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High Yield and Leveraged Loans: Assessing AI's Impact on a Risk-Return Continuum

The rapid adoption of artificial intelligence by businesses makes its impact a critical consideration in assessing the risk and return potential of lower-rated credits.

The surge of investment grade AI infrastructure debt has mesmerized fixed income investors, but the non-investment grade market has seen its share of the action. Various AI-related issuers have recently tapped the leveraged finance market for roughly \$20 billion to fund data center or other AI infrastructure projects.¹ Forecasts point to as much as \$150 billion of additional non-investment grade AI issuance over the next five years.² To date, the market's response has been mixed as investors question the execution risk of narrowly focused projects being funded on the back of leveraged balance sheets.

More broadly, AI has become such a pervasive business phenomenon that the durability of certain industries and companies within a value chain may depend on their adaptation to AI and success in capitalizing on the new technology. As a result, some companies are experiencing price volatility tied to sentiment around prospects for the AI boom and its longer-term implications for business fundamentals.

¹ Source: Neuberger estimates, as of November 30, 2025. Issuance over the past seven months.

² Source: J.P. Morgan, as of November 10, 2025.

Bottom-Up View of AI's Impact: Broadly Insulated, Key Areas of Benefits/Risks

Neuberger has engaged in a systematic bottom-up research effort to assess the impact that AI could have across the non-investment grade landscape. In our view, most sectors are positioned to be relatively insulated from AI disruption given their end markets and the expectation that AI integration should provide opportunities to realize operational efficiencies. Some other sectors such as utilities, telecommunication companies and diversified manufacturers could be outright beneficiaries as they facilitate and enable AI growth.

Longer term, certain factors could prove to make issuers more vulnerable. The opportunities created by AI-generated efficiencies could come at the cost of weaker labor markets, which could indirectly affect some companies. Others will see a more direct impact, with AI potentially displacing a company's core product and service offering.

The displays below show our view of AI's impact on sectors within the U.S. high yield and leveraged loan markets. We believe there are opportunities for bottom-up security selection to identify the dispersion in issuer positioning across and within sectors. Neuberger actively engages with company management teams and sponsors to assess the degree of AI investment and strategy across companies. We believe this to be tantamount to the analysis of a company's competitive positioning.

U.S. HIGH YIELD UNIVERSE: AI IMPACT ASSESSMENT BY INDUSTRY

Assessment	Negative / At Risk	Neutral	Positive
High Yield Index Weight	5 – 10%	70 – 75%	15 – 20%
Sectors in Focus	IT Services Interactive Media Media Printing / Publishing Technology (Software Point Solutions)	Aerospace and Defense Automotive Banking / Brokerage Cable / Satellite Chemicals Consumer Finance Cruise Lines Energy Food and Beverage Gaming Health Care Providers / Services Lodging Midstream Paper and Packaging Pharmaceuticals Retailers REITs Technology (Software Integrated, Modernized Solutions) Transportation Services Wireless	Airlines Commercial Finance (Mortgage Servicers) Construction Machinery Diversified Manufacturers (Data Center-Related) Health Care Services Metals / Mining Technology (Hardware) Technology (Semiconductors) Utilities Wirelines

Source: Neuberger Berman, as of November 30, 2025.

U.S. LEVERAGED LOAN UNIVERSE: AI IMPACT ASSESSMENT BY INDUSTRY

Assessment	Negative / At Risk	Neutral	Positive
Loan Index Weight	10 – 15%	65 – 70%	15 – 20%
Technology	Ad Tech Digital Platforms Horizontal Application Software IT Services	Distributors / Value-Added Resellers Infrastructure Software Vertical Application Software Security	Hardware Semiconductors / Components
Services	Corporate Services Customer Relationship Management Employment Services Legal Services Travel Services	Accounting and Tax Collision Repair Equipment Rentals Landscaping Security Services	Construction and Engineering HVAC and Electrical
Health Care	Temporary Staffing Health Care IT (Point Solutions)	Facilities Medical Equipment and Supplies Pharmaceuticals Physician Services	Clinical Resource Organizations Health Care IT (End-to-End)
Others	Entertainment Interactive Media / Services Media	Aerospace and Defense Automotive Building Products Cable and Satellite Capital Markets Chemicals Containers and Packaging Diversified Financial Services Food Products Hotels, Restaurants, Leisure Oil and Gas Retailers REITs (Mortgage) Transportation Wireless	Airlines Diversified Telecommunication Services Independent Power and Renewable Electricity Producers Life Sciences Tools and Services Metals / Mining Utilities

Source: Neuberger Berman, as of November 30, 2025.

