

EQUITY MARKET UPDATE

As of 11/30/25 | Volume 14, Issue 11 | FFTAM.com

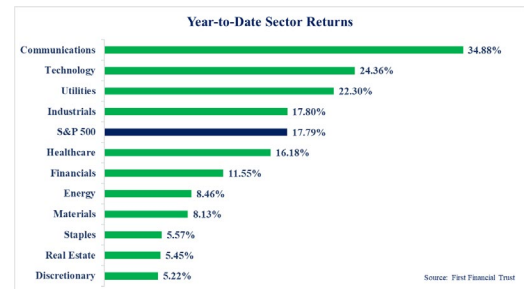
Stocks finished the month with positive returns despite elevated volatility. The government shutdown ended, and investors were hit with a deluge of economic reports that had been postponed. This created uncertainty about whether the Fed will cut interest rates again at their December meeting. We also experienced a sell-off in AI-related names and cryptocurrencies as investors tapped the brakes on these riskier trades given worries about valuation.

Performance

During November, large-cap benchmarks delivered mixed performance, with the Dow Jones Industrials Average posting a total return of +0.48% and the S&P 500 rising by +0.25%. The tech-heavy NASDAQ was the sole decliner for the month, falling by a total return of -1.45%. The best performance was in mid-cap and small-cap stocks as investors rotated towards areas of the market with lower valuations—the S&P MidCap 400 index was up +2.04%, followed by the S&P SmallCap 600 index gaining +2.65%.

The monthly gains in the S&P 500 were overwhelmingly driven by the Healthcare sector, which returned +9.31%, by far the top-performing group. Other notable leaders included Communications (+6.35%) and Materials (+4.17%). Conversely, the worst-performing sectors for the month were Consumer Discretionary (-2.39%) and Technology (-4.29%). At the individual stock level, Alphabet, Eli Lilly, Apple, and Broadcom were the dominant positive contributors to the S&P 500's net change. If you excluded these four names, the index would have declined 1.03% in November.

Looking at year-to-date performance, all major indices demonstrated robust growth, with the S&P 500 achieving a total return of +17.79% and the Dow Jones Industrials Average rising +13.88%. Sector performance was highly dispersed, with Communications leading all groups with an impressive YTD total return of +34.88%. Technology followed as the next strongest performer with a +24.36% return. On the low end of performance, Consumer Discretionary (+5.22%), Real Estate (+5.40%), and Consumer Staples (+5.57%) have significantly lagged the broader market.



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Economic Data Summary

Given the seismic shift to global commerce from President Trump's tariff agreements, along with changes to tax laws, economic data has been difficult to clearly interpret. The government shutdown made matters worse since many of the usual reports were not released. Once the government reopened, numerous reports were provided; however, it added to the confusion since the data was stale. The US economy has clearly softened in recent months, but nothing indicates a recession is at the doorstep. Consumer spending is firm, but it continues to come primarily from higher-income households that have record amounts of their net worth tied up in the stock market. For months, metrics have shown financial stress building among lower-income households, and recent consumer sentiment surveys indicate the potential for higher prices from tariffs is front of mind. Labor, which has been the bright spot for the past two years, has visibly slowed. September jobs data finally came out, and it showed the economy only added 52,000 positions. The government has not announced when or if an October and November BLS report will be released. The unemployment rate ticked up to 4.4%. That was higher than anticipated but still low by historical standards. Wages were up 3.8% from one year ago and continue to move toward the Fed's target. Initial jobless claims are very mild, while continuing claims have increased. This tells us the labor market is tight, but competition to recruit and retain employees has obviously waned. Lack of immigration is also weighing on employment growth. Collectively, this indicates that getting a new job is becoming harder for people on unemployment.

Consumer inflation remains stubborn, with prices increasing 3.0% from one year ago. Core inflation that removes food and energy is also 3.0%. PCE data, the Fed's preferred measure of inflation, showed total prices climbing 2.8%, while prices ex-food and energy also rose 2.8%. However, that data is stale since it was a September report that was previously delayed due to the government shutdown. The stickiness of inflation has created a large debate among investors about how much room the Fed has to lower interest rates, especially if tariffs push prices higher in future months as pre-tariff inventories are worked out of the system. Investors are also awaiting a ruling from the Supreme Court on whether President Trump overstepped his authority on applying widespread tariffs without authorization or ratification of new deals from Congress. The case was heard by the Supreme Court on November 5th with an expected ruling by year-end. The President has already lost the case in both the lower and appellate courts.

Despite wage growth and relatively low unemployment, clouds are forming over select segments of the consumer population. Personal income and spending data for September was finally released. It showed no growth in spending on an inflation adjusted basis. An increasing number of retail and restaurant CEOs are describing a "k-shape" economy in which wealthy households continue to prosper while lower- and middle-income families are cutting back. Consumers have increasingly funded their expenditures with the use of debt. Credit card balances are at record amounts, and debt delinquency has climbed from one year ago in both credit cards and auto loans, especially among people with lower credit scores.

