

For professional and institutional investors only – not to be further circulated. In Switzerland for qualified investors only. In Australia for wholesale clients

Global Economic Scenarios

Our baseline scenario – “resilience despite the risks” – combines constrained Gulf oil supply with a powerful AI capex cycle. We forecast global growth to accelerate from 3.1% this year to 3.6% in 2027, but inflation to remain too high, so central banks will do a few more insurance hikes. The key risks, both to the upside as well as the downside, are from geopolitics – “Peacemaker-in-chief” and “New World Disorder” – and AI – “AI equity & capex collapse”, “AI labour market disruption” and “productivity boom”. We also consider an “investment boom”, a “bond market rout” and a US-China “technological decoupling”.

Our baseline scenario, “resilience despite the risks”, has a 55% probability. Geopolitically, it is conditioned on six months of “no war, no peace” between the US and Iran, followed by a deal that allows Middle East oil supply to normalise. During the impasse, around half of normal crude volumes, but no LNG, still escape the Middle East. We are therefore conditioning on Brent crude oil prices around \$90 per barrel at the end of 2026, easing towards \$75 by the end of 2027 (see Figure 1). But the spread of oil price outcomes across scenarios is unusually large.

In the baseline, the lagged effects of the fuel cost increases that have already happened keep headline inflation elevated. But the underlying disinflationary trend is intact, and second-round effects are limited enough to keep inflation expectations anchored.

Global economic activity is more resilient than the scale of the supply shock would imply. AI-related capex is a powerful tailwind in the US and, via exports, for China and Asia. World trade has hit a fresh high as a share of global GDP, fiscal policy is supportive in Germany and Japan, and China is insulated by its strategic oil reserves. So, in our baseline, we forecast global growth to accelerate from 3.1% this year to 3.6% in 2027, while inflation moderates from 4.5% to 3.8%.

The adjustment therefore falls on interest rates rather than on activity. The Federal Reserve (Fed) follows

September’s hike with another in December, the Bank of England (BoE) hikes in November and in February next year, the European Central Bank (ECB) hikes again in December and then March, and the Bank of Japan (BoJ) hikes again in December and April. We think these are insurance hikes rather than a sustained tightening cycle, in keeping with the latest Fed “dots” (see Figure 2), but there is scope for a larger rates cycle, in both directions, across the alternative scenarios.

Geopolitics is the first axis of uncertainty around the baseline, and the alternatives scenarios are both to the upside as well as the downside.

In “Peacemaker-in-chief” (20% probability), Trump refocuses on diplomacy sooner rather than later. A return to the memorandum of understanding (MoU) with Iran normalises traffic through Hormuz, the US-China relationship is put on a more stable footing, and diplomatic progress towards a Russia-Ukraine ceasefire could also be made. Energy chokepoint constraints that have weighed on activity and pushed up prices since 2022 ease near-simultaneously, oil falls below \$70, and central banks’ next moves are cuts rather than hikes.

The mirror image is “New World Disorder” (25% probability), in which conflict risks escalate and converge. A shortage of air defence munitions and a diminished US deterrent embolden multiple state actors at once, Gulf crude exports fall below a quarter of

normal with both Hormuz and Red Sea workarounds disrupted, so oil prices breach \$120 per barrel and stay elevated for much longer. The global economy experiences a large stagflationary shock alongside a scramble to rearm. Central banks undertake a sustained hiking cycle, while asset prices fall.

AI is the second main risk axis, and it too cuts both ways (see Figure 3).

In "AI equity & capex collapse" (25% probability), weaker monetisation, competition between closed- and open-weight models, a deliberate slowdown in frontier model development, or funding and permitting constraints, cause capital investment and investor optimism to fall off a cliff. Mega-cap equities correct violently and private credit defaults rise, but the recession resembles the 2001 dotcom bust rather than a 2008-style systemic crisis, because the losses sit outside the core of the banking system. Nevertheless, it is a key risk given current market pricing.

On the other hand, in "productivity boom" (also at 25% probability), AI gains arrive faster than expected and are reinforced by deregulation, vindicating Chair Warsh's argument that they are ultimately disinflationary. Growth is higher while inflation and interest rates are lower. There is a significant further equity rally, while the dollar strengthens given the US is at the technological frontier, and inflation expectations fall.

Sitting in between these two outcomes is "AI labour market disruption" (5% probability), in which agentic AI delivers on its productivity promise, but with very disruptive labour market impacts. These occur much faster than policy can respond, so the economy and therefore financial markets are ultimately weaker than they would otherwise be. We think this outcome would require significant policy mistakes to be sustained over a long period of time, hence the relatively low probability.

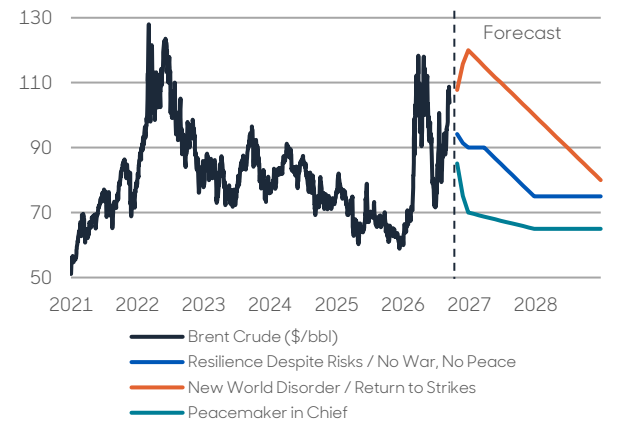
Three scenarios shape the wider distribution. In "investment boom" (15%), hyperscaler capex approaches \$1trn and is reinforced by public spending, lifting growth, inflation and rates together, but in an orderly way. In "bond market rout" (15%), a faster Fed balance sheet run-down and heavy issuance create a "savings dearth" that pushes yields sharply higher, with bond market dysfunction spilling into risk assets. And in "technological decoupling" (10%), a US-China "Sputnik moment" balkanises the global economy along competing technological lines.

Common to many of the scenarios is a world of more frequent supply-side shocks, structurally higher defence spending and shorter supply chains. This keeps inflation volatility elevated, term premia rebuilding, and bond-equity correlations more frequently positive.

Note that our scenario probabilities sum to more than 100%, because we don't think of these scenarios as

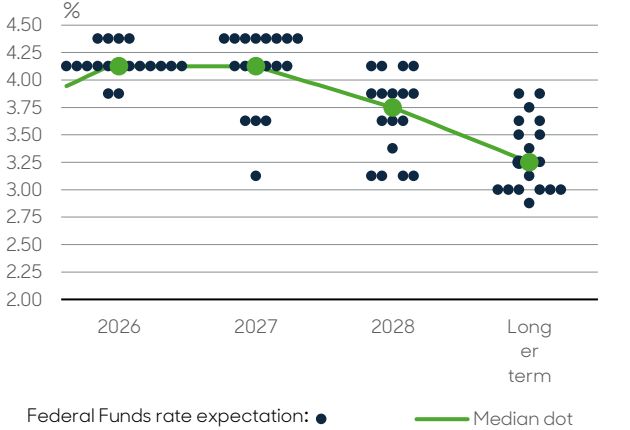
necessarily being mutually exclusive. Nor are they a spanning set of scenarios. These are the most important macro risks we see over a one-to-three-year cyclical time horizon.

