The S&P 500 finished up 1.7% last week, re-igniting the rally that temporarily paused the week before. The primary catalyst driving the move higher was a perceived thawing of trade tensions between the US and China. In addition, TSMC's impressive earnings and guidance was yet another key data point showcasing continued strength across AI-related demand.

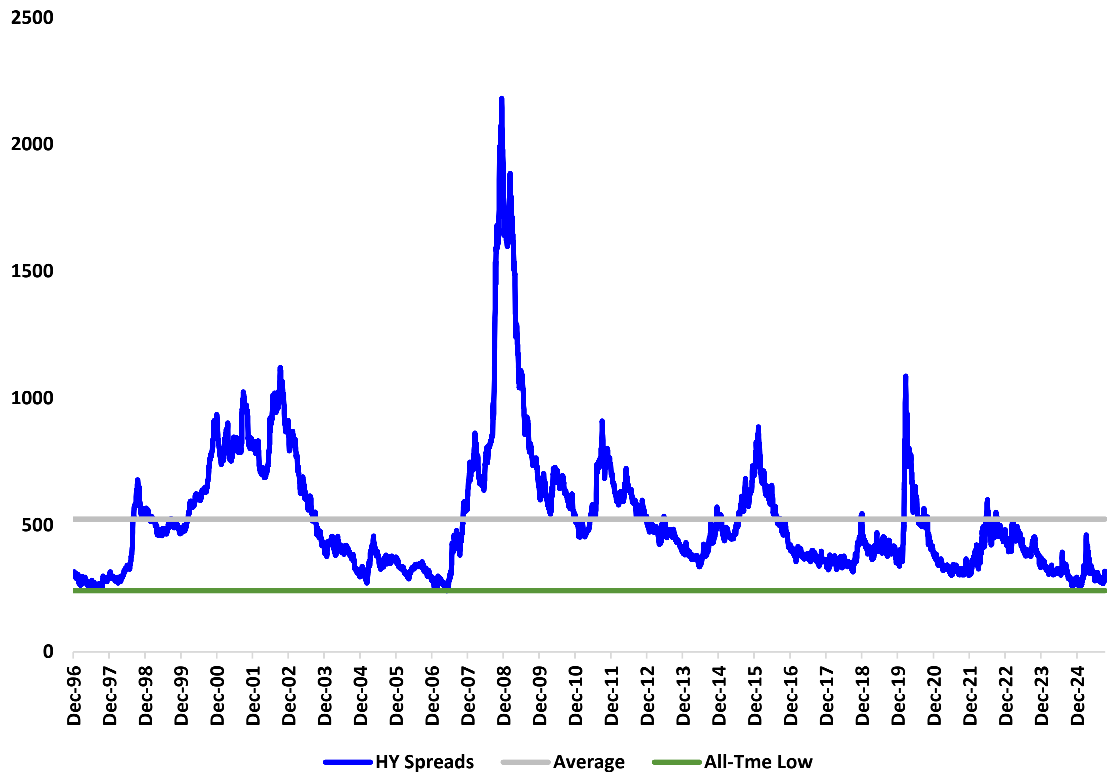
We are now approaching the peak of earnings season and will be hearing from the most consequential companies (i.e. the "MAG 7") over the coming weeks. The guidance and commentary from America's largest and most profitable businesses will be crucial for the market's next move. I believe we are likely to see more of the same – robust, accelerating capital investment, strong revenue growth, and fat margins. Should this trend continue, it could provide the fresh booster shot the market is seeking to finish the year meaningfully higher. With the government shutdown still in place, macroeconomic data is sparse, although headline risk will likely remain elevated given the ongoing trade negotiations with China.

Valuation concerns continue to be front of mind for stock investors. As I've written before, it's my view that these concerns are overblown given the positive growth outlook and secular tailwinds (i.e. capital investment) fueling this bull market. Furthermore, while the S&P 500's price/earnings ratio is somewhat elevated compared to history, it's not yet at nosebleed levels like during the late 1990s. Morgan Stanley's research team recently published data regarding the market's current valuation versus historical periods normalizing for profit margins. Given increased margins, this suggests that valuation levels aren't particularly elevated compared to prior periods. This is consistent with my view (which I've written previously) that comparing today's S&P 500 versus older periods is inappropriate given the now higher mix of asset-light, services-oriented companies. In essence, the market leaders of today, with unprecedented levels of free cash flow generation and little debt, simply didn't dominate the market's composition in the past. Therefore, I believe somewhat higher valuations should be the accepted norm versus evidence that the market is approaching bubble-like conditions.

Last week, earnings reports from the money center banks highlighted continued strength across American consumers and businesses. Loan losses were flat to modestly lower across each of the four large banks, while an uptick regarding investment banking fees confirms that corporate deal activity has been meaningfully picking up.

The financial press in my view has devoted an unreasonable degree of attention to perceived credit risk among business borrowers. This was in part driven by Jamie Dimon's "cockroach" comment ("when you see one cockroach there are probably more") regarding the bankruptcy of auto parts maker First Brands. First and foremost, modest loan losses are a regular occurrence in any economy; lenders reserve for such expected losses. An isolated credit issue from a borrower (or handful of borrowers), or loan portfolio stress for a couple of underperforming and poorly managed regional banks (i.e. Zions and Western Alliance) is likely not cause for broader concern. Credit metrics (loan losses and delinquencies) for consumers and business overall have remained strong while high yield (below investment grade) spreads are roughly 200 bps below the historical average. Bother of these broader metrics confirm an absence of credit stress or meaningful concerns. In essence, while a salacious story regarding a particular business borrower may generate headlines, there's no readthrough for the broader credit landscape.

High Yield Corporate Bond Spreads (Basis Points): 12/1996 – 10/2025



Source: ICE BofA US High Yield Index, Federal Reserve Bank of St. Louis

Looking ahead, hearing from public companies regarding their forward outlook into 2026 and beyond will help investors assess their expectations heading into the new year. The set-up for the remainder of Q4 appears positive while earnings growth is likely to remain robust over the next couple of years. As long as capital investment continues to accelerate and GDP growth remains positive, I'm staying bullish over the near to medium term.

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