21 January 2026

MARKETING MATERIAL

ECONOMIC OUTLOOK

JANUARY 2026

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This report encompasses data up to 20 January 2026, with the editorial process concluding on the same date.

International macroeconomic forecasts

GDP. Percent change from preceding year

Country/region	Weight PPP	2024	2025e	2026e	2027e	2028e	2029e
World		3.3	3.3	3.3	3.3	3.3	3.3
USA	14.5	2.8	2.3	3.0	2.5	2.3	2.1
Canada	1.3	1.3	1.7	1.3	1.8	1.7	1.7
Brazil	2.4	3.4	2.3	1.7	2.0	2.5	2.5
Eurozone	10.3	0.8	1.4	1.2	1.5	1.5	1.4
UK	2.1	1.1	1.4	1.2	1.5	1.5	1.4
Sweden	0.4	0.9	2.0	2.9	2.3	1.9	1.8
Denmark	0.2	3.5	2.2	2.1	2.0	2.0	2.0
Mainland Norway	0.3	0.5	1.6	1.5	1.6	1.6	1.5
Switzerland	0.4	1.4	1.2	1.2	1.5	1.5	1.5
Russia	3.3	4.3	0.6	1.0	1.0	1.5	2.0
China	19.8	5.0	5.0	4.8	4.3	4.4	4.5
India	8.7	6.5	7.3	6.5	6.5	6.0	6.0
Japan	3.2	-0.2	1.2	0.9	0.8	0.6	0.5
South Korea	1.6	2.0	1.0	2.0	2.0	2.2	2.0
Others	27.2	3.4	3.4	3.4	3.8	3.8	3.9
Advanced economies	38.5	1.7	1.8	2.0	1.9	1.8	1.7
Emerging economies	61.5	4.4	4.3	4.1	4.2	4.2	4.3
Norway's trade partners		1.2	1.7	1.7	1.7	1.6	1.6

Source: LSEG Datastream, DNB Carnegie

Inflation. Percent change from preceding year

Country/region	2024	2025	2026e	2027e	2028e	2029e
USA	3.0	2.7	2.7	2.5	2.4	2.5
Canada	2.4	2.1	2.1	2.1	2.2	2.3
Brazil	4.4	5.0	4.0	4.0	3.5	3.5
Eurozone	2.4	2.1	2.0	2.3	2.5	2.5
UK	2.5	3.4	2.8	2.6	2.5	2.4
Sweden	1.9	2.6	1.1	2.3	2.4	2.4
Norway	3.1	3.1	2.8	2.7	2.6	2.5
Denmark	1.4	1.9	1.3	1.8	2.0	2.0
Switzerland	1.1	0.2	0.4	0.7	1.0	1.0
Russia	8.4	8.9	6.0	4.5	4.0	4.0
Japan	2.7	3.1	1.9	2.0	2.2	2.2
South Korea	2.3	2.1	2.0	2.0	2.2	2.2
China	0.2	0.0	0.8	1.5	1.9	2.0
India	4.6	2.1	3.9	4.0	4.0	4.0
Industrialised economies	2.3	2.3	2.0	2.1	2.1	2.1

Source: LSEG Datastream, DNB Carnegie
Note: Headline CPI inflation given in table, with exceptions (CPIF for Sweden and HCIP for Eurozone).

SUMMARY

Economic gain amid geopolitical pain

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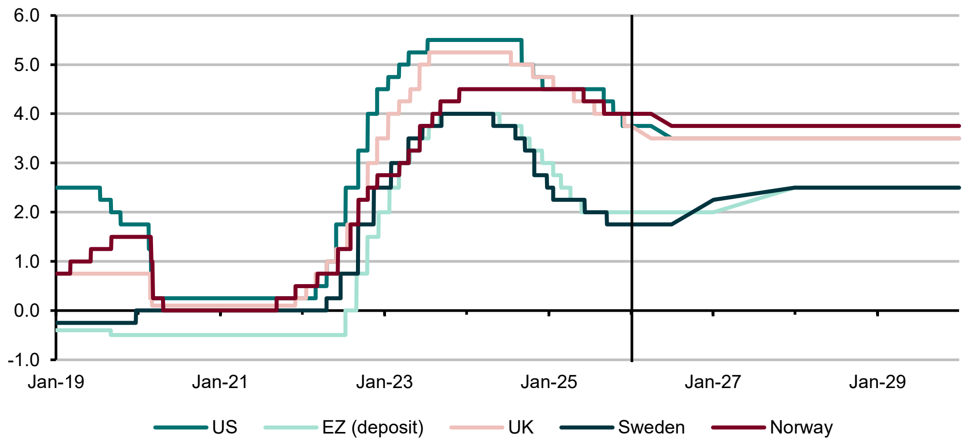
- 2026 has started on a dramatic note, with a US-engineered change of president in Venezuela and unrest in Iran. President Trump's push to take over Greenland, alongside threats of punitive tariffs against allies who resist, has brought strained transatlantic relations close to breaking point, as Russia's war against Ukraine nears its fifth year.
- Paradoxically, this grim backdrop strengthens our expectation of an economic upswing in the US and Europe, while China's growth is still likely to meet official targets. Governments increasingly view security as critical, prompting faster rearmament and upgrades to critical infrastructure and energy supply. Advanced technologies, including AI, are also becoming a key pillar of national security strategies.
- The economic costs of geopolitical fragmentation are evident in stronger underlying cost pressures, as risk considerations increasingly shape firms' location and procurement decisions. We do not expect central banks to keep core inflation at the 2% target over the forecast horizon.
- Stronger growth, combined with more restrictive immigration policies and weaker labour supply growth due to ageing populations, points to tighter labour markets ahead. Wage growth in the US and Europe is therefore likely to remain higher than in the fifteen years preceding the pandemic.
- Persistent inflation will, in our view, require higher rates than currently priced at the start of 2026. We therefore expect long-term yields to rise somewhat over the coming year. For the ECB and the Riksbank, rates have likely bottomed out near or below neutral; we expect gradual rate hikes to begin next winter. The Fed, BoE and Norges Bank still view current rates as restrictive, but we expect only one further cut in each cycle before rates trough.
- We maintain our view that the dollar will remain resilient over the coming year despite uncertainty surrounding Trump administration policies. We expect the Norwegian krone to remain broadly range-bound against the euro, while the Swedish krona continues to strengthen somewhat.

Key policy rates – actual and DNB Carnegie's forecasts (%)



Source: LSEG Datastream, DNB Carnegie

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2026-2029: Dramatic backdrop strengthens momentum for an investment upswing

2026 has started on a dramatic note, with a US-engineered change of president in Venezuela and significant uncertainty surrounding developments in Iran, where parts of the civilian population have revolted against the authorities and the US is considering intervention. President Trump's push to take over Greenland, alongside threats of punitive tariffs against allies who resist, has brought strained transatlantic relations close to breaking point. With Russia's war against Ukraine soon entering its fifth year, European leaders in particular view the situation as acute. At the same time, competition from China remains intense, while Beijing continues to provide critical support to Russia's war effort.

Paradoxically, this grim backdrop strengthens our view that the global economy is heading for an upswing in the years ahead. Adjusting to a changed security landscape implies substantial investment needs. Governments are moving to accelerate rearmament while upgrading critical infrastructure and energy supply. NATO countries committed this summer to raise the minimum level of defence investment from 2% to 5% of GDP. Of this, 3.5% is earmarked for core military spending, while 1.5% is intended for broader purposes — strengthening critical infrastructure and networks, building civil resilience and preparedness, and reinforcing the defence industrial base.

In parallel, the technology race between the US and China is intensifying, not least in artificial intelligence and related energy infrastructure. Western scepticism towards dependence on Chinese infrastructure and key components has increased sharply over the past decade, but countries are now also facing an increasingly assertive and unpredictable United States. Facilitating domestic development and deployment of advanced technologies, including AI, has therefore become a central element of national security and resilience strategies. We see growing political willingness to allocate funding and adjust regulatory frameworks to unlock such investment programmes, particularly in Europe. If successful, the economic gains may also prove long-lasting.

Elevated geopolitical tensions are also increasingly shaping corporate decision-making. The risk of disruptions to supply chains and access to key raw materials, including due to political and military conflict, is being given greater weight. Locating production at home, or in countries that are geographically close and strategically aligned, therefore commands a higher premium, even if it entails higher costs.

Western growth rebounds after last year's tariff drag, while China holds up

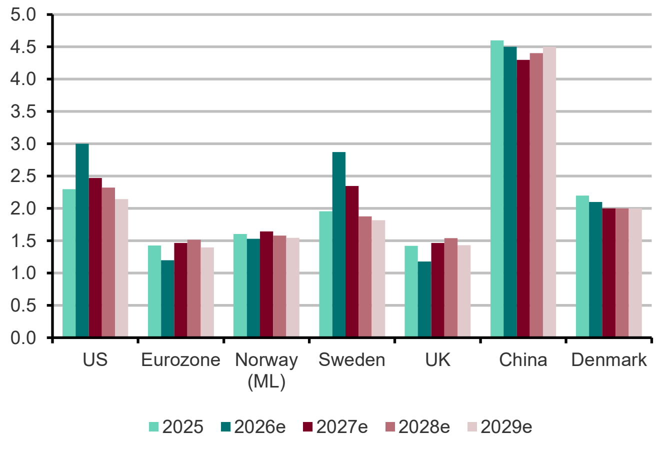
At the start of 2026, the US effective tariff rate stands around 11%, nearly nine percentage points higher than a year ago. We expect the tariffs to remain in place over the forecast horizon, as they largely reflect President Trump's campaign pledges. The main exception is tariffs on China, which were lowered to around 30% after last October's "truce", roughly half the level initially signalled. China's unique position in global supply chains for critical minerals has proven to be a powerful bargaining chip.

The US trade war weighed on growth in 2025, but most of the near-term negative effects are likely to fade this year. The increase in US tariffs, to the highest level since the 1940s, squeezed margins for importers and producers and pushed up prices for US end-users. Much of the adjustment to the higher cost level has now taken place, and we therefore do not expect consumer price inflation to rise further this year.

The occasionally extreme uncertainty surrounding the eventual outcome of the tariff turmoil likely led firms to put investment and hiring plans on hold. As clarity improves, both on the level of the tariff wall and its impact on the global economy, it becomes easier for the private sector to follow through on plans.

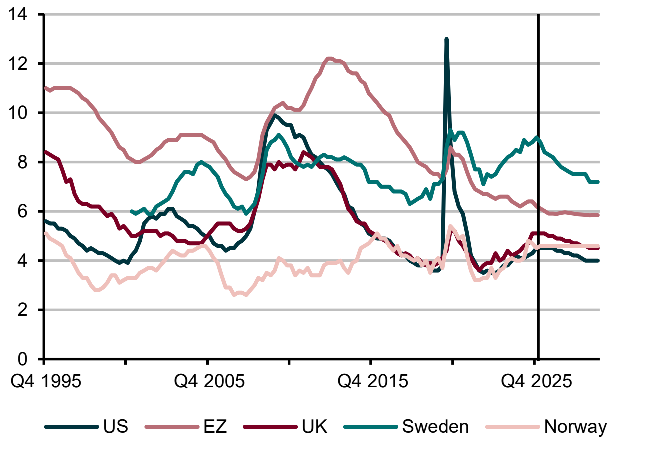
US growth slowed last year but still ended solidly at just above 2%. The budget adopted this summer included both extended tax cuts and more favourable deduction rules for investment. Combined with continued strong investment momentum in defence and technology, this will support the upswing this year. With unemployment stable and wage growth robust, we also expect solid contributions from private consumption.

GDP growth – projections (% Y/Y)



Source: LSEG Datastream, DNB Carnegie

Unemployment – actual and projections (%)



Source: LSEG Datastream, DNB Carnegie

China, the US's principal strategic rival, appears to be largely unscathed by the trade war. Instead, this highly competitive industrial powerhouse continues to capture rising global market shares, particularly in emerging economies. With consumer growth likely to remain subdued and the property market still depressed, business investment will remain a key engine of growth. Authorities are now tightening policy to curb excess capacity in sectors deemed mature. Capital will instead be channelled towards securing new leadership positions in critical technology fields, and towards deploying robotics and artificial intelligence across production processes and logistics.

Growth in the euro area picked up last year despite headwinds from the US. The upswing is likely to continue this year and strengthen further in the years ahead. A key driver is political decisions that reflect a growing sense of urgency to strengthen the continent's position. In the near term, the investment lift — financed through public borrowing — is the most important factor. This is taking place both at national and EU level, but the shift is particularly evident in Germany, by far the euro area's largest economy. After decades of fiscal restraint, a majority in the Bundestag voted last spring to amend its unusually strict constitutional fiscal rule. Since then, the new coalition government has approved an investment plan exceeding EUR 1,000bn over the next twelve years, focused on defence and infrastructure.

Over the longer term, measures aimed at making it easier for investors and firms to invest, innovate and grow in Europe will be crucial for the outlook. Over the past decade, the EU's slow decision-making has produced an extensive regulatory framework, with high requirements for reporting, transparency and verifiability. The objectives were legitimate, but the result has been a growth drag that policymakers are now eager to reverse. The new Commission has placed rearmament, supply security and the push to end chronically low growth at the top of the agenda. Decision-making has accelerated, including through extensive use of so-called omnibus packages, a fast-track approach that bundles multiple reforms for joint processing. The political processes are demanding and contested. If successful, the long-term gains for the region could be significant, though likely beyond our forecast horizon.

Norway has avoided a downturn, and the labour market has remained resilient in recent years. Two key reasons are sustained fiscal stimulus — enabled by a sharp rise in the value of the sovereign wealth fund — and high wage settlements that have boosted households' purchasing power. These factors should continue to support activity going forward, albeit more moderately, as construction remains under strain and petroleum investment is set to decline again. The upswing is likely to be even stronger in Sweden, where the industrial structure is well positioned to benefit from the global investment cycle. Here, we also expect meaningful support from a significantly more expansionary fiscal stance.

Labour tightness and reconfigured value chains sustain wage and price pressures

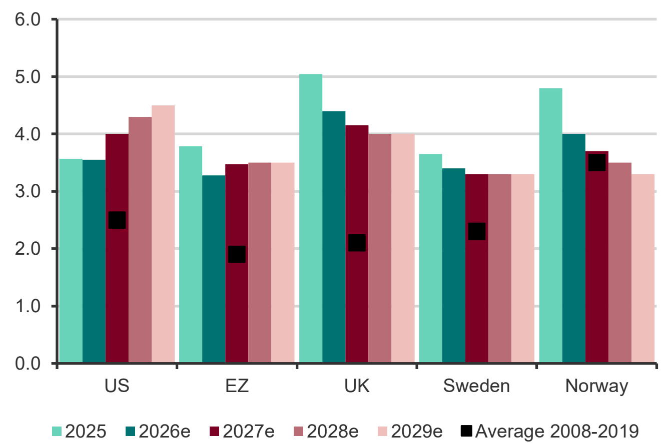
Labour shortages eased across Western labour markets last year. In the US, employment declined for several months in the wake of heightened policy uncertainty. That unemployment nevertheless ended at a moderate 4.5% in Q4 can largely be explained by the immigration slowdown, which has materially dampened labour supply. Employment is likely to rise again this year, and we see scope for renewed labour tightness and faster wage growth.

In the euro area, unemployment edged slightly higher last year from record-low levels. While the share of firms reporting labour shortages has fallen markedly from the 2022 peak, it remains well above the historical average. An ageing population, combined with strengthening growth, points to renewed declines in unemployment over the next four years, in our view limiting further moderation in wage growth.

Norway's labour market appears broadly balanced, with low registered unemployment and solid demand for labour, a situation we expect to persist over the next four years. Wage growth has been lifted sharply by strong profitability in the export sector, which sets the benchmark in Norway's coordinated wage bargaining, but is likely to ease gradually in the years ahead.

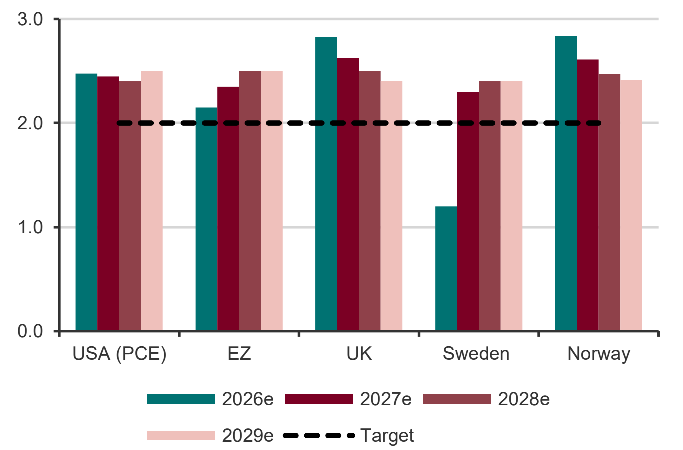
The UK and Sweden stand out, with significant spare capacity in labour markets. As growth improves, we expect unemployment to decline over the next four years. Notably, UK wage growth has been unusually strong in recent years, while Swedish wage growth has remained moderate — leaving the Bank of England with greater inflation challenges than the Riksbank.

Wage growth – projections (% Y/Y)



Source: LSEG Datastream, DNB Carnegie

Core inflation* – projections (% Y/Y)



Source: LSEG Datastream, DNB Carnegie * Sweden= core CPIF

Core inflation has fallen sharply from its peak across the West but remains above central banks' 2% targets. We do not expect central banks to succeed in bringing it back to target over our forecast horizon. The explanation is twofold. First, we expect services inflation, where wage costs are a key component, to remain sticky. Second, the downside of geopolitical fragmentation is likely to show up in stronger underlying cost pressures. Security considerations and political priorities increasingly take precedence over cost efficiency as firms design production footprints, inventory strategies and supply chains. Input costs may also be pushed higher as so many countries simultaneously ramp up investment.

Western rates near the trough; Riksbank to restart tightening in late 2026

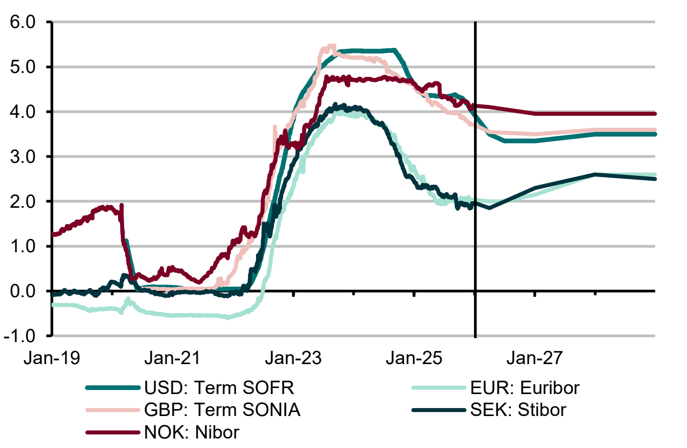
The ECB and the Riksbank — the two central banks that have made the greatest progress in the inflation fight in recent years — cut policy rates through 2024 and 2025 to 2.0% and 1.75%, respectively. Both institutions view these levels as broadly neutral, neither stimulating nor restraining activity. With growth now picking up and inflation holding somewhat above target, we believe a gradual hiking cycle towards a mildly restrictive level of 2.50% is on the horizon for both central banks. We expect the Riksbank to move first, in November this year, followed by the ECB in March 2027.

At the start of 2026, policy rates in the Federal Reserve and the Bank of England are clearly higher, at 3.75%. Norges Bank sits at the top of the range, with a policy rate of 4.0%. The central banks themselves signal further rate cuts ahead, but given our growth and inflation forecasts, we believe the trough is only 25bp away. We expect a final cut from the BoE in April, and final cuts from Norges Bank and the Fed in June, after which rates are likely to remain at levels that central banks themselves view as mildly restrictive.

Overall, we see a need for higher interest rates than currently priced by markets as of January 2026. We therefore expect long-term yields to rise somewhat over the coming year.

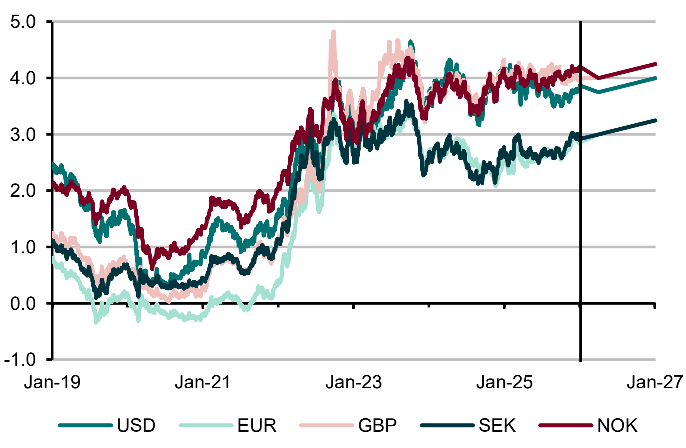
We maintain our view that the dollar will remain resilient over the next year despite uncertainty surrounding the Trump administration's policies. We expect the Norwegian krone to remain broadly within the range it has traded against the euro over the past year, while we see scope for some further strengthening in the Swedish krona.

3-month money market rates – actual and projections (%)



Source: LSEG Datastream, DNB Carnegie

10-year swap rate – actual and projections (%)



Source: LSEG Datastream, DNB Carnegie

Selected risk factors

Escalation of geopolitical tensions: We do not expect a swift end to the war in Ukraine, and there remains a risk that rising global geopolitical tensions could escalate further. On 17 January, Donald Trump signalled that eight European NATO countries, including Scandinavia, could face an additional punitive tariff of up to 25%, until an agreement is reached on a US purchase of Greenland. This would represent a major blow to these countries' exports to the US. Our base case remains that tensions ease and that the tariff is not implemented. The affected countries argue that the tariff threats undermine transatlantic relations and raise the risk of a dangerous downward spiral, an argument we believe resonates within the Republican Party. A scenario in which NATO cooperation effectively collapses would entail major shifts in international relations and the balance of power, with clear implications for the economic outlook and financial markets. Another high-impact scenario would be Chinese military action against Taiwan, an economy with a pivotal position as a near-monopoly supplier of key high-tech inputs to the US and Europe. Such a move could trigger military responses and economic sanctions, with far-reaching consequences for a global economy that remains highly interdependent.

Federal Reserve potentially influenced by Trump: In our forecasts, we assume that the Fed's rate decisions are not swayed by President Trump's forceful calls for rapid and substantial cuts in the policy rate. The risk that this assumption proves wrong is not insignificant, given that the administration has in the past year resorted to legal action in attempts to remove committee members — most recently targeting Chair Powell in January 2026. We place weight on the fact that decisions are taken by vote, with twelve committee members participating. This suggests that the Fed's reaction function would not change materially even in the hypothetical event that a Trump loyalist was appointed Chair. Still, we cannot rule out that political pressure — now also involving legal steps — could tilt decisions towards lower rates than assumed in this report. In that case, long-term yields could rise more than we project, driven by higher inflation expectations, and it could also trigger a renewed weakening of the dollar.

AI impact on growth, labour markets and inflation may be underestimated: It is difficult to assess the magnitude and speed with which artificial intelligence will affect productivity growth and labour markets. In our forecasts, we assume solid technological progress raises potential growth in both the Chinese and US economies. If we underestimate this effect, economic growth will be higher, but inflation pressures and therefore also interest rates, could still end up lower than we project. If the strength and pace of the shift are significantly greater than we have assumed, the risk of labour-market adjustment problems increases, with larger groups displaced into unemployment. In such a scenario, a marked decline in policy rates would be likely.

Equity market crash: Our baseline assumes that a stock market crash is avoided. If the widely discussed risk of an AI-related "hard landing" in global — and particularly US — equity markets materialise, the real economy would also be affected. US households' equity wealth, measured as a share of disposable income, has risen markedly over the past two decades. A sharp fall in this wealth would likely weigh significantly on consumption. It would also probably trigger a decline in technology investment, which currently represents an important growth driver for the US economy.

Government bond market turmoil: In this report, we assume higher public spending will be the main source of financing for the investment upswing we expect. For countries with already high debt burdens, this approach is not without risk, given the potential for renewed stress in government bond markets. We assume the US will continue to benefit from its unique position in global finance and avoid a sharp rise in credit spreads despite a high and rising debt burden. The UK, France and Italy are more vulnerable in this regard. In our view, countries such as Germany and Sweden currently have sufficiently moderate debt levels to handle a future rise in debt-service costs.

Larger China-driven effects on European inflation: With substantial overcapacity in manufacturing and very weak domestic household demand, China will need to sustain solid export growth going forward. We expect China primarily to continue capturing market share in emerging economies, partly at the expense of European companies. Our forecasts do not assume Europe will be "flooded" with cheap goods, not least because Chinese exporters are aware this could trigger political responses in the form of punitive tariffs. If we are wrong, European inflation, and thus interest rates, could end up lower than projected in this report.

US

AI boom to lift growth and productivity

AI-related investment, fiscal stimulus and lower interest rates are likely to support growth this year. Looking ahead, we believe AI will also raise productivity growth. The labour market seems likely to recover somewhat in 2026, while the tariffs effects on inflation is likely completed. We forecast that the Federal Reserve will cut rates one final time this year. Nonetheless, a restrictive monetary stance is likely to be needed in the coming years to bring inflation down further.

