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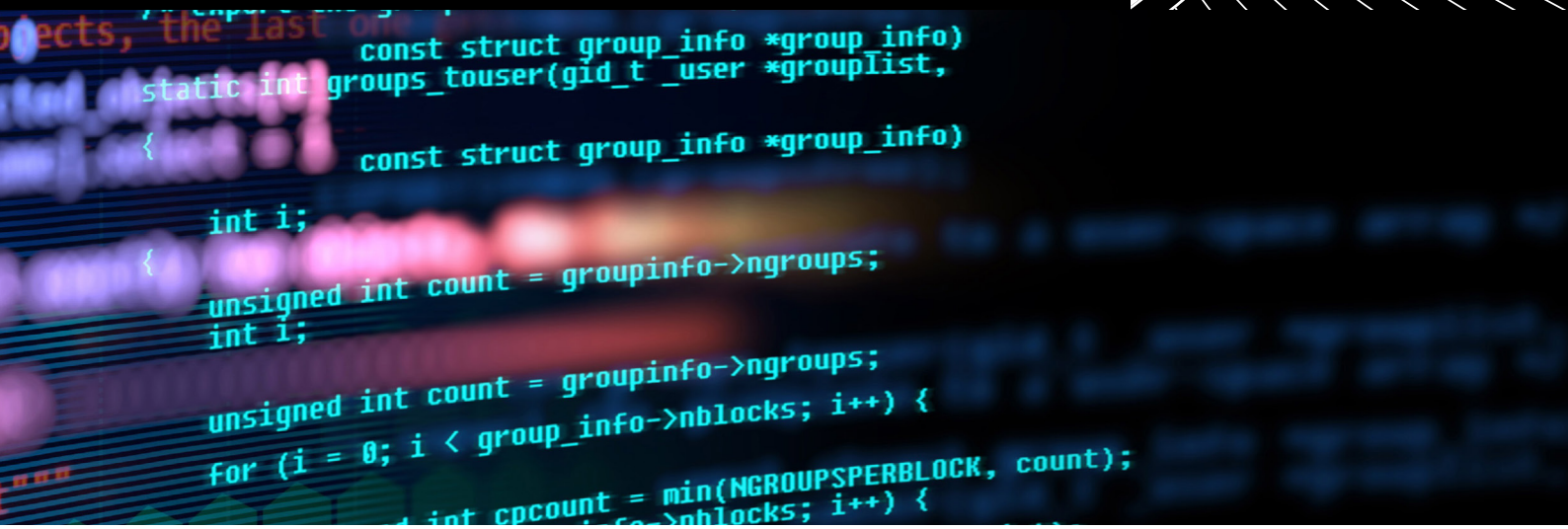
NI + AI 'Contemplating... stand by'

*National Interests + Artificial Intelligence

Fixed Income Strategic Forum Issue 01 | May 2026



Brett Lewthwaite | CIO and Head of Liquid Credit

Introduction

Since our last Strategic Forum, ***'And Computer Says'***, the two themes that have increasingly dominated our writing – being the **shift toward 'national priorities'**; and the **artificial intelligence (AI) transformational revolution** – have not just persisted, they have accelerated. Our previous closing remark, 'the year ahead looks set to be eventful' now appears understated. So far, 2026 has largely been characterised by two significant events; 1) the war between the US/Israel and Iran, and the subsequent closure of the critical supply chokepoint of the Strait of Hormuz; and 2) the rapid adoption, evolution and capital expenditure build-out of AI.

