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The AI Economy: A Roadmap

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Executive summary: The AI Economy: A roadmap

Investors are now operating in the "AI economy." AI is likely to be a technological development on par with the industrial and IT revolutions. It's already transforming the US economy: AI is dominating investment, has massive energy demands, is driving the equity bull market that's supporting consumption, is slowly disrupting the labor market, will likely boost productivity, and is altering geopolitical competition.

The AI economy requires its own lens for proper evaluation. The economic significance of AI is twofold. First, it's affecting every part of the economy in quantifiable and nontrivial ways. Second, the unique economics of AI may change conventional economic relationships that traditional analysis may miss. Failure to evaluate properly can lead to erroneous conclusions about AI's investment consequences.

We introduce a framework for assessing the economic impact of AI from three perspectives. The first evaluates the impact on actual GDP growth focusing on its components: consumption, investment, net exports, and government spending. The second evaluates the impact on long-term potential growth. The third assesses the impact on the macro regime, defined by actual growth and inflation. To monitor these impacts we track investment, the labor market, and productivity. These are the core inputs to economic growth and will influence the macro regime.

Why this framework? For three reasons. First, it serves as a roadmap to help investors navigate rapid change by contextualizing AI's various impacts. AI is effectively a source of macro supply and demand shocks, and its impact is likely to grow. Second, AI has become a macro factor affecting all asset classes and is not just an investment in a portfolio. Third, asset class performance is a function of the macro regime influenced by AI, which therefore informs asset allocation.

While AI's ultimate impact on the economy is highly uncertain, we can make the following observations.

- The pace of change is unprecedented, with AI's evolving impact best measured in months and quarters, not years. Consequently, AI's impact on the macro regime could also change quickly over time.
- AI has lifted current GDP by ~50bps through surging capex and rising equity prices supporting consumption via the wealth effect. The macro regime has stayed in reflation as a by-product.
- The economic and macro regime impact depends on an AI "flywheel" of productivity gains, compute demand, and capex to continue spinning. For now, demand for AI compute is growing exponentially and hyperscaler capex is likely to surpass USD 5tr by 2030.
- AI's ultimate economic impact hinges on the degree of productivity gains that it can generate. Productivity gains so far appear modest, but AI could add as much as 1pp to the long-term average of 2%.
- The biggest economic fear from AI is the potential for massive job losses. But the labor market disruptions appear minimal so far, although that will likely change as adoption rates ramp up.
- AI is already affecting monetary policy by adding modestly to inflation, and its productivity boost could lead to a higher neutral fed funds rate. Fiscal policy should benefit from higher growth.

Asset allocation through an AI lens. Constructing portfolios in the AI economy will require assessing how each asset class is affected, what they are pricing for AI outcomes, their exposures to AI, and the best way to express views on AI. That is clearly happening within equities, but it also matters for credit because of the high financing needs, in rates and FX because of the macro impact, and for commodities, as they support the capex.

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We acknowledge the contributions of Laini Sweifach to the report, made while she was on rotation with the US Asset Allocation team as part of the Graduate Training Program.

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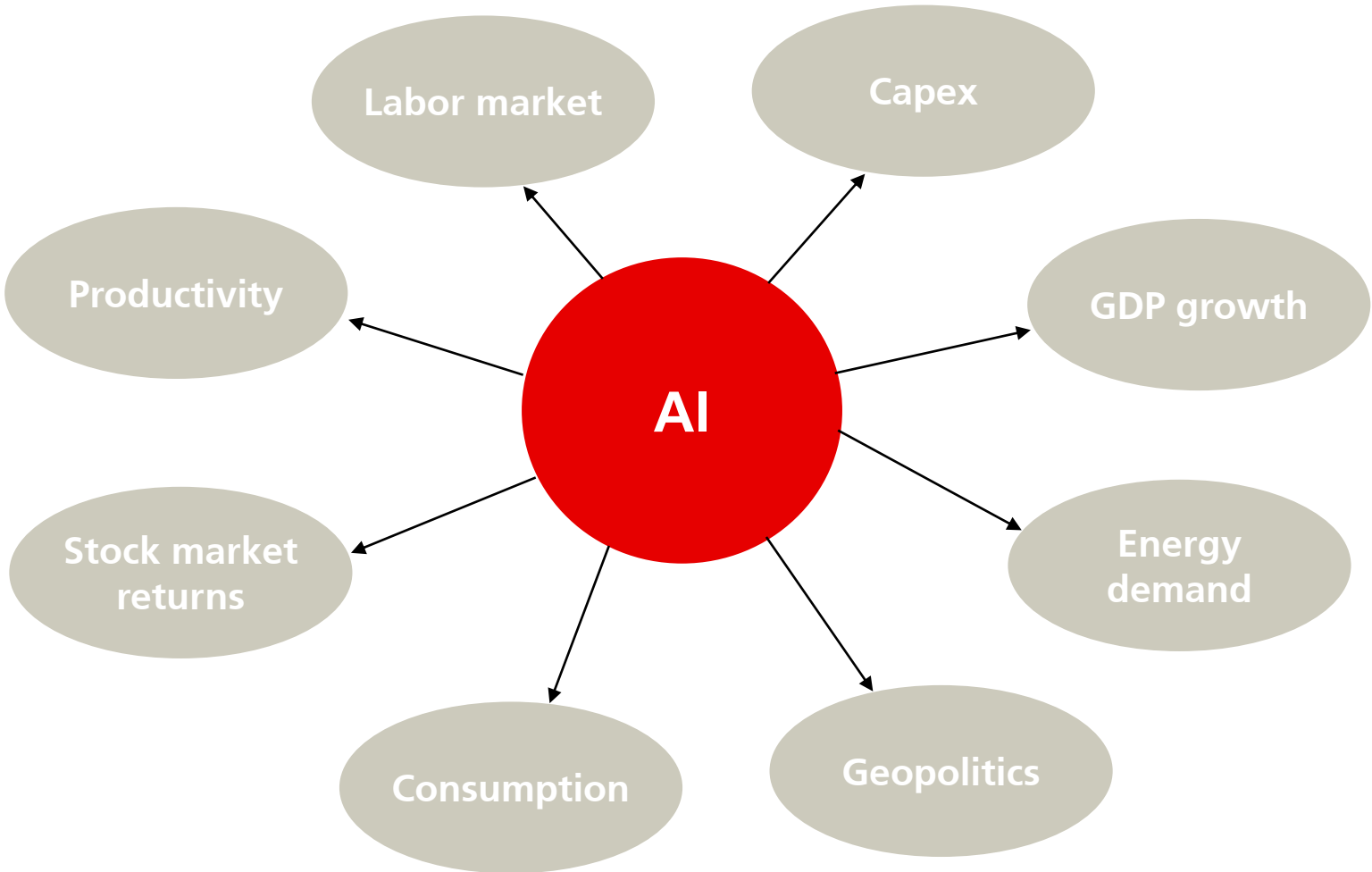
Section 1

A framework for analyzing the AI economy

AI is impacting everything, everywhere in the economy all at once

AI is touching all aspects of the economy and could reorganize and transform the conduct of economic activity by making human-level intelligence reproducible at enormous scale.



The stakes are high: Utopia, extinction, and everything in between

AI has the potential to upend the linear progress of growth exhibited by the US economy since the 1870s, for good or bad.

AI optimist

- AI will result in unprecedented disinflationary growth by drastically reducing task obligations and work hours for people.

AI skeptic

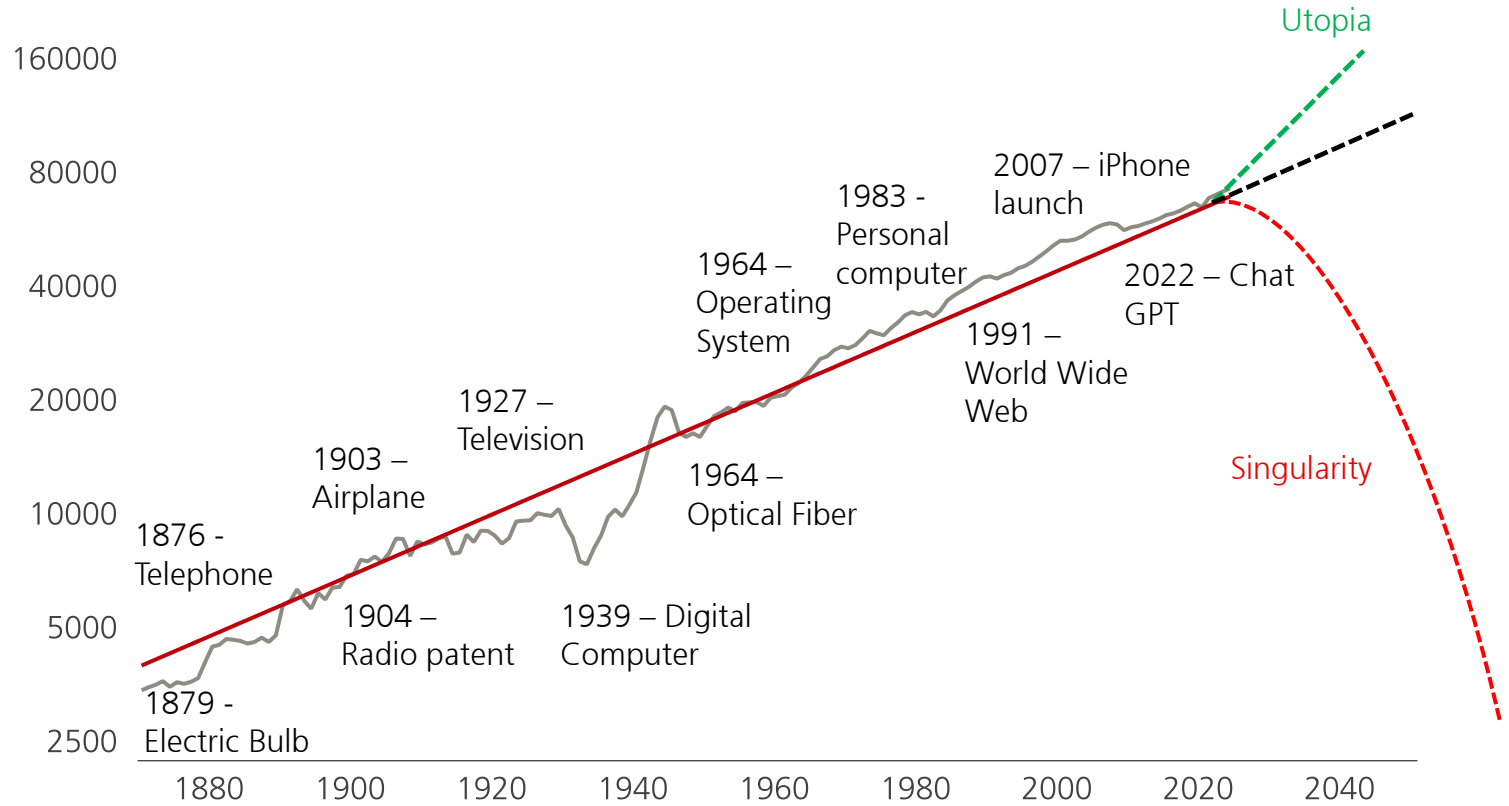
- AI may be a productivity boost but akin to the developments we've seen accumulated over the last 150 years.

AI pessimist

- AI brings about the singularity and end of human work as it's known.

AI follows a litany of productivity innovations over the past 150 years

US GDP per capita, PPP in 2020 USD prices, log scale



Source: Long Term Productivity Database, UBS as of 11 May 2026

The economics of AI involve a whole unique terminology

AI entails its own set of economic concepts (e.g., LLMs, tokens, chips, agents) that matter for adoption, investment, disruption, and productivity benefits.

AI Supply

Enablers

- The foundational technologies like servers, chips, GPUs used to power AI calculations.

Models

- Software trained on vast data sets to recognize patterns, decisions, or content without human intervention.

AI Demand

Platforms

- The integrated software systems used to develop, deploy, and interact with AI.

Adopters

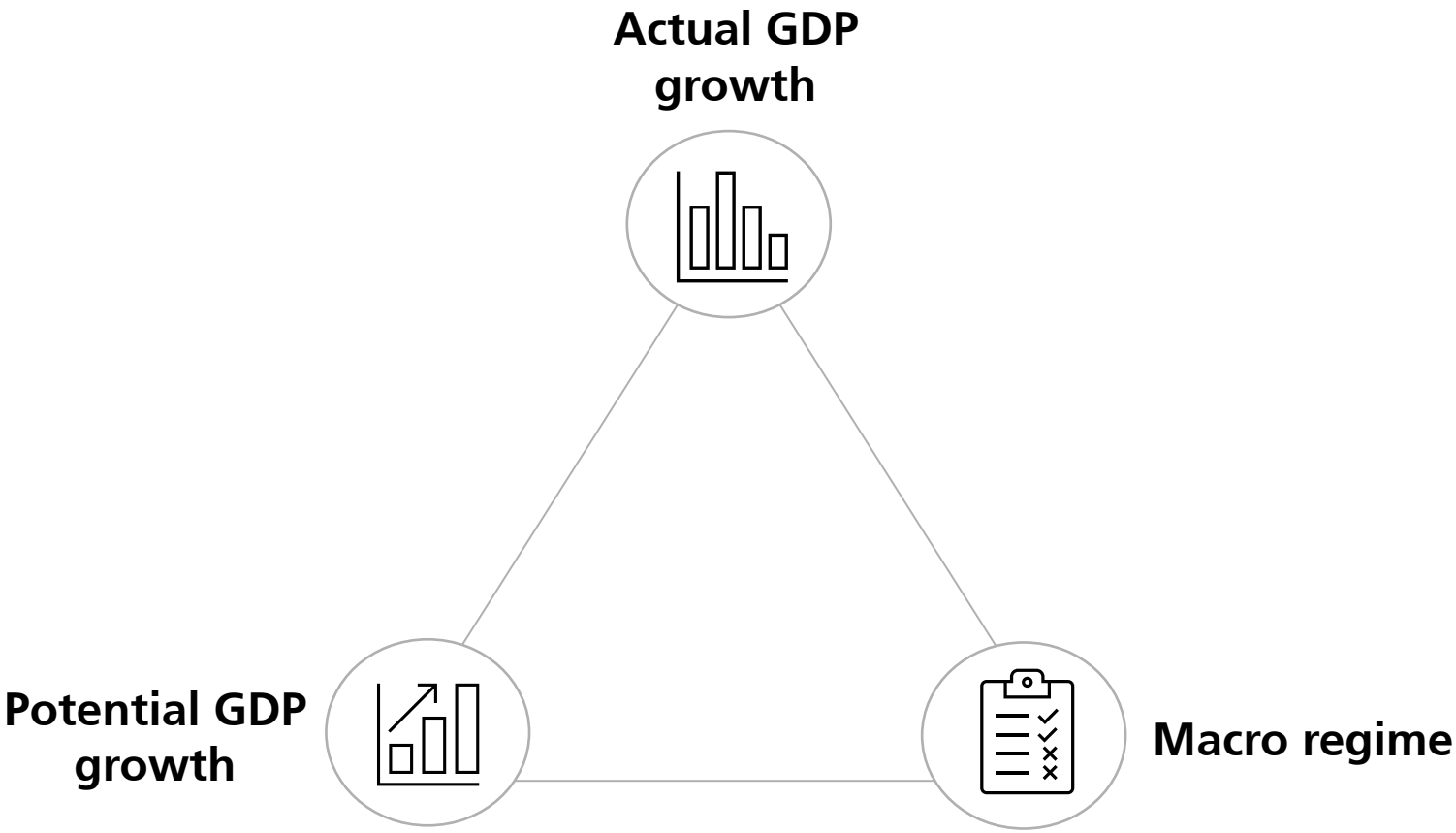
- Individuals and organizations embedding AI technology into their workflows.

Tokenomics: marginal unit of AI "labor."

Cost set by chip, power, and memory. → **Value** of each set by LLM. → **Margin** captured by platform that packages tokens into tasks. → **Demand** set by AI distribution and complexity of tasks.

A simple macro framework is helpful to evaluate AI's economic impact

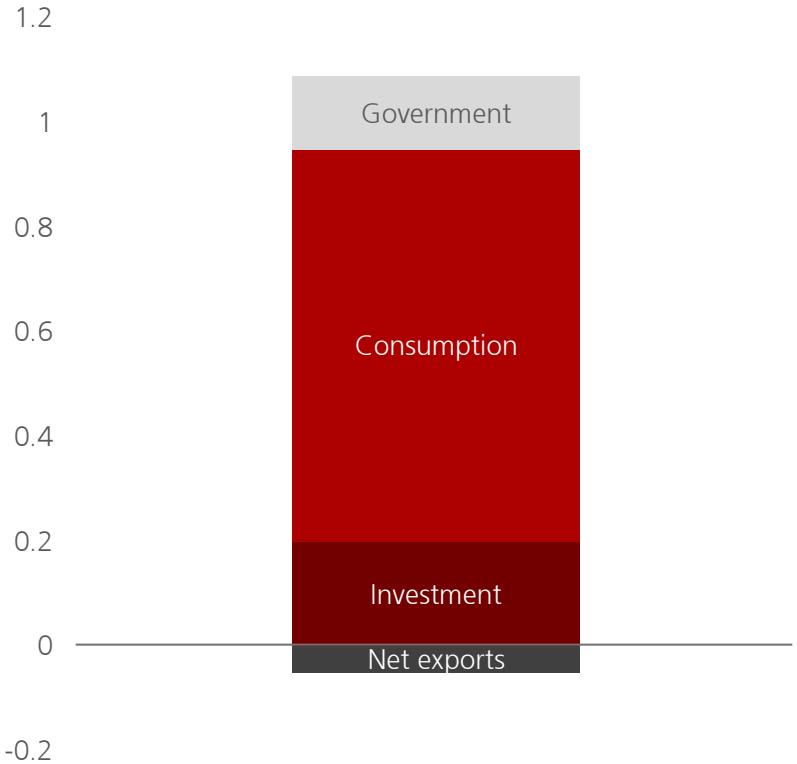
To contextualize and properly evaluate the asset allocation implications of AI it's helpful to distill all the ways that AI can impact the economy into three quantifiable metrics.



AI is impacting both actual and potential growth

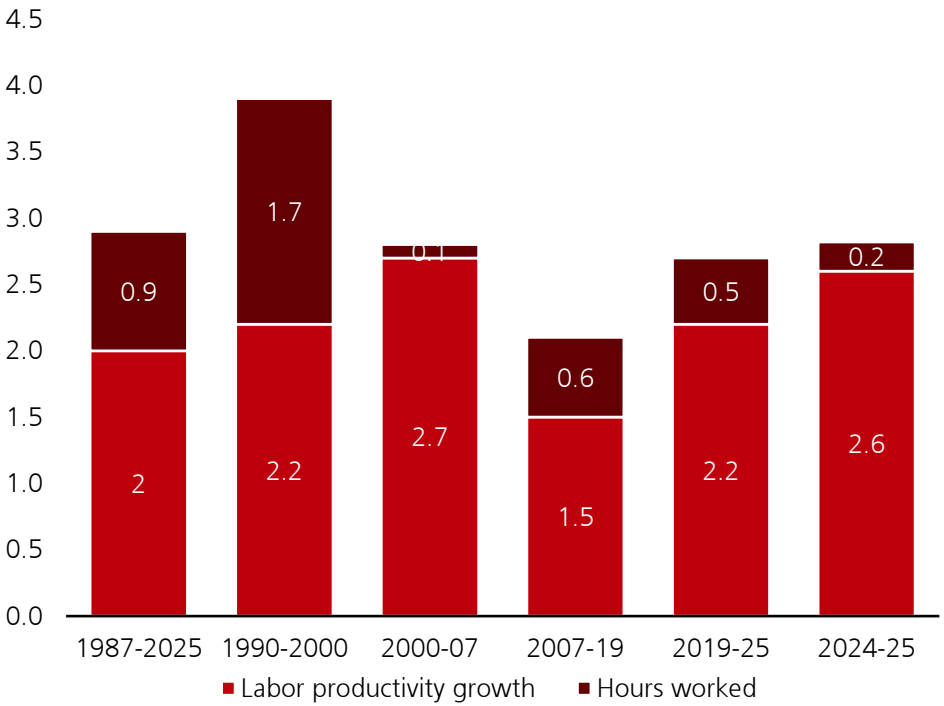
Actual growth measures how the economy is currently performing, while potential growth is how fast the economy can grow in theory without generating inflation.

Actual: AI could impact all components of GDP
Stylized GDP breakdown, %



Source: BEA, UBS as of June 2026

Potential: Productivity plus labor force growth (hours)
Realized contribution by components 1987-2025, %

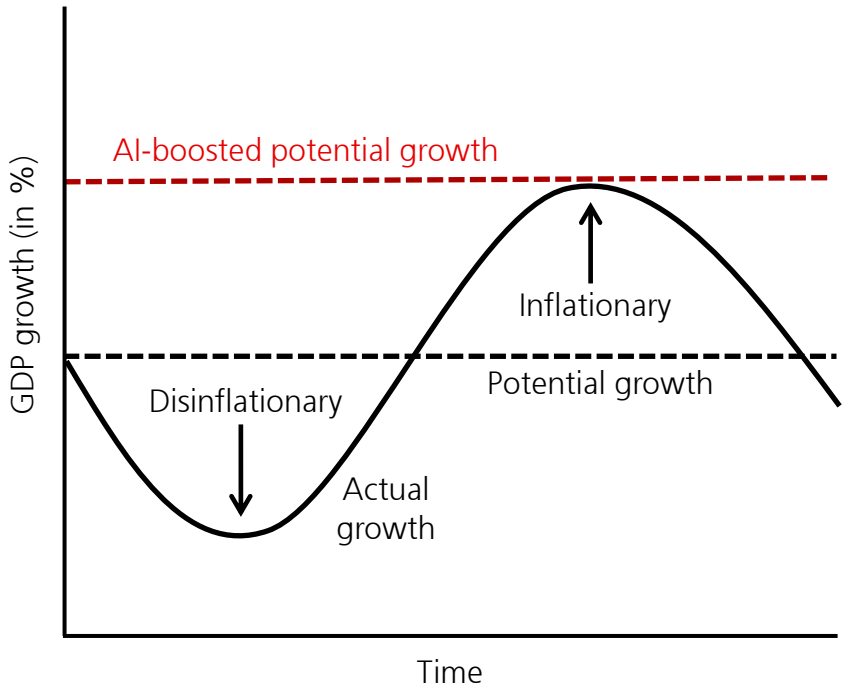


Source: BLS, UBS as of June 2026

Interaction of actual and potential growth determines macro regime

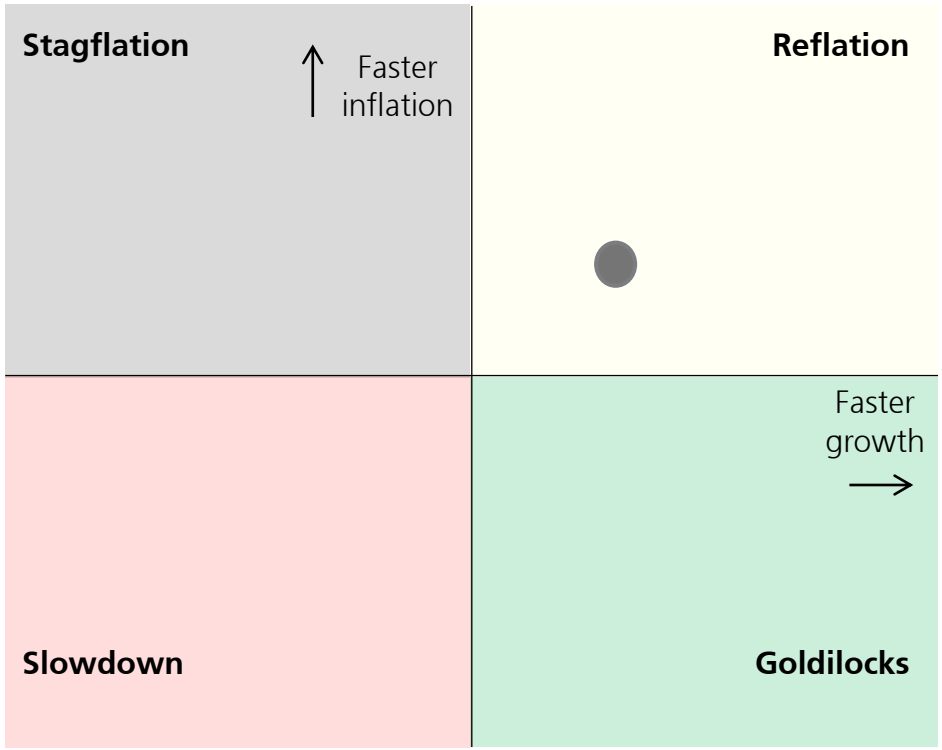
The difference between actual and potential growth influences inflation conditions; thus, the macro regime. AI boosting potential growth makes actual growth less inflationary, a boon to the macro regime.

