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HOW WILL AI IMPACT THE US ECONOMY IN 2026?

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Artificial intelligence is expected to give the US economy a modest growth boost in 2026 by lifting productivity and business investment, while also creating risks around asset bubbles, job displacement, and regulatory uncertainty. The net effect is likely positive but uneven across sectors, regions, and workers.

GROWTH AND PRODUCTIVITY

Economists widely expect AI-driven investment to help keep US growth slightly above other advanced economies in 2026, with several major forecasts clustering a bit above 2% real GDP growth. Surveys of economists suggest the US will maintain or even widen its **productivity** lead over peers largely because of faster AI adoption, deep capital markets, and relatively low energy costs.

AI-related capital spending has surged, especially in cloud infrastructure, chips, and software, and this investment is projected to remain strong into 2026, supporting output and profits. Analysts estimate that sustained AI deployment could eventually lift trend US growth closer to 3% over time, though most agree the full productivity payoff will arrive gradually rather than all at once.

LABOR MARKET AND JOBS

AI is enabling firms to automate routine cognitive tasks, which is expected to raise efficiency but also reduce the need for some white-collar and back-office roles. Large bank and corporate executives already signal they will use AI to cut costs and headcount, implying continued pressure on certain professional and support occupations even as overall unemployment is projected to stay below roughly 4.5% in 2026.

At the same time, AI investment is generating demand for higher-skill jobs in areas like machine learning, data engineering, cybersecurity, and specialized manufacturing of chips and data-center equipment. This mix points toward more labor market polarization: strong opportunities for highly skilled workers and tech-complementary roles, alongside stress for mid-skill workers whose tasks are more easily automated.

INEQUALITY AND SECTOR IMPACTS

Economic gains from AI in 2026 are likely to be concentrated in a few sectors-such as technology, finance, and large-scale business services-and in regions that already host major tech hubs and data centers. This concentration risks widening income and regional inequality, as high productivity firms and skilled workers capture outsized benefits while lagging regions see fewer direct gains.

AI is also reshaping capital markets: AI-linked firms account for a disproportionate share of S&P 500 earnings and stock-market gains, which boosts wealth for investors but increases exposure to any correction in AI-heavy sectors. Household spending by affluent investors-supported by these market gains-has become an important driver of consumption, which could amplify volatility if an AI-driven sell-off occurs.

BUBBLE RISKS AND FINANCIAL STABILITY

Multiple analysts and economists warn that current AI valuations show early signs of bubble dynamics, with very high expectations embedded in tech and AI-infrastructure stocks. Reports highlight stretched valuations, rising leverage, and increasingly complex financing structures tied to AI projects, all of which could magnify the impact of a market correction on business investment and credit conditions. Yet several major forecasters argue that while AI exuberance is real, an immediate hard landing in 2026 is not their central case; they expect AI spending to remain strong and any serious reckoning to be more of a medium-term risk. Even so, financial-stability authorities and investors are watching AI-related sectors closely, since a sharp reversal could weigh on productivity growth and spill over to the broader economy via tighter financial conditions.

OUTLOOK

2025 was a strong year for the US stock market because resilient earnings, falling interest rates, and massive enthusiasm and investment around artificial intelligence combined to push major indexes to record highs. The Federal Reserve pivoted from holding rates high to delivering a series of rate cuts in the second half of 2025 which supported equity valuations and risk appetite. These rate cuts were widely telegraphed and interpreted as compatible with ongoing economic expansion rather than a response to the imminent recession, encouraging flows into stocks rather than cash and bonds. Thus 2025 brought much happiness to stock market investors.

THE BIG PICTURE OUTLOOK

Many strategists describe 2026 as another year of bull market gains, but with returns likely slower than the prior three years of double-digit advances. The backdrop most forecasts assume is above-trend US growth, gradually easier monetary policy, and combined productivity gains from AI and investment in technology.

Earnings growth is expected to broaden beyond a narrow group of mega-cap AI leaders, with sectors such as financials, industrials, and consumer discretionary also anticipated to post solid profit growth as they deploy Ai to cut costs and improve operations. The broader earnings contribution would make the market less dependent on a small cluster of “AI winners,” even if those firms still anchor index performance. Consequently, we have a cautiously optimistic outlook but not as Alan Greenspan would say: “irrational exuberance.” As always, we must add that conditions can change, which could change the outlook.

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