

Goldman Sachs Exchanges: Outlook 2026

Episode 1: The Big Picture

Jan Hatzius, Head, Goldman Sachs Research, Chief

Economist, Goldman Sachs Research

**Dominic Wilson, Senior Advisor, Global Markets
Research**

**Allison Nathan, Senior Strategist, Goldman Sachs
Research**

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Allison Nathan: What does 2026 have in store? Will the solid growth we saw in 2025 continue? What are the biggest risks, and how should investors position their portfolios? I'm Allison Nathan and this is Goldman Sachs Exchanges. We'll dive into those questions in Outlook 2026, a special 3-part series covering the trends that will define the global economy in the coming year.

In this episode, I'm sitting down with Jan Hatzius, head of Goldman Sachs Research and the firm's chief economist, and Dominic Wilson, senior advisor in the Global Markets Research Group, to discuss the economic and market outlook for the year ahead.

Jan and Dom recently published their 2026 Macro Outlook, which they called "Sturdy Growth, Stagnant Jobs, Stable Prices." Jan, Dom, welcome back to the program.

Dominic Wilson: Thank you.

Jan Hatzius: Great to be with you.

Allison Nathan: So let's get right into it. We have a lot to discuss. Jan, at the start of 2025, you predicted global growth of 2.7%, just under the figure where we estimate we will end the year. Well, we're back here again, one year later, and your growth view for the global economy again is more optimistic than consensus. So what's driving that relatively optimistic view for 2026?

Jan Hatzius: So if I just go back a year, the idea was that the tailwinds would outweigh the tariff increases. And obviously it was a lot of ups and downs during the year, but in the end I think that was basically what happened. As we go into 2026, I think the story is a little bit clearer because the tariff issue is now in the rearview mirror. The increases in tariffs are behind us. Going forward, we'll probably go sideways to lower, depending on what happens

on the legal front, what happens with perhaps tariff reductions as we go into the midterms, but it's no longer negative.

And then there are some positives that should also help, and I'd emphasize fiscal support, tax cuts in the US from the One Big Beautiful Bill Act; German fiscal easing, that should support growth; and we've seen rate cuts from many central banks. We expect some additional rate cuts. We've seen easier financial conditions. That's supportive of growth. So it actually seems like a clearer story in 2026 than in 2025, where you had to trade off these pros and cons for growth.

Allison Nathan: You're especially optimistic about US growth, so talk us through our US view in more detail.

Jan Hatzius: In the US, we're at 2.5% fourth quarter to fourth quarter, and that is really driven by some of the forces I just talked about. Tariffs are no longer a drag. Maybe they're even going to turn into a small boost in terms of real income as the year progresses. We are getting tax cuts on the consumer side, strong tax refunds. We're getting fiscal help on the business side as firms can fully

depreciate equipment and plants. And we're probably going to see a boost from the rate cuts that the Fed has already delivered. We expect some additional monetary easing. Our financial conditions index has eased. That's going to help the US grow at we think a good pace on the growth side.

Nevertheless, we are not expecting a meaningful tightening in the labor market. Basically half the unemployment rate goes sideways at about 4.5% because we've seen this pickup in productivity growth, which is at least half a percentage point relative to the pre-pandemic period to just raise the speed limit for US growth.

Allison Nathan: Let me turn to Dom for a moment, bring you into the conversation. Obviously Jan is optimistic. Do the markets share that optimism?

Dominic Wilson: Yeah, we think probably not fully. The markets have moved a long way since the worries in April. We were pretty quick to move through the initial shock in from tariffs and the worries about growth there. We haven't worried a lot about growth over the last few months, so the market's been in a more comfortable place.

But when we benchmark the forecast specifically on US growth and we still find that there's probably room for that market to upgrade further. The preferred method that we have looks at the kind of joint pricing of bonds and equities. We get numbers around a little less than 2% in terms of the growth view. So the 2.5% through the year growth forecast that Jan says would imply that the market has room to get sort of more optimistic and I think particularly in the first half of the year where growth's going to comfortably exceed that. I think it's going to feel like that environment is still materially better than the market's been pricing.

Allison Nathan: Jan, let me pivot away from the US for a moment. We're also forecasting above-consensus growth in China. You know, we know there are drags in the economy -- the housing sector in particular, consumption has been a point of weakness -- but you see exports more than making up for those drags. And there's a prediction in our China forecast that China's current account surplus could soon be the biggest of any country in recorded history, so what are the implications of that for China?

