

Navigating a Deceleration in AI Capex Growth

Hani Redha, CAIA, Global Multi-Asset Portfolio Manager

The investment in AI infrastructure remains at the center of market attention and concern. Those concerns were elevated a full year ago, yet markets continued to underestimate both the acceleration in investment and the market's willingness to reward it. Will the same trend continue in 2026, or are we finally at an inflection point?

From an equity perspective, our work suggests that valuations largely reflect the exceptional fundamental improvements driven by consistent earnings beats and are far from "bubble" territory; while recent price momentum had begun to outpace the underlying earnings delivery, the disconnect is not yet excessive. Growth in capital expenditures does continue to rise, yet we expect the year-over-year growth rate to be what investors in the AI enablers will focus on. And our expectation is for that growth rate to decelerate, which can challenge these leaders' stock performance and create new winners among those who adopt these technologies.

The other key factor is the magnitude and trajectory of monetization of this investment wave. So far, the market has been patient and willing to give time to see this return materialize. In 2026, this market is likely to be more aggressive in rewarding growth acceleration and in punishing those who do not show progress. At the time of this writing, the divergence in performance of Meta and Microsoft are direct examples of this dynamic, which we expect to gain more scrutiny as the year progresses.

Overall, we see early signs that AI monetization has shifted from narrative to tangible revenue contribution. Hyperscalers are capturing AI upside primarily through cloud consumption surges, premium service tiers, and embedded tools across productivity and developer ecosystems. AI-linked revenue growth is substantially outpacing core cloud expansion. OpenAI exemplifies this inflection: \$20 billion of annual recurring revenue in 2025 represents a tripling from 2024 and a 10x jump from 2023, validating the existence of scalable monetization pathways.

From a credit perspective, corporate spreads for some issuers are rising amid the AI buildout, but normalized spreads remain attractive, underpinned by robust investor demand for all-in yields. Supply extends well beyond hyperscalers; we expect broad-based absorption across investment grade and select high yield credits tied to AI enablers (power generation, semiconductors, networking). Most issuers in this space carry high ratings and low leverage, self-funding capex from cash reserves while tapping bond markets for supplementary capacity. Issuance ramped to roughly \$200 billion in 2025 from highly-rated names, with incremental M&A-related paper emerging as dealmakers target AI exposure (datacenter platforms, power facilities). Spreads should remain compressed through 2026, though watch for pressure at the long end as very-long-dated issuance accelerates. From an asset allocators' perspective, we see much more attractive reward for risk in equity allocations relative to credit.

February
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.

While some anticipate AI stock fatigue, we see that dynamic confined to a narrow dozen or so early-stage AI and infrastructure leaders. While their outsized market caps may dampen near-term index momentum, their sales and earnings bases remain substantial and are expanding over time. The market angst about the metrics for these dozen AI enablers is about a slowing in the rate of increase, not a decline. Their contribution to overall returns will remain meaningful, particularly for US and select Asian economies through 2026-2027 and beyond. That shouldn't detract from a backdrop of more and bigger winners than losers from AI. While we're conscious of the risks in the hyperscalers' boosting their asset and capital intensity, the lunge in this direction needs to be validated in soon-to-be-reported sales, earnings, and investment intentions. Overall, we think that validation is forthcoming; yet, after years of beta outpacing security selection alpha, there may be a digestion period ahead, and more return potential in alpha rather than beta in this space.

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 (-0.25)

January data point to a relatively benign and somewhat bullish macro backdrop for the year's start, despite major geopolitical events making headlines. Labor market indicators show tentative signs of stabilization, and retroactive OBBBA provisions should provide a tailwind via high tax refunds, which are expected to boost spending after the first quarter. With European growth supported by increased German spending and China's property market headwinds beginning to fade, the overall global macro environment appears more robust following last year's volatility but with significant risks remaining.

On the labor front, December's non-farm payroll numbers increased by 50,000, broadly aligned with the latest ADP private payroll number, while the unemployment rate declined to 4.4%. Although labor demand is not as robust as in recent years, it is broadly in line with breakeven job growth. Additionally, other measures have moved lower over the past month. The four-week moving average in initial claims has fallen to 202,000, down from a peak of 240,000 in September.

