No Fear

Weekender

November 15, 2025

It's not the honors and the prizes and the fancy outsides of life
which ultimately nourish our souls. It's the knowing
that we can be trusted, that we never have to fear the truth,
that the bedrock of our very being is the good stuff.

Love isn't a state of perfect caring. Its is an active noun like 'struggle.'
To love someone is to strive to accept that person
exactly the way he or she is, right here and now.

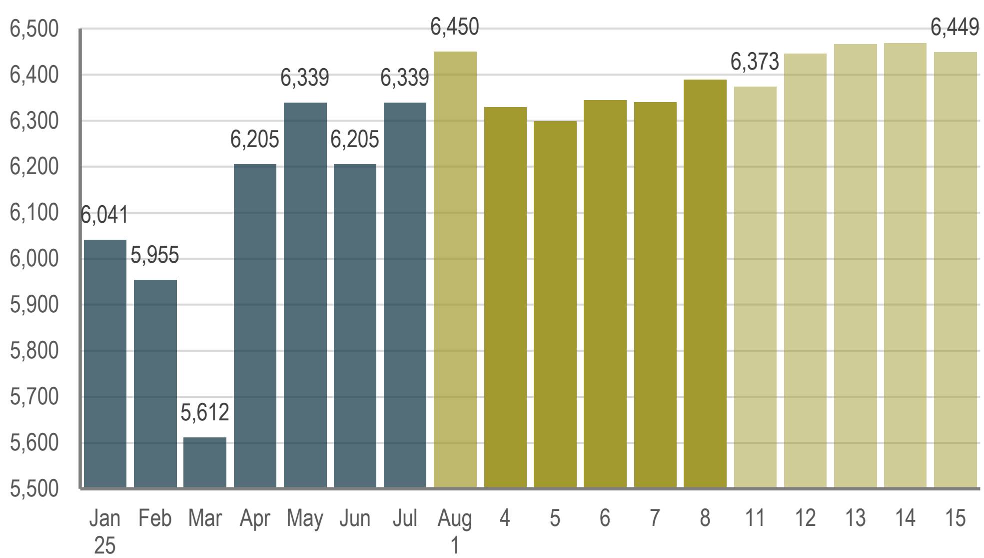
Love and trust, in the space between what's said and what's heard
in our life, can make all the difference in the world.

Fred Rogers

Good morning and welcome to the Weekender for Saturday, November 15, 2025. Financial markets have been volatile during November. By the close on Friday, U.S. equities, as measured by the S&P 500, were mostly flat on the week, posting a slight rise of 0.1%. Since the beginning of November, the index is lower by -1.6%. Looking outside the S&P 500, the tech-heavy Nasdaq index is down -3.5% since Halloween, while the Nasdaq 100, an index of 100 large technology companies, is down -3.3% over the same period. November markets have been in a risk-off mood.

S&P 500 Index Levels

(Source: Bloomberg)



The end of the most prolonged US government shutdown on record did little to spark a market resurgence last week. Broadly speaking, the biggest surprise for most citizens during the shutdown was how little it affected them. A paucity of economic data compiled and curated by federal government agencies was annoying for those of us who were attuned to the pitter-patter of expected releases. But in the din, non-governmental and more anecdotal readings painted a picture that would have otherwise gone unseen.

Non-governmental data from the Institute of Supply Management indicates that pricing in manufacturing and services continues to rise, while employment remains stable. Challenger, Gray, and Christmas, another non-governmental data collector, reported the largest jump in job cut announcements for an October, when companies typically hire for the holiday season rush, in over twenty years. In total, companies recorded 153,074 job cuts for October, almost three times the number for October of 2024.

Rationalizing Artificial Intelligence

Investing in artificial intelligence has been a bit of a free-for-all. During the .com era, all a company had to do was mention the internet, and its stock price would rise irrationally. Until the bubble popped. The inflection point where the market stops drinking the Cool-Aid and, in unison, announces, like a gospel choir, that the run is over is called a Minsky Moment. Named after the noted economist Hyman Minsky, a Minsky Moment is a pivotal point in time when a prevailing narrative is called into question and weighed against the available data.

