

Above the Noise: Perspective on bubble fears

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Key takeaways

Investment in artificial intelligence has been surging, but so have earnings, while valuations, based on price-to-forward earnings, have remained well below the peak of the tech bubble.

Ahead of the midterms, keep in mind that economic growth, earnings, inflation, and Federal Reserve policy have tended to matter more for markets than which party controls Congress.

Higher rates may boost senior loan income, but they've also put added pressure on highly leveraged companies, making selectivity important.

Are we predisposed to see bubbles everywhere?

I think of my grandparents' generation who came of age during the Great Depression and became lifelong savers and long-term skeptics of the stock market. Their formative experience shaped how they invested for decades.

What if the same thing has happened to us?

Many investors today may have been shaped by the technology bubble in 2000 and the housing bubble in 2008. Have those experiences conditioned them to see a bubble whenever investment, enthusiasm, and technological change accelerate together?

Artificial intelligence is a good test. Investment in it has been surging,¹ but so have earnings.² Demand for chips and memory has been straining supply.³ AI model providers have been generating growing revenues,⁴ and we're still early in agentic AI, although swarms of AI agents have been working on our behalf.

Maybe this will one day prove to be a bubble, but to me it's hard to argue that day is today. The market's price-to-forward earnings ratio, a valuation metric, has been essentially unchanged from five years ago, and is roughly one third of what it was at the peak of the tech bubble.⁵

A lot of investment isn't evidence of a bubble. The question is whether that investment has been excessive relative to the opportunity. Is it excessive relative to today's revenues? Debatable. What about the potential addressable market opportunity, the productivity gains AI could produce, and the larger economy those gains could help create? That seems less likely.

Perhaps a greater risk is being so determined not to repeat 2000 that we fail to recognize something genuinely different.

It may be confirmation bias but...

... the spike in Treasury yields this year⁶ was likely not primarily about concerns over the sustainability of US debt, or the bill finally coming due, as Stanley Druckenmiller, Ray Dalio, and any number of other billionaires warned. If that was the story, wouldn't we have expected the rise in yields to include not just higher real yields, but also higher inflation expectations?⁷ After all, if markets were genuinely concerned about debt sustainability, inflation would be one potential path out of the problem.

Instead, more recently, increased investor scrutiny of the AI trade, with CoreWeave as a case in point, has coincided with a rally in US Treasuries.⁸ So much for the debt spiral and the supposed end of US Treasuries as the world's flight-to-quality asset.

Since you asked

Q: Was the spike in borrowing costs for CoreWeave the beginning of the bursting of the AI bubble?

A: No, I don't think so. CoreWeave was a reminder that not all AI is created equal. Its borrowing costs surged⁹ as investors questioned whether a highly leveraged neocloud could generate sufficient returns on its enormous infrastructure investment. The research firm Gartner, Inc. went further, forecasting that more than 80% of neocloud providers could cease operating independently by 2030.¹⁰ Perhaps, but 2030 is a long way away, particularly given how quickly AI has been evolving.

What mattered to us was what didn't happen. Credit spreads, in the investment grade and high yield bond markets, didn't widen significantly.¹¹ It appears that investors weren't demanding anything resembling CoreWeave's protection costs from the hyperscalers, whose diversified businesses may leave them better positioned to finance AI investment.¹² And the S&P 500 finished the week ended October 16 just 2.5% from its record high.¹³

That's hardly a bubble bursting in my view. It's more of a market that appears to have separated the stronger players from the potentially weaker ones, precisely the kind of discipline I think the AI naysayers should applaud.

It's that time again — midterm elections

Midterm elections are upon us. Every two years, investors wonder whether it'll be an election that meaningfully changes the market outlook. History suggests that it rarely is. Economic growth, earnings, inflation, and Federal Reserve (Fed) policy have tended to matter far more than which party controls Congress.

Nor is the most likely outcome likely to be a major surprise. Markets have had plenty of time to contemplate the possibility of divided government. It would make another large fiscal package more difficult, reduce the likelihood that the election would meaningfully change the trajectory of economic growth, inflation, or Fed policy.

History provides some additional perspective. Since 1960, the president's party has lost an average of 22 House seats in midterm elections.¹⁴ Yet the stock market has gained an average of 16% over the following year, with none of those periods delivering a negative return.¹⁵ That may be more coincidence than anything else, but it certainly doesn't suggest something investors should fear.