Other economic signals also have been positive. November retail sales rose by 0.6% month over month, following a weak October due to low sales of used autos. However, a 0.4% increase in the size of the control group month over month and higher credit card spending point to further consumption gains in December. Outside of consumption, the ISM services indicator reaccelerated into year-end, rising to 54.4, its highest level since October 2024. Other sentiment indicators also firmed in January.

A soft December CPI print will likely be looked through by the Fed. Various prices in the report displayed much higher levels of volatility than normal, indicating that there are still some ongoing data distortions. Core Personal Consumption Expenditures (PCE) prices rose by an annualized 2.8% in November, up from 2.7% in October, and the December core PCE rate could rise further to 3%. Additionally, the risk of residual seasonality in the first quarter and the reversal of the distortion impacts on rental inflation in April will add to the Fed's inflation concerns.

Central bank independence is back in the spotlight once again, with the Department of Justice subpoenaing the Fed and Chair Powell releasing a statement indicating pressure from the administration on interest rates. Additionally, the Supreme Court indicated that it would allow Lisa Cook to remain in office despite President Trump's attempts to fire her. With the expected acceleration in growth this year, Fed communication has shifted toward a more balanced risk outlook.

Rates

Gunter Seeger

Portfolio Manager, Developed
Markets Investment Grade

CS 4.00 (unchanged)

In 2025, we were looking for tariffs to keep inflation elevated. But exporters absorbed the price increases, and very little inflation showed up in final consumer prices. We expect that to change in 2026, as US consumers will eventually have to bear the costs. The Trump administration is touting that our trading partners will invest \$18 trillion in the US, outweighing any adverse tariff impact. But that level of capex spending is unprecedented, with Street estimates running somewhere between half and 75% of the \$18 trillion figure.

Interest rates may be at a crossroads. The nation's \$2 trillion-plus deficit, strong economic growth, and ravenous demand for electricity and data centers with the race for AI leadership point to a potential for interest rates to rise. On the other hand, the de facto merging of the US Treasury and the Federal Reserve, where a newly appointed chair will arrive May, suggest that rate cuts are also a strong possibility.

Meanwhile, the end of quantitative tightening and the Fed's buying \$40 billion per month of US T-bills is effectively "shrinking" the deficit by \$480 billion. In addition, Fannie Mae and Freddie Mac expect to buy \$200 billion of US mortgage-backed securities this year.

Credit

Steven Oh, CFA

Co-Head of Leveraged Finance

CS 3.25 (unchanged)

Ushering in 2026 were strong consensus expectations of a highly supportive environment for risk assets — a veritable Goldilocks scenario. Any volatility prompted by worrisome global headlines (i.e., a Greenland takeover, rising Japan bond yields, mounting Fed drama) was met with muted reactions and quickly tightening spreads. Is the seeming complacency in credit markets warranted?

Valuations across the board are tight by any reasonable measure, yet rationales for why there is room for further tightening remain pervasive. Our current view is generally in line with consensus expectations of a favorable yield return environment and a low probability of material spread widening. Furthermore, no particular asset class stands out as particularly appealing from a total return standpoint.

In this environment, our bias is to be incrementally defensive, but not overly so from a beta risk posture, while tilting toward areas with relative value advantage. This is also an environment in which to be more diversified and less concentrated, given lower levels of conviction. As such, we have a marginal bias toward emerging markets but also prefer investment grade (IG) over leveraged finance. But as noted, the preference is more toward incremental positioning, not large bets.

Currency (USD Perspective)

Anders Faergemann

Senior Sovereign Portfolio
Manager, Emerging Markets
Fixed Income

CS 2.75 (unchanged)

Despite all the geoeconomic noise, implied foreign exchange (FX) volatility keeps declining toward the lows of 2021 and 2024, which were considerably below the levels seen at the time of Trump's election. Rates volatility has dropped in parallel since last summer, as we observe a rare synchronization of monetary and fiscal policy strategies among the G10 nations, confining both US rates and the US dollar to very narrow trading ranges in line with our global macro "Stabilization" base case.

While expectations of more tranquil headlines in 2026 appear to be wishful thinking, we see no single macro catalyst strong enough to break the current market ranges. The euro/US dollar trading range, for example, has remained between 1.15-1.18 on a weekly basis since June 2025. Rates convergence between US and Europe suggests other drivers may become more prevalent in determining the direction of currencies in the first half of 2026. FX drivers will increasingly depend on growth divergence, liquidity, and risk sentiment.

