

What to watch in the week ahead

Weekly Global

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- The S&P 500 fell 2.7% on Friday, the largest one-day fall since April, as renewed trade tensions between the US and China triggered a risk-off mood in markets. The decline, which interrupts a rally that had taken the S&P 500's year-to-date rise to more than 15%, followed a threat from US President Donald Trump to impose a "massive increase" in tariffs on Chinese imports.
- The key question we see for investors this week will be whether these tensions—especially over trade—will abate. Our view is that the conflict between the US and China has the potential to generate further volatility as the two sides haggle. However, an all-out trade war looks unlikely.
- Meanwhile, will we see more tech tie-ups following last week's deal between AMD and OpenAI? And what's next for Japanese government policy, as the new LDP leader confronts divisions within the party?

Will trade tensions and political turmoil abate?

The threat of a trade war between the world's two largest economies resurfaced last week. President Trump threatened to impose a new 100% tariff on Chinese imports in response to Chinese restrictions on rare earth supplies, which are essential for industries from tech and autos to defense. The latest flare-up of tensions coincides with an ongoing US government shutdown and fresh political turmoil in France. That has added to the appeal of gold, which last week climbed to over USD 4,000 an ounce for the first time—and lifted its gains so far in 2025 above 50%.

The key question we see for investors this week will be whether these tensions—especially over trade—will abate. Our view is that the conflict between the US and China has the potential to generate further volatility as the two sides haggle. However, an all-out trade war looks unlikely. China accounts for around 70% of the world's global supply of rare earths, giving it the potential to cause severe disruptions to US industry and thus a strong position in negotiations with the Trump administration. We don't expect the government shutdown to send the recent equity rally into reverse. Recent history—including closures in 2013 and 2018—suggests that such interruptions have only a fleeting impact on markets. There is also the potential for further progress this week toward the US-brokered deal between the Israel and Hamas.

That said, we believe geopolitical tensions will remain elevated, providing further support for gold. In addition, many central banks have been eager to hold more gold, especially following the freeze on Russian dollar reserves. Such official demand for gold is still running at twice the pace of the 2011-21 average, with China a top buyer. So, we think the rally is

Explore more about the shutdown and other political risks

- See the latest [CIO Alert: Renewed US-China trade tensions weigh on markets](#) for expert CIO insights into the latest developments.
- Read CIO France Claudia Panseri's latest blog: [Lecornu 2.0](#) laying out what the latest developments in French politics mean for investors.
- Explore what the US government shutdown means for the Fed in [this blog](#) by CIO Americas Head of Fixed Income Kurt Reiman.

Explore more about AI and equities

- Is AI hurting growth? Read on in [this blog](#) by GWM Chief Economist Paul Donovan.
- See the latest *Intelligence weekly #84: Tariff refresher on tech and historical guide to drawdowns*, 11 October 2025.
- Discover why we think now is the right time to invest in transformational themes, including AI, [here](#).

Explore more about Japan

- What do we expect for Japanese equities now that Komeito ended its 26-year alliance with the LDP? Discover more in [this report](#).
- Learn more about Japan's tech landscape in our "*Navigating Japan's tech landscape #2: Opportunities amid uncertainties*" report, published 9 October 2025.
- Read our CIO in Japan Daiju Aoki's views on what Sanae Takaichi's surprise

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not yet done—we expect prices to rise to USD 4,200/oz over the coming months—and keep our Attractive rating on gold in our global strategy.

Will more tech deals power the AI rally?

The recent stream of tech tie-ups continued last week, helping to propel the S&P 500 further into record territory until Friday's retreat. Most notably, AMD announced a multi-year, multi-gigawatt chip deal with OpenAI, and OpenAI also showcased new products and strategic partnerships with Samsung, SK, NVIDIA, Oracle, and Broadcom.

But while such deals have reinforced confidence in the outlook for AI for many, they have also raised concerns about circular financing—where companies invest in each other and rely on mutual spending. This has drawn comparisons to the telecom bubble at the turn of the millennium.

