

CJ'S WEEKLY MARKET COMMENT May 24, 2025

What a week this has been. After watching the market claw its way back from the depths of what we're now calling the "Tariff Crash"—that nasty 19% drop from February through April—we got a real-time lesson in how today's markets process political theater versus actual policy.

Friday morning was particularly instructive. I was reviewing futures before the open when President Trump's Truth Social posts hit the wires—talk of 50% tariffs on European goods and 25% levies on Apple iPhones. Dow futures immediately plummeted over 700 points. But here's what caught my attention: by day's end, after the administration walked back these comments as "negotiating tactics," buyers stepped right back in.

This market behavior reflects a critical evolution in investor psychology. We're witnessing increased sophistication in distinguishing between rhetorical positioning and actionable policy implementation—a development that suggests reduced susceptibility to policy-driven volatility going forward.

The Employment Story That Keeps Surprising

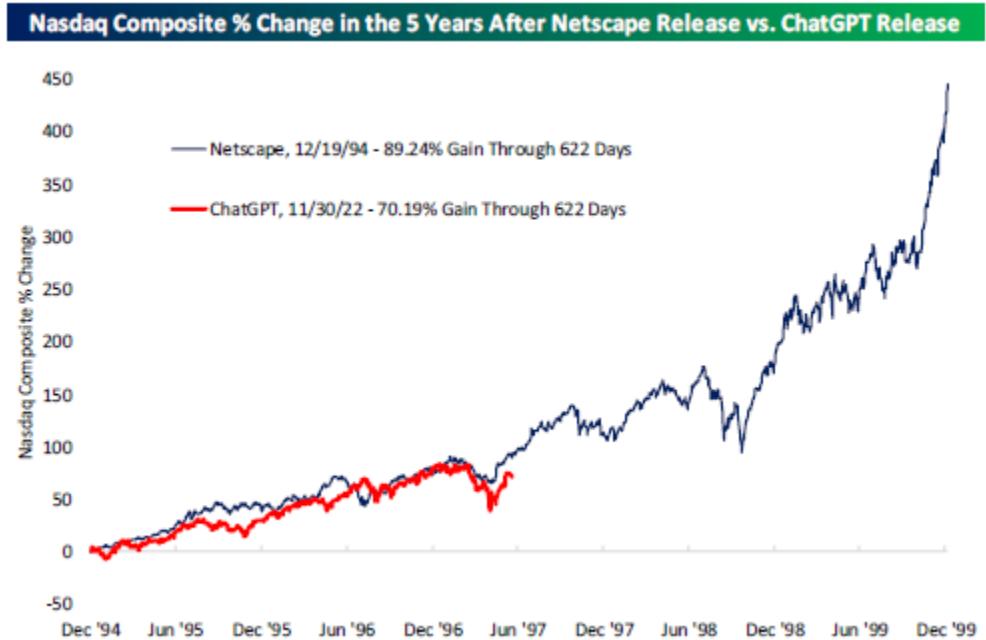
Now, let me share something that's been keeping me up at night—and I mean that in a good way. We've got this fascinating disconnect between what traditional indicators are telling us and what we're actually seeing in the real economy.

The Conference Board's leading-to-coincident indicator ratio has collapsed to levels we haven't seen since 1959. Historically, this has been about as reliable a recession predictor as you'll find. Yet here we sit with initial jobless claims at 227,000 and continuing claims at 1.9 million—numbers that would have been considered exceptional in any previous decade.

This unprecedented divergence between predictive indicators and realized economic performance suggests we may be witnessing fundamental structural changes in economic signal transmission mechanisms. The traditional recession forecasting framework appears increasingly unreliable in an economy characterized by rapid technological transformation and evolving labor market dynamics.

The ChatGPT-Nasdaq Correlation: A Historical Framework for Understanding AI's Market Impact

One of the most compelling analytical frameworks I've encountered recently involves examining the Nasdaq's performance following the release of ChatGPT on November 30, 2022, compared to the market's behavior after Netscape's browser launch in December 1994. Through 622 trading days post-release, the correlation is remarkably striking.



