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Think Strategically

The Rewiring of the Global Economy 2026 Outlook and Puerto Rico's Moment of Constraint

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How trade realignment, AI investment, fiscal pressure, and infrastructure stress reshape global growth

The global economy in 2026 is not defined by crisis, but by structural transition. Inflation is moderating, growth persists across major regions, and financial markets remain functional. Yet beneath this stability, the architecture of the global economy is being reshaped by geopolitical realignment, technological investment cycles, fiscal pressures, and infrastructure constraints. Understanding this new reality may be key to determining which investments make the most sense.
In our view, six structural themes define the current environment:

1. Trade fragmentation and tariff-driven industrial realignment
2. Artificial intelligence investment as the next productivity engine
3. Fiscal sustainability as a market pricing variable
4. Disinflation without a return to ultra-cheap capital
5. Multipolar global growth leadership
6. Energy reliability as Puerto Rico's binding growth with economic constraints

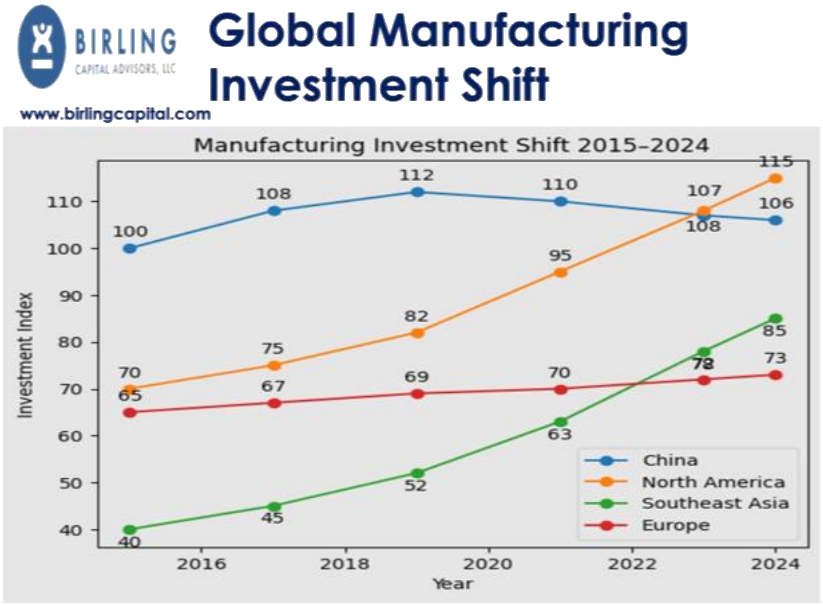
Together, these forces determine where capital flows, where production locates, and which economies capture long-term growth.

Trade Fragmentation and Industrial Realignment

The global production map is being reconfigured as economic strategy shifts from efficiency toward security and resilience. Government policy, tariffs, and capital-allocation decisions are driving a structural shift in supply chains across the region.
The global trading system is no longer organized primarily around efficiency. Since 2020, it has increasingly been structured around security, resilience, and strategic alignment. Pandemic disruptions, geopolitical tensions, and concerns over technology, healthcare, and energy supply chains forced governments and corporations to reassess the risks embedded in concentrated production networks.
What began as contingency planning has evolved into a structural redesign of global industrial geography. Where globalization once pursued the lowest marginal cost, the emerging framework prioritizes continuity of supply, domestic capacity, and allied production networks.

Industrial policy commitments in the United States—spanning semiconductor manufacturing, clean energy production, and defense capacity—now total more than one trillion dollars in long-term authorizations. Across advanced economies, foreign direct investment increasingly aligns with geopolitical considerations and supply-chain resilience rather than labor-cost optimization. Semiconductor, pharmaceutical, and energy supply chains are increasingly built with redundancy, reducing dependence on single-country concentration.

