



October 2025

# Reflections and Insights\*

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*I met a traveller from an antique land,  
 Who said—"two vast and trunkless legs of stone  
 Stand in the desert. . . . near them, on the sand,  
 Half sunk a shattered visage lies, whose frown,  
 And wrinkled lip, and sneer of cold command,  
 Tell that its sculptor well those passions read  
 Which yet survive, stamped on these lifeless things,  
 The hand that mocked them, and the heart that fed;  
 And on the pedestal, these words appear:  
 My name is Ozymandias, King of Kings;  
 Look on my Works, ye Mighty, and despair!  
 Nothing beside remains. Round the decay  
 Of that colossal Wreck, boundless and bare  
 The lone and level sands stretch far away."*

– OZYMANDIAS BY PERCY BYSSHE SHELLEY

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This is only our third review since Donald Trump returned to the White House, but it feels much longer than that. With the world's indispensable economy an unwitting participant in the new reality, the task of trying to scribble anything sensible about what might happen has become an exercise in magical thinking. Unfortunately, though, scribbling sense is what this Reflections and Insights is supposed to do, so, subject to larger-than-usual caveats, here goes...

The U.S. economy is not in fine fettle, but nor is it moribund. It would be fair to say that its fettle would have been finer without the unnecessary distraction of tariffs, but there is enough paddling under the surface to suggest that growth will continue. Tariffs themselves are one side of the problem – it is the will-he/won't-he game, which is more likely to cause a leak below the waterline. Even when things are apparently settled, new tariffs appear, either to try to influence local politics (such as Brazil) or, for reasons which elude this review, films? (The U.S. has a large trade surplus in the film industry, and what is a foreign-made film anyway?) The chaos and uncertainty surrounding economic policy are the opposite of

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what corporations need when it comes to making business decisions about investments. Of course, we hear lots of talk about big numbers, but most business leaders (and their projects) expect to outlast the administration and would probably rather wait for greater certainty, while bamboozling the media and politicians by bandying about unimaginable numbers, but doing very little.

Evidence points<sup>1</sup> to tariffs largely being paid by U.S. consumers. Foreigners are not paying these duties and, while U.S. importers may be picking up some of the tab, this is why inflation remains a modest problem. The more fiddling about there is with tariffs, the longer the inflationary impact will last. In a steady state, the adjustment to prices from tariffs is a one-time adjustment, which does not embed higher inflation in the system.

A combination of some growth with inflation, which may well moderate, suggests that there is room for further modest interest rate cuts, but not to the extent desired by Trump. The U.S. has a significant fiscal problem, the cost of which is being felt in the weak U.S. dollar (and the corresponding increase in the price of gold). This would only be exacerbated by inappropriate interest rate cuts. Economic policy, combined with interference in other branches of U.S. policymaking, risks undermining the hegemony of the U.S. Treasury market and dollar as the twin foundations of global financial stability.

Added to this mix is uncertainty about both the unstitching of the fabric of domestic institutions and the relationships the U.S. has with its allies. At the very least, the unpredictable behaviour from the top mandates a degree of caution and a search for broader alliances. At the more extreme end, it pushes countries towards the other global hegemon, China. This is clearly what is happening with India and with others in the so-called 'Global South' of developing countries.

### **THE U.S. CONSUMER REMAINS ROBUST**

Given all this, why is the U.S. not in more trouble? There are two major factors at play. The first is that the U.S. consumer (outside the poorest deciles) remains in robust health. Generally, corporate

earnings have been rising, debt has been falling, and the signature Trumpian budget bill provided tax cuts to the upper echelons by income. These consumers are still spending and represent a very large part of the U.S. (and global) economy. This helps to keep the economy ticking along. The underlying picture is bolstered by the labour market, which, although somewhat weak, seems to be in stasis – employers are neither hiring nor firing in a significant way.

The second factor is capital spending. Nowhere are the big numbers bigger than in the sums being talked about by the tech behemoths. These companies are spending on building data centres for Artificial Intelligence (AI) and the grid capacity required to supply energy to them, at a scale which is quite terrifying. The One Big Beautiful Bill Act<sup>2</sup> also allows companies to expense the whole of any capital spending in the year it is spent. This is a significant incentive to invest in future growth via capital expenditures. As yet, the bulk of the spending is in the tech sector, and it's a fair bet that if the drumbeat of economic chaos stilled a little, this could spread out across the economy. One estimate posits that the bulk of growth in the U.S. economy has come from the tech spend (even though a lot of the equipment has to be imported and attracts tariffs).

