Chapters of change

Handelsbanken

Contents

01 An economic overview — 4
Turning the page: The global economy's next chapter

02 The world's largest economy — 7
Unscripted: Trump's first year and the plotlines for 2026

03 Spotlight on the UK — 10
Waiting for a rewrite: The UK's pause for direction

04 Alternative asset types — 13
A golden fairytale: What next for the world's ancient safe haven?

05 Stock markets deep dive — 15
Re-writing the code: AI and the tech giants

Welcome to the latest edition of our *Investment Outlook*

Financial markets have delivered another upbeat year in 2025: great news for our investment funds and for our clients. In our first article, *Turning the page: The global economy's next chapter*, we discuss the holy trinity of factors helping markets over the past two years, as well as the opportunities and risks we see ahead.

Turning our gaze across the Atlantic, President Trump's second takeover of the White House is in full flow. Our second article, *Unscripted: Trump's first year and the plotlines for 2026*, recaps the importance of the US economy on the global stage, and unpicks the eventful return to power of a man who is many things, but never boring.

Bringing the focus back to our home economy, we've included a UK spotlight article, delving a little deeper into the challenges facing the current UK government. In *Waiting for a rewrite: The UK's pause for direction*, we take a look at the government's economic policies, and what this means for growth, and for investing in UK-based assets.

In the later pages of this edition, we shine a spotlight on some of the most remarkable areas of financial markets in recent history, and see how they work as a part of our multi asset funds.

It's been a stellar year for gold. Read our penultimate article – *A golden fairytale: What next for the world's ancient safe haven?* – to find out more about this strange and sometimes wonderful financial asset. We explain the difficulties of placing a value on an investment that provides no income, and outline how gold has benefitted from the US dollar's stumble from grace.

Finally, we turn to the theme on everyone's lips in 2025: artificial intelligence. Our fifth and final article of this year's edition, *Re-writing the code: AI and the tech giants*, takes a walk through the remarkable unfolding technological landscape of the US stock market. Can the AI boom continue, or is it a bubble? What does this mean for your investments?

As always, we're keen to hear your feedback on this edition of our *Investment Outlook*. You can contact us with any thoughts or queries at marketing.hwam@handelsbanken.co.uk.

We wish you a safe and happy 2026, and look forward to keeping in touch.

Graham Bishop
Chief Investment Officer

01 An economic overview

Turning the page: The global economy's next chapter

2024 and 2025 have given investors something of a holy trinity: lower inflation, interest rate cuts, and a lack of economic recession (granted, economic growth is still low). Which market areas have been most blessed, and should we expect more of the same in 2026?

Most importantly, what does all this mean for how we invest your money?

Investors began 2025 with some healthy scepticism. In the opening months of the year, their wariness about tariff wars, geopolitical tensions, and open armed conflict was understandable. As the year continued, though, markets exhibited their characteristically short attention span for political and humanitarian crises, as well as responding positively to signs that trade tensions had not (in the near term at least) adversely impacted economic growth.

The beneficiaries were widespread: virtually all major financial asset types (bonds, shares and alternative assets) made gains in 2025. For multi asset investors, like us, this is helpful, and contrasted sharply with painful memories of 2022, when inflation rattled investors and there was almost nowhere to hide in a challenging investment landscape.

In 2025, the standout winners have been gold and shares, with stock markets boosted by the 'AI' theme, but also supported by a broader set of strengths in various regions and sectors.

Central banks have delivered gifts that could keep on giving

It never pays to be overconfident, but as we write, markets appear to be at an intersection, with helpful tailwinds blowing in their favour. First, a technological revolution which is not limited to purely 'AI' businesses; second, deregulation across industries; and third, supportive and really quite synchronised central banks taking action across the world. Nearly 80% of central banks in G20 nations cut their benchmark interest rates from September 2025 onwards. It's worth remembering too that central bank action like this works with a lag, so the interest rate cuts made in 2025 could easily support global activity and investor buoyancy into the future.

