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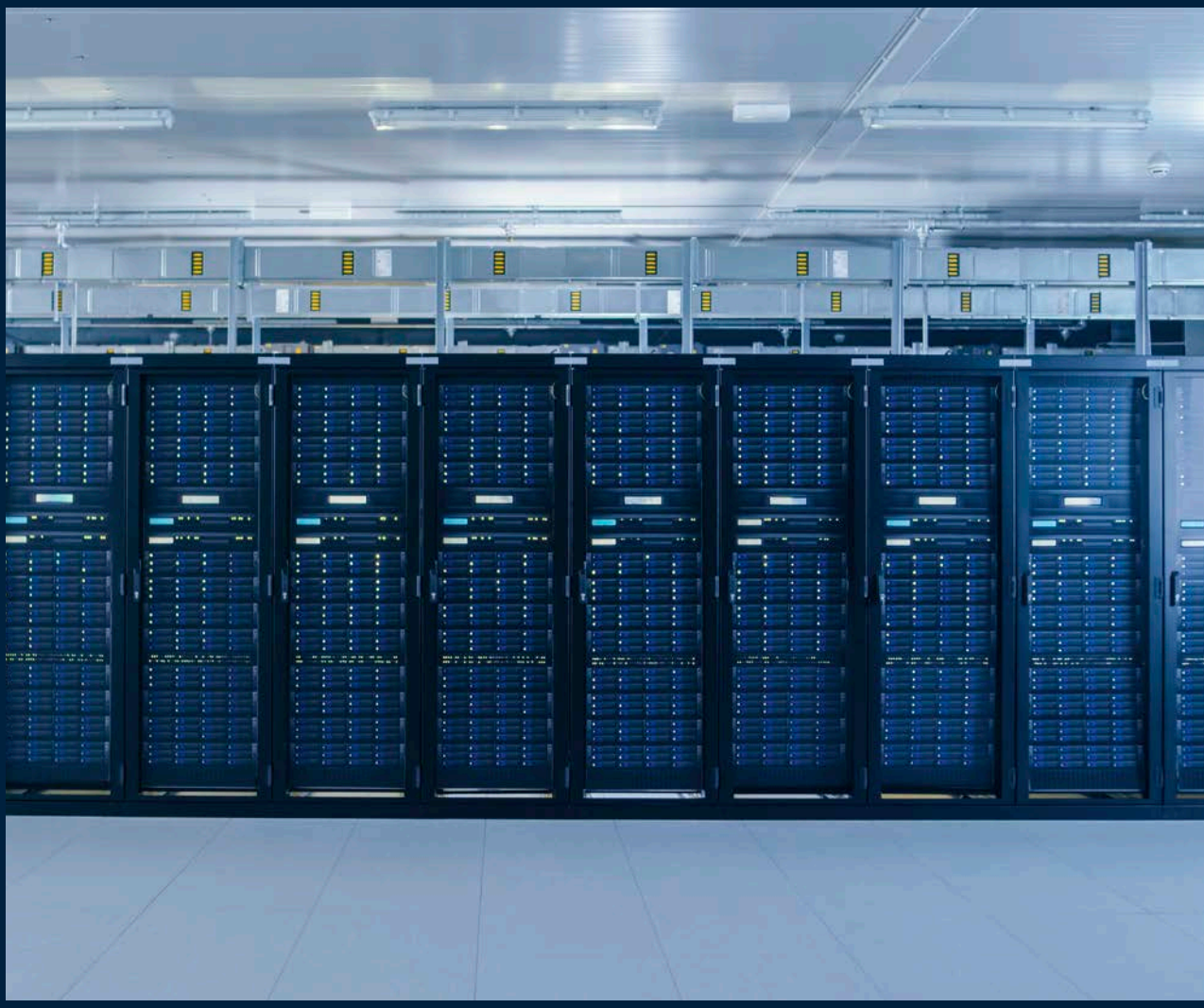


AI: A MULTI-ASSET STORY

The technology could fundamentally change how investors distribute capital and spread risk across assets.

LOOKS CAN BE DECEIVING

Since 2023, the artificial intelligence (AI) landscape has changed dramatically, driven by advances in capability, investment and adoption, alongside major shifts in geopolitics.

