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“Should have listened to me...”



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Image source: By Gage Skidmore from Peoria, AZ, United States of America - Donald Trump, CC BY-SA 2.0, <https://commons.wikimedia.org/w/index.php?curid=52647057>

# Seismic shifts



**Great rotation**

Capital reallocation  
from the US



**Fiscal fragility**

Is the risk-free rate risk  
free?



**Productivity resurgence**

AI bubble or double?

The world has changed...portfolios have not...

Diversification comes at a discount

# Run it hot!

Despite Deepseek, Liberation day, Credit cockroaches and Bubble trouble...



## Performance:

- Gold up +56%
- International stocks +30%,
- Bitcoin +17%,
- US stocks +15%,
- HY +9%,
- IG +10%,
- Govvies +7%,
- Commodities +7%,
- cash +3%, USD -9%,
- oil -10%



## Positioning:

- Low-quality/retail rally – FOMO growing (MEME, bitcoin), IPOs, M&A, junk bonds, China stocks, animal spirits.
- 2026 – ‘Goldilocks’ predicted
- Cautiously pessimistic – cash balances remain high.



## Politics:

- From tariffs (recession) to OBBB (growth) – midterms looming, popularity waning.
- Growing hopes for Ukraine peace deal.
- Fiscal stimulus and a ‘compliant’ Fed.











**The market barbell: AI (Artificial Intelligence) and IA (International Assets)....**



Artificial Intelligence

# Health and Safety warning

Gotta love a 'Next Big Thing' ... a sample selection:

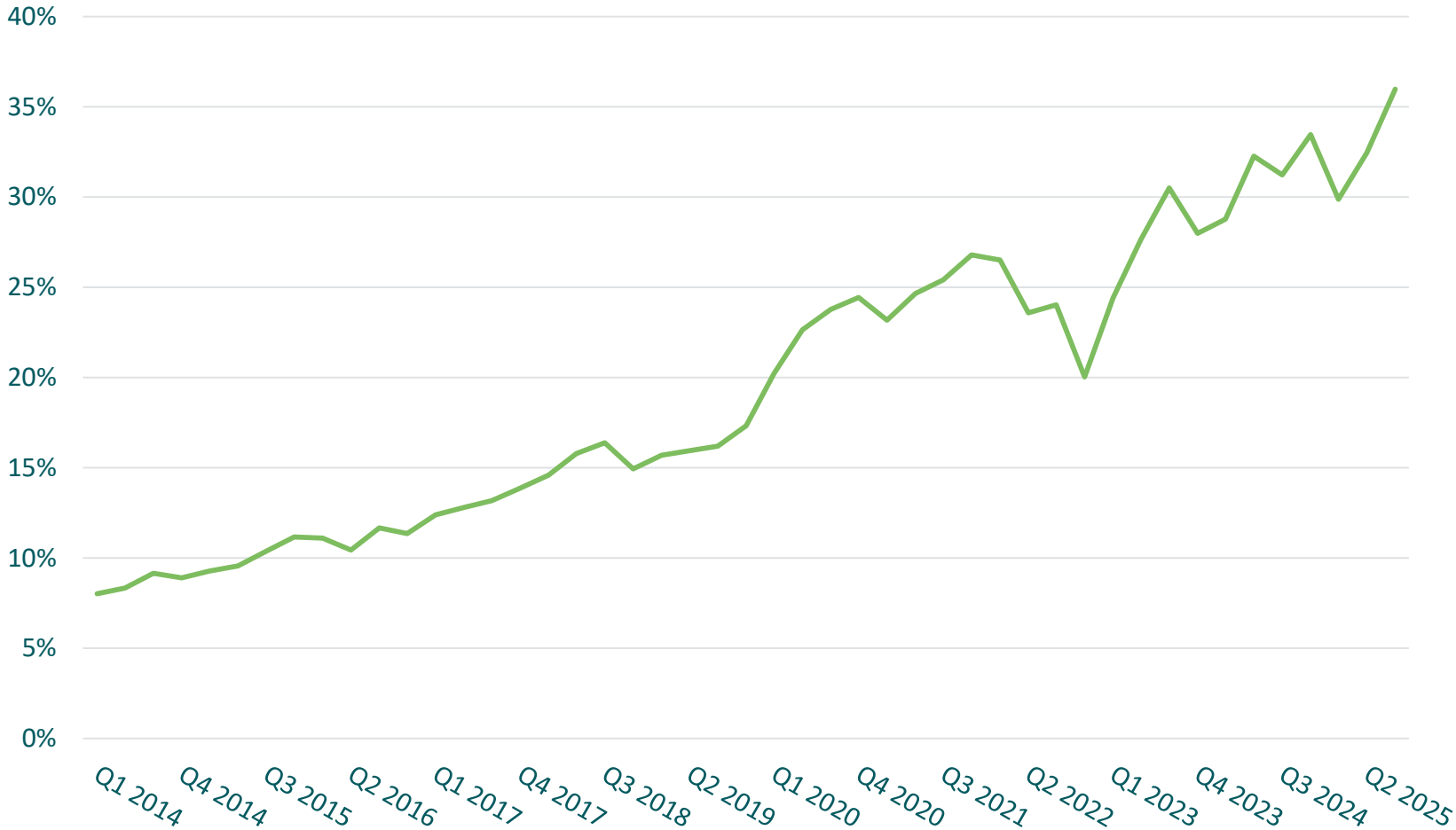
1		1840s Railways (Britain)	6		1960s Electronics/Transistors (USA)
2		1860s Railways (Britain and USA)	7		1980s Consumer technology (Japan, Global)
3		1870s Telephone/Telegraph (Britain and USA)	8		1990s Dotcom (USA, Europe mainly)
4		1880s Artificial light (USA)	9		2020s Covid technology (Global)
5		1920s Electricity and radio (USA)	10		2022- Artificial Intelligence (Global)

