

Artificial intelligence: implications for the economy and equity and fixed income markets

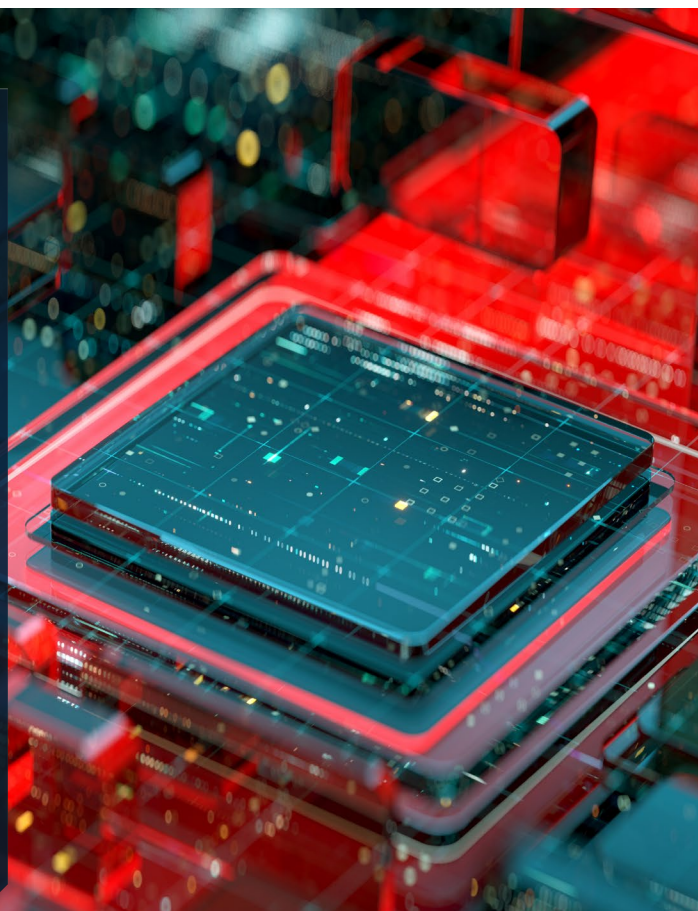


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This document was compiled and edited by Robert Plant and Alexander Fredericks of the EMEA Multi-Asset team. It is informed by the insights, analysis and published research of multiple Columbia Threadneedle investment professionals across our fundamental research, portfolio management and client portfolio management teams. AI is one of the most significant investment themes of our time, and this paper reflects our collective thinking on its implications for investors.

Executive summary

Artificial intelligence (AI) has moved from a narrow technology theme to a broad investment, productivity and financing cycle. The market is transitioning from its first phase, which rewarded scarcity in compute, chips and cloud, to a more demanding phase focused on monetisation, return on capital and balance-sheet discipline.

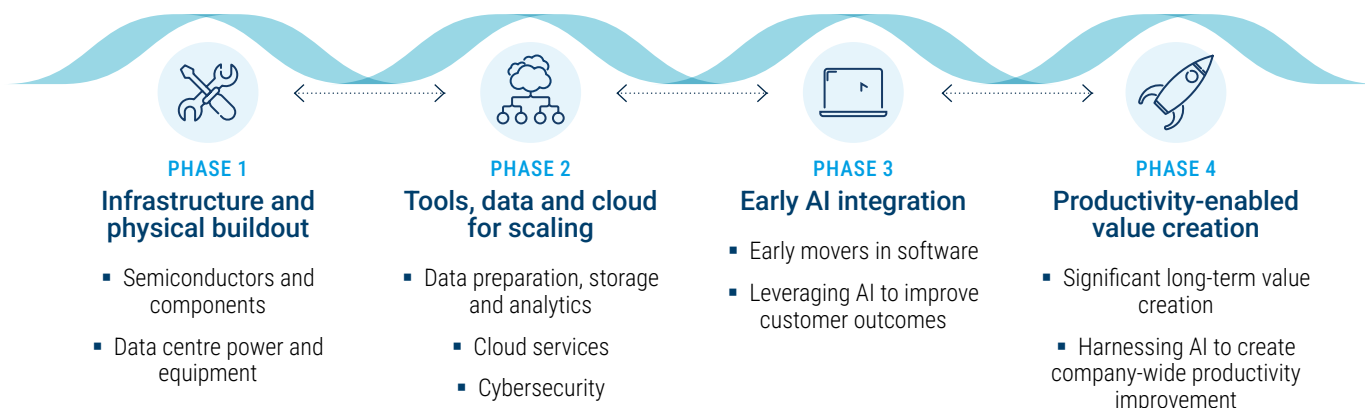
The scale of the build-out is macro-relevant: spending by the largest cloud and technology companies on AI infrastructure is on track to exceed \$750 billion by the end of 2026, up approximately 70% year-on-year, with a further 24% increase projected in 2027. Cloud revenue is accelerating into the mid-40% range for 2026/27, driven by an AI coding inflection that is broadening enterprise demand faster than anticipated, while revenue at the leading AI model developers is growing 13 to 17 times year-on-year.

