
Resilience
Inflation
Monetary policy
Fiscal dominance
The Year Ahead 2027
Disinflationary AI
Risk management
European risk
Liquidity
Let's do this
NatWest

Contents

Foreword 03

Stubbon Inflation
Hanging around
Ross Walker, Head of Global Economics and Brian Daingerfield, Co Head of G10 FX 04

Monetary Policy
Rules matter, but how much for monetary policy?
Kevin Cummins, Chief US Economist, Giovanni Zanni, Chief Euro Area Economist and Ross Walker, Chief UK economist 07

Fiscal Dominance
Escape velocity from fiscal dominance
Giovanni Zanni, Chief Euro Area Economist 11

Disinflationary AI
AI: from bubble to reality
Brian Daingerfield, Co Head of G10 FX, Deepika Dayal, US Economist and Aastha Gupta, European Economist 14

Europe in 2027
Political change, but not political rupture
Giovanni Zanni, Chief Euro Area Economist and Aastha Gupta, European Economist 17

Grey Rhinos
10 shocks to have on your radar in 2027
Imogen Bachra, Head of Economics and Market Strategy 21

Industry Comments

The forces shaping transaction banking in 2027
Adam Hanke, Head of Transaction Services Banks & Bid Management 26

Infrastructure in 2027: How to deliver on ambition
David Basra, Head of Structured Finance 30

2027: Preserving room to move
James Tayler, Head of Large Corporate & Financial Institutions Group 34

Will technology stop being the interesting bit?
David Grunwald, Director, Open Innovation 38

The Year Ahead for regulation, market structure and technology
Phil Lloyd, Development Director, Markets; John Stevenson-Hamilton, Asset & Wealth Coverage; Lee Chapman, Market Operations Oversight 41

Resilience, liquidity and the next test for private markets
Nick Rodolakis, Head of Funds Coverage 45

Sustainability in 2027: Follow the capital
Dr Arthur Krebbers, Sustainable Finance Advisory 49

Welcome to the Year Ahead



Isabelle Girolami
Head of Corporate and Institutional Banking

The year ahead is rarely a test of how much businesses can do. It is a test of how clearly leaders can choose: What do you protect? Where do you invest? And when do you move? These choices are perennial. In 2027, the challenge lies in making them when the economic signals are far from clear.

The economic outlook threatens to cloud judgement. Inflation remains high, and is as much an operational question as it is a strategic one. Higher input and labour costs can test margins, while passing those costs through to customers is complicated. The question is not simply where inflation goes next, but what different outcomes could mean for pricing, working capital and investment.

Economic questions also naturally direct policy. Governments face difficult choices about public finances, while central banks must weigh inflationary pressures against the strength of their economies. Interest rates may move, but the timing and extent can surprise markets.

And that surprise extends to artificial intelligence. The technology promises to improve productivity and reshape how companies work, invest and compete. But the optimism is married to caution, with recently reported concerns about valuations and the concentration of market performance among a relatively small number of companies. The promise of AI is significant, but technological potential and market dynamics will continue to play into corporate decision making.

We know that resilience is not simply forward defence against downside risk. It is also about creating the flexibility to act when conditions change. That means understanding liquidity, testing assumptions, considering funding needs early and making sure that treasury infrastructure keeps pace with a business.

Here lies hope – and opportunity. Banking is changing as businesses seek better visibility and control over their cash. Faster transactions, richer data and more real-time capabilities can make liquidity management more responsive and help finance teams understand their positions sooner. For businesses operating across markets, and currencies, better cash visibility can support stronger decisions at a time when both the cost and availability of capital matter.

These are some of the perspectives we bring we bring with us into the year ahead. In the pages that follow, we explore the forces affecting us all, without pretending that every turn can be predicted. There are genuine reasons for caution, from stubborn inflation and policy constraints to political and market risk. But uncertainty also creates opportunity for businesses that are prepared and keep their options open.

So in the year ahead, we look forward to bringing practical thinking to those choices and working alongside you as you and your business prepare for what comes next.

I invite you to read on.

Isabelle Girolami,
Head of Corporate
and Institutional Banking



Stubborn Inflation

Hanging around

From energy and wages to supply chains and extreme weather, persistent price pressures could keep central banks on their toes throughout 2027.



Ross Walker
Head of Global Economics



Brian Daingerfield
Co Head of G10 FX

At a glance

- **Inflation is likely to stay above target in 2027:** headline CPI is forecast to average 2.8% in both the US and euro area, and 3.6% in the UK. A return to target could stretch into 2029.
- **Domestic pressures remain persistent:** services inflation and wage growth are slowing the adjustment down, with the UK facing greater wage pressure and upside inflation risks.
- **Energy may offer only limited relief:** forecasts assume lower energy inflation, but elevated futures prices and geopolitical uncertainty could keep costs higher for longer.
- **The path back to target looks uneven:** less reliable disinflation from imported goods, supply-chain disruption and extreme weather leave the outlook vulnerable to renewed shocks.

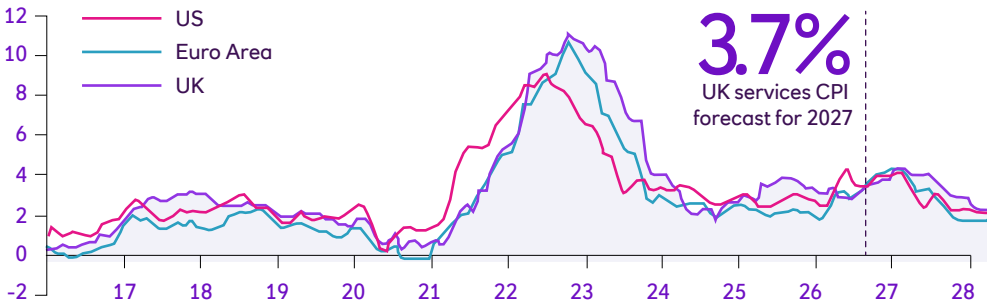
Predicting inflation is difficult at the best of times. In 2027, it will be harder still. Energy prices remain highly sensitive to geopolitics, while domestic wage and price-setting, food, consumer goods, supply-chain disruption and extreme weather all present upside risks.

Stubborn Inflation
Hanging around

What we can say with greater confidence is that inflationary pressures are likely to hang around. Headline CPI inflation is expected to remain above target across the major economies during 2027, averaging 2.8% in the US, 2.8% in the euro area and 3.6% in the UK. Inflation should ultimately return to target, but more slowly than previously expected, potentially stretching into 2029.

The bigger challenge is what is happening beneath the headline numbers. Domestically generated inflation has resurfaced and looks set to remain elevated. Services CPI, a useful proxy, is forecast to average 3.1% in the US, 3.2% in the euro area and 3.7% in the UK in 2027, remaining relatively high through much of 2028.

Headline CPI inflation, outturn & forecasts, % y/y



Source: US BLS, Eurostat, UK ONS, NatWest



$82

per barrel

Brent crude futures for the end of 2027, up from approximately **$75** in early September.

Energy will help, but only so much

Energy remains the biggest source of uncertainty. Futures markets continue to price gradual declines, and our inflation forecasts incorporate a mechanical reduction in inflation from energy during 2027. But futures curves now point to higher endpoints than previously expected. Brent crude futures, for example, are around $82 per barrel at end-2027, compared with roughly $75 in early September.

There is consequently a growing risk that energy prices, or their inflationary effects, remain "higher for longer". Lower energy inflation would help headline rates, but it cannot disguise persistent underlying pressure. Higher energy costs feed quickly into areas such as transportation and, with a lag, into broader wage and price-setting.

Will weak labour markets help inflation?

Normally, weaker demand and labour markets would accelerate disinflation. However, there appears to be relatively little spare capacity for this across the major economies.

The US economy is operating close to, and plausibly above, potential, although slower growth should gradually narrow the gap. The euro area has somewhat more spare capacity, offering modest disinflationary protection, while additional investment in energy technology and defence could add demand and inflationary pressure in 2027.

Stubborn Inflation
Hanging around

In the UK, external forecasters estimate a relatively modest output gap, with the IMF at -0.3% and OECD at -0.4%. That contrasts with larger estimates from the Bank of England and Office for Budget Responsibility, at -1.0% and -1.1% respectively. Persistent domestic inflation means the risks around the UK inflation outlook remain skewed to the upside.

The UK faces greater wage pressure. A 3.9% increase in the minimum wage, public-sector wage growth still above 6%, and headline inflation expected to peak at around 4¼% in 2027 make a sustained return to inflation-consistent wage growth of roughly 3¼% difficult.

Expectations for inflation matter

3.3%

UK one-year inflation expectations

Compared with **2.9%** over three years, according to the Bank of England's Decision Maker Panel.

Inflation expectations will be critical. In the US, medium-term expectations remain broadly anchored despite tariff, energy and AI-related price shocks. Euro-area expectations have increased at shorter horizons, but longer-term measures remain broadly consistent with inflation returning towards 2%.

The UK looks less comfortable. The Bank of England's Decision Maker Panel shows one-year inflation expectations at 3.3% and three-year expectations at 2.9%. Persistently above-target expectations increase the risk that wage and pricing decisions become less anchored to the 2% inflation target.

In the euro area, inflation expectations for the near term have risen materially. Core expectations are firmer at 2.5% in 2027 and 2.2% in 2028, suggesting some indirect effect of energy prices. Households remain considerably more concerned even though their expectations have rarely matched reality. Businesses have broadly stable expectations across the one-, three- and five-year horizons.

Can global disinflation be taken for granted?

"Advanced economies have historically benefited from cheap imported goods offsetting stronger domestic inflation."

Advanced economies have historically benefited from cheap imported goods offsetting stronger domestic inflation. In 2027 that support looks less reliable.

Consumer goods inflation is expected to remain elevated as global cost pressures spread. Chinese export inflation returned to positive territory in 2026 after almost three years of deep deflation. Although it should ease significantly by the end of 2027, structural changes to China's economy, alongside trade and supply-chain frictions, mean the benign imported inflation of previous decades may be harder to replicate. Alternatives to Chinese production are also unlikely to reproduce the same combination of scale, integrated supply chains and low costs.

Extreme weather is another risk, affecting food, commodities, supply chains and insurance costs. Reported natural disasters are around five times more frequent than in the 1970s, while inflation-adjusted economic losses are approximately 10 times higher.

Ultimately, it would probably take a sufficiently deep and prolonged recession to remove these persistent domestic pressures quickly. That is not our central case. But the evidence points to one defining feature of the year ahead: inflation may fall, but the journey back to target is likely to remain slow, uneven and vulnerable to renewed shocks.



Next

Monetary Policy

Rules matter, but how much for monetary policy?



Kevin Cummins
Chief US Economist



Giovanni Zanni
Chief Euro Area Economist



Ross Walker
Chief UK economist

Persistent inflation and structural economic change are challenging established monetary policy. In 2027, the Fed could lead a rethink of the rules, while the ECB and Bank of England pursue a more cautious path.

At a glance

- **The rules of monetary policy are under scrutiny.** Persistent inflation, structural economic change and repeated supply shocks are challenging how central banks think about price stability and interest rates.
- **The Fed could lead the rethink.** Its review is examining everything from the 2% inflation target and communications to whether wages and broader measures of economic activity should play a bigger role in policymaking.
- **Europe and the UK favour evolution over revolution.** The ECB looks set to retain its existing framework, while the debate in the UK is focused on improving the Bank of England's approach rather than questioning its independence.
- **Rates could still rise further in 2027.** We expect further tightening in the US, euro area and UK as inflation remains persistent, reinforcing the prospect of interest rates staying higher.

Monetary Policy
Rules matter, but how much for monetary policy?

