

Michael Gibbs, Managing Director, Lead Portfolio Manager | (901) 579-4346 | michael.gibbs@raymondjames.com  
 Joey Madere, CFA | (901) 529-5331 | joey.madere@raymondjames.com  
 Richard Sewell, CFA | (901) 524-4194 | richard.sewell@raymondjames.com  
 Mitch Clayton, CMT, Senior Technical Analyst | (901) 579-4812 | mitch.clayton@raymondjames.com

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## Weekly Market Guide

**The market is in a pullback (hadn't seen one in a while). The S&P 500 closed -4.0% from its highs yesterday, which is the first 3%+ decline in over 6 months.** The Tech sector and Mag-7 have declined twice as much as the index, as softness beneath the surface is finally hitting the big names at the top. Pullbacks are normal (and healthy) in equity markets, and **we believe the current decline will be limited.**

### Catalysts for the volatility:

- Chatter questioning **AI spend and payback** periods, along with **circular financing**. This scrutiny increased during earnings season as good reports were met with selling pressure.
- Fedspeak** last week lowered the odds of a Fed cut in December
- Recent **macro softness**

**Technical levels** can help give a good feel for areas of potential support

- We first look to **6400-6500** as potential support with a high probability that the S&P at least bounces near 6500.
- Engulfing patterns and divergences** under the surface **were signals of market fatigue.**
- The key for the **duration and depth of the pullback** will depend on **how the market trades during the next rally.**
- 6200-6300** appears to be worst-case if the bounce is meager (absent a big shift in the market narrative). This would be a ~10% pullback from recent highs

**Reasons to believe the drawdown will be limited** (bearing in mind normal bull market pullbacks can often reach 10%):

- Strong earnings**- estimates for 2025-2027 earnings growth are ~13% and revision trends are positive.
- Don't fight the Fed**- the Fed is in an easing cycle regardless of the exact timing of cuts.
- Soft patch now, but stimulus is coming in 2026**- Tax savings, investment/infrastructure spending, and the lagged effect of Fed cuts support economic growth in the coming year.
- AI spending** is not in the late innings

### Near term influences:

- Earnings this afternoon** from the world's largest AI-oriented company

Equity Market Indices	Price Return	
	Year to Date	12 Months
Dow Jones Industrial Avg	8.3%	6.2%
S&P 500	12.5%	12.3%
S&P 500 (Equal-Weighted)	5.4%	1.7%
NASDAQ Composite	16.2%	19.4%
Russell 2000	5.3%	1.8%
MSCI All-Cap World	16.0%	15.4%
MSCI Developed Markets	21.1%	20.3%
MSCI Emerging Markets	26.6%	25.0%
NYSE Alerian MLP	1.2%	0.7%
MSCI U.S. REIT	-0.1%	-5.1%
S&P 500 Sectors	Price Return	Sector
	Year to Date	Weighting
Communication Svcs.	24.2%	10.3%
Information Technology	20.6%	34.9%
Utilities	17.3%	2.4%
Industrials	13.5%	8.1%
<b>S&amp;P 500</b>	<b>12.5%</b>	-
Health Care	10.7%	9.8%
Financials	6.0%	13.0%
Energy	5.8%	3.0%
Materials	2.0%	1.7%
Consumer Staples	0.4%	4.9%
Real Estate	0.2%	1.8%
Consumer Discretionary	-0.7%	10.1%

Source: FactSet

- Fed minutes and a steady stream of **economic releases**, including prior month delays due to the government shutdown
- **Fed decision** and press conference 12/10
- **Supreme Court ruling on IEEPA** tariffs could be as early as late December

## Technical: S&amp;P 500



With internals nearing oversold, the odds are high that the market tries to hold near 6400-6500.

6200-6300 worst case if bounce is meager (absent a big shift in the narrative) ~10%

MACD: the slightly longer (than stochastic) oscillator signals what we already know- a pullback is underway. It will be more useful during the bounces if it crosses back over and gets above the zero line.

The shortest-term oscillator (stochastic) is moving near oversold position

Source: Bloomberg, FactSet

## Hypothetical S&P 500 Targets

S&P targets are a function of expected earnings and a valuation multiple on that earnings.

