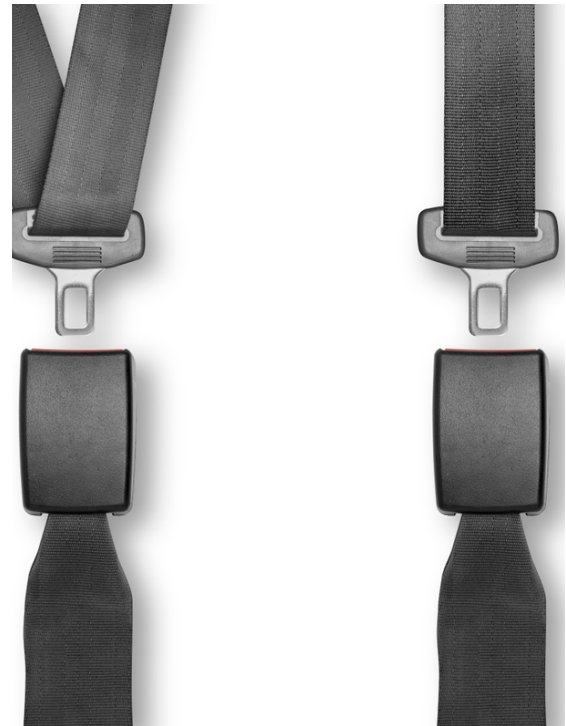


# Brace for volatility

20 November 2025

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- The US equity market is looking stretched – in parts. Are we in a bubble?
- Is this a return to the mid/late 1990s? How best to brace for volatility?
- UK Budget ahead – potential impact on Gilts and Sterling, but not Global Equities



## Key points

1. The US equity market is looking stretched. It is not necessarily a bubble, but investors need to be braced for volatility.
2. Is this a return to the mid/late 1990s? Yes and no - while valuations in the tech sector are rich, there are plenty of parts of the market where valuations are reasonable. Selectivity is key.
3. The upcoming UK Budget creates intense focus on personal and business taxes. From a markets perspective the Budget could impact long-dated Gilts and Sterling, but is not relevant to Global Equity markets.

Valuations looked stretched - but not in a bubble. And only in the tech sector.

Like in the mid/late 1990s, there is a productivity step-change from technology, falling interest rates, but also geopolitical risks

## Are we in a bubble? No, not yet.

Looking at the current state of the US equity market, we find ourselves in a moment that feels reminiscent of the mid/late 1990s, but not yet the tech peak of March 2000. Valuations are stretched and optimism for the AI revolution is high. This is despite a tense geopolitical backdrop (as it was in the late 1990s too with the Russia/NATO stand off over Kosovo, and growing concerns regarding WMD in Iraq). As in the 1990s, equity markets are excited by the transformative promise of a technological revolution - this time driven by AI. In some parts of the market, there are echoes of the exuberance of the dot-com era. But while the parallels are striking, the underlying dynamics today are more nuanced, and so requires further consideration.

We begin by acknowledging that valuations, depending on how we measure them, tell different stories. On a backward-looking basis – price to trailing earnings – markets (particularly the US equity market) appears expensive, particularly for tech stocks. But when we shift to forward-looking metrics, based on expected earnings, valuations look more reasonable given the extent of potential productivity gains. This divergence between past and future on the cusp of a new technological paradigm is central to our current dilemma: are valuations 1) attractive, 2) full, 3) stretched, 4) frothy, or 5) in bubble territory. We believe US equity markets are in the “stretched” phase.

The comparison to 1998 is helpful. Back then, markets had already rallied on the expanding internet revolution and expected productivity gains. The Federal Reserve’s aggressive rate cuts following the LTCM hedge fund blow up shock and Russia debt default crisis helped fuel further gains. Today, we see some similar overlaps: a recent tariff shock, rate cuts on the horizon, and the potential for a new Fed chair who may act more decisively and supportively. If history rhymes, there are the ingredients for a potential “melt-up” in equities: productivity gains expanding profitability, easing monetary policy and an equity market rally.

However, we must tread carefully. There is a risk of being over-exposed to the most richly valued parts of the markets. But there is also the risk of a large opportunity cost not being invested. Many managers and investors who tried to call the top too early in the 1990s missed out on substantial gains. Calling the top too early and being uninvested too long can be costly if investors miss out on the periods with best returns.

## Where are we now?

We believe we are in the “stretched” zone. Frothiness and bubble-like conditions are not yet evident. The key drivers of future momentum will be earnings growth and interest rate policy. If earnings continue to surprise to the upside and rates fall, valuations could be sustained—or even expand further. For a bubble to exist - everyone needs to be invested. And yet at present there are substantial levels of cash and money market funds of uninvested funds, missing out on the rally. “Fear Of Missing Out” (FOMO) has not yet drawn these funds in. So while we acknowledge valuations are stretched, absent a new shock equities, could still have room to run. So how can the situation today learn from the market environment of the 1990s? The table below provides some comparisons between then and now.



There are similarities and differences to the mid/late 1990s.

