January 27, 2026

CJ's Weekly Market Memo

The Economy: Accelerating Growth

The economic picture entering 2026 is stronger than many anticipated. Third-quarter GDP growth came in at a robust 4.4%, the fastest pace in two years—and preliminary fourth-quarter estimates show growth accelerating further to 5.4%. This isn't just resilience; it's momentum.

This acceleration in economic activity sets the stage for significantly stronger corporate earnings. When the economy grows at this pace, revenues rise, operating leverage kicks in, and profit margins typically expand. The earnings reports we're seeing this season should reflect this favorable backdrop, and forward guidance should improve accordingly.

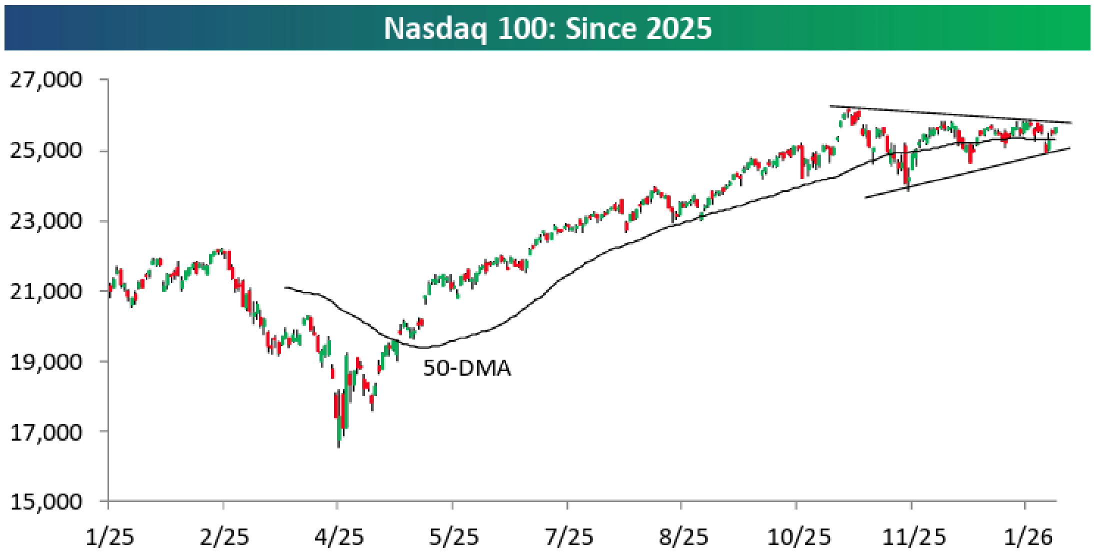
Employment conditions remain healthy, with the unemployment rate holding steady in the low-to-mid 4% range—essentially full employment by historical standards. The labor market continues to show resilience without the kind of overheating that would concern the Federal Reserve or reignite serious inflation pressures.

That said, we're still navigating some crosscurrents. While inflation expectations have moderated—with the Michigan Survey's one-year inflation outlook declining to 4.0% from earlier peaks—we're not yet at levels that would give the Fed complete comfort. The upcoming FOMC meeting next week is widely expected to keep rates steady, with futures markets pricing in a 98% probability of no change through April.

The Fed's cautious stance makes sense given the policy uncertainty surrounding the new administration's trade initiatives and tariff proposals. However, with GDP accelerating and the labor market solid, the economic foundation remains sound. For investors, this translates to an environment where corporate earnings power should drive stock prices higher, even as we work through near-term policy uncertainty.

Current Market Technical Conditions: Correction in Time, Not Price

Here's where things get interesting—and ultimately constructive. The major indices have essentially moved sideways since early November, with the S&P 500 hovering around its 50-day moving average. Surface-level observers might see stagnation; I see something far more positive: a correction in time rather than price.

