THE EDGE CONSULTANCY

THE EDGE ECONOMIC REPORTS

Twin Shocks: Energy Prices, AI Leverage and Global Financial Stability

Oil holds 29 percent above prewar as AI debt tests the banks

November 2026



Executive Summary

One of the two shocks in this report has already happened; the other is a vulnerability building on balance sheets. "The war in the region that began on 28 February", in the International Energy Agency's words, created "the largest supply disruption in the history of the global oil market". Brent crude rose from 71.32 dollars a barrel on 27 February to a peak of 138.21 dollars on 7 April, and on 11 November stood at 92.14 dollars, still 29.2 percent above its prewar level on our calculation from the EIA's daily series. This report reads the official record, the IMF, the BIS, the Federal Reserve, the ECB, the Bank of England, the EIA, the IEA, OPEC and the World Bank, with the five largest AI spenders' filings; only their published figures enter.

Energy has carried headline inflation higher while the economy beneath it still grows. US consumer prices rose 3.7 percent in the year to September, euro area inflation reached an estimated 4.0 percent in October on Eurostat's flash reading, and UK inflation was 3.5 percent. The Federal Reserve, the European Central Bank and the Bank of England have each raised rates this year, and the US two-year Treasury yield is 139 basis points higher than at the end of 2025, on our calculation.

The second shock is a borrowing boom. The five companies the IMF calls hyperscalers report capital spending between 1.7 and 3.4 times its level a year earlier, on our calculation, and fund more of it with debt: three of them added 208.2 billion dollars of reported long-term debt in nine months, on our calculation, and larger lease commitments sit off the balance sheet. In November the boom's bellwether changed leadership abruptly: Nvidia's founder resigned as chief executive with immediate effect, and the shares fell on the day.

Banks meet the AI boom partly at one remove, as lenders to private credit funds and other non-banks, an exposure the IMF measures and supervisors judge manageable on its own.

The official record joins the two shocks in one exercise. The IMF's Global Bank Stress Test pairs an energy supply shock with a sharp reassessment of AI valuations and finds that banks holding 22 percent of global banking assets would emerge weak, against 18 percent a year earlier; it is a scenario classification, not a description of banks today. No official baseline forecast in this report projects a global recession or a global financial crisis.

In The Edge's reading, three principal links would have to align for the two shocks to compound into a wider financial crisis: oil staying high long enough to keep interest rates up, AI revenues falling short of the debt raised against them, and the losses landing on leveraged non-banks whose credit lines run to the banks. The record shows each link as a named risk, not as a forecast. The Middle East would meet that test from strength, with "ample fiscal and external buffers", in the Fund's words.

Table 1. Key figures at a glance, November 2026

Measure	Value	Change	Basis
Brent spot, $/bbl	92.14 (11 Nov)	+29.2% vs prewar 27 Feb	EIA daily series; change on our calculation
Brent futures, front month, $/bbl	95.82 (12 Nov)	n/a	ICE settlement, per The Edge's report
US 2-year Treasury yield, %	4.86 (12 Nov)	+139 bp in 2026	US Treasury; change on our calculation
US CPI, % y/y	3.7 (Sep)	energy +20.4%	BLS; October printed monthly rates only
Euro area HICP, % y/y	4.0 (Oct, flash)	energy +20.8%	Eurostat
UK CPI, % y/y	3.5 (Sep)	n/a	ONS
Fed funds target, %	3.75 to 4.00	+25 bp on 16 Sep	Federal Reserve
Hyperscaler capital spending	1.7x to 3.4x a year earlier	n/a	10-Q filings; on our calculation
Long-term debt added, three hyperscalers	$208.2 bn in nine months	n/a	10-Q filings; on our calculation
US bank loans to non-bank financial institutions	$1.44 tn (1Q 2026)	+18% from 2Q 2025	IMF GFSR
Banks weak in the IMF adverse stress test	22% of sample assets	18% a year earlier	IMF GFSR; a scenario, not a forecast
Nvidia shares, 12 Nov close	down 4.34%	after the chief executive's resignation	Nvidia Form 8-K; CNBC close

Source: the originator named in each row; changes and multiples marked on our calculation are The Edge's, from the originators' published figures. Every row reappears, fully sourced, in the body. Compressed symbols appear in tables only; prose spells units out.

Oil Prices Remain 29 Percent Above Their Prewar Level

Brent spot peaked at 138.21 dollars a barrel on 7 April, 93.8 percent above its level of 27 February on our calculation. Prices fell back "in late May and early June as strategic stock releases and demand weakness eased market tightness, and after the United States and Iran announced a ceasefire agreement", the IEA said. On 2 July Brent spot traded at 68.53 dollars, below its prewar level. Prices climbed again from July, and in September Brent spot averaged 114 dollars, 23 dollars more than in August, and the EIA said prices "rose following increased attacks on oil infrastructure", among them the 11 September strike on Saudi Arabia's East-West pipeline. Brent spot reached 135.51 dollars on 2 October. The pipeline was repaired and "partially resumed flows as of September 22", per the EIA. Since then the physical market has eased sharply: Brent spot on 11 November, at 92.14 dollars, was 29.1 percent below its level a month earlier, on our calculation.

Table 2. Brent and WTI spot prices at the turning points of 2026, with Brent still 29 percent above its prewar level

Point	Date	Brent spot, $/bbl	WTI spot, $/bbl	Brent vs 27 Feb, %
First trading day of 2026	2 Jan 2026	61.98	57.21	-13.1
Last trading day before the conflict	27 Feb 2026	71.32	66.96	0.0
2026 peak	7 Apr 2026	138.21	114.58	93.8
Second peak	2 Oct 2026	135.51	97.89	90.0
Latest	11 Nov 2026	92.14	89.62	29.2

Source: US Energy Information Administration, Europe Brent and Cushing WTI spot prices FOB, daily series released 12 November 2026 (EIA cites Thomson Reuters). Changes against 27 February on our calculation.

