2027 Investment Outlook

Still up, but a bumpier path



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In brief

- We expect government and corporate spending to keep global growth robust in 2027. With inflation set to soften we also see consumer spending recovering, broadening the expansion.
- In fixed income, massive government and AI-related issuance has made competition for capital the defining theme, shifting power back to bond investors. Elevated levels of supply are expected to continue in the year ahead, but with inflation cooling and markets less likely to be surprised by issuance, we expect yields to be relatively stable at attractive levels.
- We remain constructive on AI as a key driver of 2027 earnings growth. But as attention shifts from the build-out of the technology to the rollout, the relative winners and losers will become more apparent. Investors must manage single name and subsector concentration deliberately. We therefore prefer the more diversified US market to the hardware-heavy EM benchmark.
- As the market's focus shifts from build-out to rollout, we expect European stocks to do well given larger weights to the sectors we expect to benefit from AI. Political risk will linger near term but we see that fading and, with tailwinds from Germany's fiscal stimulus supporting the region's expansion, we expect earnings to support this previously unloved part of the global stock market.
- In alternatives, the combination of government spending, AI capital expenditure and higher-for-longer rates favours infrastructure assets as well as small and mid-market private equity, while we are more cautious on highly leveraged buyouts and lower-quality real estate.

Corporate and government spending will underpin economic resilience

In stark contrast to the decade pre-pandemic, the defining feature of the current economic cycle is a desire to spend. Governments are spending to increase the resilience of their economies, and companies are spending to take advantage of new technologies. We expect these spending forces to continue in 2027 and therefore remain constructive on the outlook for global growth.

It isn't all smooth sailing, of course. While 2025 brought tariffs and trade tensions, 2026 brought a war in the Middle East and rising energy costs. The continuous flow of unpredictable and economically damaging geopolitical news is causing governments everywhere to spend on projects to improve resilience, ranging from defence and domestic energy, to technology and the onshoring of critical manufacturing.

In Europe, Germany's fiscal push is set to be the key contributor to spending, as the European Union's Recovery Fund broadly draws to a close at the end of 2026 with only modest residual spending continuing into 2027. Even as the annual growth rate in spending eases somewhat, the investment backdrop is a far cry from the austerity of the prior decade (see **Exhibit 1**).

AI infrastructure investment

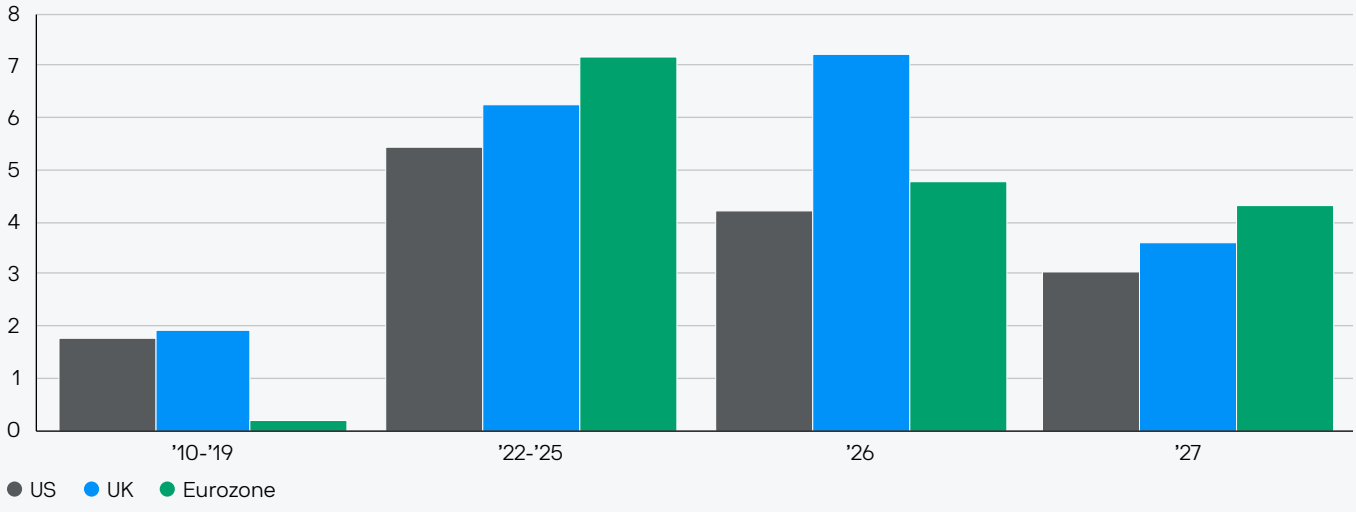
At the same time, the tentacles of tech spending are reaching further and wider through the global economy. The US remains the epicentre of the impulse, but the benefits are increasingly being felt in Asia and across Europe (see **Exhibits 2** and **3**). Despite ongoing concerns about the return on investment and rapidly increasing input costs, the tech builders show little sign of slowing down their spending. On the whole, capital expenditure (capex) plans are still being revised up, with just five US 'hyperscaler' companies planning on spending more than USD 1 trillion in both 2027 and 2028.

Consumer spending has remained relatively robust despite the energy shock. In the US, households have continued to spend through the latest inflation uptick, drawing on savings and borrowing to sustain consumption. The significant gains in US stock prices in recent years, given US households' exposure to equity markets, likely also encouraged such spending.

Exhibit 1: Governments are spending to increase resilience

Nominal government investment

%, annualised growth rate

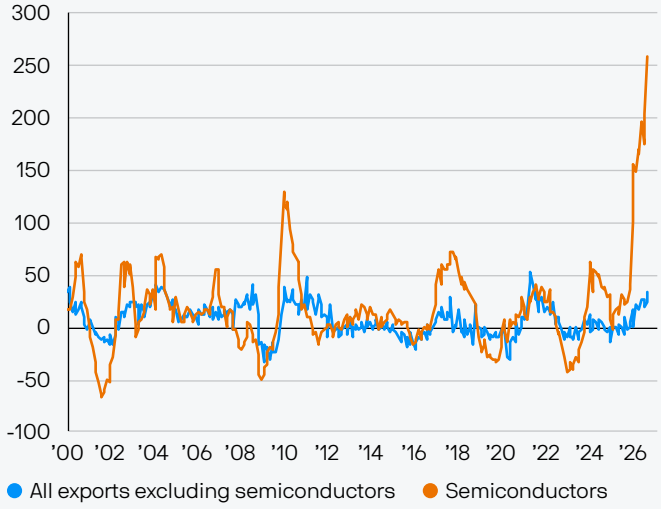


Source: OECD, J.P. Morgan Asset Management. 2026 and 2027 are based on OECD forecasts. Eurozone is a GDP-weighted average of France, Germany, Italy and Spain. Data as of 9 November 2026.

Exhibit 2: US capex is boosting Asian exports...

South Korean exports

% change year on year in USD terms

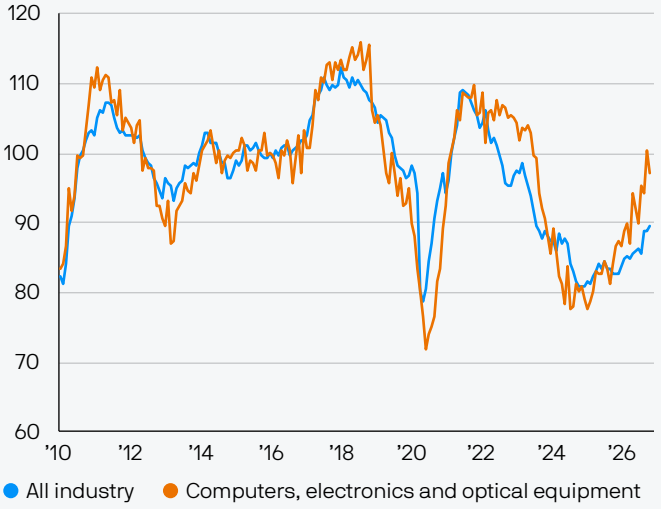


Source: LSEG Datastream, South Korean Ministry of Trade, Industry and Energy, J.P. Morgan Asset Management. Data as of 9 November 2026.

Exhibit 3: ... and also supporting European activity

German Ifo Business Situation Index

Index level



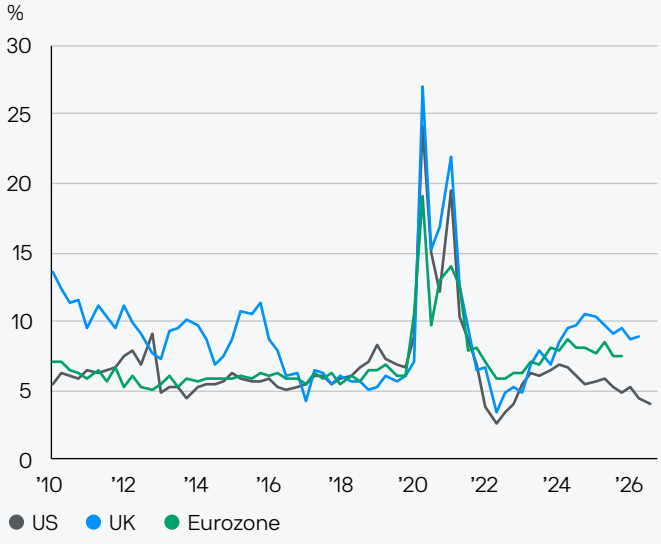
Source: Haver Analytics, Ifo Institute for Economic Research, J.P. Morgan Asset Management. The German Ifo Business Climate Index measures sentiment about the current business situation. Data as of 9 November 2026.

European consumers have also shown resilience, in part thanks to targeted government support helping to limit the hit to real household incomes. Europeans have, however, been reluctant to tap into the substantial savings accumulated in recent years. Consumer spending continues to be a key reason behind the weakness in European activity relative to the US. The outlook for energy prices therefore becomes critical for unlocking this vast war chest of savings – EUR 3 trillion by our calculations – that households across the European Union have amassed since the pandemic (see **Exhibits 4** and **5**).

Exhibit 4: Europeans are still saving more than normal...

Household net savings rates

%

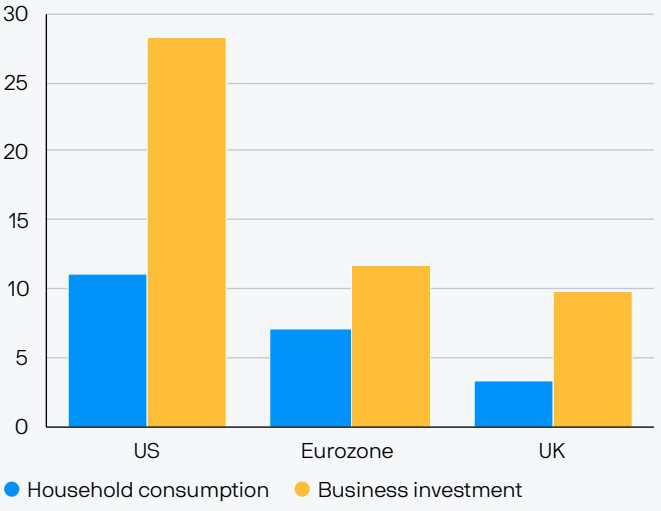


Source: BEA, Eurostat, LSEG Datastream, ONS, J.P. Morgan Asset Management. Data as of 9 November 2026.

Exhibit 5: ... which has weighed on growth relative to the US

Household consumption and business investment

% change from Q1 2022 to Q2 2026



Source: BEA, Eurostat, LSEG Datastream, ONS, J.P. Morgan Asset Management. Both measures are in real terms. Eurozone data excludes Ireland. Data as of 9 November 2026.

Energy and external shocks

The drag of higher inflation will persist as we move into the start of 2027, with inflation rates across Europe set to rise further. Refined products, particularly diesel, are a key source of this price pressure.

While the Middle East has proved adept at getting crude oil out to the world, safety risks have hampered exports of refined products. Additionally, the sharp fall in Russian exports following Ukrainian attacks on refineries has further restricted supply. Together, these disruptions have removed 30% of the seaborne diesel exports that dictate global prices. Increased US production has helped, but refinery utilisation above 90% leaves little additional spare capacity.

