

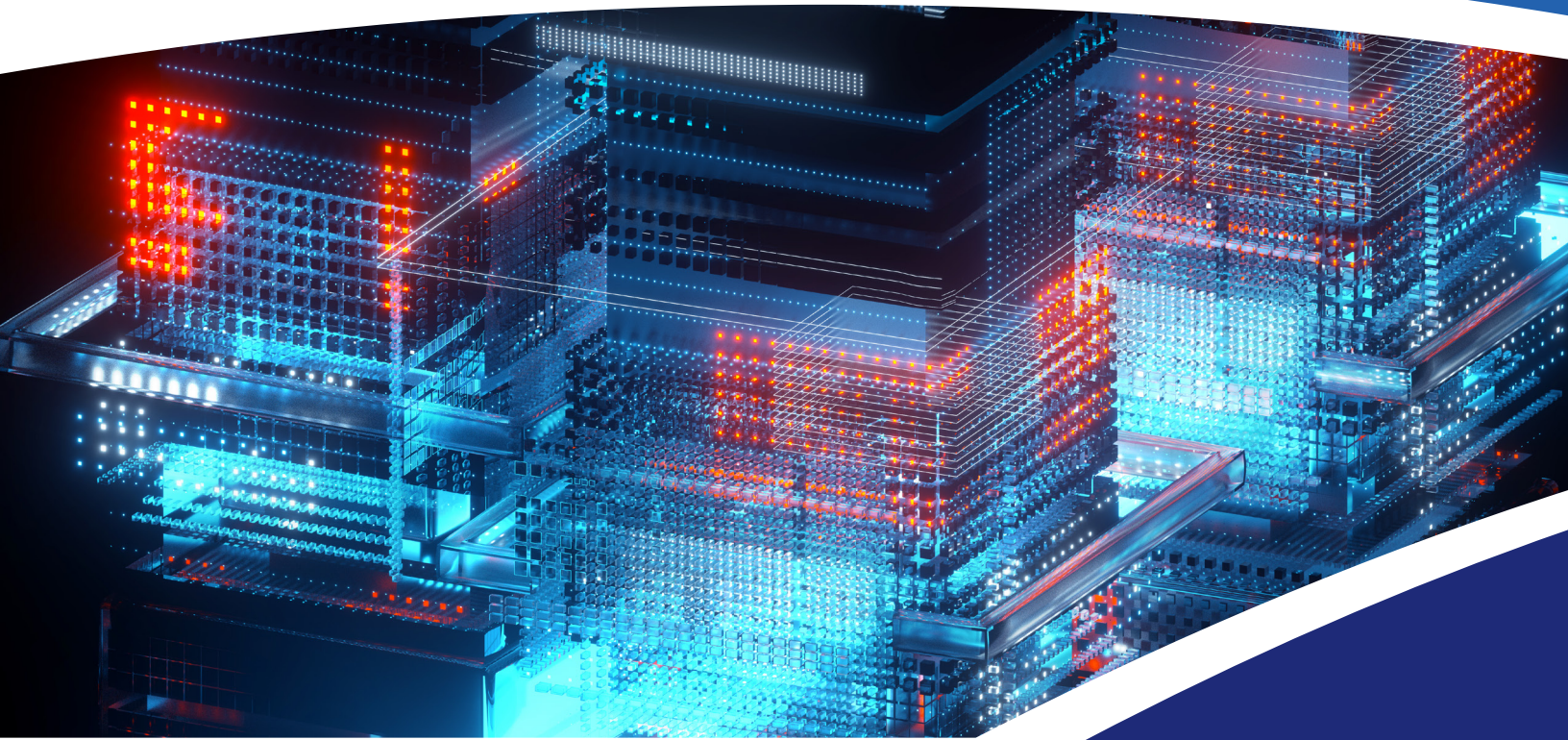
For US institutional investors only



Q2 2026

Investment Outlook

# The disruption that markets still aren't pricing



## Key takeaways

- Market attention is likely to return to AI disruption risk, which we see as a more enduring headwind than currently priced in.
- Rising yields are creating more opportunities to capture durable income in high-quality fixed income assets, in our view.
- We find listed infrastructure to be a particularly compelling opportunity within equities.

# The disruption that markets still aren't pricing

The recent oil shock has reminded investors that geopolitics can still move markets sharply. But unless higher energy prices persist long enough to become a genuine demand shock, the more important US theme for the next phase of the cycle is likely to come from elsewhere. Artificial intelligence is moving beyond capital spending and into competitive pressure, a disruption that is likely to be a more enduring headwind for markets than currently priced in.

