

Q1 Economic Update 2026



Overview

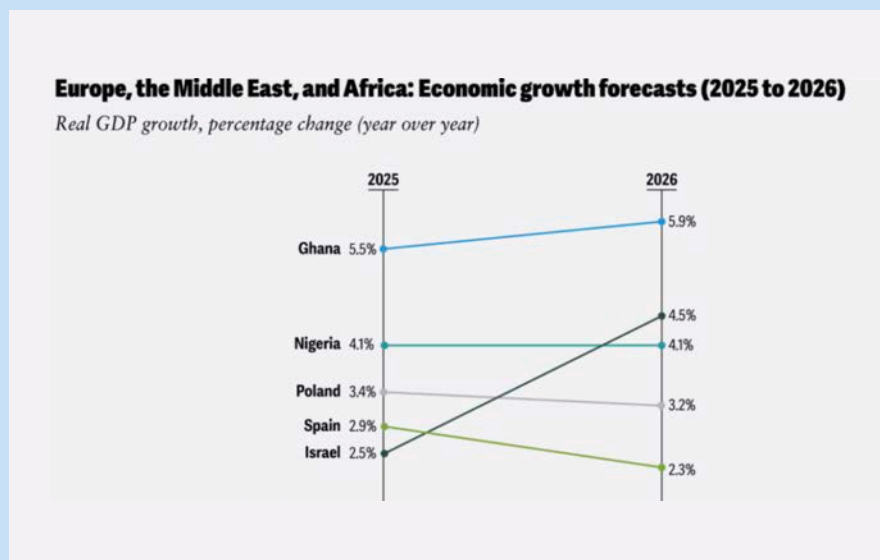
Global economic conditions in Q1 2026 were shaped by the collision of two opposing forces: a gradual improvement in the global macroeconomic backdrop, and a sharp deterioration in geopolitical stability following the outbreak of conflict in the Middle East in late February. Entering the quarter, inflationary pressures had continued to ease across most major economies, central banks were increasingly pivoting toward monetary accommodation, and sustained investment into AI infrastructure was supporting growth across developed markets.

That trajectory was disrupted by the US-Iran conflict, which drove energy prices sharply higher, revived inflation concerns, and injected renewed uncertainty into an already fragile global trade environment. Against this backdrop, this report examines the principal economic developments across Africa, the Americas, Europe, and Asia during Q1 2026.

Africa – Q4 Developments

Q1 2026 opened with African markets displaying a degree of resilience, but underlying vulnerabilities persisted in the region. Equity markets across the continent posted some of the strongest gains globally in dollar terms with Nigeria's NGX All Share Index (an index which tracks the performance of every company listed on Nigeria's stock exchange) rising over 35%, underpinned by improved foreign exchange liquidity, stronger investor participation, and the continued effects of sweeping policy reforms initiated in 2025, such as removing fuel subsidies and the liberalising of Nigeria's exchange rate. Zambia, Tanzania, and Zimbabwe also recorded meaningful equity market gains, reflecting firmer commodity price stabilisation, and recovering agricultural output.

The improved performance of equity markets were supported in part by greater currency stability across several economies. The Zambian kwacha was the standout performer, appreciating 13.3% against the dollar on the back of firm copper prices, while Nigeria's naira gained approximately 4.4%, reflecting improved FX inflows following the 2025 reforms. The picture was not uniform, however — Egypt, Ghana, and Tanzania all saw their currencies weaken against the dollar during the quarter, underlining the fragility of the broader recovery.



Ghana is expected to enjoy strong GDP growth across 2026. Source: Deloitte.

Despite various positive market signals, the inflation picture became increasingly mixed throughout Q1 across the continent. Countries including Ghana (3.2%), Ethiopia (9.4%), Mauritius (2.7%), and Zambia (7.1%) continued to post disinflation, though the pace of decline slowed considerably. In contrast, Q1 saw upward pressures building in several major African economies; Egypt's inflation climbed to 13.6% in Q1, driven by fuel cost pass-through and persistent currency weakness, while Nigeria's inflation — which had been declining for eleven consecutive months — is expected to face renewed pressure from rising food and energy prices. The broader regional inflation outlook is uncertain due to America and Israel's ongoing conflict with Iran which has pushed up global energy and commodity costs. Accordingly, the World Bank predicts inflation across Sub-Saharan Africa to rise to 4.8% in 2026 from 3.7% in 2025.