An AI driven upturn has started, and will likely continue

2025 was the year the AI boom truly began to affect the macro trends. Investments in AI-related equipment surged, with a particularly strong trend in Q1, reinforced by expectations of higher tariffs. On average across the first three quarters of the year, these investments rose by around 20% from the previous quarter on an annualised basis. In addition, investment in data centres has increased significantly and is now close to matching spending on office construction. Energy investment has also remained elevated, particularly in electricity generation and grid capacity, needed to supply the data centres with electricity.

AI effects started to affect GDP positively last year and we believe this trend will continue

AI-related investment, fiscal stimulus and lower interest rates are likely to support growth this year. Although a fair share of the equipment is produced abroad, the overall impact on the domestic economy is substantial. We expect business investment to grow by around 4% Y/Y in 2026. The tech sector's strength has also boosted equity markets, which in turn has likely supported consumer demand among equity-holding households. Although strained affordability for lower-income households likely weighs on spending for those groups, overall consumer demand is estimated to grow by almost 2.5% Y/Y this year.

Private domestic final purchases - the "core" GDP measure - expanded solidly last year. Despite heightened political uncertainty and financial-market volatility, the economy performed better than expected. We expect this solid performance to continue this year, and forecast GDP-growth to reach 3% Y/Y. In coming years growth will likely level off somewhat, to 2.5% Y/Y in 2027 and the gradually towards 2%. However, growth will likely stay above potential growth, estimated at 1.8% Y/Y by Fed and the Congressional Budget Office.

Forecasts, US: Percent change from previous year

	2025e	2026e	2027e	2028e	2029e
Private consumption	2.7	2.4	2.1	2.0	1.8
Public consumption	1.6	1.6	1.5	1.5	1.5
Residential investments	-2.0	-0.1	3.6	4.0	4.0
Business investments	4.5	4.0	4.0	4.0	4.0
Exports	1.9	3.4	3.0	3.0	3.0
Imports	2.6	-2.2	2.1	2.8	3.0
GDP	2.3	3.0	2.5	2.3	2.1
Unemployment (level, %)	4.3	4.5	4.4	4.1	4.0
Wages	3.6	3.6	4.0	4.3	4.5
Core (PCE) inflation	2.8	2.5	2.4	2.4	2.5
Headline (PCE) inflation	2.6	2.6	2.5	2.4	2.5
Fed upper bound (year end, %)	3.8	3.5	3.5	3.5	3.5

Source: LSEG Datastream, Bloomberg, DNB Carnegie

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Productivity effects from AI likely to become significant

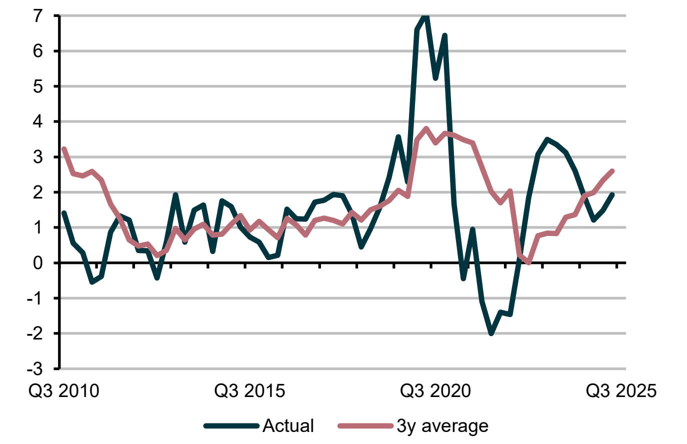
Even though activity growth remained solid last year, employment growth slowed markedly from May onwards. We believe that this slowdown was mainly an effect of elevated trade uncertainty following the Liberation Day announcement in early April. However, lower hiring may also to some extent follow from a stronger underlying productivity trend, which we believe could persist for many years.

Historically, the introduction of general-purpose technologies - such as electricity, personal computers, and, more recently, the internet - has led to substantial increases in productivity. During 1995–2005, productivity growth averaged 2.8% Y/Y, well above the long-term average of 2.1% Y/Y. Several studies now suggest that similar effects could emerge with the adoption of AI, even though the uncertainty with respect to the size of the effects is large. In isolation, stronger productivity growth allows for higher economic growth rates without putting an upward pressure on inflation, leaving less need for a restrictive monetary policy stance.

Productivity growth has improved, and this trend could possibly be extended due to AI-effects, which could lift growth and dampen inflation

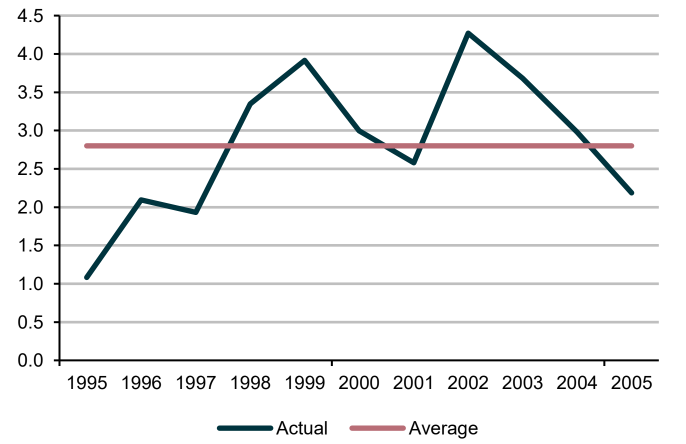
However, it remains difficult to attribute the current upswing in productivity - which began in 2023 - directly to AI. There are significant differences across industries, indicating that this is not yet a broad-based productivity wave. The strongest gains so far have been concentrated in information-related sectors (such as media, telecom, and data processing) and in retail trade. Gains have been more modest in transportation, manufacturing and business services, and negligible elsewhere. Moreover, the timing suggests the recent pick-up began too early to be driven primarily by AI adoption.

US: Productivity growth, % Y/Y



Source: LSEG Datastream/DNB Carnegie

US: Productivity growth 1995-2005, % Y/Y



Source: LSEG Datastream/DNB Carnegie

Labour market slowdown likely temporary

The flipside of higher productivity is reduced demand for labour, and a weaker labour market short term. Since May last year, employment growth has been far below normal, even though GDP growth remained strong in both Q2 and Q3, averaging around 4% on an annualised basis.

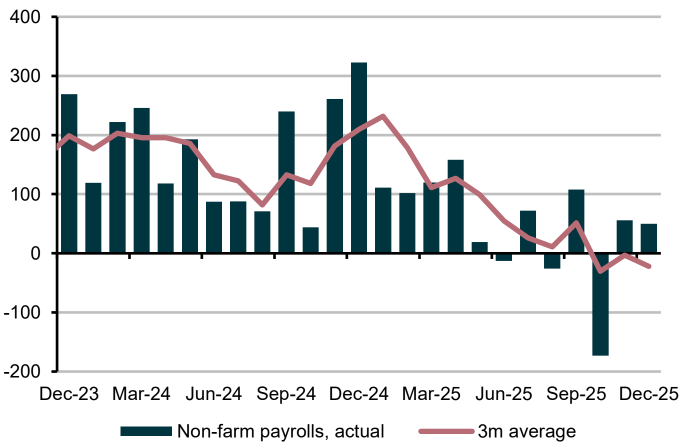
As noted above, we do not believe AI effects can explain these developments, even if the rise in youth unemployment may indicate that AI is partly to blame. It seems reasonable that heightened uncertainty was the main reason why firms' willingness to hire slowed. While AI-related effects may prove long-lasting, the other factors are more likely to be temporary. Therefore, we expect employment growth to improve during the first half of 2026, indicated by recent business surveys.

We expect the unemployment to stabilize this year and wage growth to remain moderate

The sharp decline in net migration after Trump replaced Biden has so far constrained labour supply and prevented a more marked uptick for unemployment. Still, the unemployment rate rose from 4.0% in January to 4.4% in December. We expect unemployment to stabilise in coming months. The change of immigration policy will most likely result in a structurally tighter labour market in the coming years, placing upward pressure on wages. This is one reason why we believe the Fed will fail to reach its inflation goal within our forecast horizon.

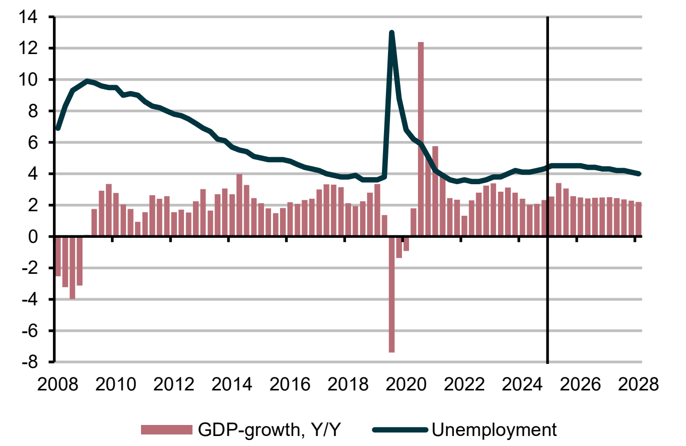
A less tight labour market has contributed to slow wage growth, as reflected in the Employment Cost Index (ECI) and other measures. The ECI grew by 3.5% Y/Y in Q3 last year, while Unit Labour Costs (ULC) increased by only 1.2% Y/Y, lowered by strong productivity gains. The subdued ULC growth should help contain services inflation and will accordingly prevent overall inflation from increasing in the coming quarters.

US: Employment growth, k M/M



Source: LSEG Datastream/DNB Carnegie

US: GDP and unemployment. Actual and forecasts, %



Source: LSEG Datastream/DNB Carnegie

Fiscal policy to support growth this year

Growth effects from the One Big Beautiful Bill Act (OBBBA) will most likely be positive this year. The Act not only extended existing tax cuts but also introduced several new ones. In addition, it makes investment more attractive for businesses by allowing full deductibility of capital expenditures. The legislation also includes increased defence spending and measures to restrict immigration, both of which will lift activity in the short term.

In a new budget proposal, President Trump has signalled a 150% increase in defence spending in FY 2027, which could amplify the OBBBA effects if approved by Congress. Furthermore, Trump has proposed a cash transfer of USD 2,000 per person to lower- and middle-income households, funded by tariff revenues. While this proposal has so far gained limited support in Congress, it may still be adopted as the midterm elections draw closer.

President Trump will likely make fiscal policy even more expansionary prior to the mid-elections in November this year

The more expansionary fiscal stance is also reflected in higher budget deficits and a rising government debt level. As a result, interest payments are increasing. A higher debt burden also requires greater issuance of new government securities. If this is not well received by the Treasury market, there is a risk that long-term interest rates could rise. Such a development could trigger a negative feedback loop in which rising interest costs put further pressure on the budget, ultimately limiting the scope for additional spending on defence and welfare.

Most of the tariff shock is now likely behind us

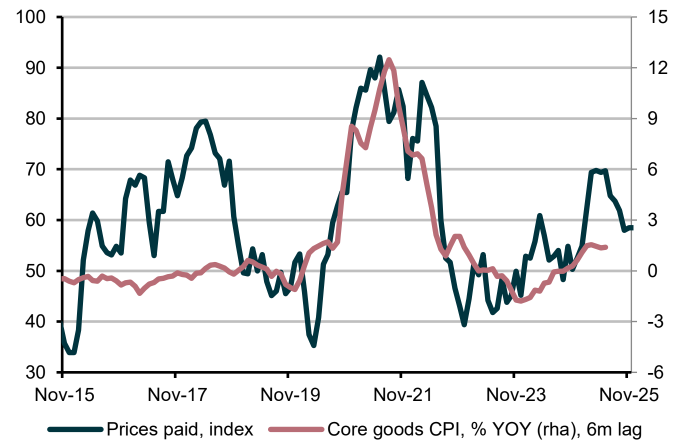
The impact of tariffs appeared modest when looking at monthly inflation trends immediately after the Liberation Day announcement in April last year. However, core goods inflation had been on a declining trajectory when the tariffs were introduced. Inflation in furnishings and recreation turned positive from April, apparel prices began rising from June, and new vehicle prices increased in August and September. A recent study estimates that the cumulative effect of tariffs on inflation during this period was around 0.7 percentage points.

On average, tariffs increased by close to 10 percentage points last year. With imported goods accounting for roughly 15% of the consumption basket, this implies a maximum potential inflation impact of around 1.5 percentage points. In practice, the effect is likely much smaller because foreign exporters to the US often absorb part of the cost increase by compressing their margins. A rough estimate suggests an overall inflation impact of about 1 percentage point. If roughly 0.7 percentage points had already accumulated by September, it is reasonable to assume that the remaining effects had materialised by year-end. Even a 10% (or possibly 25%) so called Greenland tariff would not add much to inflation, as the countries involved (Germany, France, UK, Netherlands and Nordics) count for only around 10% of US imports.

Core PCE inflation is expected to slow to around 2.5% Y/Y this year. Tariff effects are most likely behind us

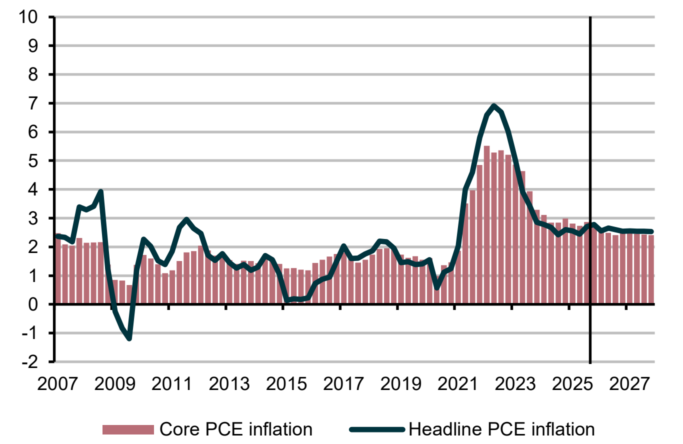
We forecast core PCE inflation at 2.5% Y/Y in 2026, around 0.2 percentage points below the Bloomberg consensus. Services CPI inflation has eased from its peak of above 7% in early 2023 but remained somewhat elevated at 3.2% Y/Y at the end of last year. We believe it will be challenging for the Fed to bring services inflation down further, given the continued tightness in the labour market. Goods inflation has risen due to tariffs but remains below the 2% inflation target. Hence, we believe overall inflation will exceed the 2% target in coming years.

US: ISM prices paid and core goods inflation



Source: LSEG Datastream/DNB Carnegie

US: Inflation, % Y/Y



Source: LSEG Datastream/DNB Carnegie

Fed could possibly reduce the federal funds rate once more this year

Our August call for three 25bp cuts last autumn proved to be correct. These reductions - often referred to as risk-management cuts - moved the federal funds rate further toward the neutral level. We forecast only one additional rate cut in this cycle, which we believe is likely to be implemented in June this year. With inflation set to remain above target, a somewhat restrictive policy stance still appears appropriate. If unemployment were to rise further, that could trigger additional easing, but our baseline does not anticipate a further increase in unemployment.

Our rate forecast is based solely on the outlook for inflation and the labour market. We do not incorporate potential effects from political pressure by President Trump or his administration, including repeated public calls for rate cuts. It appears that Trump is seeking to secure a majority on the seven-member Board of Governors who are more aligned with his views. So far, only Stephen Miran has argued in favour of substantial rate cuts, and he will likely be replaced by the appointed new chair. Michelle Bowman and Christopher Waller - both appointed by Trump during his first term - are not currently advocating large rate cuts.

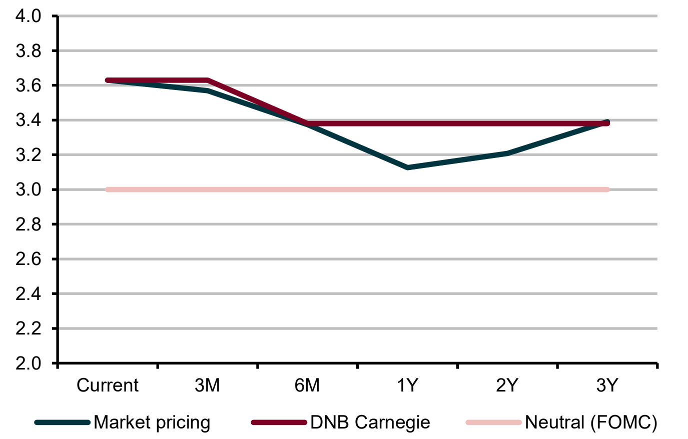
Fed will most likely continue to determine the signal rate based on economic data and not be affected by pressures from the Trump administration

Even if Lisa Cook is ultimately forced to leave the Fed, and even if the ongoing conflict between the administration and Chair Powell results in Powell ending his term early, the majority view on the Committee would not change significantly. All regional Fed presidents have recently been reappointed, and their views on monetary policy are now more hawkish than those of the board members. In December, both Jeffrey Schmid and Austan Goolsbee voted against the rate cut. This year, the group of alternate members includes Beth Hammack and Lorie Logan, both of whom are also considered relatively hawkish.

We do not believe that a new Chair - likely to be appointed soon - would be able to engineer materially more rate cuts than what underlying macroeconomic conditions justify. The Chair holds only one vote out of twelve on the FOMC and cannot easily persuade the remaining members to adopt a more dovish stance if the data do not support it.

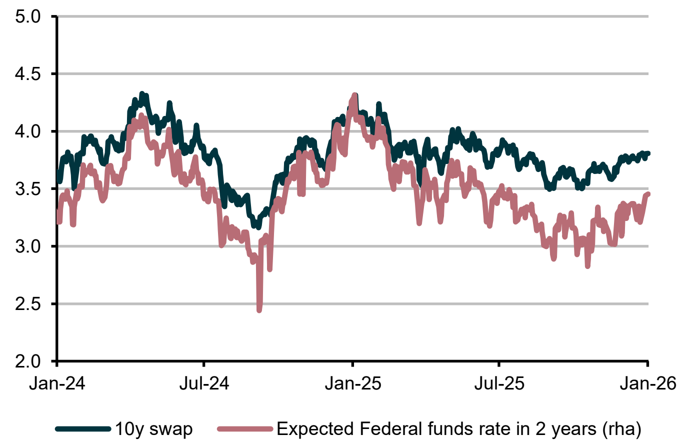
However, there is clearly a downside risk to our rate outlook if President Trump succeeds in reducing the Fed's independence. Any structural weakening of institutional autonomy could increase the probability of policy decisions being influenced by political considerations rather than economic fundamentals. This could possibly trigger a rise in long term Treasury rates.

US: Federal funds rate forecasts, %



Source: LSEG Datastream/Bloomberg/DNB Carnegie

US: 10-year swap rate and federal fund expectations, %



Source: LSEG Datastream/Bloomberg/DNB Carnegie

Long rates to rise slightly in 2026

The 10-year swap yield began last year trading somewhat above 4% but gradually declined to around 3.5% by mid-September. Toward the end of the year, the yield rose again to roughly 3.8%, which was also close to its average level for 2025. The movements in long-term yields can largely be explained by shifts in expectations for the future path of the federal funds rate.

We have now pencilled in one additional cut in the Federal funds rate in June, in line with current market expectations. As a result, the swap yield is likely to remain broadly unchanged in the near term. However, we do not forecast further cuts, whereas the market is pricing in another reduction toward year-end. If our view proves correct, long-term yields are likely to drift somewhat higher.

Long term swap yield seems likely to remain almost unchanged in the first half of 2026 but could rise somewhat on a 12 month horizon

We also see upside risks to long-term rates stemming from growing concerns about fiscal sustainability, which could push the term premium higher. We believe yields could rise further if President Trump's proposals for significantly higher defence spending and direct household transfers are implemented. Treasury refinancing needs are already very high this year, and although the term premium has increased markedly, it may rise further. Typically, Treasury yields and swap yields move in tandem, and the current spread is close to its long-term average. In sum, we forecast the 10-year swap yield to rise to around 4.0% over the next year.

A negative scenario: The building and the burst of an AI bubble

In our baseline forecast, we expect AI-related investments to continue, and we do not anticipate a marked stock-market correction. A downside risk would arise if the equity market - currently highly concentrated in the large technology companies (the "Magnificent Seven") - were to experience a euphoric surge followed by a significant correction. Such a scenario would, like the dot-com bubble in 2000/01, likely have pronounced macroeconomic consequences in the

US and abroad. Then, an extreme rise in technology valuations culminated in a sharp and prolonged correction. We assign a non-negligible probability (e.g., 30%) to a similar scenario.

A significant stock-market correction following an AI-driven bubble would most likely push the economy into recession. The Fed could mitigate some of the effects by cutting interest rates. A continued strong upswing in equity prices would increase the likelihood of a sizeable correction at a later stage. A 70% decline in the Nasdaq - like what occurred in 2001/02 - cannot be ruled out under such circumstances. Even if non-tech equities were to fall by much less (e.g., 20%), the overall market decline would still be substantial. The macroeconomic consequences would be amplified by a marked decline in AI investments, as both capital markets and prospects would deteriorate sharply. We have not specified the precise timing of such an event, but if a bubble were to build first, we believe a burst could materialise in two years' time or later.

A significant stock market stock market correction, following an AI bubble, would most likely send the economy into a recession. Fed could dampen effects somewhat by cutting interest rates

Analysing the real economic effects of such a scenario, it is tempting to compare with the dot-com bubble in 2000. There are both reinforcing and mitigating factors today. Households are significantly more exposed to equity-market risk than in 1999, due to a higher equity share in their portfolios. Equity-market value as a percentage of disposable income was 165% in 1999, whereas it had risen to 260% in the first half of last year. Consequently, a correction now would likely have a stronger negative impact on consumer demand.

US: Nasdaq, index. 100 = Jan95 and Jan23

Source: LSEG Datastream/Bloomberg/DNB Carnegie

US: Household equity share and recessions, %

Source: LSEG Datastream/Bloomberg/DNB Carnegie

Additionally, interest rates were cut significantly during the dot-com crisis, from 6.5% prior to the downturn to 1.75%. A similar reduction is unlikely this time. The current level is 3.75%, meaning that even cuts down to zero would amount to a smaller reduction - roughly 1pp less than the 4.75pp decline seen in 2001. Even if the AI-driven upswing continues for another two years, we do not expect the Fed to raise the federal funds rate during this period. A new round of QE polices could possibly emerge in such a scenario, amplifying the effects on the economy.

Corporate non-financial debt outstanding, measured as a share of GDP, is somewhat higher now than in 1999. The level reached 72% last year, compared with 62% in 1999. However, leverage had increased substantially in the years leading up to the dot-com crisis, whereas it has fallen markedly since the pandemic. Meanwhile, the US banking sector appears more resilient today, as regulatory standards were strengthened considerably after the global financial crisis. This could possibly dampen the negative effects through financial conditions.

EUROZONE

ECB to start gradual tightening in 2027

Eurozone growth has remained resilient despite ongoing trade tensions. While weaker exports are weighing on activity in the near term, a rebound in investment is expected to lift GDP above trend from 2027. Inflation is projected to hover around 2% this year before rising gradually as wage growth strengthens. We expect the European Central Bank to keep the policy rate unchanged at 2.0% until a gradual tightening cycle begins early 2027.

Eurozone growth remains resilient amid trade uncertainty

Economic growth in the eurozone proved resilient last year despite higher US tariffs and elevated trade-related uncertainty. Following a surge in exports early in the year driven by frontloading ahead of tariff increases, net exports later became a drag on growth. This was offset by stronger domestic demand, as private and public consumption as well as investment picked up. GDP growth reached 1.4% last year, one-tenth of a percentage point higher than our August forecast. It should be noted, however, that this figure was boosted by the frontloading effects in the first quarter. Growth performance across the eurozone remains uneven. Spain continues to lead the bloc, supported by solid and broad-based growth throughout last year. By contrast, Germany and Italy, both with large manufacturing sectors, have struggled. France sits somewhere in between in terms of growth but has faced its own challenges related to rising public debt concerns and a fragile political situation.

The labour market remains tight, although conditions have eased slightly. The unemployment rate edged up from a record low of 6.2% in November 2024 to 6.3% in November 2025. Indicators of labour shortages have moderated from previous highs, and employment growth has slowed. However, a gradually expanding labour force partly constrained by demographic trends, has helped keep unemployment near historically low levels. Nominal wage growth is gradually normalizing after a period of rapid increases aimed at compensating for high inflation. Price pressures have eased further. Headline inflation has returned to the 2% target, while core inflation remains slightly elevated at 2.3%. Service inflation has moderated in line with slower wage growth, although it remains sticky and has been on a rising trend over the past months.

