Allianz Global Investors

THE WEEK AHEAD, 7 NOVEMBER 2025

The "Age of Intelligence"

Sam Altman, co-founder of OpenAI and a key driving force behind ChatGPT, envisions humanity entering a new "age of intelligence" following the agricultural and industrial eras. As ever, technological progress is propelling this paradigm shift—this time with **machine learning** taking it to an entirely new level.

On capital markets, too, assets within the **artificial intelligence (AI)** universe have quite literally been catapulted into their own orbit and meanwhile determine the pace of equity markets, particularly in the United States and China. From an economic perspective, too, technology has become a defining growth driver. A closer inspection reveals that a substantial share of the increase in US gross domestic product (GDP) during the first half of 2025 stemmed from technology and software-related investment—around 1.3 percentage points of the total 1.6% expansion. In other words, the sector accounted for just over 80% of overall growth.

Stefan Rondorf
Senior Investment Strategist, Global Economics & Strategy

Against this backdrop, it is worth taking a more in-depth look at the prospects for technology and artificial intelligence. Several factors indicate that the **current boom is likely to continue**:

- Still plenty of AI "success stories": The number of users is growing, more and more companies are deploying AI and machines are increasingly performing human tasks just as well or even more effectively than people.
- No signs of overcapacity: Despite exponential growth, computing capacity in data centres remains constrained. Customers face waiting times and processing power is effectively being rationed.
- Stable funding base: The bulk of capital financing the rapid expansion of data centres and supporting energy infrastructure comes from the cash reserves of a few major technology firms, many of which operate in oligopolistic or near-monopolistic market structures. Consequently, the financing of AI growth is now less reliant on speculative risk-taking or venture capital than in previous cycles. Nonetheless, capital is not limitless, and shareholders of large tech companies continue to demand robust returns.
- Valuations elevated but not excessive: While company valuations within the AI sector are high, they have not yet reached the extreme levels seen in past market peaks.

PUBLICATIONS

→ Behavioural Finance: Outsmart yourself!
Rising gold and oil prices, fears of inflation and recession – geopolitics are at the top of the agenda. Particularly in times of heightened uncertainty, there is an increased risk that our actions will be determined by behavioural patterns that are anything but rational. This is why the findings of behavioural finance are more important than ever. But even more important than self-knowledge is the ability to outsmart oneself.

→ AI Decoded
From Word Counts to Transformers.

→ COP 30 preview: back to reality?
The host city of this year's COP is known as the gateway to the Amazon, but after the disappointments of recent conferences, can the event still be a gateway to progress on climate commitments?

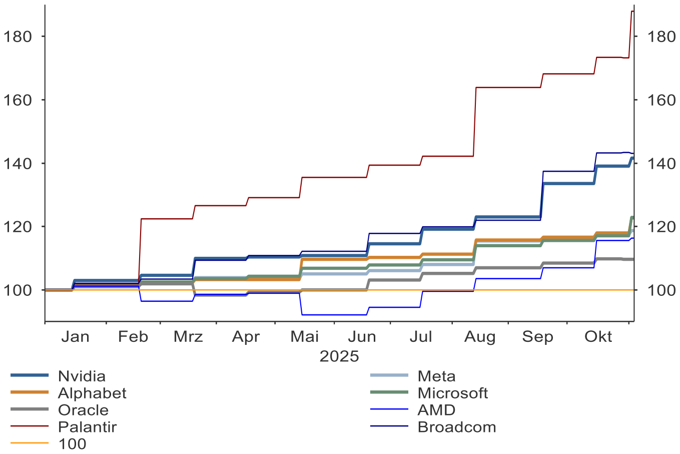
The following aspects point to **initial signs of overheating**:

- Historically, sectors at the forefront of technological change have often succumbed to phases of overinvestment. Periods of surging capital expenditure and rapid capacity expansion are typically followed by temporary phases of disillusionment, during which revenues fall short of covering investment costs. At such times, decisions are driven less by sound economic rationale and more by fear of missing out and pressure to align with prevailing trends. A similar dynamic may well emerge during the current cycle of innovation. In the longer term, however, the substantial technological advances achieved are likely to translate into significant gains in prosperity.
- The AI ecosystem is increasingly characterised by an obscure network of overlapping equity interests, as well as intertwined customer and supplier relationships. This growing interconnectedness raises concerns about insufficient transparency and potential conflicts of interest.

