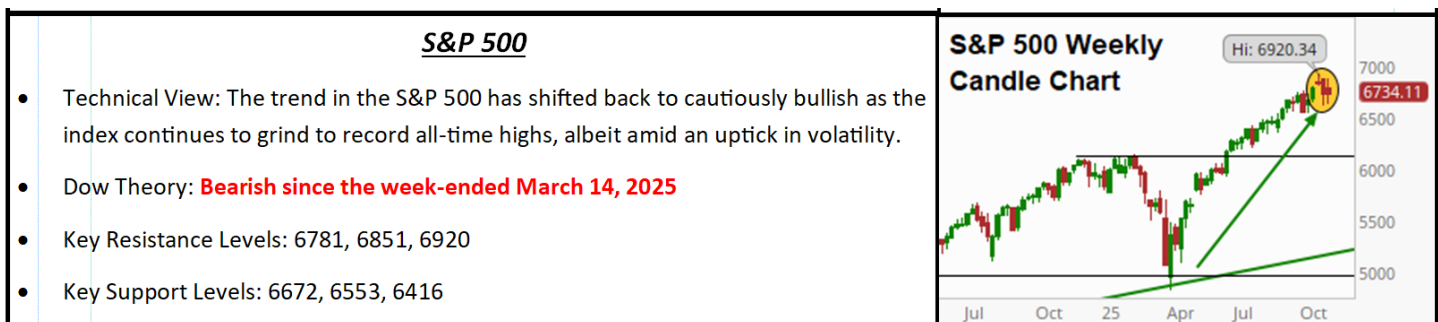




HIGHLIGHTS

- Can the Rest of the Market Rally If Tech is Weak?
- Market Preview: Can AI Enthusiasm Rebound? (NVDA Earnings on Wednesday Are Key)
- Economic Cheat Sheet
- November Market Multiple Table (MMT)

STOCKS



“Tech weakness as AI skepticism continues to grow, and economic data is not helping.”

SOURCE: Factset and Vann Equity Management Research Team

- ✓ **What is Outperforming:** AI-related tech, cyclical sectors.
- ✓ **What is Underperforming:** Defensive sectors, energy, small caps.

Can the Rest of the Market Rally If Tech is Weak?

U.S. equities rallied into the middle of ok on progress toward ending the government shutdown. Still, concerns about stretched valuations and uncertainty around delayed economic data erased most of those gains. The S&P 500 is now up 15.77% year to date on a total return basis.

Within that backdrop, the technology sector declined again last week and has been a drag on the S&P 500's performance for the month. Investors are growing more uneasy about the scale of AI-related capital expenditure and what could happen to both tech stocks and the broader economy if that spending slows.

Importantly, there was **no clear systemic shock** in the overall tech sector. Within our VEM Large Cap Growth portfolio, CoreWeave (CRWV) sold off after earnings on a revenue miss that was driven largely by timing rather than a collapse in underlying demand. At the same time, in our International ADR and Large Cap Value Portfolio, other key



holdings such as Applied Materials (AMAT) and Cisco (CSCO) delivered solid results, and the fundamental outlook for AI spending is essentially where it was three weeks ago, when markets were cheering almost every AI headline.

What has changed is the Narrative, Not the Data. A growing wave of commentary is now questioning the durability of the AI capex boom. As a result, selling in large-cap tech has invited additional selling, and skepticism has become the dominant story of the month. Against this backdrop, investors are focused on Nvidia (NVDA) earnings on Wednesday after the close, hoping the report will halt the slide, re-anchor expectations around earnings growth, and reaffirm the extraordinary capital spending that has powered the AI cycle so far. In effect, markets are implicitly asking NVDA to calm this new burst of AI doubt that has weighed on both tech and the S&P 500.

The key risk is straightforward: *what if that does not happen?* What if NVDA's results are strong in absolute terms but not strong enough to reverse the incremental rise in skepticism toward AI spending and mega-cap tech leadership? If that is the case, the next question becomes whether the rest of the market can rally, or even hold steady, while tech and AI-related names decline.

