

Global Strategy

AI - No clear path to lower rates

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Global

Transformative AI and interest rates

The impact of AI on interest rates is a recurring topic with both academics and investors looking for a general framework. [Some economists](#) expect a boost to annual productivity growth of just ~7 bps, [others](#) see a gain of over ~70 bps. In a wide range of economic models, the growth boost from higher productivity growth will increase the risk-free real rate as consumers borrow to increase today's consumption in anticipation of higher future growth. Higher interest rates is what [some](#) expect to happen in an "AI bliss scenario."

AI model releases versus Fed and inflation outlook

[Andrews and Farboodi \(2025\)](#) show that nominal Treasury yields fell when major AI labs released new frontier models in 2023-24 ([Figure 1](#)). Such releases could be the kind of news that raises expectations or optimism about future productivity growth. In this line of thinking, a fall in rates would point to less optimism on AI. Nevertheless, we would caution that this period was also associated with at times lower-than-expected US CPI releases and a dovish shift of the Fed in December 2023. Equities and bond yields moved lower in late Feb' 26 when [AI concerns](#) surfaced, but yields have since risen in the wake of the Iran conflict. In fact, we have been expecting US 10y to test at least 4.50% in all UBS scenarios ([Still no fade: US 10y at +4.50% versus long 10y bunds](#)).

AI-related productivity and fiscal risk

[Kung, Lustig and Paron \(2026\)](#) argue that AI-related productivity growth could lower US rates as a boost to productivity improves the outlook for primary surpluses. Using CBO numbers, they calculate that a permanent 10 bps of extra annual productivity growth could imply a 70 bps drop in US 10y rates. Looking at the difference between 10y US Treasury yields and swaps, a measure often used to track developments in fiscal risk, we do not find much evidence that the market has been sharply repricing US fiscal risks in the wake of major AI releases in the 2023-24 ([Figure 2](#)).

Investment needs, bottlenecks, weak links, and existential risk

Periods with large productivity gains can be disruptive, even if the ultimate outcome is benign. We think that the fiscal and monetary policy mix will remain a key driver of interest rates. US real rates have been relatively high in recent year, but US real personal income growth has also been remarkably stable after pandemic-related shocks ([Figure 3](#)). There is a growing group of investors sympathetic to the view that measurable gains of AI could appear in a structural way sooner rather than later across the corporate universe and labour markets, but policymakers like ECB GC member [Schnabel \(2026\)](#) have also emphasized that AI is more likely to be inflationary than disinflationary in the short run, given large investments needs in energy-intensive data centres and risks of new bottlenecks in specialised chips and skilled labour. [Chad Jones \(2026\)](#) also points out that new technologies tend to diffuse gradually and that the weakest links tend to constrain increases in production (in line with a "business as usual scenario"). Furthermore, professor Jones also warns that countries may be underinvesting in AI safety spending.