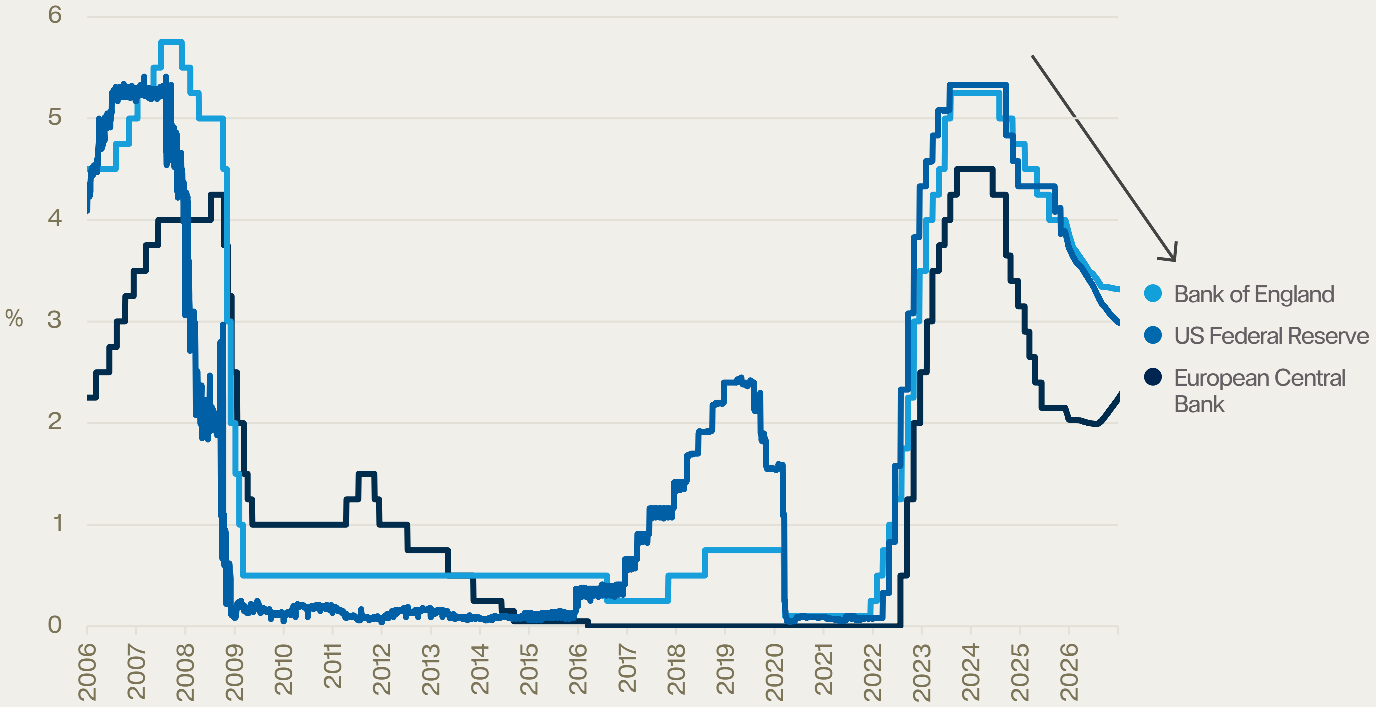
As all investors should, we've been keeping a close eye on the highly influential US economy. Despite all the noise perpetually emanating from the White House, the US economy remains robust, with recession unlikely. Meanwhile, the US central bank – the Federal Reserve, or Fed – is cutting interest rates, and this is already beginning to feed through to highly responsive and rate-sensitive areas of the economy like housing. (President Trump's efforts to influence the Fed have been unnerving, but commentary around this has subsided in recent weeks.)

Over the coming months, we expect the Fed to continue to manage risk and take action where it sees potential issues. This has been underscored by the Fed's Autumn decision to end 'quantitative tightening', meaning that it will no longer be trying to reduce the amount of US government bonds and mortgage-backed securities held on its balance sheet. This move is aimed at keeping the financial system liquid and operating smoothly, and could also support conditions for economic activity and growth.

You can find out more about our views on the US economy in our next article: ***Unscripted: Trump's first year and the plotlines for 2026***.

Given inflation has been well behaved, central banks are now cutting rates

Interest rates (including predictions from December 2025 onwards) at US, UK and European central banks



Source: Bloomberg, Macrobond

Lower inflation, but the UK faces challenges

Meanwhile, investors have become increasingly calm about the outlook for inflation. Measured by the Consumer Price Index (CPI), inflation on both sides of the Atlantic has shown signs of abating, and we're hopeful that pricing pressures can continue to drift lower as we head into 2026. Energy price caps should keep a lid on the influence of fuel prices on inflation figures, and inflation in the service sector is also expected to ease gradually. Wage growth here is slowing while the impact of firms passing on national insurance hikes to their customers via their prices, is fading.

The UK government has delivered its much-anticipated Budget, perhaps best described as a 'tax and spend' plan. Spending increases are expected in the near term, with tax increases scheduled for further down the line. At the time of writing, markets have reacted calmly, but concerns about the financial credibility of the UK government are likely to persist into 2026. We continue to believe that the Bank of England will be forced to cut interest rates by more than the market currently expects, and this is reflected in the size and style of our positions in UK government bond markets.

You can find out more about our views on the challenges facing the UK economy in our next article: ***Waiting for a rewrite: The UK's pause for direction***.

How are we investing your money?

The global economic backdrop remains supportive for financial assets. However, we're mindful of the fact that in many areas, the prices of financial assets reflect an optimistic view among investors.

Our own views have been consistent in the final few months of 2025, and we believe we should approach the idea of adding any more risk into our multi asset funds with caution. Roughly speaking, we are 'neutral' (in line with our long-term average) when it comes to stock markets, and 'overweight' (holding more than our long-term average) in bonds, with a focus on government and high-quality areas of bond markets. We also have a long-held position in gold (holding more than many of our peers), which has performed extremely well in 2025.

You can take a closer look at our investment views, particularly on AI themes in stock markets and on investing in gold, later in this Investment Outlook.

2025 has been a positive year for investors, and it's worth remembering that long-term investing is a journey. There can be no reward without taking on a measured amount of risk, and no matter how firm we are in our convictions, we know that there are risks to every investment decision.

We always aim to keep our eyes wide open when it comes to any potential risks to our current views and investment positions. For example, are we being too cautious about the economic outlook? What if the AI boom explodes into more and more industries, more rapidly than we have anticipated? On the other hand, have we overestimated the extent of interest rate cuts set to be made by the US central bank? What will central banks do if inflation reignites?

