

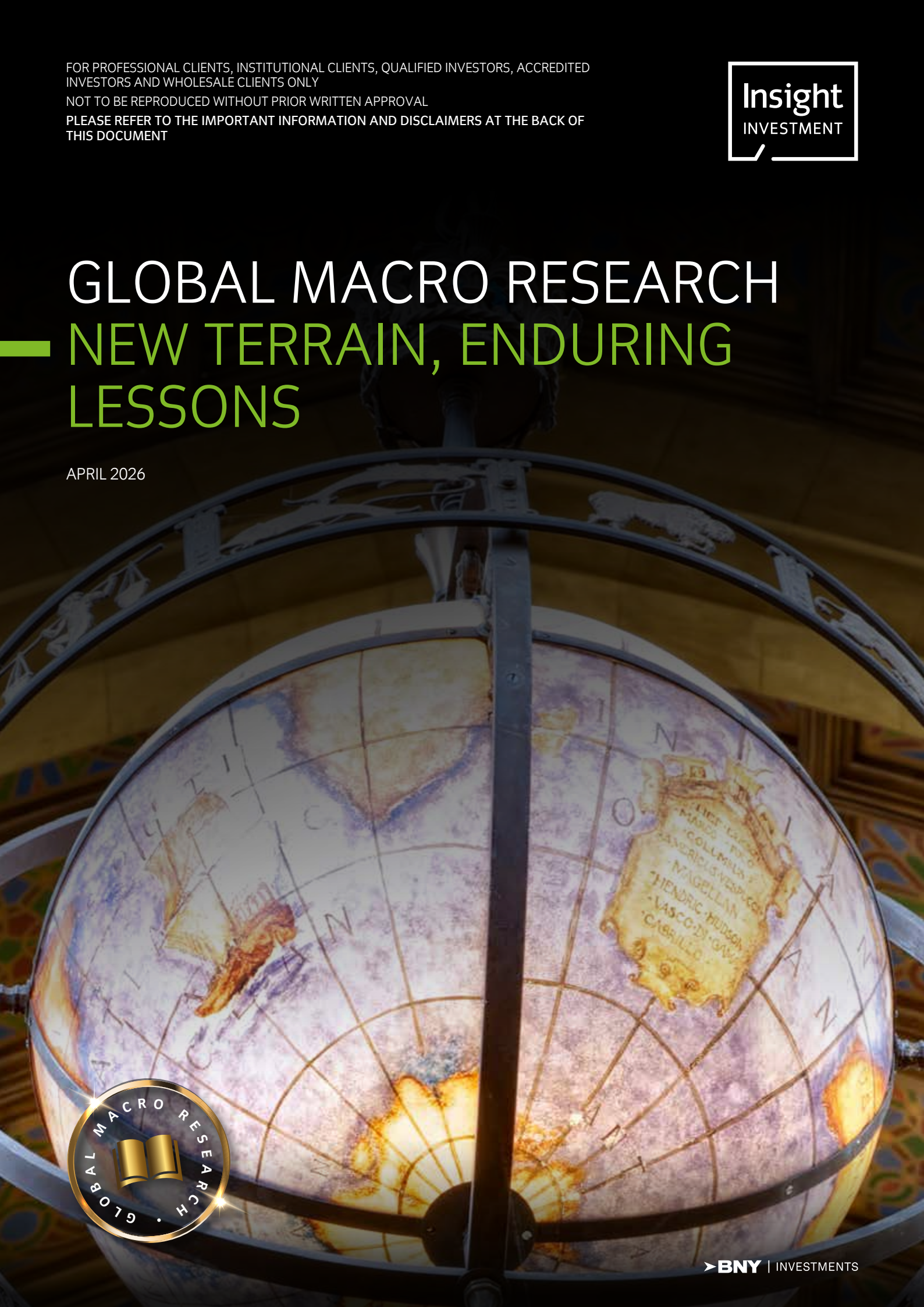
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GLOBAL MACRO RESEARCH

NEW TERRAIN, ENDURING LESSONS

APRIL 2026





Raman was appointed Chief Executive Officer of Insight in April 2025. In January 2026, his role was expanded to Global Head of Active Management at BNY Investments where he is accountable for oversight of BNY Investments' active fixed income, equity and multi-asset investment platforms, including Insight Investment. In his role as CEO of Insight Investment, he leads the Executive Management Committee and is responsible for overseeing the firm's strategic direction and overall operations. With over 25 years of experience in the investment industry, Raman brings deep investment expertise and a strong track record of leadership. Prior to joining Insight, he served as Executive Vice-President and Global Chief Investment Officer at Great-West Lifeco. Earlier in his career, he was Managing Director of Global Fixed Income at Mellon Investments and spent more than a decade at Putnam Investments as a fixed income portfolio manager. Raman holds a Master of Science in Computational Finance from Carnegie Mellon University and a Bachelor of Mathematics, Actuarial Science from the University of Waterloo.