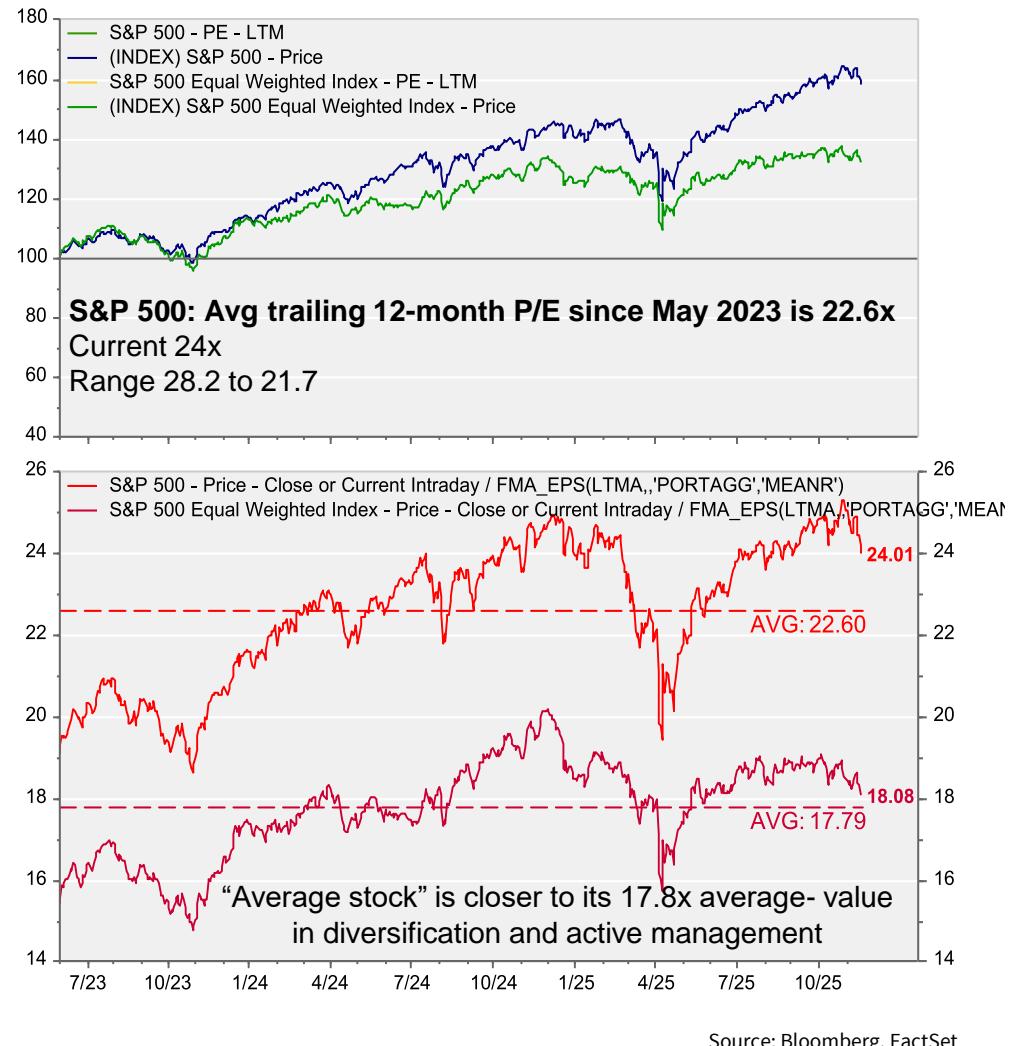
The current consensus earnings estimate is \$305 for 2026 (13% growth). 12-month forward estimates tend to decline by an average of 4.5%. Our model implies \$290-300 (8-12%).

Since the onset of AI in May 2023, the average S&P 500 P/E multiple is 22.6x (28.2x-21.7x range) vs 24x current.