Figure 1: The baseline is conditioned on Brent at \$90 by end-2026, easing towards \$75, but the scenario spread is wide



Source: Aberdeen, FactSet, September 2026

Figure 2: The latest "dots" expect one more Fed hike, but alternative scenarios could see a much larger rates cycle



Source: Aberdeen, Federal Reserve, September 2026

Figure 3: AI is a key risk dimension, with various equity and economic outcomes possible

		Equity market impact	
		Positive	Negative
Productivity impact	High	Productivity boom	AI labour market disruption
	Low	It's a bubble, but it keeps inflating – not modelled	AI equity and capex collapse

Source: Aberdeen, September 2026



Resilience despite the risks – 55%

Conflict risk keeps oil and inflation elevated, but AI capex carries global growth through, so the adjustment falls on interest rates rather than activity

Geopolitically, the baseline is conditioned on six months of "no war, no peace" between the US and Iran. While there could be alternating periods of kinetic escalation and relative calm, on average around half of normal crude volumes, but no LNG, escape the Gulf through one route or another. Beyond the six-month point, the baseline incorporates a deal between the US and Iran that sees Middle East oil supply normalise.

The oil conditioning path is therefore for Brent to be around \$90 per barrel at the end of 2026, easing towards \$75 by the end of 2027. Crack spreads also come down as global refining capacity comes back on-line.

Nevertheless, headline inflation stays elevated from the lagged effect of the run-up in fuel costs that has already occurred passing into transport, utility and producer prices. However, the underlying disinflationary trend remains intact, and second-round effects are limited enough to keep inflation expectations anchored.

Economic activity is more resilient than the supply shock would imply. AI-related capex is a powerful tailwind in the US and, via exports, for China and Asia. World trade has hit a fresh high as a share of global GDP (see Figure 5), fiscal policy is supportive in Germany and Japan, and China is somewhat insulated by its strategic oil reserves. And the energy shock eventually fades in the baseline.

The adjustment falls on monetary policy. With growth holding up and inflation above target, central banks tighten into that resilience. The risk is not that the expansion breaks down, but that the price of resilience is a higher path for rates.

Indicative economic and market shocks:

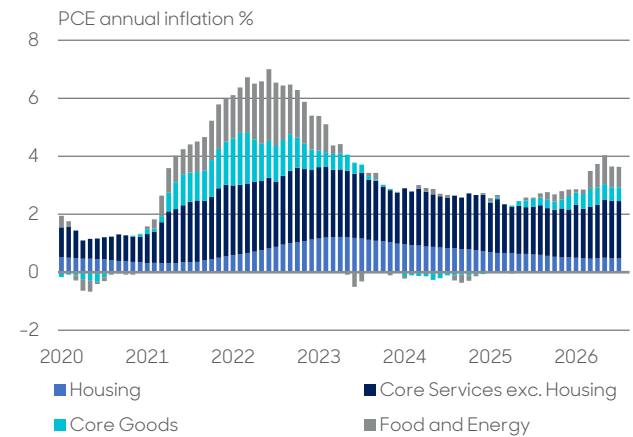
Our global GDP forecast is 3.1% in 2026, rising to 3.6% in 2027. The US grows 2.1% and then 2.5%; the Eurozone slows to 1.1%, before recovering to 1.7%; the UK is at 1.2% and 0.9%; and China slows to 4.6% then further to 4.4%.

Our global inflation forecast is 4.5% in 2026, moderating to 3.8% in 2027 and 3.2% in 2028.

The Fed follows September's hike with another in December, before easing only gradually from late 2027. The BoE hikes in November and February, the ECB in December and March, and the BoJ in December and April (see Figure 6).

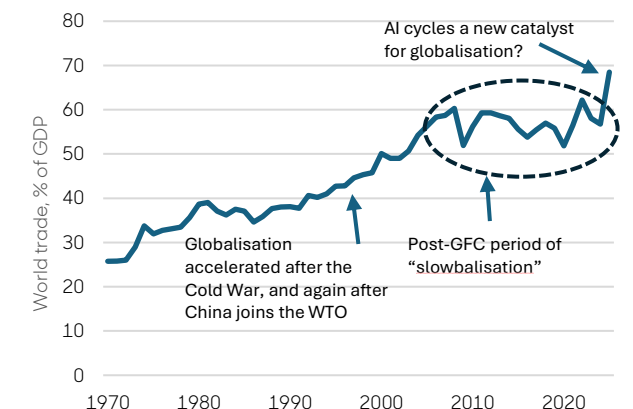
Bond yields stay high, with term premia rebuilding on heavy sovereign and hyperscaler issuance, and curves steepening. Equities are supported by AI-related earnings, but with less help from discount rates, while the dollar is supported by the US rate differential.

Figure 4: Back-to-back shocks have pushed inflation to a level high enough that the Fed has no choice but to respond



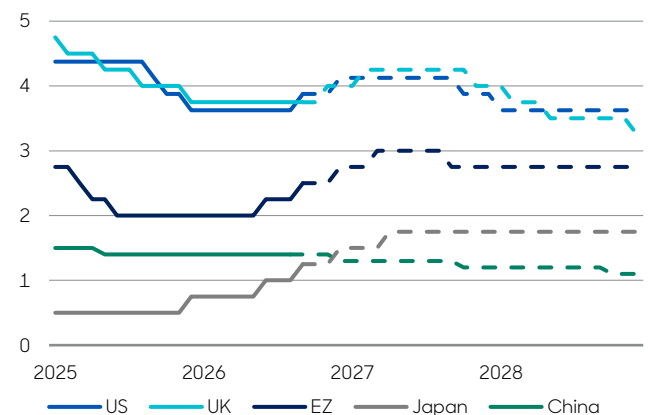
Source: Aberdeen, Haver, September 2026

Figure 5: World trade has hit a fresh high as a share of global GDP, with AI investment a new force for integration



Source: Aberdeen, Haver, September 2026

Figure 6: We are expecting central banks to take out further insurance hikes, but not a sustained tightening cycle



Source: Aberdeen, Haver, September 2026



New World Disorder – 25%

Conflict risks escalate and converge, transmitting a large stagflationary shock to the global economy

Structurally elevated geopolitical risk, a global shortage of advanced air defence munitions, and a diminished US deterrent effect combine to create multiple conflict shocks across the global economy.

The US runs short on interceptor missiles and countries run through their own stockpiles as drone warfare becomes more common (Figure 7). The ensuing global shortage encourages multiple state actors to intensify or launch military action.

Conflict across the Middle East intensifies, with Iranian attacks on shipping through the Strait of Hormuz intensifying, reducing “dark” transits. The Red Sea workaround remains severely constrained as Houthi control of the Bab-el-Mandeb Strait and attacks on Saudi infrastructure escalate. Gulf crude exports are less than a quarter of normal.

Simultaneously, the Russia-Ukraine war broadens, with both sides increasingly targeting energy production and commodity export infrastructure. Russia intensifies grey zone action against European NATO members, through sabotage activity, cyberattacks and frequent drone incursions (see Figure 8).

In Asia, China-Taiwan tensions increasingly manifest through coercive grey-zone activity, cyberattacks and disruptions to critical supply chains.

