The AI Soft Landing Scenario

For three years the AI build-out has blown through every forecast placed in front of it, with spending growth overshooting consensus so badly that investors, chipmakers and datacenter builders were repeatedly caught flat-footed, scrambling for capacity and components they had not budgeted for. The numbers for 2027 and 2028 suggest that run of upside surprise is ending — gently, if investors are lucky.

Wall Street's base case has hyperscalers' AI infrastructure spending roughly doubling in 2026 to about $800bn, then rising a further 54 per cent to $1.2tn in 2027, before decelerating sharply to just 12 per cent growth, or $1.4tn, in 2028. The rate of change, not the spending itself, is the story: capex is decelerating from exponential to merely large.

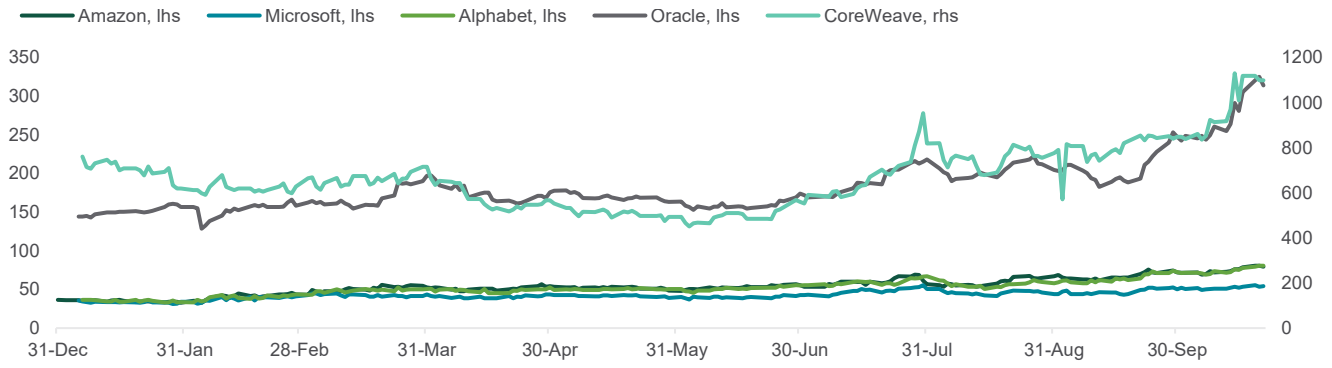
That matters most for the "neoclouds," GPU-cloud specialists that lack hyperscaler-grade balance sheets and have leaned on high yield debt to fund buildouts. Bonds issued at a high-single-digit coupon by one prominent neocloud now yield close to 15 per cent, with its credit default swaps trading at distressed levels and the stress rippling across sector equities. Investment grade issuers borrow in an entirely different universe, and that gap could widen into something structural: a well-capitalized operator may find it cheaper to acquire a cash-strained rival than keep underbidding it, seeding consolidation among the weakest high yield names.

Slower neocloud growth also has a hardware angle. 2026's great surprise was the memory squeeze: DRAM contract prices rose roughly 90-95 per cent quarter-on-quarter in early 2026, and spot commodity memory chips went from about $12 to a record $42.50, as datacenters competed with laptops and phones for scarce fabrication capacity. A capex slowdown should let that supply chain exhale.

The rate path is the hinge. Markets currently price at least 50 basis points of further hikes before policymakers contemplate easing, with projections holding rates near 4.5 per cent through 2027 rather than cutting. The optimistic logic: cooler component demand eases a genuine contributor to goods inflation, giving the Fed room to resume cutting in the second half of 2027 into 2028, once those hikes are banked. Lower rates compress credit spreads, easing refinancing pressure on the neoclouds that need it most — and narrowing the window in which they get bought rather than refinanced.

None of this requires the AI trade to end, only to mature. A deceleration from doubling to low double-digit growth sounds dull next to 2026's fireworks, but a maturing cycle should also be a more predictable one, with outcomes landing closer to initial expectations rather than blowing through them. After a year of surprises, markets would welcome nothing more than being right the first time. Investors should position for deceleration, not denial — and for a widening gap between cheap and expensive funders that consolidation, not just credit markets, may ultimately close.

