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Wars and the AI bubble – the downside risk scenarios to the global outlook 2026

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Summary

According to the latest edition of the IMF World Economic Outlook, global growth is expected to hold steady at 3.3% in 2026 and 3.2% in 2027—a modest upward revision from the October 2025 forecast. Behind this apparent stability, a set of opposing forces are at play. Headwinds from shifting trade policies, and the Trump administration in particular, are for the time being offset by a surge in technology and AI investment, as well as accommodative financial conditions, as central banks conclude the monetary tightening cycle initiated to curb the 2021-2024 inflation surge.

Every economic outlook report typically includes a set of key risk factors – or alternative forecasting scenarios – designed to contextualise the main projections and instil a degree of caution. By synthesising the scenarios and risk factors featured in recent reports from leading international organisations, a broader picture emerges of the principal threats to global growth in 2026 and beyond. To that end, 14 outlook reports published between November 2025 and January 2026 are reviewed, respectively from the IMF, the World Bank, the OECD, the European Commission, the WEF, Moody's, S&P, the US Federal Reserve, the European Central Bank , Allianz, Amundi, Black Rock, Bank of China and Deutsche Bank.

Among the most frequently cited downside risks to the 2026 outlook, geopolitical tensions continue to feature prominently, reflecting their growing prominence in economic forecasting since February 2022. At the same time, risks linked to the digital transition and speculative investment in AI have moved to the forefront. The possibility of an "abrupt financial asset repricing", potentially triggered by the bursting of an AI bubble, is a very serious scenario, one that some analysts compare to the 2007 subprime mortgage crisis.

Other notable risk scenarios include: persistent inflation prompting a new cycle of monetary tightening; sovereign debt distress; a sharp slowdown in a systemically important economy; climate-related risks (extreme weather events and transition risks); disorderly migration flows and tighter migration policies; cyberattacks; societal polarisation; and transition risks associated with the rise of AI.

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The Outlook

According to the January 2026 edition of the IMF World Economic Outlook report (IMF 2026), global growth is forecast to remain steady at 3.3% in 2026 and 3.2% in 2027, a slight upward revision compared to the October 2025 edition. Beneath this stable surface, opposing forces are in balance: headwinds from shifting trade policies, and from the Trump administration in particular, are counteracted by a surge in technology and artificial intelligence (AI) investment, alongside broadly accommodative financial conditions – as central banks' monetary tightening to curb the 2021-2024 inflation surge is coming to an end. Global headline inflation is indeed projected to ease from an estimated 4.1% in 2025 to 3.8% in 2026 and further to 3.4% in 2027. Disinflation is slowing in 2025 however, and inflation rates have not yet fully returned to pre-COVID-19 levels.

Table 1: GDP growth forecasts

Country	Scenario	2025	2026	2027	Average 2010/2019
World	WB Jan 2026	2.7	2.6	2.7	3.7
	IMF Jan 2026	3.3	3.3	3.2	3.7
United States	WB Jan 2026	2.1	2.2	1.9	2.3
	IMF Jan 2026	2.1	2.4	2.0	2.3
China	WB Jan 2026	4.9	4.4	4.2	7.7
	IMF Jan 2026	5.0	4.5	4.0	7.7
Euro area	WB Jan 2026	1.4	0.9	1.2	1.4
	IMF Jan 2026	1.4	1.3	1.4	1.4

Source: IMF, World Bank.

In advanced economies, growth is forecast at 1.8% in 2026 and 1.7% in 2027. The U.S. economy is projected to expand by 2.4% in 2026 and 2.0% in 2027, aided by the current AI-driven momentum and by the major tax cuts, despite lower immigration and household consumption. In the euro area, growth is expected to hold steady at 1.3% in 2026 and 1.4% in 2027, supported by increases in public spending – notably in Germany – and strong performances in Ireland and Spain. Europe at large benefits less from the AI-driven investment boom than the US and Asia, while lingering effects of higher energy prices and a stronger euro continue to weigh on manufacturing. In emerging market and developing economies, growth is expected to hover just above 4.0% in both 2026 and 2027. China's growth forecast is raised by 0.3 point to 4.5%, due to lower U.S. tariff rates following the November trade truce, reflects stimulus measures and additional policy bank lending for investment.

Overview of the downside scenarios

Every economic outlook report has a list of key "risk factors" if not alternative forecasting scenarios which helps bring perspective and caution to the forecasts and projections featured in the report. The World Bank Global Economic Prospects and the IMF World Economic Outlook reports offer a number of downside risk scenarios in their respective January 2026. By combining these scenarios and those from other leading organisations, we can obtain a broad view of the main risk factors to global growth in 2026 and beyond.

