



ECONOMIC COMMENTARY

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PROFIT SURPRISES, POLITICAL DEALS, AND SHIFTING GLOBAL GROWTH

Last week's headlines highlighted the contrast between technological optimism and geopolitical turbulence. As Alphabet posted a 20% surge in quarterly profits, Tesla saw its profits slide by 23% amid weakening sales and intensifying global competition. The diverging fates of these giants reflect a broader trend: Growth is increasingly tied to digital infrastructure and data, while traditional manufacturing faces mounting pressure from tariffs, input costs, and political realignments.

Alphabet's stellar earnings were not without controversy: Its capex spend soared 70% year-on-year, with an additional \$10 billion earmarked for artificial intelligence (AI)-related data centre expansion by the end of 2025. This surge in tech spending is not without consequences: It contributes to a global arms race in computing power, one that is colliding with export restrictions, black markets, and regulatory uncertainty.

This is particularly evident in the case of Nvidia. Despite tight US export controls, more than \$1 billion worth of Nvidia's top-tier AI processors reportedly entered China through intermediaries. These chips are being sold in plug-and-play racks across Chinese social media platforms. While United States (US) policymakers attempt to rein in Chinese access to high-end tech, distributors are proving just as agile and determined to profit as the companies that they supply.

Meanwhile, Donald Trump's return to tariff diplomacy is shaking up the global auto and trade landscapes. Japan became the second country, after the United Kingdom (UK), to ink a new tariff deal with the US. Auto tariffs were reduced from 25% to 15%, leading to a surge in Japanese equities. This move is being interpreted as both a signal of sectoral flexibility and a precursor to further deals. Unsurprisingly, the Euro Stoxx auto index climbed 3.8% in anticipation that the European Union might soon secure similar concessions.

However, not all Asian manufacturers are celebrating. Mitsubishi Motors and Hyundai both reported sharp drops in quarterly profits (22% and nearly 100%, respectively). For Hyundai, which manufactures domestically in the US, relief came from local production. Mitsubishi, in contrast, faces stiff headwinds, not only from US levies but also from intensifying competition in third markets for cheaper Chinese electric vehicle alternatives. The result? A price war that may further compress global margins.

In the UK, the economy remains anaemic. Business activity slowed in July, with hiring decreasing at the fastest pace since February. Rachel Reeves' 2024 Autumn Budget continues to cast a long shadow. UK households, already grappling with high mortgage costs and rising inflation, are in savings mode: 34% now say it is a "good time to save" (the highest percentage since 2007). This retrenchment in consumer spending, combined with weaker business confidence, reinforces expectations that the Bank of England will cut rates in August.

That being said, the global macro landscape is shifting. With inflation easing in many parts of the world, central banks have begun to lower interest rates. Yet, the path to the 2% inflation target remains thorny. Rising wholesale energy prices, persistent core inflation, and geopolitical uncertainty are all adding friction to what might otherwise be a smoother disinflationary path.

Back in the US, Trump's "One Big Beautiful Bill" has rekindled conversations about growth and productivity. With the Congressional Budget Office estimating that raising total factor productivity by just 0.5% annually could increase incomes by 20% and shrink debt-to-GDP by 42%, the stakes are high. Infrastructure reform, zoning changes, permitting simplification, and skilled immigration are all back on the policy agenda; not because they are politically convenient but because the economy may depend on them.

In summary, the past week reminded us that global growth is no longer just a story about interest rates or central banks. It is about geopolitics, policy agility, and the ability to adapt. As AI continues to reshape capital expenditure, as tariffs realign trade routes, and as households bunker down against uncertainty, investors and policymakers are facing new rules: Ones that reward speed, resilience, and foresight over tradition.

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