

A Once-in-a-Generation Tech Buildout and the Coming Productivity Supercycle

Hani Redha, CAIA, Global Multi-Asset Portfolio Manager

Artificial intelligence (AI) is increasingly acting as a unifying force across markets, shaping outcomes from the macroeconomic level down to individual sectors and industries. What began as a thematic growth driver is now transitioning into a measurable, economy-wide positive productivity shock, with meaningful implications for margins, investment, and asset prices.

At the core is the continued rapid progression of AI capabilities. Model development remains on an exponential trajectory, with recent benchmarks suggesting progress is running ahead of expected scaling trends. There are no clear signs of diminishing returns, reinforcing continued investment by the hyperscalers. For companies building foundational models, the message remains clear: incremental scale continues to deliver improved outcomes. We continue to monitor for signs of a deceleration, which would mark an important inflection point, but see no red flags yet.

This technological momentum is now translating into observable corporate impact. A growing number of companies are quantifying AI benefits, marking a shift from narrative to measurable results. The impact so far has been predominantly cost-driven rather than revenue-led. Reported efficiencies typically fall within a 0%-5% range of cost savings, with even modest improvements creating meaningful operating leverage when combined with stable top-line growth.

Examples across industries highlight the breadth of adoption. Firms are leveraging AI to enhance coding productivity, improve advertising efficiency, and optimize logistics and fulfillment operations. Importantly, companies are not emphasizing layoffs, but rather their ability to grow without proportional increases in headcount—suggesting a gradual labor adjustment rather than outright disruption.

The investment response has been equally significant. AI-related capital expenditures continue to rise, with spending expected to surpass \$1 trillion in the near term. Hyperscalers remain at the forefront, supported by early signs of strong returns, including improved revenue per employee and operating efficiency. At the same time, demand for compute resources has surged sharply, placing pressure on available capacity.

This dynamic has been particularly supportive for the semiconductor ecosystem, which remains the backbone of AI scaling. The sector's earnings trajectory has increasingly decoupled from broader macro conditions, driven by structural demand. Despite strong performance, valuations have not expanded materially, suggesting earnings growth has been the key driver, with sustainability now the key question.

Constraints are emerging, but they are evolving rather than halting the cycle. Earlier concerns around power availability and data center capacity are now being joined by bottlenecks across components such as memory and semiconductor equipment. Rising input costs have contributed to higher capex requirements, yet these constraints may also serve to extend the cycle by preventing overheating. In effect, supply limitations are pacing the speed of deployment rather than capping the ultimate scale.

At the macro level, AI's implications are becoming increasingly clear. Productivity gains are expected to be significant over the coming years, while the impact on employment

June
2026

About This Report

PineBridge believes that not only do differences of opinion make markets, but they also foreshadow substantial moves ahead as these differences are resolved. Once a month, investment leaders from our global multi-asset, equities, and fixed income teams meet to share their diverse viewpoints. This report reflects those discussions and debates by providing insight on the topic of the month along with snapshots of our asset class views and convictions across the firm.

appears more gradual, with firms opting to slow hiring rather than reduce workforce materially. This creates a “Goldilocks” phase where productivity supports growth without causing major labor dislocation.

From a market perspective, the next phase will hinge on monetization. While cost efficiencies are already evident, the broader revenue impact remains concentrated in select segments. At the same time, divergence across sectors is emerging – benefiting infrastructure and semiconductor players while posing challenges to parts of software and services where barriers to entry are declining.

Overall, AI is transitioning from a narrative-driven theme to a measurable driver of earnings, investment, and macro outcomes, solidifying its role as a defining force in the current market cycle.

We have been highly skeptical of talk of “bubbles” and continue to fade this narrative. We are in the midst of a once-in-a-generation technological breakthrough and buildout on a record scale, with record speed. Unlike in previous bubbles, the killer app (agentic AI) is already here. Demand for the technology is already here. Supply can’t even keep up with the current demand, let alone the level of demand for the foreseeable future. Technology stocks have performed extremely well and are trading at all-time highs, yet their valuations have not even kept pace with delivered earnings growth, making it hard to defend the assertion that we are in a bubble. We may eventually end up with a typical investment cycle where overbuilding leads to a market crash; yet we see no signs of that at this stage and continue to find interesting ways to gain exposure to the multifaceted buildout of this unique GPT (general-purpose technology). Keep your eyes on the productivity prize.

Conviction Score (CS) and Investment Views

The Conviction Scores shown below reflect the investment team’s views on how portfolios should be positioned for the next six to nine months. 1=bullish, 5=bearish, and the change from the prior month is indicated in parentheses.