Five years of above-target inflation have changed the debate facing the world's major central banks. In the US, the Federal Reserve is undertaking a potentially significant reassessment of how monetary policy works. In Europe and the UK, change looks more evolutionary. But across all three economies, policymakers face the same underlying question: are the frameworks built for yesterday's economy still right for tomorrow's?

US: rethinking the framework

3.7x

Total US economy debt has settled at around **3.7 times GDP**, adding to the structural challenges facing the Federal Reserve.

At his first Federal Open Market Committee (FOMC) meeting in June, Fed Chair Kevin Warsh launched five task forces covering communications, the balance sheet, data, productivity and employment, and the inflation framework. Together they amount to the most consequential examination of US monetary policy since the Fed formally adopted a 2% inflation objective in 2012.

The backdrop matters. Inflation has remained above target for much of the past five years, while fundamental changes to the economy are complicating the Fed's job. Total economy debt has settled at around 3.7 times GDP, the population is ageing, immigration has slowed and the labour force has been shrinking. These structural shifts could change the way interest rates affect activity and inflation.

The most radical option would be to reconsider the Fed's 2% inflation target. There are arguments for doing so. A higher target could provide policymakers with more room to cut interest rates during future downturns, reducing the risk of rates repeatedly hitting their lower bound. Economists including Olivier Blanchard and Laurence Ball have previously argued for targets above 2%.

Yet changing the target while inflation remains above it would create a serious credibility problem. Households and markets could reasonably ask whether the target might simply move again whenever achieving it becomes difficult. Our view is therefore that an explicit change to the 2% target remains unlikely.

The more interesting question may be what the Fed actually measures.

Traditional measures such as headline or core consumer inflation can be distorted by sector-specific shocks. Alternative approaches could give greater weight to wages or other measures of nominal activity. One possibility is the "Stability Price Index", developed by Gregory Mankiw and Ricardo Reis, which incorporates wage growth alongside consumer prices. Re-estimating their model using data through 2026 produces a very high weight for nominal wages.

This does not mean the Fed is about to abandon Personal Consumption Expenditures (PCE) inflation. But incorporating broader measures of prices, wages or nominal GDP into policymakers' thinking could give officials greater flexibility when responding to supply shocks.

The bigger message is that monetary policy may become less mechanical. Overall economic stability may matter more than whether one consumer-price index is sitting precisely at 2% at every point in time.

That uncertainty matters for markets. The more difficult it becomes to define the appropriate policy framework, the greater the potential for disagreement over where interest rates ultimately need to settle.

Euro area: evolution rather than revolution

25bp

Further interest rate increase expected from the ECB in March 2027, following a projected **25bp rise** in December 2026.

The contrast with the European Central Bank is striking.

The ECB's 2025 strategy review retained its symmetric 2% inflation target and existing monetary-policy toolkit while recognising a world characterised by larger supply shocks, geopolitical fragmentation and structural change.

Leadership will change in 2027, with Christine Lagarde due to leave. But a change at the top is unlikely to produce a fundamental change in the ECB's reaction function. The Governing Council remains consensus driven, while the ECB operates within strong institutional and Treaty constraints.

That does not make its framework immutable. The numerical definition of price stability and the instruments used to achieve it remain choices for the ECB. But there is currently much less appetite for wholesale change than at the Fed.

Our baseline therefore remains one of cautious tightening rather than regime change. Following an expected 25bp rise in December 2026, we expect one further 25bp increase, probably in March 2027. Faster energy-price normalisation or weaker demand could remove the need for that final move, while broader inflation pass-through would create some upside risk.

UK: independence still fit for purpose

2.5%

Average UK inflation since the Bank of England gained operational independence in 1997, **compared with 7.3%** in The preceding 30 years.

The UK is also reviewing its monetary-policy arrangements, although from a very different starting point.

Parliament's Treasury Select Committee is examining whether Bank of England monetary-policy independence remains fit for purpose almost 30 years after operational independence was introduced.

Our answer is yes.

UK Consumer Prices Index (CPI) inflation has averaged around 2.5% since 1997, compared with 7.3% between 1967 and 1997. Whatever criticisms can be made of individual policy decisions, returning interest-rate setting to elected politicians offers no compelling economic solution.

There is nevertheless room for improvement. Some recommendations from the Bernanke Review have improved communication, including the publication of individual Monetary Policy Committee members' policy statements. Other changes, including scenario analysis and forecasting reforms, remain works in progress.

The more pressing issue is inflation itself. Expectations remain elevated and domestically generated inflation pressures have persisted. Monetary policy needs to be forward-looking and alert to the possibility of second-round effects through wages and services prices.

We therefore forecast two further 25bp increases in Bank Rate during 2027, in February and again in the second quarter, taking Bank Rate to 4.5%.

> **“The next chapter of monetary policy may therefore be defined not simply by whether rates rise or fall, but by how central banks adapt the rules they use to decide.”**

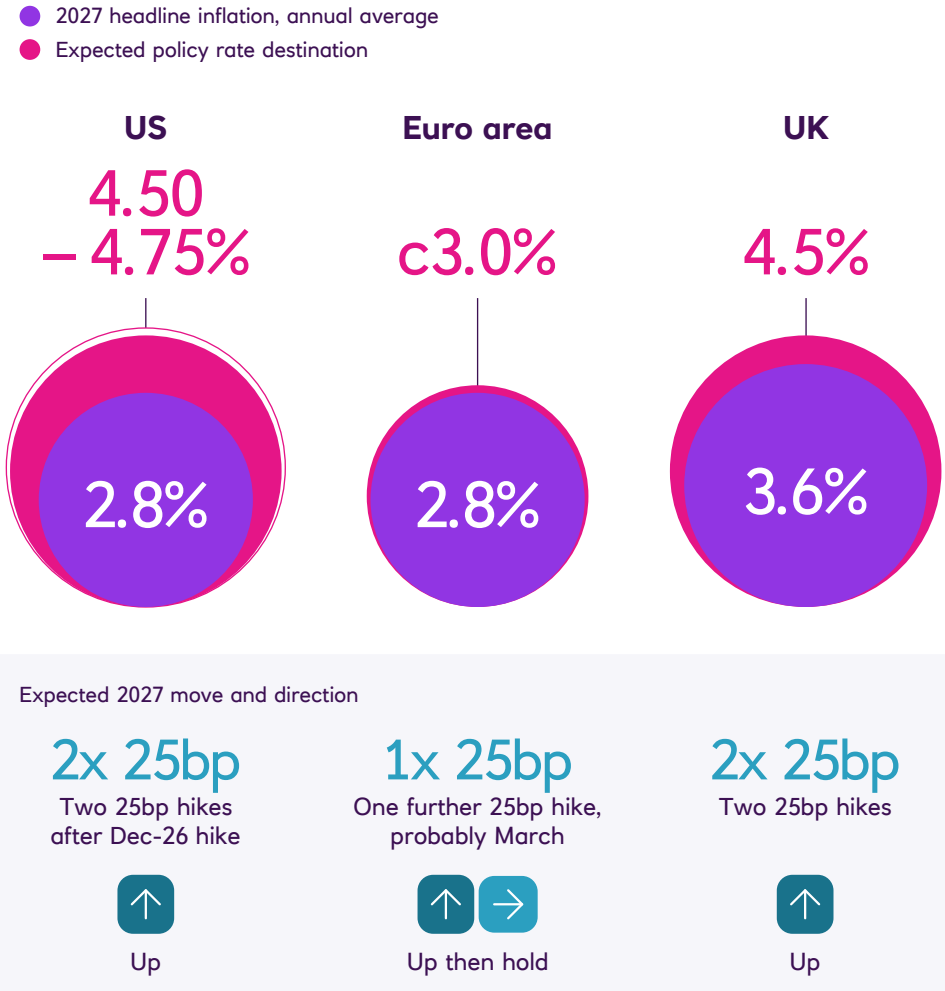
Different institutions, a common challenge

The Fed, ECB and BoE begin 2027 from very different positions. In the US, policymakers are asking fundamental questions about what monetary policy should target and how it should operate. In Europe, continuity remains the stronger force. In the UK, the debate is primarily about improving an established framework rather than replacing it.

Yet all three face the same underlying problem. Structural change, persistent inflation and repeated supply shocks are making the relationship between inflation, growth and interest rates harder to judge.

The next chapter of monetary policy may therefore be defined not simply by whether rates rise or fall, but by how central banks adapt the rules they use to decide.

Our view of inflation and rates in 2027



Source: NatWest



Fiscal Dominance

Escape velocity from fiscal dominance



Giovanni Zanni
Chief Euro Area Economist

Higher debt does not have to end in fiscal dominance. In 2027, the real question is whether governments can grow their economies faster than their fiscal pressures.

At a glance

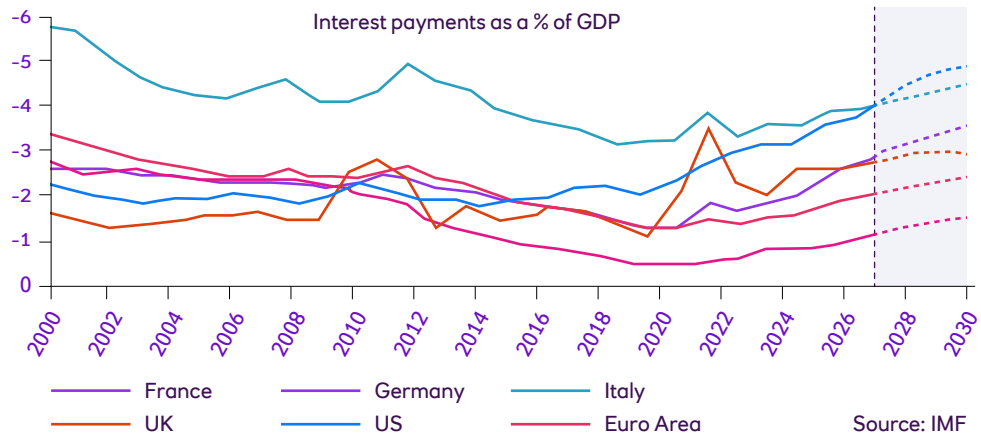
- **Fiscal policy will matter more in 2027.** Higher debt, persistent deficits and rising refinancing costs are likely to increase its influence on growth, inflation and financial markets.
- **But fiscal prominence is not fiscal dominance.** True dominance occurs only when government financing needs force monetary policy away from its price-stability objective.
- **There is no single route to fiscal sustainability.** Credible fiscal adjustment must work alongside stronger growth to improve the relationship between borrowing costs and nominal GDP growth.
- **The quality of spending matters.** Investment that raises productive capacity can ultimately improve debt dynamics, while indiscriminate cuts risk weakening future growth and the tax base.
- **National wealth is an underappreciated part of the equation.** Private savings and assets cannot be offset against government debt, but they can support investment, broaden financing and strengthen future revenues.

Fiscal Dominance
Escape velocity from fiscal dominance

Governments enter 2027 facing a fiscal environment different from the ultra-low-rate years that followed the global financial crisis. Global public debt is approaching 100% of global GDP, while many advanced economies continue to run persistent deficits. At the same time, governments must fund defence and security, ageing populations and healthcare, energy resilience, climate adaptation and technological investment.

The financing environment has also become less forgiving. Debt issued at historically low coupons is gradually being refinanced at higher rates. Longer debt maturities can slow the pass-through and reduce immediate rollover risks, but ultimately they only buy time. As refinancing continues, higher interest expenditure will place additional pressure on public finances.

Government interest costs are projected to rise



That does not mean fiscal crisis is inevitable. Nor does it necessarily mean the world is entering an era of fiscal dominance. Fiscal policy can exert a significant influence over demand, inflation and bond supply while central banks retain their independence. Genuine fiscal dominance emerges only when financing the government starts to displace price stability as monetary policy's primary objective.

100%

Public debt is approaching 100% of global GDP.

Is there an escape route for fiscal policy?