Ultimately, there is no way of knowing when, or whether, periods of euphoria and optimism about the dawn of a new "age of intelligence" will give way to temporary disenchantment. Having specific insight into areas where capacity constraints persist and signs of saturation are emerging is likely to prove critical. In the past, investment booms have faded when capital returns have declined and investors have been hesitant to provide additional funds (i.e., when the cost of capital has risen). At present, however, there are few indications of such a turning point and participation in the emerging "age of intelligence" therefore continues to appear attractive.

Dominance based on rising profit expectations

Indexed development of earnings estimates for large AI-driven US companies (January 1, 2025 = 100)



Source: AllianzGI Global Economics & Strategy, LSEG Datastream, I/B/E/S, data as of November 5, 2025

Market overview as of 04.11.2025

Equity Indices		
DAX		23,949
Euro Stoxx 50		5,660
S&P 500		6,772
Nasdaq		23,349
Nikkei 225		50,212
Interest Rates %		
USA	3 Months	3.88
	2 Years	3.62
	10 Years	4.10
Euroland	3 Months	2.02
	2 Years	1.96
	10 Years	2.62
Japan	3 Months	0.81
	2 Years	0.93
	10 Years	1.64
FX		
USD/EUR		1.149
Raw Materials		
Oil (Brent, USD/Barrel)		64.5

Needless to say, there are many compelling trends and opportunities beyond technology and AI. Below are some thoughts on the global **tactical allocation for equities and bonds**:

- Opportunities are by no means confined to the US equity market: The MSCI **Emerging Markets** index has also begun to attract renewed inflows. These inflows, combined with the fact that emerging markets remain largely underweighted in global portfolios, provide favourable conditions for a recovery already well underway in countries such as South Korea and Taiwan. In **Asia**, **Japan** has likewise benefited from a recent policy shift towards reduced fiscal consolidation and a more cautious or delayed approach to normalising what remains a highly accommodative monetary policy stance.
- In **Europe**, **Germany** is approaching the actual disbursement of its fiscal stimulus package next year. Equity markets in southern Europe, particularly Spain and Italy, are benefitting from their strong exposure to

the banking sector—a segment characterised by consistently solid earnings, sound credit quality, attractive shareholder returns in the form of dividends and share buybacks and still-reasonable valuations. In contrast, the **French equity market** may face additional headwinds over the medium term due to ongoing political uncertainty.

- This is also true for **French government bonds**, with the future of fiscal policy there still unclear. Fiscal policy in the UK also remains source of unpredictability, a factor that is likely to ensure ongoing volatility in both countries' government bond markets.
- Investors also face challenges in navigating the **US Treasury market**. Following the turbulence triggered by President Trump's "Liberation Day" tariff announcement on 2 April, the market subsequently steadied, with the 10-year Treasury yield retreating from levels above 4%. More recently, however, yields have edged slightly higher after several US central bank officials tempered expectations of further rapid interest rate cuts. Against this backdrop, a neutral allocation to US Treasuries appears appropriate at present.
- The **US dollar**'s status as a "safe haven" currency remains under pressure. While a tactical countertrend may emerge, structural factors (monetary and trade policy, US debt) are likely to weigh on the greenback in the longer term.

Despite the disruptions shaping our world, the emerging "age of intelligence" warrants a measured degree of optimism.

Yours,
Stefan Rondorf

UPCOMING POLITICAL EVENTS 2025

10 November		COP30
10 November	ZAF	G20 summit
10 November	APEC	APEC summit
10 November	OECD	Wirtschaftsausblick
10 November	EZ	European Commission Autumn economic forecast

Investment theme: → Investment income for the "age of intelligence".