The opportunity is broadening: data-centre demand is adding approximately 3.4% annually to US power requirements through 2030, creating a secondary investment cycle in gas turbines, electrical equipment and grid modernisation, while data-centre construction loans and asset-backed securities are emerging as distinct fixed income segments.

Four core conclusions: AI is a multi-year investment wave, not a single market event; the opportunity set is widening across infrastructure, software, financial services and credit; disruption is real but uneven; and active selection is essential, as the winners will be those capturing the most value from what is spent, not necessarily those spending the most.

The waves of AI investment growth

Enterprise adoption and monetisation driving AI transformation



Source: Columbia Threadneedle Investments. For illustrative purposes only

Part I: Macroeconomic impact

SECTION 1A

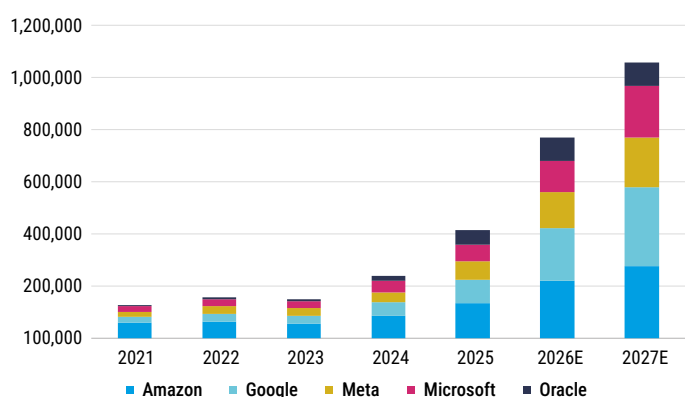
The Capex Cycle – Scale & Durability

Spending by the largest cloud and technology companies on AI infrastructure is on track to exceed \$750 billion by the end of 2026, and evidence across the supply chain suggests the cycle is more durable than markets initially assumed. Taiwan Semiconductor Manufacturing Company (TSMC)¹, the world's dominant chip foundry, has characterised AI demand as appearing "endless", with growth above 40% in 2026 and further spending increases projected for 2027 and 2028. AI agents are emerging as a new demand driver beyond the model training workloads that initially drove the cycle.

At the hardware level, management has provided visibility to approximately 20 gigawatts of energy being put in place across multi-year projects, equivalent to \$800 billion to \$1 trillion of systems revenue over the cycle, with government-backed and specialist cloud customers now representing approximately 50% of GPU revenue. The revenue generated per unit of computing power deployed is rising with each new product generation, a content expansion that market analysis is likely to underestimate. Backlog quality is improving, with one major cloud infrastructure provider reporting outstanding contracted revenue of approximately \$638 billion, up 363% year-on-year, including \$67 billion in AI infrastructure contracts.

Figure 1: Hyperscaler capex forecasts continue to be revised upwards

Annual US public hyperscalers, total capex (\$ billions)



Source: FactSet, August 2026

SECTION 1B

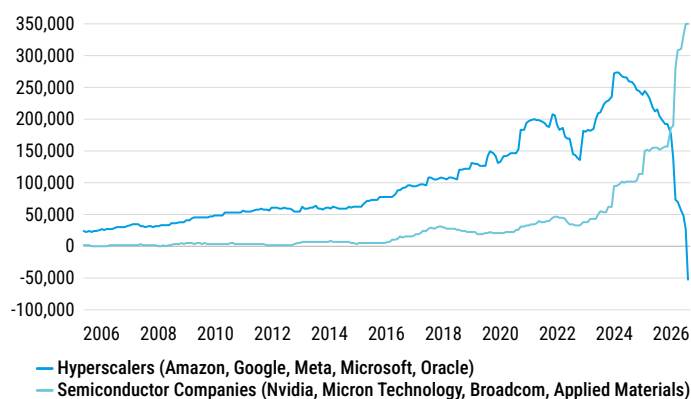
GDP Contribution & Growth Transmission Channels

AI-related investment is expected to add approximately 40 to 50 basis points (0.4 to 0.5 percentage points) to US economic growth in both 2026 and 2027, with the effects flowing through construction activity, electrical equipment demand, regulated utility investment and energy infrastructure. One major regulated utility has raised its five-year investment plan by 33% to \$72 billion, with 22 gigawatts of new contracted data-centre power demand already backed by signed customer agreements, providing a high-visibility earnings stream insulated from the broader AI monetisation debate.

The productivity dividend remains the central macroeconomic question. Corporate surveys find AI costs largely controlled and savings broadly self-funding, but adoption is proceeding without the workflow redesign required to convert it into measurable productivity gains. AI remains a demand stimulus first and a productivity boost second, with academic literature suggesting a potential productivity gain of 6%-16% over a decade, though such forecasts remain speculative.

