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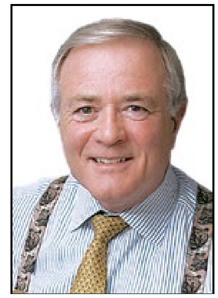

William Rutherford

November’s sound and fury: all that noise for nothing

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Sometimes the best action is no action at all. November tested that principle as traders whipsawed themselves trying to react to every headline, while long-term investors watched the show from the sidelines.

Looking at the scoreboard you would think nothing happened. The S&P 500 inched up 0.1 percent, the Dow gained 0.3 percent, and the Nasdaq slipped 1.5 percent. But anyone who lived through the month knows these numbers are like saying a roller coaster is flat because it ends where it started. The difference between those who traded every twist and those who held steady? The patient investors ended the month right where they started, without the transaction costs and stress.

The Federal Reserve cut rates by another quarter point on Oct. 29, bringing the federal funds rate down to 3.75-4 percent, with the committee split three ways. One member wanted a bigger cut; another wanted no cut at all. That kind of disagreement at the Fed is unusual, and it tells you something. Fed Chair Jerome Powell himself admitted at the press conference that there were “strongly differing views” about December, warning that another cut isn’t “a foregone conclusion.”

Here’s where it gets interesting. During the month we were still dealing with the longest government shutdown in history: 43 days from Oct. 1 to Nov. 12. Because federal statisticians were furloughed, we simply didn’t get an October jobs report. The November inflation data has been pushed to December. The Fed will walk into its December meeting partially blind, and so will investors. In 30 years of watching markets, we have never seen anything quite like it.

Yet beneath this uncertainty, corporate America kept churning out profits. With 95 percent of S&P 500 companies having reported third-quarter results, earnings grew 13.4 percent year over year. More than 80 percent of companies beat estimates, and profit margins expanded despite all the hand-wringing about tariffs and higher costs. That’s real earnings power, not speculation.

The month’s volatility was remarkable, even in this era of algorithms driving the markets. The S&P 500, from its late-October high, sold off nearly 6 percent at one point – the biggest pullback since spring – before clawing back to finish nearly flat. That pattern of fear surging and then receding is exactly what uncertainty looks like in market prices.

What’s fascinating is where the money went. For most of the year, the market’s gains have been carried by a handful of mega-cap tech names. The concentration got so extreme that just 10 stocks accounted for about 60 percent of the S&P 500’s year-to-date gains. By mid-November, only about 40 percent of S&P 500 stocks were trading above their 50-day moving average. That’s unusually narrow breadth for an index near its highs.

But November ended with something different. Health care, that unloved stepchild of the market, surged about 9 percent for its best month in years. Small-cap health care did even better, up closer to 10 percent. Regional banks, homebuilders, and industrials, all the sectors that had been left for dead, suddenly caught a bid. Meanwhile, the highfliers that led all year gave back gains as investors questioned whether AI capital spending had gotten ahead of itself.

This rotation makes sense. Throughout the month, analysts warned that AI-linked tech valuations were stretched, with growing debt financing of AI infrastructure creating conditions that could amplify any downturn. Bank of America’s fund manager survey found 45 percent of institutional investors naming an “AI bubble” as the biggest tail risk. When everyone’s worried about the same thing, the market has a way of surprising in the other direction.

The market’s speculative corners got hit hardest. While we don’t invest in cryptocurrencies, and rarely discuss them in this column, Bitcoin’s movement is worth noting as a sentiment indicator. It dropped 17.5 percent in November – its biggest monthly loss since March – from October highs around $126,000 to briefly touch $80,000. That’s what happens when sentiment shifts from greed to fear. The most leveraged bets unwind first, and crypto is often the canary in the speculative coal mine. Cryptocurrencies are often bought on margin – buyers borrowing against their stock portfolios who receive margin calls when the value of their collateral declines, thereby causing a downward spiral in stock prices until a level is reached that brings in stock buyers from the sidelines. Hence the link between demand for crypto and for stocks.

For investors, this is healthy. The market was getting frothy, with too much capital chasing too few AI stories. November’s rotation toward sectors with reasonable valuations and solid fundamentals suggests we might finally be broadening out from the narrow leadership that has dominated for so long. Health care offers demographic tailwinds, financials are positioned for a normalizing yield curve, and industrials benefit from reshoring trends.

Looking ahead, expect more of this tug-of-war. We'll get a data dump this month when the shutdown-delayed reports finally hit. Markets will overreact to each release, trying to divine whether the Fed will cut again or pause. On some days growth stocks will lead; on other days value will shine.

The key is to not get whipsawed trying to trade every wiggle. The best opportunities come when everyone else is uncertain, and the worst mistakes come from reacting to headlines. Right now, you can find quality companies with real earnings, strong free cash flow, and sector tailwinds trading at reasonable valuations: health care companies developing new therapies; industrial firms benefiting from infrastructure spending; and financials that will profit as the yield curve normalizes.

The market hates uncertainty, but uncertainty creates opportunity. November reminded us that beneath the daily noise, there are real businesses generating real profits. Find companies with durable business models, structural tailwinds, and financial strength to weather volatility. Let the speculators chase the latest AI moon shot or crypto dream.

Remain calm when everyone else is panicking whether the Fed will cut by 25 basis points or stand pat. Traders try to game every Fed meeting and AI headline. Investors instead focus on companies that will be earning more five years from now than today. In the long run, earnings drive stock prices. November proved that yet again. Solid earnings supported the market even as sentiment swung wildly and traders tied themselves in knots.

Stay invested, stay diversified, and remember that volatility is the price of admission for long-term returns. November felt uncomfortable, but discomfort often precedes opportunity. That's when patient investors remain positioned for another leg higher.

William Rutherford is the founder and portfolio manager of Portland-based Rutherford Investment Management. Contact him at 888-755-6546 or wrutherford@rutherfordinvestment.com.