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CJ's Weekly Market Memo

The Economy: Strong Bones Under a Bruised Surface

It may be foolhardy to opine on markets while the Iran ceasefire negotiations in Islamabad remain in their earliest and most fragile stage. As of Saturday morning, the first phase of direct in-person talks between the U.S. and Iran—the highest-level meeting between the two countries since 1979—has concluded, with both sides exchanging written texts. Vice President Vance called the session “positive,” but anyone who has followed Middle East diplomacy for more than a few decades knows that “positive” and “done” are separated by a very wide canyon. Lebanon, uranium enrichment, Strait of Hormuz toll arrangements, and frozen Iranian assets remain enormous sticking points.

But day-to-day war headlines aside, the underlying economic data tells a story that deserves attention. The BEA's third estimate for Q4 GDP came in at +0.5% annualized, revised down from 0.7%, with the drag coming primarily from government spending (-5.8%) and softer inventories. Strip out the government headwind—which Bespoke notes should reverse in Q1—and private-sector growth was running closer to 1.7%. Pre-tax corporate profit margins hit a record 13.92% of GDP in Q4, a remarkable number that helps explain why the equity market has been as resilient as it has. These are real margin improvements, not financial engineering.

The March jobs report showed unemployment at 4.3% (beating the 4.4% estimate), with three-month average job creation at +68,000. Wage growth is slowing, which paradoxically gives the Fed more breathing room. But here's the complication: the labor force participation rate hit its lowest reading since 2021, driven almost entirely by workers aged 55 and older stepping out. Prime-age participation remains solid. The aging workforce is making strong headline LFPR readings almost mathematically impossible.

On inflation, March CPI rose 0.9% month-over-month—nearly three-quarters of it from a 21.2% surge in gasoline prices—pushing headline CPI to 3.3% year-over-year. The good news: core CPI came in cooler than expected at +0.2% for the month. The ISM Services prices index, however, made a new cycle high and is consistent with 4%+ core PCE going forward if energy stays elevated. Supply chain pressure is rising—the NY Fed's Global Supply Chain Pressure Index hit its highest level since January 2023, and the Logistics Managers' Index transportation prices component surged to 94 out of a possible 100. That

was pre-dating the war, meaning the conflict is piling onto supply stress that was already building.

Technical Conditions: A Near Miss and a Bounce Worth Watching

The S&P 500 closed Friday at 6,818, up about 7.5% from the March 30 low. The index fell 9.1% from its January 27 high to that March 30 trough—tantalizingly close to the technical definition of a correction (10%) but never quite getting there. Bespoke’s research on correction “near misses”—ten prior instances since 1953 where the S&P fell at least 9% without entering formal correction territory—shows that on average it took 56 calendar days to recover back to the prior high. From there, the index continued higher in most cases, though not all; the 2000 and 2007 episodes preceded bear markets. Still, several of these near misses—including 2020, 2012, and 1997—came early in long-term bull runs.

Historically, dip buying near the 10% pullback threshold has been rewarded. Bespoke’s data shows major indices that enter actual correction territory have averaged 12%–16% gains in the following year, well above all-period averages. We didn’t quite reach correction, but the pattern holds: the March 30 low near S&P 6,350 came at a point where a lot of bad news was already priced in.

The VIX dropped below 20 for the first time since the war began, and global indices staged powerful recoveries—Korea gained over 10% in dollar terms on the week, Taiwan surged 8.7%, and Brazil’s IBOVESPA hit new all-time highs. Emerging markets led the charge, though Bespoke wisely cautions against chasing the EEM spike—historically, 5%+ single-day jumps in emerging markets have been followed by negative returns across multiple time horizons.

One notable divergence: the S&P rose 3.5% on the week while software stocks (IGV) fell sharply, driven by Anthropic’s Mythos AI model preview. Since 1990, inverse 5-day moves between the broad index and software have occurred only 10% of the time. Software now represents just 8.44% of S&P 500 weight—the lowest since 2010—while Tech Hardware (14.8%) and Semiconductors (9.25%) have overtaken it. The AI trade is reshaping sector weights in real time.

Looking Ahead: Better Than Even Odds the Low Is In

The University of Michigan preliminary consumer sentiment for April came in at 47.6—the lowest reading in the survey’s 70-plus-year history, well below the prior record of 51.7 set during the 1980 energy crisis. One-year inflation expectations surged a full percentage point to 4.8%. But context matters enormously here. This survey is deeply influenced by political affiliation. Two years ago under the prior administration, Democrats registered

sentiment of 101.1 while Republicans sat at 60.7. Today those numbers have essentially flipped—Democrats at 31.8, Republicans at 87.1. The Iran war is certainly a real influence on consumer psyche, but the Michigan index has become as much a measure of political mood as economic reality. And critically, 98% of this month's interviews were completed before the ceasefire announcement.

The real risk to watch is not the sentiment number itself but what it implies for inflation expectations. If consumer inflation expectations become durably unanchored, the Fed will have no choice but to raise rates. Market-based measures—the 5-year/5-year breakeven and inflation swap forwards—remain far more anchored than the survey data, which is reassuring. But any prolonged spike in energy prices that bleeds into longer-term expectations would change the calculus entirely, and with technology still the dominant sector weight in the S&P 500, a rate-hiking cycle would have an outsized negative impact on equity valuations.

Earnings season provides a potential counterbalance. FactSet reports Q1 2026 estimated earnings growth of 12.6%, and based on the historical pattern of positive surprises (actual earnings have beaten estimates in 37 of the past 40 quarters), the S&P 500 could post earnings growth as high as 19%—the strongest since Q4 2021. More S&P 500 companies are issuing positive EPS guidance than negative, the most in five years. Q4's record pre-tax margins provide a strong launchpad, and if management teams can demonstrate pricing power and margin resilience through the energy shock, the earnings narrative could overpower the headline noise.

My personal assessment: there is a better than 50% probability that the market bottomed on March 30 with the S&P near 6,350. An early resolution of the Iran situation coupled with favorable earnings could push the index 300 to 400 points higher in short order—an approximate 5% gain from current levels. That said, surprise war headlines could easily force a retest of the lows. The range of outcomes remains unusually wide. The constructive case rests on record corporate margins, strong earnings expectations, an aging but functional labor market, and bond risk premiums that—as Bespoke noted this week—make equity valuations look more reasonable than the raw Shiller P/E suggests. The bearish case rests on \$4+ gasoline, unanchored inflation expectations, and a ceasefire that is, at best, held together with diplomatic chewing gum.

Stay diversified. Stay patient. And keep one eye on the oil price and the other on the inflation forwards. That's where the next big move will be decided.

CJ Brott
Chairman Emeritus
Capital Ideas

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