Figure 2: A generational transfer of free cash flow is taking place

12-month forward FCF of hyperscalers and semiconductor companies (\$ billions)



Source: FactSet, August 2026

1. Mention of specific stocks is not a recommendation to buy or sell.

SECTION 1C
Global Trade & Geographic Concentration

The US captures platform and cloud economics; Asia dominates hardware, memory and chip manufacturing; Europe has fewer platform leaders and faces a more challenging regulatory environment. Nations are increasingly treating AI infrastructure as strategically critical, comparable to energy grids or telecommunications networks, with Gulf state investment programmes representing a growing demand pool less tied to US commercial return calculations.

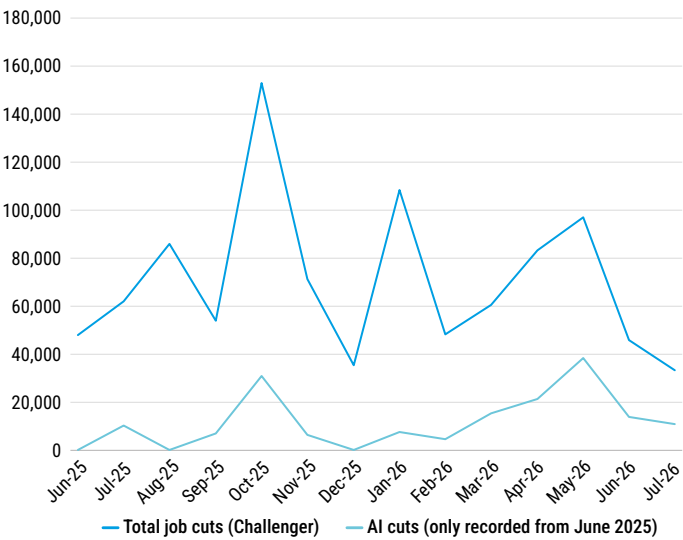
Europe’s position is more constrained: the EU’s AI Act and Data Act risk deterring investment, with eurozone growth forecast at approximately 1.1% in 2026. Selective exposure is nonetheless available through industrial and electrical equipment companies, where one leading manufacturer’s planned business separation will leave approximately 30% of sales exposed to data centres.

SECTION 1D
Labour Markets & Productivity – Disruption Deferred

Despite AI surpassing human performance across a growing range of technical tasks, labour market adjustment is incremental rather than abrupt. AI-related job cuts are rising, accounting for approximately 40% of announced layoffs in May 2026 for the third consecutive month, with cumulative 2026 cuts already exceeding those seen in the whole of 2025. Yet actual redundancies recorded in official US labour market data remain low by historical standards. The primary adjustment channel is hiring restraint rather than outright redundancy, with hiring rates now below pre-pandemic levels as firms absorb AI-related costs while assessing where structural efficiencies can be realised.

Company disclosures reflect a task-based rather than role-based pattern of disruption: technology firms are reducing headcount in process-driven functions, financial services firms are shifting hiring towards AI specialists, and logistics operators are growing output with flat or declining headcount through workflow automation. Across regulated, trust-based industries including healthcare, insurance and asset management, AI augments rather than replaces high-value activities in the near term. The development of more autonomous, so-called “agentic” AI systems, capable of executing multi-step tasks with limited human oversight represents a potential inflection point: as the range of automatable tasks expands, the gradual adjustment visible today could give way to more material workforce reductions, particularly in labour-intensive, process-driven sectors.

Figure 3: Increasingly visible AI-related job cuts
Total job cuts and AI-related job cuts



Source: IRNET, Springer, July 2026



Part II: Equity Market Implications

SECTION 2A The AI Value Chain – A Framework

The market is transitioning from rewarding AI exposure to requiring evidence of monetisation, return on invested capital and cash-flow generation. The opportunity maps across three tiers: first-tier scarcity providers (semiconductors, memory, chip manufacturing, cloud platforms, networking); second-tier physical enablers (power equipment, grid infrastructure, cooling, data-

centre real estate); and third-tier productivity adopters (healthcare, financial services, logistics, manufacturing). The bottleneck shifts over time, as does the locus of returns. Internal research spanning 14 analysts across Big Tech, Industrials, Utilities, Energy and Real Estate has modelled semiconductor demand scenarios through 2030 under bull, base and bear cases.

The AI value chain

From silicon to productivity – three tiers of investment opportunity

TIER 1 Scarcity providers	TIER 2 Physical enablers	TIER 3 Productivity adopters
▪ GPUs & Accelerators Nvidia, AMD, Intel ▪ Custom Silicon Broadcom, Marvell, QCOM ▪ Foundry TSMC, Samsung ▪ Memory / HBM Micron, SK, Hynix, Samsung ▪ Chip design (EDA) Synopsys, Cadence	▪ Networking Arista, Cisco, Connectivity ▪ Cloud platforms AWS, Azure, GCP, Oracle ▪ Data centre REITS Equinix, Digital, Realty ▪ Power Generation GE, Vernova, Cummins, Innio ▪ Electrical equipment Eaton, Schneider, Siemens	▪ Frontier AI labs OpenAI, Anthropic ▪ Enterprise software SAP, Microsoft, Oracle, SaaS ▪ Financial services Insurers, Asset managers, Banks ▪ Healthcare Pharma, MedTech, Diagnostics ▪ Industrials / Other Logistics, Consumer Staples

