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Investment Insights Monthly

From the Desk of Bill Hornbarger, Chief Investment Officer
November 2025

‘The Four Most Dangerous Words in the English Language…’

Many of us have heard the phrase “the four most dangerous words in the English language are ‘this time it’s different’” as it’s applied to the financial markets. With the stock market making multiple new highs this calendar year on the strength of the Magnificent 7 (which includes Apple, Alphabet, Amazon, Meta Platforms, Microsoft, NVIDIA and Tesla), there are two competing lines of thought—"this time it’s different” versus “stocks are in a bubble.”

This bifurcated view comes against the backdrop of elevated valuations across most asset classes. Applying almost any valuation metric to equities in general, and U.S. large-cap equities in particular, shows valuations at/near the highest levels in multiple decades. We calculate a monthly valuation indicator that divides the market by size and style and looks at a combination of factors (price/book, price/sales, price/earnings and price/cash flow). Through this lens, every sector of the market trades at an above-average valuation relative to its own history (since 1997), with U.S. large-cap growth and value in the 98th and 99th percentiles, respectively. Historically, narrow corporate credit spreads are further evidence of elevated asset prices, as are strong gold and cryptocurrency prices.

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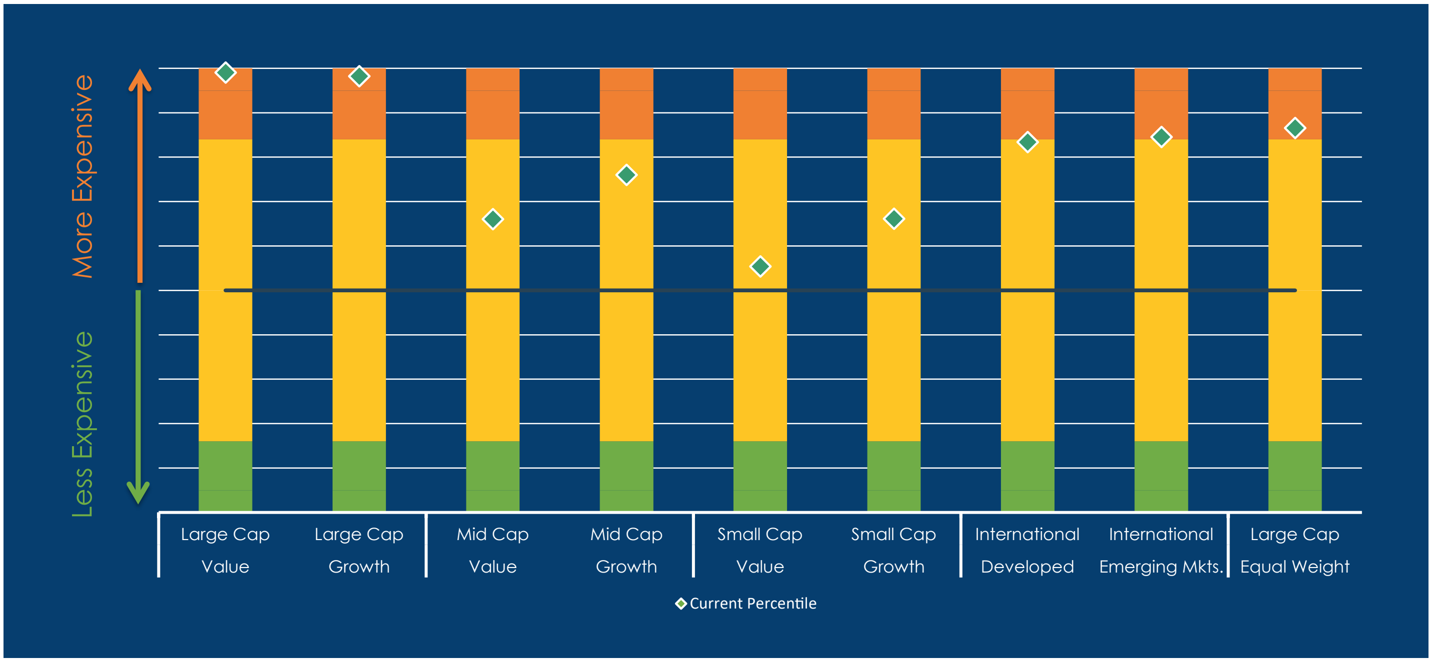
Equity Asset Classes Value Rank to Own History



As of October 31, 2025
Source: Bloomberg, Benjamin F. Edwards calculations

Look a little deeper at equities, and the current environment appears similar to what was experienced in the Tech Wreck (the period most people point to when discussing a bubble). At that time, the NASDAQ was the market darling, with its heavier weighting toward internet stocks, and traded at stretched valuations comparable to artificial intelligence (AI) and AI-adjacent companies today.