Ultimately, debt sustainability rests on the relationship between the effective interest rate governments pay (r), nominal economic growth (g) and the primary fiscal balance. When growth runs ahead of borrowing costs, economies have greater room to absorb deficits without increasing their debt burden. When the relationship moves the other way, fiscal adjustment becomes harder.

Fiscal discipline therefore remains important. But simply cutting spending is unlikely to provide a durable solution. Defence, healthcare, pensions and investment all face strong political and economic claims on government resources. Crucially, the composition of consolidation matters. Indiscriminate investment cuts can weaken future growth and the tax base, while better targeting, expenditure reform and more efficient revenue collection can improve fiscal capacity.

Growth could provide the cleanest escape route. For Europe in particular, that means raising productivity rather than relying on monetary policy or hoping for a return to the exceptionally low interest rates of the 2010s. More integrated product and capital markets could allow firms to scale, attract investment and adopt new technologies more quickly.

AI could strengthen that story, although governments should be wary of banking the gains too early. Productivity improvements could ultimately lift potential growth, but adoption will matter as much as innovation, particularly among smaller European businesses. Investment costs may also arrive before the resulting supply-side benefits.

This underlines an increasingly important distinction between productive and unproductive borrowing. Investment in infrastructure, innovation, technology and productive capacity can improve the longer-term debt trajectory, even where it increases borrowing initially. Fiscal credibility should therefore be judged not just by how much governments spend, but by whether that spending strengthens future economic capacity.

80%

Approximately 80% of euro-area households hold no shares, bonds or mutual funds.

The wealth of nations

There is another part of the fiscal equation that deserves greater attention in 2027: national wealth. Debt is only one side of a country's balance sheet. Household financial assets, property, corporate capital and external balances can also influence an economy's resilience.

Private wealth is not sovereign liquidity and cannot simply be netted against public debt. But it can matter through three channels: taxation, voluntary financing of government debt, and investment that raises future output and tax revenues.

Europe's challenge is particularly striking. Around one-third of euro-area household financial assets remains in cash and deposits, while approximately 80% of households hold no shares, bonds or mutual funds. Deeper capital markets could channel more appropriate long-term savings towards productive companies and investment, strengthening productivity and the future tax base.

"Fiscal dominance is not an inevitable consequence of higher debt. But escaping its gravitational pull will require discipline, investment and growth."

What matters in 2027?

The defining fiscal divide of 2027 will therefore not simply be between countries with high and low debt. It will be between governments that can combine credible fiscal adjustment with policies that raise productive capacity, and those that cannot.

Markets will increasingly judge not only how much governments borrow, but what they borrow for, how credible their fiscal frameworks are and whether economies can generate the growth required to service their obligations. Fiscal dominance is not an inevitable consequence of higher debt. But escaping its gravitational pull will require discipline, investment and growth.



Disinflationary AI

AI: from bubble to reality

AI's investment boom is already reshaping growth, inflation and global markets. In 2027, the bigger question is whether the productivity revolution can catch up.



Brian Daingerfield
Co Head of G10 FX



Deepika Dayal
US Economist



Aastha Gupta
European Economist

At a glance

- **The AI investment boom has further to run.** Spending on AI infrastructure should continue to support growth in 2027, although the pace is likely to moderate.
- **China is pursuing a different model.** State-backed investment, technology exports and rapid AI development are strengthening China's position.
- **AI could add to inflation before it reduces it.** Demand for chips, computing power and electricity is already creating price pressures, while the much-anticipated productivity dividend is still emerging.
- **2027 could be the year when productivity becomes the real test.** The investment boom is evident. The bigger question is whether widespread adoption delivers economy-wide productivity gains.

AI could be one of the most important forces shaping growth, inflation and FX markets in 2027. Its near-term effects are already tangible: investment is supporting activity, increasing demand for technology and power, and creating pockets of inflation. The longer-term promise of higher productivity and disinflation is compelling, but remains much harder to quantify.

The impact will also be uneven. The US and China are leading the AI race, while economies embedded in the Asian technology supply chain are increasingly exposed to the scale and durability of the investment cycle. For markets, the question in 2027 is therefore not simply whether AI continues to advance, but how investment, capital flows, inflation and productivity interact.

The US remains at the centre of the AI build-out

$1tn+
US equity ETF inflows exceeded $1 trillion during 2026.

AI-related capital expenditure was a bright spot for US growth in 2026. Greater investment intentions have also fed into manufacturing and construction, helping parts of the economy remain resilient despite tighter financial conditions and high raw-material costs. We expect AI investment to remain healthy in 2027, although growth is likely to moderate from 2026's exceptional pace.

That resilience creates a challenge for the Federal Reserve. If AI investment and associated demand add to inflation, monetary policy may need to remain restrictive. But policy tight enough to cool AI-related activity risks overtightening conditions for the less AI-sensitive parts of the economy. That tension could keep US rates elevated and ultimately become a headwind for the dollar.

AI has also reinforced demand for US assets. According to Bloomberg estimates, US equity ETF inflows exceeded $1tn in 2026, while foreign investors increased their exposure predominantly through equities rather than Treasuries. If AI investment growth and enthusiasm moderate in 2027, one source of support for the dollar could therefore weaken.

Yet AI does not remove longer-term questions around de-dollarisation. The dollar remains the dominant reserve currency and lacks a clear alternative, but a structural shift in demand for US assets could increasingly expose longstanding vulnerabilities, including America's twin deficits. How the dollar behaves during any AI-led equity correction will consequently be an important signal in 2027.

"The longer-term promise of higher productivity and disinflation is compelling, but remains much harder to quantify"

How different is China's AI race?

China is the only economy competing with the US across the full spectrum of AI capability, including frontier models. According to the Standford AI Index, the performance gap between leading US and Chinese AI models is nearly closed.

But China's model is different. AI exports and investment are supporting growth against a backdrop of weak domestic consumption, a property downturn and overcapacity in traditional industries. AI-related exports and fixed-asset investment contributed roughly one percentage point to China's 4.7% GDP growth in the first half of 2026. Longer term, AI adoption could also help China respond to demographic pressures as its workforce shrinks.

Private funding nevertheless remains dramatically lower than in the US. US private AI investment reached $285.9bn in 2025, compared with $12.4bn in China. China's response has been extensive state support for infrastructure and AI development, meaning its AI ecosystem is less dependent on private capital.

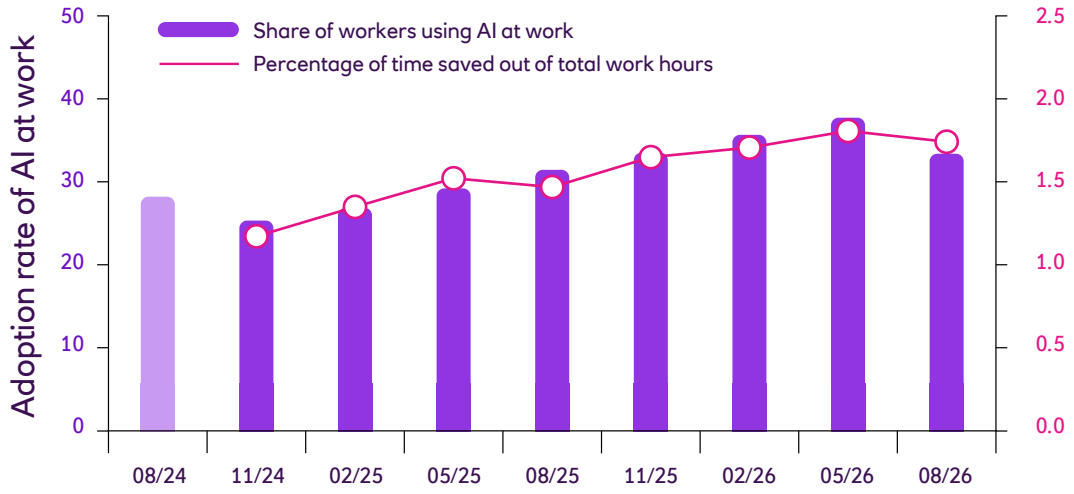
For the yuan, the more immediate benefit comes through trade. Strong demand and rising prices for semiconductors, memory chips and computing hardware have improved China's export pricing power. AI-related trade accounted for roughly 20% of China's total trade value in the first half of 2026, supporting its trade surplus and transactional demand for the yuan.

Could AI keep inflation higher?

The immediate inflationary effects of AI are already visible in specific parts of the US economy. Communication-goods prices were particularly significant in 2026, reflecting higher memory-chip prices. Those pressures could persist in 2027 and potentially spill into consumer electronics, vehicles and electricity, although we expect broader secondary effects to remain limited.

This creates a striking contrast with the longer-term AI narrative. AI is often expected to be disinflationary because it can make workers and businesses more productive. Adoption is increasing rapidly, but evidence of an economy-wide productivity transformation remains limited.

Share of employed workers using GenAI at work has risen but time savings due to AI have improved only modestly so far



Source: www.genaiadoptiontracker.com. t=0 reflects the first year the technology was made available to the mass market.

US non-farm labour productivity rose by 3.6% annualised in the third quarter of 2026 and had grown by around 2% year-on-year for 12 consecutive quarters. But attributing that improvement solely to AI is premature. Capital investment, labour composition, demographics and changes in immigration may also be contributing.

That leaves the central AI question for 2027 unresolved. The investment boom is real; the productivity dividend is still emerging. If diffusion accelerates and productivity gains become tangible, AI could ultimately provide the positive supply shock its advocates anticipate. Until then, markets must navigate a more complicated transition in which AI simultaneously supports growth, attracts capital and creates new inflationary pressures.



Political change, but not political rupture

A political shift is coming to Europe, but disruption may look more like gridlock than rupture. For businesses, the real questions are whether Europe can still get things done and how events in France could change the outlook.



