

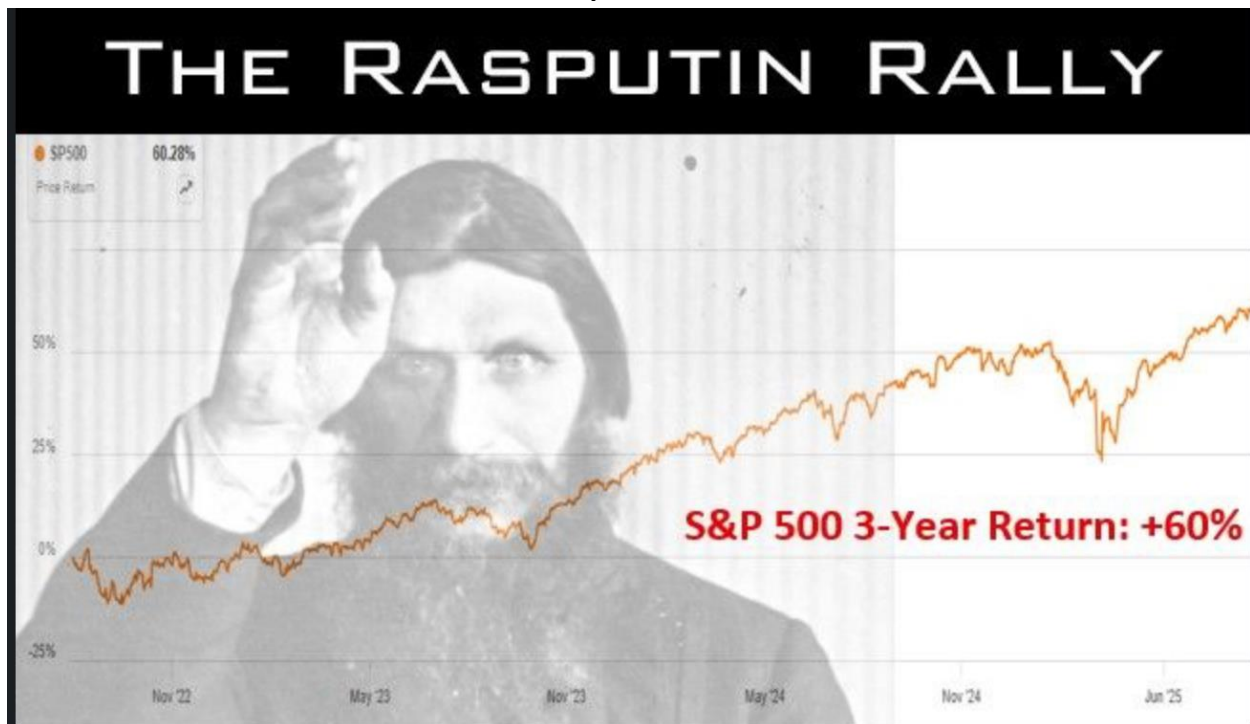


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October 2025 Market Commentary

The Rasputin Market



“This devil, who was dying of poison, who had a bullet in his heart, must have been raised from the dead by the powers of evil. There was something appalling and monstrous in his diabolical refusal to die.” By Felix Yusupov, Rasputin’s assassin

In a recent *Barron’s* article, Andy Serwer compared today’s stock market to Rasputin - the Russian mystic whose influence over the imperial family of Nicholas II made him a target of nobles desperate to end his reign. They stabbed him in 1914—he survived. In 1916, they fed him cyanide-laced cakes and wine—he survived. They shot him once, then again—he survived. Finally, they bound him and threw him into the icy Neva River. Only then, on December 29, 1916, did Rasputin die.

