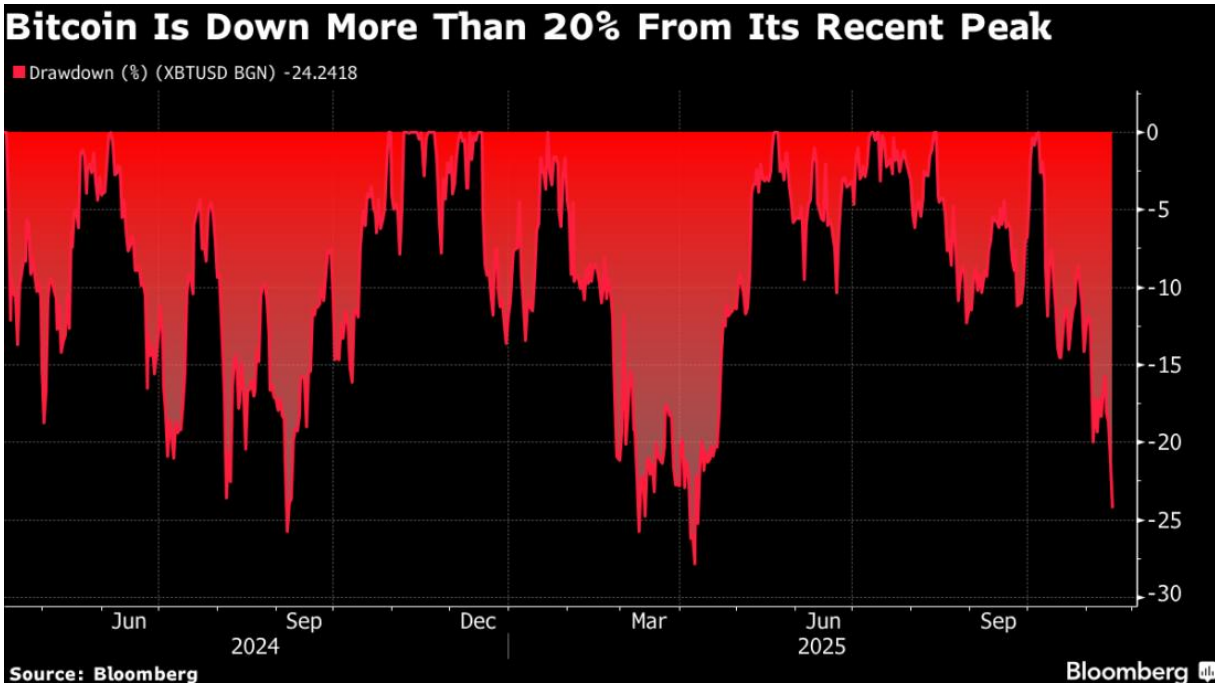
thenavigator

Thanksgiving 2025

"Sometimes I feel I've got to
Run away I've got to
Get away
From the pain you drive into the heart of me
The love we share
Seems to go nowhere
And I've lost my light
For I toss and turn, I can't sleep at night
Once I ran to you
Now, I'll run from you
This tainted love you've given"

