Valuations Don’t Matter When Money Is Fake

Quoth the Raven - Jan, 2026

What if 40x earnings isn’t overvalued anymore?

Because I’m feeling masochistic today, I decided to play devil’s advocate and temporarily shelve the endlessly recycled takes about an imminent market crash. Instead, I tried to stretch my brain far enough to imagine a world in which the stock market rallies another 25% to 50% over the next couple of years, not because it should, but because it can.

Nearly everything I’ve written over the past few years has revolved around how grotesquely overvalued the market is. Pick your metric. The Buffett Indicator is screaming. Traditional price-to-earnings ratios are absurd. The Shiller CAPE is parked near all-time highs yet again. Historically, these measures existed to anchor investors to something resembling reality, accounting for cycles, earnings power, and the inconvenient fact that prices are supposed to relate to value. Today, they are waved away by growth narratives and financial influencers who treat valuation like an outdated superstition.

But let’s entertain a heretical thought. What if 40x earnings isn’t overvalued anymore?

By historical standards, it is indefensible. By economic logic, it is laughable. But markets no longer operate on either. The real regime change happened around the turn of the millennium, when quantitative easing went from emergency response to permanent lifestyle choice. The market we grew up studying does not exist anymore. Drawdowns are no longer allowed to mature into corrections because the Federal Reserve panics at the first whiff of discomfort. Five percent down? Emergency meeting. Ten percent? Liquidity firehose. Investors have been coddled into submission and trained like Pavlovian dogs to expect rescue at the slightest sign of pain.

That expectation may be the single most powerful force pushing valuations into territory that would have once been dismissed as satire. Modern monetary theory has quietly poisoned the usefulness of traditional valuation metrics. When money is created without constraint, deficits are celebrated, and central banks openly admit that asset prices are a policy tool, the concept of “fair value” becomes a relic. Earnings no longer justify prices. Prices justify themselves through liquidity. Stocks stop being ownership claims on productive businesses and instead become dumping grounds for excess capital that cannot sit in cash without being destroyed by inflation.

Picture the environment we are already halfway living in. Economic growth is mediocre at best. Productivity gains are weak. Real wages lag. None of that matters. Liquidity is abundant and relentless. Bonds guarantee negative real returns. Cash is a melting ice cube. Housing is inaccessible to anyone without existing assets. Capital is forced into equities not because they are attractive, but because they are the least bad option left. Under those conditions, valuation multiples do not expand because optimism is high. They expand because participation is compulsory. Fifty or sixty times earnings stops being a bubble and starts being the logical endpoint of a broken system.

The distortion becomes even more pronounced at the index level. Liquidity does not spread evenly. It concentrates. A shrinking handful of mega-cap, politically connected, systemically important companies absorb the vast majority of flows. Index concentration explodes. These firms trade at cartoonish multiples while the median stock goes nowhere. Analysts point to the index and declare the market healthy, conveniently ignoring that it is being propped up by a tiny oligarchy of stocks that have effectively become financial utilities. Comparing today's index valuations to those of the past becomes meaningless because the index itself no longer represents the market it once did.

And then there is psychology, the most dangerous accelerant of all. After decades of intervention, investors no longer fear downside. They fear missing out. Buying dips is no longer a strategy; it is an article of faith. Risk has been redefined. Expensive is considered safe. Cheap is considered broken. If the collective belief is that central banks will never allow asset prices to fall in any sustained way, then valuation ceilings simply evaporate. Markets do not top because they are expensive. They top when faith breaks. For now, faith remains disturbingly intact.

We have never printed this much money. We have never normalized deficits of this scale. We have never openly subordinated market discipline to political convenience the way we do now. Expecting valuations to obey historical limits under these conditions is naïve. It is far more plausible that peak valuations overshoot anything previously recorded, not because fundamentals improved, but because money was debased beyond recognition.

This is why the modern perma-bear posture, especially among those guided by the Austrian school of economics, should not automatically assume an imminent crash. Unlimited quantitative easing does not promise collapse on a schedule. It promises rising nominal prices and worsening distortions. The laws of economics are not repealed, but they are delayed, warped, and expressed in ways that feel insane until they suddenly don't. The real takeaway is not that stocks are safe. It is that sound money still matters, regardless of what the equity market does next. Gold and silver could absolutely get crushed during a broader liquidation event. They probably will. Leverage unwinds indiscriminately. But those moments are not failures of the thesis. They are the opportunities. Assets that cannot be printed tend to matter most once confidence in printed ones finally cracks.

Personally, I prefer diversification that goes beyond the tired stocks-and-bonds cocktail. Sound money, real assets, non-dollar exposure, and institutional diversification matter far more to me than perfectly timing an equity market that has been transformed into a policy experiment. Whether the market crashes tomorrow or levitates into even more absurd territory first is almost beside the point. The endgame has not changed. Only the path has become more distorted, more theatrical, and far more dangerous.