Macro Focus

LESSONS FROM THE PAST, VIEWS FOR THE FUTURE

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Despite our incorrect assumptions about the intensity and duration of the war in the Middle East, our growth and inflation forecasts published shortly after the outbreak of the conflict proved reasonably accurate, reinforcing our long-standing view that the underlying trend remains disinflationary albeit slow as supply shocks keep getting in the way.

Looking ahead, we have decided to decouple our macro baseline from any specific assumptions about how the US-Iran conflict may evolve as neither the US nor Iran appears willing to back down unless meaningful concessions are made by both sides.

The decision coincided with a shift from a predominantly judgement-based energy forecasting approach to a predominantly quantitative one. To ensure a smooth transition between the two approaches, our forecasts for Q4 2026 retain some elements of the forecasting approach used in our previous, predominantly judgement-based macroeconomic scenario, which had delivered relatively accurate projections.

***Growth**:*

- *In the US, our updated baseline remains broadly unchanged. We continue to envisage a growth path that hovers around potential through the end of 2027, suggesting that the US economy remains well positioned to absorb the shock without a meaningful deterioration in economic activity.*
- *In the EA, we have modestly lowered our annual real GDP growth forecast for 2027 to 1.2%, a 0.1 pp downward revision relative to our previous baseline.*

Inflation:

- *In the US, we now expect year-on-year core PCE inflation to remain at 3.0% in Q4 2026, compared with 2.7% in our previous mechanically adjusted baseline. Thereafter, in line with our prior expectations, favourable base effects should drive a sharp decline to 2.4% in H1 2027, unchanged from our prior forecast, before inflation eases further to 2.15% in H2 2027, slightly below our previous baseline of 2.25%. On an annual average basis, we continue to forecast core PCE inflation to average 2.3% in 2027.*
- *In the EA, we now expect core HICP inflation to remain stable at 2.5% y/y in Q4 2026, compared with 2.2% in our previous baseline. In H1 2027, core HICP inflation is now projected to moderate only marginally to 2.4% y/y, versus 2.2% previously, before easing further to 2.2% in H2 2027, compared with 2.1% in our prior baseline. On an annual average basis, we now forecast core HICP inflation at 2.3% in 2027, up from 2.1% in our previous baseline.*

Monetary policy:

- *Our new macro framework leaves the Fed outlook broadly unchanged, with 1-2 additional hikes by March 2027 but fewer than markets expect. For the ECB, amid stickier core inflation we continue to expect the ECB to adopt an easing bias in H2 2027, although the actual number of rate cuts it will deliver will depend on the pace at which core inflation converges towards the target.*

Taking stock of our macro baseline

The geopolitical assumptions underpinning our macroeconomic outlook, formulated shortly after the US-Iran war broke out in March, proved incorrect. Assuming that a full-scale war was not in anyone's interest, we expected that the situation in the Middle East would not deteriorate.

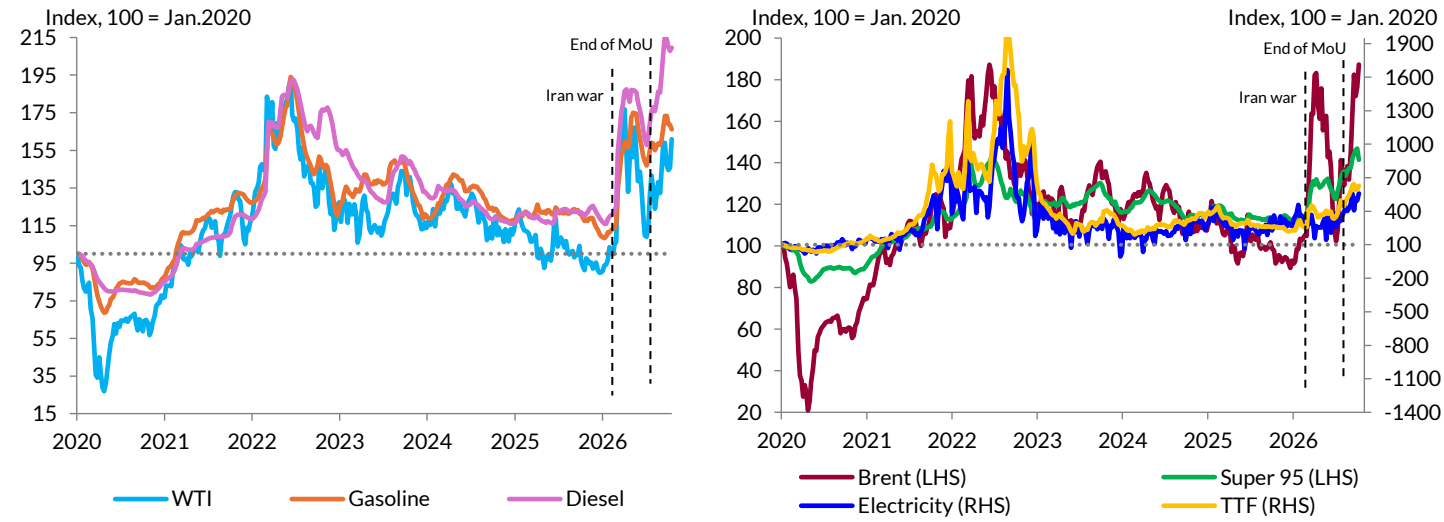
In fact, the conflict escalated and persisted for much longer than we had anticipated. The impact on energy commodity prices proved more severe and widespread than we anticipated.

