

Labor Boogie

Weekender

August 16, 2025

The development of full artificial intelligence could spell the end of the human race.

Everything that civilisation has to offer is a product of human intelligence; we cannot predict what we might achieve when this intelligence is magnified by the tools that AI may provide, but the eradication of war, disease, and poverty would be high on anyone's list. Success in creating AI would be the biggest event in human history. Unfortunately, it might also be the last.

Stephen Hawking

By far the greatest danger of artificial intelligence is that people conclude too early that they understand it.

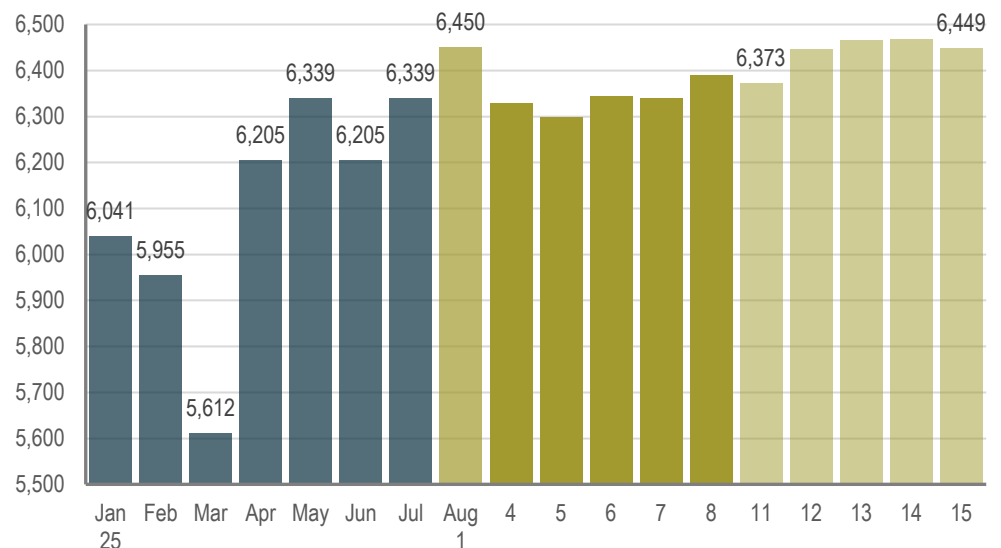
Eliezer Yudkowsky

Good morning and welcome to the *Weekender* for Saturday, August 16, 2025. US equity markets rose this week, making back everything they lost last week. The Standard and Poor's 500 index was higher by 0.93%.

The week was chock-a-block full of schizophrenic economic data releases. Some showed modest inflation, despite tariffs; others showed inflation advancing and economic performance moderating. Both are true, but for different reasons and together they tell the same story. The full impact of tariffs has not yet been felt.

S&P 500 Index Levels

(Source: Bloomberg)



While we continue to be fully invested, our positions tilt toward quality and safety and are relatively light on momentum names. Our growth portfolios have outpaced the market on a year-to-date basis, and we expect this trend to continue as markets reach beyond the narrow artificial intelligence space to pick up punters left behind in the run-up. Next week, some of the last stragglers report earnings. Their views will provide a fascinating insight into the consumer.

So far, 459 of the S&P 500's 497 members have reported earnings. In aggregate, sales growth compared to the same period last year is up 5.9% and earnings growth rose 11.3%—a strong and respectable performance in any environment. Used in isolation, these data suggest that tariffs have had little impact on corporate revenues or profits. Full steam ahead, President Trump! But such an assessment would be wide of a pending reality. It overlooks the complexities of variable tariff implementation timing and the lags that occur between policy announcements and when the effects of policy are felt and measured.

In this *Weekender*, we will discuss tariffs and the labor market in more detail.

Be sure to consult a qualified investment advisor before making investment decisions.