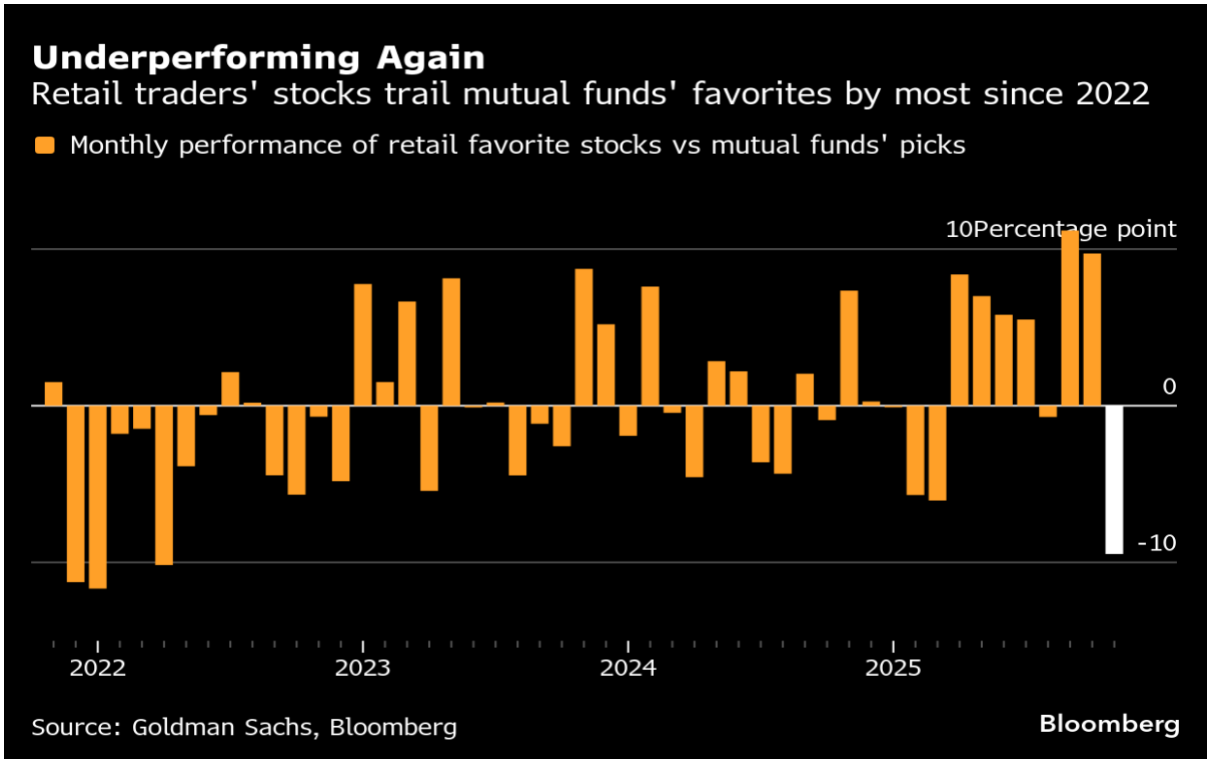
Tainted love by Soft Cell



Source: "Bitcoin is down more than 20% from its recent peak", chart: Bloomberg.

The rapid recent decline in Bitcoin, related funds (some leveraged funds are down over 40%) and retail stock favourites has been a heavy blow for many investors. Indeed, some of them may struggle to recover from these losses. The demographic invested in these asset classes – as far we can ascertain – is skewed towards the younger generation. Whilst many have blamed testosterone for the increased risk-taking (zero-day options, high leverage, Bitcoin, and meme stocks for example), another explanation might be economic nihilism. If you know that no matter how hard you work at job you will never be able to afford a house, a piece of art or some other high-end item, why not just buy a lottery ticket and hope to strike it rich? This could, of course, also explain the accusation often levelled against younger generations that they don't work as hard. With easy one-click access to more and more exotic instruments, it is easier to make riskier and riskier bets without much thought.

