

December 28, 2025

CJ's Weekly Market Memo

The U.S. economy continues to demonstrate remarkable resilience in the face of persistent skepticism. Third-quarter GDP growth came in at a robust 4.4%, well above consensus expectations of 3.3%, driven primarily by consumer spending and a pickup in exports. This marks the latest in a series of surprises that have confounded forecasters throughout 2025—a year in which market sentiment whipsawed between extreme bullishness and bearishness with what may be record frequency. Yet through it all, the economy kept expanding and corporate earnings kept growing.

This disconnect between sentiment and reality has been particularly evident in consumer behavior. While confidence surveys show household moods remain decidedly glum, actual spending and income growth tell a different story. Retail sales have held up well, and real personal income continues to advance at a healthy pace. Productivity gains are accelerating—with GDP per private hour worked rising more than 4% annualized in Q3—which helps explain how the economy can sustain growth without triggering runaway inflation. Indeed, core PCE inflation, while still above the Federal Reserve's 2% target, has been moderating, and real commodity prices adjusted for inflation remain historically modest despite nominal increases.

The Fed has begun lowering interest rates in response to these improving inflation dynamics, providing additional support for economic activity. Manufacturing surveys from regional Federal Reserve banks show demand outlooks improving rapidly after the confidence shock from tariff concerns earlier in the year, and capital expenditure plans are accelerating. Even areas of weakness, such as building construction, appear to be stabilizing after six consecutive quarters of negative contributions to GDP growth.

From a technical perspective, the market's internals remain constructive despite the sentiment swings. The S&P 500 continues to trade well above its 200-day moving average—one of my preferred long-term trend indicators—with the index currently about 10% above this key threshold. This represents a strong uptrend that has persisted throughout the year's volatility. Equally encouraging is the behavior of the cumulative advance-decline line, which tracks the number of advancing versus declining stocks. This breadth indicator has maintained its upward trajectory, signaling that the market's gains have been broadly distributed rather than concentrated in just a handful of names. When both price trends and market breadth are pointing in the same direction, it typically indicates a healthy bull market with room to run.

The Bespoke AI Basket, which tracks 50 stocks exposed to artificial intelligence adoption, has gained 36.6% year-to-date despite considerable skepticism about AI spending. Interestingly, many of the same advisors who characterize AI as a speculative bubble have been recommending increased exposure to precious metals. Yet since the current bull market began in October 2022, gold has risen 172%, platinum 184%, and silver has more than tripled with a 300% gain—all substantially outperforming the AI-focused stocks they criticize. This presents an amusing contradiction: either these advisors missed the boat on AI's genuine transformative potential, or their precious metals recommendations simply reflect momentum-chasing rather than fundamental analysis.

To be clear, there's nothing inherently problematic about gold's strong performance—it can serve a legitimate portfolio purpose. But it's worth noting that AI-related investment, despite the breathless coverage, still accounts for less than 5% of GDP. The other 95% of the economy is doing just fine, thank you. Software and IT equipment investment have indeed reached record shares of output, but the recent GDP report definitively showed that strength has broadened well beyond AI-adjacent sectors.

Looking ahead to early 2026, several factors support a constructive outlook. The alignment of technical conditions (strong price trends and breadth), improving fundamental indicators (moderating inflation, Fed easing, productivity gains), and continued earnings growth creates a favorable environment for equities. Consumer spending should remain resilient supported by real income growth, and the recent acceleration in manufacturing activity suggests business investment will contribute more meaningfully to growth.

Risks naturally exist—they always do. Geopolitical tensions, policy uncertainties, and the possibility of economic surprises (positive or negative) could alter the trajectory. But the weight of evidence suggests the economy has escaped the recession that many predicted and that corporate fundamentals remain solid. The market's 2025 journey through waves of optimism and pessimism ultimately resulted in solid gains because the underlying economic reality supported those advances.

For long-term investors, the lesson is familiar but bears repeating: short-term sentiment fluctuations often create more noise than signal. The 200-day moving average and cumulative advance-decline line don't capture headlines, but they've provided reliable guideposts through this year's emotional swings. As we move into 2026, maintaining focus on these longer-term trend indicators while monitoring the fundamental economic backdrop should serve investors well, regardless of whatever sentiment extreme happens to grip the market on any given day.

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Capital Ideas

P.S. I am happy to report that I have been working in conjunction with my associate Andrew on a book about how to view AI from a very long-term perspective and how to invest in it as it and industries around it develop. We hope to have it in publication by early next spring.

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