



Market Commentary
October 2025

English Version

Artificial Independence?

Quarterly Call Q4 | 2025

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Executive Summary

Signal over noise: Concerns about “Fed independence” are overstated; institutional guardrails and market scrutiny remain intact.

Focus on fundamentals: The U.S. is not in recession, earnings are advancing, and the Fed is easing preemptively as labor cools and real rates remain restrictive.

Policy & USD: The Trump Administration’s policy mix (lower rates, softer USD, rising asset prices) is largely in place. The Dollar has started an orderly retreat from overvalued levels; another 10 to 15% decline over a multi-year horizon would align it with fair value. Some diversification away from USD makes sense for non-U.S. investors.

Growth backdrop: U.S. growth is slowing, not stalling. We expect two more 25 bps cuts this year and a glide path toward ~3% Fed Funds in 2026 as inflation pressures look more like level shocks (tariffs) than a renewed trend.

Productivity & AI: Post-pandemic productivity has improved; early AI deployment is already a measurable tailwind to potential growth and helps offset tariff pass-through to prices.

Recession risk: Our Insigneo-Forefront model assigns only ~18% probability of U.S. recession over the next six months, consistent with a soft patch followed by re-acceleration, not contraction.

Equities: Base case unchanged; we expect the S&P 500 to finish 2025 in the 6,500–7,000 range with multiples stable and earnings doing the heavy lifting; prior non-recession cutting cycles after a pause show a 15% median 12-month return.

Rates & credit: Look for a steeper curve as policy converges toward neutral. Favor high-quality carry, IG and selective BB credit; refinancing risk falls as easing progresses.

Defense theme: Rising global military outlays argue for a strategic allocation to defense/aerospace for cyclical participation and a geopolitical hedge.

Regional lens: U.S. equities remain expensive. Maintain a U.S. core overweight for AI leadership, but add regional diversification (Europe on fiscal traction; EMs like Mexico/Asia tech on supply-chain shifts and easier financial conditions).

FX & hedges: A softer USD and a less negative BoJ stance make the JPY an attractive hedge. We remain constructive EM and supportive on gold as a policy-transition hedge.

Gold: Structural bull intact; we see a multi-year reserve-reallocation story as the core driver, not U.S. politics. Year-end target: USD 3,800/oz.

Introduction

Greetings to our partners and friends around the world as we enter the final quarter of 2025. After a tumultuous start to the year, we think we finally have a strong grasp of Trump 2.0 and the global re-ordering underway. Indeed, our base case for the year is unfolding as expected (see our [Q1](#), [Q2](#), and [Q3](#) quarterlies here as a refresh). Of course, that does not mean that new risks have not emerged. At the forefront of such worries is the topic of “independence,” more specifically as it applies to “central bank independence” due to a very direct and public campaign by President Trump to nudge the US Federal Reserve into an easing cycle. Many investors are worried about the fraying of the Fed’s institutional independence and its ability to conduct economically-driven monetary policy.

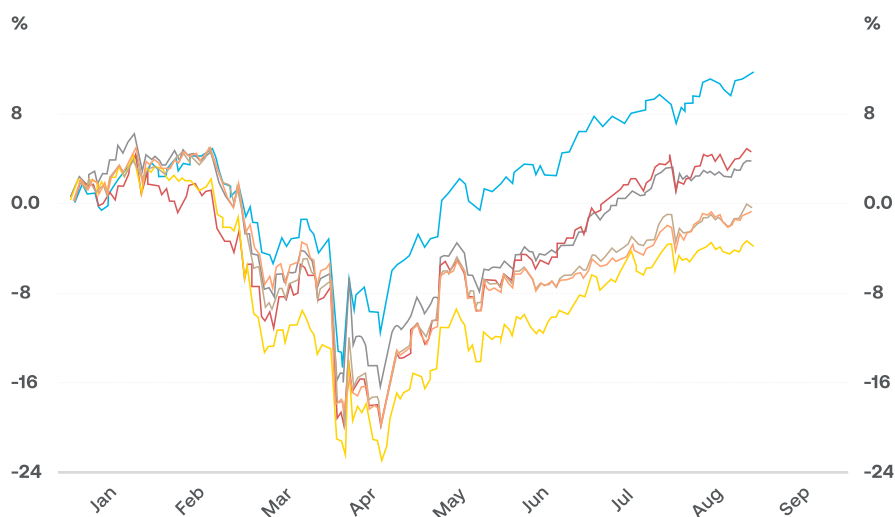
In our view, investor concerns about the Fed’s “independence” are overstated. The Fed has never been fully insulated from politics. It is designed to be independent within government. Policy stances evolve with economic conditions and institutional considerations (e.g., Chair Powell’s shift from

dovish to forcefully hawkish after his 2022 reappointment), just as other officials, including current ones, have argued for easing in one regime and restraint in another. Non-economic considerations periodically enter the discussion as well. The Fed suffers from plenty of “mission creep”, from DEI initiatives to climate change agendas, because the dual mandate operates in a real economy with real constituencies. Moreover, political pressure is not new. Presidents and legislators have long tried to sway the Fed, from the Johnson and Nixon eras to contemporary calls by senior officials for rate cuts. Yet the system’s safeguards have consistently contained these pressures. Staggered terms, statutory goals set by Congress rather than the White House, a professional staff culture, transparency requirements, and market scrutiny together create durable checks. In practice, these guardrails have preserved a level of independence sufficient for the Fed to deliver on its mandate, and there is little evidence that this time is different.

The policy mix favored by the Trump Administration of lower rates, a softer Dollar, rising asset prices, and continued expansion has largely materialized.

S&P 500 Returns in 2025 in Currency Terms Only positive in Dollar, Yen & Pound

— USD — EUR
— CHF — GBP
— JPY — SEK



Source: S&P Global, BCA

The Greenback has begun an orderly retreat from very overvalued levels, but still has a way to go (another 10 to 15% lower would bring it inline with its fair value). For non-US based investors, some diversification away from the Dollar makes sense. As of only very recently, the S&P 500's YTD returns were only positive for a few currencies. For many, USD weakness equated to negative returns in local currency terms. It is important, though, not to overreact as we expect the Dollar's remaining downside to be orderly and to evolve over a 5 to 10-year horizon.

In the near-term, investors should separate noise from signal, just as we have been arguing since Liberation Day. The U.S. economy is not in recession, corporate earnings are advancing, and the Fed is preemptively easing for fundamentally sound reasons because the labor market is cooling and real policy rates are restrictive. In this configuration, risk assets typically fare well. Historically, over the past four decades, the S&P 500 has delivered a 15% median 12-month return when the Fed has resumed cutting rates while growth remained intact.

— “The U.S. economy is not in recession, corporate earnings are advancing, and the Fed is preemptively easing for fundamentally sound reasons because the labor market is cooling and real policy rates are restrictive.”

