay premium valuation multiples, leading to a broad-based derating of equity markets. Under such circumstances, equities would likely enter a bear market, with the DAX temporarily retreating towards 17,000 points.

On the **German real estate** market, the already fragile recovery ends abruptly and prices fall again. Residential real estate is experiencing only moderate price declines due to persistent shortages. In contrast, office and retail properties are losing significant value in the weak economic environment. Even falling financing costs cannot prevent the drawdown.

The **price of gold** is exploding. The precious metal can make strong gains as the usual safe-haven competitors like bonds react with a risk discount. Gold is likely to benefit, in particular from increasing fiscal pressure, allowing the precious metal to form a new record high of over 6,000 US dollars per troy ounce.

The **US dollar** lives up to its reputation as a safe haven and appreciates against the euro. However, since geopolitical risks have already weighed on the euro in the previous year, the additional appreciation potential of the dollar is limited. In addition, uncertainties surrounding politics under US President Trump are slowing down the inflow into the dollar. The exchange rate movement is thus weaker than in past crisis episodes. The euro-dollar exchange rate falls to 1.00 by the end of the year.

Patrick Franke

POSITIVE SCENARIO: THE GOLDEN FORMULA (10 %)

Against the background of low expectations on all sides, a pleasant surprise in 2027 should be easy to achieve. But if we talk about a positive scenario, it quickly becomes clear how high the demands on the laboratory staff really are: carefully selected reactants and catalysts in exactly the right dosage plus the right amount of energy, otherwise there will not be a gold nugget. What remains is a lump of ordinary lead.

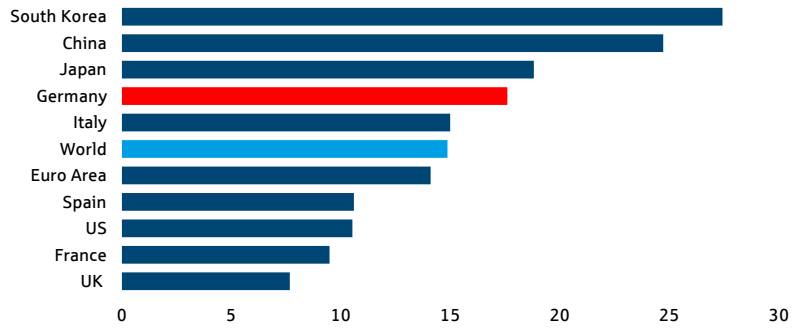
But **difficult does not mean impossible**. Many of the ingredients are neither rare nor particularly precious. In some cases, even the absence of individual factors may be sufficient. In our positive scenario, there will **be no new geopolitical shocks** in 2027. Adaptation and habituation processes will push the burdens of existing trouble spots into the background. Perhaps the situation will even ease at one point or another.

However, less uncertainty and political disruption are only part of the "2027 formula for success". For example, **the impetus of AI** for the global economy in the form of additional **investment demand**, **multiplier effects** and rising **stock market wealth** is stronger than currently expected. A broader application of the new technology can also **unleash entrepreneurial forces** in sectors that have so far benefited little from AI.

In addition, under the impression of disappointments in the recent past, our baseline scenario could underestimate the industrial cycle. The WTO's forecasts for **world trade** in the following year have always been too cautious in recent years. Just as self-reinforcing recessionary forces can be set in motion in the negative scenario, such dynamic processes are also possible in an upswing. Economists call this seemingly magical/alchemical process "multiple equilibria": once the economy has escaped the rut of weak growth, it suddenly performs sustainably better – without any **additional energy supply** in the form of stimulus measures.

Countries benefit to varying degrees from the industrial upswing

Share of manufacturing in GDP, %*



* 2025 or last available version

Sources: LSEG, Helaba Research

Geopolitical conflicts as an opportunity

Politically, crises always bring **not only risks, but also opportunities**. The **EU** and the governments of the member states, if they act cleverly, could use the geopolitical environment to present themselves to third countries as a **trustworthy and reliable partner** that pursues economic and not primarily power-political goals – in contrast to the US and China. This could open up new markets, diversify supply chains and maintain the rules-based world trade regime at least within a "coalition of the willing".

> *"Eureka!"*
>
> Archimedes of Syracuse

Domestically, stronger economic growth defuses **distributional conflicts** and takes the wind out of the sails of the populists. In addition, tax revenues are rising, which expands the **governments' political room for manoeuvre**. Mostly economically motivated **resistance to decarbonisation** fades.

Overview of forecasts in the positive scenario

The global **economy** is picking up. The industrial cycle is surprising on the upside, and trade in goods is growing even stronger. Substantial investment, especially in AI, as well as structural reforms also improve growth prospects in the medium term. Due to the high share of manufacturing in **Germany**, the global industrial upswing is giving a particularly strong boost to the economy here. Production increases significantly and unemployment falls with a slight delay, which in turn stimulates demand. German gross domestic product will increase by more than 2 % in 2027. The euro zone will also grow strongly at over 2 %. The US economy will even achieve growth of around 3 %.

In this scenario, stronger productivity growth as well as inflation-dampening effects of geopolitical easing and more efficient supply chains reduce price pressures. Nevertheless, strong demand is pushing inflation somewhat higher. **Inflation rates** are therefore not approaching the central banks' targets. In Germany and the euro zone, the inflation rate will rise above the 3 % mark on average in 2027.

Stronger trend growth means that the "neutral" interest rate level is also higher. Central banks increase the degree of restrictiveness of **monetary policy** in 2027. In contrast to the baseline scenario, the ECB and the Fed will raise key interest rates slightly in 2027.

There are price losses on the **bond market**. In the wake of slightly rising inflation and further key interest rate hikes, the yield on 10-year US Treasuries climbs above 5 %, while that of 10-year Bunds climbs over 4 %. Although yield curves are steepening, this effect is limited as strong economic growth casts the debt situation of the countries in a milder light.

Equities are benefiting both from the strengthening global industrial cycle and from productivity gains driven by the broader adoption of artificial intelligence. Corporate profits are growing at a double-digit rate. In view of the positive earnings development, investors continue to tolerate elevated valuation levels, allowing equity markets to deliver above-average returns. We forecast the DAX to reach 32,000 points by year-end.

Strong economic growth is boosting **German real estate**. The increase in purchasing power is more than offsetting the effect of slightly higher financing costs, causing residential real estate prices to rise. Demand for retail and office space is also picking up in the positive economic environment, therefore helping transactions and prices to increase.

The increasing risk appetite of investors in combination with declining risk premiums is putting a heavy strain on the safe haven of **gold**. At the same time, opportunity costs for the interest-free precious metal are rising, so that the price of a troy ounce is falling towards 3,000 US dollars.

The absence of new geopolitical shocks and the favourable global economic development are increasing investors' risk appetite. As a result, demand for the safe haven **US dollar is** falling, while demand for the euro is rising. In addition, the lower interest rate disadvantage of the euro zone is having a positive effect on the common currency. The euro-dollar exchange rate will rise to 1.25 by the end of the year.

Patrick Franke

MONETARY POLICY: A CHALLENGING SITUATION WITH LIMITED SCOPE FOR MANOEUVRE

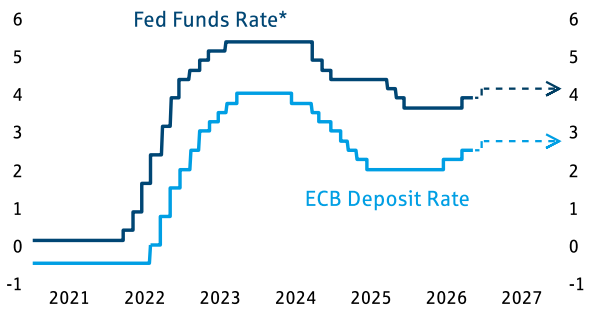
The ECB and the Fed are likely to switch to a wait-and-see approach soon. Inflationary pressures are expected to ease during 2027. Financing conditions remain tight.

At the start of the year, the **European Central Bank** was in a favourable position. **Inflation** had fallen below the 2 %-mark, and the **euro** was strong against other currencies. The ECB Governing Council was even discussing further easing. However, the situation has changed dramatically with the outbreak of war in Iran. Inflation has climbed to around 4 %, the euro has weakened, and the central bank has already had to raise its key interest rate twice. Furthermore, **risk premiums** rose significantly in the autumn. While inflation calls for tighter **monetary policy**, the crisis in France calls for **stabilising measures**. However, the purchase of bonds using the Transmission Protection Instrument (TPI) is only likely in the event of further escalation – entirely in line with former ECB President Draghi's **"whatever it takes"** approach. This has a positive effect, as investors factor it into their considerations, thereby preventing excessive spread widening in the first place.

It has recently become clear that, in this fragile environment, the **scope for interest rate rises** is narrower than previously assumed. **Financing conditions** are now very tight, not just in France and Italy, but across the board. The substantial increase in interest rates over the past five years is particularly evident right now, depending on the loan term. The Governing Council of the ECB must therefore **act prudently**, not least to avoid stifling investment. It is therefore likely that there will be no more than **one further interest rate rise to 2.75 %**, partly because inflation is expected to ease in the new year. A cautious shift in monetary policy is not expected until 2028.

Slightly restrictive monetary policy

Key interest rates, % (forecasts from November 2026)



* Midpoint of the target range
Sources: LSEG, Helaba Research

Fed: An awkward situation

To say that the US Federal Reserve is in a **difficult position** is an understatement. This is not only due to the **new chairman, Kevin Warsh,** whose communication strategy and positions have often been described as **"confusing" or "contradictory"** by central bank watchers and financial journalists. Following interest rate cuts in autumn 2025, the Fed reversed course in September 2026, seemingly without a clear plan.

That is because – just like the tariffs the previous year – the war in Iran represents a **supply shock**, which, while driving up inflation, cannot be addressed in a textbook monetary policy response like a demand-side problem. The issue is further compounded by the fact that the Fed has now **missed its official inflation target for over five years** running and must therefore worry about its credibility with every further overshoot.

