Morgan Stanley
INVESTMENT MANAGEMENT

Equity Market Commentary

SLIMMON'S TAKE | APPLIED EQUITY TEAM | November 2025

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The following views and perspectives are formed by the work of the Applied Equity Team in managing assets for investors.

1 As we enter the fourth year of this current bull market, investors appear to be exhibiting classic **late cycle** behavior.[1]

2 However, the key question to answer is *how long will the last stage of this equity bull market last?*

In other words, will this "euphoria" stage last three years as it did in the late 1990s with the S&P appreciating nearly 100% before the dot.com peak in early 2000?[2]

Or will it be more like 2021 when the euphoria bubble inflated so quickly that the next bear market came on shortly thereafter, commencing in early 2022?[3]

3 In 2023, following the -25% bear market decline, the biggest pushback to my bull thesis was the consistent refrain, *"why should I buy equities when I can lock in a 5% risk-free yield in short-term US Treasuries?"*

That was classic **early cycle** behavior as investors accepted lower upside in return for downside risk mitigation.

I remember a very successful advisor pal of mine grumbling that he had become the "T-Bill rolling king".

That was 2023.

Not now.

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[1] A bear market is defined as a peak-to-trough decline of at least 20%. The last decline of that magnitude ended on October 12, 2022, at which time a new bull market commenced. Hence why as of October 2025, the S&P 500 entered the fourth year of this current bull market.

[2] The four stages of a bull market as defined by Sir John Templeton in 1966 were: 1. Pessimism 2. Skepticism 3. Optimism and 4. Euphoria.

[3] Bloomberg.

The index performance is provided for illustrative purposes only and is not meant to depict the performance of a specific investment. **Past performance is no guarantee of future results.**

4 In late cycle equity bull markets, investors are not worried about downside risk, but seek upside returns.

And the leadership increasingly morphs to the more *speculative stocks*.

Investors chase stocks that currently may not have good fundamentals (or even any earnings) but rather have a bright story about the future. Quantum computing, nuclear energy, rare earth materials and even flying car stocks are some of the areas that come to mind currently.

That's never a great sign in my opinion, as it validates the late-cycle thesis.

5 So back to the question of *where are we in the late cycle?*

It is my belief that the more liquidity pumped into the economy, the faster we move through the final phase.

I am worried about the Federal Reserve lowering interest rates combined with fiscal policy stimulus coming early next year in the OBBB.[4] That's a lot of liquidity.

The more liquidity, the higher the speculative stocks rise, in my opinion.

Remember the CARES Act and American Rescue Plans of 2021?

Approximately $4.1 trillion pumped into the U.S. economy.[5]

No wonder the bubble inflated so quickly.

And the faster that bubble inflates, the faster the market moves through the "euphoria stage".

6 *The good news is that recently some of the air has been let out of the bubble.*

Speculative stocks have taken a drubbing, down on average -17% from their mid-October highs.[6]

Could it be that the market is factoring in the Fed might not cut in December?

Therefore, the rate of liquidity flows could slow?

Hence, as pertaining to the stock market, **I think a Fed pause would be healthy for the duration of this bull market.**

It would remind investors that you can lose a lot of money in high-risk stocks.

Thereby slowing the movement through the last Euphoric stage.

7 While too much liquidity is my biggest worry, what concerns me far less is **the perceived rich valuation of the S&P 500 overall.**

Remember, *valuation analysis is only as good as the fundamental estimates.*

I have argued since early April that Wall Street has been way too bearish on the economic outlook and, therefore, earnings.

As a portfolio manager focused on actual companies, I enjoy, and frequently find myself “in the weeds,” listening to company reports.

Not all companies have managed well through the tariff barrage, but many have.

Especially the biggest of the large caps in the S&P 500 index.

[4] One Big Beautiful Bill.
[5] The Office of Inspector General.
[6] As measured by the Goldman Sachs Non-Profitable Tech Index (GSXUNPTC). As of Friday, November 14th.

8 We have just exited the third straight quarter where overall earnings significantly exceeded Wall Street's projections.

Since Wall Street analysts significantly reduced their earnings outlook in April, they are now being forced to revise estimates upward.

An upward revision has occurred <u>every week</u> since July 11th.[7]

9 The only bubble in Ai is in **bubble talk**, in my opinion.

Those making analogies to the year 2000 are fear mongers.

The analogies, however, make for great media content.

As I compare where we are in the Ai rollout cycle today versus the Internet introduction of the late 1990s, the dot.com bubble peaked *when the demand for Internet services and products no longer exceeded the technology/telecommunications industries' ability to supply it.*

In early 2000, Cisco Systems, soaring on purchases of their $2,000 routers and trading north of 100x forward P/E, stunned investors by announcing that the demand for their equipment was finally slowing.[8]

At the same time, the telecom companies who had invested billions to build out the fiber optics network finally conceded that some of that dark fiber they had laid would never be lit for usage.

10 In listening to Q3 quarterly commentary from Ai related companies, what struck me was *their inability to keep up with demand.*

Amy Hood, Microsoft's CFO, said during their recent earnings call that 'we still have some work to do in our scale motions,' thus acknowledging that demand, particularly for Ai, was outpacing Microsoft's current capacity to deliver.[9]

This is just one example, but there are many others.

11 Ai is a cost cutting tool. Ai has no health care costs.

Therefore, in my opinion, the pace of technological introduction in the workplace will accelerate as Ai tools are better understood.

If that is the case, demand will not slow any time soon.

12 I could be wrong, and the pivot in the demand/supply balance could come sooner than I expect.

However, what's important for all our investors to know is we will adjust if that is the case.

Success in the investing world is the ability to recognize when you are wrong and move on.

(God knows, I've had a few in my career.)

Yet at this juncture, I think it's far too early to suggest the Ai rollout is in the later stage.

Hence, we are sticking with companies that provide the Ai tools.

But we will be watching.

For our investors in the U.S., the Applied Equity team wishes everyone a Happy Thanksgiving.

Andrew

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[7] Factset.

[8] Bloomberg.

[9] CRN. This is provided for informational purposes only and is not a recommendation to buy MSFT.

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RO 4997415Exp. 11/29/2026