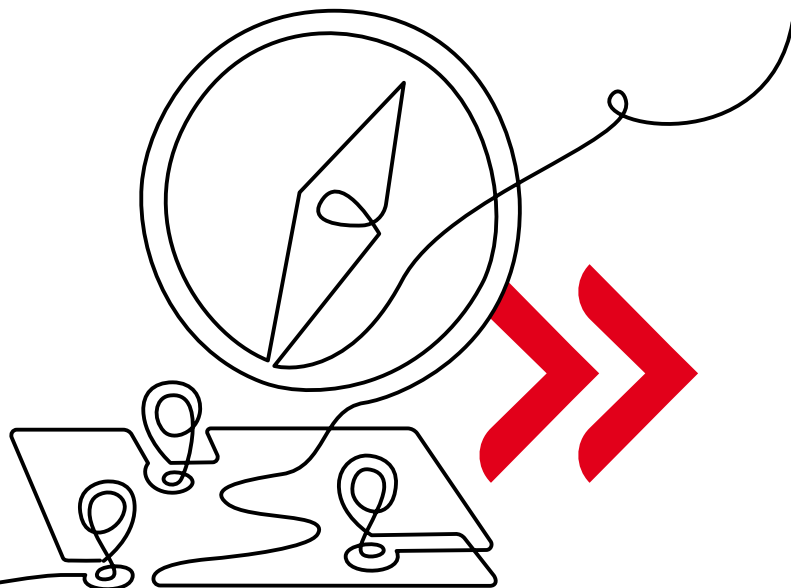


# The Compass Checkpoint

31 October 2025



## The AI boom

In 1987, Nobel laureate Robert Solow quipped: “You can see the computer age everywhere but in the productivity statistics.” It takes time for firms to adapt their processes and take full advantage of a new general-purpose technology. Similarly, while AI is becoming a trusted advisor in our daily lives, it is too early to see its impact in productivity statistics.

However, the massive investments in data centres that are needed to support this technology are already showing up in GDP growth numbers. This year, US Big Tech has committed about USD 400bn to building data centres. Without them, the US economy would have barely grown in recent quarters. According to our own estimates, AI investments accounted for nearly 70% of US GDP growth in 1H25.

This is certainly not another dotcom bubble. Back then, many companies were just start-ups with nice business ideas but no products to sell. Now, the Mag 7 are mature, cash-rich and earnings-generating companies. At the same time, valuations of tech companies are high but not stretched. At the peak of the dot-com bubble in March 2000, the Nasdaq 100's 12-month forward P/E was above 60x, while now it is trading at approximately 27x.

But cautiousness is warranted as many things can go wrong. Circular deals between AI model makers, compute providers and chipmakers are boosting tech stock prices and increasing the systemic AI risk. At the same time, American companies are racing to achieve artificial general intelligence (AGI) – a form of AI that possesses human-level cognitive abilities – without any guarantee of success.

And there is a concrete risk of being on the wrong track.

China is developing AI models such as DeepSeek that need far less computing power (and so fewer data centres) than those developed in the US. At the same time, China is more focused on AI applications than on achieving AGI. This strategy might lead to a more immediate productivity boost that could provide a lasting competitive advantage, especially if AGI proves to be either unattainable or ephemeral.

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# View from the CIOs

Alessandro Caviglia (Italy), Philip Gisdakis (Germany), Oliver Prinz (Austria)

The last few weeks have seen two developments in capital markets: significantly positive performance (especially for equities and gold) and increased volatility (also particularly for equities and gold). This development reflects two fundamental elements of our latest assessment: market momentum is positive but significant risk factors remain. The positive momentum in equity markets is based on the fundamentally positive outlook for the economies in Europe and the US in the coming quarters. Moderate economic growth should also lead to growth in corporate earnings.

The risk picture, in turn, reflects several factors: **1.** a cooling US labour market (which gives the Fed room to cut interest rates); **2.** negative implications from sharply increased import tariffs by the US (inflationary pressure for US consumers and cost pressure for US producers), which could limit Fed easing overall; **3.** a resurgence of the trade conflict with China due to Chinese export restrictions on rare earths, although progress towards a framework agreement has recently been made; **4.** there are also uncertainties regarding the long-term stability of the USD and the safe-haven status of US government bonds – due to rising government debt and potentially stronger political influence on monetary policy in the US. The latter factor has boosted gold and other precious metals in particular, but profit-taking has recently triggered a setback. On the other hand, Europe is also facing significant risks: political uncertainty in France, unclear prospects for German investment projects and the continuing dependency on critical raw materials from China.

Taking these factors into account, our current allocation is neutral with respect to equities, but with a positive bias in the medium term, especially compared to government bonds, which we are underweighting. We consider European government bonds to be unattractive, as their yields are low following the end of the ECB's rate-cut cycle and as the prospects for price gains are slim. With regard to US Treasuries, we see risks of rising yields due to further growth in government debt, despite the expected interest rate cuts by the Fed, in addition to USD currency risks. In fixed income, we prefer emerging-market bonds, while corporate bonds remain neutrally weighted. This positioning reflects our belief that equities continue to play a central role in a balanced portfolio without taking on excessive risk.

## ASSET ALLOCATION

### OUR INVESTMENT VIEW ON ASSET CLASSES

	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
<b>Global equities</b>		●	
US equities		●	
Europe equities		●	
Pacific equities (developed markets <sup>1</sup> )		●	
Emerging-market equities		●	
<b>Global bonds</b>		●	
Government bonds (EMU)	●		
Government bonds (N-EMU)	●		
Corporate bonds (EUR-denominated investment-grade)		●	
Corporate bonds (high yield)	●		
Emerging-market bonds (hard currency)			●
Emerging-market bonds (local currency)			●
<b>Money markets</b>		●	
<b>Alternatives</b>		●	
<b>Commodities</b>		●	
Oil		●	
Gold		●	

1. Developed markets: Australia, Japan, Hong Kong, New Zealand, Singapore



## 1 ECB on hold

In the eurozone, the ECB remains in wait-and-see mode. The bar for a further interest rate reduction was raised at the September meeting, when the central bank sounded less concerned about economic activity. However, reading between the lines of official communication, the Governing Council appears split with respect to the balance of risks to the inflation outlook. We expect the deposit rate to remain at 2% for the foreseeable future, but risks are tilted towards a final rate cut over the next couple of quarters. With the negative impact of tariffs materialising, the labour market weakening, the oil market being oversupplied and China's trade diversion to Europe already happening, the risk of the ECB undershooting its inflation target over the medium term is real. In its September forecasts, the ECB already envisaged inflation settling slightly below 2% both in 2026 and 2027. The new macroeconomic projection, to be published in December, will shed more light on whether the undershooting could intensify.