China, as the world's largest global refiner, represents 18% of global capacity. Most of its refined products are consumed domestically and its share of tradeable exports is much lower. It recently relaxed its March 2026 export controls and exports increased to 0.5mbd of diesel in September. If this was sustained then it would help bring diesel markets back towards balance, though China's willingness to do so at this stage is unclear.

Higher diesel prices will then likely filter into food prices, so certain components of inflation may remain sticky. But we don't see inflation prompting the need for much higher interest rates in 2027. Even without a complete political resolution in the Middle East, base effects should help headline inflation rates to start falling by the end of the first quarter. And most importantly, there is currently very little evidence that cost-of-living pressures are spreading to what would become the core of an inflation problem – wage growth.

When elevated headline inflation results in workers asking for more money, we get into the vicious cycle experienced in 2022. Costs rise for firms, so firms raise prices. But then their wage bill goes up, so firms raise prices again, and so on.

This time around wage growth remains surprisingly subdued. The reason may be that the current spending spree hasn't really shown up in job creation, leaving the jobs market, even in the US, in a 'no-hire, no-fire' state.

It's not obvious that AI is the reason. Most of the weakness we have seen in the US jobs market in recent years is in sectors that are relatively unaffected by AI, such as agriculture, mining and construction.

So long as wages remain under control – and this is a key watch item for us – central banks will not feel under huge pressure to act to stop the spending spree. We expect that policymakers will be keen to demonstrate their vigilance as headline inflation proceeds over the hump that we expect in the first quarter. However, we would characterise any action as minimal warning shots, and see the risk of a more material tightening cycle as relatively low.

Global growth outlook

Our central expectation is that global growth will remain robust in 2027, and that the signs that growth is broadening, by sector and by region, will become increasingly apparent as energy prices fade.

The risk that has us slightly more on edge as we head into 2027 is governments trying to ask the bond market for too much in a world in which the hyperscalers are also issuing debt. Politicians battling for positions in the upcoming elections in Europe will find themselves facing the difficult choice of whether to please their electorate, or their bond market.

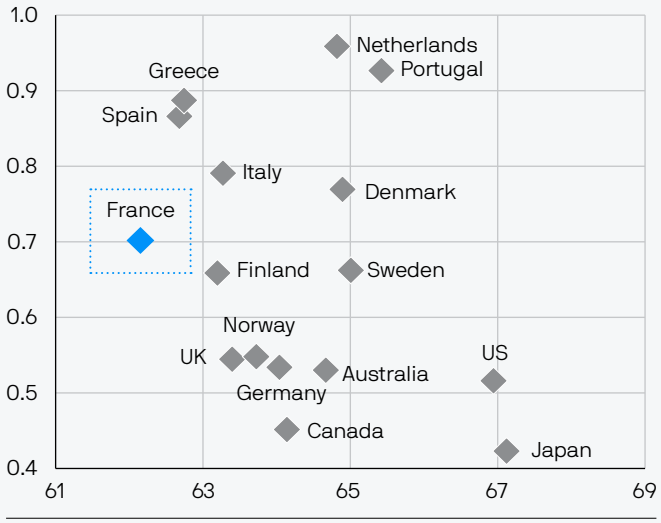
The French election takes place across April and May and, until that time, the bond market is likely to need to continue encouraging politicians to be honest about the difficult choices that will need to be made about the welfare system, and in particular, the generous retirement policies that look increasingly unaffordable (see **Exhibit 6**).

Italy will also be in focus, with the next general election due before the end of 2027 and a possible victory for the centre-left raising the risk of a shift in fiscal priorities. In Germany, the coalition's future rests on its ability to resolve internal disputes after electoral setbacks.

An early election in the UK is not our base case, but the government will face some tough fiscal choices having kicked the can down the road on major spending decisions in October's Budget. At the 2027 Spending Review the government will have to be clear about how it plans to fund defence and get the welfare bill under control to avoid the endless cycle of yet more taxation.

Exhibit 6: French workers retire earlier while receiving relatively generous pensions
Retirement age and income replacement

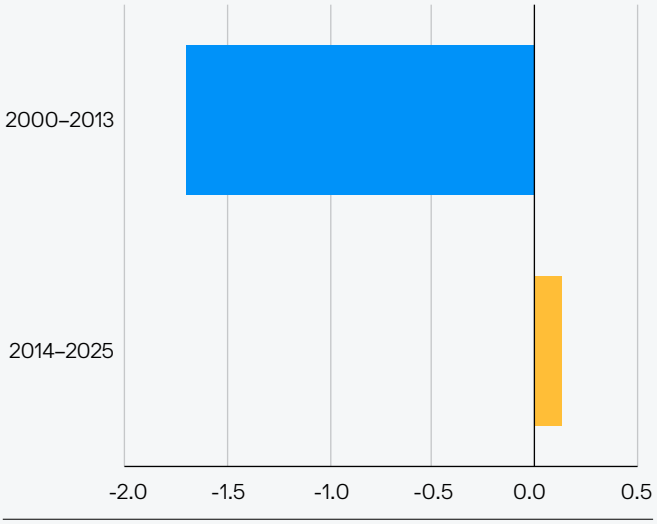
Effective retirement age (x-axis) vs. net pension replacement rate (y-axis)



Source: OECD, World Bank World Development Indicators, J.P. Morgan Asset Management. Average effective age of labour market exit is the average age at which workers aged 40 and over exit the labour force. Net replacement rate is pension entitlement, net of personal income taxes and social security contributions relative to net earnings. Data as of 9 November 2026.

Exhibit 7: Former crisis economies in Europe have transformed their fiscal positions
Primary deficit/surplus of GIIPS economies before and after the sovereign crisis

% of GDP



Source: European Central Bank, J.P. Morgan Asset Management. GIIPS countries are an equally-weighted average of Greece, Ireland, Italy, Portugal and Spain. Data as of 9 November 2026.

Fiscal risks and bond market constraints

While these events may create market volatility, we firmly believe that none of these events will be the start of a new sovereign crisis in Europe. Many European economies made the adjustments that they needed to make during the sovereign debt crisis, with primary deficits across the previously weaker peripheral countries having turned to a surplus over the last decade (see **Exhibit 7**).

Given this situation, the European Central Bank will be willing to use its toolkit to shield other countries while the conversation between the bond market, politicians and the French electorate reaches a conclusion.

We do not believe political noise will be disruptive enough to overwhelm the constructive growth backdrop. Indeed, we would go as far as to say politically driven weakness may provide a good opportunity to engage with European assets.

> In stark contrast to the decade pre-pandemic, the defining feature of the current economic cycle is a desire to spend.

Bonds look attractive as pressures ease, but be active

The good news about the outlook for 2027 is there seems lots of appetite to spend, by companies and governments. The bad news is that most of those that want to spend don't have the cash flow to do so, and are therefore turning to the bond market for financing. Bond investors find themselves in the powerful position of deciding who gets the money and at what price. This provides considerable opportunities for fixed income investors.

2026 was a supply-demand shock

The scale of issuance coming to the market in 2026 acted as a shock that drove yields higher. Multi-year investment programmes by governments and companies led to an increase in the supply of bonds, intensifying the competition for capital. This gave fixed income investors greater scope to demand higher yields for lending their capital. Notably, net bond supply as a proportion of GDP is flirting with global financial crisis highs, and unlike other periods when bond supply was high or increased rapidly, economies are currently in decent shape (see **Exhibit 8**).

The size of the upward revisions to AI capital expenditure (capex) plans and borrowing, which led to a record-breaking year for total corporate issuance in nominal terms, caught markets off guard. AI-related debt issuance is on track to amount to more than 20% of this year's USD investment grade (IG) issuance and nearly 20% of USD high yield (HY) issuance.

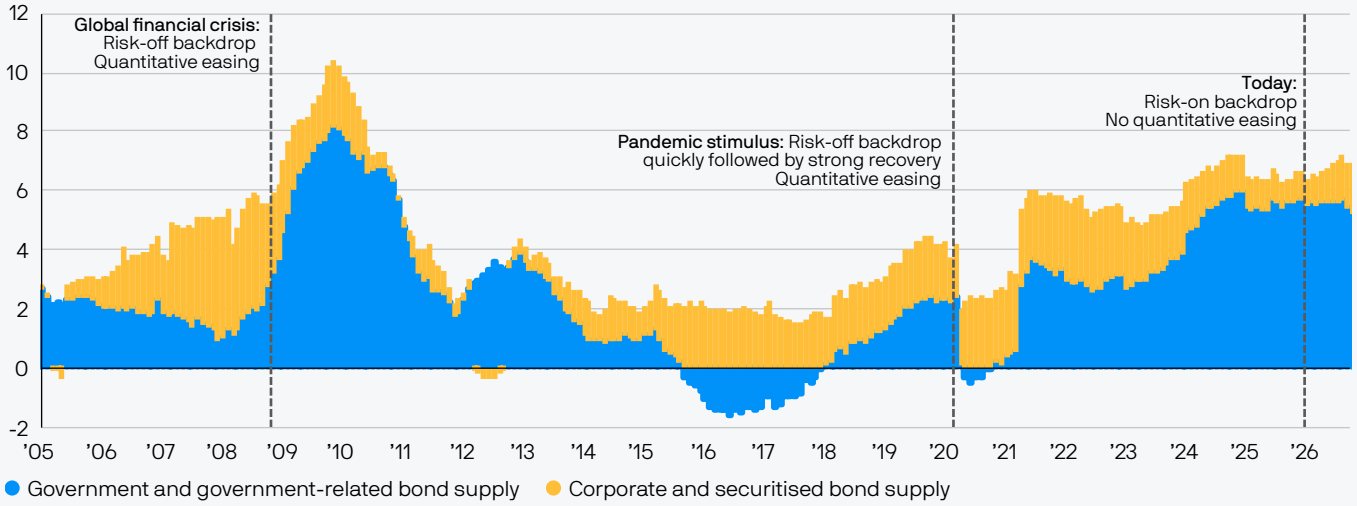
Issuers weren't helped by the surge in energy prices which prompted a major reassessment of central bank rate expectations.

All this was occurring at the same time as demand for fixed income assets was evolving, with the marginal buyer of bonds becoming increasingly price sensitive (see **Exhibit 9**). Instead of absorbing bond supply via quantitative easing, the major central banks have been shrinking their balance sheets since 2022. Regions that previously generated surplus savings, such as Asia and the eurozone, are also increasingly investing at home. That leaves less foreign demand for issuance and increases competition between borrowers, including with corporate issuers. In addition, pension fund demand for long-duration fixed income has weakened as the shift from defined-benefit to defined-contribution pensions has reduced structural hedging needs.

Exhibit 8: Multi-year investment programmes have increased the supply of bonds

Net supply of government and corporate bonds

% of GDP, trailing 12 months for the US, eurozone, Japan and the UK



Source: Bank of England, Bank of Japan, Bloomberg, European Central Bank, Federal Reserve, J.P. Morgan Asset Management. Net supply is calculated as the trailing 12-month change in bonds outstanding, adjusted for changes in central bank holdings, and expressed as a percentage of US, eurozone, Japan and UK nominal GDP. Dotted lines are the following selected dates: November 2008; March 2020; January 2026. Data as of 9 November 2026.

The set-up for fixed income in 2027 looks better

These three factors should be less of an issue in the year ahead, enabling yields to stabilise at attractive levels.

Continued competition for capital is likely to limit the downside for yields, but the pace of upward revisions to AI-related spending and borrowing is unlikely to be repeated. We have more clarity on the outlook for government issuance in the US following the Democrats' sweep of Congress and the election of new state governors. IG and HY corporate issuance are both still expected to increase, but we believe that issuers' supply plans are now better understood.

We also assume that the pressure from higher energy prices, and the inflation concern this generates, will continue to ease. We therefore expect Western central banks to raise rates only modestly further and the risk of a more extended tightening cycle to abate.

