



The October Market Update from HCM Wealth Advisors, presented by Senior Investment Strategist **Doug Johnson, CFA**, and **Dan Rinck**, offered a detailed look at recent market dynamics, investor behavior, and broader economic trends. The theme, which Johnson summarized as “**a square peg in a round hole**,” reflected the unusual market environment of late 2025—one characterized by conflicting signals, contradictory narratives, and investors trading the market they *want* rather than the market they *have*. Despite persistent talk of bubbles, crashes, and euphoria, the data largely suggests a market functioning on solid fundamentals, albeit with areas of speculative excess.

1. Market Behavior and Risk Appetite

Rinck began by describing 2025 as a year of strong equity performance, with **low double-digit gains across the S&P 500**, driven by investor enthusiasm and risk-taking rather than by fundamentals alone. Beneath the surface, factor performance data reveals that **momentum, high-beta, and low-quality stocks** have led the rally. The best-performing equities were those that had already been rising, creating a self-reinforcing cycle of “buy what’s going up.” Conversely, traditional value measures—such as dividend yield, profitability, and price-to-sales—have underperformed.

This pattern indicates investors are “reaching for risk.” In some cases, even **unprofitable or pre-revenue NASDAQ companies** have seen returns over 30%, while profitable small- and mid-cap stocks have lagged. Historically, markets that reward unprofitable growth over stable quality often experience eventual reversals, though the timing is unpredictable.

The **quality factor**—which captures companies with strong balance sheets and consistent earnings—has endured one of its sharpest drawdowns since the early 2000s tech bubble. Rinck and Johnson noted that while quality typically cycles in and out of favor, the current magnitude of underperformance is extreme and likely unsustainable over the long term.

2. Breadth and Market Health

Despite speculation about overheated markets, **market breadth**—the number of stocks participating in the rally—remains healthy. Only about **21% of stocks are overbought** and **43% oversold**, levels that suggest neither excessive euphoria nor panic. The S&P 500 has reached new all-time highs, but breadth indicators show no systemic warning signs. Rinck

emphasized that this is not a market showing the hallmarks of a bubble; rather, it reflects selective enthusiasm concentrated in certain speculative corners.

3. Corporate Earnings and Fundamentals

Earnings trends reinforce the market's resilience. **Corporate profits have reaccelerated**, and earnings estimates for 2025 have begun rising again after months of uncertainty tied to tariffs and Federal Reserve policy. About **85% of U.S. companies have beaten earnings expectations** this year, and revisions have turned upward. This improvement underpins the market's advance—without strong earnings, a sustained rally would be unlikely.

Active managers, however, have struggled in this environment. Funds emphasizing quality, valuation discipline, or active stock selection have badly lagged broad indexes. Johnson noted that **2025 ranks among the toughest years for active stock pickers**, comparable only to 2008–2009 and the tech bubble era. For many, sticking to quality and fundamentals has meant underperforming the more speculative, momentum-driven segments of the market.

4. The Macro Picture: Tariffs, Growth, and Inflation

Turning to macroeconomics, Johnson addressed **U.S.–China tariff tensions**, particularly surrounding **rare earth minerals**. China dominates this space, controlling **68% of global production** and **38% of reserves**, giving it significant leverage. Despite renewed rhetoric from political leaders, both strategists expect that neither side can afford sustained economic damage, predicting an eventual compromise.

Meanwhile, **U.S. GDP growth remains solid**, with the Atlanta Fed's real-time estimate near **4% for Q3 2024**, suggesting continued economic momentum despite policy uncertainties. Inflation data released the morning of the discussion showed CPI near **3%**, trending steadily downward from 2022 highs. Johnson pointed out that while the Fed's target remains 2%, policymakers are unlikely to overreact as long as inflation continues to moderate without undermining employment.

