January 22, 2026

Global Economics

Global Outlook: “Goldilocks” Performance, but Risks Linger

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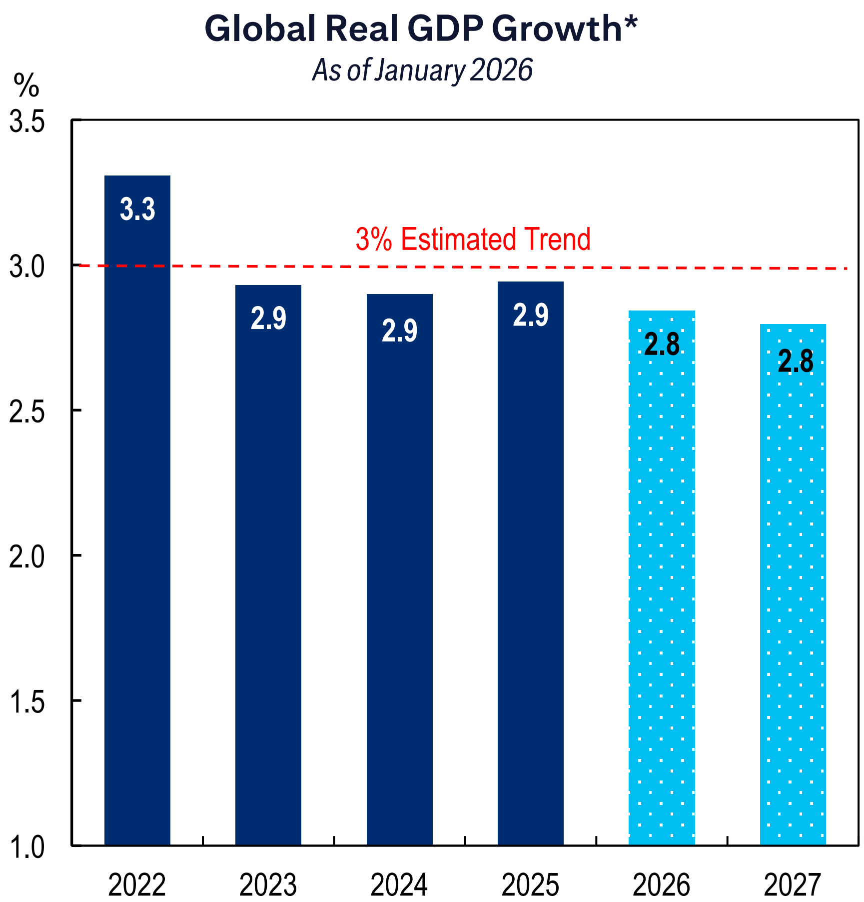
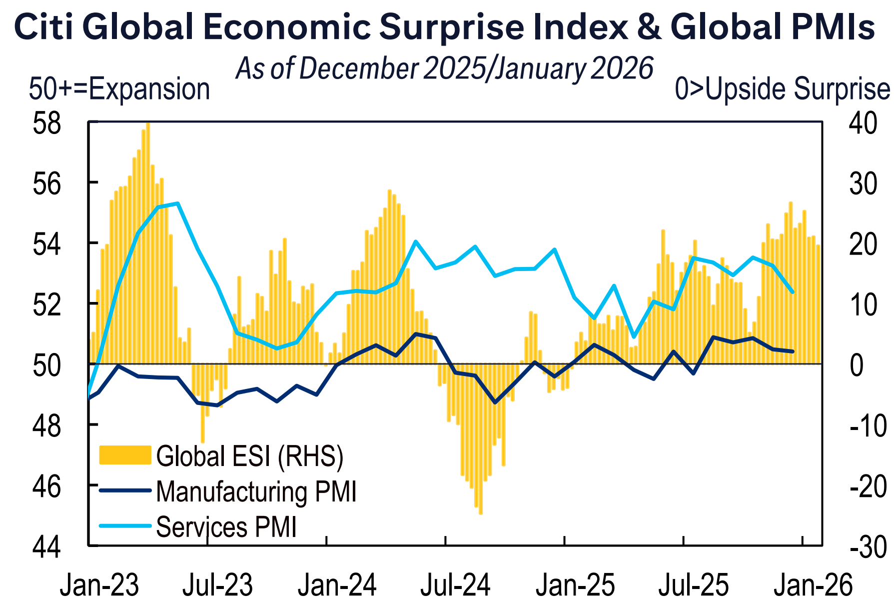
Five Key Themes Shaping the Global Economy

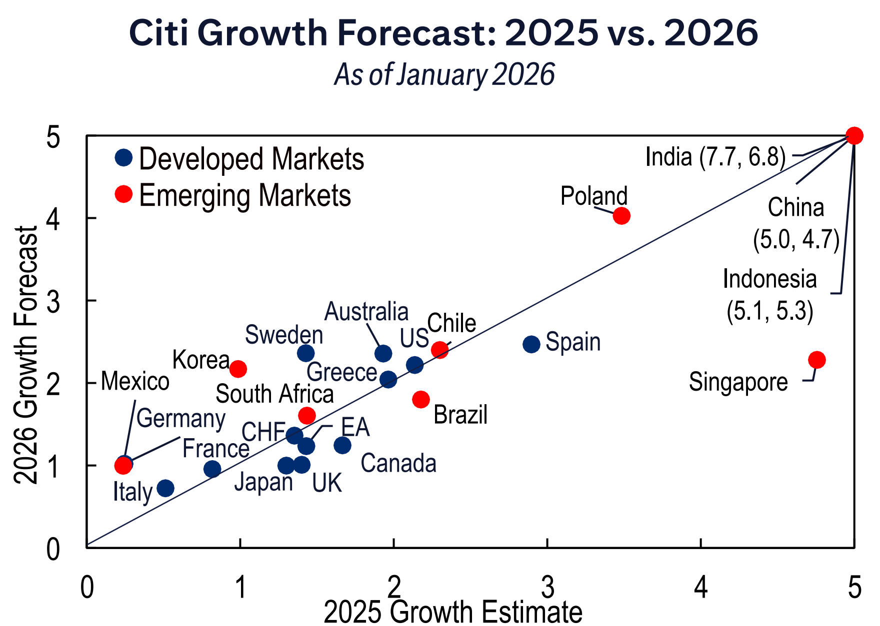
- *Theme 1: Resilient Economic Performance*
- *Theme 2: Tariffs Are Shifting the Contours of US Trade*
- *Theme 3: Diverging US & Global Inflation*
- *Theme 4: Global Monetary Easing*
- *Theme 5: Advances in AI Promise Rising Productivity*

Source: Citi Research

Theme 1: Global Economic Performance Has Shown Continued Resilience





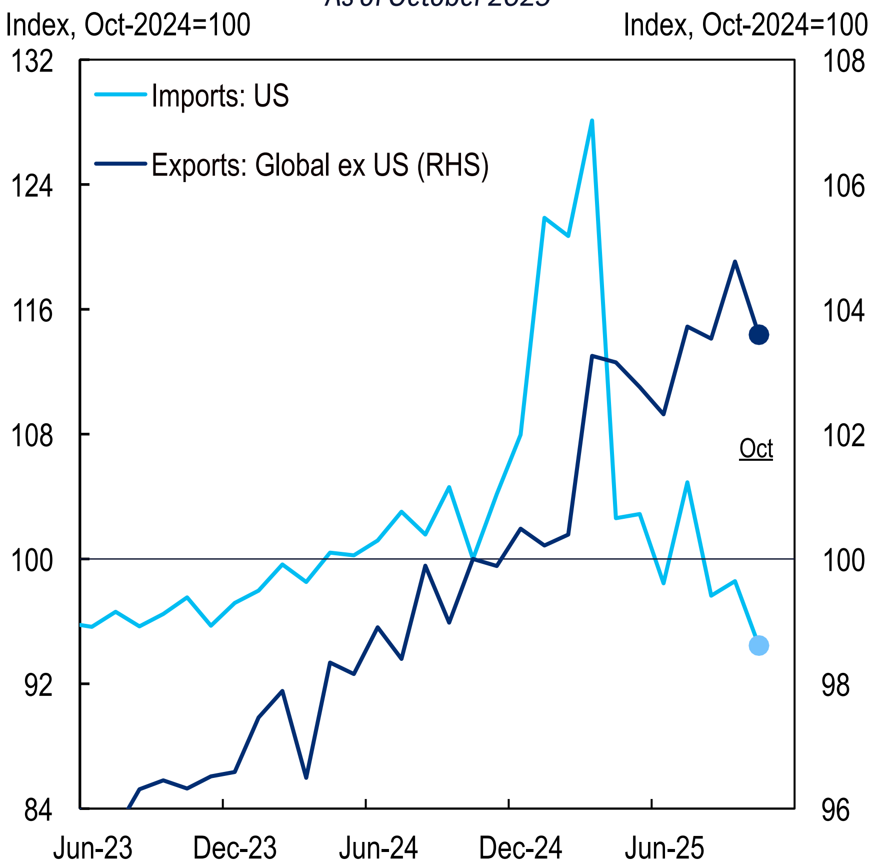


*Cross hatching indicates Citi forecasts.
Source: Citi Research, S&P Global, Haver Analytics

Theme 1: Global Economic Performance Has Shown Continued Resilience

US Imports & Global ex US Exports (Volumes)

As of October 2025



Risks to the Outlook

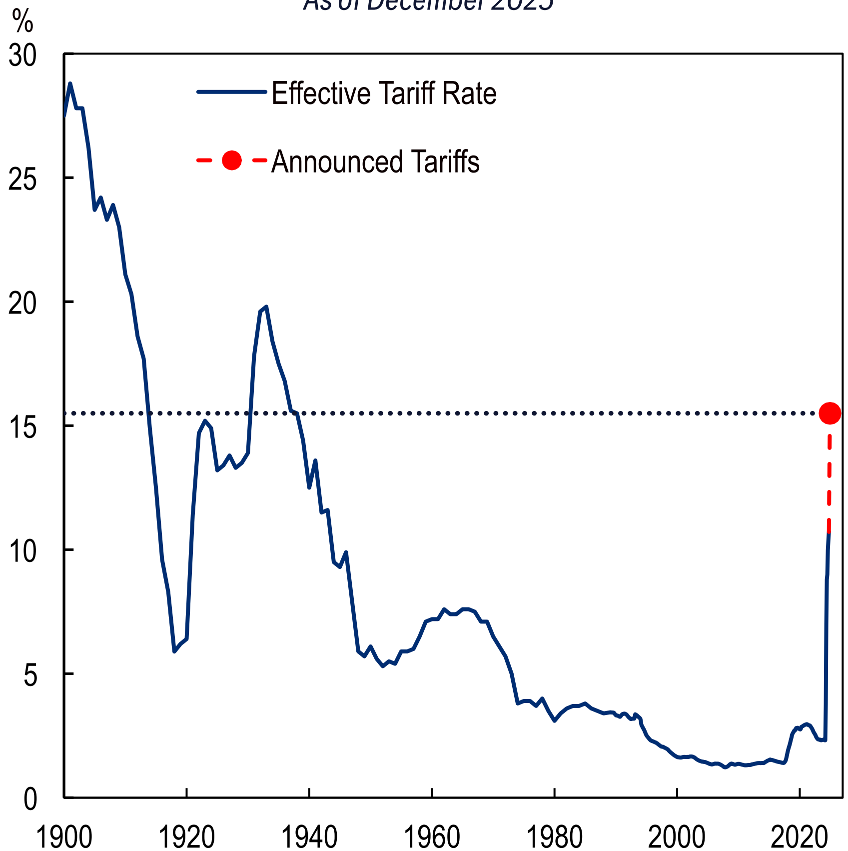
A larger than anticipated bite from tariffs
Retrenchment in AI investment and valuations
Geopolitical stresses (e.g., Middle East, Venezuela, etc.)
A sharp deterioration in the US labor market
High public debt levels in many countries

Source: Citi Research, Census, CPB, National Statistical Sources, Haver

Theme 2: Tariffs Are Shifting the Contours of US Trade

US Effective Tariff Rate on Goods Imports*

As of December 2025



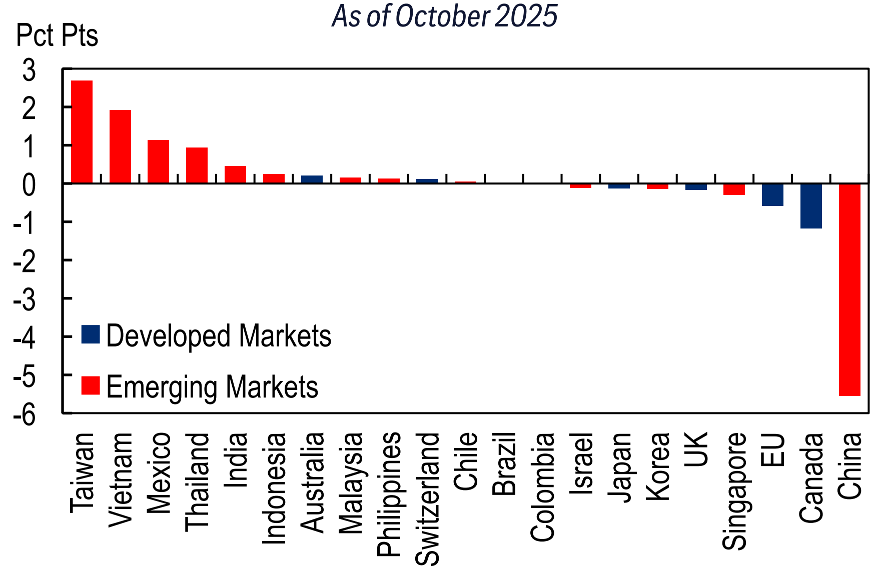
Country-Specific Tariff Rates**

As of December 2025

	Tariff Rate	Exports to US (2024)	
	%	$Bn	% of GDP
United Kingdom	10	68	1.9
European Union	15	606	3.1
Japan	15	148	3.7
Korea	15	132	7.0
Vietnam	20	137	29.7
Taiwan	20	116	14.9
China	30	439	2.3
India	50	87	2.2

Change in US Imports Shares: '25 vs '24 (May-Oct)

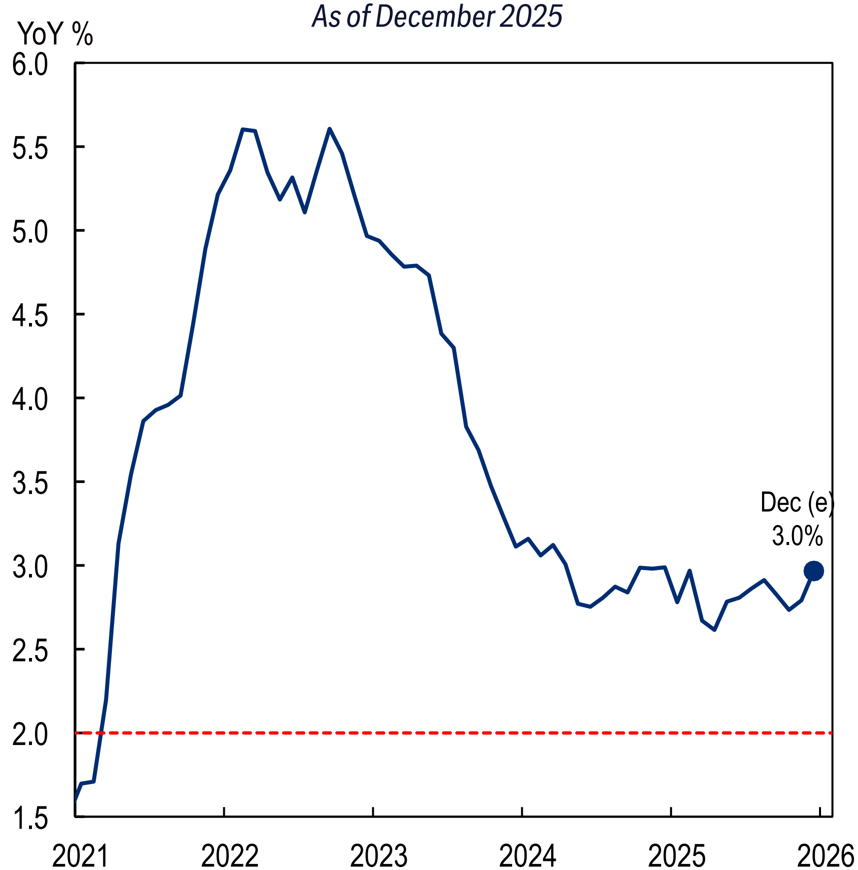
As of October 2025



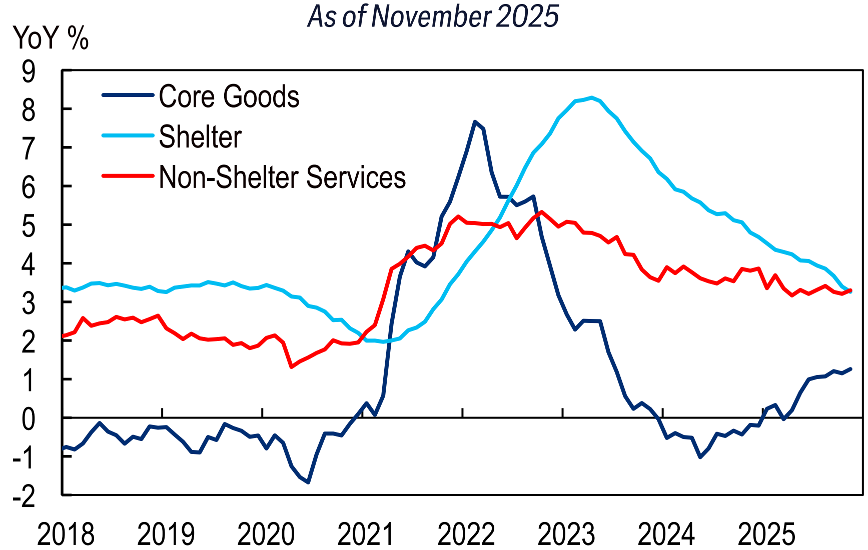
*Calculated using 2024 import shares. **Excludes sectoral tariffs.
Source: Citi Research, Census, National Statistical Sources, Haver

Theme 3: For the US, Tariffs Are Delaying the Return to 2% Inflation

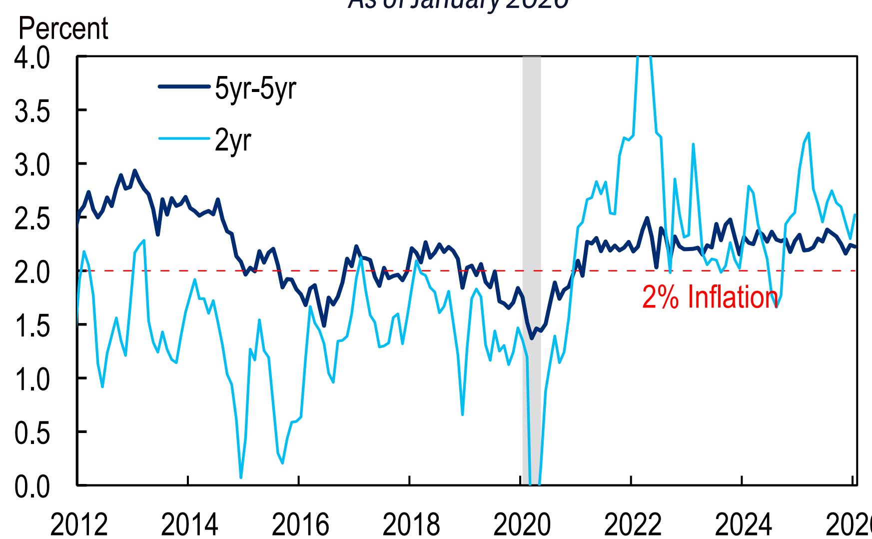
Core PCE Inflation
As of December 2025



Core PCE Inflation: Components
As of November 2025



Inflation Breakeven: 2yr & 5yr-5yr
As of January 2026

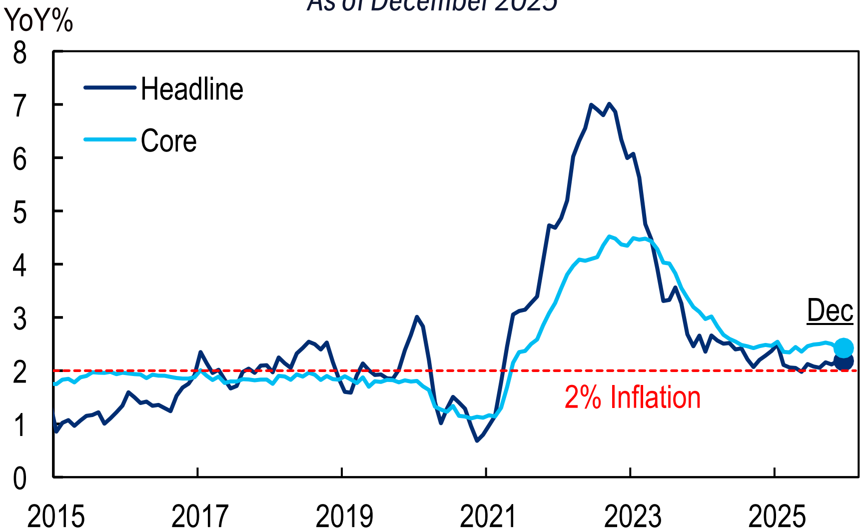


Source: Citi Research, BEA, Census, Bloomberg, Haver

Theme 3: For the Rest of World, Inflation Remains on a Declining Path

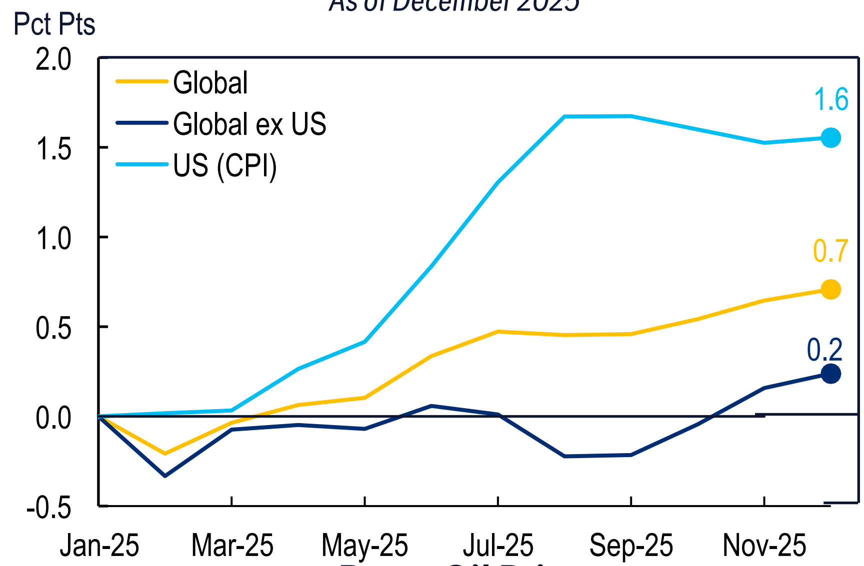
Global Inflation

As of December 2025



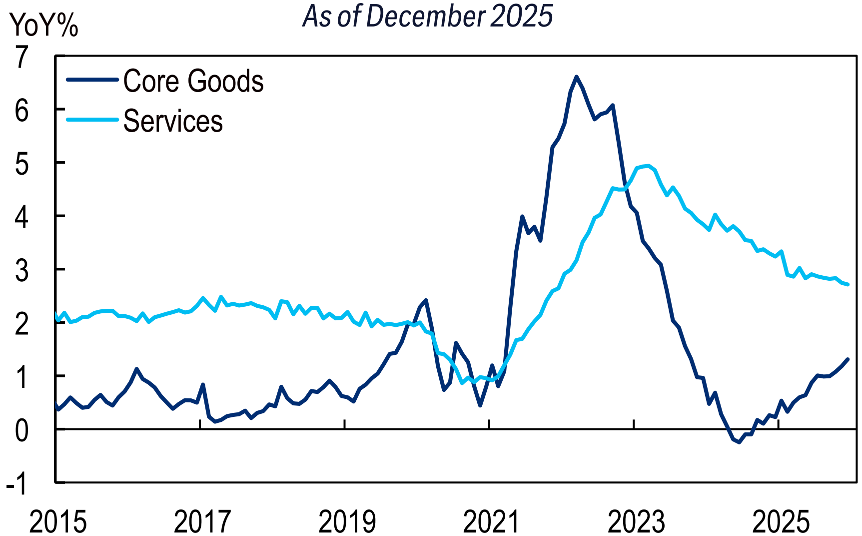
Core Goods Inflation: Change Since Jan 2025

