

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

Midyear global outlook

AI vs geopolitics



Foreword

This outlook focuses on two forces shaping the investment landscape: the dramatic acceleration of AI and an ever-more contested geopolitical order.



Emiel van den Heiligenberg
Global Chief Investment Officer

We are sharing this midyear outlook – my first as Global Chief Investment Officer – during a remarkable moment for markets and for our clients, whose assets we have the privilege of managing.

Global equities have continued to push higher, supported by resilient growth and sustained earnings upgrades – led in particular by technology and energy. But beneath the surface, momentum is becoming increasingly concentrated, with a narrow group of companies driving returns.

At the same time, fixed income markets are digesting a surge in bond issuance to support artificial intelligence (AI)-related expenditure reminiscent of the 19th century railways boom, if not greater in scale.

Investor sentiment is elevated, leaving risk assets more exposed to negative surprises, while the path of interest rates – and the possibility of even higher bond yields – continues to threaten valuations and government finances.

Within our outlook, we focus on the two forces responsible for much of this backdrop: the dramatic acceleration of AI and an ever-more contested geopolitical order. Key takeaways include:

- Tighter monetary policy could create space for AI-led growth
- We see potent investment opportunities in the quest of energy resilience
- The AI revolution may outweigh geopolitics as a long-term theme
- Conventional inflation hedges are not meeting investor needs

We also discuss how liability-driven investment strategies are evolving to capture market opportunities, and why investment-grade private credit and asset-backed finance stand out in today's tougher landscape.

Instability, amplified

This outlook underlines how AI is transforming capital allocation, with hyperscaler investment and the prospect of blockbuster IPOs capturing investor imagination. It also explores how the technology interacts with inflation, labour markets and financial conditions.

As an aside, I remain an enthusiastic advocate for the responsible adoption of AI within our own teams, where it can generate efficiencies and enhance – rather than replace – human judgement.

I also continue to find the Thucydides Trap a useful lens through which to view the current set of geopolitical tensions facing investors. The concept highlights the risks that emerge when a rising power challenges an established one, where competing strategic priorities can amplify instability.

In today's context, this framework helps to explain how geopolitical rivalry can create persistent supply-side shocks, drive fragmentation and contribute to market volatility, even absent outright confrontation.

Decades ahead

In a world defined by such powerful structural forces and heightened uncertainty, resilience can be found in preparing for a range of outcomes rather than attempting to predict a single path. This “prepare, don't predict” philosophy is key to how we build portfolios at L&G.

It is also central to how we serve our clients, with a focus not just on navigating today's uncertainties, but on delivering outcomes consistent with L&G's commitment to thinking decades ahead.

Finally, I would add that bringing this outlook together has been a truly collective effort. As in rowing, performance depends on coordination rather than individual strength – each stroke aligned, each contribution reinforcing the next. I am proud of the depth, clarity and collaboration reflected in these pages.

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”

Making room for the AI boom

Amid huge hyperscaler spending, tighter monetary policy could create space for AI-led growth.



Tim Drayson
Head of Economics

Two powerful forces are set to shape markets in the years ahead, in our view: the productivity potential from increasing AI investment and adoption, alongside the threat of more frequent negative supply shocks from shifting geopolitics.

The reduction in global co-operation and introduction of US tariffs have meant the security of supply chains is taking precedence over free trade, leading to a less efficient allocation of resources. At the same time, pressure to increase defence spending is adding to fiscal deficits and resource utilisation.

The labour supply, meanwhile, is weakening as societies age and populist governments or the threat of populist governments lead to crackdowns on immigration.

These factors constrain private sector growth and suggest a shift towards a more inflationary backdrop. Yet AI has the potential to operate in the opposite direction, especially if the new technology ends up displacing labour.

AI disruption

So far, the aggregate disruption from AI appears small. There is some anecdotal evidence that recent graduates are finding the job search more challenging, but this could reflect the cyclical low churn environment which favours those already in employment.

Studies using micro data, which attempt to classify tasks by AI exposure, find only tentative evidence. Companies that report AI as a factor behind headcount reductions could be using it as a convenient narrative to pursue typical cost-cutting exercises.

Still, the extent to which AI helps to augment worker productivity or replaces labour entirely is one of the most important structural puzzles. It also feeds into the inflation debate, with most believing that AI will ultimately prove disinflationary by reducing unit labour costs.

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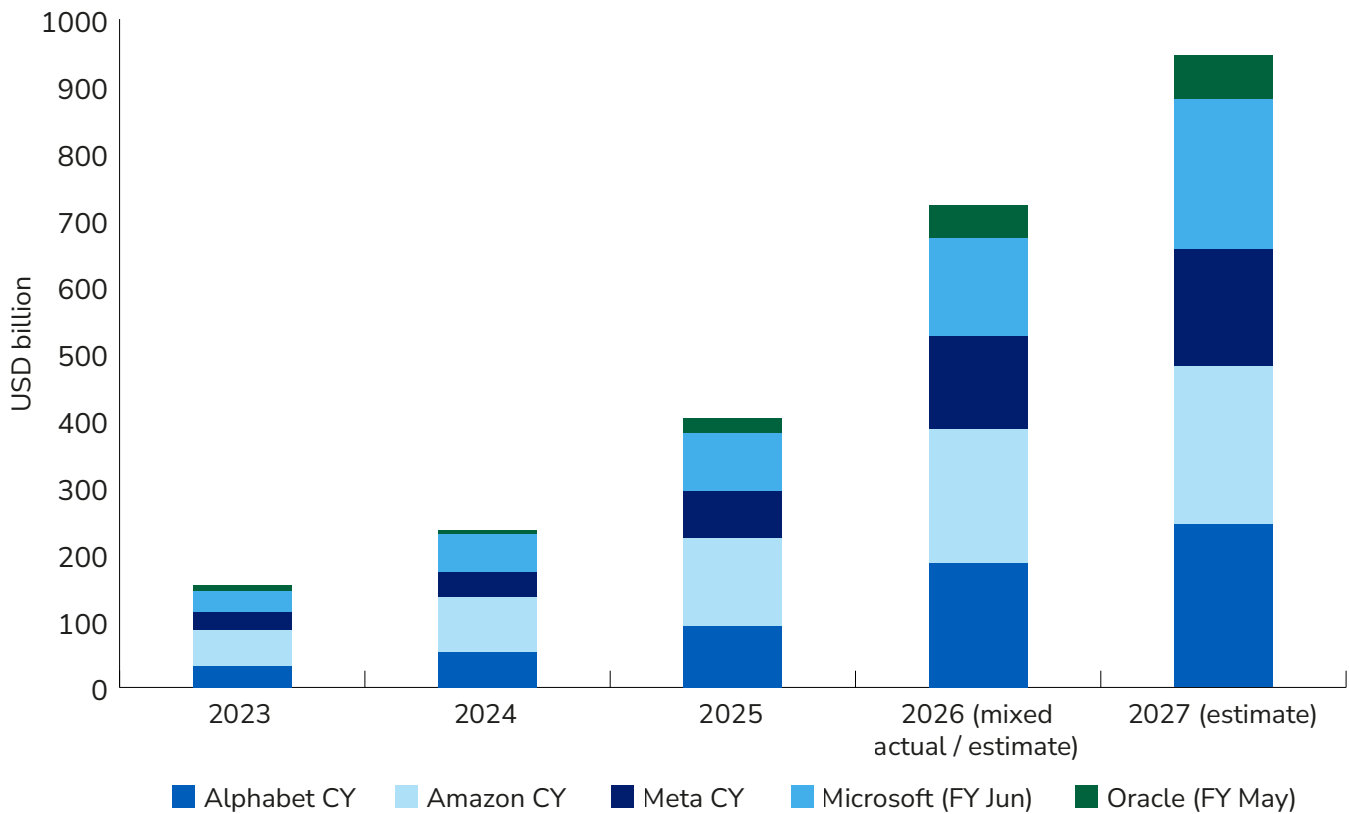
Aggressive investment

