



### The past month summed up

A softer labour market, a nudge up in inflation, but little to derail enthusiasm about the prospects for an artificial intelligence driven transformation of industry.

### The rationale

Our core view remains that the Economies continue to grow with the US at the vanguard, even given still toasty inflation and against a backdrop of increased geopolitical and economic risk. Data points give the impression of a slowdown in employment and pockets of weakness in certain industries, but this is currently insufficient to derail widely held enthusiasm around the potential for AI to bring a step change to the efficiencies of companies, businesses and society.

Recent attention has focussed on the data in relation to employment as an indicator as to the health of the US economy. Here the data show a clear drop-off in the number of new jobs created – only 22,000 in August – while the statistical department that triggered President Trump's ire earlier in the summer by revising down previous figures lowered June's figure to a 13,000 drop. It was also reported that revised analysis had lowered estimates of the number of jobs created in the year to April 2025 by nearly 1 million; the US jobs market has been weaker than reported.

It is possible that, rather than economic dampening having this effect, the actions of the Trump administration in hoovering up those suspected of illegally entering the country and successful shuttering of the southern border may have had an impact here, whilst those industries most exposed to tariffs have also gone off the boil. So, while the unemployment rate might have nudged slightly higher from 4.2% to 4.3%, that's still very much within what the authorities consider to be a reasonable level, even if they have elected to take some precautionary action.

### Nothing to see, but something to do

Similarly, while still showing no immediate cause for concern, inflation continues to bubble above target. The headline US CPI climbed to 2.9% in August, slightly above July's 2.7% figure. At the same time core inflation, which strips out more volatile elements such as food and energy, remained at 3.1%, reassuring for the moment those who had feared that President Trump's tariff policies would send prices across the economy soaring.

Meanwhile growth in the world's largest economy looks to be holding up well. It expanded at an annual 3.3% in the second quarter of the year and mid-quarter estimates suggest it's still expanding at more than 3%. Compare that to the extremely modest increase of 0.3% in the UK in the second quarter and a decline of 0.3% in Germany when measured against the previous quarter.

Taking all of this data into account – a slight softening in job numbers, a very modest uptick in inflation and fairly steady GDP growth – means we have a scenario that allowed the Fed to cut rates whilst appearing independent of the extreme political pressure brought to bear by President Trump to lower the cost of borrowing. They are expected to cut further before the end of the year.

### They're mentioning Goldilocks again

This then, represents a benign environment for companies to operate in. Globally the Bank of America earnings revision ratio has climbed from 0.81 to 0.95 but it's in the US that the figures are most stark. Here the ratio has climbed from 1.25 in July to 1.74 in August, a 48-month high, showing a majority of companies are having

their earnings upgraded rather than downgraded. A significant driver of those upgrades is AI and the extraordinary effect investment in this endeavour and the prospects for success are having on companies. Earnings at Google-parent Alphabet, Amazon, Apple, Meta and Microsoft all came in ahead of expectations on increased activity that the AI boom has generated, whilst the estimates for spending continue to soar; data centre spending is expected to reach \$506 billion this year according to Bank of America.

The primary beneficiaries are those businesses that are the frontline recipients of this ferocious spending on the construction of data centres to support AI. Consider if you will the recent adrenaline rush experienced at tech business Oracle after it revealed to the market (while actually missing earnings estimates) that its cloud business will grow 77% to \$18 billion this year and expand to \$144 billion by 2030. Its shares rocketed a massive 41% on the day, briefly elevating CEO Larry Ellison to being the richest man on the planet, ahead of Elon Musk. The spending commitments continue to grow with few signs of fatigue in enthusiasm.

## Unproven

And yet, as we have alluded to before, this exuberance brings with it risks. For one thing the market seems to have placed almost all of its eggs into the AI basket – as the Economist points out, since Chat GPT first came on the scene in 2022, the US stock market has risen by \$21 trillion but just 10 companies account for more than half of that increase. Whilst the scale of spending is clear, what the future revenues and returns on that investment will be are as yet unproven, as is the question of who will actually profit. It may very well be the biggest technology companies, but previous booms such as those linked to railways and the internet threw up new winners, and it's reasonable to assume that the same will be true this time.

The world in general, and US in particular, has a lot invested in the success of AI. Whether it's the investments that benefited the likes of Oracle, governments keen to nationalise the benefits, or the jobs that are being created on the back of the spending boom, any fracture or failure to reach expectations could take the wind out of the market's sails. There is also the ubiquitous wildcard that is President Trump – he threatened last month to impose tariffs on the imports of semiconductors, whilst using his heft to secure the US government a stake in Intel. The size and scale of this space makes it ripe for remaining a geopolitical pressure point between the US and China.

## Emerging diversification

While the stock market might give the impression of been a singular AI bet at present, there is diversification and opportunity to be found in companies less directly connected to the AI boom and also in other regions of the world. While China's economy has proven difficult in recent years, it has shown resilience in the face of President Trump's efforts to crimp their trade credentials and undermine their influence. Although Chinese exports to the US dropped a massive 33% in August, overall exports climbed 4.4% as the country found other markets where it could sell its goods — China it turns out is a more important trade partner than the US for most countries.

The Trump administration's policies could ultimately revive rather than restrict other parts of the world. Emerging markets as a whole should benefit from the declining US currency – the dollar index is down more than 10% this year – as many of them denominate their foreign transactions in the Greenback, meaning they're able to sell more internationally. And just as the world retreats from globalisation into more of a multi-polar existence, so the potential expands for regions to decouple from the US and provide diverse sources of growth. China's place in earnings revisions has climbed to a 30-month high and there have also been improvements across wider emerging markets where valuations look far more reasonable.

## Conclusion

We continue to hold that the economy remains on course albeit with some of the risks and deceleration as outlined above. While we are aware of the concentration of risk that the AI boom has generated in markets, our aim is not to second-guess nor to sit this out, but to benefit from the step change in history while still

staying faithful to our principles of managing risk through diversification. That means in our equity portfolio continuing to look for companies that will benefit from investments in artificial intelligence without being totally reliant on the eventual success of headline activities, about which even those at the vanguard of AI remain unsure. Furthermore, it's driving us to consider how best to play investments in other parts of the world, particularly emerging markets, that are showing increased potential as we move from a globalised to a multi-polar world. Our equity portfolio continues to be counter-weighted by investments in less volatile assets such as bonds, gold and specialist trading strategies.

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