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TITLE: **The AI Trade Finally Pauses – What Happens Next?**

TRANSCRIPT:

Host:
Eric, for much of this year markets have felt almost unstoppable, particularly technology and AI-related stocks. But this week felt a little different. Has something changed?

Eric:
I think it has. What's interesting is that there wasn't a major shock. There was no recession scare, no financial crisis, and no collapse in earnings. Instead, we're seeing something more subtle.

For the first time in quite a while, investors seem to be asking whether all the good news is already reflected in share prices.

The best example was Broadcom. It reported strong results, AI revenues continued growing rapidly, guidance was positive, yet the stock sold off sharply. That tells me the conversation is changing.

The market is no longer debating whether AI is real. It's asking whether expectations have simply become too high.

That's an important distinction because it suggests we're moving from a momentum-driven market to a much more selective market.

Host:
So this isn't the end of the AI story?

Eric:
Not at all. In fact, I think the long-term AI story remains incredibly compelling.

What has changed is that investors now want proof. Over the past year, almost anything connected to AI benefited from enthusiasm around the theme. Today, investors want evidence that the hundreds of billions being spent on AI infrastructure will ultimately generate attractive returns.

That's healthy. Bull markets don't end because investors become more selective. But it does mean valuation matters again, and that's something many investors haven't had to think much about recently.

Host:
What about the broader economy? The data still seems mixed.

Eric:
That's exactly the challenge.

The labour market is slowing, but it's not breaking. Jobless claims have moved higher, but they're still relatively low by historical standards.

At the same time, productivity growth was revised sharply lower. That's important because many investors have assumed AI-driven productivity gains would help offset higher wages and energy costs. So far, we're not really seeing that in the data.

That leaves the Federal Reserve in a difficult position. Growth is slowing, but inflation remains stubborn and energy prices remain elevated. Today's payroll report is therefore important because markets are desperately looking for clarity on where the economy is heading next.

Host:
And Europe appears to be facing an even tougher situation.

Eric:
Yes. The US still has reasonable growth. Europe increasingly looks like it's dealing with weaker growth and higher inflation simultaneously.

Retail sales are disappointing, economic activity is slowing, but energy-driven inflation is moving higher again. That's not a comfortable backdrop for either policymakers or investors.
The ECB may find itself having to remain tighter than the economy would ideally like, and historically that's not been a particularly positive environment for European equities.

Host:
What about Asia?
Eric:
Asia remains fascinating because it's caught between two very different forces.
On one side, the region continues to benefit from the AI investment cycle, particularly in Taiwan, Korea and parts of Japan. On the other, it's also highly exposed to energy costs and global growth concerns.
What's encouraging is that China's services sector continues to improve and Japan's wage growth remains supportive of its reflation story. So while Asian markets reacted negatively to the US technology pullback this week, I don't think the underlying regional story has changed significantly.

Host:
You've been talking about oil for several weeks now. Why does it remain such an important theme?
Eric:
Because I still think it's the market's biggest blind spot.
Most investors continue to view oil as a geopolitical story. I think it's becoming an economic story.
Even if negotiations in the Middle East eventually succeed, disrupted shipping routes, insurance markets and supply chains don't instantly return to normal. Those effects take time to work through the system.
And if oil prices remain elevated, they feed directly into inflation, transportation costs, corporate margins and ultimately central-bank decisions.
In many ways, oil sits at the centre of almost every major macro debate we're having today.

Host:
So when you put everything together, what's the key takeaway this week?
Eric:
I think this week marks the beginning of a subtle but important shift.
Markets are starting to question certainty.
For months, investors have assumed AI would continue driving earnings higher, inflation would continue falling, and central banks would eventually cut rates. None of those assumptions have necessarily been proven wrong, but investors are beginning to realise they're still assumptions, not certainties.
The AI story remains intact. Economic growth continues. Corporate earnings remain solid.
But expectations have become very high.

And when expectations are very high, markets become vulnerable to disappointment—even when the news itself remains relatively good.

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