### **BIG TECH FACING SLOWDOWNS IN CORE BUSINESSES**

In previous reviews, we have speculated about whether this spending on AI will generate returns for its owners, and it may be worth revisiting this issue briefly. The big tech companies are all facing slowdowns in their core businesses, simply because they have become so large and have huge market share in the walled gardens they own. Most of the revenues of the big players are either seeing price competition (cloud computing/online retail) and/or lower growth (digital advertising). Arguably, AI has come along at an opportune moment, but instead of each of the largest companies squatting monopolistically in their own domains, they are all competing with each other in this new area. No one dares fall behind in technology, no one dares fall behind in building data centres, the result of

which is that the bulk of the free cash flow in the sector is being invested in an area which is both more competitive and more uncertain than where they have come from.

None of this is to comment on how quickly or extensively AI will be adopted. What is clear, though, is that the main beneficiary of all this investment and the competitive landscape it's building is likely to be the user of the service rather than its provider. This is, of course, how market forces are supposed to work, although they, very clearly, didn't work as the tech leaders exploited the monopolies on their home turf.

This all raises the question of whether markets are in the grip of a mania. Arguments revolve around how these same tech behemoths represent a very large part of the stock market globally, and how the adoption of AI will transform the world. At the moment, the seven largest companies in the U.S. are larger in terms of market capitalisation than the seven next largest markets (beyond the U.S.) put together.

### **HISTORY REPEATING ITSELF**

Markets have been more concentrated before.

At the start of the 20th century, railroads represented between 50 and 70% of the market in the U.K. and the U.S., respectively. The positioning of business success was were no different from those deployed today in AI – railroads were going to transform how the world worked. They were monopolies, and the adoption of a general-purpose technology had unlimited upside. They did indeed transform the world, but nobody foresaw how the internal combustion engine would, in time, unravel this story, and how oil stocks would become the monopolies the market craved. None of this is to say that AI will not be transformative. Indeed, the speed at which things are happening in the tech world suggests that many of today's graduates are ill-adapted to new working methods, a factor that could cause social problems as things develop.

So, the Magnificent 7<sup>3</sup> are a large part of the market; their growth rates are slowing; the new opportunities on which they are betting the ranch

are qualitatively different from those that drove growth in the past; the environment is more competitive, and valuations are high. It is no coincidence that active investment managers have been struggling to compete with passive providers in this type of market, and nor is it a surprise that flows into equity markets have favoured index funds. What can possibly go wrong?

One of the things adolescent investors can learn at their grandparents' knee(s) is that when everybody thinks the same thing, think the opposite. Confusingly, they also learn the famous dictum of Keynes, "The market can stay irrational longer than you can remain solvent." Both of these are relevant today.

### **IN OTHER NEWS...**

So far, this review has focused exclusively on the U.S., whereas returns have been better in other parts of the world, particularly in dollar terms. This is the result of excessive optimism about the U.S., excessive pessimism (about Europe, China, everywhere, really) at the start of 2025, moderate valuations and a recognition that other regions have to stand on their own feet. These returns are also a reminder that diversification is the essential strategy for an investor. You cannot know when the AI mania will run its course. You may time it exquisitely, in which case, 'Chapeau!' More likely, you'll be knocked down in the rush for the exit. The point is not to have a firm view about what AI will do to the world, it's to make sure that you do OK, whether you are right or wrong. The world is full of geniuses who hold the index and have ridden the tiger. Any fool can make the negative case for the Magnificent 7, just as any fool can make the positive case. This scribbler thinks that one's wealth should not depend on being right about something one half understands.

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## Endnotes

- 1 American Economic Association, The Impact of the 2018 Tariffs on Prices and Welfare, vol. 33, no. 4, Fall 2019, (pp. 187–210)
- 2 Congress.gov, Legislation, H.R.1 - One Big Beautiful Bill Act 119th Congress (2025-2026)
- 3 Alphabet, Apple, Amazon, Meta, Microsoft, NVIDIA, Tesla.

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