While oil prices bore the brunt of the impact during the first phase of the war, between March and June, geopolitical instability also began to affect refined petroleum products, natural gas and electricity markets (**Figure 1, LHS/RHS**).

Overall, stress in energy commodity markets remains well below the levels reached in 2022. However, the renewed intensification and broadening of market pressures warrant close monitoring.

Figure 1

A two-stage energy shock: US (LHS); EA (RHS)



Source: Bloomberg, Haver Analytics, ANIMA Research

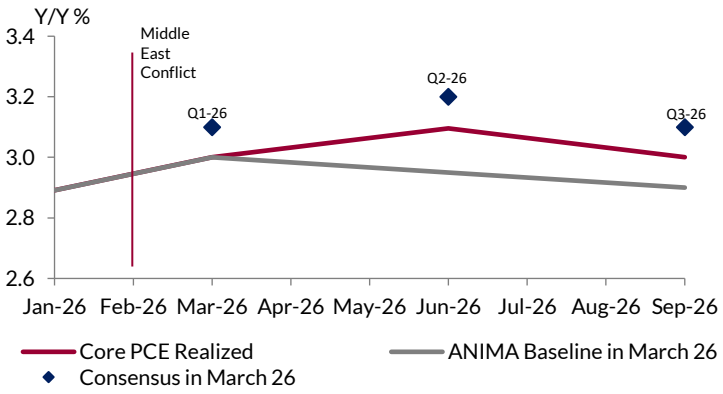
Marking our macroeconomic baseline to market

Despite our incorrect assumptions about the intensity and duration of the war in the Middle East, our growth and inflation forecasts published shortly after the outbreak of the conflict proved reasonably accurate, reinforcing our long-standing view that the underlying trend remains disinflationary albeit slow as supply shocks keep getting in the way.

In both the US and the euro area (EA), our inflation forecasts have been on the right side of consensus expectations **(Figures 2 and 3).** Compared with actual inflation outcomes, consensus forecasts have consistently overestimated the impact of the energy shock. We were also on the right side of consensus expectations for real GDP growth in the US and the EA (**Figures 4 and 5**).

Figure 2

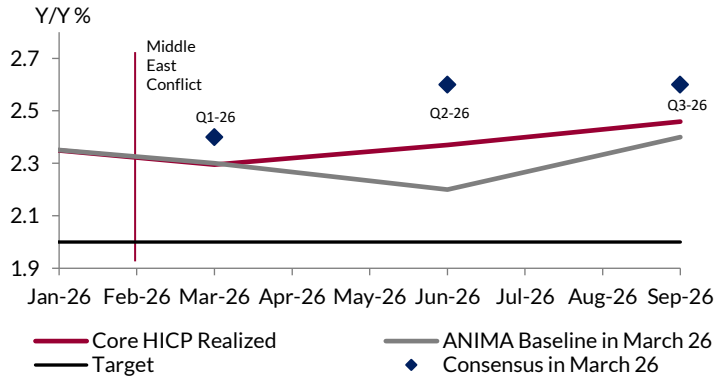
US Core PCE realised vs Anima/Consensus in March 26



Source: Bloomberg, ANIMA Research

Figure 3

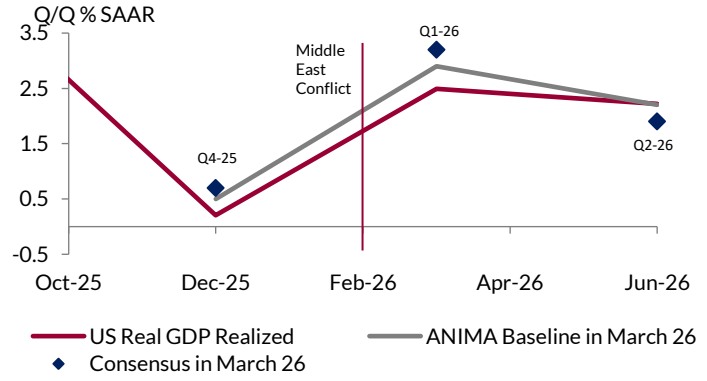
EA Core HICP realised vs Anima/Consensus in March 26