Spot and futures are different markets, and they now diverge. The IEA said in October that "physical markers have increased much more" than futures. On 12 November ICE Brent for January settled at 95.82 dollars, as printed in The Edge's commodities wrap of that day; on 6 November the CME December 2027 contract settled at 80.59 dollars, 18.0 percent below that day's CME front month of 98.32 dollars, on our calculation. The futures market shows lower deferred prices; a futures curve is shaped by carrying costs, inventories and risk premiums as well as expectations, so it is not by itself a forecast of the eventual spot price.

Supply is recovering from a deep low. Shut-in crude production fell from 10.9 million barrels a day at its May peak to 4.8 million in September, per the EIA. The IEA counts oil flows through the Strait of Hormuz at 10.9 million barrels a day in September, 3.7 million more than in August, with Gulf crude exports above 75 percent of their prewar levels, per the agency. The cost shows in stocks: global observed inventories at the end of September were 509 million barrels below their end-February level, the agency reported.

OPEC's figures show the recovery country by country, on two measures. The United Arab Emirates left OPEC and the wider OPEC+ alliance with effect from 1 May 2026, yet OPEC's monthly report still counts it within the OPEC totals. The published Total OPEC aggregate, which includes the former member, rose 35.8 percent from the second quarter to October, and the output of OPEC's current 11 members rose 33.6 percent, both on our calculation; Saudi output rose 1,182 thousand barrels a day in October alone, the report's own monthly change. The UAE produced 26.6 percent more than its 2025 average and Oman 21.1 percent more, on our calculation. Kuwait's output has more than doubled from its second-quarter average, on our calculation, and its October figure was 232 thousand barrels a day above September's.

Table 3. Gulf crude production in recovery: October 2026 against the second quarter

Producer, thousand b/d	2025	2Q 2026	Oct 2026	Oct vs 2Q, %
Saudi Arabia	9,471	6,822	9,194	34.8
UAE (left OPEC and OPEC+, 1 May 2026)	3,167	2,668	4,008	50.2
Kuwait	2,475	867	1,998	130.4
Iraq	4,027	1,628	4,491	175.9
Oman (non-OPEC DoC)	777	916	941	2.7
Bahrain (non-OPEC DoC)	179	44	135	206.8
Total OPEC as published (includes the UAE)	27,628	19,999	27,164	35.8
OPEC current 11 members (excludes the UAE)	24,461	17,331	23,156	33.6

Source: OPEC, Monthly Oil Market Report, November 2026, crude oil production for October based on secondary sources; changes and the 11-member rows on our calculation. The UAE left OPEC and OPEC+ on 1 May 2026, but OPEC's published table still lists it and its Total OPEC row includes it; the 11-member rows subtract the UAE. Oman and Bahrain take part in the wider Declaration of Cooperation as non-OPEC producers and are in neither total.

The IEA expects world oil demand to fall by 2.6 million barrels a day in 2026; OPEC's November report still sees growth of about 0.2 million.

Each official forecast in Table 4 has lower prices in 2027, and the IMF and OECD rows are modelling assumptions rather than forecasts. The EIA's November outlook expects Brent to remain near 100 dollars for the rest of 2026 and assumes most Middle East production outside Iran returns to pre-conflict averages by mid-2027. It forecasts Brent falling to an average of 77 dollars in the fourth quarter of 2027 as depleted inventories rebuild, and the IMF assumes the Strait of Hormuz reopens from March 2027. The risks they name run the other way. "With oil stocks depleted, the world is more exposed to further supply shocks," the World Bank said on 28 October.

Table 4. Official Brent price forecasts, and the IMF and OECD modelling assumptions, for 2026 and 2027

Forecaster and edition	Price	2026	2027
EIA, Short-Term Energy Outlook, 10 Nov 2026 (forecast)	Brent spot, $/bbl	97	86
World Bank, Commodity Markets Outlook, 28 Oct 2026 (forecast)	Brent, $/bbl	91	79
IMF, World Economic Outlook, Oct 2026 (technical assumption)	Average of Brent, Dubai Fateh and WTI, $/bbl	95.74	87.39
OECD, Interim Economic Outlook, 23 Sep 2026 (assumption)	Brent, $/bbl	n/a	85

Source: the publications named. The IMF figure is the WEO's futures-based technical assumption, not a price forecast; the OECD's is a modelling assumption whose 2026 element is a fourth-quarter peak of $105, with no annual average. The World Bank's adverse scenario puts Brent at $105 in 2027.



Figure 1. Two peaks and a retreat: Brent and WTI daily spot prices, January to November 2026. Source: US Energy Information Administration, daily spot price series, release of 12 November 2026. Chart by The Edge.

Energy Lifts Headline Inflation, and Central Banks Tighten

The statistical agencies name energy themselves. Gasoline accounted for over half of September's monthly rise in US consumer prices, the Bureau of Labor Statistics said. In the euro area, energy prices rose 20.8 percent in October. In Britain, direct energy effects added an estimated 1 percentage point to September's 3.5 percent, per the Bank of England, whose staff project inflation of an estimated 5 percent in the second quarter of 2027.

Core inflation has moved far less. Headline inflation runs 1.1 percentage points above core in the United States, 1.5 points in the euro area and 0.7 points in the United Kingdom, on our calculation, and none of the three core CPI rates rose by more than 0.2 points in the latest month, on our calculation. The central banks treat second-round effects as a risk, not yet a fact: the Bank of England sees "limited evidence of knock-on effects on other prices and wages", and the ECB says wages "do not show a material response at this stage". In October the US index rose 0.4 percent on the month and core 0.3 percent, a third straight month at that pace, per the Bureau's 10 November release. That release printed no 12-month rates for most series, because the 2025 lapse in appropriations left no October 2025 base, so September's annual rates remain the latest.