On our count, the Iran/Israel conflict and the closure of the Strait of Hormuz is the fifth major event associated with the shift away from globalisation towards a focus on the essential needs of national interests or national resilience. In a recent presentation, seeking to be as succinct as possible, **we began to refer to the shift toward national interests as 'NI' to neatly capture the two predominant, and intertwining themes, as simply AI and NI.**

The fifth event is part of an escalating sequence of national resilience shocks. The closure of a critical supply chokepoint has moved significant supply-chain disruption – and associated inflation risks – from a tail risk to a central consideration. Equally, the AI build-out and capital expenditure intentions have run faster, hungrier, and more concentrated than our prior analysis anticipated. **This supports demand-led economic growth at a time when geopolitical events are adding to already tight supply constraints – increasing the risk of a higher inflation period within the investible time horizon.**

An intensifying shift from globalisation toward NI and resilience

In a previous note titled, ***'Erosion of trust, in an era of policy musts'***, we articulated our framework for understanding the shift away from globalisation and toward NI and (at the time emerging) theme of AI. Here we seek to continue to build upon this framework.

NI encompasses individual nations emphasising and removing vulnerabilities in the following areas:

- **National security** – military strength, adjusting for modern techniques (drones and supply chokepoints)
- **Energy security** – oil, gas, renewables all the way to nuclear
- **Essential inputs and needs** – production and processing of food, health, and all critical inputs and components (including medical essentials through to critical rare earths and magnets)
- **Technology** – lead, or at least not fall behind in, the technological AI 'space race', and accrue the benefits of this accelerating revolution; (noting the reliance on critical inputs to this), and
- **Infrastructure** – ensure the nation has the most effective, efficient, and resilient infrastructure to support all the above, from roads to ports to energy grids and data centres.

We emphasise these are all 'need to' not 'want to' priorities.

In reviewing and updating this framework from twelve months ago, we under-appreciated the changing nature of what constitutes modern national security (i.e. drone technology). We further underestimated the inter-related demands of the AI build-out and the incredible role it will play in the need for essential national infrastructure to support it and other NI initiatives.

The defining characteristics of this period remain an abrasive and competitive environment – the structural shift from globalisation toward national priorities, intertwined with the imperative to lead, or at least not fall behind in, the AI revolution will encourage national leaders and policymakers to utilise available tools. These include significant fiscal initiatives, accommodative monetary settings (including yield curve management) where possible, and increasingly 'national capitalism' style interventions e.g. export restrictions, to sponsor national progress. Likewise, policymakers will be increasingly likely to respond quickly – often by breaking rules or rewriting them – to anything that threatens national progress. A recession at this juncture is, in our view, intolerable from both a geopolitical and national social/political perspective.

This greater emphasis on NI likely means stronger nominal growth. The downside is higher inflation risk as well as greater geopolitical and supply-chain friction that will likely mean more episodic shocks should be expected. **It would be naive to consider the events in Iran as the last 'shock' and more sensible to see it as the latest iteration in an ongoing global competitive and thereby 'volatile' world.**

With each abrasion comes greater acceleration

Our prior notes traced a sequence of de-globalisation shocks – US/China Trade War (2016), the COVID pandemic (2020), the Ukraine War and subsequent seizure of Russian foreign currency reserves (2022), and Liberation Day (2025) – each accelerating and increasing the urgency surrounding 'national resilience'. The Middle East conflict, and particularly the closure of the Strait of Hormuz, is a fifth significant event. What was initially considered as a transient geopolitical "excursion" has proven to be something materially different: an awakening of what constitutes modern national security and a sustained supply shock of oil, natural gas, fertiliser, helium and other petrochemical reliant critical inputs.

Liberation Day exposed a deeper vulnerability: the world's dependence on China for the production and refining of critical rare earth minerals. The outcome being the acceleration of initiatives aimed at reducing national resilience risks across supply chains. Similarly, the events in the Middle East have prompted a growing number of nations to embrace NI, with a notable increase in urgency.

To elaborate, prior to the events in the Middle East, national security broadly constituted large military forces and/or alliances with those nations that had them. The increased use of modern techniques, including drones to hit critical infrastructure and close the Strait of Hormuz, this entrenched mindset has been dealt a blow and with it revealed vulnerabilities in many nations' approach to national security. Every country that previously relied on the US for security guarantees, energy access and critical imports – Japan, Korea, to some degree Taiwan, much of Europe, and the Gulf states – are now urgently reassessing those dependencies.

