STRATEGY OUTLOOK

AUGUST 2025

Key takeaways-

- Forward economic indicators are starting to move higher
- AI is akin to Chinese urbanisation, the Industrial revolution or electrification.

Markets continue to bask this summer as the tariff noise dies down and euphoria returns. Political shenanigans on who is the next Fed chair or the next tariff threat or the other, many, sordid affairs of Government are being quietly ignored. The first graph highlights an index of non-profitable tech companies from Goldman Sachs. The index is still up +9.5% as a rising tide floats all boats and an example of the type of market we are in.

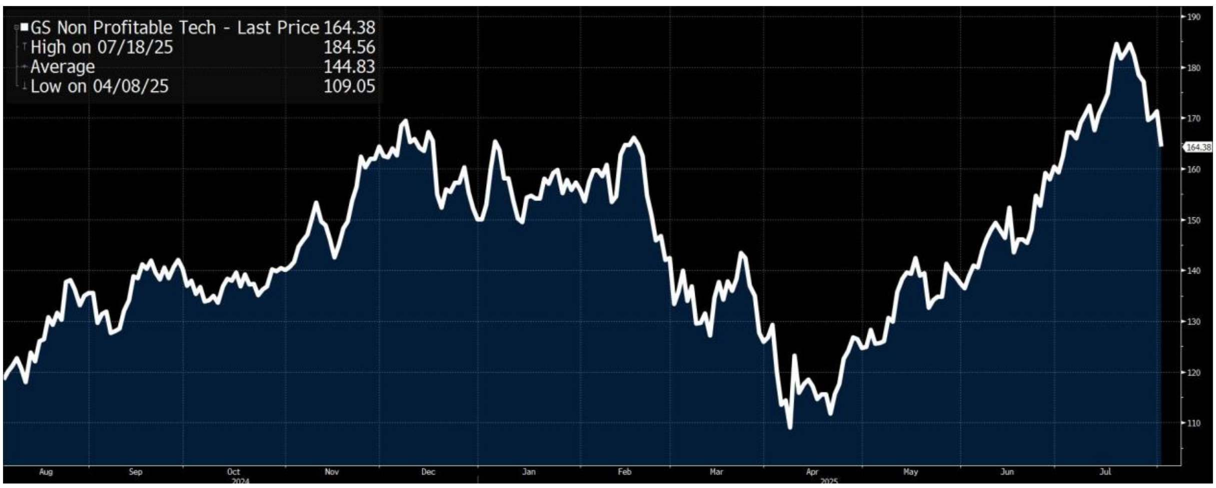
	July	YTD
S&P	2.17%	7.78%
Rest of the World	-1.12%	15.53%
US Treasury	0.33%	2.43%
Gold	-0.40%	25.35%
Bitcoin	8.26%	24.30%
WTI Crude Oil	6.37%	-3.43%
USD Index	3.19%	-7.85%

The administration continues to back up their aim of growing their way out of the debt problem having given up on cutting their way out. "We can grow the economy and control the debt" Scott Bessent

Markets are responding, the Dollar is at 50 years low and, we believe, forward indicators are poised to move higher, which has positive global ramifications. The party can probably continue into the Midterms albeit we can still get short, sharp, often brutal downswings but broadly the path is higher. Party on. Profit margins are healthy, and a period of reindustrialization is just beginning. **Full capital expenditure expensing and speculation that capital gains on housing will be relaxed point to ongoing support**. Monetary stimulus too from global central banks is a clear rising tide.

In a world where liquidity continues to be pumped into the system, we remain advocates for Bitcoin, Gold and stocks. After 3 years of near recessionary levels the forward indicators in the US are beginning to pick up. A lot of this is driven by **the AI, data centre and infrastructure capex boom** which is only beginning. A recent podcast by Michael Dell was incredibly bullish for this sector, which will likely have a dominant role to play on growth outlooks.