SECTION 2B Semiconductors – Compute & Memory

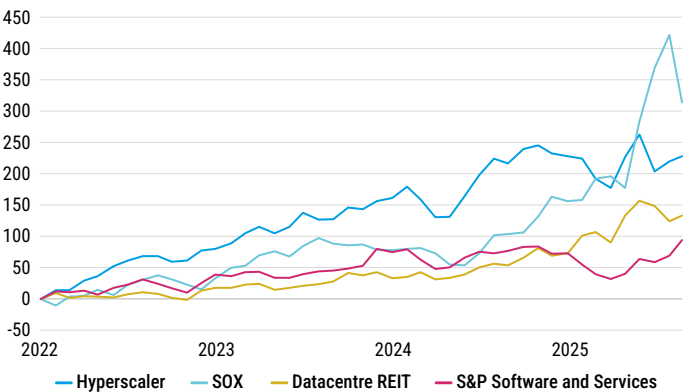
The semiconductor complex remains the most direct expression of the AI investment cycle. Demand is durable, supply is constrained, and the cycle is extending further into the decade than markets assumed. Revenue from data-centre customers is reaccelerating to approximately 100% year-on-year growth, with management providing visibility to \$350 billion of committed sales through 2026. The revenue generated per unit of computing power deployed is rising with each new product generation, driven by networking attach rates above 90% and the integration of central processing units (CPUs) – a content expansion expected to reach \$20 billion in 2027 alone. Custom chips designed specifically for individual customers, known as application-specific integrated circuits (ASICs), are a growing part of the landscape, with revenue at leading designers accelerating from approximately 45% to approximately 85% year-on-year.

At the manufacturing level, AI demand has been characterised as “endless” with demand exceeding supply through to the end of decade and AI agents emerging as an incremental driver beyond model training. Memory is perhaps the most compelling supply-demand story: high-bandwidth memory requires approximately three times more manufacturing capacity than traditional memory, new production facilities will not make a meaningful

dent in the supply gap until late 2027, and the investment thesis has evolved from cyclical recovery to structural scarcity. Networking is similarly inflecting, with AI-related orders growing more than 200% year-on-year as older connection technologies become obsolete and the shift to higher-value solutions benefits a narrow group of suppliers.

Figure 4: Evolving industry dynamics

Four major hyperscalers equal-weighted returns versus PHLX Semiconductor Sector Index (SOX) and data-centre REIT ETF, since ChatGPT launch date (total return)



Source: FactSet, August 26

SECTION 2C

Networking, Power & Enabling Infrastructure

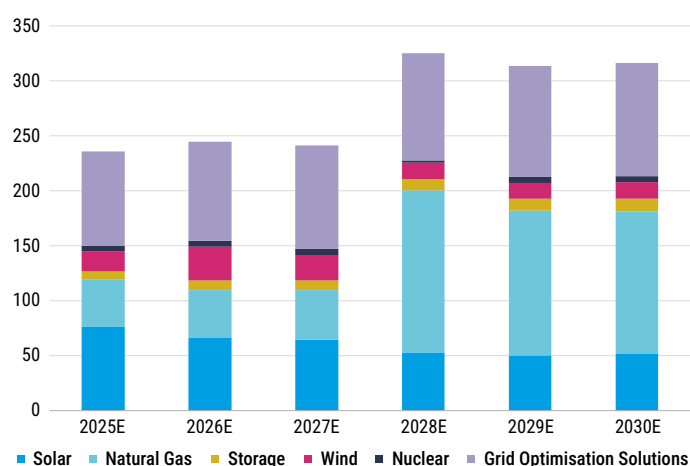
The bottleneck is shifting from chips to electrons. Internal research models data-centre-driven power demand adding approximately 3.4% annually to US power requirements through 2030, with aggregate supply sufficient even under optimistic compute scenarios. Nonetheless, non-power constraints including planning approvals, electrical equipment delivery times and shortages of skilled electricians may slow deployment.

Regulated utilities, electricity companies that earn a government-approved rate of return on infrastructure investment, are a direct and high-visibility beneficiary. Data-centre load growth is driving capital investment programmes not seen in decades, with select utilities targeting near-double-digit annual earnings growth through the end of decade, earning their regulated return regardless of whether any individual data-centre customer succeeds commercially.

The power generation equipment market is acutely constrained: total industry turbine capacity is approximately 65 gigawatts, well below demand, with large utility-scale turbines sold out through the second half of 2029. This is driving a parallel market in distributed gas engines installed directly at data-centre sites. Electrical equipment is similarly constrained, with one leading manufacturer's planned business separation leaving approximately 30% of sales exposed to data centres.