Further, the global supply shortages associated with the closure will accelerate a shift toward less reliance on other nations and more infrastructure within nations to ensure energy and critical essentials do not run in short supply. This shock has added a clarifying urgency to every item on the NI agenda and the list of countries actively investing in their own resilience has gone from being led by the US to almost all nations and with heightened urgency. The alternate view is that the US and China step back from more abrasive competition, although for the moment, the available evidence is not convincing. **As such, in a time of inward focus and competition for essential needs, the trajectory of the last several years suggests that more episodic shocks will be forthcoming – each one further accelerating the pursuit of national resilience.**

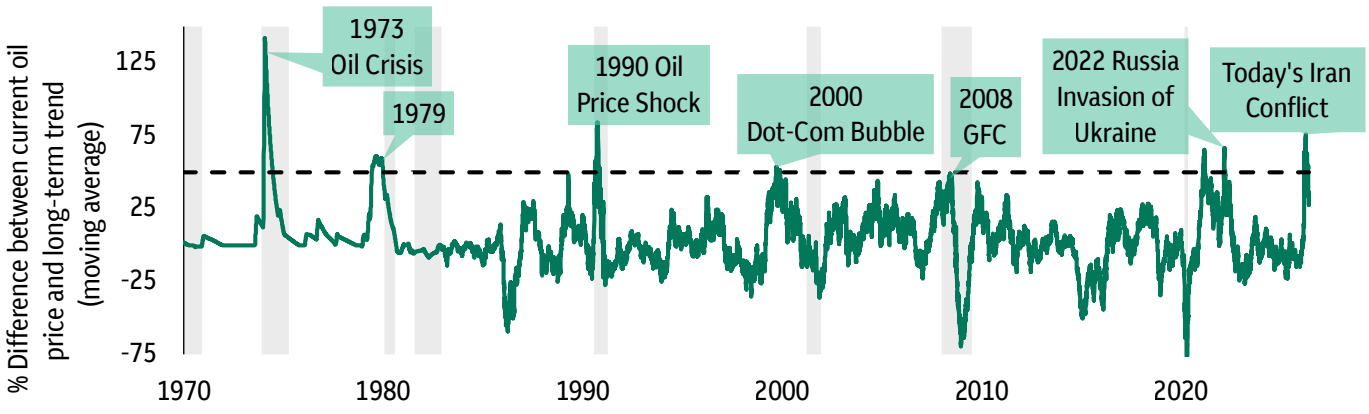
Hence, our core view has and continues to be that policymakers will continue to do whatever is needed to support their own national progress, and 'run it hot' with relation to their economies. Albeit keeping our eyes wide open to the episodic and tail risks that the rapid shift toward NI (as well as the adoption of AI) will likely present. Will Iran be the tail risk event that shifts toward the centre? **The longer the Strait remains closed, the greater the risk that this becomes an acute supply-chain shock, and the principal economic transmission of this is inflation.**

Supply-chain shock – the Strait of Hormuz and the inflation that ensues

Our Strategic Forums dedicate time to deep dive research into prevailing topics and have been instrumental to our understanding of emerging trends and have underpinned many of our research notes and presentations. At our recent Forum, we undertook a detailed study of prior energy shocks and periods of stagflation.

The Middle East conflict and the closure of the Strait of Hormuz is the most severe shock to both the price and physical supply of energy in modern history. If the Strait of Hormuz remains closed, price pressures cascade across several critical downstream sectors including petrol and diesel, jet fuel, fertiliser (urea), helium, sulphuric acid, and petrochemicals. A prolonged Strait closure would amount to a systemic supply-chain crisis affecting many essential items from food production, semiconductors and components, medical supplies, and many forms of construction equipment.

Figure 1:
Global Oil Price Shock



Source: Bloomberg, National Bureau of Economic Research (NBER), May 2026.

