



The View

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A Different Game

Amid ongoing chatter about a potential bubble, Richard Rooney explores how today's market environment compares with the last confirmed instance 25 years ago. If 2000 was a game of checkers, 2025 is a chess match.

A Different Game

The ideas in this *View* were first shared in a speech by Richard Rooney to a group of value investors on November 14, 2025.

These are tough times for any value-tethered investor. Deep value statistical investors, who practice militant adherence to quantitative screens to find and buy companies at big discounts, are down to a few intrepid survivors. They have seen some recent success in Europe and Japan, but in the flagship U.S. market, struggles continue.

Those of us who took a more nuanced fundamental view and were willing to pay up somewhat for quality, à la Warren Buffett, had a better experience, but in the quality drought of recent years, we too are lagging the benchmarks, in some cases by a lot.

According to some recent calculations, P/E ratios in the U.S., which compare a company's stock price to its earnings per share, are now approaching the exalted levels we last saw in the 2000 internet bubble.

Trailing returns are huge, especially for the wildly aggressive speculator and the incurious index investor. Enthusiasm for artificial intelligence is directing trillions of dollars into AI-related companies and AI-related infrastructure. As stock valuations climb, there is talk of another bubble.

I thought it might be interesting to compare and contrast the market environment of 2025 with that of 2000, our last confirmed bubble. I will focus on the U.S. market, as it represents the majority of world market cap and is where speculative activity is most prevalent.

I will begin with a look at the stock market, then the capital markets more broadly, followed by the economic policy context and finally, the geopolitical setting.

The Bubble

Let's start with the equity markets. In 2000, vast excitement about the internet led to a wild speculative bubble in anything internet-related or even anything that claimed to be internet-related. Companies with no track records and no business models achieved valuations in the hundreds of millions, and sometimes billions, of dollars. Companies that sold hardware useful for building out the internet, such as Nortel and Cisco, were bid up to giddy heights.

During the bubble's inflation, one of Burgundy's Investment Analysts kept a "Stupid Research" file in which he deposited the latest preposterous justification for the deranged behaviour of investors, such as valuing companies based on clicks to their websites or the amount of fibre optic cable they had laid. The file became very large indeed.

In these circumstances, all a value investor had to do was not own any of these things—and wait. We all, of course, waited in the hope that we could remain solvent longer than the market could remain irrational. That is always a tough place to be, but sure enough, the equity bear market of 2000-2003 was one of the most benign in history. It didn't result in a debt disaster (we saved that for five years later). Instead, it simply wiped out the starry-eyed idealists who saw enormous revolutionary possibilities in the internet. Those of us invested almost anywhere else made lots of money while the investors in clicks and cables were losing it all.

That bear market was the making of Burgundy.

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The Aftermath and the Rise of the Hyperscalers

But it turned out the starry-eyed idealists were right about the revolutionary potential of the internet. They were just a decade early. Between 2003 and 2010, the market went through a major revulsion toward tech stocks

that resulted in some great value opportunities in the sector. And while we at Burgundy did buy Microsoft in 2010 at a tasty 10 times earnings, I still experience pangs of regret for not buying Amazon at 50 cents in 2003. I suffer from the fairly prevalent value investor's flaw of being too busy congratulating myself for something I didn't do and not doing the same thing when it makes perfect sense.

So, the 2000 bubble resulted in the disappearance of many companies that had no value. Over the next decades, with steadily growing might, a small cadre of companies turned the network possibilities of the internet into businesses which combined never-before-seen levels of growth and profitability with relatively low reinvestment rates and huge profit margins and cash flows.

We all know the result—a stock market that has become more and more concentrated in a small number of names, referred to by various acronyms, neonyms, and monikers, such as FAANG: Facebook, Apple, Amazon, Netflix, and Google; and the Magnificent Seven (Mag 7): Meta, Nvidia, Tesla, Alphabet, Microsoft, Amazon, and Apple.

We now have individual companies whose market caps have overtaken entire national markets. For example, the market capitalization of Nvidia alone exceeds that of the entire equity markets of the UK, or France, or Germany. If you have owned none of these companies and have been benchmarked against an index that contained them, your chances of outperformance have been vanishingly small.