Finally, treasuries, debt management offices and central banks have all become increasingly mindful of longer-dated bond supply and the role they can play in stabilising yields. Several major central banks are gradually slowing the pace of quantitative tightening (the Federal Reserve (Fed) ended it completely in late 2025). Governments are also continuing to tilt issuance towards shorter-term debt, to alleviate the supply burden on the long-dated part of the yield curve.

Treasuries, Bunds, peripheral debt and corporates favoured

US Treasuries are high on our preferred list within fixed income. The US fiscal position looks troubling, with the budget deficit expected to hover around 8% of GDP in the coming years, according to the International Monetary Fund. In 2027, the midterm 'blue wave' will act as a fiscal brake, Fed credibility concerns have largely faded and the low-hire, low-fire US jobs market should prevent the Fed from hiking more than markets are currently pricing. When the time does come for fiscal consolidation, US government revenues as a share of GDP are the lowest in the G7.

In the eurozone, we believe that Bunds look attractive across the curve and that peripheral European countries have been unfairly penalised during the latest period of French concerns.

Exhibit 9: A larger share of domestic holders of government debt is price sensitive

Domestic holders of government bonds by cohort

% of total domestic investors' holdings for the US, eurozone and Japan

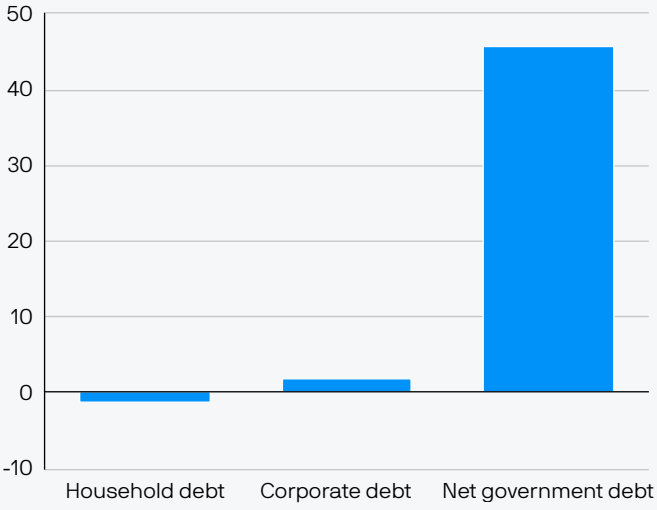


Source: Bank of Japan, European Central Bank, Federal Reserve, OECD, J.P. Morgan Asset Management. Government debt refers to general government borrowing. Policy- and liability-driven investors include central banks, insurance companies and pension funds. Price-sensitive investors include all other investor types. Data as of 9 November 2026.

Exhibit 10: The debt 'problem' lies with governments, not corporates or households

G7 household, corporate and government debt

% points, change in debt-to-nominal-GDP ratios, 2001 versus 2025



Source: IMF World Economic Outlook, LSEG Datastream, J.P. Morgan Asset Management. Data as of 9 November 2026.

The UK administration also stayed within its spending limits in its October Budget. The 2027 Spending Review will be closely watched, leaving longer-dated Gilts exposed for now. The front end of the UK curve looks more attractive, with market expectations for rate hikes appearing too high given the softer labour market.

Meanwhile, the IG and HY corporate credit markets are in healthy shape, given the robust macroeconomic backdrop and solid underlying fundamentals. After the autumn sell-off, IG and HY credit offer better carry, with the all-in yield likely to continue to attract investor demand. It's worth remembering, as **Exhibit 10** shows, the recent ramp up in debt is a government issue, not a corporate or household sector issue.

'Problem spenders' and the need to be active

The days of bond markets acting as an open chequebook are nevertheless over. Who is spending responsibly (and who isn't) matters, leading to greater return dispersion across fixed income. Bond volatility and 'speed bumps' in the spending story are thus likely to persist in the year ahead.

Governments with large welfare states will be in the spotlight, particularly around election periods when politicians have to face the difficult choice of whether to please their electorate, or the bond market.

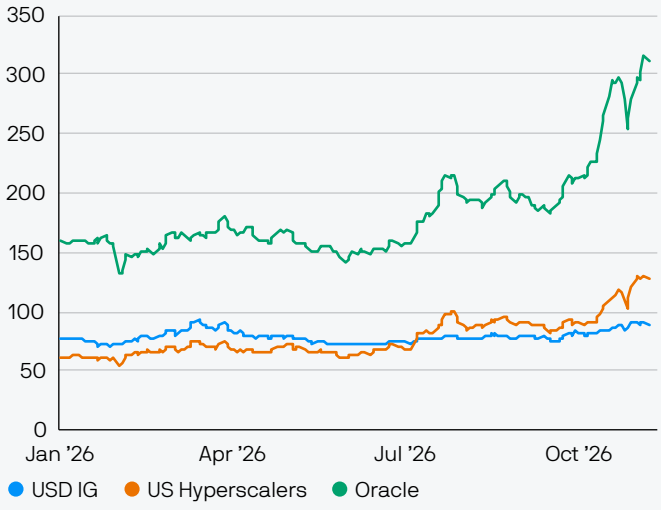
Attention will likely remain on France until the Spring elections, though a lot of concern is already in the price. French 10-year spreads over Bunds have widened to their highest level since 2011, driven by a combination of higher yields globally, and a low likelihood of reducing the 2027 budget deficit to the proposed 5% target.

AI-related corporate borrowers will also continue to face increased scrutiny from the bond market. US hyperscalers' fundamentals are in good overall condition, with relatively low net leverage and high interest coverage ratios. The ramp-up in issuance has caused their spreads to widen relative to the broader IG benchmark, but only modestly, without materially impacting funding costs. Aggregate free cash flow has nevertheless turned negative, and consensus expects it may remain so until at least 2028. If that timeline is pushed further out, the bond market may penalise these behemoths.

Exhibit 11: Bond markets are scrutinising the AI data centre build-out in IG credit...

Investment grade credit spreads

Basis points, option-adjusted spread (OAS)

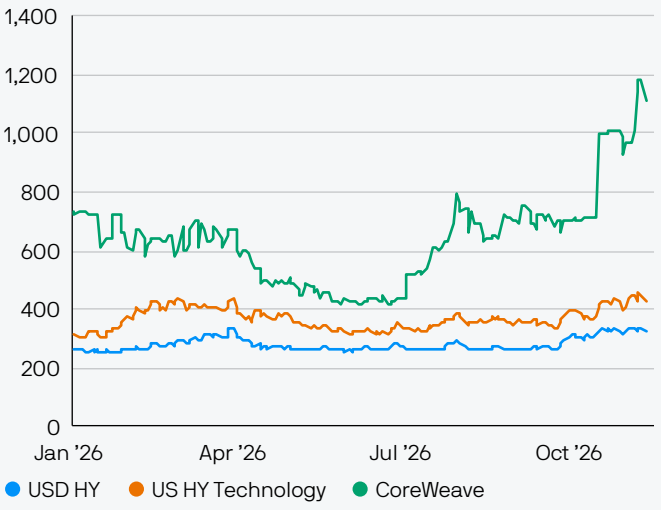


Source: Bloomberg, LSEG Datastream, J.P. Morgan Asset Management. USD IG is the Bloomberg USD benchmark. US hyperscalers are an equal-weighted average of Alphabet, Amazon, Meta, Microsoft and Oracle. The Oracle series chosen has approximately the same duration as the wider IG index. Past performance is not a reliable indicator of current and future results. Data as of 9 November 2026.

Exhibit 12: ...and similarly in high yield markets

High yield credit spreads

Basis points, option-adjusted spread (OAS)



Source: Bloomberg, LSEG Datastream, J.P. Morgan Asset Management. 'USD HY' and 'USD HY Technology' are Bloomberg USD benchmarks. The CoreWeave series chosen has approximately the same duration as the wider HY indices. Past performance is not a reliable indicator of current and future results. Data as of 9 November 2026.

Pockets of stress have also emerged in weaker parts of credit, too. Segments of EUR HY credit have been hurt by the French political fallout, while CCC-rated bond benchmarks (the riskiest segment of HY) have recorded their widest spreads since 2020 in both euros and US dollars, driven by idiosyncratic factors.

Mega-cap hyperscaler issuance has raised the bar for other AI builders seeking to borrow. US 'neocloud' companies look most exposed, given their narrower business lines and less robust balance sheets.[1] CoreWeave is one example, where recent volatility illustrates how fragile the neocloud model can be to rising funding costs or upward revisions to the expected cost of build-out (see **Exhibits 11** and **12**). Greater difficulty in making a return on data centre investments may constrain the pace of the AI build-out beyond the hyperscalers.

Bond almighty

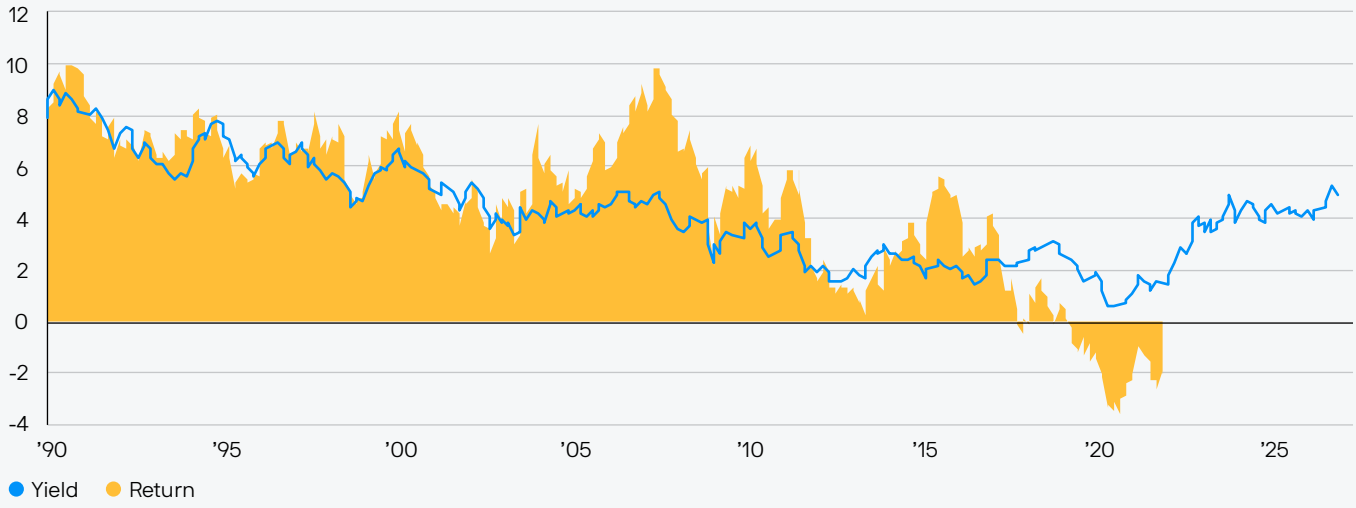
This investment cycle will continue as fast as the bond market allows. Bond investors find themselves in the powerful position of being the ultimate allocator of capital, distinguishing between productive and unproductive projects. We expect strong spending to continue in 2027, though pockets of stress are likely to feature along this journey. This should favour investors able to allocate actively across fixed income.

While bond volatility looks set to remain elevated, investors must not lose sight of the bigger picture. Bonds offer two key characteristics to investors: compelling income, and diversification if growth disappoints. History suggests that the current starting yield is indeed consistent with strong forward returns (see **Exhibit 13**), and we believe that government bonds can still play their diversifying role in a multi-asset portfolio. What's more, the rally in high-quality bonds during this autumn's technology crunch clearly demonstrated their role as portfolio protection. In 2027, given the potential for ongoing volatility in technology, high-quality fixed income remains one of the primary sources of portfolio protection.

Exhibit 13: Higher starting yields support forward returns

US 10-year Treasury yields and five-year forward annualised returns

%, yield and annualised total return



Source: LSEG Datastream, J.P. Morgan Asset Management. Past performance is not a reliable indicator of current and future results. Data as of 9 November 2026.

[1] Neocloud companies buy large quantities of graphics processing units (GPUs) and rent out computing capacity for AI training and inference (think of GPU-as-a-service).