Case in point. OpenAI is the mother ship of artificial intelligence. Over the past year, the company, which loses billions of dollars each year, has committed to spending $1.4 trillion on data centers in the coming years. This is from a company that is expected to generate nearly $20 billion in revenue this year and incur $2.0 billion in losses. OpenAI founder and CEO Sam Altman has no idea how he will meet his company's spending commitment. When asked, his CFO said they may need some government help. Ahhhh. The sad plight of billionaire whiz kids.

Assuming Altman stops his bulbous commitments and fulfills the $1.4 trillion already announced, his firm will need to grow 2,900 percent by 2029 to meet them. In the near term, the impact of his investment announcements has been positive for stocks in general and the AI partners, in particular. OpenAI's capital investment will likely boost the results of related companies, if and when they materialize. However, the capital demands on all AI-related companies will be absolutely astronomical over the next decade.

Companies like Nvidia are chock-a-block with cash and debt-carrying capacity. Similarly, Apple, Microsoft, Google, and Meta collectively hold $322.7 billion in total cash and short-term investments, in addition to a powerful untapped borrowing capacity. But they are companies with a strong capital discipline. Without a near-term profit probability, they will be unlikely to invest a lot of money. Aside from the AI unicorns, debt markets are increasingly concerned. Federal government spending is rising at a record pace, and most of that is being financed through debt. Now, AI corporate capital demand is also increasing, competing with many of the same investors who would buy government bonds.

Oracle is an interesting, if not completely generalizable, example. In September, Oracle projected $455 billion in contracts, which is more than 359% higher than the same period the previous year. In response, the stock had its best one-day price increase ever. For Oracle at least, the Minsky Moment has been printed. Since the announcement, Oracle shares have fallen by 32.1%.

Oracle Stock Price
January 2, 2024 - November 14, 2025
(Source: Bloomberg)

Even if the needed AI investment capital materializes, the cost will be significant and the path to AI profitability is as yet far from clear. Debt markets are moving toward a wait-and-see mentality. Credit default swaps, used to insure against a potential Oracle debt default, have gone up by more than three times.

For example, for more than two years, the nascent emergence of artificial intelligence has been a primary spring from which our herd of animal spirits has ascended. Many market pundits suggest that this time is not different. Instead, it seems remarkably reminiscent of the late

Oracle CDS Price

November 15, 2024 - November 14, 2025

(Source: Bloomberg)

nineties when the life-changing promises of the internet were feeding the animals and inflating valuations. At the atomic level, the comparisons are valid. The internet was a gestational technology that spawned thousands of derivatives, which together created a reality so different from the pre-internet environment that it made them unrecognizable. Artificial intelligence will do the same, but worse or better, depending on your point of view.

While we still shop at stores in a post-internet world, the vast majority of our purchases are done online. Propelling equity markets higher. Similar to the gestational period of the internet in the late 1990s, early profits are elusive, typically showing up mainly in November and December, and can be expected to yield substantial gains for equities. This time may be different. While the US government was closed for the past forty years,

Market Narrative

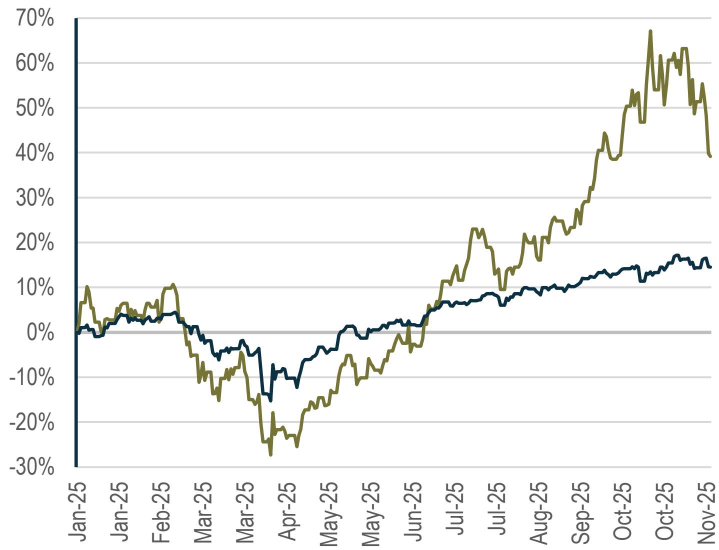
Generally, financial markets tend to revert to the mean. Valuations occasionally fluctuate to extreme highs and lows, but over time, they tend to revert to their long-term averages. Data unequivocally suggest that equity market valuations, in general, are approaching extreme levels. But high valuations are not necessarily a harbinger of market correction. Bull markets do not die of old age or high valuations. Their demise is generally caused by suicide, usually assisted by a Minsky Moment.