# The diversification 'deficit'

## The US is flying on a single AI engine

Past performance is not a guide to future performance

### The Magnificent Seven: share of the S&P 500 Index



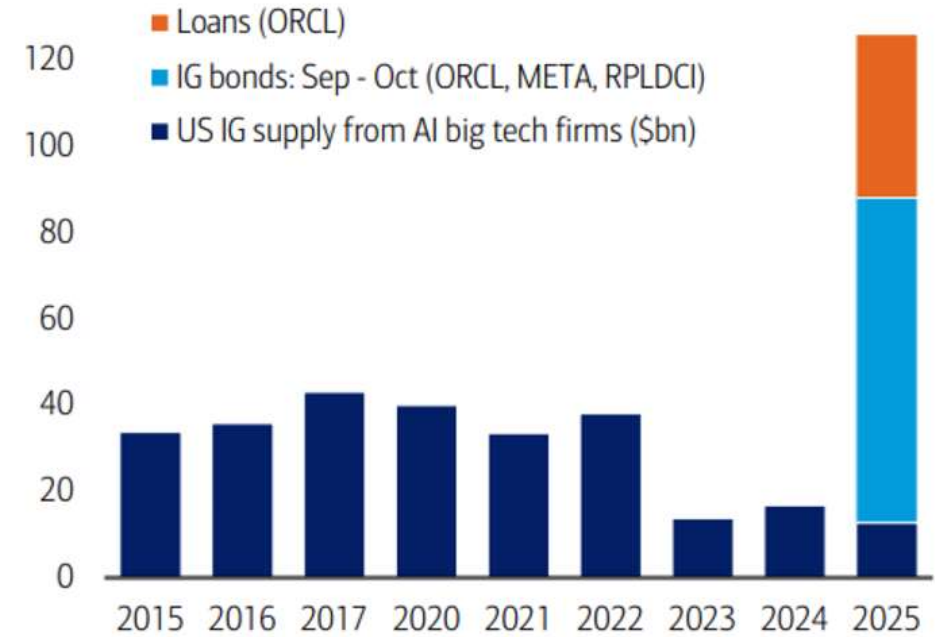
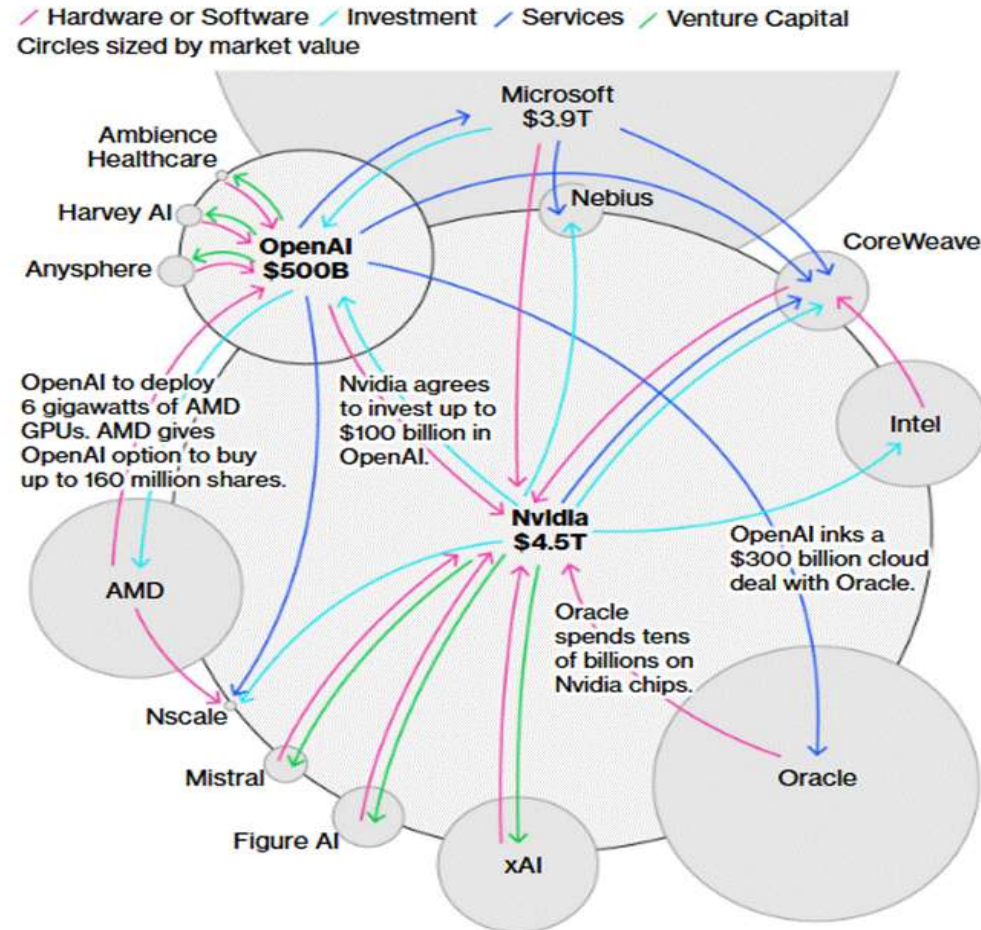
Source: Bloomberg, October 2025.



# What is the definition of Artificial?

“False, insincere”

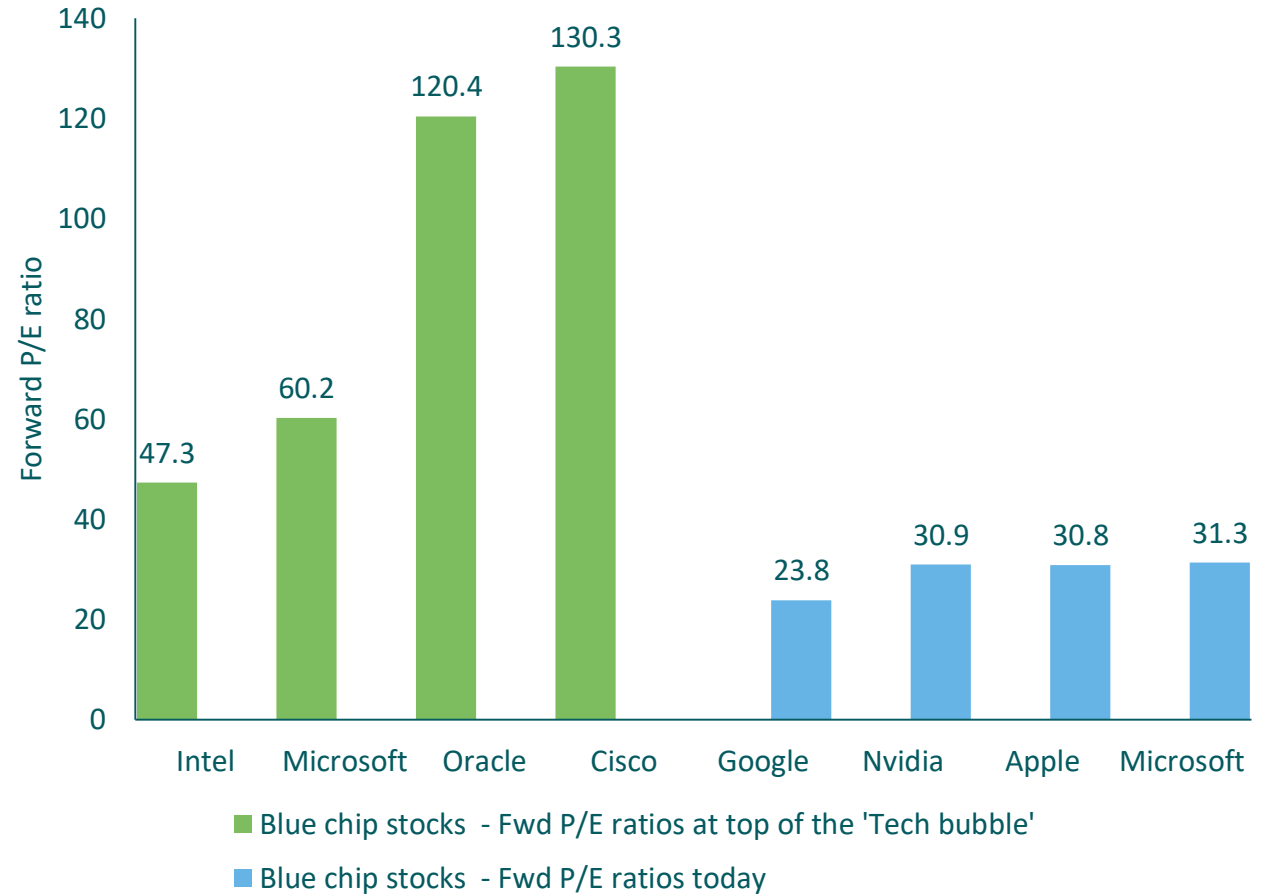
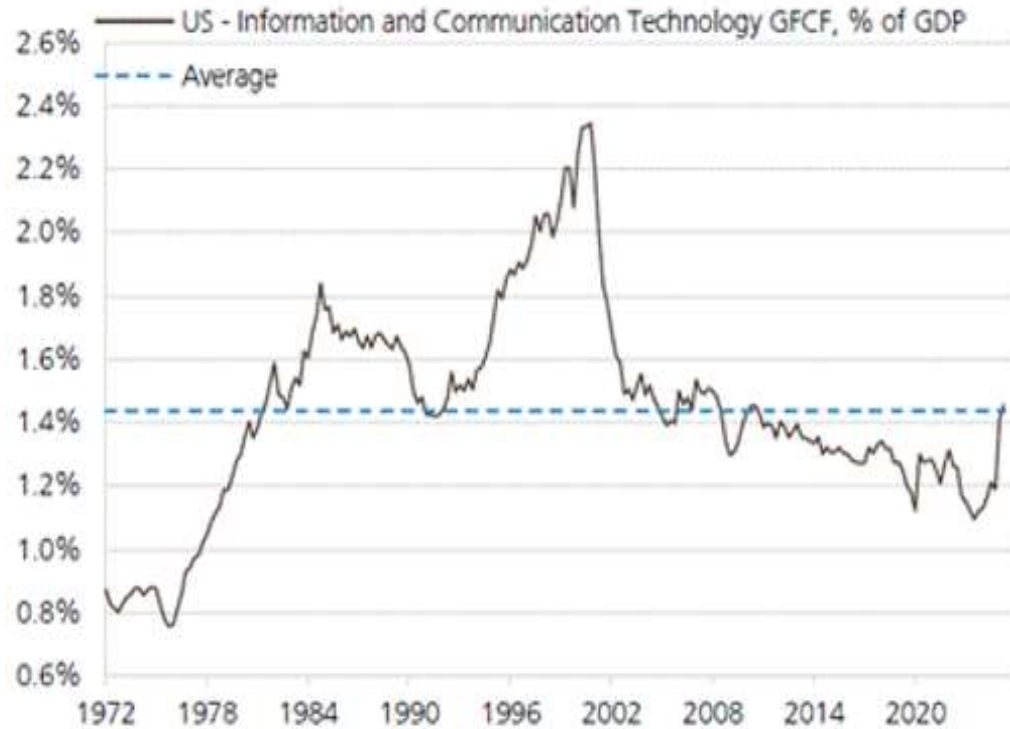
## How Nvidia and OpenAI Fuel the AI Money Machine