## 2 Fed likely to pause

At its 29 October meeting, the Fed cut its target range for the federal funds rate by another 25bp, to 3.75-4.00%. It also announced it would stop quantitative tightening in December. In the press conference, Fed Chair Powell's tone was notably hawkish, pushing back against the financial market pricing for another rate cut in December. Our base case remains that the Fed will pause now until mid-2026. We see just one rate cut next year, less than financial markets expect. We forecast inflation to move higher, hiring to pick up somewhat and economic activity to be solid, supported by a reduction in policy uncertainty and fiscal support from the One Big Beautiful Bill Act. Political pressure on the Fed will likely remain intense, but we assume legal challenges, among other things, will prevent President Trump from decisively influencing monetary policy, either through changes in personnel or by other means.

## 3 US-China trade deal: short-term stabilisation, longer-term decoupling

At their meeting on 30 October in South Korea, US President Donald Trump and Chinese leader Xi Jinping outlined a one-year framework that could be converted into a broader and final trade deal. Until written terms are published, this is a tentative truce rather than lasting peace. President Trump said that the US will halve the fentanyl-related tariff on Chinese goods from 20% to 10%. In return, Beijing will step up curbs on fentanyl precursor chemicals, defer, for one year, the newly announced export controls on rare-earth metals, and expand agricultural purchases. In our view, the package brings some relief but not a major reset. The narrow reduction in US tariffs eases costs at the margin, while leaving overall US duties far above pre-trade-war levels. The rare-earth reprieve removes an immediate supply-chain threat for the US and other industrialised countries but is temporary and reversible. In the short run, the partial trade deal is stabilising global trade and averts further escalation. It is buying time for industrialised countries to advance non-China sourcing of critical minerals and cultivate alternative markets. In the longer term, however, the strategic rift between the US and China endures. Core frictions, such as US controls on advanced semiconductors, critical tech-restrictions and geopolitical rivalry, remain unresolved. The trajectory still points towards a structural decoupling instead of a restoration of the old order before Trump 2.0.



# AI impact on US near-term GDP growth

Author: Daniel Richard Vernazza

In the US, AI-related investment has been booming recently. In 1H25, real business investment in information processing equipment was up 35% annualised and that in software up 23% annualised. These two AI-related categories are about 30% of total business investment but accounted for all of total business investment growth in 1H25. Some commentators have made the direct observation that, using the 4% weight of these two AI-related investment categories in GDP, they contributed 1.1pp to real GDP growth of 1.6% annualised in 1H25, or more than 70%!

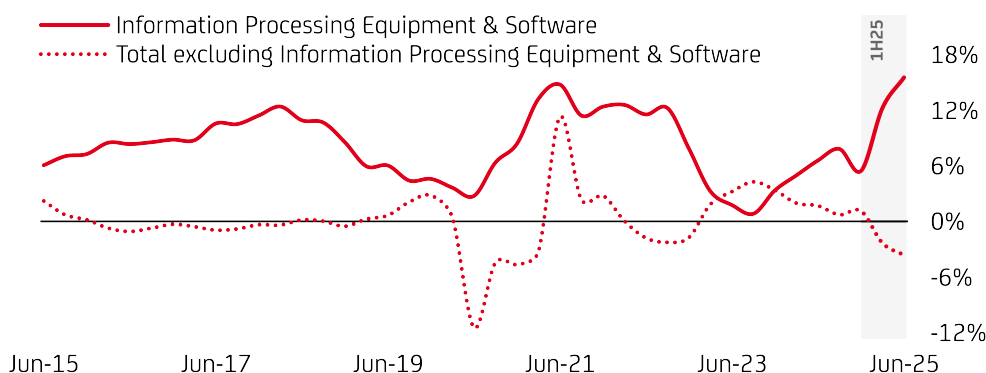
Whilst remarkable, this arithmetic is too simplistic. This is because a large chunk of the investment in AI-related categories is imported. Indeed, imports of AI-related products surged in 1H25, partly driven by frontloading ahead of higher tariffs. For example, US imports of digital processing units rose over 400% annualised in 1H25. Higher imports subtract from GDP growth, because they are not domestically produced output.

Even after accounting for imports, the AI investment boom is clearly boosting US GDP growth. It may also help to explain the unusual situation of remarkably resilient economic growth at a time of recent weakness in payroll employment. Labour productivity (measured as real GDP per hour worked) growth has risen sharply recently, and it's possible that part of the explanation is that firms are using AI investment to substitute for hiring workers, particularly at a time of much lower immigration. The October Beige Book lent some anecdotal force to this argument when it said that “more employers reported lowering head counts through layoffs and attrition, with contacts citing weaker demand, elevated economic uncertainty, and, in some cases, *increased investment in artificial intelligence technologies* [our emphasis added].”

Still, while we expect AI technologies to have a positive impact on long run productivity growth, we are sceptical that recent investment is already boosting productivity. Productivity growth tends to be very volatile at a quarterly frequency, and the history of technological revolutions tells us that it takes time (years) before the effects on productivity materialise as the technology finds uses and positive network externalities. Therefore, we currently put more weight on the recent weakness in employment as being temporary, and that hiring will pick up somewhat as policy uncertainty reduces (or firms become used to uncertainty). Meanwhile, loose financial conditions, and the incentives contained in the One Big Beautiful Bill Act that passed in early July, should support wider investment and aggregate demand.

**CHART 1.1: US AI-RELATED INVESTMENT BOOM**

US REAL BUSINESS FIXED INVESTMENT, % YOY



Source: BEA, The Investment Institute by UniCredit

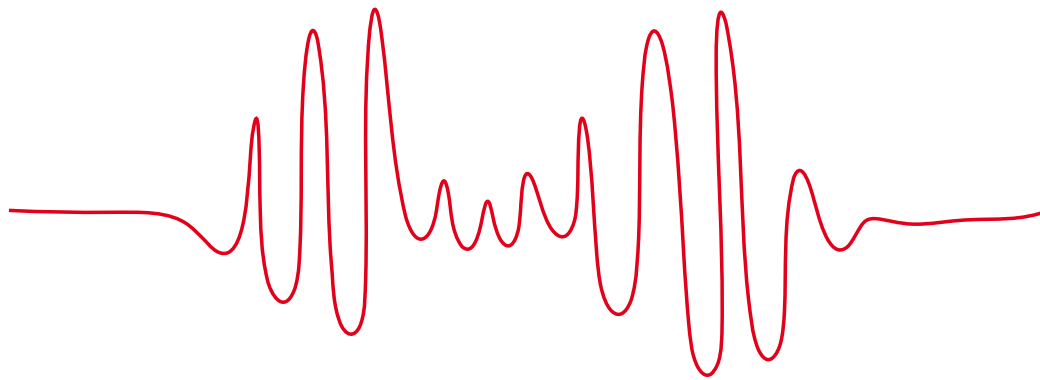




Authors: Francesco Maria Di Bella, Tobias Keller, Stefan Kolek, Roberto Mialich, Jonathan Schroer, Christian Stocker, Thomas Strobel, Michael Teig

## The noise ...

The government shutdown in the US and renewed trade tensions between the US and China have contributed to keeping economic and geopolitical uncertainty elevated. Investor expectations regarding Fed easing have remained optimistic, also fuelled by lower-than-expected US inflation data for September, and the 10Y UST yield has remained in the 4% area. EGB yields are also lower than they were a month ago. After a temporary pause, the equity rally resumed, supported by another strong earnings season, which saw US stock indices reaching new all-time highs. In FX, the USD has recovered some ground against other currencies.



