CIBC PRIVATE WEALTH

“I CANNOT BELIEVE IT'S TRUE”

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By Brahm Satov

As a child, I often sat between my parents while they watched 60 Minutes. At the time, I found it uninteresting. Somewhere along the way, however, I became fascinated by the stories, the interviews, and the insights. Today, I still watch it regularly and, in my view, it was not long ago the finest news program on television. Sadly, I am no longer certain that any news program deserves that distinction. One segment that recently caught my attention featured Andrew Ross Sorkin. Originally aired on October 12, 2025, it was rebroadcast on May 24, 2026. Coincidentally, I am currently reading 1929, a book authored by Sorkin. If my father were still here, he would remind me that there is no such thing as a coincidence. The message I took from Sorkin’s interview was straightforward: a market correction is inevitable. Most investors understand that. His concern, however, is that this correction could be far larger than many expect.

Recently, while watching a Montreal Canadiens playoff game against the Carolina Hurricanes, I was struck by a parallel. Montreal won the opening game of the series but then lost the next three convincingly, being outshot by more than two-to-one in each game. Facing elimination, they returned with the same lineup, the same strategy, and the same approach that had failed repeatedly. Albert Einstein is often credited with defining insanity as “doing the same thing over and over again and expecting different results.” The comparison to today’s markets is difficult to ignore. Investors know that when valuations become stretched—especially when they become extremely stretched, the odds of a meaningful correction increase. Yet many continue to buy, pushing markets to ever-higher levels. Have we learned anything from history?

Sorkin noted that today's environment reminds him of what he has studied about the 1929 stock market crash. That collapse, saw stocks decline by more than 80% from peak to trough and required over two decades to fully recover. I am not predicting a repeat of 1929. However, as the probability of a significant correction rises, investors should at least consider adopting a more defensive posture.

Unfortunately, many investors appear to have forgotten this basic principle, swept away by the excitement surrounding artificial intelligence and the relentless advance of stock prices. Michael Burry, the investor portrayed in The Big Short and one of the few individuals who correctly anticipated the U.S. housing collapse, has warned that the current AI-driven rally resembles a bubble. History teaches us that bubbles rarely deflate gently. Investors remember the technology bubble of 2000 and the housing bubble of 2008. Excessive optimism is not a new phenomenon. As valuations rise, future expected returns generally fall. The math is unforgiving.

In a Bloomberg interview published on May 11, 2026, Burry stated that the market has "jumped the shark." The phrase refers to the moment when a television show, brand, or cultural phenomenon passes its peak and begins relying on increasingly desperate measures to maintain momentum. I believe the expression originated from a famous 1977 episode of Happy Days in which Fonzie literally jumped over a shark while water-skiing. Whether Burry proves correct remains to be seen. However, investors would be wise not to dismiss his warning lightly.

What I find most difficult to understand is the growing disconnect between financial markets and economic reality. We have witnessed significant housing price corrections in many regions. Bankruptcies are rising in both Canada and the United States. And for those who may not know, Canada has recorded two consecutive quarters of negative GDP growth, meeting the traditional definition of a "technical recession". And yet, stock markets continue to trade near all-time highs.

Perhaps the markets are correctly anticipating a much stronger economic future. Perhaps they are pricing in productivity gains from artificial intelligence and much lower oil prices from peace in the Middle East. Or perhaps investors have simply become convinced that this time is different. History suggests caution whenever those four words are spoken. I am suggesting caution, not that a crash is imminent, but that to become more defensive as markets trade at extreme valuations makes sense. Phil Collins sang a great song on his second solo album, Hello, I Must Be Going!, it was called, “I Cannot Believe It’s True.” And as much as it would be nice to believe this time is different, I cannot believe it’s true.

How expensive is the S&P500

Shiller PE Ratio

Source: https://www.multpl.com/shiller-pe

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