Economic Adviser

Macro Research

Outlook 2026 ♦ Date of issue: 05 January 2026

Contents

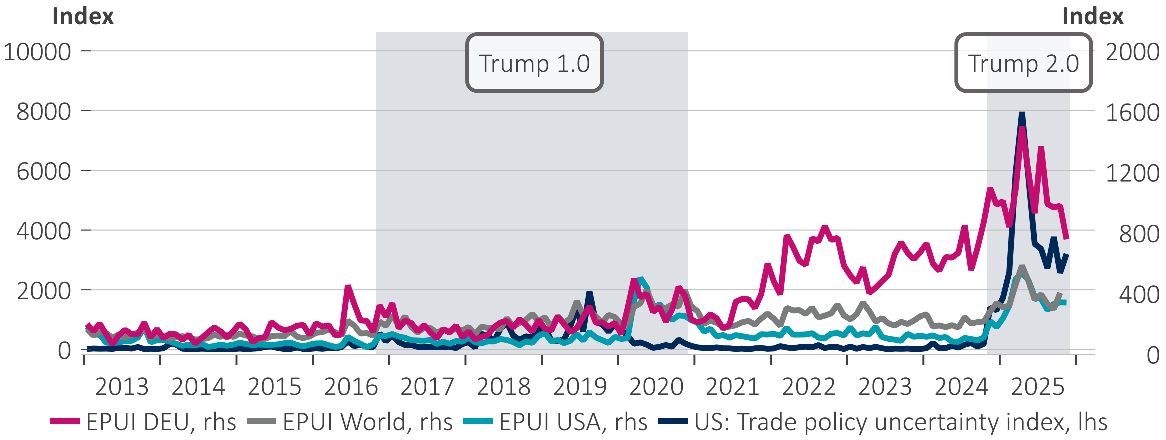
Epochal shift – much new in the West

Analyst: Christian Lips, Chief Economist

Uncertainty remains a constant amid geopolitical upheaval

Around Christmas and the turn of the year, it is fitting to pause and review a highly eventful 2025, while also looking ahead to 2026. The past twelve months have been dominated by the new US administration, whose policies have triggered significant shifts in the global order. This concerns, on one hand, the multilateral system of world trade, which has come under severe pressure due to Donald Trump's tariff policies. Uncertainty over US trade policy has never been as great as in this first year of the Trump 2.0 era (see chart). On the other hand, tectonic shifts are also emerging in geopolitics, particularly in the "West" – assuming it still exists as a geopolitical "unit" at all. The realignment is particularly evident in the Ukraine issue: European heads of government are increasingly frustrated that the U.S. administration evidently places its transactional interests above fundamental questions of Europe's security architecture. Against this background, the uncertainty over economic policy reached new highs in Europe in 2025 and is poised to remain a constant in 2026. "*Europe – Home Alone*" – a realization that should spark renewal, not resignation. Unfortunately, Europe still too often stands in its own way, as evidenced by the recent wrangling over the conclusion of the Mercosur agreement.

Persistently elevated economic policy uncertainty



Sources: Economic Policy Uncertainty Index, Macrobond, NORD/LB Macro Research

2026 Outlook: Monetary and Fiscal Support – ECB holds steady, Fed continues easing course

Despite this backdrop, the global economy has proven remarkably resilient. Moreover, our forecasts have been remarkably accurate in several key areas: the trajectory of GDP and the labour market, marginal growth in Germany, inflation in the eurozone, and the interest rate paths taken by the ECB, the Fed and other central banks all aligned almost precisely with our projections from the previous year. And 2026? We expect less restrictive monetary policy along with expansionary fiscal policy in the USA and Germany to bolster the global economy and help put Germany back on the growth path. The direction of monetary policy, however, diverges: while the ECB is likely nearing the end of its easing cycle, we expect the Fed to make use of its leeway for further rate cuts.

Many thanks for the confidence you have placed in us over the past year. We hope you enjoy reading our annual outlook and wish you a good start to a healthy, successful and, above all, peaceful 2026!!

Sincerely,

Your NORD/LB Research Team

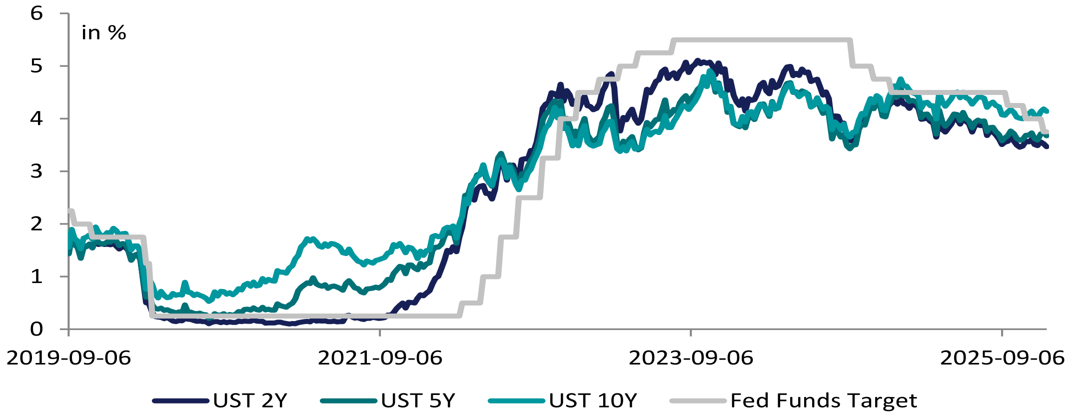
USA: Into 2026 under a lucky star?

Analysts: Tobias Basse // Constantin Lüer

A look back

The U.S. economy can reflect on a truly turbulent year. Early on, Washington's new trade policy was the unequivocal focus of interested observers. In the first quarter, the prospect of significantly higher tariffs prompted many U.S. economic actors to stockpile foreign products. This inventory buildup subsequently made for a significant drag on the U.S. economy's growth. Q2 then saw a countertrend propelling the annualized growth rate to a highly pleasing level of 3.8 percent. While Q3 is expected to have seen a somewhat more moderate uptick in real economic activity, the tariffs have evidently not pushed the U.S. economy into recession. As regards inflation, moreover, the highly threatening crisis scenarios forecast by some pessimists have clearly not materialized in 2025.

Chart: Interest rates in the USA



Sources: Macrobond, NORD/LB Macro Research

Looking ahead

The U.S. government shutdown has in the meantime ended, and the release of fresh economic data will progressively provide clearer insight into the economic situation in North America. In Q4, economic activity is likely to have been impacted to some extent by the shutdown. While these effects should already be making themselves felt, their significance ought not to be overestimated either. We are maintaining our expectation that the annualized growth rate will remain in positive territory through the end of the year. The U.S. economy will likely continue benefiting from the AI boom in 2026 as well. The employment situation is gradually deteriorating, however, though economic activity in the crucial services sector appears to be gaining further momentum; indeed, the ISM Services PMI edged up slightly to 52.6 points in November. In response to signs of certain problems on the labour market, the FOMC has already lowered its benchmark interest rate further in the second half of 2025. The upper limit of the Fed Funds Target Rate has since fallen below the psychologically significant 4.00 percent mark, now standing at 3.75 percent. The central bankers in Washington are growing increasingly concerned about the U.S. labour market and pursuing a form of "macroeconomic risk management". Given the persistent threat of rising inflation rates, we expect the Fed to maintain its strategy of implementing only small, incremental interest rate cuts. The benchmark interest rate could potentially decline to a level of 3.00 percent by Q3/2026. Despite a more expansive U.S. monetary policy stance – including recently announced purchases of government bonds – this does not automatically mean the U.S. currency is facing sustained further pressure relative to the euro. The forex market had partially priced in highly negative scenarios for the US-dollar (reminiscent of a "Plaza Accord 2.0"), which now appear unlikely to materialize after all. In this context, the topic of USD-backed stablecoins warrants close attention from investors. Moreover, lower capital market rates would likely also help improve sentiment in the real estate market.

The real estate market remains a focal topic

The U.S. real estate sector was marked by subdued momentum throughout 2025. The widely watched NAHB housing market index, for example, failed to rise above the 50-point mark – defined as the expansion threshold – in any month. This indicator is based on a survey of homebuilders specializing in single-family homes. The survey comprises three components: "Prospective Buyers Traffic" gauges buyer interest, while the other two components measure expectations for home sales over a six-month horizon. The highest reading occurred at the start of 2025, with January posting a score of 47. Thereafter, sentiment trended almost exclusively downward. The previous year's performance was only marginally better – growth tendencies were discernible in just two months, and these ultimately proved merely temporary. Regional disparities were also evident; while the Northeast appeared robust for most of the period, frequently posting scores above 60, it was primarily the Midwest and the West that declined to notably low levels. The South benefited to some extent from corporate relocations out of Silicon Valley, yet it too could not escape the problem of high financing costs. Much of this negative sentiment among market participants depends on both the current interest rate environment and expectations for its future trajectory. The projected path of the Fed funds target rate is central to this outlook, even though long-term mortgages and longer-term U.S. Treasuries, too, often exhibit their own distinct dynamics. Yield trends for instruments like 10- and 30-year Treasuries, as well as average 30-year mortgage rates, are also shaped by other factors, though the benchmark interest rate quite clearly plays a significant role in determining yield and mortgage levels. Nonetheless, the term "affordability crisis" has been coined, highlighting the growing difficulty for the "average American" to afford key assets like a home. The government shutdown also had an impact in this context, as state-subsidized programmes supporting more affordable home purchases were largely suspended during this period.

The USA as nation of buyers

Financing conditions, particularly through mortgages, currently make the purchase of residential property an extremely expensive move. Despite the recent rate cuts, the already mentioned average 30-year mortgage rates have struggled to fall below the psychologically important 6-percent threshold. While the current situation is now far removed from the period when rates approached the 8 percent mark, households' financial leeway has nonetheless diminished markedly in the wake of the recent inflationary phase. At the same time, the problem of the lock-in effect persists. Following the U.S. central bank's interest rate hikes, many property owners with outstanding loans acted prudently, securing their mostly variable-rate mortgage loans at favourable conditions for the long term. This, however, significantly dampens activity in the real estate market, as many are unwilling to trade their favourable terms for a new, substantially more expensive mortgage. This dynamic has likely also had a certain impact on the U.S. labour market, as a job-related move typically coincides with purchasing a local property. It is therefore no coincidence that owner-occupied housing accounts for around two-thirds of the U.S. market. Looking ahead, however, we expect to see greater momentum again in the U.S. real estate in 2026. As benchmark interest rates decline, this should eventually be reflected in lower mortgage rates as well. At the same time, the uncertainty that emerged after "Liberation Day" has subsided significantly, which should loosen the purse strings of market participants to some degree – as in times of high uncertainty no-one is willing to take on substantial financial liabilities. The real estate sector and the broader U.S. economy under the star-spangled banner may therefore indeed be entering 2026 under a lucky star.

