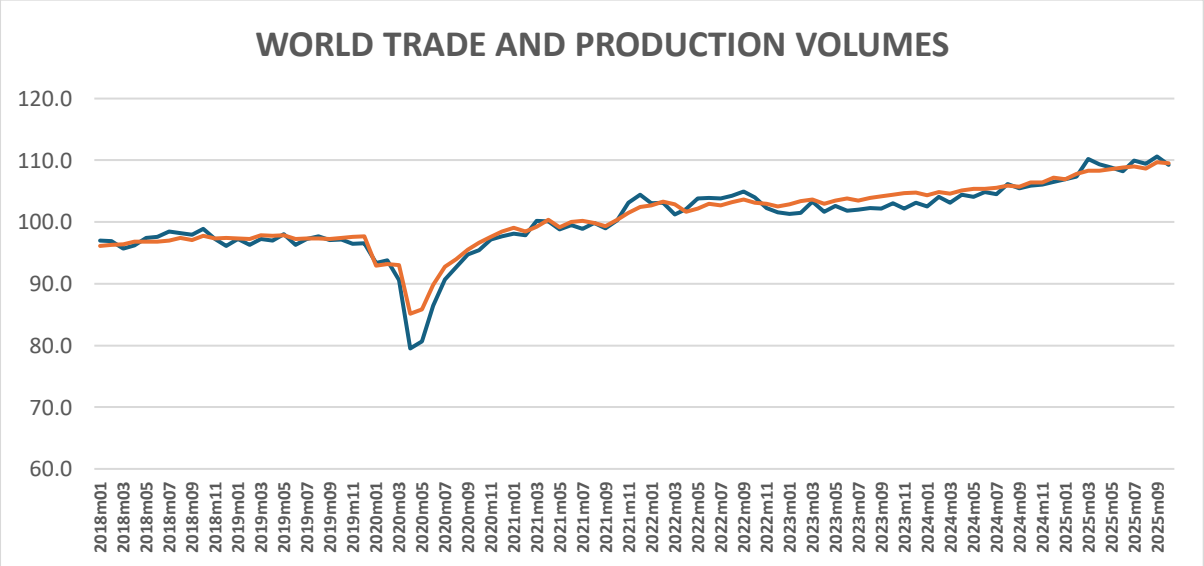
ANTICIPATING 2026 BY EVALUATING THE US, AND CHINESE ECONOMIES.

Goldman Sachs predicts a global growth rate of 2.6% to 2.8% for 2026 with the euro area growing by 1.3%. Oxford Economics, though with more uncertainties, still predicts 2.7%. Morgan Stanley, ever the optimist predicts 3.2%. JP Morgan is less optimistic and cautious about the US economy but notes: "*global GDP growth is expected to receive a boost in the first half of the year thanks to front-loaded fiscal stimulus, promoting a rebound in sentiment*." Finally, this is what McKinsey had to say: "*In a reversal from earlier in the year, economic sentiment turns more optimistic, with declining focus on trade policy and growing confidence in companies' prospects."* Cautious optimism all round, what ho!

Whatever McKinsey says, tariffs has affected global trade as the graph below shows with data taken from the CPB world trade monitor. Since March of this year trade volumes have been flat. This effect will intensify over the course of 2026. As for front loaded fiscal stimulus from Trumps *Big Beautiful Spending Bill*, this needs to be put into context. Over the course of 2025, according to the Wilshire 5000 index which encompasses most US listed shares, share values rose by $8,530 billion over the course of the year. According to the o citations listed in my previous articles, that would have led to a spending boost of around $680 billion as capital gains were cashed in and spent in the economy, plus taxes paid on these gains. This compares to the boost of $400 billion from Trump's Bill, most going to the underserving rich. Thus, any rise in next year's stock indexes of less than 4% will ensure that the boost from the Bill is cancelled out. Furthermore, with these tax cuts fuelling more public debt, the ten-year yield has remained stubbornly trapped in a range between 4.1% and 4.2% high enough to keep mortgage rates elevated and to raise interest payments on corporate and federal debt.

Graph 1.



But the rise in share prices over 2026 does not look promising. Much of the index rise has been fuelled by a rise in AI related shares as well as a handful of Big Pharma stocks specialising in weight loss drugs and some cancer drugs. The AI bubble is wearing thin. The reasons for the Nvidia's roundtripping are beginning to come out, warehouses filled with unused GPU chips. This knowledge is still circulating on the fringes, but when it comes mainstream, there will be undoubted repercussions, and this will be

the case when Nvidia's next two quarterly sales figures appear despite its CEO currently bragging his company cannot meet demand and is selling faster than it can produce these chips. Furthermore, Alphabet is having problems monetising Gemini because it does not lend itself to incorporating advertising in a manner equal to its search engine. Finally, there is growing resentment with Microsoft's forced mating of Copilot with Windows 11, with the perception growing its was bolted on to Word simply to raise the price of Windows 11 and to enhance the harvesting of information while using Windows. In sum the monetisation of LLMs is taking longer than promised and at a lower rate than anticipated. So, the prospects for stock price rises are dimming despite the indexes having hit new peaks in December.

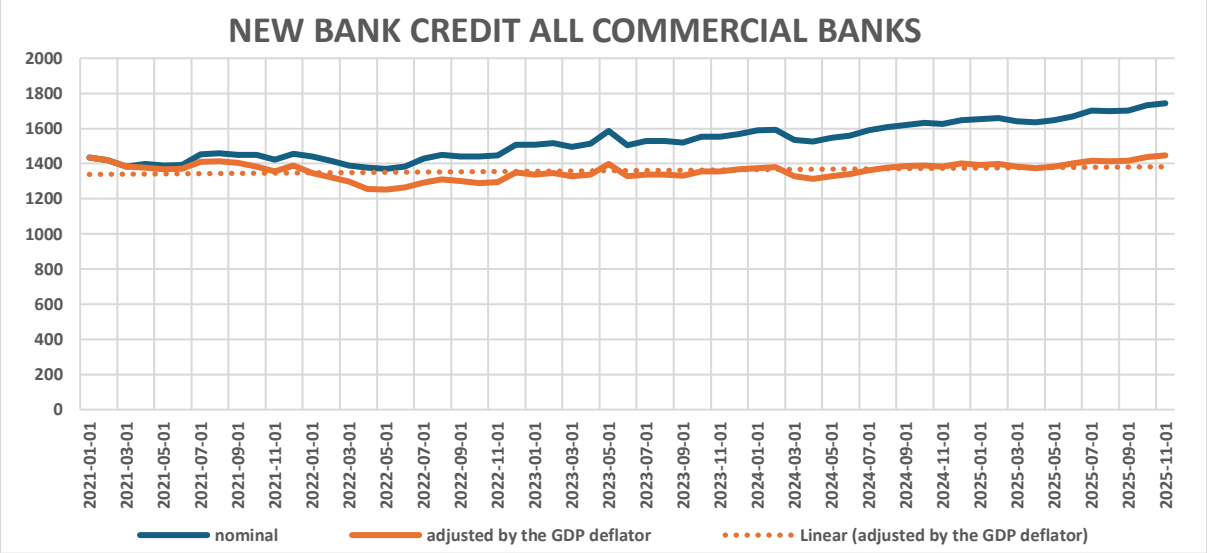
The investment in US data centres to power the new algorithms is vast. It added up to 1.1% of GDP growth in the first half of 2025. Without this spending GDP growth would have been a mere 0.1% bordering on recession. Thus, it is not only the stock market but the very economy which is dependent on the AI bubble through investment and the trickle across effect mentioned above from capital gains. This is what makes the US economy, and given its weight, the world economy, so unhealthy.