Business investment is anemic outside of artificial intelligence. According to a recent *Wall Street Journal* article, spending on AI infrastructure has accounted for half of the GDP growth in 2025. Meanwhile, the ISM Manufacturing PMI Index was 48.2. This index has contracted 34 of the last 37 months. Employment data (44.0) contracted once again. Manufacturing jobs have fallen in 30 of the last 34 months, something that historically happens only during deep recessions. New orders (47.4) contracted for the second straight month. Unfortunately, prices paid (58.5) remained very hot, adding to fears that inflation from tariffs could be lurking under the surface of more widely followed economic metrics. Services have been the engine powering the economy, but it too has softened. The ISM Service PMI Index (52.6) showed expansion. Service employment (48.9) contracted for the ninth

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time in ten months, providing evidence that labor conditions are tightening. Meanwhile, new orders (52.9) expanded but at a much weaker pace than the previous month. However, just like its manufacturing cousin, prices paid for services (65.4) remained very hot, although this was a significant improvement from the 70.0 reading we got in October.

Collectively, the data shows the Fed is winning the battle with inflation, although as stated above, President Trump's tariff agenda has inserted a high degree of uncertainty for future prices. The President has begun to exempt several food-related items from tariffs to help with affordability. The FOMC lowered interest rates to a range of 3.75% to 4.00% in late October. Their next meeting is scheduled for December 10th, and investors are uncertain about whether another cut is on the horizon. Fed Fund Futures are pricing a 91% chance that rates will be lowered, but Fed minutes from the previous meeting showed a major diversion between voting members on whether additional cuts are needed given the lack of information as government workers try to assemble reports that were delayed during the shutdown. Finally, President Trump announced he has decided on the nominee that will replace current Chairman Jerome Powell in May 2026; however, the President was not prepared to release the name until after the new year. Market odds are heavily tilted towards the current Director of Economic Council, Kevin Hassett.

Valuation & Earnings

The valuation of the S&P 500 currently stands at 22.4x forward earnings estimates. This is more than one year ago (21.9x), and it is also above the 5-year (20.0x) and 10-year (18.7x) averages despite the higher interest rate environment. Therefore, the equity risk premium that compensates investors for the excess risks associated with stocks compared to bonds remains thin.

Third quarter earnings season has concluded with year-over-year profits growing 13.4%, much better than analysts' forecast of 8%. It marked the ninth consecutive quarter of earnings growth and the fourth straight quarter of double-digit growth. Once again, the best results are coming from the technology, utilities, and financials sectors. Wall Street now expects full-year 2025 earnings growth of 11.8%, and 2026 forecasts reveal analysts believe that profits will grow an additional 14.2%. Technology is still expected to be the best grower of earnings, but the spread between tech and other sectors is thought to narrow. If true, it is likely a rotation could occur where investors trim from the more expensive big tech names to rotate towards other areas of the market where growth rates are improving at much lower valuations, like financials, industrials, and healthcare.



With the market trading above valuations of the past decade, stocks are vulnerable to headline risk from major economic reports, the Fed, and geopolitical events. Coming into 2025, the S&P 500 experienced two years in which returns exceeded profit growth, resulting in back-to-back years of PE multiple expansion. This told us investors were fully convinced that inflation and interest rates would be coming down while overall demand for goods and services would remain intact (i.e., soft landing or "Goldilocks" scenario). This view has become clouded due to the lack of clarity from President Trump on the use and implementation of tariffs, along with persistently higher long-term interest rates. It appears 2025 will be another year in which returns exceed earnings growth, but the PE multiple expansion is far less than the previous two years. Therefore, we would not be surprised to see the market continue to consolidate or trade sideways for the next few months given elevated valuations, along with the size and speed of the rally since the Liberation Day sell-off, especially if we see further rotation from technology

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to other sectors in the market.

Conclusion

For months, we have written about the large difference in valuation between the big tech companies at the top of the index and everybody else. Many may not be aware that the ten largest tech companies now represent more than 40% of the market, a level of concentration rarely seen in history. Currently, if you equal-weight the names inside the S&P 500, the forward PE ratio drops from 22.4x to 17.1x. It appeared the wide margin was poised to close significantly after tech performed so poorly in February, March, and April; however, the rally in AI-related stocks from the Liberation Day lows has reopened the gap to the widest level seen in years. Like clockwork, investors captured outsized gains in technology and moved the proceeds to other growing areas that had been left behind, like healthcare. As year-end approaches, we remain bullish on banks, real estate, select software names, and parts of healthcare and industrials. Finally, our preference for quality companies with strong balance sheets and growing dividend streams to enhance performance remains strongly intact.

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