## ... and the signal

Markets are in search of more clarity surrounding the impact of tariffs on global economies and the next moves by the Fed. The continuation of the US government shutdown, and the consequent lack of data releases, is currently complicating the picture. If US data, especially those relating to the job market, do not deteriorate much, markets will probably slightly scale back their expectations of rate cuts by the Fed. This could lead to an upward correction in government bond yields. The outlook for equity markets remains healthy, with earnings growth continuing to present the key tailwind. The rise in delinquency rates and recent default announcements in the US have put the credit market in the spotlight. While we do not see this risk as systemic, credit spreads are likely to widen from currently tight levels. With respect to commodities, we expect oil to trade sideways, caught between US sanctions and supply overhang. Following a formidable rally, gold has lost some of its shine. Yet, positive structural factors are still in place, which will likely keep its price above USD 4,000/oz in the coming months.

# Equities

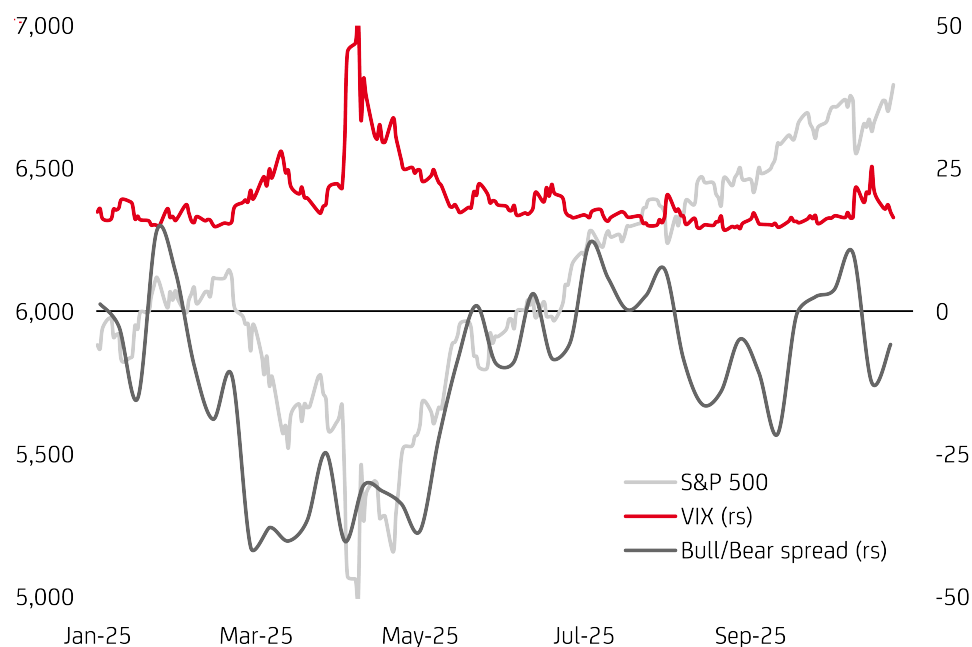
## Equities hold ground amid October volatility

Global stock markets have entered 4Q25 with a mix of resilience and caution. After the strong summer rally, equity indices have experienced frequent swings in recent weeks, reminding investors that even in a fundamentally supportive environment, volatility remains a constant companion. The recent instability has largely been fuelled by renewed trade tensions and concerns over three credit events involving regional US banks, which reignited investor unease. Nevertheless, the new record high reached by the S&P 500 in late October underscores the market's underlying strength and continued confidence in the economic and earnings trajectory.

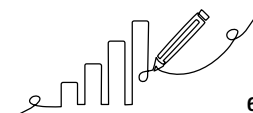
As for **US stocks**, the S&P 500 reached a new all-time closing high on 28 October. A single-day drop of nearly 3% two weeks earlier – its steepest since 10 April, when markets were rattled by Trump's "Liberation Day" – was triggered by renewed friction in the economic relationship between the US and China and hawkish political rhetoric from both sides. Yet, that pullback proved short-lived. Investors quickly recalibrated, buoyed by a solid start to the 3Q25 earnings season, dovish signals from the Fed and a noticeable moderation in political tone following the initial tariff threats. The S&P 500 earnings season is progressing strongly: Approximately 87% of S&P 500 companies that have reported results have exceeded earnings expectations, which is well above the 10-year average of 75%. Financials and tech sectors are driving the upside. The index is up more than 15% year-to-date, as the US economy continues to provide a favourable backdrop. Valuations, while elevated, remain well below the extremes seen during the dotcom era, when investor exuberance far outpaced earnings reality.

**CHART 2.1: SENTIMENT SWINGS AMID VOLATILITY SPIKE**

AII BULL-BEAR SPREAD TURNS NEGATIVE WHILE VIX BRIEFLY SURGES ABOVE 25



Source: AII, LSEG, Bloomberg, The Investment Institute by UniCredit



Investor sentiment improved steadily from mid-September, as evidenced by the AAI Bull-Bear Spread reaching 10.2% on 9 October, its highest level since early July. Its reversal to -12.4% just one week later signalled a renewed sense of caution, but the subsequent rebound points to a recovery in sentiment (see Chart 2.1). The CBOE volatility index (VIX) has mirrored this underlying fragility beneath the robust headline performance. After spiking above 25 on 16 October, the index has since retreated (see Chart 2.1), reflecting a calming of investor nerves. Despite the pullback, the VIX remains slightly above its 50-day moving average, suggesting that elevated risk sentiment persists. The market has narrowed again, with large-cap growth stocks dominating performance, raising questions about sustainability and increasing the risk of short-term volatility.

