



The Asset Allocators: Pretty bubbles in the air

The experts remain constructive on the outlook for stock markets for now.

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This is the fourth in our new, quarterly asset allocation article, where every three months we ask a panel of experts from the wealth and asset management industry how their portfolios are positioned and where they are seeing buying opportunities for attractive long-term investments.

This month's panel is: Ben Mackie, senior fund manager at Hawksmoor Investment Management, Peter Walls, portfolio manager at Unicorn Asset Management, Rebekah McMillan, associate portfolio manager at Neuberger Berman, and Ryan Paterson, portfolio manager at Schroder Investment Solutions.

A chorus of warnings about the expensive valuations of companies linked to the artificial intelligence theme has seemingly spooked some investors, with the tech-heavy Nasdaq Composite Index effectively flat over the past month after a strong recovery from the tariff-fuelled falls of Liberation Day.

Influential commentators and institutions like JPMorgan Chase CEO Jamie Dimon, Bank of England governor Andrew Bailey and the International Monetary Fund (IMF) have warned of the risk that inflated valuations could spark another bubble. Even former Deputy Prime Minister Nick Clegg had his say, calling AI company valuations “crackers”.

Yet, our asset allocators remain sanguine. Rebekah McMillan from Neuberger Berman said she had been surprised by the resilience of both the global economy and risk assets so far this year, “but we are still constructive on the medium-term outlook for growth from here”, with a broad overweight to global equities despite “extended valuations”.

We've noted previously that Hawksmoor Investment Management has long been wary of valuations of the US mega-cap, growth and technology space, but Ben Mackie said that he would “hesitate to call it a bubble” because many of the businesses are high quality. “Certainly, the picks and shovels AI plays are very profitable businesses,” Mackie said.

He did caution, though, that “there's a huge amount of good news priced into those where stocks are trading at the moment”.

Peter Walls from Unicorn Asset Management highlights some parallels between now and the TMT boom and bust. In particular, he fears that “some of the vast amounts of capital that are being

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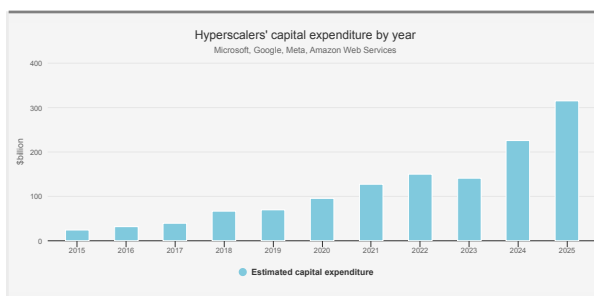
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committed [to AI] at the moment are going to be lost”, while the intra-trading between some of the big AI players to create value is also a worry.

Capex predators

The capex of the AI hyperscalers (those firms providing the physical AI infrastructure, such as cloud services and data centres) and the ultimate return they see on those investments is certainly a big question and was brought up by all our allocators.

Fig.1: Hyperscaling capex



Source: DC Pulse, company reports, Houlihan Lokey

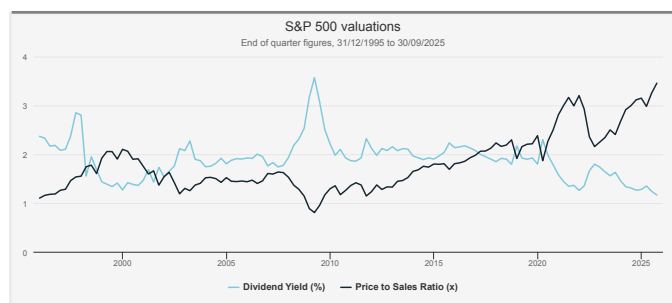


Indeed, Mackie notes that these companies have gone from having capital-light business models to spending huge amounts of money building out their AI capabilities. Two big unknowns remain: who are the ultimate winners and losers, and what will be the ultimate return on these AI investments?

“At the minute, the market is taking the glass-half-full view of that return on investment and that these hyperscalers will be the winners,” Mackie said. “We’re naturally more cautious, and we don’t think that current valuations in that space offer much margin of safety.”

