September 8, 2026

INSIGHTS

THE FED'S AI DILEMMA: LONG-TERM PERSPECTIVES

The Fed's latest meeting at Jackson Hole shed light on the topics driving monetary policy. However, these could all be impacted by AI in the coming years. What perspectives do investors need today?

Nobel laureate Paul Romer once observed that economic growth springs from "better recipes, not just more cooking" — the idea that raising living standards is not simply about adding more workers or equipment, but about enabling each worker to produce more, and better, output. This concept is captured by "productivity," the main ingredient behind rising wages and quality of life, and it sits at the center of one of today's most important economic questions: how will the accelerating adoption of AI affect it?

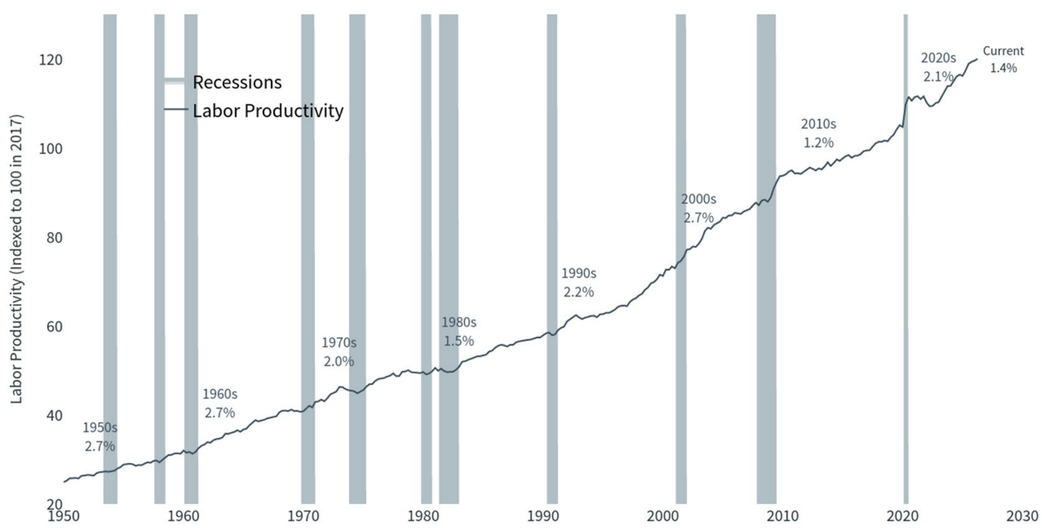
AI and Federal Reserve policy might seem unrelated on the surface, but they are connected — in the short run through their effects on financial markets and interest rates, and in the long run through productivity and economic growth. Fed Chair Kevin Warsh addressed these very themes at the Fed's annual symposium in Jackson Hole, Wyoming. Given how much AI has already influenced markets and the continued uncertainty around the Fed's policy direction, what should investors keep in mind from a long-term perspective?

AI and Long-Run Economic Growth

Economists typically build growth models around workers and "capital," a term covering equipment, machines, and tools. But education and technology matter just as much, since they allow workers to produce more with the same amount of capital. A restaurant can serve more meals with better equipment or better-trained staff; a more knowledgeable doctor with advanced facilities can produce better patient outcomes. While economic models inevitably simplify reality, the core idea holds across fields: generating more and better output per worker is what truly drives improvements in wages and living standards over time.

U.S. Productivity Growth

Labor productivity index and average annual growth by decade, since 1950



Sources: Clearnomics, Bureau of Labor Statistics. Latest data point is June 30, 2026.

This is why productivity growth matters so much, even though it is difficult to measure precisely. What makes AI's effect both interesting and hard to forecast is that it touches nearly all these factors simultaneously — depending on perspective, AI can function as labor, capital, and a means of creating entirely new methods and technologies. Warsh framed the central question as whether AI will prove complementary or competitive with labor.

The science-fiction version of the answer has AI replacing workers outright, particularly in information-heavy roles like data analytics or programming. However, it is not yet clear that this is happening. Current evidence suggests AI may instead be functioning as another tool that helps workers accomplish more, much as the information-technology revolution did in prior decades — some companies that previously reduced headcount due to AI are now rehiring. Historically, productivity growth has typically risen alongside the adoption of new technologies, as it eventually did during the 1990s expansion, even though the gains took time to materialize.