Last year, most of the attention was on chips, data centers and the scale of the AI buildout. What feels different now is not simply that the models have improved again, but that the workflow around them has changed. Ever stronger models paired with agentic tools increasingly allow people to begin with a plan or natural-language specification and let the system handle much of the work. This shifts the human role away from doing direct execution and toward defining the objective, applying subject matter expertise, judging the result, and refining it quickly.

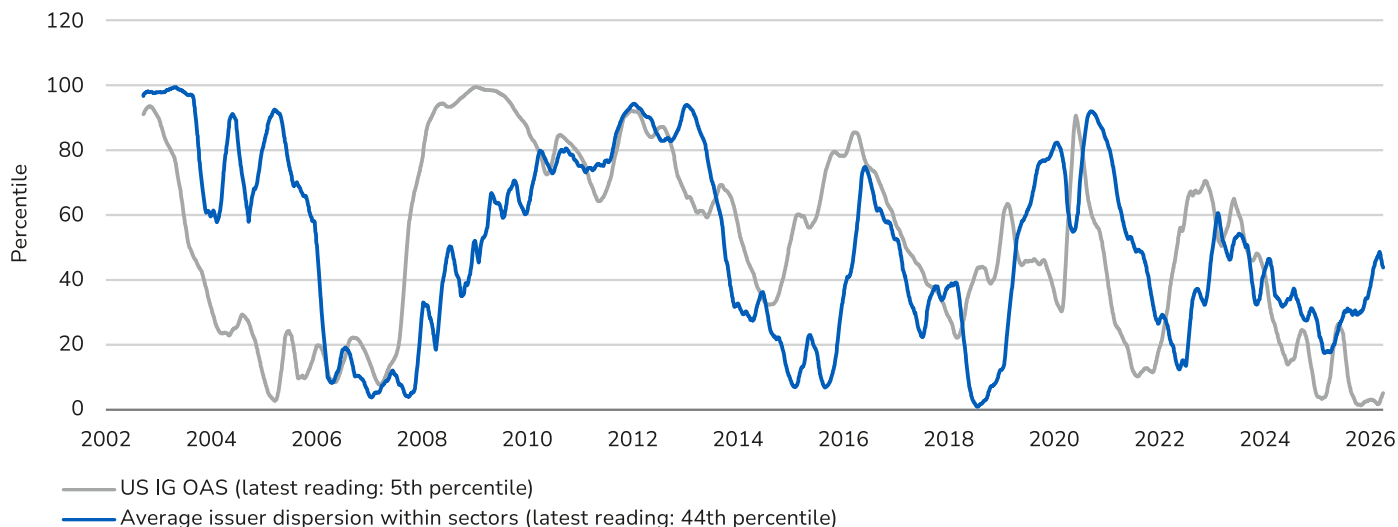
That matters more economically than another incremental improvement in model quality, because firms can put expertise to work more directly while the technology handles more of the legwork. With an immediate feedback loop, firms can move from idea to iteration far faster than before, which is likely to make adoption a competitive necessity.

Not every firm will benefit. Some will adapt quickly and use it to lower costs, shorten cycle times, and improve their offering. Others will discover that parts of their business were more exposed than they appeared, especially where margins depended on routine cognitive work remaining expensive, slow or difficult to replicate.

For credit investors, that unevenness matters more than the headline productivity story, because fixed income markets do not reward the upside from the winners nearly as much as they punish exposure to the losers.

Historically periods of high dispersion among issuers within sectors have aligned with periods of elevated aggregate spreads (Figure 1). Broadly, we expect dispersion to increase above the median (the 50th percentile in Figure 1) amid growing AI disruption, implying that aggregate spreads will rise as well.

**Figure 1: More dispersion—and higher spreads—likely ahead**  
**US IG vs average issuer dispersion within sectors (Percentile ranks over common history, 60d moving average)**



Source: L&G – Asset Management, America. Data as of April 9, 2026.

For equity investors, dispersion creates opportunity and can be outright constructive for the asset class, reflecting a form of creative destruction in which the gains accruing to winners can outweigh the losses from firms that fail to adapt.

larger backdrop. If that reading is right, the next phase of the cycle may be defined less by aggregate growth and more by whether markets are demanding enough compensation for a world that is becoming less uniform beneath the surface.

Credit spreads remain tight by historical standards, which suggests markets are still broadly comfortable with the



## Where we see opportunities

Despite significant optimism among investors and economists alike coming into 2026, risk assets had an underwhelming first quarter as the wall of worry continued to grow.