# AI bubble or double?

Vendor finance fears, capex boom but valuations realistic

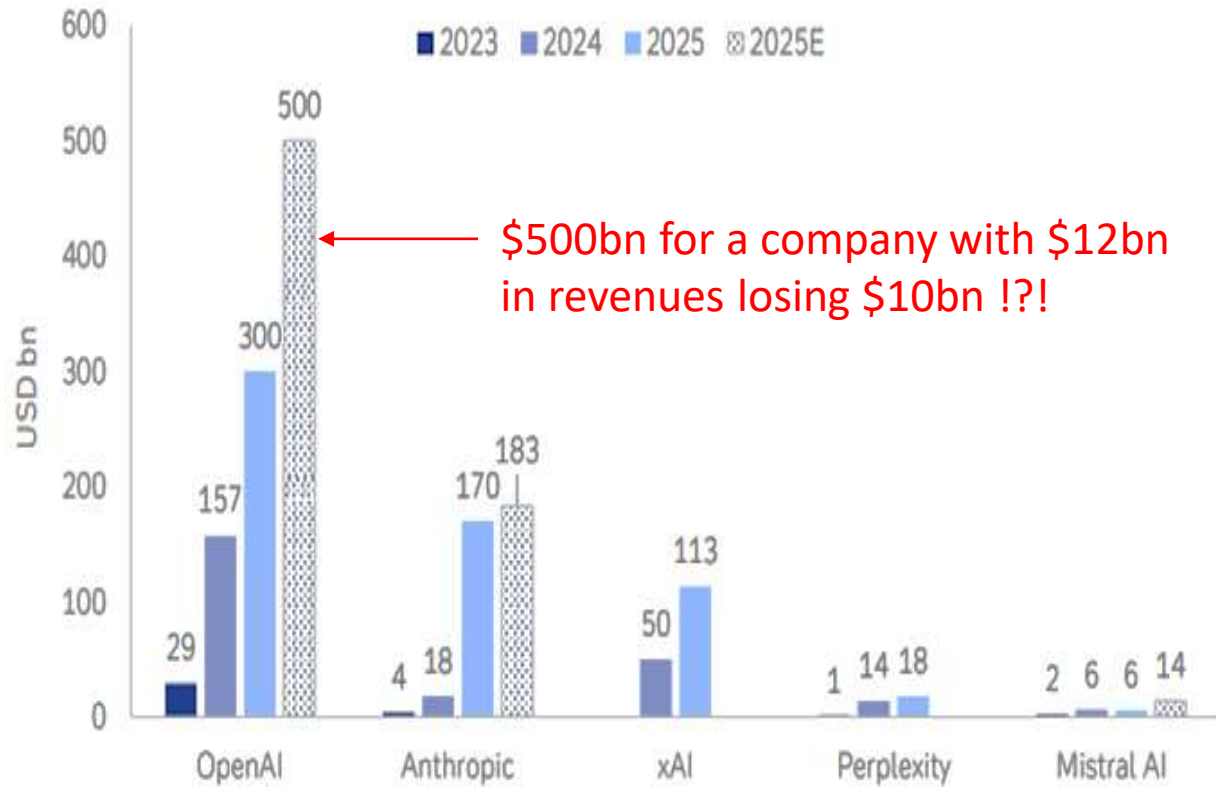
Tech investment as % of GDP is close to its long-term average, unlike in 2000





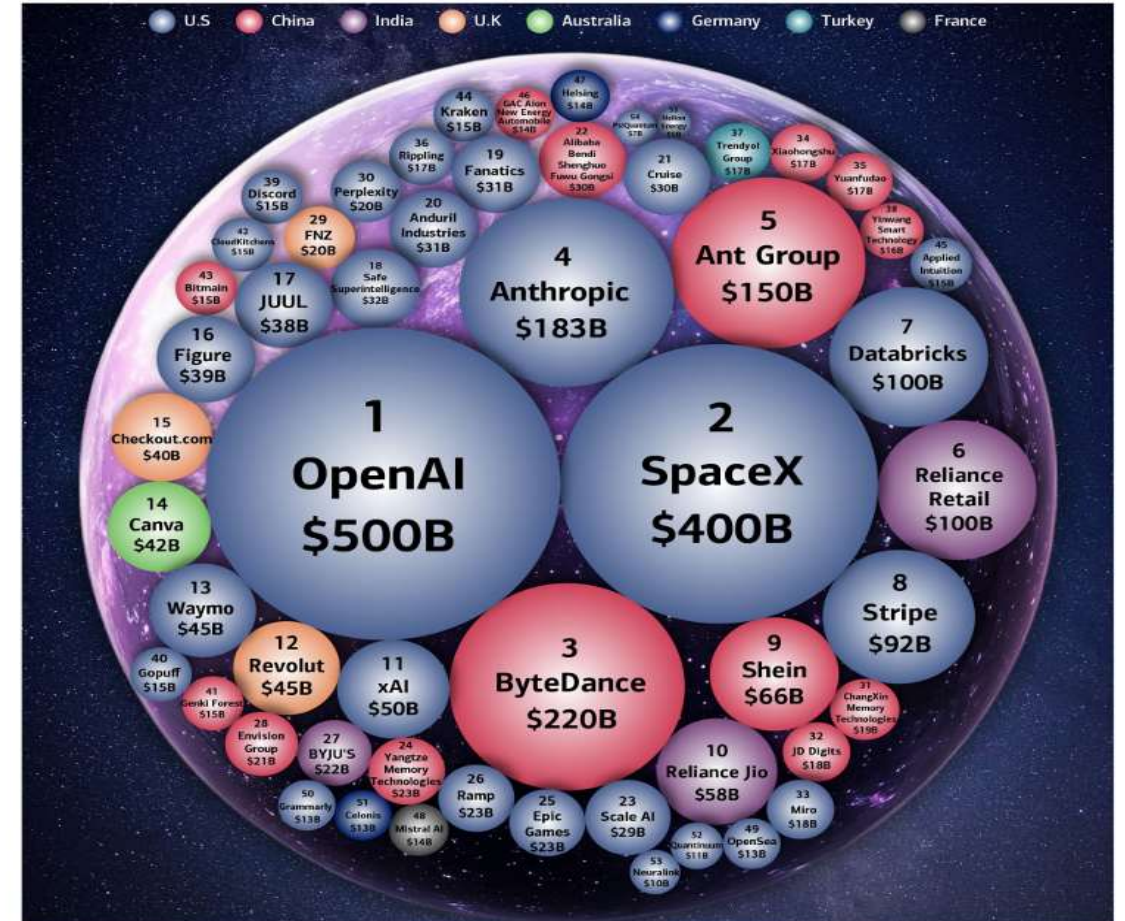
# Is the 'bubble' in private markets?