As of December 2025



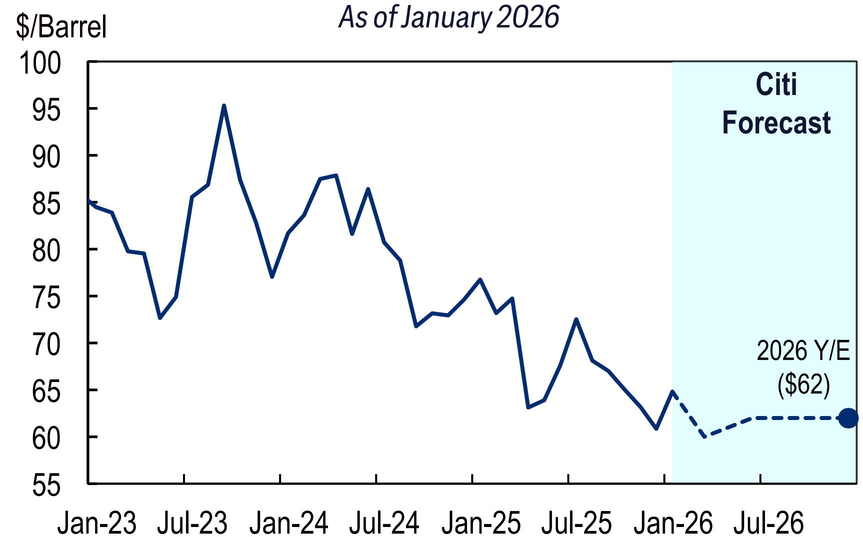
Global Core Goods & Services Inflation

As of December 2025



Brent Oil Price

As of January 2026

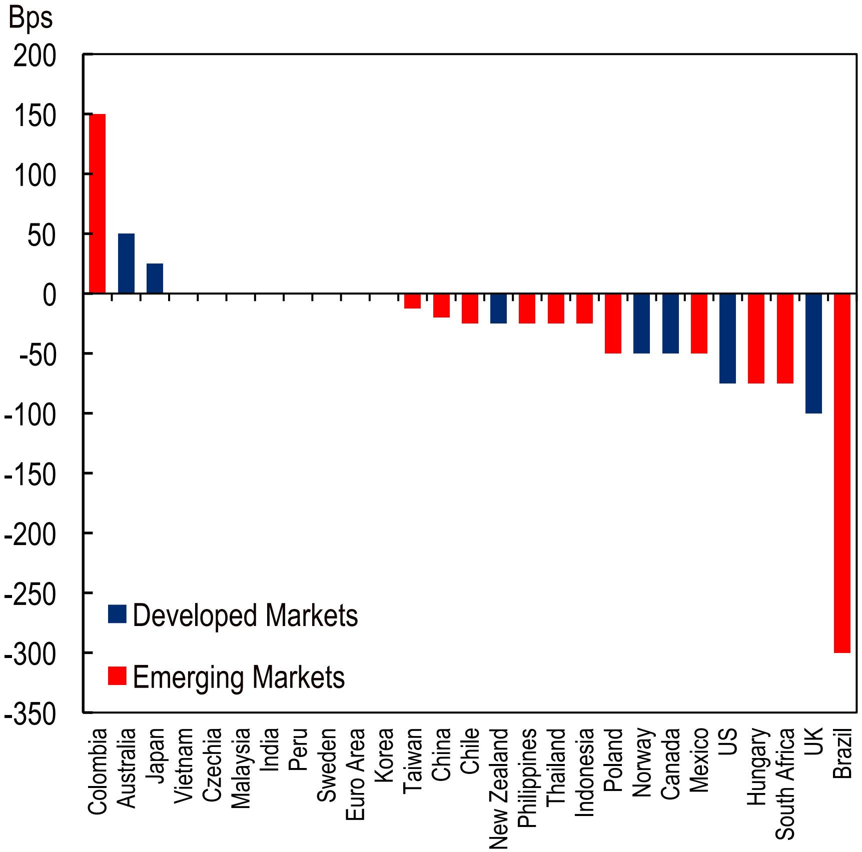


Source: Citi Research, National Statistical Sources, BLS, Bloomberg, Haver Analytics

Theme 4: Global Central Banks Are in the Midst of an Easing Cycle

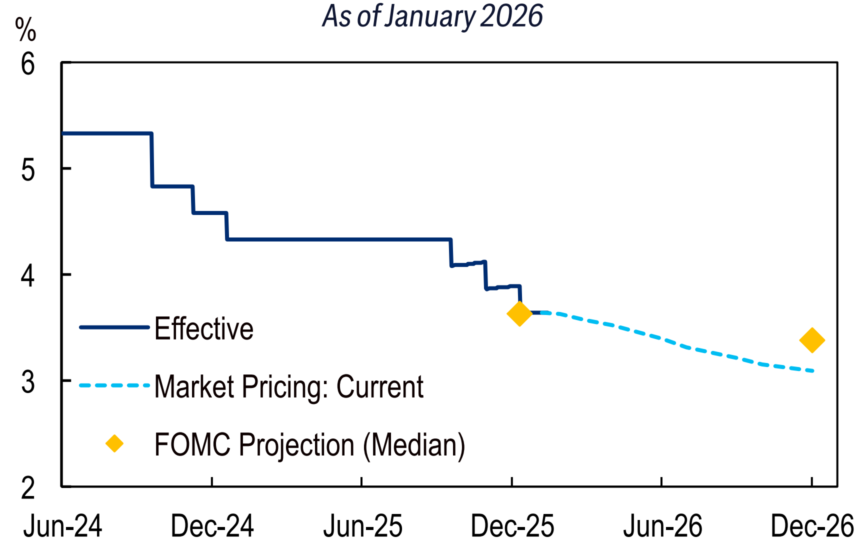
Policy Rates: 26Q4 Less Current (Citi Forecast)

As of January 2026



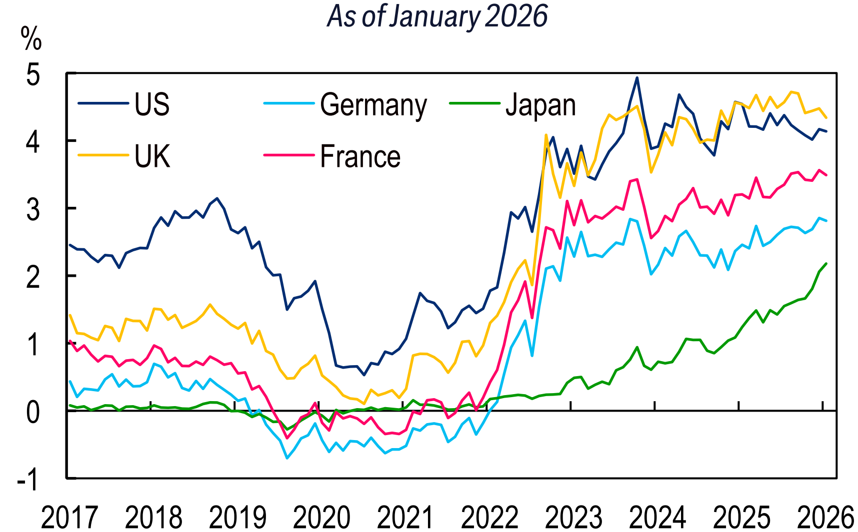
Fed Funds Market Pricing

As of January 2026



Ten-Year Sovereign Bond Yields

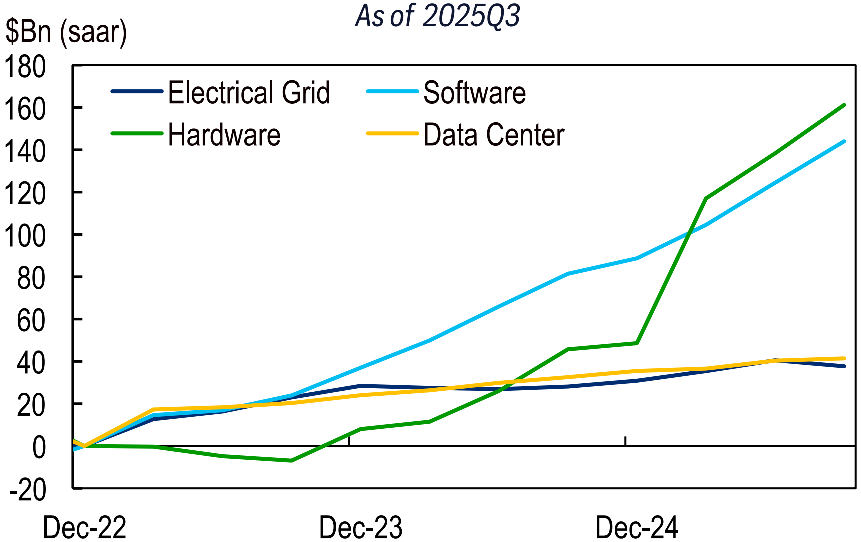
As of January 2026



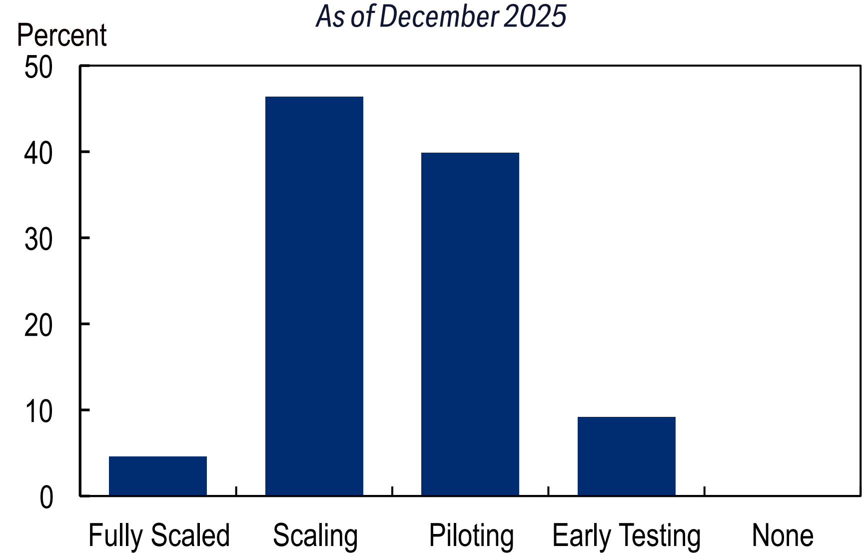
Source: Citi Research, National Statistical Sources, Haver, Bloomberg

Theme 5: Advances in AI Are Poised to Raise Productivity in Coming Years

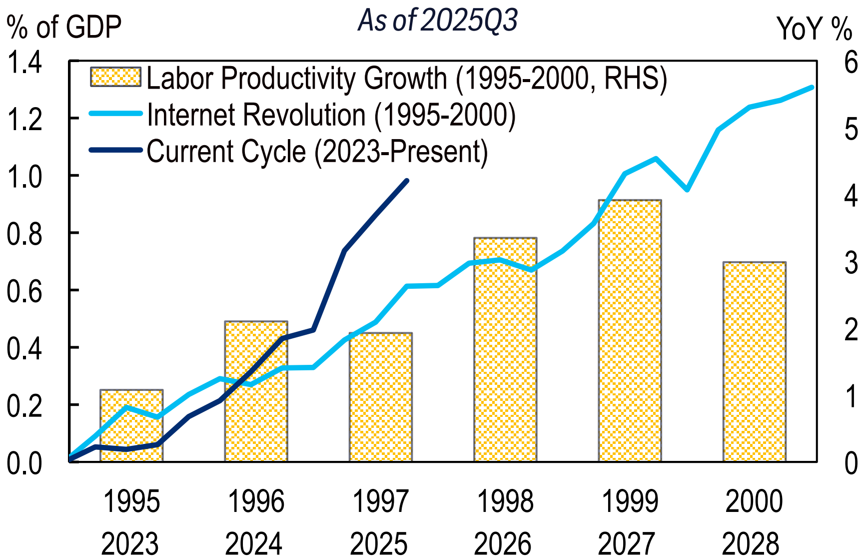
Tech-Enabling Investment by Type*
As of 2025Q3



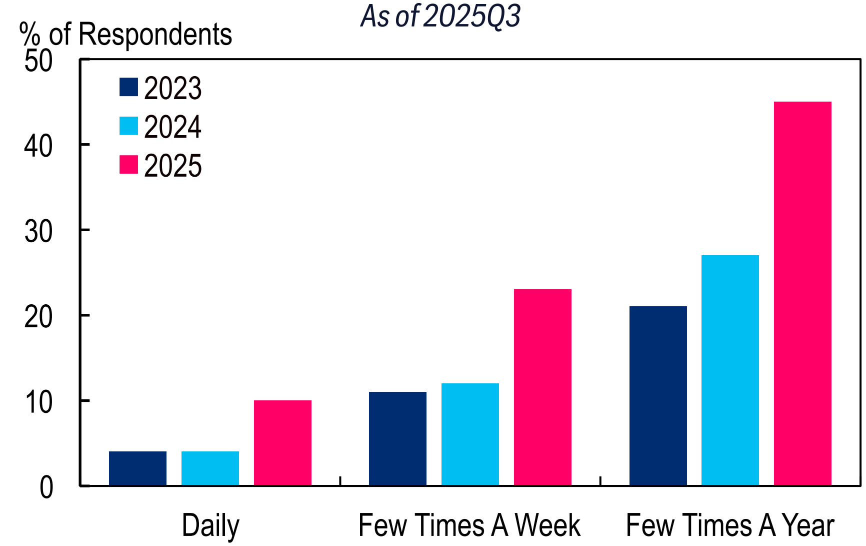
Firm Adoption of AI Technologies (Citi Survey)***
As of December 2025



Investment in AI & Internet vs. Productivity Growth**
As of 2025Q3



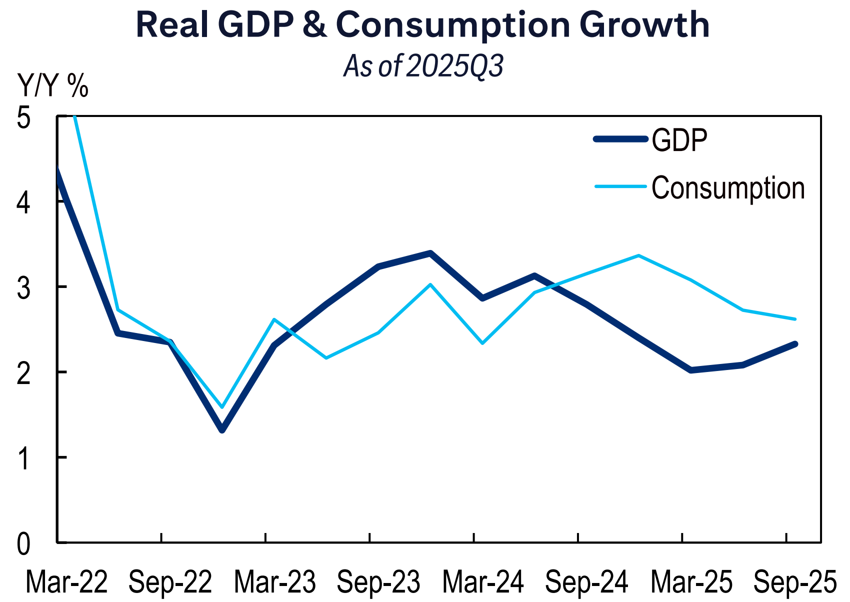
Employee Usage of AI (Gallup Survey)****
As of 2025Q3

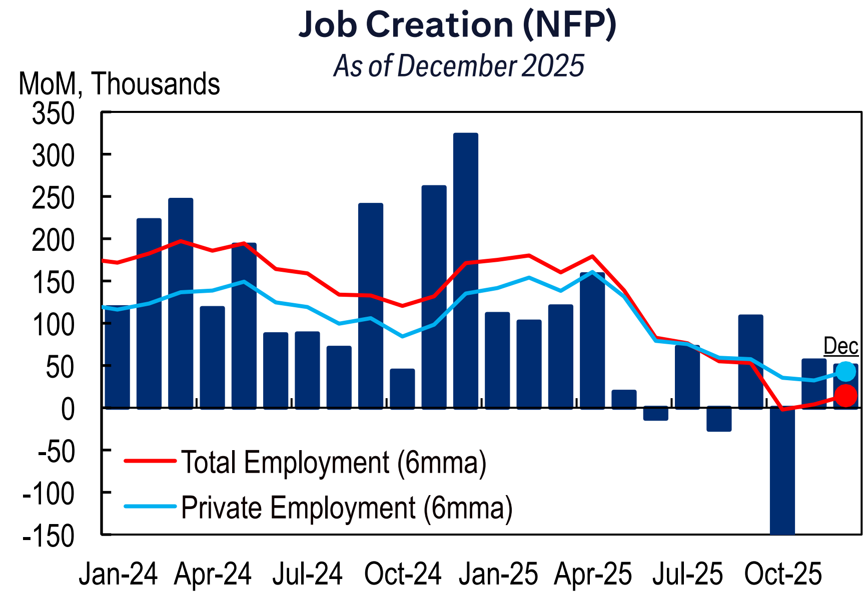


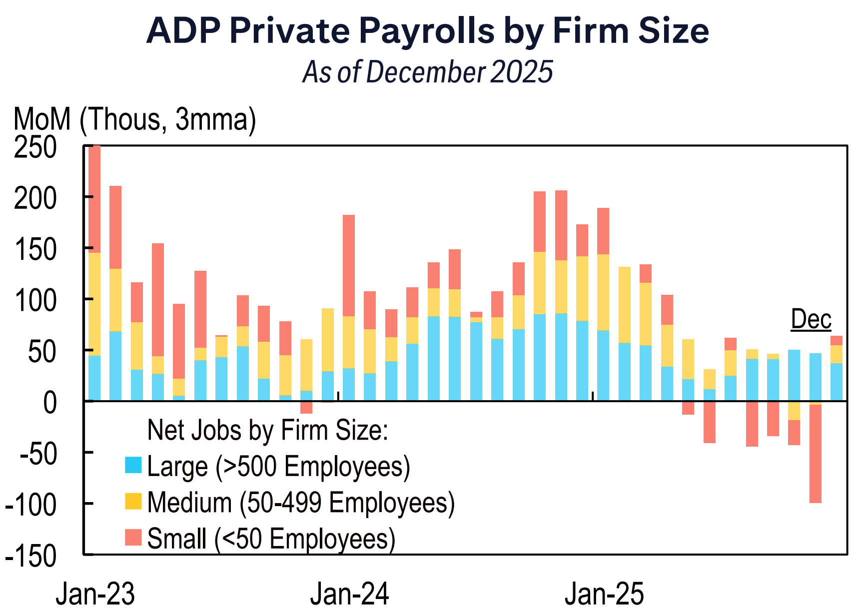
*High (low) estimate classifies all (half) new investment since '22Q4 as AI-related. **Investment in hardware and software. ***200 U.S.-based companies; conducted from Dec 12-22, 2025.
****Gallup survey of ~23,000 employed US adult employees; conducted from August 5-19, 2025.
Source: Citi Research, National Statistical Sources, World Bank, Haver