Then there are shadow banking issues. As reported by the Financial Stability Board total shadow banking assets worldwide has breached the $250 trillion mark. This sector is growing at double the rate of the regulated banking system and now comprises 51% of total global financial assets compared to 38% for regulated banks. $76.3 trillion has been identified as risky, enough to crash the world economy. As an aside US annual bankruptcies to September are up 16% (more recent data is delayed).

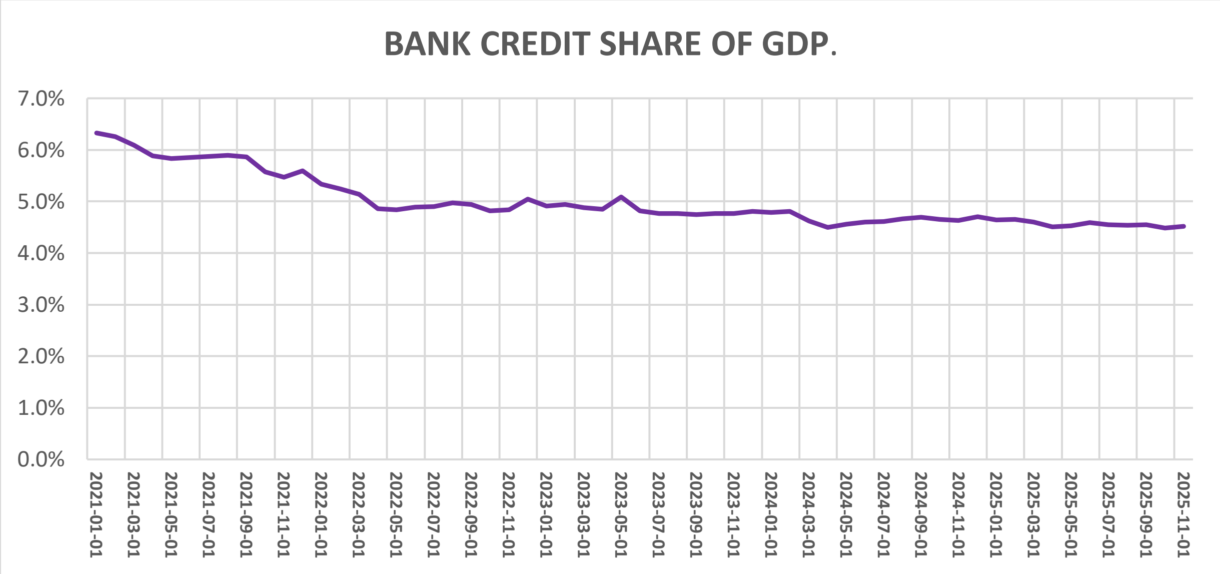
Issues of liquidity in shadow banking are starting to emerge. Alongside Blue Owl's hesitancy in raising fresh capital for Oracle, there are rumours beginning to surface about KKR's problems with some of its flagship investments. This is a large private equity firm allegedly valued at $400 billion. Then there is growing evidence once more of cockroaches beginning to clog up the financial plumbing, particularly the REPO market where cash strapped entities pledge AAA collateral to raise short term cash. For a more detailed analysis of these emerging trends listen to this interesting podcast.

Regarding normal bank credit the picture is subdued as the following two graphs detail. In addition, short term Industrial & Commercial Loans in 2025 are down from their 2023-4 levels. In sum, despite the AI boom, bank credit continues to flatline at 4.5% of GDP (Graph 3).

Graph 2.



Graph 3.

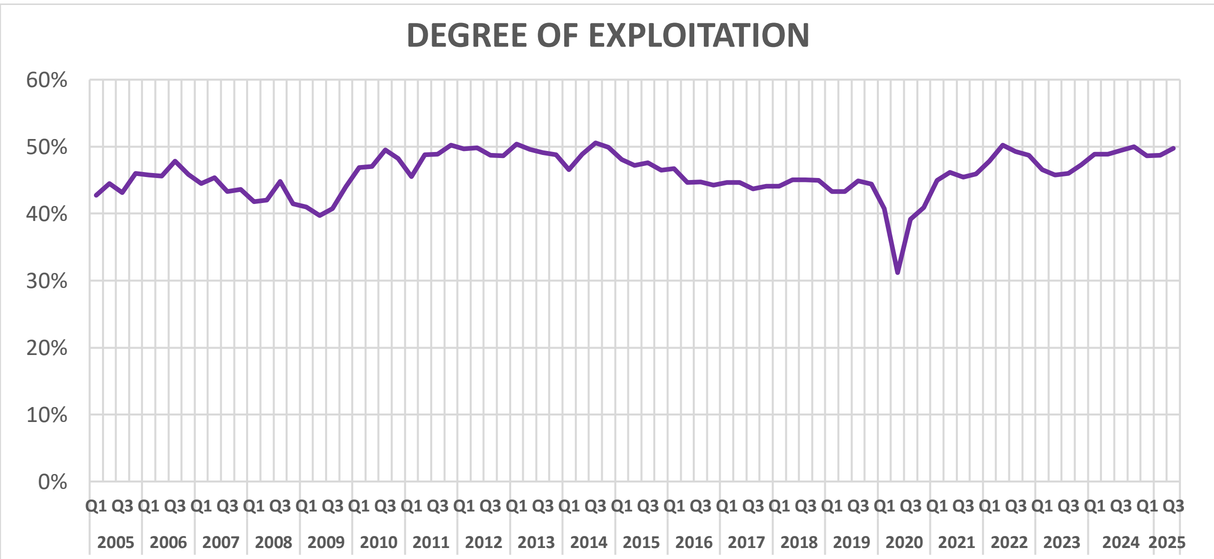


One final note on inflation. Annual goods inflation is running at 2.1% p.a. as of November this year. Goods are the sector where tariff influences should be felt. But these influences appear to be weak. Furthermore, the formula outlined in my articles on *Modern Marxist Monetary Theory* predicted this. The current budget deficit relative to FY 2024/5 using data for October and November suggests a deficit around 5% compared to 6.4% last year (thanks to a fall in student loans but before the Big Beautiful Bill lands next year). This means that unspent revenues make up around 90% of M2, the level which damps down inflation, because these unspent revenues represent legacy value ensuring that it is value and not debt which is mainly circulating commodities at present.

The corporate sector.