**European equities** have been steadier in recent weeks. The Euro STOXX 50 remains near its all-time high, supported by improving macro data and investor optimism around fiscal infrastructure spending. Year-to-date, the index is up almost 16%. Earnings growth in Europe remains uneven, reflecting sectoral divergence rather than broad weakness. Export-oriented industries, particularly autos and industrials, have faced headwinds from trade friction and currency volatility, with the euro's recent strength against the dollar weighing on US-derived revenue. More domestically oriented sectors have shown greater resilience, with consumer-related sectors, health care, utilities and financials continuing to attract investor interest, supported by stable consumer demand, fiscal infrastructure programmes and improving credit conditions. Luxury stocks have also provided support, with strong results from industry leaders helping to offset broader cyclical softness. While the earnings outlook has improved modestly, a more dynamic recovery will likely depend on easing trade tensions and sustained macro momentum, which we expect in 2026. Political uncertainty in key European economies such as France and broader geopolitical risks remain headwinds.

**Emerging markets** have also continued to show resilience through October, extending their strong year-to-date performance. The MSCI EM Index is up almost 30% year-to-date, outpacing developed markets by a wide margin. The rally has been driven by strong earnings, a weaker US-dollar and investor rotation into undervalued regions. Asia remains the centre of EM strength, benefiting from AI-driven investment and favourable demographics, but regional divergence and geopolitical risk call for a selective and disciplined investment approach.

We maintain a constructive **equity outlook**. In the US, continued economic expansion, declining rates and resilient earnings growth should support further upside in the medium-term, though elevated valuations and policy uncertainty may moderate momentum. Consensus forecasts a 15% rise in S&P 500 earnings in 2026, but we view this as overly bullish and project growth closer to 11%. In Europe, modest profit growth and improving GDP figures should provide a foundation for solid equity gains, though a more dynamic earnings recovery remains key – with earnings growth likely to come in at around 8% in 2026, in our view. We expect the S&P 500 to reach 7,200 and the Euro STOXX 50 to rise to 5,900 by mid-2026. In emerging markets, macro conditions remain broadly supportive.

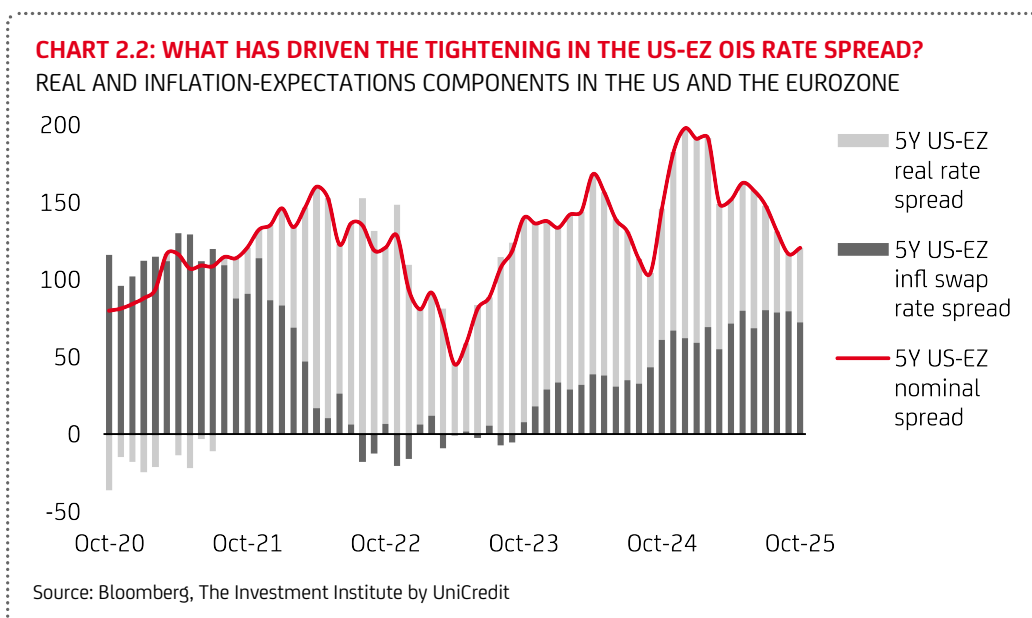
# Fixed Income

## Government bonds: a fragile rally

Government bonds have recently rallied worldwide, supported by renewed trade tensions between the US and China, the government shutdown in the US (along with the resulting lack of data releases) and recent concerns surrounding US regional banks. Market expectations surrounding the Fed's easing cycle have become more dovish, with OIS forward rates pricing in a rate of around 3% by the end of 2026, and UST yields are roughly 10bp lower than they were a month ago.

EGB yields have declined as well, with curves generally flattening. The 10Y Bund yield has declined by almost 15bp to the 2.60% area. The success of the reappointed French prime minister in reaching an agreement with the Socialist Party on 2026 budget, has led to a recovery of French paper, with the 10Y OAT-Bund spread tightening to 75bp. BTPs have remained supported in the past few weeks and the 10Y BTP-Bund spread has been trading below 80bp. Good demand for the new BTP Valore from retail investors indicates that this investor category remains willing to absorb Italian supply.

Rate spreads between the US and the eurozone have been declining over the past few months. The 5Y OIS rate spread between the US and the EZ now stands at 120bp, 80bp tighter than it was at the beginning of the year. Inflation swap rates have declined in the past few weeks, reflecting the fall in commodity prices. The gap between the US and the eurozone has been stable. If anything, it has widened. On the other hand, the gap in real rates has tightened significantly, by almost 100bp, since the beginning of the year and is now close to 50bp, its lowest level since the end of 2021. In our view, this reflects concerns surrounding the trade war and economic growth in the US and, especially, different monetary policy trajectories.



While economic and geopolitical uncertainty continues to provide fertile ground for government bonds, we think the current rally has short legs and there are risks of an upward correction. We expect UST yields to rise, supported by resilient economic data in the US, with EGBs likely to follow their move. In terms of curve shape, EGB curves are likely to steepen from current levels, while the move in the US will probably be more parallel.



