CIBC PRIVATE WEALTH



# JAMES DIXON, CIM®: MACRO THOUGHTS – SEP 23, 2026

# THE EVOLVING BULL MARKET

## EXECUTIVE SUMMARY


The equity market is undergoing an important transition beneath the surface.

Since early June, the S&P 500 has made relatively little headline progress. Yet market leadership has changed materially. The early-cycle, capital-intensive winners are increasingly giving way to companies with stronger margins, better free cash flow and more durable earnings. Software, Financial Services, Insurance and Healthcare Services are beginning to demonstrate the earnings revision strength previously concentrated in Semiconductors and other cyclicals.

Morgan Stanley CIO Mike Wilson argues that this represents a classic transition from early-cycle recovery to mid-cycle expansion.

His argument reinforces two themes I highlighted previously:

- **Aug 5 – POSITIONING FOR THE NEXT PHASE OF THE BULL MARKET:** "The bull market is evolving—not ending. Adjust, don't exit."
- **Aug 26 – QUALITY MATTERS:** "Own businesses, not stories. Own cash flows, not simply earnings."

The latest market developments strengthen both conclusions.

Importantly, the mid-cycle transition does not imply that the equity opportunity is ending. Earnings remain strong, with the median Russell 3000 company growing earnings in the mid-teens—the fastest pace since 2021.

What is changing is the mechanism driving returns.

Early in a bull market, economic recovery and expanding valuations can lift almost everything. Mid-cycle, earnings increasingly have to do the heavy lifting. Valuation expansion becomes harder, dispersion increases and investors become more discriminating.

**Bottom line:** This is not a signal to abandon equities. It is a signal to raise the quality of equity exposure.


## 1. THE INDEX IS HIDING THE REAL STORY

The Investors naturally focus on the S&P 500. Yet an index can remain relatively unchanged while an enormous amount happens underneath it.

That appears to be precisely what has occurred.

Since June, capital-intensive early-cycle beneficiaries have lost relative momentum while higher-quality, more asset-light businesses have strengthened.

This is consistent with the progression I outlined on August 5.

Early-cycle markets typically reward beta. Investors anticipate recovery, operating leverage improves, cyclicals rebound and valuations expand.

Mid-cycle markets demand more.

The questions change from: "*Will earnings recover?"* to "*How durable are those earnings, and how much ultimately becomes cash?"*

That is the essence of the mid-cycle transition!

## 2. EARNINGS ARE DOING THE HEAVY LIFTING

The most important support for equities remains earnings.

In line with this, it is noteworthy that the median Russell 3000 company is growing earnings in the mid-teens—the strongest pace since 2021—and revisions remain healthy.

At the same time, equities have de-rated as bond markets have repriced the outlook for interest rates.

This combination is important because it is classic mid-cycle behavior. For context:

- **Early cycle:** Earnings ↑ + Valuations ↑ = Powerful broad-market returns.
- **Mid cycle**: Earnings ↑ + Valuations ↓/Flat = More selective returns.

The market can therefore remain constructive even as individual stock performance becomes increasingly dispersed. This is why stock selection becomes more important as the cycle matures.

For UHNW investors identifying this shit is paramount in in making investment decisions.

**Key insight:** Beta mattered more during the recovery. Alpha matters more during the expansion.

## 3. HIGHER RATES DO NOT AUTOMATICALLY MEAN "RISK OFF"

The market has spent months adjusting to the possibility of tighter monetary policy. Much of that tightening has already occurred through higher bond yields and lower equity valuations.

That's good and well but more important question is why yields are rising.

- **Problematic higher yields**. Higher rates caused by deteriorating inflation expectations and weakening real growth would be problematic.
- **Growth driven higher yields.** Higher yields associated with resilient nominal growth, corporate investment and earnings are different. They tell a positive story.

We are currently in the latter environment. This is evidenced by strong nominal growth, supported by capital expenditure incentives, AI compute demand and greater real-economy activity.

This matters because equities can provide an effective inflation hedge when companies possess sufficient pricing power to translate nominal revenue growth into higher earnings and cash flow.

Deflation and collapsing earnings are considerably more dangerous for equities than moderate inflation accompanied by strong nominal growth.

**Key insight:** For UHNW, more important that the move in yields itself, is identifying the forces that are driving those spikes in long end yields. For now, they appear positive!

## 4. "SHOW ME THE MONEY" IS THE MID-CYCLE PLAYBOOK

My August 26 macro thoughts, QUALITY MATTERS, argued that the market was beginning to demand something beyond accounting earnings. It wanted cash!

That message has become even more important.

The market increasingly wants to see the complete economic chain: Revenue → Earnings → Free Cash Flow → Reinvestment → Higher Intrinsic Value.

