

Peace Dividend

Macro Observations for 2H 2026

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For years, it was taken as a given that the peace enjoyed throughout the world would simply continue unabated. After WWII, and the fall of Adolf Hitler, Mussolini, and the rest, a period of great prosperity ensued throughout the western world. The United States, the US Dollar, the US economy, and our allies, became the epicenter of a virtuous cycle of dynamic government investment in infrastructure, decades of booming economies, interrupted only by minor and temporary setbacks; and periods of generally tame inflation, robust GDP growth, growing world trade, growing prosperity, and a remarkable increase in human lifespan, the culmination of decades of collaborative scientific research marked by robust US investment in the finest US Universities.

But although all is not fair in love and war, many had assumed that all would be fair in times of peace. I think it is clear that we may put to rest the assumption, now, that anything is fair, and recognize that the growing forces of unease with the social contract Americans had with their government for centuries is now being called into question, and we should all assume that there are going to be a lot more uncomfortable disagreements before we eventually find the right answer.

This sentiment is generally encapsulated by President Trump's 35% ([Donald Trump's 35% Approval Rating: Reuters](#)) approval rating. But there are many more metrics we could use as a shorthand for the cause of the angst, and growing fear among voters that the coming generations of Americans, their children, will not be better off than they have been. The inflation rate approaching 4.2% ([Trading Economics US Inflation Rate](#)) is another thing to watch out for. Growing inflation, up until recently, had been a relatively benign thing, because wages were growing to keep up with

and even beat inflation. Not anymore ([Real Wage Growth: Bureau of Labor Statistics](#)), wage earners are losing on a real (after-inflation) basis. Gas prices that were in the \$60's pre-Iran war managed to peak out above \$110, but are now back down to the \$70's ([Oil Price Trajectory: MarketWatch](#)); though with much in flux as it relates to the Strait of Hormuz traffic being much subdued, it remains to be seen if oil prices will stay low for too long.

The stock market has had a lot of discounting to do as the calendar year has unfolded. While January and February showed us that the market wanted to go higher, the market was losing steam even before the Iran war; it began to question the A.I. narrative. While the capex was real, and all the benefits that went along with the Annual-Swedish-Economy-sized ([Sweden-Sized A.I. Capex: Yahoo Finance](#)) spend that went along with it, investors were rightly worried about the duration of such spend, and the fact that the robust economic growth that hung in the balance, rested on the shoulders of but a small handful of technology behemoths, who could change their minds on a dime.

As the Iran war unfolded, growth stocks sold off in classic fashion, as the market discounted a larger "hit" to longer duration growth stocks, whose values overly-rely on their so-called "terminal valuations"; a fancy way of saying, they don't pay dividends, and so the value that investors ascribe to them is mainly explained by how much value they will be able to recoup upon selling them at a higher or perhaps lower price, many years in the future. This short-termism ended up being yet another beautiful opportunity to add to many blue-chip growth names that had been unduly punished, and these companies rose to all-time highs in short-order. The thinking quickly flipped from doomsday to, "well, this A.I. narrative seems to be quite enduring and is likely to last no matter what happens, perhaps short of a nuclear apocalypse." As we get further down the road, and the nuclear apocalypse scenario looks further and further away, the A.I. narrative has strengthened, but increasingly, in the last few weeks, names in "The Dow", i.e. the more cyclical and dare I say "old school" segments of

the stock market that are more sensitive to US economic growth, have begun to perk up, and have handily outperformed cohorts like the “Mag 7.” Indeed, investors have begun to punish the Mag 7 as they are the spenders in this seemingly infinite A.I. hyperloop in which the Capex dollars of the hyper-scalers fund the chip companies, who in turn may take stakes in the various A.I. labs doing the A.I. research. And round and round we go.

The sell-off of the Mag 7 is rational, we know empirically that the market prefers, *ceteris paribus*, higher and growing free-cash flow to lower and shrinking free cash flow. Higher capex with an unknown (though confidently high) ROI, will nonetheless penalize Free Cash Flow creation, and especially at a time when A.I. resentment seems to be in vogue, and job creation among youngsters is dwindling, it remains to be seen if the A.I. investment will be worthwhile in the long run. However, there is also an important nuance – the Mag 7 giveth, but they may also taketh that capex spend away. Zuckerberg, for instance, has shown a proclivity to cut spending rationally when it is proven that the ROI on his spending is suspect. I think this time will be no different. Thus, the ROI itself will dictate whether he chooses to increase his free cash flow, or increase his investment. His speech earlier this week ([Zuckerberg Leaked Speech: A.I. Falling Short of Expectations](#)) was an early tell that he is laying the groundwork for perhaps pivoting back to higher free cash flow preference, which would make sense given the dismal performance of his stock, lately.

I expect all the other hyperscalers are in a similar boat. Microsoft, in particular.

So where does the Peace Dividend come into play? I believe the rotation in stocks that we are seeing away from the recent Kings of the Stock Market (i.e. memory chip stocks) and towards, well, everything else, is classic and perhaps emblematic of a broader widening theme that I expect can endure, if Donald Trump can keep his cool, keep Netanyahu in line, and allow the Peace Dividend to fully sink in.

In America, there is no rockstar. Capitalism is the Rockstar. Donald Trump has done nothing if not viewed himself as the Rockstar of our country. The thing is, try as he might, he will never replace Capitalism itself. Capitalism rewards smart-risk taking. But not dumb risk taking. The Iran war was a dumb risk. Bibi Netanyahu took it because he saw asymmetric upside for Israel. He was right (and the risk to the US was not asymmetric to the upside, but rather asymmetric to the downside). Bibi could get a big win on Iran on mostly a US Dime, and perhaps save himself from humiliating defeat in the upcoming Israeli election. Were it not for Trump coming to his senses and allowing the JD Vance section of the party to splinter off and ultimately serve as the voice of reason, Netanyahu's dream scenario might be playing out now and the US could be much deeper into war, and the S&P 500 could be back down at \$5,000. But that's not what's happening. I think Trump saw the Peace Dividend. It is big and juicy. And it does not rely on him doing anything in particular. In fact, it proactively relies on him doing almost nothing.

In a couple months, if the midterms go the way that the polls think they may, the US might be stuck in beautiful gridlock. The economy might improve, the stock market might go up. When all that happens, people will inevitably start liking Trump again. And he will obviously shout that in his highest voice from the tallest mountain. Who knows. What I can say is that, for now, it seems the Minsky Moment that hit us in full force in February seems to be on its last breath. Pure logic, at least for the moment, seems to have won out. The direction of the market's future rotation will be the best tell on where the economy is headed thereafter as future events unfold.