

WEEKLY STRATEGY Perspectives



Private Wealth

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Witch Bubble Hunting

"The downtrodden yearned for stories to explain their misfortunes, though what they really wanted was somebody to blame for their misery. It was impossible to set fire to the blight that had ruined your crops, but a blight was easily summoned by a witch, at which point any poor woman would do."

– Stuart Turton, award-winning English author of historical, science fiction and supernatural mystery novels

The Through Line: As the two-month spooky season comes to an end, equity markets remain near-record highs. Once again, investors have shown their ability to ignore folklore when solid fundamental underpinnings are present. Bond prices have also remained rooted in evolving fundamentals (particularly for intermediate to longer maturities) and recovered much of the ground they lost earlier in September. Even so, the media narrative is still fixated on a witch hunt aimed at finding a party spoiler – perhaps because four years of double-digit stock gains seem too magical to believe. This week, we examine the drivers in key market segments, searching for signs of enchanted thinking.

Double, double toil and trouble

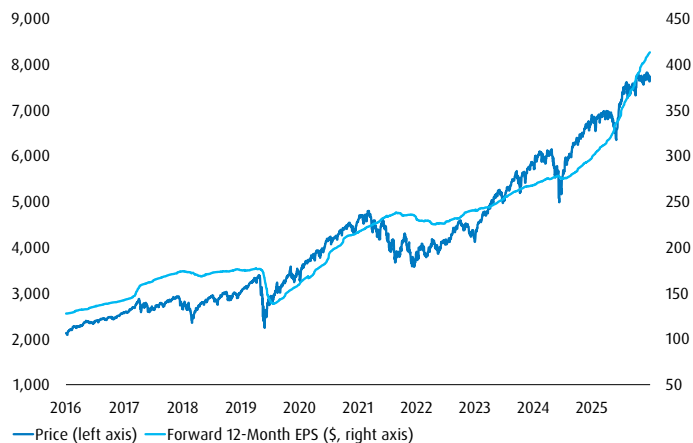
We recently ran across a fascinating article about the new "Witches of Scotland" tartan that has been added to the official Scottish Register of Tartans. The only plaid not dedicated to a family, it was designed to recognize the 173 years that Scotland's "Witchcraft Act" was in place.¹ During this period that began in 1563, thousands were accused of being witches and over 2,500 (mostly women) were subjected to persecution, torture and execution. Often the defendants were healers or midwives who possessed specialized talents that others didn't understand. When neighbors witnessed a particularly bad (or magically wonderful) outcome or event, it was tempting to seek meaning by assuming some other-worldly power must be the cause. In Massachusetts during the Salem witch trials of 1692-1693, more than 200 people were accused of practicing the "devil's magic" and 20 were executed. Thought contagion and fear spread rapidly.

Moral of the story: human nature wires us to be susceptible to stories – especially those that relate to potential outcomes we fear or that seem too good to be true (like four years of double-digit earnings growth despite a constant parade of supply-side shocks). But **activity in primary segments of the capital markets – stocks, bonds, private capital – have solid fundamental foundations that explain their behavior. No witchery to see here.**

Equity markets: fire burn and cauldron bubble

Public equity investors have been looking for signs of impending bubble behavior for many quarters – despite earnings that have repeatedly beaten expectations. Aggregate valuations are lower now than they were at the start of the year because price upmoves have been less robust than earnings increases. This would suggest investors have already discounted a variety of potential spoilers such as a leveling of margins, ongoing sticky inflation and/or moderating consumer spending.

S&P 500 Price vs. Forward 12-Month EPS



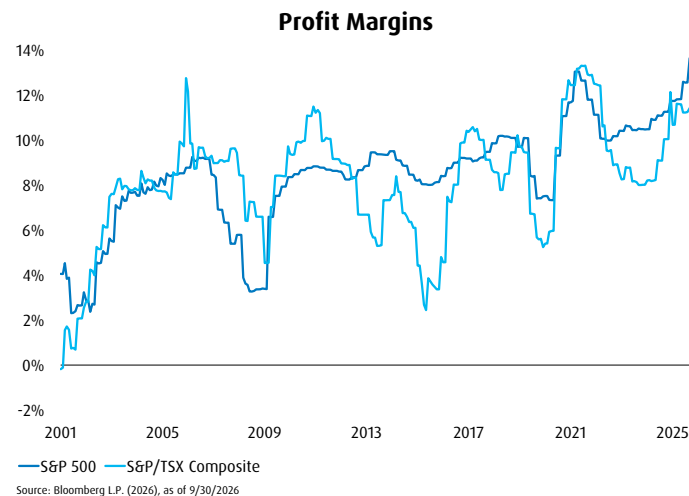
Source: Bloomberg L.P. (2026), as of 10/27/2026

