# AI and Financial Stability: An Overview of Current Developments

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Thank you for giving me the opportunity to talk about this important topic.

AI has emerged as the single most important driver of global growth divergence in the current cycle. The gap between the United States and the rest of the world is in large part a story about which economies are generating and capturing AI-driven investment, and which are not. The United States is firmly in the first category; Europe, for now, is largely in the second.

Consensus forecasts point to continued US growth through 2026–2027, with real GDP expanding at around 2% on a year-on-year basis and a recession probability of 25%. Private investment is a notable bright spot, forecast to grow at 3.7–5.0% QoQ SAAR, with AI-driven capital expenditure by hyperscalers and their supply chains accounting for a disproportionate share of that momentum. Inflation remains above target: CPI is running at 3.9% YoY in Q2 2026, with Core PCE at 3.3%, keeping the Federal Reserve on hold and front-end interest rates elevated. To a meaningful degree, the strength of the US economy right now is an AI story.

The Euro area picture is considerably more subdued. Real GDP growth is tracking at just 0.1–0.3% QoQ in 2026, with a recession probability of 27.5%, higher than the US. CPI is running at 3.2% YoY, and unemployment is stable at 6.3%. Europe has relatively few large-scale AI developers, limited hyperscaler infrastructure investment of its own, and a corporate sector that has been slower to integrate AI at scale. The result is that Europe is not benefiting from the AI investment cycle in the way the US is, while still facing some of its consequences: elevated global interest rates, a stronger dollar weighing on import costs, and capital flows tilting toward US AI-linked assets. The transatlantic growth divergence is therefore not simply a cyclical phenomenon. It reflects a structural gap in AI exposure that, if it persists, has long-run implications for productivity, competitiveness, and the ECB's ability to normalize policy on its own terms.

## The growing role of AI in equity markets

The equity market dimension of the AI buildout is well documented. The ten largest companies in the S&P 500 now account for more than 40% of the index, an historically elevated level of concentration driven predominantly by AI-linked mega-cap technology companies. Passive investment vehicles, which now account for the majority of US equity fund assets, hold these names at index weight. The result is that any reassessment of AI growth trajectories, whether driven by competitive dynamics, regulatory intervention, or evidence of slower-than-expected adoption, could propagate losses simultaneously across a broad range of diversified portfolios. This concentration dynamic may be worth monitoring given its potential interactions with consumption, collateral values, and longer-term savings vehicles.

But the equity story is only part of the picture. What is unfolding beneath the surface of rising stock prices is something closer to a global industrial renaissance: a capital expenditure cycle of a scale and speed not seen since the build-out of railroads in the nineteenth century or the interstate highway system in the twentieth. Data centers, power infrastructure, fiber networks, and semiconductor fabrication facilities are being constructed simultaneously across the United States, Europe, and Asia. The physical footprint of AI is vast, capital-intensive, and long-lived.

Critically, the infrastructure buildout is being financed in a structurally different way from previous technology investment cycles. The late 1990s technology bubble was financed largely through equity markets and short-term

bank credit, both of which are inherently fragile in a downturn. The current cycle is being financed to a much greater degree by long-duration liabilities: pension funds, insurance companies, and sovereign wealth funds are providing the patient capital that matches the long economic life of the assets being built. This is, in principle, a more stable funding structure. For example, academic research has found insurers to be 'safe hands' that act countercyclically in downturns and help stabilize asset prices.[1] A data center with a 20-year useful life is better financed by a pension fund with a 20-year liability horizon than by a bank deposit that can be withdrawn overnight.

The financial stability implications of this shift are worth examining carefully. The reliance on long-duration institutional capital rather than short-term bank deposits reduces the risk of a classic liquidity-driven unwind of the kind that amplified previous technology corrections. More fundamentally, the demand for AI compute infrastructure is unlikely to face a structural ceiling in the way that previous technology buildouts eventually did. AI is a general-purpose technology with applications across every sector of the global economy, and the history of general-purpose technologies suggests that demand for the underlying infrastructure tends to expand to fill, and then exceed, available supply. In that sense, the capital being deployed by pension funds, insurers, and sovereign wealth funds into data centers and digital infrastructure may prove to be not just financially sound but structurally necessary: the physical foundation of a productivity transformation that is still in its early stages. The question for financial stability frameworks is therefore less whether this investment will be needed, and more how to ensure that the transition is orderly and that the benefits are broadly distributed.

