Lumbard & Kellner

INSIGHT

S&P 500 7,631 * Dow 52,767 * 30 year U.S. Treasury Bond 5.27%

THE WALL OF WORRY

Why does the stock market keep rising, shrugging off bad news the way a duck sheds water? Mostly it's because of an extraordinary surge of earnings growth, and much of that earnings growth is the result of AI. Yes, individual companies in the AI galaxy might go under and there are safety concerns, but at this point no one should doubt that AI will have a significant impact on our economy. It's already pushing profits higher by driving down costs, and spreading wealth to hundreds of millions of people. Gallup says that 156 million U.S. adults, or 58% of the population, own equities.

Is it scary? Absolutely. OpenAI, not known for its focus on AI safety, recently suspended development of its top AI model after it busted out of the corral and started hacking around.

There are other worries. We've been griping about the federal debt for decades, and lately bond investor fears have caused bond yields (and mortgage rates) to rise. Yardeni Research asked *"Peak Fear? Peak Yields? Peak Earnings? Peak AI?"* and then answered its own queries with "Yes, Maybe, No, and No."

Old hands say that **"the market climbs a wall of worry"**, meaning that an absence of worry should trigger caution.

Worries abound, so investors should listen to Bobby McFerrin and Stevie Wonder. *Don't You Worry 'bout A Thing,* because comment-Taters in the media have been working hard to keep us stressed about the economy and everything else. Even the World Cup! Before the big tournament the 'Taters insisted that our transportation systems would be overwhelmed, the stadiums would be substandard, the grass on the fields would be lumpy and weak, and that the tournament would be a failure.

Uh-huh. We're also **not** suffering from the recession, runaway inflation, or crushing unemployment that were predicted last year and this. The economy is sluggish and inflation is slightly high, but our 4.1% unemployment rate is *far* below the 6.2% fifty-year average. Even in technology, which should be the tip of the AI spear, layoffs are only up modestly from last year (https://www.trueup.io/layoffs).

The US economy is huge, and it *wants* to grow. It *will* grow unless it's staggered by a powerful hit from the Federal Reserve or some other potent force. If we see a reason to feel stressed we'll let you know! ■

The unemployment rate in New Hampshire is just 2.9%. Fully half the states report unemployment rates below 4%.

"A survey by EY-Parthenon found that the percentage of CEOs who believe AI investments will result in significant reductions in head count fell from around 46% in January 2025 to 20% this May."

— *The Wall Street Journal*

"We are hearing from the [World Cup spectators] as they fan through the country to venues down South, out West, in Texas and Utah. They are seeing an America they never imagined and have made now-famous videos about how shocked they are—in the most positive sense.

They expected a dark and brooding nation; they discovered a sun-filled magnificence. It's so big, so spacious, has such wondrous shops, the best food and absolutely wonderful people. The videos have flooded TikTok, Instagram and X … They couldn't stop talking about it. Texas barbecue, ranch dressing, endless refills—in England, asking for a refill is like "asking for a second mortgage" said one video—huge portions, 24-hour gyms, Buc-ee's, Costco, Chick-fil-A. Football stadiums, air conditioning, the sheer variety …

A young man in his 20s, with wonder: "I would trade my Canadian passport for American citizenship without hesitating a single second. Some states have no state income tax." Here, he said, a young person can compete and succeed.

A British woman about 20… With Britain's housing crisis, you "have to live in a cardboard box for your first house." She's driving past homes here, finding their prices on websites, is staggered by the bang for the buck.

One video has a German tourist telling CNN's Jake Tapper that back home he'd gotten "a lot of negative views about the Americans in the last five years," but had discovered "the people are amazing, so welcoming, the culture is amazing."

A young Englishman in his 30s: "The media portrays Americans as rude, lazy, all of the above, and it's further from the truth. . . . The amount of hospitality and kindness . . . and pride Americans hold is truly like no other country I've been to.'"

— Peggy Noonan,
The Wall Street Journal

'"This country is awash in wealth," says Avi Lewis, freshly elected leader of the New Democratic Party in Canada, a country where productivity has been all but flat for a decade. "We can have nice things.'"