## Corporate credit: no systemic risk in sight

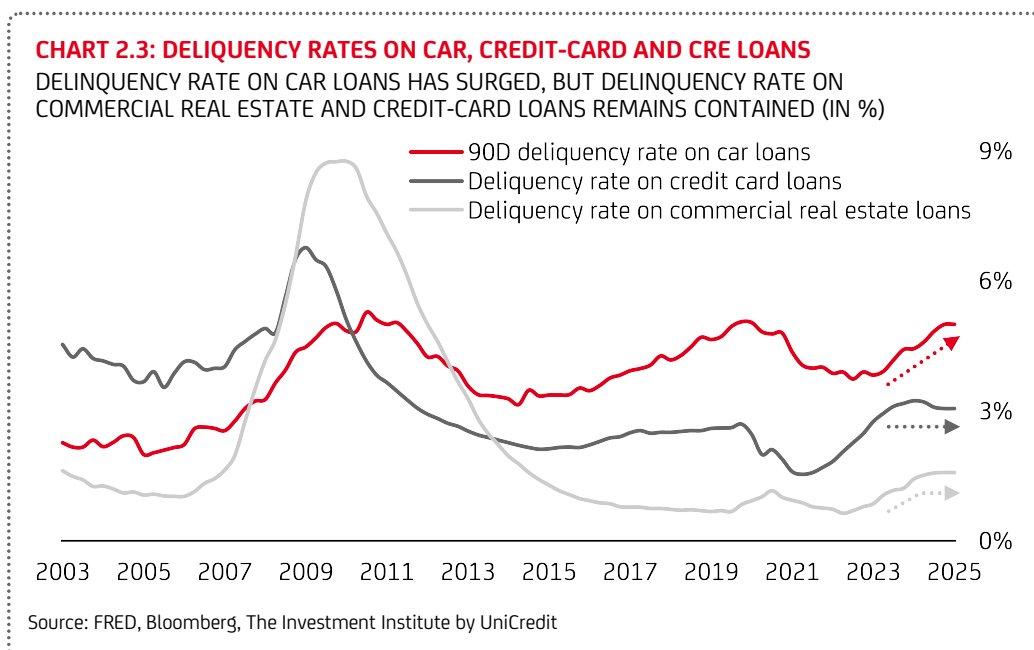
Amid rising credit-market worries in the US, European corporate credit performance has been mixed over the past few weeks. While investment-grade non-financials risk premiums have remained stable, financials and high-yield spreads have widened moderately. Reports about medium-sized US banks and car-loan providers facing trouble triggered by announcements of loan defaults, fraudulent borrowers and lawsuits sparked some concern among investors, although it did not lead to a pronounced market reaction. As our chart shows, the delinquency rate on car loans in the US has surged in recent months to levels not seen since 2020, and close to rates last seen in 2008-09. This reflects a reluctance on the part of both companies and private households to engage in discretionary spending due to prolonged high interest rates.

Concerns have emerged that these events might not be isolated incidents but could signal the emergence of a wider problem. At this stage, we do not see the issue evolving into a systemic issue, as delinquency rates on other debt market segments in the US, such as commercial real estate (CRE) and credit card loans (see Chart 2.3) are contained; liquidity in the system remains ample and the market is expecting the Fed to ease its policy in the coming month, but the situation needs to be monitored. The figures reported with 3Q25 results by US and European banks confirm a stable asset-quality picture, and we view recent cases as idiosyncratic and focused on more risky business models.

What makes the situation more complex and opaque is the increasing volume of loan exposure that has been shifted from the traditional banking sector to non-bank financial institutions (NBFI). This has two implications: first, banks have increasingly provided funding to private credit funds to engage in more risky lending activities and second, there are concerns that the asset-quality metrics reported by banks might not fully reflect the underlying risk of their loan books.

However, given their solid credit quality, a picture likely to be confirmed during the upcoming earnings season, investment grade non-financials should remain stable. High-beta credit (high-yield and subordinated debt), on the other hand, is more vulnerable to spillover effects.

Ultimately, we continue to see a moderate upside correction in both in IG and HY spreads in the coming weeks, though carry remains the key source of return. Financials could underperform non-financials in a spread widening driven by increasing concerns about a change in the credit cycle. See the risky-asset table for more details of our corporate credit spread forecasts.

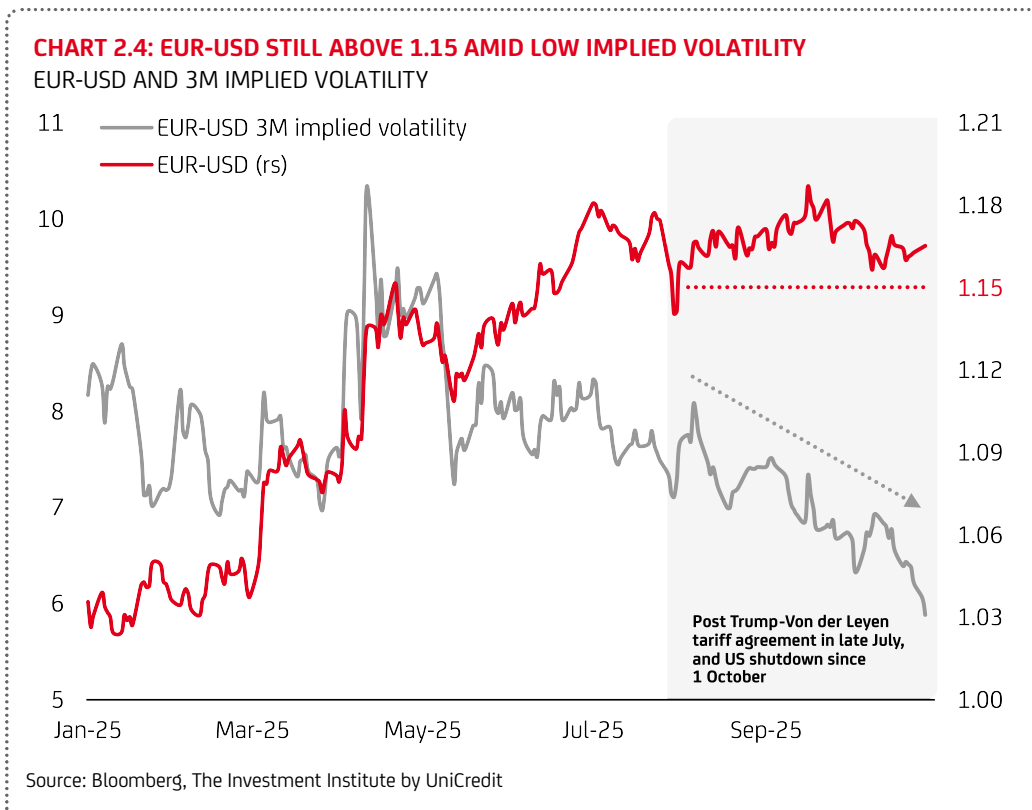


# FX

## EUR-USD: resilient, but still stuck in the middle of nowhere

In FX, EUR-USD has retreated from the YTD high of 1.1919 that it touched after the FOMC meeting in September, at which the Fed cut rates by 25bp to 4.00-4.25%. In the absence of new fundamental drivers, largely due to the US government shutdown, the rally of this pair has stalled, with spillover effects from a higher USD-JPY due to political developments in Japan not helping the single currency either. Indeed, EUR-USD showed resilience again as selling pressure eased just below 1.1550. At the same time, however, the pair risks remaining stuck in the middle of nowhere above 1.16, despite Fed Chair Jerome Powell having left the door open to more easing. Unsurprisingly, implied volatility remains low, especially compared to the spike seen following “Liberation Day” in April, as shown in the chart below. The corresponding risk-reversal rate has just returned somewhat above zero, indicating that the market remains prudent about extending the EUR-USD rebound for now.

