

# MOODY'S

# The Economic Outlook

## *Recession Risks Rising*

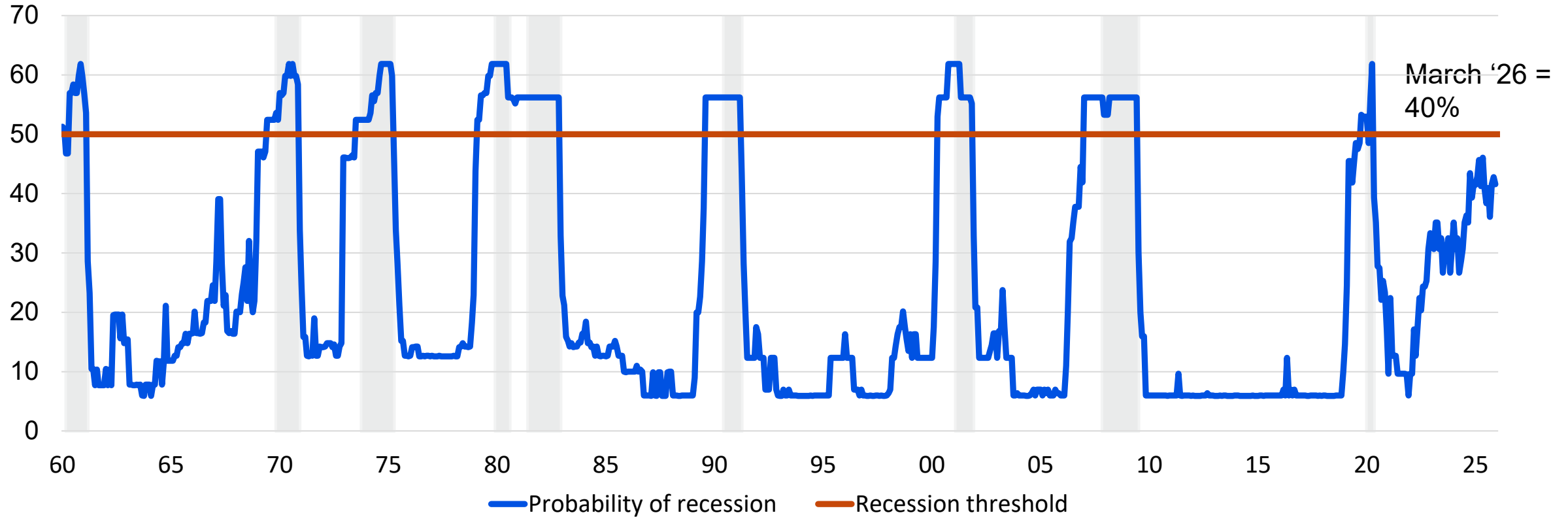
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Mark Zandi, Chief Economist

April 2026

# The Economy is Growing...But it is a Fragile Growth

Probability of recession in the next 12 months, %, based on a machine learning model



Source: Moody's Analytics

The background is a solid dark blue color. Overlaid on this are several layers of thin, light blue lines that form a complex, wavy, and somewhat chaotic pattern, resembling a stylized wave or a digital signal. A large, bold, white number '1' is positioned on the left side of the image.

**1**

**The Iran War Does Economic Damage**

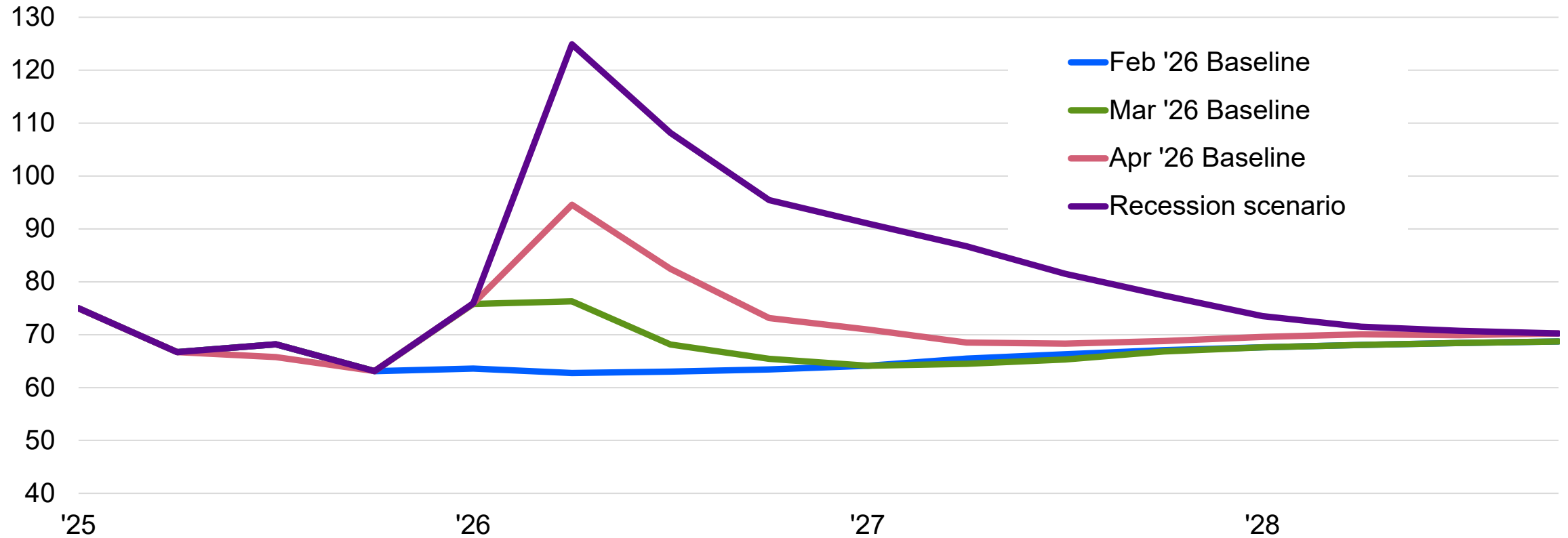
## The Iran War Does Economic Damage

	<b>Pre-War</b>	<b>Peak Impact</b>	<b>Latest</b>
WTI oil price, \$/ bbl	\$65.1	\$114.1	\$95.6
Gasoline, \$/ gal	\$2.98	\$4.18	\$4.14
Diesel, \$/ gal	\$3.81	\$5.64	\$5.57
S&P 500, index	6878	6369	6817
10-yr Treasury yield, %	3.97	4.43	4.32
30-yr mortgage rate, %	5.98	6.64	6.39
Gold, \$/ oz	\$5,247	\$4,490	\$4,771
Copper prices, \$/ oz	\$6.06	\$5.46	\$5.86
Trade weighted \$	117.8	121.3	120.7

