CJ's Weekly Market Memo

Summer Doldrums??

August 15, 2026

The Economy

August is supposed to be the month when nothing happens. This August the tape is not drifting, and neither is the data. The trouble is that the numbers arrived in a jumble, and reading them in the wrong order leads to the wrong conclusion.

Start with the headline that scared people. July retail sales fell 0.6% month over month, the worst reading since January 2025, against expectations for a small gain. The soft spot was non-store retail, down 2.2%. Before anyone extrapolates that into a consumer rolling over, note the calendar. Amazon moved Prime Day into late June this year rather than its usual July slot, which pulled a large block of online spending forward and left July comping against an inflated June. We have seen this movie once before. In 2021, the only other year Prime Day landed in June, July online sales fell 5.6%. Visa's Spending Momentum Index told the same story, a strong June followed by a breather in July. One month is not a trend, and this particular month has an asterisk on it.

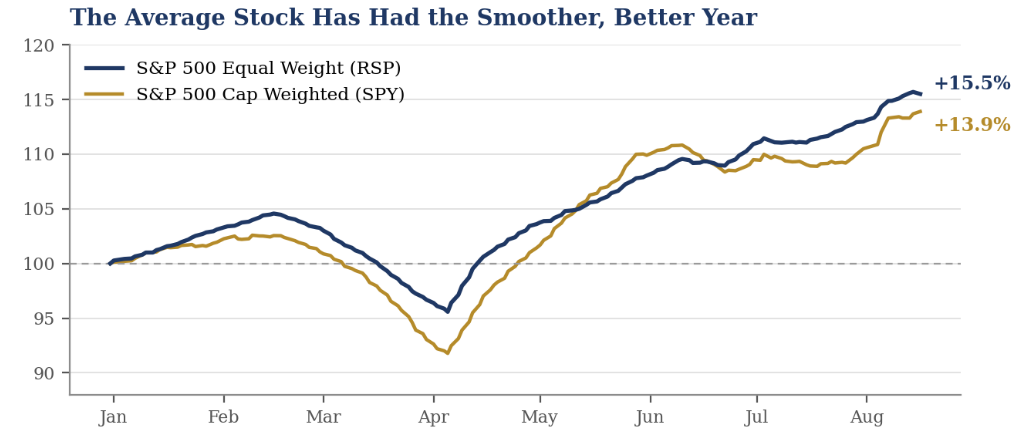
Consumer confidence is the other number people are waving around. The University of Michigan index remains weak, and the weakness has now become bipartisan. Republican respondents surged after the election and held up until the Iran conflict began in late February, and they have been sliding since. Democrats are near record lows and Independents are not far behind. Here is the part that matters for portfolios: the Michigan survey has been telling us the consumer is miserable for most of this decade, and for most of this decade the consumer has kept spending. Sentiment surveys measure how people feel about the news. Retail sales, credit data, and card spending measure what they actually do, and on that score the New York Fed's Q2 report showed mortgage and home equity delinquencies well anchored, auto and card delinquencies pivoting off their highs, and foreclosures and bankruptcies at historically low levels.

Business conditions are better than the mood. The NFIB small business optimism index jumped 2.4 points in July to an eleven month high of 99.8, a top decile monthly gain in the history of the series, and hiring plans went from a near decade low three months ago to the best level since October 2022. Small business is where hiring actually happens, and small business just turned the corner.

Which brings us to the Fed. Chair Warsh takes the podium at Jackson Hole from August 27 to 29, his first turn there in the chair, and the market will parse every clause. The setup has improved considerably. July core CPI came in at 2.5% year over year, tied for the lowest since March 2021, and odds of a rate hike at the September meeting have fallen to roughly 31% from 50% a month ago. Remember that less than a year ago, in September 2025, all twelve voting members voted to cut with core running above 3%. The committee has been talking tougher than the data warrants, and the data is quietly winning the argument. August payrolls and August CPI both land before the meeting, so this is not settled, but the direction of travel is friendly.

Market Technicals and Fundamentals

The single most useful chart in the market right now is the one comparing the equal weight S&P 500 to the cap weighted version. From early June through the end of July, the cap weighted index ground lower because its largest stocks were weak. The equal weight index never broke stride. It has been in a steady stair step advance since May and now leads year to date, with a materially smoother path to get there.

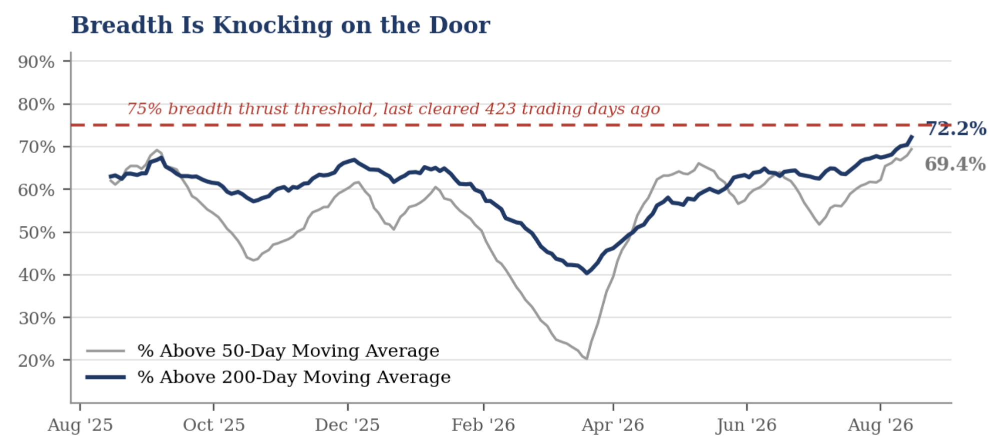


Rebased to 100 at 12/31/2025. Path derived from Bespoke Investment Group index charts, 8/14/2026.