%	Q1/27	Q2/27	Q3/27	Q4/27
3M Euribor	2.90	2.90	2.85	2.75
ECB Deposit Rate	2.75	2.75	2.75	2.75
Fed Funds Target Rate	4.13	4.13	4.13	4.13

Source: Helaba Research

The futures market is currently pricing in just over an additional 50 basis points of Fed interest rate hikes in a year's time. This seems excessive to us. Instead, we expect the Fed **to raise the key interest rate by 25 basis points** before the end of 2026. With the interest rate level at 4.00 % to 4.25 %, policy will then be **slightly restrictive**. In our baseline scenario, inflation will gradually ease in 2027, reducing the need for monetary tightening. We do not see any scope for Fed interest rate cuts until 2028.

Ulf Krauss and Patrick Franke

GOVERNMENT BONDS: IN SEARCH OF A SUSTAINABLE INTEREST RATE LEVEL

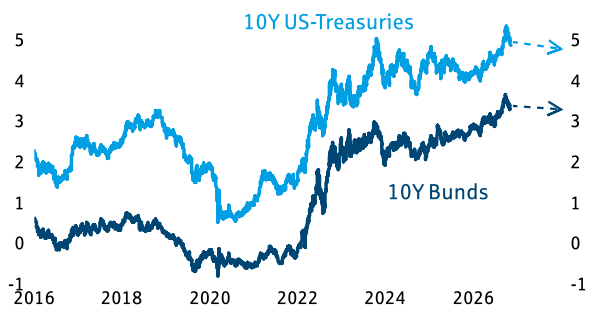
A growing supply of government bonds will also meet uncertain investors in 2027. However, higher yields and a more favourable inflationary environment should provide some support.

Since the interest rate shock of 2022–2023, **investors** may feel as though they are in a **laboratory** where everyone is working together to determine what level of returns is appropriate in this **rapidly changing world**. Such **significant changes** necessitate a step-by-step approach. For example, it is hard to say whether **artificial intelligence** will dampen or boost interest rates. On the one hand, the construction of capital-intensive **AI infrastructure** competes with the government's demand for investor funds. However, AI also enables **productivity gains** that dampen inflation, which could allow central banks to reduce key interest rates.

On the other hand, the **geopolitical environment** and **demographic change** are easier to assess. The latter leads to a shortage of skilled labour, lower savings, and higher **government spending**. Geopolitical shifts from a rules-based to a multipolar power structure tend to increase costs due to the associated **loss of trust.** Fragile supply chains necessitate higher levels of stockpiling, while the increased potential for conflict makes greater defence spending necessary. Ultimately, many developments, including **climate change**, are inflationary and place a burden on public finances.

Stabilisation: yields trending downwards

Yield, % based on Helaba forecasts



Sources: LSEG, Helaba Research

The supply of government bonds is set to rise sharply once again. The combination of deficits and higher capital market interest rates creates a **dangerous situation**, leading to rising interest burdens and making the economy highly volatile – as **France** demonstrates. Investors are therefore likely to remain cautious. Major investors, such as Dutch pension funds and the Norwegian sovereign wealth fund, are reducing the proportion of government bonds in their portfolios. This also applies to US Treasuries, which are under particular scrutiny given the **unpredictable nature of the Washington administration** and the **spiralling debt**. Even the bond-buying programmes of the US Treasury Secretary, reminiscent of sleight of hand, offer little help in this regard. It remains to be seen whether **central banks** will play a greater role in the future. The ECB has so far continued to **reduce its balance sheet** consistently. Within a year, its share of the volume of outstanding euro-denominated government bonds has fallen from 28 % to 23 %. However, should the crisis in **France** come to a head, the ECB would probably change course.

> *"I'm the house now. You can bet against me if you want."*
> *Scott Bessent, US Secretary of the Treasury*

In the current chaotic global climate, many investors are seeking **safe havens**. Although their former lustre has faded somewhat since the relaxation of the debt brake, **German government bonds** are benefiting from this. Nevertheless, they are currently offering the **highest yields** since the European sovereign debt crisis. While the average yield on German government bonds was just 1.0 % between 2012 and 2025, the current yield is close to the expected returns of German **institutional investors**. A 2010 survey revealed an average target yield of 3.8 %. The level at which supply and demand find equilibrium naturally depends on the scenario. In our base-case scenario, in which energy prices and inflation rates fall throughout 2027 and concerns about key interest rate rises subside, the outlook for bond investors is positive. We expect yields on 10-year German government bonds to be **3.25 %** and on US-Treasury bonds to be **4.75%** by the end of the year.

%	Q1/27	Q2/27	Q3/27	Q4/27
10y Bunds	3.50	3.50	3.30	3.25
10y Treasuries	5.00	5.00	4.80	4.75

Source: Helaba Research

Ulf Krauss

EQUITIES: SEARCHING FOR A NEW RETURN FORMULA

After three exceptionally strong years, AI-related stocks in particular ran out of steam in the second half of the year. The hunt for new sources of returns has begun for 2027.

Equity market performance in 2026 was shaped primarily by two themes: **energy prices** and **artificial intelligence**. Following the conflict with Iran, oil prices surged, providing a significant tailwind for the energy sector, which consequently topped global performance rankings. More recently, however, the sector's momentum, closely tied to crude oil prices, has begun to fade.

At the same time, the telecommunications and technology sectors, which had been the key drivers of global equity markets during the first half of the year, lost momentum. Investor concerns over a **potential AI bubble** appear to have left their mark on market sentiment. This shift in positioning benefited the traditionally defensive healthcare sector. The long-term investment theme of an **ageing population** may also have acted as an additional catalyst.

Overall, 2026 has been a year of two distinct halves. While equities posted robust gains during the first six months, the rally lost momentum in the second half. Several of the year's high-flyers even experienced meaningful corrections. Investors have increasingly locked in profits and adopted a more cautious stance amid uncertainty surrounding earnings prospects and the future path of monetary policy.

Central banks seek to prevent a chain reaction

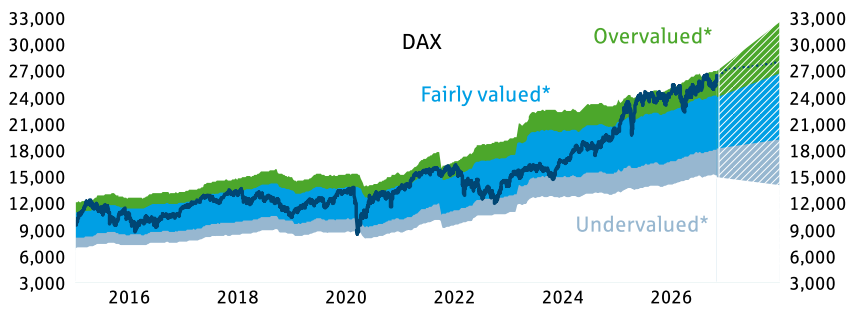
To counter inflationary pressures stemming from higher energy costs, the **European Central Bank** (ECB) has raised policy rates twice by 25 basis points since mid-year. The **Federal Reserve** followed with a rate hike in the autumn. These moves underscore policymakers' determination to contain inflation risks. As equity valuations are based on discounted future earnings, higher interest rates have a direct impact on stock prices. History shows that during tightening cycles, equities tend to rise less than underlying corporate earnings growth would suggest, as investors typically demand a **lower valuation multiple** in a higher-rate environment. Only if continued monetary tightening were to derail the economic cycle altogether, a scenario not reflected in our base case, would broad-based equity market declines become likely.

The DAX relies on a global economic upswing due to its sector mix

For much of 2026 DAX lagged its international peers. Contrary to popular perception, Germany's well-documented reform challenges played only a secondary role. A far more important factor was the sector **composition of the index**. The global market leaders of 2026, namely energy and, during the first half, technology stocks, are either absent or significantly underrepresented in the DAX. Conversely, industrial companies carry a disproportionately high weighting. Put simply, the **DAX** is essentially an **industrials index**, while the **S&P 500** is fundamentally a **technology index**.

Economic reacceleration supports further upside

Index points



* Bands: Fair value based on profit, dividend, cash flow and book value
Sources: LSEG, Helaba Research

What has weighed on the German benchmark relative to its global counterparts may increasingly turn into an advantage. The **global industrial cycle is gaining breadth** and traction. Purchasing Manager Indices (PMIs) in most major economies remain above the expansion threshold, while international trade continues to grow despite ongoing trade disputes involving the United States, Europe and China. With approximately three quarters of revenues generated abroad, DAX constituents are well positioned to benefit from a recovery in global economic activity.

Beyond traditional cyclical drivers, German companies could benefit from deeper industrial adoption of **artificial intelligence** in two important ways. First, the **integration of AI and robotics** should enhance productivity, profitability and the international competitiveness of domestic companies. Second, the development of intelligent and connected products is likely to facilitate the emergence of entirely **new business models**.

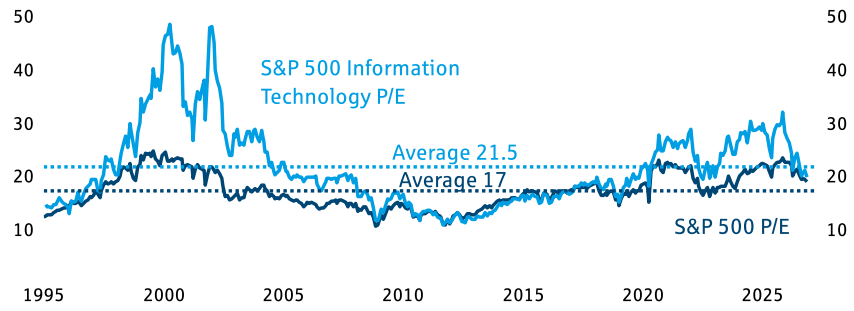
> *"Wealth creation is not a firework display, but a slow-moving reaction with a remarkably powerful end result."*
> *AI*

These structural tailwinds will take time to materialize. The same is true for a potential **increase in equity demand** resulting from the introduction of a funded component within Germany's **pension system**, as well as the proposed "Early Start Pension" initiative. After a challenging year, the positive cyclical forces are expected to take center stage. We therefore anticipate a **solid advance in German equities** during 2027 and forecast the DAX to reach approximately 28,000 points by year-end.