It was said

– Steve Eisman, investment analyst and portfolio manager

Eisman is best known for calling the housing crisis and profiting from it, a story famously told in Michael Lewis's *The Big Short*. It was fitting that he was asked about the cottage industry of investors trying to become the next Steve Eisman by predicting the next great crisis. His response was a well-placed jab at those perpetually searching for the next disaster.

Eisman acknowledged legitimate concerns about the amount of AI infrastructure being planned relative to the revenues these models may ultimately generate but was humble enough to admit that he doesn't know how it will play out. More importantly, he stressed how little today resembles 2008, particularly given the relative health of the financial system.

I truly believe Eisman has no desire to be the next Steve Eisman. Although, to be fair, it must be great to have Steve Carell play you in a movie.

Phone a friend

We've received a lot of questions about the recent rise in short rates and the implications for the credit market. I reached out to Scott Baskind, Invesco's Head of Global Private Credit. His response:

"Higher rates have increased the income potential of senior loans in my view because of their floating rate structure. But there's another side to that. Higher borrowing costs have put additional pressure on more highly leveraged companies, particularly those whose capital structures were built when rates were much lower. So, we think this is an environment that could reward selectivity. And that selectivity is increasingly important.

We've seen a real divergence between higher quality borrowers and the weaker parts of the market. Stronger companies with durable cash flows and appropriate capital structures have generally held up well, while more leveraged borrowers are feeling the pressure of higher financing costs. The good news is that we don't feel compelled to reach for that additional risk today. We believe senior loans can generate attractive income potential and maintain a bias toward quality, which could be a compelling combination in this environment."

Think/Rethink: Where familiar beliefs meet inconvenient evidence

Think: Investing during a Fed tightening cycle is a bad strategy.

Rethink: Historically, stocks have performed better in the years following hikes than cuts because the Fed typically raised rates when nominal growth and corporate profits were strong.¹⁶

On the road again

A recent trip took me to Villanova, Pennsylvania, where an investment professional challenged me on my optimism around AI, pointing out that asset managers have every incentive to promote the story. "Not necessarily," I said. (I'm sure the Invesco market leader in Villanova would be just as happy if I explained how a high-quality bond portfolio might fit into his clients' portfolios.)

I told him I think about AI across three horizons. First, the near-term buildout. Next, a period of excess and overvaluation, which I believe would eventually unwind. And finally, the longer-term structural growth story, which I believe could transform most facets of the global economy and our lives. Importantly, AI hasn't killed the business cycle, and I have little doubt that the excess will eventually emerge. I just don't

think that moment is now. Until then, I'll stick to my usual knitting and watch the indicators (leverage, inflation expectations, credit spreads, lending standards, etc.) that have historically helped indicate if a cycle may be nearing its end.

Later that evening, he confessed that he wasn't bearish on AI either. He just wanted to see how I'd respond. Hopefully I passed his test. These are the client interactions that keep the job interesting, even well into my third decade of doing it.

Source: US Bureau of Economic Analysis, June 2026, based on nonresidential fixed investment.

Source: Bloomberg L.P., June 2026, based on the earnings per share of the companies of the S&P 500 Index.

Source: Center for Strategic and International Studies, "Beyond the Memory Cycle: AI, HBM, and the New Semiconductor Shortage," Sept. 17, 2026.

Sources: OpenAI, Anthropic, Reuters, Financial Times, Fortune, and company disclosures. Data as reported through 2026. Annualized revenue figures represent revenue run rates and may differ from reported revenue.

Source: Bloomberg L.P., Oct. 20, 2026, based on the price-to-forward earnings of the S&P 500 Index.

Source: Bloomberg L.P., Oct. 20, 2026, based on the 10-year US Treasury rate.

Source: Bloomberg L.P., Oct. 20, 2026, based on the yield on the 10-year US Treasury Inflation-Protected Security and the 10-year US Treasury inflation breakeven.

Source: Bloomberg L.P., Oct. 20, 2026, based on the 10-year US Treasury yield.

Source: Bloomberg L.P., Oct. 20, 2026, based on the yield of 5-year corporate debt issued by CoreWeave. The mention of individual companies is not intended as investment advice.

Source: Gartner, "Gartner Says Over \$3.5 Trillion of AI Infrastructure Spending Could Be Exposed to Impairment by the End of 2030," Oct. 14, 2026. There is no guarantee that forecasts/outlooks will come to pass.

