



The Resilient (But Still Uncertain) World Economy

**How Demographics, Migration, Debt
and AI Will Shape Growth in 2026**



In this document, we dive deeper into the eight main points Antonio made during his webinar – and explore what they mean for business leaders in practice.

Twelve months ago, economist Antonio Fatães joined ERA Group for a webinar that quickly struck a nerve. He asked a simple but unsettling question: what is happening to the world economy?

This year's session picks up exactly where that conversation left off, revisiting the same question with a year's worth of new data, shocks and policy twists.

Today's environment is often described with heavy words – “unprecedented”, “never seen before”, “uncharted territory”. Antonio's instinct is to push back on that.

On one side is a world economy that has proved far more resilient than many expected, bouncing back from the pandemic and dodging the widely predicted recession of 2023-24.

On the other is a set of slow-burn risks and policy updates building in the background. For business leaders, there is room for optimism, but not for complacency.

That is exactly where ERA Group comes in – helping organisations turn this uncertainty into decisions on costs, supply chains and investment so they can move forward with confidence.

Scan QR code to watch to full webinar and reach out for a conversation about the challenges your organization is facing.



Antonio Fatães
Professor of Economics



1 Today's Shocks Aren't Entirely New

Antonio begins with a history lesson. To test whether today's environment is truly "unprecedented," he goes back to the 1980s and 1990s and looks at newspaper headlines.

In July 1980, Canada and the US were already arguing about the economic role of the US – an early version of the trade tensions we see today. At the same time, the Pope was warning about manipulation by radio and TV, a concern that feels very close to today's debates on social media. The US government was struggling to manage fiscal deficits, just as it is today.

As Antonio puts it, when you line these episodes up "you can see, there is not much new here." Yet this is not a call to ignore risk. It is a reminder that the global economy has a track record of surviving very serious shocks. The pandemic is the most recent example.

"We went through a global pandemic," he notes. "No one would have predicted that we would recover as fast." Employment is now "as high as it has ever been around the world." A widely forecast recession in 2023–2024 did not materialise. Despite war, tariffs and political turmoil, he observes that "we're still here. We still do not have a recession."

In Antonio's words: "We worry about many things. Our uncertainty rises, but the world economy seems to survive many, many shocks."



2

Demographics and Migration Will Drive Growth

Where Antonio does see something truly new is in demographics and highlights long-run population data for Europe, China, the US and Nigeria.

“In particular, while you have regions of the world like Nigeria, where population is still growing really fast, you also have regions of the world, in particular Europe, where population is going to shrink.”

Europe and China, he stresses, are “today at the inflection point” – meaning this is not something we’ve been managing for decades already.

That turning point raises some hard questions:

- How fast can these economies grow with shrinking or ageing populations?
- How do they sustain pension systems?
- How do they manage already-high government debt?

In that context, migration becomes economically central.

