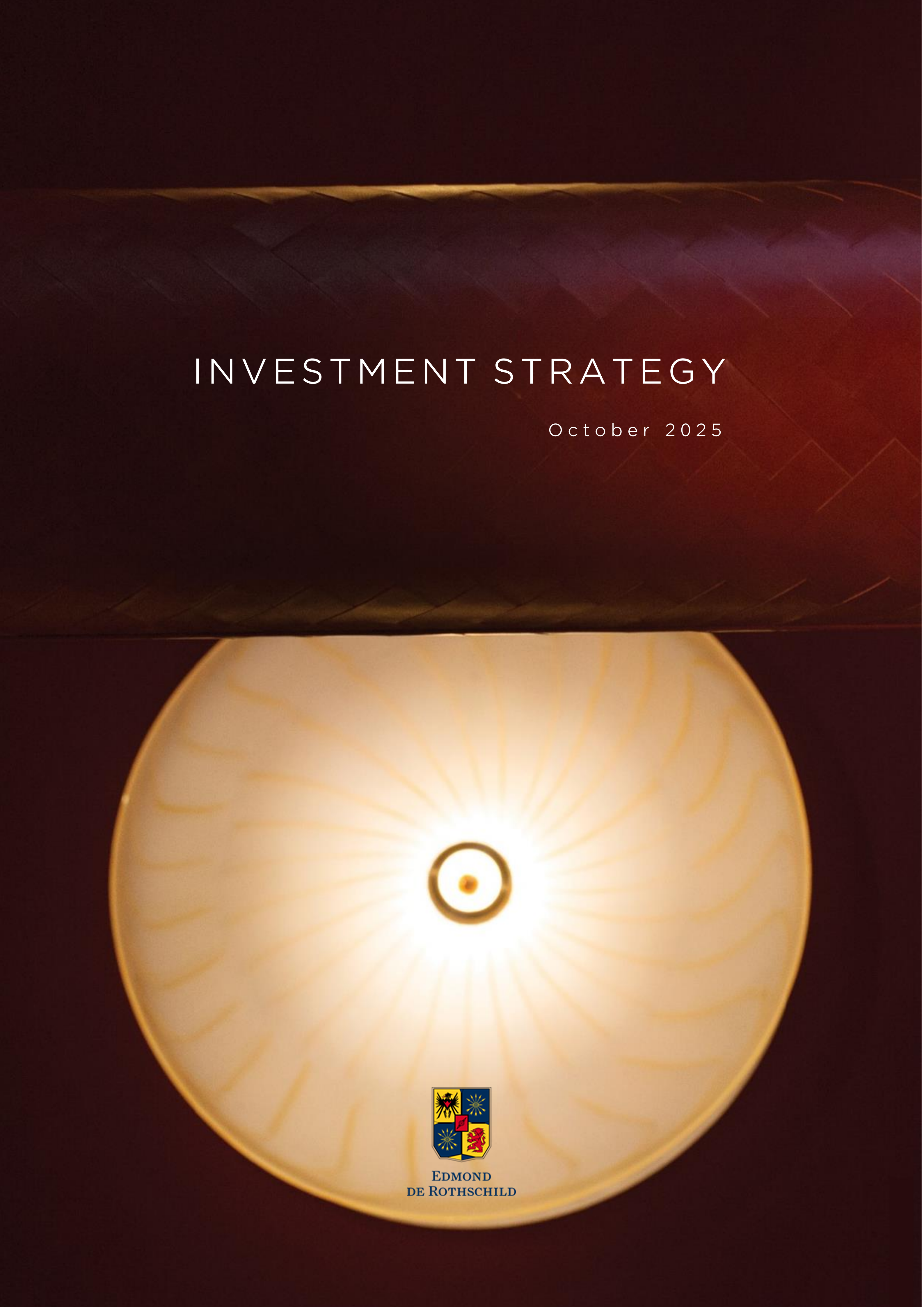
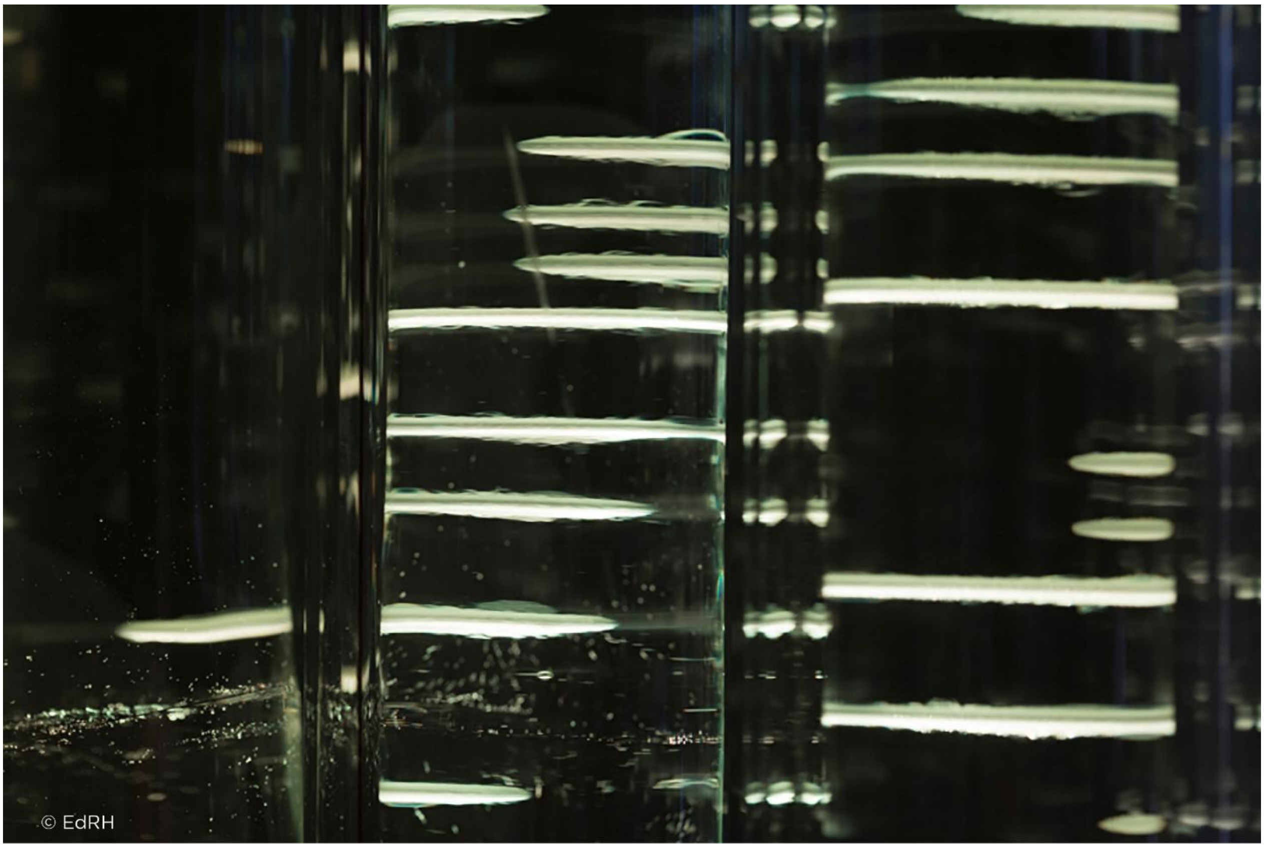