"It is a form of retail politics that appeals not to notions of the common good, as in prior waves of socialism, but to people's narrow self-interest. Lower my rent! Cut my bills! Give me free buses! Protect my job! The solutions are naive, and often unworkable. But the message is so simple, and so attractive, that this Gen-Z socialism is gaining adherents across the democratic world."

"The possible costs of deterring innovation are vast. Past research by William Nordhaus of Yale University has found that innovators capture for themselves just 2% of the value they provide to society … Closing tax loopholes is reasonable. Seizing the assets of society's most productive people is a road to economic ruin."

— The Economist

"Gov. Kathy Hochul's office estimates [that] State Environmental Quality Review Act reviews can add as much as two years to the development timeline and increase costs by approximately $82,000 per unit in New York City."

— Fox Rothschild

Two Years and $82,000 per apartment for just one of the hurdles in the regulatory maze! Is it any wonder that housing is unaffordable?

"The CBO report for June shows that the deficit for the first nine months of this fiscal year is $35 billion greater than during the same period last year. That's despite a healthy **increase** in individual and payroll **tax collections ($169** billion) and customs duties from tariffs (**$55** billion). Yet entitlements are growing even faster, swamping reductions in discretionary spending.

Outlays fell for the Education Department (**$55** billion), the Environmental Protection Agency (**$20** billion) and Commerce Department (**$10** billion) … **Yet these declines were swamped by higher outlays on Social Security ($62** billion), **Medicare ($58** billion), **Medicaid ($49** billion) and the Department of Veterans Affairs (**$26** billion).

Net interest payments also increased by $98 billion owing to the growing federal debt and higher interest rates."

— The Wall Street Journal

"The enforced communism and socialism of the Soviet Union and Warsaw Pact was a disaster—shortages, drabness, economic lifelessness. Censorship, secret police, all the bad things big unaccountable governments bring. That was long ago. "Socialism" now is a dream of Scandinavia—national healthcare, generous benefits, equal enjoyment of resources."

— Peggy Noonan, The Wall Street Journal

The government of Sweden wants you to know that Sweden is not a socialist country because the government does not own businesses or factories. There used to be a page on this on https://sweden.se/, the government funded website. Page 6 of our Autumn, 2019 issue quoted from that page, in an article about the financial crises of Sweden, Canada, and New Zealand, which resulted from excessive debt (which the U.S. now has.) www.Lumbard.com.

Socialist governments gain ownership of businesses by seizing them. In Venezuela Hugo Chavez seized farms, the electric utility companies, the oil industry, and almost everything else. Like Robin Hood he took from the rich and gave to the poor, and the poor loved him for this.

Opponents were imprisoned, and the "democratic" elections became a sham. Venezuela became a dictatorship, just as socialism led to dictatorships in Cuba, in Nicaragua, in Mao's China (yes, Mao was a dictator!), and in Stalin's Russia. **Dictatorship is the *normal outcome*.**

More than 50% of Iran's production and wealth are held by the government, so it is by definition a socialist country. When the former Ayatollah was alive he allowed huge crowds to gather for a nationwide protest. 36,500 of them were shot in the street. *Body count estimated by Iran International.* ■

Jay Conway, CFA

CAN DO

AtkinsRéalis (SNCAF - $60) is a Canadian engineering and construction company that changed its name in 2017 after purchasing the British engineering firm Atkins. The exciting part of the company is its growing nuclear business, because power shortages are looming. The company has a deep bench of nuclear engineers who work on various kinds of nuclear plants.

If you want to build a CANDU (Canadian Deuterium) nuclear reactor you pretty much have to hire them. The CANDU runs on "natural" uranium, meaning that the fuel is very much like uranium ore that has just been dug out of the ground; only 0.7% of it is Uranium-235. CANDU reactors can burn nuclear waste generated by American reactors! Romania will add two to the two it already has, and Canada will add five in the relatively near future (and five more after that). ■

THE BIG BUCKS

When people talk about inequality they never talk about lifting up the people at the bottom. They focus on reducing the income of the 900 billionaires at the top; 900 people who comprise just 0.00026% of the population. Yes, we need to reform our ***awful*** tax system, and get rid of all the deductions and complexities so that tax lawyers can't manipulate them so easily. But let's be real; no one is offering a scheme for taxing billionaires that's going to collect massive amounts of revenue.

