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System, interrupted

2026 Global outlook

December 2025

Costs continue to grow across the board

After a year of sudden disruption, countries and supply chains look to gain better footing

Macroeconomics, sourcing and production	Global trade	Global geopolitics
Capacity and demand move out of balance	Growing bifurcation and proxy conflict between US and China	New flashpoints popping up Convergence with trade
Growing duplication of capacity US shift away from consumer-led model **Increasing costs**	Protectionism ramps up Extraterritorial actions leading the day **Increasing costs**	Companies increasingly caught in substantive policy shifts **Increasing costs**

AGENDA

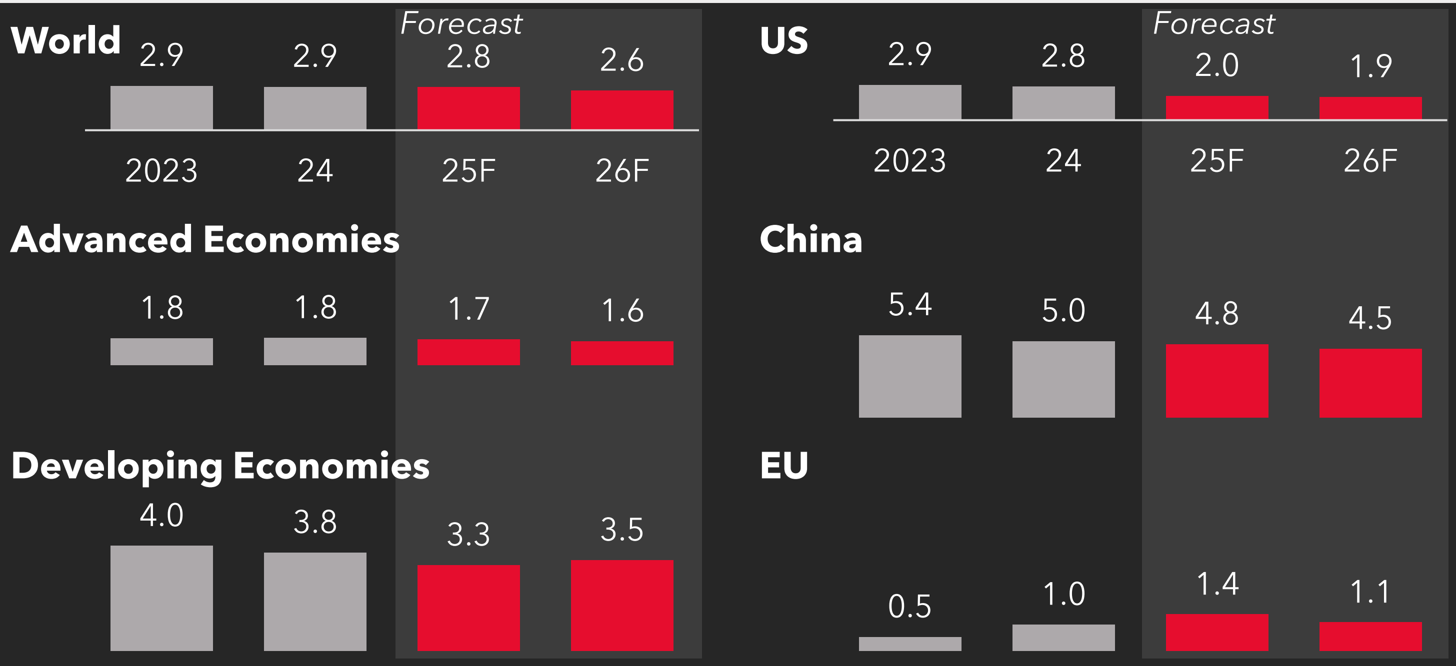
- **Macroeconomics**
- Global trade policy
- Sourcing and supply chains
- Geopolitical shocks in 2026 and beyond

A calm surface masks structural shifts

Our base case is a "muddling through" but risks are skewed to the downside

Global growth forecast

YoY % change in real GDP (in local currency)



Key points

What to expect in 2026…

- **Global growth** downgraded based on slower growth in Advanced Markets.
- **US** growth supported by AI capex and fiscal stimulus while consumer spending remains positive but slowing
- **China**'s economy continues to struggle with over-capacity, property sector crisis, and external pressures
- **Europe**'s economy remains sluggish with no clear growth engine; military spending a marginal boost counterbalanced by weak external demand

Source: Oxford Economics, Onyx

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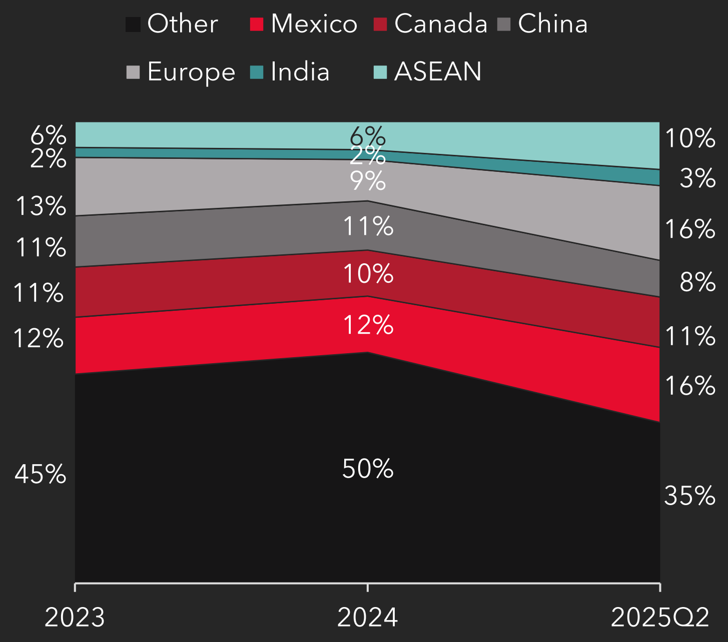
US policy is beginning to break global inertia in sourcing

