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CJ's Weekly Market Memo

The market's giving us plenty to think about this week. While the major indices managed small gains—the S&P 500 up 0.4%—what's happening beneath the surface tells a more complex story. We're seeing significant rotation away from the momentum names that drove us higher all year, with defensive sectors like Healthcare and Energy taking the lead. The Magnificent 7 are down over 4% in November alone, while the equal-weight S&P is essentially flat. That's a meaningful shift in character.

The Economy: Mixed Signals and Fed Uncertainty

The economic picture remains reasonably solid, though clouds are gathering. Earnings season has been exceptionally strong—nearly three-quarters of companies beat expectations, with guidance raises hitting top-decile levels historically. Corporate America is performing well. But here's the rub: the market's barely rewarding these beats. Average stock reactions to earnings have been muted, and guidance cuts are getting hammered with near-record severity. That tells me investors are increasingly forward-looking and worried.

The Fed's messaging has turned notably more hawkish, creating real uncertainty. What looked like a lock for a December rate cut a month ago now sits below 50-50 odds in the futures market. The hawks are winning the internal debate, and even centrist members like San Francisco's Mary Daly have moderated their dovish stance. Real yields have pushed higher as a result, removing a key support for equity valuations. The year-ahead Fed Funds forward rate has moved 80 basis points higher since the October FOMC meeting—that's substantial.

Meanwhile, China continues to struggle with deflationary pressures and what appears to be an investment collapse. Their latest fixed asset investment data, after revisions, shows a stunning 6.6% decline year-to-date. Property prices are falling at the fastest pace in a year, and producer prices remain in deflation despite rising commodity costs globally. This matters for global growth and corporate earnings, particularly in industrials and materials.

Technical Conditions: Caution Flags Flying

The technical picture has deteriorated noticeably. The CNN Fear & Greed Index has dropped into extreme fear territory, though interestingly, the AAI sentiment survey shows only moderate bearishness. That divergence suggests we're not yet at a capitulation point. The Schwab Trading Activity Index (STAX) reveals retail investors have been net sellers in Technology, Consumer Discretionary, and Healthcare—the very sectors that led us higher.

They've been buying some mega-caps like CoreWeave and SoFi, along with quantum computing names, but overall they're rotating away from high-beta names.

Speaking of beta, high-volatility stocks are getting crushed. Morgan Stanley's long-short beta basket has seen four separate 3%+ drops in the past two weeks and sits well below its 50-day moving average. Goldman's Unprofitable Tech basket is approaching oversold territory but hasn't broken its uptrend from April—yet. The decile analysis is particularly telling: year-to-date winners through mid-October are now leading the selling, with the top decile down nearly 5% on average last Thursday alone.

We're also seeing speculation collapse across the board. Strategy (MSTR), the leveraged Bitcoin play, hit new 52-week lows. Quantum computing stocks are down nearly 50% from their Halloween peak. Small modular nuclear reactor stocks have plunged 40%. These were poster children for the AI infrastructure trade, and their reversals suggest a meaningful reassessment of near-term growth expectations and valuations.

Even credit markets are expressing skepticism. CoreWeave's CDS now implies roughly 50-50 odds of default over five years. Oracle's spreads have more than doubled from summer lows. These moves reflect growing concerns about whether massive AI capital expenditures will generate adequate returns.

Looking Ahead: Navigating Year-End and Into 2026

Here's where we stand heading into the final stretch of 2025 and early 2026. The good news: corporate fundamentals remain solid, the labor market isn't falling apart (jobless claims remain normal), and we're not seeing the kind of systemic financial stress that precedes major corrections. The government shutdown has ended, which should mean more complete economic data flowing soon—reducing one source of uncertainty.

The challenges: elevated valuations on many growth names, reduced Fed support with real yields rising, increasing skepticism in credit markets about AI returns, and clear evidence of speculative excess being wrung out. Volatility is trending higher, and we're seeing defensive rotation that typically accompanies risk-off periods.

I don't expect a crash, but I do think we're in for continued choppiness and likely more downside in the highest-multiple, most speculative names. The sector rotation into Healthcare, Energy, and other traditionally defensive areas makes sense given the late-cycle dynamics. If you've been overweight momentum and growth, this is a good time to reassess position sizes and trim winners that have gotten extended.

For 2026, much depends on whether the Fed can navigate a soft landing while managing inflation expectations. The current setup—with solid corporate earnings but hawkish Fed

rhetoric and elevated real yields—argues for modest returns and higher volatility ahead. I'd focus on companies with genuine earnings power, reasonable valuations, and less dependence on the AI infrastructure buildout delivering immediate returns.

The market's telling us it wants to see proof of concept on AI monetization, not just capital spending. Companies that can demonstrate actual revenue growth and margin expansion from their AI investments should outperform those simply spending heavily and hoping. Quality and profitability are coming back into style after years of growth-at-any-price working.

Stay selective, maintain diversification, and don't chase the speculative names that are breaking down. We'll get through this period of adjustment, but it probably requires some patience and a willingness to accept that not every dip is immediately buyable. The foundation remains intact; we just need to see how the Fed and earnings picture evolves from here.

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