

JUNE 2026

AI's Global Economic Shockwaves

Making sense of the macro and market implications

Vicky Redwood, Chief Economic Adviser - Macro

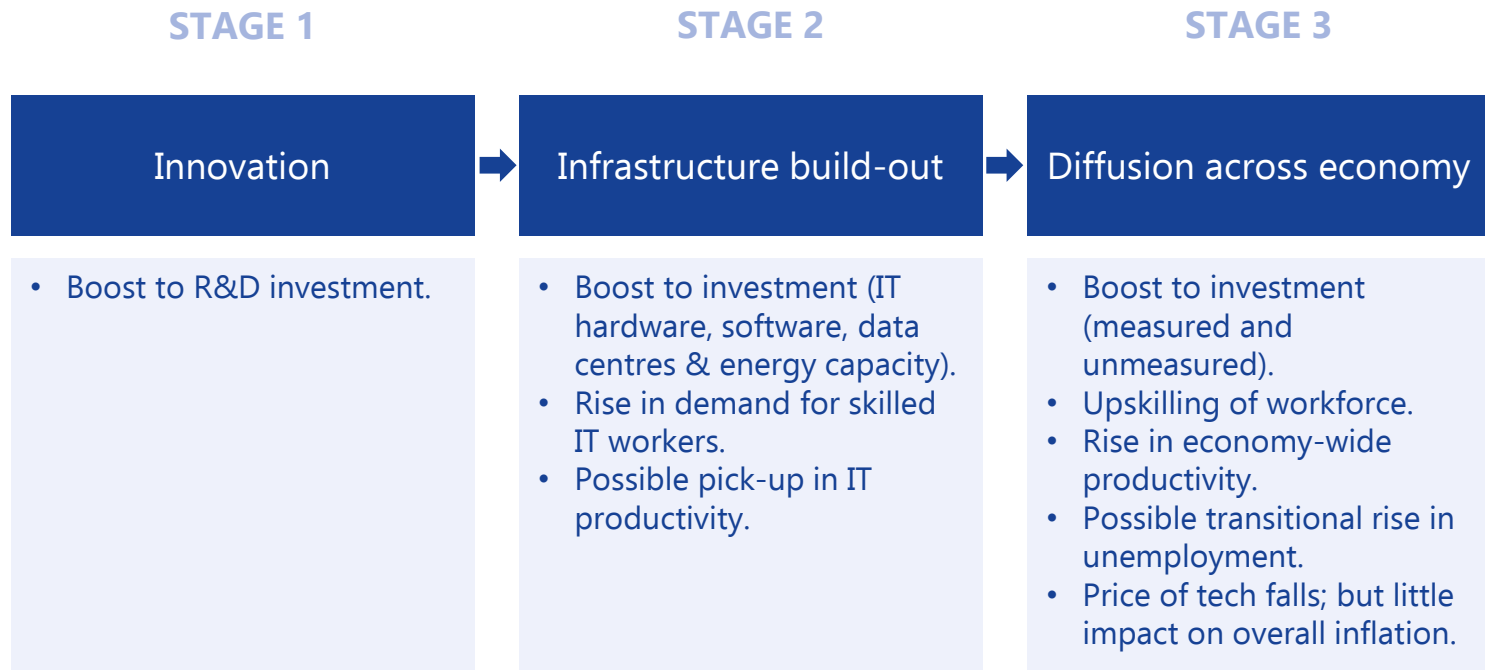
John Higgins, Chief Economic Adviser - Markets



Agenda

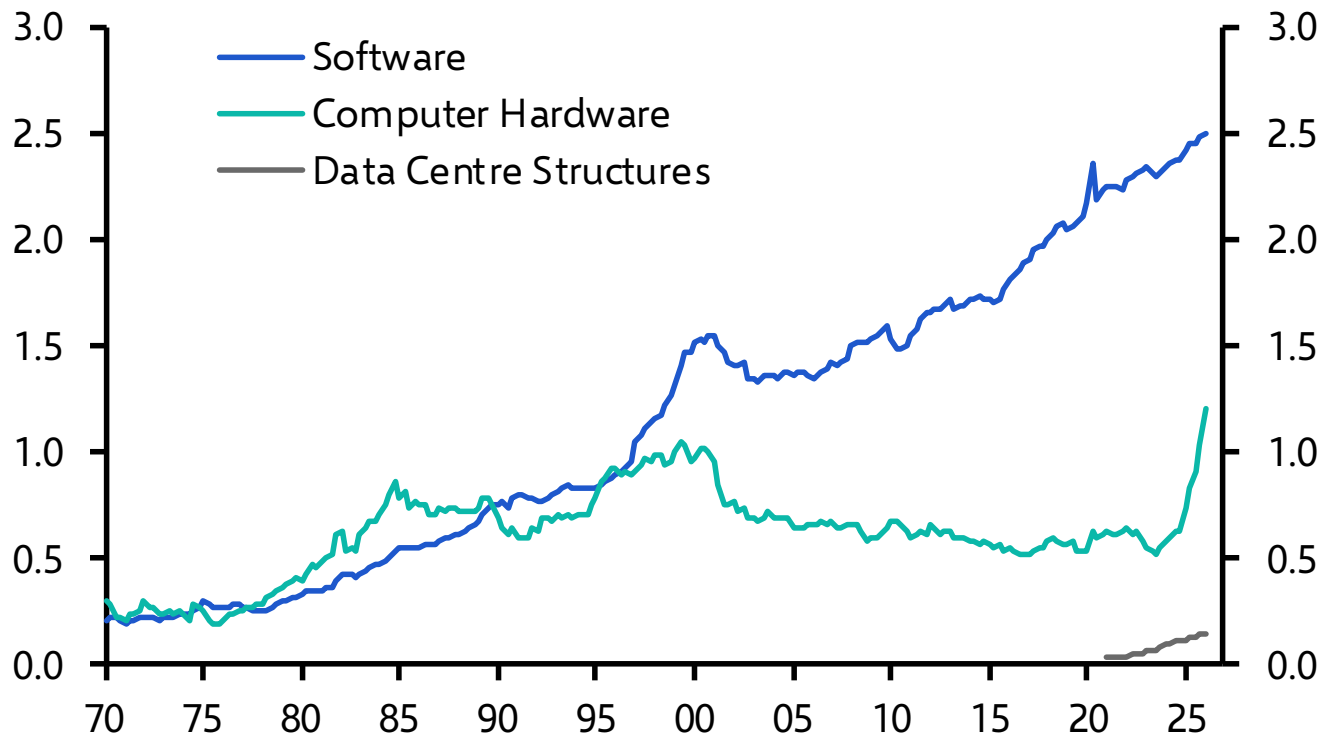
- How is AI already affecting the economy?
- The long-term effects. Who are the winners and losers?
- The risks of a disruptive transition.

Timeline of the AI Revolution



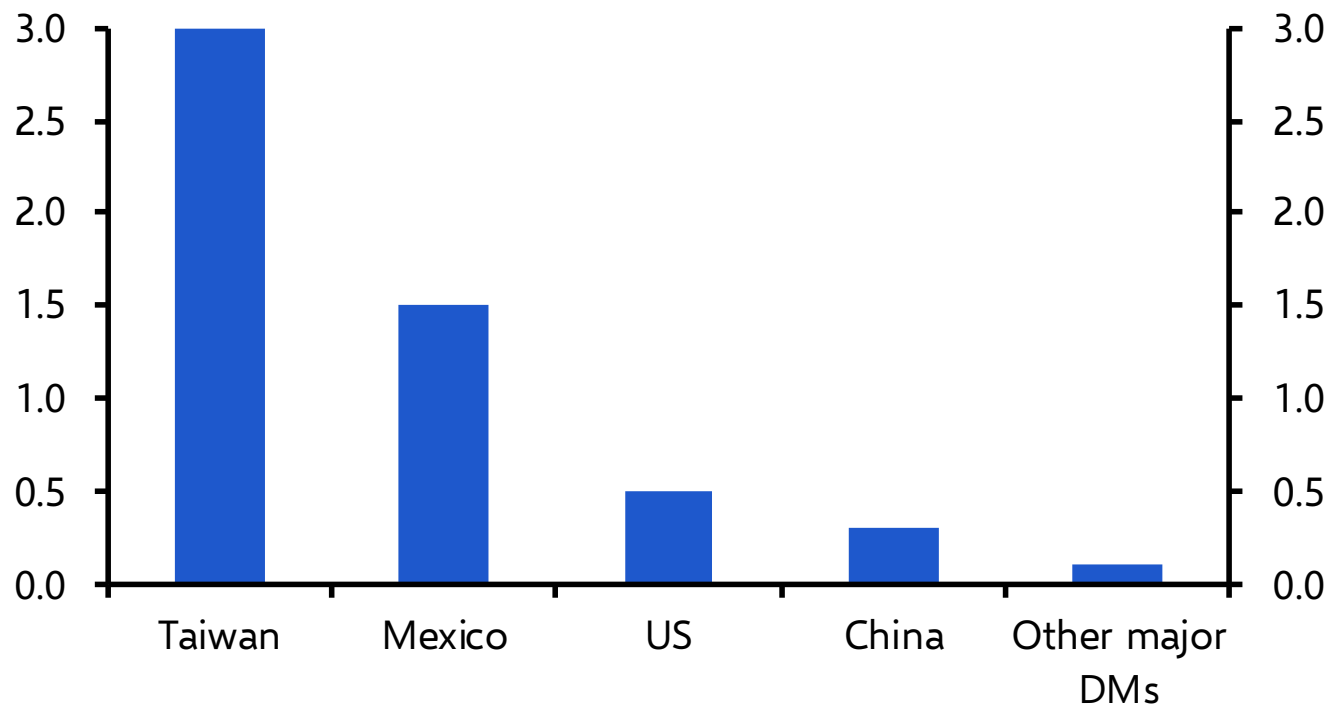
Source: Capital Economics

US Nominal Investment (% of GDP)



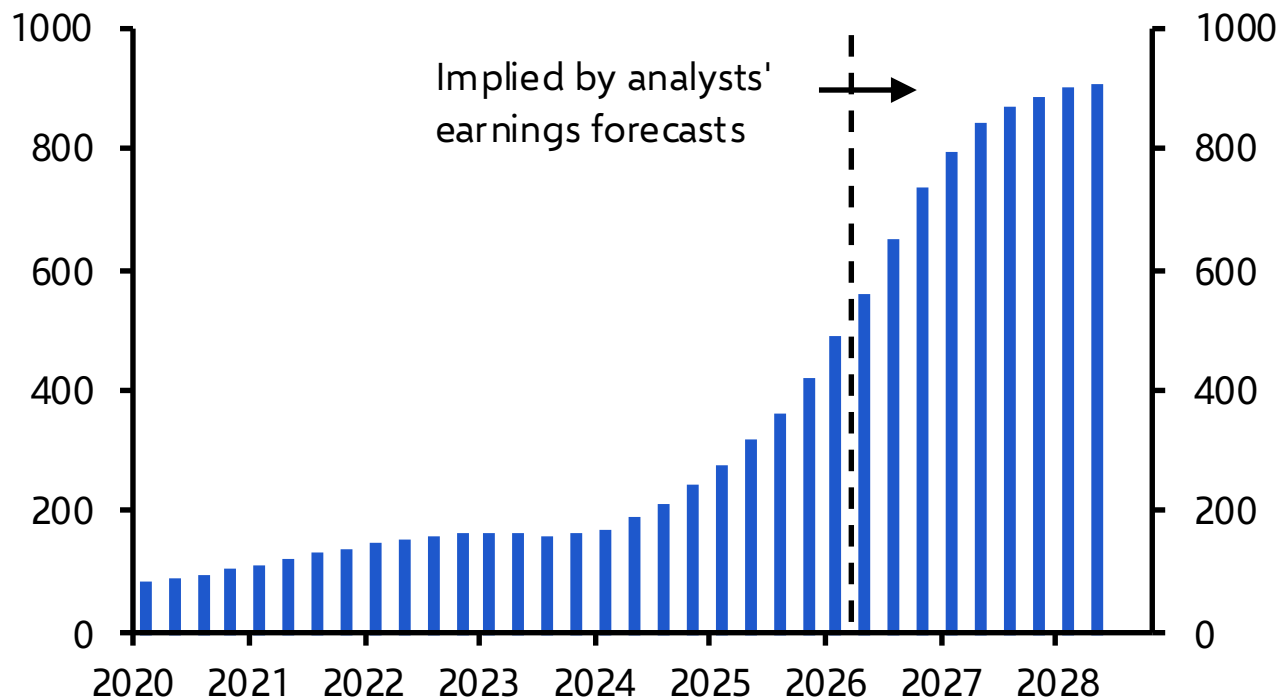
Sources: LSEG, Capital Economics

Estimate of AI Boost to Annual GDP (% , past 4 quarters)