Valuations of some privately held AI companies are rising rapidly



Source: Deutsche Bank, ICE Data Indices, September 2025, BAML October 2025.

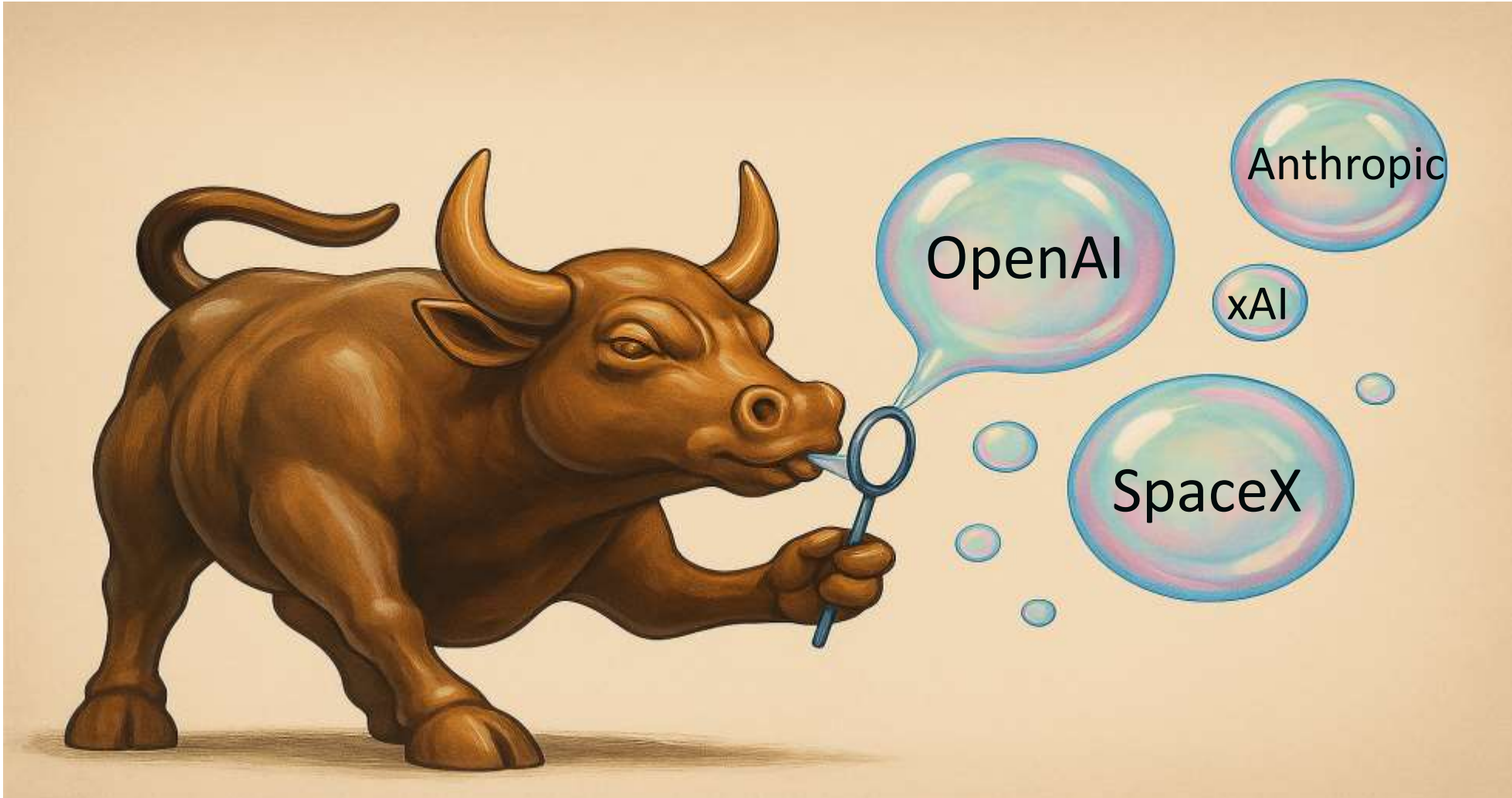
## 55 Unicorns worth \$2.8tril



Source: BofA Global Research, Crunchbase (data as of 13 October 2025). NOTE: valuation data from Crunchbase

Lots of 'bubbles'

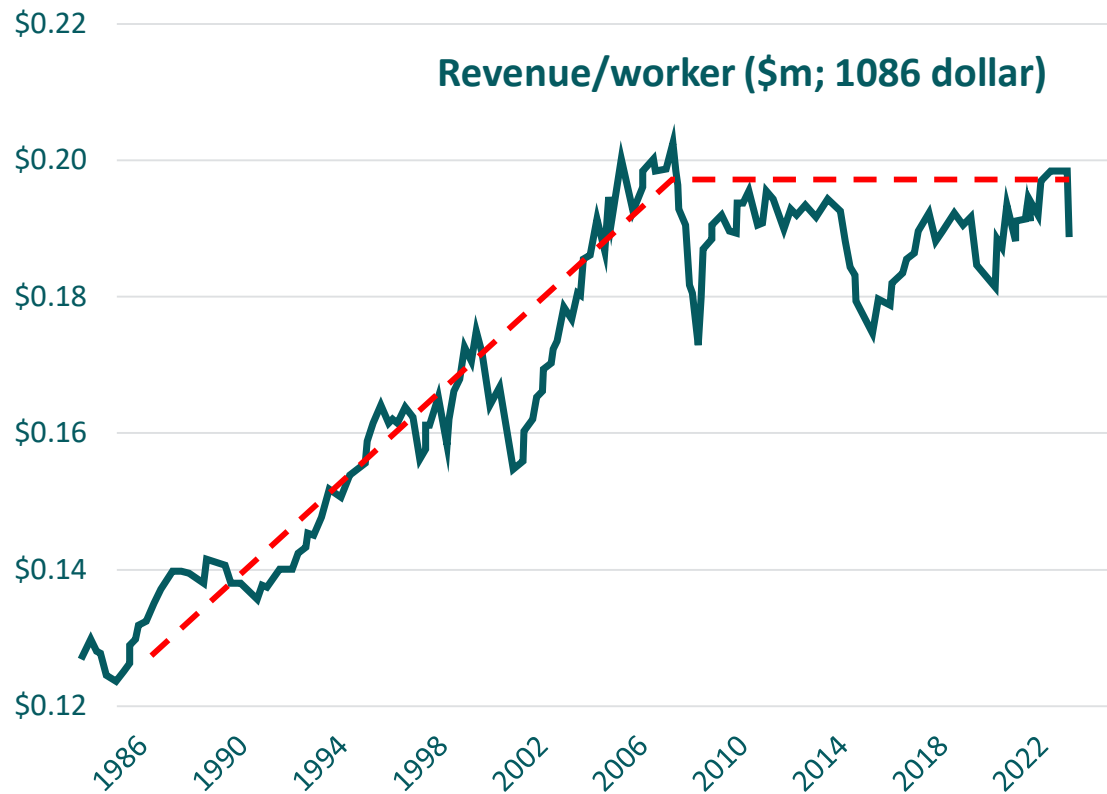
But bubbles need a needle!