Investment growth gathers pace, led by Germany

Investment is set to become the main driver of eurozone growth this year and beyond, led primarily by a sharp increase in infrastructure and defence spending in Germany. While defence

Forecasts, eurozone: Percent change from previous year

	2025e	2026e	2027e	2028e	2029e
Private consumption	1.3	1.0	1.2	1.2	1.2
Public consumption	1.6	1.3	1.2	1.2	1.0
Investments	2.7	2.8	4.2	4.4	3.3
Exports	2.1	1.2	1.2	1.2	1.5
Imports	3.6	2.2	2.0	2.0	1.9
GDP	1.4	1.2	1.5	1.5	1.4
Unemployment (level, %)	6.3	5.9	5.9	5.9	5.8
Wages	3.8	3.3	3.5	3.5	3.5
Core inflation	2.4	2.2	2.4	2.5	2.5
Headline inflation	2.1	2.0	2.3	2.5	2.5
ECB deposit rate (year end, %)	2.0	2.0	2.5	2.5	2.5

Source: LSEG Datastream, Bloomberg, DNB Carnegie

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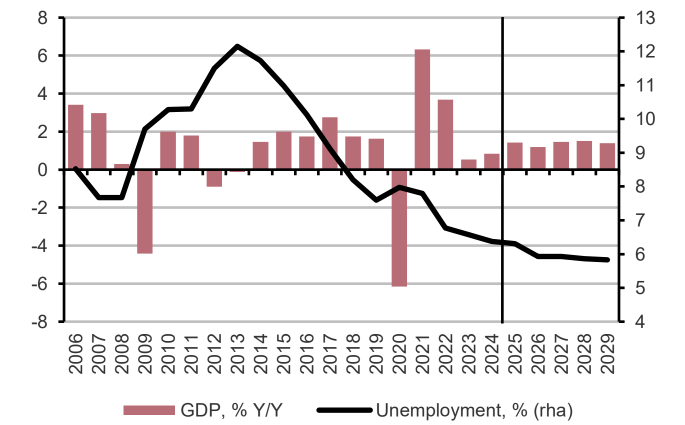
spending has already risen substantially, a further increase of more than EUR 500bn is planned to be phased in by 2030 to meet NATO's 3.5% core defence spending target. In parallel, a EUR 500bn fund dedicated to infrastructure and climate-related investments has been established, with spending spread over a 12-year horizon.

These initiatives are expected to start contributing to economic growth this year, with more pronounced effects from 2027 onwards. However, implementation faces significant constraints. Labour shortages, particularly in the construction sector and among civil servants at both central and local government levels, pose a major challenge. Addressing these bottlenecks will be crucial and may require measures such as streamlining regulatory and permitting processes and facilitating labour immigration in key sectors. In addition, to ensure a lasting impact on growth, it is essential that the new funds finance genuinely additional investment rather than substituting for spending already planned in regular budgets. Nevertheless, given the urgent need for infrastructure investment in Germany and the current government's stated ambitions, we expect these investments to have a positive impact on growth.

Public and private investment accelerating, driven by German infrastructure and defence spending, with further support from lower interest rates.

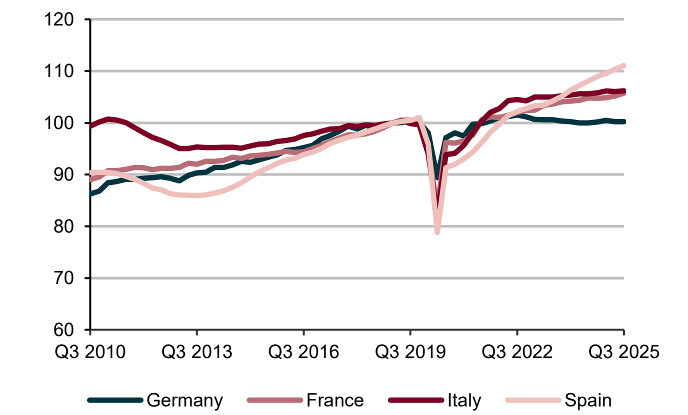
Beyond Germany, we expect EU and eurozone policymakers to step up investment in defence, energy and other strategically important sectors. Last year, the EU established the EUR 150bn SAFE loan facility to support defence spending and presented a strategy including a joint purchasing platform for securing access to critical raw materials. Policymakers are also focusing on strengthening long-term competitiveness and productivity through regulatory reforms and deeper integration of capital markets, in line with recommendations from the European Commission report led by former ECB president Mario Draghi.

EZ: GDP and unemployment



Source: LSEG Datastream, DNB Carnegie

EZ: GDP, index, Q1 2019=100

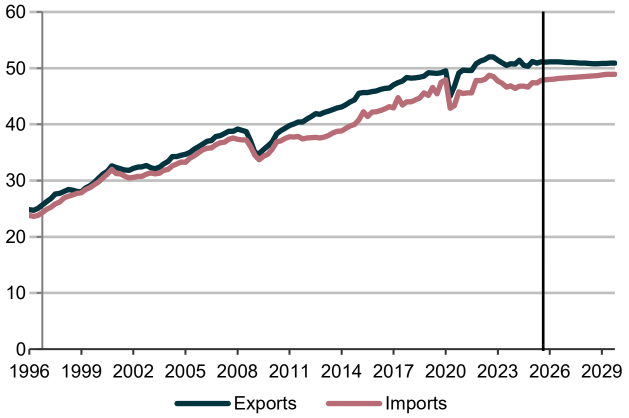


Source: LSEG Datastream, DNB Carnegie

Some progress has already been made. The sustainability reporting framework was simplified last year, and the planned 2035 ban on combustion engine vehicles was softened. Further initiatives are likely this year, including simplification of digital reporting requirements and the introduction of a "28th legal regime" for start-ups. That said, national interests remain misaligned on several of the most growth-enhancing proposals, most notably the creation of a complete capital markets union. Nevertheless, work in this area is expected to continue. For such a union to succeed, reforms to pension systems that channel a greater share of household savings into European capital markets will also be important, making a potential German pension reform in 2026 particularly welcome. Private investments are also projected to rise, supported by lower interest rates that are expected to boost construction activity and other interest rate sensitive industries.

Net exports were temporarily boosted by front-loading of shipments ahead of anticipated tariffs in the first quarter of last year, but this effect reversed in the second and third quarters. The EU-US trade agreement reached on 27 July introduced 15% tariffs on EU exports to the US, with no retaliatory measures from the EU side. In its current form, the agreement covers key product categories such as cars and pharmaceuticals, while excluding several important metals, such as steel and aluminium, which are subject to a 50% tariff rate. Uncertainty remains regarding future tariff rates, given recent US threats to impose additional tariffs of up to 25%.

EZ: Foreign trade, % of GDP



Source: LSEG Datastream, DNB Carnegie

EZ: Investments, % of GDP

Source: LSEG Datastream, DNB Carnegie

We continue to expect subdued export performance, reflecting both the direct impact of the implemented tariffs and a broader climate of trade uncertainty. This uncertainty is likely to persist and weigh on export growth over the forecast horizon. At the same time, the sharp increase in defence spending, particularly in Germany, will necessitate a substantial rise in defence-related imports, given limited production capacity within the eurozone. As a result, we expect net exports to act as a drag on growth in the near term, contributing to a modest slowdown in GDP growth from 2025 to 2026. More broadly, import growth is projected to outpace export growth throughout the forecast period, which in isolation will dampen overall GDP growth.

Tariffs and trade uncertainty will weigh on EU exports, while defence-related purchases will lift imports. Net exports are set to be a drag on GDP throughout our forecast period.

Above-trend growth with a tight labour market

Private consumption has strengthened over the past two years, underpinned by rising real wages and high employment. This momentum is expected to persist in the coming years, in line with continued growth in real disposable incomes. Government consumption is also projected to make a positive contribution to GDP growth over the forecast horizon. Taken together, robust private consumption and stronger investment activity are expected to outweigh the drag from net exports from 2027 onward. Consequently, GDP growth is forecast to average around 1.5% in 2027–2028, slightly above trend, before normalizing somewhat to reach 1.4% in 2029.

Rising real incomes will bolster private consumption, which, along with a surge in investments, will more than offset export weakness, driving GDP growth above trend from 2027 onwards.

With economic growth expected to remain around, or modestly above, its long-term trend, unemployment is projected to decline gradually over the coming years. Demographic factors, which are restraining labour force growth, are likely to remain an important structural driver keeping unemployment low. Against this backdrop, wage growth is expected to pick up modestly toward the end of the forecast horizon, remaining comfortably above 3% throughout the period.

Inflation temporarily at target before rising on stronger wage growth

Inflation continued its downward trajectory last year, reaching the 2% target in December, while core inflation remained somewhat higher at 2.3%. Goods inflation stayed subdued, but services inflation proved more persistent, rising from 3.1% in August to 3.4% in December.

Looking ahead, inflation is expected to remain close to target this year. Services inflation should ease somewhat as wage growth moderates, while last year's euro appreciation is likely to make a modest negative contribution to inflation. Over the medium term, however, inflation is

Unemployment remains near a record low, supporting sustained wage increases above 3%. Meanwhile, inflation is expected to stay close to the ECB's 2% target this year before rising slightly as wage growth picks up.

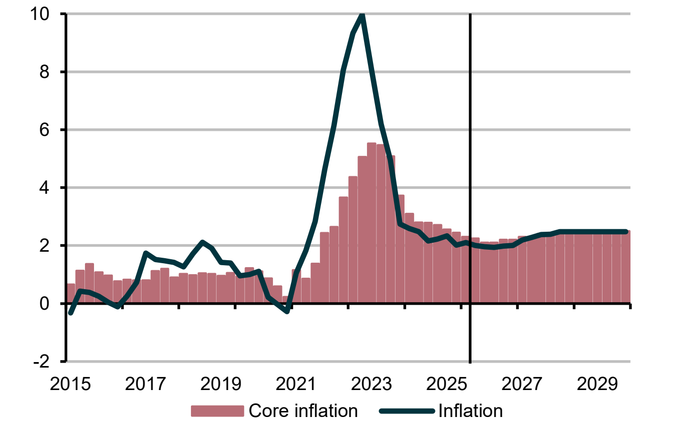
projected to rise towards 2.5%, driven primarily by a renewed pickup in wage growth. In addition, the longer-term effects of higher trade barriers and ongoing geopolitical tensions are expected to exert upward pressure on costs and prices.

Policy rates on hold in 2026, gradual tightening ahead

The European Central Bank has eased monetary policy substantially, lowering the deposit rate from 4.0% in June 2024 to 2.0% by June last year. This level is broadly consistent with the ECB's estimates of the neutral policy rate, and recent communications suggest that policymakers view the current stance as appropriate, noting that the ECB is "in a good place" and "well positioned." Meanwhile, the economy has shown resilience to tariff-related uncertainty. We therefore maintain our forecast that the policy rate will remain unchanged at 2.0% this year. Looking ahead, however, our somewhat firmer outlook for GDP growth and inflation relative to the ECB leads us to expect a gradual tightening cycle to begin in the first half of 2027, lifting the policy rate to 2.50%. We also expect 10-year swap rates to drift higher towards 3.25% over the next 12 months.

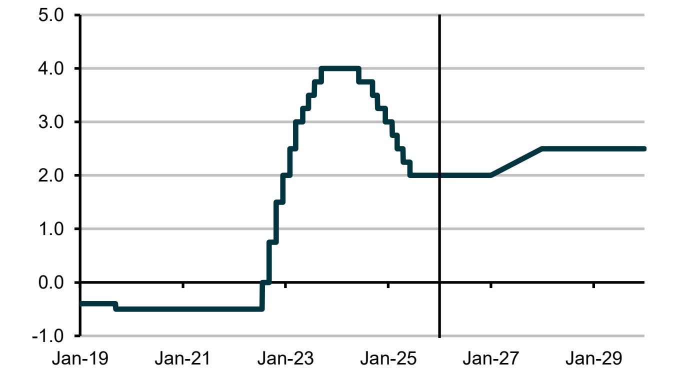
The ECB holds rates at 2.0% this year, while increasing wage and price pressures will give a gradual tightening in 2027.

EZ: Inflation, % Y/Y



Source: LSEG Datastream, DNB Carnegie

EZ: ECB deposit rate, %. Actual and projections



Source: LSEG Datastream, DNB Carnegie

Risks of escalating geopolitical tensions, while inflation risks broadly balanced

The recent announcement by the US president that tariffs could increase by up to 25% for six EU countries, together with Norway and the UK, as well as discussions about possible EU retaliation and the potential use of the EU Anti-Coercion Instrument, has increased the risk of an escalating trade war between the US and Europe and of a further weakening of transatlantic relations. This development poses a downside risk to eurozone growth, but it will also increase the sense of urgency within the EU to step up investment in defence and other areas critical to EU sovereignty, while reducing dependencies on the US.

Also, the German-led investment upswing could lose momentum if governments fail to follow through with capacity-enhancing measures. High and rising public debt levels remain a key vulnerability, while higher interest rates—combined with increasing pension and defence spending—pose growing challenges for many European governments. On the upside, productivity gains related to artificial intelligence could materialise faster and prove larger than we currently assume for the euro area. Our baseline forecast incorporates only modest productivity improvements. In addition, there is a risk that inflation could turn out lower than anticipated, which would also imply lower interest rates. This could occur, for example, if Chinese exports of low-cost goods to the euro area become more aggressive than we have assumed.

UK

Bank of England almost finished cutting

GDP growth slowed in the second half of 2025, while the unemployment rate rose significantly. We expect growth to pick up somewhat this year, while labour market weakness will likely keep the disinflationary process on track. Wage growth has already declined sharply and will probably help bring down still-elevated services inflation. Consequently, we believe the Bank of England could cut the Bank Rate once more this year, moving closer to its neutral level.

GDP-growth has been weak recently, but will likely improve this year

After a strong start to 2025, GDP growth remained weak from the second quarter onwards. It now appears that annual growth ended at 1.4% Y/Y last year, driven primarily by a strong pickup in the first quarter. Growth has been supported by business investment and government spending, while private consumption rose less than GDP last year.

This year, we expect a stronger trend in consumer demand, while investment growth seems likely to slow. Despite a somewhat firmer underlying growth rate than last year, annual GDP growth may still end up slightly below the 2025 level. For the following three years (2027–29), we anticipate GDP growth close to potential, which the Office for Budget Responsibility (OBR) estimates at around 1.5% Y/Y.

Consumer demand key to a sustained recovery

We expect growth to pick up gradually, driven primarily by consumer demand, which seems set to be lifted by improved affordability and lower interest rates

Personal spending has been lacklustre over the past three years despite a strong improvement in real disposable income that began in the second half of 2023. Several factors may explain the disconnect between spending and income, which led to a sharp rise in the savings rate. Households may have viewed their savings as too low and therefore increased them from well below to well above the pre-pandemic average.

Higher savings could be justified by elevated geopolitical uncertainty but may also have been encouraged by the significant rise in the Bank Rate. Uncertainty increased particularly after Russia's invasion of Ukraine in early 2022, while economic uncertainty has been amplified by President Trump's trade policy over the past year.

The rate hikes, which lifted the policy rate from near zero to 5.25%, began in early 2022 and represented the sharpest increase since the late 1980s. Higher rates boost returns on savings

Forecasts, UK: Percent change from previous year

	2025e	2026e	2027e	2028e	2029e
Private consumption	1.0	1.3	1.6	1.6	1.4
Public consumption	1.8	1.9	1.4	1.2	1.2
Investments	3.6	2.3	2.2	2.0	2.0
Exports	2.5	1.3	1.6	1.9	2.0
Imports	4.0	1.9	2.2	2.0	2.0
GDP	1.4	1.2	1.5	1.5	1.4
Unemployment (level, %)	4.9	5.1	4.9	4.7	4.5
Wages	5.0	4.4	4.2	4.0	4.0
Core Inflation	3.5	2.8	2.6	2.5	2.4
Inflation	3.4	2.8	2.6	2.5	2.4
BoE Bank Rate (year end, %)	3.8	3.5	3.5	3.5	3.5

Source: LSEG Datastream, Bloomberg, DNB Carnegie

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and could have incentivised households to save more. By the same token, we believe the gradual reduction of the Bank Rate will likely lead to a decline in the savings rate.

Labour market weakness likely to persist

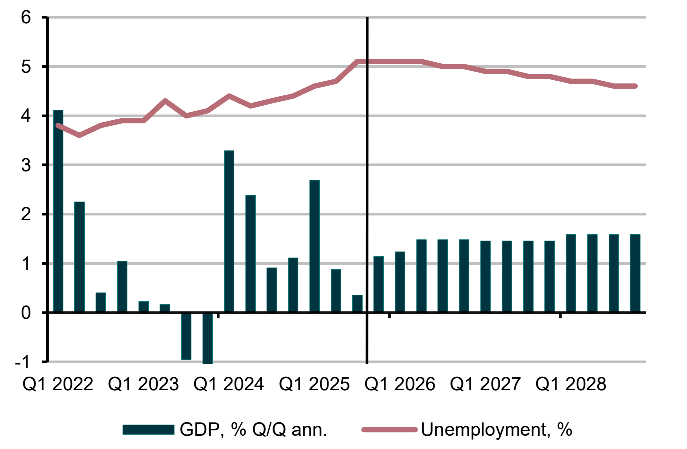
Alongside slower GDP growth, the LFS unemployment rate rose significantly last year, increasing from 4.4% in January to 5.1% in October (three-month averages). The rise in unemployment has mainly been driven by higher labour force growth rather than a decline in employment. On average, monthly job gains were 34k in 2025 - below the 50k recorded in 2024 but still stronger than the 2023 average. The increase in the labour force is likely linked to the strong influx of non-EU migrants to the UK in recent years.

The labour market has weakened, but the slack is likely smaller than what the LFS unemployment rate indicates

Moreover, there has not been a similar rise in the claimant count measure of unemployment, which remained around 4.4% on average in 2025. This suggests that the increase in the LFS rate is largely due to individuals who are not eligible for benefits, such as students and those seeking short-term jobs.

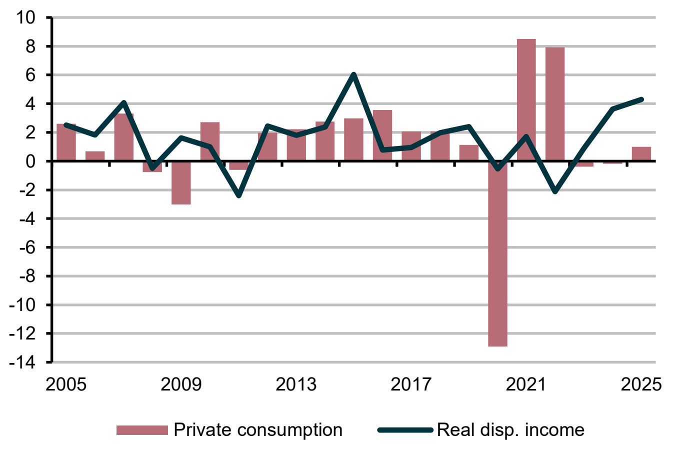
As we forecast gradually stronger consumer demand, we do not expect further significant weakening in the labour market. However, growth is unlikely to be strong enough to reduce the unemployment rate quickly. The rate could still decline if labour force inflows slow, and there are signs of lower immigration, which could support this trend. In our baseline scenario, we have pencilled in a gradual decline in the unemployment rate.

UK: GDP and unemployment



Source: LSEG Datastream, DNB Carnegie

UK: Households, % Y/Y



Source: LSEG Datastream, DNB Carnegie

Little room for Bank of England to lower the Bank Rate further

A gradual easing cycle began in August 2024, and the Bank Rate was lowered from 5.25% to 3.75% through a series of cuts. However, recent decisions have revealed significant divisions within the MPC. Both the August and December cuts last year were supported by only five of the nine MPC members, while the November decision to keep the Bank Rate unchanged also passed by a narrow margin of five votes.

We expect one additional rate cut, in April next year, and unchanged Bank Rate thereafter

In December, the decision was accompanied by a statement noting: “On the basis of the current evidence, Bank Rate is likely to continue on a gradual downward path. But judgements around further policy easing will become a closer call.” We interpret this as an indication that MPC is close to finishing its rate cutting process. Several MPC members seem sceptical to reducing the Bank Rate further.

According to the Bank of England, the neutral rate is now estimated in the 2.5% - 3.5% range, after being raised by 50bp in June last year. This means the current Bank Rate remains somewhat restrictive. Our projections suggest that inflation will stay above the target for an extended period - consistent with current measures of inflation expectations - while growth gradually approaches its trend level.

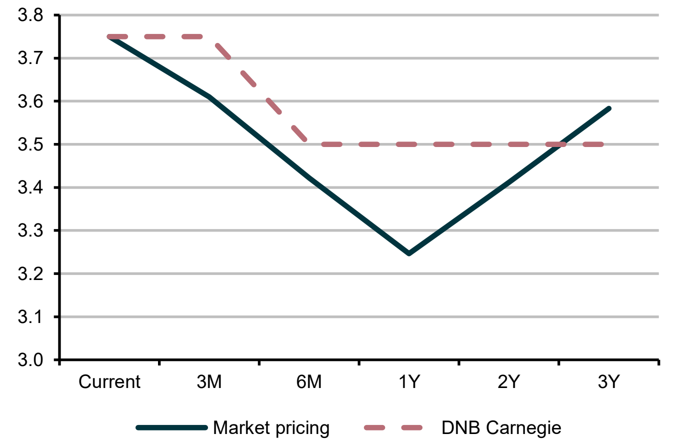
Therefore, we believe monetary policy will need to remain somewhat restrictive going forward and see room for only one additional rate cut, likely in mid-2026. Thereafter we believe that the Bank Rate can be maintained at 3.5%. This level implies a moderately restrictive policy, which we believe will be needed to dampen inflationary pressures.

The ten-year swap rate has recently been trading slightly below 4.0%. In the short term, our Bank Rate expectations are aligned with market pricing. Hence, we do not expect a change in the swap yield, and our three-month forecast is 4.0%. One year ahead, we expect a small increase in the yield to 4.25%, for two reasons. First, we anticipate no more than one rate cut, while markets expect two. Second, we believe there will be some spillover effects from the US market, where higher fiscal spending is expected to push swap rates slightly upwards.

UK: Inflation and wage growth, % Y/Y

Source: LSEG Datastream, DNB Carnegie e

UK: Bank Rate expectations, %



Source: LSEG Datastream, Bloomberg, DNB Carnegie

Risk to our forecasts

The UK economy has generally underperformed relative to its major peers in recent years, reflecting the lingering effects of Brexit and the larger impact of the pandemic. At the same time, inflation has been higher than in other countries. Core inflation rose in line with US core inflation during the 2021–22 inflation shock but has subsequently remained significantly higher than both US inflation (despite US tariffs pushing prices up) and eurozone inflation. We see both downside and upside risks to our GDP and inflation forecasts.

Inflation could remain higher than forecast if wage growth fails to decline as expected. A further slowdown in wage growth seems reasonable given the increased slack in the labour market. However, wage pressures could persist if the labour market proves stronger than suggested by current LFS unemployment trends (see discussion above). Conversely, inflation may fall faster than anticipated if energy prices continue to decline and if the labour market turns out weaker than expected. Over the longer term, productivity gains from AI could also help dampen inflation.

Risk to our forecasts is most evident for inflation. Inflation could possibly decrease more than we expect, but may also remain elevated

GDP growth could exceed expectations if households reduce savings more quickly in response to lower interest rates. Savings behaviour often remains a key uncertainty. Positive AI-driven productivity effects could also boost investment and support stronger growth in the coming years. On the downside, GDP growth could disappoint if households maintain high savings despite lower rates. Additionally, goods exports, which has underperformed markedly after Brexit, may continue to weaken.

SWEDEN

Strong recovery points to a hike in late 2026

After a brief stumble in early 2025, Sweden's recovery is now firmly back on track, and we expect activity to strengthen further into 2026. Global structural economic and geopolitical shifts risk keeping underlying inflation moderately elevated. We expect the Riksbank to begin raising the policy rate in late 2026, reaching 2.50% in 2027.

Recovery regains traction as domestic demand accelerates

Our previous assessment of developments in the Swedish economy remains broadly unchanged. As the economy began to recover already in the second half of 2024, we adopted a relatively constructive stance in our August Economic Outlook and viewed the slowdown at the start of 2025 as temporary, largely driven by a Trump-related shock that briefly paralysed economic activity. Underlying momentum has since proven even more resilient than anticipated. Considering revised data, we raise our GDP growth forecast for 2025 to 2.0% (previously 1.3%). Supported by further monetary and fiscal stimulus, domestic demand is expected to gain strong momentum in 2026, boosting GDP growth to 2.9% (previously 2.3%).

Strong sentiment despite rising geopolitical uncertainty

This positive outlook is supported by a marked improvement in sentiment. The NIER Economic Tendency Indicator for December points to sentiment rising above its historical average for the first time since 2022. The outlook is further underpinned by stronger prospects for the US and European economies, as the economic impact of tariffs has so far been less severe than initially feared. That said, the global geopolitical environment is fragile, with intensifying great-power rivalry, and the rules of the game may change rapidly. We maintain our long-standing view that these structural shifts are contributing to moderately but persistently higher inflation.

Riksbank expected to start hiking in late 2026 - policy rate seen at 2.50% by end-2027

We target a 2.50% policy rate in late 2027, consistent with our two previous Economic Outlooks. This reflects our expectation that the Swedish economy will by then have returned to a balanced position, with a somewhat positive output gap but moderately elevated underlying inflation. Following the Riksbank's unexpected policy rate cut to 1.75% in September, we now expect three rate hikes, up from two previously. Moreover, we expected the first hike to occur in late 2026 (previously early 2027). Beyond inflation dynamics, the pace at which resource utilisation improves, and the output gap closes, will be key determinants of timing.