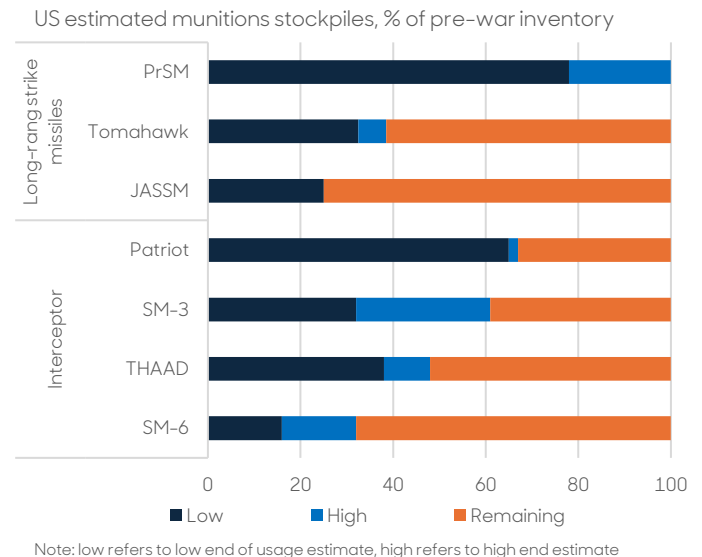
Indicative economic and market shocks:

Oil breaches \$120 a barrel. Damage to energy infrastructure limits the prospect of a rapid recovery in exports even were the geopolitical situation to improve. Strategic petroleum reserves in the US, China and elsewhere reach “tank bottom” (see Figure 9). LNG exports from the Gulf are near zero, resulting in a supply shortfall heading into the European winter heating season. Ukrainian strikes on Russian refineries intensify the global shortage in refined products, with crack spreads widening and US gas prices near \$5 per gallon.

These converging conflict shocks represent a significant negative supply shock to the global economy, pushing inflation higher and growth lower. The geopolitical shock also motivates rapid increases in defence spending as a global scramble for air defence missiles intensifies. This in turn amplifies concerns about the fiscal trajectory of major developed economies.

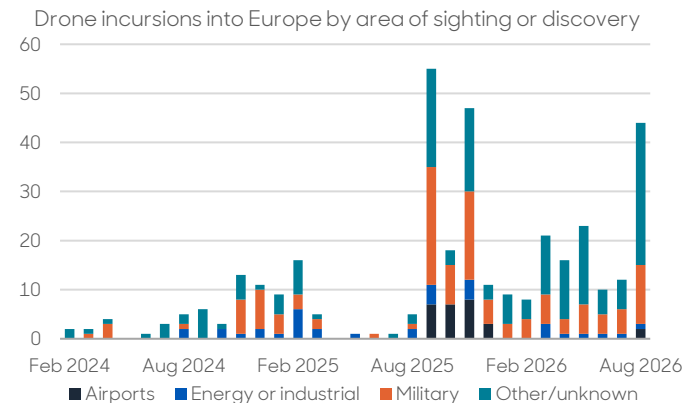
Financial conditions tighten. Term premia increase in response to investors becoming more concerned about long-run inflation, inflation volatility and fiscal trajectories. Equity prices are hit by higher discount rates, weaker risk sentiment and earnings, although energy stocks significantly outperform. The dollar appreciates sharply.

Figure 7: Depleted US munitions may raise global conflict risk



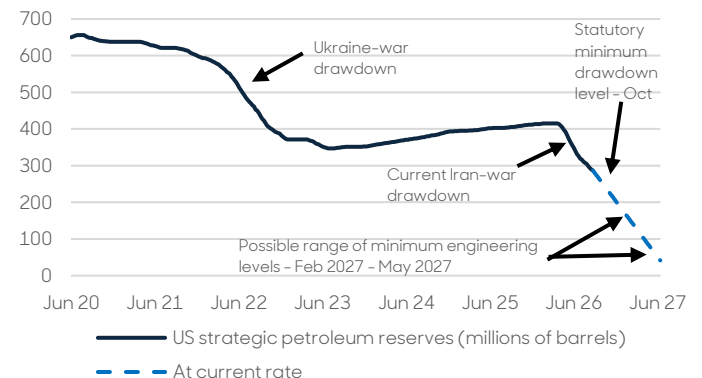
Source: Aberdeen, The Economist, September 2026

Figure 8: Russia is stepping up its hybrid war campaign again



Source: Aberdeen, ACLED, September 2026

Figure 9: US strategic reserves may be approaching critical levels



Source: Aberdeen, US EIA, September 2026



Peacemaker-in-chief – 20%

US diplomatic successes reduce global conflict risks, resulting in a normalisation of commodity exports and unwinding inflationary pressures

President Trump refocuses his foreign policy on diplomacy, returning to the memorandum of understanding (MoU) with Iran, stabilising US-China relations, and potentially even brokering a ceasefire between Russia and Ukraine.

Economic, market and political pressures see Trump return to diplomatic means with Iran (see Figure 10), and Iran's economic pressures make it receptive. A new MoU allows the normalisation of traffic through the Strait of Hormuz (see Figure 11) in exchange for sanctions relief, but concerns about the durability of the deal remain.

With a cessation of hostilities in the Strait of Hormuz, Iranian proxies also wind down military action across the Middle East. Shipping disruptions in the Red Sea end, allowing export flows to normalise across the Gulf. Oil falls below \$70 as risk premia evaporate and transport costs decline. LNG exports resume from the Gulf.

US-China relations move onto firmer ground, as a new framework for dealing with trade tensions is announced and the US opens a more decisive lead in the "AI race", reducing the chances of an abrupt decoupling. Chinese economic strategy pivots to improving resilience, and away from territorial disputes.

Finally, as the crisis in Hormuz abates, US diplomatic efforts return to pushing for a Russia-Ukraine ceasefire. With economic costs for Russia rising, Ukraine facing defence, missile, and manpower shortages, and the front line largely frozen, pressure on both sides to agree a ceasefire becomes more acute.

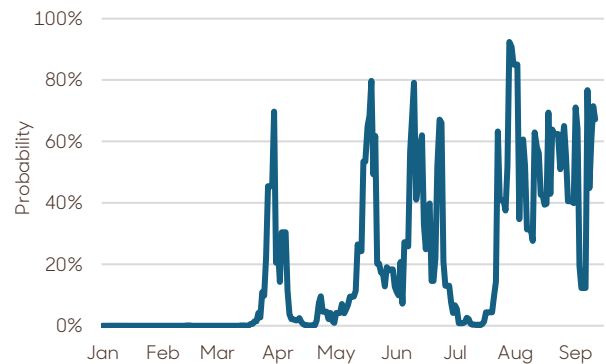
A deal could involve freezing the line of control, ending active conflict, and providing sanctions relief for Russia and reconstruction funding for Ukraine. European NATO members could agree to provide security. Russian refining bottlenecks would ease, and grain and fertiliser flows through the Black Sea recover.

Indicative economic and market shocks:

The global economy benefits from a near-simultaneous easing of "chokepoint" constraints that have weighed on activity since 2022. Concerns about inflation persistence fade as lower energy and freight costs feed through to headline inflation measures (see Figure 12).

