



FIRST CAPITAL
FINANCIAL



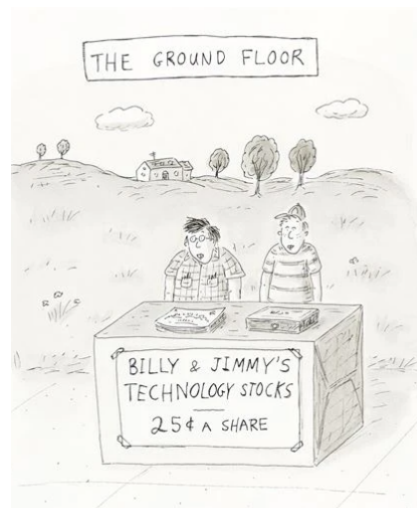
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2025.09.10

Trump Tariffs, sticky inflation, higher long-term borrowing costs, slowing economic growth and heightened geo-political uncertainty have, year-to-date, done nothing to stop the inexorable upward trajectory of stock markets around the world. Generally investors are pleasantly surprised, but also fearful that at some point the divergent realities will begin to resemble one another.

The explanation as to why this may not prove to be the case, is the maxim that **the stock market is not the economy**. The stock market tracks the value and expected future earnings of publicly traded companies, while the economy comprises all production, consumption, employment and commerce.



From observing stock markets over the past century we can conclude that the relationship between stock performance—largely driven by the oscillation between greed and fear, and real economic growth has always been somewhere between loose and nonexistent. In fact, what is happening to stock prices provides little insight into the wider economy.

More, stock markets are not very representative of any given economy. In the case of the United States, the S&P 500 -the largest of US indexes with a market value of \$53 Trillion¹- is comprised of just 500 companies out of the approximately 33 million business in America. Nearly nine-tenths of this value is owned by just 10% of the US population meaning that the market isn't representative of American citizens or their wealth. Finally S&P 500 listed companies derive one-third of their revenue overseas, so the biggest US companies can be thought of as materially, though not wholly American by that metric.²

In summary, markets reflect expectations about the future and are generally not focussed on what is happening in the here and now. As such, the challenges of today are subordinate to a more optimistic outlook about what will happen in the future. Therefore a strong stock market in the context of a mixed economic picture is rational and should not necessarily be viewed as a bubble or anything along those lines.

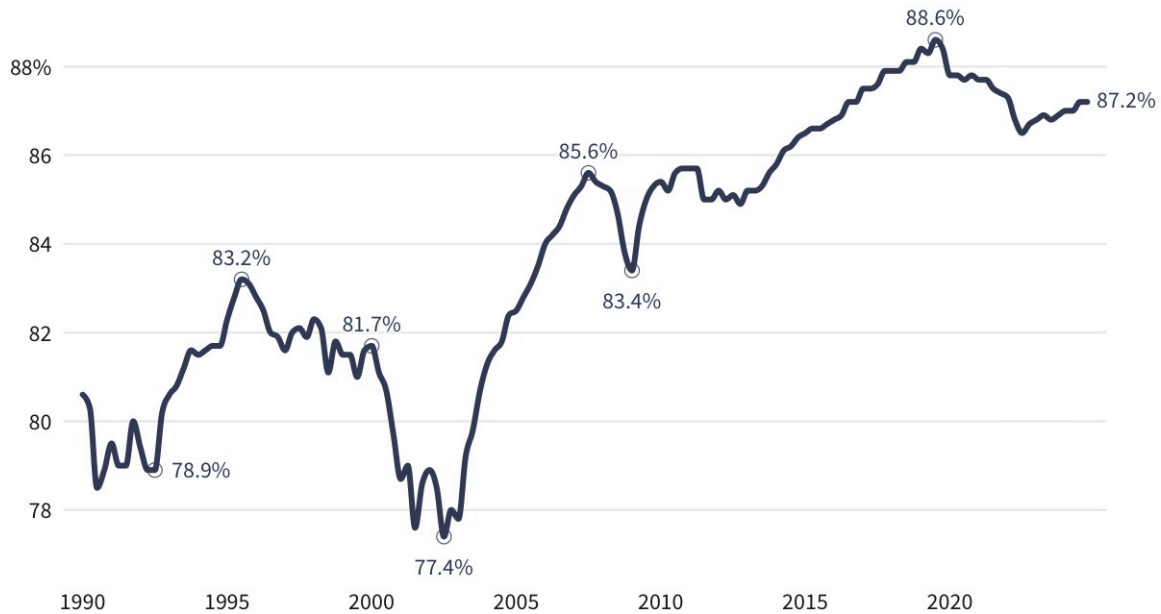
Stay disciplined, stay focussed and stay invested.

Thanks for reading!

Martin

How Much of the Stock Market Does the Top 10% Own?

Percentage of Equities and Mutual Fund Shares Owned by America's Wealthiest



Data compiled from several U.S. Federal Reserve of St. Louis data series.

Source: 1. Ycharts (https://ycharts.com/indicators/sp_500_market_cap)

2. Investopedia (<https://www.investopedia.com/the-stock-market-and-the-economy-11713642?>)

MARTIN WEILER, FINANCIAL ADVISOR
FIRST CAPITAL FINANCIAL / WORLDSOURCE FINANCIAL MANAGEMENT INC
50 CORESLAB DR. DUNDAS, ON L9H 0B2
P: 519-829-1331 F: 833-869-8042
MARTIN@FCFCORP.CA

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