For Professional Clients and Qualified Investors Only.
Capital at Risk.

Q3 2026

AFI Outlook

AI goes global

AI goes global

AI's global expansion is reshaping markets, politics and the balance of economic power

Colin Reedie
Head of Active Strategies
/ Co-Head of Global Fixed Income

Some technologies have the power to change something forever. A rare few can change everything forever.

But if anything in our history has the ability to concentrate economic and political power in the hands of the few, it's unambiguously AI.

We have witnessed extraordinary technological innovations before. They have deeply influenced the economic, political and social landscapes of their day. AI is no different – it's just playing out much faster than even the most bullish early forecasts suggested.

We have highlighted before that the investment required to build out AI infrastructure would be large enough to have macro significance. Today, we would argue that AI marks a fundamental decoupling of capital expenditure from traditional productivity expectations.

This is now a regime shift from cost optimisation towards massive, almost non-negotiable capex outlays with the capital raising and borrowing to fund all of this required today, likely to extend over the next three years and beyond.

One of the reasons why credit spreads have been so tight so far could be that up until now, investment grade indices have been relatively insulated from the disruption the AI theme has caused. They are largely made up of the older, more capital-intensive industries. It's hard to see how AI could disrupt regulated utility, infrastructure or asset-heavy parts of the economy anytime soon. Whereas the main equity indices are dominated by tech and related companies which are more exposed to the early stages impact of this new technology.

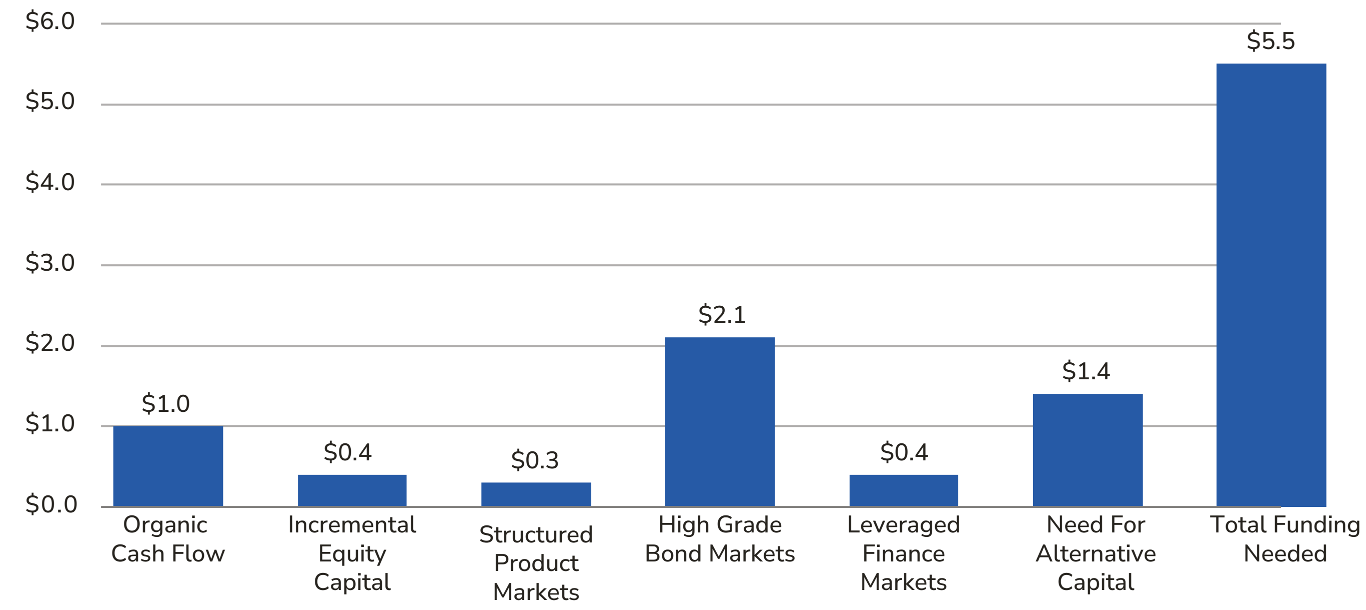
That is now changing.

Since late last year, AI-related infrastructure debt issuance is in excess of $300 billion[1] and issuers have been quicker to diversify their investor base globally than most initially expected.

What began as a US story is rapidly going global. US technology firms are increasingly raising funding in international markets and spreading the AI capex boom across global credit markets. Data centres and the supporting infrastructure builds are accelerating across regions including Europe, the Middle East and Asia. Over the next few pages, you can read our insights on how the globalisation of AI is impacting Euro credit, emerging market debt and global high yield.

1. J. P. Morgan, as of June 2026

Anticipated AI capex funding sources over the next five years ($tn)



J. P. Morgan, as of June 2026

As of June 2026. Assumptions, opinions, and estimates are provided for illustrative purposes only. There is no guarantee that any forecasts made will come to pass.

