

Weekly Market Perspectives

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Is Recent AI Pressure and Fed Uncertainty Setting The Stage for 2026?

Major U.S. stock averages declined last week as scrutiny on AI intensified and policy uncertainty in Washington and around the Federal Reserve weighed on investor sentiment. However, last week’s decline in the S&P 500 Index and NASDAQ Composite follows three straight weeks of gains. This week, investors will continue to monitor Big Tech trends, Fed speeches, and the timing of economic releases as the U.S. government prepares to reopen.

Last week in review:

- The S&P 500 Index and NASDAQ Composite dropped 1.6%, and 3.0%, respectively. Big Tech was under pressure last week, with NVIDIA falling 7.0%, Tesla dropping 5.9%, and Meta Platforms falling 4.1%. AI scrutiny was the major theme weighing on the broad indexes last week, as investor concerns regarding cash burn, leverage, circularity of deals and agreements, and return on investment pushed back against elevated valuations. **Bottom line: Big Tech stocks have been running higher for months, and it's quite healthy and normal in our view to have some rationalization around forward expectations.** We expect the major averages to face some near-term headwinds if investors continue to exert pressure on Big Tech stocks heading into NVIDIA’s closely anticipated earnings report on November 19. That said, we don’t see recent pressure in the AI arena changing the overall longer-term positive narrative encompassing the advanced technology and/or the stocks that are building out the infrastructure.
- The Dow Jones Industrial Average and Russell 2000 Index lost 1.2% and 1.9%, respectively.
- U.S. Treasury prices were mostly firmer across the curve, the U.S. Dollar Index declined, and Gold stabilized around \$4,000 per ounce. However, the precious metal finished the week about 8.0% below its all-time high set on October 20. West Texas Intermediate (WTI) crude dropped 2.0% on the week.
- On the economic front, given that U.S. government releases are delayed due to the ongoing shutdown, private data is carrying increased weight with investors at the moment. Challenger job cuts hit more than 150,000 in October, the most in two decades, while University of Michigan consumer sentiment unexpectedly declined this month to its worst level since June 2022. ISM manufacturing and services activity showed mixed results on the U.S. economy last month, while October ADP private payrolls data beat forecasts and turned positive for the first time in two months.
- Effects from the longest U.S. government shutdown in history intensified, with the Federal Aviation Administration (FAA) canceling flights on Friday to ease pressure on air traffic controllers, and delayed SNAP benefits began to take their toll on lower-income households that rely on such benefits to feed their families. Headlines going into the weekend suggested that Democrats and Republicans were starting to engage in talks in an effort to find a resolution to their impasse, which they did find on Sunday. The Senate passed legislation to reopen the government and fund federal agencies through January.

- Odds for a 25-basis point Fed rate cut next month remain skewed toward the Fed cutting. Still, the cut may remain a game-time decision for policymakers, given the current lack of available government data.

Is recent AI pressure and Fed uncertainty setting the stage for 2026?

As noted above, major U.S. stock averages ended last week lower, with the S&P 500 and NASDAQ Composite retreating after labor data signaled further cooling, and scrutiny on AI valuations intensified. The Challenger jobs report showed that October layoffs were roughly three times the year-ago level, with cumulative cuts this year reaching one million. In addition, ADP private payrolls posted only modest gains last month, concentrated in large firms, while smaller companies slowed hiring. Notably, services activity in October expanded with the strongest new orders in a year, but employment contracted, and input prices stayed elevated. On the manufacturing side, activity remained in contraction, though orders and hiring improved slightly. In the absence of government data, due to the shutdown, investors were reminded that the U.S. economy remains on a two-track tier and labor conditions are softening.

On the market side of the equation, Technology stocks faced renewed valuation pressure last week as investors reassessed AI spending timelines, with semiconductors under added scrutiny for margin durability and 2026 supply ramps. For example, Qualcomm and AMD faced pressure following solid earnings reports, as some investor fatigue may be setting in after months of strong gains across semiconductor stocks. That said, even in a down market, broader market trends improved beneath the surface, with Energy, Healthcare, and Financials outperforming Technology and Communication Services. Despite the added volatility, we remain constructive on year-end performance for the major averages and view the recent downdraft as healthy and warranted, assuming expectations for earnings growth in Q4 and early next year don't dip below the usual current quarter adjustments.

Notably, the December Federal Reserve meeting could be one of the last major focal points of the year for investors. Policymakers have cut rates twice this year by 25 basis points each, and another 25-basis-point cut next month is likely to be a close call. A rate cut could reinforce a gradual shift toward easier conditions heading into next year, favoring rate-sensitive sectors and long-duration growth areas, such as Technology. A pause in rate cuts next month, with language keeping future cuts on the table, could still support markets, though we expect markets to become choppy heading into year-end. Regardless, Fed Chair Powell's messages and tone after the meeting, as well as the updated Summary of Economic Projections, will matter as much as the decision itself.

