

MARKET COMMENTARY – November 1, 2025

Beware the Jabberwock, my son. ~ Lewis Carroll

Or

Beware lest you lose the substance by grasping at the shadow ~ Aesop

The Jabberwock, with its jaws and claws and flaming eyes was killed in the poem with the snicker-snack of a boy's vorpal blade. We're not always certain what the words of those short verses actually mean, if anything, but they are a delight to read. Likewise, as children we are often told Aesop's fables, which provide adult-like wisdom in tales of hens and tortoises and oxen. His tales are also fun to read. And both of today's quotations warn us of unseen dangers lurking about.

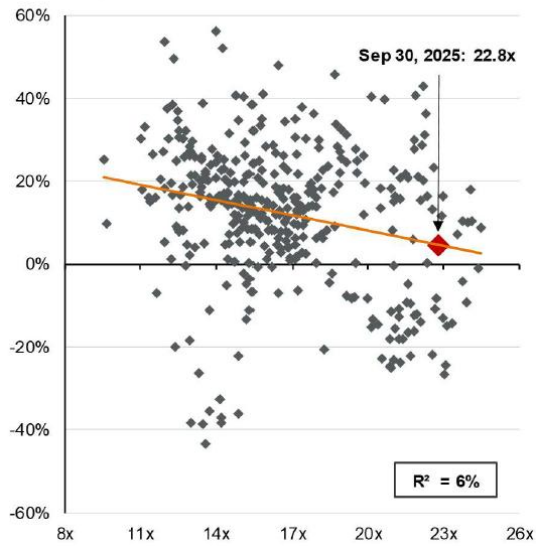
We were reminded of these familiar yarns as we considered a divergent pair of statistics that we came across in the past couple weeks. One is bearish, the other is bullish. Which do we believe?

Let's begin with the cautious indicator. JP Morgan used historical stock market data over the past three-plus decades to produce a couple charts. Both, unsurprisingly, show a negative correlation between the price paid for overall stock market earnings (P/E ratio) and subsequent returns.

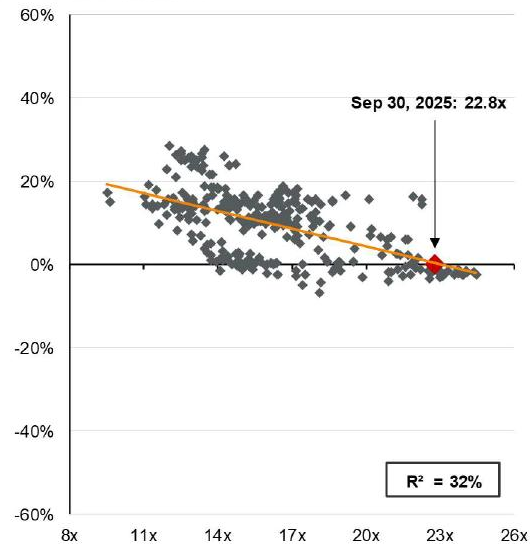
The first chart, reproduced below, shows that the subsequent one-year return decreases slightly as the P/E paid today increases. However, the relationship is weak. Readers can see that the scatter plot is truly scattered. And though a line of best fit has been added in orange, the naked eye would never be able to pick out that relationship. Even at high P/E's, as we see today, the range of subsequent one-year returns is very wide. They range from -25% to +25%. For you statisticians in the audience, the R^2 is low, suggesting that price alone is not a very good predictor of the coming one-year returns.

The second chart, also shown below, demonstrates a much tighter relationship between the price paid today (P/E) and the subsequent five-year returns. Even without the orange line of best fit, our poor naked eyes could instantly see the relationship. The chart actually seems to show a tighter relationship between price and subsequent returns at higher prices, meaning that the chart might become more predictive at higher prices. Compared to the first chart, the R^2 here is much more robust, but still a far cry from 100%.

Forward P/E and subsequent 1-year returns
S&P 500 Total Return Index



Forward P/E and subsequent 5-year annualized returns
S&P 500 Total Return Index



Now, on to the bullish indicator we came across recently. Since 1980, the Federal Reserve has cut interest rates a grand total of five times when the S&P 500 was at all-time highs (per JPM). This is germane today since, as we type this out, the Fed has cut rates once again with the markets at new highs. The average return of the twelve months following those five cuts was 20%, with the worst being a solid 15%. Wow! This is a bullish indicator that has been right every single time.

But beware the Jabberwock, my son. Beware grasping the shadow and not the substance of the thing. Beware of averages and statistics. It is important to integrate these views into a cohesive view of economic reality, act on that view, and then redirect as necessary.

The first, bearish reading is almost meaningless as we look out one year. It does imply that we could be in for a tough five years given history. We will not disagree. It is highly likely that we do not experience the same stellar returns in the next five years as we have in the last five years. Prices are higher. AI was mainstreamed in 2023. Another AI-type of event is probably not on the immediate horizon to propel unseen growth. Therefore, for the intermediate (five year) term, we should exercise caution.

The second, bullish signal from rate cuts is shorter term in nature. And there are other bullish signals as well. Fundamentals from a broad swath of corporate earnings reports are demonstrating growth. The One Big Beautiful Bill Act contains provisions that may

serve as further tailwinds for the economy in 2026. Trade relations, while erratic, seem to be on a firmer footing than earlier this year and may thaw as 2026 gets rolling.

In short, we believe both signals can be used as guides in this case. Absent an economic shock from left field, we think 2025 returns should end on firm footing. There is also a good chance next calendar year turns out compelling, too, given the current and forecasted environment. Yet, these are forecasts and forecasts are always subject to change.

We do think that the price you pay for something is a major determinant in your long-term return. Higher price – lower return. Lower price – higher return. It's math. And so, for clients who are averse to risk or in need of a chunk of their principal within five years, we recommend simply trimming back toward our strategic targets with regard to stocks.

In closing, we're not sure what a Jabberwock is, but we are confident that prudent management based on analysis, thought, and discipline leads to better outcomes for clients. We set allocation targets between lower risk and higher risk assets in order to match client needs with the natural constraints in our economic lives. It is important to never lose sight of what might be just around the bend.

Stirling Bridge Wealth Partners, LLC is fortunate to count many of you as clients. In the good times and bad, we remain committed to providing customized investment solutions and robust financial planning wrapped in a package of exceptional service. We thank each of you for your dedication to us and for your trust.

Sincerely
Jason Born, CFA
President