Gap between actual and potential growth impacts inflation
Stylized examples of a business cycle



Source: UBS as of 15 May 2026

Growth and inflation combination determine macro regime
Stylized growth and inflation quadrants

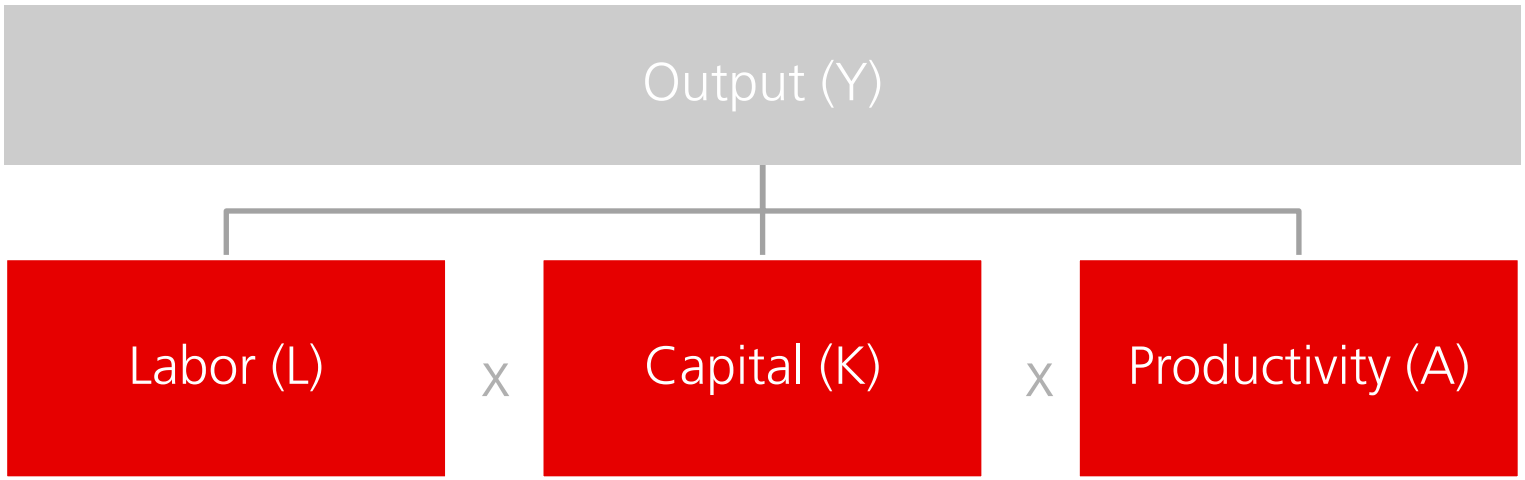


Source: UBS as of 15 May 2026

Evaluating the direct (and indirect impact) of AI on growth and regime

AI impacts actual and potential growth directly via capex, labor, and productivity, and indirectly through the consumption wealth effect, net exports, and government finances and policy.

The standard growth model $Y = AK^{\alpha}L^{1-\alpha}$ captures the direct AI impact



All things equal, an economy with a larger **labor force** should have a higher output.

An economy where workers have **more capital** should have more output compared to one that doesn't.

Productivity (or Total Factor Productivity) captures output created that is unexplained by capital and labor alone. Gains from technology are captured here.

Why this framework? Because macro regimes inform asset allocation

AI will influence the macro regime, with different consequences over different time horizons, and these regimes are associated with varying asset class performance.

Equity performance has historically varied across regimes
Average annualized S&P 500 change, %

Regime	Average Annualized monthly S&P 500 change	Occurrence
Stagflation	3%	25%
Reflation	18%	25%
Goldilocks	21%	38%
Slowdown	9%	12%

Note: Regimes using the above or below the CBO trend growth rate and Fed's 2% target to determine regime. Headline CPI is used to calculate inflation and the New York Fed GDP Nowcast used to determine growth rate. Average returns calculated from 2005.
Source: Bloomberg, UBS as of 10 June 2026

All asset class performance is affected by the macro regime
Top 10 performing asset classes per regime

Stagflation	Reflation	Goldilocks	Slowdown
Nasdaq-100	Gold	Nasdaq-100	Nasdaq-100
S&P 500 Growth	MLPs	Russell 2000	UST Long
WTI Crude oil	Commodities	S&P 500 Growth	Gold
Gold	MSCI EM	S&P 500	US Credit
S&P 500	S&P 500 Value	MLPs	S&P 500 Growth
Russell 2000	MSCI EAFE	S&P 500 Value	High yield
MLPs	Nasdaq-100	High yield	WTI Crude oil
UST Long	S&P 500	MSCI EAFE	MSCI EM
UST Int.	WTI Crude oil	WTI Crude oil	Preferreds
Commodities	S&P 500 Growth	MSCI EM	UST Int.

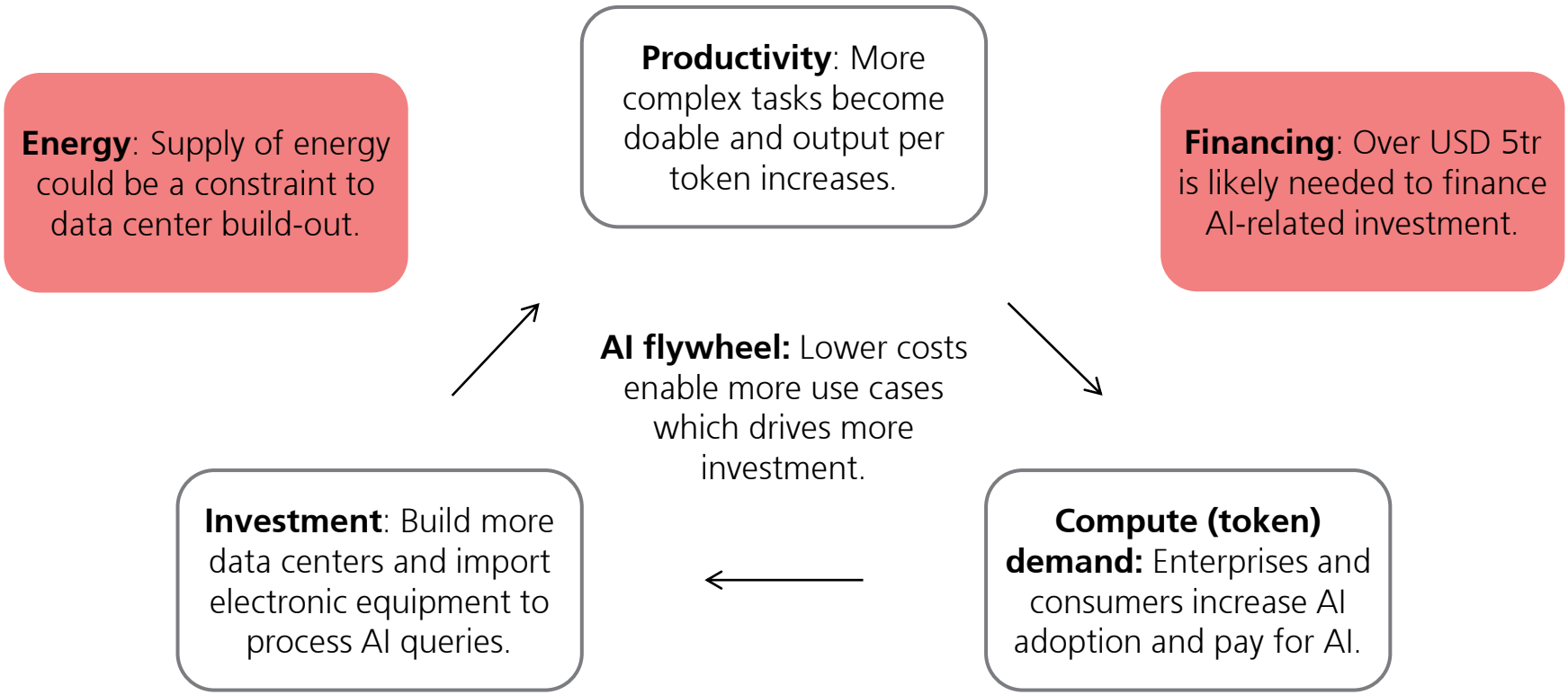
Note: The darkness corresponds to riskiness of the asset. Average returns calculated from 2005.
Source: Bloomberg, UBS as of 10 June 2026

Section 2

The AI investment “flywheel”

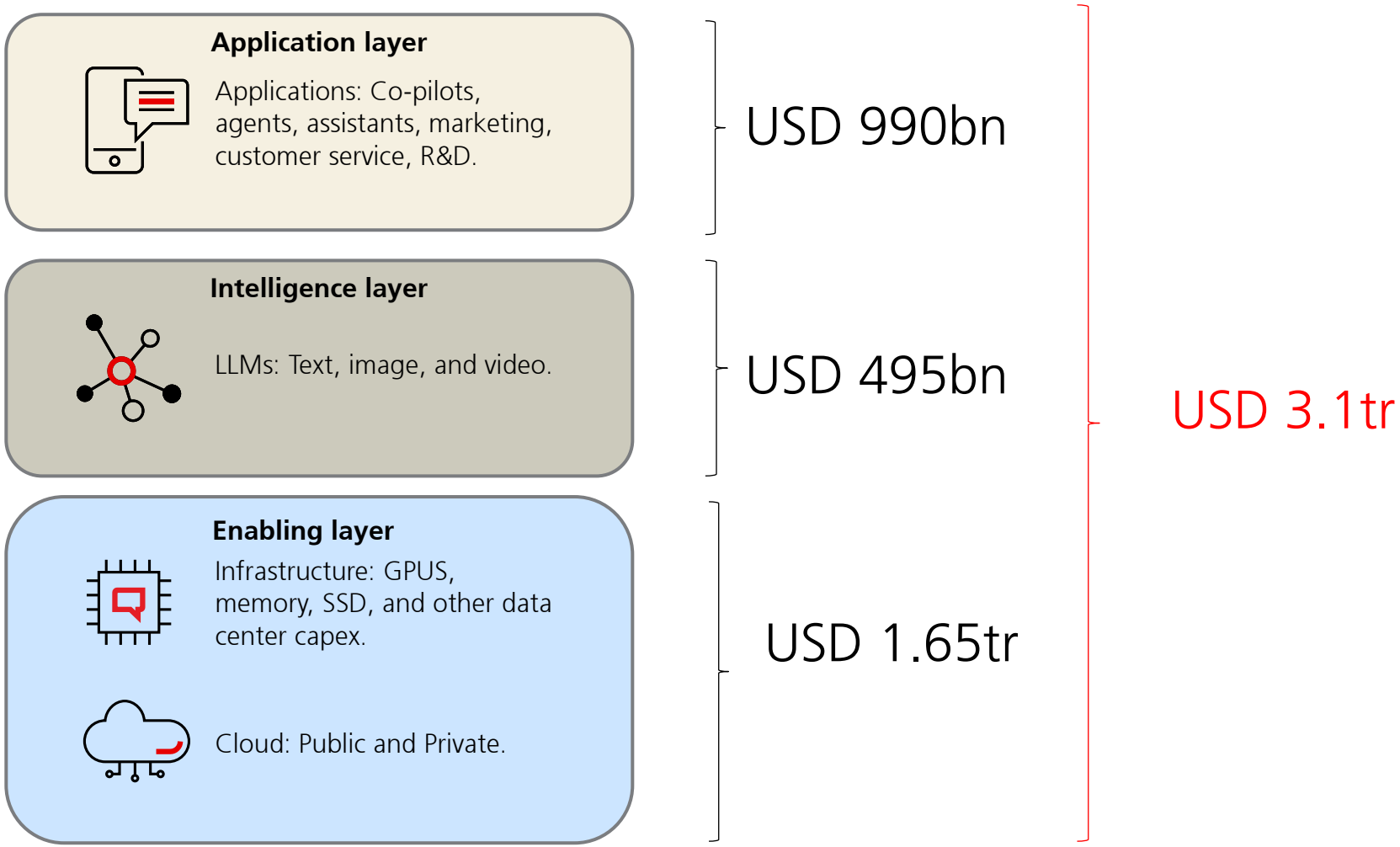
AI adoption "flywheel" is central to driving investment

The more that AI increases productivity, the greater the adoption. This increases demand for compute, requiring more investment and better models, and so on. Energy and financing are potential constraints.



We anticipate global AI revenues to reach USD 3.1 trillion in 2030

AI adoption and monetization are still accelerating and may reach a multi-trillion annual revenue basis in the next few years – justifying the large amounts of capex.

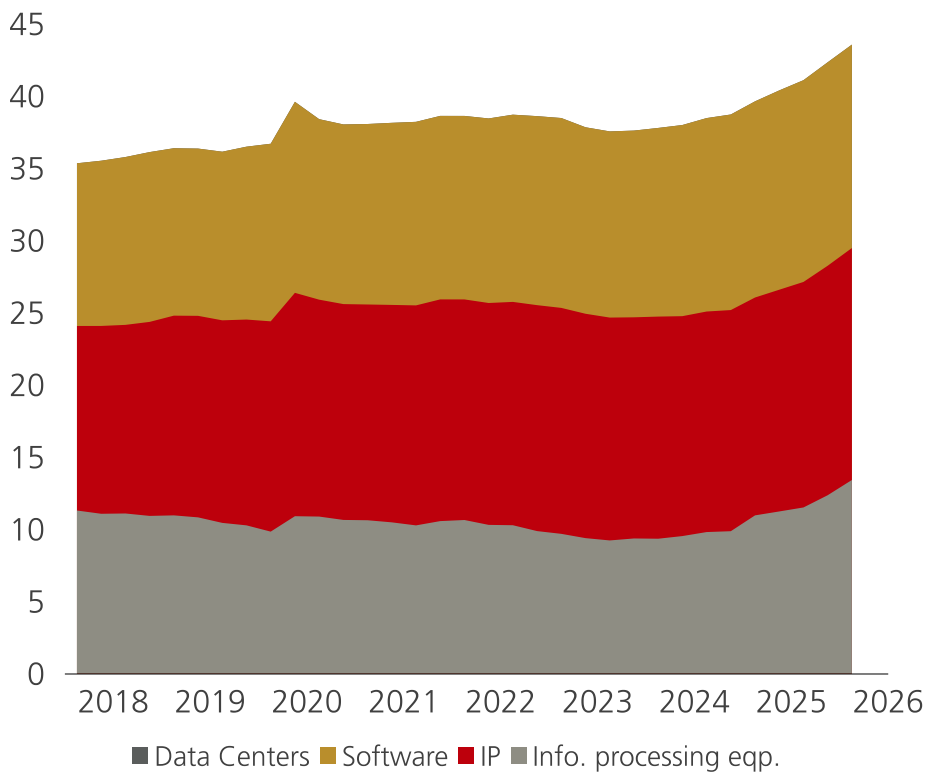


Source: UBS, as of 14 June 2026

AI investment is driving overall US investment

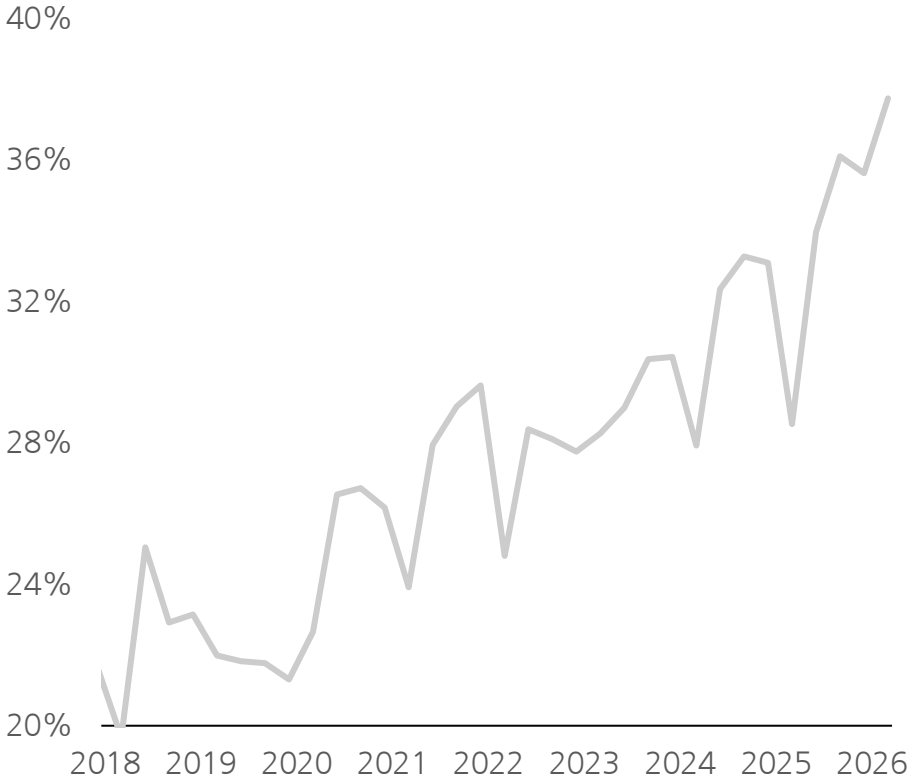
AI-related investment is accounting for a growing portion of overall investment, and tech capex has increased to become a larger portion of overall corporate capex.

AI-related capex is a growing share of total investment
Share of domestic fixed investment, %



Note: "AI-related capex" includes spending on data centers, R&D, software, information processing equipment.
Source: BEA, UBS as of 25 June 2026

Tech sector increasingly driving overall capex growth
S&P 500 Tech sector capex as a % of S&P 500 total

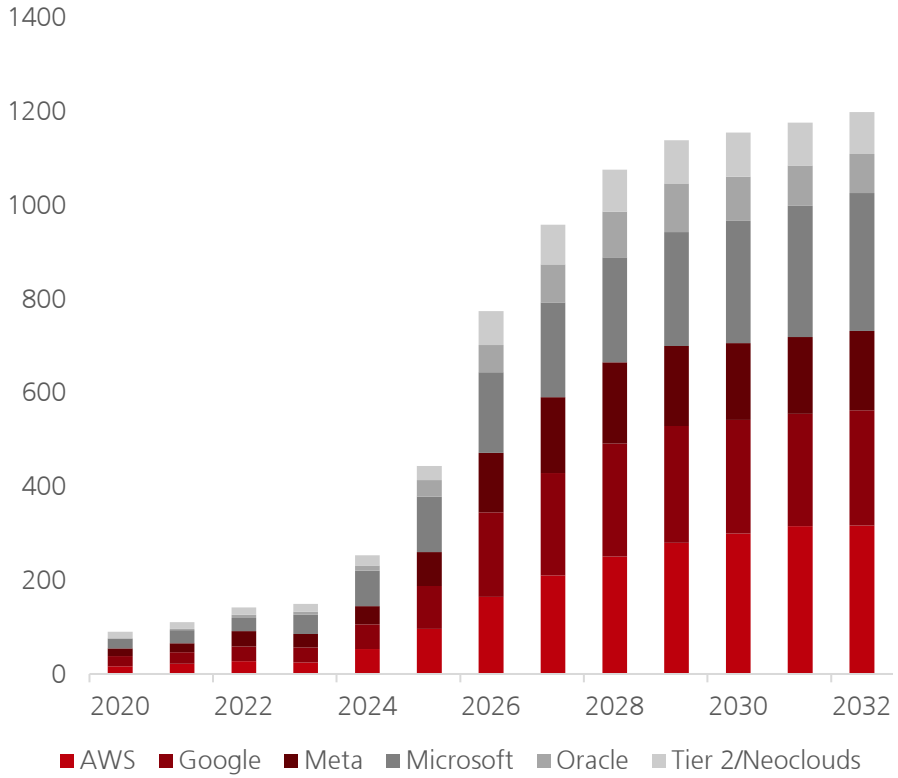


Source: BEA, UBS as of 15 June 2026

Hyperscalers are on track to spend trillions on capex through 2030

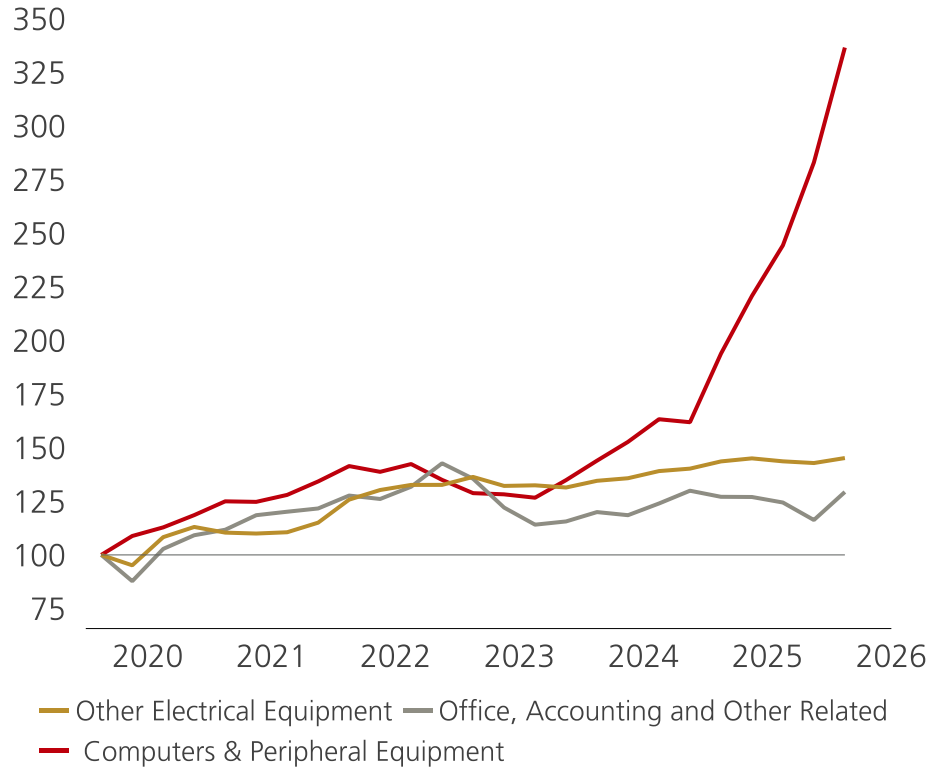
The five main hyperscalers account for the vast majority of AI capex spending, and it's heavily skewed toward semiconductors.

Hyperscalers forecast to spend over USD 5tr by 2030
Actual and planned capex, USD thousands



Source: Bloomberg, UBS as of 25 June 2026

AI investment dwarfs other tech-related investment
Rebased 1/1/2020=100



Source: BEA, UBS as of 24 June 2026.

Capex hinges on "tokenomics" of AI compute demand and supply

A token is the basic unit of data that AI models use to process and generate information (1 token = ~4 characters). Token demand, supply, price, and cost all influence investment decisions.