The long-term growth outlook for Africa remained broadly positive heading into 2026. The United Nations projects African output to grow at 4.0% in 2026, marginally above the 3.9% recorded in 2025, with East Africa forecast to lead at 5.8%, driven by Ethiopia, Kenya, and the expansion of renewable energy capacity across the region. Sub-Saharan Africa, however, faces more subdued growth, with the World Bank revising its growth projections downward by 0.3 percentage points relative to Q4 2025 estimates, citing the effects of the Middle East conflict, high debt-service burdens, and long-standing structural constraints such as low investment and weak productivity. The divergence between resource-rich and commodity-dependent economies on one hand, and those with more diversified economic bases on the other, remains the defining feature of Africa's uneven growth landscape.

Q1 2026 marked a continuation of easing being the dominant policy tool after the aggressive tightening cycles of 2023–2024. The Bank of Ghana cut its benchmark rate by a further 150 basis points to 14% — its fifth consecutive cut and the lowest since October 2021 — as inflation fell to 3.2% and the cedi stabilised. The Central Bank of Nigeria cut by 50 basis points in February to 26.5%, its first reduction of 2026 following a prolonged period of tightening that had pushed rates to multi-decade highs to stabilise the naira.

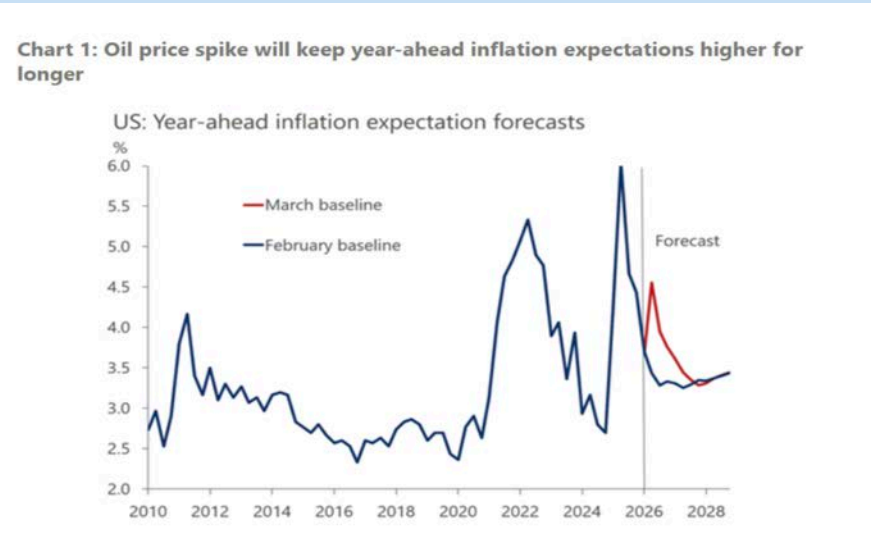
The South African Reserve Bank cut rates by 25 basis points to 6.75%, the lowest since October 2022. Kenya's central bank delivered its tenth consecutive cut in February, reducing its rate to 8.75%, before pausing in April — noting that the Middle East conflict had driven energy prices sharply higher, increasing risks to the global outlook. Across countries the FX picture was broadly one of stability: Kenya's usable reserves stood at \$12.5 billion as of January — equivalent to 5.4 months of import cover — nearly double the \$6.8 billion held in early 2024, a significant confidence signal for investors. The shared easing trend reflects genuine progress on inflation, though all four banks (Ghana, Nigeria, South Africa and Kenya) flagged the Middle East energy shock as a live upside risk to the path of further cuts.

Americas – Q1 2026 Developments

Inflation proved to be the headline economic story for the US in Q1. Core inflation registered 3.1% year-over-year as of January 2026, well above the Fed's 2% target, with goods inflation rising steadily as businesses began passing tariff costs on to consumers after drawing down pre-tariff inventory stockpiles accumulated in 2025. The effective tariff rate had risen from approximately 2% to an estimated 11.7% during 2025, and the pass-through to consumer prices — while initially slower than expected — accelerated into Q1, with core PCE reaching 3.1% year-on-year by January as pre-tariff inventory stockpiles ran dry. The IMF, in its April 2026 Article IV consultation, noted that the near-term inflationary impulse from tariffs would likely wane through 2027, but cautioned that rising energy prices linked to the Middle East conflict posed a fresh upside risk to the inflation outlook which is expected to be transient. However, the longer this conflict drags the greater potential for the inflationary pressures to persist, with the Fed having less latitude to cut rates in the short term given wider circumstances.