Tech exposure must be managed as AI enters a critical phase

With AI-related stocks making up around 50% of US and emerging market (EM) benchmarks today, it is impossible to form a view on global equities without taking a view on AI. The tech sector has generated half of 2026's global earnings growth and drove almost three quarters of global equity returns in the first 10 months of the year.

2027 looks set to be a pivotal period. The 'build' phase of the AI rollout has already seen many companies bank incredible gains, with eye-watering levels of investment from a small number of US hyperscalers generating incredible profits for the providers of technology inputs. As we now enter a period where markets focus less on the build-out, and more on the rollout, the opportunity set is evolving. We will start to have a clearer picture on the return ahead for all this capital expenditure (capex), and the relative winners and losers in the space. The path ahead is still likely to be up, but may be bumpier.

AI stocks

Ultimately, the destiny of all parts of the AI value chain ties back to two key questions. The most important issue for the broad ecosystem is whether corporates and consumers are willing to pay for new technologies. At a more granular level, the question is which companies will be able to deliver the category-killer products that result in the widest moats, in turn supporting sustainably stronger margins than their peers.

> **As we now enter a period where markets focus less on the build-out, and more on the rollout, the opportunity set is evolving.**

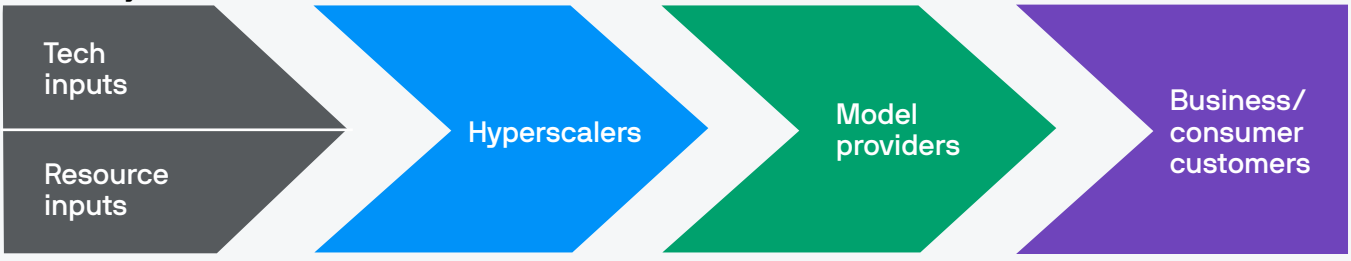
To address these questions, we find it helpful to break down the AI ecosystem into several groups (**Exhibit 14**). *Tech inputs* are involved in designing and building the chips, *resource inputs* provide energy and other critical resources, the *hyperscalers* buy those inputs as part of building AI infrastructure, and the *model providers* then rely on this infrastructure to train and run large language models. Finally, there are the customers, whether businesses or consumers, whose payments ultimately need to be sufficient to feed the entire value chain.

If the hyperscalers build it, will the customers come?

In recent years, five US hyperscalers – Alphabet, Amazon, Meta, Microsoft and Oracle – have greased the wheels for all parts of the AI ecosystem, providing an incredible revenue stream for the providers of tech inputs as part of data centre build-outs while also making huge investments in the AI model providers. Yet the bill for that spending is now starting to bite, with free cash flow turning negative and companies increasingly tapping the debt market for funding.

Exhibit 14: There are many dependencies across the AI value chain

The AI ecosystem



Source: J.P. Morgan Asset Management, as of 9 November 2026.

The challenge is that for every additional dollar of capex, the revenues required to generate a positive return on investment rise too. Expectations for 2027 capex have risen by an incredible USD 499 billion for the same five US hyperscalers since January 2026 (see **Exhibit 15**). So far, bond investors have shown that they are broadly willing to shoulder the burden, although the recent pressure on the valuations of the smaller US 'neocloud' providers highlights that the bond market is becoming more discerning, as we discuss in Bonds look attractive as pressures ease, but be active.

Data centre build-out

The strong performance from the Democrats at November's midterms has raised fears that data centre build-out will now face major opposition in the form of new regulation, or even an outright pause. In our view, the election result may limit further upside to capex plans but it is unlikely to lead to major downgrades. Data centre build-out will have to be done more thoughtfully, and with potentially greater costs associated, but politicians will ultimately have to balance their campaign promises with the revenues and jobs that are created by housing data centres.

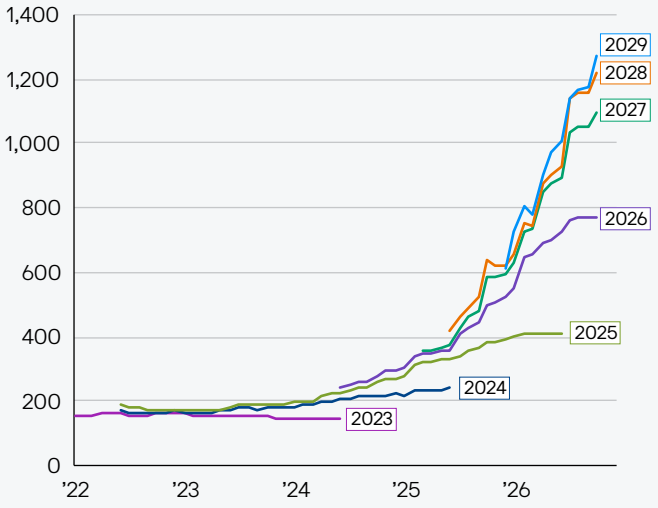
While some stabilisation in capex plans may be welcomed by hyperscaler shareholders, it would have the opposite impact on the providers of tech inputs for which the hyperscalers are the key customers. Investors are already wise to the fact that this year's earnings boom across semiconductor and memory stocks cannot continue indefinitely, as evidenced by the sharp decline in valuations. Yet 2027 consensus forecasts still anticipate earnings growth of 78% and 46% for US semiconductors and Korean tech names, respectively. Any reduction in future capex expectations would likely lead to earnings downgrades.

New entrants to the sector should also be monitored carefully. The key reason that semiconductor and hardware companies have been able to deliver such strong margins is that they generally operate in an oligopoly. Take Samsung and SK Hynix as an example: the pair are estimated to account for 80% of the high-bandwidth memory (HBM) market and together represent close to 60% of MSCI Korea. When a Chinese rival memory maker made a technological breakthrough in October, the sharp falls in Samsung and SK Hynix share prices demonstrated how quickly the market's perception of company 'moats' can shift. In highly concentrated markets, these shifts can lead to extreme volatility at the index level (see **Exhibit 16**).

Exhibit 15: Capex estimates have been revised sharply higher

Hyperscaler capex estimates by year

USD billions

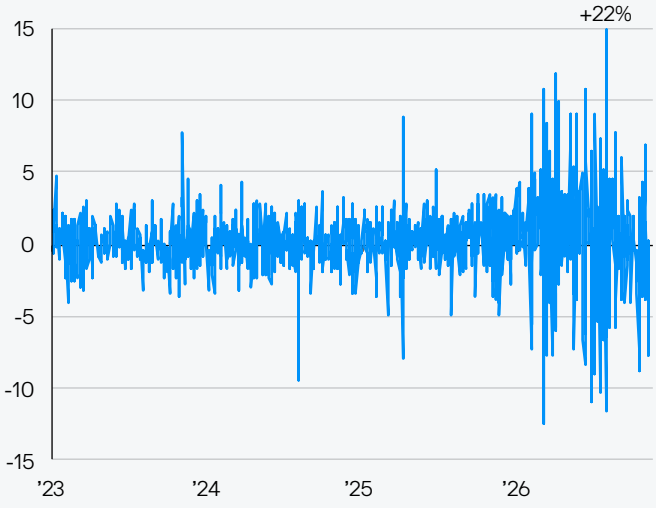


Source: FactSet, J.P. Morgan Asset Management. Hyperscaler capex includes Alphabet, Amazon, Meta, Microsoft and Oracle. Data as of 9 November 2026.

Exhibit 16: Korean equities have seen many sharp swings in 2026

Daily returns in MSCI Korea

%



Source: LSEG Datastream, MSCI, J.P. Morgan Asset Management. Total returns are shown in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 9 November 2026.

> While each part of the AI value chain faces different challenges, the key factor connecting all AI-related companies is the rate of economy-wide adoption.

Token volumes and AI adoption

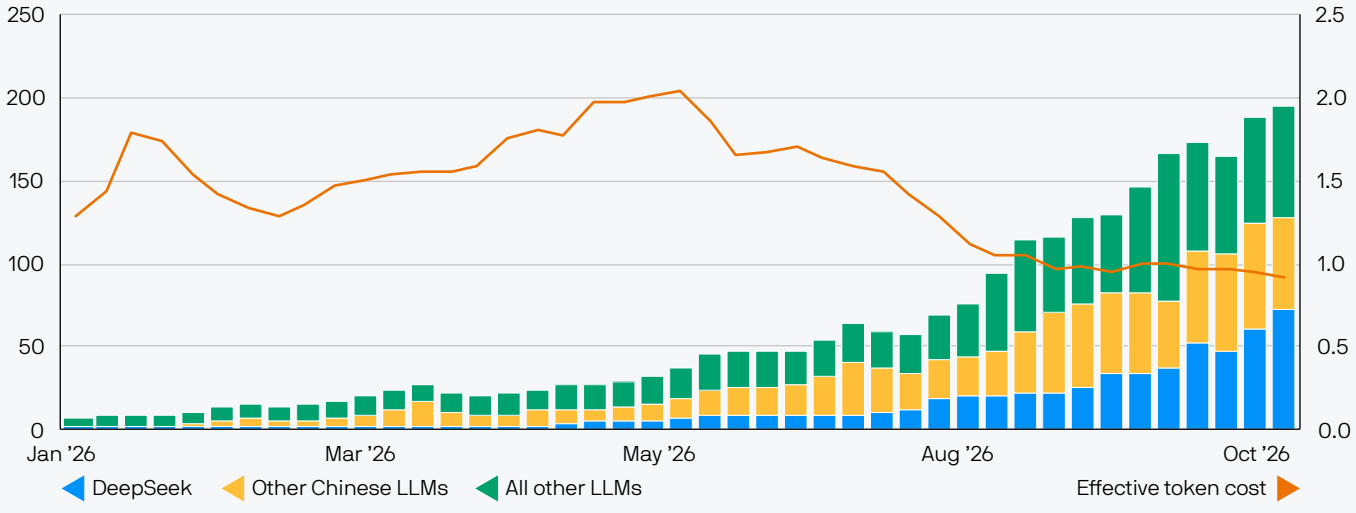
It is not only memory makers that face rising competition from China. While the most popular US large language model providers, OpenAI and Anthropic, are still seeing steady growth, the arrival of cheaper or more efficient models (many of which are from China) has led to a huge increase in competition and an associated decline in corporate spend per AI token (see **Exhibit 17**). With chief financial officers (CFOs) increasingly cognisant of the rising bills associated with soaring token volumes, price is becoming a bigger factor when choosing the AI tool for the job.

Of course, it is quite plausible that there will ultimately be room for multiple model providers across different tiers, just as neither the Ferrari nor the Ford Fiesta dominates today's roads. The challenge from an investment perspective, however, is twofold. First, if today's largest players are ultimately going to have to accept a smaller share of corporate spend, it's not clear that they will need all the computing capacity that they have already committed to, with downstream implications for the rest of the supply chain. Second, given the current ease with which companies can redirect their queries to different models, the risk of being leapfrogged by a competitor's model release reduces the visibility of future earnings.

Tech exposure requires careful management

While each part of the AI value chain faces different challenges, the key factor connecting all AI-related companies is the rate of economy-wide adoption. Ultimately, if demand for AI from individuals and businesses disappoints, all parts of the ecosystem could be hit. Our base case for 2027 remains positive, with adoption metrics on the rise and corporate spend accelerating. Forecasts of end-state adoption remain highly speculative, but with penetration rates still low, companies still getting to grips with a variety of use cases, and agentic AI gaining momentum, we struggle to see why adoption would decline significantly over the coming quarters without a shock to the economy.