History suggests that it is difficult, though not impossible. Over the past three years, there have been three episodes in which Nasdaq declined by more than 10% over several weeks. These were the main pullbacks within what has otherwise been an exceptionally powerful tech bull market.

During two of those periods, the rest of the market did not provide meaningful shelter:

1. July 2023 - October 2023 and
2. February - April 2025

The Nasdaq 100 ETF (QQQ) fell about -10.5% in the first episode and about -23% in the second, while the equal-weight S&P 500 ETF (RSP) declined roughly -13.2% and -16.4%. In other words, rotating out of tech and into the broader index did not significantly reduce drawdowns.

There was, however, **one notable exception!** From early **July 2024 through early August 2024**, QQQ declined about -12.5% while RSP was roughly flat. In that instance, tech weakness was driven by underwhelming 2nd Quarter earnings and a broader concern that the economy was slipping toward a stagflation-style mix of softer labor data and rising inflation. That environment punished the most expensive and speculative growth names, while more value-oriented and economically sensitive sectors held up and delivered relative outperformance. (VEM Large Cap Value is more heavily weighted in these sectors.)

Connecting that history to the current setup, concerns today are still focused primarily on the tech and AI complex itself rather than on a clear deterioration in the overall economic backdrop. If this remains a tech-specific degrading, and if we also see even a mild stagflation pulse that pressures the richest valuations, recent history does provide a path in which exposure to the VEM SMID portfolio, VEM International ADR, as well as our VEM Large Cap Value, outperforms even if the headline tech indices remain under pressure.

Bottom line: The durability of this bull market increasingly hinges on whether AI spending continues at a pace that justifies current expectations. If the latest bout of skepticism toward AI capital expenditure remains contained and NVDA reassures the market, leadership can remain concentrated in tech for longer. If not, investors may need to lean more deliberately



into our VEM Large Cap Value and VEM International portfolios or become more defensive, utilizing Structured Notes in order to weather a deeper AI-driven pullback into year-end.

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

So far, economic data has been unusually light, even though the government shutdown has ended. The few reports we have received suggest that both business sentiment and the labor market are softening, while recent Federal Reserve comments make it clear that a December rate cut is far from guaranteed.

There have been only two meaningful data points this month, and both came in on the soft side:

1. **NFIB Small Business Optimism Index** - Slipped to 98.2 vs. 98.3 expected, which keeps optimism essentially moving sideways.
2. **ADP jobs report** - Showed an average loss of about 11,250 jobs per week over the four weeks ending October 25. That is equivalent to roughly 45,000 jobs lost over that period and suggests the labor market may be weakening more than previously thought.

These numbers pressured the dollar, and 10-year Treasury yields lower, as investors focused on the possibility that labor is becoming a vulnerability for the expansion. For now, the broader set of data still points to a labor market that is stable but cooling, a view that will be tested as delayed government reports begin to roll out in the coming weeks.

Looking forward, the focus shifts to how November is starting. On Friday, markets will get the first broad read on current activity through the flash composite PMI reports, with particular attention on services since that represents the bulk of the U.S. economy. Ahead of that, regional surveys such as Empire Manufacturing (today) and the Philly Fed index (Thursday) will offer early signals.

The key to all these reports is simple: As long as conditions remain broadly stable and do not show a sudden drop in activity, they should help support risk assets. A sharp downside surprise would revive concerns that growth may be hitting a wall.

The weekly ADP jobs report on Tuesday is another potential catalyst. After last week's modestly negative reading, markets would prefer to see a bounce back toward positive territory. A larger negative number, especially in the area of 15,000 job losses or worse, would add to worries that the labor market weakened during the shutdown and increase the perceived risk of a broader slowdown.