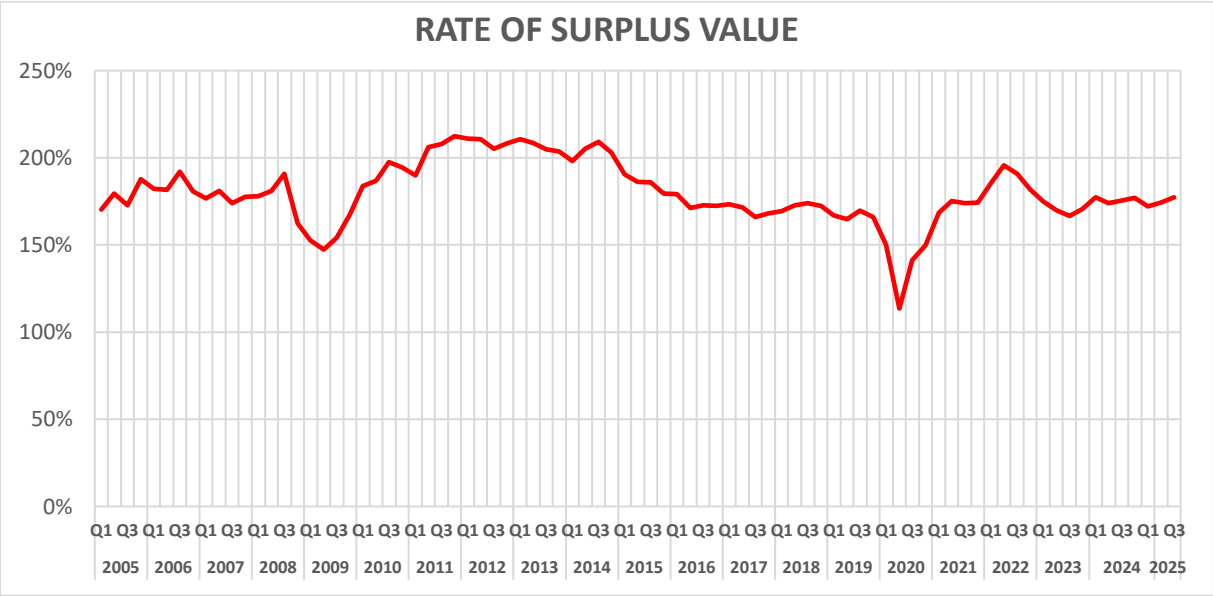
We can now turn to the non-financial corporate sector. All data is taken from NIPA Table 1.14. (See the spreadsheet accompanying this article). As turnover data has been delayed we begin with exploitation. In the last quarter exploitation ticked back up to the 50% mark.

Graph 4.



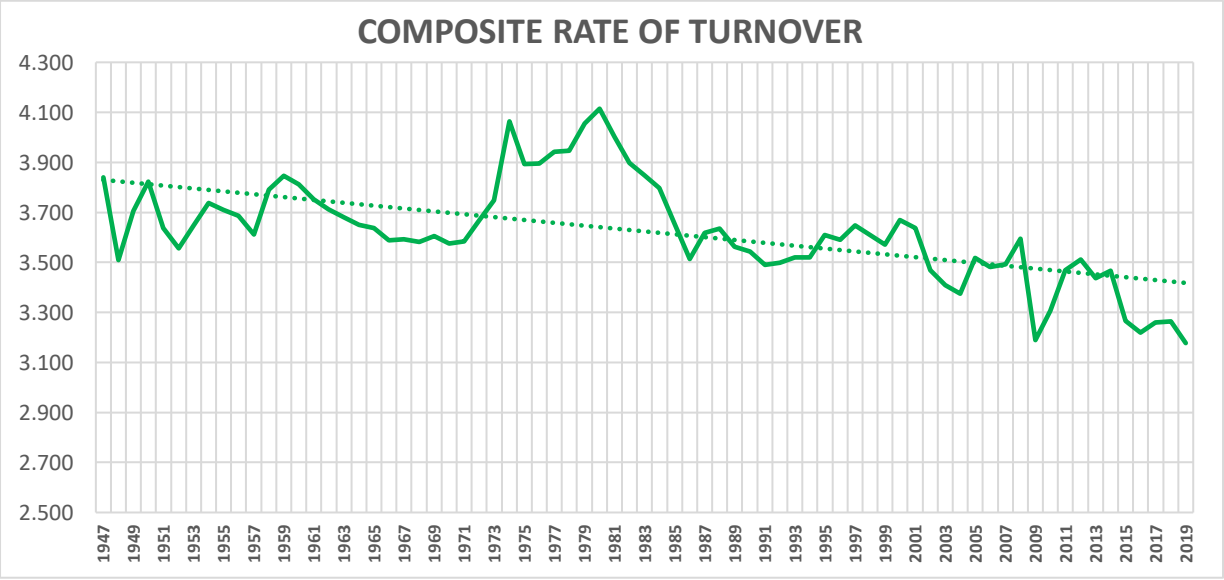
To obtain the rate of surplus value I have used the second quarter data. This is satisfactory as the movement in the rate of turnover has been immaterial over the last 18 months. Like the degree of exploitation, the rate of surplus value has ticked up this quarter.

Graph 5.



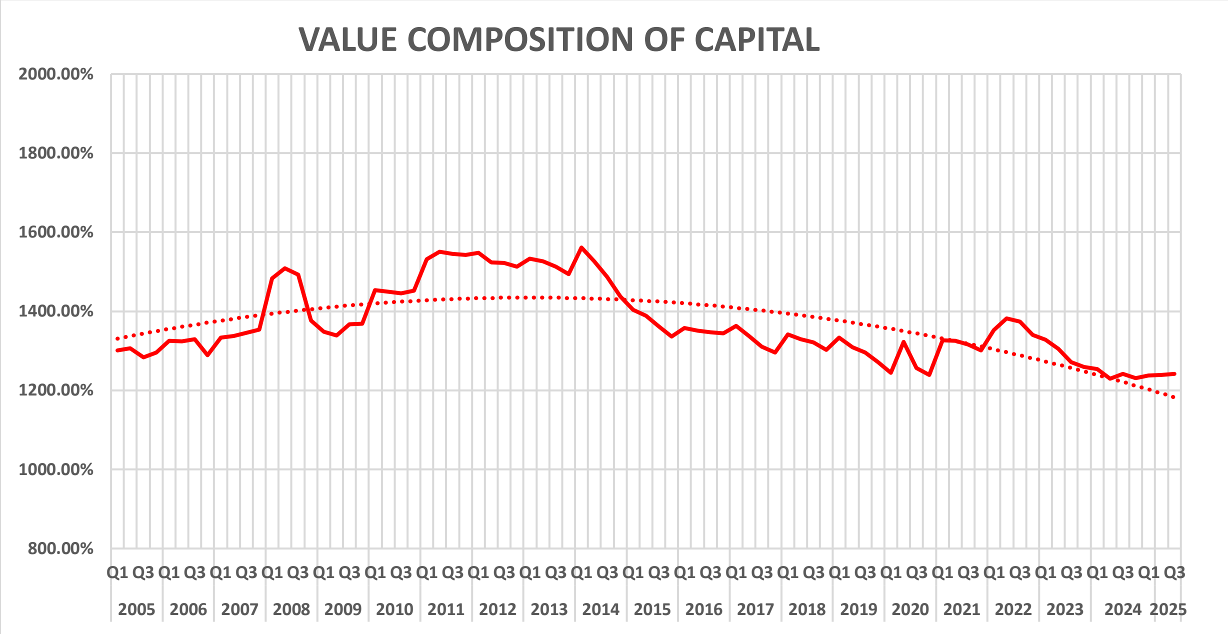
For perspective I have included a longer-term trend for turnover. The peak in the 1980s was due to the collapse of the Breton Woods agreement and the loss of the gold standard which led to a sharp depreciation of the Dollar which was picked up by the formula in the form of higher priced imports and lower priced final sales. Had the formula been rebased in gold rather than the dollar, those peaks would not have appeared.