Source: Bloomberg, ANIMA Research

Figure 4

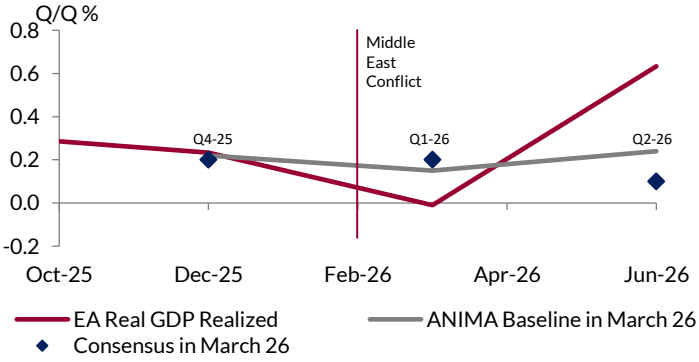
US Real GDP realised vs Anima/Consensus in March 26



Source: Bloomberg, ANIMA Research

Figure 5

EA Real GDP realised vs Anima/Consensus in March 26



Source: Bloomberg, ANIMA Research

What's next

As neither the US nor Iran appears willing to back down unless meaningful concessions are made by both sides, we have decided to decouple our macro baseline from any specific assumptions about how the US-Iran conflict may evolve going forward. Accordingly, our revised growth and inflation forecasts are based on prevailing energy market prices. More specifically, we use energy futures curves as at the end of September 2026.

The decision to decouple our macro baseline from specific geopolitical assumptions has coincided with a shift from a predominantly **judgement-based** energy forecasting approach to a predominantly **quantitative one**. To ensure a smooth transition between the two approaches, our forecasts for Q4 2026 retain some elements of the forecasting approach used in our previous, predominantly judgement-based macroeconomic scenario, which had delivered relatively accurate projections.

The remainder of this note is structured as follows: first, we present the economic growth and inflation modelling frameworks we use to update our baseline forecasts. We then set out our revised baseline projections and, finally, discuss the implications for monetary policy.

Engagement rules

Unlike our ***War Games*** analysis (31 March 2026), which relied on a top-down, quarterly, semi-structural general equilibrium framework for both GDP growth and inflation, we believe that a more granular approach to inflation is warranted in the current environment.

- **Specifically, for inflation, we now employ a bottom-up framework** that allows us to trace the pass-through of energy prices at the level of individual price components and quantify the resulting effects across sectors with greater precision.
- **For GDP growth, by contrast, we continue to rely on a top-down approach**, which we consider better suited to capturing the broader macroeconomic implications of the shock for the business cycle.

The GDP growth model

To assess the implications of the current energy shock for GDP growth, we use the SHOK model developed by Bloomberg Economics, customising it by incorporating our own baseline assumptions and shock parameters. The model provides a valuable guide, bringing together insights from economic theory and empirical relationships to understand how shocks affect the economic outlook. More specifically, SHOK is a quarterly, semi-structural general equilibrium model developed for forecasting and scenario analysis, inspired by central-bank models. Indeed, it has been calibrated to broadly match the key dynamics of FRB/US (Fed), and BASE/EA (ECB). It is New Keynesian in spirit but more flexible than traditional dynamic stochastic general equilibrium (DSGE) models, incorporating Bayesian techniques. In our exercise, we use our macroeconomic baselines for the US and euro area (EA), respectively. We model the energy supply shock using Brent crude oil and Title Transfer Facility (TTF) natural gas prices, together with their respective futures curves.

It is important to note that natural gas prices do not enter the SHOK model directly. Instead, we apply a rule of thumb to convert changes in gas prices into an oil-price equivalent, consistent with Bloomberg Economics' findings. This suggests that the increase in European natural gas prices is equivalent to an additional $16 rise in the price of oil. We incorporate this oil-price-equivalent shock into our EA scenario to illustrate the magnitude of its potential impact on GDP growth.

The inflation model

We develop a simple model to assess the impact of the energy shock on core inflation in both the US and the euro area. For both regions, we construct a synthetic energy-price index by aggregating the most relevant energy-related commodities. For the US, we consider WTI, diesel and petrol prices. Although the weights are not strictly constant over time, roughly 60% of the index is driven by WTI prices, while refined products account for the remaining 40%. The energy mix for the euro area is slightly more complex: Brent accounts for approximately 45% of the index, natural gas (TTF) for 40%, and electricity prices for the remaining 15%. The methodology and structure of the US and EA models are the same, with minor differences reflecting data availability and granularity.

Our bottom-up approach models several components separately within the core PCE basket in the US and the core HICP basket in the euro area. We consider 50 core PCE categories in the US (49 plus airfares, which are modelled using slightly different assumptions) and 111 core HICP categories in the euro area. For each component, we estimate its historical sensitivity to energy inflation while controlling for real economic

activity and fiscal policy. Each specification includes three lagged energy-inflation variables, covering months 1 to 6, 7 to 10 and 11 to 22. Each variable is calculated as the average year-on-year energy inflation rate over the corresponding lag window. In the EA model, the control variables are year-on-year industrial production growth, used as a proxy for real activity, and the annual change in the cyclically adjusted primary fiscal balance. For the US, more timely indicators of GDP and fiscal policy are available.