Figure 2:
Petrol & Diesel Prices

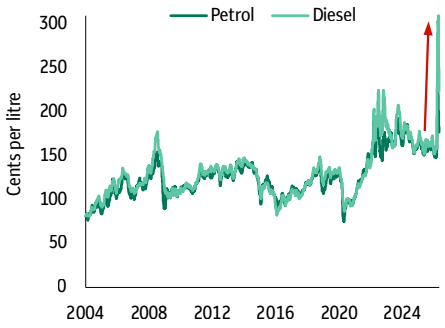


Figure 3:
Jet Fuel Prices

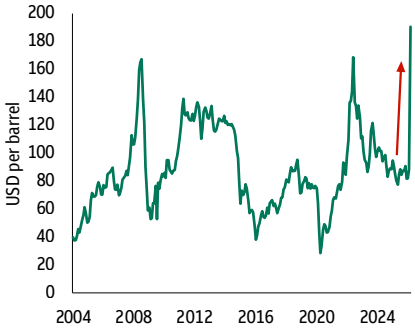
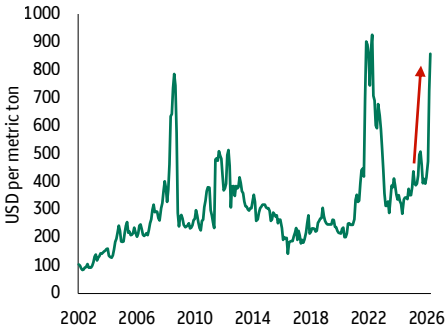


Figure 4:
Urea (fertiliser) Prices



Source: From left to right; Australian Institute of Petroleum, OPEC (Organisation of Petroleum Exporting Countries), World Bank, May 2026.

Our deep dive into prior major oil/energy shocks and stagflation episodes revealed a consistent two-phase pattern emerges: inflation rises quickly and visibly but reverts faster than growth. The inflation impact is sharp and the shortest part of the shock. Growth effects are deeper, slower to arrive, and harder to reverse, GDP troughs lag the oil price peak by 6–12 months. The severity of both depends on the starting conditions. The higher the pre-shock inflation and the weaker central bank credibility, the worse the outcome. In 2026, central banks face a genuine dilemma: hike interest rates to anchor inflation expectations and risk tipping already-soft economies into recession; or stay on hold and risk de-anchoring inflation expectations if the shock persists.

Figure 5:
1973 Oil Shock

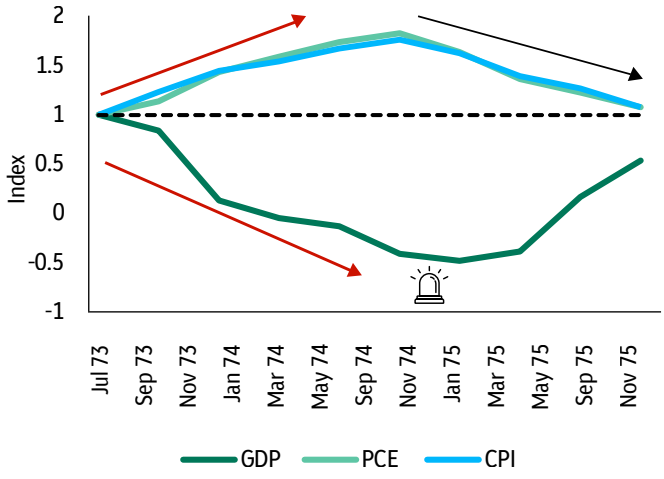
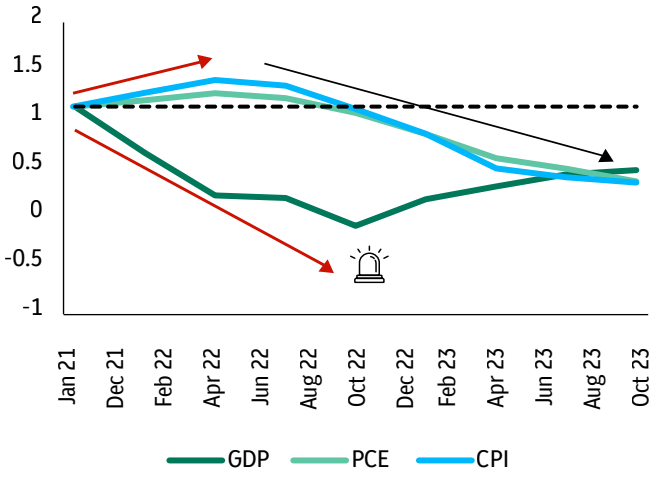


Figure 6:
2022 Oil Shock



Source: US Bureau of Economic Analysis, US Bureau of Labour Statistics, May 2026.

