

September 27, 2025

CJ's Weekly Market Memo

The Economy: Stronger Than We Thought

This economy keeps surprising us to the upside. The Q2 GDP revision to 3.8% from 3.3% wasn't just a statistical adjustment; it's telling us we've been underestimating American economic resilience. We are growing above the Fed's 1.9% potential rate while everyone's been waiting for the other shoe to drop, that's an impressive economy.

And the consumer story gets better when you analyze the details. Personal income up 0.4% in August, real spending climbing 0.4%—that's the kind of steady momentum that builds lasting expansion. And there is also better news about those benchmark revisions which showed households have been saving 5.5% of income versus the 4.6% we thought they were saving. That's nearly a full percentage point cushion we didn't know existed. When consumers have more financial breathing room than expected, that's rocket fuel for sustainable growth.

Now let's talk about the AI revolution that's happening now. Since ChatGPT burst onto the scene in late 2022, earnings estimates for Bespoke's basket of AI companies have been growing at over 21% annually—more than double their pre-ChatGPT pace. This isn't hype; it's businesses fundamentally transforming how they operate and compete.

In addition, housing markets delivered some genuinely exciting news. New home sales jumped 20% in August to 800,000 units. That's the best reading since early 2022. Sure, affordability remains challenging, but when demand is this strong despite higher mortgage rates, it tells you there is robust underlying economic vitality.

Even inflation is cooperating more than headlines suggest. Core PCE held at 2.9% but strip out the volatile components and services inflation moderated to just 1.1% annualized. That gives the Fed room to maneuver without panicking over runaway price pressures.

Technical Market Conditions: Surface Calm, Underlying Shifts

The market's been putting on a pretty good poker face lately, but there are some interesting developments brewing beneath the surface. The S&P 500 remaining near record levels while the advance-decline line hits oversold territory! That's classic late-cycle behavior, but not necessarily bearish—just selective.

What's fascinating is how the most speculative stocks are finally taking a breather. Those quantum computing stocks that went parabolic—up over 3,000%—are down 4% from Tuesday's peak. Small modular reactor plays pulled back 12% this week after their

moonshot run. Even crypto shows some fatigue. These aren't alarm bells; they're healthy signs that the froth is coming out of the most speculative areas.

And the AI trade is getting more sophisticated also. Bespoke's infrastructure basket spent two weeks trading at least two standard deviations above its moving average—that's exhaustion territory after 90th percentile monthly gains. But when fundamentals are this strong, technical pullbacks often create better entry points rather than signaling the end of the trend.

And sector rotation is telling an optimistic story. Energy's 5% weekly gain on geopolitical tensions shows markets can still respond to real-world developments. Utilities rallying despite bond weakness suggests investors are rotating into quality rather than running for the exits. That's constructive behavior.

Looking Ahead: Positioned for Opportunity

The setup heading into year-end and 2026 looks quite compelling once you step back from the daily noise. Economic growth is above trend, corporate earnings are accelerating in key sectors, and technical consolidation is creating better valuations—that's a solid foundation.

As for interest rates, consider the Fed's current situation. With GDP growing this much and inflation behaving, they don't need to panic cut rates, but they also don't need to slam on the brakes. That just right "Goldilocks" scenario is very bullish for risk assets, especially quality companies with real earnings growth.

The AI infrastructure build-out isn't going away either. OpenAI's \$500 billion datacenter plan, NVIDIA's strategic investments, even Alibaba ramping up spending—this is becoming the defining capital allocation theme of our time. Sure, some companies are getting ahead of themselves valuation-wise, but the underlying trend has years to run.

Here's what is exciting about 2026, we're moving from AI experimentation to AI implementation. Companies that figure out how to boost productivity and generate profits with these tools are going to separate themselves from the pack. That's where the real investment opportunities lie.

And the geopolitical landscape, while complex, is creating interesting opportunities. Those targeted tariffs on pharmaceuticals and heavy trucks? They're pretty surgical, suggesting a more nuanced trade policy approach. Companies with flexible supply chains and domestic production capacity should do well.

My base case remains constructive. We might see some choppiness as valuations digest recent gains, but the fundamental drivers—technological transformation, economic

resilience, and policy pragmatism—argue for continued wealth creation. The key is staying selective, focusing on quality, and not getting alarmed by short-term volatility.

The market's always climbing a wall of worry, and right now that wall includes everything from AI bubble fears to geopolitical tensions. But when you've got genuine economic growth, revolutionary technology adoption, and companies making money from it all—that's usually a pretty good recipe for long-term gains.

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