Fundamental forecasts, USA

	2024	2025	2026
GDP	2.8	2.0	2.0
Private consumption	2.9	2.4	2.1
Govt. consumption	3.8	1.1	1.0
Fixed investment	3.0	2.8	2.4
Exports	3.6	0.8	1.5
Imports	5.8	2.8	-0.4
Inflation	3.0	2.8	2.8
Unemployment rate[1]	4.0	4.3	4.4
Budget balance[2]	-6.9	-6.2	-6.2
Current acct. balance[2]	-4.0	-4.1	-3.7

Change vs previous year as percentage; [1] as percentage of the labour force; [2] as percentage of GDP

Sources: Macrobond, NORD/LB Macro Research

Quarterly forecasts, USA

	I/25	II/25	III/25	IV/25	I/26
GDP qoq ann.	-0.6	3.8	3.0	0.8	1.8
GDP yoy	2.0	2.1	2.0	1.7	2.4
Inflation yoy	2.7	2.5	2.9	3.0	3.1

Change as percentage

Sources: Macrobond, NORD/LB Macro Research

Interest and exchange rates, USA

	18.12.	3M	6M	12M
Fed funds target rate	3.75	3.50	3.25	3.00
3M rate	3.70	3.40	3.10	3.00
10Y Treasuries	4.12	3.85	3.70	3.60
Spread 10Y Bund	127	105	80	60
EUR in USD	1.17	1.15	1.13	1.10

Sources: Bloomberg, NORD/LB Macro Research

Euroland: Resilient economy and fiscal policy shift – ECB to hold key rates steady in 2026

Analysts: Christian Lips, Chief Economist // Christian Reuter

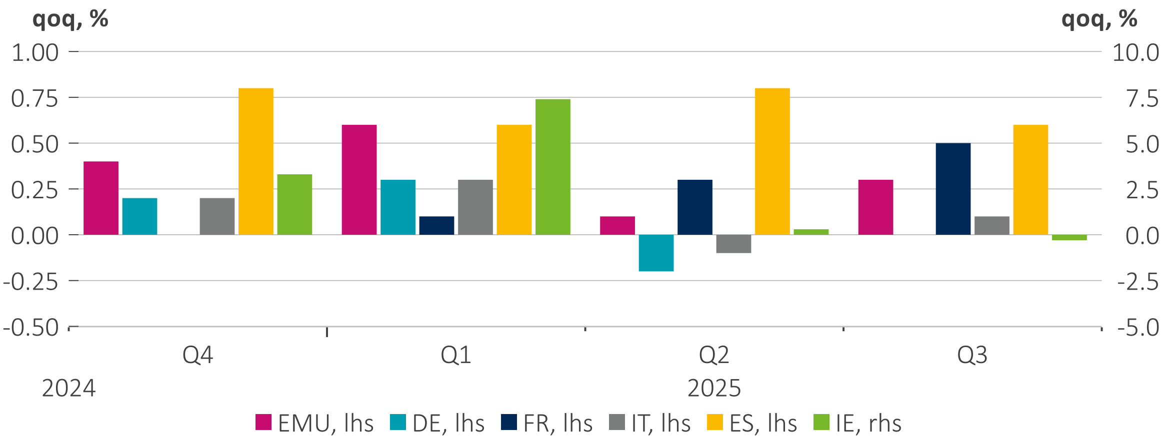
A look back at 2025: Economy proves remarkably resilient

The eurozone economy performed better than feared in 2025. GDP growth is estimated to have accelerated to 1.4 percent year-on-year, bringing it close to potential growth. Conditions were already challenging at the start of the year, but deteriorated markedly as trade disputes – particularly with the United States – intensified, weighing particularly heavily on export-oriented sectors.

The difficulties on the foreign trade front are also reflected in a rather heterogeneous growth dynamic within the eurozone member states. With their economies heavily reliant on exports and industry, Germany and Italy lagged well behind the progress of the overall currency area. This situation was further compounded by a marked appreciation of the euro and intensified competition from Chinese competitors. Unsurprisingly, the contribution of net exports to growth in 2025 was negative, while the domestic components all generated positive support. This pattern is likely to persist in 2026.

The services sector was a key contributor to the economy's resilience, particularly in most Southern European nations, with Spain leading the way. Although momentum there moderated somewhat over the year, it remained significantly stronger than in the other member states through to year-end.

Chart: GDP growth – heterogeneous economic development in the eurozone



Sources: Eurostat, Macrobond, NORD/LB Macro Research

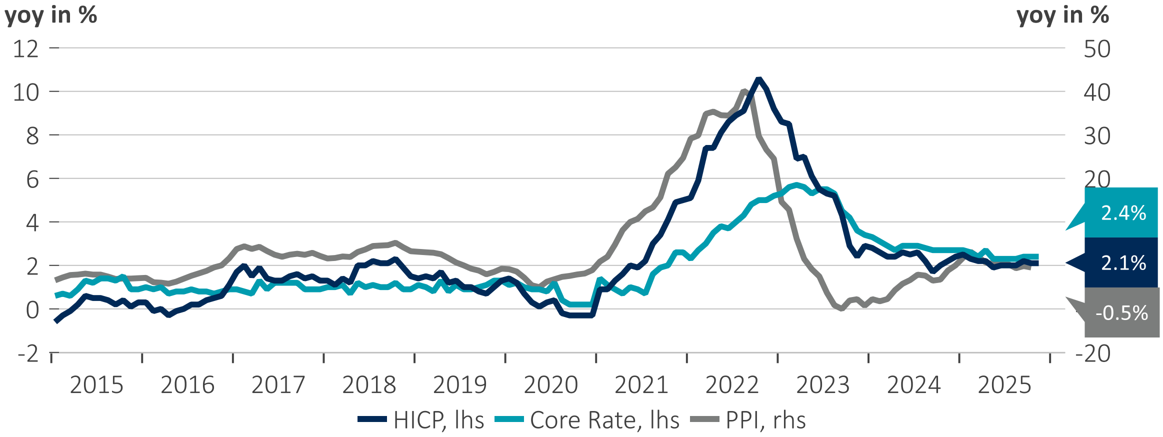
Economic outlook: moderate pace of growth to continue

The sentiment indicators in the manufacturing and industrial sectors have trended upwards over the course of the year despite the difficult underlying conditions, but continue to signal below-average economic momentum by historical standards. The economic sentiment indicator for the eurozone rose slightly to 97.0 points in November but remains below its long-term average.

Moreover, economic sentiment is also developing very unevenly among the major economies, remaining significantly weaker in Germany than in the rest of the eurozone. Minor setbacks in some leading indicators at year-end, such as industrial confidence and purchasing managers' indices, ought not to be overinterpreted. The outlook for production and investment in 2026 and 2027 is markedly better than in the recent past, as Germany's package of fiscal measures – focussed on investment and defence spending – increasingly has a tangible impact on the real economy. Initial positive signals are already emerging in the order books of relevant industrial sectors.

We expect economic momentum to pick up again somewhat in the coming quarters compared to the summer half-year (0.1 percent and 0.25 percent qoq). Despite solid wage growth, consumption remains subdued owing to persistently weak consumer confidence. Hopes therefore rest on fiscal policy. Furthermore, following the ECB's interest rate cuts down to 2.00 percent, financing conditions are no longer restrictive and are no longer impeding economic development. We forecast real GDP growth of 1.2 percent for 2026 compared to the previous year.

Chart: Inflation in the target range – temporary dip in 2026 not cause for concern



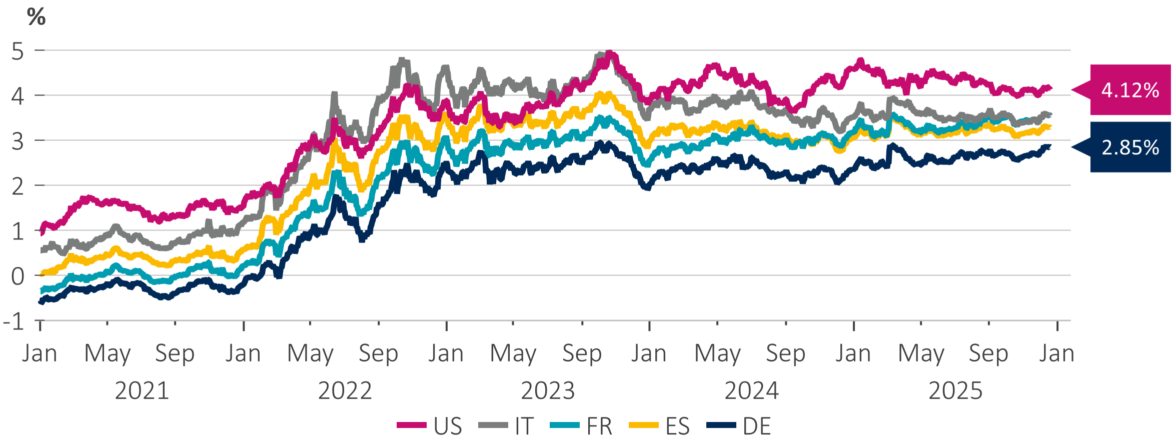
Sources: Macrobond, Eurostat, NORD/LB Macro Research

Inflation in the target range – temporary dip below the 2-percent mark in 2026
Inflation has hovered around the 2 percent mark since spring, placing it within the ECB's target range. This has been supported by low energy prices and the euro's relatively stable external value. Upstream price pressures also remained subdued: at -0.5 percent year-on-year, the annual producer price rate remained in negative territory in October. That said, the core rate and service prices registered levels above the 2 percent mark throughout the year.
November saw the HICP inflation rate at 2.1 percent yoy. Favourable base effects make somewhat lower annual rates likely in the months ahead. The core rate remained stubbornly high to date, holding at 2.4 percent year-on-year. The ECB assesses price momentum in the services sector as somewhat more persistent than previously thought, though the trend here continues to trend downward. Wage developments are of crucial importance in this context. Setting aside sharp fluctuations caused by one-off payments, wage momentum in the eurozone is gradually easing. Medium-term inflation expectations remain firmly anchored, and in its latest projections the ECB, too, anticipates no sustained deviations from its stability target. For 2026, we expect an average year-on-year inflation rate of 1.9 percent.

ECB considers current monetary policy appropriate – no near-term rate change
At its final meeting of 2025, the ECB, as expected, resolved to hold the key interest rates unchanged. Since the last rate cut in June, the relevant deposit rate has remained at 2.00 percent. Both the ECB's communication and the macroeconomic environment, along with its updated medium-term projections, suggest that the ECB is likely to maintain this level for an extended period.
The ECB's latest economic projections reflect the unexpectedly high resilience of the eurozone economy. The central bankers forecast growth rates of 1.4 percent annually for the projection horizon, with the exception of 2026 (1.2 percent). The somewhat weaker sentiment indicators of late have also not prompted any new action from the ECB either. However, uncertainty over the future economic trajectory remains elevated – particularly due to tariff policies, geopolitical risks, and the new fiscal policy in Germany.
For the first time, estimates for the year 2028 were also released in December. Inflation forecasts were only slightly adjusted, with the central bankers anticipating a modest decline in upward price movement in the short term. A slight and temporary dip below the 2 percent mark in 2026 and 2027 is considered unproblematic and does not conflict with the ECB's strategy. Over the medium term, inflation

is still expected to stabilize around the 2.0 percent target level, although this is now projected not to occur until 2028.