To that end, in addition to the flagship reports by the IMF and the World Bank, other recent reports, published between November 2025 and January 2026, are reviewed with respect to the downside risk scenarios and other key risk factors to the global economy, reports by the OECD, the European Commission, the Global Risk report of the WEF as well as rating agencies (Moody's, S&P), central banks (US Federal Reserve, European Central Bank), insurers (Allianz), asset managers (Amundi, Black Rock), and banks (Bank of China, Deutsche Bank).

As shown in the table below, the three most cited downside risk scenarios and key risk factors to the 2026 outlook confirm the continuing rise of geopolitical risks in economic outlooks since February 2022. They also bring to the front the risks associated with digital transition and the speculative investments in AI:

- Armed conflicts & escalation armed conflicts replacing international cooperation and diplomacy;
- Geoeconomic fragmentation global geoeconomic tensions that would turn into mutually destructive trade wars.
- An abrupt financial asset repricing, combining a burst of an AI bubble akin to a 2007 era "subprime" style financial crisis;

Other scenarios would involve:

- Stickier inflation, which would prompt another cycle of monetary tightening – a recurrent scenario since the return of inflation in 2021;
- Sovereign debt distress, another well-known scenario since 2021. In the past, this scenario mainly concerned emerging and developing countries. It is now broadened to "advanced economies" (European economies in particular) where fiscal pressure, demographic ageing, anti-migrant policies and political instability could combine for further volatility in the sovereign bond markets;

- A sharp slowdown in a systemic economy. Previously known as the "China slowdown" scenario, it is now increasing turning into a "US slowdown" scenario;
- Climate risks. While physical risks (extreme weather events) feature prominently in outlook reports, transition risks are also on the rise, as the much needed investments for zero-carbon economies are being neglected as a result of shifting geopolitical priorities and societal polarisation;
- Disorderly migration scenarios are also appearing, be it related to forced migration and displacement, or to the tightening of migration rules;
- Cyber-attacks risks are evolving beyond individual data breaches to include the potential for catastrophic disruption of critical infrastructure and the financial markets;
- Political instability within countries, triggered by greater societal polarisation and disinformation is also becoming cross-cutting theme of downside risk scenarios;
- Finally, the broader transition risks associated with AI and other disruptive digital technologies have become increasingly highlighted in recent economic outlook reports.

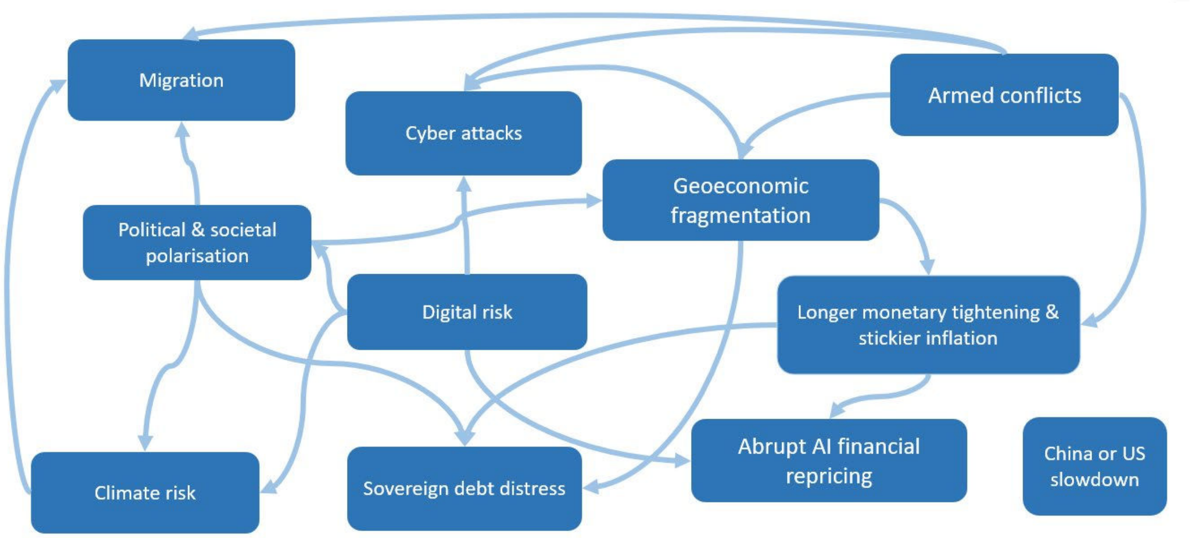
Table 2: Downside risk scenarios and key risk factors to the global economy in 2026