EXECUTIVE SUMMARY

- **We are entering a new world.** The foundations of Pax Americana – globalisation, favourable demographics, and manageable debt – have steadily eroded. Deglobalisation has accelerated sharply, while adverse demographics and high debt burdens continue to weigh on growth.
- **Financial markets have been resilient.** Despite an unusually fluid geopolitical and policy backdrop, risk assets have performed strongly, and long term government bond yields have been relatively stable. However, equity market performance has been highly concentrated, while central bank easing has failed to bring long rates down.
- **Central bank behaviour is reshaping asset pricing.** Central banks have increasingly shifted reserves from US Treasuries toward gold. This helps explain gold's strong performance and highlights that nominal asset returns may overstate real wealth creation.
- **Rising inequality is driving political and social change.** The backlash is manifesting in growing populism, economic nationalism, and a broader questioning of the existing economic model – particularly among younger generations.
- **We remain in an 'interregnum'.** Persistent structural headwinds have pushed monetary and fiscal policy to their limits. Negative real rates, repeated fiscal expansion, and monetised deficits have stabilised economies but at the cost of rising fragilities.
- **Monetised fiscal expansion is a latent threat.** We are cautious on the risk of future inflationary episodes as governments seek to manage unsustainable debt burdens. Rapid money supply growth exacerbates these fears.
- **Artificial intelligence could save the day.** While near term fears focus on job displacement and disruption, AI also presents a credible path to higher productivity and stronger trend growth – potentially allowing economies to break free from fiscal constraints.
- **The scale of AI related investment is unprecedented.** Hyperscaler capital expenditure is expected to exceed \$600bn in 2026, over 2% of US GDP, supporting near term growth and boosting demand for skilled trades.
- **Multiple outcomes are plausible.** Of the four scenarios we track, we have mostly been in the “get lucky” scenario, with an AI driven productivity boom representing a genuine upside scenario. However, inflation or a severe recession remain credible downside paths.

WE ARE, WE BELIEVE, IN A NEW WORLD

PAX AMERICANA IS IN DECLINE AND THE WORLD ORDER IS CHANGING RAPIDLY

One of the key themes over recent years has been the erosion of the pillars that have historically underpinned the Pax Americana – the period of relative global stability, economic integration, and geopolitical order that has prevailed broadly since the end of the Second World War. This has been driven by three forces: the retreat of globalisation, adverse demographic trends, and persistently high levels of debt.

Some of these pressures, especially demographics, are slow-moving and highly predictable. Their impact builds gradually over time. By contrast, de-globalisation has been anything but gradual. We have seen that it has accelerated sharply, both in pace and in intensity.

Every time we think the picture is settled, events move on. The sheer frequency and scale of these developments underline how much turmoil and change we are witnessing globally – there is no denying that we are operating in a fundamentally new world.

AMIDST THE NOISE, FINANCIAL MARKETS HAVE PERFORMED WELL

One surprising development over the past 12 months has been the relative lack of volatility in long-term interest rates. Despite heightened geopolitical uncertainty and a rapidly changing macro backdrop, long-dated yields have remained broadly stable.

This stability is particularly notable given that many central banks have been easing policy over this period, cutting rates at the front end of the curve. In a more typical cycle, such moves would be reflected more clearly further out along the curve, dragging the whole curve downwards. Instead, the adjustment has driven a steepening of yield curves. Short-dated yields have fallen in response to policy easing, while long-term rates have remained relatively anchored. This is an unusual pattern when you look back at history.

Figure 1: Long term yields have been stable¹



Figure 2: Yield curves have steepened¹



Despite significant policy uncertainty and ongoing geopolitical tensions, risk markets have performed remarkably well. Global equity markets briefly dipped at the onset of the newly imposed US tariffs before recovering close to all time highs. A similar pattern is evident across other risk assets, including credit. Overall, the last few years has seen a powerful rally in global risk markets.

However, when you look beneath the headline performance, there are reasons to be more cautious about the quality and sustainability of this rally. A disproportionate share of gains has been driven by the United States. Over time, the US share of global equity market capitalisation, as measured by the MSCI Global Equity Index, has risen dramatically, increasing from around 30% to more than 60%¹. This degree of concentration is historically unusual and, in our view, neither healthy nor sustainable.

¹ Insight and Bloomberg. Data as at 28 February 2026.





Digging further, the concentration becomes even more pronounced. Much of the US outperformance has been driven by a narrow segment of the market – the so called ‘Magnificent Seven’² and a small number of related names.

More recently, we’ve seen international stocks outperform their US peers as investors start to shift away from the US, and this has pushed the US dollar lower.

Closely related to these developments has been a very strong rally in gold, much of which has unfolded over the past 12 months. While part of this reflects changing preferences among asset allocators, a significant, and arguably more important, driver has been activity by central banks.

CENTRAL BANK BEHAVIOUR HAS DRIVEN GOLD PRICES HIGHER

Historically, if you go back several decades, the majority of central bank reserve holdings were held in gold. Over time, as the US dollar rose to prominence and became entrenched as the world’s reserve currency, those reserves increasingly shifted away from gold and into US assets, predominantly US Treasuries.

That long standing trend has shifted into reverse. Initially, reserve allocations stabilised, but over the past few years the shift has accelerated quite meaningfully. Importantly, this has not necessarily involved large scale selling of US Treasuries. Rather, as Treasuries have matured, central banks have chosen to reinvest the proceeds into gold instead, steadily increasing their gold holdings.

NOMINAL GAINS MAY NOT TELL THE WHOLE STORY

This dynamic provides an important lens through which to view financial market performance more broadly. Politicians often point to equity indices reaching all time highs as evidence of economic strength and prosperity. That may be true for those who own equities, but it misses a crucial point: in many developed markets, a large proportion of the population does not own financial assets in any meaningful way. As a result, they are not directly participating in the gains delivered by rising equity markets.

Viewed another way, the picture looks very different if equity performance is measured not in nominal terms, but relative to gold. On that basis, equity markets are not at all time highs. In fact, relative to gold, equities have seen a notable decline.

Figure 3: Central banks have diversified reserves³



Figure 4: Equities have declined in gold terms⁴



² Magnificent Seven: Apple, Alphabet, Amazon, Meta, Microsoft, Nvidia and Tesla. The mention of a specific security is not a recommendation to buy or sell such security.

³ Source: Macrobond. Data as at 17 February 2026. International reserve holdings – US dollar claims less gold.