Per Bloomberg data, the S&P 500 Growth Index traded at a price/earnings ratio of 29x in March 2001, versus 37x currently, and has been above 30x for the last 18 months. (The S&P 500 Growth Index is a cap-weighted index that includes all seven of the Magnificent 7 stocks as members). However, go one step further and you will see that 210 members of the S&P 500 are negative for the year. The S&P 500 Growth Index exhibits a similar pattern with 38% negative for calendar year 2025, despite the index itself being up 22% through early November. This performance is an important reminder that cap-weighted indexes have a momentum factor embedded in them—the larger a stock becomes, the more it impacts the index performance and can mask what is going on underneath.

The outperformance of growth versus value and tech and AI within growth indexes has been a consistent theme since the Global Financial Crisis (remember FAANG?), and in recent years the Magnificent 7 has been a large driver of index returns, leading to a higher concentration in the index and higher valuations. At the end of October, the top 10 stocks in the S&P 500 represented 42% of the index weight, the highest on record. Those top 10 stocks include all of the Magnificent 7 and trade at a significant premium to the rest of the market.

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S&P 500 Valuation Metrics: Top 10 Stocks vs. Remaining Companies

	Latest	Average	% of Average
Top 10	30.6x	20.7x	148%
Remaining Companies	19.4x	15.6x	122%
S&P 500	22.9x	16.8x	137%

As of October 31, 2025
Source: J.P. Morgan Asset Management

So, is it a bubble? Or is this time truly different? There are valid arguments on both sides, but I believe the argument is more nuanced. First and foremost, the overall environment for financial assets remains positive. Globally, growth has been better than expected (the Atlanta Fed GDPNow forecast for third-quarter gross domestic product is 4%), monetary policy remains accommodative with the Federal Reserve (Fed) signaling additional rate cuts, and bond yields have been relatively stable. Earnings growth has surprised on the upside, led by tech and telecom, where the bottom-up consensus forecast is for those two sectors to grow 21% and 18%, respectively, this year and tech earnings to grow 22% in 2026. As a point of reference, earnings for the S&P 500 are expected to grow by 9% and 14% for 2025 and 2026. Those factors combined support some level of multiple expansion.

But how much? Those in the bubble crowd point towards very rich valuations and a market that is making new highs, much of which is driven by the Magnificent 7 and the rapid growth in their market caps. The use of the word “bubble” is much more prevalent than it used to be, but it does have a specific definition when applied to financial assets. A bubble typically manifests itself by large and rapid notional price increases, high to extreme valuations and speculative behavior or, as former Fed Chairman Alan Greenspan said, irrational exuberance. Some of those conditions exist in certain parts of the markets (tech and AI-related stocks, specifically), but valuations are not extreme in many other areas. The areas that have higher valuations feature disruptive technological advances and earnings that are growing much faster. It makes sense that investors would pay premiums for those types of companies. Our biggest guidance would be to be mindful of too much exposure to any one area or company, as the advancements in those parts of the economy are fast-moving.

As a long-term or strategic investor, one should always be conscious of valuations and their potential impact on future returns. Put more simply, price matters, and historically rich valuations tend to be associated with lower-than-average (not negative) forward returns, and vice versa. The S&P 500 has provided an annualized return of 14.6% over the past decade and was up 26.3% in 2023, 25% in 2024 and 17.5% year to date, as of October 31. Those returns have come as a result of both earnings growth but also multiple expansion. In the wake of that extended period of exceptional returns, instead of worrying about the potential for a bubble, we would plan for a period of returns that are lower and adjust accordingly.

