

May 17, 2026

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## CJ's Weekly Market Memo

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### The Economy

Next week brings a Fed transition that, in my view, is the most consequential personnel change at the central bank in over a generation. Kevin Warsh takes over as Fed Chair, and if the early signals hold, what we are about to witness is a return to the disciplined monetarism of the Volcker era, married to the Keynesian idea that the Fed should act as a genuinely counter-cyclical force, easing when the economy is weak and restraining stimulus when it is strong. That blend has been out of fashion for fifteen years. Bringing it back is, on balance, a healthy development, even if the near-term adjustment is bumpy.

The bumps are already showing up in the data. Tuesday's CPI came in at 3.8% year-over-year, the 35th straight month inside the 2% to 4% band, and Wednesday's PPI surprised hard to the upside at 6.0% year-over-year. The PPI matters more than the headline suggests. Producer prices feed through the supply chain as goods-in-process, and the stage-of-process data show that pressure is broadening from energy into services. Bespoke's nowcast points to core PCE printing somewhere in the mid-4% range when the April number drops, which would be the hottest reading since October 2023. That is not a one-month fluke. It is the front end of a wave.

A meaningful slice of that wave is energy. Since the Iran war began at the end of February, U.S. consumers have shouldered roughly \$45 billion in additional energy costs. Real average hourly earnings just turned negative year-over-year for the first time since February 2023, by only a tenth of a percent, but the direction matters. If oil stays where it is, the squeeze on wages compounds, and the consumer who has been resilient for three years finally starts to flinch.

Worth noting that this is not just an American problem. Long-end yields are rising globally, and they are rising faster abroad than here. Of the major sovereigns, U.S. 30-year yields have actually gone up the least since year-end 2024. The reason is the same one driving our stock market higher: the AI boom has pulled forward an enormous demand for capital, and that has lifted the global cost of capital with it. Combine that with war-induced commodity inflation, and you have a worldwide rise in rates that reflects something more than a Fed story.

The silver lining, and this is genuinely a silver lining, is that capital continues to flow into the United States. Our rates are being held down at the margin, and our equity markets pushed higher, by money fleeing weaker neighborhoods. The STOXX 600 in Europe is notably weak, the Chinese economy is wobbly across the board, and the U.S. has been the fifth-best-performing country ETF in the world since the March 30 low. Capital seeks the least bad option, and right now that is us.

### Current Market Technical Conditions

The advance is narrowing, and it is narrowing in the way that makes a technician's neck tighten. Since the March 30 low, only two sectors, Technology and Communication Services, have outperformed the S&P 500. Just 20% of the index's components are beating the benchmark. The cumulative advance-decline line peaked in April and has been drifting lower while price has been pushing higher. That is a textbook divergence, and it tends to resolve in one of two ways: either through a sideways

consolidation that lets breadth catch up, or through a price correction that brings the index back to the participation.

My base case is the former, a correction in time rather than price, but the risk to that view sits squarely in the semiconductor complex. The Philadelphia Semiconductor Index peaked Monday at 63.8% above its 200-day moving average. To put that in perspective, only three other times in 30 years has the SOX been more than 50% above its long-term trend, and all three were inside the Dot-Com bubble: 1995, 1999, and 2000. The semiconductor industry is now a record 18.7% of the S&P 500, up from about 5% just five years ago. When one industry that cyclical commands that much of the index, the index inherits its volatility.

What concerns me most is the narrative I keep hearing around the memory names. The pitch is that these stocks are cheap on forward earnings, and therefore safe. I will tell you what my father told me, and what 56 years of watching markets has confirmed. With cyclicals, you want to buy them when the P/E looks outrageous, because that signals the earnings have collapsed and you are probably near the bottom of the cycle. You want to sell them when they look cheap, because that signals the earnings have peaked and you are probably near the top. The current chorus around memory stocks has all the hallmarks of late-cycle pricing dressed up in 'this time it is different' clothing. It is not different. It never is.

Add in the macro pressures. The 2-year yield at 4.04% is testing the downtrend line from last year's peak. The 10-year is doing the same. The 30-year closed above 5% multiple days this week. Crude is still near 52-week highs. The three-headed monster of oil, rates, and the dollar is waking up after a long nap. None of these alone breaks the bull, but together they argue for caution over the next three to four months.