S&P/TSX Composite Price vs. Forward 12-Month EPS



Source: Bloomberg L.P. (2026), as of 10/27/2026

For tech specifically, the valuation contraction has been even larger. Price-to-earnings ratios for key players in the semiconductor and hyperscaler category trade 20% to 30% or more below the average ranges of the past three years. Markets seem to already be pricing the industry for the cyclical it is prone to over the long haul rather than the secular growth story it's arguably still in the early stages of. **Such growth will not be in a straight line and we can expect volatility in business models, players, payers and market performance. But the thematic trend is there and supported by record-setting demand. No bubbly cauldron of exuberance here.**



Aside from the valuation leveling, there has been a lot of rotation under the hood. This has given investors a chance to adjust their mix, rebalance to long-term targets, or shift their risk profile. Case in point: **87% of the S&P 500 Composite Index constituents have suffered pullbacks greater than 15%. Over one-third (36%) have declined 30% or more. The Russell 2000 Index (a proxy for small cap stocks)ⁱⁱ has seen 62% of its members decline by 30% or more. In other words, markets have done a great job of rapid, rolling resets without dragging the entire index down simultaneously.**

The early read on earnings season supports the constructive tone. Although only 48% of S&P companies have released Q3 results, revenue growth is over 12%, which has translated into 26% earnings growth. Notably, all 11 sectors have participated and produced positive top- and bottom-line growth. Companies as diverse as 3M, GE, Hasbro and Coke (notably farther afield than more narrowly AI or AI-adjacent names) have reported results above expectations. Yet, stock prices in aggregate have largely been treading water during report season.

After choppy market action (especially among tech companies), several initial public offerings (IPOs) have been shelved, including one for a subsidiary of South Korean semiconductor company SK Hynix. Yet, the parent company just released results that handily beat estimates and simultaneously announced a \$45 billion cash dividend distribution to shareholders. The company also told analysts it expects the shortages in their key memory chips to last through 2030.ⁱⁱⁱ **In all, the search for bubble-like attributes among public equities seems ill-advised – just like the hunt for witches in the 1600s.**

Bond vigilantes on the prowl

Bond markets are displaying their own brand of discernment; investors are demanding more compensation for holding longer-dated maturities. For months, while yields crept higher, a variety of factors were blamed: sticky inflation; stronger economic growth prospects; profligate politicians ignoring unbalanced sovereign budgets; and crowding out from the billions of dollars' worth of bond issuance demand coming from hyperscalers. Last week, we saw that the hyperscaler demand piece mattered the most as rates declined (despite two hotter-than-expected inflation reports) when AI growth seemed to be in question. This week's trading shows more optimism re the durability of AI growth, prompting yields to migrate up again.

Fixed income investors are demanding more yield for the AI paper deemed riskiest – especially for tranches that are out a few years or more. Then, too, the pricing for credit default swap (CDS, a form of default insurance) on the most highly levered companies advanced along with yields on the lowest/non-rated debt. Higher rates are causing the downsizing or delay of some deals. **Capital is being judiciously allocated to those projects whose metrics pencil out (make sense on paper and are likely to be profitable). This is yet another indicator of a well-functioning market with few bubble-like overtones.**

Is a bubble lurking in AI?

Recent indicators – including a stronger than expected durable goods report just this week – suggest continued progress in the deployment of AI. Last week ([WSP: Reassessing the AI Trade: Beanie Baby or Birkin bag?](#)), we wrote that **the size and speed of adoption is truly historic. Implementation and buildout will assuredly be lumpy versus linear, but the trend genie is out of the bottle and is not going back in.** Now that 40% of large companies are already professing *scaling* agentic AI, and 100% of all companies are at least dabbling^{iv} in it, who is going to stop? Think about it: every business – large or small, public or private – needs an AI strategy. When the dotcom bubble burst in 2001-02, companies did not stop using the internet. Their internet infrastructure and strategies were already built and in flight, a response to the need to stay competitive and innovative in areas such as digital communication, e-commerce, supply chain coordination and global networking.

Are there pockets of supercharged optimism? Perhaps – but, then again, we may ALL be underestimating the sheer size of things to come. Prior to the launch of the iPhone in June 2007, did you imagine even a fraction of the tasks the palm-sized device has made possible?

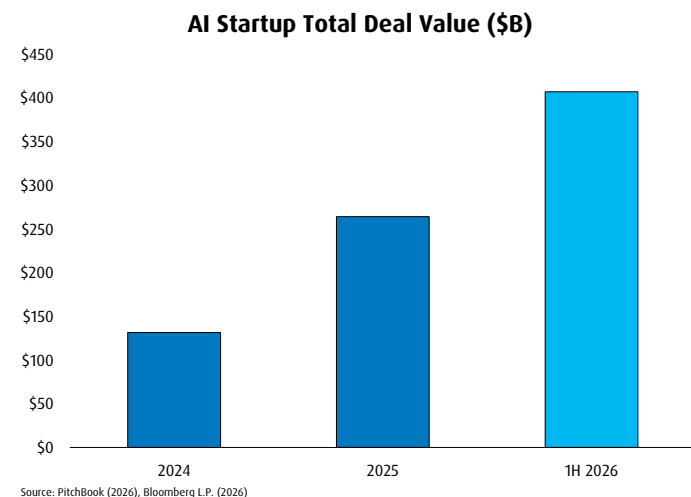
Unlike the dotcom bubble when the infrastructure to facilitate use was not ubiquitous and customers had to be cultivated, today's challenge isn't building customers. The demand is already there – in spades. Today's challenge is honing a business and profitability model (and identifying the competition) both of which can seemingly change from day to day.

