



# Quarterly outlook

**Insights on the US and global economy  
sector implications, and investing landscape**



**May 2026**



# Introduction

Every six months, the IMF Meetings in Washington bring policymakers, financial executives, and investors together to take stock of the global economy. This year, we joined those conversations as markets weighed the economic fallout from the Iran military conflict, the risk of more persistent inflation, and renewed concerns about global debt and fiscal sustainability.

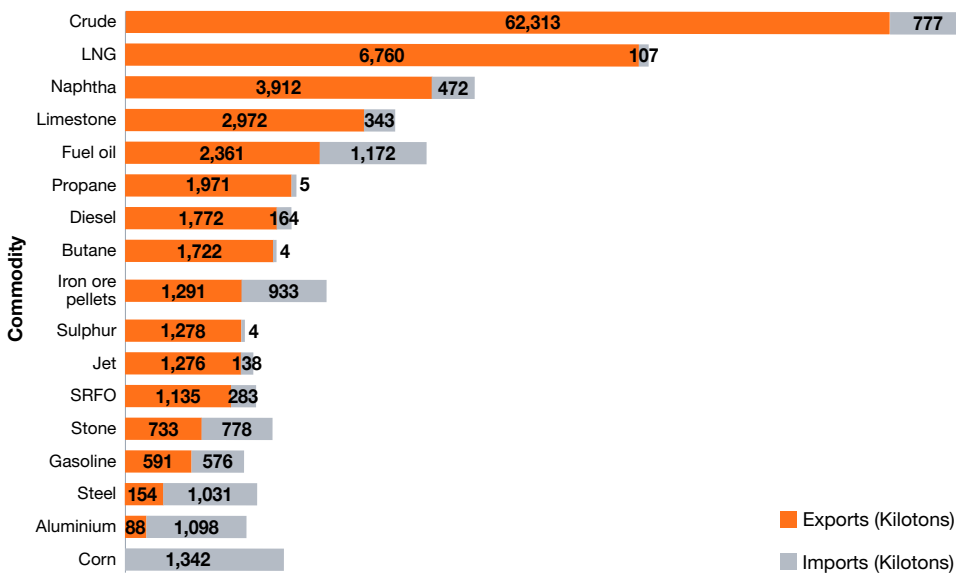
The core theme that emerged, however, was that the global economy is in a rare moment: two powerful forces are pushing growth and inflation in opposite directions.

Even before the latest military escalation in the Middle East, AI transformation was already reshaping business models and had become a central pillar of growth expectations, with hyperscalers, chipmakers, and cloud infrastructure driving a new cycle of investment.

That dynamic has now been clouded by geopolitical upheaval. The Iran military conflict has disrupted oil and liquefied natural gas (LNG) flows through the Strait of Hormuz, through which nearly 20% of global daily oil demand and LNG passes.<sup>1</sup> Fatih Birol, Executive Director of the International Energy Agency<sup>2</sup> and energy veteran Daniel Yergin called the disruption the most severe oil supply shock on record.<sup>3</sup>

Added to that, the Gulf Cooperation Council (GCC) energy exporters are also a critical lynchpin in the petrochemical industry and the global fertilizer supply chain. A prolonged disruption to the supply of critical inputs such as urea, ammonia, and helium will have knock-on effects on the global semiconductor and food supply (see figure 1).

**Figure 1: Top commodities traded via Strait of Hormuz (Kilotons)**



Note: Trade volumes are based on data for Saudi Arabia, UAE, Bahrain, Qatar, Kuwait, Oman, Iran, and Iraq  
Source: Kpler

Even if a long-term settlement is reached soon, we believe the impact of the military conflict is likely to have a long tail, resulting in rolling supply shocks that could snarl global supply chains for months to come. The logistical challenges alone—clearing laden tankers from the Gulf, rerouting ballasting vessels to port, restarting shut-in production—mean a sizable supply crunch is already baked in.<sup>4</sup> Moreover, the sustained strikes by Iran on the production and refining capacities of GCC exporters and Iraq have likely created structural scarring in global energy markets, with very little ink spilled on the capex required to repair these facilities and resume pre-conflict production levels.

<sup>1</sup> <https://www.iea.org/about/oil-security-and-emergency-response/strait-of-hormuz>. Accessed 22 April 2026.

<sup>2</sup> <https://www.reuters.com/business/energy/war-iran-is-causing-biggest-energy-crisis-history-iea-says-2026-04-21/>

<sup>3</sup> <https://www.bloomberg.com/news/articles/2026-04-25/hormuz-crisis-is-biggest-energy-disruption-ever-yergin-says>

<sup>4</sup> MEES

For businesses and investors, this quarter is defined not just by heightened uncertainty, but by the limits of traditional diversification strategies. Companies and investors should reassess how the shock is reshaping their key markets and what that means for capital allocation. We focus the rest of our report on these three areas:

- **Regional outlook:** What are the potential scenarios, and how is the shock playing out across the US, Eurozone, Asia, and Latin America?
- **Sector dynamics:** Where are the risks, dislocations, and emerging opportunities across energy, industrials, consumer markets, technology, financial services, and healthcare?
- **Capital allocation:** What does this mean for how companies and investors should be thinking about resilience, growth investment, and the deployment of capital from here?