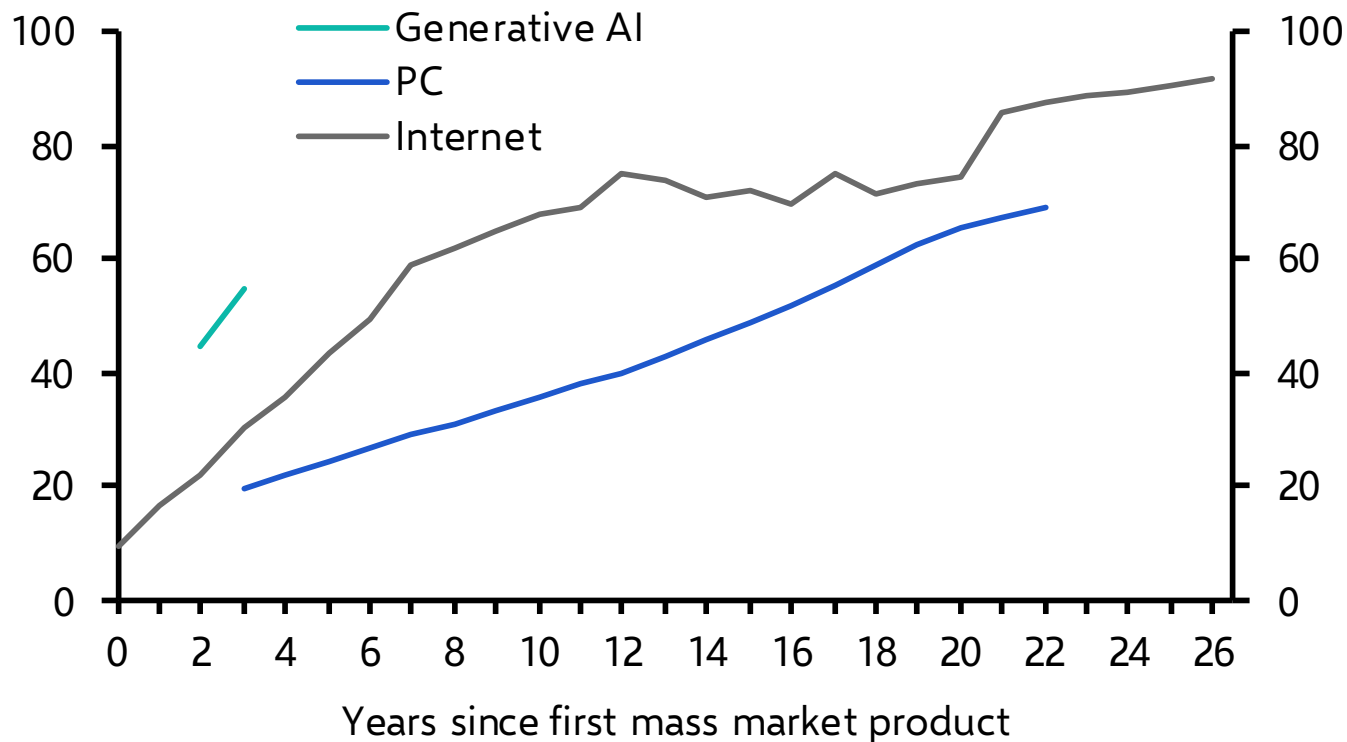
Sources: LSEG, Capital Economics

Combined CapEx of 5 US Hyperscalers (Last 12m, \$bn)



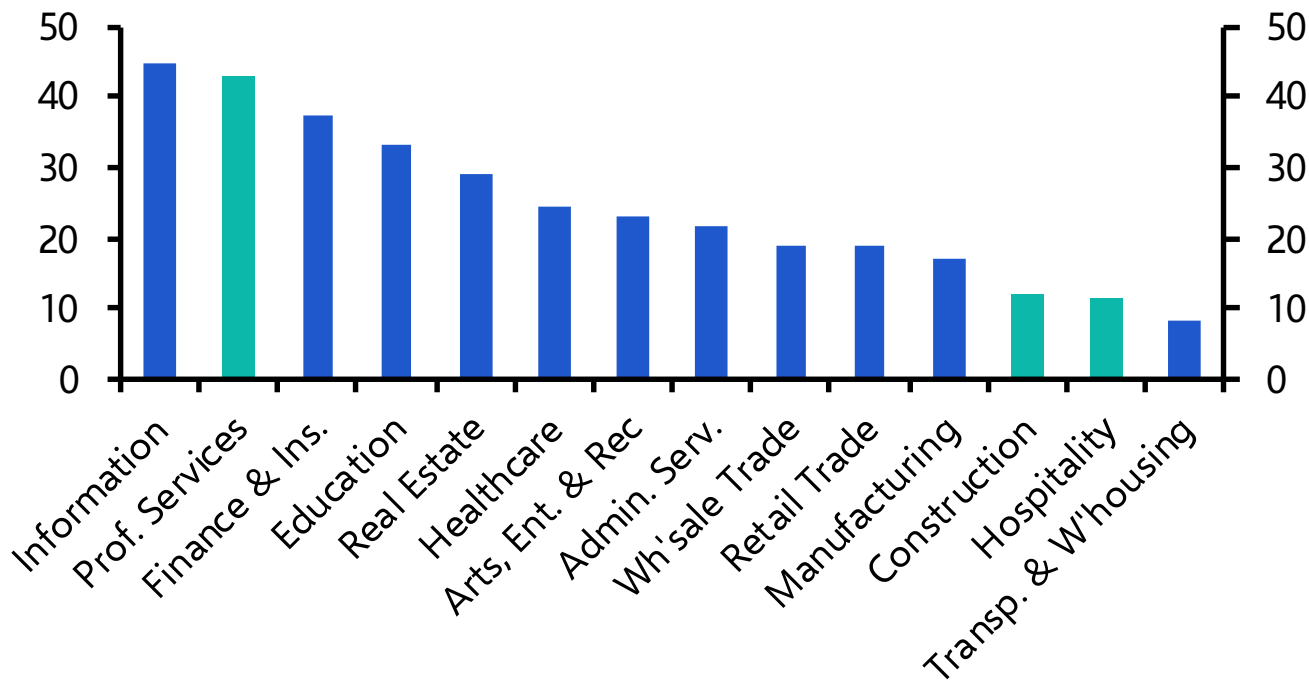
Sources: I/B/E/S forecasts via LSEG, Capital Economics

US Adoption Rate at Home and Work of New Technologies (%)



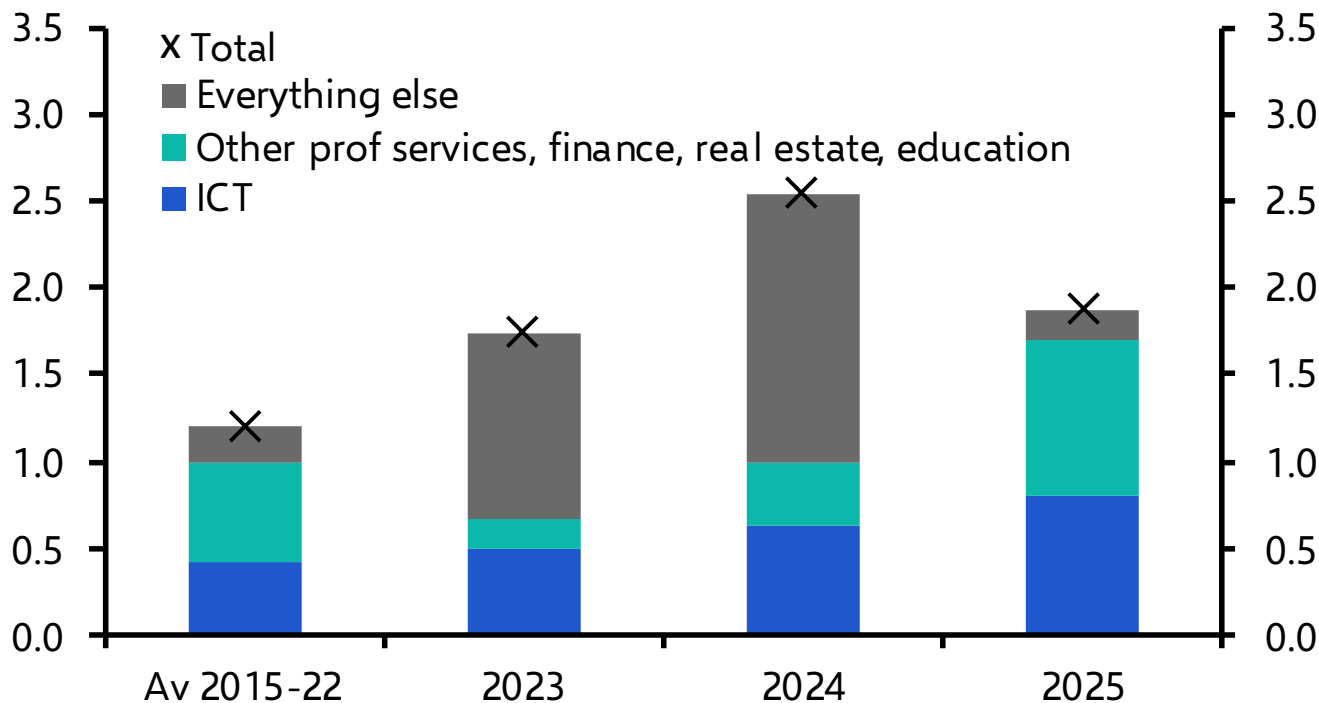
Sources: St Louis Fed, Capital Economics

% of US firms planning to use AI in next 6 months (May 2026)



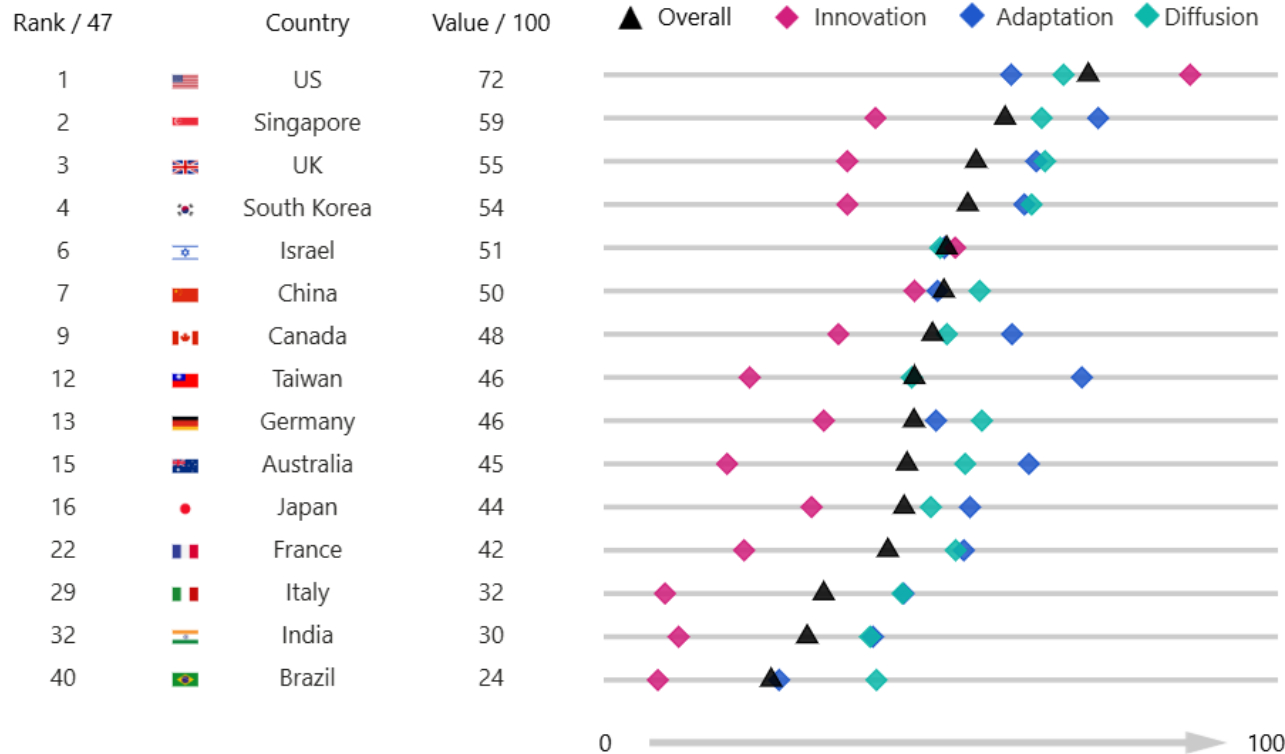
Sources: US Census Bureau, Capital Economics

US Contributions to Productivity Growth by Sector (% pts)



