The Investment Institute
by UniCredit

Coffee Break

Coffee Break is our daily publication, offering topical insights as an intellectual ingot to start the day.

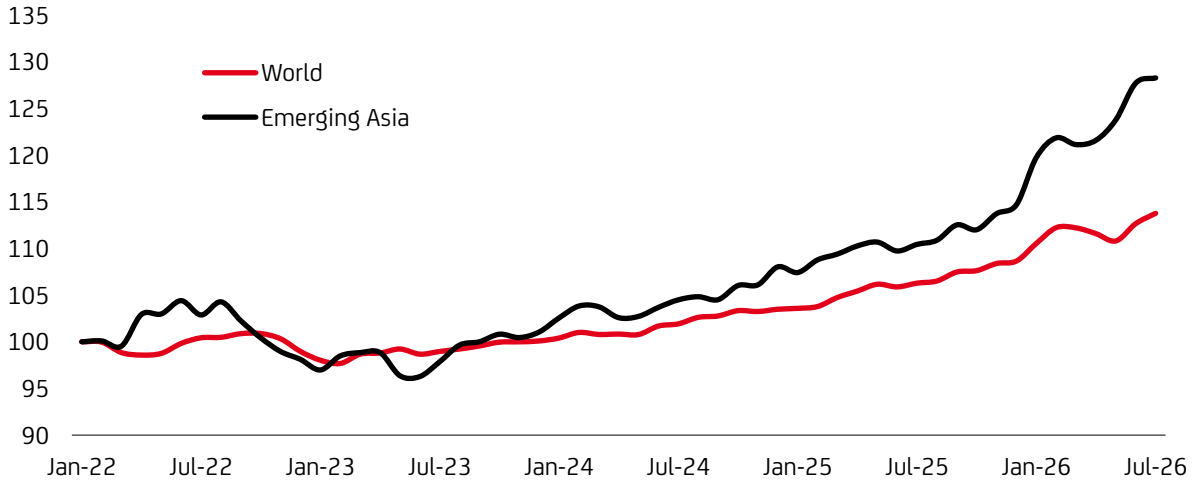
Views from Bangkok

20 October 2026

The IMF and World Bank Annual Meetings in Bangkok have shown that views on the global economy and financial markets in 2027 are increasingly becoming views on the AI investment cycle.

EMERGING ASIA IS THE BIG WINNER OF THE AI-RELATED TRADE BOOST

EXPORTS, VOLUME (3M-MA, JANUARY 2022=100)



Source: CPB Netherlands, The Investment Institute by UniCredit

THE CONTEXT

Last week's IMF and World Bank Annual Meetings in Bangkok brought together policymakers, market participants and academics to discuss economic, geopolitical and financial issues likely to shape the years ahead. One conclusion stood out above all others: views on the global economy and financial markets in 2027 are increasingly becoming views on the AI capex cycle. The dominant topic in most panels and conversations was the unprecedented scale of capital spending planned by the largest US technology companies. There was also a growing sense that the US-Iran conflict might ultimately settle into a prolonged frozen confrontation, with some parallels to the Russia-Ukraine situation. While oil flows through the Strait of Hormuz have largely been restored, a frozen conflict would likely keep energy market risk premiums elevated, sustaining higher prices.



THE DATA

A striking feature of the past week in Bangkok was the difference in sentiment across participants from different regions. US and Asian participants were mostly bullish on the AI theme, expecting continued strong support for capex, private consumption (through wealth effects) and trade. As we show in our chart, Emerging Asia has been a major beneficiary of the boost to global trade from surging AI investment. In contrast, Europeans generally appeared more sceptical about AI prospects amid fears of an earnings bubble.

The IMF was generally cautious about the global economy, pointing out that global growth has proved more resilient than expected but has also become increasingly concentrated. The AI-driven push and the conflict in the Middle East can contribute to greater divergence between countries and sectors. In this environment, the IMF warned that thinner fiscal and energy buffers increase downside risks to economic activity.