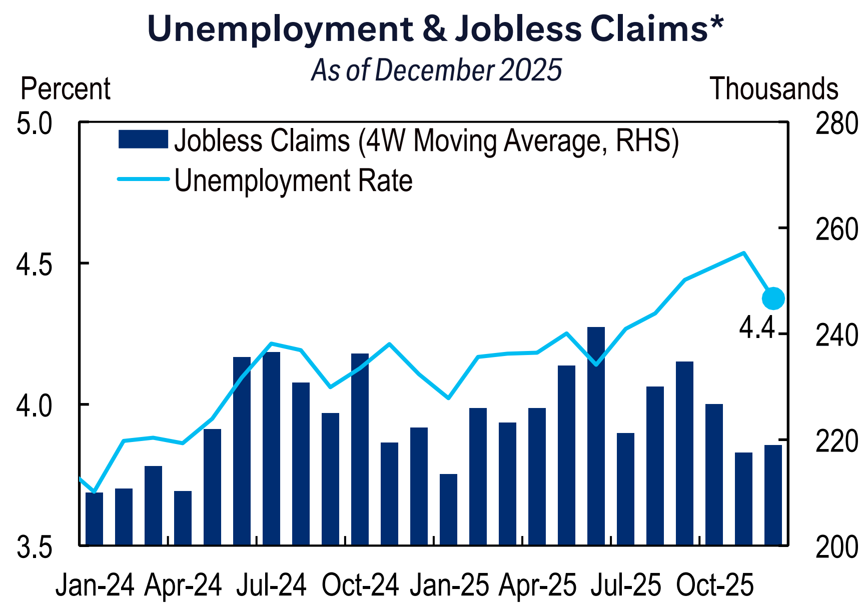
Country-Specific Developments

The United States: Economic Growth Has Held Up Surprisingly Well









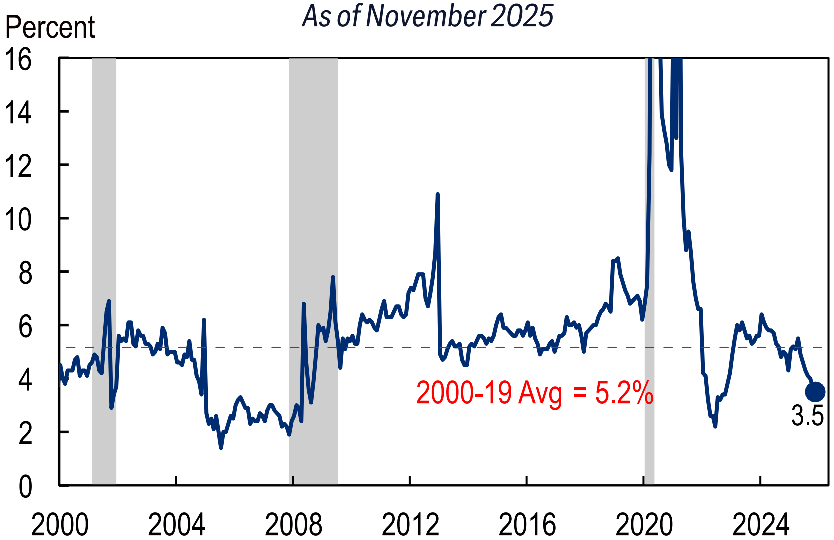
*Post-September 20 reflects Haver's aggregation of state-level reports; data through Dec. 27.

Source: Citi Research, BLS, BEA, Census, Conference Board, University of Michigan, Haver

The Contours of US Consumption—Aggregate Spending Still Solid

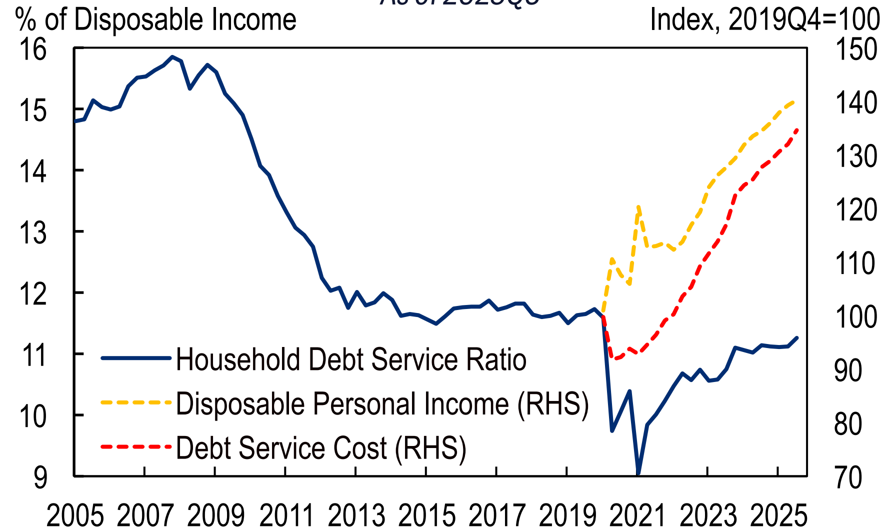
US Saving Rate*

As of November 2025



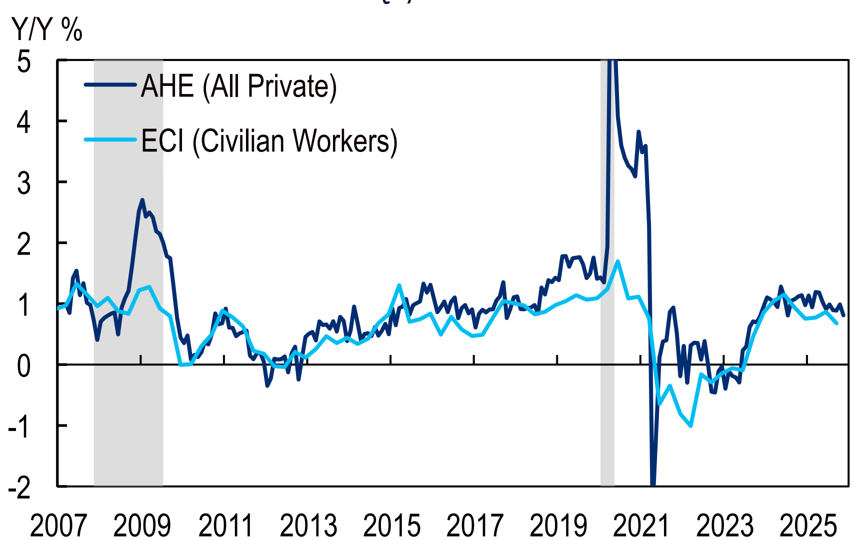
Household Debt Service Ratio

As of 2025Q3



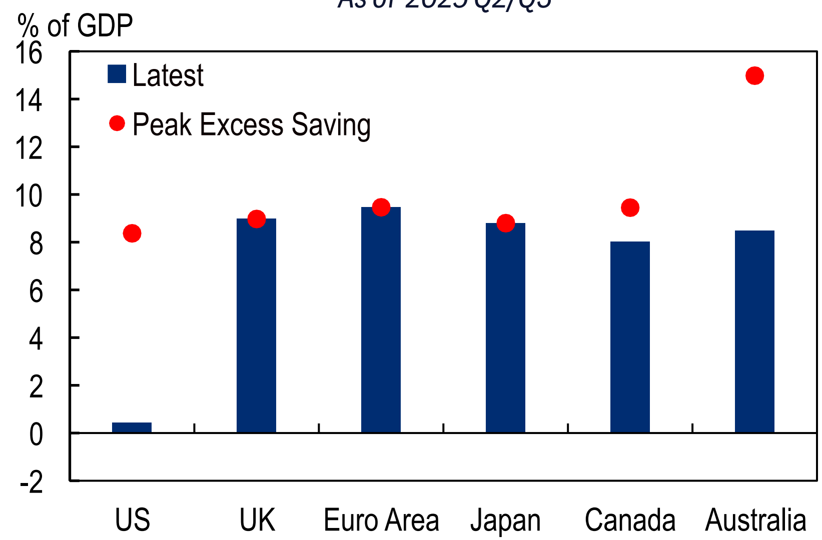
Real Wage Growth**

As of 2025Q3/November 2025



Stock of Excess Saving in DM Economies***

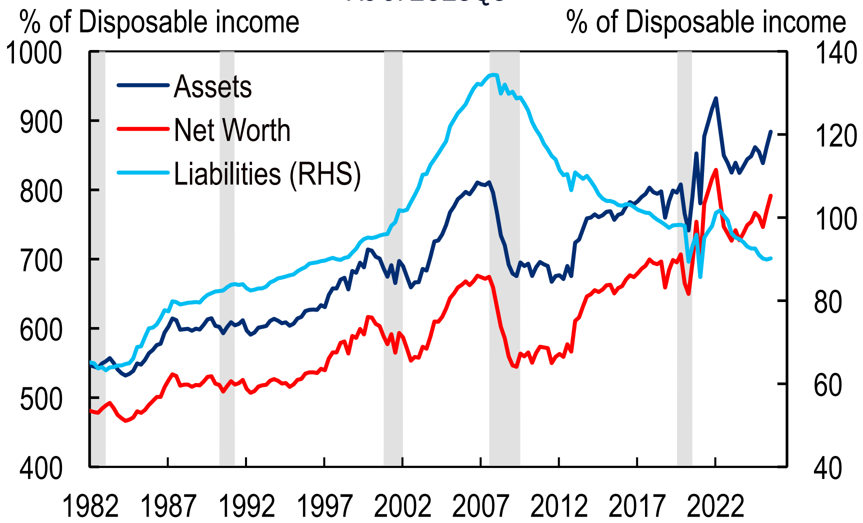
As of 2025 Q2/Q3



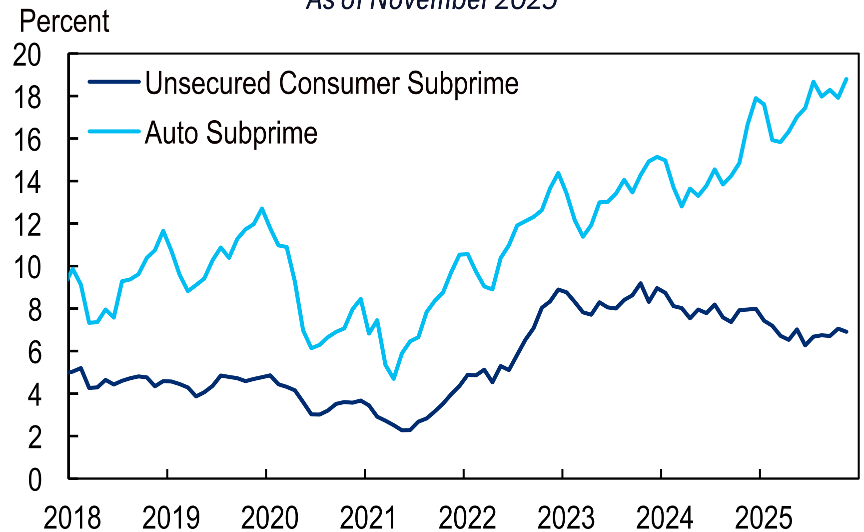
*Shading represents US recessions. **Deflated by core PCE. ***Excess saving estimates are calculated based on country-specific trends.
Source: Citi Research, BEA, National Statistical Sources, Haver

K-Shaped US Economy: Headwinds Plague Low-Income Consumers

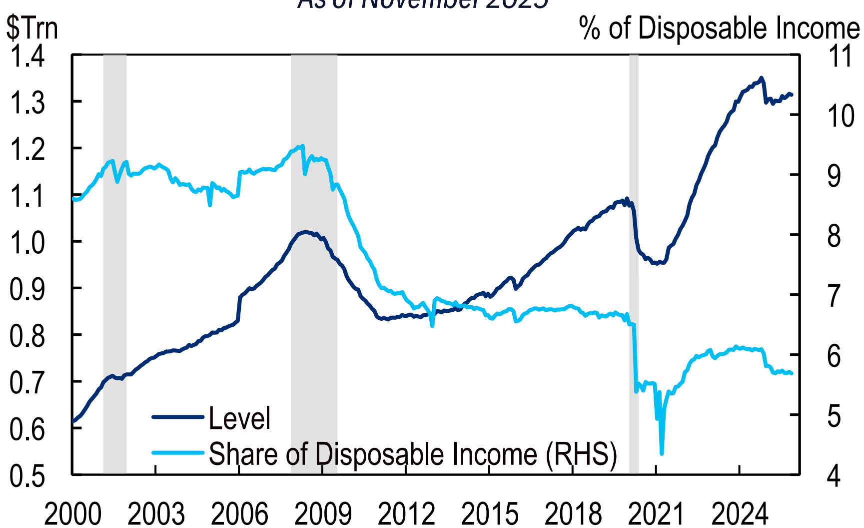
Household Balance Sheets*
As of 2025Q3



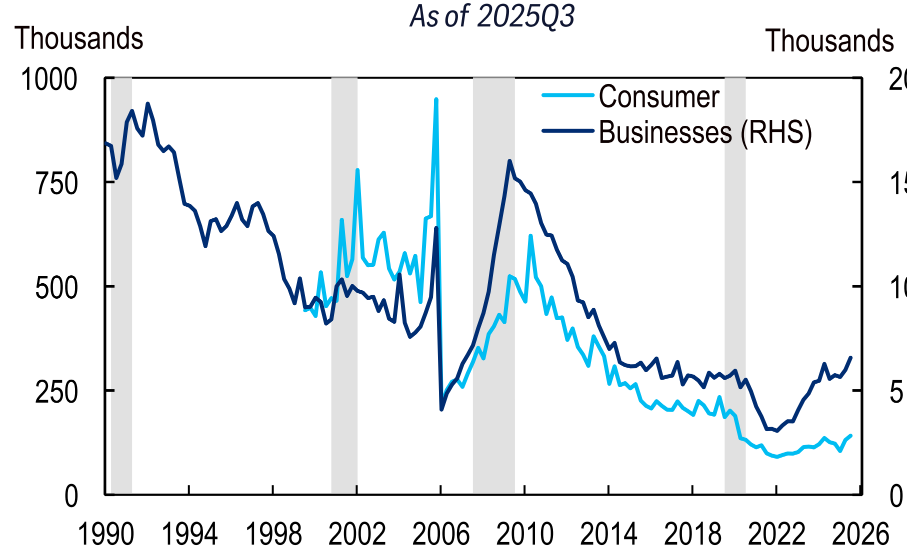
Subprime Loan Delinquencies**
As of November 2025



Revolving Consumer Credit*
As of November 2025



Consumer & Business Bankruptcies*
As of 2025Q3

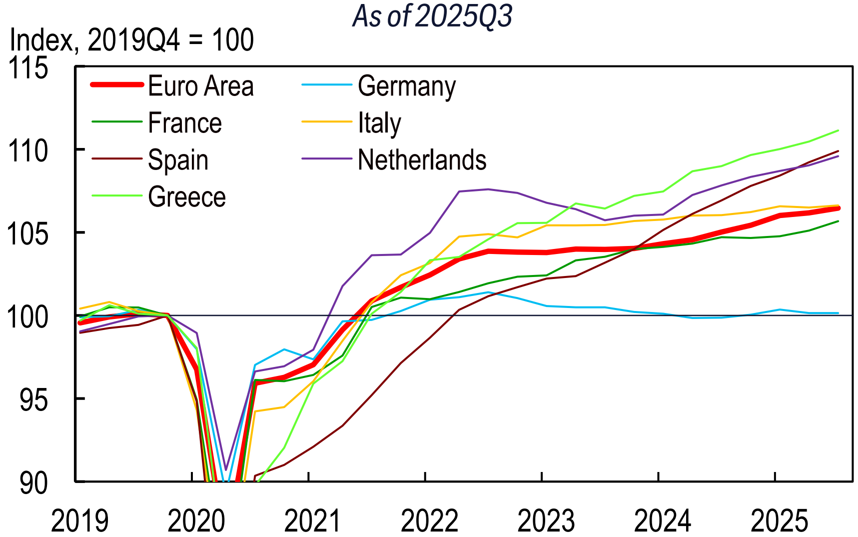


*Shading represents US recessions. **Delinquent is when a borrower is 30-89 days behind on a loan payment.
Source: Citi Research, Census, BLS, Federal Reserve Board, BEA, Haver

Euro Area: US Tariffs Cloud the Outlook—But Stimulus Will Provide Support

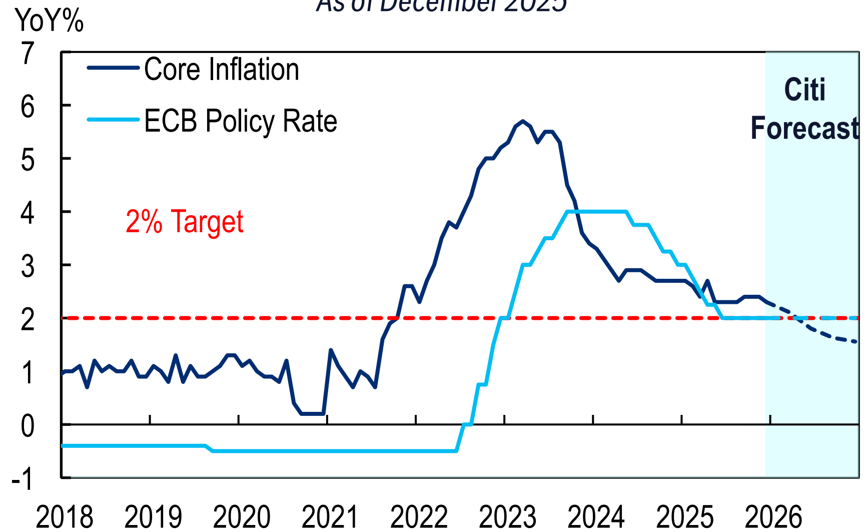
Real GDP

As of 2025Q3



CPI Core Inflation & ECB Policy Rate

As of December 2025



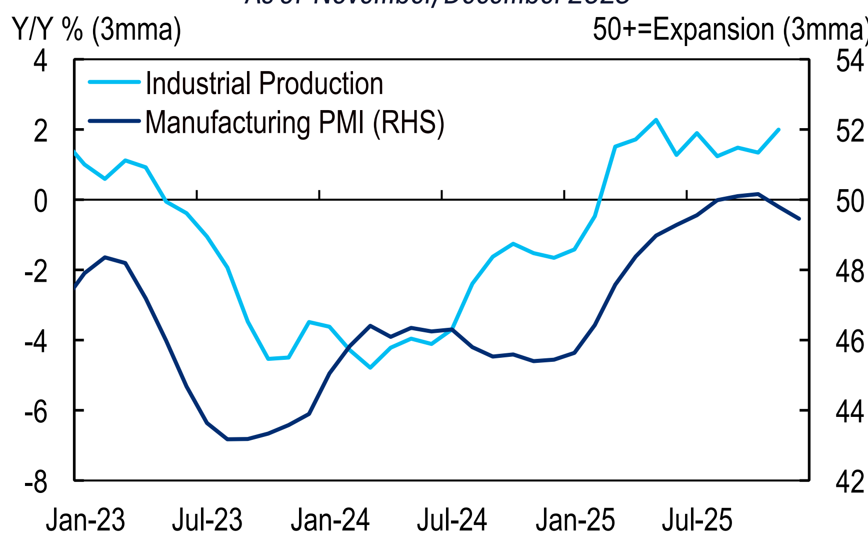
Citi Real GDP Growth Forecast: 2025 vs. 2026

As of January 2026

	2025	2026
Euro Area	1.5	1.2
Germany	0.3	1.0
France	0.8	1.0
Italy	0.6	0.8
Spain	2.9	2.4
Other EA	3.1	1.4