Chart: Development of long-term government bond yields (10Y) in the eurozone and the USA



Sources: Macrobond, NORD/LB Macro Research

Outlook: ECB to keep deposit rate at 2.00% for longer – rate hike expectations premature
In an environment marked by uncertainty, the ECB is acting prudently and avoiding unnecessary forward guidance. Downside risks include rerouting of cheap Chinese imports, more pronounced braking effects due to higher US import tariffs, lower energy prices, or a further appreciation of the euro. There are also upside risks at the same time, including significantly higher government spending amid near-term capacity constraints, as well as structural factors such as demographics and deglobalization.
The arguments for interest rate hikes and cuts are finely balanced at present. The central bankers are now likely to hold key rates unchanged for an extended period; we expect a steady key-rate level throughout 2026. An interest rate adjustment would only become likely following a marked deviation from the ECB's current baseline scenario.
An interview with ECB Executive Board member Isabel Schnabel on Bloomberg in early December triggered significant market movements, with Schnabel having said that the next move could be a hike rather than a cut, but without specifying when this might happen. We consider market speculation on a rate hike as early as the second half of 2026 to be exaggerated and an overinterpretation of Isabel Schnabel's remarks. A policy shift in 2026 is unlikely to gain majority support within the ECB Governing Council, especially given new political uncertainties emerging that year, including the US midterm elections, German state elections, and the French pre-election campaign period. Market expectations of imminent rate hikes as early as next year that have emerged in the interim should therefore be gradually priced out by markets.
From a longer-term perspective, however, these considerations are not unfounded. Financial markets had already reacted with an upsurge in capital market rates immediately following the announcement of Germany's fiscal policy shift – driven less by concerns over debt sustainability than by an improved growth outlook. Moreover, a significantly more expansive fiscal policy is likely to push the neutral interest rate higher. Consequently, the yield on 10-year Bunds rose over the course of the year to above the 2.80 percent mark at year-end.
We expect the upward trend in capital market rates (10-year Bund) to continue. Particular attention is already being paid at the turn of the year to the effects of the Dutch pension reform on bond and swap markets, especially at the long end of the curve. The yield curve is likely to steepen further in 2026. By year-end 2026, we anticipate 10-year Bund yields around 3.00 percent, despite an expected downward trend in U.S. interest rates. However, a period of heightened volatility is also to be reckoned with twelve months from now, as financial markets will likely begin focussing on the French presidential elections in 2027 by that point – potentially making for temporary effects on safe-haven assets such as Bunds.

Fundamental forecasts, Euroland

	2024	2025	2026
GDP	0.8	1.4	1.2
Private consumption	1.2	1.3	1.4
Govt. consumption	2.2	1.7	2.4
Fixed investment	-2.1	2.7	4.1
Net exports[1]	0.3	-0.6	-1.1
Inflation	2.4	2.1	1.9
Unemployment rate[2]	6.4	6.4	6.3
Budget balance[3]	-3.1	-3.2	-3.3
Current account balance[3]	2.7	1.9	2.0

Change vs previous year as percentage, [1] as contribution to GDP growth; [2] as percentage of the labour force; [3] as percentage of GDP

Sources: Macrobond, NORD/LB Macro Research

Quarterly forecasts, Euroland

	I/25	II/25	III/25	IV/25	I/26
GDP sa qoq	0.6	0.1	0.3	0.2	0.3
GDP sa yoy	1.6	1.6	1.4	1.2	0.9
Inflation yoy	2.3	2.0	2.1	2.1	1.9

Change as percentage

Sources: Macrobond, NORD/LB Macro Research

Interest rates, Euroland

	18.12.	3M	6M	12M
Repo rate ECB	2.00	2.00	2.00	2.00
3M rate	2.04	2.05	2.05	2.05
10Y Bund	2.85	2.80	2.90	3.00

Sources: Bloomberg, NORD/LB Macro Research

Germany: Escaping stagnation through investment boost

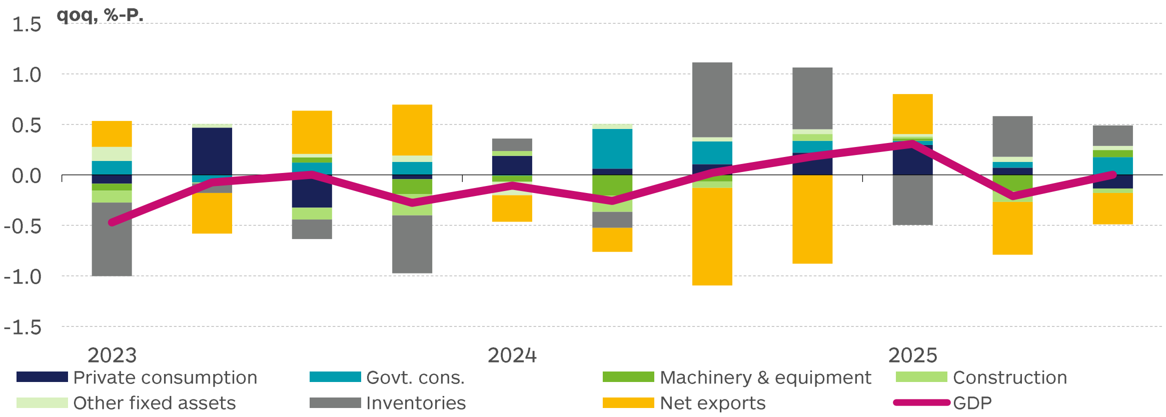
Analysts: Christian Lips, Chief Economist // Valentin Jansen

Real economic output with merely minimal growth in 2025

Geopolitics, Trump 2.0, trade conflicts – Germany's growth model, with its strong reliance on industry and exports, remains under sustained pressure in the current global environment. Given these persistent headwinds, it is little surprise that the German economy has been unable to break out of stagnation in 2025. While the downturn of the previous two years – during which more recent data indeed confirm the German economy was in recession – has ended, real GDP remains below the level last reached in summer 2019.

In the first three quarters for which data are currently available, real GDP expanded by 0.3 percent compared to the same period last year. Based on the economic indicators available so far, we expect a return to moderate growth in the closing quarter. In 2025 as a whole, real economic output is likely to have grown merely minimally by 0.2 percent compared to the previous year, which would align precisely with our economic forecast from year-end 2024. While net exports, as feared, exerted a significant drag, domestic demand supported growth. This was driven primarily by private and public consumption expenditure, while gross fixed capital investment remained weak (see chart).

Chart: Contributions to real GDP (up to Q3/2025)



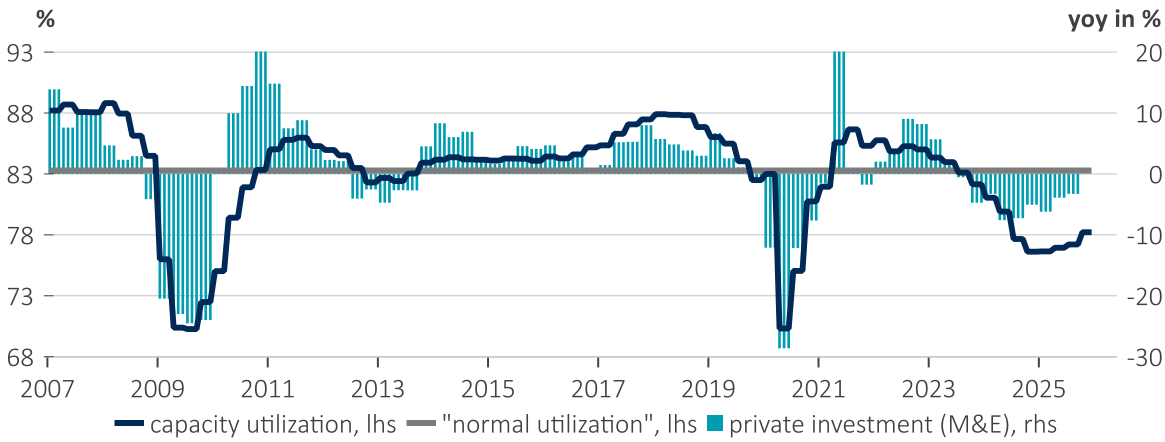
Sources: Macrobond, Destatis, NORD/LB Macro Research

U.S. trade policy and China trade weigh on exports

The familiar cyclical pattern of export-driven stimulus seen in past crises appears far less realistic this time. In recent years, Germany's export sector has already struggled to benefit from real growth in its key foreign markets. U.S. trade policy now presents an added burden for the German economy. While exports briefly surged at the start of the year in anticipation of Donald Trump's tariff policies, these pull-forward effects were purely temporary and had already reversed by spring. The tariff agreement between the European Commission and the United States has overall proved disappointing and contains several built-in fault lines. The deal is therefore more of a temporary reprieve than a lasting solution to the trade conflict. Many companies now have to contend with the burden of higher U.S. import duties. At the same time, the trend in Germany's trade with China is increasingly worrying. U.S. trade policy is exacerbating China's overcapacity problem, leading to a greater rerouting of goods onto European markets too. Germany's bilateral trade deficit with China is likely to mark a record high in 2025.

Hopes rest on fiscal policy and investment
Consequently, hopes for a broader economic recovery rest on domestic demand, in particular through a rise in investment. This fiscal policy shift is not merely a response to two decades of underinvestment; it also addresses the geopolitical landscape and the challenges posed by the Trump 2.0 era with their negative impacts for Germany's export-driven business model. Initial positive effects on the real economy from the 'Infrastructure and Climate Neutrality' special fund (SVIK) are expected as early as 2026. The key question, however, will be how sustainable the fiscal stimulus proves to be. Its real economic impact will be diluted to the extent that these investments fail to represent truly additional spending (the "shifting funds" issue).
Alongside this criterion of additionality, supporting measures are crucial for lasting success. These include steps to boost effectiveness and efficiency, increase labour supply, and provide additional investment incentives. Such a flanking strategy is critical to the overall outcome, as a significantly higher volume of investment has to be deployed efficiently and in a targeted manner without triggering overheating or misallocation. This could quickly lead to noticeable capacity constraints in the construction sector and public administration. However, a substantial share of the investment is unfortunately not additional, investment incentives have been merely moderate to date, and there is still scope for improvement in cutting bureaucratic hurdles and inefficiencies. Accordingly, private investment activity remains subdued, with the pure announcement effect having largely fizzled out. That said, weak private investment is not unusual during periods of pronounced capacity underutilization (see chart).