Macroeconomic Outlook

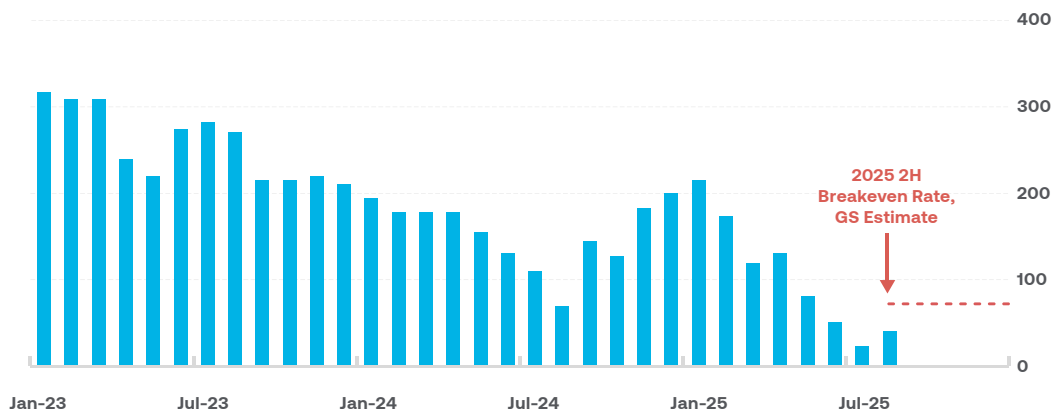
U.S. growth is slowing but not stalling, and the policy mix is finally pivoting to meet it. Incoming US labor data show a clear cooling, bolstering the case for pre-emptive Fed easing. Our base case is two more 25 bps cuts through year-end followed by measured reductions into next year, bringing the Fed Funds rate to around 3% as labor momentum has slipped below breakeven job growth, while inflation pressures look more like a level shock from tariffs than a renewed trend, keeping the structural disinflation narrative intact.

Another Reason the Fed is Cutting Rates

Job growth is below breakeven rate, so unemployment will rise without Fed action

UNDERLYING TREND JOB GROWTH, GS ESTIMATE

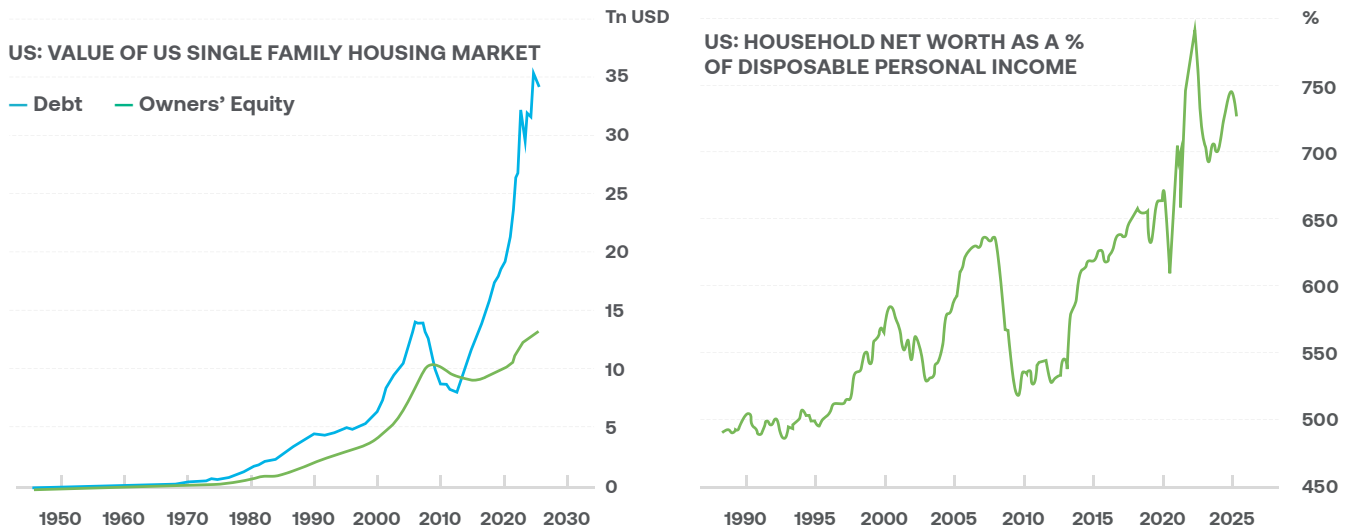
Thousands per month



Source: Goldman Sachs

US Households Are House- and Paper-Rich, Cash Poor

Need lower rates to access this liquidity and they will get it



Source: Federal Reserve, BCA Research

As personal balance sheets deplete their cash savings, steady consumption hinges on mortgage rates drifting lower. US households are historically under-levered, have amassed substantial housing wealth, and need lower financing costs to tap it. The Trump Administration's focus on housing transmission and the market's path toward ~4% 10-year yields should gradually re-open that channel.

We continue to mark up US potential growth

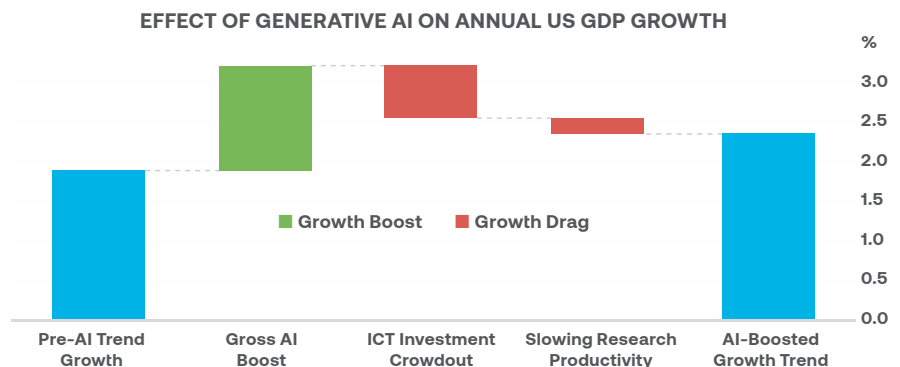
modestly. Productivity has improved post-pandemic, and early AI deployment is adding measurable contributions to GDP. That productivity impulse also helps offset tariff pass-through to prices, reinforcing the case for measured cuts rather than emergency easing.