Source: Bloomberg L.P., Oct. 20, 2026, based on the option-adjusted spread of the Bloomberg US Corporate Bond Index and Bloomberg US High Yield Corporate Bond Index.

Source: Bloomberg L.P., Oct. 20, 2026, based on the credit default swap spread on 5-year corporate bonds between hyperscalers such as Alphabet, Amazon, Meta, and Microsoft compared to CoreWeave. A credit default swap (CDS) is a financial derivative that allows an investor to offset or swap their credit risk with that of another investor.

Source: Bloomberg L.P., Oct. 20, 2026, based on the S&P 500 Index.

Sources: US Congress, Invesco, Oct. 2026.

Source: Bloomberg L.P., Oct. 20, 2026, based on the 1-year return of the S&P 500 Index following each midterm election between 1960 and today. Past performance does not guarantee future results.

Source: US Federal Reserve, Bloomberg L.P., Oct. 20, 2026, based on the returns of the S&P 500 Index following Federal Reserve rate cuts and rate hikes.

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Artificial intelligence (AI) technology companies are sensitive to specific risks such as small markets, business cycle changes, economic growth, technological progress, obsolescence, and regulation. These companies may have limited products, markets, resources, or personnel, making their securities more volatile, especially for smaller start-ups. Rapid technological changes can adversely affect their results. AI companies often rely on patents, copyrights, trademarks, and trade secrets to protect their technology, but there's no guarantee these protections will be sufficient. Significant research and development (R&D) spending doesn't ensure product or service success.

The Bloomberg US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes US dollar-denominated securities publicly issued by US and non-US industrial, utility, and financial issuers.

The Bloomberg US Corporate High Yield Bond Index measures the US dollar-denominated, high-yield, fixed-rate corporate bond market.

Cash flow is the net amount of cash and cash equivalents generated by a business.

Credit risk is the risk of default on a debt that may arise from a borrower or issuer of bonds failing to make required payments.

Credit spread is the difference in yield between bonds of similar maturity but with different credit quality.

Earnings per share (EPS) refers to a company's total earnings divided by the number of outstanding shares.

Fixed income investments are subject to the credit risk of the issuer and the effects of changing interest rates. Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa. An issuer may be unable to meet interest and/or principal payments, thereby causing its

instruments to decrease in value and lowering the issuer's credit rating.

Floating rates are interest rates that are allowed to move up and down with the rest of the market or with an index.

High yield bonds, or junk bonds, involve a greater risk of default or price changes due to changes in the issuer's credit quality. The values of junk bonds fluctuate more than those of high-quality bonds and can decline significantly over short time periods.

Hyperscalers are large cloud service providers that can provide services such as computing and storage at enterprise scale.

In general, stock values fluctuate, sometimes widely, in response to activities specific to the company as well as general market, economic, and political conditions.

Inflation is the rate at which the general price level for goods and services is increasing.

Investments focused on a particular industry or sector are subject to greater risk and can be more impacted by market volatility than more diversified investments.

Leverage measures a company's total debt relative to the company's book value.

Many products and services offered in technology-related industries are subject to rapid obsolescence, which may lower the value of the issuers.

Most senior loans are made to corporations with below investment-grade credit ratings and are subject to significant credit, valuation and liquidity risk. The value of the collateral securing a loan may not be sufficient to cover the amount owed, may be found invalid or may be used to pay other outstanding obligations of the borrower under applicable law. There is also the risk that the collateral may be difficult to liquidate, or that a majority of the collateral may be illiquid.

Neocloud is a specialized cloud infrastructure provider dedicated to AI workloads.

Option-adjusted spread (OAS) is the yield spread that must be added to a benchmark yield curve to discount a security's payments to match its market price, using a dynamic pricing model that accounts for embedded options.

References to specific companies aren't buy/sell recommendations.

The S&P 500® Index is an unmanaged index considered representative of the US stock market.

The price-to-forward-earnings ratio (forward P/E) is a stock valuation metric that divides a company's current share price by its estimated future earnings per share (EPS).

The opinions referenced above are those of the author as of Oct. 21, 2026. These comments should not be construed as recommendations, but as an illustration of broader themes. Forward-looking statements are not guarantees of future results. They involve risks, uncertainties, and assumptions; there can be no assurance that actual results will not differ materially from expectations.

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