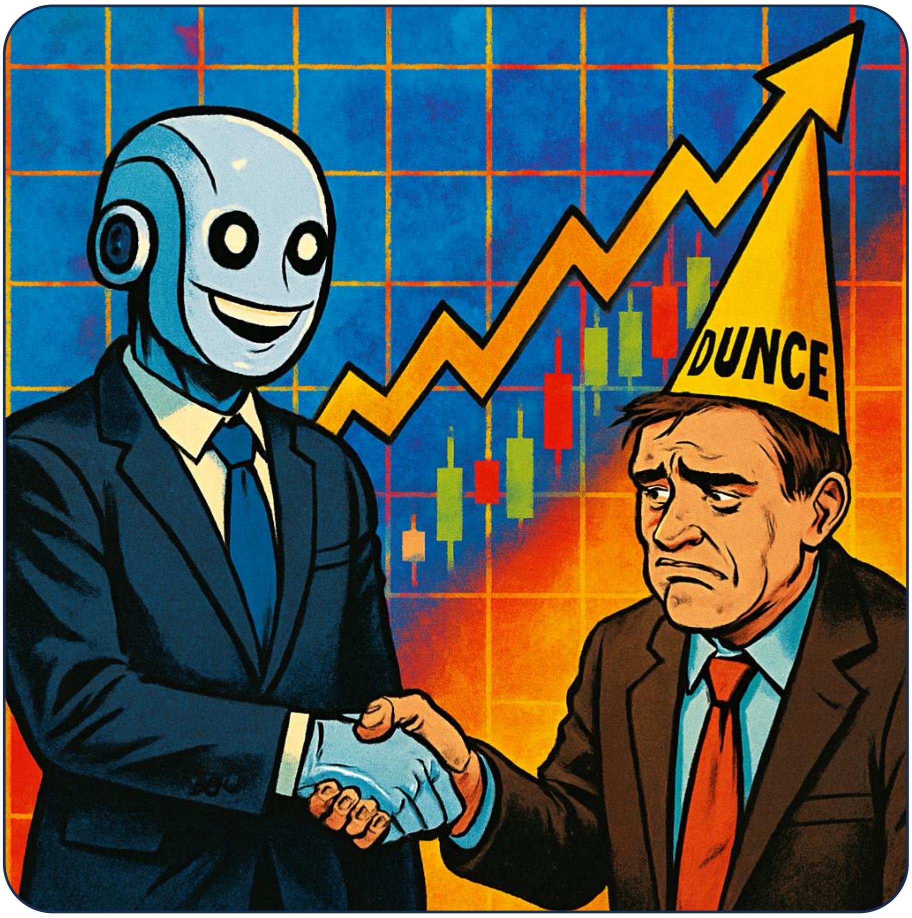
Markets Prefer Artificial Intelligence over Human Stupidity

The key takeaway this week is that equity markets are shrugging off weak employment data and an unsurprising rise in US inflation and were instead buoyed by optimism around the prospects for artificial intelligence.



Tariffs are acting as an upward inflationary pulse, but employment data is expected to have the greater impact on monetary policy in the near term, and the Federal Reserve is expected to cut interest rates next week.

While the general trend for employment data has been poor, the growing consensus view is that recent changes in immigration under the Trump administration have reduced the requirement for job creation and easing monetary conditions will be sufficient to manage the equilibrium. However, the recent data leaves room some concern to build into the fourth quarter.

With the huge investment into AI yet to bear much fruit, i.e. in terms of corporate revenues, there has naturally been much scepticism about the hype around the sector. Yet, tech leaders have yet to moderate their capital expenditure and have hinted that, if anything, they have not been spending enough.

Oracle's stock price rose 25% after the company announced that demand for their cloud infrastructure was dramatically outstripping supply, having signed four multi-billion-dollar contracts in the last quarter. The company expects contracted future revenue to exceed half a trillion dollars in the coming months.

Oracle's cloud infrastructure grew by 55% and is expected to have grown by a stellar 77% by the end of their fiscal year. What's also exciting is the emergence of newer segments such as its multi-cloud database business which runs on AWS (Amazon), Azure (Microsoft), and Google Cloud, and grew by an incredible 1,529%.

