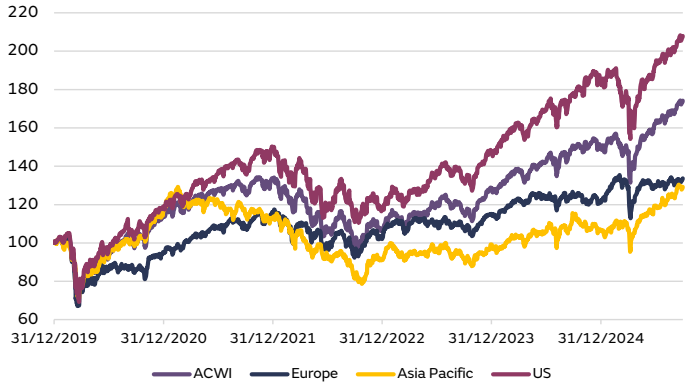
GiB ASSET MANAGEMENT

Exuberant concentration

By Gregga J Baxter

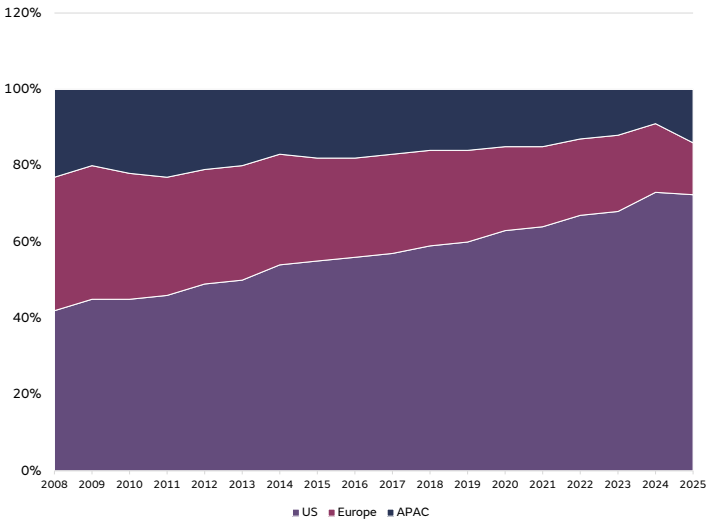
Since the beginning of COVID (January 2020) global markets have rallied strongly. The MSCI All Country World Index (ACWI) is up over 74%, or 10.12% pa through September 2025. This growth has been relatively relentless with up quarters (15) almost double down quarters (8). The growth is impressive against a backdrop of global GDP growth over the same period of 17% or 2.6% pa. This performance has been led by the **US equity markets which are up over 100%**, or 13.5% pa, over the same period.

Chart 1[1]: Equity Performance: US vs Global Regions (2020–2025)



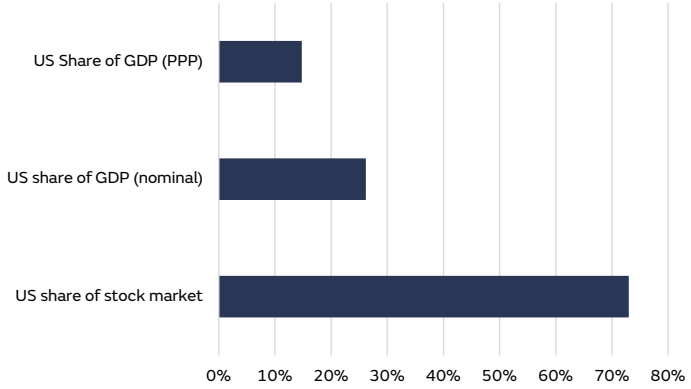
The effect of this dominant US equity performance over the past several years means that global investors have become increasingly concentrated in the US.

Chart 2[1]: Market Cap % of developed world



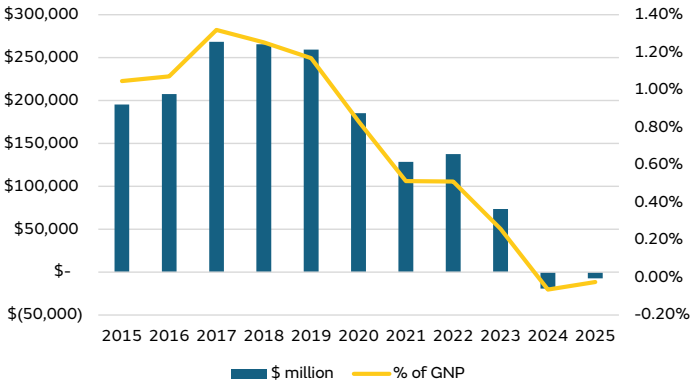
This increasing **US share of the global equity market is not based in economic reality.** While developed world US equity exposure has grown from around 42% in 2018 to 73%, a 72% increase, the US share of global GDP has risen by only 14% over the same period. We find ourselves in 2025 where the concentration in the US is significantly overweight its share of the global economy, on both a nominal and PPP (purchasing power parity) basis.

