Kayne Anderson Rudnick
Investment Management

Market Review Commentary

NOV 2025

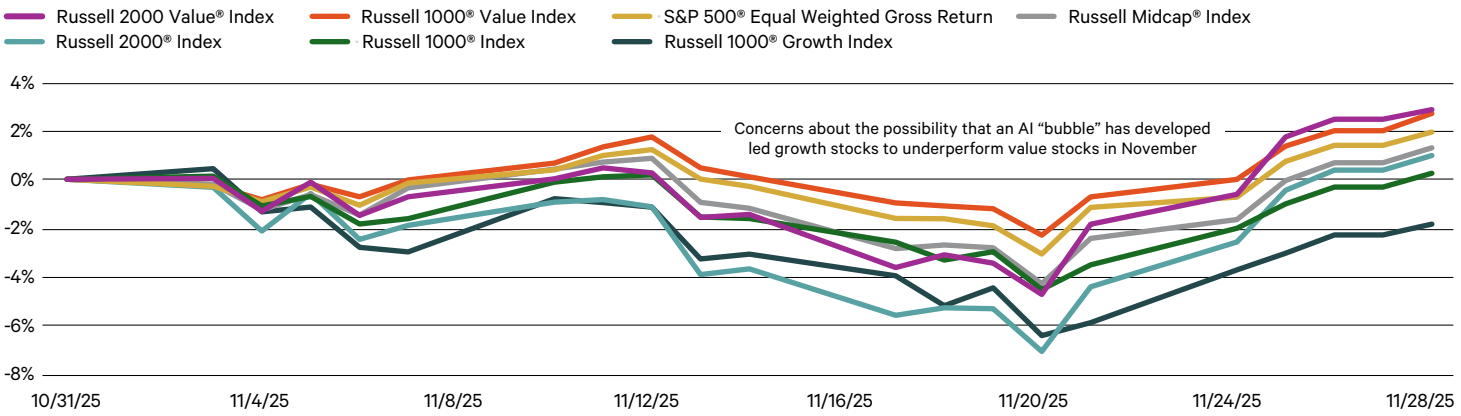
There has been much talk lately about whether an AI "bubble" has formed and if so, what that might mean for the U.S. stock market. Estimates show AI and AI-adjacent firms now account for roughly 40% of the market value of the S&P 500 index[1]—that's a pretty big bet. Still, we do not expect a repeat of the dot-com bust, as most (not all, but most) of the major players that are committing hundreds of billions to building out AI infrastructure generate huge revenues and free cash flow.

With that said, we believe the nervousness seen in the market in November—the S&P 500 returned just a fraction of a percent for the month—is justified. At this point, no one knows whether all of the data centers being built and the AI chips being ordered will ultimately be needed, as this new technology evolves quickly. Nor do we know how what kind of returns this spending will generate, and how many jobs AI may eliminate. While we may not be in an AI bubble, there is a lot of AI-related uncertainty.

Against this backdrop, November brought news of continued weakness in manufacturing (much of that due to U.S. tariffs that are raising the cost of inputs), large-scale layoffs, and sagging consumer confidence. While people continue to spend, the high cost of living is front and center. We are now several years into persistently high inflation that for many has outpaced wage growth and eroded overall purchasing power. Only high earners with hefty stock portfolios are feeling flush.

Here's what markets delivered to investors for the month of November:

FIGURE 1: CUMULATIVE RETURNS – SELECTED MARKET INDICES



Data presented is as of November 30, 2025, is obtained from FactSet and is assumed to be reliable. The indices are not actively managed and do not reflect the deduction of any investment management or other fees and expenses. It is not possible to invest directly in an index. Please see the end of this commentary for important information regarding the indices. ***Past performance is no guarantee of future results.***

[1] https://www.jpmorgan.com/content/dam/jpmorgan/documents/wealth-management/outlook-2026.pdf

- In a reversal from the prior month, AI optimism wavered in November and large cap growth stocks underperformed every other segment of the U.S. equity market.

- Value stocks, both large and small cap, outperformed in November. The Russell 1000 Value index now has a Price-Earnings multiple of roughly 22.5x, while the Growth index has a P/E multiple almost twice that, at about 40.6x for the trailing-twelve-month period.

- Mid-cap stocks performed well. The mid-cap segment is more balanced in terms of sector exposures than large cap indexes and November's performance may indicate a comeback for the higher quality, stronger balance sheets often found in mid-cap firms.

- The equal-weighted version of the S&P 500, where AI and other mega-cap tech stocks are on an equal footing with all of the other stocks in the index, also performed relatively strongly in November. Tech and Communications Services together represent about 18.3% of this equal-weighted index, compared to 45% of the market value-weighted S&P 500.

