



## CAN THE BULL MARKET CONTINUE?

Navigating opportunity amid elevated valuations

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Equity markets have continued their upward stride through 2025 despite persistent macroeconomic uncertainty and an evolving global geopolitical landscape. The speed and magnitude of the rally, especially in the US and among mega-cap technology shares, have surprised many investors. These gains have been driven in large part by optimism surrounding artificial intelligence (AI), despite traditional valuation metrics flashing warning signs.

With the current bull market beginning in October 2022, investors are rightly asking whether the rally still has room to run, or whether risks are accumulating beneath the surface.

### Why some believe the bull market can continue

#### 1. Strong fundamentals and robust earnings growth

Corporate earnings remain healthy, and consensus expectations point to double-digit earnings growth ahead. In the US specifically, the policy environment is unusually aligned in favour of risk assets. Fiscal policy, monetary policy, and deregulation are all supportive, a rare combination outside of recessionary periods. This “pro-cyclical policy mix” should allow markets to pivot from macro-driven anxieties to micro-level narratives, particularly around AI and productivity gains.

#### 2. Supportive monetary policy as inflation moderates

Inflation has continued to ease across major economies, giving central banks, most importantly the Federal Reserve, the flexibility to continue cutting rates. A lower-rate environment reduces discount rates, supports equity valuations, and improves financial conditions more broadly.

#### 3. Structural tailwinds from artificial intelligence

The AI boom is widely believed to be in its early innings. Companies are only beginning to realise efficiency gains, margin expansion, and new revenue opportunities from AI investment. This theme is expected to be one of the strongest drivers of equity performance in 2026 and beyond.

#### 4. US exceptionalism remains intact

Of all major regions, the US remains the most likely to deliver upside surprises to global growth. AI-driven efficiency, positive operating leverage, and a supportive policy regime underpin expectations that US equities will once again outperform the rest of the world in 2026.

#### 5. The bull market is historically young

While markets have rallied meaningfully since late 2022, the duration and total returns so far remain modest relative to past bull markets. Historically, bull markets tend to last longer and deliver significantly greater gains than bear markets, suggesting there may still be room to run.



## INVESTMENT AND MARKET INSIGHTS

### Reasons to believe the bull market is at risk

#### 1. Valuations are extremely elevated

Equity multiples across major markets are near or above the 80th percentile of historical ranges. The S&P 500's cyclically adjusted P/E (CAPE) ratio at 38x is approaching levels last seen during the 2022 peak and, before that, only during the dot-com bubble. Elevated valuations can persist, but they leave little margin for error.

#### 2. AI concentration risk

A significant portion of market returns has been concentrated in a small group of AI-linked mega-cap technology stocks. This narrow leadership leaves the broader market vulnerable should sentiment turn or earnings disappoint in these key names.

#### 3. Geopolitical and trade tensions

Lingering tariff uncertainty, shifting global alliances, and supply chain realignments pose risks to global growth. Europe's outlook remains tied to these macro pressures, while emerging markets face headwinds from China's slow reflation progress.

#### 4. Inflation and interest rate uncertainty

Although inflation has moderated, there is no guarantee it will continue to do so. Any reversal in the disinflation trend could force the Federal Reserve to pause or even reverse rate cuts - a scenario that would likely pressure equity markets.

#### 5. High levels of debt across the economy

Elevated corporate and consumer debt levels, combined with tighter credit conditions, could weigh on growth and strain parts of the financial system.

#### 6. Overheating investor sentiment

Signs of speculative behaviour, rising margin debt, or fear of missing out driven buying could signal overvaluation. Historically, bull markets often peak when investor sentiment is strongest.

### Regions to watch: divergent market drivers

- **United States:** The strongest microeconomic story, with policy support and AI-driven earnings growth expected to keep the bull market intact.
- **Europe:** Lacks the same tailwinds, with growth forecasts still soft and manufacturing competitiveness challenged by China.
- **Emerging Markets:** Mixed outlook, driven largely by China's uneven recovery.
- **Japan:** A positive outlier benefiting from structural reforms and improving corporate governance.

### What to watch over the next 12 months...

As global markets navigate a period of shifting monetary policy, evolving technology cycles, and uneven economic momentum, the year ahead presents both opportunity and heightened uncertainty. To position effectively, investors should keep a close eye on the factors below that are likely to shape sentiment, valuations, and market direction over the next 12 months.

#### 1. Federal Reserve policy and inflation dynamics

Continued rate cuts require continued disinflation. Any setback could reprice markets quickly.

#### 2. Economic data and growth trends

Employment, retail sales, and GDP growth will reveal whether the global economy is gaining momentum or slowing.



## INVESTMENT AND MARKET INSIGHTS

### 3. Breadth and sustainability of earnings growth

A broadening of earnings leadership beyond AI mega-caps would be a positive sign for market durability.

### 4. AI investment cycle

Any slowdown in corporate AI spending, particularly in capex-heavy sectors, may indicate that the theme is maturing faster than expected.

### 5. Investor sentiment and positioning

Rising speculation or leverage would be warning signs that the market may be overheating.

### In conclusion: A bull market with opportunity and risks

The bull market remains supported by strong earnings growth, moderating inflation, and powerful AI-related structural trends. At the same time, valuations are undeniably rich, leadership remains narrow, and macro risks persist.

History shows that bull markets often continue longer than expected, but they do not last forever. For investors, the most prudent approach may be to stay invested but selective, focus on quality and earnings durability, and maintain enough flexibility to take advantage of pullbacks should they arise.

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