Three sources of demand for compute (tokens):

- Non-agentic work (e.g., prompting ChatGPT to summarize a report).
- Consumer agents (e.g., automating travel planning and booking).
- Enterprise agents (e.g., customer support to address billing issues)

Token demand growth depends on:

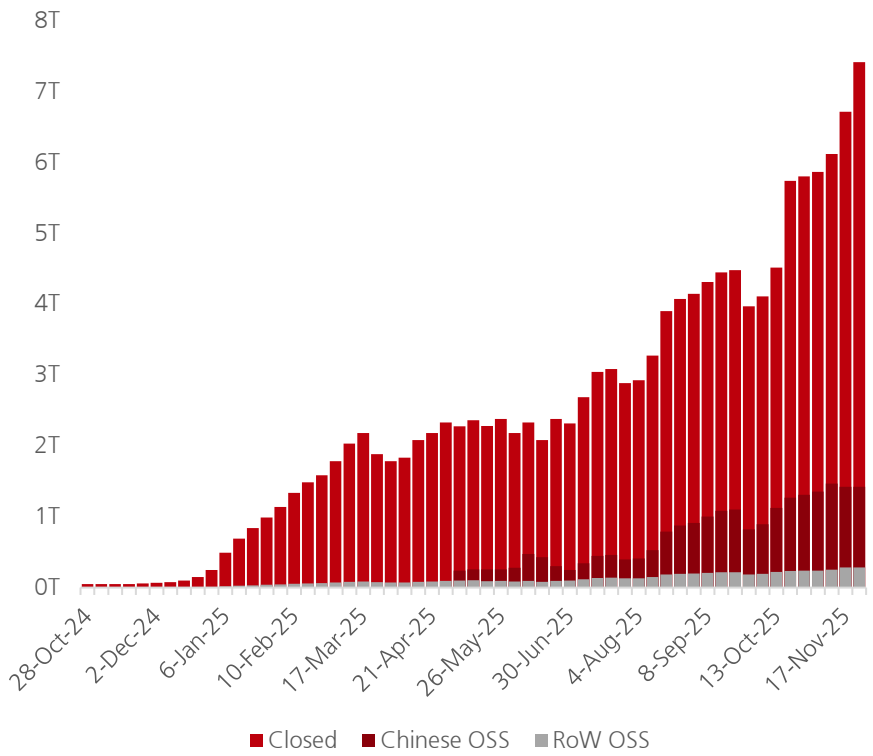
- Adoption rates
- Model performance improvement
- Cost per token

Supply of compute depends on:

- Cost of running AI models (could plummet ~10x per annum)
- Cost of data centers
- Efficiency of frontier vs. open-source models

Token usage is increasing at a rapid rate

Token usage by source type, in trillions

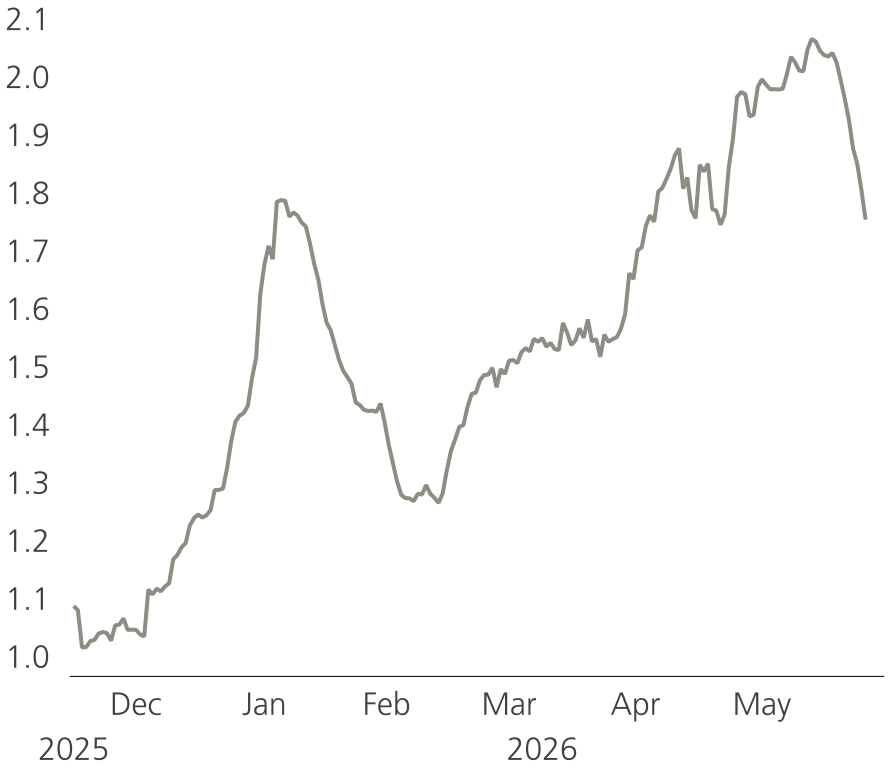


Source: OpenRouter "State of AI: An Empirical 100 Trillion Token Study with OpenRouter." Aubakirova, Atallah, Clark, Summerville, Midha, UBS, as of 2025

Enterprise token demand entails a cost/benefit calculation

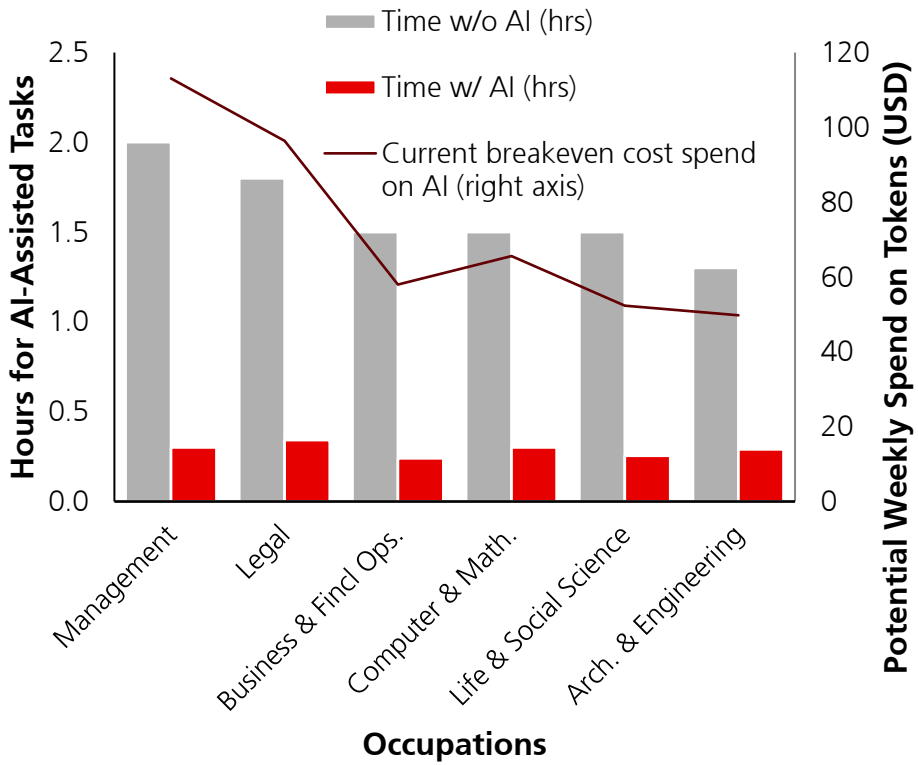
The token demand calculation compares token cost to the potential efficiency gains from automating specific tasks. Token costs vary by model and source, while potential gains vary by job.

Cost per tokens has steadily risen, but has also been volatile
Silicon Data LLM Token Expenditure Index, price/mn of tokens



Source: Bloomberg, UBS, as of June 2026

AI efficiency gains on tasks can support a lot spending
Current Claude task time savings by selected occupations



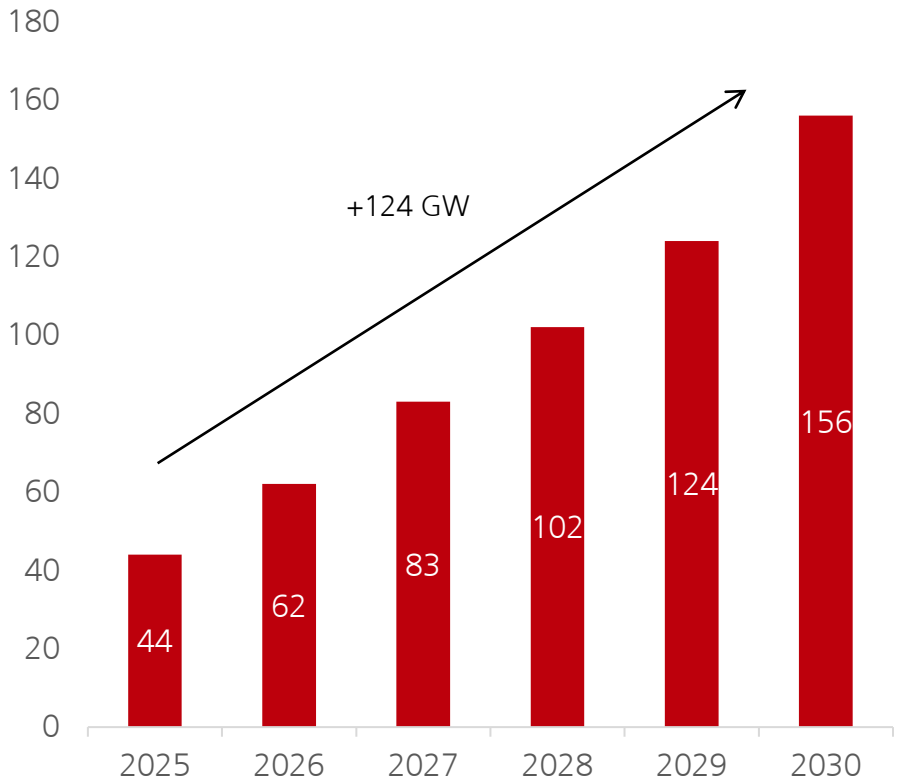
Source: Anthropic "Estimating AI productivity gains from Claude conversations" (2025), UBS, as of June 2026

AI energy demand is surging, while supply is facing constraints

Energy supply is a physical constraint that hyperscalers need to contend with to match the base case energy demand that data centers will require.

Base case assumes +124 GW added from 2025-30

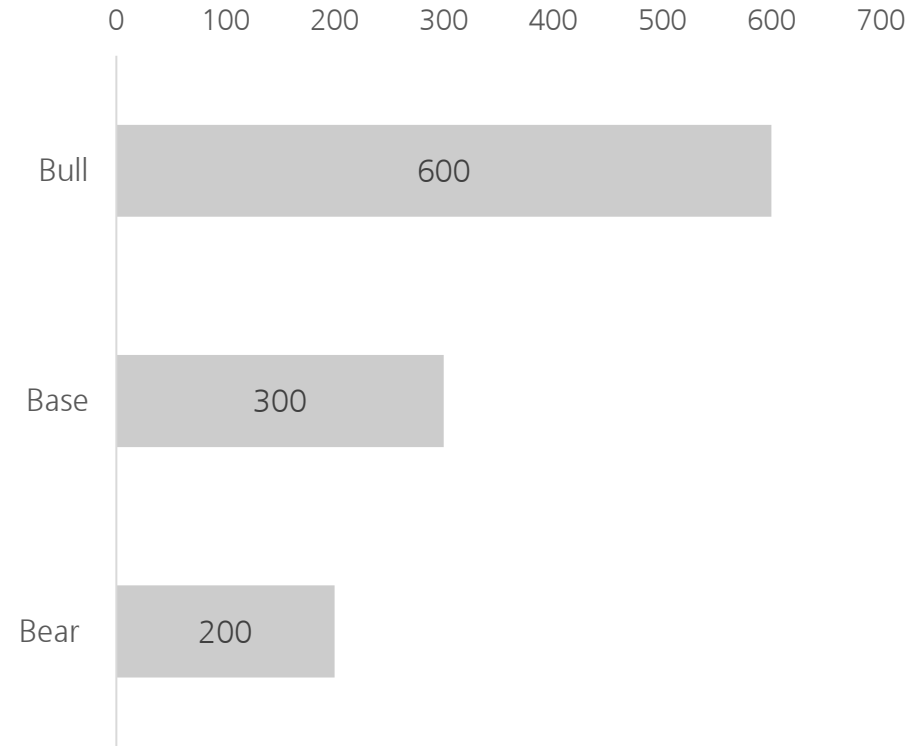
Gigawatts



Source: McKinsey, UBS, as of 1 April 2026

Base case assumes ~USD 300bn in energy investment through 2030

In trillions USD

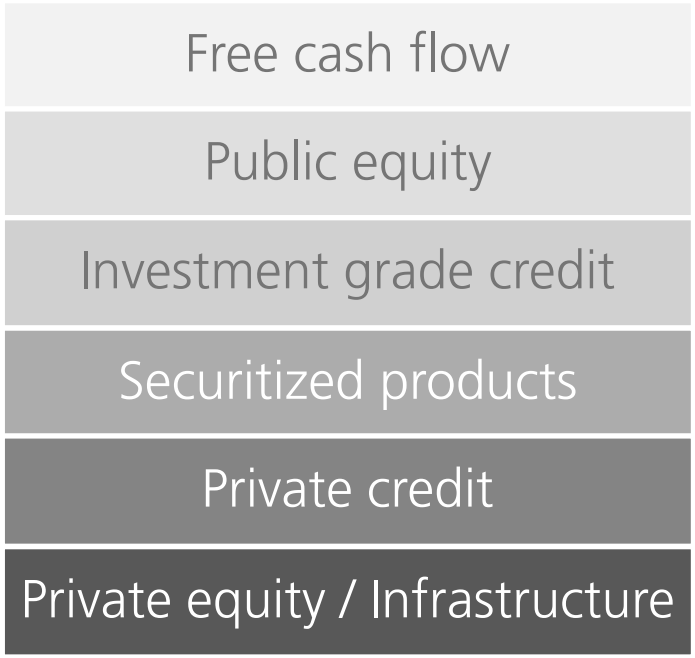


Source: McKinsey, UBS, as of 1 April 2026

AI build-out requires USD trillions in financing, which is not a given

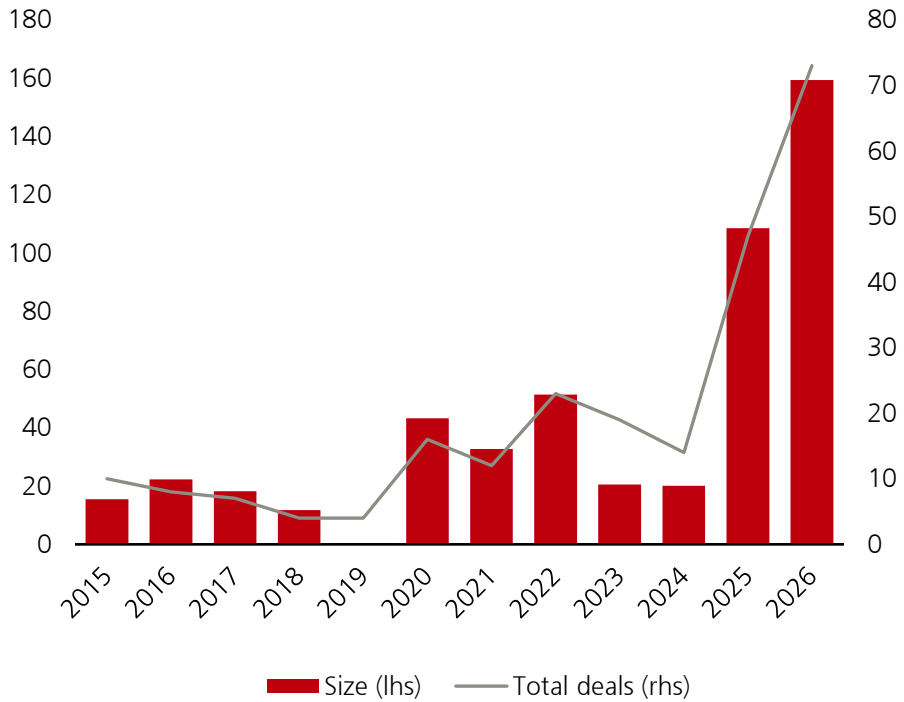
Free cash flow, debt and equity financing, private markets, and structured solutions are all being used to finance data center investments. Access to capital will get harder if the ROI isn't sufficient.

The entire capital structure is financing AI capex
Financing options waterfall (based on liquidity and seniority)



Source: UBS, as of June 2026

Accessing external capital has surged the past year
Big five US hyperscaler senior unsecured bond issuance (USD bn)



Source: Bloomberg, UBS, as of 31 May 2026

Potential obstacles / accelerants in the AI capex flywheel

Several factors could be obstacles that hinder the adoption of and investment in AI, but other factors could accelerate both.

Potential obstacles

- **Physical**: Power grid constraints, water/cooling shortages, semiconductor capacity limits.
- **Technical**: Lack of high-quality training data, inference latency at scale, unreliable output.
- **Financing**: Higher rates/spreads lift borrowing costs; uncertain ROI limits access to capital.
- **J-curve:** Adoption of new tech can hinder productivity in the near term as firms adjust.
- **Social**: AI regulation, increased corporate tax, labor displacement backlash, data center NIMBY.
- **Higher costs**: Rising token demand could push up cost of AI, and the relative savings vs. labor.
- **Labor constraints**: Insufficient skilled labor across the AI stack.

Potential accelerants

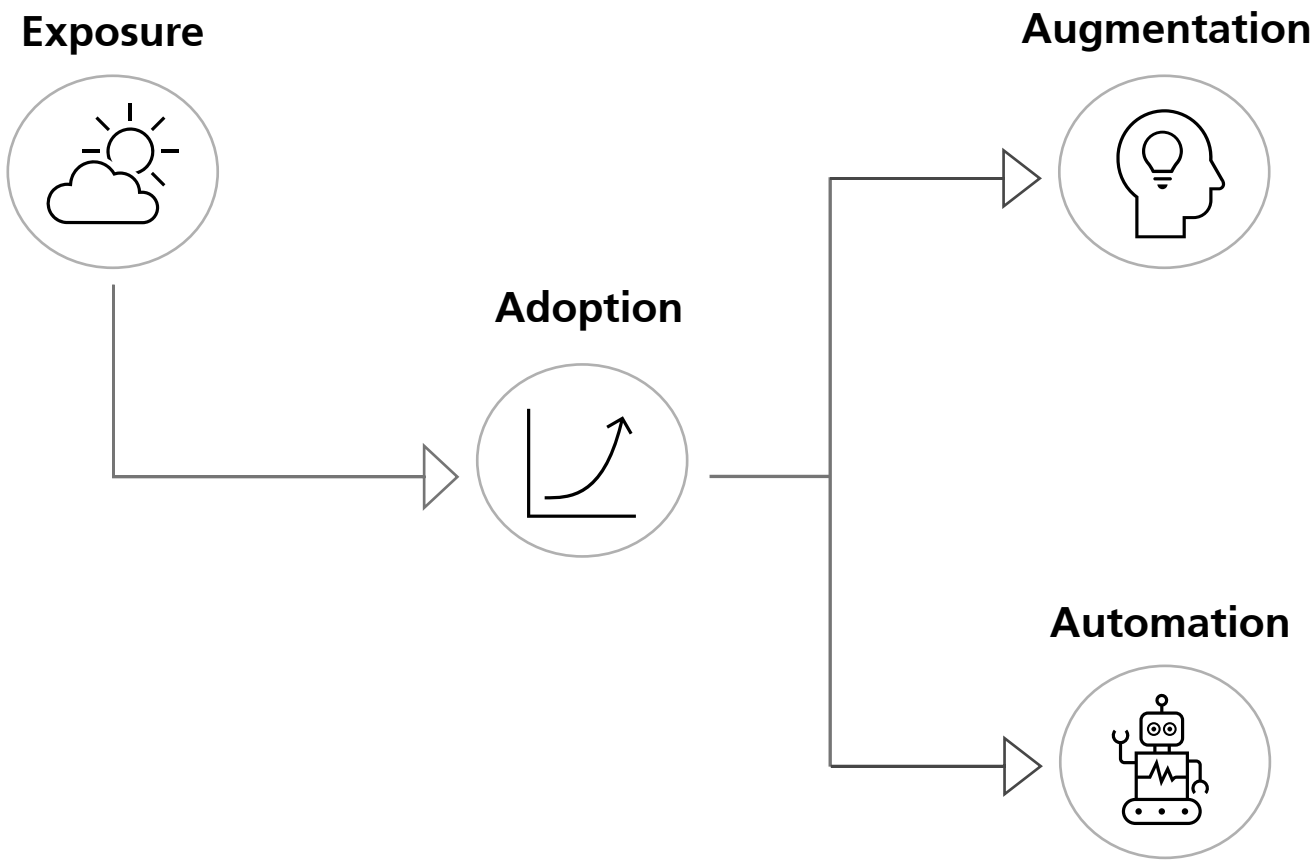
- **Improving tech:** New developments that increase either the scope of AI uses or the amount of potential cost savings.
- **Declining costs:** Falling AI costs would raise the share of tasks that are beneficial to automate. Typically, early adoption slow and expensive, but the pace accelerates as costs fall.
- **Better idea generation:** AI could permanently lift the pace of new idea generation and technological progress, so that TFP growth is faster indefinitely.

Section 3

AI exposure, adoption, and the labor market

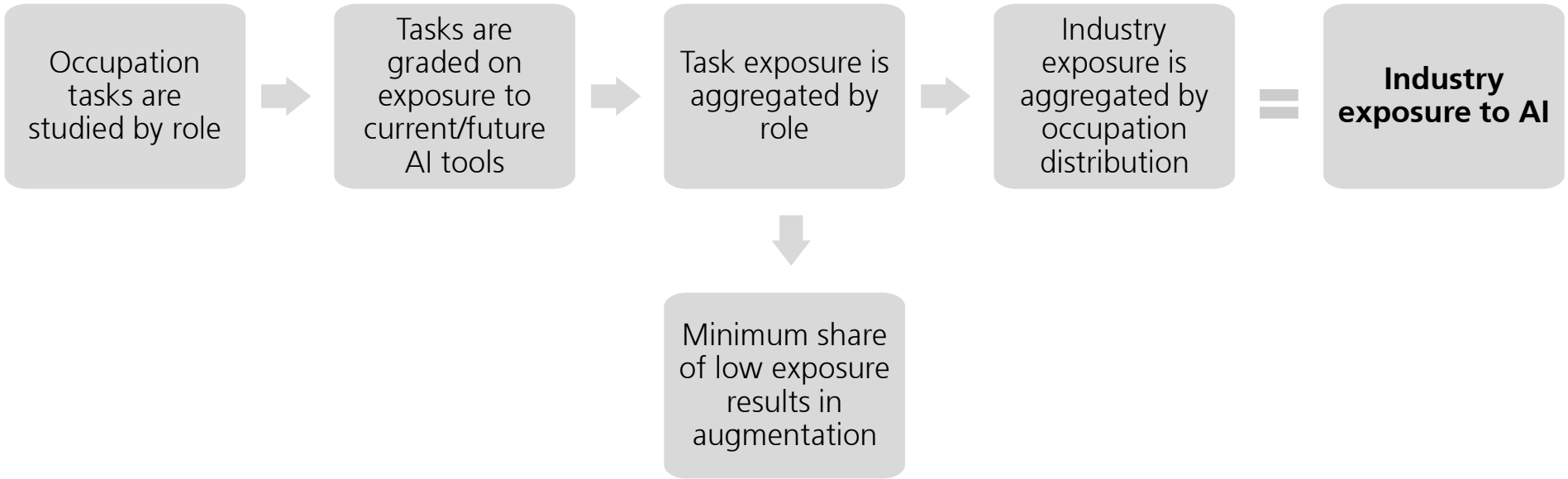
Labor market impact: Exposure, adoption, automation, augmentation

The aggregate labor effects from AI have been modest so far, but the eventual impact depends on how many tasks are exposed to AI, the AI adoption rate, and whether AI substitutes for or augments workers.



A framework for industry and occupation AI exposure

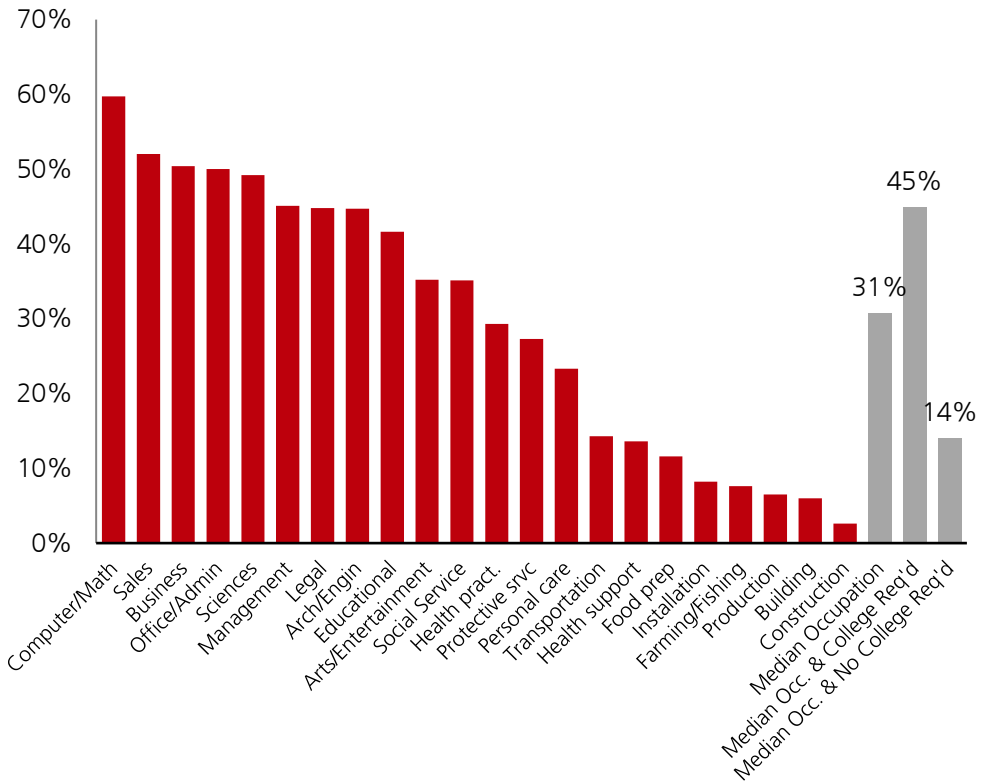
Studies have quantified exposure to AI by occupation. Fed and Census surveys are tracking adoption of AI. The labor effects in aggregate are modest so far and can be monitored across many dimensions.



As many as 20% of jobs have a high risk of automation

The share of jobs with AI-linked automation risk across industries has a wide range from 4% to around 20%, with higher exposure for roles with college degree requirements.

