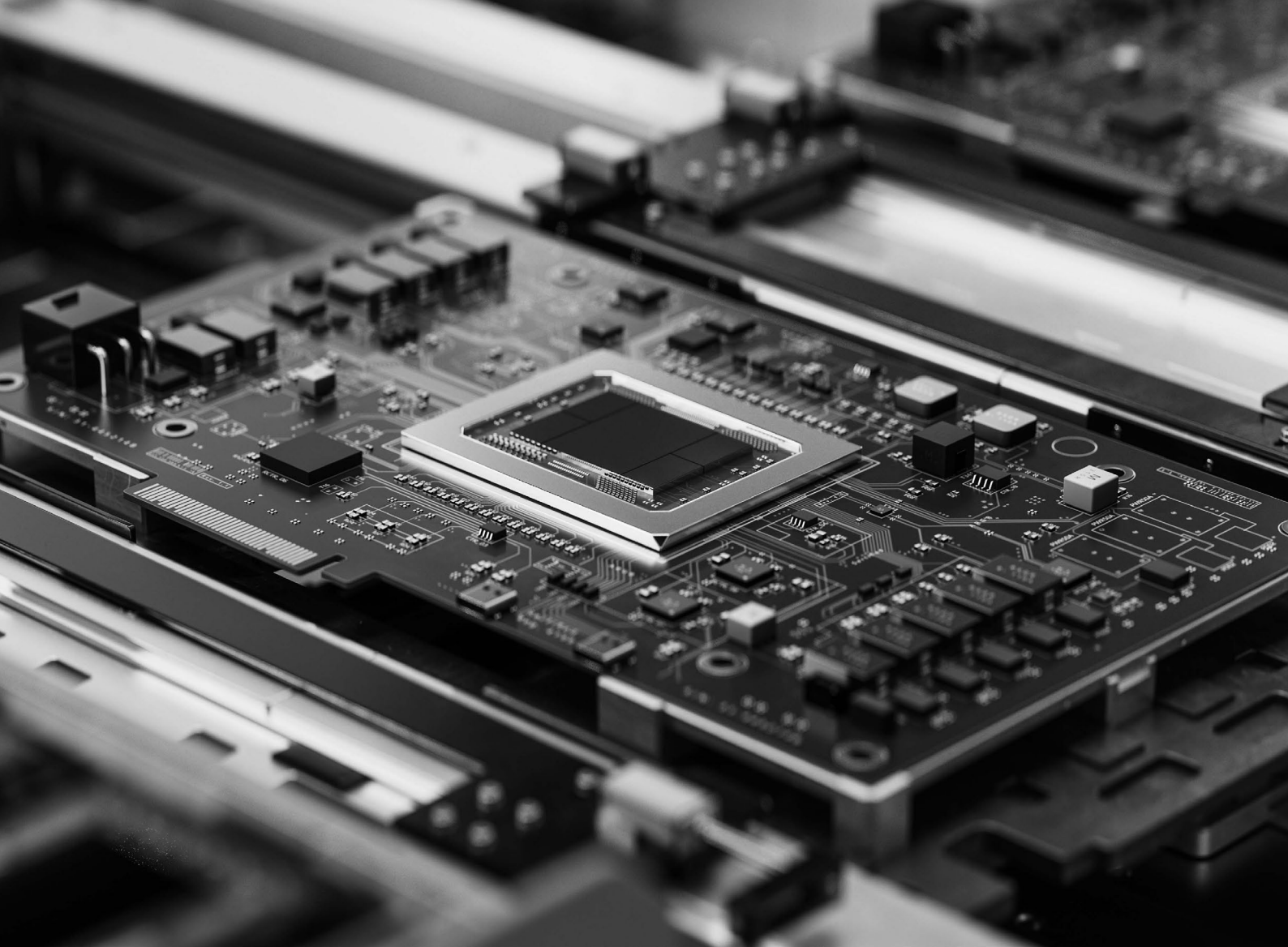




WILSONS
ADVISORY

Tech Check

Our weekly view on asset allocation.

25 August 2025

US Market Bulls Take a Pause

The US market has backed off from record highs this past week. Despite the modest pullback, the S&P500 is still boasting a strong 12 month rolling price gain of 14%, while the index is up 28% from its April sell-off lows.

Panning further out, the US market has delivered an impressive ~16% and ~15% total return over the past five and 10 years, respectively. From a valuation perspective, the US P/E multiple of 22.5x (12 month forward EPS) sits very close to the highest level since the tech bubble peak of 2000 and well above even more recent 5 year average levels (20x).

Soapy Bubble or Sober Bull?

Is this another bubble, or is this a bull market driven by a rationally bullish assessment of the fundamental earnings outlook? Bubbles are of course easier to identify in hindsight rather than ahead of the pop. However, it is important to note that the current bull run does have a proven and robust foundation from an earnings perspective.

