

Weekly Market Commentary

Has Stock Market Exuberance Become Irrational?

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Client Summary

Positive Factors

- **Strong market performance:** Equity indexes delivered double-digit gains during the quarter. Momentum and AI-driven growth continue to support the market.
- **Balanced investor sentiment:** Survey data remains near long-term historical averages. This suggests optimism has not reached extreme or bubble-like levels.
- **Supportive fundamentals:** AI investment and fiscal spending provide strong structural tailwinds. These trends help justify elevated valuations across key sectors.
- **Sector strength broadening:** Market leadership is expanding beyond just large-cap tech, signaling durability beneath the surface even as pockets of exuberance emerge.

Concerning Factors

- **Rising leverage risk:** Margin debt has climbed to record levels recently. Higher leverage can amplify downside during market pullbacks.
- **Stretched positioning levels:** Equity exposure remains elevated despite recent cooling. Markets may be vulnerable to short-term consolidation.
- **Overextended tech sector:** Semiconductor stocks show extreme overbought conditions. Rapid gains increase the likelihood of sharp reversals.
- **Elevated investor expectations:** Optimism measures for near-term gains are near historically high readings. This raises the risk of volatility if expectations are not met.

LPL Research's Perspective

- **Not a market bubble:** Current conditions do not reflect dot-com-style excesses in our view. Optimism is elevated but still within reasonable bounds.
- **Maturing bull market:** The current bull market is likely entering a more mature stage. Pullbacks or pauses are expected as gains are digested.
- **Constructive but cautious stance:** LPL maintains an overweight to equities overall. However, they expect intermittent volatility and recommend diversifying and remaining disciplined.
- **Opportunity-focused outlook:** Market resets can create attractive entry points. Investors should be prepared to take advantage of pullbacks.

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All index data from FactSet.

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