Jan Hatzius: You're absolutely right. It's much more of a split story between the goods producing, export-oriented sector, which continues to do very well and was remarkably resilient to the US tariff escalation in 2025, and then the weakness in the domestic sector. The property sector is still, we think, going to subtract something like one and a half percentage points from growth this year, and, yeah, I think that is naturally going to lead to a growing external imbalance.

The current account surplus we think is going to grow to about 1% of global GDP, which would be the biggest number for any economy in recorded history, but it's also going to have some negative effects on China's trading partners who are on the other side of that imbalance.

Allison Nathan: Let's talk about that a little bit more. Europe is clearly in the crosshairs of this, so how much of a drag will that be on European growth? And will there be offsets to that drag?

Jan Hatzius: Well, we shaved our European growth forecast by a couple of tenths when we upgraded our China view a couple of months ago, on the back of building even

more of this imbalance into our forecast. The upgrades in China on the back of exports are actually negative for growth elsewhere, so this is a headwind for Europe. And it's probably going to be an ongoing headwind, especially for Germany. And the longer-term outlook I think is still quite challenging on the industrial side, in part because of this.

In the shorter term, we're a bit more optimistic, though. We have a 1.3% forecast for euro area growth, in part because of the fiscal expansion in Germany that I mentioned a little bit earlier, which is now starting to be visible in orders for defense goods and we think will be visible in more infrastructure spending. That will help Germany in 2026-2027. There are also some bright spots in the euro area in other countries. Spain in particular continues to do very well. So it's a mixed story in Europe, but the longer term remains pretty challenging, I think.

Allison Nathan: Dom, let me turn to you and ask you about what the markets are thinking in terms of China, Europe, and some of these other economies.

Dominic Wilson: It's clearer that the US and, of as a

result of that, the global growth view that we have are above the market than these other pieces. I think for China, it's very clear that our growth view is better than other people expect. I think it is true and we would be pretty confident that ongoing increase in the trade surplus that we're forecasting is not fully digested in markets, so we expect that kind of pressure and those themes and those crosscurrents probably to grow through the year as that story continues to unfold.

I think for Europe it's similar to the macro picture that Jan described.

Allison Nathan: What does this all mean for currency markets? Dollar had an interesting year, but it hasn't done much in the last few months.

Dominic Wilson: Yes, as you said, 2025, I guess at a high level and more front loaded, was a year of dollar weakness. That was a significant part of the story in currency markets and a significant theme. I think the story is going to be more nuanced than that this year. We think that dynamic of dollar weakness, probably on balance with our central case forecast is going to continue.

The Fed's more likely to cut rates and more likely to cut them further than many of the other developed markets. This sort of good global growth environment is generally supportive of and consistent with dollar weakness.

But we think the gradient is likely to be much shallower than before, and the mix is probably different. We think really what's going to be expressed if we're right about the growth view is pressure for cyclical assets, including cyclical currencies, to outperform maybe a kind of modest dollar decline story going on, but it may not be the major sort of focus for FX markets that it was for quite a lot of 2025.

Allison Nathan: Jan, let me go back to a couple things that you started to mention earlier in the conversation. One of the most striking things happening in major economies is solid economic growth is not translating into stronger labor market performance, and we do expect that to continue, as you began to tell us. But can you talk to us a little bit more about why we aren't seeing more strength in the labor market amid this pretty resilient growth environment?

Jan Hatzius: I mean, you can talk about labor markets from the perspective of employment growth, and there you have to also recognize the weakness in immigration, which is obviously weighing on increases in employment as the labor force is softening. But even if we leave that aside and really just look at the unemployment rate, the balance between demand and supply, it is I think striking that the US unemployment rate has been rising in an environment where the GDP numbers have been very solid. And that speaks to stronger productivity growth, and we've seen in the US, pickup from about 1.5% productivity trends in the 2008-2020 cycle to about 2% now, probably with further acceleration coming because that 2% doesn't really have any significant AI impact in it yet. So as AI exerts a bigger impact on productivity growth, that 2% could become 2.5%, and that's going to drive a bigger wedge between the performance of GDP and the performance of the labor market.

So I think that is the world we're living in and probably will continue to live in. That the speed limit for economies is going to be higher, and that's obviously a good thing in terms of long-term living standards but it also brings some challenges. And right now, it means that consumers and

workers are pretty sour on the economy because, in part, the labor market opportunities are pretty poor.