The Fed held rates at their current target range of 3.50–3.75% at both Q1 FOMC meetings, voting 11-1 in March to stay on hold — the sole dissenter preferring an immediate cut. The updated dot plot pointed to just one cut in 2026, with seven of nineteen participants projecting no cut at all this year, a materially more cautious signal than markets had priced heading into the quarter.

Before the Middle East conflict, futures markets had implied two cuts in 2026 with a chance of a third; by end-Q1 that had compressed to at most one, with timing pushed toward year-end. The FOMC was explicit that policy remains meeting-by-meeting and data-dependent, with some members openly discussing the possibility that rates could move higher even if inflation fails to moderate.



US inflation is expected to increase due to tariffs and rising energy costs. Source:

Investment in artificial intelligence infrastructure continued to be a powerful engine of domestic economic activity during the first quarter of 2026. Capital expenditure announcements across data centres, cloud computing, and clean energy reinforced America's position as the global hub for AI-related investment, with AI-driven spending identified as the primary driver of growth in the Congressional Budget Office's February 2026 economic outlook. However, analysts noted that non-AI businesses and lower-income households faced significant challenges from elevated borrowing costs, tariff-related price increases, and slowing wage growth, raising concerns about the distributional nature of the growth the US is experiencing and the potential downside risks associated with this period in the economic cycle. This marks a continuation and acceleration of a trend first visible in Q4 2025, when AI-related capital expenditure rose quarter-on-quarter while non-AI private sector investment contracted — suggesting the divergence between the two is not a one-quarter anomaly but a deepening structural shift in how American businesses are allocating capital, with implications for productivity distribution and the breadth of the recovery going forward.

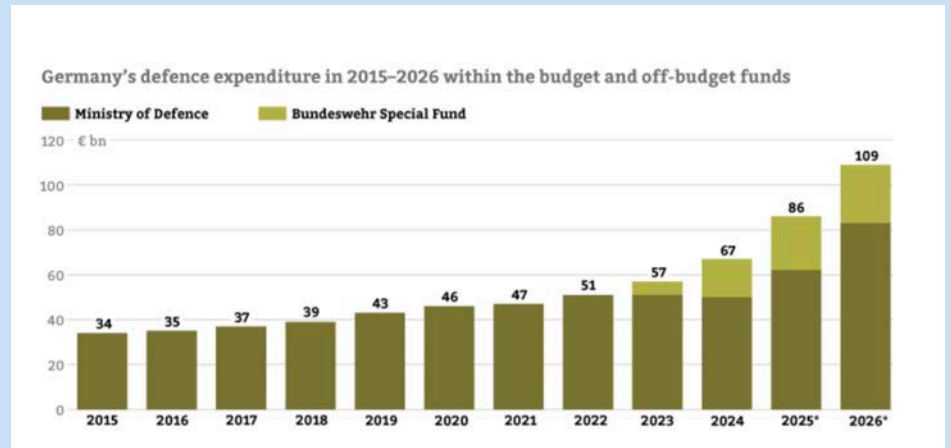
Canada, one of the primary targets of US tariff policy, grew 1.7% in 2025 — avoiding the recession many had predicted — with the Canada-US-Mexico Agreement (CUSMA) protecting approximately 85% of Canadian goods exports from US tariff measures. However, the damage was uneven: the Bank of Canada estimates US tariffs will leave GDP approximately 1.5% lower by the end of 2026 than it would otherwise have been, with business investment subdued and export growth constrained. Q1 2026 growth is projected to be a modest 1.4%, with exports remaining weak as US tariffs continue to weigh on demand for Canadian steel, aluminium, lumber, and autos. The CUSMA trade agreement is also due for review in mid-2026, adding a further layer of uncertainty to the outlook.

Elsewhere in the Americas, Latin America and the Caribbean entered 2026 facing persistent structural constraints, with regional GDP growth projected at around 2.1–2.3% — broadly flat relative to 2025. The most significant economic story in the region, however, was Argentina. When President Milei took office in December 2023, he inherited an economy with inflation above 200%, a gaping fiscal deficit, and a collapsing currency. His administration's shock therapy — mass subsidy removal, severe spending cuts, central bank independence, and sweeping deregulation — was drastic in the short term, driving poverty to 53% in the first half of 2024. By Q1 2026, the picture looks materially different: annual inflation has fallen from 211% to around 33%, the fiscal accounts have been brought back into balance, and the IMF has described the stabilisation programme as one of the most successful in recent memory. Growth is projected at 3–3.5% for 2026, among the strongest in the region. The risks are real — monthly inflation remains stuck near 3%, the peso is managed rather than freely floating, and Argentina faces over \$20 billion in debt repayments this year — but the direction of travel is unambiguous. Colombia and Chile, meanwhile, continued to navigate a more modest growth environment, with both economies constrained by weaker commodity revenues, subdued domestic demand, and cautious central bank stances in the face of lingering inflation.