Everyone has been asking how AI can change industries, jobs and the economy. Fair enough, but one of the first things AI has already changed is the investment landscape itself – and it happened faster than most people expected.

The change is visible in equity markets. Private AI companies now command valuations that would have seemed implausible only a few years ago. If the largest of them move to public markets, their initial public offerings (IPOs) could inject a significant amount of new equity issuance on a scale few listings have matched.

We think AI has also reshaped the bond market. Several of the largest technology companies have more than doubled their outstanding debt in a few years and account for a substantial share of investment-grade issuance. Diversification limits cap how much of any one issuer a bond portfolio can hold, and the market is struggling to digest supply at this scale. Investors may find themselves treating a handful of large borrowers as core holdings, whether they are comfortable with that or not.

Taken together, these shifts suggest the AI ecosystem is absorbing a rising share of both debt and equity issuance, while we see passive investors becoming increasingly concentrated in a handful of names.

The broader consequence is that diversification is getting harder to achieve. Investors may still own thousands of securities but the drivers of return underneath those are narrowing. A global equity allocation, a passive US equity fund and even parts of the investment-grade bond market can now carry meaningful exposure to the same AI-linked companies and the same capital-spending cycle. Portfolios may look diversified by number of holdings, sector labels or asset classes could be vulnerable to the same source of disappointment if expectations around AI earnings, infrastructure spending or valuations are reset.

FOUR STRUCTURAL SHIFTS

To understand why AI has become such a market force, it helps to look at four wider shifts already reshaping the investment backdrop.

Geopolitics has hardened. The long era of globalisation and cooperation is over. The US is reshoring manufacturing, reducing strategic dependence on China and choosing security over efficiency.

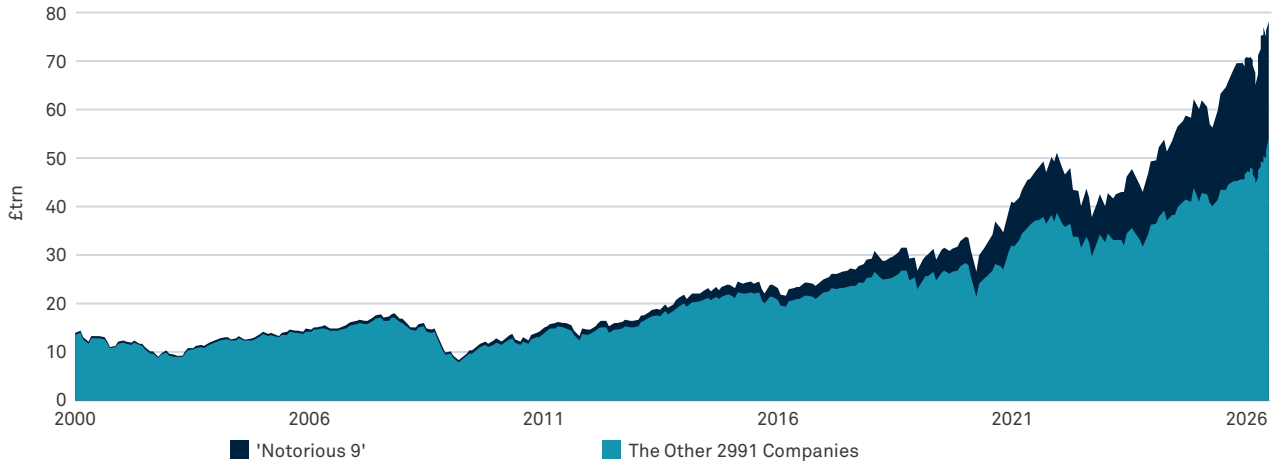
Fiscal policy has loosened. Governments discovered the power of big spending during the pandemic and have little intention of switching it off. The post-Cold War era of fiscal restraint is behind us.

Monetary policy has tightened. Zero rates and quantitative easing kept a generation of "zombie" companies alive longer than anyone cared to admit. Higher-for-longer is painful, but it arguably clears the way for genuine productivity gains.

