

## *Market Sense – Stocks are Frothy, but This Bull Isn't Yet a Tech Bubble Repeat*

June 10, 2026

### **Abstract:**

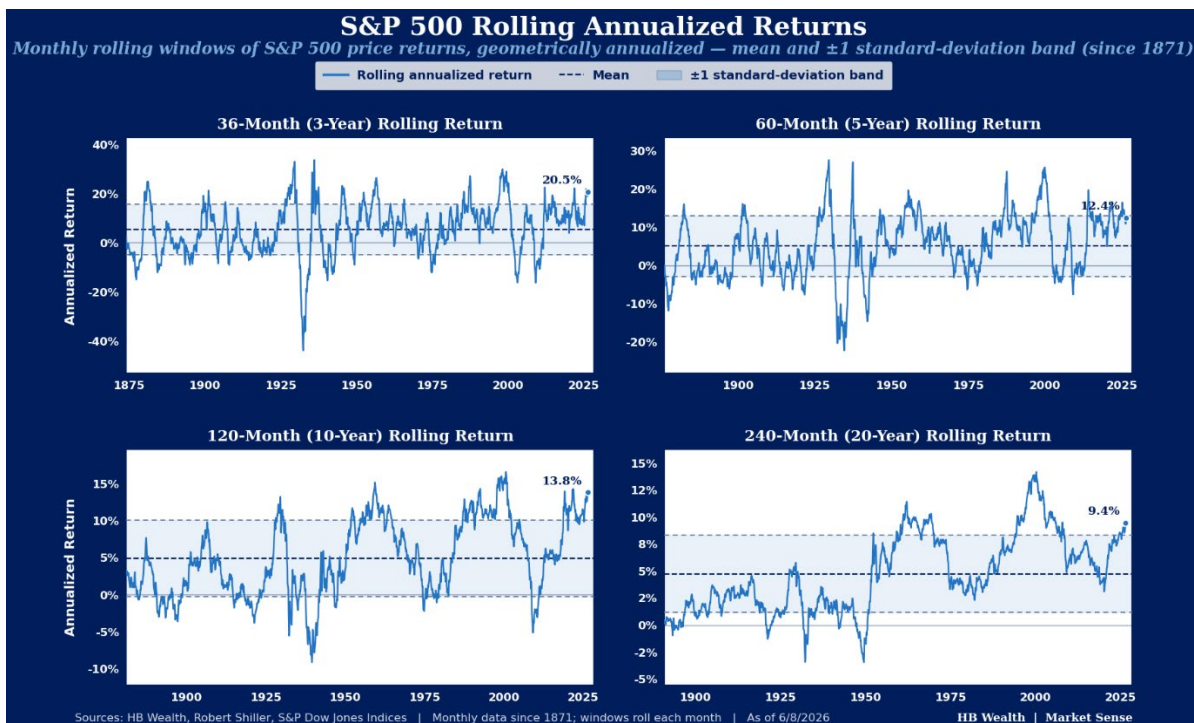
- *There's some evidence brewing of a melt-up in stocks, mainly the velocity of recent returns, which are now approaching a pace last recorded in the final 5-years of the pre-Great Depression and internet bubbles.*
- *Earnings, however, make a strong case against the notion that a bubble is forming. Unlike past periods, equity gains are not predominantly driven by FOMO - fundamentals are supporting the rally.*
- *Balance sheets also do not support bubble concerns. Leverage is tame and cash balances are at all time highs.*
- *While there's some froth in multiples, they've expanded at a much slower pace than prior bubbles. On a forward basis, P/Es have consistently topped out just above 23x this cycle with investors thus demonstrating some degree of restraint.*
- *Mega-caps are growing into their multiples, unlike their late 1990s peers. Similarly, unprofitable small caps helped fuel the dot-com bubble and multiples for that cohort remain subdued.*

U.S. stocks' multi-year rally looks eerily similar to textbook bubbles that formed ahead of the Great Depression and the dot-com era, but the fundamental contrast to those periods is profound - earnings growth is currently much stronger and companies are significantly less levered than they were at the tail end of past bubbles. As a result, valuations are less extended on several key fronts - Magnificent-7 multiples pale in comparison to late 1990s peers and unprofitable small cap multiples appear relatively tame. High cash stores also provide unusual ballast for companies this far into a bull cycle.

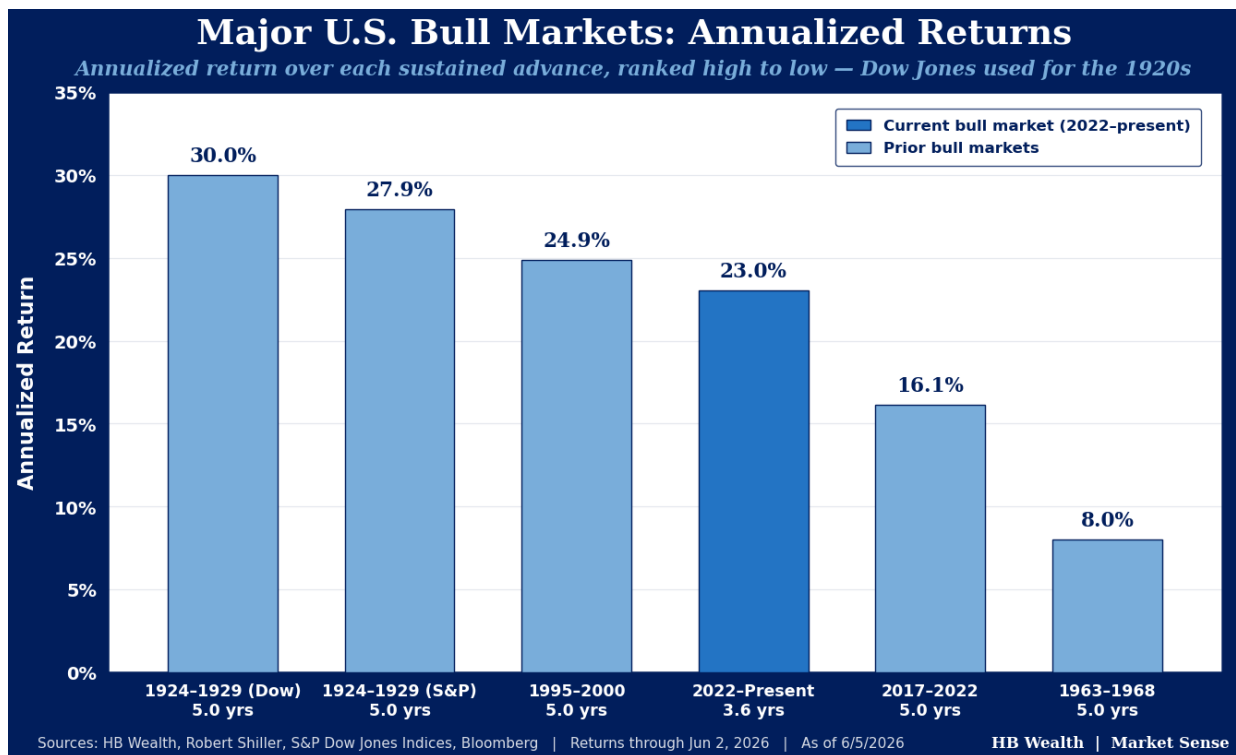
While the bull trend looks somewhat extended in the short run and pockets of excess related to AI-enthusiasm present near term concerns, the longer term uptrend in stocks may only turn into a bubble if fundamental supports start to crumble. New IPO issuance of particularly large organizations with limited profitability is the latest threat to the bull cycle to watch, but even this does not ensure an inevitable dismantling of the bull trend unless prices rise materially without fundamental improvements to match.

