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## **CJ's Weekly Market Memo**

### ***Tech Loses Altitude as SpaceX Launches***

#### **The Economy**

The economy continues to do most things right, and the latest data keeps reinforcing that view. May payrolls came in at 172,000, well ahead of the 88,000 consensus, with another 93,000 in upward revisions to the prior two months. That gives us the fastest three-month pace of job creation since early 2024. The unemployment rate held at 4.3%, hiring broadened beyond the usual health care and government strongholds into cyclical areas like manufacturing and temporary help, and the prime age employment to population ratio sits at 80.8%, essentially as good as it has been since 2000. Wages are rising around 3.4% to 3.7% and aggregate private sector income growth is running near 5%. This is a healthy labor market, not an overheating one.

Here is the catch, and it is the heart of this week's story. Employment is a trailing indicator. By the time the jobs numbers look this strong, the cycle has usually been running hot for a while, and the Fed reads strength like this as a reason to stay put rather than ease. Layer on the inflation picture and the message gets sharper. The ISM commodity survey showed price increases in 79 commodities in May and declines in none, the highest net reading since the Russia Ukraine war began. CPI prints next week and consensus is already up near 4.2%, with the historical relationship suggesting it could run higher. PPI is feeding into the pipeline, and the Beige Book described pricing pressure as moderate to strong, driven by energy and Middle East related input costs.

Against that backdrop, the rate cut crowd is fighting the data. Dallas Fed President Lorie Logan made the point bluntly this week, warning that with a broad range of inflation measures heating up, rate hikes might be required later this year. She dissented at the late April meeting against language implying the next move would be a cut, and she has since said the next move could go either way. The current target range of 3.5% to 3.75%, in her view, simply is not restrictive enough. JOLTS and the other labor gauges are firm enough that the worry has quietly shifted from when the Fed cuts to whether the Fed might have to raise. That is the single most important macro fact to carry into the summer.

One more thread is worth pulling. The Beige Book and the spending data both show a consumer that is increasingly bifurcated. Higher income households are shrugging off price increases, while middle- and lower-income households are leaning on credit cards, making fewer trips, and shifting toward necessities. The aggregate spending numbers look fine, but they are being carried by the top end. That split is durable, and it shapes how this expansion holds together as we move through a higher for longer rate environment.

#### **Current Market Technical Conditions**

Friday's selloff was a clinic in how modern market structure amplifies a move. The headline cause was simple enough: strong jobs pushed Treasury yields higher, with the 20 and 30 year back above 5%, and that rattled the most rate sensitive part of the market. But the mechanics underneath are what made it violent. The Nasdaq fell better than 4%, its worst day in over a year, semis got hit hardest with names like Micron and Marvell down double digits, and the damage was concentrated almost entirely in the group that had gone vertical.

Two technical forces were working at the same time. First, a vertical rise is catnip for momentum traders, and momentum is a one-way friendship. The same crowd that piles in on the way up heads for the exits the instant the slope of the advance flattens, and they do it fast. Tech had gone close to straight up off the March lows, with the sector more than 10% above its 50 day average for over a month, the most stretched reading since 2002. That is exactly the kind of setup that snaps back hard when momentum buyers blink. Second, and this is the part many investors underestimate, technology and communication services together now make up roughly half of the S&P 500. When a group that large sells off, index ETFs are mechanically forced to sell their underlying holdings, which pressures prices further, which forces more ETF selling. That snowball is a feature of how concentrated the index has become, and it cuts both ways.

Communication services deserve a specific word here because it is lumped in with tech for good reasons. It houses the big hyperscale's, the Alphabets and Metas of the world, and those names carry a lot of the same AI buildout exposure. The trouble is that much of the earnings payoff from that buildout sits in the future. Future cash flows are worth less today when the discount rate, which is to say interest rates, moves higher. So this combined half of the index is unusually sensitive to the very thing that sparked Friday, rising rates. It is no accident that Alphabet's recent equity raise and a reported Meta secondary added to the pressure, since new supply lands on a market already wrestling with valuation math.

Now bring the supply story into focus, because it connects directly to the technicals. The SpaceX IPO is expected next week, reportedly targeting roughly \$75 billion in proceeds, with Anthropic and OpenAI lining up behind it. These will be hyped, hot deals, and hot deals behave a lot like momentum trades: they suck up the available risk capital. The hot money that would otherwise help the rest of the market recover from this selloff instead gets funneled toward the new issues. It is reasonable to suspect that some of the recent huge winners are being trimmed right now precisely to raise cash for those coming allocations. Add it up and you have a market where the leadership is extended, the index is concentrated, rates are pushing against valuations, and a wave of new supply is competing for the same dollars.

Lest this read too cautious, the longer-term technical backdrop is constructive. Breadth has not confirmed every new high, but the cumulative advance decline line has gone sideways rather than rolling over, which is a watch item, not a panic signal. History is encouraging too. After back to back 5% monthly gains, and after 20% advances in 50 trading days, forward returns over the following six and twelve months have been well above average and positive the vast majority of the time. The setup says be patient and selective near term, not bearish.

## **2026 Prognostication**

Here is how I think the rest of the year shapes up. The near term, call it the heart of the summer, looks like a slow grind for the broad market rather than a fresh leg straight up. The leadership group is stretched and digesting Friday's reset, rates are leaning the wrong way for the highest multiple names, and the IPO calendar is going to keep skimming hot money off the top. June seasonality is historically soft to begin with, and a market this concentrated tends to move in fits and starts when its leaders pause. None of that is a forecast of disaster. It is a forecast of churn while the excesses in the leadership work themselves off.

The more interesting development is what happens underneath. I continue to believe the broadening trade, the long-awaited handoff where participation widens beyond a handful of mega caps into the other nine sectors that have badly lagged, is still in front of us and still positive for late this year and into early next. Strong employment, firm consumer spending at the aggregate level, and an economy

that keeps surprising to the upside are exactly the ingredients that let the rest of the market catch a bid once the leadership cools and the supply wave clears. The Second Great Wave of AI infrastructure investment is real and durable, but a durable theme does not require that the same thirty stocks lead every single month. A healthier market is one where the gains spread out, and I expect that process to gather momentum as we close the year.

Bonds are the part of the picture I am least enthusiastic about. With the Fed effectively pinned by sticky inflation and a labor market too strong to justify easing, and with a chorus of voices like President Logan openly discussing hikes, the path of least resistance for longer dated yields is higher or at best sideways at elevated levels. That is a headwind for long duration Treasuries, which have already delivered weak real returns relative to their own history. I would rather take my risk in equities, with an eye toward the broadening names, than reach for duration here.

So the through line is this: stay constructive, stay patient, and use the summer churn to position for the broadening rather than chasing the extended leaders into the IPO supply. The economy is doing its job, earnings have been excellent, and the long term case for being invested in this market remains very much intact. The near term simply asks for some discipline. As I have said before, strength begets strength, and the strength this economy has shown is the best reason to look through the noise toward what comes next.

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