Capital Markets Strategy

Essential inCights for the C-Suite

MUFG

Transformative Change

Expectations for Artificial Intelligence, Geopolitics & Global Markets in 2026

JAN 2026

"AI is not just a tool for automation, it is an enabler for augmentation."

Satya Nadella, CEO & Chairman of Microsoft

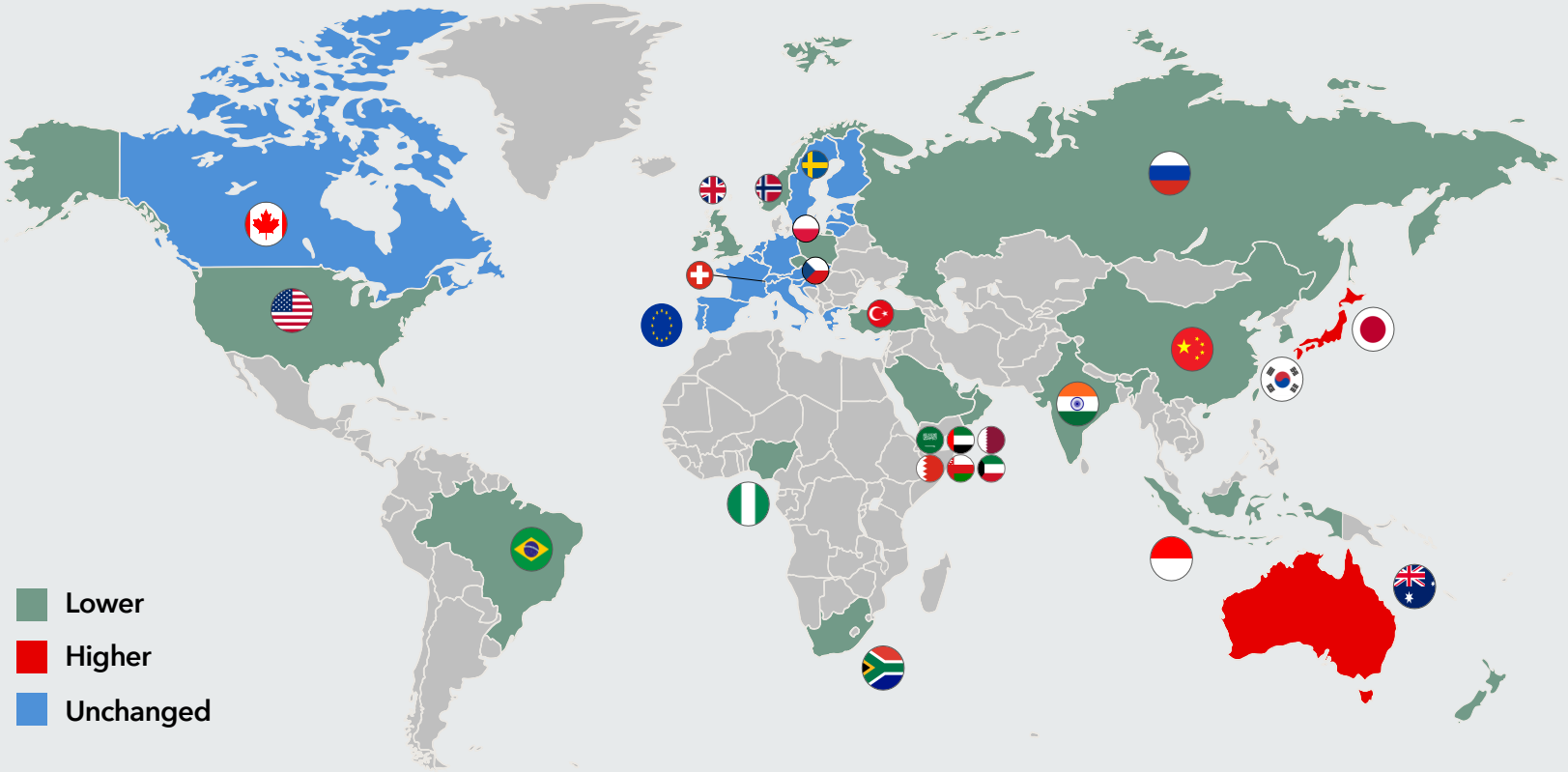
Contents

1 Accommodative Monetary & Fiscal Policy

Accommodative Monetary Policy Expected in 2026

While the **bulk of monetary easing in the current cycle occurred in 2024-2025**, global monetary policy should nonetheless be fairly accommodative in 2026 with several large central banks either easing further (i.e., Fed, BoE, Norges, PBOC) or keeping rates on hold (i.e., ECB, BoC, SNB, Riksbank). A small minority of central banks (i.e., BoJ, RBA) are expected to tighten policy in the year ahead.

Consensus expectations for YE 2026 central bank policy rates

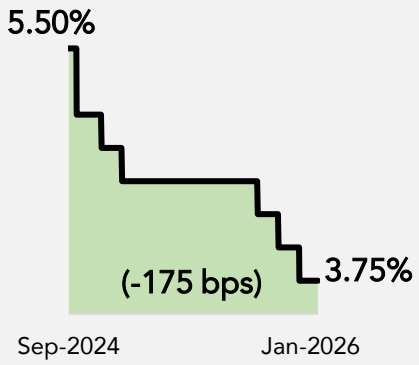


Source: (1) Data is based on Bloomberg Consensus forecasts and market pricing. Data as of January 15, 2026.

Key Drivers of Easy Financial Market Conditions

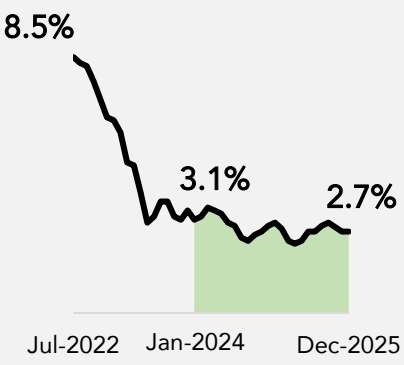
Fed policy easing

Fed funds rate



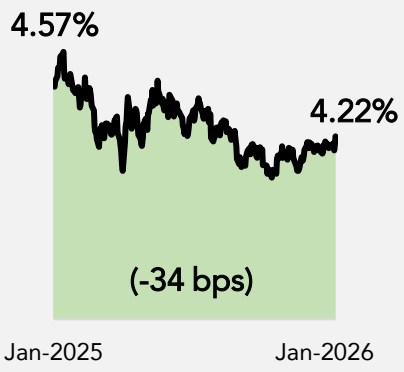
Modest disinflation

Headline CPI, y/y



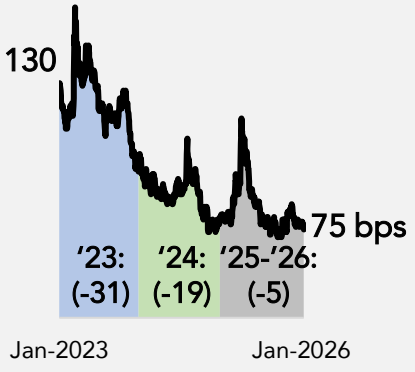
Range-bound rates

10 yr UST



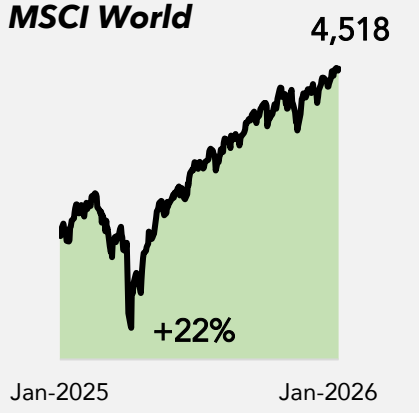
Tight credit spreads

IG OAS (bps)



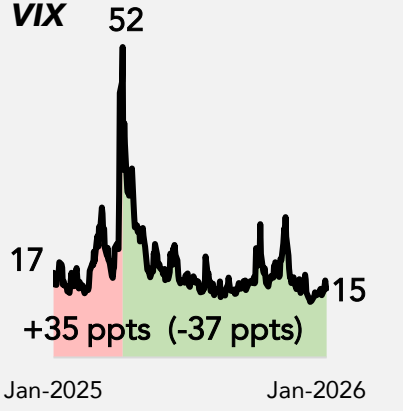
New highs for equities

MSCI World



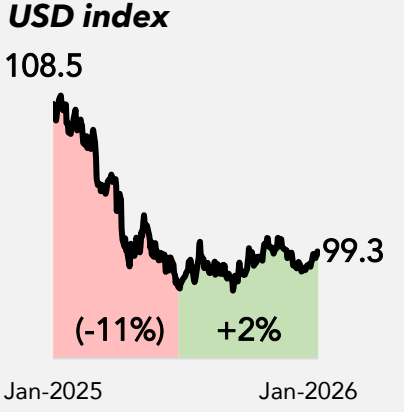
Volatility normalized

VIX



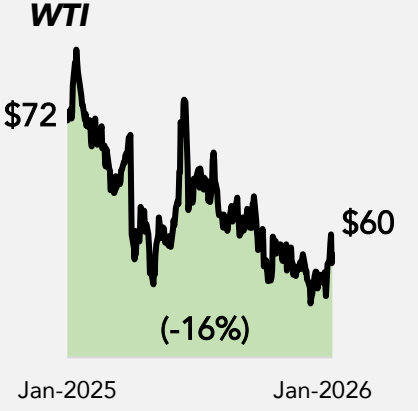
Softer US dollar

USD index



Declining oil prices

WTI

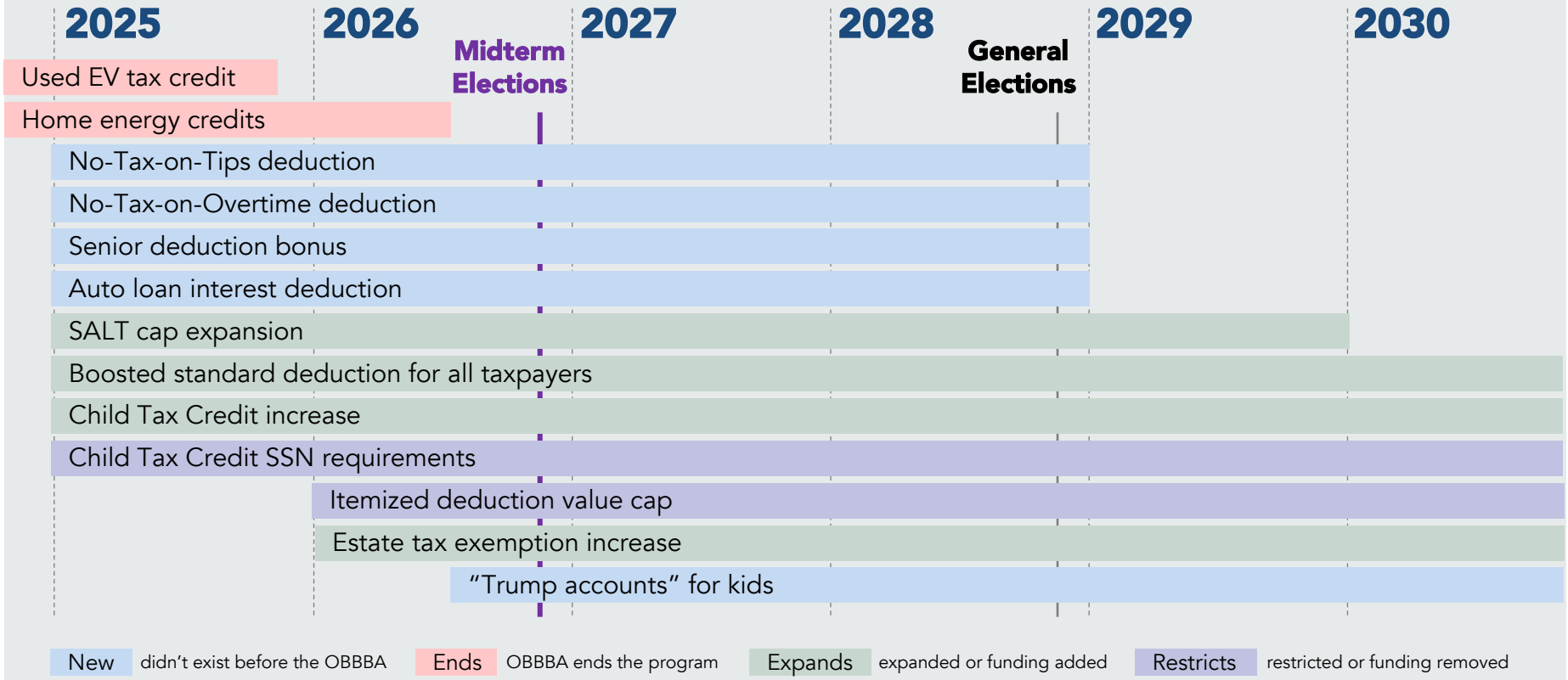


Source: (1-8) Bloomberg. Fed funds is upper bound. Data as of January 16, 2026.

OBBBA Fiscal & Tax Stimulus

The OBBBA reinstated many of the "expired" provisions from the 2017 TCJA, added numerous new provisions, and **made many of them permanent features of US tax law**. Most of these provisions, including no taxes on tips and overtime, the expanded SALT cap deduction and the increase in the child tax credit **apply retroactively to Jan 2025**, while others become effective in 2026.

Effective dates for tax policy changes in the OBBBA



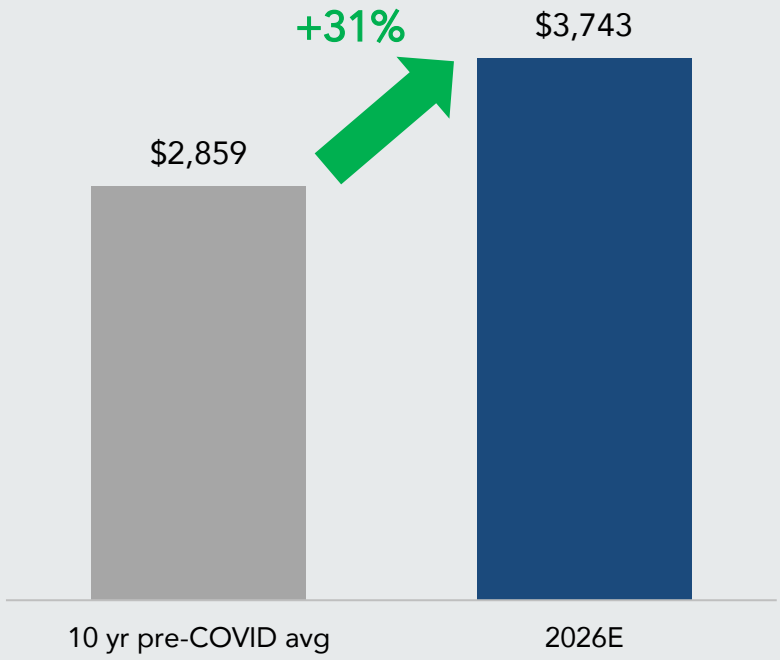
Source: USA Facts. US Congress. Excluding continued TCJA programs that were otherwise unchanged. Tax policies dated before the bill's signing reflect changes taking effect in the 2025 tax year.

US Consumer Tax Refunds in Early 2026

As a result of the OBBBA, enacted in July 2025 but with many provisions effective retroactively to Jan 2025, US consumers are projected to receive an additional $150bn in tax refunds in early 2026. This influx, driven by an increased standard deduction, new deductions for tips and overtime and an increase in both the child tax credit and the SALT deduction, should provide a boost for consumer spending in early 2026.

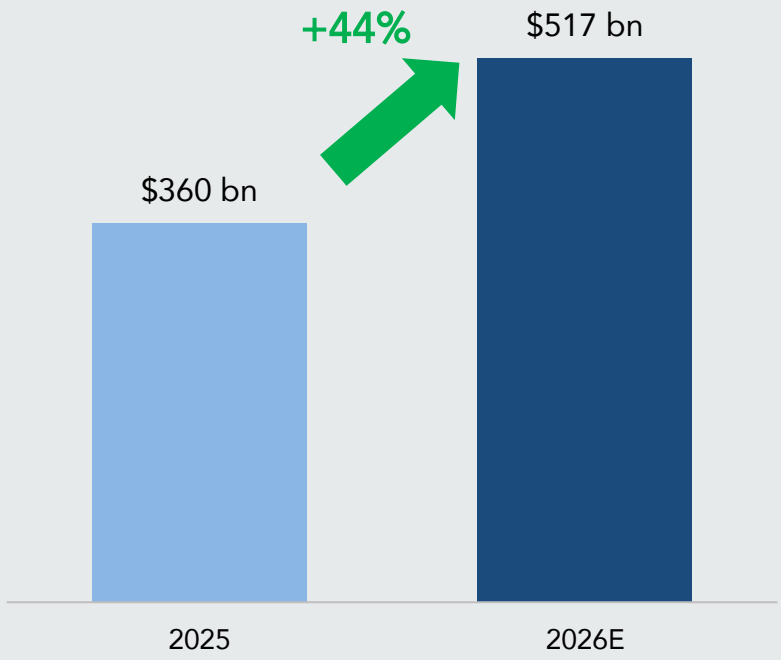
On an individual basis

Average income tax refund



In aggregate

OBBBA estimated federal tax refunds



Source: (1) Baird Private Wealth Management. US Treasury. Strategas. (2) JPMorgan Asset Management. IRS. Date is by filing year. 2026 estimate is JPM.

OBBBA Incentivizing US CapEx Supercycle

The 2025 OBBBA includes numerous tax credits and incentives that provide **permanent change** to the US tax code, **100% upfront expensing** and numerous **acceleration incentives** to expedite construction timetables.

Provision	One, Big, Beautiful Bill
Bonus depreciation (short-term investments)	100% depreciation *(permanent change)*
Domestic R&D expensing	100% upfront expensing restored *(permanent change)*
International R&D expensing	15-year amortization *(unchanged)*
Manufacturing structures	100% expensing for qualifying structures *(in year of service, if built 2025 -28)*
Semiconductor manufacturing	35% tax credit *(effective Jan 2026)*
Business net interest expense deduction	Capped at 30% EBITDA *(permanent change)*

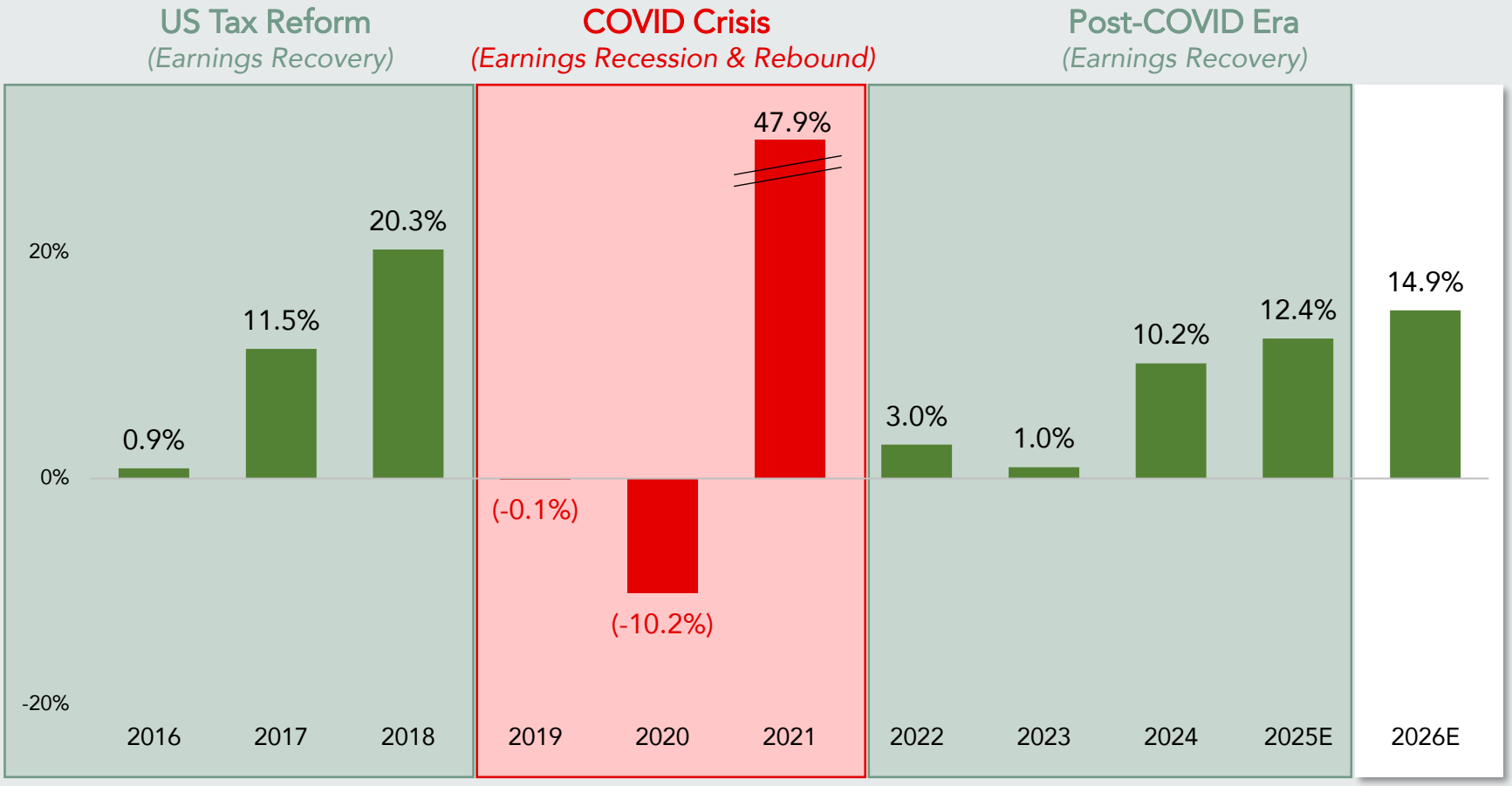
Source: (1) Bloomberg. EY. Senate Finance Committee. CBO.

2 Heightened Corporate Activity

Corporate Earnings Expected to Accelerate in 2026

Defying elevated policy uncertainty and the largest trade war in a century, 83% and 76% of S&P 500 companies beat on earnings and revenue, respectively, in Q3 2025 – well above five- and ten-year averages.

S&P 500 annual earnings growth, y/y

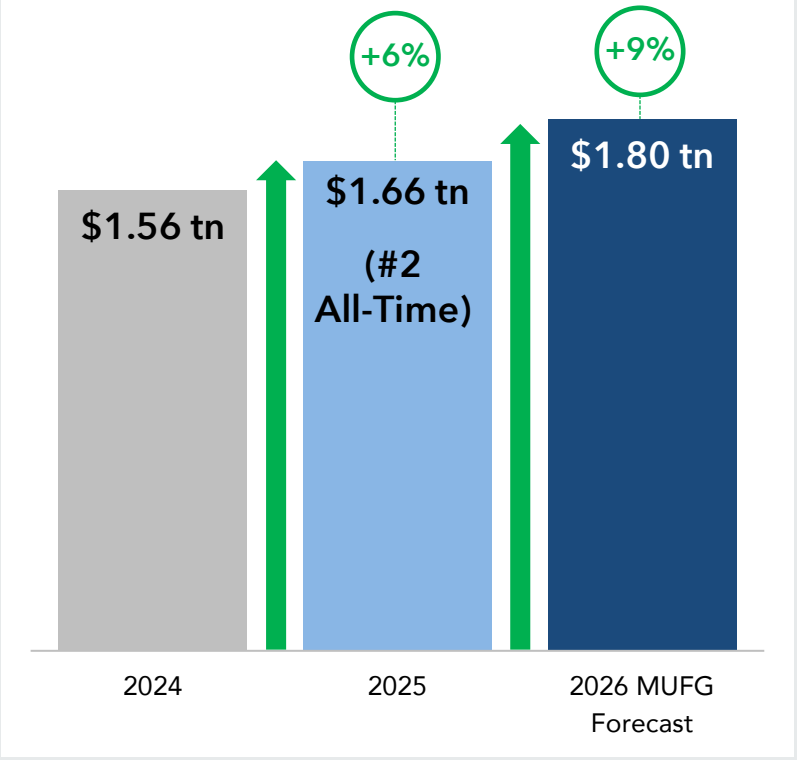


Source: (1) FactSet, Earnings Insight Report (January 16, 2026).

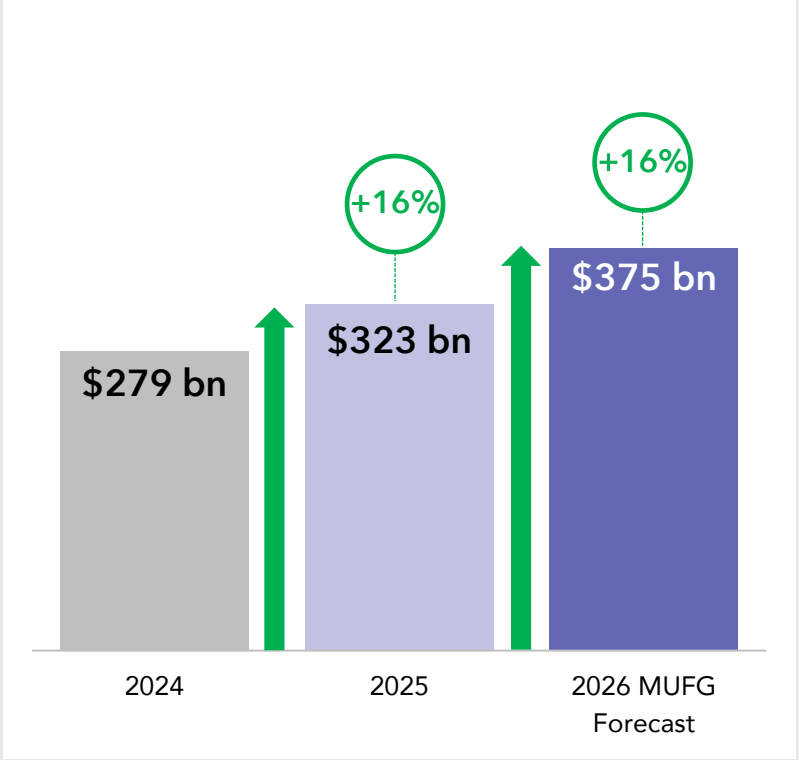
Robust Debt Financing Markets

Corporate treasurers have adeptly navigated geopolitical risk, trade wars and economic uncertainty in 2025, accelerating debt issuance to take advantage of strong investor demand and favorable financing costs. Just as large cap IG issuers have pre-funded maturities and strategic funding needs against a low visibility backdrop, high yield issuers have also moved quickly to take advantage of the return of risk appetite as the year progressed.