As companies experiment with Claude Code and what it can do for them, there is a dawning realisation of how AI could potentially change how a labour market functions. People can see that it could disrupt livelihoods, jobs and the way society currently conducts itself.

AI's impact will be felt right across the labour market, but if it initially comes at the expense of those looking to enter the working-age population, then generational conflict is a possibility within society. We are seeing the early stages of the anxiety, tension and friction that AI delivers in the US, with a growing negativity around this new technology, especially at the state and local level.

Does this threaten the whole AI capex boom? We don't think this will happen just yet, as the numbers are just too big.

However, the US political system will begin the long process to elect its next President after the mid-terms in November. If the pushback against AI becomes big enough to attract the attention of the politicians, what are the chances of an anti-AI ticket emerging? The potential for a populist anti-AI narrative with a political figurehead could have significant implications for current equity valuations and portfolio concentrations. Either way, AI will be a key theme in the election of the next US President. All candidates that run in 2028 will need to have a very clear message on their AI policy.

If governments seek to regulate the pace of adoption because of this perceived threat to jobs, then markets will start to question valuations and the return on investment for all this capex. Any meaningful shift in US policy on AI will undoubtedly have a ripple effect across global markets and politics.

The societal pushback is understandable, and the concerns behind it are legitimate. But returning to my initial point, AI leadership is increasingly becoming a proxy for economic and geopolitical influence. That could make the risk of the West pulling back unilaterally, while others continue to accelerate, one worth taking seriously.

Q3 2026 | Active Fixed Income Outlook: AI goes global

Q3 2026 | Active Fixed Income Outlook: AI goes global

AI in EMD: Productivity to power and politics

AI capabilities are playing an even greater role in global economic competitiveness and geopolitical influence

Avani Bhandari
Emerging Markets
Sovereign Analyst

Philip Parslow
Active Strategies
Investment Specialist

While much of the debate around AI's macroeconomic impact has focused on productivity and employment, less attention has been paid to how it reshapes domestic and geopolitical dynamics.

AI capabilities are increasingly shaping global economic competitiveness and geopolitical influence. For emerging markets (EMs), this raises the question: which economies are positioned to benefit?

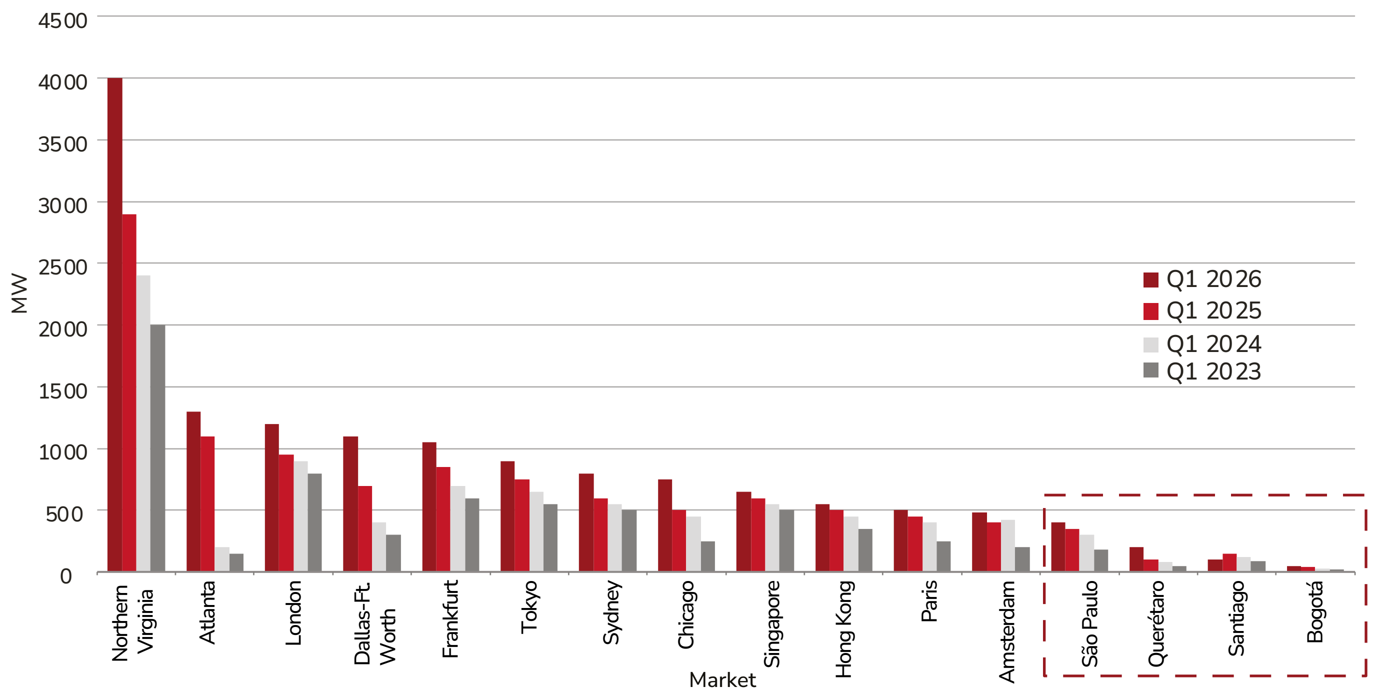
From an infrastructure perspective, the current narrative has largely focused on the US and China. Together, these nations host 86% of global data centre capacity, underscoring how concentrated the foundations of AI remain.[2] However, the race between them is not solely about AI growth but reflects a contest for AI sovereignty – who builds, governs and controls the digital world.

