

MARKETS

Stocks Are Hitting Records in Goldilocks Market. Beware the 3 Bears.

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The [S&P 500](#) ↓ [SPX -0.33%](#) and [Nasdaq Composite](#) ↓ [COMP -0.22%](#) have rallied to [record highs](#) in a Goldilocks stock market seen as priced “just right” given the balance of risks. But any narrative about Goldilocks must also include the three bears that threaten the fairy tale’s happy ending.

Enter strategists at [Goldman Sachs](#) in London. While investors dismiss negatives such as [tariffs](#), geopolitical worries, and high valuations, focusing instead on positives like a still solid economy, strong earnings growth and euphoria about artificial intelligence, they see potential trouble.

The Goldman strategists warn that the combination of tariffs and fiscal stimulus from President Donald Trump’s tax and spending bill could lead to more inflation. Add in the possibility that the Federal Reserve doesn’t cut interest rates this year, and that could create a stagflationary environment: stagnant growth plus higher prices.

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“I’m surprised that the rebound has been this quick after the nasty and sharp selloff post Liberation Day,” said Aleks Spencer, chief investment officer with Bogart Wealth, a financial planning firm in McLean, Va., in an interview with *Barron’s*. “I’m not surprised by the direction of the move but I am of the magnitude.”