Euro Area: Manufacturing PMI & IP

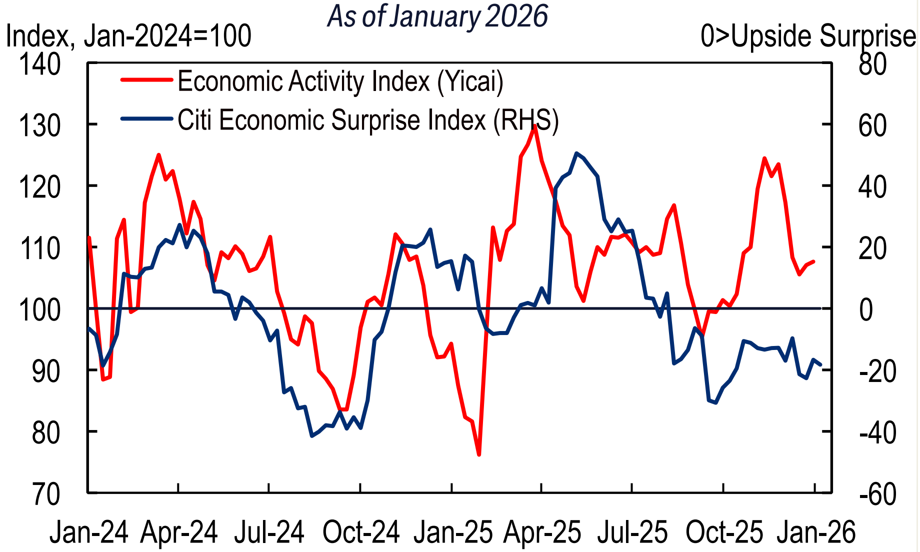
As of November/December 2025



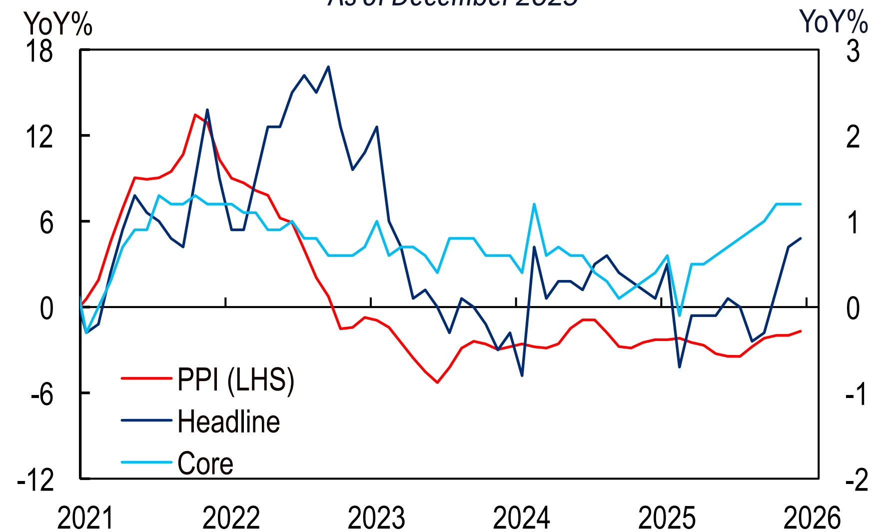
Source: Citi Research, Eurostat, S&P Global, Bloomberg, Haver

China's Economy Continues To Weather High US Tariffs

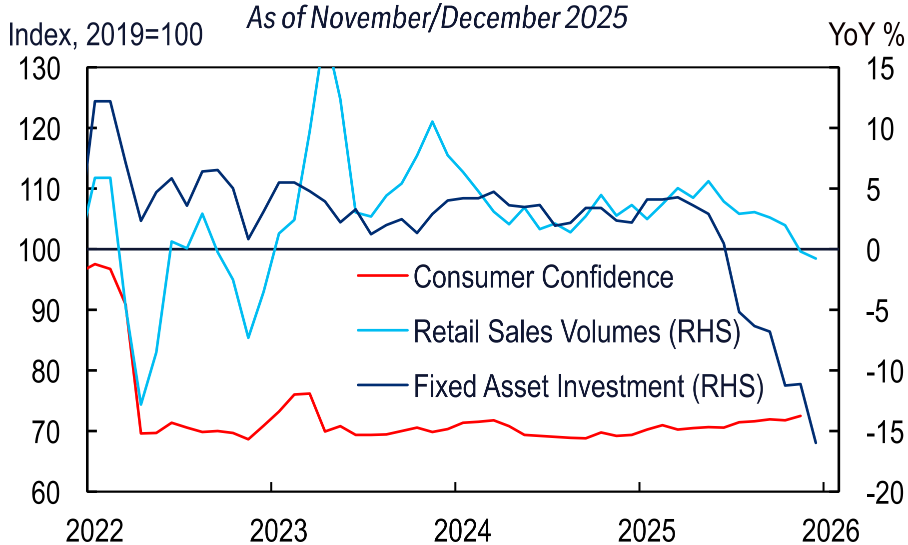
China Economic Activity & Surprise Index
As of January 2026



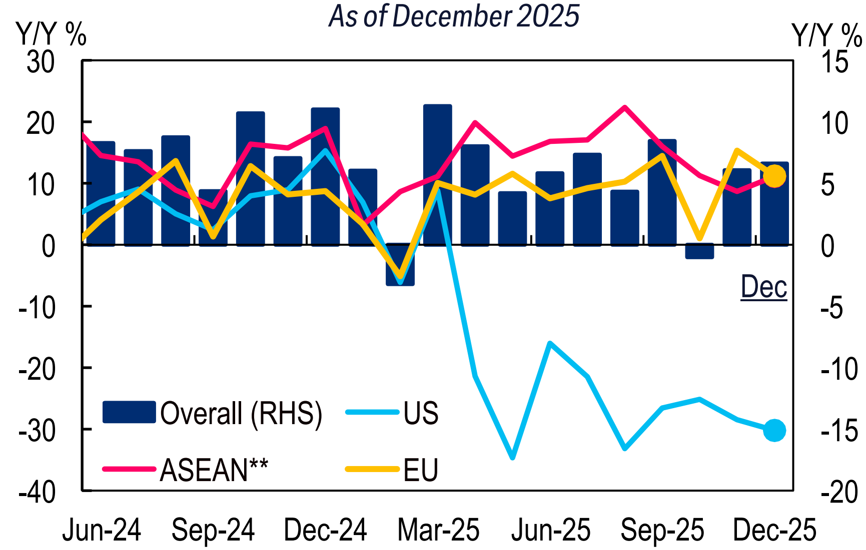
China Inflation
As of December 2025



China Economic Indicators*
As of November/December 2025



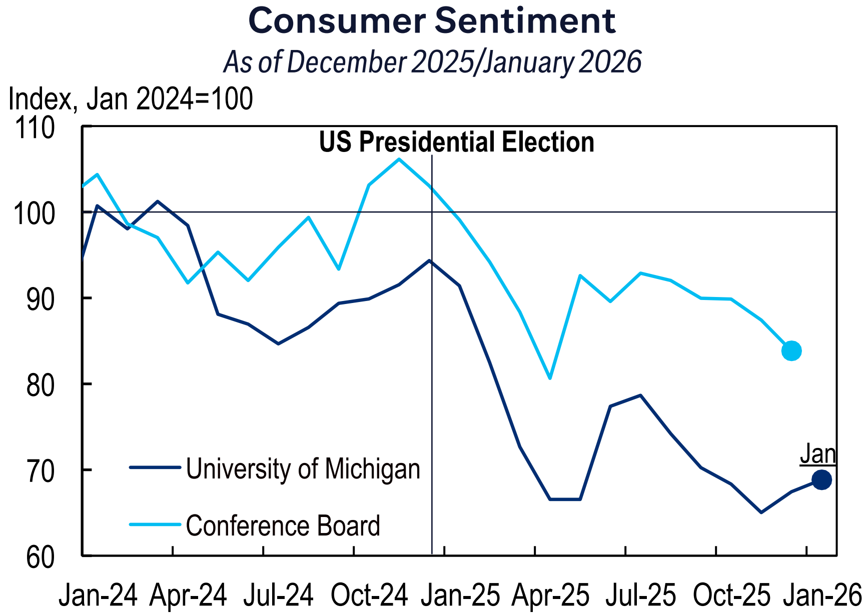
China Exports by Trading Partners
As of December 2025

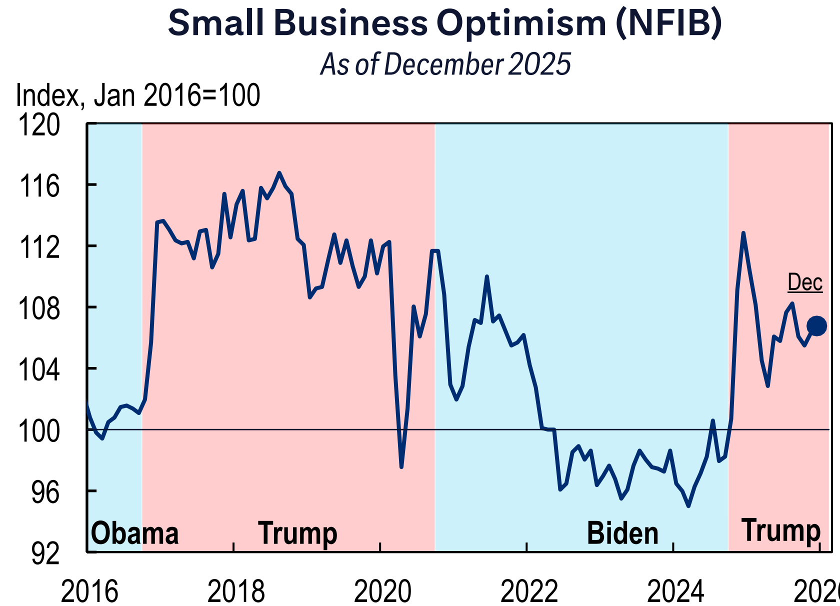


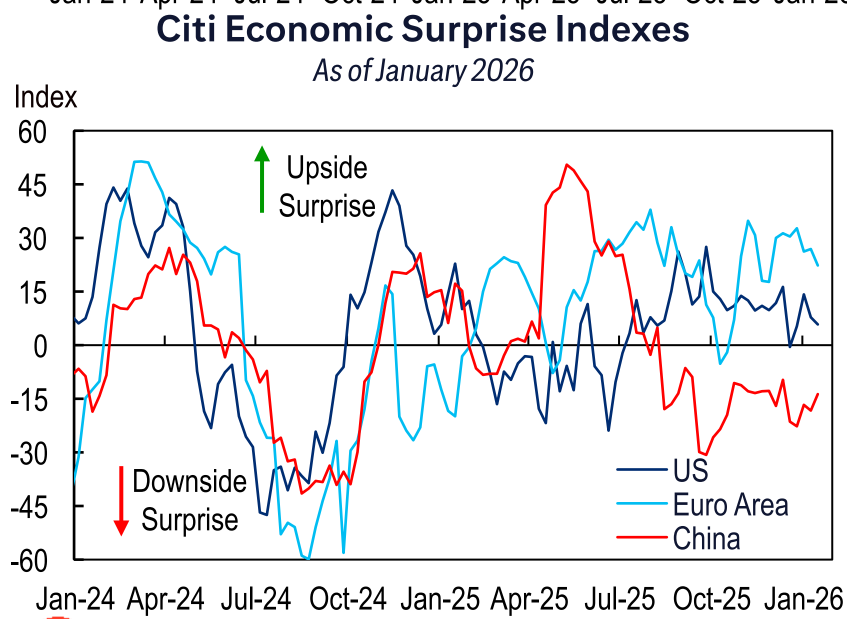
*Retail sales are nominal retail sales deflated by headline CPI. **Data are seasonally adjusted by Citi using Haver's toolkit.
Source: Citi Research, CNBS, Yicai Media Group, China Customs Administration, CFLP/NBS, Haver Analytics

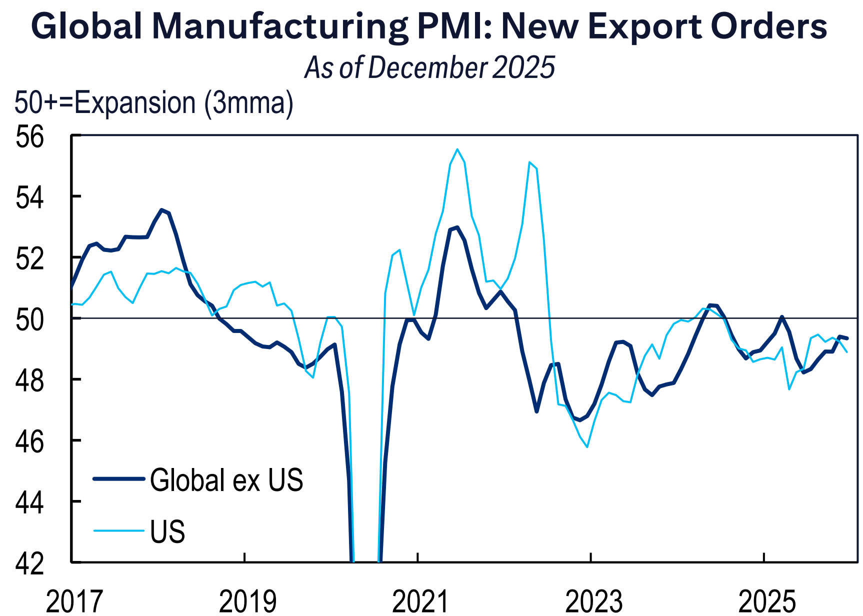
Additional Materials

The Administration's Policies Have Driven Gyrations in Sentiment



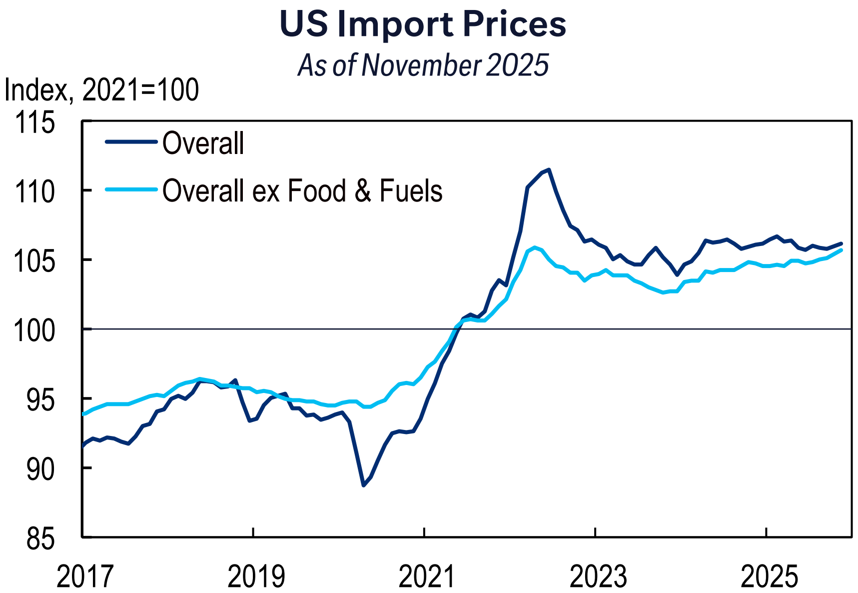






Source: Citi Research, U-Mich, Conference Board, NFIB, Bloomberg, ADP, Haver.

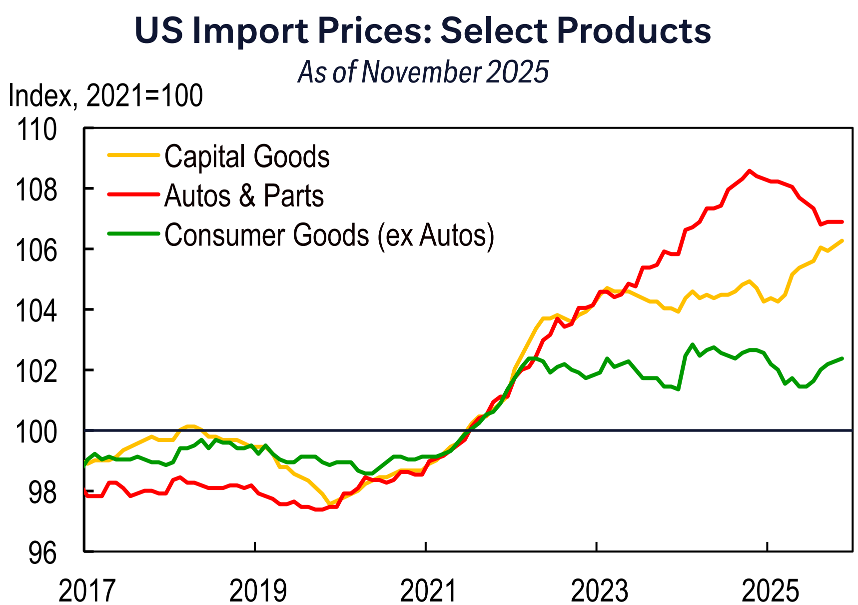
The "Incidence" Of Tariffs: Split Between US Firms And Households

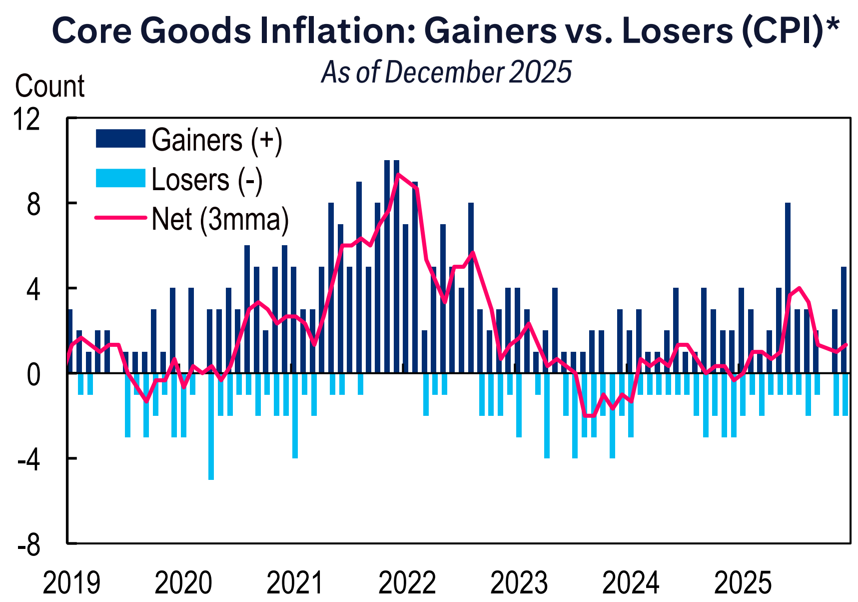


Core Goods Inflation: Select Categories (CPI)

As of December 2025

	Feb 2025	Dec 2025	Change
Core Goods	**-0.1**	**1.4**	**1.5**
Of Which:			
Audio Equipment	-3.1	13.3	16.4
Furniture & Bedding	-2.1	3.6	5.6
Tools & Hardware	0.2	5.4	5.2
Telephones	-13.7	-9.8	3.8
Toys	-1.9	0.8	2.8
Appliances	-3.1	-1.7	1.3
Recreational Books	3.7	0.8	-2.9





*Gainers (losers) are monthly observations outside the 97.5th (2.5th) percentile; based on seasonally adjusted data from 2000-2019; November data reflects 2-month % change.
Source: Citi Research, BEA, BLS, Haver, University of Michigan

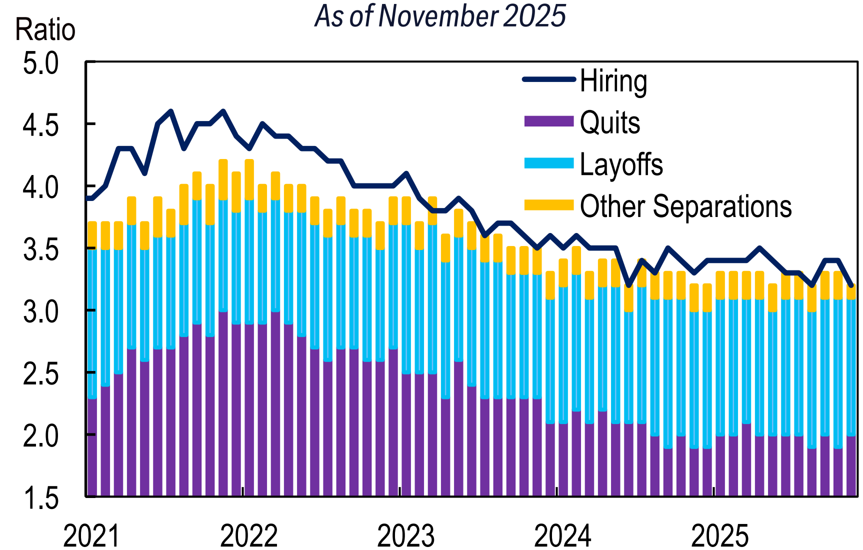
US Labor Markets Are On a Softening Trajectory

Jobless Claims*

As of January 2026

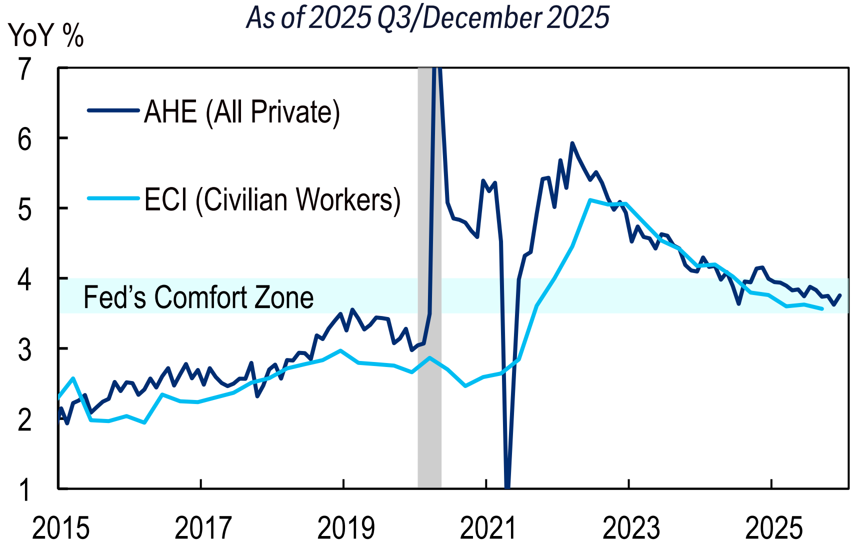
Labor Market Performance: “Low Churn”

As of November 2025



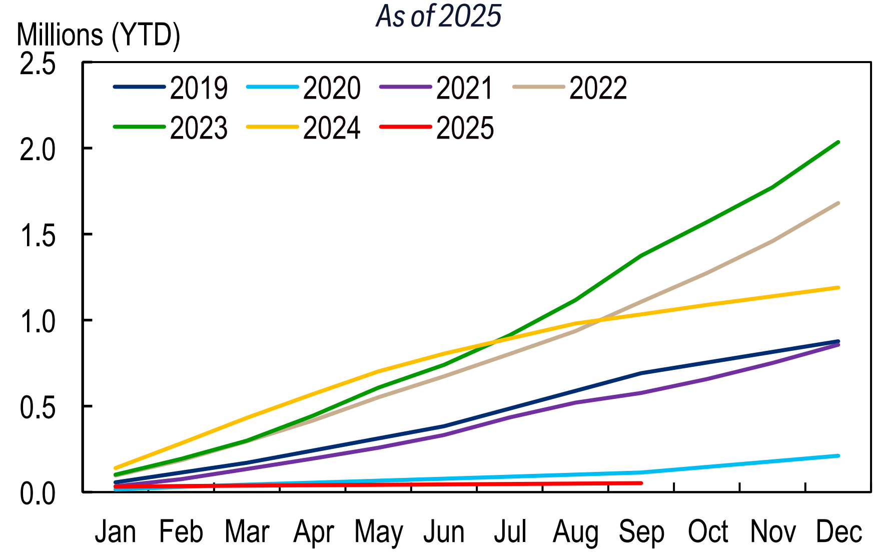
Wage Growth***

As of 2025 Q3/December 2025



Irregular Immigration Inflows

As of 2025



*Shading denotes US recession. **Continued and Initial claims reflect weekly data through Jan 10th and Jan 17th respectively. ***Shading reflects US recession.
Source: Citi Research, BEA, BLS, Census, NBER, OHSS, US Department of State, Haver, DHS, LHMeyer.