The measure the Federal Reserve targets tells the same story slightly lower. The personal consumption expenditures price index rose 3.6 percent in the year to September and its core rate 3.1 percent, per the Bureau of Economic Analysis. The economy beneath the inflation is not weakening into it: real GDP grew at a 3.4 percent annual rate in the third quarter on the advance estimate, led by investment and consumer spending. Payrolls rose 165,000 in October, well above the 48,000 average of the prior twelve months, with unemployment at 4.1 percent, per the Bureau of Labor Statistics. Strength of that kind cuts both ways: it supports the earnings that service debt, and it gives central banks room to keep rates up.

Table 5. Inflation in the major economies: energy above 20 percent in the United States and the euro area

Measure	Headline, %	Core, %	Energy, %	Period
US CPI	3.7	2.6	20.4	Sep 2026
US PCE price index	3.6	3.1	n/a	Sep 2026
Euro area HICP (flash)	4.0	2.5	20.8	Oct 2026
UK CPI	3.5	2.8	n/a	Sep 2026

Source: US Bureau of Labor Statistics, 14 October 2026; US Bureau of Economic Analysis, 29 October 2026; Eurostat flash estimate, 4 November 2026; Office for National Statistics, 21 October 2026. Year on year. PCE is the measure the Federal Reserve's 2 percent objective refers to. Core excludes food and energy in the United States, and energy, food, alcohol and tobacco in the euro area and the United Kingdom. The US October release of 10 November 2026 printed monthly changes only for most series.

The Federal Reserve raised its target range by a quarter point to 3.75 to 4 percent on 16 September and kept it there on 28 October, with two members dissenting in favour of a further increase. The median projection for the funds rate in 2027 rose to 4.1 percent in September from 3.6 percent in June. The ECB lifted its deposit rate in June and September to 2.50 percent and on 29 October said "the increased magnitude and duration of the energy shock, as well as the implications for indirect and second-round effects, are likely to drive up inflation and lower growth". The Bank of England raised Bank Rate to 4 percent on 5 November, saying "the degree of inflationary pressure in the pipeline is now sufficient to warrant an increase". Worldwide, 14 of 33 major central banks have raised rates since the second quarter, up from 2 in the first, which the IMF said were likely responding to "higher inflationary pressures stemming from the energy shock".

Borrowers feel it. The two-year Treasury par yield rose from 3.47 percent at the end of 2025 to 4.86 percent on 12 November, and the ten-year from 4.18 to 5.10 percent, increases of 139 and 92 basis points on our calculation.

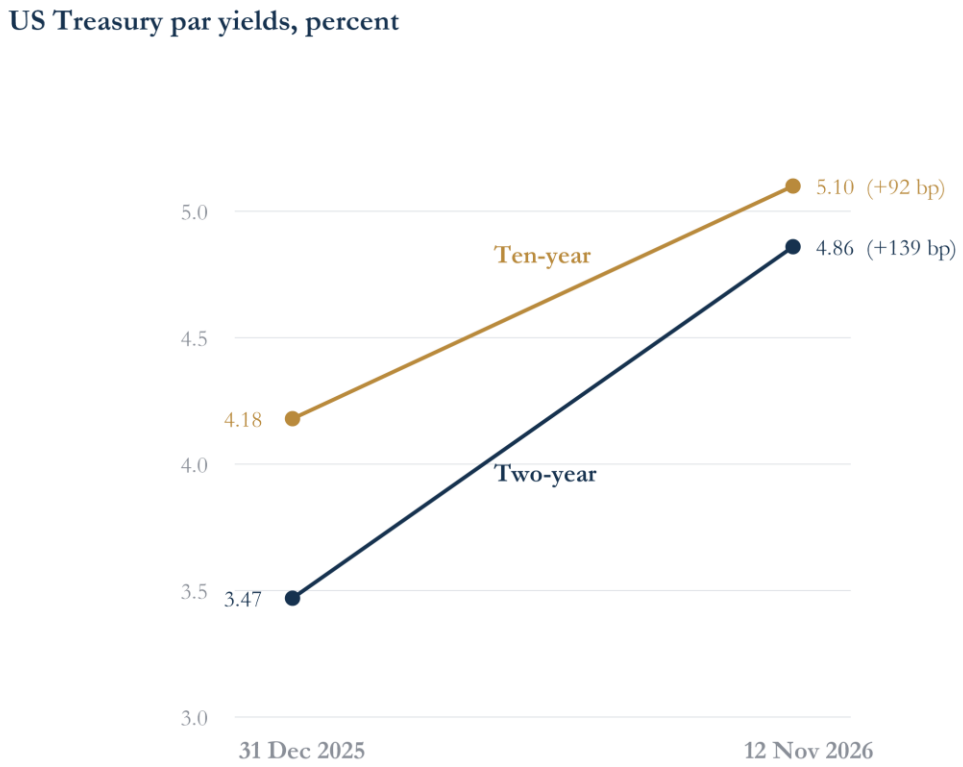


Figure 2. The cost of money rises: US Treasury two-year and ten-year par yields, end-2025 against 12 November 2026. Source: US Department of the Treasury, daily par yield curve. Changes on our calculation. Chart by The Edge.

Hyperscaler Spending Climbs Up to 3.4 Times and Turns to Debt

Each of the five hyperscalers reports capital spending well above a year earlier. The filings label and period the spending differently, not as AI spending, so the figures are not added into one total, and each is the gross cash-flow line as the filing prints it, not a net funding gap. Two companies give a 2026 figure in their filings: Amazon expects cash capital expenditures of an estimated 220 billion dollars, rising "meaningfully" in 2027, and Meta 135 to 145 billion dollars including finance lease principal.