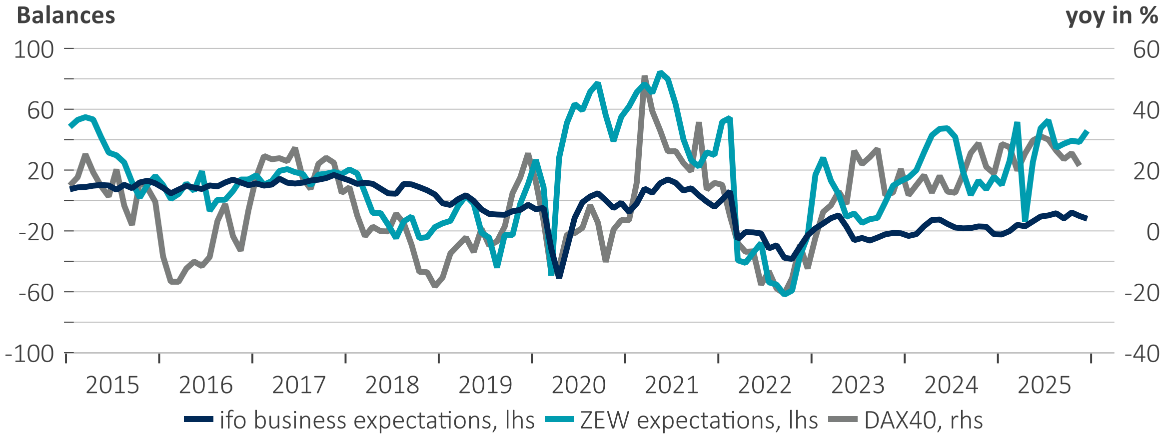
Chart: Low capacity utilization, weak investment momentum



Sources: Destatis, ifo, NORD/LB Macro Research

Labour market situation unlikely to improve much in 2026 – inflation not a major issue
The labour market has stabilized somewhat of late, despite continued job cuts in the industrial sector. Seasonally adjusted, the number of unemployed rose to just short of three million in November, making for an unemployment rate of 6.3 percent. Despite the widely reported weakness in demand, the use of short-time work schemes remains minimal. This suggests that companies are increasingly attributing their order shortfall to structural factors. However, this could also indicate remaining overhangs from the phase of hoarding talent and manpower. Available leading indicators suggest a broadly flat labour market trend, with the IAB labour market barometer suggesting a gradual stabilization of the situation.
The disinflationary trend in consumer prices continued in 2025, although having stalled temporarily of late. Under the EU Harmonized Index of Consumer Prices (HICP), inflation rose to 2.6 percent year on year in November. Price momentum, particularly in services, remains persistent. For the year as a whole, average inflation stands at 2.3 percent and we expect it to ease further to 2.0 percent in 2026.

Chart: Companies cautious – financial market experts more optimistic



Sources: ifo, ZEW, Deutsche Börse, Macrobond, NORD/LB Macro Research

Forecast for 2026: Back on the growth path with more confidence

The key sentiment indicators for the German economy present a mixed picture at the turn of the year, with business leaders surveyed by ifo remaining notably pessimistic about the future. Indeed, December has seen business sentiment deteriorate further, with the ifo business climate index falling to 87.6 points, primarily owing to more pessimistic business expectations (89.7 points). Respondents assessed the current business situation as unchangingly poor (85.6) compared to the previous month.

The mood has deteriorated in nearly all sectors towards year end. In manufacturing, sentiment slid to its lowest level since April, primarily due to worsened future expectations. The number of new orders also declined, which is evidently impacting production plans. The services sector fared little better, with the business climate there dropping back into negative territory in December. Retailers are dissatisfied with the Christmas trading period so far, and have also grown more pessimistic in terms of expectations for the first half of 2026. The retail trade is clearly suffering from sluggish consumption. Real disposable incomes have been growing much more slowly than gross wages for some time due to higher tax and levy burdens. Moreover, consumer confidence in Germany also remains at a historically low level, with little sign of any willingness to make major purchases or of upbeat spending sentiment. In the construction sector, business sentiment has stagnated over the past six months, following a marked mood boost from interest rate cuts and the investment initiative in spring.

The ifo Institute's data align with the similarly subdued sentiment among purchasing managers in December, while previously reported ZEW expectations had painted a somewhat more positive picture. The financial market experts surveyed by the ZEW institute seemed slightly more optimistic than business leaders in the real economy shortly before the Christmas holidays. That said, the somewhat more positive outlook for the future may simply be a reflection of the strong performance of stock markets over the year as a whole (see chart) – a factor that experience has shown to have a significant influence on the sentiment among financial market experts.

Sentiment in the executive suites of German companies was gloomy at year-end 2025, mirroring the challenging overall economic situation. While the economy likely returned to slight growth in the closing quarter, 2025 as a whole – following two years of recession – is expected to record little more than zero expansion. The spark for an economic upswing had yet to catch by year-end, with pessimism uniformly prevailing across industry, construction, services, and trade. The risk of a self-fulfilling prophecy therefore appears quite real. At the top of the economic wish list for 2026, alongside structural reforms and a more effective fiscal policy, is a clear message: "More action and less complaining." There are, after all, a few good reasons for somewhat more optimism, with real economic stimuli from fiscal policy likely to begin showing through in 2026. Alongside the gradual ramp-up in investments, demand-side impulses are also expected from measures to bolster defence capabilities. Furthermore, monetary policy is no longer acting as a brake on growth as it did over the past two years. Despite ongoing burdens from geopolitics, U.S. tariff policy and persistently fierce international competition, we forecast real GDP growth of 1.1 percent for 2026. Thus, growth will not soar overnight, but a foundation for emerging from the malaise would at least be laid.

Fundamental forecasts, Germany

	2024	2025	2026
GDP	-0.5	0.2	1.1
Private consumption	0.5	1.1	1.1
Govt. consumption	2.6	2.3	3.0
Fixed investment	-3.3	-0.3	3.6
Exports	-2.1	0.0	1.6
Imports	-0.6	3.8	5.0
Net exports[1]	-0.7	-1.4	-1.3
Inflation[2]	2.5	2.3	2.0
Unemployment rate[3]	6.0	6.3	6.3
Budget balance[4]	-2.7	-2.8	-3.5
Current account balance[4]	5.8	4.7	4.3

Change vs previous year as percentage, [1]as contribution to GDP growth; [2]HICP; [3]as percentage of the civil labour force (Federal Employment Office definition); [4] as percentage of GDP

Sources: Macrobond, NORD/LB Macro Research

Quarterly forecasts, Germany

	I/25	II/25	III/25	IV/25	I/26
GDP sa qoq	0.3	-0.2	0.0	0.3	0.2
GDP nsa qoq	0.0	-0.1	0.3	0.7	0.3
Inflation yoy	2.6	2.1	2.1	2.4	2.1

Change as percentage

Sources: Macrobond, NORD/LB Macro Research

Switzerland: Heading into the new year with confidence

Analyst: Christian Reuter

Switzerland seals tariff agreement with the USA – additional tariff of 39 percent is off the table
First the good news: in mid-November, Switzerland reached a fundamental agreement in its tariff dispute with the United States. The memorandum of understanding between the two governments stipulates that the additional tariffs on imports from Switzerland are to be reduced from 39 percent to a flat rate of no more than 15 percent. Furthermore, they will be completely lifted on some products, such as aircraft, cosmetics, or generic pharmaceuticals. The existing exemptions for chemicals and pharmaceuticals, as well as gold and coffee, will remain in place. Since mid-December, it has also been clear that this regulation applies retroactively. This development closes, for the time being, a dramatic chapter in Switzerland's economic history. The effects, however, will be felt for some time to come. It is noteworthy how selective U.S. tariff policy is (likely not exclusively) towards Switzerland: The trade-weighted average tariff rate falls by just 10 percentage points as result of the rollback of the 39 percent levy. Switzerland's concessions also appear, at first glance, to be modest to largely symbolic: in return, Switzerland merely had to remove tariffs on agricultural products deemed non-sensitive from an agricultural policy perspective and, in sensitive sectors, to permit import quotas whose size is negligible relative to total consumption in Switzerland.
This agreement in the tariff dispute brightens the outlook for the Swiss economy, which has in any case performed more robustly in 2025 than many observers had forecast, given the challenging and, above all, uncertain environment. While growth weakened in Q2 and dipped into negative territory in Q3 (-0.5 percent qoq), signs are already pointing to a return to expansion in the current quarter. In particular, the chemical-pharmaceutical industry, a cornerstone of the Swiss economy, proved highly robust. Early in the year, it first benefited from pull-forward effects triggered by the trade dispute with the United States, giving the economy a boost in Q1. The subsequent rebound effects overall proved less pronounced than initially feared. Indeed, the decline of 0.4 percentage points in GDP growth in the third quarter was solely due to the scaling down of output at Swiss nuclear power plants which could no longer operate at their usual capacity in August because of the heat – in other words a climate-related effect rather than a result of the trade dispute. Domestic demand increasingly proved to be a mainstay of the Swiss economy. Thanks to low inflation and the resulting rise in real wages, private consumption offset the weakness in equipment and plant investment.

Outlook for 2026 is improving – annual growth only weak on paper
Against the backdrop of agreement in the tariff dispute, price stability and an expansionary monetary policy, growth will likely pick up again next year. Despite that, however, the sizeable carryover from the previous year means the annual growth rate will look weak on paper. Although most sentiment indicators remained in negative territory in November, an improvement compared to the summer is evident. Relief is coming, in particular from industry, where purchasing managers are more optimistic than at any time since January 2023, lifting the PMI close to the 50-point threshold in November with a figure of 49.7 points. Significant impulses are expected to continue coming primarily from domestic demand next year. A tailwind from foreign trade is not anticipated again before 2027, assuming the key export markets – Germany, the EU, and the United States – develop approximately as currently projected.
The downside risks remain high – a significant portion of which continues to lie in the trade relations with the United States and in areas still excluded from the agreement, over which negotiations are ongoing.
A particular threat hanging over the pharmaceutical sector is that the U.S. could demand price reductions. This could wipe out companies' profits and jeopardize their investment in R&D. Moreover, the

tariff agreement stipulates that Swiss pharmaceutical companies should invest USD 200 billion in the United States by 2028. While this cannot be mandated by the government in Bern, the "deal" was reached with the direct involvement of corporate CEOs, making for a serious commitment. This is not a negligible issue either. The five largest Swiss pharmaceutical companies currently have a market capitalization of USD 680 billion; the sector's global foreign investment averaged USD 150 billion over the past five years. The pledged sum of USD 200 billion in direct investment in the United States appears both substantial and realistic. Unfortunately, it amounts to a zero-sum game between Switzerland and the United States – one that could significantly weaken Switzerland as a business location. The importance of the sector for the Alpine economy can hardly be overestimated: in total, about 10 percent of Switzerland's economic output depends on pharmaceuticals. Moreover, the sector contributes disproportionately to productivity growth through its high R&D investment and accounts for the largest share of goods exports. Forecasts for 2026 and 2027 could easily prove overly optimistic, and Switzerland may indeed be facing a period of challenging structural adjustments.

