

The November Outlook



GLOBAL ECONOMIC CYCLE

Markets have continued to price a 'soft landing' for the global economy – firm growth, good corporate earnings, stable inflation and lower interest rates

Commentary

- Global economic growth appears stable, with no clear evidence of a slowdown
- Inflation expectations as discounted in bond markets imply little or no deterioration
- Credit spreads over government bonds appear low in a long-term context

Upshot

 Current pricing allows little protection should economic and political risks emerge to challenge the soft-landing narrative

HOLD GOLD, DESPITE THE CORRECTION

The gold price has corrected sharply, falling by 10% from its mid-October peak – but it still finished higher over the month as a whole

Commentary

- The market had appeared very 'frothy' in the weeks before the correction
- The high price is likely to depress demand for industrial and retail uses
- However, gold remains a good hedge against economic and political risks, which remain material – and there is scope for higher allocations from private investors and central banks

Upshot

 We continue to hold gold as an effective diversifier in multi-asset portfolios, if at a lower exposure than in mid-year

EQUITY VALUATION BACKGROUND

The strong recovery in equity markets since the spring has pushed global valuations to very high levels by historic standards

Commentary

- The PE multiple on the S&P500 recently exceed the level at the peak of the 2000 bubble
- Global equities are trading around 20% higher than historic norms
- Al exposures are at the core of this revaluation, but other more traditional sectors (e.g. banks) have also been re-rated

Upshot

 Valuation provides little or no guide to near-term returns, but long-term equity returns relative to other asset classes are low by historic standards

SARANAC MULTI-ASSET POSITIONING

There are no immediate catalysts for the prevailing 'risk-on' market phase to unwind, but risks are building

Commentary

- The soft-landing narrative lends itself to higher risk asset exposure, the valuation background points in the other direction
- Given these different pressures, positioning remains risk-aware, but not pessimistic
- Equities remain the largest contributor to risk, but cash weights are also very low, reflecting the significant exposure to alternative assets

Upshot

 Portfolio structure reflects the need to maintain exposure to market risk, but with sufficient diversification to allow for adequate returns to be realised in a more challenging market environment

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The Long Read

Nobel prize winners' perspectives on IT spending, technological change and power dynamics

SNAPSHOT

In this article, we examine the analytical frameworks of recent Nobel prize-winning economists in the context of the current surge in IT investment.

- **Joel Mokyr** argues that sustained growth from technology requires useful knowledge, mechanical competence, and open institutions. IT spending alone is insufficient without human capital and innovation-friendly environments.
- Aghion & Howitt emphasise "creative destruction," where innovation replaces outdated systems. Growth depends on competition, R&D incentives, and enabling new entrants.
- Acemoglu & Johnson caution that technological progress can deepen inequality unless power structures and institutions ensure inclusive deployment.

Common themes are that investment decisions should consider not just spending levels, but also the broader economic, institutional, and political contexts shaping technological impact.

1. Introduction: Nobel-prize winning insights into the process of technological change

The dominant theme in financial markets over several months has been the long-term implications for economies and companies of a potentially transformational acceleration in the pace of technological change. This has become most evident in a surge in information-technology (IT) spending including cloud infrastructure, AI hardware, software platforms and digital transformation. At the same time, companies associated with this theme have dominated equity market performance, particularly in the US.

In fast-moving financial markets, there is an inevitable tendency for fast-moving newsflow to dominate analysis. In this paper, however, we take a much longer-term perspective, based on recent prominent work in the public domain. The 2025 Nobel Prize in Economic Sciences was awarded jointly to Joel Mokyr, and also to Philippe Aghion & Peter Howitt. Their research provides frameworks to analyse how large-scale investment interacts with innovation, competitive destruction, institutional context and growth dynamics.

The distinctive elements of their analyses are set out below, but there are some important themes in common. Their work implies that for IT spending to deliver lasting economic change the main requirements are a competitive environment, a skilled labour force, and sustained spending on R&D. Without these components, there is a risk that vast digital infrastructures are built which lack the dynamism that turns spending into a sustained improvement in economic growth.

We also extend the analysis to include the views of Acemoglu & Johnson in a recent best-selling book1. They incorporate the further dimension of power dynamics to provide a fuller analysis of the potential impact of technological change.