Median exposure by occupation and educational attainment



Source: Philly Fed, Eloundou et al. (2024), UBS, as of June 2026

Overview of high exposure labor market group

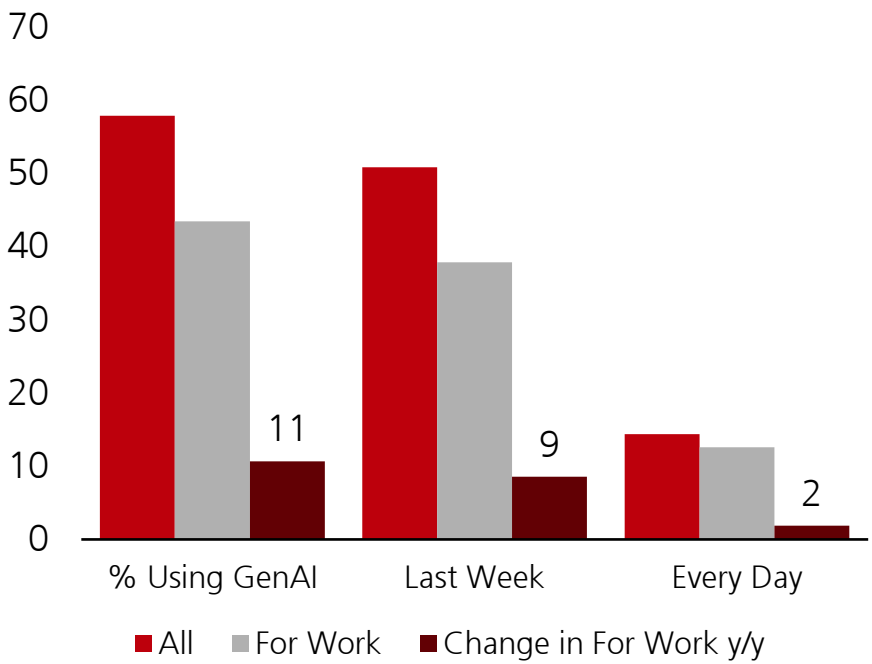
% of Jobs	Description of high AI risk	Study
4%	High AI exposure and low adaptive capacity.	Brookings (2026)
12%	Highly substituted roles with AI	BCG (2026)
18%	Higher short-term automation risk	OpenAI (2026)
18%	High AI exposure and above-median adaptive capacity	Brookings (2026)
19%	50%+ task exposure considering both current & anticipated tools	Eloundou et al. (2024)

Source: BCG, Brookings (2026), Eloundou et al. (2024), UBS, as of June 2026

AI adoption has been fast, and multidimensional

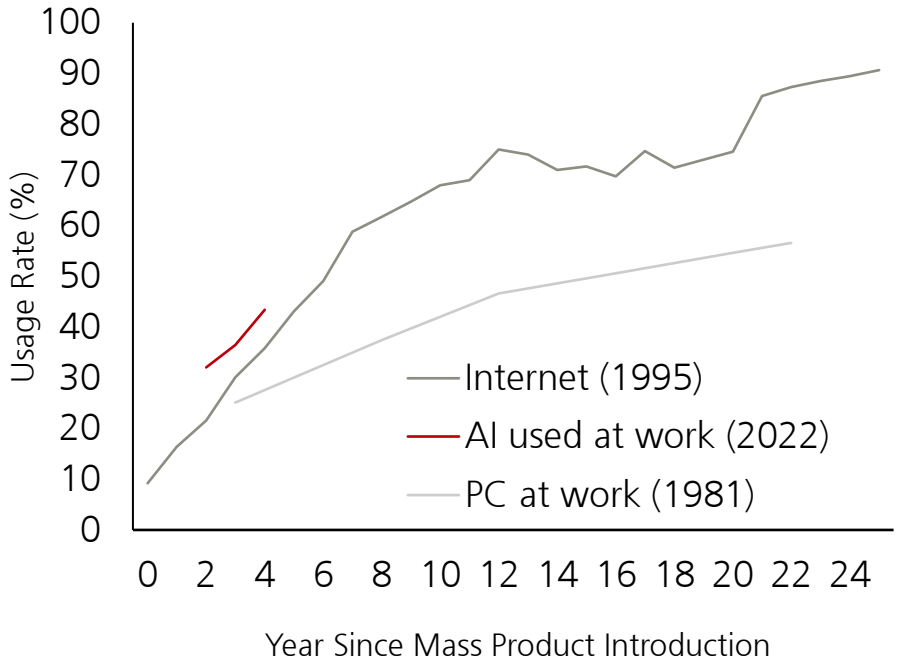
The use of AI in the workplace is tracking ahead of the PC and internet—it's over 40% and up 11pp y/y, and about 13% of workers are everyday users.

AI use has risen ~11pp y/y and 2pp y/y for everyday users
Real-Time Population Survey of AI adoption



Source: Real-Time Population Survey, UBS, as of 28 May 2026

AI adoption is moving at a fast rate compared to recent tech
AI used at work, employment wtd, and historical adoption (%)

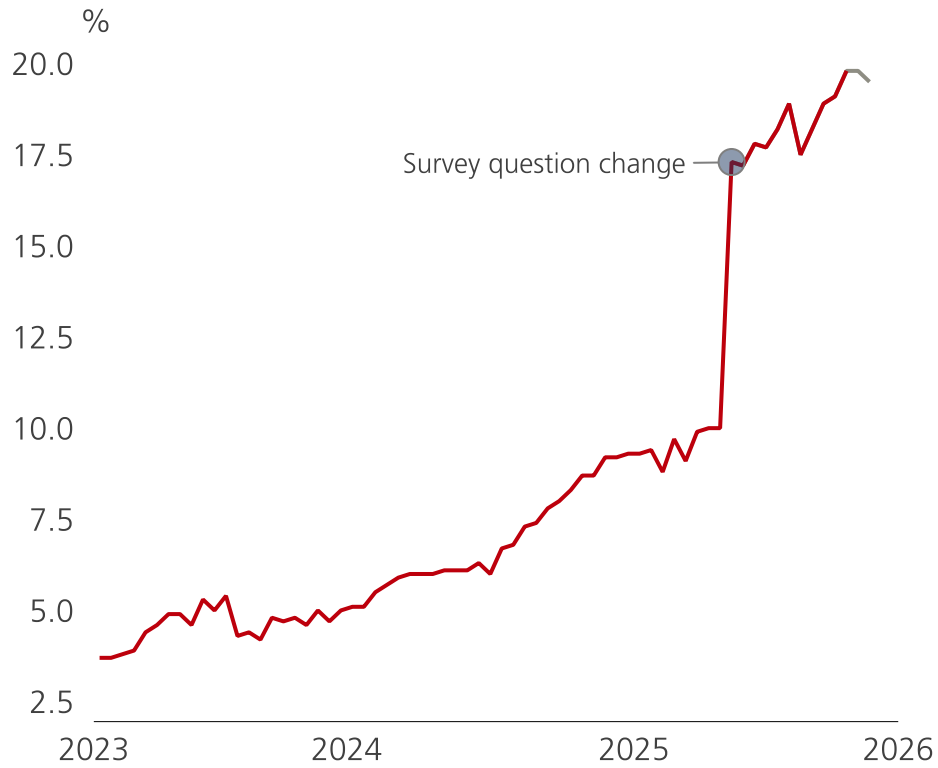


Source: Real-Time Population Survey, UBS, as of 28 May 2026

AI supplements only a few tasks now, despite labor displacement fears

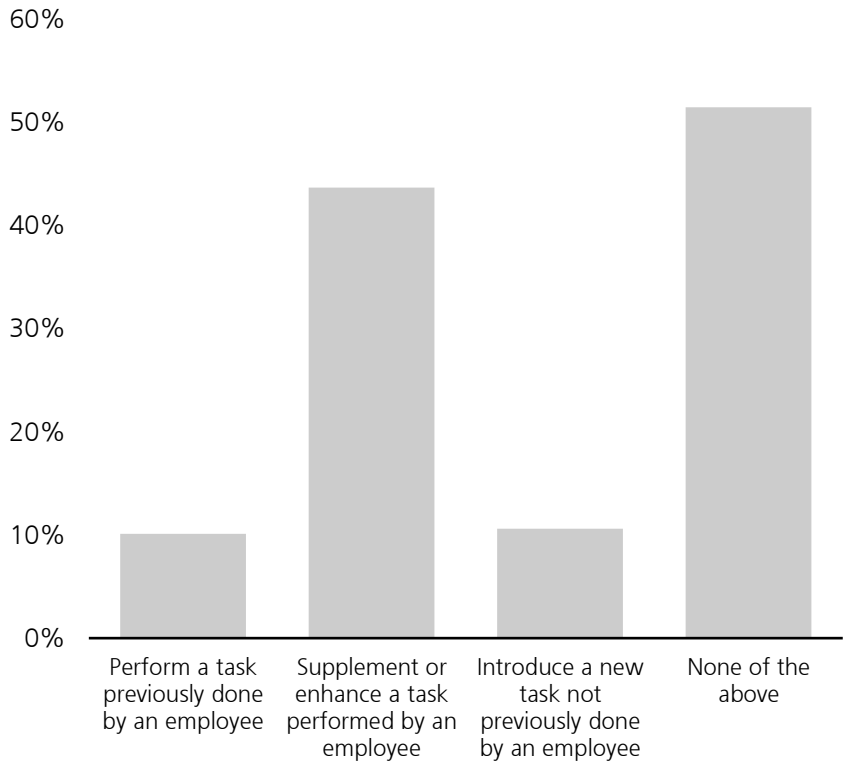
Business surveys and job posting data signal a steady rise in AI adoption during the past year, but it appears to be supplementing labor more than replacing it, resulting in a new task mix for the labor force.

AI adoption by firms is around 20%, firm count weighted
Census survey of AI adoption



Source: Macrobond, UBS, as of 28 May 2026
In November 2025, the question was changed to ask about the use of AI in "any of its business functions" in the last 2 weeks vs. the prior wording of "producing goods or services"

Surveys show AI augmentation vs. labor replacement so far
"In the last 6 months, did this business use AI to do the following?"



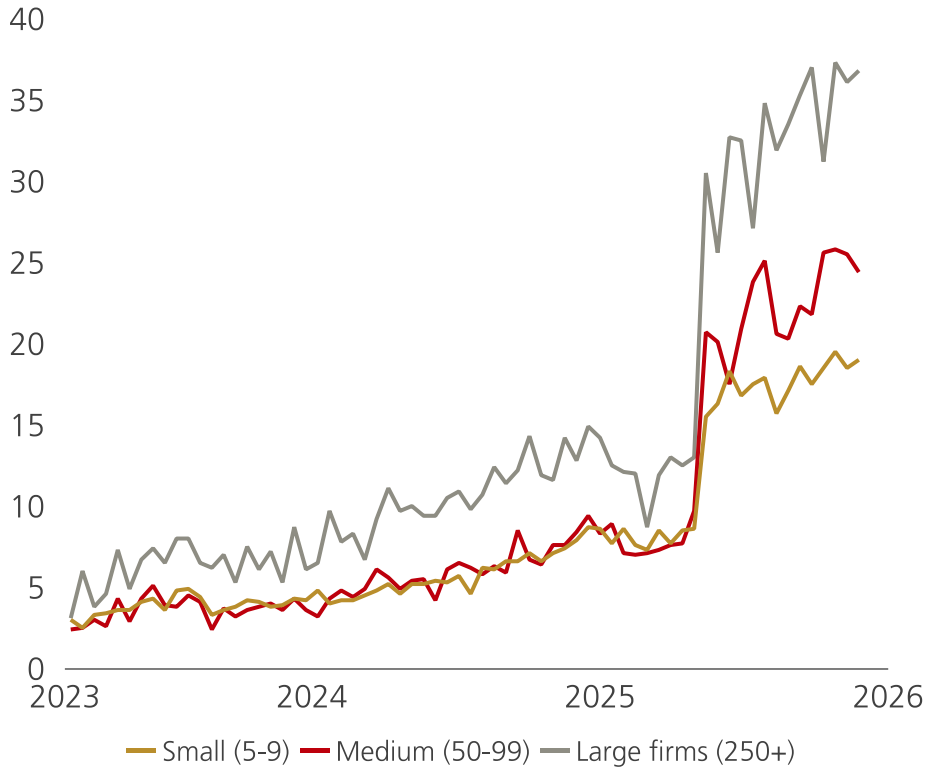
Source: Census AI BTOS Supplemental, UBS, as of 28 May 2026

Adoption rates are faster in larger firms and high-tech industries

Exposure and adoption rates are positively correlated, with information technology, finance, and professional services having the highest exposure and steadily rising adoption rates.

With larger firms leading the way

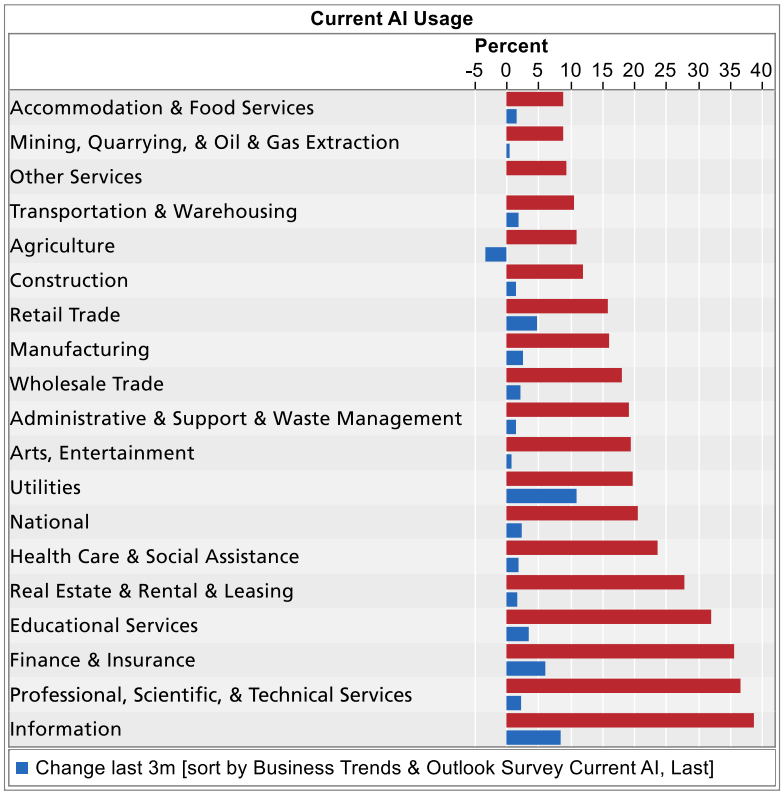
Adoption rate, % (firm count weighted)



Source: Census AI BTOS Supplemental, UBS, as of June 2026

High-tech and financial services have been increasing

Adoption rate, % (firm counted weighted)

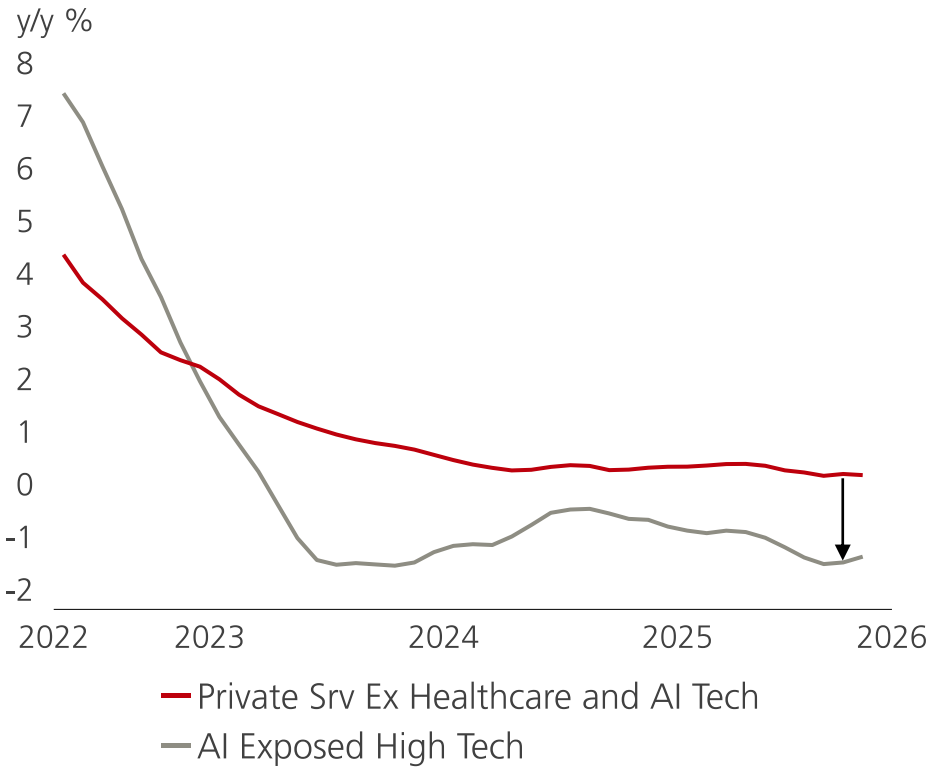


Source: Census AI BTOS Supplemental, UBS, as of June 2026

AI has had only a modest net negative effect on employment so far

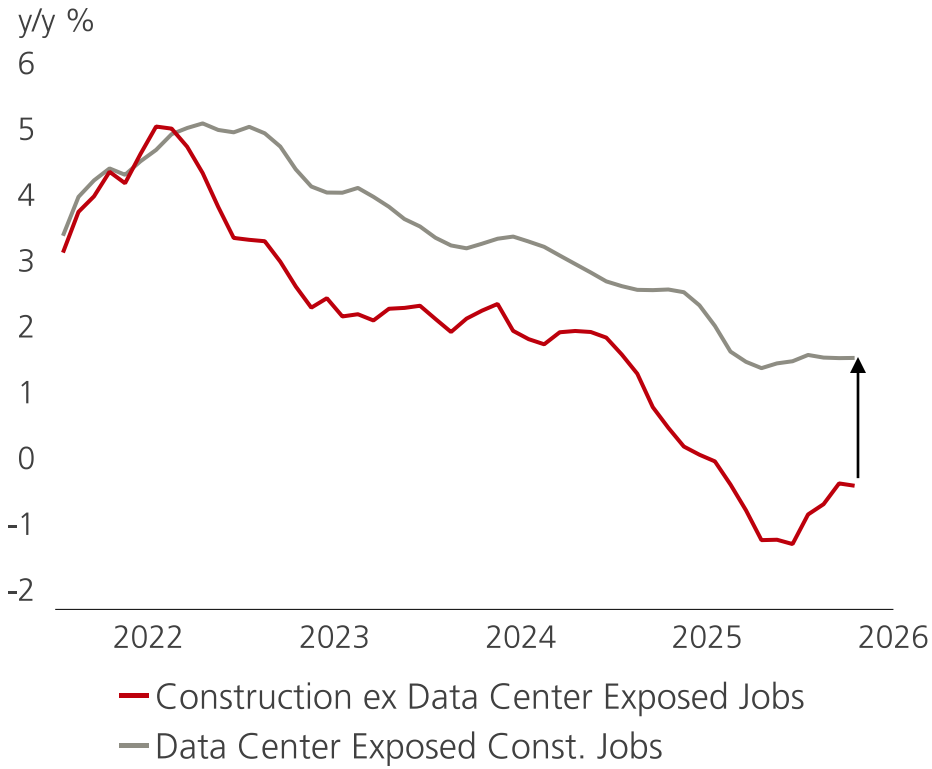
The correlation between adoption/exposure and job growth is low overall. Tech employment is lagging, but many high-exposure sectors show little drag from AI, while AI infrastructure jobs are growing fast.

AI-exposed tech jobs are falling vs. private service jobs
Job growth in selected service industries y/y



Source: Macrobond, Census, UBS, as of 26 June 2026. Using Felten et al. (2021) exposure measures.

Upstream data center construction jobs are growing
AI-exposed construction jobs vs. other construction jobs y/y

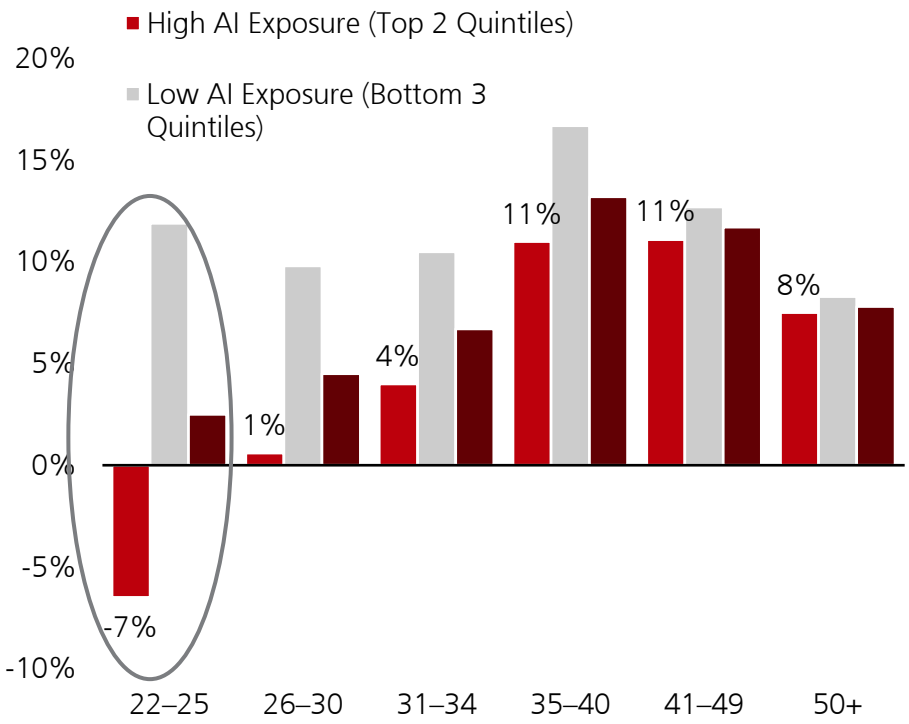


Source: Macrobond, Census, UBS, as of 26 June 2026

Young workers are the most affected so far

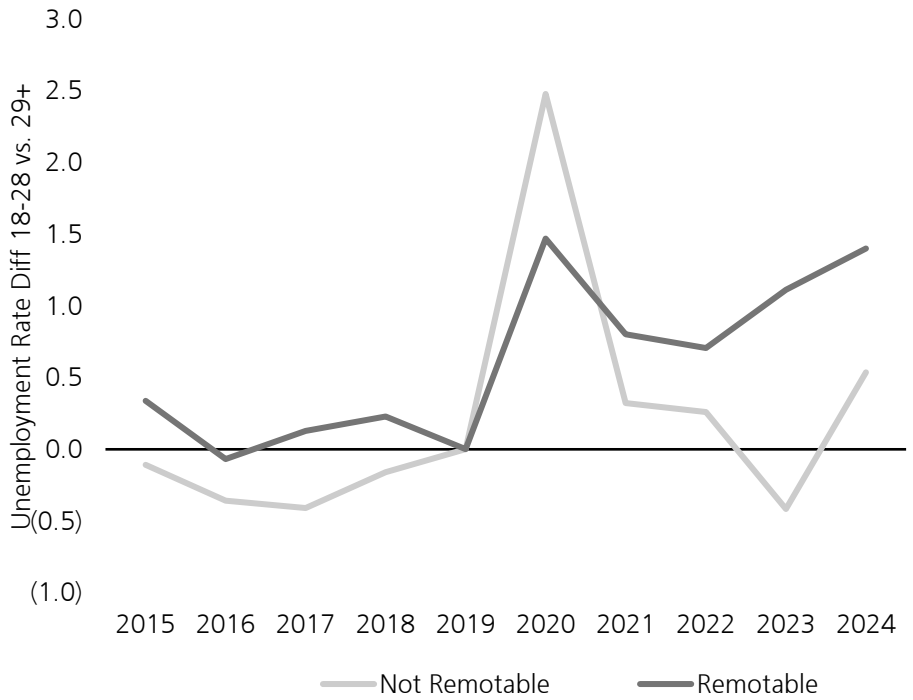
Early evidence shows that many entry-level roles have more AI-task exposure, adversely affecting young workers the most. A few studies suggest the AI job effects could be tied to remote work.

Employment growth (%) by age and AI exposure
Effects are concentrated on the young (4Q22 to 4Q25)



Source: Brynjolfsson et al. 2025 "Canaries in the Coal Mine" UBS, as of June 2026

Remote work can also explain the youth unemployment rise
Unemployment rate difference in 18-28 vs. 29+ by remotability

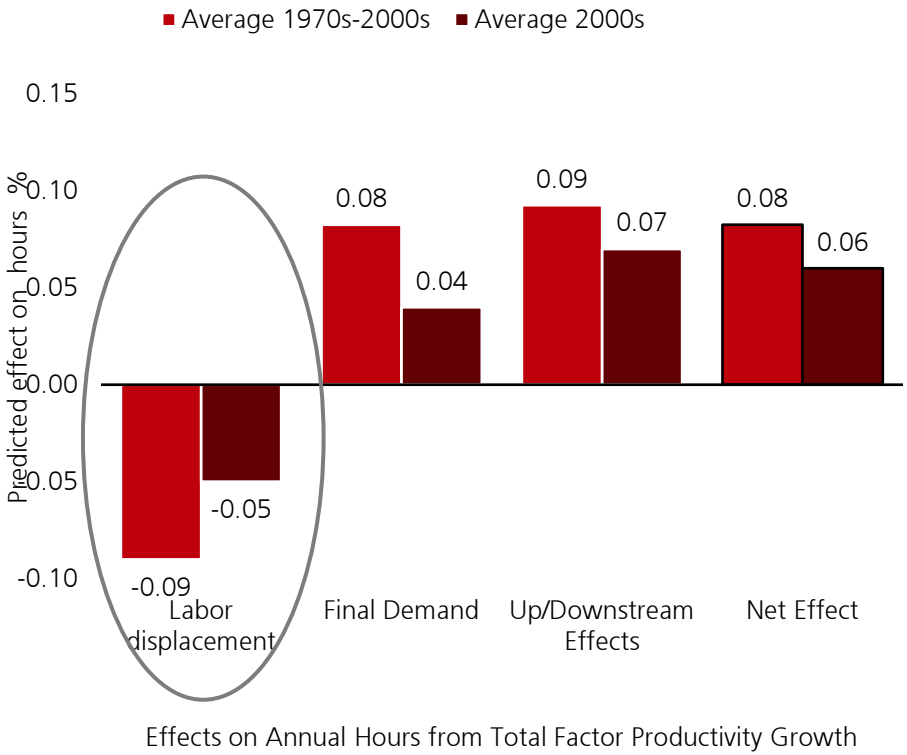


Source: NY Fed "Remote Work Leaves Younger Workers Sidelined" 2026, UBS, as of June 2026

History shows innovation is not a net negative for labor

Innovation measured by productivity has typically boosted labor demand, and that's likely to continue at least near term with AI through upstream employment growth and new roles being created.

