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The Illusion of Prosperity: Why Rising Markets Don’t Always Correlate with a Strong Economy

Richard Harris | June 2026

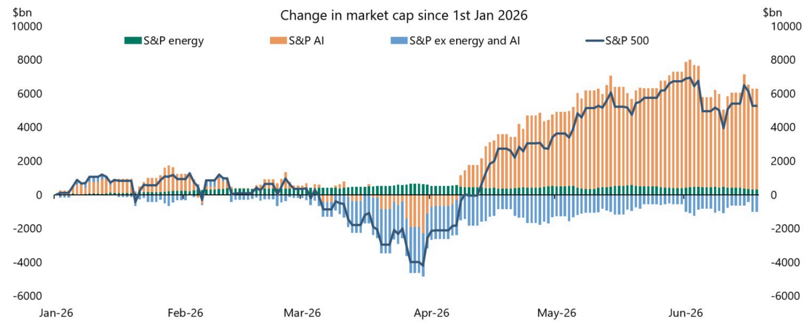
One of the most intuitive ideas in investing is also one of the most misleading: that a strong economy underpins a strong stock market, and that a weak one inevitably drags shares lower. It is an understandable assumption. If an economy is growing, surely its companies are thriving, and their share prices should follow. In reality, the relationship is far looser than the headlines suggest, and history is full of extended periods in which the economy and the stock market moved in opposite directions. We alluded to this topic a few years ago, but based on the current divergences between markets, economies and the wealth of populations, decided to expand on it in this month’s newsletter.

The Market Looks Forward - the Economy Reports the Past

Much of the confusion stems from what each one actually measures. Economic data – growth, employment and inflation – is by its nature backward-looking, telling us what has already happened, often with a delay of several months. The stock market, by contrast, is forward-looking. Share prices reflect what investors collectively expect to happen over the coming years, rather than what was reported last quarter. As a result, by the time the headlines confirm that conditions are strong, markets have usually priced in that good news already; and by the time the outlook is clearly deteriorating, much of the selling may already have taken place. Markets are constantly trying to anticipate the next phase of the cycle, while the economic statistics describe the phase we have just left behind.

An Index Is Not the Economy

There is a second, more straightforward reason the two diverge. A stock market index is not a reflection of an entire economy; it reflects a particular group of large, listed companies. As we discussed in a recent newsletter, a small number of dominant companies can account for a disproportionate share of an index. These companies often generate much of their revenue abroad, serve customers across multiple regions, and respond to global rather than purely local conditions. Meanwhile, the broader economy in which most people operate (small businesses, wages, unlisted companies and the public sector) may be telling an entirely different story. An index can rise to record highs while conditions on the ground remain difficult, simply because the two are not measuring the same thing.



lote: S&P AI is a representative basket of companies with exposure to artificial intelligence technologies and includes 84 companies. These include firms involved in the development and enablement of AI across areas such as semiconductors, software, internet platforms and IT infrastructure. The basket ; applied consistently across the full sample period. Sources: Bloomberg, Apollo Chief Economist

Lessons From the Past

History provides several compelling examples. Take China. Over the past two decades, it has delivered some of the strongest economic growth the world has seen, expanding many times over and lifting hundreds of millions of people out of poverty. An investor who assumed the stock market would simply follow would have been disappointed. The Shanghai Composite Index reached a peak of just over 6,100 points in October 2007 and, nearly nineteen years later, still trades comfortably below that level – a powerful economy, but a stagnant market for many reasons listed in past newsletters.

The United States in the 1970s tells a similar story from the other side of the world. The economy continued to grow through the decade, yet the Dow Jones first reached the 1,000 level in 1966 and was unable to hold above it until late 1982, some sixteen years later. Persistently high inflation eroded returns over that period (reducing the real, after-inflation value of any gains), leaving investors who waited for the market to reward a growing economy with very little to show for a generation of patience.

The reverse can be just as striking, when markets recover well ahead of an economy that still appears weak. In March 2009, at the depths of the global financial crisis, equity markets reached their low point and began a strong recovery. Yet US unemployment continued to rise for a further seven months, peaking at 10% that October. Investors who waited for the economic data to improve before committing capital missed the very start of one of the longest bull markets on record.

We need not look only abroad. Our own market provided a textbook example through 2025. Most of our readers will know that local growth remained subdued, below 1%, and that unemployment stayed uncomfortably high, yet the Johannesburg Stock Exchange continued to reach record levels. This strength was driven not by a domestic recovery but by gold and other resources, and by companies such as Naspers and Prosus (both proxies for Chinese technology through Tencent). The index was rising; the underlying economy was not.

Understanding This Divergence

Bringing the above together, a few forces explain the gap. Markets look forward, while economic data looks back. An index reflects a narrow group of large, often globally oriented companies rather than the economy as a whole. Currency movements can inflate or deflate the value of those companies regardless of local conditions. And, perhaps most counterintuitively, a weak economy often prompts central banks to cut interest rates and governments to increase spending (both forms of stimulus intended to support growth) — and that additional liquidity tends to provide a tailwind for asset prices. It is something we have witnessed more recently, and one of the reasons markets sometimes appear to welcome bad economic news: weakness today can mean stimulus tomorrow.

A Tale of Two Economies (The K-Shaped economy)

In the United States, and many other economies, strong stock markets and record corporate profits have signalled “economic health”. But these headline numbers mask a more uneven reality. Much of the gains in recent years have been driven by rising asset prices (particularly equities and property) boosted by low interest rates and repeated monetary stimulus.