Looking beyond infrastructure leaders, a broader set of EM countries may benefit from AI growth through geography or domestic policy, challenging a 'winner-takes-all' outcome.

For example, Brazil's substantial energy capacity, network stability, low exposure to natural disasters, abundant water supply and US proximity make it an attractive location for expanding data centre investment. This is evident in São Paulo, as well as in Chile (Santiago), Mexico (Querétaro) and Colombia (Bogota) where capacity expanded 41% year-over-year in Q1 2026.[3]

2. The Diplomat, The China-US AI Race Enters a New (and More Dangerous) Phase
3. Moody's Ratings, as of September 2025

Data centre inventory by market (in mega watts)



Source: CBRE Research, Q1 2026.

Gulf states are leveraging energy resources, sovereign capital and land availability to position themselves within the AI supply chain.[4] Saudi Arabia's state-backed, HUMAIN is developing data centres in Riyadh and Dammam, while the UAE is partnering with US and Asian technology firms. These hubs are emerging as locations for compute-intensive workloads, diversifying AI infrastructure geographically.

AI success is not determined by infrastructure alone, but access to skilled labour. While western education systems has historically led global developments, AI-related education is increasingly shifting towards EM.[5]

According to the US National Science Board, in 2021, China awarded the most Science and Engineering (S&E) doctoral degrees, with the US ranking second, and India third.[6]

For EMs, this suggests AI-driven geopolitical competition may be more distributed, with countries leveraging resource advantages, policy support and labour skill to strengthen their role in the global AI ecosystem.

Q3 2026 | Active Fixed Income Outlook: AI goes global

AI is increasingly shaping political and social outcomes in EMs

AI-generated content provides a low-cost, scalable channel for targeted messaging. Governments may deploy such tools to support narratives, while social media broadens the rhetoric of activists and third parties. Recent election campaigns in Hungary and Colombia incorporated AI-generated content.[7] As content quality improves, it becomes even more challenging to distinguish between authentic and manipulated media, particularly when regulatory oversight remains limited.[8]

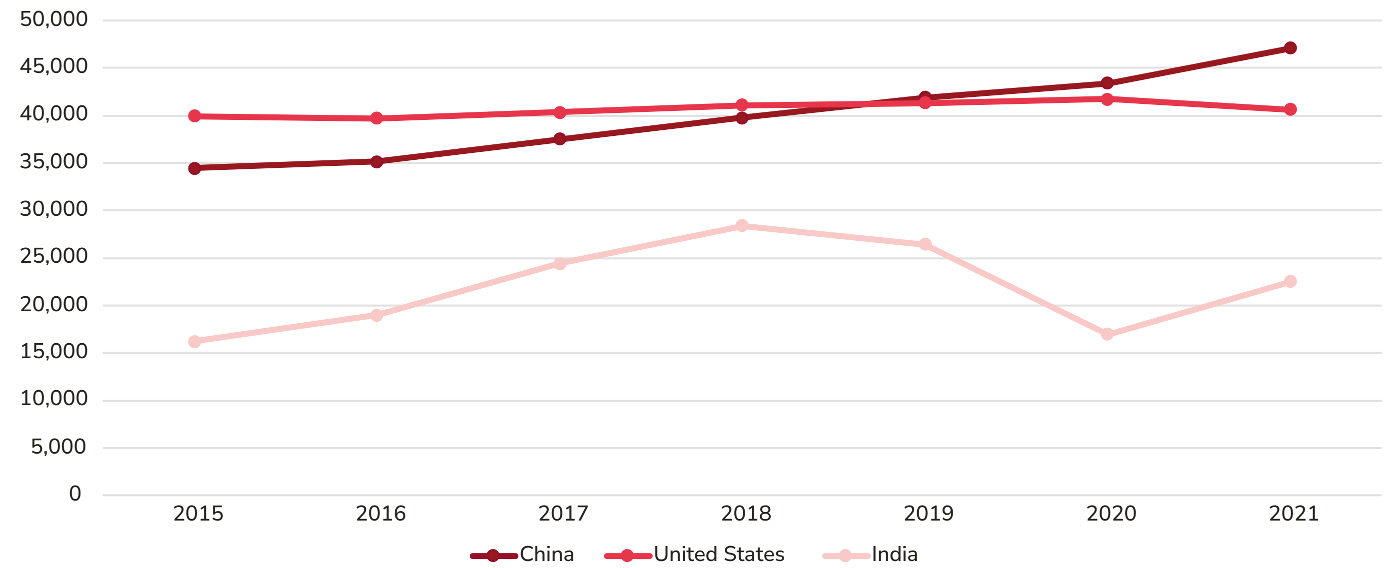
Governments are also incorporating AI use in surveillance and intelligence, prompting debate around data access and privacy. State military intelligence groups, even most recently with the Iran conflict, have cited using AI to analyse CCTV footage.[9] This raises reliance and security concerns around foreign technology, potentially encouraging shifts towards more domestic AI development.[10]