Exhibit 17: Token prices have been falling while volumes are booming
LLM token usage by provider and AI user token costs
Trillions, weekly token usage by model (LHS); USD per million LLM tokens (RHS)



Source: Bloomberg, OpenRouter, Silicon Data, J.P. Morgan Asset Management. AI user token costs are represented by the LLM Token Expenditure Index, which measures the effective cost of tokens for large-language-model users. Weekly token usage by model is taken from OpenRouter's platform (openrouter.ai/rankings) and is not a comprehensive measure. LLM is large language model. Data as of 9 November 2026.

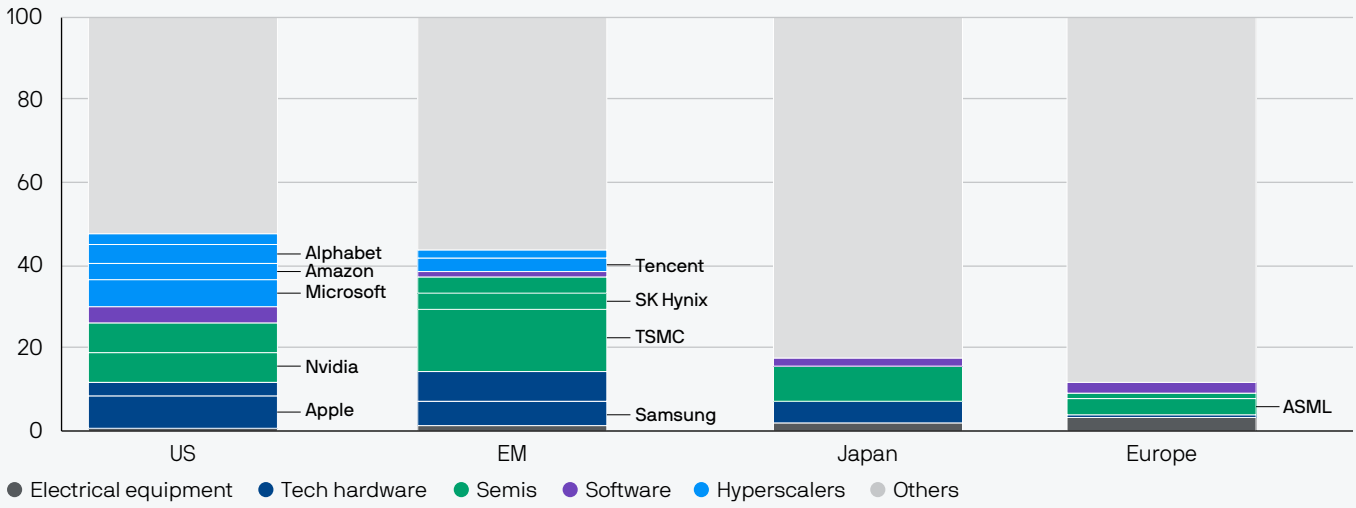
We therefore remain constructive on the ability of AI spending to drive further gains across equity markets in 2027. Yet with several major equity benchmarks exhibiting incredibly high levels of AI-related concentration, there are three key actions for investors to consider.

First, investors must manage single-stock risk very carefully. **Exhibit 18** highlights how several major equity benchmarks allocate substantial index weights to individual companies whose prospects are closely tied to the AI build-out. Passive investors are therefore banking on tomorrow's leaders being the same as today's, when perhaps the most important lesson of the dot-com boom and bust is that the ultimate winners of big investment cycles can take a very long time to emerge.

Exhibit 18: Index concentration is both a single stock and a sector issue

Equity index exposure to AI-related industries and stocks

%, index weight with company labels for all stocks >3%



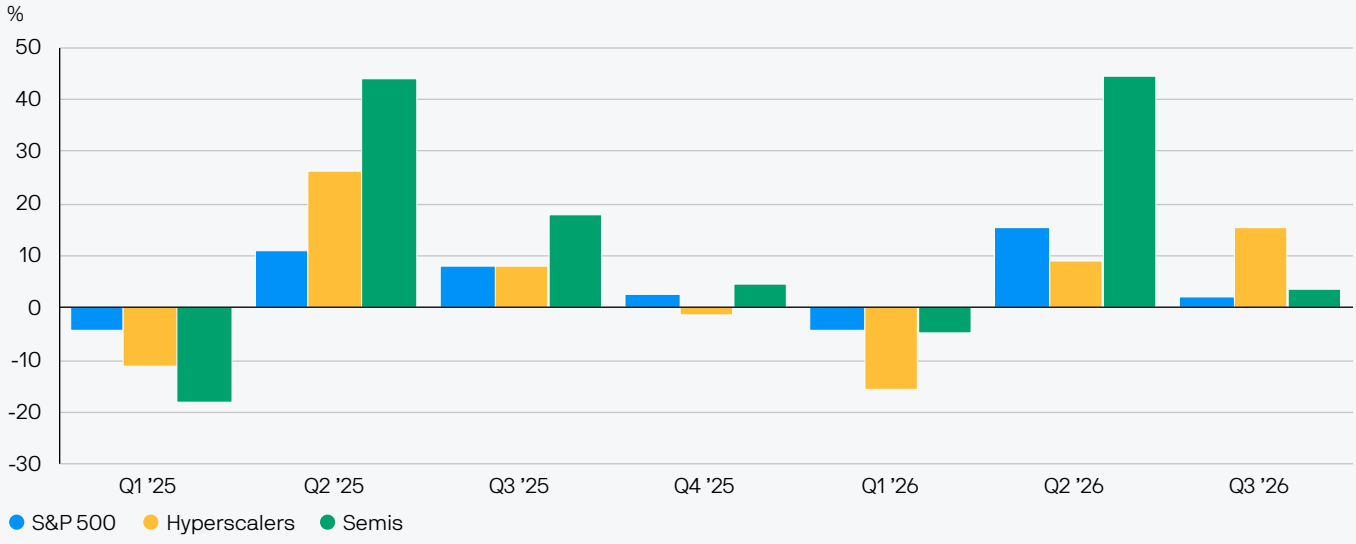
Source: LSEG Datastream, MSCI, S&P Global, J.P. Morgan Asset Management. MSCI indices are used for EM, Europe and Japan, US: S&P 500. US hyperscalers include Alphabet, Amazon, Meta, Microsoft and Oracle. EM hyperscalers include Alibaba and Tencent. The US software weight is adjusted to exclude Microsoft and Oracle given they are counted as hyperscalers. Data as of 9 November 2026.

Second, given ongoing uncertainty about where company moats will be strongest, diversification across the different parts of the AI value chain is also critical. Volatility across the various tech subsectors has risen sharply in 2026, and we expect this to remain a feature of this trickier phase of AI's expansion (**Exhibit 19**). One implication is that the more diversified mix of AI companies in US benchmarks is relatively appealing compared with the narrower, hardware-focused exposure in emerging markets, although we recognise that EM valuations already embed a lot of 'bad news' in the price.

Finally, investors must assess whether their portfolios' overall exposure to AI is consistent with both their long-term goals and their ability to stomach short-term volatility. Given today's concentrated markets, a passive global equity allocation likely has close to 50% of assets in companies directly related to AI, before we even consider AI's influence in areas such as energy, materials and industrials. Fortunately, we see ample opportunities for diversification in some of the less-loved regions around the world, as we turn to next in European stocks can take advantage of AI adoption and diversify risk.

Exhibit 19: Higher volatility is a feature of this more difficult phase of the AI build-out

Quarterly returns of AI subsectors



Source: LSEG Datastream, S&P Global, J.P. Morgan Asset Management. Hyperscalers include Alphabet, Amazon, Meta, Microsoft and Oracle. Semis are represented by the S&P 500 Semiconductor subsector. Total returns are shown in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 9 November 2026.

European stocks can take advantage of AI adoption and diversify risk

We are moving to the more exciting – but also more difficult – stage of the AI rollout where tech companies will have to demonstrate the return on their enormous amounts of capital expenditure (capex). Our central expectation is that this proceeds without any major market disruption. Yet whether or not that turns out to be correct, investors should be looking to ensure they have sufficient non-tech exposure.

The next tech trade

Technological revolutions eventually shift from the question of who builds it, to who uses it best. Printing enabled publishing and mass commerce; railways expanded retailers' distribution; electricity lifted factory productivity; and the mobile internet enabled businesses such as Uber. Adopters unlocked opportunities using infrastructure they had not funded.

We expect AI to follow a similar path. Timing the shift is difficult: AI creators are generating substantial profits today, while adopters are investing heavily but are yet to see productivity gains feeding into much stronger profits. The outlook for the creators and enablers of AI remains positive, but we expect investors increasingly to reward the companies that can translate AI adoption into higher margins and revenues, shifting the focus from the AI builders to the companies that use it most effectively.

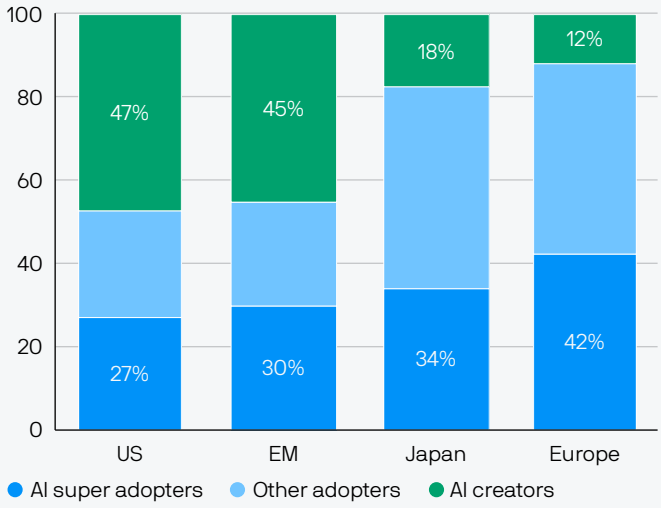
Europe as a source of diversification

We believe the market underestimates the fact that Europe's sector composition gives it a natural edge as AI shifts from creation to adoption. As **Exhibit 20** shows, European equities are overwhelmingly exposed to AI adopters rather than creators, making Europe particularly leveraged to the next phase of the AI cycle. This matters in a region characterised by high labour

Exhibit 20: European stocks are far more heavily concentrated in AI adopters than creators[2]

Equity index exposure to AI

%, index weight

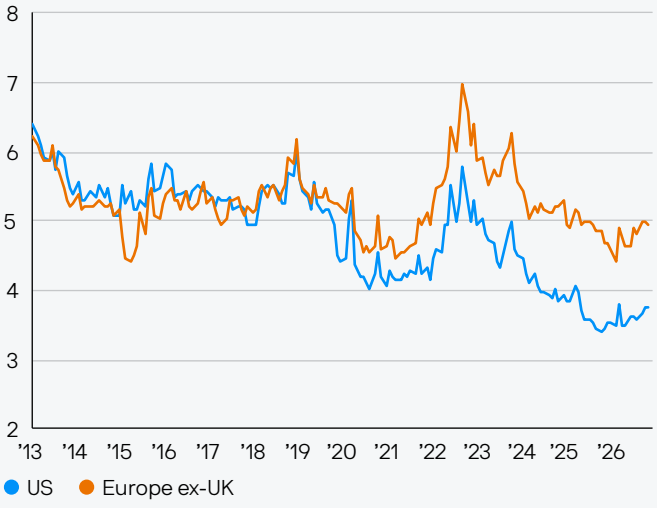


Source: LSEG Datastream, MSCI, S&P Global, J.P. Morgan Asset Management. MSCI indices are used for EM, Europe and Japan, US: S&P 500. AI creators include Hyperscalers (Alphabet, Amazon, Meta, Microsoft and Oracle in the US; Alibaba and Tencent in EM), Semis, Tech hardware, Software and Electrical equipment. AI super adopters are the top four sectors with the highest AI usage score in each region (minus any potential duplication from the AI creator bucket). US, Japan, EM: Financials, Comm. Services, Healthcare, Real Estate; Europe is the same but with Tech replacing Real Estate. Data as of 9 November 2026.

