First Citizens Wealth

Making Sense

Basis Points | August 12, 2026

Is this time different?

1. Different, again

It has been said that the four most dangerous words in investing are “this time is different.” The idea is that while circumstances and technologies change, financial and economic cycles ultimately revert to familiar tendencies. Maintaining this discipline helps investors stay grounded amid heightened uncertainty and rapid change. We think it’s possible to maintain that discipline while still acknowledging three important realities. First, the trillions of dollars AI hyperscalers plan to spend on data centers represents one of the largest capital investment cycles in history. Second, the large technology companies that dominate today’s equity indices generate enormous earnings and exceptional profit margins, unlike many of the firms at the center of the dotcom era that traded at lofty valuations while producing little cash flow. Third, demand for AI-related compute, infrastructure, and data services remains strong, is accelerating, and continues to exceed available capacity.

None of this eliminates risk. Companies are increasingly relying on debt and creative financing structures, and significant questions remain about future demand, competition, and profitability. But these differences matter. They suggest today's environment is not a clean replay of 2000, even if some of the enthusiasm seems familiar. Yet one lesson from past cycles remains highly relevant: expensive markets can become even more expensive. Alan Greenspan described equity markets as “irrationally exuberant” in December 1996. The S&P 500 did not peak until nearly four years later, after rallying another 115%. Valuations don’t tell investors when a cycle will end, only that future returns become increasingly dependent on continued earnings growth.

2. Earnings redux

Corporate earnings continue to exceed already lofty expectations, and analysts now expect S&P 500 earnings to grow 30% in 2026.[i] We have seen faster growth rates before, but typically after recessions or earnings contractions. For example, earnings per share grew 70% in 2021, but that followed a 22% earnings decline in 2020.[ii] What makes today's outlook remarkable is that the expected 30% growth rate comes on top of last year's 13% increase and ahead of an expected 14% gain in 2027.[iii] Beyond the headline results, Q2 earnings season delivered two encouraging signals. First, the AI investment cycle remains intact. Despite concerns about unprecedented AI spending, companies generally reported accelerating revenue growth and evidence that AI investments are generating returns. Companies showing clear AI-driven demand were among the market’s biggest winners, while those that disappointed faced significant downside. Second, earnings growth has broadened beyond mega-cap tech. All 11 S&P 500 sectors posted positive revenue growth, and 10 out of 11 reported positive earnings growth. And although the S&P 500 is less than 1% off its peak, most of the top 10 stocks remain 5% to 10% below their all-time highs, suggesting the market's advance is becoming less dependent on a handful of mega-cap leaders.

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3. Raising rates

Looking at today's asset prices, markets have largely discounted the geopolitical risks and energy-price shocks that dominated much of this year. Stocks are trading at new highs, and oil prices have retraced close to five-year averages. Interest rates, however, continue to tell a different story. Markets expect the Federal Reserve's overnight policy rate to be 4.0% a year from now, up by 1.0% from expectations at the start of the year, driving up borrowing costs for households and small businesses with variable-rate debt. Longer-term rates are up as well: today's 10-year Treasury yield at 4.7% and 30-year yield at 5.2% are near 19-year highs. As a result, new mortgage rates remain above 6.5%, suppressing housing affordability.

4. Choose your adventure

Federal Reserve policymakers have changed their tune this year, as elevated inflation appears more problematic than a soft labor market. Inflation has run higher than the Fed's target for five years, and as a result, consumer prices have risen by 26%, roughly double the increase that would have occurred under a sustained 2% inflation regime. The Fed is looking to end this pattern. New chairman Kevin Warsh insists, "The [Fed] will deliver price stability."[iv] The Fed raised rates four years ago, knowing it might sacrifice labor market strength and suppress economic growth. But back then, the economy was creating hundreds of thousands of new jobs per month, and there were two open positions for every unemployed worker. Today, the picture is very different. Job growth has slowed to a near stall, and the economy lost 23,000 jobs on net in July. Meanwhile, inflation-adjusted wage gains have been modest relative to the cumulative rise in consumer prices.

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[i] Source: FactSet
[ii] Source: Strategas
[iii] Source: FactSet
[iv] Federal Open Market Committee statements, July 29 and June 17

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