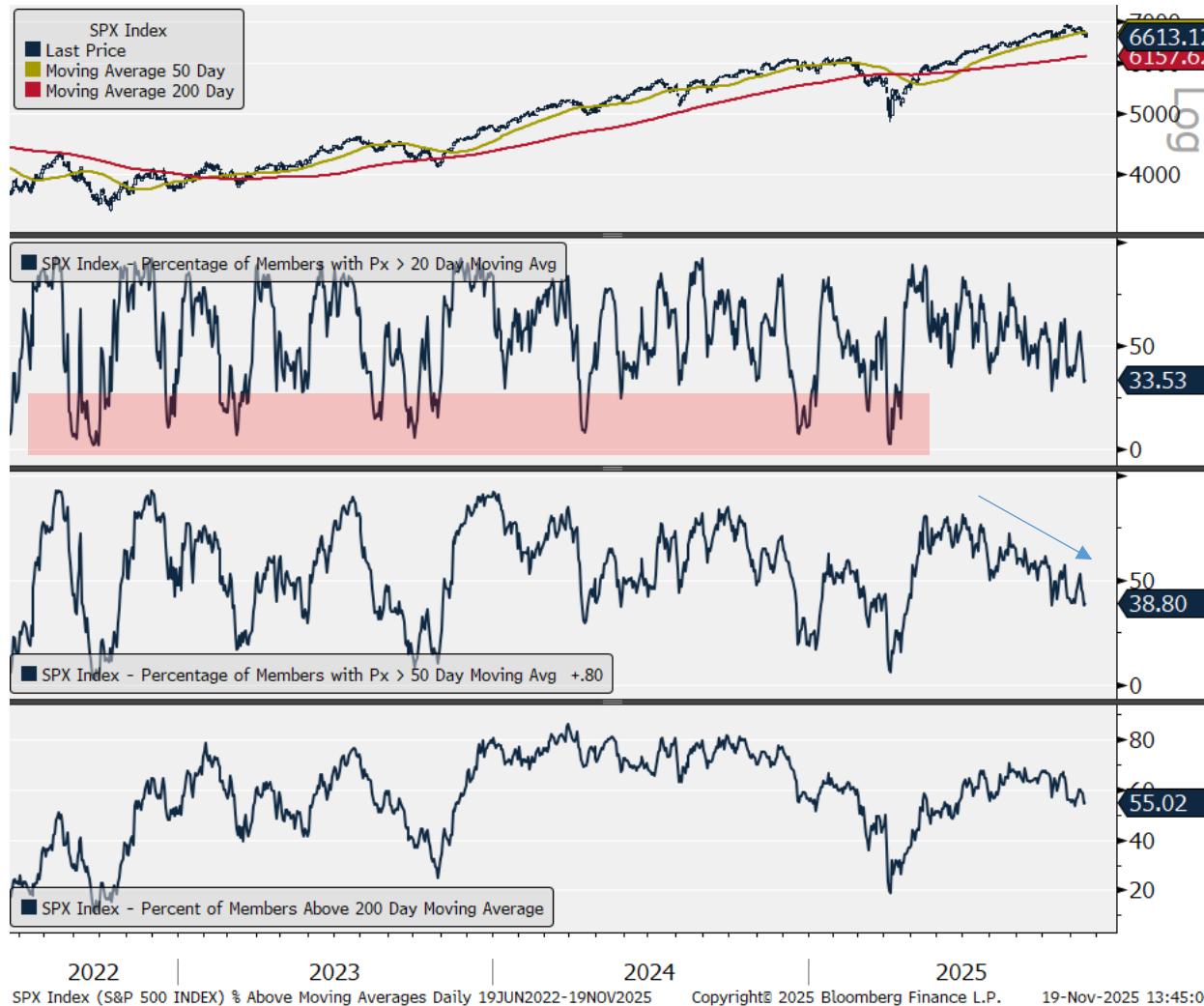
**Upside over the next 12-months** likely lies in the **6600-7600** range with **higher odds of 6900-7015**. Near-term **downside likely seen in the 6200-6500 area**.

**-6% to +6% (-5% to +7% with dividends)**. This might not seem extremely attractive, but the S&P 500 is up 61% since the October 2023 low. These numbers seem reasonable. Potential upside also skews more positive on a normal pullback.