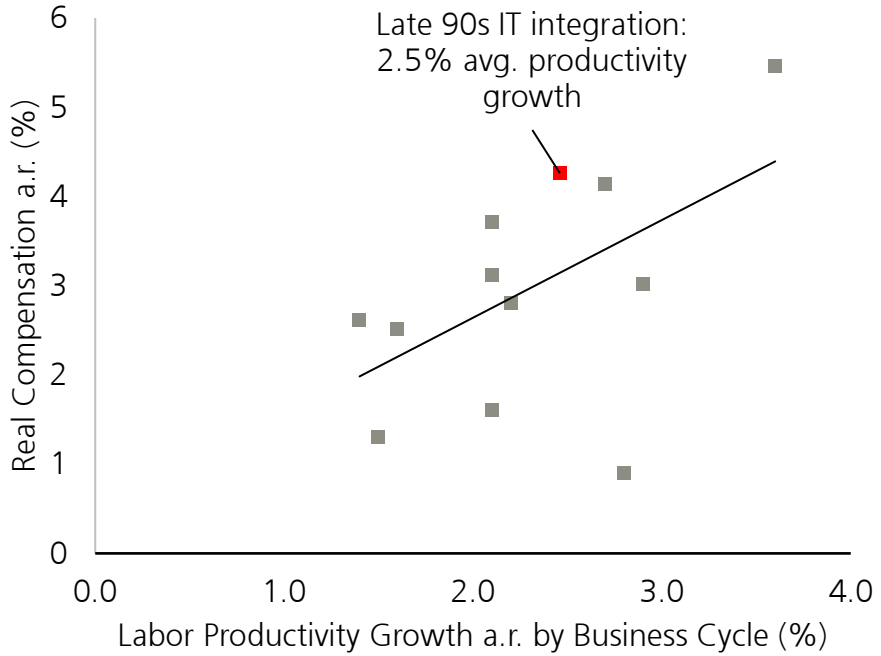
Higher TFP adds jobs with final demand & upstream effects
OECD study on TFP growth effect on aggregate annual hours*



Effects on Annual Hours from Total Factor Productivity Growth

Source: Autor and Salomons (2018) "Is automation labor-displacing…" UBS, as of May 2026

Productivity booms have been neutral to positive for workers
Real compensation vs. labor productivity growth a.r. by business cycle



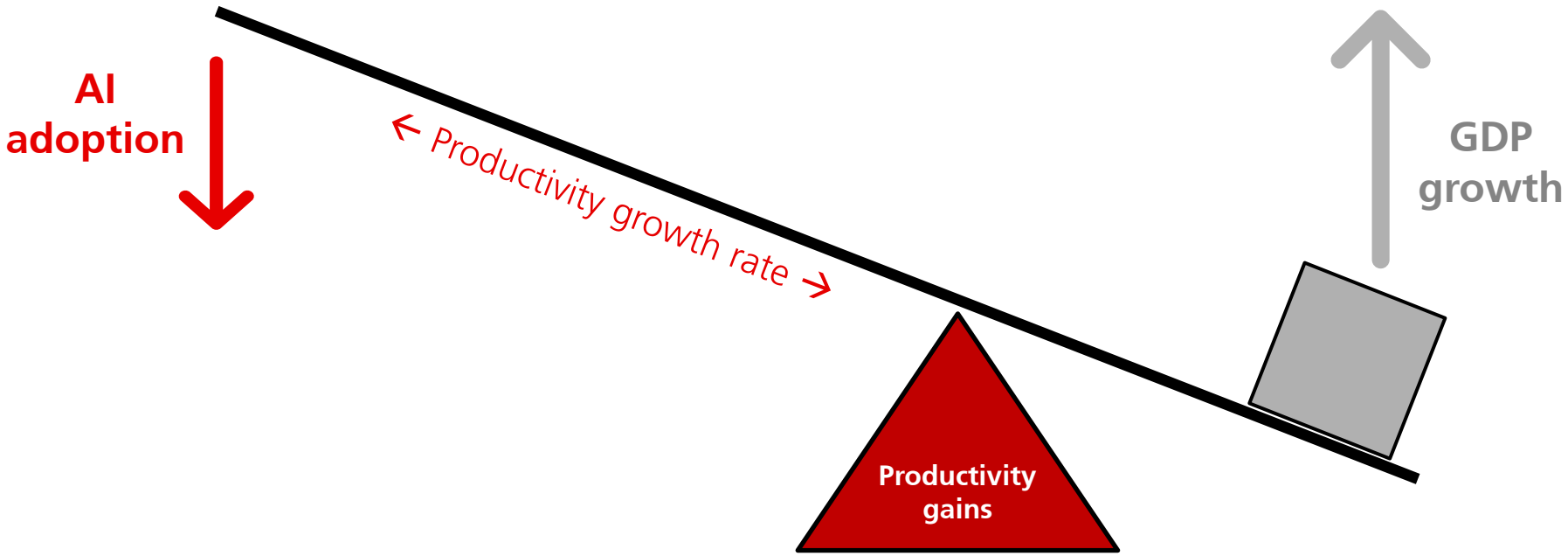
Source: BLS, UBS, as of May 2026

Section 4

The AI productivity growth formula

The AI economy pivots on a productivity gains fulcrum

AI's transformation of the economy ultimately hinges on the magnitude of productivity gains that it can generate. The bigger the gains, the larger the boost to growth for a given amount of AI adoption.



UBS

Productivity growth has been rising, but unlikely because of AI

Productivity growth has increased in the 2020s after a decade of very low growth, but it's still only around the historical long-term average.

Recent productivity growth

- Productivity has grown at 2.7% annualized over the past three years, more than 1pp above the 2010s average.
- The average growth since 1960 is 2.0%, but productivity often goes through waves. It has been structurally declining for decades.

In theory, productivity growth is a function of three factors

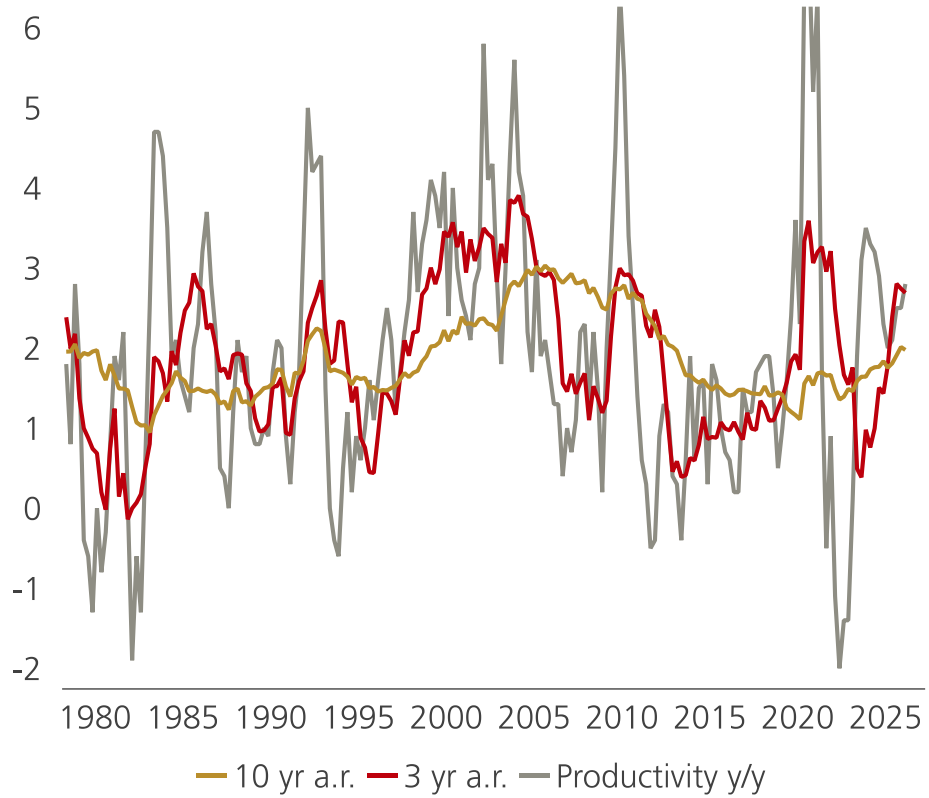
- **Labor quality**: Positive changes to labor force characteristics such as workers' education to output per hour
- **Capital deepening**: Increased contribution of capital inputs to output per hour.
- **Total Factor Productivity**: The portion of output growth not explained by labor growth and capital inputs. Essentially efficiency gains from technology, innovation, and management practices.

In practice, recent productivity data reflect normalization, not AI

- Productivity growth was unusually low in the 2010s but was trending higher prior to COVID-19.
- AI adoption rates and potential efficiency gains have been too low the past few years to explain post-Covid productivity gains.

Productivity growth has been 1pp above the post GFC decade

Annualized US labor productivity growth



Source: Macrobond, UBS as of June 2026

AI could lead to a productivity boom, but range of possibilities is wide

AI is expected to boost labor productivity and therefore economic growth. But it's highly uncertain just how much and how soon, and whether it will be a one-time boost or lead to ongoing higher growth.

AI can increase productivity in two ways:

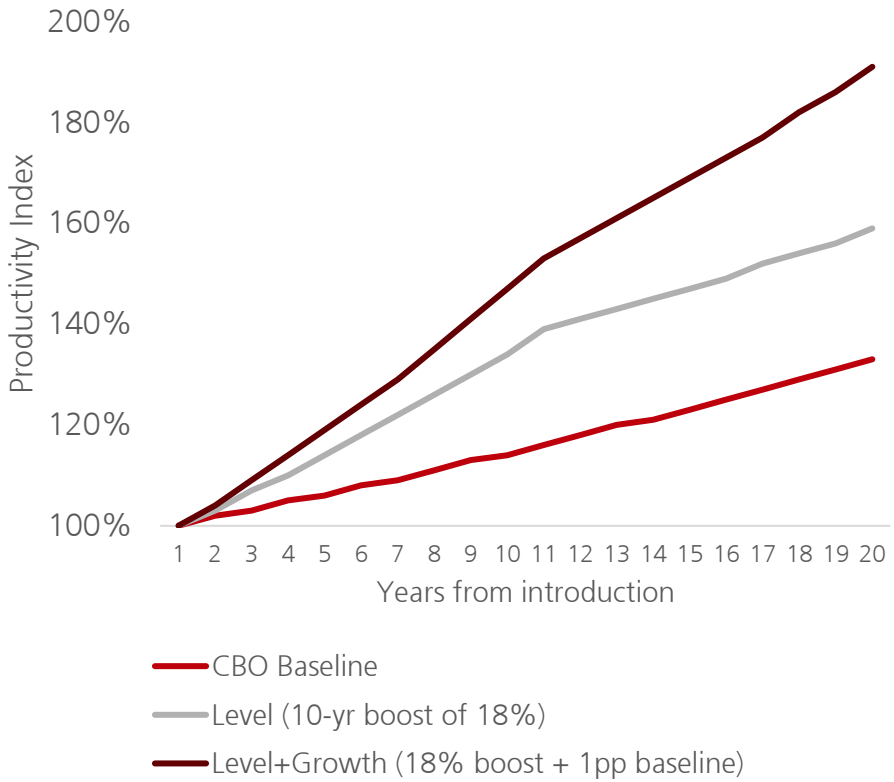
- **Improve worker efficiency** by automating or augmenting existing tasks already done by workers.
- **Improve innovation** by facilitating the generation of entirely new ideas and ways of automating tasks.

Likelihood and impact of AI productivity gains:

- Very likely: Improve worker efficiency, even if the magnitude is uncertain.
- Less likely: Improve the ability to innovate (e.g., generate entirely new drugs or information technologies).
- Improvement in worker efficiency would level-shift output higher but not permanently increase the rate of productivity growth (grey line in the figure).
- But if innovation also occurs, then productivity growth should be sustainably higher (dark red line in the figure).

AI productivity scenarios: one-time and/or a permanent shift

Cumulative change in labor productivity over two decades by scenario

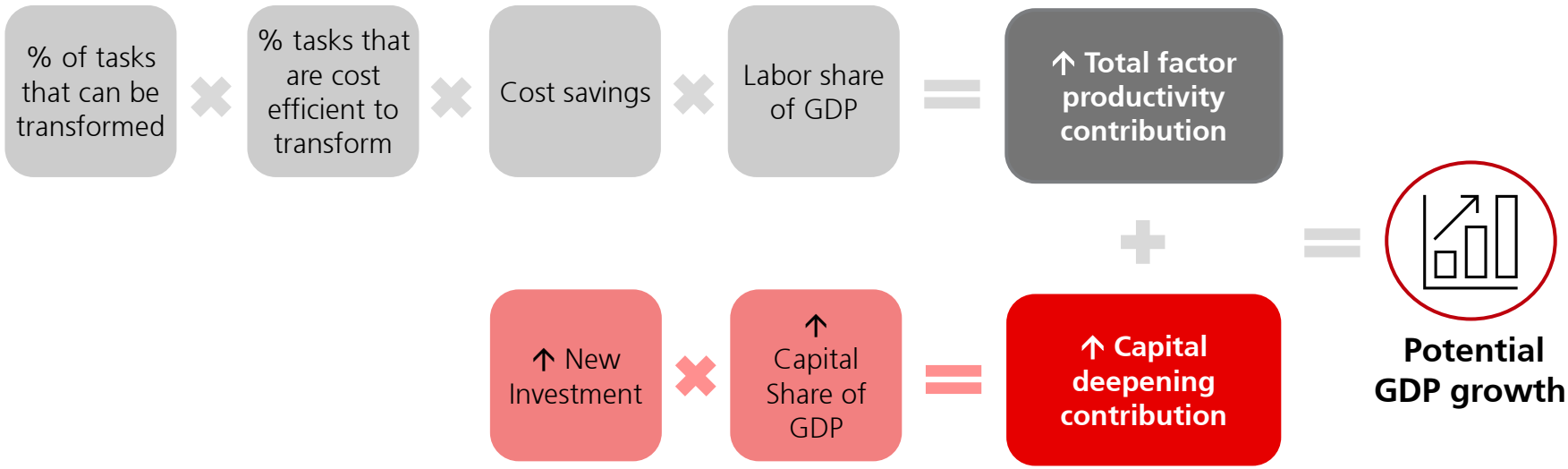


Source: Baily et al. Brookings (2023), UBS as of June 2026

Decomposing AI's impact on productivity into specific components

Labor productivity can be split into total factor productivity (TFP), capital deepening, and labor quality. AI adoption and cost savings will affect TFP, while capital deepening will increase the boost to GDP growth.

AI labor and TFP productivity decomposition, translated into potential GDP impact



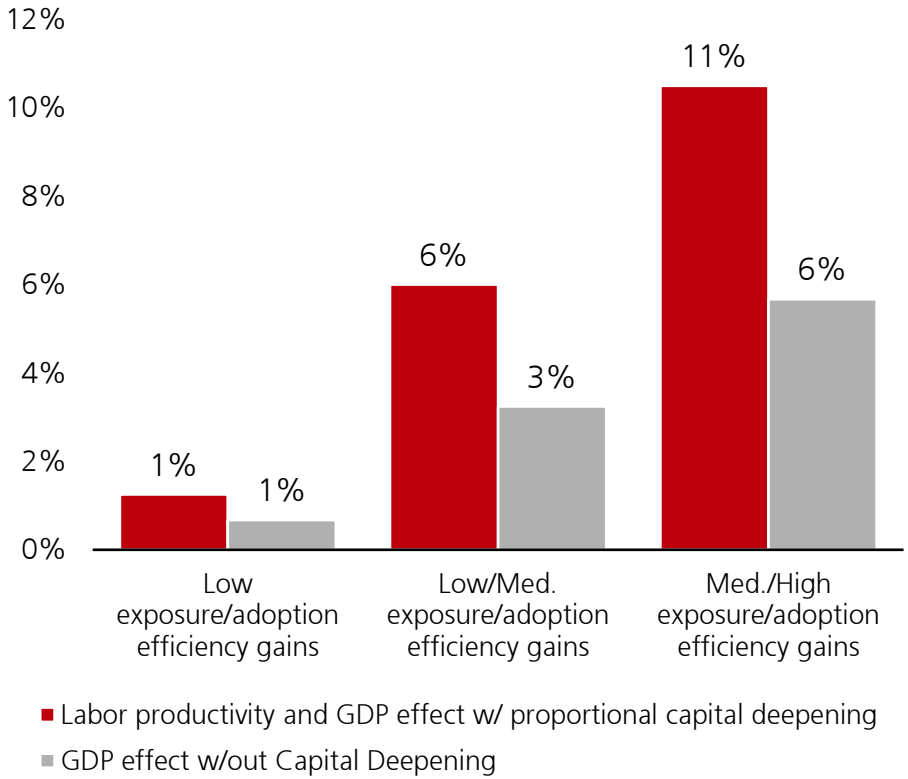
Source: Acemoglu (2024), Justin Wolfers (2025), UBS as of June 2026

Impacts of AI on productivity and GDP are sensitive to assumptions

Forecasts for the productivity gains from AI hinge greatly on assumptions made regarding the percent of tasks that can be automated and the potential cost savings, as well as the timeline.

Range of productivity driven by adoption and efficiency

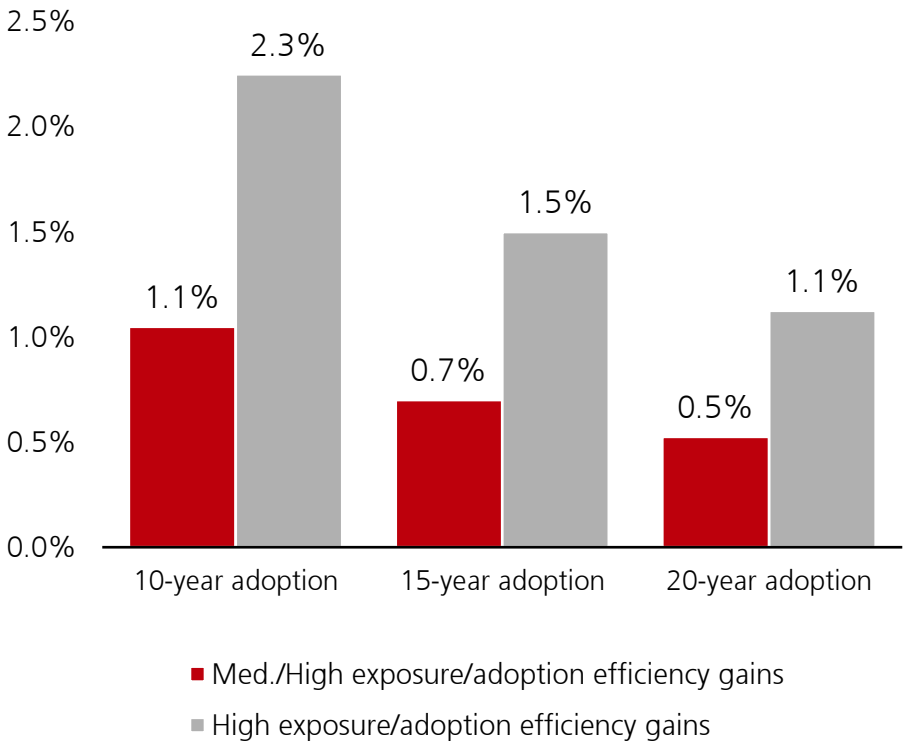
Cumulative AI effect on productivity and GDP level by scenarios



Source: IMF, UBS as of 15 June 2026

Growth rates will depend heavily on adoption time-line

AI effect on productivity and GDP growth by scenarios

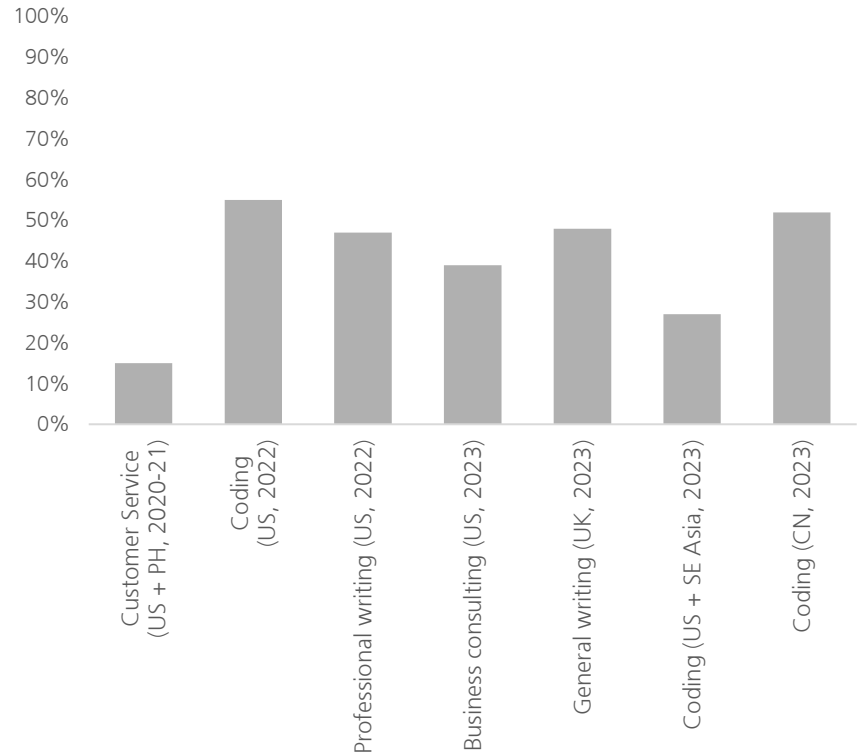


Source: IMF, UBS as of 15 June 2026

Range of AI-related productivity gains in academic studies is wide

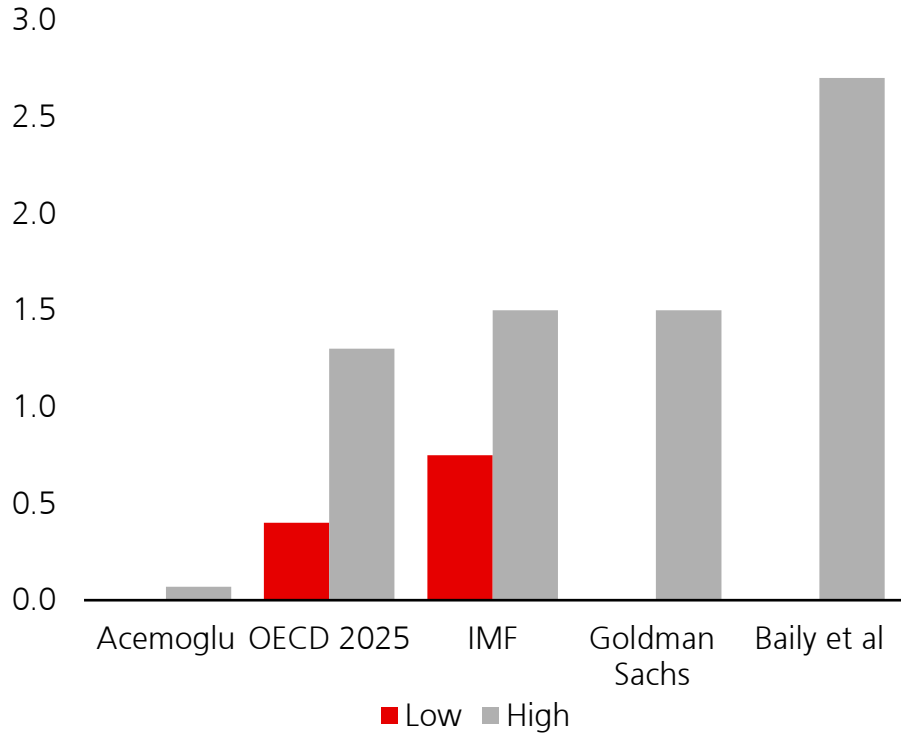
On the micro-level, researchers have found AI-related productivity gains to be 25-30%. In the long run at the macro-level that could materialize as an additional 0.1-1.5% annualized productivity growth.

Productivity gains from AI are ~25-30% in many tasks
Survey of academic studies of productivity effects by tasks



Source: OECD Filippucci et al 2025, UBS, as of June 2026

Estimates of AI effects on agg. productivity vary from 0.1-1.5%
Increase in labor productivity over a decade from AI (pp), annualized



Source: OECD Filippucci et al 2025, UBS, as of June 2026

Companies say their AI use is increasing

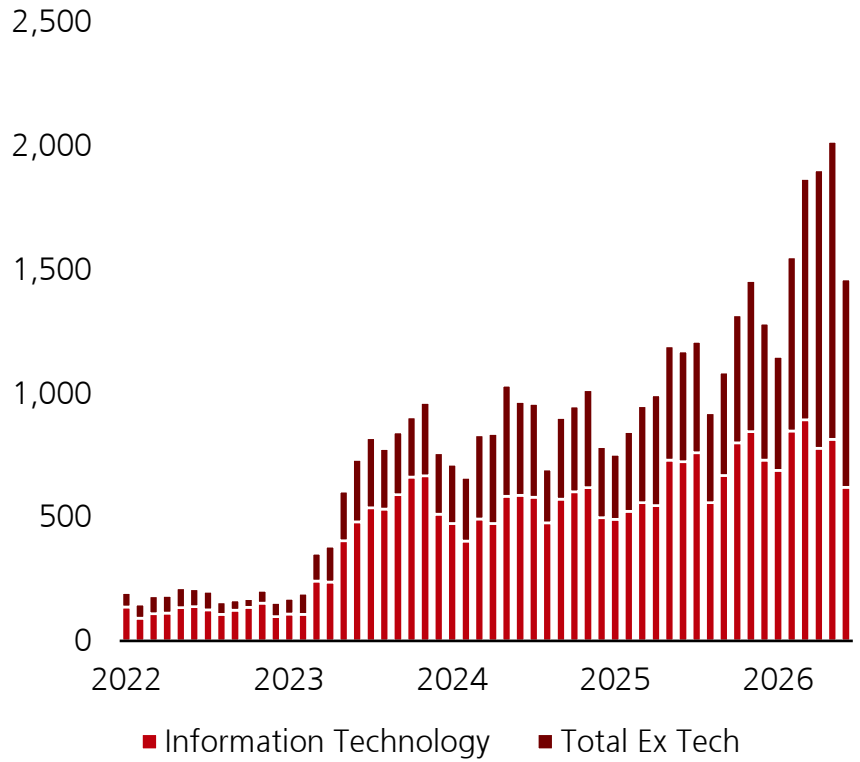
Company and anecdotal evidence of productivity gains from AI have been increasing according to quarterly earnings transcripts.

