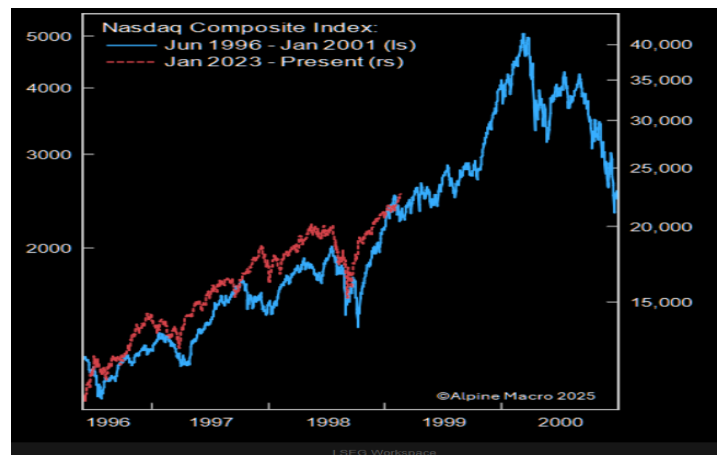
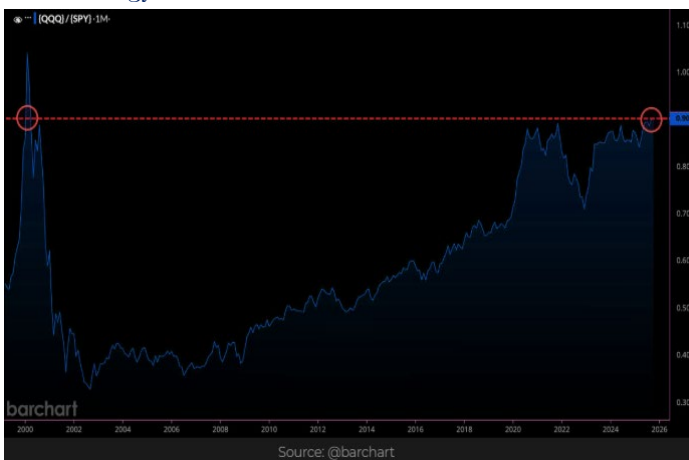


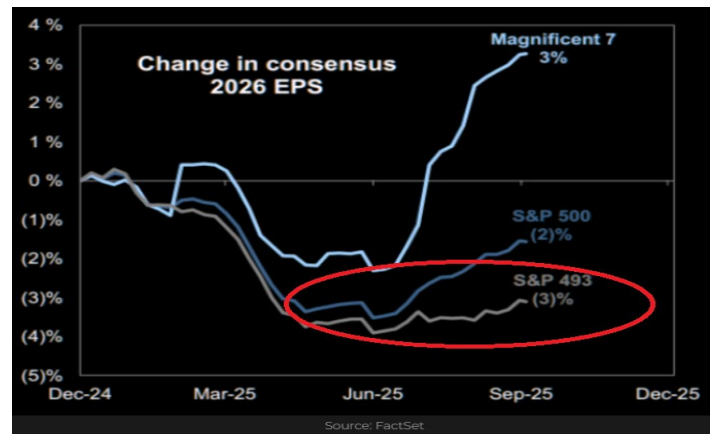
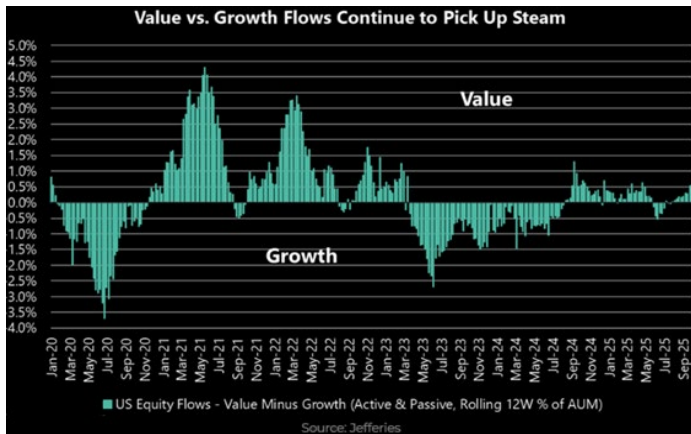
As the third quarter passes and the cycle continues its positive development, there are marked differences between asset sectors. Europe, Global Emerging Markets, and Technology shares are tied for first place, each delivering a 17% return. Japan and UK Equity Income follow, with sterling returns of 14% and 12%, respectively. The previously dominant Global and Global Equity Income sectors are lagging, but still show a healthy gain of 8–9%. Index-Linked Gilts and US Smaller Companies were the only sectors to post negative returns. The cycle turned in November 2023, nearly two years ago, and we are now entering the mid-phase, where returns should remain positive. Based on historical trends, this phase could last at least another three to five years. Dollar weakness continues to be a key theme, impacting US returns and boosting gold prices. Gold is not acting as a safe haven inflation hedge, but rather as a hedge against US dollar weakness in the complex Japanese yen carry trade. After decades of effort, inflation is finally returning to Japan and bond yields are collapsing. As a result, the carry trade is unwinding, with selling of dollars and hedging via gold. It is Japan that is driving gold prices, not safe haven status. Another dominant theme is the “gold rush” into super-powerful data centres designed to meet the anticipated future demand for artificial intelligence-driven services. A \$100 billion cross-investment between OpenAI and Nvidia has topped a staggering \$1 trillion capital expenditure phase into AI infrastructure. This figure does not include the critical electricity and water assets needed to power and cool these massive electronic “brains.” The scale of capital deployed and the size of the companies involved Microsoft, Oracle, AMD, Coreweave, Intel, as well as private firms like OpenAI and Elon Musk’s xAI bring back memories of the tech bubble of 1999, which was driven by the internet and a capital replacement cycle sparked by Y2K fears. Markets are discounting systems; they cannot accurately predict the long-term impact of AI on global business. Suffice it to say, however, that AI seems to be developing much faster than previously thought. Remember, all this investment is in infrastructure; we have not yet seen and will not see for a year or two, the true potential of AI software. Just as with the internet, the market will eventually shift focus from hardware to software. However, there is a price for everything, and the recent tech rally has reached a historic level.