<https://www.iea.org/about/01-security-and-emergency-response/strait-of-hormuz>  
Accessed 22 April 2026. ...  
<https://www.reuters.com/business/energy/war-iran-is-causing-biggest-energy-crisis-history-leads-2026-04-21/>  
<https://www.bloomberg.com/news/articles/2026-04-25/hormuz-crisis-is-biggest-energy-disruption-40-yr-vein-says>

# Global scenarios and regional outlook

While a memorandum of understanding between the US and Iran would truncate the most severe downside risks to the global economy, it would likely do little more than extend the ceasefire by 60 days and open negotiations over Iran's nuclear program. Our baseline scenario still assumes a protracted conflict, marked by intermittent skirmishes and only a gradual reopening of the Strait of Hormuz. Under this scenario, West Texas Intermediate (WTI) could average around \$80 for the remainder of the year, with Brent maintaining a persistent premium. The result would likely be a modest downgrade to 2026 global GDP growth, with the greatest downside concentrated in economies most exposed to the conflict, particularly across Asia, Europe, and the Middle East.

In an adverse scenario, sustained targeting of key infrastructure targets within Iran (including Kharg Island) and around the Gulf pushes WTI potentially into the \$96-\$100 range. Policymakers would face a difficult tradeoff: tighter monetary policy to contain inflation would further curb demand, while fiscal support for households and firms would likely need to expand, placing added pressure on already-stretched deficits across advanced economies.

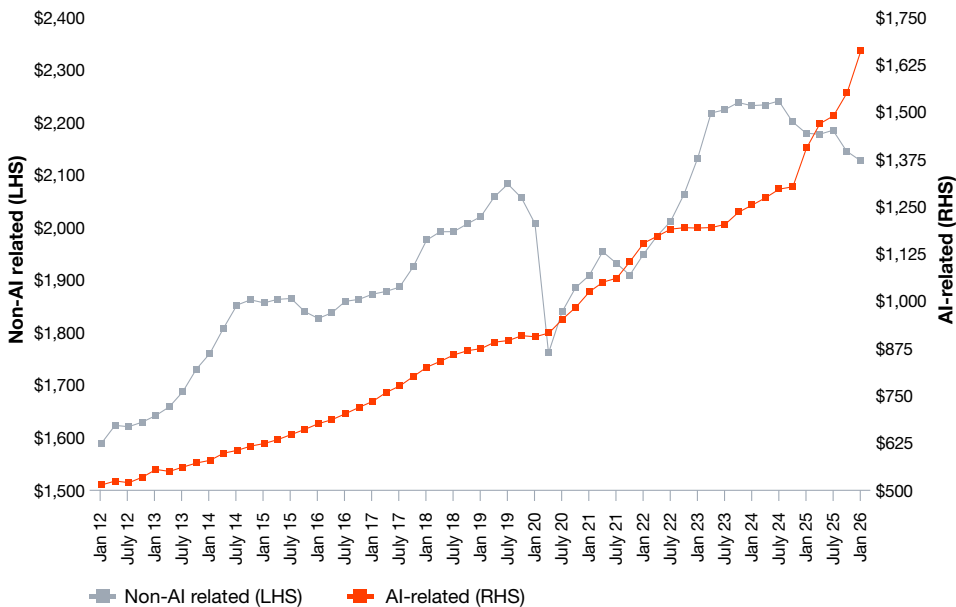
In a severe scenario involving ground troops, new actors, or a full closure of both the Hormuz and Bab al-Mandab straits, WTI hovers between \$120-\$150 and global GDP decelerates to about 2.2%, likely tipping the world into recession. Private demand would slow sharply as financial conditions tighten and uncertainty spikes. Markets also appear to underestimate the longer-run damage: demand destruction in a shock of this magnitude would leave structural scarring that persists well beyond the initial disruption.

## United States

In the US, our baseline trims roughly 0.2 percentage points off GDP and nudges unemployment modestly higher, lowering our 2026 growth forecast from 2.1% to 1.9%. The muted impact reflects two forces. First, the shale revolution has made the country a major energy producer, insulating it from much of the adverse growth effects of oil price shocks. Second—and arguably the biggest non-geopolitical story in the economy—soaring AI capex has emerged as a primary engine for growth.

