Flash Economics

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Is a sharp stock market correction looming in the United States?

The stock market performance of US companies is impressive: +91% over five years and +12% since the beginning of the year for the Nasdaq Composite Index, +89% over five years and +10% since the beginning of the year for the S&P 500.

However, a stock market correction is likely due to:

- The very high valuation of US stocks (P/E ratio of 34.5 for the Nasdaq Composite and 26.6 for the S&P 500), which would only be justified by the expectation of sustained rapid growth in earnings per share;
- The sharp slowdown in US growth, caused by the economic policies pursued by the Trump administration;
- The very likely disappointment around the profits generated by massive investments in artificial intelligence.

Furthermore, we can see (as in 2000 and 2007) that it is individual investors who are driving the market upwards, which is a leading indicator of a stock market reversal.

A prudent investor would avoid US stocks today, and moreover, a stock market correction would amplify the slowdown in growth and constitute a rejection of the economic policies pursued by the Trump administration.

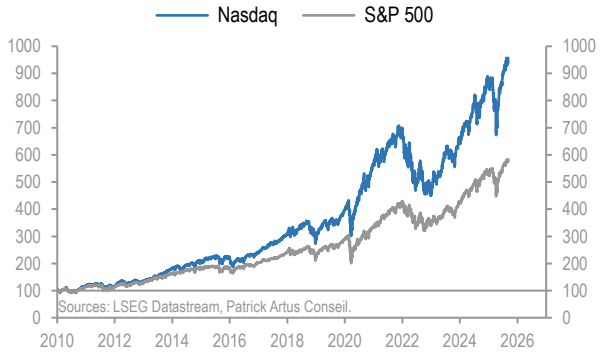
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Exceptional stock market performance by US companies

The stock market performance of US companies has been very impressive: +91% over five years and +12% since the beginning of 2025 for the Nasdaq Composite; +89% over five years and +10% since the beginning of 2025 for the S&P 500 (**Chart 1**).

Chart 1
United States: Stock market indices (01.01.2010 = 100)

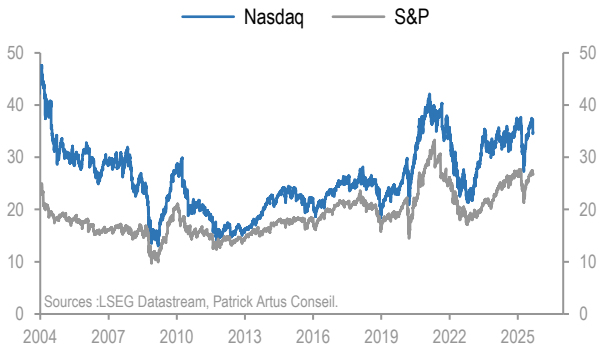


However, we believe that **a major downward correction in US stock indices is highly likely for three reasons**.

First reason: the very strong valuation of the US market

PERs (price-to-earnings ratios) **are very high** in the US market (**Chart 2**).

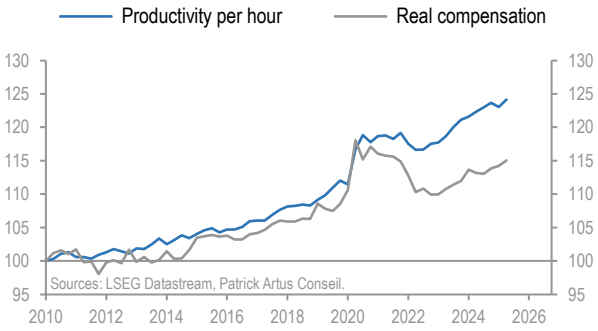
Chart 2
P/E ratio



These valuations are only compatible with the extension of very rapid growth in **earnings per share**.

Indeed, **earnings per share growth** has been 11.9% for the S&P 500 and 25% for the Nasdaq 100 **over the last year**. However, it seems highly unlikely that this **steady shift in income distribution in favour of companies** (**Chart 3**) will persist in the long term.

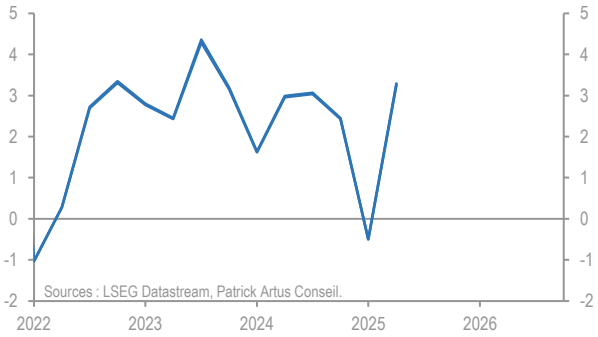
Chart 3
United States : Real compensation per hour and productivity per hour (business sector, 2010.Q1 = 100)



Second reason: the slowdown in the US economy

The economic policies pursued by the Trump administration (increased tariffs, a decline in immigration of 1.4 million between January and June 2025) have led to a **sharp slowdown in US growth** (**Chart 4**), which stood at 1% year-on-year in the first half of 2025. The data for the first and second quarters must be adjusted due to the disruption to foreign trade caused by the anticipation of tariffs.

Chart 4
United States: Real GDP growth (Q/Q annualized, %)



This weaker growth will necessarily lead to a slowdown in earnings growth.

Third reason: disappointment with the return on investment in artificial intelligence

Investments in artificial intelligence by American technology companies are sizeable - for Amazon, Meta, Microsoft, and Alphabet alone, $364 billion in investments are expected in 2025, compared to $223 billion in 2024 and $140 billion in 2023.

But there is **a lot of uncertainty surrounding the revenues generated by these investments**, with competition between tech companies, the fact that many tools and languages are free, and the astronomical salaries paid.

Summary: a probable downward correction in the US stock market

Since companies listed in the United States exhibit very high market valuations, and profit growth is set to slow due to weak growth and low returns on investments in artificial intelligence, it makes sense to believe that the US stock market will experience a significant downward correction.

This conclusion is reinforced by the observation that the market upturn is being driven by individual investors (**Chart 5**), which is a leading indicator of a downward reversal in stock market indices, as seen in 2000 and 2007.

Chart 5
United States: Equities held directly and indirectly by households (as a % of households' financial assets)



A significant decline in the US stock markets would amplify the slowdown in growth through the wealth effect.

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