



Ben's Bow Tie Brief

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THE SEEMINGLY CLOUDLESS SUMMER

August 2025

"Markets are trading near all-time highs while volatility has been relatively benign as of late. I guess stock investors have moved on from concerns about the impact of tariffs on growth and inflation, while historically high valuations don't seem to be a cause for worry".

I wrote those words in my brief dated July 22nd titled "Is the Coast Clear?". Well not much has changed since then, other than markets continuing to move higher.

The list of what is giving investors pause right now is remarkably short. I understand we are in the middle of the dog days of August, which are frequently a time for complacency - and equity indexes are at or near all-time highs, earnings revisions are rising, and odds of interest rate cuts are improving. However, the current equity bull case has become well understood and accepted. Baked into the enthusiasm is a belief in broad economic vitality along with decreased concerns about tariffs, stagflation, and the labor market.

But beyond the headlines and below the surface lies a much more complicated story. There's currently a large economic skew between the "haves" (top 20% of households) and "have-nots", and investment performance continues to be concentrated within the technology stocks - driven by the latest chapter of "American Exceptionalism" (Artificial Intelligence). With that backdrop I'm not convinced the bullish narrative is broadly applicable.

With spending, profit, and investment concentration so high within the tech stock leaders, I believe the outlook is increasingly becoming more and more about one issue: Will **GenAI** investment be additive to corporate ROA and earnings, and when will the risk of "overcapacity" be raised? The last time investment and capex was this

concentrated in a theme was during the shale energy revolution. Back then technology improvements accelerated gains in well productivity, eventually leading to overcapacity.

Where we are on the path to potential excess capacity within GenAI is anyone's guess, but the fate of the overall market index seems to increasingly hinge on that issue.

When you add to the mix more general concerns such as the economy, stock valuations, and politics – we're faced with a backdrop that warrants caution. This is **not** a time for complacency. It is **not** a time to layer on additional concentrated risk. It is a time to be mindful of your asset allocation (rebalance?), liquidity position (have enough cash to meet lifestyle needs?), and overall tolerance for short-term downside (are you emotionally prepared for a market correction?).

As I've written many times lately, don't forget the recent panic that ensued back in April. The market correction was fast and steep. Prepare for the next possible panic storm now, as our human nature works to erase the memory of what's just happened. There will undoubtedly be other crises, real and imagined, triggering episodes of mass panic. We need to redouble our efforts to desensitize and avoid responding to the panic impulse.

Best,

Ben

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