

Doing More With Less: How AI and Slowing Growth Are Reshaping Fixed Income

As AI boosts productivity and macro conditions cool, softer labor demand may support a more constructive fixed-income backdrop.

What You Should Know

- AI is boosting productivity while potentially dampening labor demand and wage growth over time.
- The US macro backdrop is stabilizing but not strong, with cooling housing, slowing population growth, and peak fiscal support all pointing to softer inflation ahead.
- AI's long-term impact may be disinflationary, improving the growth-inflation mix and supporting both stocks and bonds.
- Bond yields may be near a turning point, as fading fiscal stimulus, slower AI capital-expenditure¹ (capex) growth, and potential easing in inflationary pressures shift the outlook lower.

Insight from sub-adviser Wellington Management



Connor Fitzgerald, CFA
Senior Managing Director,
Fixed-Income Portfolio Manager

We entered 2026 with sharp price shifts in software and AI-related equities, as advances in enterprise AI tools, including Anthropic's Claude, pressured software valuations and heightened concerns that AI could displace parts of the labor force. Market sentiment was further unsettled by prominent corporate announcements linking workforce reductions to gains in AI-driven efficiency.

Our view remains that AI could be disinflationary over the medium to long term, largely due to its potential to drive productivity gains. Over the past 12 months, the labor market has been characterized by both low hiring and low firing. While this partly reflects supply-side constraints, such as minimal population growth, we also see signs of softening labor demand, particularly among large-cap companies.

A consistent message from management teams has been the push to do "more with the same"—in other words, to grow earnings without materially increasing headcount. In our view, this reflects productivity gains and points to a weaker medium-term outlook for labor demand. With its focus on supporting stable employment, we believe the Federal Reserve (Fed) is watching this dynamic closely.

Although the labor market has stabilized and private-sector activity is showing some improvement, we don't view the current backdrop as especially strong. We also expect a meaningful share of future productivity gains to accrue more to capital than to labor.

Historically, higher productivity has supported real wage growth, as technology increased output per worker and encouraged additional hiring. If AI evolves in a way that reduces the need for incremental labor, that relationship may weaken. In our view, the path of AI adoption will be one of the defining macro and micro investment themes for the foreseeable future. On balance, we believe it points to lower inflation and a more favorable growth-inflation mix over time—an environment that can be constructive for both stocks and bonds.

Over the past six months, the backdrop has been shaped by a stabilizing labor market, inflation that remains above the Fed's 2% target, strong fiscal support, and AI-related capital spending that has surprised to the upside. In some cases, that spending has also added to near-term inflation due to supply constraints, while the Iran war has introduced an oil-related supply shock. Together, these forces help explain the rise in bond yields. Looking ahead, however, the backdrop may begin to shift:

- **Fiscal impulse nearing a peak** – We believe fiscal impulse (how government spending and taxes are shaping growth) is close to its peak for this cycle. If additional spending is pursued, the risk of a bond-market backlash rises meaningfully. Our base case is that a reconciliation bill is unlikely to pass before the midterms. If it does, we would likely view any resulting rise in yields as an attractive opportunity to add to bonds. Historically, yields have often peaked in the summer heading into midterm elections, and we would expect a more constrained fiscal backdrop if Republicans lose seats.
- **Limited population growth** – Zero population growth remains an important long-term headwind to economic growth, and we believe the market is underappreciating that constraint.
- **Housing as a disinflationary force** – The housing market remains unaffordable and appears to be gradually cooling, which we see as a meaningful source of disinflation.
- **AI and the inflation mix** – Whether AI ultimately reduces employment remains uncertain, but we do see it as a potentially powerful disinflationary force. In that environment, growth could remain reasonable while the balance between growth and inflation improves.
- **AI capex growth moderating** – In the AI capex cycle, we expect the pace of growth to slow in the coming months. From current levels, it's difficult to envision a meaningful reacceleration, though we remain open to that possibility.
- **Oil shock scenarios** – We see two broad paths in the Iran conflict. A resolution that restores oil flows would likely push prices lower, though not necessarily back to prior levels given infrastructure damage. A more prolonged disruption could leave Europe and parts of Asia facing physical supply shortages. In either case, we believe lower bond yields are ultimately more likely.

How AI Is Impacting Credit Markets

After a modest period of value creation in February and March, credit spreads² have returned to historically tight levels. We believe this reflects several forces:

- **AI-driven supply is building** – One of the largest capital-investment cycles in history is being financed through credit markets. We expect the AI build-out to generate at least \$500 billion of new bond issuance across 2026 and 2027, and that supply will likely require some concession to be absorbed.
- **Private credit spillover** – Weakness in private credit may redirect more issuance toward public markets, adding to supply pressure.