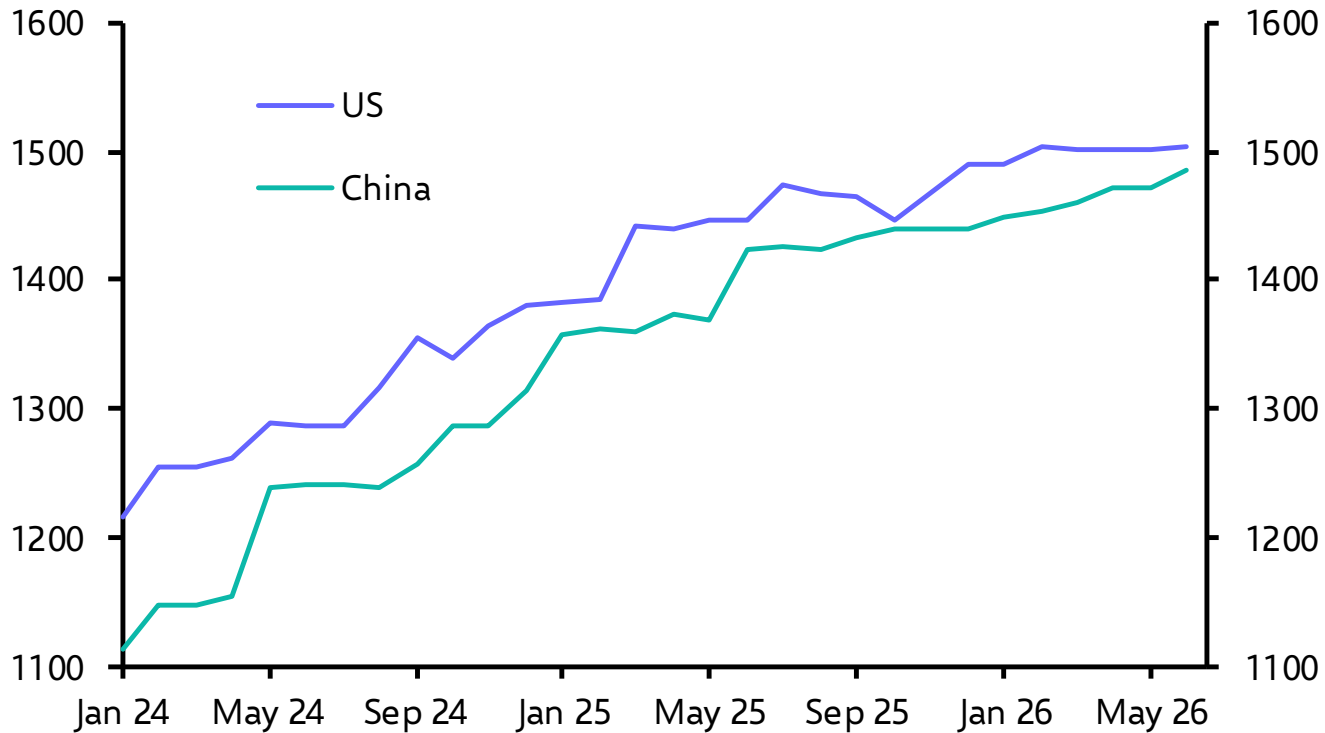
Sources: LSEG, Capital Economics

CE AI Economic Impact Index – Selected Economies



Source: Capital Economics

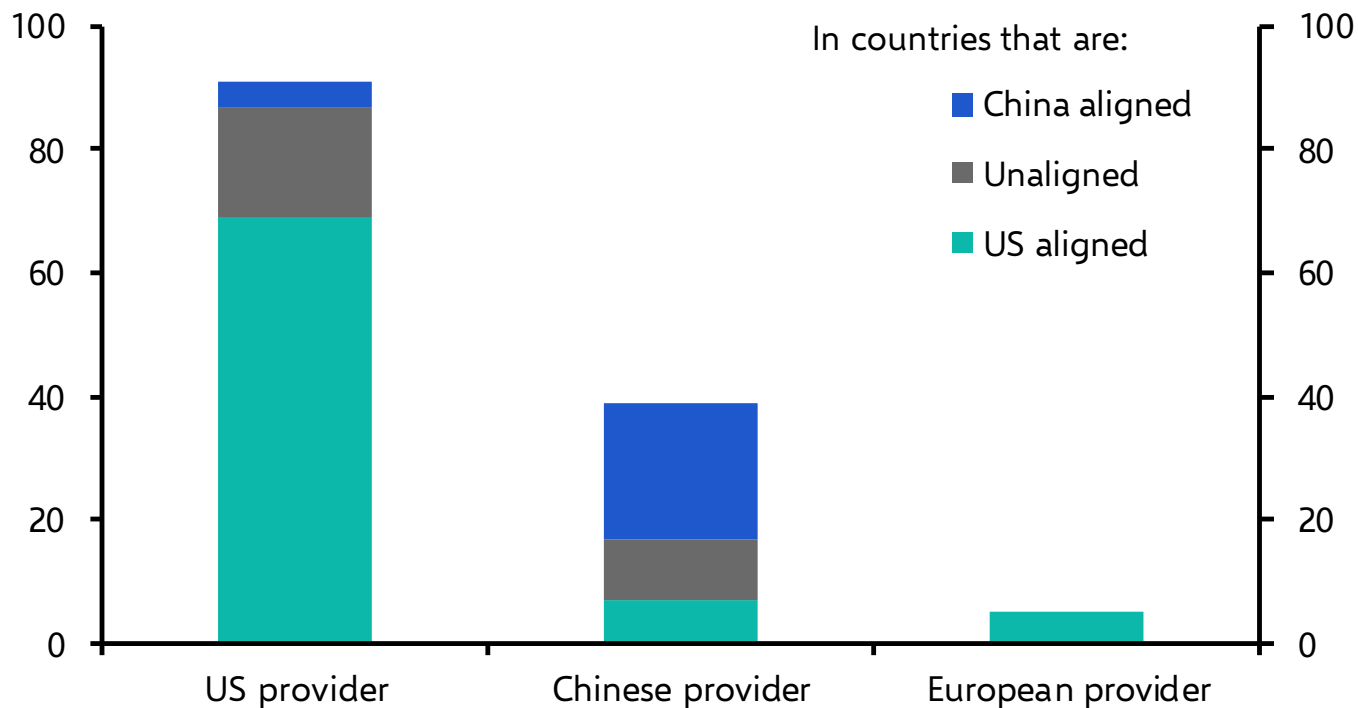
Performance of Top Large Language Models*



*Chatbot Arena Elo points

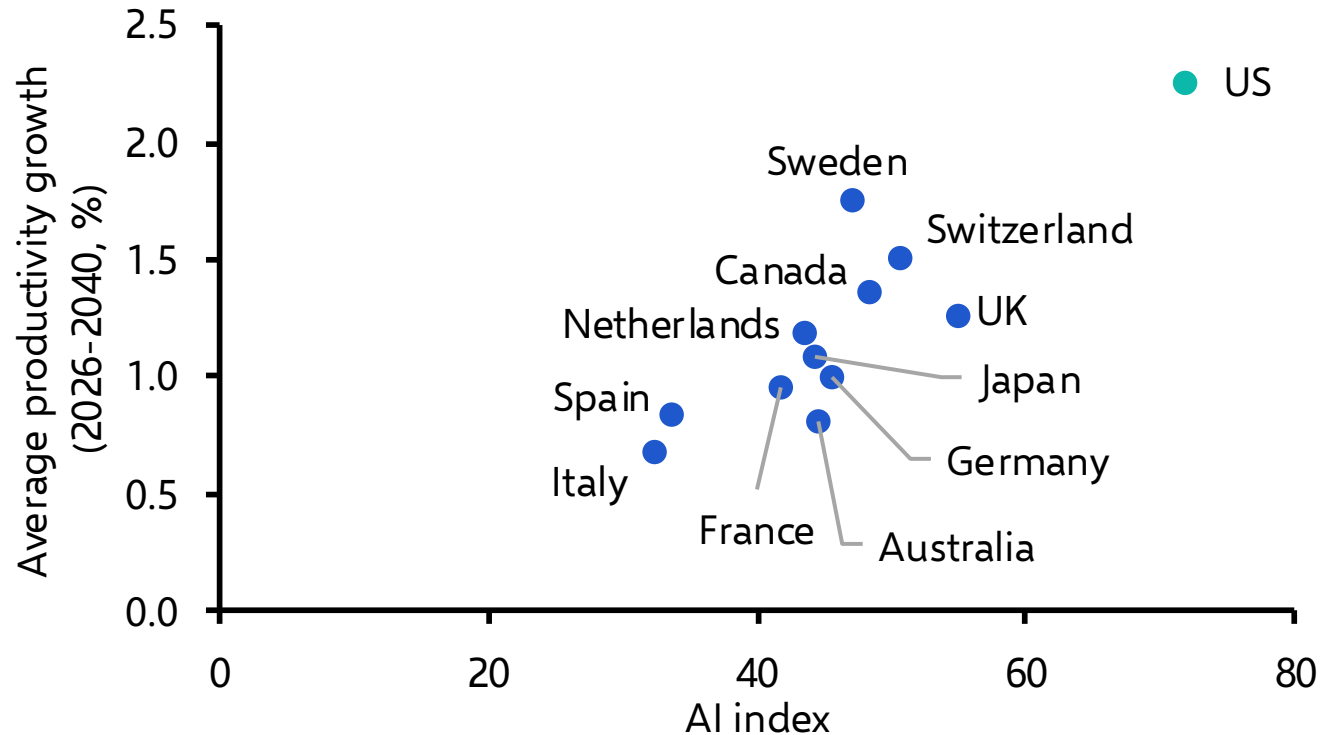
Sources: Stanford AI Index 2025 Annual Report, Internet Archive, OpenLM AI, Capital Economics

Nationality of Cloud Computing Provider (Number of Countries, Jan. 2026)



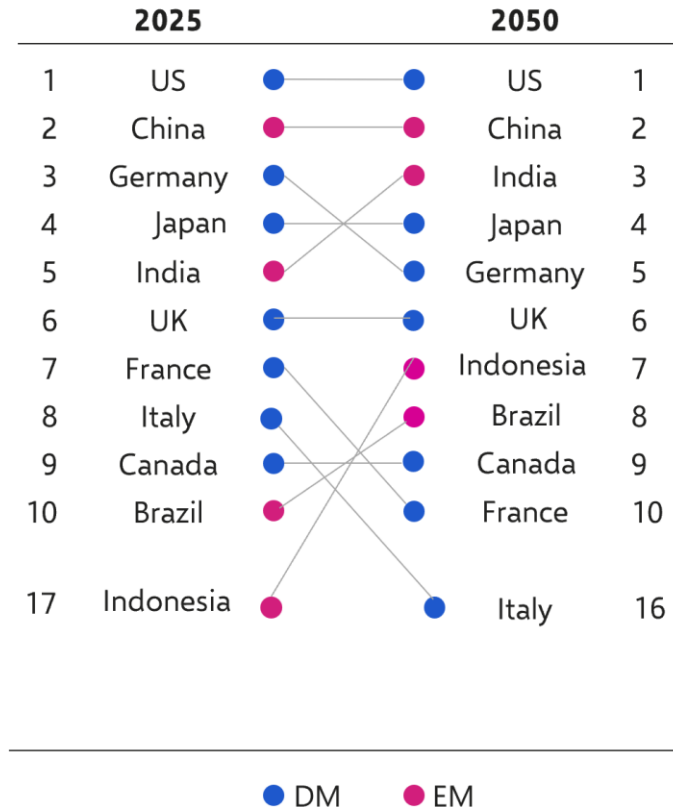
Sources: Hawkins et al, Capital Economics

DM Productivity Growth (2026-40) & CE AI Index



Source: Capital Economics

World Rankings (Nominal GDP at market exchange rates)



Source: Capital Economics

AI disruption during the transition

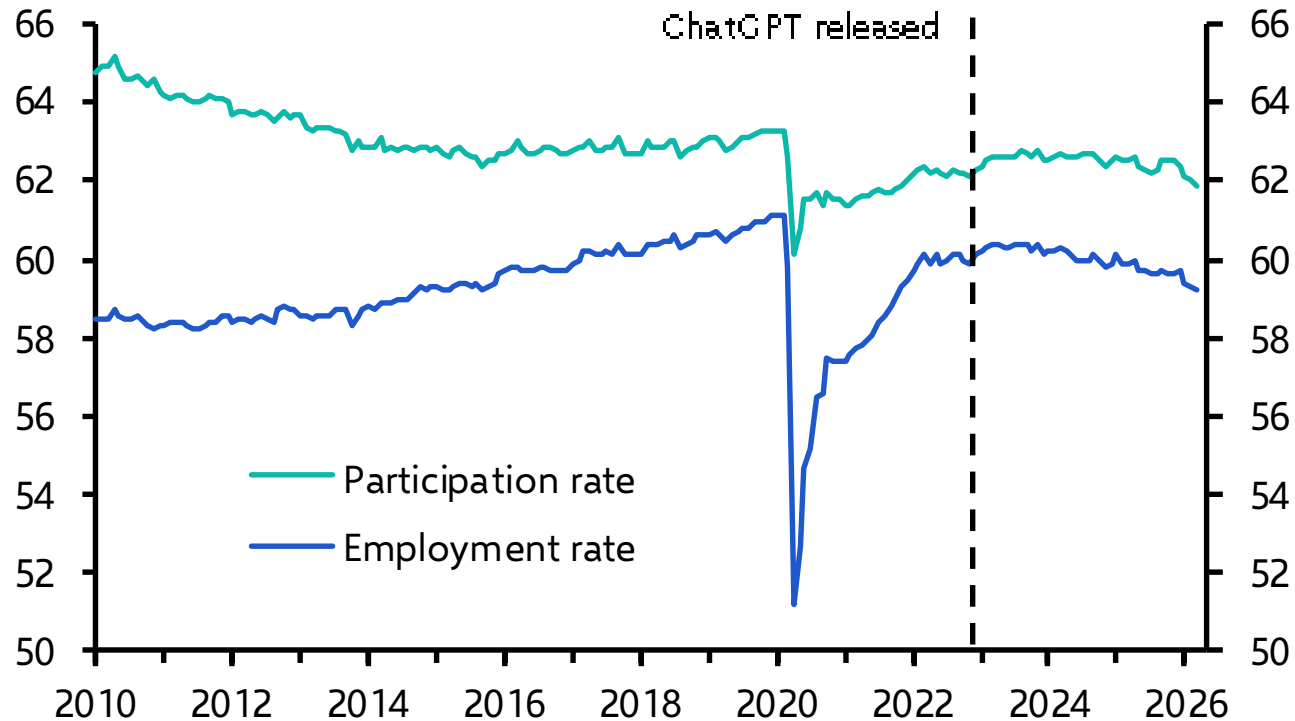
Supply side:

- Weaker productivity as firms experiment with, and adjust to, AI.
- Temporary rise in unemployment and activity due to labour market mismatches.