Global sourcing patterns are actively fragmenting

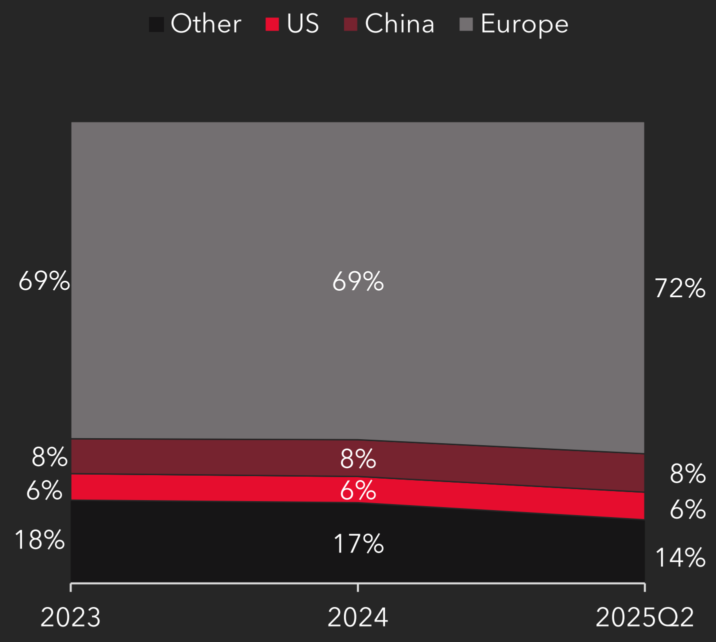
US importing more from MX, EU, ASEAN

% share of imports by origin country



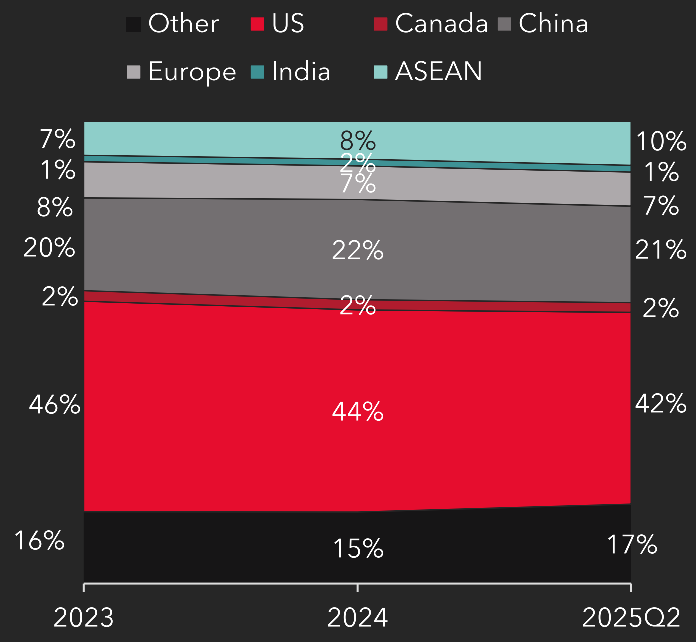
Germany becoming more Euro-centric

% share of imports by origin country



Mexico increasing ties to ASEAN

% share of imports by origin country



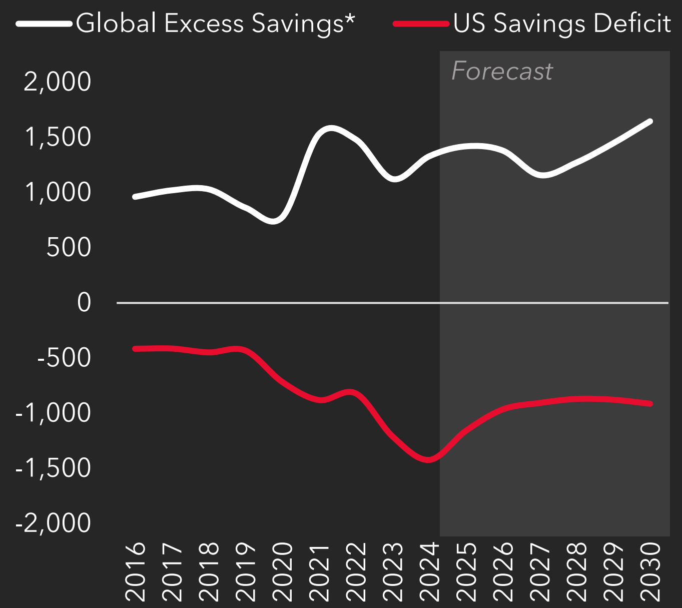
Source: Bloomberg, Onyx

However, the effort to redraw trade faces structural roadblocks…

Trump Administration will continue testing its relationship with markets

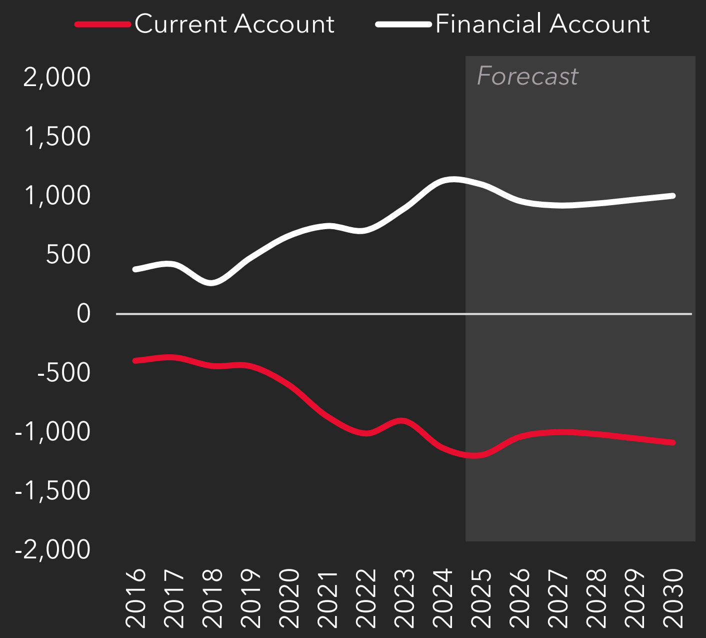
Global savings glut

$ billions



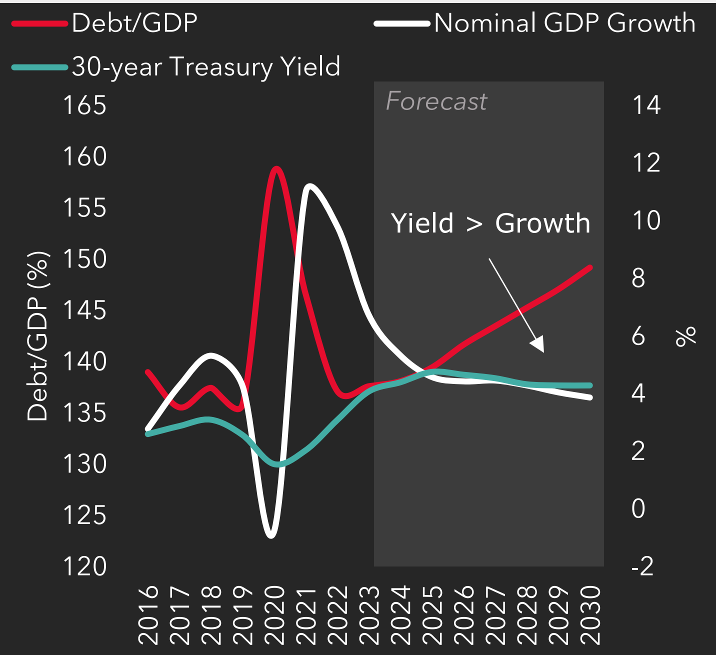
US balance of payments

$ billions



Fiscal debt burden and bond markets

Percent



*Cumulative excess savings (savings less investment) in China, Japan, South Korea, Western Europe, and Middle East
Source: US Bureau of Economic Analysis, Oxford Economics, Bloomberg, Onyx

…And cyclical realities constrain the US's maximalist approach

The US economic outlook is a pointing toward a loss for the GOP in the 2026 midterms

Indicator	Repair	Recovery	Expansion	Downturn
GDP	Weak, improving	Moderate, improving	Strong, plateau	Weak, deteriorating
Credit	Weak	Accelerating	High	Decelerating
Monetary policy	Easing	Tightening	Tightening	Easing
Inflation	Low, stable	Moderate, rising	High, rising	Moderate, falling
Yield curve	Steep	Flattening	Flat/inverted	Steepening
Asset valuations	Below average, rising	Near average, rising	Above average, rising	Falling to below avg
Corporate profits	Low	Moderate, rising	High, rising	Falling
Credit vs. Equity	Credit	Mixed	Equity	Neither
Volatility	Above average	Below average, stable	Below average, rising	Above average, rising

