



The Age of Autonomous Intelligence

Part IV: Technology, inequality and the quiet return of financial repression



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The long-term impact of AI may extend beyond corporate earnings. As inequality and structural deficits rise, fiscal pressures are increasingly influencing monetary policy and markets. Our last article explores what this evolving fiscal landscape could mean for investors.

The Long Build of a K-Shaped Economy

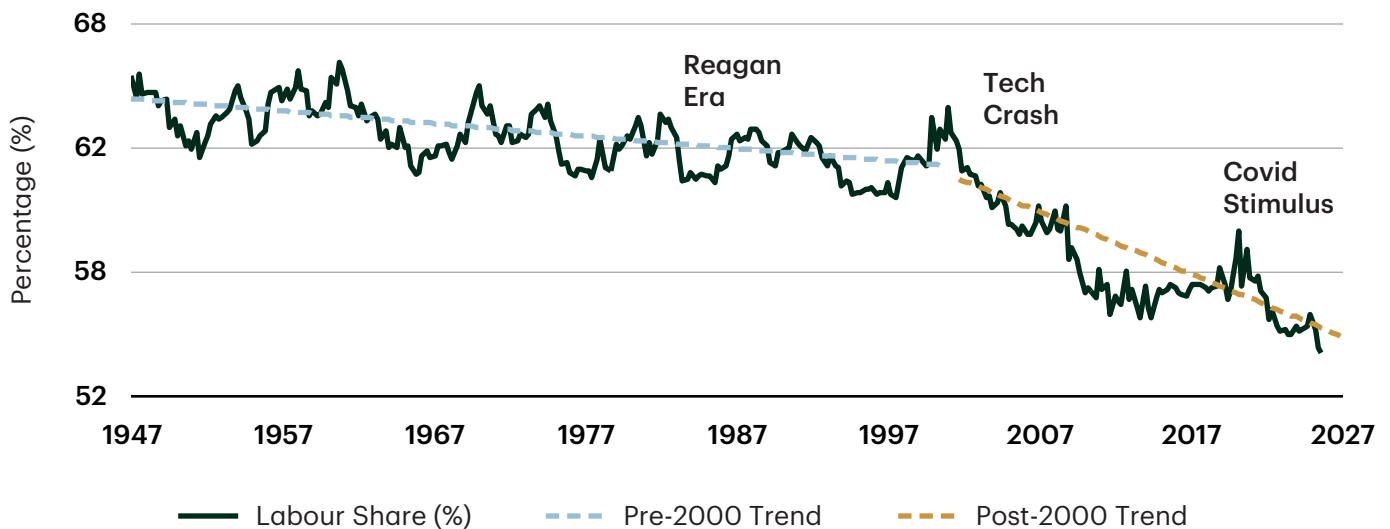
Over the past quarter century, advanced economies have increasingly exhibited what economists describe as a “K-shaped” pattern: one segment of society rises while another struggles to keep pace.

Labour’s share of national income has trended lower across many developed markets since the early 2000s. According to data from the U.S. Bureau of Labor Statistics¹, labour’s share of corporate sector income declined meaningfully between 2000 and the mid-2010s before stabilizing more recently. Globally, research

has similarly documented a multi-decade decline in labour income shares across advanced economies².

Several forces converged to drive this shift. Rapid digital technology diffusion increased the scale advantages of dominant firms. China’s entry into the World Trade Organization (WTO) in 2001 intensified global competition and supply chain integration. Intangible capital like data, intellectual property and software became increasingly central to corporate value creation.

Labour Share of U.S. National Income (%) is at a Record Low



Source: BLS, Federal Reserve Bank of St. Louis. Data as of October 31, 2025.

The result was rising profitability for capital-intensive firms and widening income dispersion. The U.S. Congressional Budget Office (CBO) reports that income growth for higher-income households has outpaced that of lower-income groups over the past several decades, contributing to broader wealth inequality³.

Financial markets reflected this divergence. Companies with network effects and global platforms commanded premium valuations, while middle-skill labour faced displacement pressures. The political response followed. Populist movements gained traction across developed markets, and governments expanded fiscal transfers to cushion economic dislocation.

AI: A Potential Accelerator of Divergence

Artificial Intelligence (AI) enters this already uneven landscape. Research shows that generative AI could boost global GDP by up to 7% over a decade through productivity gains and could add between \$2.6 trillion and \$4.4 trillion annually to the global economy across use cases. The growth potential is substantial⁴.

Yet the distribution of gains remains uncertain. AI's capacity to automate cognitive and professional tasks differentiates it from earlier waves of automation.