Market Narrative

We believe equity markets continue, almost mechanically, to climb a wall of worry. Tariff impacts on the economy and corporate profits have been mild. But economic theory suggests the second shoe has yet to drop. Thus, the worry. Equity gains since the tariff terrors in April have been mainly driven by retail investors/traders with a game-playing mindset. Institutional investors, who generally rely on in-depth analysis of the economic environment and company fundamentals, have enjoyed watching the markets from the sidelines, benefitting from the retail-driven upside without taking any unnecessary chances. At some point, shortly, fundamentals and froth collide. No one knows when, and precise timing is impossible. Investor nimblity (I made it up, but it works) will be essential.

Equity valuations currently sit, on average, close to their highest level in history. Homing in on one valuation metric in particular, price to book value, reveals the highest valuation for the technology-heavy Nasdaq, since data is available, which is just after the internet bubble burst.

Price-to-Book Value for Nasdaq

November 16, 2001 - August 16, 2025

(Source: Bloomberg)



Data for the S&P 500 allows us to look back farther. While the index price to book value is not quite at an all-time high yet, it is very close.

Price-to-Book Value for S&P 500

May 11, 1990 - August 16, 2025

(Source: Bloomberg)



No single valuation metric should weigh too heavily on investment decisions. But when valuations get so far out of whack, caution is warranted.

Economic Narrative

US consumer sentiment remains weak, job worries are on the rise, and spending, including doom spending, appears to be peaking. But investor risk appetite seems

oddly unsatiated. Over the last week, the S&P 500, which is a market capitalization-weighted index, was higher by 0.93%. Over the same period, a different version of the S&P 500 that weighted each company equally, regardless of the company's market value, was higher by 1.5%. We believe that to the extent equity markets continue to rise, they will be driven by investors' reallocation of capital away from the highly valued tech names and into the more boring daily drivers.

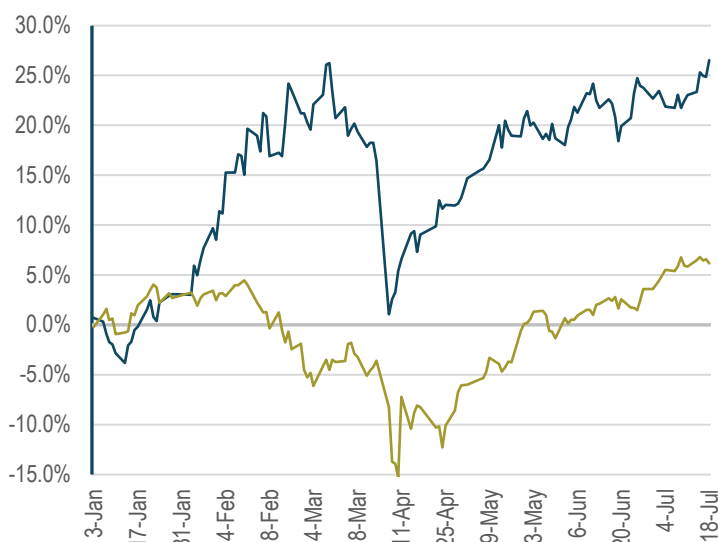
China's economy reported data marking its deepest slowdown of the year, all but ensuring the central government will continue pumping money into the economy and financial markets. While Trump's trade war is having an impact, the more worrisome issues are fractures deep inside the structure of China's economy. Deflation and significant overcapacity are weighing on the Middle Kingdom.

As an equity alternative, China has broadly two markets—stocks that trade in China and those that trade in Hong Kong. Outsiders see Hong Kong as a more accommodating environment, due mainly to the cultural ghosts of 156 years of British control, which only ended in 1997. The Hong Kong equity index is higher by 25.1% on a year-to-date basis, while the mainland China index is higher by 8.5%.

Cumulative Year-to-Date Returns of Hong Kong (Blue) and S&P 500

January 2, 2025 - August 16, 2025

(Source: Bloomberg)



Tariffs Again

President Trump campaigned on the idea that other nations should play fair with the United States if they want their companies to have access to US markets. His gripe—that the US economy has been effectively subsidizing the

global trade system for decades—holds water. The United States has also benefited from having the US dollar be the global fiat currency since the close of World War II in 1945. In the President's State of the Union address, President Trump telegraphed an oncoming Tsunami wave of higher tariffs if countries were unable to strike trade deals to his satisfaction. Most countries have been unable or unwilling to strike symbiotic deals of any absolute magnitude and have instead opted to swallow the hard medicine of higher tariffs.