Europe – Q1 2026 Developments

Europe entered Q1 2026 on a modestly improving economic trajectory, before the outbreak of hostilities in the Middle East in late February cast a shadow over the near-term outlook. Q4 2025 GDP growth in the Eurozone was recorded as 0.2% quarter-on-quarter, in line with ECB projections, supported by strengthening private consumption and government investment. Forward-looking indicators in early 2026 pointed to continued positive growth; the S&P Global euro area Purchasing Managers' Index (a monthly survey which assesses the economic outlook of purchasing managers) improved to 51.9 in February, with services-sector activity leading the expansion and the manufacturing PMI crossing back above 50 for the first time since 2022, ending an extended period of contraction. Consumer confidence as measured by the European Commission survey data recorded a one-year high heading into Q1, a significant improvement on the deeply pessimistic sentiment that pervaded throughout 2025.

However, the most significant economic phenomenon of Q1 was the shift in fiscal stance, most notably in Germany. Following two consecutive years of economic contraction, Germany's new government announced a significant increase in spending on defence and infrastructure, representing the most substantial fiscal loosening in decades. This was made possible by a constitutional amendment in March 2025 reforming the *Schuldenbremse* — Germany's debt brake — which had capped the federal deficit at 0.35% of GDP since 2009, and which was widely seen as having starved public investment for over a decade. Germany's spending plans nonetheless sit in tension with the EU's Stability and Growth Pact, with Brussels yet to formally confirm whether the full infrastructure fund can be deployed within existing rules. The ECB estimates that the cumulative growth impact of this German fiscal stimulus — expected to peak in 2026 — could add approximately 0.5 percentage points to euro area GDP growth. With the ECB's deposit rate held at 2.0% in March — broadly regarded as neutral — fiscal policy has effectively assumed the role of primary growth lever across the bloc, with Germany seen as the only major economy possessing sufficient fiscal freedom to engage in large-scale stimulus.



Germany's military spending will increase over 20% in 2026. Source: Germany Federal Ministry of Finance.

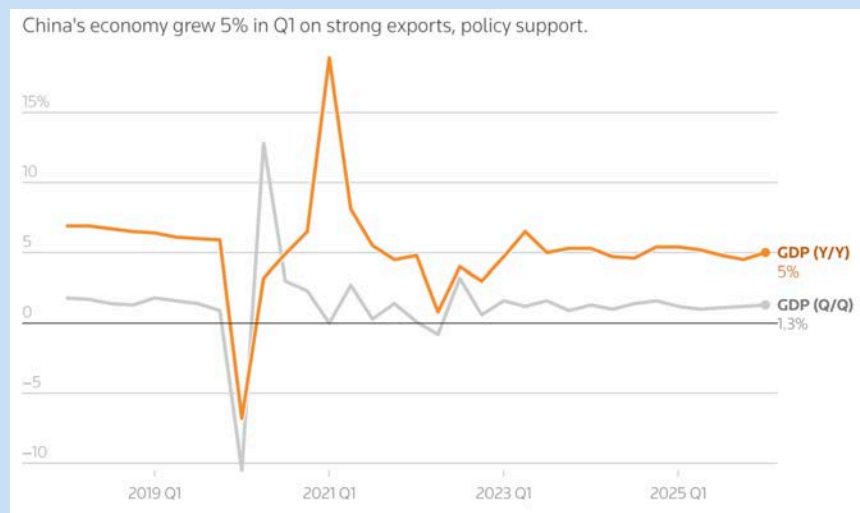
The inflation picture in the euro area evolved significantly during Q1. Annual HICP inflation (inflation which includes everything) in the euro area rose to 1.9% in February 2026, nearing the ECB's 2% medium-term target, before the ECB revised its 2026 inflation forecast sharply upward to 2.6% in March, driven primarily by the energy price shock associated with the Middle East conflict putting renewed pressure on the budgets of individual consumers and corporates across the economy. Core inflation (inflation which excludes food and energy prices) remained a concern, rising to 2.4% in February. While the ECB had been on course to maintain its pause in rate changes through the quarter, the escalation of geopolitical risks has complicated the political sentiment in Brussels, shifting the debate from potential accommodation (lowering interest rates to stimulate growth), to the risk of renewed supply-side inflationary pressures.

