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Monthly Market Commentary | Edition 2025-11

The S&P 500 is up ~16.7% this year,¹ which is terrific, yet I joke that we were basically promised a recession, and it has yet to occur. That said, between a trade war, a softening labor market, rising inflation, a rising deficit, Artificial Intelligence enthusiasm, and a somewhat expensive stock market, there is a lot to keep an eye on. This month, I decided to highlight what I think is worth watching and also share the good.

Markets Often Climb a Wall of Worry

It is said that a bull market can climb a wall of worry. This means that markets can rise despite potential headwinds.

1) Artificial Intelligence (AI) may be creating a market bubble.

In my view, it seems like the markets are partially in an “anything touching AI is going up” phase. Enthusiasm for the technology makes sense, but I also see several areas for concern.

- A rising level of circular financing agreements (also called “vendor-financing”). Vendor financing contracts vary but the gist is that companies invest in their own customers while also backing each other’s obligations or guaranteeing minimum product purchasing levels. Recently, Nvidia inked an investment deal with OpenAI, which happens to be its largest customer, while at the same time guaranteeing chip sales back to OpenAI. There are several other deals that have been disclosed, by major tech industry players such as Microsoft, Meta, and Amazon. These circular financing deals can create perceived growth via artificial revenue, accounts receivables, minimum purchasing guarantees, and off-balance sheet financing, but they can also obscure organic demand and profitability and reduces transparency. If one of the players in these circular deals hits trouble, it could trigger ripple effects elsewhere.
- Massive AI capital expenditure (capex) spending is occurring to such a scale that it’s now referred to as “hyperscaling”. Companies are spending hundreds of billions of dollars on data centers, servers, chips, and power infrastructure on an exponential scale. This places a lot of pressure on AI as a concept, and on the companies investing in AI for this to be profitable. High capex spending is a large sunk cost. Even if the biggest firms keep spending, I question how spending on this scale can generate a profit and increase future cash flows, especially in the face of higher energy and infrastructure costs. I share two very recent examples.
 - o Apple agreed to pay \$1 billion to Google for the licensing of Google’s Gemini AI platform on Apple’s Safari search. Spending \$1 billion may seem like a lot but Google is expected spend nearly \$93 billion on AI research in 2025 alone.² I view receiving \$1 billion in revenue after spending \$93 billion as not a great return on investment for Google.
 - o Oracle’s commitment to spending \$8 billion on AI chips research for OpenAI which will put free cash flow at a negative -\$5.9 billion, which would be the first time since 1990 that Oracle will operate with negative free cash flow.³ Oracle expects this to continue into the foreseeable future.

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- Valuations on public and private companies tied to AI are soaring. OpenAI alone now has a valuation of at least \$500 billion, yet the founder, Sam Altman, himself doesn't believe his firm will be profitable until at least 2030. OpenAI just passed SpaceX as the largest private company, but at least SpaceX has proven profitability channels like government contracts.

To summarize, many companies exposed to AI appear to be priced to perfection, meaning that any slow-down in AI adoption, regulatory surprises, rising energy costs, or other issues could trigger a market sell-off.

2) The lower and middle class may be showing signs of stress.

There may be cracks in the lower and middle class that are being overlooked by the market. Five years ago, the lower and middle class benefitted from billions in pandemic stimulus checks and very low interest rates on loans like cars, furniture, and appliances. They also benefitted from higher wages as employers were forced to compete for workers. With interest rates now much higher, those same consumers will need to borrow in a more expensive interest rate environment, which is causing stress. CarMax is seeing a rise in car loan payment problems, and Synchrony Financial and CapitalOne are reporting that credit card customers are starting to struggle with payments or are spending less. I think the US consumer has learned a lot from 2008, and banking regulations have helped. I don't see reasons for alarm bells yet, but I am paying attention to the financials sector along with other areas like auto-parts companies, dollar stores, discount retailers, and home improvement stores for signs of potential stress.

3) The labor market may be weakening.