Figure 5: Data centre power demand

US incremental power supply forecast (TWh)



Source: IRNET, Lenehan, 2026

SECTION 2D

Cloud Platforms & Hyperscalers

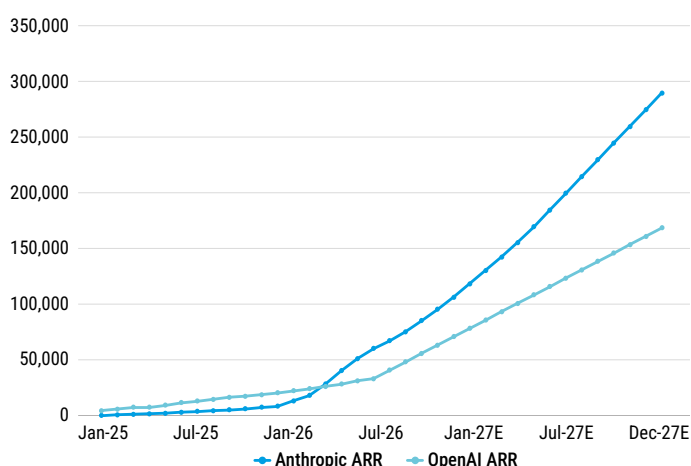
Cloud revenue is accelerating into the mid-40% range for 2026/27, driven by an AI coding inflection that is broadening enterprise demand faster than anticipated. The structural advantage of the largest cloud providers, combining software distribution with computing infrastructure, is superior to smaller specialist cloud operators that offer computing capacity alone.

The frontier AI model developer ecosystem is adding an important new dimension. Anthropic is at approximately \$85 billion in annualised revenue, adding \$10 billion-\$15 billion of new contracted revenue per month, with growth accelerating from approximately 13 times year-on-year in the first quarter of 2026 to approximately 17 times in the third quarter, driven by organic adoption rather than sales-led growth. A stock market listing for Anthropic is projected in late 2026 at a valuation of \$1.5 trillion-\$2 trillion. OpenAI is projected to reach approximately \$280 billion in revenue by 2030. Combined, Anthropic and OpenAI represent only approximately 0.4% of US corporate operating expenditure, suggesting AI penetration of enterprise budgets remains in its very early stages.

The key risk is the relationship between investment and returns: lower-cost Chinese open-source AI raises a fundamental question about whether the current trajectory of US AI infrastructure spending can be sustained if the performance premium of leading US models narrows, though cheaper models may ultimately accelerate adoption and drive more cloud consumption.

Figure 6: AI Lab revenue growth acceleration

Anthropic and OpenAI annualised recurring revenue (\$ million)



Source: IRNET: Vandergrift, July 2026

SECTION 2E

Software & Enterprise Adoption

Software is the most contested segment of the AI equity landscape. The market's reaction to disruption risk has overshot: fundamentals remain solid, with revenue growth expected at approximately 9.4% in the second quarter of 2026. Disruption risk is real but differentiated. Applications with weak competitive differentiation and low customer switching costs are genuinely vulnerable, but platforms controlling proprietary workflows and providing the governance and compliance layer for AI adoption are more likely to be strengthened than disrupted.

Revenue from AI model developers selling directly to enterprises is growing approximately five times to roughly \$73 billion in 2026 and is projected to grow at approximately 47% per year through 2030, reaching approximately \$535 billion (roughly 22% of overall software industry revenue). Overall industry growth is expected to remain approximately 12%, even with modest deceleration elsewhere.

Beyond technology, AI adoption is surfacing across sectors but evidence remains early-stage: an innovation tool in healthcare, a headcount offset lever in insurance, and an augmentation tool in financial services.

