

# Markets Stay Strong Despite Bubble Concerns

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The summer saw another strong stretch for U.S. stocks. Despite high valuations, rising tariffs, a cooling job market, and plenty of geopolitical drama, all three major indices hit fresh records in August, locking in solid gains for the month and the year.

Many investors assume the market is more overvalued than it was in January, but that's not the case. Stocks are expensive, yes, but earnings growth has more than kept pace. The S&P 500 has gained nearly 10% so far this year, but earnings per share are up more than that. The constant talk of a "bubble" seems to reflect sentiment more than fundamentals. Ironically, bubbles are most dangerous when no one is talking about them—today, warnings are

Economic data has also been a pleasant surprise. Productivity growth accelerated in the second quarter, rising 2.4%, as output outpaced hours worked. That's welcome news for wage growth and inflation. Economists are quick to point out that U.S. gains are leaving other developed economies in the dust, with AI adoption fueling efficiency and boosting optimism for sustained economic outperformance.

Tariffs, meanwhile, have been less damaging than feared—at least so far. A Barclays study pegged the effective tariff rate at around 9%, well below the headline figures. Many imports remain duty-free, and sourcing shifts have softened the blow. Still, higher rates are likely ahead, with threats of steep levies on pharmaceuticals and semiconductors looming.

If investors are worried, they aren't showing it. Earnings season has been far better than expected, with S&P 500 profits up roughly 12% in Q2—double what analysts

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everywhere.

A big driver behind market momentum? Cash. Recent tax changes are putting billions back into corporate pockets. AT&T, Meta, Amazon, and others expect massive savings—some equal to 30–40% of projected free cash flow. Provisions like upfront depreciation and R&D expensing aren't just one-off boosts; they're longer-term tailwinds, helping counterbalance the uncertainty from tariffs and other policy moves.

predicted. "Recession" mentions on corporate calls are down 84%, a sign that executives feel more confident than they did this spring. That optimism has pushed stocks to repeated records, with the S&P up just short of 10% year-to-date.

But it's not all smooth sailing. Market gains remain concentrated in tech, communications, and AI leaders like Microsoft, Meta, and Nvidia, leaving other sectors lagging. Inflation pressures are bubbling up through the

economy, with greater impact expected to hit soon. Tariffs are making U.S. trade policy look increasingly aggressive abroad as the U.S. is increasingly viewed as a pariah state internationally. The jobs market is also showing cracks, with recent revisions sharply cutting growth figures for May and June.

Put it all together, and you get a market that's powering higher on strong fundamentals and AI-fueled optimism, but also one priced for near perfection. That's a high bar to clear—especially with tariffs climbing, inflation lurking, and future growth questionable.

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