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The S&P500 is not the Holy Grail (it's a very naughty index)



Executive summary:

1. The S&P500 isn't as safe as it looks.

Its uninterrupted 15-year run has convinced younger, YouTube-influenced investors it's risk-free, but that "buy the dip" confidence coincides with valuations reaching levels last seen in 1999, which were followed by a lost decade for tracker holders.

2. UK investors face extra risks Americans don't.

A strong dollar versus the pound is another potential headwind, and there's a low-but-real risk of capital controls (Trump's proposed tax on foreign holders of US assets, though dropped from the "Big Beautiful Bill," signals a potential direction of travel).

3. Why go "all in" on an S&P 500 Tracker?

Concentrating 100% of a portfolio in a foreign index is risky at the best of times. But when that index is expensive, the currency is pricey, and geopolitical tension is rising, it is a breathtakingly risky thing to do.

The same thing's cropped up in conversation with a few of you recently; clients asking why their adviser doesn't just save a load of hassle and cost by putting everything into an S&P500 tracker. And these aren't young clients, from whom you might expect that kind of question, they're retirement age (or close to it). So that's what I'll address in this letter; is this a fair question?

Well, yes, it's fair to ask. And I understand why they're asking it, but it won't surprise you to hear that I think that doing that – going all in on the S&P500 – is a potentially dangerous mistake. I'll explain why, starting with what (or who) sparked the notion in the first place.

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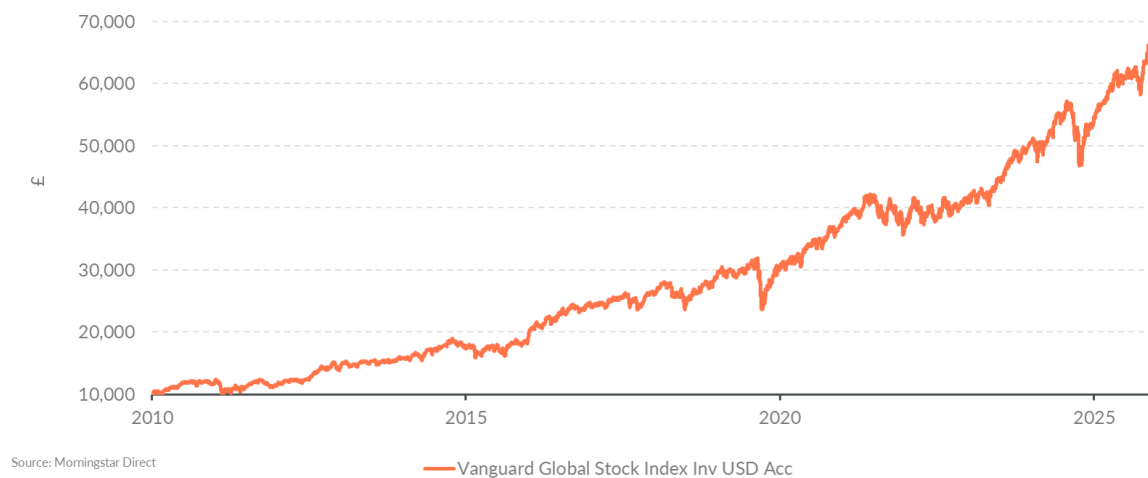
Third Quarter, 2026



Under the Influence

From what I've been told, the seeds were planted by the clients' kids or grandkids, who themselves learned it from influencers on YouTube/Tik Tok/Insta/Whatever. It's easy to understand why they think this is such a good idea from the chart below. That's an S&P500 tracker fund over the last 15 years. It's gone up almost uninterrupted, which is great. But this kind of stability changes assumptions and behaviours. If you're under the age of 33, for example, for all of your adult life this is all that ever happens: the S&P goes up.

The Perpetual-Motion Portfolio?
Global Equity Tracker, June 2010 to June 2026



Source: Morningstar and Downing Fund Managers. Total Return, in GBP terms. 01.07.2010 to 30.06.2026

Past Performance is not a reliable indicator of future performance.

And sure, there are always old codgers out there - like me - banging on about diversification, valuation, and all that old-timey stuff. The trouble is, if they heeded the Young Gun Brigade's advice a few years back by diversifying (into different markets or asset classes), it didn't pay off. They'd have been much better off sticking it all on one thing: the S&P500.

Which means, to them, it feels like they've (sort of) scientifically tested this theory over a long period of time, most likely the last five years. Because if you're 28, five years is a long time. And in the last half-decade you've seen the back of Covid, the Ukraine Invasion, an inflationary bond market crash, Liberation Day and the Iran War. Each time, the S&P 500 has dipped alarmingly, but then bounced right back, leaving all other markets and assets trailing in its wake. This is why "Buy the Dip" has become a Gen Y/Z motto.