Forecasts, Sweden: Percent change from previous year

	2025e	2026e	2027e	2028e	2029e
Private consumption	1.7	2.8	2.0	1.4	1.4
Public consumption	0.8	1.9	1.9	1.4	1.2
Investments	1.3	4.3	3.5	3.0	2.9
Exports	5.6	3.7	3.2	3.2	3.0
Imports	4.9	3.9	3.3	3.1	3.0
GDP	2.0	2.9	2.3	1.9	1.8
Unemployment (level, %)	8.9	8.4	7.8	7.5	7.2
Wages	3.7	3.4	3.3	3.3	3.3
CPIF-XE	2.8	1.2	2.3	2.4	2.4
CPIF	2.6	1.1	2.3	2.4	2.4
Policy rate (year end, %)	1.75	2.00	2.50	2.50	2.50

Source: LSEG Datastream, Bloomberg, DNB Carnegie

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Household consumption boosted by a supportive policy mix

Household consumption, which accounts for nearly half of the Swedish economy, was closely monitored last year amid concerns about weak momentum. Although incoming data already pointed to an emerging recovery, policy support was provided through an extraordinarily expansionary autumn budget bill, reinforced by a further policy rate cut to 1.75% in September. Following five consecutive quarters of muted, yet gradually improving activity, growth accelerated to 1.7% and 2.1% Y/Y in the second and third quarters, respectively. The outlook for the final quarter also appears favourable. After a brief decline of 0.5% M/M in October, still corresponding to 2.8% Y/Y, the household consumption indicator rose by 1.0% M/M in November, equivalent to 3.5% Y/Y. While this improvement is not yet fully reflected in the NIER Economic Tendency Survey, where households remain the only segment below the historical average and in sharp contrast to exceptionally strong retail-sector readings, there are several reasons to expect continued solid momentum in 2026.

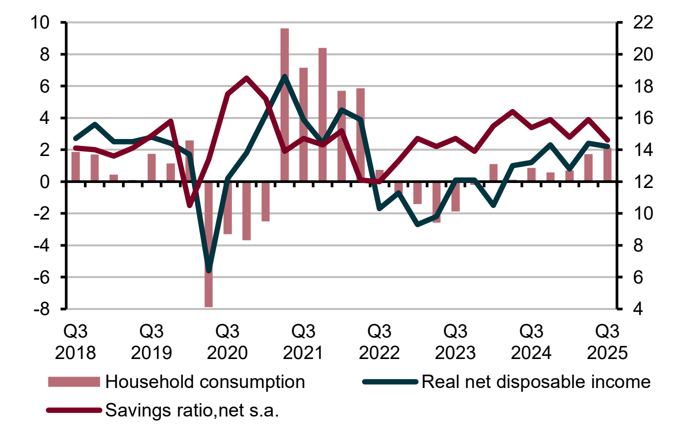
Solid rebound of household consumption started in 2025.

Interest expenses have been halved, inflation is significantly lower, and taxes on income, electricity and food have been reduced, including a halving of food VAT from April 2026. Together with higher wages, this will provide a substantial boost to real disposable income continuing into 2026. In addition, Swedish households maintain a high savings rate, pointing to further upside potential for consumption. A decline in savings has already been observed, suggesting that this reallocation is underway. Overall, we expect consumption growth of 1.7% Y/Y in 2025, accelerating to 2.8% in 2026. Thereafter, growth is projected to ease to 2.0% in 2027 and subsequently 1.4% in 2028-2029, as rising inflation and higher interest rates are expected to slow gains in real disposable income. We consider it unlikely that the government's plan to reinstate the food VAT after 2027 will be implemented, and therefore that the associated drag on real disposable income will materialise.

Significant boost of real disposable income 2025 and 2026.

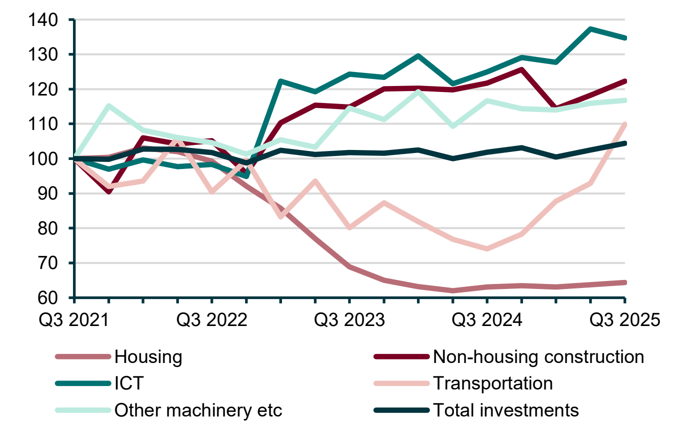
Reinstated VAT on food unlikely to materialise in 2028

Sweden: Household consumption and savings, % Y/Y



Source: LSEG Datastream/DNB Carnegie

Sweden: Investment growth. Index Q3 2021=100



Source: LSEG Datastream/DNB Carnegie

Public and private investments will anchor growth for years ahead

Following a rebound in late 2024, 2025 began with a sharp 2.0% Y/Y decline in gross fixed capital formation, driven by an unexpectedly large but temporary drop in investments related to non-housing construction. Since then, activity has surprised on the upside, posting robust growth of 2% Y/Y in both the second and third quarters. We maintain our view that in addition to a strengthening business cycle, large-scale public investment and initiatives in defence, infrastructure, and energy will spill over and spur both investment and innovation activity across the private sector as well. As the cycle turns and interest rates have halved compared with two years ago, we expect even the hard-hit housing sector to begin recovering in 2026. In addition, the strong momentum in ICT investment observed in recent years is likely to continue as demand for AI remains robust. We project gross fixed capital formation to grow by 1.3% in 2025 and 4.3% in 2026, before moderating to around 3.0-3.5% in subsequent years.

Significant public and private investments in military build-up, infrastructure, energy and ICT.

Hard-hit housing investments expected to recover in 2026.

Public spending expected to stay high for longer…

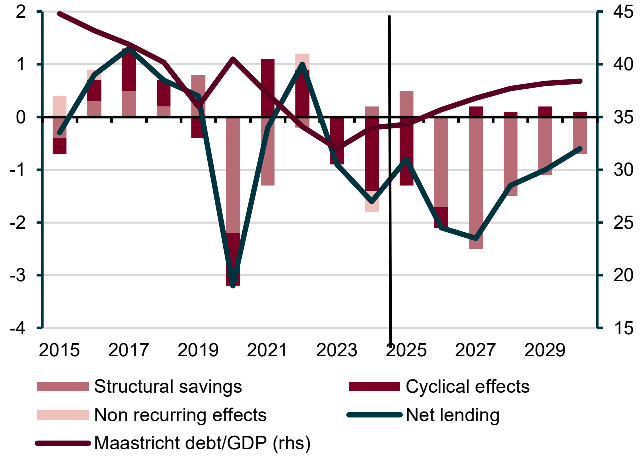
Public spending is set to rise materially over the coming decade, driven largely by a substantial military build-up. The Swedish government aims to allocate a total of 5% of GDP to combined military (3.5%) and non-military (1.5%) defence spending by 2030-2035, in line with NATO's new target. In addition, the government has announced large-scale investments in energy and infrastructure, alongside continued support for Ukraine. Much of the increase in expenditure is expected to take the form of long-term investment, partly financed through new borrowing and large pre-funded procurement programmes (e.g. JAS 39 Gripen), which complicates the assessment of its year-by-year impact on economic growth and public savings. Public consumption is also set to increase, reflecting both the broader expansion of public activities and cyclical factors. Taken together, the sustained rise in public spending is expected to result in negative structural savings for an extended period.

…despite criticism that the fiscal framework is being disregarded

The government's fiscal expansion has come under increasing scrutiny. The Swedish National Audit Office has concluded that fiscal policy has not been designed in line with the existing fiscal policy framework. Neither the current surplus target for 2025–2026 nor the proposed balance target to be introduced in 2027 is expected to be met. The Riksbank has emphasised that, from both a credibility and a monetary policy perspective, it is important for the government to present a clear plan for returning to and complying with, the fiscal framework. According to the National Institute of Economic Research, the remaining fiscal space amounts to only SEK 37 billion over 2027–2030. However, given strong cross-party parliamentary support for continued military build-up, the legacy of recent years of household hardship, and an upcoming general election, we consider it unlikely that the substantial fiscal contraction required for compliance will be implemented in the near term. While the Maastricht debt-to-GDP ratio is projected to rise, it will likely remain within the debt anchor range of 35% ± 5%.

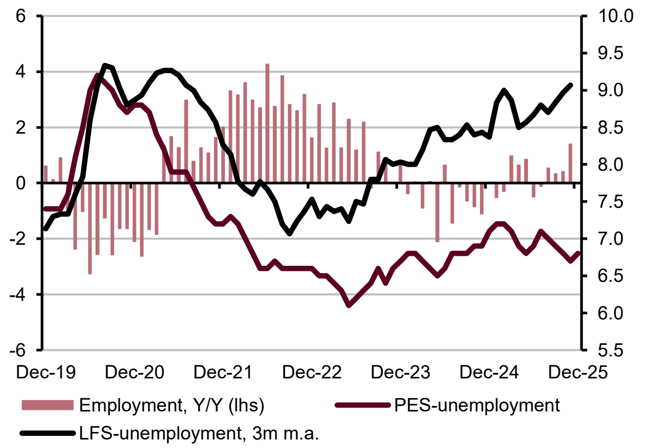
The fiscal framework consists of a surplus target (balance target from 2027), an expenditure ceiling, a debt anchor for public debt, and balanced-budget requirements for local governments, aimed at ensuring long-term fiscal sustainability.

Sweden: Public net lending and Maastricht debt, % to GDP



Source: LSEG Datastream/DNB Carnegie, NIER

Sweden: Labour market trends, %



Source: LSEG Datastream/DNB Carnegie

Net export expected to wane even though foreign trade increases

Despite US tariffs imposed last year, Swedish foreign trade has expanded significantly in 2025 although certain industries exposed to higher tariffs, such as automotives, have been hit hard. Looking ahead, stronger demand from the European market, which accounts for around 75% of Sweden's total exports, is expected to offset potentially weaker exports to the US. At the same time, firmer domestic demand should drive higher import volumes. Overall, we expect the contribution from net exports to economic growth to fade over the forecast horizon. For 2025, we forecast export and import growth of 5.6% and 4.9%, respectively, followed by 3.7% and 3.9% in 2026. Thereafter, we expect broadly similar growth rates for exports and imports.

Increasing domestic demand will drive imports and reduce net exports

Labour market shows signs of improvement

The unemployment rate has risen sharply over the past three years, averaging 8.9% in 2025. The primary driver has been weak economic activity and marked increase in labour force participation. Employment, however, remains close to its level of two and three years ago, pointing to underlying resilience in the labour market but also to low resource utilisation. In the second half of 2025, employment has started to increase and as economic activity strengthens, we expect labour demand to enhance further, bringing the unemployment rate (LFS) down to 8.4% in 2026, followed by a further decline to 7.2% by 2029. The registered unemployment rate (PES) has already begun to decline, although it edged up to 6.8% in December.

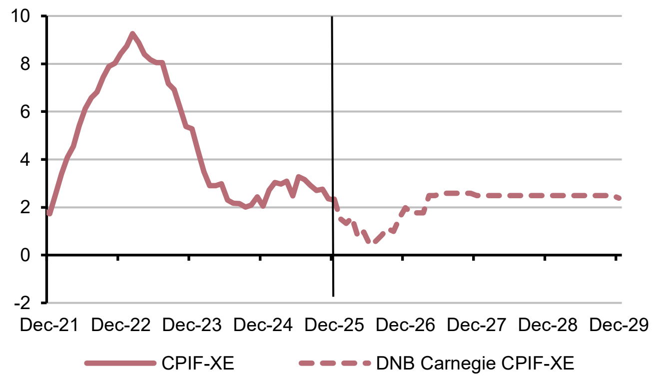
Unemployment rates have raised despite robust employment, due to higher labour force participation.

Food VAT cuts to drive lower inflation while underlying risks remain on the upside

After falling to 2% Y/Y in late 2024, inflation rose again during 2025. On average, core inflation (CPIF-XE) amounted to 2.8% Y/Y, while CPIF averaged 2.6% and CPI 0.7%. Alongside sizeable basket effects, price increases in food, travel, restaurants, and hotels pushed core inflation higher. Inflation eased somewhat toward the end of the year, suggesting some transitory factors. Looking ahead, inflation dynamics are set to shift markedly, mainly due to the halving of food VAT from April 2026 to December 2027. We expect full initial pass-through, lowering inflation by around 0.7%-points in April, before the effect gradually fades as prices adjust along the value chain. Given the political challenges, we consider the government's intention to restore the food VAT unlikely to materialise. With fiscal policy currently pro-cyclical, upside risks to inflation linger. Moreover, we maintain the view that structural changes in the global economy, primarily driven by geopolitics and fiscal expansion, will keep underlying inflationary pressures tilted to the upside. Taken together, we project a temporary decline in CPIF-XE inflation to 1.2% Y/Y in 2026, before it rises to around 2.4% in subsequent years.

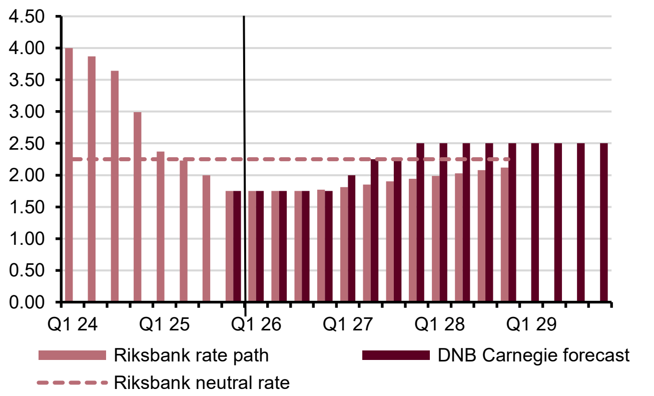
Inflation will fall significantly due to VAT-effect on food, but underlying risk remain on the upside due to structural changes in the global economy, and an expansionary domestic policy mix.

Sweden: Core inflation forecast (CPIF-XE), % Y/Y



Source: LSEG Datastream/DNB Carnegie

Sweden: Policy rate path and DNB Carnegie forecast, %



Source: LSEG Datastream/DNB Carnegie/Riksbank

Riksbank expected to start hiking in late 2026 - policy rate seen at 2.50% by end-2027

Following the somewhat surprising rate cut to 1.75% in September, the Riksbank adjusted its policy rate path slightly higher in December, now signalling a 25 bp hike in 2027 and a 50% probability of an additional hike in 2028. Against the backdrop of the strong recovery currently underway, resource utilisation is also likely to strengthen at a faster pace. Combined with underlying inflationary pressures (excluding VAT effects), which we continue to view as tilted to the upside, this leads us to expect the Riksbank to tighten monetary policy more and faster than implied by the current rate path, which ends at 2.12% - particularly given the communicated neutral policy rate of 2.25%. We now expect a first hike in November 2026 (previously January 2027), followed by another in January 2027 and most likely a final hike in late 2027. This would bring the policy rate to 2.50%, unchanged from our two previous Economic Outlooks. In line with our projections, long rates increased and reached 3% in 2025 (10-year interest rate swap). We expect rates to move broadly sideways around 3% over the next three months, before rising further towards 3.25% over a 12-month horizon.

The current policy rate path is regarded too low given the strength of the Swedish economic recovery.

CHINA

Expansive policy puts a floor under growth

We forecast China's GDP growth to slow only marginally in 2026–27, before gradually accelerating as productivity gains take hold. By 2028–29, we expect the housing downturn to bottom, removing a key drag on demand. In 2026, we believe both exports and consumption are likely to outperform the soft consensus expectations. New subsidies mitigate the payback from earlier consumption frontloading, while Chinese exporters continue to gain market share in the Global South. Despite efforts to curb excess capacity, we expect investment to rise, as policy prioritises self-reliance.

China enters the 2026-2030 period with a trade truce and solid policy buffers

China remains in a cyclical downturn dragged down by a deflating property sector. Yet it enters the 2026–30 period with US–China relations relatively stable. Reported GDP growth reached 5.0% Y/Y in 2025, in line with the official target, while nominal growth was weaker at around 3.8% Y/Y, reflecting persistent deflation despite efforts to curb destructive price competition. We expect the 2026 growth target to remain set at "around 5%" in March.

Growth quality improves despite lower headline pace

Despite continued headwinds from property and some potential payback after export and consumption frontloading in 2025, we see limited downside risk in the near term, with policy increasingly acting as a backstop. Policy buffers are substantial. Fiscal support has largely been kept in reserve, while monetary easing has been measured. Despite core inflation lingering at 1% Y/Y, the People's Bank of China (PBOC) delivered only a 10bp cut to policy rates bringing the 7day repo rate to 1.40% and a 50bp reduction in reserve requirement ratios during 2025. Effective 19 January, the PBOC initiated targeted easing measures, cutting re-lending rates and increasing the quotas, signalling more precision easing instead of broad headline cuts.

Growth is likely to remain below 5% Y/Y, but its composition is improving: less construction-driven and more productivity-led. Toward the end of the decade, assuming progress on social security reform and industrial upgrading, domestic consumption should play a larger role.

Export restrictions on rare earth elements provide a window of calm for Chinese firms

The US-China trade truce likely to hold into 2027, in our view

Near-term we expect Chinese exporters to gain further market shares. A de-facto trade truce with the US reduces near-term volatility, lowers tariff uncertainty, and improves visibility for exporters. Both the US and China appear to have stepped back from further trade escalation, seemingly favouring managed coexistence over confrontation. Although no official trade deal has been released nearly three months after Presidents Xi and Trump met on the sidelines of APEC in South Korea, we expect the truce to hold throughout 2026-27, providing a window of calm as the Presidents are set to visit each other in China and the US this year. In our view, it would take at least three years to build meaningful rare-earth separation capacity outside China. Given the importance of rare earth elements to US defence supply chains, this may act as a constraint on further escalation near-term. That said, in our view, the US-China geopolitical rivalry remains structural, making full de-escalation unlikely.

Forecasts, China: Percent change from previous year

	2025	2026e	2027e	2028e	2029e
GDP (reported)	5.0	4.8	4.3	4.4	4.5
GDP (estimated)	4.6	4.5	4.3	4.4	4.5

Source: LSEG Datastream, Bloomberg, DNB Carnegie

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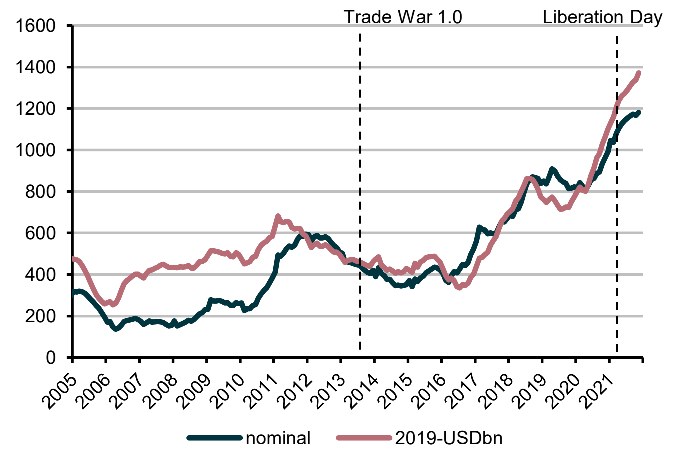
Net exports to continue growing as Chinese multinationals gain market share

Export resilience reflects structural advantages, not subsidies alone

Exports have outperformed our expectations for a period of weakness following tariff-related frontloading of exports in Q4 2024–Q1 2025. Chinese firms continue to gain global market shares, particularly across Asia, Africa, the Middle East and Latin America, and increasingly in higher value-added goods. This export resilience despite trade fragmentation reflects a combination of subsidies and margin compression, but also important comparative advantages that are difficult to replicate. China boasts dense supplier networks, strong logistics infrastructure, abundant and affordable electricity, and a large domestic market that enables rapid design-test-iterate cycles. Looking ahead, broader adoption of AI and automation should deepen China's manufacturing edge further, reinforcing competitiveness.

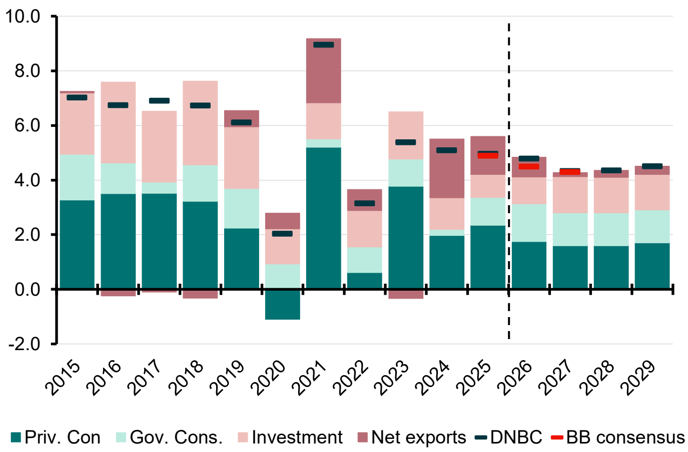
Supply chains are lengthening and becoming regionally embedded. Under the Regional Comprehensive Economic Partnership (RCEP) which entered into force in 2022, rising Chinese outward FDI into Asia is facilitating a reconfiguration of value chains. Signs of pragmatic re-engagement are also emerging in Asia even as China-Japan relations deteriorate. In January 2026, South Korean President Lee called for closer economic ties with China, while the thaw between India and China continues slowly. Chinese firms are increasingly exporting capital, technology and intermediate inputs, while production and assembly are diversified across Asia. We have lifted our GDP forecasts accordingly, as net exports are now expected to contribute positively to growth again in 2026, albeit less so than in 2024–25.

China: Goods trade surplus last 12m sum (USDbn)



Source: LSEG Datastream, DNB Carnegie *Deflated using official import/export price indices

China: GDP growth, by demand component (% Y/Y)



Source: LSEG Datastream, Oxford Economics (history), DNB Carnegie (forecasts)
Note: Stock changes not explicitly included in chart

Renminbi set to appreciate against the dollar, despite still-high tariffs

As Chinese multinationals expand abroad, we expect a new wave of outward FDI especially to the Global South economies. Parts of the Chinese record trade surplus is thus recycled into greenfield investments. Contrary to expectations of a currency depreciation to offset US tariffs, the renminbi has appreciated around 5% against the dollar since January 2025 and is trading below 6.97. Bloomberg Consensus points to a very gradual multi-year appreciation, with USDCNY declining to 6.9 by 2027. Given the USDCNY traded at 6.5 in 2021, we think there may be more room for appreciation by 2027. Such an appreciation of the renminbi would aid capital inflows into Chinese equities and bonds, while also be consistent with rising repatriations. We expect central government debt rather than local government debt will be key to finance further fiscal expansion and rising government spending. Furthermore, by allowing an appreciation of its currency, China can appear to address the concerns by the Trump administration that the renminbi is too weak.

Our outlook for continued export growth does not assume a broad shift toward a '*Reverse Deng Xiaoping*' approach in advanced economies. This would be granting Chinese firms market access in exchange for local investment and technology transfers. Were such arrangements to materialise, they would represent an upside to our growth estimates via stronger exports of capital goods and improved capital returns for Chinese firms. This upside risk appears to be concentrated in a few ring-fenced sectors. In January 2026, the European Commission reached an agreement on minimum prices for Chinese EV exports to the EU, signalling a preference for negotiated access over tariffs. The framework encourages Chinese firms to combine minimum price commitments with investment in EU manufacturing capacity. After the reset in Canada-China relations, we see upside in more economies selectively re-engaging with China on trade, with EVs and clean energy as sectors which may benefit.

Selective trade re-engagement offers upside for EVs and clean energy sectors

Domestic consumer demand remains the weak link as property is slow to stabilise

Domestic consumer demand remains subdued, with retail sales growth slowing to 1%Y/Y by Q4 2025. Part of this weakness is because subsidies brought forward some planned retail purchases, borrowing from future demand. In H1 2025, generous trade-in subsidies reimbursing up to 20% of the purchase price for vehicles and household appliances pulled forward durable-goods purchases, boosting headline consumption but creating a mechanical payback as subsidy funding ran out toward the end of the year. Authorities have since extended and refined trade-in and equipment-upgrade programmes into 2026. These measures should cushion, but not fully offset, the slowdown in consumption.

Fundamentally, consumer demand remains constrained by weak labour income growth and the prolonged housing downturn. Given the central role of property in household wealth, falling home prices have generated persistent negative wealth effects, reinforcing precautionary saving behaviour. Housing starts and transactions remain well below pre-pandemic levels, and prices resumed declines in H2 2025 after a brief stabilisation earlier in the year. While some estimates point to a housing trough by 2027, we take a more cautious view and expect a durable stabilisation only in 2028–29.

