QUARTERLY NEWSLETTER

ST. THERESE FINANCIAL LLC

✦

September 30, 2025

"Say, say, 2000-00, party over Oops, out of time. So tonight, I'm gonna party like it's 1999." ~Prince

According to a recent survey from Bank of America, 40% of fund managers think AI stocks are in a bubble (45% say no, and 15% don't know) [1]. There has been some discussion as to whether there is an AI bubble and if it has similarities to the Dot Com bubble in the late 1990s. It makes sense why people would want to compare the two. I believe they are both revolutionary technologies that have the potential to change the trajectory of humanity. The internet has already done that, and AI is trying to do that. Also, theoretically, if one can show that there is an AI bubble that resembles the dot com bubble it would be potentially easier to project what the near future holds for the markets (i.e. market crash similar to the dot com crash). However, while there are some similarities between the two eras, their differences are important and need to be studied carefully as it is not a pure apple to apple comparison.

Here are some similarities:
- From 1980 - 1994 the S&P 500 had an average annual rate of return of 10.79%. This was the 15 years preceding the dot come era [1]. Meanwhile, from 2010 - 2024 the S&P 500 had an average annual rate of return of 12.62% [1].
- The dotcom bubble lasted about two years between 1998 and 2000 [2]. During that stretch the PE ratio of the S&P 500 had an interval from 24.79 to 33.46. [3]. From 09/2023 to 09/2025 the interval has been 21.79 to 28.91 [3]. While not perfectly the same they are both above the histroical average of 15.9 (1871 - 2025) [4].
- I believe revolutionary technologies with the potential of altering human history. The internet has already done so, and AI is trying to do so.

Let us now analyze some of the key differences:
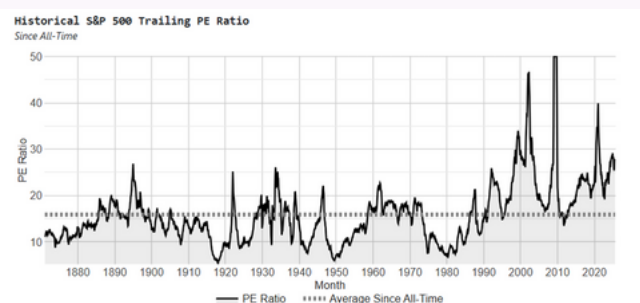
Difference #1: IPOs vs Established Players

In 1999 alone there were 457 initial public offerings (IPOs) that were related to internet companies [2]. 39% of all venture capitalist investments were going to internet companies that year [2]. The late 90s saw a flood of new internet companies. Here is what Investopedia had to say "Companies with no unique technology ignored fiscal responsibilities, spending heavily on marketing to stand out. They spent a fortune on marketing to establish brands that would set them apart from the competition. Some start-ups spent as much as 90% of their budget on advertising.". Today the leading AI companies are well established companies like Meta, Google, and Amazon [5]. These are tech giants generating billions of dollars of revenue some of whom (Amazon and Google) survived the dot com crash 25 years ago. While I am not saying that these companies can't lose market value, I am saying they are established players with a track record compared to the smoke and mirror IPOs of the late 90s.

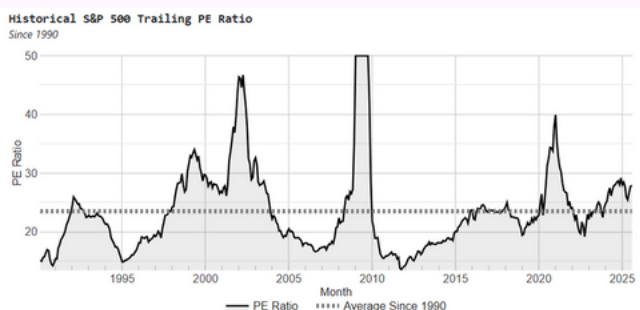**Difference #2: S&P 500 Make Up**

As of 9.11.25 the Top 10 companies make up 39.71% of the S&P 500 [6]. 9 out of 10 of those companies are tech companies that make up 37.9% of the S&P 500 [6]. Back in 2000 the top 10 companies made up 23.3% of the S&P 500 with only 2 out of 10 being in tech (CISCO and Intel) [7]. Thus, the S&P 500 is more concentrated at the top and with a high percentage in tech. This is causing the S&P 500 to trade at a P/E that is higher than its historical average (since 1871). The tech sector has always traded at a high PE ratio. Over the last 20 years, 10 years, and 5 years the tech sector has had an average PE ratio of 18.73, 23.91, and 30.43 [8]. This stat emphasizes the increased amount and concentration of tech in the S&P 500.