Financial markets appear complacent toward building inflation risks – a complacency perhaps reinforced by the AI narrative. The US offers some insulation as a net energy exporter, which may explain part of this indifference; but this masks a starker reality for Eurozone, UK, and EM importers, who face the sharpest combination of supply vulnerability and constrained policy space. The anxiety audible from energy market commentators and commodities desks is a familiar signal: certain market segments register stress while others remain unfazed – that is until the threat is upon them.

Given the time already passed since the Strait of Hormuz closure, the lengthy process required to restore its flow to normal (reported to be 3–6 months, acknowledging that when open it may never return to prior levels) and the considerable supply chain impacts – higher inflation appears very much baked into the investing horizon. The coming months are likely to see heightened, perhaps significantly so, inflation prints result.

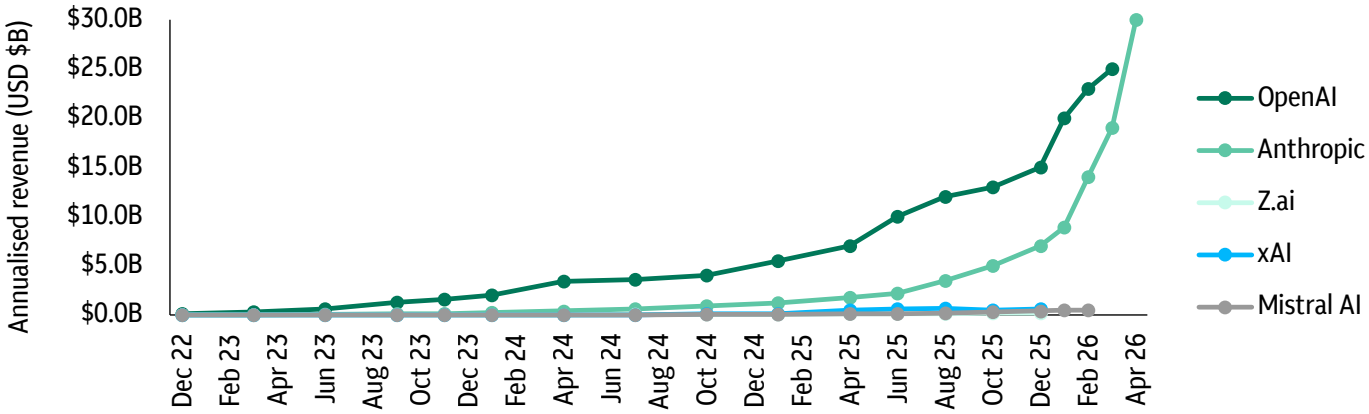
Rapid adoption, evolution and capital expenditure build-out of AI

Reflecting on our own journey with respect to AI – from 'just a powerful search engine' sceptics only 6 months ago, to (strongly encouraged) training courses over the turn of the year, to now very engaged users of tools such as Claude and Gemini, the pace of change has been rapid.

