DIVIDENDCAFE | PODCAST TRANSCRIPTION

FRIDAY, JULY 17, 2026

Hello, and welcome to this Friday's Dividend Cafe. I'm your host, David Bahnsen, and today we are going to talk about five things I am worried about in the markets and five things I am not. I am doing this back from our beautiful, comfortable studio in Newport Beach. This is my first time here since the very beginning of summer, and I had a tremendous time writing this week's Dividend Cafe because it covers a lot of topics. There are a lot of areas of, well, I think, newsworthiness and noteworthiness, but more importantly, relevance to investors and how we're thinking about these subjects at this time.

I'm basically going to provide my perspective on certain things that some people might think are positive that I'm going to suggest are not, and certain things some people think are negative that I'm going to suggest are not. So there's plenty of contrary viewpoint here. As is usually the case, it requires nuance. But I really believe there are some takeaways here that are very important in the current investing moment, and we're going to dive in and address each of these topics wherever they may take us. There's going to be a lot of charts today. We're going to have a lot of fun.

The five things I'm currently worried about—let's put these in the negative category. One should be no surprise. I talk about concentration in markets. This is not a new topic. We've been talking about it for some time. You can get into the valuation discussion, or we can get into AI froth, or the semiconductor story, which we're going to discuss more in a moment. But I don't think getting into why these problems exist is all that important if people hear it and say, "Yeah, but that doesn't affect me."

I talk all the time about growing up as a young adult investor in the tech excesses of the 1990s. Back then, I didn't know a lot of people who owned the Munder NetNet Fund. The people who owned it got blown to smithereens, but it wasn't that widely held. There was a tremendous amount of NASDAQ trading and margin buying, but broadly diversified investors generally felt somewhat justified in believing they had avoided a lot of that risk.

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However, we'll put a chart up right now showing that the top ten constituents in the S&P 500 now represent roughly 39% of the index. That's down slightly from around 40%, but we've talked before about how, if you combine the technology and communication services sectors—because in the late 1990s those were one sector—you now have nearly 50% of the S&P concentrated there. In the late 1990s, the top ten represented roughly 25% of the index. Today it is dramatically higher.

Some may say, "David, I don't think concentration is a problem because these are wonderful companies." Fine. But now look at semiconductors. We'll put up another chart showing semiconductor weight in the S&P. It has gone from roughly 2% to nearly 20% of the index. Everything else has effectively gone from representing almost 100% of the market down to about 80%. A broadly diversified investor who owns a cap-weighted S&P 500 now has much more exposure to a very narrow segment of the market than many realize. That is an area of concern.

The second thing I'm worried about is investor behavior—the crowding activity and how much it rhymes with history. This is really a broader concern about sentiment. As a contrarian, I have no way of telling you what will happen or when. Contrarians can be lonely for long periods of time because bad behavior often appears to be good behavior before it isn't.

We'll put up another chart showing ETF inflows. You're looking at over $1.2 trillion flowing into ETFs in 2026. We appear to be on track to roughly double last year's pace. People might say, "That's great. Money is flowing into the market." But then look at the explosion in leveraged ETFs. Assets have increased over 460%. We're now looking at roughly $220 billion in leveraged ETF assets.

I spent a lot of time this week reading a lengthy report from Citadel Securities. One chart in particular showed retail options activity reaching roughly $6.8 billion of daily premium in June. That's 65% higher than last year and roughly double historical averages. Highly speculative options activity is skyrocketing. If we narrow that further, semiconductor options trading was more than six times normal volume. Space-related companies were nearly six times normal volume as well.

Years ago, when zero-day options first started becoming popular, Cliff Asness tweeted, "What fresh hell is this?" I remember laughing because I felt exactly the same way. Thirty percent of all options traded last month expired the very same day. People are literally making one-day bets on whether stocks will hit a certain price. Ignoring this seems unwise. It reflects an extraordinary level of speculative behavior. I cannot tie it to a specific prediction or timeline, but I do think it reflects irrational behavior that deserves attention.

The third thing I'm worried about is what I call the right pocket fighting the left pocket. Markets are currently structured in a way where many investors seem to believe everyone wins simultaneously. If semiconductor companies continue growing at extraordinary rates, it requires hyperscalers to continue spending enormous amounts of capital. But hyperscalers have already spent more than 100% of their free cash flow. Where does that money come from? Either equity issuance or more debt.

If the hyperscalers slow spending, that's bad for semiconductor suppliers. If they continue spending, they're harming their own shareholders through dilution or leverage. We'll put up the chart showing this enormous transfer of free cash flow from one group to another. It is simply not true that everyone wins equally here. One company's revenue is another company's capital expenditure.