Sources: AAA, Bloomberg, Freddie Mac, Yahoo Finance, Federal Reserve, Moody's Analytics

# Higher Oil Prices...

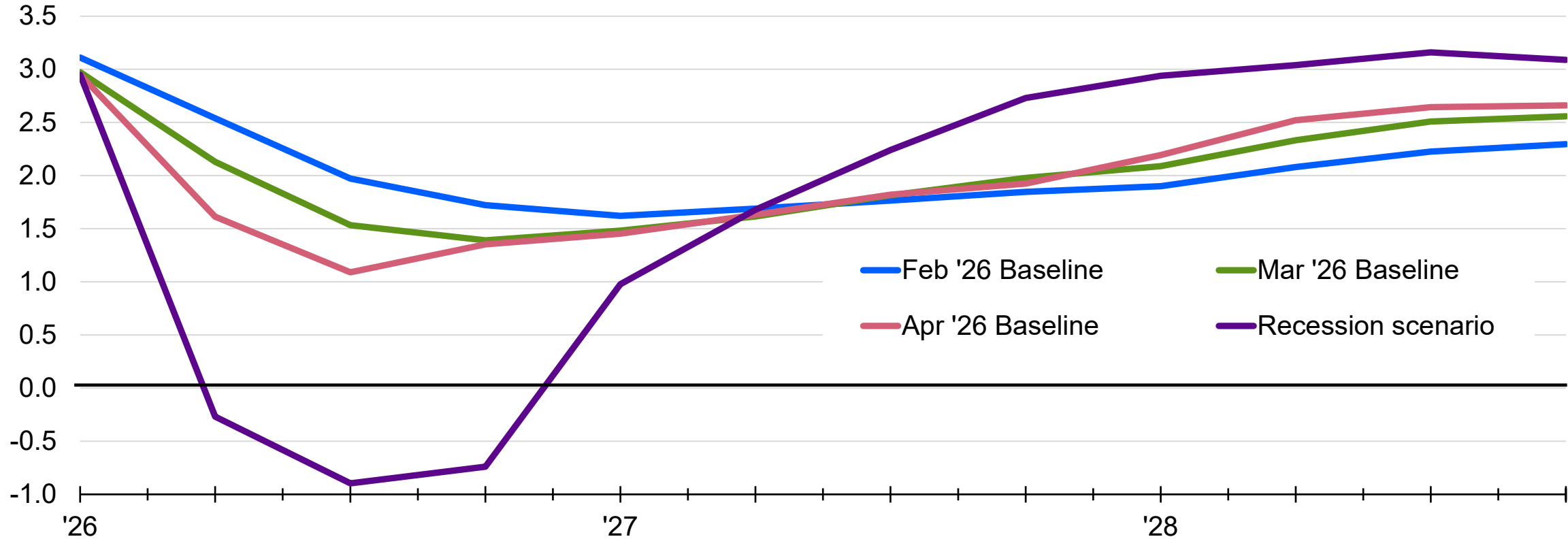
Brent crude, \$/bbl



Source: Moody's Analytics

# ...Weigh Heavily on the Economy

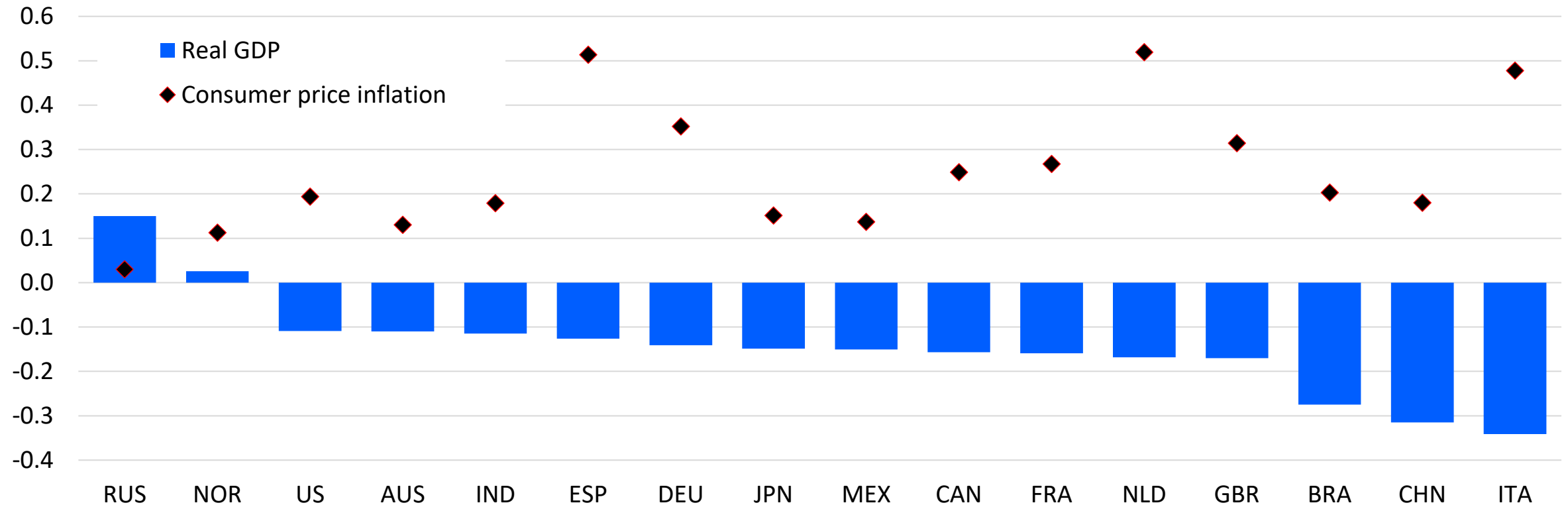
U.S. real GDP growth, annualized % chg



Source: Moody's Analytics

# U.S. Weathers Higher Oil Prices Better Than Most

Change in GDP and inflation due to a \$10 increase in oil prices over one year, ppts