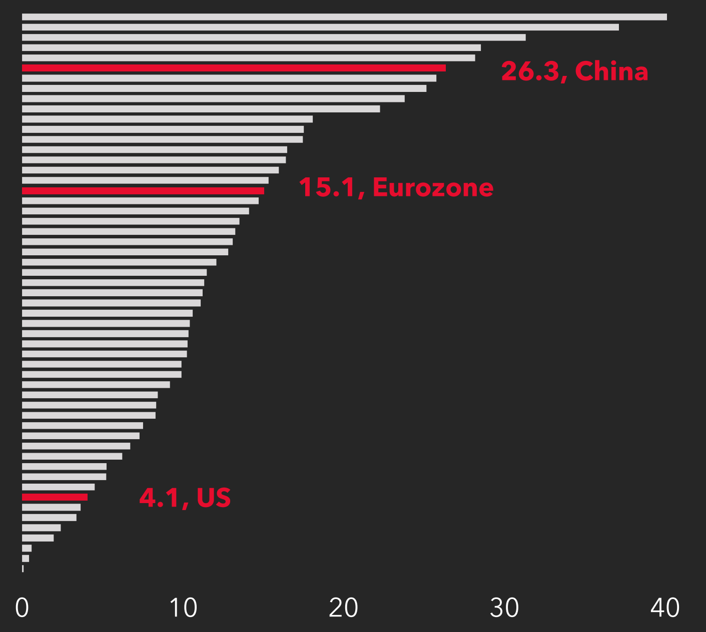
Source: Loomis Sayles & Co, Bloomberg, Oxford Economics, Onyx

China's economy is at the center of global imbalances

Structural challenges and policy decisions get in the way of meaningful change

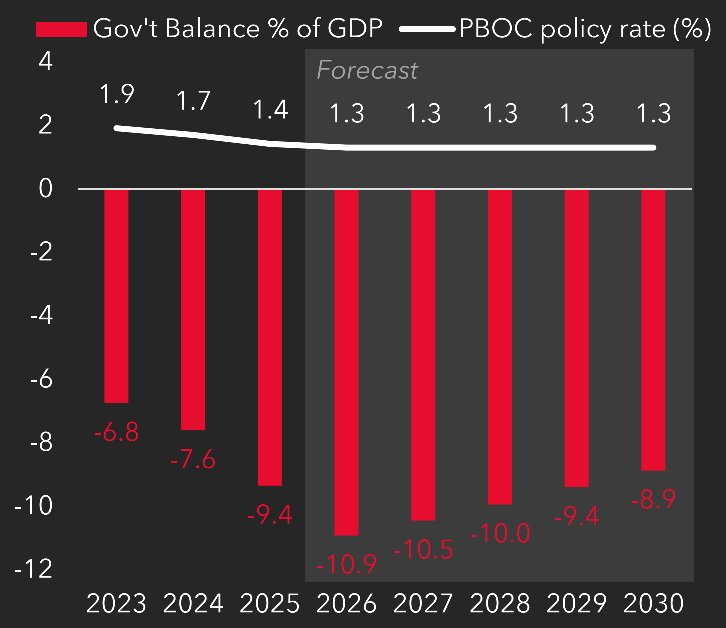
Savings over consumption

Personal savings ratio, % of personal income



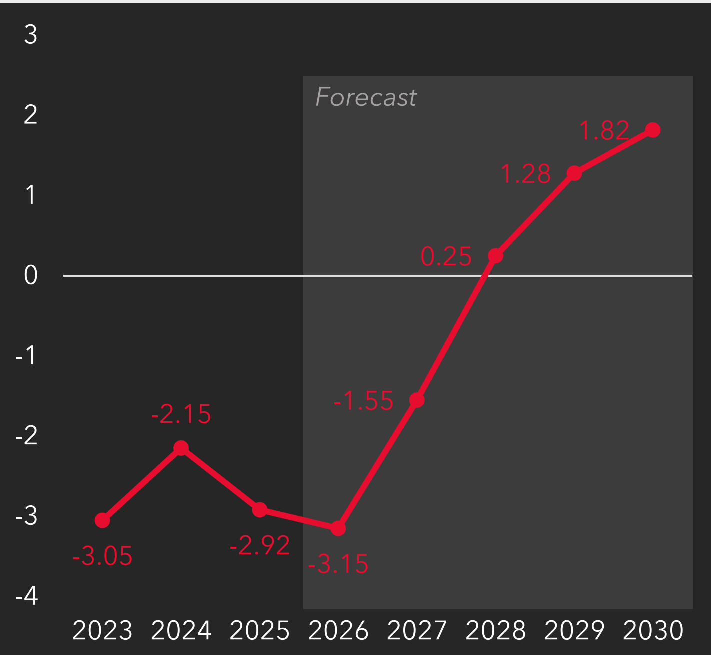
Loose fiscal and monetary policy

Percent



Deflation stemming from over-capacity

Producer Price Index, YoY % change



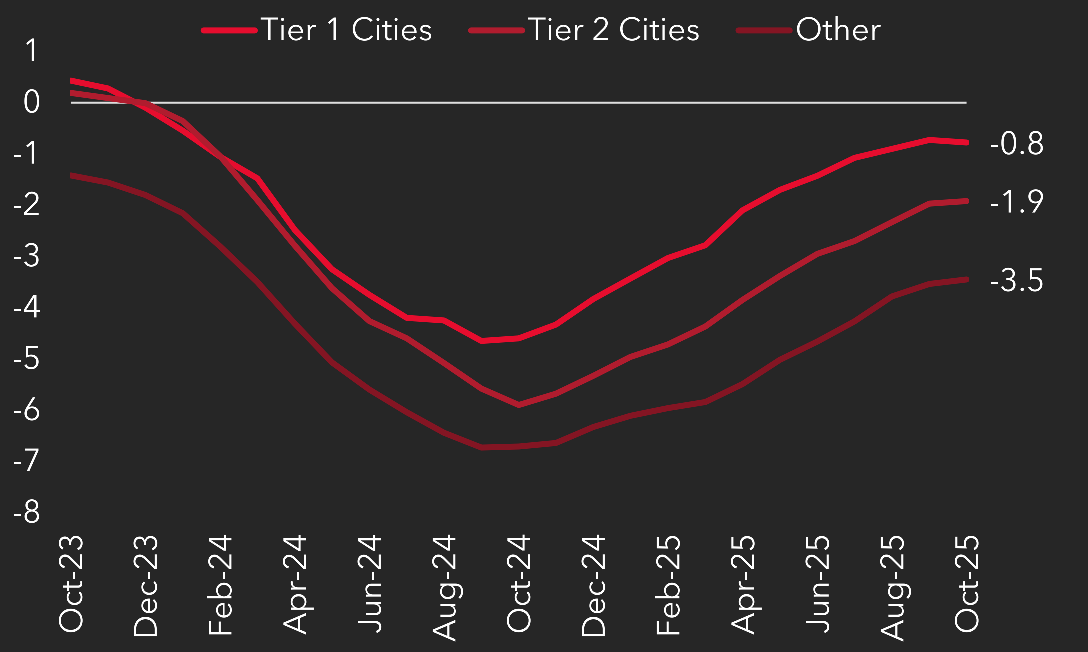
Source: Bloomberg, Oxford Economics, Onyx

The property sector will remain in a deep recession

A multi-year process to clear the market will continue to hold back consumer spending growth

