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Our investment and economic outlook, September 2026

By Vanguard

Markets and economy

Our latest forecasts for investment returns and region-by-region economic outlook

Our economic outlook for Australia

Growth above 'speed limit' puts another rate hike in play

"Stronger-than-expected inflation and weaker productivity have increased the likelihood of a rate hike."

-Grant Feng, Vanguard Senior Economist

Australia's economy is proving more resilient than expected. Real GDP grew by 0.4% in the second quarter and 2.1% year over year, exceeding market expectations and forecasts of the Reserve Bank of Australia (RBA). Household consumption continued to be a key source of strength, rising by 0.4% in the quarter, supported by solid income growth and accumulated savings. The softening housing market has yet to produce a meaningful negative wealth effect, while resilient household demand continues to support employment in labour-intensive service sectors.

A growing concern is that demand is strengthening while the economy's supply capacity weakens. GDP per hour worked was flat in the quarter and fell by 0.2% year over year, suggesting that Australia's already-low potential growth rate may have declined further. With productivity failing to improve, even moderate demand growth could place renewed pressure on labour costs, capacity, and prices. The economy may therefore be growing above its current "speed limit," making a sustained return of inflation to target more difficult.

The July Consumer Price Index (CPI) report reinforced this concern. Trimmed mean inflation rose by a stronger-than-expected 0.5% in the month and remained at 3.6% year over year. Inflation pressures were broad-based, with a growing share of the CPI basket recording price increases above a 3% annualised pace.

Taken together, stronger demand, declining productivity, and broad-based inflation leave the RBA with little margin for error. Although the full effects of earlier tightening are still working through the economy, the latest data challenge the view that current

policy settings are sufficiently restrictive to return inflation sustainably to target. We now expect one more RBA rate hike this year, which would take the cash rate to 4.6%.

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Australia economic forecasts

	GDP Growth	Unemployment rate	Trimmed mean inflation	Monetary policy
Year-end 2026 outlook	1.8%	4.3%	3.6%	4.6%
Year-end 2027 outlook	1.7%	4.6%	3%	4.6%

Notes: GDP growth is defined as the annual change in real (inflation-adjusted) GDP in the forecast year compared with the previous year. Unemployment rate is as of December for each year. Trimmed mean inflation is the year-over-year change in the Consumer Price Index, excluding items at the extremes, as of the fourth-quarter reading for each year. Monetary policy is the Reserve Bank of Australia's year-end cash rate target.

Source: Vanguard.

Note: All investing is subject to risk, including the possible loss of the money you invest.

Our economic outlook for the United States

Refining the monetary policy stance

"The Fed raised its policy rate target at its September 16 meeting amid improved labour market conditions and a lack of clear progress on inflation. We anticipate another rate hike by year-end, which we view as a recalibration of policy and the removal of prior accommodation rather than the start of a more sustained tightening cycle at this point."

-Josh Hirt, Vanguard Senior U.S. Economist

Growth continues to demonstrate resilience, with activity tracking at a pace consistent with an economy expanding above 2%. Business investment remains a notable source of strength. Investment ran at a 9.6% pace through the second quarter, exceeding our strong expectations coming into the year by over two percentage points. We expect this capital expenditure cycle to remain an important contributor to growth through 2027. Consumer spending is also evolving broadly in line with expectations, supported by tax policy tailwinds and the continued benefits of elevated household wealth. Softer real income growth presents a potential headwind to consumption during the second half of the year.

The labour market remains fundamentally stable, with a broad range of indicators suggesting conditions remain close to neutral and consistent with overall health. We believe that the August employment report of 162,000 jobs created was stronger than underlying conditions suggest, but it did reinforce our view that cyclical labour conditions have improved modestly over the last few months. We have revised our year-end unemployment rate forecast down from 4.6% to 4.4%. We attribute about half the decline in the unemployment rate since November 2025 to the noncitizen labour force, a group that represents about 10% of the overall U.S. labour force. Immigration policy and declining noncitizen survey response rates are among the reasons for the drop.

Inflation continues to be distorted by measurement issues and temporary factors; however, underlying price pressures appear to be stuck in a range just below 3%. The Federal Reserve raised its policy rate by a quarter percentage point at its September 16 meeting. We anticipate another rate hike by year-end, which we view as a recalibration of policy and the removal of prior accommodation rather than the start of a more sustained tightening cycle at this point.

