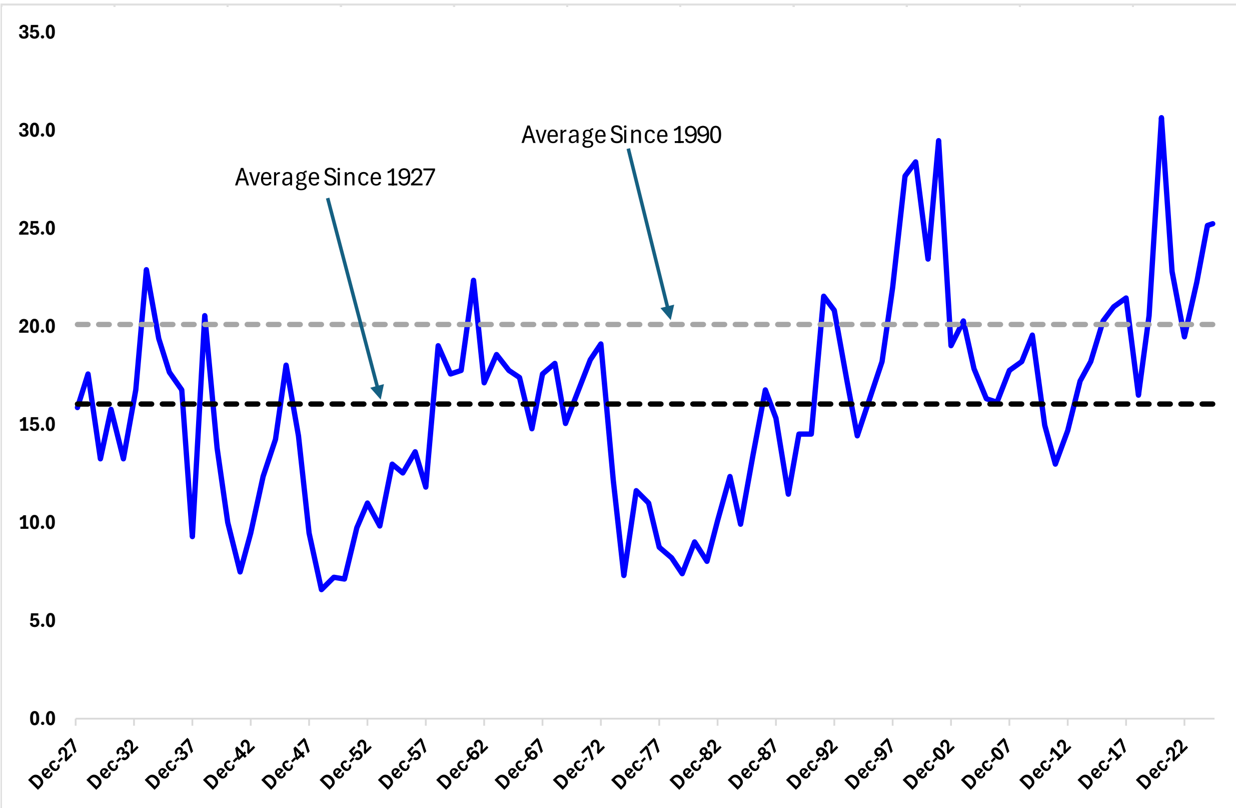
Despite elevated geopolitical risks, it was another relatively muted week for stocks – the S&P 500 finished virtually flat compared to last Friday's level. Over the weekend, the U.S. carried out a successful air strike against three nuclear facilities in Iran. Concerns remain regarding the escalating conflict and implications for global oil supply, although Crude prices have now stabilized after spiking during the second week of June. Investors largely appear to be in a holding pattern with summer now in full swing, waiting for greater clarity regarding global trade policy, simmering geopolitical tensions, and the status of the "big, beautiful bill" that promises additional tax cuts and the passage of the federal budget.

As hard as it may be to fathom given the volatility spike which occurred earlier in 2025, stocks are essentially flat since the day after the election last November. The close on November 6 (the day after President Trump's election victory) marked a period that saw the S&P 500 soar a whopping 57% over the prior 24 months, one of the best two-year spans in market history. Since the close that day, the index is up less than 1%. It is my view that the gestation of gains which occurred in 2023 and 2024 represents a healthy consolidation, setting the stage for the market to resume its upward trajectory fueled by corporate earnings growth versus further expansion regarding valuation multiples.

One question that continues to surface is whether elevated valuation levels for the stock market as a whole are justified. Many of the bears point to the fact that interest rates have moved well off the lows during the era of zero-rate policy that followed the 2008 Financial Crisis. In their minds, this suggests a lower valuation multiple should be appropriate in a higher rate environment. Furthermore, policy uncertainty remains high, which implies to some that valuations should adjust to account for this additional risk factor. Respectfully, I disagree.

The composition of the U.S. stock market has changed significantly in recent years. We could write extensively regarding the evolution of AI and the shift towards technology, services-oriented companies that has altered the economic landscape of the U.S. since the early 1990s. The key point is that the companies which command the largest market share enjoy greater margins and more resilient business models with much lower levels of balance sheet debt compared to the make-up of our stock market historically. Enterprise spending, which is driven by long-term capital investment plans, is a key component of the earnings generated by today's market leaders. Consumer spending, which can be fickler, is of course still important given it comprises roughly two-thirds of GDP. However, it's prominence as a key corporate earnings driver, while still significant, has somewhat waned over time. This suggests a greater level of resilience and predictability regarding earnings compared to older market cycles, justifying a richer valuation multiple for these higher quality companies regardless of the rate environment. In fact, since the early 1980s, the earnings multiple for the S&P 500 has steadily climbed higher. In other words, comparing current trading levels to historical precedent is, to a meaningful extent, comparing apples to oranges.

S&P 500 Trailing Price/Earnings Ratio: 12/1927 – 6/2025



Source: S&P Global, Macrotrends

Instead, as investors, it is paramount to judge the merits of each individual company based on its specific business model, growth expectations, and balance sheet health. Companies with more dominant market share and competitive advantages with high growth expectations should command a market premium, and vice versa. The key question is how much an investor should pay considering a company's earnings profile and growth outlook. Utilizing this form of analysis on a company-by-company basis should lead to more optimal investment decisions versus assessing the market as a whole as overvalued or undervalued.

I still believe the market's most likely course over the near-term is to remain relatively range-bound, absent a shock event occurring that's not currently priced in. Looking at the bigger picture, after the upside and downside volatility which has taken place since the beginning of the pandemic in early 2020, a more stable market and solid earnings growth would be a nice change for patient investors. As renowned economist Burton Malkiel put it in his famous book, A Random Walk Down Wall Street, "the stock market is like a gambling casino with the odds in your favor." We agree with that sentiment over the long term, with the important caveat that investors efficiently allocate capital in a manner that aligns with their personal financial objectives and tolerance for risk.

Andrew P, Kerai, CFA®

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