FOUNDED IN	EMPLOYEES	LOCATED IN	ASSETS DIRECTLY UNDER MANAGEMENT	ASSETS HELD BY INVESTEE & AFFILIATED COMPANIES
1988	80+	10+ COUNTRIES	USD 1.4 BILLION	USD 42.8 BILLION

ICM Monthly Outlook

NOVEMBER 2025

Market Review

October 2025 was another positive month for U.S. equities, with the S&P 500 rising approximately 2.3%. Year-to-date to the end of October, the S&P has increased by roughly 16%. 64% of the S&P 500 companies reported positive earnings surprises, and year-over-year earnings growth has surpassed expectations. The biggest winners continued to be the same technology and AI-related businesses that have dominated throughout the year. (More later). As expected, the Federal Reserve reduced its policy rate by 25 basis points in October, lowering the target range to 3.75–4.00%.

Scroll forward into November and the S&P 500 is down c. 3.5%[1] month to date; up c.12% year-to-date. So why the sell-off?

Market Outlook

In our letter last month, we flagged some of the risks that were beginning to surface. For the most part, we shrugged them off as premature. Firstly, let us review what has been resolved and what remains of concern.

Trade wars

China and the U.S. were bickering over controls on rare earth metals, with the usual back-and-forth of supersized tariffs. The pair parked up in Korea for an hour and paused the hostility, promising to de-escalate further in the coming months. The U.S. avoided an embargo on rare earth metals, while China will continue to get advanced microchips from the U.S. Once again, Scott Bessent, the U.S. Secretary of the Treasury, is credited as the key man in the negotiations, along with Marco Rubio. Both countries have agreed to a one-year trade détente with baseline tariffs of 10%. They've planned a full summit in Beijing next year, followed by a visit to Washington. The market picked up as a result. (TACO.)

U.S. Government shut down

A bit like the détente with China, the President and Congress agreed to a continuing resolution (stop gap) of the existing U.S. Federal budget, thereby ending the longest ever shutdown (43 days) on the 12th of November. Don't be surprised if the U.S. faces another shutdown on 1 February 2026, although President Trump's negotiating position may be weaker by then. (More later).

Corporate cockroaches

So far, we've not seen any more corporate cockroaches. That said, U.S. subprime auto loans continue to show signs of stress. In and of itself, that isn't a sector big enough to capsize the U.S. economy; all the same, it could dampen spirits somewhat. We are aware of this risk, but not exposed to it or overly concerned.

A.I. valuations

A.I. valuations were our biggest concern last month. We suggested that investors prepare for increased volatility, which is exactly what happened and continues. One of the main reasons equity markets are negative so far in November is the sell-off in AI-related stocks, despite Nvidia's blowout earnings. Nvidia's better-than-expected earnings and super-bullish outlook should have reassured investors' skittishness. For example, Nvidia is sold out of chips amid insatiable demand and announced it is working to prolong the useful life of the chips, which goes some way toward addressing a concern of the more nitpicky naysayers. However, despite an initial relief rally in the few hours after Nvidia, it flipped into negative territory and remains there at present, which leads us to the latest uncertainty.

U.S monetary policy

Investors are now turning to the U.S. Federal Reserve for guidance. We repeatedly emphasise that the Fed's decision-making process relies on data. And so far, the only significant data point since the shutdown ended is the U.S. Labour Department's September report, which should have been released on October 3rd, 2025. This is also the only significant data point before the Fed's next meeting.

The headline jobs growth of 119,000[2] easily surpassed the consensus forecast of +53,000. However, 119,000 is not a surge, especially considering the downward revision of 33,000 in the previous two months and the slight increase in unemployment to 4.44% from 4.32% in August. For us, the report indicates that the U.S. jobs market is experiencing anaemic growth. Normally, this would support a rate cut aimed at boosting employment. However, we believe the September payroll figures needed to be much weaker to justify a third consecutive quarter-point cut by 10th December.

Investors are looking at other indicators to predict December's outcome, and the likelihood of a rate cut has dropped below 50% compared to 100% in October. Federal Reserve members have voiced caution in their projections. Jerome Powell said a cut is "far from" a certainty. The latest Federal Reserve Bank minutes reported many members voicing reluctance to cut without more data. The Fed faces the challenge of balancing its dual mandate: controlling inflation while maintaining full employment.

