Global Economic Weekly

Unzipped risks

Global Letter: Unzipped risks

The US economy is entering in a slippery road. In our baseline scenario, inflation remains persistent as energy prices continue contaminating core components while the economy continues growing somewhat above potential. Consistent with that scenario, we add one more Fed hike in January, and we now expect 3 back-to-back hikes in December, January, and March. On a separate note, the Nvidia gate opens a can of worms, ranging from geopolitics to market dynamics. Jensen Huang's departure will likely trigger heightened geopolitical tensions between the US and China, and an eventual motion for tighter export controls across chips and rare earths.

United States: Fed call change – Adding a hike in Jan '27

We have added a 25bp hike in Jan '27 to our Fed forecast. We now expect hikes at the next three meetings (Dec, Jan, Mar), for a terminal rate of 4.5-4.75%. After Oct CPI, the Fed looks further behind the curve on inflation. It no longer has the luxury of hiking at a quarterly pace. Risks to our new call are balanced. We think the Fed might delay/skip the last hike if there's a soft patch in the data or significant tightening in financial conditions.

Euro Area: Call it resilience when they mean surviving

While the Euro area economy has not collapsed, we would not dare call that resilience. The economy has avoided the worst, helped by fiscal policy and an energy price shock that's different from the one in 2022. The risk is that this sense of "resilience" leads to the wrong policy choices and triggers a much more concerning outlook.

UK: What matters for December

We look at what matters for the BoE to deliver a Dec. hike. We are watching energy developments, data and pay settlements. We think a Feb hike is marginally more likely, but higher energy prices, stronger data next week and concerning early signs of 2027 pay settlements can deliver a Dec. hike.

Asia: Thailand – Thinning policy buffer

Thailand's current account surplus has all but vanished, as oil, higher import content in exports and investment imports push trade into a deficit. The basic balance is more comforting: FDI finances much of the import surge, the overall BOP remains in surplus.

Emerging EMEA: Türkiye trip notes

Weaker demand improves underlying inflation, but energy and food could keep headline inflation sticky; min wage remains key. The Central Bank of the Republic of Türkiye to cut cautiously; no faster depreciation in our base case, selective macroprudential easing possible over time.

Latin America: Postcard from Mexico

Exports and investment drive a growth upturn; we see upside risks to our 1.8% (2026) and 2.0% (2027) GDP forecasts. The United States–Mexico–Canada Agreement (USMCA) is stuck in annual reviews, but a US-Mexico deal lowering auto and steel tariffs could come within weeks. Investors debate why Banxico cut; IG remains a concern, but some locals think further downgrades can still be avoided.

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Economics
Global

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Global Letter

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Unzipped risks

The US economy is entering in a slippery road. In our baseline scenario, inflation remains persistent as energy prices continue contaminating core components while the economy continues growing somewhat above potential. Consistent with that scenario, we add one more Fed hike in January, and we now expect 3 back-to-back hikes in December, January, and March. Absent a credible deal in the Middle East or an implosion of the AI narrative, the risks are tilted to even tighter financial conditions.

On a separate note, the Nvidia gate opens a can of worms, ranging from geopolitics to market dynamics. Jensen Huang's departure can trigger heightened geopolitical tensions between the US and China, and an eventual motion for tighter export controls across chips and rare earths. At the same time, the change of leadership in Nvidia may cast doubts on its business model going forward.

Just do it

The last couple of inflation prints in the US didn't help make the case of a spaced-out gradual hiking cycle for the Fed. To the persistence in services inflation that has been the rule for the last few quarters, we are now starting to see how higher energy prices start permeating core goods components of inflation.

With the labor market showing signs of tightness on the margin, and consumption and investment growing at a solid pace, there is no hint from the real economy that inflation might eventually slowdown. The call for 2 more hikes in December and March was predicated on inflation dynamics that could give the Fed enough room to act more gradually, as it was signaled by the decision to skip October.

However, we now think there is less room for complacency unless there is an implosion of the AI narrative and/or a credible deal with Iran. Since those events are essentially unforecastable shocks, it would be unwise for the Fed to act under the assumption that these events would eventually materialize. With this background, we move our Fed call to 3 consecutive hikes: December, January and March, to a terminal rate of 4.50-4.75%.

Waller's comment on the possibility of a 50bp hike in December still seems extreme with very unfavorable optics. It would evidence that skipping October was a mistake and would cast more doubts around the true motives to pause right before the midterms.

You can't ignore the war

We have been making the case that the supply shock emanating from the Iran conflict cannot be simply ignored as a one off. Moreover, the most concerning aspect of the energy shock is not the spikes in energy prices on the back of escalation attempts. The most impactful aspect is the fact that when oil prices drop following de-escalation attempts, they fall every time to a higher floor.

Companies are reluctant to pass-through to prices when energy prices spike as those jumps are perceived as transitory and they risk losing market share if they translate the volatility of costs into the price of final goods. But the reading of higher floors is different because that is an indication of higher persistence of the energy shock and therefore the pass-through probability is higher.

The distinction between core and headline inflation can be very misleading in these cases, where persistent energy shocks permeate through core inflation items driven by

the increase in transportation costs. And the stagflationary nature of the shock didn't materialize, at least in the US, given the concomitant AI-driven investment boom.

Nvidia gate opens a can of worms

One of the most if not the most important risk to the global economy is an implosion of the AI narrative, and the Nvidia case can potentially destabilize the AI ecosystem. Given the central role of Nvidia in the financing structure of the AI ecosystem, a change in the business model might put at risk smaller operators that indirectly rely on Nvidia acting as an internal lender of last resort.

If the Nvidia gate triggers a reassessment of the financing required to bridge the gap between current investment needs and future productivity gains and associated revenues, investment could decline sharply even if long rung demand for AI is strong.

The geopolitical angle is also very relevant. If the US tightens the grip on chip exports control, while China retaliates on rare earth minerals, that could increase fragmentation, raise production costs and impair the whole supply chain with stagflationary effects.

The first dimension of the Nvidia shock is a demand shock, the second dimension is a supply shock. If both happens at the same time, it can make the Fed's job more difficult as the impact of both shocks are very hard to disentangle in real time.

US

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Fed call change: Adding a hike in Jan '27

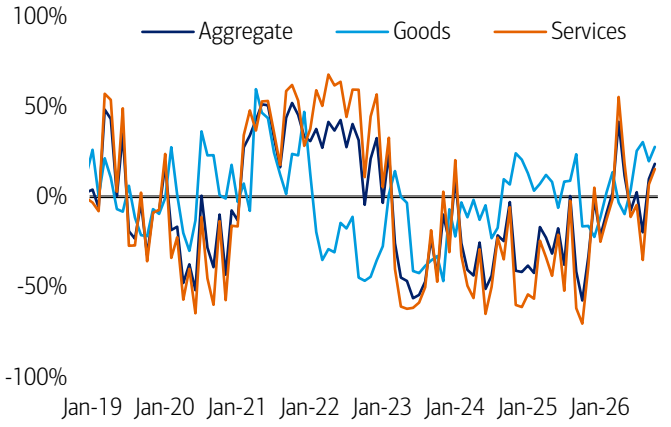
- We have added a 25bp hike in Jan '27 to our Fed forecast. We now expect hikes at the next three meetings (Dec, Jan, Mar), for a terminal rate of 4.5-4.75%.
- After Oct CPI, the Fed looks further behind the curve on inflation. It no longer has the luxury of hiking at a quarterly pace.
- Risks to our new call are balanced. The Fed might delay/skip the last hike if there's a soft patch in the data or significant tightening in financial conditions. A surge in wage inflation or large annual price resets could push the policy rate above 5%.

Coulda woulda shoulda

After brief improvement over the summer, inflation is heading in the wrong direction again. For the second consecutive month, core CPI was hot and broad based in October (Exhibit 1, see our report: October CPI Inflation: Opening the Door to a 50bp Hike in December). This came on the back of a very strong October jobs report last week (Exhibit 2, see our report: Oct jobs: A clean sweep for the hawks).

Therefore, we think most of the FOMC has or will come around to our view that i) the October pause was a mistake, and ii) the Fed doesn't have the luxury of hiking at a quarterly pace because it is behind the curve. The Fed speakers we've heard from since the Oct CPI release have mostly conveyed strong concern about inflation and a sense of urgency to address it.

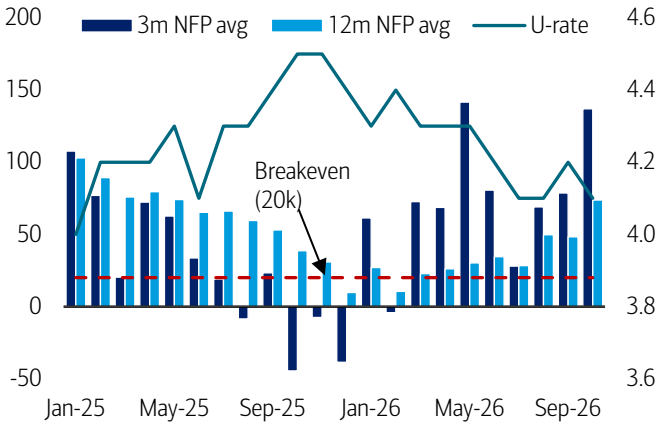
Exhibit 1: Inflation momentum has been increasing, led by core goods
Moving average aggregator of core inflation components



Source: BLS, BofA Global Research. Moving average aggregator is calculated using 3, 6, 12, and 12-month moving average cross-overs of monthly inflation contributions.

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Exhibit 2: The labor market remains stable, with job growth well above breakeven and the u-rate flat/down
Monthly change in nonfarm payrolls (three- and 12-month moving average, SA, thous), vs. unemployment rate (SA, %)



Source: BLS, Haver Analytics, BofA Global Research

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Why add a hike? Why not just pull March forward?

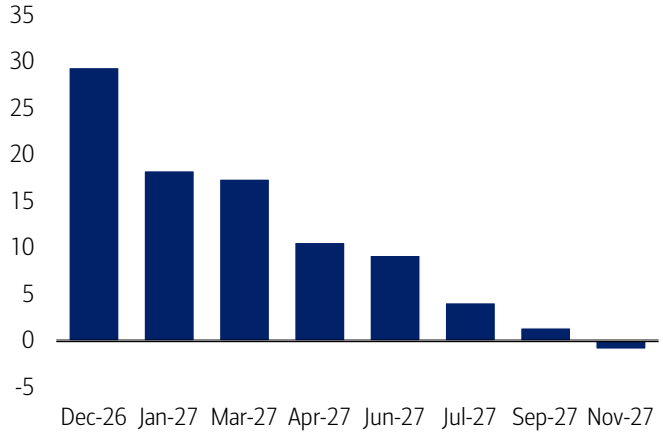
Our prior forecast had 25bp hikes in Dec and Mar. A Dec hike now looks like a done deal, and we think another one in January should now be the base case. Markets seem to agree. At the time of this writing, they're pricing over 45bp of cumulative hikes by the Jan meeting (Exhibit 3). From our perspective, the big question was whether to i) just pull the Mar hike forward into Jan, or ii) add another hike.

Here's why we settled on the latter. Under our previous forecast, we saw upside risks to the Fed path (see our report: October FOMC review: Window dressing). The October

data, this week's Fedspeak and the large moves in market pricing suggest that the entire distribution of outcomes has now moved to the right. In turn, we feel more comfortable with a base case of another three hikes with balanced risks (discussed below), rather than a baseline of two more hikes with upside risks.

Another way to think about the change in our call is as follows. Gov. Waller said on Tuesday, 10 Nov, (before the CPI release) that the Fed needs to *at least* take back the 75bp of risk management cuts from last year. In our assessment, this is the consensus view on the committee. But inflation is much higher and the labor market is stronger than when the Fed started cutting last September. And we don't expect that to change in the coming months. So we think the Fed will find that it has to take back not only all the cuts from 2025 but also one from 2024.