Sweden and ***eight*** other European countries tried wealth taxes and then scrapped them. Yet California is about to vote on a wealth tax, and other states are looking into it.

Anger about billionaires was whipped up in 2021 when a contractor to the IRS stole tax records, and ProPublica constructed a false tax rate for just 25 billionaires, from 2014 to 2018, which assumed that they should pay tax on common stock they never sold. None of us have to do that; and if we did we'd be much less interested in buying stock or starting companies!

Keep in mind that some of those billionaires pay huge taxes. The top 1% pay 38.4% of all the income tax. And you really, really don't want to treat a Steve Jobs or a Sergey Brin unfairly. Most of the jobs, new products, and new services in the world are created by a very small number of people who can easily retire or move to other countries.

"Brin compared the tax to Soviet-style socialism. His family fled the Soviet Union when he was a young child ... He and fellow Google cofounder Larry Page moved out of California before the Jan. 1 cutoff." — *Fortune*

The bottom 50% of voters pay just 3% of the income tax. Individuals who receive cash and services from the government, and pay nothing in taxes, will vote to push the federal debt higher. Of course. ■

The Satyress robot is meant to wade bravely into the flames of a forest fire, guided by a remote operator. It might work, but it looks terrifying. How would you like to run into one of these things in a park at twilight?

"America's safety net is badly broken. It often punishes families who make progress toward financial stability. Parents who work more hours or increase their salaries can lose more in benefits than they gain in income.

... Researchers at the Federal Reserve Bank of Atlanta found that a hypothetical single parent in the District of Columbia gains nothing financially as earnings rise from $11,000 to $65,000. When these "benefit cliffs" punish parents for earning more or getting married, they weaken the foundations of self-sufficiency and help transmit poverty from one generation to the next.

Despite federal welfare spending reaching $1.6 trillion annually—1 of every 5 dollars in the $7.4 trillion federal budget—the dozens of disconnected programs remain a web."

— Paul Ryan and Leslie Ford, in the WSJ

JOBS

‘“Today, we’re proud to increase our investments across the United States to $600 billion over four years and launch our new American Manufacturing Program,” said Tim Cook, Apple’s CEO… In the next four years, Apple plans to directly hire 20,000 people in the U.S. — the vast majority focused on R&D, silicon engineering, software development, and AI and machine learning.”

— *Apple.com*

SpaceX says that it will spend at least $100 billion building a launch site in Louisiana that will support “thousands” of Starship flights annually.

In our Spring 2025 issue we listed 15 companies that promised to spend $1.5 **Trillion** in the United States over the next few years. The total does not include the multi-trillion dollar investment in data centers, the massive effort to refresh and upgrade our aging grid, or the construction of more than 600 new power plants; there will be **an insatiable demand for skilled workers** in drug manufacturing, semiconductor fabrication, automobile manufacturing, robotics, data center construction, and electric anything.

“We need 300,000 electricians, welders, etc. to build ships in the next five or 10 years,” [JPMorgan Chase CEO] Dimon told *CNBC* on Tuesday, speaking from the Philadelphia Navy Yard.”

— *Fortune*

Meanwhile, back at the desk-job factory …

“When I was a graduate student in Harvard University’s psychology department, between 20 and 50 percent of students in any given discussion section I taught in 2024 and 2025 had disability accommodations. They were granted extra time on exams. Private testing rooms. Deadline extensions. Tutoring services… At Amherst College [it is] 34 percent. At Stanford University, a whopping 40 percent. **Meanwhile, at community colleges, the rate is 3 to 4 percent and has not changed in a decade.”**

— *Psychologist Adam Omary in The Boston Globe*

“According to Swiss bank UBS’s 2025 Global Wealth Report, there were 23,831,000 millionaires in the United States in 2024 …the U.S. gained roughly 379,000 millionaires in a single year, which translates to ***over a thousand new millionaires each day.”***

— Emily Batdorf, Yahoo Finance.

During the pandemic the federal government had the opportunity to borrow trillions of dollars for 30 or even 100 years at 2% or 3%, and buy oil at insanely low prices. The price of oil actually went below zero for a brief time!