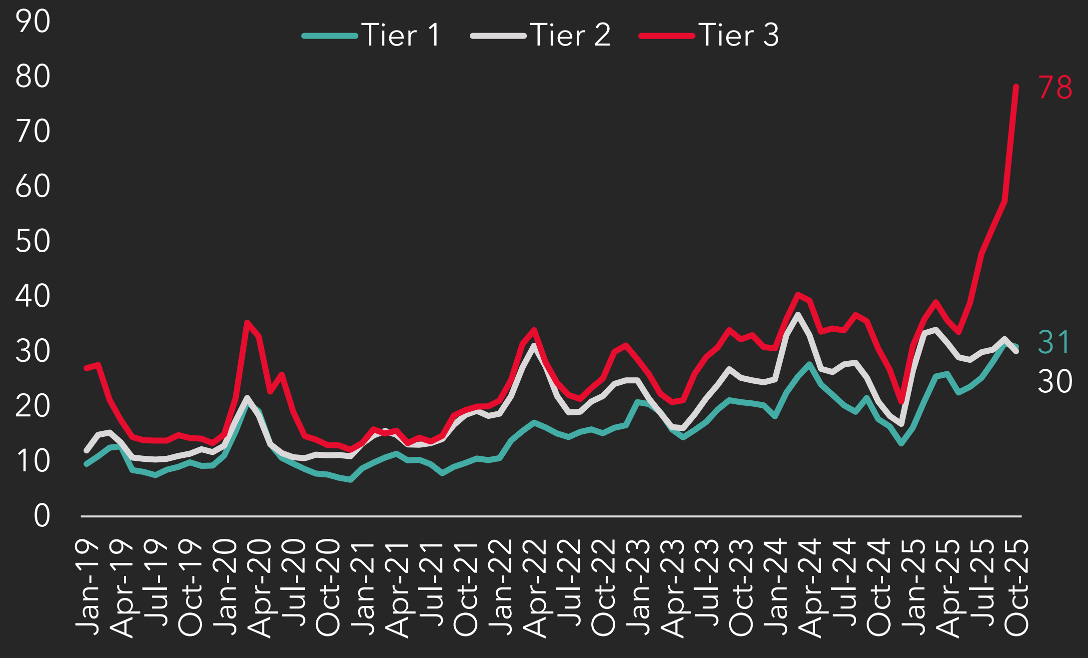
Falling house prices fuel the need for higher savings

YoY % change



Excess supply will take several years to work through

Estimated months to sell new-home inventory



Source: Bloomberg, Onyx

The EU looks to diversify from US & CN, but this path is long-term

Shorter term objectives offer only limited return, pointing towards protectionism & industrial policy

Options with the most impact lean protectionist or towards industrial policy

EU-level discussions

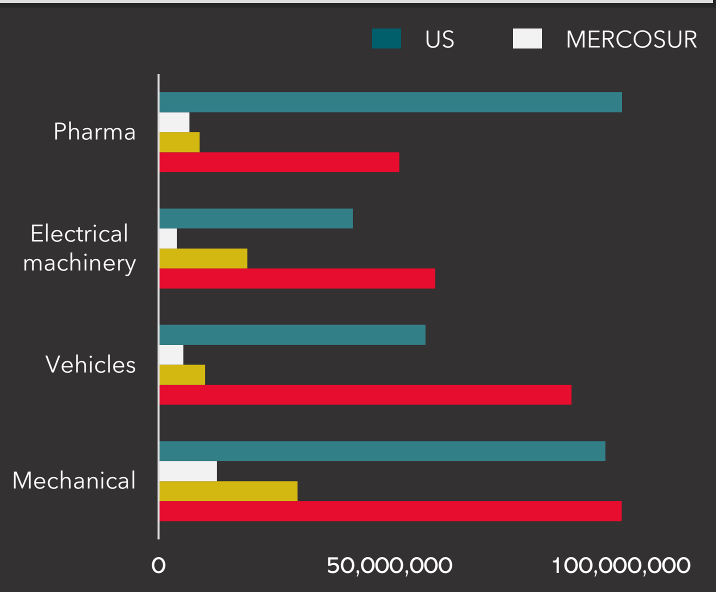
Diversify the economy
- Support and protect industries
- New trade frontiers
- Global Gateway investment

Drive competitiveness
- Internal market reforms
- 28th regulatory regime
- Address energy cost & infrastructure

Focus on national security
- ReArm Europe
- Industrial policy & cooperation on strategic materials
- "Economic security" instruments

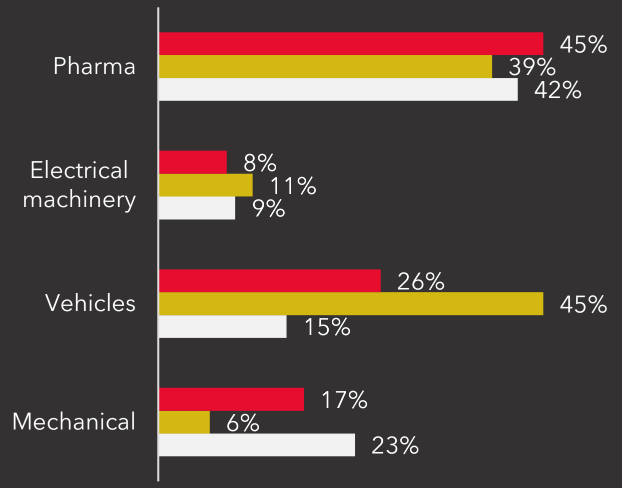
Exports to the US will be slow to replace

EU exports
Thousand USD, 2024



Benefits can be accrued in some segments but in competition with China

EU market penetration
% of partner's imports by value, 2024



*Includes Australia, India, Indonesia, Malaysia, Thailand, and the Philippines

Source: Trademap, Onyx

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- **Global trade policy**
- Sourcing and supply chains
- Geopolitical shocks in 2026 and beyond

Policy focus turning from protectionism to import substitution

Domestic policy to create conditions for investment faces headwinds of uncertainty & risks

2025 focus fell on international demand and protection…

- Rapid expansion in US tariffs for negotiating power, revenue, and sectoral protection
- Focus on non-tariff barriers

…but affordability is a major liability going into 2026 midterms…

- Focus on ring-fenced trade environment
- Direct stimulation of international demand

…leaving much of the tariff environment unsettled for companies

- Stricter rules of origin and ownership, export controls
- Cyclical escalation-renegotiation
- Uncertainty continues investment pause

Corporate policy focused on tax as domestic demand concerns grew…

- Corporate & individual tax rate extensions & cuts
- Federal agency relegation with contradictory impacts
- Tool expansion (e.g. DPA, EXIM) & test cases

…leading to a 2026 state-led focus on demand to spur investment…

- Procurement expansions
- De-regulation to gain momentum
- Additional US tax cuts/rebates
- Possible US clearinghouse to match supply with offtake agreements

… altering the pricing landscape with unclear investment impacts

- Gov.-led corporate agreements
- Continued policy contradictions (e.g. tariffs on key inputs)
- Rising use of price controls and/or floors, stockpiling

Source: Onyx

US appears set on creating a "walled garden" of trade, investment

Countries buy time with agreements that give US extraterritorial controls but with no clear offramp

Mirroring calls for broad alignment

Existing US law:
- Steel & aluminum 232s
- Copper 232
- Maritime 301 (paused)
- Sanctions
- Investment laws
- Export controls
- ICTS IEEPA rules

Pending:
- Semis & SMEs 232
- Processed Critical Minerals 232
- Robotics and industrial machinery 232