Market structure has narrowed. The combined effect of those three shifts has produced something quite remarkable in equity markets. The Magnificent Seven have grown from around $2 trillion to over $22 trillion in aggregate market capitalisation . They now account for over 30% of the broad US equity universe (per the Russell 3000) and represent roughly one-third of the S&P 500. Ten years ago, they were not a meaningful source of relative performance. They were merely a curiosity. Then a theme. Now they are the market.

Figure 1: Market concentration

Russell 3000 Market Cap ($tn)



Source: Bloomberg, 30 June 2026. 'Notorious 9' include 'Magnificent 7' (Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta Platforms, Tesla) + Oracle and Broadcom. Charts are provided for illustrative purposes and are not indicative of the past or future performance of any product.

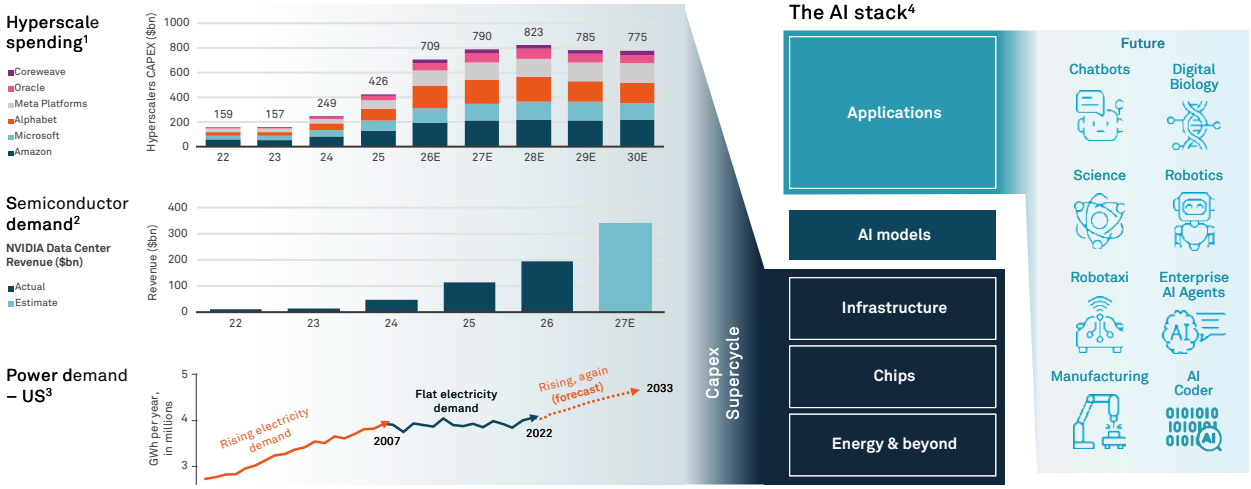
That final point may be the most important because we believe passive equity allocations have become far more concentrated than many investors realise. Portfolios may still appear diversified on the surface, but a growing share of the underlying risk is now tied to a remarkably small number of companies. One of the challenges now is how much concentration investors are willing to accept in order to participate. We believe that gap between perception and reality deserves far more attention than it is currently getting.

SOMEWHERE IN THE MIDDLE

Hyperscaler capital expenditure among the largest cloud providers has tripled, but AI is still mid-adoption with plenty of runway ahead.

Figure 2: Foundations of the AI revolution

From infrastructure to applications



1 Source: Bloomberg, 18 March 2026. 2 Source: Bloomberg consensus, March 2026. 3 Sources: U.S. Department of Energy, Demand forecasts - North American Electric Reliability Corporation, New York Times. 4 Source: Nvidia, 10 March 2026. Charts are provided for illustrative purposes and are not indicative of the past or future performance of any product.

By some estimates, consumer usage has gone from near zero to roughly 60% of the population in under three years – an extraordinary pace by any historical standard. Corporate adoption is growing rapidly but it remains in the testing phase. In other words, many businesses are still trying to figure out what AI can do for them.