Since our last note the rate of AI adoption and development has accelerated dramatically:

- Enterprise adoption has surged
- The capital being mobilised behind the build-out is unprecedented. Cumulative AI infrastructure investment is estimated at $3–5 trillion over 2026–2030, with annual Capex needs expected to reach $1.4 trillion by 2030 – equivalent to approximately 2.2% of US GDP[1]
- Anthropic with Claude (and Mythos) has emerged as a leader with annualised revenue surging from ~$9bn at end–2025 to ~$30bn (and rising rapidly) within months, now surpassing OpenAI
- The AI infrastructure build-out is real, and is being funded, at least initially, by the operating cash flows of extraordinarily profitable hyperscalers: Amazon, Google, Microsoft, Meta and Oracle, and via investment-grade bond markets[2]
- Capability benchmarks continue to be broken. Material AI model enhancements have occurred across all major providers. For example, the time horizon for AI software task completion at a 50% success rate is doubling every 4 months[3]
- Mythos is so advanced that it is being held back from public release due to security concerns. It would be naive to think that the advancements will do anything but quicken... AI is now training the next versions of large language models (LLMs).

Figure 7:
AI Company Annualised Revenue 2022-2026



Source: Epoch AI; Company Filings, May 2026.

In summary, the potential for long-run economic transformation is genuine. **In our last Strategic Forum, we asked whether AI was a transformational boom, a bubble, or both – we still believe the answer is 'both'.** While we acknowledge the genuine upside case to AI, via ongoing deep dive research to this emergent technology, we are very aware of the stretched assumptions and binding constraints that may temper the enthusiasm behind the AI super-narrative.

In analysing prior periods of rapid technological advancement, established patterns observed through history risk being repeated. Each prior 'revolution' is characterised by massive capital investment, overinvestment, overcapacity and eventual bust. **With AI-related capital expected to exceed a cumulative $2.5–3 trillion by 2030[4], vastly exceeding current and forecast revenues (let alone profits that appear a distant aspiration), a similar dynamic could unfold again here.**

1. Macquarie Strategic Forum, May 2026, citing JP Morgan and McKinsey.
2. Macquarie Strategic Forum, May 2026, citing Bloomberg.
3. Macquarie Strategic Forum, May 2026, citing METR.
4. Macquarie Strategic Forum, May 2026, citing McKinsey.

Assumptions and constraints

In understanding the AI build-out, we list the following reliances, assumptions and highlight existing constraints to the infrastructure build-out.

- **Compute:** Open AI, Anthropic, Google and others require enormous compute to power the LLMs that are AI. Compute comes in the form of GPUs that are designed by companies like NVIDIA.
  - GPUs, semiconductor 'chips' require numerous inputs
  - ~90% of the world's leading-edge semiconductors/chips are manufactured in Taiwan (a geopolitical flash point) by TSMC[5]
  - Upstream of semiconductors is High Bandwidth Memory (HBM) and advanced packaging and is dominated by SK Hynix (53%) and Samsung (35%) = both based in South Korea; Constraints - SK Hynix has been sold out since 2023 and expects tightness through 2027.[6] To place this in context, OpenAI's Stargate project requires more than double today's global HBM capacity
  - Further upstream is rare earths and magnets – China controls 60% of global mining, 91% of refining, and 94% of permanent magnet manufacturing.[7] China has demonstrated a willingness to deploy rare earth export controls as a known geopolitical lever.
- **Data centres:** Once the compute exists, it must be stored and operated in large-scale data centres. Much of the capex intent relates to the building of these. The majority of these are either under construction or remain in planning, amid potential supply and skilled construction labour shortages, as well as increasing permitting issues and local community backlash.
- **Electricity/power:** Data centres require power and transmission equipment. Electricity infrastructure is arguably the most significant constraint on AI's near-term trajectory. US data centres are projected to consume 7–12% of total US electricity demand by 2028, up from 5% in 2025; over 2,500 Giga Watts of projects globally are stuck in connection queues; annual grid investment must rise ~50% to $600 billion by 2030.8 Gas turbine as an alternate power source have lead times already exceeding production capacity through the end of the decade. If these shortages are not bridged, announced capex commitments cannot be deployed on schedule.
- **Project finance/funding:** The scale of AI capex is unprecedented and is being funded primarily by hyperscaler cash flows supplemented by increasingly complex off-balance-sheet structures. Indeed, the AI boom is increasingly being financed through mechanisms that obscure the true scale of indebtedness.
  - Special Purpose Vehicles (SPVs), to move data centre and chip assets off consolidated balance sheets
  - Vendor finance arrangements, e.g. NVIDIA invests equity in neo-cloud companies like CoreWeave, that then use NVIDIA chips as collateral to borrow billions and buy more NVIDIA chips creating the appearance of high-margin chip sales funded by the company's own ecosystem credit
  - Circular investment ecosystems designed to manage debt optics e.g. Microsoft's relationship with OpenAI: Microsoft's equity stake is spent buying Azure compute, with OpenAI committing $250 billion in Azure purchases through 2032 – generating 'revenue'

