Quarterly International Economic Commentary

Executive Summary

- ***Developed international equities stalled in Q3 after the sharp second-quarter rebound, with the MSCI EAFE Index returning 0.9% and year-to-date returns reaching 10.8%.***
- ***Leadership rotated decisively: Value stocks led, the AI-momentum trade faded, and Information Technology posted the weakest sector performance of the quarter.***
- ***International valuation multiples stayed above historical norms, though earnings growth expectations continued to trail the U.S., where technology and AI exposure support a higher premium.***
- ***The global economy is growing but unevenly, held up by heavy investment spending while inflation pressure returns and central banks tighten rather than ease.***
- ***AI and data-center capital investment is the clearest growth engine, accounting for roughly 40% of expected U.S. four-quarter real GDP growth, with spillovers into Europe (AI infrastructure, electrification, grid upgrades, automation) and Asia (semiconductor and machinery exports).***
- ***The Fed hiked in September and may hike again in December; the ECB raised rates in June and September, and the BoE, BoC, BoJ and RBA have all tightened.***
- ***Outside the U.S., growth is more fragile and "stagflation-tinged": Canada is weak and trade-dependent, Germany is recovering mainly on state infrastructure and defense spending, France and the UK face debt-trap dynamics, Australia is dealing with 4.3% inflation, and Japan is balancing a weak yen against BoJ tightening.***
- ***China relies on exports to offset weak domestic consumption, and that reliance is now drawing new protectionist responses from a major trade partner: the European Union.***
- ***The outlook is cautiously optimistic but fragile: earnings growth steps down in 2027, the cost of capital is rising, and tighter policy falls hardest on households, housing, and small levered borrowers, making continued data-center momentum and related wealth effects increasingly necessary to support consumption, investment, and growth.***

