July 2026 Market Update

What's a Trillion Dollars anyway?

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An unprecedented wave of capital has poured into Artificial Intelligence and next-generation tech in recent years. Private investors have committed record sums to companies like OpenAI and Anthropic, while public market enthusiasm has broadened into memory chipmakers, such as Micron (up 758.8% over the past 12 months) and AI infrastructure. Even well-established Mega-Cap Tech firms are raising massive amounts of capital. For instance, Alphabet (Google's parent company) raised $85 billion in equity recently, while other companies, like Microsoft, have tapped the bond market in a significant way (AI-related bond issuance has already jumped to $270 billion so far this year).

Watching this flood of money reminded us of a core concept from one of the best investment books we have read in recent years, Capital Returns by Edward Chancellor. A key learning from Chancellor's work is that investors can gain immense insight simply by watching the capital market cycle – paying close attention to where investment dollars are flowing and, more importantly, what happens after they arrive.

The capital cycle operates on a fundamental mechanism. When money floods into an industry, companies rush to expand, often excessively, which creates the seeds of its own downturn. Overinvestment leads to overcapacity and crushed profit margins down the road – creating the exact conditions that ultimately force capital to flee. Only after that excess is purged can discipline return to rebuild profitability, much like how the dot-com capital flight of the late 1990s cleared the stage for today's most profitable tech giants.

While the capital cycle does not tell us exactly when a market will peak or bottom, it can help us understand what inning of the game we are in.

A Bird in the Hand, Or A Trillion in The Bush?

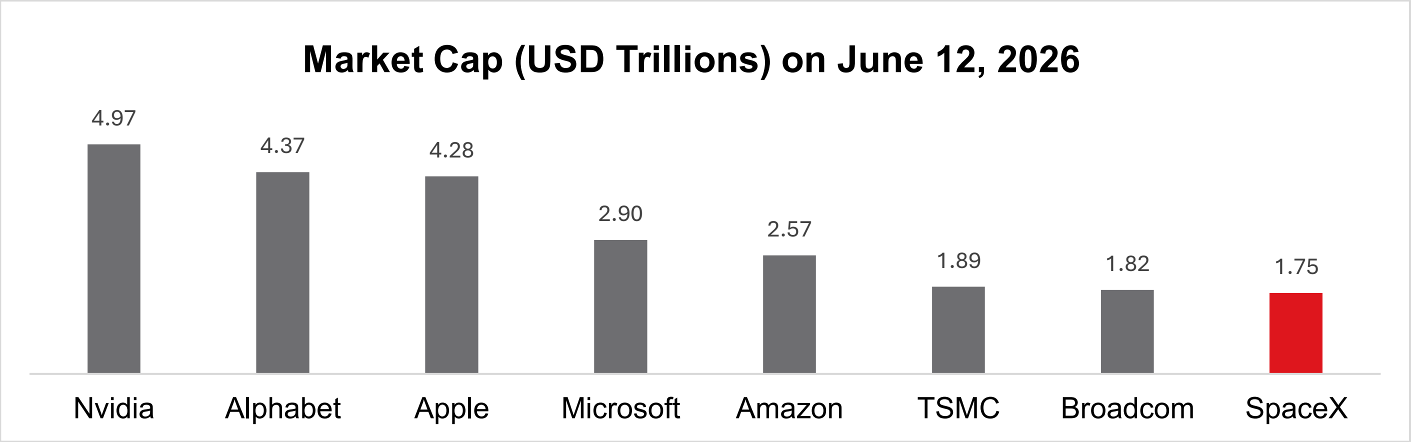
Aesop famously said that "a bird in the hand is worth two in the bush". If we were reasonably sure there were two birds in the bush, and we were good bird catchers, we might take that trade. If there were three or four, perhaps even more so.

But if someone promised us a trillion birds in the bush, we should question whether that bush had somehow bypassed the laws of physics – or whether we were simply being sold a story.

Bringing this back to the markets, the word "trillion" has become almost routine in investor discussions. Take SpaceX as an example, which at its IPO valuation on June 12 of $1.75 trillion, was the eighth largest company in the world by market capitalization (Figure 1).

To deliver a 10% return for investors at this valuation, the company needs to generate **$175 billion of shareholder value each year,** an amount that exceeds annual profits of companies like Apple, Microsoft, or Saudi Aramco. And if profits are delayed, as they most certainly will be, that hurdle compounds rapidly. For example, if shareholders receive nothing this year, the required return grows to $193 billion next year ($175 billion plus a 10% return). If there are again no returns next year, that hurdle rises to $212 billion the following year, and so on.

Figure 1: A Trillion dollars ain't what it used to be!



Source: Bloomberg

SpaceX is currently generating operating losses, and while this isn't automatically a deal-breaker as investors pay for future growth, the odds and potential returns must justify it. To be fair, SpaceX has no shortage of growth ambition: AI compute, orbital data centers, asteroid mining, an industrial base on the Moon and a "permanent human colony on Mars with at least one million inhabitants" ...yesterday's science fiction is today's latest public company.

SpaceX estimates its total addressable market at nearly $30 trillion, more than 20% of global GDP (although not all its opportunity is just confined to Earth!). With OpenAI and Anthropic likely to command similarly large valuations and market estimates, a small handful of companies could soon collectively claim addressable markets representing a significant share of the global economy.

Perhaps they will capture them. But the bar isn't just high; it is sitting somewhere in orbit. These companies will need exceptional growth, flawless execution, and extraordinary profitability to justify what investors are being asked to pay today.

Using Stock to Buy Growth

Our SpaceX example does not mean the company must organically earn $175 billion in annual profits right away. There is another potential path: use a highly valued stock to pursue acquisitions.

A company priced at around $2 trillion has a very strong currency. If the market is willing to value its shares at that level, the company can, for example, issue just 5% more stock and have nearly $100 billion to spend on acquisitions. It could buy other businesses, fold their earnings to its own, and appear to grow into its valuation faster.

This can be a rational strategy. If a company's stock is truly worth what the market says it is, using it to buy attractive businesses can create value. But if the stock is worth less than the market price, the dynamic shifts from wealth creation to wealth transfer.

Economically, value has been transferred from one shareholder group to another. That is a strategy that depends less on business economics, and more on the continued willingness of the next investor to accept the same expensive currency, which is rarely sustainable for long.

The Ninth Inning: Why discipline Beats FOMO

Money can certainly be made in these securities. The SpaceX IPO has reportedly created thousands of employee millionaires, while early venture investors are estimated to be sitting on tens of billions of paper gains.

We understand the excitement and the fear of missing out (FOMO). But having missed the early hours of the party before the company went public, it's no surprise that many investors do not feel compelled to join it now as the stock is trading below its IPO price. The cover charge has become expensive. The opportunities may be phenomenal, but so are the price tags. Although we never know when a capital cycle will end, it does seem that this one is getting closer to the ninth inning for these types of stocks than the first.

This doesn’t mean that there aren’t investment opportunities in the market or even that SpaceX itself won’t be an opportunity down the road if the price is right. However, it does mean that this is no time to throw caution to the wind. Each opportunity needs to be vetted closely against objectives and in line with long-term goals. It can be easy to get caught up in the hype of an IPO like SpaceX, but this is the exact moment where advisors can help clients maintain discipline and focus on long-term thinking.

Sources: FactSet, Morningstar

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