2026 EPS									
LTM P/E Multiple	275	280	285	290	295	300	305	310	315
22x	6050	6160	6270	6380	6490	6600	6710	6820	6930
23x	6325	6440	6555	6670	6785	6900	7015	7130	7245
24x	6600	6720	6840	6960	7080	7200	7320	7440	7560
25x	6875	7000	7125	7250	7375	7500	7625	7750	7875
26x	7150	7280	7410	7540	7670	7800	7930	8060	8190
27x	7425	7560	7695	7830	7965	8100	8235	8370	8505
28x	7700	7840	7980	8120	8260	8400	8540	8680	8820
29x	7975	8120	8265	8410	8555	8700	8845	8990	9135



## S&P 500: % of Stocks Above Moving Averages

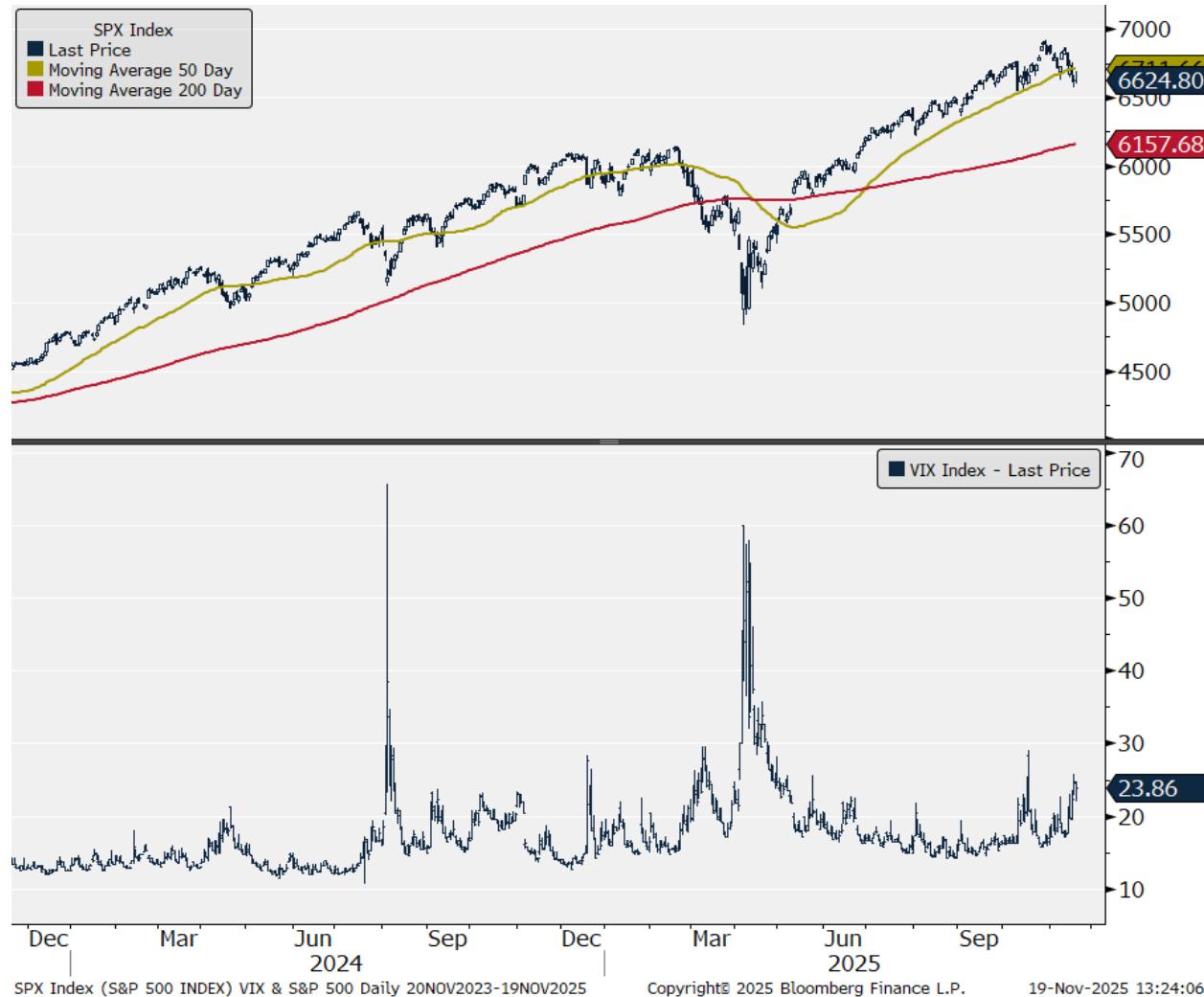


Historically, the percent of S&P stocks above their 20 DMA often reaches single digits during the deeper or longer drawdowns. This suggests we may have a little more to go.