Yet there is a case that aggressive AI investment, as highlighted by the chart on the following page, is currently in the process of boosting inflation. We see this most clearly in the surging price of memory chips which are required in many electronic goods.

The rapid build-out of data centres could put upward pressure on construction costs and electricity prices. If stock prices run up in anticipation of future productivity gains and profits, this could add to demand today, fanning inflation that has already overshot since the COVID pandemic.

However, independent and appropriately set monetary policy can allow central banks to hit their inflation targets. Markets have already raised their estimate of the future path for interest rates – and, implicitly, the neutral rate. This tends to squeeze interest rate sensitive demand, creating more space for the AI boom.

Colossal hyperscaler capex



Source: Bloomberg, as at 22 May, 2026. Alphabet, Amazon, and Meta on a calendar year basis. Microsoft includes capital leases on fiscal year basis. Oracle on fiscal year basis. Oracle FY2026 comprises three reported actuals and one consensus estimate (May 2026). Microsoft FY2026 comprises three reported actuals and one consensus estimate (June 2026). Microsoft FY 2027 and Oracle FY 2027 are fully consensus-estimated.

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How AI and conflict are reshaping markets

While war in the Middle East will continue to grip investor attention, we think the tech revolution will prove a more powerful and longer-lasting force.



Jason Shoup
Co-head of Fixed Income, L&G Asset Management, and CIO, L&G – Asset Management, America



Jason Becker
Head of US Credit Strategy and Senior Portfolio Manager, L&G – Asset Management, America



Matthew Rees
Head of Global Bond Strategies – Unconstrained



Matteo Colombo
Head of Digital Infrastructure Investments

In the near term, markets are driven as much by sentiment as by fundamentals. AI narratives around capital spending, innovation and competitiveness are shaping investor positioning and amplifying price moves. Geopolitical tensions add to the volatility through higher energy costs and risk, reinforcing the sense that markets are contending with several overlapping forces.

While the ongoing conflict will likely continue to sway markets in the short term, we believe AI will prove the more powerful and longer-lasting force – changing earnings and the credit landscape over the years ahead.

For example, Alphabet's* rare 100-year sterling bond issue means the issuer will now account for 1-3% of key UK investment-grade benchmarks.¹ This growing concentration could introduce greater concentration risk within global credit markets.

At the same time, AI is driving changes to how and where that issuance is being bought. For investors, the opportunity is no longer simply to participate in attractive new supply, but to identify curve- and tranche-level dislocations that arise because different investor bases demand different bonds, with differing maturity levels, currencies or features.

Disruption, dislocation and dispersion: asset class implications

Fixed income

Hyperscalers are committing unprecedented sums to data centres, power infrastructure and chips, increasingly funding this investment through public bond markets. Even those with the strongest balance sheets are now issuing at scale, fundamentally transforming investment grade credit markets and increasing their index representation.

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The AI story is evolving from just being about capex to one of competitive pressures within industries.
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¹ Bloomberg, as at 31 March 2026.

* For illustrative purposes only. Reference to a particular security does not mean that the security has been, is currently held or will be held within an L&G – Asset Management portfolio. The above information does not constitute a recommendation to buy or sell any security.

But the AI story is evolving from just being about capex to one of competitive pressures within industries as companies react differently to the technology: some will adapt quickly to cut costs and improve their offering, while others will find their margins – especially those dependent on routine cognitive work – more exposed than they thought.

For credit investors, this matters because fixed income captures less upside from winners than downside from losers.

Greater divergence between issuers has historically coincided with wider spreads. As AI increases disruption across sectors, we expect dispersion to rise above average, providing more opportunities for active managers to demonstrate their alpha generating skills.²

Concerns over the impact of AI on software companies have become widespread, and there are different concentrations of software in different markets: from over 20% in high yield private credit to 5% in public market high yield, which may suffer some contamination from concerns over private credit software concentrations.

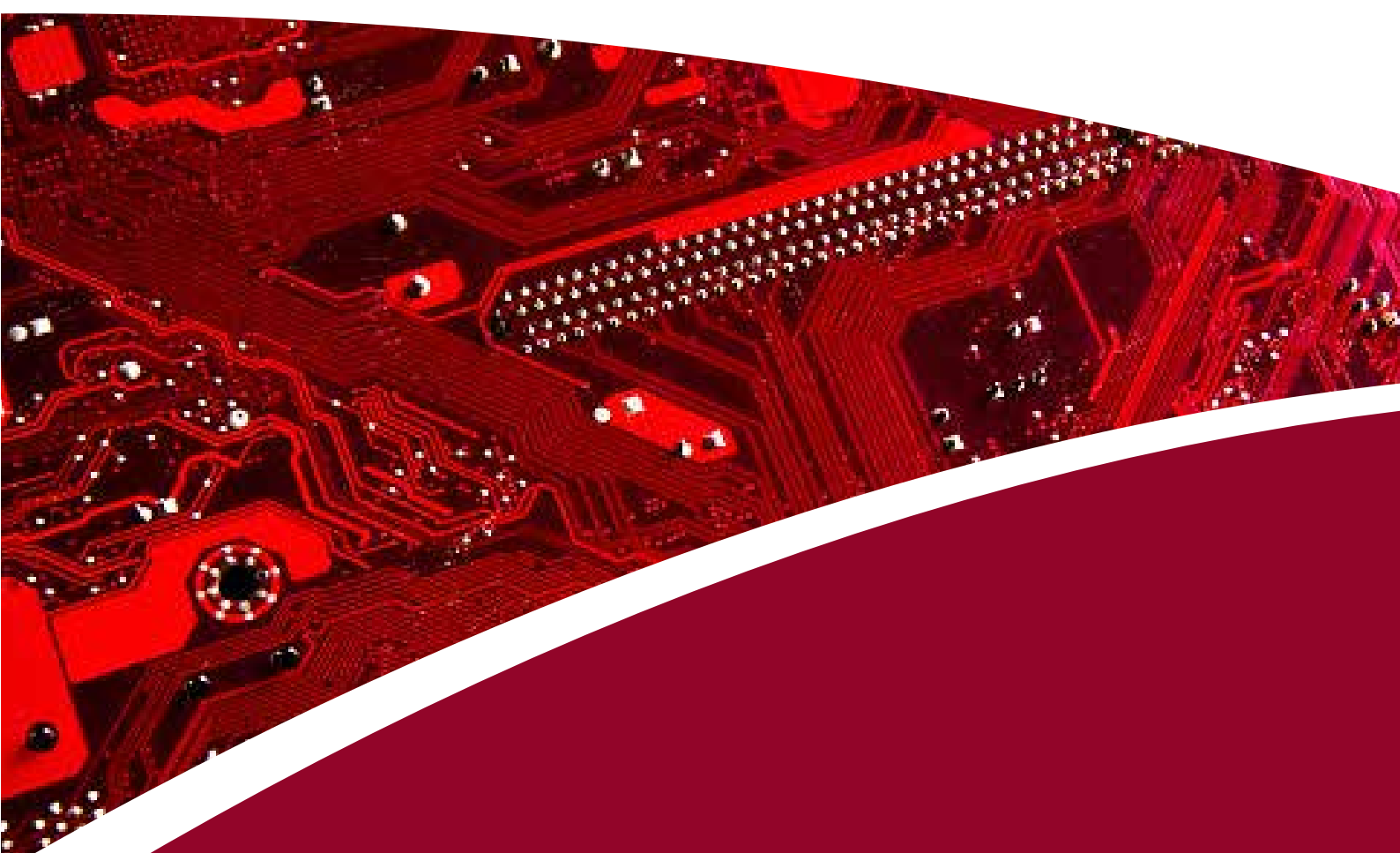
² Source: Morgan Stanley Research, as at Feb 2026; Bloomberg Intelligence/BoA (January 2026).