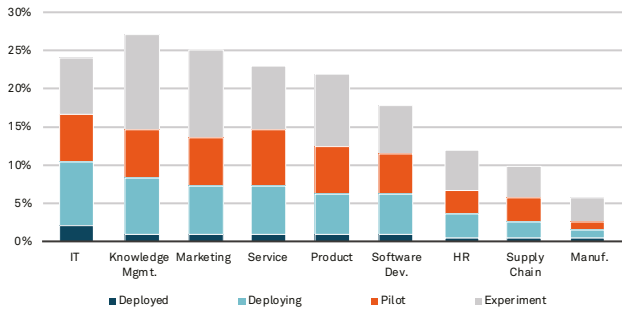
BNY offers a useful example of how quickly that experimentation can move from theory to practice. All employees across the globe have enrolled with Eliza – the firm's new enterprise AI platform. Of those, around half have gone as far as to build agents or find ways Eliza can improve their (or their team's) workflow long term. And about half of those we call 'power users' who dedicate extra time to find new uses. That does not mean AI has transformed productivity overnight, but it shows how quickly large companies can embed the technology into ordinary business processes.

Figure 3: Productivity is still ahead

Experimentation phase…

Pilots come first and deployment takes time[1]

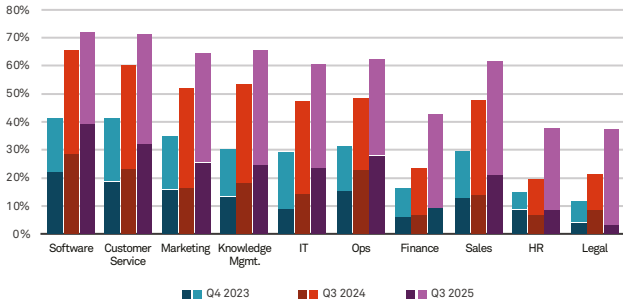
AI 'agent' use by business function, where gen AI is already used (June '25)



… moving to increasing deployments

Enterprise use case adoption rates for generative AI[2]

Darker shades represent 'Production' and lighter shades represent 'Development/Pilot'



BNY case study[3]: ELIZA

46K+ Employees have used Eliza

23K+ Weekly active users

13K+ Weekly power users

1 Source: McKinsey, Benedict Evans, medium.com, published November 2025. 2 Source: Bain Generative AI Survey, Q4 2023 (number of respondents:198); Bain Generative AI Survey, Q3 2024 (number of respondents: 184); Bain Generative AI Survey, Q3 2025 (number of respondents: 197). 3 Source: BNY, Eliza, July 2026. Charts are provided for illustrative purposes and are not indicative of the past or future performance of any product.

This is happening everywhere, from small independents to famous conglomerates – helped by some AI providers offering subsidised or free access to encourage corporate adoption.

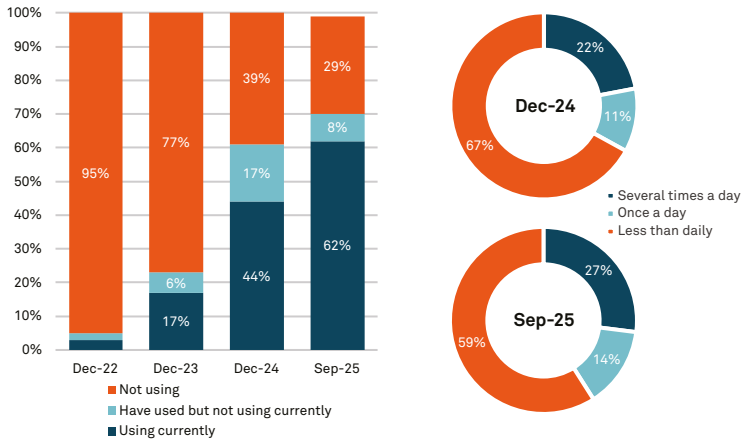
Figure 4: AI diffusion is in the early stages

Still at the foothills of adoption

Gen AI adoption – US Consumer[1]

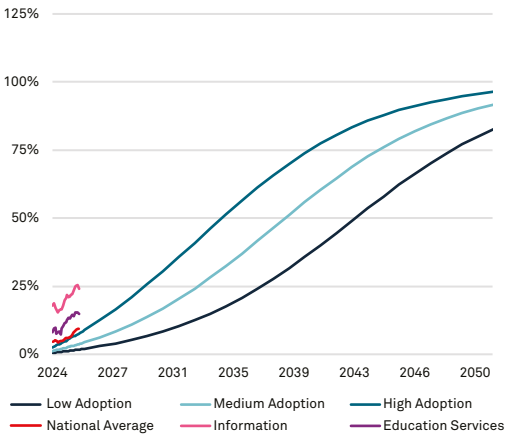
Percentage of US consumers using using generative AI