Demand side:

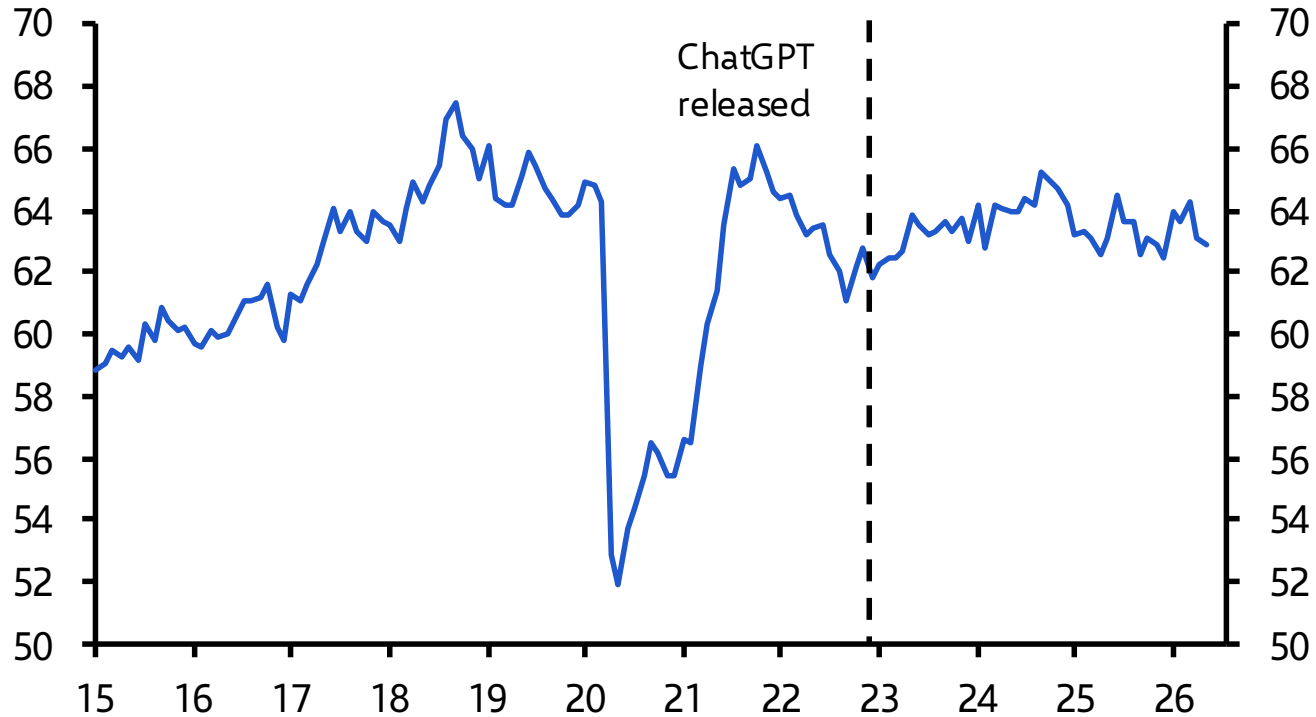
- Weaker demand if gains to AI are concentrated in groups with low marginal propensity to consume.
- Rise in precautionary saving in response to fear of job losses/lower incomes.
- Ineffective monetary/fiscal policy.

US Participation & Employment Rates (%)



Sources: LSEG, Capital Economics

Consumer Sentiment – Jobs Index (Average of G7 countries)



Sources: Ipsos, Capital Economics

What might an adverse scenario look like?

- Labour market disruption (similar to 1980s deindustrialisation).
 - Weak demand (as occurred during global financial crisis, euro-zone debt crisis).
 - Temporary productivity slowdown (echoing early phase of ICT revolution).
- Slowdown in GDP growth, rise in unemployment/inactivity and fall in productivity.

Warning signs

- Hiring weakens despite solid output growth. Hiring intentions and vacancy rates fall.
- Productivity growth slows despite heavy AI investment.
- Household and corporate confidence falters.

Key Messages

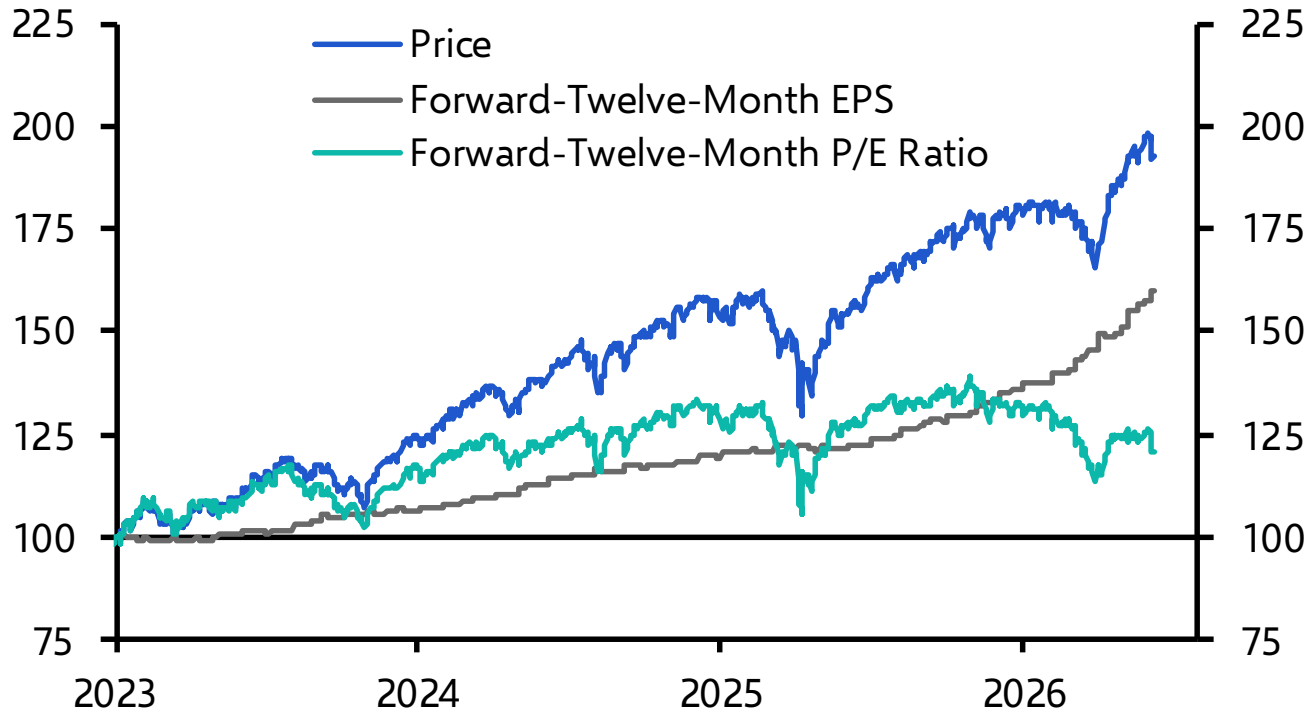
- AI's impact so far driven more by infrastructure spending than efficiency gains.
- The productivity boost will come – but remains a late 2020s/2030s story.
- AI will lift global growth but reinforce US outperformance vs. China and Europe.
- China's low-cost AI will deepen geopolitical fragmentation.
- Labour market disruption is real but manageable so far.
- The transition could still be disruptive despite a positive end state.

AI & The Stock Market: What next?

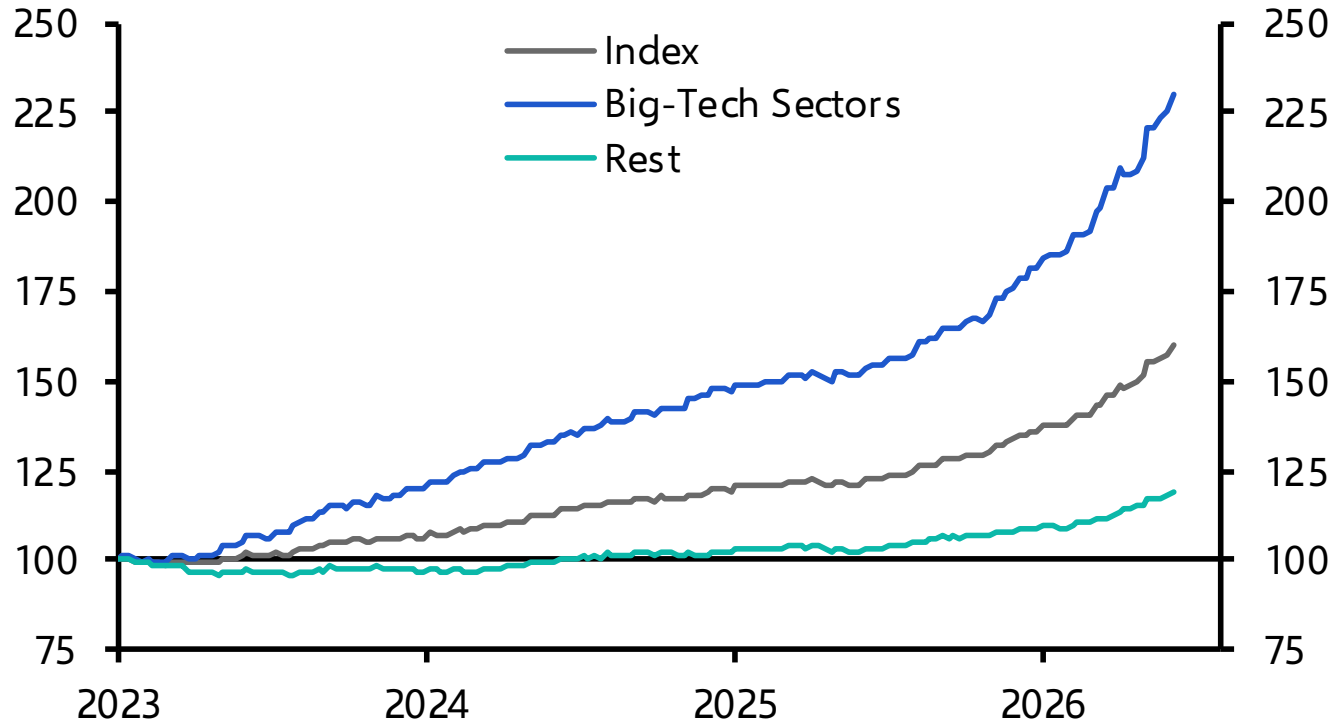
John Higgins, Chief Economic Adviser – Markets
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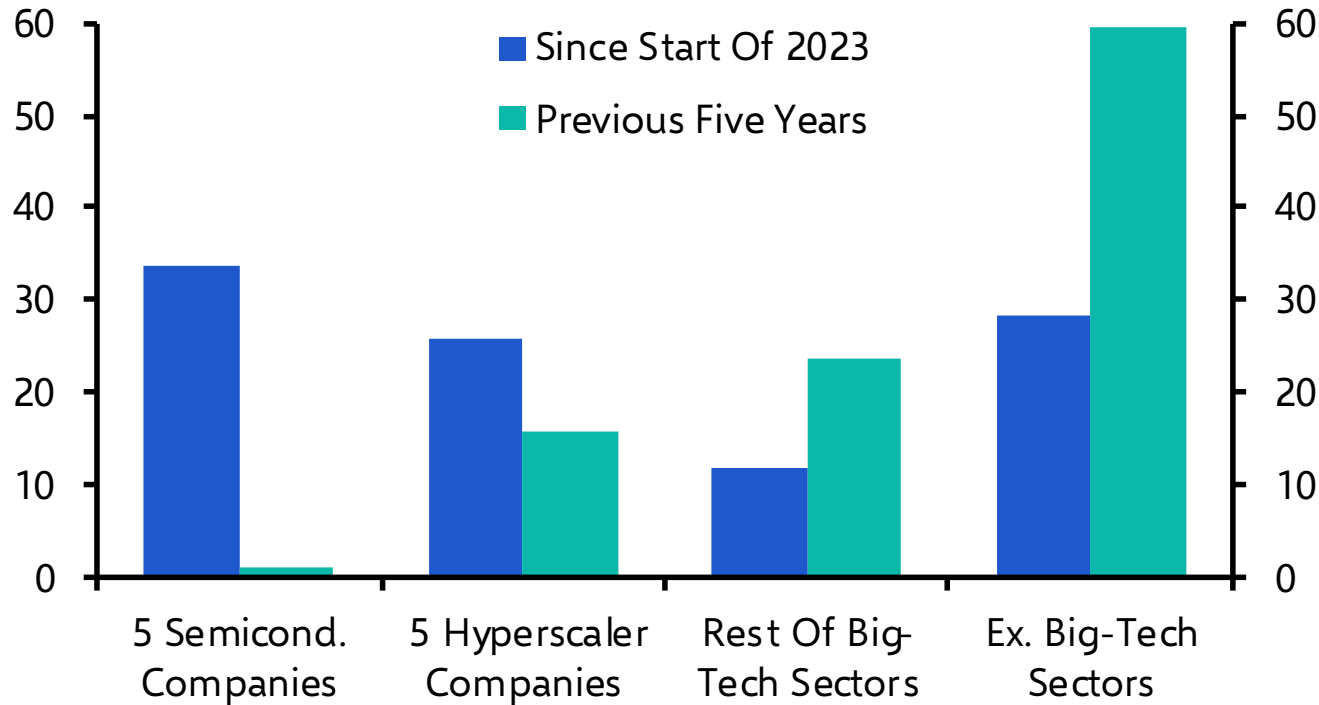
S&P 500 (Start Of 2023=100)



