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Market Update: The AI Soap Opera

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Happy Thanksgiving, everyone! The market missed the memo on holiday season starting, last week was one of the most volatile of the year as the S&P 500 fell for seven consecutive days and entered correction territory for the first time this year (a drop of more than 10%). The sell-off was primarily driven by continued uncertainty around the slowdown in artificial intelligence buildout and how it could impact the broader economy.

The AI narrative was not helped by the drama surrounding Nvidia CEO Jensen Huang, who resigned as information was announced about three secret extramarital affairs, one of which was believed to be a former Chinese spy. This was followed by subpoenas served to Nvidia regarding sales of chips to China, while the Trump administration considered restrictions on Chinese data center equipment exports. Nonetheless, following public pressure from President Trump, tech leaders and employees, Nvidia's board quickly reversed course and reinstated Huang this week, helping to rebound Nvidia shares.

But it wasn't all bad news last week; we witnessed the largest IPO in history with Anthropic (ANT) raising more than $81 billion (beating the $75 billion that SpaceX raised in June). The AI boom certainly isn't dead, but perhaps getting a much-needed repricing to come back down to healthy levels. Despite the AI soap opera, the S&P 500 is up over 6% (through Nov. 24, 2026) with smaller companies continuing to lead the charge. In recent weeks, it's been good to see rebounds in diversifiers like bonds and real estate help to alleviate the volatility coming from stocks and support diversified and balanced portfolios.

Looking past the noise, there's key data to help guide what to expect from the markets moving forward:

1. **Inflation Higher.** The highly anticipated Personal Consumption Expenditures (PCE) inflation reading was released in time for the holidays at 3.8% for October. This marks the second consecutive monthly increase in inflation and the highest rate since May. Worse yet, the Core PCE figure (which excludes more volatile food and energy prices and is the preferred gauge by the Federal Reserve) came in at 3.3%, well above expectations and the highest reading since November 2023. Based on this news, the market implied probability of an interest rate hike at the December 9 Fed meeting is nearing 100%.
2. **Economy Higher.** An updated estimate of Q3 gross domestic product (GDP), the primary gauge for economic growth, came in at a whopping 4.3% – much higher than initial estimates and forecasts. If realized, it would be the fastest growth in three years. This

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reinforces the resiliency and strength of the U.S. economy and supports the notion of a healthy consumer as we head into the holiday season.

3. **Earnings Higher.** According to Factset, with 93% of S&P 500 companies having reported Q3 results, we are on track for nearly a 33% earnings growth rate. This is above initial lofty estimates and marks the third-straight quarter of earnings growth above 25%. Additionally, breadth continues to widen as the "Magnificent 7" companies had lower growth than the other 493 in the index. Lastly, given the recent market pullback and strong earnings, the forward price/earnings ration (primary valuation gauge) sits at just above 17, making the market much more attractively valued than in recent years.

As we head into the holiday season, there are plenty of things to be thankful for. Despite higher inflation and a potential rate hike around the corner, we have a strong economy, a resilient consumer and fundamental earnings growth to support the market through year-end and beyond.

Corrections are Normal

As we experience a large market pullback, it's natural to be nervous because it feels uncommon. When it comes to the markets, there does tend to be some "recency bias" as we remember the more-frequent good times better than the bad times. But if we look at history, you may be surprised at how frequent market pullbacks occur. When talking about the stock market, corrections are a completely normal, natural thing. Let's take a closer look at the data:

1. **What History Shows**. Looking back at the stock market at nearly the last 100 years, we see that 3% dips happen about every other month, a 5% drop is nearly quarterly, and a 10% correction about an annual occurrence. It's interesting to note that a 15% drop happens every two years and 20% bear market happens every three years. Let's remember that the market is like a steam engine; it can't perpetually go up a steep hill. Occasionally, it needs to level out and let out some steam before it resumes it ride up the mountain.
2. **What We See Now.** We saw our first more than 10% correction last week, but the one prior was in April 2025, nearly 19 months ago. It's easy to become complacent and forget about corrections being normal, but we were well overdue. That said, the last bear market (20% or more) was about four years ago (2022), so it may be prudent to set expectations accordingly.
3. **Staying Invested.** The most important thing to remember is that corrections are a normal part of investing in the stock market. You cannot avoid them, and trying to time the market has proven to be an impossible feat because corrections are often followed by strong rebounds. Thus, the best thing you can do is set your expectations, prepare mentally for near-term drawdowns, and maintain focus on the long-term horizon as the market rewards those investors who are patient, diversified and stay invested for the long-run.

Stay diversified, my friends.

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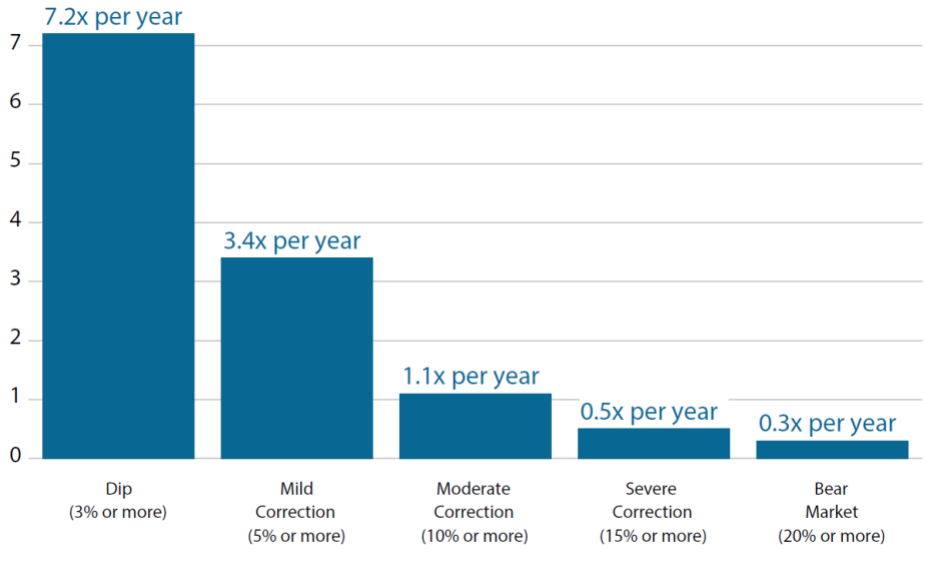
When to Expect the Next Correction
Average number of stock market corrections per year since 1928



Source: Analysis based on S&P 500 Index daily data, price only, from 01/03/1928 to 11/24/2026. Ned Davis Research, Inc., S&P Dow Jones Indices.

As always, Dynamic recommends staying balanced, diversified and invested. Despite short-term market pullbacks, it's more important than ever to focus on the long-term, improving the chances for investors to reach their goals.

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