So, why does the last Fed meeting of the year matter so much? Because the Fed's updated projections will frame the policy path for 2026. In our view, markets are less concerned with whether the Fed cuts in December than with whether policymakers confirm a glide path toward lower rates next year. If inflation continues to cool and labor market conditions avoid sharp deterioration, the Fed's own forecasts indicate a gradual shift toward neutral rates. Historically, stocks have performed well when interest rates decline gradually during an economic expansion, as lower borrowing costs support investment and valuations without undermining confidence in economic growth. We believe that's the scenario investors want to see reinforced next month.

A December rate cut paired with guidance for further easing would likely extend the rally into year-end and broaden participation beyond Big Tech. Even a pause, if paired with language that keeps the door open for cuts, can support sentiment, in our view. The nuance is that markets look six to nine months ahead. By the time a cut is made, much of the benefit is already reflected in stock prices. That's why the Fed's "signal" for 2026 matters as much as the December rate decision.

A clear path toward lower rates next year, coupled with steady inflation progress, is historically a recipe for solid stock conditions. However, two factors, beyond the Fed, will likely determine whether that backdrop translates into higher stock prices: Earnings and breadth. The advance higher in stocks and major U.S. averages in recent years has leaned heavily on mega-cap Tech and early AI spending. For the next leg higher in the bull market, investors will likely want to see those investments convert into revenue and cash flow gains across cloud, software, semiconductors, and companies and industries that adopt or spend on AI. If that proof is established, reliance on multiple expansion could fade, and more sectors could join the rally as interest rates continue to decline and profit growth expands.

However, if inflation stalls above the Fed's comfort zone, policymakers could slow the pace of cuts or pause longer next year, lifting yields and pressuring rate-sensitive areas. And if labor conditions further weaken, forcing aggressive rate cuts, investors may shift focus from rate support to the earnings hit that often accompanies slower demand environments. Of

course, tariff and regulatory headlines could also inject volatility into the stock narrative next year, independent of Fed policy. Still, the overarching connection between monetary policy and equities is pretty straightforward: Steady easing paired with stable growth has historically allowed rallies to extend and broaden. As we head into year-end and begin thinking about the path forward for next year, that remains the lens through which we are starting to frame our outlook.

The week ahead:

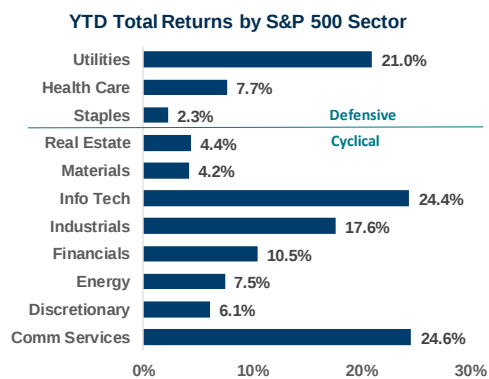
- Big Tech could face near-term challenges as investors look ahead to NVIDIA's profit report next week (which should be solid in our view), and as AI spending, future profitability, and valuation concerns come under added scrutiny. Investors will likely also monitor this week how market breadth develops and whether stock volatility does creep higher. If so, can other areas of the market hold up?
- Once the U.S. government is back open, investors will quickly turn their attention to how fast major economic data is released to assess current economic conditions and get a gauge on where key trends on labor and inflation are heading. Federal Reserve speeches and Treasury auctions this week will be in focus until government data starts rolling in.
- Notably, the Federal Reserve's policy path (as discussed above) and tariff developments (i.e., the pending Supreme Court decision on President Trump's emergency powers) will likely remain background items that investors will continue to consider in their U.S. growth, inflation, and equity valuation calculations. In our view, strong consumer and business balance sheets, along with AI-driven investment, continue to support earnings. However, elevated valuations and trade uncertainty warrant grounded expectations.

Stock Market Recap							
Benchmark	Total Returns			LTM PE		Yield %	
	Weekly	MTD	YTD	Current	5-Year Median	Current	5-Year Median
S&P 500 Index: 6,729	-1.6%	-1.6%	15.6%	28.7	25.6	1.1	1.4
Dow Jones Industrial Average: 46,987	-1.2%	-1.2%	12.0%	24.5	22.3	1.6	1.8
Russell 2000 Index: 6,046	-1.9%	-1.9%	10.3%	62.9	44.7	1.2	1.3
NASDAQ Composite: 23,005	-3.0%	-3.0%	19.8%	41.4	38.3	0.6	0.7
Best Performing Sector (weekly): Energy	1.6%	1.6%	7.5%	17.0	12.1	3.3	3.6
Worst Performing Sector (weekly): Info Tech	-4.2%	-4.2%	24.4%	44.8	34.7	0.5	0.8