Inflation dangerously low and trending downwards
Inflation in Switzerland remained in the lower range of the central bank's stability target throughout 2025. Since August, the monthly readings of the Swiss Consumer Price Index (LIK) and all relevant subcomponents have turned negative. What was initially imported deflation has thus worked its way into domestic prices. Without an acceleration in growth, there is a risk of the Swiss economy sliding into deflation. Global uncertainties, a loss of confidence in the U.S. dollar, the Swiss Confederation’s extremely sound fiscal management and low inflation have driven the Swiss franc to new record highs. Not even the introduction of additional tariffs of 39 percent – the highest among industrialized countries – was able to shake confidence in the Swiss currency.

The SNB's stance?
In 2024 the SNB was the first major central bank to initiate a cycle of interest rate cuts and is the first this year to have reached its likely terminal rate of 0.00 percent. Even so, the central bankers had to revise their "conditional inflation forecast" downwards in each of their four meetings, now expecting the disinflation process to reach its peak in the winter of 2025/26. That outcome is not out of the question, though it requires the exchange rate and economic growth to remain broadly on track. The new tariffs now appear to have established favourable conditions in this respect. The market has fully priced out the likelihood of the SNB cutting its policy rate into negative territory. At present, there is no systematic imperative for the central bankers to act. The earliest point at which the economic landscape could be sufficiently firm and inflation reliably anchored within the target range to warrant initial discussions on raising the policy rate would likely be mid-2026. However, it will in our view probably take more than 12 months before such an interest rate move actually takes place.

Fundamental forecasts*, Switzerland

	2024	2025	2026
GDP	1.2	1.3	0.9
Inflation (CPI)	1.1	0.2	0.4
Unemployment rate[1]	2.5	2.9	3.1
Budget balance[2]	0.6	0.6	0.0
Current account bal.[2]	7.5	3.9	3.5

* Change vs previous year as percentage; [1] as percentage of the labour force, [2] as percentage of GDP
Sources: Macrobond, Bloomberg, NORD/LB Macro Research

Interest and exchange rates, Switzerland

	18.12.	3M	6M	12M
SNB policy rate	0.00	0.00	0.00	0.00
3M rate	-0.05	-0.03	-0.01	0.00
10Y	0.28	0.30	0.35	0.40
Spread 10Y Bund	-257	-250	-255	-260
EUR in CHF	0.93	0.92	0.92	0.93

Japan: The central bank has now taken action

Analyst: Tobias Basse

A look back at a politically rather turbulent year

Japan now has its first female head of government in the person of Sanae Takaichi, who replaced her rather hapless predecessor after the upper house elections in October this year. The prime minister is seen to favour lower interest rates in the Land of the Rising Sun, a stance attributed to her fiscal policy plans. An overly strong yen also appears to be a particular source of annoyance for her. On that score, however, Ms. Takaichi currently has little reason for concern, given the recent depreciation pressure on the Japanese currency. In terms of monetary policy, it appears plausible, however, that the central bankers in Tokyo were reluctant to adjust interest rates so soon after the prime minister took office. Hence, the Bank of Japan initially adopted a cautious stance before proceeding after all with a further key-rate hike in December.

The central bank has now taken action

As expected, the central bank in Tokyo announced a rate hike at its recent meeting, accordingly raising the key rate to 0.75 percent. This decision was taken unanimously, underscoring that inflation has become a significant issue for economic policy in Japan as well. While the central bankers will likely remain under a certain degree of pressure to act, they are also expected to raise interest rates only very cautiously going forward.

The yen moves into focus

At the press conference following the central bank's MPC meeting, BoJ Governor Kazuo Ueda spoke, among other things, about the impact of the weak domestic currency on Japan's macroeconomic price level. In his view, risks stemming from Washington's new trade policy are likely to gradually recede into the background. As regards the neutral interest rate level, the central bankers in Tokyo will also need to closely monitor further economic data. As in his recent remarks in Nagoya, the BoJ governor placed the real interest rate at the centre of the discussion. In this context, however, only one thing is clear: Kazuo Ueda will need to surprise market participants in 2026 in order to decisively reverse the yen's pronounced weakness and initiate a sustainable trend shift in the FX segment.

Fundamental forecasts*, Japan

	2024	2025	2026
GDP	0.1	1.2	0.8
Inflation	2.7	3.1	1.9
Unemployment rate[1]	2.5	2.5	2.4
Budget balance[2]	-2.0	-3.0	-3.2
Current account bal.[2]	4.5	4.6	4.4

* Change vs previous year as percentage;

[1] as percentage of the labour force; [2] as percentage of GDP

Sources: Macrobond, Bloomberg, NORD/LB Macro Research

Interest and exchange rates, Japan

	18.12.	3M	6M	12M
Key rate	0.50	0.75	0.75	1.00
3M rate	1.04	0.85	0.90	1.10
10Y	1.97	1.75	1.70	1.70
Spread 10Y Bund	-88	-105	-120	-130
EUR in JPY	182	174	165	155
USD in JPY	156	151	146	156

China: Balancing domestic demand and foreign trade

Analyst: Valentin Jansen

Domestic economy and foreign trade – a balancing act

At the turn of the year, China's economy faces a difficult balancing act. On the one hand, the domestic outlook has deteriorated markedly in the second half of 2025, as underscored by retail sales in November, which rose just 1.3 percent year on year – the weakest reading outside the pandemic period. The boost from fiscal measures introduced at the start of the year and aimed at stimulating private consumption has proved short-lived. On the other hand, foreign trade has shown unexpected resilience despite the trade war, at times benefiting industrial output as well in 2025. In November, exports rose by 5.9 percent yoy, pushing the trade surplus to a record level of over USD 1 trillion. However, the notable elasticity of alternative markets, such as the ASEAN countries and the European Union, is already running up against its (political) limits. For foreign trade – which played a hugely important role in steering the economy toward its growth target in 2025 – 2026 is already shaping up to bring tangible headwinds amid growing wariness among trading partners. Reviving domestic demand is therefore becoming ever more urgent and emerging as a top priority for China's policymakers.

Growing wariness among trading partners signals mounting headwinds

In December 2025, the European Commission presented a new action plan to accelerate the "de-risking" of China in the sphere of critical raw materials. The move comes in the wake of recent disruptions in supply chains for rare earths and semiconductors. Against this backdrop, Brussels has clearly toughened its stance, as repeated bottlenecks have once again highlighted Europe's structural dependence on Chinese intermediate inputs and the resulting vulnerability of key industries. Looking ahead, French President Emmanuel Macron has recently stepped up the pressure by floating the prospect of European retaliatory tariffs if Beijing fails to take steps to reduce the "trade deficit". As a result, strains in China's geopolitical environment are likely to intensify rather than ease in the period ahead.

Renminbi remains a key policy lever for trade and domestic demand

In 2026, the People's Bank of China will likely seek greater monetary policy flexibility to support fiscal stimulus measures, following a generally restrained course in 2025. At the same time, the renminbi's appreciation trend against the U.S. dollar has continued since April, strengthening from around 7.20 towards about 7.06 most recently. Notably, the PBOC has recently set the daily reference rate several times at levels markedly weaker than market expectations. This can be read as an attempt to smooth the pace of appreciation, not least to safeguard the competitiveness of China's exports. Given the record-high trade surplus and low inflation, the yuan remains a key policy lever for navigating the tension between China's relative external economic strength and the political imperative to foster a more robust domestic economy in 2026.

Fundamental forecasts*, China

	2024	2025	2026
GDP	5.0	4.8	4.5
Inflation	0.1	0.0	0.8
Unemployment rate[1]	5.1	5.2	5.1
Budget balance[2]	-4.8	-5.5	-5.7
Current account bal.[2]	2.3	2.8	2.4

* Change vs previous year as percentage

[1] as percentage of the labour force, [2] as percentage of GDP

Sources: Macrobond, Bloomberg, NORD/LB Macro Research

Interest and exchange rates, China

	18.12.	3M	6M	12M
Deposit rate	1.50	1.50	1.50	1.50
3M SHIBOR	1.60	1.50	1.45	1.40
10Y	1.84	1.68	1.65	1.65
Spread 10Y Bund	-101	-112	-125	-135
EUR in CNY	8.26	8.17	7.97	7.70
USD in CNY	7.04	7.10	7.05	7.00

Britain: The economy could well do with some monetary policy stimuli

Analyst: Constantin Lüer

Positive signals from the Bank of England for the year ahead

Just ahead of the Christmas festivities, the Monetary Policy Committee moved to cut interest rates. At its December meeting, the Bank Rate was reduced to 3.75 percent as already anticipated by the majority of market observers. Certain signals pointing to this shift had already emerged during the previous meeting in November, when the decision to hold the benchmark rate steady was adopted by just a narrow majority. The minutes from that session had already conveyed a sort of forward guidance to the effect that the central bankers would look to stay on a path of easing should inflation develop in line with projections.

Inflation has eased more sharply than expected of late

This, on the one hand, would require the foreseeability of inflationary pressure continuing to subside, ideally accompanied by a moderation in wage growth. That condition was indeed more than met in November, with consumer prices falling by 0.2 percent month on month. The consumer price index now stands at 3.2 percent year-on-year, thus moving closer to the 2.0-percent price stability target, even though that goal had at times appeared to be slipping out of reach again. The second condition entails the preservation of a clearly identifiable easing trajectory, which by definition hinges on waning price pressures. Seen in that light, the latest rate decision was far from unexpected. We expect inflation to show a more moderate profile again in the year ahead as well.

Further rate cuts would be a welcome boost for the economy

Our forecast for the Bank of England's interest rate path in the coming year is: further easing ahead, seeing as the UK economy's performance up to the end of September was far from robust. A comparatively solid first quarter was followed by lacklustre results in the second and third quarters. In Q3, economic growth edged up by just 0.1 percent quarter on quarter, barely remaining above the expansion threshold. Sentiment indicators from the industrial and services sectors also show signs of slowing momentum, with the construction sector in particular recently striking a markedly pessimistic tone as to the future outlook. Chancellor of the Exchequer Reeves' autumn budget is also likely to throw a spanner in the works of the economy. We do not expect a technical recession in the United Kingdom, however, but rate cuts ought to provide additional stimuli towards stabilizing the economy. A favourable inflation backdrop should, in time, leave the door open to further reductions in the Bank Rate.

