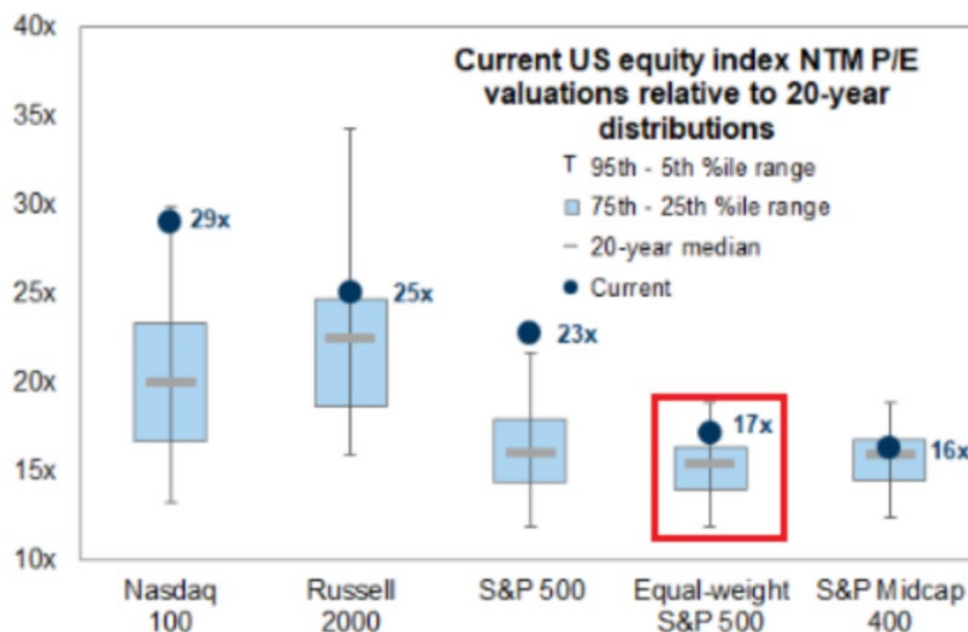


Aside from regular economic data releases, it was a quiet week. On a positive note, the monthly PMI readings¹ confirmed that both the manufacturing and services sectors remained in expansion territory. Furthermore, durable goods orders for August surprised to the upside, weekly jobless claims were slightly below forecast, and the August PCE inflation print was relatively tame. The Atlanta Fed's GDP forecast model (GDPNow) is now predicting 3.9% growth during the third quarter while second quarter GDP growth was revised up to 3.8% from 3.3% previously.

In short, last week's economic data is consistent with an economy that remains in expansion territory while inflation is relatively contained. For the bulls, this is a welcome sign that recession risk over the near term remains low while the Fed may cut rates further at upcoming meetings. When considering the capital spending boom that we are currently witnessing, this economic backdrop is highly supportive regarding go-forward earnings growth. Aside from concerns regarding elevated stock valuations, I believe there is very little the bears have going for them given the strong fundamental backdrop for American businesses overall.



