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Investment Institute

Market Commentary

Weekly perspective on current market sentiment **August 5, 2026**

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Last week's S&P 500 Index: +1.05

When data center buildouts compete with deficits

Key takeaways

- The artificial intelligence (AI) investment boom is creating a new borrower in fixed-income markets.
- Greater competition for capital could contribute to higher long-term yields, wider spreads, and higher term premiums.

For years, fixed-income investors have been asking a familiar question: who will continue to buy all the U.S. Treasury debt? Federal deficits remain large, borrowing needs continue to grow, and the Federal Reserve is no longer the dominant buyer it was during the quantitative easing era. Investors have become increasingly focused on the market's ability to absorb a steady stream of Treasury issuance. But what if the question is now shifting to who else needs access to capital?

That brings us to the AI build-up. Most discussions around AI focus on productivity, innovation, and earnings growth. Before AI can deliver those benefits, it must first be financed. Building data centers, expanding power generation, upgrading transmission networks, and producing advanced semiconductors require enormous amounts of capital.

AI has already become one of the largest investment cycles in U.S. history, approaching the buildout of railroads as a share of total spending in the economy. However, the productivity gains may take years to fully materialize, while the funding needs are arriving now. For bond markets, that means a growing demand for long-term capital at the same time Treasury financing needs remain elevated. U.S. Treasuries and AI-related corporate bond issuance are different assets, but they ultimately draw from many of the same longer-term income-oriented investors. The result is increasing competition for capital. History suggests markets respond to competition through pricing. Investors may demand higher yields to absorb additional supply. Corporate issuers may need to offer larger concessions to bring deals to market. Credit spreads could widen as investors become more selective, particularly if issuance continues to accelerate.

Recent research from the Dallas Federal Reserve[1] identifies several channels through which AI financing could affect fixed-income markets. These include high-quality corporate bond sales, investment strategies that add demand for long-term bonds without buying them directly, and the potential for AI-related borrowers to compete with traditional borrowers for investor dollars.

Investors often view AI as an equity story. Increasingly, it may become a bond story as well. If Treasury issuance and AI-related financing continue to expand simultaneously, long-term yields and term premiums could remain under upward pressure even if inflation eventually moderates. The AI revolution may ultimately boost productivity and growth, but markets must fund that future before they can potentially benefit from it. In the months ahead, we believe one of the most important forces shaping bond markets may be the growing competition between data centers and deficits.

1. *"How AI debt financing impacts duration supply and interest rates"*. Dallas Federal Reserve, February 10, 2026.

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