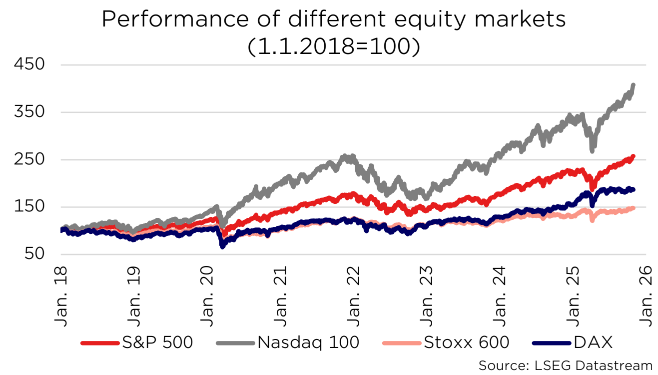
30 October 2025

Stock markets are soaring: When will the hangover follow the euphoria?

Many investors are feeling quite dizzy when they look at the stock market performance of the past few days and weeks. At the beginning of April, after Trump's announcement of "Liberation Day," the world seemed to be coming to an end from the stock market's perspective, and the prices of many stocks lost considerable value in a very short time. Today, however, there is no longer any trace of that panic. Not only have the stock markets recovered very quickly from the shock at the time, but recently, especially in the USA, new stock market records have been reported almost every day. The S&P 500 has risen by almost 40 percent since the setback at the beginning of April, and that without any significant interim price corrections.

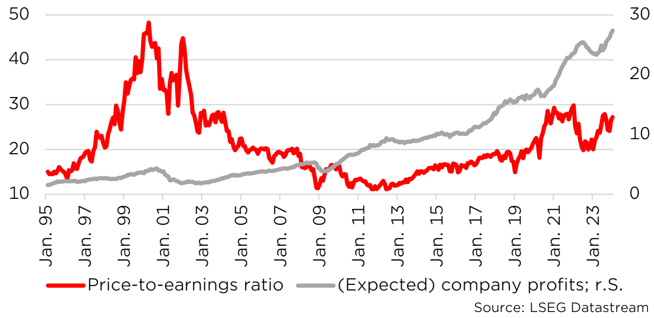


This is causing alarm bells to ring for many investors: stock market valuations at or near historical highs, coupled with mysterious and opaque money flows in the AI sector, are fueling fears of a major crash. The Buffett Indicator, i.e., the ratio of market capitalization to gross domestic product, is well above the historical average at over 220 percent, and the CAPE ratio of the renowned Yale professor Robert Shiller recently reached the second highest value in the past 154 years, surpassed only by the dot-com peak in 2000. However, one thing should not be forgotten: valuation metrics are poor market timing indicators. Because what is expensive can become even more expensive, and what is cheap can become even cheaper. For example, the Dow Jones, S&P 500, Nasdaq Composite, and Russell 2000 recently all reached new all-time highs simultaneously. This is a relatively rare event, but one that should not cause any fear. On the contrary: statistically speaking, when the market reaches all-time highs, further gains usually follow. All-time highs typically mark not the end, but the continuation of upward trends. Strong markets often remain strong.

Circularity and ratings: A warning sign?

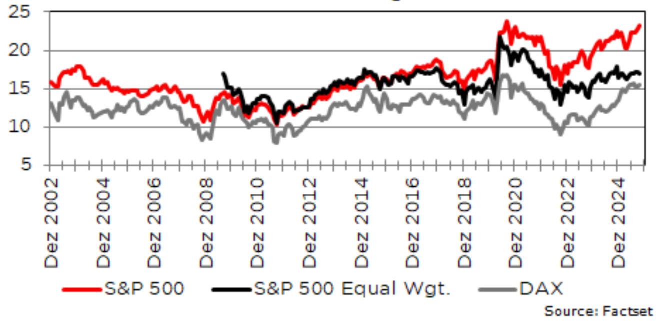
A spectacle is currently unfolding at some US technology companies that is reminding some investors of the dot-com era. Nvidia is investing $100 billion in OpenAI, while OpenAI simultaneously wants to buy millions of Nvidia chips. OpenAI is concluding a $300 billion deal with Oracle, without it being clear where the money is supposed to come from. AMD is going even further: The chip manufacturer is granting OpenAI the right to acquire up to ten percent of the company and is essentially paying for OpenAI to become its customer. These circular AI deals, which are complex and whose cash flows are partly difficult to trace, lead skeptics to fear that the AI ecosystem is a bubble that can only grow if the companies subsidize each other. However, there is a crucial difference to the 1990s: This time, the large tech companies are not selling shares to gullible investors, but are mostly buying back their own shares. In real bubbles, companies massively issue new equity; today, the opposite is happening. In the past, bubbles arose because (overly) optimistic and often gullible investors invested money in companies that proved to be unprofitable or fraudulent. Therefore, we would characterize the current development as an AI boom, but not as an AI bubble.