All these eventualities are challenging to predict, and all come with consequences for prices in financial markets. However, our approach is designed to smooth investment journeys over the long term. By using a range of investment tools – including alternative asset types, such as hedge funds, commodities and private equity – it's our intention to limit potential losses when markets are falling while making the most of periods when markets are rising. Positive returns can never be guaranteed and should not be relied upon, but we continue to believe that our global multi asset approach, coupled with our risk-aware mindset, stands us in good stead for 2026.

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Graham Bishop, Chief Investment Officer

02 The world's largest economy

Unscripted:
Trump's first year and the plotlines for 2026

It's been almost a year since Donald Trump returned to the White House. So far, the story of his return to the top spot has certainly been a page turner.

Why should UK investors care, and what should we expect next?

- **It's the world's most influential economy**
  The US is far and away the world's largest economy. What happens in the US has the potential to impact the economies of all other countries.
- **It has the most important central bank...**
  Like the Bank of England, the US central bank – the Federal Reserve (or 'Fed') sets interest rates for its home economy. But when the Fed begins to raise rates, or cut them (as in recent history), central bankers around the world take note, and often follow suit.
- **... and the most popular currency**
  The US dollar is the world's 'reserve currency'. This means that other central banks hold the dollar in large quantities, and use it for global transactions, to settle debts, and to help keep their economies stable.

There are many more reasons behind the influence of the US over the rest of the world's economic health, from the power of US consumers and the effects of US trade, to America's political reach and its military prevalence. So, depending on any given president's ability to make waves, whoever inhabits the White House can have far reaching consequences for us all.

Markets are always looking for a new tale

For every US election dating back to 1928, the first year after the election has been a fruitful one for the US stock market, particularly if a challenger has won the race (rather than the sitting president). You can see this in the chart, which shows financial returns for the S&P 500 Index, which represents the share prices of the largest 500 companies listed on the US stock market.

Financial markets tend to be quite optimistic about a changing of the guard, assigning prices to assets based on hope – especially when it comes to the economic outlook. This is what happened in the first year of Trump's first term, and the same has occurred for the opening 12 months of his second term, despite all the noise and unconventional rhetoric.

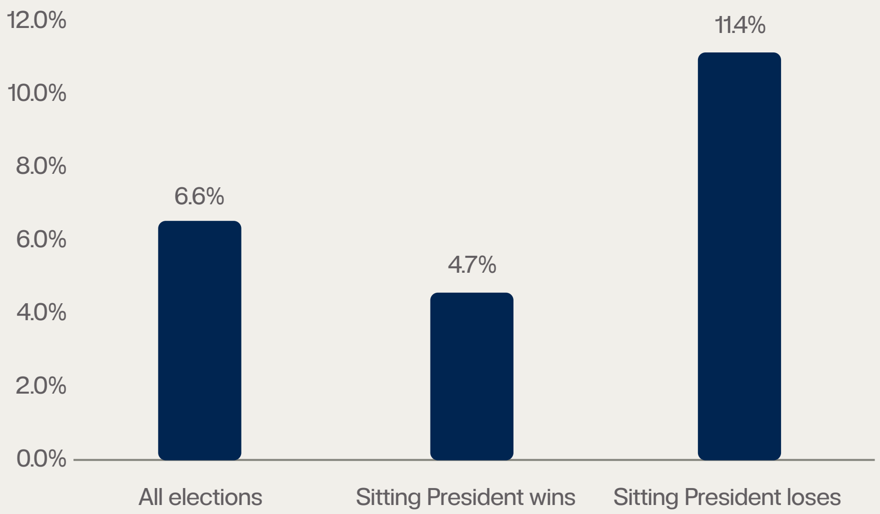
The world's largest economies in 2025

US	$30.6trn
China	$19.4trn
Germany	$5.1trn
Japan	$4.3trn
India	$4.1trn
UK	$4.1trn

Source: IMF, 2025 gross domestic product (GDP) estimate by country

The US stock market has tended to enjoy the year after an election

S&P 500 returns in the year after an election (since 1928)



Source: Bloomberg/Alpine Macro

> **"If Trump wants to win over US voters, it's in his interest to try to ramp up economic activity in the US. Watch out for policies designed to put more money in the pockets of US consumers, perhaps directly (cheques in the post), and maybe drawing on tariff revenue to do so."**
>
> David Absolon, Investment Director

Four re-written chapters

Trump's second stint in the White House has been a riveting, if challenging, read. Let's recap his administration's main actions:

1
Restructuring the US government

- Freezing federal spending, slashing the size of the civil service and imposing spending cuts
- Relying heavily on executive orders to enact policy

2
Sweeping changes to domestic policies

- Aggressive immigration policies, including border wall construction, mass deportations and increased enforcement activities
- Passing the One Big Beautiful Bill Act, which implemented major changes across tax policy, social spending, energy and border security

3
Redrawing international relations

- Withdrawing from international agreements, including the Paris Agreement on climate change, the World Health Organization, and UNESCO
- Implementing new tariffs for most US trading partners
- Attempting to broker ceasefires in various regions, while questioning US defence commitments

4
Courting controversies and legal challenges

- Targeting political opponents and civil society, and floating the idea of running for an unconstitutional third term as president in 2028
- Attempting to influence the politically independent US central bank

The reviews are in: how has Trump done?