Graph 6.



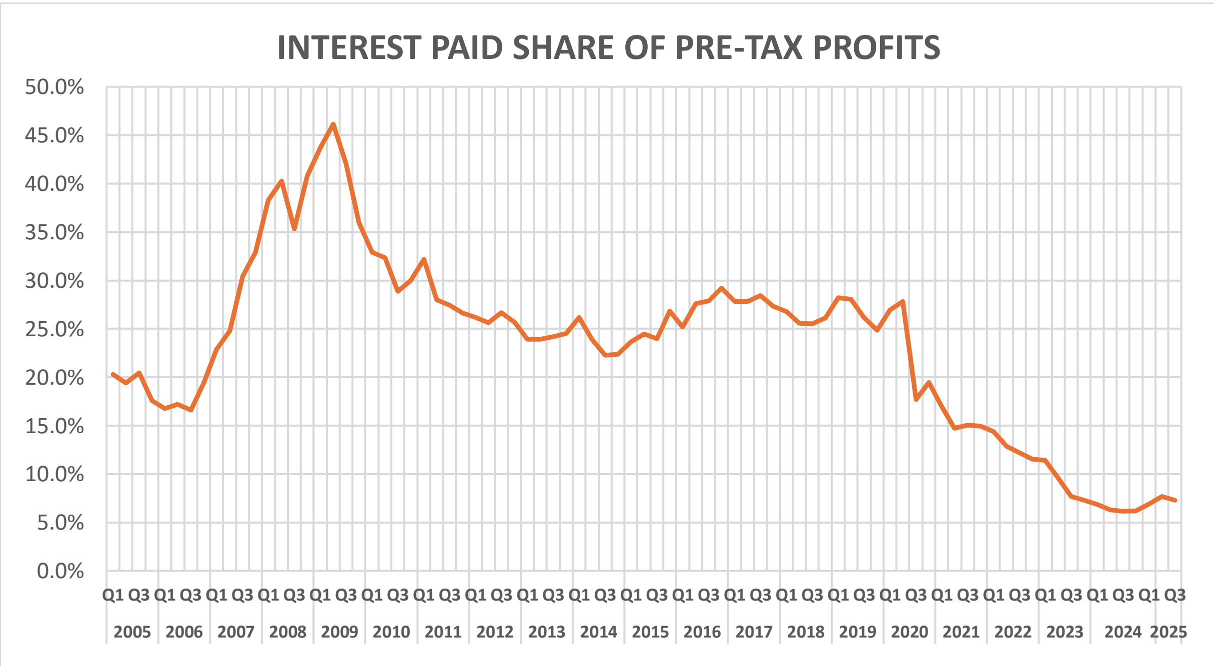
The final look at the capital side which acts as the denominator for the rate of profit involves examining the value composition of capital which is found in the next graph. Currently the composition is flat, so the capital side will not influence the rate of profit significantly.

Graph 7.



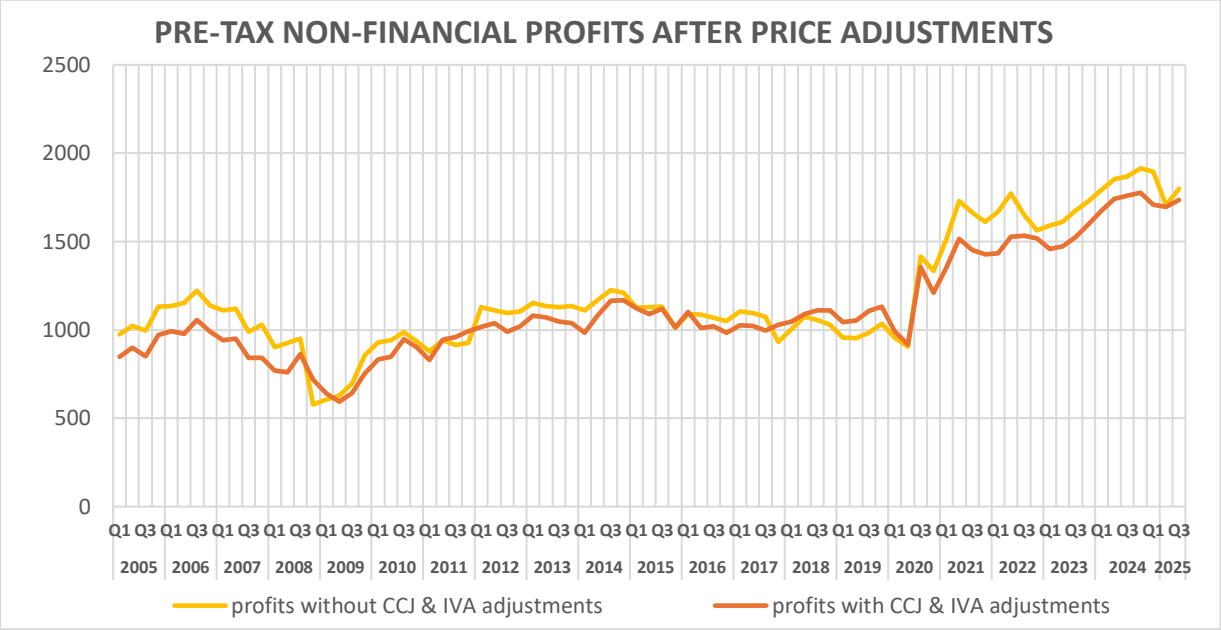
The following graphs deal with profits. I use line 47 in Table 1.14 as it is the closest fit to the net surplus because it omits any inventory and depreciation adjustments. The sharp fall in profits in the second quarter was partially reversed in the third. This was mainly due to a rise in the degree of exploitation as well as a renewed fall in interest paid, which is always a deduction from gross profits. This fall in interest paid, mainly a legacy of the Covid support funds, has boosted profits by 20% on average.

Graph 8.