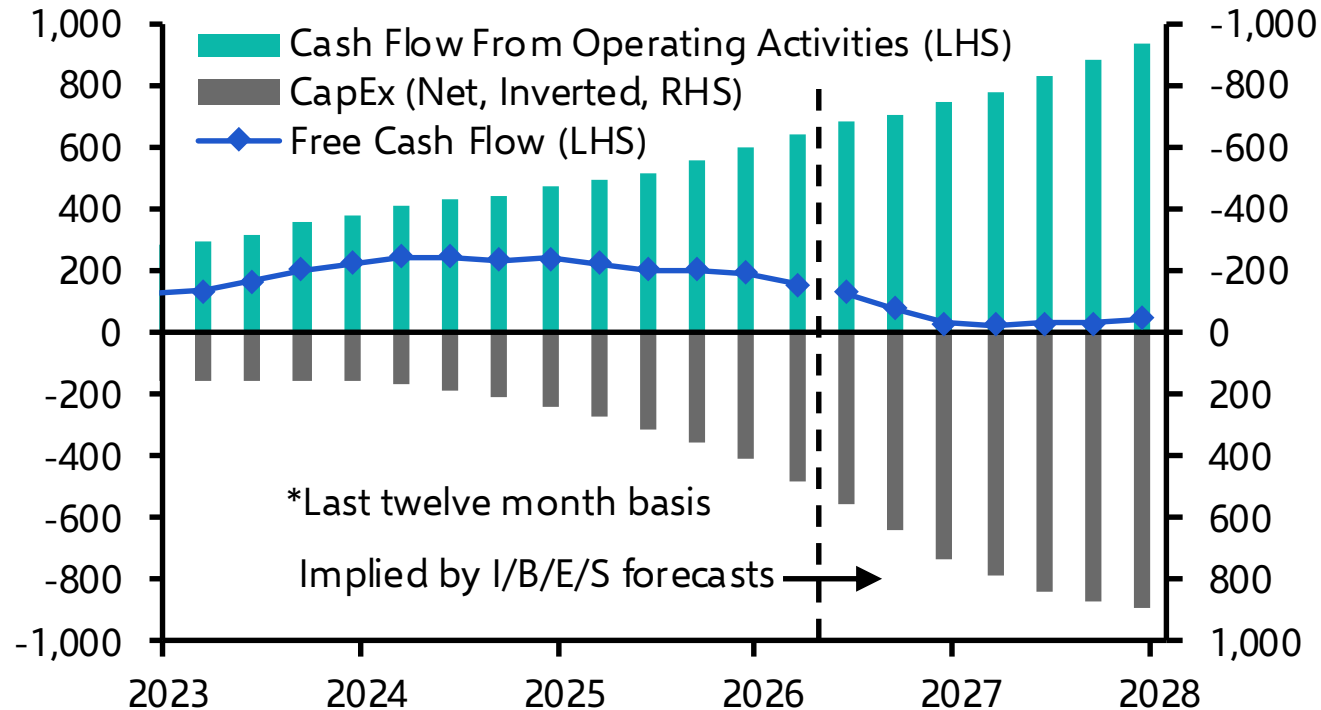
S&P 500 Forward-Twelve-Month EPS (Start Of 2023=100)



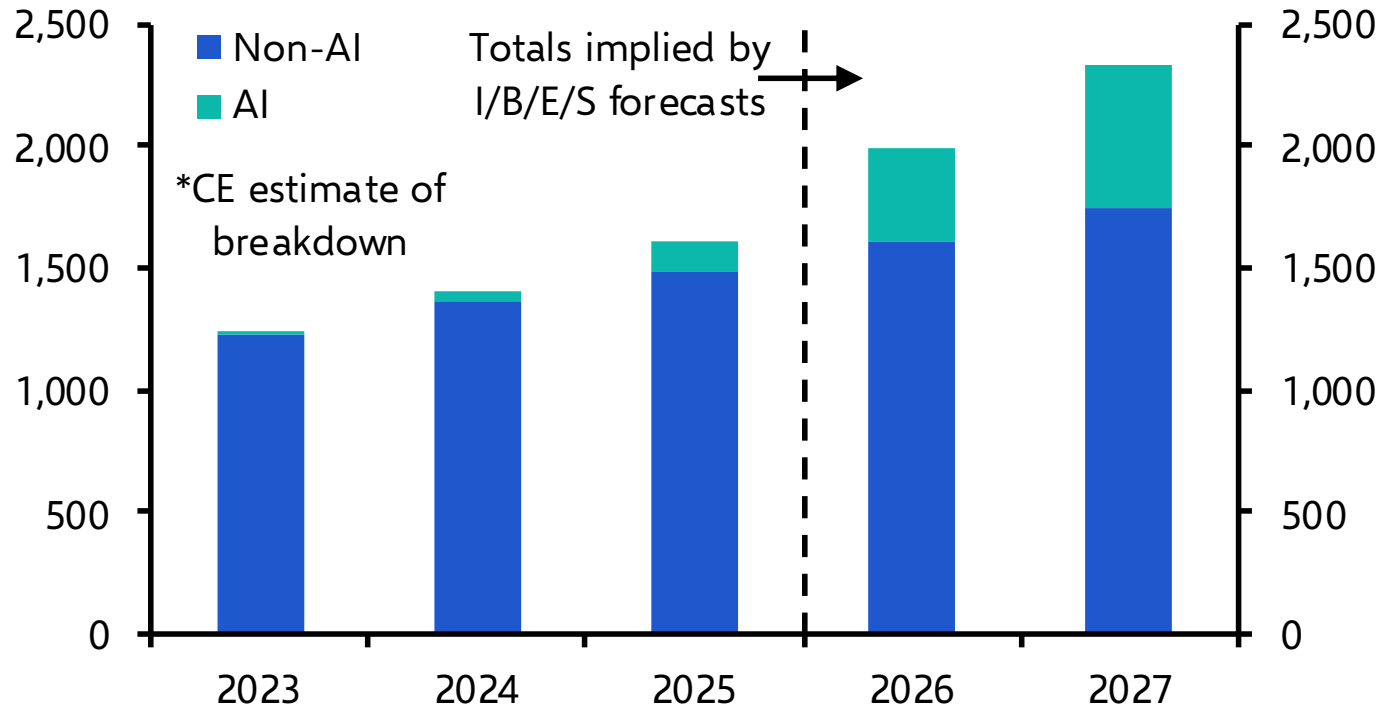
Contributions To Growth In S&P 500 FTM Earnings (%)



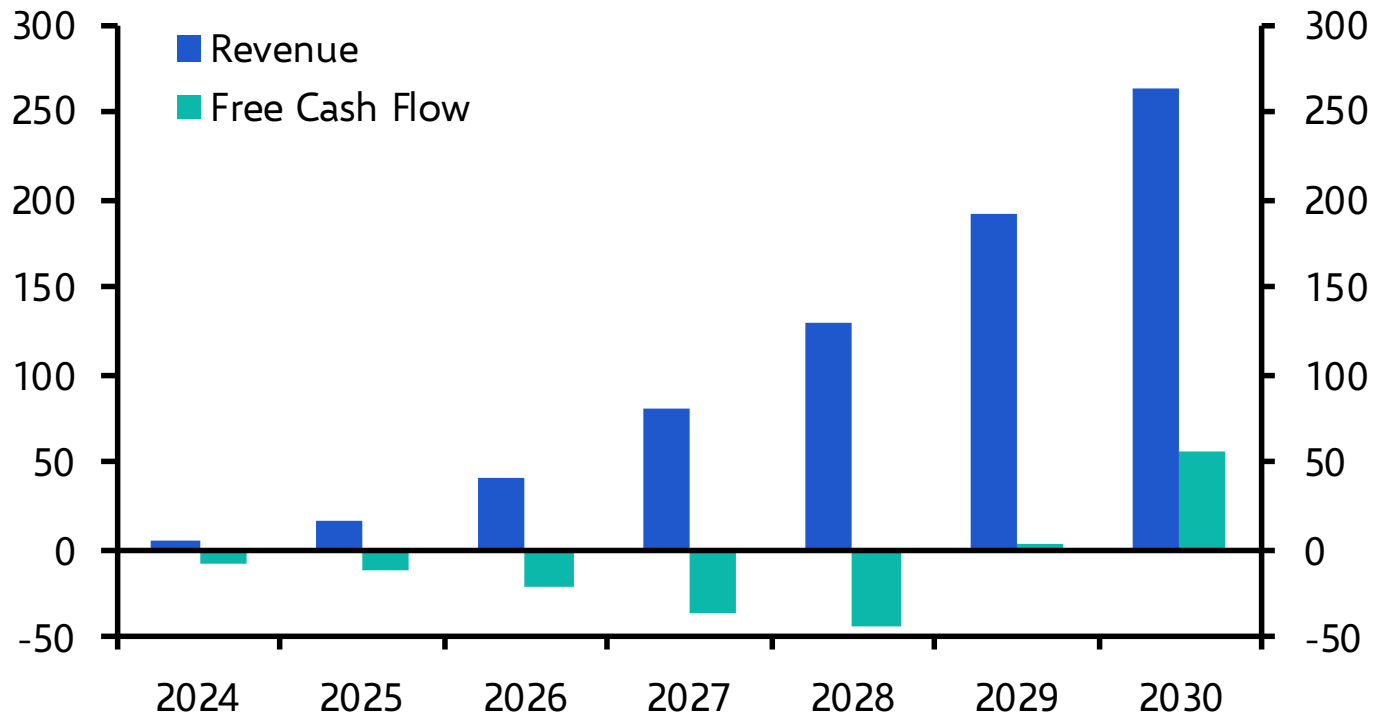
Free Cash Flow Of 5 Hyperscalers In S&P 500 (\$bn)*



Revenue* Of 5 Hyperscalers In S&P 500 (Annual) (\$bn)