⁴ Source: Insight and Bloomberg. Data as at 2 March 2026.

WEALTH IS BECOMING EVER MORE CONCENTRATED

For those who are not participating in the upside from financial markets and instead rely primarily on income to maintain their standard of living, recent trends are concerning.

As an example, equity markets have delivered returns of roughly 9% per year, or around 6% in real terms⁵, over an extended period, well in excess of incomes. For the majority of the population, this dynamic has translated into an increasing divide between those with exposure to financial assets and those without. Over time, this has contributed to a significant rise in wealth inequality.

This trend is most pronounced in the US, but similar patterns are evident in the UK and across Europe.

In the US, the concentration has reached extreme levels. The top 1% of the population now owns more than 30% of total wealth and accounts for over 50% of the market capitalisation of equities and investment funds. This underscores how much of the gains from strong market performance are accruing to a relatively small segment of society.

Share of US assets held by top 1%

Figure 5: Total wealth⁶

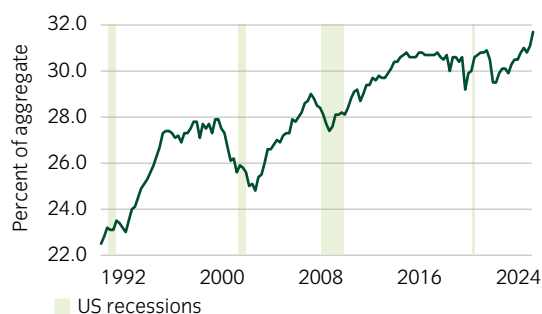
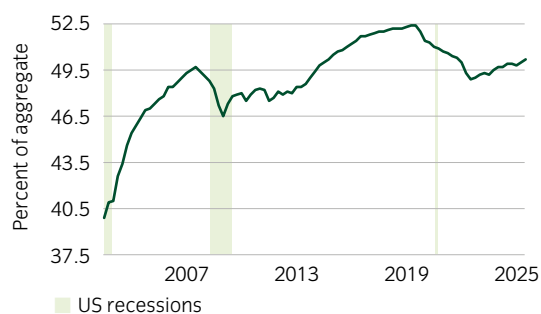


Figure 6: Corporate equities and mutual funds⁷



Unsurprisingly, this widening gap has generated growing frustration, which has intensified over the past 12 months, as the divergence between asset owners and those reliant on income has become even more pronounced. The consequences are political and social, but increasingly they are also economic.

A VISIBLE POLITICAL SHIFT IS OCCURRING

It's clear that we've seen a broad political shift toward populism and economic nationalism. What has become more striking is that this is no longer just a political phenomenon. There is increasing evidence of a deeper shift in social attitudes and, in some cases, economic ideology – particularly among younger generations.

One illustration of this is the recent election of a new mayor in New York City. In his inauguration speech, he said: "We will replace the fragility of rugged individualism with the warmth of collectivism."

That a figure openly embracing collectivist – even socialist – language was comfortably elected in New York, arguably the symbolic heart of global capitalism, is notable. It points to something broader than a simple change in political leadership.

What we are witnessing, then, is not just a swing toward different political preferences, but in some cases a more fundamental questioning of the underlying economic model itself.

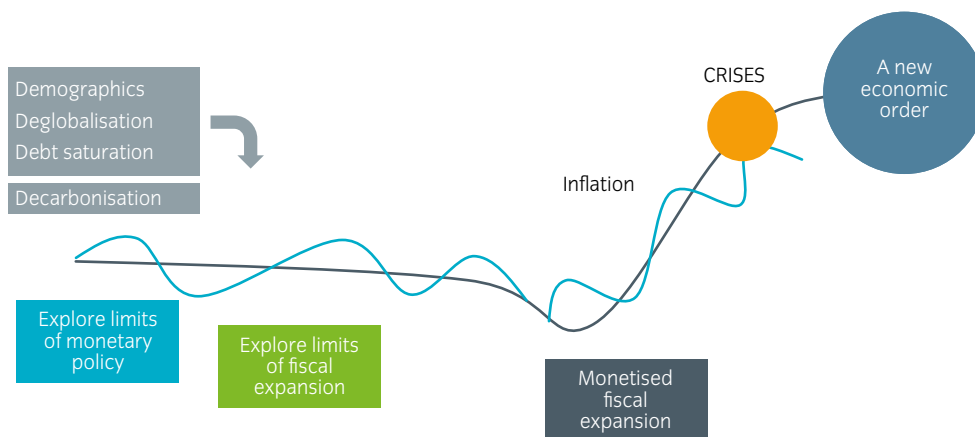
⁵ Source: Bloomberg. Data as at 28 February 2026.

^{6,7} Source: US Federal Reserve.

THE ROADMAP TO INTERREGNUM

This brings us back to what should be a familiar chart to our longer-term clients. A roadmap that we've been thinking about for years now – a roadmap to interregnum. This is a period between regimes, where the old framework has ended, but the new one has yet to fully take hold.

Figure 7: A roadmap to interregnum⁸



PERSISTENT STRUCTURAL HEADWINDS HAVE PUSHED POLICY RESPONSES TO THEIR LIMITS

A number of structural headwinds continue to weigh on global economies. Adverse demographics, de globalisation, high and rising debt burdens, and the pressures associated with decarbonisation. None of these forces is new, and all remain firmly in place.

For many years, policymakers responded to these challenges through conventional monetary and fiscal tools. More recently, this evolved into increasingly explicit forms of monetised fiscal expansion. These measures helped to stabilise the system and cushion economic shocks, but over time we have repeatedly run up against the limits, with policymakers forced to extreme measures to keep things going.

