

## Monthly Update – November 2025

### Exceptionalism reigns in wide and varied forms

October brought a wide array of impactful developments across global politics, economics and markets. President Trump embarked on a diplomatic tour through the Middle East and Asia, working to finalize a Gaza hostages-for-ceasefire agreement, attending the 47<sup>th</sup> ASEAN summit in Malaysia and engaging in trade negotiations with leaders in Japan, South Korea and China - including a highly anticipated meeting with Chinese leader Xi Jinping<sup>1</sup>. Domestically, the government shutdown persisted, now ranking as the second longest in history. Meanwhile, 3<sup>rd</sup> quarter earnings began on a strong note, the Federal Reserve implemented another rate cut, and baseball's fall classic delivered one of the most thrilling World Series in recent memory.

The phase "life imitates art" and the adage "records were made to be broken" were both vividly illustrated in October – on the field and in markets. While the World Series didn't end until the early hours of November 2<sup>nd</sup>, the Dodgers became the first repeat champion in 25 years. Two victories occurred in extra innings, including an 18-inning game where Shohei Ohtani reached base 9 times. The series also featured the first matchup between a 3-time Cy Young award winner and a 3-time MVP. Baseball's penchant for quirky statistics mirrored the dynamic nature of financial markets.

Fueled by another rate cut, renewed trade optimism and standout earnings from the "Magnificent 7" AI giants, the S&P 500 marked several new highs last month. Microsoft, Google, Amazon and Nvidia all hit fresh records during the final week and Nvidia became the first company to surpass \$5 trillion in market cap. The recent surge lifted valuations back to the most expensive in 25 years (outside of the COVID earnings trough) – a fitting parallel to the last repeat champs.



Record high multiples and surging earnings are historically difficult to sustain. Before we delve further into the AI boom and its impact on valuations, let's review the last month:

## October Market Review

Stocks advanced for the sixth straight month as the Fed continued to lower the Fed Funds Rate:

- Emerging markets led the way once again bringing YTD gains over 30%.
- Developed markets continued to advance on the back of strong gains in Japan.
- US stocks responded positively to strong earnings from Mega-cap technology companies.
- Bonds gained on modestly lower yields, during a dearth of economic data due to the ongoing government shutdown.

Solid earnings and exposure to the AI trade drove October performance:

- Technology, healthcare and consumer discretionary led the way in October.
- Utilities and communications continued to perform well in anticipation of the AI buildout.
- Energy, consumer staples, real estate, financials and materials all declined during October. Financials struggled due to credit concerns even though earnings from money center banks were solid. Energy has been held back by the challenging oil price environment.
- Growth outperformed value again this month and large caps outperformed the small and mid-cap indices rather handily.