Capital Markets Comparison

It is useful to recall that in 2000, private equity and debt markets, and illiquid alternatives generally, were at a relatively early stage. There was about \$1 trillion in assets under management in total, with hedge funds representing the largest single category. That total today is about \$22 trillion, about the same size as the Mag 7's market cap. It includes huge amounts of private debt and private equity holdings, which tend to be opaque and illiquid. Nobody really knows what risks are being accumulated there, but given the proliferation of secondary and continuation funds, we can expect bad news.

Looking at the fringes of the capital markets, the stock market was pretty much the only speculative vehicle in 2000. Gold was cheap and somnolent, and cryptocurrency did not exist. The only crowded trade was the tech trade.

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Economic Policy Comparison

The policy environment in 2000 was unique. In monetary policy, the U.S. Federal Reserve (Fed) was raising administered rates all during the tech bubble. From a low of 4.75% during the Long-Term Capital Management/Asian Financial Crisis in mid-1998, the Fed steadily increased short-term interest rates to 6.5% in May of 2000. The U.S. was running budget surpluses, so, by definition, they had a tight fiscal policy. There just wasn't a lot of excess capital floating around to supercharge speculation. And the bubble was inflating in that atmosphere of fiscal and monetary stringency.

Today, by contrast, the emphasis is on reducing interest rates, especially from the aggressively dovish Trump Administration. Inflation remains stubbornly above the central bank's 2% target. And the U.S. government is running a remarkably loose fiscal policy at the same time as the economy is close to full employment.

You could hardly make up two economic policy scenarios more different than 2000 and 2025.

Geopolitical Comparison

Now let's look at the broader geopolitical context.

The U.S. was unchallenged in its world leadership in 2000. International trade barriers were probably at the lowest level in history. China was heavily reliant on exports to the U.S. market and foreign direct investment to fund its growth and was therefore cooperative if not deferential. Its total economy

was only about the size of France or the UK. Global debt levels were manageable. The controversial 2000 election looks like a lover's tiff compared to America's current political scene.

Quite a contrast to today, don't you think? Western countries are running wartime-level deficits in peacetime. Shooting wars are taking place on Europe's borders. The U.S. president initiates chaotic trade policies almost daily. China is a near-peer competitor with America. Liberal democracy is under siege all over the world.

Yet, for all this turmoil, the chaotic global geopolitics of 2025 have so far had little impact on the capital markets. An interesting exception was Mr. Trump's preposterous Rose Garden performance on what I call "New April Fools' Day," which caused a brief burst of volatility when macro madness clobbered the markets and gave the non-tech trade a few good days.

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It's Not a Rematch, But...

So, is there the prospect of another bubble-bursting reset for quality and value investors in 2025? I think not exactly, though I do believe relative performance for quality and value will be much better going forward than it has been in the last five years. Let me explain my thinking.

Compared to today, the year 2000 looks like a very simple situation—a single crowded and highly speculative trade in the internet-related portion of the equity markets coming up against a tight fiscal and monetary environment.

If 2000 was a game of checkers, 2025 is a chess match. The number of variables and risk factors in 2025 is vastly greater. Crowded trades are everywhere, in gold, in crypto, in private illiquid alternatives, and in equities. How these different asset classes play off against each other is a complete unknown. We know there are huge amounts of debt sloshing around, but identifying who borrowed what and from whom is challenging.

The current equity market is probably the most distorted in history. The phenomenal performance of a few companies over a very long period of time and their total dominance of the returns worldwide has made them globally preeminent.

But we are coming up against the law of large numbers. The Mag 7's market cap is about \$22 trillion, give or take a trillion—I never thought I'd say something like that. That is about 75% of U.S. GDP. Their combined revenues this year are about \$2.4 trillion, or 8% of GDP. Even if you correctly argued that using U.S. GDP is the wrong

measure because these companies compete in many national markets, these are really imposing numbers. The idea that even these great firms could quadruple over the next decade seems unlikely. But that is the level of growth their current valuations, if correct, would predict.

These are formidably powerful businesses. Their control of data threatens the sovereignty of countries where they operate, and they are tremendous consumers of energy and water. They often pay little tax in jurisdictions where they deliver services.

Their further exponential growth within a much slower-growing ecosystem presents some intractable issues, especially for governments. And government action, whether to constrain their resource consumption, tighten the monetary and fiscal environment, tax them much more, or control and regulate the data they possess, is the most likely source of danger for these companies.