Scenarios & risk factors	IMF	WB	OECD	EC	US Fed	ECB	WEF	Moodys	S&P	Allianz	Amundi	Bank of China	BlackRock	DB
Geoeconomic fragmentation	√	√	√	√		√	√	√	√		√	√	√	√
Armed conflicts & escalation	√	√				√	√		√	√		√		√
Cyber attacks					√		√							
Political & societal polarisation	√			√			√							
Migration							√					√		
China and/or US slowdown					√				√	√	√			
Abrupt financial repricing	√	√	√	√				√	√	√	√		√	
Stickier inflation			√		√			√						√
Sovereign debt distress	√		√	√		√						√		√
Climate risks		√		√			√		√					
Digital risks	√							√	√				√	√

Source: IMF, World Bank, OECD, European Commission, WEF, Moody's, S&P, US Federal Reserve, European Central Bank, Allianz, Amundi, Black Rock, Bank of China, Deutsche Bank.

There are causality links and interactions between the various scenarios. For example societal polarisation may push toward the tightening of immigration policies in advanced economies as well as delay net-zero carbon policies and hence increase climate transition risks. The following figures offers an indicative presentation of the many interactions and links between the ley risk factors highlighted in the surveyed outlook reports.

Figure: Main risk factors to the global economy outlook 2026



Source: IMF, World Bank, OECD, European Commission, WEF, Moody's, S&P, US Federal Reserve, European Central Bank, Allianz, Amundi, Black Rock, Bank of China, Deutsche Bank.

Geopolitical risks

"Domestic political tensions or geopolitical tensions could erupt, introducing new layers of uncertainty and disrupting the global economy through their impact on financial markets, supply chains, and commodity prices" (IMF 2026). Over recent years, and particularly since the Russian invasion of Ukraine in February 2022, the global economic outlook has been significantly clouded by escalating geopolitical risks. First and foremost there is the risk for rising geoeconomic confrontation and, with that, rising trade and investment protectionism. There is also the frequency and intensity of state-based armed conflicts and escalation (Ukraine, Middle East, Taiwan) as well as more specific risk factors: cyber-attacks, societal polarisation and migration.

Intensification of geoeconomic confrontation

Geoeconomic confrontation, including the risks for severe and escalating threats of trade and investment protectionism, has become a central feature of downside risk scenarios. All of the surveyed reports single out geoeconomic confrontation theme as a central risk factor: *"Trade tensions could flare up, prolonging uncertainty and weighing more heavily on activity"* (IMF 2026), *"Further changes in trade policies could significantly impact growth"* (OECD 2025), *"Resurgent trade tensions and trade policy uncertainty"* (World Bank 2026), *"revived trade tensions"* (ECB 2025), *"risk of trade and investment fragmentation remains severe"* (Bank of China 2026), *"Additional disruptions to global trade relations"* (Deutsche Bank 2026), *"economic impact of existing tariffs on EU and global growth could prove larger than currently expected"* (EC 2025), *"Abrupt trade policy announcements, geopolitical frictions and political instability can exacerbate uncertainty"* (Moody's 2025), *"Persistent tariff uncertainties could hurt earnings and economic growth"* (S&P 2025), *"Geoeconomic confrontation"* (WEF 2026), *"Fragmentation"* (BlackRock 2025), *"Geopolitical risks amid controlled disorder"* (Amundi 2025).

The US-China rivalry, and the prospects for a "decoupling" of the two largest economies are the defining feature of this scenario. Both nations indeed use economic levers – tariffs, investment controls, subsidies – to build self-sufficiency and constrain the other. For Black Rock "*Both are undertaking major efforts to curb strategic dependencies that can be weaponized"* (Black Rock 2025). The immediate risk is a broadening and escalation of trade restrictions, particularly in strategic sectors like AI and defence. It could expand to new sectors, such as pharmaceuticals and semiconductors, with supply-chain linkages propagating these shocks globally. The tensions between China and Taiwan are particularly relevant in the case of semiconductors, *"the economic ramifications of which are particularly significant given the pivotal role of Taiwan in the global semiconductor industry"* (Deutsche Bank 2026). The toolkit for confrontation is also expanding to export controls on critical inputs. Though currently suspended, China's restrictions on rare earth minerals and battery technologies could cripple key industries like electric vehicles, defence, and renewables worldwide, creating inflationary supply bottlenecks. *"China's seeming willingness to leverage its monopoly over resources critical to industrial capacity and security will lead countries to more energetically localize and diversify their supply chains"* (Moody's 2025).

