

## Market Commentary 5<sup>th</sup> of December 2025

While the S&P 500 closed the month up just +0.1%, the journey was anything but boring. The index plunged as much as -4.6% intra-month (testing the 100-day moving average) before a dramatic five-day rally came to the rescue.

The month-end recovery was fueled entirely by a dovish shift from the Fed. NY Fed President John Williams signaled a "near-term" rate cut, sending the probability for a December 10th cut from 32% to 78%. Wall Street proved its enduring love for easier money, despite global long-term rates (e.g., in Japan ahead of a likely Dec. 19th BOJ hike) remaining sticky.

International stocks also paused in November but still boast impressive YTD gains, aided by a weaker USD. For the month, both the Eurostoxx 50 and FTSE 100 indices were flat while the Nikkei 225 dropped by 4%. The drop was primarily driven by speculation of a Bank of Japan (BOJ) interest rate hike, leading to a strengthening yen, rising government bond yields, and a sell-off in the tech sector.

In general, global bonds rose in November. US Treasury yields fell, lifting US bonds to the top of the fixed income table with a monthly gain of +0.6%. UK Gilts and Eurozone government bonds remained flat for the month.

Gold and silver prices rallied sharply in November, recovering from October's steep sell-off, driven by changing US monetary policy expectations and increased investor demand. After an 11% drawdown in October, Gold bounced back above \$4,200 per ounce, though it remains 4% below the October 20th record. This upward move was triggered by US economic deceleration, leading to a sharp reversal in Fed rate cut expectations. US Crude Oil was down 3.82% for November. Year to date prices remain on track for their largest loss since the pandemic, due to supplies running faster than demand.

This dovish shift also weakened the US Dollar Index (DXY) by 0.35% and pushed the US 10-year Treasury yield briefly below 4%. Bitcoin ended the month sharply lower (-16.68%) making this its largest monthly loss since May 2021.



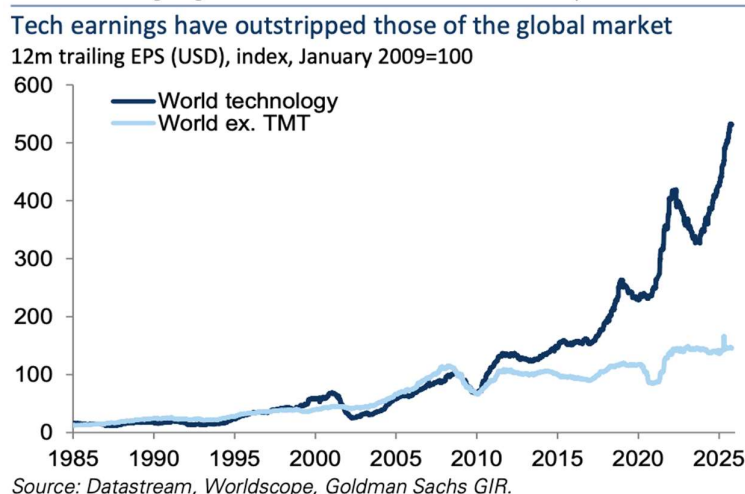
## More AI Bubble Talk, Take Two

Last month, when addressing the “AI Bubble” and whether it will pop, we argued against it bursting anytime soon.

This month, we present the thoughts of Peter Oppenheimer, Goldman Sach’s Chief Global Equity Strategist., in a piece titled “**Why we are not in an AI bubble...yet**”. Some of the below might be more technical than some readers would like, but we preferred not to make it simpler as it would detract from the substance.

To begin with, he states that the current environment resonates with that of many historic bubbles. Yet, despite the similarities, there are crucial differences suggesting that the current environment may not yet constitute a full-blown bubble, citing the following three points (we quote):

**1. Fundamental growth vs. speculation:** *Fundamental growth and robust earnings have thus far, been the primary drivers of technology sector appreciation, rather than irrational speculation about future potential. This contrasts with many past bubbles when expectations of future growth and market dominance drove companies at the epicenter of the fervor rather than proven success. The extraordinary rise in the earnings per share (EPS) of the technology sector, particularly since the Global Financial Crisis, highlights this sustained fundamental performance.*



**2. Strong balance sheets:** *The companies that have experienced the strongest returns possess unusually strong balance sheets and staggering profit growth. This financial strength provides a buffer that was often absent in companies at the heart of previous bubbles.*

**3. Incumbent dominance in AI:** *A few established incumbents have dominated the AI space to date. Most historical bubbles, conversely, formed during periods of intense competition as both investors and new entrants flocked into the space. While competition in AI is increasing, established players have led the initial charge.*



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Additionally, Oppenheimer argues that while valuations are stretched, they are not at bubble levels:

**1. Past bubble comparison:** *The median 24-month forward P/E ratio for the Magnificent 7 tech stocks is 25x (24.5x excluding Tesla) (based on consensus forecasts). This is roughly half the equivalent valuation of the biggest seven companies during the late 1990s Dot-Com Bubble.*

*Enterprise value to sales (EV to sales) ratios are also considerably lower than those of dominant companies in the late 1990s. So, while high, current valuations are generally not at the extreme levels typically observed at the peak of a financial bubble.*

