Rothschild & Co
Asset Management



Resilience has a price



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Resilience should not be mistaken for stability. Behind relatively robust headline global growth lies an increasingly challenging combination of persistent inflation, elevated interest rates, geopolitical disruption, fiscal pressures and exceptionally strong investment in artificial intelligence (AI).

A resilient, but divided global economy

As impressive as this year's expansion has been in the face of a significant energy shock, economic buffers are becoming increasingly stretched and growth remains highly uneven. Countries benefiting from the technology and investment cycle are travelling along a very different path from economies exposed primarily to higher energy and financing costs, and energy importers outside the technology value chain appear particularly vulnerable.

Nowhere is this divergence clearer than in the US. Growth did not falter despite higher interest rates and elevated energy prices. Consumer spending has proved more resilient than expected, while capital expenditure, led by AI-related investment, has accelerated sharply.

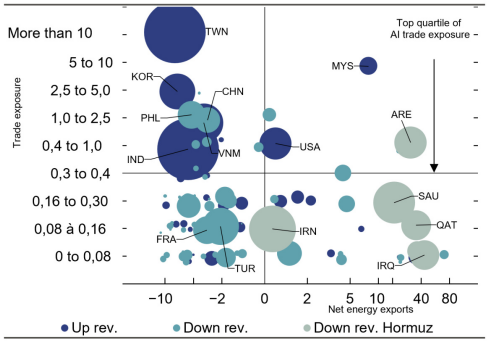
Yet this resilience masks growing disparities. Strong financial markets and rising asset values have disproportionately benefited higher-income households, while lower-income consumers remain much more exposed to the cumulative increase in food, energy, housing and financing costs. The sharp Democratic gains in the November midterm elections therefore highlight an important economic as well as political tension: robust

aggregate growth has not necessarily translated into improving living standards across the income distribution.

This matters because the resilience of the US consumer is increasingly intertwined with financial markets. With household exposure to equities unusually high, a prolonged market correction – amid a reassessment of AI-related returns, or a renewed increase in long-term interest rates – could generate a meaningful negative wealth effect and, in turn, weigh on consumer spending.

World – Cumulative growth rev. 2026-27

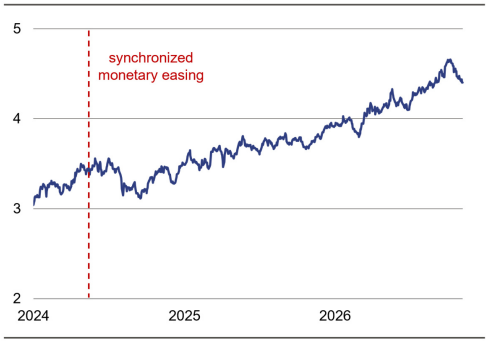
in % of GDP, by net exports, energy and AI



Sources : IMF, Rothschild & Co Asset Management, 30/10//2026

World – Sovereign LT yield

in %, Bloomberg index, 10 yr +



Sources : Bloomberg, Rothschild & Co Asset Management, 30/10/2026

Central banks walking a tightrope

The economic consequences of AI extend well beyond equity valuations. In the optimistic scenario, AI raises productivity, increases potential output and ultimately becomes disinflationary by allowing economies to generate more output with fewer resources.

But timing matters. Before these productivity gains can fully materialise, the AI revolution requires enormous quantities of physical and financial capital: data centres, semiconductors, electricity-generation capacity, grid infrastructure and increasingly scarce skilled labour. The scale of this investment is already creating bottlenecks and price pressures across parts of the technology and energy complex.

This creates an important paradox: AI may ultimately prove disinflationary, but the investment boom required to realise those gains may initially be inflationary and capital-intensive.

More fundamentally, the AI investment cycle is contributing to a broader shift in the global savings-investment balance. AI infrastructure, defence expenditure, energy security and the energy transition are all competing for capital at the same time that governments are running large fiscal deficits. This combination may have raised the equilibrium long term interest rate, meaning that monetary policy could become less restrictive even without rate cuts. The possibility of a structurally higher neutral rate is arguably one of the most important macroeconomic questions facing investors today.

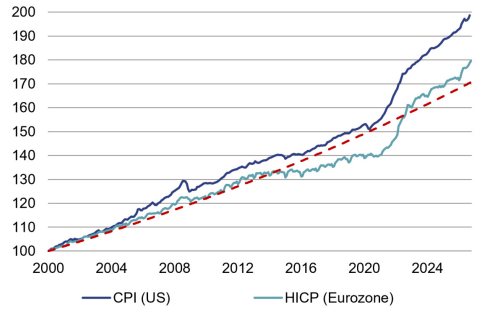
This leaves central banks operating in an exceptionally murky environment. In October, the Fed maintained its federal funds target range at 3.75% to 4.00%[1], following September's 25-basis-point increase. But this pause should not be interpreted as the end of tightening. Rather, it represents a hawkish wait-and-see stance, and another rate increase in December remains a distinct possibility.

The ECB faces a related but more difficult problem because the eurozone is considerably more exposed to the negative growth effects of the energy shock. Higher energy costs simultaneously raise headline inflation, weaken household purchasing power and deteriorate firms' margins. Nevertheless, the economy has proved more resilient than feared, supported by relatively robust labour markets, trade, public investment and technology-related capital expenditure.

