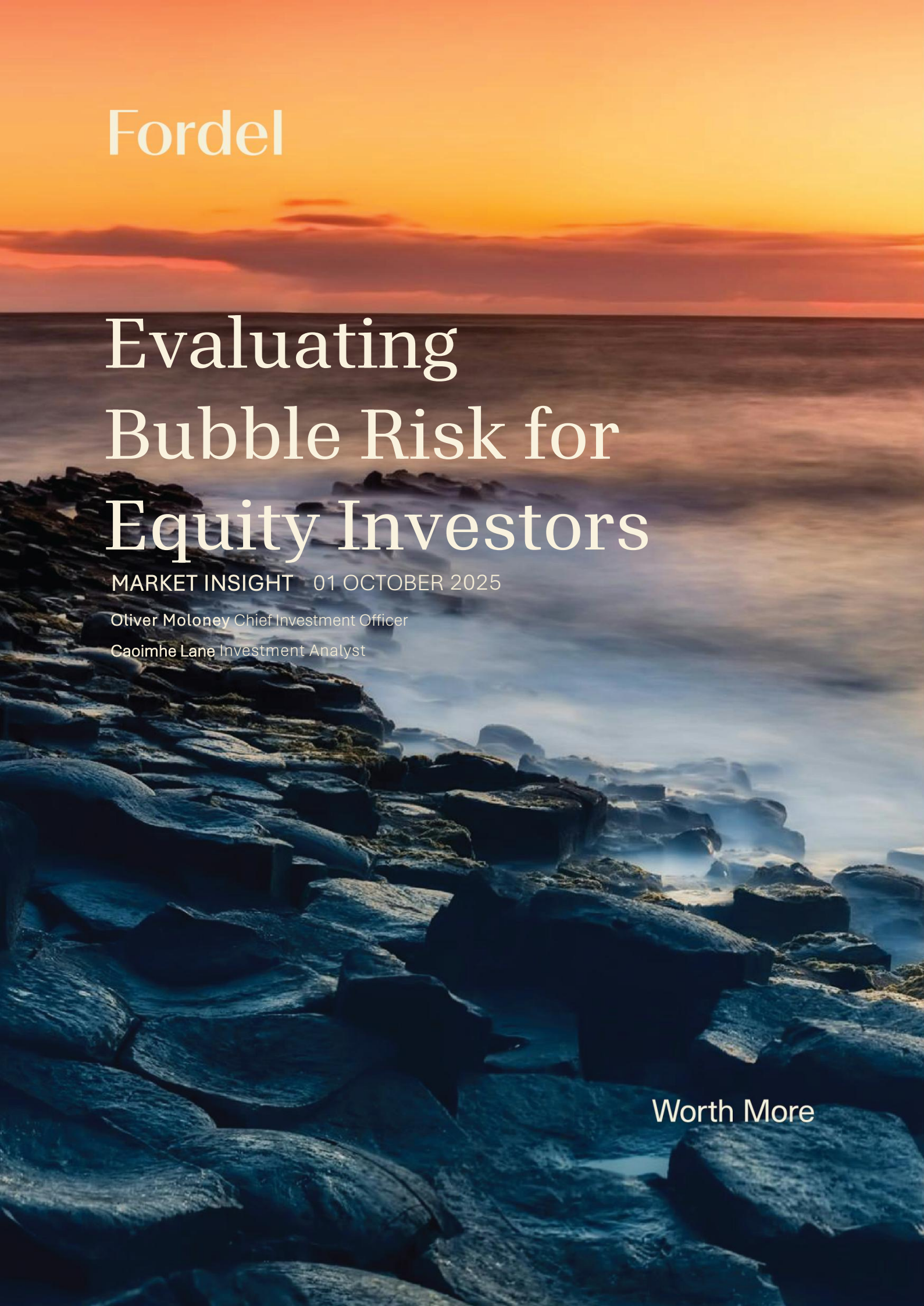




Fordel

Evaluating Bubble Risk for Equity Investors

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Introduction

As markets continue to march higher, there are concerns amongst our client base about where we are in the market cycle and if equity markets are due a correction in the short term. This Market Insight tries to put the recent media coverage into perspective and explore what it might mean for client portfolios.

At Fordel, we have several core investment values that shape how we look at markets and communicate with clients. Those are transparency, consistency, and a strong focus on clear and regular client communication.

Fordel was founded on the principles of independent thinking and expertise. Initially established as a Family Office, we have expanded to offer a full suite of wealth management services to Ireland's high-net-worth individuals. Our experience managing generational wealth allows us to bring a unique perspective to private clients seeking tailored financial solutions.

Trying to define a bubble

While the definition of a bubble varies widely, it is often considered a situation where asset prices begin to deviate from their underlying fundamental values, usually fuelled by a mix of investor optimism, speculation, and liquidity. At first there is often a legitimate underlying narrative (for example Artificial Intelligence ('AI') that rightly attracts investment, but as momentum builds, prices become driven less by fundamentals and more by fear of missing out and overoptimism.