Exhibit 21: Europe trades at a historic discount to the US based on free cash flow yields

Free cash flow yields

%, based on 12-month forward free cash flow



Source: Bloomberg, MSCI, S&P Global, J.P. Morgan Asset Management. US: S&P 500, Europe ex-UK: MSCI Europe ex-UK. Past performance is not a reliable indicator of current and future results. Data as of 9 November 2026.

[2] To construct this measure, we started with the International Labour Organization's AI exposure scores for hundreds of occupations. Using occupational employment shares from Eurostat's Nomenclature of Economic Activities (NACE) database, we calculated industry-level scores and mapped them to 60 equity market subsectors. We then weighted these subsector scores by market capitalisation to calculate a score for each of the 11 Global Industry Classification Standard (GICS) sectors. We classify the four highest-scoring sectors as AI 'super adopters'.

costs and sluggish productivity growth, where AI can lower costs through automation and raise industrial productivity through increasingly automated manufacturing processes. Our analysis identifies financials, communication services, healthcare and real estate as potential key beneficiaries of AI adoption, as they rank highest on our AI exposure measure.

Investors must assess whether their portfolios' overall exposure to AI is consistent with both their long-term goals and their ability to stomach short-term volatility.

Indeed, while European performance has suffered from not being part of the build-out boom, being a 'free-rider' and having the resilient free cash flow yield as a result becomes a significant net positive for the region (see **Exhibit 21**). Of course, this does leave Europe vulnerable to not being given ongoing rights to use the technologies. However, we see this as a small risk given that global companies will be keen to monetise their investments by finding customers across the globe.

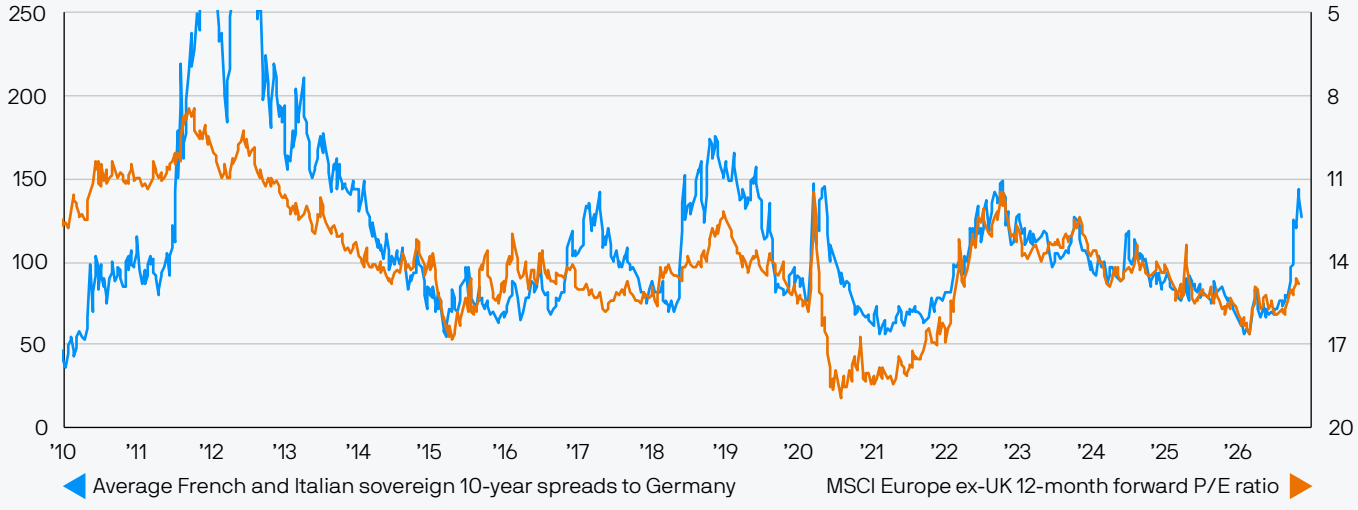
In 2027, energy and political headwinds will fade

After a strong year of performance in 2025, 2026 proved a little trickier for European equities as the energy crisis and rising sovereign stress weighed on investor sentiment.

Despite robust macro indicators, German equities struggled with higher gas prices weighing on energy-intensive industries such as chemicals and autos, which account for a substantial share of the benchmark. Higher energy prices and interest rates have also weighed on indices with significant consumer exposure, such as the CAC 40 in France. Yet sector composition explains only around half of French equities' underperformance; the remainder reflects France-specific fiscal and political risks. French banks illustrate this divergence: while eurozone banks were up more than 9% in the first 10 months of 2026, French banks were up just 3% over the same period.

Near-term volatility is likely to persist. Protracted negotiations towards a diplomatic agreement in the Middle East and a 2027 political calendar that constrains the fiscal adjustment that bond investors demand could push yields and sovereign spreads towards their upper limits. **Exhibit 22** shows the close relationship between European equity valuations and sovereign spreads. Further weakness would represent an opportunity to add exposure, in our view. We expect sovereign spreads to tighten once major elections are behind us, and yields to ease as oil prices fall.

Exhibit 22: Wider peripheral spreads are weighing on European equity multiples
European government bond spreads and European equity valuations
Basis points (LHS); x, 12-month forward P/E ratio (RHS, inverted)



Source: LSEG Datastream, MSCI, J.P. Morgan Asset Management. P/E is price to earnings. Past performance is not a reliable indicator of current and future results. Data as of 9 November 2026.

As these headwinds fade, the focus could quickly return to the positive factors underpinning European performance such as the German fiscal stimulus underway. Indeed, it is worth noting that despite 2026's challenges, Europe ex-UK equities have outperformed other regions by a wide margin when measured by the median company, highlighting the breadth of performance beyond a handful of index heavyweights (see **Exhibit 23**). Fundamentally, we see opportunities in areas less directly tied to the AI investment cycle, including banks, defence, renewables, infrastructure and industrials, all of which fit well with Europe's self-sufficiency push to support strategic sectors. Germany's substantial fiscal expansion is a key part of this story and provides an additional catalyst, with manufacturing orders and activity picking up.

Being active will remain important in the region since European equities show wide performance dispersion and low pairwise correlations. Unlike in the US, this dispersion reflects company-specific drivers more than macro forces. US returns are more influenced by sector and factor rotations, including shifts in momentum strategies and between hyperscalers and semiconductors. Europe therefore offers greater scope for stock selection based on fundamentals, rather than factor positioning.

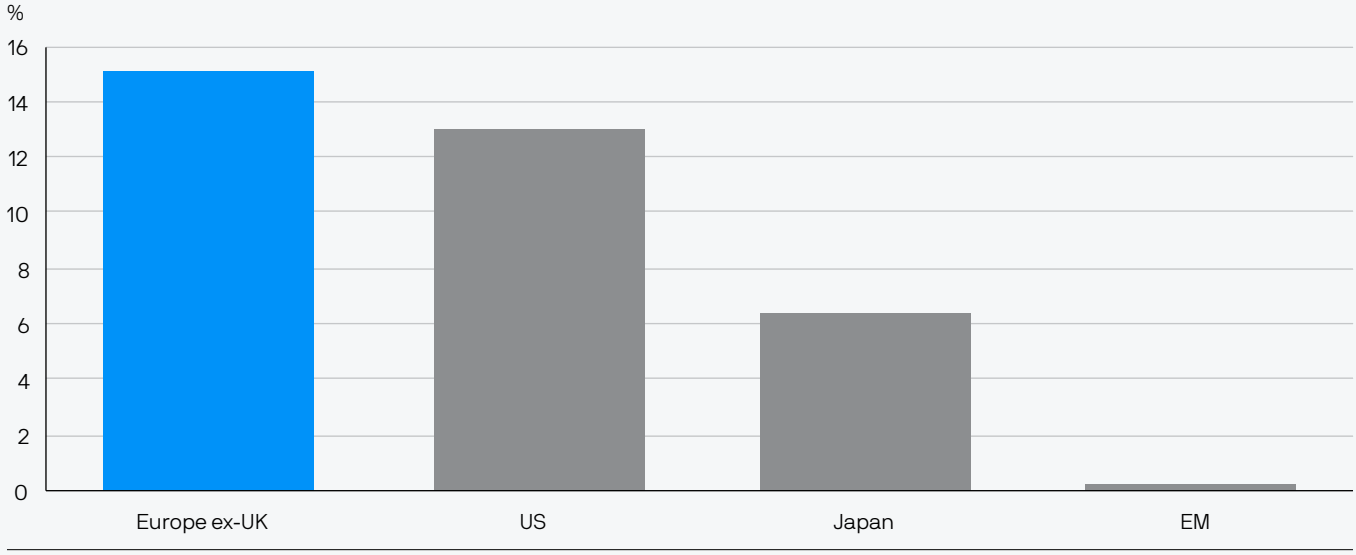
What about the UK and Japan?

The lower energy prices and bond yields we expect over the next 12 months may pose relative headwinds for the value-oriented, defensive FTSE 100. Its limited technology exposure and modest access to eurozone fiscal stimulus also constrain earnings growth. In fact, the 2027 EPS growth estimate for the FTSE 100 has halved over the course of this year, to just over 5%. Conversely, the Europe ex-UK 2027 EPS growth estimate has held steady and is more than double that of the FTSE 100, while the S&P 500 equivalent has drifted higher to 18%. Progress towards UK access to the EU single market could support UK valuations, but politically we still seem some way from that being probable.

We remain constructive on Japan's improving macroeconomic outlook and corporate reforms. Japan has sustainably shrugged off deflation or 'lowflation' and Japanese households are shifting some of their cash deposits into equities. Cash-rich corporates are deploying their cash into buybacks, dividends and investments. Profitability metrics are improving, such as return on equity, and earnings momentum is good too, both for technology companies as well as other industries. What keeps us hesitant is the value of the yen which we perceive to be unsustainably weak. As interest rate expectations get pared back in the West while the Bank of Japan feels under pressure to keep normalising, we would expect this to weigh on companies in the Tokyo Stock Price Index (TOPIX), which earn about 40% of their revenues abroad.

Exhibit 23: The median stock has performed best in Europe

Total return year to date in local currency for the median stock



Source: LSEG Datastream, MSCI, S&P Global, Tokyo Stock Exchange, J.P. Morgan Asset Management. Europe ex-UK and EM are MSCI indices. Japan: TOPIX, US: S&P 500. Past performance is not a reliable indicator of current and future results. Data as of 9 November 2026.

Strong growth but elevated interest rates split the fortunes for alternatives

Our macro backdrop creates mixed fortunes as we turn our attention towards the alternatives universe. Spending on AI, energy security and defence should benefit infrastructure, specialist private credit and smaller, private equity-backed companies. At the same time, higher demand for capital and the resulting higher interest rates create challenges for the parts of the market most reliant on leverage, such as highly leveraged buyouts and lower-quality real estate.

The beneficiaries of the spending boom

Infrastructure should remain a clear beneficiary of higher spending, with AI-related data centre build-out driving major investment in power generation and networks.

In the US, electricity demand is expected to grow by around 2% in 2027, marking the fourth consecutive year of growth and the strongest four-year increase since 2000. Utilities are responding by investing more: S&P Global Market Intelligence expects capital expenditure (capex) to reach a record USD 276 billion in the year ahead.