In our view, global spillovers remain manageable as Europe should firm as the trade drag fades and fiscal support appears in the data, while emerging market

AI is Boosting US Potential Growth Significantly Even When Adjusted For Its Negative Effects

*Estimate based on Philippon (2022)'s finding that TFP follows additive rather exponential growth trend

Source: Goldman Sachs

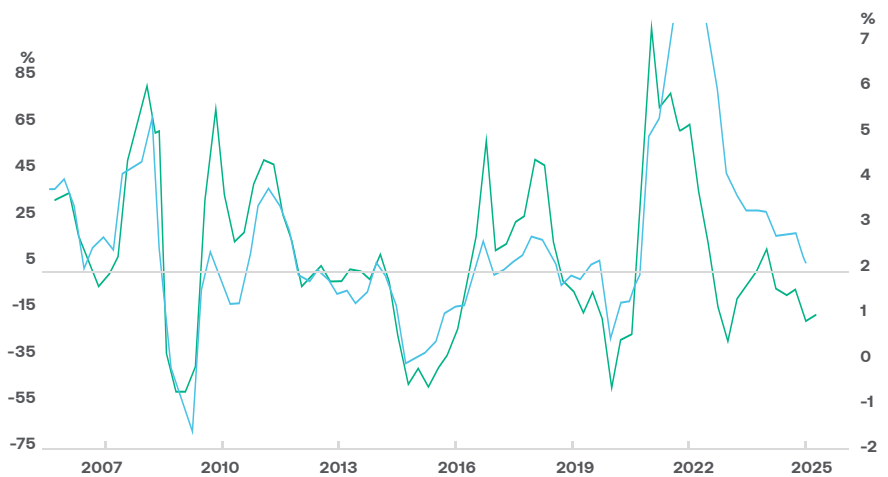


Despite Tariffs, US Inflation Remains in Downward Trend

Energy (and housing) are keeping a lid on price pressures

— Brent, %yoy
— US CPI %yoy (rhs)

Source: JPM, Bloomberg



growth is steady, with China's exports re-routing despite higher US tariffs.

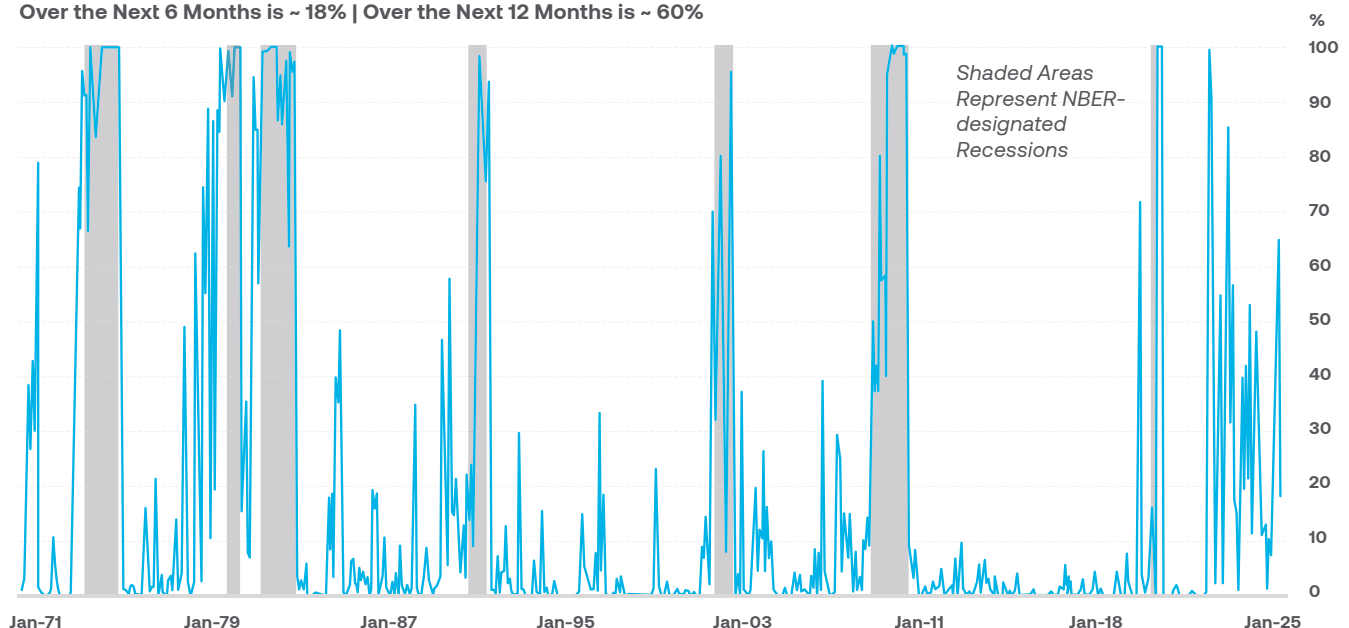
Our in-house Insigneo-Forefront US Recessionary Indicator indicates only an 18% chance of a US recession over the next 6 months, consistent with a soft-patch/

re-acceleration sequence rather than contraction.

In short, easing labor demand, contained inflation trend, improving productivity, and a policy stance shifting toward neutral real rates argue for below-trend, but positive, growth.

Probability of a US Recession Using Our Probit Model

Over the Next 6 Months is ~ 18% | Over the Next 12 Months is ~ 60%



Source: Insigneo-Forefront Recessionary Indicator

Subjective Probabilities for US Assets Under Four Potential Scenarios for Year-End Source: Insigneo



Market Forecasts

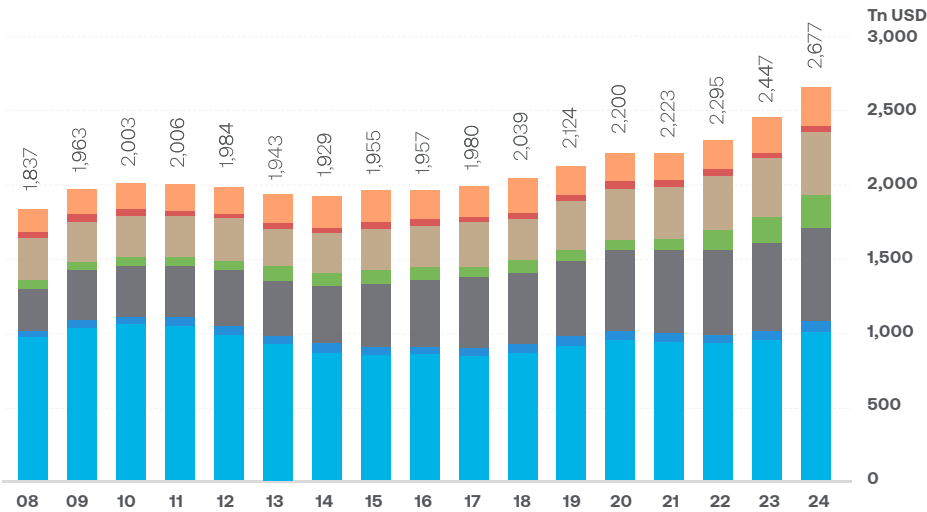
With recession odds contained and the Fed easing from restrictive levels, the near-term backdrop favors risk assets. Our base case remains unchanged from last quarter, as we expect that the S&P 500 will end the year toward the upper end of our target range of 6,500 – 7000, and the US 10-year Treasury remains anchored around 4% as the term premium stabilizes and growth prospects improve. Historically, across the last

four non-recession cutting cycles, the S&P 500’s median 12-month return was approximately 15%, with earnings doing more of the heavy lifting as multiples stabilize.

