



## Letter n°138

### What alternatives are there to a U.S. market driven by the AI bubble?

*“The dustbins of history are filled with prolonged trends.” Alphonse Allais*

Questioning the prolonged rise of AI-related stocks to avoid being caught off guard was the focus of our two recent Letters. After Letter 136, which examined the recent performance of AI-linked stocks, and Letter 137, centred on the overwhelming dominance of the U.S. market, this Letter 138 turns our attention to other major markets and, in particular, their appeal.

From those two Letters, we should keep in mind the sheer weight of the U.S. market compared with others and, within the U.S. market, the overpowering influence of technology stocks.

#### **The U.S. market:**

It represents nearly \$70 trillion in market capitalisation, far ahead of China at \$11.2 trillion, Japan at \$6.3 trillion, India at \$4.5 trillion, the United Kingdom at \$4.2 trillion, followed by Canada and France at \$3.3 trillion, then Germany and Switzerland at \$2.7 trillion... Italy at \$1.8 trillion and Spain at \$1.6 trillion. For comparison, Brazil stands at \$800 billion.

The U.S. market is now dominated by tech stocks, and in the top 10, the first seven are held by technology companies, followed by Tesla, then a financial company (Berkshire Hathaway), and a pharmaceutical company (Eli Lilly) in 10th place.

The U.S. market, amounting to two-thirds of global market capitalisation, is unavoidable. It inevitably forms a major building block in any portfolio, but everyone understands the need for diversification. First, to reduce exposure to the \$; second, to avoid excessive vulnerability to a potential burst of a technology bubble.

The sensitivity to the \$ can be summed up in one figure: this year, the performance of the Dow Jones expressed in Euros is -1.2%, which weighs on returns. Of course, portfolios can be hedged against currency fluctuations, but the cost is high.

Exposure to technology stocks is minimal in non-U.S. markets, with the notable exception of Taiwan, which is heavily dependent on TSMC.

The goal of this Letter is to briefly present these other markets – their composition, their sensitivities, and the opportunities they offer.

#### **The European market as reflected by the Stoxx 600 Index:**

In the European market, we maintain a constant general exposure, which will vary depending on our current convictions, and then we add tactical exposures to specific themes. For example, in 2024 and 2025, we have focused on defence stocks (+67% this year), banking stocks (+57% this year), and more recently, automotive stocks (+7% over the past month). After suffering heavily from tariffs, Chinese competition, and weak demand trends, the automotive sector could benefit from a relaxation of the 2035 all-electric deadline and from stronger protection against the influx of Chinese competitors.

In recent years, European markets have struggled with a lack of attractiveness compared to the U.S. market. The reasons include delays in completing the Capital Markets Union, a limited number of high-growth technology companies, and a decline in IPOs to 64 in 2024 compared with 235 in 2015, according to PwC, as well as market shrinkage due to numerous delisting.

Europe has, compared with the United States, one enormous advantage: abundant private savings. However, as highlighted in the Draghi report, this savings capital still prefers to invest in the U.S. market, and many young, innovative European companies choose to list in the United States. Examples include the French online

advertising group Criteo a few years ago, and more recently, the Swedish fintech Klarna's listing on the New York Stock Exchange. Europe must therefore offer better prospects to channel this European savings into European markets and reinvigorate GDP growth.

Earnings for the Stoxx 600 rose 17% in the third quarter and, according to Deutsche Bank, were on average 8% above consensus expectations. Earnings valuations, 17x for the Stoxx 600 compared with 18x for the CSI 300, 23x for the Nikkei and 28x for U.S. equities, remain attractive. Over the next 10 years, Goldman Sachs expects European market appreciation to outperform that of the U.S. market. Large caps are preferred over small caps, as the latter have been underperforming for several years.

Among the top two large-cap constituents of the MSCI Europe 600, we do find technology stocks – ASML, the Dutch company, and SAP, the German software group, but beyond them, the index composition is diversified.

ASML is unquestionably one of the key players in the semiconductor world, as it manufactures the machines essential to the industry. SAP provides enterprise management software. Although both companies are highly successful, their market capitalisations are far below those of U.S. tech giants. ASML trades at a price-earnings ratio of 33x and is valued at €345 billion (around \$400 billion), not even one-tenth of Nvidia's valuation. Today, in the U.S. market, ASML would only rank 23rd in market capitalisation.

Behind these two companies, the top 10 includes 3 pharmaceutical companies, AstraZeneca, Novartis, and Roche, a food & beverage giant, Nestlé, a bank, HSBC, an energy company, Shell, an industrial firm, Siemens and a luxury group, LVMH.

- ***The UK market: a lack of major technology stocks.***

We currently have no exposure there. Its performance has lagged behind other European markets because, among its large-cap names, there are hardly any technology companies. Instead, the index is dominated by traditional groups: two pharmaceutical companies, AstraZeneca (the largest market cap) and GSK; two oil majors, Shell and BP, up only 13–15% this year due to the 15% decline in crude prices; Unilever, slightly down this year; and the mining company Rio Tinto, up 12%. There is only one standout performer: Rolls-Royce, specialising in aircraft and marine engines, boosted by the strong performance of defence and aerospace stocks. And of course, two major banks, HSBC (+40%) and Barclays (+53%), which have benefited from falling interest rates and to which we are exposed through our cross-sector approach.

