

## Q: Is it a recession, boom or bubble?

### A: Yes.

Right now, there is likely at least some area of the global economy or markets that can fit any narrative. For the more optimistic, signs of sustained economic growth, stabilizing inflation, and declines in interest rates create a general environment that is supportive of corporate earnings and constructive for financial markets, despite the risks clouding the outlook.

For those with a bearish bent, there are some indications that impact those risks, particularly tied to U.S. trade policy. Further, real estate markets continue to paint a bleak picture as activity remains depressed against broader economic uncertainty and elevated interest rates. Housing market metrics, outside of prices, are drawing comparisons to the post-Financial Crisis period, while the continued weakness in building permits (down more than 10% in Canada and the U.S. year-to-date) suggests, tides are not going to turn anytime soon. This is not a positive omen for real estate stocks, which are among the few segments of the market that have been down over the last year. After a strong decade, construction, real estate and the vast number of supporting businesses are feeling like they are in a *recession*.

That said, while new construction in aggregate is stagnant, areas related to the burgeoning artificial intelligence (AI) revolution are booming. Investment in data centers<sup>1</sup> in the U.S. has more than doubled over the last two years, while business expenditure on information processing equipment<sup>2</sup> and software<sup>3</sup> has provided a disproportionate boost to overall growth so far this year. Trends and tax incentives point to this upswing being sustained.

The jury, however, is still out on whether the financial market exposures tied to AI constitute a secular boom or a speculative bubble. The Goldman Sachs AI Leaders Index<sup>4</sup>, which tracks the performance of stocks of leading companies in the AI space, is up more than 100% over the past 12 months and 900% over the last three years. This exponential gain has pushed valuations to levels that conjure memories of Tech stocks at the turn of the millennium — that is, unless these companies are actually able to see the potential stratospheric gains of this still-nascent technology touted by its evangelists translate into earnings, at which point they may still represent a bargain (a similar argument was made as a quarter century ago). There will likely be more losers than winners – some boom and mostly bubble.

While valuations elsewhere appear generally more reasonable, there are classic signs of speculative fervour in the other pockets of the marketplace. The reemergence of investing in speculative areas such as cryptocurrencies (the Bloomberg Galaxy Crypto Index<sup>5</sup> is up 70% since March), meme stocks (UBS Meme Stock Index<sup>6</sup> is up 63% over that same span), and special-purpose acquisition companies (SPACs; more than 100 of these blank cheque companies have cumulatively raised more than US\$20 billion<sup>7</sup> this year after losing more than US\$100 billion<sup>8</sup> in market value over the prior four years) suggests growing *irrational exuberance*, to borrow from former U.S. Federal Reserve (Fed) Governor Greenspan<sup>9</sup>. Bubbly.

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Another asset that is potentially finding itself increasingly beholden to swings in sentiment is gold. The yellow metal has been swept up by a perfect storm of elevated inflation, a softening U.S. dollar, geopolitical uncertainty, and central bank policy easing, contributing to a surge in investor demand for the commodity that has pushed its price up 50% for the year and more than 100% since 2023. While there is some fundamental argument for this surge in price, given gold's historical role as a store of value, the movements are significant considering the commodity's lack of cash flows and limited industrial and consumer use. It is noteworthy that from a macro perspective, the rush of money into safe havens is traditionally more of a counter-cyclical sign than a broadly bullish one.

All of this raises the problem of trying to identify bubbles, booms, and busts. Signals can get mixed, and the true nature of movements is not clear until it is too late to do anything about it. That's the "I knew it phase." Accordingly, while investors can clearly benefit from long-term investment themes, it remains important to maintain discipline in the investment process. One's future return expectations cannot become detached from the economic reality – simple but not easy.

The divergence of fortunes within even buoyant markets emphasizes the importance of diversification. Spreading investments across assets, sectors, and geographies is sound risk management, but it also casts a wider net that can help ensure investors have exposure to the next big thing that captures the markets' imagination.

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<sup>1</sup> United States Census Bureau, *Value of Private Construction Put in Place - Seasonally Adjusted Annual Rate*, October 31, 2025,

<https://www.census.gov/construction/c30/xlsx/privsatime.xlsx>

<sup>2</sup> Federal Reserve Bank of St. Louis, *Contributions to Percent Change in Real Gross Domestic Product: Gross Private Domestic Investment: Fixed Investment: Nonresidential: Equipment: Information Processing Equipment (Y034RY2Q224SBEA)*, October 31, 2025, <https://fred.stlouisfed.org/series/Y034RY2Q224SBEA>

<sup>3</sup> Ibid.

<sup>4</sup> The Goldman Sachs AI Leaders index is an equally weighted basket composed of the leading companies in the AI space across semiconductors, data centers, infrastructure, power and software.

<sup>5</sup> Bloomberg Galaxy Crypto Index is designed to measure the performance of the largest cryptocurrencies traded in USD.

<sup>6</sup> The UBS meme index tracks the performance of 15 U.S.-listed stocks that gained popularity via online networks and social media platforms.

<sup>7</sup> SPAC Insider, Data, Stats, *Summary by year*, October 31, 2025, <https://www.spacinsider.com/data/stats>,

<sup>8</sup> Wall Street Journal, *Company Insiders Made Billions Before SPAC Bust*, May 30, 2023, <https://www.wsj.com/finance/company-insiders-made-billions-before-spac-bust-4607a869>

<sup>9</sup> The Federal Reserve Board, Remarks by Chairman Alan Greenspan, *The Challenge of Central Banking in a Democratic Society*, December 5, 1996, <https://www.federalreserve.gov/boarddocs/speeches/1996/19961205.htm>