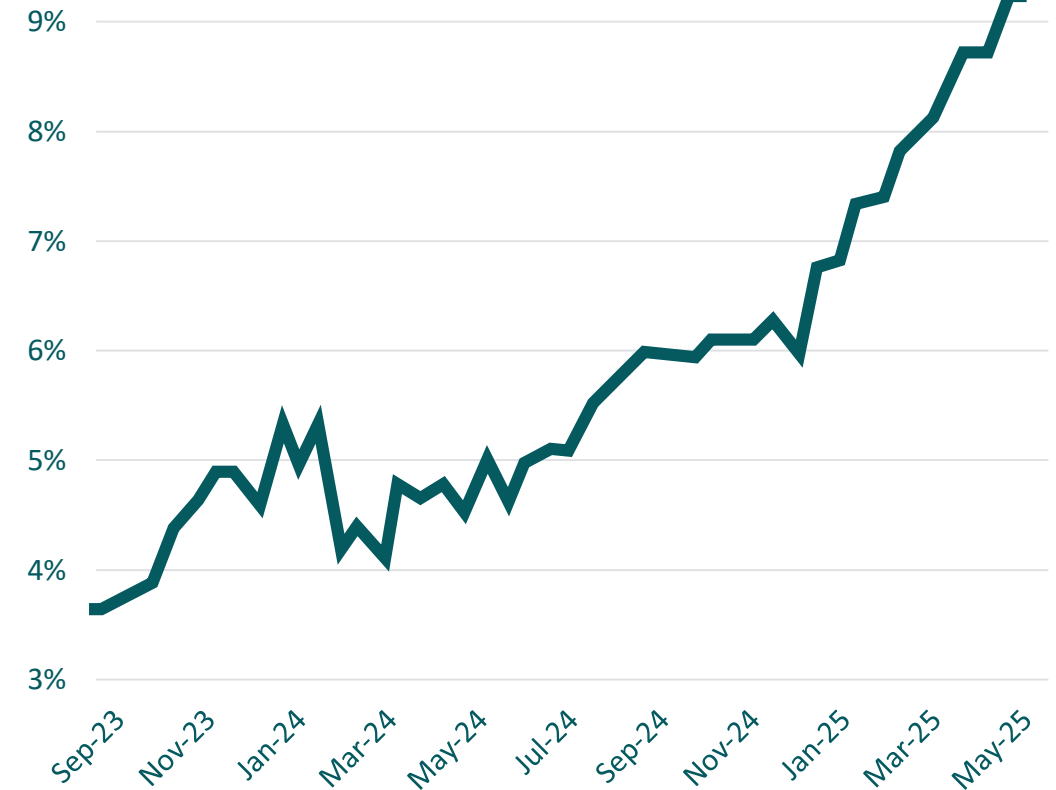
# Productivity – the cheat code for growth

+\$500bn of hyperscaler capex surely has to help

1980s to early 2000s: labour efficiency gains



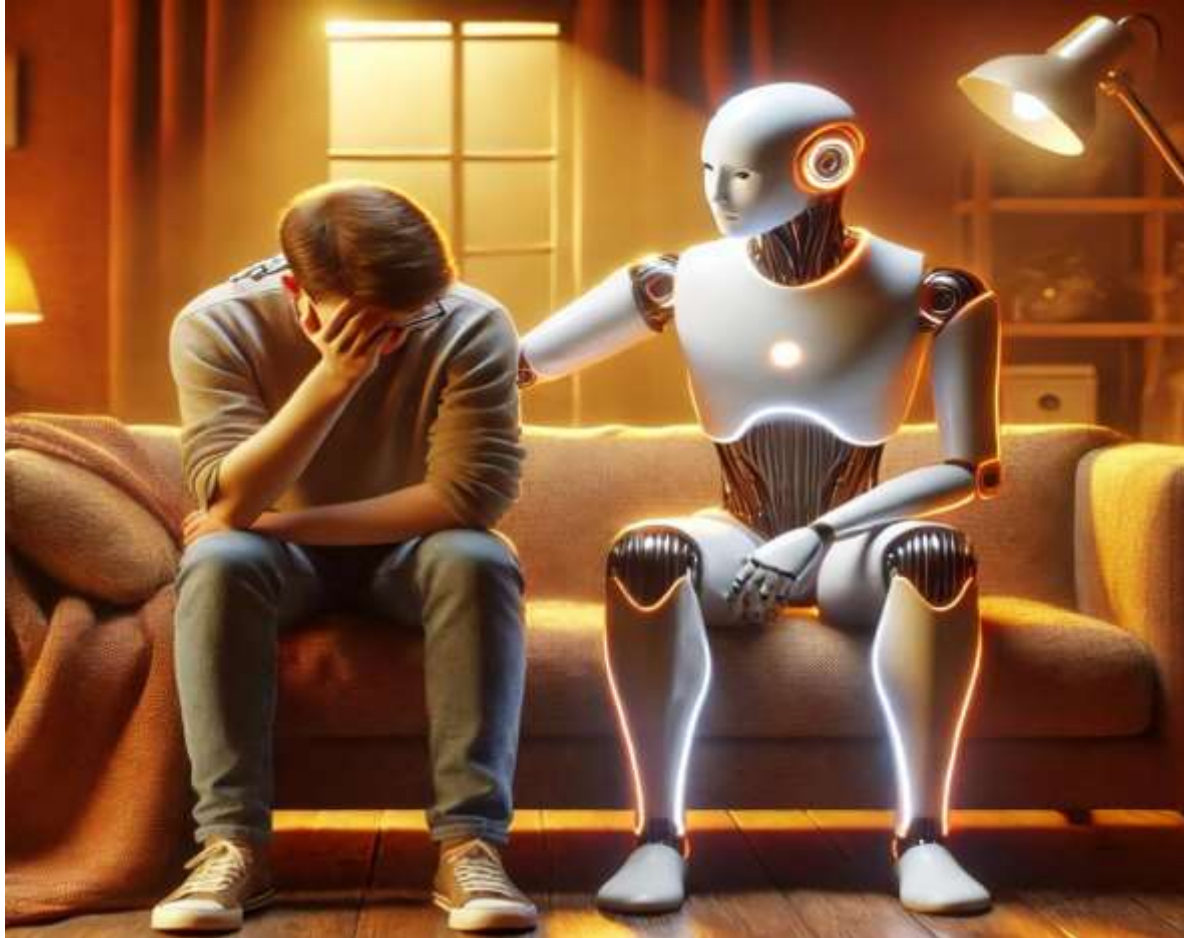
Share of companies using AI to produce goods or services





Mind the gap

So how do we get to this....



....with this??



