HCM Market Brief: Healthy Consolidation, AI Momentum, and What to Watch Next

The latest HCM Market Brief Podcast focused on a market that has entered a period of consolidation after an exceptionally strong first half of the year. While headlines have become quieter, Doug Johnson, CFA and Dan Rinck, APMA emphasized that a sideways market should not necessarily be viewed as a negative development. Instead, they described the current environment as a healthy pause that allows valuations, investor expectations, and leadership trends to reset before the next major catalyst—corporate earnings season.

Rather than continuing the rapid gains seen earlier in the year, the S&P 500 has largely traded sideways since late May. Pullbacks have been quickly bought, while rallies have struggled to extend, creating a broad trading range across many asset classes. According to the discussion, the lack of meaningful economic surprises and the temporary lull before earnings season have left investors without a compelling reason to aggressively push markets in either direction. From HCM's perspective, this consolidation appears constructive rather than concerning because strong advances are often followed by periods where markets digest previous gains.

One of the biggest themes discussed was the ongoing rotation beneath the market's surface. Earlier this year, investors shifted away from traditional growth stocks toward value companies, smaller-cap stocks, and international markets. While that rotation was significant for a period, it has recently lost momentum. Instead of one group clearly outperforming another, most sectors and styles have begun moving together, making leadership less obvious. The investment team believes investors are waiting for the next major trend to emerge, likely driven by earnings or economic developments.

The conversation then turned to one of the most closely watched developments in July—the sharp breakdown in momentum investing. Momentum strategies, which benefited tremendously from artificial intelligence and technology stocks throughout 2025 and early 2026, experienced one of their largest relative declines in years. Doug Johnson noted that the magnitude of the pullback rivaled some of the largest momentum reversals since the financial crisis.

While this decline caught investors' attention, the hosts cautioned against interpreting it as the bursting of an AI bubble. Instead, they pointed to several technical factors that amplified the move, including leveraged trading products and excessive speculation. The discussion highlighted South Korea as an example, where investors reportedly used extraordinary amounts of leverage while chasing technology stocks, leading to widespread margin liquidations as markets corrected. Although dramatic, the hosts viewed this more as a needed reset than evidence that the broader AI investment theme has ended.

Importantly, the fundamental outlook for artificial intelligence remains intact in their view. Bears continue to argue that enormous capital expenditures by technology companies will ultimately fail to generate adequate returns. However, Johnson argued that current evidence still favors the bullish case because demand for computing power remains exceptionally strong.

Companies continue building data centers, purchasing semiconductors, and expanding memory capacity because customer demand continues to outpace available supply. Dan Rinck explained that although AI models are becoming more efficient, those efficiency gains have not reduced the need for computing infrastructure. As long as demand for chips, memory, and processing power continues exceeding supply, companies are likely to keep investing aggressively in AI infrastructure.

The discussion then shifted toward the upcoming earnings season, which both hosts described as the next major catalyst for markets. Earnings growth has provided one of the strongest supports for equities over the past year, but expectations have also risen dramatically. The concern is no longer whether companies will produce good results, but whether those results will be good enough to satisfy investors.

Several recent earnings announcements demonstrated this challenge. Companies reported impressive financial results only to see their stock prices decline or trade sideways afterward. This reflects what the hosts called "peak expectations," where investors already assume excellent performance and require extraordinary results before rewarding companies with higher stock prices. Consequently, even strong earnings may produce muted market reactions if expectations have become too optimistic.

Seasonality and politics also entered the discussion. Historically, midterm election years tend to experience weaker market performance during the summer before strengthening later in the year. However, Johnson noted that 2026 has already deviated from the typical seasonal pattern.

The hosts believe other factors—including AI investment, earnings growth, geopolitical events, and economic conditions—are likely to have a much larger impact on markets than the election itself. While short-term volatility around elections is possible, they cautioned investors against making portfolio decisions based solely on political outcomes. Historical market returns have been remarkably consistent under both Republican and Democratic administrations, suggesting that long-term investment success depends far more on corporate earnings and economic fundamentals than political leadership.

One of the more interesting discussions centered on how major market indexes are changing. Johnson highlighted the surprising fact that companies like Apple now appear as major holdings in both the Russell 1000 Growth Index and the Russell 1000 Value Index. Similarly, Amazon has recently shifted classifications despite still possessing many characteristics traditionally associated with growth companies.

The hosts questioned whether these classifications still accurately represent the distinctions between value and growth investing. Traditionally, value stocks have been mature companies with attractive valuations and dividend income, while growth stocks emphasized faster-growing businesses with greater appreciation potential. Today, those lines are becoming increasingly blurred as technology giants mature while still delivering significant earnings growth.

These classification changes have practical implications for portfolio management. Many ETFs and mutual funds benchmark themselves against these indexes, meaning investors may own considerably more exposure to large technology companies than they realize—even within strategies marketed as value investing. Johnson noted that some dividend-focused funds now list NVIDIA among their largest holdings despite its very small dividend yield.

The HCM investment team believes this trend deserves close monitoring because traditional value investing has historically provided downside protection during market declines. If value indexes become increasingly concentrated in former growth stocks, investors may unknowingly sacrifice some of the defensive characteristics they expect from those allocations. Understanding these structural changes has become an important part of the firm's investment process.

Overall, the podcast presented a constructive outlook despite the recent slowdown in market performance. The hosts view the current consolidation as a normal and healthy phase following substantial gains earlier in the year. While momentum investing has experienced a significant correction, they believe the long-term AI investment story remains supported by continued demand for computing infrastructure and semiconductors.

Looking ahead, earnings season will likely determine whether markets can resume their advance. Although elevated expectations create the potential for volatility, strong corporate fundamentals continue to provide an encouraging backdrop. Investors should remain focused on long-term trends rather than short-term political headlines or temporary market rotations, recognizing that disciplined portfolio management and attention to underlying fundamentals remain the most reliable path through changing market environments.