

Commentary

Market Pullback: Why Current Weakness Should Be Viewed as Opportunity

- Market weakness reflects a normal reset as AI concerns, shifting Fed expectations, and crypto volatility hit a market priced for perfection.
- A pullback toward the S&P 500's 200-day moving average would approach correction territory and likely create a buying opportunity.
- We expect any selloff to be limited, supported by strong 2026 earnings, upcoming stimulus, and record cash on the sidelines.

U.S. equity markets have shown notable softness in recent weeks, with the S&P 500 retreating from its late-October peak and breaking below several important technical levels. While periods of volatility can feel uncomfortable, we believe the recent pullback is both understandable and healthy, reflecting a reset in investor expectations after a powerful rally that pushed valuations, sentiment, and market concentration to elevated levels. More importantly, we continue to view any correction or near-correction as a buying opportunity, consistent with patterns observed since March 2023.

What's Driving the Weakness?

Several catalysts have converged:

1. Elevated AI Valuations and Uncertainty Around ROI

Artificial intelligence (AI) has been the market's dominant theme for over two years, but enthusiasm brought valuation expansion well ahead of fundamental clarity. Investors have increasingly questioned whether massive AI-related infrastructure spending, particularly among data-center-heavy mega-cap firms, will translate into sustainable earnings growth. Concerns around cash burn, delayed profitability, and uncertain return on investment (ROI) have sparked a reassessment of AI-linked equity valuations.

2. Limited Market Reaction to Strong Earnings

On November 19, the world's largest publicly traded firm, NVIDIA, delivered positive earnings, but the muted market response illustrates how much perfection had already been priced into AI-exposed stocks. Investors appear to be demanding greater transparency around monetization, cost containment, and the long-term earnings trajectory of AI platforms before bidding valuations back up.

3. Falling Odds of a December Fed Rate Cut

The long-delayed September employment report added to volatility. Payrolls rose by 119,000, more than double consensus expectations of 50,000, sharply reducing the probability of a December rate cut. With markets priced for a more accommodative Fed path, this upside surprise in labor strength raised concerns that monetary easing could arrive later than hoped.

4. Cryptocurrency Declines as a Sentiment Drag

Cryptocurrencies have experienced a rapid and broad decline. While the correlation between digital assets and equities is imperfect, many investors view crypto as a high-beta sentiment indicator, particularly for technology stocks. The abrupt downturn in crypto prices has added to concerns that speculative excesses across parts of tech may be unwinding.

A Market Priced for Perfection Finally Rerates

The broader backdrop amplified the impact of these catalysts. U.S. equity markets entered this period with the following:

- High market valuations
- Weak market breadth
- Extreme concentration in a handful of mega-cap names

With the market priced for near-flawless execution, it had little cushion to absorb new uncertainties. As we've been communicating, a 3–5% pullback was increasingly likely, and a full correction of approximately 10% was a realistic risk scenario.

Key Levels to Watch

The S&P 500 peaked near 6,890 in late October. Since then:

- It broke below its 50-day moving average (~6,707), an important short-term support level.
- The next major support sits at the 200-day moving average, currently near 6,162.

A decline to the 200-day moving average would place the market in or near a textbook correction. Based on historical patterns since late 2022, such corrections have consistently attracted strong buying interest as valuations reset.

Why We View Possible Correction as an Opportunity

We do not expect a sustained or damaging downturn. Instead, we believe any correction will prove to be a solid entry point, supported by three durable pillars:

1. Fiscal and Monetary Stimulus in 2026

Significant federal fiscal stimulus, including an increase in expected average tax refunds due to the IRS not changing withholding rates despite lower rates under the Big Beautiful Bill, is likely in 2026. While there are near-term concerns about whether the Fed will cut rates in December, it is clear that the Fed will still cut rates in 2026 on the softening employment picture. This fiscal and monetary policy backdrop is likely to underpin economic activity and corporate profitability.

2. Strong Earnings Outlook

S&P 500 earnings expectations for 2026 point to ~13% earnings growth, a level consistent with healthy profit expansion. Equity markets typically price in fundamentals 3–6 months ahead, meaning investors will increasingly look through short-term noise toward next year's earnings recovery trajectory.

3. Record Cash on the Sidelines

Roughly \$26 trillion sits in cash, savings, and money-market assets, which is a record sum. Historically, market pullbacks that improve valuations tend to pull some of that capital back into equities. Since late 2022, every material decline has been met with robust inflows.

The Bottom Line: Volatility ≠ Vulnerability

Market volatility can be unsettling, but it is often a necessary mechanism for resetting expectations and realigning valuations with fundamentals. The current pullback reflects a rational digestion of elevated valuations and shifting macro assumptions, but not the start of an ugly bear market. Historically, bear markets require recessions, and while economic data has been choppy at times recently, the broader trend in U.S. growth remains positive.

Staying diversified remains essential, as the recent sell-off clearly demonstrated. For long-term investors, we continue to recommend maintaining focus on individual investment objectives rather than short-term fluctuations. If the S&P 500 approaches correction territory, we expect it to create compelling opportunities for disciplined investors. Please consult your financial professional for guidance specific to your financial goals, risk tolerance, and investment timeframe.

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