Weak income and declining home prices remain constraints on consumption

At the same time, households have accumulated a large stock of excess cash savings since 2020, which we estimate to be close to 8% of global GDP. As deposit rates have fallen and a sizeable share of fixed-term deposits mature in 2026, some of these savings are likely to be gradually redeployed. Part of this flow may support domestic asset markets, and a ‘slow bull’ equity rally could lift household confidence at the margin. However, in the absence of a sustained recovery in housing prices and labour income growth, this channel is more likely to stabilise sentiment than to trigger a sharp rebound in consumption.

Excess household cash savings are substantial at 8% of global GDP

Policy communication has shifted accordingly. Expanding domestic demand is now framed as a structural objective rather than a cyclical lever. Reforms to social security, childcare, healthcare and services provision are intended to reduce precautionary saving, release some of the excess cash savings and raise consumption’s contribution to growth over time. These channels operate slowly, but the 15th Five-Year Plan (2026–30) to be launched in March 2026 is set to formalise the rebalancing. In our view, officials are increasingly likely to be assessed on their ability to boost consumption, not just headline GDP.

Reforms to are intended to release some of the excess cash savings as consumption

Investments set to rise, despite efforts to curb overcapacity

On the supply side, we expect the overall policy direction to remain broadly unchanged, with Chinese authorities prioritising investments to secure self-reliance. The deflating property sector investments has largely been redirected toward these new industries, albeit often in a disorderly manner marked by overlapping projects and overcapacity. Going forward, we see some adjustments. In early 2026, authorities introduced new rules to strengthen oversight of government investment funds and curb inefficient duplication across provinces. Greater central coordination should steer capital toward fewer, larger clusters. The policy stance toward privately owned technology firms has also shifted. The regulatory tightening of 2021 (including the crackdown on technology firms) has given way to renewed support for private enterprises, particularly in strategic sectors where China seeks self-reliance. Given AI’s central role in US–China competition, policy backing in this area is likely to remain strong.

Policy aims to rationalise investment.

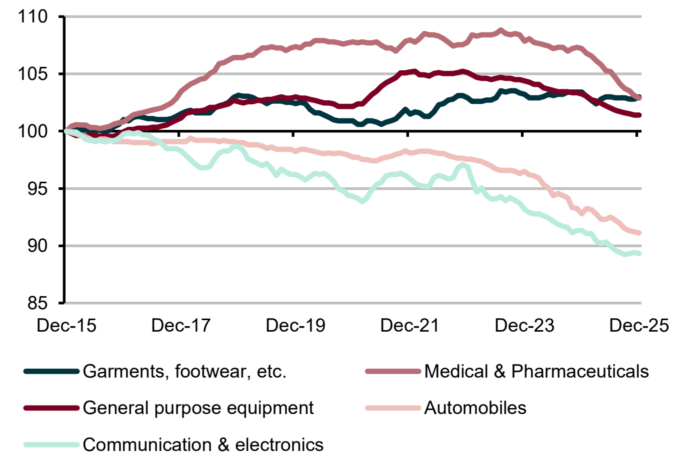
We expect consolidation in sectors with overcapacity, with near-term adjustment costs

Beijing's push to curb 'involution', a form of destructive competition driven by subsidy-backed capacity expansion, is aimed at restoring profitability and income growth. Years of intense price competition have compressed margins and wages. Income growth averaged around 8% Y/Y in 2015 but had slowed to roughly half that pace by 2025. While efficiency gains have kept ex-factory prices under pressure for much of the past decade, the more recent sharp declines reflect price wars rather than productivity improvements, in our view.

Years of intense price competition have compressed margins and wages.

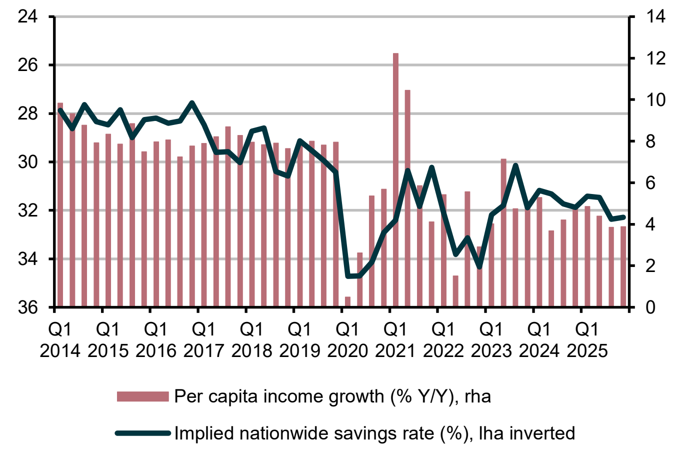
Unlike advanced exporters such as Germany which sustain export shares near 40% of GDP without persistent margin compression, Chinese firms have competed primarily on price to secure market share. Now, Beijing aims to accelerate the exit of inefficient capacity, allowing profitability to recover through consolidation rather than prolonged margin erosion. However, despite policy efforts to rein in destructive competition in H2 2025, ex-factory prices remain under pressure, suggesting that the adjustment will be gradual.

China: Ex-factory gate prices (Index to 100)



Source: LSEG Datastream, DNB Carnegie

China: Income growth (% Y/Y) and savings rate (%)



Source: Bloomberg, LSEG Datastream, DNB Carnegie

Labour market frictions constrain the outlook, requiring more direct policy support

Resetting 'involution' carries near-term costs. Consolidation and capacity cuts are likely to weigh on employment in the short run. Labour market conditions are already challenging, particularly for younger cohorts. This may seem puzzling, as China's working-age population has been shrinking since 2016. Over the past decade, economic activity indicators such as energy demand have continued to rise even as the workforce shrank, reflecting sustained upskilling and a reallocation of labour toward higher-productivity sectors. Around 23% of the labour force remains employed in the primary sector, far above the 4–7% typical of advanced economies, highlighting scope for more gains. Still labour market frictions have intensified in recent years. PMI indicators suggest hiring remains at its weakest levels outside the pandemic period. Youth unemployment stood at around 17% at end-2025, reflecting an oversupply of skilled labour relative to available jobs. Although annual labour-market entrants declined from 21m in 2019 to 16m in 2025, the number of university graduates rose by more than 50% over the same period, contributing to 'involution' as credentials rise faster than white-collar job creation. The macro implications are increasingly visible. Weak early-career prospects delay household formation, suppress fertility and reinforce precautionary saving. After rising above 1.8 in 2017, fertility has fallen below 1, creating a narrow window for policy intervention. Addressing labour mismatches is therefore likely to move higher on the policy agenda, requiring a broader approach that combines industrial upgrading with stronger support for labour-intensive services, expanded childcare provision, improved maternity benefits and targeted household transfers. We thus expect rising government consumption share in GDP growth.

Consolidation and capacity cuts are likely to weigh on employment in the short run…

…worsening youth employment.

The sees fertility rates declining rapidly, leaving a narrow window for policy intervention…

…we expect government demand to play a larger role.

EMERGING MARKETS

Resilience holds despite trade fragmentation

Many emerging market economies (EM) have shown resilience to trade disruptions in 2025 and are together set to account for most of global growth over 2026–29. However, this stability increasingly masks underlying downside risks to growth from global trade fragmentation. We expect US growth to beat consensus, reducing risks to EM. Meanwhile, China's policy-driven push into manufacturing is an uneven upside risk to EM activity and a downside risk to EM inflation. India remains a bright spot in our outlook.

Resilient growth in 2025

Emerging markets economies have shown remarkable growth resilience in 2025. Despite erratic trade shocks, overall GDP-growth is set to reach 4.3% Y/Y in 2025. We expect growth in emerging markets economies to edge down to 4.1% Y/Y in 2026, before picking up in 2028. Unlike in previous periods of global economic shocks, EM economies have fared well. Central banks across many EM economies have anchored inflation expectations. Stronger monetary policy credibility has reduced the likelihood that external shocks translate into financial instability. Inflation has diverged somewhat across regions, though on average, we believe it will decline modestly going forward, supported by softening energy prices and exported disinflation from China.

Significant regional differences, with growth edging down in most regions

We forecast growth to edge down in most emerging markets regions in 2026

We forecast growth to edge down across most emerging market regions in 2026. Unlike developed economies, the fiscal space for boosting domestic investments is mostly smaller across EM economies. Trade-reliant economies in East Asia and Eastern Europe are likely to see slower growth, reflecting the unwinding of earlier export front-loading to the US rather than economic stress. Although peak trade shocks have likely passed, firms are releasing delayed investment only gradually. In the Middle East and North Africa, growth remains stable in 2026 as rising oil supply and global oversupply push oil prices lower, offsetting the boost from higher production. Risks following unrest in Iran seem unpredictable. Should the geopolitical situation flare up, the key impact on global growth would be through higher oil prices from Iranian outages. The Russian outlook remains highly uncertain and hinges on the trajectory of the war in Ukraine and relations with the US. After several years of stronger-than-expected growth, sanctions are set to weigh on Russian activity in 2025–26.

Forecasts, Emerging economies: GDP percent change from previous year

	2025	2026e	2027e	2028e	2029e
Emerging economies	4.3	4.1	4.2	4.2	4.3
China (Official)	5.0	4.8	4.3	4.4	4.5
China (Actual)	4.6	4.5	4.3	4.4	4.5
India (FY)	7.3	6.5	6.5	6.0	6.0
Russia	0.6	1.0	1.0	1.5	2.0
Brazil	2.3	1.7	2.0	2.5	2.5
MENA and Central Asia	3.7	3.5	4.0	4.0	4.0
Asia ex. China & India	4.2	4.5	5.0	5.0	5.0
Latin America ex. Brazil	2.4	2.0	2.5	2.5	3.0
Europe ex. Russia	1.9	2.0	2.5	2.5	2.5
Subsaharan Africa	4.4	4.5	4.5	4.5	4.5

Source: LSEG Datastream, DNB Carnegie (estimates) *FY = Fiscal year estimates

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In Latin America, growth remains the weakest among EM regions. Mexico faces downside risks, as trade fragmentation directly undermines its manufacturing base. Higher Mexican tariff barriers on imports from China and other parts of Asia, combined with uncertainty ahead of the 2026 USMCA review, raise input costs and add uncertainty to investments, driving a slowdown in 2026. Brazil benefited from stronger activity in 2025 due to offshore oil production gains, but in 2026 confronts headwinds from lower oil prices and higher US tariffs. Although the regime change in Venezuela is abrupt, we see the impact on overall growth and oil markets as limited.

Trade reconfiguration is underway

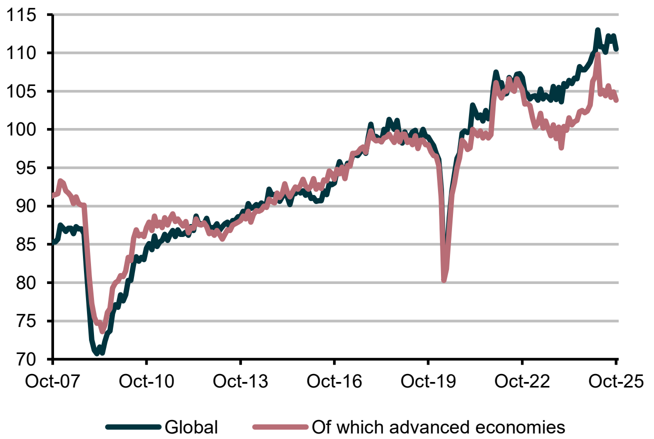
The US remains a key importer in global markets, accounting for 14% of global imports in 2025. Earlier front-loading of trade flows ahead of anticipated US tariff changes has pulled demand forward, leaving a weaker pipeline of orders in H2 2025 and into 2026. As frontloading effects unwind, trade-exposed emerging market economies have seen softer export momentum in H2 2025 which we expect to continue in Q1 2026 comparing to a high base.

Significant trade reconfiguration is underway across emerging markets

At the same time, significant trade reconfiguration is underway across emerging markets. Several economies such as Vietnam, Thailand, and India, have gained US market share by moving into segments previously dominated by China. Improved business confidence and continued FDI inflows suggest that supply-chain adaptation is still ongoing. Some EM exporters have increasingly reoriented trade away from the US, towards China and other markets. While the global AI-related capex boom has supported demand for selected EM tech exporters, its spillovers remain narrow and uneven, benefiting a small subset of economies in Asia. Chinese capital goods exports support EM investment but intensify competitive pressures

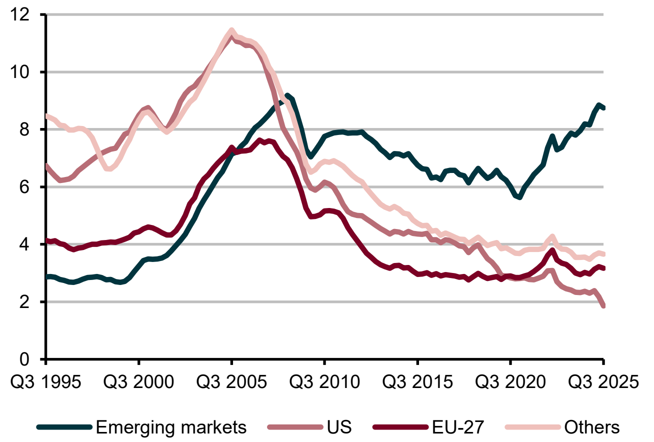
Meanwhile, policy support for high-tech manufacturing in China is intensifying, with Chinese firms increasingly pushing more advanced machinery, electronics, and capital goods exports into emerging market economies. This adds competitive pressure in some sectors. However, lower import prices and improved access to capital goods should, on balance, support investment and disinflation across emerging markets, particularly in Asia. The Regional Comprehensive Economic Partnership (RCEP) free trade agreement has deepened trade links within Asia. We forecast GDP growth in Asia excluding India and China to edge up to 4.5% Y/Y in 2026 and 5.0% Y/Y in 2027.

Global: Goods import volumes (index 2010 = 100)



Source: LSEG Datastream, CBP, DNB Carnegie

China: Exports, by region (% of Chinese GDP)



Source: LSEG Datastream, DNB Carnegie *Others are advanced economies not US or EU-27

India

India stands out at a bright spot for growth in 2025 thanks to stimulus. Going forward, we caution that strong headline growth is accompanied by weak labour-market outcomes and limited scope for additional stimulus. India's historical GDP and inflation numbers will be recalculated using new weights and methodologies effective February 2026. The resulting statistical break means that our forecasts should be interpreted as directional.

India's domestic demand remains the primary driver of growth amid stimulus in 2025

India's GDP rose 8.2% Y/Y in Q3 2025, after expanding 6.5% in 2024/25 and 9.2% in 2023/24 (fiscal years). Private consumption and investment remain the main drivers of growth. While front-loading lifted net exports in Q4 2024 and Q1 2025, this effect largely reversed by Q3 2025. Significant fiscal and monetary stimulus in 2025 is set to lift growth to 7.3% Y/Y in 2025/26. We see limited scope for further stimulus, as policymakers are likely to remain in wait-and-see mode and the new 2026 budget signals a more restrictive fiscal stance. We forecast GDP growth slowing to 6.5% Y/Y in 2026, slowing to 6.0% Y/Y by 2028, while inflation remains subdued.

Tax reform has supported private consumption

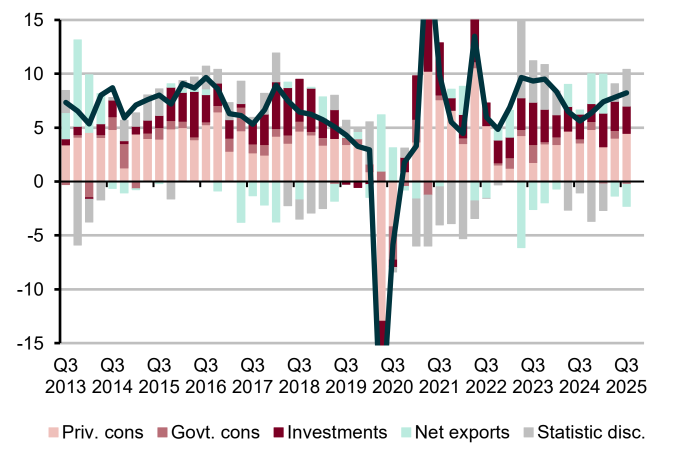
Private consumption growth has been strong. Urban consumption has remained robust following income tax reforms that exempted certain household groups. In September 2025, reforms to the Goods and Services Tax (GST) simplified the regime and significantly lowered effective tax rates, supporting consumption while reducing nominal retail prices. Meanwhile, a good harvest has kept domestic food prices low and boosted spending in rural areas.

Private investments remain weak, but may benefit from 125bps rate cuts

Investment growth in 2025 was largely supported by the public sector, while private corporate investment remained more subdued. Large public outlays on roads, ports, and logistics have eased some infrastructure bottlenecks. Targeted incentives, such as the Production-Linked Incentive (PLI) scheme, continue to attract manufacturing investment, particularly in electronics.

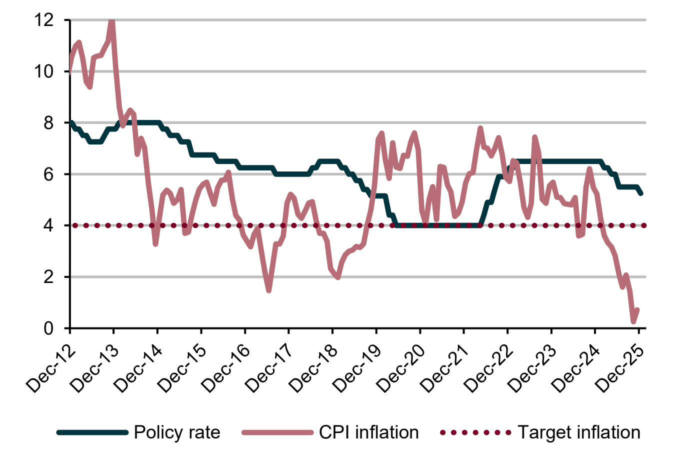
The Reserve Bank of India (RBI) began its easing cycle in February 2025, as inflation had fallen below target. After three consecutive rate cuts, the RBI cut rates once more in December 2025 as CPI inflation had fallen to just 0.2% Y/Y on declining food and commodities prices. Going forward, we expect private investment to benefit from cumulative rate cuts.

India: GDP growth by demand component (%-point Y/Y)



Source: LSEG Datastream, DNB Carnegie. Note: Axis-break in Q1 2020, Q1 2021 and Q1 2022

India: CPI inflation (%Y/Y) and RBI policy rates (%)



Source: LSEG Datastream, DNB Carnegie

Unemployment among university graduates is still around 29%

Despite strong headline GDP growth, labour-market conditions remain broadly unchanged. The overall labour force participation rate remains low at around 56%. While regular and formal employment expanded in 2025, underemployment, gig work, and informal employment remain structurally high. Youth unemployment has continued to decline but remains elevated particularly among the most educated cohorts. Unemployment among university graduates is still around 29% in 2025, implying that household income growth continues to lag headline

GDP. Meanwhile, new legislation requiring firms to formalise contracts and increase social-security contributions means that small and medium-sized enterprises face higher costs.

There are meaningful external risks to the outlook. India has yet to reach a trade deal with the US, and since August 2025 has been subject to 50% tariffs on exports to the US, lifting the effective tariff rate to around 38%, which is *above* US tariffs on Chinese exports. This is a headwind for firms seeking to benefit from a 'China+1' shift into India. Heightened uncertainty over bilateral trade policy could also weigh on domestic investment and FDI.

That said, export diversification and ongoing trade negotiations with the EU, Australia, New Zealand, ASEAN, and others may partially offset these risks. At the same time, India–China relations are resetting after the 2020 border crisis. Relations have improved steadily since October 2024, with momentum picking up following Prime Minister Modi's visit to China, during which leaders framed the relationship as one of partnership rather than rivalry. In early 2026, India may scrap restrictions on Chinese firms bidding for government contracts. This thaw in relations supports our constructive outlook for economic activity in 2026–27.

NORWAY

Growth remains near potential as domestic drivers dominate

Growth is expected to remain around trend, driven primarily by domestic factors. The labour market remains robust going forward, though there are large underlying differences across sectors. We expect Norges Bank to cut the policy rate to 3.75% in June 2026 and keep the policy rate at this mildly restrictive level as inflation remains above target.

Business cycle and labour markets

Output close to potential and steady unemployment

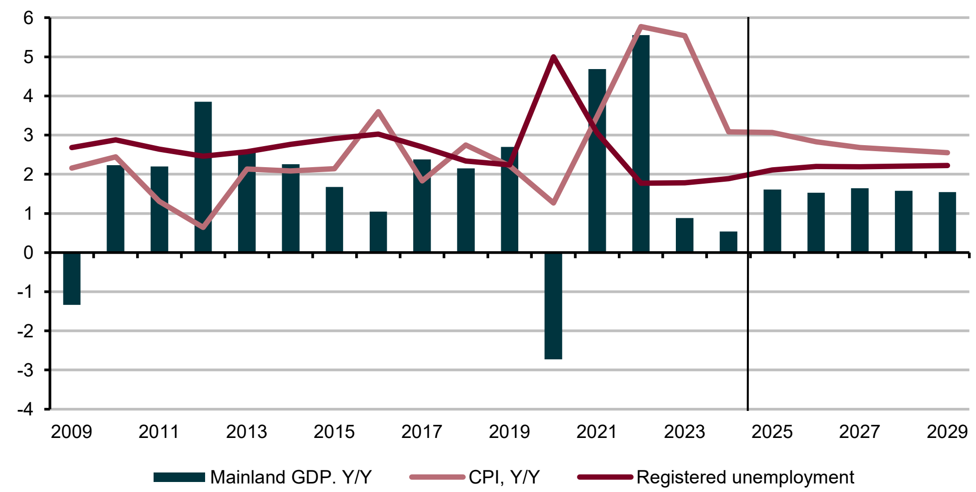
Growth in the Norwegian economy was close to normal in 2025, with mainland GDP rising by an estimated 1.6%. As has been the case for some time, there are large underlying differences between sectors, with weak contributions from interest-rate-sensitive sectors such as construction. By contrast, petroleum-related services and the public sector are contributing positively. Furthermore, hospitality and other services have experienced relatively strong growth, likely reflecting a weaker NOK since 2022 and rising real wages both in Norway and among trading partners. While employment growth was 0.7% in 2025, it weakened towards the end of the year. Still, the labour market remains solid, with registered unemployment at 2.1%.

We expect growth close to potential over the forecast period, at 1.5%–1.6%. Continued real wage growth and a slightly expansionary fiscal policy including increased defence spending will support domestic demand. Housing investments are also expected to recover, but at a slower pace than previously assumed. At the same time, falling petroleum investments and waning growth impulses from earlier NOK depreciation will weigh on activity, contributing to a more subdued overall growth profile.

Private consumption to rise as real wage gains continue

Private consumption rose by an estimated 2.8% in 2025, in line with expectations given the strong growth in real wages. The pickup has been especially strong for goods throughout the

Norway: Macroeconomic forecasts. %



Source: Statistics Norway, NWLA, DNB Carnegie

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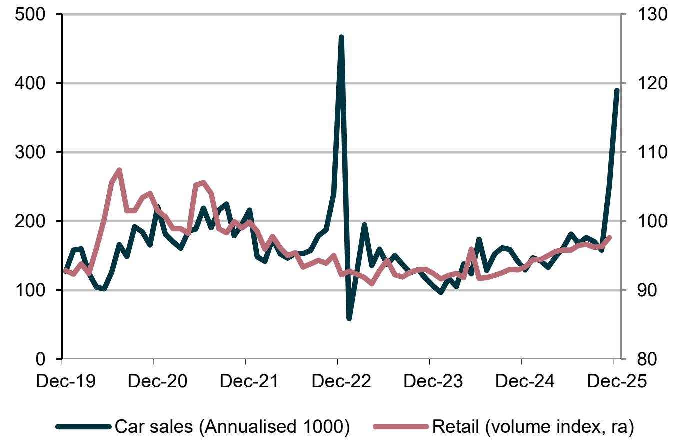
year, with an expected spike in Q4, due to car sales rising ahead of the reduction in subsidies for electric vehicles, in place from January 2026. As shown in the chart below, car sales jumped almost as much as ahead of the 2023 tax increases, and we estimate this to have contributed to lifting total consumption in 2025 by 0.2-0.3%-points. After this normalises in Q1, we expect goods consumption to return to steady growth rates over the forecast period.

In the coming years, we expect real wage growth to continue, albeit at a gradually slower pace. With only one further policy rate cut expected, lower debt servicing costs will provide limited additional support to households' disposable income growth. As a result, growth in real disposable income is set to slow, and with consumption broadly tracking disposable income over time, we forecast private consumption growth of 2.0% in 2026 and 1.8% in 2027–2029. This implies that the saving rate will continue to edge higher, broadly in line with its long-term trend.