The data points that make Walls uneasy and, hence, underweight US equities, are the S&P 500’s dividend yield of 1.17% (the lowest since early 2000) and its 3x price-to-sales ratio (the highest since records began).

Fig.2: Punchy Valuations



Source: Bloomberg

In addition, the Magnificent Seven accounts for the same proportion of the MSCI World Index as what Orbis Investments dubs the Foreign Five (Japan, the UK, France, Canada and Switzerland), despite the former delivering 10% of the MSCI World’s profits, versus the latter’s 27%.

This means Walls has slightly higher cash levels than normal and isn’t rushing to buy anything. “Rising markets make everyone feel a bit happier, [but] the more they go up, the less happy I feel,” he said, banging the drum for diversification of both investment style and geography. “Markets do have a habit of coming up and biting you when you least expect it. So long as you’re well diversified, you can ride out these storms and not panic.”

McMillan agreed that you should “make sure you’re not all in on the AI bet”, but also suggested remaining constructive on the US market more broadly. McMillan urged investors to “focus on the E [earnings] of the PE [price/earnings ratio]” rather than putting too much store on the P (price), noting that earnings are expected to remain strong going into the fourth-quarter earnings season.

She added that while the capex question remains unanswered and valuations were “toppy”, “the price appreciation has been driven by strong earnings growth, and the capex is being funded by free cashflow”.

Fig.3: Earnings Growth Expected To Continue



Source: Bloomberg

Regional differences of opinion

Regionally, there is divergence between the positions of our allocators. Ryan Paterson from Schroders Investment Solutions is more positive on the US than other regions. Paterson explained: “Our expectations are for stronger corporate earnings going forward, and we’ve seen some quite strong revisions from companies. In the absence of recession, that suggests there could be scope for further gains.”

Elsewhere, Paterson says his team remains fairly neutral on Europe, the UK and Japan, favouring emerging markets, specifically Asia, internationally. “We’ve seen some positive upgrade indicators coming out of those regions, and we think there could be some valuation catch-up,” he said. “Especially in technology, those companies trade on quite steep discounts compared to their US competitors.”

Paterson also noted a moderation in tone towards China, where “valuations are decent and earnings look robust and reliable”. McMillan is neutral on broad emerging markets, but has also become more positive on China, where she sees “broad policy stimulus” both on the fiscal and monetary side and a leadership that’s wedded to maintaining its AI technology leadership. “That has been a good story and valuations still look very attractive,” McMillan said, noting that there’s some caution on the property overhang and potentially more negative tariff-related news.

The others who are underweight US tech are broadly more positive on other regions. Walls points out that pretty much all other markets around the world are good value. “Right now, I think you can build a good case for why capital might continue to be recycled out of the largest market in the world and find its way into all of those other markets,” he said. “The fundamentals are still supportive for markets like Japan, emerging markets and, dare I say it, the UK.”

McMillan still likes the story in Japan, with earnings and share buybacks expected to remain strong, corporate



governance reforms continuing and plenty of room for valuations to re-rate. The view on Europe, though, has moderated. Previously overweight on the Continent, McMillan has been locking in gains made since April thanks to German fiscal stimulus now being priced in, flat expected EPS growth, currency headwinds, and political uncertainty in France. Now, conviction within Europe is concentrated within banks and certain defence names.

There's also an element of more defensive positioning for some. With the current rally being "broad-based" and "a good chunk of that being driven by rerating", Hawksmoor has taken profits from most regions, though two key areas where Mackie is finding value are UK small-caps and Japan.

On the defensive

Incrementally, Hawksmoor has slightly nudged down risk within equities, with the re-addition of Polar Capital Global Insurance, which is "a lower-beta play with reasonably good visibility on the likely returns because, historically, the unit price has tracked book value growth and we've got a pretty good idea of where book value growth should land".

Paterson said that Schroders' teams were starting to look at US healthcare, one area that's been "beaten up" of late thanks to the uncertainty created by the new US administration. "You've seen significant flows out of that sector, but valuations look attractive, earnings growth still looks positive [and it has] both defensive characteristics and growth potential."

