What is the new equilibrium for growth, inflation and interest rates?



The technology build-out is evolving into a capital cycle. Growth is becoming increasingly capital-intensive as governments and businesses commit significant resources to defence, energy security, AI infrastructure and industrial resilience.

This new investment cycle has the potential to raise productive capacity and support future growth, but it can also create pressure on labour markets, supply chains and prices while that capacity is being built. The balance between these forces will shape growth, inflation and interest rates, defining the next macroeconomic equilibrium.

SANTANDER PRIVATE BANKING VIEW

Our central scenario is that the global economy is moving toward a new macroeconomic equilibrium, with moderate growth, more persistent inflation and higher real and nominal interest rates than in the previous two decades.

This shift reflects a more capital-intensive phase of the cycle. Governments are increasing investment in defence, energy security, infrastructure and strategic resilience, while the private sector is scaling investment in AI, data centres, power infrastructure and productive capacity.

As investment demand rises, growth should remain resilient but pressure on labour markets, supply chains and prices may persist during the transition.

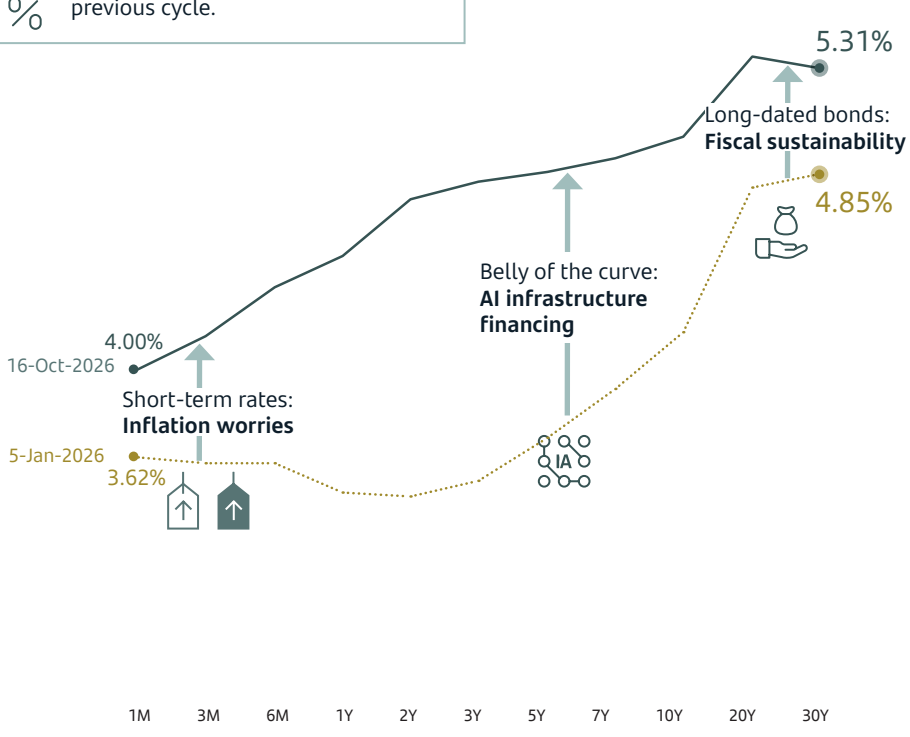
The defining question is whether productivity gains can offset these inflationary pressures.

Our central scenario is that productivity will increasingly support growth, but not enough to restore the exceptionally low interest-rate environment of the post-Global Financial Crisis era.

Financial markets are beginning to price this transition, reflecting a new equilibrium of growth, inflation and interest rates.

US Yield Curve: Interest Rates Reflect a More Capital-Intensive Economy

Interest rates are adjusting to a world where investment demand and bond issuance are rising faster than in the previous cycle.



Source: Bloomberg. Data as of 10/16/2026

FIVE SIGNALS TO WATCH

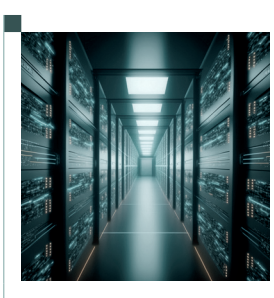


Corporate confidence

The investment cycle depends on whether companies remain willing to commit capital despite higher costs and uncertainty. Sustained confidence would show that businesses continue to see investment opportunities and are prepared to expand productive capacity.

INDICATORS

PMIs, CEO confidence surveys, capital-goods orders and business investment.