- → **Demographics**: The world's population is growing but at an increasingly slower rate, while life expectancy is steadily rising. The overall global population is aging, and the potential working-age population is shrinking – most dramatically in industrialised economies.
- → **Digitalisation**: "Smart machines" are leading to radical changes in employment structures.
- The question as to what kinds of tasks will remain available for humans to perform and how many jobs will be available inevitably leads to the issue of their remuneration. In this respect, the labour economist Richard Freeman envisages a paradigm shift in the relationship between human and mechanised labour. With a hint of irony, he gets to the heart of the matter when he asks, "Are you going to work for the robot or is the robot going to work for you?"[1]
- Consequently, factors such as robots and demographics suggest that the time has come for a conversation on investment income to supplement income from work.
- We need more investment income, especially in an age of smart machines and a state pension scheme creaking under the pressure of demographic change. However, it does not end there. Indeed, investment income can be put to a great many more welcome uses: more money for a holiday, for everyday purchases or as a "grandparents' grant" to support grandchildren during their apprenticeships and university studies, ...
- Investment income can originate from two sources: interest from bank deposits, coupons paid on bonds or dividends paid on equities.
- In conclusion, the time has come not just to focus on the total return of an investment but also on its expected future cash flows. Why should our money (or the "robots") not work for us?

Calendar Week 46

Monday			Consensus	Previous
EC	Sentix Index	Nov	--	-5.4
Tuesday				
JN	Current Account NSA JPY	Sep	--	3,775.8B
JN	Current Account Bal SA	Sep	--	2,463,500M
JN	Trade Bal Cust Basis SA	Sep	--	91,179.00M
UK	Claimant Count Unem Chng	Oct	--	25.8k
UK	ILO Unemployment Rate	Sep	--	4.8%
UK	Employment Change	Sep	--	91k
UK	Avg Wk Earnings 3M YY	Sep	--	5.0%
UK	Avg Earnings (Ex-Bonus)	Sep	--	4.7%
UK	HMRC Payrolls Change	Oct	--	-10k
GE	ZEW Economic Sentiment	Nov	--	39.3
GE	ZEW Current Conditions	Nov	--	-80.0
Wednesday				
JN	M2 Money Supply	Oct	--	1,273,789,300M
JN	Broad Money	Oct	--	2,228.9T
GE	CPI Final YY	Oct	--	2.3%
GE	HICP Final YY	Oct	--	2.3%
Thursday				
UK	RICS Housing Survey	Oct	--	-15
UK	GDP Est 3M/3M	Sep	--	0.3%
UK	GDP Estimate YY	Sep	--	1.3%
UK	Services YY	Sep	--	1.7%
UK	Industrial Output YY	Sep	--	-0.7%
UK	Manufacturing Output YY	Sep	--	-0.8%
UK	Goods Trade Balance GBP	Sep	--	-21.183B
UK	GDP Prelim QQ	Q3	--	0.3%
UK	GDP Prelim YY	Q3	--	1.4%
UK	Business Invest QQ Prelim	Q3	--	-1.1%
UK	Business Invest YY Prelim	Q3	--	3.0%
EC	Industrial Production YY	Sep	--	1.1%
US	Core CPI YY, NSA	Oct	--	3.0%
US	CPI YY, NSA	Oct	--	3.0%
US	CPI Wage Earner	Oct	--	318.139
US	Initial Jobless Clm	3 Nov, w/e	--	--
US	Cont Jobless Clm	27 Oct, w/e	--	--
Friday				
CN	Retail Sales YY	Oct	2.7%	3.0%
JN	Tertiary Ind Act NSA	Sep	--	-4.3%
EC	Employment Flash YY	Q3	--	0.6%
EC	Employment Flash QQ	Q3	--	0.1%
EC	Total Trade Balance SA	Sep	--	9.70B
EC	GDP Flash Estimate QQ	Q3	--	0.2%
EC	GDP Flash Estimate YY	Q3	--	1.3%
EC	Reserve Assets Total	Oct	--	1,622.22B
US	PPI Machine Manuf'ing	Oct	--	--
US	PPI Final Demand YY	Oct	--	--
US	PPI exFood/Energy YY	Oct	--	--
US	Retail Control	Oct	--	--

The calendar data for the current week comes directly from LSEG Datastream. They are published in the week in which "The Week Ahead" appears. These are economic data that come from official sources. Where available, the previous figure is collected together with the consensus estimate. The consensus estimate is collected by LSEG Datastream through a survey of analysts and economists. It is the average of all estimates submitted.

[1] Freeman, R. B. (2018). **Employee and citizen ownership of business capital in the age of AI Robots**. CSR und Mitarbeiterbeteiligung: Die Kapitalbeteiligung im 21. Jahrhundert–Gerechte Teilhabe statt Umverteilung, 101-108. SpringerGabler. Wiesbaden.