CJ's Weekly Market Memo

November 2, 2025

What a week! All major indices hit fresh all-time highs again, and honestly, the energy in this market feels infectious. The S&P 500, Nasdaq, Dow, and even the Russell 2000 are all pushing into uncharted territory, which tells you something important: this rally has legs and breadth.

The Economy: Stronger Than Expected

Let's start with the economic backdrop, because it's frankly remarkable. GDP growth came in strong again this quarter, continuing the trend of resilient expansion that's been defying the pessimists all year. Consumer spending remains healthy—those high-frequency retail trackers are showing no signs of a meaningful slowdown. And here's the kicker: corporate earnings are absolutely crushing it. We're not just talking about companies meeting expectations; they're blowing past raised expectations at a rate we haven't seen in years. The earnings beat rate hit 78% this quarter, which ranks among the best in history. Revenue beats are equally impressive, and guidance raises are outpacing cuts at near-record levels. Tech, Communications Services, and even Consumer Staples are leading the charge.

Now, the labor market narrative has gotten a bit noisy. Yes, hiring has slowed, but let's not confuse that with weakness. Productivity is surging—companies are getting more output per worker than they have in years. That's exactly what you'd expect after the post-COVID hiring binge, and it actually sets up an interesting dynamic: strong productivity creates incentives to hire again as demand stabilizes. Consumer fundamentals remain solid too. Household debt service ratios are at multi-decade lows, savings rates are firm, and delinquency rates appear to be peaking. This doesn't look like a consumer on the verge of collapse.

On the inflation front, yes, core PCE is still running above the Fed's 2% target—it's been 19 straight quarters of that now. Tariffs have added fuel to that fire, with the effective tariff rate climbing near 11% and goods inflation reaccelerating. But the Fed seems more focused on labor market risks than inflation risks for the moment, which is why they've continued their easing campaign. Markets are pricing in three to four more cuts over the next year, though I'll note that options markets are a bit skeptical of that pace. There's real risk the Fed doesn't deliver on all those cuts if inflation stays sticky or reaccelerates.

Current Market Technicals: Breaking Out Across the Board

Technically, this market is in beast mode. When all major indices make new highs simultaneously, that's a signal of broad-based strength, not just narrow leadership. Yes, the

Magnificent Seven and AI-related names have been the stars, but we're seeing participation from Industrials, Financials, and even parts of Consumer Discretionary. That's healthy.

Now, here's where it gets interesting—and maybe a little frothy. The talking heads are practically tripping over themselves to predict when the AI boom will end. You know what that usually signals? Continuation. When everyone's looking for the top, we're probably not there yet. History shows that bubbles don't pop when people are still debating whether they're bubbles. They pop when nobody thinks they can pop.

That said, there are some yellow flags waving. Quantum computing has become the hot new topic—IBM aside, there aren't any profitable companies in the space, yet valuations are soaring. That's classic late-cycle behavior. It doesn't mean the party's over, but it might mean we're closer to last call than opening bell. A short-term pullback wouldn't shock me, especially given how extended some of these names are. But pullbacks in strong markets tend to be buying opportunities, not the start of bear markets.

The AI investment thesis remains intact for now. OpenAI is reportedly eyeing a $1 trillion IPO valuation in 2027, despite Microsoft's disclosures showing they lost over $11 billion in Q3. Meta and Oracle are issuing massive debt to finance their AI ambitions, and risk premiums are starting to rise in corporate credit markets. This is all very "2000 internet boom" in feel, but remember: the internet boom didn't end because the internet was a bad idea. It ended because valuations got stupid and the funding dried up. We're not there yet, but the debt markets will be worth watching.

Last Week's News: Political and International Developments

Politically, things have been relatively quiet on the domestic front, which is a nice change of pace. Internationally, China's economy continues to struggle—property prices are falling again, retail sales growth is weak, and consumer demand looks soft. But here's the paradox: Chinese equities are ripping higher. The Hang Seng Tech Index and CSI 300 are both in solid uptrends, driven by government stimulus hopes and, yes, AI enthusiasm. South Korea's KOSPI is the best-performing major market in the world this year, up over 71%, thanks almost entirely to SK Hynix and Samsung riding the memory boom for AI data centers. That's a reminder that even when an economy looks shaky, equity markets can decouple if the narrative is strong enough.

In Europe, the picture is cautiously optimistic. Germany's economy is bouncing back from its 2023-2024 low point, helped by expectations of fiscal expansion and a rebound in industrial activity. The ECB's rate cuts are working, inflation is trending toward target, and unemployment remains historically low. Sweden and other smaller economies are also seeing cyclical upturns. It's not a raging bull market over there, but it's stabilizing, which is better than the alternative.

Prognostication: Rest of 2025 and Early 2026

So where do we go from here? I remain constructive on equities through year-end and into early 2026, but with some caveats. The setup is favorable: strong earnings growth, resilient economic data, Fed easing (for now), and broadening market participation. Seasonality is also on our side as we head into the traditionally strong November-December period.

The risks, however, are real. If inflation reaccelerates—particularly if tariffs keep climbing or wage growth picks up again—the Fed could pivot away from easing faster than markets expect. That would be a headwind. On the geopolitical front, China's export-led growth strategy is creating massive trade surpluses that are being pushed onto the rest of the world, and that's a source of friction that could flare up. And as I mentioned, the frothiness in speculative areas like quantum computing is a signal that animal spirits are running hot. That's great until it's not.

My base case is that we continue to grind higher into year-end, perhaps with a pullback or consolidation along the way to shake out some of the weak hands. Earnings growth remains the North Star here—companies are delivering, and that's hard to fight. But I'd be watching credit spreads, Fed rhetoric, and any signs that the AI capex boom is starting to crack. If those cracks appear, we'll want to get more defensive.

For now, though, the trend is your friend. Stay invested, stay diversified, and don't let the noise distract you from the signal. This market has surprised a lot of people this year by refusing to roll over, and I think it's got more room to run—just maybe not in a straight line.

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