A high degree of animal spirits is currently pervading equity markets. The promise of an artificial intelligence nirvana has unleashed a degree of shock and awe that is not currently being supported by fundamental financial performance. Since the beginning of November, a shift in the financial market narrative surrounding artificial intelligence has begun to emerge. Since the beginning of November, money-losing stocks have dramatically underperformed (green line) compared to the broader S&P 500 (blue line).

Cumulative Year-to-Date Returns of S&P 500 (Blue) and Money Losing Stocks (Gold)

January 2, 2025 - November 14, 2025

(Source: Bloomberg)



Another indicator that animal spirits may be softening, if only temporarily, is the recent price movement in Bitcoin, which has declined 24.7% from its October 6, 2025, high of $157,000. Such a move in Bitcoin suggests the cryptocurrency is still far away from being ready to be a prime-time global currency. We are concerned about the dramatic de-

Bitcoin Price

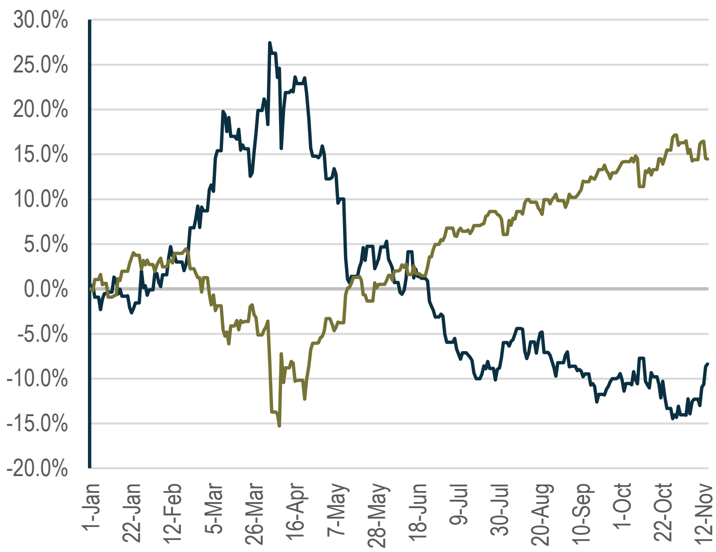
January 2, 2020 - November 14, 2025

(Source: Bloomberg)

valuation of Bitcoin because, over the last eighteen months, it has become widely accepted as an investment instrument, means of deposit, and measure of wealth.

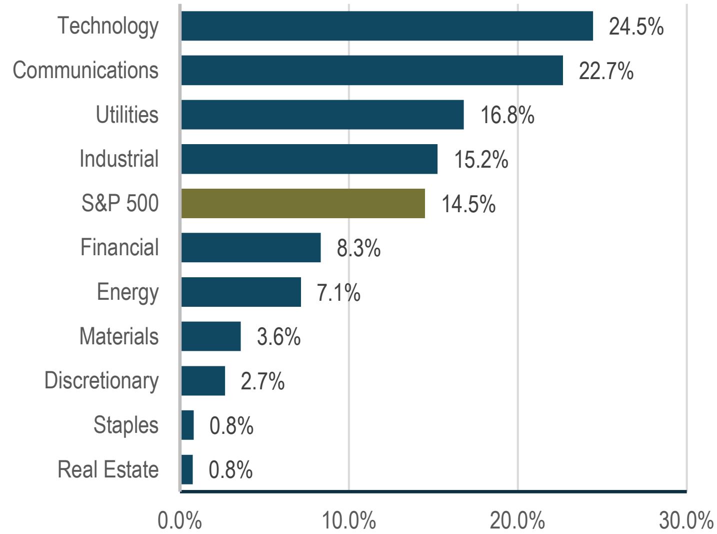
Another recent move in equity markets worth watching is the vote for or against stagflation as a pending economic reality. At the beginning of the year, an index of stocks likely to outperform in a stagflationary environment (blue line) dramatically outperformed the S&P 500 (gold line). As soon as President Trump announced a delay in tariffs, votes for stagflation as an economic outcome began to decline. Tariff-related inflation is coming in much lower than expected, and any recessionary expectations have also moderated significantly. More recently, stagflationary bets have resurfaced.

