Just six months ago, predictions were calling for a 70% chance of a recession. Many investors were overly concerned, with less disciplined ones choosing to remain underinvested and defensively holding excess amounts of cash. To their surprise, the stock market continually advanced, reaching all-time highs dozens of times this year. These same investors are now buying at higher prices, struggling to catch up in performance due to “FOMO” (Fear of Missing Out). Unfortunately, this costly investor error in judgment is continually repeated even though it is generally accepted that equities have proven to be the most rewarding asset class when implemented prudently. That is why equities now account for more than two-thirds of household financial assets. By comparison, households kept less than one-third of their financial assets in equities in the early 1980s. Cash was the preferred asset class, accounting for more than half of household financial assets as interest rates and inflation skyrocketed in the late 1970s. During this time, bonds outperformed equities as well.

After the recent rally, most Wall Street forecasters are increasingly optimistic, expecting the upward trend to continue through year-end. However, some are undecided whether this is a boom or bubble, drawing comparisons to the dot-com rally in late 1999. Similar to internet stocks then, companies striving to compete for dominance in artificial intelligence (AI) or quantum computing are valued at extraordinarily high prices. Yet most experts conclude that conditions are different today. As most are aware, AI technology is early in its lifecycle and years away before consumers will likely accrue full tangible benefits. IBM’s CEO, Arvind Krishna, predicts quantum computing is the next big thing, expecting breakthrough innovation with commercialization around 2030 with ramifications that are expected to equal or surpass AI when its abilities exceed the best of conventional computers. A recent article by Christopher Mims in the *Wall Street Journal* stated that quantum computers have the potential to defeat the encryption on which everything from passwords to bitcoin depends. They also can speed up improving solutions on behalf of logistics companies and militaries alike. Proponents claim that quantum computers eventually could lead to breakthroughs in every area of materials science, medicine, and agriculture, doing some calculations billions of times faster than conventional computers. Today’s unparalleled innovation cycle is spearheading promise for faster economic growth worldwide and investors are willing to chase these anticipated advances years before knowing which companies will succeed or fail and the timeline to reach innovation.

Warren Buffett evaluates stock market environments differently. He doesn’t speculate on companies with expected profitability far into the future; nor does he believe the beginning and the end of bull and bear markets are predictable. He refers to these market events as symptoms of two super contagious diseases, fear and greed, that will forever occur. “The timing of these epidemics will be unpredictable. And the market aberrations produced by them will be equally unpredictable, both as to duration and degree. Therefore, we never try to anticipate the arrival or departure of either disease.  Our goal is more modest: we simply attempt to be fearful when others are greedy and to be greedy when others are fearful.” At ICC, we recognize that there are some market timers, suddenly famous for making an accurate market prediction, but there is nobody on record who has repeated this feat. Even though the best experts fail at or avoid market timing altogether, investor overconfidence does not preclude others from attempting to move capital in and out of markets profitably.

Investors today are told that our economy is strong and gradually slowing, a process that will reduce inflation. If our Federal Reserve is committed to driving inflation lower, then why is gold foretelling a different story? Gold is up 50% year-to-date while many other commodities have barely budged. A minority of Wall Street icons share a different view. J.P. Morgan Chase CEO, Jamie Dimon, has warned about the effects of U.S. federal spending while Treasury Secretary, Scott Bessent, downplayed this concern, responding, “For his entire career, he’s made predictions like this but none of them have come true.” Ken Griffin, the founder and CEO of Citadel LLC, the industry’s largest hedge fund and one of the biggest providers of liquidity to financial markets worldwide, says that some institutional investors, including sovereign wealth funds, are quietly hedging against U.S. sovereign risk or increased economic and/or political instability, which can perpetuate stronger inflation and a weaker dollar. He sees current fiscal and financial stimulus policies better suited to resuscitating a recessionary economy than a growing economy. According to Griffin, “The Trump Administration is clearly trying to encourage economic growth in the U.S.; they are unquestionably interested in America’s prosperity in a way that we have rarely seen from administrations in years past. This means our economy is definitely on a bit of a sugar high right now. And gold is one sign of a comedown.” Financial markets are supported by the trillions of dollars being invested in the promise of artificial intelligence, strong consumer spending, and growing business confidence.

Investors appear content with locking in current bond yields because the Fed is more likely to lower than raise interest rates. President Trump is advocating for this move, repeatedly demanding the Fed lower rates to stimulate the economy further. Bond owners know that when interest rates fall, bonds can appreciate in price in comparison to the diminishing yield on cash. The difference in yield between low- and high-quality debt has seldom been this narrow, indicating that speculative buyers are comfortable assuming greater risk for little incremental yield. The Investment Counsel Company does not agree. Instability in financial markets occurs when most investors are least prepared or expect it. Our investment experience over nearly 50 years has taught us that having an effective contingency plan can prove highly beneficial during critical periods.

Overall, the President’s ever-changing tariffs are the largest threat to a continuation of the bull market. We recognize that unwelcomed surprises to financial markets can occur due to missteps by the President, Fed, Congress, or elsewhere. But the Fed’s recent and potential rate cuts aim to support the economy amid differing financial conditions across industries. The Fed is attempting to look through the disruption of the tariffs, shutdown, and delay in economic data. During non-recessionary periods, financial markets for stocks and bonds are up more than two-thirds of the time in the year following rate cuts. Monetary policy’s strong influence on the stock market is why Wall Street legend, Marty Zweig, coined the phrase, “don’t fight the Fed” in 1970.  Also in investors’ favor, the second quarter’s earnings season was one of the best since the pandemic reopening. Companies, especially the largest ones, are managing the challenging earnings environment well, and earnings growth should remain positive into early 2026. Investors perceive the Fed’s intentions as supporting a stronger economy, and therefore, positive for both the stock and bond market. Continuing to fuel the markets is a substantial wave of cash flowing into risk assets with $7.5 trillion sitting in money market funds.

Our team at ICC looks forward to engaging with our clients during the months ahead to discuss your priorities and how we can continue to serve you best. Thank you.

Sincerely,

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| --- |
| **Randy A Garcia**, CIMA, AIFA Chief Executive Officer |