

## **CJ's Weekly Memo**

**September 9, 2025**

### **Market Commentary**

The tapestry of last week's economic revelations speaks to an economy threading the needle between expansion and restraint. August's modest 22,000 payroll addition, falling short of the 75,000 consensus, coupled with unemployment's tick higher to 4.3%, suggests labor markets are beginning to reflect the cumulative weight of policy tightening. Yet beneath this surface softness lies a more nuanced narrative. The manufacturing PMI's surge to 53.0 marks the strongest improvement in operating conditions since May 2022, revealing an industrial base finding its footing despite broader headwinds.

This dichotomy captures the essence of our current moment: an economy in transition, where tariff-induced cost pressures create inflationary crosscurrents even as employment dynamics soften. The Federal Reserve finds itself navigating between competing forces, the Scylla of persistent price pressures and the Charybdis of labor market deterioration.

Market sentiment reflects this economic ambivalence with remarkable precision. The rotation from this year's winners into previously beleaguered sectors continues to unfold with methodical persistence. Our analysis reveals that stocks down 50% or more through August 11th have subsequently rallied an average of 17%, compared to just 2.1% for the broader S&P 500. This isn't mere mean reversion, it represents a market seeking value beyond the concentrated leadership that has dominated recent performance, a healthy broadening that suggests underlying strength rather than speculative excess.

From a technical perspective, major indices maintain their constructive architecture above critical moving averages. The S&P 500's relationship with its 50-day moving average remains supportive, while breadth measures show neither the euphoria of market tops nor the capitulation of meaningful bottoms. The cumulative advance-decline line's confirmation of new price highs speaks to participation that extends beyond narrow leadership, a characteristic often absent in unsustainable rallies.

Perhaps most compelling is the NASDAQ's trajectory since ChatGPT's November 30, 2022 introduction, which bears striking resemblance to the market's ascent following Netscape's December 19, 1994 debut. Both represent paradigm-shifting technologies that unleashed multi-year secular bull markets in their respective eras. The correlation between these periods is remarkable; the NASDAQ gained 97% in the 693 days following ChatGPT's release compared to 124% in the equivalent period after Netscape's launch.

This parallel suggests we may be witnessing the early chapters of a technological transformation comparable to the internet revolution. If historical precedent serves as a guide, we potentially have years of runway remaining in technology leadership, despite current valuation concerns. Transformative technologies create their own investment mathematics, often rendering conventional metrics inadequate during their ascendant phases.

Small-cap equities deserve particular scrutiny at this juncture. The Russell 2000's recent breakout above resistance levels and its relative strength versus large-caps signals renewed appetite for domestic growth stories. However, our technical analysis suggests this outperformance may be approaching a temporary inflection point. While small-cap valuations appear attractive relative to sales metrics, trading nearly two turns below large-caps—these companies typically bear greater sensitivity to credit conditions and economic deceleration.

The "biotech and builders" sectors continue to demonstrate the market's anticipation of declining interest rates. These rate-sensitive sectors have broken their downtrends and established steady upward trajectories, reflecting investor conviction that both short and long-term rates will continue their descent.

Looking toward year-end, September's historical weakness argues for tactical defensiveness, yet the underlying technological transformation continues to drive structural market evolution. The interplay between artificial intelligence development and traditional sector rotation creates a complex investment landscape requiring both technological literacy and classical valuation discipline.

For the remainder of 2025, I anticipate selective technology exposure to outperform, particularly in artificial intelligence infrastructure and applications, while maintaining prudent diversification across market capitalizations. The key lies in distinguishing between genuine innovation and speculative excess—a skill that becomes paramount during transformative periods.

Regarding 2026, I envision a bifurcated market environment where technological innovation sustains expansion in growth sectors while traditional cyclical areas face margin compression from persistent policy uncertainties. The successful navigation of this landscape will require balancing momentum with valuation, recognizing that transformative technologies often defy conventional metrics during their emergence.

The parallels to previous technological revolutions remind us that markets characteristically climb walls of worry during genuine innovation cycles. Today's environment, while complex, bears the hallmarks of sustainable secular growth rather than

speculative euphoria. The challenge lies not in identifying the trend, but in maintaining conviction through inevitable periods of volatility and doubt.

As we've learned from decades of market observation, the most profound investment opportunities often emerge when technological possibility intersects with skeptical sentiment. The current alignment suggests we remain in the early innings of a substantial secular shift, one that may well define the investment landscape for years to come.

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