

Are we there yet? Bull market may have more miles

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Key takeaways

Some credit markets became more selective, but stress hasn't broadened to all areas of the credit markets. Companies with stronger balance sheets and cash flows may continue to access capital.

Recent inflation data has been uncomfortably strong, but longer-term inflation expectations have remained relatively contained, and concerns about confidence in US assets may be limited.

The indicators we watch have suggested that the ride may be slowing, but that the bull market doesn't appear to be coming to an end, and may not be for a while.

We recently drove our oldest daughter to college. Ten hours in the car gives you plenty of time to think. At some point, I remembered the question I used to ask my parents on long road trips.

That exchange feels surprisingly relevant for investors today.

It has been a long, positive ride for the US stock market.¹ History offers some warning signs on how things have tended to end. Too much borrowing. Too much inflation. Too much monetary policy tightening. Credit spreads widen. Investors paying up for default protection. Cyclical stocks selling off. Treasury yields falling as investors seek safety. The US dollar strengthening.

That's a reasonable recap of the news flow over the past few weeks,² but it doesn't necessarily mean that the bull market ride is ending.

Credit stress has risen, but not broadened

Start with leverage. The rapid buildout of artificial intelligence infrastructure has increasingly depended on debt financing, and the bond market has started distinguishing among borrowers.³ CoreWeave is the latest example. Yields on some of its unsecured debt have climbed to roughly 15%, while the cost of insuring its debt against default has risen sharply.⁴ Since June, wider credit spreads have accounted for roughly half of the increase in high-yield borrowing costs.⁵ The rise may no longer simply be a rates story. It increasingly appears to reflect concerns about credit quality.

That shouldn't be dismissed. But neither should it automatically be interpreted as the end of the AI investment cycle, in my view. Demand for computing capacity has remained substantial. I believe the more likely consequence may be that capital becomes more discriminating. Companies with stronger balance sheets, visible cash flows, contractual support, and better financing structures will likely continue to have access to capital, in my opinion. Weaker, more leveraged projects may find that capital becomes prohibitively expensive or unavailable. Importantly, spreads in the higher quality parts of the bond market remained relatively tight, suggesting that the stresses haven't broadened across credit markets.⁶ That's what credit markets are supposed to do. They differentiate.

Leverage is one thing. Leverage combined with Federal Reserve (Fed) tightening is another. As rates

rise, financing has gotten more expensive, and the economy has tended to slow. That doesn't mean the journey is ending, but it may be a sign that we're getting closer.

Markets appear prepared for tighter policy

That brings us to inflation. Recent inflation data have been uncomfortably strong.⁷ But the bond market rallied in response to the strong Consumer Price Index and Producer Price Index releases.⁸ That suggests to me that markets had already priced in the rate hikes and are now preparing for tighter policy to slow economic activity. Importantly, longer-term inflation expectations have remained relatively contained.⁹ The recent rally in US Treasuries and resilience of the US dollar¹⁰ suggests to me concerns about confidence in US assets may be limited. That seems like a signal that the recent rise in yields may never have been primarily about concerns over fiscal sustainability.

Journey continues, quality matters

None of this means investors should ignore what's happening. Cycles generally haven't ended without warning. Financing became more expensive. Credit became more selective. Weakness appeared in the more speculative corners of the market.

That also has implications for how we invest. As the credit markets become more discerning and the economy slows, we favor higher-quality credit and more defensive sectors of the stock market. We also watch for signs of a reacceleration in economic activity, which could occur with a resolution of the oil shocks, and/or a rally in bond prices.

Sure. Every mile of a long journey gets you closer to the destination.

The indicators we watch suggest the ride may have slowed, but I don't believe the bull market is over yet, and it may not be for a while.

Source: Bloomberg L.P., Oct. 15, 2026, based on the 128.15% return of the S&P 500 Index since the last 20% peak-to-trough decline, which ended on Oct. 12, 2022.

Source: Bloomberg L.P., US Bureau of Labor Statistics, Oct. 15, 2026, based on the Consumer Price Index, Producer Price Index, fed funds implied rates, Bloomberg US High Yield Bond Index option-adjusted spread, the S&P Dow Jones Indices CDX Investment-Grade Index, the cyclical sectors of the S&P 500 Index, the 10-year US Treasury rate, and the US Dollar Index.

Source: Bloomberg L.P., Oct. 15, 2026, based on the option-adjusted spread of the Bloomberg US Corporate High Yield Bond Index.