Source: Onyx

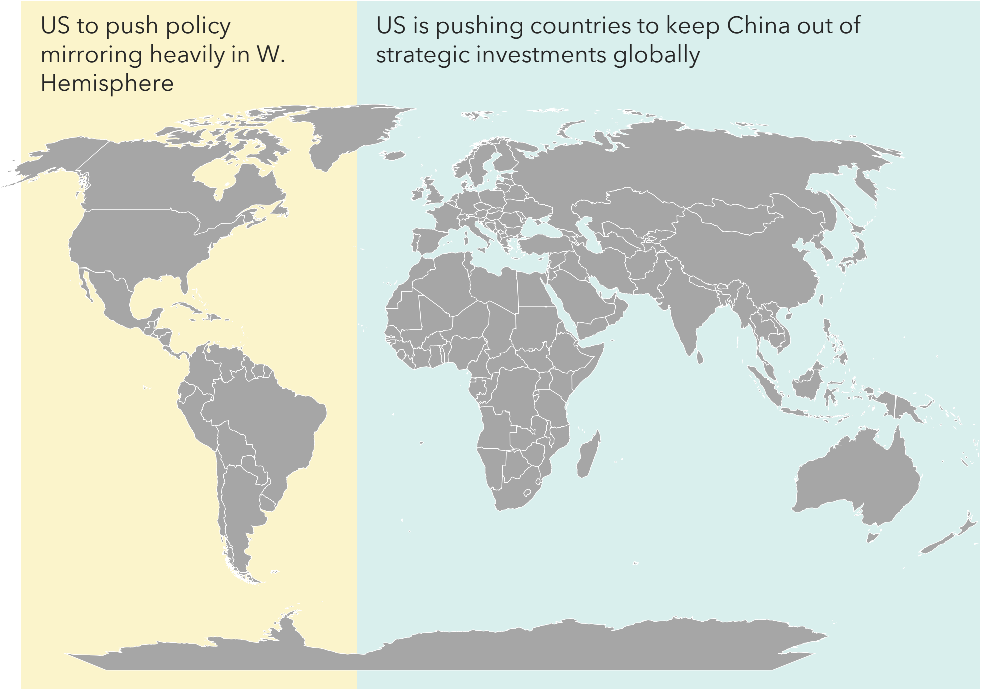
US agreements & frameworks with an eye toward China

US demands

Policy mirroring

Strategic industries

Pending



Outlook

- As US moves out of high-pressure period, this effort is likely to falter outside of W. Hemisphere
- Full deals (e.g. India-US) unlikely to materialize short-term
- Rising retaliation risk from the US-led bloc for non-compliance & China on the other hand

Mexico & Canada are core to Trump admin trade goals

The Trump administration is likely to focus on boxing out China as midterm losses loom

2025 focus fell on international demand and protection…

Onyx Baseline: **USMCA expanded**	▪ US wins much stricter action vis-à-vis external goods & ownership ▪ Mutual trade barriers for inputs, intermediates, and finished goods ▪ Strong focus on ring-fencing production
Less likely: **Bilateral agreements**	▪ USMCA enters annual review cycle while countries sign additional bilateral agreements ▪ Muted investment, rising ex-USMCA trade barriers, expanded labor enforcement in Mexico, and growing US investment access
Least likely: **USMCA withdrawal**	▪ US withdraws from USMCA & is unwilling or unable to replace it ▪ Rising trade barriers amongst USMCA partners with a heavy macroeconomic price

Key dates

- **December 3, 2025:** USTR public hearing
- **By June 2026:** Deadline to submit issues for review
- **July 2026:** USMCA Free Trade Commission review
- **November 3, 2026:** US midterms

Source: Onyx

Meanwhile, China also seeks leverage in third countries

In 2026, China's trade policy is likely to become more aggressive in asserting its interests

China looks to third countries to absorb its exports…

- New consumer markets in the Global South
- Local production to bypass trade barriers

…in turn, third countries look to China for growth opportunities…

- Tech transfer, employment, moving up the value chain
- Developmental lending

…creating a trade-for-investment relationship

- Local manufacturing capacity grows for both China's own ends and to the recipient country's benefit

But China's trade policy will grow more assertive in 2026…

- Retaliating against emerging market trade barriers
- More sophisticated trade tools – extraterritorial regulations, export controls etc. - to achieve policy aims

…in tandem with the US…

- US deals with third countries force exclusivity in trade and investment relationships

…increasing pressure on countries to choose

- Third countries will prioritize reducing American/Chinese leverage in strategic sectors

Source: Onyx

EU to focus protectionist trade action on products in key industries

The bloc is prepared to increase data-supported trade actions across the board

The EU has focused on a rules-based approach to its trade policy…

- Narrow, highly technical actions to date
- Strong desire to maintain rules-based system

… and 2026 is set to see an expansion of this approach…

- Full utilization of import surveillance system realized
- Rising concern about diversion of trade from US market diminished with lower US tariffs on China

… putting companies at risk of relatively quick safeguard actions

- Impacts will continue to broaden across sectors, countries, and the value chain
- Higher bars for investment

But there is a second track as EU concerns for competitiveness grow…

- EV and green energy tariffs on finished goods
- Steel quota reduction and tariff increase to match US

…which is also likely to expand in 2026…

- Calibrated actions most likely in 2026 due to ebbing US leverage
- Competitiveness concerns will likely blur lines of dual-track approach

… even as China looks to

- Risk of politically driven action across all sectors
- Rising risk of retaliatory action & source of tension with China
- Limiting action in industries seeing an influx of imports

Source: Onyx

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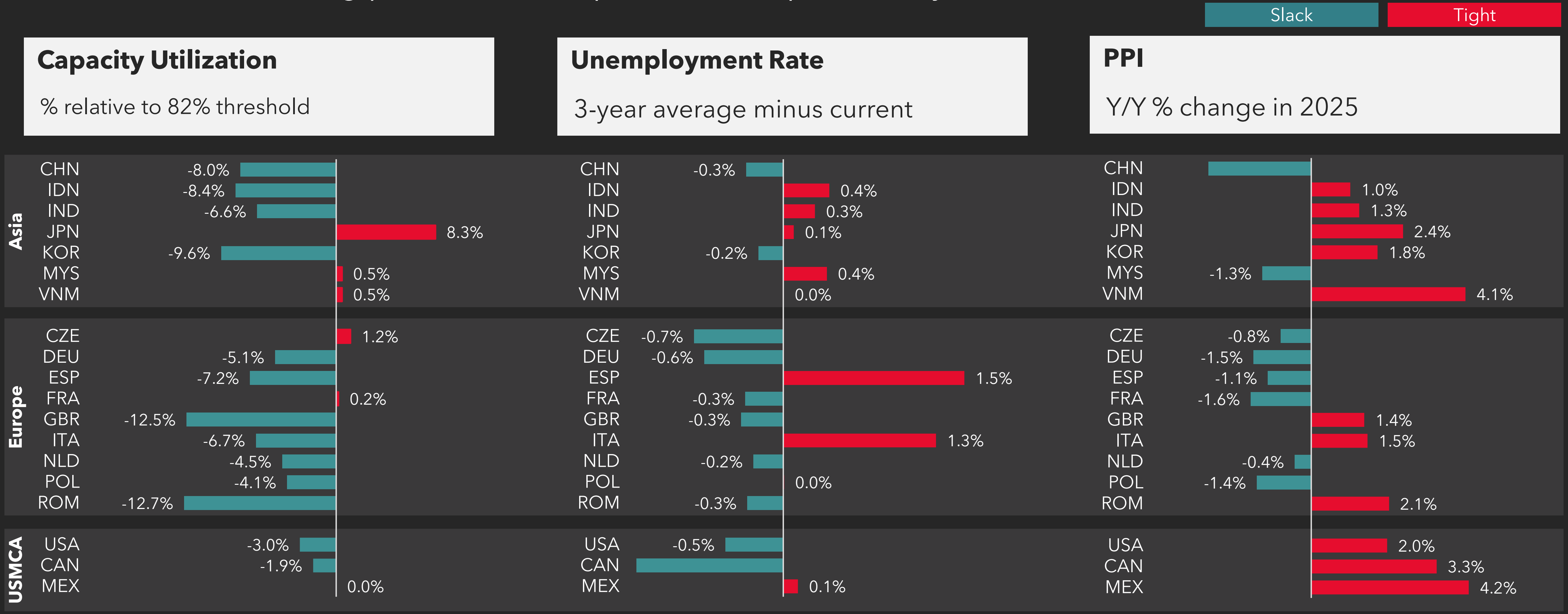
As sourcing shifts, many economies are running tight on capacity