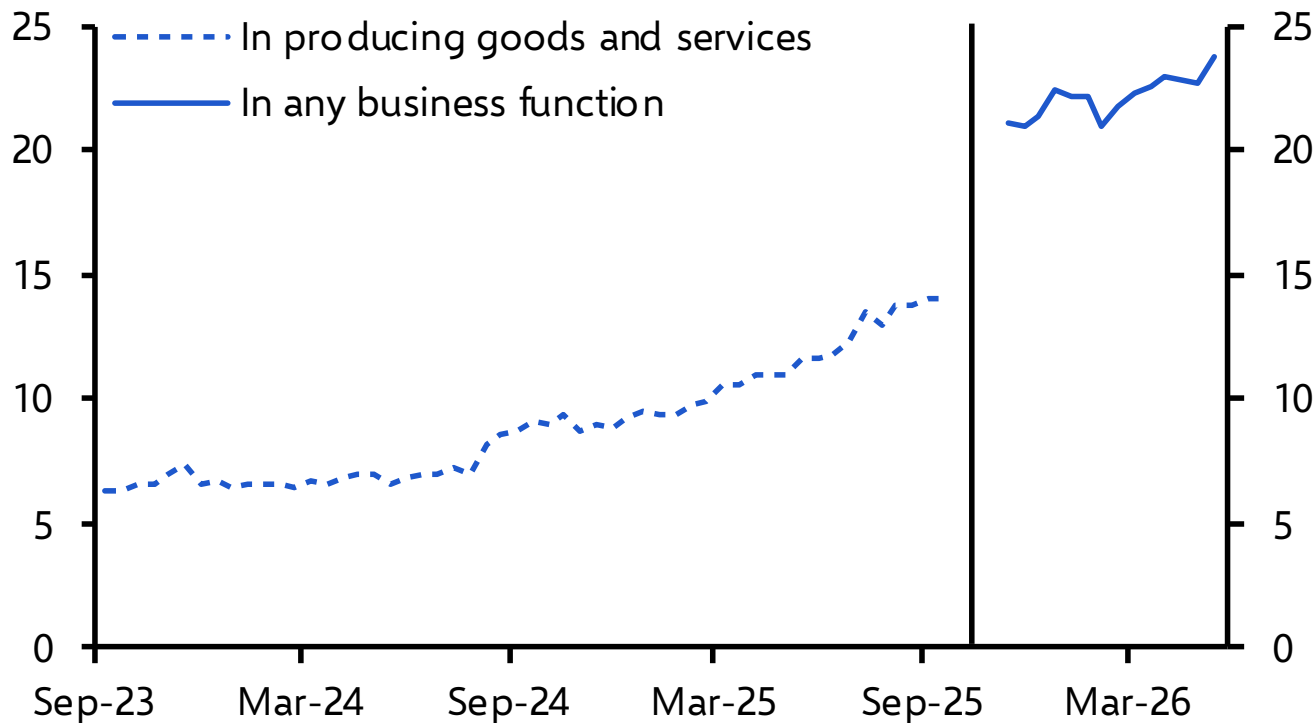


Revenue and Free Cash Flow Of Two Large AI Labs (US\$ bn)*



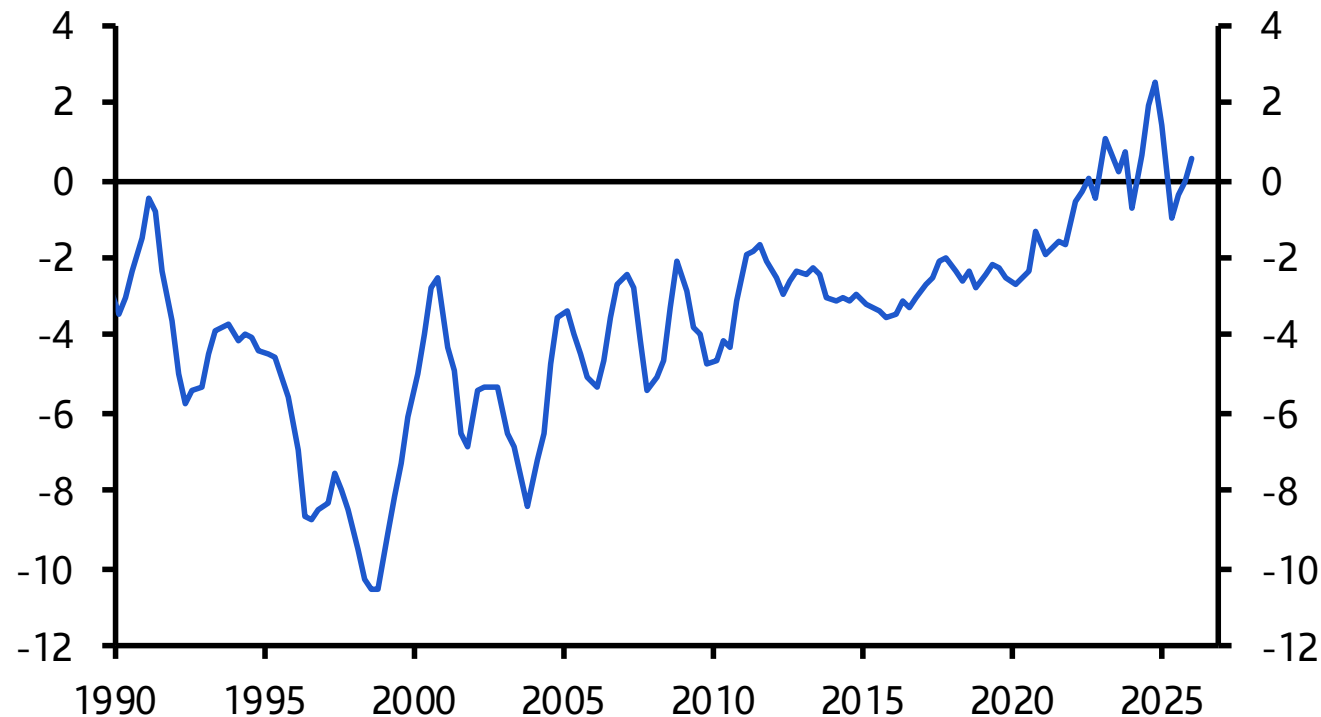
*Includes combined management projections as of circa late 2025. Sources: WSJ, Capital Economics

Share Of US Companies Planning To Use AI In Next 6m (%)



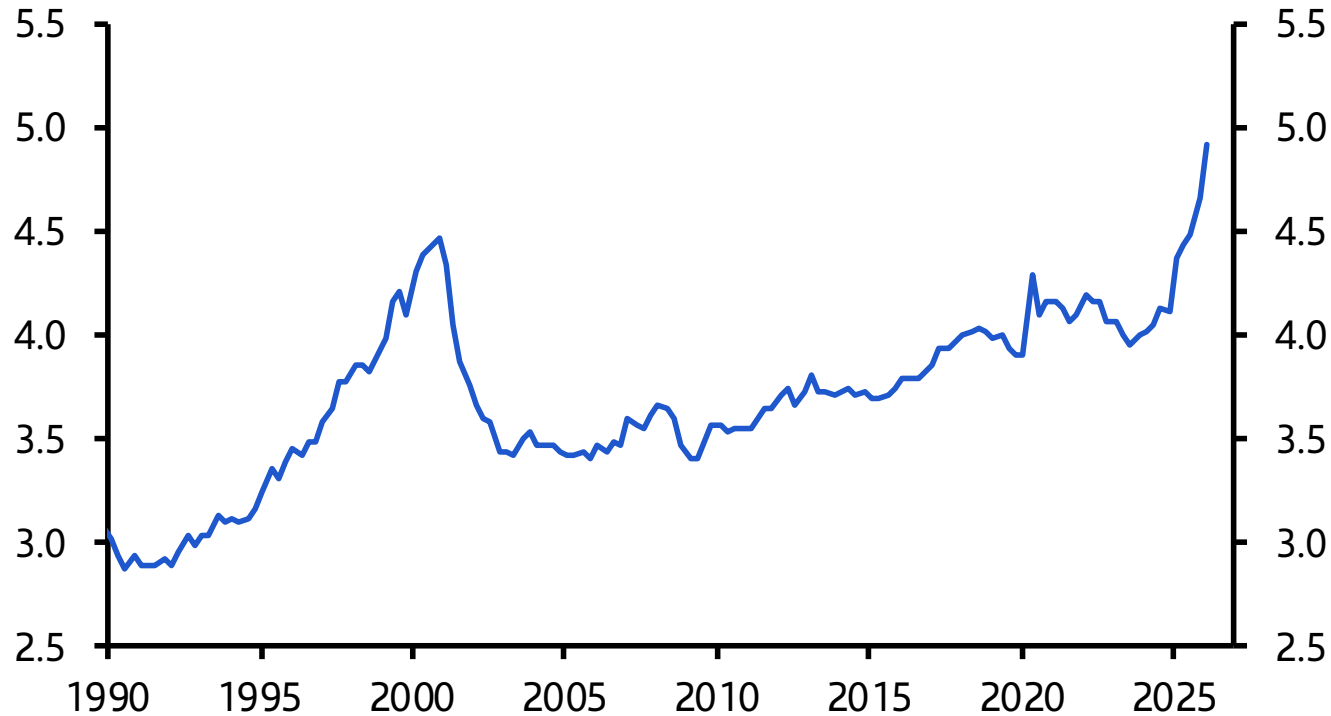
Sources: Census Bureau, Capital Economics

US 'Tech' Inflation* (%)

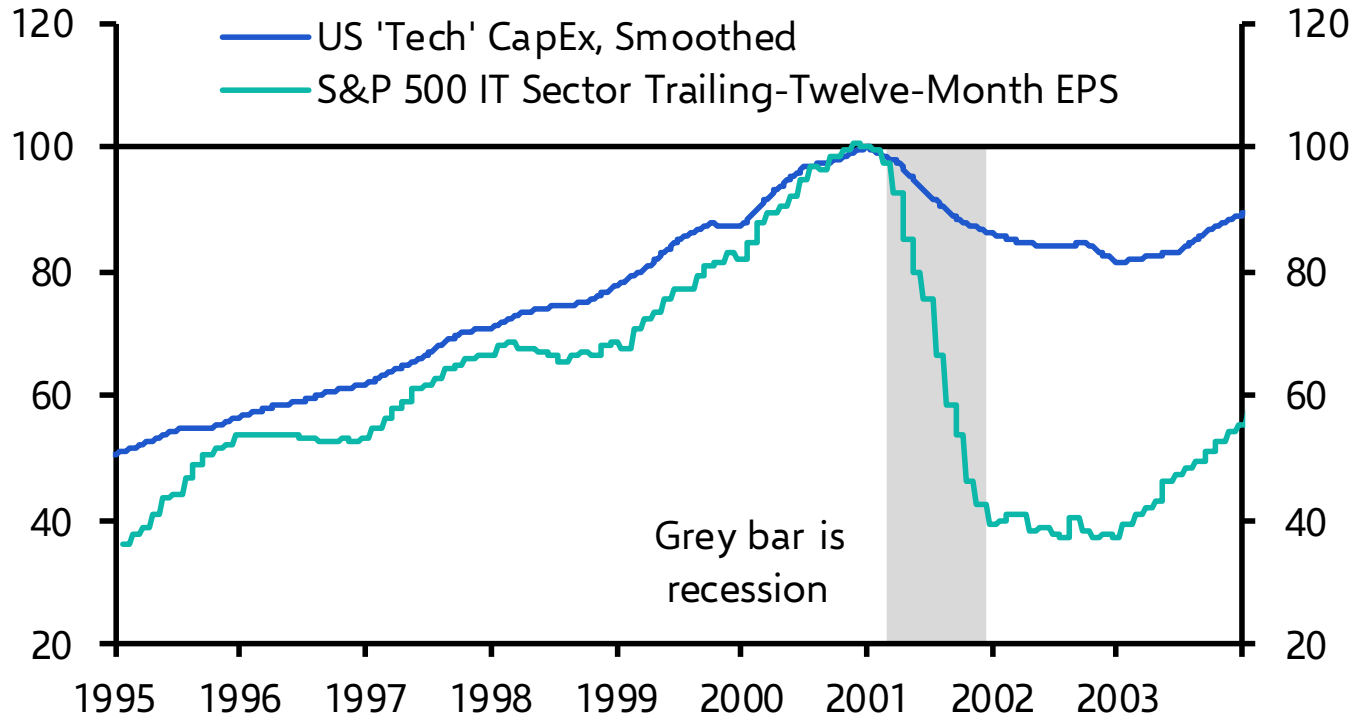


*Based On NIPA deflator for information processing equipment and software. Sources: LSEG, Capital Economics

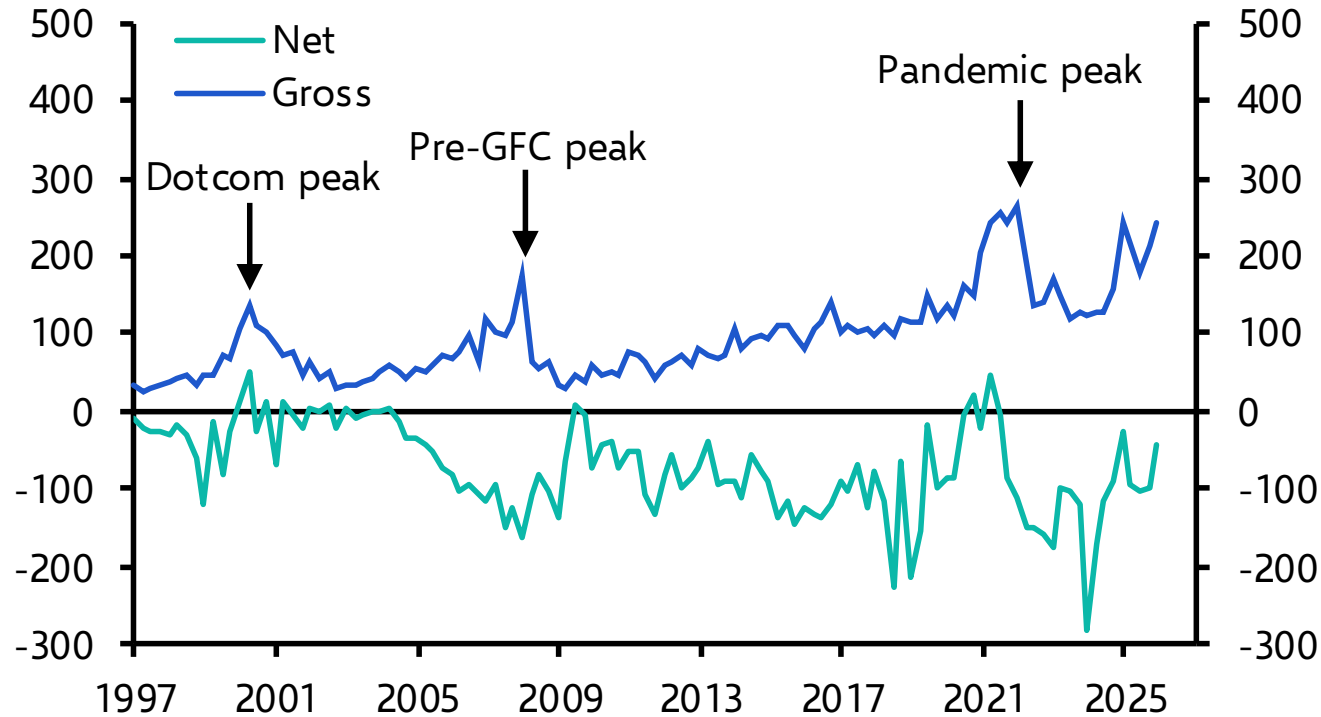
US 'Tech' CapEx As A Share Of GDP (%)



