THOUGHTS FROM THE FRONTLINE

Bullish Highlights

By John Mauldin | May 31, 2025

"The Pessimism Is Decreasing"
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I call our annual event the *Strategic* Investment Conference for a reason. Understanding the macro trends is only the first step. We all have to apply that knowledge in our own portfolios so we can tolerate short-term fluctuations and achieve our bigger goals.

Today I'm going to highlight some speakers who added an equity market perspective to their big-picture views. Getting both right would be much easier if more investors behaved rationally. Alas, they don't, which is why stock prices do incomprehensible things. Fortunately, you can succeed without catching every twist and turn.

Also fortunately, you can still benefit from SIC at a very reasonable price with our just-launched transcript package. For a remarkably reasonable $249, you can get the full written transcripts of every session, including the Q&A, plus slide decks for speakers who used them. Click here to order yours.

I'll be quoting from some of those same transcripts below. That will give you a taste, but only a taste. The full transcript package goes much deeper. If you find this material useful, I highly suggest you order your own set now.

"The Pessimism Is Decreasing"

Swiss money manager Felix Zulauf (and former *Barron's* Roundtable favorite) is always one of our most popular presenters at SIC. He has a way of cutting through the narratives to express what's really important.

This time Felix began by describing a key change many people haven't yet processed.

> "I think what most investors are missing is that politics in the next few years will play an increasing role in determining the swings in the stock markets and in the financial markets in general. These trend breaks are of major magnitude and they are changing the world from where we come from over the last 50, 70 years or so…
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> "In the past, when the trends were [going] smoothly for many decades on the way up, geopolitical events didn't matter much. They mattered for a day or two, and then the market went back to the previous trends. I think this is different at this time and it introduces a new quality of volatility into the economy, into our financial system, and into financial markets. And depending on what the major leaders do in the world politically, the markets will swing up and down.
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> "This is completely different from what used to be the case. In the past, most strategists forecast corporate earnings, and they smoothed it over the next 12 months and then they forecasted the interest rates and then they applied the multiple and that's how they came up with a target for the stock market. They may still do so, but I think it's a useless exercise. I think you need to know which way the political mood swings and what that means for the sentiment because in the market, the sentiment reflects expectations, and we trade expectations and not facts."

I think Felix is right; expectations are increasingly diffuse, with different people expecting different things based on their own informational silos. The idea of a "consensus" view is increasingly irrelevant.

As for Felix's own expectations, he is presently quite bullish but doesn't expect to stay that way. His outlook has some twists and turns, so read this carefully.

> "I think we passed the point of maximum pessimism in early April. We are on the way up. And the question is now why does it go up? Obviously, the pessimism is decreasing, and so prices are recovering. And the economists and strategists are increasing their forecasts for economic growth and corporate earnings again, et cetera. That's the normal process. They always lag behind the market, they never lead. They always lag and follow the market; they do not lead the market.

> "I think what's important now is what will happen in the monetary arena and that is the next big question... The bond market is sort of in a limbo and bond yields are moving higher a little bit and I think approaching 5% or so, is a problem for the Fed. I think the Fed would actually begin intervening around 5%. So, I do not see 10-year Treasuries above 5% in the next six months. I think that the Fed would intervene and either buy Treasuries directly, which is a new form of QE, again, or by steepening the yield curve to make it attractive for the banking system to buy Treasuries and earn money on that leveraged position.
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> "So that is how I see the monetary condition improving. And in combination with the technical position that I see will probably catapult the market indices, the major indices above the former highs. And that by itself will then soak in more money, so we could have a run to whatever, could be 7,000 or so. [It is around 5,900 as I write.]
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> "But once that run is over, I think the market will be at a similar risk to early this year because the underlying economy will slow down. What happened to tariffs and even if they're now backpedaling… has introduced a lot of mistrust and uncertainty on the side of corporations.
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> "So, a lot of investment projects are going to be postponed, et cetera, and consumers may fear for their jobs and save more and spend less. And the corporate sector will probably not expand as much as it would have done otherwise. And with pharmaceutical prices attacked by the president, that means that the pharmaceutical industry, that announced major investments in the next few years in the US, will probably hold back.
>
> "I think the economy eventually will disappoint later this year into '26 and that will bring the market down. So, from a new high, I think we will probably then be ready for another big decline and probably below the lows seen in April.
>
> "So, if somebody puts a gun to my head, I would say on the S&P 7,000, then 4,500 and then 9,000 again thereafter. It's a big rollercoaster, a rollercoaster I talked about since 2020, when I said this is the beginning of the end game and it's going to be a lot of fun for those who know how to play it."

Felix added something else interesting:

> "So actually, retail has become the smart money, and professionals have become the dumb money, so to speak. And I think this is so because the professionals understand the risks involved, whereas the retail investors, they watch the television moderators and they do what they say and they do not point to risks, they always talk about rewards."