COVID pandemic, outcomes diverge. Households that own financial assets (disproportionately higher-income earners) benefit from rising markets, as the bulk of equities are owned by the top decile. Meanwhile, those who rely primarily on wages and have limited exposure to financial assets see far less of this upside. At the same time, the very policies that support asset prices have contributed to higher inflation. For many, wages have not kept pace with the rising cost of housing, healthcare and everyday goods. In real terms, purchasing power has been squeezed, even as markets reach new highs.

The result is a widening gap: asset owners see their wealth compound, while a large portion of the population faces increasing financial pressure. In this context, a rising stock market reflects the strength of capital, not necessarily the wellbeing of the broader population.

To Conclude

None of this means the economy and the stock market have nothing to do with one another. Over the long run, growing economies and profitable companies do reward their shareholders. But the connection is loose, and it often takes far longer to show up than most investors expect. The practical takeaway for us as custodians of our clients' capital is a simple one: do not read every economic headline as a verdict on the market, and do not treat a rising market as proof that all is well. The two will keep drifting apart from time to time. As always, staying diversified, patient and disciplined will serve our readers far better than trying to use one to predict the other.

Market Update

U.S. stock markets were mixed in June, with larger companies falling while smaller ones rallied. The S&P 500 fell 1.06% and the Nasdaq 100 edged down 0.19%, weighed down by a late-month sell-off in AI and technology stocks. The Russell 2000 gained 3.60% and the Dow Jones rose 2.52%, as investors shifted away from big technology names and into more traditional sectors. The dollar strengthened 2.30% and the 10-year U.S. government bond yield rose 0.54% to 4.46%. The June Federal Reserve meeting, the first led by new Chairman Kevin Warsh, kept interest rates unchanged at 3.50–3.75%. However, the tone shifted notably: the majority of Fed members now expect one rate increase by year-end, a sharp change from the rate cuts they had projected just three months earlier. May inflation (CPI) came in at 4.2% year-on-year, the highest in over three years, though underlying inflation excluding food and energy was more contained at 2.9%.

European stock markets rallied in June as falling oil prices benefited the region's economies. The Stoxx Europe 600 gained 4.11%, France's CAC 40 advanced 2.70%, and the UK's FTSE 100 rose 0.84%. Germany's DAX fell 0.43%, hurt by the 25% U.S. tariff on EU cars imposed in May. The biggest event of the month was the signing of a U.S.–Iran peace agreement on June 17, ending the nearly four-month war, with Iran agreeing to reopen the Strait of Hormuz, a critical shipping route for global oil supplies. The deal proved fragile: Iran briefly closed the Strait again on June 20 after Israeli strikes in Lebanon, before the U.S. Navy announced a new, wider shipping lane near Oman on June 27.

In Asia, Japan's Nikkei 225 rose 5.63%, supported by a weaker yen and optimism around the peace deal. China's Shanghai Composite edged up 0.63%. Hong Kong's Hang Seng was the worst-performing major market globally, falling 9.14% in its steepest monthly decline of the year. The sell-off was driven by falling confidence in AI and chip-related stocks, the Fed's tougher stance on interest rates, and weakening Chinese consumer spending. Alibaba dropped to a 16-month low after U.S. AI company Anthropic accused it of copying its technology, further souring investor sentiment toward Chinese technology companies.

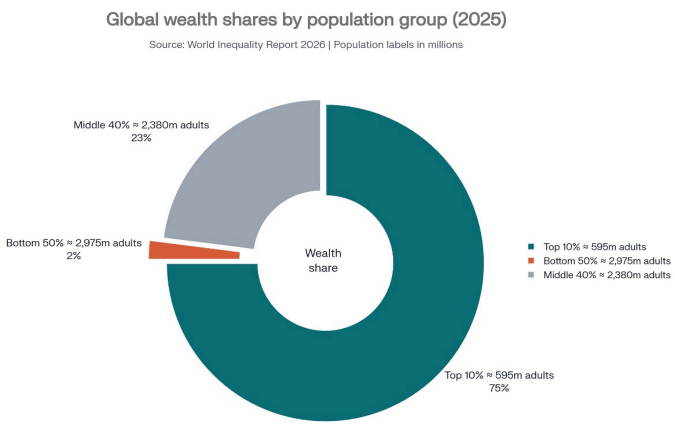
Commodity prices fell sharply as the peace deal removed much of the war-related price support that had built up since February. Oil led the decline: Brent crude fell 19.94% and WTI dropped 20.44% as markets anticipated the reopening of the Strait of Hormuz. Precious metals were also broadly weaker due to the stronger dollar, rising bond yields, and reduced demand for safe-haven assets all contributed to the sell-off.

Locally, the JSE came under pressure as falling commodity prices weighed on the exchange's large mining and resource companies. The All Share Index fell 3.63% and the Top 40 declined

Naspers and Prosus, which fell in line with Hong Kong's decline given their exposure to Chinese tech. On the positive side, the Financials sector gained 2.65%, as falling oil prices improved the outlook for local inflation and eased concerns that the Reserve Bank may need to raise interest rates. The rand weakened 0.99% against the dollar, a relatively modest move given the scale of the commodity sell-off, while the 10-year government bond yield rose 0.72%. Looking ahead, the sharp drop in oil prices has meaningfully improved the near-term inflation picture, which may allow the Reserve Bank to keep rates on hold rather than raise them at its next meeting.

Chart of the Month

In 2025, the global distribution of personal wealth remained extraordinarily skewed: the richest 10% of adults, roughly 595 million people, owned about 75% of all wealth, while the bottom 50% – almost 3 billion adults – shared just 2%, with the remaining 23% held by the "middle" 40%. This simple doughnut chart starkly visualises that divergence between the global haves and have-nots, underscoring that today's inequality is primarily about wealth concentration at the top but also marginal differences in income flows.



"The stock market has predicted nine of the last five recessions." - Paul Samuelson

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