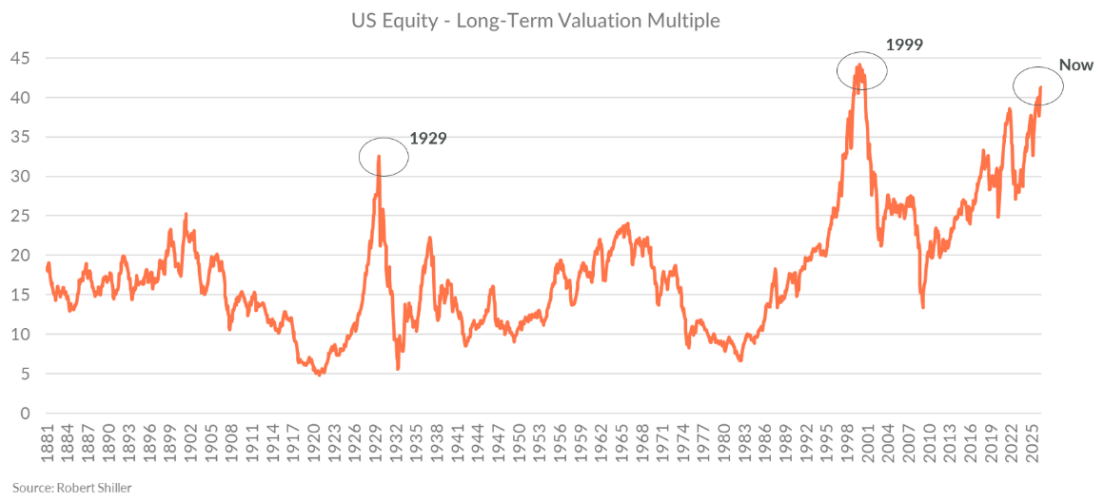
But this is how The Cruel God of markets operates. If you're not familiar with this mischievous deity's work (and I strongly suspect that you are), it's enough to know that his favourite trick is to lure as many people into a financial trap as possible, then slam it shut. And this is one of his lures: each one of those temporary dips creates the impression that the S&P500 is risk free. Whereas other assets, like say bonds or UK equities, look riskier because they've had serious setbacks.

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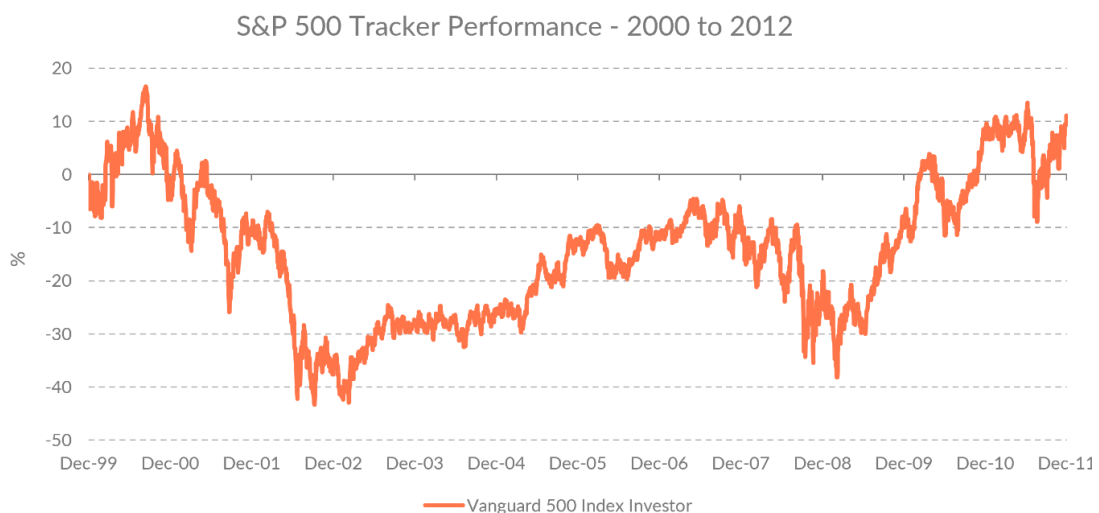
But you should be fearful of things that everyone assumes to be safe. In the equity world, one reason for this is valuation risk. If everyone starts buying one thing – the S&P500 – because it's the “obvious” thing to buy, it pushes its price upwards, so you get less for your money. This is what happened in 1999, and as you can see from the chart below, it's where we are today too:



Source: Downing Fund Managers & Robert J Shiller, CAPE Ratio, Jan 1881 to Jun 2026.

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So the S&P 500 is just about as expensive as it's ever been. The last time it got this pricey, this is what happened next:



A Downing Fox Chart

Source: Morningstar Direct, GBP terms 01.01.2000 to 31.12.2012.

