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CJ's Weekly Market Memo

The Economy: Strong Pulse, Steady Beat

The January jobs report landed with authority. Nonfarm payrolls rose 130,000—nearly double the 65,000 consensus—and the unemployment rate ticked down to 4.28%, beating expectations for a second consecutive month. More importantly, average hourly earnings for production and non-supervisory workers jumped over 5% annualized, bouncing back sharply from a weak December. Nominal wages for non-managerial workers are running in the mid-3% range across 3-month, 6-month, and 12-month windows, all comfortably above inflation. When you couple that wage growth with stronger-than-expected weekly hours, aggregate private labor income surged at a 10.9% annualized clip in January—the strongest reading in two years.

Here's what matters about that number: consumer spending is roughly two-thirds of GDP. When workers are earning more and working more hours, they spend more. Period. The prime-age labor force participation rate (ages 25-54) just hit its highest level since 2000, and the employment-to-population ratio for that same group is tied for its best reading since 2001. These are not signs of a labor market rolling over—they're signs of a labor market tightening again, which historically leads to continued strong corporate earnings.

Bespoke Investment Group highlights what they call the “three-headed monster”—the dollar, Treasury yields, and oil—and right now all three are trending lower. A weaker dollar helps multinational earnings, lower yields reduce borrowing costs and support asset values, and declining oil prices keep input costs in check. That's about as clean a tailwind trifecta as you can ask for.

On inflation, January's core CPI came in at 2.5% year-over-year, the lowest in nearly five years. Yes, the one-month reading spiked to 3.6% annualized, but January CPI data is always messy—firms pass through annual pricing adjustments, and the last three Januarys have all produced one-off spikes that quickly faded. Median CPI ran at roughly 2.35% annualized, which is historically normal and broadly consistent with the Fed's 2% target.

Meanwhile, Q4 earnings season continues to deliver. With nearly 1,000 companies reporting, the EPS beat rate sits at 72% and revenue beats are running at 84%—the revenue number being particularly encouraging because it speaks to actual top-line demand, not just financial engineering. The guidance spread remains positive with 11% of companies raising guidance versus 7% lowering. According to FactSet, the blended S&P 500 earnings growth rate is tracking near 13%, well above the 8.3% expected at quarter's end.

Technical Conditions: Correction in Time, Not Price

The S&P 500 continues what I've been calling a "correction in time" rather than a correction in price. Over the past two weeks alone, the index has gone from overbought to oversold to overbought to oversold—something Bespoke notes has never happened this fast in the index's history. In my view, this kind of rapid oscillation is a symptom of capitulation in old leadership and aggressive rotation into new areas, not a sign of impending collapse.

The evidence of rotation is everywhere. The Nasdaq 100 has moved sideways since October. The Mag 7 ETF is breaking down from its recent channel. But beneath the surface, breadth is remarkably strong—51% of S&P 500 stocks were overbought heading into Friday, near the top of the past year's range. The equal-weight S&P 500 actually set a fresh record high this week. The cumulative advance/decline line is rising. The percentage of stocks hitting new 52-week highs looks healthy.

The sector rotation has been dramatic and swift. In 2025, Technology led with +23.8%, Communication Services +21.6%, and Industrials +17.7%. Year-to-date in 2026, the leaderboard has completely flipped: Energy +20.7%, Materials +16.5%, and Consumer Staples +14.8% now sit on top, while last year's winners—Technology (-3.3%), Communication Services (-2.6%), and Financials (-5.6%)—are all in the red.

Ground zero for the pain is software. The software group peaked on September 22, 2025, and since then it's been a bloodbath—the average software stock in the Russell 1,000 is down 25%, with 18 names down more than 50%. The software ETF (IGV) is essentially flat over five years, up just 4.9%, while the S&P is up 86% and semis are up 229% over the same period. The catalyst has been AI disruption fears—the market increasingly believes that many SaaS companies selling "seats" will see their customers simply use AI to perform the same tasks. The hysteria has spread beyond software into logistics, financial services, and office REITs.

Meanwhile, Energy is behaving like an "early cycle" group reminiscent of the early 2000s and the 2010 recovery—both of which marked major market bottoms, not tops. The Energy sector now sits more than 25% above its 200-day moving average, a rare occurrence that historically has appeared in the middle of long-term rallies. Infrastructure construction stocks have been flying—many are up 20-40% year-to-date—benefiting from the AI datacenter buildout. Homebuilders are surging too, with all but one name up double digits as rates tick lower.

Prognostication: Don't Let Anchoring Bias Win

Here's something that caught my attention this week. I had several conversations with people—not clients—who sought me out for advice. Almost to a person, they wanted to sell 100% of their stock holdings and move into gold or silver. Their reasoning? The Dow at 50,000 is simply “too high.” When pressed, they couldn't articulate why 50,000 was too high versus 40,000 or 30,000. They just felt it.

This is textbook anchoring bias—the tendency to fixate on a specific number as a reference point and make decisions based on how far the current price is from that arbitrary anchor. I've seen this movie before. In my experience, when everyday investors are convinced the market is “too high” and want to sell everything for gold, we're closer to the beginning of something than the end. It's also worth noting that Goldman Sachs reports software positioning is at record low levels—less than 3% of total U.S. net exposures. When positioning gets that washed out and sentiment that negative in a sector, contrarian opportunity often follows.

The AI disruption narrative is real—I'm writing an entire book about it—but it's being applied with a sledgehammer where a scalpel is needed. Some software companies will indeed be disrupted. But the notion that every SaaS company is going to zero is as overwrought as the idea that every tech company was going to the moon twelve months ago. As several private equity executives noted this week, AI is more likely to enhance enterprise software than replace it entirely.

My view for 2026: the correction in time will continue, with periodic bouts of extreme volatility as the market digests a genuine regime change in sector leadership. There will be days that scare people—Thursday's simultaneous decline in the Dow Transports and the Philadelphia Semiconductor Index was one of them. But the underlying fundamentals—strong employment, robust consumer income, manageable inflation, healthy corporate earnings, and favorable tailwinds from rates, the dollar, and energy costs—support a constructive outcome. Wall Street's consensus target of roughly 12% for the S&P 500 in 2026 strikes me as reasonable. We may take a circuitous route getting there, and there will be opportunities to add positions in quality names that have been unfairly punished by the AI panic. The best course of action remains what it has always been: stay invested, stay diversified, and don't let round numbers or headlines make your investment decisions for you.

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