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Monthly Commentary | December 1, 2025

The U.S. Economy is Cooling, But Not Cracking

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Monthly Market Summary

- S&P 500: The S&P 500 finished November with a small gain of 0.2%, reversing a mid-month pullback of more than 5% and ending the month near all-time highs. Year-to-date, the index has returned 17.8% year-to-date, driven disproportionately by large technology and AI-related leaders.
- Best/Worst Sectors: Health Care led all S&P 500 sectors with a +9.3% return. Eight of the eleven S&P 500 sectors outperformed the index, while the Technology, Consumer Discretionary, and Industrials sectors each traded lower and underperformed the index.
- Small and Mid Caps: Small-caps, as captured by the Russell 2000 Index gained 1.8% on the month and 10.3% year-to-date, though they continue to lag the S&P 500. Smaller companies are generally more sensitive to borrowing costs and domestic growth, so the combination of higher interest expense and a cooling economy has kept a lid on their relative performance, even as valuations look more reasonable.
- Bonds: The Bloomberg U.S. Aggregate Bond Index's rose estimated +0.6% in November 7.5% year-to-date total return reflect the market's growing comfort that the Fed is near the end of its hiking cycle and that inflation is moving gradually closer to target. High-yield bonds have added around +0.75% for the month and about 8.0% year-to-date, signaling that credit markets still view default risk as manageable, even as growth slows and corporate refinancing remains a key theme.
- International Developed/Emerging Markets: International stocks were mixed. Developed Markets gained +0.6%, modestly outperforming the S&P 500, while Emerging Markets fell -2.4%. Year-to-date, both regions are outperforming the S&P 500 by more than +10%.

Market Commentary

The S&P 500's +2.3% total return for November built on earlier gains and pushed the index further above its 2024 year-end level, leaving investors with a robust +17.8% year-to-date advance driven largely by a handful of mega-cap technology and communication services stocks. While that strength is encouraging, it also means the cap-weighted index tells a more optimistic story than many individual stocks and sectors, which have delivered more subdued results.

Small-caps, as captured by the Russell 2000's roughly +1.8% November gain and +10.3% year-to-date total return, continue to lag the S&P 500 despite the recent tailwind from expectations of eventual Fed rate cuts. Smaller companies are generally more sensitive to borrowing costs and domestic growth, so the combination of higher interest expense

and a cooling economy has kept a lid on their relative performance, even as valuations look more reasonable.

Developed international markets (MSCI EAFE) posted about +1.2% in November and roughly +23.0% year-to-date, buoyed by a weaker dollar and strength in select European and Japanese markets, though structural growth challenges and policy uncertainty still weigh on sentiment. Emerging markets (MSCI EM) have been even stronger over the year, with approximate +27.2% year-to-date returns, as investors reward countries and sectors tied into AI hardware, semiconductors, and reform-driven growth stories, albeit with the usual EM volatility.

In fixed income, the Bloomberg U.S. Aggregate Bond Index's estimated +0.6% November gain and +6.8% year-to-date total return reflect the market's growing comfort that the Fed is near the end of its hiking cycle and that inflation is moving gradually closer to target. High-yield bonds have added around +0.5% for the month and about +6.0% year-to-date, signaling that credit markets still view default risk as manageable, even as growth slows and corporate refinancing remains a key theme.

Real estate investment trusts (FTSE NAREIT Equity REITs) have delivered roughly flat to slightly positive monthly returns and low-single-digit gains year-to-date, caught between higher financing costs and the potential relief of stabilizing long-term yields. Broad commodities, proxied by the Bloomberg Commodity Index, are down roughly −1.0% for the month and −3.0% year-to-date, as softer global demand and ample supply weigh on energy and some industrial commodities, even as gold holds up better amid ongoing geopolitical and policy uncertainty.

Economic Roundup

Labor Market: Cooling, But Not Cracking

The labor market remains central to the outlook but is getting harder to read following data delays tied to the recent federal government shutdown, which disrupted the normal release schedule for key indicators such as the October CPI report. Available payroll data suggest job growth has slowed from the torrid pace of the post-pandemic recovery to a more moderate clip, with the unemployment rate edging higher into the mid-4% area but remaining low by historical standards. The Federal Reserve's latest Beige Book described employment conditions as "little changed" overall but noted that several districts are seeing weaker hiring plans and more candidate availability, consistent with a labor market that is cooling rather than collapsing. Markets have largely welcomed this, reading softer labor conditions as confirmation that the Fed's earlier rate hikes are working and reducing the perceived need for further aggressive tightening.