Weakness beneath the surface is finally hitting the index (and concentration in names at the top). Would like to see this decline in market breadth resolve itself higher sooner rather than later. Watch to see stabilization or improvement in the trend on a market bounce.

Source: Bloomberg, FactSet

## VIX (Volatility Index)

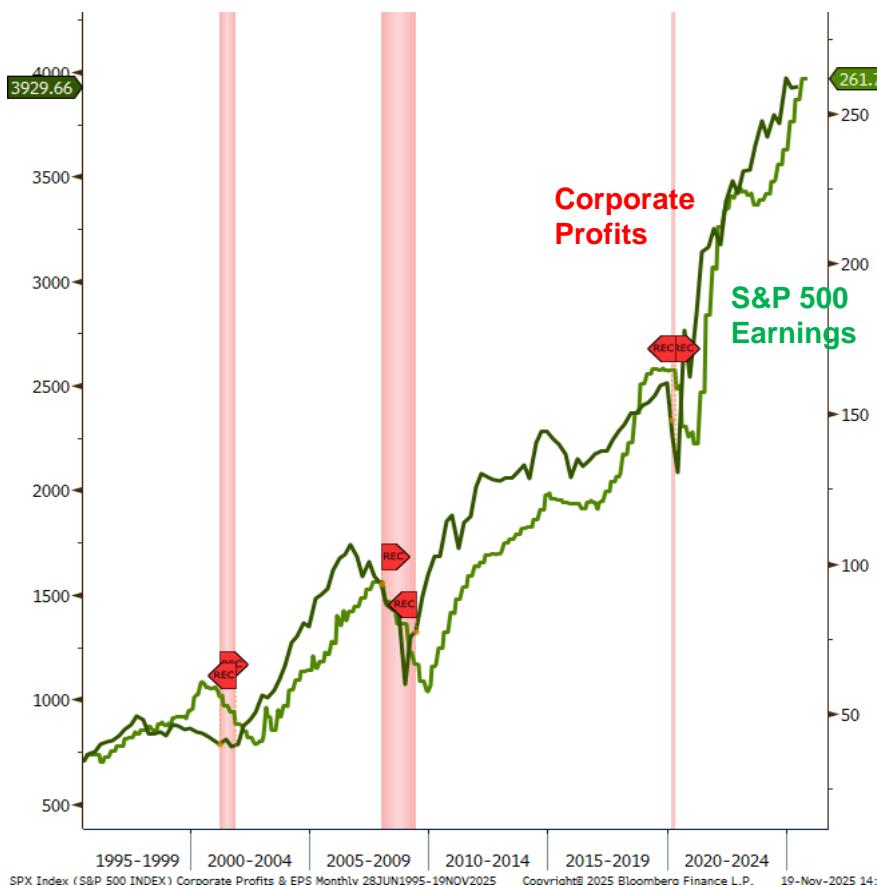


The VIX rising reflects the weakness we have seen.