Beyond the US-China confrontation, the move towards a more transactional and multipolar world order weakens multilateral institutions, creating a vacuum where unilateral actions thrive. For the WEF, *"heightened geoeconomic confrontation is both a cause and a consequence of the growing vacuum being left by the weakening of multilateral institutions. (…) With fewer multilateral constraints on unilateral action, rising national barriers and clashing interests could have negative economic and social repercussions across the globe"* (WEF 2026)*. For Moody's "geopolitical rifts and mutual suspicions raise doubts about international cooperation on important global issues ranging from taxation to the climate"* (Moody's 2025). The resulting *"controlled disorder"* (Amundi 2025) would see middle powers seeking to diversify alliances and partnerships to avoid being caught in the crossfire. *"Several major economies in Europe, Asia and Latin America may look to build closer ties with trusted partners, cognizant of risks in getting caught up in the geopolitical tug-of-war between the US and China"* (Moody's 2025).

The combined effects – higher costs, inflationary pressures, supply chain disruptions, and lower productivity – pose a significant risk to global economic growth and stability. In the short term, protectionist measures act as an indirect tax on global supply chains, raising costs for businesses and consumers. Firms face compressed profit margins as consumer resistance makes passing on higher costs difficult. According to several outlook reports, the resulting restructuring of supply chains for "security" over efficiency entails significant additional costs that feed into prices and lower long-term productivity by hindering the cross-border diffusion of technology: *"The associated restructuring of production and supply chains* [would] *result in a loss of economic efficiency, and additional costs that would feed through into prices and dampen growth"* (OECD 2025), *"Persistent tariff uncertainties could hurt earnings and economic growth"* (Standard & Poor's 2025), *"A renewed increase in trade barriers, together with the associated uncertainty, could also depress business confidence and constrain investment, particularly in industries deeply integrated into global supply chains"* (World Bank 2026).

Armed conflicts & escalation

Renewed escalation in existing conflicts, or the emergence of new state-based or intra-state conflicts, is the second most cited geopolitical scenario: *"significant escalation in geopolitical* *tensions”* (IMF 2026)*, “A re-intensification of ongoing major conflicts or prolonged uncertainty around their evolution”* (World Bank 2026), *“regional conflicts and crises can layer volatility atop a structurally elevated risk environment”* (Black Rock 2025), *“Geopolitical tensions may intensify”* (Allianz 2025), *“risk of global geopolitical conflicts is still high”* (Bank of China 2026), *“geopolitical tensions could threaten supply chains and commodity markets”* (S&P 2025), *“further escalation of geopolitical conflicts”* (ECB 2025).

State-based armed conflicts – including “hot wars”, proxy wars, civil wars, guerilla warfare, terrorism, genocide, assassinations – topped the WEF list of *“immediate-term risks”* last year and is in second place in this year edition (WEF 2026). In addition to on-going conflicts in Ukraine, the Middle East (Gaza, Lebanon, Iran, Yemen, Sudan) and tensions across the Taiwan Strait, recent developments in Venezuela creates additional uncertainty.

Other than the human harm, the economic impact of *“medium- to high-intensity conflicts have been associated with an average reduction in GDP per capita of about 13% after five years in the countries directly involved”* (World Bank 2026). Beyond the direct impact on the affected countries and territories, conflicts create global regional spillovers: disruption to commodity and energy markets, disruption to critical supply chains and key shipping routes (Standard & Poor’s 2025, World Bank 2026). For energy-dependent regions like Europe, the economic dimensions of geopolitical risks are particularly acute: *“Energy commodity prices could rise again if geopolitical tensions intensify”* (EC 2025).

Geopolitical risks may also accelerate a global arm race process. For advanced economies, the anticipated substantial increases in defence spendings and, possible, in refugee and humanitarian costs, may acts as a headwind to fiscal consolidation efforts and/or generate unfavourable budget arbitrage directly impact social and climate related spendings. *“The pressure for increased defence spending represents a headwind for fiscal consolidation for many”* (Standard & Poor’s 2025), *“Fiscal pressures in surrounding countries may also emerge owing to increased spending on defence, peace operations, and support for displaced persons”* (World Bank 2026).

Cyber attacks

The risk for cyber-attacks is evolving beyond data breaches to include the potential for catastrophic disruption of critical infrastructure, such as power grids, water supplies, health and communication networks, as well as core financial systems and functions (WEF 2026). Successful attacks on these systems could cause widespread economic disruption, inter alia: prolonged blackouts, contaminate resources, halt clearing and payment settlement processes, degrading market liquidity. *“Cyberattacks and other cyber events could disrupt market functioning and the provision of financial services”* (US Federal Reserve 2025) The financial sector is particularly vulnerable due to complex interdependencies. An attack on a major institution or a critical third-party service provider could impair transaction processing, trigger funding runs, and force destabilizing fire sales of assets.

A looming threat now appearing recurrently in cyber-attacks scenario is a technology breakthrough, such as one generated by quantum computing, which would break the cryptographic protocols that currently underpin all digital security. Such *“sudden, mass decryption”* (WEF 2026) would collapse digital trust entirely, compromising historical data privacy and potentially disabling authentication systems globally. The societal and economic fallout could be profound, leading to a loss of faith in digital banking and healthcare systems.