Allison Nathan: It's interesting the point that you make that AI is really not showing up much in the productivity numbers yet, and also there's a narrative that AI is supporting the growth numbers and it has played a big role in growth. But again, you're not seeing that yet.

Jan Hatzius: I'm not seeing that yet, and I think there are a lot of false narratives about the impact of AI investment on GDP growth. Our estimate is actually that AI investment didn't affect US GDP growth in 2025 to any measurable degree. And the reason is basically two-fold. One, while there's been a significant increase in AI investment, that has mostly consisted of imported goods. So you get a positive entry in the investment line and a negative entry in the net exports line. So you're contributing to GDP growth in Taiwan or Korea but not in the US.

And the second point is that there are some measurement issues in the treatment of semiconductors in particular. Semiconductors that are put into data centers are not

counted as investment but as intermediate goods, and so they don't show up in GDP.

As far as the labor market's concerned, we think there's really only the beginnings of impact on the labor market from AI. Firms are still in the early stages of incorporating AI into their day-to-day business, and the labor market effects, which we do expect to be more significant in coming years, just haven't really shown up yet.

Allison Nathan: Let's pivot to what this all means for inflation, or I should say disinflation, because we have seen a fair amount of momentum in developed markets towards lower inflation, cooler inflation. Do we expect that to continue? It sounds like our inflation concerns might be in the rearview mirror.

Jan Hatzius: I think mostly they're in the rearview mirror. Most DM economies still have inflation rates above central bank targets, but some of that, certainly in the US and in the UK, reflects some temporary factors. More fundamentally, the driving forces of inflation ultimately are pressure on resources and especially pressure on labor resources. The labor market's been loosening. Wage

growth has been coming down. That should be helping with inflation. Rent inflation probably still has downside. That's a very important part of the numbers in the US, especially in the CPI and to a lesser degree in the PCE Index as well. And I have a lot of confidence that we'll see further deceleration in those numbers.

So I think both the inflation fundamentals, the deeper fundamentals around pressure on resources, and some of these more technical factors all suggest that we can get close to central bank inflation targets by the end of the year. And that's what we're forecasting.

Allison Nathan: So does that mean that you expect more cutting ahead from the Fed and other central banks?

Jan Hatzius: From some central banks. The Fed and the Bank of England in particular I do think we're going to see some rate cuts. In the US, I think a lot is going to depend on the near-term flow of the data, but I would say I'm reasonably confident that we'll see some additional cuts in 2026. Even if we don't see anything in the next several months, if it takes a bit longer, I would still keep cuts in the forecast down to something like 3% by the end of the

year.

In the UK, similarly, the bank rate is still quite high. We're still at 3.75, and we've got three more cuts in the next three quarters. And again, I would say I'm reasonably confident that we'll get at least some of that.

I should note that in Japan we do expect further slow increases in the policy rate every six months or so. So call it another 50 basis points over the next 12 months.

Allison Nathan: Let's take everything that we talked about and apply it to risk assets. We've had a couple of great years for equity returns. Can we have a third year?

Dominic Wilson: Central case is yes. Not maybe as strong. We've had the return profile feels like it's been very good, but it's a little lower each year as we go through this bull market. Our expectation is low double-digit returns for the US equity market and comparable globally when you take the mix across those markets.

The basic story is that the macro backdrop that Jan and the team are describing is positive. If you think growth's

going to be better than expected and inflation's going to be lower than expected, both of those things are positive drivers. And we expect as the market kind of moves and converges to that view that that should be helpful for returns. It's obviously a positive earnings backdrop, too, particularly with some of these sort of productivity growth strength and the mix in the way that growth is coming through.

The challenge is that valuations, particularly in the US market, are obviously very high. Our view and most of the work we've done suggests that the cycle usually wins over valuations, at least until you see more negative shift in that cyclical news. But I do think that's one of the reasons perhaps not to be as optimistic about the scope of gains relative to the last two or three years.

And I think it also might be a source of greater volatility going forward. Within that, the AI story which Jan talked about on the macro side, we've put a lot into the price. We have an optimistic view of that story, but the market has moved, as it does, ahead of that story and placed a lot of value in some of those areas. So again, the debate around that and the sustainability and the timing of the kind of

benefits of that I think could also introduce more volatility before.

