# AI automation reshapes global business practices amid contrasting equity performances



Continuing trends in artificial intelligence (AI) automation are reshaping business practices across various sectors, drawing considerable interest from economists and investors. The focus has been particularly on the contrasting performance of European and American equities amidst the ongoing AI boom, as highlighted in recent discussions.

The current landscape reveals that the American S&P 500 index, largely buoyed by the rise of significant tech stocks, is experiencing an AI-driven resurgence, whereas European stocks appear overshadowed. Notably, the so-called "Magnificent Seven" tech stocks in the US now constitute approximately one-third of the total market capitalisation of the S&P 500, surpassing the combined values of France, Britain, and Germany's stock exchanges. The Stoxx Europe 600 index, which reflects the performance of major European companies, is significantly smaller in its tech representation, with technology making up just about 8 per cent of its total value.

Data suggests that, excluding Nvidia—one of the key players in the AI domain—the S&P 500's total returns have underperformed relative to Europe's stock benchmark since late 2022. Jeffrey Kleintop, chief global investment strategist at Charles Schwab, provided insights on this trend, stating that while the S&P 500's performance mainly correlates to AI-related investments, eurozone stocks are holding their own despite having less tech exposure and operating within a slower-growing economy.

Investment interest in European equities remains, with Goldman Sachs noting that major listed companies branded as "the Granolas," which span various sectors including pharmaceuticals and consumer goods, account for approximately 20 per cent of the Stoxx 600. Major players among these include Novo Nordisk, LVMH, ASML, and Nestlé, which have historically demonstrated resilience. However, their recent performances have varied, with Novo Nordisk facing challenges related to its obesity drug testing results and LVMH experiencing weaker demand from China.

The challenges facing companies in Europe extend beyond the "Granolas." Various competitive firms across different sectors, such as Glencore, Siemens Energy, and Airbus, highlight the diversity in Europe's corporate landscape. Furthermore, small listed European businesses have been noted for their superior performance compared to their American counterparts, primarily due to fewer American small caps reporting negative earnings.

European companies generally adopt a more relationship-based funding model, which contrasts sharply with the predominantly equity-driven funding prevalent in the US. This approach may foster long-term corporate governance; however, it complicates the direct comparison of stock performance between Europe and the US. The implications of global trade dynamics, including the potential impact of tariffs, have been discussed, indicating that only around 40 per cent of revenues for Stoxx 600 groups originate from Europe, which could mitigate certain economic risks.

Looking ahead, several catalysts could enhance the allure of European stocks, including disappointing results within the AI sector, anticipated lower interest rates, geopolitical influences related to former President Trump, and potential stimulus actions in China. Despite prevailing challenges, the resilience demonstrated by the European economy amidst global shocks, such as the shift away from Russian energy, positions it favourably for future growth.

Analysts suggest that while the significant liquidity and technological advantages of the US market are compelling, the strengths within European companies—characterised by their established business models and global exposure—should not be overlooked. The anticipated reforms to boost productivity and innovation within Europe could further enhance its investment appeal.

In this evolving context, AI continues to pose both opportunities and challenges for businesses globally. With the underlying tension between the US and European markets in focus, the future trajectory of AI's influence on business practices remains a subject of keen interest among stakeholders in the economic landscape.

Source: [Noah Wire Services](https://www.noahwire.com)

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