Monthly Macro Insights — November 2025

Marc-Antoine Collard
Chief Economist – Director of macroeconomic research

After years of pandemic-related disruptions, inflationary pressures, and geopolitical instability, the emergence of artificial intelligence (AI) as a general-purpose technology is reshaping economic dynamics. While it offers upside potential, AI also evokes memories of the dot-com[1] boom of the late 1990s.

AI: A double-edged sword for economic prospects

AI is widely seen as a catalyst for long-term economic growth. By automating tasks, enhancing decision-making, and enabling the emergence of new business models, AI has the potential to lift productivity across sectors. In manufacturing, predictive algorithms reduce downtime and waste. In services, generative AI tools are transforming customer support and content creation.

From a macroeconomic perspective, this could expand the global production frontier and lead to non-inflationary growth, where economies grow faster without triggering price pressures. AI may also stimulate investment in infant industries such as autonomous systems, personalized medicine, and climate tech, creating new jobs and income streams. Emerging markets could benefit from AI-enabled access to education, healthcare, and financial services, helping to bridge development gaps.

However, the rapid development of AI also poses significant risks, particularly to financial stability. Investor enthusiasm has driven sector price-to-earnings ratios to historically high levels, raising concerns about asset bubbles. Never before has so much capital been deployed so quickly into a technology that, despite its promise, remains largely unproven as a consistent source of profit. If earnings expectations fail to materialize, a sharp correction in AI stocks could trigger broader market volatility, especially given the sector's substantial weight in major indices. Considering the increased financialization of the economy since the early 2000s, the impact of a market correction today could be more severe than during the dot-com bust.

Moreover, the financial ecosystem surrounding AI is increasingly characterized by circularity. The recent wave of deals and partnerships involving big players are escalating concerns that an increasingly complex and interconnected web of business transactions is artificially propping up the trillion-dollar AI boom. Indeed, large technology firms often engage in reciprocal arrangements – such as cross-investments, shared infrastructure, and bundled services – that obscure true economic exposure. For example, cloud providers may simultaneously be clients, suppliers, and investors in AI startups. This interdependence can amplify systemic risk, as distress in one node may propagate rapidly through the network.

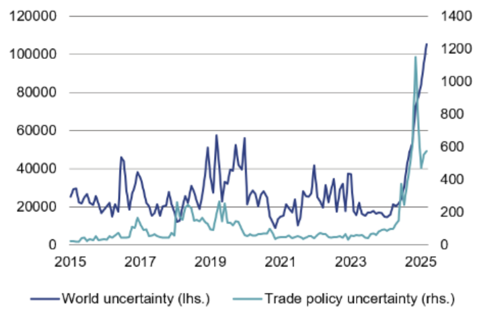
AI also introduces new forms of market concentration. The development of advanced models requires massive datasets and computing power, favouring large incumbents. This could lead to monopolistic behaviour, reduced competition, and slower diffusion of innovation over time. In financial markets, AI-driven trading algorithms may exacerbate volatility. These systems react to news and price movements at high speed, potentially reinforcing market swings. In times of stress, algorithmic trading could lead to flash crashes or liquidity shortages, undermining investor confidence.

Finally, the regulatory landscape remains fragmented. Without coordinated global standards, AI deployment may outpace governance, leading to ethical dilemmas, privacy violations, and geopolitical tensions. The lack of transparency in model training and decision-making processes further complicates oversight.

In short, while AI offers transformative potential, its financial and systemic implications must be carefully managed to avoid destabilizing the broader economy.

World - Level of uncertainty

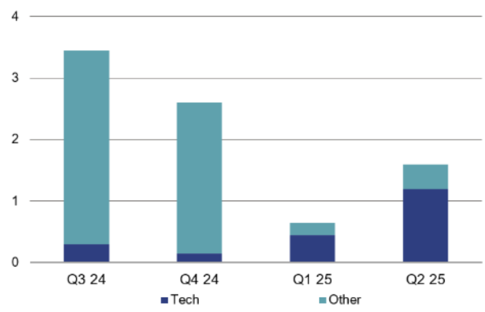
index expressed in units (normalised base)



Source : IMF, Rothschild & Co AM, October 2025

United States - Contribution to GDP

in p.p., q/q ann., ma 2 q



Source : Oxford Economics, Macrobond, Rothschild & Co AM, October 2025

A rate cut amid data fog

Although the US economy has shown resilience so far this year, prompting upward revisions to growth forecasts, it seems premature to conclude that the shock triggered by the tariff surge had no effect on growth. The private sector proved agile, front-loading imports, while AI-driven activity accounted for much of the 2025 growth, masking weaknesses elsewhere.

Yet, the US statutory effective tariff rate remains high and trade tensions continue to flare up with no guarantee on lasting trade agreements. In fact, historical precedent suggests that the full economic impact of tariffs may take time to surface.

Amid heightened uncertainty and signs of labour market cooling, the Fed delivered a second 25 basis point (bps) rate cut this year at its October meeting. However, the decision was not unanimous: Governor Stephen Miran advocated for a larger 50 bps cut, while Kansas City Fed President Jeff Schmid preferred no change. Multiple dissents are rare, especially in competing direction – for both looser and tighter policy than the majority decision – which occurred only three times since 1990.