The central question for the ECB is therefore whether the energy shock remains predominantly a relative-price shock or begins to generate broader second-round effects through wages, services prices and inflation expectations. A further rate increase in December remains possible, with considerable uncertainty surrounding the path of monetary policy in early 2027.

Adv. Eco. – Price index

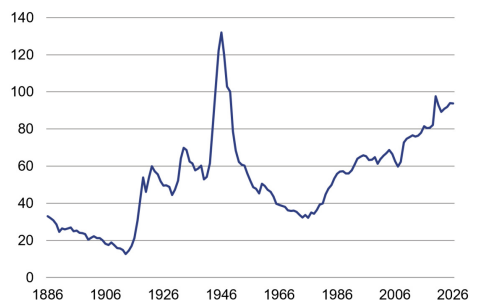
index, dashed = ann. growth 2 %



Sources : Macrobond, Rothschild & Co Asset Management, 30/10/2026

World- Public debt

in % of GDP



Sources : IMF, Rothschild & Co Asset Management, 30/10/2026

The return of the fiscal constraint

Monetary policy, however, is only part of the story. Perhaps the most important change in the post-pandemic macroeconomic environment is that fiscal policy can no longer rely on exceptionally cheap financing.

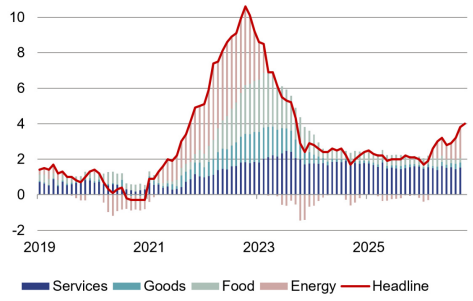
Large structural deficits, ageing populations, defence spending, energy investment and infrastructure requirements are increasing government borrowing needs precisely when interest rates have moved structurally higher. Fiscal policies designed during the era of exceptionally low rates are consequently becoming increasingly difficult to sustain, particularly in economies where debt levels are already elevated.

This changes the role of bond markets in the macroeconomic adjustment process. Governments face a trade-off between supporting growth and preserving fiscal credibility, while central banks must account for the tightening effect of higher long-term sovereign yields even if policy rates themselves remain unchanged.

Europe is particularly exposed to this interaction. Highly indebted governments refinancing debt at significantly higher yields face progressively larger interest burdens, while widening sovereign spreads can tighten domestic financial conditions independently of ECB policy. France has become one visible example of this renewed investor scrutiny of fiscal trajectories.

Eurozone – Inflation rate

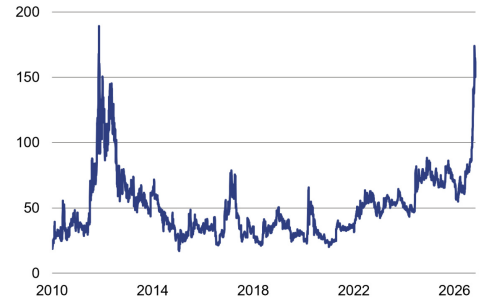
in %, contributions



Sources : Macrobond, Rothschild & Co Asset Mangement, 30/10//2026

Eurozone – French-German yield spread

in %, 10 years



Sources : Bloomberg, Rothschild & Co Asset Management, 30/10/2026

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The paradox confronting the global economy is therefore becoming clearer. AI investment supports growth but absorbs enormous quantities of capital. Fiscal spending cushions activity but increases government borrowing requirements. Elevated asset prices support consumption but make growth more sensitive to financial-market corrections. Geopolitical fragmentation encourages investment in defence, supply-chain resilience and energy security but raises production costs. And all of these forces are competing for financing at a time when the global cost of capital has risen substantially.

The common denominator is that resilience itself has become more expensive.

The key question for 2027 is therefore not simply whether growth can remain resilient, but whether the productivity gains generated by today's investment boom arrive quickly enough to offset a structurally higher cost of capital.

If they do, AI investment could validate elevated asset valuations, raise potential growth and ultimately ease inflationary pressures. If they do not, investors may discover that what looked like economic resilience was partly the consequence of increasingly expensive financial, fiscal and technological buffers.

Performance of the indices and interest rate levels

	Price as of 30/10/2026	1 month % change	2026 % change
Equity markets			
CAC 40	7 969	0.1%	-2.2%
Euro Stoxx 50	6 131	-2.2%	5.9%
S&P 500	7 580	-0.9%	10.7%
Nikkei 225	63 290	-5.2%	25.7%
Currencies			
EUR/USD	1.12	-1,5%	-5.0%
EUR/JPY	175.8	-1.4%	-4.5%

Interest rates	Price as of 30/10/2026	1 month bp(1)	2026 bp(1)
3 month			
Eurozone	2.70%	0	59
United States	4.08%	-3	45
10 years			
Eurozone	3.32%	-26	47
United States	4.93%	-36	76

(1) Basis point.
Source: Bloomberg. data as of 30/10/2026. Performances in local currency.
Past performance is not a reliable indicator of future performance and is not constant over time. Index's performance is calculated on the basis of net dividend reinvested

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(1) Source : Fed, 30/10/2026

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More information at: www.am.eu.rothschildandco.com

(1) Source: Rothschild & Co Asset Management, 31/07/2026.

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