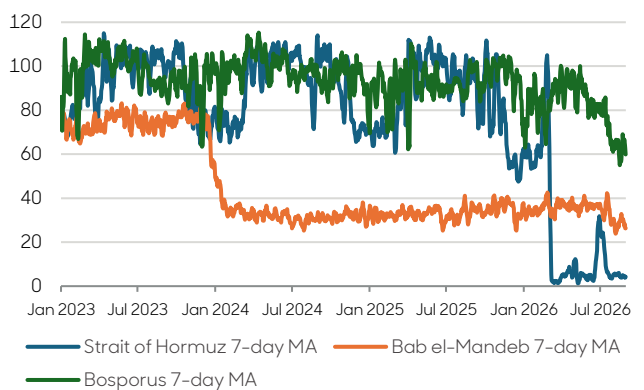
Growth accelerates modestly while inflation falls. Central banks return to cutting interest rates. Fiscal pressures across developed economies lessen as immediate defence spending pressures abate, energy price related subsidies wind down, and yields decline. US, European and Asian equities rally amid strengthening consumer and business sentiment, lower discount rates and reduced uncertainty.

Figure 10: Trump could "TACO" under political and market pressure



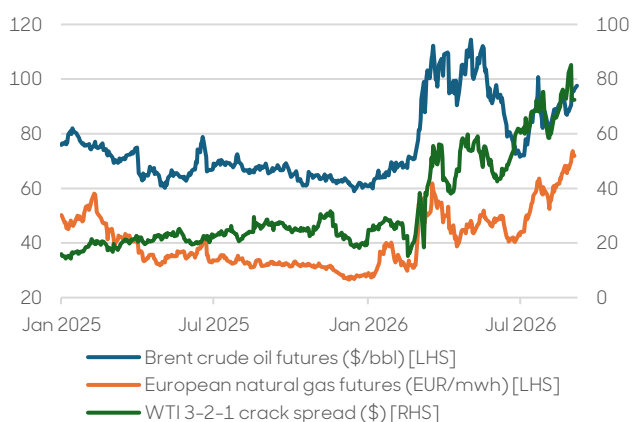
Source: Aberdeen, FRED, Silver Bulletin, September 2026

Figure 11: Maritime chokepoints currently severely affected by conflict disruption would normalise



Source: Aberdeen, IMF PortWatch, September 2026

Figure 12: Oil, gas and refined product prices would fall back



Note: 3-2-1 crack spread approximates a gross profit from

Source: Aberdeen, FactSet, September 2026



AI equity & capex collapse – 25%

AI-related spending collapses, tech stocks fall sharply and private credit defaults surge, triggering a US recession similar to the dotcom bust

After several years of intensive capital spend in AI infrastructure, including data centres, chips, and power projects, there is a collapse in investment spending as sentiment sharply reverses.

This could be triggered by a range of factors: AI adoption proves slower and monetisation weaker than investors expect; rising Treasury yields and heavy debt and equity issuance create funding pressures (see Figure 13); open-weight models reduce compute intensity, or US AI labs deliberately “pace the frontier” in a co-ordinated slowdown of model advances, leaving data-centre investment looking excessive; power, grid and permitting constraints slow the pace of capex; or geopolitical and regulatory developments erode the competitive advantages of US AI leaders.

Either way, mega-cap AI equities correct violently, which leads to wider contagion across equity markets, many sectors of which have been supported by the broader AI build-out (see Figure 14). Private credit defaults increase, venture financing freezes up, and credit spreads widen significantly.

Investment in servers, fabs, data centre construction, and power infrastructure falls off a cliff, leading to a sudden stop in the flow of investment that had previously helped support US GDP growth (see Figure 15). Hiring freezes first hit tech, professional services and specialised construction. This leads to wider layoffs as weakness in these high-wage sectors leads to adverse feedback loops throughout the labour market. Wealth destruction and weaker confidence lead to falls in durable and discretionary consumption.

However, the AI bust does not cause a systemically threatening financial crisis like 2008, as losses faced by equity funds, venture capital and private credit sit outside the core nodes of the banking system. Instead, the recession looks more like the 2001 dotcom bust.

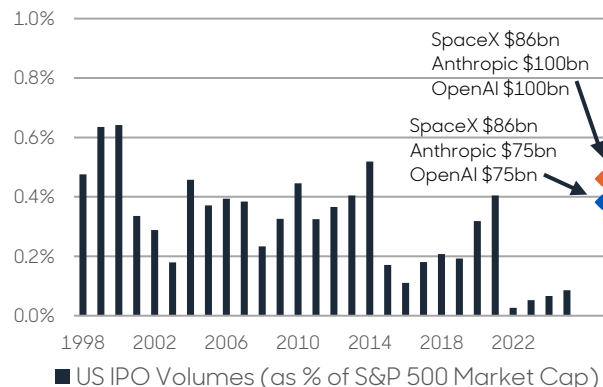
Indicative economic and market shocks:

US GDP declines around 1.5% over three quarters, unemployment rises 2ppts, and sequential core inflation falls below 1% as demand weakens and excess capacity emerges.

The Fed eases policy sharply in response to the weaker growth environment, taking the fed fund rate down to 2%, which is well below neutral.

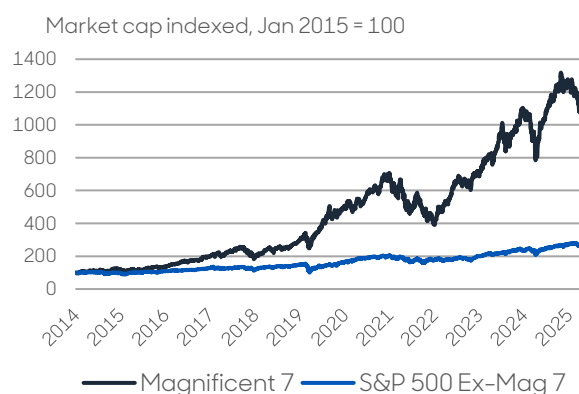
Equities decline sharply, particularly in technology sectors, while bond yields fall and curves steepen. Safe-haven currencies strengthen, and industrial commodity prices decline.

Figure 13: 2026 IPO volumes will be much higher than recent years, and could cause a reassessment of the AI trade



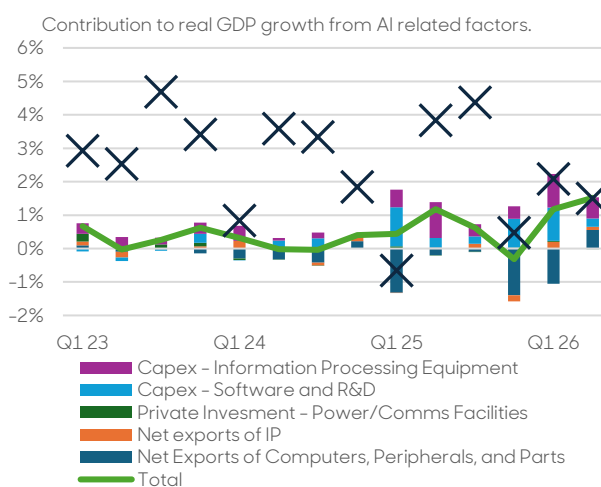
Source: Aberdeen, ASR, September 2026

Figure 14: The “Magnificent 7” tech stocks have supported US equities, but this could reverse



Source: Aberdeen, FactSet, September 2026

Figure 15: AI investment (properly accounted for) has boosted US GDP growth, so a collapse would be a big drag



Source: Aberdeen, Haver, September 2026

AI labour market disruption – 5%

Rapid advances in agentic AI lead to widespread job losses. Inadequate policy responses mean this becomes a sustained downturn

Rapid advances in agentic AI mean it can substitute for a wide variety of service-sector work, including high-paid knowledge-intensive employment (see Figure 16).