Giovanni Zanni
Chief Euro Area Economist



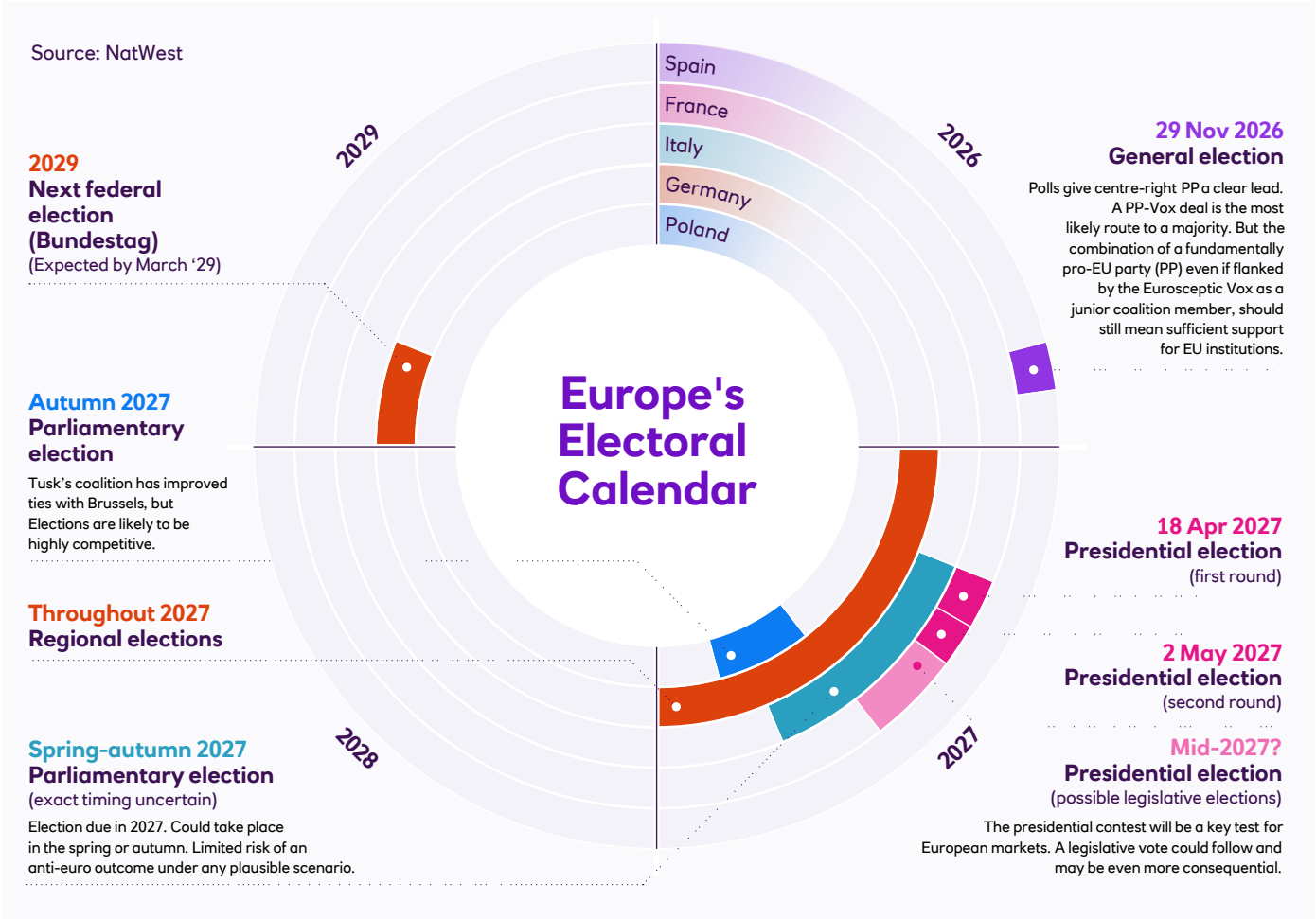
Aastha Gupta
European Economist

At a glance

- **Political change does not mean European fragmentation.** Nationalist and Eurosceptic parties could gain influence in 2027, but fundamental challenges to the EU, euro and single market remain unlikely.
- **The bigger risk is political gridlock.** A more divided Europe could find it harder to agree on common financing, defence, climate policy and deeper integration, potentially slowing decisions at a critical time for European competitiveness.
- **France is the key market risk to watch.** Political uncertainty, fiscal pressures and the possibility of a fragmented parliament mean France has the greatest potential to generate volatility with implications beyond its borders.

Europe faces a busy electoral calendar in 2027, with important elections in France, Italy and Poland. Nationalist and Eurosceptic parties could gain influence, raising questions about the future direction of European policy.

Europe in 2027
Political change, but not political rupture



But the bigger risk for businesses and markets is unlikely to be a fundamental breakdown of the EU. Instead, Europe may become slower to take decisions, harder to coordinate and more transactional. France is the important exception, where political uncertainty combines with fiscal pressures to create the clearest potential market risk.

A shift to the right, but not a united one

National-conservative and Eurosceptic parties have become a more durable part of European politics. Economic insecurity, migration and declining trust in established institutions have all contributed to their rise.

However, these parties do not represent a single European movement. They differ significantly over Ukraine, NATO, the euro and the role of EU institutions. Even if nationalist parties perform strongly in several countries, those differences would make a coordinated challenge to the EU difficult.

The more likely outcome is policy inertia rather than institutional breakdown. National governments could make agreement on new European initiatives harder, particularly where major decisions require broad support. But dismantling existing EU structures would be considerably more difficult.

That distinction matters for businesses. The EU could become less effective at agreeing new common financing, foreign-policy initiatives or deeper integration. Decisions may take longer and require more negotiation between governments. However, the fundamentals of the single market and monetary union look considerably more resilient.

Public support provides another important constraint. Support for the euro remains high and European citizens increasingly regard the EU as a source of stability. Euroscepticism has therefore increasingly shifted from leaving the EU towards trying to reshape it from within.

Four Countries. Different Risks.



Spain
Potential shifts in migration, climate and energy policy.



Italy
Political volatility remains, but risks are more contained.



Germany
Political pressures could delay defence and infrastructure investment.



Poland
Competitive 2027 election, but EU membership looks secure.

Why does French political risk matter?

France represents Europe's most significant source of political and market uncertainty in 2027.ket uncertainty in 2027.

Its presidential election could produce a contest involving candidates from the populist right and radical left at a time when the country is already dealing with parliamentary fragmentation and challenging public finances. Neither the far right nor far left is proposing a straightforward exit from the EU, but elements of their programmes could create tensions with European fiscal rules, further integration and foreign policy.

The presidential election is only part of the story. Whoever wins the Élysée Palace will also need sufficient parliamentary support to implement their programme. France's constituency-based legislative elections and the potential for tactical alliances mean a presidential victory would not automatically translate into control of parliament.

For markets, this could work in two directions. A divided parliament could constrain more radical policies, reducing the possibility of dramatic change. But it could also make action on France's fiscal position harder, prolonging uncertainty.

The key question for businesses and investors is therefore not simply who becomes president, but whether the new administration can govern effectively.

Elsewhere, risks look more contained

Spain: A government led by the centre-right Partido Popular, potentially supported by Vox, could change direction on migration, climate and energy. But strong underlying support for EU and euro membership means a fundamental clash with Brussels appears unlikely.

Italy: Despite high public debt, Italy looks less like a source of political rupture than in the past. Markets, coalition politics and EU institutions all constrain governments, while fiscal and external conditions have improved. Political volatility remains a feature, but it is increasingly a familiar rather than existential risk.

Germany: The next scheduled federal election is not until 2029. The bigger issue for 2027 is whether political pressures constrain the government's ability to deliver its fiscal, defence and infrastructure plans. Given Germany's importance to Europe's growth outlook, under-delivery could have consequences well beyond its borders.

Poland: Politics is likely to remain highly competitive ahead of its autumn 2027 election. But despite divisions over migration, judicial reform and Poland's relationship with Brussels, a fundamental challenge to EU membership looks unlikely. Strong growth, EU funding and Poland's increasing defence role provide additional support.

What does this mean for businesses?

Europe's 2027 elections are more likely to change how the EU operates than whether it holds together.

Businesses should prepare for an EU that may be slower to reach agreement and more dependent on negotiation between national governments. Progress on common financing, defence, climate policy and deeper integration could become harder.

The consequence could be greater policy uncertainty and more national variation at precisely the point when Europe is trying to strengthen competitiveness, invest in defence and infrastructure, and respond to geopolitical change.

The central scenario for 2027, however, is not European fragmentation. It is a more politically divided yet still functioning Europe, where the biggest challenge is getting things done.

"Europe's 2027 elections are more likely to change how the EU operates than whether it holds together."



Grey Rhinos

10 shocks to have on your radar in 2027



Imogen Bachra
Head of Economics and Markets Strategy

What could knock 2027 off course? We look beyond the central economic outlook at scenarios that could reshape inflation, interest rates, currencies, supply chains and the decisions facing businesses.

At a glance

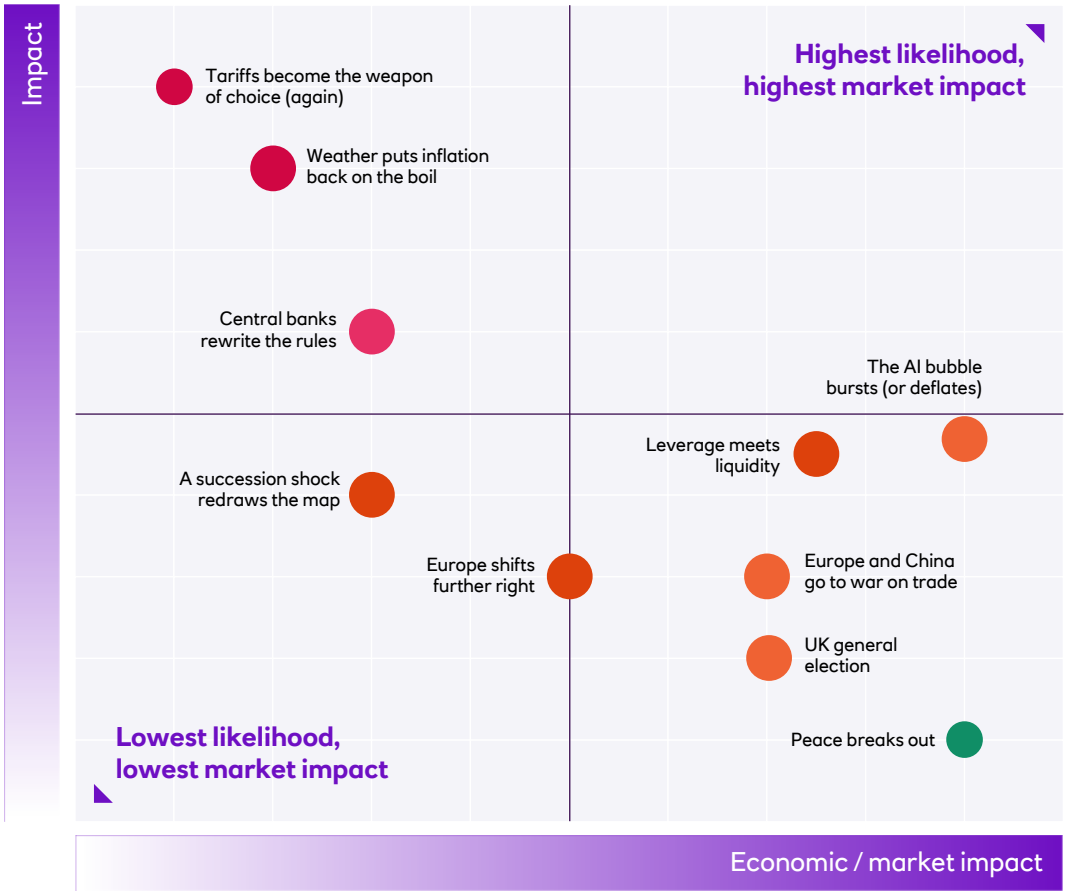
- **The cost of trade could rise:** Renewed tariffs, protectionism and geopolitical tensions could make goods and materials more expensive, disrupt supply chains and force businesses to rethink where and how they source.
- **Inflation could prove hard to tame:** Extreme weather, higher food and energy prices, and trade disruption could reignite price pressures, complicating the outlook for interest rates and business costs.
- **Market risks could spill into the real economy:** An AI correction, political shocks or volatility in bond markets could tighten financial conditions, pushing up borrowing costs and creating greater uncertainty around currencies, investment and access to capital.

Businesses have become accustomed to operating in an unpredictable world. But 2026 offered another reminder that even risks we recognise can have consequences far beyond what markets or companies initially expect.

Grey Rhinos
10 shocks to have on your radar in 2027

Against that backdrop, these ten scenarios explore plausible events that could disrupt the economic and market outlook in 2027. They are not our base case. Instead, they are designed to test the assumptions underpinning the Year Ahead and highlight risks businesses may want to consider when thinking about funding, currencies, costs, supply chains and investment.

10 shocks to have on your radar in 2027



Source: NatWest

1

Tariffs become the weapon of choice again

The US could broaden or increase tariffs on key trading partners, using trade policy to pursue geopolitical, industrial or fiscal objectives. Retaliation could follow, disrupting supply chains, increasing import costs and weakening global trade.

For businesses, the effects could extend well beyond companies trading directly with the US. Higher input costs and supply-chain disruption could put renewed pressure on margins, while export-dependent economies may see weaker growth. The US dollar could initially strengthen against more trade-sensitive currencies, creating additional FX considerations for international businesses.

2

Extreme weather reignites inflation

Heatwaves, droughts, floods or poor harvests could materially raise food, electricity and agricultural commodity prices. Export restrictions introduced by governments seeking to protect domestic supplies could amplify the shock.