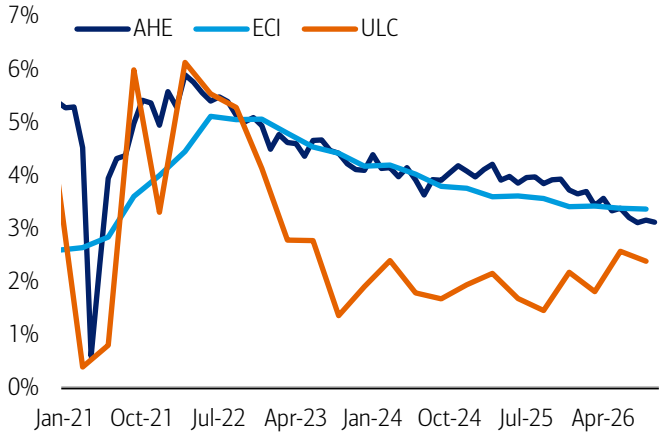
Exhibit 3: Markets are pricing nearly 50bp of hikes over the next two meetings
Market pricing of Fed policy action by meeting (bp)



Source: Tullett Prebon, Bloomberg, BofA Global Research

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Exhibit 4: Tepid wage inflation reduces the upside risks to prices
Wage inflation metrics: Average hourly earnings (AHE), employment cost index (ECI), unit labor cost (ULC); (SA, % y/y)



Source: BLS, Haver Analytics, BofA Global Research

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Downside risk: this is still a dovish Fed

The risks around our new call are balanced. On the downside, we haven't lost sight of the fact that this is a reflexively dovish committee. We wouldn't be surprised if it finds a reason to delay the last hike to Apr or Jun, or not do it at all. This could happen if there is i) a soft patch in the inflation/jobs data (we get another four months' worth of data by the March meeting), ii) a US-Iran deal that leads to a sustained drop in oil prices, or iii) a significant equity selloff. Recall that tightening in financial conditions was one of the reasons the Fed stayed on hold in October.

Upside risks: wage inflation, price resets

On the hawkish side, the biggest risk is that the labor market tightens meaningfully and wage inflation surges. This could cause the Fed to hike beyond 5%. The annual price resets in 1Q '27 will also be critical for the Fed path. Our base case is that they'll be moderately smaller than last year: AI-related input costs continue to rise, but diesel is well off the highs. This would allow y/y core inflation to roll down, giving the Fed confidence that it can stop hiking after 1Q. But if we get another year of very large resets, additional hikes would be on the table.

What about 50bp?

In either scenario, the Fed would also consider a super-sized hike at some stage. In fact, Gov. Waller opened the door for a 50bp hike in Dec. We don't expect a 50bp hike next month, for five reasons. First, it is a huge shift from a status quo of quarterly hikes to a 50bp hike. Most policymakers would probably be satisfied with sequential 25bp hikes, especially because there are no more CPI reports before the Dec meeting, and two between Dec and Jan. Second, the big drop in oil prices should make the Fed feel a bit better about the inflation outlook.

Third, the optics of a 50bp hike in Dec would be problematic. It would make the Oct pause look very political. Fourth, the doves will probably lean on tepid wage inflation as a reason to not do a super-sized hike. E.g., unit labor costs outright declined in 3Q and are up just 2.4% y/y (Exhibit 4). And last, the Fed might worry that a 50bp hike could cause pricing of the policy path to become unanchored, leading to undue tightening of financial conditions, especially given Chair Warsh's unwillingness to guide markets.

What would it take for the Fed to hike by 50bp in Dec?

Although a 50bp hike in Dec isn't our base case, a few clients have asked what it would take to get it over the line. Our response is that "everything would have to break in favor of the hawks". For example, a super-sized hike would be on the table next month if we get most or all of the following: i) Oct core PCE inflation close to 40bp, ii) a 4.0% u-rate in Nov, iii) 0.4% wage inflation in Nov, iv) indications that other FOMC participants, particularly the doves, are on board with a 50bp hike, and v) market pricing moving up to at least a 50% chance of 50bp.

What about cuts?

We haven't penciled in any cuts in '27 or '28 because we don't think it makes sense to do so until we know the end point of the hiking cycle. That said, the higher the terminal rate, the greater the risk that something in the economy breaks and/or inflation finally moves meaningfully closer to target. So under our new forecast, we'd see a slightly higher probability of cuts in 2H '27 or '28.

Euro area

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Why do they call it resilience when they mean surviving?

- While the Euro area economy has not collapsed, we would not dare call that resilience.
- The economy has avoided the worst, helped by (previously expected) fiscal policy and an energy price shock that's different from the one in 2022.
- The risk is that this sense of "resilience" leads to the wrong policy choices and triggers a much more worrisome outlook.

The risk of complacency

While the Euro area economy has not collapsed, we would not dare call that resilience. The economy has avoided the worst, helped by (previously expected) fiscal policy and an energy price shock that's different from the one in 2022. Without the German fiscal package, we would be observing an economy that had almost come to a halt.

But the shock is transmitting the way it should and having the impact that we more or less expected. The Euro area economy was meant to be growing at double the current rate thanks to fiscal policy in Germany. It isn´t. Domestic demand clearly suffered in 1H relative to expectations, particularly investment.

The real problem is the way forward. Fiscal is peaking, if it has not done so already. Financial conditions are a lot tighter than we all expected a year ago. And the shock could be perceived by economic agents as a lot more persistent than they may have initially thought. The risk is that this sense of "resilience" leads to the wrong policy choices and triggers a much more worrisome outlook. The ECB seems to be finally awakening to this risk.

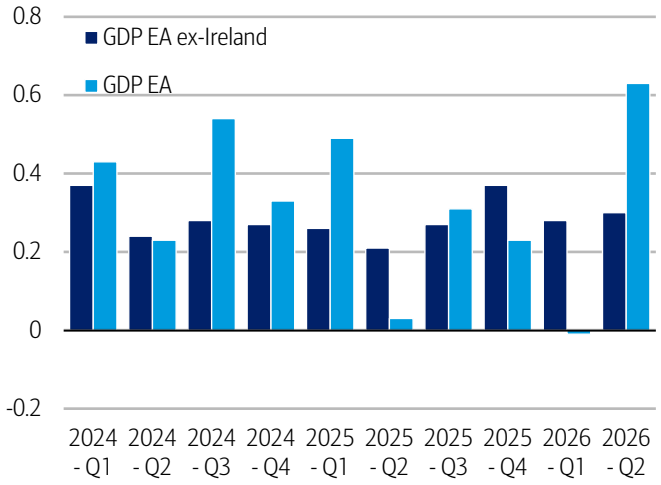
Just because growth hasn't gone down it doesn't mean it's ok

The resilience of the Euro area economy is a key highlight of the last few quarters, particularly since the beginning of the conflict in Iran and against a very significant energy price shock. That sense of "comfort", we think, risks producing the wrong decisions, whether from a policy or an investment perspective. It generates a sense of complacency that is risky in the current environment. And that resiliency is not that resilient and not that unexpected.

First, growth is not negative, or even zero, at least on average, with some notable exceptions. But once you take away the noise generated by Ireland, growth is at trend or slightly below. The region is surviving, avoiding the worst, but it's struggling to create decent growth.

Second, the counterfactual matters: there is more to it than energy prices. A year ago, we were all expecting growth to be almost double what it is right now, thanks to a very large extent to the German fiscal package. That fiscal package is ongoing and growth is still failing to accelerate. In other words, the fiscal stance that was already known a year ago is compensating for the economic impact of the energy price shock.

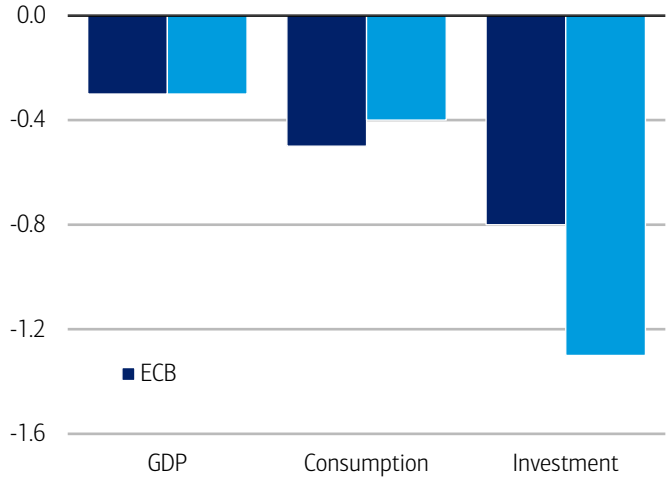
Exhibit 5: Euro area sequential growth excluding Ireland shows less resilience than the popular narrative suggests
Euro area GDP growth (%qoq)



Source: BofA Global Research, Eurostat

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Exhibit 6: Growth forecasts have been revised lower, particularly for domestic demand
Cumulative changes to forecasts for 2026-2027 from December 2025 to September 2026 (ppt)

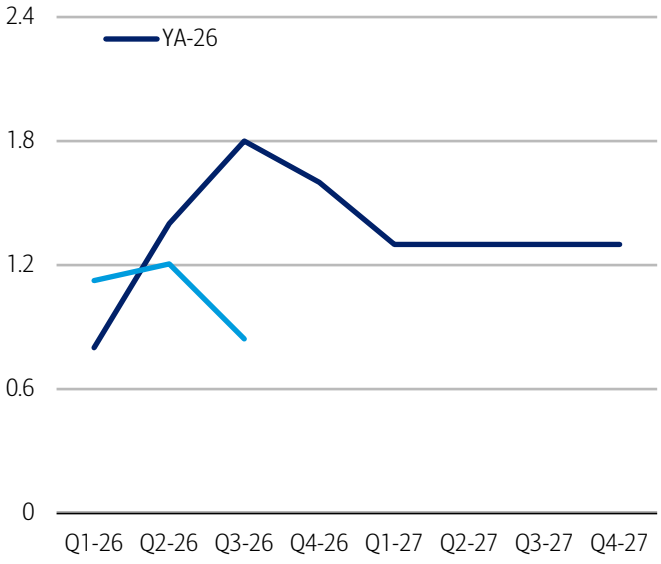


Source: BofA Global Research, Eurostat

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Third, the energy shock is filtering through the economy in the way we would expect, by dampening domestic demand that has barely grown so far this year. Surprises have been mostly externally driven.

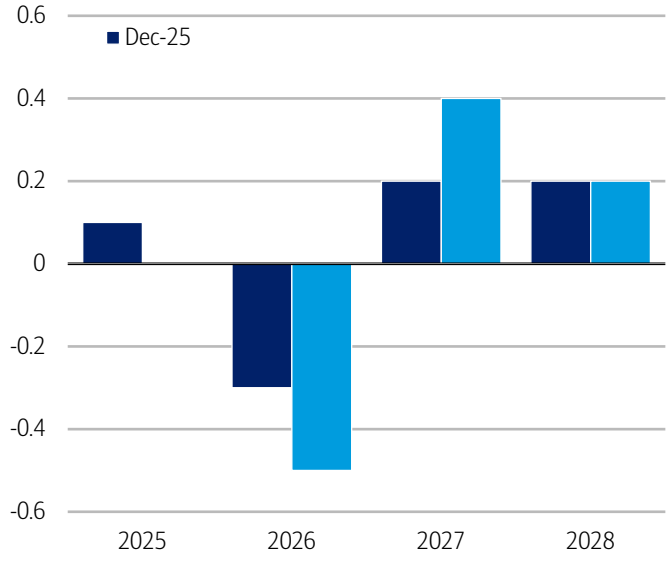
Exhibit 7: Euro area sequential growth excluding Ireland shows less resilience than we expected a year ago
Euro area GDP growth (%qoq, saar), last year's expectations vs actual data.



Source: BofA Global Research, Eurostat

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Exhibit 8: Fiscal policy was meant to help ... and it is helping
The fiscal stance is measured as the change in the cyclically adjusted primary balance.



Source: ECB. % of GDP. A negative (positive) figure implies a loosening (tightening) of the fiscal stance.

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Fourth, the type of shock matters here. First, in contrast to 2022-23, the current shock has been likely somewhat perceived as temporary by economic agents, pointing to quite a bit of smoothing of its cost over time. That's probably likely to change as economic agents assign more persistence to the shock. And while 2022-23 was a triple shock concentrated on electricity and gas, the current shock has been predominantly driven by oil prices, a more traditional one. Economic responses differ.

How big of a positive surprise?

A simple look at the evolution of GDP, once Ireland is excluded (Exhibit 5), shows that the Euro area momentum has remained broadly stable. That could give a sense of comfort and complacency given the energy price shock.