Mexico, Vietnam facing persistent cost pressures; Japan, Malaysia, and Czechia also on our watch-list



Source: Oxford Economics, Onyx

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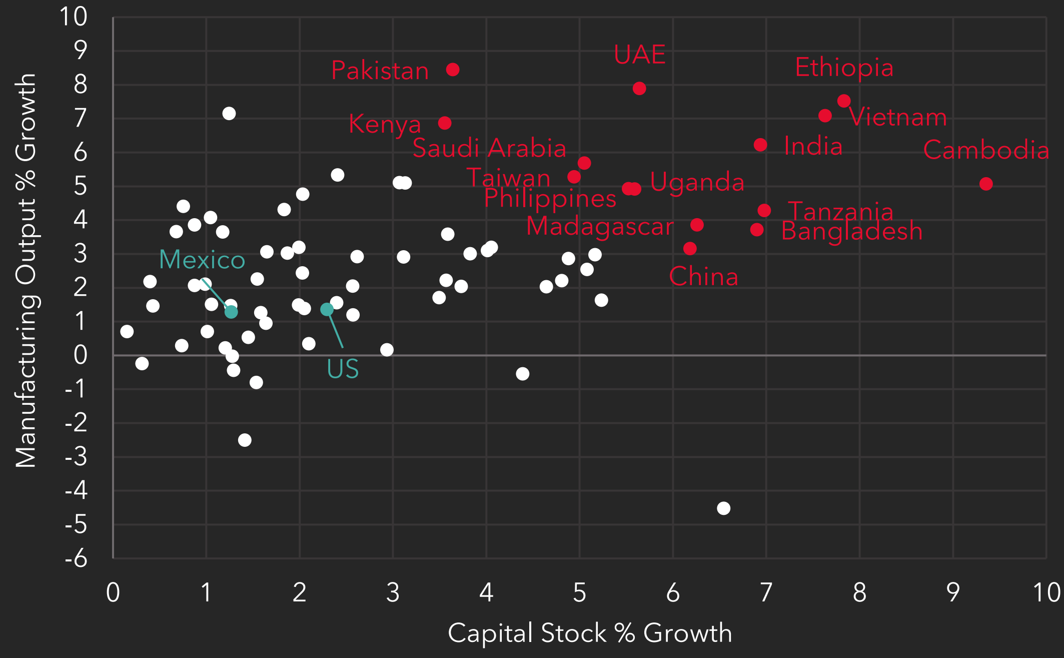
Yet, investment to expand capacity remains limited

Uncertainty is unlikely to resolve in 2026 and countries appear ready to take on more protectionism

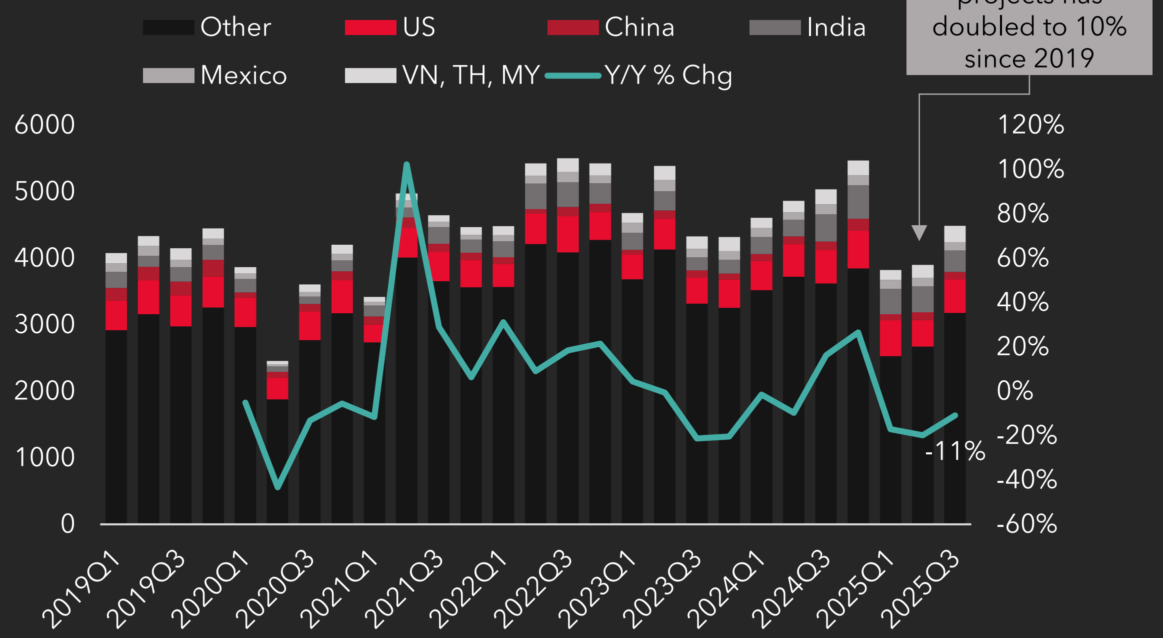
Countries that are investing in and growing manufacturing

YoY % growth rates



FDI down sharply in 2025

Number of projects



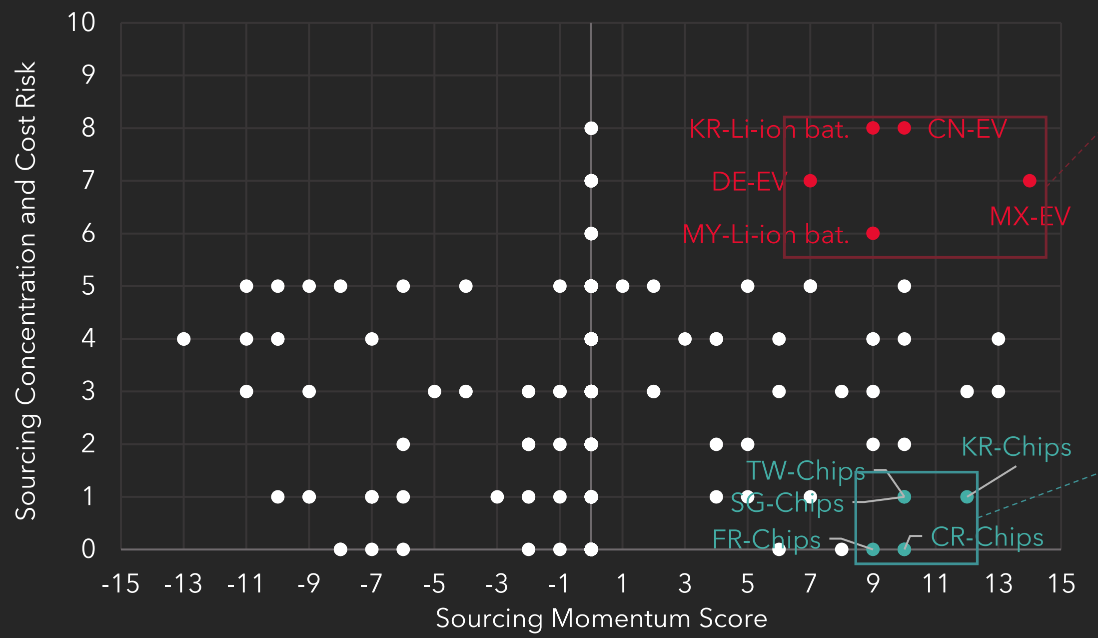
Source: Oxford Economics, GlobalData, Onyx

