



Cottingham & Butler

Economic & Geopolitical Outlook

This briefing captures the economic and geopolitical landscape as it stood in May 2026, adapted from the session of the Cottingham & Butler CEO Summit, delivered by Shailesh Kumar, who leads The Hartford's Global Insights Research Center and previously led geopolitical risk analysis at Eurasia Group and served as an economist at the U.S. Treasury.

WHERE KEY INDICATORS STOOD, MAY 2026

2.0%

Q1 U.S. GDP GROWTH

4.3%

UNEMPLOYMENT RATE

8%

EFFECTIVE TARIFF RATE

1. The State of the U.S. Economy

Speaking at the CEO Summit in May 2026, Kumar opened with a paradox that defines the moment: Americans are **deeply pessimistic** — citing political polarization, inflation, and worries about their jobs and personal finances — yet they keep spending. Consumer sentiment surveys look grim, but consumption has barely flinched. Behavior isn't matching mood.

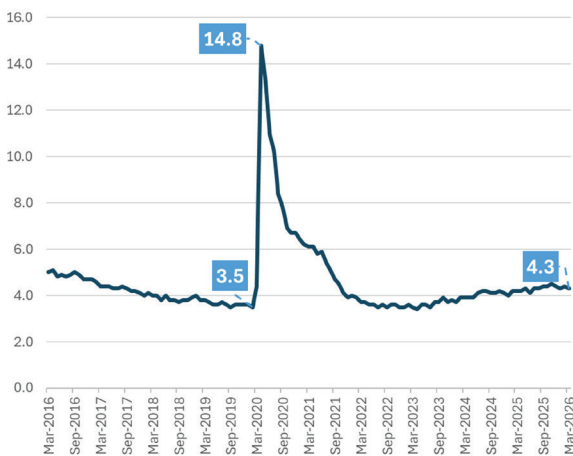
That spending carried the economy to **2.1% growth in 2025**, a healthy figure, with a 2.0% reading in the first quarter of this year. The engines were consumer spending, healthcare spending, and investment in AI and technology. The drag came from a softening labor market, weak sentiment, trade and tariff friction, and the fourth-quarter government shutdown.

THE INDICATORS THAT MATTER TO INSURANCE

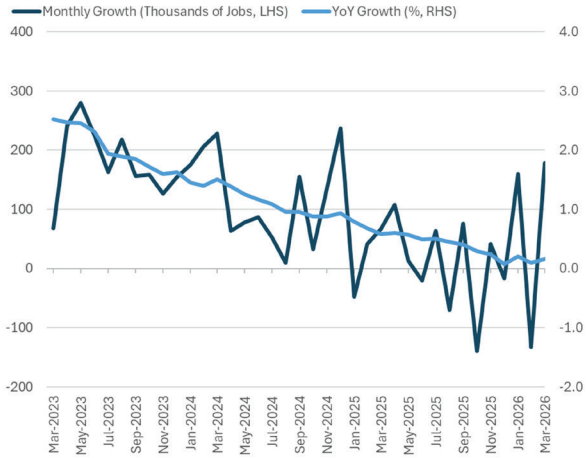
Three numbers sit closest to our world, because claims costs, rebuild costs, workers' comp, and customer behavior are all indexed to them:

- **Inflation. Headline CPI peaked at 9.1% in 2022 and nearly normalized to 2.3%** — but it's ticking up again. Goods inflation has risen off its long-run 0% to about 1.2% as tariffs slowly filter through, and energy prices are climbing with the conflict in the Middle East.
- **Labor. Unemployment has drifted from a 60-year low of 3.5% to 4.3%** — still manageable; 5% is where Kumar starts to worry. Monthly job creation has fallen sharply, from roughly 120,000 a month in 2024 to about 15,000. Healthcare is almost single-handedly keeping that number positive.
- **Wages. Pay is still rising about 3.5% a year, up from a pre-pandemic 2–2.5%** — unusual in a softening market. The reason is demographics, covered in Section 3. Workers' comp exposure is indexed directly to this.

Unemployment Rate (%)



Job Growth



INTEREST RATES: RELIEF, NOT A RETURN TO ZERO

The Fed took rates from near 0% to 5.5% to break inflation, began cutting, and is now on hold again — with policy increasingly driven by energy prices rather than tariffs. Kumar's expectation is rates near **3.75% by year-end**, which lands almost exactly on the 40-year average of 3.5%. The takeaway: the era of ultra-cheap money is over. Sub-3% mortgages and near-zero rates aren't coming back absent a major economic collapse.