Sources: National statistical agencies, Moody's Analytics

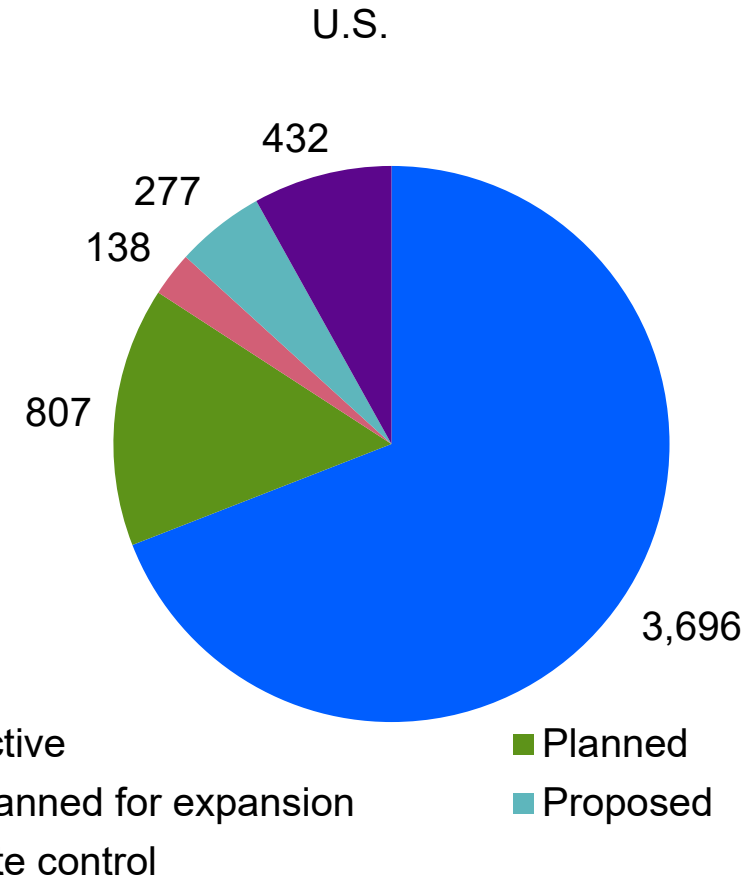
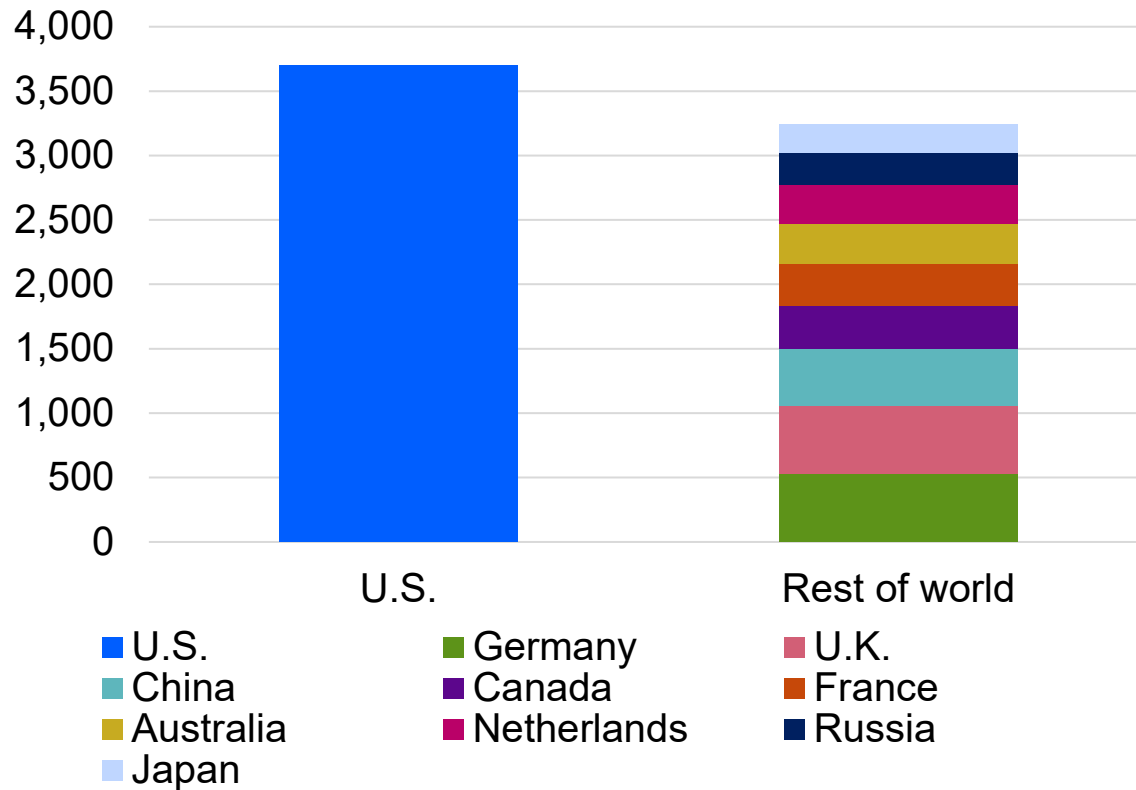
The background is a solid dark blue color. Overlaid on this are several layers of thin, white, wavy lines that create a sense of depth and movement, resembling a stylized wave or a digital mesh. A large, white, serif number '2' is positioned on the left side of the image.