Higher-skilled occupations may also face exposure to AI-driven task displacement, though often through augmentation rather than elimination⁵. If AI disproportionately enhances the productivity of capital owners and highly skilled workers, the K-shaped pattern could steepen further.

History suggests that sustained inequality tends to generate policy responses. When income dispersion widens and economic insecurity rises, political pressure for redistribution typically intensifies.

Fiscal Expansion: A Structural Shift

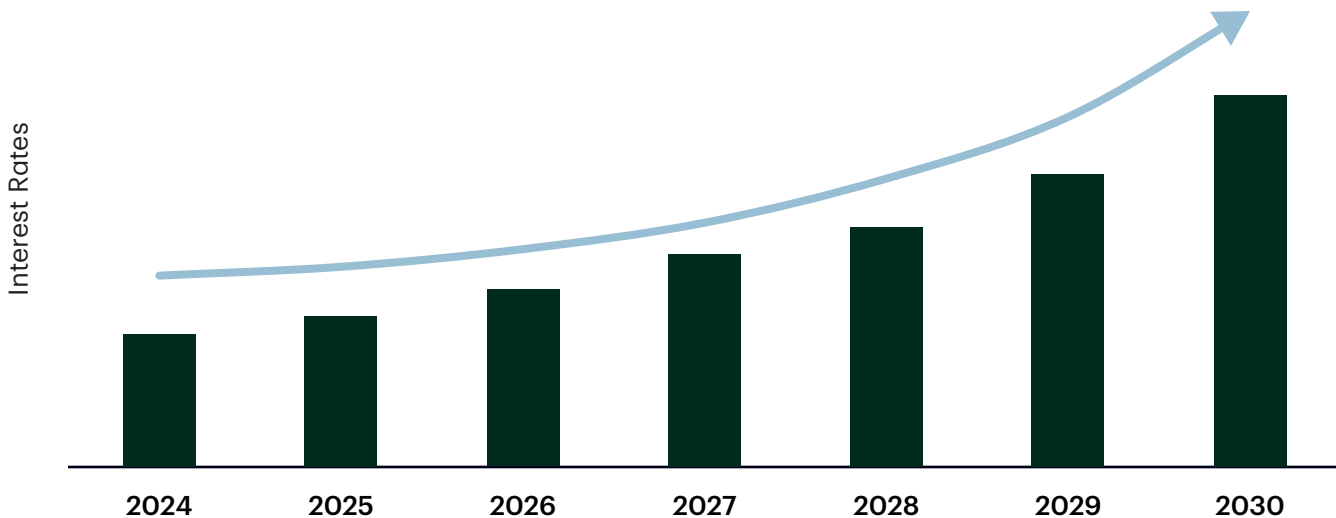
Even before AI's rapid emergence, fiscal policy in developed economies had already shifted structurally. In the U.S, federal debt held by the public stood at approximately 35% of GDP in 2007. Following the Global Financial Crisis (GFC) and the Covid-19 Pandemic, it now exceeds 95% of GDP, and research shows that, absent policy changes, debt could surpass 115% of GDP within a decade⁶.

Two primary drivers explain the deterioration:

- 1 First, net interest costs are rising as higher interest rates feed through government borrowing with estimates showing that net interest payments will become one of the fastest-growing components of federal spending over the next decade⁶.

Rising Net Interest Costs

Higher interest rates are feeding through government borrowing and net interest payments are estimated to become one of the fastest-growing components of federal spending over the next decade.



For illustrative purposes only.

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Second, structural spending on social security and healthcare continues to increase as populations age. Together with income support programs and defense expenditures, these categories account for the majority of federal outlays.

Aging Populations and Structural Spending

Structural spending on areas such as Social Security and Health Care continues to grow as the population ages, accounting for the majority of federal outlays.

Major Components of Federal Spending



For illustrative purposes only.

Revenues, meanwhile, have not risen proportionately. While periodic tax proposals target corporations or high-income earners, sustained revenue expansion sufficient to offset spending growth remains politically challenging. If AI contributes to further labour market disruption, fiscal transfers could face additional upward pressure.

The Narrowing Policy Menu

When debt rises persistently, governments confront limited choices. Spending cuts to major entitlement programs are politically sensitive. Large tax increases risk slowing growth or encountering legislative gridlock. That leaves more indirect approaches: tolerating somewhat higher inflation or maintaining borrowing costs below what market forces alone would dictate. The latter approach is often described as financial repression.

Structure

Financial Repression: Historical Context and Modern Signals

Financial repression refers to policies that help governments manage debt burdens by keeping interest rates relatively low and encouraging domestic institutions to hold sovereign debt. Following World War II, the U.S. maintained caps on Treasury yields through cooperation between the Treasury and the U.S. Federal Reserve (Fed), an arrangement that persisted until the 1951 Treasury-Fed Accord restored greater central bank independence.

