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Market Musings

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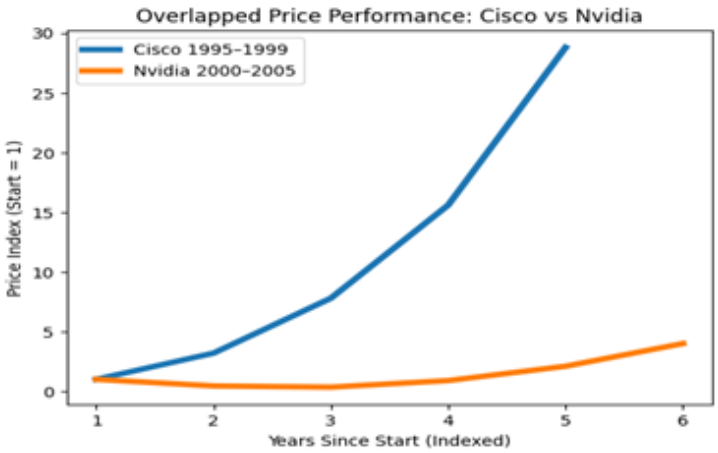
Comparing the technology leader's (Cisco Systems) performance during the Y2K bubble of the late 1990s with Nvidia's current performance suggests we are not in a tech bubble. Also, we don't see an event like Y2K on the horizon that would derail continued market gains.



Will the "Bubble" Burst in 2026?

After three strong years of higher-than-normal stock market returns, especially in the high-growth technology arena, some market observers say a downturn is right around the corner. This fear is based on past events in which asset prices have suddenly and sharply escalated, driven by expectations of substantial gains. One well-known example of this greed occurred during the 17th century, when the prices of rare tulip bulbs rose exponentially at auction, a phenomenon known as Tulip Mania. The result was trading in futures contracts rather than the actual bulbs to plant in the garden. At the peak of this bubble, a single rare bulb cost the equivalent of a grand house on one of the grand canals in Amsterdam. Even worse, the panic to buy and make a profit spread from the elites to everyday persons who wanted to "make a quick gilder." When buyers disappeared at auction in early 1637, the price of the bulbs collapsed, making the futures contracts worthless. Today, market observers look at recent years of strong performance of information technology stocks (the MAG-7) and draw a parallel with the late '90s dot-com bubble. Fortunately, that is like comparing apples to oranges.

The dot-com bubble occurred because of Y2K, a fear that on January 1, 2000, computers would fail because they could not accommodate the change to a new century. In anticipation of this prospective failure, both governments and companies invested in technology on a massive scale to minimize the effects of such an event. In the late '90s, companies were created to solve the problem, and spending on computers and software accelerated dramatically. The acceleration of future computer spending into the late '90s provided a windfall in technology-related sales and booming profits. The last four years of the 1990s experienced a massive surge in technology stock prices.

Then, on January 1, 2000, nothing happened! For about four months, financial markets reflected the end of the spending boom, but as the year progressed, markets began to decline, a decline that lasted into early 2003. Many technology companies went bankrupt as spending on hardware and software declined. The "bubble" was created by an event, Y2K, and the impacts of that event caused both a bull market and bear market in tech stocks, not greed, FOMO, or leverage.

Today, we witness a healthy landscape in domestic stock markets: corporations are healthy, willing to acquire or be acquired, and implementing AI solutions to improve the bottom line… across all industries. So, information technology is not the only game in town. When this kind of proliferation occurs, all boats usually rise with the tide.

"I can calculate the motions of the heavenly bodies but not the madness of people."

- Isaac Newton

Market Commentary

Domestic equity markets capped 2025 with double-digit gains for the third year in a row. The S&P 500 gained 18%, recording 39 record closing highs amid geopolitical, tariff, and inflation-related tensions, as well as a government shutdown. Across the pond, the S&P Europe 350 had its best performance since 2021, up 21%! Asia also proved to be a strong year for equities, with the S&P Pan Asia BMI gaining 27% on the back of huge gains in South Korea (87%) and Hong Kong and Taiwan (31%), despite losses in both the Philippines and Thailand. Bond markets were mainly up around the world, except in Japan, where policy normalization ended, and interest rates rose. The U.S. dollar traded within a range and is down around 6% for the year.

According to data from Bloomberg, about 60% of stocks in the Russell 2000 Index with positive earnings were up nearly 14% in 2025, while the roughly 40% of stocks that are unprofitable were up 24%.