Reinout De Bock

Strategist
reinout.de-bock@ubs.com
+44-20-7567 0152

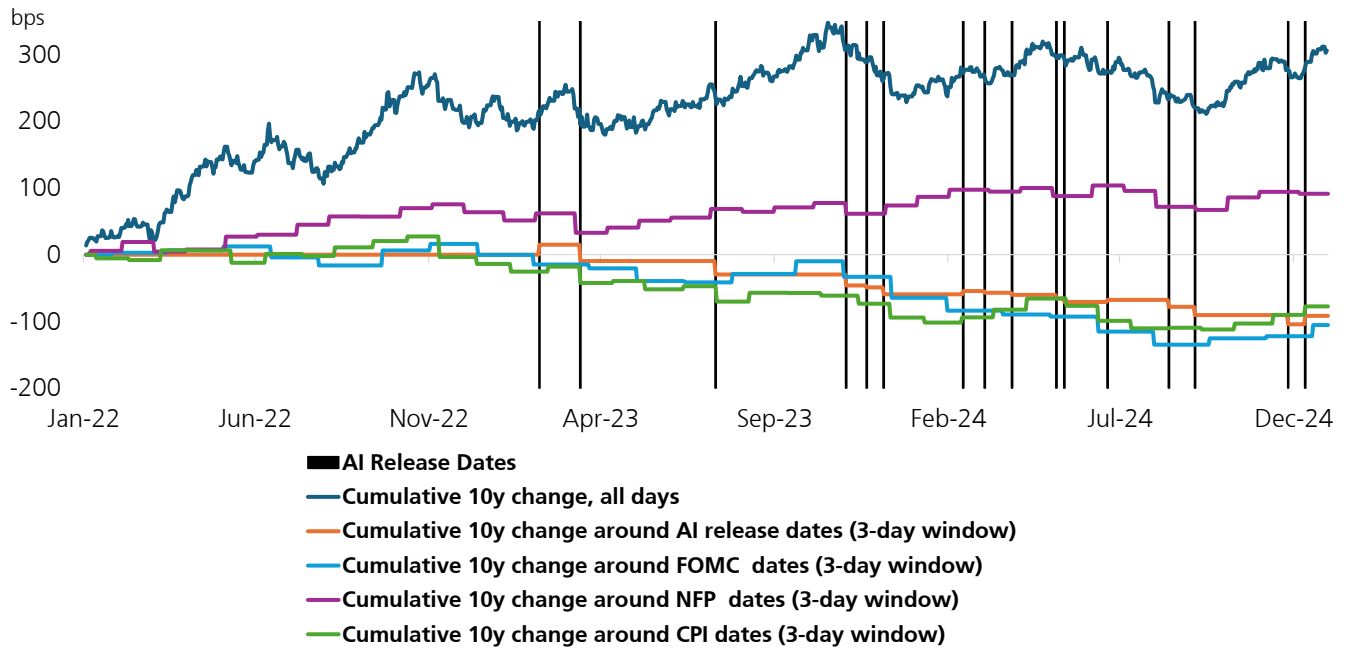
Mustafa Oguz Caylan

Strategist
mustafa.caylan@ubs.com
+44-20-7901 5203

Bhanu Baweja

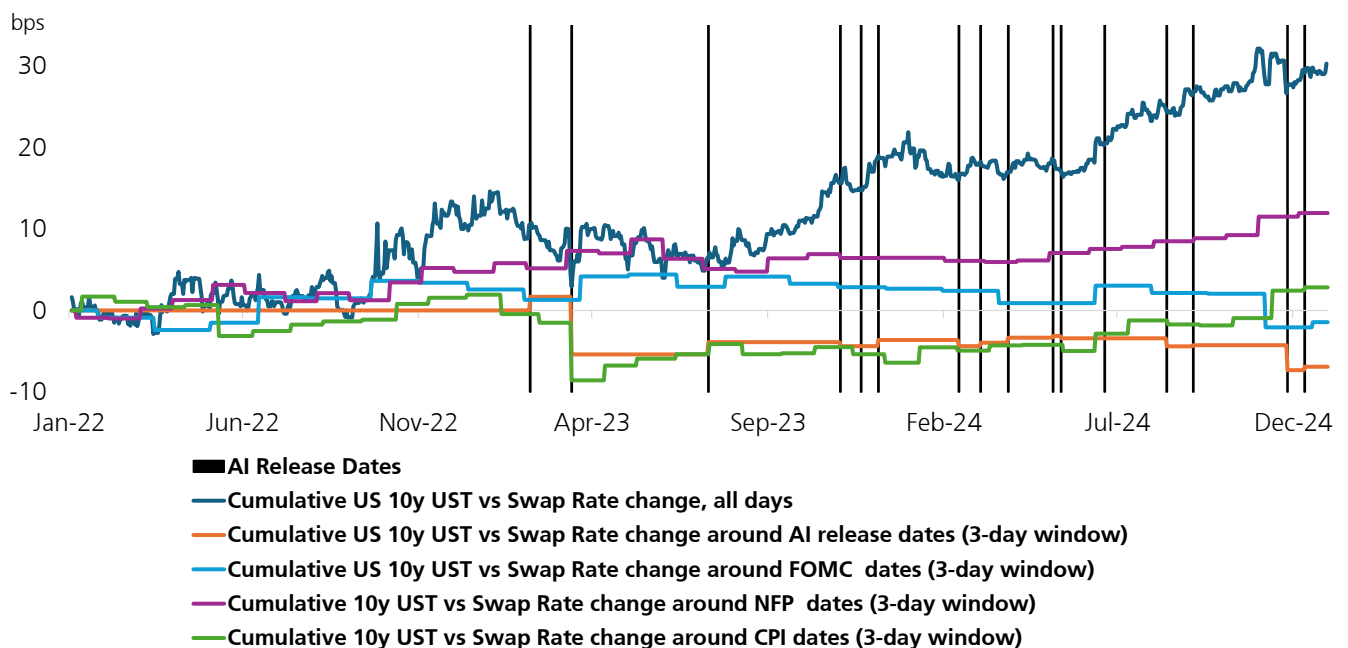
Strategist
bhanu.baweja@ubs.com
+44-20-7568 6833

Figure 1: US 10y Treasury yields fell when major AI labs released new frontier models in 2023-24. Such releases could be the kind of news that raises expectations about future productivity growth so a drop in rates could point to less AI optimism. Nevertheless, we would caution that this period was also associated with at times lower-than-expected US CPI releases and a dovish shift of the Fed in December '23.



