

Macro at a Glance: Latest views and forecasts

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Changes to flag this week:

- Pushed backed the final two Fed rate cuts we expect to December 2026 and March 2027 (vs. September and December 2026 previously) to reflect recent inflation surprises, better labor market data, and growing hawkishness within the FOMC.
- Lowered our 12-month US recession probability to 25% (from 30%) as economic activity has held up well and our financial conditions index has eased back below pre-Iran war levels.
- Raised our YE26 2y/5y US Treasury yield forecasts to 3.40%/3.65% (from 3.20%/3.55%) to reflect the later Fed cuts we now expect.
- Revised our Euro area inflation forecasts to reflect the broadening impact of higher energy prices and now expect a higher and later core inflation peak of 2.7% yoy in 2Q27 (vs 2.5% in 3Q26 previously).
- Raised our 2026 full-year China headline PPI inflation forecast to 2.0% yoy (vs. 1.2% previously) following stronger-than-expected April PPI inflation data.
- Lowered our 3/6/12m USD/CNY forecasts to 6.80/6.70/6.50 (from 6.85/6.80/6.70) as China’s deep levels of export competitiveness and its still highly undervalued currency should lead to continued CNY strength.
- Raised our YE26/YE27 10y Japanese Government Bond yield forecasts to 2.5%/2.25% (vs. 2% for each previously) to reflect a more durable increase in risk premium amid fiscal and inflation risks.
- Raised several of our Asian equity targets, including raising our 3/6/12m MXAPJ index targets to 900/940/990 (from 830/870/920) to reflect stronger earnings driven largely by tech hardware and semiconductors.

Watching

- **WATCH THE IRAN WAR.** The situation remains fluid as the Iran war ceasefire remains fragile and oil flows through the Strait of Hormuz remain very low, with risks to economies and markets growing the longer these supply disruptions continue.
- **Globally,** we expect real GDP growth of 2.4% yoy in 2026 amid growing

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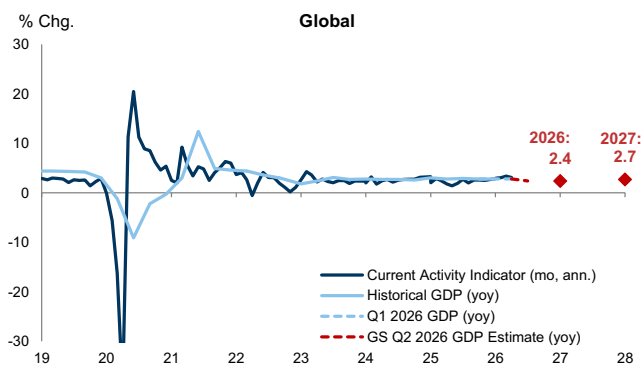
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headwinds from higher energy prices owing to the Iran war. We expect global core inflation to decline to 2.5% by the end of 2026, reflecting a fading tariff boost and further normalization in shelter and wage inflation but a boost from higher energy prices.

- **In the US**, we expect real GDP growth of 1.9% on a Q4/Q4 basis in 2026, reflecting a drag from higher oil prices and elevated geopolitical risk. We expect core PCE inflation to fall to 2.7% yoy by December 2026, as the tariff boost fades and wage and shelter inflation continue to cool, though higher oil prices and AI-related price pressures provide some offset. We expect the unemployment rate to end 2026 at 4.6%.
- **We expect the Fed** to deliver two final 25bp cuts in December 2026 and March 2027 for a terminal rate range of 3-3.25%, but we see a reasonable chance that the Fed remains on hold indefinitely.
- **In the Euro area**, we expect below-potential real GDP growth of 0.5% on a Q4/Q4 basis in 2026, reflecting higher energy prices and tighter financial conditions owing to the Iran conflict. We expect core inflation to rise to a peak of 2.7% yoy in 2Q27 amid higher energy prices before gradually declining to 2.0% by end-2028.
- **We expect the ECB** to deliver two 25bp hikes this year in June and September to a peak policy rate of 2.5% before cutting back to 2% in 2027.
- **In China**, we expect real GDP growth of 4.7% yoy in 2026 as resilient export growth, continued government policy easing, and a decreasing drag from the ongoing property market downturn offset headwinds from higher energy prices and sluggish domestic demand. We expect CPI/PPI inflation to rise to 1.0%/2.0% yoy this year largely owing to higher global commodity prices.

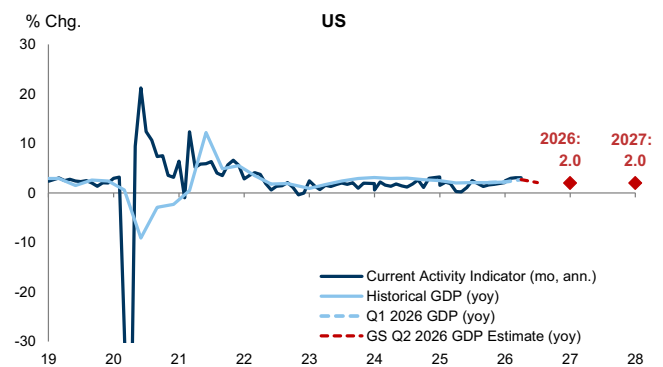
Growth

Global GDP vs. CAI



Source: Haver Analytics, Goldman Sachs Global Investment Research.