Positioning remains only moderately risk-on and cash levels among investors remain elevated, leaving tactical room for upside if the macro path tracks our base case. We favor quality cyclicals and cash-flow producing growth companies, with selective exposure to AI beneficiaries as the capex wave persists. At the same time, defense spending is rising globally. Maintaining a

Military Expenditures are Going Higher Everywhere

- North America
- LatAm & Caribbean
- Asia & Oceania
- Russia and Eurasia
- Europe
- Sub-Saharan Africa
- MENA



Source: SIPRI Military Database 2025

US vs. World ex-US is Expensive

— MSCI US % of MSCI World — MSCI Europe % of MSCI World



Source: Datastream

strategic allocation to defense/aerospace provides both cyclical participation and a geopolitical hedge.

For rates, we expect a steeper curve over the medium term as policy converges toward neutral and growth normalizes. Within fixed income, we prefer high-quality carry and selective investment grade or BB credit where easing reduces refinancing risk without inviting late-cycle spread beta. We also retain a constructive medium-term stance on emerging markets, (supported by a softer USD and easier Fed) as well as on gold as a portfolio hedge amid policy transition and ongoing currency debasement. The Yen remains a great hedge, as we expect that the BoJ will be raising rates this year.

On a geographic basis, US equities remain expensive on most metrics. While AI leadership argues for a US core overweight, regional diversification is warranted as Europe benefits from German stimulus and parts of emerging markets (e.g., Mexico, Asia Tech) benefit from supply-chain shifts and easier financial conditions.

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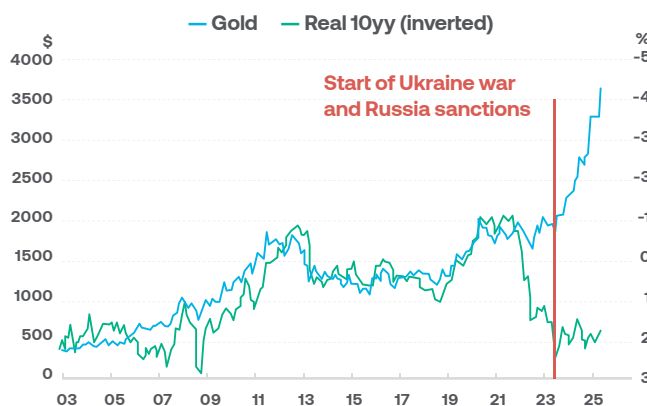
Lastly, we wanted to expand on our longstanding, multi-year, structurally bullish stance on gold. Since 2019, gold is up 144%, outperforming the S&P 500 (121%) over that time period. Of course, the common narrative is that the Trump Administration has scared investors into becoming gold bugs.

A more nuanced view, however, shows that gold's multi-year bull market is not tied to Trump at all; it predates him and it will outlast him. Years of financial repression from central banks, rising debt loads in the developed world, and politically constrained central banks have eroded confidence in fiat currency regimes. This is not only a US problem, it is also a

value of U.S. Treasuries fell. Foreign U.S. Treasury ownership slid from 40% in 2019 to 29% last year (before Trump was in office), as central-bank gold buying jumped from around 20 tons/month pre-2022 to 80 tons/month thereafter.

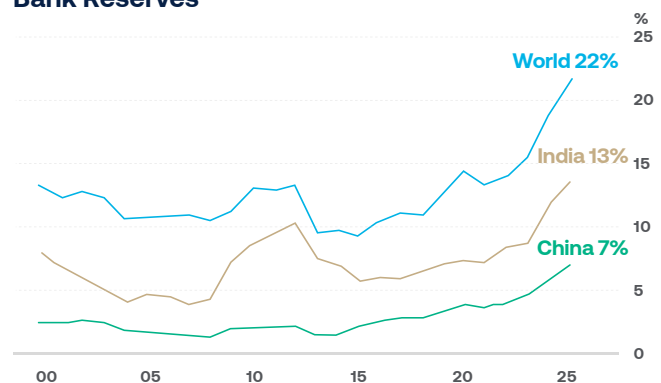
Given its recent performance, many investors may be

What's Driving Gold Higher? Not Trump...



Source: Bloomberg, Eurizon

Share of Gold as a Percentage of Central Bank Reserves



Source: IMF, Datastream, Eurizon

European and Japanese one. In fact, it looks less like a commodity story and more like a central bank balance-sheet story with the primary driver being a structural, multi-year divestment from traditional reserve fiat currencies.

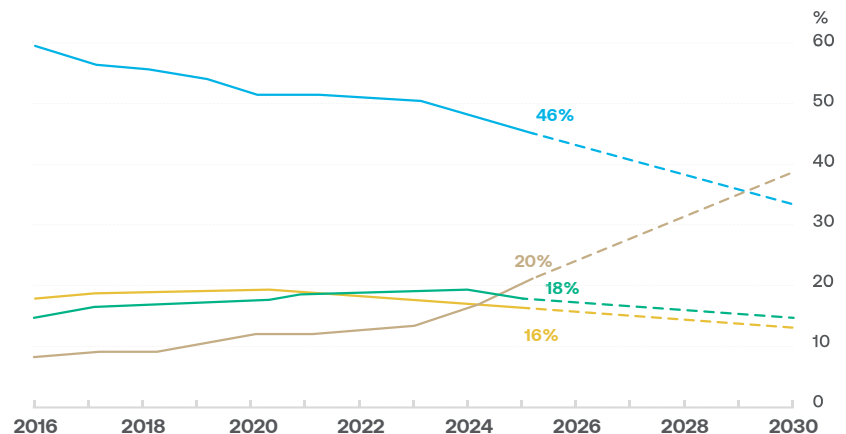
Though this trend accelerated after the freezing of the Russian central bank's reserves after the invasion of Ukraine, its roots go back further, anchored in prolonged and unwarranted quantitative easing and fiscal largesse. This seizure, though politically expedient at the time, has reframed jurisdictional and seizure risks for large holders, particularly emerging market central banks that might, eventually, be caught in the crosshairs of the West's punitive reprisals. Post-2022, gold diverged higher while the real

wondering if it is time to take profits on this trade. In our view, the answer is that we think this story may just be getting started. Today, the US holds about 80% of its paltry reserves (~USD 1.2T) in gold. But the global average is 22%, and close allies of the US like China and India hold 7% and 13%, respectively. Of course, they are not close allies, and that is the point. Gold benefits as the least-imperfect alternative currency because no one controls the global gold supply, unlike the Fed that controls the supply of USDs, the ECB with EURs, the BoJ with JPYs, etc. Indeed, we see sustained central bank buying, broader private adoption, and a shrinking foreign bid for developed market sovereign paper as the core pillars underpinning the bull market.