For each inflation component, the regression estimates three energy pass-through coefficients, corresponding to the three lag windows. These coefficients are applied to the difference between the energy-inflation path implied by observed prices (up to August 2026) or by the futures curves (from September 2026) and a no-shock counterfactual. In the counterfactual, the levels of the underlying energy-price components are held constant at their February 2026 values. The effects are reported as the estimated year-on-year contribution to inflation in August 2026, the change in this contribution between August and December 2026, and the change in this between December 2026 and December 2027.

The component-level effects are then aggregated using the respective basket weights, to obtain the final bottom-up estimate of core HICP or core PCE inflation. Although the model is simple, estimating the effects at a granular level and aggregating them across many components reduces the sensitivity of the overall result to unusually large estimates in a small number of categories. As a robustness check, we also apply the same specification directly to the aggregate core HICP and core PCE series. The results obtained using the two approaches are closely aligned, supporting the robustness of the overall conclusions.

Finally, we conduct a component-level review to identify estimates that appear inconsistent with observed price dynamics or that exhibit implausible patterns. Where appropriate, we apply small, judgment-based adjustments as a post-estimation step. These adjustments do not meaningfully affect the aggregate results but produce more plausible granular estimates of the effects on individual components.

Growth

US

According to the SHOK model, the current energy shock has only a limited impact on US real GDP growth (**Figure 6**). Consequently, our updated baseline, which reflects our latest Q3 2026 nowcast of 2.5% q/q SAAR, remains broadly unchanged. We continue to envisage a growth path that hovers around potential through the end of 2027, suggesting that the US economy remains well positioned to absorb the shock without a meaningful deterioration in economic activity.

EA

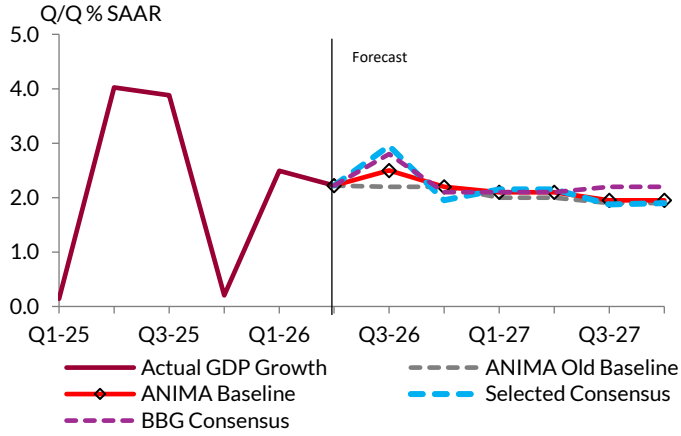
In the EA, renewed energy pressures have been significant, with natural gas prices nearly doubling since June and refined-product spreads widening further. As a result, based on evidence from the SHOK model, we have revised our EA GDP growth baseline modestly downwards, reducing GDP growth by 0.1pp per quarter over our forecast horizon. We believe that higher energy prices will weigh primarily on household consumption through their negative impact on real disposable income.

Reflecting our latest Q3 2026 nowcast of 0.2% q/q, which points to a slower pace of activity than the 0.6% q/q recorded in Q2 and is consistent with the recent flow of weaker incoming data, we have modestly lowered our annual real GDP growth forecast for 2027 to 1.2%, a 0.1 pp downward revision relative to our previous baseline (**Figure 7)** – implying a 0.1pp downward revision for each quarter of our forecast profile.

That said, we continue to expect growth to strengthen in 2027, albeit at a more gradual quarter-on-quarter pace than previously anticipated. Fiscal policy remains expansionary, particularly in Germany, where defence-related spending is set to provide additional support, while resilient global growth and positive spillovers from the AI investment cycle should continue to underpin economic activity across the region.

Figure 6

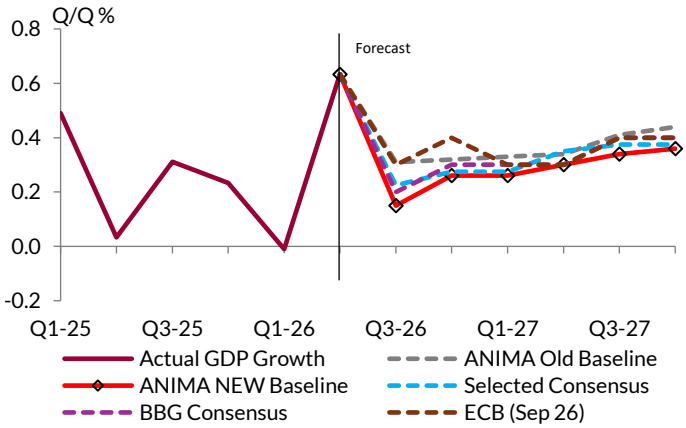
US Real GDP Growth Updated Baseline



Source: Bloomberg, ANIMA Research
Selected consensus = Barclays, Goldman Sachs, BofA, JPMorgan