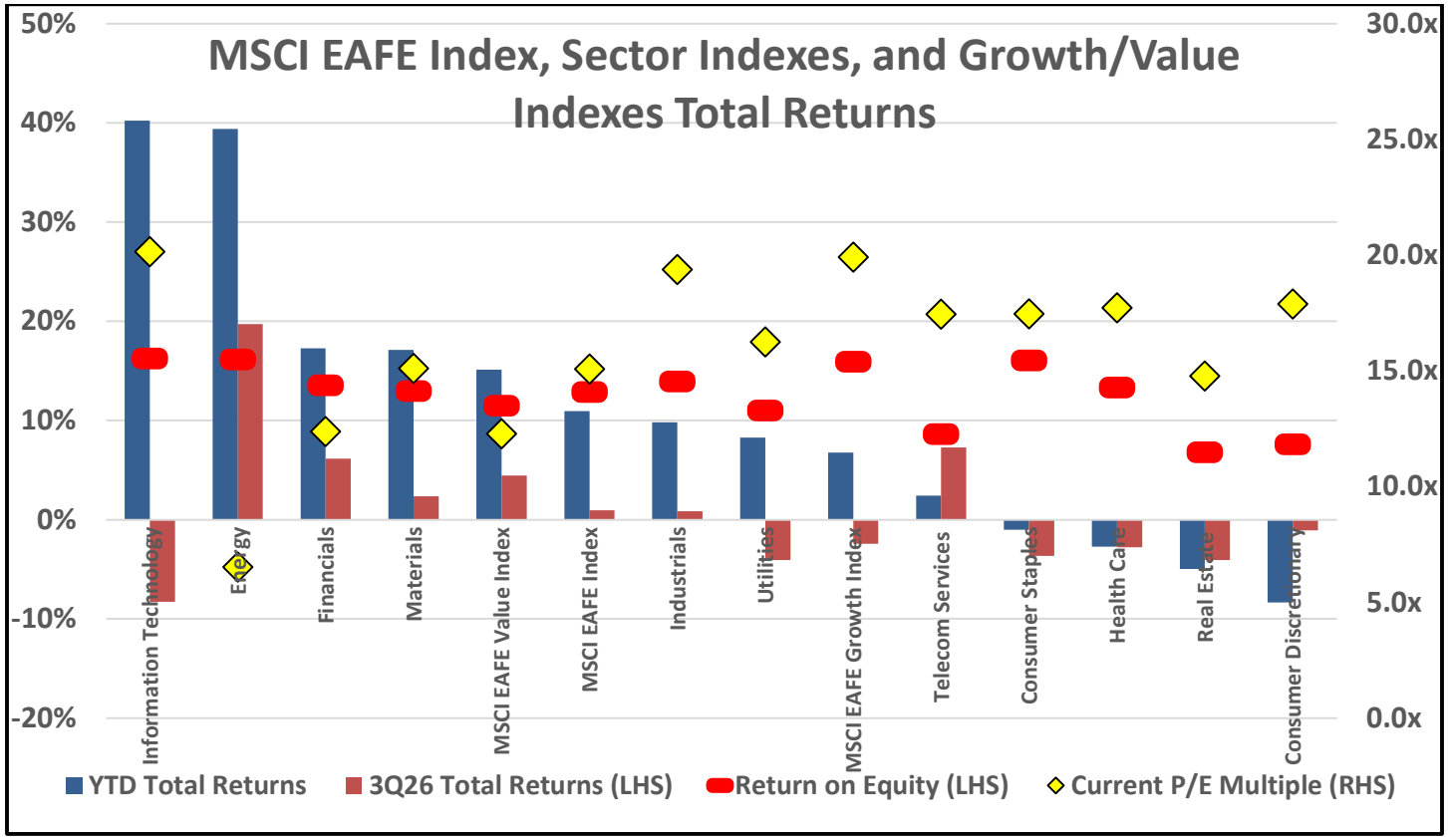
Economic and Capital Markets Commentary

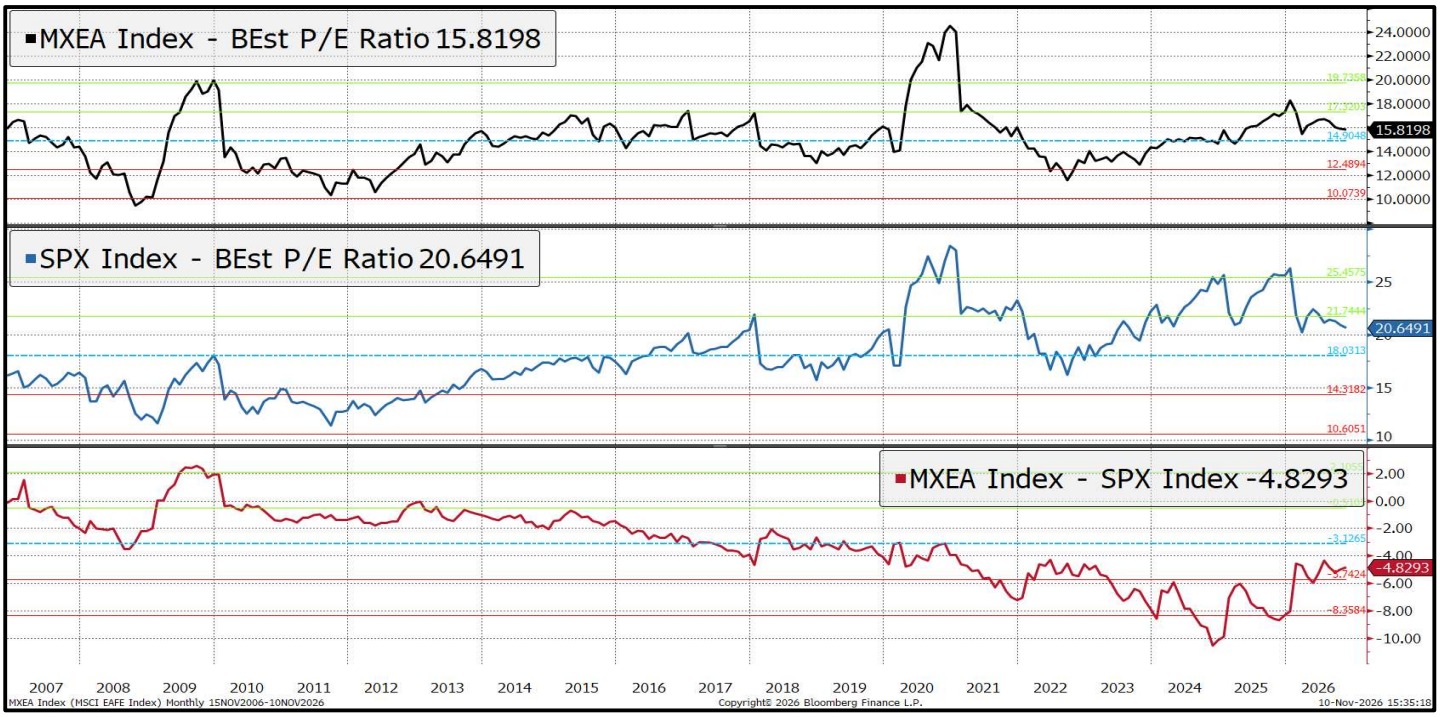
Within the EAFE family of indexes, the quarter saw a notable style rotation, with Value stocks leading the rebound. The MSCI EAFE Value Index outperformed with a total return of +4.4% for Q3 2026, exceeding the MSCI EAFE Growth Index's -2.5% by approximately 680 bps – a sharp reversal from the prior quarter's growth-led rally. The MSCI EAFE Quality Index returned -1.4%, broadly in line with Growth. With this divergence, value surged to lead growth by over 800bps through the end of the third quarter. The MSCI EAFE Index has experienced a total return of 10.8% over this period.

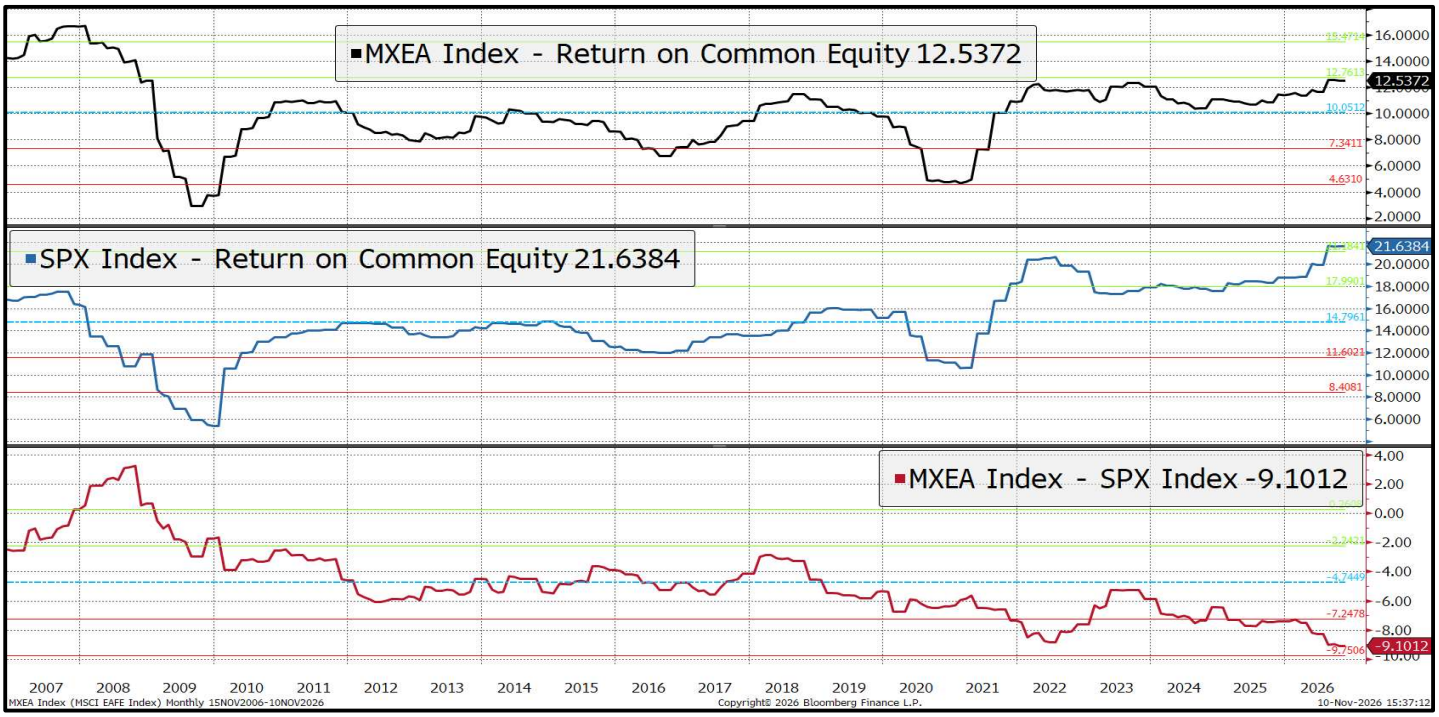
The sector picture in Q3 reflected this rotation and shifted materially from the prior quarter. Energy reversed its Q2 decline to become the strongest-performing sector during the quarter, supported by elevated oil prices and upward earnings revisions, with European integrated energy companies posting strong quarterly earnings growth led by refining and European gas; the sector tracked broadly in line with Information Technology on a year-to-date basis as of quarter end.

The AI-momentum trade that drove Q2 outperformance faded: returns on AI-related strategies outside the U.S. have been negative during the second half of 2026. Ex-AI earnings revisions remained modestly positive, while equal-weighted AI valuations stood at 23x forward P/E versus 13x for ex-AI peers. Information Technology remained the best performing sector for the year, despite the worst total performance during the quarter. Financials also outperformed the broad index and remain the third best performing sector for both the quarter and year-to-date. European banks delivered accelerating EPS growth of approximately 15.9% year-over-year in Q3, as measured by the Euro Stoxx Banks Index, supported by improving earnings momentum and valuations near long-term averages at approximately 10.0x forward P/E. Financials are a major contributor to index-level expected earnings growth for 2026, benefiting from higher rates and broadening loan growth into an expanding industrial cycle. European equity markets broadened beyond AI beneficiaries, with banks, diversified financials, and capital-goods companies increasingly contributing, as JP Morgan Global PMIs moved further into expansion territory. European quality-growth industrials – spanning AI infrastructure, electrification, grid upgrades, and automation – were supported by structural demand, though near-record sector valuations raised the bar for earnings delivery.

Valuation multiples for international companies in the index remain above historical norms, with the MSCI EAFE forward P/E at 15.1x versus its 20-year average of 13.8x – 1.3x above the long-run mean. Buoyant global equity markets and ample liquidity continue to support international valuations. Despite elevated multiples, the EAFE Index retains a consistent discount to domestic U.S. equity valuations, where the S&P 500 Index trades at 18.8x forward earnings. The premium for the U.S. markets has historically been higher returns on shareholders' equity and higher earnings growth rates. The current 2026 estimate for annual earnings growth is ~20% for the MSCI EAFE in 2026 versus ~38% for the S&P 500, both elevated relative to historical trends, with the S&P 500 a disproportionate beneficiary of artificial intelligence and data center capital investment. Currently, both are expected to step down in 2027.