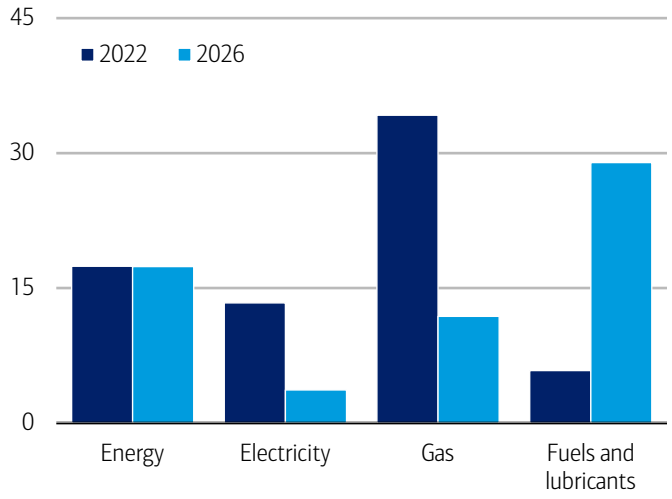
But forecasts have been revised down since, particularly for internal demand (Exhibit 6). And the starting point matters. 2026 was meant to be a year of significant acceleration in the second half, driven mainly by the German fiscal package. In our year ahead forecasts we were expecting growth rates north of 1.5% qoq saar by 2H 2026 (Exhibit 7). A key reason for that was the fiscal stance. But if anything, the fiscal stance has been revised slightly higher throughout 2026, while fiscal policy in Germany has not disappointed in the speed of deployment (Exhibit 8). And peak fiscal support could be behind us by now.

The type of shock also matters

We have written at length how the region's energy price shock is very different from the one in 2022-23, when we lost a very large share of natural gas supply overnight. It was meant to be more persistent and, because it was concentrated in electricity and gas prices, was likely also going to have a longer-lasting effect on both activity and inflation. Exhibit 9 shows this nicely, using components of HICP inflation.

Indeed, the cumulative increase in energy prices faced by consumers was the same as in September. Interestingly, while that increase was mainly driven by gas, and somewhat also by electricity, the shock remains to a large extent an oil price shock.

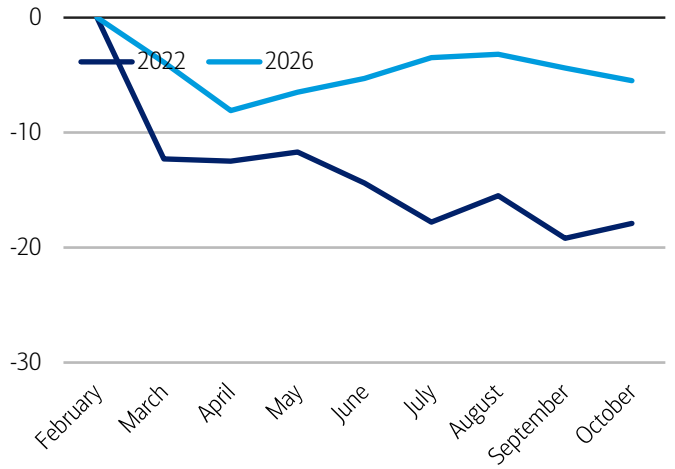
Exhibit 9: Two very different energy price shocks in 2022 and 2026
Cumulative increase in prices faced by consumers from February to September of each year.



Source: BofA Global Research, Eurostat. HICP components.

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Exhibit 10: The consumer reacted much more in 2022, perhaps because the shock was perceived as being more persistent
Cumulative change in consumer confidence from February of that year.



Source: BofA Global Research, Eurostat.

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Importantly, the perceived persistence of the shock matters too. Consumers are likely to smooth shocks perceived as less persistent over many quarters. This was obviously not the case in 2022, when a major supplier of natural gas disappeared overnight with no clear way of substituting for it. In 2026 perhaps the shock was initially treated as less persistent, given the uncertainty and the developments in early summer. The evolution of consumer confidence would be consistent with that (Exhibit 10).

Whether this is true remains to be seen. But if the shock is increasingly seen as persistent, together with tighter financial conditions, the consumer may stop behaving better than in 2022.

UK

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What matters for December

- We look at what matters for the BoE to deliver a December hike. We are watching energy price developments, data and 2027 pay settlements.
- We think a February hike is marginally more likely, but a move higher in energy prices, stronger data and worrying early signs of 2027 pay settlements can deliver a December hike. In that regard focus on data next week.
- The EU/UK Summit is likely to deliver a deal on a limited reset. But what will matter more for the outlook is clues on what a closer relationship can look like.

What matters for December: Watching energy, data and 2027 pay settlements

Markets are pricing in a decent chance of a December hike. Our base case is for another hike in February to 4.25%, but it's a close call and we look at what matters for the BoE to deliver a December hike. We are watching energy price developments, data next week and early evidence on 2027 pay settlements.

This week hawk Lombardelli said December is a live option- she wouldn't rule it out nor has she enough information yet. She repeated the case for a further hike in the near term. At the same time, she also noted "the BOE should change the key rate "gradually" rather than attempt to anticipate today the full policy adjustment that will ultimately be needed to return inflation sustainably to target". The use of the word gradual did for us temper some of her hawkishness.

We think one more hike in February is marginally more likely to 4.25%, given the recent leg lower in energy prices (which is reversing somewhat), our expectation of benign 2027 pay settlements and lack of evidence on second round effects should reduce the urgency to act.

But it's a very close call and December is firmly in play. A move higher in energy prices, stronger data and worrying early signs of 2027 pay settlements can deliver a December hike. The strength in September GDP for us increases slightly the odds of a December hike.

Moreover, risks of a third hike are rising as well. Our read is that the second hike is likely unless the conflict is resolved, while more could require some evidence of second round effects materializing and inflation persistence (and not just risks that they can materialize). The strong economy, stabilization in the labour market and high energy prices, if they persist, increase risks that second round effects do infact materialize and can increase the case for a third hike.

Data preview: Inflation and labour market in focus

In that context focus next week will be on inflation and labour market data where stronger data (especially after the strength in September GDP) would make December increasingly difficult to dismiss. We expect inflation to be in line with the BoE's forecast but core inflation to print slightly below the BoE's forecast. We expect inflation to rise from 3.5% to 3.7% in October (in line with the BoE's forecast), while core inflation to be flat at 2.8% (10bps below the BoE's forecast). Services inflation should rise from 3.7% to 3.8% (10bps below the BoE's forecast). We expect RPI inflation to rise from 3.9% to 4.3% (4.25).

The rise in headline inflation should reflect a pickup in energy inflation from 17.9% to 19.3% due to a 3.0%m/m rise in motor fuel inflation. At the same time, October is likely will see a 3.6% rise in Ofgem price cap. We expect food inflation to be flat at 1.3%. Higher duties on vapes and tobacco should lift up tobacco inflation.

Services should rise slightly from 3.7% to 3.8%, driven by base effects. The monthly jump in airfares in October (0.83%m/m) should be lower than last October (given a smaller fall in September airfares). This should lead to a small fall in airfares inflation. Core goods inflation should be flat at 1.0%.

Overall, we expect the passthrough of the shock to inflation to be relatively contained but risks are titled to the upside.

We expect the labour market to show flat unemployment. We expect a slight pickup in private regular wage growth from 3.0%y/y to 3.1%y/y in the three months to September. Unemployment should be flat at 4.7% while we expect payrolls to be flat in October. Recent survey indicators of employment growth are consistent with signs of stabilization which should likely be reflected in official data.

Data review: Strong Q3 GDP, buoyed by AI

UK GDP rose by 0.7% in Q3 (up from 0.5% in Q2), in line with expectations and highest since Q1'24. GDP is up 1.9% this year. Household consumption rose from 0.3%q/q to 0.6%q/q in Q3 (adding 0.4pp to Q3 growth), suggesting that savings is potentially helping the consumer buffer the real income shock. Business investment slowed down from the strength seen in Q2 from 1.8%q/q to 0.4%q/q but marked the strongest three-quarter rise since early 2022. Government investment rose by 13% (adding 0.5pp to Q3 growth).

The strength in Q3 was driven by non-consumer facing services (business facing services) which in part reflects AI investment. Computer programming, consultancy and related activities rose by 4.4% and have been the largest driver of GDP growth across 2026 (contributing 0.15pp to growth in Q3).

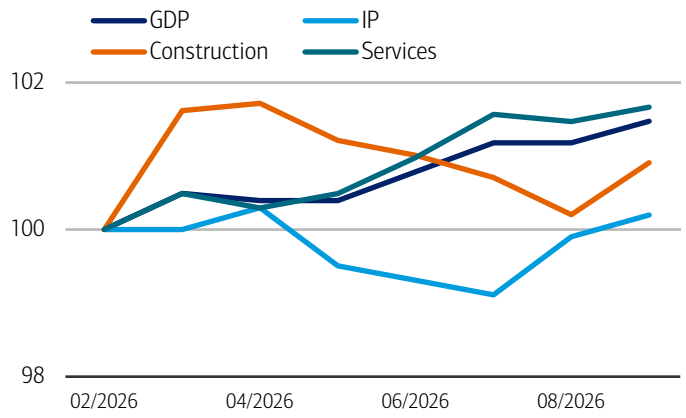
The BoE's AI activity proxy metric implies that AI-related activities accounted for under a third of growth in Q3 and under a fifth of growth since the start of 2026.

In September, GDP rose by 0.2%m/m while August growth was revised down from 0.1% to 0.0%. The strength was broad based- IP rose by 0.3% (driven by strong manufacturing), construction rose by 0.8% and services rose by 0.2%.

Within services, real estate activities grew, along with transport and storage. At the same time, professional, scientific and technical activities and info and communication (which includes computer programming) which have been strong in recent months (and contributed one third to services growth in Q3) have started to fall, reflecting potentially some waning impact from AI in coming months (Exhibit 12). Consumer-facing services grew by 0.6% in September but some of that reflects a jump in car registrations which tend to be erratic.

The economy has been resilient so far to the energy shock, driven by AI spending and potential fall in savings rate. September continued to show some growth. We do expect the economy to slow down in the winter as higher inflation, tighter financial conditions and BoE hikes weighs on consumption and the impact of AI spending moderates. But risks are firmly tilted to the upside.

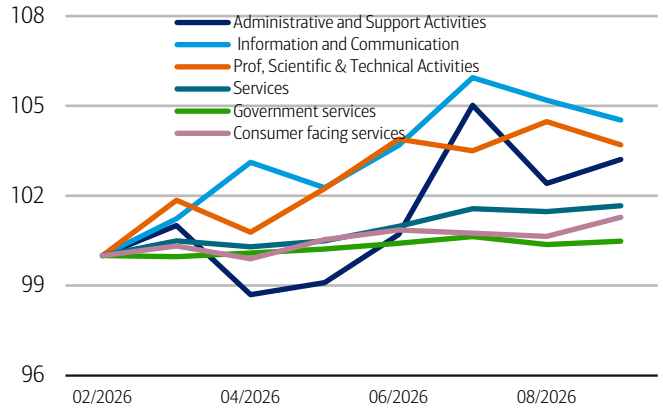
Exhibit 11: Services has been driving resilience of the economy since the conflict began
Monthly GDP, IP, services, construction index levels (Feb 2026=100)



Source: ONS, BofA Global Research

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Exhibit 12: Information and communication and professional scientific and technical activities have started to fall
Levels (Feb 2026=100)



Source: ONS, BofA Global Research

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EU- UK summit likely to deliver a limited reset

Focus next week will also turn to the EU- UK Summit next week on 20 Nov. The EU/UK Summit is likely to deliver a deal on a limited reset. But what will matter more for the outlook is clues on what a closer relationship can look like.

The Summit is likely to mark a twin approach on EU-UK relationship- the first to potentially secure a deal on the limited reset already underway and the second to explore different options for a more ambitious relationship to getting closer to the EU.

A deal on the limited reset could be agreed in the Summit. The deal is likely to constitute 1) an agreement on sanitary and phytosanitary standards (SPS), which would seek to remove checks on agri-foods with the UK accepting dynamic alignment with EU food standards and 2) an agreement to link the EU and UK Emissions Trading Systems and potentially and 3) Youth Experience Scheme though issues remain, particularly on tuition fees and eligibility caps.