USD IG Issuance



USD HY Issuance

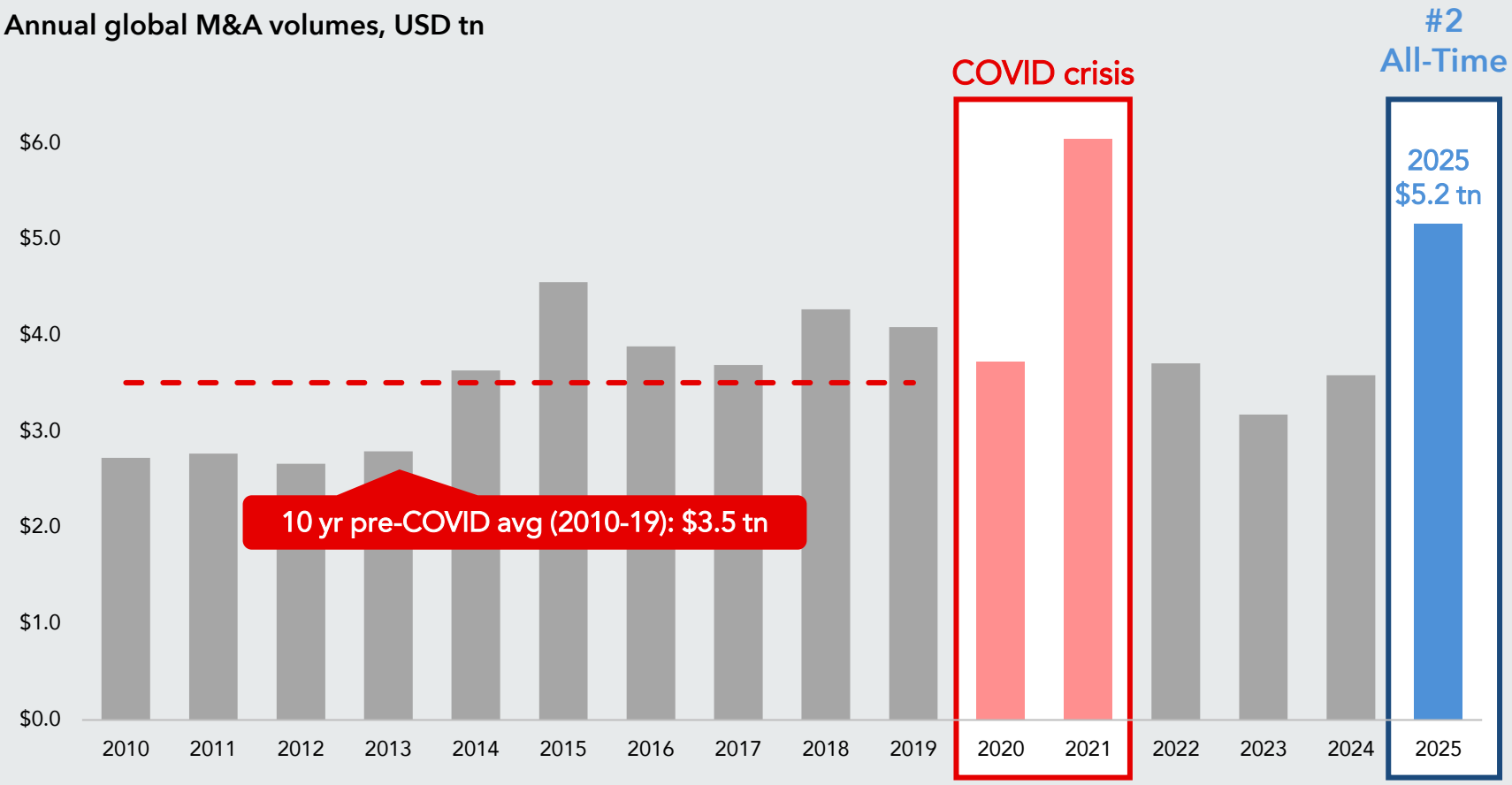


Source: (1-2) IG and HY bond data are CFR. 2026 forecasts are MUFG. Data as of January 14, 2026.

2nd Largest Global M&A Year on Record

At over $5 trillion, 2025 ranked 2nd all-time in global M&A volume (ahead of 2015 and 2007). Key drivers of increased 2025 deal activity include: global monetary easing cycle; strength of corporate balance sheets and profits; a rebound in private equity activity (~30% of total volume); deregulatory environment; and the impact of technology and innovation on corporate strategy.

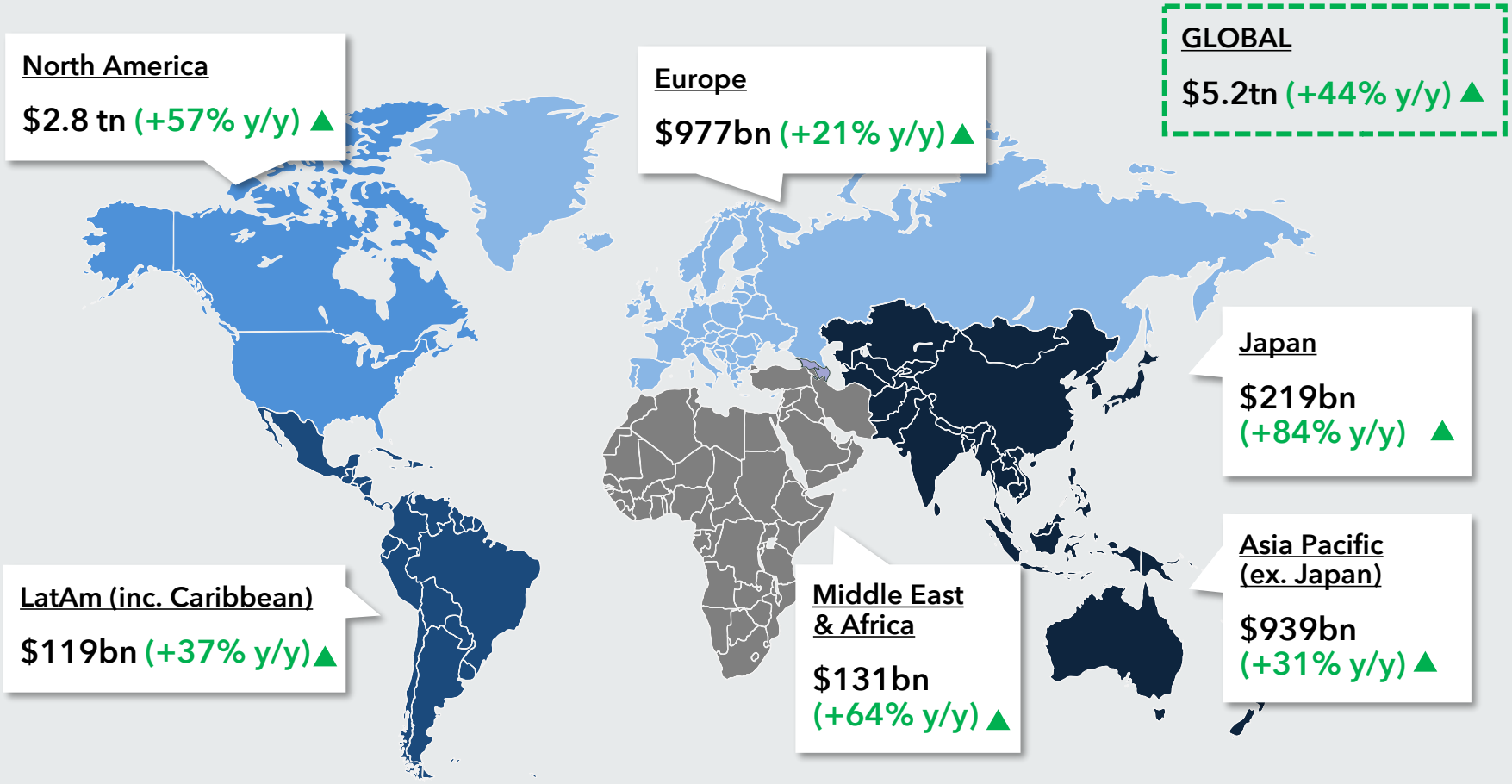
Annual global M&A volumes, USD tn



Source: (1) Dealogic. Cortex. Data through December 31, 2025, accessed on January 15, 2026.

M&A Volumes Up in All Regions Globally

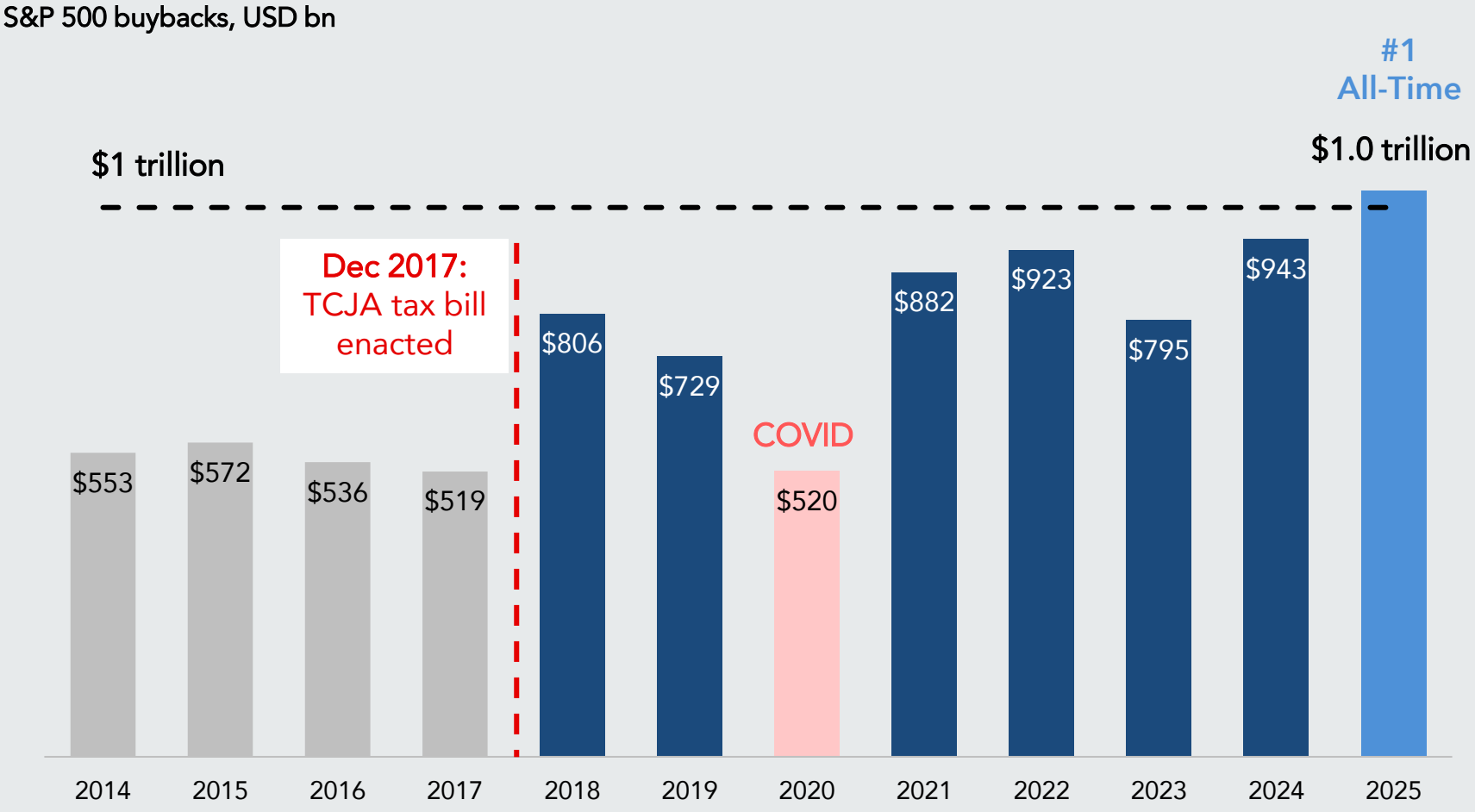
M&A volumes in 2025 vs. 2024 and y/y increase (based on target region)



Source: (1) Dealogic. Cortex. Data through December 31, 2025, accessed on January 15, 2026. Region is by target.

Record Stock Buybacks Just Above $1 Trillion

US stock buyback authorizations and executions set a new record in 2025, rising above $1 trillion for the first time, and driven by elevated earnings, profit margins and free cash flows.



Source: (1) S&P Dow Jones Indices. 2025 data through Q4 2025. Full year 2025 based on year-end estimate.

3 Elevated Term Premia, Steeper Curve, More Dissent

Key Drivers of US Rates in 2026

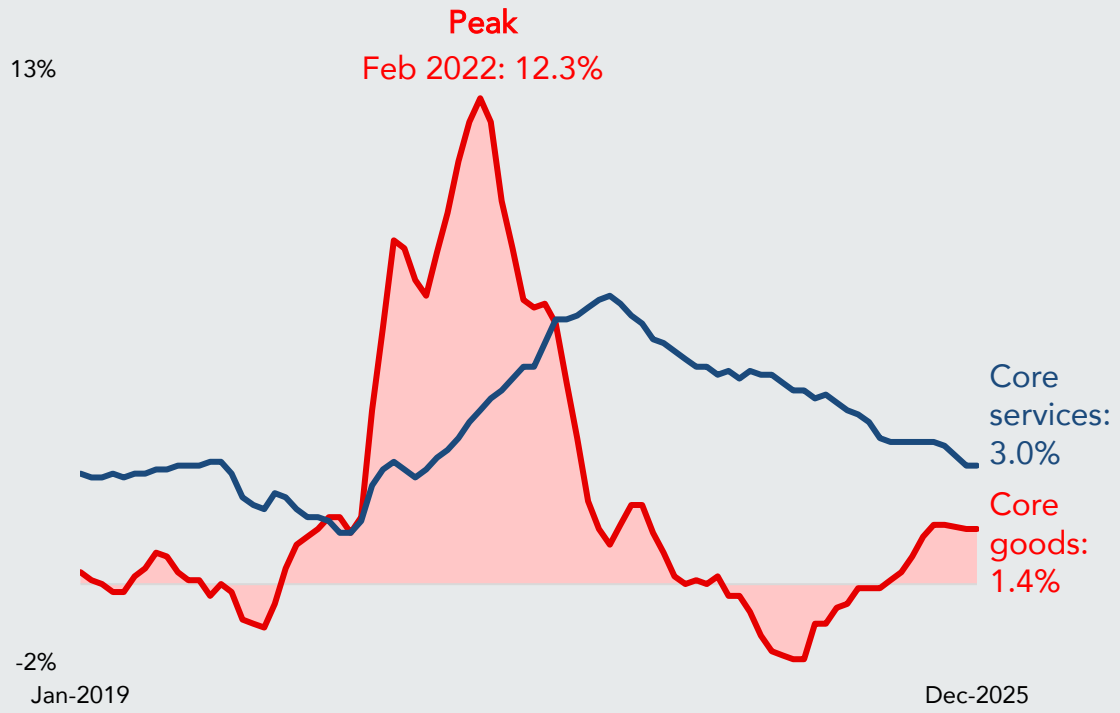
With the Fed easing and inflation sticky, the path of US real rates becomes a key driver for **whether the UST curve experiences bull steepening (front-end rally) or bear steepening (back-end selloff) in 2026.**

- **Fed policy trajectory** (pace of easing)
- **Inflation & real rates path** (curve shape)
- **US economy & labor markets** (soft landing, expansion, recession)
- **Fiscal deficits & US Treasury supply** (structural concerns)
- **Political & policy uncertainty** (i.e., Fed independence, geopolitics, trade)
- **Global monetary policy divergence** (i.e., BOJ, ECB)
- **The AI capex supercycle** ("productivity shock")

US Inflation Points to Extended Fed Pause

The pass through from tariffs to US inflation was more muted than anticipated in 2025 due to service sector disinflation, absorption of costs by US importers and lower energy prices. Nonetheless, inflation remains a strong headwind for the US consumer, especially considering the repricing higher of the entire US economy in the post-COVID period. Recently, US inflation has been sticky near 3%, nearly double the pre-COVID average.

US core goods and services inflation, y/y



Key drivers of contained inflation

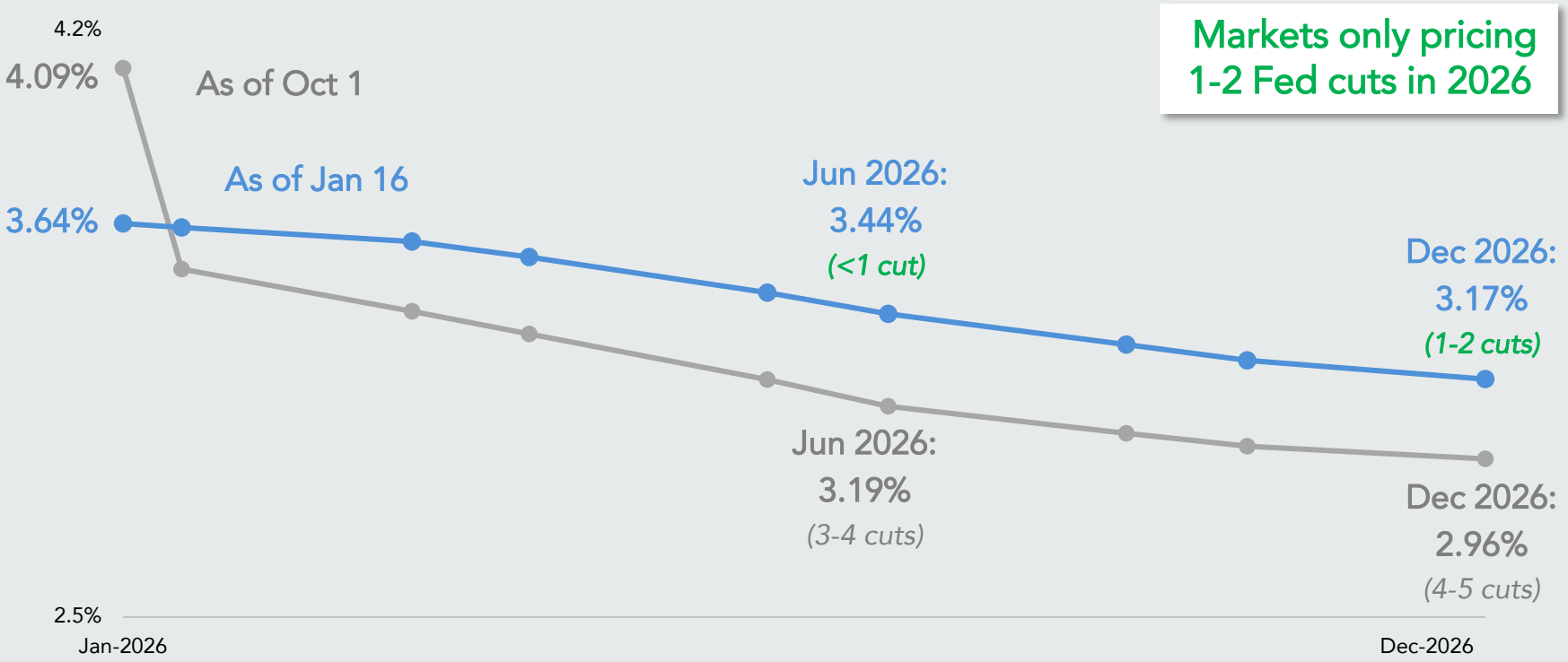
- Low energy prices
- US economy 80% services
- Delayed effective dates on tariffs
- Exemptions for nearly 50% of US imports
- Corporates delaying pass through (strong earnings, tax cuts)

Source: (1) Bloomberg. Data as of January 15, 2026.

Shallow Fed Easing Toward 3% in 2026

Against the backdrop of a global monetary policy easing cycle that accelerated in 2024-25, the Fed's policy easing path in 2026 is expected to be shallow compared to historic cycles. With inflation still "sticky" above target, we expect a "divided" Fed to be cautious in balancing its dual mandate, maintaining an "easing bias" as labor markets weaken, but moving slowly so as not to reignite inflation. **Shallow Fed easing in 2026 likely translates to: (1) modestly lower rates; (2) modestly positive real rates; and (3) contained term premia.**

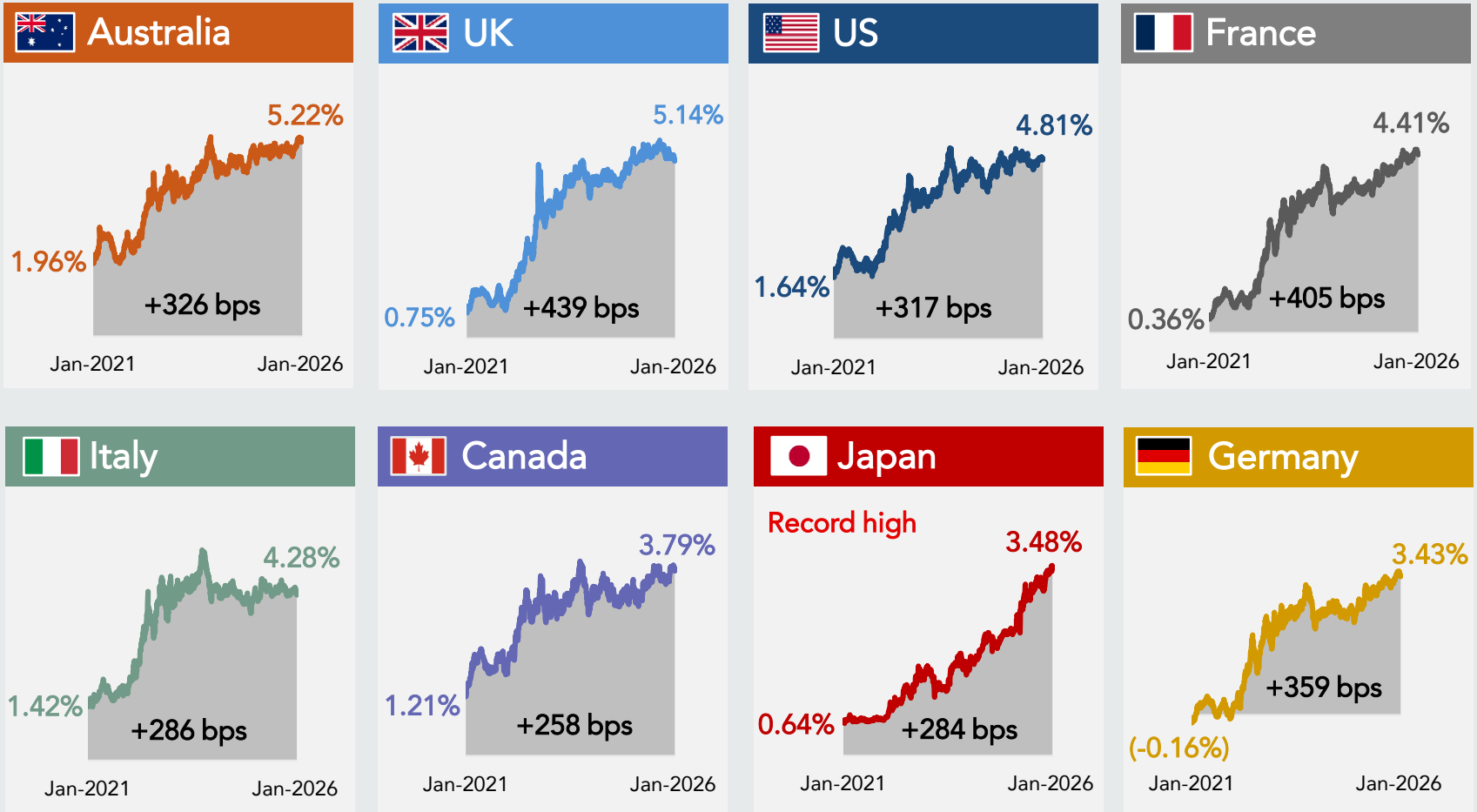
Marked implied Fed Funds rate (Oct 1 vs. today)



Source: (1) Bloomberg. Market implied Fed Funds spot rate is effective rate. Data as of January 16, 2026.

Long End More Sensitive to Fiscal Expansion, Inflation Risk & Heavy Supply

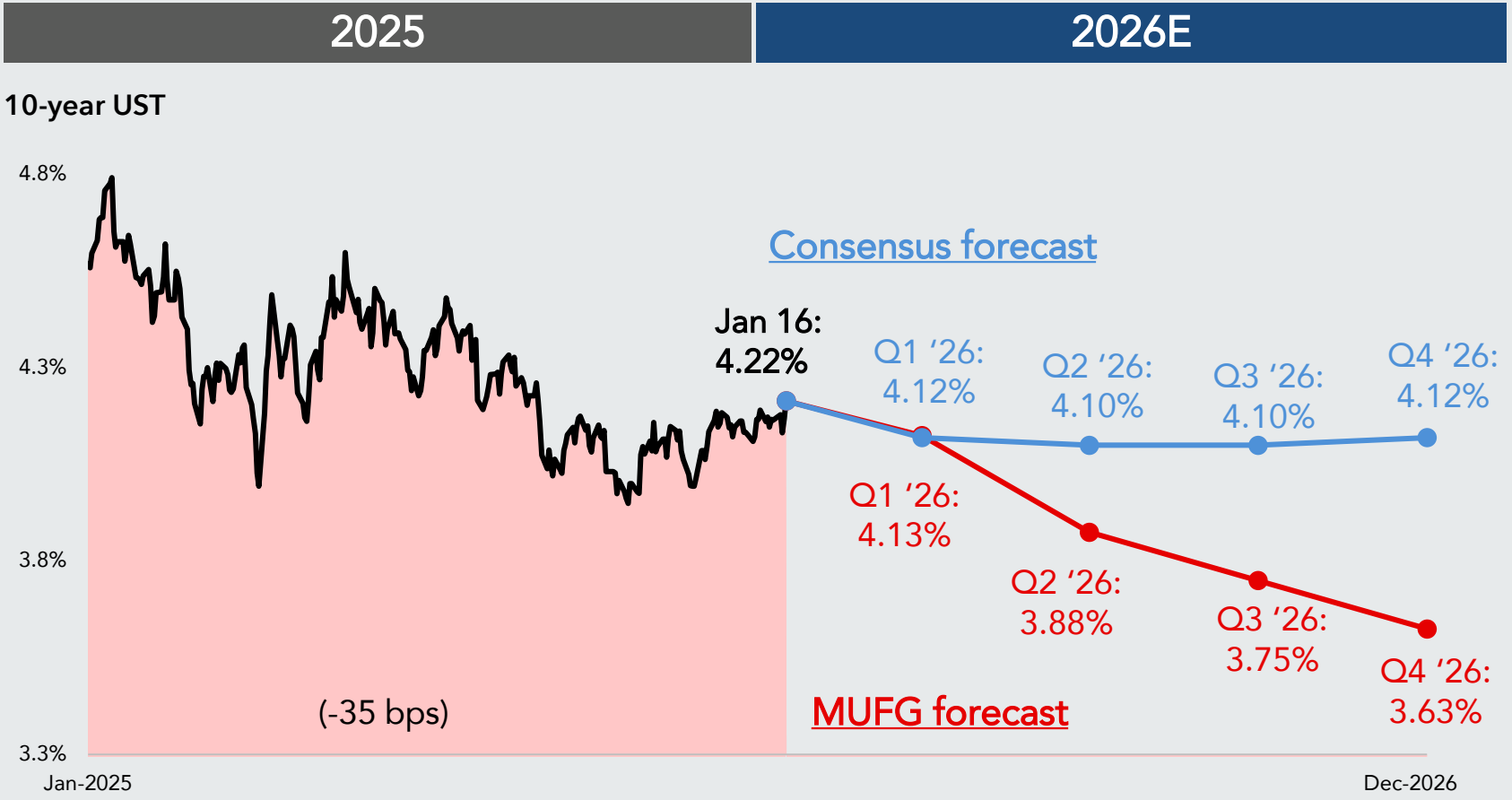
30 yr government bond yields in the post-COVID era



Source: (1-8) Bloomberg. Data as of January 16, 2026.

Lower US Rate Expectations in 2026

MUFG US rates strategist George Goncalves maintains a below consensus view on US rates in 2026 (vis-à-vis both markets and the Fed's dot plot), anchored in: **(1)** a more bearish view of a weakening US consumer and softer labor markets; **(2)** still restrictive Fed policy (vis-à-vis market pricing and Fed dot plot); **(3)** the end of QT; and **(4)** a renewed bull steepening of the curve.