Source: Bloomberg LP

North America

The U.S. third quarter was defined by a rising cost of capital. Large federal deficits of about $2 trillion a year, with debt above $40 trillion, are competing with the AI infrastructure buildout for the same pool of savings. That buildout accounts for roughly 40% of four-quarter real GDP growth. Long-term yields have risen mainly because real rates are higher, not because inflation expectations are higher, which suggests the neutral rate may have moved up. Near-term inflation is complicated by tariffs, scarce resources, and energy, with diesel up 77% on a year-over-year basis. The Federal Reserve reversed course, moving from two expected cuts at the start of the year to a 0.25% hike in September, with another possible in December. Equity gains have come from earnings growth rather than multiple expansion, as second quarter earnings rose

29% while the S&P 500 P/E fell from 22x to 19x. Leadership is narrow, with the ten largest stocks accounting for about 40% of the index with eight directly exposed to the AI and datacenter phenomenon. Earnings growth is similarly very narrow. Two companies, Nvidia and Micron, account for approximately one-third of the earnings growth for the S&P 500 Index, and ten companies account for 65% of the expected 2026 earnings growth.

The U.S. economy is operating near full employment, so the AI buildout is likely crowding out other investment rather than supporting incremental growth. Headline economic growth, as measured by annual Real GDP growth, has not accelerated much despite AI's large contribution, highlighting fragility in other areas of the economy. Demand for investment capital will likely stay elevated and could create headwinds for economic activity as the cost of capital continues to rise. Investment-grade issuance is up 25.5% this year, led by technology companies, and debt tied to AI spending is expected to equal roughly 70% of the federal deficit. Inflation looks likely to stay elevated near term because the pressure comes mainly from supply shocks: tariffs, scarce resources, and diesel inventories, which remain at their lowest since 2005. Falling crude prices would likely bring less immediate relief if refined products are slow to respond with additional *available* supply. With another Fed hike likely before year-end, the normal brake of higher real rates may work more slowly this cycle, as large technology companies drive much of the incremental investment and are less sensitive to borrowing costs. A tighter policy will fall more heavily on households, housing, smaller companies and other leveraged borrowers – call them the bottom cohorts in the K-shaped economy. A decisive drop in energy prices that reverses rising yields would be more bullish on equity valuations and economic breadth. The longer-term durability of earnings depends on whether AI-driven productivity gains justify the large amounts of capital committed, and on whether capacity constraints, wage growth or over-tightening interfere.

Canada's economy has navigated a challenging 2026, marked by trade war headwinds with the U.S. and a sharp growth slowdown. Real GDP expanded just 1.1% year-over-year in Q2 2026, well below prior-year trends, and full-year 2026 growth is now expected to come in around 0.7%, the weakest since 2015 outside the pandemic. The labor market has deteriorated meaningfully over the last quarter, with unemployment rising to 6.7% in October 2026, following a surprise loss of 68,300 jobs in September. This weakness was unexpected after a general trend this year of “low hire, low fire” – similar to U.S. labor markets. Inflation, meanwhile, has re-accelerated to 3.1% year-over-year as of September 2026, complicating the policy picture for the Bank of Canada, which raised its overnight rate to 2.5% in October. This was the first hike in over three years, and governors signaled a cautious, meeting-by-meeting approach given elevated uncertainty around oil prices, the U.S. trade conflict, and weakening economic conditions.

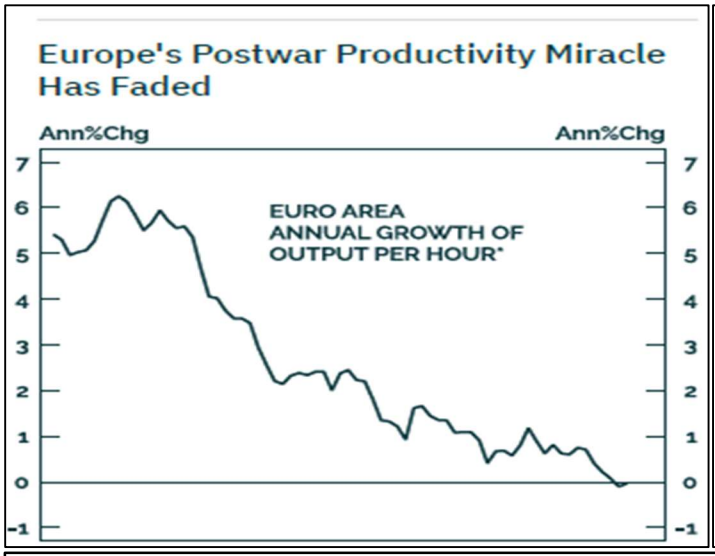
Looking ahead, the outlook is mixed but cautiously constructive. The Bank of Canada (BoC) has signaled further rate hikes remain possible in 2027, and some expect the BoC to continue tightening while the Fed and European Central Bank (ECB) pivot toward cuts. This dynamic could support the Canadian dollar over the medium term, though energy price volatility remains a key downside risk. On the fiscal side, PM Carney's government has framed its budget around an "Investment Supercycle," targeting infrastructure and energy transition spending to stimulate longer-run growth. A Canada-Alberta pipeline deal struck in May 2026 could support energy sector activity from 2027 onward. Business sentiment, while still negative, has been gradually improving this year. The central tension for the next few quarters is stagflationary: growth is fragile and the labor market is softening, yet rising inflation limits the BoC's ability to ease, leaving the economy in a delicate balancing act as they embark on ambitious, fiscal policy initiatives.

