

4 November 2025

\$5 trillion and counting

Nvidia briefly passed the \$5tn mark, as US markets continued their ascent, powered by AI optimism – and despite signs of investor nervousness

Last month we commented on equity markets climbing a wall of worry. They've continued to scale new heights, albeit with the odd wobble.

The latest height is \$5 trillion – note the 't'. US chipmaker Nvidia briefly topped this in October, with two other US tech companies, Apple and Microsoft, above \$4tn.

These numbers are too big for many to compute. But to give some context, only the US and China have economies that are bigger (using 2024 numbers) than Nvidia's peak value.

The main driver behind the relentless rise of the largest US stocks is still artificial intelligence (AI), although Apple's recent surge has more to do with strong demand for its latest iPhone (perhaps through which customers will access AI-related services).

Although valuations are elevated, with the S&P 500's forward price/earnings ratio now at 23x, it's hard for the bears to argue

Quick take:

- Global stocks reached new highs in October, overcoming some wobbles
- Yet remarkably some sentiment indicators are flashing "fear"
- We're staying invested in these polarised times, and maintaining a focus on quality

with the fact that earnings growth remains strong. The narrowness of returns is a concern, but not sufficient reason to be negative.

Even so, the lack of support from the parts of the market not supported by AI needs monitoring. The equal-weighted version of the S&P 500 index (if each stock makes up one five-hundredth of the index) has risen just 2% over the last three months, while the market cap weighted measure is up 8%. The Magnificent Seven ultra-valuable US tech stocks are up 17% over the same period, with the other 493 only 5% higher.

Investor nervousness about the US market, as shown in surveys from US investment bank Goldman Sachs and others, underlines the fact that investors will

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sooner or later want to see evidence that the benefits of AI are accruing to the companies paying for it, rather than just the companies providing it (and the materials that construct the data centres).

Clear and President danger

The three key people driving global market sentiment are Presidents Donald Trump of America, Xi Jinping of China and Vladimir Putin of Russia. The latest escalation of trade tensions involving the first two of these men was the cause of October's biggest market upset, although that bomb was quickly defused at a summit meeting between them.

China holds a very strong card: a dominant position in the global production and refining of rare earth minerals, which are crucial in the manufacture of many high-tech products. Although there's a race on to diversify supplies, it will take time to establish a new supply chain. It's also worth noting that the US's last rare earth mining and refining assets were closed because of their negative environmental impact, so one might expect some opposition to restoring them, although not from President Trump.

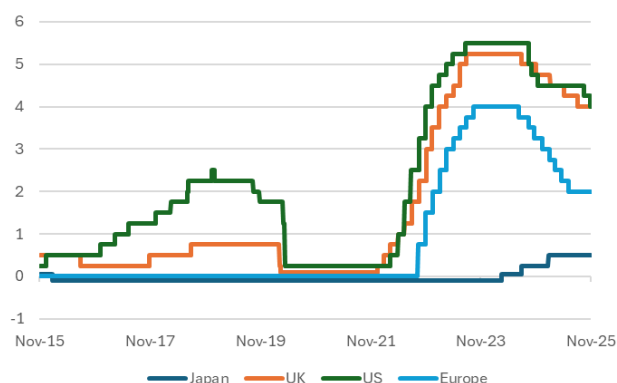
China, on the other hand, still needs important technology and defence components from the US and so as a quid pro quo it withdrew its rare earth export restrictions, according to media reports. It

also agreed to stem exports of the chemical ingredients for fentanyl production (as opioid drugs continue to inflict huge damage on US society) and to buy more soya beans from US farmers. The new pact is set to run for a year.

Hawks vs doves

With the notable exception of Japan, which has exited a multi-decade period of deflation, the majority of the world's central banks have been cutting interest rates. The main question is not if, but how soon or how far. The US Federal Funds rate set by the Federal Reserve (Fed) remains the most important for global investors; the Fed delivered its second quarter-point cut of the year in October. However, this was accompanied by a statement from Chairman Jerome Powell that a further cut in December was not a foregone conclusion, much to the market's surprise.

Major central bank interest rates



Sources: BoJ, BoE, Fed, ECB; US rates are based on the upper end of the Fed funds target range.

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It's possible this was an attempt by the Fed to assert its independence amid pressure from the White House to loosen monetary policy more aggressively. But there are unusual signs of division amongst the voting members rather than the usual unanimity. It certainly seems counterintuitive that interest rates are being cut with the stock market at all-time highs, but there are signs of weakness in the labour market as well as financial stress among lower-income households.

The market for interest-rate futures sees the effective Fed Funds rate as close to 3% by the end of 2026, vs 3.87% today.

The UK base rate is also heading lower. Market pricing suggests another three quarter-point cuts over the next year to 3.25%. Cuts could well be accelerated if the Budget imposes heavy fiscal tightening. We've seen some evidence of that expectation being priced in, through the recent fall in the value of the pound vs the dollar and the euro.

With the European Central Bank having cut more aggressively already, against a background of weaker growth and lower inflation, investors are putting the odds of another cut (from 2%) at just 50/50.

Falling interest rates don't guarantee rising prices in financial assets. However, in the absence of concrete reasons to think otherwise, we should consider rate cuts as creating a helpful tailwind.

Polarised exploration

The investment landscape is increasingly polarised and confusing. Poor sentiment clashes with buoyant share prices. There are worrying signs of speculative activity reaching unsustainable levels, but the momentum of markets remains positive and this is rarely worth fighting too aggressively – if markets are tending to go up, it can take a lot to change this.

Valuations are certainly high in the US (and in pockets elsewhere). But there is some justification for that, in the current levels of profitability in the here and now, and the potentially attractive outlook for all things related to AI. And yet sorting out the long-term AI winners from the losers remains tricky.

Against this background, as we navigate this polarised world, we continue to find it very hard to stray far from benchmarks, in terms of our risk appetite in balanced portfolios. We're also sticking to our guns, by investing in 'quality' companies: businesses with low debt, stable earnings and strong market positions.

There really is no such thing as an all-weather portfolio that can outperform indices and benchmarks in all market conditions, ranging from abject fear to rampant speculation. However, if judged over the cycle, our consistent approach will, we believe, deliver clients' investment objectives without assuming undue risk.

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