## Evidence of a Melt-Up: Price Returns Have Been Extremely Strong

Across a multitude of look-back periods, the S&P 500 price trend has been extreme, suggesting that the U.S. equity market is in one of the strongest bull trends of the last century. On a rolling 3, 5, 10, and 20 year basis, the index is at least 1 standard deviation above its mean return. This has only happened two other times in history – in the bull market that ended in 1968 and the one that ended in 2000. (The infamous 1920s run also qualifies as an extreme bull trend on shorter term measures but failed to reach an extreme with respect to the 20-year trailing threshold.)



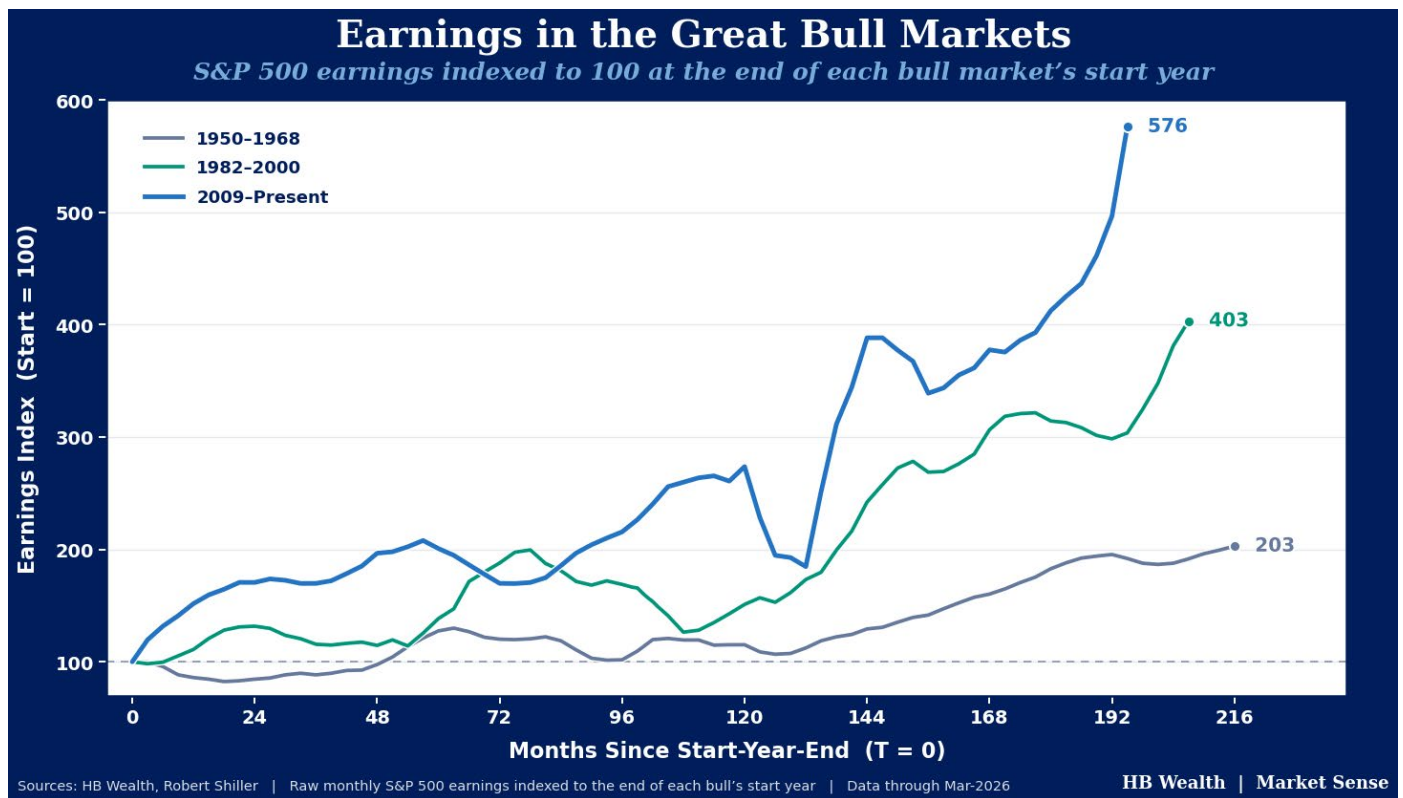
Since the 2022 low, the S&P 500 is up 112.7% or 23% annualized. That very strong gains easily surpasses the 8% and 16.1% annualized gains during the last 5-years of the 1960s and covid-era (2017-2022) bull markets. Thanks in part to its starting point, the annualized gain of the last five years is close to the gain of the market in the final five years of the dot-com era (up an annualized 24.9%) and the lead up to the Great Depression (up an annualized 27.9%).