Equities

While the conflict in the Middle East remains a risk, US equities have continued to rally since March. AI could explain their resilience despite this ongoing geopolitical uncertainty. Enthusiasm for the technological revolution has supported US equities reaching all-time highs, led by strong momentum from the semiconductor and tech sectors.

For equity investors, AI-related dispersion can create opportunities for stock selection as winners outperform companies that struggle to adapt.

Despite high equity valuations, we are mindful of emerging risks from the interplay between AI and geopolitics. For example, elevated capex, rising energy usage and supply constraints due to AI may contribute to inflation, as noted by Tim. Meanwhile geopolitical pressures could disrupt supply chains and hyperscaler capex plans, potentially weighing on growth and AI-sensitive equities. We believe this dynamic could support bottom-up alpha generation.



Digital infrastructure

AI demand is not the core driver of digital infrastructure sector supply-demand imbalances, but it does act as a swing factor to increase competition for capacity – especially in prime locations where power is already constrained. This adds pressure to a system where supply is structurally slow; for example, assets such as data centres typically take around six to 10 years to bring to fruition from scratch.

Long-term leasing dynamics reinforce this tightness. Contracts often extend beyond five years, with both hyperscalers and newer AI-focused entrants committing to up to a decade.

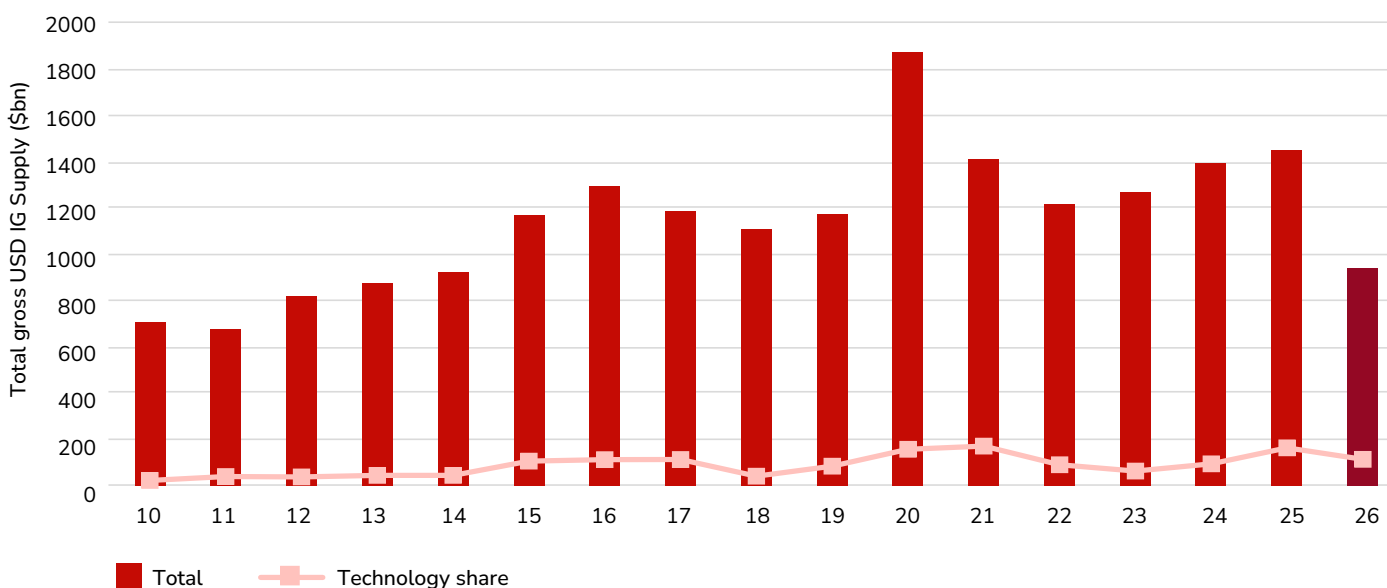
However, the durability of some AI business models remains uncertain, particularly as they approach critical hardware

refresh cycles after roughly three years. If financing proves insufficient, some lease failures could emerge – though low vacancy rates suggest capacity would likely be reabsorbed.

Global conflict is pushing up energy and construction costs, slowing development further. Given the critical nature of compute, demand is relatively price inelastic and increased costs are typically passed onto customers or tenants.

If development projects slow down due to cost pressures, this will further exacerbate the supply/demand imbalances. This will strengthen pricing powers for data centres offering compute capacity and allow them to earn higher profits and margins.

YTD USD IG supply and the share represented by the technology sector



Source: L&G – Asset Management, America, Bloomberg as at 27 April, 2026.

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Rethinking inflation resilience

Lots of investors want to “hedge inflation,” but what does that actually mean?



Chris Jeffery
Head of Macro,
Co-Head of Asset Allocation



Bill Page
Head of Real Estate Research



Lushan Sun
Head of Cross Asset Private Markets Research

A question frequently put to us concerns inflation: how can investors construct portfolios that retain their real purchasing power without compromising long-term returns?

