MONTHLY

Portfolio Pulse

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Reasons to Stay Invested

Despite an increase in alarmist headlines, equity markets continued their march higher since our last publication, with the S&P 500 setting yet another new all-time high. Valuations remain elevated – but, in our view, still not in bubble territory. And while there are always market risks, there are also fundamental reasons to remain invested. The economy continues to grow, corporate earnings remain strong, the Federal Reserve has an easing bias and liquidity is reentering the markets as quantitative tightening ends and the government reopens. With fundamentals unchanged, we continue to recommend a modest overweight to risk-taking – recognizing the ever-present risk of market corrections, but also the gains we could miss by reducing risk too soon.

Of all the recent "doomsday" headlines, we were most surprised by the attention given to Wall Street comments that equity markets could see a 10%-20% correction sometime over the next two years. It was not the boldest of predictions – as the average drawdown in any given year (going back to 1945) is 14%. This average includes the 19% correction we saw just earlier this year – off which the S&P 500 has rallied 37% and is up 16% year-to-date[1]. Market corrections can be hard to predict, especially those driven by retreating valuations, as opposed to retreating fundamentals. And the latter remain strong.

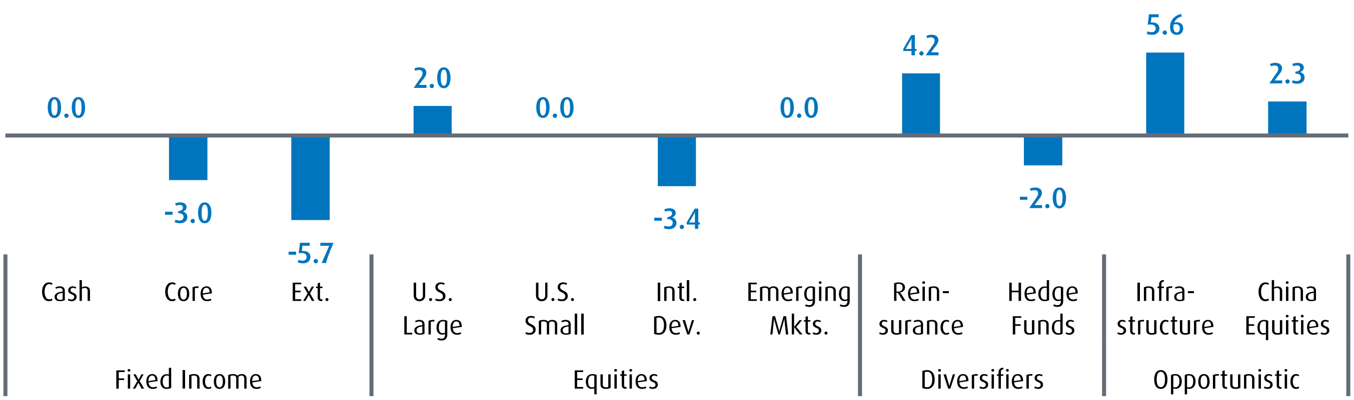
Starting with the broader economy, while we haven't yet received Q3 growth numbers (due to the now-ended government shutdown), other metrics – such as purchasing manager indices – suggest an economy that is still expanding. And while Q4 may show slower growth, in part, due to the government shutdown (estimates of around 1% vs. the likely 2.5% in the first nine months of the year), the first half of 2026 should get a boost from increased tax returns as result of the tax bill passed earlier this year – and should help to prop up an ailing consumer. Meanwhile, capital expenditures also remain strong and will also be boosted by tax-bill provisions. It was another strong earnings season as well. Q3 S&P 500 sales growth was 8% (2% ahead of expectations) and earnings growth was 12% (7% ahead of expectations), with the technology sector – now one-third of the S&P 500 index – growing sales at 12% (2% surprise) and earnings at an astounding 22% (8%). While valuations remain elevated – with the S&P 500 price-to-forward-earnings ratio at 22.7 (vs. an 18.7 10-year average) and the technology sector at 29.5 (vs. 21.9 10-year average) – the strong earnings growth (with room to run) and a clear path to ongoing profitability suggests that fears we are in the midst of a dot-com-like bubble are overstated at present.

On the monetary policy front, Fed Chair Jerome Powell threw some cold water on the prospects of a December rate cut at his October press conference – stating it was far from a forgone conclusion. However, regardless of what the Fed does in December, we expect the Fed will continue to have an easing bias heading into 2026 given labor-market weakness – so long as inflation doesn't reaccelerate. Meanwhile, markets will get a one-two liquidity punch as the Fed ends quantitative tightening and government checks start to go out again – the proceeds of which will make their way to bank reserves.

All said, while fundamentals remain strong, market corrections are commonplace. Our current modestly risk-on positioning – using up only half of our tactical risk budget – allows us to continue to participate in any continued market gains, while also leaving us dry powder to take advantage of a market correction, should one occur.