## Fundamentals, Not FOMO, Are Behind the Bull Market Advance

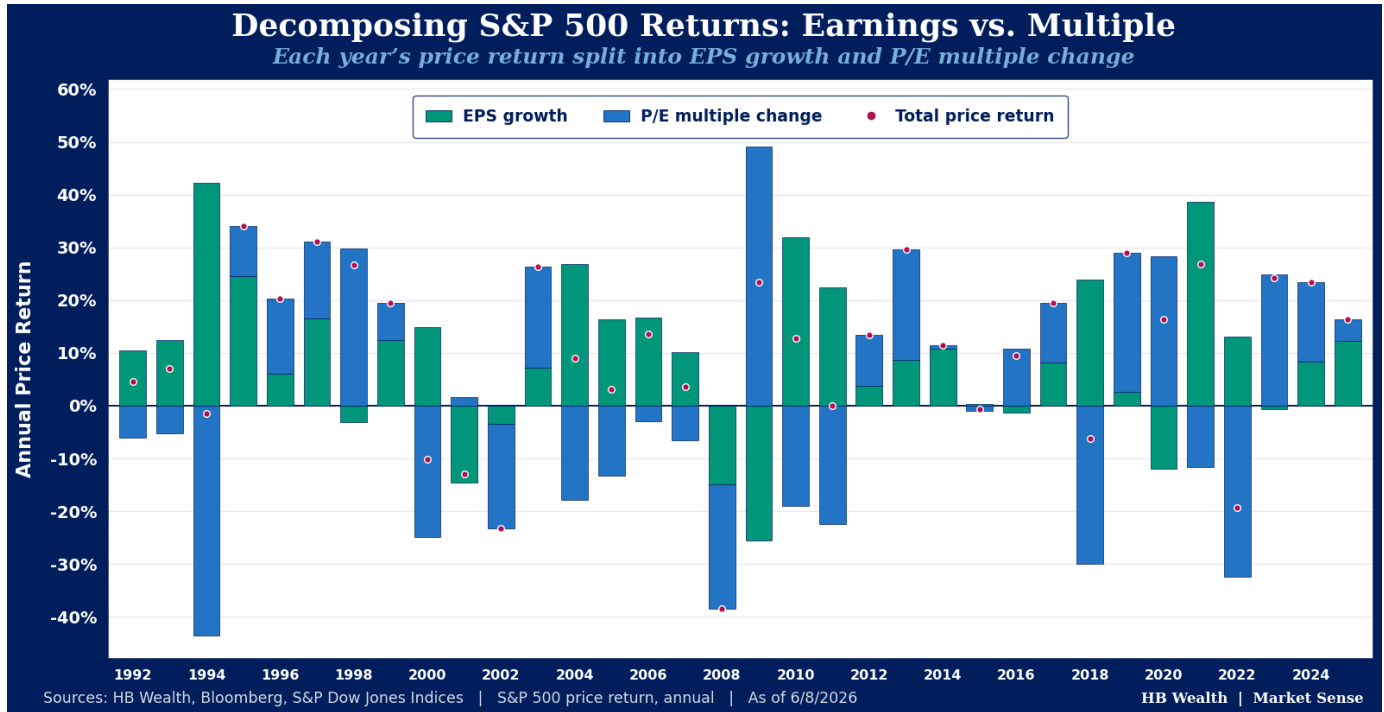
While these extraordinary price gains have led to speculation that the market is in a bubble that will inevitably burst, there is a lack of evidence that price has moved entirely unsupported by fundamentals – a defining characteristic for a bubble, in our view. In other words, unlike the two textbook market bubbles of the last century – the 1920s and 1990s, the latest market advance appears grounded by fundamentals.

During the 1982-2000 bull run, the S&P 500 rose a cumulative 986% (14.8% annualized) while earnings rose merely 303% (8.4% CAGR). If we date the start of the current run at the end of 2009, the current bull market is now nearly as long as the bull market run of the 1980s and 1990s. However, since the end of 2009, stocks have risen 564% (12.2% annualized) while earnings jumped a whopping 476% (11.2% CAGR). While part of that is due to the near-zero earnings during the Great Financial Crisis, this rally has at least generally followed trends in earnings – denying the notion of a bubble thus far.



On an annual basis, earnings have as of late driven significantly more of stocks' gains than usual, and particularly by comparison to the final stages of the tech bubble. From 1995-1999, earnings accounted for just over 40% of the S&P 500's gains as valuation expansion averaged roughly 15%. 1998 was perhaps when stocks got the most over their skis. That year, earnings fell 3.2% on a trailing 12-month basis as LTCM's failure drove a brief liquidity crisis and companies grappled with the late-1990s Asian financial crisis but stocks plowed ahead to a 26.7% gain nonetheless. 1999 was more muted with multiple expansion accounting for roughly 7 percentage points of that year's 19.5% rise but that's still well ahead

