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CJ's Weekly Market Memo

The Economy: Strong Consumer, Weak GDP, and a Three-Headed Monster

The American consumer continues to defy the skeptics. Bespoke's Consumer Pulse survey for February showed sentiment toward personal finances hitting its highest level since April 2022, discretionary spending intentions at their strongest since 2022, and credit card debt relative to a year ago falling to its lowest reading in nearly four years. The labor market remains stable. Consumers are not overleveraged, and they are not retreating. That matters, because consumer spending drives roughly two-thirds of GDP.

Which makes the Q4 GDP revision all the more interesting. The second estimate took growth from an already modest +1.4% annualized down to just +0.7%. The government shutdown accounted for 1.16 percentage points of that drag—strip it out, and private-sector final demand was still running close to 2%. The shutdown effect reverses in Q1, so some of the weakness is mechanical. But the downward revision also reflected higher-than-expected inflation eating into real growth, and that was before the Iran war sent oil prices into the \$90s.

And that brings us to what Bespoke calls the “three-headed monster.” Oil prices, the U.S. Dollar Index, and the 10-year Treasury yield are all moving higher in tandem. WTI crude settled Friday at \$98.71 per barrel—up more than 40% in ten trading days—after Iran began laying mines in the Strait of Hormuz. The 10-year yield has climbed from 4.05% to 4.25% since mid-February, and the dollar is catching a flight-to-safety bid. When all three rise together, it creates a tightening effect on financial conditions that the equity market has historically struggled to absorb.

One important caveat: the U.S. is no longer a net importer of crude oil. We became a net exporter in 2020, and consumer fuel spending is under 2% of total personal consumption expenditures—down from 3.5% just a decade ago. Higher fuel efficiency standards have reduced our vulnerability. Oil at \$100 is not the same threat it was in 2008 or even 2014. But it is an inflation accelerant, and inflation was already running hotter than the Fed wanted before the first bomb dropped.

Market Technicals: Compressed on the Surface, Volatile Underneath

The S&P 500 closed Friday at 6,632—down about 5% from its January 27th all-time high and posting its third consecutive weekly loss. That’s a modest decline by any historical standard, but the technical picture underneath tells a far more dramatic story.

Last Thursday, the S&P 500 closed 3.15 standard deviations below its 50-day moving average—a reading that has occurred on just 0.57% of all trading days since 1928. Bespoke points out that on nearly every prior occasion when the index was this technically oversold, it was already deep in a drawdown—down at least 10% from its high more than 70% of the time, and in bear-market territory 38% of the time. The average distance from a 52-week high for all prior occurrences was -18.9%. Today that number is roughly -5%. The market has never been this oversold while still this close to its high in the S&P 500’s nearly 100-year history. Violent but shallow, as Bespoke aptly puts it.

How is that possible? Because the S&P 500’s trading range had compressed to historically extreme levels. At its narrowest, the range between oversold and overbought territory shrank to just 1.4%—among the tightest readings since 1953. It didn’t take much to move from calm to extreme.

But don’t mistake a quiet index for a quiet market. Of the 500 stocks in the S&P 500, more than 200 are up or down at least 20% year-to-date. There are 59 stocks up 20% or more and 45 down 20% or more. The dispersion underneath the surface is enormous. Energy is up 28% YTD. Financials are down over 10%. That 38-percentage-point spread between the best and worst performing sectors is the third largest at this point of the year since 1990, behind only 2021 and 2022. This is a stock-picker’s market disguised as a boring one.

The semiconductor sector—historically a leading indicator of market direction—is beginning to roll over. The Philadelphia Semiconductor Index (SOX) broke decisively below its 50-day moving average last Thursday, and its relative strength versus the S&P 500 appears to be forming a lower high. Within the SOX, leadership has shifted away from the heavyweights: both Nvidia and Broadcom are down YTD while ASML, Micron, and Applied Materials carry the index. When leadership rotates within a leadership group, pay attention.

Meanwhile, my proprietary AI-driven ETF rating system continues to flag persistent outflows from financial-sector ETFs. XLF remains the weakest-rated ETF in the system, and Financials is the weakest sector in the market—down 13.8% from its 52-week high with the decline accelerating. Within the KBW Bank Index, the average stock is down 18.4% from its high, and six of 23 components are in bear-market territory. Capital One has lost nearly a third of its value. Goldman Sachs, Morgan Stanley, and Bank of America are not far behind. Breadth across the broader market hit 52-week lows this week in seven of eleven sectors. Only Energy has a positive 10-day advance/decline line.

Looking Ahead: A Market in Transition, Not in Crisis—Yet

Here is the contrarian case, and it has data behind it. Bespoke's historical analysis shows that when 10-day advance/decline readings are this weak across this many sectors simultaneously, forward returns have been above average at every time horizon—one month, three months, six months, and one year. Of the 14 prior instances since 1991, the S&P 500 was higher a year later 93% of the time, with an average gain of 17.5% versus the all-period average of 10%. The market tends to overshoot on the downside when breadth collapses, and the snapback is often swift.

The oil story also has a historical template. After 12 major Middle Eastern geopolitical events since 1990, crude oil prices spiked an average of 20% in the short run but were 11% lower a year later nine out of twelve times. Energy stocks are barely up 3% despite the 40% surge in crude—the market is pricing in a temporary disruption, not a permanent one.

But 2026 has a dimension that pure technicals and historical analogies don't capture: this is a midterm election year, and anxiety is going to compound. Prediction markets already give Democrats 84% odds of taking the House, and the Senate is essentially a coin flip. Historically, gridlock under a Republican president—especially with a Democratic House—has produced below-average equity returns for the two-year Congressional term. Markets dislike uncertainty, and the political calendar will deliver plenty of it between now and November.

My read: the market is in transition, not in crisis. The economic foundation—consumer spending, private-sector hiring, AI-driven capital investment—remains intact. But the margin for error has narrowed. Valuations are elevated. The three-headed monster of oil, yields, and the dollar is pressing on financial conditions. And the geopolitical backdrop has introduced a genuine supply shock to the global energy market for the first time since Russia's invasion of Ukraine.

The key question is whether oil prices settle back below \$80 as the EIA projects for the second half of the year, or whether the Strait of Hormuz remains effectively closed long enough to inflict real economic damage. If the former, this pullback is a buying opportunity within a still-intact secular uptrend. If the latter, expect the correction to deepen and broaden. I am positioned cautiously, with an emphasis on quality, cash flow, and sectors that benefit from—rather than suffer from—the current macro environment. Now is the time to be patient, disciplined, and selective. The market will eventually resolve this tension. *It always does.*

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