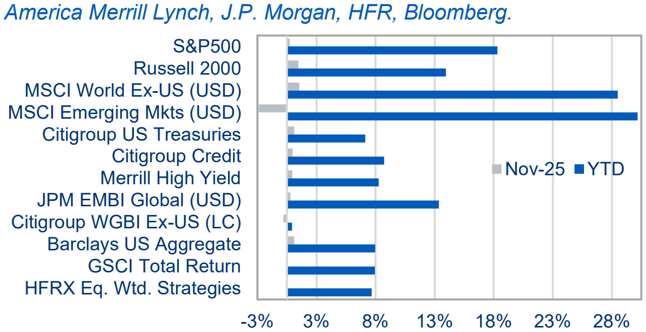
Global Market Review

U.S. equities eked out a small gain in November despite mounting anxiety over the high valuation of a heavily concentrated U.S. equity market. The market's anxieties were little comforted by the announcement of blockbuster revenue growth by NVIDIA and widespread expectations that the FOMC will reduce rates by a further 25 basis points in its December meeting. Advanced economy non-U.S. equities generated slightly larger gains than their U.S. counterparts. Emerging equity markets lost ground, however, largely reflecting a slide in Chinese equities. U.S. Treasury yields across the maturity spectrum fell in November sending prices higher. U.S. investment grade and high yield bond markets also rose, despite already compressed credit spreads. The U.S. dollar index fell slightly in November and is down about 8.3% so far this year. Gold prices rose sharply in November, adding to previous strong gains. Bitcoin, however, crashed, losing about 18%. Oil prices also lost ground, falling a less spectacular 4% in November to bring their decline so far this year to 18.4%.

Performance of Major Market Indices

Sources: S&P, MSCI, FTSE Russell, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, HFR, Bloomberg.



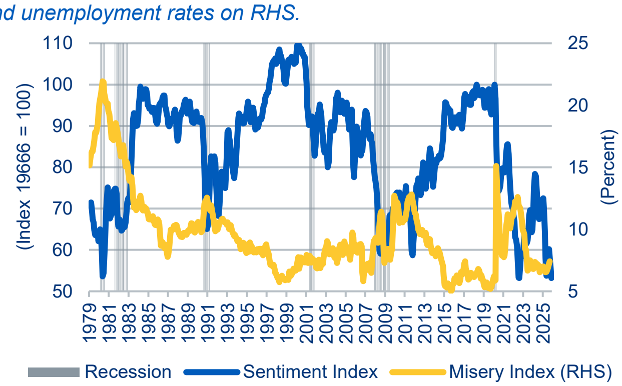
U.S. equities add modestly to previous strong gains.

Sour Sentiment, Sweet Markets, Benign Economy

U.S. consumer sentiment is near 50-year lows despite a relatively benign economic backdrop and soaring asset prices. While sentiment is consistent with recessionary and stagflationary periods, objective measures of the economy paint a more benign picture. For example, the misery index calculated as the sum of the rates of inflation and unemployment suggests a relatively hospitable environment for households (Exhibit 1). The normally inverse relationship between these two indicators of household welfare is not currently holding. Moreover, sentiment has soured despite the strong performance of U.S. equities and other asset markets.

Exhibit 1. Sour Consumers, Benign Economy

Sources: University of Michigan and FRED. Index of consumer sentiment on LHS. Misery index calculated as the sum of the inflation and unemployment rates on RHS.



A number of factors could explain this apparent disconnect. First, interest rates are high, raising the burden of consumer credit, especially on lower income households dependent on credit card debt and car loans. Second, although the unemployment rate is low, finding a job is difficult and, among the employed, job insecurity is high. Third, many young households are locked out of homeownership by the combined impact of high house prices and mortgage rates. Finally, households at the low end of the wealth distribution hold few equities and derive little benefit from rising asset prices.

U.S. Equities Rise Modestly Despite Sour Sentiment

The S&P 500 rose by 0.25% in November to bring its gain for the year to 17.8%. The lackluster returns in November reflect

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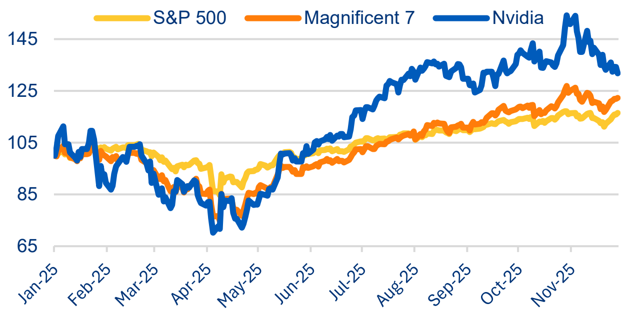
nagging doubts about the sustainability of the current AI boom, which has pushed market concentration and valuations to near record levels. These doubts persist despite strong quarterly earnings across the S&P 500 in the third quarter, including blockbuster earnings reported by NVIDIA, whose third quarter earnings were up 25% from Q2 and 62% from the previous year. Despite exceeding expectations for earnings growth, NVIDIA's shares fell 14.5% in November but remain up nearly 32% so far this year (Exhibit 2).

Exhibit 2. NVIDIA Tumbles Despite Strong Earnings

Source: Bloomberg. Index January 2025 = 100.