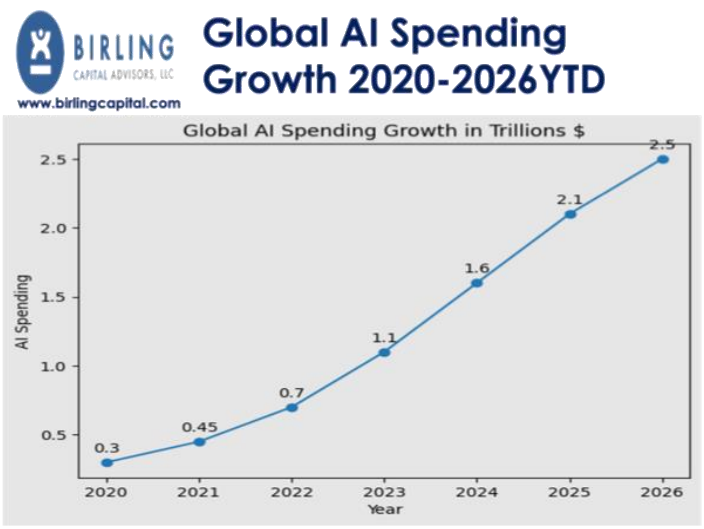
From the 1990s through the mid-2010s, globalization compressed production costs and contributed to persistent disinflation by concentrating manufacturing in highly efficient regions. Since 2020, resilience-oriented policies have raised capital intensity, encouraged duplication of facilities, and dispersed production geographically. This represents a structural shift rather than a cyclical adjustment.
Tariff expansions since 2025 have accelerated this transition by translating strategic objectives into immediate financial incentives. Higher import costs compress margins and increase supply-chain risk, forcing firms to reassess production locations. Tariffs now function less as temporary trade barriers and more as signals guiding long-term investment decisions. Companies increasingly optimize for geopolitical stability, tariff exposure mitigation, logistics reliability, and regulatory predictability rather than the lowest nominal cost.



Trade fragmentation reshapes economic geography through higher capital expenditure requirements, modestly higher marginal production costs, and the redistribution of manufacturing toward aligned regional clusters. These forces are generating structural investment waves in North American manufacturing corridors, Southeast Asian industrial hubs, and energy infrastructure tied to new production footprints. Once capital relocates, clustering effects tend to persist for decades.
The pharmaceutical sector illustrates this transition clearly. Production of active pharmaceutical ingredients became heavily concentrated in parts of Asia due to efficiency advantages. Recent policy initiatives and procurement incentives now encourage diversification, domestic manufacturing expansion, and growth within allied jurisdictions. Procurement frameworks increasingly favor secure supply chains, reinforcing relocation of critical production capacity.

Puerto Rico already hosts a significant pharmaceutical manufacturing base operating under U.S. jurisdiction and regulatory standards. The global shift toward resilient supply chains increases the island's potential attractiveness for incremental investment. If infrastructure reliability improves—particularly electricity stability—Puerto Rico could capture additional reshoring flows due to its U.S. legal framework, familiarity with FDA regulations, and specialized workforce. Yet this opportunity is conditional. Firms relocating production to reduce supply risk cannot accept new operational risks, and without reliable energy and infrastructure, capital will continue to favor mainland U.S. locations or other nearshore jurisdictions.

Artificial Intelligence Investment and the Productivity Cycle



Artificial intelligence has emerged as a central driver of the global economy's capital investment cycle. Spending on cloud infrastructure, advanced semiconductor capacity, data centers, and enterprise automation now rivals earlier transformative technology waves. AI contributes to output by augmenting labor, automating processes, optimizing logistics, and improving capital allocation decisions.

The expansion of AI investment has prompted comparisons to the late-1990s dot-com era. This comparison does not imply that AI lacks transformative potential. Rather, it reflects a recurring historical pattern: revolutionary technologies often produce genuine long-term productivity gains alongside short-term valuation excesses.

During the dot-com period, the internet ultimately reshaped the global economy, yet many early investments failed because capital deployment outpaced viable business models and monetization timelines. A similar dynamic is possible today. Infrastructure spending and enterprise adoption require significant upfront investment, while productivity gains typically emerge gradually as processes, workforce skills, and organizational structures adapt.

For this reason, 2026 represents a transition from expectation to monetization. Markets are increasingly differentiating between firms that translate AI investment into measurable revenue growth or productivity improvement and those whose spending remains largely experimental. Exposure to AI alone is no longer sufficient; execution, integration, and operating discipline determine performance.

Global spending on artificial intelligence is projected to exceed $2.5 trillion in 2026, with growth estimated at around 40–45% year over year. Much of this spending remains concentrated in foundational infrastructure such as data centers, computing capacity, and semiconductor supply. This scale places the AI cycle among the largest technology investment waves in modern history and reinforces the importance of evaluating whether capital deployment converts into durable productivity gains.