SECTION 2F

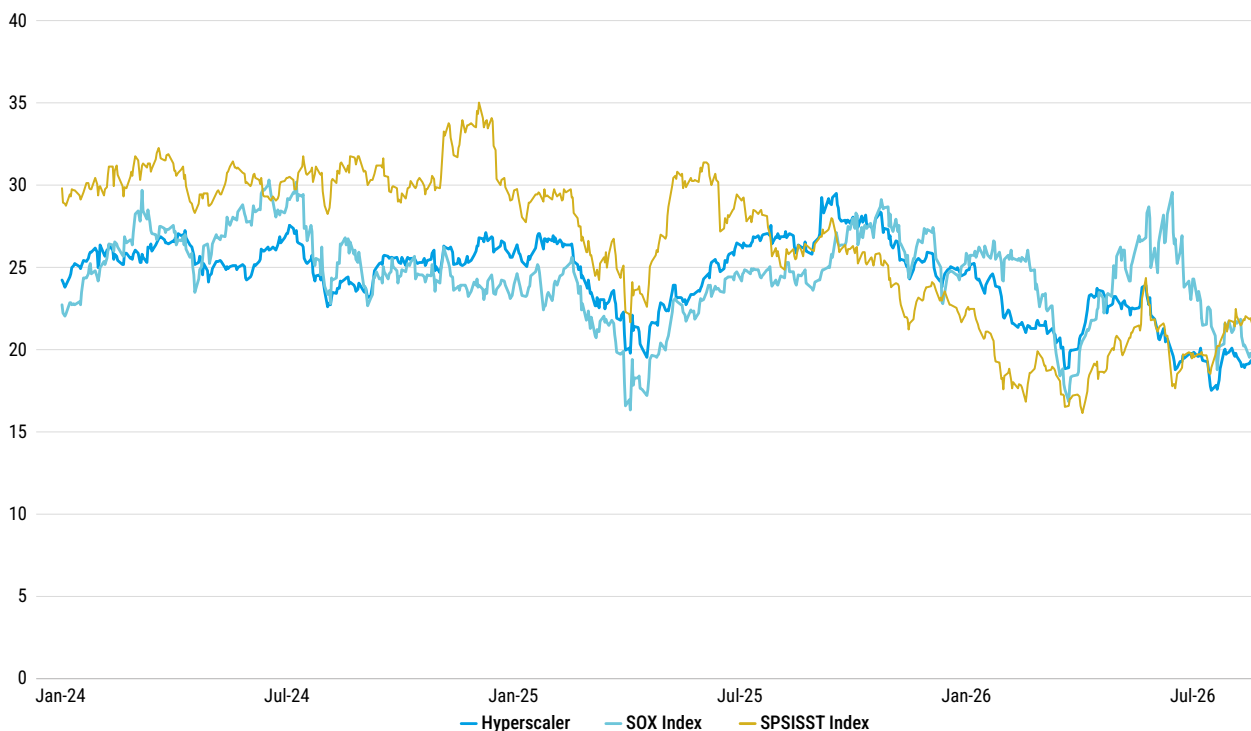
Valuations, Corrections & Entry Points

The current phase is characterised by falling valuation multiples in some of the most prominent AI names, even as earnings forecasts have risen sharply, reflecting the market's demand for monetisation evidence rather than a deterioration in fundamentals. Leading chip and memory names are trading at low double-digit multiples on forward earnings estimates that may themselves prove conservative, representing an undemanding entry point for investors with a multi-year horizon.

In cloud and hyperscaler equities, the valuation debate centres on capital spending versus free cash flow (the cash a business generates after investment), with several of the largest AI infrastructure investors guiding to negative free cash flow for the next two to three years. The software sell-off has created selective entry points: platforms with proprietary data, recurring revenues and workflow control have been indiscriminately sold alongside more vulnerable commoditised tools, and the distinction between these two groups is likely to widen as the cycle matures.

Figure 7: Software concerns centre around forward-looking assumptions rather than today's fundamentals

12-month forward price/earnings



Source: Bloomberg, as of July 2026

Part III: Fixed Income Implications

SECTION 3A

The AI Debt Boom – Supply Dynamics

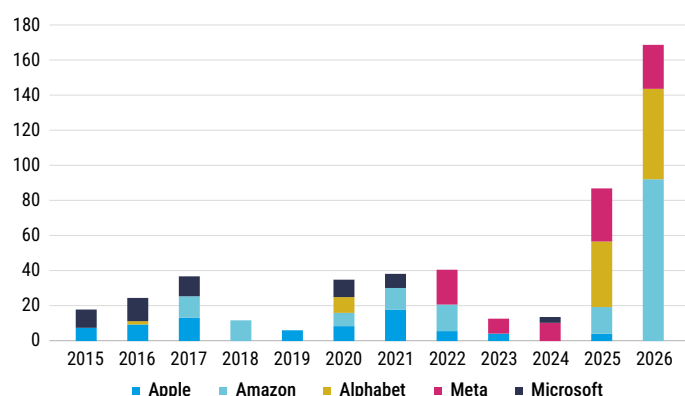
AI is increasingly a fixed income theme. Capital is being raised across corporate bonds, loans, private credit, infrastructure finance and project finance. Investment-grade technology bonds are trading approximately 80 basis points (0.8 percentage points) wider than the broader US corporate bond market, a persistent premium reflecting the sheer volume of new issuance that is unlikely to dissipate as capital spending accelerates.

Beyond the corporate bond market, single-asset data-centre bonds are pricing at 165-170 basis points above equivalent government bonds, offering a meaningful yield pick-up over similarly rated corporate debt. Lower-rated data-centre bonds, rated BBB, the lowest investment-grade category, are considered cheap at spreads in the high 200s to low 300s basis points, compared with similarly rated secured corporate deals in the high 100s. Asset-level construction financing for large-scale data-centre facilities, backed by long-term leases where the tenant pays all operating costs, represents the highest-quality end of the project finance market, with the ability to complete construction on time and on budget as the primary credit risk rather than demand risk.

Power infrastructure financing is similarly evolving, with gas generation assets installed directly at data-centre sites and backed by long-term contracts where the buyer is committed to take or pay for the power regardless of usage, emerging as a distinct asset class.