Consumer and Inflation

Consumer spending, while still positive, shows more signs of fatigue. Recently released retail sales and related data indicate that goods spending has softened, particularly in discretionary categories and big-ticket items, as higher financing costs and dwindling excess savings weigh on households. At the same time, services spending—such as travel, restaurants, and experiences—remains relatively resilient, suggesting that consumers are trading down and reprioritizing rather than pulling back across the board. For investors,

this paints a picture of an economy shifting from "boom" toward a slower, more sustainable pace, with less help from the consumer but not yet outright contraction.

The cancellation of the October CPI report due to the shutdown left policymakers and markets without a key data point, increasing uncertainty ahead of the December Federal Open Market Committee (FOMC) meeting. However, alternative measures of inflation from regional Fed banks suggest that core inflation is running in the ballpark of 0.2–0.3% per month, a pace that, if sustained, would gradually bring annual inflation closer to the Fed's 2% target.

Federal Reserve Policy

Recent GDP readings show the economy growing near its long-run potential rather than at the above-trend rates seen earlier in the expansion, with business investment and services spending helping offset weakness in housing and interest-sensitive sectors.

On the policy front, the Fed faces an unusually murky data backdrop heading into its December meeting, due to both the shutdown-related delays and revisions that have cast some doubt on earlier jobs and inflation estimates. Public commentary from Fed officials has emphasized caution and data dependence, with a strong bias toward holding the policy rate steady while assessing how much additional disinflation is in the pipeline and how quickly the labor market cools. Futures markets currently price in a high probability that the Fed will leave rates unchanged in December and begin discussing the timing of potential cuts in 2026, but policymakers continue to stress that they are not yet declaring victory on inflation and are prepared to keep policy "restrictive" for some time. For investors, that means the path of interest rates may be flatter from here but remains uncertain, reinforcing the value of diversified bond exposure and prudent interest-rate risk management.

The AI Trade Moves to the Next Phase as Investors Become More Selective

Artificial intelligence remains a key market driver with 7 of the 10 largest S&P 500 companies, or nearly 30% of the index, tied to the AI industry. In November, there was a noticeable shift in investor sentiment toward AI stocks, moving from broad enthusiasm to increased scrutiny and selectivity. The month began with concerns over the expensive valuations of the Magnificent 7 tech giants, particularly those most reliant on the AI infrastructure buildout. Questions emerged about whether the massive capital spending on data centers and cloud infrastructure will translate into profits strong enough to justify the companies' high valuations. This skepticism around AI's economics led to a sell-off across the AI industry, with companies like Nvidia and Amazon down over -10% at times. Given the S&P 500's extreme concentration in mega-cap technology stocks, the focused weakness was a major factor dragging down the index.

The AI investment cycle is maturing, with investors' focus shifting from pure infrastructure spending to real-world application and monetization. Signs of AI fatigue have emerged as investors weigh the steep upfront costs against uncertain long-term economics and productivity gains. One example is Oracle, which has fallen nearly -40% since September due to concerns about its aggressive debt-funded data center expansion, highlighting the growing cost anxiety. While AI remains a central theme in most 2026 market outlooks,

investors are becoming more selective toward AI stocks, looking for tangible evidence of revenue growth and productivity improvements across the broader economy.

