

Silver linings

25 November 2025

Equity markets lurched from greed to fear in the wake of the latest earnings results from tech giant Nvidia. But blowing off some of the speculative froth could be a healthy outcome.

Unsurprisingly, the biggest company in the world draws a lot of attention when it reports its earnings. That is especially the case when, as now, its success is inextricably tied to that of many other exceptionally large companies which are all involved in some way in the development of generative artificial intelligence (GenAI). The reaction to last week's earnings announcement turned out to be one for the history books – and not in a good way. But healthier valuations could be the silver lining.

Reverse gear

I ended last week's commentary by pointing out that options markets were discounting a 6.5% move in Nvidia's share price following its latest earnings results, the change in the overall value of Nvidia's shares being equivalent to all of Coca-Cola. The background to the release was, as we have discussed a fair bit recently, growing scepticism about the ability of the 'hyperscalers' (massive cloud computing service providers) to generate sufficient returns to justify the increasing levels of capital expenditure (capex) on all things related to GenAI. This was briefly put to bed by Nvidia's expectations-beating (once again) third-quarter results, which were accompanied by a very

Quick take

- Nvidia's better-than-expected earnings caused huge market gyrations last week.
- Still, healthier valuations are one good thing to come out of last week's wider selloff.
- Whether a parallel 'bitcrash' fuelled this, or was just a symptom of the wider gyrations, we believe this was a passing storm.

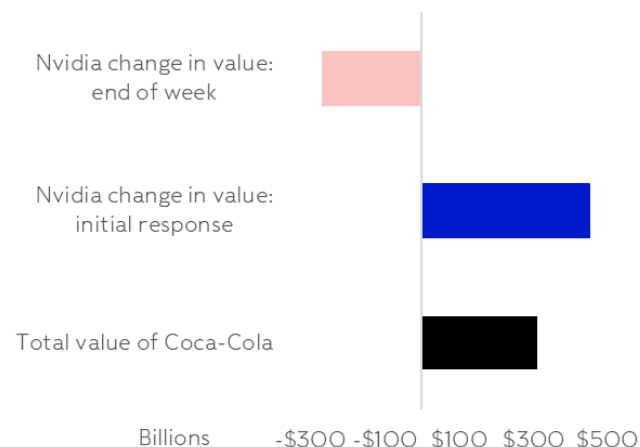
positive outlook from CEO Jensen Huang. The shares gained \$450bn in value, the equivalent of a Netflix (which, you might be surprised to hear, is one-and-a-half times the size of Coke). But this turned out to be a false dawn, because Nvidia gave up all its post-results gains in a remarkable roundtrip that left its shares down a net 6% (\$266bn in value) on the week.

Many unanswered questions remain. Will productivity gains for the users of GenAI justify the required expenditure? Will competition between hyperscalers commoditise the product? Will China flood the market with cheap or even free "good enough" large language models for GenAI? Will supply bottlenecks, especially of energy, mean that current capex forecasts have to be reduced, something that would affect not only the hyperscalers but all industries involved in building datacentres? I don't think anyone has the

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definitive answers to these questions, but investors are definitely saying “show me” for now.

Figure 1: Wild swings on Nvidia's earnings



Source: FactSet, Rathbones, as of 25 Nov

On the bright side

Here's a more positive way to think about these moves. It's healthy to remove some of the speculative premium from valuations. The longer the sentiment persists that everyone is a winner and that plans for higher capex are instantly rewarded with a higher share price, the greater the probability of capital being misallocated. In turn, this could eventually lead to a much worse bust with a greater impact on the wider financial system. In vigilante mode, the market has sniffed this risk out in recent weeks. The more leveraged and less profitable companies have been singled out for harsher treatment.

I dread to think what ChatGPT developer OpenAI's share price might have done had it been publicly quoted. OpenAI is promising to spend more than a trillion dollars on a current base of (on latest reports) \$20 billion of revenue – and that's not profit! This will require a lot of debt (as well as some hefty equity issuance). Suffice to say that the recently touted \$1tn initial public offering won't be happening imminently and not at that valuation either. However, based on its potential to be the biggest-ever fee-generating opportunity for investment banks, don't put it past those bankers

to keep the plates spinning long enough to get a flotation away next year.

Not everything sold off last week. Even within the big tech world, shares of Alphabet (parent of Google) rose more than 8%. This followed news that Warren Buffett's Berkshire Hathaway had taken a stake in the company and positive reviews of its new Gemini-3 GenAI model. It was also noteworthy that more defensive sectors including healthcare and consumer staples made gains too. Diversification within portfolios remains the cornerstone of an investment process that seeks to smooth the ride through the bigger market waves.

I have written regularly about some of the important changes happening in the structure of markets over the last couple of years. These have include the increasing use of leverage (borrowing to invest), so-called volatility control funds (which seek to do what it says on the tin), growing participation by retail investors and the use of exchange-traded funds (ETFs) as asset allocation tools. All of those factors came to bear in last week's market gyrations, exaggerating the feeling of panic among some investors.