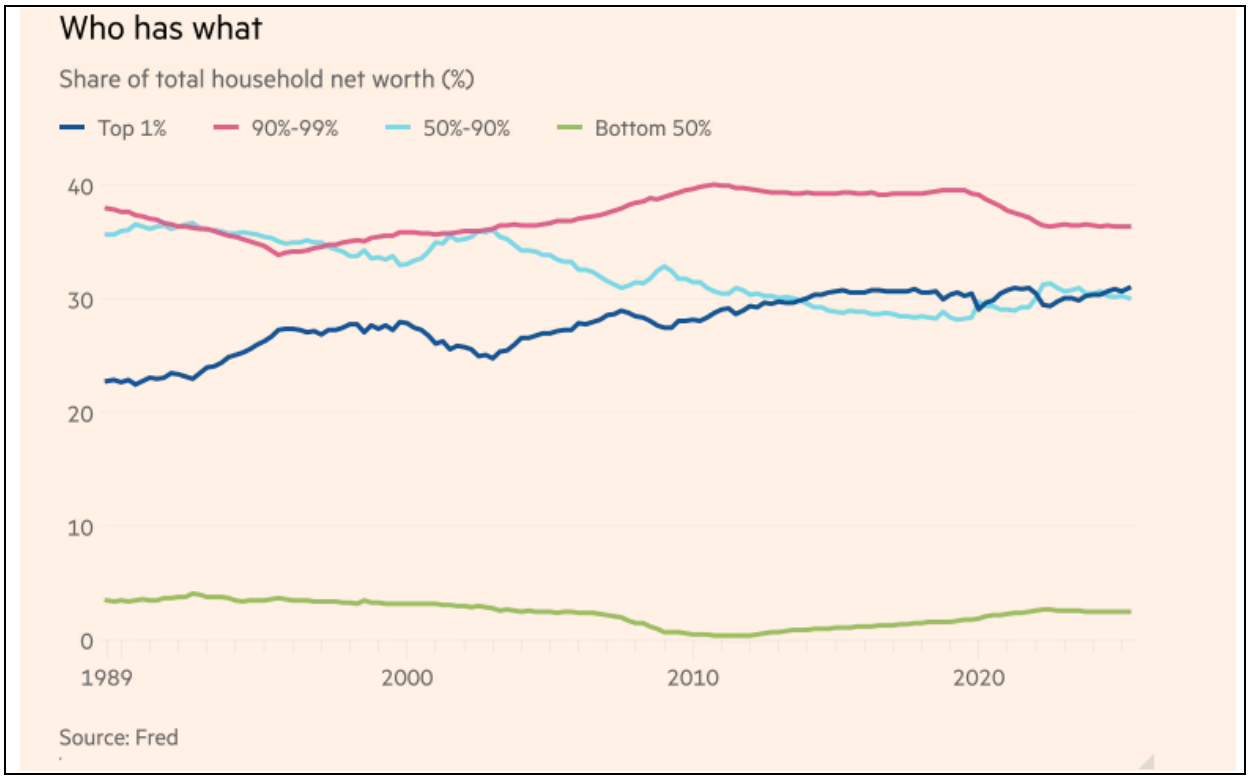
November has seen a huge negative wealth effect hit, particularly in "story stock" thematic sectors so popular with retail investors. This could mean a lower sense of wealth, which in turn impacts spending, possibly feeding through to lower spending and consumption.



