CJ's Weekly Market Memo

Midsummer Nights Dream

July 20, 2026

The Economy

Shakespeare filled his midsummer forest with confusion, mistaken identity, and lovers chasing shadows in the dark. This market feels much the same. The headlines are loud, the players keep swapping roles, and half of what frightens investors at midnight looks very different in the morning light. So let us start with what the data actually says.

It says disinflation is back. The June Consumer Price Index fell 0.4 percent, the annual rate slowed to 3.5 percent from 4.2 percent, and core CPI was flat for the month, easing to 2.6 percent year over year. Shelter costs rose just 0.1 percent, the smallest monthly increase since January 2021. Producer prices told the same story, falling 0.3 percent in June. Dig beneath the headline and the deflationary undertones get louder. Bespoke notes that supercore CPI booked its lowest reading since the peak of the pandemic, core CPI excluding rent fell at a 1.4 percent annualized rate, and nondurable goods ex food and energy dropped a striking 5.2 percent annualized. Even where cost pressure persists, it is coming from transportation and supply chains, not from consumer demand. Cost push inflation fades on its own. Demand pull inflation requires a Fed with a hammer. We have the former, not the latter.

That distinction matters because Fedspeak turned noticeably hawkish this month. Governor Waller delivered what Bespoke's language models scored as one of the most aggressive speeches in their thirty year corpus of Fed materials, and Dallas Fed President Logan was not far behind. Then the soft CPI and PPI prints arrived and the bond market simply stopped listening. Pricing for a July hike, which briefly reached a coin flip, evaporated, and money markets no longer fully price an increase until December. Regular readers know my rule: watch the feet, not the mouth. The feet are standing still.

Meanwhile the consumer keeps marching. June retail sales rose 0.2 percent and were 6.7 percent higher than a year ago, with sales ex autos and gasoline up a healthy 0.4 percent. Fastenal reported its fastest real daily sales growth since early 2022 and, importantly, its pricing data suggests tariff driven inflation has peaked and started to subside. And the long suffering consumer is finally cheering up. The University of Michigan sentiment index jumped nearly 10 percent for a second straight month to 54.4, the highest since February, with all five components improving and one year inflation expectations easing to 4.2 percent. Sentiment is still depressed by historical standards, which frankly is how I prefer it. Depressed sentiment plus rising spending has been one of the most reliable bullish disconnects of this entire cycle.

The complications are real, of course. The resumption of open fighting between the US and Iran has tanker traffic through Hormuz at a crawl, crude is pushing back toward 90 dollars, crack spreads sit at record levels, and gasoline futures imply a national average near 4.25 dollars a gallon by the end of July. Wheat traded to 52 week highs on hot weather and war worries. These are genuine costs and genuine risks. But they are supply shocks, not signs of an overheating economy, and the underlying inflation trend beneath them is clearly cooling.

Market Technicals

Start with the indicator I trust most. The 200 day moving average of the S&P 500 continues to rise smoothly. Whatever the daily headlines say, the primary trend of this market remains up, and smoothly rising long term averages do not typically mark tops. They mark bull markets digesting their gains.

And there is plenty to digest. Semiconductors, the market's glamour trade, rose more than 2000 percent over the past decade and doubled in the past twelve months alone before peaking on June 22. Since then the group has drawn down over 15 percent. The selling went global in dramatic fashion.

Ten AI adjacent stocks across Asia have shed roughly 1.5 trillion dollars in market value, about 24 percent, with Tokyo, Taipei, and Seoul all taking sharp hits. The catalyst was the announcement of Kimi K3, an open weight Chinese model that scores near the best American systems at a fraction of the running cost. If that sounds familiar, it should. Bespoke calls it DeepSeek redux, and the January 2025 DeepSeek scare knocked the NASDAQ 100 down 13 percent before the market found its footing and moved to new highs. Nervous markets rhyme.

Here is what the nervous headlines miss: this is rotation, not liquidation. On the very night Asia's AI names were being hammered, Indonesian stocks rose 1.1 percent. At home, value, dividend payers, and small cap value all finished the week green while tech sold off. Financials staged a genuine breakout, with banks at 52 week highs and the insurance group registering only its eighth golden cross since 1990, a signal historically followed by above average returns over the following six to twelve months. Money is not leaving the market. It is moving around inside it, which is what healthy bull markets do.

The fundamentals underneath the tape are stronger still. Bank earnings were a bonanza, with aggregate Wall Street trading and investment banking revenues up 40 percent year over year, loan growth firm, and credit quality at new cycle lows for impairments. Taiwan Semi posted record June revenue, beat handily, and raised full year capex guidance 15 percent, citing a very big gap between compute supply and demand. ASML raised its full year revenue guide 16 percent at the midpoint. My colleague Andrew Kerai has argued all year that earnings growth is the engine that carries this market, and this reporting season is proving his point. Just as important, Bespoke notes the corporate financing gap sits at negative 0.8 percent of GDP, meaning corporate America in aggregate still funds its investment comfortably from cash flow. Recessions are rarely born from that position.

Now the contrarian's favorite part. Despite an S&P 500 up double digits this year, individual investors refuse to believe. AAII bearish readings ran above their historical average for more than twenty consecutive weeks into July, and money market fund assets remain near record levels. That is a mountain of cash earning a shrinking yield while sitting across the street from a market making new highs. Skepticism of this durability is not what tops are made of. Tops are made of euphoria, and euphoria is nowhere in sight.

Prognostication

For the balance of the summer, expect more of the dream state: vivid, occasionally frightening, and mostly noise. The war headlines, four dollar gasoline, a jumpy semiconductor complex, and a Fed meeting at month end give traders every excuse to whipsaw prices. I would not be surprised to see further downside testing in the AI hardware names, which are correcting from what Bespoke rightly calls an extreme position. Repricing after a 2000 percent run is not a tragedy. It is hygiene.

Looking through year end and into early 2027, the pieces line up constructively. Disinflation has resumed, which keeps the Fed on hold and takes the worst case rate scenario off the table. Earnings are growing across a broadening list of sectors, banks and industrials very much included. The technical foundation, that smoothly rising 200 day average, remains intact. Sentiment is skeptical and cash is abundant. My father taught me that a bull market is when greed overcomes fear, and right now fear still has the upper hand with trillions parked in money market funds. Every previous cycle tells me that cash does not sit still forever. When it moves, it moves into equities.

I would also remind readers of the longer arc. Great capital cycles, from the railroads to electrification to this AI buildout, have never traveled in a straight line. The electrification boom of the 1920s survived plenty of gut checks on its way to transforming the economy, and the current buildout is following the same script. Taiwan Semi committing another 100 billion dollars to leading edge fabs is not the behavior of an industry that doubts its future. Corrections within a secular buildout are opportunities for patient investors, not exit signs.

So my counsel is unchanged: stay invested, favor quality, and let the broadening market work for you. Use weakness in great franchises to add, keep some dry powder for the inevitable summer squall, and tune out the midnight noise in the forest. When Puck finally lifts the spell, I expect investors will wake to find this bull market still very much alive, and the biggest risk was never the headlines. It was standing aside.

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