2

**AI Cushions the Blow**

# Artificial Intelligence Powers Investment...

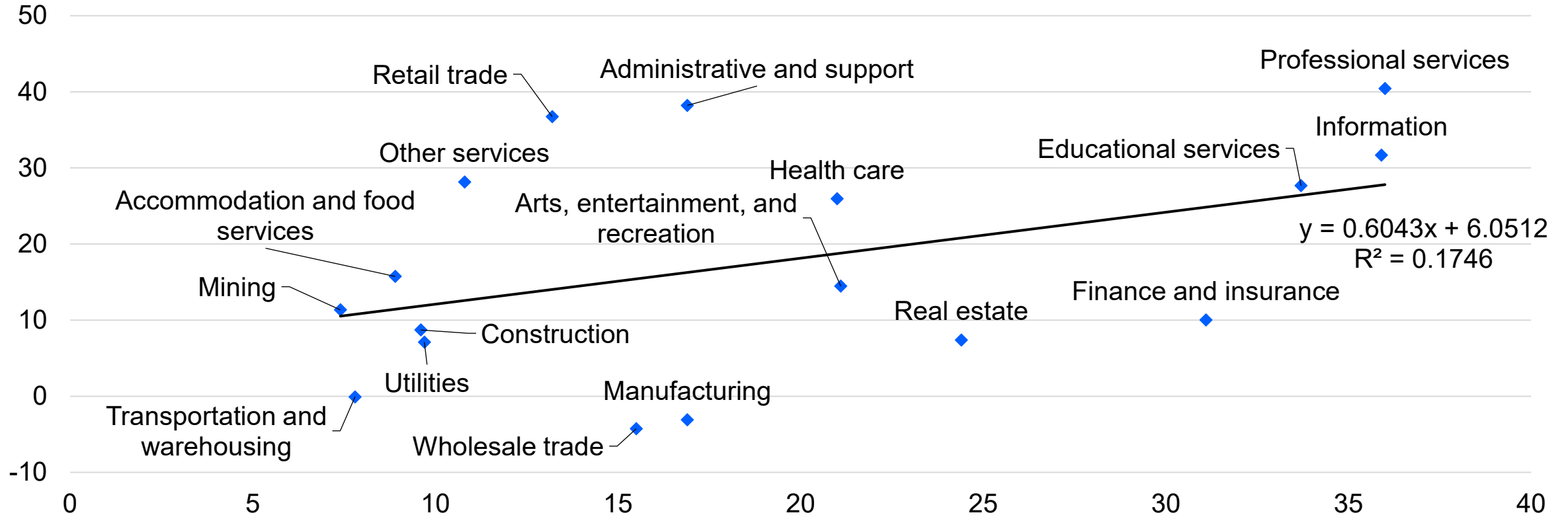
# of data centers, yr-end 2025



Sources: Cloudscene, Moody's Analytics

# ...New Business Formation...

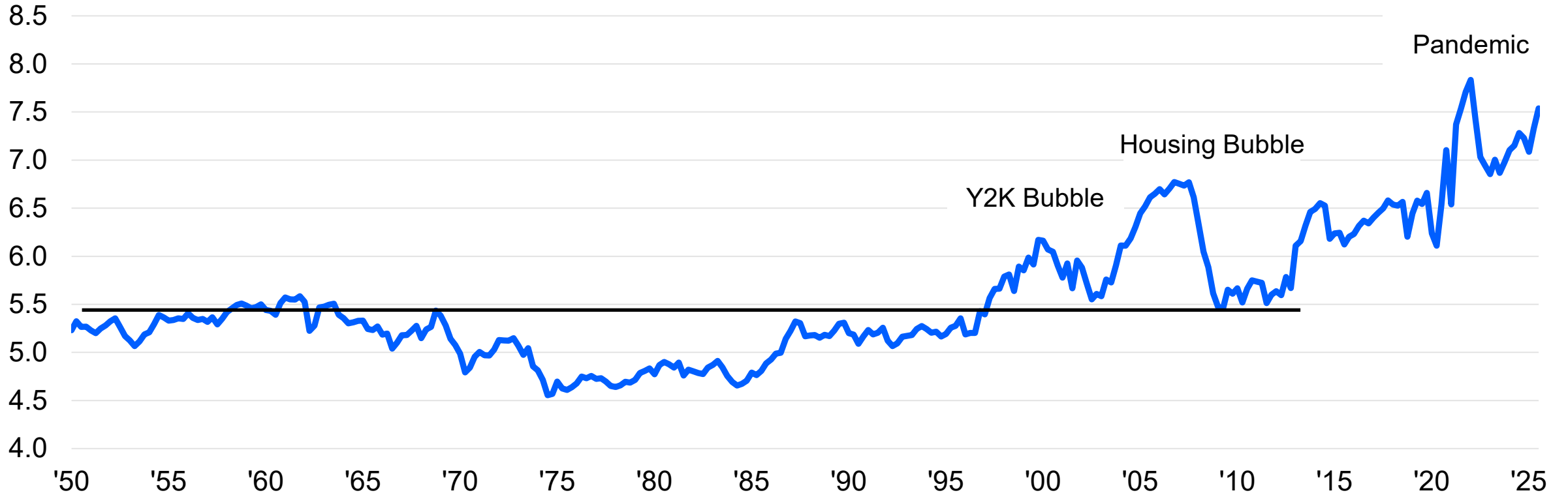
Y-axis: new business applications, % change from 2022Q2; x-axis: AI adoption rate, %