  Additionally with relation to financing and funding, the higher interest rate environment and recent challenges in Private Credit may also make project financing more difficult.
- **AI firm profitability:** A rigorous financial analysis of AI companies finds the numbers deeply challenged. Open AI for example, is burning through multiple billions of cash annually. The most recent funding rounds indicate an organisational valuation at 65x trailing revenue (NVIDIA is 21x, Apple just 9x, SpaceX seeks to list at 100 times revenues (not earnings)) with reports projecting that no profit will be made until 2029 with cumulative losses of at least $115 billion by then.[9] Further, Open AI is losing market share to Anthropic and Google and as well as the emergence of low-cost models. Meta's free Llama models have already reached GPT-4 performance. More encouragingly, Anthropic is expanding revenue and organisational adoption at a rapid pace. The AI thesis relies on this revenue continuing to grow rapidly and considerably.
- **Input shortages:** Linking back to our initial theme of NI, the Strait of Hormuz closure places the supply of many of the essential inputs across almost the entire AI thematic - from helium into semiconductors, and petro-chemicals into many forms of construction equipment – at risk of considerable shortage.

We acknowledge that we have not discussed the many potential advancements (e.g. medical breakthroughs) and disruptions that AI may deliver (e.g. to white collar work) or its potentially deflationary impacts. In a period of such rapid change, it is challenging to discuss the many machinations at play. Perhaps the message heeded here is that following the AI thematic prudently and remaining agile will be key. Feasibly it is entirely possible that many of the constraints outlined above drive far more efficient breakthroughs in technology. If so, not all the current beneficiaries of the AI build will win.

The AI thematic is real, albeit the extraordinary capital expenditure currently forecast as required to support its adoption does appear to be built on an array of, in many areas very stretched assumptions, and in others quite fantastical.

5. Macquarie Strategic Forum, May 2026, citing TSMC Q1 2026 earnings call (Apr 16, 2026).
6. Citrin Research 2023–2026
7. IEA's Rare Earth Elements report (published April/May 2026)
8. International Energy Agency IEA/LBNL Data Center Energy Usage Report and the IEA Electricity 2026 report, BofA Global Research estimates
9. Macquarie Strategic Forum, May 2026, citing Bloomberg

NI + AI – The investment outlook

Our central thesis maintains that the acceleration of NI and the clear preference for policy settings and initiatives that prioritise and advance national priorities will continue to drive and support the real economy. Combined with the emergent capital expenditure intentions of AI (akin to significant stimulus), both themes are highly supportive of a robust economic growth outlook, should they be fulfilled and delivered upon. The inherent risk is that economies may run too hot and flow on to higher inflationary conditions. This risk is clear and present when the current abrasive situation in Iran and the Strait of Hormuz closure is considered. Near term, an episodic supply shock that causes potentially considerably higher inflation appears fated. Perhaps then followed by a slump in growth as supply shortages curtail, or worse, disrupt the progress of these key NI and AI thematics.