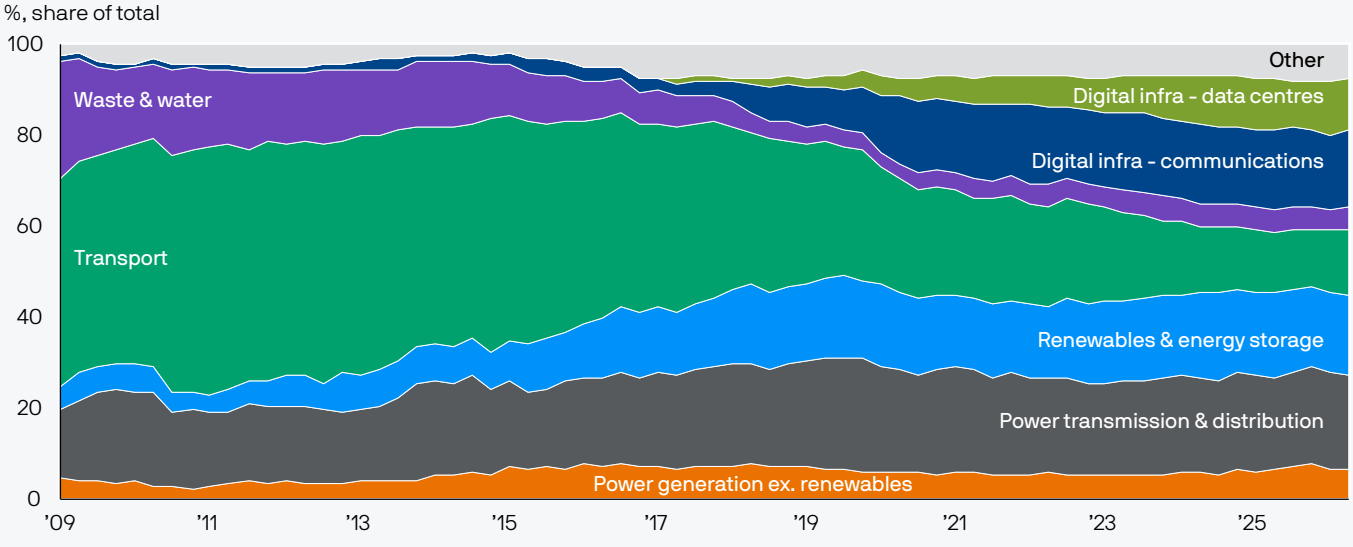
Europe faces similar dynamics. Alongside growing electricity demand from AI, energy security, renewable generation and electrification are increasing the need to expand and modernise the grid. The Agency for the Cooperation of Energy Regulators expects annual investment in European electricity distribution networks to reach €47 billion in 2027, 32% above 2024.

Infrastructure as a source of resilience

The growing importance of digital and energy infrastructure is already reshaping the private infrastructure market. Power, energy and digital infrastructure have accounted for an average of 70% of MSCI's Global Private Infrastructure Index by enterprise value since 2020, up from 37% between 2008 and 2019 (**Exhibit 24**). As their share has increased, so has their contribution to returns, helping private infrastructure remain resilient over the past three years. Power generation has been particularly strong, delivering annualised returns of almost 40% over the past year.

In 2027, we expect AI investment to remain supportive of data centre returns and electricity demand across utilities, independent generators and networks. Long-term supply contracts with large technology companies can make income more predictable and help finance new generation. In addition, grid investment expands the regulated asset base on which network operators earn an allowed return. Opportunities are clearest where demand exceeds supply, and contracts or regulated returns support investment.

Exhibit 24: Power, energy and digital infrastructure now account for a larger share of the index
MSCI Global Private Infrastructure Asset Index sector weights



Source: MSCI, J.P. Morgan Asset Management. Sector weights are sourced from the MSCI Global Quarterly Private Infrastructure Asset Index and represent each sector's share of total equity value. Data as of 9 November 2026.

Opportunities in private equity and credit

Beyond infrastructure, venture capital and private equity allow investors to back businesses developing AI tools as well as those using them to improve productivity.

Many leading AI developers, including OpenAI and Anthropic, have chosen to scale in private markets, with IPO plans only activated after multiple rounds of private financing. Alongside these model providers, start-ups are building applications that put AI to work for businesses. According to Menlo Ventures, businesses spent USD 19 billion on AI applications in 2025, with start-ups capturing a growing share of this market. This growing demand should support venture capital-backed start-ups in 2027.

Smaller, private equity-backed companies have plenty of room to benefit from rising AI adoption. In 2026, only a quarter of the smallest US companies used AI, compared with 44% of larger firms. The gap was even wider in Europe in 2025, at 17% versus 55% (**Exhibit 25**). This leaves scope for smaller businesses to adopt AI more widely, improving productivity and strengthening earnings growth.

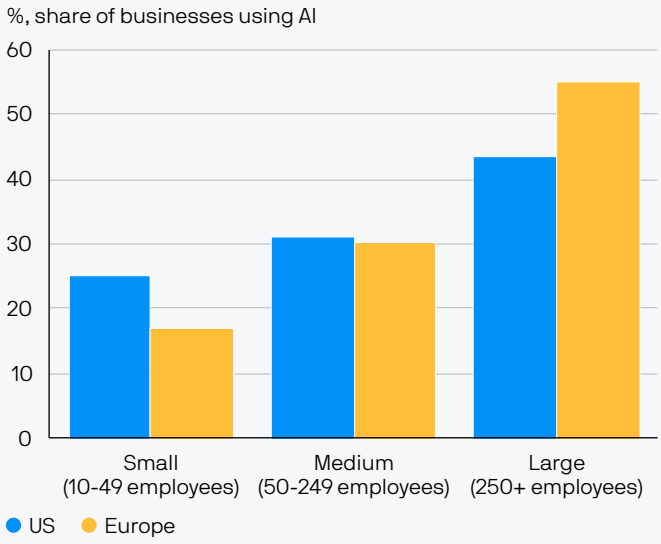
Successful adoption should allow smaller companies to build on their historical earnings growth advantage over larger peers (**Exhibit 26**). For investors, that potential growth advantage is complemented by typically lower debt levels and purchase prices relative to earnings. Less debt limits the impact of higher borrowing costs, while lower purchase prices offer scope to benefit both from earnings growth and from a potentially higher valuation as businesses become larger and more established. Together, these factors make small and mid-market buyouts relatively more attractive to investors in today's environment, particularly where owners can translate investment in AI into measurable productivity gains.

The scale of investment into AI-related infrastructure also creates opportunities for private credit. AI spending is growing faster than hyperscalers can fund from their own cash flows, creating demand for both public bonds and private financing. With free cash flow at some hyperscalers turning negative and expected to remain under pressure through 2028, borrowing is becoming an increasingly important source of funding.

Private lenders are already helping to meet this demand. Meta's recent partnership with a private credit manager to develop a USD 27 billion data centre

Exhibit 25: Smaller companies have been slower to adopt AI

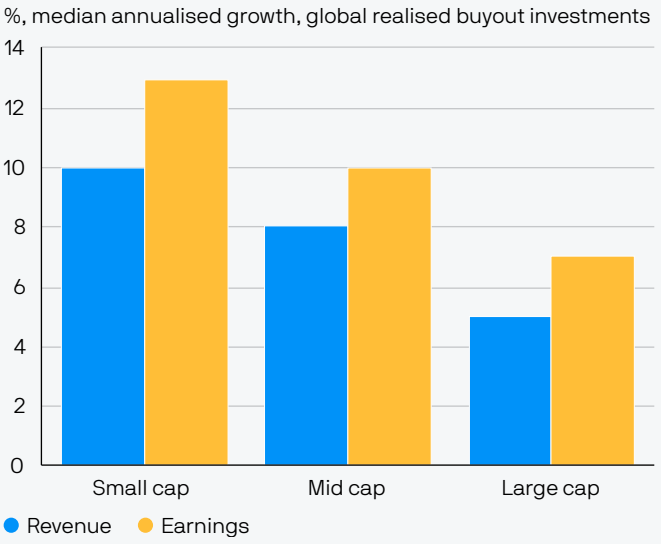
AI adoption by company size



Source: Eurostat, US Census Bureau, J.P. Morgan Asset Management. Business Trends and Outlook Survey (October 2026) and County Business Patterns (2023); Eurostat, ICT Usage in Enterprises (2025). US and EU survey definitions differ. Data as of 9 November 2026.

Exhibit 26: Small-cap buyouts have historically grown earnings faster than larger peers

Median revenue and earnings growth by buyout company size



Source: Cambridge Associates, J.P. Morgan Asset Management. Median revenue and EBITDA compound annual growth rates for realised global buyout investments acquired between 2000 and 2021 and exited by 31 December 2021. Small-cap companies have enterprise values below USD 250 million at acquisition, mid-cap companies between USD 250 million and 1 billion, and large-cap companies above USD 1 billion. Data as of 9 November 2026.

illustrates how private capital can help finance major infrastructure projects. These arrangements allow lenders to structure financing around specific assets, often supported by long-term customer contracts.

We expect this demand to support growth in infrastructure debt and asset-backed finance in 2027, particularly lending to power infrastructure and data centres. For investors, the attraction is financing backed by physical assets and long-term contracts, providing more predictable cash flows and greater protection than relying solely on corporate earnings.

The challenges created by higher interest rates

While higher spending is creating opportunities, higher interest rates continue to challenge investments that relied on cheap borrowing and rising valuations. We expect these pressures to persist in parts of large-cap private equity, private credit and real estate over the next year.

The smaller-company growth advantage discussed above matters more when borrowing costs are higher. Larger buyouts typically combine slower earnings growth with higher purchase prices and more debt relative to earnings, making them more exposed to financing costs and less able to rely on rising valuations.

We see these pressures facing many older investments due to be sold in 2026 and 2027, which were bought with cheaper debt at higher valuations. Managers must either hold them longer, delaying cash returns, or sell at prices aligned with today's financing costs, reducing realised returns.

The exit backlog shows the scale of the problem. PitchBook estimates that more than 55% of the 13,000 US private equity-backed companies have been held for more than five years (**Exhibit 27**). Only 15% of investments made in 2021 had been realised after four years, compared with 25–30% for earlier vintages, while the median holding period rose from four years in 2021 to closer to six years in 2026.

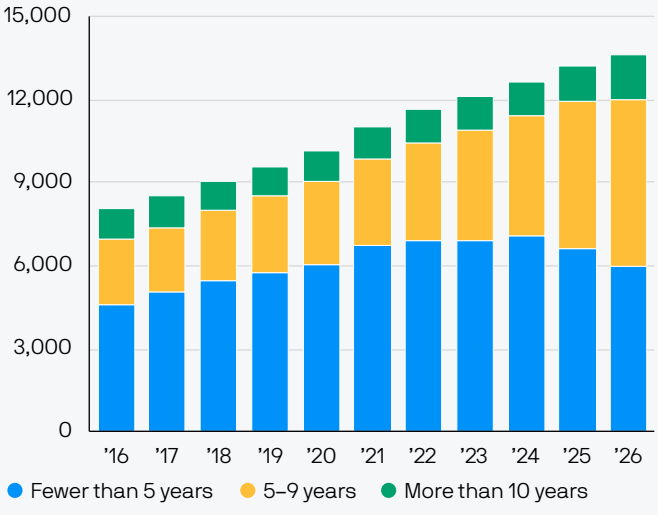
The same conditions reduce the appeal of new larger buyouts. While multiples have come down from their 2022 peak, improving the entry point for new investments, higher-for-longer interest rates limit the contribution that leverage and multiple expansion can make to returns. Earnings growth will therefore need to do more of the work.

This shift is already evident in how private equity returns are generated. Revenue growth accounted for 75% of value creation in 2025, up from 44% in 2019, while rising multiples contributed 8%, down from 46% (**Exhibit 28**).

Exhibit 27: Private equity's inventory is ageing

US private equity-backed company inventory

Number and share of companies by investment duration

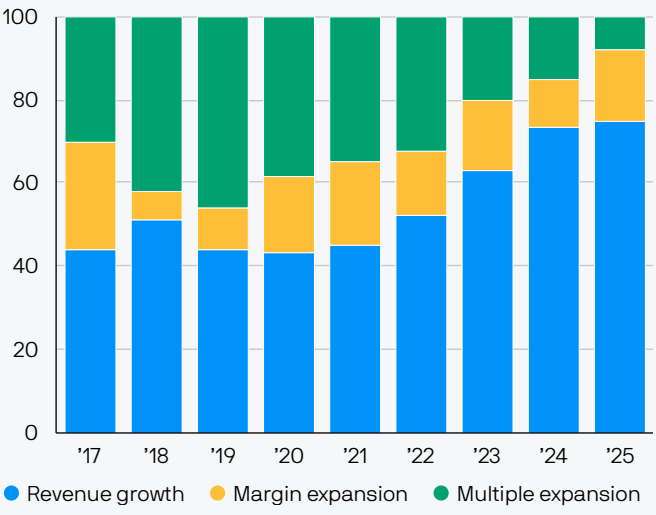


Source: Pitchbook, J.P. Morgan Asset Management. 2026 data is to end-June. Data as of 9 November 2026.