Starting the week as a $680bn company, the narrative that some companies are too big to maintain high growth rates has suffered a notable defeat, and the bulls will take this as evidence that AI monetisation efforts are beginning to show.

The most significant AI news besides Oracle’s came from Broadcom which secured a $10 billion agreement to supply custom AI chips to a new client. While the customer's name was not officially disclosed, it is rumoured to be OpenAI who have also talked of sourcing an alternate chip supply to Nvidia.

Equity markets appear to now be in full bull market swing with comparisons being drawn with the bull market of the 1990s. It is also cited that there were several corrections through that bull market, and each provided an opportunity to buy more equity.

For the UK, the outlook appears much more glum as industrial production unexpectedly contracted resulting in stagnant economic growth. Much of the recent positivity has been owing to the front running of tariffs by US customers and trade data now reflects that US demand has dried up, now below pre-pandemic levels.

Merck also scrapped a £1bn research centre in London and ending all discovery research operations in the UK. The move reflected a lack of progress in addressing the lack of investment in the life-science industry and weaker pharmaceutical pricing offered by the NHS.

The proportion of UK healthcare spending on pharmaceuticals has fallen significantly over the last decade. While we clearly aren’t overpaying for our pharmaceuticals, could we be seeing a downtrend in one of the few industries in which the UK has excelled?
The week was otherwise marred by a series of geopolitical events. In the US, ICE officers raided a new Hyundai-LG battery plant and EV factory arresting and detaining 475 individuals who were deemed to be working illegally.

A leaked internal federal government document, however, reportedly shows that some of the detained workers had valid visas, had not violated requirements and were still presented a “Voluntary Departure" even after Trump stalled proceedings to confer with South Korean officials.

The situation unfolded as the two countries continue to negotiate a trade deal that would see South Korea invest over $350bn in the US in return for the imposition of tariffs at 15% instead of President Trump’s threatened 25%.

As a further symbol of escalating violence stateside, influential conservative activist Charlie Kirk was shot dead, punctuating what many experts and commentators are calling the most sustained period of political violence in the US since the 1970s.

The third French prime minister since the 2024 election has stepped down after a vote of no confidence following the most recent budget proposal. A lack of will to engage is necessary austerity measures is resulting in a cycle of political stagnation: Protests followed, and we may be seeing the return of the yellow vest movement with president Macron’s approval rating now at just 15%, there will be increasing pressure on him for as long as this cycle persists.

Israeli airstrikes on Hamas negotiations in Qatar threatened relations with a key US ally. The unfortunate collateral damage of a Qatari security official represents a direct attack on a state actor. President Trump assured Qatar that such a thing will not happen again on their soil.

There was also a Russian drone strike Polish airspace. In response to the incursion, Poland invoked Article 4 of the North Atlantic Treaty, which calls for consultations among allies when a member's security is threatened but stopped short of invoking Article 5, the collective defence clause. A special meeting of the UN Security Council was also called at Poland's request.

Yet, there was little reaction from asset prices in response to these events.

The other material economic news was that the Chinese central government has begun implementing a new bailout plan for local governments, which over the past few years have accumulated over one trillion (US) dollars in overdue payments. Exacerbated by the collapse of the real estate market which shrank a key source of revenue for local authorities, the issue has created a debt chain that is crippling the private sector, damaging business confidence and stalling economic activity.

The strategy involves directing state-owned banks and policy lenders to provide over one trillion yuan (c. $140bn) in a first phase of funding, with a goal of clearing all arrears by 2027. The plan effectively shifts the financial burden from local governments onto the state-controlled banking system.

Where are markets up to?

The rolling 12 month % cumulative returns in local currency from various indices is shown in the following chart:

11/09/2024 - 11/09/2025 Data from FE fundinfo2025

Where are the portfolios up to?

The portfolio performance, net of fees, to close of business on Thursday is as follows:

	1 week	1 month	3 months	12 months
Cautious	+0.99%	+2.19%	+4.20%	+5.63%
Balanced	+1.21%	+2.83%	+5.94%	+8.53%
Adventurous	+1.34%	+3.37%	+6.88%	+10.34%

As ever, if you would like to discuss any aspect of your portfolio, please do not hesitate to contact us on service@blythefinancial.com.