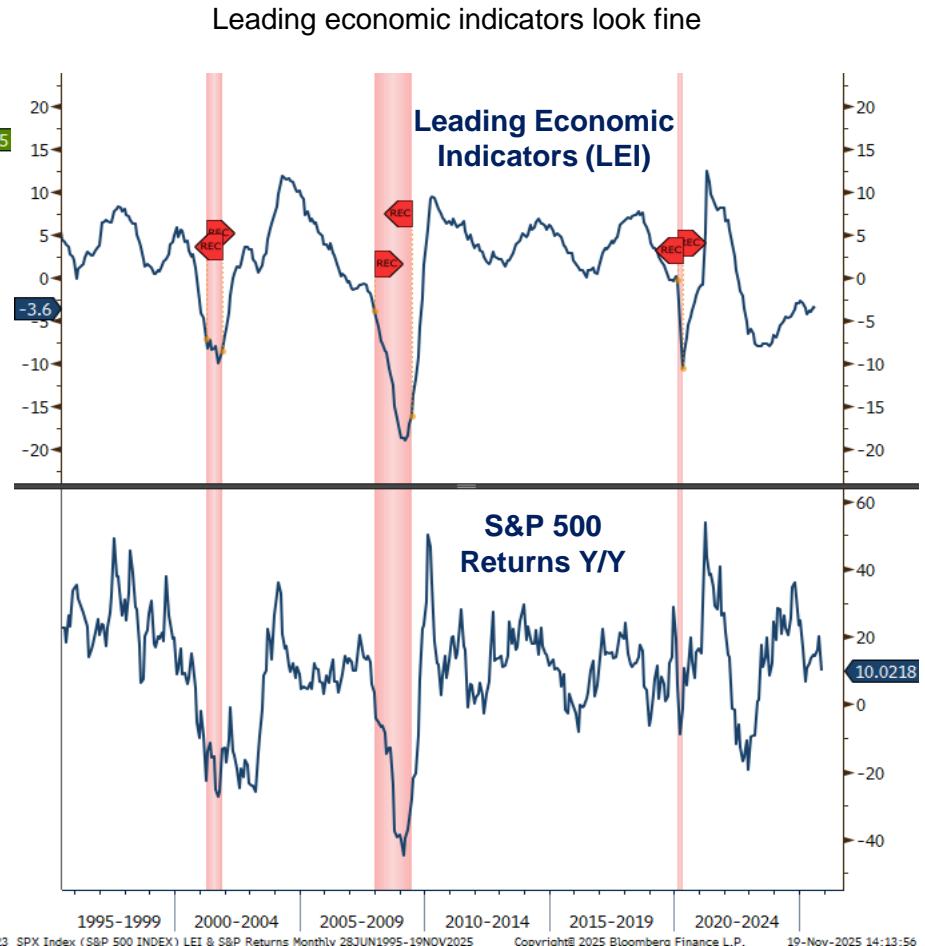
As with other technical indicators, how it behaves after the inevitable market bounce will reveal more.

