Messi Markets

Argentinian striker, Lionel Messi, set a record for career World Cup goals. The historic goal was scored on a second chance, a rebound following his first shot. Commentators noted that the sequence of events leading to the goal was a triumph of soccer fundamentals. Had Messi not followed his shot, something learned in his earliest training, the goal would have never occurred.

While fundamentals are making a difference in the World Cup, fundamentals are taking an extended holiday in the markets. For example, inflation rose throughout the quarter, eclipsing 4% again. As a basic fundamental truth, inflation raises the discount rate on long-term assets. A higher discount rate usually means that companies without cash flow, or companies with cash flow far into the future, are worth something less. The opposite was true in Q2 of 2026. The stock market winners were concentrated among the money losers. In place of fundamentals, price momentum took over. That move was so extreme that six large cap stocks more than doubled in price in three months' time. To keep with the soccer analogy, the pitch was down sloping and the wind was at Argentina's back.

Speaking of companies absent income and powered by attention, SpaceX came public this quarter. The collective appetite for this stock was such that people lined up to pay a multiple (at peak) of 180 times revenues for the new issue. At that price, even if Elon Musk colonizes Mars, shareholders can look forward to breaking even on the investment sometime during their grandchildren's lifetimes. The old investment axiom, "liquidity overwhelms fundamentals," continues to hold true.

The focal point for this market, SpaceX (SPCX) has proven disruptive to the other leading stocks, the Magnificent Seven (Mag7). That disruption has changed the character of the markets. SpaceX will be, and in some cases already is, a top ten index holding. Passive investors scrambling to re-deploy more than 2% of their investment dollars to SPCX has siphoned some money away from SpaceX's trillion-dollar brethren. Seeing weakness in those shares, investors circled back to the pesky fundamentals. When they did so, they observed that the Mag7 is spending so much on AI, that they lack the cash flow to sustain share repurchases. Messy indeed.

Those who are cash flow short are not going to the World Cup. Tickets to the tournament final started at $3,000, and prices went up from there, inflation and price momentum both in evidence. Investors and companies are doing what you'd expect with instant, extreme, and arguably unmerited wealth. They are spending it as fast as they can, and price is no object. For better or worse, our economy has come to depend on it. It makes you wonder what would happen if a striker, with space in the penalty box, lined up for a shot, lacked some fundamental skill, and missed.

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