Eventually confidence weakens, expectations come back to reality, and prices can fall sharply. The challenge is that bubbles are rarely clear in real time. What may look like overvaluation to some can appear to others as a rational response to structural change. As a result, bubbles are typically only confirmed with hindsight, after the correction has already taken place.

Today the media is focused on a bubble in the AI industry and the valuations of the famed Magnificent Seven technology giants – the 'Mag 7', and therefore the knock-on effect to US equities.

So why is everyone talking about bubbles?

Ultimately, valuations in the United States are elevated compared with long-term averages, while the rest of the world looks more “fairly valued” (Europe, UK, Japan, Emerging Markets). For the purposes of this piece, we will focus on the US.

The S&P 500 PE Ratio is 64% above its 50-year average and 24% above its 10-year average.

There has certainly been some anecdotal evidence to suggest an overoptimistic investor sentiment towards US equities. A good example recently is Oracle. Despite reporting that they had missed revenue and earnings estimates during their September earnings report, it’s share price rallied by 36% on the day, largely on the back of management promises of future growth. The share price has returned 96% in 2025 and now stands at a 76x Price/Earnings ratio.

S&P 500 HISTORICAL PRICE/EARNINGS (PE) RATIO



Source: Refinitiv. All data to the 30/09/2025.

The Magnificent Seven technology giants are getting most of the attention as they now account for a disproportionate share of the S&P 500 relative to history. These lofty valuations and phenomenal share price growth highlight both their strength and the risks of such narrow leadership.

MAGNIFICENT 7 PRICE/EARNINGS (PE) RATIO

Company	PE Ratio	5 Year Return	Market Cap	% in S&P 500
NVIDIA	53.1	1283%	\$4.5tn	7.8%
MICROSOFT	38	157%	\$3.9tn	6.7%
APPLE	35.1	126%	\$3.8tn	6.6%
ALPHABET	25.9	234%	\$2.7tn	4.5%
AMAZON.COM	33.5	39%	\$2.3tn	3.8%
META	26.7	182%	\$1.6tn	2.8%
TESLA	257.7	211%	\$1.5tn	2.2%
Total of Mag 7			\$20.3tn	34.5%
S&P 500	29.5	114%		
S&P 500 Equal Weighted	22.2	92%		

Source: Refinitiv. Total returns in USD terms. All data to the 30/09/2025.

Another way to view this is that the PE ratio of the S&P 500 stands above 29 at the time of writing. The S&P 500 equal weighted index, which removes the concentrated nature of the largest companies, has a PE ratio closer to 22x, some twenty-five percent lower.

Cryptocurrencies, and Bitcoin in particular, are often used as a gauge of investor risk appetite. Strong rallies in Bitcoin usually signal a higher willingness to take on risk and speculate, while sharp declines often show the opposite. It is not a perfect measure, but it provides a useful indication of broader market sentiment beyond traditional equities being relatively bullish.

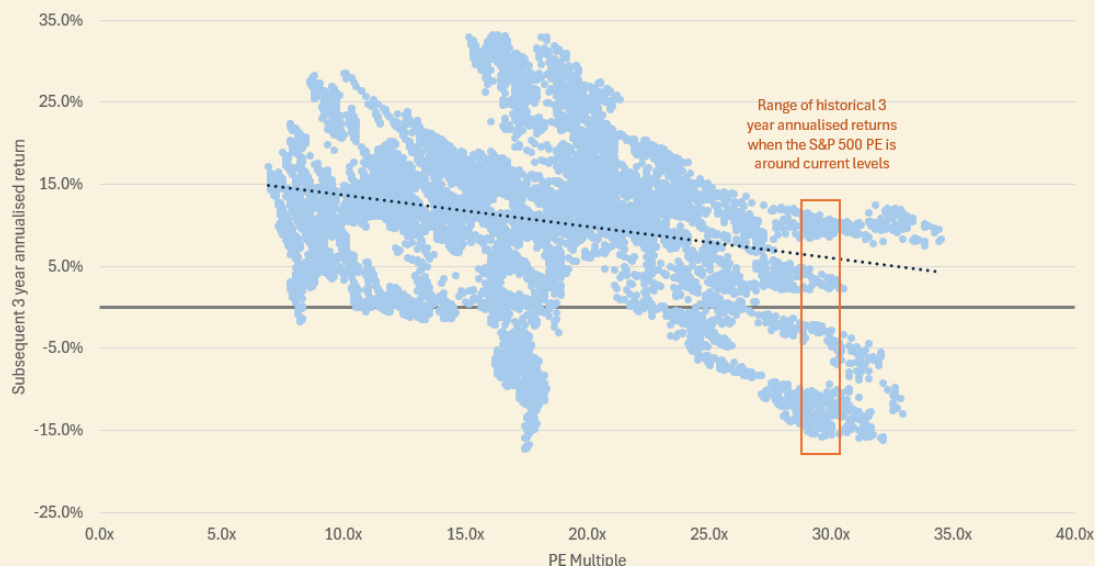
A final point is that the US Federal Reserve finally made their first 0.25% interest rate cut at a time when US indices are at all time highs, employment is solid, and inflation is on the rise again. What's more, the FED themselves are forecasting further cuts before year end 2025. Unusual timing when we consider traditional economic theory. These are policy moves which may fuel already lofty markets, which in our view is a cause for concern.