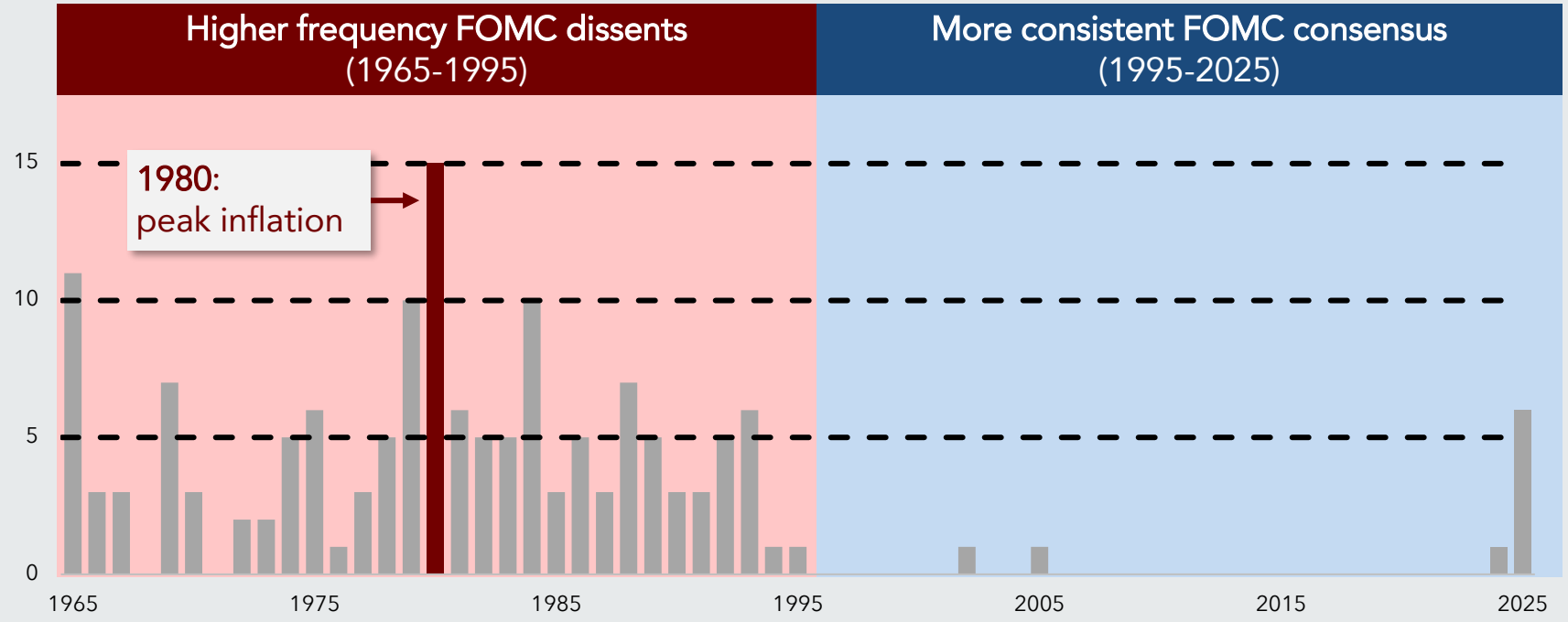


Source: (1) Bloomberg. Data as of January 16, 2026. MUFG (George Goncalves).

New Era of Fed FOMC Dissent Expected

From the mid-1960s through the Volcker and early Greenspan years, dissents on the Fed's FOMC were both **more frequent and clustered around episodes of macro stress**. At the peak of US inflation in 1980, dissent count rose to double-digit territory. Conversely, the late Greenspan, Bernanke and Powell years have been **comparatively more consensus driven**, though empirical reviews of FOMC transcripts suggest that disagreement during this era was more pervasive than vote counts suggest. **Looking ahead, we expect a durable move away from the extremely low dissent rates of the last 30 years, the magnitude of which will vary depending on: (1)** who President Trump chooses to replace Chair Powell, and **(2)** the degree to which Fed monetary policy becomes more politicized, or not.

Number of Federal Reserve Board governor dissents per year



Source: (1) FOMC Dissent Data Appendix to "Making Sense of Dissents: A History of FOMC Dissents." Federal Reserve Bank of St. Louis Review. Data through YE 2025.

4 Geo-Strategic Fragmentation & Fluid Multi-Polar Rebalancing

New Era of Geo-Strategic Fragmentation

New Era of Geo-Strategic Fragmentation

Fluid **multi-polar rebalancing. US-China decoupling** and spheres of influence.

The "Donroe" Doctrine

Trump corollary to Monroe Doctrine (1823). No material Congressional oversight. **Transactional foreign policy** (corporate access and commercial interests). **Resource and Western Hemisphere focused.**

Restructuring of Post-WW2 Global Architecture

"Power-based" global architecture replacing the post-WW2 multilateral, rules-based system of prior 75 years. **Weakening of legacy institutions** (i.e., UN, WTO, WHO, NATO).

Technology & Stealth Force Projection

Asymmetric power via **stealth force projection**, real time intelligence fusion, cyber-sabotage and **high-end technology** capabilities.

"Hard" Power Over "Soft" Power

More unilateral military strikes, especially in own hemisphere. US reticence with "boots on the ground."

Quagmire Risk

Virtual occupations have no precedent; **actual occupations** have bad track record. High risk of open-ended mission drift.

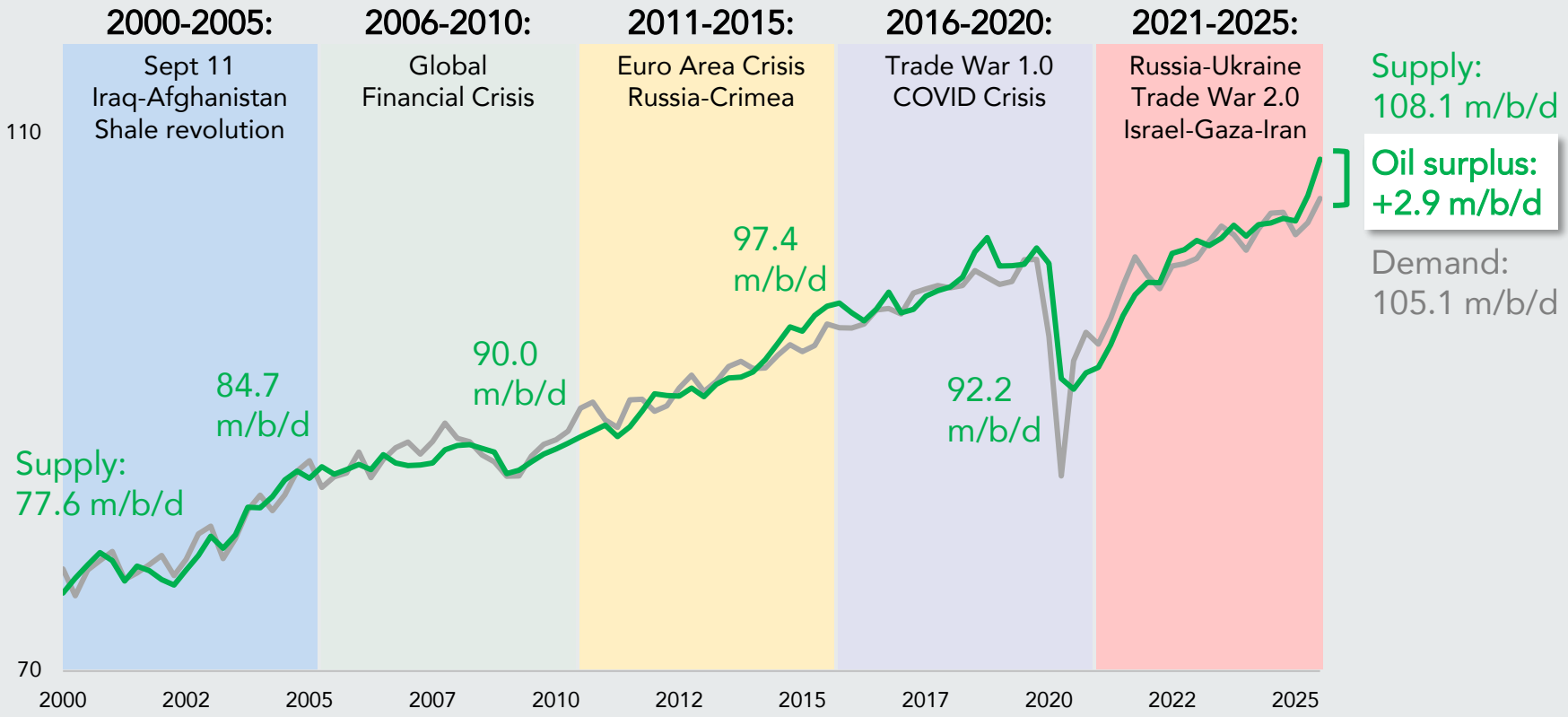
From World Order to Regional Disorder

Selected areas of potential regional conflict in 2026

The Most Well-Supplied Oil Market in History

At nearly 3 m/b/d currently, global oil markets are in what some have called **the most well-supplied oil market in modern history.** Against a backdrop of increased non-OPEC (US, Canada, Brazil, Guyana) and OPEC+ supply in 2025, and structurally lagging demand (weaker macro momentum, China demand shifts), the **International Energy Agency (IEA) is projecting an oil surplus of 3.8 - 3.9 m/b/d in 2026.** This, in turn, has driven Brent and WTI oil prices down to multi-year lows even as geopolitical risk remains high.

Global oil demand and supply, million barrels per day



Source: (1) Bloomberg. Data through Q3 2025, as of January 16, 2026.

Low Oil Prices Increase Foreign Policy Risk Appetite

The more assertive foreign policy positions of President Trump's second term are closely connected to the macroeconomic and market backdrop. Specifically, the combination of **over-supplied global energy markets and low oil prices provide a low ceiling on the macroeconomic cost of geopolitical escalation.** An easing of financial conditions also increases policy flexibility (equity market highs, Fed easing, range-bound rates, tight credit spreads and a weaker dollar).

Brent since Jan 1, 2022

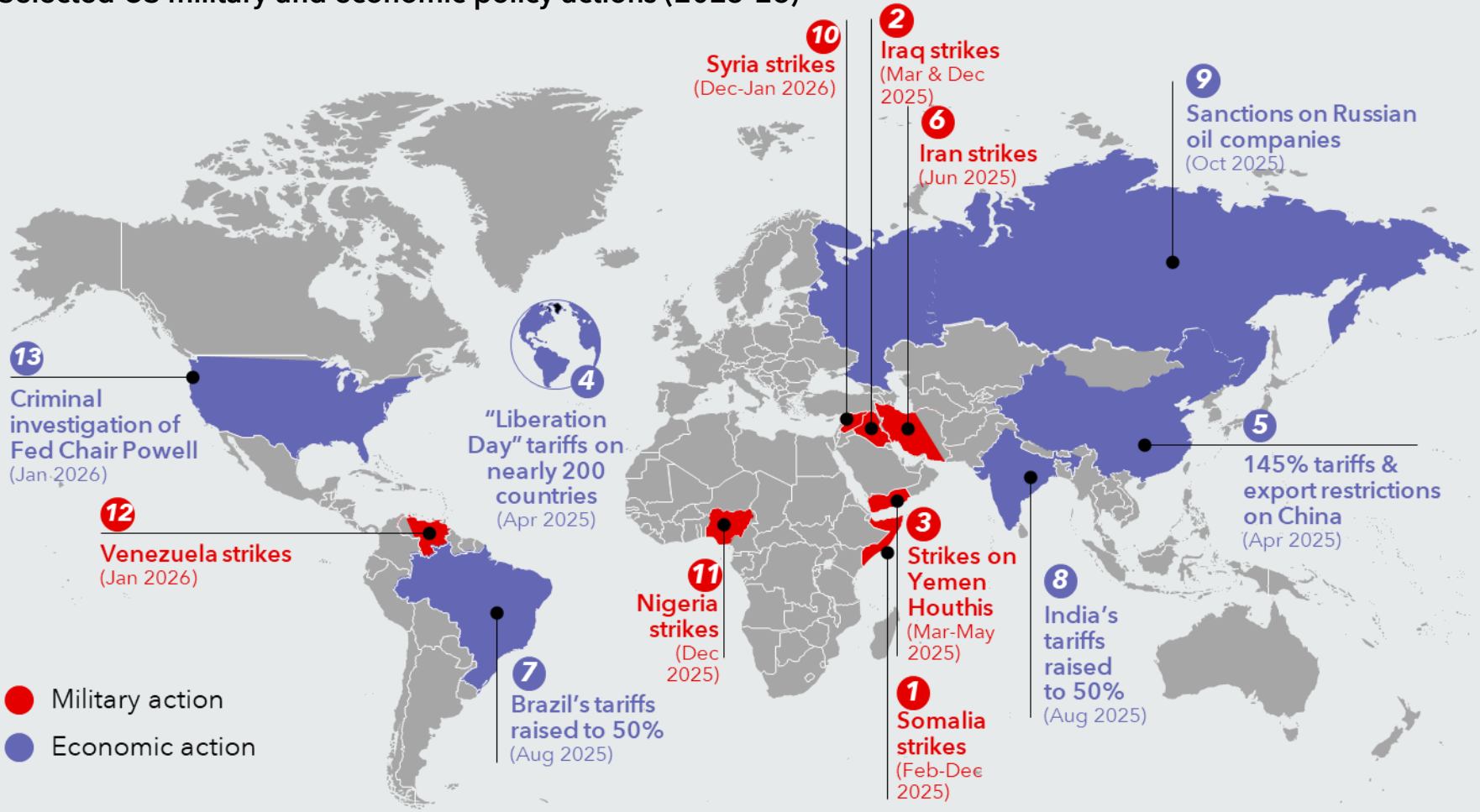
WTI since Jan 1, 2022

Source: (1-2) Bloomberg. Data as of January 16, 2026.

President Trump's More Assertive Foreign Policy

As evidenced by the last 12 months, President Trump has embarked on a much more aggressive policy path with greater risk appetite in his second Presidential term.

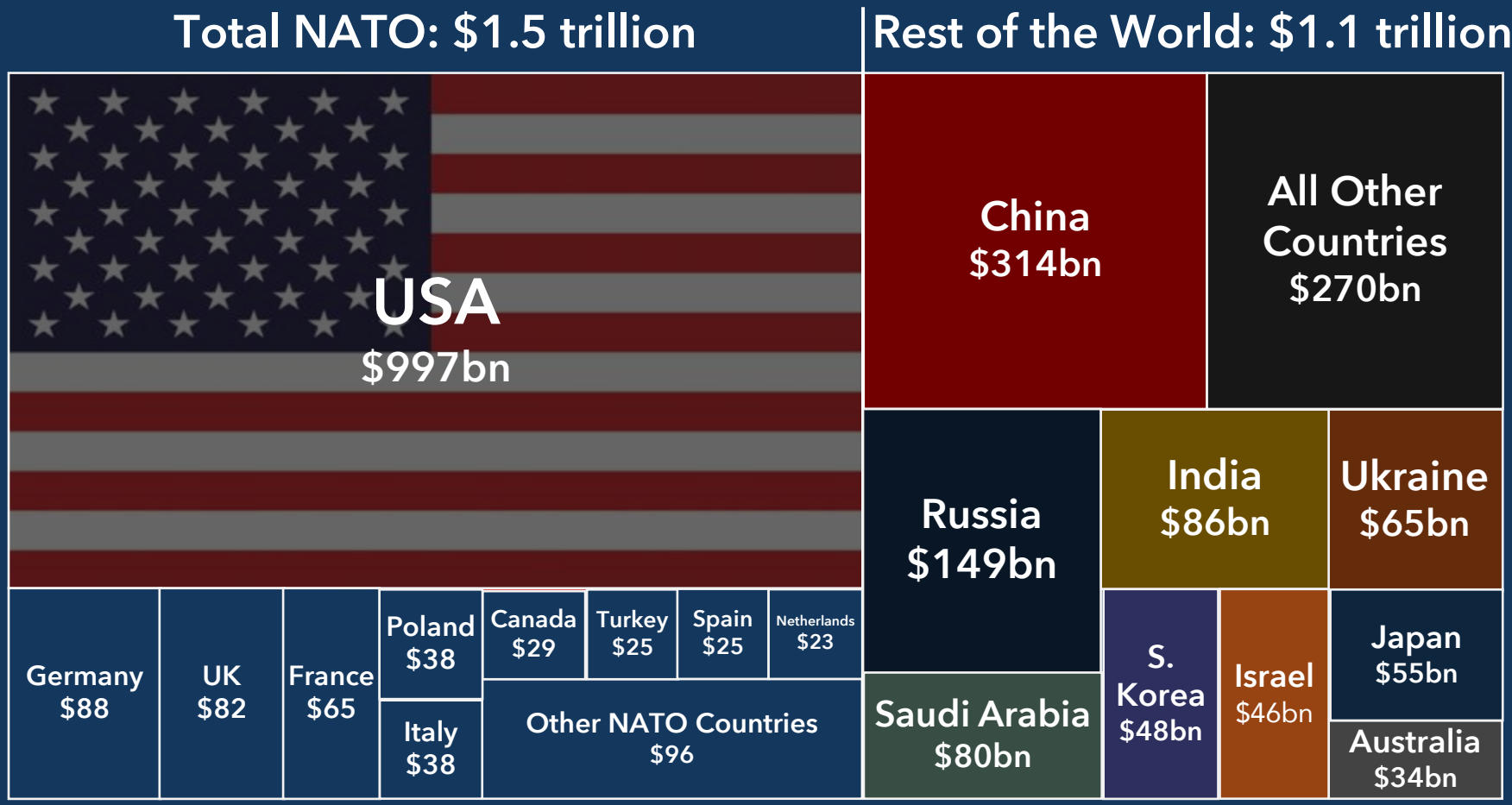
Selected US military and economic policy actions (2025-26)



Source: Bloomberg. Data as of January 12, 2026.

Trump Seeks 50% Increase in Defense Spend to $1.5 Tn

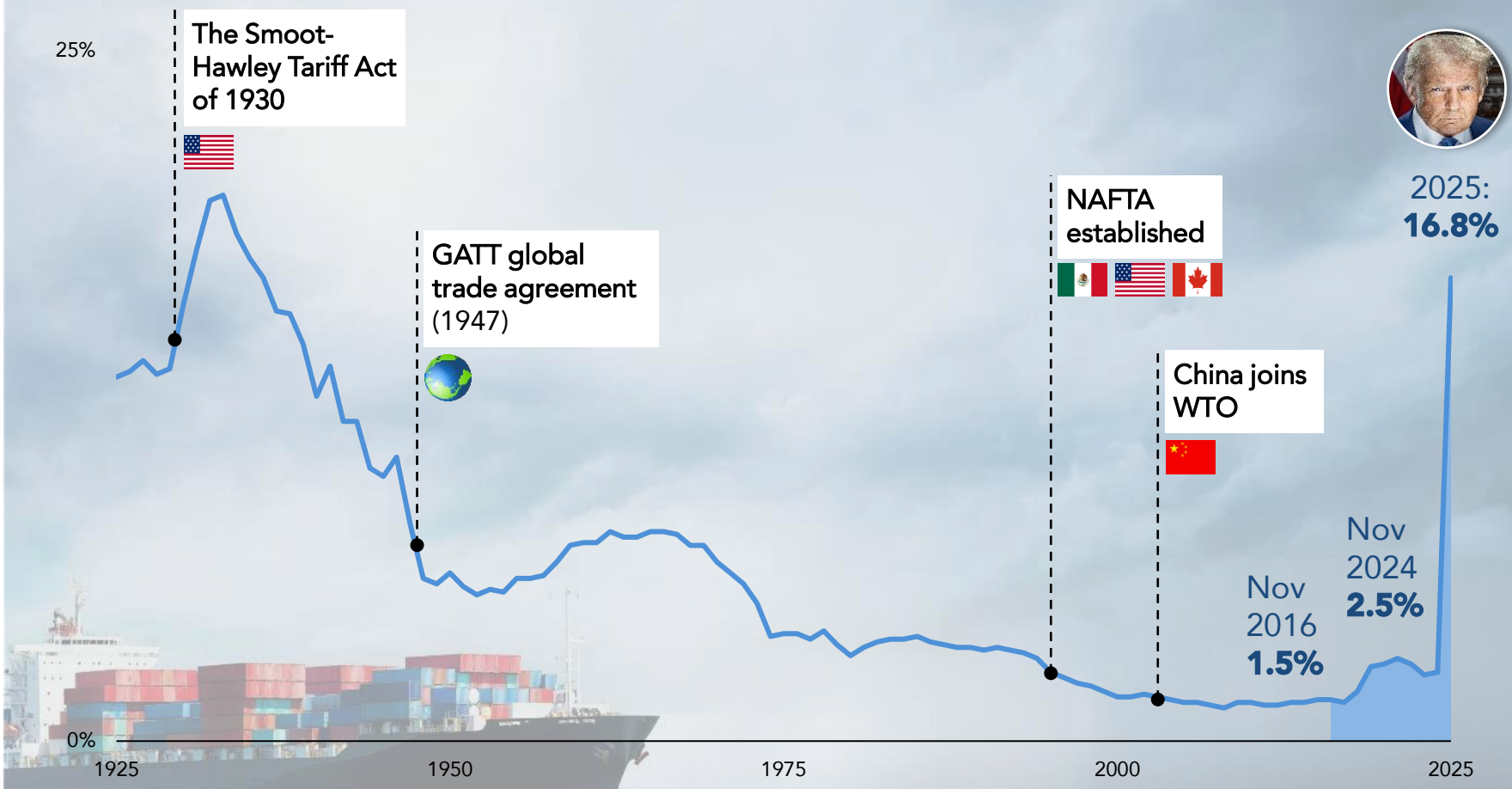
President Trump announced his intent to increase US defense spending by 50% to $1.5 trillion for FY 2027, framing the increase as a move toward 5% of US GDP, up from approx. 3.5% today. Congress would still need to pass authorizing and appropriation bills, with the topline figure still subject to negotiation.



Source: (1) Stockholm International Peace Research Institute. Data is from 2024 in current USD.

We Are Not Going Back to Lower US Tariff Rates

Average tariff rate on all imports

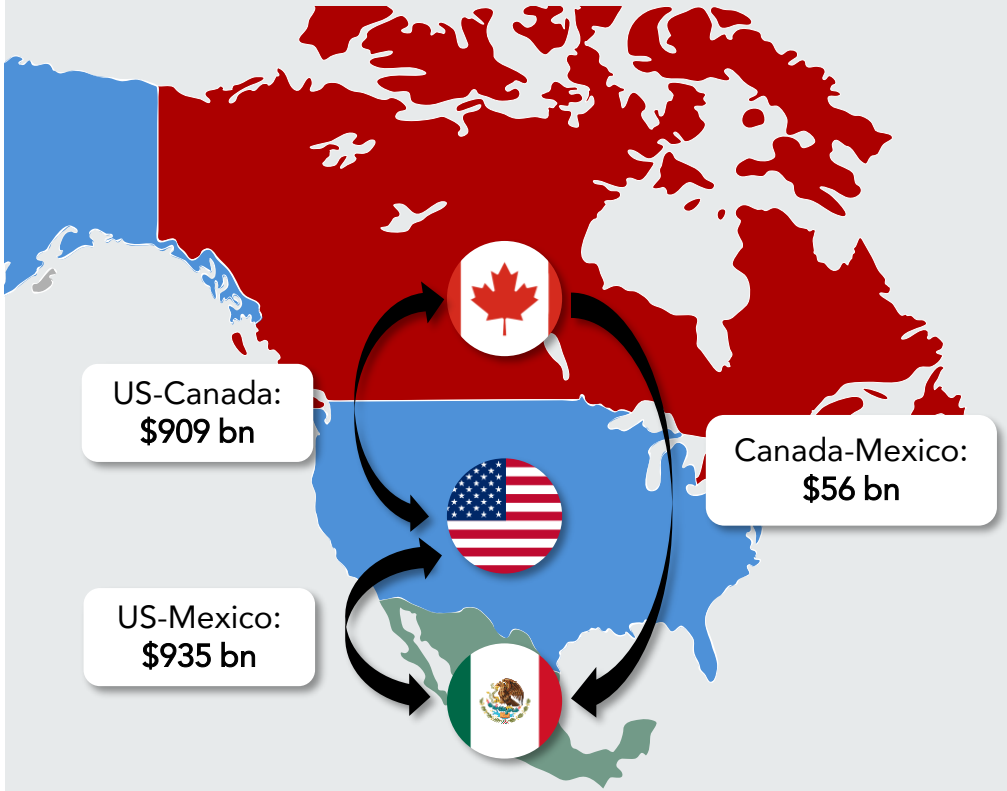


Source: (1) US International Trade Commission, "US Imports for Consumption, Duties Collected, and Ratio of Duties to Value." Table 1. US Census Bureau. The Tax Foundation, "Trump Tariffs: Tracking the Economic Impact of the Trump Trade War." 2025 rate is an estimate from Yale Budget Lab as of November 2025.

Threatening to Withdraw from "Irrelevant" USMCA in 2026

The USMCA (US-Mexico-Canada Agreement) governs trade in the world's largest trading bloc, representing over $30 trillion of GDP. With the USMCA's first joint review set for **July 1, 2026**, President Trump has repeatedly **threatened to withdraw from the "irrelevant" agreement to gain leverage** in negotiations (as he did with NAFTA previously). Another possibility would be to opt against immediate extension in favor of annual reviews.

Trade in goods and services (2024)



Non-trade objectives

(border, fentanyl, defense)

Stricter rules of origin

(US content, labor enforcement, China trans-shipping protections)

Digital Trade & Taxes

(focus on Canada's digital service taxes & other tech focused regulations)

Agriculture policy

(market access, GMO corn, dairy)

Governance & dispute settlement

(enforcement, withdrawal mechanisms & bilateral alternatives)

Source: Office of the USTR. Data as of January 14, 2026.