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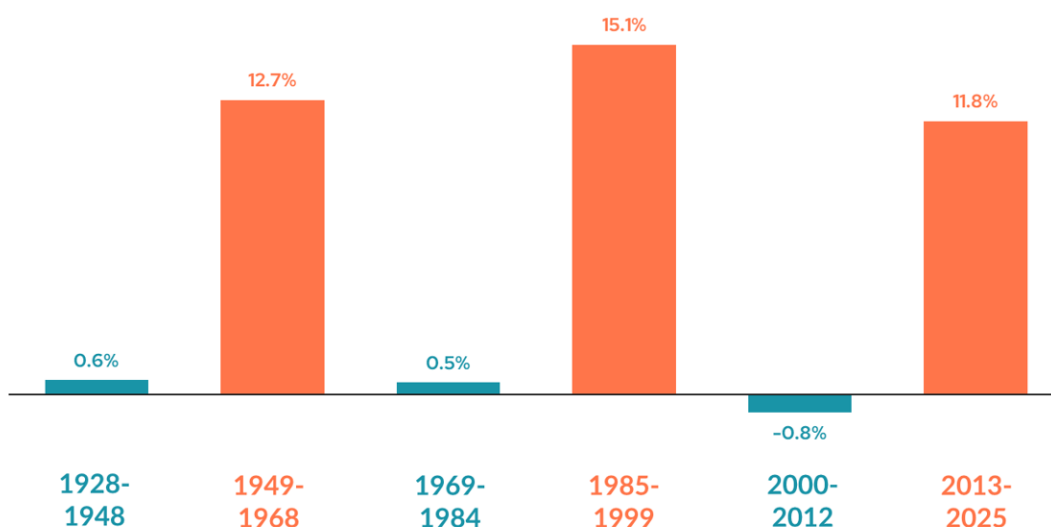


That's more than a decade to break even from your initial investment. If a box-fresh influencer thinks five years is a long time, let's see how they cope with double that – all spent underwater. That's as long, for the record, as it took Odysseus to get home after the Trojan War, and they made poems and movies about that.

But I suppose your average finfluencer has time on their side, so maybe they'll be OK. But if, like most of your clients, you're older and within thinking distance of retirement? Ouch.

So no, the S&P500 doesn't just go up. It can go down too. And severely so. And these things come in waves. It's a cycle: a prolonged period of outstanding returns causes more and more people to pile in, which drives valuations to unsustainable levels. It then takes an equally long period of indigestion to wash it all through, as people take the opposite view: why would you put *anything* in that?! Those long waves are what this chart shows:

Average Annual Real Returns, S&P 500



Source: Aswath Damodaran, NYU Stern School of Business (updated Jan 2026); BLS CPI-U

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Ok, let's calm things down. I'm not predicting an imminent crash, or that there'll even be a crash at all. There might be, but then there might not; the future's not written and trying to time such things is impossible without a huge slice of luck.

That said, there's more risks involved than simply overvaluation and the swings of the stock market.

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We're not American

I don't know which influencers it was doing the influencing, but I wouldn't be surprised if they were American. Or, even if they're not American, that they think they are: thanks to social media, nationality identities have become more blurred for younger generations, as evidenced by them being more engaged by American political events than British ones (theirs are usually more exciting, to be fair).

If they are American, they don't have to worry about two other risks that we Brits do. One of those is currency, because if the dollar weakens, they'll be fine. But UK investors will take a hit from that, even if the stock market stands firm. And, as we stand, the US dollar is unusually strong versus the pound (I felt this on my recent trip to New York, the cost of which nearly reduced me to tears). Doesn't mean it's about to reverse, of course – but doesn't mean it won't, either.

And secondly, for the first time in a long time, there's a low but meaningful risk of capital controls. These are government-imposed restrictions on the flow of money into or out of a country. President Trump raised the spectre of this, in the form of taxing foreign holders of American assets by proposing it as part of his Big Beautiful Bill. Thankfully it didn't make the final cut, but it shows how money-strapped policy makers are beginning to get desperate. It would sting to lose some of your capital to a foreign tax, or to have it trapped overseas for a period of time should international tensions spike.

This kind of thing is a risk again, having been dormant for decades. To be clear, I think it's currently a low risk, but I still wouldn't fancy taking it with 100% of my pension.

So that's my hot take on the current hot take: by all means hold an S&P500 tracker, but put *everything* in it? And to do so when it's nose-bleedingly over-valued, the US dollar's expensive, and international tensions are rising? (And at a time when your home market looks like a bargain?) That is, frankly, a breathtakingly risky thing to do.

The S&P500 isn't the holy grail financial influencers think it is: think twice.

Good luck out there,

Simon Evan-Cook

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