While not unique to EM countries, the implications may be more pronounced – given the weighting of political stability in sovereign assessments. From a credit perspective, the ability to shape political outcomes or enhance intelligence capacity may influence how these risks are evaluated. L&G's EM sovereign risk process incorporates a qualitative framework to capture areas we believe are critical to economic and social outcomes, together with the ability (and willingness) to pay.

Our positioning in L&G EMD portfolios is driven by our macro-first approach. While generative AI content can amplify volatility, we prioritise structural themes versus positioning that is driven by transient market headlines. We see opportunities in metals and mining in Mexico and Brazil, where demand is being supported by AI-related investment, through supporting chip manufacturing and data centre builds, as well as strong US economic ties.

We also have select exposure to telecoms in the region, as well as Europe, Africa – particularly issuers linked to Asian hyperscalers – and South Korea. Telecoms, namely mobile data/network providers are driving development in cloud and AI digital data services and are well-placed to benefit from long-term structural trends, in our view.

Number of science & engineering doctoral degrees awarded by country



Source: National Science Board, The State of US Science and Engineering 2026 – May 2026. Note: To facilitate international comparison, data for the United States are those reported to the Organisation for Economic Co-operation and Development, which vary from the National Center for Science and Engineering Statistics classification of fields presented in other sections of the report. Data for China are not available for 2023; data for India are not available for 2022–23.Source(s): OECD, Education at a Glance; National Bureau of Statistics of China, China Statistical Yearbook; People's Republic of China, Ministry of Education data; Government of India, Ministry of Education, Department of Higher Education, All India Survey on Higher Education.

4. Moody's Ratings, as of September 2025
5. The Economist, China is winning the AI talent race
6. These outcomes continue in more recently reported data by the NSB for individual countries (China, 2022 and United States, 2023), as well as in unadjusted figures that are available from the individual country sources referenced.
7. Time, When Virality Is The Message: The New Age of AI Propaganda.
8. Frederic Naumann Foundation – Generative AI and it's Influence on Mexico's 2024 elections.
9. Financial Times, New AI espionage powers trigger Putin camera scare.
10. The Belfer Centre for Science and International Affairs AI and Geopolitics: Global Governance for Militarized Bargaining and Crisis Diplomacy

Euro credit:
AI's next frontier

As hyperscaler debt moves into euros, what are the potential opportunities and risks for euro credit investors?


Marc Rovers
Head of European Credit

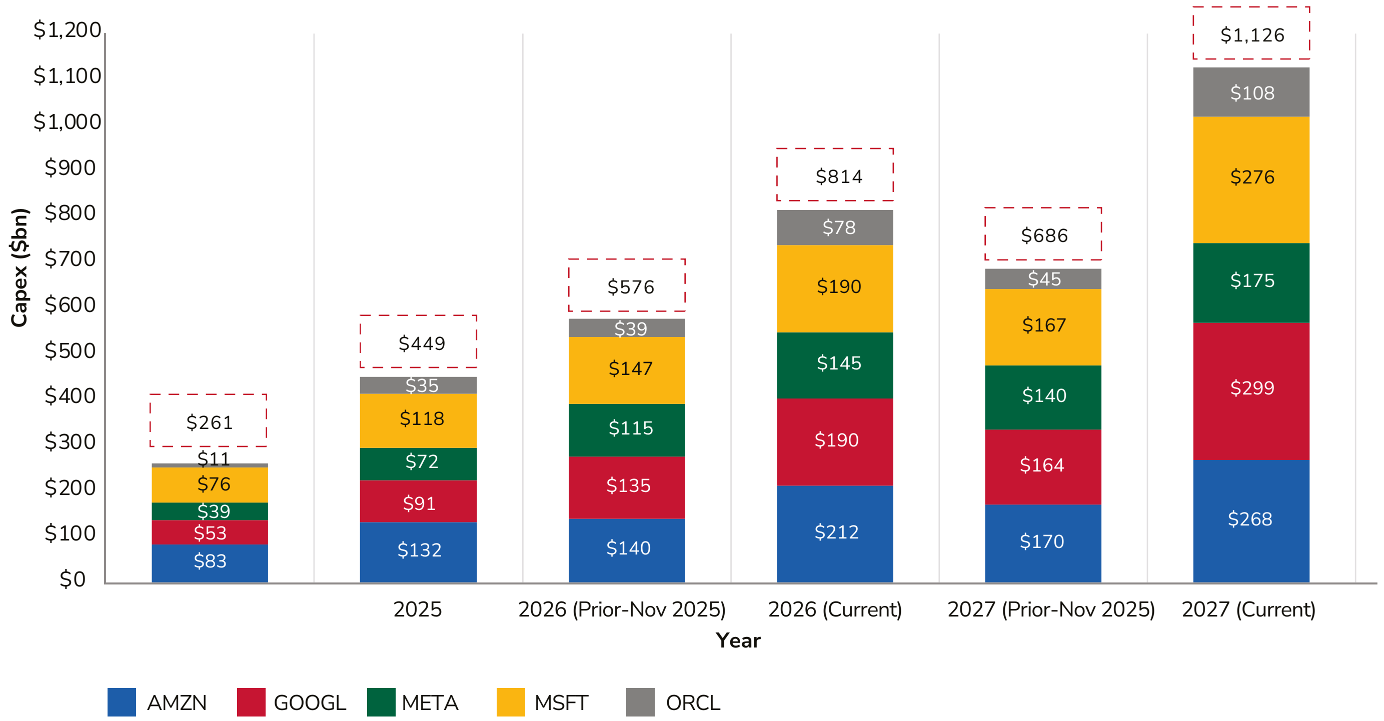
Magdi Yasin
Fixed Income Investment Specialist