Fundamental forecasts*, Britain

	2024	**2025**	**2026**
GDP	1.1	1.4	1.1
Inflation	2.5	3.4	2.5
Unemployment rate[1]	4.3	4.8	5.0
Budget balance[2]	-5.2	-4.5	-3.8
Current account bal.[2]	-2.2	-3.0	-2.7

* Change vs previous year as percentage

Interest and exchange rates, Britain

	18.12.	**3M**	**6M**	**12M**
Repo rate	3.75	3.75	3.50	3.25
3M rate	3.73	3.55	3.35	3.20
10Y	4.48	4.45	4.30	4.25
Spread 10Y Bund	163	165	140	125
EUR in GBP	0.88	0.88	0.88	0.87
GBP in USD	1.34	1.31	1.28	1.26

[1] as percentage of the labour force as per ILO concept; [2] as percentage of GDP

Sources: Macrobond, Bloomberg, NORD/LB Macro Research

Australia: Uncertain interest rate path in 2026

Analyst: Constantin Lüer

Monetary policy may not have been restrictive enough
A comparison of the benchmark interest rates in the major currency areas with those in Australia reveals a notable pattern: the trajectory of the cash target rate Down Under has been significantly flatter than its counterparts at, for instance, the ECB, the Fed, and the Bank of England. While each economy has its specific characteristics, the current "global experiment" with varying degrees of central bank restrictiveness suggests that Australian monetary policy may have been insufficiently restrictive. On the one hand, GDP growth in the third quarter was weaker than many economists had expected, even though over the year as a whole it held up relatively well despite widespread uncertainty. However, the details of the accompanying data urged caution in terms of the consumer price outlook. Ahead of the release of the third-quarter figures, there had been some support for the "bet" that policy rates could even rise further, a view that initially weakened when the economic data were presented. But one theory gained traction again, however, and revived this speculation: wages are rising too quickly.

Is the traditional Aboriginal hunting weapon poised for a revival?
The definition of price stability on the Red Continent differs somewhat from what one is likely accustomed to in our part of the world. A target range of 2–3 percent admittedly allows central bankers a greater degree of flexibility, which meant that a cash rate target of 4.35 percent could at times be considered appropriate. At the time of the first rate cut, the real interest rate level was restrictive, based on the official quarterly inflation figures of 3.5 percent year on year in December 2024 and 3.0 percent year on year in March 2025. The boomerang, a hunting tool of traditional significance to indigenous Australians, could now make a comeback in a figurative sense, however, as inflation is rising again. That said, various ambitious government programmes aimed at lowering prices – particularly in the housing sector – are likely to mitigate this risk. Against this background, we still see a rate cut as the more likely scenario.

Unclear as to what is keeping the RBA mandate more in check
There is indeed a risk of rising inflation, which is why the Bank of Australia's governor Michele Bullock announced pause after the last RBA meeting. However, the labour market is also showing signs of cooling down. However, this appears to be shaping up as a close contest as to which aspect will become more decisive over time. The wage-price dynamic has re-emerged as a problematic issue, and the labour market has likely already cooled significantly, making the interest rate path for the coming year quite uncertain. In our opinion, however, inflation is likely to remain in check and the RBA may even have leeway to cut rates, even if the odds are more in the direction of a 50-50 scenario.

Fundamental forecasts*, Australia

	2024	2025	2026
GDP	1.0	1.9	2.2
Inflation	3.2	2.8	3.1
Unemployment rate[1]	4.0	4.2	4.4
Budget balance[2]	-1.5	-1.0	-1.5
Current account bal.[2]	-2.2	-2.1	-2.3

* Change vs previous year as percentage

[1] as percentage of the labour force

Sources: Macrobond, Bloomberg, NORD/LB Macro Research

Interest and exchange rates, Australia

	18.12.	3M	6M	12M
Cash target rate	3.60	3.60	3.35	3.35
3M rate	3.72	3.70	3.60	3.40
10Y	4.74	4.30	4.35	4.35
Spread 10Y Bund	189	150	145	135
EUR in AUD	1.77	1.72	1.72	1.69
USD in AUD	0.66	0.67	0.67	0.68

Stock markets between innovation and valuation – developments in 2025, outlook for 2026

Analyst: Wolfgang Donie

AI boom and record highs: stock market year 2025 marked by global upward momentum
The 2025 stock market year was characterized by an impressive upswing across global markets. While there were sharp pullbacks in prices in the wake of Donald Trump's so-called "Liberation Day" in April, those losses had been almost fully recouped just six weeks later. Many indices hit new all-time highs, like the DAX in early July. This upward trajectory was driven by robust growth in the global economy, solid corporate earnings – notably in the United States – and a backdrop of gradually declining U.S. key interest rates and moderate contraction in capital market rates. Particularly worthy of note was the AI boom, ongoingly fuelled by strong quarterly results from tech companies, rapid user growth, and major deals among AI heavyweights. While U.S. and Asian stock markets continued their ascent after the summer as well, European stock indices have since trended sideways. Hopes for fiscal and economic-policy stimulus – which had driven outperformance in the first quarter of 2025 – have so far been largely disappointed.
Corporate earnings in the U.S. grew by more than 10 percent, while in Europe they stagnated. Stock market valuations are now above their historical averages, particularly in the United States.

Challenges and opportunities in 2026: stock markets between high valuation and solid growth
The outlook for 2026 remains broadly positive, albeit with narrowing room for upside. Solid global economic growth is still anticipated, with a slight acceleration likely in the eurozone. Consensus estimates for corporate earnings are optimistic for both the United States and Europe, with projected growth rates of 10-15 percent. That said, negative earnings revisions in Europe and headwinds from higher tariffs along with a stronger euro indicate that expectations there may yet be subject to further downward adjustments. Key interest rates in the eurozone are likely to remain at current levels, while capital market rates may edge up slightly. In the United States, further, rather cautious, key-rate cuts are anticipated. Valuations are high, leaving markets potentially more sensitive to disappointments.
AI and infrastructure are set to remain the key growth drivers. Beyond these, the energy sector, industrial automation, and selected Asian markets –notably Japan – also present attractive opportunities. In Europe and Germany, fiscal measures alongside investments in infrastructure and defence could provide fresh growth stimuli from mid-2026 onwards. Moreover, more affordably valued second- and third-tier stocks, such as those in Germany's MDAX index, hold particular potential in an accelerating economy compared to standard large-cap shares. Risks persist in the form of geopolitical tensions, trade barriers, structural issues in the US real estate sector, sovereign debt, and a heavy market concentration on a handful of tech giants. In the AI sector, the focus is likely to shift increasingly toward monetization.
Aside from valuation concerns surrounding AI companies, potential catalysts for a correction could include a deteriorating economic climate, declining corporate earnings, or rising interest rates.

Crude oil: oversupply *ante portas*

Analyst: Thomas Wybierek

Oil glut or manageable surplus in 2026?

The OPEC+ alliance has consistently implemented its strategy to recapture market share in 2025, since April gradually rolling back the voluntary production cuts decided several years ago. The initial increase in output was relatively modest, at around 140,000 barrels per day (b/d) in April, then followed by larger monthly releases of 411,000 b/d from May through July. The taps were then opened further in both August and September, with additional output allowances of approximately 548,000 b/d approved for each of those months. The pace was eased only at the beginning of the fourth quarter, with permitted output cut to 137,000 b/d for each of the months from October to December. Taken together, this makes for an increase of 2.9 million b/d by year-end. The strategy thus appears to have achieved its aim of stabilizing or indeed strengthening market power. Data on U.S. oil production shows a relatively stable trend until the summer. It was not until Q3/2025 that crude oil output in the United States increased again, reaching a new record high of 13.84 million b/d. However, the global supply situation has weighed on prices, contributing to continued investment restraint within the U.S. oil production sector. The drilling surge widely feared a year ago under the Trump administration has thus, for now, failed to materialize. In our view, the likelihood of such an offensive emerging in 2026 is low, with the IMF expecting 2026 to see a downturn in global economic growth to 3.1 percent as against 3.2 percent in 2025. The OPEC+ alliance remains upbeat, however, reckoning with a merely modest supply overhang next year, which current estimates put at around 60,000 b/d. Demand in 2026 is forecast at 106.52 million b/d, up from 105.14 million b/d in 2025, implying demand growth of around 1.4 million b/d next year. The International Energy Agency takes a far more pessimistic view, however, expecting that demand could potentially be exceeded by up to 3.84 million b/d on the supply side in 2026 – a scenario that would put oil prices under renewed pressure.

Risk premiums priced in for early 2026

Whether the war in Ukraine extends into a fifth year or a resolution and ceasefire can be reached before February 2026 remains unclear, despite ongoing efforts by the United States and the European Union. At the very least, the sanctions targeting Russia's oil industry and its shadow tanker fleet now appear to be gaining more traction. A degree of calm has prevailed in the Gaza conflict since October 2025, however. The current geopolitical risks have accordingly been priced in, and the aforementioned fundamental factors are now being weighted more heavily. The price of Brent crude has fallen by approximately 15 percent since the start of the year, while WTI is trading nearly 19 percent below its level at the beginning of 2025. Even so, phases of volatility could still emerge in 2026. In the first quarter, developments in South America, particularly involving OPEC+ member Venezuela, are likely to be a factor in this context. On the other hand, a worst-case scenario in 2026 would be a China-Taiwan conflict, though this would have implications far beyond the oil market.

Potential price effects for end consumers in H1/2026

Germany's CO2 levy will continue to rise in 2026, though it will be less rigid than in 2025. However, it will be less rigid than in 2025, and is expected to move within a range of EUR 55 to 65 per metric ton (mt). However, with the EU carbon price standing well above EUR 80/mt in December, there is much to suggest a surcharge of EUR 10/mt at the start of the year. While a positive price effect from the U.S. dollar remains a possibility, disruptions to trade flows in oil products would be more problematic. For instance, "sour" and "heavy" crude oil from Venezuela plays a crucial role in global diesel and heating oil production. A disruption in Venezuelan shipments due to an escalation of tensions with the United States could trigger price increases.

Gas: Low prices but empty storage facilities

Analyst: Thomas Wybierek

How long will the pressure on gas prices persist?

By year-end 2025, gas prices had returned to levels last seen in 2024, with prices at times falling below EUR 26/MWh in December. Futures for the months and quarters ahead in 2026 point to stable development. On the one hand, mild December temperatures in Northwestern Europe prevented any significant surge in demand from the heating sector; on the other, economically driven demand remained weak. Moreover, sufficient volumes of LNG were available on the global market. Demand in Asia remained subdued while, on the other hand, the United States expanded its export capacities. By year-end 2025, more than half of the LNG imported by Europe originated from the United States. Since the 2022 energy crisis, moreover, terminal capacities have been expanded, not only in Germany. While the EU agreed on a further package of sanctions on Russia, the import ban for long-term contracts does not take effect until January 1, 2027. Furthermore, the prohibition on the transshipment of Russian LNG cargoes in European ports has, paradoxically, led to higher inputs into the European gas grid this year. Against this background, the availability of natural gas currently provides little cause for concern. That said, the developments in the United States ought not to be entirely overlooked either. Gas prices there rose significantly in Q4. Furthermore, winter storms in the first quarter are common and regularly cause disruptions in key production regions such as Texas. Any prolonged outages at key export facilities will have an impact on prices.