Shorter term, we are wary of near-term upward pressure on bond yields and advocate lower duration positioning for the coming period – a view supported by the pattern in our analysis whereby inflation spikes first. However, we believe policymakers will actively respond to any material shifts higher in yields, seeking to cap disruptive moves, and acknowledge that the negative impact on growth that follows will create a rewarding opportunity to extend duration in due course. **Given the tight level of credit spreads amid much uncertainty, we continue to run cautious levels of exposure to credit markets.**

More broadly, in maintaining that policymakers will pursue robust economic growth also extends to ensuring financial markets remain healthy with abundant, affordable credit, ultimately supporting asset markets – in other words we believe the environment will be managed or 'contained'. Whilst 'contained', the environment is likely to be characterised by a succession of risk events and higher volatility. **Buying into market dips in both rates and credit should prove rewarding, as policymakers seek to 'contain' economic conditions and financial markets that are favourable to national progress.** To succumb to a recession at this juncture in the geopolitical (as well as the internal political and social) landscape is to risk significant societal disruption and falling behind, and both are intolerable. While this may be counter-intuitive to what should occur, it is more aligned with what will likely occur. This approach works until it doesn't and it comes with unintended consequences, many that have been a feature of the environment for a considerable period including ongoing inequality and global abrasion.

While this central stance will likely see investors fare well, a close eye on growing tail risk scenarios is also very prudent. Our detailed analysis in this note demonstrates that the mania-like interest in AI is reliant on numerous assumptions and constraints. AI requires enormous compute, requiring enormous production of GPU and semi-conductors and their components; made in or supplied by concentrated geopolitical hot spots; to be run in a huge number of enormous data centres that are yet to be built; that need enormous power supply that currently does not exist. This all needs to occur in a world that is experiencing a series of geo-political events, the latest causing a significant supply disruption that may disrupt the global economy, while leading AI companies are burning cash quicker than they can scale revenue by a multitude. The linkage to financial markets is that NVIDIA and the broader Mag-7 and AI-8 have driven equity market returns since 2021, and the concentration in indices is now unprecedented. Add in the proliferation of passive investing and the conclusion is an enormous, crowded position that ultimately relies on the business models of a handful (at this time very) unprofitable AI firms that are in acute competition to win the AI super race. Not to mention that both Open AI and Anthropic as well as SpaceX (intergalactic flight anyone...) all intend to go public sometime this year with trillion dollar plus valuations at eye watering revenue (not profit) multiples... If any link in the chain fails, a domino effect could cascade across 'passive is massive' – a concentration that means a re-rating in a small handful of names may echo across every major index. The situation is, in a word, reliant.

The most significant development that would test these stretched assumptions is supply side shortages and the inflation that ensues. **All eyes on the Strait of Hormuz.**

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Fixed income securities are also subject to interest rate risk, which is the risk that the prices of fixed income securities will increase as interest rates fall and decrease as interest rates rise. Interest rate changes are influenced by a number of factors, such as government policy, monetary policy, inflation expectations, and the supply and demand of securities. Fixed income securities with longer maturities or duration generally are more sensitive to interest rate changes.

Quantitative easing (QE) is a government monetary policy used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increased the money supply by flooding financial institutions with capital in an effort to promote increased lending and liquidity.

A Treasury yield refers to the effective yearly interest rate the US government pays on money it borrows to raise capital through selling Treasury bonds, also referred to as Treasury notes or Treasury bills depending on maturity length.

The yield curve is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. The most frequently reported yield curve compares the 3-month, 2-year, 5-year, and 30-year US Treasury debt. This yield curve is used as a benchmark for other debt in the market, such as mortgage rates or bank lending rates. It is also used to predict changes in economic output and growth.

The shape of the yield curve is closely scrutinized because it helps to give an idea of future interest rate change and economic activity. There are three main types of yield curve shapes: normal, inverted and flat (or humped). A normal yield curve is one in which longer maturity bonds have a higher yield compared to shorter-term bonds due to the risks associated with time. An inverted yield curve is one in which the shorter-term yields are higher than the longer-term yields, which can be a sign of upcoming recession. A flat (or humped) yield curve is one in which the shorter and longer-term yields are very close to each other, which is also a predictor of an economic transition. The slope of the yield curve is also seen as important: the greater the slope, the greater the gap between short- and long-term rates.

Yield curve inversion is when coupon payments on shorter-term Treasury bonds exceed the interest paid on longer-term bonds.

Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

Economic trend information is sourced from Bloomberg unless otherwise noted.

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