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THE US ECONOMY IN 2026: NO MORE FIREWORKS

Berenberg Macro View

Click [here](#) for the slide deck on the US outlook for 2026.

Growth deceleration: President Donald Trump's anti-growth policies, tariffs and an immigration crackdown will continue to weigh on economic activity in 2026. Without artificial intelligence (AI) related investment, a rebound from the government shutdown, accommodative financial conditions and fiscal stimulus from the One Big Beautiful Bill, the US economy would likely stagnate this year. We expect US real GDP growth to slow from 2.4% in 2024 (on a Q4/Q4 basis) to 2.1% in 2025 and further to 1.5% in 2026.

Capped potential: For the first time since the 1918 Spanish Flu, the Second World War and the COVID-19 pandemic, the US resident working age population may decline on a year-over-year basis in 2026. With near-zero or negative net immigration in 2025 and 2026, the US economy is unlikely to deliver GDP gains close to those recorded in Q2 and Q3 2025 this year.

Another year of above-target inflation: As many anticipated, tariffs proved inflationary and pushed up prices for both imported and domestic goods. The tariff sting is not over. Businesses have so far likely passed around half of the tariff costs to consumers. With fears of a sharp pullback in consumer spending mostly in the rear-view mirror, firms should continue to pass through remaining costs in the first half of this year. Goods inflation should then peak around mid-2026 and gradually ease thereafter. However, services excluding housing inflation will likely remain sticky throughout the year, as the drought in labour supply from the immigration crackdown drives renewed wage pressure and loose fiscal policy sustains demand. Nonetheless, continued shelter disinflation should prevent both headline and core inflation from finishing the year above 3% yoy.

Slower job growth under Trump 2.0: Immigration restrictions have effectively capped the available pool of workers. The situation will likely worsen this year due to a new \$100k application fee for the H1B visa (a US work visa for skilled foreign professionals). If labour demand recovers to some extent amid fiscal stimulus and easing uncertainty, labour supply will likely fail to keep up. Employment gains in 2026 should be tepid and the unemployment rate will likely fall from its current level of 4.6% and stay stable at around 4.3% for most of the year.

A new era for the Fed? Trump landed several punches to the Fed's independence in 2025. Another punch, and potentially a more effective one, could come if the Supreme Court allows Trump to remove Lisa Cook from her role as a Governor. In addition, if Powell resigns from his Governor position when his term as Chair ends in May 2026 (he can remain on the board as a Governor until January 2028), two seats on the Fed Board would become available. Perhaps one could go to Kevin Warsh and the other to Kevin Hassett. A more politically aligned Fed Board could push the yield curve steeper, with the short end hovering around zero in real terms while the long end rises. We expect the Fed to deliver only one rate cut this year: a 25bp reduction in June 2026 (taking the funds rate to the 3.25-3.50% target range), reflecting a change in Fed leadership and political pressure from Trump. After that, further cuts appear unlikely, as Fed officials will struggle to shift policy into accommodative terrain while inflation remains well above target.

Though not our base case, recession less unlikely in 2026 than 2025: The National Bureau of Economic Research (NBER) determines whether the US is in a recession based on aggregate economic indicators, not

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per capita figures. Therefore, a near-flat or potentially negative population growth in 2026 mechanically increases the risk of the US falling into a recession. Without immigration support, employment could fall persistently in 2026. Inflation-adjusted incomes could also decline in the absence of job growth and persistent inflation. Consumption, manufacturing and trade sales, and industrial production largely depend on household wealth gains and AI-driven investments. Ultimately, a “jobless expansion” is possible, but the risk of recession is higher, especially if the AI boom fizzles.

While we expect US growth to slow this year, an ultra-accommodative monetary policy stance under political pressure, a substantial rollback of Trump’s immigration and trade policies, and fiscal expansion with larger-than-expected multiplier effects could drive an upside surprise to our outlook.

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