Outlook

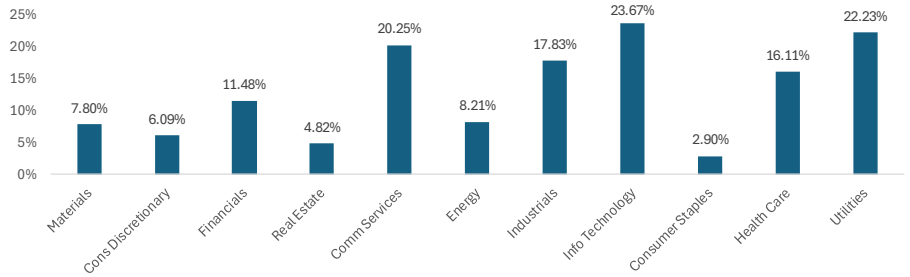
The current environment looks more like a maturing expansion than a pre-recession cliff edge. Growth is slowing from the breakneck pace of the post-pandemic rebound, inflation is moving gradually closer to the Fed's target, and policy makers appear to be shifting to a less restrictive stance regarding interest rates. That backdrop is unlikely to produce the kind of outsized gains many investors have grown used to in recent years, but it also does not suggest the end of the bull market; instead, it points toward a phase where valuation, selectivity, and discipline matter more.

Data Center

Style YTD Returns

	Value	Blend	Growth
Large	14.36%	17.73%	20.01%
Mid	11.60%	11.92%	12.19%
Small	8.49%	8.83%	9.05%

Sector YTD Returns



Market Data Center

Stocks	1 Month	3 Month	6 Month	YTD	1 Year	3 Year	Div Yield	P/E	P/B
SPDR S&P 500 ETF Trust	-0.53%	5.60%	16.94%	17.62%	15.50%	21.62%	1.06%	34.84	11.88
SPDR Dow Jones Industrial Average ETF Trust	0.13%	4.93%	14.17%	13.65%	8.31%	14.10%	1.48%	26.91	10.62
iShares Russell 2000 ETF	-0.08%	5.60%	21.72%	13.46%	4.36%	12.46%	0.97%	28.94	5.48
iShares Russell 1000 Growth	-2.67%	5.76%	19.84%	19.00%	21.00%	29.23%	0.35%	42.89	17.61
iShares Russell 1000 Value ETF	1.88%	4.62%	12.80%	14.92%	7.29%	12.84%	1.68%	25.78	4.77
iShares MSCI EAFE ETF	-0.49%	3.44%	9.68%	28.07%	25.95%	16.30%	2.71%	24.43	4.54
iShares MSCI Emerging Markets ETF	-2.46%	8.42%	19.45%	31.13%	29.12%	15.91%	2.17%	22.59	4.59
Invesco NASDAQ 100 ETF	-2.18%	7.42%	19.62%	21.64%	23.25%	30.79%	0.49%	41.37	14.56

Fixed Income	Yield	1 Month	3 Month	YTD	1 Year	3 Year
iShares Core US Aggregate Bond ETF	3.82%	-0.12%	2.23%	7.49%	6.09%	4.62%
Vanguard Total Bond Market Index Fund ETF	3.78%	-0.10%	2.20%	7.40%	5.99%	4.64%
iShares National Muni Bond ETF	3.10%	0.15%	3.59%	3.53%	2.38%	3.57%
State Street SPDR Bloomberg High Yield Bonc	6.54%	0.29%	1.63%	8.11%	7.41%	9.43%

Key Rates	11/28/2025	10/31/2025	9/30/2025	8/31/2025	7/31/2025	6/30/2025
2 Year Treasury Rate	3.47%	3.60%	3.60%	3.59%	3.94%	3.72%
10 Year Treasury Rate	4.02%	4.11%	4.16%	4.23%	4.37%	4.24%
30 Year Treasury Rate	4.67%	4.67%	4.73%	4.92%	4.89%	4.78%
30 Year Mortgage Rate	6.23%	6.17%	6.30%	6.56%	6.72%	6.77%
Bank Prime Loan Rate	7.00%	7.00%	7.25%	7.50%	7.50%	7.50%

Commodities	Level	1 Month	YTD
WTI Crude Oil Spot Price	59.11	-4.28%	-18.40%
US Retail Gas Price	3.19	0.82%	1.98%
Henry Hub Natural Gas Spot Price	4.15	16.25%	22.06%
US Propane Wholesale Price	0.80	-2.43%	-15.72%
US Fuel Ethanol Imports	0.00		
Gold Price in US Dollars	4053.28	0.00%	53.30%
Silver Price	49.44	0.00%	60.70%
Copper Price	10739.91	0.00%	20.45%
S&P GSCI Corn	369.66	3.77%	-2.34%
S&P GSCI Soybeans	451.71	2.02%	12.59%

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