THE CONSUMER IS STRONG — BUT MORE FRAGILE THAN IT LOOKS

Roughly \$70 trillion in household net worth has been added over five years, driven by equities and home values. Kumar's team estimates every \$1 of home-price gain adds about 4% to spending, and every \$1 of stock-market gain about 5% — cumulatively some \$3.2 trillion in extra consumption. But it's concentrated among wealthier, asset-owning households (the "K-shaped" economy), the pandemic's excess savings cushion is now spent, and savings rates have slipped from 5% to 3–4%. If equity markets unravel, consumption goes with them.

The same wealth effect propping up spending is the economy's biggest single vulnerability. A market correction wouldn't just dent portfolios — it would pull down the consumption that drives most of U.S. GDP, with a thinner household savings buffer to absorb the shock than two years ago.

2. AI as an Economic Engine

AI is the **second-largest driver** of U.S. growth — behind healthcare, which now accounts for nearly a fifth of GDP and is climbing toward 25%. Take AI out of the equation and the economy still grows; but understanding how the AI build-out works matters, because that's where the risk signals will appear first.

THE AI SUPER CYCLE: FIVE LINKS IN A CHAIN

STAGE	WHAT HAPPENS	WHERE THE RISK SITS
1. Chip design	Nvidia designs ever-smaller, faster chips	Capital dries up for R&D
2. Fabrication	Designs exported to TSMC in Taiwan	Export controls on IP
3. Import chips	U.S. buys the finished semiconductors	Taiwan disruption / China
4. Data centers	Built nationwide to house the chips	Labor, power, NIMBYism
5. Labs & software	Models and AI solutions sold to firms	Corporate demand stalls

Kumar reframes the "is there an AI bubble?" question: it's not a yes/no event, it's a set of signposts. Watch those five risk points rather than waiting for a single crash.

BY THE NUMBERS

- Data-center construction is running near \$50 billion a year, still growing about 30% annually (down from 90%).
- Power and energy spending growth is roughly flat — which Kumar expects to break upward, since every data center needs something to power it. He sees a multi-year surge in energy investment ahead.

WILL AI TAKE JOBS? IT DEPENDS WHICH JOB

- Industries that shrink: call centers and graphic design have already shed headcount post-ChatGPT — yet the workers who remain earn sharply more, as specialization commands a premium.
- Industries that reorient: work changes shape without disappearing — the way Excel transformed accounting rather than eliminating it.
- Industries that grow: tech-adjacent, AI-dependent roles see payroll gains.

Across 250 years of data, every productivity surge has been kicked off by a new technology — and each cycle runs 30 to 50 years, about two working generations. Kumar's bet is that AI is the next such catalyst. That's also why AI has become a geopolitical flashpoint: the technology that drove British, then American dominance is exactly what rising powers now want to control.

3. Demographics — The Force You Can't Reverse

Kumar calls this the most important section, for one reason: you can change tariffs and you can change monetary policy, but **you cannot change demographics**. It's the trend running underneath everything else.

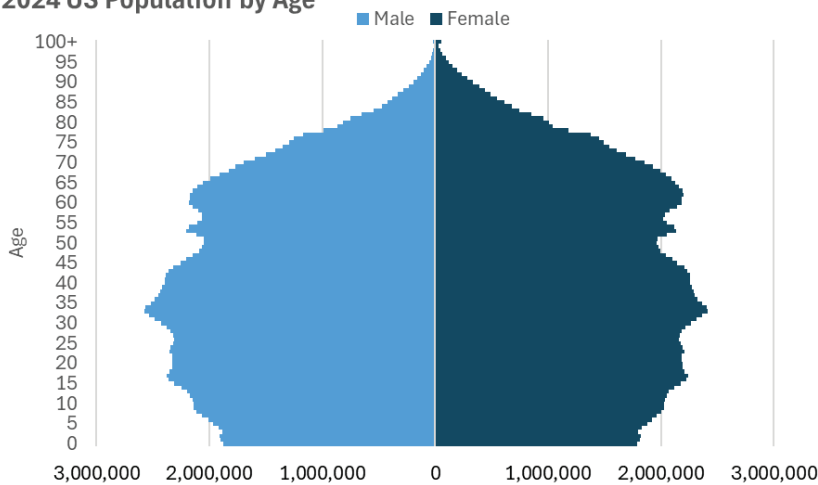
America is becoming “top-heavy.” In 1980 the country was full of 20- and 30-year-olds — baby boomers entering the workforce, paying in, supporting relatively few retirees. By 2060, there will be more people over 50–55 than under. Population growth has slowed from about 2% a year in the 1960s to roughly half a percent today. The U.S. is projected to peak around 354 million people in 2050 and then **decline for the first time in its history starting in 2051**.

This isn't unique — Japan and Germany are already there, and China's population of 1.4 billion is projected to roughly halve to about 750 million by 2175. Falling birth rates are the core driver, and even a return to pre-2020 immigration levels isn't enough to offset them.