United States economic forecasts

	GDP Growth	Unemployment rate	Core inflation	Monetary policy
Year-end 2026 outlook	2.3%	4.4%	3%	4.1%
Year-end 2027 outlook	3%	4.4%	2.5%	4.1%

Notes: GDP growth is defined as the fourth-quarter-over-fourth-quarter change in real (inflation-adjusted) GDP in the forecast year compared with the previous year. Unemployment rate is as of December for each year. Core inflation is the year-over-year percentage change in the Personal Consumption Expenditures price index, excluding volatile food and energy prices, as of December for each year. Monetary policy is the upper end of the Federal Reserve’s target range for the federal funds rate at year-end.

Source: Vanguard.

Note: All investing is subject to risk, including the possible loss of the money you invest.

Our economic outlook for Canada

Stronger growth meets a more challenging trade climate

“The Canadian economy has shown surprising resilience in recent months, but escalating trade tensions with the United States are creating a more uncertain backdrop for growth, investment, and monetary policy.”

-Adam Schickling, Vanguard Senior Economist

The Canadian economy entered the second half of 2026 with more momentum than previously anticipated. Real GDP expanded at a 3.3% annualised pace in the second quarter, following a modest upward revision to first-quarter growth. The rebound was

broad-based, supported by stronger exports, resilient consumer spending, and a notable increase in business investment. As a result, recession concerns that emerged earlier in the year have largely faded, although trade policy remains the dominant risk to the outlook.

Following the breakdown of U.S.-Canada negotiations in August, the United States imposed 50% tariffs on approximately \$20 billion of Canadian goods, including plywood, liquor, electrical equipment, and hockey gear. Canada responded with tariffs on a comparable value of U.S. imports. With little prospect of meaningful negotiations resuming before the U.S. midterm elections in November, and with the United States-Mexico-Canada Agreement review ongoing, the trade conflict appears likely to persist well into 2027.

Labour market conditions remain relatively stable. Employment unexpectedly declined in August, but the unemployment rate held at 6.4%, near its lowest level in two years. Hiring remains uneven across sectors, with trade-exposed industries facing greater uncertainty while labour demand in domestically focused sectors has proven more resilient. As in many advanced economies, recent labour market challenges are heavily concentrated among newer entrants to the workforce.

Inflation remains above target, driven largely by elevated energy prices, though measures of core inflation are much closer to the Bank of Canada's 2% objective. At its September meeting, the Bank of Canada left its policy rate unchanged at 2.25% for a seventh consecutive meeting but emphasised that persistent energy inflation and tariff-related price pressures could complicate the disinflation process. The key question for policymakers is whether these external cost pressures begin to feed into inflation expectations and underlying price dynamics more broadly. For now, evidence of such spillovers remains limited, supporting a patient policy stance despite the bank's more hawkish rhetoric.

Canada economic forecasts

	GDP Growth	Unemployment rate	Core inflation	Monetary policy
Year-end 2026 outlook	1.5%	6.5%	2.2%	2.25%
Year-end 2027 outlook	1.6%	6.4%	2.2%	2.25%

Notes: GDP growth is defined as the annual change in real (inflation-adjusted) GDP in the forecast year compared with the previous year. Unemployment rate is as of December for each year. Core inflation is the year-over-year change in the Consumer Price Index, excluding volatile food and energy prices, as of December for each year. Monetary policy is the Bank of Canada's year-end target for the overnight rate.

Source: Vanguard.

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Our economic outlook for Mexico

External demand lifts growth despite trade uncertainty

"External demand is supporting Mexico's economy, but trade uncertainty continues to hold back a broader recovery."

-Thiago Ferreira, Vanguard Senior Economist

We expect the Mexican economic outlook to improve in 2027, supported by a strong U.S. economy led by AI-related investment and productivity. Renewed tensions in the Middle East have increased volatility in energy markets and contributed to near-term uncertainty. Mexico's exposure to the conflict is mainly indirect, operating through higher global energy costs—particularly refined petroleum products and natural gas—rather than through direct supply links to the region.

Demand from the U.S. should continue to support Mexico's economy, particularly through export-related manufacturing. Recent data remain consistent with an uneven recovery: Capital and intermediate goods imports and business surveys point to improving momentum, but consumption continues to be subdued. Trade policy is also still a meaningful headwind. The United States-Mexico-Canada Agreement remains in force but is subject to annual reviews. The continued uncertainty is weighing on investment planning and business confidence.

