

Tailwinds and Turbulence: The Upside Is Real, the Margin for Error Is Not

by John E. Chapman

"Tailwinds and Turbulence: The Upside Is Real, the Margin for Error Is Not"

- Clearwater Capital's 2026 Symposium Title

The economy is not weak or strong - it is both at once, running at different speeds across sectors, and mistaking one part of the picture for the whole is one of the costliest errors an investor can make. This is why the title of this year's Clearwater Capital Symposium has never felt more apt. The economy is sending divergent signals simultaneously, and understanding those signals rather than reacting to any single headline is the work that separates disciplined long-term investors from those who are perpetually surprised.

A Divergent Economy

The crosscurrents in today's economy are presenting investors with unique challenges. Headline GDP growth slowed to 1.6% annualized in Q1 2026, but that number obscures more than it reveals. "Core GDP" (consumer spending, business investment, and residential construction) grew at a healthier 2.4% rate; trade and tariff disruptions alone subtracted 1.3 percentage points from the headline. Meanwhile, the GDP price index rose at 3.5%, well above the Fed's 2.0% target, and the 10-year Treasury sits at 4.44%.

Still, as DataTrek's Nick Colas has shown, elevated rates do not automatically compress valuations when earnings growth outpaces the discount rate. Between 2015 and 2019, the 10-year Treasury averaged 2.27%, and the S&P 500 traded at 15x to 18x forward earnings; today, with rates far higher, multiples remain elevated. That is not irrational exuberance; it reflects an extraordinary strength in earnings.

The Real Story: Corporate Profits and Technology's Dominance

From the market's perspective, the most important number in the Q1 GDP report had nothing to do with growth. The market is fixated on economy-wide corporate profits that rose 12.0% year-over-year, the fastest four-quarter pace since 2023, driven entirely by domestic non-financial industries. American businesses are defending and expanding margins in the face of headwinds that, by conventional logic, should have done more damage than they have.

Technology is the engine of that outperformance. Information Technology gained more than 55% over the past twelve months, and the S&P 500 Tech sector posted a remarkable 36.1% two-month gain in April and May combined, only the third such occurrence since 1990. The Philadelphia Semiconductor Index now trades 65% above its 200-day moving average.

Across the consumer landscape, retailers from Dick's Sporting Goods to Best Buy confirm that Americans continue spending when innovation justifies the price. The ISM Manufacturing Index reinforces the picture, rising to 54.0 in May, its fastest pace since 2022 and the fifth consecutive month of expansion, with sixteen of eighteen categories growing.

The Bull Market in Context

The current "AI Bull" market, now 1,325 days old and up 111.5% since October 2022, has become the ninth longest on record. Year-to-date, the S&P 500 is up 11.27%, the NASDAQ 100 is up 20.45%, and the Russell 2000 is up 18.15%. Crucially, the S&P 500 Equal Weight Index has also broken to new all-time highs, signaling that market strength is broadening beyond mega-cap technology. Technology-driven secular expansions, history shows, tend to run longer and further than most investors expect.

Optimism Earned, Caution Warranted

Jamie Dimon, speaking at the Bernstein Strategic Decisions Conference on May 27, described current conditions across lending, trading, and investment banking in two words: "It's gung-ho". For investors, the takeaway is direct: capital formation, risk-taking, and liquidity remain abundant despite lingering macroeconomic uncertainty.

Average 401(k) balances reached a record \$141,000 in Q1 2026, up 11% year-over-year, with savings rates at an all-time high of 14.4%. American households are building wealth, not retreating.

Yet Dimon was equally clear that elevated confidence has historically preceded dislocations, drawing comparisons to 1972, 1986, 2000, and 2007. Inflation may prove more persistent than consensus expects, and valuations in certain pockets of the market leave little room for disappointment. His concluding observation deserves to be heard from an investor's perspective: strong markets can persist longer than expected, but periods of widespread optimism deserve close attention.

As an investor, the most empowering perspective in this environment is not one of fear or complacency, but of engaged optimism. Stay fully invested in the opportunities that technology, reshoring, and American corporate ingenuity are creating, while remaining clear-eyed about the risks that travel alongside them. The opportunity before us is genuine. So is the complexity required to navigate it well.

The tailwinds are real, the turbulence is real, and the discipline to distinguish between the two is what long-term wealth building has always demanded.

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