Still modestly overweight risk

We maintained our modest risk-on positioning – allowing us to benefit from further market upside while maintaining flexibility.



Allocations as of 11/17/2025. Ext. = Extended; Based on Balanced Portfolio. [1] As of November 13, 2025

Macro Outlook

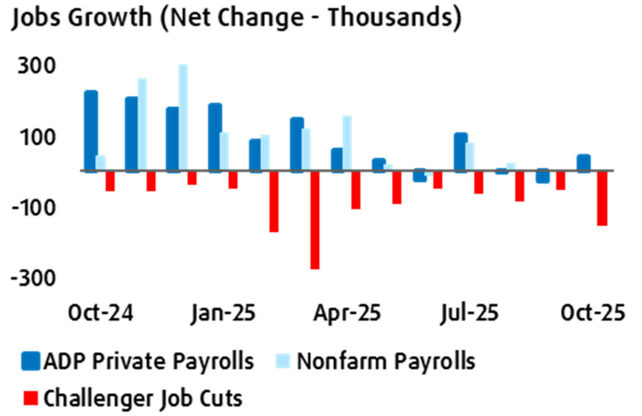
Growth

The overall economy continues to expand, but labor markets continue to soften. In the absence of government data, private-sector statistics – such as ADP private payrolls and Challenger, Gray & Christmas job cuts – provide us some touchpoints. The former showed 42,000 jobs added in October (slightly above expectations), while the latter reported 153,000 October layoffs – the biggest layoff count since March, with cost-cutting and AI noted as the top two reasons. This has led to a continuation of the "K-shaped" economy – the higher-end consumer has continued to spend, while the lower/middle class is being squeezed by soft labor markets and lingering inflation.

Consumer relief is coming in the form of the reopened government as well as the estimated ~$520 billion of tax refunds coming in early-2026 (up 44% from the ~$360 billion sent out in early 2025). This, alongside continued investment, should support 2026 economic growth – but a return to labor market growth is necessary for longer-term economic viability.

Exhibit 1: Continued labor-market softness

Layoffs increased in October while net jobs added have been flat.



Source: Bloomberg L.P. (2025). ADP and Challenger data through October 2025. Nonfarm Payrolls through August 2025.

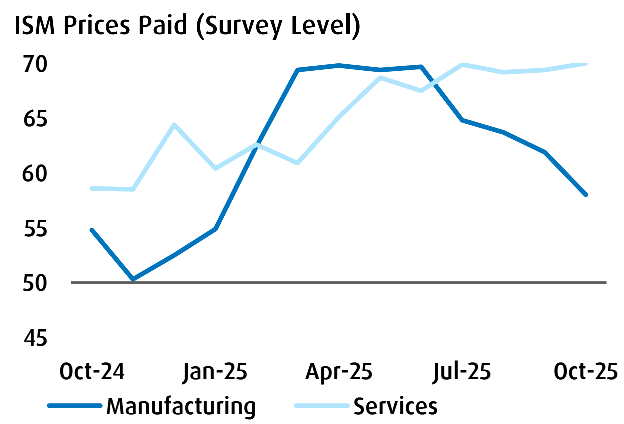
Inflation

While most government data releases have been shut down, we did get the September inflation report – produced thanks to the necessary COLA (cost-of-living adjustment) calculation for inflation-indexed pay and benefits and showing still elevated-but-stable inflation at 3.1%. Meanwhile, purchasing manager data – provided by the Institute for Supply Management – suggests goods inflation moderating but services inflation remaining at post-pandemic highs. All said, inflation is still too high but, so far, has not been going higher.

The service economy is a far bigger chunk of the overall economy and is also more labor intensive. As such, continued service-inflation stickiness is somewhat at odds with the softening labor market noted above. This potentially implies that the reduced job creation may be a result of less labor supply than falling labor demand. The still-low 4.3% unemployment rate corroborates this possibility. If so, an improved labor-market situation – perhaps driven by policy decisions – could alleviate (rather than compound) current inflation pressures.

Exhibit 2: Inflation improvement in some areas

Manufacturing prices are moderating but service prices remain high.



Source: Bloomberg L.P. (2025).