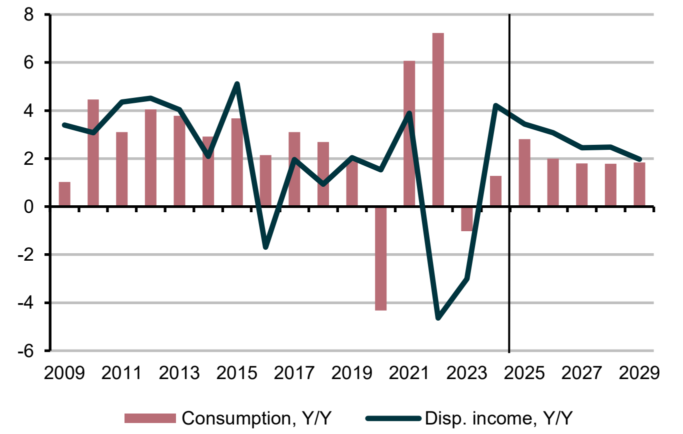
Solid real wage growth supports continued growth in consumption.

Norway: Retail and car sales



Source: Statistics Norway, DNB Carnegie

Norway: Households. %



Source: Statistics Norway, DNB Carnegie

Mainland investments to rise, petroleum investments to decline

Mainland investments fell an estimated 1.7% in 2025, with mixed underlying performance across sectors. Notably, public investments are expected to have fallen 6.7% in 2025, after large deliveries contributed to a high level in H2 2024. For mainland businesses, investments rose an estimated 1.2% in 2025, while housing investments declined an estimated 1.5%.

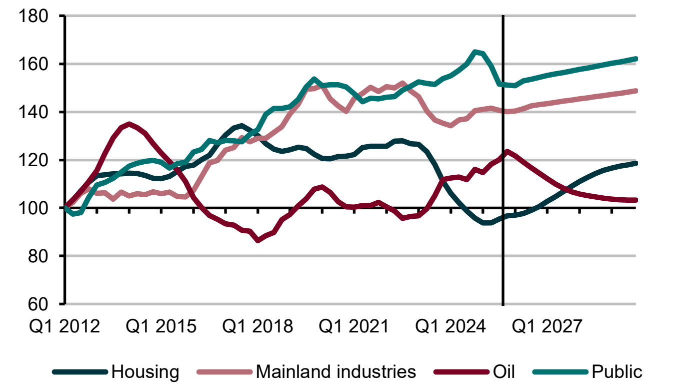
Mainland investments will pick up, but the rebound in housing investments is expected to be slow and petroleum investments are expected to decline in the coming years.

Going forward, we expect public investments to pick up, in line with our view that fiscal policy will be slightly expansionary in the coming years. Statistics Norway's investment survey points towards high investment activity in power supply and moderate growth for manufacturing, while investments in the service sector are expected to rise in line with overall economic growth.

Housing investments have declined around 25% since Q1 2022 as interest rates and building costs have risen sharply. The 12-month average of square metres started has fallen by around 40%. Once differing trends between the series are accounted for, starts would imply a smaller fall in investment than the one observed. This suggests housing investments has weakened more than starts alone would indicate, potentially reflecting a sharper slowdown in household renovation and improvement activity. We expect starts to have bottomed out and to recover gradually from H2 2026, but limited cost relief, only one further policy rate cut, and slow regulatory approval of new projects argue against a sharp rebound.

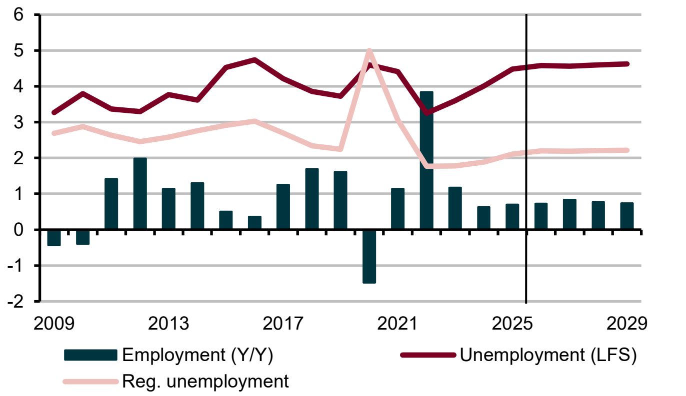
Petroleum investments have reached a high level, and we estimate growth in 2025 to 6.1%. Going forward, the outlook is for petroleum investments to decline. This has been long expected, as the current high level was driven by projects initiated as a response to favourable taxation rules during the pandemic. As investments in these projects are past their peak, and the pipeline of new projects is smaller, petroleum investments are expected to decline in the coming years. However, the latest investment survey from Statistics Norway indicates a slightly smaller decline than earlier (in nominal terms). Furthermore, investments have been a little higher than expected in 2025, which has led us to lift the 2026 estimate. We now expect a 4.0% decline in 2026 and 7.0% in 2027.

Norway: Real investments. Index, 3Q average, Q1 2012=100



Source: Statistics Norway, DNB Carnegie

Norway: Labour market. %



Source: Statistics Norway, NWLA, DNB Carnegie

Labour market to remain balanced

We expect the labour market to remain stable, with low unemployment and relatively high employment growth.

In December, registered unemployment fell back to 2.1%, which was also the average for 2025, only 0.1%-point higher than in January 2025. The remarkably stable development must be viewed in the context of relatively high activity and employment growth at 0.7%. LFS unemployment was 4.5% in November, also the average for 2025, up from 3.8% at the start of the year. The LFS rate has been lifted by a surge in participation, which could be explained by high immigration over the past years, as well as a higher share of younger people reporting as vacant.

Employment growth appears to have stalled towards the end of the year, with 3M/3M growth in Statistics Norway's jobs data at -0.1% in November. Beneath the surface, developments differ markedly across sectors: employment continues to rise in public administration and defence, hospitality and manufacturing, while construction employment fell 1.4% in 2025 and is now 5% below its January 2023 peak. The relatively modest decline in employment compared with activity suggests that firms may be holding on to workers in anticipation of improved demand. This interpretation is consistent with Norges Bank's Regional Network, where the labour shortage indicator has fallen well below its post-2017 average.

Declining petroleum investments and a slow recovery in construction pose the greatest risk for the labour market in the coming years. While petroleum investments will decline, activity on the continental shelf is expected to remain high at least through 2026, suggesting that the impact on the labour market will be through gradually lower employment growth, not through layoffs. For the construction sector we expect activity to have bottomed out, but given the slow recovery and relatively low reduction in employment, we see limited contributions on the upside. On the other hand, these sectors are not that labour intense, and with increased investments in manufacturing, the public sector and the service sector, total employment growth is expected at 0.7-0.8% in the coming years. With the recent increase in the labour force expected to stabilise in the coming years, we forecast unemployment to remain relatively stable, at 2.2%, in the coming years.

Housing price growth to continue

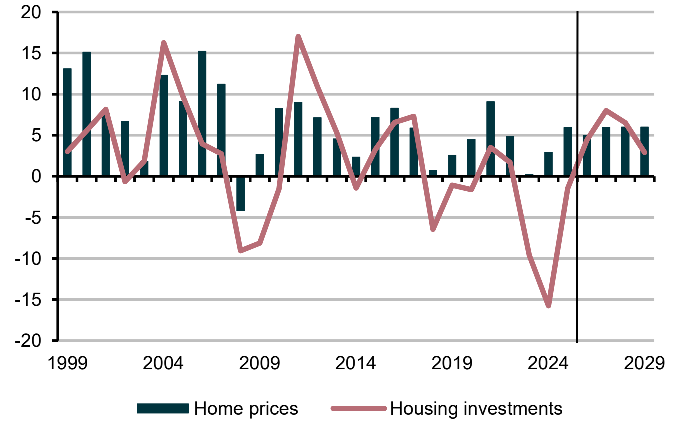
In 2025, existing home prices rose 5.9%, which was in line with expectations of high nominal price growth, given improved purchasing power and two policy rate cuts. Price growth was sharp in the first quarter, then calmed from March through July, likely due to the high number of homes posted for sale. The extraordinary lift in supply was likely large-scale sales of secondary homes used for rental. In the final stretch of the year, the number of homes posted for sale fell, the number of unsold homes came down, and price growth resumed at around 0.4% M/M. Although high supply likely contributed to dampening house price growth, the year was characterised by high demand, with the number of homes sold rising 9.4% in 2025.

The housing market will experience continued high demand, with solid wage growth and a robust labour market.

Base effects from last year's strong start will pull down measured house price growth to around 5.0% in 2026. However, with monthly growth rates close to 0.5% M/M, we expect annual price growth to return to around 6% in the following years. This outlook reflects our broadly unchanged assumptions for the labour market, policy rate and wage growth. While credit growth is unlikely to provide additional support to house prices in the coming years, persistently low housing starts will constrain supply, contributing to continued upward pressure on prices.

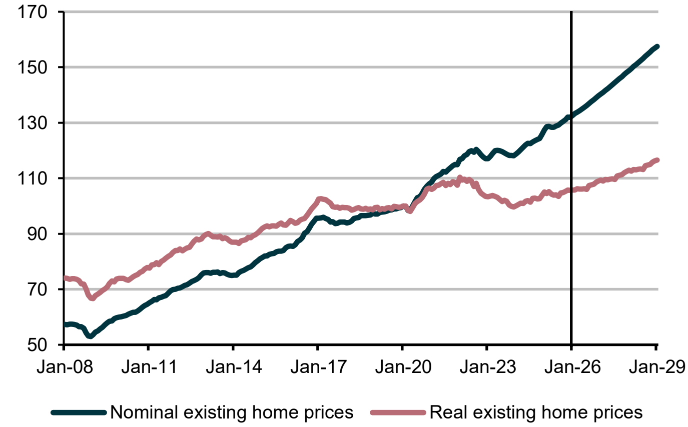
In real terms, house prices will continue to rise gradually. While house prices have tended to rise faster than consumer prices, we note that earlier gains in real house prices were largely linked to credit expansion as interest rates have been falling. In the coming years, we do not believe credit growth will boost real house price growth. However, the low supply of new homes as a result of the currently low housing starts will cause a relative scarcity, pushing house prices further up. In nominal terms, our house price forecast is largely a result of our expectation that wage growth will remain high in the coming years.

Norway: Housing market. Prices and investments. %, Y/Y



Source: Statistics Norway, Eiendom Norge, LSEG Datastream, DNB Carnegie

Norway: House price indices, Jan 2020 = 100



Source: Statistics Norway, Eiendom Norge, LSEG Datastream, DNB Carnegie

Prices and wages

Prospects for further increases in real wages

Real wages continue to rise, but momentum is slowing over the medium term.

Consumer prices increased by 3.1% last year, while wages rose by an estimated 4.8%. Consequently, real wages grew by approximately 1.7% in 2025, following an increase of 2.4% the previous year. For 2026, we forecast a further rise in real wages of 1.1%, with headline CPI projected to increase by 2.8% and nominal wages expected to grow by 4.0%. Beyond 2026, we anticipate the real wage growth to approach productivity growth, reaching 0.7% by 2029.

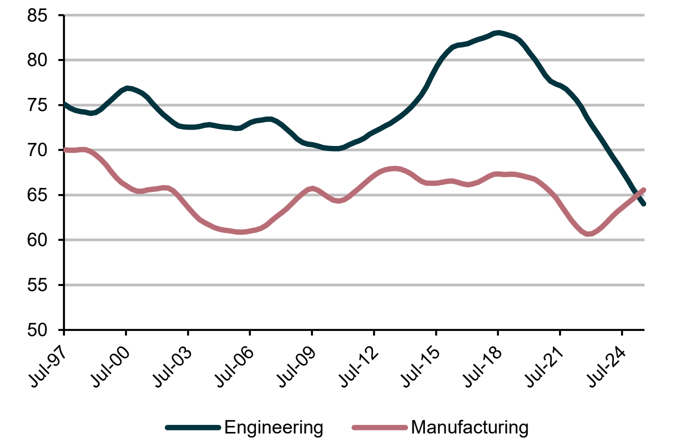
Nominal wage growth of 4.0% in 2026 is consistent with Norges Bank and social partner expectations.

Our estimate of 4.0% nominal wage growth in 2026 is in line with the median projection from the social partners surveyed by Norges Bank. They estimate wage growth at 4.0% in the Expectations Survey and 4.1% in the Regional Network Survey. Under the Norwegian wage settlement framework, the trade-exposed manufacturing sector negotiates first and sets the benchmark for other industries. These agreements typically span two years, with an option to renegotiate wages after one year. In 2026, there will be a main wage settlement. This normally takes the form of an industry-level negotiation, with the first round between The United Federation of Trade Unions (Fellesforbundet) and The Federation of Norwegian Industries (Norsk Industri) under the Engineering Industry Collective Agreement (Verkstedoverenskomsten).

During the negotiations, unions are expected to emphasise firms' ability to raise wages, improve purchasing power and consider the broader societal impact. Rising profitability is likely to strengthen wage demands, while employers are expected to argue for wage moderation to contain costs and safeguard competitiveness.

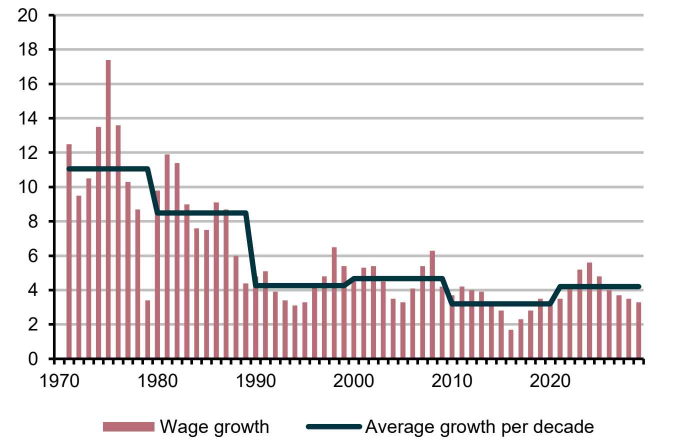
In the period 2021–2023, the manufacturing sector benefited from higher global prices and a weaker NOK, with wage costs falling to historically low levels when measured as a share of value added. In 2024 and 2025, the wage share appears to have recovered towards its 30Y average, partly due to higher nominal wage growth and slower growth in output prices. However, within engineering industries, the wage share continued to decline in 2025, falling to around 10 %-points below its 30Y average, from very high levels in the years preceding the pandemic.

Norway: Wage costs in % of added value, smoothed



Source: Statistics Norway, DNB Carnegie

Norway: Annual wage growth. % Y/Y, actual and forecasts



Source: Statistics Norway, DNB Carnegie

High profitability in the engineering industry provides an argument for elevated wage claims in the upcoming wage settlement. This profitability is largely related to price increases for defence-related production and high activity in petroleum-related industries. While profitability in defence-related industries is expected to remain strong, the outlook for petroleum-related industries points to declining activity and weaker profitability. These differing prospects are likely to encourage unions to take conditions in the broader manufacturing sector into account, rather than focusing solely on the engineering industry. This supports our view of a gradual decline in wage growth over time.

High profitability supports wage demands, but broader manufacturing conditions argue for moderation.

Over the coming years, we expect real wage growth to converge gradually towards productivity growth. Moreover, a relatively stable NOK should contribute to bringing Norwegian wage growth closer to that of trading partners, although this nominal adjustment is likely to take time.

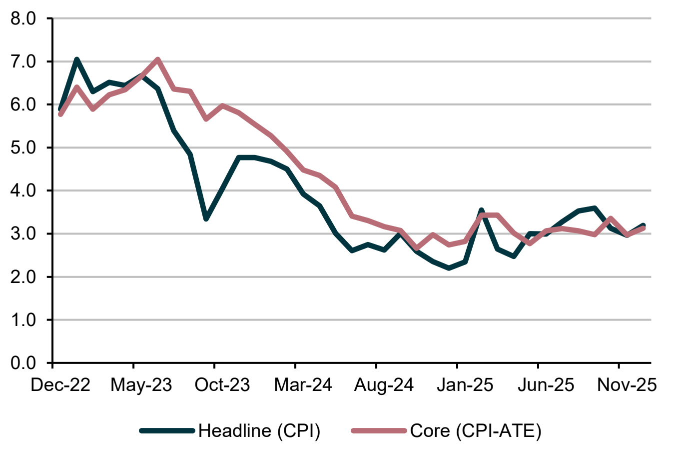
Real wage growth is expected to converge towards productivity growth over time.

Inflation to remain above target

Core inflation, measured by the annual change in the CPI excluding taxes and energy goods (CPI-ATE), was 3.1% in 2025, down from 3.7% in 2024. Price growth moderated during the second half of 2024 but remained relatively stable throughout 2025. After picking up to 3.4% Y/Y in February and March, core inflation hovered slightly above 3% for the remainder of the year.

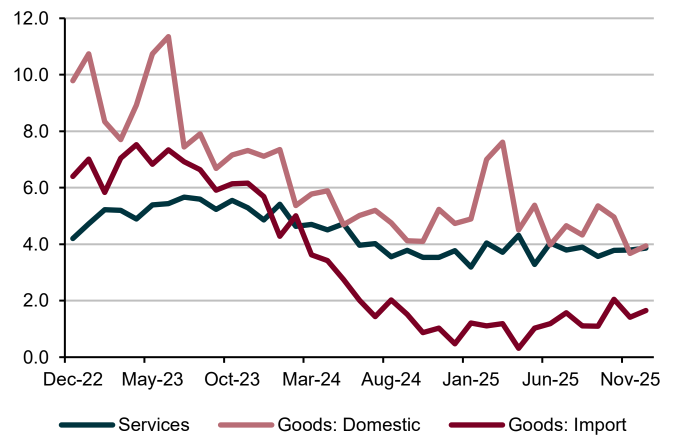
Core inflation eased in 2025 but remained well above target.

Norway: Consumer prices %, Y/Y



Source: Statistics Norway, DNB Carnegie

Norway: Consumer prices %, Y/Y



Source: Statistics Norway, DNB Carnegie

During 2025, inflation for imported goods trended slightly higher, offset by a modest decline in domestic goods inflation. Service prices increased steadily at around 3.8% Y/Y throughout the year. Core food prices rose by 5.7% Y/Y in 2025. Core inflation excluding food and non-alcoholic beverages was 2.8% Y/Y and relatively stable. Housing rents rose by 4.2% Y/Y at the start of 2025 but declined to 3.6% Y/Y in December. This decline was largely offset by a modest increase in prices for other services.

Services and food prices remain key drivers of underlying inflation.

We forecast core prices to increase by 2.8% in 2026. Imported goods inflation is expected to edge higher, reflecting international price developments, while domestic cost pressures are likely to ease somewhat. Housing rent inflation is also expected to moderate during the year, but still exceed the headline inflation.

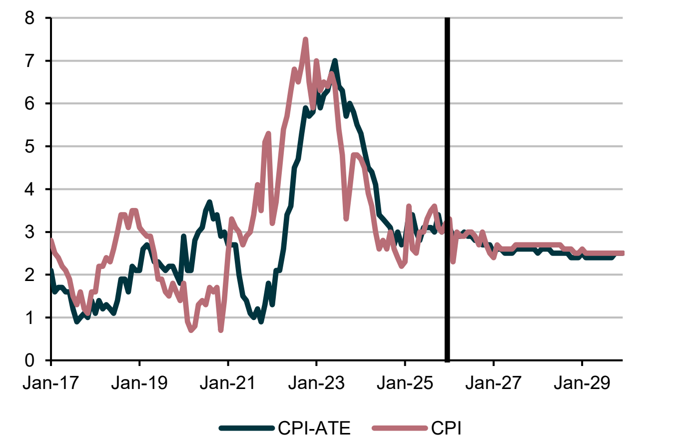
Core inflation is expected to decline gradually but remain above target through 2029.

For 2027, we forecast core inflation to decline to 2.6%, edging further down to 2.4% by 2029, mainly due to a continued easing in domestic cost pressures.

We do not expect electricity prices to have a material impact on inflation on average in 2026 and forecast headline inflation at 2.8%. In subsequent years, we assume that real growth in electricity prices will add around 0.1 %-point to headline inflation annually.

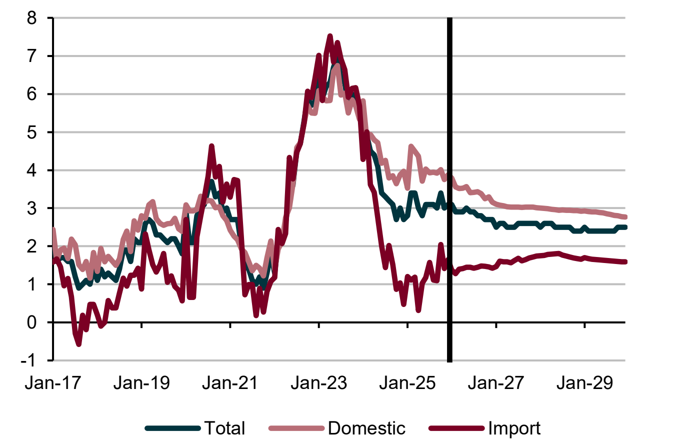
Electricity prices are expected to add modestly to headline inflation beyond 2026.

Norway: Consumer prices. % Y/Y. Actual and forecasts



Source: Statistics Norway, DNB Carnegie

Norway: Consumer prices. % Y/Y. Actual and forecasts



Source: Statistics Norway, DNB Carnegie

Fiscal policy

Mildly expansionary fiscal policy expected

The government initially proposed a slightly expansionary budget for 2026; however, an agreement with four other parties resulted in a more expansionary stance. The National Budget for 2026, presented on 15 October 2025, estimated a structural oil-corrected deficit of NOK579.4bn, equivalent to 2.8% of the Government Pension Fund Global (Oil Fund). This implied a fiscal impulse of 0.4 %-points, with official estimates suggesting a 0.1 %-point boost to mainland GDP.

The adopted 2026 budget is more expansionary than initially proposed.

In the parliament, the Labour Party, the Centre Party, the Socialist Left Party, the Red Party and the Green Party eventually agreed on a budget that increased spending by around NOK4.6bn relative to the government's proposal. In the adopted budget, the Ministry of Finance projected the structural oil-corrected deficit to rise to NOK584.0bn. The fiscal impulse increased from 0.4 %-points to 0.6 %-points, while the share of the Oil Fund remained unchanged at 2.8%. We estimate that the adopted budget will raise mainland GDP by around 0.2%.

The fiscal rule stipulates that the structural non-oil deficit ("spending of petroleum revenues") should over time amount to 3% of the Oil Fund, in line with the expected real return. Active fiscal policy aimed at smoothing business cycles and financial shocks may have asymmetric effects on spending over time. To account for this asymmetry, the Ministry of Finance estimates that the structural non-oil deficit should average around 2.7% in normal times, rather than 3%.

In the National Budget for 2026, the Ministry of Finance presented updated projections for underlying revenue and expenditure developments. These suggest a further widening of revenues relative to expenditures through 2029. Under the fiscal rule, this implies an expansionary fiscal stance in the coming years. While this could in principle be offset by balanced spending cuts, we consider this unlikely given the current parliamentary configuration.

Fiscal policy is set to remain mildly expansionary over the coming years.

Since the fiscal rule was introduced, petroleum revenue spending has increased from NOK39.1bn in 2001 (measured in 2026 prices) to NOK584bn in the adopted 2026 budget. This expansion has primarily taken the form of higher public spending rather than tax reductions. Despite ongoing debate about the potential adverse effects of higher public spending on mainland productivity, we see little scope for major changes in fiscal policy in the coming years. Accordingly, we expect fiscal policy to remain mildly expansionary through 2029.

Petroleum revenue spending continues to rise, with limited scope for policy reversal.

Monetary policy

Rate cut expected in June 2026, followed by a prolonged pause.

Norges Bank raised the policy rate to 4.50% in December 2023, kept it unchanged throughout 2024 and cut rates twice in 2025. At the December 2025 meeting, the central bank signalled one to two rate cuts in the coming year.

Norges Bank signalled one to two rate cuts in 2026, with the first likely in June.

Following the December meeting, the Monetary Policy Committee stated that "*The outlook is uncertain, but if the economy evolves broadly as currently projected, the policy rate will be reduced further in the course of the coming year*". The rate path presented in Monetary Policy Report 4/25 was consistent with a rate cut in June or September and a 50% probability of an additional cut in December. The Committee further stated: "*The forecast is consistent with 1-2 rate cuts next year and a further reduction to somewhat above 3 percent towards the end of 2028*."

Core inflation in December 2025 was 0.1 %-point above Norges Bank's forecast, and we expect the gap to widen to 0.2 %-points in January. This would reduce the probability of two rate cut in 2026. While our 2026 inflation forecasts are broadly in line with Norges Bank's, we project a slower pace of disinflation in 2027–2029, leaving core inflation at 2.4% in 2029.

Slightly higher near-term inflation reduces the probability of a second cut in 2026.

We expect monetary policy to be broadly neutral over the coming years. Inflation forecasts above target and a mildly expansionary fiscal stance would, all else equal, argue for a higher policy rate than we project, but this is likely to be offset by downside risks to employment.

Monetary policy is expected to remain broadly neutral over the medium term.