## The growing role of AI in fixed income markets

AI is also redefining every major funding channel. Year-to-date net issuance data show AI-linked activity dominating venture capital at a near 7:1 ratio ($220bn AI vs. $33bn non-AI), a concentration of early-stage risk with no precedent outside the late 1990s technology bubble. In investment-grade corporate bonds, AI issuance ($140bn) is running neck-and-neck with non-AI ($146bn). In high yield, AI issuance ($21bn) trails non-AI ($34bn) but is growing rapidly. Taken together, a substantial and rising share of credit creation across the entire risk spectrum is being directed toward AI-related enterprises and infrastructure.

Within the investment-grade segment, the most consequential development is the scale and pace of issuance by the hyperscalers themselves. Microsoft, Alphabet, Amazon, Meta, and their peers are issuing long-duration corporate bonds at a rate that is materially increasing the stock of high-grade duration available to global fixed income markets. This issuance is not speculative; it is backed by strong and diversified cash flows, and the proceeds are being deployed into assets with long useful lives. In that sense it is fundamentally sound. But the supply dynamic it creates is significant. As hyperscaler issuance continues to grow, the incremental duration being added to global bond markets will need to be absorbed by an investor base that is already managing elevated interest rate risk across sovereign and corporate portfolios. The risk is not that hyperscaler bonds are mispriced in isolation, but that the cumulative supply of AI-linked duration, across sovereigns financing fiscal deficits, hyperscalers financing infrastructure, and investment-grade corporates financing AI adoption, is adding to upward pressure on term premiums across the Treasury yield curve. This is a market structure development worth monitoring, particularly for European insurers and pension funds whose liability-driven investment mandates make them natural buyers of long-duration corporate credit and therefore directly exposed to shifts in the supply-demand balance for high-grade duration.

Here also it is important to differentiate different forms of AI-driven debt issuance. While much of this issuance is in the form of broadly syndicated corporate bonds issued by hyperscalers and semiconductor manufacturers, many data-center financings in private markets are structured to incorporate guarantees from these same firms in addition

[1] See, for example, Coppola, "In Safe Hands: The Financial and Real Impact of Investor Composition Over the Credit Cycle" (Link)

to being collateralized by tangible assets (e.g., land, GPUs, etc.). In this sense, the underlying risk of these financings is the same as the risk of corporate bonds issued by hyperscalers and semiconductor manufacturers but with additional backing by tangible assets with identifiable collateral value and long useful lives. While no asset is risk-free and technology is changing rapidly, the presence of tangible collateral can provide meaningful downside protection relative to unsecured exposure to business models alone.

## The impact of hyperscaler issuance on US yields

This year we have seen consistent upward pressure on US Treasury yields across the yield curve, with the 10-year and the 30-year moving higher. Three distinct forces are driving this simultaneously, each operating through a different mechanism.

**Front end:** Higher inflation driven partly by AI-related demand is keeping the Fed on hold and short-term rates elevated. CPI is running at 3.9% YoY in Q2 2026, with core PCE at 3.3%, well above the 2% target. AI-driven capital expenditure is adding to demand across a range of goods and services, from energy and construction materials to specialized labor, contributing to price pressures that are proving more persistent than earlier forecasts anticipated. The Federal Reserve has indicated that it requires sustained evidence of disinflation before adjusting policy, and the current data do not yet meet that threshold. Front-end rates are therefore likely to remain anchored at elevated levels for the near term, with the fed funds rate providing a floor for short-duration borrowing costs across the economy.

**Belly (2–7 year):** Hyperscaler issuance by Microsoft, Alphabet, Amazon, Meta, and others financing AI infrastructure is adding net duration supply in the intermediate maturities at a pace that traditional buyers have not fully absorbed. This segment of the curve is also sensitive to expectations about the timing and pace of Federal Reserve easing, which have been revised repeatedly over the past two years as inflation proved stickier than expected. The combination of elevated policy rate expectations and growing corporate supply has kept intermediate yields higher than would be implied by growth fundamentals alone. For European investors with dollar-denominated fixed income exposure, this dynamic has added complexity to duration management and currency hedging decisions.