**Figure 2: AI-related spending continues to grow despite heightened geopolitical risks**

US real business investment (USD billions)

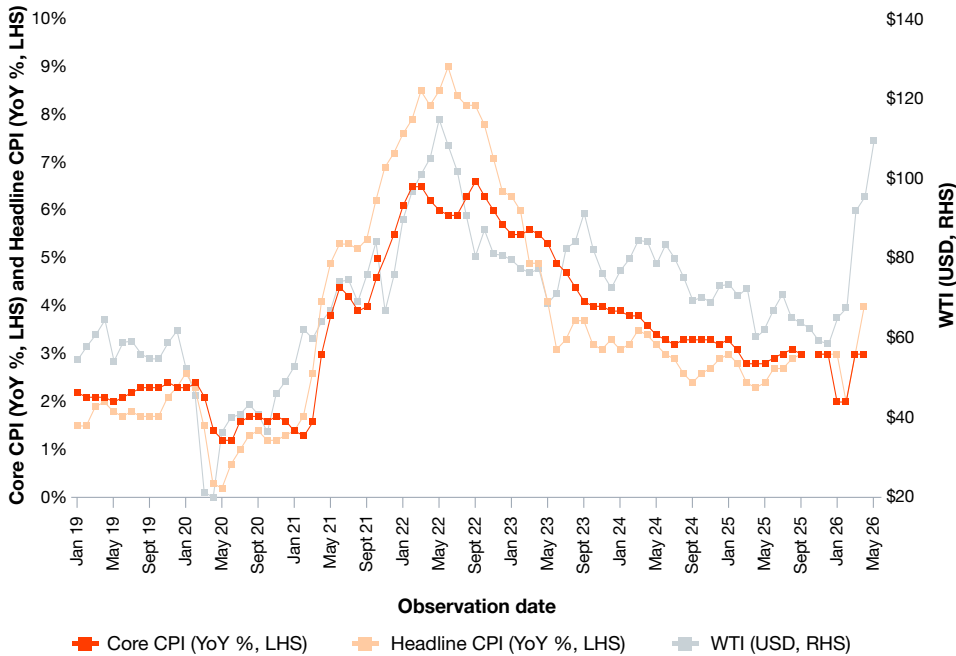


Source: Bureau of Economic Analysis, PwC analysis

This was evident in the Q1 GDP report, where the economy grew at a modest 1.6% annualized rate, yet the underlying drivers were mostly AI-led. Software and computing investment surged nearly 24% year over year, while other categories of business capital expenditure declined for a sixth consecutive quarter (see Figure 2).<sup>5</sup>

<sup>5</sup> <https://www.bea.gov/news/2026/gdp-advance-estimate-1st-quarter-2026>

**Figure 3: A close correlation between WTI and CPI suggests that inflation may continue to rise**

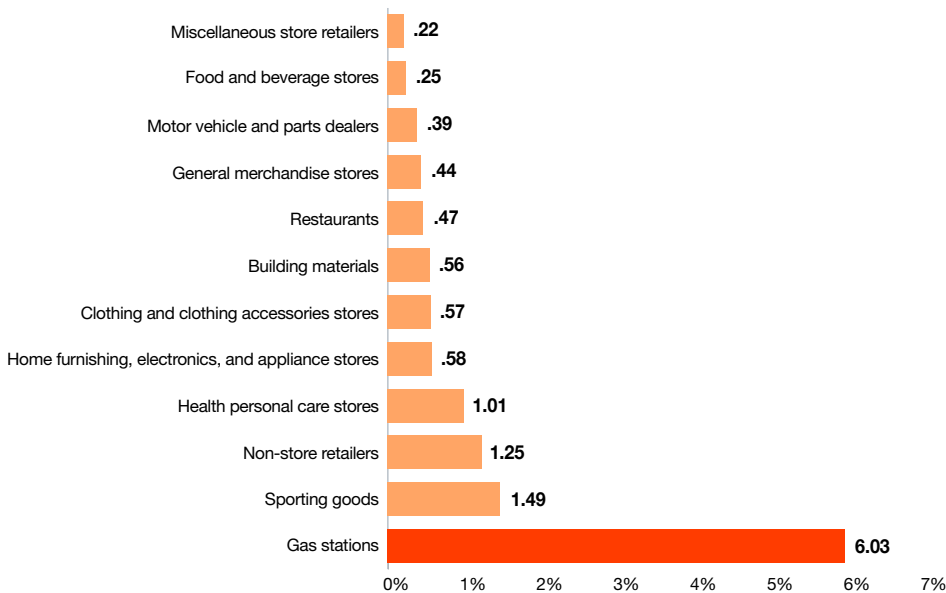


Source: Bureau of Labor Statistics

While we remain constructive on the US growth outlook, risks are skewed to the downside should the military conflict in Iran persist along our baseline scenario. Higher energy prices are lifting headline inflation and may begin to bleed into core measures (see figure 3).<sup>6</sup> For households, higher fuel and food costs crowd out discretionary spending. Early retail sales data already show outsized gains in gasoline outlays, a pattern that typically precedes softness in discretionary categories (see figure 4).<sup>7</sup>