Q3 2026 | Active Fixed Income Outlook: AI goes global

A structural shift is underway in European credit markets – and it's being driven by artificial intelligence (AI).

Hyperscalers are increasingly turning to debt, supplemented by data centre real estate, structured deals and utility/project finance for power. The scale of AI investment has consistently exceeded expectations and has therefore been subject to multiple upward revisions. This is illustrated by the chart below, where we look at capex expectations for 2026/2027, and how those expectations have changed from November 2025 to today.

Hyperscaler capex continues to get revised higher



Source: Morgan Stanley: AI Debt Financing Tracker – Taking Off, as of 10 April 2026.

Assumptions, opinions, and estimates are provided for illustrative purposes only. There is no guarantee that any forecasts made will come to pass. For illustrative purposes only. Reference to a particular security is on a historic basis and does not mean that the security is currently held or will be held within an L&G portfolio. The above information does not constitute a recommendation to buy or sell any security.

Broker estimates for AI-linked investment grade (IG) supply cover a wide range, from $175 billion (Bank of America)[11] through $150 billion (BNP)[12] to $420 billion (JP Morgan[13] and Morgan Stanley).[14]

Until recently, issuance has been mostly confined to the US dollar market. But this is increasingly expanding to other currencies – including the euro – as the huge amount of capital that is required is forcing issuers and their lead banks to diversify their funding sources and look for additional pools of capital.

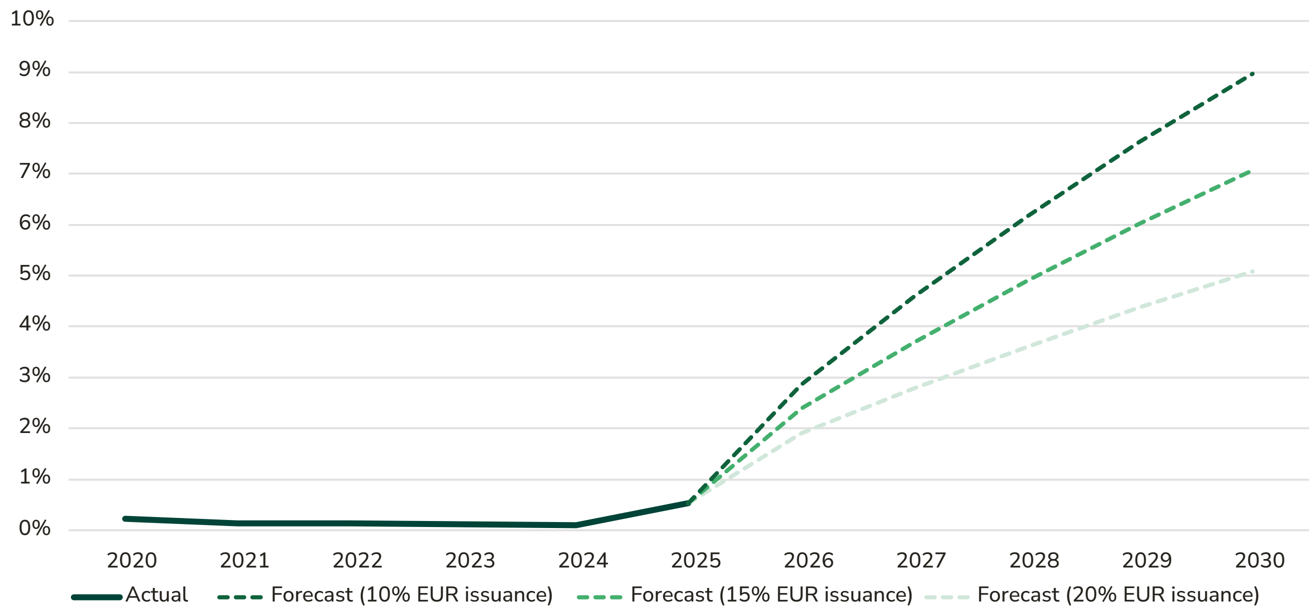
Our credit analysts estimate[15] that going forward, 10-20% of hyperscaler public bond issuance could be in euros. If we assume an estimated $350 billion annual funding requirement, we believe this would equate to roughly around $35-70 billion of euro-issued bonds per year.[16] However, if the total amount exceeds $350 billion – and as we have noted, capex continues to be revised higher – the euro figure could be stretched even further.