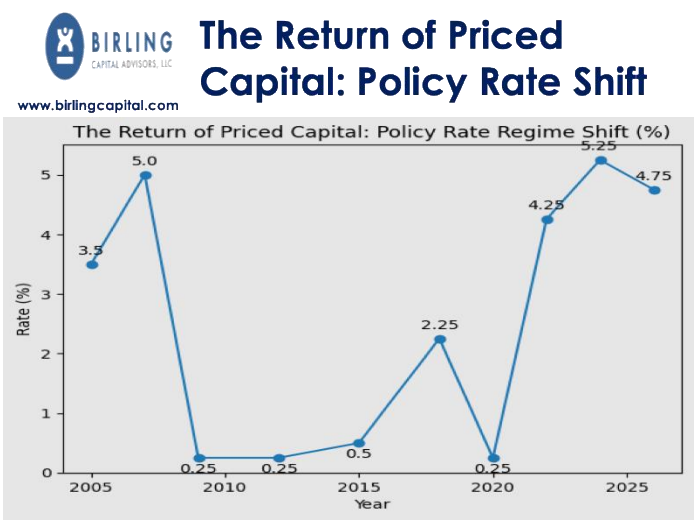
The principal risk is not technological failure but mispriced timelines—the possibility that markets anticipate productivity gains faster than real economies can absorb them.

AI adoption could strengthen Puerto Rico's competitiveness in manufacturing, healthcare, logistics, and services. Automation, predictive maintenance, analytics, and supply-chain optimization could materially improve productivity. Yet these benefits depend on reliable electricity, strong digital connectivity, and workforce alignment. Technology amplifies existing strengths or weaknesses; it does not substitute for them.

Fiscal Dominance and Sovereign Risk Pricing

Public debt levels across advanced economies remain historically elevated following years of fiscal expansion, pandemic stimulus, industrial policy spending, and demographic pressures. Debt sustainability has re-emerged as a central market variable. Sovereign borrowing costs are influenced not only by monetary policy but by the credibility of long-term fiscal trajectories.

Fiscal conditions affect bond yields, currency stability, investor risk premiums, and central bank flexibility. Markets no longer assume that public debt can expand indefinitely without consequence. Historical experience shows that once fiscal trajectories become uncertain, borrowing costs can adjust rapidly—even in advanced economies. Fiscal credibility is now priced in real time.



Puerto Rico is emerging from one of the largest municipal restructurings in modern U.S. history under PROMESA. The initial recovery phase focused on stabilization: restructuring debt, reducing annual debt-service burdens, restoring balanced budgets, and imposing fiscal oversight. That phase provided solvency; the next phase requires credibility.

Puerto Rico's trajectory now depends on durable access to public capital markets. Market access determines infrastructure financing costs, public corporation borrowing capacity, investor confidence, and flexibility for economic development. While restructuring reduced liabilities, Puerto Rico remains below investment grade. Returning to investment-grade status is a multi-year process tied to fiscal balance, economic growth, and institutional consistency.

Rating agencies evaluate structural fiscal balance, economic growth capacity, and governance credibility. Progress across these areas can lower borrowing costs, broaden investor participation, and restore deeper market access. Reliable infrastructure supports economic expansion, strengthening revenues and fiscal sustainability, and reinforcing perceptions of creditworthiness. Energy reliability and fiscal credibility are therefore interdependent.

Disinflation Without Cheap Money: Why the Post-Pandemic Economy Is Settling Into a Higher-Rate Regime

Inflation has fallen from pandemic-era peaks, but this does not imply a return to the ultra-low-rate environment of the 2010s. The global economy appears to be settling into moderate inflation with structurally higher borrowing costs.
U.S. inflation peaked above 9% in 2022 and has moderated toward the 2–3% range, yet policy rates remain well above pre-pandemic norms. Persistent fiscal deficits, energy-transition investment, supply-chain restructuring, and labor-market dynamics all contribute to a higher rate floor.
Higher structural rates reshape corporate finance, equity valuation, infrastructure feasibility, and public borrowing costs. The global economy is shifting from abundant liquidity to priced capital.
For Puerto Rico, this environment increases the importance of fiscal credibility and project execution. Infrastructure investments must deliver stronger returns; delays become more costly; and market access becomes more sensitive to credit perceptions. In a higher-rate world, capital remains available—but primarily for jurisdictions demonstrating operational credibility and sustainable performance.

