

**February 7, 2026**

## **CJ's Weekly Market Memo**

The past week reminded us that bull markets don't climb in straight lines. Thursday's sharp selloff rattled nerves, but Friday's rebound confirmed what I've witnessed repeatedly over five decades in this business: corrections in strong markets tend to be sharp and quick, not prolonged and grinding. The underlying strength of this economy, powered by the most significant infrastructure transformation since the postwar industrial boom, remains firmly intact.

### **The Economy: AI Infrastructure Powers Forward**

Economic growth continues to drive earnings gains, and the market has proven remarkably resilient in shaking off fears of an AI spending collapse. The January ISM Manufacturing survey delivered a genuine surprise, surging to 52.6, the second-largest monthly improvement in thirty years and a new cycle high. Even more telling, the internals were stronger than the headline, with the spread between new orders and inventories suggesting an underlying economy closer to 60 than the reported figure.

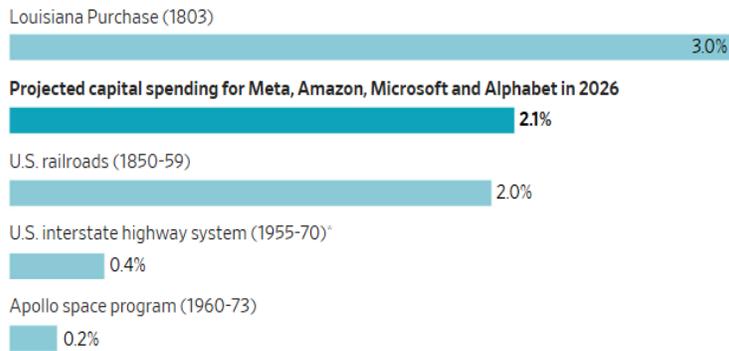
Here's what many investors still don't grasp: AI infrastructure spending isn't a tech bubble, it's the foundation of the next real economy. When Saturday's Wall Street Journal ran a cover story about investors "dumping tech stocks to invest in the real economy," I had to smile. That's precisely the kind of flawed thinking that creates opportunity. AI is creating the real economy, right before our eyes.

Consider the staggering capital expenditure announcements from just this past week. Alphabet guided to AI infrastructure spending 91-102% above 2025 levels, far exceeding analyst expectations. Amazon followed with a \$200 billion capex guide for 2026, a 52% year-over-year increase. Combined with Microsoft's plans, the three hyperscale's will deploy approximately \$494 billion in 2026, more than double the \$244 billion analysts projected just twelve months ago.

This isn't reckless speculation. Google Cloud revenues beat expectations by 9%, growing 48% year-over-year with operating margins exceeding 50%. Amazon's AWS delivered 24% revenue growth with 35% operating margins. These aren't companies burning cash on dreams, they're printing money while building the infrastructure for the next economic revolution.

The scale of this buildout becomes clearer when viewed through a historical lens. As a percentage of GDP, current AI infrastructure spending rivals the railroad expansion of the

#### Spending as percentage of GDP, annual average



\*Federal highway spending

Sources: National Archives and Measuring Worth (Louisiana Purchase); the companies (Tech capital spending); Visible Alpha (projected Microsoft capital spending) Louis P. Cain (U.S. Railroads); Robert Gordon (U.S. interstate highway system); Planetary Society (Apollo); Wall Street Journal calculations (all ratios)

1800s and is exceeded only by the investment for the Louisiana Purchase. In my forthcoming book on discovering AI investment opportunities, I emphasize this parallel: just as the transcontinental railroad created entirely new industries and economic possibilities, AI infrastructure is laying the groundwork for transformations we can barely imagine today.

The "picks and shovels" beneficiaries confirm this thesis. Super Micro Computer reported revenues 22% above estimates with adjusted EPS 42% higher than expected, guiding next quarter's sales at least 20% above consensus. Johnson Controls, the HVAC systems company serving data centers, beat estimates and raised full-year guidance, noting "nearly 40% order growth" with strong customer demand. The Logistics Managers Index surged to 59.6, indicating rapid expansion as firms restock inventories to meet this infrastructure demand.

Manufacturing is awakening from a multi-year slump. Job openings in the sector appear to be stabilizing after years of decline. Tech hiring, as measured by the Information industry, reached its strongest levels since 2022. The AI buildout is pulling workers and capital into productive deployment across the economy.

## Current Market Technical Conditions: Rotation, Not Reversal

The Dow's crossing of 50,000 marks an extraordinary journey from the 6,600 low during the 2007-2009 recession. This advance reminds me of the "Soaring 60s," when postwar industrialization and the space race technology boom powered markets to heights that seemed impossible to contemporary observers. Then, as now, the catalysts were infrastructure transformation and technological revolution.

Thursday's selloff, while uncomfortable, exhibited the classic characteristics of bull market corrections. Bespoke Investment Group's analysis shows that while the average stock

declined 0.34% on earnings reports this season—in the bottom quintile historically—beat rates remain strong at 75.1% for EPS and 73.7% for revenues. The market isn't rejecting quality earnings; it's recalibrating valuations and rotating capital.