If agreed, this could constitute a small step towards an improved and closer relationship between the UK and EU. According to the government, the reset deal could add 0.4% to UK GDP, a fairly small reduction of the long-run cost of Brexit, which is estimated to be 4% of GDP.

Moreover, another key consideration for the UK at this Summit would be whether there is movement from Brussels to include UK in the Made in Europe proposals, though an ultimate agreement on this issue looks less likely in next week's Summit.

More material for the overall outlook would be signals from the Summit on the different options for the UK's long-term relationship with EU and the EU and UK's willingness to contemplate a more ambitious relationship. These options could include customs union, single market membership or full re-joining. The economic gains would depend heavily on the degree of integration.

A much closer EU/UK relationship can deliver growth dividends, but progress is likely to be slow. On the positive side, the UK government looks more open to discussing freedom of movement and greater regulatory alignment. But we also think it is unlikely that the EU would engage in serious negotiations on the EU- UK relationship until the government wins a durable and fresh mandate from the public on a new relationship. Moreover, the debate on trade-offs or costs is unlikely to be easy. Meanwhile we can expect to hear positive noises from both sides.

Asia

Pipat Luengnaruemitchai
Kiatnakin Phatra Securities

Thailand's external cushion is thinning

Thailand's current account surplus, long the anchor of the baht, has all but disappeared. After 5-6% of GDP in 2024-25, the current account posted a record US$7.6bn monthly deficit in April and is now hovering around zero. Higher oil prices are only part of the story: exports now carry higher import content and an AI-related investment boom is pulling in capital goods imports. Because much of that investment is FDI-financed, the basic balance, which adds net FDI and long-term loans to the current account, remains solidly positive at about 4-5% of GDP. The external position has weakened in quality rather than become fragile. But with portfolio flows now setting the baht at the margin, a policy-rate gap of nearly 300bp against the Fed makes the outlook for the baht and the BoT considerably more challenging.

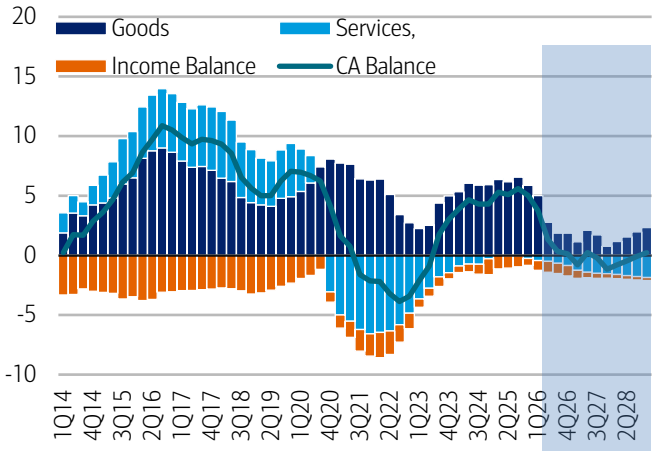
From structural surplus to near zero

The shift is large by Thailand's standards. The goods surplus, which peaked at about 6.5% of GDP in 2025, has fallen below 3%. The services balance, a surplus of 4-5% of GDP during the 2016-18 tourism boom, has slipped into a deficit as tourist arrivals fell about 3% this year and freight and IP payments rose. With the income account a steady drag of about 1% of GDP, the rolling four-quarter current account was close to zero by 2Q26. We expect it to hover between about -1% and +0.5% of GDP through 2028, rather than return to the large surpluses of the past decade.

Oil is only part of the story

The energy shock was the trigger. The monthly fuel deficit roughly doubled from US$2.5-3bn to about US$7.5bn in March-April as the Middle East conflict lifted oil prices, pushing the trade balance to a deficit of about US$10bn in April. Oil prices have since eased, but the trade balance has not recovered with them: September still showed a US$5.9bn deficit, with imports up 50% YoY. The more persistent change is in the non-energy balance, which used to run a surplus of US$3-6bn a month and is now close to zero.

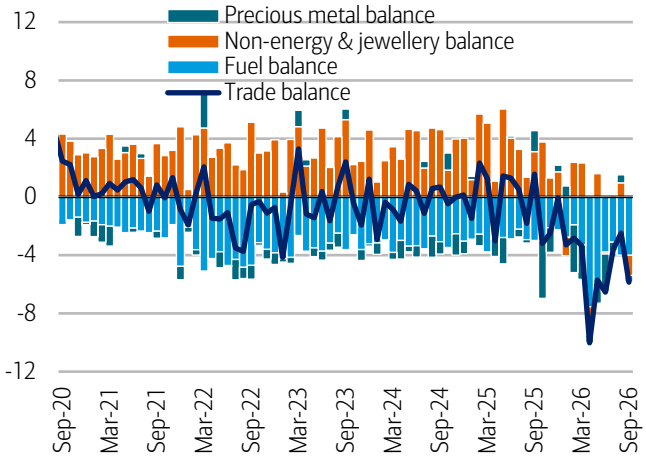
Exhibit 13: Current account by component (as percentage of GDP, rolling 4Q)
The surplus has all but disappeared and is likely to stay near zero



Source: BoT, NESDC, KKPS (Shaded area is forecast)

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Exhibit 14: Monthly trade balance (US$bn)
Oil drove the trough, but the non-energy surplus has also vanished



Source: BoT, KKPS

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Exports carry higher import content

Thailand is increasingly a pass-through in the electronics and AI supply chain. It imports chips and components, assembles servers, storage and computer parts, and re-exports

them, retaining a thin slice of value added. As a result, export growth now comes with a large import bill. On a 12-month basis, the computer and parts surplus has risen to over US$30bn, but the electronics deficit has ballooned to about US$70bn. That has turned the manufacturing trade balance negative, at about US$15bn.

But the basic balance tells a healthier story

Part of the import surge is capital goods for data centres and new production capacity, financed by FDI and related long-term loans. The current account alone counts the import bill but ignores its financing; the basic balance, which adds net FDI and long-term loans, nets the two out. On a rolling four-quarter basis, a current account of about US$8bn plus FDI and loans of close to US$18bn gives a basic balance of roughly US$26bn, or 4-5% of GDP. The overall balance of payments remains in surplus at about US$14bn, and net errors and omissions are also positive at about US$12bn.

The basic balance should not be read too generously, however. FDI is lumpy and tied to the AI capex cycle, so the financing could fade while the higher import content of exports stays. The fuel and services deficits are not FDI-financed at all, and some of the inflow may be intercompany lending rather than equity.

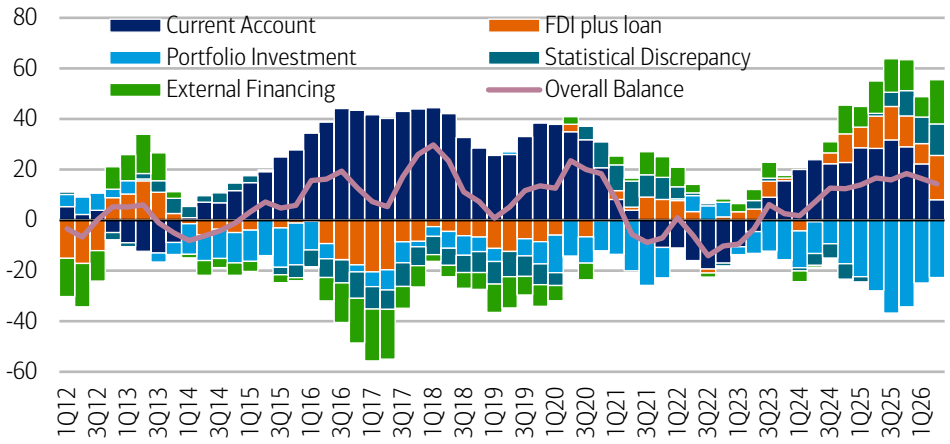
A thinner cushion meets a wider rate gap

This is not a 1997-style setup: the basic balance is positive and reserves are ample. But the rate differential is at historically high levels. With the current account near zero, there is little left to absorb them. The BoT has held its policy rate at 1.00% since February, while the Fed hiked to 3.75-4.00% in September, leaving a gap of roughly 275-300bp, while regional peers are also tightening. Portfolio outflows, already about US$23bn over four quarters, are likely to remain the main drain as residents invest offshore and foreigners trim Thai bond holdings.

Policy room has narrowed

Without a large trade surplus, the baht will be driven more by rate differentials, portfolio flows and oil prices, leaving it with less structural support and higher volatility. That leaves the BoT with a harder trade-off. Further easing to support growth would widen the rate gap and add pressure on the currency, while tightening would hurt an economy still growing below potential. We expect the BoT to keep the policy rate at 1% through 2027. The key risk is persistently high oil prices alongside a fiscal deficit of about 5% of GDP, which could turn a manageable current account deficit into a twin-deficit concern and force earlier tightening.

Exhibit 15: Balance of payments (US$bn, rolling 4Q sum)
The basic balance (current account plus FDI and loans) is still about US$26bn; portfolio flows are the main drain



Source: BoT, KKPS

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Emerging EMEA

Hande Kucuk
MLI (UK)

We visited Ankara and Istanbul last week and met with a broad range of policymakers, financial-market participants, corporate representatives, independent experts and international stakeholders. The main themes were the economic and political fallout from the fund crisis, weakening domestic demand, the near-term inflation and monetary policy outlook, and potential measures to restore confidence.

Complete report: ***Emerging Insight: Türkiye trip notes: Fund fallout continues to weigh on confidence 09 November 2026***

Fund fallout: confidence shock lingers

The direct financial-system contagion from the fund crisis appears limited. Nevertheless, its effects on confidence and economic activity are becoming more visible Overall sentiment was notably weaker than during our discussions a month ago, with uncertainty around the resolution and recovery processes contributing to a broader deterioration in confidence (see Pulse of Istanbul: Contained spillovers, improving inflation sentiment, 12 October 2026).

Liquidation has progressed, but delayed payments undermine confidence

According to official statements, the process initially covered 131 funds managed by seven portfolio-management companies and 455,758 unique investors. We calculate that these funds had pre-liquidation AUM of TRY985bn, or around USD20bn (see Türkiye Viewpoint: Taking stock of recent fund flows, 5 October 2026). However, official payments are based on investors' net investment amounts, calculated as original investments less previous withdrawals, rather than pre-liquidation AUM. The aggregate net investment amount has not been disclosed.

Some sub-TRY1mn accounts received only partial interim payments

As of 30 October, the authorities had confirmed total cash and in-kind payments of TRY97.3bn across 100 funds and 247,839 investor accounts. This comprised TRY68bn paid through the ordinary liquidation of 93 funds and TRY29.3bn in interim payments across seven funds under the subsequent extraordinary-liquidation framework. Separately, the authorities reported that 178,537 unique investors had received around TRY76bn and fully recovered their principal. The extraordinary-liquidation framework gives priority to money-market funds. Payment capacity, however, depends on the distributable cash available in each fund. Some investors with net investment amounts below TRY1mn therefore received only partial interim payments.

Forced-selling pressure eases, but repayments could take time

The latest off-market sale of BIST 30 shares reduced forced-selling pressure and helped attract the first meaningful equity-market buying in several weeks. Fund managers generally viewed the recent gains as technical rather than the start of a sustained recovery.

The recovery process now extends beyond investors in the frozen funds to stocks heavily traded by the affected funds. Finance Minister Mehmet Şimşek initially identified an inflation-adjusted gain of TRY10mn as the threshold for voluntary-return invitations, while TMSF has since said the threshold will be lowered progressively. This creates uncertainty over the process's eventual reach and potentially widens the confidence shock beyond the 455,758 investors originally caught in the fund liquidations. An invitation does not constitute a finding of guilt. TMSF reported collecting TRY31.6bn through voluntary returns by 9 November, although the timing and scale of further recoveries remain uncertain..

Accountability remains in focus

Changes within the bureaucracy have continued, including among senior officials, while the judicial investigation has expanded to officials from key market institutions. This has increased the focus on institutional and political accountability.