Chart 3[2]: US Equity market overweight relative to GDP



This delinking of equity exposure from economic reality is especially stark when we consider the fact that the US is now running a net investment income deficit for the first time. **The era of US "exorbitant privilege" is behind us.**

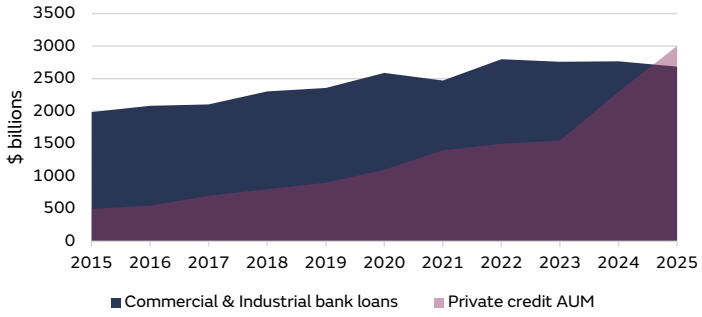
Chart 4[3]: US net investment income



At the same time the **US financial system is being turned on its head** with the growth of non-bank financing. While there are pros and cons to the private credit market, all agree that it lacks transparency and regulation and therefore makes risk forecasting all but impossible.

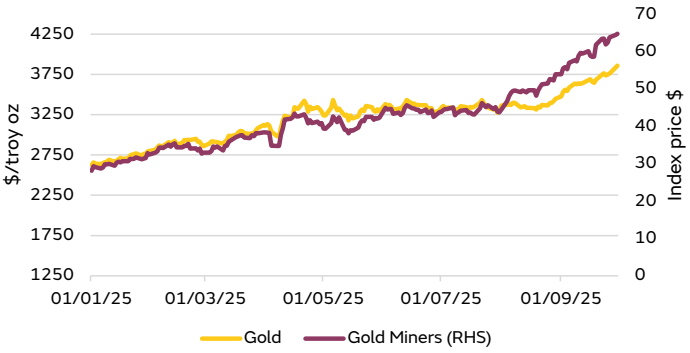
[1]MSCI, GIB Asset Management
[2]World Bank, GIB Asset Management
[3]FRED

Chart 5[4]: Commercial and Industrial bank loans vs Private credit AUM



It is clear, to us at least, that central banks and other global reserve asset owners have responded to this state of affairs by directing allocations away from US equities and away from the US dollar. Gold is at an all time high for a reason and the operating leverage of gold miners has driven their price performance even higher.

Chart 6[5]: Gold and Gold miners - price trends in 2025



At the same time the US dollar has continued to weaken despite US rates remaining persistently high relative to others.

