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Market Partying Like It's 1999?

Our weekly view on asset allocation.

20 October 2025

That Was Then This Is Now

The strength of the US tech sector and general hype with respect to the potential AI opportunities has raised the question of parallels to the dot com bubble boom of 1999-2000.

While we agree there are some cautionary parallels between then and now, we don't find the same evidence of a broad-based bubble when we assess the current market picture relative to the early 2000s dot com bubble. We lay out our thinking below.

Valuations Full but Not Looking Like a Bubble

While valuations for the market and particularly for the tech sector have expanded well beyond simple long-term historical averages, neither the market, nor the tech sector, looks as stretched as the 2000 peak.

The aggregate S&P500 PE ratio currently stands at 23x. This compares to a peak valuation in the year 2000 of just under 25x.

While US valuations look full, they have been edging higher in a relatively controlled fashion. As result, the US market sits about 15% above its 5-year average valuation levels. Not cheap - but this compares to the peak in 2000 when the S&P500 sat 35% above its 5-year valuation levels after a mania-like expansion in multiples in 1999 and early 2000.

Looking at the tech sector specifically suggests current valuations are not nearly as stretched as in 2000. The US IT sector currently trades on 30x expected earnings (with current and expected growth of around 20%). This compares to a peak valuation of 49x in April 2000.

Figure 1: S&P500 hasn't reached the peak valuations of 2000



Source: Refinitiv, Wilsons Advisory.

Figure 2: Tech valuations also haven't peaked as high as the dot com bubble



Source: Refinitiv, Wilsons Advisory.

From a mega cap perspective, a comparison of the largest 10 stocks in the US market now versus in 2000 also suggest valuations are less stretched. figure 3 shows that many of the tech mega caps in 2000 were trading at multiples in excess of 50x - or indeed in excess of 100x earnings in some cases. At present, mega cap valuations don't look cheap but many stocks are clustered around the 30x earnings level.

Profitability (ROE and net margin) measures also currently look stronger. For some commentators, this strong level of profitability is a bearish signal. However, we note that such views based on a "reversion" in US market profitability have been a constant refrain from many US market bears for over 10 years now.

Don't fight the Fed

From a macro perspective, the current environment is quite different to 2000. The Fed is currently in easing mode. This is in contrast to the second half of 1999 and the first half of 2000, when the Fed was hiking rates. In this cycle specifically, the Fed has cut rates by a total of 125 basis points (beginning in September 2024) to bring the official interest rate down to 4.0-4.25%. Market expectations suggest two more 25 basis points rate cuts this year, with more cuts likely next year. From a monetary perspective, it would be unusual for the market to run into major trouble in the midst of a well-entrenched easing cycle. Consequently, from both a valuation and monetary perspective, we see the current market backdrop as different to the market backdrop in 2000.

Still Some Cautionary Parallels

However, we do note some cautionary comparisons to the 2000 peak.

Firstly, we note that "market concentration" is actually higher than in 2000. We proxy concentration by looking at the weight of the 10 largest stocks in the S&P500 now versus in 2000. The 10 largest stocks currently account for close to 40% of US market cap. This compares to a long-term average of 20% and a year 2000 peak of 27%.

Figure 3: Largest 10 US companies by market cap in 2000

	US \$BN	% of S&P500	P/E (12 Mth FWD EPS)	ROE Trailing	Net Margin
Microsoft	557	4%	60	29%	39%
Cisco systems	533	4%	133	22%	20%
General Electric	513	4%	50	26%	9%
Intel	442	3%	45	27%	26%
Exxon	271	2%	31	18%	5%
Walmart	252	2%	45	23%	3%
Oracle	222	2%	150	41%	15%
IBM	212	2%	36	30%	7%
Citigroup	202	2%	18	24%	13%
Lucent	196	2%	77	20%	9%

Source: Refinitiv, Wilsons Advisory.

Figure 4: Largest 10 US companies by market cap current

	US \$BN	% of S&P500	P/E (12 Mth FWD EPS)	ROE Trailing	Net Margin
NVIDIA Corp	4375	7%	30	106%	55%
Microsoft Corp	3817	6%	31	32%	36%
Apple Inc	3677	6%	31	176%	27%
Alphabet Inc	2972	5%	24	36%	33%
Amazon.com Inc	2308	4%	29	26%	11%
Meta Platforms Inc	1780	3%	24	37%	38%
Broadcom Inc	1625	3%	38	32%	35%
Tesla Inc	1427	2%	200	9%	7%
Berkshire Hathaway	1070	2%	23	7%	12%
Walmart Inc	855	1%	38	21%	3%

Source: Refinitiv, Wilsons Advisory.