Cumulative Year-to-Date Returns of Stagflation Index (Blue) and S&P 500 (Gold)
January 2, 2025 - November 14, 2025
(Source: Bloomberg)



We believe that stagflation, broadly defined as a period in which inflation exceeds trend and economic growth falls below expectations, is approaching a higher probability. As we enter the last forty-five days of the year, cyclical sectors have dramatically outperformed those with protective characteristics. Technology, communications, utilities, and industrials have not only outperformed the broader index, but their valuations currently sit at least one standard deviation above their historical averages. In our view, they are priced for perfection and vulnerable to any potential miss in expectations.

Cumulative Year-to-Date Returns by Sector
January 2, 2025 - November 14, 2025
(Source: Bloomberg)

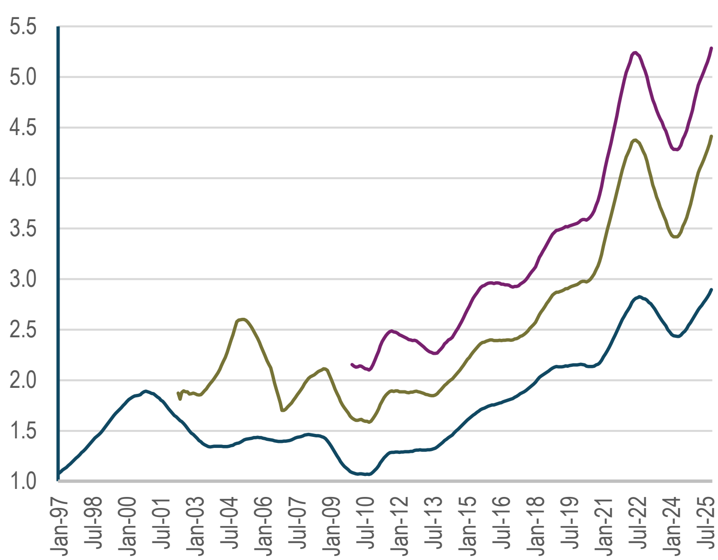


Equity Valuation

While there are many tools investors may use to value stocks and bonds, comparable market multiples are the tool most commonly used. Casual observation will show the obvious. Valuation multiples are much higher than their historical averages. True, but is this valuation premium warranted?

Price-to-sales ratios are rarely used as a serious method for valuing stocks, except in cases where a company has no cash flow or earnings. It is generally accepted that the Nasdaq 100 Index (purple line) holds a higher position than the broader Nasdaq (gold line) and the S&P 500 (blue line).

Price-to-Sales Ratios
January 1995 - October 2025
(Source: Bloomberg)



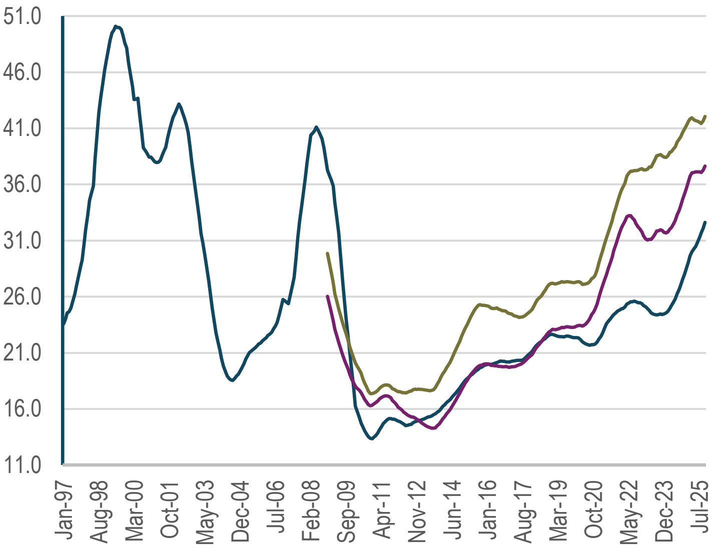
Based on price-to-sales, all three indexes are sitting at their highest valuation as long as such data is readily available.