Central Bank Reserve Assets by Type Share of reserve assets (ex-US)

— USD
— Gold
— Other
— EUR

Source: IMF, Datastream, Eurizon



— “In the end, we reiterate our bullish view on gold, and our year-end price target for this year remains \$3,800/oz.”

Currently, gold now ranks as the second most commonly held reserve asset in the world by central banks at 20%, if you exclude US reserves, which means that it has now overtaken the Euro (16%) and it only trails the US Dollar (46%). However, if current trends persist for a few more years, then gold may overtake USD as the primary reserve asset by early next decade. Neither the Euro, nor the Renminbi is a threat to the Dollar’s status. Gold? It is plausible. If so, then a purely mechanical scenario in which central banks elevate gold’s reserve share to match the Dollar implies a spot price more than double current spot prices.

In the end, we reiterate our bullish view on gold, and our year-end price target for this year remains \$3,800/oz. Though central-bank buying has cooled from its recent peaks, it remains structurally elevated. Lower real rates, sticky debasement hedging, and investor-led inflows keep risks skewed higher into next year as well.

The Fed’s and other central banks’ unlimited quantitative easing policies buoyed financial assets, but eroded fiscal discipline. Political resistance to fiscal austerity should keep deficits wide. Ironically, the current impulse against central bank independence may be the consequence of the irresponsible policies they sowed decades ago. Over the long-run, we think gold will be materially higher by the end of this decade. Of course, the key risk to our view is that austerity returns as a political force, causing fiscal policy normalization that restores fiat credibility. Other risks include an abrupt inflation undershoot, and any regulatory shifts that re-entrench developed market sovereigns as safe-haven holdings, like stablecoins. However, as long as the official sector keeps diversifying away from fiat money and developed market sovereign bonds, the path of least resistance for gold remains higher.

Recommended Asset Allocation for Q4 2025

Moderate Risk Profile

Note: Asset allocation weights are based on a recommended allocation for a moderate portfolio. Your suggested individual portfolio might look different depending on your risk profile, which is usually based on time horizon, liquidity and/or risk-aversion factors, plus factors related to specific instruments in the portfolio including, but not limited to, timing and trade-related costs.

Source: Insigneo



Melissa Ochoa Cárdenas
Investment Strategist

The importance of (central bank) independence

Central bank independence has become a focal issue in 2025, with growing political pressure in countries like the U.S., Brazil, and Colombia raising concerns about its preservation.

Despite political pressure in multiple countries, central banks have demonstrated resilience in maintaining their autonomy, with recent decisions reflecting a cautious and independent approach to monetary policy.

Market reactions underscore the importance of independence, with evidence that perceived threats to central bank autonomy can trigger volatility and undermine economic credibility.

2025 has been a year characterized by unprecedented stories – or at least, stories that we did not have on our radar as frequently as we are seeing them today. One of the stories that has gained relevance throughout the year is the concern over central bank independence.

Central banks share several objectives, such as implementing monetary policy and managing the country's currency, with the aim of achieving price stability, maximizing employment, and promoting economic growth. **Even if it is not stated within their guidelines, “independence” is seen as one trait that allows central banks to rein in inflation while setting monetary policy in the best interest of the country, regardless of which administration is in office.** Central banks are characterized as nonpartisan organizations, but lately, some governments have started to interfere with said independence.

Turning our attention to probably one of the most important central banks of the world, the Federal Reserve, President Trump has spared no efforts in criticizing the monetary policy stance in the U.S. He has been vocal about the necessity of lowering rates, to the extent of even saying the rate should be three percentage points lower. **Additionally, his direct and overt attempts at gaining a majority on the Fed's board by trying to remove Fed Governor Lisa Cook and by swiftly getting Stephen Miran confirmed as the newest FOMC member, are causing some to question if the Fed's independence is in jeopardy.**

Going into September's Fed meeting, Miran tried his best to sway the outcome of the meeting toward a deeper cut, adding a more dovish tone to the discussion that was also visible in the dot plot. Most market participants assumed his projections penciled in an additional 125bps cut by year-end. With Treasury's upcoming debt payments totaling USD 3.45tn and USD 3.35tn in 2026 and 2027, respectively, according to Bloomberg, the Administration may be looking for a

lower refinancing rate. Moreover, Trump has been vocal about the need to reduce mortgage rates, and even if the Fed does not necessarily set those, mortgage rates track the ten-year closely – a rate that follows, to some extent, Fed policy.

Turning to Latam, some countries in the region have similarly exhibited signs of conflict between their current administrations and central banks. Take Brazil, for example. There, the monetary policy committee – COPOM – had to embark on a monetary tightening cycle to tame unmoored inflation. This tightening has brought the Selic rate to double-digit figures not seen since the early 2000s, and even if inflation has edged lower, it remains above target.

This monetary policy tightening did not sit well with President Lula who, in numerous occasions, advocated for lower interest rates, arguing that the current level of the Selic rate hinders economic growth. Lula's stance towards COPOM was indifferent of whoever has been at the helm. President Lula was a harsh critic of Roberto Campos Neto, the previous COPOM governor appointed by former president Bolsonaro, under the same argument that rates were excessively high. He also added that Campos Neto was ideologically more aligned with the previous administration, and hoped that things would improve once it was his turn to elect a new leader for the COPOM. However, this has not been the case. **Gabriel Galípolo, the new head of the COPOM since January of this year, has remained independent of the administration that appointed him, spearheading a committee that has continued to increase the Selic rate as they deemed necessary.**

According to the statement from its latest meeting, in which the COPOM unanimously decided to maintain the Selic rate at 15%, this contractionary monetary policy is required for a very prolonged time to ensure the convergence of inflation to target, against a backdrop of heightened uncertainty and unanchored

inflation expectations. This cautious approach continues to defy Lula's wishes for a lower interest rate, especially with the Committee stating it will not hesitate to resume its hiking cycle if deemed necessary.

Lula is entering the final stages of his term, and with the October 2026 elections starting to gain relevance, a lower monetary policy rate would bode well for his now growing popularity. According to the latest survey by AtlasIntel for Bloomberg News, Lula's approval increased in August, amid the turmoil experienced by the opposition party that embroiled former President Bolsonaro's sentencing for plotting a coup.

