CJ's Weekly Market Memo

Mr. Market Had Other Plans

October 25, 2026

I have spent five and a half decades as a professional investor, trader and advisor to others on investing. During that time, I learned seasonal factors usually have a strong effect on stock prices. In my experience, the period between mid-October and mid-April is usually the stock market's strongest period. That makes Halloween an important date for investors. By then we are well into earnings season and companies have either confessed earnings weakness or touted recent performance. Investors anticipate these events and most of their selling in fear of potential disappointments is done by October 15th, well before month end. I believed that would be the pattern this year, but Mr. Market had other plans. And he tripped up my recent predictions.

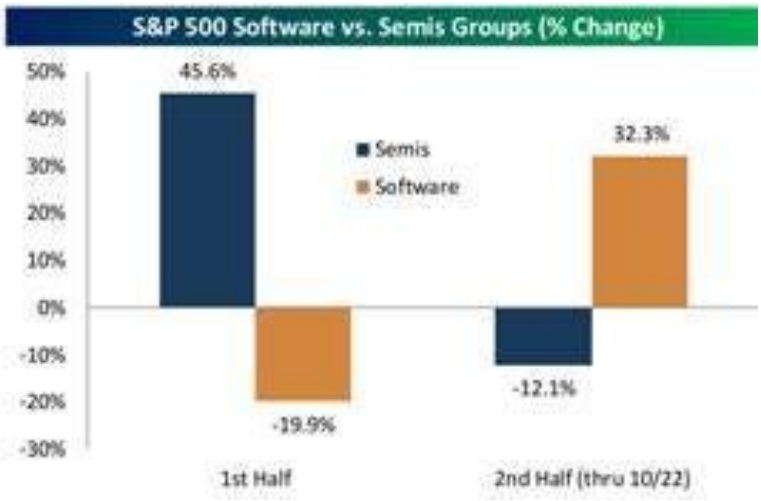
	Total Return (%)				
Index	1999	2000	2001	2000-2001	2002
S&P 500 Equal Weight	10.70	7.63	-1.85	5.64	-19.43
S&P 500	21.04	-9.10	-11.89	-19.91	-22.10

S&P 500 versus the equal weighted S&P 500 index, total return, 2000 to 2001. Source: Bespoke Investment Group.

The market's bifurcation between AI leaders and everything else kept me from seeing that many of the stocks previously left for dead had hit bottom and begun to recover. This was happening simultaneously with a sharp selloff in AI leaders, particularly semiconductors and infrastructure stocks. In that respect this market is reminiscent of 1999 and 2000, when the stocks left behind during the technology boom held their ground and then rallied as the tech leaders fell. As the chart above shows, the equal weighted S&P 500 index gained better than 5% over 2000 and 2001 while the S&P 500 lost nearly 20%. The percentage of S&P 500 members above their 200-day moving average has now climbed back above 50%. At that level two things are apparent. First, the stocks not included in the technology sector are rising and possibly under accumulation. Second, the proceeds from selling of tech stocks particularly AI and especially semiconductors are rotating back into non-tech sectors. All of this leads me to the following conclusions.

The final bottom in technology and therefore probably the Nasdaq Composite and S&P 500 index may lie ahead. This week earnings from Microsoft, Amazon and Google are announced. Their influence is huge and if earnings themselves or guidance disappoint the response may be the sharp selloff I predicted for mid-month. That is particularly true if the semiconductors follow. That may

slow the market's rotation due to the fear such a decline would engender. However, I still believe the market will move higher after this corrective phase.