A similar valuation graph, showing the price-to-free cash flow ratio, reveals a shift in position between the Nasdaq 100 (purple line) and the Nasdaq (gold line). Such a move reflects the cost of growth inherent in the Nasdaq 100. Even using the price-to-free cash flow metric, all three indices are currently at levels not seen since the Credit Crisis.

Price-to-Free Cash Flow

January 1997 - October 2025

(Source: Bloomberg)

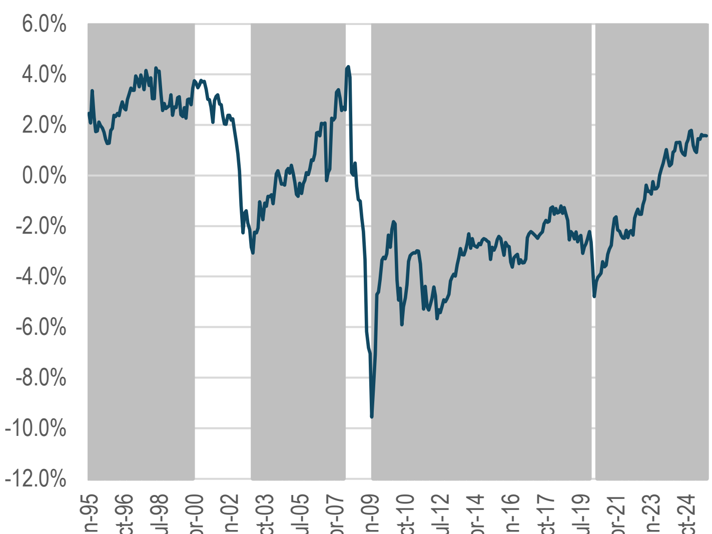


Free cash flow for companies represents the cash flows available to investors. It is sometimes helpful to compare free cash flow yield to the yield from an alternate debt instrument. In the graph below, the yield on a U.S. government 10-year bond yield is compared with the free cash flow yield of the S&P 500. The shaded areas represent periods of bull market.

US Govt 10-Year Bond Minus Free Cash Flow Yield

January 1995 - October 2025

(Source: Bloomberg)

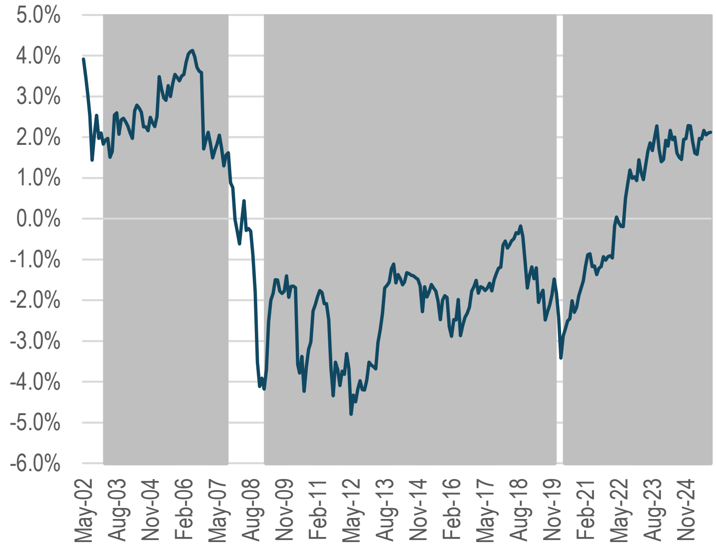


At current levels, the 10-year government bond yield provides a higher yield than an investment in the S&P 500. A similar graph compares the Nasdaq free cash flow yield to the US government 10-year bond yield. Similarly, at present, bonds are a better risk-adjusted return than technology stocks.