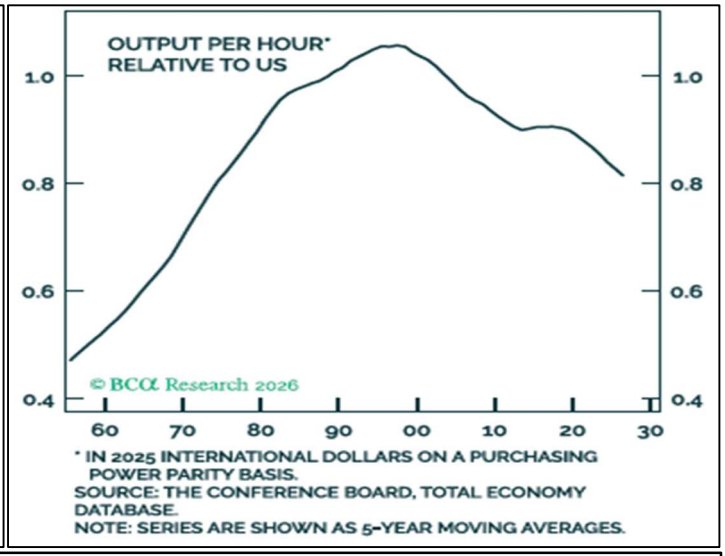
Western Europe

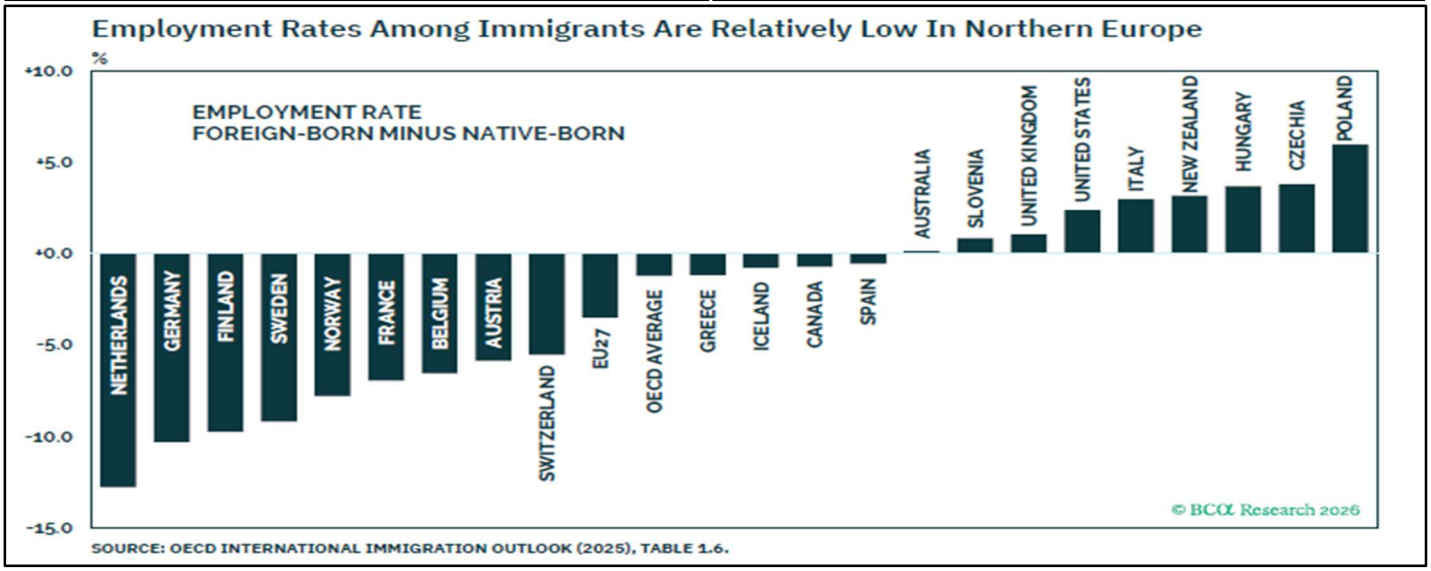
Europe's recovery in earnings looks durable, with second-quarter earnings up more than 16% year-over-year, driven by broad revenue growth, higher margins, and better returns, led by banks and supported by a renewed investment cycle and EU consolidation reforms. However, a stronger euro, elevated energy prices, and geopolitical risk remain headwinds. At the same time, "China Shock 2.0" is turning China from a customer into a subsidized competitor in autos, batteries, machinery, and chemicals, widening Europe's goods deficit with China to about €400 billion. This has prompted the EU to increase tariffs, local-content rules, quotas, and investment screening. This confrontation exposes risks to China's subsidy-supported, export-led model, while modestly raising European import costs, and investors may find better opportunities in grid, automation, and electrical-equipment suppliers than in “protected” industries in either market. With AI-driven U.S. trade showing fatigue and falling oil and gas prices helping Europe's margins and inflation outlook, Europe remains well positioned with a greater mix of defensive sectors (e.g., Health Care/Consumer Staples vs. Information Technology). Given

high levels of economic uncertainty, equity exposures should skew higher in quality and defensive sectors as a portfolio ballast.

Europe's core structural problem is that the productivity and demographic gains that once financed its generous welfare states have reversed. Productivity has stagnated under high taxes and increased regulation, while aging and record-low fertility are shrinking the workforce and increasing pension and health-care demands. Immigration softens the population decline, but policy has been dysfunctional in converting this inflow into broad economic capacity. Although many immigrants contribute positively, employment rates are materially below native-born rates in much of northern Europe, educational attainment lags, and in France half of *second-generation* immigrant high-school students were functionally innumerate in 2025. That weak integration raises the risk that a larger share of immigrants depends on public resources rather than adding fully to the tax base, labor supply, capital formation, and savings needed to sustain their welfare model. Meanwhile, China has turned from a major export market into a powerful industrial competitor. Higher taxes are encouraging affluent and highly skilled residents to emigrate, and political resistance to reform leaves fiscally strained countries, particularly France, exposed to a market-driven debt crisis with wider euro-area repercussions. These are risks to consider as we search for high-quality, multinational companies in the region.



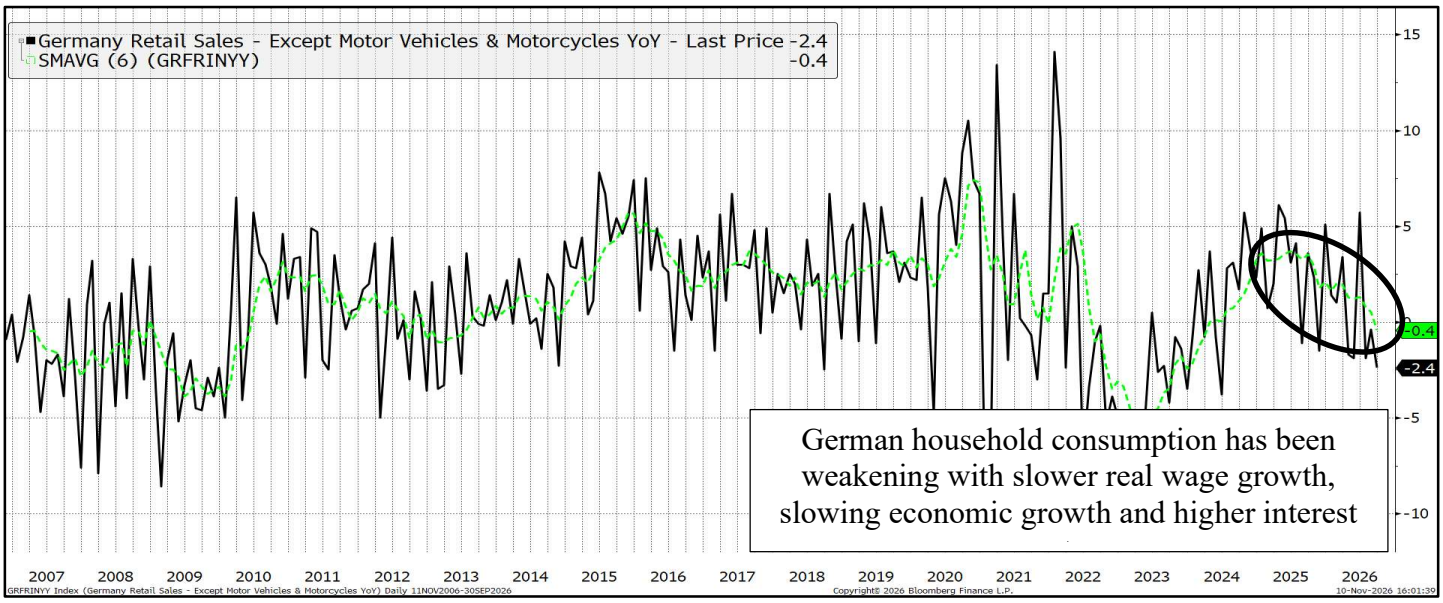




Source: BCA Research

Germany's economic recovery in 2026 remains fragile and uneven. GDP growth is forecast at around 1.1–1.3% for the year, following two years of contraction, with momentum driven primarily by government-backed infrastructure and defense spending rather than a broad domestic rebound. On the fiscal side, the general-government deficit has widened materially –

