Hamilton-Bates
Market Update

November 17, 2025

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Stocks Stumble But Don't Fight the Fed
Seasonal Strength Should Push Stocks Higher Into Year-End

The volatility we expected to see in September and October, normally a seasonally weak period, has manifested itself here in November, during the start of what is normally a period of strong seasonality. We saw choppy markets in October but still an overall rally, those choppy conditions have continued but now we have a choppy decline. Equity markets are off about 3-4% from their late October peaks. So what is going on?

Stocks are hitting a rough patch because of a few reasons, not the least of which is the fact that the bull run begun in April is simply overdue for a correction. The move up since then has been persistent, to the point that the S&P 500 had gone a 130 sessions without touching its 50-day moving average—something it does fairly frequently. So stocks hit an air pocket and are undergoing what has been so far a fairly normal pullback.

Interest Rates, the Fed, and the Economy
This past week the government shutdown was ended, so finally we could start getting some economic data again. We missed the October jobs report, but ADP's report and Challenger's Job Cuts announcements both indicate some weakness in the labor market. This is due to a combination of government cuts and headcount reductions due to implementation of AI. So far we have not seen significant labor market weakness, but any great weakness would be a concern.

As if to confirm the President's assertions that the current Fed is "always late and wrong", a number of Fed members came out recently and said that an expected rate cut in December is not a lock. This created some market volatility on its own, and flies in the face of weakness unfolding in the labor market. Market conditions are also reflecting that pricing in the short-end of the yield curve suggests that conditions are still too tight and rates should come down. The egg-heads at the Fed can't be this boneheaded, more than likely they are just giving the administration a hard time given his critical comments and the likelihood that many Fed members including the chair will not be around in 2026. We think the Fed will end up cutting another quarter point in December and if they don't it will prove to be a mistake.

Investment Strategy
The breakout above 6100 on the S&P, a level we months ago, has triggered another bull leg. The trend is still intact but the market has stumbled as things got a bit frothy. That is what we are seeing so far, a fairly common correction. A pullback toward the 6500 area on the S&P 500 is within the bounds of a normal correction. Below 6500 could put us in alert mode, kind of a 'yellow light' for the market, but the market remains well above that level for now. We already have a higher than normal cash position after pruning an underperforming holding earlier this month. We don't expect this, but a move below 6500 on the S&P would imply greater economic weakness than we anticipate. However, with the Fed cutting rates (most likely), and the labor market still not showing significant weakness, we would expect the market to push through this consolidation. The market correction may continue, but we expect things to turn positive for early 2026, when the current administration will pull out all the stops to get the economy rolling ahead of mid-term elections.

Earnings remain incredibly strong, and also remain supportive of higher prices. Corrections (like now) are sentiment driven, bear markets are driven by changing fundamentals that we do not have right now.

This market is still a HOLD, and we would not be surprised to see the S&P challenge 7000 on the S&P 500 into year end/and early 2026.

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Have a Happy Thanksgiving
Don't Worry About Stocks—
Leave that to us!

