Why are markets back at all-time highs?

Here are some key factors to consider:

• Markets have been sensitive to expectations around Fed rate hikes. In theory, rate hikes slow the economy and financial markets, leading to volatility in the stock market. The reverse can be true as well - lower rates can spur growth and business investment, supporting the overall stock market. When oil prices jumped in July, markets began expecting up to two rate hikes over the next year. With energy prices improving, and some signs of job market weakness emerging, markets have now tempered those forecasts. This has helped to push major indices higher in recent weeks.

• Strong corporate earnings have been a primary engine of market trends this year. Company reports for the second quarter have broadly beaten expectations. Consensus forecasts on Wall Street now anticipate S&P 500 earnings to reach $347 per share, representing a growth rate of over 30%. Not only is this historically strong, but markets also expect double-digit growth rates in the coming two years. This has helped to support valuations and markets.

• Beneath the surface, the same ongoing trends have both driven market swings and the upward trajectory. Artificial intelligence continues to boost technology stocks across sectors such as Information Technology and Communication Services. The ever-shifting outlook on the war in Iran also continues to affect markets. This includes news around a potential peace deal, the state of transportation routes through the Strait of Hormuz and the Red Sea, and other related factors.

• While it's positive for investors that markets have performed well this year, it's important to maintain perspective. The S&P 500 forward price-to-earnings ratio sits near 20x, above the historical average of 16x. These valuations also vary significantly across sectors, including areas outside of technology like Energy and Industrials that have supported the broader market this year.

The past few months show that short-term market volatility is a normal part of investing. Staying focused on long-term goals and maintaining a well-balanced portfolio have historically been the best ways to build wealth over time.

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