Global Macro

Sam McDonald

Sovereign Analyst, Emerging Markets Fixed Income

CS 3.00 (unchanged)

US growth remains resilient despite the energy shock, with a stabilized labor market and an AI-related tech boom maintaining the robust outlook. For Europe, soft and hard data are beginning to show signs of weakening activity and increasing inflationary pressures on core components; inflation expectations are becoming de-anchored. All else being equal, central banks are shifting to more hawkish stances but continue to highlight heightened uncertainty over near-term policy paths. Declining oil inventories increase the likelihood of more material impacts on growth in the coming months.

With elevated oil prices expected to continue into the year’s second half, risks to growth are mounting despite the relative US resilience to date. Fading tax refund stimulus, rising gasoline prices, and weaker sentiment could undermine the relatively robust story in the US currently. Nonetheless, financial conditions are back to pre-war levels, supported by the equity rally. For now, the US economy continues to outperform, with labor market worries seemingly having receded. April non-farm jobs were up by 115,000, and the unemployment rate remains steady at 4.3%. Similarly, initial claims remain around the 200,000-210,000 level, while continuing claims are on a broad downward trend.

Still, the inflation picture is clearly shifting. The April Consumer Price Index rose by 3.8%. Core inflation was up by 2.8%, which topped expectations. Import prices and the Producer Price Index also came in stronger than expected. Some of the rise was driven by higher rent and owners’ equivalent rent numbers, but fading tariff effects are supporting goods disinflation and shelter effects will begin to unwind in the coming months. The Fed has shifted to a more hawkish stance, so while rate cuts remain delayed for now, Fed minutes point to rate hikes being on the table if inflation consistently runs above 2%.

For Europe, softer activity data, including weaker purchasing managers’ index (PMI) numbers, are starting to appear. Estimates of second quarter GDP growth are coming in at a seasonally adjusted annual rate of 0.5%, a material slowdown from last year’s fourth quarter growth of 1.5%, ex Ireland. Employment growth has slowed, and signals from consumers point to continuing weakness in PMI data.

Inflation expectations in the euro area have risen sharply on the increase in energy prices. Three-year inflation expectations now sit at the same level as their 2022 peaks. For the European Central Bank, the weakening growth picture makes policy decision-making more challenging. Unlike the Fed, the ECB’s only mandate focuses on inflation, and concerns over the de-anchoring of inflation expectations and surveys that point to possible second-round effects suggest the ECB will likely hike rates twice this year.

Rates

Gunter Seeger

Portfolio Manager, Developed
Markets Investment Grade

CS 3.75 (unchanged)

Peace in the Middle East? We certainly hope so, but we also see the need to be prepared for a breakdown in negotiations. The Strait of Hormuz is still the key factor for global growth. US markets are clearly signaling peace and are pricing in high growth and high inflation. The US 30-year long bond has not seen rates this high since May 2007, which was the last time a long bond was auctioned with a 5% coupon. The last time 30-year US TIPS had a real yield of 2.82% was in 2002. The high rates seen in the US are similar to what is happening in the rest of the developed world, with rates in Europe, the UK, and Japan also having shot up since the war began. Similarly, equities in the US and in most of the developed world are at all-time highs.

With the war in its 13th week as of this writing, even its immediate end would not eliminate the knock-on effects of the closing of the Strait of Hormuz, which will elevate prices for the foreseeable future. The global oil reserves that have been tapped during the closure will need refilling, and stocks of jet fuel, diesel fuel, fertilizers, and other oil-based products will have to be replenished.

We still believe the “Unified Theory” of global inflation explains all the world’s markets better than any other variable and, if true, means higher interest rates for most everyone.

Credit

Steven Oh, CFA

Co-Head of Leveraged Finance

CS 4.0 (+0.5)

While not quite the age-old chicken-or-egg question, the issue of whether yields or spreads should drive investment decisions is one that credit investors are currently grappling with. The upward move in base rates has made fixed-rate credit yields very attractive, particularly to those investors with liabilities to diffuse, yet spreads are at extremely tight, bull market levels. Risk factors remain pervasive, driven by the ongoing Iran war and energy price impacts that could filter through global economies more significantly in the coming months as reserve inventories are depleted. Powering the market and particularly the US economy is the insatiable capital spending on AI buildouts, yet consumer disposable income is deteriorating among those with lower income. Fed monetary policy accommodation will be delayed with the pickup in near-term inflation, while the ECB is likely to make a policy error by raising rates later this year.

