

## CJ's Market Memo

August 8, 2025

After decades of observing market rhythms, I've learned that the most revealing insights often emerge when earnings strength diverges from price action. We're witnessing precisely this phenomenon today—a fascinating disconnect that speaks volumes about market psychology and the path ahead.

### Earnings Excellence Meets Market Indifference

The Q2 earnings season has delivered remarkable strength, with over 83% of S&P 500 companies surpassing expectations on both revenue and earnings—performance that exceeds historical averages across 1, 5, and 10-year periods. Yet here's the telling detail: average stock price reactions to earnings beats remain remarkably modest, with EPS beats generating only 1.3% gains and revenue beats merely 1.1%. This tepid response suggests market momentum is downshifting, potentially signaling a correction in time rather than price.

Think of it as the market's equivalent of a fever breaking—the underlying health improves while the patient remains temporarily listless. Meta platforms surged over 5% on Wednesday after beating expectations, and Palantir jumped 4% following its billion-dollar quarterly revenue milestone, yet these individual victories couldn't lift the broader market's spirits.

### The Sentiment Paradox

Current investor surveys reveal the kind of bearish sentiment that, paradoxically, often presages market strength. The AAII Sentiment Survey shows bearish sentiment at 33.0%, while bullish readings reached 40.3%, representing a notable shift toward optimism. Yet Schwab's sentiment gauge indicates persistent retail bearishness, creating the classic contrarian setup I've learned to respect over decades of market observation.

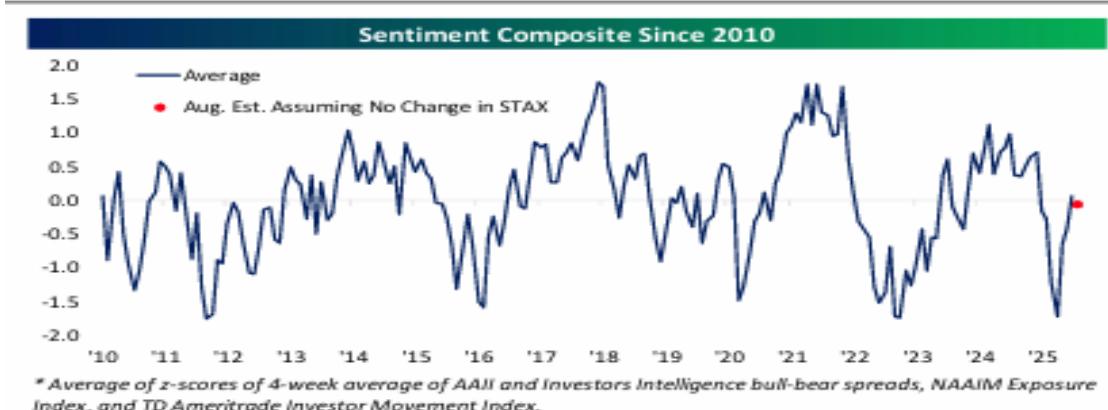


Chart courtesy of Bespoke Investment Group

Remember: widespread investor caution during earnings excellence typically indicates markets are digesting gains rather than signaling fundamental deterioration. This measured skepticism often precedes sustained advances.

### **Supply Chain Disruptions: The Hidden Strength**

Perhaps most remarkable is how corporate America has navigated tariff-induced supply chain pressures. Average effective tariffs on US imports have reached 9.0%, the highest since post-World War II, yet companies continue exceeding expectations. This resilience reflects the adaptability that has characterized American enterprise through multiple economic cycles.

The current environment reminds me of the late 1970s when persistent inflation fears masked underlying corporate strength. Today's supply chain challenges are being met with innovation and operational efficiency that earnings reports increasingly validate.

### **Technical Confluences and Economic Alignment**

Here's where experienced market observers earn their stripes: the most accurate prognostications emerge when economic fundamentals align with technical market conditions. Currently, we're seeing precisely this convergence.

Corporate earnings growth rates are running at 11.7%—well above the 4.9% expected at quarter's start, while guidance rates remain strong with 88% of companies raising forward expectations. Simultaneously, technical indicators suggest a market consolidating gains rather than rejecting them.

### **The Week Ahead: Critical Markers**

Next week brings essential economic readings that could determine whether this earnings-driven strength translates into sustained market advance. Tuesday's CPI release on August 12th will provide crucial inflation insights, followed by Thursday's PPI data on August 14th. Retail sales and industrial production figures round out a data-heavy week that should clarify the economic trajectory.

Given current earnings momentum and the Federal Reserve's evolving stance—with market pricing showing 90%+ probability of September rate cuts—these indicators could provide the catalyst for sustained market strength.

### **2025 Outlook: Measured Optimism**

Looking toward year-end and beyond, I see reasons for cautious optimism. The combination of earnings resilience, manageable inflation pressures, and eventual Federal Reserve accommodation suggests markets may be positioning for the type of sustained advance that often follows periods of earnings-driven consolidation.

The technology sector's continued dominance, tempered by emerging value opportunities across industrials and financials, points toward a more balanced market leadership structure. This breadth improvement, combined with corporate America's demonstrated adaptability, creates conditions favorable for patient investors.

Remember: markets climb walls of worry, and current investor caution amid strong fundamentals typically proves more friend than foe to those with sufficient conviction and time horizon.

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**Chairman Emeritus**

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