Frequency of generative AI use by current US adopters



Gen AI adoption – US Enterprise[2]

Percent of firms adopting AI



1 Sources: Bain Generative AI Consumer Surveys, December 2024 (n=1,117) and September 2025 (n=1,500). 2 Source: BNY Investments and Oxford Economics. Data as of August 31, 2025. Charts are provided for illustrative purposes and are not indicative of the past or future performance of any product.

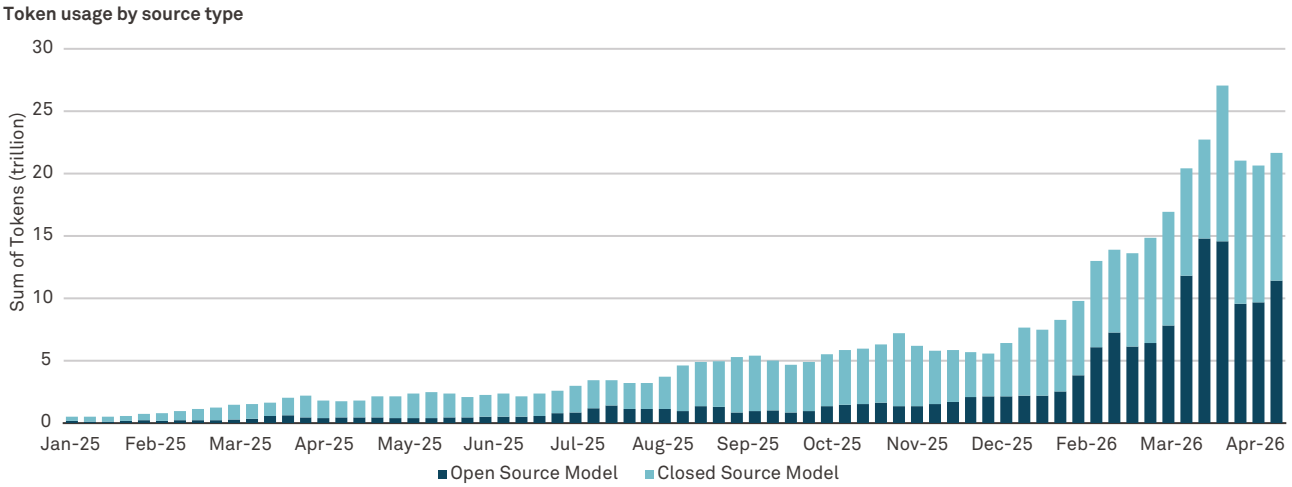
The real productivity wave is still ahead of us. To some, AI feels as normal and ubiquitous as email and social media, but its usage is still modest compared with what it could become once embedded across the workplace.

This is also why macro forecasters are getting bolder. Some senior policymakers have argued that AI could become disinflationary over time, potentially giving the central banks more room to lower interest rates.

Whether or not those forecasts prove right, the scale involved would have macro consequences markets are still trying to price. Right now, markets are still pricing the destination, not the journey.

Figure 5: Clear momentum in AI usage

Early evidence of a scalable growth opportunity



Source: OpenRouter.ai, Newton estimates. Note: Token usage data comes from OpenRouter.ai, which aggregates developer and enterprise inference across multiple models; it reflects activity on the OpenRouter platform and may not capture all consumer and private deployments. 21 April 2026. Token: A unit of text (word, part of a word, or punctuation mark) processed by an AI model, used to measure input and output usage. Charts are provided for illustrative purposes and are not indicative of the past or future performance of any product to the source.

TWISTS AND TURNS

One of the most useful frameworks for analysing AI investments is **bottleneck rotation**.

Value tends to accrue to whichever part of the supply chain is the binding constraint at that moment. Constraints are parts of the AI supply chain hardest to scale at a given point in time – chips, memory, energy or infrastructure.