New economy needs the old economy

 **M&G**  
Investments

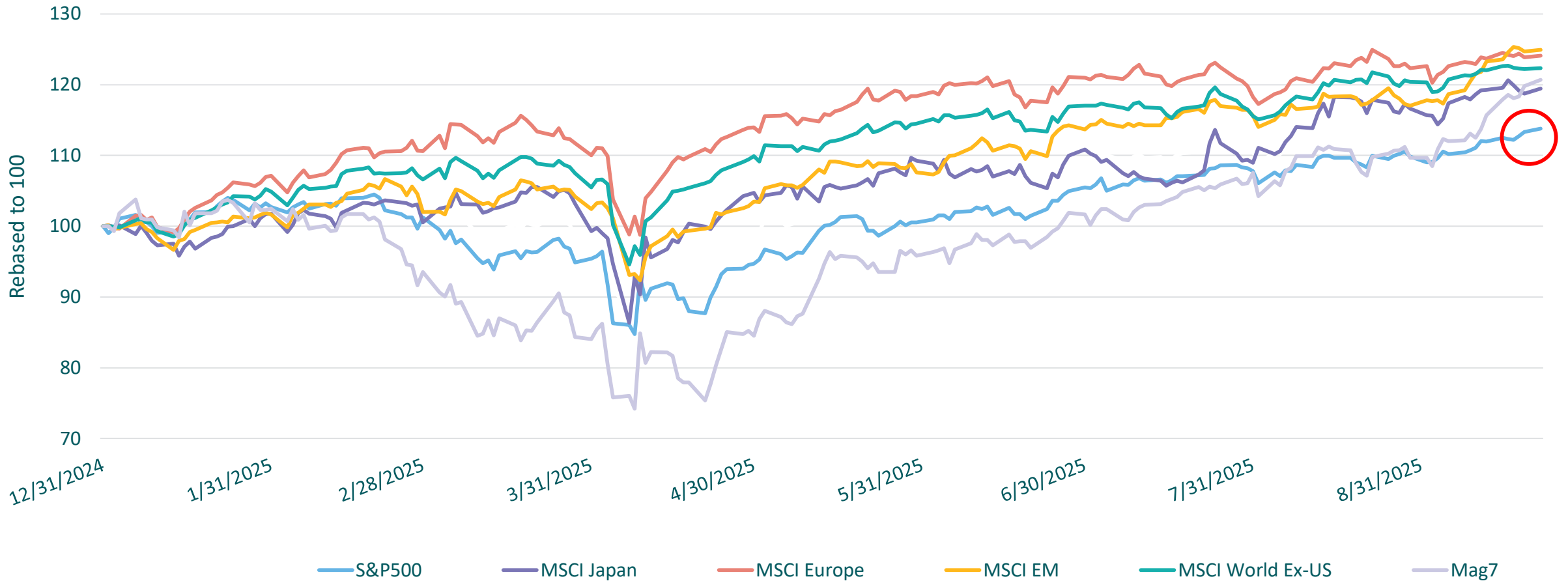
**I**nternational **A**ssets

# International equities – spiritual home of old economy

## S&P500 the laggard so far this year

Past performance is not a guide to future performance

### YTD returns for equity indices in USD

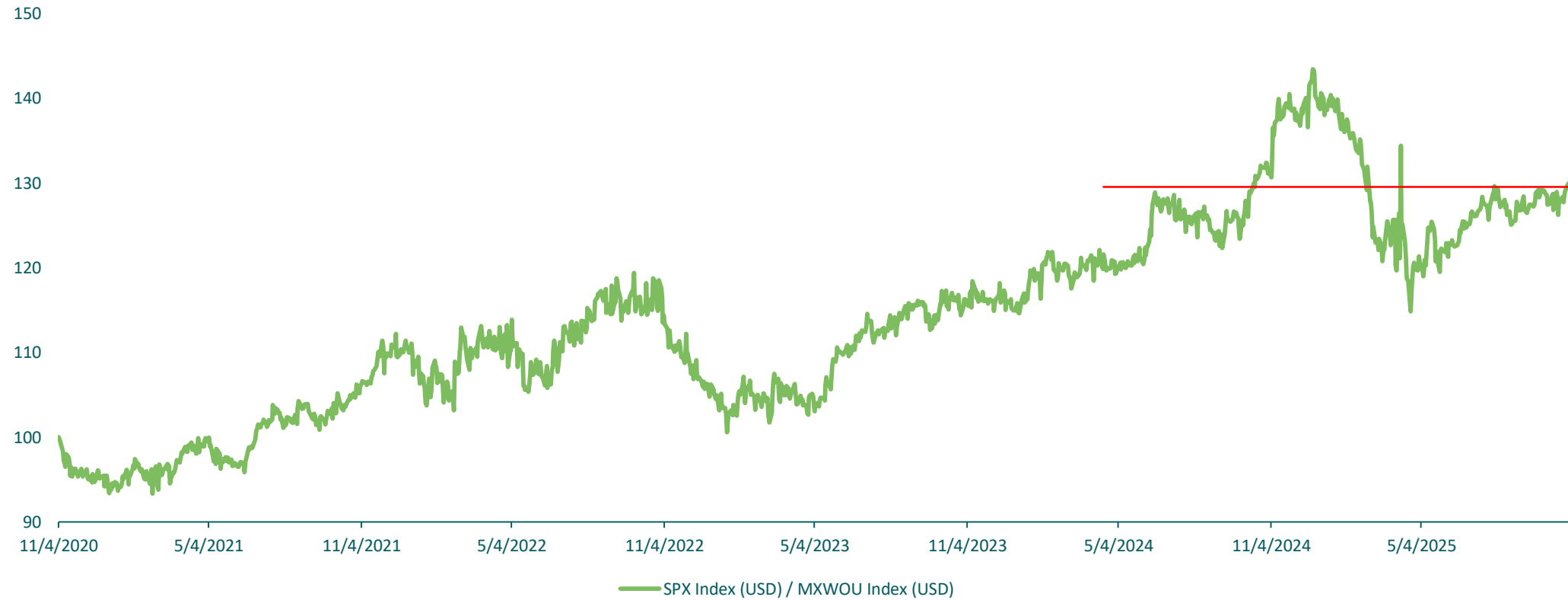


# International equities

## US equities relatively flat for over a year

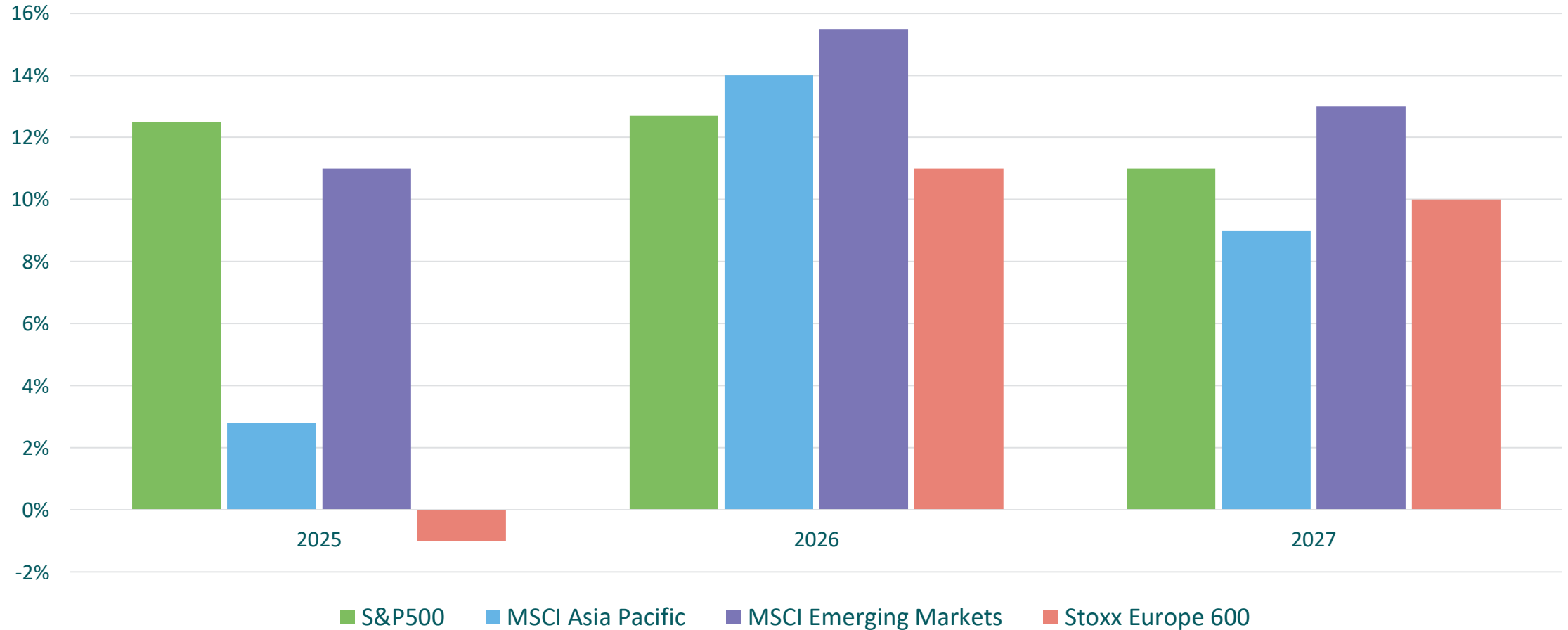
Past performance is not a guide to future performance

