LeoVest

AIO Quarterly: One step beyond

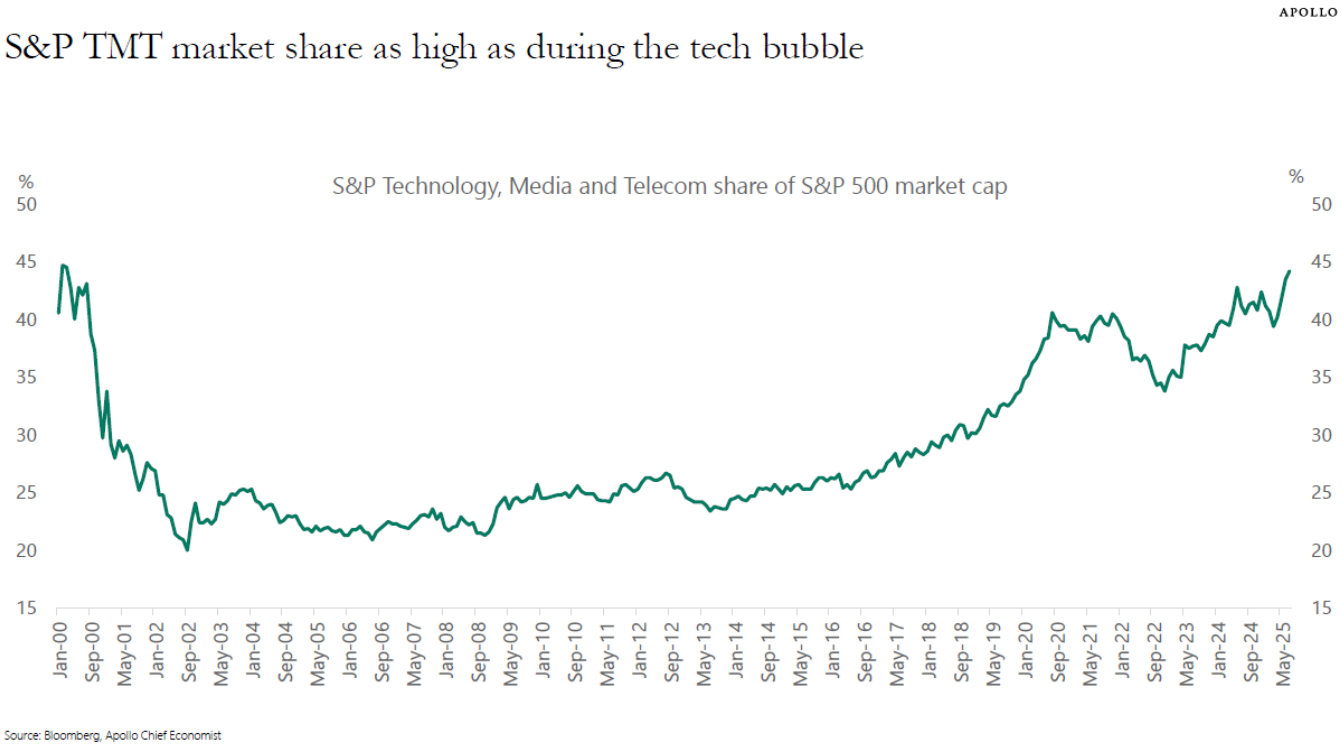
By Peter Ahluwalia

- *Prudence is underrated – markets may be wading into deeper waters*
- *Index highs mask underlying weakness and narrow leadership*
- *Opportunities may lie beyond the US – in Europe and China*