China's Export Market Resilience

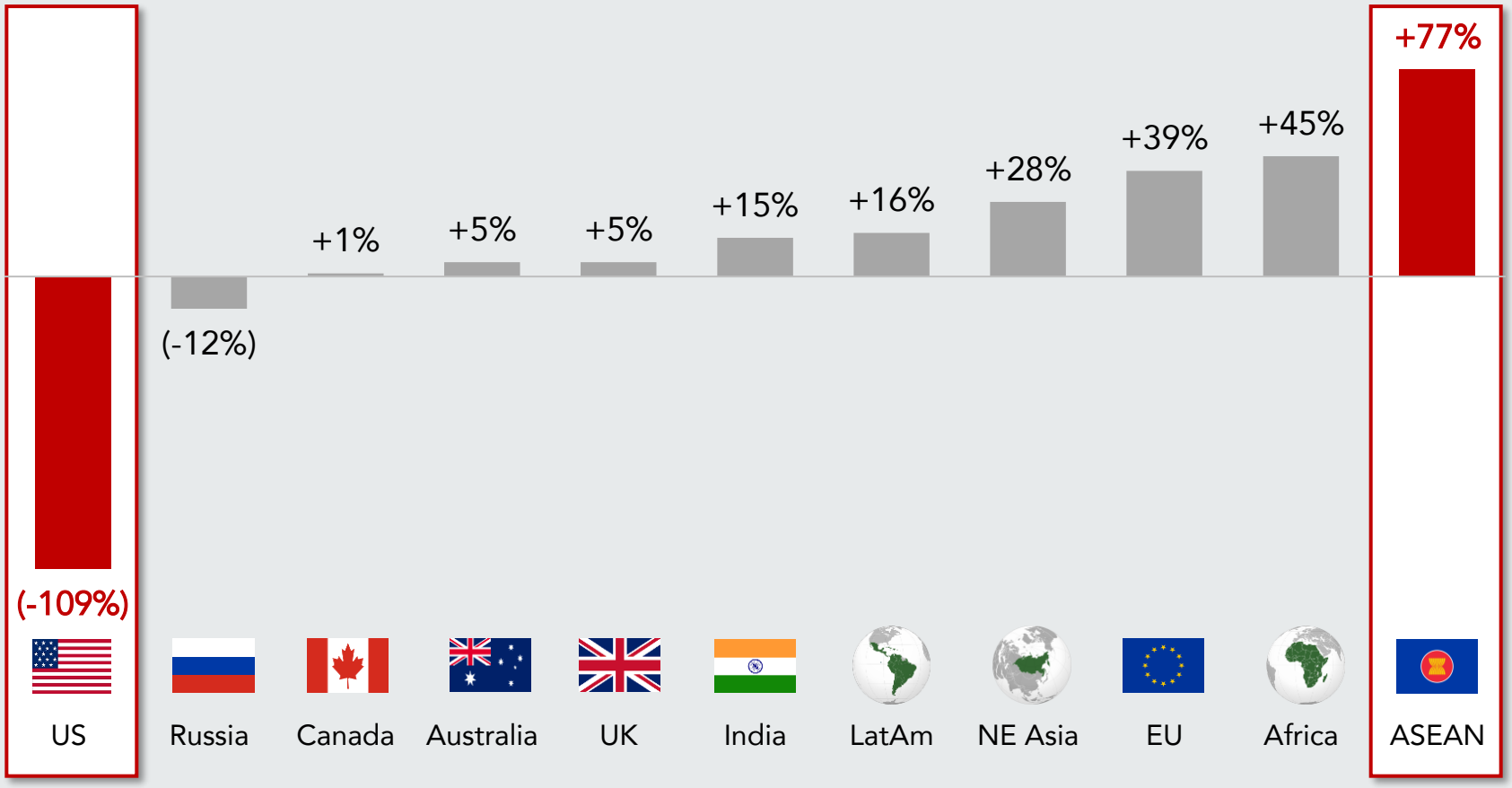
At over $1 trillion, China's trade surplus is more than 4x larger than Germany's, the world's third largest economy, third largest exporter of goods, and second largest trade surplus. Despite US-China policy escalation, China's export market has surged in 2025, with its trade surplus rising above $1 trillion for the first time ever.

Largest global trade balances, USD bn

Source: (1) IMF. Trade surplus data for countries (ex-China) are 12-month trailing through September 2025. China trade surplus data is full year 2025. (2) Bloomberg, "Trump's Endless Trade War Will Damage US as Well as China" (Orlik). China's General Administration of Customs. Data through December 2025.

China Diversifying Away from Developed to Emerging Markets

Change in China's cumulative goods exports by destination, y/y (Feb – Dec 2025)



Source: (1) Oxford Economics, "Exports Shift from Western Consumers to EM Supply Chains." China Customs. Data is cumulative data from February – December 2025.

5 New Era of Resource Nationalism

Venezuela Has the World's Largest Oil Reserves

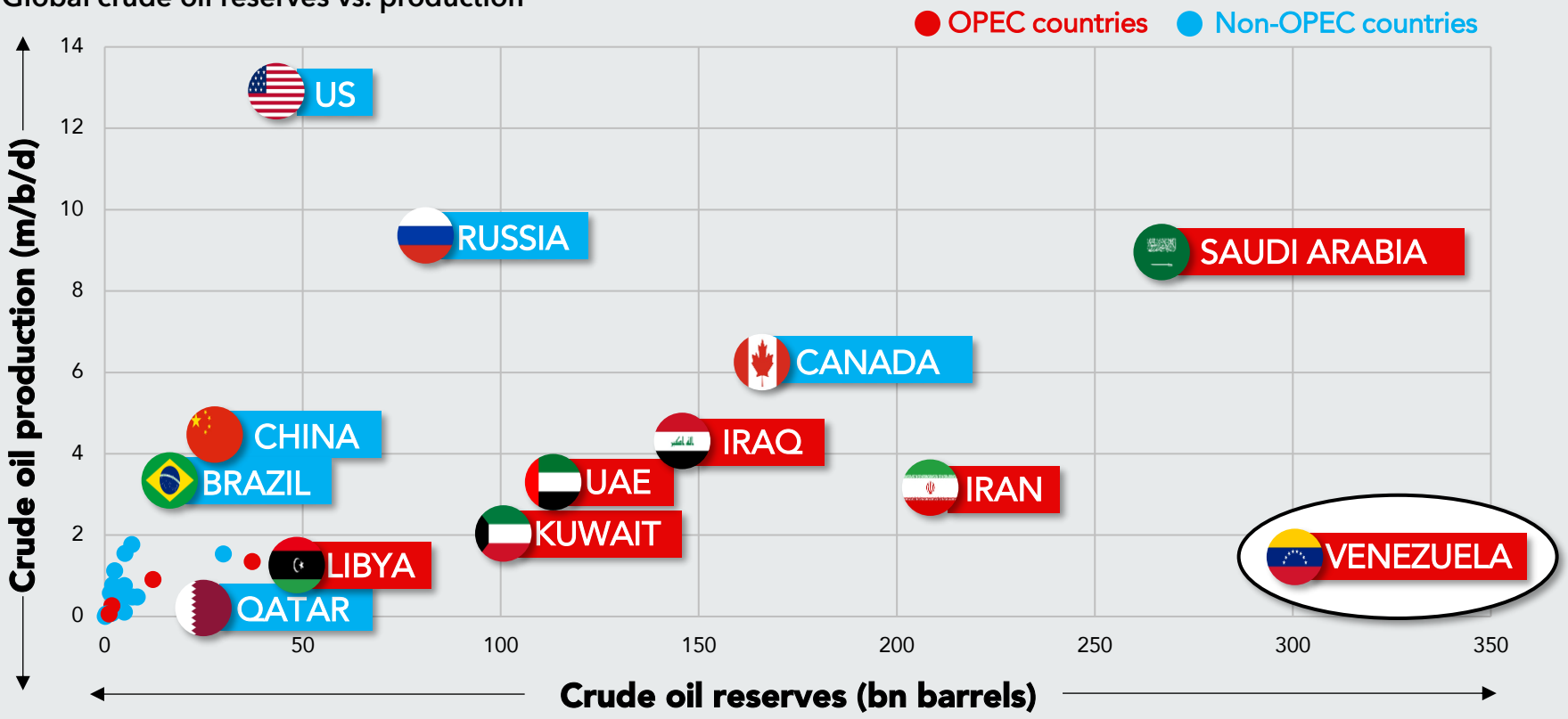
Crude oil reserves, billion barrels

Source: VisualCapitalist. Oil and Gas Journal. Data as of December 2024. Includes only countries with 100,000,000 barrels of crude oil reserves or more.

The World's Largest Oil Reserve-to-Production Ratio (R/P)

Venezuela has **the world's largest oil reserves to production gap**, with an estimated 300 billion barrels of crude oil reserves and less than 1 m/b/d of daily production. This translates to **the world's most extreme reserve-to-production ratio (R/P)** at more than 800 years by some estimates. In contrast, with extraordinarily high production vis-à-vis its reserves, the United States has a much lower reserve-to-production ratio of roughly 10-15 years (absent new reserve discoveries, technology improvements, regulatory policy changes, etc).

Global crude oil reserves vs. production



Source: (1) OPEC, "Annual Statistical Bulletin (2025)". Canada value includes oil sands.

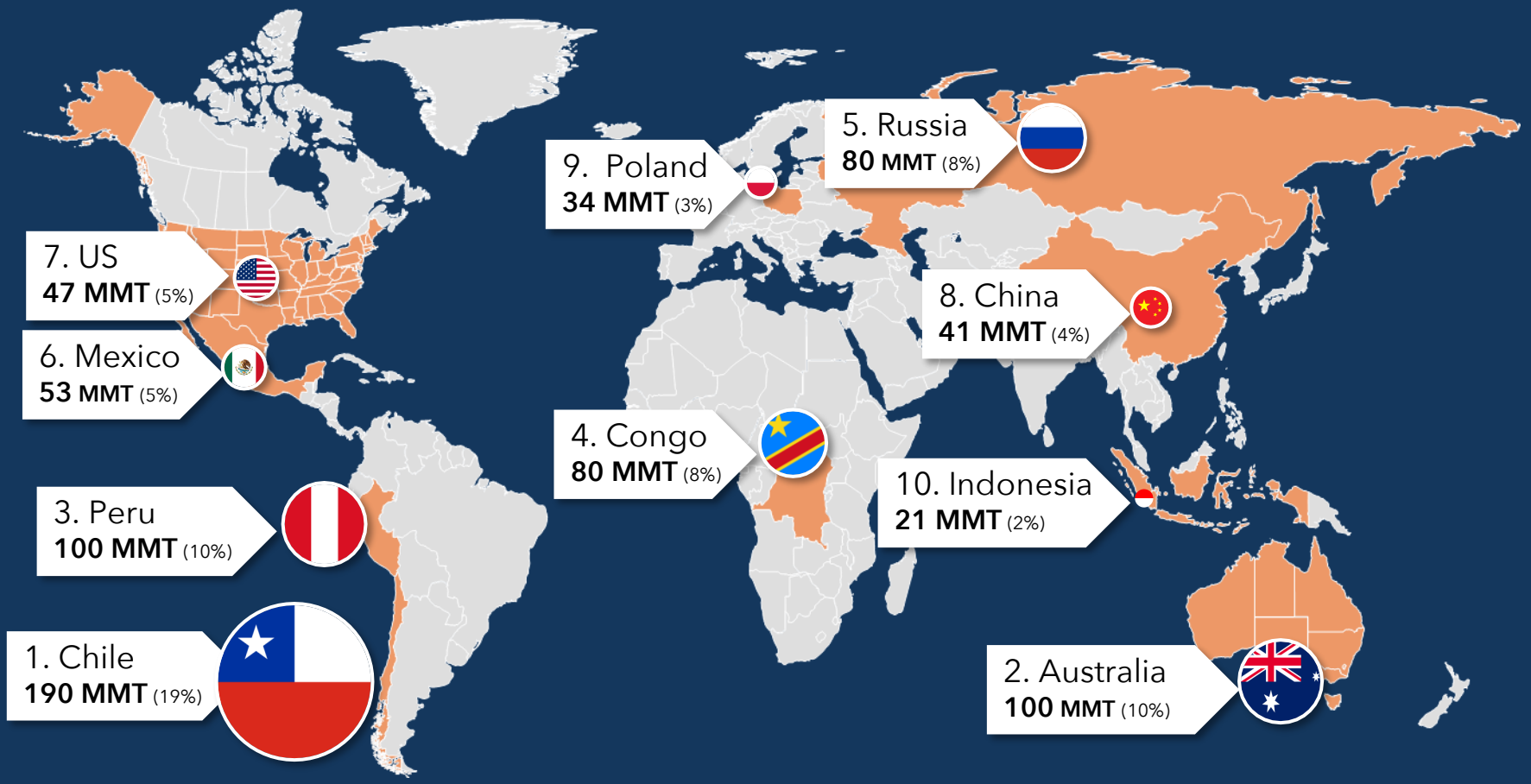
Key Challenges to Ramping Venezuelan Production

The structural and institutional obstacles to significantly rebuild Venezuelan oil production will take years to address with significant risk involved for participating companies.

Massive capex	Estimated at USD $150 - $200 billion (upstream, midstream & refining)
Decaying infrastructure	PDVSA's pipelines, upgraders, refineries and terminals
Oil prices & ROI	Massive global oil-oversupply; low prices and high break-evens; ROI uncertainty on long cycle, heavy-crude
Crude type	Extra-heavy, high-viscosity crude; longer cycle projects
Operational limits	Loss of human capital; emigration; deep expertise for heavy crude
Power grid	Frequent electricity blackouts, power instability; unreliable water systems, sabotage
Political risk	Instability; political fragmentation; poverty; social unrest
Legal uncertainty	Rule of law; contract uncertainty; litigation claims on USD $150 – 200 bn of external debt
Governance	Corruption; patronage; opaque contracting; weak institutional and oversight architecture

Top 10 Sources of Global Copper Reserves

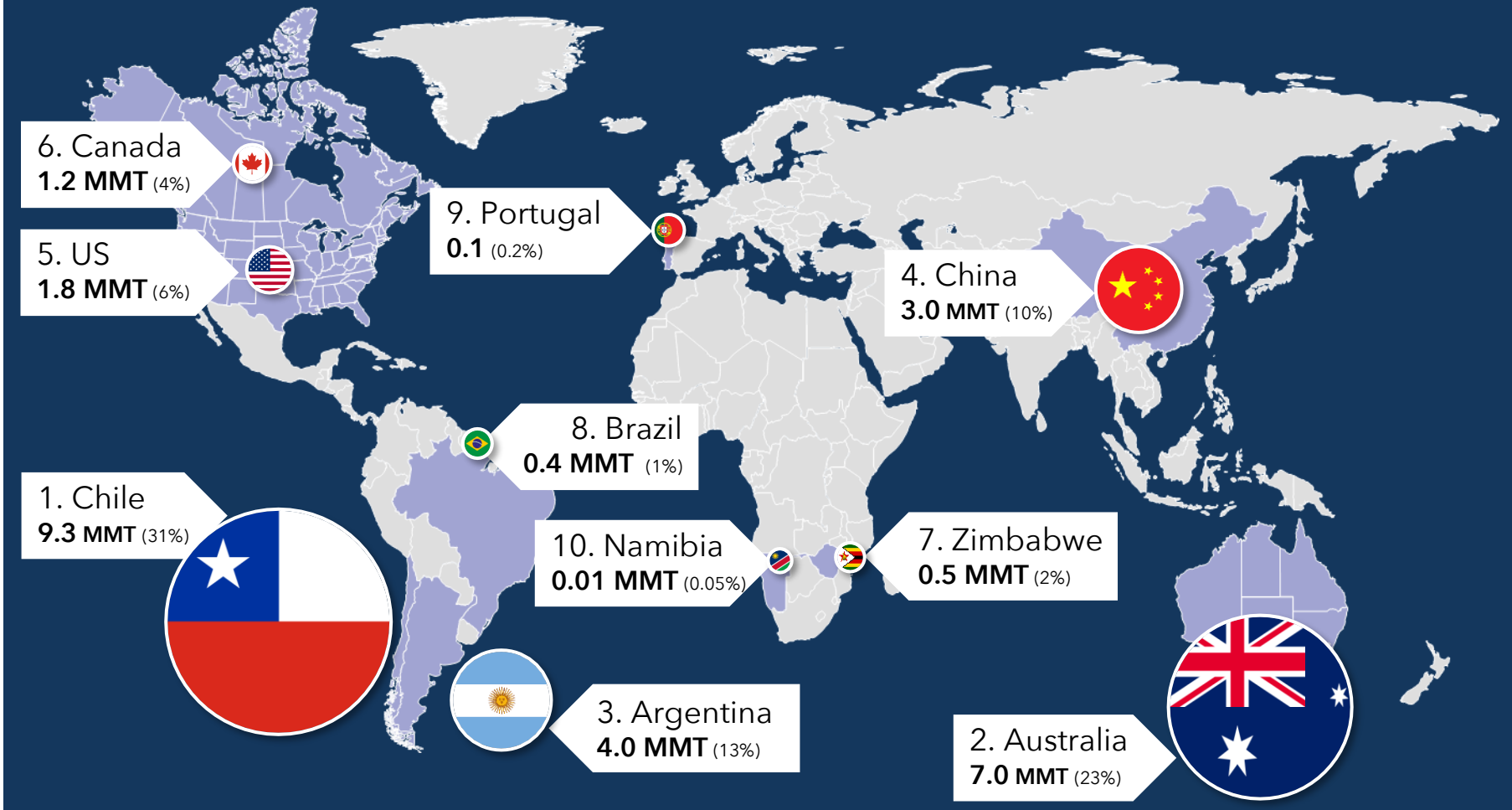
Global copper reserves, million tons (2024)



Source: US Geological Survey. Mineral Commodity Summaries 2025.

Top 10 Sources of Global Lithium Reserves

Global lithium reserves, million tons (2024)

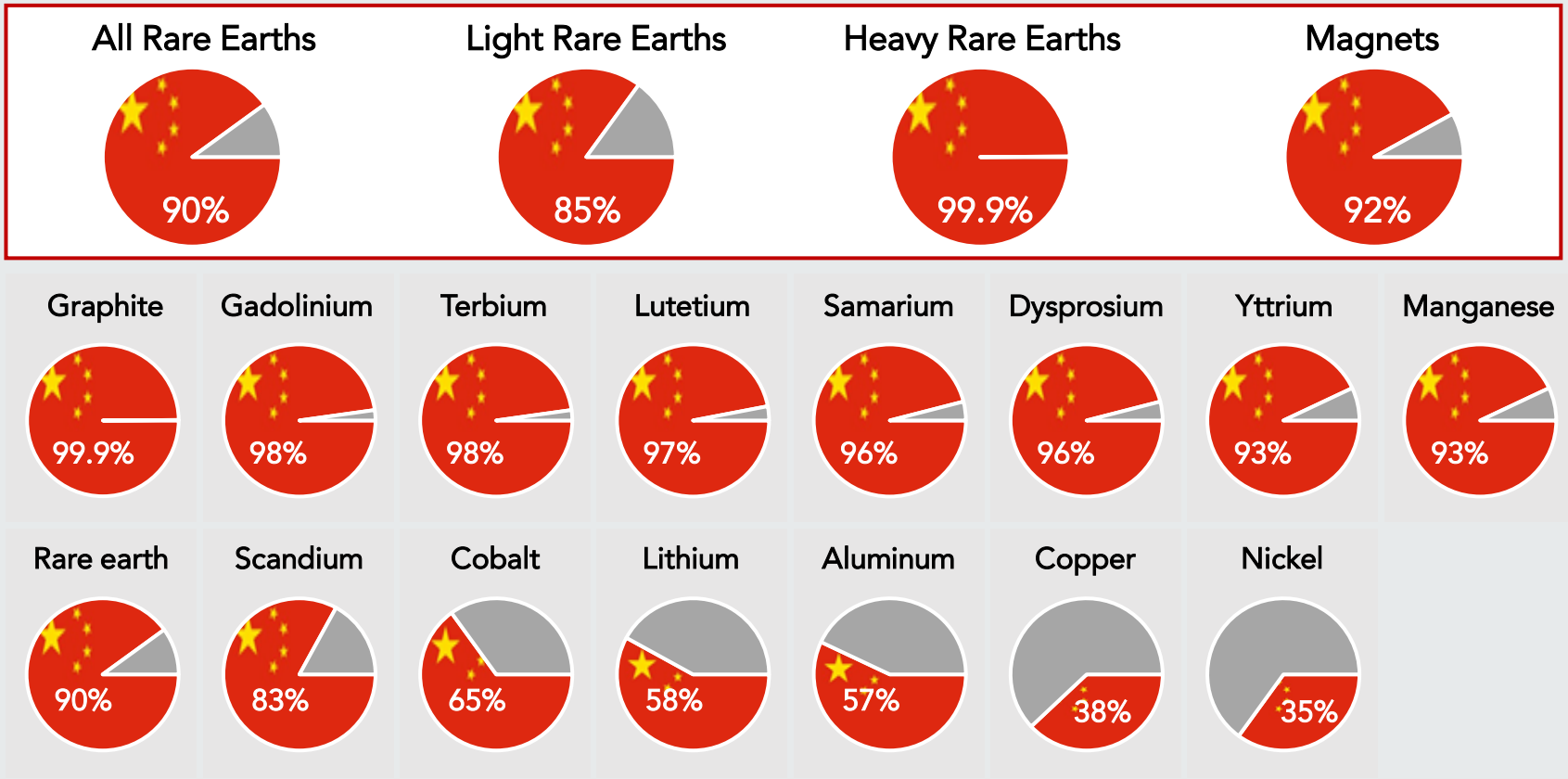


Source: US Geological Survey. Mineral Commodity Summaries 2025.

China's Dominance in Refining Minerals

China's formidable leadership in strategic minerals is even more entrenched in the **refining** and **processing** of rare earths, with market share > 90% in many key areas. While the US may have advantages in waging economic warfare on semiconductors, China's leverage lies squarely in the mineral arena, a gap that could take 10-20 years to close.

China's market share in the refining of rare earths and critical minerals

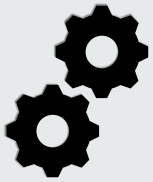


Source: (1-4) Polytechnique Insights, "China has a monopoly on rare earth metals". CSIS, "What China's Ban on Rare Earths Processing Technology Exports Means". (5-19) US Geological Survey. UNCTAD – Digital Economy Report (2024). Data as of 2023.

6 Largest Infrastructure Project in History

The Fourth Industrial Revolution

Artificial intelligence (AI) has become the central enabler and catalyst of the Fourth Industrial Revolution, which began more than a decade ago. Machine based learning, automation and analytics will fundamentally transform business models, industry structure and social dynamics.



1ST
(1760-1840)

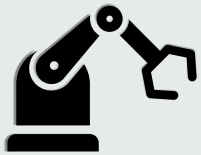
Mechanization

Steam engine, mechanized textile machines, water power

2ND
(1870-1914)

Mass Production

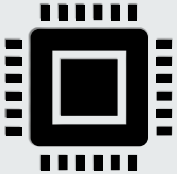
Electricity, telegraph, telephone, internal combustion engine, mass production and assembly lines



3RD
(1960s-90s)

Digital Revolution

Computers, internet, automation and robotics in manufacturing, nuclear energy



4th
(2011-Today)

Advanced Digital Technologies

AI, Machine Learning, Big Data, Internet of Things, Cloud, Cyber-Physical Systems,, advanced robots

Source: World Economic Forum. Transport Geography. Disruptive Leadership Institute. Science Direct. PowerMI. Various News Outlets.

When We Look Back a Decade from Now…

- Highest impact technology revolution in history
- Largest global infrastructure project in history
- Most accelerated power expansion buildout in history
- Largest capex super-cycle in history
- Largest allocation & investment of capital in history

The US-Domiciled AI Ecosystem

Selected leading US companies in each sub-sector

Hyperscalers

- Google Cloud
- Microsoft Azure
- AWS
- Meta
- Oracle

Semiconductors & Infrastructure

Chip Companies
- Nvidia
- AMD
- Qualcomm
- Intel
- Cerebras
- SambaNova

Networking
- Arista
- Juniper
- Extreme Networks

Cloud Platforms
- Coreweave
- Snowflake
- Lambda

Data Centers
- QTS
- Equinix
- Digital Realty
- Vantage

Foundation Models
- Meta
- OpenAI
- Google DeepMind
- Cohere
- xAI
- Anthropic

Enterprise AI
- IBM
- Palantir
- Salesforce
- ServiceNow
- Uipath
- Workday
- C3.ai
- Automation Anywhere

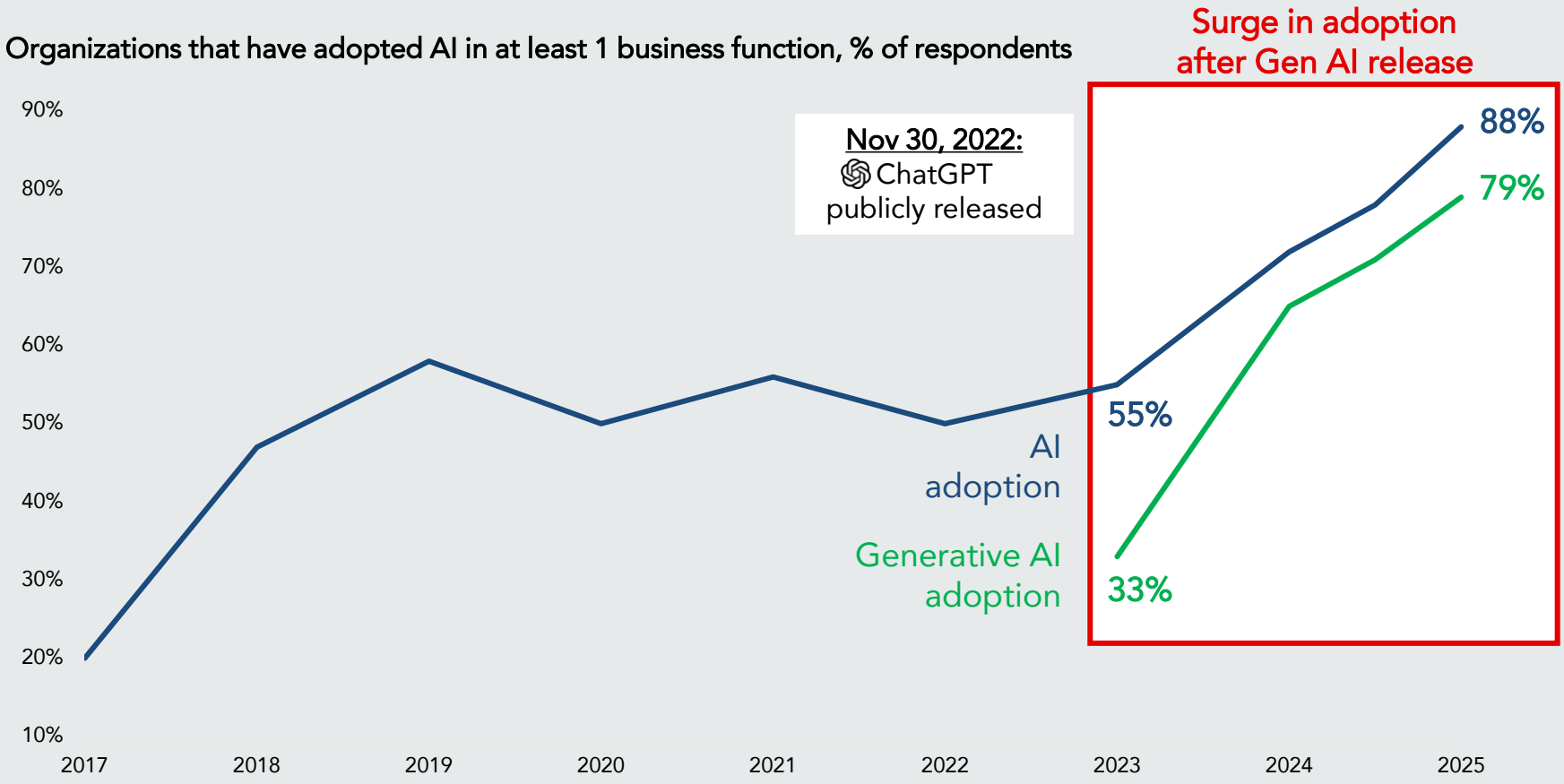
Middleware
- Alteryx
- Arize
- Cloudera
- Pachyderm
- Dynatrace
- Runpod
- Datadog
- Modal
- FireworksAI
- Acceldata
- Replicate
- Fiddler

Data
- Databricks
- ScaleAI
- MongoDB
- Gretel
- GenRocket
- Cleanlab

Security
- CrowdStrike
- Fortinet
- Zscaler
- Darktrace
- ShieldAI
- Anduril

Business AI Adoption Surges After ChatGPT Release

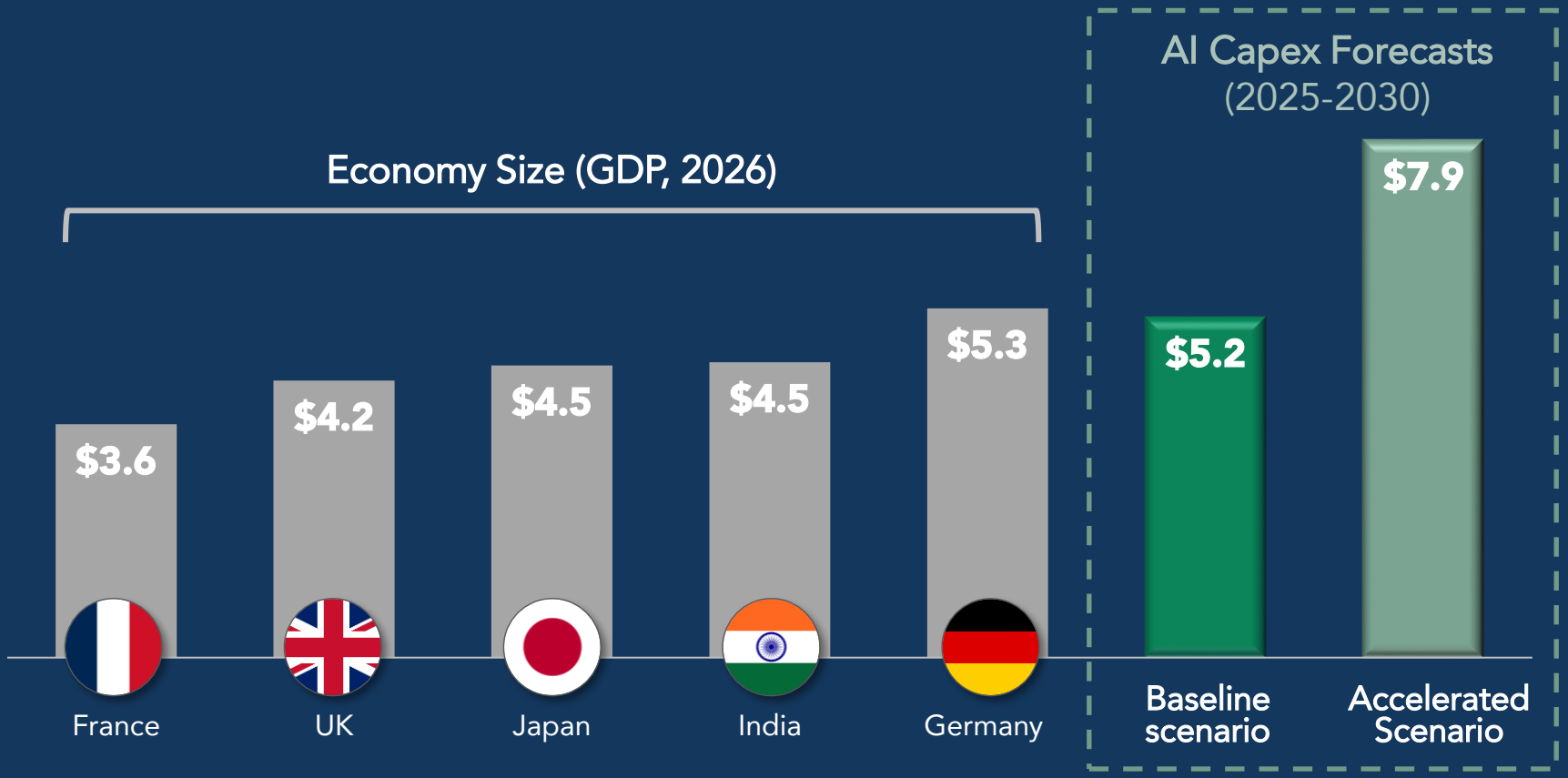
For the six years between 2018 and 2023, AI adoption by respondents to a McKinsey study hovered around 50%. Since ChatGPT's release three years ago, adoption rates surged to nearly 90% and 80% for AI and generative AI, respectively.