Figure 8: Data centres are a fixed income theme

Bond issuance by hyperscalers (\$ billions)



Source: Bloomberg, July 2026

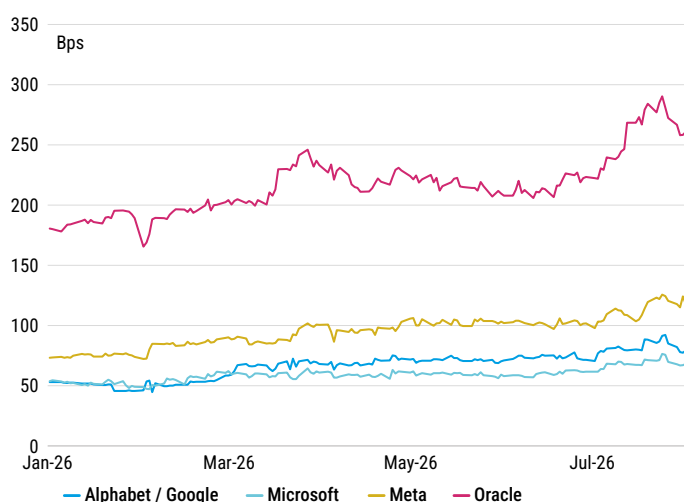
SECTION 3B

Credit Quality & Fundamental Assessment

Higher capital spending is not automatically negative for bondholders. Strong companies with resilient cash flows can fund investment without undermining their credit quality, and bond spreads have remained near their tightest levels in years despite record issuance. Nonetheless, the credit lens reveals distinctions the equity narrative can obscure.

Figure 9: Hyperscaler credit distinctions in 2026

10-year credit default swap spreads for selected hyperscalers (bps)



Source: Columbia Threadneedle Investments / Bloomberg, 7 August 2026

In data-centre project finance, the key variables are the quality of the underlying asset, tenant concentration, access to power, the maturity profile of the debt and the residual value of the facility, with the ability to complete construction on time and on budget as the primary consideration. Siting quality matters: facilities in established markets with proven power connections carry lower risk than those in remote locations where grid connections are uncertain and skilled labour is scarce. Water access is an increasingly important variable as liquid cooling becomes more prevalent in high-density computing environments.

Lower-quality borrowers are more exposed: software, business services and labour-intensive companies may face revenue pressure if AI erodes their existing service models, while floating-rate debt and the need to refinance at higher rates can amplify the risk. This does not imply a broad market dislocation, but it does imply wider dispersion between winners and losers, and careful security selection should matter more than simply owning broad market exposure.

SECTION 3C

Infrastructure & Project Finance

The most important structural distinction in data-centre finance is between asset-level construction financing, where credit risk is primarily the ability to deliver a contracted asset, and corporate-level financing, where credit risk reflects the broader business model of the operator. Asset-level structures backed by long-term leases with investment-grade technology tenants offer a credit profile closer to infrastructure debt than corporate credit: revenue is contracted, the counterparty is financially strong, and the primary risk is asset delivery.

Power infrastructure financing is similarly evolving, with gas generation assets serving data centres and backed by long-term take-or-pay contracts emerging as a distinct asset class. The midstream energy sector benefits indirectly, as increased gas-fired power generation drives incremental demand for pipelines and storage infrastructure.

SECTION 3D

Relative Value & Positioning

Our fixed income view is more cautious on broad AI-related corporate bonds than the equity view. Heavy supply, capital spending uncertainty and borrowing ahead of proven revenue generation argue against relying on further spread compression. We favour higher-quality, shorter and intermediate maturity bonds alongside selected secured, asset-backed and infrastructure-linked opportunities with clear cash-flow visibility and strong underlying assets.

Single-asset data-centre bonds at 165-170 basis points offer a compelling yield pick-up over equivalently rated corporate bonds; lower-rated data-centre asset-backed securities in the high 200s to low 300s basis points are considered cheap relative to similarly rated secured deals. We are cautious on long-dated technology bonds, lower-rated software and services borrowers, leveraged loans and private credit funds exposed to AI disruption or refinancing risk. Any deterioration in bond market access, including wider pricing on new issues, underperformance of longer-dated AI-related debt, or stress in private funds financing data-centre assets, should be treated as a warning signal for equity markets as well as credit.



Part IV: Portfolio Construction & Cross-Asset Implications

SECTION 4A Multi-Wave Framework & Timing

AI is a cross-asset theme affecting equities, bonds, real assets, inflation-linked securities and regional allocation. The multi-wave framework is the most useful organising principle: the first wave of infrastructure and build-out is well advanced; the second wave of tools, data and cloud scaling is clearly underway; the third wave of early AI integration into business workflows is beginning to emerge; and the fourth wave of broad-based productivity gains across the economy remains largely prospective.