As we have discussed in numerous past Weekenders, tariffs are, by their design, inflationary. Their purpose is to raise the price of imported goods so that domestically produced alternatives are more attractive than before the tariff was implemented. Potential tariff inflation had a significant impact on financial markets from February until early April, when President Trump delayed their implementation and advised investors to buy stocks—a move that seemed prescient, given the light switch in his hand.

Since April, tariff deadlines have come and gone. On average, tariffs are much higher than they were at the beginning of the year. But their impact has yet to be fully reflected in the US economy. Impact delays have been fueling animal spirits in financial markets. Since April 9, 2025, the S&P 500 is higher by 29.4%.

Economic data released last week provided a litmus test of sorts for the market. On Tuesday, the consumer price index (CPI) was released, suggesting consumer prices were indeed rising but not quite as much as expected. Real wages also showed better-than-expected increases, and initial jobless claims were tame. Retail sales came in slightly softer than predicted, but this data set is volatile and impossible to predict. In total, these data manifest an economy that seems “just fine, thank you very much.”

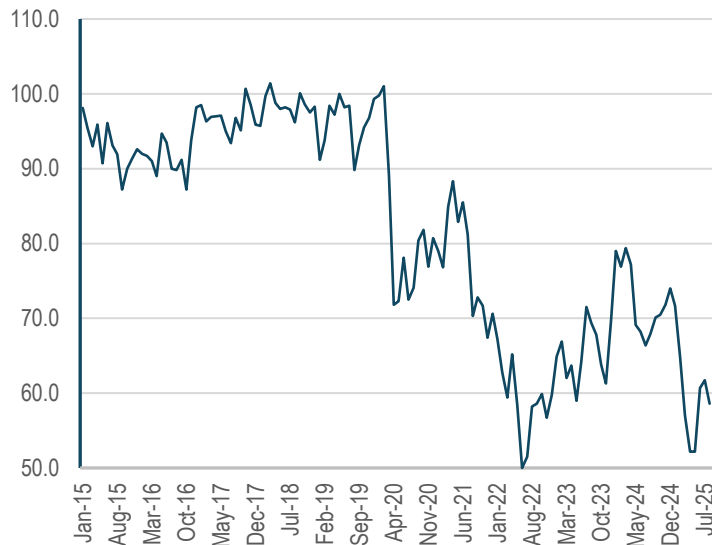
Looking forward, the picture is much less rosy. Producer prices came in very hot. But thanks to a tottering Chinese economy, import prices fell, which will ease some of the tariff pressures as they start to filter through. Businesses' inventories are right where economists expected, but they were overbuilt during the pandemic and have held steady at an overbuilt position. Together, these factors soften the near-term blow of tariffs on prices.

But rest assured, consumers are feeling the inflationary tension. The University of Michigan's consumer sentiment index unexpectedly fell in its early August reading.

US Consumer Sentiment

January 2015 - August 2025

(Source: Bloomberg)

