

A New Phase | 11.14.2025

Stocks remain near record highs in early November, but things are starting to change beneath the surface. The excitement surrounding artificial intelligence (AI) is waning a bit. Investors are beginning to wonder if the high prices of AI-related companies can be justified and whether the heavy spending in this area can continue. The shift hasn't been dramatic, but we may see different types of companies emerge as leaders in the market. For months, investors didn't pay much attention to whether companies were reasonably priced or had strong fundamentals, like sales and share growth, high-profit margins, etc.—but that may soon matter more.

Company earnings remain strong, which helps keep the market steady. Over 80% of companies outperformed expectations in the third quarter, and most provided positive outlooks for the future. This reassures investors that companies remain healthy, despite overall economic data indicating slower hiring and increased layoffs in some areas. While many high-profile AI names delivered solid results, the numbers were not as spectacular as in previous quarters. As a result, investors are less enthusiastic overall, exhibiting a quiet shift from buying everything to being more selective.

AI spending is still a major theme, but the story is evolving. Companies continue to invest heavily in data centers, cloud infrastructure, semiconductors, and industrial automation. However, some investors wonder whether this pace of investment can last. The benefits are spreading beyond tech companies to areas such as manufacturing and utilities, which build the infrastructure needed for AI. While this shows AI's long-term potential to boost various industries, doubts are prompting investors to be more careful, focusing on which companies can convert spending into lasting profits.

Government policy also continues to help the market. The Federal Reserve is slowly cutting rates, and tax cuts are planned to take effect in 2026. Lower rates make borrowing more affordable and support stock prices, while tax cuts are expected to boost household income and company profits. Combined with strong earnings and continued investment in AI, these factors reinforce a solid backdrop for the market.

Looking ahead, the market appears to be entering a more selective phase. Strong earnings, AI spending, and supportive policies provide a good foundation, but investors will likely focus on quality—companies with strong financials, reasonable stock prices, and sustainable growth. The next phase of the market may favor companies with solid fundamentals over those that rely solely on momentum. Careful stock selection and staying focused will be key.

Thanks,
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