In this environment, we favor the US dollar, as we expect a US growth acceleration to mark the difference between the US and Europe from March onward. Easy financial conditions and an additional front-loaded lift from the OBBBA should bolster US economic growth and offset downside risks from geopolitics, Fed independence, and lingering softness in the US labor market.

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 2.75 (-0.25)

From the perspective of return and fundamentals, 2025 was a good year for EM sovereigns. After a volatile first quarter, EMBI spreads finished the year 75 basis points (bps) tighter. Nominal growth levels continued to improve, while EM current accounts remained in surplus and overall balances – still elevated owing to higher borrowing costs and debt levels from the post Covid and Ukraine war actions – trended in the right direction. Despite high core rates, spread compression across most EM sovereigns has been sufficient to reopen market access down the rating spectrum. In 2026, we expect market access to extend to several issuers that defaulted in the previous cycle, which we view as supportive of sentiment.

We also expect growth in 2026 to be broadly flat versus 2025. We expect improvements in the external sector, with our commodity outlook remaining supportive. Inflation also should remain at 2025 levels, although there is still room for rate cuts, with EM high-yielders taking the lead as many low yielders' cutting cycles have largely finished. These high yield issuers also tend to have better fiscal trajectories, which could support yield curve flattening. In 2026, we expect market access to extend to several issuers that defaulted in the previous cycle, which we view as supportive of sentiment.

We expect improved sovereign credit metrics in 2026 and anticipate that rating agencies will upgrade several rising stars to investment grade, including Serbia and Morocco, and lift ratings out of the CCC category for Pakistan, Ghana, and Argentina. Given the many net upgrades in 2025, fewer are likely in 2026, even as fundamentals remain positive; rating outlooks have shifted toward neutral. Nonetheless, longer term reform stories remain in play, with scope for idiosyncratic spread compression across select sovereigns. Many of these names (e.g., Argentina) look to capitalize on bilateral/multilateral anchors.

Market attention has focused on events in Venezuela, where the market has started to price the potential for restructuring of some \$130 billion in US dollar bonds and public debt interest outstanding. Our analysis suggests that there will be limited near-term impact on oil prices, and that the economic spillover onto nearby countries will be limited for the moment.

For EM corporates, we expect fundamentals to remain resilient and stable in 2026. Our Credit Trend matrix is 15% positive/12% negative across the names we cover. Valuations look fair to tight, but higher carry remains attractive. The default rate of EM corporates stood at 3.0% in 2025. We expect the same in 2026.

In 2025, EM sovereigns saw gross supply of US\$251 billion and net supply of US\$92 billion. For 2026, we expect net supply to fall to US\$28.5 billion. For 2026, expectations are for around US\$40 billion-\$50 billion to enter the market via dedicated EM bonds. For corporates, supply in 2026 is expected to see a modest uptick, with net financing projected at -US\$20 billion. EM assets remain structurally under-owned, and we expect a positive technical throughout 2026.

Multi-Asset

Peter Hu, CFA
Portfolio Manager,
Global Multi-Asset

CS 2.25 (-0.25)

Aside from the US, most developed economies are now increasing government spending. Starting in February, the US will see solid net stimulus from the OBBBA, more than offsetting the drag from tariffs. China is entering a new five year plan and typically boosts spending early in the cycle. Japan is rolling out measures to help consumers facing yen driven inflation. These efforts mostly peak in the first half of the year, except in Germany, where defense spending will continue rising through 2027.

Monetary policy won't counter these fiscal moves. Only the Bank of Japan is tightening. China's central bank has paused easing to allow a modestly stronger yuan, while Latin America, the Bank of England, and the Fed still have more rate cuts ahead. Together, these fiscal and monetary boosts have supported a rotation into small-cap, value, and cyclical stocks for the next several months.

Still, the K shaped economy is not going away. In fact, it may strengthen, as AI and shifting trade patterns boost some areas while pressuring others. We see this factor rotation as temporary. We are more focused on the long-term broadening at the top of the K. Leadership is slowly shifting from early AI infrastructure giants to emerging AI winners, which are those companies building or benefiting from new applications. These opportunities span sectors and regions, but clear losers will also appear over time.

We are looking for cyclical opportunities that benefit from current policies and can carry that momentum into longer term AI and trade tailwinds. To fund these ideas, we are modestly increasing our risk appetite, moving the Risk Dial to 2.25 from 2.50.

