

MONTHLY NEWSLETTER

MIRABAUD WEALTH MANAGEMENT



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INTERNATIONAL

I GROW IN SILENCE, UNSEEN BY EYES; WHEN I BURST, ALL SWEAR THEY RECOGNIZED MY RISE.

A bubble is a market phenomenon where asset prices rapidly rise above their intrinsic value. The first part of the definition is quite simple to assess : we can easily see if asset prices rose rapidly or not – even though we could argue on what rapidly means, in years, months or weeks.

However, assessing if an asset trades above its intrinsic value is a more difficult task. This is why bubbles are a normal phenomenon in market cycles: we know they sometimes happen, but very few are able to identify when they happen – and among those few, many

swear they see a bubble, when in fact the bubble ends up never materializing.

In the history of financial markets, many bubbles have been identified (always ex-post) : the Tulip Mania in Holland (1630s), the Railway Bubble in the UK (1840s), the Japanese asset prices Bubble (1980s), the Dot-Com Bubble (1990s) and the Housing Bubble in the US (2007). The infamous Dot-Com bubble is perhaps the one we could most easily compare with today's markets. As bears often say : History does not always repeat, but often rhymes.

Indeed, many market participants are starting to raise their voices to warn about a potential bubble in equity markets because of the AI euphoria we are currently witnessing. Retail investors tried to inform themselves during the summer, where, according to Deutsche Bank, "AI Bubble" searches peaked before plummeting again to normal levels. For now, investors seem to keep the bubble hypothesis in mind, but are less keen to search the web regarding this topic. This month, again, equities

rallied with the S&P 500 rising 2.34% driving the YTD performance of the index to around 17.5%. If we compare it to April's lows, it is even more impressive as the index has risen more than 40% in the past 7 months. Coming back to the definition of the bubble, we can fairly say that the first part is verified: asset prices rose rapidly. However, can we really say that financial markets are currently in a bubble environment?

Performance of the main financial indices since 2021:

	Oct.	Oct. \$	2025	2025 \$	2024	2024 \$	2023	2023 \$	2022	2022 \$	2021	2021 \$
S&P 500	2.34		17.5		25.0		26.3		-18.1		28.7	28.7
Stoxx 50	2.54	0.51	19.1	32.6	11.9	4.7	23.2	27.3	-8.5	-14.0	24.1	24.1
MSCI EM	4.19		33.6		8.0		10.1		-19.9		-2.3	-2.3
SMI	1.03	-0.15	8.8	22.5	7.5	-0.3	7.1	17.6	-14.3	-15.0	23.7	19.5
Euro - USD	-1.68		11.4		-6.2		3.1		-5.8		-6.9	
US Dollar Index	2.08		-8.0		7.1		-2.1		8.2		6.4	
Gold Spot - USD	3.73		52.5		27.2		13.1		-0.3		-3.6	
CHF - USD	-1.01		12.8		-7.3		9.9		-1.3		-3.0	
Bitcoin	-4.55		16.8		120.5		157.0		-64.3		59.8	
Global Aggregate	-0.25		7.6		-1.7		5.7		-16.2		-4.7	
US Aggregate	0.62		6.8		1.3		5.5		-13.0		-1.5	
US Treasury	0.62		6.0		0.6		4.1		-12.5		-2.3	
US T Bills	0.36		3.6		5.3		5.1		1.3		0.0	
Global High Yield	0.69		10.4		9.2		14.0		-12.7		1.0	
Euro Aggregate	0.81	0.34	1.8		2.6	-2.7	7.2	11.0	-17.2	-22.0	-2.9	-9.6

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The definition mentions the intrinsic value of assets, thus we must speak about valuations. It is quite fair to say that valuations are above historical norms, especially for tech companies. The average 12-months forward P/E of the S&P500 is currently around 25, whilst the average of the last 15 years stands around 18.5. If we focus on the five largest companies, symbols of the AI euphoria in financial markets, the average 12-months forward P/E is now trading around 29.

With these numbers in mind, we can objectively consider the market as expensive, but how expensive is a market in a bubble period? In March 2000, at the peak of the Dot-Com bubble, the five largest companies of the time were trading at a 12-months forward P/E of 40, 38% above the current ratio. Moreover, the PEG ratio, which accounts for growth expectations, is currently half as high as it was in March 2000 for the Top 5 of the S&P500. Therefore, we still have room to go before reaching these bubble-like valuations.