What does this mean for investors?

There is no mystery to equity market valuations and forward-looking returns. In fact there is an inverse relationship between the two. The higher the valuation, the lower the expected returns. While this is a simple measure, it captures the headwind that US equities face. This is best illustrated in following graph, based on 50 years of S&P 500 data. As we can see, in many cases when the PE ratio is in the range of 30x, the subsequent 3-year returns can be negative.

For investors, that means a large part of their portfolio is exposed to a sudden change in valuations, which unlike fundamentals, are linked to the whims of investor sentiments and growth expectations.

S&P 500 PRICE/EARNINGS (PE) RATIO & SUBSEQUENT 3-YEAR RETURNS



Source: Refinitiv. Total returns in USD terms. All data to the 30/09/2025.

Much of the concern about valuations is centred on the Magnificent Seven, whose dominance makes headlines but let's try put it into the context of a globally diversified portfolio. An investor holding a 60% allocation to global equities and 40% to cash and bonds will have c.13% allocated to the so-called Mag 7 stocks. Significant, but unlikely to derail a long-term strategy if AI proves to be a bubble.

It's also worth remembering that drawdowns are a normal part of the equity market cycle. Markets can and do correct, but they have consistently shown an ability to recover and grow over time. The greater long-term risk is often not being invested at all and trying to time the "perfect entry point", which has historically cost investors more than staying invested through bouts of volatility.

HISTORICAL GLOBAL EQUITY DRAWDOWNS



Source: Refinitiv. Total returns in USD terms. All data to the 30/09/2025.

Avoiding and timing market drawdowns during normal market cycles is self-defeating. This is compounded by the emotional and behavioural challenge of getting back into markets at their low point, or indeed timing the re-entry.

In each of the scenario's we have just outlined, markets rose sharply in the weeks following their low point. In practice, investors can find it emotionally difficult to buy equities when fear is at its highest point. The most common response is to wait until markets stabilise or settle before buying back in. Quite often the days and weeks after a trough in the market, equities recover quickly.

On average global equities rallied by over 14% in the four weeks following a market low point. Avoiding a drawdown must be taken hand in hand with missing part of the subsequent recovery.

PERFORMANCE FOLLOWING GLOBAL EQUITY MARKET LOW POINTS

Event	Low Point	Subsequent 4 Week Returns
Covid	23 Mar 20	24.8%
Global Financial Crisis	09 Mar 09	23.6%
Dot Com Crash	09 Oct 02	16.6%
Trump Tariffs	08 Apr 25	13.5%
Gulf War, Oil Spike, Recession	25 Oct 90	9.4%
Inflation & Rate Hikes	12 Oct 22	6.1%
Black Monday	14 Dec 87	4.4%
Average		14.1%

Source: Refinitiv. Total returns in USD terms.

Key takeaways for clients and investors

So, are we in a bubble? Very possible, in certain stock specific scenarios. At a wider market level, we would not categorise it as a bubble. Some parts of the market appear stretched, but across the board the picture is more balanced. Valuations in the US are high, yet many leading companies (including some Mag 7 components) remain high quality and highly profitable, which makes it difficult to categorise the current environment as a classic bubble.

That said, any sell-off from these levels could be significant and impactful in the short term, particularly in sectors where valuations are most extended. If US equities fall sharply, there will be a knock-on effect to other regions/sectors. However, with valuations more reasonable elsewhere, our belief is that it will be somewhat contained. A Fed rate cutting cycle at a time of market all-time highs will no doubt make for a fast-moving market.

Practical Steps

1. For those already invested, who have most likely gained from strong market performance over the past 2/3 years, Fordel does not recommend any changes to their long-term strategy at this time.
2. Review of overall risk profile, liquidity buffers, and portfolio exposures across all your pensions and investments. Ensure that any equity drawdown will not impact on your financial plan.
3. Take a step back from the noise and focus on controlling behaviours. There are always reasons not to invest, which can often distract from long term financial plans and investment strategies.

Our team is here to help you understand how the current market environment may impact on your portfolio or wider financial circumstances.

If you have any concerns, we're always happy to discuss them. Please get in contact with your Fordel Wealth Manager or reach out to us via the www.fordel.ie website on the details below.

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