To say the least, this unscripted president has kept the US, and the world, on its toes. But, taking an apolitical view, this doesn't appear to have panned out too badly for the US economy – for now at least.

The US economy continues to materially outperform its developed market peers, like the UK, Europe and Japan. Inflation is higher than the central bank would like, but not uncomfortably so. There is some slowing in jobs creation, but not enough to sound alarm bells yet. The US government has a lot of debt, but Trump's aim appears to be to grow the US economy away from trouble.

And despite all the talk of tariffs bringing economic doom to the US and the rest of the world, this has not yet materialised. Indeed, most deals so far have led to materially lower tariffs than originally feared.

Meanwhile, the US stock market – often seen by Trump as a barometer for his own success – has had a positive year, albeit other global stock markets have enjoyed a strong (and at times stronger) 2025 too. In the US, tech firms and artificial intelligence related businesses have led the way higher.

More plot twists ahead, or back to the beaten track?

In the months ahead, Trump and his team will continue to iron out a range of outstanding trade deals. As we write, an agreement with China has allowed for a 12-month reprieve, giving plenty of time for negotiation to secure a more long-lasting deal. A recent rare earth deal with Australia should support the dominant US tech sector, and we'd expect more deals like this in 2026.

At home, whether by infiltration (pushing Trump-friendly candidates into positions of power), or verbal attack, Trump's efforts to control the central bank will stay with us in 2026.

But US politics will be the main plotline to watch. November 2026 will play host to the mid-term elections, when US voters head back to the polls to re-elect their representatives. Given Trump's small current majority in Congress, he will need a strong showing in those elections to keep tight hold of (and, ideally for Trump, increase) his current majorities in order to do more in the last two years of his presidency.

His approach to domestic economic policies will be absolutely critical to this plan. If Trump wants to win over US voters, it's in his interest to try to ramp up economic activity in the US. Watch out for policies designed to put more money in the pockets of US consumers, perhaps directly (cheques in the post), and maybe drawing on tariff revenue to do so. No doubt Trump would really like to enact a few more tax breaks for consumers and businesses to sweeten the deal, but this could be a challenge given US government debt levels and the tax breaks already pushed through in 2025.

What does this mean for financial markets?

In the near term, a turbocharged US economy could be helpful for riskier asset types like shares, as economic growth typically comes hand in hand with good corporate earnings, which push share prices higher.

But there's no such thing as a free lunch, and there are longer-term risks to this approach. Overstimulating an economy that doesn't need the help is a risky step, as it can ramp up inflation, causing havoc for consumers (who are also, lest we forget, voters). A spike in inflation is also a risk to stock market performance, and creates higher government borrowing costs with knock-on effects for bond markets. Meanwhile, for multi asset investors, this scenario could provide another chance for 'alternative' asset types, like gold, to shine.

Within our own multi asset funds, we've previously shifted some of our US (and tech) stock market exposure towards the eurozone, developing economies and Japan. This worked well for us in 2025, but we're ready to move quickly as the US story continues to unfold in 2026 under Trump's second presidency.

03 Spotlight on the UK

Waiting for a rewrite: The UK's pause for direction

The UK accounts for just 2.5% (and falling) of the global economy. Despite its diminutive status, the UK economy has been disproportionately prevalent in news cycles in 2025, for all the wrong reasons. Why is this, and will it continue in 2026?

Let's start with the good news. A trade deal with the US was agreed quickly. The UK Prime Minister acted at high speed to win over President Trump, helping to expedite a trade deal with a range of personalised engagements such as an audience with the royal family. UK-US tariffs were agreed more quickly and at better rates for the UK than for many of its global peers.

Unfortunately, other UK economic news has been less encouraging. Besides the standard blame game of a new government blaming its predecessor for economic issues, alongside various global factors, concern is growing about the course of the UK economy since the new government took office.

"For some ultra wealthy Brits, moving overseas, paying their tax, and spending their money in a newly-adopted country looks increasingly appealing. This phenomenon was last seen in 2009, when Prime Minister Gordon Brown and Chancellor Alistair Darling raised the top rate of income tax to 50%."

David Absolon, Investment Director

The inflation problem

When Prime Minister Starmer first moved into 10 Downing Street, it looked like the UK economy might be emerging from 2022/23's period of low and slightly negative economic growth. Inflation was down to a little over 2.2%. Today, it's closer to 4%. What went wrong?

In the short term, economic momentum has a lot to do with confidence. The new government talked down the economic recovery, and talked up a period of difficulties and tough decisions ahead. There had been signs of recovery in consumer and business confidence levels, but this fell away, with businesses struggling to make decisions amid uncertainty. A higher national minimum wage and public sector pay rises provided a welcome income boost for recipients, but also fanned the flames of UK inflation.

November 2024's increase in employer's national insurance contributions created an unforeseen challenge for UK businesses, and impacted hiring and spending plans. This, too, may have edged inflation higher, given that many of these businesses raised prices to help meet their costs.

Inflation is creating a conundrum for the Bank of England too. In a weak growth environment, the Bank would surely like to cut interest rates in an effort to get the economy moving. But with inflation still higher than the Bank's target of 2%, cutting rates is a bitter pill to swallow for its leading decisionmakers.

