



Quarterly Point of View *Echoes*

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I started my career in the investment management business during a heady era in financial history. The Fall of 1996 brought us Federal Reserve Chairman Alan Greenspan's famous "irrational exuberance" speech, as the S&P500 was closing out a year that would see it rise 23%, following up 1995's blistering return of 38%. The hint of a warning in the speech would be dismissed by most investors and returns for the following three years to end the decade were 33%, 29% and 21%. The rise of the internet, the proliferation of telecom infrastructure, and the promise of a digital future fueled this extraordinary rally in equities, especially technology and communications companies. The NASDAQ more than doubled between 1998 and early 2000, only to collapse in spectacular fashion when valuations proved unsustainable and investor sentiment turned.

While the players and technologies mostly differ a quarter of a century later – artificial intelligence, cloud computing, semiconductors, and platform businesses dominate now – the underlying forces of stretched valuations, jubilant sentiment, and concentration risk, ring familiar. Understanding these parallels provides a cautionary lens through which investors can assess today's opportunities and risks.

The defining feature of the late-1990s boom was its extreme departure from traditional valuation anchors. Companies with little revenue and no profits commanded market capitalizations in the tens of billions. Price-to-earnings (P/E) multiples for established tech names soared well beyond historical norms. Cisco Systems, the quintessential internet "plumbing" provider, traded at more than 100 times earnings in 1999. Telecommunications firms borrowed heavily to build fiber networks, justified by projections of exponential internet traffic growth.

Fast forward to the present, and valuation distortions, while perhaps more subtle, are again evident. Mega-cap technology platform stocks now constitute a huge portion of the S&P500 index. The top ten market capitalizations in the index, or just 2% of stocks, account for a 40% total weighting - a level of concentration surpassing even the dot-com era - and one of the highest levels of concentration in history¹.

At the peak of the late '90s dot-com era, on a capitalization basis, 25% of the market contained companies valued at a lofty 10x their sales, or higher. That figure recently reached 34%². On a trailing P/E basis at the end of the most recent quarter, the market traded at 28.9x, just shy of the June 1999 reading of 32.9³. Compared further, the current market trades at 19 times cash flow, matching the 1999 peak, and 65% higher than the average over the last quarter century. Finally, on a price-to-sales basis, the market has reached an all-time high valuation⁴.

As in the former period, traditional metrics like price-to-earnings, price-to-cash flow and price-to-sales are often dismissed as outdated when applied to high-growth sectors that are 'changing the world.' The key question facing index investors right now, however, is if these metrics will be justified as AI adoption transforms the global economy as profoundly as promised, or if this rationalization simply exposes them to excess risk.

If stretched valuations are the quantitative symptom, investor psychology is the qualitative driver. The late 1990s were defined by a fervent belief that a "new economy" had arrived. Old valuation models, analysts argued, could not capture the network effects and limitless potential of internet firms. Day traders flooded into markets, online brokerages proliferated, and financial media reinforced the sense that stocks could only go higher. Alan Greenspan's warning of "irrational exuberance" in 1996, as mentioned earlier, went unheeded.

Today's narrative is strikingly similar. Artificial intelligence is touted as a paradigm-shifting technology that will revolutionize industries from healthcare to finance to logistics. The argument that "this time is different" has resurfaced – earnings multiples do not matter, proponents claim, because AI will drive such extraordinary productivity gains that current valuations are only a starting point. Retail trading activity, while more dispersed than in the dot-com bubble, has spiked through platforms like Robinhood, with meme stocks and social media-driven speculation echoing the day-trading frenzy of the 1990s.

The late 1990s were not just about internet startups but also about the infrastructure required to support them. Telecom firms borrowed billions to lay fiber optic cable while software and hardware firms raised capital through IPOs. The capital markets funneled enormous resources into a narrow set of sectors. When demand projections proved overly optimistic, the overcapacity became clear, bankruptcies mounted, and the bubble burst.

Today, while capital allocation has shifted toward semiconductors, cloud infrastructure, and AI platforms, the concentration remains equally striking. The top handful of company's command both index weight and investor attention. Exchange-traded funds and passive investing amplify this concentration, funneling billions into the same names regardless of valuation. The S&P 500's performance in 2023 and 2024 was primarily driven by the Magnificent Seven, while the equal-weighted index lagged badly. This is reminiscent of 1999, when the broader market was far weaker than the headline NASDAQ, or even S&P500, suggested.

Another important parallel lies in the macroeconomic backdrop. The late 1990s boom occurred during a period of robust economic growth, falling inflation and relatively easy monetary policy. Abundant liquidity encouraged speculative risk-taking. When the Federal Reserve began tightening in 1999-2000, the cracks in valuations quickly widened.

Today's environment, though different in specifics, shares this liquidity dimension. The extraordinary monetary easing of 2020-2021, combined with fiscal stimulus, provided fuel for a surge in asset prices. While the Fed has tightened policy since then, the recent 25 basis point cut and presumption of more to come, refuels the notion that investors can reprice assets higher, as though cheap capital will persist indefinitely. This faith in liquidity echoes the complacency of the late 1990s, where investors assumed the Fed would always step in to cushion markets.

To be sure, today's market is not an exact replica of the dot-com era. The leading firms of 2025 – Nvidia, Alphabet, Amazon, Apple, Microsoft, for example – are profitable, cash-generative businesses with dominant market positions. Unlike the speculative startups of 1999, these companies have established revenue streams and global reach. Their balance sheets are strong rather than debt-laden (though debt issuance has been rising as large firms build out the infrastructure needed to power the AI movement). Thus, a potential correction might resemble a repricing rather than a wave of bankruptcies.

Still, valuations matter. Even great businesses can become poor investments if bought at excessive prices. Referring again to Cisco Systems, it was a world-class company in 2000 (it still is, in our view), but investors who bought at its peak waited 15 years to break even. This analogy underscores that quality alone does not necessarily immunize against the mathematics of overvaluation.

It is appropriate for investors to consider the degree to which the stock market of the mid-2020s is beginning to resemble the period of the late 1990s. Both periods feature extraordinary valuations, complacent if not jubilant investor psychology, concentration in a narrow set of companies, and faith in transformative technologies. Both rely on abundant liquidity and a belief that old valuation frameworks no longer apply.

The end game doesn't have to mirror the bursting of the dot-com bubble in the early 2000s, but history warns that excesses tend to resolve painfully. Investors who ignore valuations and chase momentum risk repeating the mistakes of the past. The lesson of that bubble is not that technology fails to transform the world – it did – but that markets consistently overshoot in pricing that transformation. Today's AI revolution may well reshape economies, but even revolutions unfold more slowly and less linearly than investor sentiment tends to price in.

For prudent investors, recognizing the echoes from the late '90s may prove invaluable in navigating what lies ahead.

It is a sincere privilege serving those that have entrusted us with their capital.

Respectfully,



Cameron K Martin
Chief Investment Officer
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1. Factset, Standard & Poor's, J.P. Morgan Asset Management, 9/30/2025.
2. GQG Partners LLC, Bloomberg, 9/8/2025.
3. Multpl, Factset, 10/2/2025
4. Creative Planning, August 2025.

Statistical and analytical data provided by Factset.

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