Technology Shares



Twenty-five years after the last tech bubble burst, the Nasdaq as a percentage of the S&P 500 has finally reached the same level as it was in 2000. It’s all about AI infrastructure, can it continue? Yes, it can and a straightforward graphical comparison between now and then (albeit very unscientific) suggests it may have further to run. However, valuations are very stretched and vulnerable to any sign of a slowdown in the build-out. Ultimately, it is Amazon, Alphabet, Facebook, Microsoft and all the other software users, such as banks, that are in charge. If they don’t need the infrastructure, then there will be a problem. A new chip that uses less power could change the tech landscape overnight. The lack of electricity and even water could bring this \$1 trillion build-out to a shuddering halt. Consumers and especially businesses, will need to adopt the new AI software, which hasn’t even been written yet. Much of the future AI cash revenue is purely guesswork. There are, however, glimpses of the capabilities appearing. HSBC recently used some experimental AI software to undertake complex bond valuation calculations in minutes rather than the usual weeks. It is this application of AI software that will determine whether this trillion-dollar investment was worthwhile or not. From an investment perspective, where risk must be managed, these shares are very expensive and at risk if there is any sign that this steamroller is slowing. A global index fund now has approximately 43% of its assets invested in AI-related companies (according to JP Morgan).

Value versus Growth



There are a few signs that a rotation out of technology and into other sectors is beginning to gain early momentum. The first chart shows the flow of cash into US equities by share class type. Growth is dominated by Technology, while Value includes Healthcare, Industrials, Consumer Staples, and similar sectors. Since last year, there has been slightly more buying of Value than Growth. So far, this appears to be bargain hunting rather than a strategic asset allocation shift. However, as the second chart shows, we are now seeing a key market driver, earnings growth, for these other sectors just starting to rise. It is still very early days, with the Magnificent 7 continuing to accelerate, but it wouldn't take much of a slowdown in their earnings for a larger shift in asset allocation to occur.

The Cycle



The last cycle was a long one, starting just after the Great Financial Crisis in 2009 and ending when Russia invaded Ukraine and unleashed inflation. The current cycle began when the US Federal Reserve Bank stopped raising interest rates at their meeting in mid-October 2023. This chart shows the rate of change in developed market corporate earnings (key market driver) compared to the global manufacturing PMI indicator. The shaded areas represent recessions. As always, the pattern is remarkably similar: an initial big boost to the percentage change, followed by a steady progression as the cycle expands and develops. The clear message here is that all is normal and there is plenty of time left in this cycle.

Markets

October is usually the most difficult month of the year for markets. So far, aided by billions in AI infrastructure expenditure, it has started positively. However, we need to be wary that the impact of the Trump tariffs seems to have been forgotten by the markets, despite deals with China and India still outstanding. Furthermore, the US government has reached its debt ceiling and needs to negotiate with Senate Democrats to have it raised. It is also US and UK results season and predictions about how tariffs will affect corporate earnings will finally be proven right or wrong. There are many variables at play in the markets at present. Technology shareholders are nervously waiting for a peak, while value investors are nibbling at bargain prices. The Fed hopes its pivot from inflation to employment is sustainable. Businesses hope that the Trump tariffs are "one and done." The UK Chancellor hopes that US and European economic growth will accelerate and help bail her out. Traders, in particular, like to drag prices down to load up on cheap stocks ahead of the Thanksgiving weekend and the year-end run, but they are still faced with a complex economic picture, and "fear of missing out" remains the dominant emotion. Ultimately, inflation data will be the final arbiter; for now, the results season needs to be good. *October 2025*

This information is not intended to be personal financial advice and is for general information only. The value of an investment and the income from it could go down as well as up. The return at the end of the investment period is not guaranteed and you may get back less than you originally invested. Past performance is not a reliable indicator of future returns.