The honest answer is that the conventional hedges have proved less reliable than the textbooks suggest. Recent experience is instructive:

- Commodities performed strongly during the 2022 inflation shock, but their ability to deliver positive long-term real returns is questionable
- Inflation-linked bonds, often considered the purest hedge, suffered significant drawdowns as deeply negative starting real yields adjusted higher
- In real estate, outcomes varied: strategies reliant on contractual inflation linkage struggled, highlighting that starting yields matter significantly
- Equities with non-contractual inflation-linked earnings also suffered

Inflation tools are narrowing

The implication is straightforward: inflation linkage alone is insufficient to drive positive real returns over short horizons. What matters, in our view, is the combination of positive real yield and cash flows that can adjust with inflation – without embedding excessive duration risk.

Given the reset higher in yields since 2022, plenty of assets now offer a positive real yield. But few offer a reliably positive correlation with inflation outturns.

Clarity on investment horizons is crucial: take on too little duration and investors are exposed to the reinvestment risk associated with falling yields, take on too much and investors are exposed to the price risk associated with rising yields.

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Plenty of assets now offer a positive real yield. But few offer a reliably positive correlation with inflation outturns.
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Durable income streams

Private markets can offer a complementary source of inflation-resilient cash flows, less directly exposed to these dynamics.

High-quality private credit (investment grade and BB-rated) continues to benefit from the higher-yielding environment and provide valuable diversification from direct lending.³ Infrastructure – including assets linked to digitalisation and the energy transition, as well as more traditional sectors such as social infrastructure – offers long-duration, often index-linked cash flows that are typically tied to structurally supported demand.

In real estate, lease structure is critical: longer-dated, contractually indexed leases can match inflation but operational income, linked to operator revenues rather than

contracted rents, also offer opportunities for inflation pass through. Where such assets are linked to structural tailwinds such as demographic change, digitalisation or deglobalisation resilient demand can combine with growing income.

From a portfolio perspective, inflation resilience is less about identifying a single hedge than about how cash flows behave collectively across regimes. The interaction between real yield, duration and indexation matters more than any individual asset label.

The opportunity today lies in rebuilding that balance from a starting point of positive real yields, something that has been largely absent for much of the past decade. As ever, the discipline required is patience.

How AI investment is transforming credit supply



Anthony Woodside
Head of Multi-Sector Fixed Income & Investment Strategy, L&G – Asset Management, America

The AI capital expenditure (capex) cycle is reshaping credit markets and has produced a deluge of issuance. Gross investment-grade supply is running more than 20% ahead of its five-year average year-to-date; AI capex names have accounted for roughly 20% of total US investment-grade issuance over the past twelve months.⁴

Issuance from high-quality borrowers financing data centres, semiconductors and digital infrastructure has accelerated materially, increasing both supply and index concentration.

As a result, the corporate bond market is being reshaped more rapidly than many investors appreciate. Today, enablers of AI remain a substantially smaller footprint in credit indices than in equity benchmarks.

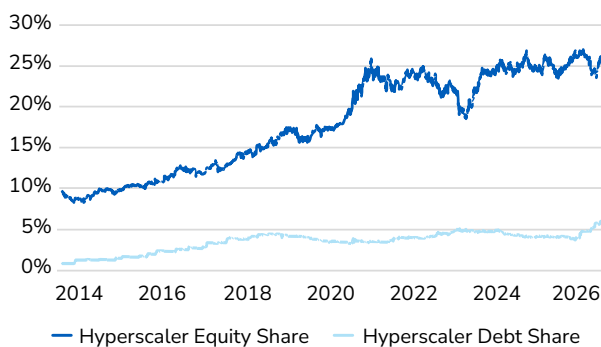
This matters for a reason too rarely articulated: equity investors have tolerated concentration in the hyperscalers and semiconductor names because they have participated in the upside that justifies it; bondholders do not. Their compensation is capped at par, and there is little reason to assume they will remain as accommodating as their equity counterparts.

However, the accelerating AI arms race and current valuations create a more demanding environment for credit investors. The tension between yield-focused buyers and those requiring adequate compensation for risk is likely to intensify as supply grows and spreads adjust.

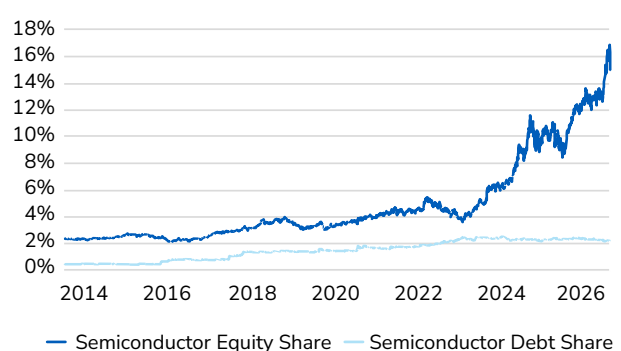
In this context, we think a more selective and flexible approach to fixed income becomes essential, with an emphasis on diversification beyond a single dominant theme.

AI enablers have a much smaller weight in credit vs equity indices

Hyperscalers share of IG vs S&P 500



Semiconductors share of IG vs S&P 500



Source: L&G, Bloomberg as at 5 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.

³ It should be noted that diversification is no guarantee against a loss in a declining market.

⁴ Source: L&G Asset Management – America, Bloomberg as of April 27th, 2026.

Solutions

DB investors in a higher-rate world

Strategies in the UK and US are evolving to capture market opportunities.



Anne-Marie Morris
Head of Solutions Strategists, London

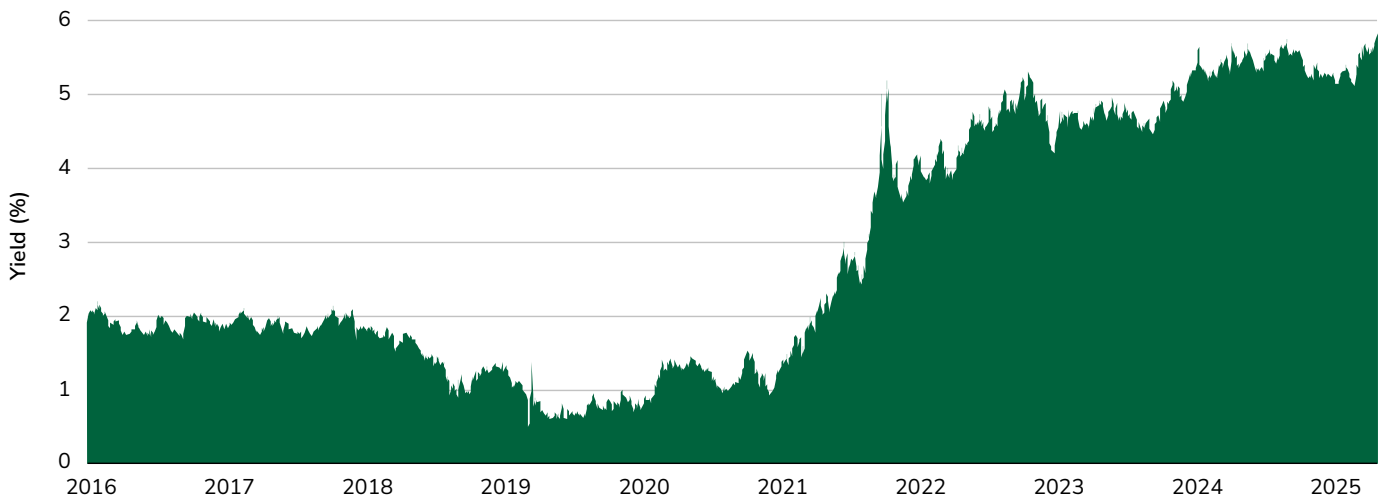


Christopher Wroblewski
Head of Solutions Strategy, Chicago

With UK yields now at year multi-decade highs, many defined benefit (DB) schemes have benefited from lower liability valuations and increased funding levels: 80% of schemes are now in surplus on a low-dependency basis and 60% are in surplus on an insurance buyout basis.⁵

This presents several opportunities for DB schemes to evolve their current strategy and potentially capture current attractive interest rate levels.

