



The stock market has historically performed well in November, but the S&P 500 slipped modestly in November 2025. After the market's impressive 40% rally from the April lows to the October highs, investors became more selective. Technology and AI-related stocks have continued to lead, along with more speculative secondary and tertiary plays tied to the theme. However, the sheer magnitude of the outperformance and the valuations placed on the winners led to some indigestion, particularly given the massive capital required to build the infrastructure behind AI. Questions about returns on investment for these companies, which are investing tens of billions of dollars in the coming years, and the timing of monetization, grew louder.

Compounding this was the longest government shutdown in U.S. history, which halted the release of nearly all economic data. Without hard data to gauge inflation and economic momentum, investors were left with sentiment alone, and sentiment has been poor. Consumer surveys on current conditions and confidence sit near decade-plus lows. For a while now, objective "hard" data has been far stronger than sentiment suggested, but in November, almost none of it was available. With no new evidence to confirm economic stability, mood dominated the narrative.

This data vacuum also included the inflation and labor market readings the Federal Reserve relies on to set interest rates. Although the Fed implemented another one-quarter point interest rate cut in November, investors questioned whether Chair Powell had sufficient information to justify further easing at the December meeting.

Even so, there were meaningful drivers behind the market's late-month rebound. Third-quarter earnings were exceptional, rising nearly 15%. AI bellwethers, including Nvidia, reported overwhelming demand for its products and services, constrained mainly by limited electrical power availability. Notably, a historically high percentage of other companies beat expectations, and an unusually large number raised forward guidance rather than lowering it.

Meanwhile, the "K-shaped" nature of the economy, meaning the economy is treating different people differently, remained evident. Higher-income consumers continued to spend, while lower- and middle-income households struggled with affordability. The labor market is softening. AI-related industries are booming, but housing, freight, and traditional manufacturing remain under pressure. Still, monetary and fiscal policy are supportive. The Fed's easing cycle and the 2026 tax cuts are both stimulative forces.

By the end of the month, the government shutdown ended, clearing the way for the release of fresh economic data and the resumption of normal federal spending. Trade policy, while still challenging, is now more predictable. Given the circumstances, the market's pause in November was reasonable, and so is the prospect of a strong finish to the year.

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Sincerely,

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