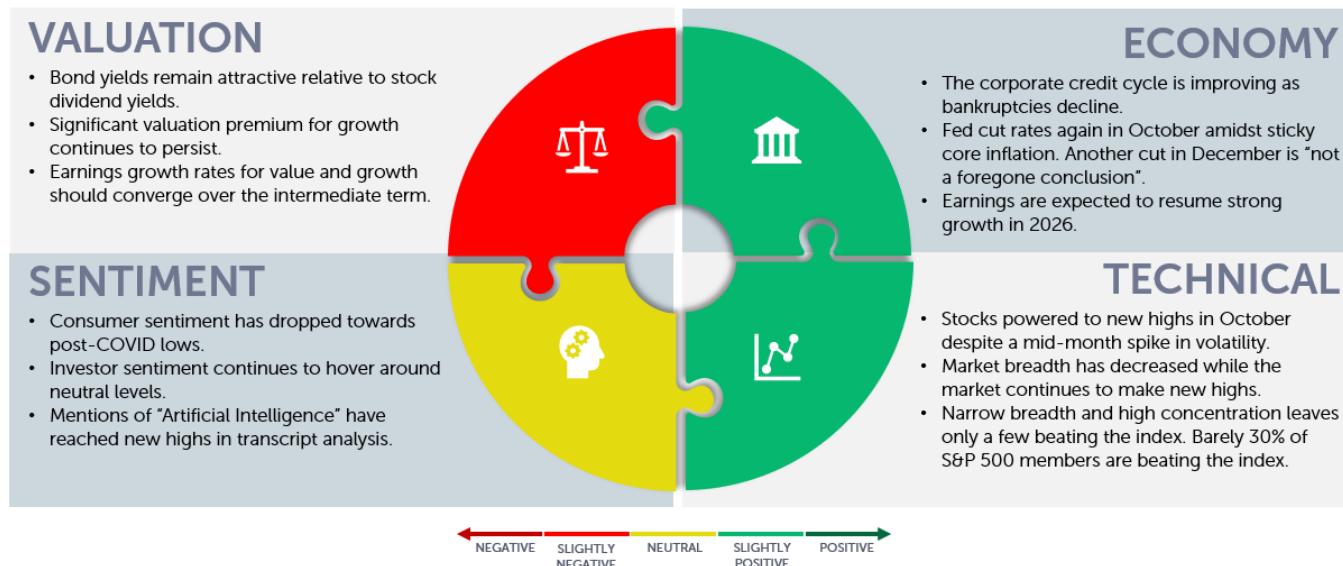
Market Returns Ending 10/31/2025			
Category	October	2H	YTD
<b>US Stocks</b>			
S&P 500	2.3%	10.6%	17.5%
Russell 2500	0.7%	9.7%	10.2%
<b>International Stocks</b>			
MSCI ACWI ex-US	2.0%	9.2%	29.3%
MSCI Emerging Markets	4.2%	15.6%	33.6%
<b>Bonds</b>			
Bloomberg Aggregate Bond	0.6%	2.7%	6.8%
Bloomberg US High Yield Bond	0.2%	2.7%	7.4%
<i>Source: Bloomberg</i>			
Category	October	2H	YTD
Russell 3000 Growth	3.5%	14.2%	20.8%
Russell 3000 Value	0.4%	6.1%	12.0%

*Source: Bloomberg*



Our Navigator framework informs us of our outlook.

## November 2025 Navigator Outlook:



Economy: The corporate credit cycle is improving as bankruptcies decline. The Fed cut rates again in October amidst sticky inflation. Another cut in December is "not a foregone conclusion".

Technicals: Stocks powered to new highs in October despite a mid-month spike in volatility. Market breadth has decreased while the market continues to make new highs. Narrow breadth and high concentration leaves only a few beating the index. Barely 30% of S&P 500 members are beating the index.

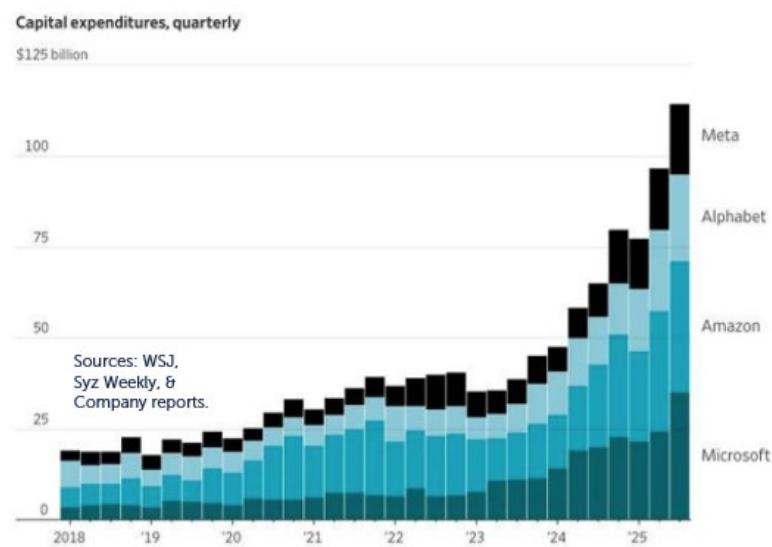
Sentiment: Consumer sentiment has dropped towards post-COVID lows. Investor sentiment continues to hover around neutral levels. Mentions of "Artificial Intelligence" have reached new highs in transcript analysis.

Valuation: Bond yields remain attractive relative to stock dividend yields. Significant valuation premium for growth continues to persist. Earnings growth rates for value and growth should converge over the intermediate term.

## Outlook and Recommendations: The AI boom continues but the story is shifting

Hyperscalers, Meta, Alphabet (Google), Amazon and Microsoft, all reported earnings during the last week of October and each one raised their forecast for capital expenditures for this year and next to fund the AI buildout. Their CapEx budgets appear to be going somewhat parabolic and the level of intensity is on an unsustainable path.