However, although we remain vigilant, we don't see the current wave of AI vendor financing as a repeat of past tech bubbles.

First, the scale of the deals is not overwhelming. For example, the OpenAI-NVIDIA arrangement is estimated to represent about 13% of NVIDIA's projected 2026 revenue. Second, the financial health of today's leading AI firms is much stronger than telecoms at the turn of the millennium. Third, valuations are more reasonable, and earnings quality is higher. In the late 1990s, internet leaders traded at forward price-to-earnings ratios around 60, while today's AI giants are closer to 35x, with stronger balance sheets and more predictable earnings streams.

So, investors should consider phasing in allocations on any market dips and continue to focus on our Transformational Innovation Themes of *Artificial intelligence*, *Power and resources*, and *Longevity*. We also continue to favor China's tech sector, backed by still-attractive valuations and robust medium-term earnings growth forecasts.

What comes next for government policy in Japan?

Japanese equities rallied last week after the surprise selection of Sanae Takaichi as the new leader of the ruling Liberal Democratic Party (LDP). The new leader's policy platform centers on tax cuts, economic stimulus, and investments in sectors such as semiconductors, AI, and national security. With the LDP still a minority in Japan's parliament, whether her policies can be implemented fully remains to be seen. And news of division within the LDP even cast doubt over whether she will take over as prime minister.

But while the situation in Japan remains fluid, recent developments do look positive for Japanese stocks. A combination of tax cuts, targeted subsidies, and a sizable economic support package is likely to boost both consumption and capital investment. Takaichi's dovish approach to monetary policy has reduced expectations for imminent Bank of Japan rate hikes. That supports equity valuations.

This comes against a backdrop in which Japanese equities continue to trade at a discount to global peers. Even after last week's rally, the Topix is now trading at 15.9 times forward price-to-earnings, which is a 29% discount to the S&P 500. That's in line with the five-year average—a level we think is reasonable.

win in the leadership election of Japan's ruling Liberal Democratic Party means for the country's outlook and for the Bank of Japan in [this blog](#).

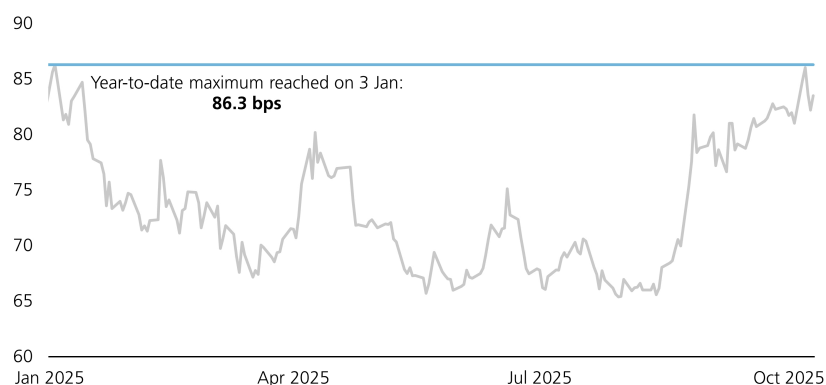
So, we view Takaichi's ascension as a significant pivot for the Japanese economy. When we upgraded Japanese equities to Attractive in the middle of last month, we factored in potential for a positive shift in government policy, alongside an attractive relative valuation.

Chart of the week

French President Emmanuel Macron reappointed Prime Minister Sébastien Lecornu over the weekend, who has since announced his proposed cabinet. This came less than a week after Lecornu resigned amid criticism over his previously proposed cabinet. We still think achieving budget compromises will be difficult and the government's stability remains uncertain. The elevated risk premium on French bonds is likely to persist. Investors with global portfolios should consider reducing exposure to long-dated French government bonds and monitor developments closely, as political shocks in France can have spillover effects on broader European markets. Shorter-dated French bonds are less sensitive to the debt concerns and offer good yield levels for their low default risk, in our view.

French-German bond spread nears widest so far in 2025 on political turmoil in France

French vs German 10y spread, basis points



Bloomberg, UBS, as of 12 October 2025

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