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CJ's Weekly Market Memo

Looking back at the pandemic chaos of 2020-2022, it's striking how normalized things have become. Remember standing on floor stickers at the grocery store? Vaccine cards as passports? Zero-interest rates and negative-yielding bonds across Europe? It all seems like ancient history now, yet it was just a few years ago. Interestingly, the market's 2022 bottom occurred right in the midst of that craziness—a reminder that markets often turn when conditions feel darkest.

The Economy: Accelerating Into 2026

The economic backdrop entering 2026 is surprisingly robust. The Atlanta Fed's GDPNow estimate recently jumped to 5.3% for Q4 2025—an astounding acceleration that few saw coming. This isn't just statistical noise; we're seeing genuine economic momentum building across multiple sectors. Productivity gains are materializing, helping offset wage pressures, while inflation continues its disinflationary trajectory. Real incomes for workers are improving as nominal wage growth outpaces price increases—a healthy dynamic that should support consumer spending through the year ahead.

The employment picture remains solid despite last week's modestly disappointing payroll report. Weekly jobless claims started 2026 at historically low levels, consistent with a labor market that's cooling but not cracking. The Bespoke consumer survey showed encouraging trends: fewer households living paycheck-to-paycheck, rising discretionary spending intentions, and improving home-buying sentiment. These are the ingredients for sustained economic expansion, not recession.

Europe is also showing signs of life. Germany's construction PMI broke above 50 for the first time since 2022, ending a 44-month contraction streak. Eurozone core inflation has moderated to just 2.1% annualized over recent months, giving the ECB room to ease policy further. German bund yields have repeatedly failed to break above 2.9%, suggesting bond markets expect continued disinflation. This matters for U.S. markets because a stabilizing Europe reduces one tail risk that had concerned investors.

Technical Conditions: Breadth Confirms the Bull

The first week of 2026 delivered gains across major indices, but more importantly, the character of those gains was impressive. Both the S&P 500 and Dow Jones Industrial Average made new all-time highs, while the Dow Jones Transportation Average also broke through to fresh highs—its first in years. This breadth of leadership is classic Dow Theory confirmation, suggesting the bull market is broadening beyond a narrow group of winners.

Perhaps the most significant technical development is the equal-weight S&P 500 index breaking out to new highs with conviction. This index has outperformed the cap-weighted S&P 500 to start the year, confirming that the rally is no longer confined to mega-cap technology. 95 S&P 500 stocks hit 52-week highs during the first week of January—nearly 19% of the index. Financials and Industrials led this advance, with more than a third and a quarter of their respective constituents making new highs.

The semiconductor sector, which had been a source of volatility, started the year strong with the Philadelphia Semiconductor Index up 5% and making new highs. Importantly, breadth within semis improved dramatically—19 of 30 SOX components posted gains for the week, with 17 outperforming the index itself. Meanwhile, Nvidia's relative underperformance (down slightly despite positive catalysts) suggests healthy rotation rather than sector weakness.

The NASDAQ Composite has yet to confirm with a new high, held back by weakness in some mega-cap technology names. But this isn't necessarily bearish—it reflects healthy market rotation. Small caps have been particularly strong, with the Russell 2000 up nearly 5% in the first week, its best start since 2021. Historical precedent strongly favors continued strength when small caps begin the year this robustly.

Sentiment readings are moderately bullish but not extreme. Weekly surveys sit about one standard deviation above historical averages—enough to reflect optimism but not the frothy exuberance that marks market tops. The Schwab Trading Activity Index pulled back modestly, suggesting retail investors aren't chasing aggressively.

Outlook: A Broadening Bull Market

As we look ahead through early 2026, several factors support continued market strength. The earnings revision spread heading into Q4 reporting season is negative—which historically has been a positive contrarian indicator. When estimates have been cut and expectations lowered, companies find it easier to beat, and markets have tended to rally during earnings season. The average strategist 2026 year-end target of 7,578 implies a 10.7% gain from the 2025 close, which seems reasonable given economic momentum and easing financial conditions.

The rotation from mega-cap growth into broader market sectors should continue if the economic expansion persists. Financials benefit from sustained loan growth and normalized yield curves. Industrials gain from infrastructure spending and manufacturing reshoring. Small caps thrive when economic growth accelerates and credit conditions ease—both conditions that appear to be in place.

That said, we're not blind to risks. The market has posted double-digit gains for three consecutive years, and history shows the fourth year can be volatile. Previous similar streaks produced mixed results: three times up (including 1998's 39.6% gain) and three times down (including 2022's painful 19.4% decline). An "AI bubble" ranks low among investor concerns in Bespoke's survey, well behind worries about economic downturn, political environment, and persistent inflation. But the fact that 45% of bearish investors cite economic downturn as their primary concern creates a potential catalyst—if the economy continues surprising to the upside, that reservoir of worried investors could shift to a more constructive stance.

The memory stock explosion that started the year (Sandisk up 53%, Micron up 19%, Intel up 20%) feels a bit frothy and may pull back. Energy's strong Monday surge following the Maduro arrest faded by week's end—a reminder that not every catalyst produces sustained trends. And while breadth has improved, we need to see the NASDAQ confirm with new highs to fully validate this bull market phase.

Transportation averages making new highs across both the Dow and NASDAQ deserves special mention. These indices track the companies that physically move goods across the economy. When they break out to multi-year highs together, it typically confirms underlying economic strength rather than contradicts it. This dovetails nicely with that surprising 5.3% GDP growth estimate—real economic activity appears to be accelerating, not just financial asset prices inflating.

The bottom line: We're witnessing a healthy transition from a narrow, mega-cap-led advance to a broader, more sustainable bull market. Economic fundamentals are improving, technical conditions are confirming, and sentiment hasn't reached euphoric extremes. The setup favors maintaining equity exposure with a tilt toward the broader market segments that have lagged. Market volatility will undoubtedly pick up during earnings season and as we navigate various political and policy developments, but the underlying trend remains constructive. After years of narrow leadership, this broadening phase could prove both durable and profitable for disciplined investors.

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