Resulting in a mixed picture on risks and opportunities

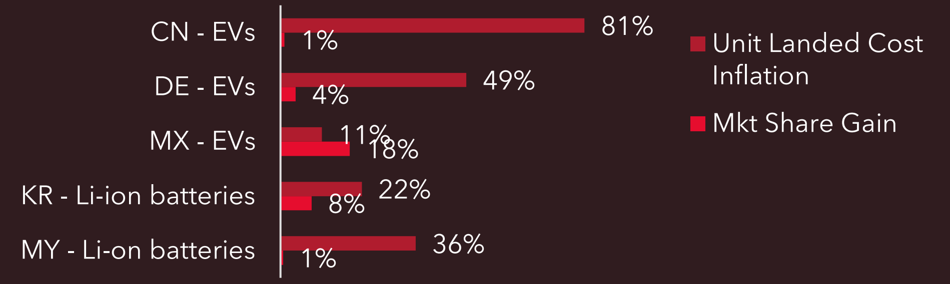
For example, the EV value chain is consolidating while the chips market is fragmenting

Sourcing Risk-Opportunity Matrix*

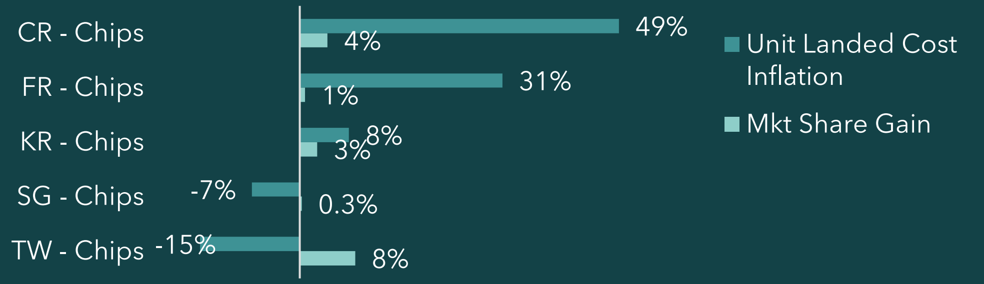
Index values



Solidifying Dominance in Highly Concentrated Product Markets



Gaining Market Share in Highly Competitive Product Markets



*Sourcing Risk-Opportunity Matrix is a combination of factors. Risk: market concentration (Herfindahl-Hirschman Index) and product-level inflation. Momentum: Market share gains (losses) for a given country and given product.
Source: Onyx Total Sourcing Cost Model

Geopolitics point towards looser air and ocean markets in 2026

However, expect better capacity management and continued policy-driven volatility

Tighter market / Looser market

Air Market	Market Direction
Demand ▪ AI infrastructure drives tech-related demand ▪ Elimination of de minimis (and pending EU elimination in 2026) removes DTC volumes ▪ Tariff-induced volatility continues but not as significant	→
Supply ▪ Global passenger travel growth brings belly-hold capacity to Transpacific and Asia-Europe lanes ▪ New production freighters ordered during the pandemic are entering the fleet	↓
Overall: Fundamentals point to weak rate pressure	↓

Ocean Market	Market Direction
Demand ▪ Inventory hangover from front-loading in 2025 stole demand from 2026 ▪ US imports expected to decline in Q1 then normalize ▪ Global container volumes expected to grow ~2% in 2026	↓
Supply ▪ Overcapacity will peak in 2026, with the orderbook still at ~30% of the fleet ▪ If the Red Sea reopens it will effectively add 15-20% capacity ▪ In either case, carriers will rely on blank sailings to prevent rates falling to 2019 levels	↓
Overall: Market will experience global overcapacity with risks to the bearish side if the Red Sea reopens	↓

Source: Onyx

Notable logistics & transportation trends

Companies are exploring network changes to tap savings and reduce risk

Multi Country Consolidation (MCC) gaining interest

- **Cost reduction goal:** reduce freight costs compared to multiple LCL shipments
- **Improved visibility and control:** centralized handling enhances tracking, documentation, and oversight
- **Limitations and suitability:** less suitable for urgent shipments & complexity limits utility for most

Customs tariffs with China drive sourcing shift

- **De-risking goal:** tariff changes and geopolitical risks lead to new transportation routing to consider
- **Nearshoring advantage:** reduced lead times and transportation costs for consumer markets
- **Challenges:** infrastructure, compliance, and broader risk environment evaluations in new sourcing countries

Increased bid and/or RFQ activity

- **Adaptation goal:** increasingly requesting bids and RFQs to address quickly changing freight rates
- **Focus on data:** moving from a lowest-cost model to using complex supply chain models incorporating real-world constraints
- **Emphasis on precision:** need to optimize freight flows and savings predictions across network

Source: Onyx

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Geopolitical fault lines worsening in the meanwhile

Stronger trend towards escalation

Current trend

GEOPOLITICAL FAULT LINE	DE-ESCALATION	STATUS QUO	ESCALATION
FUTURE OF EUROPE: RUSSIA-UKRAINE			▪ One or both parties sees complete victory as a matter of survival ▪ Balance of military resources tilts in favor of one of the parties
SOUTH CHINA SEA		▪ Claims remain unresolved, but economic cooperation takes precedence	▪ US security umbrella faulters ▪ One or more parties believes it can prevail with acceptable economic costs
CHINA-TAIWAN		▪ Independence not pressed publicly	
ISRAEL-HAMAS			▪ Israeli military aims include other countries in the region, esp. Iran, Lebanon, Syria ▪ Conflict widens to include unresolved issues in other countries in the region
US-LATAM		▪ US brings to bear significant military and economic resources ▪ Strikes and raids are used in a focused pressure campaign	▪ Political destabilization efforts result in political violence and expand ▪ Ideological divisions drive regional political fractioning and conflict

Source: Onyx

China-Taiwan risks rising through 2030 as atmospherics change

China's capabilities are growing, and Taiwan's supports are weakening

	Drivers	Constraints	Capabilities	Changes
China	↑	↑	↑	Drivers: balance of power with EU/US Constraints: major economic restructuring Capabilities: military modernization/purges, indigenous production
Taiwan	—	↑	↑	Constraints: doubts over US commitment, anemic growth, risk of hollowing out chip industry with OFDI Capabilities: asymmetric defense, strengthened national resolve
US	↓	↑	—	Drivers: overextended and transactional foreign policy Constraints: domestic priorities, fiscal ability, allied convening power
Regional allies	↑	↑	—	Drivers: higher tensions in South China Sea, regional balancing (JP, PH) Constraints: deepening economic integration with China, growth risks