The near-term balance of risks points to resilient economic growth, price pressure in bottleneck areas such as power and

construction, and upward pressure on longer-term interest rates before any productivity dividend becomes visible. AI-related capital spending is expected to add approximately 40-50 basis points (0.4 to 0.5 percentage points) to US economic growth in both 2026 and 2027. A modest preference for shorter-duration bonds, which are less sensitive to interest-rate rises, is appropriate, particularly at the longer end of the yield curve. Inflation-linked bonds can help manage the risk that the build-out raises power and infrastructure costs more persistently than expected.

AI investment wave framework

Four sequential phases (we are currently in phase 1-2)

PHASE 1 Infrastructure & build-out		PHASE 2 Tools, data & cloud scaling		PHASE 3 Early AI integration		PHASE 4 Productivity value creation	
Current	2022-2026	Emerging	2025-2027	Early stage	2026-2028	Prospective	2028+
▪ Data centres ▪ Semiconductors ▪ Power and grid ▪ Networking		▪ Cloud platforms ▪ Frontier AI labs ▪ Developer tools ▪ Model APIs		▪ Enterprise software ▪ Financial services ▪ Healthcare ▪ Industrials		▪ GDP uplift ▪ Margin expansion ▪ Labour productivity ▪ New business models	

Source: Columbia Threadneedle Investments, August 2026

SECTION 4B Concentration Risk & Diversification

The first phase of the AI cycle created significant concentration risk: broad market index exposure became, in effect, concentrated AI exposure. The next phase should reward a more diversified approach.

In equities, we retain a constructive view on the broad AI earnings cycle but would diversify beyond the first wave of large cloud and chip companies into power, cooling, electrical equipment, capital goods, networking, selected data-centre real estate and Asian supply-chain companies. The sell-off in software stocks has created selective opportunities in platforms with proprietary data, recurring revenues and workflow control.

Geographically, the US remains central for platform economics; Asia is essential for hardware, memory and chip manufacturing; and Europe offers selective exposure through industrial and electrical equipment companies. Government-backed AI infrastructure programmes create demand pools less correlated with US commercial monetisation cycles.

In fixed income, we favour higher-quality issuers, shorter and intermediate maturity bonds, and selected secured infrastructure or data-centre-backed structures. In real assets, we favour power, grid, cooling and selected data-centre assets with scarce power connections, strong counterparties and conservative financing, avoiding projects dependent on speculative demand or uncertain grid access.

Cross-asset implications of the AI cycle

	Opportunity	Risk	Key discipline
Equities	Monetisers and enablers	Valuation and concentration	Return on capital
Credit	Infrastructure finance	Supply and dispersion	Quality and tenor
Rates	Growth support	Higher real yields	Flexible duration
Real assets	Power, grid, data centres	Permitting and regulation	Contracted cash flows
Regions	US, Asia, Europe channels	Uneven benefit	Channel mapping

SECTION 4C

Scenario Analysis – Bull, Base, Bear

Bull case AI adoption broadens materially outside technology, cloud companies demonstrate that higher capital spending translates into durable free cash flow, and model capabilities continue to advance faster than cost deflation erodes infrastructure returns. Equity leadership broadens significantly and the investment opportunity becomes more durable across the value chain.

Base case The cycle continues at broadly its current pace – cloud revenue growth sustains in the mid-to-high 30% range, chip demand remains strong but moderates from peak rates, and enterprise adoption broadens gradually without a step-change in aggregate productivity. Bond markets remain open but with persistent supply pressure on technology spreads, and equity returns are positive but more dispersed.

Bear case Capital spending continues to rise while revenue evidence weakens, lower-cost open source AI closes the performance gap with leading US models faster than expected, and regulatory or political intervention changes the economics of deployment in key markets. Free cash flow deteriorates, bond markets become less willing to fund the build-out, equity valuations fall and the distinction between technology success and investment success becomes starkly apparent.

The signposts to monitor: capital spending revisions, cloud revenue growth, contract backlog quality, data-centre utilisation rates, power availability, chip and memory pricing, free cash flow after investment, AI-related bond issuance, software pricing trends, enterprise adoption rates and sector-level margin improvement.

Scenario analysis – bull, base and bear

Bull case	Base case	Bear case
1. Capex Demand-led. FCF positive by 2028	1. Capex Continues. FCF negative for 2-3 years	1. Capex Rises while monetisation weakens
2. Cloud rev Sustains 40%+ YoY through 2027	2. Cloud rev Mid-to-high 30% range, moderates	2. Cloud rev Decelerates, usage lags capacity
3. Productivity Broad-based uplift across sectors	3. Productivity Gradual, no macro step change	3. Productivity Delayed, no visible macro uplift
4. Open source Accelerates adoption. Expands TAM	4. Open source Competitive pressure, manageable	4. Open source Closes gap, pressure US returns
5. Equities Leadership broadens, multiples re-rate	5. Equities Positive, dispersed, broadening	5. Equities Multiples fall, dispersion widens
6. Credit Spreads stable, supply absorbed	6. Credit Open, persistent supply premium	6. Credit Spreads widen, access tightens

Source: Columbia Threadneedle Investments, August 2026



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