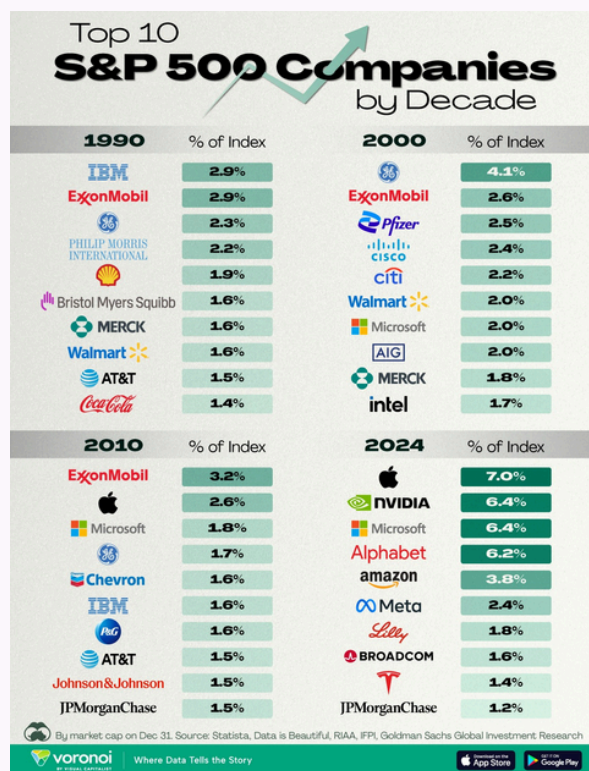**Difference #3: AI's Influence on All Sectors**

Data from the Federal Reserve Bank of St. Louis shows that nearly 40% of U.S. adults aged 18 to 64 already use generative AI, with almost a third using it many times a week [9]. Putting this into context, it took nearly five years for the internet to reach generative AI's level of adoption and a long 12 years for personal computers to achieve the same feat [9]. This data point tells us that AI is being implemented far faster than the internet was. Theoretically this makes sense as technology develops more quickly so does its implementation. What this also means is that AI is not only affecting the tech sector but all other sectors as well. The tables on the next page show how overvalued or expensive the other sectors are (based on deviation from average PE ratios) [10].

https://www.stockmarketperatio.com/

https://www.stockmarketperatio.com/

https://www.visualcapitalist.com/how-the-top-sp-500-companies-have-changed-over-time/

In my opinion, what this shows is every sector has a believe (or hope) that AI is going to be as revolutionary as it is claimed to be. However, if that is true, then these sectors are also placing their futures in the hands of a few large tech companies.

Conclusion:

It is a complicated exercise to state whether we are in an AI bubble or not. "One should be just as cautious about predicting the imminent burst of an AI bubble as skeptical of the exaggerated hype currently surrounding artificial intelligence." [11]. However, like with all revolutionary technologies people's behavior stays the same. As seen in the graph to the right [11] when there is a technological trigger (AI in this case) there is a time of inflated expectations followed by a trough of delusion then prudent expectations kick in and the new technology can be used productively. In my opinion I don't think we are in an AI bubble. I don't think we are headed towards a recession but rather a depression. AI is a factor in that but, not the only reason. I have mentioned in previous newsletters about Social Security, the national debt, and over-inflated markets. It is my belief that we have 4-5 years of a bull market. Then around 2029-2030 we will start a 15-year cycle of depression level markets similar to the 1930s and Early 1940s. However, that is only my opinion on the research I have done. The markets could keep chugging along and everything will be fine. However, since the 1920s we have never had three decades where the S&P 500 averaged 10%+ returns in each decade [12]. Currently, the 2010s and 2020s have both averaged 10%+ returns and the last time we had two decades in a row do that was the 1980s and 1990s [12]. The decade that followed that was the 2000s (known as the lost decade) where the S&P 500 had an average annual rate of return of -.61% [12].
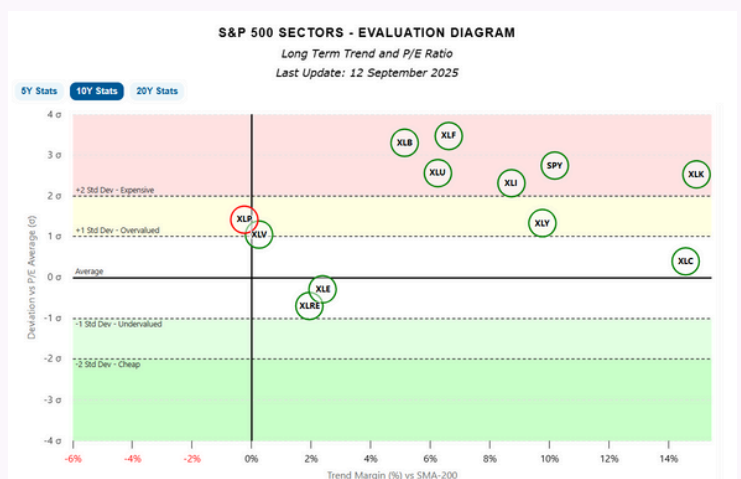
A Brief History of Recessions