### S&P500 vs MSCI World in USD



# Earnings growth set to converge globally

US earnings growth should no longer dominate other regions

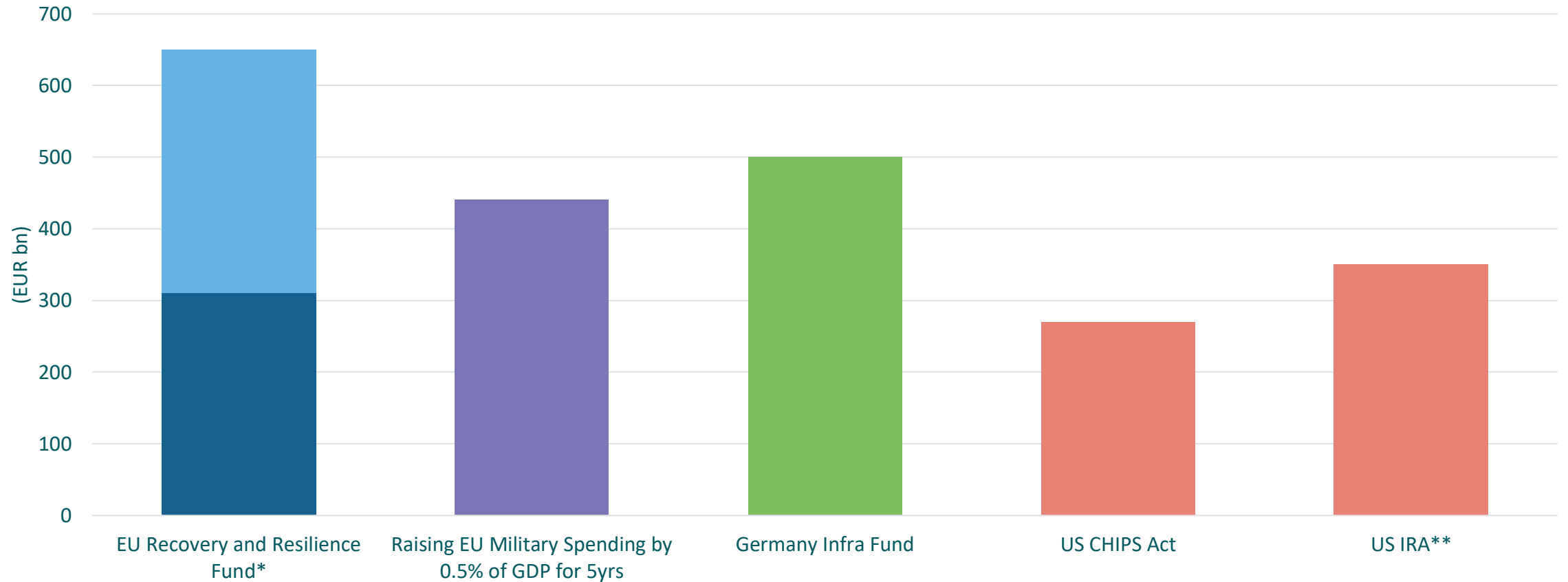




# “Whatever it takes 2.0”

Finally, Europe has both monetary and fiscal stimulus to catalyse value

## Major Fiscal Programmes/Proposals



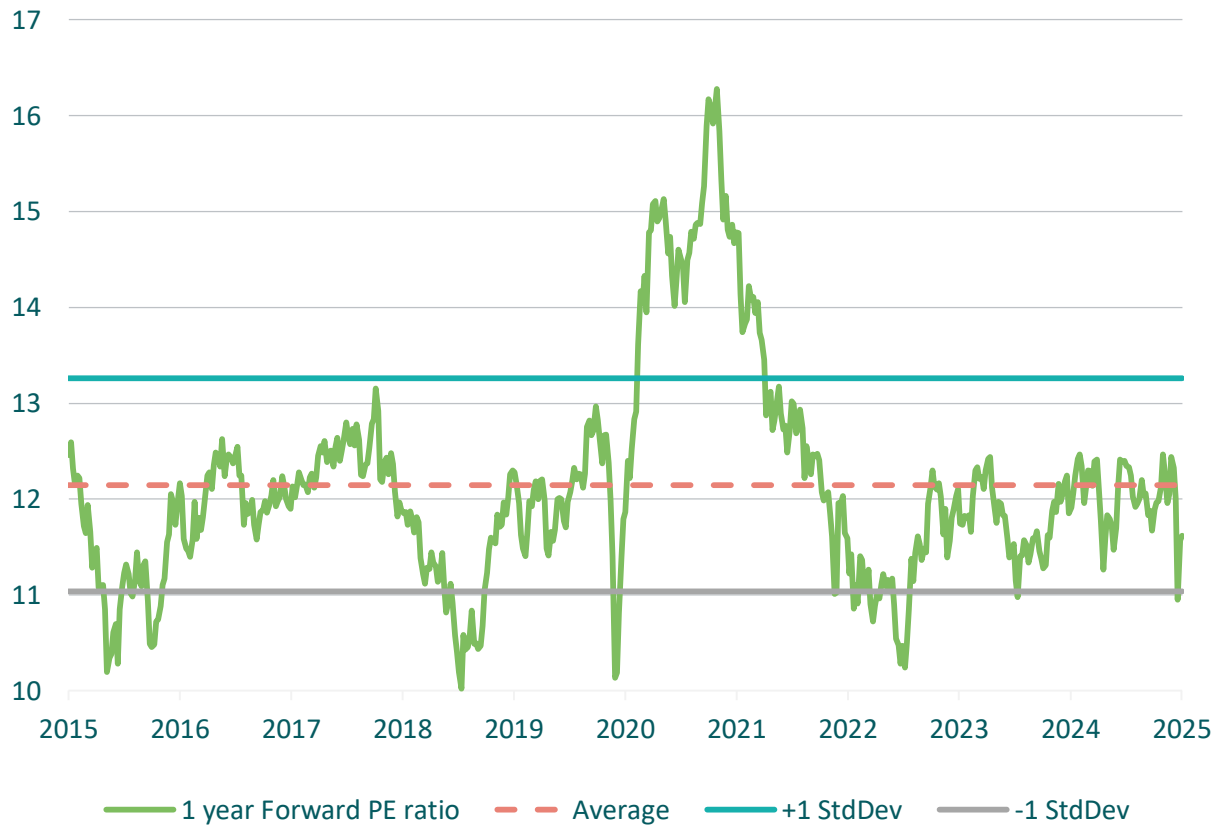
\*Lighter blue indicates fraction of RRF still to be disbursed / \*\*only energy and climate initiatives

Source: UBS, August 2025/European Commission, Havers Analytics, Goldman Sachs Global Investment Research