The K-Shaped US Economy: Headwinds Have Emerged for Small Firms

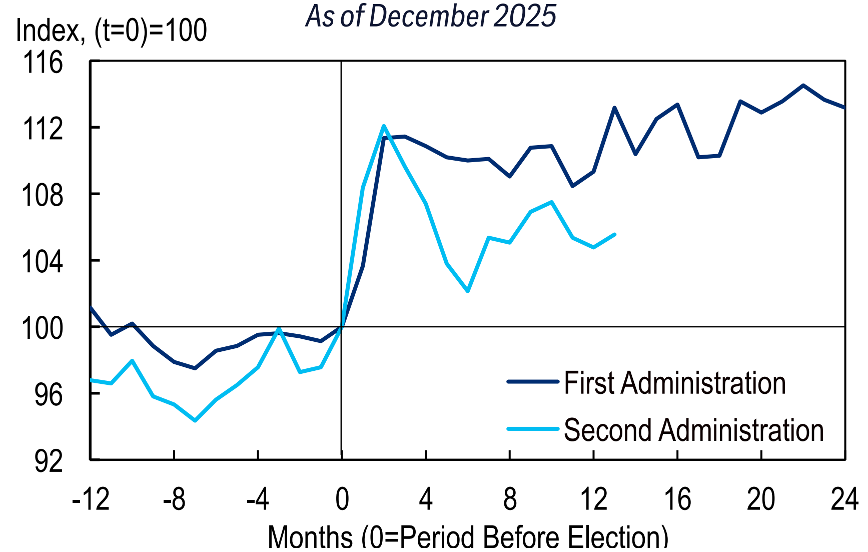
Small-Firm Headwinds: Fed "Beige Book" References*

As of January 2026

Headwinds	*Description*
Margin Compression	Upward pressures on input costs from tariffs and insurance expenses, and less pricing power compared to large firms.
Policy Uncertainty	Delayed hiring and investment due to trade policy volatility, changing immigration policy, and government shutdown disruptions.
Weak & Uneven Demand	Lower discretionary spending by price sensitive consumers is hindering small retailers, restaurants, hospitality, & personal services firms.
Tightening Credit Conditions	Constrained credit access, pauses in SBA lending, delayed bank borrowing, rising delinquencies, and reliance on high interest debt.
Elevated Risk of Exit	Heightened struggles keeping doors open, with rising closures, frozen funding, and defaults increasingly visible.
Labor Market Stress	Skilled labor shortages, rising benefit costs, and greater reliance on attrition as well as temporary workers are constraining staffing capacity.

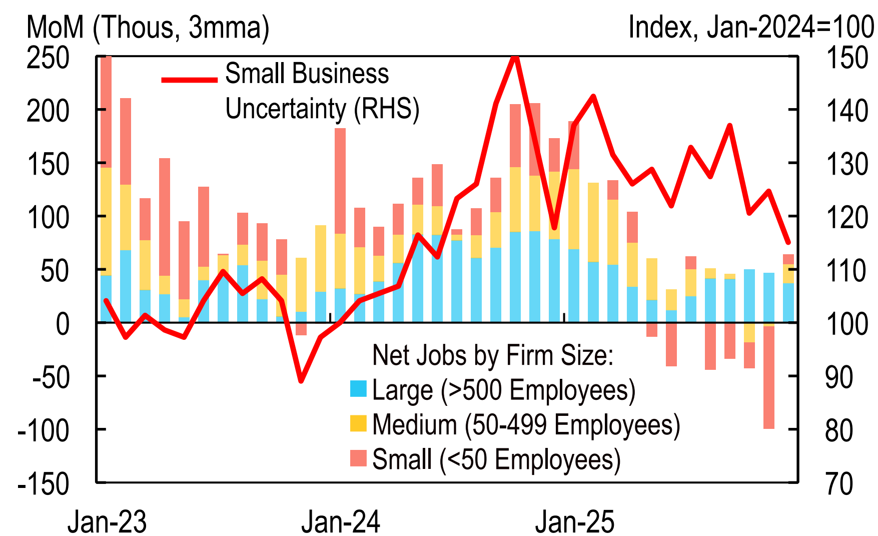
Small Business Optimism During Trump Admins

As of December 2025



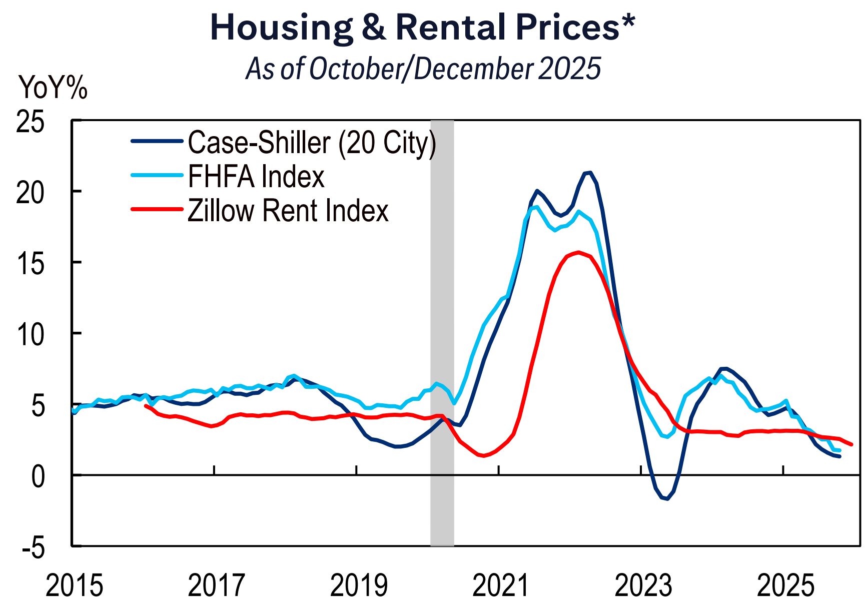
ADP Private Payrolls: Small Business Uncertainty

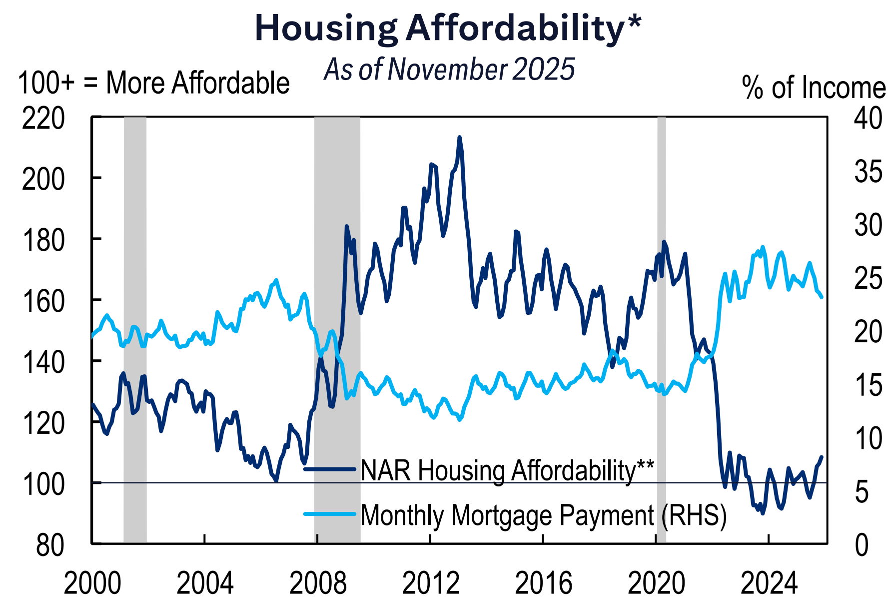
As of December 2025

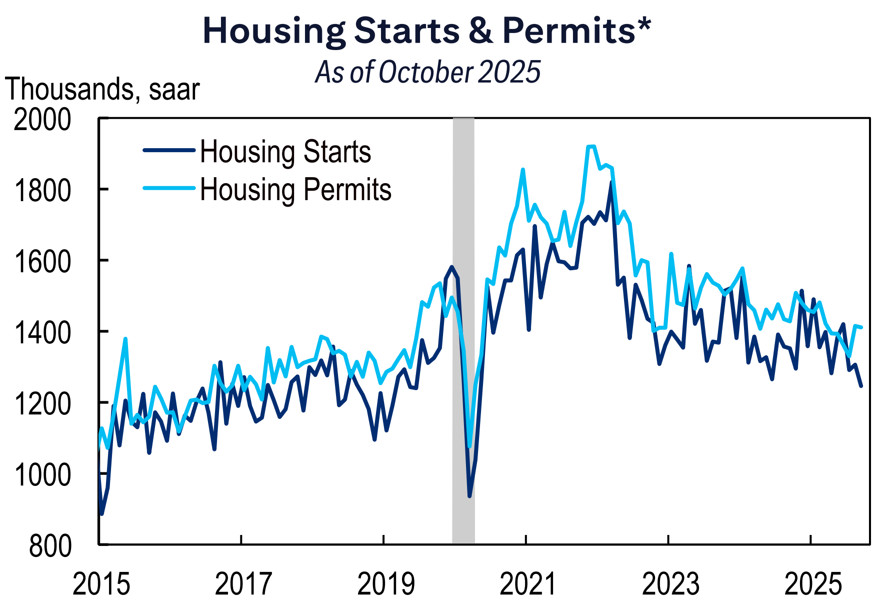


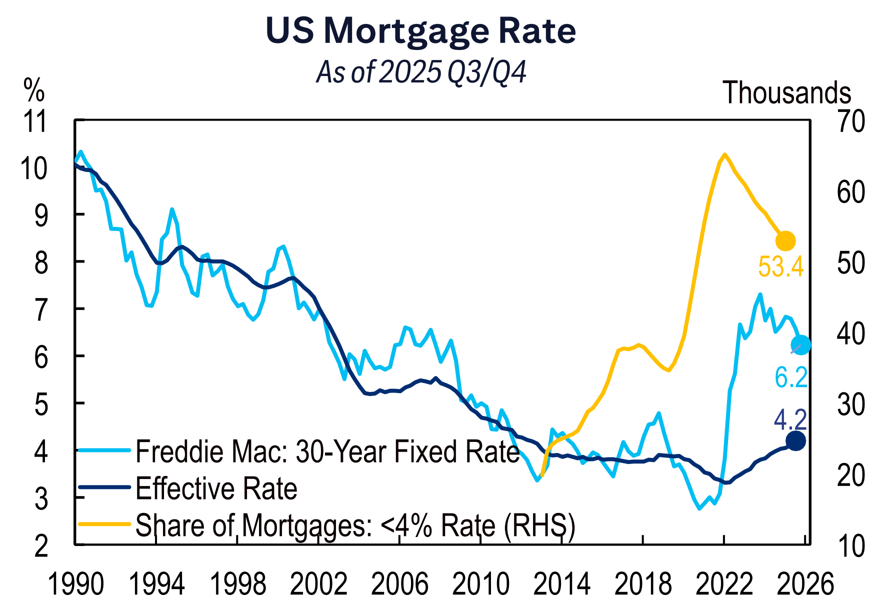
*Derived using Citi's AI tool to distill mentions of small business strains in the five latest Beige Books.
Source: Citi Research, FRB, NFIB, ADP, Haver Analytics

The US Housing & Rental Market—Are Showing Persistent Softness







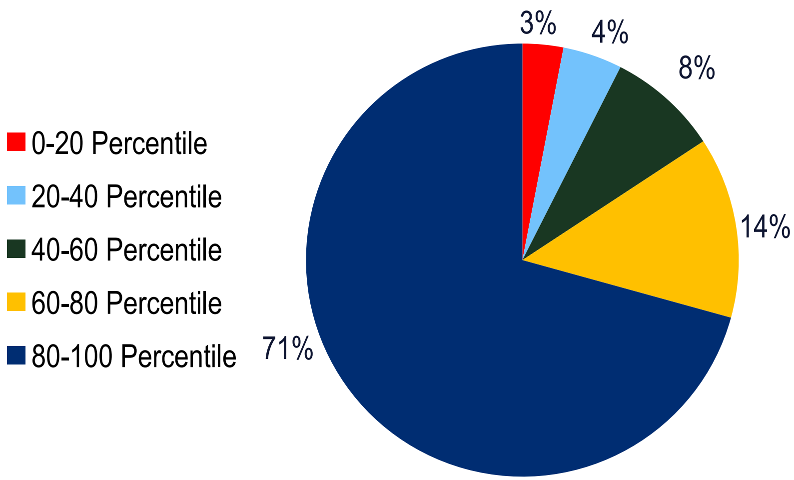


*Shading represents US recessions. **An index value of 100 means a median income family has exactly enough income to qualify for a mortgage on a median-priced home.
Source: Citi Research, S&P, Census Bureau, National Association of Realtors, BEA, Zillow, MBA, Haver, Bloomberg

US Economic Inequality: Distribution of Wealth, Income, and Consumption

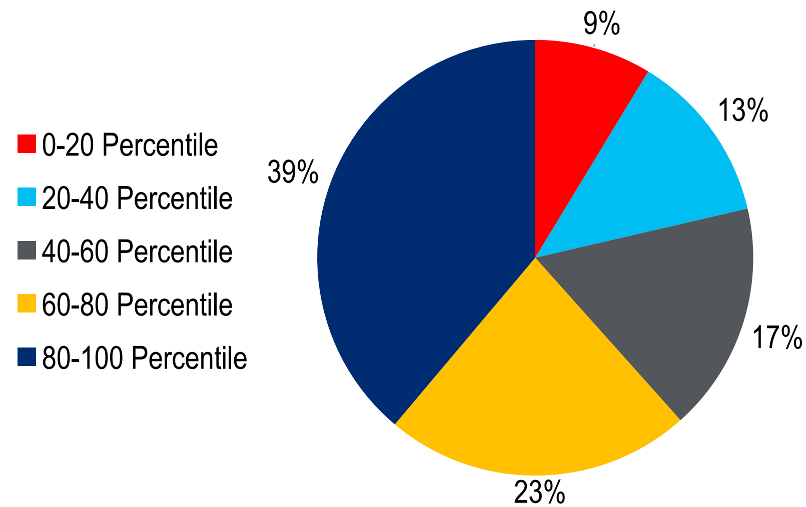
Share of Net Worth (By Income Percentile)

As of 2024



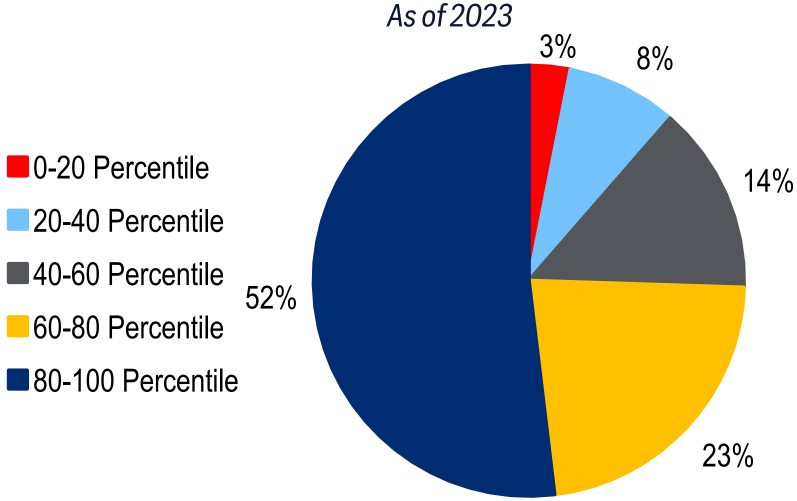
Share of Expenditures (By Income Percentile)

As of 2023



Share of Income (By Income Percentile)

As of 2023



Income Quintiles: Upper Limits ($)

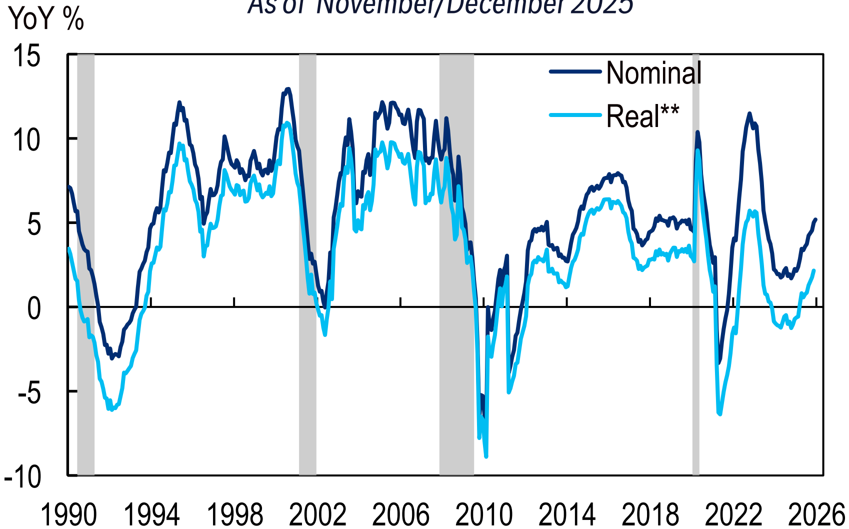
As of 2023

Income: Upper Limit of Quintiles ($)	
0-20 Percentile	*33,000*
20-40 Percentile	*62,200*
40-60 Percentile	*101,000*
60-80 Percentile	*165,300*
Top 20%	*>165,300*
Lower Limit of Top 5%	*316,100*

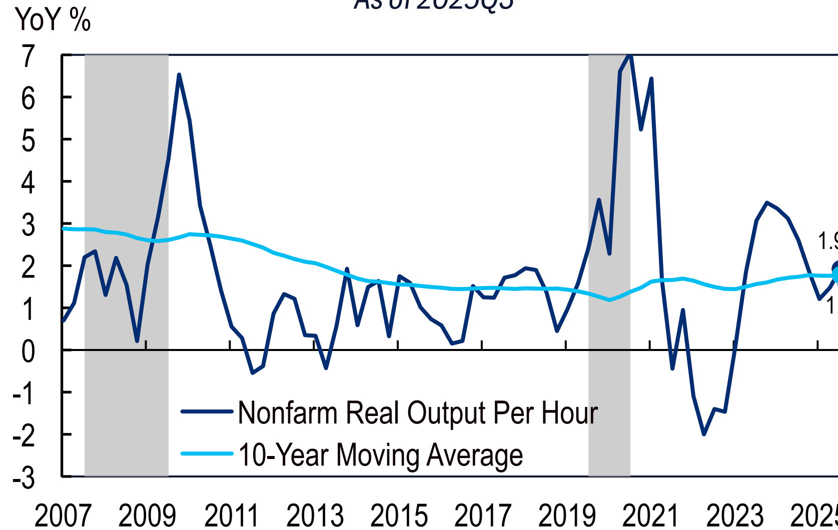
Source: Citi Research, FRB, BLS, Census, Haver

US Economy—Some Additional Key Indicators

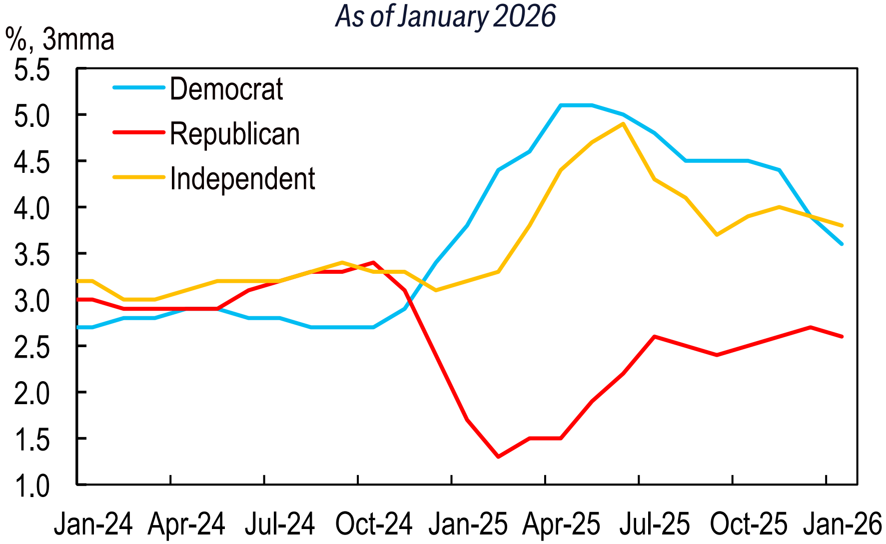
Bank Loan Growth*
As of November/December 2025