Toward the end of the quarter, the market abruptly shifted focus from downside risks to growth, related to AI disruption and ongoing vulnerabilities in private credit, to upside risks to inflation from higher oil prices amid the Iran war. As the second quarter kicks off, uncertainty abounds, but we still see compelling relative value opportunities across the investment landscape.

Within fixed income, government bonds yields have risen across developed markets, as investors have priced in a less accommodative reaction function from central banks, creating more opportunities to capture durable income in high-quality assets, in our view (Figure 2).

### Rates

We believe the front-end of the US yield curve is attractive (Figure 3). With labor market momentum slowing and the Trump Administration maintaining its call for lower rates, we assign little chance of the Fed pivoting from a mild dovish to a hiking bias.

Conversely, we see multiple pathways for rates to gradually move lower in the coming months, including an eventual détente in the Iran conflict and/or a broader deterioration in the macro backdrop.

While we believe the AI disruption headwind for markets may prove more widespread, deeper and more abrupt than currently priced in, our base case is that this risk will remain contained enough to be expressed primarily through issuer level differentiation rather than systemic stress. We expect that markets will differentiate more sharply across issuers based on cash flow durability, balance sheet flexibility and exposure to margin compression.

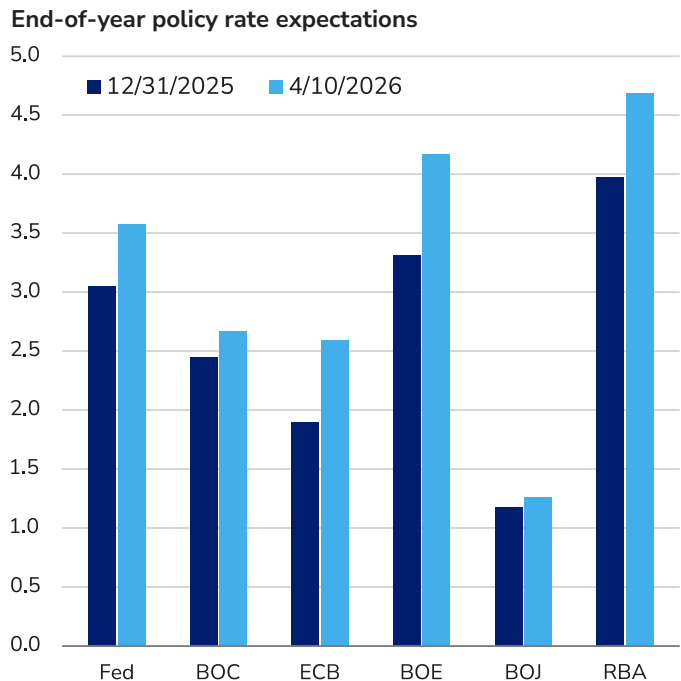
### Select investment grade (IG) credit

Given the strong rebound IG credit thus far in April, we have returned to a defensive stance on the asset class, as spreads are back to unchanged on the year and headwinds have intensified.

While IG credit indices have little exposure to software, we see increasing pressures in sectors with secondary exposures to AI disruption. Nonetheless, we are reluctant to be significantly underinvested as the all-in yield technical remains a tailwind due to the aforementioned backup in rates. Additionally, recent new issues have come with generous concessions creating select opportunities to add risk through the primary market.

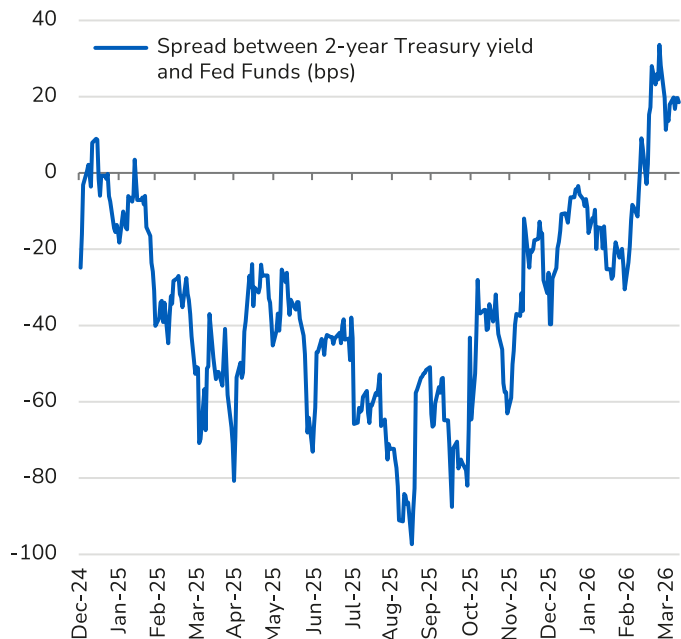
- We prefer high-quality businesses with hard assets, and we continue to favor adding exposure to sectors like pharmaceuticals and healthcare.
- Our near-term playbook is to keep risk contained and lean into quality and liquidity.