More recently, after the GFC, central banks expanded their balance sheets dramatically. The Fed's assets grew from under \$1 trillion in 2007 to nearly \$9 trillion

at their pandemic peak⁷. Large-scale asset purchases helped stabilize bond markets and contain borrowing costs. Japan offers a contemporary example of yield curve control, where the Bank of Japan explicitly targeted long-term government bond yields for several years to maintain stability⁸.

Financial repression does not require explicit yield caps. It may involve regulatory frameworks that incentivize banks and pension funds to hold sovereign debt, or central bank interventions designed to smooth excessive volatility. The objective is gradual debt stabilization rather than abrupt fiscal adjustment.

Fiscal Dominance: A Subtle Shift in Priorities

Closely related is the concept of fiscal dominance; a regime in which high debt levels influence monetary policy decisions. Under monetary dominance, central banks focus primarily on inflation control. Under fiscal dominance, policymakers must weigh the fiscal consequences of higher interest rates more heavily.

This does not imply abandonment of inflation targets. In fact, inflation expectations in the U.S. remain relatively well anchored, with long-term breakeven inflation rates derived from Treasury

Inflation-Protected Securities hovering near historical norms in recent years.

However, bond markets have shown signs of pricing higher term premiums—the compensation investors demand for holding long-term debt. Research indicates that term premiums, which were deeply negative during much of the 2010s, have risen back into positive territory in recent years⁹. That shift suggests investors are incorporating fiscal and supply considerations more directly into long-term yields.

Crisis or Managed Adjustment?

Despite rising debt ratios, outright fiscal crises remain rare in modern developed economies. The Eurozone sovereign debt crisis between 2010 and 2014 and the United Kingdom's 2022 "mini-budget" episode illustrate how quickly markets can react when fiscal credibility falters. In both cases, rapid policy adjustments helped restore stability.

For large reserve-currency economies, fiscal stress typically requires a catalyst, such as a severe recession, sharp spike in rates or prolonged political dysfunction. Absent such triggers, gradual adjustment through growth, moderate inflation and yield management is more common than abrupt restructuring.

Market Implications in a Financial Repression Environment

If the interaction between AI-driven inequality and structural deficits leads to sustained financial repression, several investment implications follow:



Long-term bond yields may remain more stable than pure issuance dynamics would suggest, particularly if central banks signal willingness to intervene during episodes of volatility.



Moderately higher nominal growth combined with contained real yields could support long-duration assets, including equities and infrastructure investments. Historically, periods of financial repression have coincided with relatively stable equity valuations, provided inflation remains controlled.



Real returns on cash and short-duration fixed income may face gradual erosion if inflation modestly exceeds policy targets. Currency dynamics may also become more sensitive to relative fiscal discipline across countries.

The Broader Investment Question

For investors, the lesson is not to predict extremes, but to recognize structural shifts. AI may boost productivity and support corporate profitability. Yet if its gains are unevenly distributed, political pressure for redistribution will likely intensify. Redistribution expands fiscal commitments. Rising debt shapes monetary decisions. Monetary decisions influence asset prices.

The post-1980 era was defined by globalization, declining interest rates and relative fiscal restraint. The coming decade may feature greater policy integration between fiscal and monetary authorities, even if formal independence remains intact. Understanding that evolving regime may prove as important as identifying the next technological winner. AI will shape the economy. Fiscal policy will shape the investment landscape that finances it.

The intersection of the two may define the next chapter for markets. ■

Investment

Technology



¹ U.S Bureau of Labor Statistics, Labor share and Profit Share of Gross Domestic Income, major Sector Productivity and Costs, 2026.

² International Monetary Fund, World Economic Outlook, January 2026.

³ U.S. Congressional Budget Office, The Distribution of Household Income in the U.S. January 2026.

⁴ McKinsey & Company, The Economic Potential of Generative AI; the next Productivity Frontier, June 2023, Goldman Sachs Global Investment Research: the potentially large Effects of AI on economic Growth, March 2023.

⁵ Organisation Co-operation and Development (OECD), Employment Outlook: 2023: AI and the Labour Market.

⁶ U.S. Congressional Budget Office, The Budget and Economic Outlook: 2024 to 2043, February 2024.

⁷ Board of Governors of the Federal Reserve System, factors Affecting Reserve Balances. July 2025.

⁸ Bank of Japan, Statement of Monetary Policy, December 2022.

⁹ Federal reserve Bank of New York, ACM Term premium Model, December 2025.

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