Further measures to strengthen supervision and enforcement are also under discussion. While market participants referred to a possible second legislative proposal, no official details have been announced. A credible regulatory follow-up could facilitate engagement with MSCI and help address potential risks to the Turkish equity market's current index status.

Domestic demand slowdown becoming more pronounced

The direct wealth effect appears modest, but gold losses add to the drag

The fund crisis has reinforced a slowdown in domestic demand that was already under way as loan growth weakened and tight financial conditions constrained spending. Wealth losses from gold and equities have added to the drag.

In our previous note, we estimated the decline in household gold wealth since the start of the Iran war at around USD120bn. A 2-5% marginal propensity to consume implies a USD2.4-6.0bn drag, equivalent to around 0.3-0.6% of annual household consumption.

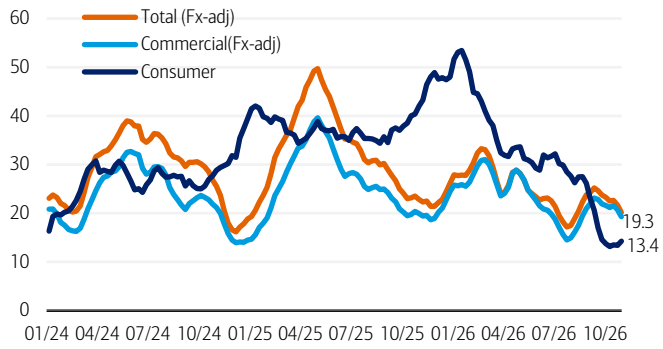
Since end-August, lower equity valuations have generated an additional wealth shock. TSPB data show that domestic residents' equity holdings declined by TRY2.6tn, or USD56bn, between end-August and end-October, of which TRY1tn, or USD22bn, was borne by domestic retail investors. Using the same consumption assumptions implies a USD0.4-1.1bn drag, equivalent to 0.05-0.1% of annual household consumption.

The mechanical wealth effect appears manageable, but it may be reinforced by confidence, liquidity and credit channels.

Confidence, liquidity and credit channels could be more material

A direct channel for firms is the loss of access to money invested in the affected funds, which can raise working-capital needs. The CBRT estimates that around 3,000 firms held TRY116bn, or USD2.3bn, in these funds, but finds that highly exposed firms account for only a small share of employment and turnover. Direct exposure therefore appears contained, although supplier linkages and weaker confidence could broaden the impact. (See CBRT Blog: Fund Liquidations and the Real Sector: What Do Firm-Level Data Tell Us?, 4 November 2026).

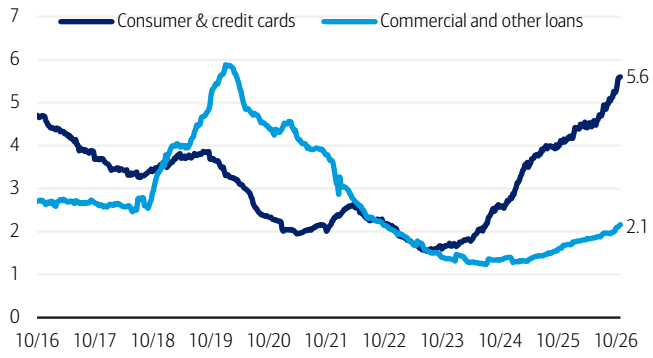
Exhibit 16: Sharp drop in consumer loan growth from 26% end-August to now 13%
Loan growth (annualized 13-week change, FX-adjusted, 4-week moving avg)



Source: Haver, BofA Global Research

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Exhibit 17: The increase in NPL ratio has steepened since end-August
Non-performing loan ratios (%)



Source: Haver, BofA Global Research

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Credit conditions could amplify these effects. Consumer lending has slowed sharply, from around 26% annualised trend growth at end-August to around 14% currently, while corporate lending growth has remained broadly stable at around 19-21%. Rising NPLs

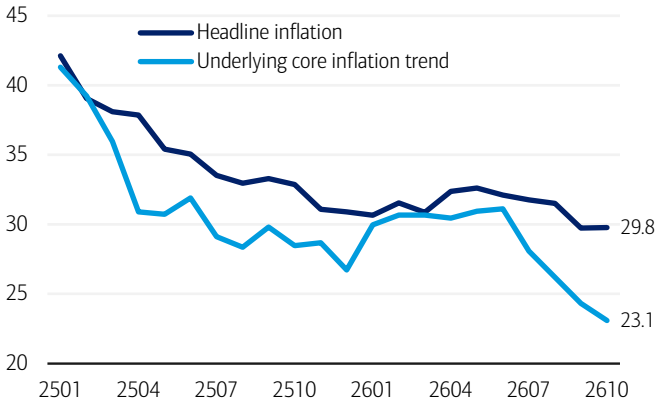
and the cost of risk are making banks more selective. Policy-rate cuts have passed through more clearly to deposit rates, partly supported by inflows from mutual funds, while transmission to lending rates has been weaker, reflecting lower bank risk appetite, quantitative credit limits and banks' efforts to protect margins. Given the rise in consumer NPL ratios, we expect further measures to facilitate restructuring. Meanwhile, following the recent increase in the SME credit-growth cap from 4.5% to 5%, we could see further selective easing to support SME lending, although perhaps not immediately. Supported lending programmes, including YTAK and the TOBB Nefes loan scheme, continue to provide targeted financing to the real sector, albeit on a relatively limited scale.

Against this backdrop, we retain our 2.6% growth forecast for 2026 but lower our 2027 forecast by 0.5pp to 3.6%. Expectations in our meetings were generally concentrated in a 3.5-4.0% range.

Headline inflation likely to remain sticky in the near-term

The slowdown in domestic demand is already visible across several indicators. Credit-card expenditure is weak, retail sales have lost momentum and services production is subdued. These developments should keep the underlying trend in both services and core-goods inflation relatively contained.

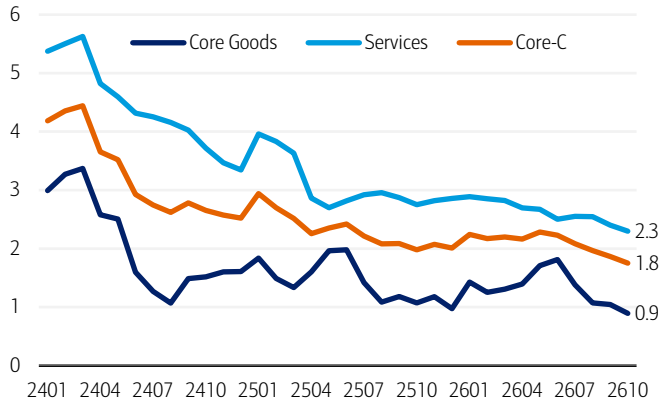
Exhibit 18: Despite the surprise to headline in October, underlying trend remained at 23-24%
Headline inflation (yoy%) and core inflation trend (3M average SAAR)



Source: Haver, BofA Global Research

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Exhibit 19: Notable decline in underlying services trend in recent months
Seasonally adjusted monthly inflation rates (%, 3M average)



Source: Haver, BofA Global Research

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However, headline inflation remains exposed to food and energy-price pressures. Following the higher-than-expected October print, monthly inflation in November and December is likely to be slightly above the corresponding rates recorded last year (which were 0.87% and 0.89%, respectively). Unprocessed food (mainly vegetables) and fuel prices represent the main additional upside risks in the remaining months of the year.

We expect inflation to end the year at 30%. Weaker demand should keep underlying services and core-goods inflation contained, but food, fuel and new-year wage and administered-price adjustments leave the near-term outlook less benign than the underlying trend suggests. These factors will determine the scope for further rate cuts in early 2027.

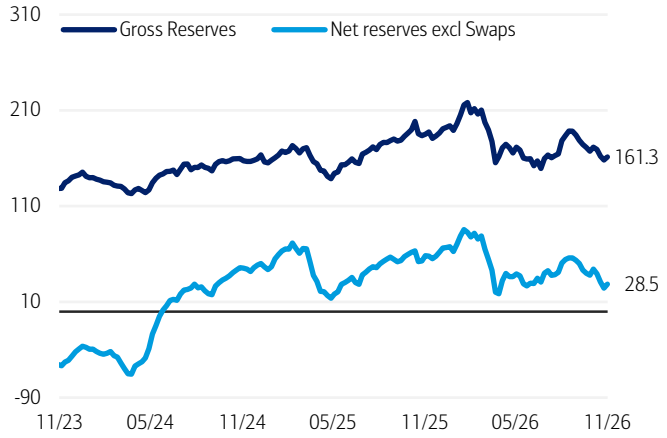
Navigating tradeoffs through rates, FX and macropru

A December rate cut is possible, but January is a higher hurdle

The underlying inflation trend has declined from rates in the low 30s during the first half of the year to around the mid-20s. Relative to the 36% policy rate, this points to some room for rate cuts while keeping real rates relatively high.

The CBRT was a net FX seller from September, with cumulative sales reaching USD22bn by end-October before declining to USD19bn by 6 November. Retail FX demand remained contained, suggesting that foreign-position unwinding accounted for most of the pressure. Our proxy for short-term carry positioning (includes local corps swaps) has fallen from USD64bn in August to around USD50bn.

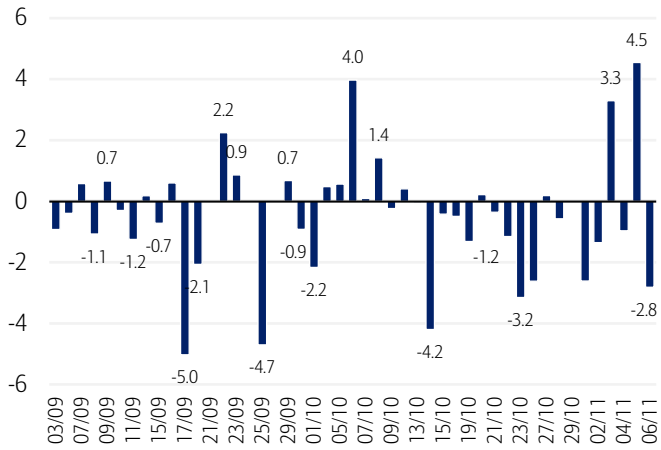
Exhibit 20: Reserves reflect volatility related to gold prices and foreign positioning
Gross and net reserves excluding swaps (USDbn)



Source: Haver, BofA Global Research

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Exhibit 21: Persistent net FX sales since 13 October followed by some net FX purchases in November
Daily Change in CBRT's Net FX Position (excl. swaps and gold price effects, USDbn)



Source: Haver, BofA Global Research

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Barring any escalation in geopolitical risks or renewed pressure on reserves, we expect a 100bp cut on 10 December.

A January cut faces a higher hurdle because of new-year wage and administered-price adjustments. We remove it from our rates profile but retain 400bp of easing from April, taking the policy rate to 31% by end-2027 against our 25% inflation forecast. A January cut could remain possible if the minimum-wage increase is around 25% and oil prices decline sustainably. Participants' expectations were concentrated at 25-32% for the minimum-wage increase, 23-28% for end-2027 inflation and 28-32% for the end-2027 policy rate.

We do not expect a further increase in the pace of depreciation in the near-term

As we wrote before (see Türkiye: FX policy dominates the debate, in our GEMs Viewpoint: Buy in Bangkok – but don't spend it all, 18 October 2026) the recent increase in the weekly adjustment to 2,100 pips from 1,800 implies a monthly pace of USD/TRY change of 1.8% (21-22% annualized on simple basis) similar to the pace prevailing right after the Iran War.

FX stability remains a key anchor of disinflation and residents' preference for TRY assets, but the CBRT appears to be balancing these objectives against a preference to limit further real appreciation before it begins to weigh on the current account. The 12-month trailing current account deficit rose to USD42bn (2.4% of GDP) in September, from USD30bn (1.9%) at end-2025, albeit with a smaller response to higher oil prices than historical sensitivities would suggest. We expect a USD44bn deficit (2.4% of GDP) for the full year, with financing remaining manageable.

We do not expect a further increase in the pace of currency depreciation without a significant exogenous shock, such as a sustained rise in international energy prices. If monthly inflation declines, the depreciation pace could also moderate gradually.

Nor do we expect a shift towards a more flexible FX framework in the foreseeable future. Inflation would likely need to fall to the low teens before the authorities consider easing FX surrender requirements or swap restrictions. Until then, we expect only incremental technical adjustments to these measures.