Source: (1) QuantumBlack AI by McKinsey, "The State of AI: Agents, innovation, and transformation." In 2017, the definition for AI adoption was using AI in a core part of the organization's business or at scale. In 2018 and 2019, the definition was embedding at least 1 AI capability in business processes or products. Since 2020, the definition has been that the organization has adopted AI in at least 1 function. McKinsey Global Survey on AI, 1,993 participants across 105 nations, Jun 25– July 29, 2025.

AI Capex Demands Larger than Most Global Economies

To put the scale of AI's capex requirements in context, McKinsey and Company's baseline and accelerated AI forecasts over the next five years (2030) are larger than the GDP of every global economy, except the US and China.

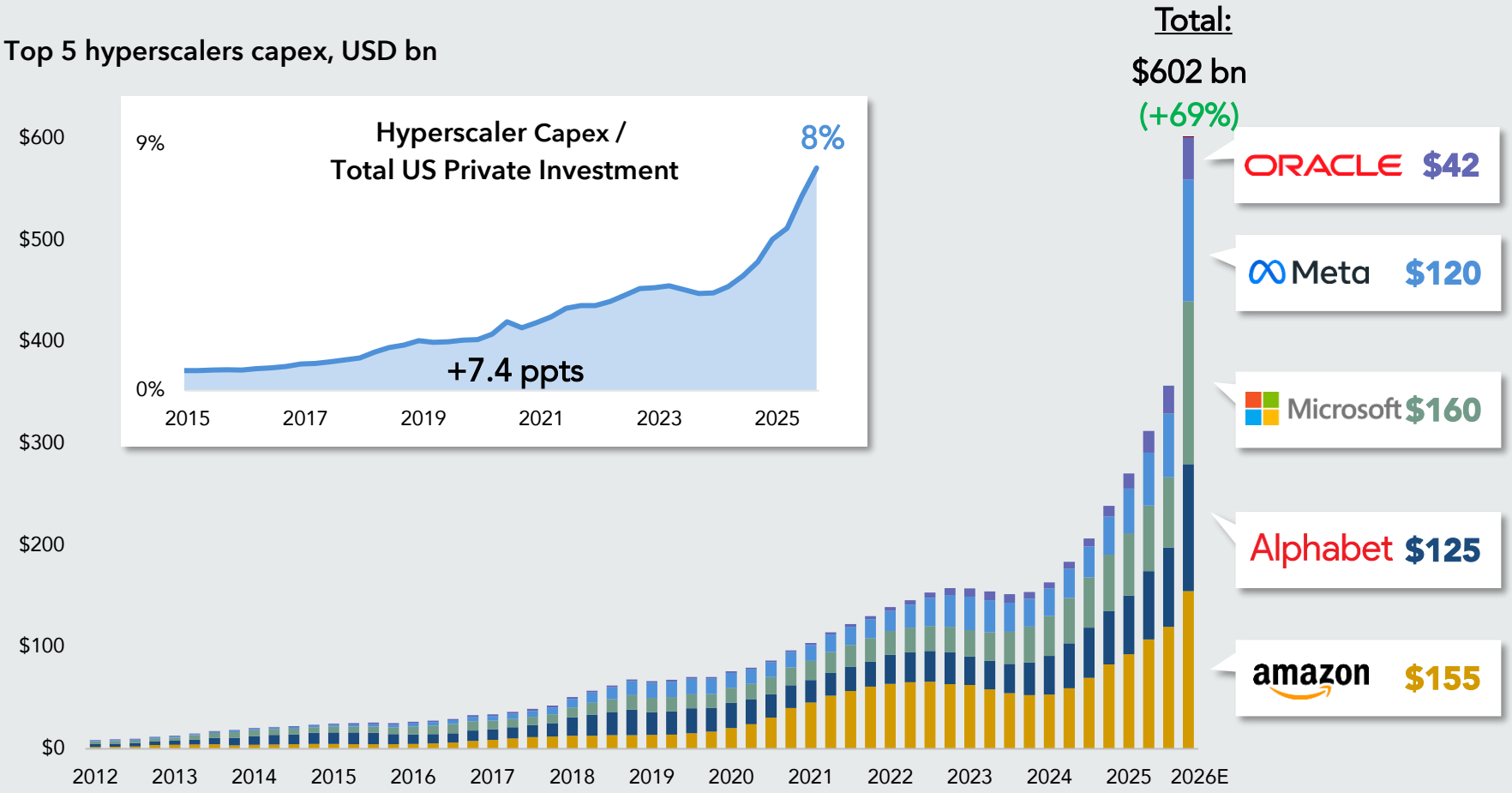


Source: (1) McKinsey, "The cost of compute – a $7 trillion dollar race to scale data centers." McKinsey Data Center Capex TAM model. McKinsey Data Center Demand Model. Data center infrastructure excludes IT services and software (e.g. operating system, data center infrastructure management), since they require relatively low capex compared with other components. GDP forecast is 2026 IMF.

Hyperscalers' Capex Above $600 Bn in 2026

Hyperscaler capex spending for the "big five" is now widely forecast to exceed $600 bn in 2026, nearly a 70% increase over 2025. Roughly 75%, or $450 bn, of that spend is directly tied to AI infrastructure (i.e., servers, GPUs, datacenters, equipment), rather than traditional cloud.

Top 5 hyperscalers capex, USD bn



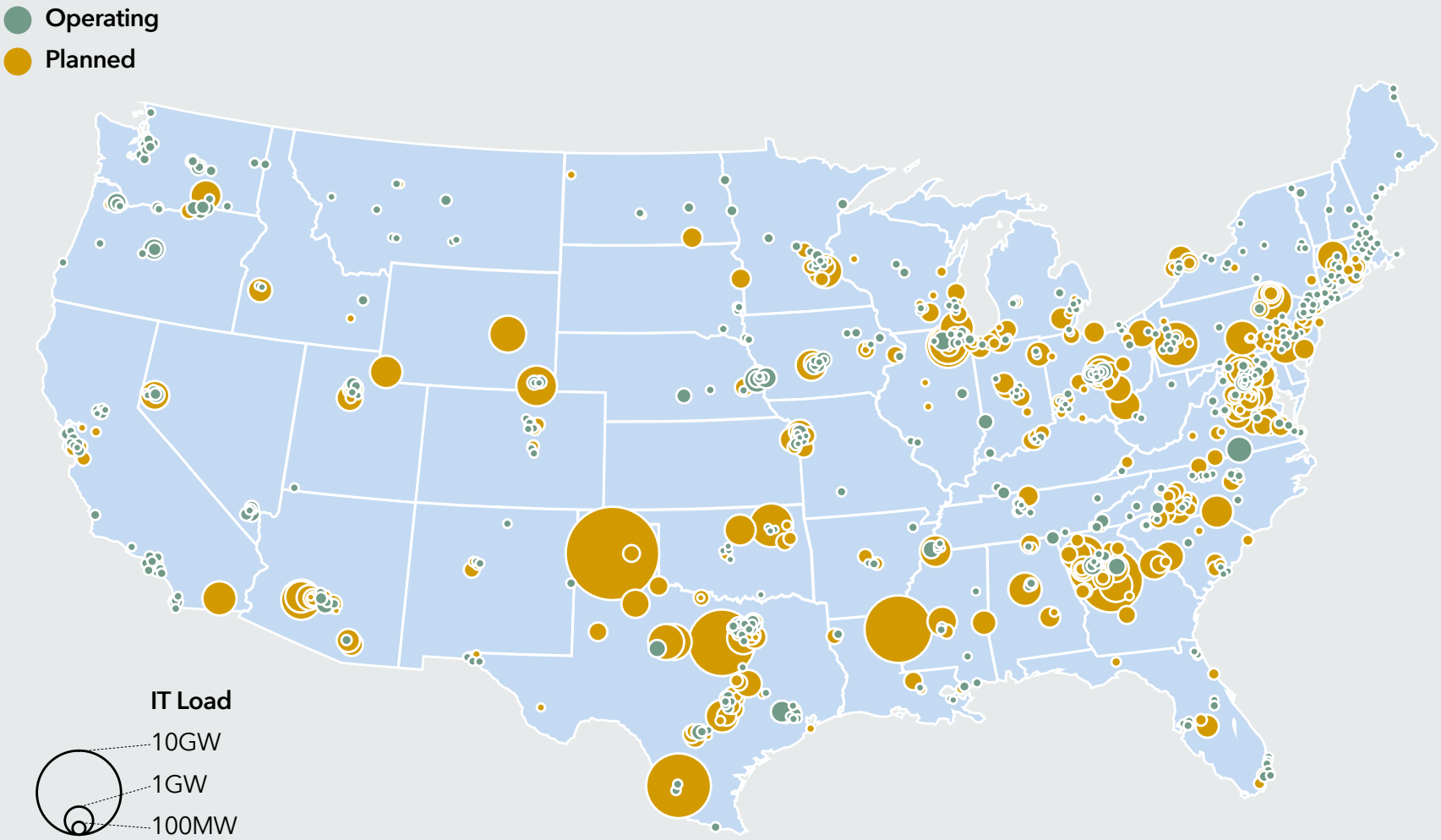
Source: (1-2) Bloomberg, "The AI Spending Boom Is Huge But Not Unprecedented". Apollo (Torsten Slok). Data trailing 12 months, 2025 through Q3 2025. Oracle's quarters end a month earlier than the other companies. 2026E data is CreditSights annual estimate. Oracle estimate for FY 2026.

Top 10 Countries by Data Centers

Global data centers

Source: Cloudscene. Data as of August 2025.

Operating & Planned US Data Center Sites



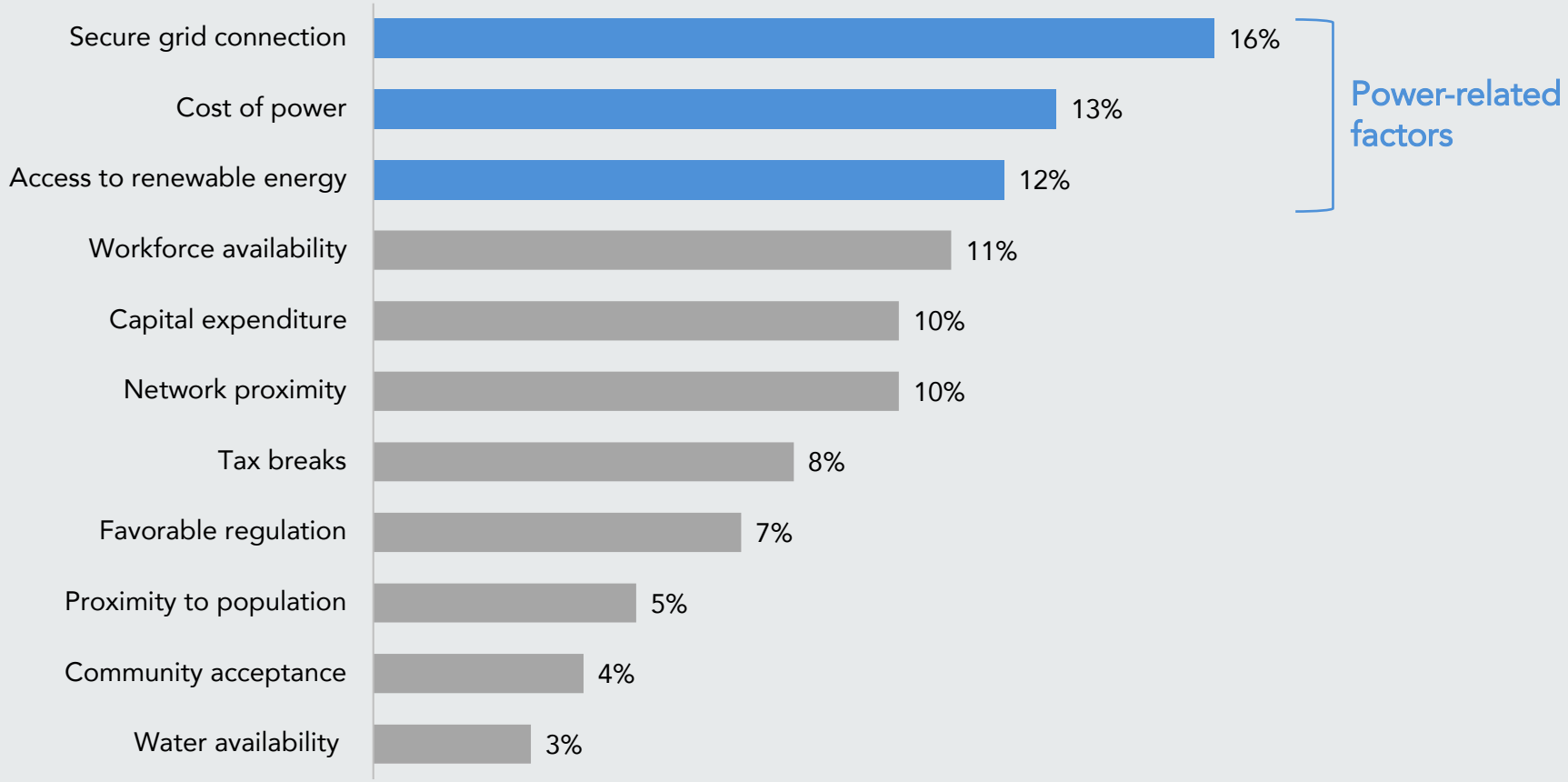
Source: DC Byte. CMRA. FT, "The Power Crunch Threatening AI's Ambitions."

7 Power Grid Demands & Capacity Expansion

Power is Key Variable in Data Site Selection

Power related factors are among the most important factors in data center site selection.

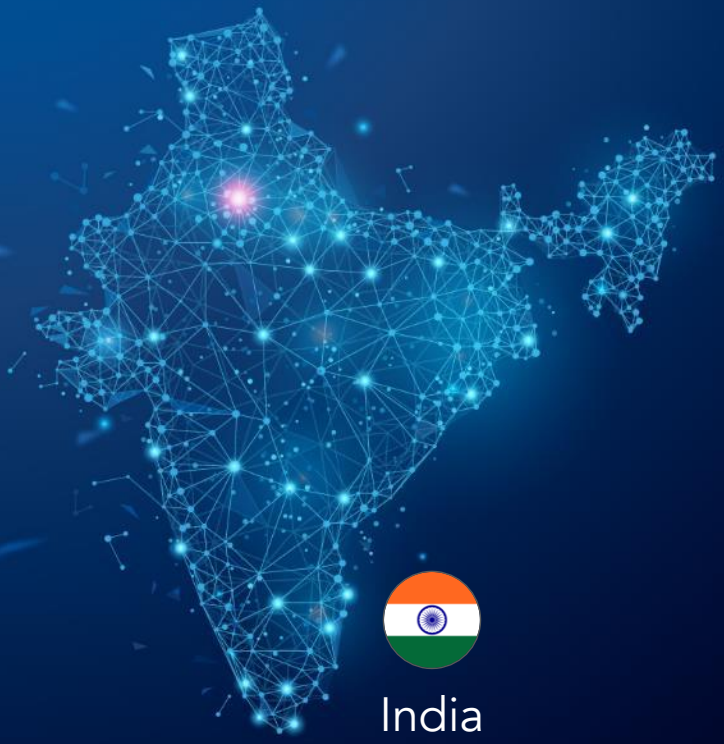
Key factors for data center site selection, % of respondents

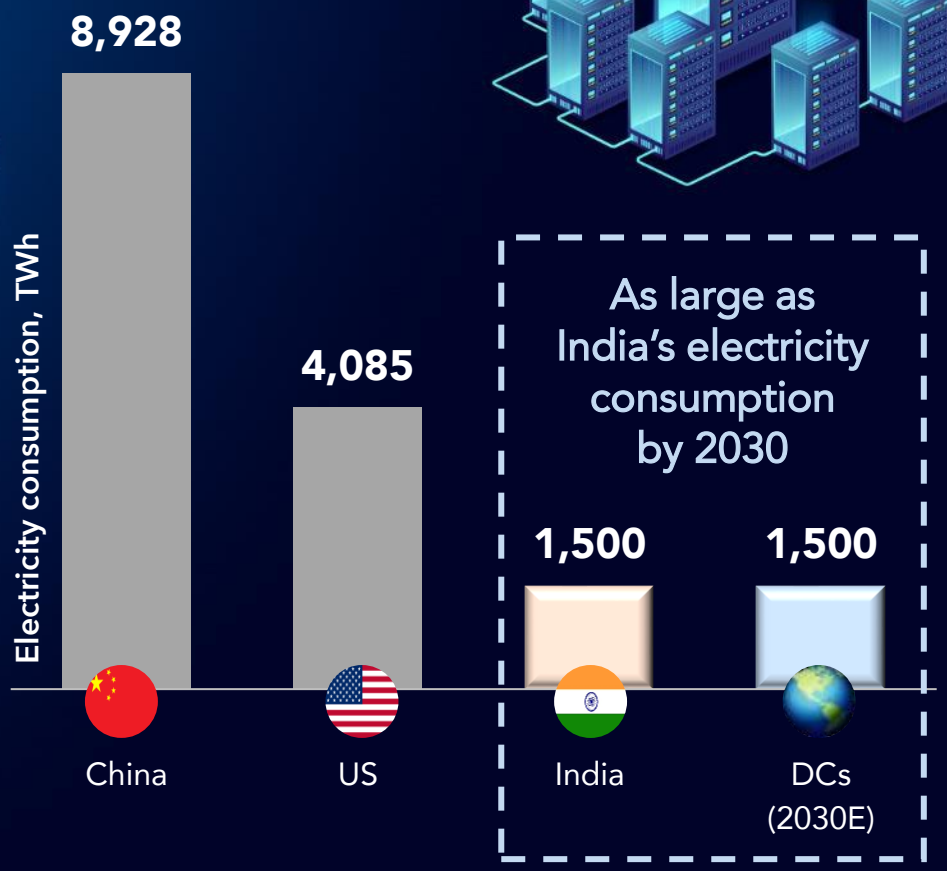


Source: (1) Data Center Dynamics. Vertiv. BloombergNEF. Data shows % of respondents who ranked the option in their top three.

Data Center Electricity Demand Increasing

By 2030, AI-driven global electricity consumption could hit 1,500 TWh, comparable to the level of India's electricity consumption today.



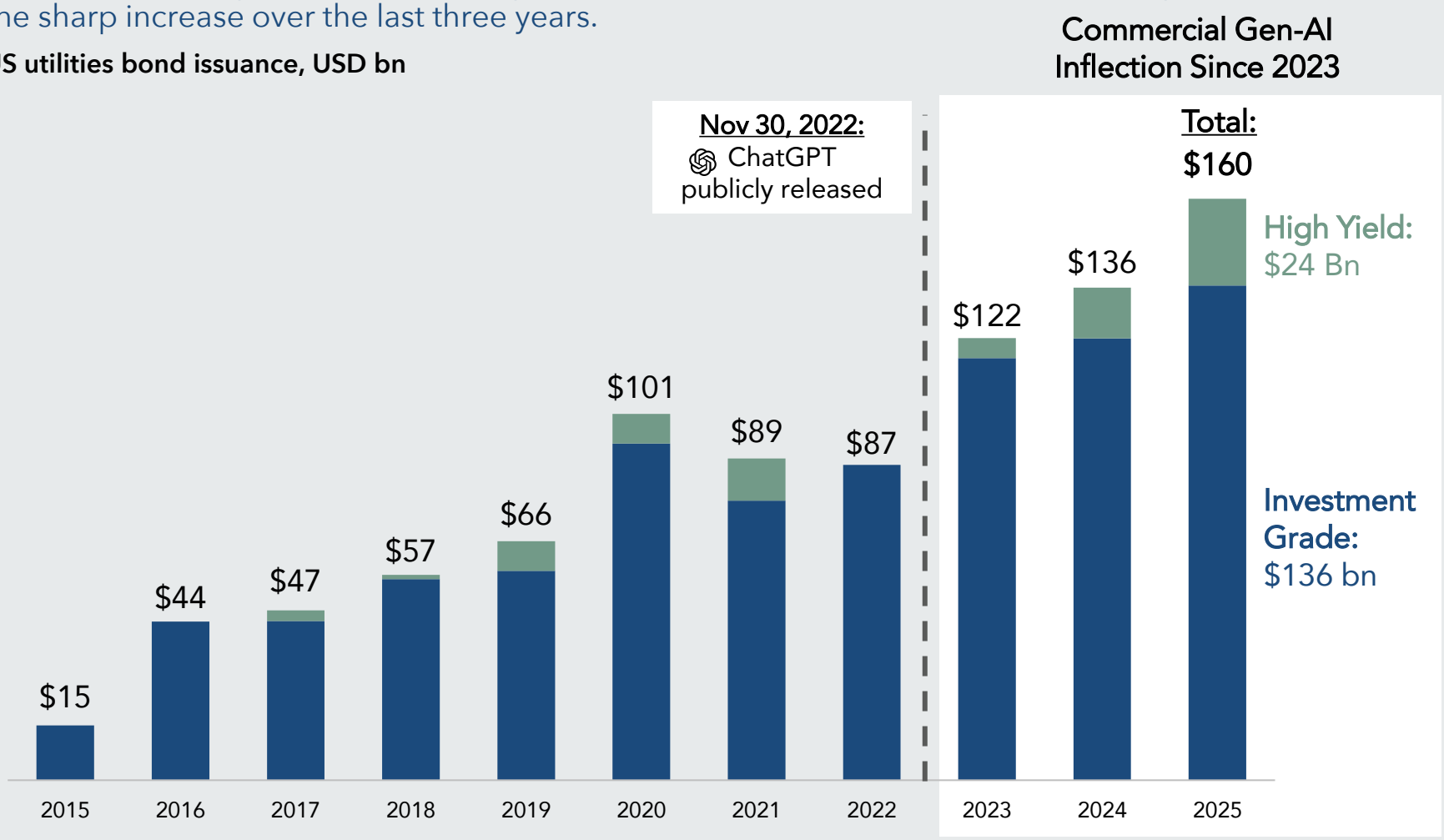


Source: (1) IMF, "World Economic Outlook, April 2025 – Commodity Special Feature." IEA. US EIA. Data for countries as of 2023. 2030 and 2023 estimates are OPEC.

US Utilities Issuance Surges on AI Boom

Utility bond issuance surged in 2025, both regulated IG utilities and in municipals tied to utility infrastructure. Capex for data center power demand and electrification has been a primary driver of the sharp increase over the last three years.