This connects with something else I will get to below. But let's first look at another bullish view.

Boomer Consumers

Dr. Ed Yardeni is best known for his time as Deutsche Bank's chief economist. Now he has his own advisory firm and puts out some of the best research I receive. Ed is not just bullish on stocks; he is kind of a super-bull, and he's been right while many of us were wrong. He began writing about what he calls The Roaring '20s very early on and has remained consistent. Even when his analysis says caution might be prudent, his long-term view is still very bullish.

The primary reason for this bullishness is really quite simple: Consumer spending is strong and Ed thinks it will remain so.

> "When we talk about the consumer, there's a tendency to view the consumer as one entity who all behave the same, and we all know from our personal lives that that's not the case. There are all kinds of consumers. There are different age consumers and there's consumers with different profiles in terms of their incomes, in terms of their wealth…
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> "The household sector has never ever been richer. The household sector collectively has $160 trillion in net worth. This includes houses, includes stocks, mutual funds, annuities, and its net worth…. We know that half of that is held by the Baby Boomers, so we've never had a richer household sector.
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> "They're sitting on a lot of net worth and they're going to be careful about how they spend it because they don't know how long they're going to live. But on the other hand, they are going to spend it.
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> "I think we are going to see a negative savings rate for the overall economy as retiring Baby Boomers spend more and more of their retirement nest eggs. That's what it's for."

Many Boomers are already handing down assets to younger generations.

> "They're not waiting to pass away to pass the money on, and I think a lot of that explains why the consumer has been so resilient in the face of a tightening of monetary policy. I think it also explains why the labor market has been so strong.
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> "When you look at the areas of strength in the labor market, you see that we have record employment in hospitality and leisure, restaurants, motels, hotels, airlines, all have record high employment and continue to gain employment. Well, that's the Baby Boomers who are retiring or retired. They're going on cruises. They're traveling, they're having a good time.
>
> "What else do we know in terms of employment? Well, we know that healthcare employment is at an all-time record high. Again, clearly the Baby Boomers."

Ed Yardeni sees AI and technology as bullish, too. Among other benefits, they will solve the labor shortage.

> "I think we're in a digital revolution. A few centuries ago, we had the agricultural revolution and then the industrial revolution…. I think that AI is in fact going to continue that digital revolution and it will give us more and more power to increase productivity with this technology.
>
> "So, I look at all that put together, and I did look at it in 2019 and I said, well, where is this all going to lead? Thinking 10 years out in 2019, before the 2020s started, I started arguing that it could be the roaring 2020s, that as we look at the decade ahead, we know we've got a shortage of labor on a worldwide basis. We know that we've got a significant shortage of skilled workers on a worldwide basis, and we know that there's technological innovations that can help solve the problem of a shortage of skilled workers."

He talked later about tariffs, acknowledging they are a problem like any other tax increase. But he thinks the stock market is looking past that, and more toward higher earnings in 2026. Even a debt crisis doesn't faze him. Similar to my Great Reset idea, Ed thinks a crisis that forces politicians to take real action would be disruptive but also unleash a better future.

Ed Yardeni said a lot more I can't include here, but you really should read the transcript.

Gambling Mentality

I want to end with Liz Ann Sonders, chief strategist at Charles Schwab. Her firm has a unique perspective on individual investor attitudes and preferences. Part of that unique perspective is that they have $10 trillion (trillion as with a T) of primarily retail investor money, much of which is self-managed. Not only does this afford them an insight into retail investor trends but they also do a lot of research on their clients in a continual effort to improve their service. That powerful information informs Liz Ann's viewpoints. "Casual" dinners with her are fascinating.

My partner Ed D'Agostino asked Liz a great question that elicited an even greater answer. Read this carefully.

> (Ed D'Agostino): "How much influence would you say the individual investor, or the retail investor, has on the markets today? When I was coming up, it was you can't compete with the algos, they're going to dominate the market. But it seems like that may have changed.
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> (Liz Ann Sonders): "I think it has. Not only by virtue of metrics like the percentage of household assets that are invested in the equity market, and that's now about 43%, which is an all-time high exceeding where we were back at the prior peak, which is in that 1999, 2000 period of time. So there's that metric that suggests there's more literal and figurative ownership of equities in this backdrop. You also have a huge surge in interest in and investments in more passive-type vehicles and index funds…

> "And then just the unique characteristics of COVID and the work from home, everything becoming much more digital in nature. I think there was also the rise simultaneously of sports betting, so it helped to foster a little bit of that gambling mentality, which has been really fascinating in these last few months."