A variety of companies note AI deployment outcomes
Sample AI mentions and outcomes

Company	Domain	Outcome
PayPal	Software development	10-30% savings in coding time
Workday	Software development/Engineering	22% increase in engineering output
Workday	HR	20% productivity gain linked to self-service agents
Block	Customer service	70% of customer support inquiries are fully automated
Mastercard	Fraud detection/Security	20% boost in fraud detection

Source: Bloomberg, UBS as of 14 June 2026

Tech and non-tech firms flagging AI use during earnings
Mentions of AI and ML in S&P 500 earnings transcripts 3mma



Source: Bloomberg, UBS as of 14 June 2026

UBS

Section 5

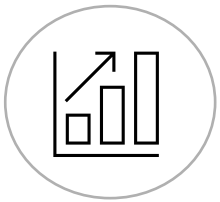
Macroeconomic and policy implications of AI

Translating the AI economic implications into a macro framework

Direct (investment, labor market, productivity) and indirect economic implications of AI are the key inputs into a macro framework that informs asset allocation decisions, augmented with policy implications.

Actual GDP growth

- Investment
- Consumption
- Net exports
- Govt spending

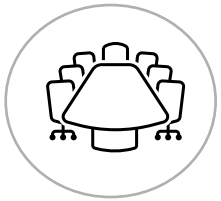


Potential GDP growth

- Productivity growth
- Labor force growth

Macro regime

- GDP growth
- Inflation



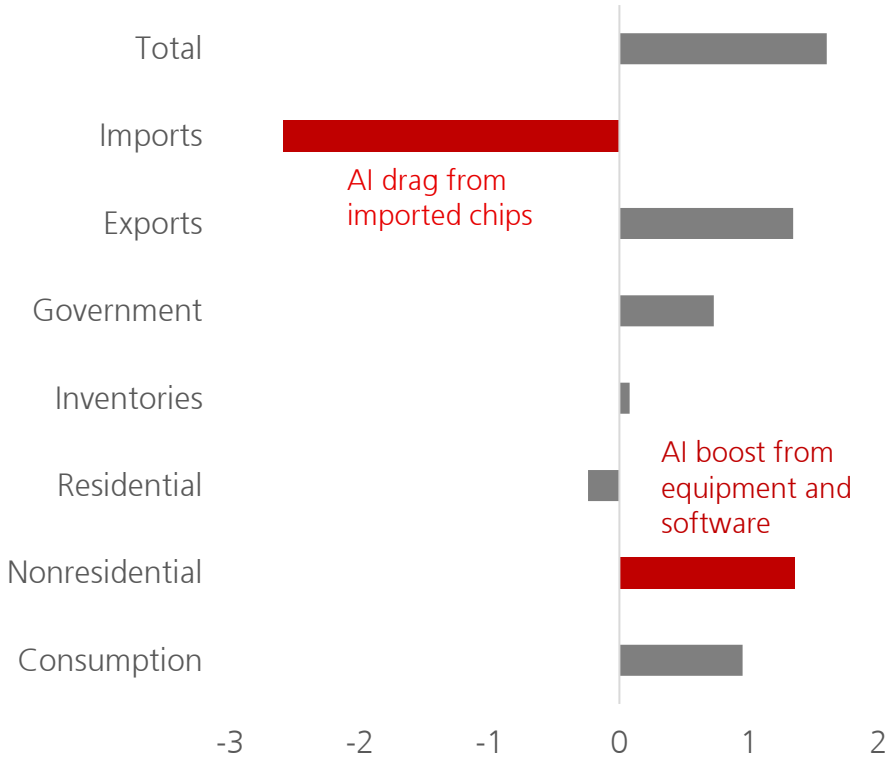
Policy

- Monetary
- Fiscal
- Regulation

Actual growth: AI should continue to affect all components of GDP

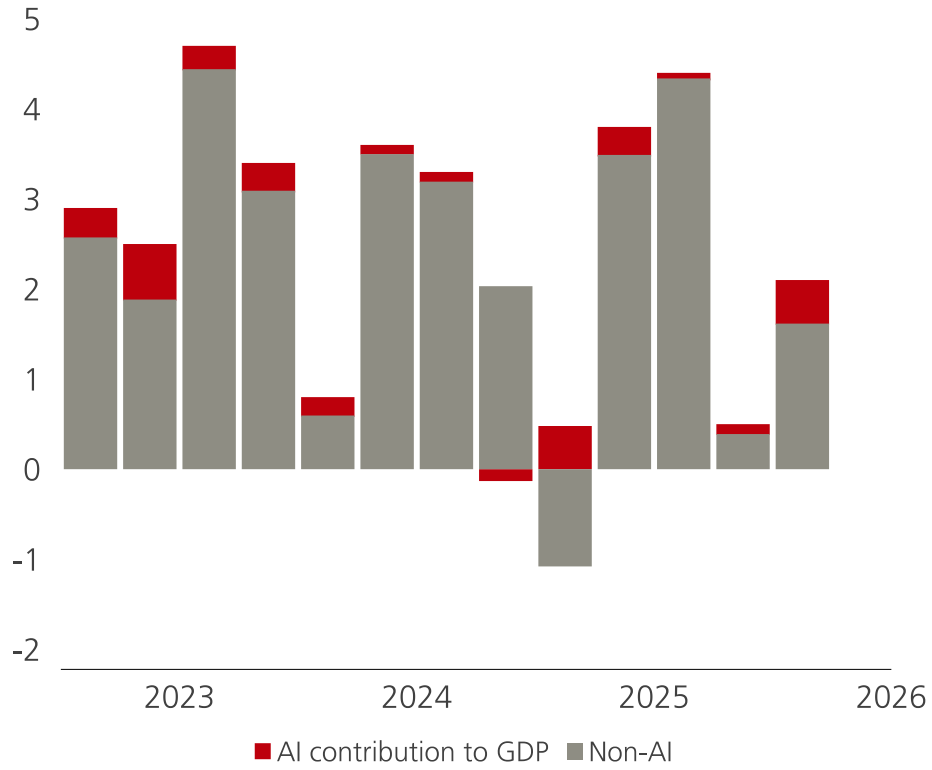
AI capex directly impacts aggregate investment and net exports, and it indirectly impacts aggregate consumption through the wealth effect and government deficit through taxes.

Actual: AI already having an outsized impact on GDP
Contribution from GDP components 1Q26, q/q SAAR %



Source: BEA, UBS as of 14 June 2026

AI investment added 25bps to GDP growth on avg. in 2025
Real GDP growth SAAR, %



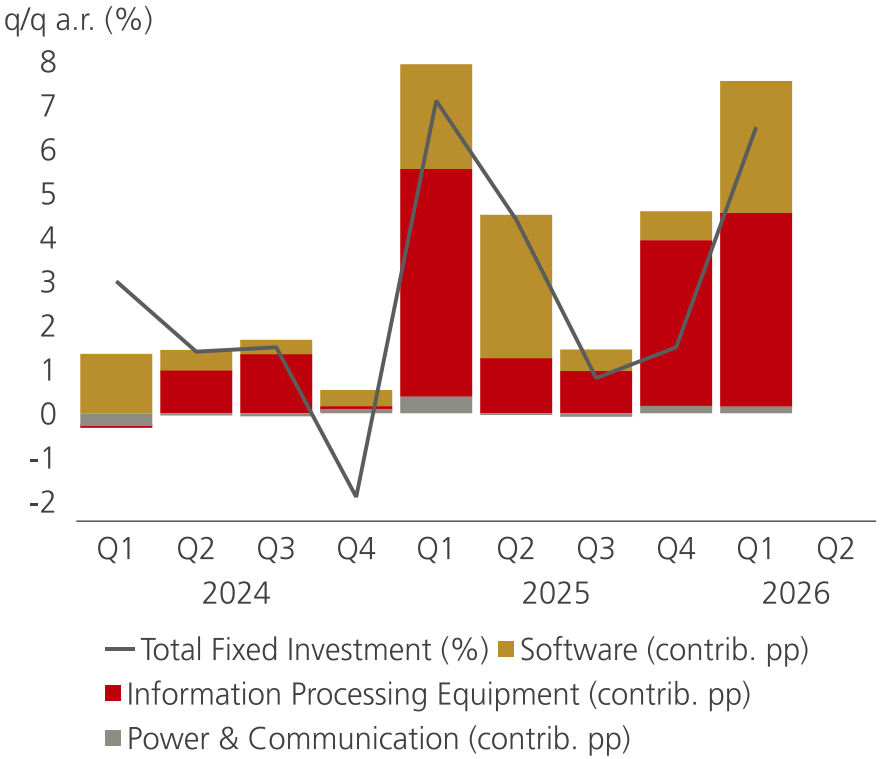
Source: BEA, UBS as of 31 March 2026

UBS

Investment: AI capex is lifting GDP, but pace may moderate

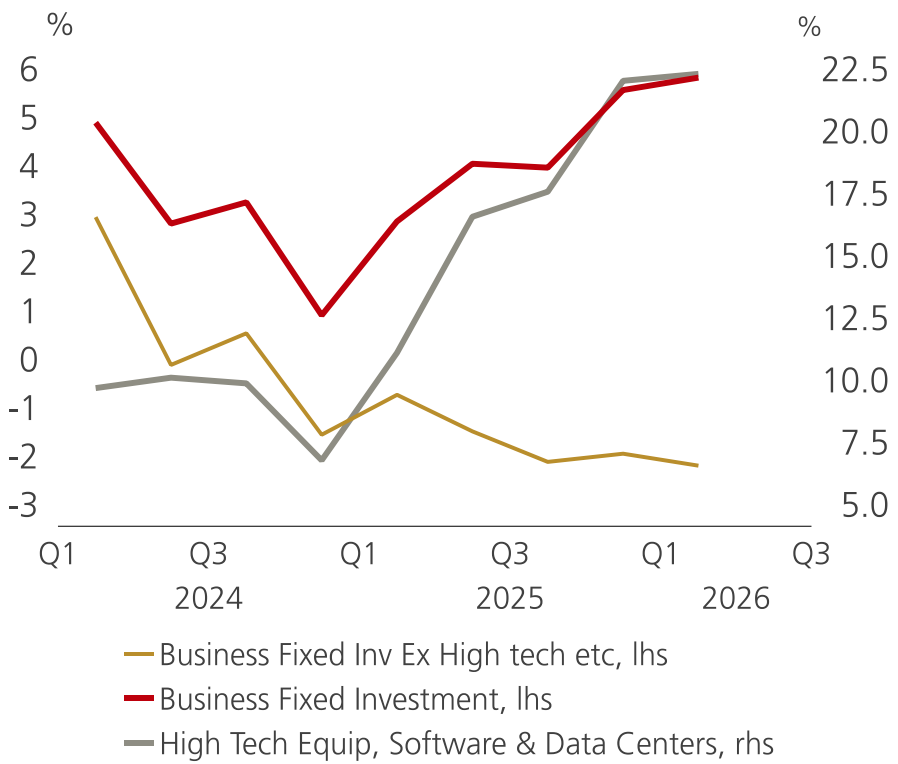
AI-related investment is contributing 15-30bps to GDP growth after netting out imports. The absolute amount of investment is likely to grow, but its marginal contribution to growth could fall.

Fixed investment outlook is strong due to AI capex
Real GDP growth SAAR, % and contribution



Source: BEA, UBS as of June 2026

AI should drive above-average capex growth
Business fixed investment growth y/y by type

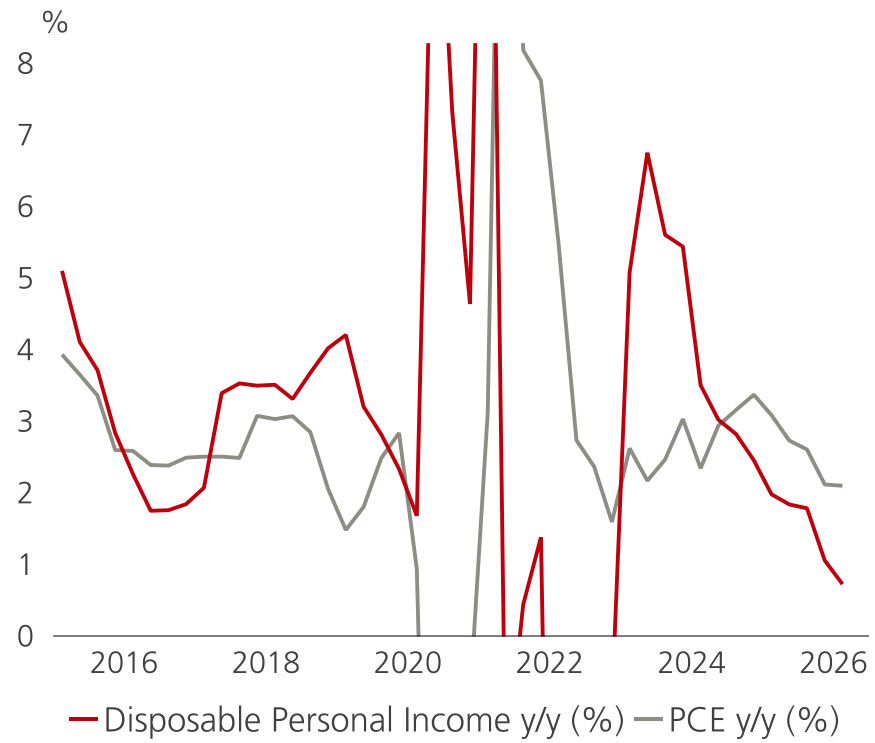


Note: "AI-related capex" includes spending on data centers, software, information processing equipment.
Source: BEA, UBS as of June 2026

Consumption: A wealth effect now, maybe an income effect later

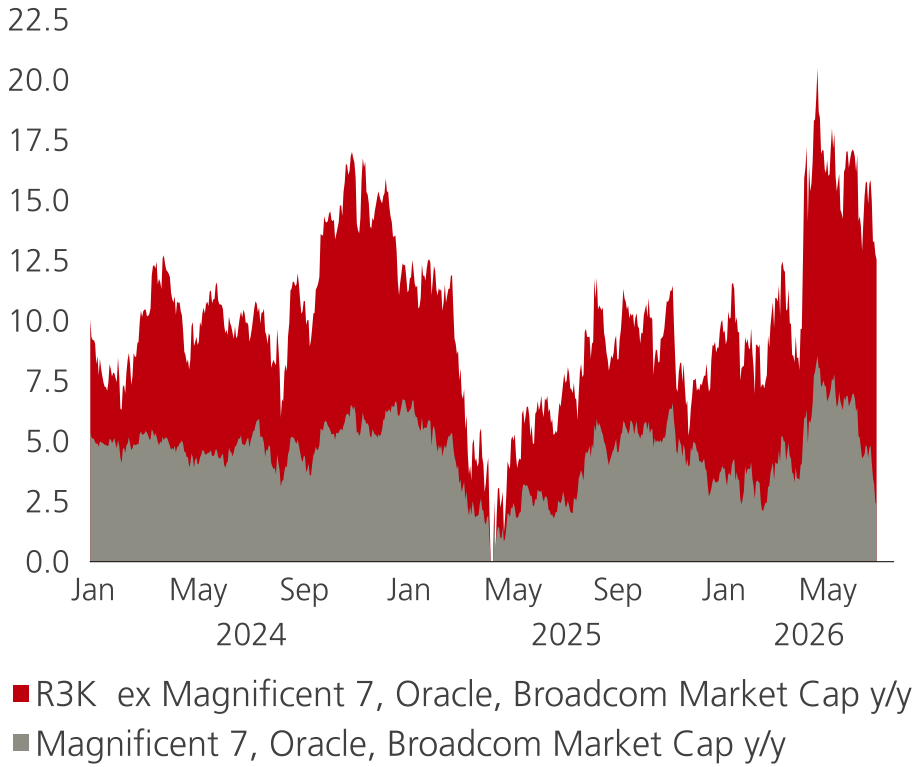
Equity wealth stemming from AI is supporting consumption for higher income consumers. The current impact on aggregate income is ~0.2pp, but it could become large (+ve or -ve) depending on job impact.

Spending has outpaced income due to wealth effects
DPI and Personal Consumption (PCE) y/y, %



Note: Axes have been truncated
Source: Bloomberg, Macrobond, UBS as of 25 June 2026

AI stock gains have likely added 0.2pp/yr to growth
Market cap y/y (in USD tr) for 9 AI firms & Russell 3k ex-AI firms



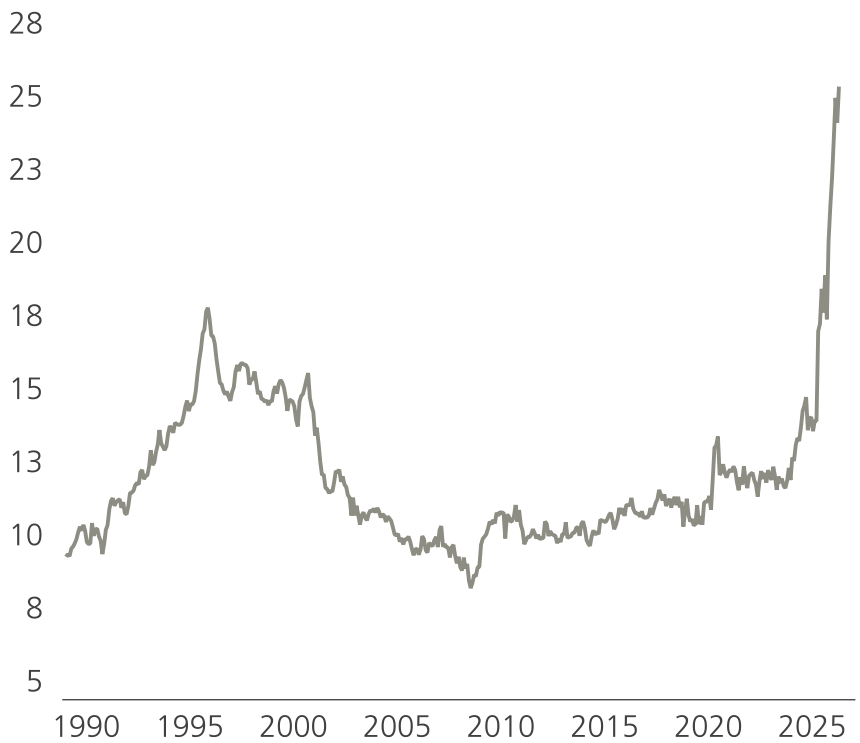
Source: Bloomberg, Macrobond, UBS as of 25 June 2026. Magnificent 7 + Oracle and Broadcom.

UBS

Net exports: Surging AI capex boosts imports, which is a drag on GDP

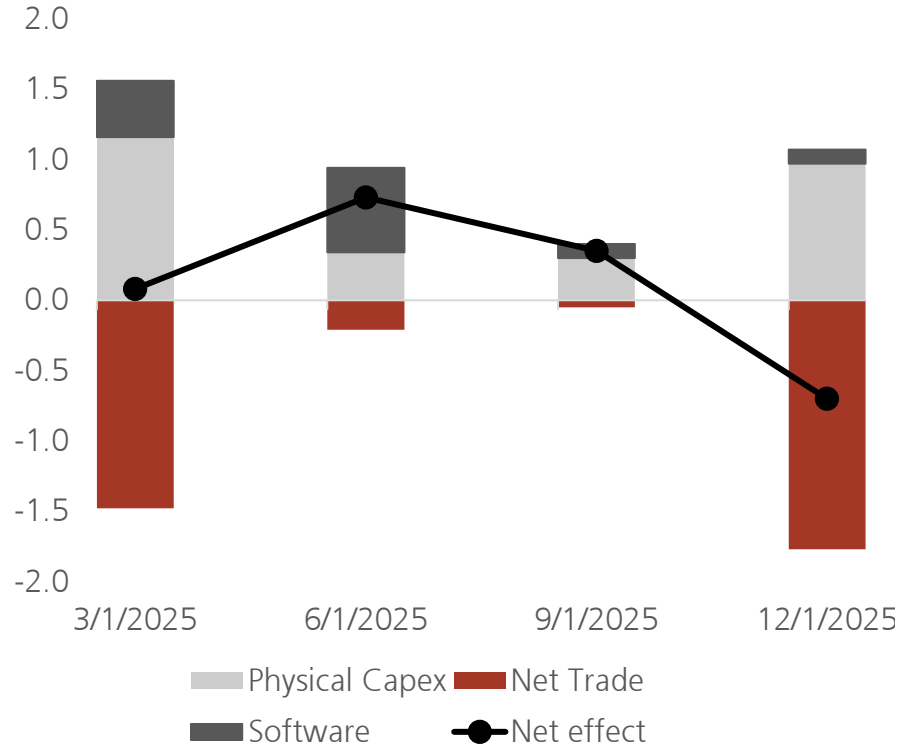
GDP estimates understate the actual AI capex because much of the spending is on imported goods, which take time to show up in GDP data.

AI-related imports almost a quarter of total imports
Share total imported goods, %



Note: "AI-related imports" includes computer and power generating equipment.
Source: BEA, UBS as of 25 June 2026

Drag from net exports reduces net AI GDP impact to ~0 in 2025
Contribution to GDP, %

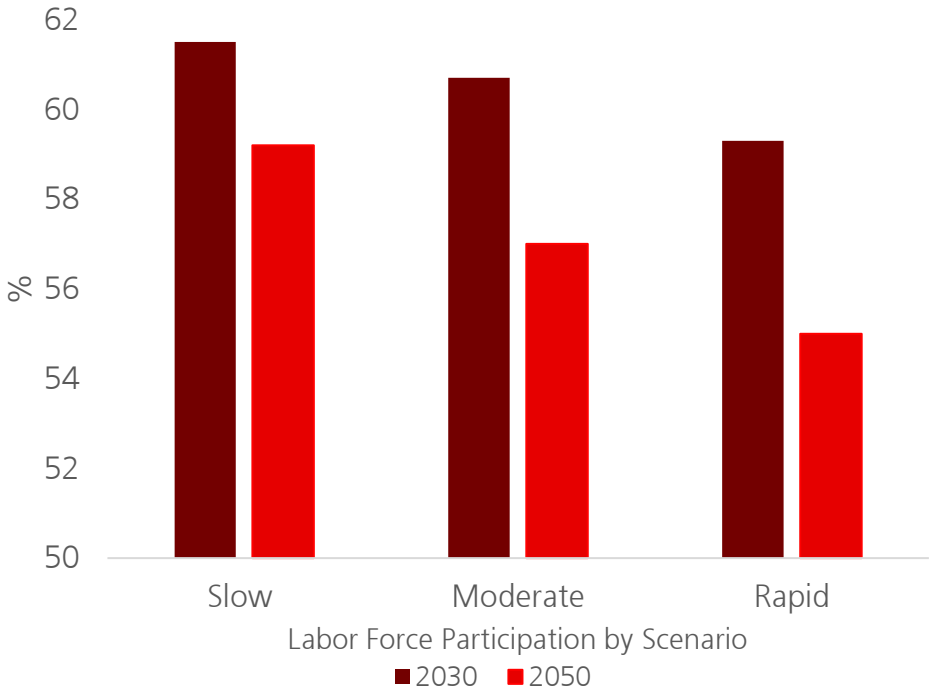


Source: BEA, UBS as of 31 March 2026

Potential growth: AI boosts productivity, may lower labor force growth

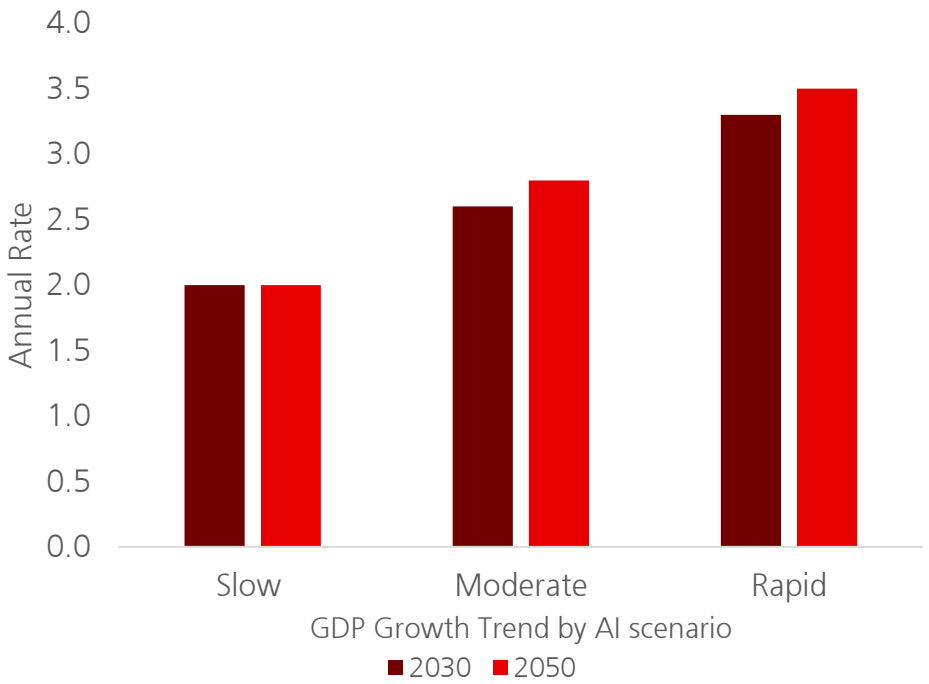
Consensus view is that potential growth is about 2%, which could rise further owing to an AI productivity boom or stay the same. Slower labor force growth could partly offset productivity gains.

