CJ's Weekly Market Memo

Watch the Feet, Not the Mouth

July 13, 2026

The Economy

Let me start with the good news, because there is plenty of it. The economy is accelerating. Bespoke's Matrix of Economic Indicators reached +19 in May, the strongest reading since October 2024, with the improvement spread across manufacturing, housing, and the consumer rather than concentrated in one corner. In the seven prior cycles when this measure first crossed above +18, the S&P 500 was higher a year later every single time, with a median gain of 19.5%. Small sample, consistent message. The trade data tells a similar story: the year to date deficit has narrowed 40.6% as exports have jumped 11.7%. Whatever the headlines say, the underlying machine is running well.

The complication, as usual, is inflation. May's CPI came in at 4.2% year over year, breaking a 35 month streak of readings between 2% and 4%, and breaking it to the upside. The minutes from the June Fed meeting showed a committee that held the funds rate at 3.5% to 3.75% unanimously but is genuinely split on what comes next, with many participants open to additional firming if inflation stays elevated. Here is why I am not losing sleep over it. May's jump was almost entirely energy, which accounted for over 60% of the monthly increase while core CPI rose just 0.2%. Since then, WTI crude has lost more than a third of its value over two months, and the ISM Manufacturing Prices Paid index fell 9.1 points in June, one of the ten largest monthly declines since 2009. In comparable historical episodes, the following CPI print was flat to slightly negative. Wednesday's report is the most important data point of the month. If the headline number reverts below 4%, it takes considerable pressure off the market and the Fed alike.

One more item belongs on your dashboard. Chairman Warsh has made clear he intends to watch money supply rather than steer by interest rates alone, a page straight from Paul Volcker's book. When a Fed manages by the monetary aggregates, financial conditions become the transmission line, so I am keeping an eye on the St. Louis Fed Financial Stress Index. It currently sits at negative 0.72, comfortably below its zero average, which means credit markets and funding conditions remain calm. As long as that index stays quiet, a data driven Fed has room to be patient. If it starts climbing, we will talk about it here first.

Market Conditions: Technical and Fundamental

The third quarter opened with investors selling exactly what worked and buying exactly what did not. Of the 22 S&P 500 stocks that gained more than 100% in the first half, the average decline so far in July is 14.1%, while the other 478 stocks in the index are up an average of 1.8%. Meanwhile, 44 of the 50 worst first half performers have rallied this month. Context matters: Technology gained 31.6% in the second quarter and was the only sector to outperform the S&P 500, the first single sector quarter in the history of the data, and the Philadelphia Semiconductor Index posted its best quarter ever before delivering the third worst start to a quarter on record. When a sector swells that much, every passive fund on the planet is forced to trim it at the quarterly rebalance. That is profit taking and mechanical rebalancing, not a change in leadership.

The technical evidence backs that up. Start with the big picture: the 200 day moving average of the S&P 500 continues to rise smoothly, and a smoothly rising 200 day average is the signature of a healthy primary uptrend. Nearer term, the head and shoulders pattern Bespoke and others sighted last week may well be nullified, since the index held its 50 day moving average through the early July test and rallied off it. To be clear, holding support is necessary but not sufficient. It will take a new closing high to signal a true resumption of the advance. The encouraging part is that the cumulative advance decline line has already pushed to a new high, and breadth typically leads price. When the average stock is making new highs before the index does, the index usually follows. The VIX in the low 15s rounds out a constructive picture.

On the fundamental side, my colleague Andrew Kerai joins the majority of analysts in pointing to continued earnings growth, and therefore falling forward price to earnings ratios, as evidence of this market's soundness and a foundation for a continuing advance into the second half. On a longer term basis he is right, and I share that view. Growing earnings are the bedrock under this market, and they are the reason the prognosis further down this page tilts higher. My reservations apply strictly to the short term. Earnings revisions have been running positive into this reporting season, which raises the expectations bar, and a higher bar makes it harder for corporations to outperform. Over the next several weeks, many stocks may not respond well to earnings that merely meet estimates. It will take very strong guidance to get paid this quarter. The banks kick things off Tuesday, and we are also entering what has historically been the weakest three month stretch of the year for the S&P 500. None of that dents the foundation Andrew describes. It just means the market may make us wait a bit before rewarding it.

Now for my favorite observation of the week. Consumer sentiment surveys have had a credibility problem for years: Michigan confidence is down 14% from a year ago, yet personal spending is up 6.3% and retail sales are up 6.9% over the same period. Consumers tell the pollsters they are miserable, then head straight to the checkout line. Economists learned long ago to watch what consumers do, not what they say. Investors are behaving exactly the same way. The AAII survey, which asks investors how they feel, ranks in just the 35th percentile of readings since 2010, and futures positioning ranks in the 30th. But the Schwab Trading Activity Index, which measures what investors actually do in their brokerage accounts, surged in June to its highest level since February 2022, with buys outnumbering sells by two to one. And the caution keeps piling up on the sidelines: money market fund assets rose again this week to a record $7.95 trillion. Plenty of professed skepticism, plenty of dry powder, plenty of quiet buying. From a contrarian perspective, that is exactly what you want to see. Market tops are made when euphoria shows up in both word and deed at the same time. What we have instead is a wall of worry in the surveys and steady accumulation in the accounts. That is the kind of sentiment backdrop bull markets climb.

The Road Through 2026 and Into Early 2027

Putting the three pieces together, here is how I see the next several quarters playing out. The near term will likely be choppy. Seasonality turns against us this week, the expectations bar into earnings season is high, and Wednesday's CPI carries real two way risk. I would not be surprised by more rotation, more churning, and a few earnings related air pockets in individual names between now and the fall. That is the price of admission, not a reason to leave the theater.

Looking further out, the weight of the evidence points higher. Accelerating economic momentum of the kind we are seeing now has historically been followed by above average equity returns over the following year. Earnings are growing, which means the market gets cheaper on forward estimates even as prices rise. Breadth is confirming rather than diverging. Financial stress is nowhere in sight. And nearly $8 trillion sits in money market funds earning yields that shrink with every passing quarter, a reservoir of future demand for stocks. The AI investment cycle that powered the first half remains, in my view, a structural force with years to run, much as electrification was a century ago, and the July rotation looks like a healthy broadening of the advance rather than the end of it.

So my expectation is a sloppy summer, a firmer fall once the seasonal headwinds pass, and new highs that carry the advance into early 2027, with the cumulative advance decline line already voting for that outcome. The main thing that would change my mind is inflation breaking higher from here and forcing the Warsh Fed's hand, which is precisely why the CPI report and the stress index stay at the top of the watch list. Until the evidence changes, the plan does not: stay invested, stay diversified, keep some powder dry for the inevitable scares, and keep watching what investors do rather than what they tell the pollsters.

CJ Brott
Chairman Emeritus, Capital Ideas

Disclaimer