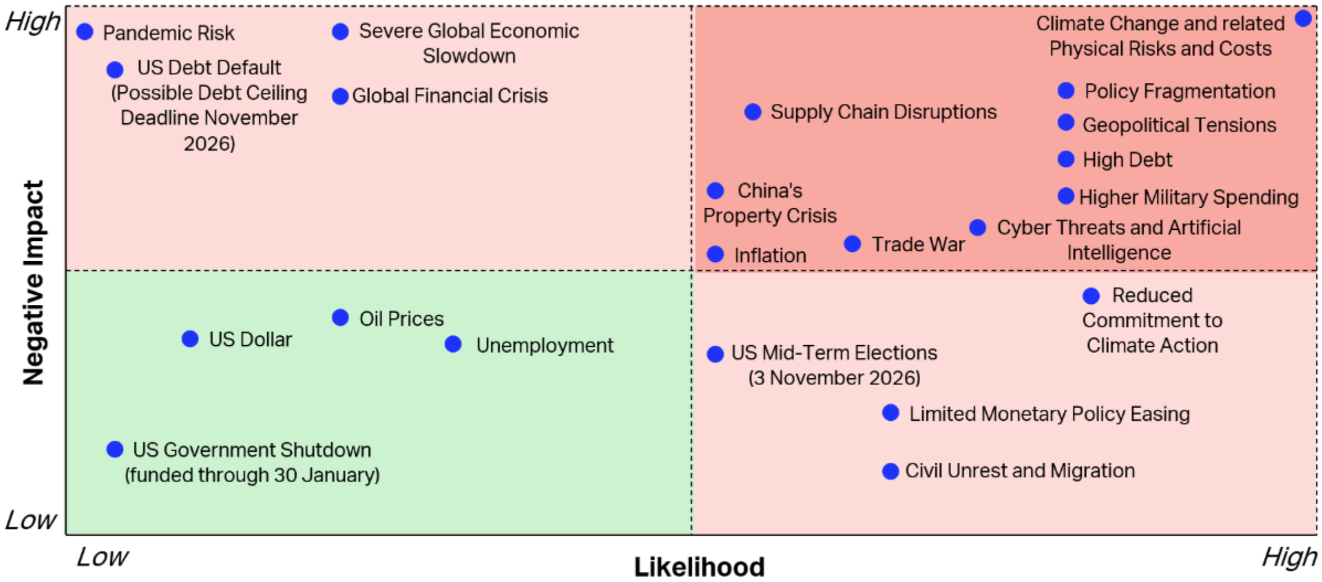
BRIEF

An assessment of risks in 2026: Converging risks and vulnerabilities

As we are approaching 2026, we assess the overarching risks to the global economy that are likely to characterize the new year. Our assessment is purely qualitative, and perception based. It is not meant to be exhaustive nor in any way dogmatic. Our purpose is to scan the landscape, promote awareness, and stimulate conversations.

The matrix below orders potential risks with respect to their likelihood of occurrence on the horizontal axis, and the extent of their possible negative impact on the global economy on the vertical axis.

Chart 1: Risks in 2026



Source: IATA Sustainability and Economics

Climate change: Climate change is and will continue to disrupt lives, livelihoods, and productivity around the globe. Extreme weather, commodity price swings, supply chain stresses, etc., can affect agriculture, infrastructure, global trade, and investment flows. A successful energy transition requires stable policies and reliable financing. In an unstable environment, assets can be left stranded, and opportunities can be missed, slowing progress and harming growth in some regions. Associated risks include greater food and water insecurity, and increased migration. The world has turned more hostile towards immigration, despite it being an effective solution for many major economies' aging populations. The total number of displaced persons reached 123.2 million in 2024, a near doubling over the preceding decade.[1] Both welcoming them and not welcoming them will put pressure on borders and support systems. The reduced commitment to addressing

[1] UNHCR, "Global Trends", June 2025.

climate issues in a coordinated manner across the world will undoubtedly slow, though not halt, progress on all these fronts.

Policy fragmentation: The International Peace Institute and the Institute for Economics and Peace (IPI-IEP) produce a Multilateralism Index[2] which shows declines across all five domains measured in the 2024 edition. Peace and Security shows the most deterioration, with armed conflicts rising from 39 in 2013 to 55 in 2022. The General Agreement on Tariffs and Trade (GATT) and its successor the WTO (World Trade Organization), formed in 1995, helped bring tariffs down from around 22% in 1947 to under 5% by 1994.[3] These decades of trade liberalization have now been replaced with a more fragmented trade order. Other UN organizations face a similar loss of relevance. In global civil aviation we can see an increase in national and regional policy initiatives that depart from ICAO's 80 years of global harmonization. Competing frameworks for addressing CO_2 emissions from air transport limit progress in this area, and fragmented taxation introduces competitive distortions and threatens the maintenance of the global network. We find many similarities between the current geopolitical fragmentation and the interwar period (1918-1939), characterized by slowing trade, rising debt, and increased nationalism.