US utilities bond issuance, USD bn

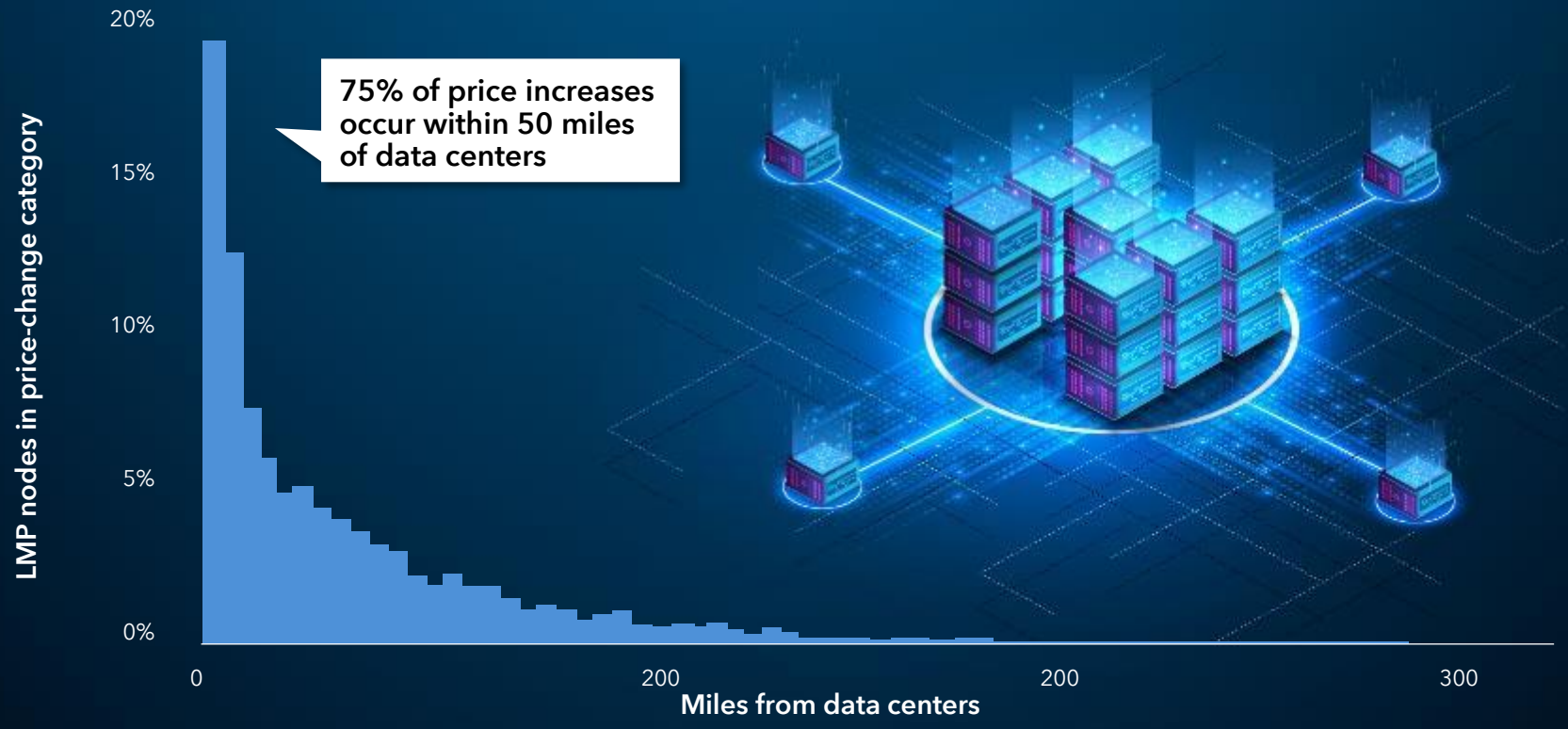


Source: (1) Bloomberg, "AI Boom Brings Flood of Debt to Ultrasafe Market". Data through December 31, 2025. Includes sales of independent power producers.

Proximity of Data Centers Matters

Data centers are a major driver of the surge in energy costs and are the largest source of new power consumption in certain US regions. According to data analyzed by Bloomberg, electricity costs have risen over 200% over the last five years in areas located near significant data center activity.

Distance from significant data center activity for LMP nodes and change in the median wholesale electricity prices (2020-2025)

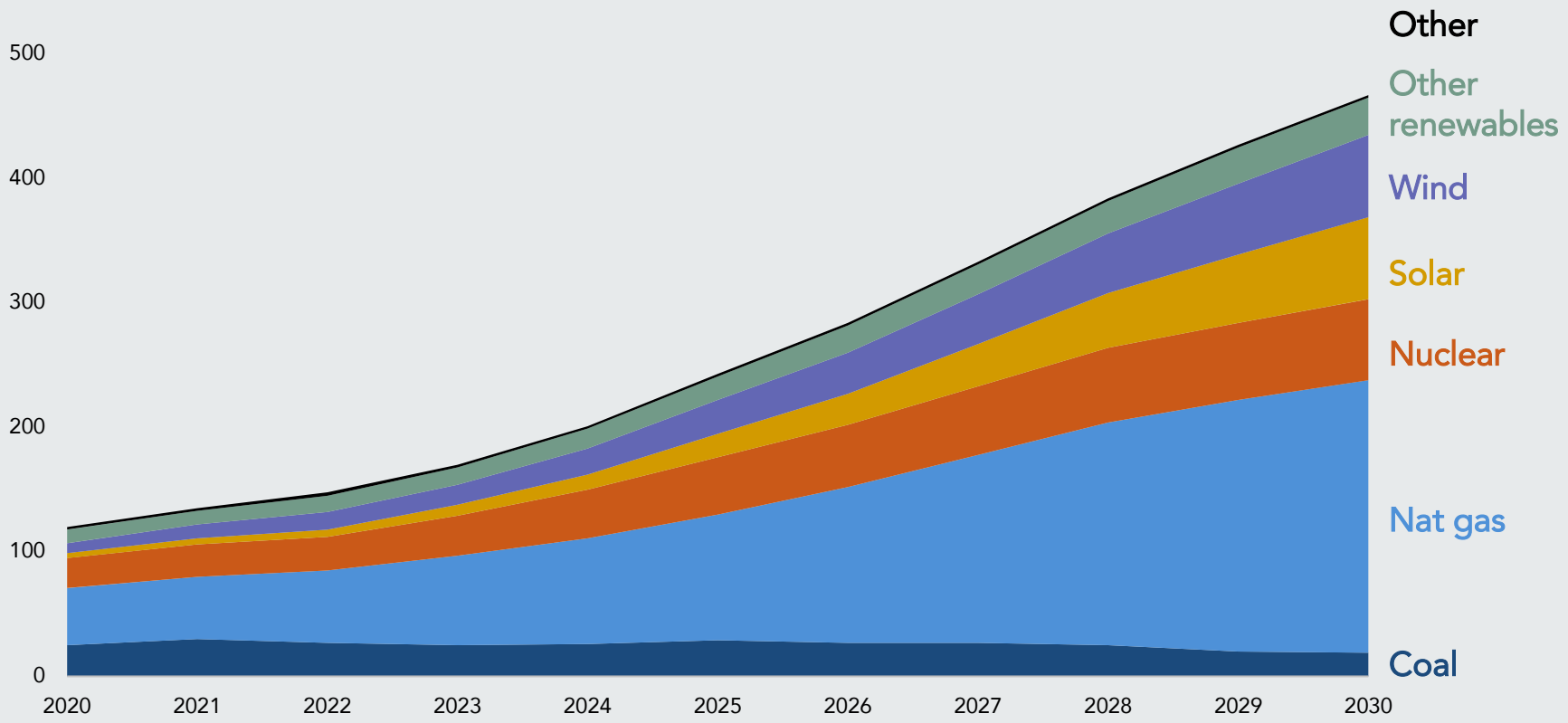


Source: (1) Bloomberg, "AI Data Centers Are Sending Power Bills Soaring". GridStatus. DC Byte. Analysis includes a small number of nodes in Canada used by US RTOs. To determine significant data center activity, a dynamic threshold was used that took into account the total data center capacity in the area around any given LMP node.

US Data Center Energy Sources

Natural gas is the primary fuel source powering US data centers, supplying over 40% of data center electricity needs as of 2024. Reliance on natural gas extends from its ability to provide dependable and scalable electricity critical to the 24/7 demands of hyperscale data center infrastructure.

US electricity generation for data centers by fuel, TWh



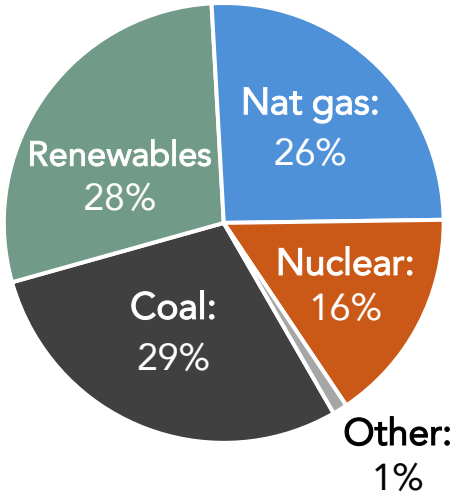
Source: (1) Financial Times, "The fallout from the AI-fueled dash for gas". IEA, "Energy and AI". Data as of April 2025. Forecasts are base case scenario.

China's Reliance on Coal-Heavy Electricity

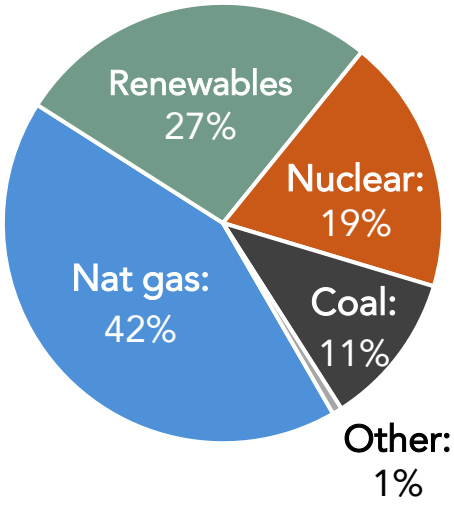
Coal remains the bedrock of China's power system, and most of the country's data centers sit across its coal-heavy eastern regions. In sharp contrast to the US, China's AI data center boom has been powered predominantly by coal-heavy electricity, a trend expected to continue near term even as China's renewable sector expands at a torrid pace.

2025 electricity generation for data centers by fuel, TWh

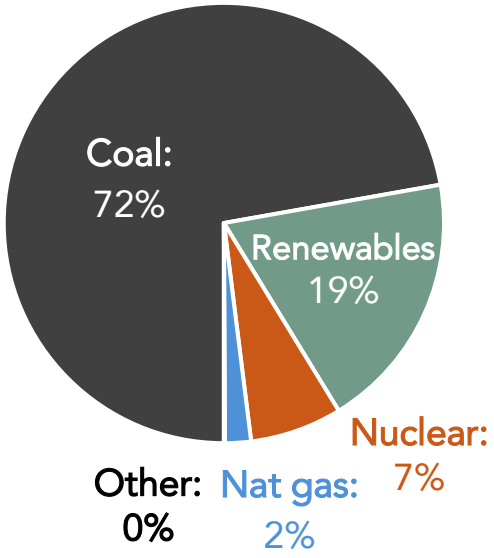
Global



US



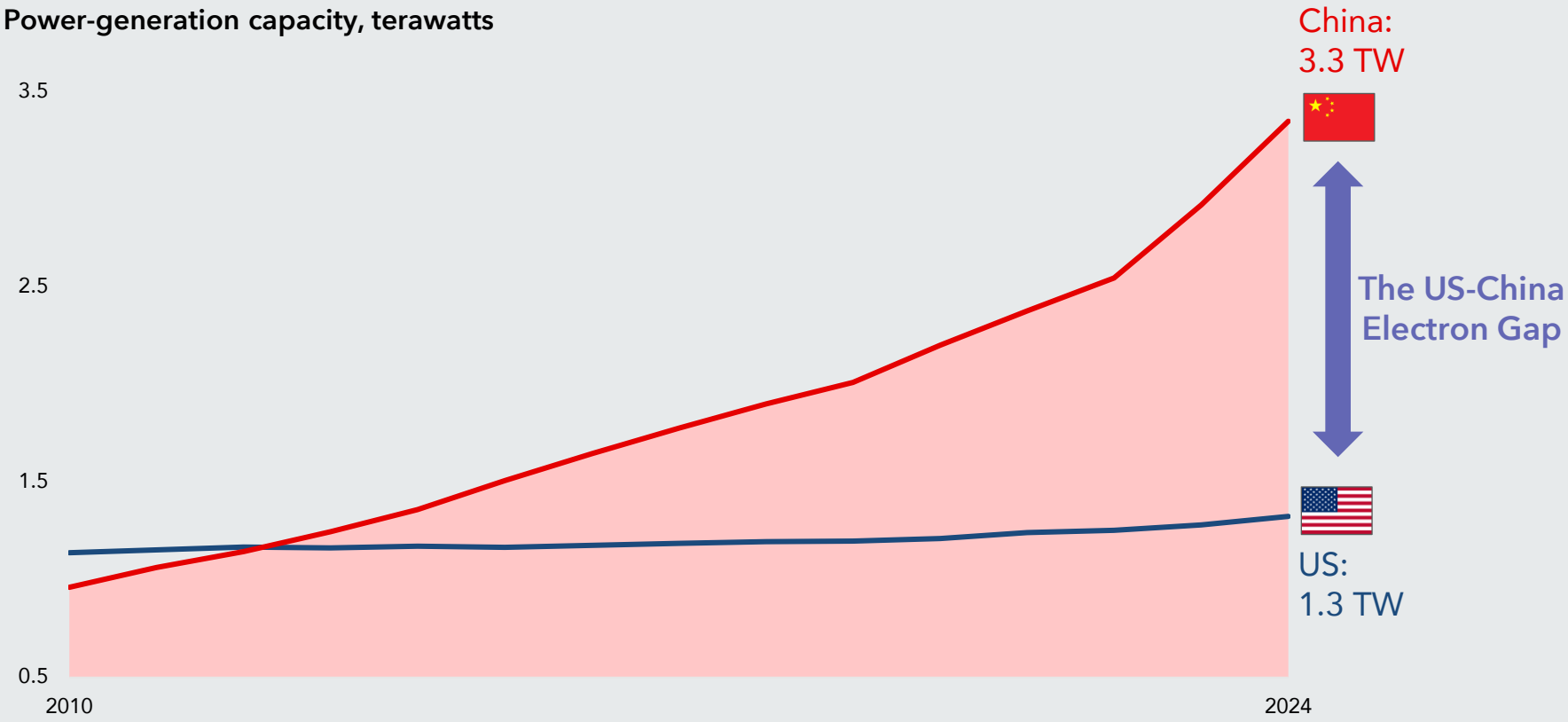
China



Source: (1-3) IEA, "Energy and AI". Data as of April 2025.

The World's Largest Power Grid

Power and electricity has become a **core competitive advantage** for China in the AI arms race. Over the last 15 years, **China increased its power production more than the rest of the world combined**, and currently boasts **the world's largest power grid**. Last year, China generated **more than twice as much electricity as the US.** Looking ahead, China is expected to invest **more than $500 billion on power grid projects through 2030.**

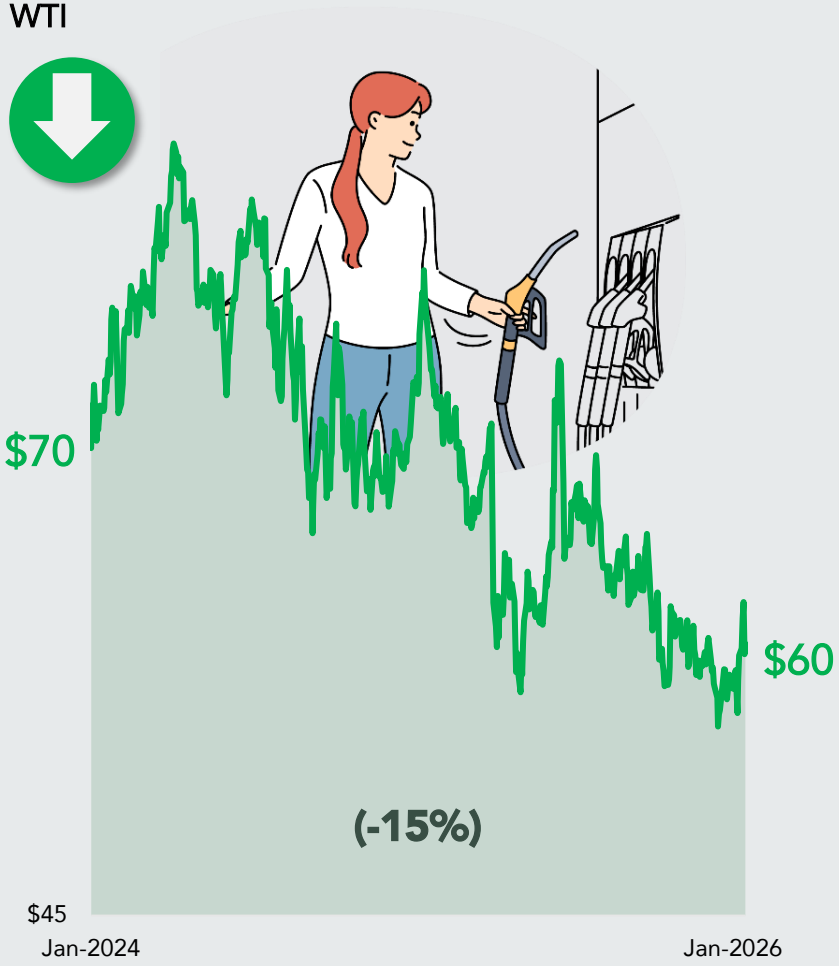


Source: (1) WSJ, "China's AI Power Play: Cheap Electricity from World's Biggest Grid." EIA (US), National Bureau of Statistics (China).

“Affordability” a Core Theme for 2026 US Midterms

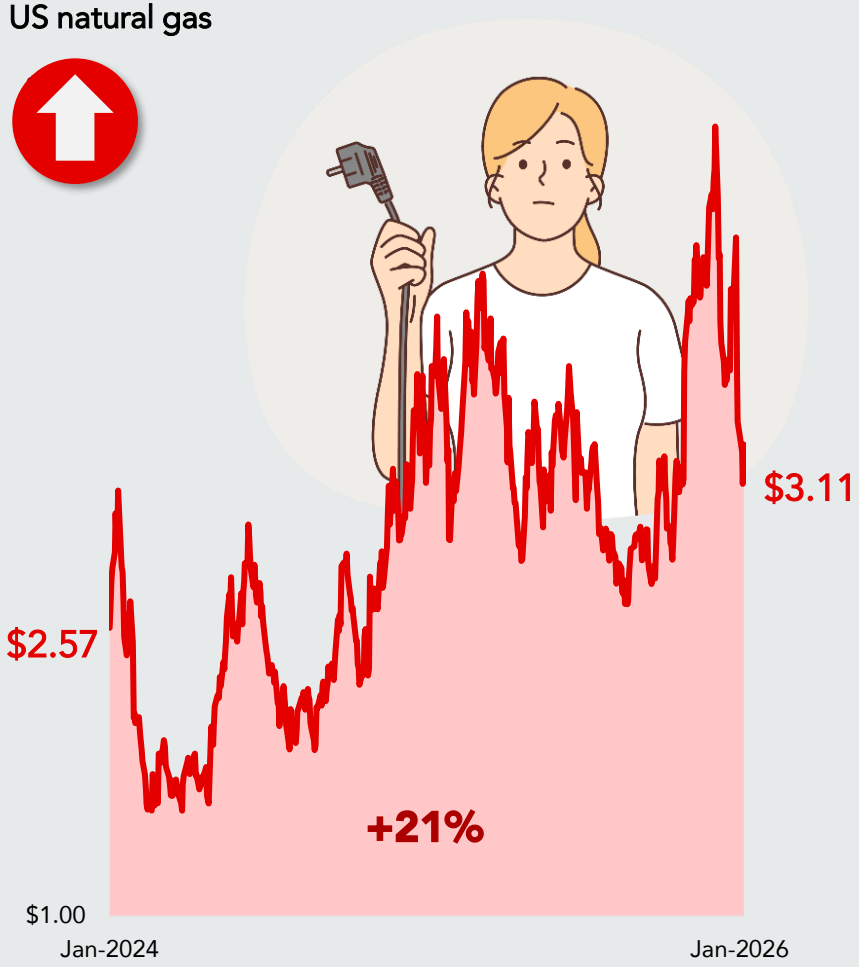
Lower oil prices

WTI



Higher electricity prices

US natural gas



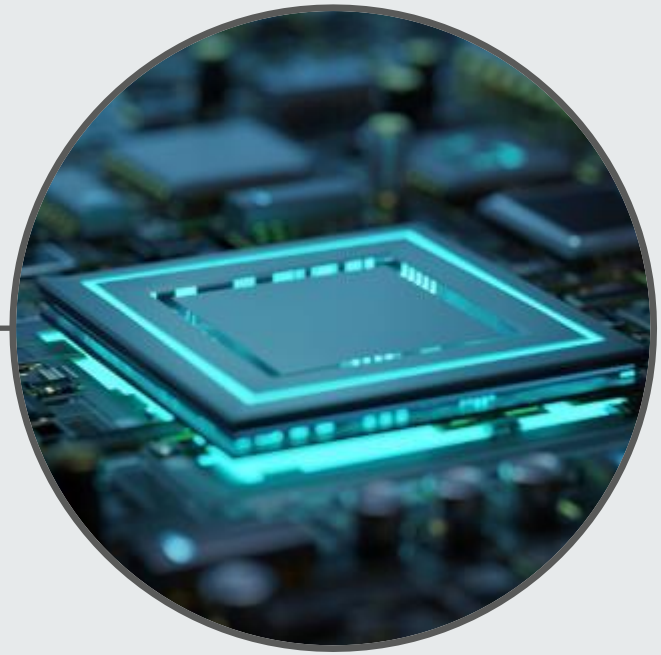
Source: (1-2) Bloomberg. Data as of January 16, 2026.

8 Chip Wars & Computing Power

China's Twin Technology Deficits

China has made extraordinary progress across a wide range of foundational technologies over the last decade, well establishing themselves as the world's second most formidable global technology power. However, more so than most other areas, China notably lags US and western innovation in two fundamental, core technology arenas: software and advanced microprocessors.

Software

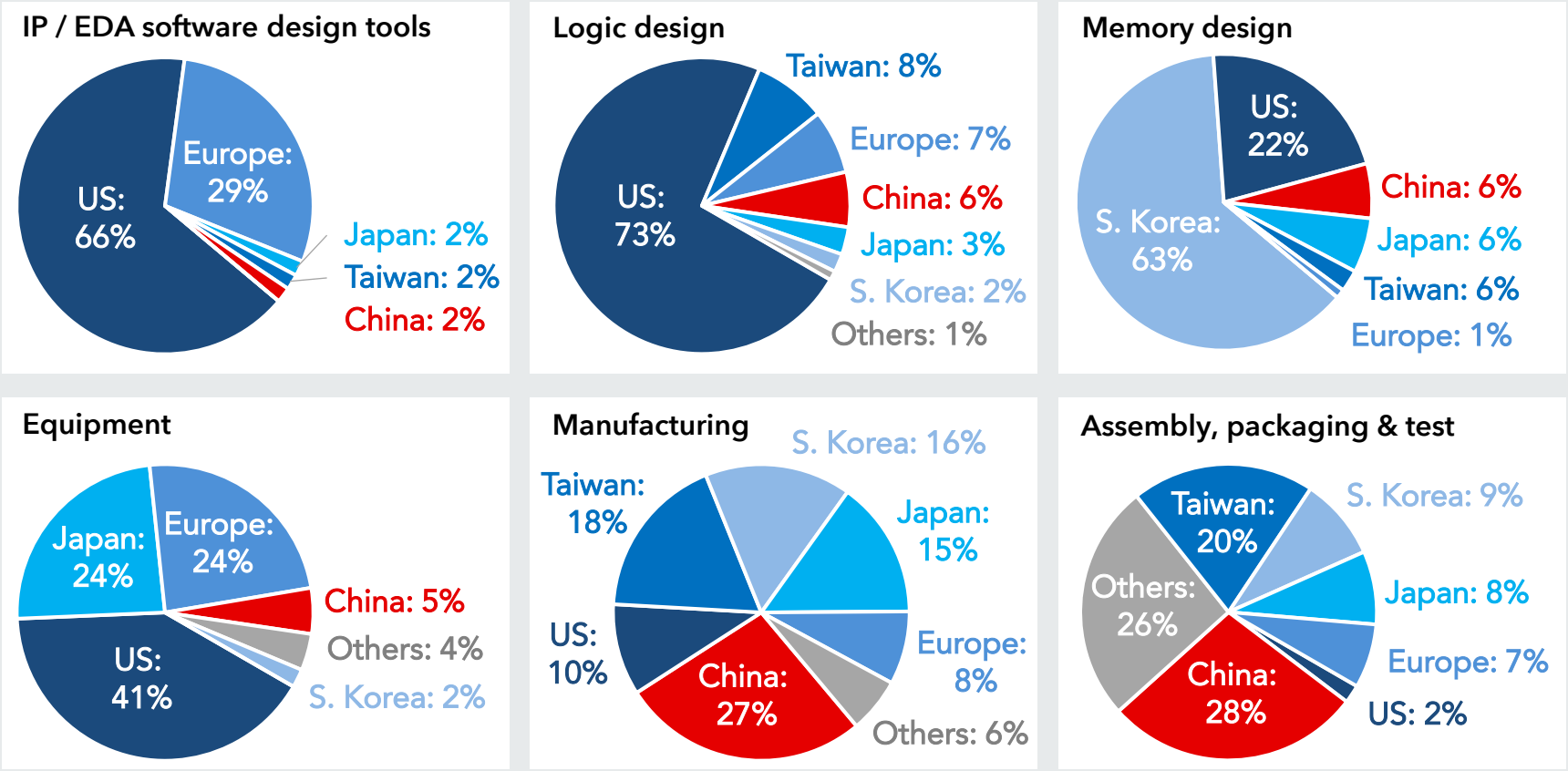


Advanced Semiconductors

US-Aligned Bloc Dominates Semiconductor Supply Chain

The global semiconductor supply chain is highly complex and regionally specialized. While China has made enormous strides in numerous critical technologies, the US-aligned bloc (US, Europe, Japan, SK, Taiwan) enjoys enormous advantages in semiconductor software, design, equipment and high-end manufacturing. Globally coordinated restrictions on the sharing of microchip software, design and equipment have become a centerpiece in US-China policy.

Semiconductor industry value added, by activity and region (2024)

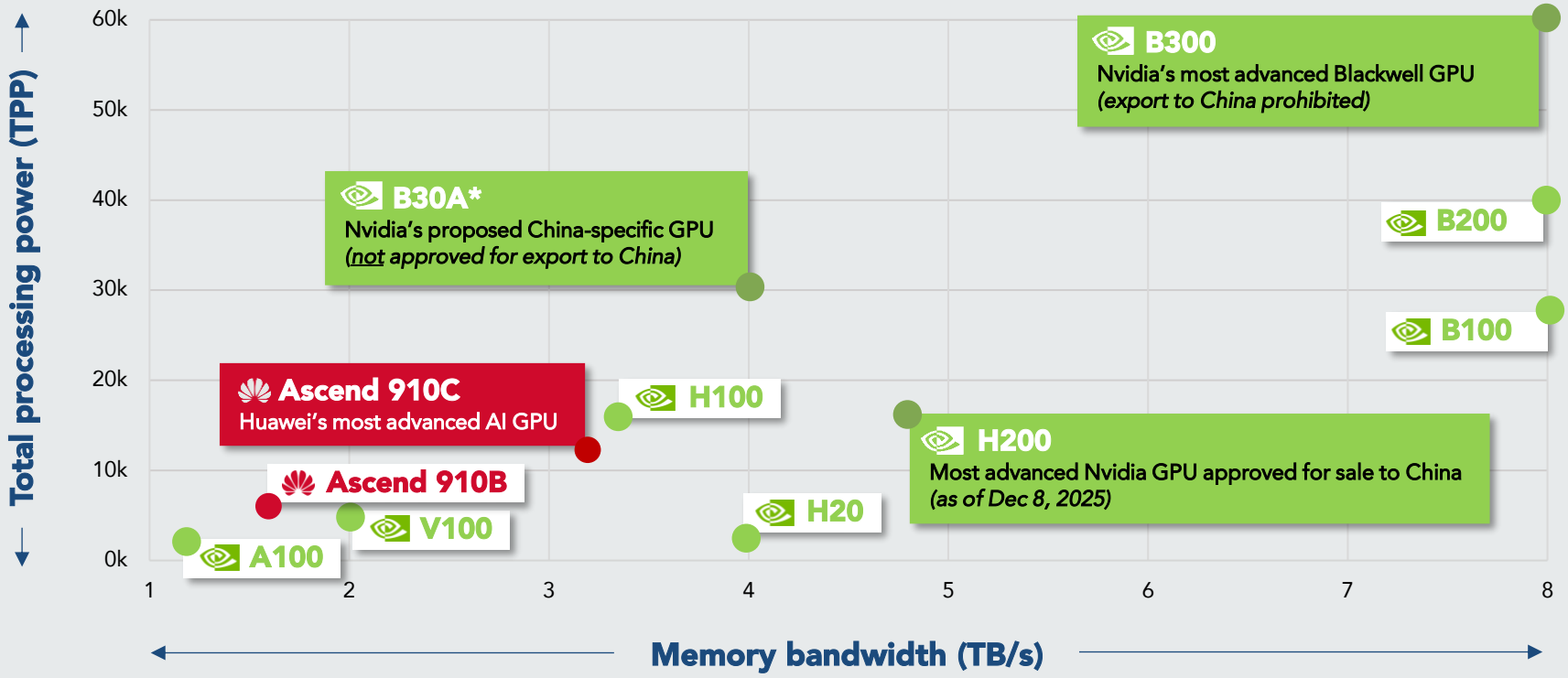


Source: (1) Semiconductor Industry Association, "2025: State of the U.S. Semiconductor Industry". Data as of 2024.