Finally, our investment team will be watching the release of the Federal Reserve's October meeting minutes. Our team will be looking for how divided officials were about the last cut and how much support remains for another move in December. If the minutes show that most Fed members are still open to a December cut, that would be supportive of equities. If they reveal increased resistance to further easing or hint that the rate-cutting cycle may be nearing an end, that would be a headwind, because expectations for ongoing Fed support have been an important pillar for this market so far this month.



SPECIAL REPORTS AND EDITORIAL

November Market Multiple Table (MMT)

The November MMT underscores how essential AI Enthusiasm is to this market. If we focus strictly on the underlying facts from the past month, they do not naturally support the S&P 500 moving to new highs, or even meaningfully higher levels.

Consider the following:

Federal Reserve and interest rates

The Federal Reserve is now less dovish than markets expected.

The Fed did cut rates in October and offered a modest dovish surprise by announcing an end to Quantitative Tightening in December. However, much of that was already reflected in equity prices. The larger surprise over the past month was Chair Powell directly pushing back on the perceived certainty of another rate cut in December. Since then, it has become clear that the Fed is divided on whether to cut again.

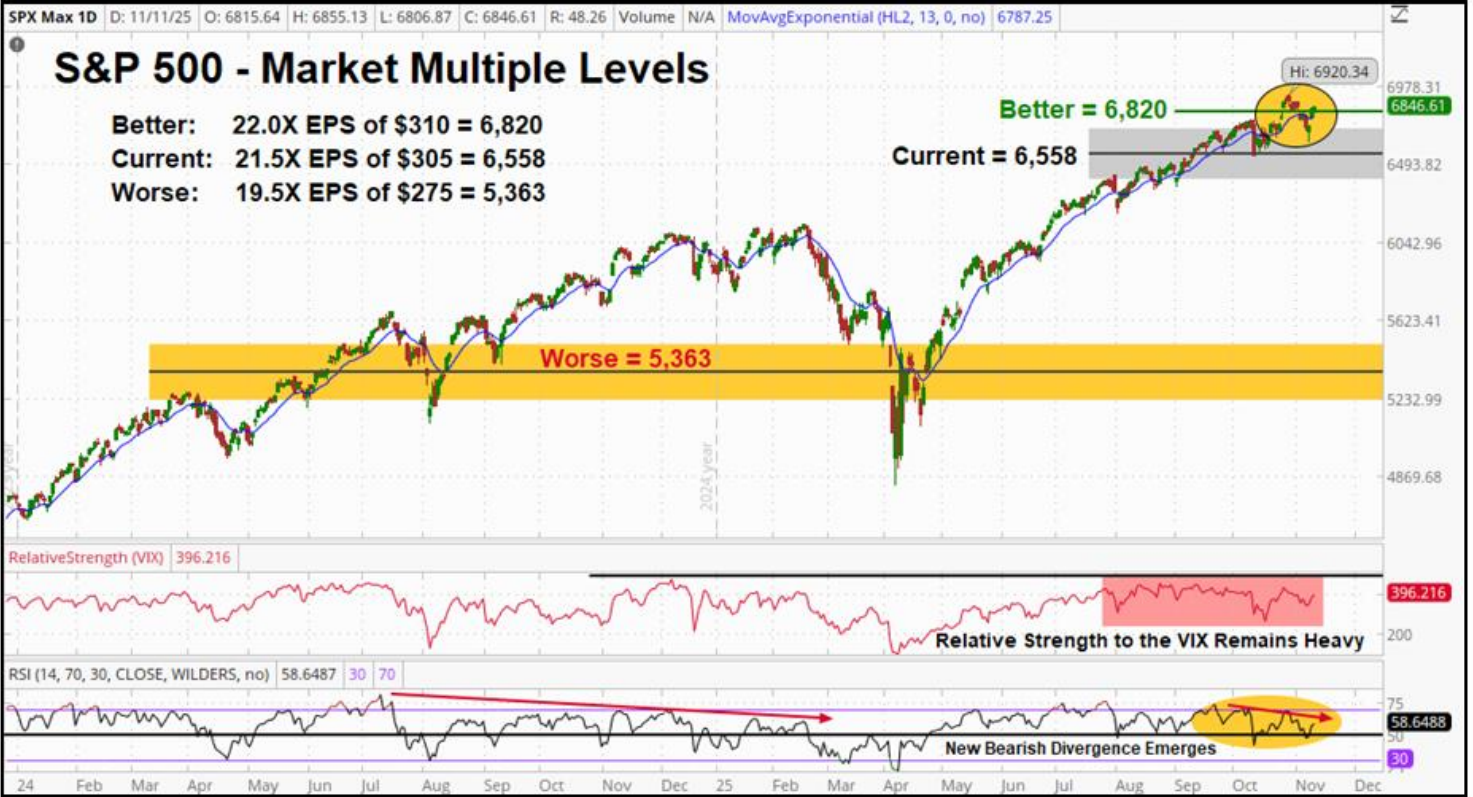
Bottom Line: The market remains expensive on a fundamental basis, even after we factor in AI Enthusiasm at its most optimistic. That does not mean the market cannot grind higher into year-end. It can, supported by:

1. **Momentum:** The prevailing trend is still upward.
2. **Seasonal factors:** A potential “Santa Claus rally.”
3. **Four bullish drivers that remain in place:**
 - AI Enthusiasm
 - Fed rate cuts (already delivered and potentially more)
 - Stable economic growth
 - No renewed tariff disruption

However, it is very important to recognize the risk on the downside. If there is meaningful disappointment in AI Enthusiasm or deterioration in any of these other factors, the market could decline sharply and quickly. This is not a “three percent dip” type of environment.

If doubts about AI emerge, if growth begins to soften, if the Fed signals the end of the rate-cutting cycle, or if tariffs re-emerge as a headwind, we could easily see an initial 5-10% decline, and even after that, the market would still not be at an obvious “fair value.”

This setup is not automatically negative, and in fact, it has been the backdrop for much of the second half of the year. However, valuations are stretched and heavily reliant on very high expectations for AI. For the market to justify current levels, those expectations must be met. The November MMT reinforces that critical point.





A Game of Multiples (Updated 11/10/2025)			
Market Influence	<u>Current Situation</u>	<u>Things Get Better If...</u>	<u>Things Get Worse If...</u>
AI Enthusiasm	AI Enthusiasm remains the No. 1 influence on markets, as solid AI earnings and cap-ex plans pushed stocks higher last month, although the widening gap between cap-ex spending plans and meager AI revenues did pressure stocks lately.	AI-linked corporate earnings remain strong, especially from NVDA. Meanwhile, major tech firms stick to massive cap-ex plans, reinforcing continued private stimulus in the economy.	AI-linked earnings disappoint or the pace of cap-ex among the large tech companies begins to slow, pressuring AI stocks directly and negatively impacting the outlook for economic growth.
Fed Rate Cuts	The Fed has cut rates twice and announced an end to QT (all dovish) but Powell and other officials pushed back on a December rate cut, making it still likely but not certain.	The Fed signals another cut in December and reaffirms that the Fed is still in the midst of a rate cutting cycle (so they'll keep cutting in 2026).	The Fed pushes back further on December rate cut hopes and investors begin to consider that the Fed may pause rate cuts.
Stagflation Anxiety	The government shutdown has limited the amount of data available, but the private market data over the past month has pointed towards still-solid economic growth.	The data deluge coming from the government reopening shows a stable labor market and solid growth while inflation metrics are tame.	The data deluge reveals more intense labor market weakness than expected and/or CPI and other inflation metrics rise, increasing stagflation concerns.
Expected 2026 S&P 500 EPS	\$305	\$310	\$275
Multiple	21X-22X	22X	19X-20X
S&P 500 Range	6,405-6,710	6,820	5,225-5,500
S&P 500 Target (Midpoint)	6,558	6,820	5,363
Change from today	-4.0%	-0.18%	-21.5%



Government shutdown and economic data

The recent government shutdown is an economic negative, although the magnitude is uncertain.