US technology stocks: Valuation and corporate earnings MSCI USA IT



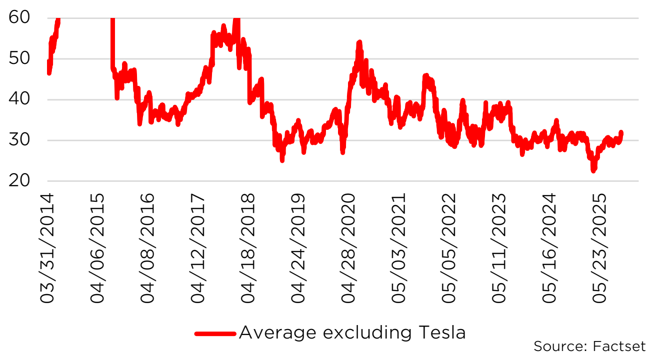
This boom has contributed to a significant increase in stock valuations. The S&P 500 is currently valued at a price-to-earnings ratio of 23.2 based on expected company earnings over the next 12 months. The most expensive companies in the S&P 500 are Palantir with a P/E ratio of 255, Tesla (P/E 235), Ventas (P/E 160), CrowdStrike (P/E 130), and Digital Realty (P/E 124). Even higher index price-to-earnings ratios (P/E ratios) were only observed in the period from the beginning of 1999 to the beginning of 2000; the peak value in the spring of 2000 was just over 25. This confirms the assessment that valuations are now extremely high. Nevertheless, this figure only tells half the story. Looking at the S&P 500 Equal Weight Index, which weights all 500 companies equally, it is clear that this index is valued much more moderately, with a P/E ratio of 17.1. It is also only slightly more expensive than the average of the past years (P/E ratio of 15.7), although data for this index has only been available since August 2009. This valuation discrepancy compared to the "normal," i.e., market capitalization-weighted S&P 500 Index, shows that its high valuation is primarily due to a few highly capitalized stocks. For example, the "Magnificent 7" are valued at an average P/E ratio of just over 60, which is mainly due to the high valuation of Tesla. Without Tesla, the P/E ratio of the remaining six tech companies falls to just under 32. While this value may still seem high, it is roughly in line with what was paid for these companies over the past 10 years.

S&P 500, S&P 500 Equal Weighted and DAX: Price-earnings ratios



The crucial question is: are the high valuations based on speculation or on facts? The quarterly figures for Q3 2025 provide a clear answer. So far, 84 percent of S&P 500 companies have exceeded earnings expectations, and 79 percent have beaten revenue forecasts. Despite concerns about the negative impact of higher tariffs on economic growth and inflation rates, companies' profit margins remained higher at 12.8 percent than in the previous year and higher than the average of the past five years. For the third quarter of 2025, earnings growth of 9.7 percent year-on-year is currently projected, more than the 7.9 percent expected at the beginning of the reporting season. By the end of the reporting season, the growth rate is likely to improve to 12 or even 13 percent. Among the S&P 500 sectors, the technology sector currently shows the highest growth rate with 22 percent earnings growth, followed by financials with 20 percent and utilities with 18 percent. Semiconductor stocks are even expected to achieve an earnings increase of (at least) 35 percent compared to the previous year. Since earnings expectations have consistently been set too low in the past, the "correct" valuation is therefore somewhat more favorable than it appears at first glance. As long as companies are able to exceed expectations, the high valuations should not stand in the way of further stock market gains.

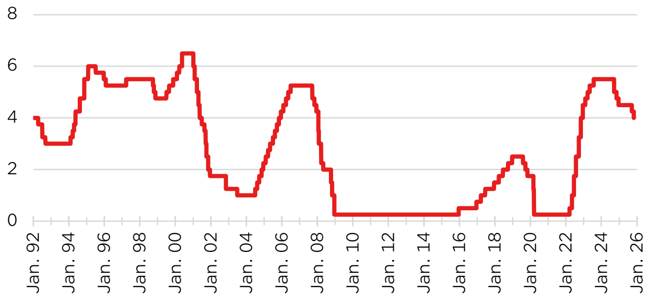
Magnificent 6: Price-to-earnings ratio



Tailwinds from monetary and geopolitical factors

US President Trump and the Chinese President have come a big step closer to a sustainable solution to the trade conflict between the two countries. Whether this already constitutes an agreement on the main points of contention or merely an approximation on important issues remains to be seen, given Donald Trump's capriciousness. What is important is that US tariffs on Chinese imports will be reduced by 10 percentage points to 47 percent, and conversely, China will maintain the export of rare earth elements for the next twelve months. Further action will then be reviewed again. The US has also concluded new trade agreements with other Asian countries. While these measures do not signify a return to free trade, at least a further escalation of the conflicts has been avoided. This should reduce trade policy uncertainties, which should support a positive capital market development in the near future.