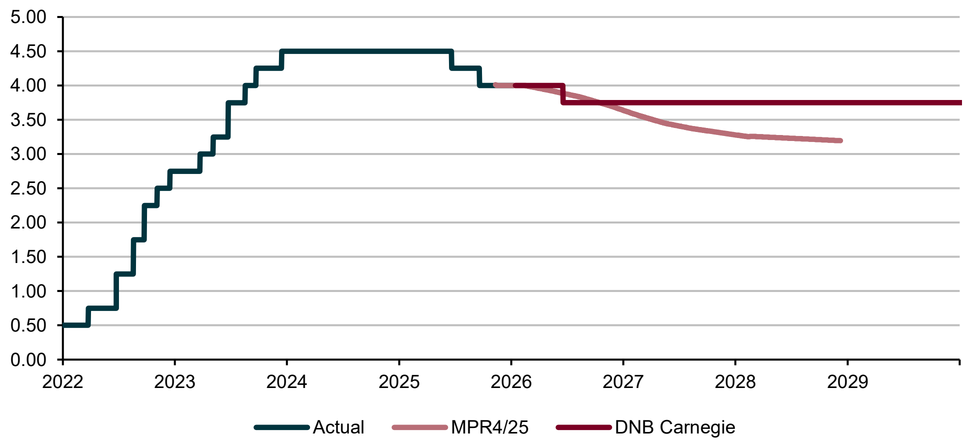
The provision on monetary policy states that the operational target is an annual increase in consumer prices that, over time, is close to 2%. Norges Bank is also mandated to contribute to high and stable output and employment and must take this into account when assessing how quickly inflation should be returned to target. While the inflation target is interpreted as symmetric, economic shocks are often asymmetric. Downturns tend to occur rapidly and be deeper than upswings, which may justify allowing inflation to remain above target for an extended period if this reduces the risk of a recession.

In our projections, inflation remains above 2% for nine consecutive years, with an annual average of 3.5%. In MPR 4/25, Norges Bank projected inflation above target for eight years.

We expect that following a rate cut to 3.75% in June 2026, Norges Bank will keep the policy rate unchanged for an extended period. While inflation above target could warrant some tightening, we believe the central bank will prioritise employment stability over strict adherence to the inflation target.

Employment considerations may justify inflation remaining above target for longer.

Norway: Key policy rate, %. Actual and forecasts



Source: Norges Bank, DNB Carnegie

Outlook for high structural liquidity and moderate money market premiums

In 2025, the 3M Nibor declined from 4.54% in Q1 to 4.17% in Q4. The fall primarily reflected the cumulative 50bp policy rate cuts, partly offset by a 5bp increase in the spread between 3M Nibor and the expected policy rate over the same horizon (the money market premium). In Q4, the premium ranged between 4bp and 26bp, averaging 17bp.

Money market premiums remained low in 2025, supported by ample liquidity.

The widening in Q4 was largely driven by imported liquidity effects stemming from USD funding markets. As these pressures eased following action by the Federal Reserve, NOK money market premiums declined. However, premiums have risen again at the start of 2026, possibly reflecting the addition of another Norwegian bank to the Nibor panel from 2026.

Structural liquidity was ample throughout 2025, contributing to subdued money market premiums. Norges Bank's liquidity forecasts suggest that structural liquidity will remain high in 2026, although the introduction of new central bank certificates may reduce liquidity somewhat towards year-end. Overall, assuming continued ample liquidity and low risk premia in USD markets, we expect the NOK money market premium to remain contained. We forecast an average premium of around 20bp, implying a high pass-through from policy rates to market interest rates.

High pass-through from policy rates to market rates is expected to persist.

FX MARKETS

Goldilocks, but event-risk linger

There are clear risks to a stronger USD outlook, but we believe a favourable macroeconomic backdrop and continued demand for US risk assets are likely to outweigh these, as markets have built resilience to previously USD-negative factors. A favourable cyclical outlook and an early-mover advantage—given that the Riksbank is likely to hike later this year—should benefit the SEK. As for the NOK, we see few directional drivers and continue to expect EURNOK to trade close to current levels going forward.

USD: Solid cyclical outlook and high event risk, but some market resilience

There are different ways of interpreting the weakening of the USD last year. One could argue that it was the largest six-month weakening seen in more than 50 years. Alternatively, one could say that the USD merely moved from the stronger end to the weaker end of the range observed over the past decade. Either way, USD weakness was the dominant theme last year, driven by several factors. A willingness by the US administration to jeopardise international relations and domestic institutional confidence, concerns about Fed independence, and drastic measures related to the so-called Mar-A-Lago Accord, together with the tariffs announced in April, all served to raise investor concerns.

USD weakness in 2025 was driven by political uncertainty, Fed concerns, and tariffs.

In addition, correlations between USD asset classes and USD FX shifted from negative to zero or even positive during H1, reducing the "natural FX hedge" on USD assets and increasing the volatility-minimising hedge ratios that many non-US real-money investors consider. That said, cyclical factors were also important. The narrative shifted from "US exceptionalism" to slower activity growth, a cooling labour market and rising expectations of monetary easing by the Fed.

Shifts in correlations and cyclical slowdown reduced natural USD hedges and increased hedge ratios.

There are clear US-specific event risks ahead that could weaken the USD and once again shift correlations between the USD and risk assets. However, we argue that there is some resilience in the USD. The inflationary impact of tariffs has so far been muted, likely reducing the sensitivity of the USD to further tariff changes. Fears of large-scale foreign repatriation of US

USD shows resilience despite event risks, muted tariff effects, low repatriation risk, and maintained Fed independence.

DNB Carnegie FX forecast, Bloomberg consensus and forwards

		19-Jan	12m		
		Spot	F'cast	Forward	Consensus
EURNOK	New	11.717	11.80	11.95	11.60
	Previous		11.80		
EURUSD	New	1.164	1.15	1.18	1.18
	Previous		1.15		
EURGBP	New	0.867	0.87	0.88	0.88
	Previous		0.87		
EURSEK	New	10.722	10.50	10.72	10.60
	Previous		11.20		
USDNOK*	New	10.063	10.26	10.13	9.83
	Previous		10.26		
USDSEK*	New	9.208	9.13	9.08	8.98
	Previous		9.74		
SEKNOK*	New	1.093	1.12	1.11	1.09
	Previous		1.05		
GBPNOK*	New	13.511	13.56	13.56	13.18
	Previous		13.56		

Source: Bloomberg, DNB Carnegie* Calculated crosses

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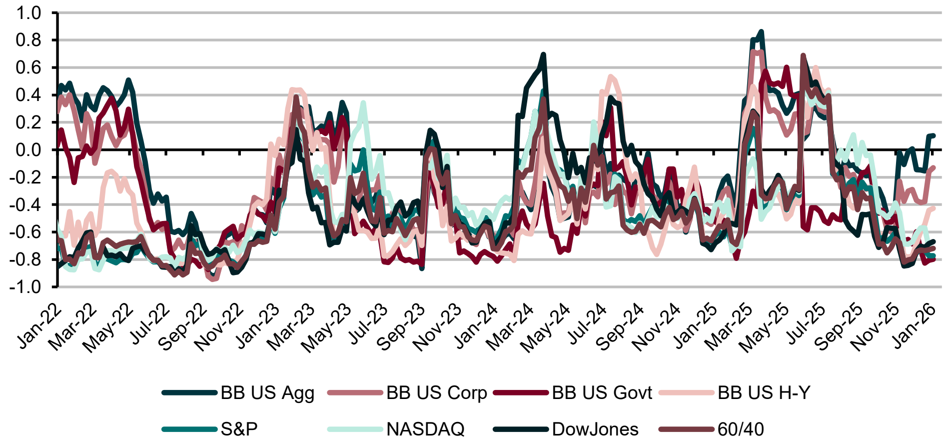
assets have proven unfounded, raising the threshold for such dynamics to re-emerge. Attempts to undermine Fed independence have also been unsuccessful so far, with current members of the Board of Governors demonstrating their integrity through the approval of regional Fed presidents.

USDNOK: Correlation to asset classes. 3m rolling. *



Source: Bloomberg, DNB Carnegie *Negative correlation means higher index and stronger NOK/lower USDNOK

Moreover, we view the cyclical outlook for the US as solid and broad-based, and we expect above-trend activity growth this year. We see greater uncertainty behind last year's labour-market weakness and expect employment growth to improve early this year. While inflation has declined, we expect services inflation to remain sticky, keeping core inflation above target and limiting the Fed to no more than one rate cut this year. Although we remain cautious after several years of strong equity-market performance and elevated concentration risk, the macroeconomic backdrop should remain supportive of risk assets. As such, we expect foreign investor demand for US risk assets to persist.

Solid US cyclical outlook with improving labour markets, sticky services inflation limiting Fed easing, and a supportive macro backdrop sustaining demand for US risk assets despite elevated equity-market risks

Overall, we stick with our long-held view that EURUSD could trade close to 1.15 in 12 months.

EUR: Solid outlook, but expectations are set very high

After trading in a relatively narrow range for most of 2023 and 2024, the trade-weighted EUR strengthened through much of 2025 and is currently almost 7% stronger than at the start of last year. The bulk of the move occurred early last year, following European investment initiatives in infrastructure, defence and the energy transition, as well as rising USD uncertainty heading into Liberation Day in April.

The trade-weighted euro has strengthened markedly since early 2024, driven by European investment momentum and heightened USD uncertainty.

Euro area activity growth has proven resilient despite elevated trade uncertainty. We expect GDP growth close to trend this year, before higher investment growth is likely to lift activity above trend from 2027. While the investment outlook is clearly supportive for the EUR, expectations appear elevated. These initiatives face bottlenecks related to labour shortages and regulatory processes, and could be questioned should funding costs rise. With speculative positioning heavily skewed towards further EUR strength—more so than in August—we see room for disappointment and limited cyclical support for the EUR.

Resilient euro area growth and a supportive investment outlook are tempered by implementation risks, elevated expectations, and crowded positioning that limit near-term cyclical support for the EUR.

With downside risks to growth reduced and inflation likely to rise above target over the medium term, we expect the ECB to embark on a cautious tightening cycle. However, we are not convinced this will provide meaningful tailwinds for the EUR. Several other G10 central banks are expected to begin tightening later this year, reducing any early-mover advantage. Moreover, our forecast for the deposit rate to peak at 2.50%—while somewhat restrictive—is lower than peers and should provide limited support to the EUR.

ECB expected to tighten cautiously, but limited peak rates and simultaneous global tightening reduce potential support for the EUR.

Overall, we expect EURUSD to trade close to 1.15 in 12 months.

NOK: Few directional drivers, with risk correlations potentially working both ways

Given the noise over the past year, it is somewhat surprising that the import-weighted NOK is 2–3% stronger than at the start of last year.

We continue to argue that interest-rate differentials have limited direct effects on the NOK, and that periods of NOK weakness often coincide with repricing of the rate outlook. While the relatively high level of NOK interest rates may provide some cushioning, and low FX volatility continues to support carry strategies, the key lesson from 2025 was that event risk dominated both volatility and price action. Given the current outlook, we believe this will make investors more cautious about taking on such risk. In addition, we are approaching the end of the easing cycle and a neutral interest-rate level, making significant repricing less likely.

NOK supported by high rates and low volatility, but event risks and limited repricing potential keep investor caution elevated.

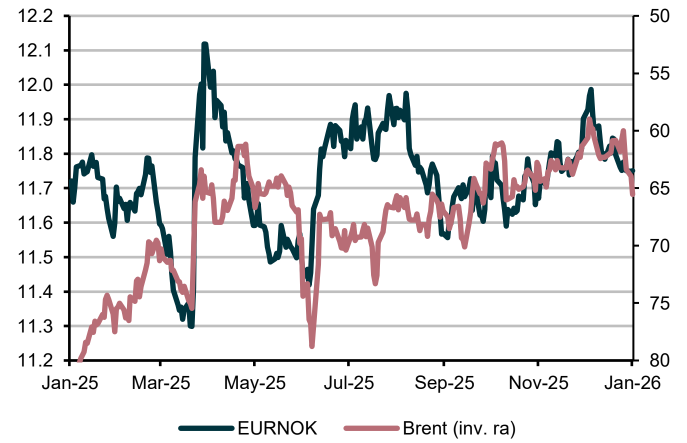
The correlation between NOK and oil prices remains, as usual, intermittent. Oil prices are starting this year 15–20% lower than at the start of last year, but have experienced several large swings driven by events such as Liberation Day, the Israeli-Iranian conflict and emerging signs of oversupply. While the NOK has not tracked these level shifts, daily changes show a more typical correlation.

NOK outlook remains cautious, as high rates and low FX volatility provide support, but event risks and a nearing neutral rate limit further repricing.

The oil-adjusted budget deficit is expected to be lower this year than last year, but net NOK purchases through the petroleum mechanism are set to increase, as last year included a one-off correction via drawdowns from the government's NOK account at Norges Bank. In addition, Norges Bank will need to purchase NOK to fund transfers of interest income and dividends to the Ministry of Finance. As a result, net NOK purchases will be higher this year, with a larger share conducted by Norges Bank. While we still expect Norges Bank purchases to have a greater price impact than those by petroleum companies, we note that between 2015 and 2020 Norges Bank's accumulated NOK purchases exceeded expected levels this year. Although net purchases were lower during that period, we do not believe higher Norges Bank purchases necessarily imply a stronger NOK.

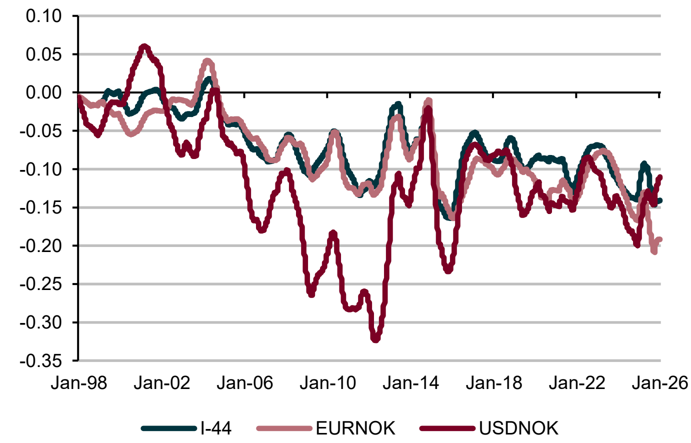
Net NOK purchases are set to rise this year, mainly via Norges Bank, but past experience suggests this may not translate into a significantly stronger NOK.

EURNOK and oil price (Brent)



Source: LSEG Datastream, DNB Carnegie

NOK: Sensitivity to oil prices*



Source: LSEG Datastream, DNB Carnegie. *Beta coefficient of a rolling 1y regression of change in oil price on spot

We maintain our long-held bearish structural view on the NOK. Despite a gradual and significant nominal depreciation over more than a decade, we argue that the Norwegian economy remains close to both internal and external balance. While the economy has faced adverse shocks such as the oil crisis and the pandemic, unemployment remains low and stable, and activity growth is close to potential. On the external side, we do not view the trade-balance deficit as a sign of imbalance. Rather, the use of petroleum revenues through fiscal policy is designed to enable imports beyond what domestic production alone can finance. You could even argue that, different from previous years, shocks to risk sentiment last year failed to depreciate the NOK in any lasting manner and that at current levels there is a better balance between supply and

We remain structurally bearish the NOK, as the Norwegian economy stays balanced internally and externally despite more than a decade of NOK-weakening, and with household savings keeping demand for FX elevated.

demand for NOK. The rise in Norway's net foreign assets is influenced by high household savings. Looking ahead, we expect solid income growth to support a higher savings ratio, which should continue to support for foreign portfolio investments, and imply a depreciation pressure on the NOK.

Last year's turbulence and shifting correlations between asset classes and FX raised concerns about repatriation and potential recalibration of FX hedge ratios among Norwegian real-money investors. As argued above, we believe such effects were short-lived and had limited price impact. With defined-benefit pensions still accounting for a significant share of assets under management, FX hedge ratios on foreign investments remain higher than volatility-minimising portfolio-theory benchmarks, leaving limited incentive to increase hedging further. As global investor sentiment improved, Norwegian savers increased their exposure to risk assets, with little evidence of a meaningful shift towards FX-hedged investments. As such, we continue to view domestic savings as a factor contributing to NOK weakness.

Domestic savings continue to weigh on the NOK, as Norwegian investors maintain high FX hedge ratios and increased exposure to risk assets despite last year's market turbulence.

Taken together, we maintain our view that, given few directional drivers, EURNOK is likely to trade close to current levels, with a 12-month forecast of 11.80. That said, event risk remains elevated. While the NOK remains a risk-sensitive currency, the correlation with risk sentiment will depend on the nature of the shock. Heightened concerns over US government debt sustainability could benefit the NOK given Norway's strong fiscal position, as seen during the European debt crisis. Conversely, rising geopolitical tensions that lift oil prices could help cushion negative impacts on the NOK.

EURNOK expected to remain near current levels at 11.80, with outcomes sensitive to event risk and the type of global shocks affecting the NOK.

SEK: Growth set to accelerate, leaving room for further strength despite recent gains

The SEK has been the best-performing G10 currency since the start of last year, with the trade-weighted SEK appreciating by more than 8%. We view the improved activity outlook early last year and again over recent months as key drivers of SEK strength during these periods.

The ongoing recovery is gaining traction, rests on solid foundations and could continue to support the SEK, despite its recent appreciation. Lower interest rates, declining inflation and tax cuts are likely to further support household consumption. Fiscal policy is set to remain expansionary, and Sweden is likely to benefit from the European push for investment in infrastructure, defence and the energy transition.

SEK supported by a broad-based recovery, strong fiscal and household fundamentals, and investment-driven growth despite recent gains.

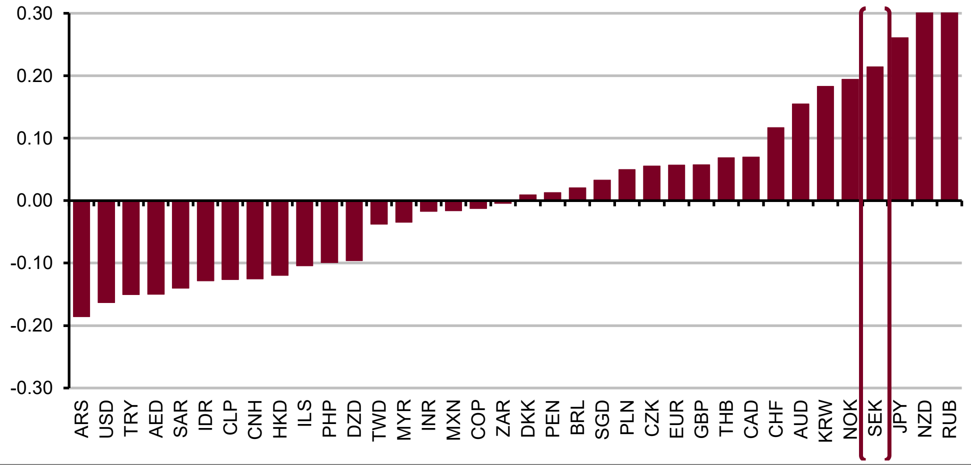
An expansionary monetary policy has been crucial in reviving household consumption, and even the somewhat surprising rate cut by the Riksbank in September did little to weaken the SEK. Despite being a low-yielding currency, elevated volatility and uncertainty surrounding the end of the synchronised global easing cycle have likely prevented investors from using the SEK as a funding currency. Instead, as expectations shift towards central-bank inaction elsewhere, we expect the SEK to benefit from an early-mover advantage, with the Riksbank likely among the first to begin hiking later this year.

SEK has remained resilient despite low yields, supported by expansionary policy and poised to benefit from a potential early-mover advantage as the Riksbank leads future rate hikes.

The SEK strengthened despite significant noise last year, but we still view it as a risk-sensitive currency. During the most intense period early last year, there were signs of repatriation by Swedish investors that limited downside pressure on the SEK. Looking ahead, should deteriorating risk sentiment weigh on the European cyclical recovery, elevated expectations for Sweden could result in SEK underperformance. Moreover, the SEK shares similarities with the NOK in that global risk-asset declines could trigger rebalancing and FX-hedge recalibration by Swedish investors, involving SEK selling.

SEK remains risk-sensitive, with repatriation limiting losses last year, but elevated expectations and potential risk-asset shocks could lead to underperformance.

Global FX: Sensitivity to S&P 500*



Source: Bloomberg, DNB Carnegie *Beta coefficient of a 3m rolling regression of weekly change in stock prices on spot.

We continue to see household savings as a structural negative factor for the SEK. For years, a large share of household savings has been invested abroad due to a limited domestic investment universe and superior expected returns elsewhere. With disposable income growth likely to remain solid, we expect continued accumulation of foreign portfolio assets, which should weigh on the SEK over time.

Household savings and continued foreign investment are expected to structurally weigh on the SEK over time.

In summary, while there may be scope for some additional SEK strength, we believe most of the move is behind us. We expect EURSEK to trade close to 10.50 in 12 months.

OIL AND GAS MARKETS

Oil market

We continue to view oil market fundamentals for 2026 as soft due to the combination of sharply higher OPEC volumes and still rather strong non-OPEC supply growth. We acknowledge that high geopolitical risk in several oil producing nations introduces potential upside risk relative to our base view.

OPEC has aggressively returned supply to the market. OPEC+ made marked shift in its supply strategy in 2025, moving from a price focused strategy to a volume focused strategy. Consequently, OPEC production has been hiked sharply in 2025, with both production quotas and actual production for core OPEC countries up 1.8 mb/d Y/Y for Dec-25.

Non-OPEC supply growth still robust. Non-OPEC supply was up a significant 1.7 mb/d Y/Y for 2025, and we expect growth of ~1.0 mb/d for 2026. Hence, non-OPEC supply offers not relief for OPEC in 2026, but in 2027 we expect sharply lower non-OPEC supply growth.

Oil demand growth resilient. Global oil demand growth has been resilient the last years, around 1.0 mb/d Y/Y, despite continued macroeconomic worries. We expect oil demand growth (Y/Y) to continue at the same pace in 2026 and 2027.

Oversupply and missing barrels. The oil market is oversupplied; the question is by how much. The International Energy Agency (IEA) pegs an oversupply of 2.2 mb/d for 2025, while we can identify a combined increase in onshore inventories and oil on water of 1.4 mb/d. Hence, we have potentially 0.8 mb/d of missing barrels in the oil market balance. The IEA expects the oversupply to accelerate into 2026, increasing by 1.15 mb/d Y/Y.

Geopolitical risk. We acknowledge that Russian and Iranian supply is exposed to sanction/tariff risk. In addition, the uprising in Iran adds another layer of political risk to Iran's supply. Russia and Iran are among the world's biggest net exporters of oil, which offers upside risk to our base view, if its oil production in these countries is hit. Venezuela, on the other hand, primarily offers upside risk to oil production after US' intervention in the country.

Oil price outlook. We believe risk/reward for the Brent oil price remain unattractive in 2026, despite the geopolitical risk. The estimated oil market oversupply is simply too big to ignore and will put downward pressure on prices once geopolitical risk premium starts to evaporate. From

Oil price, Brent M1, USD per barrel

Source: LSEG Datastream, Bloomberg, DNB Carnegie (Futures on 20.01.2026, quarterly for 2026 and annually for 2027, 2028)

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2027 the oil market fundamentals turn more constructive, in our view. Muted non-OPEC supply growth from 2027, will lead to growing call-on-OPEC, which normally supports an increasing oil price trend. Consequently, we consider risk/reward attractive in the short term but are more optimistic to oil price development from 2027.

Gas market

European gas prices declined in 2025 as market fundamentals softened, with sharp ramp-up in US LNG export and muted Asian LNG demand. Gas demand in Europe has stabilized but remains sensitive to temperatures and wind speeds. The near-term gas price outlook is balanced; cold weather and low gas inventory levels, offsets the LNG supply growth. However, continued LNG export growth over the next 3-4 years, will push the global LNG balance into structural oversupply, and inflict downward pressure on European gas prices.

European gas prices declined in 2025 as market fundamentals softened. A sharp ramp-up in US LNG supply and muted Asian demand eased competition for cargoes, allowing Europe to source sufficient volumes. The market has grown confident that LNG imports can flex to cover shortfalls, allowing more active utilization of inventory capacity without large price spikes.

Gas demand in Northwest Europe has stabilized. The sharp drop in gas demand that we witnessed in 2022 and 2023 slowed significantly in 2024. In 2025 demand returned to marginal growth. Lower temperatures and less wind power generation on a Y/Y basis led to an increase in heating demand and gas-to-power demand, while industrial demand fell slightly. Gas demand is undoubtedly under pressure, but substituting gas further takes time. A lower gas price is also reducing the incentive to substitute away from gas at the same pace as during the crisis years.

LNG remains critical to the European gas market. In 2025, Norwegian pipeline gas and LNG imports together accounted for 76% of Northwest Europe's gas supply. Norwegian pipeline flows are constrained by infrastructure capacity and typically run at maximum throughput outside of maintenance periods. This leaves LNG as Europe's primary source of supply flexibility but exposes the continent to global demand competition. This vulnerability was evident in January as a cold snap in Europe coincided with one across Asia's largest LNG importers, pushing European gas price (TTF) up by ~30%. The global LNG supply will continue to grow in 2026 as projects in the US and Qatar ramp up, which will soften the LNG market. More supply will be good news for European buyers as the competition for the marginal cargo will ease.