- ***The French market: the weight of luxury.***

Partly for political and financial reasons, it has been the worst-performing European market this year, and we have no exposure there. Growth in the luxury sector, after very strong post-COVID years, has become more uneven. The top three companies are LVMH (€320 billion market cap), Hermès (€230 billion), and L'Oréal (€190 billion). Following them are three strong industrials: Airbus (€167 billion), supported by a robust order book; Schneider Electric (€145 billion), benefiting from the electrification theme; and Safran (€129 billion), exposed to aerospace and defence. Then come TotalEnergies (€119 billion), the pharmaceutical Sanofi (€109 billion), Air Liquide (€99 billion), and two financials, Axa (€80 billion) and BNP Paribas (€76 billion).

Notably, at 6th place, Essilor (€148 billion market cap) has made a breakthrough, helped by Meta's investment and the launch of the new Ray-Ban glasses.

For context, LVMH would only rank 25th on the U.S. market. BNP Paribas' market cap is one-tenth of JP Morgan, TotalEnergies is just over a quarter of Exxon's valuation, and Sanofi is 12% of Eli Lilly's value. To help narrow this valuation gap, TotalEnergies recently decided to list on the New York Stock Exchange.

- ***The German market: the weight of traditional industries.***

There are only two technology companies in the top 15: SAP, in first place, with a market cap of €235 billion that is not even 1/20th of Nvidia's recent valuation, and Infineon Technologies at €47 billion. The remainder is dominated by well-known traditional companies: Siemens, Rheinmetall (in defence, the standout performer this year), large automotive names (Mercedes €57 billion, BMW, VW, Porsche), two healthcare companies (Merck and Siemens Healthineers), and financials (Allianz, Munich Re, Deutsche Bank).

These large, export-oriented industrial companies are simultaneously affected by U.S. tariffs, Chinese competition, the closure of the Chinese market, and energy costs. Workforce reductions are substantial,

adaptation is slow, and this weighs on Germany's economic growth, which is currently the lowest among major European countries.

- ***The Swiss market: continuity among large-cap stocks.***

The market is dominated by three major companies: Roche (CHF 235 billion), Nestlé (CHF 206 billion), and Novartis (CHF 199 billion), along with three challengers, ABB, UBS, and Richemont, each between CHF 100 and 120 billion. The Swiss market is highly concentrated, as most other companies have market caps below CHF 50 billion.

We maintain a small exposure to this market, but its appreciation has been lower than other major markets, as multinationals are affected by the ongoing strength of the Swiss franc. Notably, there are no technology companies in the top 10.

- ***The Spanish and Italian markets: high sensitivity to interest rates.***

These two peripheral markets have performed very well, benefiting from their strong banking components amid falling interest rates and the recovery of utilities.

In Italy, the two largest market caps, of only €100 billion each, are banks, UniCredit and Intesa. The Italian top 10 also includes Generali (insurance) and Monte dei Paschi, another bank. Beyond these four financials, the top 10 features a luxury company, Ferrari, which sharply corrected in October following a margin-related announcement after exceptional performance in recent years.

Stellantis, also in the automotive sector, has lost 33% this year but recently stabilised after the arrival of a new CEO.

A standout performer in the Italian top 10 this year is Leonardo, Italy's second-largest industrial group and a major player in the helicopter sector, which is up nearly 100% supported by the revival in defence spending.

Other notable companies include ENI, one of the best-performing oil companies globally this year, and Enel, Italy's leading electricity company, benefiting from global enthusiasm for the sector.

In Spain, while Inditex/Zara is the largest company at €155 billion, four banks, Banco Santander, BBVA, Caixabank, and Banco Sabadell, are also in the top 10, making the market highly sensitive to interest rates. The top 10 also includes three strong electricity companies: Iberdrola, Endesa, and Naturgy (the latter also involved in gas).

- ***The Japanese market:***

The Japanese market resembles the German market in that it is dominated by traditional industrial companies. Toyota leads with a market capitalisation of \$310 billion, followed by SoftBank (\$180 billion), Sony, Mitsubishi UFJ, Hitachi, Fast Retailing (brands including Uniqlo, Comptoir des Cotonniers, Princesse Tam Tam), Sumitomo Mitsui Financial, Nintendo, and others...

As with major European markets, there are few technology companies, the main exception being Tokyo Electron in semiconductor equipment, with a market cap around \$100 billion.

Our exposure to the Japanese market in recent years has been primarily in the banking sector, which has long been undervalued but recently delivered the best sectoral performance.

**Emerging markets:**

- ***The Indian market: one of the best performers in recent years.***

The Indian market is dominated by banks, even though they carry significant non-performing loans and consumer credit is still underdeveloped. Among the top 10 market capitalisations, there are six financial institutions, a petrochemical group (Reliance Industries), a telecommunications company (Bharti Airtel), and two conglomerates, the family-run Tata Group and Larsen & Toubro.