UK 20-year gilt yield



Source: Bloomberg, as at 30 April 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.**

⁵ The Pensions Regulator as at 31 December 2025.

Strategic or value investor – or both?

DB schemes may view themselves as a strategic investor that values certainty, or as a value investor that's prepared to take an active view in interest rates.

As strategic investors, they'd see interest rates as an unrewarded risk and aim to be hedged to their strategic asset allocation, which is typically set at the current funding level (and sometimes capped at 100%). Accuracy is important to preserve current high funding levels, so we are increasingly seeing clients apply:

- Funding level hedge ratio rebalancing, so the hedge ratio is managed to equal the funding level
- Regular liability accruals, so the hedge is increased as the value of liabilities increases
- Dynamic Limited Price Indexation (LPI) rebalancing, so that the liability target is dynamically adjusted to reflect changes in inflation

Meanwhile, a value investor could believe that today's rates provide a potentially attractive level to capture and increase hedging. For schemes that use trigger-based levels to increase hedging, this may in fact be triggering already. Others may want to go further and proactively hedge some future accruals; e.g., hedge all of 2026 and 2027's anticipated accruals at today's market levels.

Furthermore, plenty of schemes have a dual endgame objective; for example, to run on for now but be opportunistically ready to execute buyout with an insurance company if pricing and governance align.

In our view, this presents a further opportunity as, while the scheme might be fully hedged against its technical provisions basis, it may be simultaneously underhedged to its buyout basis. In this way, the scheme becomes both a strategic and a value investor, able to seek value by choosing to strengthen its liability basis (i.e. increase hedging, seeking to ensure funding levels match liability levels calculated at a lower discount rate), thereby more closely hedging buyout pricing.

For more endgame insights for UK schemes, [discover our latest interactive guide](#).

A more nuanced US picture

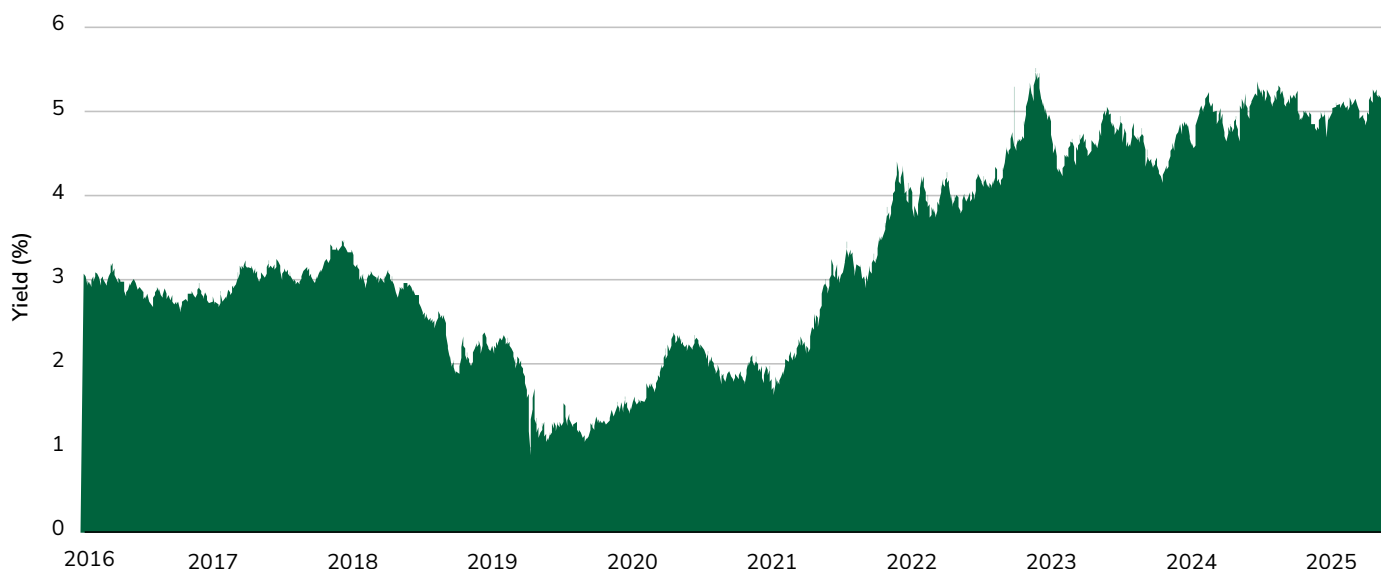
US rates remain elevated relative to the pre-COVID era, but they have not risen as sharply as in the UK. And so while government yields may be more topical in the UK LDI conversation today, US DB plans have been more focused on their growing fixed income allocation alongside rising funding levels. As such, [the next phase of liability-driven investment \(LDI\) in the US](#) is increasingly looking different compared to the traditional LDI strategy from 10 years ago.

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Sponsors have more flexibility than ever to rethink how their fixed income allocation is constructed.

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US 20-year Treasury yield



Source: Bloomberg, as at 30 April 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.**

Many US plans are already fully funded or in surplus and looking to complement the traditional LDI instruments of long corporates and treasuries. Expanding the opportunity set can help plans maintain their hedging and funded status volatility objectives while incrementally improving potential returns. Several building blocks are emerging as particularly relevant in today's higher rate environment:

- Short-duration fixed income to enhance collateral efficiency and optimise liquidity and yield objectives
- Opportunistic fixed income to seek to improve diversification⁶ and unlock uncorrelated sources of return potential
- Securitised assets for potential spread pick-up, while maintaining high credit quality
- Investment-grade private credit to increase yield potential and diversification

Indeed, many of these are also being considered by UK DB schemes in addition to considering interest rate hedging levels.

As such both in the UK and US, as DB plans continue to mature and funding levels remain strong, sponsors have more flexibility than ever to rethink how their fixed income allocation is constructed.

LDI has always been about seeking to minimise volatility and improve funded status outcomes. In today's environment, achieving those goals increasingly means expanding beyond the traditional toolkit to build more diversified, resilient and return-aware fixed income portfolios.

For more details on the choices facing US plans, [read our recent blog](#).

⁶ It should be noted that diversification is no guarantee against a loss in a declining market.



Private Credit

Pockets of resilience

Why investment-grade private credit and asset-backed finance stand out in today's tougher landscape.



