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As Good as it Gets? July 20, 2026

Executive Summary

- After JPMorgan Chase posted record-breaking Q2 earnings, CEO Jamie Dimon noted "(i)t's getting close to as good as it gets. We just don't know how long it will last." Dimon noted things could get even better, but he also flagged "a lot of exuberance out there" akin to 2000 or 2007 despite "tectonic" risks "including geopolitical tensions and wars, sticky inflation, large global fiscal deficits and elevated asset prices."[i]
- In investing, we often think it is important to ask if things are as good as it gets. With stocks near all-time highs with record-breaking earnings, profit margins and issuance, we think now is a particularly good time to ask this question. On the flip side, there are many sectors and asset classes experiencing bear markets, and for these we think it is important to ask if this is as bad as things get. As Peter Lynch famously noted, "when things go from terrible to semi-terrible to OK, you can make a lot of money."[ii]
- Most importantly, Dimon, with all his data and connections, clearly states that he has no idea when or if the cycle will turn. Investors cannot predict the market, but they can control their level of diversification, risk tolerance and behavior. We think a well-diversified portfolio with some additional liquidity is optimal now.

Cash and Bonds

Starting with cash in US dollars, one can make the case that both the quantity and cost of money may be as good as it gets for the foreseeable future. First on the quantity of dollars, while the Federal Reserve quietly began increasing its balance sheet and thus the supply of money this year, recently appointed Federal Reserve Chairman Kevin Warsh would like to shrink the balance sheet and is establishing a task force to examine the issue[iii]. On the cost of money side, although June's 3.5% inflation number beat May's number and expectations, Warsh noted the inflation data was not saying "mission accomplished."[iv] Market participants still expect 1-2 rate hikes by the end of 2026 as most investors see the Federal Reserve's 3.5-3.75% range for the cost of money as too low given five years of above-target inflation. With cash potentially becoming scarcer and higher yielding, we like being overweight the space.

Turning to bonds, global government bonds are still off nearly 20% from their peak post-pandemic values. The US 30-year Treasury now yields above 5% near its highest level since 2007. Several prominent long-term bond bulls just turned bearish[v] and it is right to ask if this is as bad as it gets. Unfortunately, we do not think so for several reasons. First, federal deficits remain at some of their highest levels on record outside of recessions or major wars, with both political parties seemingly leaning more toward deficit-growing populist tendencies. Next, despite rising yields, US government bonds still aren't providing adequate compensation for inflation risk. The spread between the US 10-year yield and current inflation stands at just 0.9%, below the 1.5-2% compensation we would like to see. Finally, government bond and stock prices are experiencing some of their highest correlations to one another in decades[vi] and thus are not providing the diversification benefits investors often seek. For all these reasons, we remain underweight government bonds.

On the flip side and in the potentially as good as it gets camp, high yield spreads, or the added compensation investors demand to hold the riskiest high yield bonds versus "risk-free" Treasury bonds, stand near all-time lows. Such tight levels were only reached previously in the late 1990s ahead of the tech bubble and in 2007 before the Great Financial Crisis (GFC). Here, we think things could be as good as they get and we remain underweight high yield debt.

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Global Stocks

Aside from artificial intelligence (AI) ushering in a modern-day industrial revolution, there are many signs that potentially things are as good as they can get in US equities. US stocks are near their all-time highs. Q2 earnings season is just kicking off, but as noted JPMorgan, along with some of the other major banks, just set record-breaking numbers. CEO confidence, often a contrarian signal, stands near record highs along with corporate profit margins. Global mergers and acquisitions (M&A) reached a record $2.8 trillion in the first half of 2026, up nearly 50% year-over-year, and on pace to reach the second highest level ever outside of the post-pandemic 2021 spike.

In terms of equity issuance, we are also seeing record levels. SpaceX completed the largest initial public offering (IPO) ever. Alphabet (Google) completed a record-breaking $85 billion secondary offering, while SK Hynix just raised $26.5 billion, the largest-ever US listing by a foreign company. The S&P 500 now trades at just over 20X expected earnings, which is near the exuberant levels last seen in 1999 and 2021. Compared to the trailing ten years of earnings used in the Shiller multiple, the S&P 500 trades at over 40X earnings. While we agree that things could get even better for US stocks, we think it is prudent to have a little extra cash and a tilt to small and mid-cap stocks trading at 16X now. While the big names like Google and SpaceX get all the news, small, mid, and even micro-cap stocks have outpaced large caps this year and continue to provide investors with diversification and better value.

Turning to international equities and particularly South Korea, we think it is important to highlight here how quickly investor sentiment can shift from as good as it gets to as bad as it gets. The South Korean market has been on a wild ride fueled by AI optimism and pessimism and its largest constituents in chipmakers Samsung and SK Hynix. After jumping 75% last year, the South Korean KOSPI stock market jumped almost 50% again in January and February of 2026 before losing nearly 20% in March. It then rose nearly 70% in April and May alone before falling another 20% here in July. These wild moves have been driven by some of the same forces we see here in the US: a concentrated market fueled by leveraged single stock funds favored by retail investors, bouts of AI enthusiasm and despair, and the geopolitical risks associated with an AI driven economy tied closely to China. While South Korea makes up a very small percentage of global stocks, we think it is a good corollary to Lynch's quote above, i.e., a lot of money can be lost when investors shift from "things can only get better to things might get worse".