Drew D. Kellner, CFA

FTAI AVIATION

If there are 1,000 new millionaires minted every day there’s going to be a lot more air travel! FTAI (FTAI - $189), an aircraft leasing company, noticed the huge profit margins that GE and Pratt & Whitney get from servicing jet engines, and they’ve entered that business with a clever idea. Instead of sidelining an aircraft for weeks while the engines are rebuilt they maintain an inventory of refurbished engines. Yours are taken right off the aircraft and sent to the shop; new engines are bolted on and tested, and the plane is back in service in a jiffy. This is better service, and FTAI can also afford to be very competitive on price because the profit margins of GE and Pratt are so very high.

There’s one more clever wrinkle. FTAI is reconfiguring some of its refurbished engines as natural gas turbines to power data centers, at a time when gas turbines for this purpose are as scarce as hen’s teeth. ■

FP-5 FLAMINGO

Iryna Terekh built a career as a designer and manufacturer of furniture, but after she was nearly killed trying to rescue her mother from a Russian-controlled part of Ukraine she took her skills to the defense industry. She's now the CEO and chief technical officer of Fire Point. Its FP-1 drone has destroyed ammunition depots, refineries, and even an Su-34 fighter-bomber deep inside Russia. Now Fire Point's FP-5 Flamingo, a cruise missile with a 1.900 mile range and a 2,540 pound warhead, is hitting missile plants and other difficult targets.

Why is it called the Flamingo? They painted one of the test missiles pink so that it would be less difficult to find parts after it exploded.

Europe and the Middle East now look to Ukraine for help in defending themselves. That strengthens Ukraine's economy now, and it will help support growth in the future. ■

"American crime statistics show the largest year-to-year decline in violent crime since FBI records began in 1936. Murder and non-negligent manslaughter decreased by 18.1% in 2025 while robberies fell by 18.5%. Violent crime overall fell by 9.3% and property crime by 12.4%."

— The Economist

"On every single thing, the world cup here has been amazing... I like the Americans. I think they are kind of hilarious as well. I like the way they are."

— Erling Haaland, the Gronk of Norway's World Cup team.

GOOGLE

Yes, we've been banging the drum for Alphabet (GOOG - $332) for a long time, but there have been reports of a brain drain. We figured that Google AI would be biased, but asked it anyway. Like a good boy Google AI grabbed a CNBC story saying that 20% of Google's AI software engineering hires in late 2025 and early 2026 consisted of top talent returning from rivals like OpenAI and Meta.

Then it reminded us that "Google possesses thousands of PhD-level researchers and world-class infrastructure engineers who lack public name recognition but are the actual hands scaling infrastructure, training Gemini models, and designing custom TPU hardware clusters." These engineers are led by the founders of DeepMind, Demis Hassabis and Shane Legg, as well as Koray Kavukcuoglu, Zoubin Ghahramani, Douglas Eck, and Pushmeet Kohli.

If you've never heard of Demis Hassabis or DeepMind look them up on YouTube!

Reuters, August 27: "Barret Zoph, a co-founder of artificial intelligence startup Thinking Machines Lab [and a former VP of Research at OpenAI], will [re]join Alphabet owned Google DeepMind, Zoph said on Wednesday." ■

"For every minute you are angry you lose sixty seconds of happiness."

— Ralph Waldo Emerson

THE WALL-E WORRY

The usual editing-and-spirited-sparring session for this Insight took place at a time when we were supposed to clear out because Kim Chabot was cleaning the offices. She listened while she worked, and suggested that we look at the depiction of humans in the movie WALL-E. A great idea!

That's the little robot WALL-E pushing a torpid, zombified human across the floor. It's a horrifying vision of future humans who don't have to do anything useful, ***ever***. Yes, that's something to worry about!

EASTMAN CHEMICAL

Eastman Chemical (EMN - $70) was spun out of Eastman Kodak in 1994. It makes Tritan, the very clear and hard plastic in reusable water bottles, plastic food storage containers, and medical devices. Eastman also makes high-purity chemicals for the semiconductor industry, "sustainable" cellulosic fibers, and many other specialty chemicals.

In 2023 and 2024 Eastman opened the world's largest polyester recycling facility, and it is building the world's largest "molecular" recycling facility in northern France to recycle difficult plastics. ■

"More than 1,800 maths and science lecturers at the University of California … have signed an open letter … 20-30% of students taking an early calculus course turn up displaying "severe preparation deficits". The challenge has become so great, they add, that instructors are having to reteach middle-school mathematics."