Historically, bubble markets are characterized by high concentration within the indices. Looking from this angle, the situation appears to be

worrisome. Indeed, the top five US tech stocks' value is currently higher than the combined value of the Eurostoxx 50, the UK, Indian, Japanese and Canadian equity markets, i.e. 16% of the global public equity market. The top 10 US stocks represents \$25 trillion in market cap, out of a \$100 trillion global market. Nonetheless, these mega-caps have been, until now, the big winners of the AI revolution, not only in price terms, but also in earnings terms.

Growth expectations started to increase in November 2022, with the release of Chat-GPT, which allowed the rally to start, but published earnings by this top 10 eventually confirmed these high expectations. Nvidia, for instance, saw its market price increase by 13 times since 2022, but its earnings, that usually surprise on the upside, actually increased by 11 times throughout the same period - the rise in price looks somewhat justified from this angle. The fact that earnings met the high expectations the market already had for AI marks a clear difference from the Dot-Com bubble. At the time, earnings expectations rose very quickly, but companies eventually disappointed when it came to the reality of their earnings.

In recent weeks, big tech companies, public as well as private, announced quite curious deals. On the equity side, some companies are investing in others as long as the latter buys products from the former: this appears somewhat circular in nature. For example, AMD announced that it would power Open AI's infrastructure via a 6-gigawatt deployment against issuing a warrant for up to \$160 million of its common stock.

This kind of deal is starting to pop up because companies are increasing their capital expenditures (capex) to gain competitive advantage. The tech giants also started to issue more debt to finance this AI race: Meta just raised \$30 billion in bonds on October 30th. The social network company also engaged in an off-balance sheet debt of an additional \$30 billion and it is not the first one to do so.

This raises some questions regarding the way tech companies finance their AI-related capex. In Meta's case, investors' reaction was reassuring: they ignored the AI race as the stock lost 11% after the announcement of in-line earnings but coupled with extremely high capex forecasts.

It is clear that these ways of financing AI-related investments might not be seen with good eyes should it become more widespread.

However, for now, they remain the exception and it is important to underline the incredible quality of the top 10 companies' balance sheets. Most of them, if not all, have tremendous amounts of cash that they have compiled by generating consistently increasing free cash flows in the last 10 years. Despite circular-looking deals and huge debt issuance (sometimes even off-balance sheet), they remain extremely well capitalized. This is not exactly a tulip bubble.

For all these reasons, we believe that the equity markets are currently not in a bubble. We could argue that some specific sectors, like quantum computing for example, that are still generating little revenue and far from profitable are trading purely at future expectations that resemble sheer speculation, but this is certainly not the case for the overall market.

Some skeptics could say that the Magnificent Seven are expensive and that negative news could trigger a correction, but we continue to expect growth in earnings among tech companies as they continue to invest in the AI race. This is why, this month, we decided to remain overweight in US technology companies and to maintain our Disruptive Technology basket.

On the fixed income side, we decided to increase hard-currency short-term emerging markets debt within defensive profiles. Finally, as mentioned in our previous newsletter, we decided to initiate a 1% exposure to Bitcoin within the more aggressive profiles.



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BRAZIL

SISYPHUS AND THE BRAZILIAN STOCK EXCHANGE

In Greek mythology, Sisyphus was a king renowned for his cunning who boldly dared to deceive the gods on several occasions, even cheating death itself twice.

For his audacity, Sisyphus, upon his death, was condemned by Zeus to the eternal punishment of pushing a huge marble stone to the top of a mountain, only to see it roll down the mountain every time he approached the summit, forcing him to restart the whole task in a cycle that repeats indefinitely.

The story of Sisyphus is an archetypal trope of hard, repetitive work, often without practical results, which we experience all the time in our daily lives. It is an allegory about fighting for something and believing in it, only to see your work lost and wasted in the end, having to start all over again.