Domestic instability and societal polarisation

Political instability within countries, triggered by greater societal polarisation of the population and fuelled by disinformation through social networks, is also becoming a key risks in recent economic outlook reports. For the IMF, *"spikes in domestic political uncertainty, including but not limited to those around elections, could further elevate and broaden uncertainty, weighing on sentiment and holding back consumption and investment. Political interference in independent economic institutions could raise the risk of policy mistakes and erode public confidence and trust."* (IMF 2026). For the WEF, misinformation, disinformation and societal polarization are *"eroding the foundations of social stability, democratic governance, and economic confidence on a global scale"*, while *"declining adherence to the rule of law may create the conditions for deepening social and political instability*" (WEF 2026). For Moody's "*domestic voter dissatisfaction with mainstream political parties and the uneven socioeconomic benefits of globalization are driving a pronounced inward and populist shift in policymaking across major economies. Political divisions have widened, with immigration emerging as a flashpoint in many advanced economies. Rising social and economic fragmentation is fuelling popular movements that could destabilize national politics"* (Moody's 2025).

Political divisions and societal polarisation are also fuelled by the proliferation of AI-generated synthetic media, particularly highly convincing deepfakes and algorithm-driven platforms which have made distinguishing truth from falsehood increasingly difficult.

The consequence is a widespread erosion of trust in traditional institutions-governments, academia and legacy media and the social fractures have direct economic and institutional repercussions:

- Persistent political uncertainty, driven by polarization and distrust, can diminish business and consumer confidence, thereby weighing on investment and consumption.
- Simultaneously, the erosion of civic freedoms and rising inequality act as both drivers and consequences of this cycle. Perceived or real disparities in wealth and opportunity deepen social grievances, which are then amplified by divisive online narratives.
- This creates a feedback loop where polarization makes addressing long-term challenges like climate action or economic reform increasingly difficult, further eroding institutional legitimacy.

Migration

Migration issues, be it related to forced migration and displacement, or to the tightening of migration rules in recipient countries, are increasingly become a risk to global growth. In October 2025, the IMF had warned against a *"further deterioration in labour supply from more stringent immigration policies in advanced economies" which "would act as a negative supply-side shock with direct bearing on the economy's potential output capacity"* (IMF 2025). The economic challenge is dual for advanced economies: (i) as a source of humanitarian and social pressure arising from inflows of migrant and/or (ii) as a growing constraint on economic growth and inflation when considering anti-migrant measures.

Involuntary migration is primarily driven by “push factors” such as armed conflict, political persecution, economic desperation and, increasingly, climate-related disasters and extreme weather. Forced displacement, both across and within borders, represents a significant humanitarian and social stability risk.

Concurrently, a critical shift in immigration policy in major advanced economies – notably the United States and Europe – is creating a distinct economic risk. There, the tightening of immigration rules directly constricts labour supply in key sectors and hence limits potential output, fuels wage-price pressure and ultimately complicating central banks’ efforts to achieve price stability. On the longer run, with declining demographic trends it is also adding pressure on the sustainability of pension and health systems. For the Bank of China “*the tightening of immigration policies in advanced economies may limit economic growth from the supply side”* [and] *“will further lead to labour market tensions, which may push up consumer prices for services and push up inflation”* (Bank of China 2026).

A major economy or regional slowdown

A synchronized or major single-economy slowdown, particularly in the United States or China, poses a critical threat to global financial stability and growth. A “China slowdown” has been a recurrent downside risk scenario in economic outlook reports since 2021. While concerns has alleviated in the past year, the persistent property sector slump, a worsening of the employment outlook and weak confidence continue to dampen domestic demand in China.

Attention is however shifting toward the situation in the United States, where resilient consumer spending has, so far, been a key growth pillar, but is now stretched by slowing job growth and rising loan delinquencies. A pronounced slowdown in either economy would trigger severe global spillovers through trade, investment, and sentiment channels, potentially exacerbated by ongoing trade disputes.

Rising institutional and political instability created by the Trump Administration is implicitly mentioned in mist economic outlook reports. Exacerbated political divisions, volatile trade policies, and election outcomes heighten the risk of a negative US policy shift. Even the US Federal Reserve leadership is becoming a source of uncertainty. For the EC there are *“continued challenges to the independence of the US Federal Reserve”* (EC 2025). Allianz points to *“institutional risks”* (Allianz 2025), Amundi to the risk of *“financial repression”* (Amundi 2025).

