



The US sharemarket continues to reach record highs despite inflation concerns and geopolitical uncertainty. Driven by strong earnings from major technology companies and optimism surrounding artificial intelligence, investors remain willing to embrace risk. While some warn of stretched valuations and speculative excess, others argue the rally is supported by genuine earnings growth and long-term productivity gains.

Despite businesses in Australia and around the world contending with the economic impact of higher oil prices, and consumers feeling the strain of rising fuel costs, the US sharemarket continues to push to record highs.

Many commentators believe the market is being driven by an AI-fuelled boom, or what some describe as a “parabolic melt-up” — a rapid and intense rise in asset prices powered more by investor enthusiasm and a fear of missing out than by underlying fundamentals.

The rally has been heavily concentrated in mega-cap technology companies, prompting debate over whether markets are entering a new era of productivity growth or simply inflating another speculative bubble. Critics point to elevated valuations, enormous capital expenditure programs, and the market’s reliance on future artificial intelligence earnings to justify current share prices.

The resilience of US equities suggests investors are largely looking through concerns surrounding fluctuating oil prices, intermittent peace negotiations in the Middle East, and stubbornly high inflation. The leadership of technology stocks in particular indicates that market participants have become increasingly willing to embrace risk.

As shown in the chart below, the S&P 500 index – representing the broad US market - is up 17.3% since June 30, 2025. Over the same period the Nasdaq Composite Index is up 23%.

US Equities

Jun 2025 - Jun 2026



Recent earnings results from several of the so-called “Magnificent Seven” technology giants provided further evidence of the sector’s momentum. Amazon, Alphabet and Microsoft all reported strong double-digit growth in their cloud computing divisions, reflecting surging demand for AI-related infrastructure and services. Meta, by contrast, disappointed investors after failing to meet Wall Street expectations.

Supporters of the current rally argue that, unlike previous speculative bubbles, today’s gains are underpinned by genuine earnings growth from leading companies. In their view, the AI boom represents a period of extraordinary expansion rather than a classic bubble on the verge of collapse. While valuations may appear stretched, they note that the market has not yet displayed many of the hallmarks associated with past speculative manias, such as widespread low-quality listings or rampant retail speculation disconnected from profitability.

For investors, navigating a potentially overheated market requires discipline and a focus on long-term strategy rather than short-term prediction. Attempting to time a market correction is notoriously difficult, and history shows that bubbles are usually only obvious in hindsight. Most investment professionals continue to advocate maintaining diversified portfolios of high-quality assets aligned with an investor’s long-term objectives and risk tolerance.

Ultimately, periods of market exuberance tend to punish speculation rather than disciplined investing. Remaining committed to a sound investment process, even during times of heightened optimism and volatility, is often the most reliable approach for long-term investors.

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