US 'Tech' CapEx Vs. S&P 500 IT Sector Earnings (End-2000=100)

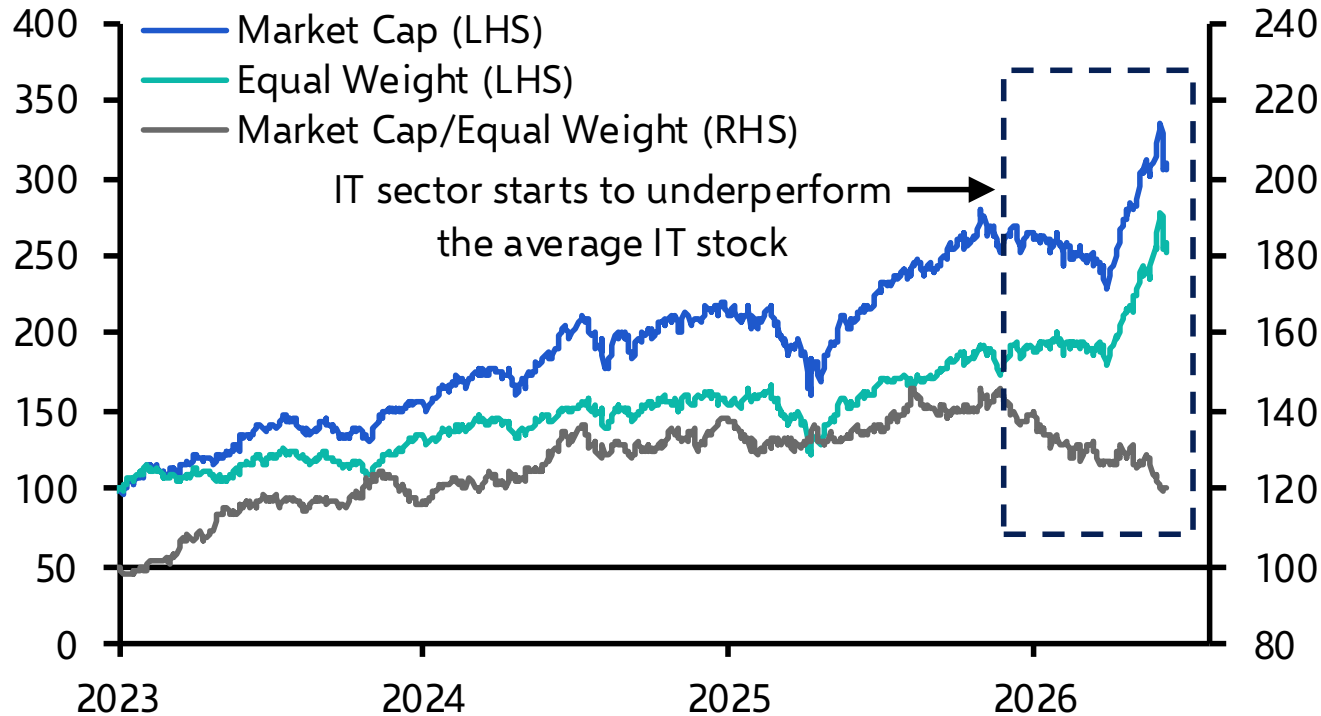


US Nonfinancial Corporate Sector Equity Issuance (Quarterly, \$bn)

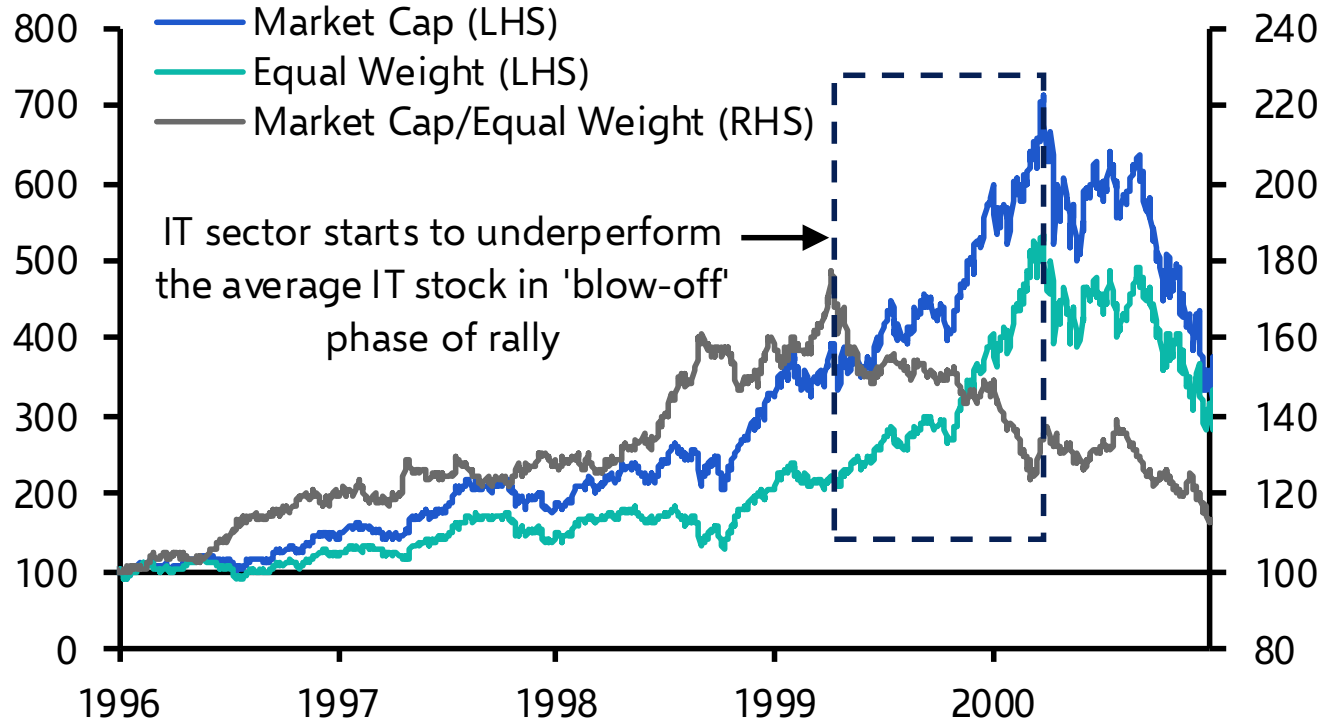


Sources: Federal Reserve, LSEG, Capital Economics

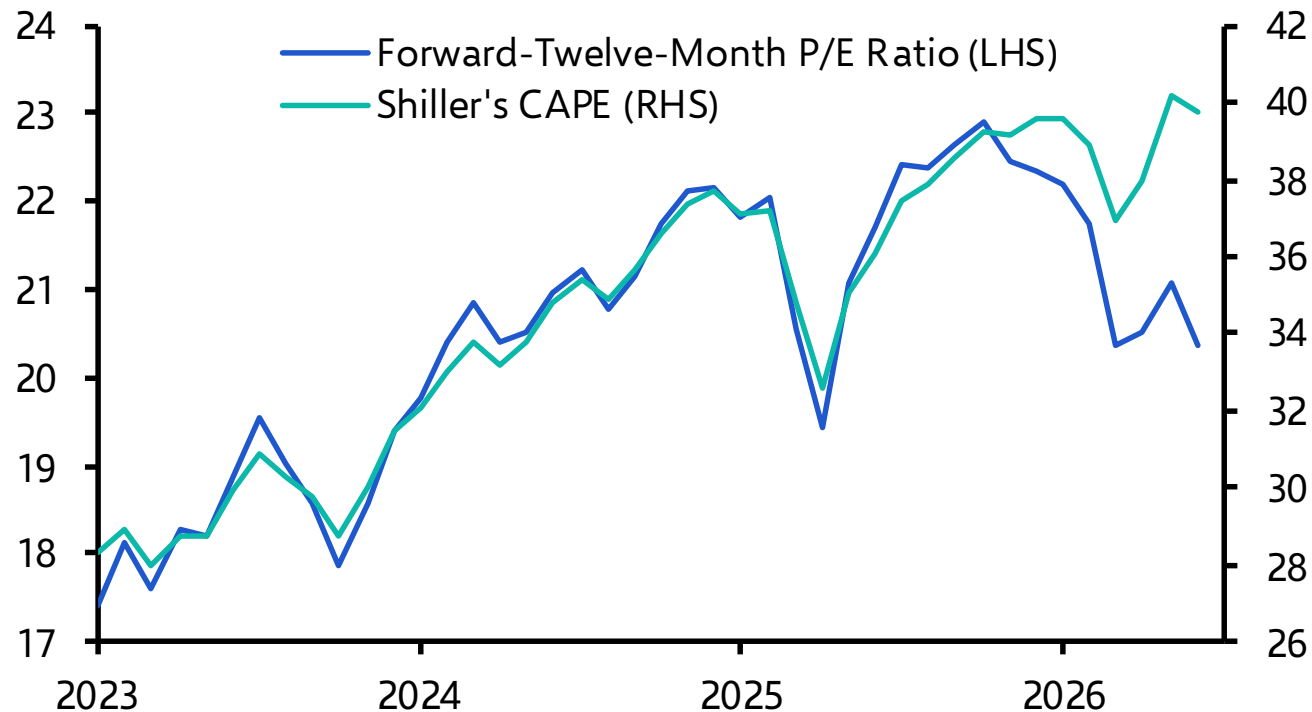
S&P 500 IT Sector: Market Cap Vs. Equal Weight (End-2022=100)



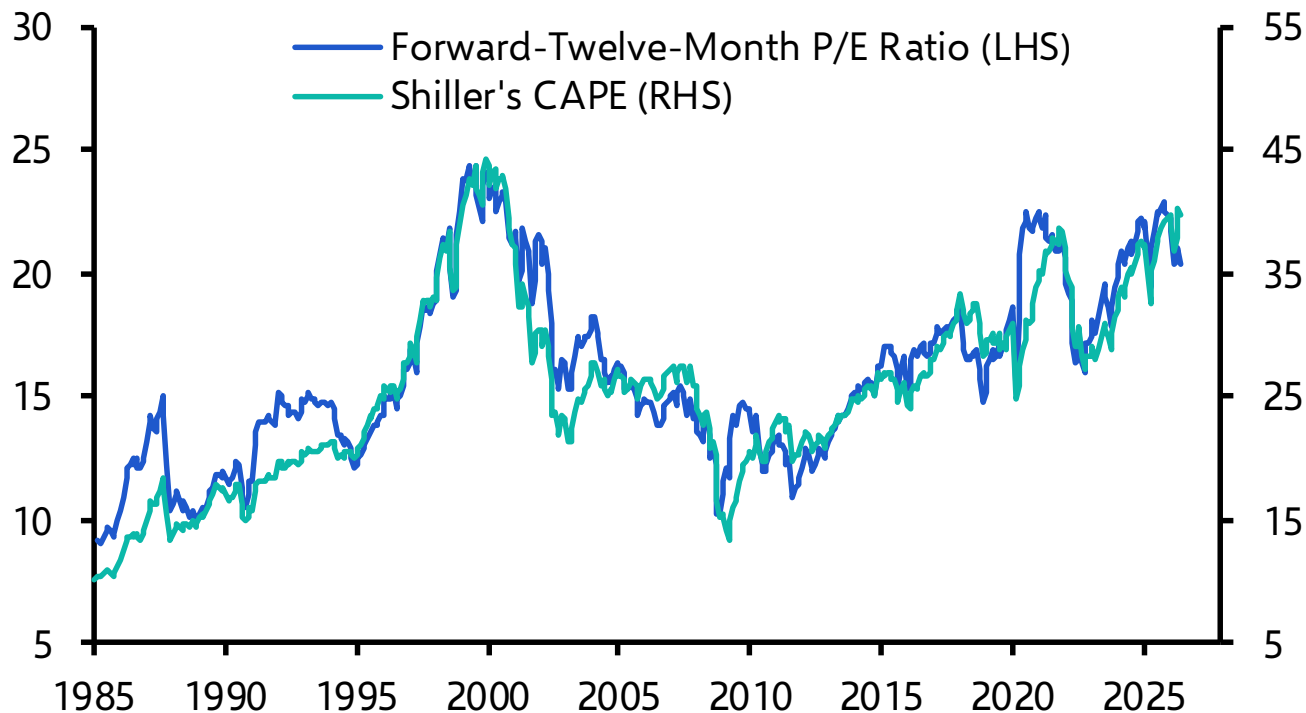
S&P 500 IT Sector: Market Cap. Vs. Equal Weight (End-1995=100)