Zurich, 10 October 2025

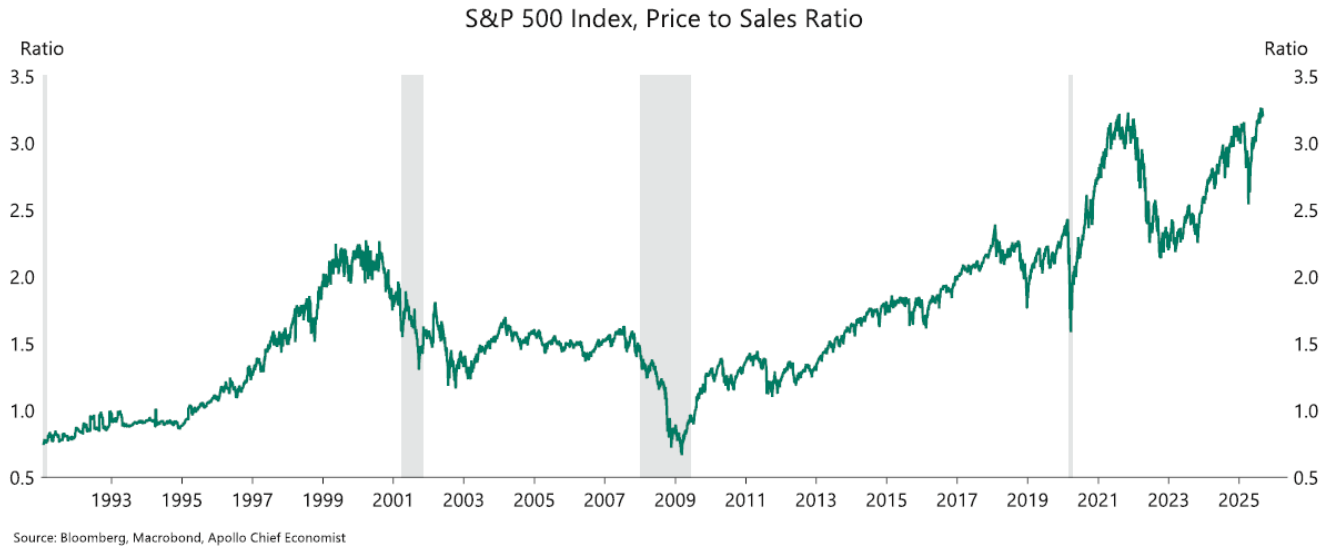
One Step Beyond is the name of a song by pop group Madness and also the title of their debut studio album released in 1979.

"One step beyond" and "madness" could also be two words used to describe the current situation in certain parts of the US stock market.