This may not in itself be a strong bear signal. It is possible the current concentrated nature of the US market reflects the networking advantage of today's dominant scale players, particularly in technology.

As we discussed last week, we do see it as somewhat cautionary that capex relative to revenue has accelerated in the tech sector. This broadly appears analogous to the 1999/00 period.

This acceleration in capital expenditure (mostly AI related) has seen a marked deterioration in free cash flows relative to accounting earnings. At present this is creating a virtuous circle of rising tech capex driving higher and higher tech "earnings" for the chip makers cloud data and other associated AI infrastructure providers. There is a risk that a significant capex unwind at some point sends tech sector revenues and profits into reverse, at least for a period.

Virtuous circles?

Another perhaps worrying parallel is the recent rise in “vendor finance deals” between the chip makers and the AI chip users, which looks similar to the telco internet infrastructure companies in the 1990/00 period

When Nvidia announces it is investing in OpenAI, which then uses that capital to buy Nvidia chips, it creates a closed loop that may not reflect real market demand. If one major player (customer) falters, the entire ecosystem could unwind - similar to how AOL, Sun Microsystems, and others collapsed post-2000. In 2000 Telcos like WorldCom, Global Crossing, and Nortel invested tens of billions in fibre optic networks, undersea cables, and switching infrastructure, anticipating exponential internet demand. Equipment vendors (e.g. Lucent, Cisco) often financed telcos to buy their equipment, creating closed-loop demand that inflated revenues and valuations.

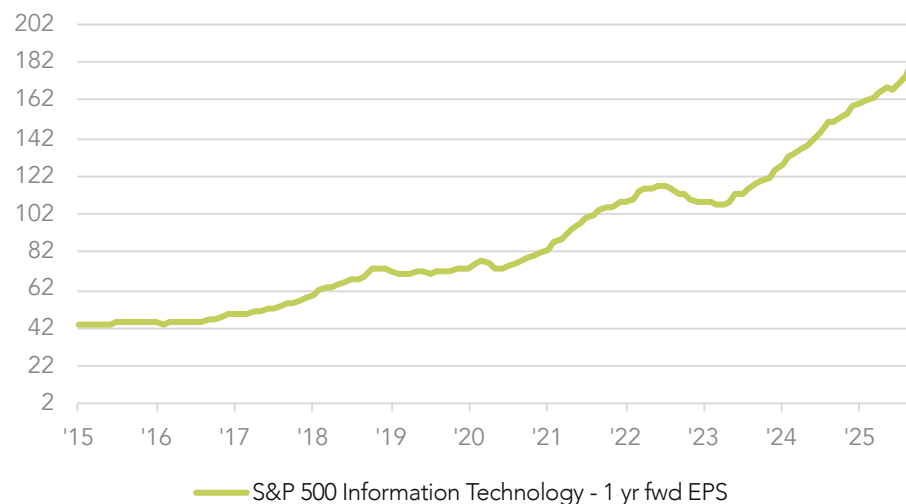
While today’s tech giants have stronger fundamentals than their dot-com predecessors, the scale, speed, and interdependence of vendor finance arrangements in AI raise some concerns. The infrastructure and the profits flowing from it are real - but whether the demand will be sustainable enough to justify the investment remains uncertain.

Figure 5: Unwind resulted in a collapse in tech sector earnings



Source: Refinitiv, Wilsons Advisory.

Figure 6: Tech sector earnings growth continues to surge but watching for cracks



Source: Refinitiv, Wilsons Advisory.

Still Plenty of AI Hype Through the US Equity Market

Finally, while we believe the mega caps are priced plausibly, outside the mega caps there appears to be plenty of optimism priced in with regard to the potential of AI to drive future earnings growth. Indeed, outside of the highly profitable mega caps many AI “growth stocks” with low (high PEs) or no current profitability (infinite PE’s) have surged over the past 12 months, as was the case in the run up to the dot com peak.

Ultimately, we remain focused on both the earnings cycle and the monetary backdrop. The US tech sector still appears supported by strong earnings growth, while the Fed is providing monetary and liquidity support to the US economy and the equity market. We continue to watch for signs of inflection, but stay cautiously constructive albeit well diversified beyond just US tech.

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