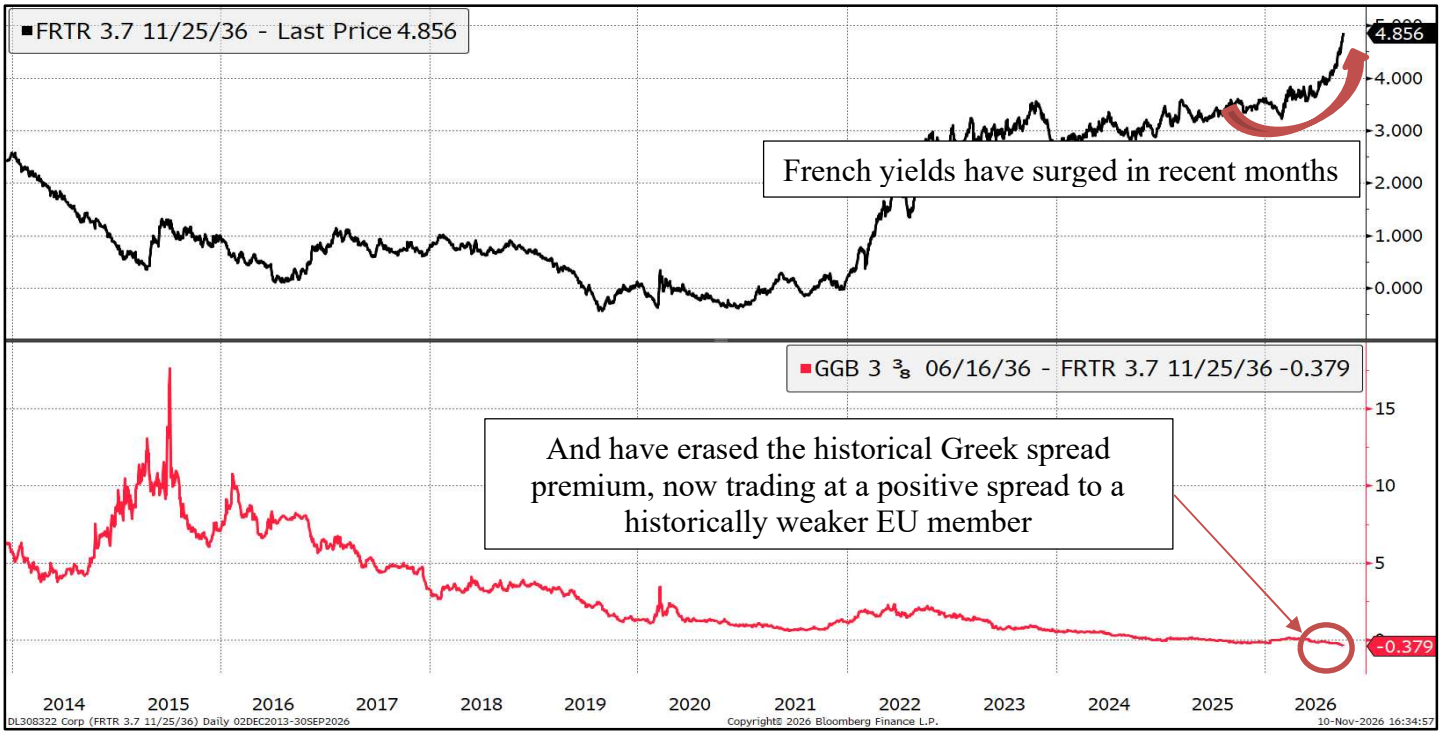
projected at 3.8-4.0% of GDP in 2026 – as the government draws on its €500 billion infrastructure fund and ramps up defense outlays. Special-fund borrowing is estimated at €60 billion in 2026, though execution of the full budget may fall short of targets. Inflation remains above target at approximately 2.7–2.9%, prompting the ECB to raise rates by 25 basis points in June and, again, in September. Elevated prices continue to squeeze household purchasing power. German retail sales ended Q3 on a weak note, with September volumes falling sharply month over month – the second-largest monthly decline since 2022 – as food, non-food, and fuel categories all contracted, and real wages remained negative for a *14th consecutive month*, leaving the German consumer under meaningful pressure heading into year-end. Industrial output remains a weak spot – machinery, production equipment, and construction investment are all below pre-pandemic levels, and manufacturing has shed roughly 350,000 jobs since early 2024.



Source: Bloomberg LP, LKCM

On the external side, Germany's trade position remains in surplus, though first-half 2026 goods exports rose only 3.9% to €817.8 billion while imports rose 4.7% to €712.1 billion, yielding a €105.7 billion surplus. However, exports to the United States fell 6.1%, and imports from China rose 8.8%, reflecting shifting trade dynamics and geopolitical pressures. On the social policy front, the picture is strained. Social-security deficits are widening as expenditure outpaces revenue, unemployment stands at 6.4% (nearly 3 million people), and a shrinking labor force poses a structural constraint on long-term growth. Coalition divisions continue to complicate reform on pensions, taxes, and welfare, raising the risk that new fiscal space is absorbed by borrowing rather than productive structural investment, and that defense spending increasingly competes with childcare, education, healthcare, and retirement outlays.

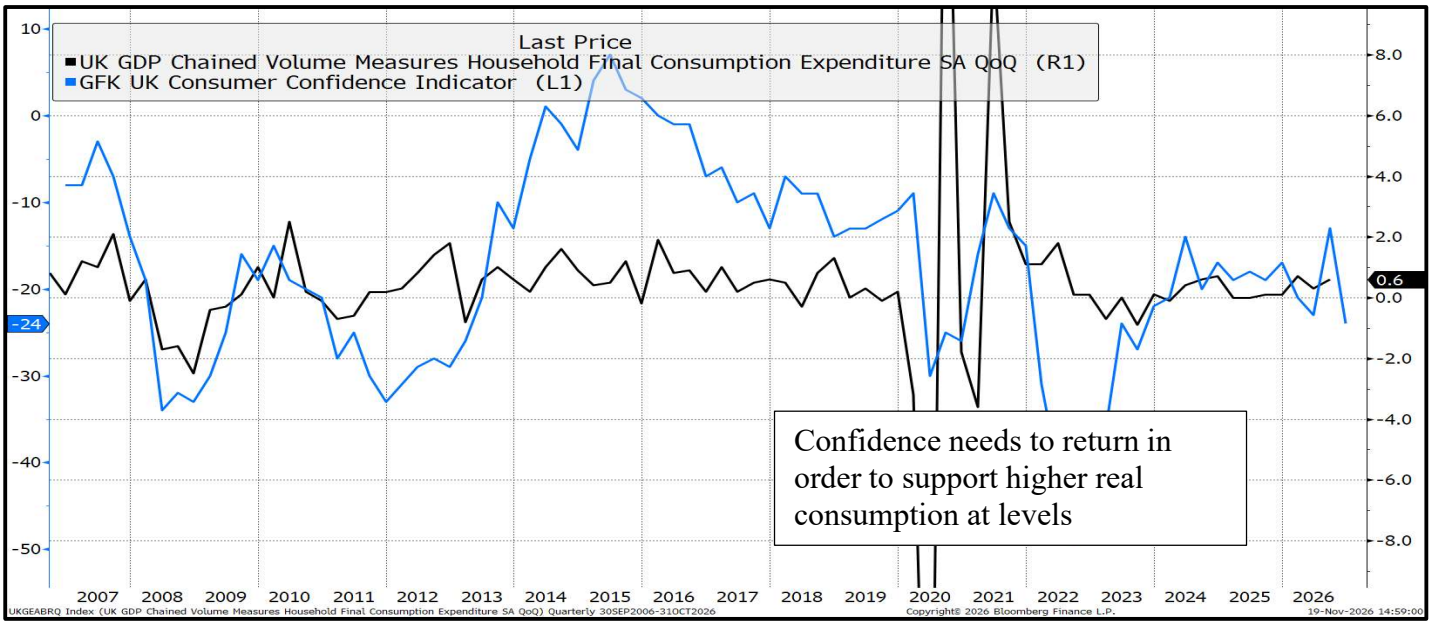
France's capital markets are under mounting pressure from an interlocking set of fiscal, political, and social stresses. The economy *contracted* 0.1% in Q3 2026 – below the +0.1% consensus – prompting the Bank of France to signal a downward revision to its 2026 GDP forecast of +0.4%, while the year-to-date budget deficit has already reached €159.2 billion through September, implying a 5.1% of GDP deficit. France has violated the EU's 3% Stability and Growth Pact deficit threshold for six consecutive years. Against this backdrop, the OAT–Bund 10-year spread widened to a peak of ~173 bps on October 22 before partially retracing. These French sovereign 10-year bonds now require a *positive* spread premium to Greek 10-year sovereign bonds – quite a reversal from the European P-I-G-S debt crisis of ten years ago. Both Fitch (negative outlook) and Moody's (negative outlook) have flagged the deteriorating trajectory, with Fitch specifically citing higher borrowing costs and a widening deficit. Critically, OATs are majority held by foreign investors who are increasingly price-sensitive - a structural vulnerability that amplifies spread volatility and raises the risk of a self-reinforcing dynamic.



