

The stock market's new approach to valuation

It is demonstrating an Earnings Before Iran, Tariffs and Dubious Announcements (ebitda) mentality

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Despite import duties and the Middle East war, the S&P 500 has stayed surprisingly resilient — in part owing to investor struggles to price US policy uncertainty © AFP via Getty Images

The Iran war is “the greatest global energy security threat in history”, according to the head of the International Energy Agency. The US tariff rate is at its highest level since the early 1940s, and could rise further. President Donald Trump’s caprice shows no sign of letting up. And yet, after a powerful rally, the S&P 500 has hit a new record.

Stockpickers have not entirely ignored Trump’s protectionist agenda or the Middle East conflict. But much like investors use earnings before interest, taxes, depreciation and amortisation (ebitda) to focus on the core value of a business, the market as a whole appears to be trading on another adjustment. Call it Earnings Before Iran, Tariffs and Dubious Announcements. What explains this?

First, it is never easy to price uncertainty. But between ever-changing tariff rates, evolving war scenarios and Trump’s Truth Social feed, it is harder than usual to separate signal from noise.

This is illustrated by the decoupling of the Vix — which measures the market’s expectation of volatility in the S&P 500 — and the economic policy uncertainty index. Both typically move in tandem.

But since the US president’s second term began, the former has been comparatively tame, while the latter has shot up. The only time this has happened as starkly was during Trump’s first term, according to data stretching back to 1990.

MARKETS STRUGGLE TO PRICE UNCERTAINTY UNDER TRUMP

News-based measures of uncertainty and the market’s assessment of volatility usually line up

■ US economic policy uncertainty index (LHS)
■ Cboe market volatility index: Vix (RHS)



Source: Haver Analytics, FT graphic: Tej Parikh / @tejparikh90

A study by Luboš Pástor and Pietro Veronesi at Booth Business School concluded that markets had largely failed to react to uncertainty during the first Trump administration because White House messaging was “difficult for investors to interpret”. Pástor told me the same holds in Trump’s second term, “just on steroids”.

The S&P 500’s surprising resilience today could then, in part, reflect the difficulty of pricing a wide range of policy and war outcomes. In turn, it is simpler to look through the uncertainty until clearer signals emerge.

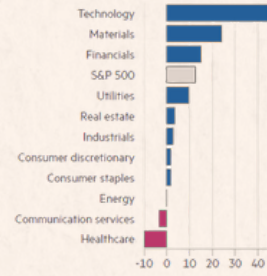
“Reacting to daily social media posts is a recipe for significant capital destruction, unless one has insider knowledge,” said Renaud Saleur, chief executive of hedge fund Anaconda Invest, which has adopted an “ignore Trump” investment strategy.

Second, while there are of course traders attempting to profit from the daily movements, a substantial proportion of the market consists of passive investors with a longer time horizon.

Indeed, structural market themes have kept US equities buoyant. Last year, the AI investment boom helped to offset the negative impact of US tariffs on stocks. For now, the long semiconductor and Magnificent Seven trades appear insulated from broader uncertainties and validated by strong earnings forecasts.

The technology sector is driving earnings growth forecasts ...

Q1 2026 earnings growth forecast (year on year), by sector



... and powering the S&P 500

Index rebased to beginning of Iran war

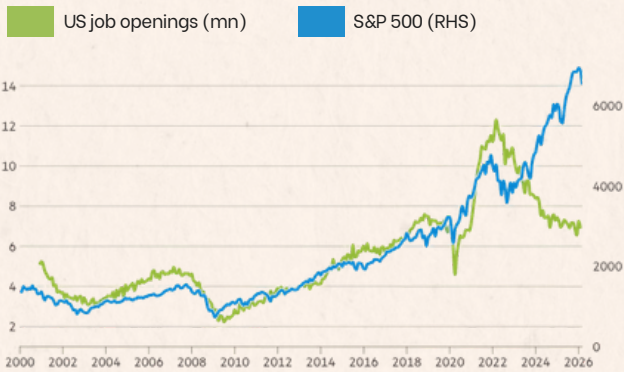


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With the IT sector accounting for roughly one-third of the S&P 500's market capitalisation, tech optimism has helped to sustain upward momentum in the index. This has also been a key driver behind the disconnect between the tougher economic reality facing US households and businesses and ever-rising stock values.

Andrew Lapthorne, global head of quantitative research at Société Générale, adds that investment flows from higher interest rates amplify this dynamic. "Investors are generating record levels of asset income, so there is a lot of money continuously searching for a home."

THE US STOCK MARKET HAS BEEN DISCONNECTED FROM THE REAL ECONOMY FOR SOME TIME



Source: Haver Analytics, FT graphic: Tej Parikh / @tejparikh90

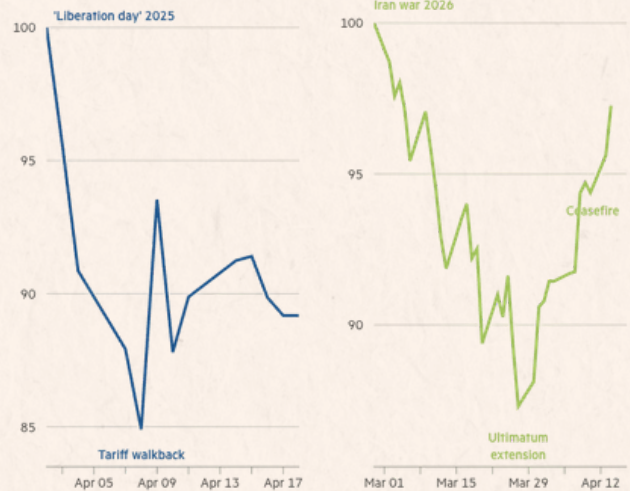
Finally, the market is itself acting as a brake on policy. For example, adverse market movements following "liberation day" forced Trump to delay and dilute his tariff measures.

Similar dynamics have been in play during the Iran war. Investors have not expected the shock to last long, partly because they believe the White House has a limit on the level of disruption in US bond and equity markets it will accept. This is encapsulated by my colleague Robert Armstrong's acronym Taco (Trump always chickens out). Markets have not been pricing in a sustained oil price shock, betting that the US president will be compelled to prevent one.

Simon Ree, founder of online education provider Tao of Trading, explains that, in this way, investors have become conditioned to buy the dip. **"Every policy reversal is getting absorbed faster than the last. This might look like resilience, but it's actually desensitisation."**

THE MARKET HAS ACTED AS A BRAKE ON POLICY

Index*. Drawdown in S&P 500 plus long-term US Treasury bonds



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Source: BCA Research, Dhaval Joshi. *Indexed to start of event

Of course, investors aren't completely ignoring the turbulence. Higher volatility has pushed up bank earnings and Wall Street's stock prices. As the war escalated, the energy sector jumped on the prospect of higher oil. And some auto and consumer business valuations have been hit by tariffs and the prospect of higher fuel prices.

Still, the upshot of all the noise, AI enthusiasm and Taco is that overall the market appears to be looking through Trump's term. For now, the Earnings Before Iran, Tariffs and Dubious Announcements approach prevails.

Send your thoughts in the comments, to freelunch@ft.com or via X @tejparikh90.