# INVESTORS STOP BUYING THE STORY AND START COUNTING THE CASH

This week suggested investors are more discerning than talk of an AI bubble implies. As Big Tech reported results, they sold companies burning cash to build data centres and stood by those still generating it. Bubbles rarely look like this. The biggest spenders now increasingly borrow or sell shares to fund their plans, and investors want proof of returns first. Alphabet and Amazon fell sharply, while cash-rich Microsoft held up and Oracle rallied. Patience is thinning, though. By Friday the sell-off had spread to chipmakers from Seoul to Amsterdam.

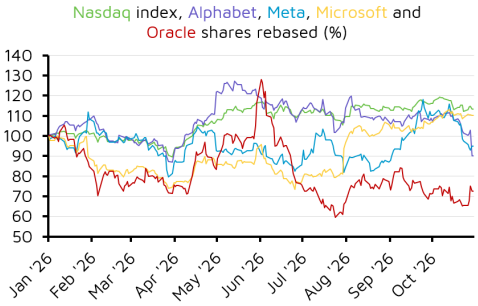
AI investment is also lifting the US economy. Together with solid consumer spending, it pushed annualised growth to 3.4% in the third quarter, from 2.4% in the second. But the Iran war has raised fuel prices, and consumer price inflation reached 3.7% in September, with underlying inflation rising too. Companies are passing on costs, and while spending held up over the quarter, it stalled in September. The Federal Reserve held rates after September's rise, though two of its rate-setters wanted another. The European Central Bank and the Bank of Japan also held.

## THE MARKETS THIS WEEK

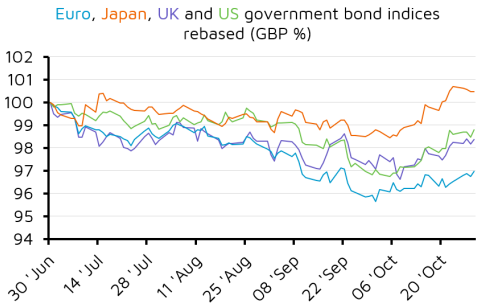
| FTSE 100 | S&P 500 | Nikkei 225 | STOXX 600 | Hang Seng | US 10 Yr | UK 10 Yr | Brent Crude | Gold | Copper | GBP USD |
|---|---|---|---|---|---|---|---|---|---|---|
| +0.59% | -0.33% | +0.67% | +1.80% | +0.87% | -0.05% | -0.03% | 0.00% | -1.19% | +1.13% | +0.33% |

### TECH: GOOGLE FINDS AI CAN ALSO SEARCH ITS POCKETS

Investors were rewarding AI spenders that fund themselves and punishing those that must borrow or sell shares. With Big Tech spending about $700bn on data centres this year, cash flow is now the test. Alphabet failed it. Its shares fell 13% on Thursday, erasing about $500bn, after $51.3bn of spending pushed quarterly free cash flow to -$9.1bn and Google admitted AI answers were hurting search. Microsoft passed with $18.6bn of free cash flow, though its shares slipped on reported plans to borrow $25bn.




Chipmakers live off that spending and now help fund it: Nvidia, AMD and Broadcom will buy into Meta's planned $95bn share sale. Anthropic's listing prospectus briefly lifted tech on Monday, showing first-half revenue of $16.3bn, up from $1.2bn, and over $800bn committed to computing, though it lost $81bn, mostly on paper. SK Hynix then beat forecasts and pledged $75bn to shareholders, but Samsung fell up to 6% on a chip-profit miss. China's CSI 300 entered a bear market, prompting state-backed buying.



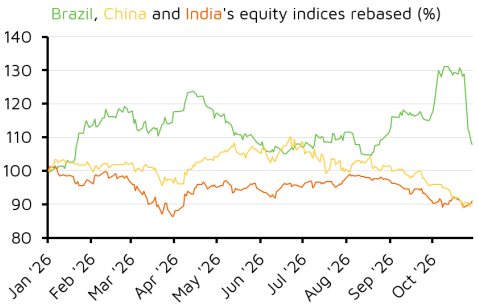

### RATES: FED AND ECB HOLD BUT RISES STILL LOOM

The US Federal Reserve held rates at 3.75–4% on Wednesday, but said growth is strong and inflation high, strengthening the case for further rises. Two of the twelve rate-setters wanted a quarter-point rise. Thursday's data backed them: the economy grew at a 3.4% annual rate in the third quarter, its fastest in a year, powered by consumers and AI investment, while the Fed's preferred inflation measure rose to 3.6%. Chair Kevin Warsh, true to his promise of less guidance, gave few hints, and the Fed will set rates seven times next year, not eight. Markets put the chance of a December rise at about 80%, yet Treasuries rallied as investors fled tech shares.

The European Central Bank also held, at 2.5%, but kept a December rise in play as energy prices push up inflation. It warned that higher borrowing costs, especially in France, could slow growth. Investors now expect slightly fewer rises, so the euro and bond yields fell. Christine Lagarde will step down as ECB president in February, eight months early.

### BRAZIL: MARKETS BET ON THE LOSER AND PAID FOR IT

Emerging markets showed this week how quickly politics and oil can test investors, though the damage stayed local. In Brazil, markets had counted on business-friendly Flávio Bolsonaro, who led the first round. No candidate had ever come from behind to win, but President Lula did, by 3.5 points. On Monday, the real fell 8% against the dollar, its worst day since 1999, and the Bovespa stock index lost 13.9%. Investors fear more spending as campaign pledges cost about $55bn, debt is 83% of GDP. Fund managers say a lasting recovery in the real needs a trusted finance minister and spending cuts that stop debt rising; without them, interest rates, already 13.75%, are likely to stay high.




In India, costly oil from the Iran war and record foreign selling have left the rupee down 5% against the dollar this year, among Asia's weakest. The central bank has spent about $90bn defending it. Yet in a stock market down 14% this year, telecoms group Jio raised $3.2bn at a $108bn valuation in India's biggest listing, and its shares jumped 27% on debut.

Data sourced from FE Analytics

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