Inflation has generally continued to moderate in line with our expectations. Year-over-year headline inflation inched up to 3.3% in August, while core inflation stood at 3.9%, supported by softer merchandise inflation and some improvement in services price pressures. We still expect disinflation to proceed gradually. Contained real wage growth and stable long-run expectations should help inflation further decline over time. Still, services inflation remains elevated and the balance of risks from trade disruptions, energy prices, and weather shocks remains tilted to the upside.

We expect the Bank of Mexico (Banxico) to keep its policy rate unchanged at 6.5% at its September meeting. Recent inflation and activity data reduce the need for tighter policy, but sticky services inflation, above-target inflation expectations, and risks from food prices and the external environment argue against easing. Banxico has indicated that the current policy stance remains appropriate, and we continue to expect the policy rate to remain at 6.5% through 2027.

Mexico economic forecasts

	GDP Growth	Unemployment rate	Core inflation	Monetary policy
Year-end 2026 outlook	1.3%	3%	3.9%	6.5%
Year-end 2027 outlook	2%	3.5%	3.5%	6.5%

Notes: GDP growth is defined as the annual change in real (inflation-adjusted) GDP in the forecast year compared with the previous year. Unemployment rate is as of December for each year. Core inflation is the year-over-year change in the Consumer Price Index, excluding volatile food and energy prices, as of December for each year. Monetary policy is the Bank of Mexico's year-end target for the overnight interbank rate.

Source: Vanguard.

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Our economic outlook for Brazil

Moderating growth allows for cautious easing

“Brazil’s economic activity appears to be moderating from a resilient level, but persistent inflation and fiscal uncertainty call for a cautious, gradual easing cycle.”

-Thiago Ferreira, Vanguard Senior Economist

Geopolitical developments and AI are shaping the global backdrop for Brazil, while fiscal policy remains the key domestic risk. Geopolitical effects are more immediate, reflecting recently announced U.S. tariffs on some Brazilian goods and higher energy prices. Over time, Brazil could benefit from AI-related investment through its clean energy base, geopolitical position, and role as a major producer of copper and iron ore. Domestically, elevated public debt and uncertainty ahead of the October general election remain important risks to the outlook.

Near-term data continue to point to an expanding economy. GDP grew 2% year over year in the second quarter, albeit with private consumption and investment slowing. Recent indicators also point to signs of moderation in manufacturing and in consumer and business confidence. While the unemployment rate is close to historical lows, softer hiring and weaker employment in business surveys suggest that labour demand is gradually cooling. We expect growth to moderate over the forecast horizon as the impulse from fiscal policy fades.

Inflation has declined from last year’s 5.5% peak, but the disinflation process is ongoing. Headline inflation stands at 4.2%, above the 3% target of the Central Bank of Brazil (BCB). While the appreciation of the real has helped disinflation by moderating tradable-goods inflation, services inflation remains elevated. Further, medium-term inflation expectations have fluctuated within the BCB’s tolerance interval but have not settled at the 3% target, offering limited support for further disinflation. Energy-price volatility and a tight labour market should keep inflation persistent, leading to only a gradual return to target.

The BCB lowered the Selic rate by 25 basis points to 13.75% in September, continuing the calibration of its highly restrictive monetary policy stance. We anticipate that easing will continue next year but remain cautious, with scope for the pace to pick up once the inflation and fiscal outlooks become clearer.

Brazil economic forecasts

	GDP Growth	Unemployment rate	Headline inflation	Monetary policy
Year-end 2026 outlook	2.2%	5.5%	5%	13.75%
Year-end 2027 outlook	1.9%	5.9%	4.3%	12.25%

Notes: GDP growth is defined as the annual change in real (inflation-adjusted) GDP in the forecast year compared with the previous year. Unemployment rate is as of December for each year. Inflation is the year-over-year change in the headline broad national consumer price index (IPCA) as of December for each year. Monetary policy is the year-end target for the Selic rate as set by the Central Bank of Brazil.

Source: Vanguard.

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Our economic outlook for the United Kingdom

Gas prices and labour market build case for rate hikes

“Energy prices have moved higher, while the labour market has shown signs of stabilisation. Both developments build the case for the Bank of England to tighten monetary policy.”