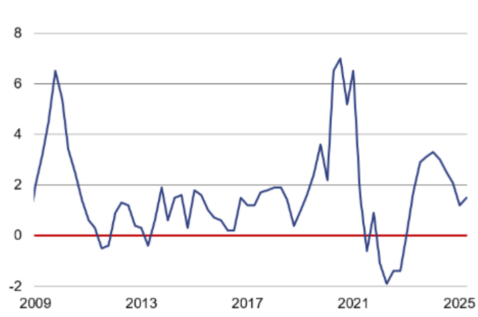
There are strongly differing views among the FOMC [2] about the appropriate path for monetary policy moving forward. Futures markets now assign a 70% probability to another rate cut in December[3], compared to a quasi-certainty before the FOMC decision. Such drop in expectations was a direct consequence of Chair Powell intervention, in which he reminded investors that the FOMC wasn't committing to any predetermined path as sticky services inflation and tariffs pass-through continue to exert upward pressure on prices.

What's more, the ongoing government shutdown[4] is adding another layer of uncertainty. On the one hand, it's a direct drag on economic activity as Federal workers and contractors face delayed pay, and services such as food assistance are disrupted. This weighs on consumption and confidence, particularly among lower-income households.

On the other hand, it impairs decision-making. The Fed lacks access to timely and reliable data, making it harder to calibrate policy responses, and this uncertainty could delay or distort monetary adjustments.

United States - Productivity

in %, y/y



Source :Macrobond, Rothschild & Co AM, October 2025

United States – PCE inflation

in %

Source :Macrobond, Rothschild & Co AM, October 2025

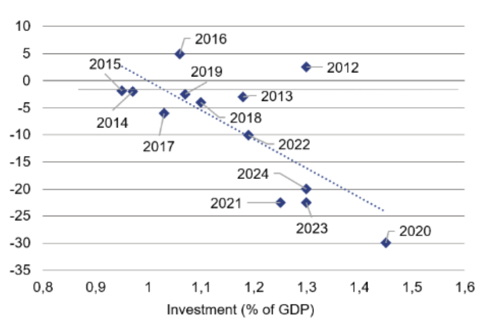
The ECB on hold

While the Fed is easing its monetary policy, the ECB has been on pause for some time amid a complex policy environment. Although wage inflation is expected to decline and various forces should exert a downward pressure on goods prices, core inflation surprised to the upside in October, driven by sticky price pressures in the services sector.

Meanwhile, the composite PMI[5] rose to 52.5 in October[3], a two-and-a-half years high, signalling expansion. Germany plays a significant role: its PMI reached its highest level since May 2023, a rebound largely due to expectations surrounding its fiscal stimulus plan, which includes increased defence and infrastructure spending. However, the speed of implementation of this plan remains uncertain, and past promises have often gone unmet. Furthermore, external headwinds – such as trade diversion from China and currency appreciation – continue to weigh on competitiveness.

Germany - Public investment

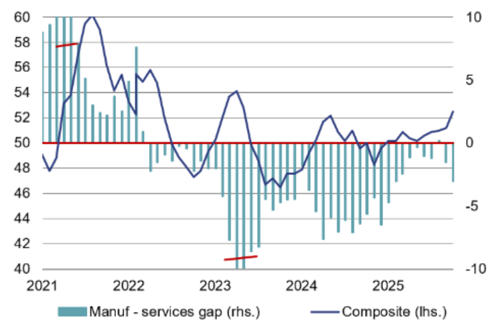
Deviation VS planned spending in %



Source : Oxford Economics, Rothschild & Co AM, October 2025

Eurozone - Business confidence

S&P Global



Source : Macrobond, Rothschild & Co AM, October 2025

Performance of the indices and interest rate levels

	Price as of 30/04/2025	1 month % change	2025 % change
Equity markets			
CAC 40	8 121	2.9%	10.0%
Euro Stoxx 50	5 662	2.4%	15.6%
S&P 500	6 840	2.3%	16.3%
Nikkei 225	52 411	16.6%	31.4%
Currencies			
EUR/USD	1.15	-1.7%	11.4%
EUR/JPY	177.7	2.4%	9.1%

Interest rates	Level as of 31/10/2025	1 month change bp (1)	2025 change bp (1)
3 month			
Eurozone	2.02%	1	-72
United States	3.80%	-13	-51
10 years			
Eurozone	2.63%	-8	27
United States	4.08%	-7	-49

(1) Basis point.
Source: Bloomberg. data as of 31/10/2025. Performances in local currency.
Past performance is not a reliable indicator of future performance and is not constant over time. Index's performance is calculated on the basis of net dividend reinvested

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(1) Internet bubble.
(2) Federal Open Market Committee, the Fed body responsible for controlling open market operations in the United States.
(3) Source: Bloomberg, 31/10/2025.
(4) Source: Political situation in which the US Congress fails to vote on the funds necessary for the government to function, leading to a partial shutdown of its activities.
(5) Source: Purchasing Managers' Index, an indicator reflecting the confidence of purchasing managers in a sector of activity. Above 50, it indicates expansion in activity; below 50, contraction.

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France

29, Avenue de Messine
75008 Paris
+33 1 40 74 40 74

Belgium – Netherlands – Luxembourg

Rue de la Régence 52
1000 Bruxelles
+32 2 627 77 30

Switzerland

Rothschild & Co Bank AG
Rue de la Corraterie 6
1204 Genève
+41 22 818 59 00

Italy

Passaggio Centrale 3
20 123 Milano
+39 02 7244 31

Germany - Austria

Börsenstraße 2 - 4
Frankfurt am Main 60313
+49 69 299 8840

Spain

Paseo de la Castellana 40 bis
28046 Madrid
+39 02 7244 31

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