Has the US equity market overreacted?

The S&P 500 and Nasdaq Composite experienced a volatile year in 2026. The dominant driver was once again the **AI theme**, which fueled a succession of new market highs, particularly during the first half. However, concerns about an emerging AI bubble became increasingly widespread, triggering a correction in AI-related sectors. Some classic warning signs were indeed visible. **Price appreciation** in parts of the market was close to parabolic, AI became the dominant market narrative, **IPO activity** reached new highs, and **leverage-fueled equity purchases** increased significantly. Yet one characteristic of previous speculative manias was notably absent: investor **sentiment never** reached levels that could be described as **euphoric**.

Significant valuation compression in technology stocks



Sources: LSEG, Helaba Research

Moreover, technology stocks never approached the extreme valuations seen during the dot-com era. Throughout 2026, strong earnings growth and the subsequent market correction drove **valuations back below long-term averages**. This marks **the key distinction from the New Economy bubble**. At that time, equity gains were driven primarily by increasingly optimistic expectations and ever-expanding valuation multiples. Today, the rally has been underpinned largely by **strong and rapidly growing corporate earnings**. Nevertheless, investors should not extrapolate recent earnings momentum indefinitely. Going forward, the market's focus will increasingly shift towards identifying the sustainable long-term growth trajectory of AI-related businesses. This is likely to place a natural cap on the upside potential of this important driver of US equity performance. We therefore expect the S&P 500 to end 2027 at approximately 8,200 points.

Index value	Q1/27	Q2/27	Q3/27	Q4/27
DAX	27,250	27,500	27,750	28,000
Euro Stoxx 50	6,450	6,500	6,550	6,600
S&P 500	7,980	8,060	8,140	8,200

Source: Helaba Research

The **cyclical recovery** of the global economy is likely to offset already high **valuation levels**. Therefore, we expect global equities to perform in line with their long-term average in 2027.

Markus Reinwand, CFA



EUROPEAN BANKS: A SUCCESS STORY WITHOUT EXPERIMENTATION

European banks are expected to maintain their strong profit growth in the new year. The main drivers of this are higher interest rates and economic growth.

The banks' formula for success is likely to prove its worth in 2027. Based on their high balance sheet quality, they can capitalise on the earnings opportunities presented by an environment of higher interest rates and economic recovery, without resorting to risky strategies. The industry has remained robust and resilient in the face of extensive regulatory reforms since the financial market crisis. This is reflected in solid balance sheets, high liquidity buffers and capital ratios that far exceed the minimum regulatory requirements. Solid profits therefore continue to allow for dividend distributions and share buybacks. In the core business of lending, public investment programmes and the development of AI infrastructure are likely to offer significant business potential. In contrast, credit risks remain manageable, even if a slight increase from a moderate level is expected. Strict cost discipline completes the formula for growth.

> *"However, large fiscal deficits, sticky inflation, elevated asset prices, rising interest rates and geopolitical conditions continue to shift under the surface. These forces may be manageable, but we remain prepared for a wide range of outcomes."*
> *Jamie Dimon, CEO JPMorgan*

Nevertheless, the current turbulent news situation could pose an explosion risk. So far, trade and armed conflicts have had little impact on banks' results. It can therefore be assumed that the institutions will continue to use their tried-and-tested laboratory approach in 2027. The basis for robust profit development is likely to continue to be carefully calibrated risk models, strict cost control and the avoidance of unnecessary experiments.

Dr Susanne Knips



COVERED BONDS: THE INERT ELEMENT

In many countries, covered bonds are overtaking government bonds as safe-haven assets. They could emerge as the big winners from the current market environment.

In chemistry, the term "inert" describes substances that are largely unreactive. In today's financial markets, few asset classes embody this characteristic quite as convincingly as covered bonds. The overall environment a year ago was every bit as challenging as it is today. Adding to the uncertainty was the escalation of the conflict between the US and Iran. Yet none of these developments prevented covered bonds from recording one of the most active years in primary market history, while even surpassing some European government bonds in their role as safe-haven assets in the secondary market.

> *"The Pfandbrief is an anchor of stability in the European capital market and at the same time a central lever for the Financing of housing."*
> *Jens Tolckmitt, Chief Executive Officer of the Association of German Pfandbrief Banks*

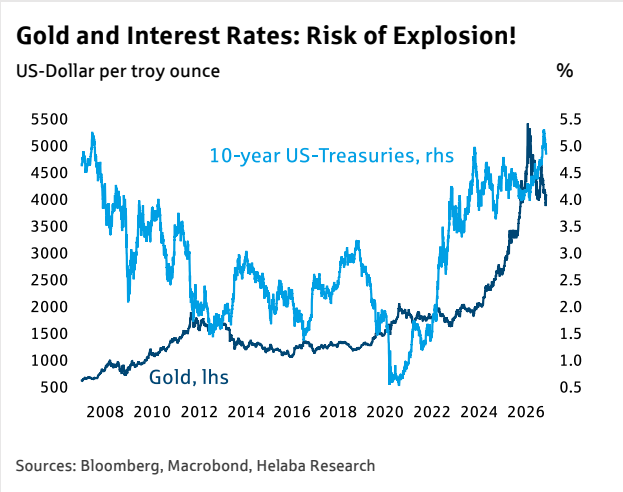
Impressed by this remarkable resilience and supported by a record EUR 183 billion in maturities in 2027, we forecast new issuance of EUR 195 billion. The uneven performance of real estate markets is unlikely to provide much additional momentum. Instead, a key driver will be the continued globalisation of the covered bond market. Israel emerged as one of the surprises of 2026, with three transactions totalling EUR 1.5 billion. Building on the successful issuance activity seen in the Czech Republic, Slovakia and Hungary, we expect deal flow from Eastern Europe to increase further in 2027. This could also include a return to the market by issuers from Greece and potentially Turkey. For Germany, we forecast issuance of EUR 37 billion, entirely driven by bonds maturing during the year.

Florian Hillenbrand

GOLD: A SAFE HAVEN ON THE VERGE OF A COMEBACK

Gold came under inflationary and interest rate pressure in 2026. In 2027, the precious metal is likely to be a safe haven, as record government debt limits monetary policy's room.

An explosive mix of geopolitical and fundamental influencing factors caused gold to **fluctuate in prices** of over 1.600 US dollars at its peak or a loss of 30 %. For the classic investor, who is primarily looking for **security** in the precious metal, 2026 was a real **challenge**. Doubts arose as to whether gold would live up to its function as a safe haven. This is because the mark of **over 5.000 US dollars** per troy ounce that has been reached in the meantime seems to be a long way off.



Monetary policy is the determining raw material for **interest-free gold**, which holds a lot of explosive power. At the beginning of 2026, gold reached an all-time high of around 5.600 US dollars per troy ounce, with the expectation of lower US key interest rates being the decisive mixture for the historic price record in addition to tariff policy and a weaker US dollar. With the outbreak of war, monetary policy expectations were reversed due to rising energy prices and **inflation concerns**. The precious metal slumped to below 4.000 US dollars. At the same time, bond yields rose worldwide, and investors now relied on further **key interest rate hikes**, so that gold had a difficult time, especially as the US dollar appreciated as a safe haven. **Emerging markets are also mobilising their gold reserves** to cushion the energy price crisis.

National debt and interest rates pave the way for a golden 2027

Gold will leave the interest rate shock behind in 2027, and the magic mark of 5.000 US dollars is within reach again. Start-up aid is likely to come in the course of the year from an easing of energy prices, which will reduce the **risk of inflation and interest rates**. This will take pressure off **central banks**, which will not have to tighten interest rates any further in 2027. Structurally, monetary policy is losing its explosiveness anyway due to growing government debt. Fed and ECB are in a conflict of goals in view of the high mountains of debt in the US and the Euro area, especially in **France** and Italy. The national budgets of these countries have reached a level at which every interest rate hike increases borrowing costs and thus widens deficits. Investors are therefore demanding higher risk premiums, which will cause borrowing costs to rise further. The risk of explosion due to **fiscal stress** is increasing, so that security is increasingly sought on the capital market.

> *Modern monetary policy is a form of alchemy: it can create liquidity from debt, but not easily from paper lasting confidence.*
> *AI*

The highly indebted countries would have to consolidate, which would involve drastic austerity measures or tax increases. Instead, however, the political pressure on the **Fed and ECB** to refrain from further key interest rate hikes is likely to be shifted. Capital market interest rates should therefore have reached their peak. The **safe investment haven gold** is thus on the verge of a comeback. In addition to central banks, which continue to follow the path of de-dollarization, investors are also likely to increasingly buy again in the wake of **declining opportunity costs** and growing **fiscal risks**. In the second half of 2027, the **5.000 dollars per troy ounce** mark is likely to be cracked, also supported by the expectation that key interest rates will fall again in 2028.

Price / ounce	Q1/27	Q2/27	Q3/27	Q4/27
Gold in euro	3,894	4,248	4,522	4,522
Gold in US dollar	4,400	4,800	5,200	5,200

Source: Helaba Research

Claudia Windt

OIL: EXPLOSIVE EXPERIMENTS IN THE PERSIAN GULF

Even after eight months, the war in Iran remains the dominant factor influencing the oil market. The global economy is still grappling with an insufficient oil supply.

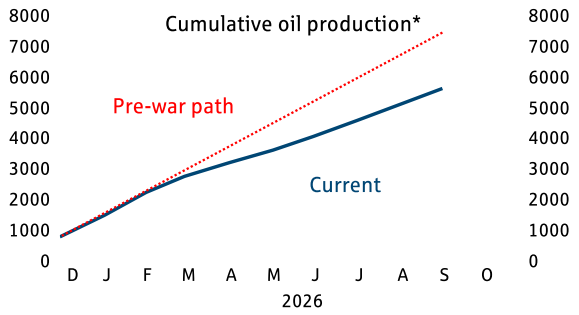
The developments in **the Persian Gulf** are crucial for the prospects on the oil markets. This has been especially true since the beginning of the Iran war and the subsequent "closure" of the Strait of Hormuz. The knock-on effects will continue to dominate in 2027.

