CJ's Weekly Market Memo

July 25, 2026

Four weeks ago this market could do no wrong. Today, if you believe the headlines, it can do no right. The truth, as usual, sits somewhere in between, and it is quite a bit friendlier than the mood suggests.

The Economy

Start with the part nobody wants to talk about: the economy is in excellent shape. Initial jobless claims fell to 187,000 last week, the lowest weekly print since September 1969, back when the labor force was less than half its current size. Claims have averaged 212,000 all year, also the best run since 1969. Companies are holding onto their people, and yet labor costs are not spiraling. That is a rare and valuable combination.

The inflation picture keeps improving too. Headline CPI fell 0.4% in June, the largest monthly decline since April 2020, and the ISM Prices Paid index just posted its biggest one month drop since July 2022, meaning pipeline pressures are easing before they ever reach the register. Add the July Philadelphia Fed survey surging to its highest level since November 2021, and you have growth accelerating while costs decelerate. Corporate America confirms it: the six largest banks earned a record $102 billion in the first half, and consumer debt as a share of disposable income sits at its lowest level since 2000.

The complication is coming from abroad, not from home. The flare-up with Iran and the trouble around the Strait of Hormuz pushed oil from under $70 in June back to roughly $89, drove the 10-year Treasury to about 4.7%, an 18-month high, and lifted the dollar toward 52-week highs. Bespoke calls oil, rates, and the dollar the three-headed monster, and when all three heads rise together, stocks usually fight a headwind. That is exactly what we have been fighting since late June, and it is why futures markets briefly put roughly one-in-three odds on a surprise hike at Wednesday's Fed meeting. We think the Fed stays put. If the newly reported mediated talks with Iran make progress, oil settles down, the monster goes back in its cave, and the domestic data get to speak for themselves.

Source: Bespoke Investment Research

The Markets: Technical and Fundamental Conditions

Now the market itself. In late May every major index ETF was overbought, with the Nasdaq 100 a full 13% above its 50-day average and the S&P 500 stretched more than 10% above its 200-day, roughly double its normal spread. Two months later the picture has flipped: the Nasdaq 100 and S&P 100 enter August oversold, and the S&P's cushion over its 200-day is back to about 5%, right at its long-run average. We have gone from very overbought to very oversold, and that is how excesses get worked off, through time and rotation rather than calamity.

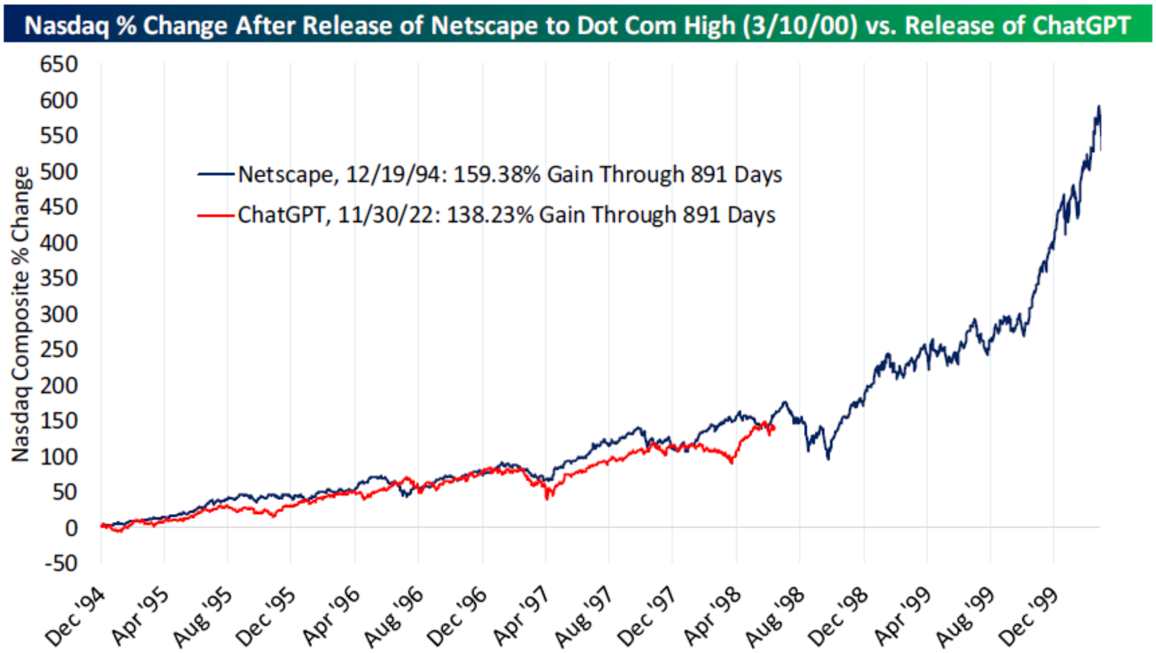
The loudest part of the reset has been the semiconductor crash, and I would encourage you to see it for what it is: the AI trade cooling off, not the AI story ending. Semis were up an average of 110% on the year at the June 22 peak and have given back an average of 23% since, with 22 of the SOX's 30 members down at least 20%. Yet NVIDIA, the most important company in the group, is the only member that is up since that peak. The speculative fringe took the damage while the franchise names held. And the rest of the market barely blinked: about two thirds of S&P 500 stocks remain above their 50 and 200-day averages, the cumulative advance/decline line sits near its highs, and money has rotated into financials, health care, and energy, which has been the top performing sector on 124 of 139 trading days this year.

