CJ's Weekly Market Memo

Bullish Dispersion

August 22, 2026

The Economy

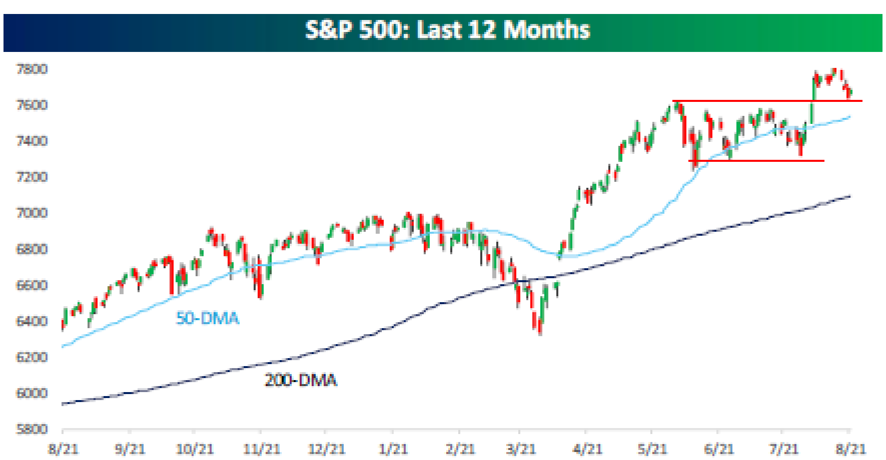
The economy is running hotter than most people realize. The Philadelphia Fed survey, which has been taken every month since 1968, just delivered one of the seven best readings in its history, and the six month outlook was the strongest since 1983. Capital spending plans came in near record territory. You do not get numbers like that unless businesses believe the orders are coming, and this is the manufacturing sector we spent the better part of a decade writing off. Here is the wrinkle, and it is a good one to keep in your back pocket. Good news for the economy and good news for stock prices are not the same thing. When that survey has run this hot in the past, the stock market has generally struggled over the following year. Peak confidence in the factories tends to arrive alongside peak pricing power, and multiples do not expand into that.

The one clearly weak spot in an otherwise strong economy is housing. Sales and starts both fell again in July, and the trouble there is supply rather than demand. Existing owners are welded to mortgages they will never see again, so they are not selling, and there is nothing for buyers to buy.

On rates, the Treasury announced it would double its buybacks at the long end and Secretary Bessent went on television to talk yields lower. He got about eight basis points for his trouble. Verbal intervention, or jawboning, is not policy. What matters more is that long run inflation expectations have not budged. The five year forward five year breakeven, which is what the bond market expects inflation to average over the five years beginning five years from now, sits around 2.25%, right where it has been since 2021. That number is not a forecast of what we are paying at the register today, and it is well below current readings. It is the market saying it expects inflation to come back to target eventually. Long yields, then, are rising on real yields, not on fear of inflation. That is a market voting for a healthier economy and a credible Fed, which is a very different thing from a market losing faith.

Market Technical and Fundamental Conditions

This is where the week actually gets interesting. The S&P closed Friday at 7,674 with the VIX at 15, and on the surface nothing happened. Underneath, plenty happened. Earlier this month the cap weighted S&P made a new all time high, then backed off and found support right at the top of its old trading range. The equal weighted index made a new high of its own and faded quickly. The Nasdaq never confirmed either move and still has not made a new high, held back by technology, which has become everybody's source of funds. Money is being raised in tech and spent in health care, energy, and industrials.



That is rotation, and rotation is the single most important signal on the board right now. It is what a healthy aging bull market looks like from the inside. Semiconductors and memory sold off hard, bounced, then stalled dead at their declining 50-day averages. While that was happening, health care traded to record highs and biotech broke out of a base it had been building for years. Leadership changed hands without the index going anywhere, which is precisely the point. That is not distribution, it is a market finding its next set of legs. A bull market that can hand the baton from semiconductors to health care without losing a step is a bull market with something left.

Industrials are the piece I would not overlook, and Barron's led with them this week. Strip the AI story down to what the money is actually buying and you find transformers, switchgear, turbines, cooling systems, and grid. The headlines say technology but the invoices read heavy industry, and the buildout is measured in trillions over the next five years. That spending is showing up in the Philadelphia survey I mentioned above, which is a nice example of the economy and the market telling the same story from two directions.

My two primary signals both continue to confirm. The cumulative advance decline line made new highs again last week, and it has rarely let a major top happen without warning first. The 200-day moving average is rising smoothly, which after fifty six years remains the most reliable trend filter I know. As long as those two hold, I am not much interested in the bearish case, and neither should you be.

Which brings me to the title. The dispersion index measures how independently individual stocks are expected to trade, and it hit one of the highest readings on record last month. In plain English, the market expected every stock to go its own way at the same time. It has since collapsed, one of the sharpest four week declines in its history, and the handful of prior instances all resolved higher, and materially so. Falling dispersion from a record high is the market's way of saying participation is about to broaden. Dispersion peaking and rolling over is bullish, hence the title.

Add it up and what we have is a continuing correction in time rather than a correction in price. The index goes sideways, leadership rotates, and valuations get worked off by earnings rather than by declines. It is a slower and far more pleasant way to reset a market than the alternative, and it is the kind of tape that rewards patience and punishes the impulse to do something.

Next week the talking heads will tell you none of this matters. CNBC has two full days of airtime to sell on Jackson Hole and Nvidia earnings, and they will sell every minute of it. Neither event has much history of changing anything. Jackson Hole weeks are statistically about as eventful as any other week in August, and Nvidia has beaten and raised so consistently that doing it again is simply the price of admission. Both will generate a great deal of commentary and very little information. Watch the rotation instead.

Prognostication for the Rest of 2026 and Early 2027

Mark Twain ranked September high on his list of peculiarly dangerous months in which to speculate in stocks, right behind October, and the arithmetic backs him up. So let us set expectations honestly. Going back to 1945, the stretch from here to year end has typically included a drawdown of around 6% somewhere along the way. That is the toll for the trip. But it has been more common for the market to sail through this window than to break in it, and the median finish has been a gain.

The pattern work points in the same direction. Since 1928 the years whose trading resembles 2026 most closely consolidated in the late summer and then finished strong, gaining ground about four times in five. Those years were also up more than twice as much as we are by this point on the calendar. We have been modest so far this year, and modest leaves room.

So, I expect a choppy September, a firmer fourth quarter, and a market that enters 2027 considerably broader than it entered 2026. Earnings, not sentiment, will do the work, and the equal weighted index should keep closing the gap on the cap weighted one. The risk, as always, is leverage. It is always leverage. Every serious break I have watched came from a new instrument combined with borrowed money, and the current candidate is sitting in plain sight over in the crypto complex, which just had its best week in two years. That is not a forecast, just a place to keep one eye while the rest of the market gets healthier.

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