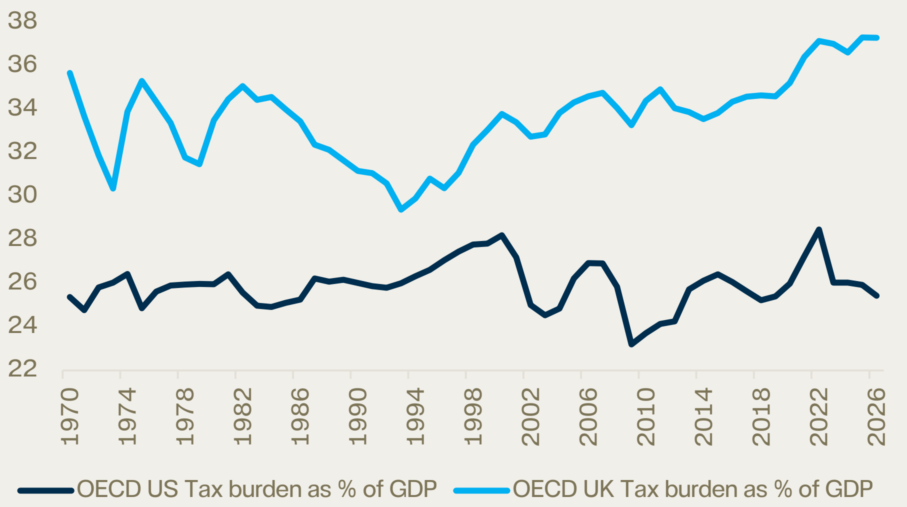
How much tax is too much tax?

In the run up to surely one of the most anticipated Budgets of all time, uncertainty created paralysis in decision making for consumers and businesses in the UK. This in itself is unhealthy for the economy, which needs activity in order to grow. The government has now delivered its Budget, which flagged spending increases over the near term and tax increases designed to kick in over the coming years.

This has taken place amid a building sentiment of 'enough is enough' in some quarters when it comes to the tax burden on the UK consumer. For some ultra wealthy Brits, moving overseas, paying their tax, and spending their money in a newly-adopted country, looks increasingly appealing. This phenomenon was last seen in 2009, when Prime Minister Gordon Brown and Chancellor Alistair Darling raised the top rate of income tax to 50%. (As with all big choices, if this is something you're considering yourself, please do take solid professional advice before making any decisions.)

How much tax is too much tax?

Tax burden on UK versus US consumers as a percentage of GDP



Source: Bloomberg

Whatever comes next, the UK has the potential to disproportionately hog global economic headlines again in 2026.

Where does the story go next?

There are serious challenges ahead for the UK economy. Besides inflation and growth issues, there is a rising possibility of political turnover within the Labour party.

There is an outside chance of Starmer calling an earlier than expected general election to 'clean house' and call the Reform party's bluff, or – perhaps more feasible – of the prime minister and the chancellor being replaced by more left-leaning personnel. Financial markets would be unlikely to enjoy such a turn of events, given already meaningful government spending concerns. Any re-pricing of UK financial assets could have potentially serious consequences for UK government bond markets and the value of sterling.

Whatever comes next, the UK has the potential to disproportionately hog global economic headlines again in 2026.

What does this mean for our investments?

Due to the UK's weaker economic outlook, we continue to believe in a promising outlook for UK government bonds over the longer term, but remain cautious in the near term given the outlook for UK government finances. So, while we maintain healthy position sizes in UK government bonds, we have been reducing the extent of our exposure to these assets. Investors remain very nervous about the UK government spending plans, and if confidence ebbs further, it will impact longer-dated government bonds in particular.

When it comes to shares, despite everything we've said here, our investment funds currently have greater investments in the UK stock market than our long-term average positions. However, our investments are focused on larger UK companies. It's important to note that these ultra-large companies make most of their earnings and revenues beyond UK shores, and are merely domiciled in the UK, meaning that these investments are not a play on the fortunes of the UK domestic economy.

While we're more cautious about the shares of smaller and mid-sized UK companies, we have been adding to our exposure here recently. This might sound counterintuitive, but the simple explanation is that everything has a price: these assets have been very unloved by investors, with a lot of potential future weakness already factored into their valuations. We believe they are now attractively valued, but we're watching developments closely.

04 Alternative asset types

A golden fairytale: What next for the world's ancient safe haven?

From its role as currency in ancient civilizations to its modern-day status as a financial asset, gold has always found a way to shine. Today, gold occupies a strategic position in our multi asset investment funds.

Does it deserve its safe haven status?

Shelter from the storm

Let's start with the obvious: there's no such thing as a risk-free investment. However, unlike stocks or bonds, gold is a tangible asset with no 'default risk'. It isn't issued by a government or business who might neglect to pay back the purchaser (bonds), and it doesn't come with the risk of failure for the underlying business (shares).

There's also a limited supply of gold in the world. Of course, more gold can be mined, but not in such volumes or at such speed that it would drastically change the amount of gold available to investors in the short term. Unless we witness a belated breakthrough in alchemy, it would be hard to flood the gold market.