USA: Key interest rate



Source: LSEG Datastream

Another positive aspect for the stock markets is US monetary policy. As expected, the Federal Reserve recently lowered the key interest rate by 25 basis points to 3.75 to 4.00 percent. Interest rate cuts are usually decided in economically difficult times, especially when the economy is in a recession and/or a financial crisis. Neither is currently the case. The last time such a constellation occurred was from mid-1995 to mid-1999. At that time, the US stock market experienced one of the strongest phases in its history. Therefore, we assume that the more expansionary monetary policy will also have a positive effect this time. Even though Fed Chairman Powell has been rather reserved regarding a further interest rate cut in December, we currently consider it likely that the trend towards lower (key) interest rates will continue. Fed Funds Futures are also signaling a 70 percent probability of an interest rate cut at the next FOMC meeting this year. This positive combination of monetary and geopolitical factors, along with very strong corporate earnings, is leading us to raise our year-end forecast for the S&P 500 from the previous 6,500 points to 7,200 points. We expect the real test for the stock markets and the high valuations to come when the central bank shifts from cutting interest rates to raising them. In retrospect, the Federal Reserve's interest rate hikes in March and May 2000 to 6.0 and 6.5 percent, respectively, were likely partly responsible for the bursting of the dot-com bubble. However, we do not currently expect any interest rate increases in 2026, so the bull market could well continue.

Carsten Klude

Market data

Stock marktes	As of 30.10.2025 15:26	Change versus 23.10.2025 -1 week	29.09.2025 -1 month	29.07.2025 -3 months	29.10.2024 -1 year	31.12.2024 YTD
Dow Jones	47886	2,5%	3,4%	7,3%	13,4%	12,6%
S&P 500	6898	2,4%	3,5%	8,3%	18,3%	17,3%
Nasdaq	23771	3,6%	5,2%	12,7%	27,0%	23,1%
DAX	24104	-0,4%	1,5%	-0,5%	23,8%	21,1%
MDAX	29959	-0,2%	-0,5%	-3,9%	10,7%	17,1%
TecDAX	3669	-1,9%	1,4%	-5,7%	7,4%	7,4%
EuroStoxx 50	5687	0,3%	3,3%	5,7%	14,9%	16,2%
Stoxx 50	4769	-0,4%	3,4%	5,6%	7,7%	10,7%
SMI (Swiss Market Index)	12266	-2,3%	2,2%	2,6%	1,4%	5,7%
Nikkei 225	51326	5,5%	13,9%	26,2%	31,9%	28,7%
Brasilien BOVESPA	148878	2,2%	1,7%	12,2%	13,9%	23,8%
Indien BSE 30	84404	-0,2%	5,0%	3,8%	5,0%	8,0%
China CSI 300	4710	2,2%	1,9%	13,4%	20,0%	19,7%
MSCI Welt	4425	1,9%	3,2%	7,8%	19,0%	19,3%
MSCI Emerging Markets	1416	2,5%	5,7%	13,1%	24,6%	31,7%
Bond markets						
Bund-Future	129,57	-40	97	-9	-294	-387
Bobl-Future	118,16	-40	37	82	-60	30
Schatz-Future	107,05	-13	6	-6	22	6
3 Monats Euribor	2,07	0	5	4	-99	-65
3M Euribor Future, Dec 2025	2,03	1	1	14	11	13
3 Monats $ Libor	3,93	-2	-11	-47	-77	-44
10 year US Treasuries	4,09	10	-4	-24	-18	-49
10 year Bunds	2,64	10	-3	-1	30	27
10 year JGB	1,65	1	1	11	71	57
10 year Swiss Government	0,15	2	-5	-19	-32	-12
US Treas 10Y Performance	638,81	-0,5%	0,9%	3,2%	6,2%	8,0%
Bund 10Y Performance	566,31	-0,3%	0,9%	1,2%	0,5%	0,3%
REX Performance Index	460,42	-0,3%	0,5%	0,6%	2,0%	1,7%
IBOXX AA, €	3,02	1	-9	-6	0	-1
IBOXX BBB, €	3,31	0	-10	-7	-19	-15
Commodities						
MG Base Metal Index	476,36	2,2%	6,8%	10,8%	10,3%	17,5%
Crude oil Brent	64,46	-2,4%	-5,2%	-11,2%	-9,2%	-13,8%
Gold	3999,39	-3,5%	4,6%	20,1%	44,5%	52,3%
Silver	47,58	-2,8%	1,3%	24,5%	38,1%	64,6%
Aluminium	2886,01	0,5%	7,9%	10,9%	9,8%	14,2%
Copper	11163,84	3,0%	7,5%	14,5%	18,9%	29,0%
Iron ore	105,66	0,1%	0,3%	6,7%	1,5%	2,0%
Freight rates Baltic Dry Index	1961	-4,7%	-11,7%	-7,0%	39,9%	96,7%
Currencies						
EUR/ USD	1,1581	-0,1%	-1,2%	0,4%	7,5%	11,5%
EUR/ GBP	0,8791	0,8%	0,6%	1,7%	5,9%	6,3%
EUR/ JPY	178,46	0,9%	2,3%	4,0%	7,7%	9,4%
EUR/ CHF	0,9275	0,3%	-0,9%	-0,3%	-1,0%	-1,5%
USD/ CNY	7,1097	-0,2%	-0,2%	-1,0%	-0,4%	-2,7%
USD/ JPY	152,73	0,1%	2,8%	2,9%	-0,4%	-2,8%
USD/ GBP	0,76	1,2%	1,9%	1,2%	-1,2%	-4,9%

Source: LSEG Datastream

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