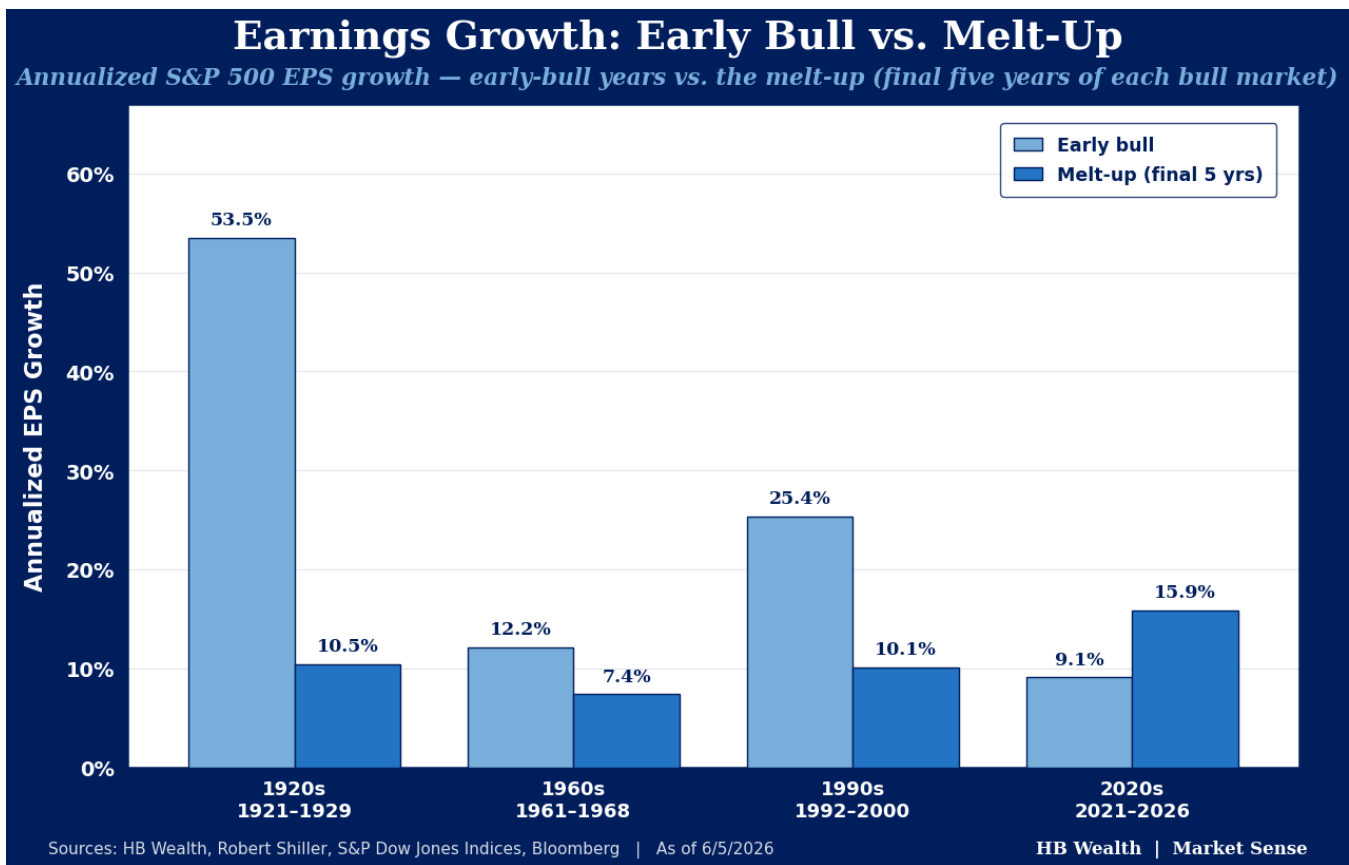
of the just four percentage points that valuations contributed to 2025's gain. In 2026 so far, the S&P 500 is up 10.9% but consensus earnings growth for the year is now at 23.5% -- hinting again that its fundamentals, not FOMO driving this rally.



Strong consensus forecasts for earnings growth continue to suggest an unusually strong earnings backdrop may continue to support the price trend and defy bubble theories. Typically, earnings grow the fastest in the first few years of a bull cycle and then slow as the cycle ages. This results in valuation expansion driving the bulk of the market gain in the later stages of the bull market, otherwise known as the melt-up period. If consensus is correct, earnings are not expected to slow in the next five years, but strengthen even more.

From the prior earnings trough to the start of the melt-up period in the 1920s, 1960s and 1990s bull markets (the last 5-years of each major bull market), earnings rose at a 53.5%, 12.2% and 25.4% compound annual growth rate (CAGR), respectively. This was a faster pace of growth than recorded in the final years of each bull market, when earnings growth slowed to 10.5%, 7.4% and 10.1% (CAGR), in the respective periods.

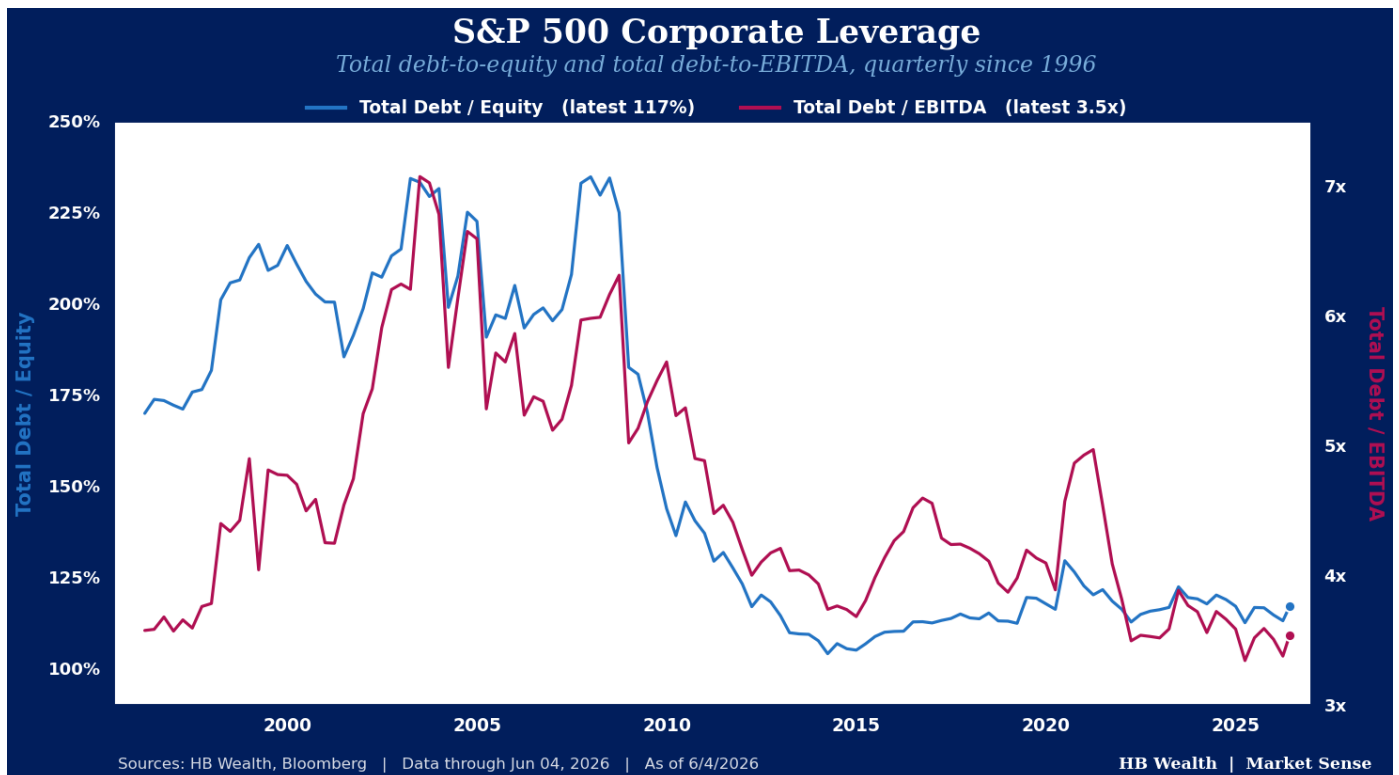
Currently, earnings are expected to strengthen, not weaken, over the next five years. S&P 500 EPS has risen at a 9.1% CAGR since its 2022 low, and consensus earnings forecasts for the next three years average out to 15.9% growth – that’s not only counter to typical bubble patterns, but also about 50% stronger than the 10.5% and 10.1% CAGRs in the 5-years leading up to the Great Depression and the dot-com bubble burst.