Storage levels reflect an upside-down price world

Europe's gas storage facilities were less full at the end of 2025 than in any of the past five years except 2021. As of Nov. 1, 2025, the aggregate fill level was reported at 82.81 percent. In Germany the figure stood at 75.13 percent on that key date. A brief cold spell in late November then led to a marked drawdown of those reserves. By mid-December, domestic reserves there had fallen to around 63 percent. Across the EU, reserves were reduced to around 69 percent. During the winter season, withdrawals from storage are the norm and therefore not the problem. The problem lies earlier, in the typical refilling period between spring and summer 2025. Gas markets experienced tight seasonal spreads, meaning price differences between summer and winter gas, as well as between near-term and longer-dated futures contracts, were extremely small. This removed the customary economic incentive for storage operators to fill their facilities. The business model is based on buying gas cheaply in the summer, storing it, and selling it at a higher price in winter. In early March, the TTF benchmark stood at around EUR 45.20/MWh, then declined relatively steadily to EUR 31.85/MWh by November. By December 15, 2025, it had fallen further, to just EUR 27.58/MWh. Current futures pricing for 2026, too, indicates barely changed expectations among market participants.

Is the old natural gas storage model becoming obsolete?

Lower storage levels make Germany's gas supply theoretically more vulnerable to sharp price swings, this being due to the missing buffer effect. This phenomenon was seen during the 2022 energy crisis. The overall landscape has shifted somewhat since then, however. The expansion of renewable energies continues, and gas consumption is likely to decline in the long term. Parts of the natural gas grid are set to be repurposed and integrated into the hydrogen supply network. Initial trials with caverns are underway, although the large-scale ramp-up of hydrogen is stalling. While some long-term LNG supply contracts exist (with Qatar and the United States), the volumes involved are not sufficient to cover demand. There is a lack of a consistent political risk-mitigation strategy. Unlike with crude oil or electricity, there is no legally mandated state reserve. As long as gas is still needed in Germany, this form of market reliance remains a risky bet – not only on prices.

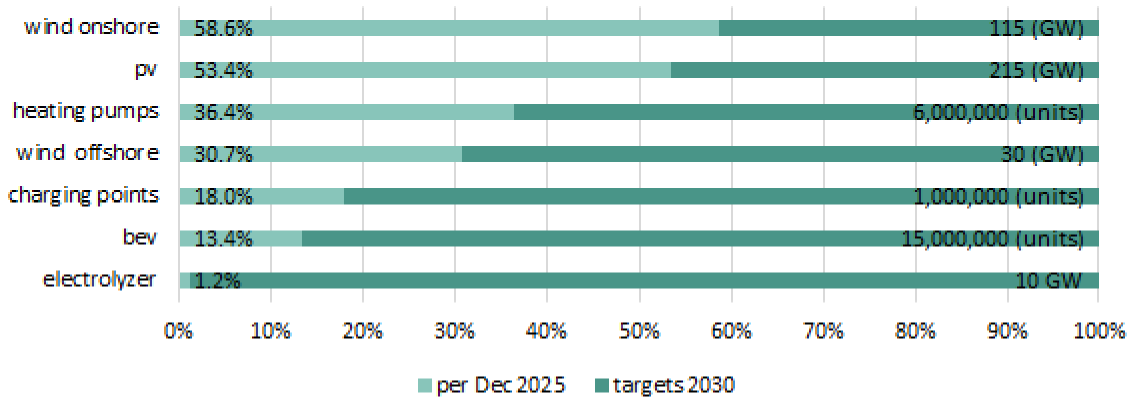
Energy transformation: Signs of progress are emerging

Analyst: Thomas Wybierek

2030 expansion targets remain ambitious

Germany's change of government did not entail any revision of the existing expansion targets for renewable energy or related technologies such as EV charging stations. There is hope that the planned investments in infrastructure and climate policy will have a positive impact. That outcome, however, continues to depend on how quickly obstacles – notably time-consuming permit procedures – can be dismantled further and on whether the wider economy can regain momentum. Given the foreseeable geopolitical backdrop – U.S. tariffs, the emergence of new power blocs, sanctions and persistent conflicts – doubts remain, at least for 2026.

Chart: Progress status of the energy transition in Germany



Sources: openenergytracker; NORD/LB Research

In almost all considered fields of application, the gap between the current status and the targets set for 2030 has narrowed slightly. Little movement was seen regarding the expansion of electric mobility (bev) and electrolysis capacity. The latter comes as no surprise, as the hydrogen sector continues to grapple with challenges related to cost and availability. A growing number of projects were put on hold in 2025 as hydrogen was either too expensive or unavailable in the required volumes. The popularity of electric cars saw merely a marginal increase, linked both to reduced consumer confidence amid a recession and a mismatch between supply and demand. In our view, the proposed new electric vehicle purchase incentive for low-income buyers is unlikely to generate a sustained reversal of the trend. On a positive note, the utilization of photovoltaic (pv) systems developed favourably, with the important milestone of 50-percent target achievement substantially surpassed in 2025. While the expansion of offshore wind energy has stalled, at least initial measures to accelerate the build-out of onshore wind turbines on land have become evident.

Market data *Spot; **Day Ahead; ***Front Month Future	Price 18.12.25	12-month high on daily basis		12—month low on daily basis		NORD/LB forecast 3M	6M	12M
Brent crude (USD/barrel)*	59.67	81.64	15.01.25	58.76	16.12.25	60	62	63
WTI crude (USD/barrel)*	55.86	79.00	15.01.25	55.43	16.12.25	56	59	60
Electricity price (EUR/MWh)**	91.98	135.24	12.02.25	61.31	23.06.25	103	72	86
CO2 certificates (EUR/metric ton)**	84.49	85.34	15.12.25	59.97	09.04.25	86	87	88
Natural gas TTF (EUR/MWh)**	27.50	58.28	10.02.25	26.43	10.12.25	28	32	33
Hard coal Rotterdam (USD/metric ton)***	96.40	114.50	02.01.25	89.05	14.10.25	97	101	99

Sources: Macrobond, NORD/LB Research

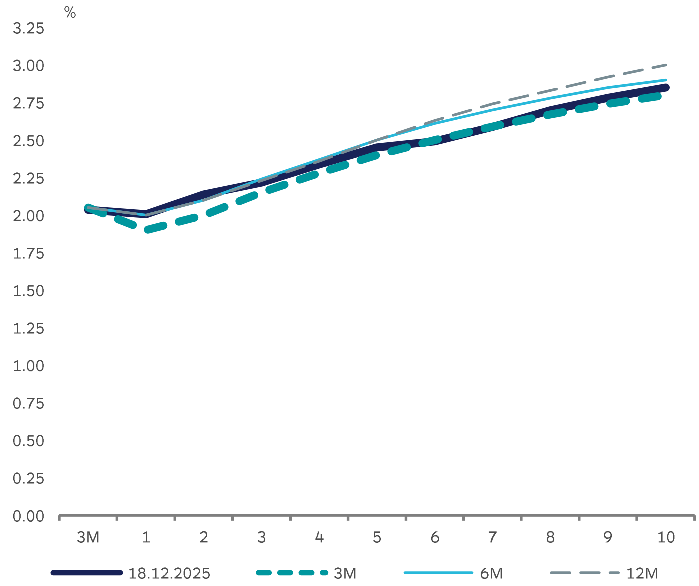
Portfolio strategies
Yield curve, Euroland

Yields and forecasts (Bunds/Swap)

Yields (in %)		NORD/LB forecasts for horizons...		
	Current	**3M**	**6M**	**12M**
3M	2.04	2.05	2.05	2.05
1Y	2.01	1.90	2.00	2.00
2Y	2.14	2.00	2.10	2.10
3Y	2.22	2.15	2.24	2.23
4Y	2.34	2.28	2.37	2.36
5Y	2.45	2.40	2.50	2.50
6Y	2.49	2.50	2.61	2.63
7Y	2.59	2.59	2.70	2.74
8Y	2.70	2.67	2.78	2.83
9Y	2.78	2.74	2.85	2.92
10Y	2.85	2.80	2.90	3.00
2Y (Swap)	2.28	2.15	2.25	2.25
5Y (Swap)	2.58	2.50	2.60	2.60
10Y (Swap)	2.92	2.80	2.90	3.00

Sources: Bloomberg, NORD/LB Macro Research

Yield curve forecasts (Bunds)



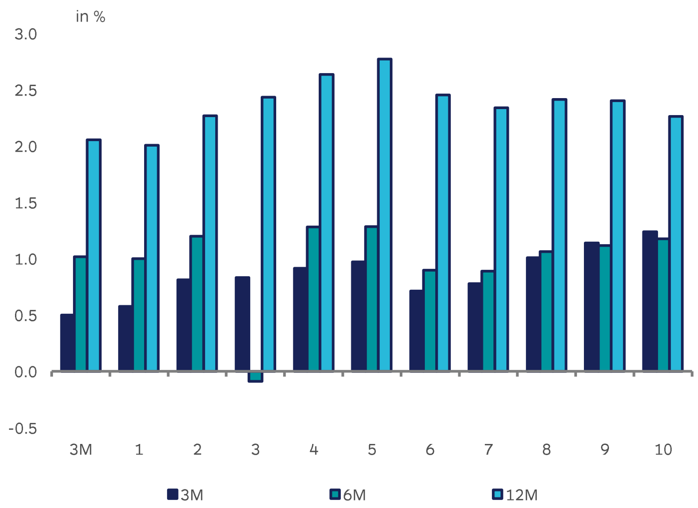
Sources: Bloomberg, NORD/LB Macro Research

Forecasts and total returns

	Total returns (in %) for horizons...		
	3M	**6M**	**12M**
3M	0.50	1.02	2.05
1Y	0.58	1.00	2.01
2Y	0.81	1.20	2.27
3Y	0.83	-0.09	2.43
4Y	0.91	1.28	2.64
5Y	0.97	1.29	2.77
6Y	0.71	0.90	2.45
7Y	0.78	0.89	2.34
8Y	1.01	1.06	2.41
9Y	1.14	1.12	2.40
10Y	1.24	1.18	2.26

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns



Sources: Bloomberg, NORD/LB Macro Research

A total return is the absolute profit from an investment in the time period under consideration, with account being taken of the pro-rata yields plus the price gains or losses to be anticipated on the basis of the forecast yield curve change.