Chart 7[5]: Currency - value of USD Jan 1=100

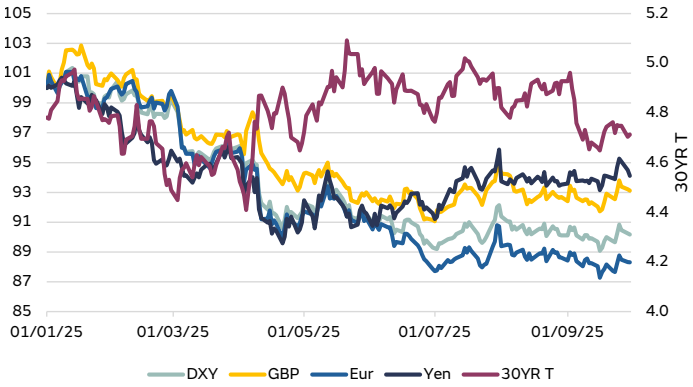
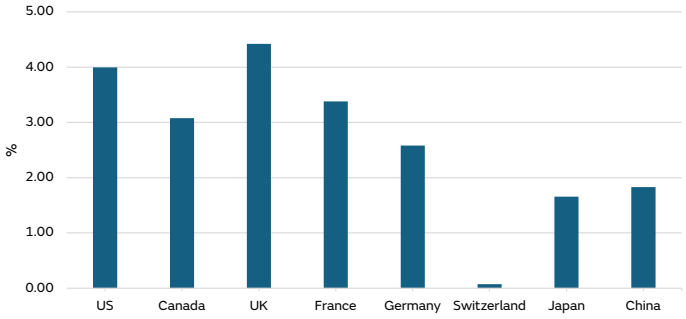
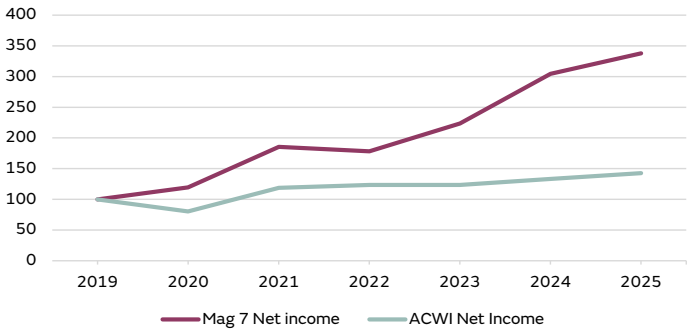


Chart 8[5]: 10 year rates



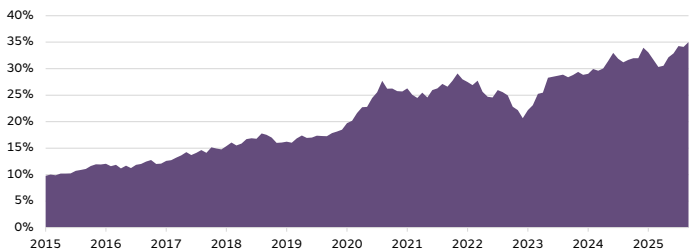
It is safe to assume that the love affair for US equities is not reflective of a macro perspective. Indeed, it is overwhelmingly driven by private investor appetite for a handful of securities. This appetite is personified by silly acronyms: the Magnificent Seven (Apple, Microsoft, Amazon, Alphabet, Tesla, Nvidia and Meta) or BATMMAAN stocks – Broadcom, Amazon.com Inc. (AMZN), Tesla Inc. (TSLA), Microsoft Corp. (MSFT), Meta Platforms Inc. (META), Apple Inc. (AAPL), Alphabet Inc. (GOOGL) and Nvidia Corp. Both movies share the theme of violence to protect society, hardly a coherent way to construct an investment portfolio. But both the Magnificent Seven and BATMMAAN win in the end and the earnings performance of this tiny cohort does merit serious allocation attention.

Chart 9[6]: Net income growth 2019=100



But does serious attention mean an over threefold allocation increase within US equities over 10 years?

Chart 10[6]: Mag 7% of US market cap (S&P 500)



[4]FRED, Pregin, GIB Asset Management
[5]Bloomberg, GIB Asset Management
Views, opinions, statements, forecasts and projections are as of date and subject to change without prior notice. There is no guarantee they will be met.

This focus on a handful of tech giants gives rise to serious technology concentration risk as well as higher volatility and higher exposure to more expensive stocks.