Nicholas Bamber
Global Director of Private Credit

The challenges in sub-investment grade direct lending have been well telegraphed during the first half of 2026 and are likely to continue to dominate headlines for the rest of the year.

The wider macroeconomic backdrop may weigh on high-level private credit performance. In this environment, it's likely investors will seek to bolster portfolio resilience. We also see more constructive dynamics across resilient areas of private credit that we believe merit closer attention.

Investment-grade (IG) private credit and asset-backed finance (ABF) stand out as areas of greater potential resilience. We see both benefiting from stronger underlying credit quality, while ABF can also offer diversification⁷ away from traditional corporate drivers.

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We believe the combination of income and credit quality will continue to underpin the asset class's appeal.
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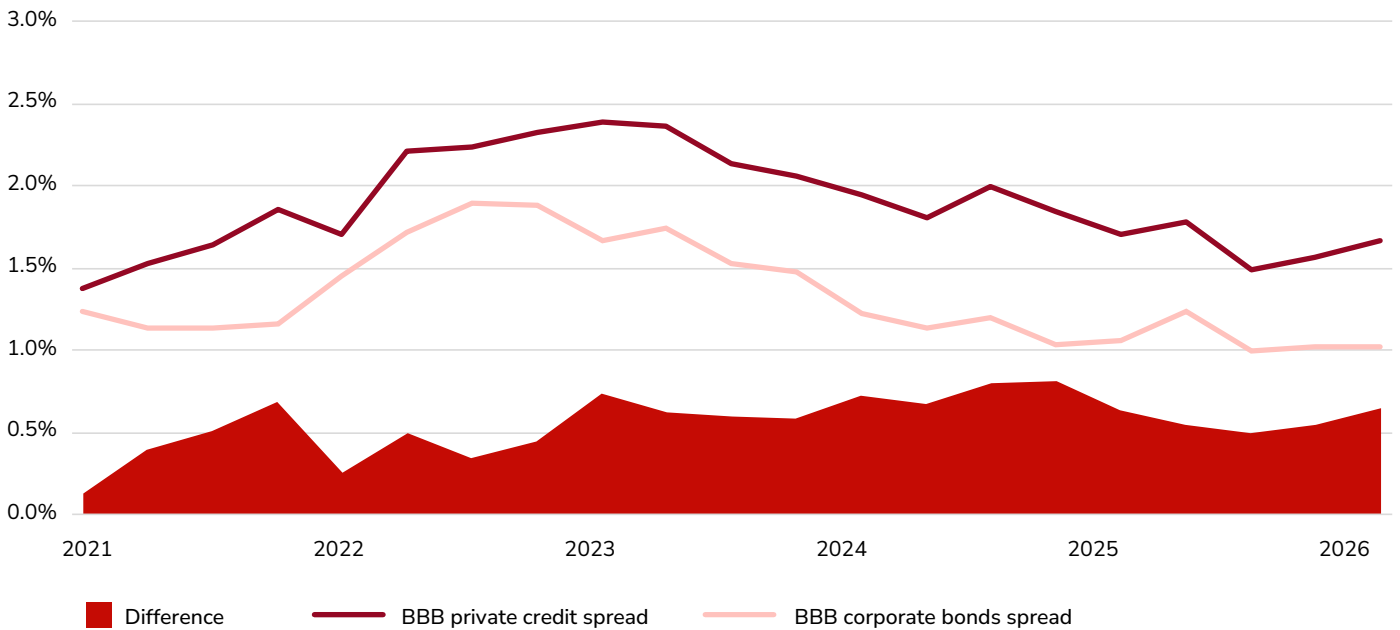
⁷ It should be noted that diversification is no guarantee against a loss in a declining market.

Making the grade

IG private credit has proven notably robust through bouts of geopolitical volatility, including the recent conflict in the Middle East. Activity has remained healthy, with Q1 2026 transaction volumes in private placements – one of the core segments of the IG market – running more than 30% higher year-on-year.⁸

Importantly, yields remain above long-term averages, supported by elevated base rates. We believe this combination of income and credit quality will continue to underpin the asset class's appeal.

Illiquidity premium in IG private credit has remained stable

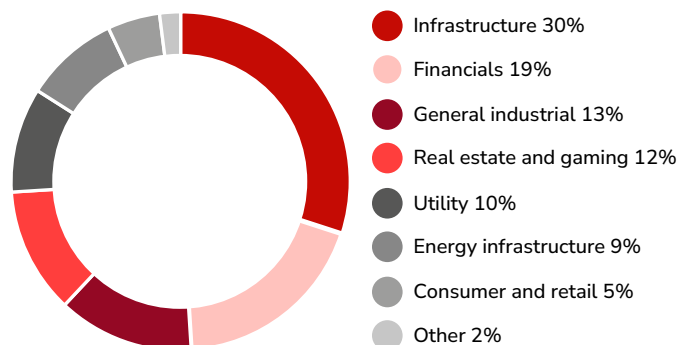


Source: Private Placement Monitor, Bank of America as at 31 March, 2026. **The value of an investment and any income taken from it is not guaranteed and can go down as well as up, and the investor may get back less than the original amount invested.**

Sector activity has been most pronounced across infrastructure, industrials and financials. Within this, we believe digital infrastructure financing is an increasingly important theme. This has largely played out in the public credit market so far, but private credit is seeing growing supply across project finance, construction finance and specialist areas, such as GPU financing. Data centres form a significant share of this demand, alongside the fibre networks that connect users, data facilities and cloud computing infrastructure.

While larger national operators still dominate, we have observed a clear increase in financing opportunities for regional platforms, many of which are benefiting from structural growth in data consumption alongside the AI-driven expansion in compute demand.

IG private credit issuance by sector, YTD 2026



Source: Private Placement Monitor, Bank of America as at 31 March, 2026.

⁸ Private Placement Monitor, as of April 2026.

ABF attributes

Asset-based finance is an area of alternative credit that we view as an increasingly important and evolving segment of the private credit universe. It's characterised by lending secured against often diversified pools of assets, receivables or contractual payment streams.

While definitions vary across the market, ABF is commonly understood as spanning both public and private credit markets, bridging traditional securitised assets and privately originated opportunities.

