AI INVESTORS CONSIDER THE DOWNSIDE AS DIVERGING INTEREST RATES WEIGH ON STERLING

This week a big shift in investor behaviour saw markets identify some of the potential losers from the AI revolution. So far investors have focused on finding the AI winners, so this is a notable change in mindset. AI should drive significant productivity improvements, but the benefits are likely to be spread unevenly and further disruption appears inevitable as the technology evolves and adoption accelerates.

Meanwhile, the Bank of England and European Central Bank left rates unchanged. With inflation in the Eurozone down to 1.7%, the ECB is unlikely to shift policy soon. However, with four votes in favour of a rate cut and a forecast of slowing inflation, rising unemployment and weak growth, the pace of rate cuts from the BoE is projected to hasten. In the US, Kevin Warsh's nomination as the next Fed chair tempered expectations for rapid interest rate cuts and this saw sterling fall versus a generally rising dollar. The biggest shift in equity markets occured in Japan where the forecast of a landslide victory for prime minister Sanae Takaichi's Liberal Democratic Party this weekend drove Japanese stocks higher.

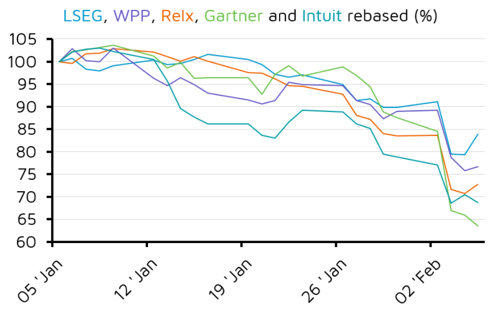
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	STOXX 600	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Copper	GBP USD
+1.20%	-1.23%	+3.88%	+0.40%	-2.66%	-0.07%	+0.02%	-1.01%	-2.49%	-1.99%	-1.24%

AI: NEW ANTHROPIC TOOLS SCUTTLE ADVERTISING, DATA & PUBLISHING

Anthropic's launch of open-source plug-ins for its Cowork platform has triggered sharp selloffs across software, data analytics and publishing sectors. The AI firm's tools—which automate tasks like contract reviews and marketing workflows without requiring technical skills—raise fears that businesses will increasingly build their own solutions rather than purchase specialized software. In London, Relx plunged 16%, wiping over £6 billion from its value, while rival data providers Thomson Reuters and LSEG fell 14% and 21% respectively. US analytics firms including S&P Global, Gartner and Moody's dropped between 9% and 28%, with advertising groups WPP and Publicis also suffering.

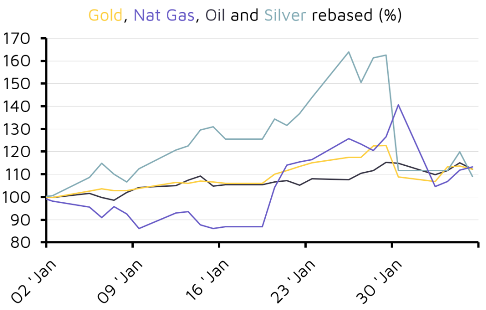
The severity of this week's rout reflects mounting investor anxiety about AI disrupting industries once prized for stable recurring revenues. Yet the market response may overstate near-term risks. Businesses remain cautious where regulatory or security risks exist, and business AI adoption has recently declined among larger firms.



COMMODITIES: EASING GLOBAL TENSIONS SPARK VOLATILITY

A sharp fall in the price of silver has erased almost all of its rapid gains since the start of the year. Easing geopolitical tensions, including between the US and Iran, saw demand for haven assets fall. Gold has also fallen significantly from its high point on 29 January, although it slightly recovered this week. The nomination of Kevin Warsh as the next head of the Federal Reserve has reduced expectations of rapid interest rate cuts and caused the US dollar to strengthen and this has reduced the attraction of precious metals.

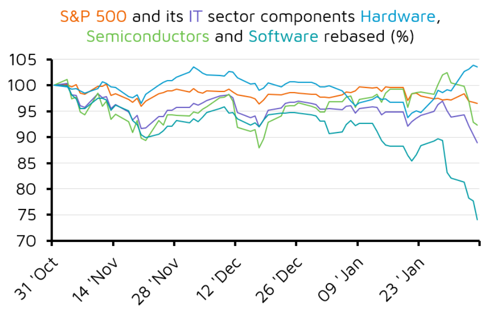
Other commodities have also experienced volatility. The price of oil was driven up by tension between the US and Iran before falling back as both sides agreed to talks. The price of natural gas also fluctuated as low reserves in the UK and Europe pushed up prices due to concerns that cold weather in the US would restrict exports. However, warmer weather has eased concerns.



EQUITIES: US TECH COMPANIES REPORT BIG RISE IN REVENUES

Several disappointing stock market updates have fuelled a more pessimistic view of AI tech companies. After positive updates from Meta and Apple last week, investors appeared reassured that US tech firms are able to sustain the rapid growth needed to justify very high valuations. However, updates from chipmakers AMD and Qualcomm saw their shares fall 17% and 9%, respectively, as rising revenues and sales forecasts fell short of expectations. An underwhelming update from chip designer Arm added to the negative sentiment due to concerns that smartphone sales are slowing as dozens of tech stocks were dragged down.

Google-owner Alphabet delivered strong earnings growth but its shares also declined as it massively increased its forecast for capital expenditure. It remains one of the best performing US stocks this year but many other tech firms, including some of the other Magnificent Seven tech giants, have fallen behind the broad market in recent months.



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