With this in mind, investors have traditionally looked to gold as a safe place to hide in periods of financial stress or geopolitical tension. Measures of worry in the global economy (such as the Economic Policy Uncertainty Index for the US) have been high in 2025, relative to the previous few years. Meanwhile, figures from the World Gold Council have highlighted the movement of investor capital into gold investments over the same period. In the 10 months to the end of October, $72bn of investor money flowed into 'physically backed' (i.e. real, stored in vaults) gold via publicly traded funds known as ETFs. In 2024, this figure was just $3bn.

Putting a price on gold

Modern-day economics teaches us that we can put a price on a financial asset by predicting the money an investment will generate in the future.

However, gold doesn't pay any dividends to its investors (unlike bonds and some shares). It also costs money to hold on to gold (storage and insurance). How can we put a price on an asset that generates no income, and comes with inbuilt ownership costs?

One of the most popular ways of valuing gold considers its relationship with 'real' interest rates – the rate of interest after deducting the rate of inflation. When real interest rates are low or negative, the opportunity cost, i.e the return you are giving up, of holding gold declines. Therefore this supports higher gold prices as the real return you get from holding government bonds is diminished and therefore is less attractive.

Conversely, when real interest rates rise, newly issued government bonds start to offer higher interest payments, competing with higher rates on cash savings. This makes gold – which offers no interest payments to its investors – look less attractive.

In 2025, real interest rates have been falling, offering support for gold prices.

Can gold shine as the dollar fades?

This perceived relationship with real interest rates has given gold a reputation for being able to preserve its purchasing power over time. To better understand this, we can contrast gold with government-issued currencies like the UK pound, the euro, and the US dollar. These currencies see their purchasing power eroded by inflation over time: we can buy less with a pound today than we could have done ten years ago. Meanwhile, the value of gold has moved higher, seeming to act as a hedge against inflation.

It's also worth taking a closer look at the relationship between gold and one national currency in particular: the US dollar.

In the global marketplace, the price of gold is given in dollars. Historically, this has made the gold price sensitive to US interest rate rises (which tend to strengthen the dollar and weaken the gold price) and US interest rate cuts (which tend to do the opposite).

In more recent history, President Trump's 'America first' policies have combined with US interest rate cuts, giving the dollar one of its weakest years on record. The wider geopolitical implications of White House policies, and worries over high US debt levels, appear to have exacerbated this dollar weakness.

The US currency (often in the form of US government bonds) has been the lynchpin of the global financial system for the past century – firmly established as the world's dominant 'reserve currency', the medium for international trade and the benchmark for global financial asset prices. But its weakness in 2025 has led many investors to switch some of their capital out of dollar-denominated assets and into investments perceived as having a finite supply or fundamental value. Gold is an obvious winner in this trade.

It's not just individual investors or fund managers that are making this decision: central banks around the world have been increasing the proportion of their reserves that are held in gold too. In particular, central banks in developing economies, led by China, appear to have been switching to gold holdings in an effort to reduce their reliance on US government bonds as a 'safe haven' asset. In Europe, the National Bank of Poland has targeted a 30% allocation of gold in its international reserves, purchasing nearly 70 tonnes so far this year.

Does gold play a part in our investment funds?

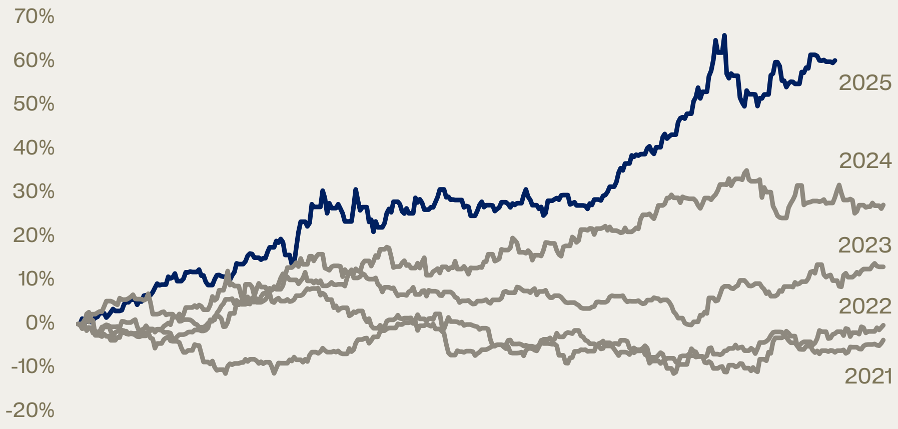
As we write, the price of gold could be on course for its fourth-strongest year of the past century (the other three all occurred in the 1970s).

We have long held gold positions in our multi asset investment funds, with strategic positions in place since 2016. Our gold positions play an important part in diversifying the risks and types of assets at work in our funds. Today, on average, around 4% of capital in our multi asset funds is invested in gold.

> **"Central banks in developing economies, appear to have been switching to gold holdings in an effort to reduce their reliance on US government bonds. In Europe, the National Bank of Poland has targeted a 30% allocation of gold in its international reserves, purchasing nearly 70 tonnes so far this year."**
>
> Tom Griffin, Investment Manager

Going for gold in 2025

Gold Discrete Calendar Year Performance 2021 - 2025 (USD)



Source: Bloomberg

05 Stock market deep dive

Re-writing the code: AI and the tech giants

Artificial intelligence (AI) has skyrocketed in recent years – in its capabilities, its usage in businesses and our everyday lives, and its presence in the public conscience. Given the increasing dominance of AI themes in stock market shares – and not only among companies in the classic tech sector – investors need to be sure of how and where they are choosing to invest in AI developments.

