CJ's Weekly Market Memo

June 27, 2026

Correction In Time

The Economy

The economy heading into the second half is best described as resilient but uneven. The Commerce Department's third estimate put first quarter real GDP at 2.1 percent, revised up from 1.6 percent and well ahead of the 0.5 percent pace that closed 2025. Manufacturing has quietly come back to life: the June S&P Global US Manufacturing PMI rose to 55.7, with production growing at its fastest clip since 2021 on the back of the strongest new orders since early 2022. Some of that is precautionary inventory building ahead of supply and price disruptions tied to the recent conflict in the Middle East, but a 55 handle on the PMI is a number bulls will happily take.

The labor market remains the anchor. ADP's payroll trend is still running above 100,000 jobs a month, jobless claims sit near historic lows around 215,000, and even technology, where the layoff headlines live, is seeing openings and hires outpace the losses. Housing is the soft patch: new home sales fell 7.3 percent in May to a 580,000 annual rate, and inventory has crept up to a 10.3 month supply. Higher mortgage rates, not weak demand, are doing the damage there.

On inflation I will be candid: the picture is mixed and worth watching. Core PCE is running above 3 percent on a one-, three-, six-, and twelve-month basis, and producer prices excluding food, energy, and trade reaccelerated in May. The encouraging part is the source. Much of the recent pressure has come through the PPI to PCE pipeline, with higher producer costs feeding consumer prices on a lag. With crude oil now back down to pre-war levels (gasoline still has some catching down to do), the commodity push that fed that pipeline is reversing, which should help contain the next round of readings. The new Fed under Kevin Warsh held the funds rate at 3.50 to 3.75 percent on June 17 and made plain it will lean against inflation rather than rush to ease. Underneath it all sits productivity, now running at its strongest multi-year pace since the 1960s, the quiet disinflationary force that the bears keep underestimating.

Current Market Technical and Fundamental Conditions

The Step back far enough and the technical picture is constructive. The 200 day moving average of the S&P 500 is rising smoothly in a well-defined upward channel, and the broadening we have wanted to see is finally arriving. Last week the S&P 500 Equal Weight index and the small-cap Russell 2000 each pushed higher while the cap-weighted S&P 500 slipped. That is rotation, money leaving the mega-caps and finding the other 490-plus names, and over time it is a healthy thing.

Up close, there is reason for near-term caution. Over the last few weeks, the cap-weighted S&P 500 and the Nasdaq completed a head and shoulders top, with the most recent rally stalling at a lower high and then breaking the 50 day line, which can mean a fall is in store. The Magnificent 7 (some wags are now calling it the Lag 7) is down sharply on the month, and the index will struggle to make durable new highs while its largest members sit it out. As I flagged last week, the semiconductors are stretched to an extreme, up roughly 75 percent in a single quarter, a move that rivals the run into the 2000 peak. Semis now represent a meaningful share of total world market value, so when they wobble, everyone feels it. Add a midterm election year, historically the weakest leg of the four-year cycle, and a longer-run political drift toward socialism that markets will never reward, and the case for a pause writes itself.

Two things lean the other way, and they matter. First, the fundamentals are strong: S&P 500 earnings estimates are being revised higher at a near-record pace, pre-tax corporate margins sit at record levels, interest rates are tame, and bonds are steady. Second, and this is where the contrarian in me perks up, investor sentiment is downright skeptical. CNN's Fear and Greed Index closed the week in Extreme Fear, the AAII survey reads neutral, and retail money is barely above neutral. The crowd is decidedly not euphoric. That is precisely the backdrop from which markets tend to climb a wall of worry.

A Prognostication for 2026

I titled this memo Correction In Time for a reason. The most likely path from here is not a deep price collapse but a correction through time, a stretch of choppy, sideways, frustrating action that lets the extended leaders cool off while earnings and the broader market catch up to them. The next two months are seasonally strong, the old Wall Street summer rally, and July in particular has been one of the most reliable months on the calendar. I would not be surprised to see that strength assert itself before the traditionally rough patch of late Q3 and September arrives.

So my posture is the one I have held all year: cautious over the next three to four months, optimistic well beyond that. The AI buildout is a genuine multi-decade capital cycle, the closest modern parallel being electrification from 1915 to 1940, and by any honest reckoning we are still early. My father used to say a bull market is when greed overcomes fear. Right now fear is plainly in charge, which is usually when the patient investor gets paid. Keep a little powder dry, let the rotation do its work, and treat weakness as a friend rather than a foe.

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