Source: Bloomberg LP

Compounding the fiscal challenge, nationwide social unrest over the cost of living drove consumer confidence to a 13-year low. It pushed the October Composite PMI to 48.4 from 51.1 in September – well below the 50.3 consensus – signaling a deteriorating demand environment. Inflation continues to weigh on real purchasing power, as recent data suggests inflation rising to 3.4% despite weak demand. Unfortunately, expansive government spending supports a *57%* government contribution to GDP, well ahead of the 48%, 46%, 43%, 42%, and 37% contributions from Germany, the United Kingdom, Japan, Canada, and the United States, respectively. It is important to note that governments don't generate organic revenue; government revenue comes from taxing productive parts of the economy. The political fragmentation that has hampered budget discipline shows no sign of resolution, with the National Assembly this week adopting a far-left amendment imposing a special 10% levy on the enterprise value of Vinci Autoroutes. This company manages a French network of toll roads, illustrating an unpredictable legislative risk now embedded in French equities. Taken together, France exhibits the early hallmarks of a debt-trap dynamic: slowing growth reduces the tax base, social pressures constrain spending cuts, borrowing costs rise, and the deficit widens – a feedback loop that, if unbroken, could accelerate rating pressure and further foreign investor rotation out of French government debt.

The FTSE 100 has delivered a solid YTD total return of 8.0%, reflecting resilient UK equity performance despite a challenging macro backdrop. The UK economy is navigating a difficult combination of slowing growth and persistent inflation. The 10-year gilt yield reached its highest level since 2007, while the 30-year gilt yield briefly exceeded 6% - the highest since 1998. Higher gilt yields will raise government borrowing costs over time. Traders are pricing in as many as three further hikes through mid-2027, while some economists see a more limited tightening cycle depending on how the Iran-war-driven energy shock evolves. The IMF's latest forecast puts 2026 GDP growth at 1.3%, though the 2027 outlook has been cut to 1.2%. Labor market conditions have deteriorated throughout the year with job vacancies trending lower. Despite the weakening vacancies, the unemployment rate has drifted lower, though youth unemployment remains historically elevated while labor participation has remained steady. The October Composite PMI rose to 52.9 from 52.0 in September, signaling continued expansion in private-sector activity after breaking into contractionary readings (<50) during May and June. Consumer confidence weakened materially as energy costs remain elevated following the Iran conflict into mid-year. Confidence improved through September before falling again in October. The survey reports remain weaker than pre-COVID era confidence levels, potentially weighing further on already weak household consumption. Growth in government expenditures has exceeded household consumption for thirteen consecutive quarters. While core inflation, excluding Energy, Food, Alcohol, & Tobacco, had been trending lower since mid-2023, it reversed course in May, prompting a policy response: the Bank of England raised rates in November after more stimulative policy in 2024 and 2025.



Source: Bloomberg LP

The fiscal position is severely constrained and carries a debt-trap risk, similar to France. Public-sector net debt stands at 95.1% of GDP with debt-servicing costs projected to reach 4.5% of GDP by 2035 as legacy debt refinances at higher rates. Cumulative borrowing runs £8.1 billion above the OBR's (Office for Budget Responsibility) projected path for the year, and public-sector net borrowing in August 2026 alone came in 23% above their forecast. NATO-qualifying defense spending is set to reach 2.6% of GDP by 2027. Medium-term pressures from aging and the net-zero transition are adding further strain to the fiscal balance. The UK holds the G7's highest share of inflation-linked debt at ~24% of total, which accelerates debt-servicing costs when inflation remains elevated. The political environment offers little relief: the Burnham government's October 29 budget was widely criticized as lacking ambition, welfare spending has been ring-fenced until 2031, and planned defense increases toward 3% of GDP have no identified funding source. With taxes and spending both near 65-year highs, the self-reinforcing dynamic between rising yields, wider deficits, and increased issuance is already in motion.

Asia Pacific

Japan's economy is navigating a historic policy normalization after decades of ultra-loose monetary policy. Real GDP grew 0.9% year-over-year in Q2 2026 – a modest pace reflecting persistent weakness in private consumption even as the inflation picture has durably shifted. Headline CPI stood at 2.1% year-over-year in September 2026, and the BoJ's board has warned that core inflation could exceed 3% later in fiscal 2026. The Bank of Japan (BoJ) raised its benchmark rate to 1.25% at its October meeting, which is the highest level in decades, following a series of quarter-point hikes. Unemployment remains exceptionally tight at 2.4%, and PM Takaichi's government has been broadly supportive of the BoJ's tightening path.