-Shaan Raithatha, Vanguard Senior Economist

U.K. real GDP grew 0.4% in the second quarter, driven by strength in the services sector and rising business investment. This follows a firm 0.6% print in the first quarter, though seasonal outliers have historically led to higher first-half growth compared with the second half of the year. Activity will likely soften through the rest of the year amid higher energy costs and tighter financial conditions. Nonetheless, risks to our 1.1% full-year GDP call lean to the upside given recent strength in data, including firm purchasing managers’ prints in July and August.

Concurrently, the labour market has shown signs of stabilisation, with private payrolls flat and high-frequency surveys pointing to a modest improvement in the second half of the year. This comes after a year and a half of softness as employment adjusted to the government’s tax hikes on firm-level national insurance contributions.

For the inflation outlook, we continue to forecast headline CPI ending the year at 3.1% and core at 2.6%. However, risks are skewed toward a higher inflation trajectory following the recent rise in natural gas prices, which U.K. household energy bills are particularly sensitive to. Longer-term household inflation expectations remain elevated, which is likely a consequence of inflation having not sustainably fallen back to 2% since the 2022 shock triggered by the war in Ukraine.

We continue to expect the Bank of England to keep the bank rate on hold at 3.75% through 2027. However, the escalation in energy prices and stabilisation in the labour market mean risks to this view now tilt more hawkish.

United Kingdom economic forecasts

	GDP Growth	Unemployment rate	Core inflation	Monetary policy
Year-end 2026 outlook	1.1%	5.3%	2.6%	3.75%
Year-end 2027 outlook	1.2%	5.3%	2.5%	3.75%

Notes: GDP growth is defined as the annual change in real (inflation-adjusted) GDP in the forecast year compared with the previous year. Unemployment rate is as of December for each year. Core inflation is the year-over-year change in the Consumer Prices Index, excluding volatile food, energy, alcohol, and tobacco prices, based on the fourth-quarter average for each year. Monetary policy is the Bank of England's bank rate at year-end.

Source: Vanguard.

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Our economic outlook for the euro area

Higher energy prices pose a hawkish risk for the ECB

"Our forecast has called for just two European Central Bank rate hikes this year. However, given recent growth resilience and escalating energy prices, risks are skewed toward additional monetary policy tightening."

-Shaan Raithatha, Vanguard Senior Economist

Despite the energy shock stemming from conflict in the Middle East, economic activity in the euro area has proved resilient. Growth is tracking above our 0.8% forecast for 2026, with strength that has been broad-based across major economies and driven by domestic demand.

That said, we see only modest pass-through of German fiscal stimulus in the industrial production data so far. Spending on military equipment has accelerated in the last year, but this is only a small part of total production. More prominent sectors that should be exposed to infrastructure-related spending—including construction, basic metals, and machinery and equipment—have yet to experience a material upswing.

Within the labour market, the euro area unemployment rate remains remarkably stable at 6.4%. However, the aggregate headline masks significant divergence under the hood. German employment growth is outright negative amid unfavourable demographics and a continuing industrial recession, while the French labour market is undergoing cyclical weakness. This contrasts with the strong growth story in Spain, where the rate of job creation is exceeding the immigration-led increase in labour supply.

Regarding inflation, both crude oil and natural gas prices have moved higher in the past month. This, coupled with widening margins for refined fuel products, is raising the risks of second-round effects building into the system. The European Central Bank (ECB) announced a quarter-percentage-point increase of its policy interest rate to 2.5% on September 10, which represented its second hike of 2026. Our forecast has called for just two ECB rate increases this year. However, given recent growth resilience and higher energy prices, risks skew toward additional monetary policy tightening.

Euro area economic forecasts

	GDP Growth	Unemployment rate	Core inflation	Monetary policy
Year-end 2026 outlook	0.8%	6.4%	2.2%	2.5%
Year-end 2027 outlook	1.3%	6.3%	2.3%	2%

Notes: GDP growth is defined as the annual change in real (inflation-adjusted) GDP in the forecast year compared with the previous year. Unemployment rate is as of December for each year. Core inflation is the year-over-year change in the Harmonized Indexes of Consumer Prices, excluding volatile energy, food, alcohol, and tobacco prices, based on the fourth-quarter average for each year. Monetary policy is the European Central Bank's deposit facility rate at year-end.

Source: Vanguard.

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Our economic outlook for China

Weak growth adds pressure for quicker policy delivery

"China's growth is becoming increasingly imbalanced. Exports remain a key source of resilience, but a sustained recovery will depend on stronger domestic demand and more effective policy transmission."