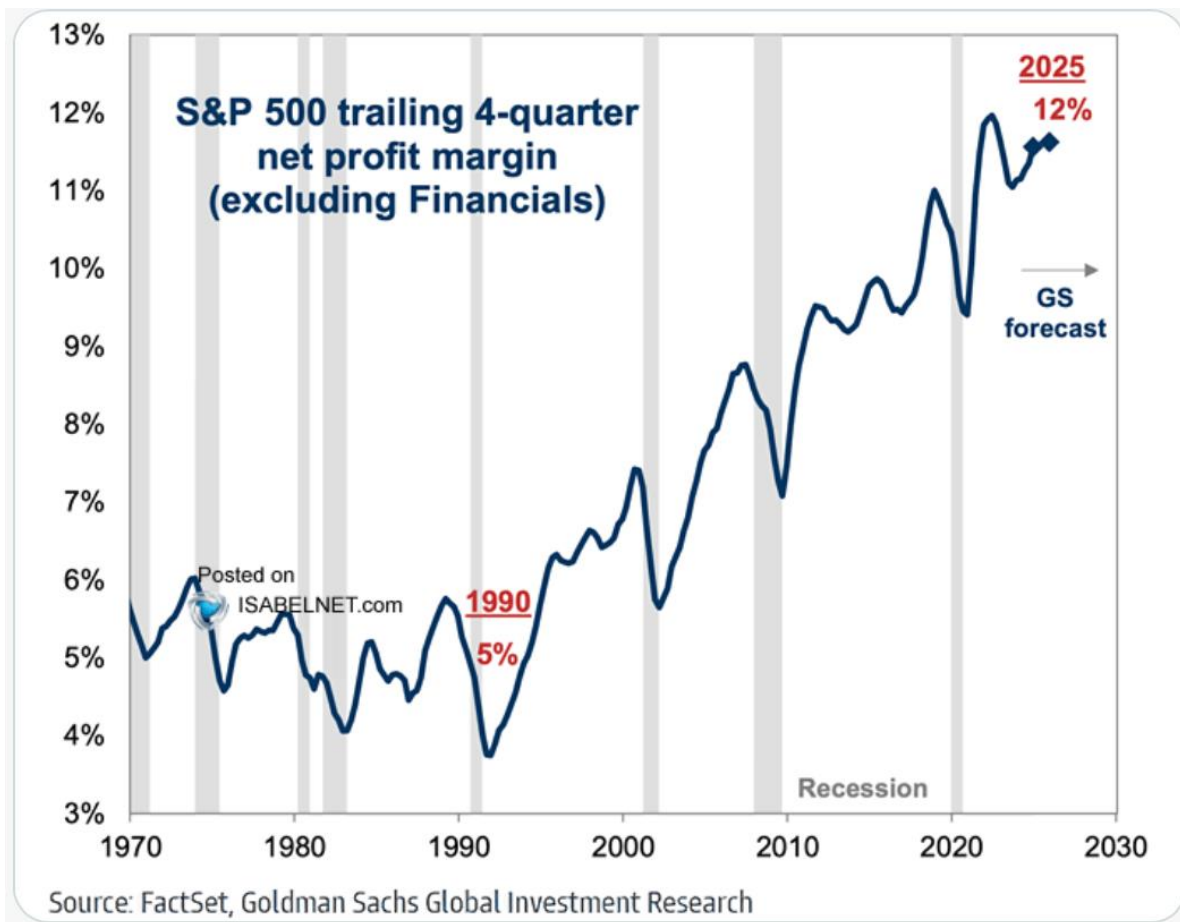
In true Rasputin-like fashion, the S&P 500 has risen 75% over the last three years (20.5% annualized), but it hasn’t all been clear sailing. It has survived high-inflation (that wasn’t transitory), interest rate hikes as well as continuing interest rate uncertainty, a severely bifurcated economy where the top 10% are doing well while the other 90% are struggling. Not to mention a presidential election, a couple of assassination attempts, new tariff and trade policies, an ever-changing immigration landscape, skyrocketing government debt, a falling dollar, and the soaring price of gold. And of course, ongoing military conflicts.

Despite it all, U.S. stocks continue their ascent—leading to record-high valuations. Using a combination of valuation metrics (see below), the S&P 500 is now at valuation levels seen only during 1929, 1966, and 1999.



Vanguard founder Jack Bogle once said, “Reversion to the mean is the iron rule of financial markets”. But what if this “iron” rule isn’t true anymore, or at least not as true.

First, there are some very good reasons why stocks have risen to new highs. Profit margins have risen to record levels, and the AI revolution may lead to even higher margins.



And while the top-10 companies command the highest concentration in history, their earnings have also kept pace, unlike 1999.