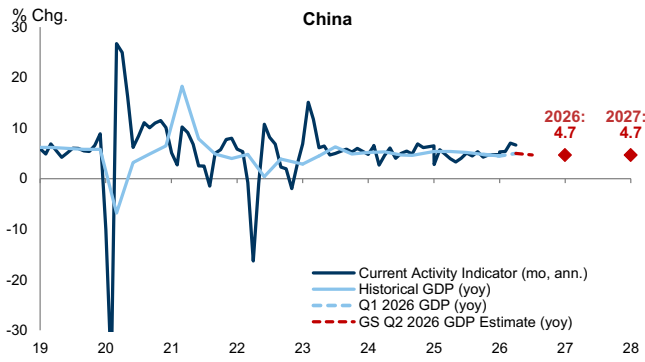
US GDP vs. CAI



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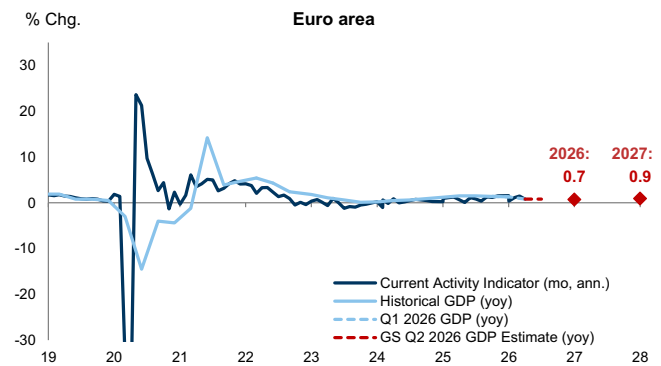
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China GDP vs. CAI



Source: Haver Analytics, Goldman Sachs Global Investment Research.

Euro area GDP vs. CAI



Source: Haver Analytics, Goldman Sachs Global Investment Research.

Forecasts

Key GS economic and market forecasts

Economics						Markets										Equities									
GDP growth (%)	2026				2027		Interest rates 10Yr (%)			Last	E2026	E2027	FX	Last	3m	12m	S&P 500	E2026		E2027		Returns (%)			
	GS (Q4/Q4)	Cons. (Q4/Q4)	GS (CY)	Cons. (CY)	GS (CY)	Cons. (CY)	Last	E2026	E2027									GS	Cons.	GS	Cons.	12m	YTD	E2026 P/E	
Global	2.2	--	2.4	2.6	2.7	2.6	US	4.46	4.10	4.15	EUR/\$	1.17	1.14	1.20	Price	7,600				S&P 500	2.7	8.1	22.7x		
US	1.9	2.0	2.0	2.2	2.0	2.1	Germany	3.10	3.00	3.00	GBP/\$	1.35	1.33	1.33	EPS	\$309	\$336	\$342	\$387	MXAPJ	13.3	21.0	13.9x		
China	4.6	4.6	4.7	5.0	4.7	4.6	Japan	2.54	2.50	2.25	\$/JPY	158	160	155	Growth	12%	22%	10%	15%	Topix	8.4	13.6	19x		
Euro area	0.5	0.8	0.7	1.4	0.9	0.8	UK	4.96	4.40	4.25	\$/CNY	6.77	6.80	6.50	Consumer					STOXX 600	2.5	3.0	14.9x		
Policy rates (%)	2026				2027		Commodities			Last	2Q26	4Q26	Credit (bp)	Last	2Q26	4Q26	Wage Tracker 2026 (%)								
	GS	Mkt.	GS	Mkt.	GS	Mkt.	Crude Oil, Brent (\$/bbl)	108	100								90	US	CPI (% yoy)	Unemp. Rate	CPI (% yoy)	Unemp. Rate	Q1	Q2	Q3
US	3.38	3.74			3.13	3.72	Nat Gas, NYMEX (\$/mmBtu)	2.84	3.50	3.50	USD	IG	76	95	90	US	3.4	4.6	2.4	4.4					
Euro area	2.50	2.70			2.00	2.64	Nat Gas, TTF (EUR/MWh)	46.74	49	40		HY	268	335	315	Euro area	3.0	6.3	2.6	6.2					
China	1.40	1.53			1.30	--	Copper (\$/mt)	13,959	12,700	12,500	EUR	IG	92	120	114	China	1.0	--	2.0	--					
Japan	1.00	1.19			1.50	1.79	Gold (\$/troy oz)	4,678	4,865	5,308		HY	265	375	360										

GS CAI is a measure of current growth. For more information on the methodology of the CAI please see "Technical Updates to Our Global CAIs," Global Economics Comment, Sep. 01, 2025. Market pricing as of May 12, 2026.

Source: Bloomberg, Goldman Sachs Global Investment Research.

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