<sup>6</sup> <https://www.bls.gov/news.release/cpi.nr0.htm>

<sup>7</sup> <https://www.reuters.com/business/energy/us-retail-sales-surge-march-higher-gasoline-prices-2026-04-21/>

**Figure 4: US retail sales: 3-month average monthly % change (Feb–Apr 2026)**

Source: US Census Bureau

AI-led investment could also hit constraints. Unlike prior investment cycles, today's AI-led capex boom is unusually energy-avaricious, relying on massive compute infrastructure and power hungry data centers. A sustained energy shock risks increasing the operating burden for data centers and compute infrastructure, potentially constraining near-term AI investment. That risk is amplified by growing concerns about market concentration and circular capital flows within the AI ecosystem—leaving one of the US economy's main growth engines more vulnerable than markets currently price.

So far, markets remain sanguine, with earnings expectations continuing to rise—driven in part by tech, now expected to deliver 43% earnings growth in 2026.<sup>8</sup> However, they appear priced for a supply shock that fades relatively quickly rather than a growth shock that persists. That may prove correct. But if disruption drags on, the current oil supply shock may extend beyond higher prices and metastasize into a broader growth shock, with higher inflation more materially affecting business input costs and margins, while savings and tax refunds are no longer enough to support consumers.

<sup>8</sup> <https://www.reuters.com/business/finance/jpmorgan-morgan-stanley-urge-buying-dip-us-earnings-stay-resilient-2026-04-13/>

Incoming Federal Reserve Chair Kevin Warsh's push for change will likely have to wait, as economic data will ultimately drive the Fed's next move. The April Federal Open Market Committee (FOMC) meeting already marked a shift in tone, signaling that the easing cycle is likely to be pushed further into the future. In our view, a prolonged rise in energy prices would delay rate cuts from later this year to early next year. A rate hike is no longer implausible, but in our view it would require two developments: a renewed tightening in the labor market, marked by falling unemployment and faster wage growth, and core PCE inflation rising meaningfully above 3%. Neither is our base case, but neither can be ruled out.

## Euro area

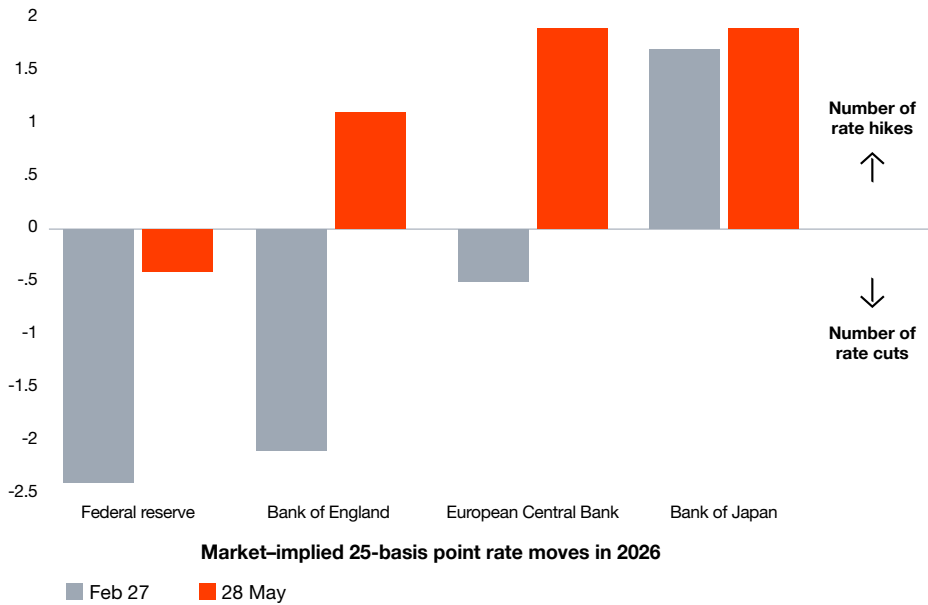
Across the Atlantic, the Euro area faces a more direct terms-of-trade shock given their dependence on imported energy. In our baseline, Euro area GDP growth slows to around 0.5% in 2026, down from 0.9% in the prior forecast. Italy and Germany look more exposed due to higher reliance on oil and gas, while France is relatively insulated.

Inflation is already reaccelerating. Euro area annual inflation climbed to 3% in April 2026, the highest since September 2023, up from 2.6% in March, with further pass-through likely via food and transport. Among the largest economies, inflation accelerated in Germany (2.9% vs. 2.8%), France (2.5% vs. 2%), and Spain (3.5% vs. 2.4%).<sup>9</sup> This is juxtaposed against Euro area consumer confidence, which has fallen to its weakest level since late 2023, underscoring households' continued sensitivity to energy prices in the aftermath of the Russia-Ukraine shock.<sup>10</sup>

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<sup>9</sup> <https://ec.europa.eu/eurostat/web/products-euro-indicators/w/2-30042026-ap>

<sup>10</sup> [https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/business-and-consumer-surveys/latest-business-and-consumer-surveys\\_en](https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/business-and-consumer-surveys/latest-business-and-consumer-surveys_en)

**Figure 5: Market-implied 25-basis point rate moves in 2026**

Source: S&amp;P Global Market Intelligence

Meanwhile, the European Central Bank (ECB) is in a difficult position. Unlike the Fed, the ECB has a single mandate focused on price stability. That leaves it with less runway to look through an inflation spike driven by energy. While the central bank kept interest rates on hold in April,<sup>11</sup> the market is already pricing in two ECB rate hikes in the coming months (see figure 5).