For some investors, AI is the holy grail. For others, including many who remember the dotcom bubble at the turn of the millennium, alarm bells are ringing...

AI is all over the US stock market

The US houses the world's largest, and most influential, stock market. It's also home to most of the tech (and tech-related) giants of the world.

Highs and lows in the US stock market are usually tracked using the S&P 500 Index, which represents the share prices of the 500 largest businesses listed on the US market. Over the past few years, AI-related companies have accounted for a bigger and bigger portion of this market index.

When we say AI-related, we don't just mean computer chip manufacturers or the so-called 'hyperscalers' of the cloud computing world. We're also referring to the companies that create, build and fuel the infrastructure needed for AI to exist and develop, including power and utilities companies.

Around a decade ago, AI-related businesses (by this broader definition) made up around 15% of the S&P 500 Index. As we write, this is edging up towards 45%. In simpler terms, the wider AI-related sphere currently accounts for almost half of the value in the US stock market.

Five reasons to believe this isn't a bubble

Our funds certainly hold positions in the US market, but we're currently holding less than our long-term averages. However, this is simply because we currently see better opportunities elsewhere in the world, rather than being nervous about an 'AI bubble'.

When we look at the US stock market, we're looking at an investment place that is increasingly AI-dominant. The strong rise in the share prices of companies related to AI, as well as the amount that these businesses are spending ('capital expenditure') has set some investors' nerves on edge. This is partly thanks to memories of the infamous 'dotcom' bubble which began in the late 1990s and culminated in March 2000.

The dotcom era saw share prices of businesses in the tech industry shoot up, built on investor excitement about the newly widespread (and growing) adoption of the internet and the worldwide web. When the dotcom bubble burst, early in the new millennium, most of these businesses ceased trading, though some of the survivors – such as Amazon and Google (now under parent company Alphabet) – have since flourished.

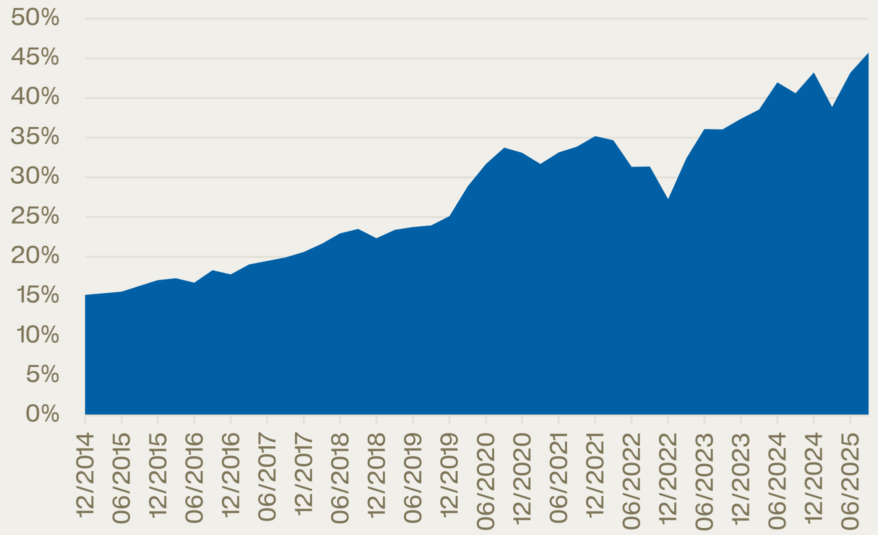
When it comes to financial markets, 'this time it's different' is an extremely dangerous claim to make. But while the focal point of the tech sector, the new advances in technology, and the investor excitement are all features in common between the AI era and the dotcom bubble, there are some stark differences on display among AI-related businesses today versus their dotcom counterparts of the past.

1
They are very profitable

Compared to the rest of the US stock market, the giants of the AI-related era are bringing in a lot of money. When the dotcom bubble burst, it transpired that many of the tech businesses which had seen their share prices soar had burned through the money invested in them, often without ever having brought in much in the way of earnings. In sharp contrast, AI-related businesses have been enjoying very strong company earnings. They also have particularly good operating margins. This means that they make more than enough revenue to cover their core business expenses and spending, with profits to spare.