As shown by the chart on the right, the combined CapEx of these four companies has effectively tripled over the past three years, and it now approaches nearly 25% of company sales. As recently as 2023, that figure was only 12% of sales<sup>ii</sup>. Capital intensity has risen dramatically, and it is quite likely to have a significant impact on the future return profiles of these enterprises. The shift from capital light business models to a more capital intensive future is well underway and the market may not be prepared for the eventual valuation adjustment that historically occurs post boomtime capital cycles.



### High Asset Growth Firms Underperform



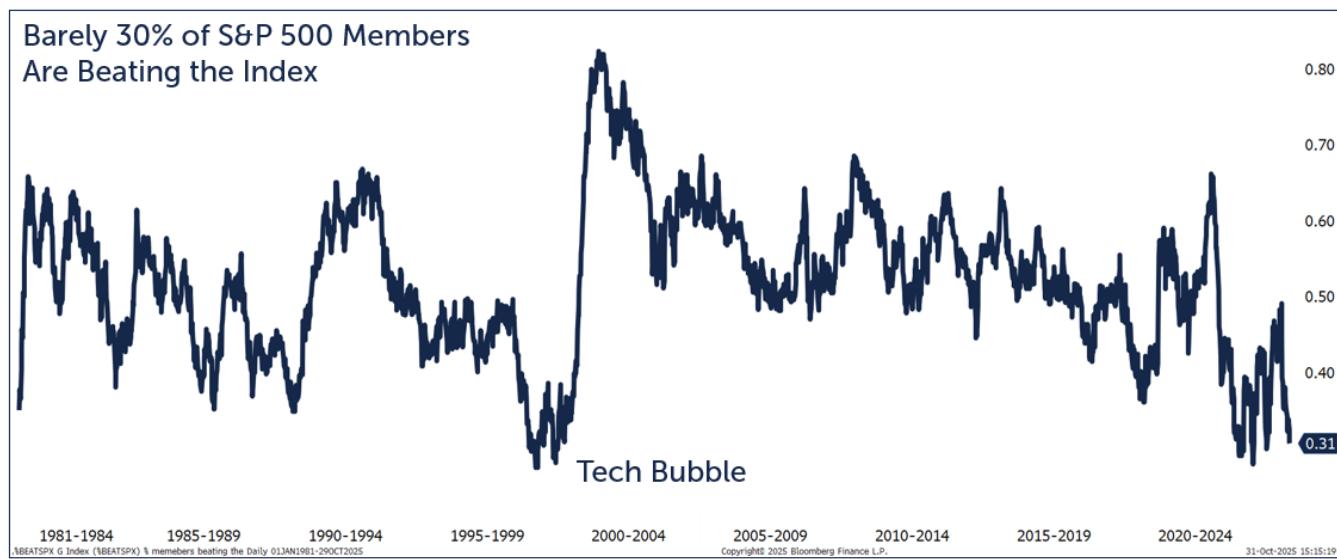
Sources: Ken French, Sparkline.

balance sheets underperformed their more conservative peers consistently since 1963 at a rate greater than -8% per year<sup>iii</sup>. The underperformance accelerated in the dot-com bust as depicted in the chart above. In short, high trailing asset growth has historically delivered disappointing returns.

Past investment booms and major technological advancements have always reached a point of overinvestment that leads to excess capacity and lower prices. While lower prices might accelerate adoption of new technology, it often comes at a much lower return profile than anticipated.

Research from Ken French of Fama and French fame recently shared in a paper from Sparkline Capital shows that companies that aggressively grew their

It's unambiguous that the AI buildout has created a capital spending boom and it is also abundantly clear that aggressive capital spending has generally led to poor stock returns in the past. Technological exceptionalism in the US has occurred over the last 20 years as the asset light hyperscalers have compounded earnings at very high rates. This has led to a highly concentrated equity market with narrow performance as shown in the chart below<sup>iv</sup>. Just over 30% of S&P members are currently beating the index, a level only seen during the tech bubble in the last 50 years.