The fundamentals are stronger than the tape. Through July 23, 88.5% of S&P 500 companies reporting this month beat earnings estimates and fifteen raised guidance against one cut, yet good news is being sold. Intel beat and fell 7.9%. American Express beat and fell 4.3%. Alphabet posted results that should have quieted the AI skeptics and still dropped 7.8% on the week. The skepticism shows up in credit as well, where the cost of insuring the debt of the big AI spenders has been rising: Oracle credit default swaps hit record highs, and even Microsoft's CDS now trades near the investment grade average, remarkable for a balance sheet that pristine. Individual investors have voted the same way, with AAII bullish sentiment collapsing to 29.6%, the low of the year.

That sets up an important week. Meta and Microsoft report Wednesday, hours after the Fed decision, with Apple and Amazon on Thursday. These are the very companies whose spending is being questioned, and strong results with a confident word on the returns from all that AI investment could go a long way toward cooling the bearishness the CDS market is pricing in. Worth noting: Meta has gained at least 4% on each of its last three second-quarter earnings reactions.

The Road Ahead: Late 2026 and Early 2027

Bespoke runs a chart I find useful for perspective. We are 891 trading days into the AI boom that began with ChatGPT's release in November 2022, and the Nasdaq is up 138% since, tracking remarkably close to the 159% gain at the same point after Netscape's 1994 release kicked off the internet era. Line the two calendars up and we sit at the equivalent of August 1998. Students of market history remember what came next: the Russian default and the Long-Term Capital Management crisis knocked stocks back hard, ironically against a backdrop of rising rates and geopolitical stress that rhymes with today's situation, and then the boom ran for another year and a half. History does not necessarily repeat, and I am not promising a 1999. The lesson is narrower: violent mid-cycle corrections are a feature of transformational technology booms, not proof the boom is over.



Source: Bespoke Investment Research

Here is how we see the next eighteen months. Near term, expect chop while oil, rates, and the dollar stay elevated; the market has told us plainly it will not pay up while the three-headed monster is loose. But the pieces for the next leg higher are falling into place. Sentiment is washed out, and bull markets rarely end when barely 30% of individual investors are bullish and household cash sits at 8% of assets, the highest since at least 1990. Earnings are doing their part, with 2027 estimates near $381, about 15% above this year's. History leans friendly: in the six prior non-recession months with a CPI decline the size of June's, stocks were higher three months later every single time, and with real yields in their ninth decile since 2000, even bonds now offer genuinely attractive returns as a starting point.

Our base case: the market spends the balance of the summer finishing this correction, gets its relief from some combination of hyperscaler earnings, a Fed on hold, and progress on Iran, and works back toward the strategists' 7,845 target by year end. Into early 2027 we expect the advance to be broader than the one that got us here. Small caps just had their best first half since 1991, energy has earned its leadership, and record dispersion readings say stock selection will matter more than index hugging. We are using this weakness to rebalance, trimming what got crowded and adding to quality names that were marked down simply for keeping bad company. The economy is strong, costs are under control, and the technology buildout driving this era is real. Corrections like this one are the price of admission, and for long-term investors that price is worth paying.

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