

February 28, 2026

## CJ's Weekly Market Memo

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### **The Economy: Stronger Than the Headlines Suggest**

Despite the daily noise about tariffs, AI disruption, and geopolitical uncertainty, the American economy continues to produce results that defy the pessimists. I've been watching this economy for over fifty years, and the underlying data right now tells a story of resilience that deserves more attention than it's getting.

Start with the consumer. Home Depot reported comparable sales up 0.4% year-over-year — modest, yes, but against expectations for a decline. More importantly, CEO Ted Decker identified a cumulative \$22 billion underspend in home improvement, with homeowners stuck in what he called a repair rather than replacement cycle. That pent-up demand isn't gone — it's waiting. Meanwhile Domino's Pizza grew profitability across all income cohorts, directly contradicting the popular narrative about a tapped-out lower-income consumer. Housing permits held at 1.41 million in 2025, comfortably above any year in the 2010s. And mortgage rates dipped below 6% this week for the first time since 2022 — a development that, if sustained, could unlock the housing turnover that's been frozen at 30-to-40-year lows.

The labor market continues to hold its ground. ADP private payrolls logged their fourth straight weekly increase, and jobless claims held steady. The February Chicago PMI printed at 57.7, the highest in nearly four years — a number that would have made the front page six months ago. The global industrial cycle is quietly accelerating, with Europe posting gains ten out of eleven weeks since mid-December and Japan's TOPIX hitting all-time highs.

Corporate earnings have been the unsung story of this cycle. Bespoke's earnings summary for the season shows the EPS beat rate at 68.7%, placing it in the top quintile of all seasons historically, with the revenue beat rate at 72.8% — in the top decile. FactSet's latest Earnings Insight is even more striking: the blended Q4 earnings growth rate for the S&P 500 stands at 14.2%, well above the 8.3% expected at the start of the quarter. Companies are delivering nearly 7% above consensus on earnings. That's happening even as analyst expectations have been rising throughout the reporting period — a sign that this earnings expansion has genuine legs.

On interest rates, the picture is nuanced but constructive. The 10-year Treasury yield fell back below 4% on Friday — its lowest since October — while the 2-year dropped below

3.40%, its lowest since August 2022. As Bespoke observed, the market appears to believe we are close to neutral rates, with the implied forward short-term rate suggesting neutral around 4%. The economy isn't behaving like policy is aggressively restrictive. The late-week rally in Treasuries was amplified by the escalating Iran situation. As US-Iran tensions moved from diplomatic posturing toward military confrontation, both domestic and foreign investors sought the perceived safety of US dollar-denominated assets — a classic flight-to-quality bid. WTI crude settled up 2.8% on Friday with Brent already up roughly 20% year-to-date, and that geopolitical risk premium has room to grow if hostilities continue into next week. Gold, up 22% this year, touched \$5,600 for the first time. The rapid compression in yields was as much about the world wanting the safety of US dollars as it was about domestic rate expectations.

### **The Market: A Changing of the Guard**

Six weeks ago I laid out the fork in the road — rotation or correction. The evidence now increasingly favors rotation, though the jury is not fully in.

The numbers are stark. Year-to-date, the sectors that carried this market for two years are its worst performers: Technology down 3.6%, Financials down more than 6%, Consumer Discretionary off over 2%. Now look at who's stepping up: Energy up more than 25%, Materials up nearly 18%, Industrials up over 14%, Staples up 16%, Utilities up close to 12%. This is not a defensive rotation in the traditional sense. When Industrials are up 14% alongside Staples and Utilities, that's not fear — it's capital finding new homes.

The equal-weight S&P 500 has outperformed the cap-weighted index by a wide margin this year, running at a 94th percentile reading over 55 trading days. History cautions that this kind of violent broadening tends to exhaust itself before it becomes sustainably bullish. The easy money in the catch-up names may be closer to the middle innings than the first.

The mega-cap generals are in retreat. NVIDIA — the poster child for this AI cycle — has been dead money since last August. After beating estimates again this quarter, the stock fell on its report for the seventh consecutive quarter. Bespoke's "AI Doom" basket — 55 stocks across software, consulting, credit cards, brokerage, real estate, logistics, and data — dropped 19% from mid-January to late February, erasing nearly \$962 billion in market cap. The destruction is concentrated in specific names. Salesforce (CRM) is down 52% from its December 2024 highs. Vornado Realty (VNO) and BXP, the large office REITs, have been hammered as AI threatens to reshape white-collar work patterns. Consulting firms like Accenture (ACN) and Cognizant (CTSH) are down sharply as the market prices in AI displacement of the billable-hour model. Data providers like Gartner (IT), TransUnion (TRU), and FactSet (FDS) have all been caught in the downdraft as investors question whether AI will disintermediate the research and analytics business.

But here's the critical distinction: the picks-and-shovels AI trade is alive and well. Power producers, turbine manufacturers, and data center infrastructure contractors continue making new highs. Dell jumped over 20% on Friday after guiding for 5x growth in AI server revenue. The market is separating the promise of AI from the physical infrastructure required to deliver it.

The technical picture demands attention. At the October 26 high, the S&P 500 sat a comfortable 13% above its 200-day moving average. As of February 27, that cushion has compressed to just 4.9%. That's a dramatic loss of altitude in four months without a decisive break. The 200-day is the line in the sand. As long as the index holds that level on a closing basis, the rotation thesis gets the benefit of the doubt. A sustained break below it on rising volume would tell us the breadth deterioration was a warning, not a transition.

Meanwhile, capital is leaving the most expensive equity market in the world. The S&P 500 is essentially flat year-to-date while the rest of the world is up 10% or more. Latin America has surged over 20%. Japan's TOPIX has outperformed the S&P by 28 percentage points over the past year. Korea's KOSPI has outperformed by more than 130% since December 2024. For investors fully concentrated in US large-cap growth, this is the rotation that hurts the most — it doesn't show up in their portfolio.

### **Looking Ahead: 2026 and the Weight of the Evidence**

I remain cautiously in the rotation camp. The breadth of new sector leadership, the geographic diversification of gains, the strength of corporate earnings, and the relative health of the global economy all support the constructive view. Private sector debt loads are falling relative to GDP — households, businesses, and the financial sector all carry less leverage than in recent years. This is not 2007.

But there are things to watch closely. High yield credit spreads at 294 basis points are in the bottom 9% of all readings since 1997. That's tight enough to warrant caution even as the average forward total return from these levels has been a respectable 4.4%. The geopolitical environment just became significantly more complex with this weekend's military strikes on Iran. Oil could spike \$10-\$20 per barrel if hostilities escalate, and the Strait of Hormuz — through which 20% of global oil supply flows — is the variable that could change everything. The Iran situation also introduces an inflationary wildcard at the exact moment the Fed appeared to be approaching neutral.

For 2026, I expect a market that continues to broaden rather than break. The earnings engine is running. The economy is not fragile. The rotation from overpriced mega-cap growth toward undervalued sectors and international markets has room to continue.

Factor stabilization — when low-volatility and quality factors stop declining — will be the signal that this broadening is becoming sustainable.

Three things would change my mind: a sustained close below the 200-day moving average on rising volume, a meaningful widening in credit spreads, or an oil shock severe enough to break consumer confidence. Until then, I'll take the evidence the market is giving us — carefully, but constructively.

This market has earned the right to be watched closely, not given the benefit of the doubt on faith alone.

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