Our view on the CS is that while yields will be a large component of ultimate returns, the incremental pickup is not appealing despite our stable economic outlook. However, one must account for expectations that insurance and pension investors will continue to deploy capital to credit for its yield and thereby provide ongoing technical support to the market, which will limit any meaningful pullback. Overall, however, while beta is unappealing, there is sufficient dispersion for positive alpha outcomes. Despite our defensive score, this is a market where we would remain neutral on asset class risk and maintain net portfolio beta exposure near 1.0.

Currency (USD Perspective)

Alfonso De la Torre

Sovereign Analyst, Emerging
Markets Fixed Income

CS 3.00 (unchanged)

The US dollar remains range-bound between countervailing geopolitical and monetary forces. The geopolitics of higher energy prices and the closing of the Strait of Hormuz continue to support the US dollar via terms of trade and higher front-end rates. Monetary forces, however, still point to eventual easing as underlying disinflation resumes. Current market momentum assumes that geopolitical forces will prevail as energy-driven inflation persists but is not yet sufficiently dominant to break the dollar’s underlying range.

Strong first-half growth driven by AI investment and resilient domestic demand has kept the US economy relatively insulated from geopolitical shocks. This sustains growth differentials and capital inflows, keeping the US dollar supported compared to Europe and parts of Asia. The surge in headline inflation in the second quarter is largely energy-driven; core disinflation remains intact. As long as long-term inflation expectations remain anchored, the Fed is likely to look through the shock, preserving policy flexibility. In contrast, the ECB may respond to short-term market pressure and tighten over the summer, risking a policy mistake that will need to be reversed more aggressively in 2027. As energy pressures ease and disinflation reasserts itself, the front end should price out current risk premia, reducing US dollar support. This points to a neutral USD outlook, with FX remaining range-bound and the euro/US dollar relationship anchored around 1.15-1.23.

Emerging Markets Fixed Income

Joseph Cuthbertson
Sovereign Analyst, Global
Emerging Markets Fixed Income

USD EM (Sovereign and Corp.)
CS 2.75 (unchanged)

Local Markets (Sovereign)
CS 3.00 (+0.25)

Despite rising volatility, EM spreads have remained resilient. Since the start of the Iran conflict, EMBI spreads are 23 basis points (bps) tighter, a total of 27 bps tighter year to date. Under the base-case stabilization macroeconomic scenario, we still expect nominal growth levels to continue to improve, EM current accounts to remain in surplus, and overall balances – which are still elevated owing to higher borrowing costs and debt levels post Covid/Ukraine – to trend in the right direction. This has supported the outperformance of EM sovereign high yield over investment grade credits, which is in line with other pro-cyclical assets.

The hard work done to improve external buffers going into this period gives us confidence that EM can handle the “shock” and creates opportunities to exploit mispricing as we gain confidence in the timeframe for easing disruptions caused by closure of the Strait of Hormuz. We expect the strait to remain disrupted for the next few weeks, leading to elevated oil prices over the next quarter. We also expect higher oil prices to create terms-of-trade winners, but the duration of disruptions and the extent of higher prices should be manageable for the losers. Countries like Azerbaijan, Angola, and Nigeria, which all have a high degree of hydrocarbon exports, have traded relatively better than importers such as Kenya and Turkey. Countries like South Africa will face negative terms of trade impacts, which will be partially offset by higher metals prices. As the market prices in the end of the conflict, any outperformance should start to reverse as expectations for oil prices over the medium term adjust lower.

Robust economic data, high real rates, and large external buffers had supported policy easing among local-currency high-yielders. While the uptick in oil prices will raise concerns about CPI spikes, we expect the cutting cycle in many frontier and higher-yielding local-currency names will only be paused and elongated rather than stopped. We see pricing of hikes in some names as excessive and would expect the pricing to fade.

Our initial read of first-quarter earnings results is broadly neutral. The impact of the war in Iran will be clearer in the year’s second half, especially for exporters and real estate companies in the Gulf states, although we expect broader credits to remain resilient. Technical forces continue to be the main driver on both the demand and supply sides. Net supply remained negative, at -\$6 billion in April, and the asset class has seen steady inflows in the past month. Primary market activity has picked up, with this April the most active April since 2021, printing \$37 billion despite the US-Iran standoff. EM corporate spreads continue to tighten versus their developed market (DM) counterparts. Investment grade (IG) pickup seems fairer, but high yield (HY) pickup looks tight.