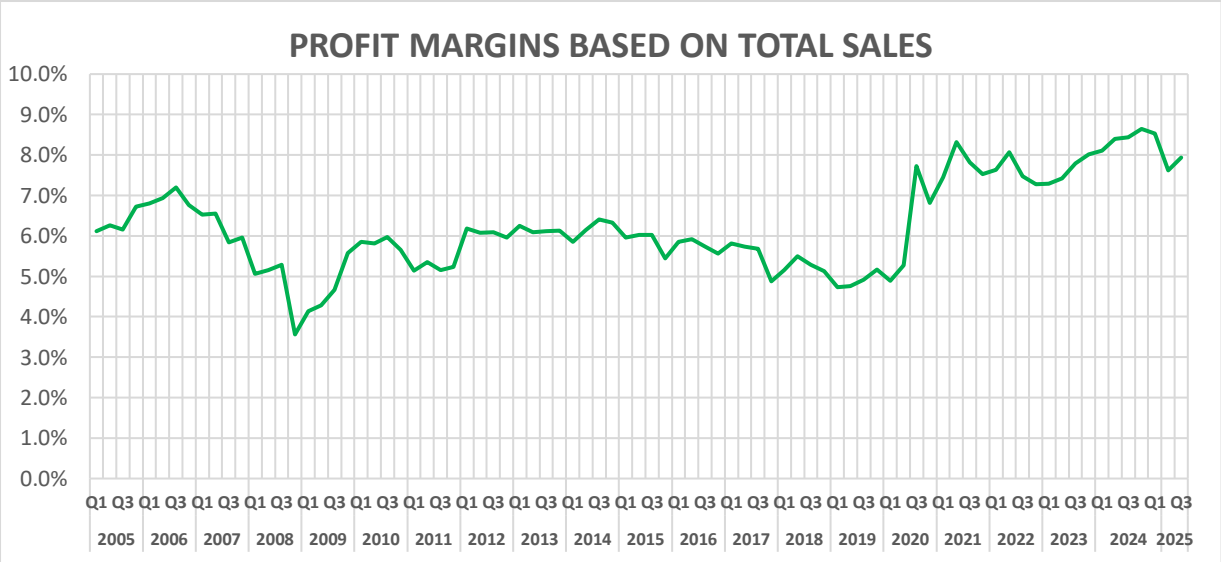
The adjusted profits have been adjusted by the implicit price deflator found in Table 1.14 itself.

Graph 9.



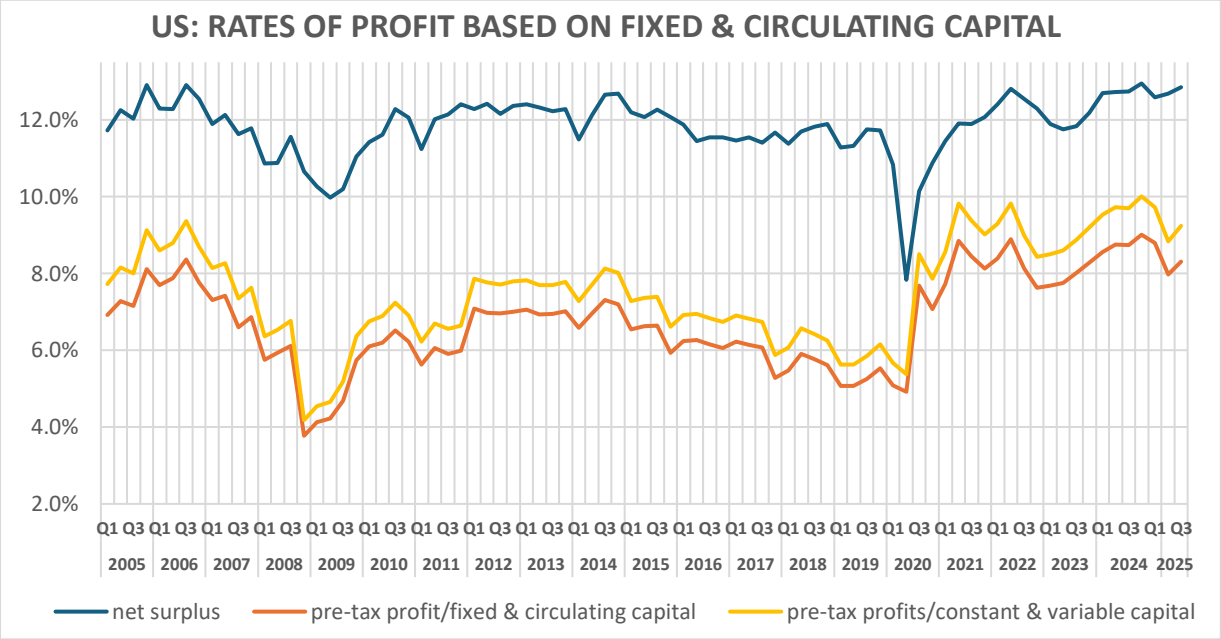
As a result of the rise in profits the profit margin improved. I use a different ratio for the margin. Conventional profit margins take final sales as its denominator. I take total sales instead because it shows the influence of turnover on this margin which the regular one does not.

Graph 10.



In line with the profit margin the rate of profit remained elevated though below its peaks. The net surplus rate of profit only matched the previous two peaks in the series, but the pre-tax rate of profit reached new peaks primarily due to the reduction in interest paid. However, I reserve judgement on the final rate of profit for Q3 as this is the first estimate. In the second quarter the final estimate was revised sharply downwards and the same could happen again. I have provided two graphs below. The red and blue graphs use fixed capital plus circulating capital and the yellow graphs use constant plus variable capital. Fixed capital for 2025 is estimated using the capital adjustment data in Table 1.14 (Line 25) which has proven to be satisfactory.

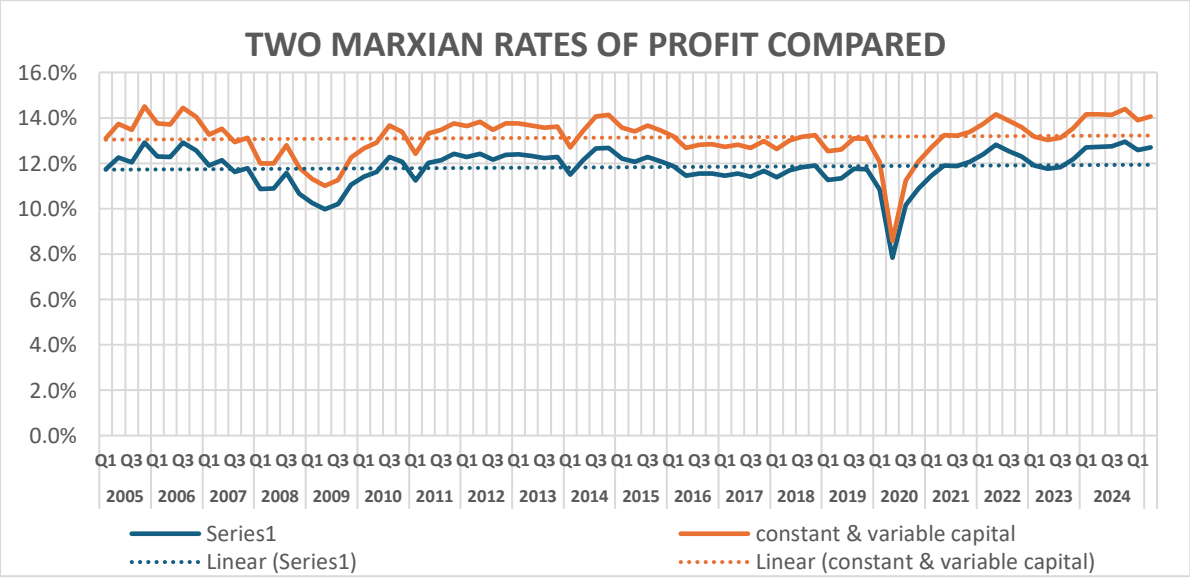
Graph 11.