## Economy & Earnings Supportive of Equities

Low likelihood of recession with corporate profit strength



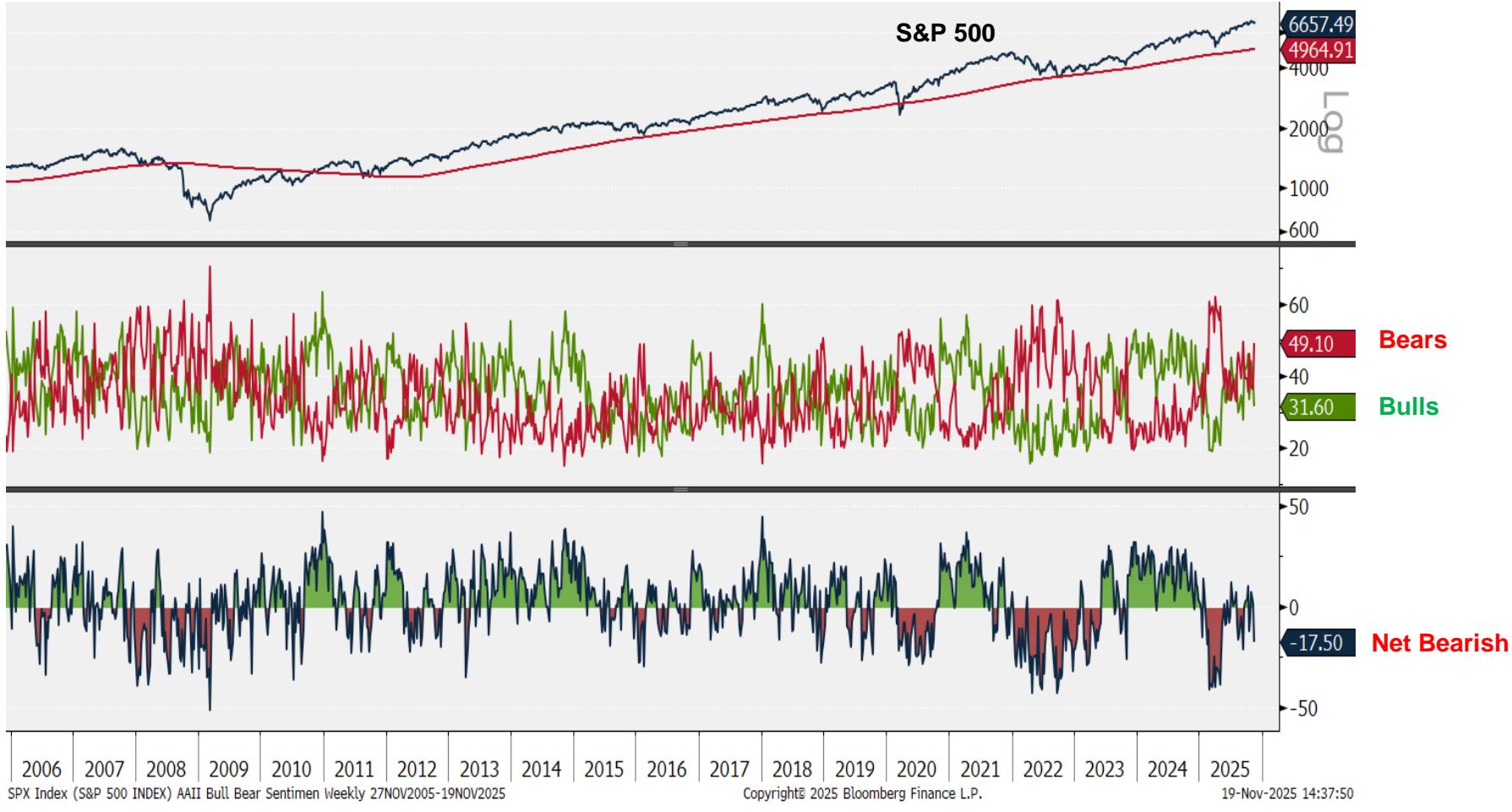
Leading economic indicators look fine



Source: Bloomberg, FactSet

## Investor Sentiment

Despite the market's ascent to all-time highs, AAll bull vs bear sentiment is net bearish. This is encouraging from a contrarian perspective.



## IMPORTANT INVESTOR DISCLOSURES

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### Index Definitions

The **S&P 500** is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.

The **Dow Jones Industrial Average (DJIA)** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The **NASDAQ Composite** is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market.

The **MSCI World All Cap Index** captures large, mid, small and micro-cap representation across 23 Developed Markets (DM) countries. With 11,732 constituents, the index is comprehensive, covering approximately 99% of the free float-adjusted market capitalization in each country.

The **MSCI EAFE (Europe, Australasia, and Far East)** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 21 developed nations.

The **MSCI Emerging Markets Index** is designed to measure equity market performance in 23 emerging market countries. The index's three largest industries are materials, energy, and banks.

The **Russell 2000** index is an index measuring the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks.

The **NYSE Alerian MLP** is the leading gauge of energy infrastructure Master Limited Partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX).

The **Barclays Intermediate Government/Credit Bond** index measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years.

The **Euro Stoxx 50 Index** is a market capitalization weighted stock index of 50 large, blue-chip European companies operating within Eurozone nations. Components are selected from the Euro STOXX Index which includes large-, mid- and small-cap stocks in the Eurozone.

The **China CSI 300** is a capitalization-weighted stock market index designed to replicate the performance of top 300 stocks traded in the Shanghai and Shenzhen stock exchanges. It had a sub-indexes CSI 100 Index and CSI 200 Index.

The **S&P 500 Futures** is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **DJIA Futures** is a stock market index futures contract traded on the Chicago Mercantile Exchange's Globex electronic trading platform. Dow Futures is based off the Dow 30 stock index.

The **Nasdaq 100 Futures** is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international companies listed on the NASDAQ.

**Europe: DAX** (Deutscher Aktienindex (German stock index)) is a blue chip stock market index consisting of the 40 major German companies trading on the Frankfurt Stock Exchange.

**Asia: Nikkei** is short for Japan's Nikkei 225 Stock Average, the leading and most-respected index of Japanese stocks. It is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results. Future investment performance cannot be guaranteed, investment yields will fluctuate with market conditions.