Global Growth Dynamics: The Shift From a Single Growth Engine to a Distributed Global Economy

Global growth is becoming more geographically distributed. For decades, expansion relied heavily on U.S. consumption and China's export-driven industrial growth. Today, China is transitioning toward domestic consumption and higher-value manufacturing, while several emerging economies—particularly in South and Southeast Asia—are capturing larger shares of industrial production and investment.

Emerging markets now account for a majority of incremental global growth, while advanced economies expand at more moderate rates. Demographic divergence, industrial policy, technology diffusion, and energy-transition dynamics all reinforce this dispersion.
Investment increasingly follows relative competitiveness rather than global momentum. Puerto Rico's pharmaceutical and medical manufacturing base, combined with U.S. integration, positions it to benefit from redistributed production. However, the island must compete with mainland states, Mexico, and other manufacturing hubs. Investment will flow to jurisdictions demonstrating infrastructure reliability, execution capacity, regulatory predictability, and sector specialization.
Global growth is no longer centralized; opportunity follows competitiveness.

The Final Word: Puerto Rico's Binding Constraint: Energy Reliability and Cost Competitiveness

Electricity system performance remains Puerto Rico's most consequential economic variable. Energy instability imposes direct costs through backup generation and maintenance and indirect costs through downtime, productivity losses, and higher investor risk premiums.
Manufacturing requires uninterrupted power, healthcare systems face higher operating costs due to redundancy requirements, and tourism performance suffers when outages affect the visitor experience. Improved reliability would reduce risk premiums, enhance the attractiveness of reshoring, lower long-term costs, and increase productivity across sectors. Energy reliability is therefore not merely a utility issue but a macroeconomic growth determinant.

The economic architecture of 2026 reflects structural transformation. Trade realignment reshapes production geography. AI investment defines productivity potential. Fiscal sustainability influences financial conditions. Higher rates restore capital discipline. Growth is becoming more globally distributed.

Puerto Rico's economic stabilization is occurring alongside a notable divergence in official growth projections, underscoring the uncertainty that continues to surround the island's recovery path.

As shown in the comparison between the Planning Board and the Fiscal Oversight Board forecasts, expectations for 2025 differed sharply: the Planning Board projected growth of 1.2%, while the Fiscal Oversight Board anticipated a contraction of 0.8%. The actual outcome—modest expansion of roughly 0.4%—fell between the two, confirming that the economy had indeed turned positive but at a slower pace than optimistic scenarios suggested. This experience illustrates how turning points in Puerto Rico's cycle are particularly difficult to forecast, given the economy's sensitivity to external drivers such as federal reconstruction disbursements, migration flows, energy reliability, and global manufacturing conditions.

Looking ahead, the divergence narrows but the message remains cautious. For 2026 and 2027, both institutions now expect continued growth, yet at very modest levels. The Planning Board projects expansion of approximately 0.4% in 2026 and 0.3% in 2027, while the Fiscal Oversight Board anticipates near-stall-speed growth of about 0.1% in each year. This convergence suggests broad agreement that Puerto Rico has moved beyond contraction but is entering a phase of normalization characterized by low structural growth rather than rapid expansion. In this context, the key issue is less whether the economy will

grow and more whether underlying constraints—particularly labor availability, reconstruction timing, fiscal discipline, and infrastructure reliability—will allow growth to strengthen or keep it subdued.

Taken together, the comparison reinforces a broader conclusion: Puerto Rico's recovery appears real but fragile, and economic projections should be interpreted as directional ranges rather than precise targets. Sustained expansion will depend less on forecasting accuracy and more on addressing the structural factors that determine the island's long-term growth capacity.

These shifts create a unique opportunity for Puerto Rico, but only if infrastructure constraints are resolved. The defining feature of the 2026 economy is structural selection rather than cyclical disruption. Economies combining reliable infrastructure, disciplined fiscal management, technological adoption, and strategic positioning will capture disproportionate investment and productivity gains.
For Puerto Rico, the implication is direct: solve energy reliability, and global macro trends become tailwinds. Failing to resolve it results in unrealized potential.

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