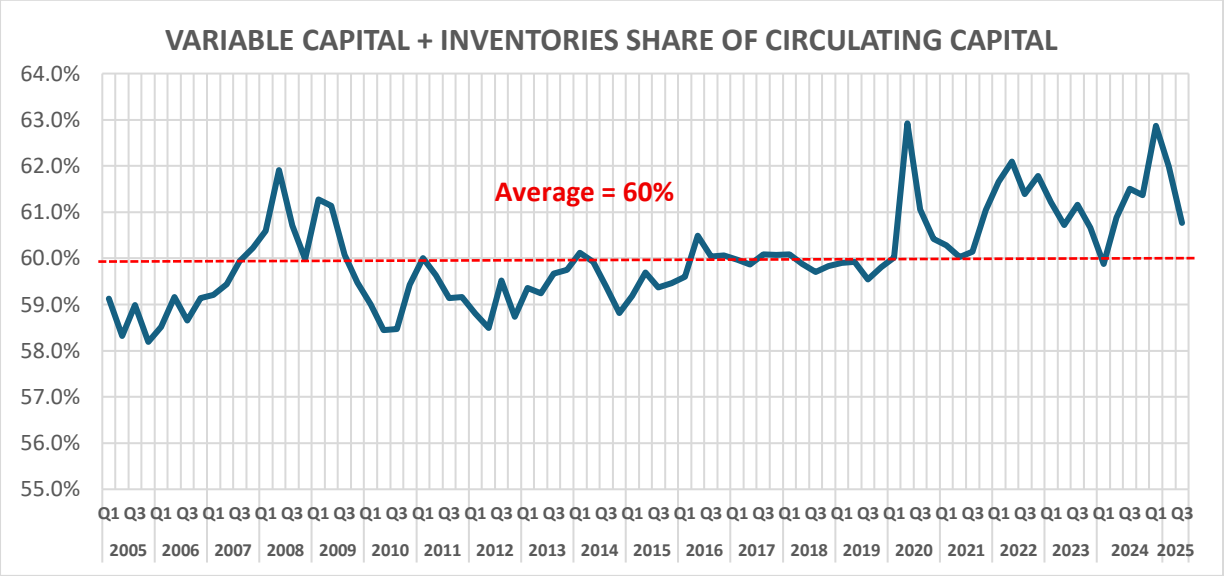
Graph 12 compares the two Marxian rates of profit using either fixed and circulating capital or constant and variable capital. Interestingly enough, the trends for the two rates run parallel providing proofs of concept. Here the longer-term trend in profitability is flat, not falling due to the recent improvement in profitability. Much of that improvement is due to about 10 Big Tech and Pharma corporations. It is likely that here prices exceed values due to the influx of capital from outside production.

It is also interesting to note that when using fixed and circulating capital it provides a lower rate of profit than does constant and fixed capital. That is mainly due to the outsourcing of many inputs which do not appear as inventory, and which reduces employment in the host firm and hence variable capital. For example, outsourcing payroll or cleaning or catering would reduce employment in the host corporation while increasing inputs which appear under the heading - service inputs. As Graph 13 shows variable capital plus inventories is about 60% the size of circulating capital.

Graph 12.

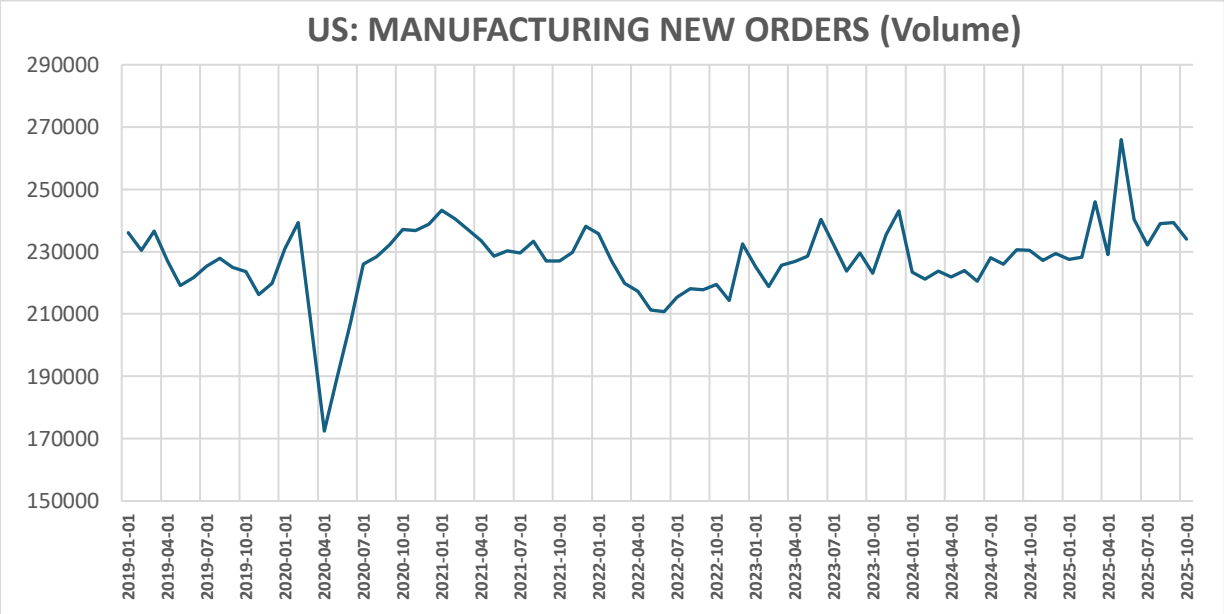


Graph 13.



Finally, it is worth looking at manufacturing new orders. They fell recently, and despite the undoubted increase of orders from AI hyperscalers, new orders are not materially higher except for May 2025.

Graph 14.



China.