Source: Bespoke Investment Group

Following Netscape's debut, the Nasdaq gained 89.24% over this timeframe. ChatGPT's release has generated a 70.19% Nasdaq gain through the same 622-day period—a closely parallel trajectory that suggests we may be witnessing a similar technological adoption cycle. What makes this analysis particularly compelling is the broader five-year context: Netscape's launch preceded the Nasdaq's eventual 400%+ advance through the late 1990s technology boom.

This historical parallel provides crucial perspective on our current positioning within what appears to be the early-to-middle stages of a transformative technological cycle. The initial infrastructure investment phase—evidenced by that \$280 billion in Magnificent Seven capital expenditures—mirrors the massive network buildout that preceded the internet's commercial explosion.

The Magnificent Seven: Success Breeds Complexity

Speaking of technology reshaping everything, let's examine our Magnificent Seven stocks through this historical lens. The internal rotation we're witnessing—with Apple, Microsoft, and Alphabet lagging while Tesla, Meta, and Nvidia deliver substantial alpha—reflects market maturation within the AI adoption cycle.

This divergence demonstrates increasingly discriminating investor behavior, distinguishing between companies positioned as infrastructure providers versus those serving as application-layer beneficiaries. The \$280 billion collective capital expenditure represents

unprecedented technological infrastructure investment, historically precedent to major productivity breakthroughs and extended market expansion cycles.

What I'm Watching for the Rest of 2025

Looking ahead, the ChatGPT-Nasdaq correlation framework significantly influences my analytical approach for the remainder of 2025. If this technological adoption cycle continues paralleling the Netscape precedent, we remain in relatively early stages of a potentially extended market expansion.

The technical configuration appears constructive. Historical analysis reveals that when the S&P 500 recovers to within 3% of all-time highs following 15%+ corrections, subsequent new high achievement occurs in a range of 2 to 110 trading days within a median timeframe of 22 trading days, accompanied by median six-month gains approximating 9%. Current positioning aligns favorably with these patterns.

Employment market resilience continues providing fundamental support. Current jobless claims trajectories suggest sufficient labor market strength to underpin corporate earnings growth through year-end, particularly as AI productivity enhancements begin materializing across sectors.

Perhaps most intriguingly, we're observing genuine sector rotation dynamics. Industrial sector relative strength indicators have reached twelve-month highs, suggesting investor recognition of broadening economic expansion beyond pure-play technology concentration. This rotation creates tactical allocation opportunities while maintaining strategic positioning within the larger technological transformation narrative.

How I'm Thinking About Positioning Through 2025

Here's where this all gets practical. The ChatGPT-Nasdaq parallel suggests we might be sitting at an inflection point—that moment when all this AI infrastructure spending starts showing up in actual productivity gains and revenue growth. If you lived through the internet buildout in the '90s, this feels familiar.

But let's be realistic about what that means for portfolio construction. I'm not suggesting we go all-in on AI plays and call it a day. What I am suggesting is that we need to think about this transformation differently than we might have six months ago.

The data points are aligning in ways that suggest maintaining strategic exposure to this technological shift makes sense, while also positioning for the sector rotation that's

already underway. The market's growing ability to shrug off trade policy noise gives us a cleaner backdrop to focus on these fundamental developments.

That said, transformative technology cycles are never smooth rides. Even the Netscape parallel had plenty of volatility along the way. The key is maintaining enough conviction to stay positioned for the longer-term opportunity while having enough patience to ride through the inevitable bumps.

What excites me most is the convergence we're seeing: solid technical recovery patterns, resilient employment data, that massive infrastructure investment I keep mentioning, and our apparent early-stage positioning within what could be a generational technology cycle. These don't all line up this cleanly very often.

We continue monitoring these dynamics closely, recognizing that market evolution within technological adoption cycles requires careful interpretation of emerging productivity metrics and sector-specific developments. The key remains balancing strategic positioning with tactical flexibility as we navigate what promises to be a particularly dynamic period—one that might just remind us of the internet's commercial emergence three decades ago.

CJ Brott
Chairman Emeritus

The material presented is for informational purposes only and is believed to be accurate. Sources include but are not limited to publications by Dow Jones and Bespoke Investment Group. All expressions of opinion reflect the judgment of the author as of the date of publication and are subject to change. The author may hold securities mentioned in this commentary. Nothing in this report should be construed as investment advice and does not take into consideration your specific situation. All investments involve risk. Past performance does not guarantee future results.