Sources: Census Bureau, Moody's Analytics

# ...and Household Wealth

Ratio of household net worth to disposable income



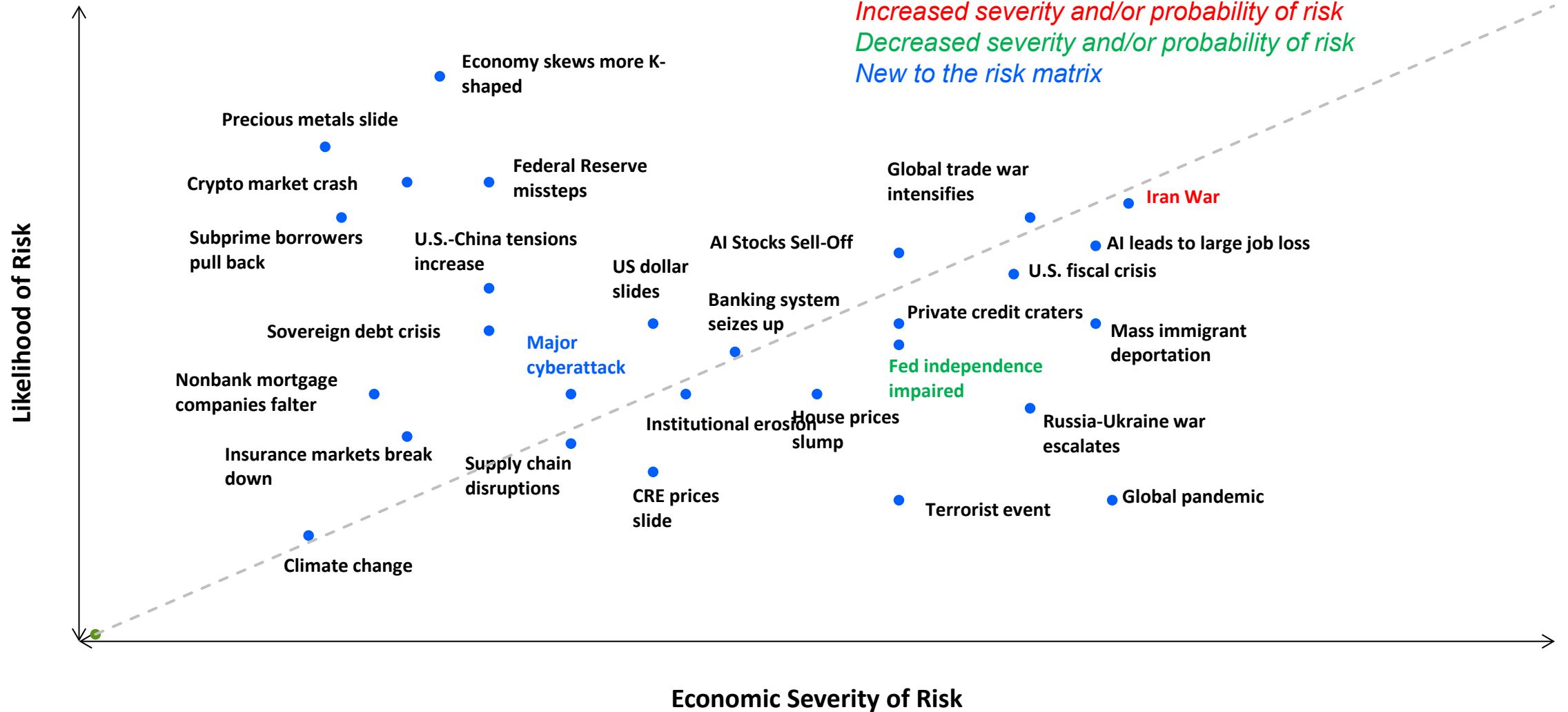
Sources: Federal Reserve, BEA, Census, Moody's Analytics

The background is a solid dark blue color. Overlaid on this are several layers of thin, light blue lines that create a complex, wavy, and somewhat chaotic pattern. These lines flow across the frame, creating a sense of movement and depth. On the left side, a large, white, serif number '3' is prominently displayed. Below the number, the text 'What Else Could Go Wrong' is written in a white, serif font.

3

**What Else Could Go Wrong**

# What Else Could Go Wrong



# Alternative AI Scenarios

## AI Falls Flat (25%)

- The AI equity market bubble bursts, sending stock prices down by ~25% from peak to trough.
- AI companies have difficulty raising new capital and managing their heavy debt loads. There are increasing defaults straining the financial system.
- A relatively short, shallow recession ensues, followed by a jobless recovery.
- Negative externalities from AI, along with government responses and increased regulations, impede long-term productivity gains.
- Productivity gains are much smaller and more diffuse than initial expectations.