Nvidia vs. Huawei AI Chip Capabilities

The US Government has explicit restrictions on the sale of both NVIDIA's most advanced **Blackwell generation B300 AI GPU** to China, as well as the less powerful **NVIDIA B30A GPU** (often dubbed "half a B300), which NVIDIA customized with China in mind. However, on Dec 8, 2025, the US Government did approve exports of **NVIDIA's most advanced Hopper generation H200** chip, the most advanced US AI GPU approved for commercial use in China to date. While not nearly as high performing as the B300, NVIDIA's H200 is generally more capable than Huawei's most advanced chip, the **Ascend 910C**, and nearly on par with **NVIDIA's B30A GPU**.

Nvidia & Huawei AI chip capabilities



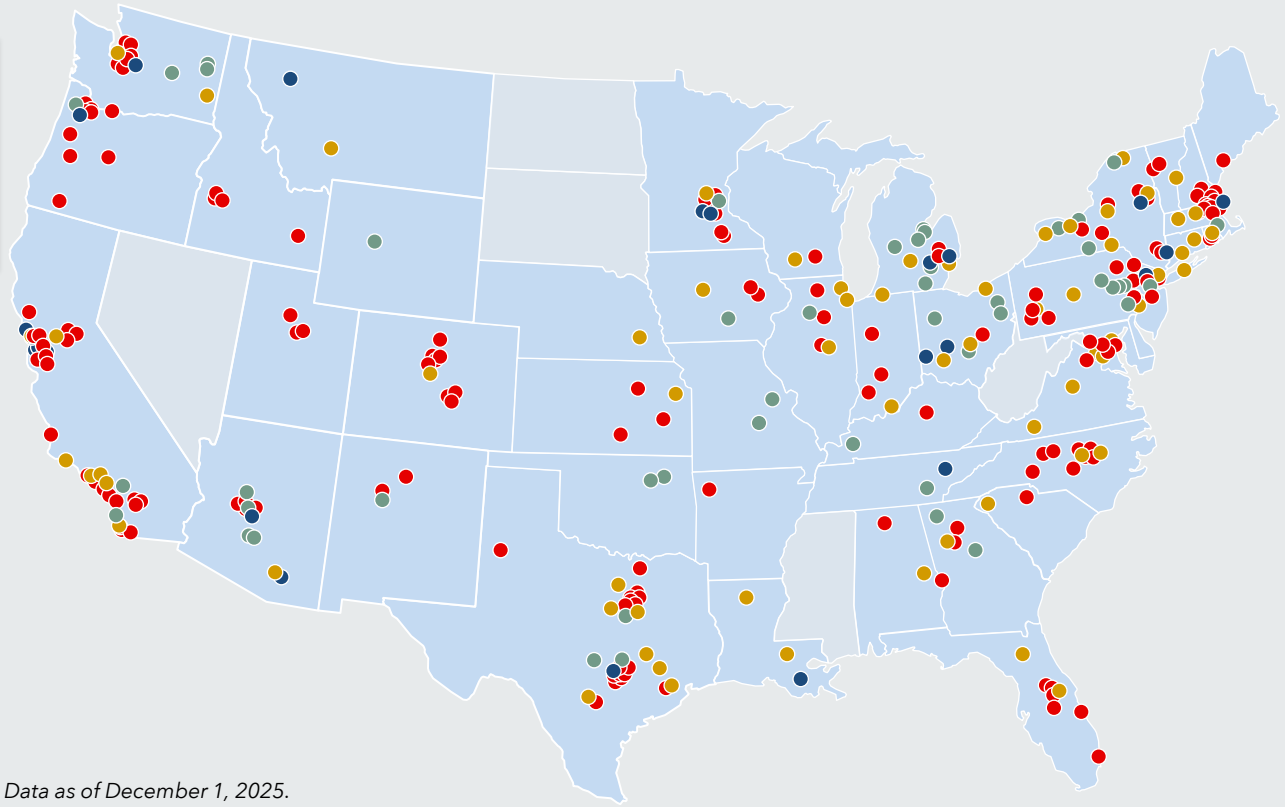
*Source: (1) Bloomberg, "Nvidia's H200 Could Turbocharge China's AI Clout". IFP. Tom's Hardware. *B30A performance is speculated based on public reporting.*

Rapid Expansion in US Semiconductor Manufacturing Since 2022

According to the Semiconductor Industry Association (SIA), **more than 80 new semiconductor-ecosystem projects across 25 US states with aggregate private investment close to $500 billion** have been announced since passage of the CHIPS Act in August 2022. The scale of private investment includes materials, equipment and **manufacturing fabs (leading-edge logic, DRAM, analog, mixed-signal, specialized MEMS/sensors).**

Since Aug 2022 CHIPS Act:

- > 80 investment projects
- > $450 bn private investment



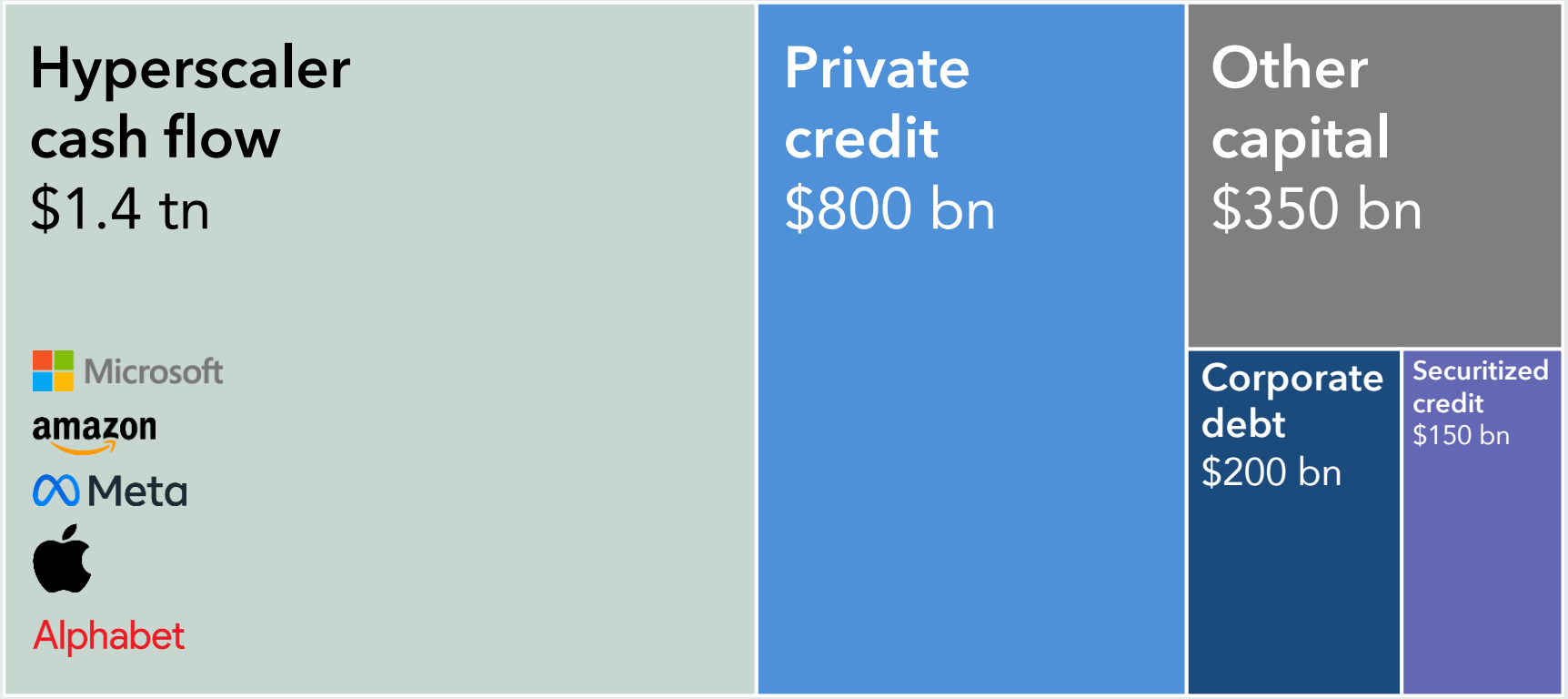
Source: Semiconductor Industry Association. Data as of December 1, 2025.

9 Financing the AI Capex Supercycle

Hyperscalers Expected to Fund ~50% of Data Center Spend

Main financing for global data center spend (2025-2028), USD bn

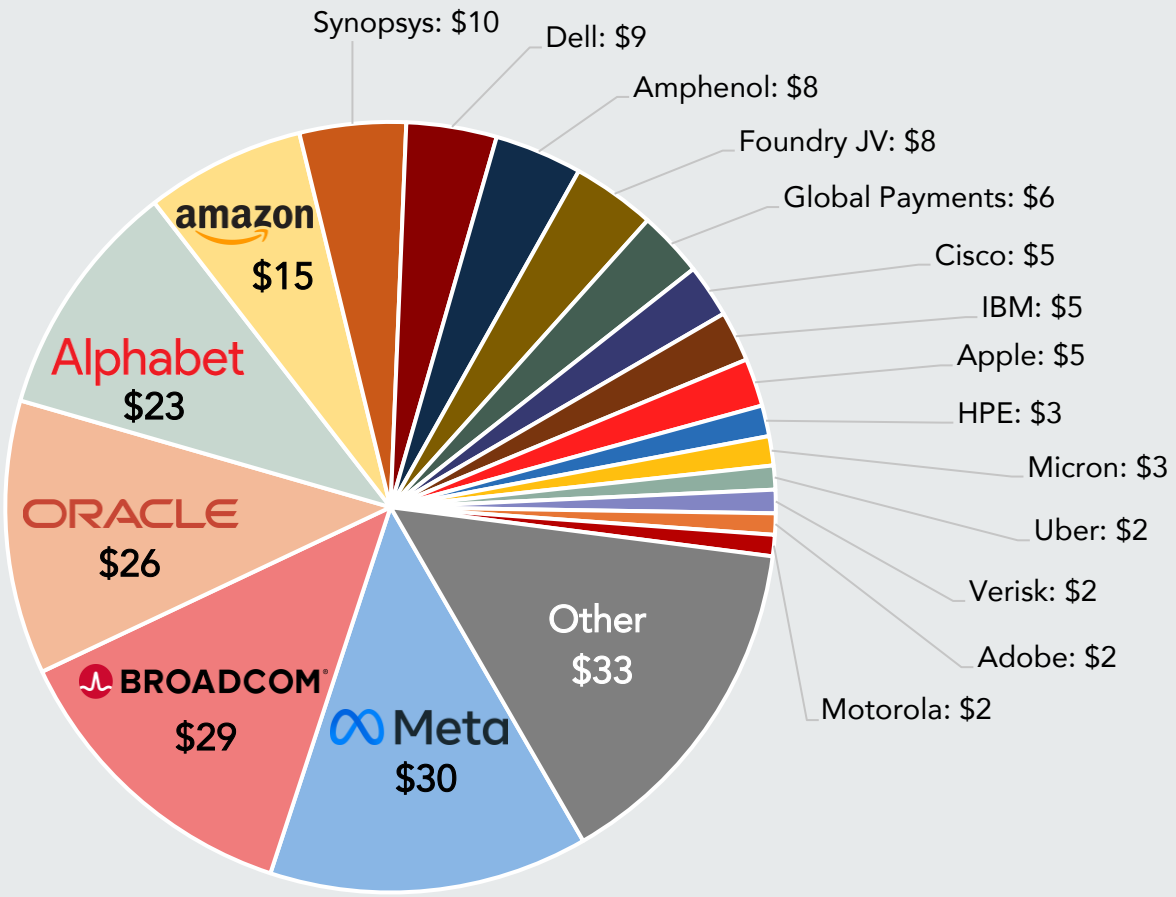
Business model transition:
From self-funded expansion to sustained reliance on capital markets



Source: (1) Financial Times, "'Absolutely immense': the companies on the hook for the $3tn AI building boom." Private credit is through asset-based finance and debt funding of JVs. Securitized credit includes asset-backed securities, commercial mortgage-backed securities. Other capital includes private equity, venture capital and sovereign wealth funds.

Over $200 Bn of Tech Bond Issuance in 2025

2025 US Tech bond issuance, USD bn



Source: (1) Bloomberg. CFR. Data as of December 31, 2025. Includes tech and fintech companies.

AI & Tech Drove Largest IG Financings in 2025

Meta priced a $30 billion USD IG financing in October, the largest of 2025, and among the largest corporate bond financings on record. Public tech IG issuance surpassed $200 bn in 2025, including six of the year's ten largest financings, with 45% of that total coming from hyperscaler financings in the last few months alone.

Top 10 largest IG deals in 2025 YTD

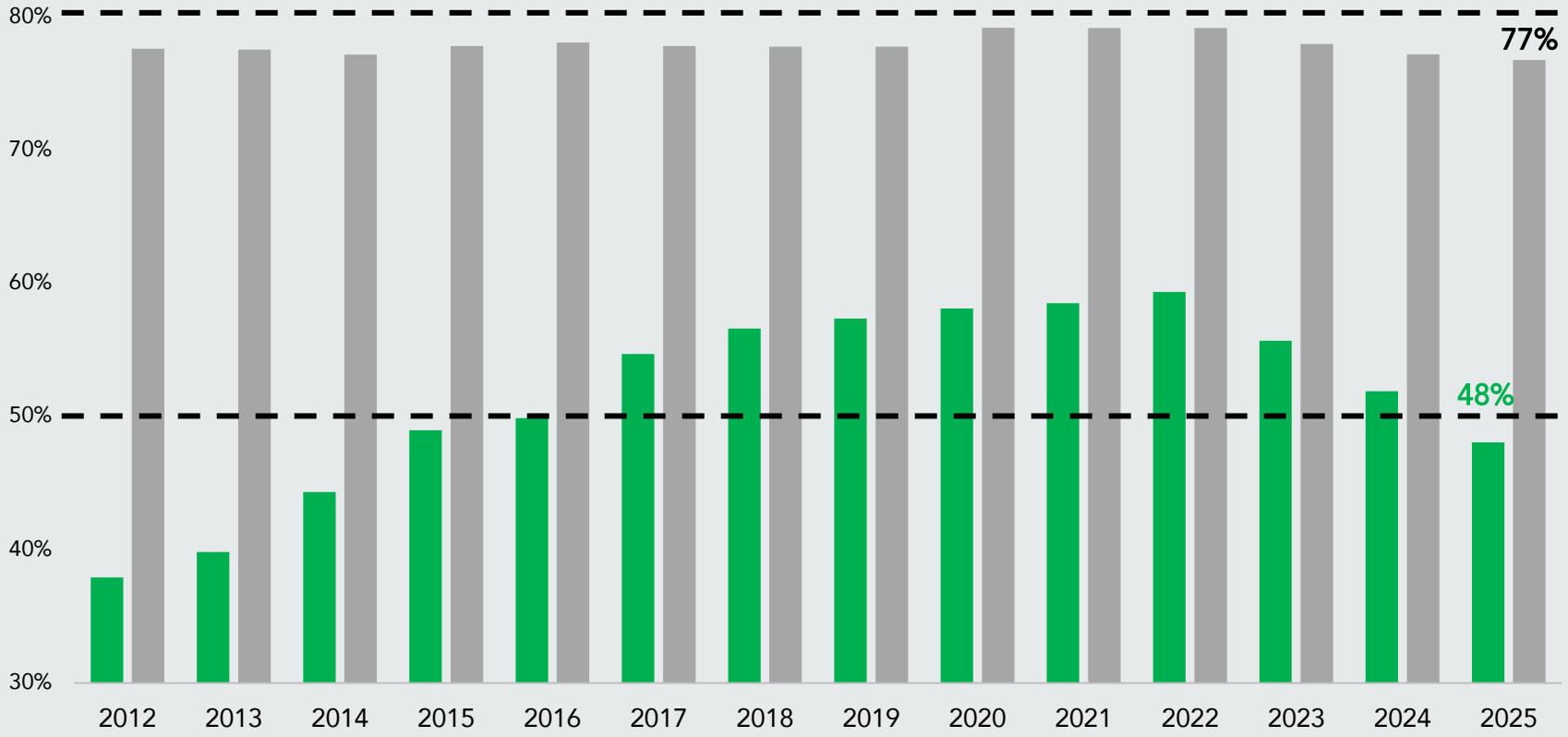
	Month	Issuer	Industry	Size *(USD bn)*
1.	Oct	Meta	Technology	$30.0 bn
2.	Mar	MARS	Consumer Staples	$26.0 bn
3.	Sep	ORACLE	Technology	$18.0 bn
4.	Nov	Alphabet	Technology	$17.5 bn
5.	Nov	amazon	Technology	$15.0 bn
6.	Jul	NTT FINANCE	Telecom / Tech	$11.3 bn
7.	Nov	verizon	Telecom	$11.0 bn
8.	Oct	Goldman Sachs	Financials	$10.0 bn
9.	Mar	SYNOPSYS®	Technology	$10.0 bn
10.	Jan	BANK OF AMERICA	Financials	$10.0 bn

*Source: (1) CFR. Data as of December 31, 2025. *NTT Finance classified as both telecom and technology because bond deal was to refinance bridge loans for taking its data center unit private.*

AI Big Tech Leverage Metrics Still Strong

According to CreditSights, hyperscalers' ratio of liabilities-to-assets fell to 48% in Q3 2025, close to 2015 levels, down from a peak of 59% in late 2022. By comparison, the comparable leverage ratio for S&P 500 companies remained steady at just below 80% over the same period.

Hyperscalers vs. S&P 500, ratio of liabilities to assets

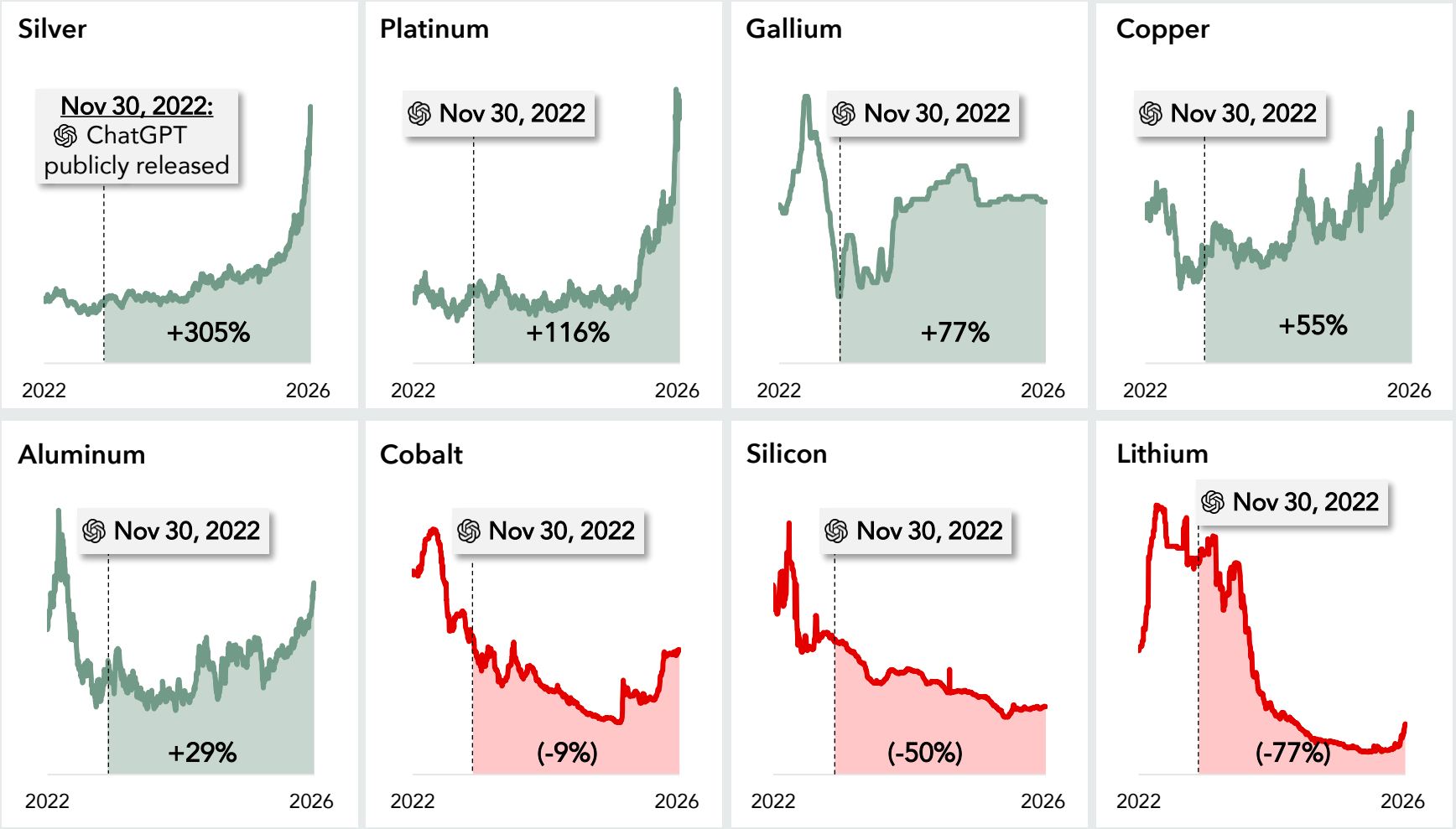


Source: (1) Oxford Economics. Bloomberg. Data through December 31, 2025. Hyperscalers include Oracle, Amazon, Nvidia, Microsoft, Apple, Alphabet & Meta.

10 AI in the Markets

Industrial Metals after Gen AI Inflection Point

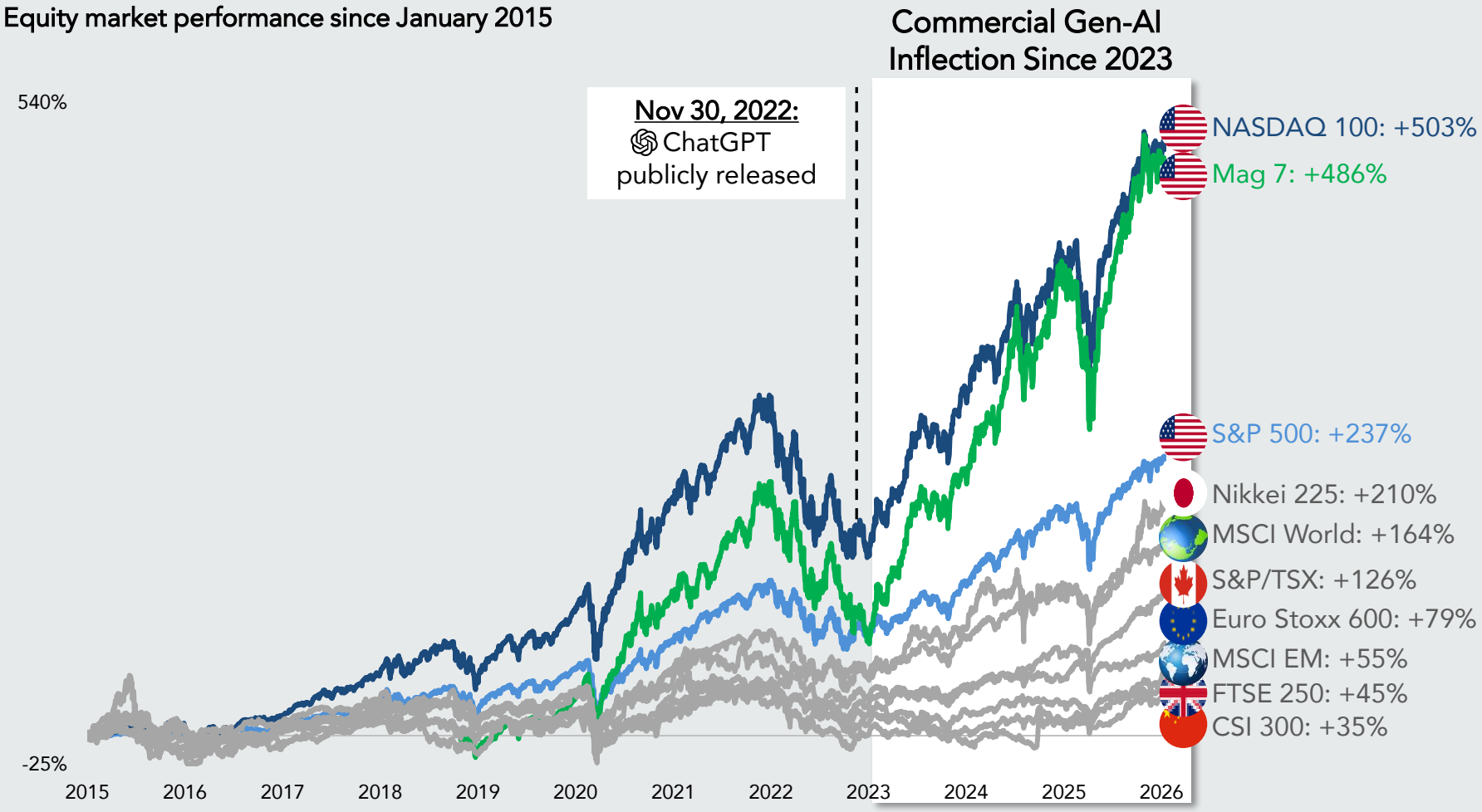
Industrial metals since January 2022



Source: (1-8) Bloomberg. Data as of January 16, 2026.

Megacap Tech Soars After Gen-AI Inflection in 2023

Since the commercial gen-AI inflection in 2023, public market valuations of mega cap tech and tech-related stocks soared. AI has been the primary driver of their re-rating.