As we have highlighted on previous occasions, the last 10 years has been a period of strong earnings delivery in terms of aggregate earnings growth flowing from the US equity market.

The recent US reporting season delivered another quarter of double digit earnings growth (~12%) despite concerns over the impacts from tariffs and evidence of a slowing US economy. Tech has led the way over the last 10 years and once again over the last 12 months. Market estimates continue to suggest Tech earnings leadership over the coming year and beyond.

Earnings growth is more subdued on an "ex-Tech" basis, particularly over the last 12 months, but it is still positive. Hopes of a reacceleration in economic growth off the back of Fed easing is giving the market hope of an improvement in ex-Tech earnings growth into 2026.

Figure 1: After a pullback the US Tech Sector has surged again in recent months



Source: Refinitiv, Wilsons Advisory.

How concentrated is the market's recent advance?

Tech is by a wide margin the best performer since the market's April lows. Market concentration, or "Tech leadership" has been a periodic concern in recent years.

These concerns have re-emerged in recent weeks following another strong reacceleration in the Tech sector. After a significant 26% retracement in the first few months of this year, Tech has surged over 50% since the market's April low to fresh all-time highs, before backing off in recent days. This compares to a market rebound of 28%. Panning out to a longer time horizon, the Tech sector is clearly the best performing sector over the past five and 10 years.

The US Market has Evolved

The US Tech sector is not completely straightforward to define. The S&P IT sector is the core of the Tech trade (dominated by the likes of Nvidia, Microsoft and Apple) and currently stands at 34% of US market capitalisation. In addition, since a reclassification in 2018 the Communication Services sector is essentially an extension of the Tech sector, being dominated by the likes of Alphabet, Meta and Netflix, and stands at a sizeable 10% of the total market.

Furthermore, Amazon is the largest stock in the US Consumer Discretionary sector at ~4% of the S&P500. It would also be considered a Tech stock, boasting a combination of the world's largest cloud business and its dominant online retail franchise. Using this "Tech plus" definition suggests a current weighting of ~48% for the Tech sector.

While not every Tech constituent has outperformed, the outperformance is much broader than just the 6 or 7 mega caps. It is possible that the market is too bullish on the Tech trade in a broad sense, but there is certainly broad participation and plenty of earnings growth accompanying the Tech trade in this cycle.

How much does Tech account for the elevated US multiple?

One difficulty in assessing the valuation of the US market versus its own history is the growth in the relative size of the Tech sector. The IT sector made up only 6% of market value in 1990 and as recently as 10 years ago was around 15%, while now on our "Tech plus" definition it is close to 50%.

Notably, the Information Technology has not always been a premium sector.

The sector did rise to its all-time high P/E in the Tech bubble of 2000, but as recently as ten years ago it was trading on 15.8x, compared to the market P/E of 16.5x. Over the past 10 years, the IT sector has subsequently re-rated to ~30x earnings (Communication Services trades on a more modest 20x).

While well below the levels of the 2000 bubble, the IT sector is at a 33% premium to the market PE and a 36% premium to its own 10 year average P/E level.

However, in the context of 14% p.a. earnings growth over the last 10 years and its very recent record of over 19% growth over the past year, the Tech sector doesn't look to be in a valuation bubble, unless the earnings strength is set to run out of steam.

Looking more broadly, there are a number of sectors that are at a premium to their 10 year average. The Tech sector, however, commands the highest premium and is responsible for the lion's share of the US market's re-rating.

Figure 2: Tech is back at a sizeable valuation premium but...