Higher volatility forces hedge funds, volatility control funds and risk parity funds (which spread their risks equally across different asset classes) to reduce leverage. This tends to mean selling riskier assets such as equities. As markets fall, commodity trading advisors (CTAs, or momentum following funds) switch from being buyers to sellers of equities. And once markets move beyond certain ranges, that can force more selling. As values fall, that triggers calls from brokers for clients to repay a portion of their leverage (margin calls), forcing yet more selling to meet the margin calls, not always in the same asset class. It's a classic vicious circle.

Everyone seems to forget about these phenomena on the way up because positive returns are always the fruit of one's investment skills rather than market influences. But we continue to believe that as long as the 'fundamentals' are sound, these market storms should blow themselves out. Our

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central view remains that conditions for growth in the months ahead are still favourable, but we are constantly reviewing the situation.

Bitcrash

And talking of margin calls, this seems to be happening with a vengeance in the crypto world, leading to some spillover effects into more 'trad-fi' asset classes. Interestingly, last week the price of bitcoin fell below the average \$90,000 for all purchases of Blackrock's iBIT Bitcoin ETF, which was launched in January 2024. Put another way, the average investor in this ETF (with total funds of just under \$70 bn) is now posting a loss. We've also seen lots of air come out of crypto treasury companies, whose 'business' is to buy crypto assets such as bitcoin and ethereum, usually with borrowed funds, and then sit back and watch them go up. I think you can already see the fatal flaw in this.

Figure 2: Bitcoin price (\$) drops below the entry level for the average investor in Blackrock's ETF



Source: CoinMarketCap, Rathbones, as of 25 Nov

The most notable crypto treasury company is Michael Saylor's Strategy (or MicroStrategy as it used to be), which at least had the advantage of being early into the game. The shares are down 62% from their July peak, despite bitcoin only being down 30%, as the premium to its bitcoin-based net asset value dissolves. A three-times leveraged Strategy ETF is down 98% over the same

period. We of course continue to steer clear of such speculative 'investment' vehicles.

And finally, what should we make of Owen Gunden's loss of faith in further bitcoin advances? I'd never heard of him before last week (and I am struggling to verify his existence), but reports suggest he is one of the original bitcoin billionaires and has just unloaded his entire \$1.3 bn holding.

This seems to be undermining the faith of others. I don't doubt that this is spilling over into our world, although its effect is impossible to quantify. It may be a case of the tail wagging the dog, or it may just be symptomatic of a broad liquidation of more speculative, leveraged and overbought assets. Either way, we don't envisage more systemic problems and believe that this, too, will pass.

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Economic highlights

UK. The latest PMI survey of business activity offered few hints that growth will pick up imminently, but there were at least signs that services price pressures are easing. The overall composite reading of services and manufacturing fell from 52.2 in October to 50.5 in November (50 being the dividing line between expansion and contraction). Services dropped from 52.3 to 50.5, suggesting that pre-Budget concerns are weighing on consumers and employers. The manufacturing output reading fell from 51.6 to 50.6. The sharp fall in the services output prices balance, from 54.2 in October to almost a five-year low of 50.7 in November, is consistent with services CPI inflation easing from 4.5% in October to around 2.5% in six months' time according to Capital Economics. And the fall in the composite employment balance, from 49.3 to 45.3, points to further modest falls in payroll employment in the coming months as firms delay hiring plans ahead of this week's big Budget event. This sets up a Bank of England interest rate cut in December – the market-derived probability of that happening has risen to 86%. And now we hold our breath till Wednesday...

US. We finally got the long-delayed September employment data, with non-farm payrolls rising by an unexpectedly high 119,000 after a downwardly revised -4k in August. Net revisions subtracted 33k from prior months, with two of the last four months reported now showing falls. September's job gains were concentrated in education and health services, sectors that are not necessarily representative of the wider economy, while cyclical sectors showed minimal growth. Unemployment ticked up to 4.4%, above the Federal Reserve's (Fed's) longer-run estimate, mainly due to more people re-entering the labour force. Monthly wage growth slowed to 0.2% (a 3.8% annual pace).

There is little doubt that the US labour market has slowed. There are minimal signs of widespread labour-shedding yet – it remains a 'no hire, no fire' economy – although there have been some large redundancy rounds made with companies giving AI developments as the reason. This is an area worth watching. The Fed is more divided than ever about what it will decide to do in December. It seems sensible to wait and see what the next data releases convey.

Europe. The Eurozone composite PMI was broadly unchanged in November at 52.4, exactly in line with its long-run level and well above the average of 50.6 in the first nine months of 2025. The separate services and manufacturing PMIs were also both steady in November. This means the PMIs continue to signal a services-led expansion, as manufacturing exports continue to struggle with US tariffs and reduced opportunities in China. Germany's composite PMI reversed most of last month's gain, bringing into question the pace of its fiscal stimulus-led recovery. The upturn in services growth was short-lived and the manufacturing data showed a renewed fall. This was offset by an improvement in the French composite PMI to a 15-month high. Even so, this only signals stabilisation in activity after recently pointing to declines. The Eurozone's consumer confidence indicator was also stable in November. Overall in Europe, Citigroup's economic surprises indicator remained positive at a healthy reading of 17.

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