AI could drive labor force participation rates downward
Participation rate predictions by AI adoption rate scenario, %



Source: Karger et al (2026), UBS, as of June 2026

Wide range of potential growth forecasts due to AI
GDP growth* predictions by AI adoption rate scenario, %



*5-Year annualized rate
Source: Karger et al (2026), UBS, as of June 2026

UBS

Inflation: AI capex is inflationary now, productivity disinflationary later

The AI capex boom is providing a mild inflationary impulse now, but eventually AI is likely to contribute to disinflation, although the timing and magnitude are highly uncertain.

Short-term: Three channels through which AI is currently boosting inflation

- Accelerating AI data center build-out is lifting prices of key inputs (e.g., memory, batteries).
- AI-related spending is putting upward pressure on software and digital goods.
- Data center demand is boosting electricity usage and power prices.
- Other input costs: compute costs—currently high but likely to decline (timing uncertain)

Medium/long term: AI should be disinflationary over a 2- to 5-year horizon for a few reasons

- High input prices should incentivize supply expansion, easing pressures over time
- As adoption rises, productivity gains should outweigh inflationary effects
- Labor market disruption should dampen wage pressures. AI-enabled automation/robotics should reduce production costs.

Inflation Theme	Current Year / 2-5Y
Digital goods (e.g., software)	+ / =
Power and input costs	+ / +
Labor disruption slack	= / -
Long-Run Productivity	= / -

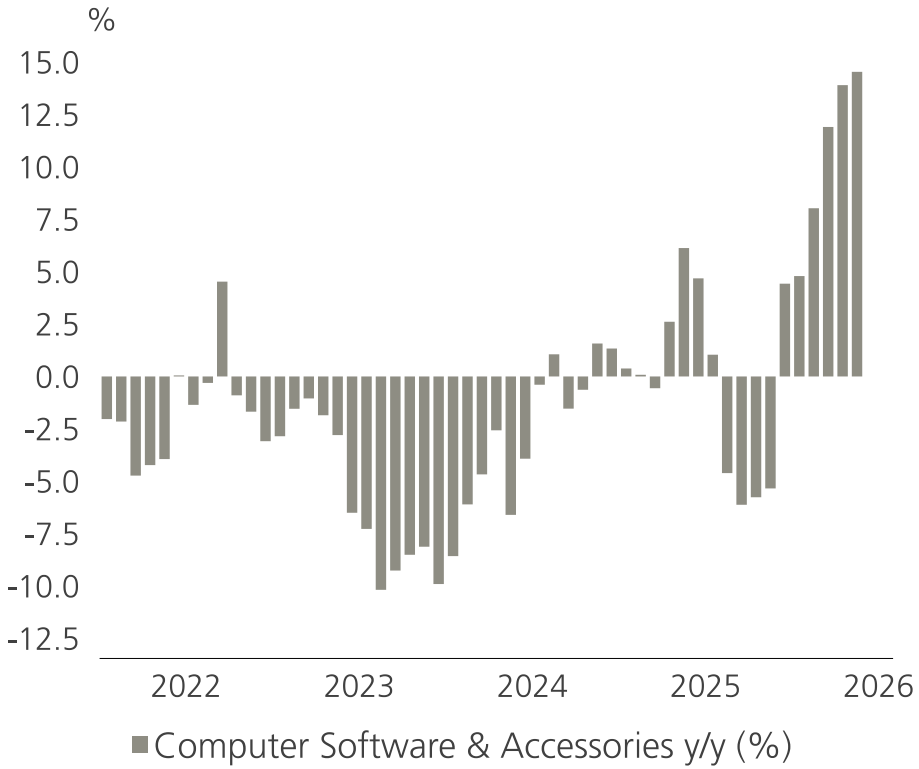
UBS

Inflation: AI is affecting core inflation trends through a few channels

AI is adding to core inflation through direct and indirect effects. Digital products are adding over 15bps to core PCE, while AI-linked tech stocks are boosting financial services inflation by ~10bps.

Software & accessories prices rising 14% y/y from AI effects

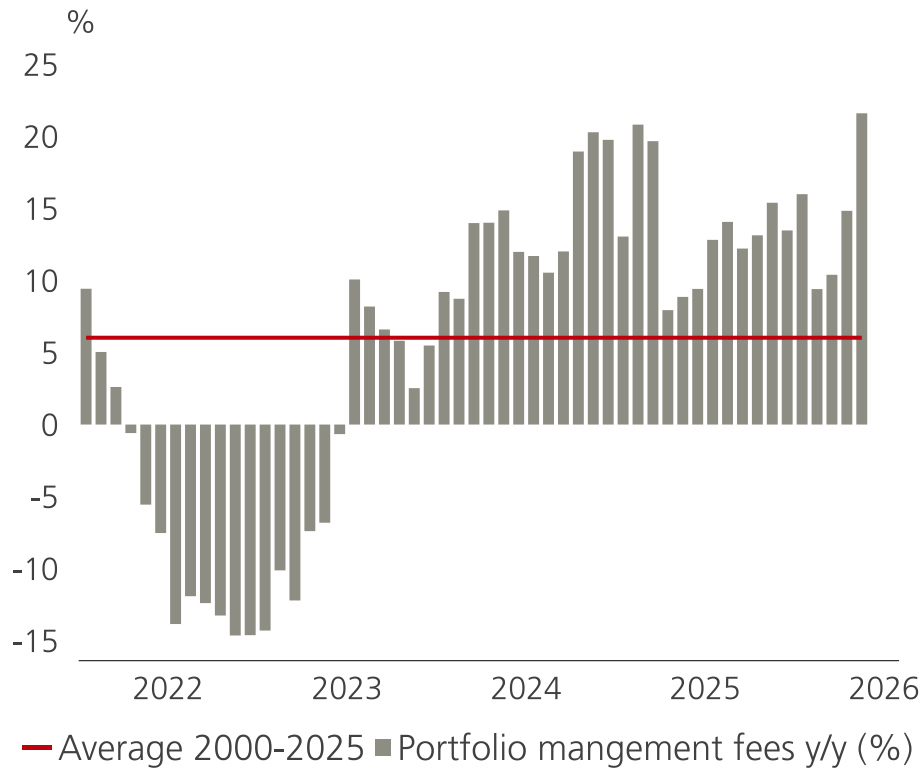
Computer software & accessories y/y %,~1% weight in Core PCE



Source: Federal Reserve Staff, UBS, as of 25 June 2026

AI-linked stock market gains boost financial service inflation

Portfolio management y/y %, ~2% weight in Core PCE



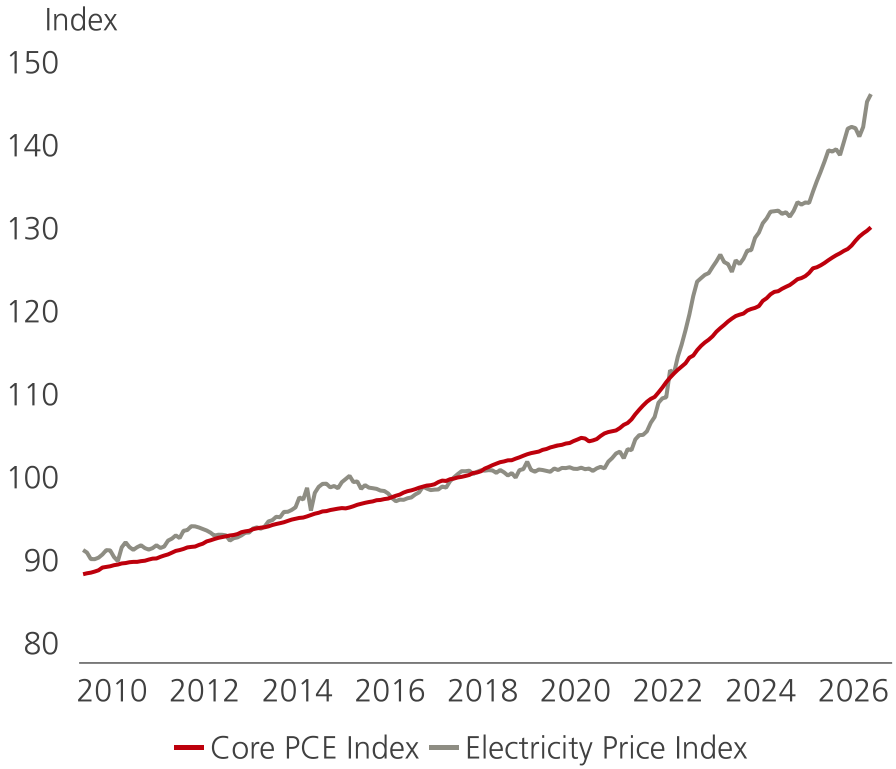
Source: Macrobond, BEA, UBS, as of 25 June 2026

Inflation: AI is adding to rising costs for consumers and businesses

AI demand has affected prices to consumers via higher energy costs, and businesses are experiencing record cost increases for semiconductor.

Utility costs are rising faster than broader inflation

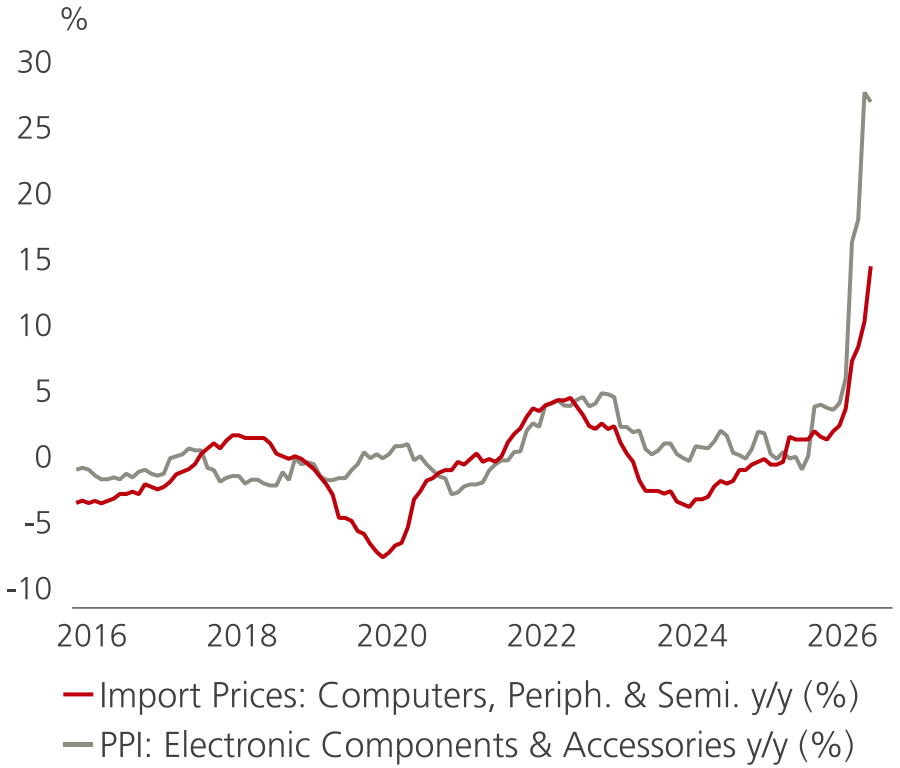
Electric utility cost index and Core PCE index



Source: Federal Reserve Staff, UBS, as of 26 June 2026

AI infrastructure costs are rising very rapidly

Import price of computer/semi. and electronic component PPI y/y

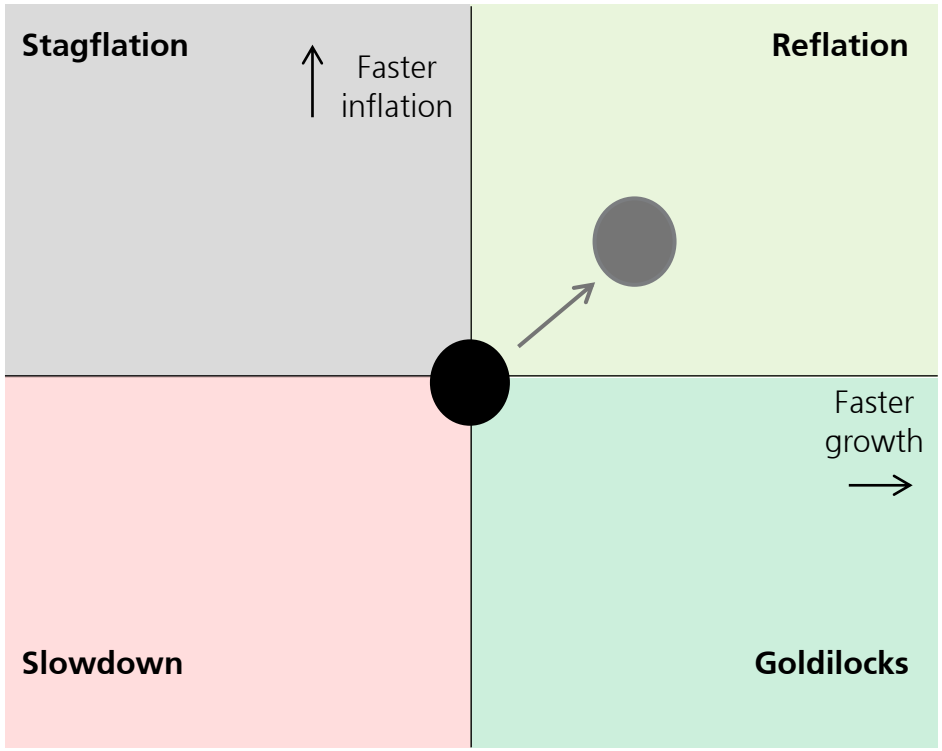


Source: Macrobond, UBS, as of 26 June 2026

Macro regime: AI's impact is likely to be influential and vary over time

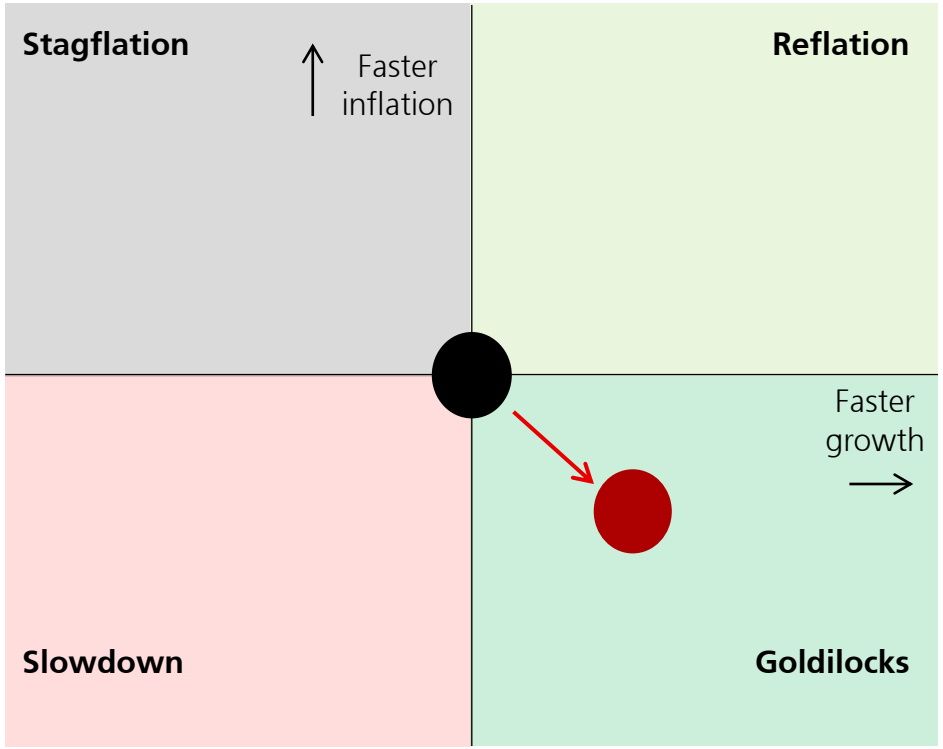
The AI capex boom is lifting both current growth and inflation; future productivity gains should lift growth without generating inflation, but it could also lead to lower inflation and employment.

Short-run: AI demand is lifting both growth and inflation



Source: UBS, as of 1 June 2026

Long-run: Productivity gains could yield disinflationary growth



Source: UBS, as of 1 June 2026

Monetary policy: AI could result in higher or lower rates, or both

AI's impact on Fed interest rate decisions is complicated by cyclical inflation, possible labor market disruption, structural disinflation, and changes in the neutral rate—all of which have uncertain timing.

Actual policy rate: Likely higher initially, lower later

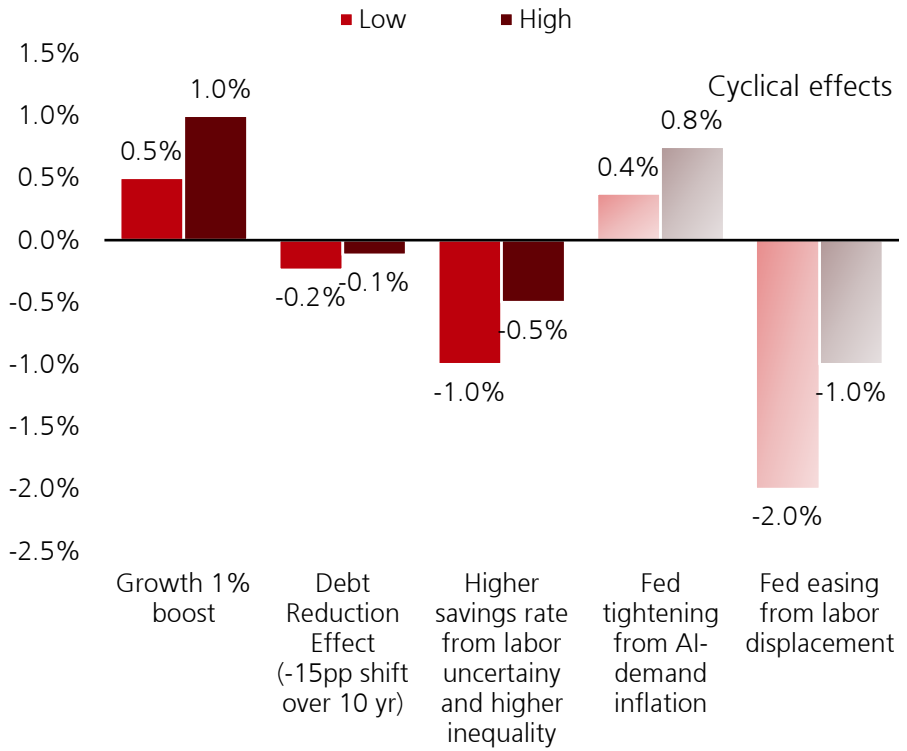
- Current boost to actual growth and inflation from AI investment and wealth-driven consumption is keeping the Fed from cutting rates when they otherwise might and increases the probability of a rate hike in the next year.
- Longer term, structural disinflation due to AI and potential job displacement from AI that weakens the labor market are both reasons to expect Fed rate cuts in the future.

Neutral fed funds rate: Bias is directionally higher

- Economic theory suggests that higher productivity should increase potential growth and thus actual growth, necessitating a higher neutral policy rate.
- The potential for AI to increase labor market and income uncertainty could result in higher savings for the future, which would reduce the neutral rate, all else equal.
- Smaller government deficits because of higher growth translate to less competition for private savings, and thus a lower neutral rate, all else equal.
- Net effect of AI is likely to be a higher neutral rate, but it depends on the pace of adoption.

Neutral rates could be lowered or raised by AI

Estimated AI effects on neutral and cyclical policy rates (%)



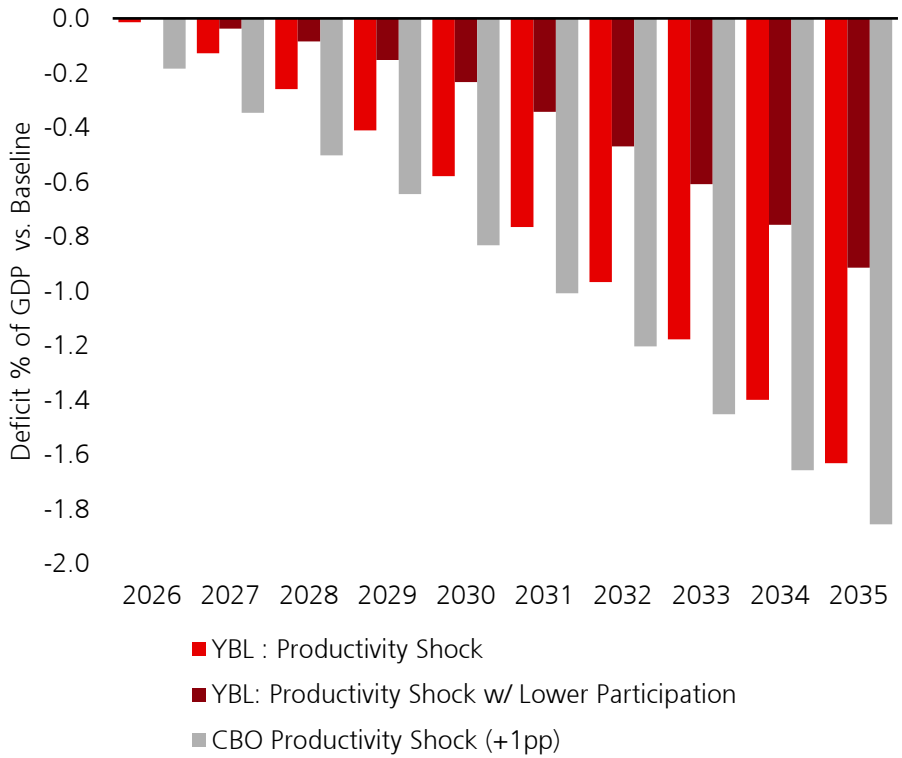
Source: Fed Staff "The Causal Effect of Debt on Interest Rates" (2026), Rachel and Smith (2015), UBS, as of June 2026. * Assumes a similar savings rate effect as found in 1985-2015 from Rachel and Smith (2015)

UBS

Fiscal policy: AI could improve the fiscal outlook via growth effects

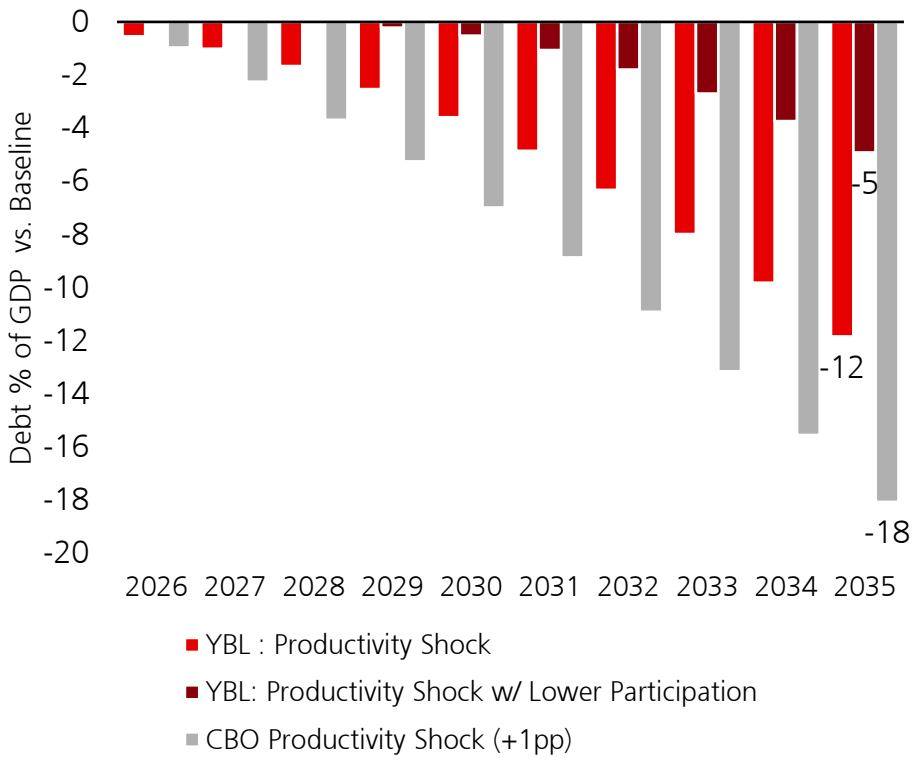
AI-related productivity could improve the US debt trajectory, but lower employment from reduced participation or unemployment could offset the benefit.

AI boosted productivity scenarios could cut the deficit by 2pp
CBO and Yale Budget Lab AI scenarios deficit / GDP vs. baseline*



Source: CBO, Yale Budget Lab (YBL), UBS, as of June 2026.
*Both CBO and YBL reflect a 1pp boost to productivity.

Higher productivity could be offset by smaller employment
CBO and Yale Budget Lab AI scenarios debt/GDP vs. baseline*



Source: CBO, Yale Budget Lab (YBL), UBS as of June 2026.
*Both CBO and YBL reflect a 1pp boost to productivity.