## Asia and Latin America

Asia accounts for the bulk of oil import flows which travel through the Strait of Hormuz, with China, India, and Japan among the largest recipients. Because most economies in the region import both oil and LNG, Asia is largely a “price taker” and remains structurally reliant on Middle Eastern supply. Unlike Europe, this is not just a term of trade shock. Government measures—ranging from fuel rationing and conservation mandates to mobility restrictions and remote work—are already inducing COVID-like demand destruction in parts of the region.<sup>12</sup> Spillovers also extend beyond crude—tightness in petrochemical feedstocks such as naphtha is lifting costs across downstream industries in South Korea,<sup>13</sup> while disruptions to urea and ammonia would hit fertilizer supply and, in turn, food prices, especially in India.

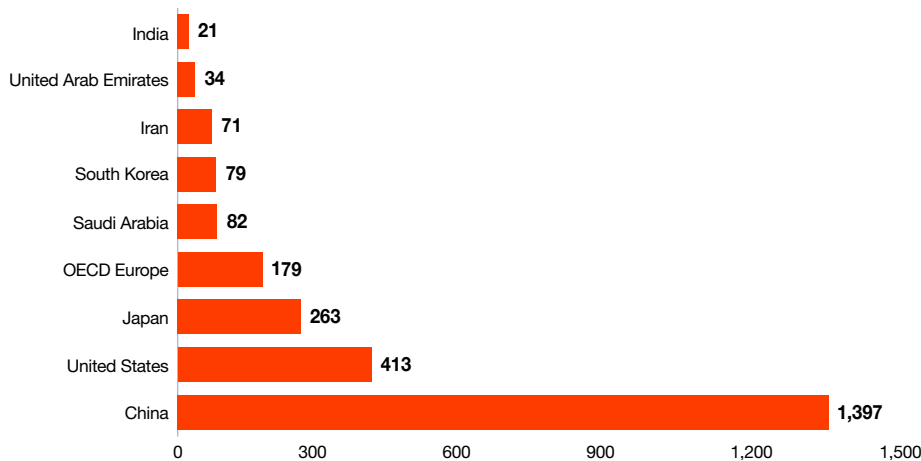
<sup>11</sup> <https://www.ecb.europa.eu/press/pr/date/2026/html/ecb.mp260430~81b7179e6f.en.html>

<sup>12</sup> <https://theconversation.com/some-countries-in-asia-are-rationing-energy-why-theyve-been-hit-hardest-by-the-crisis-in-the-gulf-279888>

<sup>13</sup> <https://www.scmp.com/business/china-business/article/3348503/asias-chip-industry-faces-naphtha-squeeze-and-south-korea-feels-it-most>

But the overall macro exposure from this shock is far from uniform. Countries differ widely in their strategic oil reserves, their ability to cushion price spikes through policy, and how dependent they remain on imported fossil fuels versus alternative energy sources. Economies such as China and Japan, which benefit from substantial policy buffers, strong external positions, and large strategic reserves, are better positioned to weather a prolonged disruption (see figure 6). China also benefits from a recent surge in domestic natural gas production, providing a “geological” buffer alongside a financial one. South Asia, particularly Pakistan and Sri Lanka, appears most vulnerable, while India faces moderate risk through higher import costs and inflation. The Reserve Bank of India has made only modest changes to its outlook, holding 2026 growth at 7.6% while trimming 2027 to 6.9%.<sup>14</sup>

**Figure 6: Estimated crude oil inventories in selected countries (million barrels)**



Source: US Energy Information Administration

In contrast to Asia, many Latin American economies are ‘price makers’ due to their role as energy producers. Net commodity exporters such as Brazil, Colombia, and Argentina can benefit from higher export revenue, while net importers like Chile and Mexico might face headwinds to growth and trade balances.