Debt and financial instability: Total global debt (including sovereigns, corporates, and households) is estimated by the IMF at just above 235% of global GDP in 2024, the highest ever barring the covid years of 2020 and 2021.[4] With the average global fiscal deficit at 5% of GDP, public debt continues to rise. In countries that together represent 80% of global GDP, the pace of debt accumulation is increasing. Global debt has risen faster than GDP over the decade to 2024, at around 49% versus a 46% gain in GDP. Such historically high debt levels expose the world economy to greater interest rate sensitivity and debt-service burdens. This also limits the room for conducting a mix of fiscal and monetary policy that countries' specific economic conditions might warrant. High public debt tends to crowd out investment. Corporates and households are more prone to bankruptcies and defaults on debt payments, which risk contagion across financial systems. Stock market valuations are above long-term historical averages for global equities. In the US, the market-capitalization-to-GDP shows that equity valuations are high compared to overall economic output. The high degree of market concentration, particularly in the US, also has significant implications for risk and volatility. The "magnificent Seven", i.e., Apple, Microsoft, Nvidia, Alphabet, Amazon, Tesla, Meta) have driven over 50% of S&P 500 gains since 2020.[5] Any corrections in these stocks will have outsized impacts on broader markets. Large and persistent current account imbalances add to dependencies on cross-border capital flows. While these factors converge to lift risks in 2026, the probability of a global financial crisis in 2026 remains low to medium.

The US mid-term election on 3 November 2026 could give the Democrats a majority in the House of Representatives, which would curtail the legislative capacity of the Trump administration. However, the risk of turmoil around the election and it possibly being contested is present. In such a context, further instability could surround the need to extend the debt ceiling, likely to be necessary in November (current limit is USD 41.1 trillion). Failure to extend the debt ceiling would risk the US defaulting on its debt payments, which low-likelihood scenario would have catastrophic consequences and trigger a global financial crisis.

US government shutdown: The last time the US Congress passed a full, regular appropriations bill covering all federal spending for a fiscal year (running from 1 October to 30 September) was in 2019. Instead, government functions with Continuing Resolutions (CR) and omnibus spending bills. Spending authority after the record-long 2025 government shutdown now runs until 30 January 2026. Logic would have it that a shutdown is now less likely in 2026, though the risk is present.

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[2] IPI, IEP, "Multilateralism Index 2024", October 2024.
[3] Trade Treasury Payments," History of tariffs: From ancient times to the modern day", June 2025
[4] Vitor Gaspar, Goncalves, Ribeiro, "Global Debt Remains Above 235% of World GDP", IMF, September 2025.
[55] MSCI.

China's property crisis: This risk is abating as the property sector is likely to transition from crisis to partial stabilization. New home prices rose in November 2025 but prices in the secondary market are still falling at a rapid rate, illustrating that oversupply, weak demand, and low liquidity continue to plague the market. Recent turmoil surrounding a major state-backed developer's efforts to extend upcoming bond repayments highlights the lingering credit strains in the sector. While this should not cause widespread systemic impacts, the sector can be expected to remain a drag on GDP growth in China in 2026. To the extent that this limits China's economic growth, it will also weigh on the global business cycle.

Military spending: Global military spending reached USD 2.7 trillion in 2024.[6] That is an increase of 9.4% in real terms from 2023, which is the steepest year-on-year rise since at least the end of the Cold War. The spending increase occurred across all regions but was especially pronounced in Europe and in the Middle East. While security is unambiguously a necessity, such spending represents an opportunity cost that limits progress in other areas. Peace, on the other hand, can produce a "peace dividend" as economic resources are freed up when military spending falls or wars end. After WWII and the Cold War, the peace dividend added an estimated 0.6 to 0.9% to GDP across regions.[7]