- After trailing for much of November, small cap stocks rallied at the end of the month due to rising expectations that the Federal Reserve will cut the fed funds rate in December. As small companies mostly use floating-rate debt, rate cuts benefit them quickly by lowering their borrowing costs. Still, tariffs appear to be hitting small companies harder than large firms, which have been able to better adapt their supply chains to minimize their effects.

Job Growth—Not as Okay as Topline Numbers Indicate

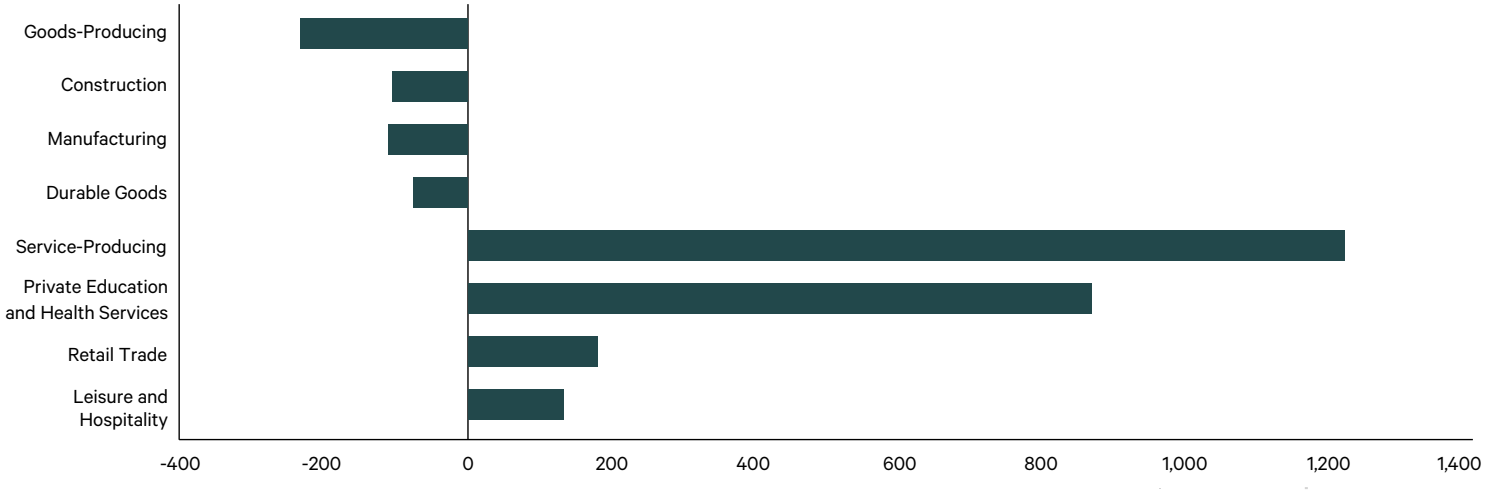
The question of whether or not the Fed should cut interest rates reflects its well-known "dual mandate" to achieve full employment while keeping prices stable. A rate cut would be seen as an indication that the Fed is more concerned about the labor market than the fact that inflation remains stubbornly above its 2% target.

We didn't have as much data on either jobs or inflation last month, due to the government shut-down, but we do know the following: **Just two sectors accounted for all job growth in the U.S. through the first three quarters of 2025.**[2] According to the latest monthly jobs report from the Bureau of Labor Statistics, health care and leisure and hospitality together added 690,000 jobs over the first nine months of this year. If we exclude those two sectors, total U.S. employment declined by about 6,000 jobs through Q3.

Looking at year-over-year changes, which avoids seasonality in the data and covers six months before the new tariffs were announced, we see that payrolls increased but with a similar story: health care, leisure and hospitality, along with retail trade, added jobs while manufacturing and construction cut payrolls.

[2] *https://www.bloomberg.com/news/articles/2025-11-20/just-two-sectors-account-for-100-of-us-job-growth-in-2025*

FIGURE 2: JOBS ADDED – SERVICES SOAR WHILE GOODS STALL
Goods vs. Services Top Three Contributors (September 2024 – September 2025)