Chart 11[7]: Global equity sector exposure 2020-2024

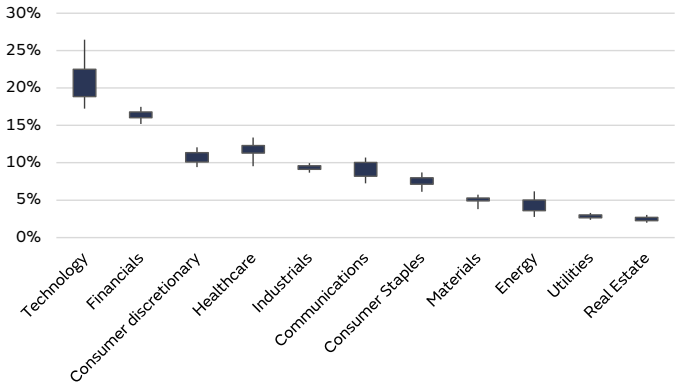


Chart 12[7]: Mag 7 volatility

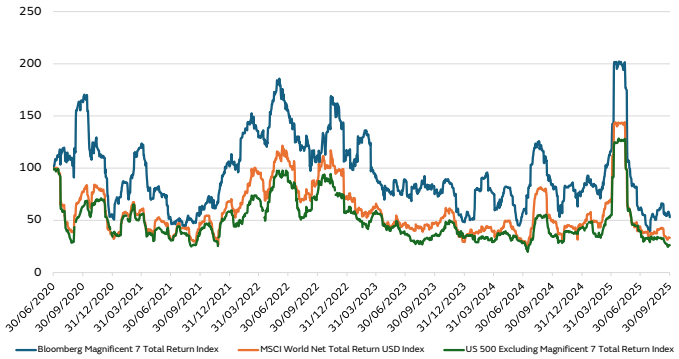
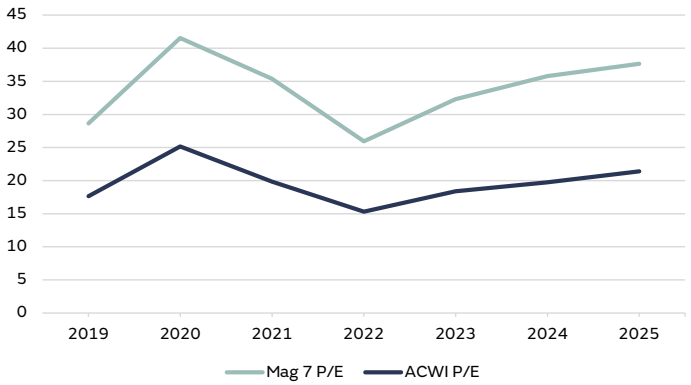


Chart 13[7]: P/E ratios



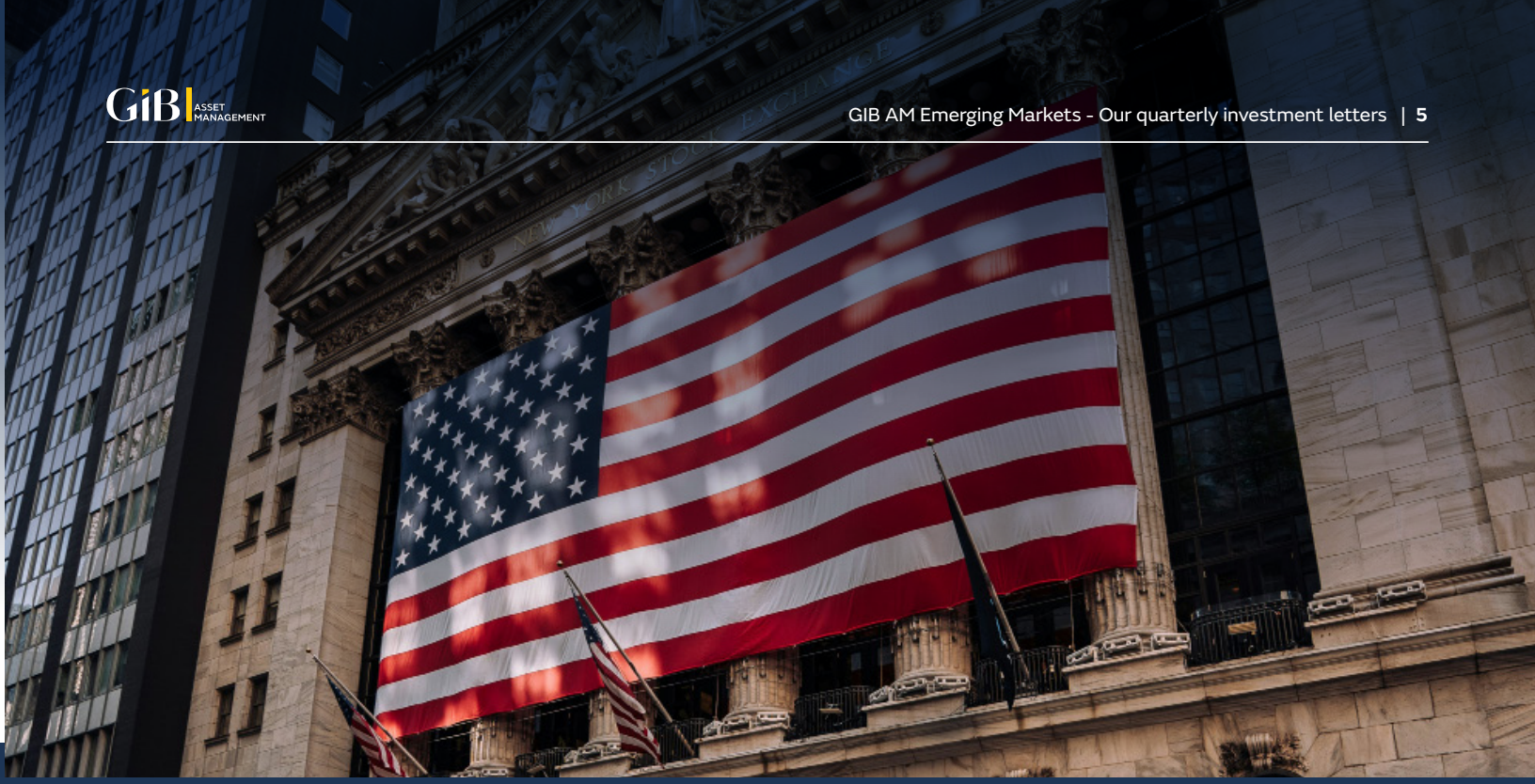
This exuberance really kicked off with AI day, 30th November 2022, when Chat GPT had its initial release. Since that day US markets pivoted away from value, such that US growth stocks have left US value stocks in their wake ever since.