THE PRICE OF AI FINANCING – CREDIT MARKETS ARE DRAWING A SHARPER DIVIDE



Source: Northern Trust Asset Management, Bloomberg. Five-year U.S. dollar credit default swap spreads. CoreWeave shown on the right-hand scale; all other issuers shown on the left-hand scale. Data from 10/21/2025 through 10/21/2026. Historical trends are not predictive of future results.

POSITIONING SCENARIOS

Productivity Upside (25% probability)

AI-related investment drives broad-based productivity gains that support above-trend economic growth without generating meaningful inflationary pressure.

Two-Speed Expansion (50% probability)

Monetary policy and a bifurcated economy govern what would otherwise be a stronger growth environment, resulting in a trend-like expansion and eventual disinflation next year.

Economic Fault Lines Broaden (25% probability)

The economic expansion is cut short by persistent supply-side restraints, energy headwinds, or AI-related disruption that weakens activity and/or tightens financial conditions.

Note: Probabilities are assumed from proprietary research and are subject to change.

Additional Index Definitions:

Bloomberg Treasury Bills 1-3 Months: The Bloomberg U.S. Treasury Bills: 1-3 Months Index tracks the market for treasury bills issued by the U.S. government with time to maturity between 1 and 3 months. US Treasury bills are issued in fixed maturity terms of 4, 8, 13, 17, 26 and 52 weeks.

Bloomberg U.S. Treasury: The Bloomberg US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. Treasury bills are excluded by the maturity constraint but are part of a separate Short Treasury Index. STRIPS are excluded from the index because their inclusion would result in double-counting. The US Treasury Index is a component of the US Aggregate, US Universal, Global Aggregate and Global Treasury Indices. The index includes securities with remaining maturity of at least one year.

Bloomberg Global Treasury: The Bloomberg Global Treasury Index tracks fixed-rate, local currency government debt of investment grade countries, including both developed and emerging markets. The index represents the treasury sector of the Global Aggregate Index.

Bloomberg Municipal Bond Index: The Bloomberg Municipal Bond Index is a flagship measure of the US municipal tax-exempt investment grade bond market. Included in the index are securities from all 50 US States and four other qualifying regions (Washington DC, Puerto Rico, Guam, and the Virgin Islands). The index includes state and local general obligation bonds and revenue bonds. All bonds in the Municipal Bond Index are tax exempt and hence are not eligible for other indices that include taxable bonds, such as the Bloomberg U.S. Aggregate.

Bloomberg U.S. TIPS: The Bloomberg US Treasury Inflation-Linked Bond Index (Series-L) measures the performance of the US Treasury Inflation Protected Securities (TIPS) market. Federal Reserve holdings of US TIPS are not index eligible and are excluded from the face amount outstanding of each bond in the index.

Bloomberg Global Inflation-linked: The Bloomberg Global Inflation Linked Index (Series-L) measures the investment-grade, government inflation-linked debt from 12 different developed market countries. Investability is a key criterion for inclusion of markets in this index, and it is designed to include only those markets in which a global government linker fund is likely and able to invest.

Bloomberg U.S. Aggregate: The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, fixed-rate agency MBS, ABS and CMBS (agency and non-agency). Provided the necessary inclusion rules are met, US Aggregate-eligible securities also contribute to the multi-currency Global Aggregate Index and the US Universal Index.

Bloomberg Global Aggregate: The Bloomberg Global Aggregate Index is a flagship measure of global investment grade debt from twenty-seven local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

JP Morgan GBI – EM Global Diversified Composite Index: The J.P. Morgan Government Bond Index-Emerging Markets Global Diversified Index tracks the performance of local-currency-denominated government bonds issued by emerging-market countries that are accessible to international investors. The diversified methodology limits the weights of larger countries to reduce concentration.