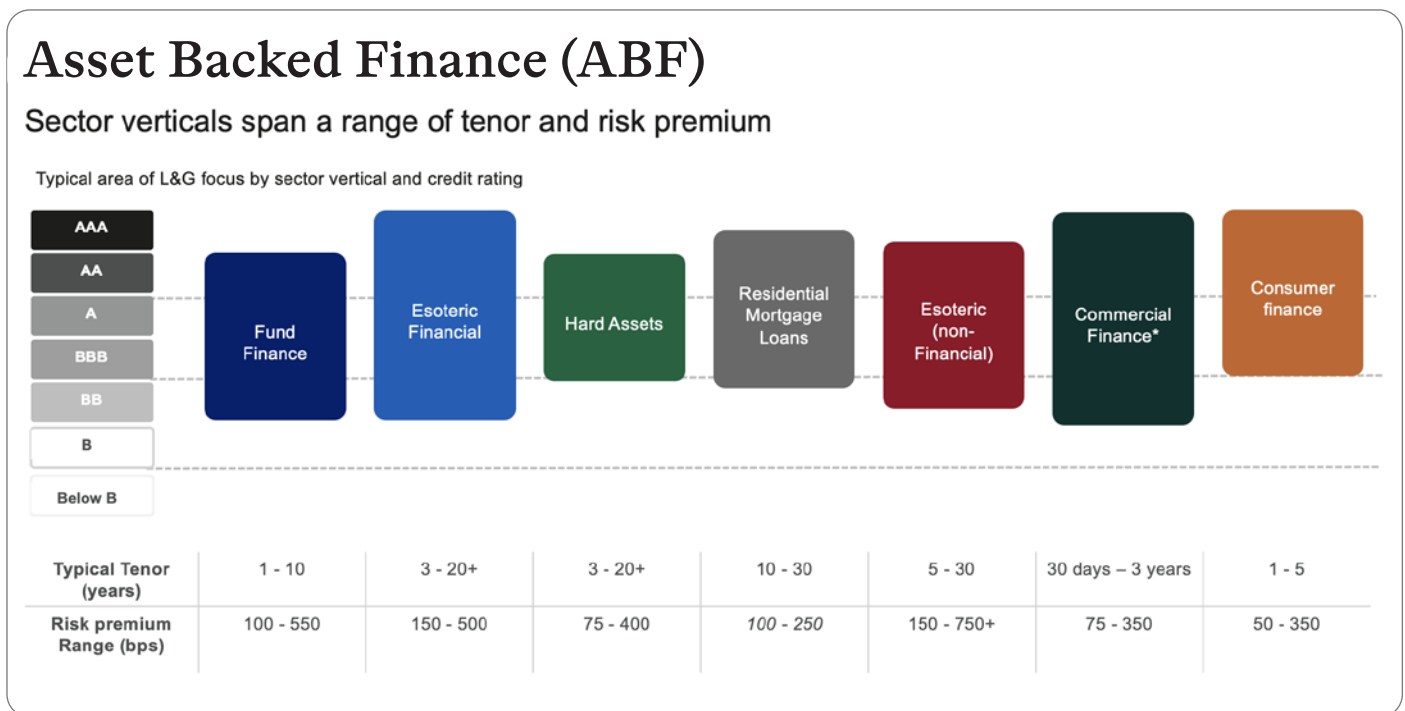
We believe it is possible to adopt a broad and pragmatic definition of private ABF. This involves segmenting the opportunity set into fund finance, hard assets, consumer finance, commercial finance, residential mortgages, and esoteric strategies (both financial and non-financial). We see this as a framework that reflects the diversity of underlying collateral, risk drivers and structuring approaches across the asset class.

In today's environment, we believe ABF may offer a compelling combination of attributes for investors. It can deliver enhanced returns through illiquidity and complexity premia, with the potential to mitigate downside risk through asset-backed structures, amortising cash flows and lender-friendly terms.

One factor we see as particularly important is that ABF returns are less directly linked to corporate balance sheets, potentially offering diversification benefits relative to traditional credit.

The chart below shows the considerable span of tenor and risk premium across each of the sub-sectors we identify.

Within this universe, we are particularly attracted by fund finance and certain esoteric opportunities, such as emerging market debt.



Source: L&G, March 2026. For illustrative purposes only.*Excludes business leases which are categorised under "Hard assets". Assumptions, opinions, and estimates are provided for illustrative purposes only. **There is no guarantee that any forecasts made will come to pass.**



Assessing BDC risks

Fund finance is one area that received attention in H1, with focus on business development companies (BDCs) and their potential vulnerabilities given exposure to US software companies.

However, it is worth noting there is a range of risk across BDCs as well as the broader sector. For instance, one of the most attractive parts of the fund finance market, in our view, is capital call facilities – short-term lending to private market funds, secured on LP commitments. These are typically AA / A rated and, with tenors of less than a year, could well be an attractive addition to investors' liquidity toolkits.

Elsewhere, in esoteric finance, private emerging market debt offers the potential for both insured and structured opportunities, often supported by multilateral development banks or Development Finance Institutions. These may offer compelling risk-adjusted returns with strong credit enhancement while mobilising capital for positive outcomes.

Strategies and segments

In conclusion, the headlines surrounding direct lending are unlikely to go away during the second half of the year.

However, we stress that private credit, like any asset class, covers a range of strategies and segments. Selectivity remains key, but there are areas of resilience which we believe may offer investors many attractive attributes.

US private credit: today and tomorrow

Within US investment-grade private credit, we see potential opportunities in infrastructure as the AI buildout continues, although certain challenges are worth monitoring.



Edward Wood
Head of US Private Placements,
L&G – Asset Management, America



Dan Dreher
Solutions Strategist,
L&G – Asset Management, America

US infrastructure private credit stands out given sustained issuance across digital infrastructure, renewables and project finance.

Policy incentives, broadened ratings agency acceptance and a visible pipeline tied to data centres, energy security and grid investment are supporting this issuance, with geopolitical risks in energy markets reinforcing long dated capex needs.

Overall, AI infrastructure spending represents one of the largest corporate buildouts in history. This capex cycle is translating into tangible economic activity, with benefits extending across the full supply chain – from power generation and semiconductor equipment orders, to networking infrastructure.

We see the AI build out as a real opportunity, with adoption now broad-based and revenues clearly emerging at the platform level. That said, revenue support is uneven across the ecosystem.

At the top, hyperscalers are funding the build-out with strong, diversified cash flows. In contracted infrastructure, forward revenues are largely de-risked through long-term agreements. Further down the stack, however, parts of the supply chain remain more dependent on anticipated demand, with capex still front running full utilisation.

In our view, the key risk isn't whether AI capex continues; it almost certainly will. We believe the crucial credit implication is to monitor leverage and overbuild alongside merchant risk. Hyperscalers are increasingly accessing debt markets to bridge spending needs, with leverage rising even as revenue grows.

Selectivity is key

Elsewhere in the US credit market, alternatives remain attractive to us on a selective basis, with continued issuance across structured credit. Notably, we see meaningful value in merchant voucher receivables.

There is a pipeline of other future flow opportunities coming out of Latin American banks in which we expect to be active through 2026. These deals can provide our investors with access to certain jurisdictions at ratings multiple notches higher than emerging market sovereigns, and have a long history of strong performance.

We remain constructive but selective on US corporates. Year-to-date 2026 corporate issuance remains healthy, private placement calendars are active, and utility and REITs flows continue to provide meaningful supply. However, spreads remain tight. For example, the power generation buildout has attracted meaningful flows to utilities, driving spreads very tight across public and private markets.

Finally, pricing appears aggressive to us in US real estate debt. Core sector (multifamily, industrial, office and retail) institutional quality property values have risen more than 2% over the past 12 months,⁹ while new supply has slowed.

