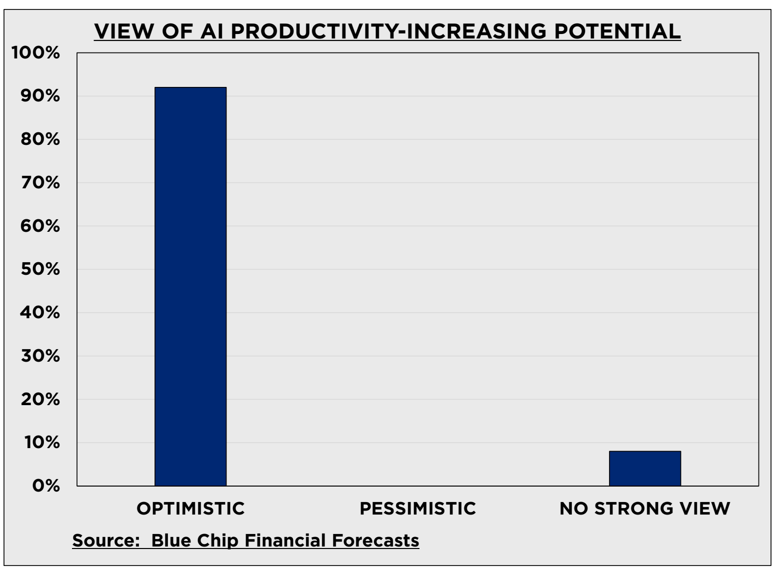
Market update

November 4, 2025

Stock markets ended October on a strong note with many of the broad indexes posting several all-time high levels. This outcome reflected a convergence of factors including strong earnings from the big tech companies, expectations of a better trade relationship between China and the U.S., and another reduction by the Federal Reserve in its policy rate. At the same time, the Fed Chair expressed some concern over the economy's rate of growth ahead. The Federal government shutdown is handicapping both investors and policymakers as the regular release of many important data has been suspended.

	October	Y-T-D
• U.S. Taxable Bonds	+0.6%	+6.8%
• U.S. Stocks	+2.1%	+16.9%
• Foreign Stocks	+2.0%	+29.2%

While many stock market indexes are at or near all-time high levels, the breadth of stocks at such levels is narrow. The Y-T-D return for the S&P 500, which most often weights stocks by market capitalization, reached +17.5%. For the same period, the average return for each of the 500 stocks was +8.9%. This meaningful difference indicates that returns for many stocks has been quite mediocre. With the Federal Reserve likely on a path to reduce interest rates further and with steady earnings growth across the stock spectrum, stock market gains ahead may be muted, but gains nonetheless.



Recent survey results of expectations for the productivity-increasing potential of AI were very lopsided as shown in the chart here. Over 90% of respondents were optimistic on this potential and none were pessimistic. At the same time, less than half of the optimistic respondents believe that this potential is being reflected accurately in investors' long-term expectations. This mismatch perhaps explains the returns from AI stocks that have well-exceeded returns of most other stocks. In the year-to-date through October 31, a portfolio of AI stocks has returned +37.5% while all U.S. stocks gained +16.9%. As AI expectations are fulfilled, the return advantage of AI stocks should continue. If operational shortcomings develop, the return advantage of AI stocks could shrink, and perhaps in somewhat dramatic fashion. Prudent allocations in the AI revolution are warranted.