They may also face disruptive competition in artificial intelligence from much lower-cost, open-source Chinese competition.

Lastly, there is the gravitational pull of high valuations. These are never grounds for short-term prediction, but they have been reliable indicators of longer-term returns. They tend to predict disappointment for holders of today's most expensive investments.

With so many potentially disruptive issues and such a threatening global environment, it is impossible to say what issue or combination of issues might finally upset the tech/AI apple cart.

Now What?

So, what is a beleaguered quality/value investor to do? The time-honoured value investor's approach of valiantly fighting the tape and being wrong until you are right has been remarkably costly.

At the time of the internet bubble, Jean-Marie Eveillard of First Eagle Investments famously said that he would rather lose half his clients than lose any one client half his money. That became a rallying cry of the value community and, of course, a prophecy for those who fired him. But what about losing two-thirds of his business, or even three-quarters? It has been a tough decade for our kind of investor.

And it doesn't look likely that the downside in this crowded trade will be anything like 2000, at least in the equity markets. When all is said and done, the hyperscalers are extraordinarily powerful businesses and will not go bankrupt or decline by 90%. Even so, there still could be a significant outperformance opportunity for value investors against this distorted, expensive market.

In 2025, the preponderant winners of the last decade have great fundamentals and very high valuations. It is possible to take issue with the latter while recognizing the former. Owning these truly great companies is probably fine for the long term but expecting them to continue to produce the kinds of returns they have generated in the past decade is naïve. Meanwhile, many high-quality businesses are trading at quite attractive valuations.

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The Upside of Down

A portfolio for which I am proudly responsible is currently in the 95th percentile across one to four years. That is a position of enormous strategic power. It is almost impossible for me to show deteriorating relative performance from here.

That may sound like a joke, but it is actually not. I look through my portfolio and see perfectly respectable investments, companies with good balance sheets, reasonable growth prospects, intelligent capital allocation, and unchallenging valuations. We are familiar with their management teams, and we understand their strategies. If they were private investments, clients would be delighted to own them and would pay much higher fees for the privilege.

“Clearly nobody owns our stocks, and nobody wants to. And that is the opposite of a crowded trade.”

We have often been left in the dust in recent quarters, but during periods of volatility, our portfolios outperform when the broader market tanks. Clearly nobody owns our stocks, and nobody wants to. And that is the opposite of a crowded trade. It is an old chestnut but a true story: people sell what they own. And what they own, in spades, are the market leaders of the last five and 10 years. So, when the time comes to sell, they won't be selling our stocks.

If I were an asset allocator, I would be looking at the paroxysms of this peculiar bull market and examining my bets. I would not want to bet against the value, quality, and low-volatility factors in this market. But that is what most of them are implicitly or explicitly doing. If I were truly an imaginative player, I might be looking at investors in quality and value as an alternative asset class, which—unlike most alternatives—offers liquidity and transparency.

One of the great and horrible things about the stock market is its endlessness. Nobody ever rings the bell and declares you the winner. The scorecard never ends, and this cycle's great ideas are next cycle's disasters. It sometimes seems biblical: the first shall be last and the last shall be first.¹ We are currently on the wrong side of that prophecy and have been for years. But our situation admits of improvement, unlike the other side, which is straining the limits of optimism.

In a chess game, a humble pawn can sometimes be transformed into an all-powerful queen by a combination of strategic neglect and careful protection. In the 2025 chess game, we suspect our ignored and despised, yet very resilient, investments may soon find themselves similarly transformed. **B**

ENDNOTES

1. Matthew 20:16

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After many years of education and practice in the investment management field, Richard read some essays by Warren Buffett and was smitten. Here was someone who actually carried out Einstein's instruction that things should be as simple as possible but no simpler! Trying to apply this simple and sensible approach to investing, finding like-minded people to apply it globally, and writing about it and discussing it have been the best parts of his day job ever since.

As Chief Investment Officer of Burgundy for over 20 years, Richard helped build an investment department that is supportive of thoughtful risk-taking, humble and dispassionate about acknowledging and learning from mistakes, and that bases its decisions on carefully marshalled evidence and strict valuation work.

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