<sup>14</sup> <https://economictimes.indiatimes.com/news/economy/indicators/rbi-gdp-growth-fy-2026-27-mpc-meeting-gdp-forecast-india-eases-growth-forecast-as-iran-war-oil-surge-risks-cloud-growth-trajectory/articleshow/130091660.cms?from=mdr>



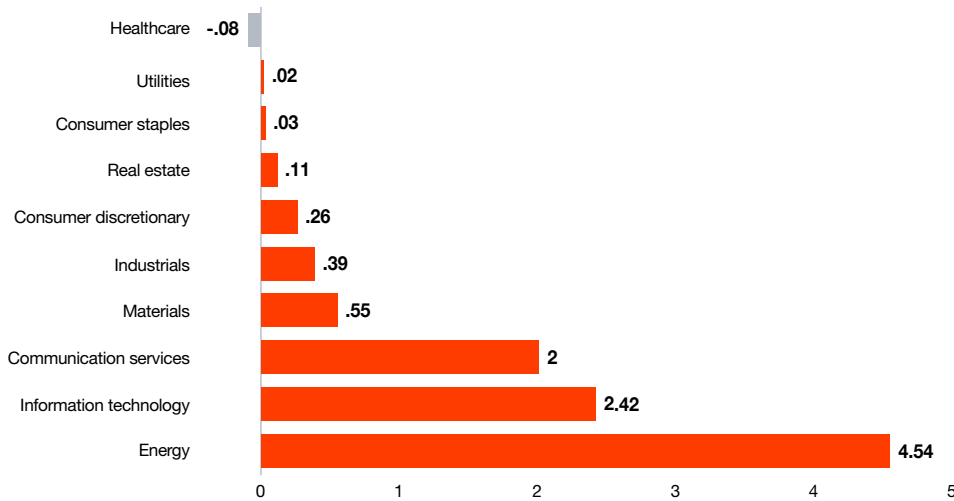
## The impact across sectors

### The energy industry— from energy transition to addition

The military conflict has widened dispersion within energy. Producers outside the conflict zone are benefiting from higher prices, with US energy sector earnings seeing strong upward revisions (see figure 7).<sup>15</sup> Some of these windfalls are likely to be reinvested in innovation and efficiency—particularly renewables, bioenergy, and broader energy-efficiency initiatives, often described as a “fifth fuel” because they reduce energy intensity and import dependence. At the same time, the military conflict is driving sharp declines in oil and gas revenues across the Gulf. Beyond the near-term hit, the war could leave lasting economic scars on the region, though much will depend on the post-conflict energy landscape and regional geopolitical order.

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<sup>15</sup> <https://finance.yahoo.com/sectors/energy/articles/iran-war-raises-demand-us-181218744.html>

**Figure 7: S&P 500 2026 EPS revisions since Feb 27**

Source: S&P Global Market Intelligence, PwC analysis

The military conflict is also accelerating a policy pivot in Asia and Europe toward domestic and diversified energy.<sup>16</sup> The response is not just about rerouting barrels away from Hormuz; it is about adding reliable power to meet demand that is rising structurally—driven by AI buildout and changing climate.

Japan is pushing for greater energy self-sufficiency, including a mandate to maximize output and restart parts of its nuclear fleet.<sup>17</sup> Italy is weighing a return to domestic nuclear generation nearly 40 years after shutting its last reactor.<sup>18</sup> Other countries like Vietnam, meanwhile, are leaning further into coal to ameliorate energy shortages and meet surging industrial power demand.<sup>19</sup>

## Industrial products companies—cost pressures and defense-driven demand

Industrial performance is bifurcating. Aerospace and defense platforms are benefiting from urgency, funded backlogs, and a willingness to pay for speed. Traditional manufacturers face a more familiar problem: margin compression from higher inputs, higher logistics costs, and greater volatility in delivery schedules.<sup>20</sup>

For manufacturers, the immediate impact is working capital. Longer routes, higher insurance costs, and unreliable schedules force companies

<sup>16</sup> <https://www.cfr.org/articles/the-iran-war-is-reshaping-asias-energy-security-strategies>

<sup>17</sup> <https://www.bloomberg.com/news/articles/2026-03-15/italy-explores-nuclear-return-after-40-years-as-energy-costs-hit>

<sup>18</sup> <https://www.bloomberg.com/news/articles/2026-03-15/italy-explores-nuclear-return-after-40-years-as-energy-costs-hit>

<sup>19</sup> <https://www.npr.org/2026/03/24/g-s1-114940/asia-boosts-coal-use-as-iran-war-squeezes-global-Ing-supplies>

<sup>20</sup> <https://www.morningstar.com/news/dow-jones/2026042110479/industrials-down-on-iran-war-fears-industrials-roundup>

to carry more goods in transit and keep extra inventory on hand.<sup>21</sup> At the same time, as companies pursue dual sourcing to secure critical inputs, they risk bidding up procurement prices in an already elevated cost environment. The winners will be those that protect service levels without letting inventory and freight quietly erode margins. The likely winners this quarter will be the companies that keep deliveries reliable without letting inventory and shipping costs quietly eat into profits.

Defense demand should strengthen most where capacity can scale quickly: munitions replenishment, air defense, spares, and sensor-enabled systems. The same energy shock could also accelerate EV adoption, particularly across Asia and Europe, as governments respond with stronger incentives and electrification mandates.