Signs of dollarisation could constrain further rate cuts

Recent changes to the qualified-investor definition raised the minimum financial-asset threshold from TRY10mn to TRY50mn, roughly USD1mn, making access to qualified-investor products more restrictive. As FX-linked investment through mutual funds becomes less accessible, deposit composition and demand for FX-indexed domestic debt should provide clearer signals of resident FX demand.

Retail dollarization has remained limited so far, with USD1.5bn cumulative increase in retail FX deposits since September versus USD4.7bn cumulative increase in corporate FX deposits. The net return advantage of lira over FX deposits narrowed to around 60bp per month, or about 7pp annualised, by end-October. At current withholding-tax rates and the prevailing depreciation pace, and assuming full interest-rate pass-through, a further 200bp and 400bp of rate cuts would reduce this advantage to around 42bp and 28bp per month, respectively. However, the return differential could remain positive for longer if rate cuts are accompanied by lower inflation and a slower depreciation pace.

Any early sign of renewed retail dollarisation could prompt the CBRT to pause rate cuts. A reduction in withholding tax on lira deposits would be another option, subject to agreement with the Treasury. Slowing the depreciation pace could also support lira returns, but without a corresponding decline in monthly inflation it would generate additional real appreciation, which the CBRT currently appears keen to limit.

The withholding-tax rate on lira deposits with maturities of up to six months is 17.5%, compared with 25% on FX deposits. A reduction to 15% or 10% would restore earlier rates. We calculate that withholding-tax revenue totalled TRY367bn on a trailing 12-month basis, equivalent to 0.5% of GDP and 2.7% of tax revenue. A cut would therefore carry a fiscal cost as softer demand weighs on import-related and other indirect taxes.

The policy mix is likely to become more accomodative as elections approach

Fiscal performance remains broadly on track, with the 2026 deficit likely around 3.2% of GDP and the domestic debt rollover ratio near 92%. The MTP targets a 3.5% deficit in 2027, but risks are tilted higher if planned spending proceeds while growth falls short of the official 4.2% forecast.

Weaker sentiment, slowing domestic demand and potential labour-market spillovers could bring additional fiscal support. The planned increase in current transfers is likely to include higher transfers to the social-security system and the budgetary cost of pension increases under discussion in Parliament.

With the consensus on election timing still pointing to spring 2028, we expect the election-related fiscal impulse to become more visible from 2H27, although some measures could be brought forward if sentiment and activity weaken further. Our base case remains a minimum-wage increase at or below 27%, with risks to the upside. We expect credit support to remain selective and targeted, while the policy rate is maintained around 5-6pp above prevailing inflation to balance support for activity against inflation and reserve risks..

Post-election FX policy will depend on the build-up of pressures

The post-election FX framework will depend on the size of the pre-election stimulus, the spot FX demand by residents and the resulting pressure on reserves. Relatively high real rates, selective credit easing and instruments that absorb residents' spot FX demand could help contain reserve pressures to some extent.

"Made in Europe" as a potential medium-term headwind

A recurring theme among business representatives, particularly in the automotive sector, was the proposed "Made in EU" framework. The main concern is not access to the EU market, but eligibility for preferential treatment in public procurement and industrial-support schemes. Turkish products could remain available in the EU but face less favourable terms in public procurement and subsidised fleet purchases, raising their effective cost and putting pressure on margins.

Türkiye's customs union and integration into European supply chains provide a basis for equivalent treatment. However, our discussions suggested limited momentum towards explicit inclusion or customs-union modernisation. The European Commission's Türkiye Report also points to limited progress on customs-union alignment and continuing gaps in public procurement. Türkiye's reciprocity provision is a constructive step, although the Commission considers its coverage limited.

The final outcome remains uncertain. A delayed agreement could weigh on margins, future orders and investment decisions without necessarily causing an immediate loss of exports. Automotive appears among the most exposed sectors: Türkiye exported USD41.5bn of automotive products in 2025, of which USD30.1bn, or 72.5%, went to the EU. Steel and other upstream industries could also be affected, while the impact on white goods appears more indirect under the framework's current scope.

Latin America

Carlos Capistran
BofAS

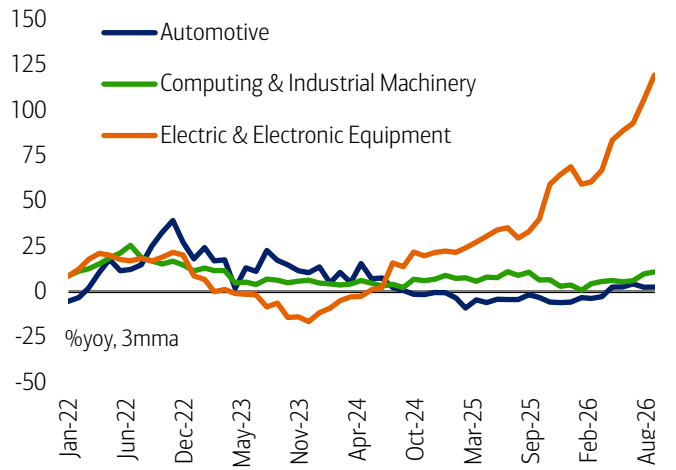
Mexico – Exports are booming, investment is recovering

Complete report: ***Emerging Insight: Postcard from Mexico: Exports and investment lift growth and sentiment 10 November 2026***

Exports are booming on the back of the AI build-out

Mexican exports were up about 30% in dollar terms in January-September. Most of that growth is in goods tied to the AI build-out in the US, and most of these goods enter the US tariff-free (Exhibit 22 and Exhibit 23). Mexico is now the top non-Asian exporter of electronics to the US. Panelists said the opportunity goes beyond servers to cooling systems, enclosures and electrical machinery (Exhibit 24). Imports are also up about 28%, however, which shows that Mexico is adding relatively little domestic value. Integrating vertically and replacing imported inputs with local ones is the next opportunity according to panelist. The current account deficit is below 1% of GDP and fully financed by FDI, and it could turn into a surplus, which continues to be a factor supporting the peso.

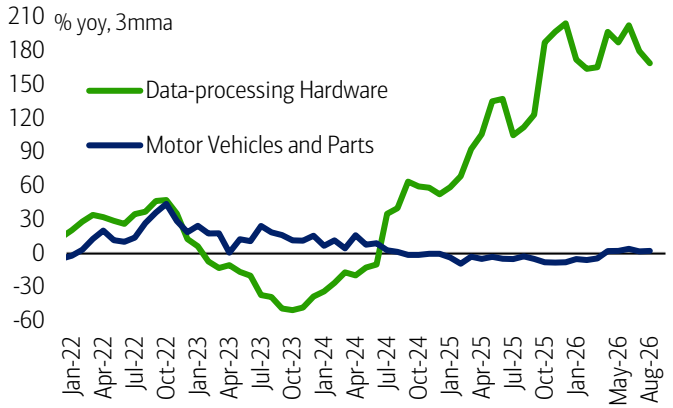
Exhibit 22: Electric & electronic equipment exports are booming
Exports (% yoy, 3mma) (2022-2026)



Source: BofA Global Research, Haver, Banxico

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Exhibit 23: Data-processing hardware exports are booming while auto exports have stalled
Mexican Exports (% yoy, 3mma) (2022-2026)



Source: BofA Global Research, Banxico
Note: Data- processing hardware Includes computers, servers, storage units, processors, and other equipment used for data processing, excluding cellphones (8471); motor vehicles and parts include passenger vehicles, trucks, buses, and related components (87 excluding 8712).

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Investment is recovering, and public spending is set to accelerate

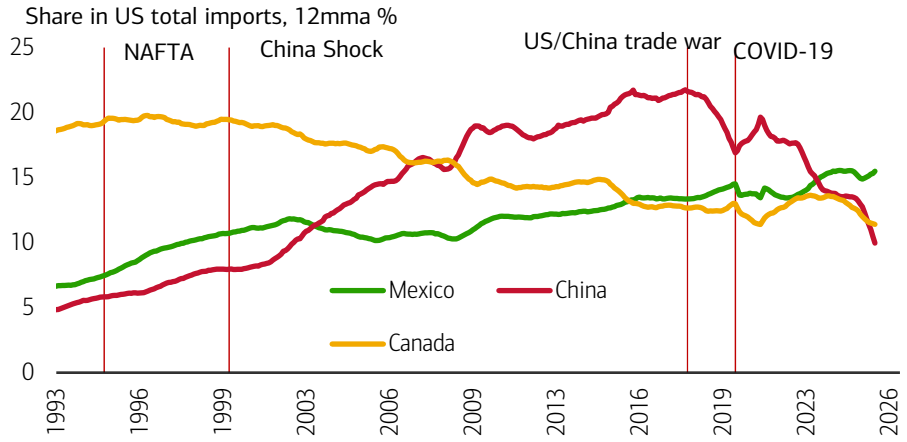
Investment is accelerating from very low levels, led by construction by both the private sector and the government. We expect government construction to pick up in December and in 1H27, ahead of the mid-2027 midterm elections. The Finance Ministry (Hacienda) expects infrastructure spending to accelerate from 1Q27. Under Plan Mexico, about MXN$5.6tn (about 14% of GDP) in projects have been published, are under way or in construction, and already MXN$1tn (2.5% of GDP) in public investment is budgeted for next year. Permit requirements have been cut by up to 67% and processing times by about 50%. About 7GW of generation capacity has been tendered, with roughly 6GW more coming. The key question now is which investment structures can attract private capital while keeping projects viable.

Power availability is the binding constraint

Panelists flagged electricity availability as a major constraint on industrial investment. For prospective tenants, access to power can matter more than rental costs. Mexico's

reliance on US natural gas also raises energy-security questions. Expanding the grid will require private capital and long-term financing, but the transmission tariff framework needed to support that investment is still being developed.

Exhibit 24: Mexico consolidated as the US largest trade partner this year
Mexico, China & Canada exports to US (% of US imports)



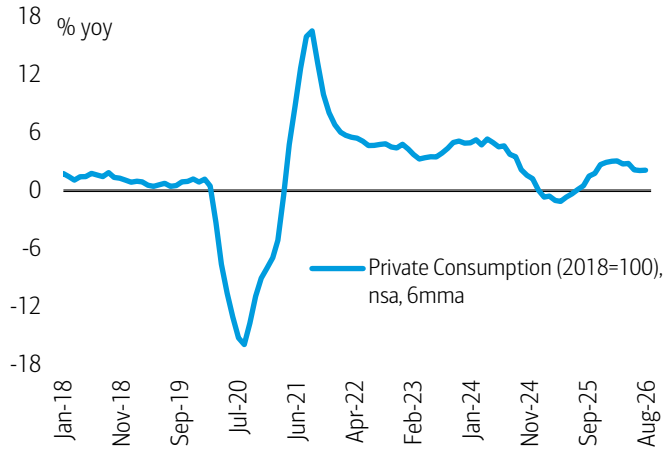
Source: BofA Global Research, US Census

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We see upside risks to growth, but consumption is lagging

Because of stronger exports and investment, we recently raised our GDP growth forecasts to 1.8% for 2026 and 2.0% for 2027 (see report), and we see upside risks to both years. Consumption is the missing piece: it is not improving, even though some of its drivers are rising (see report on Mexico's consumption) (Exhibit 25). The finance minister was more upbeat. He pointed to strong employment and wages, stable consumption and moderating food and services inflation.