-Grant Feng, Vanguard Senior Economist

China's economic activity has weakened broadly so far in the third quarter, amid a widening divergence between resilient exports and subdued domestic demand. Retail sales, fixed-asset investment, and industrial production have all fallen short of market expectations, even as export growth has remained robust. Housing prices in some of China's largest cities have shown early signs of stabilisation, while broader real estate

conditions remain weak elsewhere, with nationwide housing sales and real estate investment continuing to contract.

Looking ahead, exports are likely to remain relatively resilient in the near term, supported by the ongoing global AI investment cycle and demand for technology-related goods. However, the outlook for external demand is becoming increasingly uncertain. Rising trade tensions—including tariffs and anti-subsidy measures—may not immediately affect the health of exports, but are likely to increase both the economic and political costs of relying on foreign demand to absorb excess domestic capacity. In addition, moderation in AI-related capital expenditure, tighter technology restrictions, or weaker global demand could weigh on one of China’s few remaining sources of growth.

Against this backdrop, policymakers are likely to shift policy implementation into a higher gear in the coming months as downside risks to growth continue to accumulate. We expect additional measures aimed at supporting domestic demand and stabilising economic activity. Despite this, policy easing is likely to remain targeted and incremental rather than evolve into broad-based stimulus. We expect the People’s Bank of China to maintain ample liquidity conditions and rely more heavily on structural monetary policy tools to direct credit toward priority sectors. Broad-based policy rate cuts appear less likely in the near term.

China economic forecasts

	GDP Growth	Unemployment rate	Core inflation	Monetary policy
Year-end 2026 outlook	4.7%	5.1%	1.2%	1.4%
Year-end 2027 outlook	4.8%	5%	1.3%	1.4%

Notes: GDP growth is defined as the annual change in real (inflation-adjusted) GDP in the forecast year compared with the previous year. Unemployment rate is as of December for each year. Core inflation is the year-over-year change in the Consumer Price Index, excluding volatile food and energy prices, as of December for each year. Monetary policy is the People’s Bank of China’s seven-day reverse repo rate at year-end.

Source: Vanguard.

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Our economic outlook for Japan

Bank of Japan hikes amid heightened inflation risk

“Increasingly, the Bank of Japan must balance inflation expectations, currency stability, and rising government bond yields, making policy normalisation as much a matter of credibility as inflation management.”

-Grant Feng, Vanguard Senior Economist

The Japanese economy continues to expand at a moderate pace. Export resilience, strong wage growth, recovering consumer spending, solid corporate investment, and increasingly supportive fiscal policy are underpinning economic strength.

The rising wages and stronger household spending, along with an economy running above its estimated sustainable capacity, suggest inflation is becoming more self-sustaining and demand-driven. Although services inflation continues to lag goods inflation, sustained wage growth should enable firms to pass higher labour costs through to consumers more effectively over time. This would support a further pickup in services inflation and reinforce the durability of the inflation cycle.

On September 18, the Bank of Japan (BoJ) decided to raise its policy interest rate by one-quarter of a percentage point to 1.25%. Policymakers assessed risks to growth as broadly balanced while judging risks to inflation as tilted to the upside. This reflects the potential for a further shift in corporate wage- and price-setting behaviour, alongside continued increases in medium- and long-term inflation expectations.

Increasingly, the BoJ must balance inflation expectations, currency stability, and rising government bond yields, making policy normalisation as much a matter of credibility as inflation management.

We expect an additional 25-basis-point rate hike by the end of 2026, which would take the policy rate to 1.5%. The timing of a hike will depend on incoming inflation, wage, and activity data, as well as the extent of yen weakness and its implications for inflation expectations.

Japan economic forecasts

	GDP Growth	Unemployment rate	Core inflation	Monetary policy
Year-end 2026 outlook	0.8%	2.4%	2.1%	1.25%
Year-end 2027 outlook	1.2%	2.4%	2.2%	2%

Notes: GDP growth is defined as the annual change in real (inflation-adjusted) GDP in the forecast year compared with the previous year. Unemployment rate is as of December for each year. Core inflation is the year-over-year change in the Consumer Price Index, excluding volatile fresh food prices, as of December for each year. Monetary policy is the Bank of Japan's year-end target for the overnight rate.

Source: Vanguard.

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