This would imply a rapid increase in hyperscaler-related exposure to 5-9% of the total euro IG credit market over the next five years. Since the technology sector currently represents less than 2% of the euro IG universe, this would be a meaningful reweighting.

11. Bank of America, Maintaining '26 hyperscaler supply forecast but expect more in '27, 1 May 2026.
12. BNP, US Credit: AI Hyperscalers Capex & Supply: No Slowdown in Sight, 8 May 2026.
13. JP Morgan, AI Capex 2.0, 16 June 2026).
14. Morgan Stanley, AI Debt Financing Tracker: Warming Up for a Hot Summer, 9 June 2026.
15. L&G analysis as at June 2026.
16. Assumptions made: $350 billion of capex globally, index to grow at same compound annual growth rate as past 10 years, EUR issuance share assumed to be 10%, 15% and 20% of global capex ($350 billion).

Q3 2026 | Active Fixed Income Outlook: AI goes global

Hyperscalers exposure in Bloomberg Aggregate Euro IG Index



Source: L&G, Bloomberg. Index used: Bloomberg Barclays Euro Aggregate Corporates as of June 2026

Assumptions, opinions, and estimates are provided for illustrative purposes only. There is no guarantee that any forecasts made will come to pass. The value of an investment and any income taken from it is not guaranteed and can go down as well as up, and the investor may get back less than the original amount invested.

For European IG investors, this evolving dynamic creates some potential opportunities – but also requires careful consideration.

From a sector and rating perspective, these hyperscalers are a welcome addition to the euro market. The new supply is typically higher rated; very liquid, with large issue sizes and multiple tranches building a 'proper' curve; and, as mentioned above, increases technology exposure. As a result, we would expect technology to represent a larger part of our European credit portfolios in the future. However, we will be actively monitoring and managing this with a close eye on the overall sector dynamics combined with stringent bottom-up credit analyses. As leverage increases, ratings may come under pressure. Therefore, we believe it is crucial to be forward looking when making a relative value assessment.

This issuance increase is reminiscent of previous episodes where a significant surge in sector exposure was followed by a market correction. For example, telecoms (2016-2019) and healthcare (2021-2024) in US dollar markets dealt with "lumpy" supply. While this was ultimately manageable, in both cases this led to underperformance of around 10-15 basis points.[17]

There are also historical examples where heavy capex and associated supply were accompanied by fundamental issues related to overinvestment, leverage and business concerns, which led to multiple downgrades in credit ratings. Notable examples in Europe include the telecom sector in the early 2000s, the banking sector in the run-up to the global financial crisis, and the real estate sector during the time of ultra-low interest rates and central bank quantitative easing in the period before COVID-19, the latter we flagged in, the latter we flagged in [a blog in 2021](#).

For now, we can't determine whether we're in the 'lumpy issuance' scenario where spreads are elevated but fundamentals continue to be supportive or whether overspending and technological change may cause more serious credit concerns.

While it seems certain that AI will reshape European credit markets, we believe caution and discipline are key to managing portfolios. History may not repeat itself, but it provides a useful lesson.

17. JP Morgan, AI Capex 2.0, 16 June 2026.

Q3 2026 | Active Fixed Income Outlook: AI goes global

The next phase of data centre growth - and the role of high yield capital

What does the globalisation of data centres mean for high yield investors?