Exhibit 28: Operating growth has become a bigger driver of private equity value creation

Global private equity value creation drivers

%



Source: Gain.pro, J.P. Morgan Asset Management. Years reflect exit year of investment. Past performance is not a reliable indicator of current and future results. Data as of 9 November 2026.

The risks for private credit

Higher interest rates create a different challenge for private credit. Floating-rate loans have supported attractive income for lenders but have increased borrowing costs for companies. Encouragingly, this has not translated into a broad deterioration in credit fundamentals so far. Lincoln International reported borrower earnings growth of 5.6% in the second quarter of 2026, while the share of companies struggling to cover interest expenses and other charges fell from around 40% at its 2023 peak to below 20% in mid-2026. Even the software industry – where concerns about AI disruption have raised questions about credit quality – has remained among the better-performing sectors for earnings growth and low defaults.

We expect this backdrop to keep direct lending returns positive in 2027, but its relative appeal has weakened. Strong fundraising has intensified competition and compressed spreads. Yields remain above 9% but the premium over leveraged loans and high yield bonds has narrowed considerably over the past year, offering less compensation for lower liquidity and greater credit risk (**Exhibit 29**).

Challenges in real estate

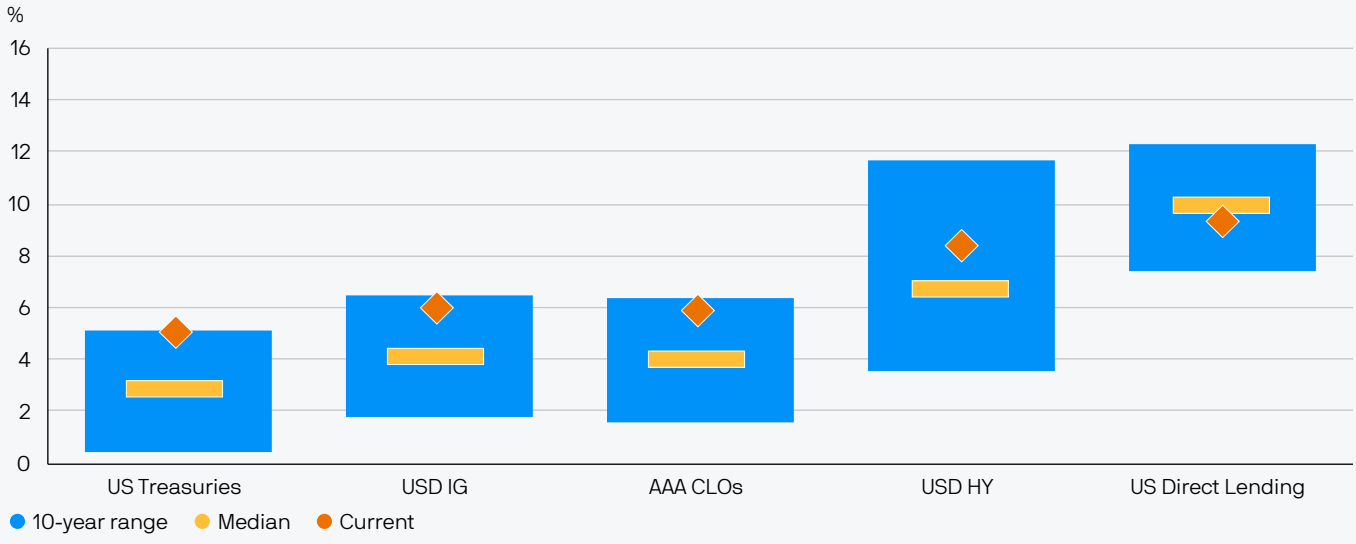
Real estate faces another set of challenges. Higher interest rates have led to a significant repricing of property values, improving the starting point for new investors. However, owners of older, highly leveraged properties continue to face higher refinancing costs and substantial capex requirements. Where rental income cannot grow sufficiently to offset these costs, returns are likely to remain under pressure.

European offices illustrate this growing divide. Demand is increasingly concentrated in modern, well-located buildings, where limited supply is supporting rental growth. According to CBRE, European prime office rents rose 5.8% in the year to the second quarter of 2026, despite weaker leasing activity across the broader market. Meanwhile, older buildings face higher vacancy and refurbishment costs, making them less attractive to occupiers and investors.

We expect this divergence to continue. With less scope for property valuations to rise through falling yields, rental growth will become an increasingly important driver of returns. Investors should focus on high-quality properties where resilient demand and limited supply can support rental growth, while remaining cautious on older assets requiring substantial investment to remain competitive.

Exhibit 29: Direct lending yield spreads have narrowed versus public markets

Yields across public fixed income and private credit markets



Source: Bloomberg, Cliffwater, FactSet, J.P. Morgan Credit Research, KBRA DLD, J.P. Morgan Asset Management. The range and median are based on quarterly data. US Treasuries, USD IG and HY categories use the yield-to-worst of their respective Bloomberg indices. CLOs use the yield-to-worst of AAA-rated debt tranches as tracked by the J.P. Morgan Collateralised Loan Obligation Index (CLOIE). Direct lending uses the annualised quarterly income return from the Cliffwater Direct Lending Index from the start of the period to 31 December 2021, and the yield-to-maturity from the KBRA DLD Index thereafter. Past performance is not a reliable indicator of current and future results. Data as of 9 November 2026.

Conclusion: Favour alternative investments supported by higher spending

Higher rates raise the bar for every risk asset. Investors should focus on assets where higher spending can translate into sustainable earnings and income growth, rather than relying on leverage or rising valuations. Infrastructure equity, infrastructure debt and small and mid-market private equity should benefit from higher spending, while highly leveraged buyouts and lower-quality real estate face a more challenging outlook.

> While higher spending is creating opportunities, higher interest rates continue to challenge investments that relied on cheap borrowing and rising valuations.

Protection from risks requires a wide set of diversifiers

There are three key risks to our positive outlook: re-escalation in the Middle East, a new bond supply shock and AI disappointment. In this chapter, we explore the potential implications for markets, as well as the options available to investors looking to add diversification against these key risks.

Escalation in the Middle East

A further delay in the normalisation of energy flows from the Middle East is the key macro risk to our outlook. Our core scenario is that tensions slowly fade and transit resumes, even if a 'full resolution' is not reached. It is plausible, however, that negotiations fail and either the US or Iran turns to further escalation in an attempt to pressure the other side into conceding.

Renewed conflict would bring a return of many of the risks investors faced in 2026. However, with US strategic petroleum reserves at historically low levels and Iran explicitly threatening energy infrastructure, some of the offsets that have helped mitigate the impact of the crisis so far could prove less effective. An acute shortage of oil could push prices above USD 150 per barrel and, with government bond yields already elevated, policymakers would have less scope to offset the shock through fiscal support. Global growth would slow meaningfully at the same time as inflation rose.

Such a stagflationary scenario would leave central banks facing a difficult trade-off between maintaining inflation credibility and avoiding further damage to growth. With policymakers already leaning towards tighter policy, they may choose to maintain that focus to prevent inflation expectations from de-anchoring. This would create a particularly difficult environment for both stocks and bonds.

Portfolio implications: A return to positive stock-bond correlations would be challenging for traditional public market portfolios. Within equities, high-quality defensive strategies could provide relative protection from a broader market drawdown, while short-duration sovereign bonds should prove more resilient within fixed income.

Energy and agricultural commodities could also support portfolio returns, albeit with potentially elevated volatility, while weaker growth may weigh on industrial metals. The experience of 2022, however, suggests that public market diversifiers struggle in this scenario and alternative real assets, including timber and core infrastructure, could provide particularly valuable portfolio-level hedges.

The bond market speaks, but no one listens

As we discuss in Bonds look attractive as pressures ease, but be active, we expect higher yields to gradually discipline weaker borrowers without triggering a broad-based bond market sell-off. The risk is that neither governments nor AI-related borrowers respond sufficiently to that signal, leading to an acceleration in increasingly unproductive spending.

Governments could continue to run large deficits as political resistance to spending cuts and tax increases makes meaningful fiscal consolidation impossible, while AI investors remain confident that future returns will exceed an increasingly high cost of capital. Rather than adding meaningfully to the economy's productive capacity, continued borrowing adds to demand and stokes inflation, intensifying the competition for capital and pushing long-term yields higher. Growth could remain resilient, but at the expense of more persistent inflation.

This would leave the bond market facing a major problem. In this scenario, higher yields fail to restore equilibrium, instead becoming part of an increasingly uncomfortable combination of elevated inflation, rising borrowing costs and deteriorating fiscal credibility. What would start as isolated stress amongst weaker borrowers would ultimately develop into a broader repricing of duration.

Portfolio implications: Bond markets would face substantial pressure in this scenario. Long-duration bonds would be particularly vulnerable as investors demanded greater compensation for both inflation and fiscal risk.

Equities could outperform bonds, although market breadth would likely deteriorate as higher borrowing costs weighed disproportionately on lower-quality companies and interest-rate sensitive sectors such as real estate and utilities. High-quality, cash-generative large caps with strong pricing power could therefore prove more resilient than smaller, more leveraged companies. Cyclical commodities such as industrial metals could benefit from continued investment spending and provide some protection against persistent inflation.

The outlook for gold would depend on the cause of the bond market sell-off. A repricing driven by stronger growth and higher real rates would likely weigh on gold prices, but a more disorderly rise in yields driven by concerns about fiscal sustainability, inflation and currency debasement could have the opposite effect. At that extreme, gold could prove one of the few effective portfolio diversifiers.

Tech disappoints

AI-related concentration of both equity market returns and economic activity means that a technology correction represents the clearest route to a deflationary downturn. This scenario would be particularly negative for the US and emerging Asia given stock market composition, but the growing importance of the AI build-out to the global economy means that a sharp change in sentiment would have wide-ranging consequences.

The overarching risk remains that the scale of end demand disappoints, either because the technology does not deliver the promised benefits, or because the benefits cannot justify the spending required to sustain the current AI ecosystem.

In the near term, there is also the risk that the interconnected nature of the ecosystem transforms weakness in one layer into a broader systemic issue. As we discuss in **Tech exposure must be managed as AI enters a critical phase**, differing parts of the AI ecosystem face different challenges. However, the strong dependencies across the AI universe risk transforming what was initially a relative 'winners and losers' story into a broader market event.

The concentration of recent technology gains in the US means that, as in the dot-com bust, the economic impact of a correction would likely be most acute there. AI investment contributed 0.5 percentage points annualised to GDP growth in the first three quarters of 2026, while rising equity wealth has supported consumption by allowing households to save less. A reversal of both channels could therefore produce a meaningful US slowdown as weaker investment is compounded by a negative wealth effect on consumer spending.

Portfolio implications: In either case, a technology-led sell-off would have negative implications for both global equity markets and economic activity. In equity markets, tech-heavy US and emerging market benchmarks could suffer the biggest losses.

High-quality, long-duration fixed income should provide the most meaningful offset to equity weakness, with central banks responding to growth risks and a flight to safety placing downward pressure on yields. During the dot-com bust, US Treasuries provided a significant offset to equity losses, and a 100-basis-point decline in 10-year yields today could generate a total return of around 13% over 12 months.

Investors therefore face three credible risks, each producing a very different market environment (**Exhibit 30**). Crucially, the assets that provide diversification in one scenario may offer considerably less protection in another. This argues for maintaining a well-diversified portfolio today, while retaining sufficient flexibility to adjust its construction if the probability of any one of these risks begins to rise.

Exhibit 30: Economic scenarios and expected asset class implications

Scenario	Equities	Fixed income	Alternatives	Commodities
Core scenario	⊕	⊕	⇅	⇅
Energy-driven stagflation	⊖	⊖	⊕	⊕ / ⇅
Excess spending	⊕ / ⇅	⊖	⊕ / ⇅	⊕
AI disappointment	⊖	⊕	⇅ / ⊖	⊖

⊕ Positive outlook ⇅ Mixed outlook ⊖ Negative outlook

Source: J.P. Morgan Asset Management, as of 9 November 2026.

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