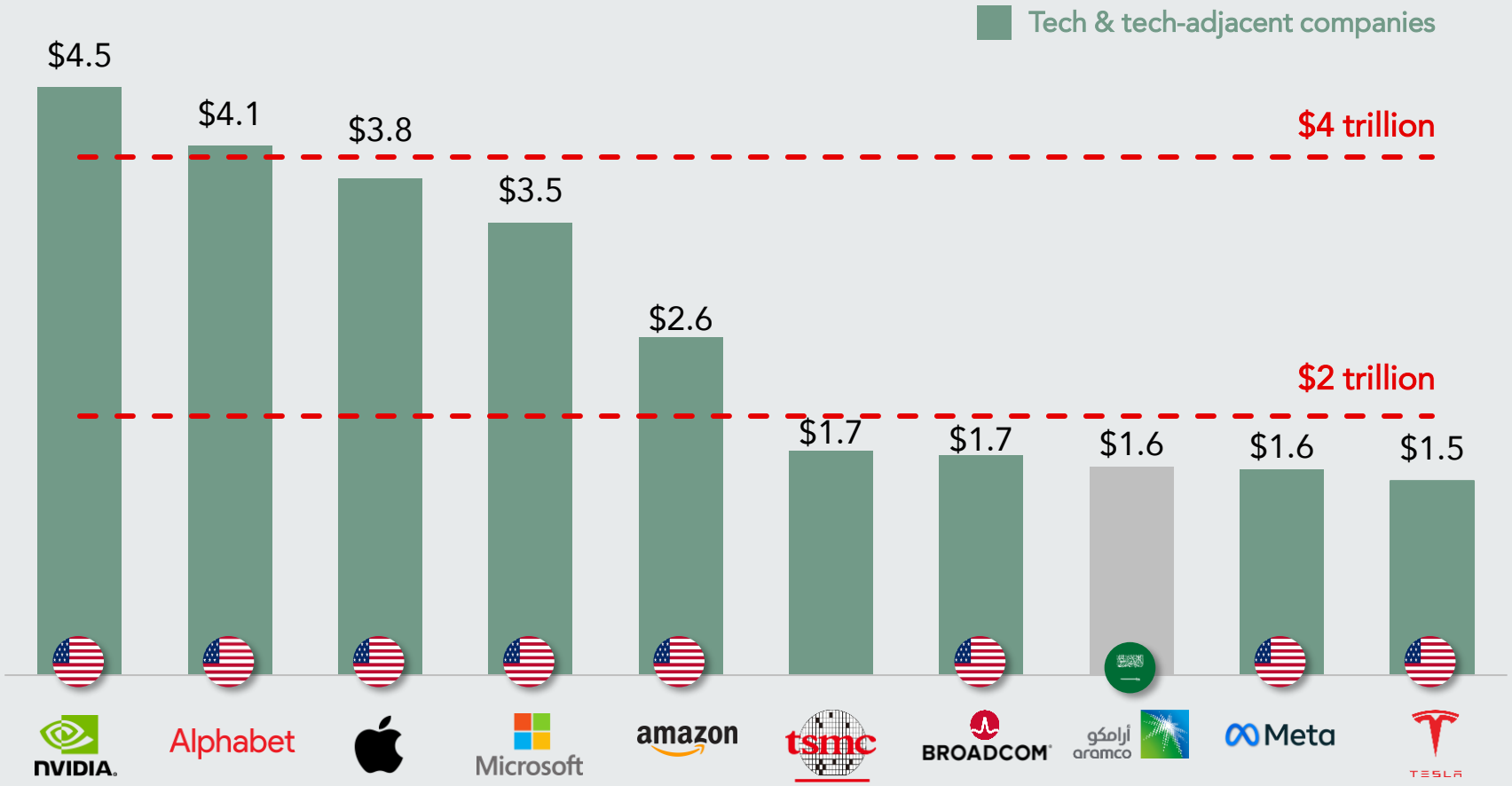


Source: (1) Bloomberg. Data as of January 15, 2026. Tech sector share indices are MSCI.

Tech Dominates World's 10 Most Valuable Companies

As of early January 2026, **nine of the world's 10 largest companies are technology or technology adjacent companies.** Among the group, only Saudi Aramco sits firmly outside the tech bucket. AI's transformative impact and expansion is a critical driver of this concentration.

Market cap of top 10 global companies, USD tn

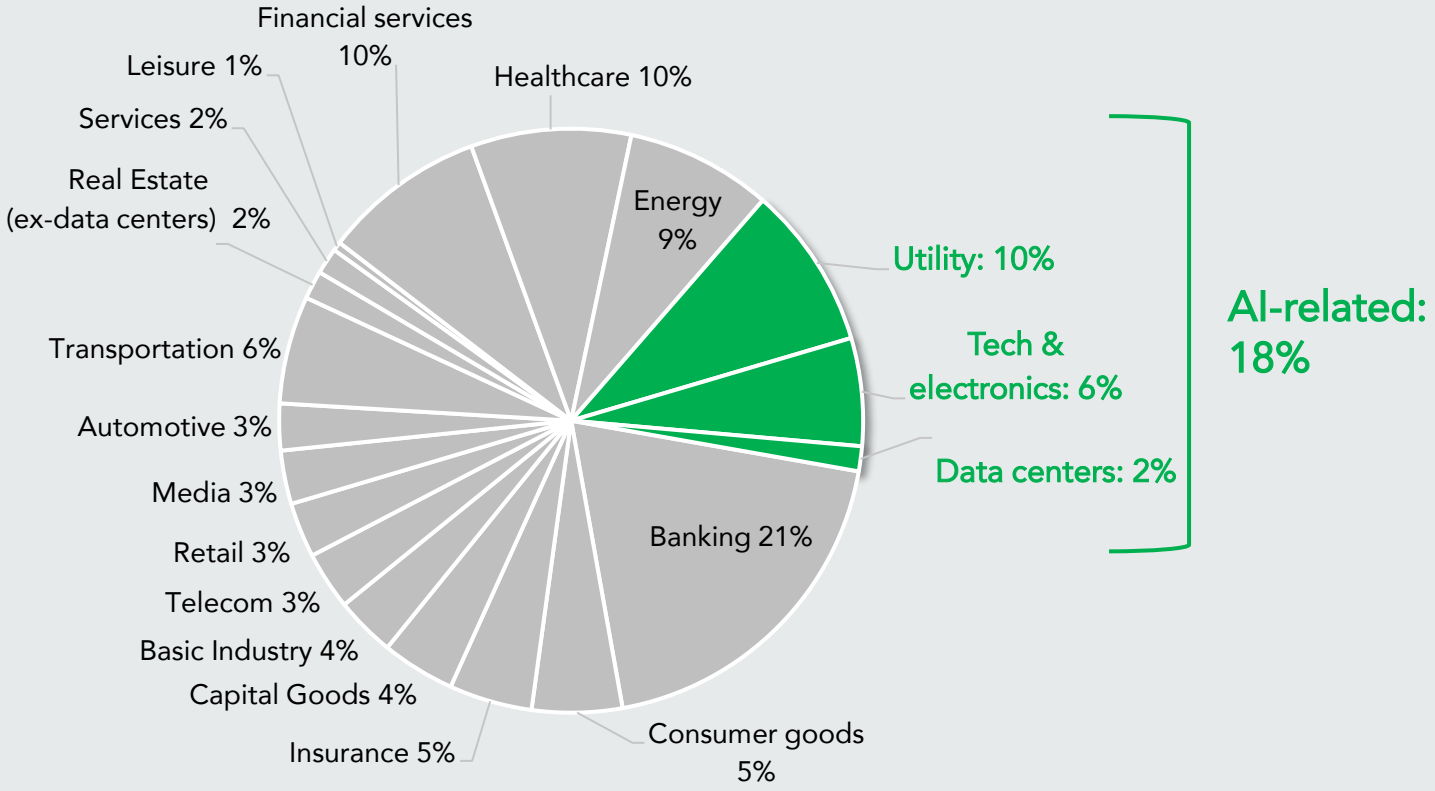


Source: (1) Bloomberg. Data as of January 15, 2026. Tesla included as tech company due to focus on software, AI, and data.

AI-Related Sectors Now Comprise 18% of the IG Index

AI-related sectors (i.e., utilities, tech & electronics) **now account for approximately 18% of the aggregate corporate bond index**. Implications of this growth include the following: **(1)** more index concentration risk in a smaller group of names; **(2)** necessity of tech sector investor exposure to track and benchmark the index; **(3)** AI-related spread moves, ratings changes and issuance surge more directly impact the aggregate index; and **(4)** upward pressure on index duration given longer maturities of AI financings

IG corporate bond index, by sector

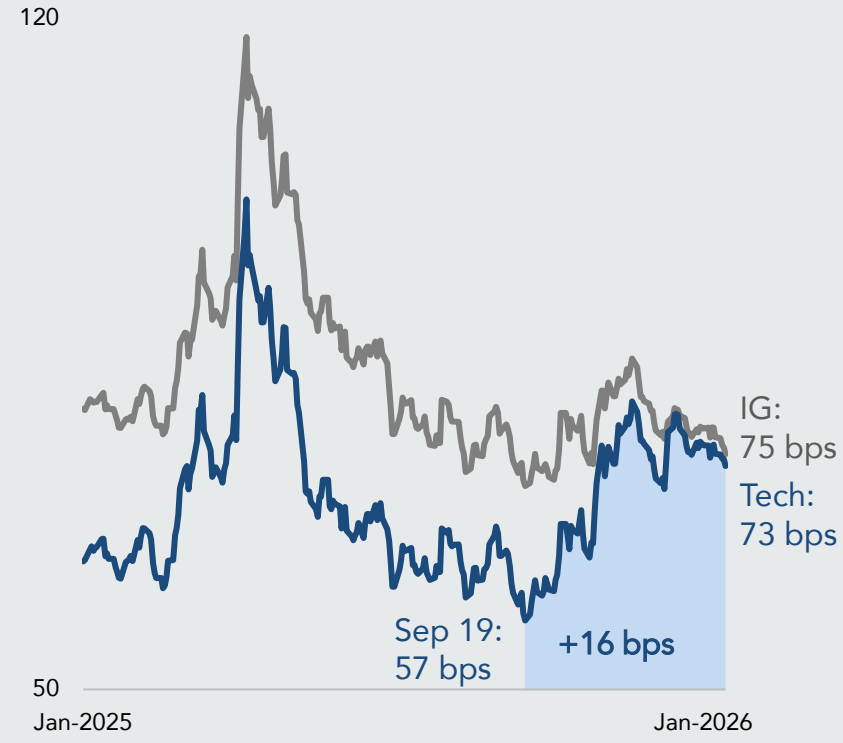


Source: (1) Bloomberg. Data as of December 31, 2025.

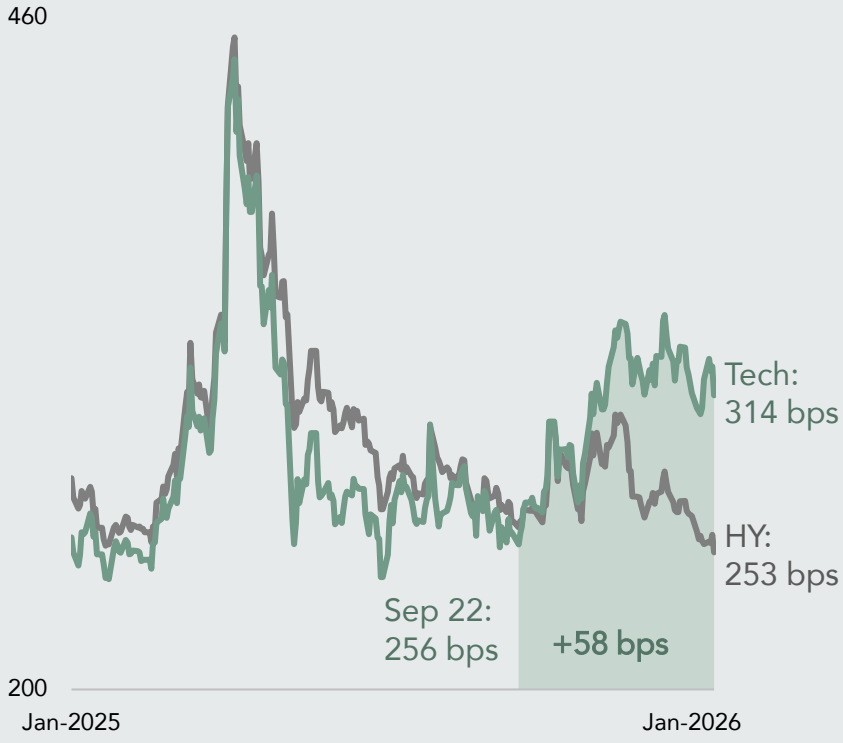
Tech Spreads Contained AI Driven Despite Supply

Despite record supply to fund AI data center expansion, tech sector credit spreads have remained relatively contained. **Nonetheless, tech spreads in 2025 moved from their historical position *inside* the index to trading marginally *wider***, particularly in the BBB tech cohort, as AI-driven issuance and leverage have surged.

IG index vs. IG tech spreads



HY index vs. HY tech spreads

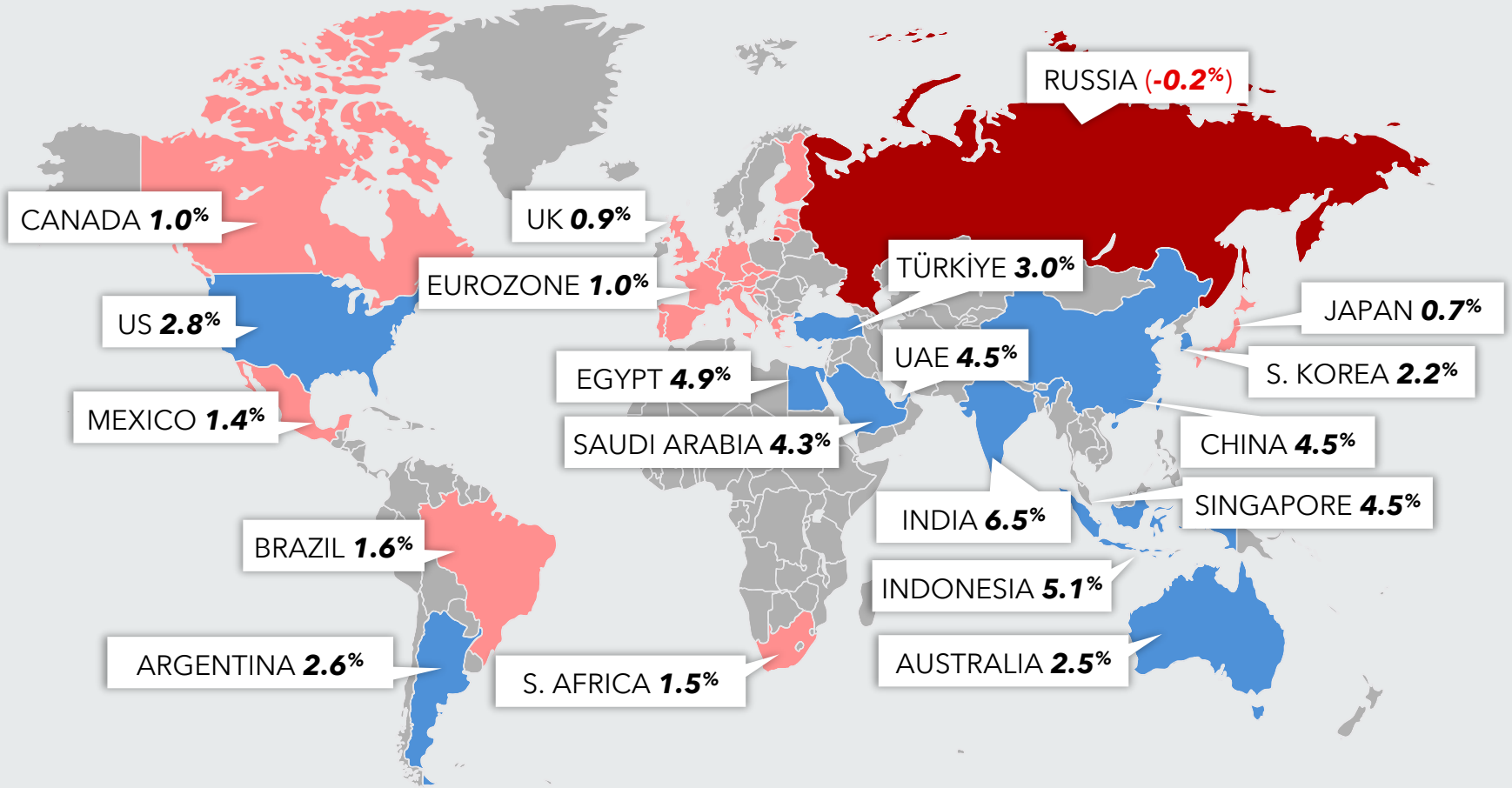


Source: (1-2) Bloomberg. Data as of January 15, 2026. Index OAS to Treasury.

Appendix

Resilient Though Subdued Global Growth in 2026

2026 GDP growth, y/y



Source: (1) Oxford Economics. Data as of January 16, 2026.

2026 Global Economic Forecasts

GDP growth forecasts, y/y

Region	2025E	2026E	
North America			
US	2.2%	**2.8%**	↑
Mexico	0.4%	**1.4%**	↑
Canada	1.7%	**1.0%**	↓
Eurozone	1.4%	**1.0%**	
Spain	2.9%	**2.6%**	↓
Finland	0.1%	**1.0%**	↑
Netherlands	1.8%	**0.9%**	↓
France	0.9%	**0.8%**	↓
Germany	0.3%	**0.7%**	↑
Italy	0.6%	**0.6%**	↑
Ireland	13.3%	**(-0.6%)**	↓
Other Europe			
Poland	3.5%	**3.8%**	↑
Türkiye	3.8%	**3.0%**	↓
Sweden	1.9%	**2.4%**	↑
Norway	1.5%	**2.3%**	↑
Czech Republic	2.5%	**2.2%**	↓
UK	1.4%	**0.9%**	↓
Switzerland	1.2%	**0.9%**	↓
Denmark	2.3%	**0.6%**	↓
Russia	0.6%	**(-0.2%)**	↓

Region	2025E	2026E	
APAC	4.3%	**3.9%**	
India	7.6%	**6.5%**	↓
Indonesia	5.0%	**5.1%**	↑
China	4.8%	**4.5%**	↓
Singapore	4.8%	**4.5%**	↓
Australia	1.9%	**2.5%**	↑
South Korea	1.2%	**2.2%**	↑
New Zealand	0.7%	**2.0%**	↑
Japan	1.2%	**0.7%**	↓
LatAm	2.3%	**1.9%**	
Colombia	2.9%	**3.5%**	↑
Argentina	4.3%	**2.6%**	↓
Chile	2.5%	**2.2%**	↓
Brazil	2.6%	**1.6%**	↓
MENA	3.3%	**3.8%**	
Qatar	2.6%	**6.4%**	↑
Egypt	5.1%	**4.9%**	↓
UAE	4.5%	**4.5%**	↑
Saudi Arabia	4.6%	**4.3%**	↓
Sub-Saharan Africa	4.0%	**3.9%**	↓
Kuwait	2.0%	**3.4%**	↑
Oman	2.1%	**2.3%**	↑
South Africa	1.3%	**1.5%**	↑

Source: (1) Oxford Economics. Data as of January 16, 2026.

2026 Global Currency Forecasts

Currency pair	Spot (Jan 16)	Q1 2026	Q2 2026	Q3 2026	Q4 2026
EUR / USD	**1.16**	1.18	1.20	1.22	1.24
GBP / USD	**1.34**	1.35	1.35	1.36	1.38
USD / JPY	**158**	152	150	148	146
USD / CNY	**6.97**	6.95	6.90	6.85	6.80
AUD / USD	**0.67**	0.68	0.69	0.70	0.71
NZD / USD	**0.57**	0.59	0.60	0.60	0.61
USD / CAD	**1.39**	1.38	1.37	1.35	1.34
USD / NOK	**10.10**	10.00	9.83	9.75	9.60
USD / SEK	**9.24**	9.07	8.83	8.61	8.39
USD / CHF	**0.80**	0.80	0.79	0.78	0.77
USD / MXN	**17.70**	18.20	18.00	17.90	17.80
USD / BRL	**5.38**	5.30	5.30	5.45	5.50
USD / CLP	**889**	900	880	870	860

Source: (1) MUFG Foreign Exchange Outlook – 2026 Annual FX Outlook (Derek Halpenny). Bloomberg.

2026 MUFG Global Rates Forecasts

		Q1 2026		Q2 2026		Q3 2026		Q4 2026	
	Spot (Jan 16)	MUFG	Consensus	MUFG	Consensus	MUFG	Consensus	MUFG	Consensus
Fed Funds	3.75%	3.50%	3.65%	3.00%	3.44%	2.75%	3.29%	2.75%	3.24%
2 yr UST	3.60%	3.50%	3.44%	3.13%	3.37%	3.00%	3.33%	2.88%	3.32%
5 yr UST	3.82%	3.75%	3.65%	3.38%	3.61%	3.25%	3.61%	3.13%	3.61%
10 yr UST	4.23%	**4.13%**	**4.12%**	**3.88%**	**4.10%**	**3.75%**	**4.10%**	**3.63%**	**4.12%**
30 yr UST	4.84%	4.63%	4.72%	4.38%	4.68%	4.25%	4.66%	4.13%	4.67%

Source: (1) MUFG Global Macro Research (George Goncalves). Bloomberg. Data as of January 16, 2026. Fed funds is upper bound.

2026 Commodities Forecasts

	Spot (Jan 16)	Q1 2026	Q2 2026	Q3 2026	Q4 2026
WTI	**$60**	$57	$57	$58	$58
Brent	**$64**	$60	$60	$61	$60
US Nat Gas	**$3.11**	$4.00	$3.75	$3.90	$4.20
Euro Nat Gas	**€37**	€30	€29	€27	€29

Source: (1) Bloomberg. Data as of January 16, 2026. Forecasts are Bloomberg Consensus.

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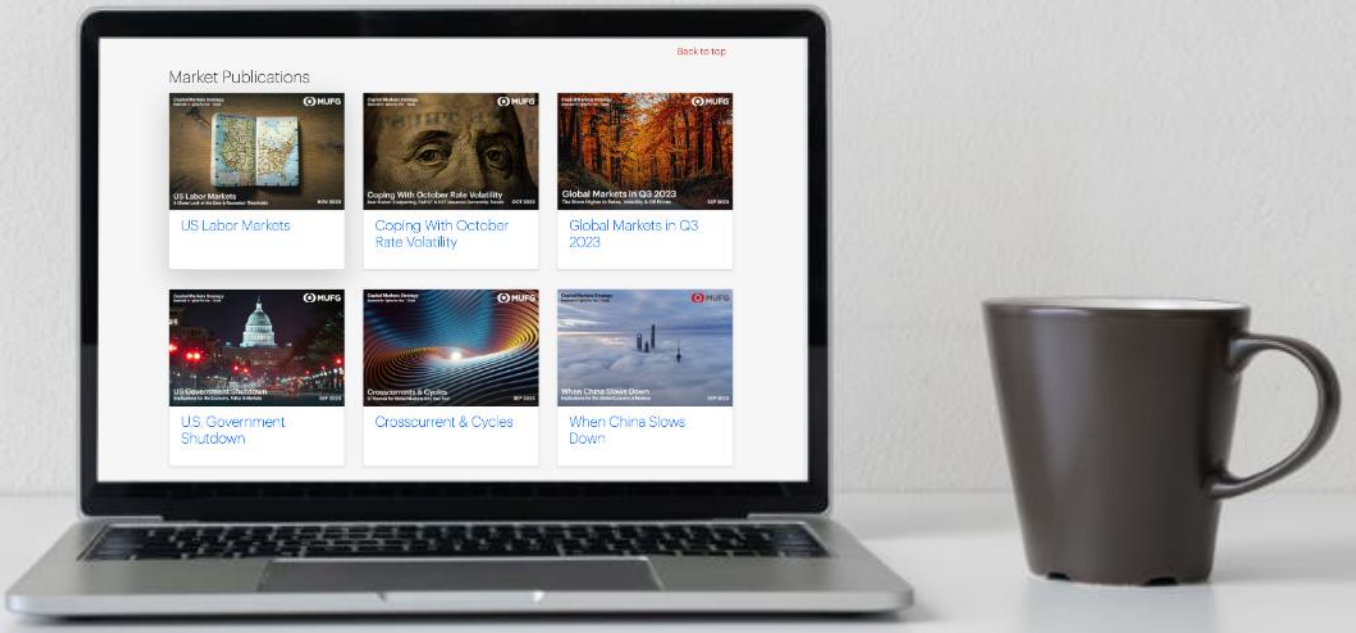

About the Authors

Tom Joyce

Managing Director
Capital Markets Strategist
New York, NY

Tom.Joyce@mufgsecurities.com
(212) 405-7472

Role

Tom Joyce is a Managing Director and Capital Markets Strategist within MUFG's global capital markets and investment banking business. Based in New York, Tom heads a team that creates customized analytical content for multi-national S&P 500 companies. His team provides in depth analysis on the impact of economic, political, public policy and regulatory dynamics on the US credit, foreign exchange, rates and commodities markets.

Experience

Tom has over 30 years of Investment Banking experience in New York, London, Hong Kong, and San Francisco. Tom created and built the Capital Markets Strategy role, advising corporate C-Suite executives (Boards, CEOs, CFOs, and Treasurers) on the pervasive macro forces driving markets. Tom also presents at dozens of corporate events each year including Board meetings, CEO ExCo sessions, CFO and Treasury off-sites, corporate leadership events and conferences.

Education

Tom's educational background includes a year of study at Oxford University from 1991 - 1992, a Bachelor of Arts in Political Science from Holy Cross College in 1993, and a MBA from Kellogg Business School, Northwestern University in 2000.

Personal

Tom resides in New Canaan, CT with his wife and four sons, where he previously served on the Board of Trustees of the New Canaan Library. Tom also serves on the President's Council of Holy Cross College.

About the Authors

Stephanie Kendal

Vice President
Capital Markets Strategist
New York, NY

Stephanie.Kendal@mufgsecurities.com
(212) 405-7443

Role

Stephanie Kendal is a Vice President in MUFG's Capital Markets Strategy group within the global capital markets and investment banking business. The team provides market based content for corporate clients to assist in strategic decision making. Focus areas include the impact of economic, political, public policy and regulatory dynamics on the US credit, foreign exchange, rates and commodities markets.

Experience

Stephanie has spent nearly eight years as a Capital Markets Strategist. She is an active member of the University of Michigan recruiting team and is focused on the diversity recruiting effort at MUFG. Stephanie is also a part of MUFG's DEI, Culture & Philanthropy (DCP) Council.

Education

Stephanie graduated with honors from the University of Michigan's Ross School of Business with a BBA .

Personal

Stephanie is involved in NYC's iMentor program, mentoring high school students with their journey to college graduation. She also volunteers at Experience Camps, a free summer camp program for grieving children, as the associate program director.

Angela Sun

Associate
Capital Markets Strategist
New York, NY

Angela.Sun@mufgsecurities.com
(212) 405-6952

Role

Angela Sun is an Associate in MUFG's Capital Markets Strategy group within the global capital markets and investment banking business. The team provides market based content for corporate clients to assist in strategic decision making. Focus areas include the impact of economic, political, public policy and regulatory dynamics on the US credit, foreign exchange, rates and commodities markets.

Experience

Angela previously interned at MUFG working in Capital Markets within the Equity Capital Markets and Leveraged Finance divisions. She is also an active member of the Carnegie Mellon University recruiting team.

Education

Angela graduated with honors from Carnegie Mellon University's Tepper School of Business with a BS in Business Administration with an additional major in Statistics and a minor in Media Design. She was a member of Alpha Kappa Psi business fraternity and the Undergraduate Entrepreneurship Association.

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