That could put inflation back on the agenda just as companies and consumers hope price pressures are easing. Costs may rise particularly quickly for businesses exposed to food, energy and agricultural commodities. Central banks could also face difficult choices between controlling inflation and supporting growth, potentially increasing interest-rate and currency volatility.

3

Central banks rewrite the rules

"Central banks might tolerate above-target inflation for longer."

Formal changes to central-bank mandates remain relatively unlikely. But persistent supply shocks, political pressure or concerns around government finances could subtly alter how policymakers respond to inflation.

Central banks might tolerate above-target inflation for longer, pay greater attention to economic growth and financial stability, or take a stronger view on fiscal policy.

For companies, this could make the path of interest rates less predictable. Markets may demand greater compensation for longer-term inflation risks, affecting borrowing costs, bond yields and exchange rates.

4

The AI boom runs out of steam

Artificial intelligence has attracted huge expectations and investment. But disappointing returns, weaker evidence of productivity gains, financing constraints or excess infrastructure capacity could trigger a reassessment of AI-related valuations.

"A significant correction could spread beyond technology companies."

A significant correction could spread beyond technology companies. Credit conditions could tighten, particularly for data-centre and AI infrastructure financing, while businesses exposed to semiconductor and technology supply chains could face weaker demand.

The wider question would be whether a downturn in AI spending materially affects US growth and investment.

5

Leverage meets liquidity

A sharp increase in government bond volatility or funding costs could force investors to unwind highly leveraged positions. Selling could then reinforce the initial market move, reducing liquidity and potentially spreading into credit and currency markets.

For businesses, what begins as an issue in government bond markets could translate into higher or more volatile financing costs and less predictable access to capital. In a severe scenario, central banks might have to provide liquidity to restore orderly market functioning, even if inflation constrains their ability to cut rates.

6

A succession shock redraws the map

An unexpected leadership departure or succession crisis in a country where political power is highly concentrated could quickly create uncertainty around domestic stability and foreign policy.

The consequences would depend heavily on the country concerned. But a crisis affecting an important producer of energy, commodities or manufactured goods could have international repercussions. Businesses could face sudden commodity-price moves, currency volatility and renewed disruption to trade or supply chains.



Europe vs China

Trade tensions could spread beyond electric vehicles into major industrial sectors.

7

Europe and China go to war on trade

Trade tensions between China and Europe could broaden well beyond electric vehicles and clean technology. Tariffs and other barriers could spread into major industrial sectors, while China could restrict exports of critical materials and intermediate goods used by European manufacturers.

That combination could leave companies facing weaker demand and higher costs. European manufacturing would be particularly exposed, while businesses reliant on Chinese components and materials could need to reassess sourcing and supply-chain resilience. The euro and renminbi could also come under pressure.



Europe Shifts Right

Political fragmentation could increase policy and market uncertainty

8

Europe shifts further right

Nationalist or populist parties could make further electoral gains or gain greater influence over fiscal, migration and EU policy.

The most important implications for markets would come from renewed disagreements over government spending, fiscal rules or European integration. The overall risk is judged to be relatively low because Europe's populist and nationalist parties do not form a coherent bloc, although France is highlighted as an outlier.

For corporates, greater political fragmentation could mean more uncertainty around policy, investment and currencies.

9

Britain returns to the polls

An unexpected UK election could introduce fresh uncertainty around tax, spending, borrowing and the UK's relationship with the EU.

The scenario is considered low probability, but markets could reassess the UK's fiscal outlook if a new mandate pointed towards materially higher borrowing and spending. That could put pressure on sterling and government bonds and feed through into corporate funding costs, hedging decisions and investment confidence.

10

Peace breaks out

Not every surprise has to be negative. A durable ceasefire, reopening of important trade and energy routes, or wider diplomatic settlement could reduce geopolitical risk and improve energy security.

Lower energy prices could ease inflation and support energy-importing economies, including the UK and parts of Europe and Asia. That could improve household purchasing power and help some businesses through lower input costs.

Stronger confidence and greater certainty could also support investment and growth. After several years in which geopolitical shocks have generally increased costs and uncertainty, a positive geopolitical surprise might prove one of the more powerful upside risks for 2027.

What does this mean for businesses?

The common thread across these scenarios is volatility. Preparing for 2027 therefore means looking beyond a single economic forecast. Stress-testing funding plans, FX exposures, supply chains and investment assumptions against a range of outcomes can help businesses understand where they are most exposed and where greater resilience or flexibility may be valuable



2027

The prospect of a UK election could bring renewed political uncertainty, with potential implications for economic policy, business confidence and financial markets.



Industry Comment

The forces shaping transaction banking in 2027

From instant payments and tokenised money to agentic AI, transaction banking faces a test of scale in 2027. Success will depend on connecting innovation with resilient infrastructure, trusted execution and a clear understanding of what customers need.



Adam Hanke
Head of Transaction Services Banks & Bid Management, NatWest

At a glance

- **How will instant payments change transaction banking in 2027?** Domestic instant-payment capabilities are increasingly supporting international payment journeys. Faster payments must also deliver transparency, certainty, resilience and trust.
- **What will determine whether tokenised money scales in 2027?** Tokenised deposits and digital assets will need commercially sustainable business models, interoperability and clear customer benefits to move beyond experimentation towards meaningful adoption.
- **Which payment infrastructure priorities matter for 2027?** Banks and payment providers will need to modernise existing systems while preparing for digital money. ISO 20022, application programming interfaces (APIs) and instant payments are interconnected parts of that investment challenge.
- **How could agentic AI affect payments and treasury in 2027?** AI agents could support procurement and treasury processes and initiate or influence payments, potentially changing liquidity requirements and cash-flow forecasting. Identity, authority, transparency and accountability will be essential.

- **What will customers need from transaction banking providers in 2027?** Customers will continue to prioritise speed, transparency, resilience, certainty and cost. Providers will need to match payment and liquidity capabilities to each customer's needs rather than assume one solution suits every use case.

> **"In 2027, the challenge will therefore be less about demonstrating that the technology works and more about showing that it can scale commercially and operationally"**

Across payments, digital assets, artificial intelligence and the infrastructure supporting international commerce, the industry is moving beyond asking what technology makes possible. In 2027, attention will increasingly turn to a more demanding question: how can innovation become scalable, resilient, trusted and commercially sustainable?

The developments ahead will not take place independently. Changes in payment infrastructure will affect the potential for tokenised money. Artificial intelligence could transform how and when transactions are initiated. New technology will create more choice while raising expectations around resilience, transparency and trust.

Five interconnected themes will help shape the next phase of transaction banking.

1

Speed will not be enough

The continued development of instant payment capability around the world is changing expectations around how quickly money should move. What is becoming increasingly familiar domestically is influencing expectations across a much wider range of payment experiences, and it is domestic instant-payment capabilities that are starting to play a greater role in international payment journeys, including as the final leg of a transaction.

But speed is only one part of the equation. The qualities that have always mattered to customers will not disappear as payments become faster. Transparency, certainty, resilience and trust will remain essential.

The priority for customers is therefore not simply to choose the fastest option, but to work with providers that combine speed with dependable execution, clear information and confidence that payments will arrive securely and predictably.

2

Tokenisation will face the test of scale

The debate around tokenised deposits and digital assets is moving beyond concepts and pilots. Tangible initiatives and propositions are beginning to offer a clearer view of how tokenised forms of money could become part of the financial system.

Markets are taking different routes. Commercial innovation, regulation, public-private collaboration and interoperability are developing in different ways and at different speeds. In 2027, the challenge will therefore be less about demonstrating that the technology works and more about showing that it can scale commercially and operationally.

Which business models will prove sustainable? How will different solutions interoperate? Can they generate sufficient network effects? Most importantly, can tokenisation solve a genuine customer problem better than existing infrastructure?

The answers will help determine which initiatives progress from experimentation to meaningful adoption.

3

Infrastructure choices are increasingly complex

Banks and payment providers face a significant investment challenge. Customer expectations are rising, technology is advancing and demand for secure, resilient and always-on services continues to grow.

Investment in existing infrastructure must continue, making today's payment systems faster, better connected and easier to use. At the same time, emerging infrastructure around digital assets and tokenised money is creating new choices about where organisations should invest for the future.

ISO 20022, APIs, instant payments and digital money should not be viewed simply as separate technology programmes. Together, they are reshaping the infrastructure options available to the industry.

Infrastructure may consequently become a greater source of differentiation. Advantage could lie in making the right investment choices: modernising current capabilities, preparing for what comes next and connecting those two worlds effectively.

> **"The conversation about artificial intelligence is already moving beyond productivity. The bigger question for 2027 is what happens when machines begin to participate directly in commercial and financial decisions."**

4

AI will move into commercial decision-making

The conversation about artificial intelligence is already moving beyond productivity. The bigger question for 2027 is what happens when machines begin to participate directly in commercial and financial decisions.

Agentic commerce creates the prospect of AI agents undertaking activities that have traditionally required human intervention, from supporting procurement and treasury processes to initiating or influencing payments.

If adopted at scale, this could change the speed and patterns of commercial activity. It could affect liquidity requirements, cash-flow forecasting and balance-sheet management, with potential consequences for financial markets.

The opportunity is considerable, but so are the questions. Identity, authority, transparency, accountability, guardrails and interoperability will all matter. These cannot be addressed by any institution in isolation. The industry will need to enable innovation while ensuring that trust remains at the heart of the financial system.

5

Greater choice will make customer understanding critical

The transaction-banking ecosystem is becoming more complex. There are more ways to move money, finance transactions, manage liquidity and connect to the financial system. Each new capability creates another potential route through that ecosystem.

5

Essential customer priorities

1. Speed
2. Transparency
3. Resilience
4. Certainty
5. Cost

Yet the outcomes customers value have changed relatively little. Speed, transparency, resilience, certainty and cost continue to matter. What is changing is the number of ways those outcomes can be delivered.

Different infrastructures and propositions will optimise for different priorities. One solution might offer greater speed, another broader reach, lower cost or increased certainty. Rather than moving towards one industry-wide destination, the market may develop multiple paths based on the customer, use case and priority.

For NatWest, this reinforces a fundamental principle of transaction banking. We must first understand what the customer is trying to achieve and which outcomes matter most. We then need the breadth of capabilities and services to translate those priorities into the right solution.

In a world of increasing choice, the differentiator may not be having more options. It will be knowing which options matter, for whom and when.

From possibility to progress

The challenge for 2027 will be to connect these developments. The real opportunity lies in turning possibility into progress by building solutions that solve genuine customer problems, earn trust and operate at scale. That is where the next chapter of transaction banking becomes most interesting.



Industry Comment

Infrastructure in 2027: how to deliver on ambition



David Basra
Head of Structured Finance

The UK's infrastructure ambition is clear. Turning it into lasting value in 2027 will require connected planning, resilient projects and financing that supports delivery from construction through decades of operation.

At a glance

The central challenge for UK infrastructure in 2027 is turning investment ambition into deliverable projects.

- Why does connected infrastructure planning matter? Energy, transport, digital infrastructure and housing depend on one another. Addressing power, connectivity, water and planning requirements early can help prevent related infrastructure constraints from delaying projects.
- What makes infrastructure projects investable? Credible revenues, clear construction and operating responsibilities, and financing tested against delays, higher costs and weaker demand help establish robust commercial foundations.
- How can different sources of capital support delivery? Bank lending, institutional investment, capital markets and targeted public support can play complementary roles across construction and operation.
- Why should resilience be built into infrastructure investment? Infrastructure must withstand extreme weather, operational disruption and technological change. Whole-life assessment, maintenance budgets and appropriate reserves help account for risks beyond initial construction costs.

- What infrastructure does the energy transition require? Renewable generation needs supporting networks, storage, transport and industrial infrastructure. Investment across these connected systems is necessary, while emerging technologies and changing regulation create uncertainty over demand and revenues.