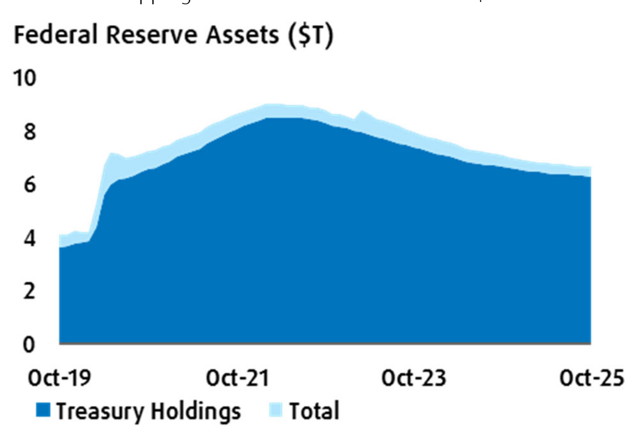
Monetary Policy

While a December rate cut is "not a foregone conclusion" in Fed Chair Powell's words, the path of monetary policy heading into 2026 still likely points to further easing – as current policy is still viewed as restrictive. The number of remaining Fed rate cuts this cycle will depend on what is decided to be the neutral rate, which is likely somewhere between 2%-3% – and likely meaning at least four additional 0.25% rate cuts from the current 4% level.

While that debate plays out, increased market liquidity will come in the form of the reopening of the government (with repaid government workers depositing their checks in the banking system, raising banking reserves) and the termination of the Fed's quantitative tightening, scheduled to end on December 1. This will stabilize Fed assets at ~$6.6 trillion – the same level as after the Fed's pandemic-induced 1H2020 mass purchases and before the bond purchases that continued through mid-2022 (see Exhibit 3) – thus adding market liquidity, even absent a December rate cut.

Exhibit 3: An end to quantitative tightening

The Fed is stopping its balance sheet roll off at ~$6.6 trillion.



Source: Bloomberg L.P. (2025)

Market Outlook

Fixed Income

U.S. Treasury yields can be broken out into the real yield component and the expectation for inflation – with the current 10-year U.S. Treasury yield of ~4.1% comprised of a ~1.8% real yield and a ~2.3% expectation for inflation. The 10-year yield has been fairly range-bound the past couple years, with inflation expectations in an even tighter range of 2.2%-2.4%. Should inflation expectations remain stable (as we expect), the 10-year Treasury's yield path will be driven by the real-yield component.

Since 1997 – marking the introduction of the inflation-linked (TIPS) bond and giving us a market-based real-yield estimate – the average 10-year real yield has been ~1.5%, ~0.3% lower than the current level, suggesting the 10-year yield could move toward 3.8%. Impacting that move will be where the neutral rate debate lands (as described in the monetary policy section – previous page). With any move toward the newly proposed 2% level, giving more room for the 10-year yield to fall (assuming it doesn't cause inflation expectations to increase). All said, we expect the 10-year yield will remain around 4% – but does have room to move lower.

Equities

Recent big-tech earnings releases have been met with increased scrutiny, with a broad range of market reactions based on AI intentions and capex projections. Specifically, Magnificent 7 company post-earnings-report performance has shown notable dispersion – with Amazon up big, Google up small, Apple flat, Microsoft down small and Meta down big. This, despite all companies once again outpacing expectations. To us, this is an indication that the calls of a market bubble are premature – as bubbles generally don't coincide with such earnings scrutiny.

While volatility – such as we have seen recently – is inevitable, we believe the tech-fueled market rally can continue, absent macroeconomic developments that derail the broader market narrative – such as increased inflation causing the Fed to abandon its easing bias. Overall, we continue our modest overweight to U.S. equities as part of our overall modest overweight to risk assets – appreciating the ability for this market rally to continue, while also recognizing how far (and fast) we've come.

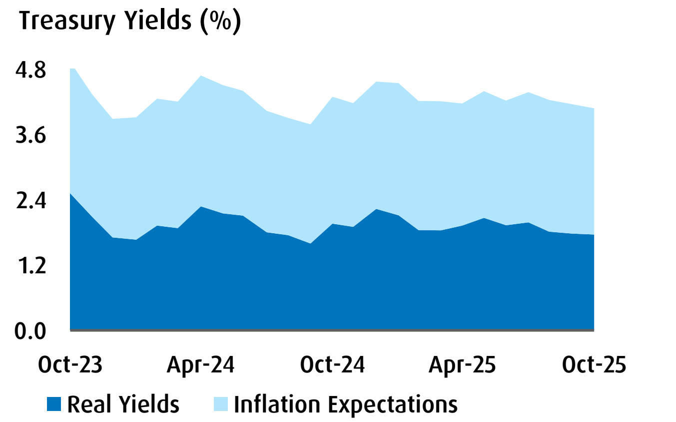
Diversifiers/Opportunistic

As investors focus on the quality of U.S. earnings, China's outlook is being shaped less by corporate performance and more by broader economic imbalances. Despite its impressive growth record, China faces mounting structural headwinds — ranging from aging demographics to weak domestic consumption — that are increasingly binding at its current stage of development. Deflation has emerged as a growing challenge, driven by weakening demand, price competition and industrial overcapacity.