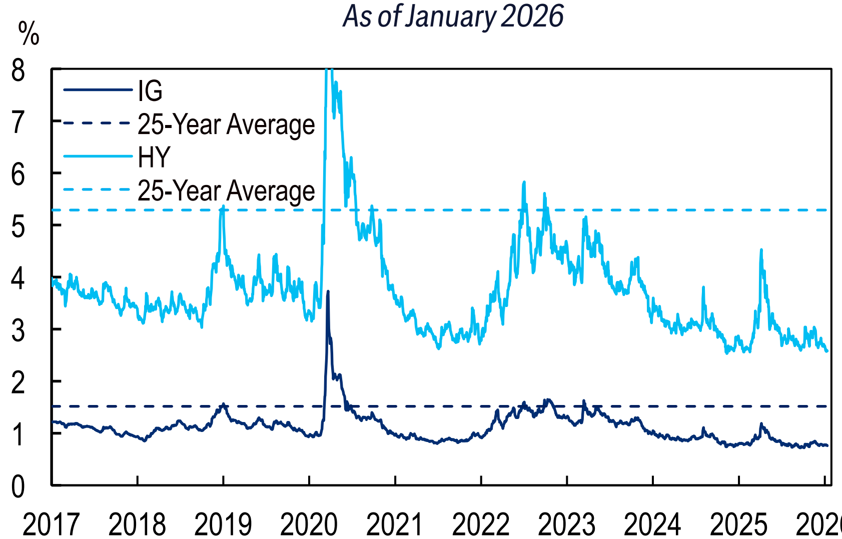
Labor Productivity Growth*
As of 2025Q3



5-10yr Inflation Expectations (Michigan)
As of January 2026



US Credit Spreads (OAS)
As of January 2026



*Shading represents US recessions. **Real bank loans deflated by core PCE.
Source: Citi Research, FRB, S&P Global, ISM, ADP, Bloomberg, Haver

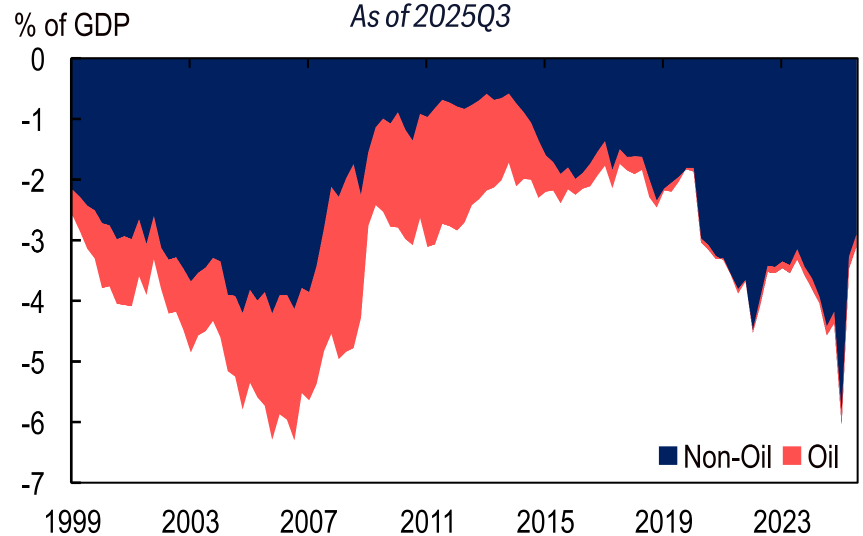
The Value of the Dollar Remains Well Above Historical Averages

Broad Real Dollar Index*

As of December 2025

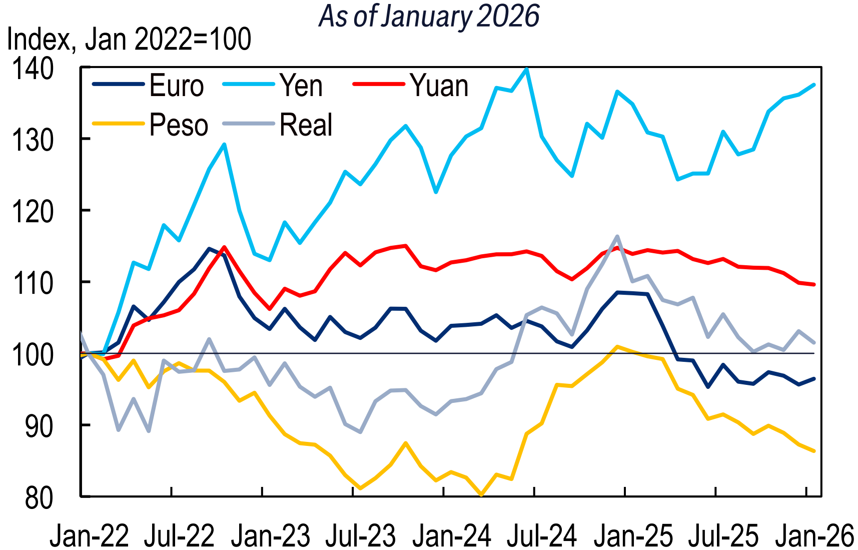
US Oil and Non-Oil Trade Balances

As of 2025Q3



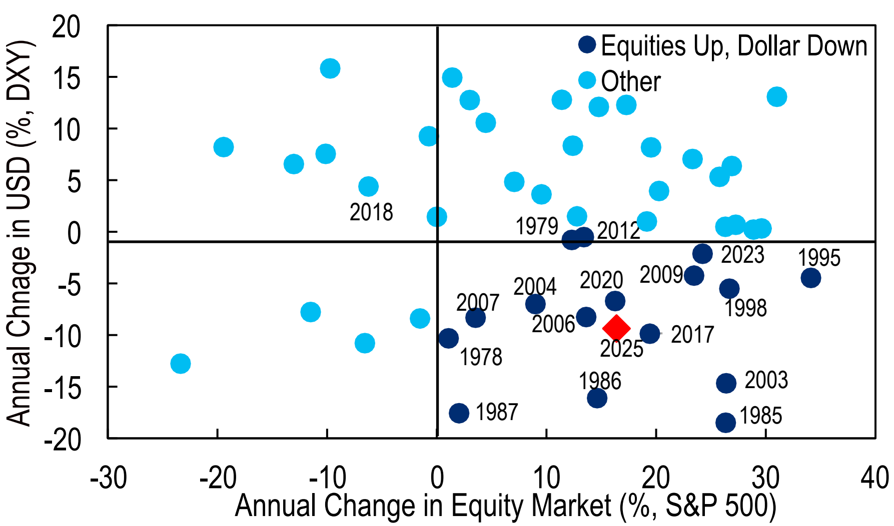
US Dollar Bilateral Exchange Rate

As of January 2026



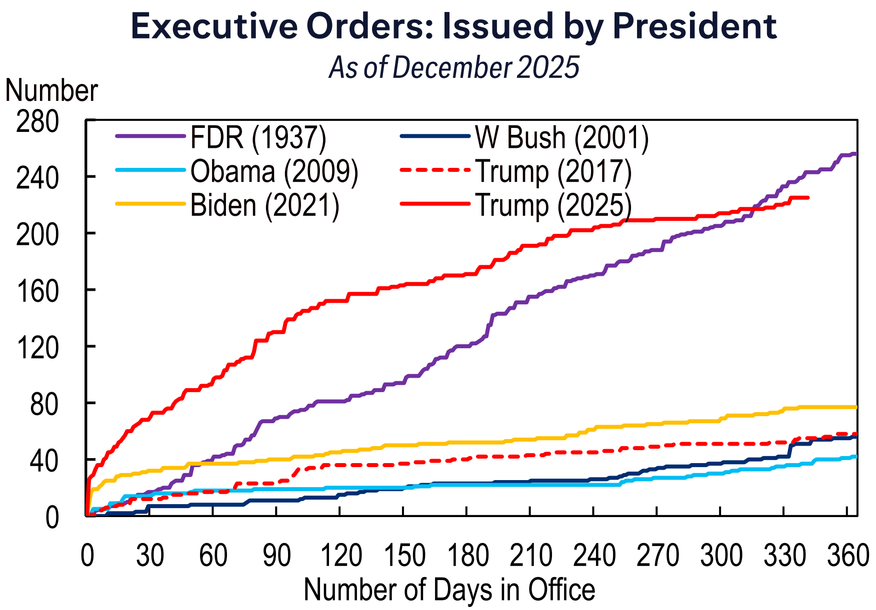
S&P 500 & Dollar: Annual Changes (%)**

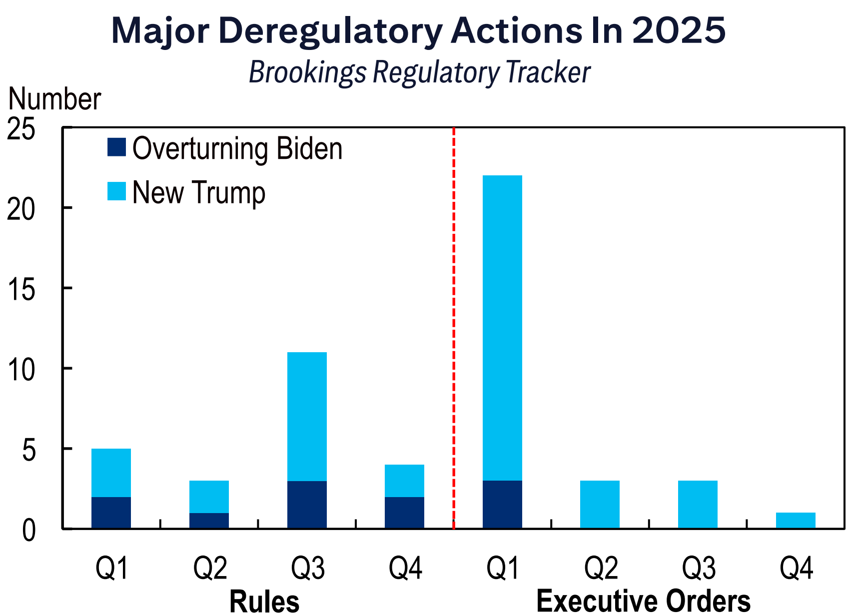
As of 2025



*Shading Represents US recessions. **Data are from 1976-2025; 2008 outlier is excluded.
Source: Citi Research, Federal Reserve, BEA, Haver

Deregulation Under the Second Trump Administration





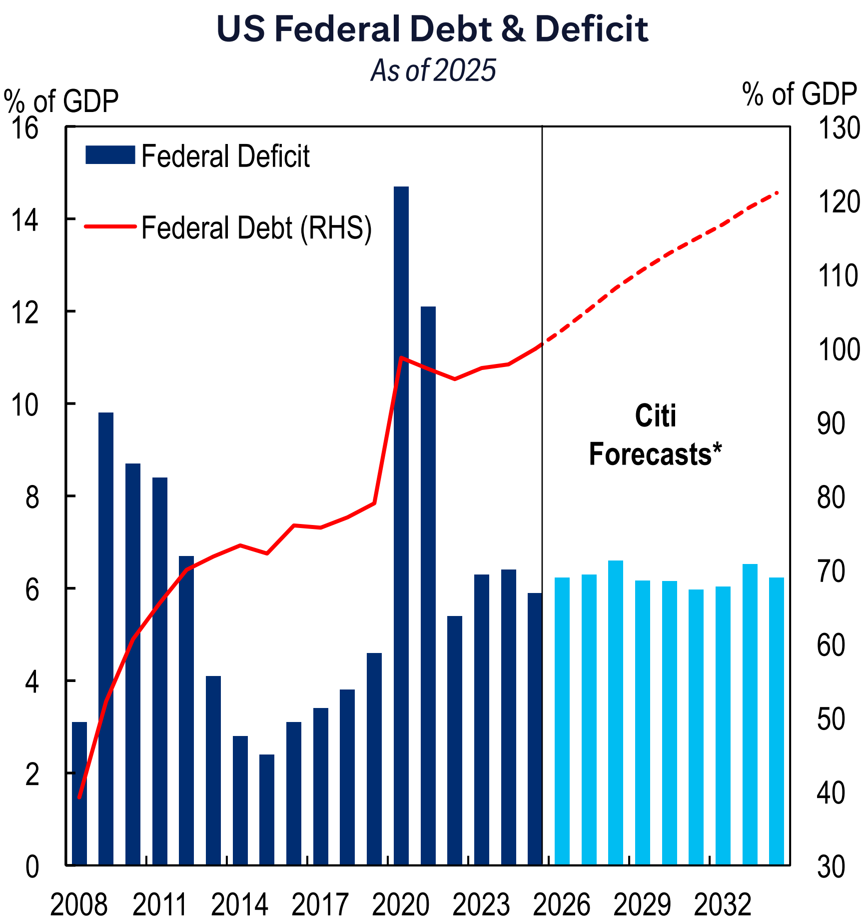
Key Deregulatory Changes since Jan 2025

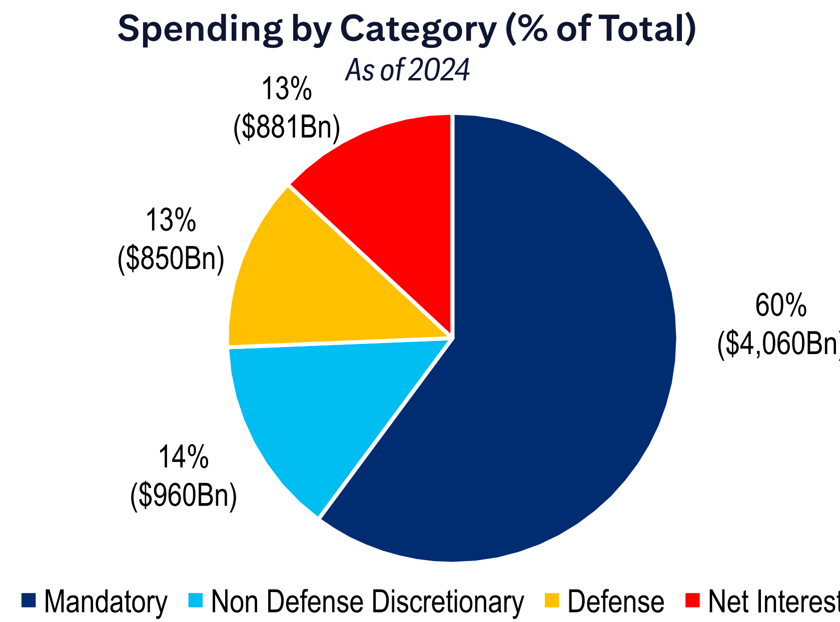
Brookings Regulatory Tracker

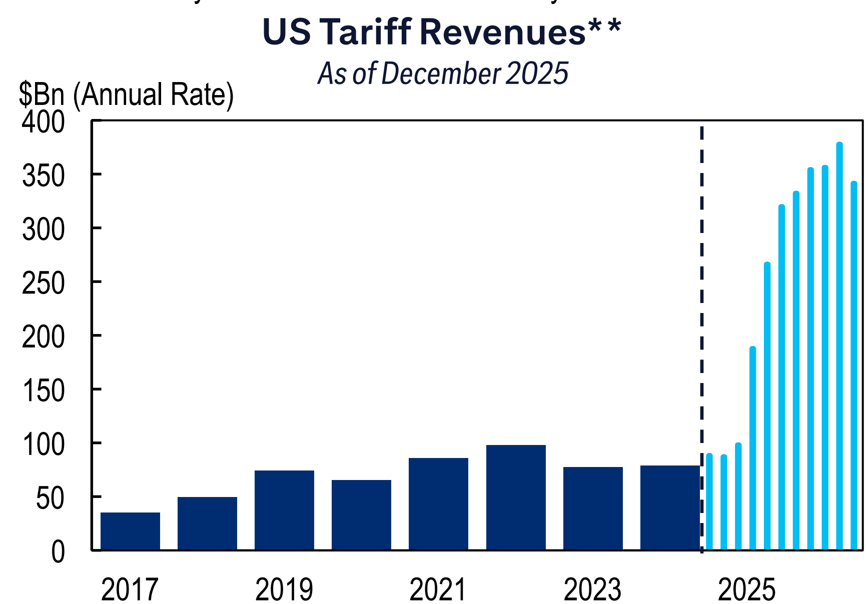
Sector / Industry	Action	Date(s) Effective	EO / Rule*	Implication
Government & Bureaucracy	*"Unleashing Prosperity Through Deregulation" (10-for-1 pledge)*	*Jan 2025*	*EO*	Mandates agencies repeal 10+ regulations for every new proposal.
	Establishment of Dept. of Government Efficiency (DOGE)	*Jan 2025 - July 2025*	*EO*	Aims to "modernize federal technology and software to maximize governmental efficiency."
Environment & Energy	*Withdrawal from Paris Agreement*	*Jan 2025*	*EO*	Removes international commitments by the US government to reduce GHG emissions.
	"Unleashing American Energy"	*Jan 2025*	*EO*	Opens federal lands to exploration and aims to rescind/revise burdensome regulation.
Finance & Technology	*Executive Order on Digital Assets*	*Jan 2025*	*EO*	Aims to protect blockchain access, preserve dollar sovereignty, and review current regulation.
Healthcare	*Affordable Care Act marketplace rule*	*July 2025***	*Rule*	Limits open enrollment period and eliminates eligibility for DACA recipients (partially effective).
Immigration	*Fixed time periods for F, J, and I visas*	*Aug 2025***	*Rule*	Caps visa stay limits for foreign students, exchange visitors, and foreign media reps.

*Executive Orders (EOs) are presidential directives that manage operations of the federal government, having the force of law without congressional approval; "Rules" are regulations issued by federal agencies after a public rulemaking process, implementing laws passed by Congress or EOs. **Reflects date rule was proposed.
Source: Citi Research, Brookings Institute

High US Public Debt Levels Have Triggered Market Concerns





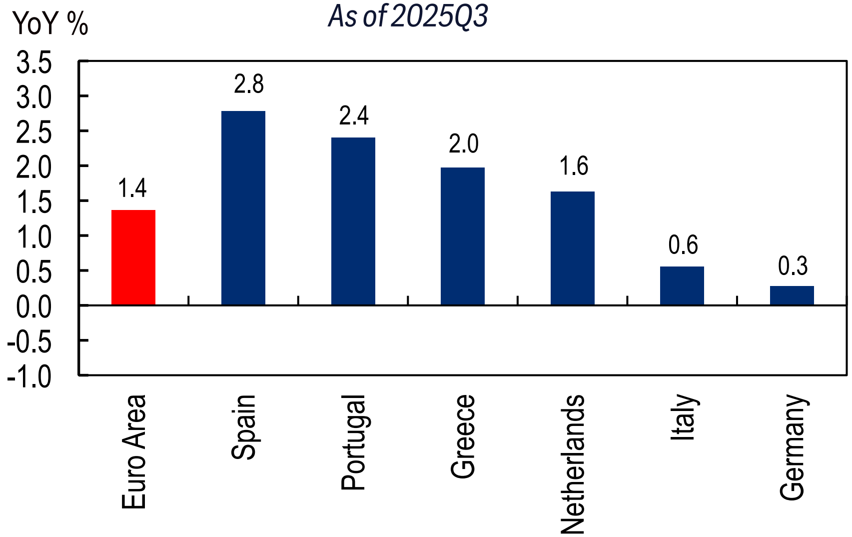


*Based on CBO's Jan 2025 baseline and adjusted with CBO estimates of the BBB and tariff revenue. **Light blue bars show annualized monthly data; December is estimate from daily tsy statement

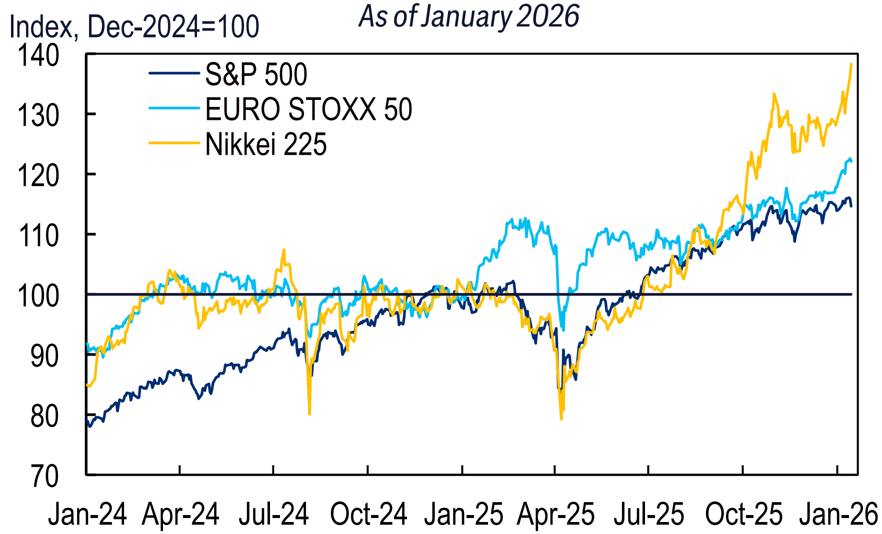
Source: Citi Research, CBO, Census, BIS, Haver

