

Current Positioning

October 2026

The past month summed up

Markets continue to wrestle with the challenges presented by the impact and scale of an epochal technology revolution that has underpinned recent economic resilience sitting uneasily alongside an increasingly shaky geopolitical backdrop.

The rationale

Our core view has not materially changed. We still acknowledge the power of the capital investment super-cycle behind artificial intelligence (AI) driving the current economic expansion and its potential to sustain that into the future through significant productivity advances. Yet at the same time we are acutely aware of the inherent uncertainty as to its speed and trajectory, and the breadth of potential risks to this positive scenario – a relatively minor disappointment or earnings revision could rapidly prompt an unravelling in sentiment while the persistent energy shock is upping borrowing costs which could stem the supply of debt increasingly fuelling the seemingly unstoppable technology juggernaut.

The present situation very much remains in the balance, with plenty of positives and potential negatives.

On the positive side, let's not overlook the massive changes that AI is prompting in our daily lives. Its tools are now used widely by businesses, consumers, and even by AI to train itself. Given its pervasive nature, it doesn't seem wholly fanciful then when Anthropic's co-founder Jack Clark suggests AI could boost US GDP by close to 50% percent by 2030.

And it is a case of jam today, rather than tomorrow, as evidenced by the superlative earnings that are being generated, with profits at US companies expected to soar by 30% this year. There are few signs of fatigue even if concerns persist as to what the ultimate economics and returns will look like in several years. Irrespective of the end returns AI delivers, the investments going into the infrastructure buildout – estimated at more than \$10 trillion over the seven years to 2032 – continue to power the US economy and, in its wake, the global one.

Eek!

And yet at the same time we have possibly the most precarious geopolitical situation since the fall of the Berlin Wall nearly forty years ago. The war between Russia and Ukraine seems intractable and might now be at risk of escalating after President Trump agreed to relax some sanctions on Russia, causing an even wider rift between the US and its increasingly erstwhile European allies. The conflict between the US and Iran shows no sign of abating while Yemeni Houthi rebels have become even more daring in their attacks on Saudi Arabia.

The persistent pressures on both the supply and price of oil are beginning to bite on inflation with interest rates on the rise and taking bond yields with them. Higher borrowing costs for governments, already struggling to curb deficits, continue to press yields higher and resurrect sovereign concerns not seen since the heights of the Eurozone crisis – France today assuming the role then played by Greece.

High energy prices are also going to be a key issue of the upcoming US midterm elections – US gas prices have risen 34% in the past year driving an inflationary bump which saw US CPI coming in higher than analysts had predicted at 3.7% in September. The odds of a big win for the Democrats seem to improve with every dollar increase in Brent crude prices.

Confused?

It would be misleading however to characterise this into simply AI being good and geopolitics bad; there is much more nuance throughout markets and the economy. True, the AI upsurge has been dominated by larger technology companies whose spending has in the most part been underwritten by significant earnings. However, at the same time other, newer, businesses have been borrowing hard to get in on the act and the risks here have been increasing in lockstep with rising borrowing costs. JPMorgan reported that deeply distressed loans, those trading at 60% of their face value, are at their highest level since the start of the global pandemic in 2020.

AI infrastructure investment has provided the wall of money powering the economy forward and stock markets ever higher, benefitting the pensions and savings of Americans. And yet the building of data centres is one of the most divisive 'hot button' political issues at the moment – people seem willing to benefit from the advances of AI and the money that the investment is putting into their pockets but they just don't want a massive facility next to their town. A survey over the summer showed 70% of respondents opposed a data centre in their area – a clean sweep by the Democrats on 3 November could see this pillar of the AI build out challenged by government. Markets have become increasingly twitchy in anticipation.

Again in the US, while unemployment remains extremely low, the creation of new jobs has been patchy with only 29,000 new roles added in September, against the 90,000 predicted. The US consumer, one of the most powerful elements within the US economy, remains an enigma. With consumer sentiment hovering close to its lowest level on record, consumer spending still rose the most in a year in August, even excluding the impact of higher petrol prices. Whilst there is undoubtedly some dispersion between the haves and the have-nots, the US consumer has yet to fully succumb to the squeeze from higher energy costs.

It's normal

Is such a complex picture of positives and negatives any different from normal? It would be naive to suggest that investing involves finding simplistic single-direction trends as opposed to trying to navigate the complex ups and downs of a sophisticated global economy. However, there is no doubt that at the macro level the world is increasingly bifurcated, with a generational advancement in technology sitting alongside a very fragile economic and political situation. History shows us that societal and political ructions often accompany such changes in the economy – consider how the increasing industrialisation of the 19th-century was accompanied by significant societal discord and conflict.

Bonds

It hasn't been an easy time of late for government bond investors. For decades bonds have been seen as a source of safety during times of stress for equity markets, the premise being that government debt is a secure asset in troubled periods. That relationship has been challenged in the past few years.

So now, even as jitters appear about stock prices, investors are increasingly concerned that rising inflation will blunt the fixed returns of bonds, making them less valuable (and pushing up their yields). At the same time, the patience of investors in relation to spendthrift nations may be wearing thin. Whilst the Liz Truss budget is still fresh in the memory (for those in need of a reminder the former PM releases her account of the debacle on 28th October, budget day), recent severe spikes in French government debt reflect fears that its leaders may never be able to overcome widespread opposition (witness recent riots) to efforts to reduce spending.

However, it is worth reminding ourselves that these are borrowings by sovereign governments who are still amongst the most secure of debtors. With yields now comfortably above current forward inflation estimates and nearing 5% we are getting close to the point where they offer a sufficient return and margin of safety to compensate for the risks of inflation, deficits and errant government behaviour.

Conclusion

Heightened concerns about the ongoing strength of the AI-led economic boom amid widespread geopolitical turmoil should not warrant an overreaction. Our portfolio has been built to withstand a degree of uncertainty and avoid the more leveraged exposures. We continue to balance our portfolio between those companies who should sensibly and sustainably benefit from the present environment and those companies whose prospects look good independent of the current ups and downs of AI and inflation.

We are maintaining our defensive bond allocation and are prepared to add to it on an opportunistic basis should compelling value manifest itself in a downward overreaction. We continue to diversify our bond and equity risk across a range of hedge funds which thrive on the uncertainty and volatility that has proven a persistent theme of markets.

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