The National Bureau of Economic Research (NBER) defines a recession as "involves a significant decline in economic activity that is spread across the economy and lasts more than a few months." [13]. Since 1854 there have been a total of 35 recessions in the United States [14]. The two worst recessions in that time period were "The Long Depression" which was initiated by the Panic of 1873 and "The Great Depression" which was initiated by the Stock Market Crash of 1929 [14]. These recessions lasted 65 months and 43 months respectively [14]. While tempting to discussing the recessions of the late 1800s, it is hard to compare recessions from different eras. All recessions prior to 1914 (before the Federal Reserve) shows 16 recessions with an average duration of 20.1 months; 1914 -1933 (before the FDIC) there were 5 recessions with an average duration of 19 months; and the post-World War II era (1945-2020) has seen 13 recessions with an average duration of 10.2 months [15]. In my opinion this shows that only recessions

Global Industry Classification Standard (GICS)
Last Update: 12 September 2025

S&P 500 Sector	P/E Ratio ▾	P/E Evaluation 5 Years	10 Years	20 Years	Trend Margin vs SMA-200	Time (ET)
XLK Information Technology	38.58	Expensive	Expensive	Expensive	+14.92%	10:00 AM
XLRE Real Estate	35.56	Fair	Fair	-	+1.95%	10:00 AM
XLY Consumer Discretionary	28.81	Fair	Overvalued	Expensive	+9.75%	10:00 AM
SPY S&P 500 Index	26.83	Overvalued	Expensive	Expensive	+10.18%	10:00 AM
XLI Industrials	26.40	Overvalued	Expensive	Expensive	+8.71%	10:00 AM
XLB Materials	25.94	Overvalued	Expensive	Expensive	+5.12%	10:00 AM
XLV Health Care	23.31	Fair	Overvalued	Expensive	+0.25%	10:00 AM
XLP Consumer Staples	22.81	Fair	Overvalued	Expensive	-0.25%	10:00 AM
XLU Utilities	21.96	Expensive	Expensive	Expensive	+6.25%	10:00 AM
XLC Communication Services	19.07	Fair	Fair	Overvalued	+14.57%	10:00 AM
XLF Financials	18.45	Expensive	Expensive	Expensive	+6.62%	10:00 AM
XLE Energy	16.44	Overvalued	Fair	Fair	+2.39%	10:00 AM

https://worldperatio.com/sp-500-sectors/

https://worldperatio.com/sp-500-sectors/

https://www.forbes.com/sites/paulocarvao/2025/08/21/is-the-ai-bubble-bursting-lessons-from-the-dot-com-era/

in the World War II era can be compared as they have the full implementation of the Federal Reserve and the FDIC. Another interesting stat that adds credence to this opinion is that between 1880 and 1920 there were 12 recessions and only 6 between 1980 and 2020 [14]. Looking at the recessions during this time period it would be helpful to know the behavior of the S&P 500 before, during and after the recessions. Since 1948 there have been 12 recessions and in the 6-months leading up to the recessions during that time period the S&P 500 has averaged -1.08% [16]. What is also interesting in that during those same 12 recessions the S&P 500 had an average return of 3.81% [16]. What is probably not surprising is that the 1yr following the 12 recessions the S&P 500 had an
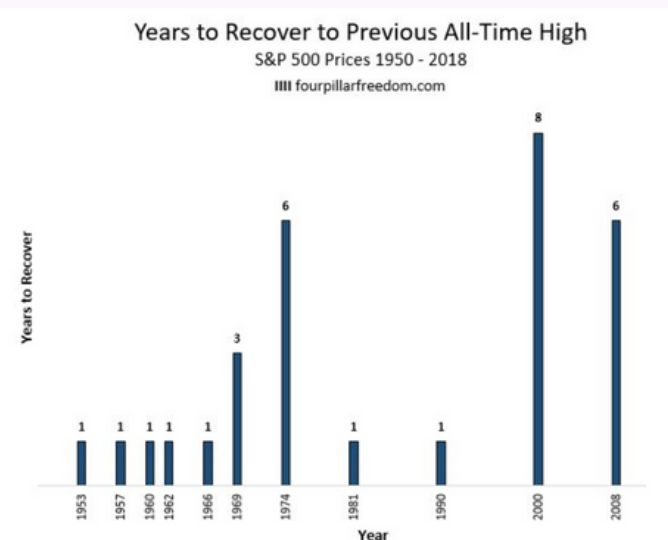
average return of 21.25% [16]. The S&P 500 had a negative rate of return 58.33% of the time 6-months before a recession, 50% of the time during a recession, and 8.3% of the time 1-year after a recession [16]. The table to the right will show you this information. I believe timing the market is not a good idea. No one is able to predict exactly when a recession will happen and trying to do so is a fool's errand. While I did state my opinion earlier about there being a recession comparable to the 1930s, I don't know when it is going to occur, how long it will last, or if it will even happen in the first place. That is why I stick with long term investing. Consider developing solid sound strategies that fit your risk profile and invest for the long term. The table to right shows that recessions don't occur on scheduled timelines but (outside of the 2020 recession) the other 11 all had positive returns 10yrs after the recession ended, averaging 257.76% returns on the S&P 500 [16]. Plus, from 1950 - 2018 the S&P 500 took an average 2.9 years to recover to it's all time high after those recessions [17]. 60% of the time it only takes 1 year for the S&P 500 to recover [17]. However, a concerning metric is that 2 of the last three recessions (the Dot Com Recession and the Great Recessions) took the S&P 500 an average of 7 years to recover to its previous all-time high [17]. They also occurred in the same decade. Even still, the S&P 500 peaked at $1,498.58 in December of 1999 before the Dot Com Bubble burst [18]. As of 9/16/2025 the S&P 500 is at $6,606.38 which is a return of 340.84% over 26 years. Not a fantastic return by any means but, an example of how the markets still produced returns in the long-term even after a decade where the S&P 500 averaged -.61% returns [12].