Imagine the AI supply chain in three parts: A, B and C. At one point, part A may be the most valuable because it is the hardest to scale. Later, as that constraint eases, parts B or C may become more important. As one bottleneck is solved, another appears. Pricing power, margins and investor returns tend to follow.

We saw graphics processing units (GPUs) become the first major bottleneck and the firms supplying them captured extraordinary pricing power as a result. High-bandwidth memory followed. Today, the constraint is increasingly power infrastructure. Data centres require enormous amounts of electricity, and the companies supplying turbines, transformers and grid equipment look set to enjoy similar pricing power.

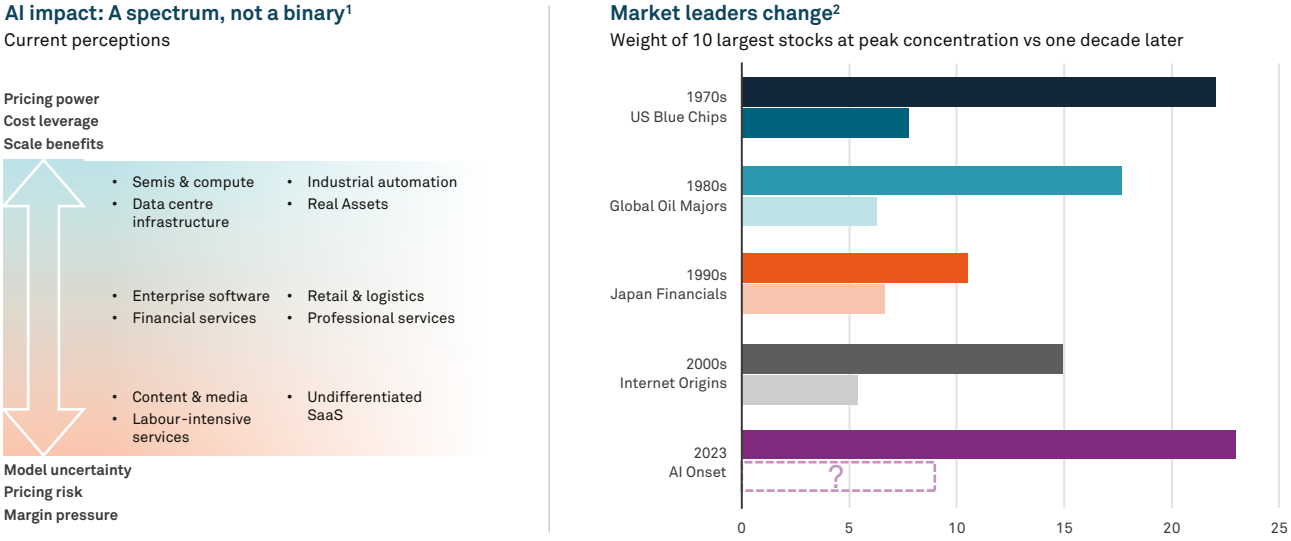
Look back to the rollout of the internet. Telecoms companies spent enormous sums laying fibre-optic infrastructure. The companies that laid that infrastructure did well, but the businesses built on top of it captured most of the long-term value.

The lesson is that the so-called AI winners will keep rotating. As each constraint is solved, value moves elsewhere in the supply chain. The challenge is to identify where pricing power sits today, while recognising that it may move somewhere vastly different three years from now.

THE POTENTIAL WINNERS AND LOSERS

If one thing has stayed consistent through market history, it is that the largest companies at the peak of a concentration cycle are rarely the ones that make the strongest returns over the following decade.

Figure 6: Winners and losers? The danger of narrative-driven investing



Note: 1 Positions are illustrative and may evolve as AI adoption, execution capability and valuations change. 2 Source: MSCI Research (2023). Charts are provided for illustrative purposes and are not indicative of the past or future performance of any product to the source.

Treat that as a practical investment discipline. It can shape position sizing, valuation assessment and disruption risk. Some of today's leaders may remain major beneficiaries of AI, but investors should be wary of assuming any company is immune from competition or technological change.