Euro Area: Continued Signs of Improved Performance

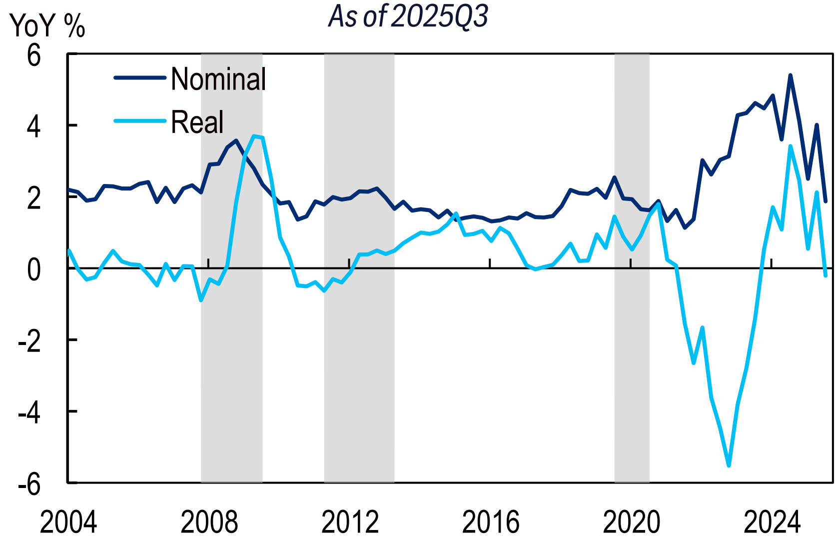
Real GDP Growth*
As of 2025Q3



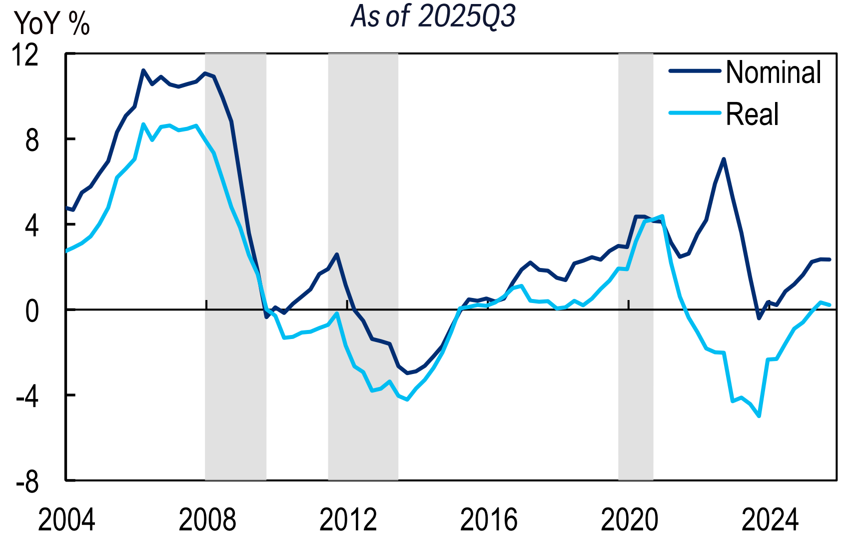
Global Equity Prices
As of January 2026



Negotiated Wage Growth*
As of 2025Q3



Credit Growth*
As of 2025Q3

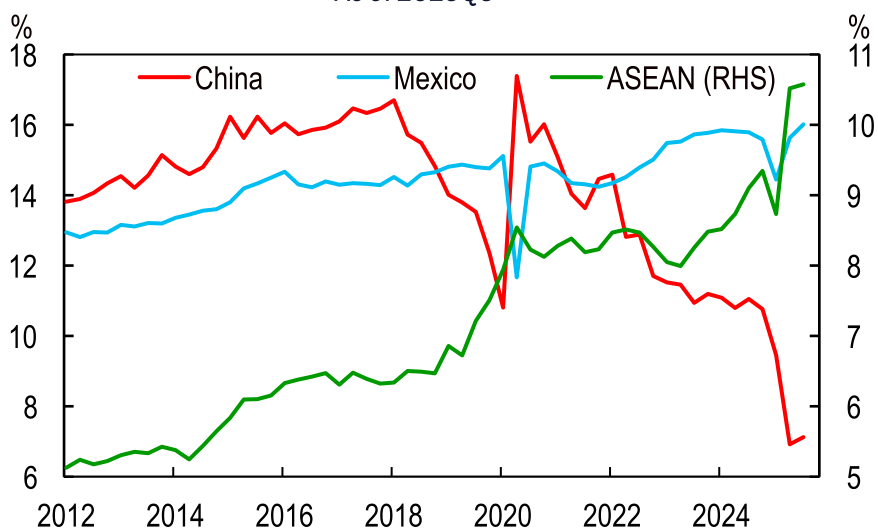


*Real measures deflated by the private consumption deflator; shading represents euro area recessions.
Source: Citi Research, National Statistical Sources, AGSI, Haver

Global Flows Have Shifted From China to Other Destinations

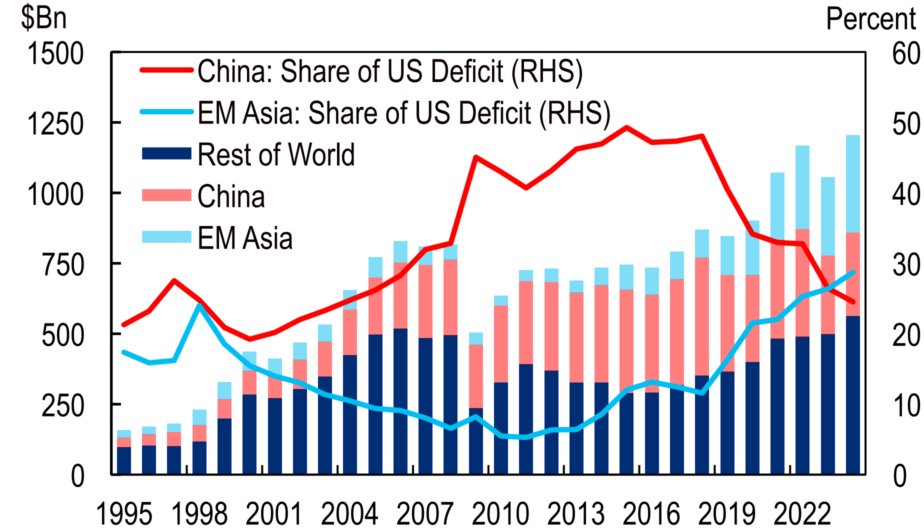
Share of US Trade: China, Mexico, and ASEAN*

As of 2025Q3



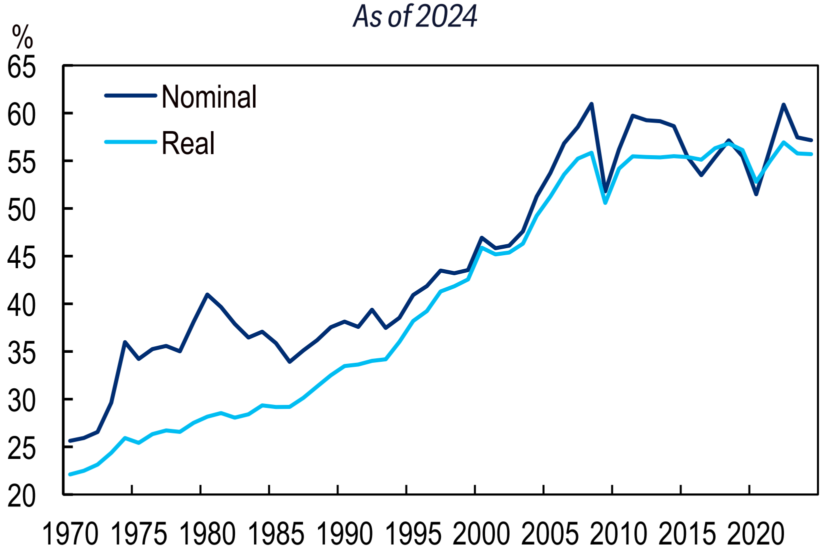
US Goods Trade Deficit

As of 2024



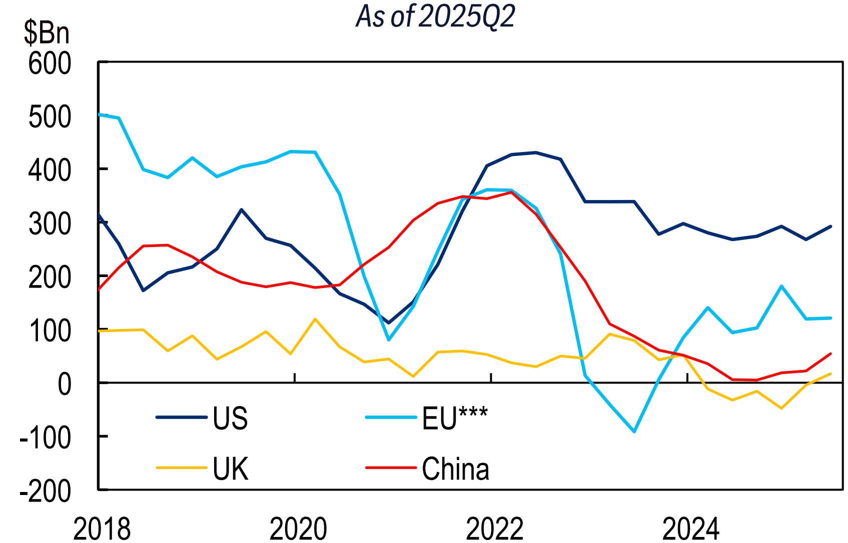
Global Trade (Share of GDP)**

As of 2024



Inbound FDI Flows

As of 2025Q2



*Trade is goods exports and imports; ASEAN data are seasonally adjusted by Citi using Haver's toolkit . **Trade is exports plus imports of goods & services. ***Data for EU excludes Luxembourg.

Source: Citi Research, State Administration of Foreign Exchange, Bureau of the Census, IMF, OECD, Haver Analytics

Many Major Countries Face Fiscal Challenges

Fiscal Vulnerability Assessment

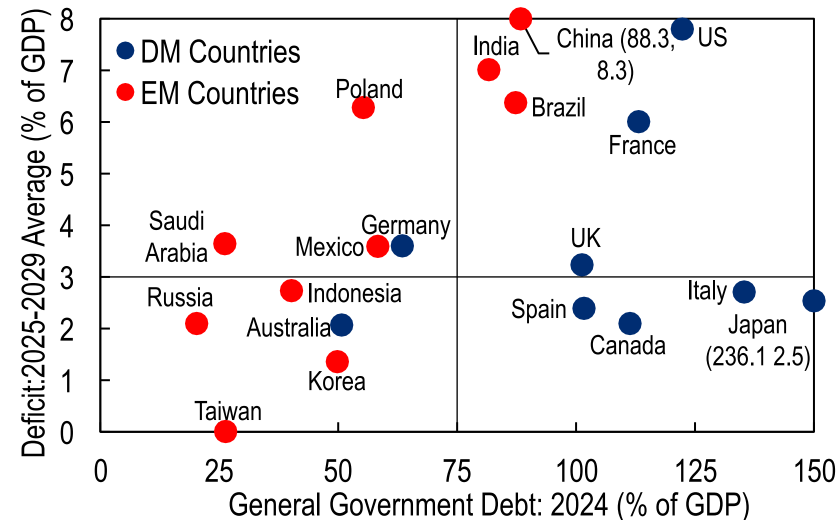
As of 2024

	Public Debt	Fiscal Deficit	Net Interest	Net Interest	Private Debt	Overall Rank
	% of GDP			% of Revenue	% of GDP	
France	113	5.8	1.9	3.7	216	21
United States	122	8.0	3.4	11.4	143	20
Belgium	105	4.5	1.7	3.3	180	19
United Kingdom	101	5.7	2.0	5.1	138	18
Italy	135	3.4	3.7	7.9	94	17
Israel	68	8.3	3.2	8.9	112	16
Japan	236	1.5	0.4	1.0	181	15
Canada	111	2.0	0.1	0.3	218	14
Spain	102	3.1	1.8	4.3	124	13
Austria	81	4.6	1.0	2.0	133	12
New Zealand	50	3.6	1.2	3.1	160	11
Finland	82	4.4	0.1	0.2	181	10
Netherlands	44	0.9	0.4	1.0	264	9
Australia	51	2.3	0.9	2.4	173	8
Portugal	95	-0.7	1.9	4.4	131	7
Germany	63	2.7	0.9	1.8	139	6
Sweden	33	1.7	0.1	0.2	249	5
Switzerland	38	-0.6	0.1	0.3	262	4
Norway	43	-13.2	-2.8	-4.5	233	3
Ireland	39	-4.1	0.4	1.4	150	2
Denmark	31	-4.5	-0.8	-1.5	211	1

Methodology: The heatmap divides the 21 countries into buckets of three using general government data. Overall score is average rank across the five categories using [.25, .25, .125, .125, .25] as weights.

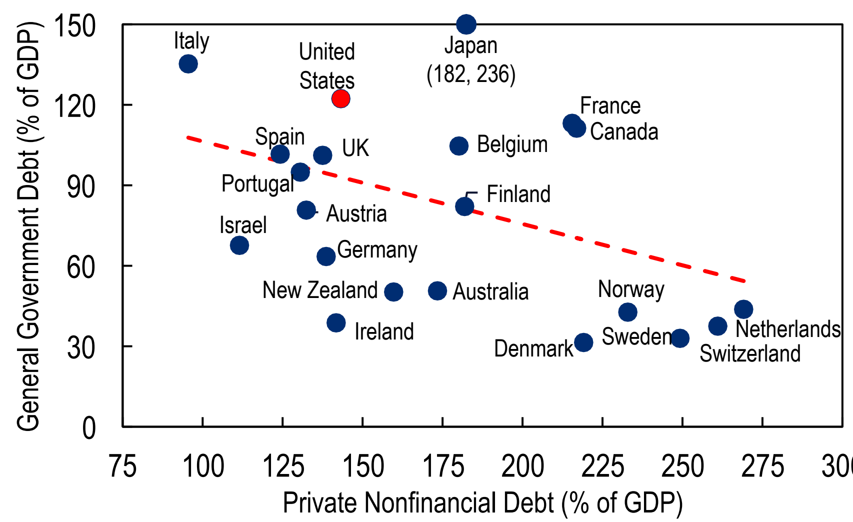
Public Debt & Fiscal Deficit Projections (IMF)*

As of 2024



Private Nonfinancial & Government Debt

As of 2024

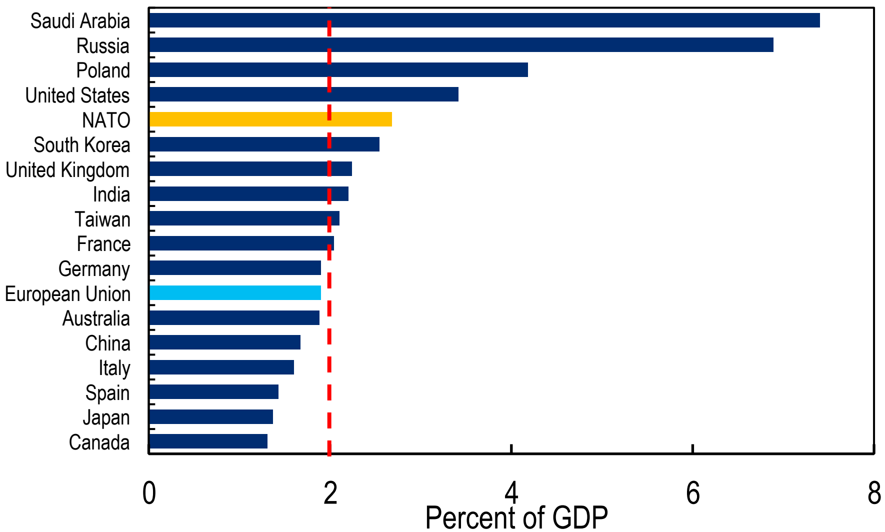


*Data are for general government.
Source: Citi Research, IMF, BIS, Haver Analytics

Defense Spending Must Seek to Balance Geopolitical & Economic Realities

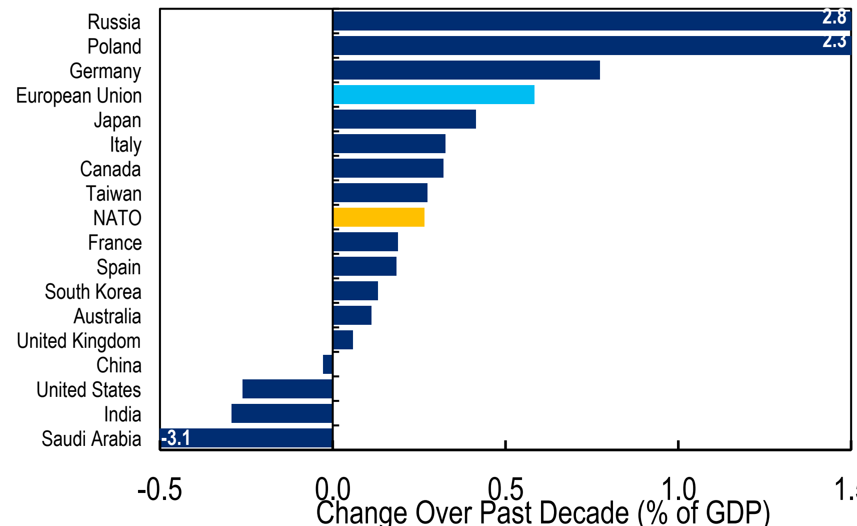
Defense Spending in 2024 (% of GDP)

As of 2024



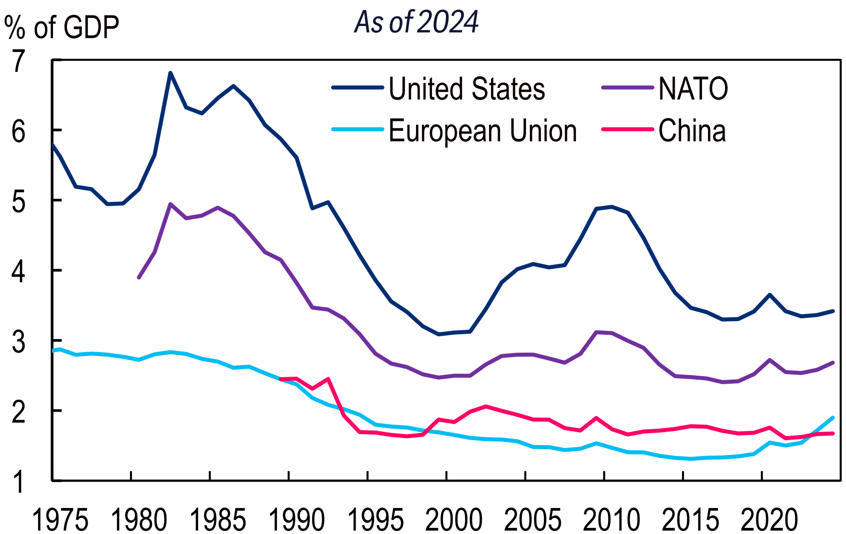
Change in Defense Spending: 2014 to 2024 (% of GDP)

As of 2024



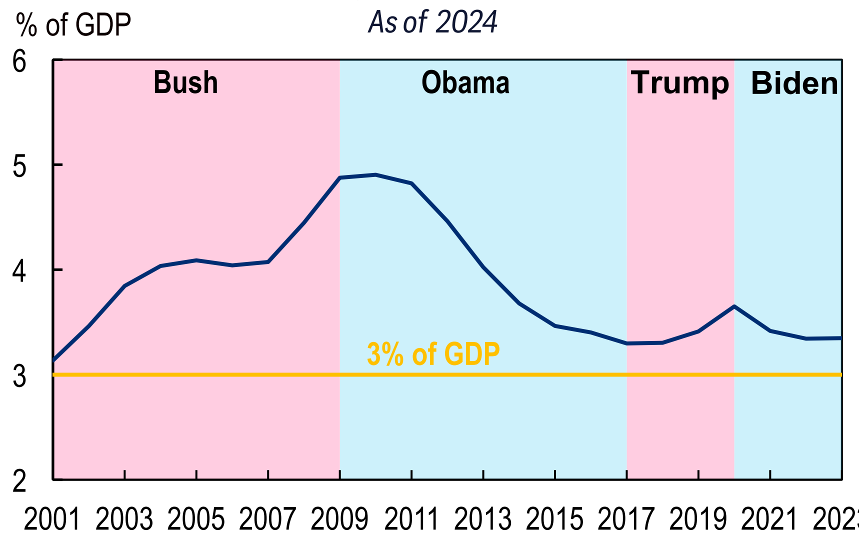
Defense Spending in Recent Decades (% of GDP)

As of 2024



US Defense Spending across Presidents (% of GDP)