**2. Price-to-earnings growth (PEG) ratio comparison:** *The PEG ratio for technology stocks, which compares valuation to earnings growth, remains comparable to other stocks and well below late 1990s levels. A more conservative PEG ratio based on 12-month forward P/E versus trailing 3-year EPS growth puts the current ratio at 1.6x, significantly lower than the 3.7x observed at the Dot-Com Bubble's peak.*

**3. ROE vs. price-to-book (P/B) comparison:** *The US tech sector boasts historically high ROEs, which partially justifies a high P/B ratio. While the sector appears somewhat stretched on this metric, it is not as extreme as in 1999/2000, when P/B was similar, but ROE was much lower.*

**4. Dividend discount model (DDM):** *A one-stage DDM, assuming an equity risk premium (ERP) of 4.5%, implies an 8% per annum nominal perpetual growth for the US Technology, Media, and Telecom (TMT) sector. This is high compared to recent years (4-5%) but lower than the 10% implied in 1999/2000. We find similar results using a three-stage model.*

He then goes on to address capex spending and financing, which is often cited as unsustainable by the media and pundits, and a reason that the bubble will burst:

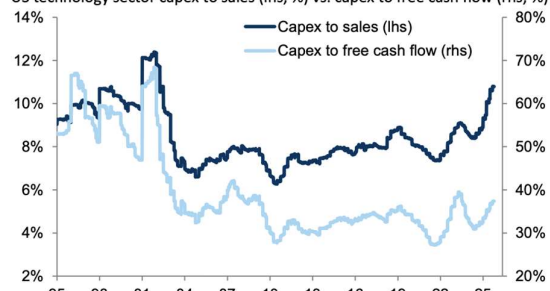
*While valuation metrics are generally less extreme than those typically observed during previous bubbles, a surge in investment and capex is occurring, which has been a typical feature of past technology bubbles. Companies at the forefront of major technological innovations often fail to achieve the returns implied by their high valuations as marginal costs fall and capacity increases. Meanwhile, new entrants may leverage existing capex by providing new products and services. While current incumbents have generated extraordinary profit growth with a relatively light capital intensity model, their capex spend has rapidly increased since the emergence of ChatGPT in 2022.*

*This raises the risk that future returns on this capital may be less than the market currently implies. That said, we have yet to see the boom in equity or debt financing that has typically occurred in prior bubbles. While capex-to-sales ratios for the technology sector in the US are rising sharply, capex to free cash flow remains relatively low*



Capex-to-sales ratios have risen for US tech but capex to free cash flow is still relatively low

US technology sector capex to sales (lhs, %) vs. capex to free cash flow (rhs, %)



Source: Datastream, Goldman Sachs GIR.

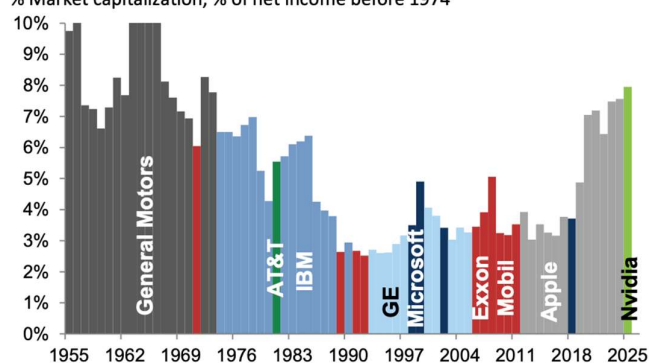
*This doesn't mean that leading companies cannot correct or be compromised by new entrants, but rather that their funding models, at least until now, have been more sustainable. Accordingly, the fallout of any market correction is likely to be less systemic, particularly given the strength of bank balance sheets. That said, rising examples of credit financing and vendor financing models imply that risks are rising.*

Finally, Oppenheimer discusses market concentration and why that should not worry us:

*While valuations and funding models suggest we are not yet in a bubble, the significant outperformance of technology has indeed led to a dangerous degree of market concentration across geographies, sectors, and stocks. The US market's consistent outperformance over the past 15 years—which has resulted in it accounting for over 60% of the global stock market—is largely attributable to the technology sector's record share of the US index. Such concentration is extreme, with the top 10 US companies alone making up nearly a quarter of the global public equity market. However, high market concentration alone does not equate to a bubble. Historically, dominant sectors have maintained their leadership for extended periods, reflecting prevailing economic drivers.*

The largest firms are usually in the dominant sector of the time

% Market capitalization, % of net income before 1974



Source: Fortune 500, Datastream, Goldman Sachs GIR.

## How we are positioning portfolios at Elgin

As we are cognizant of all the above, with the associated risks, we have remained quite diversified on a sector basis and are generally not overweight technology. At the same time, we are fully aware



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that if the AI bubble bursts, it will probably drag down the rest of the market, and not only equities. We would not be surprised to see other asset classes such as commodities (including gold), fixed income, real estate and crypto become more correlated on the downside. What we do not know is when this will happen. We suspect it is not in the near future. One must always keep in mind that there is no free lunch, and that the only truly safe haven is short term ,very high quality debt...

We leave you with a quote from Peter Lynch, the legendary Fidelity fund manager:

“Far more money has been lost by investors trying to anticipate corrections than has been lost in all the corrections combined.”

Peter Lynch with John Rothchild, *Learn to Earn*, 1995



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