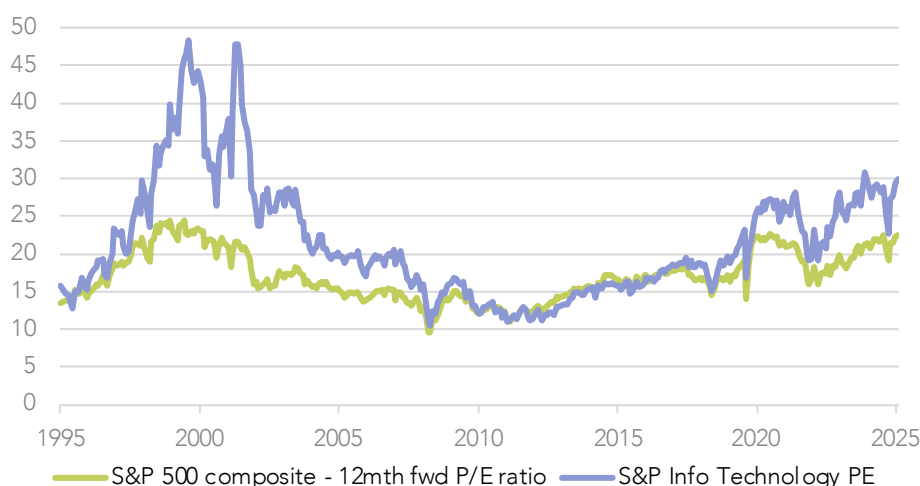
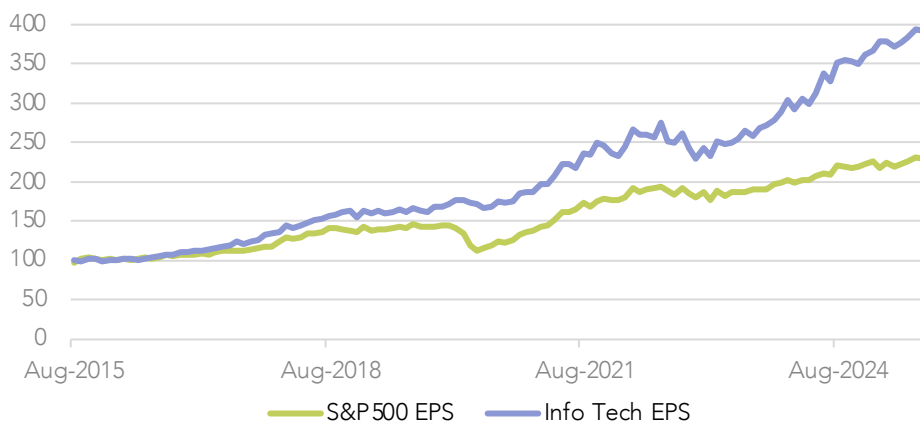


Figure 3: US Tech earnings continue to outpace the broader market



Pullback Plausible, but US Prospects Remain Positive

In summary, it is perhaps somewhat cautionary that the market is trading at a significant premium to historic valuation levels and that outperformance has once again been concentrated in the Tech sector.

However, the strongest argument refuting bubble talk is that US Tech, while trading at elevated multiples versus history, has a track record of delivery that has been evident over the past 10 years, including at the latest reporting season. Recent results continue to suggest US Tech is well placed for growth from the AI revolution, although the AI story is still evolving.

Our tactical view remains that the market is overdue for at least a moderate correction. If a correction does indeed transpire in coming months, it is probable that once again Tech leads the market down. It is particularly likely to be the case if driven by a spike in long-term interest rates, although perhaps not as clear if it is driven by economic slowdown fears. Longer term structural prospects for US Tech still look attractive in our view and bubble talk around the US equity market is likely to continue to prove wide of the mark.

Disclaimer and Disclosures

Research disclosures at www.wilsonsadvisory.com.au/disclosures.

Disclaimer

All figures and data presented in this research are accurate at the date of the report, unless otherwise stated.

This document has been prepared by Wilsons Advisory and Stockbroking Limited (AFSL 238375, ABN 68 010 529 665) ("Wilsons Advisory") and its authors without consultation with any third parties, nor is Wilsons Advisory authorised to provide any information or make any representation or warranty on behalf of such parties. Any opinions contained in this document are subject to change and do not necessarily reflect the views of Wilsons Advisory. This document has been prepared by Wilsons Advisory's Investment Strategy Group. Wilsons Advisory makes no representation or warranty, express or implied, as to the accuracy or completeness of the information and opinions contained therein, and no reliance should be placed on this document in making any investment decision. Any projections contained in this communication are estimates only. Such projections are subject to market influences and contingent upon matters outside the control of Wilsons Advisory and therefore may not be realised in the future. Past performance is not an indication of future performance. All investing carries risk.

In preparing the information in this document Wilsons Advisory did not take into consideration the investment objectives, financial situation or particular needs of any particular investor. Any advice contained in this document is general advice only. Before making any investment decision, you should consider your own investment needs and objectives and should seek financial advice. You should consider the Product Disclosure Statement or prospectus in deciding whether to acquire a product. The Product Disclosure Statement or Prospectus is available through your financial adviser.

This communication is not to be disclosed in whole or part or used by any other party without Wilsons Advisory's prior written consent. All material presented in this document, unless specifically indicated otherwise, is under copyright to Wilsons Advisory. None of the material, its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of Wilsons Advisory. This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Wilsons Advisory to any registration or licensing requirement within such jurisdiction.

Wilsons Corporate Finance Limited ACN 057 547 323, AFSL 238 383 may have participated in some capacity with regard to capital raisings for some of the companies mentioned in this article. To manage any conflicts of interest with Wilsons Advisory Research, full disclosure on any relevant corporate transaction may be found on our website.

Wilsons Advisory contact

david.cassidy@wilsonsadvisory.com.au | +61 2 8247 3149

sam.kluge@wilsonsadvisory.com.au | +61 2 8247 6607

www.wilsonsadvisory.com.au