Our views on US private placements

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

Source: L&G – Asset Management, America. Data as of May 31, 2026. **Assumptions, opinions, and estimates are provided for illustrative purposes only. There is no guarantee that any forecasts made will come to pass.**

⁹ Source: Green Street. As of March 9, 2026.

ETFs & Real Assets

Investing in energy resilience

Spanning sectors including utilities, clean power and digital infrastructure, we think this theme is supported by several long-term structural tailwinds.



David Barron
Global Head of Index and ETFs

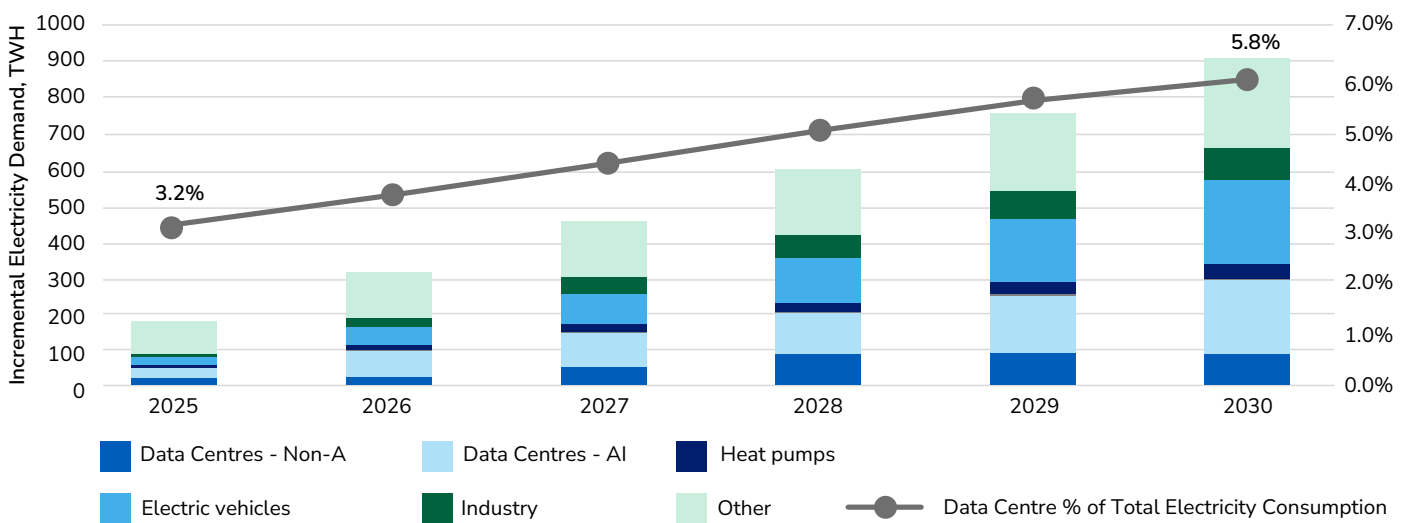


James Tyrrell, PhD
Infrastructure Research Manager

In a world shaped by megatrends, energy resilience emerges at the intersection of decarbonisation and deglobalisation.

Economic security depends on resilient energy and power. Furthermore, as the potential for AI to drive economic growth rises, clean power-enabled energy resilience and economic security **converge** as data centre power demand increases.

Select drivers of future electricity demand growth, North America & Europe, net change from 2024



Sources: BNEF, IEA, L&G as at 2025. Assumptions, opinions, and estimates are provided for illustrative purposes only. There is no guarantee that any forecasts made will come to pass.

With a continued reliance on external energy sources, higher energy prices feed through to impacts on inflation and GDP growth, differing by region.

For a decarbonising and net energy-importing Europe, energy resilience and lower GDP sensitivities to fossil fuel prices means combining domestic clean power production with rising electrification to reduce reliance on energy imports. North America, by contrast, is a net energy exporter and so has more energy resilience, leading to forecasts showing lower GDP reductions from supply-driven energy price shocks relative to the UK and Euro area.¹⁰

Building energy resilience, therefore, has regional-dependent infrastructure implications: Europe may have greater strategic reliance on clean power infrastructure and electrification, while the US balances clean power more with energy pipeline and storage infrastructure. The reduction in Middle Eastern gas supplies for Europe may increase its reliance on US LNG.

Europe's response to gas supply disruption

Energy resilience needs have driven demand for clean power in Europe. The Russian invasion of Ukraine saw Europe reducing its generation from gas power as higher gas and power prices improved project economics for renewables developments, accelerating the [buildout](#).

Through similar mechanisms, the Iran war could re-accelerate the clean power buildout as energy security again becomes a dominant theme.

Falling battery costs and persistent power-price volatility strengthened the case for storage in 2025. In 2026, Iran-related energy-market disruption could widen gas and power-price spreads in some European markets, potentially supporting merchant battery and hybridised renewable assets, while the benefit for fully contracted assets is more limited.

US corporates to drive clean power adoption

Despite heightened policy uncertainty in 2025, the US saw record annual capacity additions of clean power infrastructure, which is expected to continue into 2026 as projects accelerate to meet tax credit deadlines.¹¹ The reduction in policy support may increase development risk thereafter, while stabilised renewables assets may benefit from rising power demand, in our view.

With less policy support, we see US clean power development being led more by corporate climate targets, power demand needs, and economic feasibility so more influenced by the interest rate environment.

Clean power: economical energy resilience

While electrifying and developing clean power infrastructure may increase energy resilience, the supply chain for components remains heavily concentrated in China. Previous fierce competition among Chinese manufacturers has contributed to exponential reductions in solar costs, and this is now repeating with battery costs.¹²

Despite EU actions to diversify supply chains away from China for renewables auctions,¹³ reliance on China is expected to remain for clean power components, at least in the medium term. As of the second half of 2025, the decreases in solar and wind costs, alongside increases in gas turbine costs driven by rising demand to power data centres, now make renewables the lowest cost source of new-build generation in Europe and North America.

Therefore, clean power assets are increasingly investible without government subsidies and support and demonstrate how clean power assets economically enable energy resilience.

Opportunities across public and private markets

Investing in energy resilience can provide exposure to high-growth thematics including decarbonisation and AI proliferation across multiple sectors including utilities, clean power, and digital infrastructure, and spans global markets from East Asian supply chains to Western power generators, supporting diversified portfolio construction.

Furthermore, public and private markets can provide complimentary exposures. Public markets can provide diversified exposure to the clean energy value chain as well as adjacent sector, while private markets can provide asset-level exposure in technologies and markets that screen attractively.

Our view is that while Iran may drive renewed interest in the energy resilience theme, this is not a temporary revival – it is reinforcing a structural change driven by economics and policy. No such change is a straight line, particularly one that rotates our energy supply.

10 World Economic Outlook, IMF, April 2026.

11 US Clean Energy Market Outlook 1H 2026, BloombergNEF, May 2026.

12 Levelized Cost of Electricity Update, BloombergNEF, February 2026.

13 [Industrial Accelerator Act](#), European Commission, March 2026.

Contact us:

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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.

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