Another defensive addition for Hawksmoor has been Primary Health Properties (PHP), which Mackie thought became "really quite cheap" after shares fell post its acquisition of peer Assura. PHP owns and operates a portfolio of GP surgeries. At 7.5%, the dividend yield is attractive, and the fact that rents are predominantly paid by government entities means that it has low counterparty risk.

Hawksmoor has not only been derisking within the equities space, but also within fixed income, thanks to concerns around rising fiscal deficits having the potential to hit longer-dated bond yields. Yields have widened recently, but Mackie worries that a further steepening of the yield curve is possible, so he has been shortening the duration of Hawksmoor's fixed income exposure and moving some cash into short-dated gilts.

McMillan agrees that ballooning fiscal deficits are unlikely to be reined in any time soon, making her cautious on long-dated government bonds, but noted that fears over a large-scale repatriation of capital out of US Treasuries were tested over the summer, with sponsorship of US

government debt proving to be intact, setting a floor on yields. That said, she remains more constructive on non-US developed market bonds, including in Europe, where the ECB is likely to cut more often than markets expect.

Mackie also doesn't think that the spread between the yield available on corporate bonds and government bonds is wide enough to compensate investors for taking on the additional risks that corporate bonds entail. Hence, the rest of Hawksmoor's fixed income exposure is in very high-quality, floating-rate structured credit.

A golden era for profit-taking

In terms of moves within gold allocations, all of our allocators are doing the same thing, and it's the thing that Paterson thinks was to blame for the 5.7% fall in the gold price on 21/10/2025, its biggest one-day fall since 2013: profit-taking.

"Some of this [profit-taking] has been triggered by technical indicators: the RSI was extremely overbought, which can often lead to a pullback or consolidation," Paterson said. He thinks it's a healthy pullback that could provide investors with a buying opportunity, given the powerful tailwinds of central bank buying and still-low ownership of gold from institutions and ETF investors.

Again, Mackie likes gold because it's "the ultimate long-duration asset class that can act as a hedge to a number of different risks, whether that be geopolitical risk, equity risk, inflation risk and the risk around the debasement of fiat currencies".

That means the role that bullion can play in portfolios is more pronounced today, while gold miners become more profitable and report fatter margins as the gold price rises. "[Miners] are prodigiously profitable at the moment [despite the fact that] the ratio of miners to the gold price is near all-time lows."

He also thinks that we are "in the early innings of generalist equity investors starting to look at this space", which should continue as they realise that not owning gold miners will start to have an impact on their relative returns.

That said, Hawksmoor tends to be mechanistic about its gold exposure, as the managers don't want the asset to become too big a driver of either overall returns or overall volatility. As a result, "we've been taking profits all year".

Walls hasn't historically thought of gold as "being a particularly useful asset class", but noted that "at times of uncertainty and fear it can be a multiplier". A lot of his fund's performance this year has been driven by **Golden Prospect Precious Metals (GPM)** and **BlackRock World**



Mining (BRWM), up c. 103% and 34% respectively this year, to 22/10/2025. Walls has been gradually taking profits, as “it’s anyone’s guess where the music stops”.

Outside of gold, Paterson said that Schroders had been debating the investment case around industrial metals such as copper, which has a structural tailwind behind it thanks to its use in AI applications and the global infrastructure build-out we’re expected to see.

Overall, our allocators aren’t buying into the warnings of a bubble that’s imminently going to burst, instead preaching the gospel of diversification and ensuring portfolios aren’t too skewed towards the singular theme of AI.

In terms of the investment trust space, Walls noted that it’s certainly a positive that corporate activity continues apace and discounts have narrowed. Indeed, Walls has had capital returns from various special situations such as Weiss Korea, Apax Global Private Equity and **CQS Natural Resources Growth & Income (CYN)**.

Mackie said that the Hawksmoor Distribution fund has 50% of its assets in investment trusts at the moment, which is much higher than it typically has. “That’s the biggest indicator of our belief that there’s still an amazing opportunity within investment trusts,” Mackie said.



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