Inflation Remains the Fed's Focus

The Fed's more immediate focus is inflation. Its preferred gauge, the Personal Consumption Expenditures price index, shows inflation

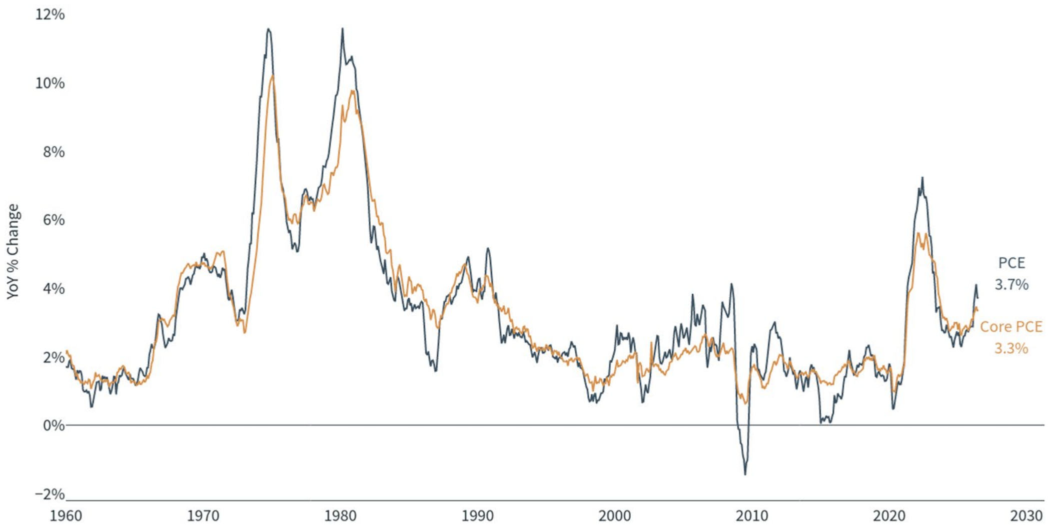
continued on page 2

running at 3.7% year-over-year, with core PCE at 3.3% — both well above the Fed's 2% target. Progress over the past two years has been limited, partly due to higher oil and gas prices from the war in the Middle East, leaving the Fed to balance growth against price pressures.

Markets have tried to anticipate when the Fed might raise rates, driving recent volatility. Current expectations call for at least one rate hike by year-end and possibly a second by next year's first quarter — though these expectations have shifted significantly and can change quickly as new data and Fed guidance arrive.

PCE Inflation

Personal Consumption Expenditures (PCE) price index since 1960 (year-over-year)



Sources: Clearnomics, Bureau of Economic Analysis. Latest data point is July 31, 2026.

Over the long run, the story could look different depending on AI and other technology trends, since technology tends to be deflationary: more output and higher-quality goods can mean falling prices over time. If AI were to lift productivity, the economy could support faster growth and higher wages alongside more moderate inflation. Many current inflation drivers — oil prices, data-center construction, semiconductor shortages — have less to do with monetary policy or productivity and could fade, though that takes time, and surprises are possible along the way, so investors should avoid overreacting to any single inflation report.

The Labor Market Is a Key Consideration

In the near term, the labor market points to a healthy economy. While layoffs have hit certain sectors, many of these trends reflect broader cost-cutting and technology adoption rather than AI specifically. Unemployment remains historically low at 4.1% and has held steady for two years, while wage growth, though decelerating, remains solid at 3.1% year-over-year.

Why has unemployment stayed so low even as job gains turn choppy? One reason is that labor supply has grown very slowly amid aging demographics and reduced immigration. The labor-force participation rate fell to 61% in July, near its lowest level in decades, as more workers — including many baby boomers — exit the workforce. When labor supply barely grows, monthly job gains can stay low even as workers hold onto jobs and companies keep hiring, which may help explain why initial jobless claims remain near historic lows.

Across technology, inflation, and the job market, investors should weigh short-term factors against long-term trends. Near-term uncertainty persists around Iran, data-center buildouts, and other developments, but over years and decades, productivity growth and broader economic trends will ultimately drive financial markets. Staying focused on long-term goals remains what will most improve the odds of financial success.

Disclosure

Legacy Capital Wealth Partners, LLC ("Legacy Capital") is a registered investment advisor. Advisory services are only offered to clients or prospective clients where Legacy Capital and its representatives are properly licensed or exempt from licensure.

The information provided is for educational and informational purposes only and does not constitute investment advice, nor should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. You should consult with your attorney or tax advisor.

The views expressed in this commentary are subject to change based on market and other conditions. These documents may contain certain statements that may be deemed forward looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected. Any projections, market outlooks, or estimates are based upon certain assumptions and should not be construed as indicative of actual events that will occur.

All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability, or completeness of, nor liability for, decisions based on such information and it should not be relied on as such.

LEGACY CAPITAL