Table 6. Hyperscaler capital spending, latest period against a year earlier: every company at least 1.7 times higher

Company and period	Latest, $ million	Year earlier, $ million	Change, %
Oracle, quarter to 31 Aug 2026	28,499	8,502	235.2
Amazon, quarter to 30 Sep 2026	77,259	35,095	120.1
Alphabet, nine months to 30 Sep 2026	131,953	63,596	107.5
Microsoft, quarter to 30 Sep 2026	39,367	19,394	103.0
Meta, nine months to 30 Sep 2026	83,055	48,308	71.9

Source: company 10-Q filings with the US Securities and Exchange Commission, 11 September to 30 October 2026. Purchases of property and equipment (Alphabet, Amazon, Meta), additions to property and equipment (Microsoft) and capital expenditures (Oracle), as each cash flow statement labels them; Amazon's is gross of proceeds from sales and incentives. Gross cash-flow lines as printed, not net funding gaps. Changes on our calculation.

Cash flow is covering less of the bill. Oracle's free cash flow for the year to May was negative at 23,686 million dollars, and the IMF says hyperscalers' free cash flows "are rapidly declining", leaving debt financing "increasingly necessary". Alphabet's reported long-term debt rose 168.8 percent in nine months to 125,102 million dollars, Amazon's 163.7 percent to 173,125 million and Meta's 37.8 percent to 80,922 million, on our calculation. Together the three balances rose by 208.2 billion dollars, an increase in debt outstanding rather than a measure of gross issuance. Microsoft's was little changed over its latest quarter. Oracle's total debt reached 135,288 million dollars as adjusted for its November notes.

The bond market has absorbed the wave. Hyperscalers' share of global investment-grade issuance has risen to 10 percent from less than 1 percent since 2024, and their interest expense was nearly 6 billion dollars in the second quarter, more than twice a year earlier, per the Fund. The coupons separate the borrowers, on our reading, although tenors differ: Oracle's dollar notes of 4 November pay 7.000 to 8.650 percent, Microsoft's fixed tranches priced on 29 October 4.850 to 6.350 percent. Large-scale issuance by hyperscalers "has increased the borrowing costs of these companies in both US dollar and euro markets", ECB President Christine Lagarde wrote to members of the European Parliament on 6 November. The central bank's analysis finds "only small and temporary effects" on similar corporate bond issuance so far.

The larger obligations sit off the balance sheet. Microsoft reports 364.6 billion dollars of uncommenced leases at 30 September, primarily for data centres and some subject to conditions: 10.3 times its total debt of 35,481 million dollars, on our calculation, comparing undiscounted future payments with a recognised debt balance. Meta lists an estimated 355.73 billion dollars, per its filing, and separately 454.52 billion dollars of non-cancelable commitments, categories that can overlap and are not added together here. Oracle's uncommenced leases rose to 288 billion dollars from 260 billion in three months.

Table 7. Long-term debt and leases not yet commenced: leases exceed debt at four of the five

Company	Long-term debt, latest, $ billion	Long-term debt, prior, $ billion	Leases not yet commenced, $ billion	Date
Oracle	117.7	122.3	288.0	31 Aug 2026
Amazon	173.1	65.6	164.9	30 Sep 2026
Alphabet	125.1	46.5	130.5	30 Sep 2026
Microsoft	31.1	31.1	364.6	30 Sep 2026
Meta	80.9	58.7	355.7	30 Sep 2026

Source: company 10-Q filings. Non-current long-term debt as printed (Oracle: notes payable and other borrowings); prior dates are 31 December 2025, except Microsoft (30 June 2026) and Oracle (31 May 2026). Lease definitions differ: Amazon's is a payment schedule, Microsoft's includes arrangements subject to conditions. The columns differ in dates, definitions and discounting and are not economically interchangeable: uncommenced leases are undiscounted future payments, not recognised debt. Rounded from the printed millions; the count of four is ours.

Lagarde's letter names this layer: debt financing "increasingly includes debt-like off-balance sheet commitments", and rising debt levels "are compounded by circular financing arrangements". The Fund has counted those arrangements: 14 disclosed transactions since 2023, with an estimated 300 billion dollars of hyperscaler-led equity in financially weaker AI firms and 650 billion dollars of debt, against 1.4 trillion dollars of future revenue commitments. The four figures describe interrelated contractual flows, not amounts to be added into one exposure.

Valuations have already corrected once, and the credit risk is not uniform. Price to earnings ratios fell by nearly 15 percent for the seven companies the BIS counts as hyperscalers and 40 percent for chipmakers, it said in September. The Fund rates the trend in AI correction risk "About the same", with the caveat that "leverage is rising in the AI ecosystem". In The Edge's reading, the record's concern is not the profitable hyperscalers in isolation: it is the financially weaker AI firms their equity and commitments support, and the leverage that connects the two.

Governance at the centre of the AI buildout shifted abruptly in November. Nvidia's board accepted the resignation of founder Jen-Hsun Huang as president, chief executive and director on 11 November, effective immediately, per the company's Form 8-K of 12 November. The filing names chief financial officer Colette Kress interim chief executive while the board searches for a successor, appoints Harvey Jones as board chair, and gives no reason for the resignation. The shares traded 6.29 percent lower at 15:00 GMT, per The Edge's report, and closed the session down 4.34 percent at 166.19 dollars, against 173.73 at the prior close, per CNBC's quote data. That session's five major US equity benchmarks closed lower, with the Russell 2000 down 1.66 percent, per The Edge's market reports of 12 November. The company's third-quarter results remain scheduled for 17 November.