Weight of the top 10 stocks in the S&P 500

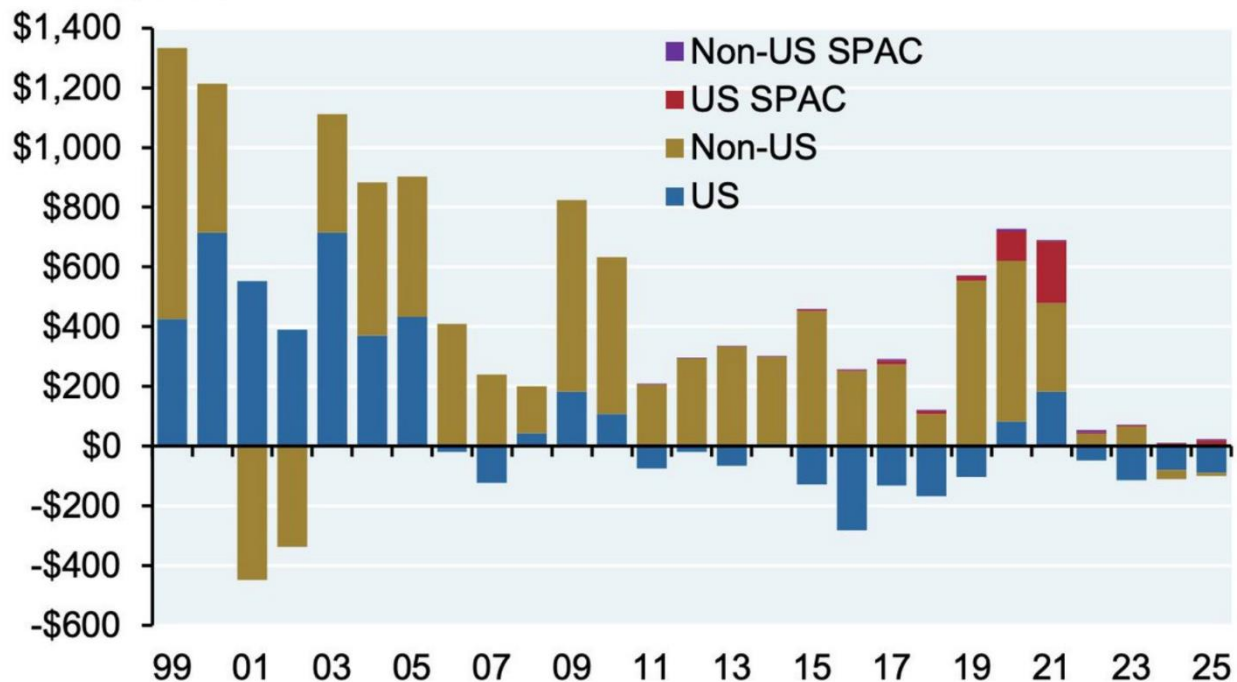
% of market capitalization, % of last 12 months' earnings



Another simple explanation is economics 101, when supply falls and demand increases, prices rise. The chart below shows that for most of the last decade U.S. equity supply has been negative. This means that the increasing level of global liquidity is chasing a shrinking supply of U.S. stocks.

Global net equity supply

Billions, US\$



Source: JPM Flows & Liquidity, September 2025

Another theory that I'm putting more and more credence into is "The Death of Reversion to the Mean" due to the rise of passive investing. Passive investing (indexing) now accounts for **53.4%** of all mutual funds and exchange traded funds (ETFs). Indexing has been one of the greatest investment inventions, it allows individuals to own a large, diversified portfolio of stocks at a low cost. Why is this potentially a problem?

Most passive funds buy stocks based on their inclusion and weight in an index, with the S&P 500, by and large the most popular index vehicle. These funds are very efficient, but they present some interesting problems. Their widespread use is leading to markets becoming less responsive to fundamental factors like earnings. A large S&P 500 index fund doesn't care about a company's most recent earnings announcement or growth prospects, it only cares about it's weight in the index.

A great example of how this concentration into the hands of passive investors can impact price movements is Oracle. Oracle is the 15th largest stock in the S&P 500 with a market-cap of about \$800 billion. Larry Ellison owns about 42% of the stock making him the worlds second richest person, about 25% is held by index funds, the remaining 33% is owned by public companies, pension funds and individuals. When Oracle announced a \$300 billion deal with OpenAi on September 10th, the stock surged 36% in minutes. Why? Because the tradable float is limited - Larry Ellison isn't selling, the passive index funds aren't selling, and most of the others will sell only at a higher price.

This feedback loop—where strong performance leads to more buying, which leads to more strength—is concentrating capital in fewer names and making traditional valuation models less predictive. This dramatic change in the structural makeup of the stock market is making past valuation models less relevant. I'm not saying valuation is useless, but I am saying that historic valuation metrics may not work in a market that is drastically different from history.

Rasputin may have been very difficult to kill, but he proved again that none of us can cheat death. We know that trees don't grow to the sky, and that there is a point in a stocks valuation where fundamentals will matter. In our current market structure, it just might take longer than it has historically. Until then, we play the hand we're dealt.

As always, be careful out there.

Chris Wiles, CFA



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