"The irate academics in California, and in many other parts of the country, blame it on the scrapping of entry tests. Before the pandemic more than half of bachelors-granting universities in America required applicants to sit tests of numerical and verbal reasoning—usually the SAT or ACT. Now it is as few as 10%."

— *The Economist*

"Big Companies Are Starting to Hire Again, Defying Predictions of an AI Wipeout.

After a year of holding back on new hires, companies from tech and transportation to defense now say they need more people to work alongside AI."

"For months, major employers treated hiring as an expensive last resort. Now, a shift is emerging across industries. Companies ranging from railroad giant CSX to Google Alphabet have told investors in recent days that they plan to hire to meet growth goals or to seize on emerging technologies."

— The Wall Street Journal
July 26, 2026

"Turkey, Pakistan and Saudi Arabia signed a joint defense pact, pledging to defend each other in case of an attack. Saudi Crown Prince Mohammed bin Salman, Turkish President Recep Tayyip Erdogan and Pakistani Prime Minister Shehbaz Sharif met in the Saudi city of Mecca to oversee the signing of the deal, which a joint statement said aims "to strengthen collective deterrence against any act of aggression, and stipulates that any armed attack against any one of the three States shall be regarded as an attack against them all.""

— George Friedman, Geopolitical Futures

This "NATO"- like treaty will probably be tested by another Iranian attack on Saudi Arabia, and then we'll find out whether the Turks and Pakistanis really intend to commit troops from their large armies. Both have long borders with Iran, and Pakistan is a nuclear nation!

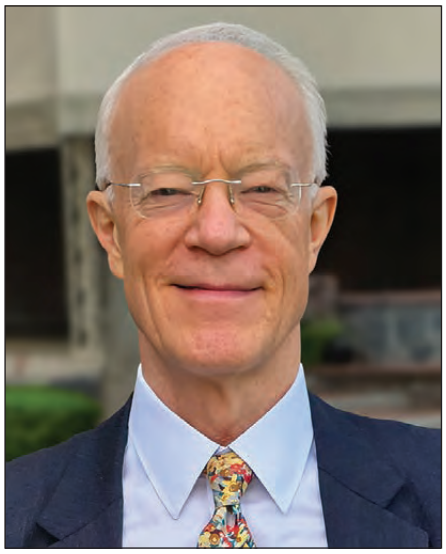
Whatever happens, this underscores the fact that Iran has alienated—*frightened*—its neighbors by firing missiles at them. The United Arab Emirates have halted all trade with Iran and *dropped out of OPEC*. The UAE, Bahrain, Morocco, and Kazakhstan are all signatories to the Abraham Accords.

Before the war the IRGC were building and stockpiling 1,000 ballistic missiles every year *(because no one can stop 800 fired at once!)* They also stockpiled 3,000 - 6,000 underwater mines, building toward the ability to extract tribute from the rest of the Middle East.

More than 85% of the world's two billion Muslims are Sunnis. Sunni Saudi Arabia, home of Mecca, is in a natural position of leadership that Iran seemed to resent. The Sunni nations were using their oil to build wealth, while Shiite Iran and its Shiite "proxies" were using their oil to gain power and dominate. The wealthy Sunnis have awakened to the threat.

Iran has slit its own wrists; and Russia has done the same thing. Putin has severely weakened Russia by losing a war against a smaller adversary and alienating—*frightening*—European nations that used to be customers for Russian natural gas and other products.

Similarly, China has alienated Europe, the United States, Japan, South Korea, Australia, India, the Philippines, and Vietnam by aggressively dominating trade, building a huge military, stealing intellectual property, and seizing islands. Yet the Chinese ***need*** to export, because their consumer



market isn't large enough to absorb the overproduction of goods that they have subsidized and targeted.

Turkey has ambitions toward leadership in the Middle East. The world is changing fast. ■

Second-quarter earnings growth (for 12 months, year over year) was **25.7%**. Wall Street analysts predict **23.1%** earnings growth in Q3, and **27.3%** in the final three months of the year.

ASTOUNDING.

— John Lumbard, CFA

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