Have Stocks Climbed to the Top of that Wall of Worry?

The legendary investor, Sir John Templeton, is associated with popularizing the idea that stocks climb a Wall of Worry. The idea being that the stock market often rises despite economic uncertainty and sometimes downright negative news. The metaphor is meant to imply that markets are resilient and that fear on the part of some investors does not always cause stocks to go down. Currently, global equity markets are indeed climbing that proverbial Wall of Worry. The MSCI All Country World ex-US index returned 7% for the quarter. For the year-to-date that index is up 27%! US stocks stormed back during the quarter as the S&P 500 beat non-US stocks with a return of 8%. US stocks are lagging their foreign peers, though, with a year-to-date return of 12%. Emerging Markets have been the standouts of late as the MSCI Emerging Markets index returned almost 11% for the quarter and is up almost 30% year-to-date. In the wake of such stellar returns, investors might be forgiven for wondering just how high this Wall of Worry goes?

In assessing the current condition of global equity markets, it is easy to identify the Worries which make up that Wall. The US dollar, after reaching a three-year high in January, has fallen 10 percent. Such a drop represents the worst six-month performance for the American currency (which is arguably the global currency) in more than 40 years! The US national debt has ballooned to 125 percent of GDP. It has only been higher in the wake of WWII and for a short stint in 2021, right after COVID virtually shut down the global economy. Policies out of Washington do not show any inclination to stop the debt from growing irrespective of which party is in power. As of the end of September of 2025, there was still war raging in Ukraine and Gaza. Meanwhile, war anxieties were spreading in Europe as Russian drones were found to be flying over Poland, Romania and Latvia. Russia, by nature of these incursions beyond the boundaries of NATO countries, aims to test the Alliance's unity and resolve. The Russians want to put NATO nations in the crosshairs of a difficult dilemma. They need to demonstrate a credible deterrence, but they also have to navigate the risks that escalation with Russia brings. NATO has to preserve the principles of collective defense which are the essence of the Alliance while having to answer the blunt question of just how much Germany, France and the UK are willing to put at risk for the likes of Latvia?

In spite of these concerns, stocks are setting all-time highs in Amsterdam, Frankfurt, London, Paris and of course, the United States. And that applies to all of the stock markets in the US: the big, broad S&P 500, the tech-focused NASDAQ, as well as the stodgy Dow Jones, are all at levels never seen before. Even when you get down to the Russell Small Cap index, which is supposed to be most focused on the health and direction of the US economy, about which clearly there is some debate, you find that index at a new record high as well. The VIX, or so-called "fear index" because it measures the level of volatility in US stock market prices, ended the third quarter at ~16, roughly 19% below its average value for this year. That theme of calm also extends to bond markets. The MOVE index which measures "fear" in the bond market as demonstrated by price volatility in bonds is 23% below its average this year. Bond investors are particularly sanguine about the current state of affairs. High yield bond spreads are ~16% below their average for the last year, but they are more than 90% below their long-term average spread. So, high-yield bond buyers are not the least bit worried right now.

It must be said, however, that not every measure of market risk has remained tranquil. The price of gold has skyrocketed! During the third quarter, the price of gold outpaced stocks, the same is true for this calendar year, it is also true over the last three years! Gold is usually seen by investors as an asset to seek out when fear is rampant. After all, gold does not provide any income. In fact, to hold gold one must pay often a substantial amount to keep it safe, which represents a negative carrying cost. So, what could possibly be the motivation that has driven investors to push the price of gold up 150% in three years? As it turns out, there are deep-seated political incentives driving some very large, and very important investors to increase their gold holdings. In 2014 when Russia first began a covert military intervention in Ukraine, the United States and the EU took the extraordinary step of freezing assets of some Russian individuals. In 2022, when Russia formally invaded Ukraine, the US and EU imposed what was called at the time a financial nuclear bomb of sanctions. They froze $300 billion of Russian foreign exchange reserves which were held at Western financial institutions. This move made holding US dollar assets much riskier for anyone who feared that they might ever run afoul of the directives of the United States. Such investors, be they central banks, rogue warlords or Mafia dons, have been buying gold in volume ever since that time. Such buying, in addition to the normal amount of trading in gold, has led to this remarkable runup in the commodity's price, and it does not show signs of slowing down.

Now, it takes a lot of investors buying stocks to cause so many stock markets around the world to reach new highs, and these investors do have their reasons. Even though the global economy is slowing down, it is still growing, and profits are also growing. This is particularly the case in one area of the economy. Artificial Intelligence has the potential to revolutionize how we work, learn and play through its almost unfathomable ability to enhance and innovate the way we go about all of the tasks in our lives. Investors the world over are in hot pursuit of the promise of AI. From stocks of designers of the most advanced semiconductors to the utilities which will generate the colossal amounts of electricity required to run the data centers, investors' chase to capture AI's rewards is in full swing.

Stocks climbing a Wall of Worry is a hackneyed old phrase, but as long as we're analyzing that one, perhaps we ought to keep in mind another saying that's almost as old: stocks take the stairs up but the elevator down. When panic sets in corrections occur with an unimaginable ferocity and quickness. Concerns about coming corrections should not lead prudent investors to eschew their penchant for building well-diversified portfolios composed of Quality stocks trading at a discount to their underlying fundamental value. It certainly won't stop us here at Haven Global Partners from doing just that.