Several firms are developing competing chip architectures – and custom silicon designed specifically for AI is advancing quickly. History offers no shortage of dominant incumbents overtaken faster than anyone expected.

On the other side of the ledger, it is important to pay special attention to high-margin businesses with thin moats. They are often the most exposed to AI-driven margin compression. Consider subscription businesses built on services AI can increasingly replicate at low cost – popular language learning apps for example. AI has the potential to commoditise the offering, reduce pricing power and squeeze margins previously protected by a competitive advantage.

That is why the discipline behind portfolio construction matters as much as the search for potential AI winners. For us, three principles still govern the investment process:

- durable free cash-flow generation
- valuation
- diversification with continual stress-testing of holdings against disruption risk

Figure 7: Process over narrative

Focused on long-term objectives guided by enduring investment fundamentals

DURABILTY

Durable growth focus, awareness of potential disruption risk.

Durable yield and reinvestment matter in a higher rate world.

VALUATION

Price paid matters across cycles.

S&P 500 forward P/E ratios and subsequent 10-year annualised price returns, 1991-2015[1]

DIVERSIFICATION

Correlation surprises in stress; cross asset balance mitigates drawdowns.

Asset Class Performance Rankings Over Time[2]

2020	2021	2022	2023	2024	2025
20.9	61.6	26.0	26.3	26.6	62.5
19.5	40.4	24.9	21.6	25.0	32.1
18.4	28.7	12.1	16.4	20.2	25.8
14.9	24.7	4.7	12.8	13.7	24.0
14.2	23.5	1.3	10.6	13.7	19.7
13.0	20.9	0.3	10.3	9.7	19.1
11.0	18.4	-0.7	7.9	9.5	17.9
8.3	18.3	-2.3	7.9	9.4	7.1
5.6	4.2	-12.9	7.0	9.2	6.4
4.6	2.3	-13.0	4.5	7.2	5.0
1.4	0.1	-15.2	4.2	5.1	4.3
0.2	0.1	-16.0	3.7	0.4	3.1
-9.8	-2.5	-18.1	0.9	0.2	2.7
-11.5	-4.3	-23.8	-2.0	-3.2	1.3
-23.7	-5.0	-30.0	-4.3	-3.3	-7.9
-50.7	-5.2	-33.6	-8.3	-8.3	-8.3

Equity
- FTSE 100 - Total Return
- FTSE All-Share - Total Return
- S&P 500 - Gross Return
- MSCI EM (Emerging Markets) - Gross Return
- MSCI AC World[3]
- MSCI Europe ex UK - Net Return

Fixed Income
- FTSE Actuaries UK Conventional Gilts All Stocks Index
- British Government Index -Linked All Stocks
- JP Morgan GBI Global (Traded) (Local)
- ICE BofA Sterling Non-Gilt (10+ Y) (GBP Unhedged)
- ICE BofA Global High Yield Constrained (GBP Unhedged)

Commodities
- Bloomberg Gold - Total Return
- 1Bloomberg Crude Oil - Total Return
- S&P GSCI Total Return
- S&P GSCI Agriculture Total Return

Cash/risk free
- Cash[4]

1 Source: Bloomberg, FT.com, November 2025. R-squared = 0.694 2 Source: FactSet, 31 December 2025. Data shown in local currency. 3 MSCI AC World - Gross Return from 1999 to 2000, MSCI AC World - Net Return from 2001 onwards. 4 ICE LIBOR - GBP 1 Month from 1999 to 2019, SONIA Realized Rate – 1 Month from 2020 onwards. Charts are provided for illustrative purposes and are not indicative of the past or future performance of any product to the source.

None of this is about trying to predict the ultimate winner. It is about building a process that can adapt as the winners change hands.

THE PORTFOLIO EFFECT

Picture AI exposure in three segments – **enablers, platforms and adopters**. The risk and return characteristics differ meaningfully between them.

Enablers are the businesses the whole industry depends on – the manufacturers of advanced chips, the suppliers of the specialist equipment used to produce them, and the companies powering data centres. They can capture value regardless of who eventually dominates AI.

Platforms are the large technology building and hosting AI. They are well positioned to benefit, but outcomes depend on a wider set of growth drivers. The focus is less on growth itself and more on whether today's heavy investment ultimately delivers strong returns.