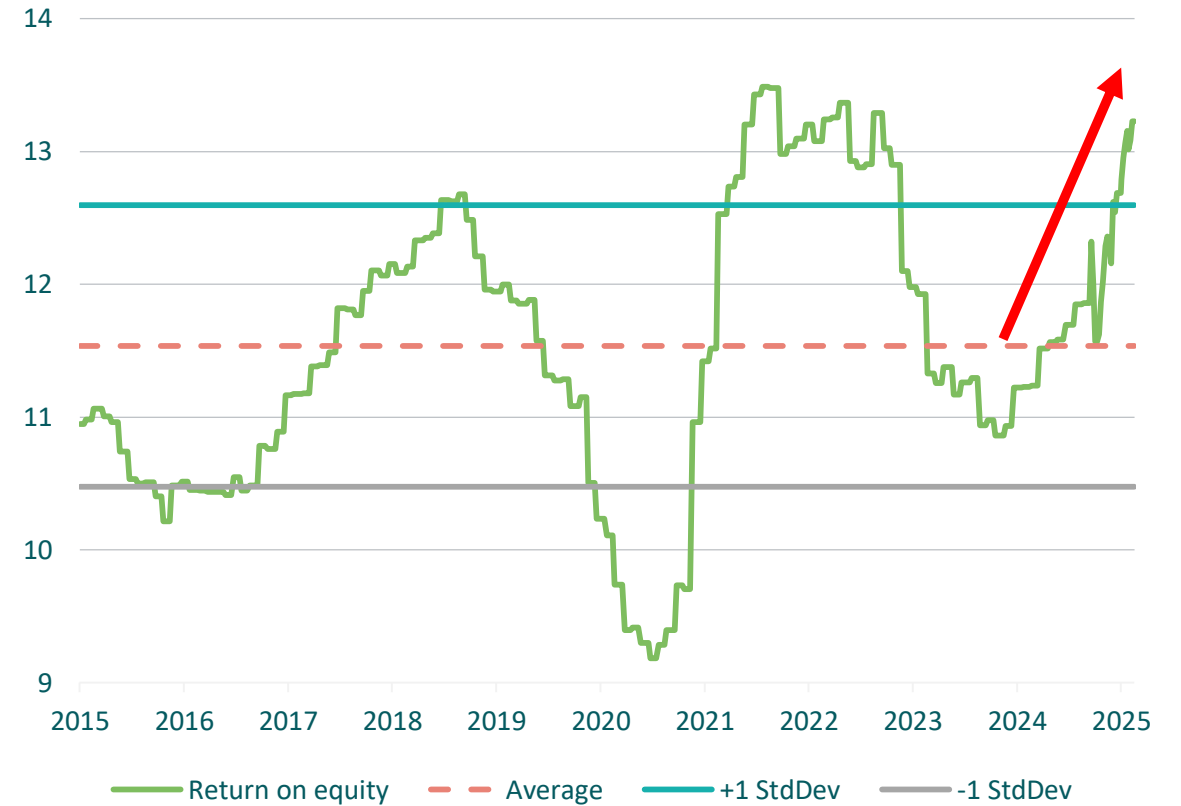
# Emerging markets are cheap

## And the returns profile is improving

MSCI Emerging Markets (\$) 1 year forward PE ratio – 10 years



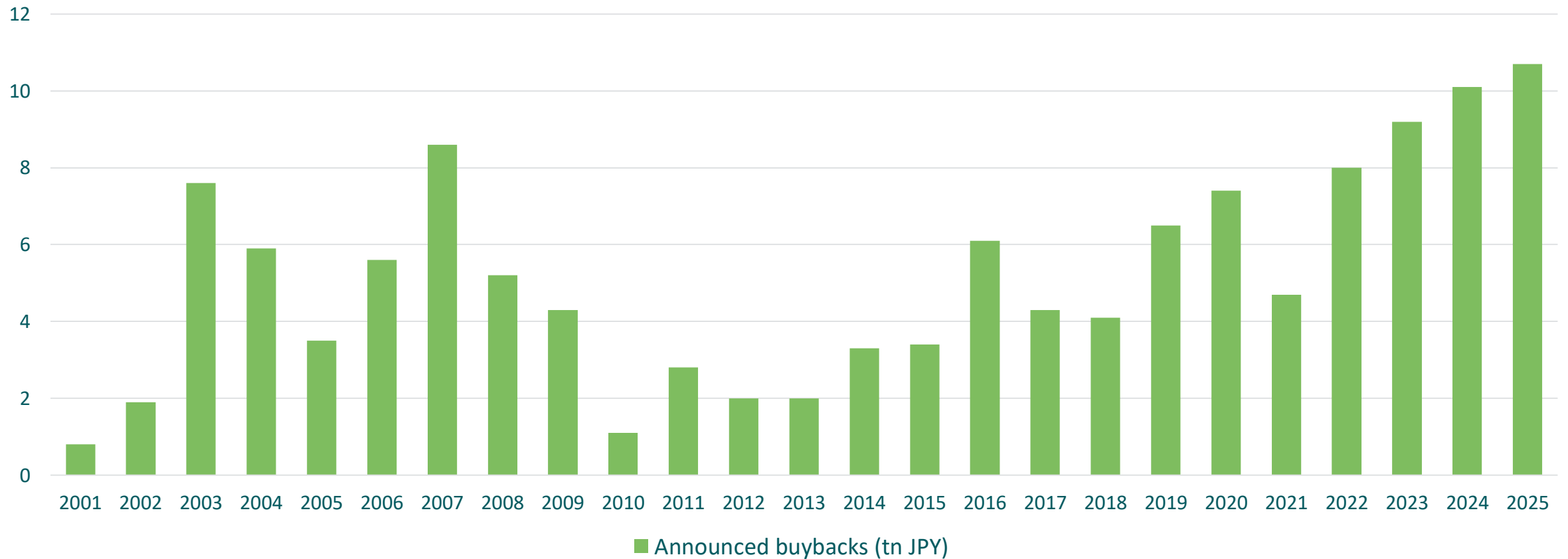
MSCI Emerging Markets (\$) return on equity – 10 years



# Japan escapes deflation

## Buy Japan before it buys itself

### Announced buybacks – TOPIX universe



# From rolling recessions to recoveries

## Growth

- US consumer and corporates remain the engine of global growth
- Balance sheets strong, margins still rising (tariffs managed), banks are liquid and profitable

## Financial conditions

- Lower real rates, tight credit spreads (low recession risk), equity market returns

## Credit Cycle

- Fiscal impulse positive: austerity gets ‘voted out’
- Credit impulse improving: capex and corporate borrowing
- Monetary impulse: 76% of central banks cutting rates

## Market structure

- HF leverage moderate, low volatility means systematic re-gross, retail buys every dip
- Valuations not a constraint in liquidity-driven passive-orientated environment.

## Technology & Speculation

- AI theme reflects both genuine productivity potential and speculative flows (Oracle the ‘ring bell moment’?)
- Capital flow, confidence, quasi-religious fervour, and staggering gains are hallmarks of bubble.
- But unlike past cycles, the fiscal, monetary, and credit backdrop supports continuation—until it doesn’t (☺)



# Too much money chasing too few stocks

Demand > Supply = Price up

- Global DC pension assets are c.\$58tr and rose about 5% last year as employment trends remain healthy.
- Assuming 75% are invested in equities and 60% of those in US equities = \$1.2tr in net US equity buying per annum.
- Add that to the same number of net buybacks and it's easy to get to a 4% of market cap every month.
- With very few IPO's the market is effectively 'de-equitizing'.



The value of investments will fluctuate, which will cause fund prices to fall as well as rise and investors may not get back the original amount invested.

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