Source: Factset. Data as of 11/07/2025

Bond/Commodity/Currency Recap			
Benchmark	Total Returns		
	Weekly	MTD	YTD
Bloomberg U.S. Universal	0.0%	0.0%	7.0%
West Texas Intermediate (WTI) Oil: \$59.44	-3.7%	-3.7%	-17.9%
Spot Gold: \$4,001.28	0.0%	0.0%	52.5%
U.S. Dollar Index: 99.60	-0.2%	-0.2%	-8.2%
Government Bond Yields	Yield Chg		
	Weekly	MTD	YTD
2-year U.S. Treasury Yield: 3.56%	-4 bps chg	-4 bps chg	-69 bps chg
10-year U.S. Treasury Yield: 4.09%	0 bps chg	0 bps chg	-49 bps chg

Source: Factset. Data as of 11/07/2025. bps = basis points



Source: S&P Global, Factset. Data as of 11/07/2025

These figures are shown for illustrative purposes only and are not guaranteed. They do not reflect taxes or investment/product fees or expenses, which would reduce the figures shown here. An index is a statistical composite that is not managed. It is not possible to invest directly in an index. Past performance is not a guarantee of future results.

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Diversification does not assure a profit or protect against loss.

There are risks associated with **fixed-income** investments, including credit (issuer default) risk, interest rate risk, and prepayment and extension risk. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer term securities.

International investing involves certain risks and volatility due to potential political, economic, social, or currency instabilities and different financial and accounting standards. These risks are enhanced for **emerging markets**.

Stock investments involve risk, including loss of principal. High-quality stocks may be appropriate for some investment strategies. Ensure that your investment objectives, time horizon and risk tolerance are aligned with investing in stocks, as they can lose value.

The products of **technology** companies may be subject to severe competition and rapid obsolescence, and their stocks may be subject to greater price fluctuations.

Portfolios that hold a limited number of securities or concentrate investments in similar industries, sectors or geographical regions may experience greater volatility and greater risk of loss as the performance of these investments (either positive or negative) will have a greater impact on the portfolio as a whole.

Past performance is not a guarantee of future results.

An index is a statistical composite that is not managed. It is not possible to invest directly in an index.

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The **S&P 500 Index** is a basket of 500 stocks that are considered to be widely held. The S&P 500 index is weighted by market value (shares outstanding times share price), and its performance is thought to be representative of the stock market as a whole. The S&P 500 index was created in 1957 although it has been extrapolated backwards to several decades earlier for performance comparison purposes. This index provides a broad snapshot of the overall US equity market. Over 70% of all US equity value is tracked by the S&P 500. Inclusion in the index is determined by Standard & Poor's and is based upon their market size, liquidity, and sector.

The **NASDAQ Composite** index measures all NASDAQ domestic and international based common type stocks listed on the Nasdaq Stock Market.

The **Dow Jones Industrial Average (DJIA)** is an index containing stocks of 30 Large-Cap corporations in the United States. The index is owned and maintained by Dow Jones & Company.

The **Russell 2000 Index** measures the performance of the small-cap segment of the US equity universe. The Russell 2000 is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set. The Russell 2000 includes the largest 2000 securities in the Russell 3000.

The **US Dollar Index (USD)** indicates the general international value of the USD. The USD does this by averaging the exchange rates between the USD and major world currencies. This is computed by using rates supplied by approximately 500 banks.

West Texas Intermediate (WTI) is a grade of crude oil commonly used as a benchmark for oil prices. WTI is a light grade with low density and sulfur content.

University of Michigan Consumer Sentiment Survey is a rotating panel survey based on a nationally representative sample of households in the U.S. that measures how consumers feel about the economy, personal finances, business conditions, and buying conditions.

The **Institute for Supply Management (ISM)** manufacturing index is a national manufacturing index based on a survey of purchasing executives at roughly 300 industrial companies. It is an index of the prevailing direction of economic trends in the manufacturing and service sectors.

Challenger job report is a monthly economic release from the outplacement and executive coaching firm Challenger, Gray & Christmas. The report tracks the number of job-cut announcements made by U.S. employers each month, based on data submitted to state departments of labor focusing on larger, organized layoff plans.

The **ADP National Employment Report** is a monthly report of economic data that tracks the level of nonfarm private employment in the U.S. Automatic Data Processing Inc., the company that issues the report, handles payroll for about one-fifth of all privately-employed individuals in the U.S.

The **ISM Services PMI** (formerly the Non-Manufacturing NMI) is compiled and issued by the Institute of Supply Management (ISM) based on survey data. The ISM services report contains the economic activity of more than 15 industries, measuring employment, prices, and inventory levels; above 50 indicating growth, while below 50 indicating contraction.

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