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CJ's Weekly Market Memo

The Economy: Cracks in the Armor, but the Foundation Holds

Let me start with the good news, because there is some. The American consumer—the engine that drives roughly 70% of GDP—is not falling apart. Jobless claims remain remarkably low, with continuing claims sitting near 1,819K, a level that simply does not signal recession. Household debt service ratios, at 11.3% of disposable income, are below pre-COVID levels. And here's a number that doesn't get enough attention: mortgage debt relative to home values is the lowest since the 1950s. That is an enormous cushion of latent wealth sitting in American living rooms.

Corporate earnings continue to surprise to the upside. Beat rates for EPS, revenue, and guidance are running around 50%—near the top of historical ranges—and forward twelve-month S&P 500 earnings estimates have risen 7.8% over the past three months, placing the acceleration in the 95th percentile since 1990. Labor productivity is growing at nearly 3% annualized, a pace we haven't sustained since the late 1990s. That kind of output growth is disinflationary and historically correlates with stronger hiring ahead.

Now the less cheerful part. Inflation, which never quite fell to the Fed's 2% target, is reaccelerating. Core PCE is running 3.1% year-over-year after two consecutive 4%+ annualized prints to start 2026. Some of this is tariff residue that still has not fully normalized through the system—and may prove temporary—but the energy shock from the Iran conflict is layering a fresh round of price pressure on top. Gasoline has surged past \$4 a gallon nationally, Brent crude is north of \$110, and the Strait of Hormuz closure has removed roughly 10% of global crude supply. Bespoke's "Three-Headed Monster" index—their composite of the dollar, interest rates, and oil—just experienced its largest one-month spike on record going back to 1985. That is a flashing red warning for equity bulls.

The energy shock has also rewired expectations for global central banks. Before the war, markets were pricing rate cuts in the U.S., Europe, the UK, and Canada. Today, every major developed market except the Fed is now expected to hike at least twice this year. Real yields have pushed above 2%, raising the bar for equity valuations. Private credit funds are seeing elevated redemption requests—though the 5% withdrawal caps are preventing fire sales, and bank exposure to non-bank lenders, at roughly 10% of total loans, is manageable. This is not 2008. But it is a headwind.

Technical Conditions: The Charts Are Speaking, and They're Not Whispering

If the economy is bending but not breaking, the market's technical structure is considerably more tenuous. The S&P 500 closed the week near 6,369, having broken below its November lows—a level that had served as meaningful support. The index has printed nothing but lower highs and lower lows since the Iran conflict began in late February. The 50-day moving average is now pointed decisively lower, even as the 200-day remains in an uptrend—a divergence that typically resolves in one of two ways, and neither is painless in the short run.

The Nasdaq has been hit even harder, declining in ten of the last eleven weeks—something that has never occurred eleven weeks in a row in the index's history. The Nasdaq Composite has fallen into official correction territory, now down more than 12% from its October peak. The enormous cap-weighting of the mega-cap names is amplifying the damage: Microsoft is off 24% year-to-date, Meta down 17%, Alphabet off nearly 11%. The Magnificent Seven ETF has declined over 13% YTD. These names dominated the indices on the way up, and they are now dragging them lower with equal force. Until the mega-caps stabilize, the broad averages will struggle.

Psychology is deeply negative—and as a contrarian, that actually gets my attention. CNN's Fear and Greed Index plunged to 10 on Friday, firmly in "Extreme Fear" territory. The AAI Sentiment Survey shows bears at 49.8%, well above the 31% historical average and marking the seventh consecutive week above that threshold—with the prior week topping 52%. Neutral sentiment has collapsed to just 18.1%, an unusually low reading that suggests investors aren't sitting on the fence; they've picked a side, and it's the wrong one for their portfolios. The VIX spiked to 31 on Friday with a 13% intraday jump, and the VIX term structure has inverted—near-term volatility priced above longer-term—which historically signals the kind of acute fear found near market lows, not the beginning of secular declines.

One important silver lining in the technical picture: semiconductors, which I have long considered the transports of the 21st century, continue to outperform the broader market. The Philadelphia Semiconductor Index is up nearly 6% YTD even as the S&P is negative. That kind of relative strength from a leading indicator group is worth noting.

Prognostication: A Bumpy Year with a Better Destination

Here is the tension I'm wrestling with: the short-term picture is legitimately difficult, but the intermediate-to-longer-term setup is quietly improving.

Valuations have come down meaningfully. The S&P 500's forward P/E has retreated from above 23 last October into the high teens. The Tech sector's forward P/E has fallen by a third, from 30+ to around 20x—the same level it traded at in late 2019. The Magnificent Seven's forward P/E sits at just the 17th percentile since 2015. Historically, when the S&P has entered correction territory as the Nasdaq just did, forward one-year returns run substantially above average—roughly 12% for the S&P versus 8% during all periods. Bespoke's Haystack tool, which matches current price patterns to historical analogs, projects a 16.75% gain over the next year with a 90% hit rate.

But here is the complicating factor investors need to prepare for: 2026 is a midterm election year, and midterm years have historically been the weakest in the four-year presidential cycle, with a median S&P return of just 0.58% since 1928. Even if the Middle East conflict resolves—and I believe there is a reasonable probability of some form of de-escalation in Q2—expect the anxiety level to remain elevated as political uncertainty builds through the fall. Both Trump 1.0 and Biden saw their first-year market gains largely evaporate in year two, and the early pattern of Trump's second term is tracking that same script.

My posture remains cautious. We are not yet at the point where I am ready to deploy reserves aggressively. The technical damage needs time to repair—I want to see higher highs and higher lows before leaning in. But the extreme pessimism in sentiment readings, the contrarian signal from an inverted VIX curve, the strength in semis, and the ongoing AI secular tailwind (which is consolidating, not dying) all tell me this is a market building the foundation for its next move higher—even if that move doesn't start on Monday morning.

Stay patient. Stay diversified. And remember that the best returns in market history have come from owning stocks after down days, not up days. The pain of the present is the price of admission for the gains ahead.

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