¹ Simon Johnson was a Professor at MIT before becoming Chief Economist at the IMF. Kamer Acemoglu is a Professor at MIT, and amongst the most cited economists in the world. Johnson and Acemoglu were awarded the Nobel prize in 2024 for their research into the effects of institutional structure on technological change. Their book is entitled 'Power and Progress: Our Thousand-Year Struggle Over Technology and Prosperity' (2023).

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2. Mokyr: Prerequisites for sustained growth through technological progress

Joel Mokyr is an economic historian who, according to the Nobel Committee, "identified the prerequisites for sustained growth through technological progress." He asks, 'why did economic growth become sustained (rather than episodic) after the Industrial Revolution, and what conditions enabled it?'

His answer incorporates three key requirements. A rich pool of "useful knowledge" where science and technology are integrated was, in his view, foundational. He also stressed the importance of mechanical competence, or the skills, tools, manufacturing methods, and infrastructure essential to put new knowledge into practice. Finally, he emphasised the relative success of institutions and culture that are open to disruptive change, competition and the spread of ideas, over closed rent-seeking systems. These systems involve the capture of existing return streams rather than the creation of new ones. Mokyr argued that historically many societies possessed some innovative capacity, but lacked the combination of open institutions, effective diffusion of knowledge and technical infrastructure that allowed self-generating innovation to take root. In the context of today's large-scale IT spending, Mokyr's framework suggests several implications.

First, theoretical knowledge which supports technological advances may in isolation be necessary for economic progress, but it is not sufficient. Innovation existed without sustained growth for centuries in many countries. High current IT spending is therefore only part of the story. The return on that spending depends on the availability of human capital (or in Mokyr's language 'mechanical competence') and the ability to integrate new knowledge with practice. IT infrastructure needs to demonstrate that it is a platform for innovation, not just efficiency. This highlights the importance of investment in skills and processes alongside infrastructure.

Second, institutional openness as embedded in a competitive environment has been a requirement for the diffusion across industries of technological innovations in the past. As major IT investments in the contemporary world are made disproportionately by large firms, monopolistic platforms or governments, the question of how open the system is to new entrants, disruptive ideas and diffusion becomes critical.

Third, Mokyr stresses that high capital spending creates new capacity, but sustained growth requires continual innovation built on prior innovations. Capacity alone is insufficient, as the ability continually to integrate new knowledge alongside it is also pivotal. Technological change is therefore best seen as a process, not an event. He also notes the risk of economic stagnation even if capital spending is high. The economic performance of the former Soviet bloc before 1989 is a helpful reminder in this context: high but unprofitable capital spending generated economic decay, not economic prosperity. Growth is not the automatic consequence of high capital spending, and on Mokyr's view, the mere presence of new technologies does not guarantee long-term productivity gains unless the prerequisites align. This is a relevant contemporary issue: despite significant technological enhancements in recent decades, the underlying trend in aggregate productivity growth in developed economies has remained muted.

3. Aghion & Howitt: Sustained growth through creative destruction

Aghion & Howitt jointly developed a formal model of "growth through creative destruction." They formalise the Schumpeterian idea that innovation happens as new products or processes replace outdated ones. Their model emphasises that long-run growth is driven by innovation, not just capital accumulation, and is primarily 'endogenous': it arises from within an economic system rather than being 'given' by a new technology.

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Firms invest in R&D because of profit incentives, and new innovations displace incumbents. The process of "creative destruction" involves the elimination of old technologies/processes and creation of new ones. Institutional and policies shape this process. In this respect, competitive market structures, low barriers to entry, flexible labour markets, protection for research, and openness to ideas all affect the rate of innovation. Their work has interesting insights into the current debate.

First, the focus of much contemporary analysis is on areas in which investment is currently surging. However, such spending should also spark destruction in some sectors: massive IT spending should trigger the replacement of older technologies and business models. The Aghion & Howitt approach suggests that lower capital spending in technologically-challenged parts of the economy is an integral component of progress at the aggregate level.

Second, like Mokyr, Aghion & Howitt emphasise that competition and entry matter for the diffusion of new products. Spending creates opportunity, but whether that opportunity is seized depends on openness, competition, and diffusion across industries. In the current environment, where large tech firms dominate platforms and infrastructure, the conditions for new entrants and disruptive innovation should therefore be an issue of concern. The IT-spending boom may currently favour scale-intensive firms, but creative destruction shows that new entrants and disruptive models matter. The creation of ecosystems that empower startups and new entrants are crucial in this respect. In its absence, they emphasise the possibility of innovation slowing due to institutional rigidities. Growth can slow if the creative-destruction engine is blocked, due for example to monopolies which prevent new entrants from competing effectively.