Multi-Asset

Deanne Nezas, CFA
Portfolio Manager,
Global Multi-Asset

CS 2.75 (unchanged)

Middle East tensions persist, but the US-Iran ceasefire is holding, and we expect a slow, uneven path toward de-escalation. Although the energy shock is testing our resolve, we continue to lean constructive given the powerful combination of AI-driven productivity, a likely extension of the US-China trade détente, fading tariff effects, and further US-Iran de-escalation.

The Strait of Hormuz remains the key pressure point: its closure is driving the energy spike and shaping global inflation expectations. Without a breakthrough, hotter CPI and PPI prints could weigh on equities as they have on bonds. While we expected the energy shock to curb demand and pull yields lower, inflation pressure is hitting economies differently. In the energy-independent US, just the opposite is happening, with recession odds falling and growth looking strong, not sluggish.

Europe faces rising stagflation risk, with the ECB’s June meeting now carrying tightening risk despite weak growth. The UK faces the toughest mix of high inflation, low growth, and political uncertainty. Japan’s yields continue to rise as the country exits stagnation, while currency pressures reflect broader economic divergence. This economic splitting is setting up central bank divergence, with FX as the adjustment mechanism.

US mega techs, which heavily derated during last year’s AI capex surge, are now showing accelerating revenue and margins from cloud hyperscalers. Improving returns on invested capital could be the inflection point that reverses the derating and puts US equities back in the lead.

Overall, we remain constructive, balancing near term risks against a stronger medium term AI boost to earnings. Our Conviction Score stays at a moderately constructive 2.75.

Global Equity

Ken Ruskin
Portfolio Manager,
Global Equities

CS 3.00 (unchanged)

The US market continues to hit new highs even as its breadth narrows and it becomes heavily reliant on semiconductor/AI companies.

It is difficult to see a quick end to the Strait of Hormuz impasse, and crude oil prices remain high though arguably are reacting less to news events than when the Iran war first started. Tax refunds and incentives from the Trump OBBBA should provide offsets to short-term disruptions with the potential for more lasting benefits to economic growth. The market is increasingly assuming that the Fed needs to raise rates to combat higher energy prices, with two-year rates now 70 bps higher than levels at the end of February.

Earnings revisions this year continue to be positive, led by semiconductors and energy stocks. The AI capex buildout remains strong and is driving overall growth in the economy, which led to a narrowing of the market in May. Consumer spending has held up well so far despite some affordability concerns for low-end consumers. Industrial trends ex AI seem relatively muted, with some general industrial growth but flat shipping trends.

Global Emerging Markets Equity

Taras Shumelda
Portfolio Manager,
Global Equities

CS 3.00 (unchanged)

The war in Iran has upended markets and brought geopolitics and oil prices to the forefront of global discussions. The duration of this war, and with it the blockage of the Strait of Hormuz, are the most important near-term questions for markets.

The earnings reporting season has largely come to an end and was better than expected, but with wide variations. Earnings estimates for the global EM index increased by an impressive 13.4% in the last three months and by 4% in the last month. Looking inside the one-month figure more closely, we see tech forecasts were up 11.3%, industrials up 7.8%, and energy up 8%. All other sectors were below the benchmark, with five out of 11 being negative. By country, Korea was the only nation whose aggregate estimates were ahead of the index; all other countries trailed. This bifurcation of net income expectations has led to extreme performance differences that may persist in the near term. As of this writing, only three countries out of 21 exceeded the benchmark's +4.7% return for one month rolling and 15 had negative absolute performance.

Fundamentally, emerging markets are coping well with the global turmoil and seem able to resist inflationary pressures in the aggregate (i.e. rising estimates). But as noted, the current environment produces extreme differentiation between the haves and have-nots. We expect this trend to continue for as long as the Strait of Hormuz is closed.

Quantitative Research

Yang Qian
Fixed Income
Quantitative Strategist

Our US conviction improved last month, with contributions coming from the credit spread widening by 11 bps and the yield curve flattening by 1 bp. Our global credit forecasts continue to favor EM over DM. In DM industries, our model favors energy, industrials, and basic industry and dislikes finance companies, brokerages, and other financials. Among EM industries, our model likes metals and mining, financials, and utilities. It dislikes real estate, consumer goods, and industrials.

Our global rates model forecasts lower yields for the UK, Sweden, Oceania, and Japan and higher yields for the rest of the world. The model forecasts a steeper curve in Norway and Switzerland and a flatter curve for the rest of the world.

The rates view expressed in our G10 model portfolio is overweight global duration. It is overweight the UK, New Zealand, Canada, and France and is underweight the US and Germany. Along the curve, it is overweight the 10-year and 20-year and underweight the two-year, five-year, Japan Government Bond seven-year, and the 30-year.

Disclosure

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