With the hope of a Sisyphus at the foot of the mountain, Brazilian stock investors are experiencing the revived joy of seeing the market rise and reach new highs, in anticipation

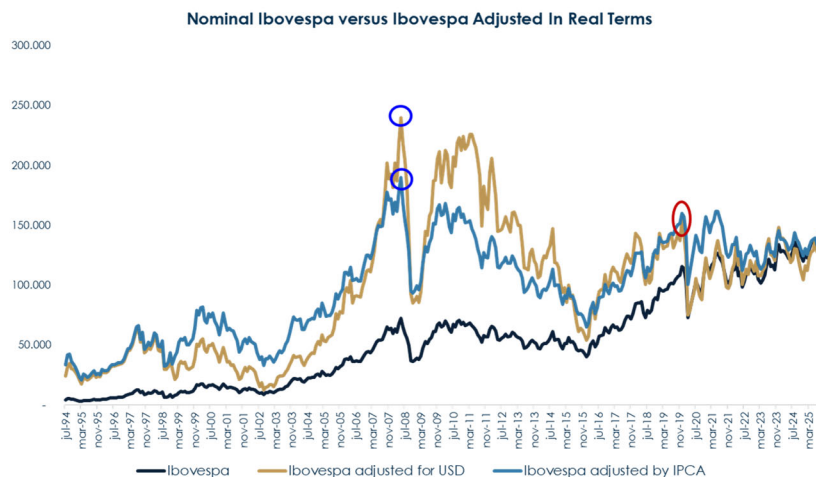
of the Selic rate cycle that will sooner or later come.

It is understandable that, given the powerful rally observed in international stock markets over the last 24 months, after the inflation shock of 2022 was overcome, investors feel that the local market is 'lagging behind,' thus generating high expectations about the return to be 'unlocked' with the onset of monetary easing.

However, a more in-depth analysis, using prices adjusted for inflation, shows that, although recent developments are very auspicious, the market is still far from a peak in real terms, considering the currency's purchasing power.

The chart below shows the nominal Ibovespa and its comparison with the index adjusted in real terms both by

the exchange rate of the Real against the Dollar and by national inflation, measured by the IPCA.



Source: Bloomberg

The graph shows that Ibovespa's peak in the pre-pandemic period, when adjusted for the dollar and the IPCA (red circle), was 154,272 points and 159,963 points, respectively. The Ibovespa closed in October at 149,540 points, still below the previous highs in real terms, but certainly on the verge of surpassing them.

Although the above analysis has the simple objective of qualifying recent highs, elucidating the role of the exchange rate and inflation as agents causing erosion of the real value of the currency over time, we cannot deny that the Brazilian stock market is currently performing well and that new highs will certainly come.

On the other hand, the absolute highs of the Ibovespa ('all-time high,' in blue circles), reached in May 2008, when adjusted for the dollar and the IPCA, are 239,890 points and 190,087 points, respectively, that is, still quite far from the recent records achieved by the nominal Ibovespa.

In fact, we are not oblivious to the positive effects that the coming cycle of Selic rate cuts is likely to have, and therefore our portfolio allocation strategy already contemplates increases in the allocation to equities, in order to capture part of the value that will be unlocked by the fall in interest rates.

« JUST LIKE IN THE MYTH OF SISYPHUS, OUR MARKET CLIMBS UPHILL WHEN CONDITIONS ARE MINIMALLY FAVOURABLE (...), BUT ROLLS DOWNHILL WHENEVER REALITY IMPOSES ITSELF... »

Crowding Out

In economics, crowding out refers to the phenomenon whereby excessive government spending causes a reduction in private investment. This phenomenon is a natural consequence of the increased need for public sector financing, leading to competition for economic resources with the private sector.

Crowding out is the specific reason why the Brazilian stock market has lagged behind international markets in terms of price appreciation.

Brazil's high public deficit, the government's abandonment of its spending framework in April 2024, and the multiple recent rounds of tax increases have had the deleterious effect of keeping inflation far from the target, with a severe impact on basic interest rates, which had to be raised by 425 basis points between September 2024 and June 2025, stifling companies' profit growth capacity.

Just like in the Myth of Sisyphus, our market climbs uphill when conditions are minimally favourable, especially with cycles of Selic interest rate cuts, but rolls downhill whenever reality imposes itself, in the form of inexorable growth in public spending, with the usual dire consequences: increased tax burden, increased public debt, increased structural inflation in the economy and, ultimately, increased basic interest rates in the country.