The bond market supports this view: **Treasury yields have declined**, with the 10-year moving below 4% and the 2-year near 3.5%. The market's implied inflation expectations sit around 2.25%. In short, investors appear unconcerned about runaway inflation, contradicting media narratives about tariff-driven price pressure. Bonds have staged a strong rebound, with the **Bloomberg Barclays Aggregate Index up nearly 7%** year-to-

date—an ironic reversal after investors abandoned fixed income following the 2022 bond selloff.

5. Gold, Speculation, and Sentiment

Perhaps the most striking asset move has been in **gold**, which surged in a near-parabolic fashion before a sharp correction earlier in the week. Johnson cautioned that “parabolic moves don’t resolve by going sideways”—meaning such rapid ascents typically end in pullbacks. Despite the short-term volatility, HCM maintains a small gold position added earlier in 2025 as a hedge against fiscal and debt concerns.

Technical indicators like **relative strength (RSI)** show gold reaching historically overbought levels (near 90 on a weekly basis), suggesting future returns could be muted. However, Johnson emphasized this does not imply an imminent crash—rather, a cooling-off period after an overheated run.

6. Is This the Tech Bubble 2.0?

The strategists addressed frequent comparisons between the current environment and the **dot-com bubble of 2000**. While both periods feature surging tech valuations, the similarities largely end there. Today’s technology sector is **far more profitable**, with **return on equity at 32%** versus **20% in 2000**, and valuations—though high at **30x earnings**—remain well below the **51x multiple** seen at the dot-com peak.

Moreover, when plotting today’s market path against that of 1999–2000, the current rally appears far more restrained; matching the prior bubble’s trajectory would require the S&P technology sector to more than **triple** from current levels. The analysts concluded that while pockets of speculation exist (especially in AI-related stocks), the broad market lacks the extreme euphoria that defined 2000.

7. Investor Sentiment: A “Hated” Bull Market

In contrast to bubble psychology, sentiment measures suggest widespread skepticism. The **Fear & Greed Index** is in “extreme fear” territory, and **AAll surveys** show more bearish than bullish investors. Historically, market tops occur when optimism is rampant—yet this cycle has been marked by persistent doubt. Johnson called it “one of the most hated bull markets ever,” noting that widespread anticipation of a crash often prevents one from happening.

Defensive sectors (staples, healthcare, utilities, telecom) continue to underperform—part of a long-term trend dating to 2008—showing investors remain tilted toward risk assets. However, these sectors may now be relatively undervalued, potentially setting up a rotation opportunity if sentiment shifts.

8. Credit Markets and Financial Stability

The strategists also assessed credit conditions, finding **no signs of systemic stress**. Corporate and high-yield spreads sit near multi-decade lows (in the **5th and 9th percentiles**, respectively). For context, high-yield spreads hit 11.5% during the 2000 crash and nearly 20% in 2008; today they are around 3.5%. The bond market—often an early warning system for trouble—currently signals calm and confidence, not crisis.

9. Historical Context and Forward Outlook

Johnson closed by examining historical market performance following **volatility spikes near record highs**. When the **VIX exceeds 28** while the S&P 500 remains within 3% of its all-time peak—a setup recently observed—future returns have historically been strong. In past instances, markets were higher **100% of the time over the following 2, 3, 6, 9, and 12 months**, with above-average gains.

The takeaway: while volatility can create short-term anxiety, it often presents opportunity rather than danger when fundamentals are solid.

10. Concluding Thoughts

Doug Johnson and Dan Rinck summarized the market backdrop as paradoxical but not perilous. Investors are chasing speculative growth while ignoring quality; yet earnings, GDP, and inflation trends remain supportive. Bonds are recovering, credit markets are stable, and sentiment remains cautious—all signs of a **durable, if unconventional, bull market**.

The pair urged investors to resist emotional narratives—whether of euphoric boom or impending crash—and instead stay grounded in data, diversification, and long-term strategy. Markets may appear to be forcing a square peg into a round hole, but in their view, the current environment reflects adaptation, not distortion, and offers opportunity for disciplined investors who stay the course.