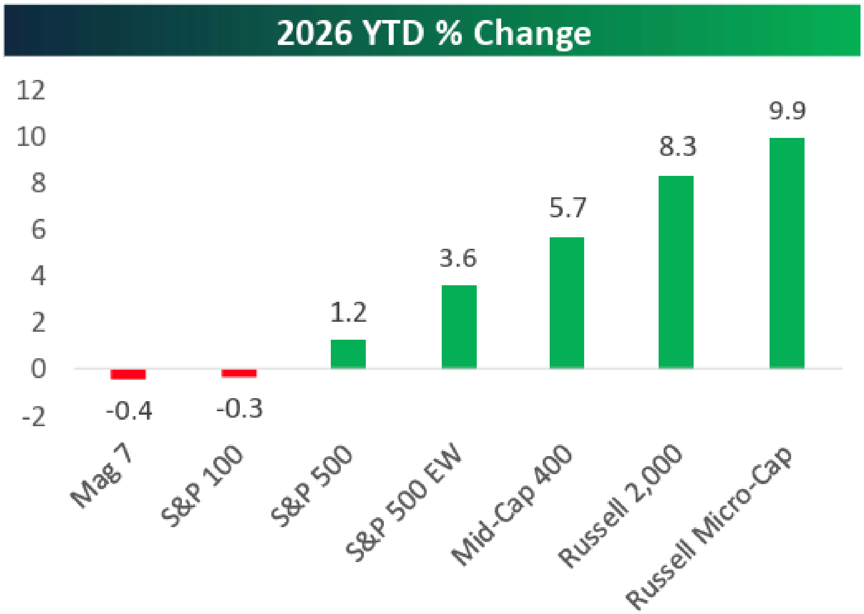


Source: Bespoke Investment Research

Consider what's happened beneath the surface. Corporate earnings continue rising at a healthy clip—exactly what you'd expect given the strong GDP numbers—with the current earnings season showing 76% of companies beating EPS estimates and 70% exceeding sales expectations. Meanwhile, stock prices have remained relatively flat. The mathematical result? Price-to-earnings ratios are compressing as earnings growth catches up to valuations.

This is precisely the healthy digestive process markets need after last year's exceptional performance, which was driven by both earnings growth and expanding multiples. Now we're seeing earnings do the heavy lifting while valuations normalize—a much more sustainable foundation for the next leg higher.

The technical picture also reveals fascinating internal dynamics. While the mega-cap technology stocks have largely traded sideways, smaller-cap stocks have surged. Russell 2000 is up 8.3% year-to-date, with the Russell Microcap gaining 9.9%. Equal-weight indices are outperforming their market-cap-weighted counterparts, suggesting breadth is improving even as headline indices consolidate.



Source: Bespoke Investment Research

Approximately 47% of S&P 500 stocks are currently overbought on a technical basis, while only 18% are oversold. This indicates underlying strength despite the index's sideways movement, a positive divergence that often precedes renewed advances.

Outlook for 2026: Earnings Power Meets Opportunity

The immediate catalyst that could break the market out of its current consolidation arrives this week. Four Magnificent Seven companies—Tesla and Microsoft on Wednesday, followed by Apple and Amazon on Thursday—report earnings. Given their collective weight in the major indices and the strong economic backdrop, these results could provide the spark needed to resolve the current technical standoff.

For the market to resume its advance convincingly, we'll need to see new highs in the major indices. That may sound obvious, but it's an important technical milestone that would confirm the correction-in-time thesis and signal that buyers are ready to reassert control at higher levels.

Looking at the full year ahead, I'm constructive for several compelling reasons:

First, the GDP acceleration to 5.4% in the fourth quarter should translate directly into stronger corporate earnings. This isn't speculation, it's mathematical. When economic activity accelerates at this pace, corporate profits follow. The earnings momentum we're seeing now should continue building as companies report results that reflect this robust economic environment.

Second, market breadth is improving significantly. The rotation into small-caps, cyclicals, and equal-weight strategies suggests investors are finding value beyond the handful of mega-cap names that dominated recent years. This broader participation creates a more durable foundation for sustained gains.

Third, while uncertainty around trade policy persists, markets have historically proven remarkably adept at climbing walls of worry. The key is that the worries don't metastasize into actual deterioration in fundamentals—and the accelerating GDP growth and solid employment data tell us the economy is strengthening, not weakening.

Presidential cycle patterns also offer encouragement. While year two of the presidency has historically shown more volatility than year one, the average return since 1950 remains positive at 8%. Markets tend to look past political noise toward the underlying economic trends—and right now, those trends are quite favorable.

The correction we've experienced—sideways price action while earnings rise—represents exactly the kind of healthy consolidation that extends bull markets rather than ending them. We're building a platform for the next advance, not rolling over into something more troubling.

Final Thoughts

The combination of accelerating GDP growth, solid employment, rising corporate earnings, and normalizing valuations creates an attractive setup for equity investors. The market isn't broken—it's digesting last year's gains while corporate earnings catch up to stock prices.

This week's mega-cap earnings reports could provide the catalyst for resolution. Whether that happens immediately or takes a bit longer, the fundamental setup strongly favors higher prices as 2026 unfolds. We're watching, analyzing, and staying invested in quality companies whose earnings power—backed by robust economic growth—will ultimately drive their stock prices higher.

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