Figure 7

EA Real GDP Growth Updated Baseline



Source: Bloomberg, ANIMA Research
Selected consensus = BNPP, Barclays, BBG Economics, Goldman Sachs

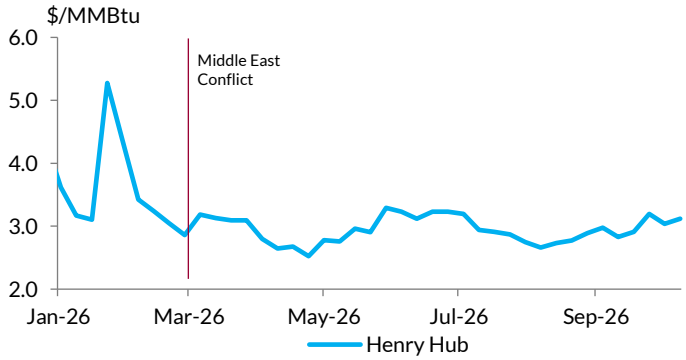
Inflation

As outlined above, we apply the same framework to estimate the inflationary impact of the energy shock in the US and the EA. However, the size and timing of the 2026 energy shock differs substantially between the two regions. First, we deliberately exclude natural gas from the US model. The price of the reference commodity, Henry Hub natural gas, has mostly been declining since 2014, with this trend pausing between 2022 and 2025 before resuming in 2026 (**Figure 8**). Following the US-Iran war, the commodity did not experience any meaningful price shock. Turning to WTI prices, their levels during the 2026 energy shock are comparable to, albeit slightly higher than, those observed during the 2022 shock. However, the inflation spike in the US was not entirely, and probably not even primarily, driven by energy prices. By contrast, natural gas prices are included in the EA model. TTF prices surged to unprecedented levels during the 2022 crisis, far above current levels, although prices remain persistently higher than their pre-2022 levels. Unlike in the US, natural gas prices in the EA tend to have a more persistent and delayed impact on inflation. Finally, while year-on-year growth in the energy-price index has, so far, been less affected by the shock in H2 than in H1 in the US, the EA is experiencing a second phase of the shock in H2, driven mostly by natural gas (**Figure 9**).

The bottom line is that the US is facing a shock driven primarily by oil prices, while the EA is facing a two-phase energy shock, initially driven by oil and subsequently by natural gas. Although the second phase in the EA is much smaller than the 2022 shock, increases in natural gas prices are more likely to pass through to the wider economy, albeit with a lag.

Figure 8

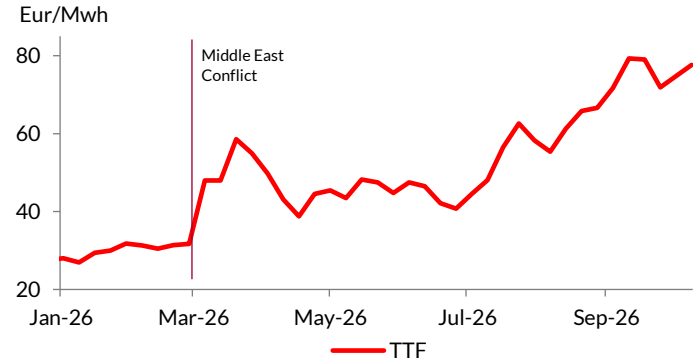
Stabilised gas prices in the US



Source: Bloomberg, ANIMA Research

Figure 9

A different upward dynamic in the EA



Source: Bloomberg, ANIMA Research

US

Our commodity price pass-through framework suggests that the impact of higher oil prices and wider refined-product spreads has been concentrated in those core PCE categories most reliant on diesel and heating oil inputs.