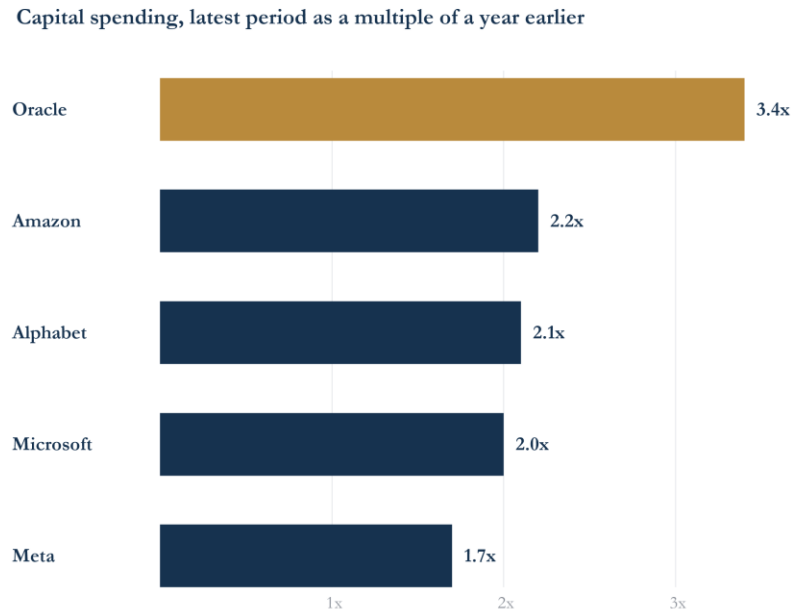


Figure 3. Capital spending at least 1.7 times higher: hyperscaler capital expenditure in the latest period as a multiple of a year earlier. Periods differ by company; see Table 6. Source: company 10-Q filings with the US Securities and Exchange Commission. Multiples on our calculation. Chart by The Edge.

Banks Reach the AI Boom Through Private Credit

Private credit is one place where AI borrowing and the banks meet. US private credit loans reached an estimated 1.4 trillion dollars in the second half of 2025, per the Federal Reserve, and the IMF puts global direct lending at nearly 2 trillion dollars. Technology takes a growing share: an article in the BIS Quarterly Review finds, on its own measure, that tech firms borrowed over 1 trillion dollars, 44 percent of total private credit, by 2025, and that the share of tech borrowers with negative EBITDA rose from 23 percent before 2020 to 46 percent after. The BIS technology category covers technology businesses broadly, not AI lending alone.

Banks lend to the lenders. Private equity, business development companies and private credit vehicles are the largest portion of US bank lending to non-banks, the Fed says. The Fund finds US bank loans to non-banks grew 18 percent between the second quarter of 2025 and the first quarter of 2026, to 1.44 trillion dollars, while total assets grew 5 percent, and banks' total potential exposure to non-banks reached 134 percent of US Tier 1 capital, from 119 a year earlier. Thirteen major EU and UK banks carry an estimated 150 billion dollars of exposure to private equity and private credit funds, an estimated 18 percent of their CET1, the Fund reports, citing S&P Global. The chain therefore runs in steps: banks lend to funds and other intermediaries; a portion of that lending finances technology; a portion of that finances AI.

The banks' precise AI exposure cannot be determined from the aggregate figures the supervisors publish, a data limitation of the record, not evidence that the exposure is small.

Strain shows at the edges. After high-profile defaults and concerns that AI could disrupt software, accepted redemption requests at perpetual business development companies "somewhat exceeded new inflows in the first quarter of 2026, the first time this has occurred since these vehicles were created", the Fed said. Among ten business development companies with 300 billion dollars of assets, the Fund finds four with commitments beyond their available liquidity buffers.

On their own, the exposures look manageable. A 20 percent loss on private asset exposures would cut aggregate CET1 by an estimated 2 percentage points in the United States and 1 point in the EU and UK, the Fund found. For the euro area, the ECB calls it "unlikely that private credit in isolation could be a source of systemic financial instability at present". The Fund's caveat is the one that matters here: vulnerabilities could be amplified "if such losses were to coincide with a severe economic downturn".

The Energy the Boom Needs

The AI boom is also a physical energy project, and the official record now measures it. The IEA's October survey of data centre policy, requested by France's G7 Presidency and covering jurisdictions with about 90 percent of global data centre capacity, says hyperscalers are set to spend more than 700 billion dollars on capital expenditure in 2026, mostly on new data centres, and that the buildout "is straining local grids and stretching the supply chains for key electrical equipment". In several jurisdictions, connection queues for data centres exceed today's peak electricity demand, and the agency estimates that flexible, non-firm grid connections could unlock 750 to 900 gigawatts of additional hosting capacity.

The economics bind energy to the AI business case directly. AI-optimised data centre capacity "can cost as much as USD 20-30 billion per GW to rent for a year", the IEA says, "100 times more than the equivalent capacity cost of a battery", and data centre emissions are projected in its central scenario to more than double to about 350 million tonnes of CO2 by 2035, revised up on greater use of onsite natural gas. Crude oil is not the direct fuel of data centres: the energy shock reaches the AI boom through power and gas prices, grid investment, equipment lead times and financing costs, not through a one-for-one oil link. That is the same channel the ECB names when Lagarde lists "energy, chip or grid bottlenecks" among the shocks that could leave AI revenues short.

Where the Two Shocks Meet

The first meeting point is prices. At the Fed's September meeting, staff attributed higher inflation "mostly to the effects of past tariff increases, higher energy and input costs stemming from geopolitical developments, and an increase in technology-related consumer goods prices associated with the AI buildout." Some participants said energy prices and the AI buildout "were contributing to cost pressures faced by businesses", and a couple argued a higher policy rate would keep those price increases "from broadening out".

The second is the AI business case. "A sustained rise in energy prices might also weigh on the optimistic AI narrative, as AI infrastructure and data centres are highly energy-intensive," the ECB's May Financial Stability Review said. The third is credit. The BIS joined the two in one sentence in June: "A larger shock, whether from a renewed inflation surge or a sharp AI-led repricing, could trigger a more widespread credit crunch." The consequences, it added, "could extend beyond the non-bank perimeter, given banks' growing and opaque exposure to private credit funds". The Bank of England's Financial Policy Committee said in September that regional developments had raised the risk that vulnerabilities in sovereign debt, risky assets and risky credit "crystallise at the same time."