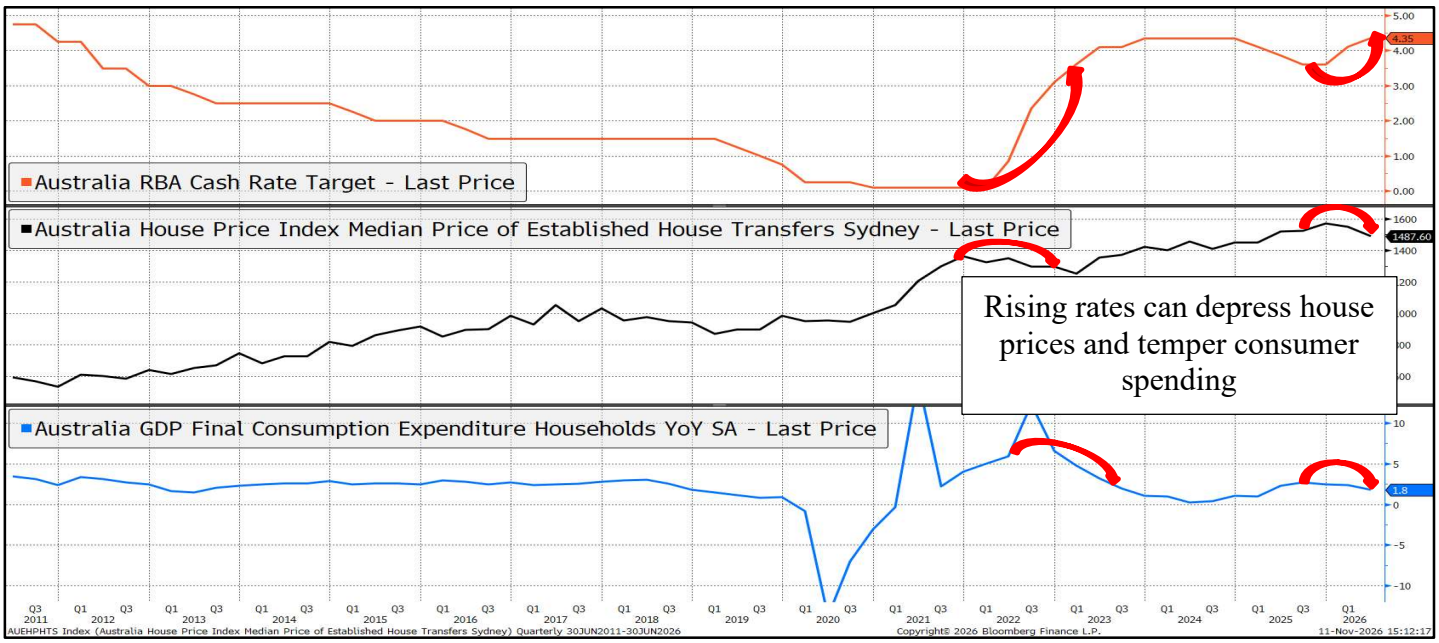
The yen has been the defining variable in Japanese capital markets throughout 2026. USD/JPY weakened to ¥159 in early November, as hotter-than-expected US inflation widened the US-Japan rate differential and fueled additional carry trades. Japan's Ministry of Finance spent a record ¥15.4 trillion (~$97 billion) intervening in FX markets July through August, including a single-day record of ¥7.98 trillion on July 30, in a campaign that included rare joint action with the US. Despite this, the yen has remained under pressure, with Finance Minister Katayama calling on G20 policymakers to monitor markets "with urgency." US Treasury Secretary Bessent's public jawboning campaign, in which he claimed to have "asymmetric information" on the BoJ's next moves, has raised market expectations for tightening to a level some analysts warn the BoJ may struggle to meet without disrupting markets.

The near-term policy path points toward further tightening. The October meeting summary showed the board broadly in favor of more hikes, and a December 2026 hike is now widely anticipated. The central bank modestly raised its FY2026 real GDP growth forecast to 0.7% from 0.6%, reflecting resilient exports. The yen, however, could rally toward ¥147 by end-2027 as the US-Japan interest rate gap narrows. Still, the board remains divided, with some members more cautious

about the impact of rate hikes on [already weak] domestic consumption. The central risk for the next 12 months is that an aggressive tightening path – particularly, if the Fed also stays higher for longer – compresses domestic growth while the yen remains structurally weak, despite rate differentials, leaving the BoJ in a difficult balancing act between its inflation mandate, economic growth, and financial stability.

Australia's economy has held up better than many peers in 2026, with real GDP expanding 2.1% year-over-year in Q2 2026, broadly in line with the IMF's full-year forecast of 2.0%. However, the dominant story is a persistent and worsening inflation problem. Headline CPI reached 4.3% year-over-year in September 2026 - well above the RBA's 2–3% target band; the RBA's own trimmed mean gauge is expected to remain elevated at 3.6% through December. This revised estimate is not six months later than the central bank had previously anticipated for a target. In response, the Reserve Bank of Australia (RBA) delivered its fifth hike in rates during 2026 in November, lifting the cash rate to 4.85%, with Deputy Governor Hauser describing the inflation outlook as "materially worse" than the August forecast. AI-related technology price pass-through was one item flagged as contributing to rising core inflation. Consumer confidence has fallen to a four-year low, with the Westpac Consumer Sentiment Index falling to 78.2 in November. Additionally, a housing downturn is now beginning to weigh on construction and household spending activity. The unemployment rate has risen. Still, it remains at a solid 4.7% as of September 2026. The RBA projects unemployment will rise further as tighter monetary policy bites – forecast to exceed 5.0% for the first time since the 2021 COVID-recovery period.

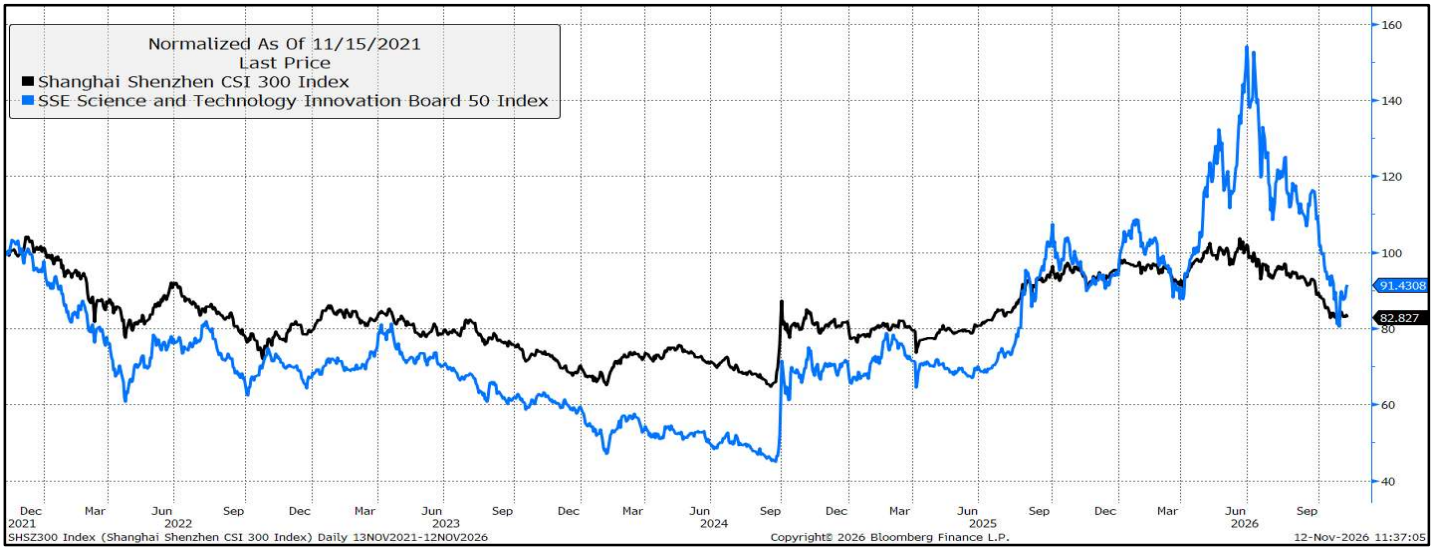
The outlook for the next 12 months is one of deliberate, painful disinflation. The RBA does not expect core inflation to return inside the top of its 2-3% band until late 2027, and the October Bloomberg survey of economists sees the cash rate holding at 4.6% through Q3 2027 before a first cut in Q4 2027. GDP growth is expected to slow to 1.75% in fiscal year 2026–27 according to the government's own budget forecasts, as rate hikes increasingly weigh on consumer spending and the property market. A 5% fall in housing prices typically weakens consumer spending by ~0.8% over two years, adding a structural drag to the cyclical slowdown. The ASX 200 earnings outlook has already been trimmed relative to developed-market peers, with analysts cautious on rate-sensitive sectors. The central tension mirrors Canada's: inflation above target limits the RBA's ability to pivot, even as growth and consumer confidence deteriorate.