The need to spend is obviously huge, given the companies doing the buildout are having to leapfrog decades of underinvestment in the infrastructure required to support demand (and that policymakers largely failed to provide for). Technically, we should all be thankful that the largest businesses boasting substantial financial wherewithal – and nuanced access to self-generated cash flow, equity and debt markets – are willing to undertake/underwrite a big portion of both investment and risk.

The market's resilience was/will be tested by the historically sized IPO of SpaceX earlier this summer, Anthropic in the next few weeks and eventually OpenAI. A handful of smaller offerings have withdrawn their announced IPOs in the face of market volatility and/or other considerations. This behavior shows measured understanding of their context – not blinkered ebullience. Companies that are able to go public will mint scores of new multi-millionaires. **Anthropic alone has seven founders who may each net over a billion dollars; the offering will create more than 4,000 millionaires*. At least some of that cash is likely to be cycled back into markets, other industry ventures or simply the GDP.**

How about those private markets?

The ability to transition from private, venture-backed enterprise to public company has slowed for the last few years following the snap-back pace of the early post-pandemic years. A combination of constraints is likely playing a part including shifting macro policy (headline risk) that is putting a damper on intermediate and long-term business environment predictability and a lack of ready funding sources available to many private companies.



There are compelling reasons to stay private if funding continues to flow. Private companies can avoid the hassle of producing periodic earnings reports and are not subject to the interference of nosy shareholders and analysts. When more companies mature in the private market, they can become so large that eventually going public creates a unique hurdle of its own. Valuations and key performance indicators (KPIs) are also often a bit different in the two spheres. Not unexpected, considering companies are in differing stages of development.

Private capital is helping to iron out issues so companies can develop products, customers, end markets and solid business practices. Investors in the public markets, on the other hand, are looking for touchstones around revenue growth, margins and paths to cash flow and profitability. Public markets do bring advantages for companies: liquidity for founders and key employees; managerial discipline that comes from the process of reporting each quarter; and new currency that companies can use to conduct acquisitions.

Private markets – for both debt and equity – are key components of capital market infrastructure, particularly in the United States. They play an important role by giving customized options to businesses that are unwilling or unable to use bank financing. Private markets are major contributors to the funding and managerial training necessary to help build and wire AI – and a host of other cutting-edge technologies. Like some of those early midwives and healers accused of sorcery, they have specialized skills designed to nurture and grow the next crop of innovative businesses. That, in turn, helps keep our economy growing over the long haul.

Implications for investors

Participants in capital markets remain resilient and adaptable. Stock valuations have not reached bubble levels; fixed income yields reflect a healthy appreciation of and reaction to growth and appropriate levels of indebtedness from borrowers. The pace of the AI buildout may be forced to moderate slightly due to component/input shortages, lack of power, or local area pushback. Nevertheless, the number of customers and demand from end users will continue to grow. Rest assured that the question we'll be asking is which companies – not witch companies – will be the next to prosper.

Next week in North America

For a data nerd (or data dog, as Chicago Fed President Austan Goolsbee calls himself) next week is more exciting than a bottomless plastic pumpkin disgorging full-sized candy bars. On next week's docket are surveys of company leaders in services and manufacturing industries, key employment reports, trade balances and consumer sentiment readings. All this plus an earnings season reaching fever pitch – what's not to love?

Monday 11/2:	U.S. S&P Global Manufacturing PMI, ISM Manufacturing Canada Bloomberg Nanos confidence, S&P Global Manufacturing
Tuesday 11/3:	U.S. midterm elections day, JOLTs surveys, Factory orders, Durable goods Canada none scheduled
Wednesday 11/4:	U.S. ADP employment, Trade balances, S&P Global services PMIs, ISM Services indexes Canada S&P Global services and composite PMI
Thursday 11/5:	U.S. Weekly jobless claims Canada Federal Government budget released
Friday 11/6:	U.S. Nonfarm payrolls, Participation rate, University of Michigan consumer sentiment, consumer credit Canada Unemployment statistics



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Benchmark data does not reflect actual investment performance but reflects benchmark results of the underlying indices referenced. You cannot invest directly in an index.

ⁱ [Witches of Scotland tartan meaning and symbolism — Witches of Scotland](#)

ⁱⁱ **Russell 2000® Index** (Russell 2000®) is an unmanaged index that measures the performance of the smallest 2000 U.S. companies in the Russell 3000® Index.

ⁱⁱⁱ [SK Hynix Profit Jumps Seven-Fold to Soothe Doubts Over AI Rush - Bloomberg](#)

^{iv} [The State of AI: Global Survey 2026 | McKinsey](#)

^v [Anthropic IPO Cap Table: How Much of the Company Its 7 Founders Own - Business Insider](#)