AI-related companies have become a bigger share of the S&P 500 Index

Combined weight of AI-related companies within the S&P 500 Index



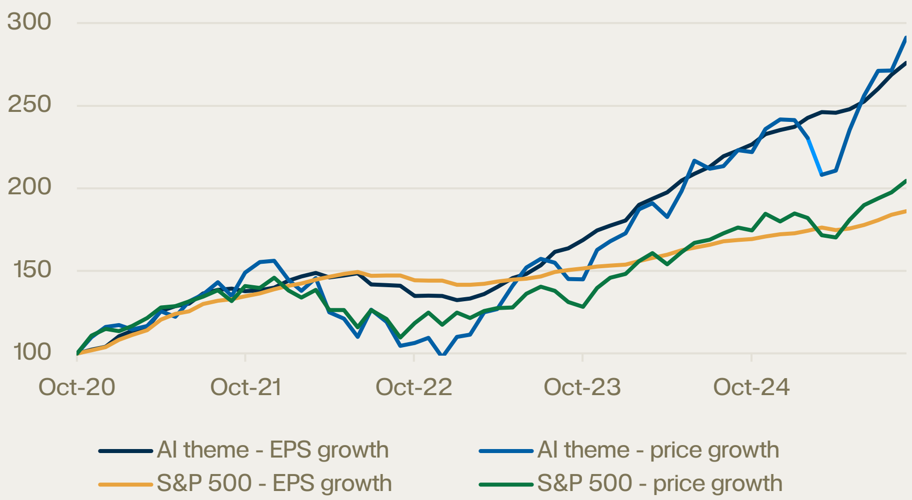
Source: Bloomberg

2
They are increasingly lean and mean

These are operationally very nimble and continually developing businesses. We're even seeing signs that – breaking with the norm – AI-related giants can keep their operating margins (profits after spending and expenses) rising on leaner workforces. For example, businesses like Microsoft, Salesforce and Amazon are currently performing very well operationally whilst also cutting their respective workforces.

Share price gains for AI-related businesses have been driven by strong profits

Growth in earnings per share (EPS) versus share price performance (last five years rebased to 100)



Source: Factset

3
They're spending within their means

AI-related businesses are certainly spending, but they have the means to do so. In the late 1990s, dotcom businesses were spending roughly double the cash they were generating, meaning that they were borrowing investor money to make this possible. Today, the capital expenditure of AI-related businesses, as a percentage of the cash generated by these businesses, is materially lower and (crucially) appears to be within their means. This indicates spending discipline alongside their self-investment.

4
They know investors are watching

Investors are less inclined to offer the benefit of the doubt to tech giants today. While investors have tolerated this more proportionate spending by AI-related businesses, they have already shown these businesses the limits of their lenience. For example, Meta (Facebook's parent company) recently announced its plans to increase its capital expenditure, including big spending on data centres. In doing so, it would be significantly outspending (in percentage and dollar terms) peers like Alphabet (Google's parent company), Microsoft, Apple and Amazon. Indeed, Meta marked itself as the only one of the five that is expected to see a drop in its free cash flow in 2026. Investors punished Meta's share price in response. The message was clear: successful AI hyperscalers do not have carte blanche to spend without share price consequences. There is no doubt that all company boards will have taken note.

5
They're expensive, but not outrageously so

Current share price valuations for AI-related companies are high, but nowhere near the disproportionate prices seen in the dotcom bubble. For example, today, Microsoft's share price is close to 23 times the value of its company earnings per share. This is expensive, but not completely outlandish: in the dotcom era, Microsoft saw its share price grow to 51 times the value of its company earnings per share.

> **"Our house view is that AI-driven momentum has fuelled a stock market that is hot, but not currently overheating. Today's enthusiasm feels more disciplined than in the dotcom era."**
>
> Nikki Kirrage, Investment Manager

Can the AI boom continue?

Unfortunately for investors everywhere, there's no such thing as a crystal ball, meaning it's impossible to predict near-term market moves with any certainty. Share prices are only ever worth the value the market collectively agrees upon, and markets are notoriously fickle.

We can say that AI-related companies have seen a huge boom in their share prices, so whenever the market's confidence wobbles (as it has done in places in 2025), they are in a prime position to take a near-term hit.

Nevertheless, in principle, it is possible to maintain share price growth provided company earnings are maintained through operational excellence. An obvious challenge to this would be a recession, in which we would expect company earnings for most businesses to be impacted, within and beyond AI-related areas of the market. However, we are long-term investors, and we must believe that operationally strong companies would be best placed to weather any given downturn. At the moment, all signs point to solid corporate underpinnings for AI-related stock market giants.

Our house view is that AI-driven momentum has fuelled a stock market that is hot, but not currently overheating. For the reasons we've outlined above, today's enthusiasm feels more disciplined than in the dotcom era.

Of course, we are watching closely for any signs of change, including in AI-related areas of the market. This could encompass an increased reliance on issuing corporate debt rather than solid company earnings. It also includes external factors like the health of the wider US market and changes in the US and global economy.

Where does this leave our investments?

As the dominant force in the global stock market, US shares should be an important part of any multi asset investment portfolio. And with AI making up a significant and growing part of the US marketplace, it stands to reason that we should have some exposure here too. Around half our stock market exposure is currently invested in US shares, slightly less than our long-term average but still resulting in a healthy position in AI-related names.

We are certainly enjoying the momentum in stock markets being led by AI-related businesses, but risk management is always a part of our investment conversations. In this article, we've taken pains to explain our belief in the underlying strength of AI-related names, as we see it today, but we also believe that the US is not the only place to be.

Our investment team is focused on the sectors we believe stand to benefit from a combination of strong corporate underpinnings and some sensitivity to changes in interest rates. Importantly, we also keep an eye out for areas that may have been unduly overlooked by investors.

Presently, this means that while our funds have a healthy exposure to the US, as global investors, we currently see slightly better opportunities elsewhere in the world. Supportive central banks globally (including falling interest rates) should be good news for global economic activity, in turn supporting company earnings in key areas around the world. The current weakness in the US dollar also opens the door for performance in other regions to break through. Besides our regional views on stock markets, we also maintain our conviction in the healthcare and biotech sectors. Insurance (currently unloved by investors) remains another high conviction theme among our stock market investments.

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