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Investment Research

Talking Points: Geopolitics and the economics of AI

Blog

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- There were three pieces of news with market signals last week: the military strike on Iran, OpenAI's USD 110bn of new funding, and mass layoffs at Fintech Company Block.
- From a geopolitical perspective, the US-Israeli strike on Iran is historic, but the market impact is likely more muted.
- The outcome of Iran's leadership transition could be a weakened status quo, an Islamic theocracy with a deeply rooted security force, or a transition to a more peaceful regime—more of the same or better.
- The most market-relevant question is what happens with the Strait of Hormuz, through which roughly 20% of global oil and large volumes of LNG pass daily. Any lengthy closure would mean disruption to energy supplies and a lasting spike in oil and gas prices. However, the US military has prepared itself for a shorter conflict of up to a few weeks
- OpenAI announced a new USD 110bn funding round, highlighting that private markets increasingly compete with public markets. The top 10 US private companies are valued at USD 3.0tr, with SpaceX and OpenAI leading.
- At their scale, the privates compete with the publics for both profits and funding. Private companies will have to capture profits over time, likely from incumbent market opportunities like digital advertising, posing a threat to public market profits and investor liquidity diverted away from listed securities.
- The largest private companies will have to tap the public markets for further funding. For example, if 10% of a USD 1tr company is sold in the public markets, public investors would have to shore up USD 100bn—more than raised in US IPOs over the past four years combined.
- The US FinTech Company Block announced massive layoffs tied explicitly to AI, cutting more than 4,000 jobs or 40% of its workforce. We agree that AI will lead to more job losses, but not at the same speed as that seen at Block.
- The AI disruption of the labor market anchors our view that the Fed will likely cut two more times this year, even if the economy is likely to remain strong.

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Attractive: We consider this asset class to be attractive. Consider opportunities in this asset class.
Neutral: We do not expect outsized returns or losses. Hold longer-term exposure.
Unattractive: We consider this asset class to be unattractive. Consider alternative opportunities
Note: For equities, we have a five-tier rating system with two additional preferences
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Least Attractive: We consider this asset class to be among the least attractive. Seek more favorable alternatives opportunities.
When equities are included with the other asset classes in the three-tier rating system, we collapse "Most Attractive" with "Attractive" and "Least Attractive" with "Unattractive."

Appendix

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