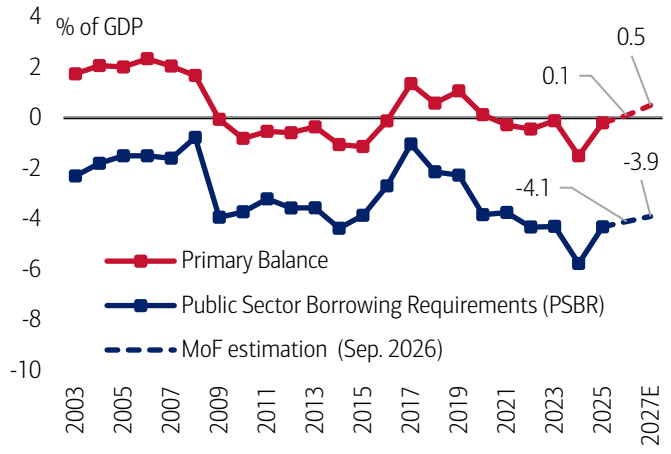
Exhibit 25: Private consumption is struggling to gain momentum
Private consumption growth rate, % yoy, 2018-2026



Source: BofA Global Research, INEGI

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Exhibit 26: The MoF penciled in a primary balance in 2026 and 2027
Primary balance and PSBRs (% of GDP) (2003-2027E)



Source: BofA Global Research, Ministry of Finance (MoF), Haver

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USMCA is in limbo, while a bilateral deal moves forward

The USMCA was not extended, and Mexico, the US and Canada are now in mandatory annual reviews. On the negative side, there is no trade certainty: tariffs can change at any time, and the agreement's investment protection could end in 10 years if it is not extended. On the positive side, Mexico has a channel for staying engaged with the US that other countries lack. We do not expect an extension anytime soon. In parallel,

Mexico and the US are working on a bilateral deal that could be announced in the next few weeks. It could lower tariffs on Mexican autos, steel and aluminum in exchange for higher US content, more Mexican purchases from the US and restrictions on Asian investment and imports. Panelists see little chance of Section 232 tariffs returning to zero, though they could be lowered. They also argued that clear, enforceable rules are needed to unlock private investment more broadly. Mexico's average tariff on its exports has fallen to 3.1%, compared with 4.2% for Canada and much higher for other US trade partners.

Fiscal consolidation continues, but deficit is still above 4%

Mexico continues to consolidate its public finances. However, the deficit is still around 4%, well above the 3% or below that the government promised when it raised the deficit to almost 6% in 2024 (Exhibit 26). Meanwhile, outstanding liabilities not counted in the deficit keep piling up. The government is not raising nominal tax rates. Instead, it is trying to lift the effective tax rate by limiting deductions. On Pemex, debt-management operations led to its first credit rating upgrade in 12 years, which should reduce the need for budget support, although the company is still struggling with refining.

Banxico's cut was a one-off in our base case

Banxico surprised consensus, and us, by cutting 25bp to 6.25%. We had flagged a cut as a risk. Since the previous meeting, however, inflation had risen, the peso had weakened significantly and growth had accelerated. Banxico described the cut as a one-time adjustment, and that is our baseline: we expect the rate to stay at 6.25% for the rest of the year and through at least 1H27. The near-term risk is another cut in 1H27, ahead of the mid-term elections. After that, we see the risk tilting toward hikes, as we expect inflation to rise next year with stronger activity and a weaker peso.

Investors are more constructive, but IG remains a concern

Investors seem more constructive on Mexico now that growth is picking up, and they like the story of exports to the US and recovering investment. Like us, they are also positive on US-Mexico relations, especially after the US midterms gave border states more influence over federal policy. However, investors remain concerned that Mexico is on a path to losing investment grade in two to three years. Some locals think this can be avoided because the president seems committed to keeping IG. On Banxico, many investors think that the cut was not aimed at the 3% inflation target. The debate was over the real motivation: a weaker peso to support growth, lower financing costs for the government, or both.

Key forecasts

Exhibit 27: Economic forecasts
GDP growth, inflation and policy rate forecasts for the major economies

	2Q26	3Q26	4Q26	1Q27	2Q27	3Q27	4Q27	2025	2026F	2027F	2028F
Global and Regional Aggregates, %											
United States											
Real GDP growth [1]	2.2	3.4	2.3	2.2	2.2	2.1	2.0	2.3	2.4	2.3	1.9
CPI inflation	3.8	3.5	3.6	2.8	2.6	2.0	2.5	2.7	3.4	2.5	2.2
Policy Rate (EoP)	3.625	3.875	4.125	4.625	4.625	4.625	4.625	3.625	4.125	4.625	4.625
Euro area											
Real GDP growth [1]	2.6	0.8	0.7	0.8	1.0	1.2	1.2	1.3	1.0	1.0	1.1
CPI inflation	3.0	3.3	3.5	3.5	2.8	2.1	1.5	2.1	3.0	2.5	1.8
Policy Rate (EoP)	2.25	2.50	2.75	2.75	2.75	2.50	2.25	2.00	2.75	2.25	1.50
China											
Real GDP growth [2]	4.5	4.3	4.3	4.1	4.2	4.2	4.1	5.0	4.5	4.2	4.0
CPI inflation [3]	1.1	0.5	0.6	0.6	0.2	0.9	0.4	0.0	0.8	0.5	0.0
Policy Rate (EoP)	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40
Japan											
Real GDP growth [1]	1.4	0.1	0.3	1.1	1.2	0.7	0.6	1.2	0.8	0.8	0.7
CPI inflation	1.5	2.0	2.6	3.3	1.6	1.4	0.6	3.2	1.9	1.7	1.7
Policy Rate (EoP)	1.00	1.25	1.50	1.75	1.75	2.00	2.00	0.75	1.50	2.00	2.00
Global Aggregate [4]											
Real GDP growth								3.5	3.4	3.4	3.3
CPI inflation								2.5	3.1	2.7	2.2
Policy Rate (EoP)								3.74	4.00	3.93	3.57
Emerging Markets Aggregate [4]											
Real GDP growth								4.7	4.5	4.6	4.5
Real GDP growth (ex-China)								4.6	4.5	4.8	4.7
CPI inflation								2.6	3.0	2.4	2.0
Policy Rate (EoP)								4.42	4.45	4.31	3.91

Notes: 1. Quarterly values are % q/q annualized | 2. Quarterly values are % y/y. | 3. Quarterly values are period averages. | 4. Due to reporting limitations, Global and EM aggregate are annual only.
Source: BofA Global Research estimates

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Exhibit 28: Markets forecasts
Forecasts for FX, interest rates, commodities and equities

	spot	4Q26	1Q27	2Q27	3Q27	4Q27	4Q28
Exchange Rates (EoP)							
EUR/USD	1.10	1.15	1.17	1.19	1.20	1.20	1.22
USD/JPY	160	152.00	149.00	148.00	146.00	145.00	145.00
USD/CNY	6.67	6.60	6.60	6.50	6.50	6.50	6.50
GBP/USD	1.32	1.37	1.39	1.42	1.45	1.45	1.47
Interest rates (% EoP)							
US 10yr	5.10	5.00	4.95	4.90	4.85	4.75	4.75
Germany 10-year	3.35	3.40	3.25	3.10	2.90	2.80	2.50
Japan 10yr	2.81	3.00	3.10	3.10	3.15	3.05	2.95
Commodities [1]							
Oil - WTI ($/bbl)	87.6	96.0	84.0	75.0	70.0	67.0	NA
Oil - Brent ($/bbl)	94.5	100.0	89.0	81.0	77.0	74.0	NA
Gold ($/oz)	3878	4000	4750	5000	5000	4500	4000
Equities (EoP)							
S&P 500	7633					7100	
Stoxx 600	664	530				565	

Source: BofA Global Research estimates

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Detailed forecasts

Global economic forecasts

Exhibit 29: Global Economic Forecasts
Global GDP growth expected at 3.4% in 2026, 3.4% in 2027 and 3.3% in 2028

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2025	2026F	2027F	2028F	2025	2026F	2027F	2028F	Current	2026F	2027F	2028F
Global and regional aggregates												
Global	3.5	3.4	3.4	3.3	2.5	3.1	2.7	2.2	3.88	4.00	3.93	3.57
Global ex US	3.8	3.6	3.6	3.6	2.4	3.0	2.7	2.2	3.88	3.98	3.84	3.41
Global ex China	3.1	3.0	3.2	3.1	3.2	3.8	3.4	2.9	4.61	4.78	4.69	4.23
Developed Markets	1.8	1.6	1.6	1.5	2.6	3.0	2.4	2.0	3.08	3.29	3.30	3.00
Emerging Markets	4.7	4.5	4.6	4.5	2.4	3.1	2.9	2.4	4.40	4.45	4.31	3.91
Emerging Markets ex China	4.6	4.5	4.8	4.7	4.0	4.7	4.4	3.9	6.24	6.32	6.10	5.45
Europe, Middle East and Africa (EMEA)	2.1	1.5	2.1	2.1	4.6	4.2	3.5	2.9	4.71	4.84	4.31	3.60
European Union	1.5	1.2	1.3	1.4	2.5	3.0	2.5	1.9	2.79	3.01	2.56	1.86
Emerging EMEA	3.5	2.2	3.9	3.5	9.7	7.2	5.9	5.2	8.24	8.18	7.29	6.50
Emerging Asia	5.4	5.5	5.1	5.0	0.9	2.1	2.1	1.7	2.86	2.95	3.12	3.06
ASEAN	5.0	5.2	5.2	5.3	1.6	3.3	3.4	2.8	4.04	4.08	4.18	3.72
Latin America	2.4	2.0	2.1	2.4	3.7	4.8	4.3	3.7	8.20	8.26	7.49	5.66
G6												
US	2.3	2.4	2.3	1.9	2.7	3.4	2.5	2.2	3.875	4.125	4.625	4.625
Euro area	1.3	1.0	1.0	1.1	2.1	3.0	2.5	1.8	2.50	2.75	2.25	1.50
Japan	1.2	0.8	0.8	0.7	3.2	1.9	1.7	1.7	1.25	1.50	2.00	2.00
UK	1.3	1.3	1.0	1.4	3.4	3.2	3.2	2.0	4.00	4.00	4.25	3.50
Canada	1.9	1.0	1.6	2.0	2.1	2.8	2.1	2.0	2.50	2.50	2.75	2.75
Australia	2.0	2.0	1.2	2.0	2.9	4.1	3.0	2.5	4.85	4.85	4.35	3.60
Euro area												
Germany	0.3	1.0	1.0	0.9	2.3	2.6	1.9	1.8	2.50	2.75	2.25	1.50
France	0.9	0.3	0.6	1.1	0.9	2.3	1.5	1.5	2.50	2.75	2.25	1.50
Italy	0.7	0.8	0.6	0.8	1.6	2.8	1.7	1.6	2.50	2.75	2.25	1.50
Spain	2.8	2.6	1.6	1.4	2.7	3.5	1.6	1.8	2.50	2.75	2.25	1.50
Netherlands	1.6	1.3	1.2	1.3	3.0	2.8	2.2	1.8	2.50	2.75	2.25	1.50
Belgium	1.0	0.6	1.0	1.0	3.0	3.6	2.1	1.5	2.50	2.75	2.25	1.50
Austria	1.0	0.8	1.2	1.5	3.6	3.1	2.2	2.0	2.50	2.75	2.25	1.50
Greece	2.2	1.8	1.7	1.7	2.9	3.6	2.3	2.1	2.50	2.75	2.25	1.50
Portugal	1.9	2.1	1.6	1.8	2.2	3.0	2.0	1.8	2.50	2.75	2.25	1.50
Ireland	8.1	-6.1	4.7	2.6	2.1	3.2	1.8	1.7	2.50	2.75	2.25	1.50
Finland	0.8	1.2	1.0	1.3	1.8	2.5	1.7	1.7	2.50	2.75	2.25	1.50
Other developed economies												
New Zealand	0.2	1.5	2.1	2.5	2.8	3.6	2.4	2.0	2.75	3.00	3.00	3.00
Switzerland	1.4	1.0	1.4	1.6	0.2	0.5	0.7	0.7	0.0	0.00	0.00	0.00
Norway	1.7	0.8	0.9	1.3	3.0	3.3	2.4	2.1	4.50	4.50	4.00	3.75
Sweden	1.6	2.6	2.2	1.9	2.6	-0.4			2.00	2.00	2.25	2.00
Emerging Asia												
China	5.0	4.5	4.2	4.0	0.0	0.8	0.5	0.0	1.40	1.40	1.40	1.40
India	7.3	7.7	7.5	7.7	2.1	4.4	4.9	4.6	5.50	5.75	6.25	6.25
Indonesia	5.1	5.4	5.6	5.7	1.9	3.3	4.0	3.3	5.75	5.75	6.00	5.00
Korea	1.0	3.6	2.5	2.1	2.1	2.6	2.2	2.0	3.00	3.25	3.50	3.50
Taiwan	8.8	12.0	7.0	5.0	1.7	2.0	1.7	1.8	2.00	2.25	2.38	2.38
Thailand	2.4	2.5	2.7	2.4	-0.1	1.8	0.5	0.8	1.00	1.00	1.00	1.25
Malaysia	5.2	5.3	4.7	4.6	1.4	1.8	2.0	2.2	2.75	2.75	2.75	2.75
Philippines	4.4	2.5	3.5	4.5	1.7	6.0	5.2	3.5	5.50	5.75	5.50	4.50
Singapore	5.0	5.5	3.4	2.6	0.9	2.0	2.2	1.7				
Hong Kong	3.5	4.0	3.5	2.6	1.4	2.0	2.2	2.0	4.25	4.75	4.75	4.75
Vietnam	8.0	9.1	9.0	9.0	3.3	4.8	4.5	4.0	4.50	4.50	4.50	4.50