## Job Market Upheaval (20%)

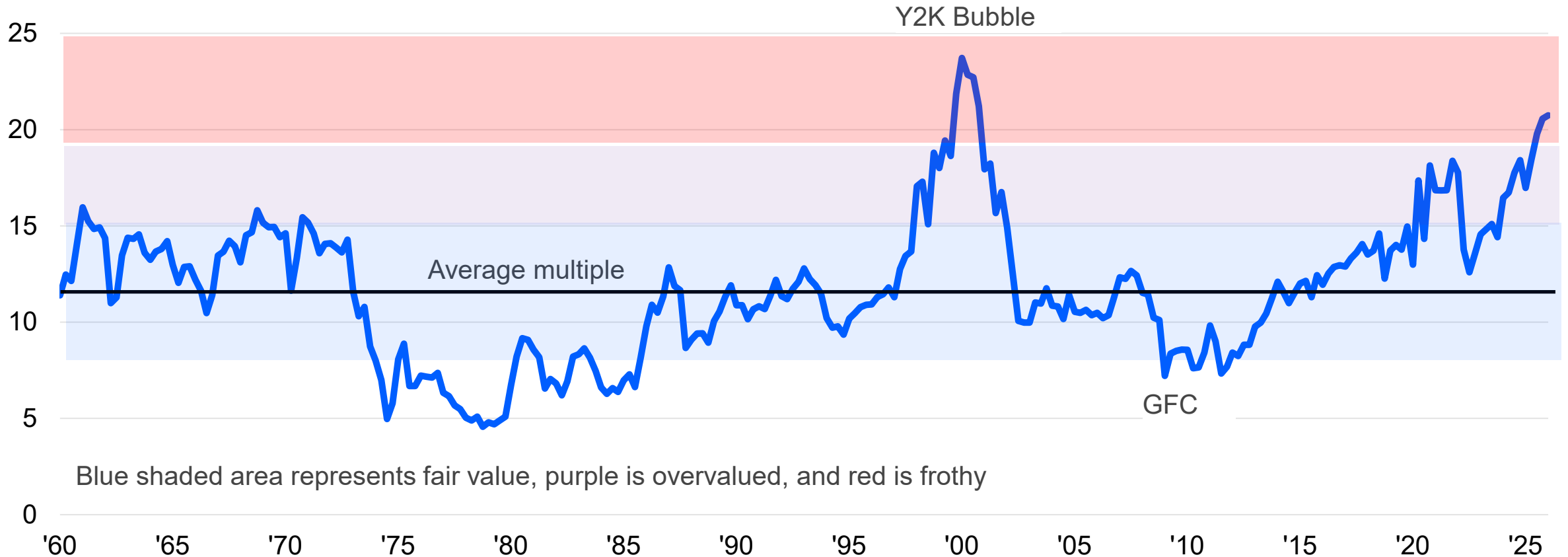
- AI is rapidly adopted and effectively implemented. AI capabilities improve quickly; there are no signs of diminishing returns to the technological improvements.
- Productivity gains from AI accelerate, justifying the high valuations for AI stock prices.
- The benefits of AI are not evenly distributed because AI companies leverage significant economies of scale.
- There are large job losses as productivity gains are realized immediately with little offset from new job formation.
- The economy suffers a recession.

## Productivity Boon (10%)

- AI is rapidly adopted and effectively implemented. AI capabilities quickly improve. There are profound impacts on productivity growth that are broadly beneficial to the economy.
- Any lost jobs due to the AI productivity gains are more than offset by new jobs created by the increased demand for other goods and services supported by the increased AI-generated income and wealth.
- The late 1990s internet boom is an apt, albeit imperfect, historical analogue. It was a period of rapid productivity gains and a strong job market.