In Colombia, President Petro has also been at a constant crossroads with BanRep. He has continuously advocated for lower rates, arguing that current rate levels are prohibitive for a large part of the Colombian population. Still, BanRep's Governor, Leonardo Villar, has been vocal at defending BanRep's independence while stating that the central bank's decisions are made in the country's best interest. During his tenure, Petro has appointed four BanRep Board – better known for its Spanish acronym JDBR – members, three co-directors and the Finance Minister. **However, even if the current administration's appointees comprise a majority within the JDBR, they have not given in to Petro's pressure.** The last two rate decisions (June and July) at the time of this writing signaled an independent but cautious approach to

monetary policy by keeping the rate stable. It is also worth stressing that the previous three administrations also got to name JDBR majorities, but BanRep has a track record of independence that has remained throughout those timespans.

Of note, current macroeconomic fundamentals in the country do not warrant a cut in September as inflation increased again in August after two consecutive months of reductions. Meanwhile, economic activity surprised the markets to the upside, according to the July economic activity indicator print, propelled higher by manufacturing and services (including government spending). The increased spending in the public sector is closely related to the fiscal challenges that are haunting Colombia, amid the ongoing approval process of its 2026 budget, whose full amount is dependent on the approval of an additional tax bill.

Up until now, the concept of “central bank independence” was hard to quantify. However, data compiled by [Davide Romelli](#) and aggregated in his Central Bank Independence – Extended (CBIE) index, allows us to measure the concept in a tangible, measurable way. When comparing the data for the countries we mentioned, the results portray an interesting picture. Of the three previously discussed institutions, it is the Colombian central bank that ranks as the most independent, followed by the United States. In contrast, Brazil's central bank independence has increased

Central Bank Independence Has Been Stable Through Time

■ Brazil
■ Colombia
■ United States

Source: CBIE Data from Romelli, D., 2024. Trends in central bank independence: a de-jure perspective. BAFFI CAREFIN Centre Research Paper No. 217.



since 1993, a logical progression considering that the central bank was declared autonomous from the Federal Government in 2021.

It may be conventional wisdom that independence is one factor that allows these entities to fulfill their mandates in a way that is beneficial to the country and the economy. We have also seen markets react negatively whenever there is a hint that independence may be at risk. For example, when President Trump first stated his intention to dismiss Chair Powell, equity markets sold off (the S&P 500 lost 0.93%), and the Treasury curve exhibited generalized losses across tenors, combined with a steepening move. According to an analysis performed by Jérôme P. Taillard and Linghang Zeng, “[...] the certainty of Powell’s dismissal could erase USD 0.88–1.51 trillion in total market capitalization.” (Taillard, Zeng, 2025).

In contrast, markets reacted positively to the Brazilian central bank’s reassertion of independence after the last policy meeting, with some market analysts stating

that the COPOM’s more hawkish tone gave it credibility, and tighter monetary policy lessened the impact of fiscal concerns and tariff-related shocks on the BRL.

Lastly, with respect to Brazil and Colombia, it is worth highlighting that both countries assets have outperformed in 2025, mainly underpinned by the belief that more right-leaning administrations, with a more pro-business approaches, may come to power in 2026.

In sum, and as we have stated on previous occasions, markets do not like uncertainty and are very sensitive to changes in the status quo. Part of that status quo under which they operate includes central banks being able to perform their role in an independent manner. If that assumption is questioned, then it should not be surprising if we witness a deterioration in inflation-fighting credibility that could trigger additional upside risks to the long end of their sovereign curves. If this is something the Trump administration is trying to avoid, it should be underscoring, not undermining, the importance of



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Artificial Intelligence: A Blessing or a Curse?

AI is currently advancing on two fronts: on one hand, it is disrupting the way humans interact and relate to one another; on the other, it is preparing to step in and fill the vacancies that a shrinking population will inevitably leave behind

What if AI changes the way we understand economies? AI is already disrupting jobs and human relationships. What if unemployment, GDP growth, or CPI data lost their forecasting value?

The true risk is underestimating how quickly automation and AI may replace human labor in some sectors of the economy, fundamentally reshaping industries and investment landscapes in the decades ahead.

Artificial Intelligence has been lauded as the newest catalyst for the next industrial revolution. It is hard to argue that AI is not impressive, or that it will prove to be nothing short of revolutionary. After being a largely unproven technology not even three years ago, it is difficult to understate its current rate of development, growth, and capacity to permeate every aspect of society in just a few years. Just as with the industrial revolution and the internet boom, new technologies engender countless and unexpected benefits. However, they can also bring with them unintended consequences. In this piece, we will explore some of the unequivocal benefits, but we will also address some of the potentially negative consequences of AI as well.

It is undeniable that the advent of specialized machinery during the industrial revolution launched an economic boom in countries like the United States and England. However, widespread adoption of this machinery was not immediate, taking over fifty years for its full effects to make a meaningful impact on productivity and GDP growth. A similar scenario played out during the internet revolution of the 90's, although within a much more compressed time frame. The early days of the "World Wide Web" took place in the early half of that decade; however, it was not until 1998 and 1999 that the Dot-com bubble emerged. In fact, internet-induced productivity did not meaningfully increase until after 2000. **It took the industrial revolution between 50 to 60 years to meaningfully increase productivity, while it took the internet approximately 10 years to make a marked difference in people's lives. However, it could take Artificial Intelligence much less time to make a deep impact on society as a whole; in fact,**

one can argue that the impacts are already starting to be felt.

What would cause AI to impact society faster than previous technological revolutions? In short, the current ease of technological diffusion. In the 1800's new technologies took months, if not years, to spread from one society to another. Large distances kept ideas apart. Now, ideas can jump from one continent to another in a matter of seconds. This has caused new technological advances such as AI to spread like wildfire. The more widespread new technology becomes, the quicker it is adopted and the more it continues to evolve. If we think about it, it has only been two years since we began to train AI to solve logical problems. From then, it learned to use inference to make predictions, and is now dispensing advice through agentic AI. **What would take a human twenty or more years to master, it takes a foundational large language model a mere two years. It is mind-blowing to fathom how this technology can evolve ten years down the road.** Which begs the question, what kind of impact could Artificial Intelligence have on society over time?

