

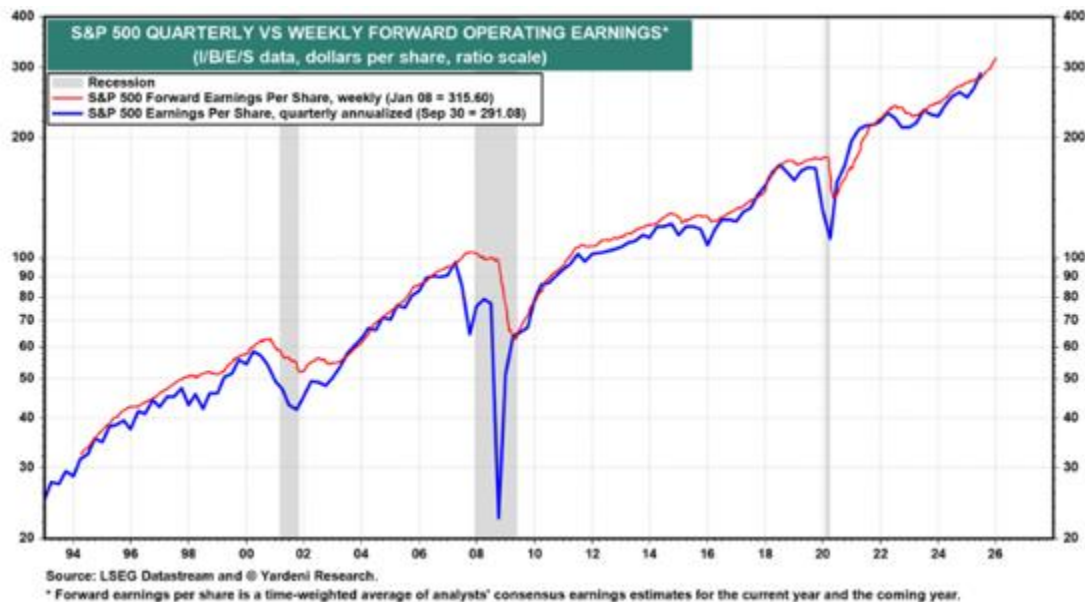
January 17, 2026

CJ's Weekly Market Memo

The Economy: Productivity Powers Forward

Long-time clients will remember me opining late in the last decade and early in this one that these could be "the roaring twenties" of this century. That was based on my conviction that technology created in the late 1990s would be adapted throughout our economy during this decade, joined by new innovations like AI that we could barely imagine back then.

Recent data increasingly validates this thesis. Ed Yardeni has written compellingly on this phenomenon, pointing out that unit labor costs are falling while productivity rises. This powerful combination is expanding corporate profit margins even as revenues grow—the classic recipe for rising future earnings and an expanding GDP. The evidence is mounting: AI infrastructure investments are accelerating, memory chip demand is breaking records, and manufacturing activity indicators are inflecting higher globally from Sweden to Singapore to New Zealand.



The inflation picture continues to improve, with December's core CPI running below 2% when you strip out rent (which itself is normalizing after measurement quirks in October and November). Producer prices tell a more mixed story, but the broader disinflationary trend in goods remains intact. Meanwhile, initial jobless claims are running at healthy levels, showing no signs of labor market deterioration despite the modest hiring pace, we've seen.

Current Market Technical Conditions: A Coiled Spring

The market's technical picture tells an intriguing story. Major indices like the S&P 500 and NASDAQ 100 are testing support levels that have held since last spring, with both trading near their uptrend lines. The S&P closed the week down just 26 basis points after hitting a record high on Monday, reflecting the market's current uncertainty.



Source: Bespoke Investment Research

But look beneath the surface and you'll find something quite different. Mid-cap stocks broke out to decisive new highs this week. Small caps are up over 8% in just the first two weeks of 2026, reaching extreme overbought territory. The equal-weight S&P 500 has significantly outperformed its market-cap weighted counterpart, delivering a 94th percentile performance over the past 55 trading days. This broadening out is exactly what you want to see in a healthy market.

Globally, the picture is even more striking. Emerging markets continue their hot streak, with particularly strong performances in Asia. Europe's major indices are at all-time highs, though showing some technical signs of near-term exhaustion after their impressive runs. Markets from Tokyo to Jakarta to Stockholm are reflecting improving industrial fundamentals.

The combination creates what I see as a coiled spring. As forward earnings rise—which they are doing at an accelerating pace—the market is absorbing that good news while wrestling with policy uncertainties. Volatility measures have plunged to historically low levels even as pockets of chaos emerge in specific areas. This tension between improving

fundamentals and psychological uncertainty typically resolves itself in favor of the fundamentals.

Looking Ahead: The Spring Uncoils

If the earnings growth forecasted by experts like Ed Yardeni materializes as projected, this coiled spring could release quite dramatically as markets catch up with improving conditions. Hence my continued confidence in the "roaring twenties" analogy for this decade.

The catalyst could come from several directions. Bank earnings this week showed robust loan growth, stabilizing credit quality, and strong trading revenues—all signs of a healthy financial system supporting economic activity. Corporate CEOs are citing tangible benefits from AI deployment. The semiconductor cycle is strengthening with memory prices resuming their upward trajectory, supporting continued investment in AI infrastructure.

Perhaps most importantly, the productivity surge that Yardeni and others are documenting creates a virtuous cycle: falling unit labor costs allow companies to invest more in growth while maintaining margins, which drives further productivity gains. This is the fundamental engine that powered previous extended bull markets, and it appears to be shifting into higher gear.

Market breadth—the participation of smaller and mid-sized companies—is improving markedly, a classic sign that the market's foundation is strengthening. When this broadening combines with the eventual resolution of policy uncertainties, the path of least resistance should be higher.

For early 2026, I expect this transition to play out over the coming months. The technical setup, the fundamental backdrop, and the monetary policy environment are all aligning constructively. The question isn't whether the spring uncoils, but rather when and how dramatically. Based on what I'm seeing in both the economic data and market internals, we could be setting up for a powerful move higher as we progress through the year.

CJ Brott
Chairman Emeritus
Capital Ideas

The material presented is for informational purposes only and is believed to be accurate. Sources include but are not limited to publications by FactSet, Dow Jones, and Bespoke Investment Group. All expressions of opinion reflect the judgment of the author as of the

date of publication and are subject to change. The author may hold securities mentioned in this commentary.