

Good morning,

What's in this week's Report:

- How Much Has the Bullish Case Deteriorated?
- Weekly Market Preview: Can AI Enthusiasm Stabilize?
- Weekly Economic Cheat Sheet: Important Growth Data Despite the Short Week
- Why Didn't NVDA Earnings Support the Market?

Futures are slightly higher as investors digest last week's volatility following a generally quiet weekend of news.

Most global markets are higher on momentum from Friday's U.S. rally, except Japanese shares, which fell sharply (down more than 2%) after unions negotiated more pay increases, boosting chances for a rate hike.

Economically, the only report was German IFO Business Expectations, which missed expectations (90.6 vs. (E) 91.4).

This is a shortened week for holidays, but the "catch-up" in economic data from the government shutdown will continue despite only three and a half trading days. As a general rule, the more Goldilocks the data (i.e., at expectations), the better, as it'll keep growth expectations stable but boost rate-cut chances.

Economic reports we're watching today include the Chicago Fed National Activity Index (E: -0.12) and Industrial Production (E: 0.1%).

Market	Level	Change	% Change
S&P 500 Futures	6,657.00	36.75	0.56%
U.S. Dollar (DXY)	100.04	-0.14	-0.14
Gold	4,114.10	-1.90	-0.05%
WTI	58.17	0.36	0.62%
10 Year	4.050%	-0.013	-0.32%

Stocks

Last Week (Needed Context as We Start a New Week)

Market Recap

Stock market volatility continued to rise last week as solid NVDA earnings failed to rekindle the AI enthusiasm that has been driving the 2025 equity bull market, while hawkish Fed policy expectations doused soft-landing hopes. The S&P 500 was down 1.91% on the week.

The major U.S. equity indexes started last week with a thud on Monday, as fixed-income markets traded with a hawkish tone following a strong Empire State Manufacturing report. At the same time, the Fed's Jefferson reiterated current tensions between the FOMC's dual mandate objectives. An increasingly tense situation in the Caribbean surrounding Venezuela didn't help sentiment either, and the S&P 500 ended the day down 0.92%.

The selling pressure continued into Tuesday's session amid more hawkish money flows as traders digested some healthy economic data (Factory Orders at 1.4%, the NAHB's Housing Market Index at 38, and weekly ADP data rising but still notably negative), while continuing to position into NVDA earnings. The S&P 500 shed another 0.83% on the session.

Stocks steadied on Wednesday as the market oscillated between gains and losses, driven by some hawkish commentary on inflation pressures from the White House and by less-dovish-than-hoped October Fed meeting minutes acting as headwinds, while hopes for a Russia/Ukraine ceasefire and more AI-related deal announcements capped losses ahead of NVDA earnings after the close. The S&P 500 ended with a modest gain of 0.38%.

Robust earnings and revenue figures from AI darling NVDA late Wednesday, paired with strong AI industry guidance and demand expectations from the company's leadership, prompted an early, tech-led rally in stocks on Thursday. However, an initially well-received September jobs report later proved to conceal weak details, offering a fresh whiff of stagflation with a multi-year high in the unemployment rate and sticky high wage growth metrics. Cautious Fed commentary on inflation and risks of sustained volatility in highly valued equity markets saw the market roll over midmorning, and the S&P 500 dropped steadily for the balance of the session, closing down 1.56%.

The market gapped higher at the open on Friday as tentative dip-buyers stepped into the market after Thursday's steep declines. However, selling pressure picked up again after weak PMI data overseas was followed by a mixed Composite PMI in the U.S., which prompted renewed hawkish money flows in the Treasury market and saw the S&P 500 take out Thursday's intraday low early in the day. A Goldilocks Consumer Sentiment report and explicit mention by the Fed's Williams that a December rate cut is still in the cards saw stocks turn higher, with the S&P 500 bouncing off support at 6,650 to end up 0.98% on the day.

How Much Has the Bull's Case Deteriorated?

The S&P 500 has pulled back from recent highs over the past few weeks amid slippage in AI Enthusiasm and some erosion of the certainty of further Fed rate cuts, which have combined to push the S&P 500 4.6% lower from recent highs. Additionally, the tenor of market headlines has soured, with coverage of AI bubbles and a divided Fed dominating major market publications.

But amidst this change in market tone/sentiment, the more important question for mid- and long-term investors is: "How much has the bullish case deteriorated?"

My answer is: "Not that much."

Starting with AI Enthusiasm, concerns about the enormous pace of capex have rightly risen to the surface, but at this point, that mainly threatens to take some of the recent "froth" out of the market. I think few will argue that AI isn't a transformational technology, and yes, spending intentions and excitement about margin expansion have likely gotten ahead of themselves. But we are not yet at the stage where AI capex intentions are being dramatically dialed back, and until that happens, the reality is this is a significant pro-growth economic force. If cap-ex intentions begin to reverse (which can't be ignored but isn't happening yet), the outlook will become demonstrably more negative, but that isn't happening now.

Turning to the Fed, yes, they are divided, and the inevitability of further rate cuts has been shattered. It's likely, at this point, the Fed cuts in December and signals a potential pause, or doesn't cut in December but cuts in January. Either way, it's worse than what was expected. So, this is a modest negative. But as long as economic growth stays stable, the Fed not cutting rates isn't a bearish game-changer for this market.