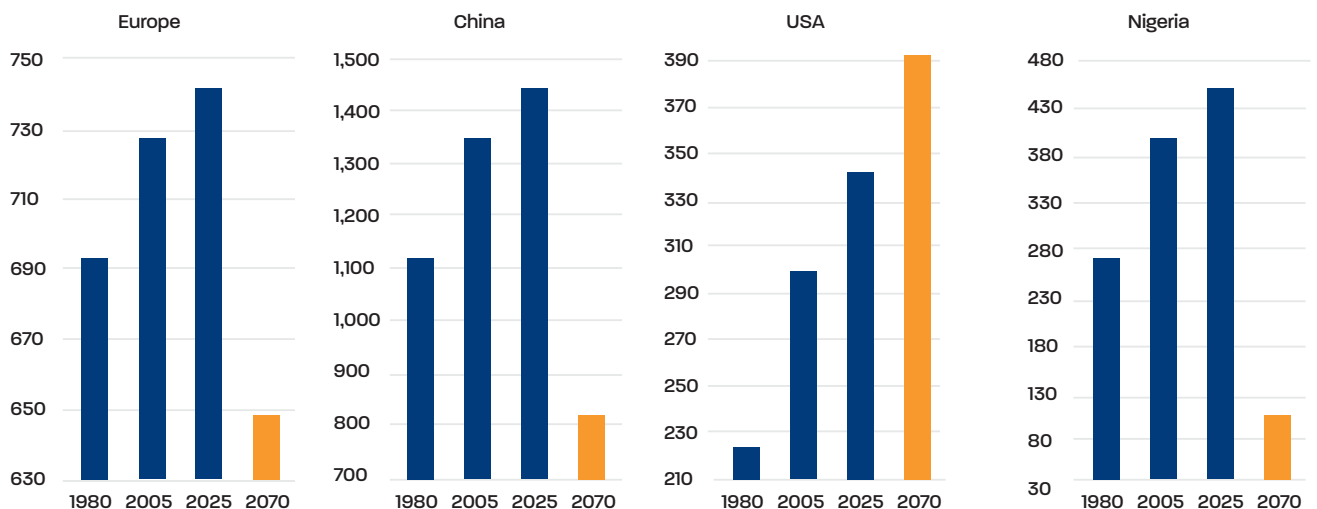
“For the whole European Union, four out of every five jobs are happening because we have enough migration. Otherwise, growth in employment will be 1/5 of what we see in the data.” In some countries, the figure is more than 100% – without migration, employment growth would actually be negative.

For CEOs, CFOs and CPOs in Europe and other ageing economies, this isn’t an abstract issue. It has direct implications:

- Workforce planning must assume persistent labour shortages in key sectors unless migration remains strong.
- Location decisions need to factor in where working-age populations and migrant flows are likely to support growth.
- Political risk around migration policy may become a core strategic variable, not a side note.

As Antonio concludes, “We cannot be short of workers. We’re not going to have any workers unless we find migration.”

Population Trends: 1980, 2005, 2025 and 2070



3 AI Could Lift Productivity – But Unevenly

On the technology front, Antonio turns to artificial intelligence and productivity. Historically, productivity growth in advanced economies has slowed since the mid-1970s, with one notable exception. The internet boom.

The question he posed a year earlier was whether AI could do what the internet did. Now, with new data, he sees early signs that it just might – at least in the US.

Looking at the period since 2019, he notes that US productivity growth is “finally” above 2%. “That is a number that historically starts looking very good,” he says. During the internet boom, the figure was around 2.5%, so there is room for AI-driven gains to grow further.

However, the picture is not uniform. In the euro area, productivity was already low and has declined further in recent years. The same technology seems to be producing different outcomes.

“There is nothing that precludes Europe from seeing an increase in growth which is as high as 1.5 percentage points. Why not? If the US has a technology available that is truly making productivity grow faster. The sky is the limit for Europe.”

What is unknown is the magnitude of AI’s impact. Some studies estimate AI might raise growth by 0.2–0.5 percentage points – helpful, but not transformational. At the same time, it is unclear:

- Why some regions (like Europe) are lagging.
- How gains will be shared between large tech platforms and the wider economy.
- What AI will do to inequality and labour markets.

Antonio’s bottom line: “I’m cautiously optimistic. It is good news that the data is looking better, but I need to be careful about being too optimistic, because there’s still a lot of question marks.”

It is important to treat AI as a real productivity opportunity, not just hype – especially in markets already showing gains. Also try to avoid “miracle” assumptions in valuations and business cases. AI may be powerful without being magical.

4 Markets Look Stretched as Rates Normalise

For decades, real (inflation-adjusted) US government bond yields fell from around 7% to 0%. This made the job of heavily indebted governments easier and “reduced the cost of capital for companies, because you can now borrow at rates which are much lower.”

It also boosted the stock market.

As Antonio notes, basic finance tells us that when risk-free rates fall, equity prices should rise: “The stocks become more attractive, and the price goes up.” That is exactly what happened.

Antonio tracks this through the price/earnings (P/E) ratio of US stocks, which has risen significantly over time. Part of that rise is justified by lower rates. But when he compares the scale of the rate move with the scale of the valuation move, he sees a problem – especially in the most recent data.