As of 2024

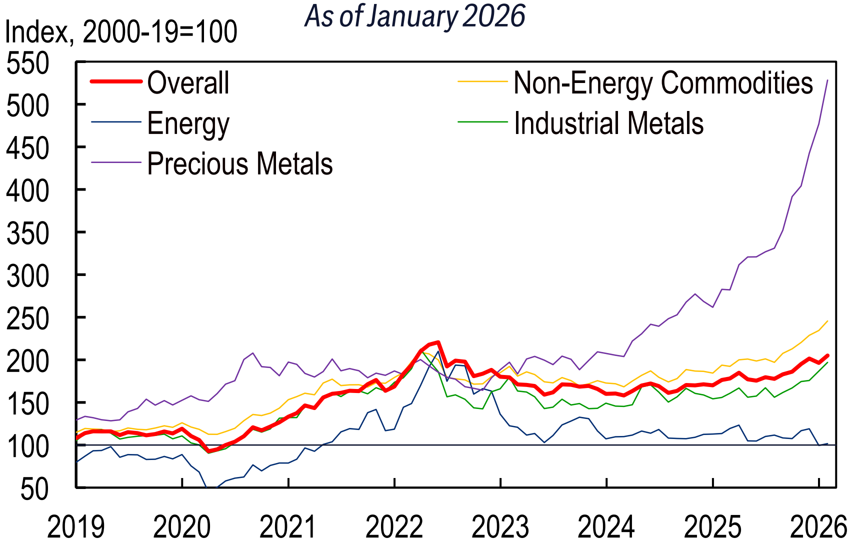


Source: Citi Research, SIPRI, NATO, IMF, Haver Analytics

Global Commodities—Tariffs and Geopolitical Developments Are in Focus

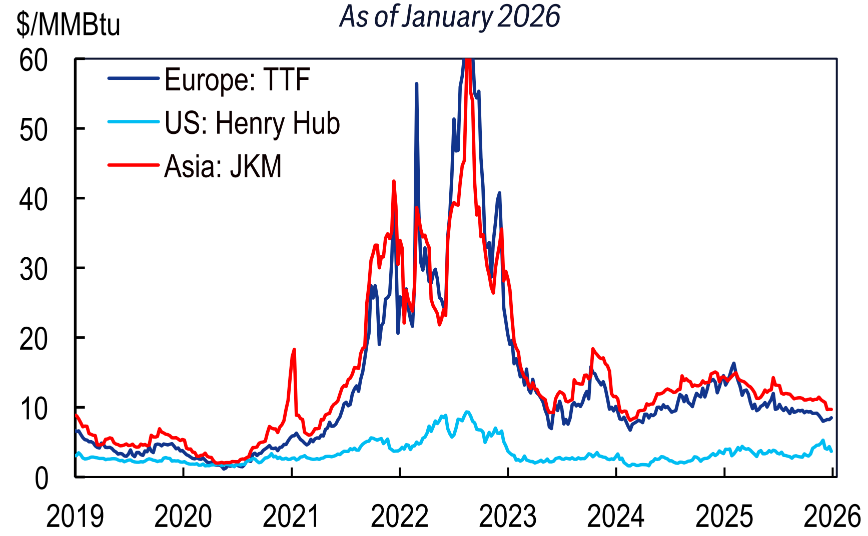
Commodity Spot Price Indexes

As of January 2026



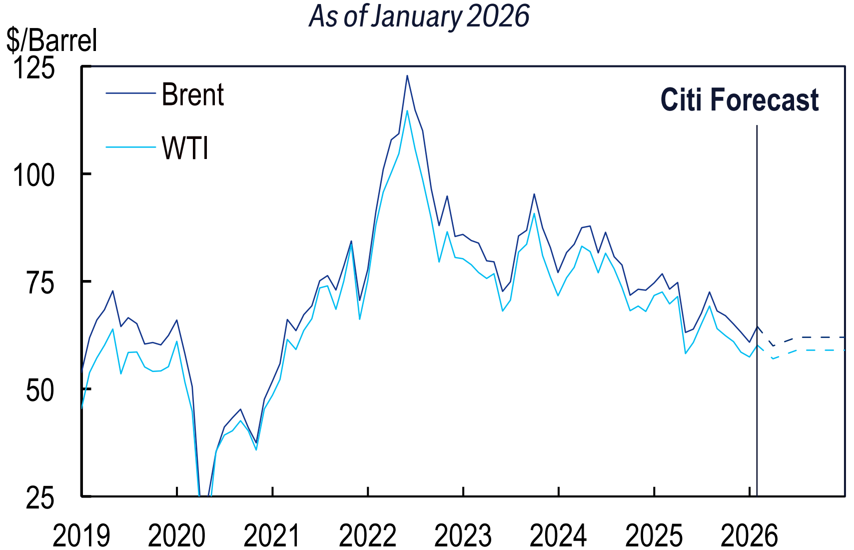
Natural Gas Spot Prices

As of January 2026



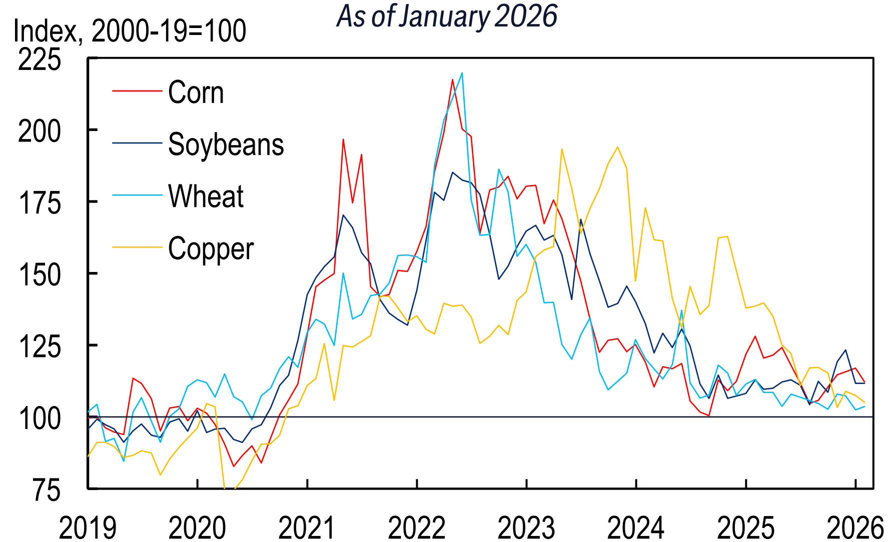
Spot Oil Prices

As of January 2026



Commodity Spot Prices

As of January 2026

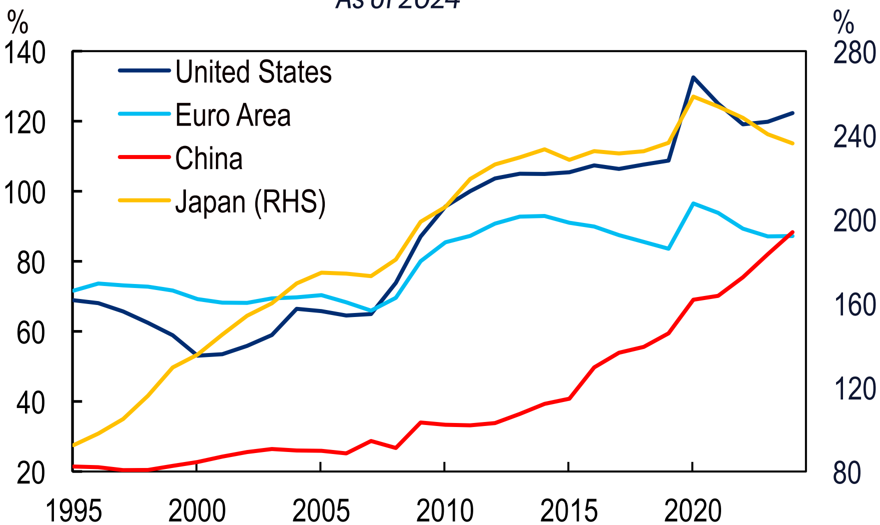


Source: Citi Research, Bloomberg

Public Debt is Elevated, but Private Balance Sheets Remain Healthy

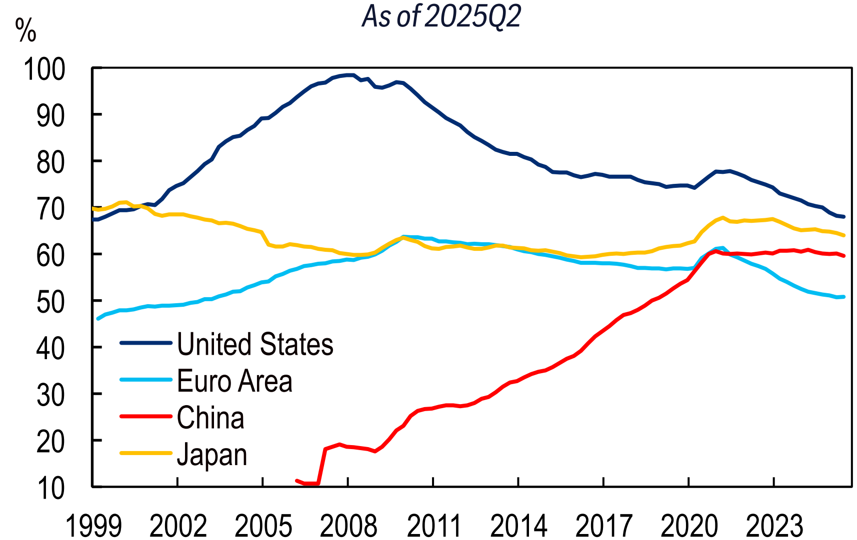
General Government Debt to GDP Ratio*

As of 2024



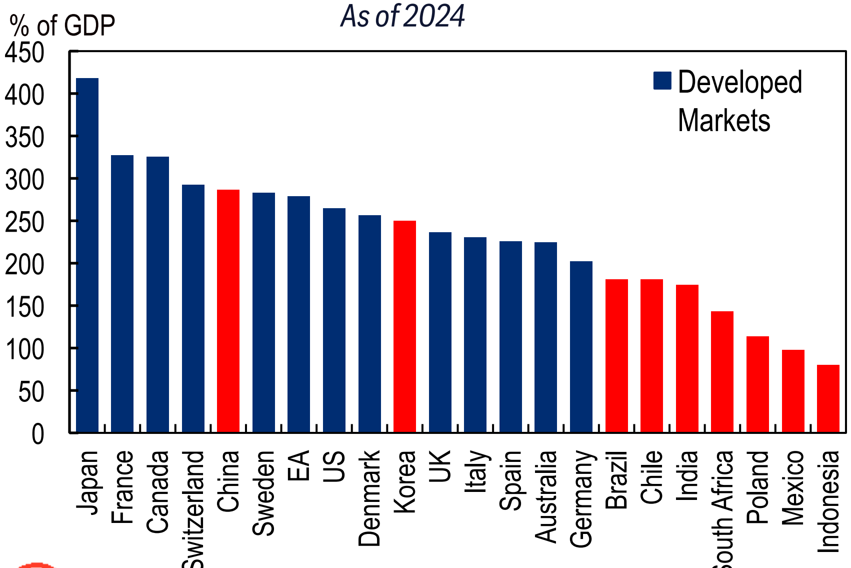
Household Debt to GDP Ratio

As of 2025Q2



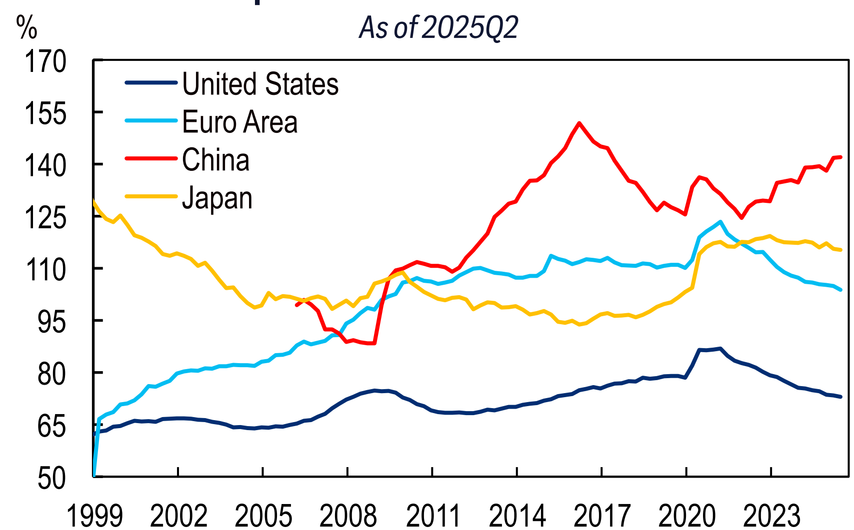
Total Nonfinancial Debt**

As of 2024



Corporate Debt to GDP Ratio

As of 2025Q2



citi

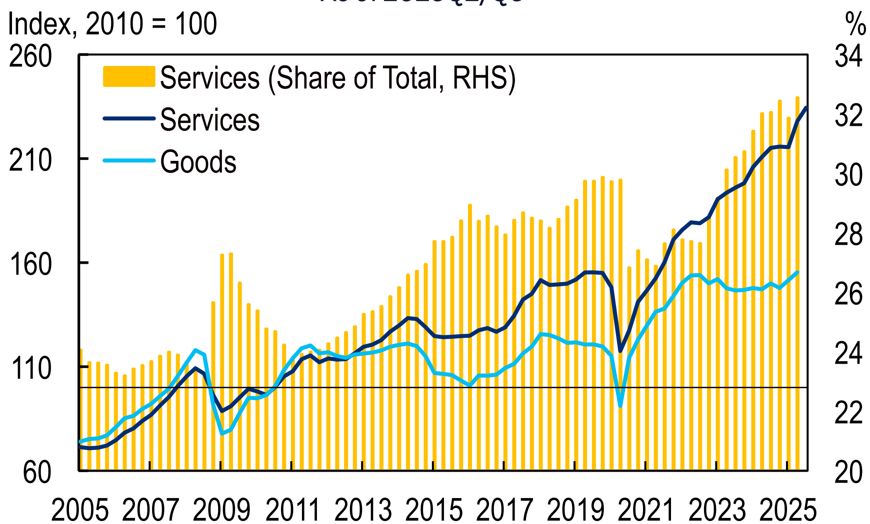
*Data from the IMF, US data pre-2001 are from the OECD. **Debt of the government, corporates, and households.

Source: Citi Research, National Statistical Sources, BIS, Moody's, IMF, OECD, Bloomberg

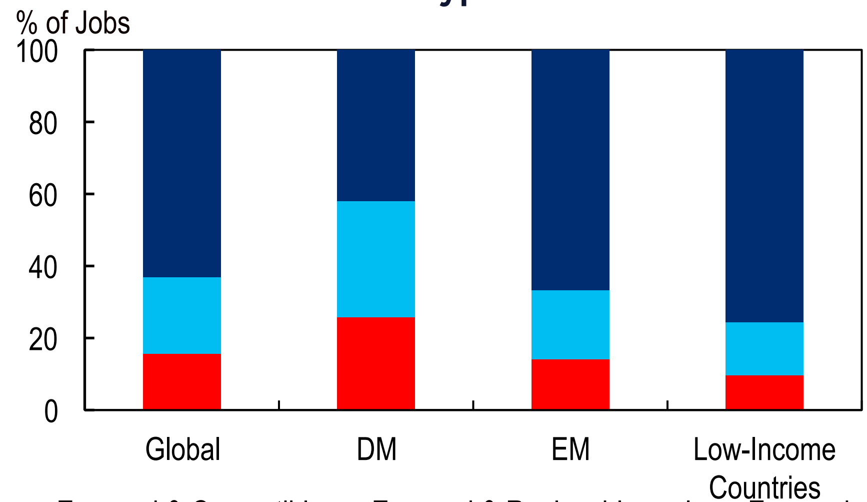
Shifting Global Contours—AI & Services Trade

Global Exports: Nominal Goods & Services*

As of 2025Q2/Q3

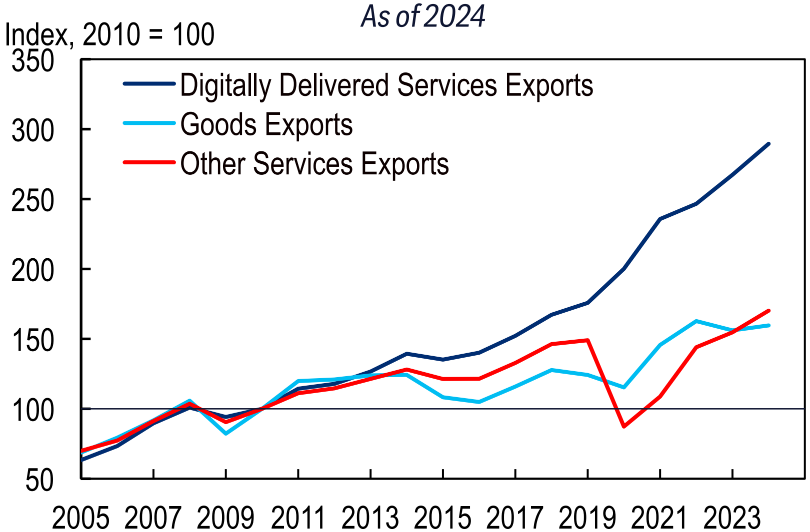


Does AI Help or Hurt Workers—Exposure across Job Types**

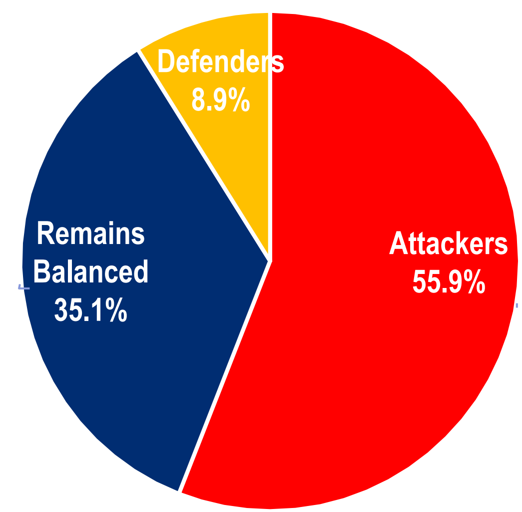


Global Nominal Exports by Type

As of 2024



Survey Question: "In the next two years, will GenAI provide cyber advantage to attackers or defenders?"***



*Comprised of 36 countries. **Results were published by the IMF on January 14, 2024. ***World economic forum survey of 199 global cyber leaders; conducted from June-Oct 2023.
Source: Citi Research, OECD, WTO, Haver Analytics

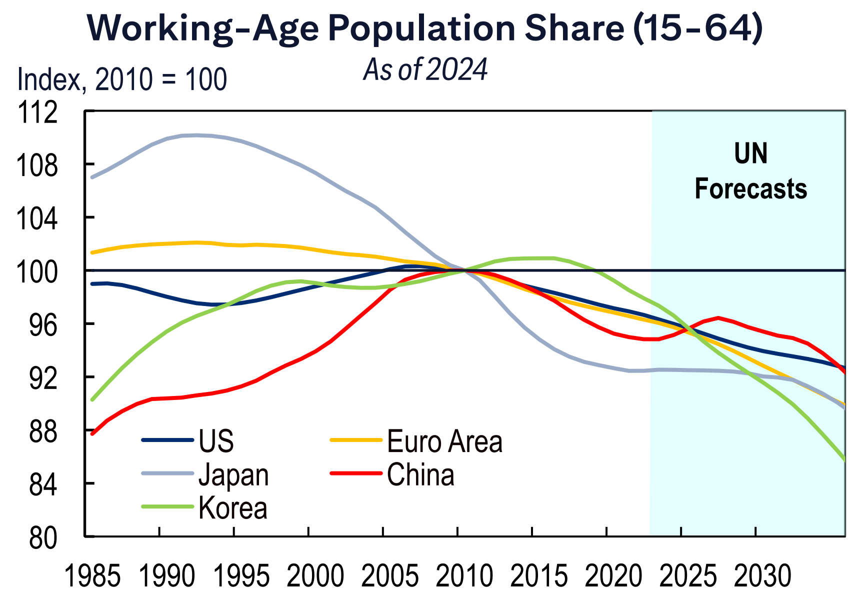
Some Longer-Term Forces Shaping Economic Performance

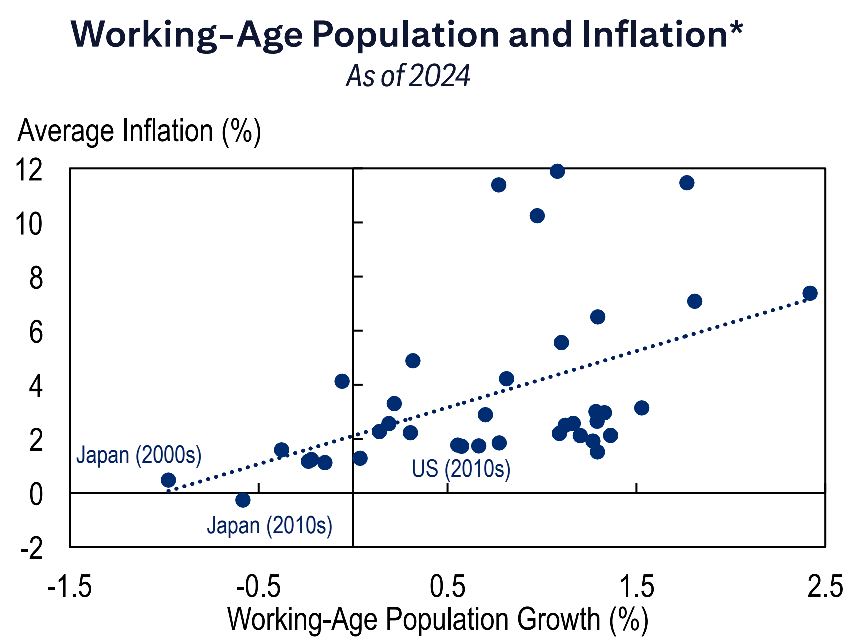
Pre-Pandemic Factors

- *Aging demographics*
- *High public debt levels*

Potential Post-Pandemic Drivers

- *Emergence of AI*
- *Innovation/productivity*
- *De-globalization?*
- *Geopolitical Realignment*
- *Long-run effects of tariffs*





*Decadal averages (70s, 80s, 90s, 00s and 10s) for 10 Developed Markets; two outliers are excluded.
Source: Citi Research, UN, IMF, Haver, Bloomberg

Related Research

Links:

- Global Economic Outlook & Strategy: “Goldilocks” Baseline but Lingering Risks
- The Still-Rising U.S. Public Debt: Twelve Questions & Answers
- Productivity & the AI Revolution: Implications for the Economy and Markets
- Money and Might 2.0: Balancing Choices
- Foreign Direct Investment: Global Implications of "America First" Policies
- The Digital Transformation of the Global Economy: Riding the Wave of Virtual Progress
- Geopolitics: Implications for the Economy & Markets