Between Shakespeare and Black Mirror

During the 14th century, the Black Death killed between 30% and 60% of Europe's population according to most historians' estimates. With fewer peasants to tend the fields, the prevalent labor market structure collapsed, and society shifted from a feudal-based economy to a pre-capitalist model, with workers able to demand higher wages and greater labor mobility. While we do not expect AI to kill a third of the human population—hopefully—we do expect it to transform labor dynamics over the long term. During a plague outbreak in the 16th century, Shakespeare wrote, in his famous play Macbeth: *"By the pricking of my thumbs, something wicked this way comes."* *Will AI deliver a blessing or a curse?*

Nowadays, we have been almost exclusively focused on macroeconomic data to make investment decisions. **But what if AI changes the way we understand economies? AI is already disrupting jobs and human relationships. What if unemployment, GDP growth, or CPI data lost their forecasting value?** At first glance, this might sound like a dystopian scenario out of *Black Mirror*, a tv series that explores how technology, if left unchecked, could impact society. However, evidence suggests that we may be already heading in that direction. Back in August 2025, OpenAI launched ChatGPT-5, which received push-back from some users accustomed to GPT-4's sycophantic style. The new GPT-5 was more straightforward, less likely to flatter users with compliments in every message. This led to some backlash, with some users complaining about feeling lonely and sad without their "old best friend"—their AI companion. These new types of interactions have led several universities to study the effects of AI on complex neurological processes. Initial findings from institutions such as MIT, the Swiss Business School, and independent research groups like Microsoft Research suggest that extended AI use is undermining critical thinking, creativity, and attention.

But why link AI's social impact with macroeconomic figures? Because the world has entered a phase of demographic pressure, and AI may only accelerate this trend. Today, we see the most evident examples of "dying societies," with Japan, South Korea, and Italy leading the way. These countries report fertility rates well below the replacement level of 2.1 children per woman, with South Korea's rate falling as low as 0.8. This signals a shrinking society that must adapt its labor dynamics, as there may not be enough people to both supply the number of workers necessary or provide enough final aggregate demand. For example, Japan transitioned from a high-growth, low-unemployment economy in the 1970s to a low-growth, still low-unemployment economy today. Over the past 50 years, GDP growth has averaged

just 2%, while unemployment has stayed close to 3%. This unusual dynamic is explained by a shrinking, rapidly aging population. In fact, just weeks ago, Japan became the first country to surpass 100,000 people over the age of 100. In a scenario like this, some macroeconomic figures start to lose importance, as they are not telling the same meaningful story they once told.

AI is currently advancing on two fronts: on one hand, it is disrupting the way humans interact and relate

— **"What would take a human twenty or more years to master, it takes a foundational large language model a mere two years. It is mind-blowing to fathom how this technology can evolve ten years down the road."**

to one another; on the other, it is preparing to step in and fill the vacancies that a shrinking population will inevitably leave behind. As illustrated on Graph 15, the elderly population is projected to grow at an exponential pace over the next 25 years, while the working-age population in developed markets stagnates. This widening imbalance in the labor force will increasingly need to be addressed through the adoption of AI tools, automation, and other emerging technologies like robotics.

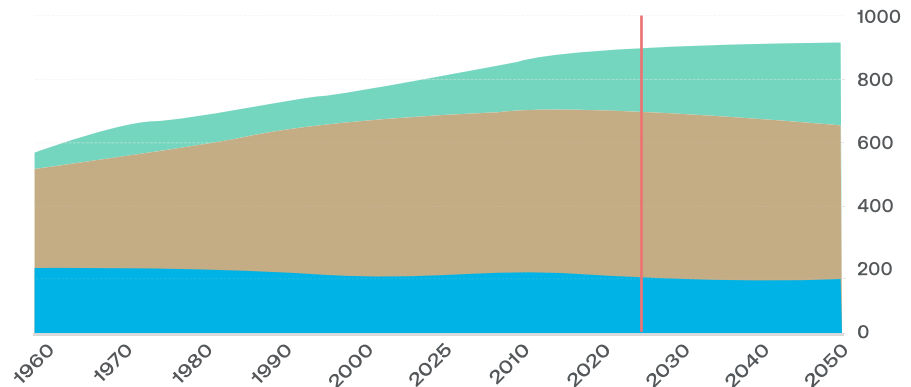
As Japan's example illustrates, we are moving toward a future where macroeconomic data will no longer

Developed Markets – Young, Working Age and Elderly Population Evolution

Millions, 1960-2050, annual. Estimates from 2024 on are UN Medium Variant projections. Young 0-19, working age is 20-64, elderly is 65+.

● Young
● Working Age
● Elderly

Source: JPMorgan, UN.



be the primary investment driver. Unemployment and GDP growth figures may lose relevance in shrinking societies where AI is expected to fill labor market gaps. Automation, humanoids, and other technologies may transform even labor-intensive industries such as travel and leisure. So where does that leave us as investors? As the graph shows, we are heading toward a society with more elderly people living longer lives. With this in mind, we highlight some long-term themes, over the next 20 to 30 years, when demographic pressures intensify.

To address these long-term themes, we identified industries that are most likely to be affected by the AI boom if this trend dominates. The next graph shows the industries that have the highest degree of exposure to this growing technology. As could be expected, industries in the fields of finance, professional and healthcare services, information and education are likely to be the most affected, at least over the next five years.

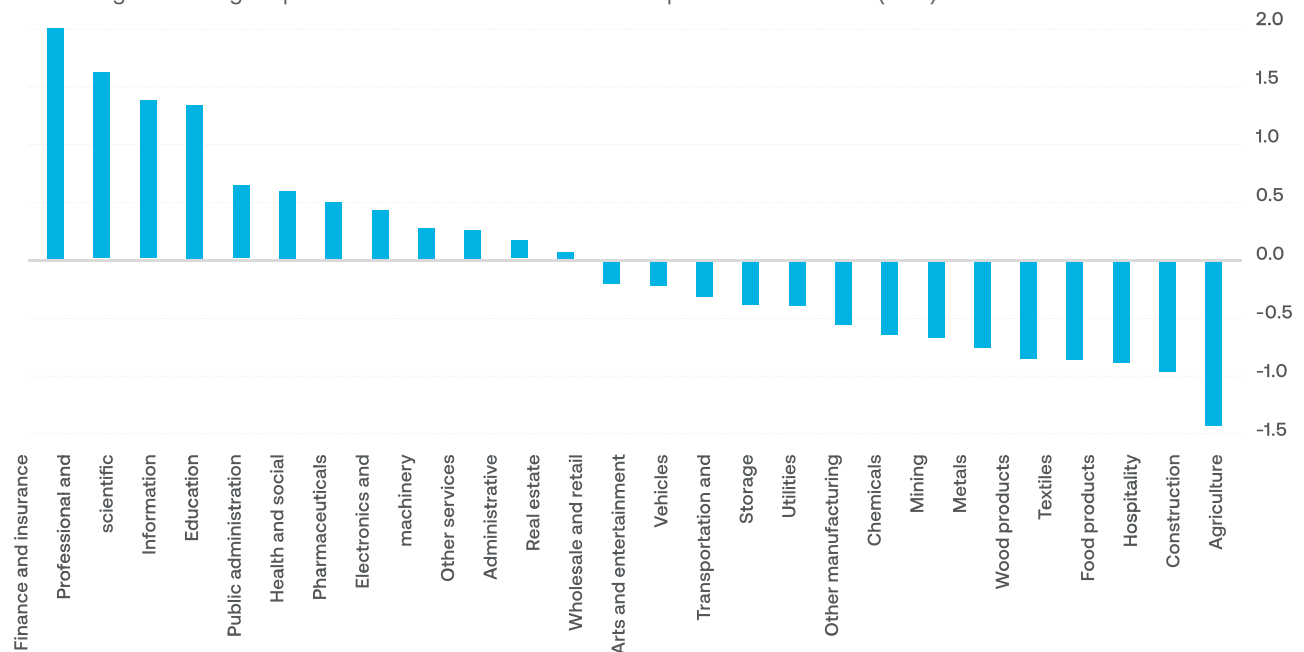
Financial services, insurance, and wealth management will benefit from AI's social impact. As humanity pushes the boundaries of longevity, new investment solutions will be required for this market segment.