Lower gas inventories limit flexibility. European gas inventories are 12%-points below last year’s level and 15%-points below the seasonal norm. Low inventory levels means that the availability of flexible supply is less than last winter, making European gas prices vulnerable to prolonged periods of low temperatures and little renewable generation. In addition, the low inventory levels will result in high gas injection demand this summer.

We view risks balanced throughout the winter and into the spring. Gas prices have rallied in the first half of January, on the back of low gas inventory levels and cold winter temperatures in the northern hemisphere. These effects are offsetting the growth in global LNG export in the short-term. However, continued growth in global LNG export over the next few years, primarily driven by the US and Qatar, will pressure the global LNG market into oversupply with renewed downward pressure on European gas prices as a consequence.

EQUITIES

Supportive backdrop, but vigilance required

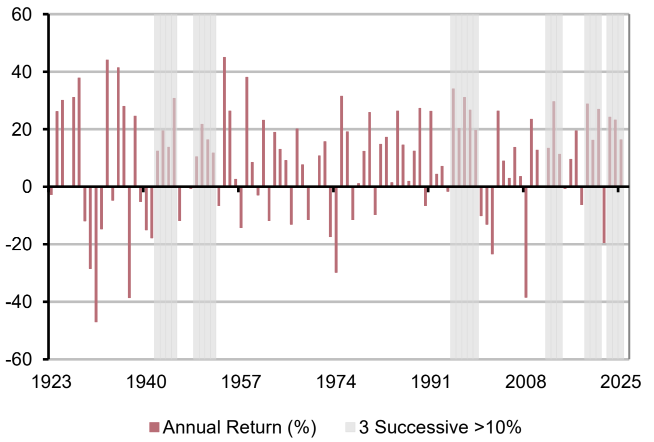
The macroeconomic backdrop is broadly supportive for equity markets with GDP growth slightly above trend and declining inflation. While a number of factors look similar to the late 1990s tech bubble, neither sentiment nor valuation look stretched enough to make a tech bust our base case over the next six months. However, we remain cognisant that four years of double-digit equity market returns are rare, so extra vigilance is required.

Supportive macroeconomic backdrop for global equities

It is difficult to be bearish on equity markets with a Bloomberg consensus of trend-plus GDP growth for the US and Eurozone economies, slowing inflation, and a couple of Fed rate cuts. This bullish backdrop is reflected in low levels of investor portfolio cash allocations, but not so low as to indicate that a major contrarian market top is imminent. That said, after three successive years of double-digit percentage gains for the S&P500, history suggests investors should not overlook the risk of a disappointing 2026 as a fourth double-digit year has only happened once in the past 70 years (the late 1990s tech bubble).

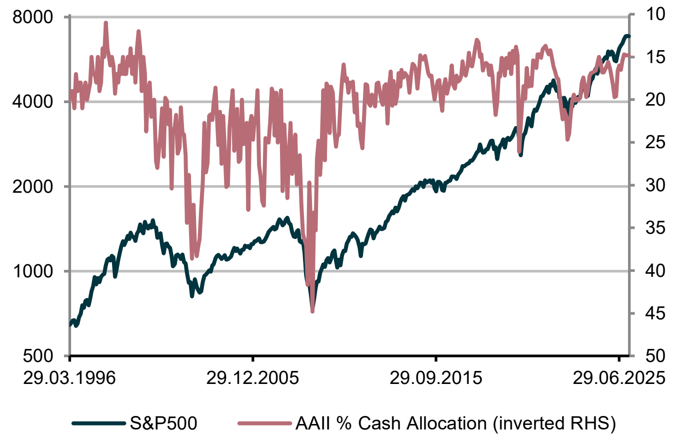
Four straight years of double digit returns are relatively unusual

S&P500 annual returns. %



Source: Bloomberg (underlying data), DNB Carnegie (further calculations)

S&P500 versus AAII survey percentage portfolio cash allocations



Source: Bloomberg (underlying data), DNB Carnegie (further calculations)

A 'goldilocks' scenario implies two-sided risks

A 'not too hot' and 'not too cold' 'goldilocks' scenario implies two-sided risks to the economic outlook. On the one hand, if US growth estimates continue to be revised higher, the market may need to price in a more hawkish rates outlook. That is likely to result in increased volatility for US and global equities. Rising rates due to improved growth is not usually a problem for equities if it results in better earnings growth, although it could trigger a rotation out of growth stocks and into cyclical value names. High-multiple tech stocks with large funding requirements

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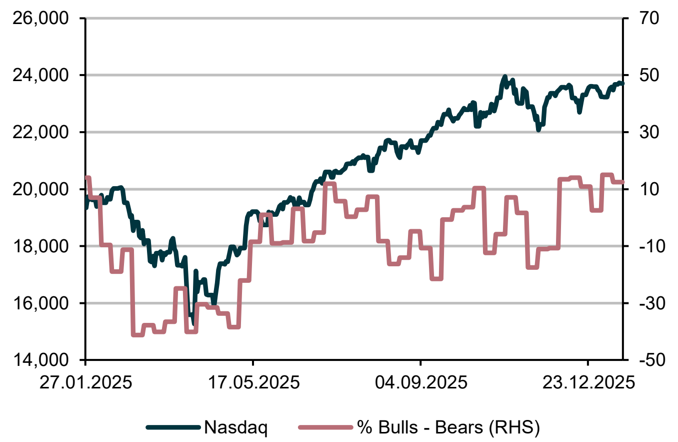
could struggle with higher rates, which could hit broader risk appetite given the importance of the AI narrative and the large index weight of US technology sector. Positive US growth surprises may have limited spillovers for the European economy, while the gravitational pull of higher US rates (along with rising rates in Japan) could cause problems for Europe's overleveraged economies (such as France).

A potential bear-case scenario for economic growth is that an AI bust triggers a broader slowdown or recession through wealth effects and a sharp reduction in investments, similar to the 1990s tech bubble. The bursting of bubbles is a mix of quantitative and psychological factors, and we conclude that if this is a bubble, there is still room for both factors to inflate further. For example, 12-month forward P/E for Microsoft is less than half the level at its peak in 1999 and the price gains over the past few years has been driven by EPS growth rather than multiples expansion. The weekly AAII bull/bear sentiment index has been at relatively moderate levels for the past 12 months and nowhere near the record +62 than was recorded in December 1999. While there is some evidence that investor positioning is somewhat more bullish than sentiment, we view 1999 rather than early 2000 as the more likely analogue.

Microsoft 12-months forward P/E

Source: Bloomberg (underlying data), DNB Carnegie (further calculations)

Percentage of bullish investors minus percentage of bears shows few signs of euphoria



Source: Bloomberg (underlying data), DNB Carnegie (further calculations)

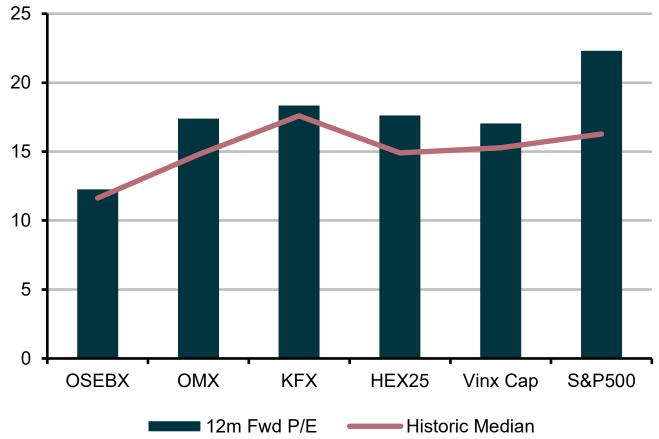
Mid-to-late cycle backdrop should support cyclical value stocks

Mid-to-late cycle is usually favourable for cyclical value sectors. This is supported by the European 'value factor' index still being priced below the historical average relative to the 'growth factor' index. We like materials, and, to a slightly lesser extent, financials and industrials with a value tilt. Energy is an exception to the cyclical value theme, where we still see some downside risk for oil prices in Q1 and unwinding of front-loaded returns in 2025. The European 'quality factor' index has been a big underperformer and is now approaching historical trough valuations. Healthcare explains a significant portion of this underperformance and deserves some extra attention as one of the few sectors trading at a large discount to its historical average levels.

Nordic valuation is at a small premium to the historical average

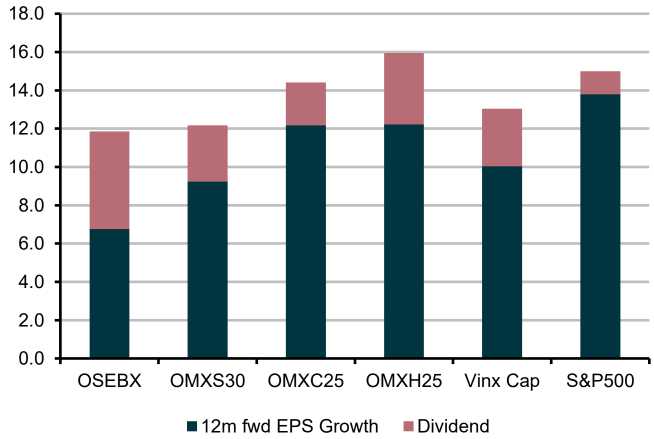
Nordic equity market indices currently trade at a small premium to their historical average levels while the S&P500 is at a large premium. Nordic valuations are below levels usually associated with market peaks, but in the event risk appetite declines, there is a limited margin of safety. For the OSEBX, this is broadly consistent with our analyst's 12-month forward price targets which aggregate to an OSEBX index at similar levels to today at year-end. If valuations remain stable, consensus EPS growth and dividends imply low double digit total returns in 2026. However, estimates are usually revised down by 3-5% during the year so high single digit gains are more likely in this scenario. Double digit gains will likely require multiples expansion which we cannot rule out if risk appetite remains robust.

12-month forward P/E versus historical median since 2006



Source: Bloomberg (underlying data), DNB Carnegie (further calculations)

Consensus growth in 12-month forward EPS plus dividend yield. %



Source: Bloomberg (underlying data), DNB Carnegie (further calculations)

NORDIC HIGH-YIELD

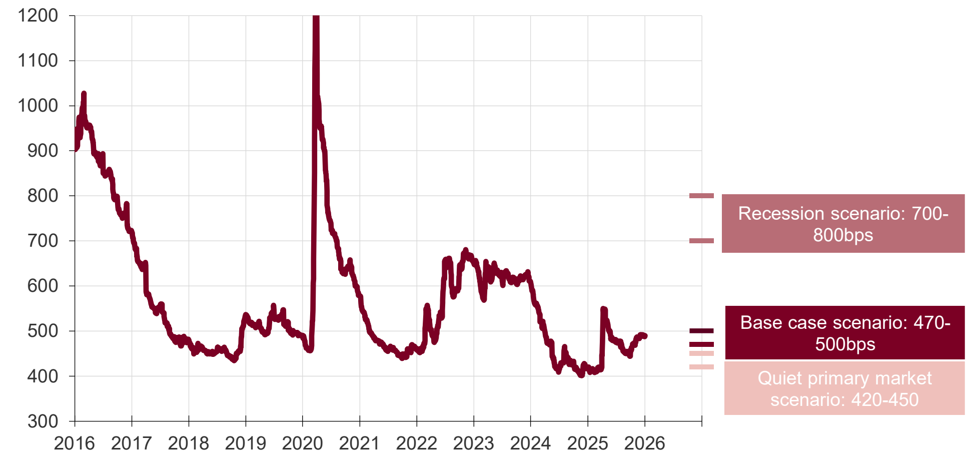
Limited upside, stable base

We expect the Nordic high yield market to remain resilient despite more modest return potential in 2026, at around 7.5–8.0%. Lower base rates and limited scope for capital gains are likely to be offset by somewhat lower credit losses, while primary market activity should remain elevated, supported by strong investor demand.

Credit spreads: close to fair value on current assumptions

Nordic high yield spreads are currently around 490bps, approximately 70bps wider than at year-end 2024. Importantly, most of the widening observed over the past year does not reflect a broad-based deterioration in credit quality. Instead, changes in index composition account for the majority of the move, contributing an estimated 58bps to index spreads. Issuer-specific developments added a further c12bps, while like-for-like repricing has been relatively modest.

Nordic high yield spreads, bps



Source: Bloomberg (underlying data), DNB Carnegie (further calculations)

Looking ahead, we expect Nordic high yield spreads to remain broadly stable in a 470–500bps range during 2026. This view reflects our expectation that primary market flows will have a more neutral effect on index spreads than in 2025, as well as our assessment that issuer-specific spreads are likely to remain broadly unchanged for a given credit duration. At current levels, spreads appear close to fair value under our base case assumptions.

There is some upside potential if primary issuance slows while market sentiment remains supportive. In such a scenario, reduced supply could allow for a gradual tightening in spreads, potentially towards the low 400s. On the downside, a weaker macroeconomic backdrop or a global recession would likely lead to a sharp widening in spreads. In such a scenario, a widening of 200–300bps appears plausible. In addition, there is a risk that a significant share of recent debut issuers has weaker underlying credit quality, which could result in higher spreads and defaults even in the absence of a pronounced macroeconomic downturn.

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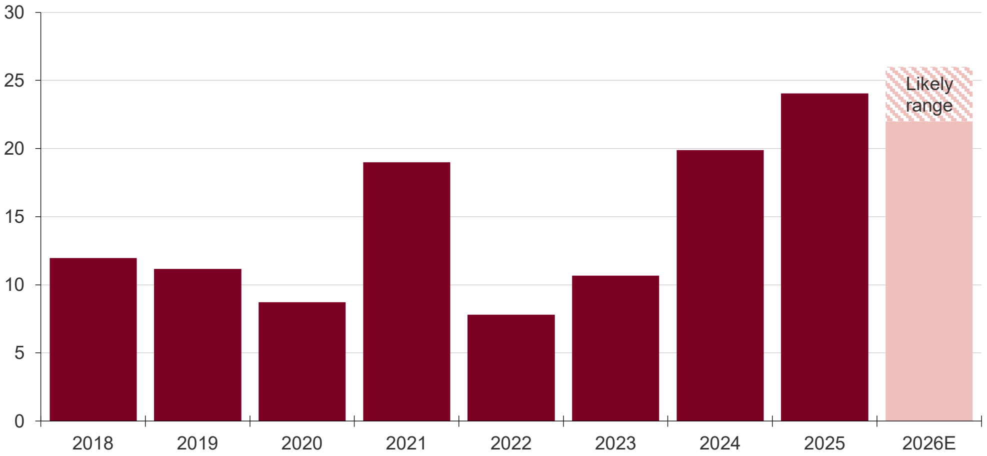
Primary markets: high activity to persist in 2026

Gross issuance in the Nordic high yield market reached EUR24bn in 2025, the highest level on record and around 23% above the previous year. Issuance was supported by strong investor demand, favourable funding conditions relative to other capital markets, and a broadening issuer base.

Nordic high yield new issue volumes, EURbn



Source: Bloomberg (underlying data), DNB Carnegie (further calculations)

Looking ahead, we expect primary market activity to remain elevated in 2026. Continued relatively high interest rates and elevated equity market valuations should support bond demand, allowing for sustained issuance volumes. Under our base case, we expect gross issuance to fall within a EUR22–26bn range.

The strong deal flow seen in 2025 may also prove self-reinforcing. A large number of successful transactions has strengthened confidence in the Nordic high yield market as a reliable funding platform, potentially lowering the hurdle for new issuers to access the market. If market sentiment remains supportive, issuance volumes could surprise on the upside. That said, we consider it highly unlikely that annual issuance volumes exceed EUR30bn, given both issuer capacity and investor absorption constraints.

On the downside, a global recession would likely result in a sharp slowdown in issuance activity. In addition, if credit losses increase due to a deterioration in underlying credit quality, investor confidence could erode, weighing on future deal flow. Even in such a scenario, refinancing needs would still amount to an estimated EUR10bn, implying that the market would continue to play a central role in issuer funding.

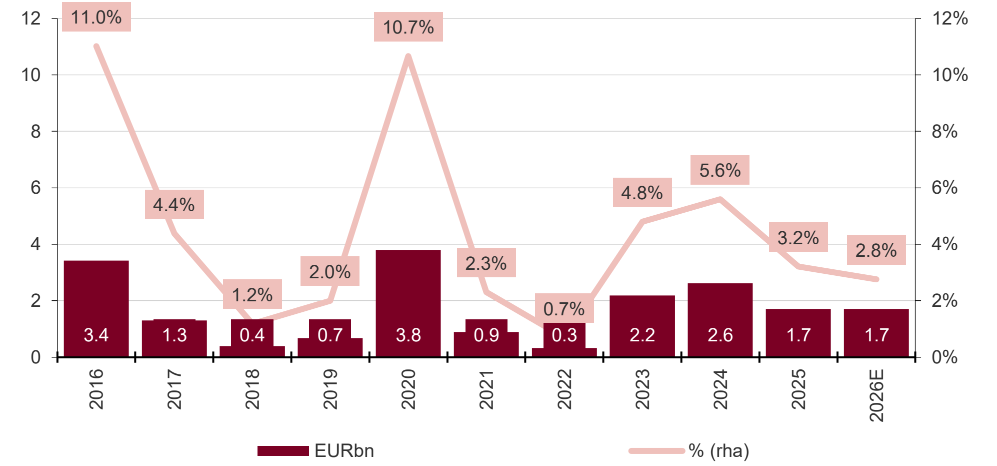
Defaults: somewhat lower loss rate

Default volumes declined as expected in 2025, falling to EUR1.7bn from EUR2.6bn in 2024. This corresponded to a decline in the 12-month trailing default rate from 5.3% to 3.2%. Of the 33 default cases recorded during the year, around one quarter were real estate issuers, while the remainder were spread across a broad range of industries.

Looking ahead, we expect default volumes to remain broadly unchanged in 2026. Given continued growth in the Nordic high yield market, this implies a further decline in the default rate to around 2.8%. While credit quality remains mixed at the issuer level, refinancing conditions and balance sheet flexibility remain supportive under our base case assumptions.

In a recession scenario, default rates would be likely to rise materially, driven by weaker earnings, higher cash flow volatility, and more challenging refinancing conditions. A downturn would also likely result in lower recovery rates from their currently elevated levels. In such a scenario, we estimate that the default rate could rise above 8%.

Nordic high yield defaults, %



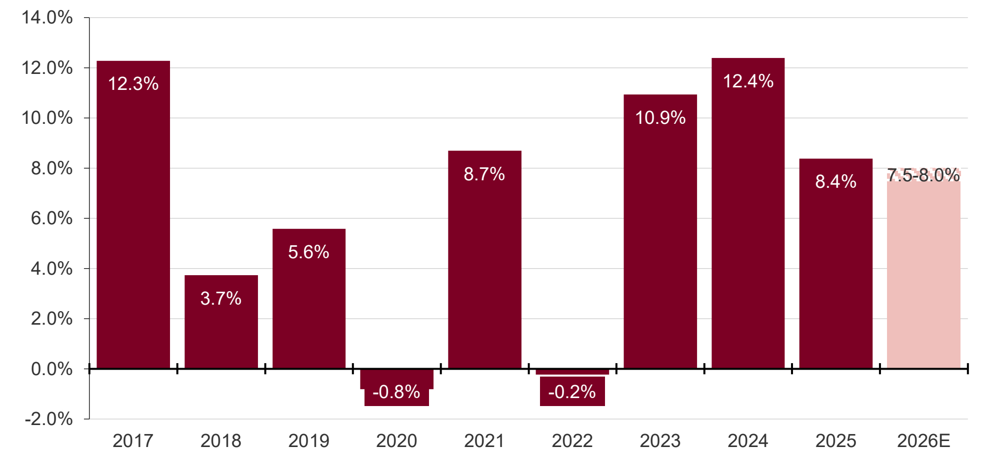
Source: Bloomberg, DNB Carnegie

Returns: some weakening, but still strong

After two years of double-digit returns, Nordic high yield delivered more moderate returns of 8.4% in 2025. The slowdown primarily reflected limited scope for capital gains and lower base rates, particularly in SEK and EUR. This was partly offset by lower credit losses.

Looking ahead to 2026, we see limited potential for capital gains, with yields around 50bps below the index coupon, broadly similar to the situation in early 2025. While credit losses are expected to moderate somewhat, the lower starting point for coupon income implies that total returns are likely to decline modestly. We therefore expect annual returns in the 7.5–8.0% range.

Nordic high yield annual return, %



Source: Bloomberg (underlying data), DNB Carnegie (further calculations)

Upside to returns could materialise if primary market supply slows more than expected, prompting investors to bid more actively in secondary markets. In such a scenario, index returns could be around 50bps higher than our base case. On the downside, a weaker macroeconomic environment could lead to wider spreads and negative price effects. A scenario in which spreads widen by around 200bps would reduce returns by roughly 5%, implying annual returns closer to 2.5–3.0%. Such a scenario would, however, likely coincide with lower base rates, which could partially offset the spread-driven price decline.

Macroeconomic forecasts Norway

Main economic development. Forecasts 2025–2029

	2024	2024	2025	2026	2027	2028	2029
Demand & production (fixed prices)[1]	Bn NOK	Annual changes in per cent					
Private consumption	2211	1.3	2.8	2.0	1.8	1.8	1.8
Public consumption	1188	1.8	1.5	1.6	1.6	1.6	1.6
Gross fixed capital formation	1236	-1.4	-0.7	0.8	0.8	1.5	1.2
- Petroleum activities	259	4.8	6.1	-4.0	-7.0	-3.0	-1.0
- Mainland-Norway	967	-1.7	-1.7	2.2	2.9	2.5	1.8
- Private companies	479	1.3	1.2	1.7	1.4	1.3	1.3
- Dwelling services	199	-15.8	-1.5	4.4	8.0	6.5	2.9
- General government	289	5.5	-6.7	1.6	1.8	1.6	1.6
Final demand from Mainland-Norway	4365	0.8	1.5	1.9	2.0	1.9	1.8
Total exports	2475	6.0	1.9	2.0	1.0	0.5	0.4
- Crude oil and natural gas	1169	4.9	-0.7	2.4	0.0	-0.5	-0.8
- Traditional goods	672	3.4	5.1	2.7	1.9	1.3	1.2
Total imports	1778	5.0	1.7	1.0	1.5	1.8	1.7
- Traditional goods	1026	2.2	2.9	0.0	0.9	1.5	1.5
Gross domestic product (GDP)	5367	1.5	1.5	2.0	1.2	1.1	1.0
- Mainland-Norway, sa.	4187	0.5	1.6	1.5	1.6	1.6	1.5
Labour market							
Employment, 1000 persons	2959	0.6	0.7	0.7	0.8	0.8	0.7
Unemployment ratio, AKU *		4.0	4.5	4.6	4.6	4.6	4.6
Reg. unemployment, per cent *		1.8	2.1	2.2	2.2	2.2	2.2
Prices and wages							
Yearly wages		5.6	4.8	4.0	3.7	3.5	3.3
Consumer price index		3.1	3.1	2.8	2.7	2.6	2.5
Core inflation		3.7	3.1	2.8	2.6	2.5	2.4
Second-hand home prices		3.0	5.9	5.0	6.0	6.0	6.0
Memo:							
Households saving ratio		6.9	7.4	8.2	8.7	9.2	9.2

1) Forecasts for seasonally adjusted variables
2) Levels

Source: LSEG Datastream, Statistics Norway, DNB Carnegie

Interest rate and FX forecasts

Monetary policy interest rates	20-Jan-26	1 mnd	15-Apr-26	15-Jul-26	15-Jan-27
USA: Fed Funds (upper range)	3.75	3.75	3.75	3.50	3.50
EMU: Deposit rate	2.00	2.00	2.00	2.00	2.00
UK: Bank Rate	3.75	3.75	3.50	3.50	3.50
Sw eden: Policy rate	1.75	1.75	1.75	1.75	2.25
Norw ay: Policy rate	4.00	4.00	4.00	3.75	3.75

3 month money market rates	20-Jan-26	1 mnd	15-Apr-26	15-Jul-26	15-Jan-27
US: Term SOFR	3.67	3.60	3.50	3.35	3.35
EZ: Euribor	2.03	2.00	2.00	2.00	2.15
UK: Term SONIA	3.71	3.60	3.50	3.50	3.50
Sw eden: Stibor	1.96	1.85	1.85	1.85	2.35
Norw ay: Nibor	4.12	4.15	4.10	3.95	3.95

10 year sw ap rates	20-Jan-26	Apr-26	Jan-27
USD	3.90	3.75	4.00
EUR	2.89	3.00	3.25
GBP	4.00	4.00	4.25
SEK	2.93	3.00	3.25
NOK	4.23	4.00	4.25

FX rates	20-Jan-26	Jan-27
EURUSD	1.17	1.15
EURGBP	0.87	0.87
EURSEK	10.71	10.50
USDSEK	9.16	9.13
EURNOK	11.71	11.80
SEKNOK	109.4	112.4
USDNOK	10.02	10.26
GBPNOK	13.50	13.56
NOK index (I-44)	119.40	121.00

Source: LSEG Datastream, Statistics Norway, DNB Carnegie

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