Source: Onyx

Current conditions point to a more escalatory scenario

The majority of disruptions to firms will stem from retaliatory economic measures

Increasing in likelihood →

	SCENARIO: 'PEACEFUL' UNIFICATION	SCENARIO: SURGICAL USE OF FORCE
Features	▪ Minimal use of force – seizure of minor islands, quarantine of ports ▪ Limited non-rhetorical response from US/allies	▪ Surgical use of force to compel political capitulation ▪ Strong economic, diplomatic response from US/allies, but limited military response
Pre-requisites	▪ Diplomatic isolation of Taiwan ▪ Deepening Chinese economic integration with TW; retreat of US/allied trade and investment	▪ Beijing believes PLA modernization complete, and economy sufficiently insulated from Western sanctions ▪ US/allies tied up in multiple fronts
Impacts	▪ **Logistics:** temporary disruption to shipping in Taiwan Strait/Southern China/SCS ▪ **Macroeconomic:** currency/equity volatility throughout APAC, limited capital flight ▪ **Trade and supply chain:** hastened derisking of corporate supply chains, termination or rescoping of FTAs with China/TW, export controls, corporate boycotts	▪ **Logistics:** shipping diversion to Southeast Asia, Australia, spike in insurance premiums ▪ **Macroeconomic:** Sustained capital outflow, short term contraction in global GDP, sell-off in TW assets ▪ **Trade and supply chain**: USD transactions restricted, 3-digit tariffs trigger diversion, commodities weaponized

Source: Onyx

A full military option is least likely, but the most impactful

Maximum physical and economic risk scenario points to a need to diversify well in advance

	SCENARIO: FULL INVASION	LIKELIHOOD
Features	▪ Full amphibious operation, with preparations beginning months in advance ▪ Full in-kind military, economic, and diplomatic response from the US/regional allies	▪ A full takeover of Taiwan is an extreme scenario, likely involving Beijing's red lines ▪ A global recession is certain, and firms will be forced to decouple abruptly and painfully
Pre-requisites	▪ Beijing's **red lines** are crossed: an explicit declaration of independence, or a refusal by Taipei to negotiate in an escalatory situation ▪ Escalatory spiral from a scenario with limited use of force	
Impacts	▪ **Trade and supply chain:** economic activity and trade comes to standstill, substantial transshipment occurs through the Global South and Russia ▪ **Logistics:** trans-Pacific shipping severely restricted, as carriers potentially refuse to sail; only war materiel and critical goods are transported due to commandeering **Macroeconomic:** China is frozen out of the global financial system, full capital controls prevent the repatriation of profits and assets ▪ **Cyber:** expansion of the conflict to cyberattacks on US and allied firms	

Source: Onyx

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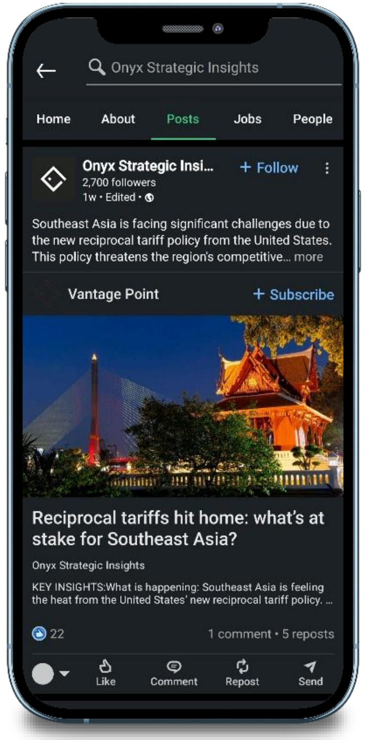

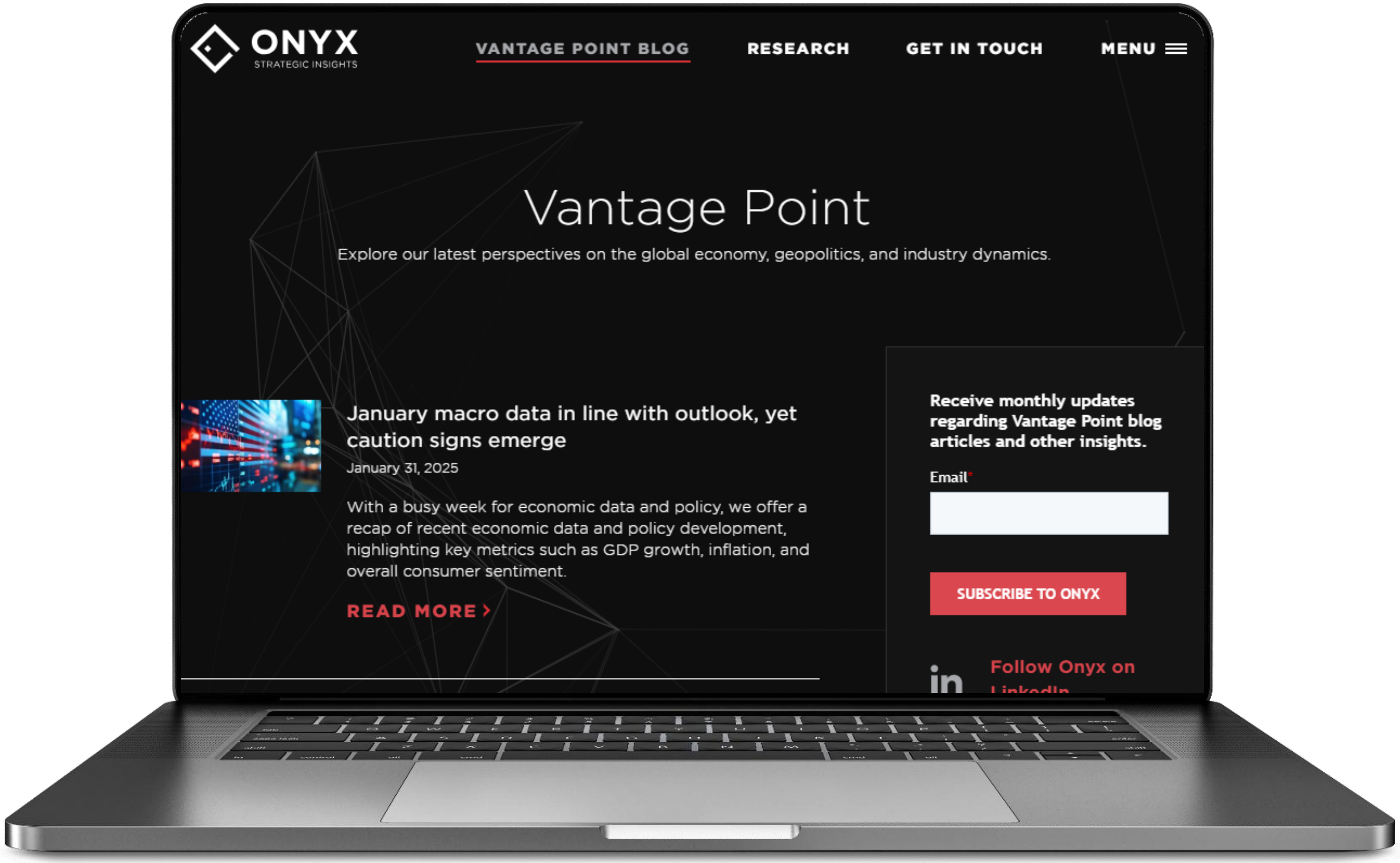

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