Asset managers like BlackRock are already developing products such as the LifePath Paycheck, which combines a target-date fund with an annuity to address the needs of an aging population. Firms like Blackstone, KKR, Stepstone are expected to gain from the development of retail solutions for private markets, as people extend their investment horizons. With longer lifespans, private markets are expected to become more important to financial markets within the next 20 to 30 years.

And what about robo-advisors? Some argue that AI will replace the need for financial advisors, as this technology will be able to recommend the appropriate asset allocation strategies needed to achieve desired financial goals. Although AI might be able to propose asset allocation strategies, it will not be able to replace the most important aspect of an advisor-client relationship, which is the human/psychological connection. As a result, AI is likely to enhance the wealth management industry, not by replacing advisors, but by making them more efficient, as it will be able to assist in taking over time-consuming tasks, allowing advisors to focus on the most important part of the relationship – their relationship with the client. As life expectancy increases, Healthcare will be

Higher scores indicate greater AI exposure

Based on unweighted average exposure of constituent sub-industries reported in Felten et al. (2021).



Source: JPMorgan, US Census Bureau, Felten et al. (2021).

pivotal for humanity, with AI leading breakthroughs in curing chronic diseases, scaling treatments, and extending human lifespans. Artificial Intelligence is not only expected to address illnesses that have eluded physicians and scientists for centuries, but also to democratize access to medicine. A study by Morgan Stanley found that, in the U.S. alone, aging demographics pushed healthcare costs to a record USD 4.9 trillion in 2023. With demographic trends set to worsen, AI could reduce costs by 10–20% over the next 25 years. According to the same study, savings will span the entire healthcare system—from replacing administrative staff with AI agents to optimizing supply chains and ensuring cost-effective drug selection. At the same time, AI is already becoming an indispensable assistant to surgeons in many operating rooms, not only providing medical advice, but even assisting in conducting certain surgical procedures that require flawless precision. By enhancing, and

sometimes even removing, the human element from the picture, AI will likely lead to lower medical errors, reducing the amount of malpractice lawsuits, and potentially decreasing the cost of medical care. Increased speed will also be one of the benefits of AI in this space, as patient diagnoses will be able to be processed faster, increasing the chance of positive prognoses, while new drugs are developed more efficiently increasing their effectivity. In the end, this could lead to further increased lifespans across the world, a truly virtuous cycle.

Education is another industry that could be meaningfully impacted by AI. The benefits could be nearly endless, but if left unchecked, so could the downside. First, the personalization of education, tailored to an individual student's strengths and weaknesses, could increase the efficiency and quality of education in numerous ways. For one, adaptive learning

platforms could evolve as the student evolves, almost like having a personalized, 24/7 tutor with intimate knowledge of the student's needs. Additionally, AI, particularly agentic AI, could act as a personal assistant to educators, helping them prepare lesson plans and assist with grading. Such platforms would free up an incredible amount of time for teachers, allowing them to focus on other tasks that AI cannot do, such as providing a personal connection and a higher level of focus for their students.

However, if left unchecked, AI could greatly detract from a student's learning process. Studies show that increased use of AI, particularly for education, can increase a person's reliance on this technology, reducing basic cognitive tasks such as critical thinking. A study in *Frontiers in Psychology* found that students that overly relied on AI showed a lower level of "creative confidence", where critical and creative thinking abilities had measurably decreased. In other words, if we let AI do all our thinking for us, we lose the ability to think for ourselves. After all, in some ways the brain is like a muscle, it needs exercise and practice to function at peak efficiency.

The first thought that may come to mind when we think about industrial automation is that robots are taking over the world. However, even before AI, industrial automation was already a reality. From washing machines to automobiles, robots, along with humans, already create many of the machines that we use today. However, such robots tend to carry out a few repetitive tasks without much thought, if any. AI-driven automation will make those robots smarter, able to anticipate and correct mistakes, making the production process much more efficient. Some industries, such as defense, will reap great benefits from AI-driven automation. We are already seeing an incredible increase in the use of drone technology. From automated mine-laying submarines to surveillance aircraft that can

loiter for hours on end, drones are pushing the envelope in weapons technology. AI will push it further. For example, weapons platforms such as the United States' newest fighter jet, the F-47, whose main technological advantage will be its ability to operate with a team CCA's or Collaborative Combat Aircraft, piloted not by humans but by AI platforms, will reshape the battlefield. Such technology, which is very close to becoming a reality, will eliminate the need to put human pilots in harm's way, as well as greatly increasing mission efficiency. Unlike human pilots, AI does not need to eat, and it does not get tired.

However, there is no such thing as a free lunch. The most significant downside of increased industrial automation will likely be increased joblessness. If and when industrial automation becomes more efficient, job losses in many industries will be inevitable and livelihoods will be impacted.

After exploring many of the industries that will be touched, in one way or another by AI, a logical question arises: If AI continues to develop at the same pace as it has been in the recent past, simplifying and in many cases taking tasks away from humans, what are people to do?

First, it is important to keep in mind that we have seen this movie before, although maybe not at the same speed. The industrial revolution, the advent of the internet, and even darker periods in humanity's history such as the black plague reshaped society for the better. With time, people learned to adapt. In many cases, these events did lead to cumulative job losses over the long run. However, previous technological revolutions have also increased the amount of leisure time in society, leading to an increase in the development of fields such as the arts and music. Although the prospect of change may be scary and fraught with uncertainty, the promises it brings with it can also be exciting. History has shown us that, in the

end, societies eventually adapt to and grow from technological revolution, or they are outcompeted by other societies that do. However, this change does not come without cost.

From an investment perspective, it is important to keep in mind that AI is shifting from being an innovation to being a necessity, particularly as aging populations pressure many economies across the globe. The true risk is underestimating how quickly automation and AI may replace human labor in some sectors of the economy, fundamentally reshaping industries

and investment landscapes in the decades ahead. For investors with a high-risk tolerance, the long-term thesis lies in backing the sectors positioned at the center of this transition. ■



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