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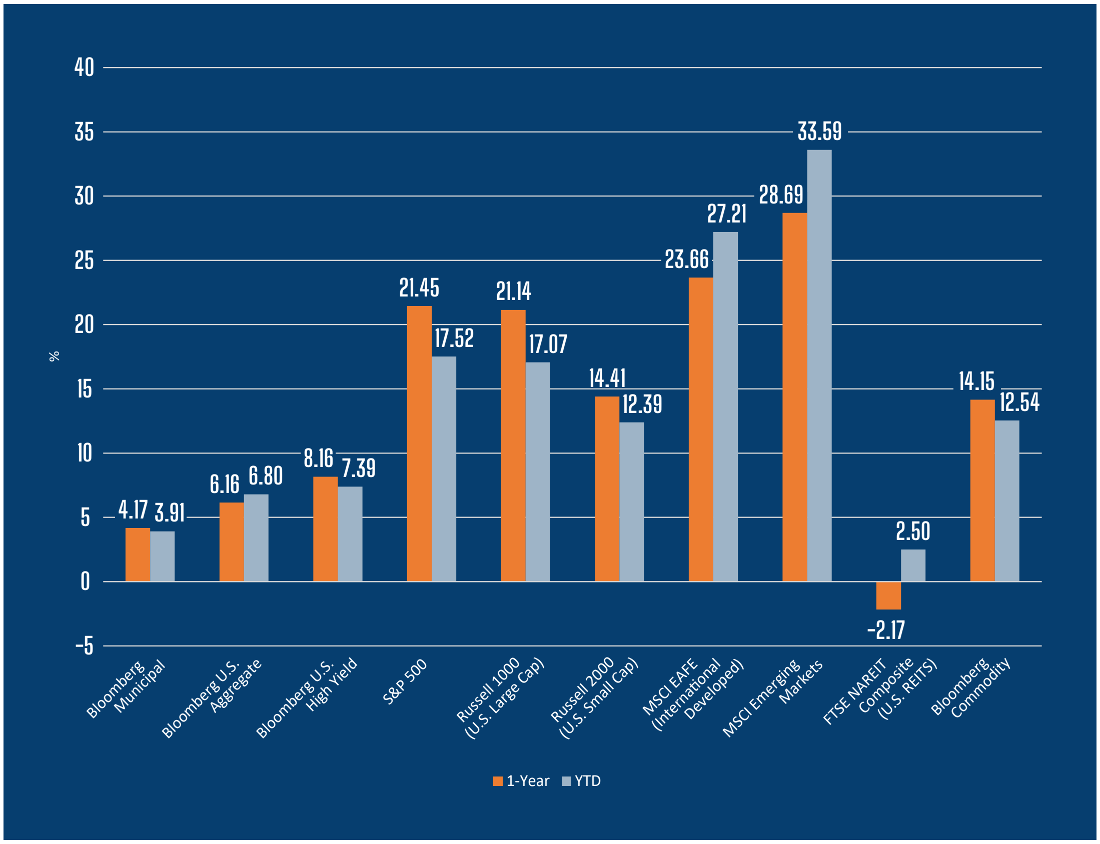
Asset Class Returns

Comparing Recent 1-Year and Year-to-Date Total Returns



As of October 31, 2025
Source: Conway Investment Research

Fixed Income

- Interest rates trended lower throughout October before reversing course after the Fed slashed rates by 25 basis points (bps). Core fixed income and municipal bonds posted solid gains.
- Credit investors continued to benefit from a benign environment driven by coupon clipping.
- Bonds outside the United States lost ground mostly due to some U.S. dollar strength.

Equities

- U.S. equities outperformed in October relative to other developed markets.
- Large caps beat small caps last month, and growth trounced value.
- Large-cap growth/tech stocks continued to drive the strong gains across U.S. equities in 2025.
- Stocks outside the United States posted modest gains with some outsized performance from emerging markets (EMs).
- Similar to what occurred in the United States, large caps outpaced small caps, and growth stocks beat value stocks.
- EM performance was driven by Eastern Europe and Asia ex-China.
- U.S. dollar strength cost investors 223 bps in Europe, Australasia and Far East (EAFE) returns and 43 bps in EM returns.