One official exercise models both shocks at once. The IMF's 2026 Global Bank Stress Test covers 665 banks in 29 countries, about 160 trillion dollars of assets and over 70 percent of the global banking system. Its adverse scenario assumes that "geopolitical tensions, trade fragmentation, and energy supply disruptions coincide with a sharp reassessment of AI-related valuations, triggering a severe stagflationary shock", with equities down more than 25 percent, oil and commodities up more than 50 percent, and short- and long-term bond yields rising by more than 150 and 300 basis points. The Fund calls it "an extreme tail scenario" in which imported fuel is disrupted in availability, not merely dearer.

The result is capital depletion, not collapse. Aggregate CET1 falls by about 150 basis points to a trough of 11.5 percent in 2026 and recovers modestly to 11.9 percent by the end of the horizon. The banks that emerge weak, defined by the Fund as a post-stress CET1 ratio below 7 percent plus any surcharge for the largest institutions, number 110 and hold 22 percent of the global banking assets in the sample, against 18 percent in last year's test; banks below the 4.5 percent minimum hold about 7 percent. The Fund notes the weak institutions in Asia reflect "significant capital depletions in oil- and gas-importing economies", and draws the link that matters for this report: "many banks with large NBFI exposures are also among those experiencing the largest capital declines under the adverse global stress test scenario."

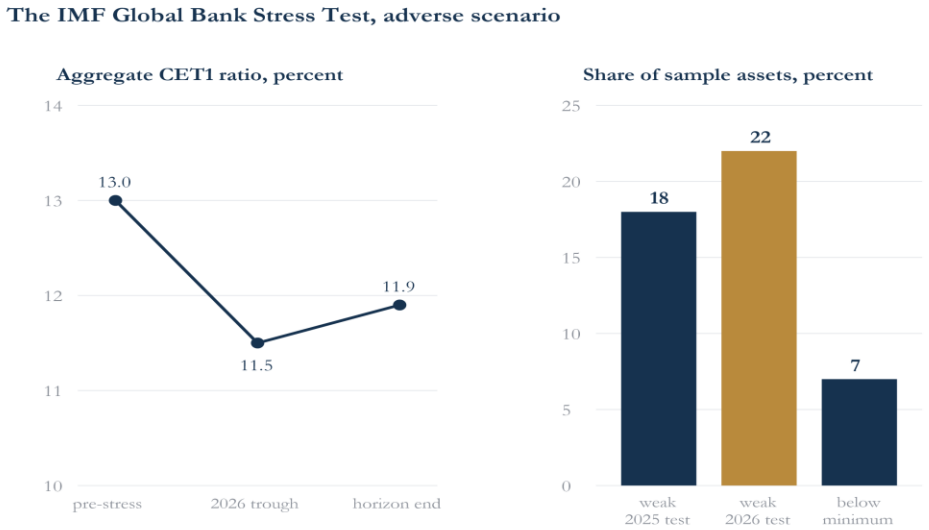


Figure 4. The one official test of both shocks at once, in two readings: aggregate CET1 falling about 150 basis points to a trough of 11.5 percent before recovering to 11.9 by the horizon, and banks classified weak rising from 18 to 22 percent of the sample's global banking assets, with about 7 percent below the minimum. Source: IMF, Global Financial Stability Report, October 2026; the pre-stress level is on our calculation from the printed depletion. Chart by The Edge.

Table 8. The official scenarios: among them, only the IMF's bank stress test pairs the energy shock with an AI correction

Scenario	Global growth effect	Inflation effect	Rates and yields effect
IMF WEO, prolonged conflict to mid-2027, oil reaching $130	-0.5 pp in 2027	+1.1 pp in 2027	Advanced economy policy rates +50 bp, long rates +100 bp in 2027
IMF WEO, AI market correction	Global activity 1.1% below baseline by 2028	Lower than baseline	Policy rates lower than baseline
OECD, combined energy, food and equity shock	-0.7 pp in 2027	+1.1 pp in 2027	Policy rates up an estimated 1 pp in most economies
World Bank, severe energy disruption with financial stress	Global growth 1.3% in 2026	Global inflation 4.4% in 2026	n/a
IMF GFSR, Global Bank Stress Test	An estimated 3 pp below baseline over two years	More than 4 pp higher by 2027	Short- and long-term bond yields more than +150 bp and +300 bp

Source: IMF, World Economic Outlook, October 2026, Box 1.2; IMF, Global Financial Stability Report, October 2026, Background Analysis 1.2; OECD, Interim Economic Outlook, September 2026; World Bank, Global Economic Prospects, June 2026. All are the originators' scenarios, not forecasts. Effects are deviations from each baseline, except the World Bank row, which shows levels; the stress-test row shows bond yield assumptions, not policy rates.

What Would Have to Break

In The Edge's reading, three principal links run from the two shocks to one crisis, and the record lets each be tested; they are the channels the official record names, not the only ones conceivable. The first link is duration: oil must stay high long enough to keep central banks tightening. Against it stand the EIA's assumption that most Middle East production outside Iran returns to pre-conflict averages by mid-2027, the IMF's assumption that the Strait of Hormuz reopens from March 2027, and core inflation that has barely moved; for it stand depleted inventories, the World Bank's warning that the world is "more exposed to further supply shocks", and headline rates that have already pushed 14 of 33 major central banks to raise.

The second link is the AI business case: revenues must fall short of the debt and commitments raised against them, the 1.4 trillion dollars of future revenue promises standing against 650 billion dollars of debt in the Fund's count of circular arrangements, while Oracle borrows at 7 percent and more. The third link is location: the losses must land on leveraged non-banks whose credit lines run to the banks, the overlap the Fund itself names. Today the ingredients are present but not aligned: core inflation is contained, hyperscaler valuations have already corrected once, and bank capital is high. The record supports a warning, not a forecast.