The current P/E ratio, calculated on his method, is around 40. Real rates have risen, but the stock market has also continued to climb. “When you do a little bit of math here, 40 is a little bit too high.”

His conclusion is cautious but clear: “Yes, interest rates remain low. Yes, I do expect the stock market to still look expensive by historical standards, but the current level is way too high.”

Importantly, Antonio is not predicting an imminent crash. “In the 1990s we saw the stock market be very expensive, and it continued being very expensive for an extra couple of years. It is possible that we continue to be in a market that is very expensive.”

5 Government Debt Is a Slow-Burning Threat

Low interest rates encouraged governments to take on more debt, secure in the knowledge that servicing costs were manageable.

Using US data, Antonio highlights government debt rising from 40% to around 80% of GDP over two decades – and higher again more recently. Yet over the same period, interest payments as a share of GDP fell or stayed low, because rates were dropping.

“As interest rates were falling, the government felt comfortable with a lot more debt,” he explains. The problem is that “it cannot continue forever. Interest rates have now increased. As interest rates increase, interest payments have jumped to about 3%. Three is not the end of the world, but you can see historically, it’s a high number.”

In his words, if the debt keeps rising and rates don’t fall back to zero, we are looking at “the recipe for a crisis.”

However, it is important to note this is “not a risk for the next month,” nor does he see it as the most likely trigger for a 2026 recession. Instead, it is “a slow-moving crisis” in which governments must devote a growing share of resources to past borrowing rather than current needs.

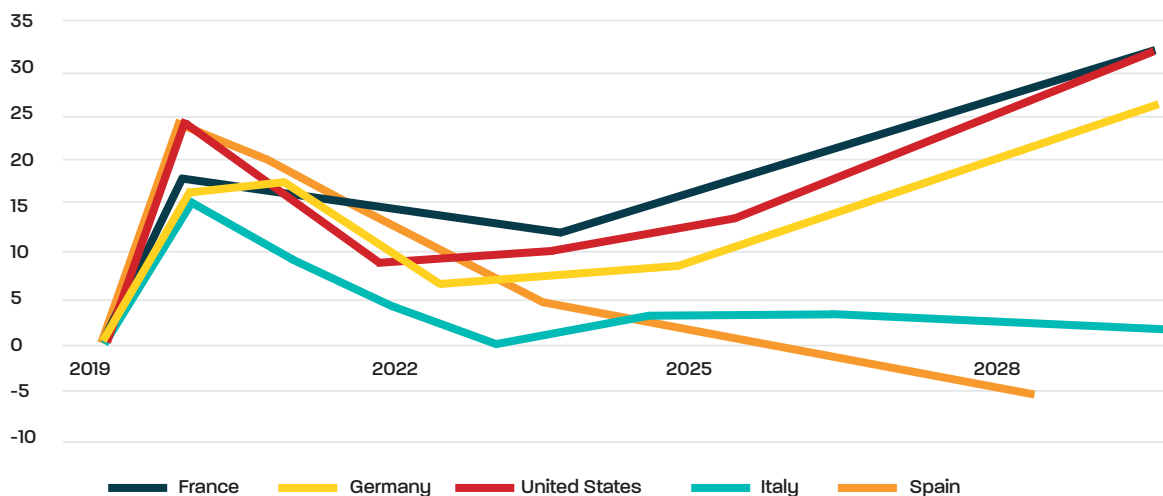
Europe faces similar dynamics. France, for example, has increased government debt by about 30% in four or five years and is finding it harder to refinance. Meanwhile, pressures on defence and healthcare spending are both rising.

He illustrates this with US figures. Historically, defence spending fell from 9% to around 3% of GDP, freeing up six percentage points that were effectively reallocated to healthcare, which rose from 1% to 9%.

Antonio states: “This is what governments need to do all the time. If there is a need to spend more on something, something else needs to go. It’s becoming more and more challenging to find a balance.”

Government Debt Change (% of GDP)

Relative to 2019





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Tariffs Create Ongoing Uncertainty for Business

One of the most unsettling changes Antonio highlights is the shift in US trade policy under the current administration.