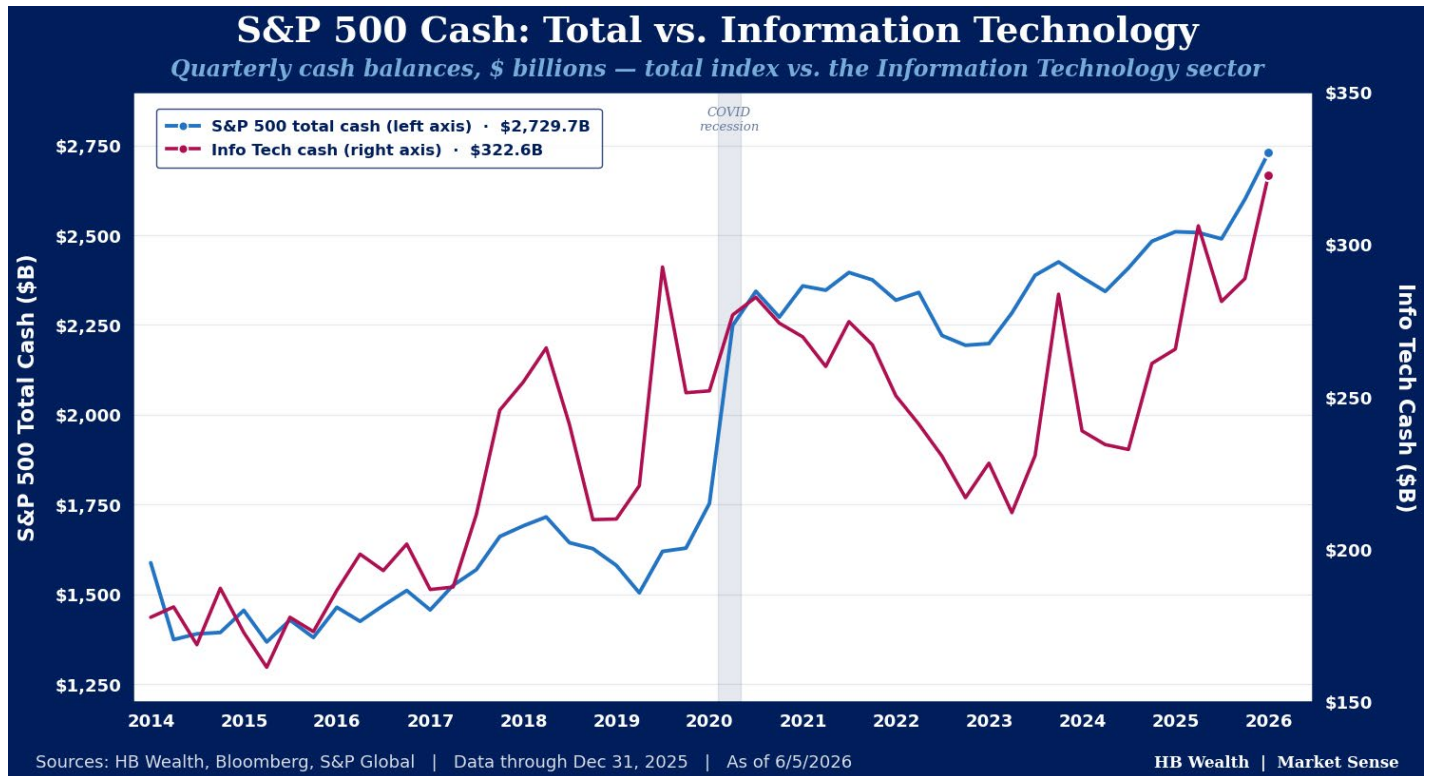
## Lower Leverage, High Cash May Mean Lower Systemic Risk

Another piece of evidence that strongly refutes the notion that stocks are in a bubble is how relatively unlevered companies are currently compared to when they were heading into the dot-com collapse. The S&P 500’s total debt to total equity ratio is at 116.9%, up just slightly from the 2014 low at 104%. That’s good for 0.9 standard deviations below the norm back to 1995 and well below the 215.9% reading from the end of 1999. Likewise on a total debt to EBITDA basis, that ratio is just 3.5x (1.1 standard deviations

below the average back to 1995) as operating earnings have surged with the AI boom. Conversely, that ratio stood at 4.8x at the end of 1999. Both metrics hint that companies should have no problem making debt payments (based on shareholder equity and earnings) and lower leverage ratios may suggest significantly less systemic risk should companies hit a period of turbulence.

