



## **Strong Earnings, Rising Rates, and the Return of Alternative Investing**

In this episode of the Market Brief Podcast, Doug Johnson and Dan Rinck explored the intersection of strong corporate earnings, rising interest rates, persistent inflation concerns, geopolitical tensions, and the evolving role of alternative investments in modern portfolios. The discussion centered on whether the current bull market can continue despite mounting macroeconomic pressures, particularly higher oil prices and rising Treasury yields.

The conversation opened with anticipation surrounding NVIDIA earnings, which the hosts described as one of the most closely watched events in the market. They noted that NVIDIA has consistently delivered exceptional earnings reports, yet market expectations have become so elevated that even strong results sometimes fail to impress investors. Dan pointed out that semiconductor and AI-related stocks had already rallied ahead of the report, suggesting investors were optimistic that the company would once again exceed expectations.

From there, the discussion broadened to the overall earnings season. Doug highlighted that roughly 90% of the S&P 500 had reported earnings, with year-over-year growth tracking around 27% — an exceptionally strong figure. Future quarters were also projected to show double-digit earnings growth, leading the hosts to conclude that the market's resilience is largely justified by the strength of corporate profits. Historically, they argued, stock prices eventually follow earnings growth, and current corporate performance continues to support higher equity valuations.

One of the most notable themes was the surprising durability of the U.S. consumer. Despite geopolitical instability, higher oil prices, and lingering inflation concerns, companies like The Home Depot and Lowe's were still reporting healthy consumer demand. Dan noted that many corporate executives were not issuing cautious forward guidance, which is often a sign of looming economic weakness. Instead, businesses across sectors appeared confident in continued growth. Doug added that this earnings cycle lacked the usual Wall Street pattern where analysts gradually lower expectations only for companies to “beat” diminished forecasts. Instead, estimates had largely remained strong throughout the quarter.

The hosts also discussed the continued momentum behind the artificial intelligence investment boom. They emphasized that major technology companies have maintained

aggressive capital expenditure plans focused heavily on AI infrastructure. Earlier fears that large tech firms might scale back AI spending have not materialized. Doug argued that ongoing AI-related investment gives the broader market an additional growth engine and may help support economic expansion even as other sectors face challenges.

However, the conversation then shifted to what both hosts considered the market's biggest current risk: rising interest rates driven by higher energy prices and inflation pressures tied to the conflict involving Iran. Oil prices initially spiked into the \$125–\$130 range before retreating somewhat, but crude remained elevated around \$100 per barrel. Doug explained that recent inflation reports showed the first meaningful pass-through effect from higher energy prices into consumer and producer inflation data. As a result, Treasury yields moved sharply higher, with the 10-year Treasury nearing 4.7% and the 30-year Treasury reaching roughly 5.2%, levels not seen in many years.

Dan explained that markets were increasingly pricing out the possibility of Federal Reserve rate cuts and beginning to consider the possibility of future rate hikes. The 2-year Treasury yield, often viewed as a proxy for Fed expectations, had risen above 4%. While peace in the Middle East and lower oil prices could eventually relieve inflation pressures, neither host believed the Federal Reserve was likely to cut rates in the near term unless economic conditions deteriorated substantially.

The discussion repeatedly returned to the relationship between higher rates and equity valuations. According to Dan, the market appears increasingly sensitive whenever the 10-year Treasury rises above 4.5%, with yields approaching 5% potentially creating significant stress for stocks. Doug emphasized that elevated rates eventually become a headwind for both consumers and corporations because borrowing costs rise while energy expenses pressure margins and household spending.

Despite these concerns, the hosts argued that the current environment differs meaningfully from the inflation crisis of 2022. Back then, inflation surged near 8% while the Federal Reserve was still maintaining near-zero interest rates, forcing policymakers into aggressive catch-up mode with rapid rate hikes. Today, by contrast, the Fed funds rate is already close to current inflation levels, reducing the likelihood of another series of extreme 75-basis-point increases. Doug also pointed out that bond markets now start from much higher yield levels, meaning fixed income investors are collecting meaningful income again even if volatility persists.

This led into a lengthy conversation about portfolio construction and diversification. Doug argued that the traditional 60/40 portfolio model — stocks and bonds — may no longer provide sufficient diversification in a world of persistent inflation and structurally higher

interest rates. Both hosts suggested investors may need broader exposure to alternative assets, including commodities, managed futures, precious metals, and inflation-sensitive strategies.

Dan reflected on how commodities had largely disappeared from mainstream portfolios over the past decade because they underperformed equities and often moved in the same direction as stocks. Now, however, commodity markets are beginning to demonstrate both stronger returns and lower correlations to traditional assets. Gold, silver, metals, and raw materials have benefited not only from geopolitical tensions but also from rising demand associated with the AI buildout, which requires enormous amounts of energy, semiconductors, and industrial materials.

Doug expanded on the discussion by revisiting the “endowment model” popularized in the early 2000s by institutional investors such as the Yale Endowment. That approach emphasized broader diversification into alternative investments like commodities, managed futures, real assets, and private strategies. While he criticized some of the simplistic retail adaptations of that model in the past, he acknowledged that today’s environment may once again favor a more diversified allocation structure.

The hosts also spent time discussing Treasury Inflation-Protected Securities (TIPS). Doug warned that many investors misunderstand TIPS ETFs because they still carry duration risk. During 2022, many TIPS funds suffered losses despite elevated inflation because rising interest rates hurt bond prices. He argued that TIPS can be more effective when purchased as individual bonds and held strategically over long periods, rather than traded tactically through ETFs.

Throughout the discussion, the hosts emphasized the importance of correlations in portfolio construction. Dan explained that many alternative investments now offer genuine diversification benefits because they are becoming less correlated to both stocks and bonds. This combination of improved returns and reduced portfolio volatility makes alternatives increasingly attractive in today’s market environment.

The podcast concluded by returning to NVIDIA earnings and the broader AI narrative. Dan suggested that while the headline numbers matter, investors would focus heavily on management commentary about future demand, AI spending, and order backlogs. Given the strong performance of semiconductor stocks leading into the report, the market appeared to be expecting another positive outcome. The hosts closed by encouraging listeners to reach out to their advisors with questions and emphasized their commitment to helping clients navigate an increasingly complex investment landscape.