He is blunt about it: “when I look at what has happened in the US as an economist, it is very unusual, hard to explain. It’s a country or a government that, in my view, they don’t have an obvious plan. It’s not a clear strategy.”

The result is a pattern of frequent tariff changes and reversals. He cites a recent example where the US cut tariffs on coffee, bananas and other food items because prices were too high – despite previously arguing that tariffs would not affect prices.

“It’s unclear what the outcome will be. They’re going to be reacting to negotiations, which means all of us sitting outside of those negotiations, we just have to wait.”

Behind this lies a more basic point - trade balances are not driven primarily by tariffs. They reflect the gap between a country’s income and spending, across both the government and private sectors. “The US trade deficit is very simple,” he says. “It is the difference between the income of Americans...minus the spending of Americans.”

For businesses, the immediate issue is not the theoretical debate about trade balances. It is the uncertainty created by unpredictable tariff moves and the lack of a stable framework.

As Antonio summarises, “Sometimes tariffs will go down...sometimes they will go up, and we will have to figure out what comes next.”

7

A New International Order Is Taking Shape

Beyond tariffs, Antonio believes we are living through a deeper shift in the international order. First, the balance of economic power is changing.

China is “a power that no one can deny. It will be even bigger in the future.” At the same time, advanced economies, especially the European Union, have been losing share of global GDP.

Second, the behaviour of major powers is changing. “The US has shifted their policies in a way which is dramatic compared to the past,” he argues. Conversations between the US and other countries “have become very complex and difficult.”

Both the US and China are increasingly using economic coercion meaning investment conditions and access to markets become tools of pressure.

Looking ahead, he expects slow but meaningful de-globalisation and a redrawing of supply chains. “We cannot de globalize in the short run, but we’re going to start moving the needle in one direction, especially around regional superpowers.”

His conclusion is stark: “we’re entering a new world. We all need to navigate a world that is unknown to us, and we need to figure out, as businesses, as governments, as countries, what do we do? How do we sort of hedge our risk?”

8

Plan for a Recession – And Act on Structural Shifts

Asked what he would say in a European boardroom of a medium-sized international business, looking out over the next three years, Antonio is direct.

“The next three years, I think we all need to plan for a crisis. If you give me three years window, I will say almost surely something is going to happen.”

The trigger could be a policy mistake or a correction in financial markets, especially if valuations remain stretched and AI expectations disappoint.

At the same time, leaders cannot become so focused on short-term volatility that they ignore the structural issues.

“Yes, it’s not going to affect us in the next few years,” he warns about some of these shifts, “but if we don’t move now, it’s going to be too late. Our competitors are going to move faster and deal with it in a way that we don’t.”

The task for leaders is to “keep a balance between the short term, which is on the risky and volatile side, and the long-term structural issues. There are opportunities in technology. With these structural changes, we need to adapt, and we need to start now. We simply cannot wait.”



Conclusion:

Antonio Fatás' core message to business leaders is one of remaining resilient.

On one hand, the world economy has coped with an extraordinary sequence of shocks – a global pandemic, war in Europe, energy crises and tariffs– and has done so better than most would have predicted. Employment is strong, growth has held up better than feared, and new technologies like AI are starting to show genuine promise.

On the other hand, several risks are building:

- Ageing populations and reliance on migration in key economies.
- A slow-burning government debt problem that will constrain future policy.
- Stretched financial markets in a world where rates are no longer zero.
- A more fragmented, multipolar world.
- The ongoing challenge of climate change.

Uncertainty, in this context, is not a reason to freeze. The world ahead may not be entirely new, but its combination of familiar shocks and genuine inflection points demands thoughtful leadership.

Those who respond with measured, evidence-based decisions – rather than panic or denial – will be best placed not only to endure the next wave of shocks, but to build stronger, more adaptable businesses beyond 2026.

In an era defined by rapid shifts and uncertainty, ERA Group offers a strategic edge to help businesses stay resilient and adaptive.

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