As those limits have been reached, the buffers that once absorbed stress have gradually been eroded. In our view, we are now at an inflection point – what might be described as crossing the Rubicon. Inflation has re emerged and proven more persistent, and we are living through a sequence of overlapping crises rather than isolated shocks.

Taken together, these dynamics suggest that we are moving toward a new economic order.



Over time we have repeatedly run up against the limits, with policymakers forced to extreme measures to keep things going.

⁸ Source: Insight, for illustrative purposes only.

THE PATH TO INTERREGNUM: EXPLORING THE LIMITS OF MONETARY POLICY

Monetary policy illustrates this clearly. Central banks did not just push policy rates to zero. In several cases, they went further, taking nominal interest rates into negative territory. In doing so, we arguably went beyond the effective limits of monetary policy altogether.

That experience underscores how constrained the traditional policy toolkit has become and how much the global economy is now operating in uncharted territory.

Figure 8: Monetary policy reached its limits post the global financial crisis⁹

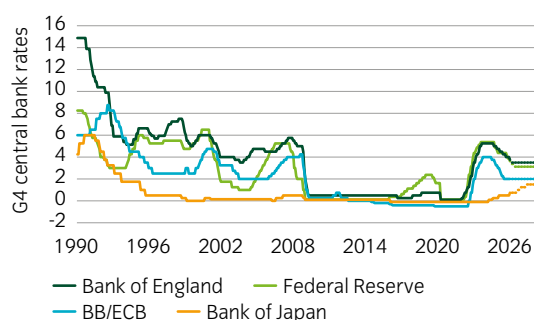


Figure 9: Real rates were pushed to extreme levels during the pandemic¹⁰



A DECADE OF NEGATIVE REAL RATES HAS CREATED IMBALANCES

Using the UK as an example, it is our view that economies ultimately need positive real interest rates to function effectively. Negative real rates can play a role, but typically only as a temporary, emergency response – as we saw after the global financial crisis.

The issue is that, in this cycle, negative real rates did not prove temporary. Instead, they persisted for almost a decade and a half, and in some cases at deeply negative levels. This has created meaningful imbalances across the economy.

One way to think about this is through market behaviour. More broadly across financial markets, there are many people who throughout their career have only ever experienced a world of zero or negative real interest rates. They have not operated in what many of us might consider a more normal interest rate environment.

That matters because prolonged exposure to such conditions encourages shortcuts, weaker discipline, and a tolerance for risk that may not be appropriate in a different regime. This is an issue we are acutely aware of at Insight.

As policy has now shifted and real rates have moved back into positive territory, those long standing imbalances are starting to become visible. The transition is exposing areas of fragility that were masked by years of ultra easy monetary conditions.

⁹ Source: Insight and Bloomberg. Uses Insight forecasts for future interest rates.

¹⁰ Source: Insight and Bloomberg. Data as at 28 February 2026.

THE PATH TO INTERREGNUM: EXPLORING THE LIMITS OF FISCAL POLICY

RIISING INTEREST COSTS ARE AN INCREASING CONSTRAINT ON GOVERNMENT FINANCES

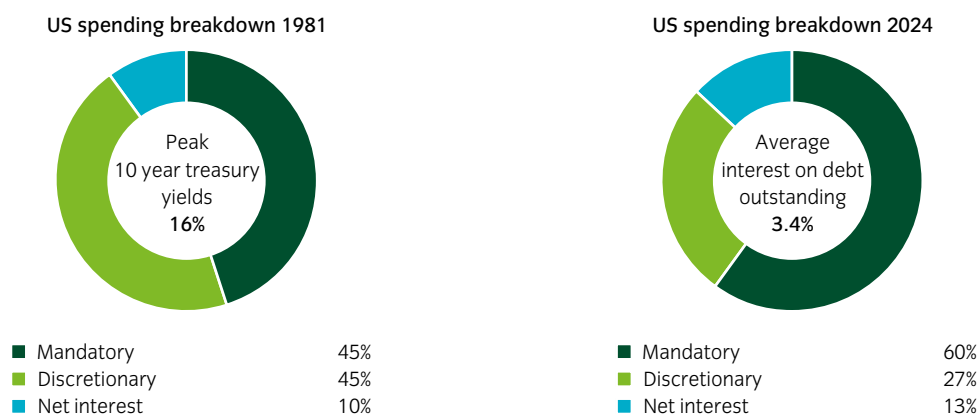
In a textbook fiscal policy regime, governments run surpluses during periods of economic strength and allow deficits during periods of stress. The objective is to rebuild fiscal capacity in good times so that it is available when it is most needed.

In practice, that balance has not been achieved. Instead, deficits have tended to ratchet higher after each major shock. Following the dot com downturn, deficits widened. They expanded further after the global financial crisis and were then dramatically increased during the pandemic.

Where fiscal positions have now stabilised is revealing. In the US, which is arguably the most important market for the broader global financial system, the deficit has settled at around 6% of GDP, even though we are in far from crisis conditions. A similar pattern is evident across much of the G7. **This suggests that deficits are no longer cyclical, but structural.**

What is particularly striking is not just the size of these deficits, but their composition. An increasing proportion of fiscal resources is being used simply to service past borrowing, rather than to fund public services or productive investment.

Figure 10: Interest payments are a meaningful and growing part of budgets¹¹



In the United States today, around 13% of the federal budget is spent on servicing debt. That is based on an average interest rate of roughly 3.4% on the outstanding stock of government debt. In 1981, with interest rates at a far higher 16%, debt serving was just 10% of the budget.

What is important to note is that this average reflects legacy borrowing at much lower rates. If you look at current medium to long term interest rates, they are closer to 4.5%, meaning the effective cost of debt will continue to rise as existing debt matures and is refinanced.

