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Five Signs of a Market Bubble Investors Are Tracking

Stretched valuations and a surge in speculative trades are raising red flags, even as growth persists

By Hannah Erin Lang July 27, 2025 8:00 pm ET

Stocks are doing crazy things again.

The share price of online house flipper Opendoor Technologies has catapulted some 377% in the past month, despite a stagnant U.S. housing market. One of the biggest stock gainers Tuesday was Kohl's, a department store that has been losing ground to competitors for some time and has replaced its chief executive more than once in recent years.

On Wednesday, the crowd favorites were unusual names such as GoPro and Krispy Kreme, with both the camera company and doughnut maker notching eye-popping gains over the week.

What's going on?

Note

Some investors say the action is the latest phase in what has turned into a near-euphoric rebound from April's tariff turmoil. Since the market tumbled and then turned higher, there has been a stampede into risky assets such as meme stocks, cryptocurrencies and shares of smaller companies that have yet to turn a profit.

To some, this resembles a bubble—a period of frenzied market activity and speculation that artificially inflates asset values, driving prices to an eventual breaking point.

Note

"A lot of us thought that the [spring] correction had to do with the fact that valuations were rather stretched back in January and February, yet here we are," said Ed Yardeni, president of Yardeni Research. "It's almost like a slow-motion melt-up." Ha ha

Here's what investors are tracking for signs of froth:

1 **Speculative stocks are having a moment** You only live once

The return of YOLO bets recalls the heady days of 2021, when online traders briefly drove the fading mall retailer GameStop to a $24 billion valuation, before rising interest rates brought the bull market to an end.

The housing market is stalled, and Opendoor shares traded under $1 earlier this month. They closed Friday at $2.54. The bets on Kohl's center on the potential sale of the company's real-estate holdings, which Wall Street has eyed for years. The stock has still slid more than 70% since the start of 2022.

Unprofitability isn't much of an obstacle. Avis and Aeva Technologies, both of which reported net losses in the first quarter, are flying high. Of the 33 stocks in the Russell 3000 that have tripled in price since the market bottom in April, only six have generated profits over the past year, according to a Bespoke Investment Group analysis.

Shares of the ARK Innovation ETF, a fund that includes a number of speculative companies operating at a net loss, have climbed more than 36% year to date.

Note

"That in itself is not unhealthy," Callie Cox, chief market strategist at Ritholtz Wealth Management, said of the rise in speculative trades. "When you get worried is when cracks start forming in the economy, yet you still have a huge appetite for speculation."

2 **Crypto prices are surging**

Prices of Ethereum and bitcoin have soared in recent weeks, lifted by the Trump administration's pro-cryptocurrency policies and growing acceptance by mainstream financial institutions.

But a new group of buyers has also pushed up prices: publicly traded companies that stockpile bitcoin, effectively transforming their own shares into a leveraged bet on the cryptocurrency.

3 **Breadth has improved**

Since stocks returned to their pre-April levels, the daily moves have been small. And the rally has expanded beyond the Magnificent Seven and other tech giants to include financial companies, industrial firms and communication services. The KBW Nasdaq Bank Index has climbed more than 7% over the past month, while shares of GE energy spinoff GE Vernova and advertising tech firm Trade Desk rose more than 20% in the same period.

The number of stocks in the benchmark S&P 500 closing above their 50-day moving average is hovering at levels last seen in the fall, before the postelection "Trump bump" in share prices. Analysts typically consider that kind of improving breadth a sign of a sustainable bull market.

Note

Yet stock valuations are stretched. The equity risk premium, defined as the gap between the S&P 500's projected earnings yield and the yield on 10-year Treasurys, is close to zero. That means that the extra return for owning stocks over lower-risk bonds has nearly vanished, which investors consider an unhealthy sign.

4 The economy is holding firm

Despite initial concerns that tariffs could kick-start inflation and drag on growth, the U.S. economy has kept chugging along.

~~cryptocurrency.~~

5 There are some signs of weakness: The annual inflation rate ticked up in June, as tariffs started to affect consumer prices. One basket of leading economic indicators recently pointed to slower growth in the second half of the year.

But the increase in consumer prices has so far been modest, and economists' biggest worry—a sharp slowdown in the labor market—has yet to materialize. Such a shift could turn off the tap on U.S. consumer spending, effectively halting economic growth. Note

Private-sector job growth has fallen to the lowest level in eight months. Hiring has slowed to a trickle, and college graduates are struggling to land roles.

"At a point where the job market is clearly weakening, it's interesting that we're seeing such optimism in markets," Cox said. "When the job market starts slowing, it doesn't turn around easily."

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