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CJ's Weekly Market Memo

The Economic Backdrop: Favorable Fundamentals Taking Hold

The economic indicators continue to paint a constructive picture for investors willing to look past the daily noise. Inflation pressures are demonstrably easing, with the most visible relief coming at the gas pump—national average gasoline prices have fallen below \$3.00 per gallon for the first time since 2021, providing meaningful purchasing power gains to American households. This energy price relief, combined with a stable dollar, creates a benign backdrop for continued economic expansion. The Federal Reserve delivered its widely anticipated third consecutive quarter-point rate cut this week, bringing the fed funds rate to 3.50-3.75%. While Chair Powell's updated projections suggest a more measured approach ahead—with just one additional cut penciled in for 2026—the decision itself and his commentary were less restrictive than many feared. His acknowledgment that federal jobs data may be overstating employment gains by 60,000 jobs per month adds important context to the labor market debate. The resilient consumer, improving credit conditions, and accelerating capital markets activity all support the case for sustained economic momentum into 2026.

Market Technicals: Rotation Revealing Underlying Strength

From a technical perspective, we're witnessing a market in transition that's actually quite healthy. The incredible momentum that carried major indices from their April lows through mid-October—particularly in technology stocks—has given way to a broadening rally that speaks to genuine market strength rather than narrow leadership. Yes, both the S&P 500 and NASDAQ have broken their uptrend lines during the past two weeks, and both will need to establish new highs to reconfirm their upward trajectories. But this development should be viewed in proper context. The Russell 2000 continues to make new all-time highs, reaching an intraday peak of 2,576.31 this week and closing at record levels. This represents the third consecutive week of new highs for small caps, signaling exactly the kind of healthy rotation away from mega-cap concentration that sustainable bull markets require. When smaller, domestically focused companies are leading, it typically reflects growing confidence in the breadth and durability of economic expansion. The rotation out of technology hasn't been without drama—Oracle's disappointing results and Broadcom's post-earnings selloff created some near-term volatility—but this represents the market becoming more discerning about AI winners and losers rather than abandoning the secular growth story. Goldman Sachs characterized this as "the end of the beginning" of the AI narrative, and that framing feels about right. The easy money phase of simply buying

anything with "AI" in the description is over. The real money phase of identifying genuine AI business models is just getting started.

Looking Ahead: Reasons for Continued Optimism

The confluence of factors heading into year-end and early 2026 gives me confidence that this market has further room to run. Consider what's working in investors' favor: inflation moderating, particularly in visible everyday expenses like gasoline; a Federal Reserve that remains accommodative despite taking a more cautious stance; a broadening market rally that's pulling small caps and cyclicals into leadership; and most importantly, a lack of euphoria around the AI boom. This last point deserves emphasis. I continue to believe that the massive amount of negative sentiment toward AI spending and the notable absence of AI-related IPOs are actually bullish indicators for the continuation of this growth trend. History teaches us that transformative technologies generate the best returns when skepticism abounds and capital formation remains private rather than becoming a public market feeding frenzy. The fact that companies like OpenAI, Anthropic, and Databricks remain private—despite valuations that would easily support public offerings—suggests we're nowhere near the speculative excess that marks cycle tops. The expected fiscal impulse in 2026, including potential tax policy changes and depreciation expense benefits, should provide additional tailwinds for corporate earnings. Meanwhile, the market's rotation into cyclicals, financials, and small caps positions portfolios to benefit from domestic growth acceleration. The pieces are falling into place for what could be a strong first half of 2026, particularly if the labor market continues its apparent stabilization and the Fed's more measured approach to rate cuts proves appropriate rather than restrictive. Markets rarely provide perfect clarity, but the current setup—easing inflation, stable monetary policy, broadening market leadership, and persistent skepticism about sustainability—looks constructive for patient investors focused on quality businesses positioned for the next phase of economic expansion.

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