The corporate moats of software firms evaporate as AI allows companies to develop low-cost systems in-house. Across customer service, legal, finance, marketing, and other sectors, AI's ability to synthesise data, generate outputs, and take decisions with minimal human oversight leaps forward.

The rise in graduate unemployment (see Figure 17) broadens into generalised technological unemployment among previously well-paid and high-spending households. Aggregate demand weakens, in turn causing more widespread cyclical unemployment even in industries not directly exposed to AI automation.

Delinquencies on mortgages and other household borrowing increase, impairing bank balance sheets. Private credit lenders with large exposure to software and leveraged loans see a big rise in defaults.

Central banks are slow to react, perhaps because of a misdiagnosis that rising unemployment will be short-lived, or because of uncertainty about the move in equilibrium interest rates (r^*) in the context of rising productivity per worker and lingering inflation. Put another way, they are too busy fighting the last war. Eventually, policy rates fall to the effective lower bound, but this is insufficient to adequately stimulate demand.

Government fiscal positions deteriorate as income tax takes decline. The tax base does not pivot quickly enough to capital amid lobbying and vested interests. This curtails fiscal stimulus to support demand. Labour market retraining and reallocation mechanisms are too slow relative to the speed of technological transition.

The process of "creative destruction" – which has historically seen productivity shocks translate into improvements in living standards – breaks down as an extreme "K-shaped" economy morphs into a severe recession (see Figure 18).

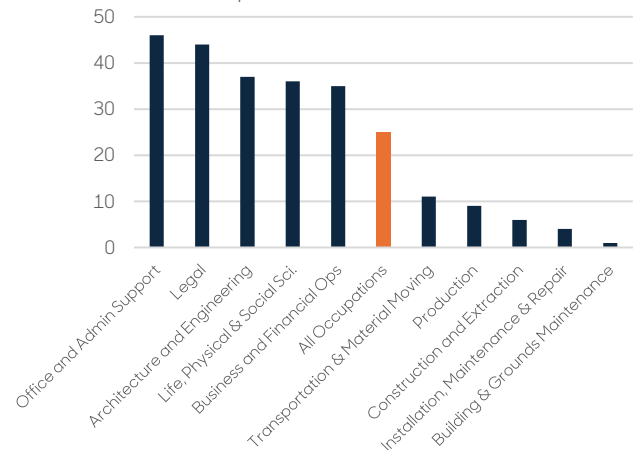
Indicative economic and market shocks:

US unemployment rises to 10%, and GDP contracts 3%-5%. Inflation turns negative. The fed funds rate is ultimately cut to zero and QE resumes. Other service-heavy economies such as in Europe and the UK are hit hard, while manufacturing-intensive economies are relatively more resilient but still suffer.

Equities sell off, with consumer and labour-exposed sectors particularly underperforming, while yields fall sharply and commodities decline.

Figure 16: The range of tasks amenable to rapid replacement by AI could turn out to be extremely wide

Share of occupation employment exposed to AI automation, US, %, top 5 and bottom 5



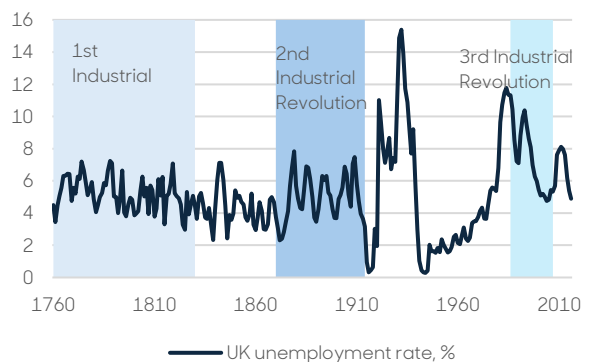
Source: Aberdeen, Goldman Sachs, September 2026

Figure 17: The relative rise in graduate unemployment could become more pronounced and then spread elsewhere



Source: Aberdeen, Capital Economics, Haver, September 2026

Figure 18: No structural rise in unemployment from past innovations, but AI could be different



Source: Aberdeen, Bank of England, September 2026



Productivity boom – 25%

US potential growth is boosted by AI and other supply-enhancing aspects of Trump's agenda. Growth is higher, but inflation and interest rates are lower

The US, and broader global economy, enjoy a positive supply shock, pushing up on growth and down on inflation pressures. A key driver of this are the productivity gains from AI starting to hit the economy more rapidly than expected (see Figure 19).

Output rises faster than hours worked, both through automation of existing roles and boosting the productivity of workers. Job creation is strong in sectors involved in the data centre build-out and in AI-complementary roles, while admin, support, and repeatable tasks see layoffs.

But, at the aggregate level, there is no material increase in unemployment. A growing share of corporates integrates AI into existing workflows (see Figure 20), allowing productivity gains to be realised without a corresponding collapse in employment. Indeed, vacancy durations might shrink, as AI raises the matching efficiency of the labour market. And higher real incomes are recycled into new wants and needs.

Unit labour costs shrink, reducing inflationary pressures, and firms' profit margins widen, encouraging further investment in AI. There is a boom in intangible capex demand including on software and R&D, while demand for data centres, chips, and energy picks up further.

This validates the argument that Fed Chair Kevin Warsh has made that the productivity boost from AI is disinflationary, increasing his credibility with both the rest of the FOMC and financial markets. The Fed is able to ease without stoking inflation.

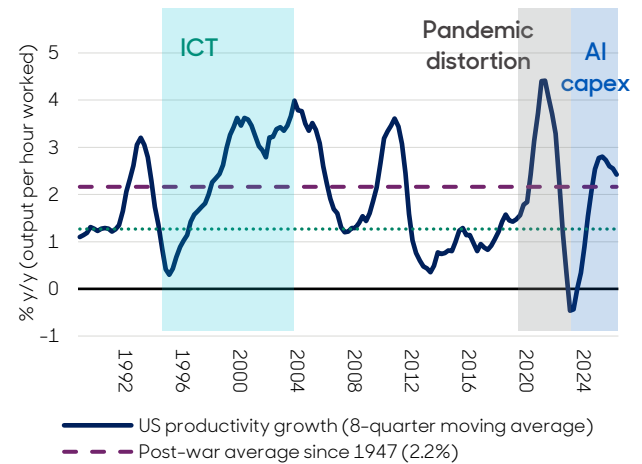
The supply-boosting aspects of Trump's policy agenda could also be supportive. Deregulation of financial services, the anti-trust regime, and the permitting system all help to boost corporate profitability and investment (see Figure 21). Domestic energy production increases, putting downward pressure on prices. Personal and business tax cuts provide incentives to increase labour supply and the capital stock.

Indicative economic and market shocks:

US potential growth rises from under 2% in the post-Covid period, to more than 3%. Unemployment remains around 4%. Underlying inflation falls back to target supported by lower unit labour costs and efficiency gains. Central banks respond by easing policy more than in the baseline, with the Fed funds rate declining to below 3.0%, even though long-run equilibrium interest rates (r^*) rise.