AN INCREASINGLY FRAGILE FISCAL POSITION

US debt servicing costs are expected to continue rising over time, driven primarily by persistent fiscal deficits. Importantly, this outlook already assumes positive GDP growth and relatively stable interest rates.

That is a generous set of assumptions. If either were to change – for example, if the US economy were to enter a recession, which we would argue is entirely plausible within the next five years – government revenues would fall. Alternatively, if interest rates were to rise, debt service costs would increase further. Either scenario would materially worsen the fiscal picture.

Taken together, this leaves us at what we would describe as a dangerous point.

¹¹ Source: Congressional Budget Office (CBO) 2026.

A HISTORICAL PERSPECTIVE ON DEBT AND DECLINE

This is where historical context becomes instructive. In a paper published last year through the Hoover Institution¹², Niall Ferguson examined periods in history when major empires began to decline.

One of the common warning signs he highlights is when interest payments on government debt exceed spending on national defence. In the US today, that threshold has already been crossed. The government now spends around a trillion dollars more on debt service than on defence.

Historically, this has often marked the beginning of decline for great powers. Examples include the Spanish Empire, Bourbon France, the Ottoman Empire, and even major European powers following the First World War. When an increasing share of national resources is devoted to servicing past borrowing, strategic and economic flexibility erodes.

At present, US debt service costs account for roughly 20% of total federal revenue. That is already high by historical standards. The real concern is where this trajectory leads. History suggests that when debt service rises toward 30–40% of revenues, the strain becomes destabilising. Based on current trends, that is the direction of travel.

Forecasts from the Congressional Budget Office (CBO) for debt to GDP point to the US entering truly uncharted territory. And while some argue that high debt levels are not inherently problematic, noting that other countries have sustained them in the past, that misses an important point. That is often how fiscal crises unfold. The risks build slowly, appear manageable for years, and then crystallise very quickly once confidence, growth, or financing conditions shift. The concern is that we are moving closer to that tipping point.

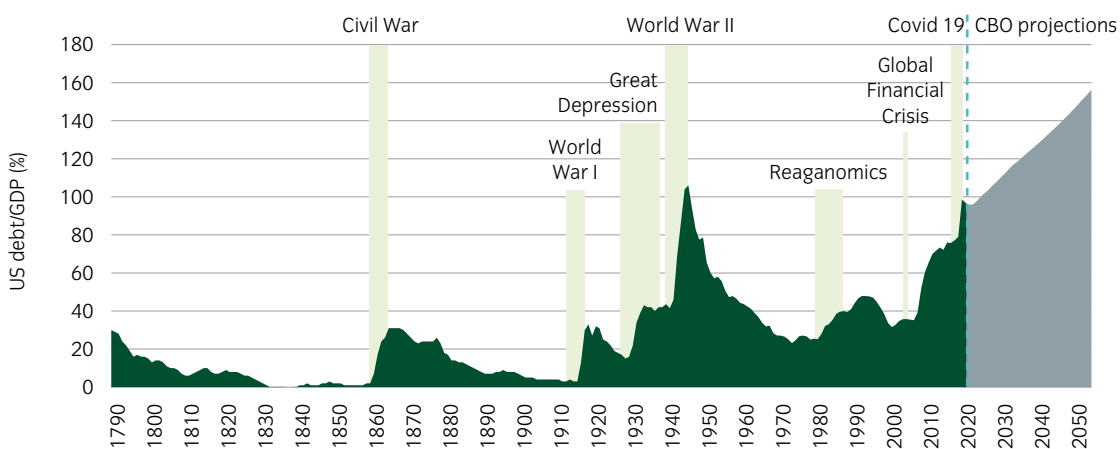


How did you go bankrupt?
Gradually... then suddenly.

ERNEST HEMINGWAY – THE SUN ALSO RISES, PUBLISHED 1926



Figure 11: Long term US debt/GDP is projected to rise to unprecedented levels¹³



¹² Source: [Fix What's Broken at Home so We Can Defend Ourselves Abroad](#), by Star Parker | Creators Syndicate.

¹³ Source: Congressional Budget Office and Insight as at 9 January 2026.

THE PATH TO INTERREGNUM: MONETISED FISCAL EXPANSION

Fiscal and monetary stress does not present itself as a problem until it is one – and when that moment arrives, it often comes without warning. We cannot know exactly when that tipping point will be reached, but one thing is clear: **we are closer to it now than at any time in the past.**

QUANTITATIVE EASING AS MONETISED FISCAL EXPANSION

Quantitative easing is best understood as a form of monetised fiscal expansion. Crucially, it was always presented as a temporary measure. Prior to the global financial crisis, the Federal Reserve's balance sheet stood at roughly \$1 trillion. Following the global financial crisis, it expanded to around \$2.2 trillion – a move that, at the time, was considered extraordinary.

There was detailed academic thinking on how quantitative easing (QE) would be implemented, but notably far less clarity on how it would ultimately be unwound. In 2009, Fed Chair Bernanke stated that the plan was to reduce the balance sheet by around \$100–200 billion per year, with the intention of bringing it back down toward its pre crisis level.

Instead, the balance sheet continued to expand. It rose to around \$4 trillion, and then during the pandemic, it more than doubled again, reaching almost \$9 trillion.

Shortly thereafter, we experienced a significant surge in inflation. There have been attempts to bring inflation under control, but it's clearly been a major challenge.