Bloomberg U.S. High Yield: The Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on the indices' EM country definition, are excluded. The US Corporate High Yield Index is a component of the US Universal and Global High Yield Indices.

Bloomberg Global High Yield: The Bloomberg Global High Yield Index is a multi-currency flagship measure of the global high yield debt market. The index represents the union of the US High Yield, the Pan-European High Yield, and Emerging Markets (EM) Hard Currency High Yield Indices. The high yield and emerging markets sub-components are mutually exclusive.

MSCI AC World: The MSCI ACWI captures large and mid cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries.

MSCI USA: The MSCI USA Index is designed to measure the performance of the large and mid cap segments of the US market.

S&P 500: The index, a gauge of the large-cap U.S. equity market, includes 500 companies that represent approximately 80% of the market capitalization of publicly traded U.S. equities.

Russell 2000: The Russell 2000® Index measures the performance of the small-cap segment of the US equity universe.

Russell 1000 Growth: The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the US equity universe. It includes those Russell 1000 companies with relatively higher price-to-book ratios, higher I/B/E/S forecast medium term (2 year) growth and higher sales per share historical growth (5 years). The Russell 1000® Growth Index is constructed to provide a comprehensive and unbiased barometer for the large-cap growth segment. The index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect growth characteristics.

Russell 1000 Value: The Russell 1000® Value Index measures the performance of the large-cap value segment of the US equity universe. It includes those Russell 1000 companies with relatively lower price-to-book ratios, lower I/B/E/S forecast medium term (2 year) growth and lower sales per share historical growth (5 years). The Russell 1000® Value Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. The index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics.

MSCI World: The MSCI World Index captures large and mid cap representation across Developed Markets countries.

MSCI World ex US: The MSCI World ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries*--excluding the United States. With 778 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI Europe: The MSCI Europe Index captures large and mid cap representation across Developed Markets (DM) countries in Europe. The index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

MSCI Japan: The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market. The index covers approximately 85% of the free float-adjusted market capitalization in Japan.

MSCI Emerging Markets: The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI China: The MSCI China Index captures large and mid cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). The index covers about 85% of this China equity universe. Currently, the index includes Large Cap A and Mid Cap A shares represented at 20% of their free float adjusted market capitalization.

S&P Global Natural Resources: The index includes 90 of the largest publicly-traded companies in natural resources and commodities businesses that meet specific investability requirements, offering investors diversified and investable equity exposure across 3 primary commodity-related sectors: agribusiness, energy, and metals & mining.

S&P 500 Equal Weight Index: The index comprises the same constituents as the S&P 500 Index, with each constituent assigned an equal weight at each quarterly rebalance

S&P Global Infrastructure: The S&P Global Infrastructure Index is designed to track 75 companies from around the world chosen to represent the listed infrastructure industry while maintaining liquidity and tradability. To create diversified exposure, the index includes three distinct infrastructure clusters: energy, transportation, and utilities.

MSCI ACWI IMI Core Real Estate: The MSCI ACWI IMI Core Real Estate Index is a free float-adjusted market capitalization index that consists of large, mid and small-cap stocks across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries* engaged in the ownership, development and management of specific core property type real estate. The index excludes companies, such as real estate services and real estate financing companies, that do not own properties.

Secured Overnight Financing Rate: The Secured Overnight Financing Rate, or SOFR, is a broad measure of the cost of borrowing cash overnight collateralized by U.S. Treasury securities.

ICE U.S. High Yield Performing and Distressed Indices: The series separate the U.S. high yield bond universe into performing and distressed segments. Distressed bonds are defined as bonds trading at spreads above 1,000 basis points.

Credit Default Swap: A credit default swap, or CDS, is a derivative contract designed to transfer the credit risk of a reference issuer. The CDS spread is the annual premium paid for credit protection, quoted in basis points. A wider spread generally indicates a higher market-implied assessment of credit risk.

U.S. National Average Diesel Price: The average U.S. diesel price, expressed in dollars per gallon.

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