Financial risks

While the inflationary cycle post-covid seems to end, the risk remains for “stickier inflation” and, with that, another round of tightening of monetary policy which would be detrimental to growth prospects. Logically, the risk for sovereign debt distress remains as well; a risk that is clear for many emerging and developing countries, but one that also is becoming relevant for advanced economies.

However, the main financial downside risk scenario in recent economic outlook reports is an "abrupt market repricing", in other words, the burst of another financial bubble, fuelled by the boom in AI technology assets.

An abrupt AI-related financial market repricing

For the past two years, global economic reports have raised concerns about the current state of global financial markets, pointing to a precarious environment where a single trigger could interact with hidden leverage in private markets, opaque linkages in the non-bank sector, and evolving digital finance channels to produce a major financial correction, possibly on the magnitude of the 2008 crisis. Such a sudden, downward repricing of assets is now becoming a central scenario for most: *"Corporate financial strains may lead to risk repricing in financial markets"* (OECD 2025)*, "A market correction, possibly tech-related, could grip credit markets and expose new vulnerabilities"* (Standard & Poor's 2025), *"the potential for a retrenchment in risk appetite to trigger large and sharp declines in asset prices has increased"* (World Bank 2026)*, "Valuation and concentration risks, and extreme euphoria"* (Amundi 2025)*, "re-pricing in equity markets namely a reassessment of prospects in the US technological sector" (EC 2025).*

The primary concerns centre on the potential for a sharp market correction driven by (i) over-optimism in AI, (ii) vulnerabilities in the expanding non-bank financial sector, and (iii) the destabilizing potential of crypto assets.

Current stock market exuberance is heavily concentrated in a few large technology firms, with prices buoyed by expectations of transformative AI productivity gains. Should these gains disappoint or materialize slower than anticipated, a sharp, prolonged repricing is likely. The IMF points to "*a more prolonged AI correction in stock market valuations"* and to a *"re-evaluation of productivity growth expectations about AI could lead to a decline in investment and trigger an abrupt financial market correction, spreading from AI-linked companies to other segments and eroding household wealth"* (IMF 2026). For the OECD, *"one trigger might be if investors' enthusiasm for AI proves overstated, with price corrections spreading from technology stocks to broader benchmark indices"* (OECD 2025). For the World Bank *"Weaker-than-expected earnings or disappointing productivity gains from AI-related sectors could prompt a sharp reassessment of AI driven valuations"* (World Bank 2026). For Moody's *"If returns were to disappoint, it would cause an equity market sell-off similar to the dot-com bubble, but potentially larger in scale with wider global consequences given international exposure to US assets" (Moody's 2025).* Allianz also sees *"the possibility of an AI-equity correction"* (Allianz 2025), while the Deutsche Bank points to *"elevated volatility in investments within the increasingly important field of artificial intelligence"* (DB 2026).

According to the IMF, an AI bubble burst could reduce global growth by 0.4% in 2026 (IMF 2026). A sudden write-down of AI-related assets would hit corporate balance sheets and trigger a pullback in the massive recent investment in data centres which could weaken the commercial real estate sector. In addition, despite their heavy reliance on equity financing, the OECD is concerned that *"listed AI technology firms also have accumulated substantial debt, including less transparent private debt and commercial mortgage-backed securities"* (OECD 2025).

The rapid growth and increasing interconnectedness of non-bank financial institutions, including a very diverse financial set of activities, exchange traded funds, private equity, classic hedge funds, real estate investment trusts, has been a recurrent topic of downside risk scenarios over the past 5-6 years. These entities often operate with lighter regulation, higher leverage, and less transparency than banks bounded by Basel standards. Banks are exposed to them through lending and credit lines, creating channels for contagion. Stresses in sectors like commercial real estate or among leveraged private credit borrowers could quickly transmit losses back to the core banking system (World Bank 2026, OECD 2025).

Crypto-assets constitute another type of accelerant. The financial landscape is being reshaped by the explosive growth of crypto-assets, particularly stablecoins, which is competing with bank deposits, affecting credit provision and, in emerging markets, challenge monetary policy. For the OECD "*The rapid expansion of crypto-asset markets, their high price volatility and interconnectedness with other parts of the financial system raise financial stability risks"* (OECD 2025).

Stickier inflation

The battle against inflation, engaged by central banks since 2022, remains fragile, with significant risks that could undermine stability and growth. While disinflation has progressed, underlying price pressures have not fully receded to target in many countries, and recent progress has stalled. The risk of stickier, resurgent inflation remains. Key indicators and new threats suggest inflation could surprise to the upside, forcing central banks to maintain higher interest rates for longer than currently expected: *"Inflationary pressures could resurface"* (OECD 2025), *"persistent inflation"* (US Fed 2025), *"Concerns about a resurgence of elevated inflation rates also remain pressing"* (Deutsche Bank 2026).