Data from the Bureau of Labor Statistics, ADP, FactSet, Bloomberg, and corporate earnings calls generally point to a weakening employment picture. According to ADP, private sector employment openings fell by 32,000 jobs in 2025.⁴ The source of declines was mostly from softness in small and medium companies, but the largest employers haven't been immune, either. Last week saw a rise in white collar job layoffs (Amazon, JPMorgan, UPS, others) due to productivity enhancing technologies like AI combined with cost-cutting restructuring efforts. Usually, we see stress in wages before hiring starts to slow, but right now the opposite seems to be happening. The current situation may have shifted from "not hiring, but not firing", to "not hiring and also reducing costs/reducing headcount". Post-pandemic, companies struggled with not being able to hire reliable labor or quality candidates, so they held onto the employees they had, which drove up wages and reduced layoffs. This "labor hoarding" caused a skew in jobs reports that may be unwinding now. My concern is that the unemployment picture is degrading and that we're entering a deteriorating job environment.

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4) Concerns about inflation and tariffs have not abated, in my view.

From my last newsletter, I equated tariffs to a weighted exercise vest, and inflation to a beach ball being held underwater. Both could become an increasingly intense burden over time. In my view, it's still too soon to see how either will play out, but tariffs cannot be ignored. Additionally, inflation is climbing; it is now 3.1%, which is above the Fed's preferred target of around 2.1%. I think clarity on either issue could take many months to materialize and determine if there is an impact to the consumer and US economy. In my view, nothing has changed about these potential challenges, and I continue to believe they should be monitored and treated with respect.

There is reason for optimism, too

It's worth acknowledging that the current market growth has been supported by legitimate drivers. The AI opportunity is real with new models, new services, and a gigantic addressable market, in my view. The biggest companies that are spending on AI are thought to be doing so because of the natural fit that AI plays in their businesses, and the strategy is less of a speculative play, despite the presence of some questionable actors. Most developed market economies continue to show expansion in GDP without excessive inflation. The US (and US mega cap tech) is no longer the single driver of stock market performance. We are seeing breadth in the US Equal Weighted S&P 500, an expansion of market growth in Asia and Europe, and Emerging Markets are benefitting from a weaker US dollar. Earnings growth remains relatively robust. Worker productivity continues to improve, supported by technological and AI advances. We just entered a Federal Reserve interest rate cutting cycle. Government deregulation and stimulus from White House and Congressional bills will likely create tailwinds for many industries. There is nearly \$8 trillion in cash sitting in money market funds that can easily be deployed both in public and private markets. In the very near term, we are entering the final two months of the year, which historically have been so strong that Wall Street calls it the "Santa Claus Effect". It's important to acknowledge areas of potential stress, and markets will always fret over the next catastrophe du jour. However, I think there are also a lot of great things happening in US and global markets.

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Conclusion

There will always a case for or against the current market rally. The more that I hear of potential causes for recession, the less likely I believe they are to occur. Historically, markets and economies are typically forced off track by an unforeseen force that wasn't accounted for, which is why they are disruptive and destructive. If a potential recession driver is out in plain sight, then usually the markets (stocks and bonds alike) have factored it in.

Assuming 2025 ends on a positive note, we will be 3.5 years into a recovery after the damage from the 2022 Federal Reserve rate hikes. I have been generally focusing more on capturing profits from stocks and reinvesting into bonds, alternatives, and private markets in an effort to focus on risk and volatility management. It's always better to reinforce the moat around the castle during good times than in periods of stress.

Questions & comments are welcome,

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Sources & Disclosures:

¹ S&P 500 YTD through market close on November 13, 2025.

² Alphabet 10Q earnings report. Alphabet's total capex on Artificial Intelligence in 2025 was increased from \$91 billion to \$93 billion in 2025, and is projected to increase to \$100 billion in 2026.

³ Oracle 10Q earnings report, FactSet.

⁴ ADP National Employment Report, October 1,2 025.

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