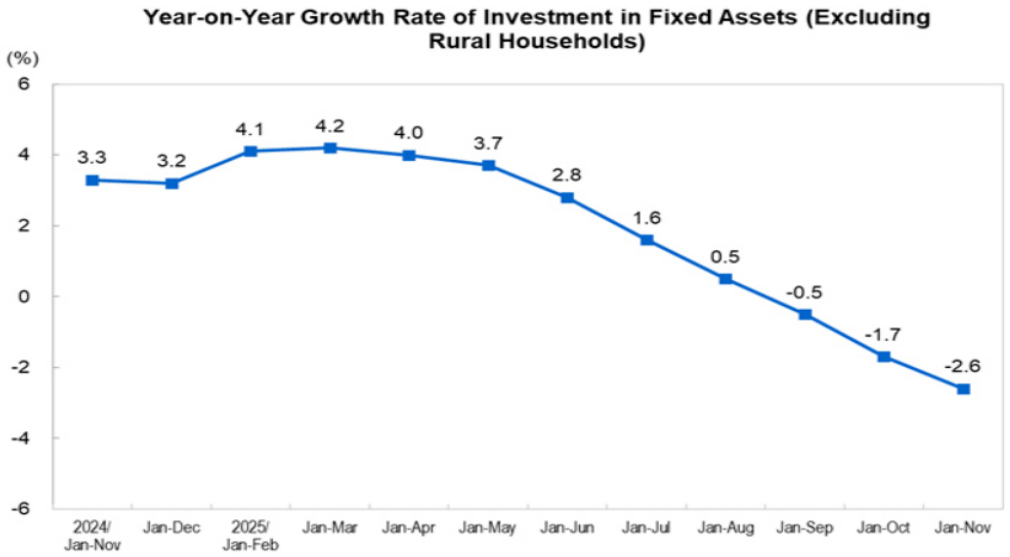
I will start in the same way I did when introducing the US economy. Goldman Sachs has increased its perspective for Chinese growth in 2026 and 2027 by 0.5% attributing it to growth in exports and investment in advanced manufacturing. The OECD and the World Bank projected a growth rate 0.5% lower under 4.5%. UBS projects 4.5% despite acknowledging the lingering property collapse. China Briefing provides a good overview of 2025 and provides the same 4.5% prediction for 2026. And of course, the CCP provides a similar outlook. *"in November, under the strong leadership of the Central*

Committee of the Communist Party of China (CPC) with Comrade Xi Jinping at its core" the national economy could only *Sustain a Steady Development Momentum with Progress in November.*

However, the underlying conditions are far worse than those described above. As I have pointed out before, the foundational data has been a good predictor of future weakness. We will examine this foundational data in the form of graphs. They continue to paint a negative picture.

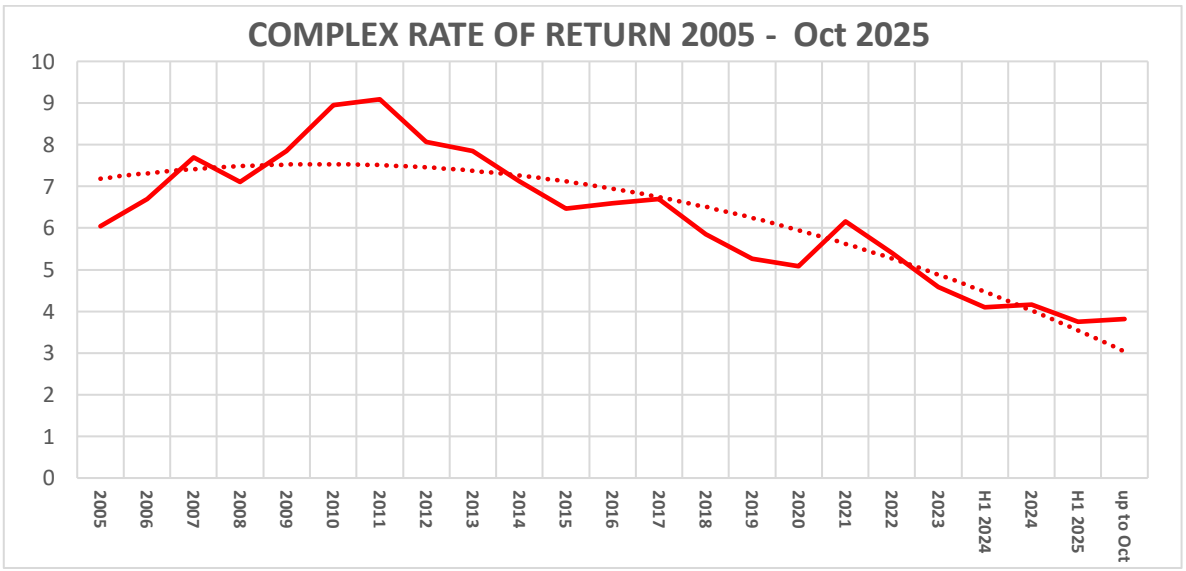
As far as production goes the world depends on China and particularly on its investment. But Chinese investment continued to slump in November. It is no longer supported by vibrant investment in manufacturing whose annual growth has decelerated to 1.9% yoy.

Graph 15.



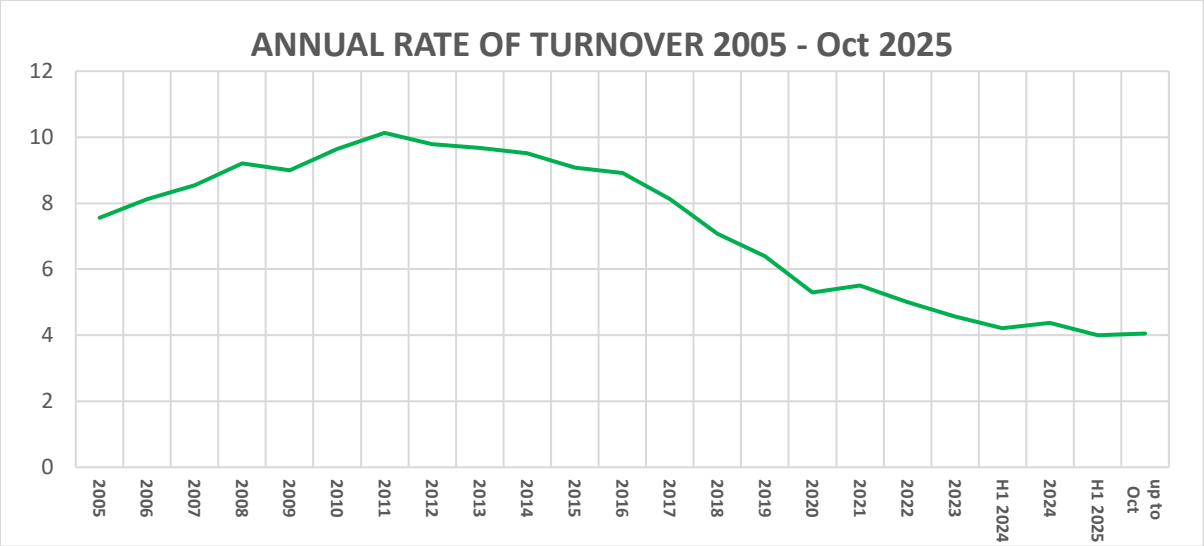
This fall in investment has but one cause, falling profitability the driver of investment. Due to the National Bureau of Statistics of China lumping financial assets with produced assets I describe the rate of profit in China as the Complex Rate of Return. It has halved. It seems the homilies of comrade Xi cannot stand up to the powerful enormity of a depressed rate of profit.

Graph 16.