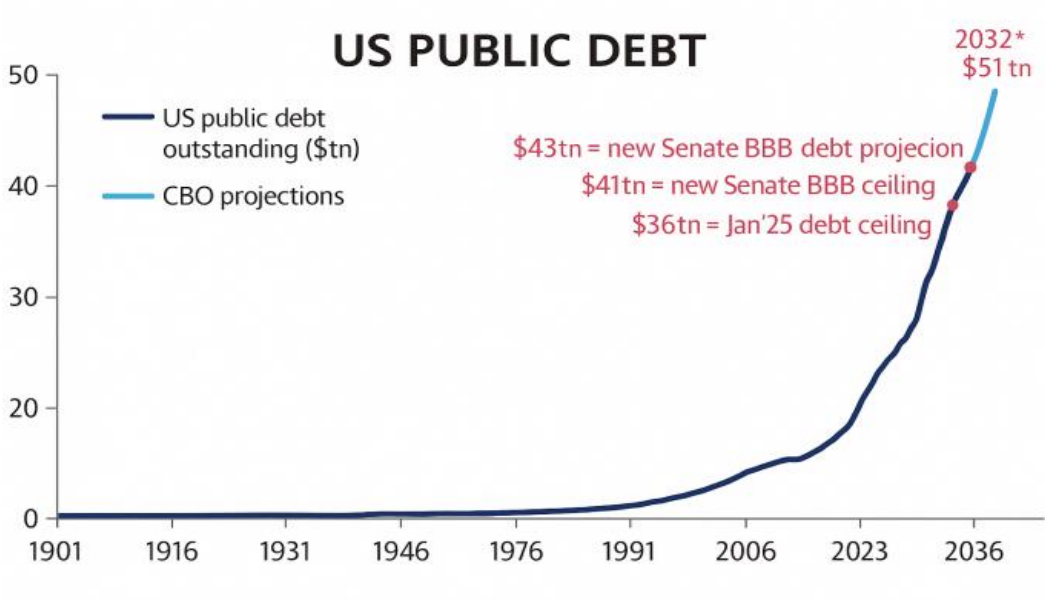
His view is that companies are already seeing 10-40% productivity gains yet only 10% of large enterprises are capturing these gains and we will see a **"golden age of margin expansion".** Indeed, the recent earnings reports from ABB (Swiss listed) and Legrand (Paris listed), for example, highlight the increase in demand as US orders surge 37% yoy and 22% yoy respectively in Q2. ABB's US division was their top area with demand coming from industrial automation, electrification and data centre demand.



Energy is ultimately the limiting factor to AI. It's been forecast that the US needs an additional 92 gigawatts of energy for the AI rollout. One nuclear reactor gives approximately 1 gigawatt and only 2 have been built in the last 30 years. **Therefore, fossil fuels will have to see a renaissance**! Consumer power rates are already rising and will hit consumption. Other ways to play the theme could be in data centre real estate, copper or chip manufacturing. **Energy, however, at current valuations looks the most attractive.**

The flip side is we are likely to see a weaker labour market going forward as AI/robotics crowd out jobs. Less hiring and a lot more paranoia/fear will enter the market. We are already seeing hiring of graduates down 44% since 2022. With 4 rate cuts already priced into 2026 in perhaps inflation is downgraded in importance as rate cuts would also kick start the housing market. **But then, if you are worried about your job, you don't consume or upgrade your accommodation**. We should expect very varied economic data releases from the likely boom-and-bust components of the economy going forward.

However, as the graph from Bank of America highlights the "debt problem" isn't going away and **one day** the piper will have to get paid if/when the growth strategy fails.



Source: BofA Global Investment Strategy, Bloomberg

China's latest industrial production data for June highlights the potential for increasing growth. The data saw an upside beat driven chiefly by equipment & high-tech manufacturing, autos and electronics with industrial robots. Within the data 3D printing devices are up 43% yoy, new energy vehicles +36% yoy, industrial robots +35% and lithium-ion batteries +53%. If China is rebounding, then commodities and hence e.g. Australia will rebound and hence, again, all boats.

In summary we remain bullish and invested. The doom and gloom both from a tariff and recessionary point of view look overdone. The market has, however, bounced in a V shape and needs to break all-time highs to progress further so there is natural resistance. **However, the trend is clearly bullish.** Earnings are expected to grow 14% yoy so we will see to what extent this drives the market.

We halved our position in Gold ~~two~~ three months ago looking for some weakness, which still hasn't occurred. The price hasn't advanced but looks to be consolidating, which is positive. We would use **any weakness as a buying opportunity** as the long-term trend is clear. If debt levels are indeed increased, then Gold should outperform equity markets. Real assets also have the benefit of acting as protection to a weaker Dollar. Markets are not cheap (NVIDIA is 110% of the UK stock market), but we believe that we are going to see a manufacturing renaissance in the US combined with abundant liquidity. In this environment, assets are going to struggle to remain depressed. Just as the first graph highlights, these conditions float all boats, and hence non-profitable tech also rallies. We expect this to continue however in a context that, caveat emptor, markets never keep going up in a straight line.

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