

MARKET & ECONOMIC ANALYSIS

Valuations Stretch Further as Recession Fears Recede?

Follow-up to *"US Market & Economy: A Comprehensive Assessment"* (June 2026) · Guy Loranger, Founder & CEO, Tonic Investments

39.27 → 41.29

41.29

Shiller CAPE — 2nd
highest ever

229.7% → 233.7%

233.7%

Buffett Indicator vs.
GDP

30–50% → 15–35%

15–35%

Recession probability,
consensus

\$31T → \$39T+

\$39T+

US national debt —
~120% of GDP

Two months ago, this desk laid out a simple thesis: US equity valuations sat at the second-highest level in 140 years of market history, three landmark IPOs were arriving into a tariff-strained economy, and the combination warranted caution rather than complacency. The numbers since June haven't resolved that tension — they've sharpened it.

Valuations: Higher, Not Lower

The Shiller CAPE ratio has moved from 39.27 in June to 41.29 as of early August — still the second-highest reading in the index's history, trailing only the 1999–2000 dot-com peak. The Buffett Indicator (total market cap to GDP) has climbed from 229.7% to 233.7%, against a long-run median closer to 84%. Both measures moved in the same direction over

the summer: up. Markets did not pause to digest June's valuation concerns; they extended them.

The S&P 500 posted ten record highs in July alone, finishing the month up 7.8% year-to-date, powered by strong earnings (Microsoft's Azure business drove a 16% single-day jump) and continued semiconductor strength. That rally cooled sharply in the final week of July, when revised employment data showed the labor market had softened considerably more than initial reports suggested — the S&P gave back 2.34% in a single week on the news.

Apple offered a pointed reminder of how quickly sentiment can turn even within the mega-cap cohort driving the rally. Its fiscal Q3 report on July 30 beat headline estimates — EPS of \$2.02 versus \$1.89 expected, revenue of \$109.4 billion versus \$108.9 billion expected — but Services revenue of \$30.7 billion missed forecasts, Greater China revenue came in light, and management flagged tighter supply constraints heading into the September quarter. Shares fell roughly 6.7% after hours despite the top-line beat. Two days earlier, Apple had already moved to shore up demand ahead of its fall product cycle, launching "Apple Upgrade," a leasing program run with Klarna covering iPhone, Apple Watch, Mac, and iPad — iPhones from \$17.99 a month, Apple Watches from \$11.99, on 12- or 24-month terms. The move lowers the up-front cost of staying inside Apple's ecosystem for existing customers and gives the company a subscription-like on-ramp for new ones, arriving just as new hardware is set to launch into an economy where tariffs and rising debt service costs are squeezing discretionary spending. It also reads as a tacit acknowledgment that price alone — Apple raised prices earlier this year amid an AI-driven memory chip shortage — was not going to be enough to keep growth intact.

The Mega-IPO Cycle: One Down, Two to Go

SpaceX's IPO was record-setting by size, not by aftermarket performance. It priced at \$135 a share and raised roughly \$75 billion — the largest IPO on record — but shares have since fallen to roughly \$110.20, down about 18.3% from the offering price, trimming the company's market cap from roughly \$2.43 trillion at debut to closer to \$1.98 trillion today. SpaceX reports its first earnings as a public company tomorrow, August 4.

Anthropic confidentially filed its S-1 with the SEC on June 1 and is reportedly tracking toward an October 2026 listing. OpenAI, which also confidentially filed on June 8, now appears to be leaning the other way: late-June reporting indicated the company is weighing a delay to 2027, holding out for a \$1 trillion valuation rather than accepting a lower price tag for a faster listing — a decision reportedly informed in part by SpaceX's rocky post-IPO trading. The financial gap between the two companies has widened in the meantime: Anthropic's annualized revenue run rate reached roughly \$47–50 billion by May, while OpenAI's crossed \$25 billion in the same window. Both will land into whatever valuation environment the CAPE and Buffett Indicator describe at listing — which, on current trend, is a more expensive one than either faced in June.

The Macro Picture: Less Clear-Cut Than It Looks

Recession odds have genuinely narrowed since June. Professional forecasts now cluster in the 15–35% range — Goldman Sachs at 30%, JPMorgan at 35%, Treasury assessments around 30–33% — down from the 30–50% range cited in the June report. Prediction markets are more sanguine still, implying odds closer to 10%. Not every forecaster agrees: Moody's Mark Zandi remains close to 50%, and the late-July jobs data revision is a reminder of how quickly sentiment here can move.

The Fed's July 29 decision underscores the same ambiguity. The FOMC held rates steady at 3.5–3.75% for a fifth consecutive meeting, but three regional presidents dissented in favor of a hike — an unusually public split for a committee that has held together for most of the cycle. Inflation has now run above the Fed's 2% target for more than five years, even as job growth has kept pace with the labor force. The Fed is threading a narrower needle than the eased recession odds alone would suggest.

Trade policy added a fresh variable at the worst possible moment: a July 31 executive order updated tariff schedules, and the US Trade Representative has signaled more country-specific tariffs are likely imminent. The tariff-strained backdrop from the June report hasn't eased — if anything, it re-escalated just as the labor data turned soft.

Fiscal conditions, meanwhile, are worse than the June report captured. US national debt has crossed \$39 trillion, roughly 120% of GDP — meaningfully higher than the \$31 trillion,

100%-of-GDP figure cited two months ago (a reflection of prior data lagging actual Treasury figures more than of any new deterioration, but still worth resetting expectations against the current baseline).

INVESTOR IMPLICATIONS

The headline good news — recession odds down from the June estimate — is real, but the valuation story sitting alongside it is more specific than "the market is overpaying." Q2 2026 S&P 500 earnings grew roughly 24–47% year-over-year depending on how one-time items are treated, and the forward P/E ratio, at roughly 19.6–20.4, sits in line with its five- and ten-year averages — this is not a market re-rating stocks higher on hope. The CAPE and Buffett Indicator are climbing anyway because both measure price against a broader or smoothed earnings base that a handful of companies are far outrunning: the "Magnificent Seven" are projected to grow profits roughly 25% in 2026 against 11% for the rest of the index, and already account for close to 70% of the S&P 500's total economic profit. That is a concentration and durability risk, not an irrational-pricing one — markets are pricing in continued extraordinary growth from a narrow set of AI-exposed companies, and both valuation metrics are structurally exposed if that growth decelerates. Layer in a Fed that split 9-3 in July, a tariff regime that just re-escalated, and labor data that reversed course within weeks, and the case for selectivity — favoring earnings durability and diversification over broad market exposure — is, if anything, sharper than it was in June.

SOURCES

GuruFocus (Shiller CAPE) · Advisor Perspectives / MacroMicro (Buffett Indicator) · Goldman Sachs, JPMorgan, U.S. Treasury, Moody's Analytics (recession forecasts) · Federal Reserve, FOMC statement, July 29, 2026 · U.S. Treasury Fiscal Data (national debt) · CNBC, Fortune, Forbes, Yahoo Finance, Quartz (SpaceX, Anthropic, OpenAI IPO status, citing Bloomberg and The New York Times) · FactSet Earnings Insight, July 2026 (S&P 500 earnings growth, forward P/E) · Yahoo Finance / Motley Fool (Magnificent Seven earnings concentration) · Apple Newsroom, MacRumors, CNBC, Yahoo Finance (Q3 FY2026 earnings) · Apple Newsroom, CNN, CNBC, ABC News (Apple Upgrade leasing program)