

# The Wyandotte Echo

## Stock Market Insights

### Why Investors Should Watch Inflation and Stock Valuations Right Now

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My college-aged son called me upset a few weeks ago. The water pump went out and the head gasket blew on the car he bought himself. He said he saw the temperature gauge go up, and he pulled over as fast as he could, but it was too late; his engine was ruined. I'm starting to watch the market temperature gauge go up, but hopefully it will have better results.

One of my core investment beliefs is that news headlines move markets in the short term, but market fundamentals drive them over the long haul. We have experienced this over the last few years with the Russia/Ukraine war, the tariff policy selloffs, and the current Iran war. Yet after every sell-off, the market rebounded quickly because of the underlying strength in corporate earnings.

Record-setting market highs make everyone feel better, and the S&P 500 is up 17% since

March 30, 2026. That's all good, but the forward price-to-earnings ratio (P/E) is getting nervously high, which means that the market might be a little too optimistic.

Here are a couple of topics I'm watching:

**Inflation Is Starting to Run Hot**

It seems like the stock market has ignored rising oil and gas prices. The effects of the 11-week closure of the Strait of Hormuz, which removed key oil supplies from the global

economy, are starting to be felt by consumers.

Inflation showed its ugly head in the April Producer Price Index (PPI), which came in three times higher than the Dow Jones forecast. This was the largest monthly gain since March 2022, when prices rose more dramatically after Russia invaded Ukraine. This was primarily due to higher energy prices, but also due to a surprise increase in shelter costs, showing that rent hikes and higher mortgage rates are taking a toll. However, the reasons for the current increase in inflation are the same as they were back then: energy, food costs, and core goods.

Moderate inflation is manageable, but higher or unpredictable inflation can put downward pressure on markets. If inflation continues to rise, Fed rates are likely to follow, and regardless of how well companies are doing, higher interest rates lead to lower stock valuations.

"All About That Earnings" (using my Meghan Trainor voice)

Investors are right to be excited about this quarter's earnings. The S&P 500's first-quarter earnings are up about 27%, which is way ahead of the expected 13% growth. Even more importantly, second-quarter earnings estimates have risen.

Since February 27, the day before the Iran war began, 2026 earnings estimates have increased by almost 7%. Despite recent negative headlines, the jump in oil prices and higher gas prices, analysts have become more optimistic about the health of corporate

America. Continued higher earnings could be the catalyst for continued market growth, but it bears watching.

**Stay Diversified**

When markets are priced for optimism like they are now, it doesn't take bad news to trigger volatility, only less good news. A well-diversified portfolio goes a long way toward risk management.

Investors seem to be assuming that the negative impacts from the Iran war will be reversed once an agreement between the U.S. and Iran is reached. They are hoping that job creation will stay positive, inflation will level off, the economy will continue to grow, and earnings will remain strong. I hope so, too, but with stocks near all-time highs, I am starting to prepare for some short-term volatility in case these things don't happen soon.

Thankfully, our son had enough money to buy a rebuilt motor, though his finances took a hit. He serves at a steakhouse in town, picking up extra shifts and praying for good tippers this summer, all because of a quick overheating. I don't think the market will do anything like that, but I will be watching closely just in case. A good temperature gauge is always handy.

Have a blessed week.

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This article was written by humans for humans because AI doesn't have this quality of sarcasm.

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