Figure 2: A hawkish tilt to investor expectations for developed market central banks



Source: Bloomberg. Data as of April 10, 2026.

Figure 3: Spread between 2-year Treasuries and Fed funds now in positive territory



Source: Bloomberg. Data as of April 10, 2026.

## Securitized

Across securitized we remain broadly constructive, as technical conditions in most sectors continue to provide support despite a weaker broader risk backdrop. Stable demand, manageable net supply and resilient spread performance continue to reinforce the asset class's relative appeal. Within securitized, two areas stand out:

- **Esoteric ABS**, which we continue to prefer over flow ABS on a relative value basis, though our fundamental view across ABS remains favorable, supported by generally healthy consumer and collateral performance.
- **Agency MBS** remains one of the more attractive opportunities as spreads have cheapened alongside higher volatility and weaker risk sentiment. With limited refinance incentive across most of the mortgage universe, ongoing GSE buying, and Basel III changes likely to support both demand and supply dynamics, the sector continues to offer an appealing combination of valuations, fundamentals, and improving technicals.

## Emerging markets (EM)

Coming into the year we identified an array of tailwinds for the EM asset class: healthy fundamentals, attractive carry, a strong global economic backdrop, receding tariff risks, high commodity prices and less exposure to AI disruption risk. While we still hold a positive view, we acknowledge that left-tail risk has increased, as the duration and the magnitude of the Iran war have been significantly more disruptive than expected.

- We continue to find attractive opportunities in LATAM (particularly Colombia, Chile and Peru), while we are more defensively positioned in the Middle East, trimming exposure to higher beta sectors like UAE real estate.

## Infrastructure equities

Within equities, we particularly like listed infrastructure—the equities of publicly traded companies that own and operate the essential, long-lived assets that serve as the backbone of the global economy, including those that are powering the AI boom. We believe listed infrastructure can be an effective complement to private exposures given its predictable cash flows, ability to potentially strengthen diversification and ability to provide daily liquidity and transparent pricing.

## Private placements

We see the most opportunities in infrastructure followed by alternatives, while corporates and real estate debt in aggregate are pricing relatively tighter. Infrastructure stands out given sustained issuance across digital infrastructure, renewables, and project finance, supported by policy incentives, broadened ratings agency acceptance, and a visible pipeline tied to data centers, energy security, and grid investment, with geopolitical risks in energy markets likely reinforcing long dated capex needs. Alternatives remain active and attractive on a selective basis, with continued issuance across structured credit, including CTLs, data center and fiber ABS, future flows, and insured transactions, as issuers increasingly turn to private markets for liquidity and as credit enhancement solutions support risk adjusted returns.