OUR VIEW

The optimism in the US and Asia largely reflects conviction that the AI capex boom has legs. Investment by the large US hyperscalers is expected to rise strongly over the next year, from just under USD 1tn to USD 1.2-1.5tn, driven primarily by data-centre construction. In turn, this is likely to keep the market for semiconductors heavily undersupplied. Beyond a 12-month horizon, however, visibility remains very limited and conviction drops rapidly. Few participants were willing to offer an informed estimate of the scale of AI capex from 2028 onwards, let alone of any productivity gains that AI could eventually unleash over the longer run.

Two factors were repeatedly cited as supportive of AI investment over the next year. First, the **cost of falling behind** is perceived as extremely high. In a winner-takes-all technological race, the risk of underinvesting appears greater than the risk of overinvesting, at least for some time. Second, several market participants expect some **front-loading of investment ahead of the 2028 US presidential election**, reflecting uncertainty about the regulatory environment that could emerge thereafter.

A strengthening of AI-related capex next year would intensify **competition for global capital** as rising private-sector financing needs are likely to coexist with elevated sovereign borrowing requirements for some time. If this scenario played out, the message for bond investors would be straightforward: there would be little reason to expect relief on global interest rates anytime soon, and duration would remain unappealing.

More prudent narratives on the AI story were mostly centred on the observation that a large share of the booming profits of hyperscalers and AI companies are being generated within the AI ecosystem itself, rather than from widespread adoption by external customers, both firms and households, paying for AI services. Given that a ramp-up in demand for such services might take time, cautious participants pointed out that a further meaningful increase in AI-related capex in 2027 would expose AI companies to a rising risk of overvaluation.

Against this backdrop, the upcoming **US midterm elections** were not generally perceived as an event that could derail the global economy and financial markets. Some regulatory risk for AI seems to have already been factored in, while a tail-risk scenario would be one in which US President Donald Trump escalates the war in Iran and deploys boots on the ground following a particularly poor election outcome.

The discussion on global monetary policy acknowledged that major **central banks still have work to do** to contain inflation risks. It focused largely on the Fed, which was widely seen as having regained its footing after some communication missteps early in Chair Kevin Warsh's tenure. Two key lessons emerged. First, Warsh's initial emphasis on extracting unfiltered market signals quickly revealed its limitations: markets do not price what the Fed should do, but what they expect the Fed to do. Because monetary policy operates largely through financial conditions, effective transmission requires markets to understand the Fed's reaction function and incorporate new information ahead of policy adjustments.

Second, the preference for eliminating forward guidance has encountered practical constraints. Recent comments by Fed Vice Chair Philip Jefferson and New York Fed President John Williams, stressing that the Fed can remain patient in its tightening as pressure at the long end of the UST curve builds, underscored that while formal forward guidance may play a smaller role than in the past, communication remains a critical tool for central bankers to shape expectations about the future policy path. Our forecast that the Fed will remain on hold next week and hike again in December looks in good shape.

With discussions overwhelmingly focused on AI, Europe struggled to draw much attention. **Where Europe did feature, conversations centred primarily on geopolitics and fiscal risk**. There was recognition that the European approach to China is evolving. Germany and France increasingly support a more assertive approach, calling for new tools that could help reduce critical supply-chain concentration and provide credible deterrence against countries that systematically distort competition. The broad consensus remains that Europe should reduce excessive dependencies in strategically important sectors while avoiding outright decoupling from China. At the same time, concerns regarding the French fiscal policy trajectory remained a recurring topic of discussion, with participants generally agreeing that current spread levels are still far from the ECB's pain threshold.

Finally, **sentiment towards emerging markets (EMs) remained constructive**. Improved macro fundamentals compared to developed countries, exposure to the tech and commodity cycles as well as ongoing FDI flows make EMs more resilient to the Fed's tightening than in the past. UST yields would probably have to climb materially further for this narrative to be reassessed. Short of such a scenario, the outlook was generally regarded as favourable for EM equities, debt and currencies.

TODAY'S DATA RELEASES

Time (CET)	Country	Data	Period	UniCredit	Consensus	Previous
11:00	GE	ZEW Survey – current situation (index)	Oct	-43.0	-	-47.1
11:00	GE	ZEW Survey – expectations (index)	Oct	38.0	-	34.7
14:00	HU	NBH announces key rate (%)	-	5.50	5.50	5.50

Source: Bloomberg, The Investment Institute by UniCredit

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