Several potent drivers could reignite inflationary pressures: *"They could be fuelled by overly loose monetary policies in certain central banks, as well as higher US tariffs, protectionism, and altered supply chains"* (Deutsche Bank 2026). For the OECD, they *"could arise through a broadening of geopolitical tensions and trade restrictions, or a further increase in the prevalence and intensity of natural disasters in some countries"* (OECD 2025).

A potential loss of central bank credibility, namely the US Federal Reserve, also threatens to "de-anchor" inflation expectations, making second-round effects from any shock more likely and persistent. Loose fiscal policy, characterized by large-scale government spending, further complicates the inflation fight. For the OECD "*Inflationary pressures could also be exacerbated if any loss of central bank credibility were to threaten the anchoring of inflation expectations"* (OECD 2025). Moody's points to the risk of *"an abrupt and excessive dovish shift in the Fed's reaction function"* and to *"questions around fiscal sustainability, quality of institutions and policy credibility* [which] *could potentially set off bond market volatility"* (Moody's 2025).

Higher-than-anticipated long-term interest rates, driven by rising term premiums and persistent inflation, would strain households, businesses, and governments. Consumer borrowing costs would rise, and high corporate leverage would be tested by increased debt-servicing expenses. This would likely lead to reduced spending, slower economic growth, and potential asset price declines. Financial intermediaries would face fair value losses on fixed-rate securities, potentially reducing credit supply and amplifying an economic downturn.

Sovereign debt distress

Higher-than-anticipated interest rates would also increase risks of a sovereign debt crisis which remain acute for emerging market and developing economies. *"Sovereign borrowing risks remain" (OECD 2025), "sovereign debt is also likely to remain hotly debated" (Deutsche Bank 2026).* Sovereign debt in emerging and developing economies has quadrupled in dollar terms since 2010, with a significant share maturing in the coming years. While many have improved their resilience by borrowing more in local currency, vulnerabilities remain. For the World Bank *"a sharp tightening in financial conditions would weigh on global growth and could trigger capital flight from [emerging and developing economies], particularly in those with weaker credit ratings"* (World Bank 2026). For the OECD *"a sharp repricing resulting from overstretched asset markets in the US or other major markets would lead to a substantial rise in global risk aversion which often tends to affect emerging-market economies disproportionately more than developed economies"* (OECD 2025).

The sharp decline in official development assistance and the impact of higher U.S. tariffs would aggravate the impact on the most vulnerable developing countries: *"Foreign aid cuts add to the fiscal challenges in low-income developing countries"* (IMF 2026); *"For low-income EMEs, financing risks are compounded by a narrower investor base and falling development aid. Official development assistance declined […] and is likely to fall further, raising the need for additional sources of revenue in recipient countries if sharp cutbacks in activity and incomes are to be averted"* (OECD 2025).

Unlike previous reports, advanced economies are now also concerned by the sovereign debt risk. Worries over fiscal sustainability in several major, systemically important economies could trigger a sharp increase in their own borrowing costs. For the IMF *"fiscal vulnerabilities might become more pronounced"* (IMF 2026). Stress may emerge from sovereign bond markets. *"Long-term yields in major advanced economies remain high, debt levels have increased, and fiscal deficits are set to remain large"* (World Bank 2026). These risks are heightened by the changing structure of sovereign debt markets. For the IMF *"Increased reliance on price-sensitive investors such as money market funds and leveraged hedge funds heightens dislocation risks and may necessitate repeated provision of liquidity backstops by central banks, possibly generating moral hazard and financial dominance concerns"* (IMF 2026). This is turn would tighten broader global financial conditions and amplify market volatility worldwide. *"Larger fiscal deficits and high public debt could put pressure on long-term interest rates and, in turn, on broader financial conditions" (…) "The sovereign-bank nexus could exacerbate the feedback loop between en higher yields on public debt and tighter financial conditions for the private sector in a broader set of countries."* (IMF 2026)

Political instability is also of concern. For the Bank of China, *"sovereign debt risks of some economies are intertwined with political fluctuations"* (Bank of China 2026), where policy volatility can quickly undermine investor confidence and trigger a debt crisis. High sovereign debt levels in advanced economies make government bond markets susceptible to *"Truss-style"* instability if fiscal credibility wanes (Allianz 2025). The ECB also points to *"domestic challenges, in particular sovereign risks",* including an implicit reference to France (high level of debt, of budget deficit and political instability). A concern shared by the European Commission for which *"persistent political uncertainty in France could weigh on consumption and investment through diminished confidence"* (EC 2026).