The current exuberance to invest in the AI boom suggests that investors either believe this time is different or they are simply willing to participate in a FOMO (fear of missing out) rally regardless of consequences. The question one should consider is not whether the AI boom will be transformative, but how much has been discounted by the market? With Nvidia's current market cap above \$5 trillion, the company accounts for more than 8% of the S&P 500 and is larger than 6 entire industries, including industrials, consumer staples, energy and utilities<sup>v</sup>. The company's market cap has reached 16% of GDP compared to just 4% for Cisco during the tech bubble<sup>vi</sup>. The price you pay matters, and the law of large numbers would indicate that it will be challenging for investors to earn acceptable long-term returns with a \$5 trillion starting valuation.

While the infrastructure and energy consumption projections required to support the AI boom are significant over the next 3-5 years, we believe those investments are likely to lower return profiles for many of today's leading tech companies. Diversifying portfolio allocations across sectors, market capitalization and geography should prove to be effective over the long run.

## Portfolio Construction and Positioning

The combination of strong earnings, supportive fiscal policy and recent rate cuts have continued to drive the S&P 500 to new all-time highs. Concerns are brewing beneath the surface, however. Market breadth has softened and on October 29<sup>th</sup>, the day of the most recent all-time, nearly 80% of stocks closed in the red – the most negative breadth at an all-time high on record<sup>vii</sup>.

Most economic data has not been readily available during the government shutdown, but concerns regarding softening employment are continuing to show through soft data and rising delinquencies cannot be ignored. Inflationary pressures from the AI buildout and growth concerns for other sectors of the economy are still present.

We believe investors are overlooking the risks of concentrated leadership among U.S. Mega cap technology stocks. Valuations in other areas of the market remain compelling, and diversification benefits have historically proven to be most beneficial following periods of high concentration. Our portfolios remain well diversified.

Our Navigator process helps guides both short- and medium-term tactical adjustments:

- **Mid-cap and international equities:** These segments offer attractive valuations relative to U.S. large caps and provide long-term diversification benefits.
- **Balanced exposure across styles:** We maintain a mix of growth stocks poised to benefit from technological innovation and value stocks offering upside potential and, in many cases, strong dividend profiles.
- **Fixed income remains compelling:** Bond yields exceed the earnings yield of large-cap equities, and real (inflation-adjusted) yields are positive—supporting the case for continued fixed income exposure.
- **Mortgage-backed securities:** We see favorable risk-reward dynamics here, though tight corporate credit spreads warrant caution.
- **Alternative investments:** We continue to find meaningful opportunities in both non-correlated strategies and private market investments.

Our goal is to build portfolios that are resilient and capable of compounding effectively over time. We are mindful of risks to the outlook remain focused on the value of discipline and diversification.

*This material is intended to be educational in nature<sup>viii</sup>, and not as a recommendation of any particular strategy, approach, product or concept for any particular advisor or client. These materials are not intended as any form of substitute for individualized investment advice. The discussion is general in nature, and therefore not intended to recommend or endorse*

*any asset class, security, or technical aspect of any security for the purpose of allowing a reader to use the approach on their own. Before participating in any investment program or making any investment, clients as well as all other readers are encouraged to consult with their own professional advisers, including investment advisers and tax advisors. OneAscent can assist in determining a suitable investment approach for a given individual, which may or may not closely resemble the strategies outlined herein.*

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<sup>i</sup> Source: Wikipedia – List of presidential trips made by Donald Trump (2025).

<sup>ii</sup> Source: Bloomberg article by Cameron Crise: “Capex Has Gone Parabolic, But What Does That Mean?”

<sup>iii</sup> Source: Sparkline Capital. “Surviving the AI Capex Boom” by Kai Wu, Founder and Chief Investment Officer.

<sup>iv</sup> Source: Bloomberg article by Cameron Crise: “Capex Has Gone Parabolic, But What Does That Mean?”

<sup>v</sup> Source: Bloomberg article: “Nvidia is Worth \$5 Trillion. Here’s What It Means for the Market.”

<sup>vi</sup> Source: Syz Private Banking weekly from Mott Capital Management and Macrobond.

<sup>vii</sup> Source: Syz Private Banking weekly from ZeroHedge.

<sup>viii</sup> Market Returns reference the following indices: Large Cap – S&P 500, Mid Cap Growth – Russell Midcap growth, Mid Cap Value – Russell Midcap Value, Small Cap – Russell 2000, Developed – MSCI EAFE, Emerging – MSCI Emerging Markets, Aggregate – Bloomberg US Aggregate, High Yield – Bloomberg High Yield