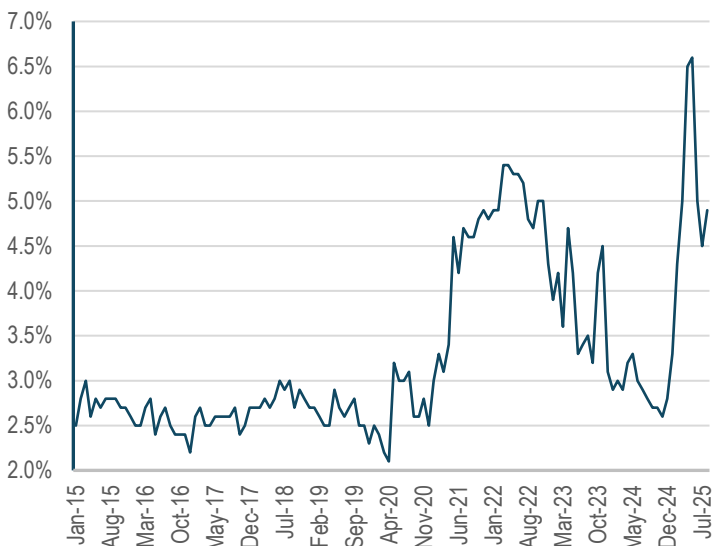


As part of the Michigan survey, consumers were polled about their inflationary expectations one year out. The results shattered expectations. One year from today, US consumers expect inflation to be running at a toasty 4.9%.

One-Year Inflation Expectations

January 2015 - August 2025

(Source: Bloomberg)



This delay fueled animal spirits in equity markets, with some pundits suggesting, up until last week, that the President might be omniscient and that tariffs do not cause inflation.

Labor Market

Key to either the bull or bear case for financial assets generally is the labor market. A staccato review of labor market data reveals a stunning degree of resilience. Unemployment is low, wages adjusted for inflation are growing, job openings are falling but still strong, and average hours worked suggest demand. But in the world of non-fictional boogeymen that are already under the bed, we are concerned.

During the Biden administration, immigration, legal or otherwise, was a powerful supplier of workers, cash, and demand. Approximately 1.5 million immigrants entered the country in Biden's last year in office. Although a significant strain on the social fabric, most immigrants came to work. Under the Trump administration, immigration has been effectively shut off, which has also shut off the increase in the labor force. Many migrants already in the country refuse to go to work for fear of being deported. Without taking any political view, the economic realities of immigration shifts are meaningful. Wages are rising as companies, especially those in agriculture and construction, struggle to meet their labor demands.

Our boogie concerns are not confined to the lower end of the wage scale. At the upper end, artificial intelligence is hollowing out swaths of technology jobs. Amazon CEO Andy Jassy announced to all his employees that "efficiency gains" from AI would mean fewer employees in the future. JP Morgan expects to continue to grow into the future with 10% fewer jobs. Klarna, a private company looking to go public soon, has already pushed its headcount lower by 40% despite an impressive growth trajectory.

Managing engineers in technology companies are tired of dealing with demanding programmers who want to do things their way. Artificial intelligence takes out the human dimension, which causes so much angst. The longstanding trend in small companies to ramp up spending in human resources, accounting, marketing, and analytics is coming apart. Artificial intelligence is helping companies grow faster and cheaper without adding people.

As companies trim payrolls and young companies find ways to grow without adding people in the first place, the contract between worker and company may be completely shredded. It's not unlikely that we return to a world much like the guild system from hundreds of years ago, where most people worked for themselves and, at times, contracted their services to others who need their expertise.

Microsoft recently analyzed the responsibilities of all its positions. Their conclusion? Artificial intelligence could

eliminate 36% of the work being done by employees. That means laying off 80,000 people. In April, Microsoft disclosed that 30% of its new code is being written by artificial intelligence. Meta aims to reach 50% by 2026. Sticking with the anecdotal, we have several clients facing layoffs driven by the adoption of artificial intelligence. Highly skilled and highly compensated professionals are not easily hired in a world where a machine writes the following line of code for a fraction of the cost and with minimal management headache.

White collar jobs are also on the block. Ford believes artificial intelligence will wipe out half of all their white-collar jobs. Apologists try to alleviate concerns by suggesting that losing a job will lead to finding another one in the new world of artificial intelligence. So far, these comforting words have not materialized. Our ongoing assessment is that every industry will be dramatically impacted by artificial intelligence. As things look today, AI efficiency gains are not being shared with employees. Instead they fall to the bottom line and are paid out to corporate chieftains, shareholders, and the government in the form of taxes.

Conclusion

Thats it for this *Weekender*. Have a wonderful week.

Disclosure Statement

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