Figure 12: QE has been far from temporary¹⁴

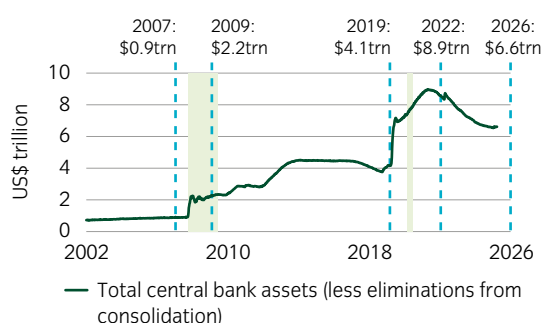
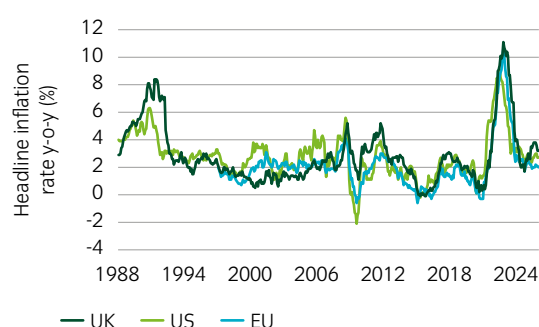


Figure 13: Inflation surged, and remains problematic¹⁵



ANOTHER INFLATIONARY EPISODE COULD BE AHEAD

Taking a step back, when we see unsustainable debt service costs within a corporation, it ultimately leaves only two viable options. One is default. The other is some form of debt restructuring.

In the corporate world, restructuring can mean paying interest not in cash, but through equity issuance or payment in kind (PIK) instruments. Governments, in theory, could pursue similar routes, and in emerging markets we do at times see debt defaults or restructurings along these lines.

However, governments in developed markets have an additional tool that corporations do not: money creation. That tool effectively points to inflation as a means of dealing with unsustainable debt burdens. We saw a clear example of this in the period following the pandemic.

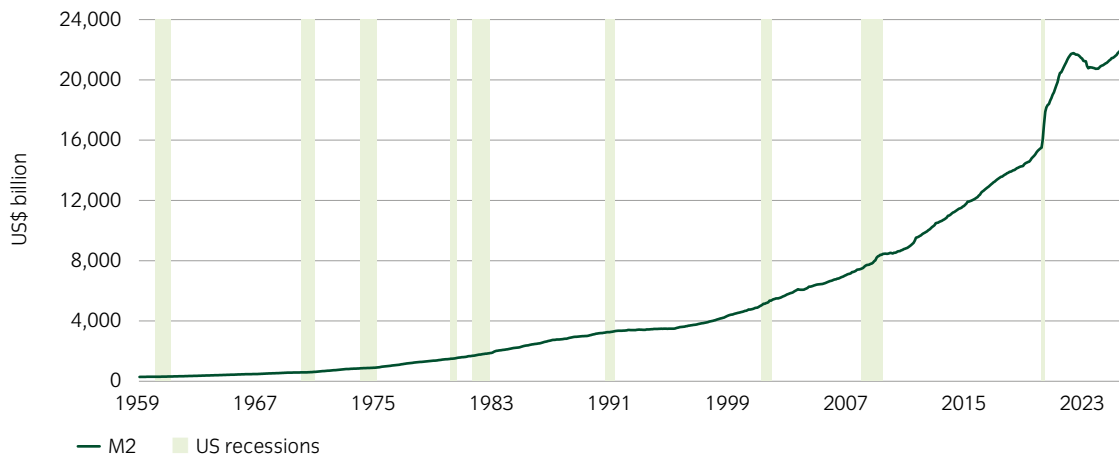
Looking ahead, this creates what is arguably the biggest risk for developed market economies, the possibility of another sustained inflationary episode driven by the need to manage debt servicing costs.

What makes this risk particularly unsettling is the growth in the money supply. When you examine the data, it's striking. For many years, money supply growth followed a relatively stable, predictable path, before breaking sharply higher.

¹⁴ Source: Board of the Governors of the Federal Reserve System (US) via FRED®. Shaded area indicate US recessions.

¹⁵ Source: Insight and Bloomberg. Data as at 14 January 2026.

Figure 14: US money supply is growing rapidly¹⁶



The expansion in money supply accelerated sharply after the global financial crisis and then surged again during the pandemic. We saw only a very brief pullback over the past couple of years, following the market sell off in 2022, but since then money supply growth has resumed and continues to expand.

If you listen to President Trump's stated plans to increase military spending by a further \$500 billion in the 2027 budget, that trajectory looks set to continue. In my view, this ongoing expansion is one of the primary drivers of inflation.

When you step back, the picture looks fairly bleak. Which naturally leads to the question: what, if anything, could change this dynamic?

COULD AI SAVE THE DAY?

Humans consistently underestimate the power of exponential growth, and AI is growing at an exponential pace. Over the past decade alone, the computational power required to train leading AI models has increased by roughly a billion fold.

At the same time, AI's ability to take on tasks traditionally performed by humans is accelerating rapidly. Estimates suggest this capability is doubling roughly every seven months. On that trajectory, AI systems and autonomous agents are likely to be able to handle work assignments that currently take humans months to complete within the next five years.

This rate of change is understandably unsettling. There is a clear pessimistic interpretation, and it has already begun to surface in financial markets. One widely cited analysis from Goldman Sachs suggests that around two thirds of occupations could be partially automated by AI.

THE POWER OF EXPONENTIAL GROWTH ILLUSTRATED BY A SIMPLE FABLE

Chess became hugely popular, and the king of the land was an avid player. Impressed by the game, he summoned its inventor to the palace and offered him any reward he wished.

The inventor replied that he was a simple man and asked for a modest prize: one grain of rice on the first square of a chessboard, two grains on the second, four on the third, eight on the fourth, and so on – each square doubling the amount of rice from the previous one.