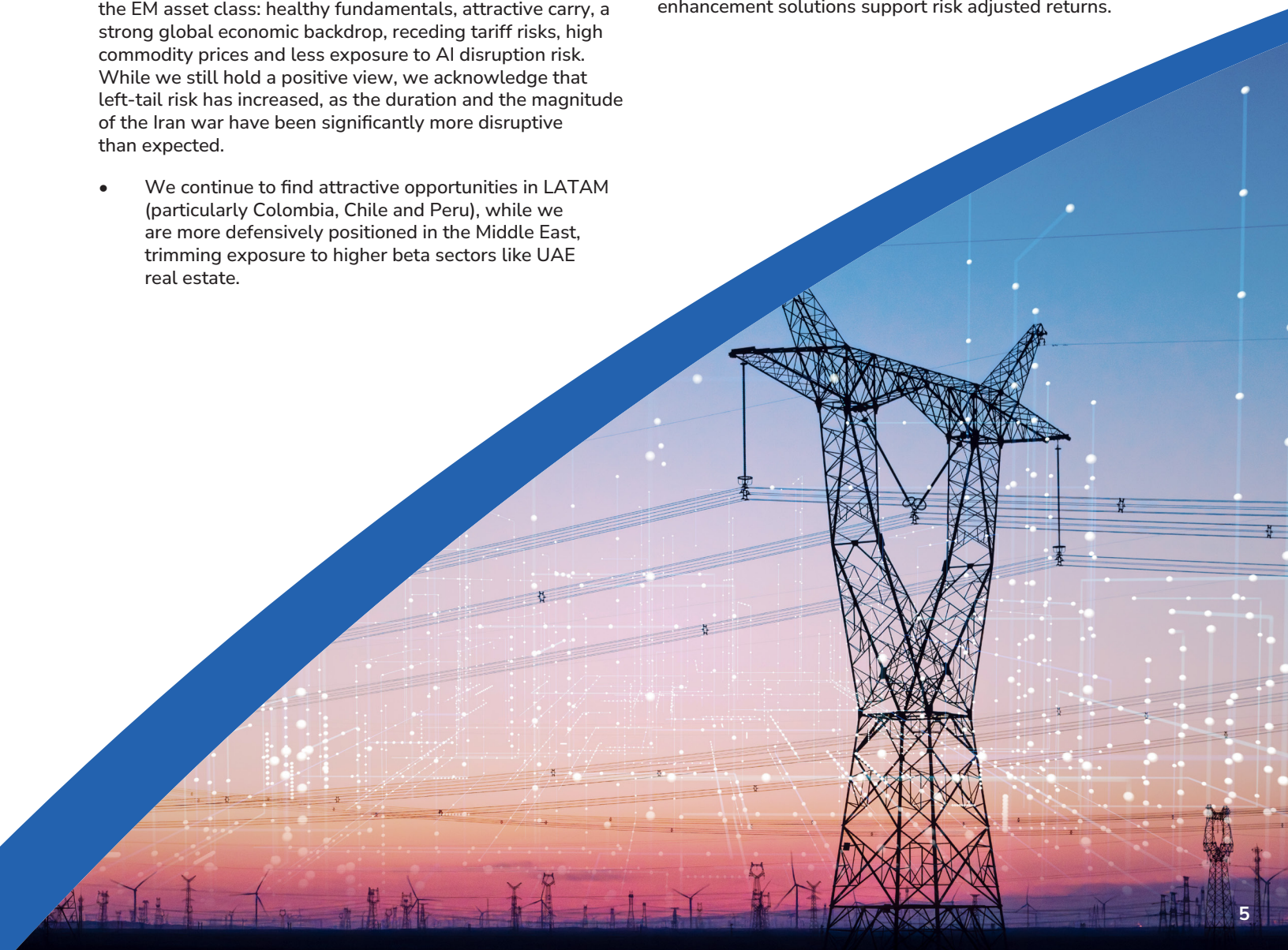


Figure 4: Three-month consensus macro scenario views and our probabilities



Source: L&G – Asset Management, America. Views as of April 14, 2026.



Figure 5: Fixed income asset class views

	Underweight --	-	Neutral ◇	+	Overweight ++
US Investment Grade	○	●	○	○	○
US MBS	○	○	●	○	○
US Treasuries	○	○	●	○	○
US High Yield	○	●	○	○	○
US Securitized Credit	○	○	○	●	○
EM Hard-Currency Short Duration	○	○	○	●	○

Source: L&G – Asset Management, America. Data as of April 14, 2026

Figure 6: Active views across securitized credit landscape

	Underweight ---	--	-	Neutral ◇	+	++	Overweight +++	
<b>ABS: Flow</b>					●			
Valuations	○	○	●	○	○	○	○	
Fundamentals	○	○	○	○	●	○	○	
Technicals	○	○	○	○	○	●	○	
<b>ABS: Esoteric</b>					●			
Valuations	○	○	○	○	●	○	○	
Fundamentals	○	○	○	○	●	○	○	
Technicals	○	○	○	○	●	○	○	
<b>CMBS</b>					●			
Valuations	○	○	○	●	○	○	○	
Fundamentals	○	○	○	○	●	○	○	
Technicals	○	○	○	○	●	○	○	
<b>CLO</b>					●			
Valuations	○	○	●	○	○	○	○	
Fundamentals	○	○	○	●	○	○	○	
Technicals	○	○	○	○	●	○	○	

Source: L&G – Asset Management, America. Data as of April 14, 2026.

Figure 7: Active views across private placements

		Underweight --	-	Neutral ◇	+	Overweight ++
<b>US Corporate</b>	Supply dynamics	○	○	○	●	○
	Pricing	○	●	○	○	○
	Structural protections	○	○	●	○	○
<b>US Infrastructure</b>	Supply dynamics	○	○	○	○	●
	Pricing	○	○	●	○	○
	Structural protections	○	○	●	○	○
<b>US Alternatives</b>	Supply dynamics	○	○	○	●	○
	Pricing	○	○	○	●	○
	Structural protections	○	○	●	○	○
<b>Real Estate Debt</b>	Supply dynamics	○	○	●	○	○
	Pricing	○	●	○	○	○
	Structural protections	○	○	●	○	○

Source: L&G – Asset Management, America. Data as of April 14, 2026.

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