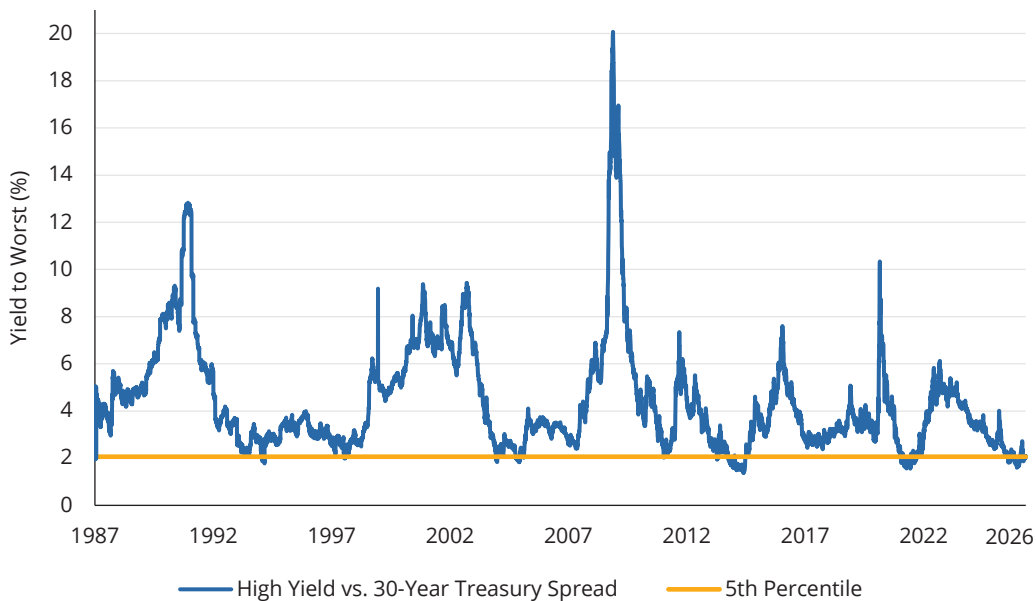


We expect the AI build-out to generate at least \$500 billion of new bond issuance across 2026 and 2027.

- **M&A and buybacks picking up** – Debt-funded mergers & acquisitions and share repurchases are beginning to reaccelerate for the first time in more than five years.
- **Rates staying higher for longer** – Both the Fed and the market are increasingly focused on the possibility that rates may remain on pause if inflation proves sticky.

Credit remains generationally rich relative to Treasuries, while bond yields are becoming more attractive relative to equities. **FIGURE 1** below illustrates this through the spread between US high-yield bonds and 30-year Treasury yields, which remains near historically low levels.

FIGURE 1
The Spread Between High Yield and Treasury Yields Is Historically Low
 Yield to Worst for High-Yield Bonds vs. 30-Year US Treasuries (1987-2026)



As of 5/22/26. Yield to worst is the minimum yield that can be received on a bond assuming the issuer doesn't default on any of its payments. Source: Bloomberg, 6/26.

In short, we don't think this is the right time to take large, directional credit-spread risk (i.e., the risk that the gap between corporate bonds and Treasuries widens, leading to lower bond prices). That caution is driven in part by how tight spreads remain relative to history, even as issuance is increasing and the macro backdrop continues to evolve. With less cushion against potential volatility, the trade-off for reaching further into credit may not be as attractive.

Talk to your financial professional to learn how AI is transforming bond-market opportunities.

¹ Capital expenditures are the money a company spends to buy or upgrade long-term assets such as buildings or equipment.

² Spreads are the difference in yields between two fixed-income securities with the same maturity but originating from different investment sectors.

Important Risks: Investing involves risk, including the possible loss of principal. •Fixed income security risks include credit, liquidity, call, duration, and interest-rate risk. As interest rates rise, bond prices generally fall.

The views expressed here are those of Wellington Management, are for informational purposes only, and are subject to change based on prevailing market, economic, and other conditions. The views expressed may not reflect the opinions of Hartford Funds or any other sub-adviser to our funds.

They should not be construed as research or investment advice nor should they be considered an offer or solicitation to buy or sell any security.

This information is current at the time of writing and may not be reproduced or distributed in whole or in part, for any purpose, without the express written consent of Wellington Management or Hartford Funds. Mutual funds are distributed by Hartford Funds Distributors, LLC (HFD), Member FINRA. Certain funds are sub-advised by Wellington Management Company LLP. Wellington Management is an SEC registered investment advisers. HFD is not affiliated with any sub-adviser.