Portfolio strategies International yield curve: 3-month & 12-month horizons

3-month horizon

Expected total returns (as percentage) in euro					
	EUR	USD	GBP	JPY	CHF
1Y	0.6	2.9	0.6	5.1	1.1
2Y	0.8	3.0	0.6	5.5	1.1
3Y	0.8	3.2	0.5	5.7	1.1
4Y	0.9	3.3	0.6	6.6	1.1
5Y	1.0	3.6	0.5	6.6	1.3
6Y	0.7	5.5	0.9	6.4	1.3
7Y	0.8	4.2	0.5	6.5	1.3
8Y	1.0	4.4	1.7	6.7	1.3
9Y	1.1	4.9	1.7	7.5	1.4
10Y	1.2	5.2	1.4	7.8	1.4

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	GBP	JPY	CHF
1Y	1.0	1.0	0.3	-0.1
2Y	1.1	1.0	0.9	-0.1
3Y	1.2	1.0	0.9	-0.1
4Y	1.3	1.1	1.7	0.0
5Y	1.6	0.9	1.7	0.1
6Y	3.5	1.3	1.5	0.2
7Y	2.2	0.9	1.6	0.1
8Y	2.5	2.2	1.9	0.1
9Y	2.9	2.2	2.6	0.2
10Y	3.2	1.9	2.9	0.2

Sources: Bloomberg, NORD/LB Macro Research

12-month horizon

Expected total returns (as percentage) in euro					
	EUR	USD	GBP	JPY	CHF
1Y	2.0	10.3	4.5	18.6	-0.1
2Y	2.3	10.7	4.9	19.1	0.0
3Y	2.4	11.3	5.0	19.4	-0.1
4Y	2.6	12.1	5.4	20.2	-0.1
5Y	2.8	12.9	5.6	20.9	0.0
6Y	2.5	15.6	6.4	21.7	0.2
7Y	2.3	14.4	6.2	22.7	0.1
8Y	2.4	14.5	7.5	23.5	-0.1
9Y	2.4	15.0	7.7	24.4	-0.2
10Y	2.3	15.3	7.8	24.2	-0.3

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	GBP	JPY	CHF
1Y	3.5	3.7	0.8	-0.2
2Y	3.9	4.2	1.2	-0.1
3Y	4.5	4.2	1.5	-0.2
4Y	5.2	4.6	2.2	-0.2
5Y	6.0	4.8	2.8	-0.1
6Y	8.5	5.7	3.4	0.1
7Y	7.4	5.4	4.3	0.0
8Y	7.5	6.7	5.0	-0.2
9Y	7.9	6.9	5.7	-0.3
10Y	8.2	7.0	5.6	-0.4

Sources: Bloomberg, NORD/LB Macro Research

A total return is the absolute profit from an investment in the time period under consideration, with account being taken of the pro-rata yields plus the price gains or losses to be anticipated on the basis of the forecast yield curve and exchange rate change.

Portfolio strategies
Stock market strategy; 3-month, 6-month & 12-month horizons

Levels and performance

Index	Level as at	Status		Performance since	
	18.12.2025	**Prev. month**	**Start of year**	**Prev. month**	**Start of year**
DAX	24,199.50	23,836.79	19,909.14	1.52%	21.55%
MDAX	30,281.18	29,937.15	25,589.06	1.15%	18.34%
EuroSTOXX50	5,741.71	5,668.17	4,895.98	1.30%	17.27%
STOXX50	4,860.31	4,803.44	4,308.63	1.18%	12.80%
STOXX600	585.35	576.43	507.62	1.55%	15.31%
Dow Jones	47,951.85	47,716.42	42,544.22	0.36%	12.56%
S&P 500	6,774.76	6,849.09	5,881.63	-1.86%	14.28%
Nikkei	49,001.50	50,253.91	39,894.54	-2.49%	22.83%

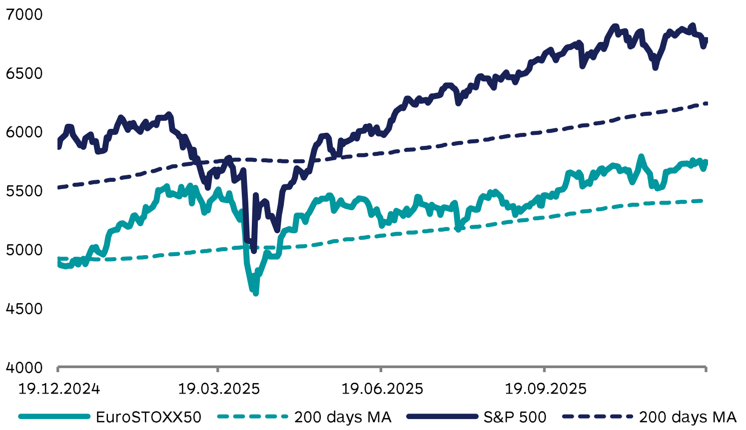
Sources: Bloomberg, NORD/LB Macro Research

Index forecasts

Index	NORD/LB forecast for the horizons ...		
	3M	**6M**	**12M**
DAX	24,500	25,500	26,500
MDAX	30,800	32,500	33,800
EuroSTOXX50	5,800	6,050	6,200
STOXX50	4,900	5,100	5,250
STOXX600	590	610	625
Dow Jones	49,000	50,500	51,500
S&P 500	6,900	7,100	7,300
Nikkei	50,500	52,500	55,000

Sources: Bloomberg, NORD/LB Macro Research

EuroSTOXX50 and S&P500



Sources: Bloomberg, NORD/LB Macro Research

Date of going to press for data, forecasts and texts was **Friday, 19 December 2025**.
The next English issue of Economic Adviser will be appearing on **2 February 2026**.

Overview of forecasts

Fundamental forecasts

in %	GDP growth			Rate of inflation			Unemployment rate[1]			Budgetary balance[2]		
	2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025	2026
USA	2.8	2.0	2.0	3.0	2.8	2.8	4.0	4.3	4.4	-6.9	-6.2	-6.2
Euroland	0.8	1.4	1.2	2.4	2.1	1.9	6.4	6.4	6.3	-3.1	-3.2	-3.3
Germany	-0.5	0.2	1.1	2.5	2.3	2.0	6.0	6.3	6.3	-2.7	-2.8	-3.5
Japan	0.1	1.2	0.8	2.7	3.1	1.9	2.5	2.5	2.4	-2.0	-3.0	-3.2
Britain	1.1	1.4	1.1	2.5	3.4	2.5	4.3	4.8	5.0	-5.2	-4.5	-3.8
Switzerland	1.3	1.3	0.9	2.1	0.2	0.4	2.0	2.9	3.1	0.1	0.6	0.0
China	5.0	4.8	4.5	0.1	0.0	0.8	5.2	5.2	5.1	-4.8	-5.5	-5.7

Change vs previous year as percentage; [1] as percentage of the labour force (Germany: as per Federal Employment Office definition); [2] as percentage of GDP
Sources: Macrobond, NORD/LB Macro Research

Key interest rates

In %	18.12.25	3M	6M	12M
USD	3.75	3.50	3.25	3.00
EUR	2.00	2.00	2.00	2.00
JPY	0.50	0.75	0.75	1.00
GBP	3.75	3.75	3.50	3.25
CHF	0.00	0.00	0.00	0.00
CNY	1.50	1.50	1.50	1.50

Sources: Bloomberg, NORD/LB Macro Research

Exchange rates

EUR in...	18.12.25	3M	6M	12M
USD	1.17	1.15	1.13	1.10
JPY	182	174	165	155
GBP	0.88	0.88	0.88	0.87
CHF	0.93	0.92	0.92	0.93
CNY	8.26	8.17	7.97	7.70

Interest rates (government bonds)

	3M rates				Yields 2Y				Yields 5Y				Yields 10Y			
	18.12.	3M	6M	12M	18.12.	3M	6M	12M	18.12.	3M	6M	12M	18.12.	3M	6M	12M
USD	3.69	3.40	3.10	3.00	3.46	3.35	3.05	3.00	3.66	3.50	3.20	3.10	4.12	3.85	3.70	3.60
EUR	2.04	2.05	2.05	2.05	2.14	2.00	2.10	2.10	2.45	2.40	2.50	2.50	2.85	2.80	2.90	3.00
JPY	1.04	0.85	0.90	1.10	1.07	0.90	0.95	1.00	1.44	1.25	1.25	1.25	1.97	1.75	1.70	1.70
GBP	3.73	3.55	3.35	3.20	3.75	3.70	3.62	3.53	3.94	4.00	3.85	3.75	4.48	4.45	4.30	4.25
CHF	-0.05	-0.03	-0.01	0.00	-0.08	-0.03	0.00	0.05	0.09	0.10	0.15	0.20	0.28	0.30	0.35	0.40

Sources: Bloomberg, NORD/LB Macro Research

Spreads (bp)

	3M EURIBOR				2Y Bund				5Y Bund				10Y Bund			
	18.12.	3M	6M	12M	18.12.	3M	6M	12M	18.12.	3M	6M	12M	18.12.	3M	6M	12M
USD	166	135	105	95	132	135	95	90	121	110	70	60	127	105	80	60
JPY	-99	-120	-115	-95	-106	-110	-115	-110	-101	-115	-125	-125	-88	-105	-120	-130
GBP	169	150	130	115	161	170	152	143	149	160	135	125	163	165	140	125
CHF	-208	-208	-206	-205	-222	-203	-210	-205	-236	-230	-235	-230	-257	-250	-255	-260

Sources: Bloomberg, NORD/LB Macro Research

Annex

Contacts at NORD/LB

Christian Lips
Chief Economist
Head of Macro Research
+49 172 735 1531
christian.lips@nordlb.de

Tobias Basse
Macro Research
+49 511 361-2722
tobias.basse@nordlb.de

Christian Reuter
Macro Research
+49 152 0412 9316
christian.reuter@nordlb.de

Valentin Jansen
Macro Research
+49 157 8516 7232
valentin.jansen@nordlb.de

Constantin Lüer
Macro Research
+49 157 8516 4838
constantin.lueer@nordlb.de

Wolfgang Donie
Sector Research
+49 511 361 - 5375
wolfgang.donie@nordlb.de

Thomas Wybierek
Sector Research
+49 511 361 - 2337
thomas.wybierek@nordlb.de

Other contacts

Sales

Institutional Sales
+49 511 9818-9440

Sales Sparkassen &
Regional Banks
+49 511 9818-9400

Sales MM/FX
+49 511 9818-9460

Sales Europe
+352 452211-515

Sales Asia
+65 64 203136

Origination & Syndicate

Origination FI
+49 511 9818-6600

Origination Corporates
+49 511 361-2911

Treasury

Liquidity Management
+49 511 9818-9620
+49 511 9818-9650

Trading

Covereds/SSA
+49 511 9818-8040

Financials
+49 511 9818-9490

Governments
+49 511 9818-9660

Federal States/Regions
+49 511 9818-9550

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+49 511 9818-9640

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Corporate Customers
+49 511 361-4003

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+49 511 361-8150

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