Source: Bloomberg LP

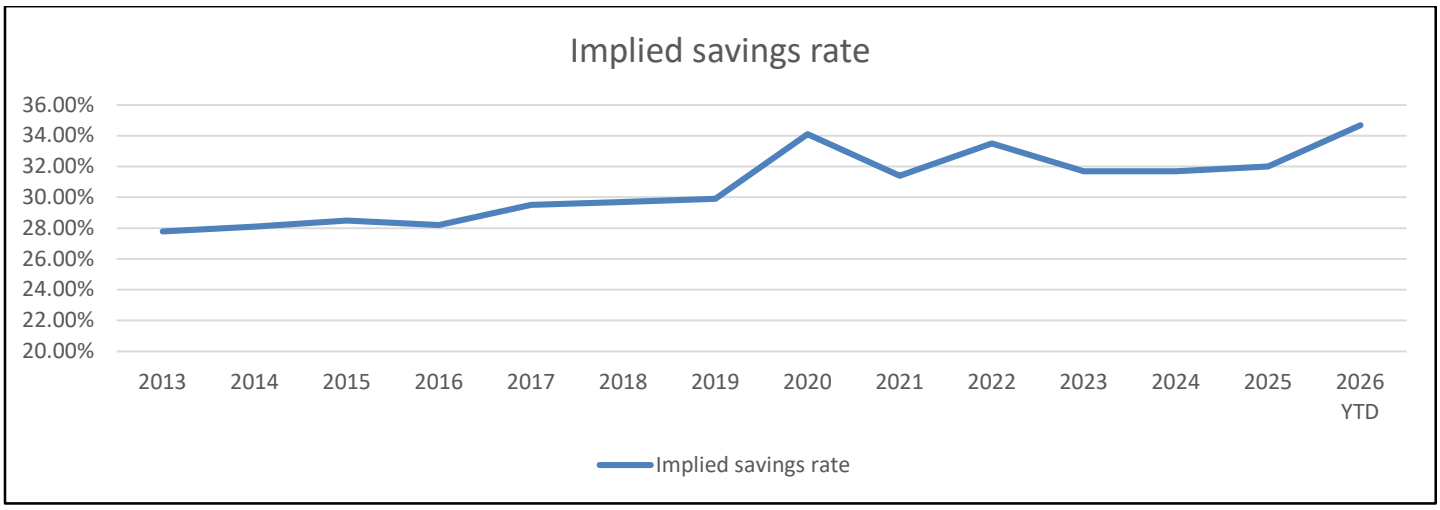
China's capital markets entered 2026 on a strong footing, with Hong Kong's IPO market posting its best quarter since 2021 and early optimism around AI and green technology driving robust issuance. This positive momentum and sentiment attracted significant retail participation during the first and, particularly, second quarter, aided by record margin borrowing and a surge in brokerage activity. The CSI 300 Index and AI-heavy STAR 50 Index gained 8.6% and 64.5%, respectively, during the first two quarters. In early July, the largest historic listing occurred on the Shanghai exchange: CXMT Corp (a

growing memory semiconductor company). The positive capital markets activity was welcome, as China's economy remains caught between substantial policy support and persistent structural weakness.



Source: Bloomberg LP

Beijing's effort to engineer a durable "slow bull" market has been disrupted by a sharp reversal in the AI trade. Unfortunately, conditions deteriorated sharply after mid-year, accelerating through the third quarter and into the fourth, as average onshore trading turnover nearly halved, margin-loan borrowing fell steeply, and a quant-fund selloff spooked retail investors who had piled into the sector. The STAR 50 Index has fallen roughly 48% from its July high, while the broader CSI 300 has declined approximately 21% from its June peak. The earlier rally had been an important policy objective, as regulators hoped rising equity prices would offset housing-related wealth losses and encourage households to shift savings into stocks. Instead, recent market declines, disappointing earnings, and concerns surrounding the sustainability of AI spending have weakened sentiment and complicated efforts to channel household savings toward productive investment. Capital markets responded by dampening risk appetite across both equity and credit markets, compressing prospective IPO deal terms, narrowing the offshore bond market to only the most creditworthy policy-linked issuers, and triggering credit stress events, such as the Zhuhai Huafa Group. Although Chinese investors assumed more equity risk during the rally, recent data suggest a renewed preference for caution, with inflows returning to money-market funds, bond products, and time deposits. Falling housing values, employment concerns, and renewed equity-market volatility are reinforcing elevated savings rates and weighing on – already weak – domestic consumption.



Source: National Bureau of Statistics of China

Exports continue to provide an important offset to weak domestic demand, but that dependence is creating increasing external friction. Strong overseas demand for semiconductors, machinery, green technology, and vehicles has kept factories running and driven another year of exceptionally large trade surpluses, helping stabilize growth despite a sluggish domestic economy. However, many trading partners increasingly view China's export success as stemming from state subsidies and resulting overcapacity, leading to growing protectionist responses. Most recently, the European Union proposed an import cap of 350,000 Chinese-made hybrid vehicles annually, following earlier tariffs on Chinese battery-electric vehicles after they flooded local markets with excess [subsidized] supply. Chinese manufacturers may respond by accelerating local production inside Europe. Still, the broader trend is clear: as China relies more heavily on exports to sustain growth, it faces rising risks from quotas, tariffs, and other trade barriers. The result is an economy that remains capable of generating respectable headline growth but is becoming increasingly dependent on external demand at a time when key export markets show greater willingness to defend domestic industries.

The most significant geopolitical risks to global growth are concentrated in four areas. The Iran conflict, now more than eight months old, remains the most acute near-term threat. The Strait of Hormuz is still contested, the U.S. blockade of Iran remains in place, and tanker attacks continue. Qatari-mediated diplomacy has gained momentum, and President Trump has called the war "effectively over" militarily, helping Brent retreat to roughly $93 a barrel from above $113 a week earlier. However, no agreement has been announced, and earlier ceasefires have collapsed, so any re-escalation risks an energy price shock that would hit growth and reignite inflation globally. The conflict has also spread to the Red Sea, where Houthi attacks on Saudi tankers threaten the Bab el-Mandeb chokepoint, a key alternative export route to Hormuz. The Russian invasion of Ukraine remains a persistent strain, and the first Russia-Ukraine talks in nine months, held this week in Abu Dhabi, produced only a prisoner exchange with no breakthrough on territory or security guarantees. The U.S. tariff regime is another major risk. After the Supreme Court struck down the IEEPA tariffs in February and the replacement Section 122 tariffs expired in July, the administration imposed 10–12.5% levies on 60 trading partners. A threatened tariff on the EU over fines on U.S. technology companies would open a new transatlantic front. The third risk is further structural fragmentation of the global trading order. The U.S. declined to renew the USMCA, the U.S.-China trade truce expires January 10, 2027, and the EU and China remain locked in retaliatory export controls. Finally, the Taiwan Strait is a newer risk, with more than 100 Chinese naval and coast guard vessels reported in the western Pacific in early November, possibly as part of a large, unannounced exercise simulating the isolation of Taiwan. Any disruption would threaten the semiconductor supply chains underpinning the AI investment cycle that is sustaining global growth. Overall, the risk of a disorderly trade, economic, or diplomatic rupture that could undermine consensus growth forecasts remains elevated.

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