## Consumer Markets—a value-based economy

Consumer markets are likely to move deeper into a value-based economy. Higher energy and food costs function like a regressive tax, shifting spend away from discretionary and increasing sensitivity to price increases (see figure 8). Few things affect consumer psychology more than a surge in prices at the gas pump, especially as they enter the summer driving season.

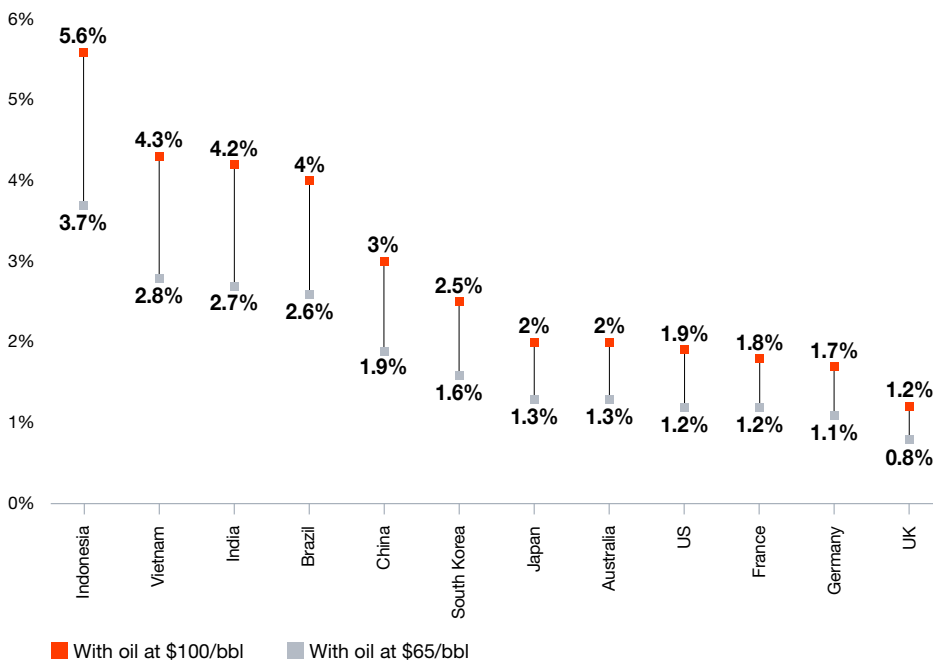


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<sup>21</sup> <https://www.spglobal.com/energy/en/news-research/videos/shipping/032026-rising-insurance-costs-war-risk-boost-tanker-freight-as-shippers-look-for-safer-waters>

Discretionary categories, particularly luxury goods and travel, appear most exposed. Hotel occupancy rates in key Middle Eastern markets have fallen from above 80% to as low as 20%,<sup>22</sup> while luxury brands that had leaned heavily into Gulf demand are already seeing signs of weakening consumption across the region.<sup>23</sup> More broadly, retailers are likely to see demand become more price-sensitive, while cost pressure builds through packaging, transport, and last-mile delivery.

**Figure 8: Share of consumer spending on gasoline under different oil price scenarios (%)**



Source: Haver Analytics, PwC analysis

Companies will keep debating how far they can raise prices before they hit a ‘price wall’ of consumer elasticity—the point where shoppers push back, trade down, or simply buy less. Planning is likely to shift toward clearer value propositions, smarter promotions, and private-label expansion as consumers trade down. Companies with localized sourcing, pricing agility, and stronger demand forecasting are likely better positioned to protect margins and hold share.

<sup>22</sup> <https://www.hotelmanagement-network.com/news/middle-east-hotels-hit-pandemic-era-lows-amid-iran-war/>

<sup>23</sup> <https://www.nytimes.com/2026/04/19/business/luxury-brands-bet-on-the-middle-east-war-has-damaged-their-plans.html>

## Technology, media, telecoms (TMT)—cyber resilience and tech sovereignty imperative

TMT remains a relative growth pocket, supported by continued hyperscaler capex and enterprise modernization. However, the semiconductor sector is facing a key risk due to the loss of one-third of the global helium supply from Qatar. Helium is irreplaceable in wafer cooling and lithography, and its shortage has caused spot prices to surge 40% to 100%.<sup>24</sup> While semiconductor fabs are currently managing through existing inventory, prolonged disruption threatens production yields for advanced AI chips.

The more profound shift, however, is strategic. Heightened geopolitical tensions are likely to drive a surge in demand for cybersecurity, secure cloud infrastructure, and defense-tech applications—even as broader enterprise IT spending moderates.<sup>25</sup> This will likely create a bifurcated outlook: AI and security-related segments continue to attract capital and deliver growth, while more cyclical areas such as consumer-facing technology face margin pressure and demand softness.