Source: Bloomberg, Apollo Chief Economist

Price to sales ratio at new highs for the S&P 500

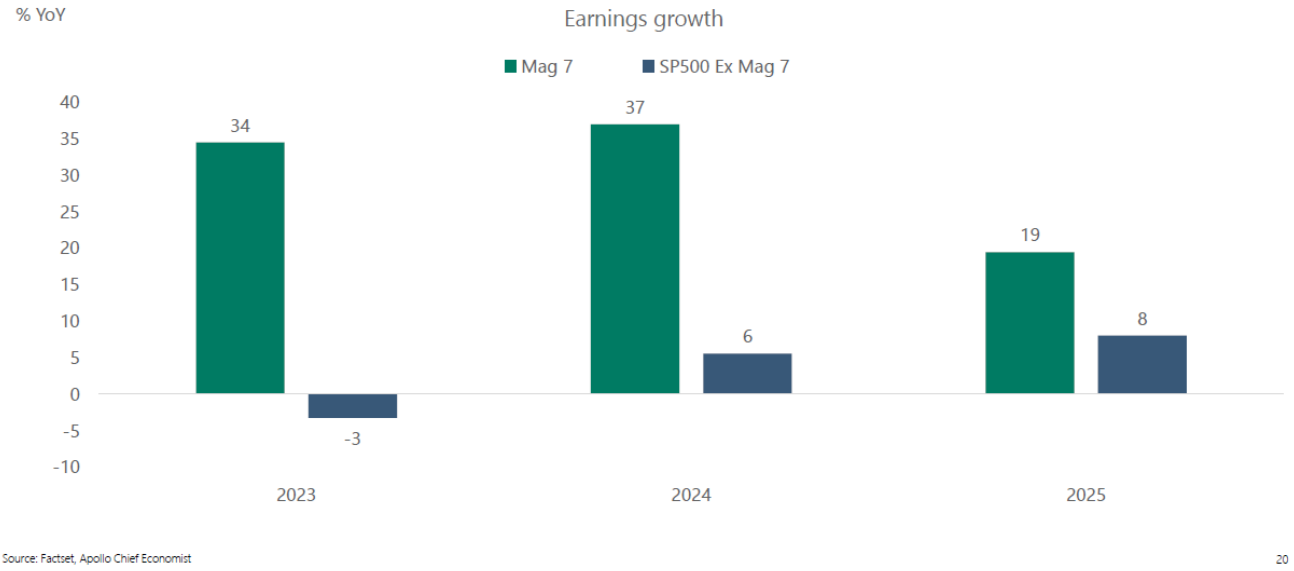


Source: Bloomberg, Macrobond, Apollo Chief Economist

The AI bubble today is bigger than the IT bubble in the 1990s

Note: Data as of February 10th July, 2025. Top 4 and top 10 companies are by market cap. Source: Bloomberg, Apollo Chief Economist.

Earnings growth concentrated in the Magnificent 7 and slowing down



Whilst we have been saying this for some time, markets and investors have not paid attention.

One Step Beyond also neatly ties into my annual Scottish salmon fishing trip to the River Tay, which - besides being one of the biggest and fastest flowing - is also home to the largest rod-caught salmon in the UK.

It was my turn to fish the "Pot Shot," a famed stretch known as a great holding lie for salmon due to its underwater topography of large boulders and rock shelves, which makes wading somewhat tricky.

Following the advice of the ghillie (guide) to wade along the ledge around six feet out (it seems the Scots are not just thrifty with money but also with words), I slung my newly purchased vast net - surely large enough to land any leviathan I might catch - on my back and waded out into the fast-flowing current.

Six feet out, I couldn't find the ledge, so I continued further until I found what seemed like a rise in the riverbed. That must be it, I thought.

As I took the usual two paces downstream after several casts, a few things became apparent:

- It was getting harder and harder to find where the ledge was.
- The water behind me had deepened considerably.
- My net was acting like a parachute in the current, pulling me downstream and throwing me off balance.

There was now significantly more of me below the water than above it. My casting deteriorated rap idly, and frustration set in.

The ghillie soon arrived in a boat and helpfully told me I couldn't wade any further and should return to shore.

I had a moment of panic, confusion, and realisation that I might not make it back to shore, given the water behind me, to the side, and in front was deeper than where I was currently standing.

I waded back sideways, upstream, going back the way I came against the full force of the current, but got to a point where I couldn't figure out where the ledge was anymore.

I would have to go for it!

As I turned fully around and took one step toward the shore, my net caught in the fierce current and my left leg lost its footing.

I frantically reached out with my wading stick and managed to pull myself to shore—hardly getting drenched.

Two valuable lessons were learned:

1. Don't wade with a net on your back.
2. Exercise some prudence.

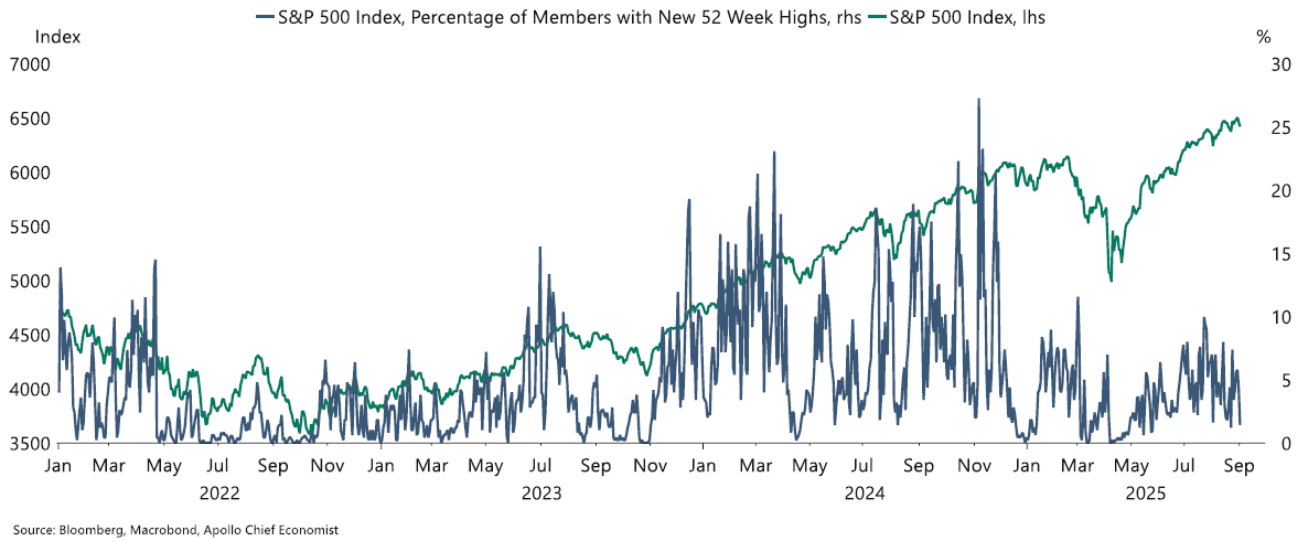
Later at the fishing lodge, the ghillie dryly noted that *even he* wouldn't have waded that far out.

When things get tricky in markets (and at some point, they surely must), will investors panic like a bolting horse and get swept downriver - rather than making it safely to shore?

History has some very telling lessons in this regard. Exercising prudence, whilst not currently fashionable, may prove fortuitous in the future.

Despite record levels set by the S&P 500 index, things are not as they seem beneath the hood. Many stocks are hitting new lows or flatlining, while only a handful are driving the index higher.

S&P 500 reaching new highs while percentage of index members reaching new highs low



Source: Bloomberg, Macrobond, Apollo Chief Economist

Perhaps some of these could be a safe port in stormy conditions.

Or maybe other regions - such as Europe - offer shelter, where investor positioning and valuations remain muted, and which benefit from a more generous fiscal impulse.

China could also prove a safe harbour, given the low rates (around 1%) savers are receiving on deposit, and their risk aversion toward wealth management products and real estate - both of which have recently gone through crises.

Equity participation in local markets may now be the course of action for savers looking to enhance meagre returns.

1929

1929 was an interesting year for markets - Wall Street in particular.
It's also the title of a new book by Andrew Ross Sorkin (*of* Too Big to Fail *fame*). Rather than explaining what happened, the book allows readers to relive the events week by week. I, for one, can't wait to read it upon release this October.

Back then, investors believed the good times could last forever, driven by exciting technological advances: radio, vacuum cleaners, electrification, washing machines, and automobiles.
It fostered so-called "New Era" thinking - where future prospects were so bright that valuations no longer mattered.

Despite how infamous the year 1929 is, what followed was actually a relentless unwind, marked by vicious rebounds, that ultimately saw the Dow lose 80% of its peak by 1932.

But perhaps it's time to shift focus to less unpleasant things - like the weather, which to us seems cloudier than normal.

The economic signals from the US economy also seem more opaque than usual.

While the recent interest rate cut by the FOMC was briefly celebrated by markets, the rationale - slowing job creation - could stem from many factors other than economic weakness.

Could anaemic job creation be attributed to immigration curbs, CEOs' uncertainty over tariffs (causing them to pause hiring), or the realisation that it may be more lucrative to play the stock market rather than work a job?

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