There are no very large-cap companies, as the largest has a market cap of less than \$130 billion and the 10th around \$30 billion. Indian industry suffers from the small size of companies, representing only 12–13% of GDP, far below China's share.

The Indian stock market has been supported by strong economic growth over the past decade and growth expected in the coming years, but it is also one of the most expensive markets in the world following its excellent performance in recent years. Our current position is neutral.

- ***The Chinese market: chronic undervaluation.***

The top 10 Chinese companies are dominated by large technology firms, such as Tencent (internet, video games, online advertising), Alibaba, Xiaomi (telecommunications), major financial institutions like China Construction Bank and ICBC, insurers such as Ping An Insurance, and BYD in electric vehicles.

After years of underperformance, largely due to political reasons, the market is up 19% in USD and 6% in EUR this year. Since the start of the year, international investors have returned, but the bulk of the gains comes from domestic savings.

These large tech companies still have market capitalisations far below their historical highs and significantly lower than their U.S. counterparts. Tencent is valued at \$520 billion, Alibaba at less than \$400 billion, whereas in the late 2010s, these figures were roughly comparable to major U.S. tech companies. Given ongoing political tensions between China and many countries, this market remains underweighted in international portfolios.

- ***The Brazilian market: still small.***

This market is dominated by banks, such as Banco Itaú, Bradesco, Banco BTG, Banco do Brasil, and mining or energy companies, such as Vale and Petrobras, the largest at BRL 427 billion (~\$80 billion), as well as Electrobras.

**Conclusion:** *"When the sun is in eclipse and disappears, you see its greatness." Seneca.*

When the U.S. market falters, few alternatives appear, this could summarise the message of this Letter.

***What to take away from this analysis?***

On the positive side, if a technology bubble were to burst, none of the markets analysed here would be truly affected. On the negative side, the large-cap companies in these markets are small compared to the U.S. top 10. No market, even China, the world's second-largest economy, rivals the U.S. market, and Europe would benefit from finally completing the Capital Markets Union.

***What to take away for investment strategy?***

The U.S. market, even though expensive, will remain the essential component of portfolios because profit growth and margins are higher than in other markets. Corporate margins have risen from 9% in 2005 to nearly 14% in 2025. For the technology sector, margins increased from 11% to 27%. Debt levels of S&P companies are much lower than 25 years ago.

In the U.S., there is a rotation of large-cap companies not seen anywhere else. In the current top 10, the majority were not there 20 years ago. The composition of the S&P constantly changes. The share of manufacturing companies has fallen from 30% in 2005 to 17% today, while the percentage of technology companies has risen from 16% to 35%. Nothing comparable exists in Japan, Europe, or emerging markets.

The U.S. market does face regular crashes, but it generally recovers quickly and performs better than others over the long term. Since 1929, there have been 15 declines in the S&P 500 exceeding 20%. Between October 9, 2007, and March 9, 2009, the drop was 56%, and previously -49% between March 24, 2000, and October 9, 2002. Between these two, there was a 100% increase. From the start of 2000 to today, despite these two crashes, plus those in 2020 and 2022, the S&P has delivered 8%/year including dividends, or 650% total. By comparison, the bond market returned 4%/year, or 180% over the same period. In the last decade, the S&P 500 has appreciated 225%, the Nikkei 160%, and the FTSE 100 50%.

Geneva, 19 November 2025

*Bruno Desgardins*

**Bruno Desgardins**  
CIO  
Switzerland



---

**SingAlliance Pte Ltd**

16 Raffles Quay  
#12-01 Hong Leong Building  
Singapore 048581  
T: +65 6303 5050  
E: [info@singalliance.com](mailto:info@singalliance.com)

**SingAlliance (Switzerland) SA**

Rue du Mont-de-Sion 6  
1206 Genève  
Switzerland  
T: +41 22 518 85 85  
E: [info.switzerland@singalliance.com](mailto:info.switzerland@singalliance.com)

**SingAlliance (Hong Kong) Ltd**

Unit 904-907, 9/F Dah Sing Financial Centre  
248 Queen's Road East  
Wanchai, Hong Kong  
T: +852 2639 3659  
E: [info.hongkong@singalliance.com](mailto:info.hongkong@singalliance.com)

**SingAlliance Pte Ltd  
(DIFC Representative Office)**

The Gate, Level 13 East, Office 10, DIFC  
PO Box 121208 Dubai, UAE  
T: +971 (0) 4 401 9158  
E: [info.dubai@singalliance.com](mailto:info.dubai@singalliance.com)



This document does not constitute an offer or a solicitation to purchase or subscribe financial instruments. Information contained in this document has been obtained from carefully selected public sources. Although every care has been taken to ensure that this information is accurate at the time of publication, no representation is made as to its accuracy, completeness, or truthfulness. Any opinion contained herein is subject to change at any time without notice. Past performance is not indicative of future results.