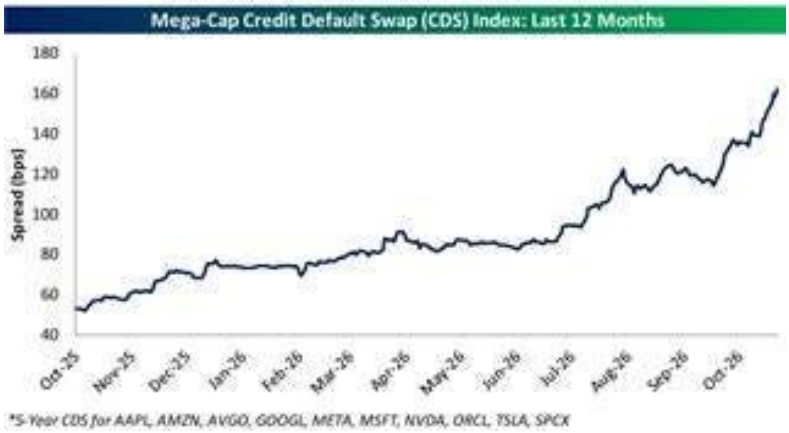
S&P 500 semiconductors versus software, first half of 2026 and second half through October 22. Source: Bespoke Investment Group.

A good part of the argument for the market in rotation rather than liquidation is shown by some charts in the Bespoke Report. The first one shows the directional change in percentage of S&P 500 members above their respective 50- and 200-day moving averages. The second shows the cumulative AD line changing from steeply declining to rising sharply. As you know I consider this a harbinger of higher prices. Those are the conditions I had said would cause me to change my negative predictions. For the market of stocks they have, and I have changed my view accordingly. For the S&P 500 and the Nasdaq, the test is this week's reports from Microsoft, Amazon and Google, and until those are in I continue to be cautious toward the largest names.

Left: percentage of S&P 500 members above their 50-day and 200-day moving averages. Right: S&P 500 versus the cumulative advance-decline line. Source: Bespoke Investment Group.

The 2000 to 2002 bear market shown at the top of this letter is the one many compare with the current situation. During that period the crash of widely held technology stocks was compared with 1929. Many bearish commentators today believe this is a repeat of that period. I disagree. Bespoke puts the forward P/E of the S&P 500 at that time as high as 30. Today it is about 22. The companies with the greatest impact on markets have more liquid balance sheets and are quite profitable. I will grant the bears one point. Bespoke notes that days when the S&P 500 falls more than 1% while more stocks rise than fall have clustered in only two periods, around the 2000 peak and the last two years. That is a fair warning about the largest names. It says less about the market of stocks, and even in 2000 the average stock held its ground.

The two legitimate worries are the large amount of corporate debt newly issued by AI related companies, along with their future ability to service it, and the circular financing among companies involved in the infrastructure buildout. Bespoke points this out in their discussion of credit default swap pricing of this debt. The recent doubling from March until today is concerning and shows the level of doubt as markets question that ability. Many of those questions will be answered this week as earnings and guidance by major companies in the industry are announced.



Mega-cap five-year credit default swap index, last twelve months. Source: Bespoke Investment Group.

The last real question to be answered this week will be the most important short-term consideration. Even as many tech related companies have announced positive earnings and guidance, many exceeding predictions, their stocks sold off sharply. Consider the recent case of META, which beat estimates for earnings and sales, raised guidance, and still fell 7% the next day. Bespoke counts 16 companies with that same “triple play” so far this season, and on average their shares fell 1.6% on the day after the report, where a gain of about 5% has been typical. This demonstrates that expectations for AI and related companies have been too high. While many companies have reported incredible results, investors have begun to imagine and even demand impossible outcomes. The resulting disappointments combined with the increasingly short-term mindset of today’s traders will continue to result in these one-day disasters until prices and expectations come back into line. That is the short-term description of a correction.

In closing, please note I believe longer term investors should probably remain invested and prepared to commit cash reserves when this correction is finished. I work very hard to divorce politics from my investment decisions. So even though the elections loom right after Halloween I will concentrate on the economic outlook rather than political outcomes. My book Investing in the Second Wave is due out right after election day. It can be found on Amazon and at investinginthesecondwave.com. I believe it is a helpful explanation of finding and investing in those companies about to benefit from AI and potentially industries in their infancy that we have not yet heard about today. If you want to learn more about the methods that have sustained my investing over the last five decades pick up a copy.

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