Infrastructure can unlock growth, strengthen resilience and connect businesses with opportunity. In 2027, the challenge will be turning ambition into projects that attract capital, manage risk and deliver lasting value.

Infrastructure underpins our economic future. Energy networks power businesses, transport connects markets, digital infrastructure enables innovation, and housing supports communities. These systems work together: weaknesses in one can constrain the performance of the others.

The UK's investment ambition is substantial. n June 2025, the government backed its 10-year infrastructure strategy with at least £725bn of government funding over the coming decade. That commitment signals the scale of the opportunity, but funding announcements alone do not deliver functioning assets.

As we look towards 2027, we believe the focus will sharpen on execution. Success will depend on credible commercial models, balanced risk allocation and financing that can support projects through construction and decades of operation. So what will it take to deliver?



Global electricity demand from data centres is projected to reach around 945 terawatt-hours by 2030 – **more than double current levels.**

Think in connected systems

A data centre needs reliable power, connectivity and cooling. New housing requires utilities and links to employment. Electrified transport depends on generating capacity and capable networks. Renewable energy needs transmission, storage and customers.

Digital infrastructure makes these dependencies particularly clear. In its 2025 Energy and AI report, the International Energy Agency projected that global electricity demand from data centres would more than double to around 945 terawatt-hours by 2030. This is a forecast, not a guaranteed outcome, but it illustrates why digital growth and energy planning cannot be separated.

Developers and lenders therefore need to examine the infrastructure around an asset, not simply the asset itself. Securing land or customer demand is insufficient if essential grid connections, water supplies or related permissions remain unresolved.

In 2027, addressing these dependencies early could help distinguish deliverable projects from attractive proposals.

Make projects investable

Infrastructure typically involves substantial upfront costs, long construction periods and revenues stretching over many years. Planning, regulation, supply chains and future demand can all affect financing.

No capital structure can remove uncertainty. It can, however, allocate risks to those best placed to manage them. Sponsors need clarity on construction responsibilities, revenue arrangements, operating costs and refinancing assumptions.

Preparation matters. Engaging financing partners early allows developers to test different funding routes and identify weaknesses before contracts and timetables become difficult to change.

Business models should also withstand credible downside scenarios, including delays, higher costs or weaker demand. The objective is not to maximise debt immediately, but to establish financing that remains appropriate as the project develops.

Predictability in policy and regulation matters too. The government's infrastructure strategy explicitly identifies long-term certainty and better coordination as important conditions for attracting investment.

Bring different sources of capital together

> **"No single funding source can meet every infrastructure requirement."**

No single funding source can meet every infrastructure requirement. Bank lending, institutional investment, capital markets and appropriately targeted public support can play complementary roles.

Banks can provide flexibility during construction and development. Institutional investors may be suited to longer-term funding once assets are operating and revenues are more established. Public support can help where wider economic benefits are difficult to capture through project revenues alone.

The opportunity is to design these funding stages together rather than treating each as a separate transaction. That means considering future investors, refinancing requirements and potential expansion from the outset.

Banks can contribute beyond lending, helping sponsors assess financing options, liquidity needs and exposure to interest rates or inflation. Any risk-management approach must reflect the project's specific characteristics, costs and obligations.

Collaboration should make financing more durable, not simply more complex.

Design resilience into the investment

Infrastructure must operate through economic cycles, technological change and increasingly demanding physical conditions. Resilience therefore belongs in initial design and financial planning, rather than being added after construction.

The Climate Change Committee's 2025 adaptation report warned that action was needed to prepare for current extreme weather and increasing future risks. For infrastructure investors, that reinforces the importance of examining physical exposure and the consequences of disruption.

Energy assets may require alternative supply, storage or flood protection. Transport must account for extreme weather and changing travel patterns. Digital infrastructure needs power continuity and cyber security.

These measures can raise initial costs, but focusing only on the cheapest construction option can leave vulnerabilities. Whole-life assessment offers a better basis for judging value.

Financing should reflect that perspective through appropriate maintenance budgets, reserves and liquidity arrangements. Reliable infrastructure supports the confidence businesses and communities need to invest.

Finance the wider energy transition

Renewable generation is only part of the transition. Networks, storage, transport and industrial infrastructure must develop alongside it.

The International Energy Agency's 2023 grids report estimated that meeting national climate and energy goals would require adding or replacing 80 million kilometres of power lines worldwide by 2040. The estimate is conditional on those goals, but underlines the scale of supporting investment required.

Commercial discipline remains essential. Emerging technologies and changing regulation create opportunities, alongside uncertainty over demand and revenues.

NatWest's infrastructure support spans digital and telecoms, transport, energy, utilities and housing. Its published figures report £2.7bn of lending for renewables and energy transition in 2025, alongside its position as the UK's number one infrastructure and project finance loan arranger and provider by volume and value.



80M KM
Of power lines will need to be added or replaced worldwide by 2040 to meet national climate and energy goals, according to the International Energy Agency.

And remember...

For sponsors, the priorities are straightforward: establish credible revenues, allocate risks clearly, address essential dependencies and preserve financing flexibility.

Infrastructure is measured in decades, not quarters. In 2027, disciplined preparation and patient capital will be critical to turning investment ambition into dependable assets and lasting economic opportunity.



Industry Comment

2027: preserving room to move



By James Tayler
Head of Large Corporate & Financial Institutions Group

For Finance Directors and Corporate Treasurers, resilience in 2027 will mean more than protecting the balance sheet. It will require the funding flexibility, financial visibility and investment discipline to keep moving as conditions change.

At a glance

- Resilience means more than protecting the balance sheet: businesses need funding flexibility, accessible liquidity and disciplined investment to respond to different economic and operating conditions while continuing to pursue growth.
- Competing investment demands: Growth, acquisitions, AI, infrastructure, energy resilience and supply-chain changes are competing for capital.
- Funding flexibility: Funding sources, maturities, currencies and structures affect a business's ability to respond to change.
- Liquidity and working capital: Cash has strategic value only when businesses can locate, access and deploy it.
- Interconnected risks: Geopolitical disruption can affect energy prices, supply chains, demand and currencies simultaneously.
- AI accountability and growth: AI and automation investments need demonstrable benefits, dependable data, appropriate controls and human judgement.

Uncertainty is not new to Finance Directors and Corporate Treasurers. What has changed is the number of forces moving at the same time. Geopolitical tensions are reshaping trade and investment. Businesses are reconsidering supply chains and energy security. Technology is creating new opportunities, but also new costs and risks.

Interest rates, inflation and currencies remain important variables, while demands for investment continue to grow.

Against that background, the central challenge for 2027 will not be predicting one outcome correctly. It will be ensuring that the business has sufficient flexibility to respond to several possible outcomes.

That means preserving room to move: in the balance sheet, in the funding plan, in liquidity and, increasingly, in the choices companies make about technology and infrastructure.

> **"The most successful funding strategy may therefore not be the one with the lowest initial coupon or margin. It may be the one that provides dependable access to capital while leaving the business best placed to respond to change."**

Capital will have more competing demands

Many large companies enter 2027 with substantial investment choices to make. They may be considering organic growth, acquisitions, digital transformation, AI, energy resilience, infrastructure, supply-chain changes and shareholder returns, often simultaneously.

For Finance Directors, the challenge will be to impose discipline without constraining ambition. Not every project carrying an AI, resilience or transition label will create value. Investment decisions will need clear commercial objectives, realistic assumptions and measurable outcomes.

The question is not simply whether a project is strategically attractive. It is whether it remains attractive under different assumptions for growth, inflation, energy prices, funding costs and foreign exchange.

The priorities will naturally vary by sector. Utilities and other infrastructure-intensive businesses face significant long-duration investment requirements. Industrial and transport companies need to balance technology, capacity and supply-chain resilience. Consumer-facing businesses must protect margins while responding to changing demand. Technology and communications companies are investing in connectivity, data and computing capacity. International businesses must make these decisions across multiple currencies and regulatory environments.

In each case, finance has an opportunity to connect strategy with risk, capital and performance.

Funding flexibility can be more valuable than the lowest initial cost

A more uncertain environment makes funding diversity increasingly important. Companies should consider not only how much funding they require, but its maturity, currency, structure and source.

Bank lending, public bonds, private markets and other forms of finance each have a role. The appropriate combination will depend on the company's objectives, business model, credit profile and investor base. For some issuers, sterling markets may provide access to a differentiated pool of investors. For others, international currencies or private formats may offer useful diversification.

These choices should not be made independently of interest-rate and currency risk. A funding instrument that appears attractive in isolation may look different once hedging, liquidity, accounting and operational considerations are included.

Timing matters too. Companies approaching refinancing decisions will need to weigh the potential benefit of waiting against the value of securing certainty. Preparing early does not necessarily mean transacting early. It creates choices, allowing a borrower to move when market conditions and business requirements align.

The most successful funding strategy may therefore not be the one with the lowest initial coupon or margin. It may be the one that provides dependable access to capital while leaving the business best placed to respond to change.

Liquidity is becoming strategic infrastructure

Liquidity has always mattered, but recent disruptions have widened the definition of effective liquidity management. Holding cash is only one part of the answer. Companies also need to know where cash is located, how quickly it can be accessed, where concentrations exist and how liquidity would behave under stress.

That visibility becomes especially important when operational resilience carries a financial cost. Businesses may hold more inventory, diversify suppliers, use alternative transport routes or invest in additional capacity. Those decisions can improve resilience, but they may consume working capital.

Finance Directors and Treasurers will therefore need to consider liquidity, working capital and supply-chain strategy together. The objective is not simply to maximise cash or minimise inventory. It is to establish the right balance between efficiency, resilience and cost.

Better data and forecasting can help, but technology cannot eliminate uncertainty. Forecasts should support a range of scenarios and provide timely indicators for action. Clear governance, including defined liquidity thresholds and contingency options, matters as much as precision.

Cash should ultimately provide confidence and optionality. If it is difficult to locate, transfer or deploy, its strategic value is reduced.



A single geopolitical event can simultaneously affect:

- Energy costs
- Shipping routes
- Supplier availability
- Customer demand
- Currencies

Risk management must reflect connected exposures

The risk landscape facing large corporates is increasingly interconnected. A geopolitical event can affect energy costs, shipping routes, supplier availability, customer demand and currencies at the same time. An acquisition can create funding, interest-rate and foreign-exchange exposures before it completes. Investment in one market can alter cash flows across several jurisdictions.

Risk management frameworks built around isolated exposures may therefore need to evolve. Treasurers should consider how risks interact and whether existing policies remain appropriate when market relationships change.

This does not require organisations to hedge every risk or attempt to forecast every political development. It means understanding the exposures that could materially affect cash flow, covenant capacity or the ability to deliver strategic plans.

Scenario analysis is particularly valuable here. Rather than relying on one central forecast, companies can examine the consequences of different combinations of rates, currencies, commodity prices and operating conditions. The purpose is not to predict the precise shock. It is to identify vulnerabilities, agree decision points and understand which actions remain available.

> **“The opportunity is not to remove people from critical decisions, but to give them better information and more time to focus on those decisions.”**

AI must become answerable to finance

Technology will remain high on corporate agendas in 2027, but the conversation is moving from experimentation towards accountability.

Finance leaders will increasingly be asked to assess where AI and automation can generate genuine value, how investment should be funded and what controls are required. That applies both to enterprise investment and to the finance function itself.

Within treasury, automation can potentially improve workflow efficiency, execution, data visibility and forecasting. However, responsible adoption requires dependable data, appropriate oversight and a clear understanding of operational and cyber risks.

The practical test is straightforward. Will the investment reduce risk, release cash, strengthen control, lower cost or support growth? If the expected outcome cannot be defined, it will be difficult to evaluate the return.