Asia – Q1 2026 Developments

Despite the US tariff shock, Asia outperformed expectations in 2025 and carried that resilience into Q1 2026. The ASEAN+3 region — comprising Southeast Asia, China, Japan, and South Korea — grew 4.3% in 2025, and the ASEAN+3 Macroeconomic Research Office (AMRO) reported that Q1 2026 actual growth across many of its member economies was stronger than anticipated, before the outbreak of the Middle East conflict introduced a dampened Asia's economic outlook. Asia imports more than 80% of the oil and gas that transits the Strait of Hormuz, making it disproportionately exposed to the energy shocks from the conflict.

Despite this challenge, AMRO held its regional growth forecast for 2026 steady at 4%, adding that without the conflict, the projection would almost certainly have been higher.

China recorded 5% GDP growth in Q1 2026, hitting the target band (4.5%–5%) outlined in the Chinese Communist Party's recent 5-year plan. Despite this growth, domestic confidence indicators remained subdued across Q1, weighed down by continued weakness in the property sector and the lingering effects of corporate cost-cutting and wage reduction in prior years. Policymakers continued to deploy targeted stimulus measures, including reserve requirement ratio cuts and support for housing market activity. However, analysts remain sceptical that these would be sufficient to reinvigorate consumer demand without a more comprehensive fiscal package. China's growing technological and manufacturing capabilities, particularly in electric vehicles, semiconductors, and AI infrastructure, remain a significant source of global competitive tension.



China's economy grew 5% in Q1 2026. Source: Reuters.

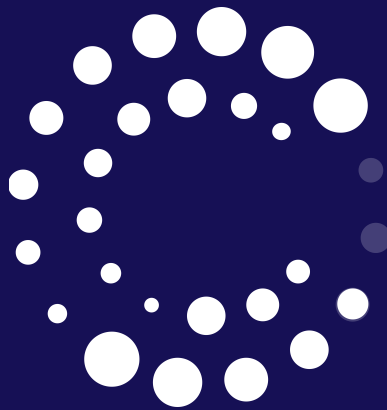
Japan's economy in Q1 was shaped by the continuing normalisation of its monetary policy framework. Having exited the era of negative interest rates, the Bank of Japan maintained its gradual tightening trajectory, supported by sustained wage growth — with Shunto negotiations (Japan's spring negotiation process) in 2026 expected to deliver wage growth broadly in line with 2025's approximately 5.5% outcome — and inflation broadly around the 2% target. GDP growth for Japan is projected to be approximately 0.9%–1.2% for 2026, reflecting the countervailing forces of fiscal stimulus packages and weakening external demand.

Japanese equities continued to benefit from corporate governance reforms and the country's critical role in global technology supply chains, though large fiscal stimulus packages are expected to provide additional support to domestic growth over the coming quarters.

India remained the standout major growth economy in Asia heading across Q1. The Asian Development Bank forecasts India's GDP to grow at approximately 6.9% in fiscal year 2026 due to robust domestic demand, business friendly monetary policy, and relatively lower US tariff exposure compared to other Asian exporters. Public investment in infrastructure and defence continued to be a significant growth driver, and the country's services sector — including technology and financial services exports — provided additional insulation from the global trade slowdown. India's equity markets, which had been one of the region's weaker performers in 2025, attracted renewed investor interest in Q1, supported by strong bond market fundamentals and anticipated rate cuts. Elsewhere in Southeast Asia, Vietnam and ASEAN economies continued to benefit from supply chain diversification away from China, with ASEAN forecasted to grow at 4.6% in 2026, and thus positioning as the key driver of regional expansion.

Closing Observations

Q1 2026 highlighted both the resilience and the fragility of the global economy. While easing inflation, improving financial conditions, and structural growth drivers — particularly AI investment, fiscal expansion, and supply chain diversification — continued to support activity across several regions, the outbreak of conflict in the Middle East materially altered the macroeconomic outlook. Rising energy prices complicated the path of monetary easing, reignited inflationary risks, and exposed persistent vulnerabilities within the global trading system. The quarter ultimately reinforced a defining feature of the current economic cycle: growth remains achievable, but increasingly contingent on geopolitical stability.



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