Source: Bloomberg, Haver. Note: ⁽²⁾

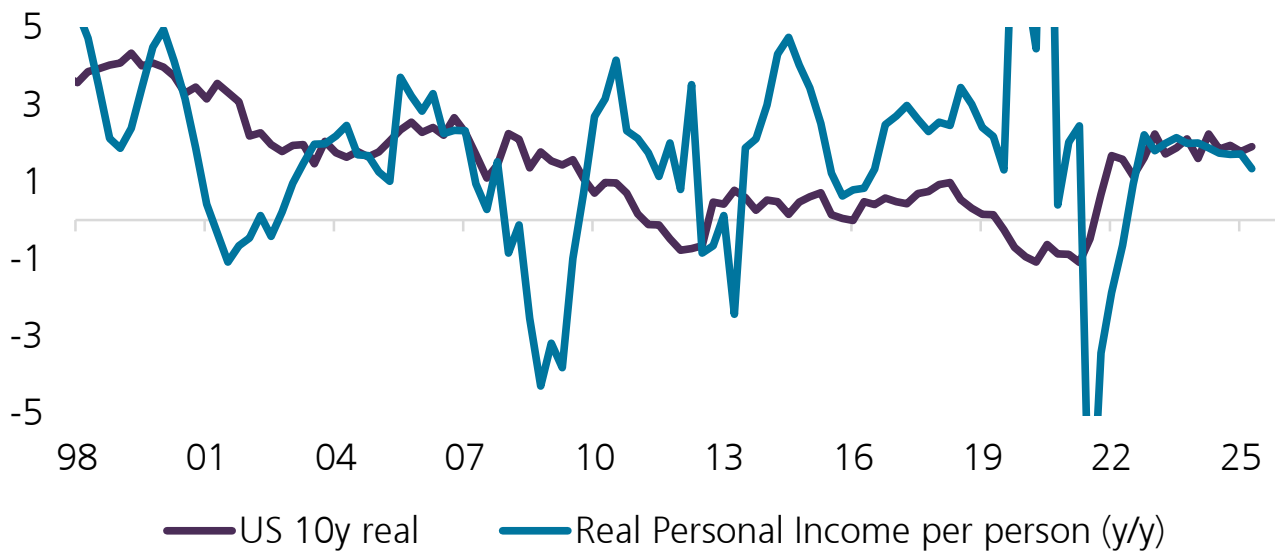
Figure 2: Looking at the difference between 10y US Treasury yields and 10y swaps, a measure often used to capture fiscal risk, we do not find a large quantitative impact indicating that investors have been sharply repricing US fiscal risks in the wake of major AI releases in 2023-24.



Source: Bloomberg, Haver

² In 2023–24, AI model releases included **Google**: Bard (Feb 6, 2023), Gemini Pro 1.0 (Dec 6, 2023), Gemini Pro 1.5 (Feb 14, 2024), Gemini 2.0 (Dec 11, 2024); **OpenAI**: ChatGPT-4 (Mar 14, 2023) and ChatGPT-4o (May 13, 2024); **Anthropic**: Claude 1 (Mar 14, 2023), Claude 2 (Jul 11, 2023), Claude 2.1 (Nov 21, 2023), Claude 3 (Mar 4, 2024), Claude 3.5 “Sonnet” (Jun 20, 2024); **xAI**: Grok 1 (Nov 3, 2023), Grok 1.5 (Mar 28, 2024), Grok 2 (Aug 13, 2024); and **DeepSeek**: DeepSeek V2 (May 6, 2024), DeepSeek 2.5 (Sep 5, 2024), DeepSeek V3 (Nov 26, 2024).

Figure 3: US real personal income growth vs 10y US real yield (%)



Source: Bloomberg, Haver, UBS

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