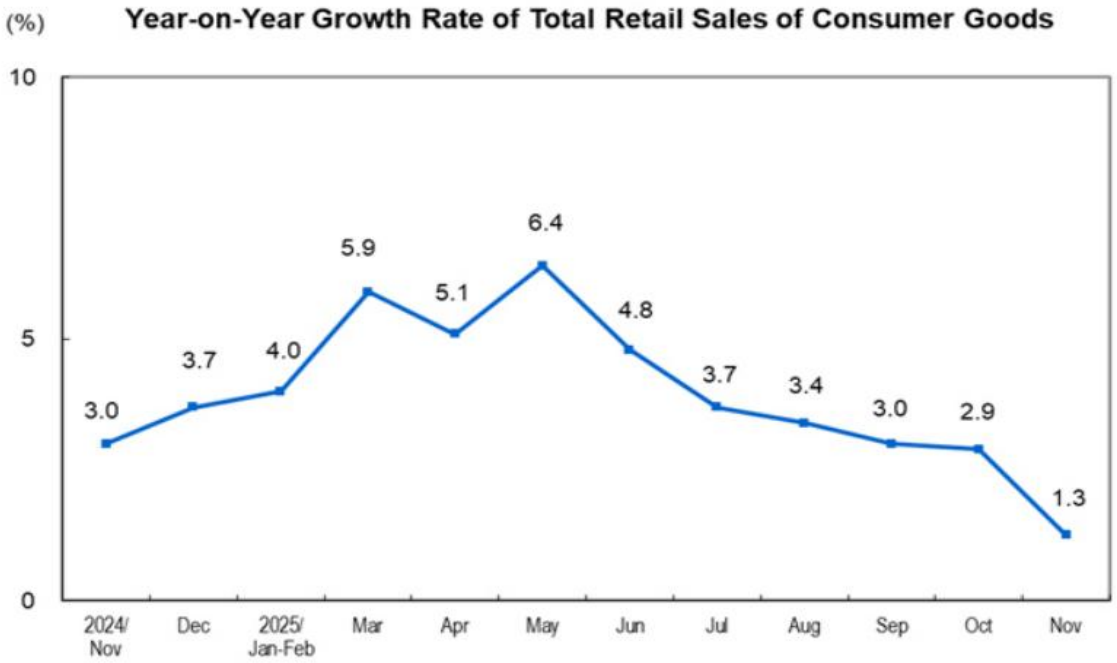
Linked to the rate of profit is the rate of turnover, also depressed. Slower turnover reduces the gusher of profit, and it adds to working capital to keep companies' solvent until sales are converted back into cash. Accordingly, the combination of more capital and a lower frequency of profit realisation, means more capital and less profits which weighs heavily on the rate of profit, or the Complex Rate of Return.

Graph 17.



The above three graphs represent the foundational data. I have added in retail sales as well this time. Here the trend is also down. Given the fall in investment and retail sales, the reasons for the fall in turnover emerge and it speaks of ongoing overproduction only partially resolved by increased exports. It also speaks to a realization problem. Were it not for exports, this data is reminiscent of an economy in recession. There is nothing in the data to show a future reversal in trend.

Graph 17.



The Chinese economy is precarious, not only because of overinvestment but because of its blood brother - debt. Social lending is flat due to reluctant banks, albethey state owned, refusing to throw good money after bad. This has not stopped local governments from launching 2368 Asset Back Security instruments to help mitigate their financial stresses. This amounted to $2.3 billion as they hocked the family silver and teeth over the course of 2025.

Conclusions.

It is China, not the USA, which is key to predicting the future of the world economy at least from the angle of production. Its weakening trend, evident throughout H2, is unlikely to reverse in 2026. Hints of panic are emerging as the Chinese authorities announce a $9 billion consumer boost package as well as abolishing the 5% VAT on house sales to try and revive the housing market. The Chinese Communist Party could of course just buy up all the unsold properties and turn them into social housing like good communists would, but then they are not good communists.

Similarly with India where the government there is rolling out new measures to support growth. Modi has proposed his "*reform express*" to keep economic growth on track according to the FT. One should always take India's official statistics with a pinch of curry.

I have reviewed the latest data on Japan and Germany a previous article on both economies: https://theplanningmotive.com/2025/12/18/german-japanese-and-us-economic-data-q3-2025/ Both show weakening tendencies. All eyes are on Germany's €100 billion "whatever it takes" fiscal spend which kicks in next year, which like Trump's Big Beautiful Bill, is supposed to be the financial cavalry coming to the rescue.

Which leaves the US economy. On the plus side the rate of profit remains elevated, but this is only due to the monopoly profits of a dozen corporations. The AI bubble is all that stands between a full-fledged recession and a teetering economy. It is also debatable whether US share prices really recovered from the DeepSeek moment earlier this year. *"The S&P 500 was up 17 per cent this year, undershooting the 29 per cent gain for the MSCI All Country World ex-US index by the widest margin since the global financial crisis in 2009."*

One sign that stressors are building up is Tech corporations moving debt off their balance sheets. Previously the major Tech companies were able to finance their capital expenditures out of cash flow and previous cash surpluses. No longer. They have had to resort to raising fresh debt and to disguise this they have moved this debt into special purpose vehicles. The amounts are large, already reaching $120 billion and bound to grow given the outlook for investment in 2026 and 2027. On the other side of the scales this FT article reveals that the smaller AI startups have built a $150 billion buffer against any market downturn.

One interesting observation is that at year end investors are taking profits marking down share prices, as I write, it appears shares will have fallen for three days in a row. This is unusual as traders try hard to secure a Santa rally to lock in their year-end bonuses. In the meantime, that barometer of uncertainty - gold - keeps rising in price. And not only gold but other currencies as well. The Renminbi is up 4.6% against the dollar with the PBC, China's central bank having to peg the rate to moderate its rise. This is primarily due to China's trade surpluses which have exceeded 1$ trillion this year scooping up foreign currency. The rise in fiscal debt next year is ominous for the Dollar. Trump wants tax give aways as well as a strong Dollar, but he can't have both.

In the end what is important is whether the big Tech companies can monetise their products and keep the AI bubble alive. And that is increasingly looking to be unlikely at least a rate of return which is meaningful. As this article in Tech Crunch sums up: "*If 2025 was the year AI started to grow up and face hard questions, 2026 will be the year it has to answer them. The hype cycle is starting to fizzle out, and now AI companies will be forced to prove their business models and demonstrate real economic value. The era of 'trust us, the returns will come' is nearing its end."* And when it does, the ructions will be felt everywhere.

In 2024 I predicted that the Debt Crises would mature in 2025 due to the amount of corporate debt maturing this year. The first ructions of this Debt Crisis began to appear towards the end of the year. In the last few days REPO fails have exploded higher than during 2022 and the Liz Truss fiasco. And this is happening before year end when banks and private finance rebalance their books. This is a sign that the financial plumbing is groaning due to illiquidity issues in corners of the market. The debt crisis is likely to deepen throughout 2026 when even more debt comes due. I will not deal with the debt found in dominated economies (Global South) as Michael Roberts has dealt with this and other interesting issues in his article *Forecast for 2026*.

In summation, October data showed a significant step down in economic activity around the world. In 2026 the odds of a recession, the kind avoided in 2015 and 2019, finally falling due, are higher than the odds against this happening. 2025 was an eventful year both economically, politicly and climatically, but it won't be a patch on 2026. The second half of the twenty twenties, in every way, will be the period when the storm hits hard.

Brian Green, 29th December 2025.