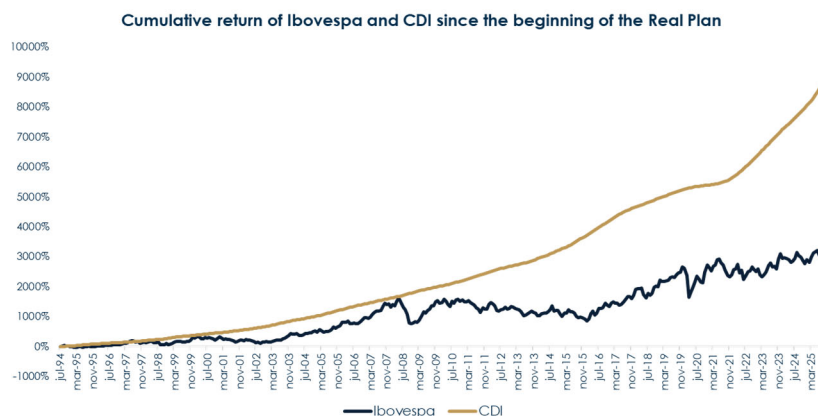
The current situation on the Brazilian stock market reflects two factors in particular that are creating a very favourable dynamic for prices: in addition to the fall in the Selic rate, there has also been a reduction in the number of shares traded on B3, following the wave of delistings of listed companies that has been occurring since last year.

As a result, the increased risk appetite caused by the falling interest rate environment finds fewer shares available for purchase, with a doubly positive effect on prices.

However, if economic policy is not adjusted in favour of reducing the size of the Brazilian state in the economy, the performance of shares is unlikely to be sustained, as a wasteful state needs to drain resources from the economy, either in the form of tax collection or in the form of increased indebtedness, creating almost insurmountable

difficulties for the market to continue rising or even to remain at the same levels, in a business environment that is becoming cyclically and predictably adverse.

The chart below shows the cumulative return of the CDI and Ibovespa since the beginning of the Real Plan.



Fonte: Bloomberg

As can be seen, since 2010, there has been a clear divergence between the CDI and Ibovespa accumulation curves. Not coincidentally, this period also marks the shift in Brazilian economic policy in favour of a 'Growth-Inducing State'.

of Selic rate cuts is not accompanied by a profound fiscal adjustment ahead, we will remain like Sisyphus, hopeful and happy with the stock market rally now, only to be frustrated by the stone rolling down the mountain afterwards.

The conclusion is straightforward: in a crowding out environment, fixed income assets will always outperform variable income assets, and if the current cycle

PERFORMANCE OF THE MAIN FINANCIAL INDICES:

Renda Fixa		31/10/25	MTD	3M	YTD	
CDI	-	96,07	1,28%	3,53%	11,76%	
IMA-B	-	10.686,65	1,05%	2,12%	10,57%	
IMA-B 5	-	10.428,01	1,03%	2,55%	9,42%	
IMA-B 5+	-	11.802,05	1,06%	1,76%	11,30%	
IRF-M	-	21.187,29	1,37%	3,90%	15,93%	
IMA-S	-	7.950,56	1,29%	3,57%	11,97%	
Índices Globais		País	31/10/25	MTD	3M	YTD
Ibovespa	BRL	149.540,43	2,26%	12,31%	24,32%	
Dow Jones	USD	47.562,87	2,51%	7,82%	11,80%	
S&P 500	USD	6.840,20	2,27%	8,59%	16,30%	
NASDAQ	USD	25.858,13	4,77%	12,34%	23,06%	
Euro Stoxx 50	EUR	5.662,04	2,39%	7,86%	15,65%	
FTSE 100	GBP	9.717,25	3,92%	6,28%	18,89%	
MSCI Emerging	EM	55,30	3,56%	13,23%	33,51%	
MSCI World	World	4.390,42	1,94%	8,05%	18,41%	
Moedas		País	31/10/25	MTD	3M	YTD
Dólar/Real	USD	5,38	(1,03%)	2,38%	12,96%	
Euro	EUR	1,15	(1,68%)	(0,33%)	11,43%	
Franco Suíço	CHF	0,80	(1,01%)	0,37%	12,78%	
Libra Esterlina	GBP	1,32	(2,19%)	(1,11%)	5,08%	
Bitcoin	BTC	109.428,01	(4,55%)	(3,75%)	16,77%	
Hedge Funds		País	31/10/25	MTD	3M	YTD
Ind. de Hedge Funds	BRL	5.992,15	1,00%	4,39%	12,87%	



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