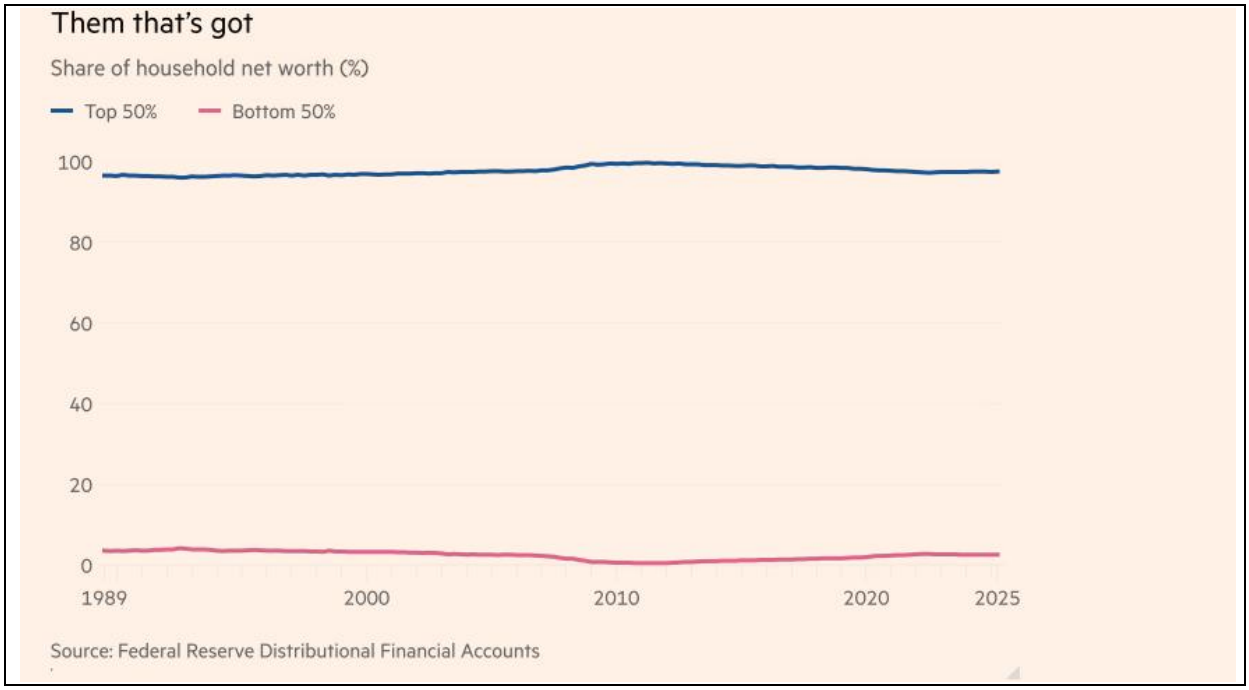
Source: "Underperforming Again – Retail traders' stocks trail mutual funds' favorites by most since 2022", chart: Bloomberg.

Alphabet soup

There has been a lot of talk about the "K shaped economy", particularly in the US, but what exactly does this term mean? Essentially, economists and others are referring to the spread between the richest in society versus the rest – this gap looks like the 2 legs on the "fork" in the letter K.