## **Prognostication for 2026**

Next week is set up to be the tone-setter for the rest of the quarter. We are at the end of earnings season, and the report that matters is Nvidia on Wednesday afternoon. The stock heads in trading more than two standard deviations above its 50-day moving average, the most overbought it has been ahead of an earnings release since November 2022. Q1 has historically been Nvidia's strongest reporting quarter, so the bar is high in both directions. A clean beat-and-raise probably extends the run for a few more weeks. Anything less and the air comes out of the semis quickly, with the memory names leading the slide.

## NVIDIA (NVDA) - Past Year

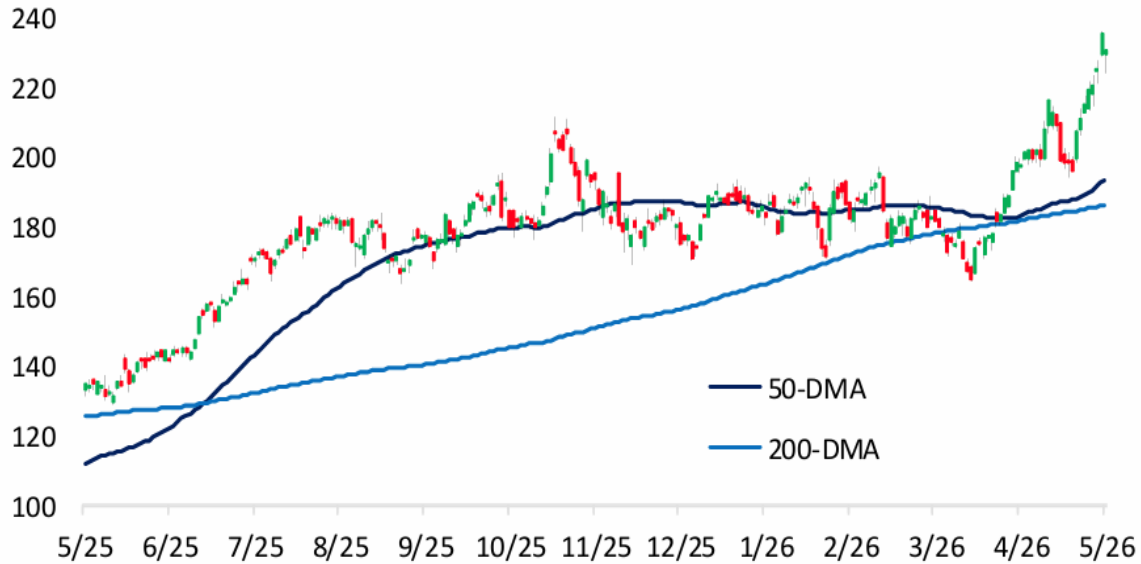


Chart Courtesy of Bespoke Investment Research

My near-term view, call it the next three to four months, is for a sideways correction in the major indices and a sharper, name-specific shakeout in the most extended pockets of technology, with memory the highest-risk sub-sector. The advance-decline divergence is doing what Keynes warned us about. Breadth can stay weak longer than an investor betting against weak breadth can stay solvent. The mid-to-late 1990s analog is instructive here. The cumulative A/D line in that cycle peaked in April 1998, declined for two full years, and the S&P 500 still rallied another 36% before the music finally stopped in March 2000. Divergences are warnings, not timing signals. I would treat them accordingly.

## S&P 500 vs Cumulative A/D Line: January 1996 - March 2000



Chart Courtesy of Bespoke Investment Research

Longer term, my optimism is undimmed. The earnings story is exceptional, with forward S&P 500 estimates up 13.5% so far in 2026, even if the bulk of those revisions sit in two buckets: the AI complex and energy. Six-week winning streaks across the S&P 500, Nasdaq, and Russell 2000 have, in every prior instance since 1979, been followed by a median 21.6% gain over the next year. The Netscape-to-ChatGPT comparison still maps the current period to the spring of 1998, with the parabolic phase yet to come. None of that is a guarantee. All of it is encouraging.

The playbook for the next few months is straightforward. Trim the most extended winners, particularly in the memory and semiconductor names that have stretched furthest from their moving averages. Build a small cash reserve for the pullback I expect, then deploy it into the broader market when breadth and price converge again. Keep an eye on the 30-year yield at 5%; a clean break above that level is the signal that the rate story has become an equity story, and at that point defense matters more than offense.

**CJ Brott**

*Chairman Emeritus, Capital Ideas*

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