Ridgetop Wealth Management

Market Update – November 2025

Bubble Talk

It's been a strong Q3 earnings season. Corporations are producing profits which are beating expectations by historic levels. So far Q3 looks like Q2 with all great news, yet the market's reaction has been different. In Q2 massive spending on future investments like data centers was cheered, and now it's met with skepticism.

This skepticism is largely a result of widespread discussion whether the AI boom has entered a bubble phase like the dotcom frenzy of the late 1990s. The parallel is logical as in both cases a new technology was presented to the world which could reshape our lives. In the 1990s case it turned out that the dotcom stocks were massively overvalued and eventually plummeted precipitously.

The Counter Argument

The counterargument to the dotcom parallel is that many of the internet stocks were burning cash in the 1990s which eventually led to the bust. This time around, the companies that are leading the way in AI are generating billions in operating cashflow. In fact, operating cash flow for the Magnificent 7 has grown from $537 billion to $828 billion for the eight quarters ending Q2 2025.[1] Unlike dotcom stocks of the tech bubble, the Mag 7's financial performance has justified the outperformance of their stocks compared to the broader markets.

So What Comes Next?

The most likely near term path is that the market continues on its upward trajectory:

- As discussed, everyone is talking "bubble." Cautious tones are keeping a lid on excess optimism. Bubbles burst when everyone is throwing caution to the wind and

[1] Ned Davis Research

there is euphoria on Wall Street. Bull markets often climb a proverbial "wall of worry", and it's likely we are still climbing that wall.

- As the final weeks of 2025 approach, the market is supported by favorable global macro environment with enough global slowing to keep most major central banks accommodative, but not enough weakness to make a recession imminent.
- It has felt like a rough start to November, but as I write this, the S&P 500 and Nasdaq have only fallen about 4% and 6% respectively from the October 28th high. This relatively insignificant decline follows positive returns every month May through October; and we have not had a 5% correction in nearly seven months!
- This pullback has been more of a rotation than a broad-based selloff. The winners so far this year like large cap growth have taken it on the chin, but conversely the laggards like value and mid-cap have been leading.
- Especially relative to the historically lethargic summer months, the 20% gain we have seen since the "liberation day" low has been impressive. Since 1950 there have been only 12 other times that the market has risen more than 10% from May – October. In all 12 of those cases the market has risen October 31st through December 31st by a median of 6.3%.[2]

Looking To Next Year

It's likely we will see some challenges during 2026. We are not saying this market is doomed, but we are heading into headwinds and need to be mindful. Let's take a look:

- Next year is a mid-term election year. Mid-term years have tended to be the weakest of the four-year election cycle for the stock market. On average stocks have risen through April but have turned lower as the election has draws closer amid rising policy uncertainty.
- The market cycle is mature and valuations are worsening. The market is especially dependent on earnings coming through next year. The greater the degree of disappointment, the more likely it will be that investors will lack tolerance for the valuations.
- Stocks look extended versus their long-term trend. The S&P 500 has followed a long-term trend channel since the early 1930s. It's now trading above its upward

[2] Ned Davis Research

trend, suggesting the S&P 500 is overextended. This anomaly could continue for another year or so, it has before, but using history as our guide we know this will inevitably be corrected.

- As a group the Mag 7's capex has swollen from $37.0 billion to $97.3 billion in the last eight quarters, and they are committed to accelerating the spend.[3] As investment has surged, not even strong operating cash flow growth has been sufficient and they are beginning to take on debt. Simultaneously, these companies have reduced their stock buybacks. Bottom line, the time is approaching where AI spending will come at the expense of shareholder-friendly policies that have driven the outperformance of these stocks for the past decade.

Conclusion

There is no confirmation that we have reached a top in the market. As we look ahead, asking how much longer this bull can run is a logical and prudent question. But bull markets do not die of old age. The bears need a catalyst. Several candidates are waiting in the wings: softening labor market, tariffs, geopolitical uncertainties, and AI capex to name a few…none of which are yet pushing us over the edge.

The weight of the evidence from economic data (yes there has still been plenty to rely on during the shutdown), technical data, and trading sentiment supports the case for this market to continue in a positive direction through year-end and into Q1 2026. For the rally to persist deep into 2026, however, the productivity promises from AI will need to be reflected in corporate profits.

We will keep you updated and change course as necessary and warranted. In the meantime, we hope you have a great Thanksgiving. We all have a lot to be thankful for.

Sincerely,

[3] Ned Davis Research

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