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Flying cars and fragile markets

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Space travel might be a luxury granted to few but society's most affluent, but a flying car, now that's a completely different matter altogether.

From Chitty Chitty Bang Bang to the Ford Anglia 105E depicted in Harry Potter films, via Blade Runner and Star Wars, audiences have been beguiled by the possibilities associated with automotive flight. Is it about to come true? Nine years after initial orders (and deposits) began to be taken, last month Tesla revealed its prototype flying Roadster at a SpaceX facility. Production is targeted to begin in 2028 following an eight-year delay. While numerous technical barriers are still to be overcome, successful tests could deliver what industry experts describe, in only moderately understated terms, as an "engineering flex" and a giant technological leap forward.

At the technological frontier, still dominated by the United States despite the inroads made by Chinese competition, boundaries are being pushed in every direction and at an almost unimaginable pace. While the growth of artificial intelligence has become a hot topic in political circles, particularly so ahead of US Congressional midterm elections, there's no putting the genie back in its bottle. For investors in the technology sector a once comparatively straight forward decision has become more complicated. Without doubt the industry continues to deliver an outsized contribution to overall corporate profitability (and a growing contribution to economic activity, not just in the US but increasingly in the UK too). But October has seen a sharp reappraisal of risk as share pricing adjusted from the celebration of AI-driven growth to anxiety regarding the cost of funding it.

"It was the best of times, it was the worst of times"

– CHARLES DICKENS, *A TALE OF TWO CITIES*

Watch out, but don't get out! While pockets within the sprawling technology sector have caught a seasonal cold, in this age of idiosyncratic risk, markets have repriced the sector's travails as a potential growth shock serving as a reminder to investors of the enduring attraction of portfolio diversification. The hitherto under pressure US Treasury bond market staged a dramatic reversal in its fortunes as investors chose to focus on the safe haven attributes of the asset class over persistent and rising inflation pressures – these pressures largely emanating from the energy markets in response to the still unresolved conflict in the Middle East and which at one point took prices down and yields up to multi-decade highs.

If question marks regarding the outlook for the US technology sector have sent investors running for cover in defensive and reliable quality segments of that country's financial markets, it has been as nothing compared to the car crash in France. In truth that country's fiscal position has been becoming increasingly precarious for quite some time. Not since the Pompidou / D'Estaing presidencies of 1974 has France been able to record an annual surplus in its national accounts and now the air is thick with the sound of chickens coming home to roost. Admittedly, rising interest rates and weak growth have made debt dynamics more challenging everywhere, but France stands out as the country where the size of the now essential fiscal adjustment necessary to stabilise its debt and deficit ratios is greatest and most immediate. The situation is compounded by a weak administration in a highly fragmented National Assembly. Prime Minister M. Sebastien Lecornu's government has attempted stop-gap measures as part of 2027 budget negotiations, including freezing public sector pay, the under-indexation of some pensions and a further extension of some corporation taxes on large firms. Combined with protests relating to educational investment and violent clashes across cities, political resistance appears to be increasing ahead of next year's presidential elections. At one point French 10-year borrowing costs surpassed 5%, a level not seen since 2002, shortly after the Euro Area's creation. Meanwhile the yield differential (spread) between French benchmark bonds and those of the more conservatively managed Germany hit its widest levels since the region's sovereign debt and banking crisis back in 2011.

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While France debt problems are far from unique, the sheer scale of its borrowing against an already elevated debt burden and degree of austerity required simply to stabilise conditions makes the country stand out. This has proved deeply unsettling to markets fearful of possible contagion elsewhere. For now, those concerns seem contained but the message from the markets is unambiguous; little tolerance now exists for any additional fiscal slippage where debt levels are already elevated.

International developments were very much on UK Chancellor John Healey's mind as he delivered the Budget, the Burnham administration's first big fiscal set piece. The Chancellor had a tricky job to do, balancing the need to insulate households and vulnerable businesses from the impact of the energy shock whilst simultaneously ensuring the support of the gilt-edged market. This was no time for flashy manoeuvres; this was a time for focus with both hands on the steering wheel. What emerged proved to be numerous measures small in aggregate, certainly relative to the big Budgets that went before, amounting to a limited near-term fiscal loosening with tighter policy reserved for the end of the forecast period. This, perhaps, hints at a General Election prior to the scheduled July / August 2029 parliamentary end date. Measures announced will have only a very limited impact on the growth outlook. The big decisions, notably relating to defence funding, having been held over to next year. Strict adherence to the fiscal rules differentiates the UK from its neighbour to the south, a credibility sure to find favour with both domestic and international investors.

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Without doubt October proved to be a challenging month for financial markets, but with what are historically two of the best months for financial market returns coming up, this is no time to be parking up and walking away. The global economy has proved remarkably resilient to all that has been thrown at it over 2026 and despite everything, the broad fundamental support underpinning equity markets remains very much in place. Treat recent developments as a driving test, one in which the full skill set has been required in order to pass. Hold your nerve, the rewards are there for those who stay the course.

WITH INVESTING YOUR CAPITAL IS AT RISK.

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