Chart 14[8]: Growth vs value

We have no doubt that AI will be transformative, particularly in those industries with iterative processes such as pharmaceuticals and robotics. The AI winners and losers however are yet to be determined and thus AI as an equity valuation factor is still somewhat speculative. **The noise of AI has largely drowned out much larger sectors.** For example, corporate spending on AI reached $252 billion in 2024 (source: Stanford University) but this is a pittance relative to the $2 trillion invested in clean energy technologies and infrastructure (source: International Energy Agency). Perhaps more notably, clean energy investment is now nearly double that of fossil fuels demonstrating that the energy transition is now an unstoppable force.

At GIB Asset Management we like enthusiasm but caution against exuberant concentration which pushes investment portfolios beyond their long-term objectives.

[6]Bloomberg, GIB Asset Management
[7]Bloomberg, MSCI, GIB Asset Management
[8]Morgan Stanley, Bloomberg



This document is not for distribution to retail clients and is directed exclusively at GIB Asset Management's professional clients, institutional clients and/or Qualified Persons. This document has been prepared by Gulf International Bank (UK) Limited ("GIB (UK)"), trading as GIB Asset Management for discussion purposes only with the intended recipient. GIB UK is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority and PRA. GIB UK is registered as an Investment Adviser with the Securities and Exchange Commission in the United States. The document shows market commentary and does not constitute investment research.

This document is provided for information purposes and is intended for your use only and does not constitute an invitation or offer to subscribe for or purchase any of the products or services mentioned. The information provided is not intended to provide a sufficient basis on which to make an investment decision and is not a personal recommendation. The portfolio will exclude stocks with revenue derived from prohibited activities, e.g. alcohol production or controversial weapons. It will also exclude based on international standards, such as UN Global Compact or any environmental, social, and governance controversies, e.g. an oil spill or data privacy scandal of a company. Exclusions can be tailored to meet the needs of our clients.

Observations and views of GIB UK may change at any time without notice. Information and opinions presented in this document have been obtained or derived from sources believed by GIB UK to be reliable, but GIB UK makes no representation as to their accuracy or completeness. GIB UK accepts no liability for loss arising from the use of this document. Moreover, any investment or service to which this document may relate will not be made available by GIB UK to retail customers.

The price and value of investments mentioned and any income that might accrue could fall or rise or fluctuate. Past performance is not a guide to future performance. If an investment is denominated in a currency other than your base currency, changes in the rate of exchange may have an adverse effect on value, price or income. Nothing in any document constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to individual circumstances, or otherwise constitutes a personal recommendation to any specific investor unless clearly stated.The registered address of GIB UK is First Floor, One Curzon Street, W1J 5HD.

Contact

info@gibam.com

T: +44 (0) 20 7259 3456

Follow us:

Strategy performance. The hypothetical strategy results are based on the following assumptions: The strategy does not include deductions for brokerage commissions, fees or other charges. The simulation assumes that prices are not influenced by the hypothetical trades. The simulation assumes that purchase and sale prices are believed to be attainable. In actual trading, the prices attained may or may not be the same as the assumed orders. The strategy results do not take into account any tax implications arising from the sale or purchase of securities, which otherwise may have an impact on the gains and losses presented.