Equal weight has led with less drawdown and less chop, a bull market's calling card.

That distinction is not cosmetic. For three years the standing worry was that any crack in the mega caps would take the whole market down with it. In 2026 the exact opposite has happened. When the mega caps stumble, money rotates into the other 490 names rather than leaving equities. That rolling relative strength is the healthiest internal condition a bull market can have, and it is why index level drawdowns stayed shallow even as leadership changed hands repeatedly.

Breadth is now the story to watch. Just over 72% of S&P 500 members trade above their 200 day moving averages, the best reading in more than a year. But it has been 423 trading days since more than 75% of the index closed above that line, the longest such stretch since the 509 day drought that ended in July 2009. Those streaks normally happen in bear markets, not raging bulls, which explains why this advance has felt narrow to so many even as the average stock did fine.



S&P 500 member breadth, past 12 months. Latest readings per Bespoke Investment Group, 8/14/2026.

At 72%, the market is a few good sessions away from ending a 423 day breadth drought.

A push through 75% would be a genuine breadth thrust, and thrusts off a base like this one have historically confirmed breakouts rather than capped them. Supporting evidence is already in hand. The cumulative advance decline line is making new highs alongside price, exactly what did not happen in 1999 when the A/D line peaked well ahead of the index. Small caps, mid caps, the S&P Value index, and even the equal weight Nasdaq 100 have all made new highs. And the market has gone 154 sessions without an all or nothing day, the longest streak since March 2001, meaning stocks are priced on their own merits rather than as one undifferentiated basket.

The fundamentals are cooperating. Of the 432 S&P 500 companies reported, 86% beat on earnings and 76% beat on sales. More telling, 15.7% of all reporting companies raised forward guidance, nearly double the 8.4% average of the past 25 years, with Technology at 30.5% and Health Care, Real Estate, and Industrials near twice their norms. Companies do not raise guidance into a slowdown.

Two things argue for near term patience. Price sits more than two standard deviations above its 50 day average, and the equal weight index is bumping the top of its uptrend channel. Sentiment is warmer too: the Schwab Trading Activity Index, which tracks what retail investors do rather than what they say, is at the highest level of this bull market. That is not a sell signal, but it removes the cushion pessimism was providing. The semiconductors and the transports still need to reclaim their 50 day averages before I call the all clear complete.

Looking Toward 2027

In my January 2021 monthly letter I wrote that we were entering the Roaring 2020s. That was before the phrase became Wall Street currency and before Ed Yardeni made it the banner under which a whole cohort of strategists now marches. I mention the timing not to claim a trophy but because the reasoning I used then is the reasoning I still use now, and it is why I remain constructive well past the next quarter.

The argument was historical. The extraordinary inventions of the 1870s through the 1890s, the electric light and the generator, the telephone, the internal combustion engine, cheap structural steel, industrial chemistry, did essentially nothing for measured productivity in the decades they were invented. They had to be built out, wired up, financed, and standardized before they could be integrated into how business actually ran. The 1920s were the payoff decade. Not the decade of invention, the decade of integration. Factories rewired for individual electric drive, the assembly line, the national grid, the radio network, consumer credit. Output per hour exploded because the plumbing finally reached everybody.

That is the frame I have applied to the secular bull market that began in 2010, and it is the spine of my forthcoming book, The Second Wave, where I lay the parallel out in depth. The AI capital cycle looks far more like the electrification of America between 1915 and 1940 than like the dot com bubble. The first wave is invention and infrastructure, capital intensive, lumpy, and prone to violent repricings. The second wave is integration, where productivity and earnings actually show up. We are early in the second wave, not late in the first, which is why this quarter's guidance raises matter more to me than any valuation screen.

For the balance of 2026, I expect the doldrums question mark to resolve upward, though not in a straight line. September and October have earned their reputation, the index is overbought, and Jackson Hole plus the September meeting give the market two live opportunities to throw a fit. A pullback of five to seven percent in that window would be ordinary and, given how stretched price is, arguably useful. What would change my posture is not a headline but a mechanism: sharp breaks are almost always caused by leverage unwinding, so that is the tape I read closely.

Absent that, the weight of evidence points higher into year end and through the first quarter of 2027. Breadth is broadening, the advance decline line is confirming rather than diverging, earnings are beating and guidance is rising, inflation is behaving, and the odds of a hawkish policy mistake are falling. If stocks above their 200 day averages clear 75% in the next few weeks, I would treat that as confirmation and put fresh money to work into it rather than wait for a cheaper print that may never come. The doldrums are a seasonal condition, not a structural one. The structural story is a decade of invention finally getting integrated into the way American business operates, and that story has years left to run.

CJ Brott
Chairman Emeritus, Capital Ideas