Sectors in Focus: Winners and Losers in the AI Race

While AI is still just one factor in assessing corporate fundamentals, we believe it is also a crucial one. Our bottom-up analysis has determined that the prospects of companies within each industry may fall along a continuum, depending on competitive position and effectiveness in introducing AI to the business. To illustrate current dynamics, let’s consider some of the sectors that appear more sensitive to AI disruption.

Software and Technology: Divergent Fundamentals

Software is the poster child for AI impact, with as much as 25 – 30% of code now written with the assistance of artificial intelligence at some major tech companies.² In our view, AI could pose a risk for software firms, with key forces of disruption including the diversion of budgets away from traditional IT spending, pressure on “seat-based” pricing models (to the extent AI reduces knowledge worker headcounts) and the threat of new market entrants.

Software issuers’ ability to defend their market position will depend on their value proposition, scale and the strategic importance of their products, along with their execution on deploying and investing in AI capabilities.

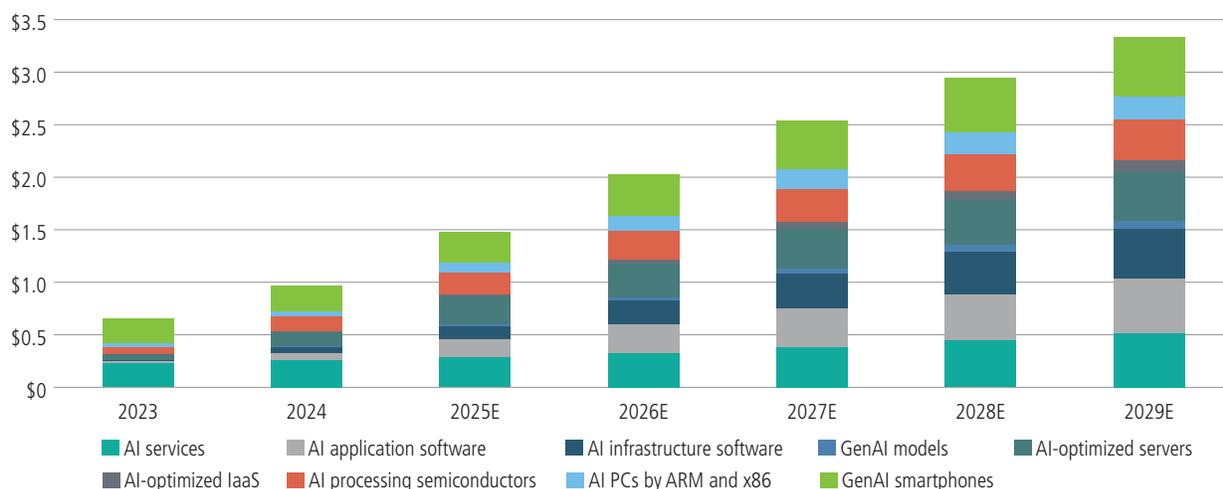
For example, one digital learning provider has a durable moat given its products’ significant brand value and integration into educator workflow and student curriculum. While competitors or adjacent education software providers could leverage AI to launch competing content, the company is advancing proprietary AI education tools to deepen adoption and improve student learning outcomes. Another software provider delivers software lifecycle development tools. Its application program interface test product is poised to see greater usage and become critical in an agentic AI world. However, its code-testing segment could see headwinds if execution slips—and we believe the company is leaning in, investing aggressively to release new AI-enhanced testing applications that can be applied across AI workloads.

Elsewhere in the technology sector, semiconductor and component manufacturers stand to benefit from increased demand for computing resources and the resulting surge in data center construction.

