November 23, 2025

CJ's Weekly Market Memo

What a week! After watching the market get hammered day after day despite decent earnings and solid economic data, Friday's sharp reversal felt like investors finally remembered that bad news can actually be good news – especially when the Fed's listening.

The Economic Picture

Let's start with what's really got people spooked: the labor market is softening more than expected, and consumer confidence just hit its lowest level since U of M started tracking it back in 1980. The University of Michigan's latest survey shows Americans are more pessimistic than during the 2008 financial crisis, the dot-com crash, or even the darkest days of COVID. That's remarkable, particularly given that unemployment remains relatively low and GDP growth is holding up.

Here's the thing though – the Fed's paying attention. After weeks of mixed signals from FOMC members created uncertainty about December's rate decision, New York Fed President John Williams stepped in Friday with comments suggesting the central bank remains inclined to cut rates. That dovish tone was exactly what the market needed to hear, and it sparked the kind of buying we haven't seen in weeks.

The disconnect between consumer sentiment and actual economic data creates an interesting setup. Real spending continues, employment remains stable enough, and corporate earnings have exceeded expectations this quarter. Yet households feel terrible about their prospects. This psychological pessimism, while painful in the short term, often marks better entry points than periods of euphoria.

Technical Conditions and Market Dynamics

The technical picture heading into Friday was about as ugly as it gets. Bespoke's 50-day moving average spread showed 46.6% of S&P 500 stocks sitting in oversold territory – two standard deviations below their 50-day averages. CNN's Fear & Greed Index had plunged to extreme fear levels, while the AAII sentiment survey showed individual investors turning decidedly bearish. These are the kinds of readings that typically precede rebounds, not continued declines.

What made this week particularly noteworthy was the sector rotation we've been tracking. Money has been flowing out of the Magnificent Seven and momentum stocks generally, finding new homes in areas like biotech and other sectors that spent months being ignored. This isn't just about tech getting hit – crypto assets are down sharply, quantum computing stocks have cratered, and the speculative froth that dominated August through October has evaporated.

The disagreement among Fed officials about the December rate cut created real uncertainty. When committee members can't get on the same page publicly, markets struggle to price in future policy moves. That confusion contributed to Thursday's brutal reversal after Nvidia's earnings – the stock opened up 5% and closed down over 2%, dragging the Nasdaq down nearly 5% intraday before finishing down 2.4%. Those kinds of violent swings don't happen in confident markets.

Friday's rally, sparked by Williams' dovish remarks, felt different. It wasn't just short-covering or an oversold bounce – buyers stepped in with conviction, particularly in the sectors that had been beaten up hardest. When fear reaches extremes and a catalyst emerges, the snapback can be powerful.

Looking Ahead: Rest of 2025 and Early 2026

Here's what gives me confidence about the months ahead: the same AI concerns everyone's suddenly worried about actually suggest we're still early in this cycle, not late.

Think about it – we're hearing more skepticism about AI capital spending, more questions about whether data center buildout makes sense, and more worry about an AI bubble. Bank of America's latest fund manager survey showed a majority now believe companies are overspending on capex, something that's never happened in the survey's history. Politicians on both sides are raising concerns about data centers' impact on electricity prices and resources.

But here's the key observation: we haven't seen the flood of AI-related IPOs that characterized the late stages of the internet bubble. Back in 1999-2000, every company with a website was going public. Today, the AI infrastructure buildout remains concentrated among established, profitable technology companies with strong balance sheets and real revenue streams. Nvidia's revenue has grown nearly 10x in three years, supported by actual customer demand, not speculation.

Fed Vice Chair Philip Jefferson made exactly this point Friday, noting that AI firms have established revenue streams and valuations well below dot-com peak ratios. The proliferation of sketchy internet companies in 1999-2000 meant less discriminating markets. Today's environment remains far more selective.

The historical parallel I keep coming back to is where we are in the Netscape-to-dot-com-peak timeline. At 748 trading days since ChatGPT's launch, the Nasdaq is up 102% – nearly matching the 120% gain seen 748 days after Netscape's browser launched. But if that analogy holds, we're still tracking a 1996-1997 trajectory, with the real excesses of 1998-1999 still ahead.

Past 30%+ rallies without a 3% pullback have typically been followed by short-term weakness but positive longer-term returns. The average shows modest declines over the next three months, but gains of 5.2% at six months and 7.6% at one year. Given the extreme pessimism we've just seen and historically strong post-Thanksgiving seasonality, I'd expect December to surprise to the upside.

The setup heading into year-end combines washed-out sentiment, oversold technical conditions, a Fed that's likely to cut rates in December, and strong underlying corporate earnings. That's typically a recipe for a year-end rally, even if the path remains choppy.

For early 2026, much depends on how quickly consumer confidence recovers and whether the labor market stabilizes. The Fed's easing cycle should provide support, and if economic data holds steady, the combination of lower rates and reasonable valuations outside the mega-cap technology names creates opportunities. The sector rotation we're seeing now – away from the most crowded momentum trades into broader market participation – is actually healthy for the sustainability of this bull market.

Markets don't move in straight lines, and we'll continue to see volatility around Fed communications, economic data, and geopolitical developments. But the foundation for continued gains remains solid, and periods of fear like we just experienced tend to create better opportunities than periods of complacency.

Stay invested, stay diversified, and remember that buying after down days has historically generated nearly all the market's long-term returns. The best gains often come when it feels most uncomfortable to deploy capital.

CJ Brott
Chairman Emeritus, Capital Ideas