The external value of the US dollar is important to the global economy because of its dominant share in invoicing and cross-border payments. Over the very long term, the USD is a trend-depreciating currency with periods of appreciation. Environments that promote a stronger US dollar are when the Federal Reserve is tightening monetary policy, and when turmoil sparks a flight to safety among investors. Currently, the Fed is in rate-cutting mode, and global uncertainty has rather uniquely favored other safe havens, such as gold and the Swiss franc. Add the lack of fizz in the US economy, persistent budget and current account deficits, and potentially greater reservations about US stock market valuations, the US dollar appears most likely to pursue its depreciation in 2026 against the sum of its trading partners' currencies (though not against all individual currencies). A weaker US dollar tends to benefit all non-USD-based countries who will pay less in local currency for their USD-denominated debt and trade. This is of course important for air transport where not only fuel but also a wide range of other major costs, including aircraft purchases, lease payments, maintenance, certain airport and navigation charges, global distribution systems, IT services, and more, are typically invoiced in US dollars. Altogether, these USD-denominated expenses can account for more than half of an airline's operating costs and a substantial portion of its capital expenditures.

Oil: The oil market is undergoing major structural change as demand is shifting in response to electrification and to greater use of liquefied natural gas (LNG) in road transport. Supply is expanding even as demand is slowing, leading to inventory build-up and putting downward pressure on prices. Modest global GDP growth is also weighing on demand. China has an outsized influence on the global oil market as the largest importer in the world. Its reduced demand growth and lower demand for fossil fuels in particular is affecting global crude import patterns, refinery outputs, and long-term investments in fossil-fuel infrastructure. While lower oil prices tend to support global economic activity, and reduce the fuel bill for airlines, the structural shifts in the global oil market poses some potentially counterintuitive risks of lack of supply of fossil jet fuel at certain airports.

The risks of higher inflation are moderate going into 2026, thanks to the modest GDP growth outlook, benign oil prices, and a depreciating US dollar. Moreover, deflationary pressure in China allows the rest of the world to import disinflation. Prices can still grind higher because of labor shortages, supply chain constraints, sticky service-price inflation and, of course, tariffs. Policy runs a greater risk of missteps as loose fiscal policy stands in opposition to any efforts to tighten monetary policy to combat inflation. On balance, this is likely to limit the extent of possible policy interest rate cuts, unless GDP growth falters more noticeably. Climate events will likely

[6] SIPRI, "Unprecedented rise in global military expenditure as European and Middle East spending surges", April 2025.
[7] Malcolm D. Knight, Loayza, Villanueva, "The Peace Dividend: Military Spending Cuts and Economic Growth", IMF eLibrary, January 1996.

drive volatility in food and commodity prices. This could spell a mild form of stagflation, where GDP growth is stagnant, but inflation remains above most central bank targets.

Cyber threats are growing in both frequency and importance. In this domain too we see a convergence of risks and vulnerabilities with artificial intelligence (AI) enhancing attackers' capabilities, geopolitical instability providing fertile breeding ground, and digital dependence exposing supply chains and organizations to greater risks. The airline industry's reliance on critical infrastructure makes the global air transport network particularly exposed, along with all other network industries. AI adds risks related to misinformation, loss of privacy, and erosion of trust, on top of those that might generate economic disruption, job displacement, and greater inequality. Proof of AI generating substantial profits and increased productivity are scarce at the current junction and might take years to materialize.

Higher unemployment would only be natural to expect in a world where global GDP seems to be stuck in the "average" zone. However, rather surprisingly, unemployment rates remain near historic lows in many economies. The ILO reports the global unemployment rate at 4.9% in 2024, the lowest since 1991.[8] In the US, the rate of job creation has slowed, roughly matched by fewer entrants in the job market.[9] This could be described as "bearish low unemployment" while historically such low rates have been associated with more buoyant underlying economic activity. This situation is likely to maintain upward pressure on wages in certain professions.

Pandemic risk is no longer limited to a once-in-a-century event, though the chance of such a crisis is estimated at a low 2% in any given year.[10] Nearly 10% of global land area is currently classified as being at high risk for disease outbreaks. The chances that the world responds to any such event with foresight, collaboration, and vaccine readiness is low given the decline in support for multilateral organizations.

The risk of a severe economic slowdown in 2026 seems limited unless we have underestimated the potential combined effect of the above converging risks and vulnerabilities. However, the current situation spells a period of weakening growth prospects which could come to characterize this century. Positive surprises could come in the form of more widespread peace, a successful energy transition that leverages on all its multiple avenues for growth, and increased global collaboration and harmonization.

[8] ILO, "World Employment and Social Outlook: Trends 2025 in figures", November 2024.
[9] Board of Governors of the Federal Reserve System, "Beige Book", November 2025.
[10] Gavi, "New study suggests risk of extreme pandemics like COVID-19 could increase threefold in coming decades", September 2022.