# AI-Powered Stock Market is Overvalued (Frothy)...

Ratio of Wilshire 500 to NIPA after-tax corporate earnings, %

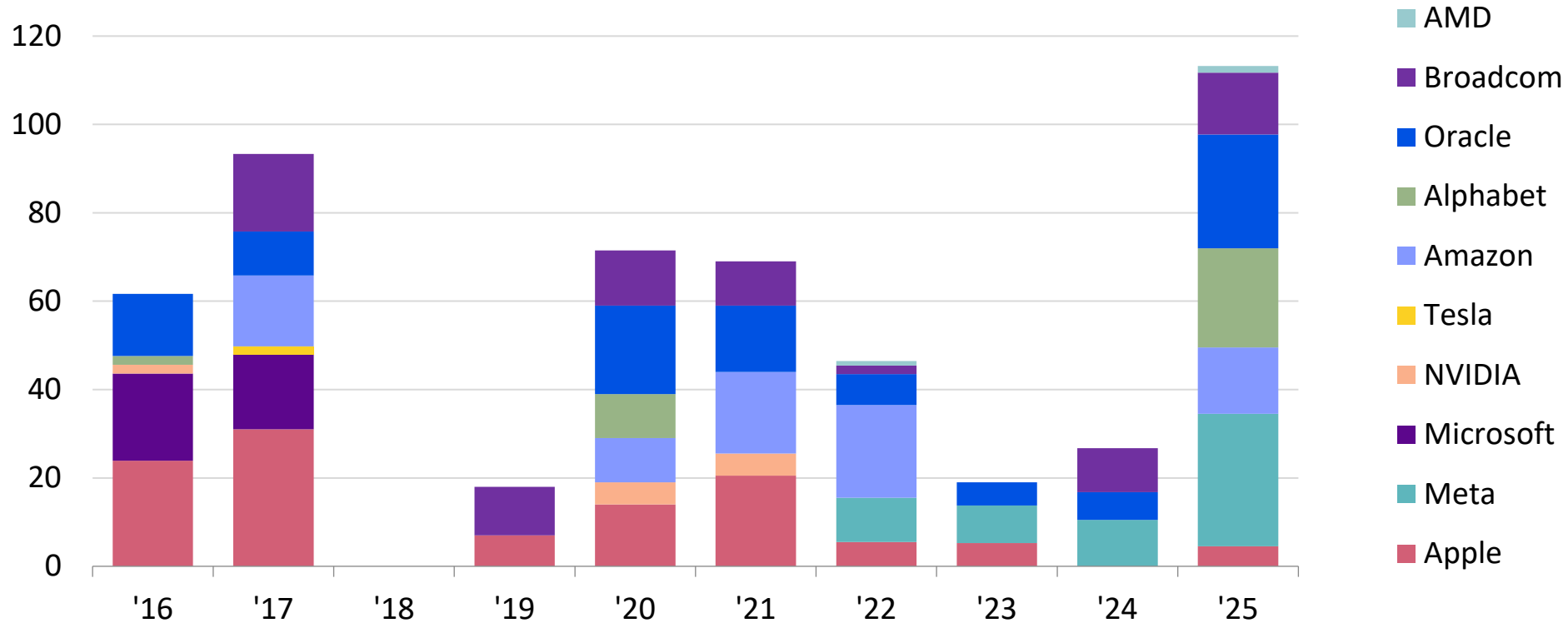


Blue shaded area represents fair value, purple is overvalued, and red is frothy

Sources: Bureau of Economic Analysis, FT, Moody's Analytics

# ...and AI Companies Have Ramped Up Their Borrowing

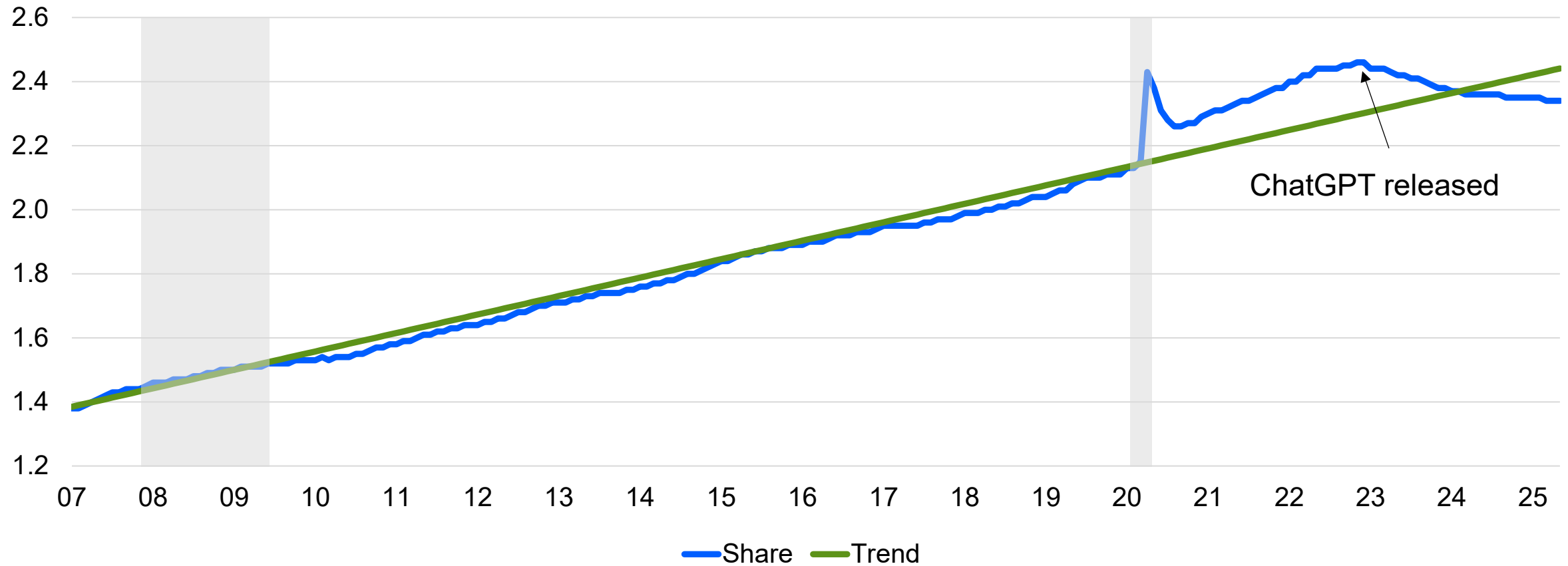
Bond issuance of top 10 technology companies, Billions \$



Source: Moody's

# Is AI Friend or Foe?

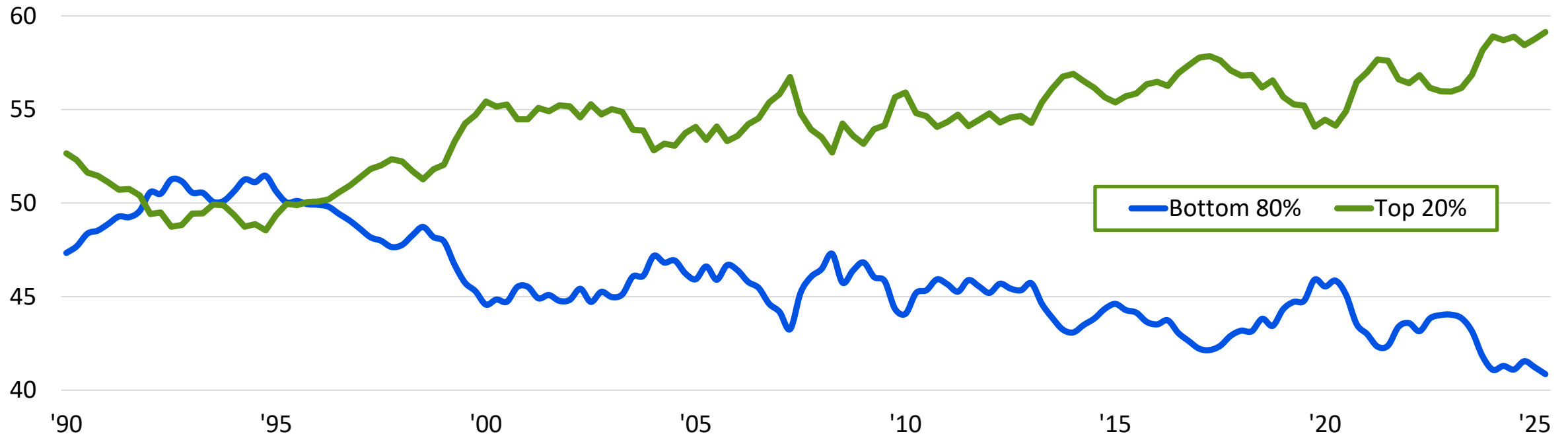
Technology share of nonfarm payroll employment, %