Recessions and the S&P 500 Index

Recession Start	Recession End	Before		After			
		6 Months	During Recession	1 Yr	3 Yrs	5 Yrs	10 Yrs
11/30/1948	10/31/1949	-8.99%	19.01%	35.06%	92.80%	177.83%	510.36%
7/31/1953	5/31/1954	-3.53%	22.94%	36.07%	83.74%	145.16%	295.53%
8/31/1957	4/30/1958	6.52%	-0.94%	37.23%	66.38%	89.85%	211.22%
4/30/1960	2/28/1961	-3.83%	19.74%	13.64%	35.15%	68.41%	112.23%
12/31/1969	11/30/1970	-4.14%	-1.92%	11.25%	20.58%	25.10%	146.56%
11/30/1973	3/31/1975	-7.63%	-7.80%	28.33%	22.08%	55.64%	253.47%
1/31/1980	7/31/1980	12.99%	9.58%	13.00%	56.07%	100.53%	344.64%
7/31/1981	11/30/1982	3.59%	14.23%	25.57%	66.79%	102.96%	350.21%
7/31/1990	3/31/1991	10.12%	7.94%	11.00%	29.79%	98.08%	284.21%
3/31/2001	11/30/2001	-18.75%	-0.91%	-16.51%	8.42%	34.29%	33.17%
12/31/2007	6/30/2009	-1.29%	-35.01%	14.42%	57.66%	136.88%	293.76%
2/29/2020	4/30/2020	1.91%	-1.12%	45.96%	50.11%	N/A	N/A
Average		-1.08%	3.81%	21.25%	49.13%	94.06%	257.76%
Median		-2.41%	3.52%	20.00%	53.09%	98.08%	284.21%

Source: First Trust, Bloomberg. As of 12/31/2024. Past performance is no guarantee of future results.

https://www.ftportfolios.com/Blogs/MarketBlog/2025/2/20/recessions-and-the-sp-500-index

Years to Recover to Previous All-Time High
S&P 500 Prices 1950 - 2018
IIII fourpillarfreedom.com

https://fourpillarfreedom.com/heres-how-long-the-stock-market-has-historically-taken-to-recover-from-drops/

MARKET RETURNS

*YTD as of day end 9/18/2025
**IWM (iShares Russell 2000 ETF) was used to calculate Russell 2000 returns
***SGOL (abrdn Physical Gold Shares ETF) was used to calculate GOLD returns

- The NASDAQ is up YTD 16.36% as of day end 9/18/2025 [25].

- GREK (Global X MSCI Greece ETF) is up YTD 68.28% as of day end 9/18/2025 [23]. In the 1H25 Financial Results Press Release, Pavlos Mylonas, CEO of The National Bank of Greece stated, "The Greek economy remains on a resilient growth trajectory amid global headwinds, with leading indicators suggesting continued growth momentum." [24].
- BITCOIN is up YTD 23.07% as of day end 9/18/2025 [26].

	YTD*	3YR	5YR
S&P 500 [19]	12.76%	19.63%	14.85%
DJIA [20]	8.46%	14.40%	10.78%
Rusell 2K** [21]	11.68%	12.66%	11.26%
GOLD*** [22]	38.80%	29.45%	13.15%

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