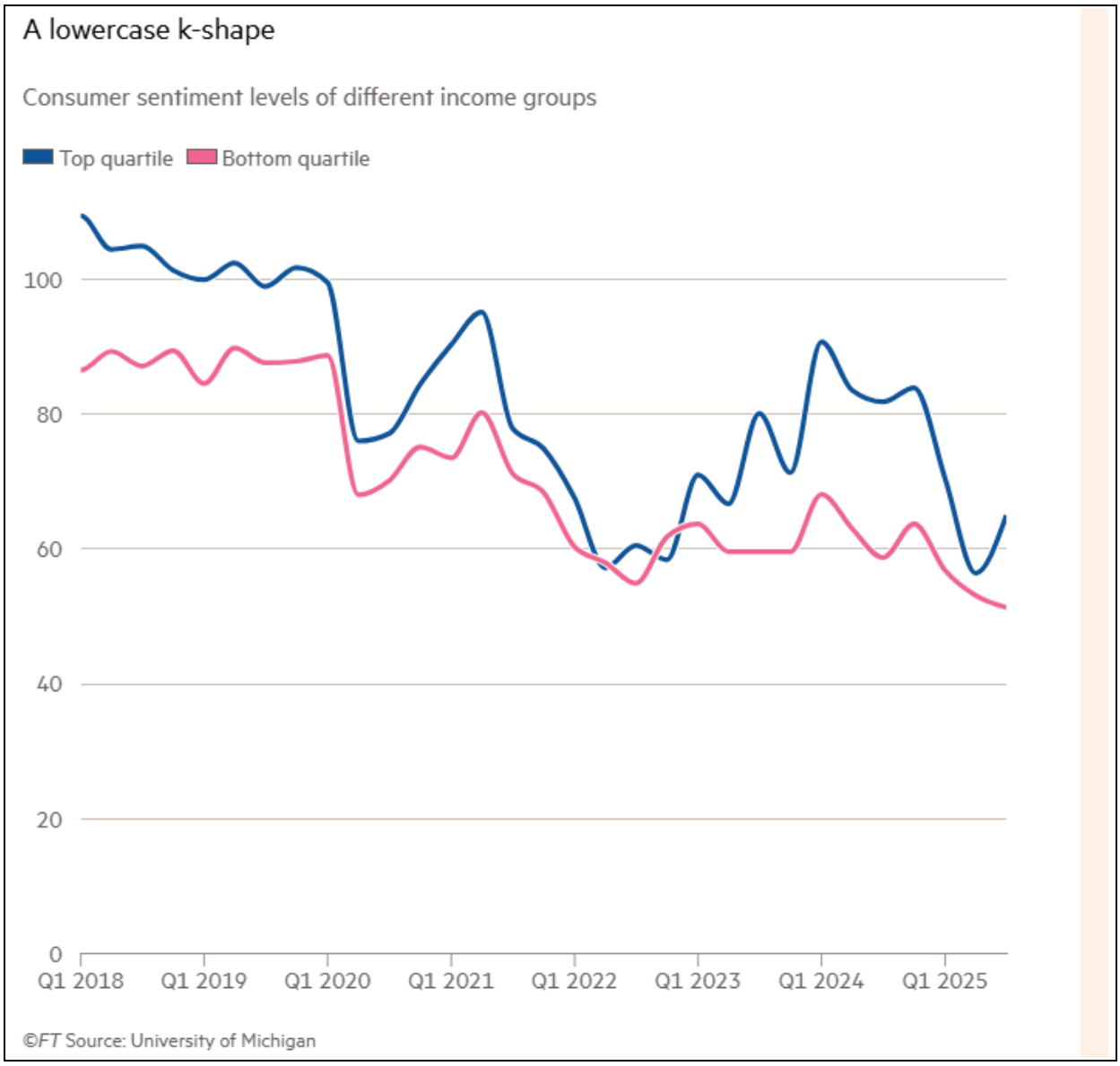
Source: "Who has what – Share of total household net worth (%)", chart: FRED.



Source: "Them that's got – Share of total household net worth (%)", chart: Fred Reserve Distributional Financial Accounts.

As you can see, the gap between the top 50% of US households versus the bottom 50% is vast and hasn't really narrowed at all for a long period of time.

The recent introduction of tariffs may have exacerbated the situation as many US consumers are frustrated with affordability issues. The government has recognized this concern to some extent and watered down tariffs on many items (we cannot rule out the possibility that this trend will continue in response to continued voter pressure).



Source: "A lowercase k-shape – Consumer sentiment levels of different income groups" chart: FT, University of Michigan.

This is reflected by fairly bleak consumer sentiment from the bottom 25% of US income groups.

Whilst the pandemic really benefitted the lower end of the US income spectrum, the advent of the Liberation Day tariffs along with the rapid adoption of AI to automate many jobs has prompted a sharp reversal in wage growth for this demographic.

Our one worry (and we really hope it is misplaced) is that the current K shaped economy might morph into an L or l shaped one. This could lead to bigger problems such as civil unrest.

