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CJ's Weekly Market Memo

The Market is Becoming "Bomb Proof"

Let me start with an observation that's becoming harder to ignore: this market is developing real resilience. When I talk about becoming "bomb proof," I'm referring to the market's ability to shrug off what we call "tape bombs", those unexpected news announcements, particularly from authoritative sources like President Trump, that contradict widely held opinions about market direction. These bombshells can be particularly destructive in overheated markets or sectors with questionable fundamentals (quantum computing, I'm looking at you).

Case in point: Remember October 10th? A single Truth Social post from President Trump reignited China trade war concerns and sent the S&P 500 tumbling 2.7% in one day. The bears were out in force, predicting the end of the rally. Yet here we are, just two weeks later, hitting fresh all-time highs across the board. That's the definition of a resilient market—one that can digest significant negative news and emerge stronger.

Market Technicals: The Bulls Are in Command

Friday's close was one for the record books, and I mean that literally. Every major index pushed to new all-time highs. But here's what really gets me excited: the cumulative advance-decline line made new highs mid-week. When both price and breadth are confirming each other like this, it's a technical signal that almost without fail points to higher stock prices ahead. The market's internal health is excellent.

We're also seeing reduced stress signals under the hood. The spot VIX and 90-day VIX are no longer inverted, which tells us the market has worked through much of its anxiety. After that October 10th selloff, the S&P traded within its intraday range for nine consecutive trading days, consolidating rather than collapsing. When the breakout finally came on Friday, it came with conviction.

Even the speculative excesses we saw in areas like small modular reactor stocks and quantum computing, which surged over 1,000% before pulling back, haven't derailed the broader advance. That's healthy profit-taking, not systemic weakness. This market is digesting gains and moving higher.

The Economic Engine: Running Hot

The economic data continues to impress. Informal polls are now estimating GDP growth around 4.2%, that's well above trend and speaks to genuine economic momentum. But

here's what really matters for stock prices: earnings growth is coming in far beyond even the raised expectations. Through 268 companies reporting Q3 results as of Thursday morning, we're seeing an 80.2% EPS beat rate and a 76.5% revenue beat rate, both in the 96th percentile compared to similar points in previous earnings seasons.

Let me repeat that: these aren't just companies clearing a lowered bar. Earnings estimates have been revised consistently higher throughout the second half of the year, and companies are still exceeding those elevated expectations. Plus, guidance raises are running near the 70th percentile historically while guidance cuts remain subdued.

The economic picture is more nuanced than some narratives suggest. AI investment is having a significant effect on the economy, but it's not the only driver. In Q3, consumer spending contributed 2.3 percentage points to the estimated 3.9% GDP growth. Private sector measures of consumer spending show 4-5% year-over-year growth, which isn't consistent with a weak economy. Regional Fed manufacturing surveys are also showing renewed strength, with the Five Fed composite tracking its strongest month since 2022.

On the inflation front, September's CPI came in cooler than expected, largely due to falling rent prices. Core CPI rose 2.8% annualized, while the "supercore" measure (which excludes volatile categories) was more moderate. The big story in rent disinflation continues, current rent inflation is weaker than nearly every month in 2019, though this series is backward-looking by design. Meanwhile, core goods inflation has accelerated over the past four months as the effects of earlier tariffs work through the system.

Looking Ahead: The Talking Heads Are Wrong (Again)

Here's where I need to address the persistent narrative you're hearing: that the AI boom is ending and we're due for a major correction. The talking heads have been predicting this for months, and they've been consistently wrong.

Here's a critical point they're missing: the earnings strength we're seeing isn't just an AI story. Of the 50 stocks in typical AI baskets, only seven had reported by Thursday: ASML, TSM, VRT, LRCX, TSLA, SAP, and IBM. None of the hyperscalers and relatively few "picks and shovels" AI companies have reported yet. This earnings strength is broad-based and represents a real inflection higher versus expectations.

Speaking of valuations, yes, the market cap-weighted S&P 500 looks expensive at 22.6x forward earnings (99th percentile since 2010). But the equal-weight S&P 500 trades at just 17.8x forward earnings, in the 82nd percentile, elevated but well within historical ranges. The average stock isn't in bubble territory, even if the mega-caps command premium valuations.

And those "Other 20" largest non-AI stocks? They include trillion-dollar Berkshire Hathaway and genuinely cheap names like Bank of America and Wells Fargo trading under 13x forward earnings. An equal-weighted basket of these stocks has actually outperformed the S&P 500 year-to-date, with valuations that haven't expanded this year. There's value if you know where to look.

The Week Ahead: Mega-Cap Earnings Take Center Stage

Next week brings the peak of earnings season in terms of both market cap and number of companies reporting. Microsoft, Alphabet, Meta, Amazon, and Apple all report within a 48-hour span, that's a significant chunk of the market's value delivering results. These reports will be critical in determining whether the mega-caps can maintain their leadership.

The economic calendar remains light due to the government shutdown, which means earnings will continue to drive the narrative. With Halloween approaching, it's worth noting that the "three-headed monster" of interest rates, the dollar, and oil prices, which have caused problems when they move higher, remains relatively subdued. We have seen oil and the dollar pick up recently, which bears watching, but 10-year Treasury yields continue their decline below the 50-day moving average.

My Take on the Path Forward

The comparison between today's AI boom and the 1990s internet boom continues to track remarkably close. We're now 728 trading days since ChatGPT's release, and the Nasdaq is up 111.44%, compared to a 123.6% gain at the same point after Netscape's release. The trajectories are strikingly similar, suggesting we're following a familiar, and ultimately productive, pattern of technological revolution.

For the rest of 2025 and early 2026, I expect continued market strength supported by solid economic growth, strong earnings, and gradually easing financial conditions. Yes, we've gone 186 trading days without a 3% pullback, one of the ten longest such streaks on record. And yes, we've just experienced only the fifth 30%+ rally without a 3% drop since 1952. At some point, we'll see that pullback. I can guarantee it.

But rather than trying to predict the unpredictable, here's my advice: if you have extra cash to deploy, don't chase this market after a huge six-month move. With the 10-day advance-decline line once again overbought, it makes sense to be patient. Look to put money to work on big down days or after we finally get that 3% decline from a high. Those will be your opportunities.

For existing positions, stay the course. The bull market remains intact, breadth is healthy, earnings are strong, and the economy is growing above trend. The tape bombs that worried

us, like that October 10th China trade scare, have lost their power to derail this advance. The market absorbed a nearly 3% hit and came back stronger. That's the definition of a market that's becoming bomb proof.

Keep your eyes on the fundamentals, ignore the doom-and-gloom narratives, and remember that strong markets climb a wall of worry. This one still has room to run.

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Chairman Emeritus

Capital Ideas

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