**Long end (20–30 year):** Fiscal concerns are pushing term premiums higher at the long end of the curve. The US fiscal deficit remains large relative to historical norms, and Treasury issuance at long maturities has increased to finance it. At the same time, some traditional buyers of long-duration Treasuries, including foreign central banks and domestic banks managing duration gaps, have become more price-sensitive. The result is that the long end of the curve is pricing in a somewhat higher compensation for duration risk than was typical in the post-financial-crisis period of quantitative easing. This has direct relevance for European financial institutions, whose US long-duration holdings and dollar swap books are affected by movements at the long end of the Treasury curve.

Taken together, these forces suggest that the current interest rate environment may persist for longer than historical patterns would imply, which is a relevant consideration for financial stability assessments on both sides of the Atlantic.

## Financial Stability Implications

AI poses risks whether it succeeds or fails to meet expectations, though the nature and speed of those risks differ materially.

**If AI overdelivers:** the transition will be gradual but structurally significant. Labor displacement and distributional pressures build slowly, sector by sector, as automation diffuses through the economy. The historical evidence on general-purpose technology transitions suggests that the adjustment period can span a decade or more, with meaningful variation across skill levels, industries, and geographies. In the near term, this may manifest as a gradual increase in structural unemployment in routine-task-intensive occupations, with potential for social and political feedback into fiscal policy and macro conditions. On the asset side, continued strong AI earnings growth could sustain or extend current valuation levels, but it also increases the systemic exposure to any eventual reassessment. Asset price inflation in AI-exposed sectors could become self-reinforcing over time, with passive vehicle inflows amplifying momentum in both directions. These are slow-moving risks by the standards of financial stability analysis, but they are worth incorporating into medium-term scenario frameworks.

**If AI underdelivers:** the adjustment would likely be faster and more concentrated. Equities could reprice as earnings growth expectations are revised, AI-linked investment-grade and high-yield credit may come under pressure as refinancing assumptions are reassessed, and broader risk-off dynamics could follow as investor sentiment shifts. The scale of AI-linked issuance already in the market, across venture capital, investment-grade, high yield, and hyperscaler bonds, means that any correction in this segment would be felt across a wide range of portfolios. That said, the structural characteristics of the current cycle, in particular the reliance on long-duration institutional capital rather than short-term bank funding, suggest that any correction may be slower-moving and more orderly than previous technology sector unwinds. In this scenario, differing financing structures would also impact firm-level outcomes, with secured exposures backed by hard assets (e.g., in the case of data-center financings wrapped with hyperscaler guarantees) potentially performing better than unsecured financings or public corporate bonds given the presence of tangible collateral. Overall, monitoring through existing financial stability frameworks, in a manner consistent with prior episodes of sector-level credit concentration, would appear appropriate.

**For the ECB specifically**, three spillover channels from the US AI cycle warrant attention. First, the attractiveness of US AI-linked assets is drawing capital from Europe, contributing to euro depreciation pressure at a time when the Euro area recovery remains fragile. This capital flow dynamic adds complexity to the ECB's assessment of financial conditions and the external value of the euro. Second, the global search for yield in an AI-boom environment has compressed credit spreads in European sovereign and corporate markets. These compressions could reverse if the AI investment narrative deteriorates, even in cases where the underlying European issuers have limited direct AI exposure. Third, faster AI-driven productivity growth in the US is widening the transatlantic productivity gap, compounding the growth differential already visible in consensus forecasts and adding to the structural case for continued euro weakness relative to the dollar.

Taken together, the AI investment cycle represents a development of sufficient scale and novelty that its financial stability implications merit ongoing and structured attention. The most likely outcome is a gradual and broadly positive transition, with manageable risks along the way. But the concentration of AI-linked exposure across equity, credit, and infrastructure markets, and the interconnections between US AI dynamics and European financial conditions, suggest that monitoring frameworks developed in a pre-AI environment may benefit from selective updating. While some supervisory discourse has focused on private market exposure, public markets warrant at least equivalent examination given the sheer volume of public capital financing the AI cycle. These indirect macro channels, alongside direct AI-linked exposures, may be relevant inputs to ongoing financial stability assessments.

With that, thank you for your attention