Human judgement will remain essential, particularly for decisions involving material financial or reputational consequences. The opportunity is not to remove people from critical decisions, but to give them better information and more time to focus on those decisions.

Resilience should support growth, not replace it

There is a risk that persistent uncertainty causes organisations to become permanently defensive. Resilience matters, but its purpose is to enable the company to pursue opportunities with confidence.

For some businesses, that may mean investing in energy, digital or physical infrastructure. For others, it may involve entering new markets, acquiring capabilities or redesigning supply chains. Transition and adaptation investment will increasingly form part of these broader capital plans rather than sitting in a separate category.

As 2027 approaches, every company will have different priorities. But five questions may help focus the discussion:

1. Where are the concentrations in our funding, liquidity and market access?
2. Which financing or hedging decisions would we regret leaving too late?
3. How much liquidity gives us resilience without unnecessarily constraining investment?
4. Which technology projects can demonstrate measurable value? And
5. Would our capital plan remain credible under a materially different scenario?

Finance Directors and Corporate Treasurers cannot remove uncertainty. They can, however, ensure their organisations are prepared for it. In 2027, that preparedness will be defined by the quality of the choices a business retains and its ability to act when those choices matter most.



Industry Comment

Will technology stop being the interesting bit?



By David Grunwald
Director, Open Innovation

In 2027, the technology story will be less about what innovation can do and more about what happens when businesses use it. Why does cost, trust and real-world consequences matter more than capability alone?

At a glance

- AI agents will move from answering questions to completing tasks, shifting attention to the cost of successful outcomes.
- AI assistants across apps and devices could become gatekeepers for how customers discover and choose businesses.
- Energy constraints and physical AI will bring new questions about operating costs, employment, liability and insurance.
- Greater autonomy will make trust, transparency and control essential, while quantum advances demand early security preparation.
- Healthspan and space infrastructure will broaden technology's impact; affordability, resilience and trust will shape adoption in 2027.

For years, the technology community's favourite question was: what can it do? In 2027, a tougher question will be asked: what happens when we actually use it?

That sounds like too subtle a distinction to matter. But for businesses the next phase of technology is increasingly about AI taking action, robots moving into the physical world, computing colliding with energy constraints and digital infrastructure extending from data centres to orbit. The common thread is not simply better technology, but technology becoming embedded in how economies and businesses operate.

So what can we expect in 2027?

90%+
Gartner expects the cost of running a large AI model to fall by more than 90% between 2025 and 2030.

The most immediate change is AI moving from conversation to action. An AI agent does not merely answer a question. It can plan towards a goal, use tools and carry out work. Businesses are already applying agents to activities ranging from customer service and payments to inventory management. A chatbot can provide an answer; an agent can potentially complete a job.

But that changes AI's economic proposition as autonomy comes with a bill. Gartner expects the cost of running a large model to fall by more than 90% between 2025 and 2030, yet agents may make repeated model calls, use multiple tools and retry tasks. Cheaper intelligence can therefore encourage much more consumption. The pertinent metric may become less "cost per token" and more "cost per successfully completed task".

And those agents will not necessarily reside in a laptop or desktop computer. AI assistants are spreading across applications and into glasses, earbuds, watches, cars and homes.

For businesses, that raises an intriguing dynamic. If your customer increasingly asks an assistant where to shop, what to buy or which service to use, the assistant becomes a new gatekeeper. The battle for the customer interface may come down to the customer's hardware.

The physical world bites back

There is, however, something stubbornly analogue underneath this rush to intelligence: electricity.

The International Energy Agency estimates that electricity consumption from data centres will double from 2025 levels by 2030. Greater chip efficiency will help, but more AI use and more complex autonomous tasks pull the other way. Energy availability could increasingly determine where AI infrastructure is built and what it costs to operate.

AI is also gaining a body. Humanoid robots remain largely at the pilot stage, but autonomous vehicles and commercial driverless trucks demonstrate how software intelligence is migrating into machines. The important development may be "physical AI", including world models designed to represent how space, objects and physics behave so that robots can better interact with and behave in the real world. If costs thereupon fall far enough for robots to scale, questions for business about employment, liability and insurance rapidly cease to be theoretical.

Trust becomes infrastructure

Greater autonomy makes trust more valuable, not less.

A 2026 EY survey found that 74% of UK adults had used AI during the previous six months, yet only 14% were comfortable with a fully autonomous agent. Separately, Menlo Ventures found accuracy, trustworthiness and privacy were important considerations when consumers chose an AI tool.

That gap between using AI and trusting it to decide may prove one of 2027's defining tensions. Convenience is attractive until software is spending money, using personal information or making consequential choices. Businesses therefore face a two-sided challenge: exploiting greater autonomy while giving customers sufficient transparency, control and confidence to accept it. They will also ask similar trust questions when putting into their own systems and operations.

Meanwhile, another technology is creating a deadline before it creates a mass market. Quantum computers remain under development, but IBM, Microsoft and Google have all identified dates before the end of this decade for moving towards post-quantum cryptography. The point is not that today's RSA encryption will suddenly expire in 2030. Rather, the change in cryptographic infrastructure will take time, empowering the tools of hackers and the IT security industry simultaneously. Organisations cannot sensibly wait for a sharp quantum breakthrough before having to adapt.

74% vs 14%

74% of UK adults had used AI in the previous six months, yet only 14% were comfortable with a fully autonomous AI agent.

Technology gets everywhere

Two further trends demonstrate how much wider the technology story is becoming.

AI, wearables, robotics and advanced computing are converging around healthspan, the ambition to help people remain healthy for longer. The consequences extend beyond healthcare. Longer healthy lives could affect careers, retirement, insurance and the assumptions embedded in products designed around today's ageing patterns. This creates policy and business questions as well as medical ones.

And above our heads, space is becoming infrastructure. More than 18,000 payloads were estimated to be in orbit in October 2026, including inactive ones, while Crunchbase recorded $20.3 billion of global seed-to-growth funding for space and satellite-related businesses between January and August 2026. What was a transcendent, transnational technology will become a geopolitical risk.

The important question for 2027, then, is not which technology wins some imaginary innovation beauty contest. It is where capability crosses into consequence.

That means watching the less glamorous things: economics, energy, regulation, resilience and public trust. Technology rarely changes the world simply because it works. It changes the world when it becomes useful enough, affordable enough and trusted enough to become ordinary.

In 2027, the most significant technology might be the technology we stop noticing.



Industry Comment

The Year Ahead for regulation, market structure and technology



Phil Lloyd
Development Director, Markets



John Stevenson-Hamilton
Asset & Wealth Coverage



Lee Chapman
Market Operations Oversight

From faster settlement and new capital rules to tokenisation and AI, 2027 will bring changes that could reshape how capital moves through global markets.

At a glance

- **Markets get faster:** T+1, clearing reform and new capital rules will reshape liquidity, funding and collateral management.
- **Digital becomes practical:** tokenisation, digital assets and AI move closer to day-to-day institutional use.
- **Market structures evolve:** longer operating hours and regulatory divergence change how global firms access and navigate financial markets.

After years of designing the future of financial markets, 2027 looks set to be a year of delivery.

Faster securities settlement, clearing reforms and longer payment-system hours will reshape trading, funding and liquidity. Digital assets move closer to the mainstream, while AI enters trading workflows.

For CIB clients, the question shifts from what regulation is coming to how it affects liquidity, funding, execution and market access.

> **“New UK Basel 3.1 rules take effect, changing how banks calculate capital requirements against different risks, with the transition period running until January 2030.”**

1

Faster markets, new capital rules and changing liquidity

T+1 makes markets move faster.

On 11 October 2027, UK and EU securities markets are due to move to T+1 settlement: normally one business day after trading rather than two.

Investors could have less time to secure cash, execute FX, arrange securities lending and resolve discrepancies. Automation should help firms manage the shorter window.

For businesses: treasury, FX and investment workflows need closer integration, earlier funding decisions and faster exception handling.

Government-bond clearing reforms gather pace

Central clearing places a central counterparty (CCP) between buyers and sellers to manage obligations and counterparty risk.

Mandatory clearing of eligible US Treasury cash transactions begins at the end of 2026, followed by repo on 30 June 2027. Repo, or repurchase agreement, is secured short-term borrowing used to finance securities and manage liquidity.

UK attention is also turning to gilt repo resilience: strengthening markets without unnecessarily reducing liquidity or concentrating risk.

For businesses: reforms could alter collateral requirements, clearing access and financing costs.

Non-bank liquidity providers receive greater scrutiny

The FCA is examining specialised trading firms’ capital framework, balancing their growing liquidity role with systemic safeguards.

For businesses: changes could influence spreads, market depth and execution, especially during volatility.

Basel 3.1 changes the economics of bank balance sheets

UK Basel 3.1 rules take effect on 1 January 2027, with transition ending on 1 January 2030. These rules determine banks’ capital requirements against different risks.

Trading changes continue in 2028 through the Fundamental Review of the Trading Book (FRTB) internal-model approach, changing capital calculations for trading risks.

For businesses: capital changes can affect financing, hedging and market-making availability and pricing.

CRD VI changes how some European banking services are delivered

From 11 January 2027, the EU's Capital Requirements Directive VI (CRD VI) affects certain services non-EU banks provide to EU clients. An authorised EU branch may be required unless an exemption applies.

For businesses: some cross-border banking arrangements may need review.



5 October 2027

The FCA's new UK cryptoasset regulatory regime is due to take effect, introducing broader rules covering digital asset trading, stablecoins, market integrity and safeguarding.

2

Digital markets move closer to the mainstream

Digital assets enter a fuller UK regulatory framework

The FCA's cryptoasset regime is due on 25 October 2027, covering trading, intermediation and stablecoins through broader conduct, market-integrity and safeguarding rules. The authorisation application window closes on 28 February 2027.

A stablecoin is a digital token designed to maintain a stable value against a currency or asset.

ISDA and other industry bodies are developing contractual and market standards, including potential stablecoin and tokenised-deposit use in settlement and collateral.

For businesses: clearer rules could support assessment of practical payment, collateral, settlement and financing applications.

Tokenisation begins to connect assets and money

Tokenisation represents asset ownership digitally on shared infrastructure.

The UK government's DIGIT programme, with first issuance due in Q1 2027, exemplifies the shift. Work on tokenised deposits, repo and collateral aims to enable trading, financing and settlement at scale.

The test is interoperability: whether platforms, banks, custodians and existing infrastructure can exchange assets and information effectively.

For clients: potential benefits include faster settlement and more efficient collateral management.

Digital collateral approaches practical use

The Bank of England is consulting on CCPs accepting tokenised eligible collateral, potentially speeding transfers to meet margin calls: demands for additional collateral as exposures change.

Collateral must remain reliably valued, transferable and convertible into cash during market stress.

For businesses: effective infrastructure could reduce friction in mobilising assets.

AI enters the trading workflow

AI increasingly supports security selection, liquidity assessment, counterparty choice and execution analysis. More responsive trading also demands stronger governance wherever AI influences client or market outcomes.

For businesses: the focus is improving decisions while keeping AI transparent, controlled and accountable.

01:30

From September 2027, the Bank of England plans to open CHAPS, the UK's high-value sterling payment system, at 01:30 — an early step towards potentially near-24-hour settlement.

3

A new market operating model takes shape

The first steps towards longer market hours

From September 2027, the Bank of England plans to open CHAPS, the UK's high-value sterling payment system, at 01:30: an early step towards potentially near-24-hour settlement.

Always-on markets also require FX, securities, liquidity management, technology and operational support to develop alongside settlement hours.

For clients: greater payment flexibility could change when cash and operational support are needed.

Regulatory divergence becomes a market factor

UK, EU and US approaches increasingly differ on clearing, reporting, digital assets and supervision.

These differences affect service provision, liquidity development and potentially where businesses raise or deploy capital.