That rotation has been dramatic and healthy. In the six sessions between the S&P 500 Growth Index's high and Thursday's low, value outperformed growth by over seven percentage points—the largest such divergence since July 2024 and ranking in the 99th percentile since 1995. Small-cap stocks surged, with the Russell 2000 up 2.07% for the week while the Nasdaq 100 declined 1.97%. Four S&P sectors gained more than 4% even as the overall index dipped.

This is exactly the type of market action that extends bull markets rather than ends them. Breadth is improving. Energy, materials, industrials, and consumer staples all posted strong weekly gains. Homebuilders, building suppliers, and durable goods stocks are making new highs despite interest rates that remain elevated. Travel, dining, and apparel stocks continue to hold gains, signaling consumer resilience.

The crypto correction, while severe, has behaved as expected in a leveraged, algorithm-driven market. Bitcoin's drop to 52-week lows triggered mechanical selling, but Friday's rebound demonstrated that once positioning clears, buyers emerge. More importantly, the crypto selloff hasn't spread to traditional financial markets—a testament to Bespoke's observation that modern markets are increasingly "walled off from one another." Wild swings in one asset class no longer necessarily signal broader contagion.

Software stocks have suffered, with the iShares Expanded Tech-Software ETF falling 9.2% through Thursday on fears that AI code generation will destroy their business models. Yet this ignores reality: software companies that add genuine value will thrive in an AI-augmented world, while those selling commoditized products were always vulnerable. The market is making appropriate distinctions, not indiscriminately selling technology.

## Looking Ahead to 2026: The Infrastructure Decade Accelerates

I remain constructive on 2026 and the years beyond. The fundamental drivers supporting this market are strengthening, not weakening.

First, the AI infrastructure buildout will continue to accelerate. The \$494 billion in combined capex from Alphabet, Amazon, and Microsoft represents just the hyperscalers. Add spending from Oracle, Nvidia, utilities upgrading power infrastructure, manufacturers supplying components, and construction companies building facilities, and the total investment easily exceeds what most economists have modeled. This spending creates

jobs, drives productivity gains, and generates the earnings growth that supports higher equity valuations.

Second, the Federal Reserve has successfully engineered a soft landing. The JOLTS data shows job openings declining but layoffs remaining near historic lows. Continuing unemployment claims run below last year's levels, suggesting further unemployment rate declines ahead. Wage growth is moderating while employment remains solid—the Goldilocks scenario for extending the economic expansion.

Third, manufacturing is rebounding. The ISM's surge to 52.6, combined with stabilizing job openings and improving sentiment surveys, signals that the sector is emerging from its multi-year consolidation. Global manufacturing PMIs reached their highest levels since 2022 in January. This creates a broader economic foundation than the consumption-driven expansion of recent years.

Fourth, consumers remain resilient. Despite headlines about weather disruptions and flu season impact on January spending, underlying trends are healthy. Redbook same-store sales show steady mid-single-digit growth. First Data Merchant Services reported the fastest year-over-year nominal retail spending growth since December 2024. Costco's U.S. comps (excluding gas) rose 6.8% year-over-year. Full-service dining, fast food, homebuilders, and discretionary durable goods all show improving trends.

Fifth, earnings continue to grow. While this earnings season has seen muted stock reactions—likely due to elevated valuations requiring perfection—the fundamental quality of results remains strong. Companies are beating estimates, raising guidance, and demonstrating pricing power in most sectors. The disinflationary trend in food and consumer goods creates room for margin expansion as input costs moderate.

The risks I'm monitoring center on valuation and positioning, not economic fundamentals. Software stocks, even after their recent correction, still trade at price-to-sales ratios matching the peak of the dot-com bubble. If AI code generation proves more disruptive than currently priced in, further multiple compression lies ahead for vulnerable names. The massive Bitcoin ETF losses (flow-weighted returns down 12%) could dampen retail risk appetite if crypto continues to struggle.

Interest rates remain the wild card. The Fed appears cautious about cutting, and yield curves are steep, keeping mortgage rates elevated. However, strong economic growth and productivity gains from AI implementation can support equity valuations even if rates decline more slowly than hoped. The 2010s demonstrated that markets can advance for years without aggressive monetary easing if earnings growth remains intact.

The technical picture favors further gains after this week's healthy correction. Value's sharp outperformance versus growth, small caps' strength relative to large caps, and broadening sector participation all suggest the bull market is maturing in a constructive manner. The rotation into "real economy" stocks isn't a rejection of technology—it's recognition that AI's benefits will flow through the entire economic system.

I expect 2026 to deliver mid-to-high single-digit returns for diversified equity portfolios, with the possibility of double-digit gains if earnings growth exceeds current expectations. The infrastructure decade is accelerating, not peaking. Investors who recognize that AI spending is building the next real economy—not a speculative bubble—will find abundant opportunities in both traditional technology names and the expanding ecosystem of beneficiaries.

The journey from Dow 6,600 to Dow 50,000 took seventeen years. The next 50% gain might take considerably less time if this infrastructure cycle plays out as I anticipate. Bull markets don't end on sharp one-day selloffs in their strongest sectors. They end when economic growth falters, earnings disappoint, and investors lose faith in the future. None of those conditions apply today.

Stay invested, stay diversified, and remember that the best opportunities often emerge when fear temporarily overwhelms fundamentals.

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