Source: CNBC, "CoreWeave credit default swaps hit distress levels as investors sour on AI debt," Oct. 15, 2026.

Source: Bloomberg L.P., Oct. 15, 2026, based on the option-adjusted spread of the Bloomberg US Corporate High Yield Bond Index.

Source: Bloomberg L.P., Oct. 15, 2026, based on the option-adjusted spread of the Bloomberg US Corporate Bond Index.

Source: US Bureau of Labor Statistics, Sept. 2026, based on the US Consumer Price Index and US Producer Price Index.

Source: Bloomberg L.P., Oct. 15, 2026, based on the 10-year US Treasury rate.

Source: Bloomberg L.P., Oct. 15, 2026, based on the 5-year US inflation breakeven.

Source: Bloomberg L.P., Oct. 15, 2026, based on the 10-year US Treasury rate and the US Dollar Index.

- October 12, 2026
- October 5, 2026
- September 28, 2026
- September 23, 2026

All investing involves risk, including the risk of loss.

Past performance does not guarantee future results.

Investments cannot be made directly in an index.

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

Artificial intelligence (AI) technology companies are sensitive to specific risks such as small markets, business cycle changes, economic growth, technological progress, obsolescence, and regulation. These companies may have limited products, markets, resources, or personnel, making their securities more volatile, especially for smaller start-ups. Rapid technological changes can adversely affect their results. AI companies often rely on patents, copyrights, trademarks, and trade secrets to protect their technology, but there's no guarantee these protections will be sufficient. Significant research and development (R&D) spending doesn't ensure product or service success.

The Bloomberg US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes US dollar-denominated securities publicly issued by US and non-US industrial, utility, and financial issuers.

The Bloomberg US Corporate High Yield Bond Index measures the US dollar-denominated, high-yield, fixed-rate corporate bond market.

Breakeven inflation is the difference in yield between a nominal Treasury security and a Treasury Inflation-Protected Security of the same maturity.

A bull market is an environment in which stock prices are rising or are expected to rise.

Cash flow is the net amount of cash and cash equivalents generated by a business.

The Consumer Price Index (CPI) measures the change in consumer prices and is a commonly cited measure of inflation.

Credit spread is the difference in yield between bonds of similar maturity but with different credit quality.

A cyclical stock is an equity security whose price is affected by ups and downs in the overall economy.

The fed funds implied rate is the difference between the spot rate and the futures rate, which is an interest rate that can be calculated for any security with a futures contract.

Fixed income investments are subject to credit risk of the issuer and the effects of changing interest rates. Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa. An issuer may be unable to meet interest and/or principal payments, thereby causing its

instruments to decrease in value and lowering the issuer's credit rating.

In general, stock values fluctuate, sometimes widely, in response to activities specific to the company as well as general market, economic, and political conditions.

Gross domestic product (GDP) is a broad indicator of a region's economic activity, measuring the monetary value of all the finished goods and services produced in that region over a specified time period.

High-yield bonds, or junk bonds, involve a greater risk of default or price changes due to changes in the issuer's credit quality. The values of junk bonds fluctuate more than those of high-quality bonds and can decline significantly over short time periods.

Inflation is the rate at which the general price level for goods and services is increasing.

Investments focused on a particular industry or sector are subject to greater risk and can be more impacted by market volatility than more diversified investments.

Leverage measures a company's total debt relative to the company's book value.

Monetary easing refers to the lowering of interest rates and deposit ratios by central banks.

Option-adjusted spread (OAS) is the yield spread that must be added to a benchmark yield curve to discount a security's payments to match its market price, using a dynamic pricing model that accounts for embedded options.

The Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services.

Purchasing Managers' Indexes (PMI) are based on monthly surveys of companies worldwide and gauge business conditions within the manufacturing and services sectors.

References to specific companies aren't buy/sell recommendations.

The S&P 500® Index is an unmanaged index considered representative of the US stock market.

The S&P Dow Jones Indices CDX North American Investment Grade Index (CDX.NA.IG) is a benchmark index that tracks credit default swap (CDS) spreads on 125 of the most liquid North American corporate entities with investment-grade ratings.

Tightening monetary policy includes actions by a central bank to curb inflation.

The US Dollar Index measures the value of the US dollar relative to the majority of its most significant trading partners.

The opinions referenced above are those of the author as of Oct. 16, 2026. These comments should not be construed as recommendations, but as an illustration of broader themes. Forward-looking statements are not guarantees of future results. They involve risks, uncertainties, and assumptions; there can be no assurance that actual results will not differ materially from expectations.

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