The shutdown ended, but we have now gone nearly six weeks without official government economic data. It is unclear when agencies will fully catch up and resume normal releases of key reports, such as:

- Monthly Jobs Reports (September and October)
- Weekly jobless claims (approximately six weeks)
- Retail sales
- CPI and other inflation data

It is entirely possible that this delayed data proves softer than analysts currently expect and that it reveals slower U.S. economic growth. That would be a negative beyond the very short term.

Conversely, if the data is stronger than expected and growth is more resilient than markets assume, that outcome could further reduce the probability of a December rate cut. That would likely be a short-term negative for equities as well.

At a minimum, the shutdown and subsequent restart will make the data “noisy” for several months. We may not get a truly clean read on the underlying economy until early 2026. That is not automatically a bad outcome, but it does increase uncertainty. Greater uncertainty raises the risk that the Fed could misjudge policy or that markets could be surprised by data releases, and such surprises are usually not constructive for risk assets.

In any case, this situation is clearly not an improvement over September, when the government was fully open, workers were being paid on time, and economic data was being released consistently. Again, AI Enthusiasm helped offset this negative development.

AI Enthusiasm itself

AI Enthusiasm over the past few months has been mixed.

For most of the period, AI-related optimism remained very strong. Most major AI-linked technology companies, including the large platforms and hyperscalers, reported solid earnings. Importantly, capital expenditure plans related to AI remained stable or increased in many cases.

In addition, recent weeks featured frequent announcements of new or expanded relationships among OpenAI, other AI firms, and their key partners and service providers, including NVDA, AVGO, MSFT, AMZN, META, and others. This backdrop supported the S&P 500 reaching a new high in mid-October.

However, the very large gap between AI infrastructure spending and the relatively modest revenues currently being produced by AI began to weigh on sentiment. AI-linked technology stocks started November with their worst week since the reciprocal tariff episode in April.

Bottom line: AI Enthusiasm is, at best, roughly where it was in September. Early strength in the month helped push the S&P 500 to new highs, but the underlying tension remains: expectations are extremely elevated, while realized financial benefits are still developing.



Current Situation: AI Enthusiasm got even more intense over the past month, supporting the rally; the Fed cut rates in October but pushed back on December rate-cut expectations (leaving it possible but uncertain), while the private measures of economic growth and inflation were mostly stable (although the market was without government data). AI Enthusiasm is helping to stretch the multiple investors are willing to pay, and that helped to offset slightly negative shifts in the other two market influences (the Fed got less dovish and the shutdown caused a lack of economic data).

Bottom line: Despite some slightly negative macro shifts over the past month, AI Enthusiasm offset them and underwrote the rally.

Things Get Better If: AI Enthusiasm stays in place through important earnings, the Fed signals a rate cut is likely in December, and the release of backlogged economic data shows that growth and inflation metrics are stable. This would be a near-perfect scenario for stocks as AI Enthusiasm would push the multiple higher, while macroeconomic fundamentals would support a run-hot market scenario. A rally towards 7,000 in the S&P 500 should be expected.

Things Get Worse If: AI-related earnings disappoint and cause some multiple contraction, the Fed makes markets think a December rate cut is not likely, and the release of backlogged economic data shows a weaker-than-expected economy. This outcome would essentially negate all the reasons for the YTD rally, and beyond that, raise the prospects of elevated inflation and an economic slowdown. This should result in a substantial decline in the S&P 500 as both earnings and the market multiple would fall, and that would be compounded by the bursting of any AI bubble.

Summary

In summary:

- The **certainty of continued rate cuts** has diminished, which is mildly negative for equities.
- The **government shutdown and delayed data** introduce additional uncertainty and potential negative surprises.
- **AI Enthusiasm** has been strong enough to offset these headwinds so far, but it is carrying a very heavy load in supporting current valuations.

Our advisory team is closely monitoring these dynamics. The current environment still allows for further gains, but it also carries elevated downside risk if AI expectations or macro assumptions begin to break down.

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