	Positive equity markets drivers	Negative equity markets drivers
Mid/Late 1990s	<ul style="list-style-type: none"> <li>Market recovering post LTCM / Russia debt crisis shock</li> <li>Falling interest rates</li> <li>Technology step-change (<b>internet</b>) in productivity</li> <li>Earnings growth acceleration</li> <li>FOMO could draw investors in</li> </ul>	<ul style="list-style-type: none"> <li>US Equities: valuations stretched, tech valuations very high</li> <li>Bonds: Risk of debt contagion following LTCM/Russia debt crisis</li> <li><b>Low tech margins</b></li> <li>Geopolitical risk: Balkan Wars / Russia-NATO stand-off; Israel/Palestine moderating (Oslo accords)</li> <li><b>At peak everyone was fully invested, all equities were at extreme valuations and “trash” concept equities rallied</b></li> </ul>
2025	<ul style="list-style-type: none"> <li>Market recovering post war/inflation/tariff shocks</li> <li>Falling interest rates</li> <li>Technology step-change (<b>AI</b>) in productivity</li> <li><b>High tech margins</b></li> <li>Earnings growth acceleration</li> <li>FOMO could draw investors in</li> <li><b>Not everyone is fully invested, much of large-cap equity market is at attractive valuations</b></li> </ul>	<ul style="list-style-type: none"> <li>US Equities: valuations stretched, tech valuations very high</li> <li>Bonds: Risk of debt contagion from Private Credit markets</li> <li>Geopolitical risk: Israel/Gaza, Ukraine War / Russia-NATO stand-off; Israel/Palestine worsening (Gaza occupation)</li> </ul>

Selectivity within equities is key - creating balance with less richly valued sectors

Diversification across asset classes is key - Bonds and Alternatives can help offset Equity market volatility

### Bracing for volatility

Based on lessons from the past the best way to brace for volatility is to ensure balance within how a portfolio is put together.

#### Balance within equities

The equity allocation can vary within a particular risk profile, but does not stray to a different risk profile - so risk management within the equity allocation is key. To achieve a more balanced, diversified approach within equities, it makes sense to combine traditional equity exposure (which is dominated by US Equities (concentrated in the “Magnificent 7” technology names), with low beta equity exposures. “Low beta” means moving up and down less than the overall world market. These lower beta parts are more defensive, at much lower valuations and provide a cushion when equity markets pull back. Examples include UK Equity Income sector which is underpinned by dividends, and the Healthcare and Utilities sectors which have stable earnings streams, and attractive valuations.

#### Balance across asset classes

The other key part of achieving balance is through portfolio diversification across asset classes. Bonds can provide ballast to a portfolio, and at the moment short-dated bonds are less impacted by Government borrowing and Budget concerns that have been worrying the long-term debt markets. There is also the opportunity to diversify a portion of the bond portfolio away from Sterling towards the Dollar. The outlook for Sterling will be impacted by the upcoming Budget. Aside from Bonds, Alternatives, such as Gold, also offers diversification. Gold is uncorrelated to equities and bonds, and has also benefited from 1) concerns around devaluation of nominal assets like bonds and currency, 2) acting as a shock absorber in time of equity market shocks. Alternative Strategies that maintain upside participation whilst incorporating downside protection could also be prudent at this stage.

## What about the UK Budget?

The UK Budget has two key impacts: the personal impact and the macroeconomic impact.

The personal impact is on individuals and business owners. The details of any personal or business tax changes can be discussed with your adviser. There has been extensive speculation before the Budget in the press, which has been very destabilising. The recent u-turns on potential u-turns, raises questions around credibility and competence.

Whatever happens with the Budget, there are concerns with structural issues to the UK economy which will take more than a single Budget to fix. The more taxes the Chancellor can successfully raise, or the more the economy can grow, the better for the UK bond markets. The opposite is also true. One of the key variables will be to what extent bond market investors believe the Chancellor's policy measures will be effective and to what extent the OBR's forecast for UK productivity growth is realistic, as that impacts the long-term sustainability of UK debt level estimates.

The macroeconomic impact of the Budget will likely be limited to long-dated Gilts yields and Sterling. Any suggestion that the Government's financial position could deteriorate further, or economic growth could slow, would see Gilts yields rise (bond values fall) and Sterling weaken. Conversely, any prospect of improved financial position or improving economic growth, would see Gilts yields fall (bond values rise) and Sterling strengthen. For this reason, investors should also be braced for volatility in the Gilts and Sterling markets.

It's important to note that the UK Budget does not materially impact UK Large Cap Equities and has no impact on Global Equities.

## Conclusion

In summary, the US equity market (the main driver of global equity markets) looks stretched but not yet frothy, and not yet in bubble territory. The path forward hinges on company earnings outlook, interest rate policy, and the realisation of AI's productivity expectations.

For investors it is prudent to have a robust financial plan to meet current and future expenditures, and for the portion of assets allocated to long-term growth to remain invested, to remain liquid and to remain diversified within and across asset classes.

## Contact us

For more information, please contact your financial adviser.

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