INVESTMENT STRATEGY

October 2025

EDMOND
DE ROTHSCHILD

DEBT & DATA



In 1998, Nobel laureate-to-be Paul Krugman famously claimed that "the impact of the Internet on the economy will be no greater than that of the fax machine." At the time, productivity statistics seemed to confirm his skepticism: internet adoption was booming, yet the promised efficiency gains remained elusive.

A decade later, the picture had dramatically changed. Global connectivity reshaped commerce, communication, and logistics, fueling productivity growth on a scale rarely seen before in history. Suddenly, the world had become smaller: producing faster, cheaper, and further away was no longer an illusion—it was simply a matter of patience.

Today, similar doubts are resurfacing around the true benefits of Artificial Intelligence. Scepticism is rising, even as colossal investment plans and promises of transformative productivity gains dominate headlines.

Yet just like the internet two decades ago, AI is already capturing the bulk of equity market value creation, attracting record inflows and driving equity valuations to historically elevated levels. Market concentration is unprecedented: the seven largest US companies—all AI-driven—now command $20 trillion in market capitalization, accounting for over one-third of the S&P 500. That is more than the combined market cap of all listed companies in Europe and Japan.

Such a powerful investment theme cannot translate into financial success without abundant liquidity. In that sense, the stellar market performance of the MAG7[1] owes as much to the ongoing tech revolution as it does to the relentless rise in public debt across developed economies.

Artificial Intelligence and the monetization of public deficits are the two structural forces shaping our portfolios.

The MAG7 are the 7 largest American companies related to artificial intelligence: Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla

1 – DEBT

Since COVID, public debt in developed economies and China has surpassed the critical 100% of GDP threshold. With interest rates back in positive territory, debt servicing has become one of the largest budget items for governments—often the single largest. Add in unavoidable commitments in defense, healthcare, and pensions, and fiscal discipline becomes politically untenable.

As a result, public debt is expanding at 5–8% of GDP annually, with no reversal in sight.

Governments have only two options to finance these deficits:

1. Raise taxes or cut spending.
2. Monetize the deficit by ensuring new bond issuance is financed with money that did not previously exist—monetary creation.

In the US, the administration is attempting option one through tariffs and pressure on the Federal Reserve to lower interest rates.