Sources: BLS, Moody's Analytics

# The Economy is Increasingly K-Shaped...

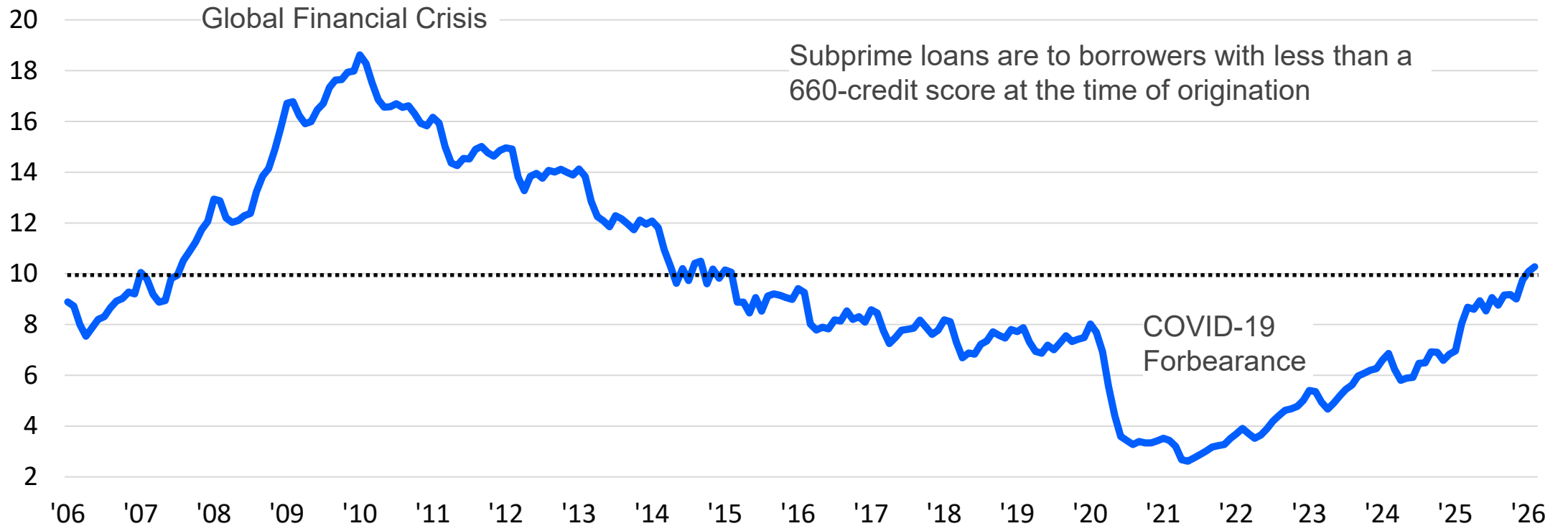
Share of personal outlays by income group, %



Sources: Federal Reserve, Moody's Analytic

# ...Causing Financial Stress

Subprime loan delinquency rate, % of \$ outstanding



Sources: Equifax, Moody's Analytics

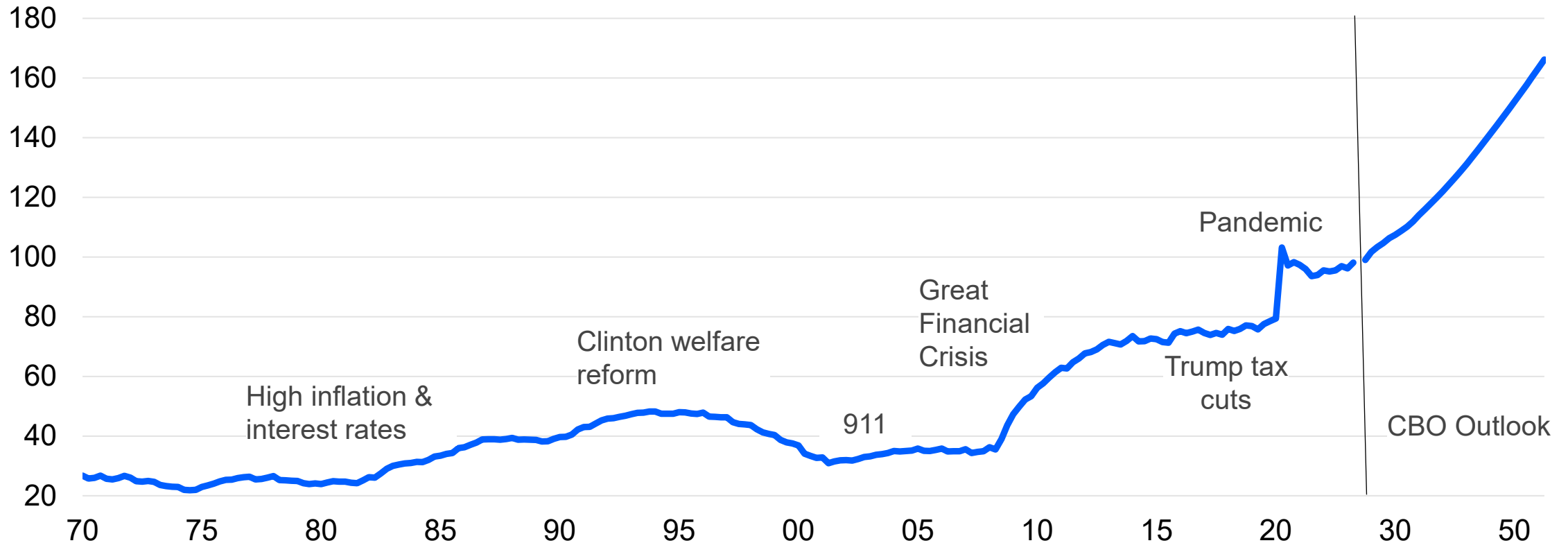
# The Treasury Bond Market is Fragile...

Factors that threaten a well-functioning Treasury bond market

- Primary dealer balance sheets haven't expanded with the surge in debt outstanding
- Federal Reserve independence is at risk
- Trade war threatens U.S. safe-haven status
- Fed exits the bond market via quantitative tightening
- Chinese & Japanese investors turn more circumspect
- Banks are skittish bondholders in the wake of the 2023 banking crisis
- Price-sensitive hedge funds become bigger players
- Government shutdowns and political dysfunction
- Large budget deficits with an issuance shift to short-term Treasuries

# ...As the Nation is on an Unsustainable Fiscal Trajectory

Ratio of U.S. federal debt held by the public and GDP, %



Sources: U.S. Treasury, BEA, Moody's Analytics

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## Thank you

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