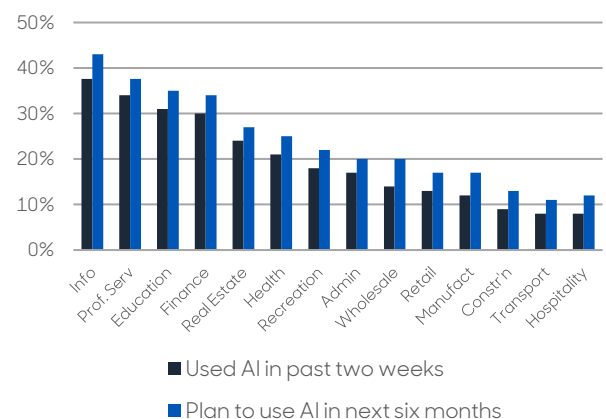
There is a significant equity rally, while the dollar strengthens given the US is at the technological frontier, and inflation expectations fall.

Figure 19: Productivity growth could strengthen if the benefits of AI are realised more rapidly



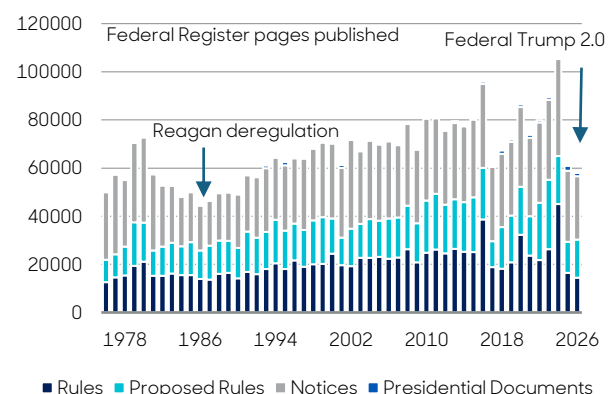
Source: Aberdeen, BLS, FRED, Haver, September 2026

Figure 20: AI usage across the economy is increasing, but could rise substantially further



Source: Aberdeen, Capital Economics, September 2026

Figure 21: Reduced regulatory burden could also support productivity growth



Source: Aberdeen, Federal Register, September 2026

Investment boom – 15%

A global investment surge led by hyperscalers and reinforced by strategic public spending lifts growth, inflation and interest rates

Hyperscalers and sovereigns accelerate investment in data centres, chips, power generation and distribution grids. US cloud spending spreads into equipment, machinery, construction and metals.

The investment cycle exceeds hyperscalers' cash generation. Debt issuance rises alongside sovereign borrowing. US hyperscaler capex beats estimates, and is nearly \$1tn in 2027 (see Figure 22).

The boom broadens globally as economies compete for data centres, energy and AI infrastructure where land or renewable power is abundant. Supply chains expand for semiconductors, cooling systems, transformers and generation equipment.

Public investment reinforces the boom. Europe advances defence and infrastructure spending, led by Germany (see Figure 23). Japan expands strategic investment, while China accelerates renewable generation and grid capacity (see Figure 24). Governments favour productive capacity over household transfers.

Capital formation raises demand before capacity improves supply. So, both growth and inflation increase, particularly in construction, power, capital goods and commodities. The larger capital stock eventually raises potential output, making the expansion more durable than consumption-led stimulus.

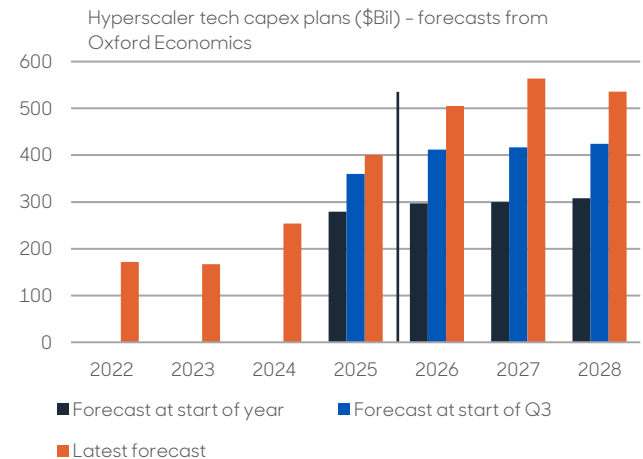
Indicative economic and market shocks:

Central banks maintain more restrictive policy than otherwise. The Fed, ECB, BoE and BoJ all deliver further rate increases through 2026 and into 2027.

Bond yields rise and curves steepen as stronger investment demand, higher inflation and additional corporate and sovereign issuance put upward pressure on real rates and term premia. But the adjustment is orderly, because the borrowing finances productive assets and improves economic resilience rather than simply supporting current consumption.

Equities therefore perform well as earnings expectations rise and the investment cycle broadens beyond the largest technology firms. Commodities strengthen, especially those leveraged in AI and green investment cycles, while the dollar is supported by the US lead in AI investment.

Figure 22: Hyperscaler issuance keeps beating expectations for rapid acceleration



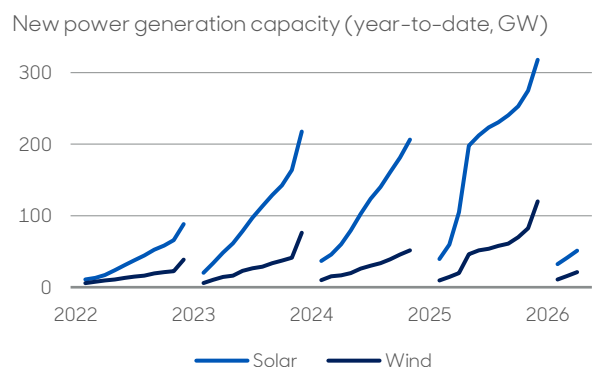
Source: Aberdeen, Oxford Economics, September 2026

Figure 23: If delivery risks are avoided, then German government spending would be set to increase significantly



Source: Aberdeen, Haver, September 2026

Figure 24: China could step up investment in renewables



Source: Aberdeen, Haver, September 2026



Bond market rout – 15%

There is a further damaging rise in yields, amid hawkish monetary policy and balance sheet changes, and increases in sovereign and corporate issuance

Persistently higher energy prices, increasing inflation second round effects, and hawkish central bank reaction function shifts, mean that a larger monetary policy hiking cycle is priced by financial markets. In line with past tightening cycles, 100–300 basis points of policy rate increases are embedded into short-end rates curves, depending on the central bank.

Unhelpfully against this backdrop, the Fed could also accelerate efforts to deliver the institutional and regulatory changes required to sustain a materially smaller balance sheet (see Figure 25). While reduced demand for reserves means money market functioning doesn't break down, investors anticipate significant Treasury and agency securities sales, tightening financial conditions.

And markets fret that the Fed may be less willing to expand its balance sheet in response to future crises. This perceived reduction in a Fed backstop raises equity risk premia.

A further kicker is the continued increase in corporate issuance, particularly from the US hyperscalers and broader AI capex complex. (see Figure 22, again). Hyperscaler issuance eventually rises close to \$1tn per annum, equivalent to half of net US treasury issuance. Instead of the Global Financial Crisis- (GFC) era "savings glut", there is a "savings dearth" that pushes up further on bond yields.