Finally, turning to growth and tariffs, despite concerns about the economy, the reality is that growth is holding up "fine," and it's not just the macro data showing that; corporate commentary, too. While there are risks to the economy, the reality is that actual growth metrics (both macro and micro) remain stable.

Finally, the likely reversal of IEEPA tariffs is a potential unknown for markets. Still, barring some draconian policy (like the actual implementation of the original reciprocal tariffs), corporate America and the U.S. economy appear to have the capacity to weather it.

Finally, please do not take this analysis as my effort to downplay potential market risks. If AI cap-ex reverses, the Fed pauses, growth starts to roll over, and tariff chaos causes corporate and macroeconomic uncertainty, the outlook for this market will change substantially, the market will fall hard, and we'll have to talk about the end of the bull market.

But front-running that outcome based on some marginal deterioration is often premature. And while those bearish concerns are real, the facts haven't deteriorated enough to warrant a materially more negative outlook, and the bullish case has deteriorated, but not by that much.

Economic Data (What You Need to Know in Plain English)

Last Week

The data deluge after the government shutdown began last week, and, positively, the economy showed generally solid growth. And while that didn't stop stocks from falling last week, it's an important support to consider (and ultimately will limit the downside in this market).

The key report last week was the September jobs report, and it was stronger than expected. Job adds in September rose 119k vs. (E) 50k, pushing back on concerns of meager job adds (or even job losses). The revisions to the July and August data were negative 33k, but that wasn't enough to offset the positive signal from the September report. The unemployment rate, meanwhile, rose to 4.4%, but that increase wasn't because more people weren't finding jobs; it was because more people entered the workforce looking for jobs, which isn't viewed negatively (a large labor supply is good for economic growth, broadly speaking). Bottom line, the September jobs report was the first "big" report since the government shutdown, and it showed a resilient labor market, at least through September.

Looking elsewhere in the financial markets, growth data was generally solid. The November flash PMI was basically in line, while the regional surveys (Empire and Philly) were mixed but overall "fine." Philly declined slightly to -1.7 vs. (E) 1.0, and New Orders did decline to -8.6 from 18.2, but activity didn't plunge, and this reading is volatile. Empire manufacturing, meanwhile, was a perfectly Goldilocks economic report, 18.7 vs. (E) 6.1, while New Orders rose to 15.9 from 3.7, while Prices Paid/Received both fell. Net/net, the first looks at economic activity across the country, which showed generally solid activity in November, which was a good thing.

Finally, turning to the Fed, the FOMC minutes from the October meeting highlighted the Fed's divided nature, noting that the committee had highly differentiated views on a December rate cut (or any further cuts). But that was already priced into stocks, and as such, the minutes made clearer what we already knew—namely that a December rate cut is still slightly more likely than not, but it could be a close call.

Bottom line, there will be a lot of “make-up” economic reports coming in the next few weeks, and to a point, the data will be dated (like the September jobs report). However, it still matters, and the key for economic data over the next few weeks (which it will take for the economic calendar to “catch up” from the shutdown) is stability and Goldilocks readings (like we got last week). We must realize that data that’s too strong will cut December rate-cut chances (mild negative), while data that’s very weak will increase slowdown concerns (moderate negative).

Important Economic Data This Week

It’s a holiday-shortened week, but given the government shutdown, there will be a lot of economic reports packed into three-and-a-half trading days. The most important reports will be Tuesday’s Retail Sales report and Wednesday’s Core PCE Price Index. Both reports will be September releases, so they will be dated. However, they still matter for two simple reasons: If they are both in line, that reinforces the Goldilocks economic setup and increases the chances the Fed does cut rates in December.

Staying on the growth and inflation narrative, the September PPI report will be released on Monday (CPI will not), and that, again, is an opportunity to push back against the hawks on the Fed and demonstrate price pressures are stable. Finally, on Wednesday, we also get the September Durable Goods report, which will give us insight into business investment and spending, which, given AI-related capex, should stay strong.

Bottom line: none of the economic reports this week are part of the “Big Three” monthly reports (ISM Manufacturing, ISM Services, and Jobs Report), but they are important for giving us a gauge of economic activity in September and, more importantly, an update on inflation pressures. Again, investors want Goldilocks readings that show activity largely in line with expectations, while inflation metrics don’t surprise to the upside. Those types of readings will help to support stocks further as they will continue to downplay the chances of an economic slowdown or end to Fed rate cuts and keep the headwind on stocks, mostly AI-driven.

Special Reports and Editorial

Why Didn’t NVDA Earnings Support the Market?

Nvidia reported solid earnings and guidance and initially pushed the entire stock market higher on Thursday (as it has done for three-plus years). Still, the gains didn’t last, and that’s for a good reason: NVDA earnings don’t address the main question with AI: “Do we need all this capacity?”

I don’t think you can find anyone on Wall Street who didn’t think NVDA would post strong earnings and be very bullish. Given the actual spending and announced spending intentions of the hyperscalers (MSFT, AMZN, META, GOOGL, ORCL) and the AI companies (OpenAI, Anthropic, etc.), everyone expected massive current demand for NVDA chips to power the data center build-out (and for NVDA management to say near-term demand is sky high).

However, that doesn’t address the issue causing the AI pullback: are hyperscalers and AI companies building too much capacity amid the data center and computing power boom? Stated differently, will we need all these data centers and computing power in the future? Those are the questions behind the AI pullback, not whether tech companies have insatiable demand for NVDA chips.

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