No official baseline forecasts the break. The IMF projects world growth of 3.1 percent in 2026 and 3.4 percent in 2027, and 2.5 percent this year at market exchange rates; the OECD projects 2.9 and 3.0 percent. The Fund's risk probabilities have shifted from growth toward inflation: it puts the chance of US growth below 1 percent in 2027, a path "consistent with a relatively mild recession starting in the fourth quarter of 2026", at an estimated 30 percent, down from 35 percent in April, and of global growth below 2 percent at an estimated 10 percent, down from 20 percent, while its odds of US inflation above 4 percent rose to an estimated 30 percent from 20 percent.

The supervisors' starting point is strength, and their prescription is targeted. The Fed found the US banking sector "sound and resilient overall"; the Financial Policy Committee called the UK system "appropriately capitalised"; the Fund says financial stability risks "remain elevated", names an AI-driven market correction, a sharp rise in sovereign bond yields and cyber threats, and recommends sectoral capital and concentration requirements on banks' exposures to AI, private credit and other non-banks.

Where the Middle East Stands

The region most exposed to the first shock enters the test with resources the record documents. The IMF's Managing Director said on 1 October that the energy supply shock "has been contained", that the region has "ample fiscal and external buffers and credible policy frameworks", and that "the exchange rate pegs have continued to anchor stability and confidence". Five GCC currencies are pegged to the dollar; Kuwait pegs the dinar to an undisclosed currency basket, so its central bank moves on its own timing. Little of the price shock has reached the region's consumers: Saudi consumer prices rose 1.9 percent in the year to September, and the Fund credits "existing subsidies, price controls, and fixed exchange rates" for the limited pass-through.

Twin Shocks

The dollar-pegged Gulf central banks moved with September's Fed increase and held in October: the Saudi repo rate stands at 4.50 percent, Qatar's deposit rate at 4.10 and the UAE Base Rate at 3.9, per their own releases. Kuwait, which pegs to a basket, has held its discount rate at 3.50 percent since December 2025. The shock divides the wider region in two. For the producers, the Fund expects "double-digit contractions of their economies in 2026, followed by double-digit expansions in 2027 as production, exports, and logistics normalize" in Bahrain, Iraq, Kuwait and Qatar, with Saudi Arabia "somewhat less affected, as an economy with more diversified export routes"; Iraq's October output of 4,491 thousand barrels a day was already above its 2025 average, on our calculation. For the importers, the energy bill is the channel: in the Fund's regional adverse scenario, oil-importing economies lose about 0.5 percent of real GDP with consumer prices about 1 point above baseline. Egypt's growth is nonetheless projected at 5.1 percent for the fiscal year the Fund labels 2026, upgraded about 1 point from April, and 4.7 percent the year after; the Fund also asks supervisors to monitor sovereign-bank linkages where banks hold large stocks of government securities, naming Egypt among the examples.

The projections describe a rebound after a deep contraction, not yet a full recovery. The Fund projects GCC growth of 9.1 percent in 2027 after a contraction of 4.8 percent in 2026, led by Qatar at 18.8 percent, Kuwait at 17.1 percent and Bahrain at 13.9 percent; on our calculation from those annual rates, Kuwait's 2027 output would remain about 2.5 percent below its 2025 level and Qatar's about 0.3 percent above it. Kuwait's projected general government surplus of 15.8 percent of GDP in 2026 is the Fund's general government measure, which includes income the budget does not. Kuwait's own accounts, on an April-to-March fiscal year, closed 2025/26 with a deficit of 7.141 billion dinars per the Ministry of Finance figures The Edge has set out, so the two measures must not be read as one.

Table 9. The GCC through the double shock: growth, fiscal balances and bank capital

Country	Growth 2026, %	Growth 2027, %	Fiscal balance 2026, % of GDP	Bank capital adequacy, % (report year)
Qatar	-15.6	18.8	-2.8	n/a
Kuwait	-16.7	17.1	15.8	18.2 (Jun 2026)
Bahrain	-11.3	13.9	-11.4	n/a
Saudi Arabia	-3.3	7.9	-6.5	19.6 (2024)
UAE	-3.9	7.7	1.5	17.0 (2025)
Oman	4.1	2.2	6.0	n/a
GCC	-4.8	9.1	-2.3	n/a

Source: IMF, Regional Economic Outlook: Middle East and Central Asia, October 2026, Tables 1.1 and 1.2, and World Economic Outlook database, October 2026 (growth and fiscal projections; Kuwait's fiscal figure is general government net lending, a wider measure than Kuwait's budget accounts); Central Bank of the UAE, Financial Stability Report 2025; Saudi Central Bank, Financial Stability Report 2025 (2024 data); Central Bank of Kuwait, financial soundness indicators to June 2026. Capital vintages differ by system and are shown with their reference periods.

An AI correction would reach the region through the two channels the Fund names, lower oil prices from weaker global demand and sovereign wealth funds' "substantial investments in US markets". The sovereign investors disclose their AI positions deal by deal, in figures of different kinds that are not added together; Table 10 carries the disclosures cited in this report. The banks start from capital adequacy of 17.0 to 19.6 percent in the central banks' latest reports and indicators, with Kuwait at 18.2 percent and nonperforming loans of 1.5 percent at June 2026 on the Central Bank of Kuwait's financial soundness indicators. No Gulf central bank report cited here publishes a figure for bank lending to AI or data centre projects.

Table 10. Gulf sovereign investors' AI commitments, as each discloses them

Investor	Vehicle or deal	Figure disclosed	Date
Public Investment Fund	HUMAIN; PIF retains 51%, Aramco acquired 49%	Aramco cash of an estimated SAR 9.9 billion ($2.6 billion), per PIF; 3 GW data centre plan by 2030	1 Nov 2026
MGX	MGX Fund I final close	$49 billion of commitments, above a $45 billion target	1 Jul 2026
MGX, AIP and GIP	Aligned Data Centers, 100% acquired	Enterprise value an estimated $40 billion, per MGX	21 Jul 2026
Kuwait Investment Authority	AI Infrastructure Partnership	First non-founder financial anchor investor; amount not disclosed	3 Jun 2025
Qatar Investment Authority	Funding rounds of Anthropic, Crusoe, SambaNova and others	QIA's own amounts not disclosed	2026

Source: Public Investment Fund, 1 November 2026; MGX, 3 June 2025, 1 July 2026 and 21 July 2026; Qatar Investment Authority newsroom. Commitments, enterprise values and funded amounts are different measures and are not comparable or additive; enterprise values are company totals, not the investors' exposures.