This comes alongside long-standing investor concerns about the size of government debt and deficit levels (see Figure 26), which become more acute as energy support measures and defence spending commitments increase, causing deficit projections to creep higher.

Verbal and actual intervention by policymakers, such as buyback operations, are insufficient to offset these pressures. Increasingly large-scale interventions, such as buybacks funded from the Treasury General Account, or hints at yield curve control, could be tried.

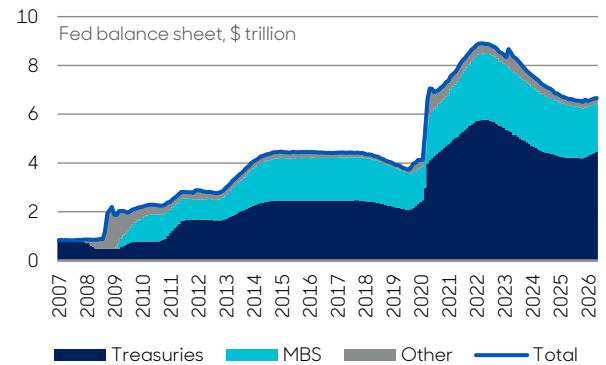
Indicative economic and market shocks:

Bond yields in the US and other developed markets (DMs) rise sharply (see Figure 27) and remain elevated beyond the initial shock. Bond market functioning and liquidity shows signs of stress, including wider bid-ask, basis, and SOFR spreads.

The speed and size of the move, without a concomitant increase in growth prospects, means that equities sell off aggressively.

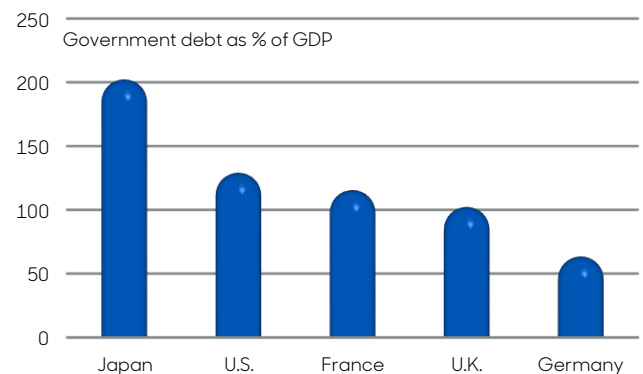
The tightening in financial conditions weighs on growth and inflation.

Figure 25: The Fed balance sheet has started to expand again, but this could reverse under Warsh



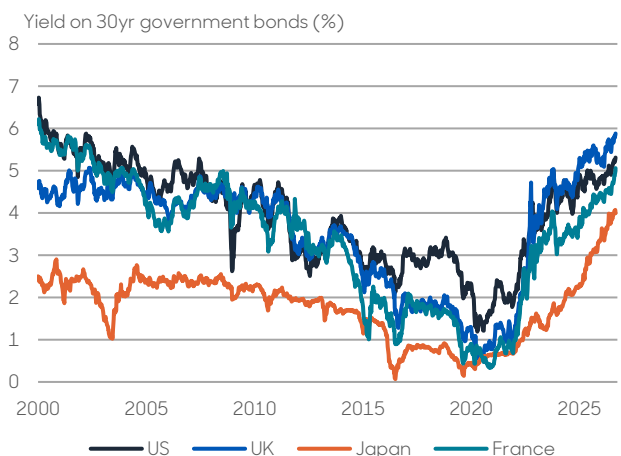
Source: Aberdeen, Haver, September 2026

Figure 26: Countries with higher debt/GDP ratios may be the most vulnerable to sudden shifts in investor sentiment



Source: Aberdeen, Haver, September 2026

Figure 27: Reduced inflation credibility and fiscal pressures could cause long-dated yields to rise further



Source: Aberdeen, Haver, September 2026



Technological decoupling – 10%

There is a more abrupt decoupling of the US and China amid a "Sputnik moment", balkanising the global economy along technological lines

The US and Chinese economies abruptly decouple, caused by Chinese technological progress triggering a policy backlash in the US.

This would be analogous to the "Sputnik moment" in the late 1950s, when Soviet technological advances forced a rapid shift to a security-driven policy footing in the US.

In this scenario, Chinese tech increasingly becomes the gold standard (see Figure 28), and so a significant commercial threat to US tech firms and the US' geopolitical standing.

This could happen via China gaining a lead in frontier large language models (see Figure 29) and perhaps closing in on artificial general intelligence (AGI). A breakthrough in quantum computing that threatens US encryption and security protocols could be another route to shock Western governments.

US politics and policy shifts to a "wartime footing" amid fears that China's technological lead could become insurmountable. Policy drives a rapid buildout of power capacity, data centres and military spending to harden systems. Key tech firms are nationalised, and trade barriers are raised. This includes export restrictions on supply chain inputs and critical technology at both the hardware and software level, and higher tariffs.

China also tightens export controls. And the US uses the dollar-based financial system to try to slow China, while forcing other countries to choose a side. The global economy increasingly shifts into opposing blocs, as the global balance of power abruptly shifts (see Figure 30).

Threats of sanctions and the freezing of assets result in a violent repatriation of capital within these blocs.

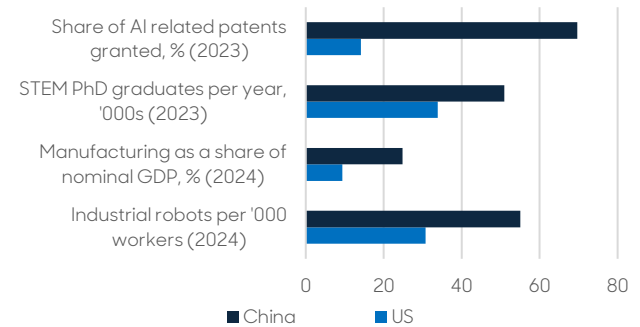
Indicative economic and market shocks:

Inflation rises initially on the combination of supply disruption from fragmentation and the "wartime footing" investment surge in strategic sectors. Subsequently, growth and inflation weaken as efficiency suffers and excess capacity across blocs takes hold.

Central banks are constrained by higher inflation, limiting scope for easing. DM financial conditions tighten as capital flows fragment, including China selling Treasuries. EM yields could decline amid Chinese productivity growth but falling EM ex. China export share.

US tech equities come under pressure, as do those of globally integrated sectors. Currency markets fragment, with USD weakening versus RMB. Commodity prices are mixed, with higher costs linked to fragmentation but suffering from expectations of weaker global demand.