What it means for businesses: navigating multiple regulatory regimes is increasingly becoming part of decisions about funding, investment and market access rather than a purely compliance-led exercise.

Prediction markets test the regulatory boundaries

Rapid international growth in prediction markets, where contracts pay out according to the outcome of an event, is creating new questions for regulators. The FCA is engaging with market operators while UK restrictions on retail binary options remain in place.

The unresolved issue is whether prediction markets develop into a useful source of market expectations and price discovery or remain predominantly speculative products, and where regulation should draw the line between financial-market activity and gambling.



Industry Comment

Resilience, liquidity and the next test for private markets

Private markets enter 2027 against an unusually complex backdrop. From inflation and long-term interest rates to AI implications and geopolitical risk, uncertainty remains elevated.



Nick Rodolakis
Head of Funds Coverage

At a glance

- **Liquidity moves centre stage:** Private markets enter 2027 with significant capital to deploy, but also mature assets to realise. Exits, distributions and DPI will become increasingly important in differentiating managers.
- **AI brings opportunity and volatility:** AI could deliver meaningful productivity and earnings gains, but elevated expectations leave little room for disappointment as investors wait for returns to justify the scale of investment.
- **Resilience will be tested:** Persistent inflation, higher financing costs and geopolitical uncertainty could widen the gap re: asset valuations and realisations, manager ability to drive return of capital, although resilient consumers, functioning capital markets and improving liquidity solutions provide reasons for optimism.

Perhaps the defining market theme carrying over from 2026 is the contrast between elevated macroeconomic and geopolitical uncertainty and the remarkable resilience of both financial markets and the real economy.

Concerns around fiscal sustainability, inflation and geopolitics have been joined by questions over the valuation, financing and industry-disrupting implications of artificial intelligence. Yet risk markets have remained broadly constructive and capital has continued to be available.

The question for 2027 is whether that resilience can continue as some of these risks become increasingly interconnected.

Three areas stand out. First is fiscal sustainability and its implications for long-term interest rates. Second is the extraordinary scale of investment being directed towards AI, how that investment is financed and, ultimately, whether it delivers the returns currently anticipated. Third is whether inflation remains sufficiently contained to allow monetary policy to normalise.

For private markets, however, there is another critical issue: liquidity.

The industry enters 2027 with substantial capital available to deploy, but also significant portfolios of mature assets that need to be realised. The ability to generate exits, distributions and DPI, or distributed paid-in capital, will increasingly influence fundraising and deployment. It will also continue to accelerate the differentiation between managers.

> **"None of this changes AI's longer-term potential. But the journey towards realising those benefits is unlikely to be linear."**

AI: transformative potential, but a difficult journey

There is little doubt about the substantial productivity benefits AI can bring. The greater concern from a markets perspective is that expectations have become exceptionally high regarding investment into and potential of the AI ecosystem. While at the same time, markets and investors are still attempting to weigh the implications of AI as it relates to specific sectors and business models which has created unprecedented volatility in valuations and capital flows.

Investors risk pricing parts of the AI ecosystem for near-perfect execution, including an assumption that current supply-and-demand imbalances can persist. That leaves limited room for disappointment.

Demand could prove more price-sensitive than expected. Supply could be disrupted by geopolitical conflict, shortages, planning constraints or insufficient energy infrastructure. Equally, higher interest rates or a reduced appetite among global investors to finance the build-out could create pressure.

None of this changes AI's longer-term potential. But the journey towards realising those benefits is unlikely to be linear. Periods of significant volatility and repricing should be expected as markets distinguish between companies that can turn AI investment into genuine productivity and earnings growth and those that cannot.

Inflation could widen the gap between winners and losers

Persistent or volatile inflation would be particularly significant for private markets because its effects are felt through both financing costs and valuations.

The most exposed businesses are likely to be highly leveraged companies with limited pricing power, especially where earnings depend heavily on discretionary consumer spending or other cyclical demand. Higher-for-longer interest rates

can reduce free cash flow and debt-service capacity while simultaneously placing pressure on valuation multiples.

Duration also matters. Private equity and infrastructure portfolios have already absorbed elevated financing costs for an extended period. Even fundamentally strong assets can therefore face lower equity returns, delayed exits or requirements for additional equity.

That does not necessarily imply widespread credit stress. Many sponsors retain significant liquidity and have multiple levers available to them. But it does mean greater dispersion between assets and managers. Performance, investor perceptions and the willingness and ability to provide further support could all become increasingly important in determining the winners and losers of 2027.

Geopolitical risk remains part of the equation

A prolonged or intensifying conflict in the Middle East could add another layer of complexity, most obviously through its implications for energy prices and inflation.

Industries dependent on predictable transportation networks or highly sensitive to energy prices would be particularly exposed to disruption in supply chains and higher input costs.

There is a more constructive side to this story. The disruption experienced in recent years is reinforcing a longer-term shift towards reshoring, diversification and greater supply-chain resilience. Businesses have become more accustomed to operating through periods of geopolitical uncertainty and, in many cases, better equipped to respond.

> **“Businesses have become more accustomed to operating through periods of geopolitical uncertainty and, in many cases, better equipped to respond.”**

That adaptability matters. We enter 2027 with several identifiable vulnerabilities, but that has been true to varying degrees throughout the period since 2020. Markets have generally remained capable of pricing risk and raising and allocating capital.

Reasons for optimism in 2027

There are also meaningful reasons to be positive.

Consumer resilience remains impressive and economies continue to outperform expectations on a global basis. AI should continue delivering more visible cost and productivity improvements supporting GDP growth, valuations and overall manager performance/outcomes. Global demand underpinned by reshoring, energy transition, AI investment and substantial infrastructure re-investment will support the need for meaningful private market investment and solutions across strategies. And investors continue to seek to deploy capital across private market strategies which provides another source of momentum.

At the same time, evolving solutions across capital markets and fund finance are giving private markets participants an increasingly broad toolkit with which to manage portfolios, liquidity and exit strategies. If portfolio companies continue to grow, valuations remain supportive and capital markets function effectively, the industry could make further progress on the distributions bottleneck that has constrained investors.

The upside scenario for the wider global economy is equally significant. Continued economic growth, credible action to contain inflation and more proactive policies to address fiscal deficits could strengthen confidence in sovereign bond markets and ultimately help drive interest rates lower.

AI will continue to become part of the solution rather than simply a source of market risk. Tangible productivity improvements will support corporate earnings while beginning to address the persistent weakness in productivity growth seen across many economies.

For private markets, 2027 is therefore unlikely to be defined simply by whether conditions are favourable or difficult. Rather, which businesses and managers can convert resilience into liquidity, productivity and realised returns?

“Rather, which businesses and managers can convert resilience into liquidity, productivity and realised returns?”



Industry Comment

Sustainability in 2027: follow the capital

Sustainability is moving from commitments to consequences. In 2027, the focus shifts to financial impact, resilient assets and where capital can generate real-world returns.



Dr Arthur Krebbers
Sustainable Finance Advisory

At a glance:

- Physical risk moves into financial modelling and valuation.
- Investors look beyond disclosure for evidence of transformation.
- Data-centre growth creates financing opportunities and sustainability tensions.
- Affordability, resilience and economic disruption revive the social agenda.
- Labelled bond issuance: forecasted to grow 5% to $1.2tn, driven by climate transition & adaptation capex.

Sustainability enters 2027 in a more pragmatic phase. For companies, banks and investors, the question is increasingly less about ESG commitments in isolation and more about their implications for risk, returns, financing and capital allocation.

That shift is visible across five areas: physical climate risk is becoming more financially measurable; investors are looking beyond disclosure to evidence of business transformation; data centres are attracting greater sustainability scrutiny; affordability and resilience are bringing social considerations back into focus; and sustainable finance is increasingly being judged by the assets and capex it enables.

Physical risk gets financial

Companies enter 2027 against a complex geopolitical, economic and climate backdrop. That is sharpening practical questions for boards and investors: what happens if water scarcity disrupts production, extreme weather affects a critical supplier, or infrastructure becomes more vulnerable?

The direction of travel is from identifying exposure towards quantifying financial impact. Companies and financial institutions are developing more granular analysis using geospatial and other data to understand where individual assets and supply-chain vulnerabilities intersect with physical risks. The investment community is already responding: 75% of fixed-income investors in the NatWest Markets Q3 2026 Investor Survey said physical risks influence their credit analysis.

75%
Of fixed-income investors said physical risks influence their credit analysis.

For CIB audiences, the next step matters most: translating those exposures into cashflows, financing requirements and valuation assumptions. That could increase the importance of adaptation and resilience investment while making asset location increasingly relevant to credit decisions.

Sustainability data grows up

ESG analysis has traditionally relied heavily on disclosure. In 2027, investors are likely to ask a harder question: is sustainability actually changing the business?

Only 21% of corporate sustainability initiatives involved organisational change or innovation, highlighting the potential gap between reported activity and substantive transformation. Meanwhile, adoption of frameworks such as ISSB, greater scrutiny of ESG ratings methodologies and improving data availability are creating scope for more forward-looking analysis.

For investors, the opportunity is to identify indicators that reveal changes to operating models, resilience, capex and ultimately financial performance.

Data centres enter the sustainability spotlight

The AI investment boom is creating enormous requirements for power, grids, cooling, water and other infrastructure. It is also creating a new sustainability debate.

Data centres are becoming increasingly important to debt markets, including sustainable finance. Around $19bn of green debt supported data-centre activity in 2026 as of 4 November, according to Bloomberg data. But greater financing needs are likely to bring closer investor scrutiny of energy consumption, water use and community impacts.

The investment question may therefore change. Rather than debating whether data centres are sustainable as a category, investors may increasingly differentiate between individual assets, technologies and locations.

The social agenda returns

Sustainability is also becoming more closely connected with the economic pressures facing households and communities. Housing and food affordability, access to essential services and employment security amid AI-driven disruption all have implications for companies' customers, employees and operating environments.

For markets, this could support demand for social financing while bringing social considerations more explicitly into credit narratives. European banks also face additional impetus through EBA guidance on managing ESG risks, which encompasses social and governance alongside environmental factors.

$1.2tn

Forecast global labelled bond issuance in 2027, up approximately 5%, marking a seventh consecutive year above $1tn.

Labelled finance: follow the capex

Sustainable debt remains a major global market. We expect labelled bond issuance to reach around $1.2tn in 2027, up approximately 5%, marking a seventh consecutive year above $1tn. More than $650bn of labelled bonds are expected to mature or become callable during the year, creating a sizeable refinancing opportunity. Green bonds should remain the anchor at around 60% of issuance.

For corporates, issuance increasingly follows investment. Utilities provide the clearest example, with more than $120bn of sustainable issuance forecast in 2027, supported by renewables, grids, storage and electrification. AI and data-centre expansion should broaden financing requirements across generation, grids, cooling and water infrastructure.

Financial institutions should remain another significant source of supply. We forecast $220-250bn of financial-sector sustainable issuance, with banks accounting for around 88%, supported by sustainable lending growth and refinancing needs.

European Green Bonds (EUGB)should also move towards broader adoption, although selectively. We forecast a further €50-60bn of EUGB issuance in 2027, taking cumulative issuance above €100bn. Institutions with sufficient EU Taxonomy-aligned assets and reporting capabilities should be best positioned to use the standard.

Meanwhile, transition finance could grow even if the label itself remains relatively small. Transition-bond issuance is forecast at $15-20bn, versus around $10bn in 2026E, while sustainability-linked bond issuance is expected to remain subdued at approximately $18bn.

The bigger story, however, sits beyond individual labels. Hard-to-abate sectors can finance transition through green and sustainability bonds, sustainable loans and conventional funding supported by credible transition plans. Increasingly, investors and lenders will focus on what capex is being financed, how it aligns with sector pathways and whether it supports a credible corporate strategy.



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