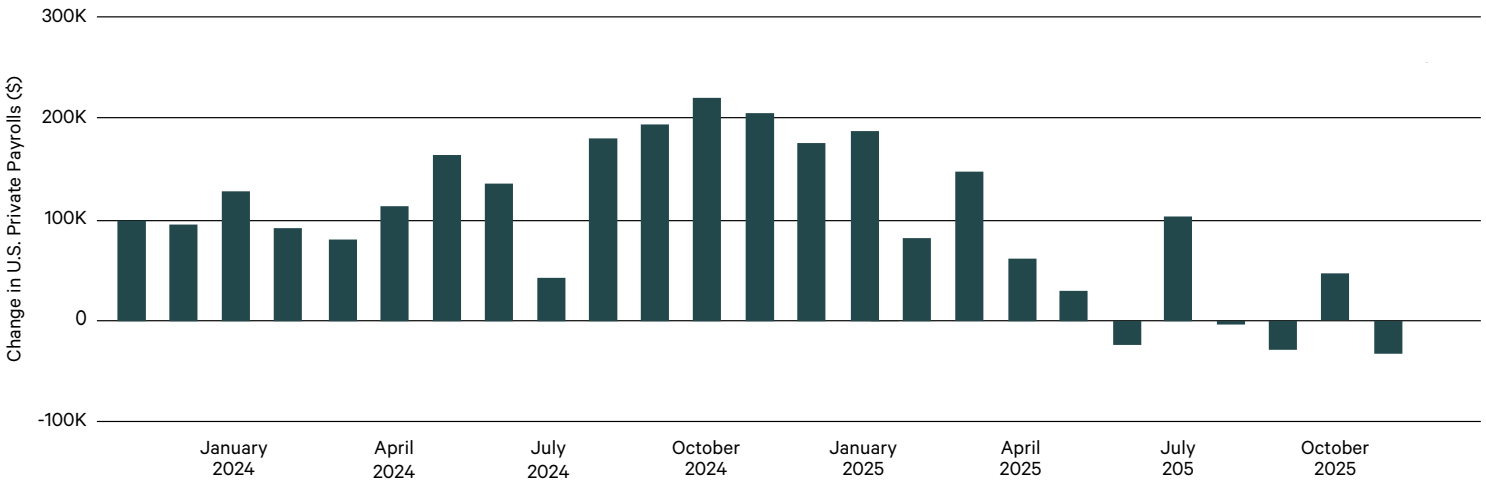


Data presented is as of September 30, 2025, is obtained from the Bureau of Labor Statistics and is assumed to be reliable.

This shows that while month-to-month jobs data has been relatively benign, many American job-seekers are having a tough time. A 25-basis point cut in interest rates in December is not likely to entice companies to increase hiring materially, especially as uncertainties related to tariffs and AI are making business planning especially challenging.

Separately, according to payroll company ADP, U.S. payrolls declined last month by the most since early 2023.[3]

FIGURE 3: U.S. PAYROLL DIP – NOVEMBER RECORDS LARGEST DECLINE SINCE EARLY 2023



Data presented is as of November 2025, is obtained from ADP Research and Bloomberg and is assumed to be reliable.

[3] https://adpemploymentreport.com

According to ADP's chief economist, November's slowdown was led by a pullback among small businesses. Companies with fewer than 50 employees showed the largest one-month decline in payrolls since May 2020, during the depths of the COVID-19 pandemic. And while firms with 50 or more employees added jobs last month, a number of large companies recently announced large-scale lay-offs. Bottom line: while many have been using the phrase "low hiring, low firing" to describe the labor market for much of the year, just two sectors have been propping up employment numbers this year.

Julie Biel, CFA
Chief Market Strategist

Julie Biel, CFA is Chief Market Strategist, Portfolio Manager, and Senior Research Analyst with primary research responsibilities for the small and mid-capitalization information technology and health-care sectors. Ms. Biel began her equity research career in 2004.

The Russell 1000® Growth Index is a free float-adjusted market capitalization-weighted index of growth-oriented stocks of the 1,000 largest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. All companies that have a weight greater than 4.5% in aggregate are no more than 45% of the Index and no individual company has a weight greater than 22.5% of the Index. The Russell 1000® Index is a free float-adjusted market capitalization-weighted index of the 1,000 largest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment. The Russell 1000® Value Index is a free float-adjusted market capitalization-weighted index of value-oriented stocks of the 1,000 largest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. All companies that have a weight greater than 4.5% in aggregate are no more than 45% of the Index and no individual company has a weight greater than 22.5% of the Index. The Russell 2000® Index is a free float-adjusted market capitalization-weighted index of the 2,000 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The Russell 2000® Value Index is a free float-adjusted market capitalization-weighted index of value-oriented stocks of the smallest 2,000 companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. All companies that have a weight greater than 4.5% in aggregate are no more than 45% of the Index and no individual company has a weight greater than 22.5% of the Index. The Russell Midcap® Index is a free float-adjusted market capitalization-weighted index of medium-capitalization stocks of U.S. companies. The index is calculated on a total return basis with dividends reinvested. All companies that have a weight greater than 4.5% in aggregate are no more than 45% of the Index and no individual company has a weight greater than 22.5% of the Index. The S&P 500® Index is a free-float market capitalization-weighted index of 500 of the largest U.S. companies. The S&P 500 Equal Weight Index (EWI) is the equal-weight version of S&P 500 Index and includes the same constituents, but each company in the EWI is allocated a fixed weight—or 0.2%—of the index total at each quarterly rebalance. The indices are calculated on a total return basis with dividends reinvested. The indices are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and are not available for direct investment. This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should not be considered a recommendation or solicitation to purchase securities. ***Past performance is no guarantee of future results.***