US Govt 10-Year Bond Minus Free Cash Flow Yield

May 2002 - October 2025

(Source: Bloomberg)

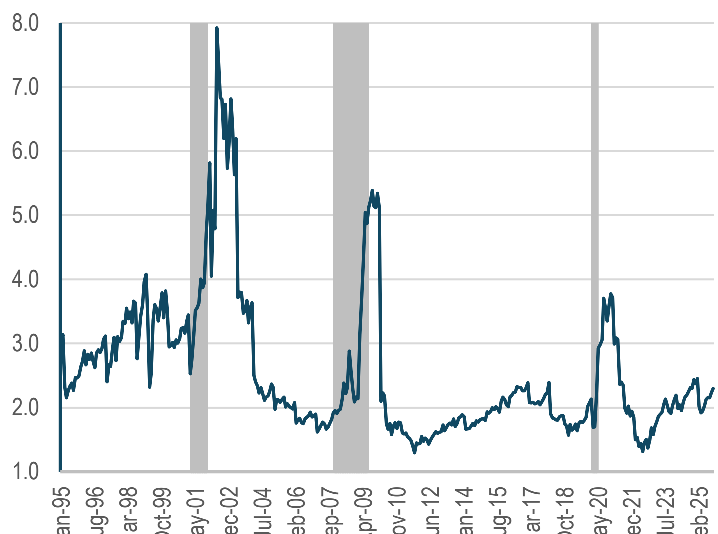


The price-to-earnings ratio (P/E ratio) is perhaps the most common valuation multiple for stocks. At present, the P/E ratio for the S&P 500 sits at 28.4x the current year's

S&P 500 PE Ratio / Profit Margin

January 1995 - October 2025

(Source: Bloomberg)



earnings. This multiple compares to an average of 17.8x over the past fifteen years. Some market analysts suggest that the current premium is justified because companies are more profitable now than they have been historically. Data show that the net profit margin of the S&P 500 at the beginning of 1995 was 5.2%. Since then, markets have experienced a consistent increase in profit margins, reaching their current level of 11.2%.

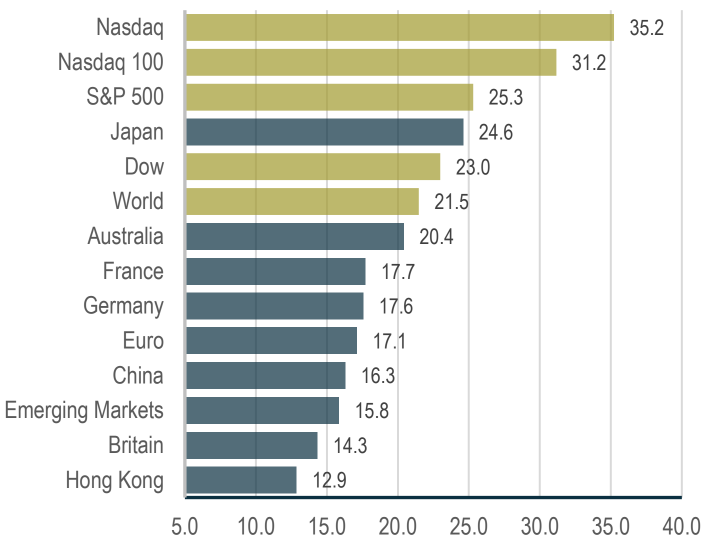
When adjusted for profit margins, the S&P 500 does not appear dangerously overvalued, although still higher than cyclical averages. Our concern is that margins are at their peak, and valuations are also at their peak. There is no room to maneuver if margins falter.

By comparison, U.S. equity markets are significantly more expensive than those of any other investable country.

Price-to-Earnings Ratios

November 15, 2025

(Source: Bloomberg)



Conclusion

That's it for this *Weekender,* which focused on valuation. Next week, we will focus on the current economic scenario as we approach the end of the year. Have a great week.

Disclosure Statement

Index performance does not reflect the deduction of any fees and expenses, and if deducted, performance would be reduced. Indexes are unmanaged and investors cannot invest directly in an index. Past performance does not guarantee future results. Investing involves risk, including loss of principal.

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