We remain moderately bullish on EUR-USD, given more Fed easing ahead while the ECB is set to remain on hold at the current 2.00%. Moreover, the price action has steadily showed that, up to now, investors have ultimately considered any retreat of EUR-USD as a buying-on-dips opportunity rather than the basis for a trend reversal. At the same time, however, our call for the exchange rate to be at 1.20 by the end of the year has become more challenging and would even more require a series of weak data releases in the US, primarily from the labour market, to offer EUR-USD more momentum. Otherwise, further consolidation at around current levels will likely remain the name of the game.



# Commodities

## Crude oil

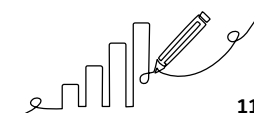
Oil markets remain caught between diverging narratives and limited visibility. The International Energy Agency (IEA) continues to forecast a sizeable supply surplus of around 2.3mb/d in 2025 and up to 4mb/d in 2026, while OPEC expects a broadly balanced market. Since April, OPEC+ has been steadily adding barrels, unwinding the voluntary cuts that began in late 2023 and continuing its strategy of concentrating on regaining market share. The recent rebound in the price of Brent crude from its earlier lows underscores heightened market apprehension regarding the ramifications of the imposed US sanctions against Russia. These sanctions have led China's state oil companies to pause Russian crude purchases, while Indian refiners, which are major buyers of seaborne Russian oil, plan steep reductions, according to industry sources – raising the prospect of tighter supply conditions should alternative buyers fail to absorb the displaced volumes. This may offer further support to prices, but recent inventory builds and soft demand indicators suggest limited further upside for oil prices in the near term. A supply overhang is likely to keep prices subdued throughout 2026, unless there is an upward surprise in demand, or OPEC+ shifts its policy significantly. We therefore stick to our oil-price forecast of USD 65/bbl by the end of this year.

## Natural gas

European natural gas inventories reached the (downwardly revised) 80% target before the end of September. This calmed market tensions considering the challenging restocking needed at the beginning of the summer. Since then, TTF has traded in a narrow band between EUR 31-33/MWh. Despite this calmer near-term supply outlook, we see more potential for prices to rise than fall if winter turns out to be colder again this year or if there is a flare-up in geopolitical tensions involving Russia or the Middle East. We expect a stable price trend for 4Q25 based on the current supply-and-demand outlook and we reiterate our forecast for a price of around EUR 33/MWh to the end of the year. In 2026, we expect average TTF prices to decline slightly to EUR 30-35/MWh given the significant increase in gas supply that is coming to the market, particularly from Qatar and the US. We do not expect a more significant decline in TTF prices considering the likelihood that Europe will end the 2025-26 winter heating season with even lower stocks than it had at the end of the 2024-25 period, due to the lower inventories at the start of the heating season. The current outlook for natural gas therefore has become calmer, although the potential for volatility remains given relatively low inventories.

## Gold

Gold prices recently corrected from record highs, dropping nearly 6% to around USD 4,000 per ounce after approaching about USD 4,400 earlier this month. Despite the pullback, gold remains up roughly 50% year-to-date, supported by persistent US fiscal concerns, strong central bank buying, and expectations of further Fed rate cuts. We believe the recent weakness reflects profit-taking, a firmer dollar, and easing geopolitical tensions following progress in US-China trade talks. ETF inflows remain robust, absorbing a significant share of global supply, while central banks continue diversifying reserves away from Treasuries. Although short-term volatility is likely as speculative positions unwind, structural drivers should remain intact. We maintain a constructive outlook, expecting gold to trade largely within USD 4,000–4,300 per ounce by end-2025.



# Is the AI story overpriced?

Author: Christian Stocker

A recent wave of deals and partnerships has intensified concerns that the AI boom may be fuelled by a tightly interconnected web of business transactions.

- In early October, Nvidia announced plans to invest up to USD 100bn in OpenAI to fund a massive data-centre project.
- In return, OpenAI committed to equipping those facilities with millions of Nvidia chips – a move criticised for its circular nature.
- Just one week later, OpenAI entered into a similar partnership with AMD.
- Then, in mid-October, a consortium of investors – including BlackRock, Microsoft and Nvidia – revealed plans to acquire one of the world's largest data-centre operators, with nearly 80 facilities, in a USD 40bn deal aimed at securing critical computing capacity for AI development.

Never before has so much money been deployed so quickly into a technology that, despite its vast potential, remains largely unproven as a reliable source of profit. This flurry of activity is raising fresh concerns that the AI boom is being artificially sustained by increasingly complex and interconnected corporate arrangements. In our view, the current degree of concentration is a potential risk factor.

The Magnificent Seven companies have an index weight of 35% in the S&P500. This underscores our view on the need for diversification – while we still recognise that leading technology companies continue to offer attractive investment opportunities.

These developments and the continued rise of leading technology companies in the AI space have led to investors starting to worry that the AI story is overpriced. There are elements of investor behaviour and market pricing that rhyme with previous bubbles, including the rise in absolute valuations, high market concentration, increased capital intensity of leading companies and the emergence of vendor financing (where suppliers provide funding or credit to customers to facilitate the purchase of their own products).

However, we think the technological backdrop remains supportive of AI capex for two reasons:

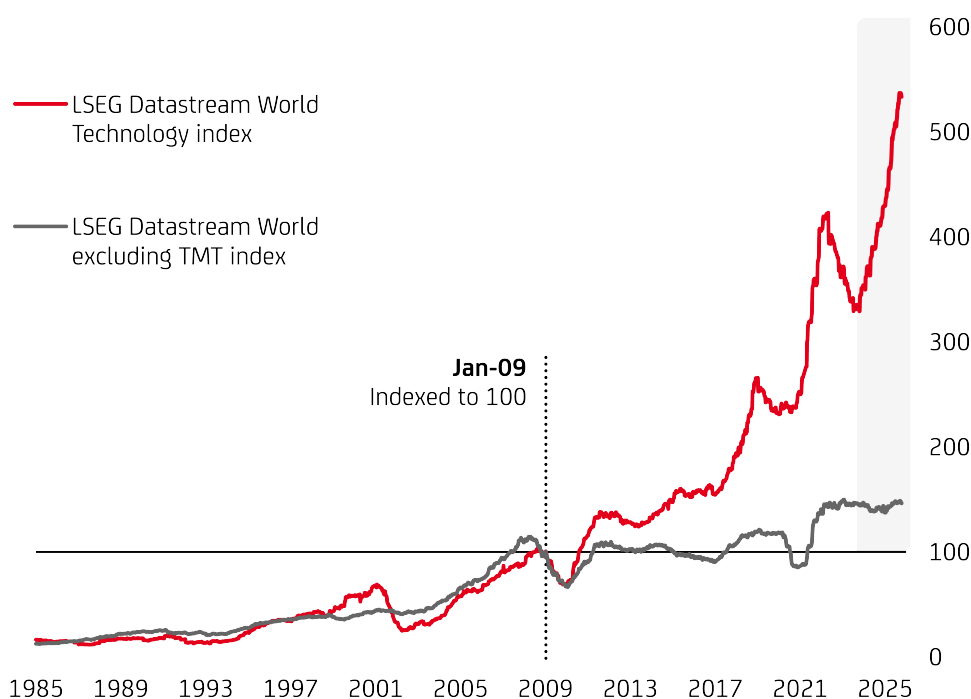
- First, AI applications boost productivity when deployed.
- Second, unlocking these productivity benefits requires significant computational power, especially since models are increasing in size much more quickly than computation and energy costs are falling.