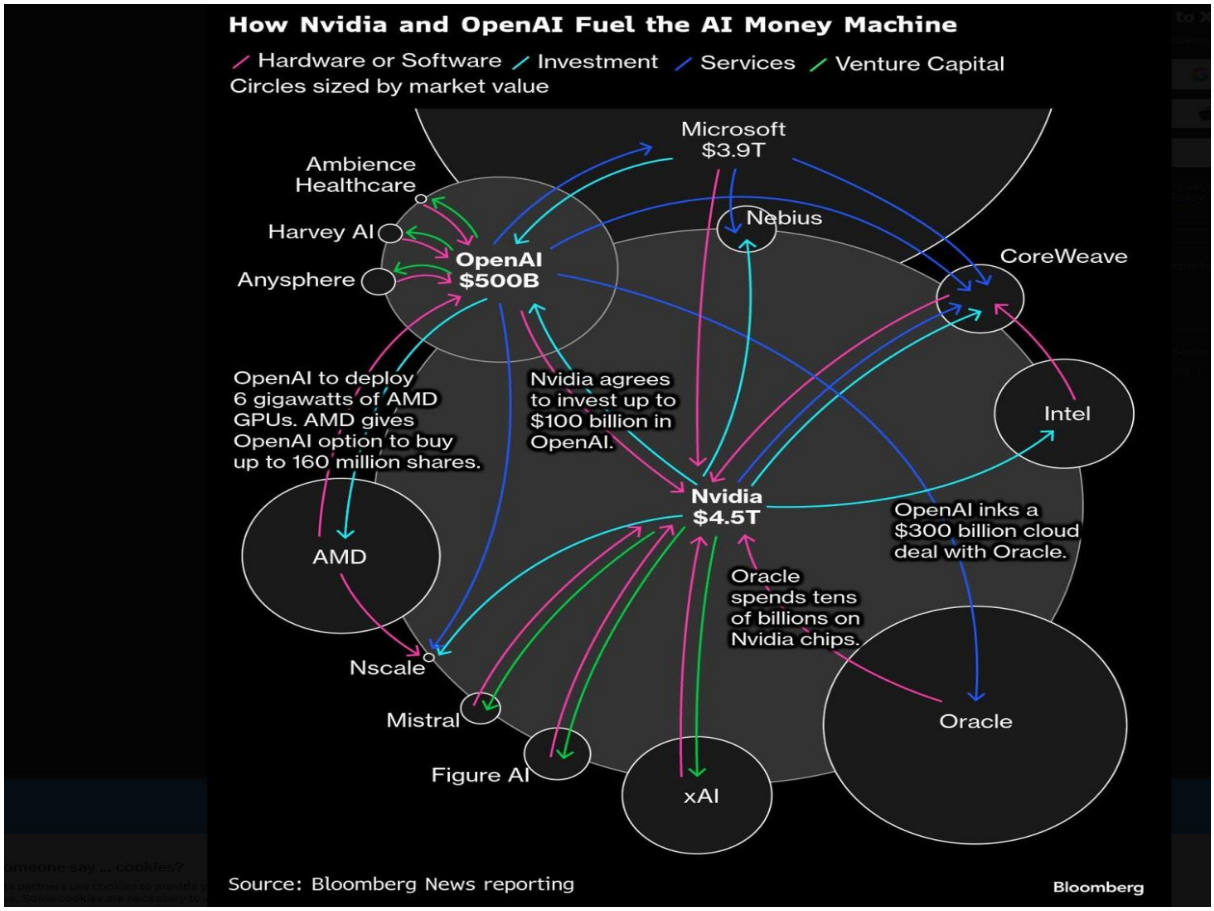
Source: "Atlanta Fed Measure of Median Nominal Wage Growth" chart: Financial Times.

No smoke without fire

The recent wobble in AI related stocks comes as no surprise to us; many of the issues that have long worried us are now bubbling to the surface.

Have companies overinvested just like in the dot.com bubble, which left us with more fibre optic cable than we can use even 25 years later? Will LLMs (large language models) really be the dominant force going forward? From some estimates we have seen, China may only be 10% behind on the AI arms race despite a significantly lower CAPEX spend. Has everything already been priced into current valuations? Will AI data centres being built now be obsolete in 2 years' time since many won't have connections to power for the next 24 months? Are tech companies engaging in financial shenanigans by depreciating assets over too long a time frame? Are share buybacks a waste of investor money since many companies are issuing even more shares through employee stock awards?

The biggest issue is obviously the circular nature of the US AI ecosystem, which, in our opinion, seems to rest on a rather fragile foundation.



Source: "How Nvidia and OpenAI fuel the AI Money Machine" chart: Bloomberg.