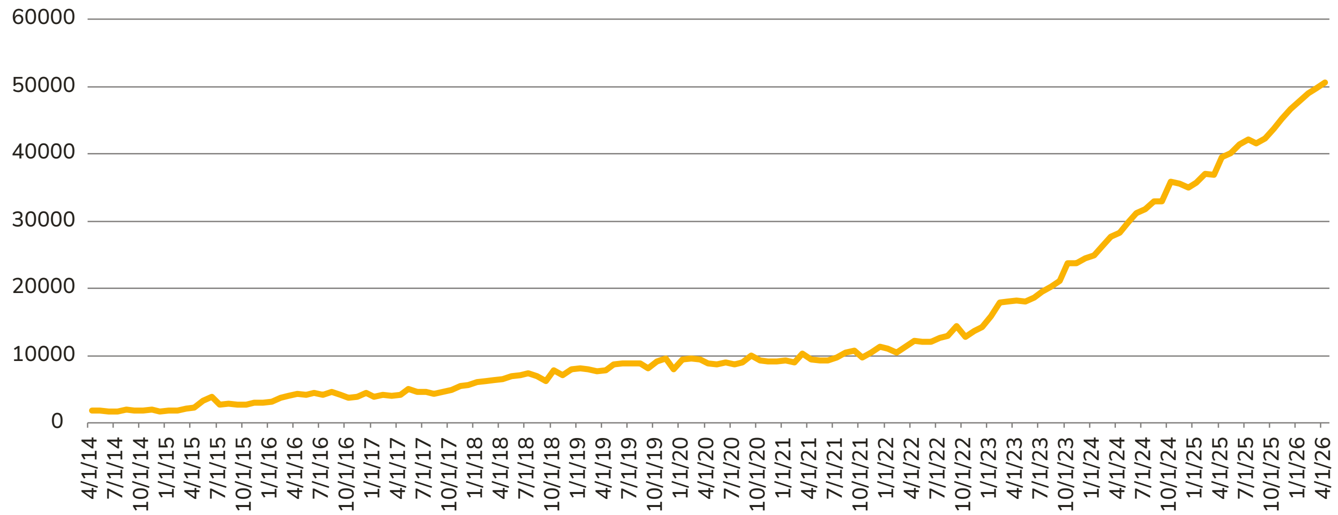
John Ryan
Head of Global High Yield

Sophia Hunt
Fixed Income Investment Specialist

The data centre sector is rapidly evolving from a US-dominated market into a truly global investment theme, driven by rising AI demand and constraints on power and infrastructure in traditional US locations.

For investors, this matters. Not only is the opportunity set broadening geographically, but the way these assets are financed is also changing – with the global high yield (GHY) market playing an increasingly important role.

Data center construction spend ($m)



Source Dodge, Bloomberg Intelligence as of 30 April 2026

Q3 2026 | Active Fixed Income Outlook: AI goes global

A structural shift in where capacity is built

The globalisation of data centres reflects the growing need to build faster and at greater scale. As a result, developers and hyperscalers are looking beyond just the US. Regions stepping in include:

- The Nordics, offering abundant, low-cost renewable energy and faster build timelines
- The Gulf, where sovereign-backed projects are delivering AI infrastructure at scale
- Asia Pacific, where cloud adoption and digital infrastructure investment are accelerating rapidly

The marginal growth in capacity is now increasingly non-US, marking a structural shift in the industry.

Data centre financing is increasingly moving into the high yield market. Polar DC's €800 million issuance in June[17] was the first pure-play data centre project deal in European high yield.

This trend is accelerating – later in June, CoreWeave, a US-based AI infrastructure company, issued its first European high yield bond, raising €2 billion at an 8.5% coupon.[18]

A new opportunity set

For high yield investors, data centres represent a relatively new sector – and one that requires careful analysis given:

- These are infrastructure-like assets, requiring a different underwriting approach
- Debt structures can be bespoke and evolving
- There is some market concern around technology exposure, particularly given broader AI-driven disruption

However, these factors are also creating potential opportunities:

- Market caution – particularly towards lower-rated issuers – means borrowing costs remain elevated compared to BB & B-rated issuers where funding costs are at historical lows. Combined with strong funding demands, this can create attractive entry points.
- From a structural perspective, many of these bonds also offer appealing characteristics including shorter maturities, amortisation as cashflow ramps up and clear refinancing catalysts once assets are operational.

Market concern around AI is focused on longer-term outcomes – whether in equity valuations or infrastructure ownership models. High yield instruments, by contrast, often sit earlier in the lifecycle, where completion and refinancing are the key drivers. This difference in timescales can easily be overlooked, but the implication is clear: the outcome for the high yield bonds can be distinct from the question of ultimate profitability and direction of AI.

This is where the relative value case is compelling: we believe data centre high yield bonds can offer a meaningful yield premium versus comparable BB/B industrial credit. We believe that premium partly reflects a market still learning how to price the sector, creating potential mispricing for investors able to underwrite the collateral, contracts and refinancing path.