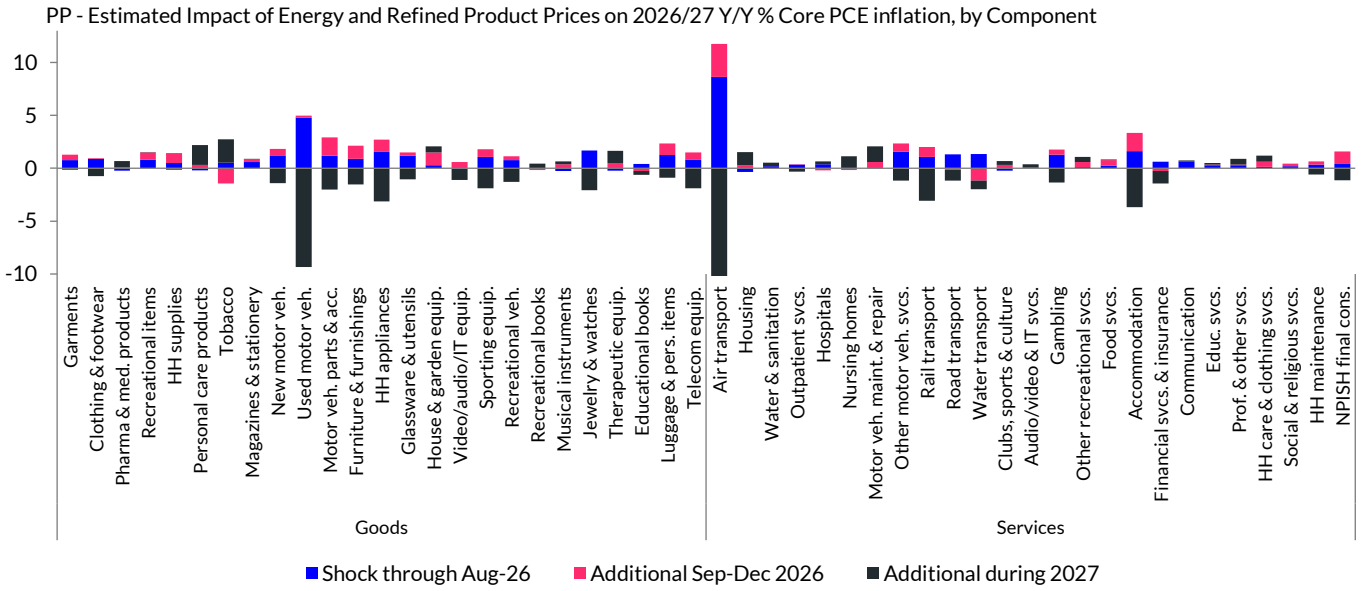
Indeed, this effect is most apparent in airfares and, more broadly, across non-airfare PCE transportation categories (**Figure 10**). Our model suggests that higher energy and refined petroleum product prices have boosted PCE transportation inflation by around 12pp through August 2026, with a further 0.3pp increase likely by year-end.

However, spillovers to other core PCE categories have been far more limited. We estimate an average realised boost of 0.3pp to non-transport core PCE services inflation, while the impact on core PCE goods inflation has been somewhat more pronounced, though still modest, at roughly 0.8pp on an unweighted average basis. By year-end, our estimates suggest that higher energy and refined petroleum product prices will add a further 0.4pp to core PCE goods inflation (unweighted) and around 0.2pp to non-transport core PCE services inflation (unweighted).

It is worth noting that our model-based evidence suggests that the effects of the energy shock realised so far are likely to have largely faded by the end of 2026, with most core PCE components expected to see these effects reverse over the following year. Taken together, these findings have led us to revise our core PCE inflation baseline (**Figures 11 and 12**). We now expect year-on-year core PCE inflation to remain at 3.0% in Q4 2026, compared with 2.7% in our previous mechanically adjusted baseline. Thereafter, in line with our prior expectations, favourable base effects should drive a sharp decline to 2.4% in H1 2027, unchanged from our prior forecast, before inflation eases further to 2.15% in H2 2027, slightly below our previous baseline of 2.25%.

Figure 10

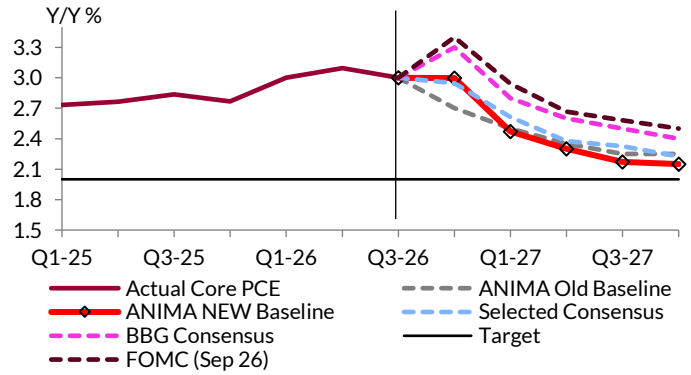
Impact of our commodity price passthrough framework on core PCE categories



Source: Bloomberg, Haver Analytics, ANIMA Research

Figure 11

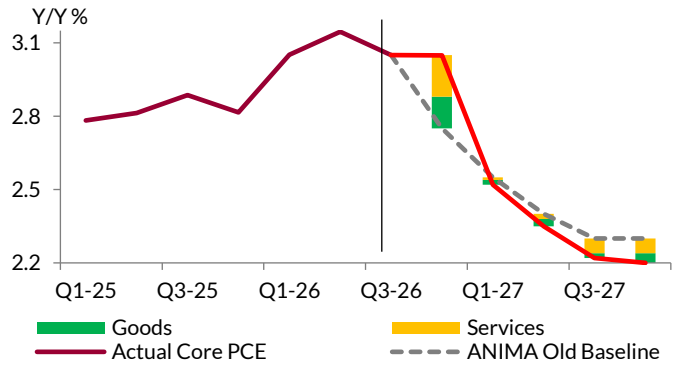
Our updated core PCE baseline vs consensus and the Fed



Source: Bloomberg, ANIMA Research
Selected consensus = Goldman Sachs, Barclays, CITI, Nomura.
For the FOMC (Sep 26) the implied monthly paths are calculated by finding a constant m/m inflation rate for the remaining months of each forecast year that makes Q4/Q4 inflation equal to the forecast.