We are genuinely excited about the use of AI in real-world situations. In autonomous driving, for example, we believe the impact will be much larger than anyone expects, especially given the rather advanced age of the average car in the US and Europe.

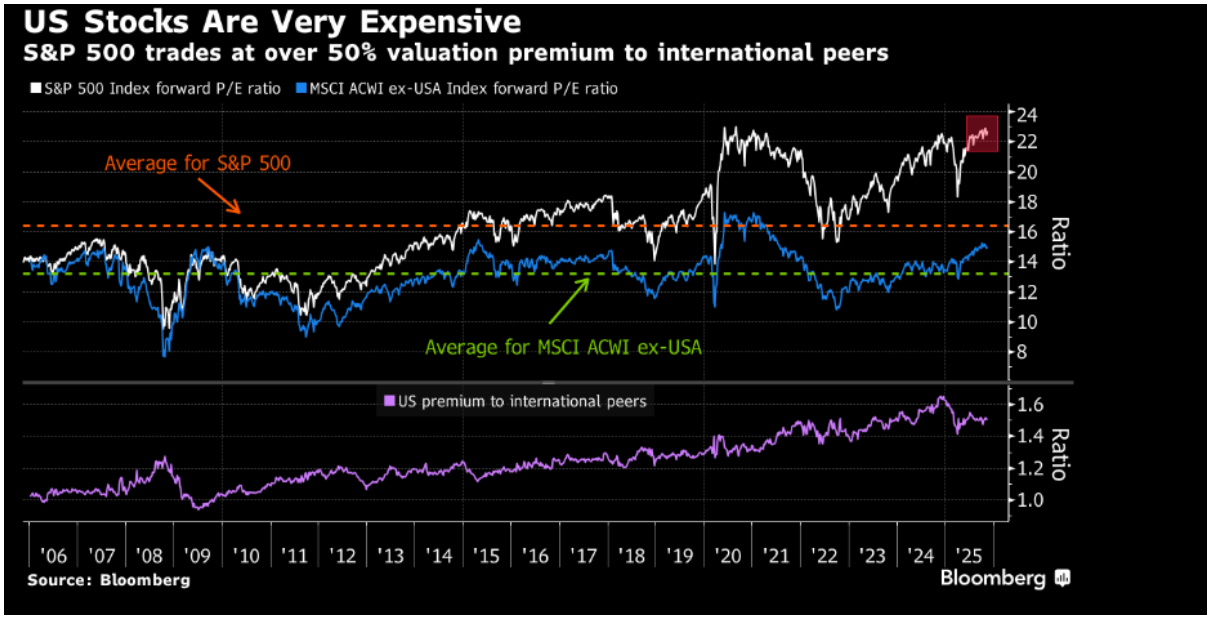
The advent of high-level 2+/level 3 and level 5 autonomous driving involving speeds of over 70mph without requiring the driver to keep their hands on the wheel will make longer journeys less tiring and probably safer. It could also enable people to drive at older and younger ages safely.

The impacts could be rather significant on everything from short-haul flights to house prices.

However, we are still sceptical (a) that all the productivity benefits currently touted by the hyperscalers will materialise and (b) that they will be able to monetise it (does anyone remember the Metaverse?).

We expect all these concerns to continually come back and regularly haunt the AI sector, thereby limiting its future share price performance.

As we rapidly approach the end of the year, we would not be surprised to see a traditional Santa Claus rally. The US Federal Reserve could very well ignore inflation temporarily and focus instead on the growth and employment part of its mandate. We believe that US interest rates need to decline by approx. 1% to help revive the cyclical part of the economy that employs large numbers of workers. With this in mind, the rally may broaden out to areas which have underperformed over the last 2 years. We would not be surprised if these areas included markets like Europe, given how expensive US stocks are relative to their global peers.



Source: "US Stocks are very expensive – S&P 500 trades at over 50% valuation premium to international peers" chart: Bloomberg.

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