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October 31, 2025	MTD	QTD	YTD	1-Year	3-Year	5-Year	10-Year
Fixed Income Indices							
Bloomberg U.S. Treasury Bill 1-3 Month	0.37%	0.37%	3.62%	4.44%	4.92%	3.11%	2.11%
Bloomberg Municipal	1.24%	1.24%	3.91%	4.17%	5.46%	1.16%	2.42%
Bloomberg US Govt/Credit Intermediate	0.34%	0.34%	4.49%	5.07%	4.84%	1.84%	1.97%
Bloomberg U.S. Aggregate	0.62%	0.62%	6.80%	6.16%	5.60%	-0.24%	1.90%
Bloomberg U.S. High Yield	0.16%	0.16%	7.39%	8.16%	10.20%	5.47%	5.90%
Bloomberg Global Aggregate	-0.25%	-0.25%	7.64%	5.69%	5.60%	-1.63%	1.10%
U.S. Equity Indices							
DJ Industrial Average	2.59%	2.59%	13.34%	15.84%	15.48%	14.61%	12.85%
S&P 500	2.34%	2.34%	17.52%	21.45%	22.68%	17.64%	14.64%
NASDAQ Composite (Price)	4.70%	4.70%	22.86%	31.11%	29.25%	16.81%	16.72%
Russell 1000	2.16%	2.16%	17.07%	21.14%	22.34%	17.05%	14.39%
Russell 1000 Growth	3.63%	3.63%	21.50%	30.52%	30.69%	19.24%	18.28%
Russell 1000 Value	0.44%	0.44%	12.15%	11.15%	13.39%	14.28%	9.97%
Russell Mid Cap	-0.83%	-0.83%	9.51%	10.79%	14.09%	12.33%	10.63%
Russell 2500	0.67%	0.67%	10.21%	11.94%	12.42%	11.84%	9.99%
Russell 2000	1.81%	1.81%	12.39%	14.41%	11.94%	11.50%	9.36%
Russell 2000 Growth	3.24%	3.24%	15.27%	18.81%	14.42%	8.94%	9.65%
Russell 2000 Value	0.25%	0.25%	9.32%	9.87%	9.25%	13.85%	8.66%
Non-U.S. Equity Indices							
MSCI World	2.02%	2.02%	20.21%	22.53%	22.25%	16.12%	12.37%
MSCI ACWI	2.26%	2.26%	21.54%	23.19%	22.21%	15.14%	11.87%
MSCI ACWI Ex-U.S.	2.04%	2.04%	29.22%	25.62%	20.94%	11.75%	8.20%
MSCI EAFE	1.19%	1.19%	27.21%	23.66%	20.68%	12.89%	8.01%
MSCI EAFE Growth	1.61%	1.61%	20.78%	17.04%	17.17%	8.18%	7.61%
MSCI EAFE Value	0.78%	0.78%	33.80%	30.46%	24.26%	17.59%	8.16%
MSCI Europe	0.76%	0.76%	29.20%	23.97%	21.17%	14.37%	8.13%
MSCI Japan	3.39%	3.39%	25.22%	25.64%	21.82%	10.46%	7.95%
MSCI AC Asia	4.13%	4.13%	30.42%	27.95%	23.07%	8.43%	8.22%
MSCI EAFE Small Cap	-0.80%	-0.80%	27.93%	25.14%	18.27%	9.56%	7.65%
MSCI ACWI Ex-U.S. Small Cap	0.22%	0.22%	26.36%	23.19%	18.76%	11.13%	8.23%
MSCI Emerging Markets	4.19%	4.19%	33.59%	28.69%	21.72%	7.95%	8.13%
MSCI EM Asia	4.94%	4.94%	33.40%	28.83%	24.15%	7.12%	8.91%
MSCI China	-3.81%	-3.81%	36.44%	33.91%	25.62%	-1.23%	5.61%
MSCI EM Eastern Europe	5.07%	5.07%	61.87%	59.82%	42.96%	-7.34%	-1.31%
MSCI EM Latin America	0.94%	0.94%	44.99%	28.79%	11.43%	14.58%	7.56%
MSCI EM Small Cap	2.29%	2.29%	19.79%	15.99%	19.37%	13.68%	8.54%
MSCI Frontier Markets	0.64%	0.64%	39.22%	38.45%	21.19%	10.90%	7.17%
Hedge Fund Indices							
IQ Hedge Multi-Strategy	0.83%	0.83%	8.70%	9.57%	10.12%	4.73%	3.80%
Real Assets Indices							
FTSE NAREIT Composite	-2.12%	-2.12%	2.50%	-2.17%	6.45%	7.19%	5.80%
Alerian MLP	-0.68%	-0.68%	5.03%	11.71%	16.79%	30.95%	7.07%
Bloomberg Commodity	2.89%	2.89%	12.54%	14.15%	3.06%	11.86%	4.31%
S&P Global Infrastructure	-0.27%	-0.27%	19.42%	17.97%	15.77%	13.77%	8.38%
Other							
CBOE Market Volitility (VIX)	7.13%	7.13%	0.52%	-24.70%	-12.33%	-14.43%	1.47%

Source: Morningstar

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