What The Edge Is Watching

First, Nvidia's third-quarter results on 17 November, the first set under the interim chief executive, per the company's schedule. Second, UK and euro area October inflation on 18 November, the next readings for the rates in Table 5. Third, the ECB's Financial Stability Review on 18 November, which updates the May edition cited here. Fourth, US personal consumption expenditure prices for October on 25 November. Fifth, the Federal Reserve's meeting of 8 and 9 December, with new projections, after two members preferred an increase in October; the Bank of England decides next on 17 December. Sixth, the IEA's November Oil Market Report, whose date was still unposted at our 13 November read, and the EIA's next Short-Term Energy Outlook on 8 December.

Outlook: Three Paths to 2027

Four named risks run through the record set out above. Duration: oil staying high on depleted inventories, which the World Bank warns leave the world "more exposed to further supply shocks". The business case: AI revenues falling short of the 650 billion dollars of debt in the Fund's count of circular arrangements. Location: losses landing on leveraged non-banks whose credit lines run to the banks, the overlap the Fund itself names. Energy cost: grid and gas bottlenecks that could delay or interrupt computing capacity which, the IEA says, can cost 20 to 30 billion dollars per gigawatt to rent for a year. The three paths below differ by which of these bind.

What follows are The Edge's qualitative scenarios built on the official record, not alternative official forecasts. On the first path, the shocks fade in sequence. Most Gulf production returns to prewar averages by mid-2027, as the EIA expects, Brent moves toward the 79 to 86 dollar range of the official Brent forecasts for 2027, headline inflation falls back toward core and central banks stop tightening. AI spending continues on more debt, and earnings carry it. World growth tracks the IMF's 3.4 percent.

On the second path, the oil shock lasts. The Fund's scenario of a conflict persisting to mid-2027, with oil reaching 130 dollars, takes 0.5 point off world growth and adds 1.1 points to inflation in 2027, with advanced economy policy rates 50 basis points higher. In The Edge's reading, this path strains AI financing through its cost: it raises the cost of new debt for borrowers whose interest bills have already more than doubled. On the third path, both shocks arrive together. Among the official scenarios in this report, only the Fund's bank stress test pairs the energy shock with an AI correction, and even there aggregate bank capital recovers modestly within the horizon. In The Edge's reading, this path needs the AI correction to come while inflation is still high enough to stop central banks from cutting, which the Fund's own AI scenario does not assume.

The markers that would tell the paths apart are already published series. For the first link, watch headline inflation converging toward core and the Brent curve against the 2027 forecasts. For the second, watch hyperscaler free cash flow, new-issue coupons and any slippage in the 1.4 trillion dollars of circular revenue commitments the Fund counts. For the third, watch redemptions at business development companies, spreads on private credit, the Fed's and the Fund's non-bank exposure measures, and bank capital against the stress test's 11.5 percent trough. For the fourth, watch data centre connection queues and hosting costs in the IEA's reporting. Each appears in the releases listed in What The Edge Is Watching or in the IEA's own publications.

Conclusion

The oil shock is measured and visible: Brent spot remains 29.2 percent above its prewar level on our calculation, energy has lifted headline inflation in the United States, the euro area and Britain, and their central banks have raised rates this year. The AI shock is still a balance sheet story: three hyperscalers' reported long-term debt rose by 208.2 billion dollars in nine months, on our calculation, larger commitments sit off the balance sheet, and the energy the boom needs is itself a constraint the IEA now measures. Banks reach the AI boom partly through their lending to non-banks, and in The Edge's reading higher rates from the energy shock reach the same borrowers.

The official scenarios model the two shocks separately, except the IMF's stress test, which the Fund calls an extreme tail scenario, and no baseline forecast here projects a global recession or crisis. The thesis of this report would strengthen if headline inflation stops converging toward core, if hyperscaler cash flows weaken while new borrowing prices where Oracle's November notes did, at 7 percent and above, or if non-bank redemptions spread; it would weaken if oil tracks the official 2027 forecasts into the 80s and AI earnings carry the debt raised against them. The moment to watch is when AI earnings are tested against debt service while energy still keeps rates up; the Middle East, documented earlier, would meet that moment with buffers, pegs and bank capital the Fund itself describes as strength.

Methodology and Verification Note

Every figure in this report was read at the originator's own publication, as listed in Sources and References. The population is that official record together with the filings of the five hyperscalers and Nvidia; nothing is estimated for any entity outside it. Forecasts and scenarios are the institutions' own, on their own vintage labels; the stress test and the WEO scenarios are hypothetical constructions, not projections of what their authors expect. Views in BIS Quarterly Review articles are their authors'. Third-party estimates appear only where an official body cites them. Where a source calls a figure approximate, this report says "an estimated" and names the source. Spot and futures prices are separate series and are not combined. Changes, multiples and sums computed by The Edge are marked in the text and use published figures; they are computed on unrounded inputs and rounded once, to one decimal in prose unless the originator prints otherwise. Sums combine only figures in one currency and are labelled where dates or definitions differ. Every line of this report was checked editorially against the cited publications before release; the report is not an audit, and no assurance is expressed. Data cut-off: market prices run through 11 November 2026 (EIA spot series, release of 12 November) and 12 November 2026 (futures front month, Treasury yields and Nvidia's closing price; the December 2027 futures observation is of 6 November); company figures are from the latest filings named; several releases in What The Edge Is Watching will update these figures. Issued 13 November 2026.

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