> *"The Middle East is a powder keg."*
> *L. Brezhnev (1974) and A. Khamenei (2013)*

The experiment of the United States (and Israel) to use military force to prevent Iran from building a nuclear bomb and possibly gain access to Iranian oil production has gone wrong. The actors have lost control, and a chain reaction has drawn many of the Gulf countries into the military conflict. The **cumulative oil production** of the affected states (Saudi Arabia, Kuwait, Iraq, Qatar, the United Arab Emirates and Iran) was more than 1.7 billion barrels **under the previous path** in September. Oil production in the United States, Canada, Brazil and China has increased during this time, while the war against Ukraine is dampening Russia's oil production because of attacks and sanctions.

Oil production moves away from pre-war path

million barrels, cumulative since December 2025



*SA, KW, IQ, QT, UAE, IR
Sources: Bloomberg, Helaba Research

The bulk of the reduced oil supply was offset by the **reduction of inventories**. The strategic reserves of the United States, Europe and China should be mentioned here, as well as oil and oil product inventories of industry. In addition, a phased reduction in oil consumption can be observed, especially in Asia.

Normalization of oil exports from the Gulf region crucial in the medium and long term

For 2027, we see the following factors as relevant for oil price developments: On the one hand, assuming that safe sea routes around the Arabian Peninsula can be gradually restored, **risk premiums and transportation costs** for crude oil should decline. On the other hand, **oil production** around the Gulf would then be expected to recover towards pre-war levels or even beyond. It should be noted that OPEC has further lost power to control the oil market due to the withdrawal of the United Arab Emirates in May 2026. The cartel now has a share of only 22 % of world production (2000s: fluctuating around 40 %). Other Gulf states will also try to use spare capacity to offset the costs of the war – above all Saudi Arabia. A progressive **easing of the oil-market tensions** is therefore likely.

However, a rapid decline in prices to pre-war levels of 60 to 70 US dollars per barrel is countered by the fact that the **replenishment of global oil and oil product reserves** for a longer period will support demand. A period of around two years seems realistic. In addition, **industrial activity** is recovering at the global level and is also ensuring robust oil demand. Supply uncertainty and increased prices, on the other hand, have weakened the long-term prospects for crude oil. The "green" transformation is tending to accelerate. Overall, we expect oil prices to slowly decline towards 93 US dollars per barrel (Brent) by the middle of the year and 85 US dollars by the end of 2027.

Price / barrel	Q1/27	Q2/27	Q3/27	Q4/27
Crude oil brent	97	93	89	85

Source: Helaba Research

Ralf Umlauf

REAL ESTATE: CENTRIFUGAL FORCE OF THE MARKETS

Higher interest rates are putting pressure on commercial real estate prices. But a growing economy stabilises the markets and enables rents to rise. Housing remains scarce and expensive.

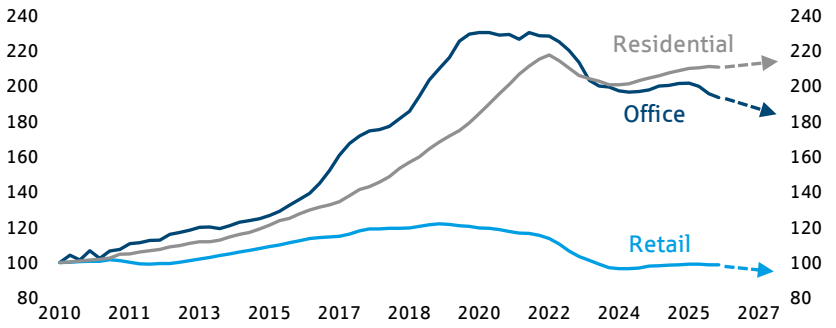
In the laboratory, a centrifuge separates mixtures of substances into their components by applying centrifugal forces. The higher the speed, the more clearly differences that were previously hidden become apparent. The real estate markets are currently undergoing a comparable experimental set-up. The end of the low interest rate phase has significantly increased the speed, while working from home, online trading and a weak economy are further accelerating the separation process. What largely went up together in the years of low interest rates is now diverging. Locations, types of use and property qualities are being reassessed. The result is a **sustained differentiation of the markets**, from which winners and losers emerge.

Commercial real estate: Increased interest rates lead to price declines

The rise in interest rates caused by the Iran conflict **is reducing the relative attractiveness of German commercial real estate** and testing its fragile recovery. Long-term interest rates are expected to remain at an elevated level in 2027 and only ease slightly in the second half of the year. **Rents for commercial real estate, on the other hand, are likely to continue to rise**, partly due to the German economy gaining momentum. Nevertheless, the rent increases can only partially compensate for the negative valuation effects caused by higher interest rates. In particular, market participants who had financed at top valuations could still have problems with refinancing due to the significantly higher interest rates.

Residential prices continue to rise, commercial remains under pressure

vdp Real Estate Price Index Germany, Prices, Q1 2010 = 100



Sources: vdp, Helaba Research

In the **office market**, investment activity is likely to remain subdued in 2027 due to the sector´s relatively low attractiveness compared to fixed-income products. Furthermore, the low number of transactions makes it difficult to estimate prices due to a lack of comparative values. The rental market is dominated in particular by moves to **high-quality buildings in central locations.** At the same time, space expansions are becoming scarce.

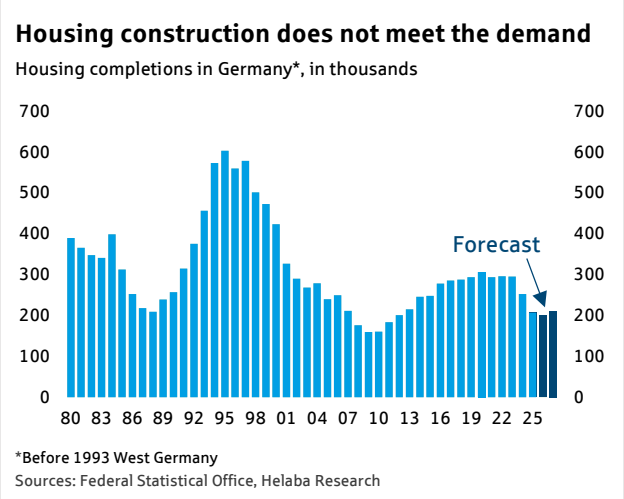
Despite calls to return to the office, **working from home remains a fundamental part of the modern corporate world** and permanently reduces demand for office space. Accordingly, vacancies are likely to continue to increase in 2027, especially in less attractive locations. **However, high-quality offices in the city centre remain scarce and in strong demand**, which is why prices, rents and vacancies are developing more favourably there. Investors who are willing to experiment and renovate in those locations in an anti-cyclical manner could benefit from weak new construction activity in the future and achieve good rental results.

% yoy	2024	2025	2026e	2027f	2028f
Residential real estate*	-1.5	2.6	1.5	2.0	3.0
Commercial real estate*	-5.3	2.9	-1.5	-1.0	2.0

*vdp price indices Germany (annual average)
e=estimate, f=forecast; Sources: vdp, Helaba Research

Central locations in large cities are also in greater demand for retail properties. However strong competition from e-commerce remains a structural problem and continues to weigh on the performance of retail properties. But new concepts with an expanded range of services are helping to increase attractiveness, which is reflected in stabilised vacancies and rising rents. **Stationary retail is also benefiting from the rise in real wages,** which have now returned to pre-pandemic levels, as well as from robust consumer spending despite the energy price shock.

Housing remains scarce and expensive



While the weak new construction is having a stabilising effect on commercial real estate, **low completion figures are exacerbating the situation on the German housing market**. For years, the number of residential completions has been well below the estimated need of over 300,000 apartments per year. However, the four-year downward trend is expected to end in 2027, with slightly more than 210,000 units completed compared to the previous year (forecast: 200,000). The rise is supported by an **increase in building permits since winter 2024**, which are likely to be reflected in completions with a time lag of around two years.

However, the **high construction costs** remain an obstacle to the urgently needed new construction. In particular energy-intensive building materials are becoming more expensive as a result of increased energy prices. The demographically induced shortage of skilled workers could also cause additional cost pressure. For this reason, construction costs are likely to increase more strongly than consumer prices in the new year at a rate around 5 %. Although the **"Bauturbo" and lower standards help to build more cheaply and quickly**, the opportunities in the municipalities are being used to varying degrees. Significant productivity gains in the construction industry through digitization and industrial production have not yet been achieved. Overall, the **conditions for the construction of apartment buildings are more favourable** than for owner-occupied single-family homes. The reason for this are subsidy programs, tax incentives and cost advantages for larger construction projects.

The **affordability of residential property is likely to decrease slightly in 2027.** Interest rates will remain at their elevated level in the first half of the new year and will not offer any relief from the financing side for the time being. Real incomes will also not improve significantly in the new year, as wage growth is likely to be only slightly higher than price increases. The lack of impulses from interest rates and incomes will be offset by **further rising residential property prices**. The prices are likely to increase slightly due to the tight supply and high demand, despite low affordability compared to the low interest rate period.

Especially in the economically strong metropolitan regions, **the housing market is tense,** which is why rents are rising more sharply than the national average. The housing shortage reduces the mobility of the population and slows down economic development, for example by making it more difficult to switch to a more productive workplace. Another consequence of the high housing costs could be social tensions. The recent election successes in New York and Berlin show the worldwide **increasing political importance of the lack of affordability**. Stricter regulation of the housing markets plays an important role in the election campaign. Although higher regulation protects existing tenants, it deters investors from developing urgently needed new housing.