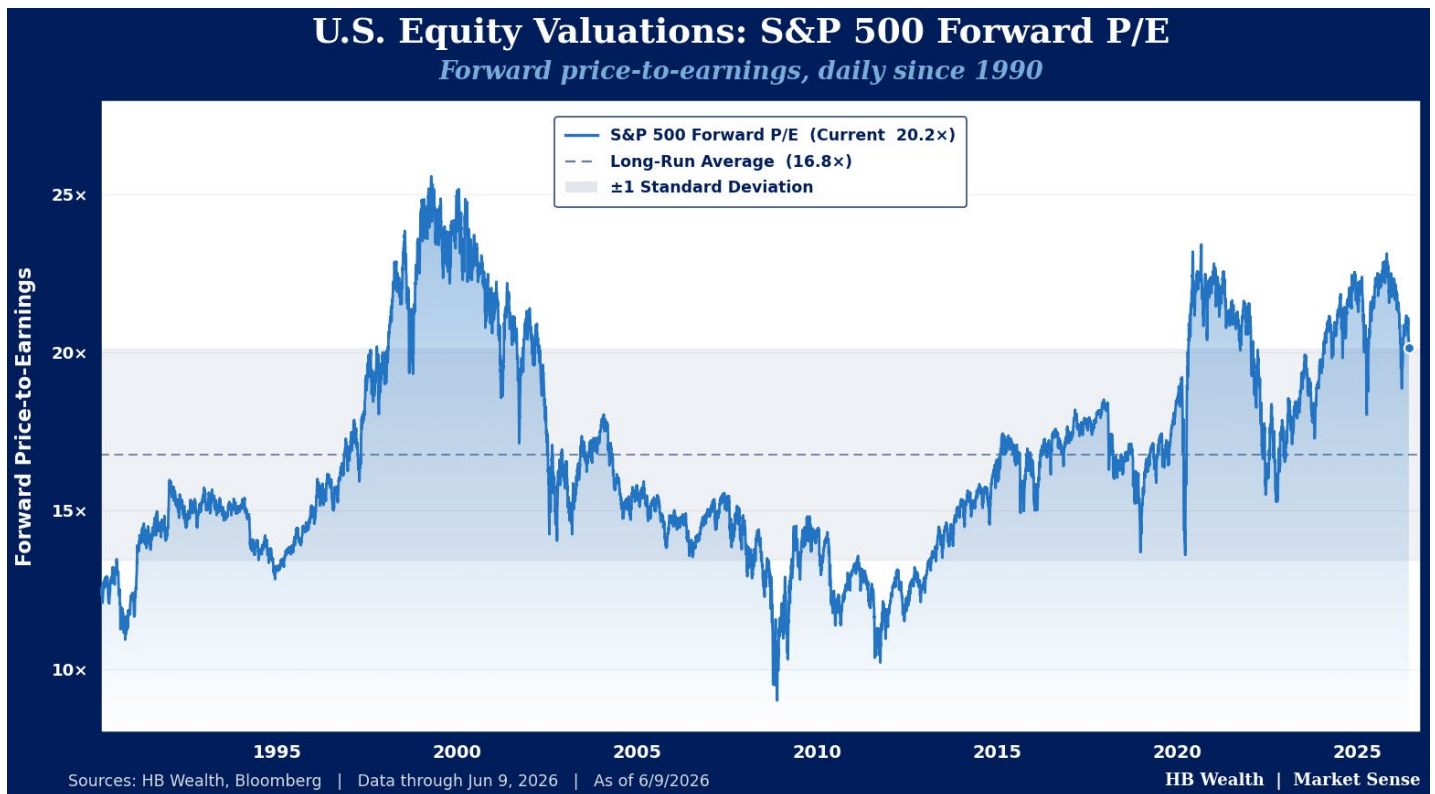


Massive cash hordes - that ballooned as a result of easy money policy around the pandemic - also continue to build and contribute to AI-spending while allowing companies to avoid taking on too much debt. As of 4Q25, S&P 500 total cash levels sat at \$2.7 trillion, up sharply over the last year and good for the highest mark on record back to 2013. Likewise, data from the Federal Reserve's Flow of Funds report shows cash & cash equivalents – comprised of checkable deposits & currency, time & savings deposits, private foreign deposits, and money market funds – hit an all time high at \$3.9 trillion by the end of 2025. Similar to S&P 500 cash levels, overall corporate cash spiked with the easy money policies of the pandemic-era.