Source: Compustat, FactSet, IBES, Goldman Sachs Global Investment Research

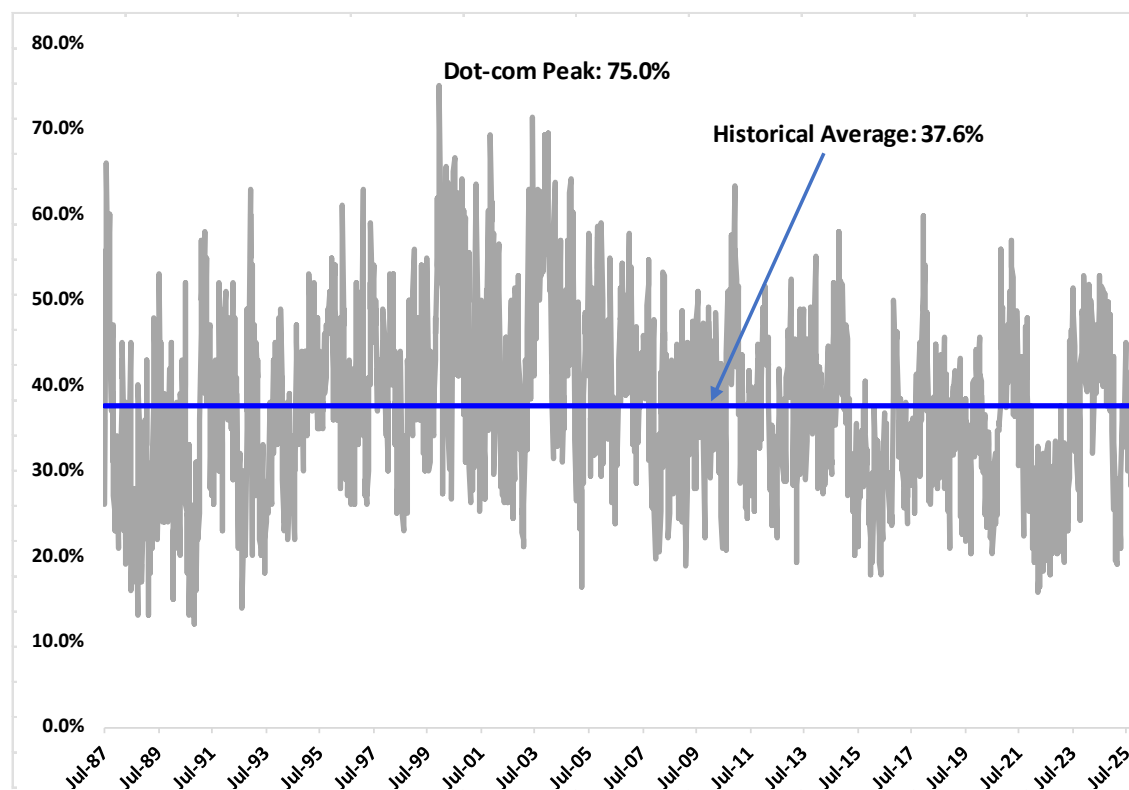
Having laid out the bull case, however, investor expectations have become elevated. In my view, significant downside would likely follow if companies fail to clear the high bar that's been set given current pricing levels and growth forecasts. I don't necessarily believe markets are yet priced for perfection, but there's likely to be little investor patience for

¹ Source: S&P Global Manufacturing and Services PMI flash readings for September, released on 9/23/25

disappointing results. We're essentially in an environment with robust corporate fundamentals and premium valuations, which may persist for the foreseeable future. As long as the fundamental picture remains strong and growth forecasts are realized, this secular bull market likely has significant further upside. It's my view that near-to-medium term market appreciation is likely to be driven by earnings growth versus further multiple expansion.

The question that always seems to surface among market participants and across the financial press – where are we in the cycle? While the answer is always clear in retrospect, it's rarely obvious at the time. Not many, for example, would have confidently predicted that we were about to kick off a multi-decade bull market during the depths of the financial crisis in late 2008/early 2009. Likewise, few money managers in 1999 were forecasting that the S&P would get cut nearly in half over the next few years. Some market followers are claiming we have now entered a “third leg” of the current bull market. This period is generally characterized by buoyed investor optimism, which often leads to the euphoria that drives speculative bubbles. The earlier stages of a bull market, in contrast, generally include improving fundamentals and more cautious investor behavior following the end of the prior bear market.

Percentage Of Bullish Investors: AAI Sentiment Survey



Source: American Association of Individual Investors

While sentiment has improved recently, I don't agree that we are in the midst of "end stage" bull market behavior. Firstly, investor optimism is nowhere near the euphoric levels witnessed during the height of the dot-com boom. At the end of the 1990s, 75% of investors considered themselves bullish, a record high since the American Association of Individual Investors began taking the survey in 1987. In contrast, 42% of survey respondents currently consider themselves bullish, which is only slightly above the historical average of 38%. In addition, there's still a record \$7.5 trillion² of cash parked on the sidelines in money market funds. Should the Fed cut rates further as expected, that may encourage at least some of this capital to flow into stocks. Most importantly, earnings estimates have recently been revised higher, which is generally consistent with early cycle behavior versus a market peak, where downward forward revisions are commonplace.

While it's not all roses, the current fundamental backdrop is encouraging for stock investors. Over the immediate term, a potential government shutdown may usher in some volatility, although I believe that will likely be very short lived if it occurs at all. As noted earlier, I also agree that the bar has been raised for company performance, which can skew risk/reward to the downside given elevated valuations. However, the strength and magnitude regarding capital spending growth likely far outweighs valuation concerns, in my view. And if the next leg higher is driven by profit expansion while valuation multiples don't become too frothy, that's positive regarding the health and durability of this bull market.

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² Source: Federal Reserve Bank of St. Louis, data as of June 30, 2025