S&P 500 P/E Ratios Since Start Of 2023

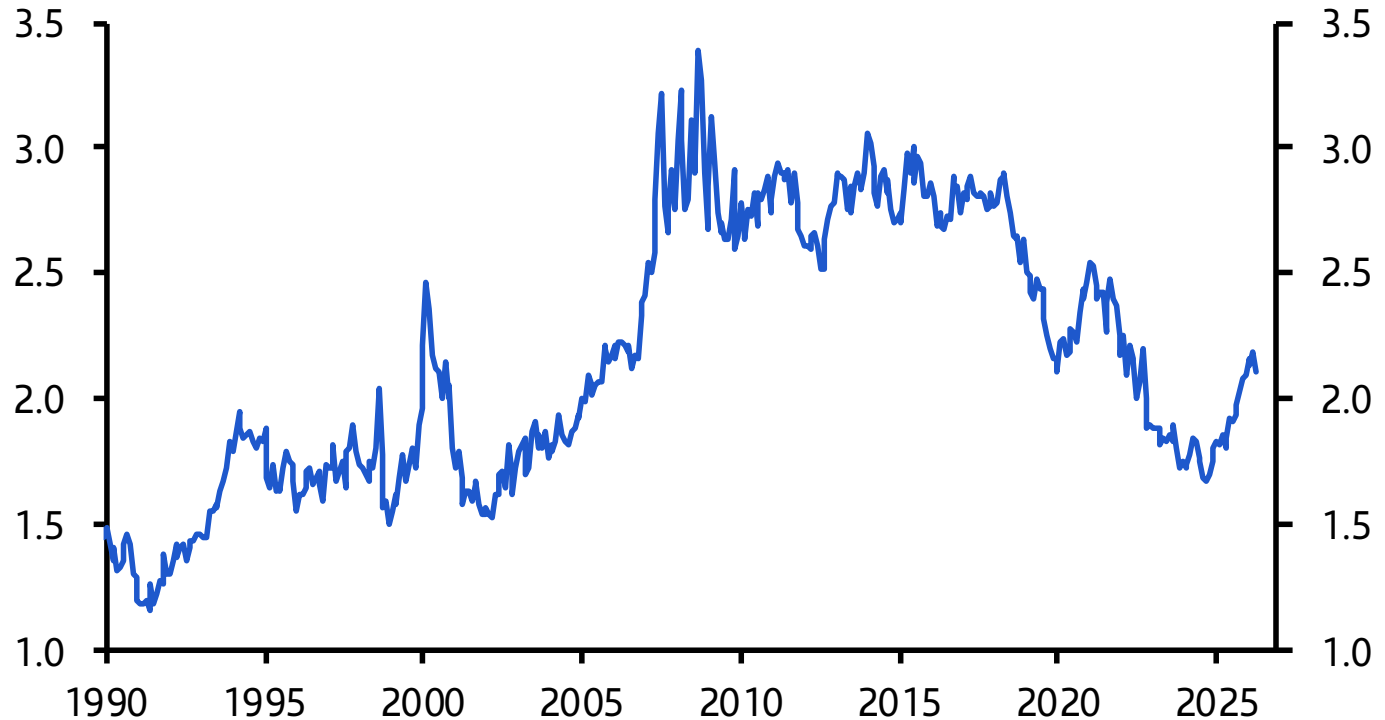


S&P 500 P/E Ratios



Sources: LSEG, Shiller, Capital Economics

NYSE Margin Debt*/S&P Market Capitalisation (%)



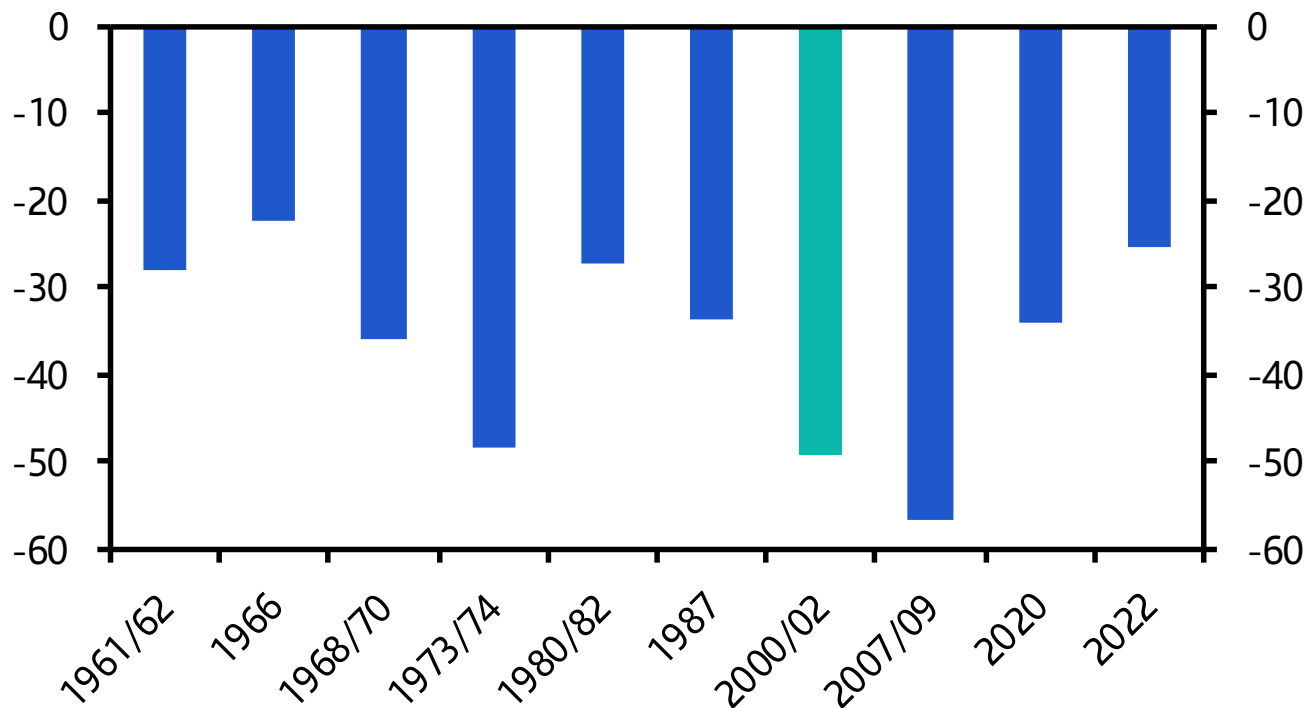
*Debit balances in margin accounts. Sources: FINRA, LSEG, Capital Economics

Hypothetical Combinations Of S&P 500 FTM EPS & P/E Ratios

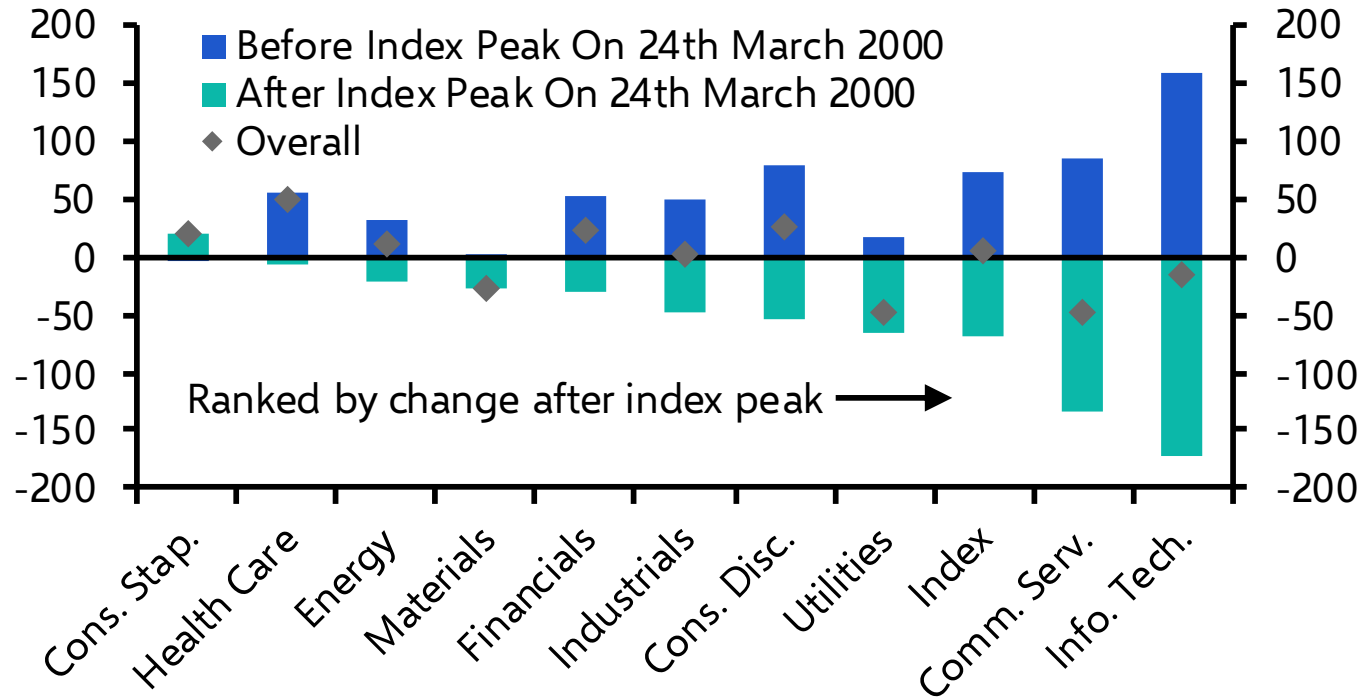
		FTM EPS (\$)		
		362	391	448
FTM P/E Ratio	20	7387	7973	9135
	21		8214	9411
	22		8605	9860
	23		8996	10308
	24		9388	10756
	25		9779	11204

Selected FTM EPS (\$): **latest**; **end-2026**, extrapolating growth rate since end-2022;
end-2027, extrapolating growth rate since end-2022. Selected FTM P/E Ratio: **latest**.

Scale Of Drawdowns In 10 S&P Bear Markets Since 1960 (%)



S&P 500 Changes* (End-1996 To 9th October 2002) (%)



*Continuously compounded, such that bars are additive. Sources: LSEG, Capital Economics

Conclusion

- **AI may continue to fuel the S&P 500 for a while.**
 - Demand for the technology is showing no obvious sign of slowing down.
- **But there are warning signs its rally may be on borrowed time.**
 - CapEx booms on this scale have tended to end in tears.
 - There is plenty to suggest we are in a “blow-off” phase.
 - The index’s cyclically adjusted valuation is very stretched.
- **The correction in the index could be substantial when it comes.**
 - A peak-to-trough fall of at least 30% seems plausible to us.

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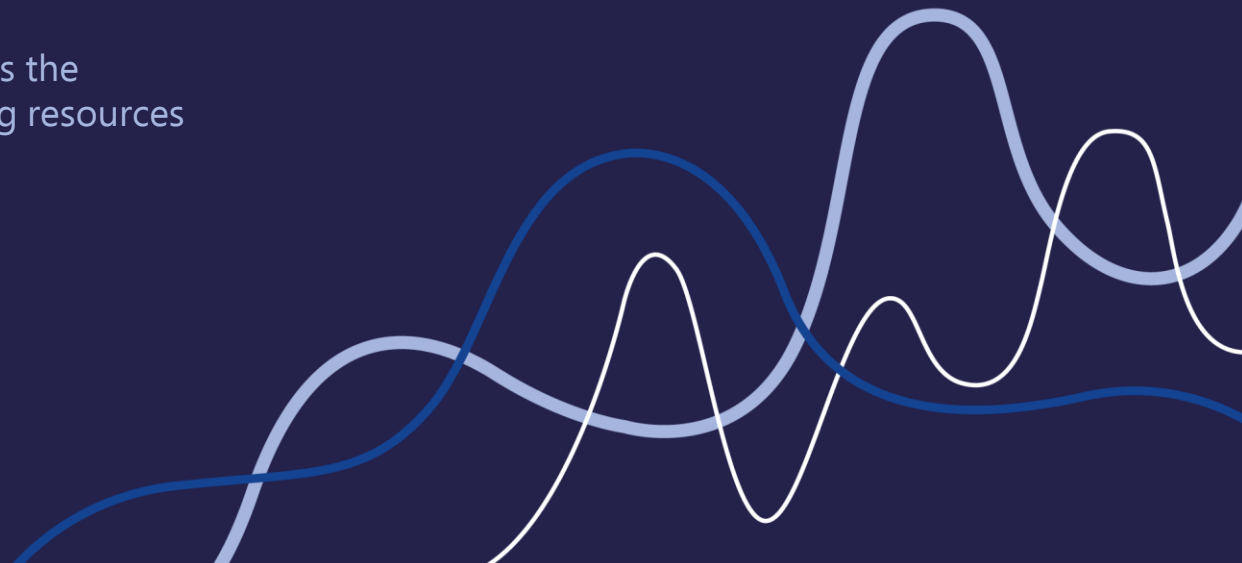
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