

**Dr. Carlos Mejia**

Chief Investment Officer

Bubbles, brooding and balance

At first glance the world seems upside down. Look at the headlines and you cannot be blamed for feeling depressed; look at the markets, you are left puzzled.

On the one hand, the landscape looks gloomy: extreme weather events, wars in the Middle East, aggressive US policies targeting global trade and immigration, cyber threats, US-China tension, deglobalisation, you name it. It is easy to argue that the extremely strong appreciation of gold, 60% at the time of writing, is the result of a flight to safety.

On the other hand, global equity markets have delivered strong double-digit returns, supported by a continued optimism on Artificial Intelligence (AI), a resilient economy, accommodating central banks and good corporate profitability.

These factors kept investors' sentiment positive, even as valuations in some areas became more stretched, sparking renewed debate about the risk of a technological bubble reminiscent of the dot-com era. As the year closes, investors remain cautious, balancing optimism with prudent positioning to navigate what could be a more volatile environment ahead.

"Bubbles are always new. You just can't find an old bubble"¹

Given the extremely high concentration in the market and the seemingly strong reliance on AI for this rally to continue, it becomes essential to understand how bubbles form and what conditions typically trigger a collapse. Recognising these

¹ Quote from Tom Noddy, a performance artist known as "The Bubble Man".

requirements is not about predicting the exact timing of events but rather about identifying structural vulnerabilities that can turn optimism into instability or a bursting of such bubble. This perspective can help investors stay proactive rather than reactive when markets shift and avoid costly mistakes.

History shows that bubbles share common warning signs. A bubble often begins with a **paradigm shift**, a breakthrough technology or an idea that promises to redefine industries and create unprecedented opportunities. This narrative sparks enthusiasm, driving **asset prices sharply higher**, at a pace that often outstrips the underlying fundamentals.

As **valuations climb to expensive levels**, optimism turns into euphoria and a fear of missing out (FOMO), pulling in more investors who worry about being left behind. This herd mentality amplifies momentum and drives prices even further from reality. Usually, this FOMO prompts companies to borrow to increase capital expenditure (Capex) and investors to participate in the rally or to leverage existing investments, increasing the **level of private and corporate debt**: these dynamics continue to push prices up exponentially.

This process creates a fragile structure. When confidence fades or liquidity tightens, panic sinks in and the bubble bursts, leaving behind sharp corrections and painful lessons.

"This time is different"

Many of us remember the lessons from the 2000 technology bubble, but for those who haven't experienced one, revisiting the similarities and differences is key to understand today's risks. While the stock markets of 2000 and 2025 share certain traits, their differences highlight how much the financial landscape has evolved.

It is important to stay as factual as possible and to dismiss concerns altogether with the typical "this time is different".

The obvious similarities are that both in 2000 and now, share prices of companies linked to technological innovation have experienced a very sharp increase; driven by the internet in 2000 and by AI today. Valuations were stretched in both periods. Additionally, international shocks have been present during both occasions, with Japanese GDP contracting heavily back then and the looming "Y2K bug" adding uncertainty, while today the US and China trade tensions, tariffs and conflicts fuel volatility.

The contrasts are as compelling as the similarities. In 2000, trading floors were largely manual, and passive instruments were still a niche product, whereas by 2025 markets are technology-driven and dominated by ETFs. In 2000 tech companies' valuations were at extreme levels but were not supported by strong earnings and cash flows that underpin today's technological companies. Globalisation was accelerating in 2000, in strong contrast to the signs of deglobalisation that we see today. Market concentration has also intensified, the top 10 stocks represented around 25% of the S&P 500 in 2000 versus nearly 39% today. Investors' behaviour shifted too. In 2000 retail investing was limited, while today the participation has increased thanks to trading apps and AI-driven tools. At the same time, the rise of passive investing has reshaped market dynamics, creating dynamics that simply did not exist two decades ago.

These contrasts remind us that while history offers valuable lessons, today's market structure, liquidity, and investor behaviour reflect a far more evolved financial landscape.

Two books with the same cover but telling a different story

To many, 2000 and 2025 may look like two books with similar covers, both dominated by technology themes. Their stories couldn't be more different, however. The first was a tale of speculative excess, ending in a painful correction, while the latter reflects a narrative of structural innovation, expected productivity gains, and broad-based economic resilience.

Today's market-leading stocks are mostly profitable and cash-generative, which was not the case then; merger and acquisition activity today is more moderate, with few signs of the empire-building cross-industry excesses seen then; and corporate leverage is more subdued.

Prices are no longer rising at an exponential pace. Investors today have greater access to information and tend to be more discerning. While speculative behaviour hasn't disappeared, the prevailing trend favours clear evidence of sustainable profitability before committing additional capital. Technology demand is high, but differently from what happened in 2000, it is rooted in long-term infrastructure changes. Although tech companies have started to raise debt to fund massive AI-related capex, taking advantage of historically low interest rates, internal cash flow remains a key source of financing.

Balancing risk and opportunity

The parallels between 2000 and 2025 are undeniable, but they do not automatically spell disaster. Unlike the dot-com era, today's market is underpinned by stronger fundamentals. Nowadays, technological giants generate real revenues, robust cash flows, and command global influence. The AI revolution is not just a concept; it is reshaping industries, aiming to drive productivity gains, and creating tangible economic value. These factors provide a more resilient foundation than the speculative excesses of 2000.

However, history teaches us that bubbles rarely announce themselves before they burst. Extreme valuations, concentrated market leadership, and rising leverage remain risks that cannot be ignored. While we believe current conditions do not point to an imminent collapse, complacency is not an option. We are closely monitoring price trends, investor behaviour, technology demand, and debt dynamics which are all critical indicators that could signal a shift in market stability.

Our approach is rooted in one principle: **finding the right balance between risk and opportunity**. We remain invested to capture upside potential from transformative technologies, but we have started building protective measures within portfolios, including diversification, tactical hedging, and liquidity buffers, to manage the volatility we expect in the months ahead.

Ultimately, our priority is clear: to **deliver growth while safeguarding resilience**. By combining disciplined risk management with a forward-looking approach, we aim to ensure portfolios remain positioned for opportunity without losing sight of the lessons that history has taught us.

This document is produced by Rothschild & Co Bank AG, Zollikerstrasse 181, 8034 Zurich, for information and marketing purposes only. It does not constitute a personal recommendation, an advice, an offer or an invitation to buy or sell securities or any other banking or investment product. Nothing in this document constitutes legal, accounting or tax advice. Although the information and data herein are obtained from sources believed to be reliable, no representation or warranty, expressed or implied, is or will be made and save in the case of fraud, no responsibility or liability is or will be accepted by Rothschild & Co Bank AG as to or in relation to the fairness, accuracy or completeness of this document or the information forming the basis of this document or for any reliance placed on this document by any person whatsoever.

In particular, no representation or warranty is given as to the achievement or reasonableness of any future projections, targets, estimates or forecasts contained in this document. Furthermore, all opinions and data used in this document are subject to change without prior notice. Law or other regulation may restrict the distribution of this document in certain jurisdictions. Accordingly, recipients of this document should inform themselves about and observe all applicable legal and regulatory requirements. Neither this document nor any copy thereof may be sent to or taken into the United States or distributed in the United States or to a US person. Rothschild & Co Bank AG is authorised and regulated by the Swiss Financial Market Supervisory Authority FINMA.