Overall, international markets don't seem to be either as good or as bad as it gets to us, and we think they deserve a near-neutral stance. Developed international stocks trade near 15X forward expected earnings with 12% earnings growth projected over the next three years. Emerging market stocks are even cheaper at 11X forward earnings and with 31% annual earnings growth expected. Given these relatively cheaper valuations with solid expected earnings growth, we continue to see international stocks as good diversifiers to their US peers. Like smaller stocks in the US, international stocks are also quietly outpacing large US stocks this year after trouncing them last year.

Alternative Assets

In alternative assets, we see signs of investors again pricing in both "as good and as bad as it gets" type behavior often in short order. Commodities are the poster child for this, with both precious metals and energy related assets on a South Korea KOSPI type ride. After jumping 64% in 2025 and another 20% in early 2026 and touching inflation-adjusted all-time highs, gold is now down over 20% from its peak and officially in a bear market. We think this is neither as good nor as bad as it could get for gold and plan to stand pat given recent volatility.

With the war in Iran seemingly fluctuating daily from tentative peace to renewed escalation, oil has also been on a wild ride. It jumped over 50% in March, lost 32% from May to June, and has now jumped back up 18% in July. We highlighted in our last note that this volatility can be tricky for long-term planning as the spot market fluctuates from a potentially severe short-term shortage to the prospect of long-term oversupply and demand destruction. Given

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these factors and as a rule, we favor longer-term bets on low-cost producers focused on risk management and hedging over leveraged wildcatters.

Turning to real estate, we continue to see signs that the space is emerging from an "as bad as it gets" five-year drought. Listed real estate stocks are not only up more than the S&P 500 index in 2026 to date, they have also become much less susceptible to rising interest rates recently. Real estate rents and cash flows are broadly ticking up, and we are beginning to see renewed interest from investors seeking stocks with hard assets and low obsolescence (HALO) as a diversifier to the AI-concentrated overall market. New supply for most real estate, save for data centers, remains muted, and surprisingly, both political parties have bandied proposals that we think would restrict housing supply further. We continue to like real estate as a diversifier.

Finishing with hedge funds and private capital, we again see signs of both as good and as bad as it gets. In hedge funds, many investors abandoned the space given the lack of liquidity, transparency and lack of commensurate post-fee performance. While we remain skeptical of most hedge funds and set a very high bar for new funds, we continue to see truly uncorrelated funds as an important diversifier in a world of higher correlations, particularly between stocks and bonds. If investors as a whole turn from thinking things can only get better to things can only get worse as they are prone to do (see South Korea above or March of this year), we think truly uncorrelated funds will shine.

In private capital, there are some signs that things are as good as they can get. IPO issuance, certainly aided by SpaceX's $75 billion raise, stands at $142 billion year-to-date and up nearly 8X year-over-year. IPO filings are also up 10% year-over-year with both OpenAI and Anthropic targeting SpaceX-like trillion dollar plus type valuations. Special Purpose Acquisition Companies (SPACs), which became a four-letter word after their 2021 issuance surge and performance flops, are back in 2026. Year-to-date SPAC IPO volume and capital raised has nearly eclipsed 2025 full-year's total. As noted above, M&A activity and CEO confidence are near record highs. In this type of environment, we are urging our private capital partners to use this window of optimism and liquidity to exit private businesses. On the flip side, amid AI-enthusiasm, abundant and cheap liquidity, we urge them to be patient putting capital to work and learn from the lessons of 2021 when many thought things could only get better.

Conclusion

In conclusion, we think it is important, as always, for investors to ask if this may be as good as things get broadly. While markets are at all-time highs with record breaking earnings and many investors keen to make leveraged bets on single name AI stocks, we think it is more prudent to spend time ensuring that the right risk tolerance, diversification and liquidity are in place for each investor. As we've noted in the past, there is nothing wrong with being a high-risk, all-equity investor and we have many as clients. It is important to recognize, though, that an all-equity portfolio can and likely will lose 50% of its value at some point in one's lifetime. We cannot control or time when that will occur, we can only ensure we have the behavioral fortitude to ride through that loss when it comes. For most clients, we continue to think that a diversified portfolio with a bit of added liquidity and cash is the best path forward given the current environment.

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[i] https://finance.yahoo.com/markets/stocks/articles/getting-close-good-gets-jamie-104516257.html?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2xlLmNvbS8&guce_referrer_sig=AQAAALVQGjICbhLucGnD9HGZDTx4GI66fA4qaZOD8bwnhiIvJuz3-MJYn8H5j_pQgLFwSpwCp3EoWigztyzknXWRk9sCV0XltghqkOklAzgds7rMr4Ws6rac4Sl57e5nJ0cJVnF0S5zevIJQkb0CZdd0MAS2pDR0ko8xIKwUDTN7XWF-

[ii] https://finance.yahoo.com/news/peter-lynchs-money-making-advice-013038519.html

[iii] https://www.bloomberg.com/news/articles/2026-07-01/warsh-signals-long-road-ahead-for-a-smaller-fed-balance-sheet

[iv] https://www.wsj.com/economy/cpi-inflation-report-june-2026-afb89992

[v] https://www.bloomberg.com/news/articles/2026-07-16/hoisington-us-bond-bull-for-decades-turns-decidedly-bearish

[vi] https://www.aqr.com/Insights/Perspectives/A-Positive-Stock-Bond-Correlation-Is-a-Terrible-Reason-to-Add-More-Equity-Risk-to-Your-Portfolio