Investors are recasting their expectations of a cut from December to January because of hawkish Fed speak, even before the jobs number was released. Delaying a cut by one month won't make a whole hill of beans. Delaying further would be more impactful on equity valuations, which were pricing in two cuts before the end of March 2026.

Cost of living

The U.S. government shutdown has resulted in cautious forward guidance from the Federal Reserve, further complicated by inflation stubbornly hovering around 3%, partly due to unhelpful government policy. For example, U.S. states with many data centres are seeing sharp rises in electricity prices. Virginia, the state with the most data centres (666), has seen a 13% increase in electricity costs over the past 12 months, as more data centres are being built. Nationally, electricity prices in the U.S. have risen 6%[3] year on year up to August 2025. Data centre electricity demand is expected to more than double in the next five years. Combining this with companies' increasing reshoring to the U.S. to appease President Trump's trade policies, more price hikes are likely. Remember, President Trump promised to halve electricity prices during his first year in office. This has not happened and seems unlikely soon. Trump's election campaign focused heavily on exaggerated claims about Democrat-induced inflation. However, he has not reversed the trend, which has worsened recently. It appears that President Trump's policies are not prioritising every American. Recently, members of the Federal Reserve have been giving more airtime to persistent above-target inflation than the labour market.

In sharp focus for Americans is suddenly affordability and the cost of living. The Democrats had significant gubernatorial wins by campaigning on the cost-of-living crisis. In response, President Trump abolished tariffs on the fun stuff food index, namely, beef, coffee, chocolate, bananas, and more produce that have become agonisingly expensive for many Americans, illustrating the President's concern for mounting dissent from Republicans. Sadly, there is no quick fix. Climate factors are among the main reasons why agricultural produce is becoming so expensive, as falling supplies linked to drought drive prices higher. For instance, as global temperatures rise, shrinking cattle herds are straining the beef supply even as demand remains strong. As with any other product, prices tend to rise when demand outstrips supply. Everyone tried to warn him, but he couldn't be told.

Conclusion

Our central case remains lower yields next year, which will be supportive for treasuries, equities and credit. It's a matter of time and policy U-turns. A 4% base rate is still uncomfortably high for the U.S. Government, given its refinancing pipeline. The U.S. needs its borrowing costs to stay manageable. A lower discount rate will boost equity valuations and shield corporate funding costs.

On the one hand, the Federal Reserve could justify a cut in December based on the sputtering equity market and the deteriorating political backdrop (local election results have forced the cost-of-living debate up the agenda, while sleaze scandals have led hitherto allies to abandon the President). On the other hand, the Fed can obstinately pause for December, due to the lack of data (by January, we'll have more releases on employment, inflation, and GDP data).

At this point, we believe the Federal Reserve will want to show its independence and wait. We understand why investors are grappling with the prospect of relatively more restrictive rates for longer than anticipated, given inflation remains sticky. The spread between the U.S. 2-year and 10-year is narrowing as the long-end yield falls. While the curve is not inverted, an inversion would suggest that investors expect a recession, and nobody wants that scenario.

The recent sell-off in equities means that valuations are less stretched, but still not screamingly cheap. The cyclically adjusted price-earnings ratio is 38.94[4] today, compared to its recent intramonth high of 41. While large-cap growth stocks outperformed, small-cap names posted more modest gains this year. Said another way, some segments of the market are expensive, while others are not.

We expect the equity market to rise again, driven by more AI momentum, monetary policy support, and improving trade relations. No doubt valuations are elevated, but the prospect of lower rates and President Trump rowing back on the trade tariffs leaves room for further momentum and resilient credit strength. President Trump will have one eye on the mid-term elections, even as far away as they are. We still say that negative headlines will be accentuated and dramatised, but short lived.

Have a good month.

Conor Spencer
November 2025

Source Data: ICM, Bloomberg as of 31 October, 2025.
[1] Bloomberg
[2] Employment Situation Summary - 2025 M09 Results
[3] Bloomberg, Consumer Price Index Summary - 2025 M09 Results
[4] Shiller PE Ratio - Multpl

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