Figure 28: China has the skills to create a 'Sputnik' moment, which could cause a sudden shift in US policy



Source: Aberdeen, Haver, International Federation of Robotics, Stanford AI Index 2025 Annual Report, September 2026

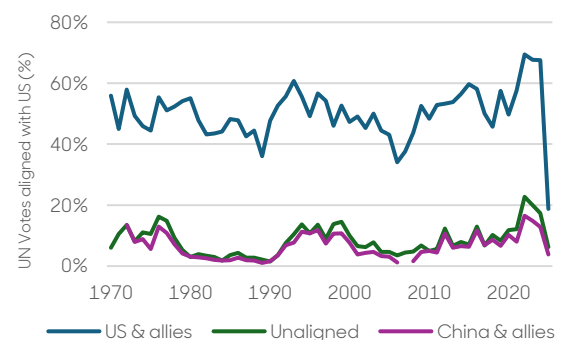
Figure 29: China's Kimi K3 model broke into the top 5 LLMs in July, amplifying commercial and cyber-security concerns

Top 5 LLMs based on model performance (judged from reasoning, knowledge, math and coding tests)			
Nationality	Company	LLM	Type
US	Anthropic	Claude Mythos 5	Closed
US	Anthropic	Claude Opus 5	Closed
US	OpenAI	GPT-5.6 Sol	Closed
China	Moonshot	Kimi K3	Open
US	Anthropic	Claude Opus 4.8	Closed

Top 5 LLMs based on usage (weekly tokens)			
Nationality	Company	LLM	Type
China	Tencent	Hy3	Open
China	Xiaomi	MiMo-V2.5	Open
China	DeepSeek	DeepSeek V4	Open
China	MiniMax	MiniMax M3	Open
China	Zhipu AI	GLM 5.2	Open

Source: Aberdeen, Artificial Analysis Intelligence Index, BenchLM.ai LLM Leaderboard, OpenRouter LLM Rankings, September 2026

Figure 30: The US could become less influential on the global stage as the world balkanises and countries 'pick sides'



Source: Aberdeen, Capital Economics, September 2026



Important Information

For professional and Institutional Investors only – not to be further circulated. In Switzerland for qualified investors only.

Risk warning

The value of investments, and the income from them, can go down as well as up and an investor may get back less than the amount invested. Past performance is not a guide to future results.

Copyright in this content from the Global Macro Research team belongs to the Aberdeen Group and our licensors. You may quote this content (excluding any Third Party Data) provided you acknowledge Aberdeen Investments as the source.

Any data contained herein which is attributed to a third party ("Third Party Data") is the property of (a) third party supplier(s) (the "Owner") and is licensed for use by Aberdeen*. Third Party Data may not be copied or distributed. Third Party Data is provided "as is" and is not warranted to be accurate, complete or timely. To the extent permitted by applicable law, none of the Owner, Aberdeen* or any other third party (including any third party involved in providing and/or compiling Third Party Data) shall have any liability for Third Party Data or for any use made of Third Party Data. Neither the Owner nor any other third party sponsors, endorses or promotes the fund or product to which Third Party Data relates.

*Aberdeen means the relevant member of the Aberdeen Group, being Aberdeen Group plc together with its subsidiaries, subsidiary undertakings and associated companies (whether direct or indirect) from time to time.

The information contained herein is intended to be of general interest only and does not constitute legal or tax advice. Aberdeen does not warrant the accuracy, adequacy or completeness of the information and materials contained in this document and expressly disclaims liability for errors or omissions in such information and materials. Aberdeen reserves the right to make changes and corrections to its opinions expressed in this document at any time, without notice.

Some of the information in this document may contain projections or other forward-looking statements regarding future events or future financial performance of countries, markets or companies. These statements are only predictions and actual events or results may differ materially. The reader must make his/her own assessment of the relevance, accuracy and adequacy of the information contained in this document, and make such independent investigations as he/she may consider necessary or appropriate for the purpose of such assessment.

Any opinion or estimate contained in this document is made on a general basis and is not to be relied on by the reader as advice. Neither Aberdeen nor any of its agents have given any consideration to nor have they made any investigation of the investment objectives, financial situation or particular need of the reader, any specific person or group of persons. Accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the reader, any person or group of persons acting on any information, opinion or estimate contained in this document.



This communication constitutes marketing, and is available in the following countries/regions and issued by the respective Aberdeen Group members detailed below. The Aberdeen Group comprises Aberdeen Group plc and its subsidiaries: (entities as at 01 April 2026)

United Kingdom (UK)

abrdn Investments Limited registered in Scotland (SC108419) at 1 George Street, Edinburgh EH2 2LL. Authorised and regulated in the UK by the Financial Conduct Authority.

Europe¹, Middle East and Africa

¹In EU/EEA for Professional Investors, in Switzerland for Qualified Investors - not authorised for distribution to retail investors in these regions

Belgium, Cyprus, Denmark, Finland, France, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, and Sweden: Produced by abrdn Investments Limited which is registered in Scotland (SC108419) at 1 George Street, Edinburgh EH2 2LL and authorised and regulated by the Financial Conduct Authority in the UK. Unless otherwise indicated, this content refers only to the market views, analysis and investment capabilities of the foregoing entity as at the date of publication. Issued by abrdn Investments Ireland Limited. Registered in Republic of Ireland (Company No.621721) at 2-4 Merrion Row, Dublin D02 WP23. Regulated by the Central Bank of Ireland. Aberdeen Investments Global is a business name of abrdn Investments Ireland Limited. **Austria, Germany:** abrdn Investments Limited registered in Scotland (SC108419) at 1 George Street, Edinburgh EH2 2LL. Authorised and regulated by the Financial Conduct Authority in the UK. **Switzerland:** abrdn Investments Switzerland AG. Registered in Switzerland (CHE-114.943.983) at Schweizergasse 14, 8001 Zürich. **Abu Dhabi Global Market ("ADGM"):** abrdn Investments Middle East Limited, Cloud Suite 403, 11th floor, Al Sarab Tower, Abu Dhabi Global Market Square, Al Maryah Island, P.O. Box 5327224, Abu Dhabi, United Arab Emirates. Regulated by the ADGM Financial Services Regulatory Authority. For Professional Clients and Market Counterparties only. **South Africa:** abrdn Investments Limited ("abrdnIL"). Registered in Scotland (SC108419) at 1 George Street, Edinburgh EH2 2LL. abrdnIL is not a registered Financial Service Provider and is exempt from the Financial Advisory And Intermediary Services Act, 2002. abrdnIL operates in South Africa under an exemption granted by the Financial Sector Conduct Authority (FSCA FAIS Notice 3 of 2022) and can render financial services to the classes of clients specified therein. Aberdeen Investments Global is a business name of the foregoing entities.

Asia-Pacific

Australia and New Zealand: abrdn Oceania Pty Ltd (ABN 35 666 571 268) is a Corporate Authorised Representative (CAR No. 001304153) of AFSL Holders MSC Advisory Pty Ltd, ACN 607 459 441, AFSL No. 480649 and Melbourne Securities Corporation Limited, ACN 160 326 545, AFSL No. 428289. In New Zealand, this material is provided for information purposes only. It is intended only for wholesale investors as defined in the Financial Markets Conduct Act (New Zealand). **Hong Kong:** abrdn Hong Kong Limited. This material has not been reviewed by the Securities and Futures Commission. **Japan:** abrdn Japan Limited Financial Instruments Firm: Kanto Local Finance Bureau (Kinsho) No.320, License: Investment Management Business, Investment Advisory and Agency Business, Type II Financial Instruments Business. Membership: Investment Management Association of Japan, Type II Financial Instruments Firms Association. **Malaysia:** abrdn Malaysia Sdn Bhd, Company Number: 200501013266 (690313 -D). This material has not been reviewed by the Securities Commission of Malaysia. **Thailand:** Aberdeen Asset Management (Thailand) Limited. **Singapore:** abrdn Asia Limited, Registration Number 199105448E. Aberdeen Investments Global is a business name of the foregoing entities.

Copyright © Aberdeen Group plc 2026. All rights reserved.

AA-250926-213382-98