This is why my quality framework remains paramount: Quality + Growth + Cash Flow + Valuation.

Mid-cycle markets become less forgiving of businesses dependent upon leverage, continuous capital raising or aggressive assumptions about future profitability.

Conversely, companies with strong balance sheets, pricing power, high margins and substantial internally generated cash gain flexibility as financing conditions become more restrictive.

**Key insight:** For UHNW investors, focusing on quality serves two important purposes:

- Offense through compounding.
- Defense through resilience.

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## 5. AI IS ALSO MOVING INTO ITS NEXT PHASE

The rotation away from Semiconductors should not automatically be interpreted as the end of the AI investment cycle.

It may instead signal its maturation.

The first stage predominantly rewarded infrastructure:

- Semiconductors.
- Networking.
- Data centres.
- Power and cooling.
- Cloud infrastructure.

These themes remain intact as those businesses remain essential. As I wrote on August 5, prospectors still needed shovels whether it was 1848 or 1855.

But the next stage increasingly asks what companies actually do with that infrastructure which is why investors need to pay attention. The question becomes: *"Can AI improve productivity? Reduce costs? Expand margins? Accelerate growth? Ultimately, can it increase free cash flow?"*

This potentially broadens the opportunity toward Software, Financial Services, Insurance, Healthcare, Industrials and Consumer businesses capable of converting AI adoption into measurable economic returns.

Within these businesses, the simplest way to identify the likely winners is though financial ratio analysis as they tell the story of company health.

**Key insight:** The AI opportunity is not necessarily shrinking. It is broadening from infrastructure creation toward productivity realization. We increasingly need to pay attention to companies that are monetizing AI implementation.

## 6. PORTFOLIO POSITIONING

The current environment argues for greater selectivity—not less equity exposure.

I increasingly favour businesses exhibiting:

- Positive earnings revisions.
- Durable earnings growth.
- Strong free cash flow conversion.
- Defensible margins and pricing power.
- Strong balance sheets.
- High returns on invested capital.
- AI-enabled productivity opportunities.

Ironically this has always been the core thesis of how my portfolios are constructed from day 1. Beta plays make up satellite rather than core positions. This thesis simply matters more mid-cycle.

In line with this thesis, Morgan Stanley recently observed that earnings revisions are improving across Software, Financial Services, Insurance and Healthcare Services. This observation is particularly noteworthy because it suggests leadership is broadening beyond earlier-cycle beneficiaries.

**Bottom line:** The above supports a constructive thesis on structural themes including: AI infrastructure; electrification; aerospace and defense; energy infrastructure and strategically important industrial capacity.

**Key insight:** For UHNW investors, it is important to understand that while these themes remain intact, the hurdle is rising. Decisions need to adjust accordingly:

- The question is no longer simply: *"Is this company exposed to the right theme?"*
- It is: "*Can this company convert that opportunity into sustainable free cash flow and attractive returns on capital?"*

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## 7. RISKS THAT COULD CHALLENGE THE THESIS?

The primary risk is not moderate inflation itself but an environment where inflation begins damaging real economic growth.

Oil is particularly important here! For context:

- A significant additional energy shock could simultaneously increase inflation, push yields higher, compress corporate margins and weaken consumer purchasing power.
- Likewise, a broad deterioration in earnings revisions, credit conditions or employment would suggest that the economy was moving beyond normal mid-cycle normalization.

The distinction is critical:

- Falling valuations with rising earnings is mid-cycle normalization.
- Falling valuations with falling earnings is something different.

For now, the evidence remains more consistent with the former.

**Key insight:** While challenges exist, short of an aggressive oil spike from here (driving inflation higher and compressing earnings), the mid cycle bull market remains intact.

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## CONCLUSION

The most important development in today's equity market is not the level of the S&P 500.

It is the change occurring underneath it!

The market has spent the past several months transitioning from early-cycle beta toward mid-cycle quality. Leadership is broadening toward businesses with stronger margins, better free cash flow and more durable earnings.

This completes the progression I have highlighted since August.

- On August 5, I argued: “The bull market is evolving—not ending. Adjust, don't exit.”
- On August 26, I raised the hurdle: “Own businesses, not stories. Own cash flows, not simply earnings.”

Today, the market increasingly appears to be validating both arguments.

For UHNW investors, the implication is not to abandon equities but to become more selective within them.

The early stages of the cycle rewarded participation. The next stage should increasingly reward discipline.

Quality + Growth + Cash Flow + Valuation remain my primary investment lens. Strategic necessity remains the second.

The market is not telling us that the race is over.

It is telling us that the baton has been passed - Adjust, don't exit. Raise the bar!

## CONTACT

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