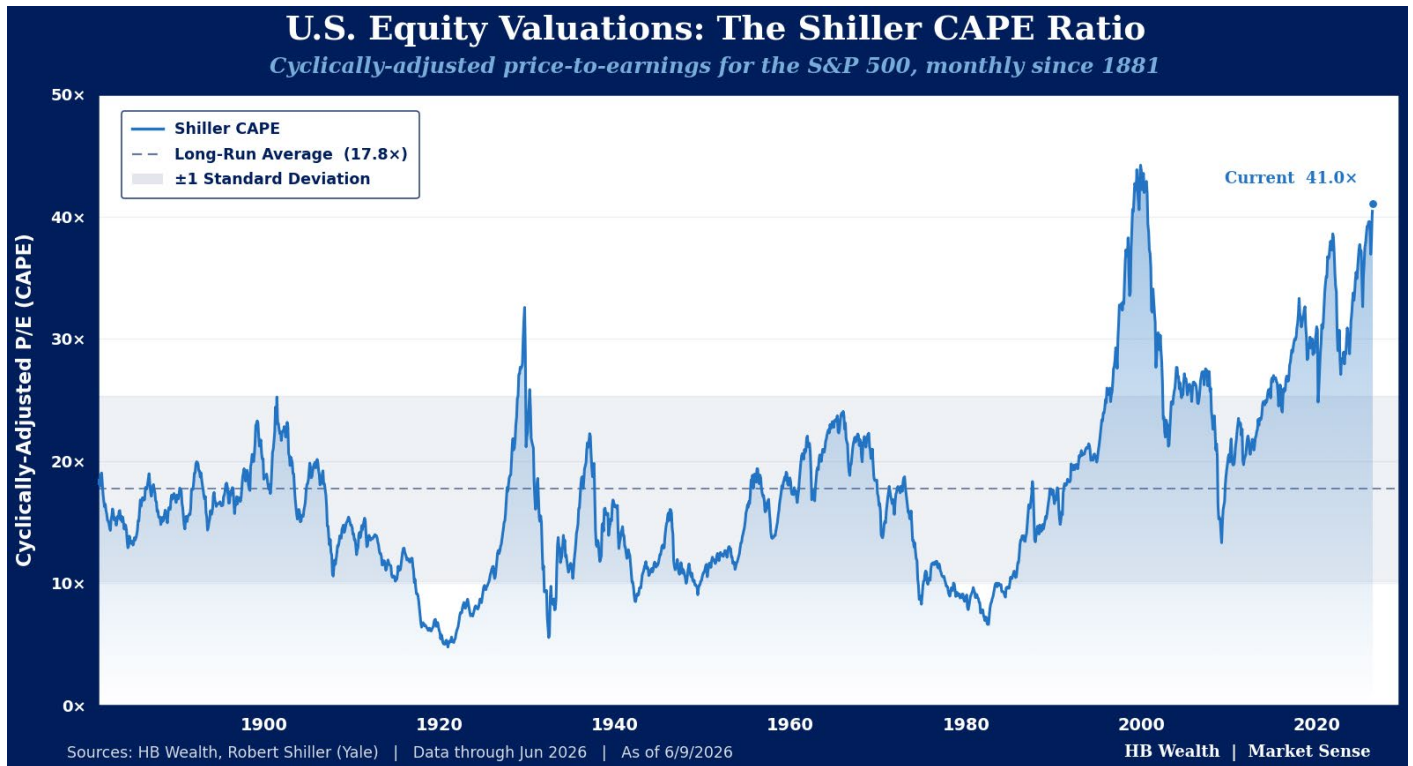


## Long-Term Multiples Show Froth but Also Comparative Restraint

Overall S&P 500 multiples are quite lofty, but still a bit short of the dot-com era peaks, measured by both forward P/E and Cyclically-Adjusted P/E (CAPE). Currently the index trades at a 20.2x forward multiple. While that's good for 1 standard deviation above the long term norm, it's down from the 23.1x and 23.4x it commanded in October 2025 and September 2020. It's also well short of the 25.6x the S&P 500 commanded at the top of the internet bubble. Notably, multiples have been stabilizing and holding at high levels for years rather than expanding - forward multiples rose 91.4% from 1995-2000 versus 5.0% contraction over the past 5-years.

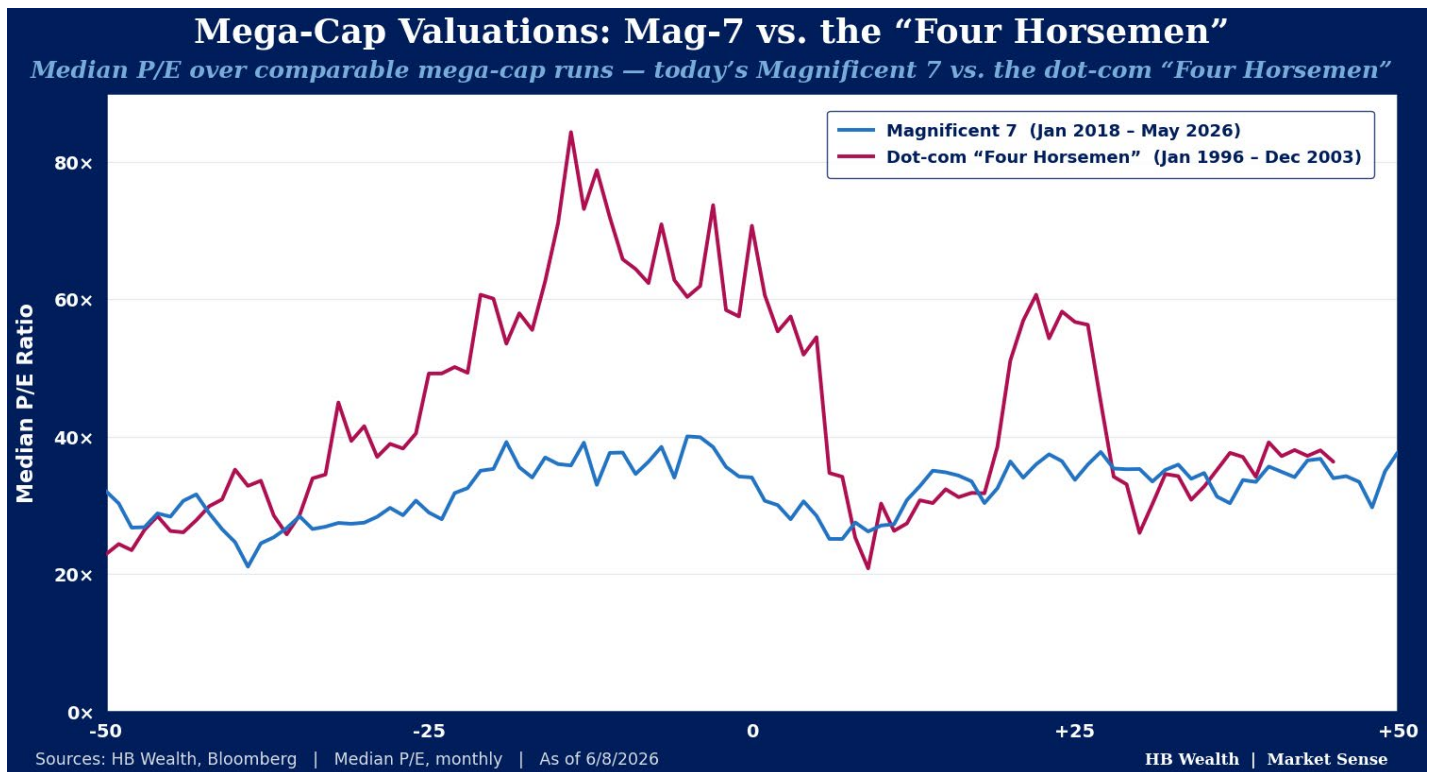


The cyclically-adjusted PE ratio (CAPE) paints a darker picture of S&P 500 earnings. That metric, which divides real index price by trailing 10-year average real earnings, currently sits at 41x, the highest mark since the internet bubble's 44x and 3.1 standard deviations above the norm back to the 1870s. Because it is backward looking and averaged over 10-years, it naturally emphasizes the major earnings disruptions of 2020 and 2022. Still, the run up in multiples on this rather conservative basis pales in comparison to both the dot-com bubble and the one preceding the Great Depression. From 1995-2000, CAPE climbed a whopping 119% -- much more than 12% over the past 5 years or even the 65% since the covid-19 recessionary low. Similarly, the lead up to the Great Depression saw CAPE rise 581% from 1920 to 1929.