A disciplined approach to a fast-growing sector

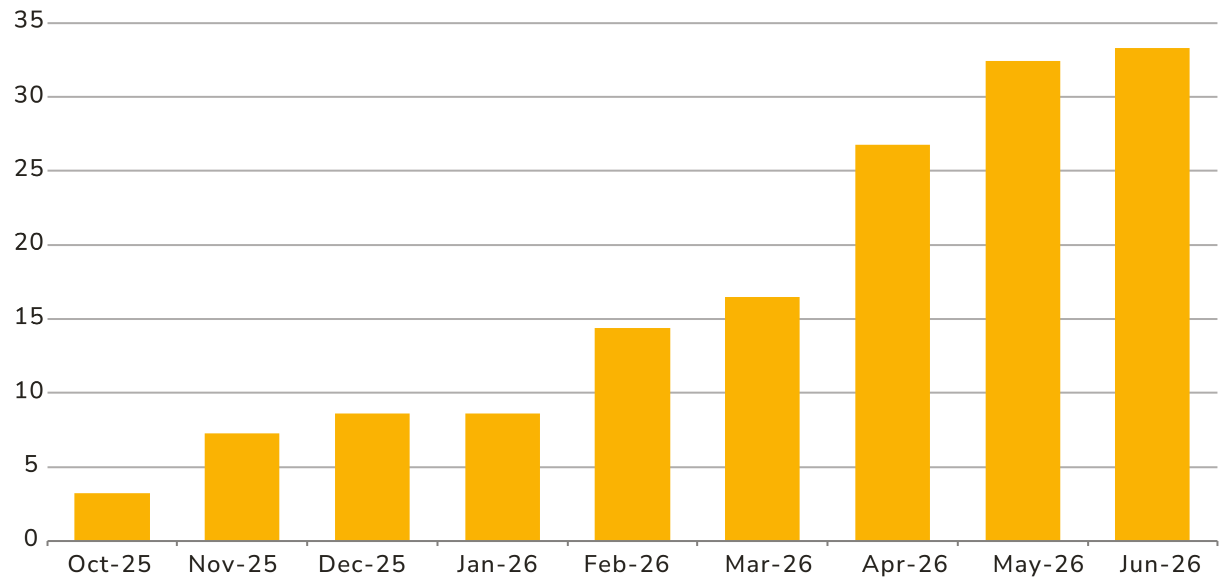
Our high yield team views the globalisation of data centres as a significant and evolving opportunity within high yield. According to Barclays Research, data centre issuance within high yield has increased significantly from zero 12 months ago to more than $130 billion in June.

We take a global view of capital allocation across regions, applying disciplined credit selection, with an emphasis on risk mitigation and lastly combining high yield and infrastructure expertise to assess these assets appropriately.

The data centre build-out is becoming a global endeavour, and the GHY market is increasingly helping to fund it.

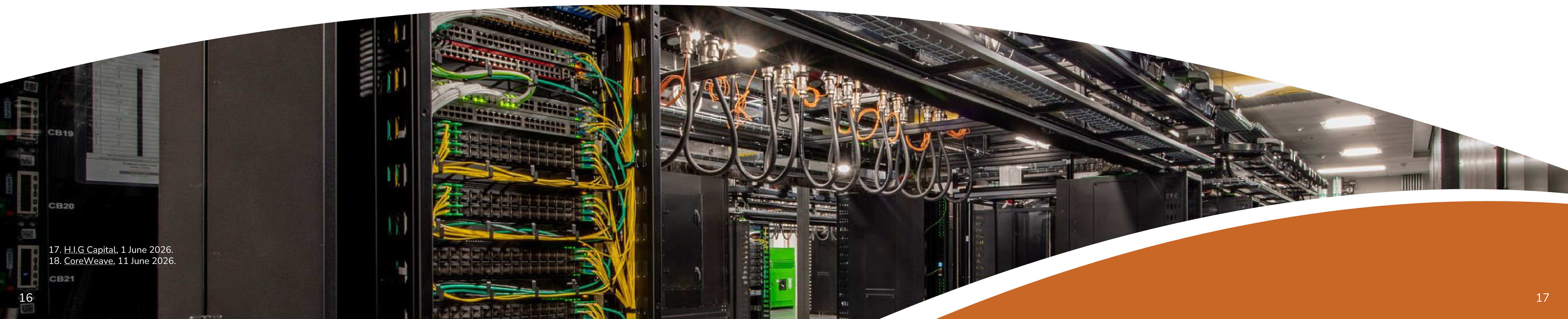
While still an emerging sector within public credit, we believe it offers strong structural demand, tangible asset backing and attractive yields. Importantly, those yields may be less correlated to sectors more directly exposed to AI disruption, such as software, providing a potential diversifier in returns. For investors willing to navigate the complexity, we believe this is a space where selectivity and a global perspective can unlock compelling risk-adjusted results.

HY data centre bond O/S by month ($bn)



Source: Company filings, Barclays Research, as of June 2026.

The value of an investment and any income taken from it is not guaranteed and can go down as well as up, and the investor may get back less than the original amount invested.



17. H.I.G Capital, 1 June 2026.
18. CoreWeave, 11 June 2026.

Unless otherwise stated all views expressed are by L&G as at July 2026

Contact us:

For further information about the Asset Management business of L&G, please visit **am.landg.com** or contact your usual L&G representative.

L&G Talks Asset Management

L&G Blogs Asset Management

Key risk

The value of an investment and any income taken from it is not guaranteed and can go down as well as up, and the investor may get back less than the original amount invested.

D012846