> *"This is more than a housing crisis. It is a social crisis."*
> *Ursula von der Leyen*

The **recovery in the German real estate market remains fragile, and the differentiation based on property quality and location continues.** The rise in interest rates is weighing on the relative attractiveness of commercial real estate, whose prices are expected to fall slightly in 2027. However, the continued growth of the German economy is stabilising demand and enabling rental growth. Residential real estate remains scarce, especially in metropolitan areas, which is causing prices to rise. However, as affordability deteriorates, the upside potential is limited. Construction costs will continue to rise more strongly than consumer prices in the new year, thus slowing down new construction.

Paul Richter

CURRENCIES: THE OIL-LINK WEIGHS ON THE DOLLAR

Changing interest rate expectations, falling oil prices, and global capital flows are reshaping the currency market in 2027. The dollar is suffering, while the euro and the yen are benefiting.

The failed experiment in the Middle East and its implications for **oil prices and risk sentiment** helped bolster the US dollar in 2026 – partly because the Fed suddenly began discussing monetary tightening rather than interest rate cuts, causing interest rate differentials to shift in favour of the US.

The Dollar's strength: Geopolitics – the Dollar's risk: Domestic policy

In the foreign exchange market, however, trading focuses less on the present than on the future. So, what will change in 2027? While no sudden easing of geopolitical tensions is in sight, we expect **oil prices** to gradually **decline** from their current elevated levels. This is likely to create slight downward pressure on the US dollar, the currency in which most of the oil and commodity trading is conducted.

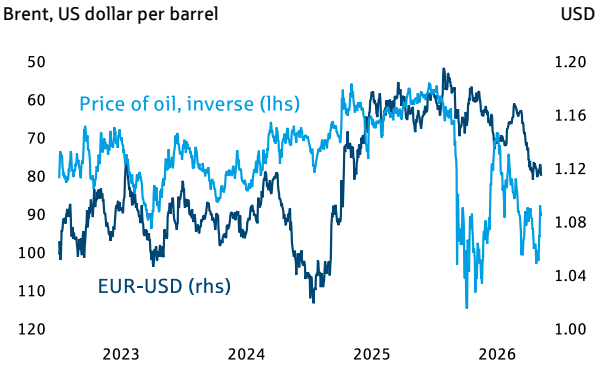
> *"Technically, chemistry is the study of matter. But I prefer to see it as the study of change."*
> *Walter White in the series "Breaking Bad"*

However, **President Trump** is unlikely to fundamentally change his political style. Rather, there is reason to fear that he will govern even more erratically in the second half of his term, once he no longer faces elections. The risks and side effects of these policies could undermine confidence in the dollar. For example, attacks on the Federal Reserve or the US judiciary could once again become a focus of his attention, thereby scaring off investors.

Stable compounds in interest rate differentials

Following an interest rate hike at the end of 2026, both the Fed and the ECB will likely keep key interest rates steady at elevated levels in 2027 and wait to see the effects. **Interest rate differentials** are therefore unlikely to provide much momentum for the foreign exchange market. Interest rate cuts are not expected until 2028. However, should inflation successfully subside, financial markets are likely to price this in over the course of the year. Given the higher interest rate level in the US, we expect the Fed to be able to cut rates more aggressively than the ECB at that time. This expectation is likely to weigh somewhat on the dollar as early as next year.

Falling oil prices could weigh on the US dollar



Sources: Macrobond, Helaba Research

Capital inflows into the US are supporting the US dollar

Fundamentally, however, the dollar remains supported by **capital inflows into the US.** The AI boom, is attracting capital from around the world. In the race to develop the best AI model, companies will continue to build data centers and will require substantial funding to do so. This investment cycle is not yet over and is likely to have a generally positive impact on the dollar. At the same time, the question remains unanswered as to whether these massive investments will translate into productivity gains in the long term or whether an investment bubble is forming. Thanks to higher interest rates, US bonds are also attractive. Demand from private investors for US fixed-income securities is therefore likely to persist and support the dollar. Overall, the arguments against the dollar slightly outweigh those in its favour. We therefore expect the euro-dollar exchange rate to rise slightly, reaching around 1.15 over the course of the year.

vs. euro	Q1/27	Q2/27	Q3/27	Q4/27
US dollar	1.13	1.13	1.15	1.15
Japanese yen	173	170	173	167
British pound	0.84	0.86	0.86	0.87
Swiss franc	0.92	0.93	0.95	0.95

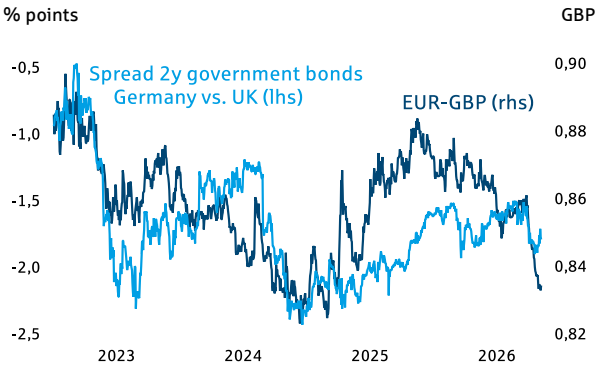
Source: Helaba Research

The British pound is running out of steam

In 2026, the **British pound** gained value against the euro thanks to stronger expectations of interest rate hikes by the Bank of England (BoE) and due to France's fiscal problems. The question, however, is whether the central bank will actually deliver in 2027 what market participants currently expect. With the policy rate at 4.0 %, it is likely already in restrictive territory. The fact that the BoE has halted its rate-cutting path has already impacted long-term yields, causing them to rise. We expect that the appropriate monetary policy response will be less aggressive than the rate hikes currently anticipated by the market. This has the **potential to disappoint** investors in the British pound. Should core inflation remain stable and no significant second-round effects occur, falling energy prices are likely to lead to lower inflation over the course of the year. Looking ahead to 2028, interest rate cuts could even appear on investors' radar.

At the same time, the British **economy** is performing well. The services sector is growing and, due to its significant share of value added, is contributing to **growth rates well above 1 %.** We expect GDP growth of 1.5 % in 2027. This counterbalances the potentially negative effects that could stem from monetary policy. Overall, the pound is therefore likely to depreciate only slightly in 2027.

Yield differential drives the British pound



Sources: Macrobond, Helaba Research

Swiss franc under pressure from low interest rates

On balance, the Swiss franc traded sideways in 2026. As a safe-haven currency, it benefited from geopolitical risks but at the same time suffered from the high interest rate disadvantage compared to other industrialised countries. The key interest rate still stands at 0 %, and a rate hike is not a settled matter. Inflation is within the Swiss National Bank's target range, and economic growth is adequate but not strong enough to warrant a significantly more restrictive monetary policy. In 2027, the franc will remain a currency in which investors take on debt to invest in higher-yielding assets. This creates downward pressure on the franc. Should global risks increase, the franc would certainly live up to its role as a safe haven. However, since an excessively strong franc would be detrimental to exports, the central bank would likely sell its own currency on the foreign exchange market as a countermeasure to weaken the exchange rate. Overall, therefore, the downside risks predominate.

Improved formula supports the Japanese yen

The Japanese yen faced downward pressure in 2026 but ultimately managed to remain stable thanks to tighter monetary policy and foreign exchange market interventions. In 2027, the formula for the yen will include interest rate hikes by the central bank as well as signals of stabilisation from the Japanese government and, if necessary, the US government. Japan is the largest foreign holder of US Treasury bonds after the euro zone. This increases the US government's willingness to support Japan in the fight against a depreciating yen.

> *"Japan's prime minister, finance minister and the US have sent a very clear message. Markets should take that message at face value."*
>
> *Atsushi Mimura, diplomat at the Jap. Ministry of Finance*

Until now, the yen has been a typical currency used to borrow money in order to invest it in other countries at higher interest rates. However, we expect further interest rate hikes in Japan in 2027. This will narrow the interest rate differential and make investments in Japan more attractive. Accordingly, we expect the yen to appreciate, and as a result, further foreign exchange market interventions should no longer be necessary.

Samuel Will

WORLD TRADE: THE FLOW OF GOODS FINDS ITS WAY

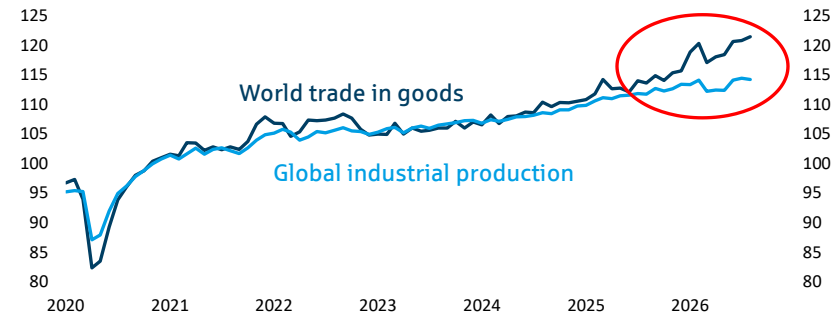
Despite all the prophecies of doom, the international trade in goods is in an unexpectedly robust condition. The export-oriented German economy is also benefiting from this.

International **trade in goods**, probably the most tangible manifestation of **globalisation**, is currently surprising on the upside. In the first seven months of 2026, its global volume was 5.7 % higher than in the same period of 2025. For 2026 as a whole and for 2027, the World Trade Organization (WTO) expects **trade growth of around 4 %** each.

Many observers did not have such a strong performance on their radar. After Donald Trump started his **frontal assault** on the on the rules-based global trading system in April 2025, pessimism dominated, not only about the flow of goods, but also regarding the overall world economy. The **resilience of global growth** has surprised many. The next shock, which was triggered by the **Iran conflict**, had a dampening effect on production and trade but was also unable to stifle its growth.