Bottom line: *We are watching risks in software, but looking for players with a strong competitive moat and innovative capabilities; we expect hardware and semiconductor companies to potentially capitalize on AI growth.*

TECH GOES ALL-IN ON AI

AI Spending in IT Markets (\$ Trillions)



Source: Gartner, Inc. As of September 2025.

² Source: Webb, Effie, “AI now writes a big chunk of code at Microsoft and Google—and it could be coming for even more at Meta,” *Business Insider*, April 30, 2025.

Health Care: A Cure for Inefficiency?

Many health care services companies tend to be highly entrenched, and the cost to replace their systems may limit the ability of AI startups to displace incumbents. Large players also have advantages if they can utilize their access to data to demonstrate differentiated AI solutions.

Indeed, AI advances have the potential to drive operational efficiencies, speed up advances in R&D and improve patient care. Among the benefits could be reduced administrative costs (which represent about 20% of overall health care costs), improved clinical efficiency, expanded drug development and improved patient adherence in preventative care.

In radiology, integration of AI has enabled a material reduction in error rates and improved productivity as AI makes different mistakes than humans. This has enabled radiology practices and hospitals to pursue human-in-the-loop partnerships to improve outcomes at lower costs. An enterprise software provider for medical groups is leveraging AI to automatically flag underpayments, outdated fee schedules and missed revenue, helping practices capture the full amount they are owed.

The pace of change and impact from AI could vary significantly across subsectors, for example, with hospitals and research outfits gaining from automation and cost savings, even as temporary staffing companies face headwinds given reduced demand for workers.

Bottom line: *Players who can capitalize on AI-driven efficiencies and innovations could potentially generate superior value over time.*

Services: Could a Robot Do This?

The services sector covers a broad range of dissimilar industries, but a key similarity may be exposure to AI. Whether consultants assessing management practices or call centers fielding consumer complaints, AI could serve roles that reduce headcount or undermine profitability, depending on the business.

This shake-up has created pockets of stress in the market, but also clear beneficiaries. A call center-focused business is seeing weaker operations and lower trading levels as AI threatens to take a larger share of customer resource management work. In contrast, a monitored security services issuer is improving operations by embedding AI into customer support. Today, 90% of the company's service chats are processed by AI agents and nearly half are resolved without a live agent.

Overall, we believe industry structure, high barriers to entry, access to proprietary data and early AI integration could be important "moats" to maintain competitive advantage. In our view, the least-exposed issuers could be those with businesses that are asset-heavy (e.g., equipment rental, auto repair and security) or center around experiences (e.g., restaurants).

Bottom line: *We are looking to competitive advantages or barriers against AI usurpation such as proprietary data, unique expertise or high switching costs.*

Utilities: Demand Will Drive Growth, Innovation

In our view, AI-driven demand for power could produce widespread benefits across the utilities sector. Given the challenge of introducing additional generation, the value of existing assets has appreciated, favoring older and/or historically more challenged utility credits. We expect a wide range of power-generation technologies to be beneficiaries.

That said, resilience will likely be an issue, as the massive power load required by AI data centers could test electrical grids and lead to affordability concerns for consumers. This, in turn, could drive further regulatory and political uncertainty, potentially leading to reform measures across various jurisdictions.

Given the pressing need for more electricity, we anticipate that tech companies and utilities will look to alternative energy and bespoke generation models for relief. Service companies that support utility end markets could benefit from increased demand for new products and services associated with load growth and replacement of aging equipment.

Bottom line: *Demand for power could potentially prove broadly favorable for utility credits even as resilience and regulation are issues to watch.*

Amid AI-Generated Turbulence, Execution Will Be Key

For asset managers, we believe that collaboration across sectors, geographies and disciplines can help in assessing the acceleration of AI's development and its investment implications in credit markets.

Broadly speaking, certain industries like software appear vulnerable to AI capabilities if not managed effectively while others like health care and utilities could see meaningful dividends even amid potential evolving regulatory landscapes.

Among specific issuers, we think companies with scale, entrenched competitive positioning, strong management teams and more advanced AI integration could be best positioned to navigate this shift. However, execution will be key, and is likely to help drive bottom-up opportunities in security selection across the non-investment grade market.

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