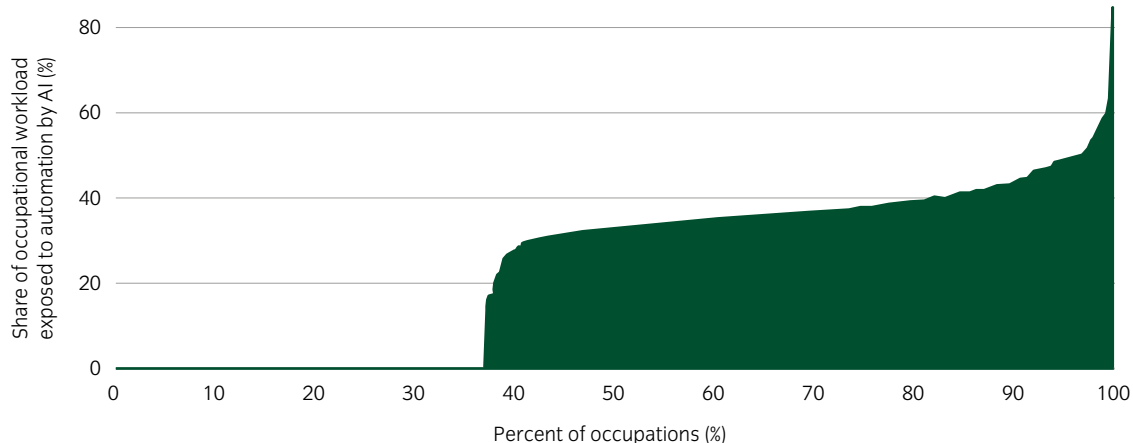
The king readily agreed, seeing the request as trivial. But partway through the board, the scale of the promise became clear. By around the middle of the board, fulfilling the request would have required tens of thousands of bags of rice. By the final, 64th square, it would have amounted to roughly 70,000 years of total rice production.

In other words, the king had dramatically underestimated the power of exponential growth.

¹⁶ Source: Board of the Governors of the Federal Reserve System (US) via FRED. Shaded area indicate US recessions.



Figure 15: Two thirds of occupations could be partially automated by AI¹⁷



We have already seen these concerns play out in markets – most recently in the software as a service sector. The prevailing fear is that a large number of white collar jobs will be replaced by AI agents, pushing the economy toward higher unemployment and severe disruption.

That is the “glass half empty” view: AI leading to job losses, social strain, and persistent economic dislocation.

But there is an alternative, more optimistic perspective. If we fast forward a few years, AI could offer a very different solution to today’s debt sustainability challenges. Rather than inflation, weaker growth, or a deep recession, the adjustment could come through higher productivity. Stronger productivity would lift trend growth rates and allow economies to grow their way out of these fiscal pressures.

I am not assuming that governments will take the politically difficult route of materially cutting spending – it’s possible, but it is not my base case. The more plausible upside scenario depends on productivity gains driven by technology.

From this standpoint, there is a positive AI story, which can be viewed through both cyclical and structural lenses. Cyclically, one of the most important dynamics is the sheer scale of capital expenditure now being directed toward AI. Investment by the major hyperscalers is enormous, particularly in data centre infrastructure, with multi year spending plans that run into the hundreds of billions.

Looking at overall capital expenditure, total AI related capex is set to exceed \$600 billion in 2026. Importantly, this is not speculative investment, it reflects real, identified compute demand that already exists.

To put that figure in context, this level of spending amounts to more than 2% of US GDP, concentrated in direct capital investment by a relatively small group of hyperscalers. That is an extraordinary scale of deployment.

Even compared with past infrastructure waves, this is unprecedented. The broadband build out in the early 2000s peaked at around 1% of GDP, while the Apollo moon programme amounted to roughly 0.5% of GDP.

¹⁷ Source: Goldman Sachs Global Investment Research as at 26 March 2023.

Figure 16: Forecasts for hyperscaler investment¹⁸

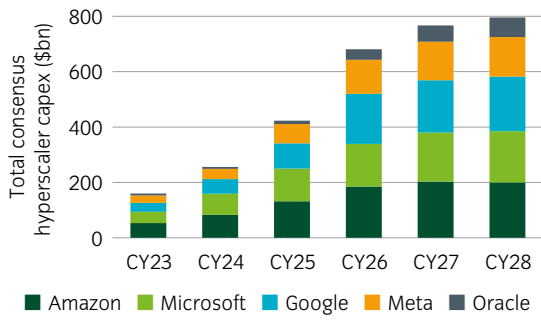
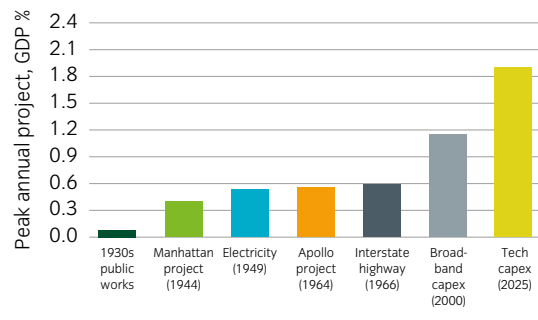