Trade in goods defies pessimistic forecasts

Real, indexed December 2019 = 100

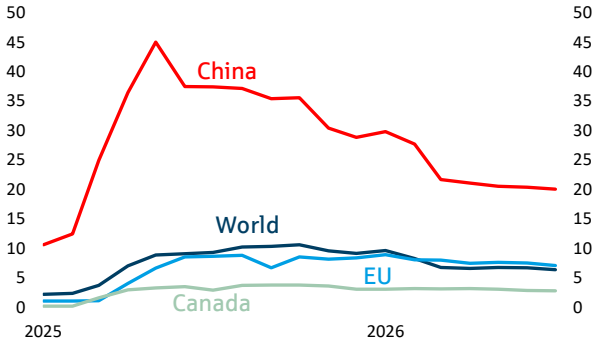


Sources: Macrobond, Helaba Research

In fact, the global **volume of internationally traded goods has risen significantly faster than production** in the past two years. This is probably partly due to the tariff-induced **diversion** of trade flows: products that were previously shipped directly from China to the US now take detours via third countries and are thus recorded several times as exports and imports. In addition, **investment in AI** is particularly "trade-intensive" because many of the components installed in US data centres come from Asia and are often manufactured in processes whose value chains cross national borders several times.

Evasive efforts dampen tariff effect

Effective US tariffs on goods by trading partner, %*



*Monthly customs revenue as a percentage of monthly imports of goods (CIF)
Sources: PIIE, Helaba Research

World trade stronger than US trade policy

In addition, US President Trump quickly backed off in the conflict with China and the **prohibitive tariff rates** of spring 2025 quickly disappeared into oblivion. The US Supreme Court struck down Trump's "Liberation Day" tariffs in February 2026, and the administration has so far only partially replaced them. "Deals" have been negotiated with many important trading partners, including the EU. Those tend to be worse than the status quo ante, but not as negative as was feared in between.

The new US tariff rates represent a noticeable increase compared to the previously applicable rules. However, if one compares the actual customs revenues to the imports of goods, the **effective tariff burden is often significantly lower** than would have been expected based on the statutory rules and historical trade flows. The explanation: importers set the value of goods artificially low ("under-invoicing") and flows of goods seek the path of least resistance (i.e. the lowest tariff level) geographically.

No general trend towards more protectionism

In contrast to the most important precedent, the US tariffs of 1930 ("Smoot-Hawley Act"), Trump's measures since 2025 have **not** led to a **general trade war**. A spiral of retaliation like back then failed to materialise – perhaps also because Trump often rowed back after initially making a lot of noise ("Trump Always Chickens Out"). This applies not only to the showdown with China in the spring of 2025, but also to various other measures that were defused after **lobbying by US companies**. Last but not least, the "affordability" discussion about the **inflationary effects of his tariffs** forced him to introduce exemptions, e.g. for food imports.

> *"And yet it moves!"*
> *Galileo Galilei*

Trump has not set a trend internationally. It is true that China's export success is currently meeting with resistance from an increasing number of trading partners. However, a fundamental departure from rules-based free trade has not yet been observed globally. The **EU**, the most important player after the US and China, **is lurching between protectionist measures** ("Made in Europe") and the conclusion of new **free trade agreements** (Mercosur, India, Australia).

World trade affects the export-oriented German economy particularly strongly

World trade is particularly relevant for the German economy, as it is still **very dependent on exports**. Exports accounted for around 40 % of GDP in 2025. World trade is largely driven by trade in goods, and by international standards the manufacturing sector still accounts for a relatively high share of gross value added in Germany, at just under 20 %.

German economy dependent on the global industrial cycle



Sources: Macrobond, Helaba Research

After the automotive industry, mechanical engineering is the second largest industry within the manufacturing sector in Germany. Around 15 % of the value added of the manufacturing sector comes from this industry. Since the latter mainly produces capital goods, it is especially **dependent on the global industrial cycle,** with corresponding effects on German foreign trade and the economy as a whole. This explains why the German economy developed weakly from 2022 onwards: As a result of the energy crisis – including supply chain problems – industrial companies around the world suffered.

For several quarters, however, the **global industrial cycle seems to be on the upswing again** after a long period of weakness. In the first half of 2026, German exports already recorded strong growth; for the year as a whole, we forecast exports to increase by 2.5 %. In 2027, exports are likely to increase again at the higher level, albeit at a slightly slower pace (+1.5 %).

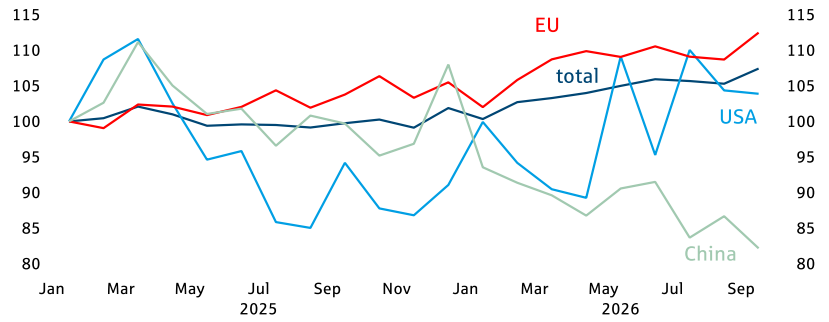
Just ask the neighbors

Recently, German exports to the EU member states **in particular increased**. In August 2026, these were almost 7 % higher than a year earlier (not price-adjusted). Exports to China have been declining sharply since 2022 and exports to the US initially collapsed after April 2, 2025, but recently recovered to pre-Liberation-Day-levels.

Exports to the US have recently been very **volatile**, which is probably due to the customs chaos and the associated front-loading and catch-up effects. Out of uncertainty about possible new tariffs, US importers have built up inventories. It is therefore difficult to assess how German exports to the United States will develop.

Exports within the EU in particular have been developing well recently

German exports, non-price-adjusted, index: January 2025 = 100



Sources: Macrobond, Helaba Research

Although China and the US are Germany's two most important trading partners in terms of trade volume, they are of little significance overall, as **60 % of German exports remain in the EU** or go to the United Kingdom. In 2025, the US's export share was just over 9 % and China's around 5 %. Trade with China is characterised by a significant import surplus. Around 11 % of German imports come from there.

Within the EU, **exports to Central Eastern Europe** are developing at an above-average rate. From January to August 2026, exports to Poland (+8 %), the Czech Republic (+13 %) and Hungary (+6 %) in particular were significantly higher than in the same period last year. Trade with the Central Eastern European countries has been intensifying for many years. While Poland, the Czech Republic and Hungary only ranked[1] 10th, 13th and 16th in foreign trade from a German perspective in 2010, they were already in 5th, 10th and 13th place in 2025.

EU concludes free trade agreement

> *"In the laboratory of the world economy, the EU is currently trying to discover new connections."*

In addition, the EU is currently experimenting and exploring new solutions in foreign trade. The new **Free Trade Agreements** are a good strategy. The agreements with Mercosur and India are currently in the ratification process and further agreements with Australia and Indonesia could come into force as early as the beginning of 2027. Negotiations are also underway with the Philippines, Thailand and Malaysia.

Many of these markets are currently not yet large in terms of their share of global economic output, but the GDP growth rates of these countries are in some cases significantly higher than the growth of the global economy. In the future, they will therefore become more and more important. It is questionable whether much of this will be seen as early as 2027, because the free trade agreements are only likely to provide positive impulses in the long term, because trade barriers are usually effectively dismantled after several years, as the Mercosur Agreement shows.

Patrick Franke and Simon Azarbayjani

[1] By trade volume – i.e. the sum of exports and imports – with Germany.

GERMANY: INDUSTRIAL RECOVERY AND GOVERNMENT STIMULUS AS GROWTH FORMULA

Germany's economy will ignite in 2027, driven by the industrial upswing and higher government spending. But demographics are slowing down the pace.

In 2026, the German economy could **break out of the stagnation trend**. Calendar-adjusted GDP growth is likely to be 1 %. Although this is not a high growth rate by international standards, 2026 would still be the first year since 2020, in which Germany is not slowing down the growth of the euro zone, since the euro zone economy is expected to grow at almost the same pace, at an estimated 1.1 %. This is unlikely to change in the new year. **Germany and the euro zone are both expected to grow by 1.4 % in 2027**. The German formula for more growth in 2027 consists primarily of two ingredients: the global industrial upswing and increasing government spending, which, however, is accompanied by a further significant increase in government debt.

	2026e	2027f	2028f
GDP real, % yoy	1.3	1.5	0.8
GDP real, % yoy, working day adjusted	1.0	1.4	1.0
Private consumption, % yoy	0.5	1.0	1.0
Government spending, % yoy	3.0	2.0	1.5
Gross fixed capital formation, % yoy	0.0	2.0	2.0
Investment in equipment, % yoy	-0.5	1.0	1.5
Construction, % yoy	-2.0	2.0	1.5
Exports, % yoy	2.5	1.5	1.0
Imports, % yoy	2.0	1.5	1.0
Consumer prices, % yoy	2.7	2.8	2.2
Unemployment rate, %	6.4	6.1	5.7
Unemployed, thousands	2,875	2,775	2,600
Budget balance, % of GDP	-4.0	-4.2	-4.3
Current account balance, % of GDP	4.4	4.2	4.2

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

Industrial upswing resembles a chain reaction

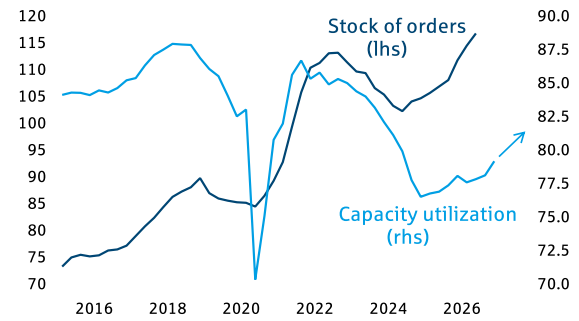
A **chain reaction** is a chemical process in which one individual reaction triggers the next. However, it does not necessarily have to be uncontrolled, even if the colloquial use of the term suggests this. A chain reaction has parallels to an economic upswing.

In the manufacturing sector, for example, incoming orders from one company lead to further orders from others, as the processing of the initial order requires various inputs or raw materials. The suppliers, in turn, order from their own suppliers. In order to handle the increased amount of orders, capital expenditure is necessary, which in turn raises demand for machinery, for example. If demand increases significantly for some industrial companies, orders ultimately also increase across the board, such that many industries benefit from this – albeit to varying degrees.