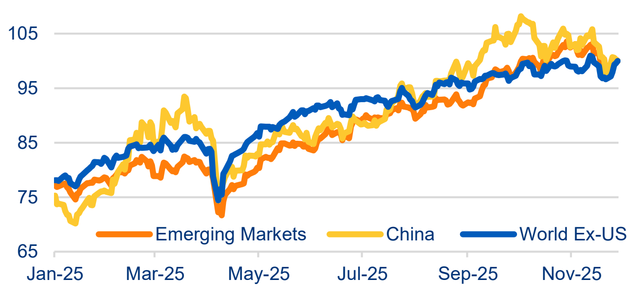


Advanced Economy Equities Rise Emerging Fall

The MSCI World ex-US index of advanced non-U.S. equity markets rose about 1% in November to bring its gain for the year to 28% (Exhibit 3). Notwithstanding the adoption of pro-growth policies by the new Japanese PM, Japanese equities fell slightly in U.S. dollar terms, largely reflecting exchange rate movements. So far this year, Japanese equities are up 24%. European equities rose about 1½% in November to bring their gain in 2025 to just over 30%.

Exhibit 3. China Weighs on EM Equities

Source: Bloomberg. Index January 1, 2025 = 100.



Emerging equity markets lost 2.4% in November, dragged down by a similar decline in the Chinese market. The Chinese economy continues to struggle with disinflationary pressures, cautious consumers, and declining manufacturing production. For the year as whole, emerging market equities are up nearly 30% and Chinese equities are nearly one third higher.

U.S. Treasuries Remain Sanguine on Inflation Risks

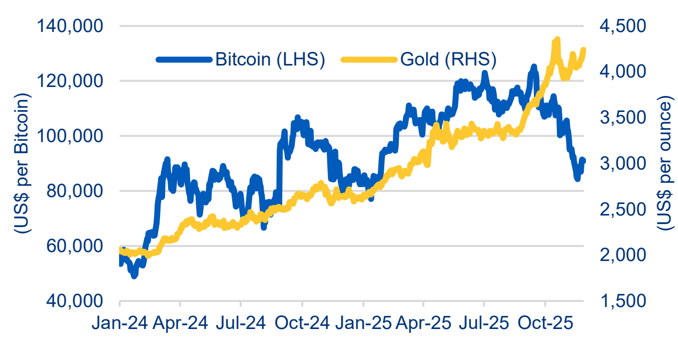
Despite steady economic growth, low current rates of unemployment, high debt levels, and the prospect of significant fiscal stimulus next year, U.S. Treasury yields fell across the maturity spectrum in November. Futures markets are currently pricing in an 85% probability of an additional 25 basis point Fed rate cut in December. A hefty dollop of fiscal and monetary policy stimulation is on the horizon, notwithstanding above target inflation.

Crypto Crashes While Gold Shines

Bitcoin prices dropped 18% in November. They are down about 27% from their September peak (Exhibit 4). The speed of the decline appears to reflect forced selling by highly leveraged holders of Bitcoin, including by digital asset treasury companies. These publicly traded companies whose sole significant business is holding cryptocurrencies hold nearly 5% of the total outstanding stock of Bitcoins and once commanded valuations that were more than double their crypto holdings. The share prices of these treasury companies plummeted in November. For example, the share price of Strategy, the first and most prominent of the treasury companies, is down about 61% from its peak this year. The turmoil in the cryptocurrency market has spilled over to stablecoin issuers. Tether, the largest stablecoin issuer accounting for over 63% of all stablecoins outstanding, was downgraded in November by S&P who judged Tether's ability to maintain the peg of its stablecoin to the U.S. dollar to be weak, the lowest rating.

Exhibit 4. Crypto Crashes, Gold Shines

Source: Bloomberg. US$ per Bitcoin and ounce of gold.



In contrast to the travails of the crypto market, gold rose nearly 6% in November and is up over 60% so far this year (Exhibit 4). Gold's rise reflects the combined impact of purchases by retail investors, central banks, and, ironically, Tether, which has included gold as a backing for its stablecoin issuance.

Performance of Major Market Indices through 11-30-2025

Sources: MSCI, FTSE, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, S&P GSCI, HFR, Bloomberg.

	1-Month	QTD	YTD	1-Year	3-Year	5-Year
S&P500	0.2%	2.6%	17.8%	15.0%	20.6%	15.3%
Russell 2000	1.0%	2.8%	13.5%	4.1%	11.4%	8.0%
MSCI World Ex-US (USD)	1.0%	2.1%	28.0%	24.6%	16.3%	9.8%
MSCI Emerging Mkts (USD)	-2.4%	1.7%	29.7%	29.5%	14.7%	5.1%
Citigroup US Treasuries	0.6%	1.2%	6.6%	5.0%	3.6%	-1.0%
Citigroup Credit	0.5%	1.0%	8.2%	6.3%	6.1%	0.1%
Merrill High Yield	0.5%	0.7%	7.8%	7.3%	9.5%	4.7%
JPM EMBI Global (USD)	0.3%	2.5%	12.9%	11.2%	9.8%	2.0%
Citigroup WGBI Ex-US (LC)	-0.3%	0.6%	0.4%	-0.2%	1.1%	-2.4%
Barclays US Aggregate	0.6%	1.2%	7.5%	5.7%	4.6%	-0.3%
GSCI Total Return	-0.1%	1.3%	7.4%	11.0%	3.5%	16.1%
HFRX Eq. Wtd. Strategies	-0.1%	0.8%	7.2%	7.1%	5.3%	3.3%