Source: BofA Global Research estimates

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Exhibit 30: Global Economic Forecasts (continued)

Global GDP growth expected at 3.4% in 2026, 3.4% in 2027 and 3.3% in 2028

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2025	2026F	2027F	2028F	2025	2026F	2027F	2028F	Current	2026F	2027F	2028F
Latin America												
Brazil	2.3	1.8	0.9	1.7	4.3	5.5	5.2	3.9	13.75	13.75	11.75	11.75
Mexico	0.7	1.8	2.0	1.4	3.7	3.5	3.7	4.2	6.25	6.25	6.25	
Argentina	4.5	1.4	3.1	3.5	31.5	30.3	18.9	12.0				
Colombia	2.6	2.5	2.6	3.0	5.1	7.2	4.9	3.7	12.25	13.00	12.00	9.00
Chile	2.5	0.4	3.0	3.0	3.4	4.9	3.3	3.0	4.50	4.50	5.00	5.00
Peru	3.4	3.5	4.0	4.5	1.5	4.7	3.2	2.0	4.25	4.50	4.75	4.25
Ecuador	3.7	2.0	1.9	3.0	1.9	2.4	2.3	2.0		0.00	0.00	0.00
Uruguay	1.8	1.2	2.0	2.5	3.7	4.5	4.5	4.6	6.00	6.00	7.00	7.00
Costa Rica	4.6	3.7	4.0	3.8	-1.2	1.0	3.0	3.0	3.00	2.75	2.75	2.75
Dominican Republic	2.1	4.0	3.9	3.5	5.0	5.0	4.8	4.0	5.50	5.75	5.75	5.00
Panama	4.4	4.7	5.0	4.5	0.4	2.8	2.3	2.0				
El Salvador	3.9	4.0	3.2	3.2	0.9	3.1	2.0	1.7				
Guatemala	4.3	3.9	3.7	3.8	1.7	2.9	2.7	2.8	3.50	3.50	3.50	3.50
EEMEA												
Türkiye	3.7	2.6	4.1	3.3	34.9	30.9	26.2	30.0	36.00	35.00	31.00	34.00
Nigeria	4.0	4.1	4.3	4.0	23.0	16.0	13.0	10.0	23.00	23.00	20.00	15.00
Egypt	4.4	4.4	4.5	4.5	20.4	13.2	10.0	10.0	20.50	19.00	16.00	16.00
Poland	3.7	3.2	2.7	2.5	3.6	3.0	2.8	2.5	3.75	4.00	3.75	3.25
South Africa	0.9	1.1	1.4	1.6	3.2	4.3	4.4	4.2	7.25	7.25	7.00	6.50
Romania	0.6	0.0	2.5	2.5	7.3	8.5	4.4	3.5	6.50	6.50	5.75	5.25
Czech Republic	2.6	2.0	2.4	2.2	2.5	2.1	2.9	2.5	4.00	4.00	4.25	3.75
Israel	3.5	4.5	4.8	4.0	3.0	1.8	2.1	2.0	3.25	3.25	3.25	3.25
Hungary	0.4	1.9	2.8	2.5	4.4	1.7	2.7	2.5	5.50	5.25	4.50	4.00
Saudi Arabia	4.6	-2.0	5.9	4.5	2.0	2.4	2.0	2.0	4.50	5.00	5.00	5.00

Source: BofA Global Research estimates

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Exhibit 31: Real GDP growth, qoq annualized %

Global GDP growth expected at 3.4% in 2026, 3.4% in 2027 and 3.3% in 2028

	2Q 26	3Q 26	4Q 26	1Q 27	2Q 27	3Q 27	4Q 27	2025	2026	2027	2028
Developed Markets											
US	2.2	3.4	2.3	2.2	2.2	2.1	2.0	2.3	2.4	2.3	1.9
Euro area	2.6	0.8	0.7	0.8	1.0	1.2	1.2	1.3	1.0	1.0	1.1
Japan	1.4	0.1	0.3	1.1	1.2	0.7	0.6	1.2	0.8	0.8	0.7
UK	1.7	1.4	0.6	0.8	1.0	1.2	1.2	1.3	1.3	1.0	1.4
Canada	3.3	2.1	1.3	1.6	1.4	1.2	1.3	1.9	1.0	1.6	2.0
Australia	1.7	1.2	1.2	0.8	1.2	1.6	1.6	2.0	2.0	1.2	2.0
G6 Aggregate	2.2	2.0	1.4	1.5	1.6	1.5	1.5	1.8	1.6	1.6	1.5
Emerging Markets											
China	3.6	3.9	4.4	4.6	4.0	3.8	4.1	5.0	4.5	4.2	4.0
India	6.8	7.2	6.6	9.5	8.3	5.9	4.8	7.3	7.7	7.5	7.7
Indonesia	4.4	5.2	5.9	6.6	4.9	5.1	5.7	5.1	5.4	5.6	5.7
South Korea	2.5	2.8	2.6	2.4	2.3	2.4	2.4	1.0	3.6	2.5	2.1
Thailand	-0.7	2.9	5.4	2.5	0.7	2.3	5.5	2.4	2.5	2.7	2.4
Singapore	2.0	-1.6	-1.6	5.7	3.2	3.2	3.2	5.0	5.5	3.4	2.6
Hong Kong	-2.5	-3.6	6.1	12.5	2.3	-2.2	-2.3	3.5	4.0	3.5	2.6
Brazil	1.9	0.6	1.3	0.9	1.7	1.2	2.3	2.3	1.8	0.9	1.7
Mexico	5.8	3.6	0.0	1.4	2.6	2.0	0.8	0.7	1.8	2.0	1.4
Colombia	5.2	1.6	0.0	3.2	3.6	2.8	2.8	2.6	2.5	2.6	3.0
Chile	4.2	3.6	3.6	2.4	2.4	2.4	2.4	2.5	0.4	3.0	3.0
Peru	-0.4	10.4	4.9	0.0	5.3	4.5	4.5	3.4	3.5	4.0	4.5
Türkiye	4.6	6.7	6.4	3.2	3.4	3.6	2.9	3.7	2.6	4.1	3.3
South Africa	1.2	1.2	1.4	1.9	1.7	2.0	1.8	0.9	1.1	1.4	1.6

Source: BofA Global Research estimates Research

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Monetary policy forecasts

Exhibit 32: Monetary policy forecasts
End of period

Central Banks	Current	Nov-26	Dec-26	Jan-27	Feb-27	Mar-27	Apr-27	May-27	Jun-27	Jul-27	Aug-27	Sep-27
Developed Markets												
Fed (upper bound)	4.00	4.00	4.25	4.50	4.50	4.75	4.75	4.75	4.75	4.75	4.75	4.75
ECB (deposit rate)	2.50	2.50	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.50
BoJ	1.25	1.25	1.50	1.50	1.50	1.75	1.75	1.75	1.75	2.00	2.00	2.00
BoE	4.00	4.00	4.00	4.00	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
BoC	2.50	2.50	2.50	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75
Riksbank	2.00	2.00	2.00	2.00	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25
SNB	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Norges Bank	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.25
RBA	4.85	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.35	4.35
RBNZ	2.75	2.75	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Emerging Asia												
China 7d reverse repo*	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40
India	5.50	5.50	5.75	5.75	6.00	6.00	6.00	6.00	6.25	6.25	6.25	6.25
Indonesia	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75
South Korea	3.00	3.25	3.25	3.25	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Taiwan	2.00	2.000	2.13	2.13	2.13	2.250	2.250	2.250	2.250	2.250	2.250	2.250
Thailand	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Philippines	5.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Latin America												
Brazil	13.75	13.75	13.75	13.50	13.50	13.25	13.00	13.00	12.75	12.50	12.50	12.25
Chile	4.50	4.50	4.50	4.50	4.50	4.50	4.75	4.75	5.00	5.00	5.00	5.00
Colombia	12.25	12.50	13.00	13.00	13.00	12.75	12.75	12.75	12.50	12.50	12.50	12.25
Mexico	6.25	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Peru	4.25	4.25	4.50	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75
Emerging EMEA												
Czech Republic	4.00	4.00	4.00	4.00	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Hungary	5.50	5.50	5.25	5.25	5.25	5.00	5.00	5.00	4.75	4.75	4.75	4.50
Israel	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Poland	3.75	4.00	4.00	4.00	4.00	4.00	4.00	4.00	3.75	3.50	3.50	3.50
Romania	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.25	6.00	6.00
South Africa	7.25	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.25	7.25	7.25
Türkiye	36.00	36.00	35.00	34.00	34.00	34.00	33.00	33.00	32.00	31.00	31.00	31.00

Source: h BofA Global Research estimates

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FX, rates and commodity forecasts

Exhibit 33: Quarterly forecasts
End of period

	Spot	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Dec-28
FX forecasts							
G6							
EUR-USD	1.10	1.15	1.17	1.19	1.20	1.20	1.22
USD-JPY	160	152	149	148	146	145	145
EUR-JPY	176	175	174	176	175	174	177
GBP-USD	1.32	1.37	1.39	1.42	1.45	1.45	1.47
USD-CAD	1.43	1.40	1.40	1.40	1.38	1.38	1.36
AUD-USD	0.68	0.70	0.70	0.70	0.69	0.68	0.68
Asia							
USD-CNY	6.67	6.60	6.60	6.50	6.50	6.50	6.50
USD-INR	94.0	98.0	98.5	99.0	99.0	99.0	99.0
USD-IDR	18239	18000	18100	18200	18200	18200	18200
USD-KRW	1336	1410	1400	1400	1380	1380	1380
Latin America							
USD-BRL	5.64	5.75	5.80	5.80	5.80	5.80	5.80
USD-MXN	18.62	18.50	18.60	18.70	18.80	19.00	20.00
Emerging Europe							
EUR-PLN	4.40	4.37	4.32	4.28	4.23	4.20	4.10
USD-TRY	50.26	51.70	54.50	57.40	60.00	62.60	75.20
USD-ZAR	16.78	16.40	16.30	16.00	15.80	15.60	15.30
Rates forecasts							
2yr							
US 2-year	4.86	5.00	4.95	4.90	4.85	4.75	4.50
Germany 2-year	3.14	3.20	3.00	2.80	2.55	2.30	1.85
Japan 2-year	1.86	1.95	2.20	2.20	2.35	2.30	2.20
UK 2-year	4.97	4.80	4.95	5.00	4.75	4.50	3.75
Canada 2-year	3.34	3.55	3.65	3.70	3.75	3.80	3.80
10yr							
US 10-year	5.10	5.00	4.95	4.90	4.85	4.75	4.75
Germany 10-year	3.35	3.40	3.25	3.10	2.90	2.80	2.50
Japan 10-year	2.81	3.00	3.10	3.10	3.15	3.05	2.95
UK 10-year	5.30	5.20	5.25	5.25	5.25	5.25	5.25
Canada 10-year	3.78	4.00	4.05	4.05	4.10	4.10	4.20
Commodities forecasts							
WTI Crude Oil - $/bbl	87.6	96.0	84.0	75.0	70.0	67.0	NA
Brent Crude Oil - $/bbl	94.4	100.0	89.0	81.0	77.0	74.0	NA
Gold $/oz	3878	4000	4750	5000	5000	4500	4000

Note: Spot exchange rate as of day of publishing. The left of the currency pair is the denominator of the exchange rate. Currency forecasts are for end of period.
Source: BofA Global Research, Bloomberg.

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