Figure 12

Our updated core PCE baseline decomposed by revisions



Source: Bloomberg, ANIMA Research

EA

Our commodity price pass-through framework suggests that the impact of higher oil prices and wider refined-product spreads, as well as higher natural gas prices, has so far been relatively limited across core HICP components. This is consistent with the typically long and gradual lags with which energy shocks filter through to euro area consumer prices. As shown in **Figure 13**, our model indicates that the pass-through realised to date has been modest, amounting to approximately 0.2 percentage points (pp) for non-energy industrial goods (NEIG) inflation and 0.1 pp for services inflation, on an unweighted average basis.

However, our estimates suggest that a large share of the pass-through is still in the pipeline. By year-end, the bulk of the additional impact is expected to be concentrated in NEIG inflation, where the shock is estimated to add around 0.3pp on an unweighted

average basis. The effect on services inflation excluding airfares should be more limited, at roughly 0.05pp.

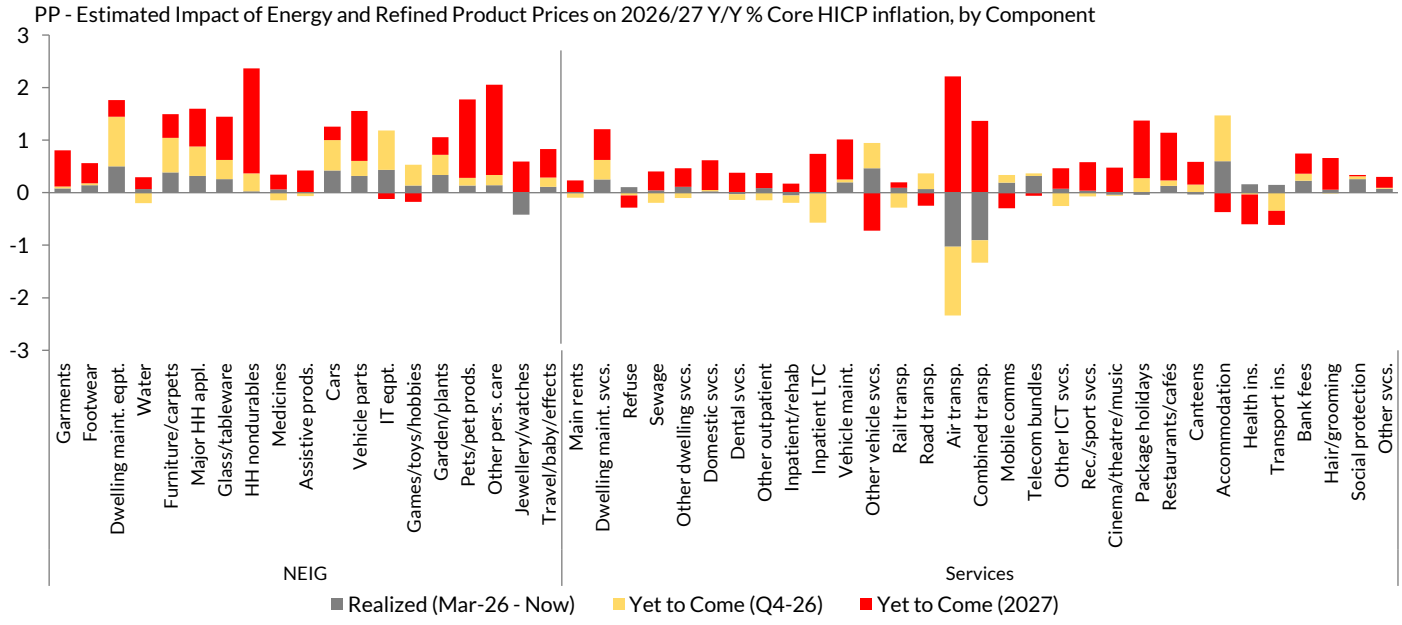
Looking ahead to 2027, the pass-through is expected to broaden further into services inflation excluding airfares, adding around 0.3pp on an unweighted average basis. At the same time, the impact on NEIG inflation is projected to remain elevated, with the cumulative boost rising to approximately 0.6pp on an unweighted average basis.

An example of a core HICP category that warrants a separate assessment is airfares. Given the relationship between oil and jet-fuel prices, and with fuel accounting for around 30% of airlines' operating costs, we would normally expect the energy shock to place upward pressure on ticket prices. However, airlines hedge their fuel exposure through derivative contracts, smoothing short-term price fluctuations and delaying the pass-through to fares. Our model implicitly captures the average historical effect of these strategies, but it does not account for the possibility that airlines entered the current shock better protected following the post-COVID supply disruptions and the volatility triggered by the 2022 energy crisis.