To assess whether such fears are justified, one must consider the current fundamental situation. So far, the relevant tech companies have been driven by powerful and sustained profit growth rather than by irrational speculation about future growth.

Since the AI story came into full swing in 2023, reported earnings of AI-related US companies have increased by 130% (with a current net profit margin of almost 32%), while global tech companies have reported an increase of 51% and earnings of the global market, excluding TMT companies, have treaded water since then.

### CHART 2.5: TECH EARNINGS SHINE, SHOWING AN INCREDIBLE DEVELOPMENT

12M TRAILING EPS (USD), INDEXED TO 100 ON JAN 2009



Source: LSEG Datastream, Worldscope, The Investment Institute by UniCredit

The strong earnings momentum has been a key driver of recent price gains. While this is reassuring as it reflects solid fundamentals, it also suggests that the current rally is greatly dependent on continued earnings performance. Most equity markets are currently trading at elevated valuations relative to their historical averages. However, this rise in valuations has been largely underpinned by strong underlying profitability and a robust return on equity.

Rather than signalling a speculative bubble, particularly in technology or AI, these trends reflect broader macroeconomic conditions: the shift toward monetary easing following a period of elevated interest rates, high global savings and a prolonged economic cycle, factors that have contributed to the supportive environment for risk asset valuations. While these elevated valuations leave markets vulnerable to a correction if confidence in economic growth weakens, such a downturn is unlikely to be triggered solely by a collapse in the tech sector.





## UniCredit Forecasts

### GDP, CPI AND BUDGET BALANCE FORECASTS

	Real GDP (% Y/Y)			Consumer prices (% Y/Y)			Budget balance (% of GDP)		
	2024	2025	2026	2024	2025	2026	2024	2025	2026
<b>Global</b>	<b>3.3</b>	<b>3.2</b>	<b>3.0</b>	-	-	-	-	-	-
<b>US</b>	<b>2.8</b>	<b>2.0</b>	<b>2.1</b>	<b>2.9</b>	<b>2.8</b>	<b>3.0</b>	<b>-7.3</b>	<b>-6.7</b>	<b>-7.7</b>
<b>Eurozone</b>	<b>0.9</b>	<b>1.2</b>	<b>0.9</b>	<b>2.4</b>	<b>2.1</b>	<b>1.8</b>	<b>-3.1</b>	<b>-3.5</b>	<b>-3.4</b>
Germany	-0.5*	0.1*	1.3*	2.2	2.1	1.7	-2.7	-3.0	-3.3
France	1.2	0.7	0.9	2.0	1.0	1.2	-5.8	-5.4	-5.0
Italy	0.5	0.5	0.8	1.0	1.7	1.6	-3.4	-3.2	-2.9
Spain	3.4	2.8	1.9	2.9	2.7	2.2	-3.2	-2.5	-2.3
<b>UK</b>	<b>1.1</b>	<b>1.4</b>	<b>1.1</b>	<b>2.5</b>	<b>3.3</b>	<b>2.1</b>	<b>-5.7</b>	<b>-4.5</b>	<b>-3.8</b>
<b>China</b>	<b>5.0</b>	<b>4.8</b>	<b>4.1</b>	<b>0.6</b>	<b>0.9</b>	<b>1.8</b>	<b>-7.4</b>	<b>-7.6</b>	<b>-7.7</b>
<b>Japan</b>	<b>0.2</b>	<b>0.9</b>	<b>0.7</b>	<b>2.7</b>	<b>2.8</b>	<b>1.9</b>	<b>-3.5</b>	<b>-3.4</b>	<b>-3.0</b>
<b>India</b>	<b>7.0</b>	<b>6.5</b>	<b>6.5</b>	<b>4.4</b>	<b>4.1</b>	<b>4.1</b>	<b>-7.8</b>	<b>-7.6</b>	<b>-7.4</b>

Source: The Investment Institute by UniCredit

\*Non-WDA figures. Adjusted for working days: -0.5% (2024), 0.2% (2025) and 1.0% (2026)

### CENTRAL BANKS WATCH

	Current	4Q25	1Q26	2Q26	3Q26	4Q26
<b>Fed</b>	4.00	4.00	4.00	3.75	3.75	3.75
<b>ECB</b>	2.00	2.00	2.00	2.00	2.00	2.00
BOE	4.00	3.75	3.50	3.25	3.00	2.75
BoJ	0.50	0.75	1.00	1.00	1.00	1.00
Riksbank	1.75	1.75	1.75	1.75	1.75	1.75
Norges Bank	4.00	3.75	3.50	3.50	3.50	3.50

Source: The Investment Institute by UniCredit

Note: Figures are end-of-period



## INTEREST RATE AND YIELD FORECASTS

	30.10.25	4Q25	1Q26	2Q26
<b>Eurozone</b>				
Depo rate	2.00	2.00	2.00	2.00
3M Euribor	2.05	2.00	2.00	2.00
2Y Schatz	2.00	2.05	2.10	2.10
10Y Bund	2.66	2.75	2.80	2.85
2Y EUR swap	2.15	2.20	2.25	2.25
10Y EUR swap	2.66	2.75	2.85	2.90
10Y swap-Bund spread	0	0	5	5
2Y BTP	2.19	2.25	2.30	2.30
10Y BTP	3.42	3.65	3.70	3.75
10Y BTP-Bund spread	76	90	90	90
<b>US</b>				
Fed fund rate	4.00	4.00	4.00	3.75
3M OIS SOFR	3.89	3.85	3.81	3.60
2Y UST	3.61	3.75	3.70	3.70
10Y UST	4.09	4.40	4.40	4.40
10Y UST-Bund spread	144	165	160	155

## FX FORECASTS

	30.10.25	4Q25	1Q26	2Q26
EUR-USD	1.16	1.20	1.20	1.21
USD-JPY	154	144	143	142
EUR-JPY	178	173	172	172
GBP-USD	1.32	1.33	1.32	1.32
EUR-GBP	0.88	0.90	0.91	0.92
USD-CNY	7.12	7.13	7.12	7.10
EUR-CNY	8.27	8.56	8.54	8.59

