

CJ's Weekly Market Memo

Economic Landscape: Managing Through Uncertainty

The government shutdown that kicked off October 1st is making headlines, but history tells us the lasting impact is usually minimal—the S&P 500 has typically gained ground in the months after previous shutdowns. What really matters is the labor market, which keeps softening. September ADP showed 32,000 private jobs lost, the weakest reading since early 2023, and unemployment has crept up to 4.3%. This weakness is exactly why the Fed cut rates in September, and markets are now pricing in near-certain odds of more cuts coming in October and December.

The manufacturing and services picture is all over the map. ISM Services dropped to 50.0 in September, sitting right on the expansion/contraction line—while manufacturing has been below that mark for months. But here is the thing: consumers are still spending, with retail sales up 5% year-over-year, backed by rock-solid household balance sheets. Homeowners now hold over 72% equity in their properties, the highest we've seen in decades.

On the international front, things are getting interesting. China's reported \$1 trillion investment proposal in exchange for policy concessions could reshape trade dynamics, especially with Trump and Xi set to meet at the APEC conference later this month. Potential tariff relief for U.S. auto manufacturers signals that policy is evolving in ways that might provide some sectoral tailwinds.

Technical Market Conditions: Strong but Extended

Markets wrapped up the week at record highs, completely shrugging off the government dysfunction. The S&P 500 gained **1.1%** for the week, and we're seeing broader participation than we have recently, the Equal Weight index outperformed by 33 basis points. That breadth is worth paying attention to.

The AI infrastructure story keeps driving performance. Bespoke's AI basket has tripled since early 2023, and Google searches for AI-related terms keep hitting new highs. The \$14 billion Crowd Strike-Meta computing deal shows just how structural this investment cycle is—it's comparable to the internet infrastructure buildout we saw after Netscape's release in the mid-1990s.

Technical indicators are flashing overbought conditions—the Nasdaq has been running hot on 93% of trading days over the past four months. That doesn't necessarily mean we're headed for an immediate reversal, but there's not much room for disappointment here. What's interesting is that sentiment remains surprisingly measured despite the record prices, with retail trading activity at the low end of its 15-year range. That's a stark contrast to the 2021 meme-stock euphoria that came before things weakened.

Credit markets are signaling confidence with spreads near historical tights, though I'm keeping an eye on some emerging stress in private credit—leveraged loan prices have split away from high-yield bonds, dropping back to July lows.

Strategic Outlook: Optimistic but Selective

I'm staying constructive on equities through year-end and into 2026. This bull market is now three years old with an 88% gain, and based on historical patterns, it still has room to run. Q4 has historically been the strongest quarter seasonally, and we're heading into it with Fed support, strong corporate balance sheets, and the AI investment cycle still in its early-to-middle innings. Q3 earnings kick off next week and will provide an important test. Consensus is looking for roughly 8% growth, with AI-related names likely to show exceptional strength. Companies like

Delta, PepsiCo, and BlackRock reporting should give us good reads on both consumer health and corporate investment trends.

The bull case is straightforward: AI infrastructure spending is still robust, corporate margins are healthy, household balance sheets are strong, the Fed is easing, and sentiment positioning is neutral enough to allow for multiple expansion. If you're looking for a historical parallel, today might look a lot like 1995—early in a transformative technology cycle with supportive policy backing it up.

That said, risk management is essential. The labor market could deteriorate faster, especially if this shutdown drags on. Inflation could surprise to the upside—services prices are still elevated, and business revenue inflation expectations are running above 2010s norms. Valuations are stretched by most measures. And the mega-cap concentration creates some fragility—

Technology now makes up 35% of the S&P 500, which exceeds even the 2000 dot-com peak. For positioning, I'm in favor of maintaining core equity exposure while thinking about bumping up allocation to equal-weight versus cap-weighted indices to dial down concentration risk. The equal-weight index outperformed during the 2000-2002 period, staying positive well into that stretch. Selective cyclical exposure in financials and industrials makes sense if you're positioning for potential broadening once economic growth stabilizes.

The shutdown resolution, October employment data, Q3 earnings quality, and the Trump-Xi meeting will all provide important signposts. But the fundamental backdrop—structural AI investment, Fed support, strong corporate fundamentals—still support a constructive stance. The path forward likely involves more volatility and sector differentiation than the steady climb we've seen since April, but this bull market still has runway.

Bottom line: Stay invested, emphasize quality and breadth over concentration, keep some flexibility, and let the structural trends work in your favor.

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Capital Ideas

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