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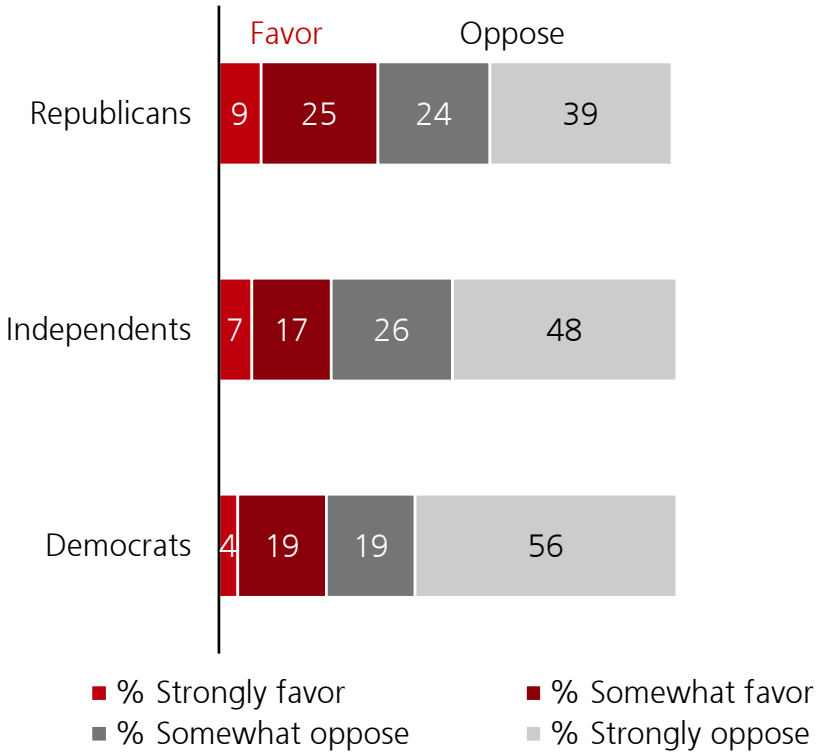
Regulation: AI is fast becoming a bipartisan political issue

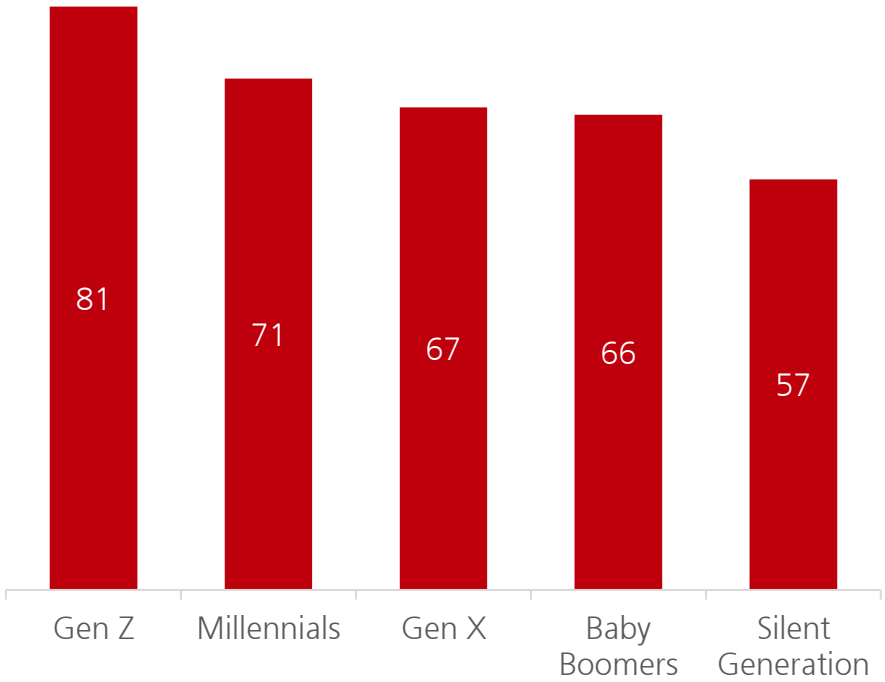
AI development/deployment has been mostly unconstrained by regulation. But high energy costs, data center construction opposition, and fear of job losses could create political headwinds for AI.

Most Americans disfavor data centers built in their area
% of respondents



Note: The questions is "Would you strongly favor, somewhat favor, somewhat oppose or strongly oppose the construction of a data center in your area to support AI technology in the US? "
Source: Quinnipiac University, UBS as of 15 June 2026

Most Americans believe that AI will reduce job opportunities
% of respondents



Note: The questions is "% of US adults in different age groups that believe AI advancements will decrease job opportunities."
Source: Quinnipiac University, UBS as of 15 June 2026

UBS

Section 6

Asset allocation in the AI economy

UBS

AI is a factor likely to impact all asset classes, and every portfolio

AI is more than just a specific investment in a portfolio. It's now an economic factor that can impact the investment attributes of all asset classes and thus matters for asset allocation, tactically and strategically.

AI raises many investment questions across asset classes and for asset allocation

Asset classes

- **Equities**: Who are the absolute and relative leaders from AI?
- **Rates**: Are rates more likely to go higher or lower because of cyclical reflation or secular disinflation?
- **Credit**: Are corporate bond spreads properly pricing the credit risk to financing AI capex?
- **Commodities**: Will the demand for scarce inputs needed for AI compute cause prices to go higher?
- **FX**: Will US leadership in AI perpetuate US exceptionalism and USD strength?

Asset allocation

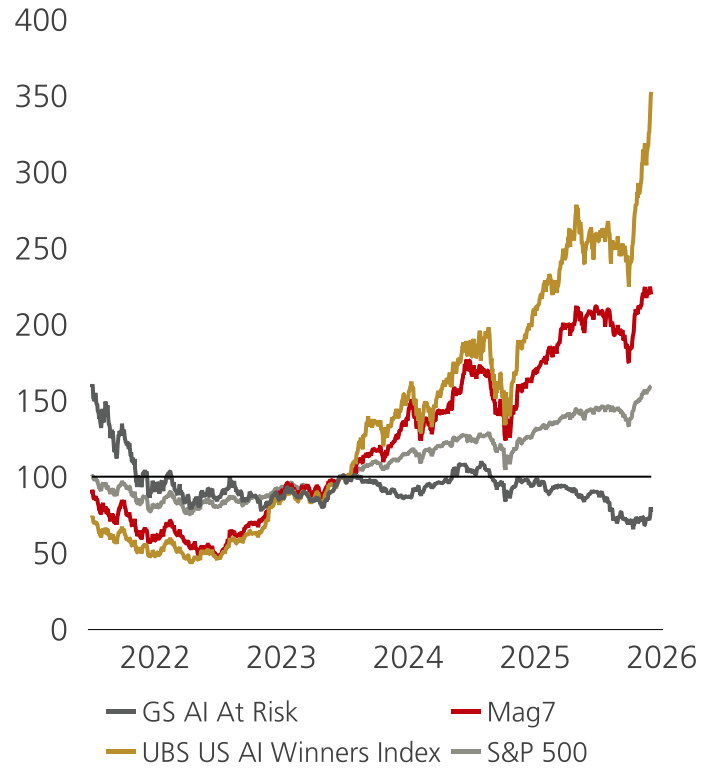
- How is AI affecting the current and expected macro regime?
- What AI scenarios are being priced in across asset classes?
- How much exposure to AI does the portfolio have through all asset classes?
- Which asset classes offer the best risk-return trade-off to AI?
- What are the main AI-related risks to the portfolio?

Equities: AI has lifted the market, and created leaders and laggards

The overall equity market has benefited from the AI boom, but there is a wide performance gap between perceived AI leaders and laggards. AI has also increased market concentration risks.

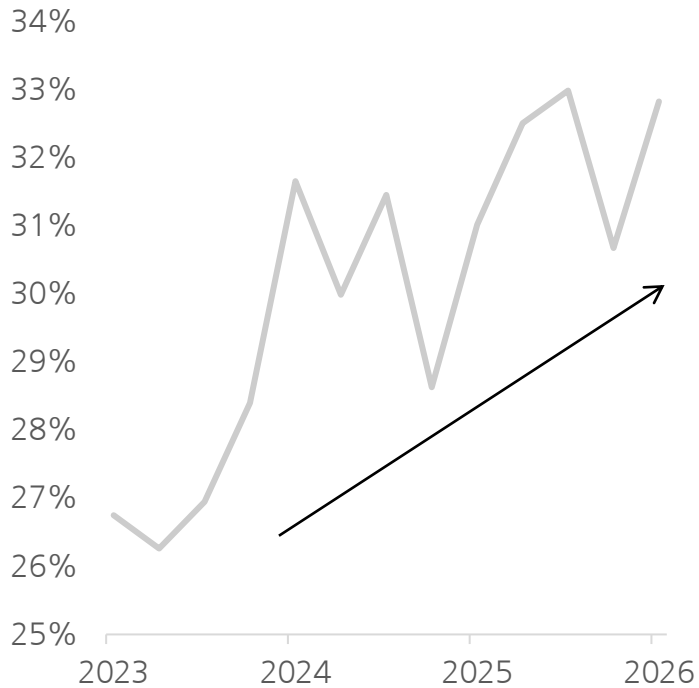
- "AI-fication" of US and emerging market equities is well underway.
- Earnings announcements of prominent AI beneficiaries have become as important as some macro events.
- The market is moving very fast to reward perceived AI leaders and penalize laggards, but which companies are viewed as a leader or laggard can change quickly.
- Concentration is a key risk as a rising percentage of the stock market is related to the first and second derivatives of AI.

Market has rewarded AI-leaders
Rebased 100=12/31/2023



Source: Bloomberg, UBS as of 1 June 2026

AI-6 make up >30% of S&P 500
% of total S&P 500 market cap



Source: Bloomberg, UBS as of 1 June 2026

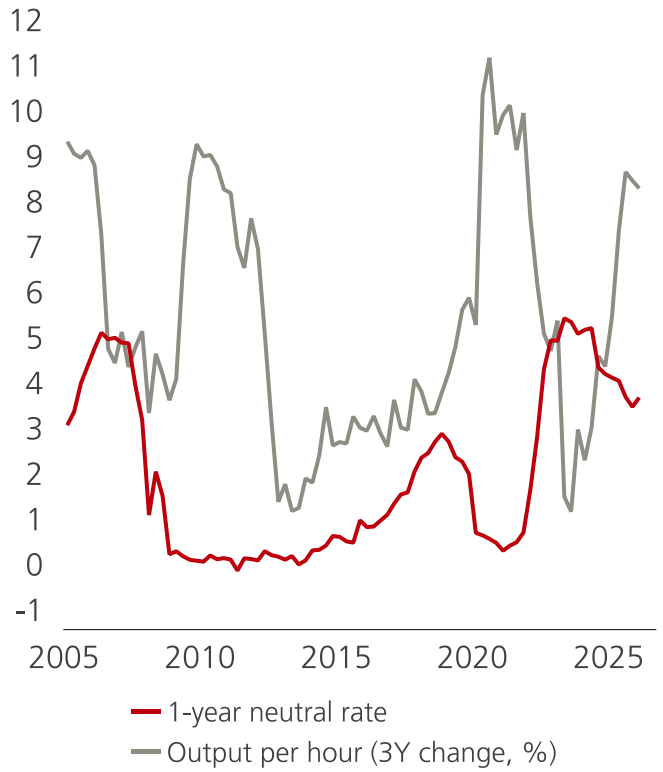
Rates: AI buildout and deployment becoming a factor for rates

Short-term, AI capex is lifting growth and inflation and may tilt the Fed toward hiking rather than cutting rates. Long term, rising productivity could lead to lower rates as inflation and debt pressures ease.

- AI-linked demand is indirectly contributing to the rise in rates as it makes rate hikes more plausible.
- The rise in market pricing for the neutral fed funds rate over the past decade has coincided with higher productivity growth.
- An additional AI boost to productivity growth could further increase the expected neutral rate.
- The counter is that greater AI productivity gains can mitigate concern over debt sustainability and inflation. A consequence is that long-end rates appear to fall on AI model news.

Productivity growth pushing up neutral rate

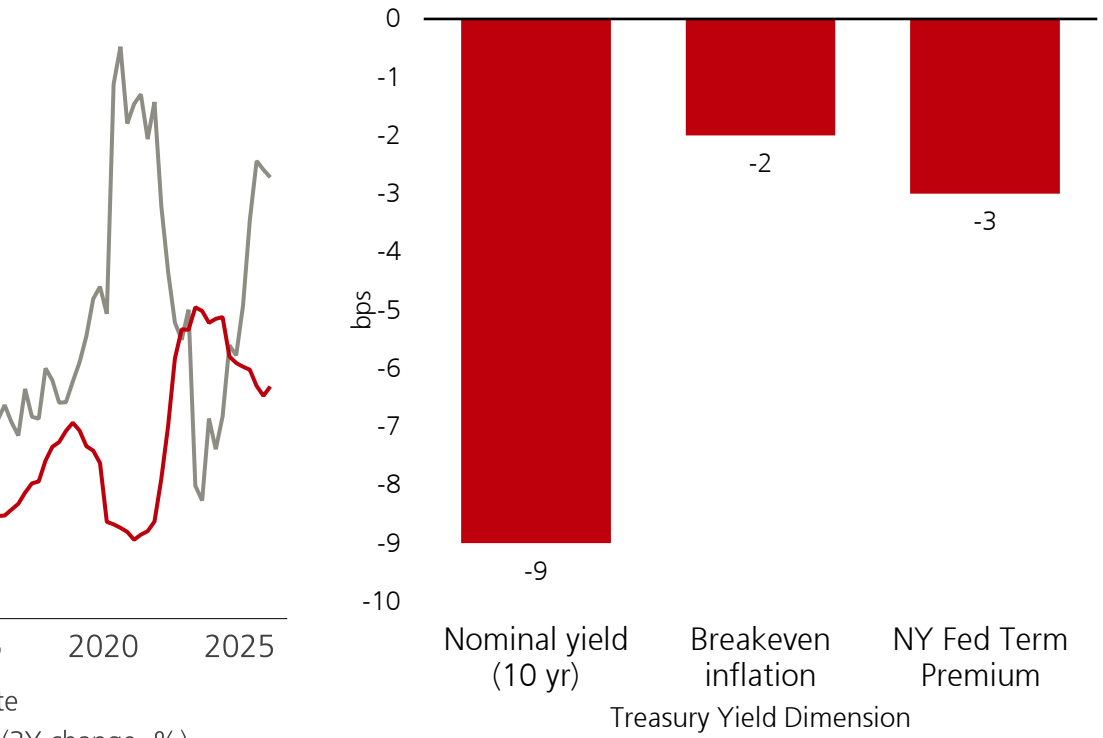
Productivity growth and 1-year neutral rate est., %



Source: Bloomberg, UBS as of 2 June 2026

Bonds have rallied around AI model news

Avg change in UST yields around major AI model releases



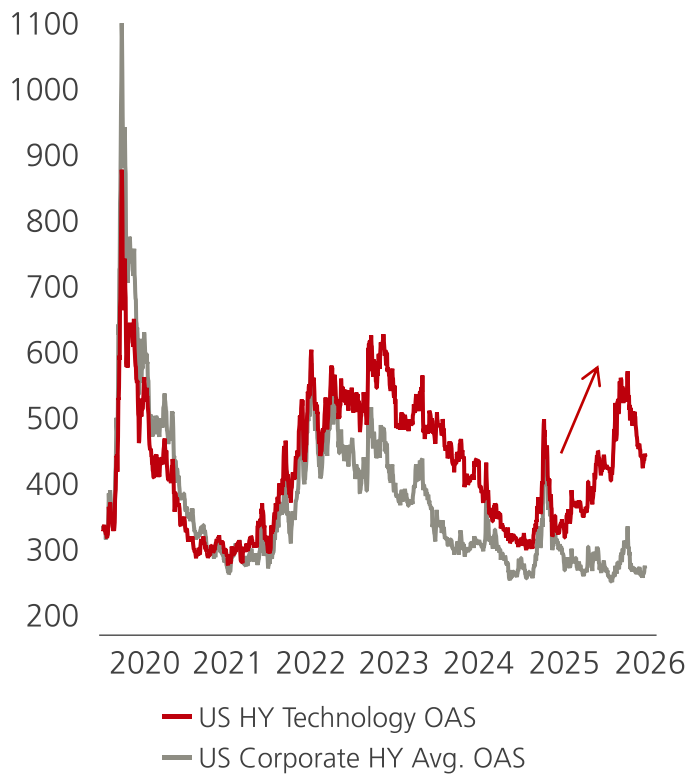
Source: Lustig et al (2026) "U.S. Treasury Investors Are Long in AI," UBS as of 2 June 2026
Covers 17 releases during 2023-24, +/15 days.

Credit: Rising hyperscaler leverage is not a problem now, but is a risk

To finance the immense capex build-out, hyperscalers are relying on multiple sources of financing and investors are starting to demand a premium to absorb their debt.

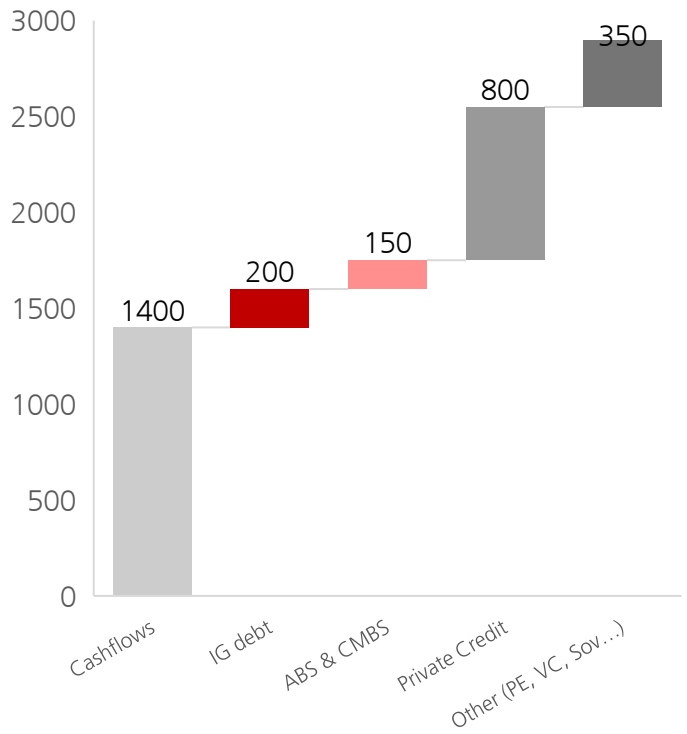
- In public markets, the hyperscalers have issued >USD 100bn of investment grade debt in 2026.
- Other forms of credit financing are also being used, including securitized credit and private credit.
- This supply has been absorbed by the market so far, but tech corporate bond spreads are now noticeably wider than the US average, as investors demand a premium.
- Rising leverage, coupled with potential AI disruption risk, is a consideration for allocating to fixed income assets.

Investors demanding premium for tech sector
OAS, bp



Source: Bloomberg, UBS as of 1 June 2026

IG issuance is a fraction of AI capex funding
in USD bn



Source: Bloomberg, UBS as of 1 June 2026

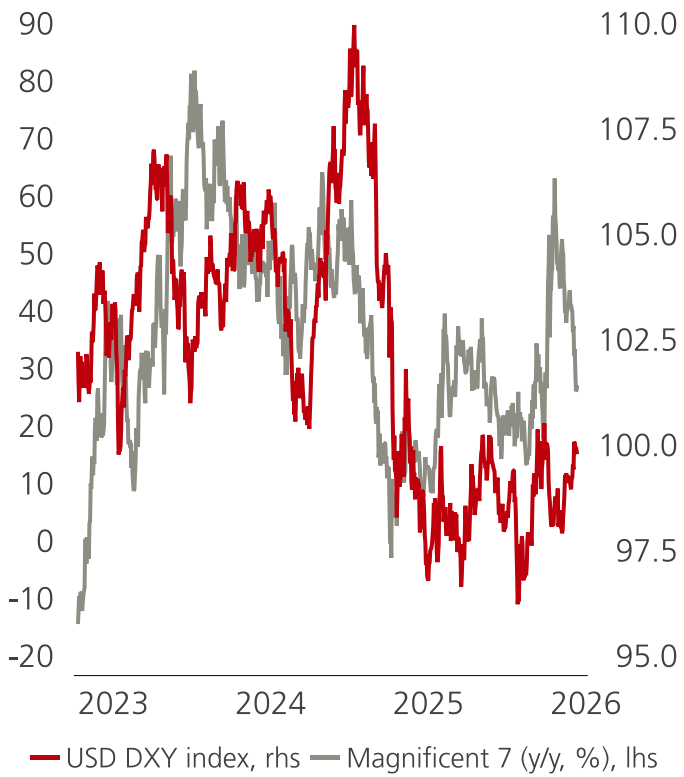
FX: USD benefiting from AI-enthusiasm

The USD is increasingly linked to how well AI-names are performing. Net capital inflows continue to boost the USD since the US dominates AI-investment compared to global peers.

- Since 2023, the USD has shown stronger correlation to price performance of AI-sensitive stocks like the Mag-7, and it leads geographic equity inflows.
- Global investors seeking AI-exposure likely to invest in US names since the US exceeds other countries when it comes to AI-investment.
- We believe these capital flows are the most direct connection AI investment will have on currencies.
- Large budget and trade deficits argue for a weaker USD over time, but AI could act as a counter-veiling force for at least the next couple of years.

USD recently moves with AI equity prices

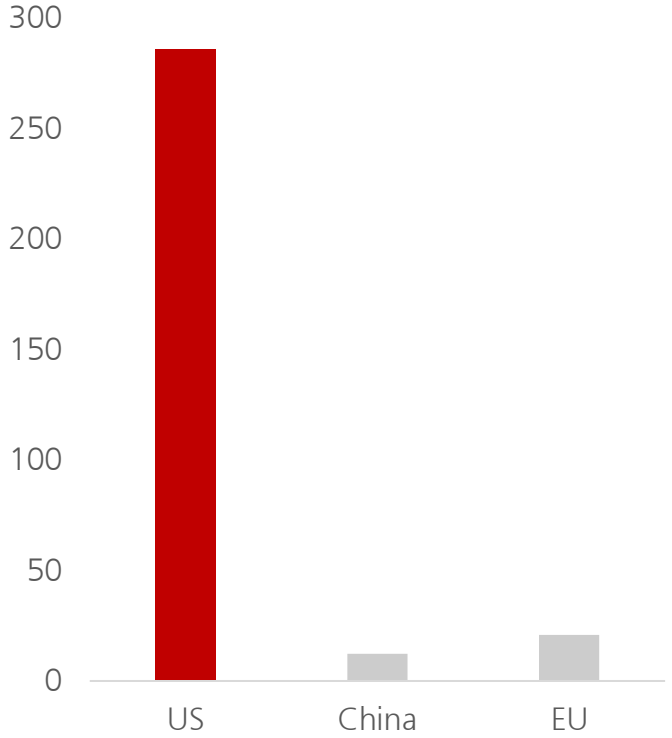
Mag-7 y/y change, %



Source: Bloomberg, 2 June 2026

US leads AI investment compared to peers

2013-2025 cumulative, in billion, USD



Source: Stanford AI Index 2026, UBS as of 2 June 2026

Commodities: Data centers require lots of energy and metals

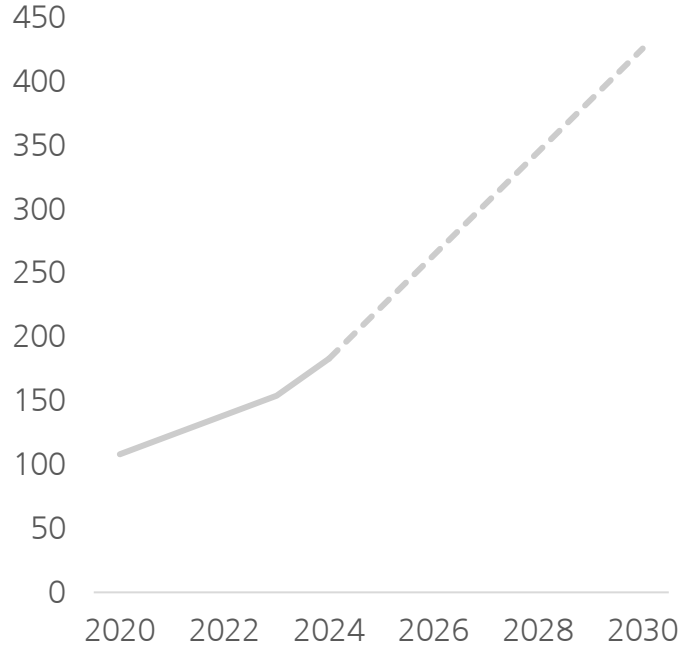
In our base case scenario, data center energy usage should go up more than 4x by 2030 compared to 2020 levels and require an enormous amount of industrial metals and energy to build.

- The combination of surging AI compute demand and limited supply flexibility to provide more critical inputs in the near term has lifted metals and energy prices.
- This demand for resources is very likely to increase in the coming years, providing a structural tailwind for commodities.

Industrial metals pushing commodity prices
Bloomberg commodity index

Note: Forecast based on EIA's base case.
Source: EIA, UBS as of 1 June 2026

Data center energy demand to increase
in Terawatt hours



Note: Forecast based on EIA's base case.
Source: EIA, UBS as of 1 June 2026

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