## Financial Services and asset management—growing stagflationary risks

Financial institutions are operating in a more volatile environment, with tighter financial conditions and a reassessment of where to deploy capital. Rising stagflation risk could slow credit growth and investment while increasing pressure on rate-sensitive parts of the economy. Asset-quality risks are likely to rise as well, especially in energy-importing regions and in the more leveraged corners of credit markets. If inflation pressure persists, capital may rotate faster toward real assets and private markets as a hedge against rising prices.

At the same time, stress in private credit could open a window for banks to regain share in distressed lending and opportunistic M&A as non-bank lenders pull back. Proposed changes to the Supplementary Leverage Ratio (SLR) could also let banks expand assets without matching deposit growth, supporting more aggressive lending.<sup>26</sup> However, thinner capital cushions also raise financial instability risks if liquidity conditions tighten sharply.

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<sup>24</sup> <https://www.forbes.com/sites/tiriasresearch/2026/04/07/helium-crisis-tightens-grip-on-global-chip-supply-chain/>

<sup>25</sup> <https://www.weforum.org/stories/2026/03/middle-east-conflict-iran-us-cybersecurity-landscape/>

<sup>26</sup> <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20251125b.htm>

## Health industries – defensive, but not immune to supply shocks

The healthcare sector remains relatively defensive but is increasingly exposed to cost and supply chain pressures. The military conflict has taken roughly 12% of global ethylene production offline and up to half of global PE supply offline or constrained, with exposure highest for manufacturers of goods such as IV bags, syringes, and tubing.<sup>27</sup> Japan, which is heavily dependent on overseas medtech supply chains, has already warned that disruptions to the flow of oil and naphtha from the Gulf could trigger critical shortages of medical supplies within two months.<sup>28</sup> At the same time, geopolitical instability is disrupting clinical trials and research pipelines, delaying development timelines in affected regions and creating bottlenecks in innovation cycles.<sup>29</sup>

The industry is likely to accelerate a redesign of its operating model. This includes more flexible clinical trial models enabled by digital health platforms, as well as operating more regionally as opposed to globally to reduce risk.<sup>30</sup> Companies will likely also continue to invest in bio-based inputs, dual sourcing strategies, and chemical hedging to reduce long-term dependence on supply chains exposed to geopolitical volatility.



<sup>27</sup> <https://www.sunsirs.com/commodity-news/petail-31919.html#:~:text=SunSirs:%20Ethylene%20Production%20May%20Drop,metric%20tons%20of%20ethylene%20production.>

<sup>28</sup> <https://asia.nikkei.com/spotlight/supply-chain/iran-war-exposes-japan-s-dependence-on-medical-supply-imports>

<sup>29</sup> <https://www.phesi.com/news/new-phesi-data-shows-6-per-cent-of-global-clinical-trials-impacted-by-middle-east-disruption/>

<sup>30</sup> <https://www.fiercebiotech.com/cro/sanofi-inks-5-year-deal-thread-adopt-more-technology-trials>

## Rethinking capital allocation strategy

Even before the conflict, the global economy was already moving away from pure cost optimization and toward resilience, security, and strategic control. The military conflict with Iran, along with disruptions in the Strait of Hormuz, is accelerating that shift.

That transition is reshaping capital allocation. In the globalization era, investment flowed to the lowest-cost location. Now governments are channeling capital toward domestic production and trusted partners to secure critical supply chains and reduce strategic dependence. At the same time, physical constraints on AI are triggering a broader scramble for energy, infrastructure, and scarce inputs, as countries and companies move to lock in the resources needed for future growth.



For businesses, that shift has three immediate implications.

- **Reprice resilience:** Capital should shift from efficiency toward resilience faster than planned. What once looked like waste, such as backup suppliers, inventory buffers, and energy hedges, is becoming economically rational. The cost of underinvesting in resilience is rising faster than the cost of building it. However, resilience will not come cheaply. Redundancy and supply chain diversification may strengthen stability and security, but they also reduce scale efficiencies and push the global economy toward a structurally higher-cost model, where input costs are higher and margin pressure remains elevated.
- **Treat energy and logistics as balance-sheet variables:** Energy—even in traditional forms—is no longer a background input. It is a strategic line item in capital planning, affecting cash needs, margins, and risk. Choices on site selection, infrastructure, routing, and long-term contracts can matter as much as labor and tax decisions.
- **Concentrate growth bets:** The bar for growth investment is higher, but not everywhere. Capital is likely to concentrate in areas with clear structural tailwinds (AI, energy, and security) while more cyclical segments face tougher scrutiny. The main risk is not too much spending, but spending potentially in the wrong places.

In this environment, the core takeaway is that companies must operate under pressure while continuing to invest for what comes next. As World Bank President Ajay Banga put it ahead of the IMF Spring Meetings, leaders have to “walk and chew gum at the same time”—managing immediate pressure while continuing to invest behind the structural shifts underway, especially the AI-driven cycle. It is not a choice between short-term performance and long-term positioning; outperformance will require both.

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