

## PRODUCTIVITY AND TRUMP

October Comment 2025

Even perma-optimists are beginning to have some doubts about the sustainability of the current *stock market rally*. They were waiting for at least a physiological correction in August when, after the rises of July, there is often some unexpected news that moves the stock markets. It is known that they react violently to the neuroses of the few traders left to work during the summer. September is statistically a bad month. But no, Wall Street continued to run. Now the fourth quarter begins, which usually reaps the benefits of the year and prepares the next one with deliberate or at least sought optimism. The MSCI World index, at the end of September, scored +17%, the S&P 13.7%, the Nasdaq 17.5%, the Stoxx600 10%, the Nikkei 225 12.6%, Switzerland a timid 4%, offsetting the brazen index of emerging countries, which includes China, with +25.2% (MSCI Emerging Market). And all this is happening in an extremely tense global political and geopolitical context, with the war in Ukraine not diminishing in intensity at all (on the contrary!), the drama of Gaza still ongoing,

increasingly disruptive polarizations in Western democratic systems and agreements, or threats, on customs duties in the United States. Yet, in September alone, the S&P gained 3.5%, the Nasdaq100 5.4%, the Eurostoxx600 3.3% and the Nikkei 225 5.2%.

Of course, it is easier to look for the reasons for the rally in retrospect, even if, evidently, everything becomes complicated if you also want to understand how long it will last. There are at least three reasons that caused it. The first concerns fuel, understood as liquidity. Well, the money supply (M2) expressed by the four main central banks in the world (Federal Reserve, European Central Bank, Bank of Japan and People's Bank of China) is at an all-time high. But abundance is not enough: the cost must also be considered. In this second area, it should be noted that the last intervention of the world's central banks, in 86% of cases, was a cut in interest rates. The most important was missing, the Federal Reserve, which in September reduced its benchmark rate by

a quarter of a point, leaving the door open to further cuts, given that inflation has perhaps become a secondary theme compared to employment. The third reason is the frantic frenzy of all things artificial intelligence (AI). Oracle (+36% in a single day, on September 10) galvanized the markets with the announcement that future revenue from customer contracts increased by 360% in the quarter to \$455 billion. In addition, projections for Oracle Cloud Infrastructure indicate growth of 77% to \$18 billion in the fiscal year and \$144 billion in 2030. The market interpreted these numbers, along with those of other major AI companies announced in the period, as confirmation that the investment target of \$3,000-4,000 billion in the coming years is credible. This favourable framework has also overshadowed the issue of customs duties, also thanks to the agreements reached, such as the one with the European Union and Japan, which at least have the merit of clarifying, in part, the Trumpian chaos.

Looking ahead to the quarter, rate cuts, inflation and tariffs are likely to be subordinate themes: the market will be looking for clues as to whether

employment will worsen and whether the adoption of artificial intelligence will translate into sustained productivity. The real current bet of the markets' flight forward is precisely the idea that the general spread of AI can cause a leap in productivity capable of containing wage ambitions and therefore inflation. There will be rotations both sectoral, the result of the research of those companies that are able to integrate AI tools before others, and geographical, where extreme valuations (such as those currently on Wall Street) will push people to look for realities that could be substantially undervalued, in Europe and in some emerging countries.

Will the *rally* continue? Yes, if the market continues to be supported by clues and, from time to time, by some certain data that productivity can improve substantially.

This is the theme of the *momentum market*, which feeds on itself.

But there is also another aspect that must be monitored. It is the credibility of the president of the United States. He chose force and threats to reposition his country's relative power. For the moment, even if with increasingly strong reactions from "enemies", such as China and

Russia, his strategy holds. Just look at how his allies try to meet his demands. But it will be difficult to maintain this state of "armed" control for long. A difficult resolution of the current shutdown and/or the revolt of important allies such as Japan and the European Union could undermine its strength. In the coming months, these aspects may turn into volatility without undermining the positive trajectory of the markets. Then, we will see.