CJ's Weekly Market Memo

August 8, 2026

The Riddle

Let me start with a riddle. What is rising in price and getting cheaper as it does so?

The answer is the stock market. It sounds like a contradiction, but it is exactly what is happening. Company earnings are growing faster than stock prices are climbing, so even as the averages make new highs, the price we pay for each dollar of earnings growth is quietly falling. Higher prices, cheaper relative to the pace of profits. It is the kind of puzzle that rewards patience, and it is the thread I want to pull on this week.

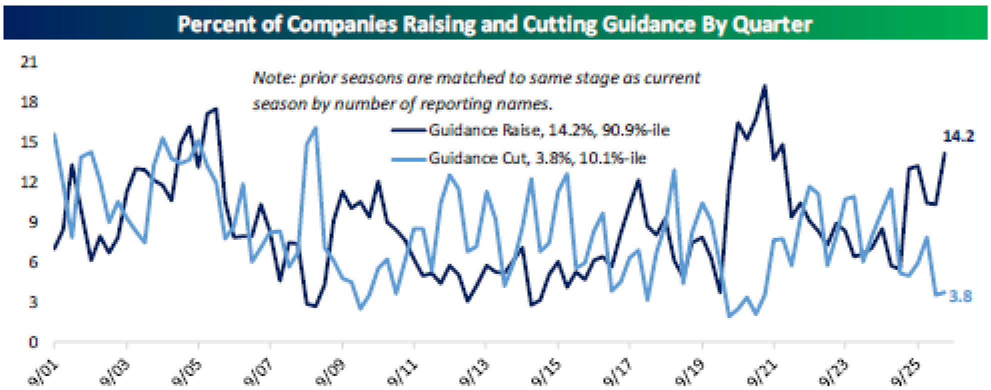
S&P 500 PEG RATIO, COURTESY BESPOKE INVESTMENT GROUP

The Economy

The number everyone fixed on was Friday's jobs report, and it was a puzzle of its own. On paper July looked weak, with a small decline in payrolls and some downward revisions to the prior two months. I would not read much into it. Jobless claims are hovering near the lowest levels of the cycle, and you do not lose jobs on net when almost nobody is filing for unemployment. More likely this was a seasonal quirk that the coming revisions will smooth away.

Underneath the headline, the picture is steadier than it looks. Construction and factory orders were soft on the surface, but the part I care about, business investment, is still moving ahead, and much of it is pouring into the data centers and power that the artificial intelligence build out requires. The real story of the summer, though, is earnings. More companies are beating estimates and, more important, more of them are raising guidance than at almost any time in the past twenty-five years. Andrew Kerai has been making this case all year, that rising earnings and rising guidance are the engine under the market, and the results keep proving him right.

The one player leaning the other way is the Federal Reserve. With Chair Warsh and several of his colleagues talking tougher, the debate this September is whether to raise rates, not cut them, and futures now put the odds of a hike at 44%. Here too I would watch the feet, not the mouth. We will know more soon. Fresh readings on consumer and producer prices arrive Wednesday and Thursday of next week, and those numbers, far more than any speech, will decide the Fed's next step.



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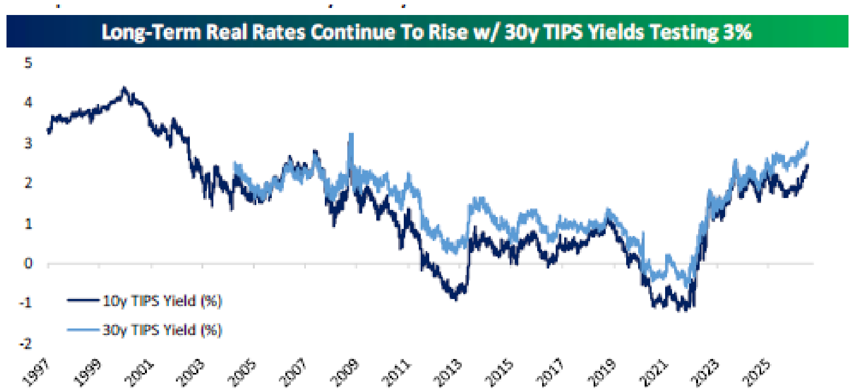
Market Technicals and Fundamentals

Price is behaving the way it should in a bull market. The S&P 500 finished last week at a new record after its best week since the spring, the Dow crossed a milestone of its own, and the rally was broad rather than narrow, with the beaten up names of early summer leading the way back and the cumulative advance decline line confirming the move. My favorite compass, the 200 day moving average, is still rising smoothly, and that keeps telling me the primary trend is up.

S&P 500 WITH 50 AND 200 DAY MOVING AVERAGES

COURTESY BESPOKE INVESTMENT GROUP

There is a second side to this, of course. Bespoke notes that much of last week's surge came from frantic buying of short dated call options, which is the fingerprint of fast money rather than patient conviction. It leaves the market overbought and due for a breather, and I would not chase it here. The bond market is waving a small caution flag as well, with long-term real interest rates at their highest in about two decades. High real rates compete with stocks for capital, and they deserve respect.



10 YEAR AND 30 YEAR TIPS REAL YIELDS

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Two things keep me constructive through all the noise. First, there is a near record pile of cash sitting in money market funds, close to eight trillion dollars. That is dry powder, and history says money on the sidelines tends to become fuel for the next leg up rather than a warning. Second, for all the hawkish talk, the financial plumbing is calm. Stress measures are low and the market's fear gauge is sleepy. When trouble comes it usually announces itself loudly, and right now the system is quiet.

Prognostication for the Rest of 2026 and Early 2027

So how does the riddle resolve? I remain a longer term optimist, and I think the falling price relative to earnings growth is the tell. When earnings compound faster than prices, the market is not getting more expensive as it rises, it is getting better supported. Measured against how fast profits are growing, stocks are a long way from the euphoria that usually ends a bull market.

The tension into year end is easy to name. Record and rising earnings on one side, a hawkish Fed and high real rates on the other. My base case is that earnings win, because guidance is still pointed up and the artificial intelligence investment cycle is still young. The path will be bumpier than the last two weeks make it seem, and I would welcome a pullback in the speculative froth as a healthier entry than chasing record highs. The secular bull that began in 2009 is aging but intact, and with all that cash on the sidelines and a calm financial system, it has both fuel and a firm foundation.

There are risks worth watching: a hot inflation print that forces the Fed's hand, a flare up of leverage somewhere, or a jobs picture that fails to firm up. None of them change the longer term story, but any could deliver the pause that refreshes. For now the riddle stands, and I rather like the answer. A market that rises while getting cheaper is one I am content to stay invested in, patient with the near term wobbles and optimistic about the road into 2027.

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