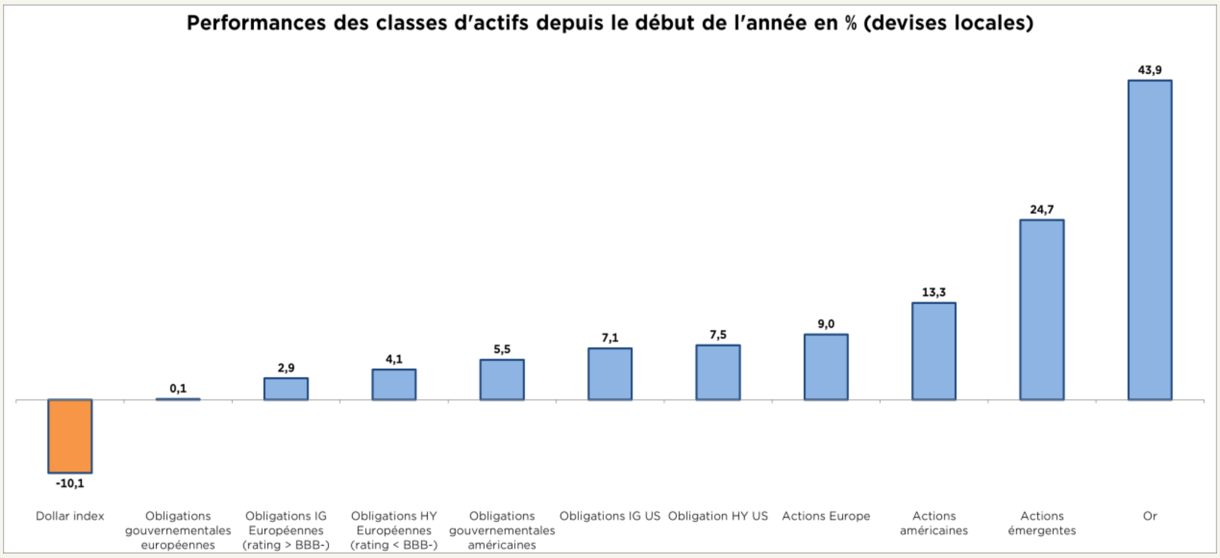
Yet in practice, option two dominates. Recent regulatory changes reducing capital requirements for banks on government lending encourage balance sheet expansion (money creation) and greater participation in financing public debt.

Similar measures exist in Europe and China, channeling private savings toward sovereign bonds.

Contrary to common belief, monetary growth does not always translate into consumer price inflation. When real economy investment demand is weak, new liquidity often remains within financial markets—pushing asset valuations higher instead.

This year, as last, nearly all asset classes are posting positive returns, with the strongest gains concentrated in equities, technology in particular, and gold

Performance of major asset classes since the beginning of the year (as of 24th of September). Only the dollar is in contraction.



Source: Bloomberg, Edmond de Rothschild Monaco.

2 – DATA

Since the launch of ChatGPT in November 2022, US equity markets have added $25 trillion in capitalization—more than the combined gains of all other markets worldwide. Almost all of it has been concentrated in US mega-cap tech, the MAG7.

Stock performance of the MAG7 and the equal-weighted S&P 500 since the launch of Chat GPT in November 2022 until September 24, 2025. There is no American exceptionalism; there is exceptionalism of the tech giants.

Valuations are undoubtedly elevated, but earnings growth remains extraordinary. Take Nvidia: $23 billion in revenue in 2023, projected to exceed $200 billion by 2026.

Illustration comparing the size of one of META's future Data Centers dedicated to Artificial Intelligence to the island of Manhattan (New York). Source: X

Of course, doubts are surfacing about AI's actual productivity impact. Such doubts can trigger sharp corrections when broadly shared, as seen earlier this year when China's Deepseek emerged as a credible, lower-cost rival to ChatGPT, briefly unsettling markets.

Still, if tech giants follow through on their projected $2 trillion in capex over the next five years, the ripple effects will extend well beyond technology. Power grids and energy infrastructure will require massive upgrades—reviving industrial sectors with growth rates not seen in decades.

We continue to view AI as a must-have theme in portfolios, carrying the bulk of future US capex and offering structural growth opportunities across industries.

BEYOND DEBT & DATA

Not all opportunities lie in technology. Luxury, highly sensitive to Chinese growth, should benefit from current stimulus efforts. Banking, in both the US and Europe, is also attractive: more liquidity in the financial system means more transaction volumes and higher profitability for intermediaries.

On fixed income, we continue to favor credit risk over duration risk. With fiscal trajectories unsustainable, we prefer corporate bonds despite historically tight spreads. A flat yield curve offers little incentive to extend duration into long-dated sovereign debt.

THE GOLD BAROMETER

Liquidity has become the single most important driver of asset prices. Over the long

term, we expect the environment to remain favorable to anti-monetary-inflation assets such as gold and equities. But liquidity cycles are not linear, and 2026 may prove less supportive as the Fed lowers rates. Less abundant liquidity would weigh on equity valuations while supporting the US dollar.

Ultimately, gold remains the benchmark of currency credibility. Its persistent rally against all major currencies, despite offering no yield, reflects deteriorating fiscal dynamics. As a scarce asset, its value should continue rising in line with global money creation.

Public deficits and Artificial Intelligence are the two defining forces of this decade—for markets and for portfolios.

Sébastien Cavernes
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