

# Carret Equity Insights

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*It's déjà vu all over again...*

**Lawrence Peter Berra, 1925-2015**

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## Firm AUM (3/31/26)

**\$3.518 Billion**

I recently had total hip replacement surgery. In the three months between diagnosis and procedure I had ample cause to reflect upon my often-used term of *vague uncertainty*: that uncomfortable state in which one genuinely does not know what lies ahead. Both the recovery room and the trading floor teach the same lesson: progress is non-linear, short-term discomfort is the price of long-term gain, and the impulse to abandon the plan at the first sign of trouble is precisely the wrong response. Physical therapists, like investment advisors, urge you to trust the process. And in both cases, once *vague uncertainty* becomes *known certainty*, the path forward, however demanding, becomes navigable. I can report that the post-operative pain was considerably less than that of the deteriorated hip I had been hobbling around on for six months.

Yogi Berra's remark earns its place here because the market, in early 2026, offered a striking reprise of 2025. The S&P 500 peaked at 6144 on February 19<sup>th</sup>, 2025, and sold off sharply through early April as the administration's tariff intentions remained opaque. When the initial tariff regime was announced on April 2<sup>nd</sup>, the decline briefly accelerated; but by April 7<sup>th</sup> a recovery had commenced that carried the index to new highs by June. The catalyst, we argued at the time, was the conversion of *vague uncertainty* into *known certainty*; once the facts were on the table, the market could assess, assimilate, and proceed. On January 28<sup>th</sup>, 2026, the S&P peaked again at 7002. A new and less anticipated source of *vague uncertainty*, the outbreak of conflict with Iran on February 28<sup>th</sup>, sent the market into another steep decline beginning on March 2<sup>nd</sup>. The parallel is imperfect, as all parallels are, but the underlying dynamic is familiar enough to warrant the Berra citation. The market, apparently, keeps relearning the same lesson.

*Inflation*, while receding from its post-pandemic peaks, has proven stickier than the Fed's 2% target would demand: a condition we attribute in meaningful part to the *marginal impact* of tariffs on producer and consumer prices, an effect that has not dissipated as fully as the market had hoped. To this we now add the inflationary dimension of *oil prices*. The conflict with Iran has introduced a meaningful risk premium into the energy complex.

Crude oil is not merely a commodity; it is an input cost that permeates the economy; transportation, manufacturing, agriculture, chemicals, and consumer goods all carry embedded energy costs. A sustained elevation in oil prices would work directly against the Fed's disinflation progress, presenting the central bank with a particularly uncomfortable dilemma: ease into geopolitically driven inflation, or hold firm and risk tipping a slowing economy toward contraction. The Fed faced a version of this dilemma in the mid-1970s and again during the Gulf War period; neither episode was comfortable for the market. We do not forecast a return to stagflation, but we note that the conditions for it, moderate growth, elevated energy costs, and a central bank constrained from acting decisively in either direction, are not entirely absent from the present landscape.

We have commented at length, and with some frustration, on the persistent *misreading* of Federal Reserve communications. The Fed has been admirably transparent: it is moving toward a *neutral* rate, one that neither stimulates nor restrains economic activity. This is not *accommodation*. It is *equilibrium*. Yet the consensus of "investors" as measured by the financial press, continues to expect, and in some quarters demand, that the Fed become the market's ally in sustaining elevated valuations. Chairman Powell has offered no such assurance, and we take him at his word. We are reminded of the period following the Nixon administration's replacement of the disciplined William McChesney Martin with the more compliant Arthur Burns; the consequences for inflation took a decade to unwind. The Fed's independence is not a bureaucratic nicety. It is the institutional memory of every inflation episode this country has endured. We caution, as we have before, that depleting the Fed's arsenal of *monetary options* in the service of short-term market comfort is a policy error with long term consequences.

The S&P 500's forward P/E of approximately 21 times sits well above its long-term mean of 17 times. Elevated multiples are not inherently dangerous, but they compress the *margin for disappointment*. The ten-year S&P compound return of 14.1% and the three-year figure of 18.3% are, by any measure, exceptional. *Regression to the mean* does not require a crash; it merely requires that future returns be more modest than recent ones.

We have long maintained that *earnings drive the market*, and 2025 bore this out: S&P 500 earnings grew approximately 12%, defying early-year skepticism and supporting the index's advance. Initial forecasts for 2026 call for 17% growth. We will simply note that such forecasts have a reliable tendency to flatter the beginning of the year and humiliate the end of it. The technology sector, representing some 68% of aggregate S&P 500 earnings, remains the engine of this performance; the engine's fuel, at present, is the expectation of artificial intelligence's commercial dominance.

The *monetization of artificial intelligence* is the transformative investment theme of the decade. The aggregate capital being deployed into AI infrastructure, data centers, semiconductors, power generation, and networking, is staggering by any historical comparison. The companies at the center of this buildout are, in the main, the same names that dominate the S&P 500's capitalization, which creates a degree of circularity: a handful of firms are simultaneously the largest investors in AI infrastructure and the largest beneficiaries of the market's enthusiasm for it. We observe this arrangement with interest and with caution.

The critical question for investors is not whether AI will change the world, but whether the *returns on invested capital* will materialize quickly enough, and be distributed broadly enough, to justify current valuations.

We are reminded of radio in the 1920s and the internet in the 1990s: both were genuinely transformative technologies, and both gave rise to speculative episodes that ended badly for those who confused the *reality of the technology* with the *sustainability of the valuations* attached to it. The internet did, eventually, transform commerce, communication, and culture, but we note that the Nasdaq required fifteen years to recover its March 2000 peak. Early investors in transformative technologies are not always rewarded in proportion to their foresight. The monetization of AI is proceeding on multiple fronts: enterprise productivity, drug discovery, software development, and logistics optimization among them. Some of these applications are generating measurable returns today; others remain promising expenditures in search of a revenue line. The market, in its current enthusiasm, is not making fine distinctions between the two. Disciplined investors should. The case for continued equity participation is intact. Earnings are growing, the economy has demonstrated resilience, and the long-term record of equities as a wealth-building instrument is unimpeachable. But the risks deserve equal candor. *Concentration risk* remains the most underappreciated structural vulnerability: a portfolio weighted 40% to ten names is not diversified in any meaningful sense, regardless of the index label it carries. *Valuation risk* compounds this; any earnings disappointment among the dominant technology names would carry disproportionate index consequences. *Geopolitical and energy risk* has been reintroduced by the Iran conflict in a manner not seen for some time, with direct implications for inflation, corporate margins, and the Fed's range of action. *Policy risk* persists in the form of tariff uncertainty and the ever-present possibility that the market mishears the Fed. And then there is the risk of *complacency* itself: the comfortable assumption that uncertainty will always resolve in the market's favor and that today's market leaders will always lead.

We close, as we often do, with the observation that *risk tolerance is not a number on a questionnaire*. It is a lived experience, tested not in rising markets but in falling ones. We encourage each client to engage with us in a genuine, unhurried conversation about what risk tolerance means in practice: what level of decline would compel a change in behavior, what time horizon governs the funds in question, and what the cost of a shortfall is relative to the cost of lost opportunity. These questions have individual answers, and those answers should govern asset allocation decisions far more reliably than any market forecast, including our own.

Staying *invested* remains our essential counsel. Staying *alert* is the discipline that makes it sustainable. The ability to filter out *noise* from *fundamentals* is most likely the most important factor leading to success.

*Laurence R. Golding, Managing Director, April 15, 2026*

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