Figure 17: Infrastructure spending will boost growth¹⁹



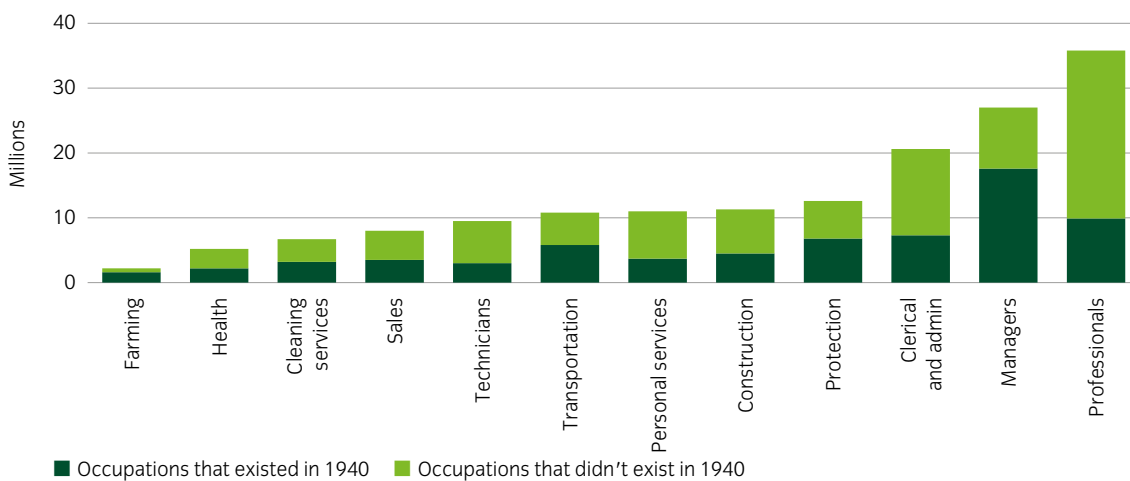
This increase in investment spending also has secondary effects beyond technology itself, most notably in skilled trades.

Building out AI data centre infrastructure requires electricians, plumbers, construction workers, and a wide range of technical specialists. As a result, we are already seeing rising wages in these skilled trades and in parts of the blue collar workforce more broadly. That is a genuinely positive development, and it also helps address some of the wealth and income inequality issues.

These are powerful cyclical forces. But there are also important structural forces at work. At its core, this is about innovation.

If you look at the jobs that exist across today’s economy – technicians, healthcare workers, logistics, various types of managers and professionals – many simply did not exist in 1940. Even more striking, a large number of today’s jobs did not exist even 10 or 15 years ago.

Figure 18: Innovation leads to new occupations – driving employment growth²⁰



Take social media influencers or professional content creators. Fifteen years ago, these roles were barely imaginable. You now have young, professional social media content creators that have built companies worth tens or hundreds of millions, and even billions, of dollars. These are real, economically meaningful professions.

Many people are now earning very good livings in roles that simply didn't exist five or 10 years ago. That naturally raises the question: what new professions will emerge next? And my sense is that this won't take decades. The pace of change is likely to be much faster.

The final reason for optimism is productivity. There is broad agreement that AI will eventually raise productivity meaningfully.

Historically, the biggest productivity gains arrive with a lag, once the technology diffuses through the wider economy and reshapes how work is actually done.

¹⁸ Source: Bloomberg as at 31 December 2025. Mention of a specific security is not a recommendation to buy that security.

¹⁹ Source: Manhattan District history, BEA, Planetary Society, Eno Center for Transportation, San Francisco Fed, Hoover archives, Baruch, GoldenGate.org, New York Times, JPMAM, 2025.

²⁰ Source: Autor et al. (2002) and Goldman Sachs Research.



CONCLUSION

When you put all of this together, there is plenty to be cautious about, and plenty of reasons to feel pessimistic. That's why we consider a range of alternative scenarios for how the economy may ultimately navigate this environment.

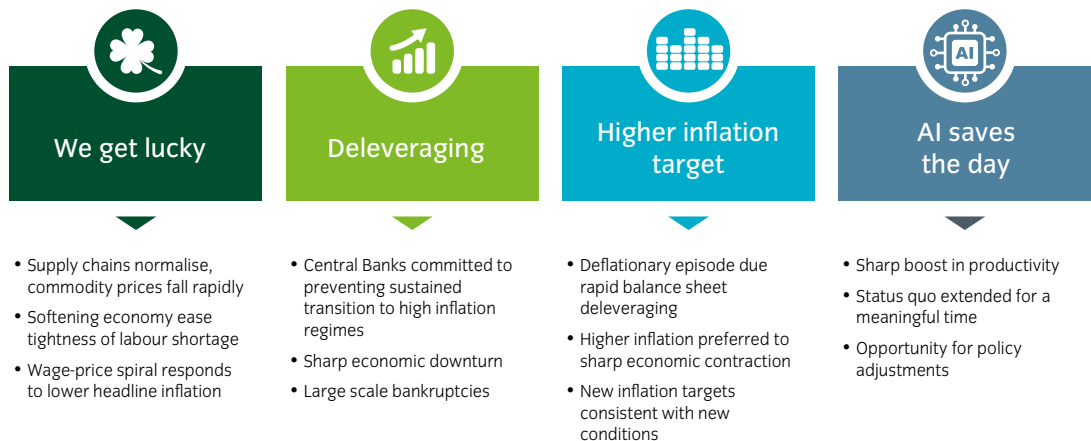
At present, we believe we are in what we'd describe as the "get lucky" scenario. That's where we sit today. Despite significant headwinds and a series of shocks, we have avoided a full blown economic or inflation crisis – the outcome that has long been the central risk.

That said, in my view, inflation remains the single biggest danger. It continues to sit at the top of our risk map. A different, but equally serious, downside outcome would be a severe recession. These scenarios cannot be dismissed, and they remain very much part of the distribution of possible outcomes.

There is, however, another path – one in which improvements in productivity, potentially driven by AI, support higher growth and help offset many of these pressures.

Our role today is to understand the risks and opportunities associated with the range of possible scenarios and work with clients to develop solutions that provide certainty in outcome, regardless of what the future may bring.

Figure 19: Alternative scenarios²¹



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