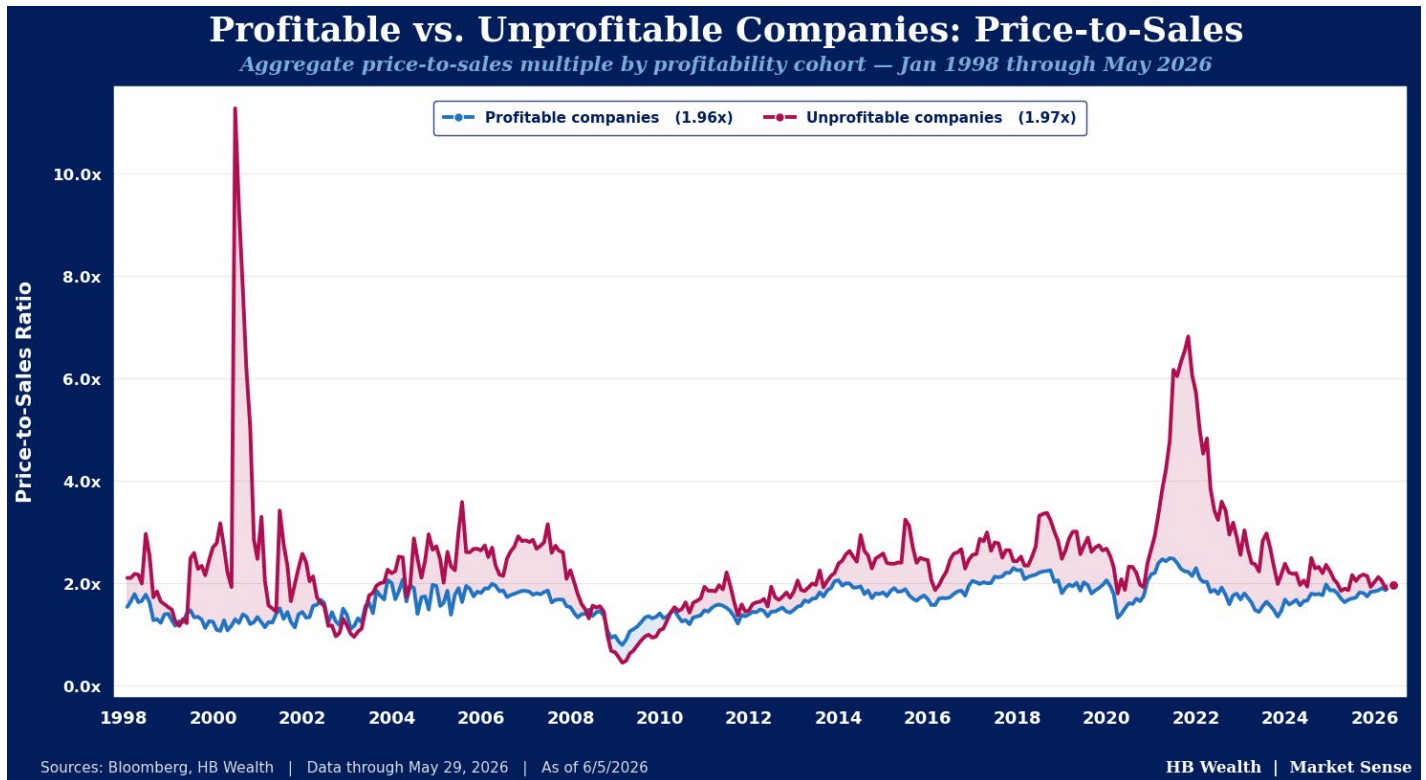


## Mega-Caps Still Growing Into Multiple as Thirst for Unprofitable Shares Is Muted

Because the earnings landscape is so much stronger, today’s mega-caps share very little in common with the leaders of the dot-com era from a valuation standpoint. While at 33% of the Bloomberg 500, the Magnificent-7 do pose significant concentration risks for the market at large, these companies have been persistently growing into their multiples. This is in stark contrast to the Four Horsemen of the internet bubble (Cisco, Microsoft, Intel and Dell). In aggregate, the median 37.7x trailing P/E multiple for the Mag-7 as of the end of May has fallen from over 40x at its high in 2021. Conversely, the Four Horsemen saw multiples rapidly balloon from 40.4x in 1998 to above 80x in 1999. Their valuations were still north of 70x when the market topped in March 2000.



Similarly, small caps helped confirm the notion that stocks were in a bubble in the late 1990s but are not flagging the same risks today. Currently, 37% of the Russell 2000 is comprised of unprofitable stocks, above the 24% at the end of 1999 as the gauge is just starting to pull out of a multi-year earnings recession. But, both absolute and relative valuations of the unprofitable cohort of small cap stocks fail to flag a bubble. Currently, unprofitable Russell 2000 companies trade at a median 1.96x price to sales, good for 0.4 standard deviations below the norm back to 1999. Relative to the profitable bin's median 1.96x multiple, that 0% discount is 0.6 standard deviations below the norm over the same time. In contrast, unprofitable small caps carried an 840% premium to profitable stocks at the apex ahead of the tech bubble burst in 2000 and a 211% premium in 2021 when easy money policies drove a mini bubble in unprofitable small caps.



All of this evidence suggests that fears of a major bubble developing in US stocks are likely overblown – as long as fundamentals hold up the market advance is likely to continue, so earnings trends are the most important factor to watch for sustaining the bull trend. On that front, market reception to 2026’s enormous IPOs may be extremely important to watch for signs the market may become unhinged from fundamental supports. In our Deep Dive here, we noted that IPOs are a somewhat inconsistent measure of excessive risk taking, but recent surges in issuance have often preceded bear markets for stocks. On average, markets greet IPOs kindly in the short run, but poorly over 12-month periods. But, when sentiment is frothy, IPOs perform unusually well. Performance of new issues (whether profitable or not) spiked in 1999-2000, and this coincided with the forming top in the S&P 500. The degree to which the market absorbs these new issues and correlation of performance to profitability could be critical to determining whether investor FOMO is taking over from company fundamentals as the predominant driver of the equity market. Thus, market reactions to SpaceX’s IPO this week and Anthropic and OpenAI later this year could also offer key evidence of a bubble or lack thereof.

Authored by:



[Gina Martin Adams, CFA, CMT](#)

Chief Market Strategist



[Matthew Sanders](#)

Senior Investment Research Analyst



[Michael Casper, CFA](#)

Director, Senior Market Strategist



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