Growing Fears of Missing Out

Despite a choppy summer and a few regional breathers, global asset classes closed the third quarter with strong and remarkably consistent gains. In global equities, the U.S. S&P 500 index rose 7.8% in Q3, outpacing other developed market stocks, which gained a still healthy 4.2%. Gold's historic surge to $4,000 per ounce helped push Canada's stock market up 11.8%, while renewed optimism in China drove emerging market equities higher by an impressive 10.1%.

While not the eye-catching returns of equities, bond markets also delivered positive results. Global bonds returned 0.6%, U.S. bonds added 2.0%, and Canadian bonds were up 1.5%. The U.S. dollar strengthened 0.9% against a basket of major currencies, while the Canadian dollar fell 2.2% against its southern counterpart.

This quarter's performance underscored an important theme: market strength has broadened, yet leadership remains concentrated in U.S. mega-cap technology companies. The shift in investor psychology has been nothing short of dramatic—from clients earlier this year questioning why we held so many U.S. names to now wondering why we don't hold more. Importantly, our positioning continues to follow our partners' tactical recommendations grounded in data, not emotion.

From April's gloom to September's glow—the best September for global equities in 13 years—the journey has been a vivid reminder of how swiftly sentiment can change. Fear has given way to FOMO, and while investors are cheering the rally, many are quietly wondering whether we've entered bubble territory once again.

What's New in a World of Sensational Headlines

The good news is that the U.S. economy rebounded sharply in the second quarter, with real GDP increasing at an annualized 3.8%. That strength stands in stark contrast to the prior quarter, which saw the economy contract for the first time in three years. Labor market data showed some cooling, with unemployment inching higher and job creation slowing, but this moderation was interpreted positively by investors—signaling that the Federal Reserve's next move might be easing rather than tightening.

On the political front, Trump-related concerns have cooled considerably since our last update. That's a double-edged sword. On one hand, markets breathed a sigh of relief as the most aggressive tariff scenarios were avoided. On the other, the new trade framework has still produced the highest global tariff levels in nearly a century. Europe agreed to a 15% tariff on goods entering the U.S., accompanied by side deals on energy purchases and U.S.-based investments. Japan negotiated a similar deal but with agricultural components attached. By quarter-end, the average U.S. tariff rate stood at 18%—a level not seen since the Great Depression.

Even so, markets are looking forward rather than backward. Tariffs were lower than feared, corporate earnings exceeded expectations, and the White House's "One Big Beautiful Bill" injected new fiscal stimulus expected to buoy 2026. Add in resilient consumer spending, and even a potential government shutdown couldn't dampen the market's enthusiasm.

In Canada, the picture is more nuanced. U.S. tariffs and ongoing uncertainty have weighed on sentiment, with export sectors—particularly autos, steel, aluminum, and machinery—bearing the brunt. These categories accounted for roughly 90% of all goods hit with high U.S. tariffs this summer, facing rates that reached as high as 27% in July. In a small but symbolic form of retaliation, Canadians ended the summer travelling 34% less by road and 25% less by air into the U.S.

We May Be Heading Toward a Time Where the Math Ain't Mathing

With markets surging and headlines glowing, many investors are wondering if we're in the midst of a bubble. As with all such episodes, it's impossible to know with certainty in real time. Even if it were obvious, acting on that knowledge is a challenge—being right too early often feels indistinguishable from being wrong. Bubbles form when convincing narratives intersect with broad participation, and this one is no different. What's changed is the story: instead of radio, electricity, or the internet, today's market is captivated by artificial intelligence, robotics, and other technologies that sound more like the plot of a sci-fi film than an economic forecast.

The bullish case argues that AI represents a genuine step-change in productivity. Companies across industries are expected to see efficiency gains, higher sales, and lower costs—music to any shareholder's ears. The infrastructure build-out needed to enable this technological revolution is itself an economic stimulus, creating jobs, boosting consumption, and lifting GDP in the near term. Over time, the theory goes, these advances will structurally improve living standards and economic output. The world will never be the same again—and the demographic drag of aging populations might even be offset by smarter, faster machines.

The skeptical view is more cautious. As the saying goes, history doesn't repeat, but it rhymes. While AI's potential is undeniable, it will not touch every company or sector equally. Spending today may not translate into the revenue tomorrow's valuations imply. A cooling period may be inevitable as investors recalibrate expectations to match reality. High valuations and high hopes rarely coexist peacefully for long.

As usual, the truth likely lies somewhere in the middle. The demand for AI platforms such as ChatGPT has been extraordinary, and the "Magnificent-7" companies have continued to dwarf the earnings growth of the broader U.S. market in 2023, 2024, and 2025. Unlike during the Dot-Com bubble, these firms boast robust balance sheets, substantial profits, and real cash flows. Yet even they are not immune to the gravitational pull of valuation math.

We don't view today's environment as a classic bubble, but rather as an exuberant phase of genuine innovation. The themes driving markets—AI, automation, energy transition, and defense realignment—are long-term in nature, even if price movements sometimes overshoot. For diversified investors, the current mix of moderating inflation, improving growth, and an approaching pivot toward lower interest rates remains broadly supportive.

Closing Thoughts

The third quarter of 2025 showcased once again that markets can move faster than fundamentals. Strong equity performance and renewed optimism have replaced the fear that dominated just six months ago. Still, with valuations stretched in some areas and policy uncertainty ever present, balance and discipline remain essential.

We continue to emphasize diversification across asset classes, sectors, and geographies, guided by our data-driven process and the long-term financial goals of our clients. The market may swing between extremes of fear and greed, but our approach—steady, measured, and focused on fundamentals—has served investors well through countless cycles.

As we look ahead, opportunities remain plentiful, but so do unknowns. Inflation is easing, growth is stabilizing, and central banks appear poised to shift from restraint to support. While headlines will continue to amplify every twist and turn, our focus remains the same: building resilient portfolios designed to weather whatever comes next.

As always, we thank you for your continued confidence and partnership.

Bessette Wealth Management

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