Through the Wall | 08.10.2026

Over the last few months, the wall of worry for stocks grew remarkably tall. Investors wrestled with concerns over Iran, the Federal Reserve, inflation, interest rates, AI spending, a market leaning on a handful of stocks, politics, and a host of other uncertainties. Spectacular second-quarter earnings, supported by resilient consumer spending and accelerating business investment, have propelled stocks straight through that wall. None of these issues are resolved, but they now look less like barriers to progress and more like bricks to dodge. Rapid earnings growth and the market's earlier pullback turned many stocks into bargains investors couldn't pass up.

Two of the market's biggest worries, Iran and the Fed, have moved in a more constructive direction. The daily exchange of attacks between the U.S. and Iran has ceased, momentarily reducing the risk of an oil-driven inflation shock. July's jobs data also showed a modest cooling in the labor market. Together, those developments have eased inflation concerns and given the Fed more breathing room in the debate over the timing and necessity of rate hikes. Even so, caution is warranted. The market has already been through several rounds of de-escalation followed by renewed escalation this year, so investors should resist assuming the risks have disappeared entirely.

Corporate earnings have given us the strongest evidence yet that the fundamentals are solid. Most companies in the S&P 500 have now reported, and they've beaten earnings estimates by nearly 30%, while profits have grown more than 50% from a year ago. Investors have spent months debating the pace and payoff of AI investment. The results answer those questions far more convincingly than any headline could. Analysts still expect S&P 500 earnings to grow more than 30% in 2026 and roughly 15% in 2027. While that would represent a meaningful deceleration, 15% earnings growth would still be nearly double the market's long-term average.

This rally isn't limited to a handful of stocks, and this is no quiet shift. It's a broad, powerful surge. The S&P 500 recently posted a five-day rally stronger than 99% of similar moves going back to 1950. Historically, similar thrusts during an established uptrend produced S&P 500 gains of 1.3% over the next 20 trading days, 4.9% over the next 65 days, and 9.4% over the next 125 days, roughly double the average return over comparable periods. More stocks are joining in, too. The share of S&P 500 companies trading above their 200-day moving average reached its highest level in nearly two years. The rising tide of earnings is lifting more companies across more sectors. Even the chipmakers and big tech giants, which stumbled just last month as investors questioned AI spending, are finding buyers again as strong earnings and reasonable growth-adjusted prices shift the conversation back toward fundamentals.

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Investors should still expect volatility to pick up as the midterm election approaches, as history suggests it often does, and any lingering issues could cause bumps along the way. Even so, resilient consumer spending and accelerating business investment continue to fuel exceptional earnings growth across corporate America. Walls of worry come and go, but earnings remain the market's most durable foundation.

Thanks,
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