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# Marco Investment Management

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Investment Newsletter

November 2025

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## Market Review

### *Introduction*

The stock and bond markets have performed well in 2025 despite uncertainties over tariffs, interest rate policy and employment trends. The markets often climb “a wall of worry,” and this year has been no exception. Given the elevated level of stock valuations and an unsettled political landscape, is it likely for the rally in stocks and bonds to continue? We will discuss this and other topics in this edition of our Investment Newsletter.

### *Equity Markets*

The year 2025 has followed the historical tendency of positive returns in the first year of a presidential term. There has also been fundamental support for these gains with business-friendly policies coming out of Washington, strong earnings in the Technology sector, renewed emphasis on infrastructure projects, extension of favorable tax rates with bigger write-offs, and a Federal Reserve that appears to be shifting from restrictive monetary policy to a policy that is more accommodative.

Even though we have not experienced a significant stock market correction since April, there has been a good bit of volatility along the way with pullbacks averaging 2 to 3%. For the most part, the “buy the dip” mentality has prevailed and sell-offs have been short-lived.

Stock performance this year has been a story of the haves and have nots. Mega-cap technology stocks have ridden the artificial intelligence wave and have led the market for much of the year. However, other sectors like Utilities and Industrials have also done very well. In the “have not” category, Consumer Discretionary, Consumer Staples, Real Estate and Materials are all up just single digits year to date.

Another theme we have seen in 2025 is the S&P 500 becoming more concentrated with the top ten stocks, in terms of market capitalization, making up 40% of the index. Over half of those stocks have forward P/E ratios over 30X. The average stock in the S&P 500 carries a forward P/E of about 17.5X.

At least some of this high valuation is probably warranted since these stocks are growing faster than the average stock and have high profit margins. The question is whether the market is overestimating future growth or not. We believe the valuations may be justified for now, but a reversion to more typical multiples is always possible.

Historically, the three-month period from November through January tends to be strong, and we may see a year-end rally develop. However, the market did not follow the typical seasonal pattern in September and October (usually weak) so we may have “borrowed” some of the late year rally potential.

Following two recent Fed rate cuts, money market rates are beginning to come down, which could be a catalyst for some of that money to migrate into the stock market. The average yield on stocks is not all that high at around 1.2%, but many large-cap individual stocks are paying dividends of 3 to 4%, and some mature companies with slower growth are yielding 4 to 6%. Unlike money market funds and most bonds, stocks tend to increase their dividends over time.

### *Fixed Income Markets*

Fixed income securities have generally done well in 2025, benefitting from lower rates and an expectation of additional rate cuts by the Fed over the coming months. In addition, non-Treasury securities like corporate bonds have seen their yield spread over Treasuries narrow due to confidence in the economy and an expectation that these companies can comfortably service their debt. This development has given them a performance boost in 2025.

The futures market is currently expecting about three rate cuts over the next year. If this expectation turns out to be correct, the Fed Funds rate goes to a little over 3%, which would be more than a full percentage point less than the current 10-year Treasury yield. While the 10-year yield could also move lower, it is possible that it could stay around the current level as the yield curve steepens.

With inflation running close to 3%, we do not expect intermediate- to long-term interest rates to go much lower. In addition to inflation, the Fed is also concerned about overall employment and employment growth, both of which have softened. These employment moves may affect their decision on rate cuts in the next few months more than inflation.

The White House and the Housing Finance director, Bill Pulte, have floated the idea of 50-year mortgages to help stimulate the housing market, where mortgage rates are still well over 6%. Some people like this idea, as it will make monthly payments more affordable and encourage spending on improvements, plus the interest would be tax deductible. However, homeowners would build equity much more slowly than in a conventional mortgage and will pay considerably more total interest over the life of the loan. Assuming this idea is adopted, it should create a new class of mortgage-backed securities.

## *Economic Outlook*

Data on the U.S. economy has been very limited in recent weeks due to the government shutdown. Economists and market participants have been relying on private surveys and anecdotal evidence to gauge the strength of the economy.

Some of these private surveys, like the ADP National Employment Report, have shown a mixed picture on employment, with some areas of the economy expanding their hiring and others contracting. Overall, October showed net growth, but it was the first monthly employment growth since July. The survey also showed that annual pay growth was flat in October, as has been the case for about a year.

The U.S. government was able to compile and release inflation data for October, which was later than planned. The data was a little better than forecast, with both the CPI and Core CPI coming in at 3.0% year-over-year. The monthly increase for October was also slightly better than forecast.

Two surveys by the Institute for Supply Management (ISM) show mixed economic growth. The Manufacturing Index was 48.7 in October (above 50 is expansion), while the Services Index

was 54.3. Interestingly, stocks tend to do better when the Manufacturing Index is below 50, perhaps due to anticipation of a coming rebound in activity. (Please see chart.)

Recent consumer confidence surveys have shown more caution on the part of consumers towards current conditions and expectations. The record-long government shutdown may have played a part, as well as the softening job picture.

While the economy is showing some signs of softness, the hope is that future Fed rate cuts and benefits from onshoring manufacturing and the stimulative effects of the Big Beautiful Bill will lead to an acceleration in growth in 2026. Also, artificial intelligence applications should help spur productivity growth. With oil prices hovering around \$60 a share, energy costs should not be a drag on the economy. Also, because of numerous tax deductions for working Americans contained in the Big Beautiful Bill, workers may find that they are having too much withheld from their paychecks, leading to either refunds or adjustments that will provide more take-home pay. The first opportunity to adjust withholding will be January 1<sup>st</sup>. Refunds or adjustments would likely have a stimulative effect on the economy.

## *Summary*

While the markets haven't been straight up in 2025, with a big sell-off in April, we have seen steady gains since then that have taken us to record highs. The gains have been uneven, but some lagging sectors like Healthcare have come back to life recently, which may indicate the beginning of a broadening trend. Valuations are not cheap for some of the mega-cap tech stocks, but the broad market carries a much more reasonable valuation, indicating possible pockets of value. Investment-grade fixed-income securities are yielding more than the current inflation rate and appear to offer reasonable value. If the Fed continues to lower short-term rates, we may see some of the money parked there migrate into stocks and bonds.

*Disclosures: The S&P 500 Index is a capitalization-weighted index designed to measure changes in the aggregate value of 500 stocks representing all major industries. An investor cannot invest directly in any index. Index performance does not reflect the deduction of advisory fees, transaction charges and other expenses. Potential for profit is accompanied by possibility for loss, including loss of principal.*