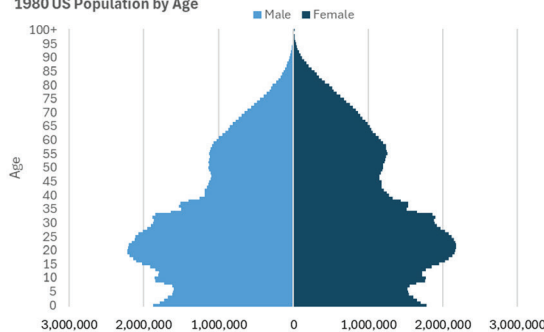
WHAT AN AGING WORKFORCE MEANS

- Labor growth slows for both native-born and immigrant workers.
- The average worker's age rises from 41 to 44 — people work longer, which reshapes the benefits they need, the industries they can work in, and their on-the-job injury risk. All of it feeds workers' comp and benefits exposure.
- Persistent wage pressure, because there simply aren't enough workers in key sectors — the puzzle from Section 1.

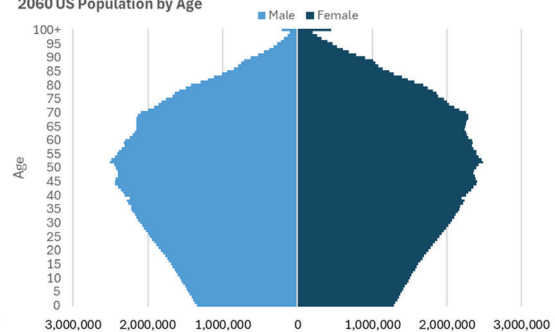
2024 US Population by Age



1980 US Population by Age



2060 US Population by Age



WHERE THE OPPORTUNITY MOVES

Fewer children means fewer schools need building — a real headwind for that construction niche. Meanwhile healthcare demand only climbs: the average 85-year-old runs about \$30,000 a year in healthcare costs across the system. Kumar's sharpest opportunity call is the **healthcare → elderly → in-home segment**: as Americans age and choose to stay home, the boom is in delivering care to the house.

The national slowdown story does not play out evenly. The South (Texas above all) is gaining labor across every sector, while the Northeast sheds it (Maine is hardest hit at roughly -5%). Utah and Nevada are growing on young populations; Arizona on the data-center build-out. Neighboring states diverge sharply: Florida's labor force is growing while Michigan's contracts; Ohio and Indiana move in opposite directions.

4. Tariffs & a Fracturing World Order

HEADLINE TARIFFS VS. THE RATE THAT ACTUALLY MATTERS

The numbers in the news — China tariffs swinging from 35% to 145% — are headline rates and drive market volatility. What actually hits inflation and the cost of doing business is the effective rate: what's truly collected after carve-outs and exemptions, much like your personal tax bracket versus what you really pay.

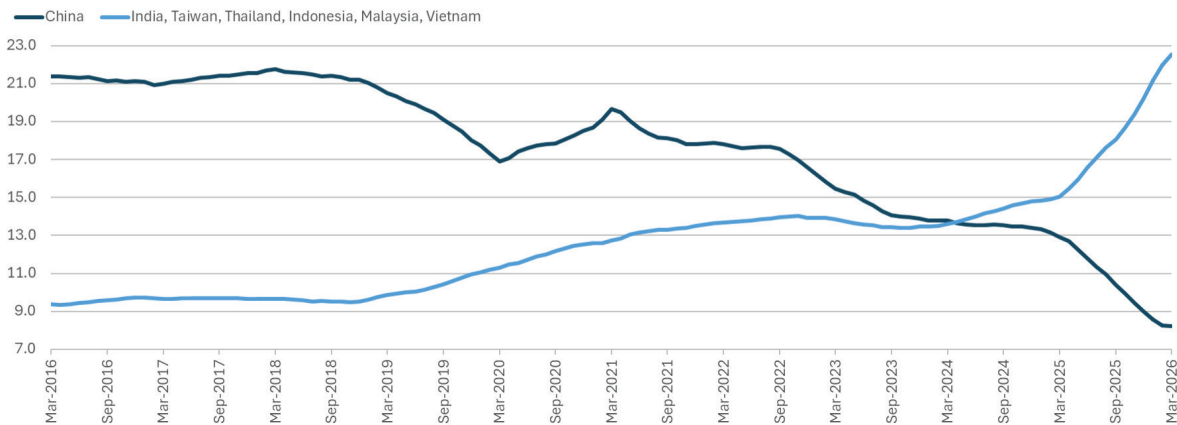
MEASURE	WHERE IT STANDS	WHY IT MATTERS
Effective tariff rate	~8% (up from ~2%)	Not 25%+, but no longer cheap
Canada — headline	15%	Most goods enter under USMCA
Canada — effective	~3.2%	Carve-outs do the heavy lifting
Goods inflation impact	+1.2%	Far below 8% — absorbed elsewhere

So where did the gap between an 8% tariff and only 1.2% goods inflation go? Kumar's answer: it was absorbed. Businesses stockpiled inventory ahead of the tariffs (dragging Q1 GDP but buffering shelves), and corporations ate the cost in their margins — the three big automakers alone took roughly a \$5 billion profit hit rather than pass tariffs to consumers. That money didn't evaporate; it moved through the system.

