

CJ's Weekly Market Memo

October 11, 2025

In April, European traders were calling Trump's "Liberation Day" Obliteration Day – and here we are again! Just as those tariff fears proved overblown, Friday's market sell-off on renewed US-China trade tensions likely represents another temporary setback rather than the start of something more sinister.

The Economy: Holding Strong Despite the Headlines

The economic fundamentals remain remarkably resilient. Personal income growth continues to outpace inflation, consumer spending is robust across income levels (as Bespoke's September Consumer Pulse data confirms), and the latest GDP tracking suggests the economy is growing comfortably above breakeven. Perhaps most encouraging, the Dallas Fed's new research indicates the "breakeven" monthly payroll number has plummeted from over 200,000 in 2023 to just 34,000 today due to slowing immigration. This means recent job growth that looks weak on the surface is actually running well above what's needed to keep the unemployment rate stable – there's more strength in the labor market than meets the eye.

Meanwhile, inflation pressures continue to ease. Crude oil has dropped back below \$60 per barrel, egg prices have collapsed 82% from their avian flu-driven highs, cocoa is down 51% from peak panic levels, and gas prices are up a mere 1.2% year-to-date – one of the smallest gains at this point in any year since 2004. Treasury yields remain below their moving averages across the curve, suggesting bond markets aren't worried about inflation returning with a vengeance. The Fed can breathe easier, and so can we.

Market Technicals: Historic Momentum Meets Healthy Skepticism

Let's talk about the elephant in the room: Friday's 2.7% shellacking in the S&P 500 and 3.6% drubbing in the Nasdaq. Was it the beginning of something ominous? History says probably not. Friday marked just the 14th time since 1989 that the Nasdaq hit a 52-week high intraday before finishing down at least 2% from that high – with no similar reversal in the prior three months. The median performance following these occurrences? Solidly positive across three, six, and twelve-month horizons, with the index up over 14% a year later.

More importantly, we're coming off extraordinary six-month gains: the S&P 500 up 26.3%, the Nasdaq up 37.6%, and the Russell 2000 up 33% since the April tariff tantrum lows. These are 95th percentile-plus rallies, and here's the counterintuitive good news: when all three major indices simultaneously post six-month gains this strong (which has only happened five times since 1978), they've *continued* higher over the subsequent six and twelve months every single time. The median six-month gain in these scenarios was over 11%, far exceeding typical returns.

The semiconductor sector tells a similar story. The Philadelphia Semiconductor Index has rocketed from 25% below its 200-day moving average in April to 31% above it earlier this week – a round-trip completed in just 121 trading days. There have only been five similar reversals since 1996, and none marked significant long-term peaks. Three months later, the index was up a median 11%, and a year later it was higher 100% of the time.

Meanwhile, Sunday marks the third anniversary of the October 2022 bear market low, and bull markets that last three years almost always make it to four. We're now entering what has historically been the best three-month period of the year for stocks, with the S&P 500 posting median gains of 7.7% from October 6 through early January, positive 84% of the time over the past 25 years.

Earnings Season: The Rubber Meets the Road

Next week kicks off Q3 earnings season in earnest, with major banks reporting Tuesday through Friday. This is where we separate narrative from reality. Analyst expectations have been notably subdued heading into this reporting period – only four sectors (Technology, Financials, Consumer Discretionary, and Communication Services) have seen net positive earnings revisions over the past month. Materials and Energy have been particularly weak, with more than 40% of companies seeing downward estimate adjustments.

Here's the twist: when analyst sentiment is this cautious, stocks historically perform *better* during earnings season. Since 2009, quarters with negative net revision spreads (like we have now at -5.4%) have produced average S&P 500 gains of 2.4% during earnings season with 80% positive frequency, compared to just 0.5% gains when revisions were positive going in.

Pay close attention to guidance from the banks and especially the AI infrastructure plays. The OpenAI-AMD \$100 billion deal earlier this week underscores the secular AI growth story, but profitability concerns persist after reports of Oracle's Blackwell chip rental losses and ongoing debate about circular deal structures. We need to hear management teams articulate clear paths to returns on these massive AI investments.

Looking Ahead: Fourth Quarter and Early 2026

So where do we go from here? The setup for the fourth quarter looks constructive. Seasonal patterns are in our favor, earnings expectations are beatable, the economy is growing without overheating, inflation is cooling, and the Fed has room to cut rates further if needed. The BLS announcement that they'll release September CPI data on October 25 – just in time for the October 28-29 FOMC meeting – removes one uncertainty hanging over markets due to the government shutdown.

Yes, there are legitimate concerns worth monitoring. The weakness in consumer discretionary retailers and travel stocks suggests some pockets of consumer stress. The First Brands bankruptcy, while likely an isolated event, reminds us that credit booms create hidden risks – opacity, complexity, weak covenants, concentration, and novel investment vehicles can combine in dangerous ways. Private equity and alternative credit stocks have taken meaningful hits, and we'll be watching whether this remains contained or spreads.

The renewed US-China trade tensions that sparked Friday's sell-off bear watching, though President Trump's track record suggests these flare-ups often lead to negotiations rather than sustained economic warfare. China's proposed rare earth export controls, port fees on US cargo ships, NVDA chip import restrictions, and the QCOM antitrust investigation all sound scary, but remember that the April "Liberation Day" tariffs that were supposed to devastate markets proved temporary and largely inconsequential.

International developments also deserve attention. Japan's new Prime Minister Sanae Takaichi favors an Abenomics-style program that's causing volatility in JGB yields, and France's political instability continues with PM Lecornu's resignation after less than a month. Gold's surge above \$4,000 per ounce reflects some debt sustainability concerns, though equity market implications have been minimal so far.

The bottom line? We're in the sweet spot of historically the best three-month period for equities, with strong economic fundamentals, cooling inflation, accommodative Fed policy likely ahead, and earnings season starting with beatable expectations. The massive rally since April creates natural profit-taking opportunities – exactly what we saw Friday – but the intermediate-term trend remains firmly positive. Bull markets that reach their third birthday almost always celebrate a fourth, and this one looks ready to keep partying.

Stay invested, stay diversified, and remember that temporary setbacks in a bull market are opportunities, not obituaries.

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Capital Ideas

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