This process has already been initiated. The **stock of orders** in the German manufacturing sector has increased by almost 17 % since mid-2024, with foreign orders developing better than domestic orders. However, domestically, since autumn 2025, there have been impulses in the form of major government orders. So far, the armaments industry in particular has benefited from these.

But the full order books have not yet been reflected in higher production figures, such that the significant increase in orders in individual sectors has not yet developed into a general industrial upswing. We now expect this for 2027. The companies themselves already assess their situation much better. The purchasing managers' index for the manufacturing sector in Germany was recently at 54.2 index points, well above the expansion threshold, clearly signalling an upswing.

Full order books increase capacity utilization



Sources: Macrobond, Helaba Research

The breakthrough innovation of the **Artificial Intelligence** did not take place in Germany, but the value creation up to the AI software is very prolonged. The demand for products along the "AI value chain" has increased sharply worldwide. For AI to be used comprehensively, enormous amounts of semiconductor chips and computing power, for example, are required. In order to make this available, the respective companies worldwide need the right **machinery and electrical equipment**. The two sectors of the electrical and the mechanical engineering industry have recently recorded a particularly strong increase in orders. The AI revolution is thus giving the German manufacturing sector momentum, although neither this technology nor the microchips come from Germany.

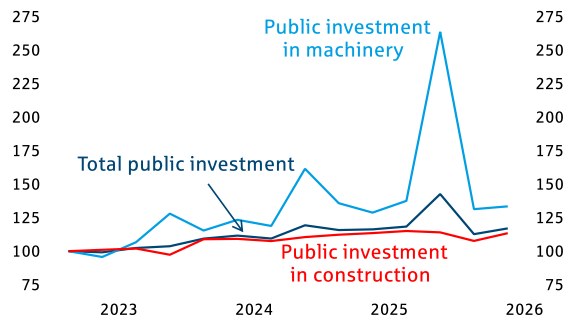
"AI has been the catalyst for the global industrial upswing."

The state also provides activation energy

Additional impulses come from the further significant increase in government spending. The higher debt allows the state to increase its demand. In 2027, the government deficit, at an estimated 4.2 % of nominal GDP, will be even higher than in 2026 (4 %). The debt will not only increase government consumption, which is already expected to have risen by around 3 % in 2026. The **public investment** will also increase sharply. In the past three years, there has been a massive increase in public investment in equipment in the final quarter, despite seasonal adjustment. This is likely to be primarily due to major military orders. Even without these outliers in the fourth quarter, public investment in equipment was recently around 30 % above the level of 2023. Public investment in construction, which is more substantial, was 12 %.

Government investment on the rise

Components of real GDP*, index: Q1 2023 = 100



*seasonally adjusted
Sources: Macrobond, Helaba Research

Over the past few years, government investment activity has therefore increased significantly. This is likely to continue in 2027. At around 2 %, government consumption will continue to grow faster than GDP as a whole, but less dynamically than in 2026, because new borrowing will not rise as much in 2027 as it did in the previous year. Investment in equipment and construction was still declining in 2026, but in 2027 the government will provide stimulus. We expect **investment in equipment to** grow by around 1 %, while **investment in construction** will grow much more strongly at 2 %.

Labour is becoming increasingly scarce

The starting materials of a chemical reaction are also called reactants. The most important reactant of an economy is labour. For 2027, we expect the **unemployment rate** in Germany to fall from an annual average of 6.4 % to 6.1 % thanks to the economic upturn. Nevertheless, the number of employees is likely to continue to decline. The reason for this is that more people are retiring than are entering the labour market. Demographic change is thus dampening growth potential.

Inflation rate to decline over the course of 2027

Last year, the rise in energy prices was one of the key issues. This will continue to occupy the economy in 2027, as inflation rates of over 3 % are still expected at the beginning of the year. However, the rate is likely to decline in the course of 2027, as we expect oil prices to decrease. On average for the year, the rate of price increase is likely to be around the same level as in 2026 at 2.8 %, but at the end of next year we expect an inflation rate close to the 2 % mark. As wage growth is likely to be only slightly higher than price increases, we expect private consumption expenditure to grow less than the economy as a whole in the coming year.

Simon Azarbayjani



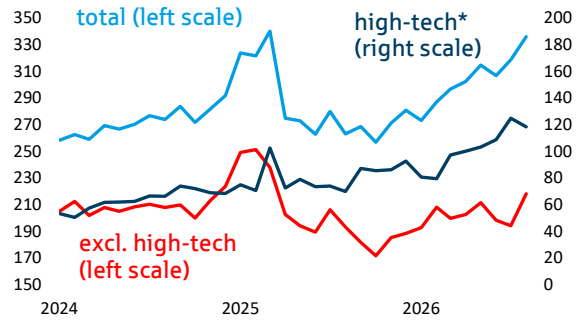
US: ROBUST ECONOMY DESPITE POLICY EXPERIMENTS – THANKS TO AI

In the struggle with US President Trump's economic policies, which are often detrimental to growth, the AI boom is expected to retain the upper hand in 2027.

The **AI boom** will probably continue to be an important pillar of the US economy in 2027. Other sectors, on the other hand, are suffering from **higher long term interest rates.** These continue to dampen **residential construction**. Interest rates on 30-year mortgages have recently risen above 7 % again. They are also likely to prevent some of those investments in **non-residential construction** which do not promise such astronomical returns as the tech industry currently does. After the building of **data centres** had long been largely paid for from cash flow, the "hyperscalers" are now taking on debt to such an extent that it is seen as a cause of the rise in long term yields. However, this is unlikely to lead to a noticeable slowdown in tech investment in 2027.

AI cycle also drives imports

Monthly US imports of goods, USD bn, sa



* "Advanced technology products"
Sources: Macrobond, Helaba Research

It remains difficult to determine the exact position in the **AI cycle**. The investment associated with this technology continue to determine the dynamics of business investment as a whole. In nominal terms, no loss of momentum has been observed so far. However, in view of the **increasing price rises** of many key components, the **peak of real growth may already have been** passed or at least **reached**.

However, this does not change the fact that a significant part of the **productivity gains** from the new technologies are only likely to occur and become measurable in the future. In recent years, the growth in output per hour worked has already increased noticeably. This also points to **a solid pace of productivity growth in the US economy** for the coming years. We see the rate of trend growth of GDP, i.e. what is "normal" for the US, at 1.8 %. This is higher than a year ago, despite demographic burdens.

Change of power in Congress brings at best unplanned consolidation

According to the available results, the **midterm elections** gave the Democrats such a clear majority in both houses of Congress that prior fears that the outcome of the election could be unclear or legally controversial for a long time now seem overblown. The Republicans' loss of a majority will be particularly noticeable in **fiscal policy**, where the House of Representatives is in the lead. The Democrats will prevent tax giveaways that primarily benefit the wealthy, such as the "One Big Beautiful Bill" (OBBB) of 2025. Massive boosts to spending, such as an increase in the military budget by almost 50 %, which was never likely anyway, are also off the table. In fact, however, the **risk of new conflicts** in connection with the **debt ceiling** is increasing and there is a threat of another **"government shutdown"**, because the federal government currently has no regular budget for 2027.

Neither Republicans nor Democrats have a **serious strategy for debt reduction** or to lower the deficit. Treasury Secretary Bessent is currently not in a good position judged by his "3-3-3" plan (2028: 3 % real growth, 3 % of GDP budget deficit, 3 million barrels more oil production per day), which is intended to stabilise debt: economic growth of 3 % is unlikely in 2028, although not impossible thanks to AI. But with a **current deficit of over 6 %** and oil production less than 1 million barrels higher than in January 2025, the other two targets are, to put it mildly, ambitious. Thanks to the OBBB pushed by Trump and Bessent, tax revenues are much lower than expected at the beginning of 2025. Tariff revenues cannot compensate for these shortfalls. At the same time, interest payments are rising sharply. For 2027, we expect a **federal budget deficit** of around 6 % of GDP.

Trade policy as a brake on growth

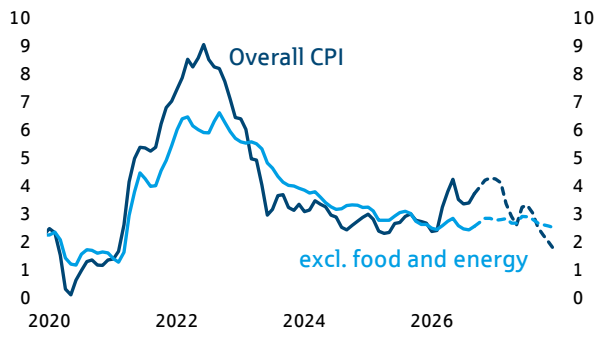
Donald Trump will generally hew to his **trade policy course** in 2027. He has apparently learned nothing from the experience since "Liberation Day" in April 2025 – as shown by the trade war with Canada that Trump launched in the summer of 2026. The conflict with China on trade issues also continues to smoulder and is currently only put on ice by a short-term "truce". Trump's policy has brought mainly burdens for most US businesses, not to mention the negative **effects of rising prices on consumers**. For every protected producer, there are several buyers who now face higher costs due to the tariffs. There is currently no sign of a **reindustrialization of the US** – especially if one excludes the **special cycle in the tech sector**, which is obviously driven by other factors.

> *"LOWER THE RATE OR I'LL STOP TRADING WITH COUNTRIES WITH WHICH WE HAVE A DEFICIT […]"*
> *Donald Trump to the Fed in a Truth Social Post*

US imports of goods have risen by 30 % in nominal terms since the beginning of 2024. **High-tech products** are up by 120 %, all the rest by just over 6 % (Chart, p. 28). Trump's tariffs have resulted in enormous **volatility** in 2025 and 2026, but the trend of 2024 is largely intact. If we include the export side, the US **trade deficit** has slightly improved on balance since 2024 measured as a percentage of gross domestic product. However, this was almost entirely a result of higher export earnings (i.e. prices) in the energy sector. Excluding **petroleum products**, the US goods deficit in the summer of 2026 was back at the same level as in 2024, before the pull-forward effects of Trump's tariffs set in. The **contribution of foreign trade** to economic growth is likely to be clearly negative in 2027 as well.