Source: Bloomberg, The Investment Institute by UniCredit

## RISKY ASSETS FORECASTS

	30.10.25	End-2025	Mid-2026
<b>Oil</b>			
Brent USD/bbl.	64.5	65	62.5
<b>Equities</b>			
Euro STOXX 50	5,690	5,750	5,900
STOXX Europe 600	574	580	600
DAX	24,028	25,000	26,500
MSCI Italy	112	114	118
S&P 500	6,822	6,800	7,200
Nasdaq 100	23,581	26,000	27,000
<b>Credit</b>			
iBoxx Non-Financials Senior	73	95	90
iBoxx Banks Senior	67	95	87
iBoxx High Yield NFI	267	310	300

Source: Bloomberg, S&P Global, The Investment Institute by UniCredit

For detailed forecast tables click the following links:

[Economics >](#) | [FI >](#) | [FX >](#) | [Risky Assets >](#)



# Development of selected financial market indices

From	29.10.20	29.10.21	29.10.22	29.10.23	<b>29.10.24</b>	29.10.20	<b>01.01.25</b>
To	29.10.21	29.10.22	29.10.23	29.10.24	<b>29.10.25</b>	29.10.25	<b>29.10.25</b>

## STOCK MARKET INDICES (TOTAL RETURN, IN %)

MSCI World (in USD)	39.5	-17.8	10.6	37.4	<b>21.1</b>	111.5	<b>21.1</b>
MSCI Emerging Markets (in USD)	15.6	-31.6	10.3	26.9	<b>28.1</b>	45.8	<b>35.0</b>
MSCI US (in USD)	41.4	-15.7	9.9	42.4	<b>20.1</b>	123.3	<b>18.5</b>
MSCI Europe (in EUR)	42.9	-9.4	8.5	23.6	<b>14.4</b>	98.7	<b>16.6</b>
MSCI AC Asia Pacific (in USD)	15.6	-29.8	13.4	26.5	<b>26.0</b>	49.8	<b>29.6</b>
STOXX Europe 600 (in EUR)	42.9	-10.8	8.2	24.1	<b>14.8</b>	96.5	<b>16.8</b>
DAX 40 (Germany, in EUR)	35.3	-15.6	11.2	32.4	<b>23.9</b>	108.7	<b>21.2</b>
MSCI Italy (in EUR)	53.2	-10.9	27.2	35.6	<b>30.1</b>	207.1	<b>32.0</b>
ATX (Austria, in EUR)	87.8	-18.5	9.6	23.7	<b>36.2</b>	182.4	<b>33.5</b>
SMI (Switzerland, in CHF)	30.5	-8.8	-0.5	20.4	<b>5.0</b>	49.1	<b>9.6</b>
S&P 500 (US, in USD)	41.2	-13.8	10.0	42.0	<b>19.7</b>	126.9	<b>18.4</b>
Nikkei (Japan, in JPY)	25.9	-3.9	15.8	29.0	<b>34.5</b>	141.4	<b>31.0</b>
CSI 300 (China, in Yuan)	4.7	-25.6	0.6	12.8	<b>24.3</b>	13.2	<b>23.7</b>

## BOND MARKET INDICES (TOTAL RETURN, IN %)

US government bonds 10Y (in USD)	-3.9	-17.5	-3.5	9.1	<b>6.2</b>	-11.7	<b>7.7</b>
German Bunds 10Y (in EUR)	-4.7	-17.4	-4.1	6.7	<b>0.5</b>	-17.8	<b>0.3</b>
EUR government bonds 1Y-10Y (iBOXX, in EUR)	-3.4	-16.4	-3.4	8.3	<b>1.9</b>	-12.5	<b>1.3</b>
EUR corporate bonds 1Y-10Y (iBOXX, in EUR)	0.0	-15.2	3.2	9.4	<b>4.3</b>	0.5	<b>3.5</b>

## BOND YIELDS (CHANGE IN BASIS POINTS = 0.01 PERCENTAGE POINTS)

US government bonds 10Y (in USD)	72	244	89	-61	<b>-21</b>	327	<b>-52</b>
German Bunds 10Y (in EUR)	54	224	82	-45	<b>25</b>	321	<b>22</b>
EUR government bonds 1Y-10Y (iBOXX, in EUR)	44	240	91	-67	<b>18</b>	309	<b>18</b>
EUR corporate bonds 1Y-10Y (iBOXX, in EUR)	18	370	27	-118	<b>-13</b>	269	<b>-11</b>

## EURO EXCHANGE RATES (CHANGE, IN %)

US dollar (EUR-USD)	-0.5	-14.2	5.0	1.6	<b>8.0</b>	-0.8	<b>12.0</b>
British pound (EUR-GBP)	-6.6	2.1	0.3	-5.0	<b>6.1</b>	-2.9	<b>6.2</b>
Swiss franc (EUR-SFR)	-0.7	-6.9	-4.5	-2.0	<b>-1.0</b>	-13.2	<b>-1.4</b>
Japanese yen (EUR-JPY)	8.6	11.5	7.3	4.3	<b>6.9</b>	44.7	<b>8.6</b>

## COMMODITIES (CHANGE, IN %)

Commodity Index (GSCI, in USD)	-5.5	-9.4	19.4	37.8	<b>42.3</b>	104.7	<b>50.0</b>
Industrial metals (GSCI, in USD)	42.1	-17.8	-2.5	13.6	<b>11.1</b>	50.6	<b>17.8</b>
Gold (in USD per fine ounce)	-5.1	-8.9	19.1	38.5	<b>44.4</b>	112.4	<b>52.3</b>
Crude oil (Brent, in USD per barrel)	122.9	13.6	-6.7	-21.5	<b>-8.6</b>	65.5	<b>-13.2</b>

**Source:** Refinitiv Datastream, The Investment Institute by UniCredit (as of 29 October 2025)

**Note:** Past values and forecasts are not a reliable indicator of future performance. Indices cannot be purchased and therefore do not include costs. When investing in securities, costs are incurred which reduce the performance. The return on investments in foreign currencies may also rise or fall as a result of currency fluctuations. So-called synthetic bonds are calculated to reflect the performance of government bonds in a fixed maturity range. In each case, the most "suitable" real federal bond at the relevant time is used as a reference for the yield opportunity of the synthetic bond. The development of the expected yield to maturity is shown under the following conditions: servicing of interest payments and redemption in accordance with the terms and conditions and holding until maturity. In this respect, it is a yield opportunity. The yield opportunities reflect the different risk assessments of the investors for the respective products or countries (higher yield opportunity=higher risk assessment). The synthetic bonds cannot be purchased and therefore do not include any costs. In the case of currencies and commodities, acquisition and/or custody costs incurred are not included.





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