Indeed, anecdotal evidence suggests that several carriers had already secured hedging coverage through late 2026 or early 2027. Consistent with this, airfare inflation has remained subdued and volatile, occasionally falling below zero and staying well below the peaks recorded in 2021 and 2022. Moreover, with ticket-price levels already elevated, further increases could weigh on price-sensitive demand. We therefore apply a judgement-based adjustment to offset the model-implied impact and defer most of the pass-through to 2027, when pre-war hedging contracts begin to expire and are rolled over at higher prices. Taken together, these findings have led us to revise our core HICP inflation baseline upwards (**Figures 14 and 15**). We now expect core HICP inflation to remain stable at 2.5% y/y in Q4 2026, compared with 2.2% in our previous baseline. In H1 2027, core HICP inflation is now projected to moderate only marginally to 2.4% y/y, versus 2.2% previously, before easing further to 2.2% in H2 2027, compared with 2.1% in our prior baseline. On an annual average basis, we now forecast core HICP inflation at 2.3% in 2027, up from 2.1% in our previous baseline.

Figure 13

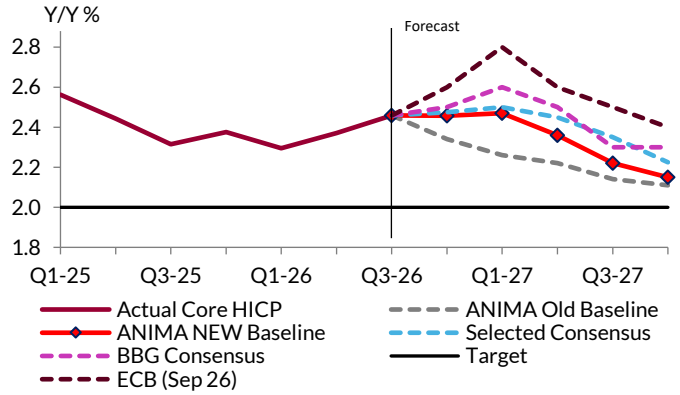
Impact of our commodity price passthrough framework on core HICP categories



Source: Bloomberg, Haver Analytics, ANIMA Research
Note: The analysis is based on 112 components of the Core HICP. For reasons of reproducibility, we report only those components with a weight greater than 4%.

Figure 14

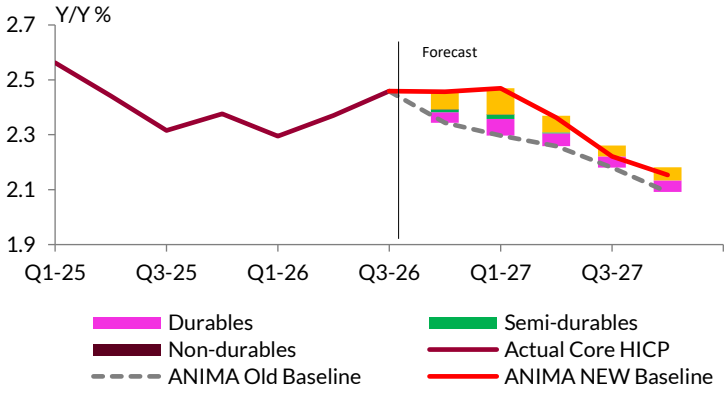
Our updated core HICP baseline vs consensus and the ECB



Source: Bloomberg, ANIMA Research
Selected consensus = Goldman Sachs, Barclays, BofA, JPMorgan

Figure 15

Our updated core HICP baseline decomposed by revisions



Source: Bloomberg, ANIMA Research

Monetary policy

Following the introduction of our new macroeconomic forecasting approach, our Fed policy call remains unchanged, given that the impact on our US macro forecasts has been minimal. We therefore maintain our view that the Fed will deliver one to two additional rate hikes by March 2027, but we do not expect the Fed to deliver the full extent of the rate hikes currently priced in by markets (three to four additional rate hikes by October 2027), as we believe that the FOMC's assessment of inflation and growth is overly optimistic. Moreover, Chair Warsh's rhetoric appears more consistent with a limited recalibration of the monetary policy stance than with the onset of a prolonged tightening cycle that could ultimately jeopardise economic growth and labour market conditions. By contrast, we have slightly revised our ECB policy outlook. The combination of somewhat more persistent core inflation and slightly lower growth does not change our view that the ECB will make only modest adjustments to monetary policy. Against this backdrop, while a rate hike in December remains on the table, we expect the ECB to remain on hold throughout H1 2027. However, with core inflation expected to remain broadly stable at around 2.5% y/y before declining, in line with our revised EA inflation forecasts (rather than declining immediately, as previously expected), we believe that the ECB will want to be reasonably confident that core inflation is converging towards its target before bringing policy rates back towards their neutral level. This makes us less confident than previously that the ECB will be able to deliver two rate cuts in H2 2027. We therefore continue to expect the ECB to adopt an easing bias in H2 2027, although the actual number of rate cuts it will deliver will depend on the pace at which core inflation converges towards the target.

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