

Why Has the U.S. Stock Market Risen So Much?

I found something astonishing while looking into capital flows into U.S. equities. Over the past decade, the value of U.S. pension funds has grown by \ \$10 trillion. Yet, in actual cash contributions, only about \ \$1.1 trillion was added.

The rest came purely from market gains.

In the U.S., pension money flows directly into the stock market. But the net contributions have been modest—just \ \$1.1 trillion in ten years. Still, pension assets are now worth nearly ten times that figure.

Why? Because the stock market itself has risen dramatically. Ten years ago, pension funds already held \ \$8–9 trillion in equities. Despite relatively small inflows since then, their value has ballooned to roughly \ \$20 trillion thanks to a 60% market rally.

If Italy had adopted a similar mechanism, our market—currently worth just over €1 trillion—could easily be valued at €4 trillion today.

However, this is not the full picture. This \$6.5T was *offset* by:

- **Total Benefit Payments (Payouts to Retirees) (2014 - 2023): ~\$5.4 Trillion**

Net New Cash Flow (Contributions - Benefits):

\$6.5T (in) - \$5.4T (out) = ~\$1.1 Trillion

So, after accounting for the fact that they were also paying retirees, the entire US pension system took in a net of approximately \$1.1 Trillion in new cash over the last decade.

2. So, Where Did This \$1.1T + All Their Investment Gains Go?

This is the critical part. The entire system started the period with about \$12T in assets and ended with over \$22T. That \$10T+ increase came from:

1. **Net New Cash: +\$1.1T**
2. **Investment Performance on Existing Assets: +\$9T+**

Pension funds did **not** simply take this massive inflow and put it all into bonds. Instead, they executed a historic **sectoral reallocation** *within* their portfolios. This is where the money actually went:

To put it in perspective: U.S. equities were valued at \ \$27 trillion in 2015 and now stand at \ \$65 trillion. That's an increase of \ \$38 trillion. According to studies, actual net inflows account for only \ \$8–10 trillion of that. The rest comes from the multiplier effect, estimated at 4–5x. But the same applies on the downside: if \ \$1 trillion leaves the market, the loss could amount to \ \$5 trillion.

These multiplier dynamics—corporate buybacks, foreign inflows into the Nasdaq, household participation, and pension allocations—are not permanent. Aging demographics, for example, mean retirees sell stocks to buy bonds. A weaker dollar could discourage foreign buyers. Rising unemployment could force households to pull money out.

The point is that these flows are mechanical. On the way up, investors kept buying regardless of valuations. On the way down, they will keep selling regardless of how cheap stocks become.

This is a colossal phenomenon. Much of the U.S. economy and society is built on financial wealth, which has increased by \ \$38 trillion (roughly three times the GDP of Europe) simply because fresh capital was added each year.

It looks unstoppable—but precisely because of its size and global reach, if the mechanism breaks, the risk is a financial earthquake.

Take Oracle as an example. The stock jumped 40% in one day after announcing it expects \ \$450 billion in AI-related orders by 2030–32.

But \ \$300 billion of that is supposed to come from OpenAI, which is currently losing billions annually and says it will continue doing so until at least 2030. Yet OpenAI has committed to spending \ \$300 billion with Oracle on servers and cloud. That single announcement was enough to send Oracle, semiconductors, and large parts of the Nasdaq soaring.

On top of that, OpenAI has also committed hundreds of billions to Nvidia and Amazon. Altogether, it has pledged about \ \$1 trillion in spending, despite generating only \ ~\ \$18 billion in annual revenues with expenses three times higher. Competition is fierce, with at least 7–8 rival AI platforms, and Chinese firms are pursuing similar goals at one-tenth of the cost.

This feels like the Tesla/Musk phenomenon. It's essentially *science fiction*: projections of \ \$500 billion to \ \$1 trillion in revenues within five years are driving \ \$2–3 trillion in market cap gains *today*, sometimes in just a few days.

This is the biggest financial bubble in history. Nothing like it has ever happened. The dot-com bubble of 2000 was five times smaller.

For months I've argued for a rotation from U.S. tech into Chinese tech. Nine months later, the data is clear: the 30 largest tech stocks listed in Hong Kong are up +41% year-to-date, compared with +17% for the Nasdaq.

Alibaba, Tencent, and Baidu are up +96%, +55%, and +59% this year, with Alibaba rising +31% and Baidu +48% in just the last month (Financial Times). Missing from this list are Xiaomi, also listed in Frankfurt, and SMIC in Hong Kong.

Take Alibaba as an example: it's no longer just an e-commerce, logistics, fintech, and cloud powerhouse. It has now become a formidable player in semiconductor manufacturing as well.

Tech war: Alibaba-developed AI processor on par with Nvidia's H20 chip, CCTV report shows

The broadcast offers fresh evidence that Chinese developers are designing advanced chips that could replace imports

Reading Time: **2 minutes**