Adopters use AI to run their businesses more efficiently – supporting automation and predictive maintenance, helping reduce costs and improve cash generation over time.

Active managers have been rotating away from highly valued names whose share prices ran ahead of near-term fundamentals and towards parts semiconductor supply chain where valuations look more grounded.

Investors are paying more attention to healthcare too. Although the sector has trailed others in the AI story, it could benefit in areas such as drug discovery and diagnostics.

But AI exposure is only one part of the portfolio. In a concentrated equity market, the case for genuine diversification has hardened.

After years of limited enthusiasm for fixed income, yields of 5–6% have started to make bond exposure attractive again. At those levels, bonds begin to perform the role they are supposed to perform – providing ballast when equity markets become volatile.

UK infrastructure is also becoming more relevant, particularly within Local Government Pension Scheme (LGPS) mandates, where regulatory changes have improved accessibility and the long-duration, inflation-linked profile remains attractive.

FORM FOLLOWS FUNCTION

Understanding client behaviour through periods of volatility is just as important as asset choice.

Concentrated markets cut both ways. The same handful of companies that drove returns on the way up can drive drawdowns on the way down. When markets fall sharply, the instinct is to sell. Acting on that instinct at the wrong moment can undo years of sound portfolio construction.

A multi-asset framework can help keep clients invested. Concentration limits, position-sizing discipline and diversification across asset classes are as much behavioural tools as they are portfolio tools. Their job is to keep clients invested through uncertainty – and to help prevent temporary losses from becoming permanent ones.

AI may prove to be one of the most important technological shifts of our lifetimes. For investors, the challenge is not just finding the potential winners but recognising when portfolios are carrying more hidden concentration risk than they appear to.

In an AI-led market, portfolio design matters. If the function of a multi-asset portfolio is to keep clients invested through uncertainty and to help benefit from these long-term structural opportunities, we believe its form must be built around resilience, diversification and discipline.

APPENDIX: INDICES MENTIONED IN THIS ARTICLE

Equity

FTSE All Share Total Return Index: A UK equity index tracking the performance of listed companies across the market, with dividends reinvested.

FTSE 100: The FTSE 100 Index is a capitalization-weighted index of the 100 most highly capitalised companies traded on the London Stock Exchange.

MSCI ACWI [All Country World Index]: A global equity index tracking large and mid-cap stocks across developed and emerging markets.

MSCI EM: The MSCI EM index tracks the performance of Emerging Market Equities.

MSCI Europe ex UK Net Return Index: An equity index tracking large and mid-cap stocks across developed European markets, excluding the UK, with dividends reinvested after withholding taxes.

Russell 3000 Index: A broad US equity index tracking the performance of approximately 3,000 large, mid, and small cap companies.

S&P 500: The S&P 500 is an index designed to track the performance of the largest 500 US companies.

Fixed Income

FTSE Actuaries UK Conventional Gilts All Stocks Index: A UK government bond index tracking the performance of conventional gilt securities across all maturities.

British Government Index Linked All Stocks Index: A UK government bond index tracking index linked gilts across all maturities, with returns linked to inflation.

JPMorgan Government Bond Index Global Traded Local: A government bond index tracking tradable sovereign debt in local currencies across developed markets.

ICE BofA Sterling Non-Gilt 10+ Year Index: A sterling denominated bond index tracking non gilt bonds with maturities of more than 10 years, measured in GBP on an unhedged basis.

ICE BofA Global High Yield Constrained Index: A global bond index tracking below investment grade corporate debt, with issuer constraints applied, measured in GBP on an unhedged basis.

Commodities

Bloomberg Gold Total Return Index: An index tracking the return from gold exposure, including price performance and the impact of rolling futures where applicable.

Bloomberg Crude Oil Total Return Index: An index tracking the return from crude oil exposure, including price performance and the impact of rolling futures where applicable.

S&P GSCI Total Return Index: A broad commodities index tracking futures-based commodity market performance, including the effect of rolling futures contracts and collateral returns.

S&P GSCI Agriculture Total Return Index: A commodities index tracking the performance of agricultural futures, including the effect of rolling futures contracts and collateral returns.

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