Her point about a gambling mentality in the markets brought back a memory of saying something like that myself. I dug around and found it in my April 2021 *Tsunami Warning* letter. I was talking about the old days of "odd lot" trading. Then I wrote this:

> **"We have, without really noticing, severed the connection between share price and liquidity. This matters in ways I think we may not fully understand.** Combine it with game-like mobile apps that let people buy and sell in individually tiny amounts that add up to the big numbers once reserved for giant institutions. And without any kind of institutional decision-making process to constrain rash moves…
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> "We have raised a generation playing adrenaline-charged video games. For a relatively small stimulus check, they get to play in a game where Dave Portnoy assures them that stocks only go up, or they can 'stick it to the man' in GameStop. Sigh…
>
> "In the bigger picture, all those small accounts add up to enormous sums of hair-trigger money. Some of it has much higher risk tolerance. The app users don't see it as a nest egg to preserve. In their minds, it's more like buying gas to get to work—something you have to burn. The whole concept of a stock being overvalued or undervalued doesn't apply. They just want it to move. Where all this will lead is uncertain but I suspect it won't be good."

Four years later, I think we're starting to see the results of this change. Among other things, price-insensitive buying helped stocks reach valuation levels far above what was once thought reasonable.

It's another reason why I think past experience is becoming a much less useful barometer of what we can expect in the future. What was once irrational is now common, and vice versa.

This was echoed by Liz Ann in her interview. Quoting briefly:

> "Let me mention a couple of things. I think arguably based on what was pretty resilient economic data in advance of 'Liberation Day,' I think the massive sell-off that ensued, it started at the recent peak on February 19th, and then ultimately you had the intraday low on the delay, the 90-day delay to reciprocal tariffs. I think that's near bear market, in the case of the S&P 500 and pretty comfortably into bear market territory with indexes like the Nasdaq and the Russell 2000, that probably overshot a discount of the near-term economic hit.

> "And we did in turn see pretty resilient economic data. But I think maybe we've overshot in the other direction, but that's the nature of this market right now. **There is so much short-term money in the market. And not just by their traditional institutional players of algo-based funds and quant-driven funds and high-frequency trading firms… but the fact that retail investors have become so much more active and have very, very short time horizons for the most part.** I think that means naturally you're going to *get these pendulum swings that go beyond the underlying fundamentals*.
>
> "All that said, the other thing I wanted to say is I'm almost 40 years doing this, and I've often said that when it comes to the relationship between data, economic data, earnings data, macro information, and how the stock market behaves, 'better or worse' can often mean more and matter more than 'good or bad.' It's human nature for us to think, 'Is this good? Is it bad? Is it strong? Is it weak?' But it's that direction, it's better or worse that tends to matter. And boy, we are living in an extreme…"

In writing this letter, I went back and reread Liz Ann's transcript. I wish we could just post her entire presentation because it's very valuable. There's a reason we keep inviting her back to the conference. We get wisdom each year and somehow, she never repeats herself. It's all seemingly fresh from a seemingly never-ending source.

Finally, I want to mention that David Bahnsen's SIC presentation was one of the finest investment lessons I have ever witnessed. Basically, he made the case that as investors we should ignore the latest headlines *du jour* as they very rarely impact the long-term economy. It is interesting to talk about, but we have to be careful of letting the emotional impact, either good or bad, get in the way of a rational long-term investment strategy. It deserves a letter in itself—which I will do soon—but even then, you won't get the full story. Get the transcript and you can read it yourself.

Dallas, West Palm Beach, and DC

I will now be in Dallas the early part of the week of June 9 as we will be opening our new longevity clinic there. I will then go to West Palm Beach and the DC area (actually Columbia, Maryland) to do the same and of course we will be opening the clinic here in Dorado, Puerto Rico. Depending on the construction gods, they will all be open sometime mid- to late June. When we are past the beta opening status, I will give you full details, websites, and a considerable amount of research.

I am in full research and writing mode on my book about what I believe is the coming crisis and how we can all get happily through it. I am starting to incorporate AI into the research. My own journey into AI is three parts fascinating and one part frustrating—the lack of a rational helpdesk at AI firms like Anthropic's Claude for simple things like "Will you take my money?" And only getting back circular references which keep telling me to click on the link to get an email which tells me to click on a link to get the same email. I am told AI is going to make a big difference in my life so I will persevere. But you would think something supposedly intelligent could answer a simple question about taking my money. Maybe they should train it on marketing materials. And yes, I know that it is probably my fault, but just saying…

Finally, I really want to give a shout out to Ed D'Agostino, my partner and now the host of his own weekly podcast. He has been doing a lot of the moderation for our conference for years, but he really stepped up the quality of his game in the last few years as a host that can get the most out of his guests. A lot of it has to do with the intense prep work that he does, but part of it is just a natural curiosity that brings out the best from his guests. I look forward to his weekly podcasts and you should too.

And with that, I will hit the send button and wish you a great week.

Your trying to do too much analyst,

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