Rough Seas, Sturdy Ship | 11.23.2026

Stocks are rallying sharply on Monday after Nvidia announced that Jensen Huang will return as CEO, recovering a chunk of a month-long decline. Investors have pushed stocks lower over the past month as leadership turmoil at the nation's largest chip company and a Federal Reserve focused on taming inflation added to worries about the future pace of the AI buildout. The technology-driven selloff had dropped the S&P 500 more than 11% below its high, and the selling had begun to spread beyond technology. The index remains well below its high despite the rebound. Pullbacks like this are normal, and since 1980 the average peak-to-low decline within a calendar year for the S&P 500 has been about 14%. Importantly, the economic backdrop remains encouraging, with low unemployment, robust consumer spending, and substantial business investment driving higher-than-average earnings growth.

Much of the recent weakness has centered on Nvidia, the company most closely tied to the AI buildout. That buildout has faced new questions since the midterm elections, as the political backlash against data centers raises concerns that construction could slow. Huang's departure also added to the uncertainty, and Nvidia's strong quarterly earnings and the public debut of Anthropic, a leading AI lab, were not doing enough to calm nerves. Monday’s rebound suggests leadership is an important piece of the story, but it does not settle the bigger question of whether expectations for AI have gotten ahead of themselves after such a big run. We think the AI buildout may slow, but it will continue to advance in fits and starts.

Meanwhile, the Federal Reserve has been another source of pressure. Consumer prices rose 0.4% in October, higher than expected, and wholesale prices are up 6.5% from a year earlier, the largest annual rise since 2022. Federal Reserve Governor Christopher Waller says a larger rate increase should be considered in December, and Dallas Fed President Lorie Logan says at least two more increases may be needed. While rate hikes are not necessarily detrimental on their own, they can expose weak spots in a market already navigating uncertainty.

Adding to the unease, a string of recent cyber incidents is affecting major technology providers, banks, and airlines. It is early, and we will not speculate on causes, but we have long expected incidents like these to become more common and have prepared accordingly. Protecting client information is a top priority, and we regularly review the security of our own systems and those of our vendors, favoring resilience over convenience.

All things considered, it is too early to call the all clear, and more volatility would not be surprising after a month like this. What has changed is the price we are paying. Prices are lower while earnings expectations are not budging, which makes valuations look more reasonable. Analysts still expect about 35% earnings growth this year and another 16% next year. Heading into Monday, the S&P 500 traded at about 16 times expected earnings, close to its 20-year average of 16.5 and down from about 22 times at the start of the year. The drop has been even sharper in the AI trade, with most valuations trading significantly below 2025 highs.

Ultimately, the pressure on stocks stems largely from questions about the pace of the AI buildout and a Fed more eager to raise rates, rather than from a weakening economy. One strong day does not resolve either question, but with low unemployment, solid spending, and strong profit growth, we remain positive and focused on high-quality companies with durable earnings and dividends, which are holding up best in this pullback.

Thanks,

Preston May, CBE®

Macro & Policy Strategist

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