Recent retail sales (Exhibit 6) point to softening demand and cautious consumer sentiment. China's household consumption remains well below global averages, while its savings rate is high – partly reflecting limited social safety nets and welfare provisions for a large informal workforce. High debt levels also constrain the government's ability to deliver meaningful stimulus. Over the near term, the recent trade truce offers some support. While over the longer term, the sustainability of China's recent equity-market gains depends on its ability to successfully rebalance towards a consumption-led economy.

Exhibit 4: 10-year U.S. Treasury yield anatomy

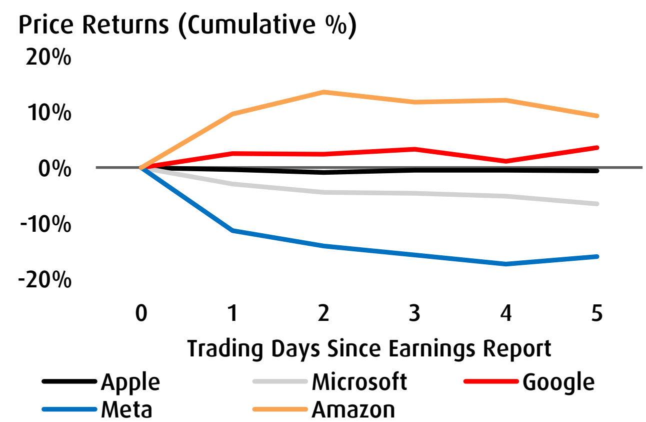
The ~4.1% 10-year yield is comprised of a ~1.8% real yield and a 2.3% inflation expectation.



Source: Bloomberg L.P. (2025).

Exhibit 5: Market discernment

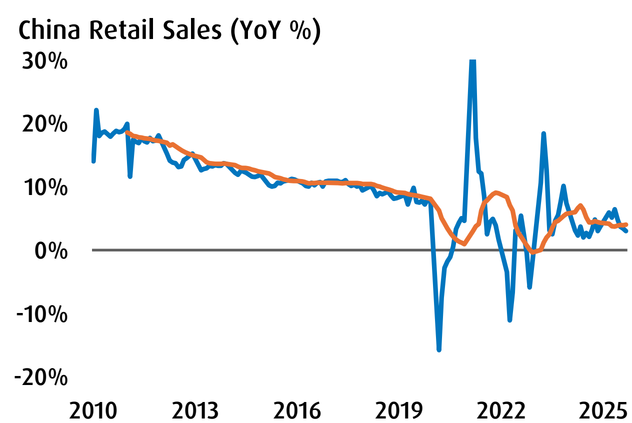
Investors put increased scrutiny on this quarter's earnings reports.



Source: Bloomberg L.P. (2025). Data through November 5, 2025

Exhibit 6: China crosswinds

Consumer spending remains subdued as demand softens.



Source: Bloomberg L.P. (2025). Data through September 2025

Exhibit 7: Scenarios

Downside Risk Case: Policy Volatility	Base Case: Moderating Expansion	Upside Risk Case: Asset Inflation
25% Probability	*50% Probability*	*25% Probability*
The current administration's unconventional approach to policy-making has negative consequences. Chief among these is the potential for volatility-inducing policy reversals – whether by tweet or court-ordered.	The softening labor-market pressures consumer spending, modestly slowing economic growth. The Fed's focus on full employment leads to continued rate cuts into 2026 – despite above-target inflation.	Rate cuts and any lingering concerns around the U.S. dollar lead more to asset (rather than goods) inflation. While positive for risk assets in the near-term, it also sets up the prospect of asset bubbles in the medium-term.

Index Definitions

Bloomberg U.S. Aggregate Bond Index is an unmanaged index that covers the U.S. investment-grade fixed-rate bond market, including government and credit securities, agency mortgage pass-through securities, asset-backed securities and commercial mortgage-based securities. **The Bloomberg U.S. Municipal Index** covers the USD-denominated long-term tax-exempt bond market. **Bloomberg U.S. Corporate High Yield Index** measures the U.S.D-denominated, high yield, fixed-rate corporate bond markets. **Bloomberg Muni High Yield Index** is an unmanaged index that measures the returns of high yield, fixed rate municipal bond markets. **S&P 500® Index** is an unmanaged index of large-cap common stocks. **The S&P 500® Equal Weight Index** (EWI) is the equal-weight version of the widely-used S&P 500. **The Russell 3000® Index** measures the performance of the largest 3,000 US companies designed to represent approximately 98% of the investable US equity market. **The Indxx U.S. Infrastructure Development Index** is designed to measure the performance of companies involved in infrastructure development in the United States. **MSCI EAFE Index** Europe, Australasia, and Far East Index (EAFE) is a standard unmanaged foreign securities index representing major non-U.S. stock markets, as monitored by Morgan Stanley Capital International**. MSCI Emerging Markets Index** is a market capitalization weighted index representative of the market structure of the emerging markets in Europe, Latin America, Africa, Middle East and Asia.

Disclosures