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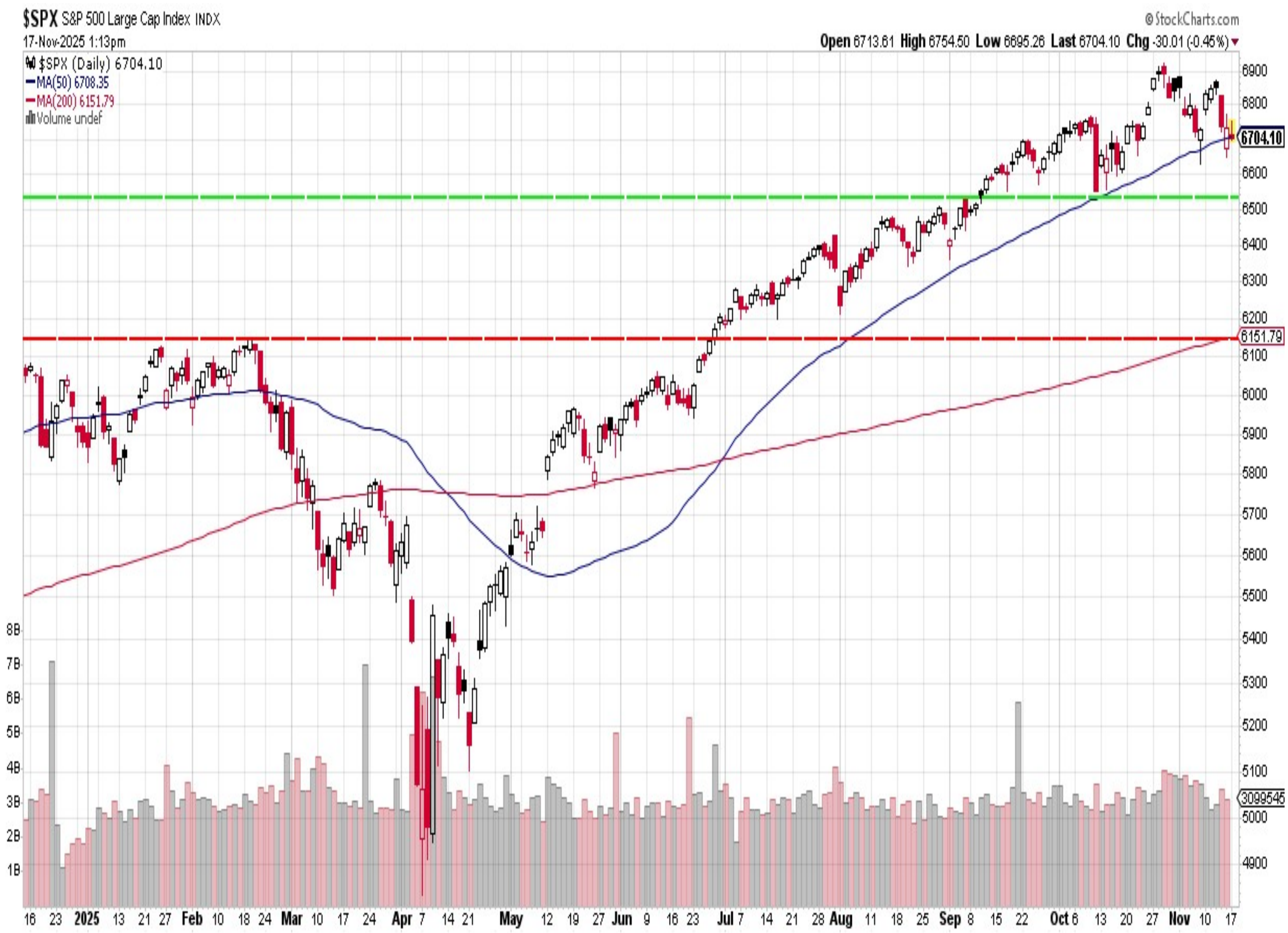
Market Chart—S&P 500 Index—Short-term Pullback But Still a Long-Term Uptrend



S&P 500 Index—Rally Continues But With Some Hiccups
The rise since the April low has been pretty consistent, with the breakout above the old high (around 6100) seeming to send the rally into another gear. After peaking in late-October we are finally seeing the market consolidate a bit, with a lot of chopping around from the mid-October period on. As long as the S&P stays above 6500 (the horizontal green line) things shape up as a normal correction. Below the green line puts the market in a 'yellow light' area, where there is concern that the normal correction is expanding. Even a drop to that area is still consistent with bull market pull-backs. We would likely add to key holdings on a decline down to those levels. The key bull market line is the breakout point in July, now around 6100. Any move that threatens that level would imply greater economic weakness that we expect. <u>We do not expect a break to that level right now</u>.