GLOBAL TRADE IS REROUTING, NOT RETREATING

China's share of U.S. imports has collapsed from about 21% in 2016 to roughly 7% — but its competitors (India, Vietnam, Thailand, Taiwan, Malaysia) picked up that share, rising from about 9% to 21%. Goods increasingly take a circuitous path — partly made in China, finished in a third country, then shipped on. Trade with Mexico has surged, and truck crossings at the Texas border have doubled in eight years. Globalization isn't dead; an aging, consumption-driven country still has to buy what it can't make at home.

US Imports from China and it's Competitors
(% of all Imports)



THE GEOPOLITICAL MAP

- China-Taiwan: Kumar doesn't expect an outright invasion — more likely a naval blockade, an intelligence-led leadership change, or a deal trading U.S. distance for rare-earth access.
- Middle East: Saudi Arabia and Iran both want to dominate. Oil prices carry a risk premium, but U.S. energy independence (12 of the 20 million barrels consumed daily are produced domestically) means America faces the price, not the access problem — unlike Asia.
- A fractured order: the U.S. is turning inward toward the Western Hemisphere; Europe, unsure it can rely on the U.S., is consolidating and looking East. America stays the dominant power, but new power centers — India, China, Saudi Arabia — are rising.

National Debt: U.S. debt has topped 100% of GDP, with the annual deficit near \$2 trillion — roughly half of it just servicing existing debt. Kumar's read is this is a serious long-term problem, but not a tomorrow problem. The Treasury's primary-dealer structure insulates against a failed auction, and the dollar's role as the world's reserve currency keeps global buyers absorbing U.S. debt. The risk builds slowly, through higher yields over time — not a sudden break.

What This Means for Your Program

Reading the economy is one thing; understanding what it does to your total cost of risk is another. That's the work Cottingham & Butler does every day. As an independent brokerage, we look past the premium line to everything risk actually costs your business — the claims you pay, the productivity you lose, the people you're trying to keep, the growth you're planning for. The forces Kumar laid out aren't abstract market commentary but rather how each one touches how your business runs and how it grows.

SO AS YOU THINK ABOUT THE YEAR AHEAD, A HANDFUL OF THROUGH-LINES ARE WORTH KEEPING IN VIEW:

- 1 **Reserve against where costs are heading, not where inflation appears today.** Although headline inflation has eased, the cost to settle a claim continues to rise, driven by wage growth, energy prices, and the gradual pass-through of tariffs. Budgets and reserves benchmarked to prior-year loss costs are likely to fall short, and that shortfall tends to surface at the least opportune time.
- 2 **The workforce is becoming the largest and most dynamic component of total cost of risk.** Compensation is rising as the workforce ages, and the two effects compound: higher payroll increases workers' compensation exposure, while older employees are injured less frequently but recover more slowly and at greater cost. This warrants a coordinated benefits, safety, and retention strategy rather than a routine renewal.
- 3 **Geography has become a strategic variable rather than an administrative one.** Labor availability, economic growth, and risk now vary materially from state to state. Decisions about where to hire, expand, and concentrate operations increasingly shape both opportunity and exposure — and the two no longer move in tandem.
- 4 **AI should be treated as a workforce and risk consideration, not solely an IT initiative.** As AI changes which roles are required and how work is performed, it alters the exposure profile, talent requirements, and the location of operational risk. Organizations that plan for this deliberately will manage the transition on their own terms.
- 5 **Monitor the consumer, as that is where the next material shock is most likely to originate.** Household wealth — concentrated in equities and home values — has quietly sustained consumer spending. A market correction would reverse that effect with consequences across the broader economy, extending well beyond any single line of coverage. It is the macro risk most worth testing your plan against.

None of these shift overnight, but together they shape the decisions ahead — about your people, your footprint, and how you protect what you are building. Anticipating them early, and planning accordingly, is the partnership Cottingham & Butler is built to provide.

Contact Cottingham & Butler

Connect with your Cottingham & Butler team for a conversation about what these forces mean for your total cost of risk and the specific steps worth taking before they reach your bottom line.

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