Global Equity

John Song

Analyst, Global Equities

CS 3.00 (unchanged)

Datacenter demand remains the key driver in the tech sector. Semiconductor capital equipment spending maintains its strong momentum as the industry faces capacity shortages in memory and leading-edge logic/foundry capacity. That outlook is further supported by improving prospects for the foundry businesses at Intel and Samsung and improving sentiment on fabrication equipment spending in China. Analog companies are incrementally more positive on a 2026 recovery, with improvements more pronounced in industrial end-markets versus autos.

In industrials, similar to tech, datacenter buildout remains the key growth driver for the industrial economy, even as tariff-related uncertainty lingers. General industrial activity is expected to rebound in 2026 after a multi-year period of muted performance.

Banks continue to operate in a favorable environment, supported by improving loan growth outlooks and stable net interest margins, with minimal credit concerns. Credit quality and consumer health should remain solid as long as unemployment stays stable. However, policy initiatives aimed at improving affordability present a growing risk to bank profitability.

Consumer spending remains resilient, supported by company commentary and government data, even as the University of Michigan's sentiment measure remains about 20% lower than a year ago. Inflation continues to weigh on households, leaving US real wage growth roughly flat. Most income cohorts are expected to benefit from OBBBA measures, though lower-income groups will see the smallest net gains once social program adjustments are factored in.

In the healthcare sector, pharma and biotech are benefiting from easing policy uncertainty and manageable Most Favored Nation drug pricing negotiations with the Trump administration. Overall demand for healthcare services remains healthy and stable. In previously lagging areas such as life sciences, demand is improving as the biotech funding environment strengthens.

Global Emerging Markets Equity

Taras Shumelda

Portfolio Manager,
Global Equities

CS 3.00 (-0.25)

Global EM equities earnings upgrades recently accelerated, which caused us to revise our RDS score to 3.00. The upgrades were driven mostly by Asia, especially India and South Korea. We would view any selloff in global EM equities as a reason to revise our RDS score still more positively on the improved risk/reward balance.

In China, excavator sales rose in December, hinting at a stabilization of construction activity in the year's first half. State Grid, China's state-owned electric utility, may release stronger 2026 capex guidance benefiting power-grid-related companies. Rising system-level testing (SLT) demand and power-testing shipments for the semiconductor industry are helping Taiwan's outsourcing stocks. Alibaba announced a potential IPO of its AI chips division. The government ordered leading tech firms to prepare for purchases of Nvidia H200 chips. In India, loan growth momentum has strengthened across the system, with most large private and state-owned banks seeing year-over-year growth at mid-teen levels in the third quarter of fiscal 2026. Cuts in goods and services tax rates are expected to boost demand across consumer staples and automobiles.

In Latin America, most earnings upgrades are being seen in Chile, Peru, and Mexico, helped by rising copper prices. Brazil has seen minor negative revisions. Soda bottlers, select financials, miners, and real estate developers (especially in the industrial sector) have the most earnings momentum. Brazil's presidential race is heating up, with political noise likely to increase.

In EMEA, the European Union is trying to recover from the shock of the Davos meetings. All eyes again are focused on the Ukrainian peace process, which, while not entirely failing, is not succeeding either. As of this writing, another round of talks has resumed.

Quantitative Research

Yang Qian

Fixed Income

Quantitative Strategist

Our conviction stance moved more positive again, with the yield curve steepening by 16 bps and credit spread tightening of four bps.

Global credit forecasts remain negative, with developed markets (DM) seeing a noticeable deterioration. In DM industries, our model favors banking, natural gas, and industrials; it dislikes utilities, finance companies, and communications. Among EM industries, our model likes metals and mining and financials. It dislikes industrials, real estate, consumer goods, and transport.

Our global rates model forecasts higher yields for Switzerland, Japan, Canada, and most European countries and lower yields for Oceania, the US, and some European countries. The model forecasts a steeper curve in the US, Norway, Switzerland, the UK, and Portugal and a flatter curve for the rest of the world.

The rates view expressed in our G10 model portfolio is overweight global duration by +0.69 years. It is overweight France, Spain, New Zealand, and Canada and underweight the US, Germany, the UK, and Japan. Along the curve, it is overweight the six-month, 10-year, and 20-year and underweight the two-year, five-year, Japan Government Bond seven-year, and the 30-year.

All market data, spreads, and index returns are sourced from Bloomberg as of 26 January 2026.

Disclosure

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