Transition risks

Climate risks

Climate-related risks are usually divided in two categories: physical risks (frequency and severity of extreme weather events such as heatwaves, floods, and droughts) and transition risks (cost of bringing the economy in line with the Paris agreement). The combined effect of rising physical damages and a disorderly, fragmented transition threatens to lower long-term productivity, increase inflationary pressures, and destabilize the financial system through exposed assets and insurance losses. Standard & Poor's points to a situation where *"climate risks intensify [and] energy transition focus shifts"* (S&P 2025).

In addition to considerable societal costs through loss of lives and livelihoods extreme weather events inflict direct macroeconomic damage by destroying infrastructure, disrupting agricultural output and supply chains, and triggering commodity price spikes. For the World Bank they can also *"pose challenges for monetary policy by impacting inflation and potentially monetary policy transmission, while possibly creating risks on balance sheets of financial institutions"* (World Bank 2026). For the European Commission *"The rising frequency of extreme weather events continues to pose tangible downside risks to economic activity, while also increasing food and energy prices and adding to upside risks for inflation" (EC 2025).*

Emerging market and developing economies are disproportionately vulnerable. Climate disasters strain public health systems and alter disease patterns, raising the risk of pandemics – a risk exacerbated by declining official development assistance for health. For the World Bank *"low- and middle-income countries are likely to be more susceptible to these impacts as a result of their higher levels of poverty and income inequality, and weaker health care systems" (…) "The steep decline in health-related ODA heightens risks to ODA recipients' health systems, access to health care, global health security, and pandemic preparedness"* (World Bank 2026).

Transition risks toward net-zero emissions include legal challenges and rapid technological shifts. The required colossal investments, particularly in clean energy, introduce financial strains. A situation made worse by the soaring energy demand from AI and data centres, which could consume up to 20% of global electricity by the 2030s. For S&P's *"colossal investments in resource-intensive data centres introduce new pressing challenges"* (Standard & Poor's 2025).

Geopolitical fragmentation is also creating contradictory policy pressures. For the WEF *"the downward reprioritization of environmental risks is unfolding in a geopolitical landscape shaped by growing multipolarity. (…) Competition for resources is intensifying, and national security, including energy security, is deemed by many governments to be the newly leading driver of policymaking"* (WEF 2026). For S&P *"geopolitical fragmentation, with increased focus on energy security and domestic industrial policies, raises the risk of abrupt--and potentially contradictory--changes in climate policies".* (Standard & Poor's 2025). The inability to engage a "just transition" to climate change, ensuring the transition does not come at a cost for the middle class and lower income households is pushing toward a short term dilemma or arbitrage between climate and growth, between transition and income, between "end of the world" and "end of the month". *"The growing divergence between rising demand for energy on one hand, and climate change and associated social realities on the other, could come to a head in the* *coming years. Difficult, values-based choices will continue to emerge in the race between economic, political, climate and societal considerations"* (WEF 2026).

Digital transition risks associated with AI diffusion

The transition associated with the global integration of AI and digital technologies at large, offers significant opportunities, yet it is laden with a number of potential systemic risks including energy constraints, financial volatility, cybersecurity threats, and disruptive labour market effects. Moody's points to *"two-sided risks from rapid developments in AI"* (Moody's 2025).

- The energy constraints: a foremost challenge is the severe physical constraint of energy supply. The AI buildout, particularly in the U.S., faces a critical bottleneck as data centres are projected to consume 15-25% of the nation's current US electricity demand by 2030 (Black Rock 2025). This soaring need collides with slow grid development and permitting processes, risking a scaling back of ambitious investment plans. In contrast, China's rapid, state-directed expansion of power generation (including nuclear, coal, and renewables) may give it a strategic advantage in deploying energy-intensive AI infrastructure, highlighting a global divergence in capacity.
- The prospect of a financial bubble: alongside these physical limits are acute financial and operational risks. The technological revolution is characterized by elevated market volatility, as rapid innovation leads to sharp swings in the valuations of AI-focused firms. While current investments are seen by some as a structural boom underpinned by strong corporate fundamentals rather than a classic bubble, there is a clear danger that substantial capital expenditures may fail to deliver expected returns.
- Cyber-attacks: A Furthermore, increased digitization and AI adoption expand the attack surface for cyberattacks, which pose a systemic threat to financial stability and critical infrastructure, especially amid geopolitical fragmentation.
- Job losses: The socioeconomic impact will be profoundly uneven. The benefits are likely to concentrate in market-leading firms and nations with resilient energy grids and capital, potentially exacerbating inequalities. Concurrently, the risk of widespread labour disruption is high, as AI could render entire sectors obsolete, leading to higher long-term unemployment and significant fiscal costs if not actively managed through policy. "AI could render entire sectors and jobs obsolete, which could lead to higher long-term unemployment and associated economic and fiscal cost, if not actively managed" (Moody's 2025).

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