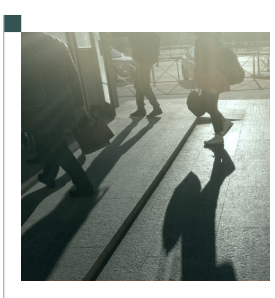


Infrastructure spending

Confidence must ultimately translate into sustained investment. Continued spending on AI infrastructure, power systems and productive assets would show that the expansion is maintaining growth and building future capacity.

INDICATORS

Construction spending, capital-goods orders, data-centre investment and public and private capital expenditure.



Labour market impact

The labour market will show whether investment is supporting activity without creating excessive capacity constraints. Stable employment and moderate wage pressures would support resilient growth and a more balanced expansion.

INDICATORS

Employment growth, job openings, wage growth, labour productivity and unit labour costs.



Inflation expectations

Inflation expectations will show whether markets believe additional capacity can offset investment-led demand pressures. Anchored expectations would support a more stable equilibrium for growth, inflation and interest rates.

INDICATORS

Market-based breakevens, consumer and business inflation expectations, core inflation and wage pressures.



Productivity

Productivity will show whether investment is generating more efficient output across the economy. Stronger productivity would support potential growth while helping contain inflation and ease pressure on resources.

INDICATORS

Labour productivity, output per hour, total factor productivity and efficiency gains among AI adopters.

THREE INVESTMENT CONCLUSIONS

01 Back the productivity leaders

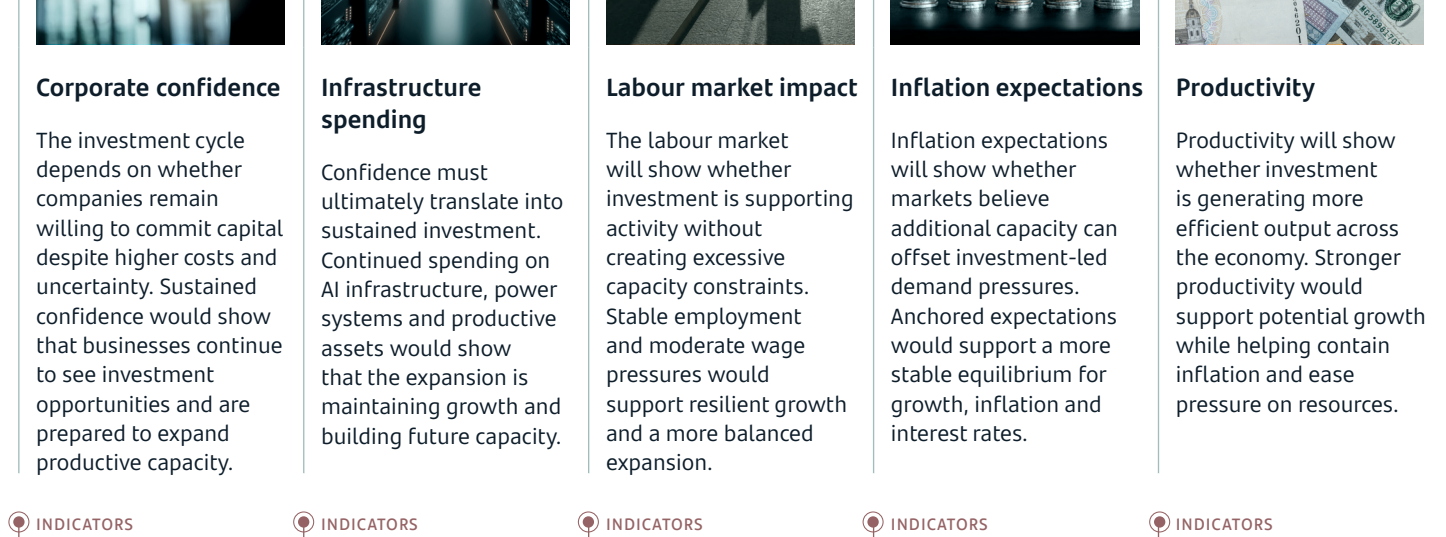
Higher investment will not translate into productivity gains equally across companies, sectors or economies. Investors should focus on businesses able to convert technology adoption into measurable efficiency, stronger output and long-term competitive advantages, rather than rewarding capital expenditure alone.

02 Manage duration with discipline

A structurally higher interest-rate equilibrium increases volatility across sovereign curves and maturities. Fixed-income allocations should capture the income available from higher yields while remaining disciplined on duration, rather than assuming a return to the exceptionally low-rate environment of the previous cycle.

03 Prefer quality in a capital-intensive cycle

Higher investment requirements and higher financing costs increase the value of strong balance sheets, resilient cash flows and disciplined capital allocation. Companies able to sustain productive investment while preserving financial flexibility should be better positioned as capital becomes more expensive and economic outcomes more selective.



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