Fourth, I remain concerned about the S&P profit story. I'm not saying profits are bad. They are growing. Margins are strong. Corporate profits remain the mother's milk of equity investing. But I think the earnings story is cleaner than reality.

Much of what is being reported as earnings growth includes enormous gains from marking up AI-related investments. There remains a circularity in the narrative. AI optimism creates higher valuations, which create accounting gains that then reinforce the AI optimism. At some point, expectations become too perfect.

Margins also concern me. You cannot have margins continue expanding indefinitely in highly successful industries because success attracts competition. Competition compresses margins. That is simply how capitalism works. Either AI succeeds and competition grows, or AI fails. But the assumption that it succeeds while maintaining permanently elevated margins is historically unprecedented.

The fifth concern is perhaps the one occupying my mind the most. Peter Boockvar highlighted this week that S&P downgraded Oracle's credit outlook partly because of counterparty risk involving OpenAI. OpenAI now represents a very significant portion of Oracle's future contractual revenue. If OpenAI cannot continue raising capital, Oracle could be left holding enormous data-center commitments.

This isn't really about Oracle. It isn't even primarily about AI. It is about interconnectedness. I have become somewhat obsessed with counterparty risk ever since studying the 2008 financial crisis. What concerns me most is not NVIDIA or Oracle individually, but the possibility that OpenAI becomes viewed as too big to fail. The idea that the U.S. government could ultimately become financially intertwined with one of these companies is probably the single biggest concern I think about regularly.

Now let me shift to the five things I am not worried about.

First, I continue not to worry about imminent AI-driven job destruction. We'll put up a chart showing AI adoption intensity. Interestingly, the companies adopting AI most aggressively are actually hiring more people, not fewer. Headcount is growing faster among AI adopters than among companies with little AI adoption. Business formation is also up roughly 30%.

This does not mean no one will lose jobs. People absolutely will. That is always tragic on an individual basis. But in the aggregate, history continues to suggest that new technologies create new opportunities even as they eliminate others. I simply do not see evidence supporting predictions of 20% or 25% unemployment.

Second, I am not worried about market volatility itself. Dividend growth investors embrace volatility because it contributes to the equity risk premium and enhances long-term returns through dividend reinvestment. What others see as purely defensive, I actually view as offensive because lower prices allow for greater compounding over time.

Third, I am not worried about the inflation story as it is currently being told. I don't like inflation. Nobody should. But we've turned inflation into a political talking point rather than an economic discussion.

Housing prices are one conversation. Tariffs are another. Energy prices are another. Services inflation is another. We keep pretending these are all one story when they're actually several distinct stories. Proper monetary policy should focus on monetary inflation, not supply shocks or temporary price adjustments.

Fourth, I am not worried about the long-term energy story simply because oil prices fluctuate or because the Strait of Hormuz opens or closes. The profitability of producing, transporting, and exporting energy is a structural, long-term story rooted in economics and geopolitics, not daily oil prices.

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Finally, I am not worried that software is dead because of AI. We'll put up one last chart showing software valuations. The average valuation has fallen significantly because investors assume AI will destroy software economics. Yet underneath the averages is tremendous dispersion.

Some companies will be major beneficiaries of AI. Some will struggle. Some will struggle initially and ultimately benefit. Some possess enormous competitive moats through proprietary data, customer relationships, or brand strength. The software story cannot be analyzed in the aggregate. It requires actual company-by-company research. Those willing to do the work will likely be rewarded.

So, by quick recap, the five things I'm currently worried about are concentration in markets, excessive speculative behavior, the internal battle within AI capital spending, the quality of the S&P profit story, and the possibility of OpenAI becoming too interconnected to fail.

The five things I'm not worried about are imminent AI job destruction, market volatility itself, the inflation narrative as currently presented, the long-term energy story, and the idea that software as an industry is simply dead.

At DividendCafe.com there is now a section every Monday and Friday called "More to Chew On," where I include several articles and pieces of research that caught my attention during the week.

I'll conclude with this. If you have followed The Dividend Cafe for any length of time, you know the major secular story I care most about is not what happened in semiconductors today or software last quarter. The major economic story of our era remains excessive government indebtedness and whether the U.S. economy can continue growing at historical rates under that burden.

That is the secular issue. The five concerns I discussed today are cyclical. The structural story I remain optimistic about is the ability of great businesses to overcome both cyclical and secular challenges, generate profits, and share those profits with shareholders through growing dividends.

That dividend growth story remains unchanged. It has been our philosophy for a long time, and it will continue to be.

Thank you for reading it. Thank you for watching it. Thank you for listening to it.

Have a wonderful weekend, and we will indeed see you on Monday.