Energy prices drive inflation, core rate too high

Consumer prices, year-on-year change in %*



*Forecast from October 2026
Sources: Macrobond, Helaba Research

Overall, the US economy is expected **to grow by around 2 % in 2027**, slightly above its longer-term trend. We do not expect any noticeable fiscal stimulus. The negative effects of immigration and trade policies as well as a slightly restrictive monetary policy will be more than offset by the **investment of the AI boom**.

By way of the stock market, this is also having a positive effect on **private consumption**, which continues to be robust despite tepid job creation and declining wage momentum. On the labour market, payroll growth of just under 100,000 per month is probably the new normal. Nevertheless, we do not expect a significant change in the unemployment rate for 2027. This is where the president's **immigration policies** are making themselves felt. According to estimates, these have stopped net immigration, which was still strong in previous years, as early as 2025. The labour force could therefore stagnate in 2027 and 2028.

Inflation still too high, but declining

Inflation remains too high. It is true that the year-on-year increase in consumer prices is likely to moderate over the course of the new year and to **fall below the 2 % mark by the end of 2027** (chart). However, this will probably be mainly due to **lower energy prices**. We still see the **core rate** excluding food and energy at around **2½ %** at the turn of the year 2027/2028. We look for total consumer prices to rise by an annual average of 2.8 % in 2027, after 3.4 % in the previous year.

		2025	2026e	2027f	2028f
GDP, real change	% yoy	2.3	2.3	2.0	1.8
Inflation rate	% yoy	2.7	3.4	2.8	1.8
Unemployment rate	%	4.3	4.2	4.3	4.1
Budget balance*	% GDP	-5.9	-6.5	-6.0	-6.0

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

Patrick Franke

CHINA: EXPLOSIVE MIXTURE

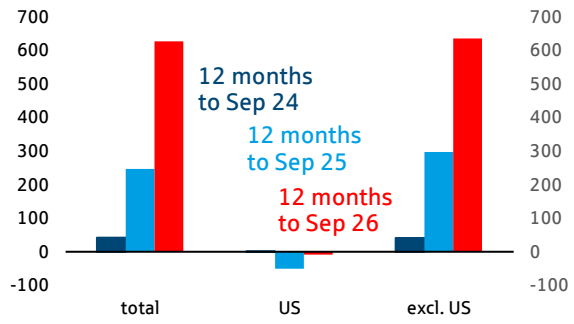
Criticism of China's seemingly unstoppable export machinery is getting louder, not least in the EU. Domestic demand, however, is weak and boosting the trade surplus even more.

China is always **a country of big numbers**. In the most recent twelve-month period, its companies exported goods worth 4,366 billion US dollars to the rest of the world. The country thus achieved a **trade surplus** of almost 1,250 billion US dollars. Relative to the size of the Chinese economy, the surpluses used to be higher. But the nominal and inflation-adjusted size of these data makes it clear that the **current export boom** cannot only be the result of a very high level of competitiveness in a few sectors.

In the **trade dispute with the US**, which can escalate again at any time, there is only a "ceasefire" until 10 January 2027. The **EU** is still trying to find a common position, but member countries seem to largely agree on the need to slow down China's exports. Despite political resistance abroad, Chinese exports of goods are going through the roof. In some cases, trade flows to the US are **being diverted via third countries**, but global figures are also booming. China's global exports of goods increased by almost 17 %, or 626 billion US dollars, in the twelve months to September 2026 compared to the same period last year.

US trade hardly dampens global success

Exports of goods, change on previous period, USD bn



Sources: Macrobond, Helaba Research

No silver lining in the real estate market and for domestic demand

Domestically, however, the situation remains difficult. The **real estate market** still lacks the oxygen of recovering demand. **Consumer sentiment** has remained in the doldrums since its slump in 2022, and **unemployment** is rising, especially among young people. In the coming years, impetus is likely to come from the new infrastructure initiative "Six Networks" (water, power, communications, computing, underground pipes and logistics). The planned funds of 3.7 trillion US dollars will not only strengthen the supply side, but also the demand side through public investment.

> *"Science has no borders, but scientists have a motherland."*
> *Xi Jinping*

On balance, the question remains the same as in previous years: What extent of **cyclical weakness** is the government willing to admit to? The lower end of the already reduced official growth target of 4.5 % to 5.0 % is likely to be achieved in 2026. However, in the absence of a noticeable revival in domestic demand, growth in China's gross domestic product in 2027 is expected to be lower than in the previous year at 4 %.

Inflation below 2 %

China's **inflation** has moved away from zero but remains **low** by international standards. However, any **monetary policy easing** that this may make possible depends on the green light from the political leadership. They are moving in a more expansionary direction, also in terms of fiscal stimulus. However, resistance to a major economic stimulus package as in the financial crisis of 2008/2009 remains high.

		2025	2026e	2027f	2028f
GDP, real change	% yoy	5.0	4.5	4.0	3.7
Inflation rate	% yoy	0.0	1.2	1.3	1.5
Unemployment rate*	%	5.2	5.2	5.2	5.1
Budget balance	% GDP	-7.9	-8.0	-8.5	-8.2

*"Surveyed" Sources: Macrobond, Helaba Research

Patrick Franke

GROSS DOMESTIC PRODUCT AND INFLATION

	Gross domestic product Real change, % yoy				Consumer prices Change, % yoy			
	2025	2026e	2027f	2028f	2025	2026e	2027f	2028f
Euro area	1.3	1.1	1.4	1.0	2.1	3.1	2.8	2.2
Germany	0.3	1.0	1.4	1.0	2.2	2.7	2.8	2.2
France	0.9	0.3	0.6	0.8	0.9	2.6	2.8	2.0
Italy	0.7	0.8	1.0	0.8	1.6	3.4	3.4	2.0
Spain	2.8	2.6	2.3	1.7	2.7	3.9	3.5	2.7
Netherlands	1.8	1.7	1.5	1.3	3.0	2.9	2.7	2.4
Austria	0.8	0.8	1.3	1.0	3.6	3.2	2.9	2.4
Sweden	1.6	2.5	2.2	2.0	0.7	0.7	2.3	2.3
Poland	3.8	3.5	3.3	3.3	3.6	3.1	3.0	2.7
Czech Republic	2.7	1.8	2.3	2.5	2.5	2.2	2.9	2.5
Hungary	0.6	1.8	2.6	2.7	4.4	1.8	2.7	2.5
United Kingdom	1.2	1.6	1.5	1.5	3.4	3.2	3.1	2.5
Switzerland	1.8	2.0	1.8	1.7	0.2	0.7	1.0	1.2
USA	2.3	2.3	2.0	1.8	2.7	3.4	2.8	1.8
Japan	1.2	0.6	0.8	0.8	3.2	2.0	2.3	1.9
Asia ex Japan	4.8	4.6	4.2	3.9	0.9	2.2	2.1	2.2
China	5.0	4.5	4.0	3.7	0.0	1.2	1.3	1.5
India*	7.8	7.3	7.1	7.0	2.2	4.4	4.2	4.1
Russia	1.0	0.6	0.7	1.2	8.7	6.3	5.2	4.3
Turkey	3.6	2.7	4.0	3.7	34.9	31.0	23.0	19.0
Latin America**	2.4	1.8	2.1	2.2	7.8	7.1	6.0	5.1
Brazil	2.6	2.0	1.6	1.9	4.3	4.6	4.3	3.8
World	3.2	3.0	2.8	2.7	2.5	3.2	2.8	2.4

*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



FINANCIAL MARKETS FORECASTS

	Change from end of year	latest*	Helaba forecast for end of period... Q1/2027	Q2/2027	Q3/2027	Q4/2027
Interest rates	basis points	%				
ECB refinancing rate	50	2.65	2.90	2.90	2.90	2.90
ECB deposit rate	50	2.50	2.75	2.75	2.75	2.75
Overnight rate €STR	52	2.44	2.75	2.75	2.75	2.75
3M Euribor	75	2.77	2.90	2.90	2.85	2.75
6M Euribor	89	3.00	3.10	3.05	2.95	2.85
2y Bunds	89	3.01	3.20	3.20	3.00	2.80
5y Bunds	63	3.08	3.30	3.30	3.10	2.95
10y Bunds	41	3.26	3.50	3.50	3.30	3.25
2y swap rate	102	3.28	3.40	3.40	3.20	3.00
5y swap rate	70	3.27	3.45	3.45	3.25	3.10
10y swap rate	40	3.33	3.55	3.55	3.35	3.25
20y swap rate	13	3.36	3.60	3.60	3.45	3.40
30y swap rate	-3	3.22	3.50	3.50	3.40	3.35
Fed funds target rate	25	3.88	4.13	4.13	4.13	4.13
10y Treasuries	72	4.88	5.00	5.00	4.80	4.75
Equities	in local currency, %	index				
DAX	7.3	26,267	27,250	27,500	27,750	28,000
Euro Stoxx 50	8.6	6,290	6,450	6,500	6,550	6,600
Dow Jones	9.0	52,390	54,750	55,000	55,250	55,500
S&P 500	10.3	7,550	7,980	8,060	8,140	8,200
Nikkei 225	16.8	58,776	62,500	63,000	63,500	64,000
Gold / crude oil	%					
Gold €/oz	0.3	3,689	3,894	4,248	4,522	4,522
Gold $/oz	-4.2	4,140	4,400	4,800	5,200	5,200
Brent crude $/barrel	52.1	93	97	93	89	85
Currencies	vs. euro, %	exchange rate				
US dollar	4.7	1.12	1.13	1.13	1.15	1.15
Japanese yen	3.8	177	173	170	173	167
British pound	4.4	0.83	0.84	0.86	0.86	0.87
Swiss franc	1.2	0.92	0.92	0.93	0.95	0.95

*05/11/2026

Sources: Bloomberg, Helaba Research

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