So there are definitely risks out there. I think a bit like last year, the challenge is going to be how to maintain that exposure to what we think is probably the best-performing asset class without leaving yourself overexposed to some of these other risks and some of the issues that might come up that shape that story.

Allison Nathan: And credit markets have been off to a very quick, energetic start in 2026, but you're less excited about the return profile for credit markets this year.

Dominic Wilson: The backdrop, again, at a high level, this macro backdrop is obviously pretty friendly for credit, too, as it is for risk assets, but we do see that the risk-reward profile in credit markets overall is lower than equities. In part, the first and most obvious reason is spreads are pretty tight already, and so there's a lot less room for that upside story that you get in equities. You still have some of these risks for some of the bad outcomes that we can envisage, and so that asymmetry is just a lot less favorable.

The second thing is that corporate balance sheets I think are generally in pretty good shape, but they're past the best point. And the third thing, as part of that corporate story, which is that the AI and data center booms are increasingly being financed not out of cash but out of debt financing. And there is a risk that that boost to supply, it starts to mirror some of the dynamics we saw in the late '90s where, even with an economy that's growing, even with an equity market that's doing well, where the market starts to price a little bit more of that kind of credit widening dynamic as it just sort of acknowledges that that debt burden is growing.

Allison Nathan: I'm not going to let you go without talking about risks. Pretty positive discussion we've had here, so, Jan, what are the risks you're most focused on that could potentially derail your positive views?

Jan Hatzius: I mean, at the top of the list and the most immediate is more deterioration in the labor market. We've already seen a sizable increase in the unemployment rate. And it wouldn't take that much more, a few tenths more from here, and you'd be triggering what's become known as the SAHM rule. The idea, or historical regularity,

that if you get a half percentage point plus increase in the unemployment rate in a year's time, that's a reliable indicator of recession. I don't think it would necessarily guarantee that we're going into recession, but there'd be a lot of concern about it. And it would underscore the concerns that many households and workers already feel, that the labor market's not working.

I mean, if you look at the Conference Board numbers on jobs, consumers who think jobs are plentiful versus hard to get, or you look at the New York Fed's survey on likelihood that if you were to lose your job you're going to find another one, those are already at pretty low levels. And that does spell a risk that you could get a cycle and feedback loop between deterioration and labor markets, hit to confidence, hit to spending, and a downturn in the macro economy. So I think that still is a recession risk, and it's something that I'm going to be monitoring most closely as we go through the next few months.

Allison Nathan: And Dom, what would that mean for markets?

Dominic Wilson: Yeah, look, I think that is probably

again the most significant macro risk for markets. We're pricing very little recession risk, and so I do think there's a lot of leverage to that, particularly with valuations high. That if the market has to acknowledge that a recession is a real possibility again, that is where I think you'll see the most dramatic shifts in markets, lower in equities, wider credit spreads, there's room for front-end rates in US to price a deeper and earlier easing path. So if we get that risk come through, I do think that is, at the macro level, a thing that could move markets in a negative direction most quickly. So that's still probably the number one worry.

I do think if we avoid that then the risks sort of tilt to the other side, which is that you get less of the easing profile that perhaps people have relied on. And I think in general if that's coming with better growth, that's not that big of a deal but there are versions of that story that could be a little bit more bumpy.

And I would say the fiscal risks that are lurking in the background, those tend to come more into focus when growth is doing better. And so if there's any lean in that direction, we've relaxed a lot about a lot of those things. And inflation coming down is a sort of good cushion

against those risks. But I could see, particularly in the first half of the year where the growth profile is stronger and the inflation picture hasn't had time to fully resolve, that we might revisit some of those risks. They're less problematic for markets overall than that recession risk and unemployment rate risk that Jan highlighted but probably also more likely to be a source of focus in the next few months.

Allison Nathan: Dom, Jan, thanks so much for joining me.

Jan Hatzius: Thank you.

Dominic Wilson: Thank you.

Jan Hatzius: Great to be with you.

Allison Nathan: My thanks to Jan Hatzius, head of Goldman Sachs Research and the firm's chief economist, and Dominic Wilson, senior advisor in the Global Markets Research Group. Up next in our special 3-part Outlook 2026 series, we'll take a closer look at the economic pictures for the US, Asia, and Europe. We hope you'll join

us.

This episode of Goldman Sachs Exchanges was recorded on Thursday, January 8th, 2026. I'm your host, Allison Nathan.

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