Third, Aghion & Howitt's analysis highlights the importance of R&D (research and development) incentives and policy alignment. Their model suggests that incentivisation of R&D is essential to allow the effective diffusion of new technologies. IT programs need to be designed

to enable innovation, not just to build capacity.

Finally, they acknowledge that creative destruction implies disruption. Existing jobs, firms and sectors are displaced even as new ones are created. They suggest that successful regimes manage transitions and avoid digital divides. Disruption is to be managed through, for example, reskilling and adequate social safety nets.

4. Acemoglu and Johnson: power and institutional structure mediate the impact of technological change

Mokyr and Acemoglu & Johnson can be regarded as realistic optimists. Technological change could deliver widespread benefits if the conditions outlined above are met. Acemoglu & Johnson are more cautious. They reject the idea that innovation inherently advances economic welfare. On their view, the historical record is that technological revolutions first served the interests of elites well before benefits were realised by the broader population. The early Industrial Revolution, for instance, raised output but lowered real wages and working conditions for decades. The impact of technological progress must therefore be understood as contingent and political, not as an automatic force for good.

The authors argue that it is not technology per se, but how it is deployed, that will determine how the current cycle plays out. Technological progress expands productive potential, but power determines how that potential is realised. Institutions and power relations determine whether innovation complements labour or replaces it, and whether it promotes equality or concentrates wealth. They assert that technological progress can be inclusive only if societies consciously structure incentives and rules around its adoption. On their view, elites have often justified exploitative systems which arise on the application of new technology by appealing to the idea that 'progress lifts all boats.' In practice, new technologies have frequently widened inequality before any trickle-down occurred.



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The authors use historical episodes to show how narratives of shared benefit have disguised what they regard as extractive uses of technology. They describe how technological advances such as the watermill, the printing press, and the steam engine initially reinforced existing hierarchies. In each case, new productive capacities were channelled through prevailing power structures. Only when those structures were challenged - through urbanisation, education, and political reform - did the benefits of technological progress become more widespread. The authors contrast periods of inclusive growth, when workers had political voice and social protections, with eras when innovation mainly served the wealthy. Power, not productivity alone, is therefore the decisive factor in transforming invention into welfare.

Acemoglu & Johnson argue that, in the twenty-first century, automation and artificial intelligence threaten to reproduce the inequalities of earlier technological revolutions. Firms that control data and algorithms can capture most of the gains, while workers face deskilling or displacement. The authors advocate redirecting innovation toward complementing rather than substituting for human labour, ensuring that digital technologies enhance rather than erode livelihoods.

They criticise the deterministic view that automation must replace jobs. Historical evidence shows that societies can shape technology to augment human capabilities. For example, postwar European manufacturing often pursued 'worker-friendly' automation that improved safety and efficiency without mass layoffs. Policy, not inevitability, determines how technology affects employment. A central argument of the book is that societies must reclaim democratic oversight of technological direction. Public investment, education, fair taxation, and strong antitrust enforcement can guide innovation toward social goals. Left unregulated, the digital economy risks creating concentrated 'information empires' that stifle competition and civic accountability.

Despite their critique, Acemoglu & Johnson end on a cautiously optimistic note. They argue that technological trajectories can be redirected through collective action. If societies invest in inclusive education, empower workers, and demand accountability from technology firms, the digital and AI revolutions could yet create a fairer and more prosperous world. Technology is not destiny; it is a choice shaped by politics and values.

5. Implication for investment decision-taking

The material covered above is not designed to provide immediate investment conclusions, rather a framework which can be used to structure investment debate. The main implications for investment decisions based on this analysis are, we believe, not simply to understand the feasibility of a high level of IT capital spending as a driver of economic growth. They also extend to clearer evidence of technology-driven transformations of corporate and economic performance, and how markets are pricing these potential transformations. At the same time, the Acemoglu & Johnson critique reminds us of the potential for transformative technology to contribute to a political environment which may, for a period, appear more dystopian than transformational.



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