



POST OAK PRIVATE WEALTH ADVISORS

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Monthly Market Commentary

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The U.S. stock market was in a bad mood in November as volatility returned to its highest level since the tariff-induced decline in the spring. Stocks slumped through most of the month and at one point were down over 5% from their most recent peak. Most of the weakness was due to continuing worries over tech stock valuations and questions about financing for AI-related capital expenditures. Doubts over future Federal Reserve monetary policy also played a role.

The volatility was painful, but the drawdown in the equity indices only took them back to their mid-October levels. By the last week of November, the market stabilized and stocks clawed back much of their monthly losses, largely on rising expectations for a Fed rate cut in December. For November, the S&P 500 finished with a small gain of 0.25% while the Nasdaq Composite Index—home to many tech and AI stocks—slipped 1.5%.

While the drawdown and rebound were nerve-racking to some investors, it was also a good reminder that volatility is a normal part of investing. Long-term clients have often heard me say, “It’s hard to watch the movie when you’re in it.” As investors, we can easily find ourselves swept up in the back and forth drama of the markets, but we have to hold steady and stay true to our long-term objectives through these spells of turmoil. Understanding the forces behind market fluctuations can help us maintain perspective.

What drove stock market volatility?

Let’s start with technology stocks as this sector was the primary contributor to last month’s turbulence. In my October letter, I addressed investor questions of an AI bubble. These doubts persisted in November on reports of circular dealmaking among the AI hyperscalers and volatility in tech company bonds that are financing the AI buildout.

If anything could shake the doubts about AI, it would have to be Nvidia—the most valuable company in the world and bellweather for the AI-powered bull market. The reaction to Nvidia’s strong quarterly results revealed just how volatile—and even schizophrenic—the market had become. The company’s earnings announcement after the market close on November 19, which showed continued strong demand for the firm’s chips from AI developers, came as a relief to rattled investors. While the market opened with a surge the following day, the rally didn’t last past lunchtime and both Nvidia and the S&P 500 declined over the session.

As investors rode whipsaw volatility throughout the month, they also seemed to become more discerning about individual stocks. For once, the “Magnificent 7” mega-cap tech stocks didn’t move as a monolith; monthly performance diverged with Nvidia and Microsoft slumping while Alphabet (parent company of Google) surged and Apple (an AI laggard) rose. The outsized

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influence of tech stocks in the S&P 500 also masked good returns in other sectors such as health care and consumer staples, which benefited from the rotation away from growth stocks and toward value, at least temporarily.

AI represents a structural and fundamental change to the global economy, perhaps the most significant change since the arrival of electricity. Yet, in order for AI to achieve its potential, massive investment in infrastructure is necessary. A Bain & Company report from September noted that spending on data centers would need to reach \$500 billion annually over the next five years to meet AI's computational demands. To cover that spending, companies would need to generate around \$2 trillion in revenue by 2030. That's more earnings than what all the Mag-7 firms combined have recently reported.

While the AI opportunity is massive, financing it is far from straightforward. With such huge capital outlays, the return on investment could be much lower than projected if AI doesn't deliver the anticipated cash flows. Compounding those risks are the stretched valuations for AI-related stocks, rising concerns over private credit lending, doubts about a December Federal Reserve rate cut and the spillover effects of the federal government shutdown. Taken all together, it created enough uncertainty to spook already skittish investors and incite volatility.

What sparked the market's turnaround?

Not only did investor sentiment waver in November, expectations for future Federal Reserve rate cuts were also volatile. Just last month, it seemed the Fed was on track to lower rates one more time before year end, but those expectations were complicated by uncertainty around inflation data and the jobs market. The federal government shutdown didn't help; the closure disrupted the flow of economic reports that the Fed relies on to make interest rate decisions. Even with the government re-opening in November, the Fed's rate-setting committee will be flying blind into its December meeting with an incomplete picture on the true state of the U.S. economy.

Labor market weakness remains the Fed's primary concern. The most recent jobs report—for September—was encouraging with non-farm payroll growth of 119,000 for the month. That was an improvement over prior months, but the September employment numbers also included downward revisions of 33,000 jobs for both July and August and an uptick in the unemployment rate. In addition to weakness in hiring, fewer people are seeking work as evidenced by the declining labor force participation rate and the rise in the number of discouraged workers in the economy.

Softening labor demand could signal a broader economic slowdown and would eventually weigh on consumer confidence and spending. That would be bad for growth-sensitive assets but bolsters the case for monetary policy easing. As November ended, many pieces of the economic puzzle—from higher continuing unemployment claims, to less spending on cars, clothing and electronics—presented a picture of an emerging economic slowdown and confirmed investor expectations for a Fed rate cut in December.

One paradox of the market is that often bad news can be perceived as good news if investors get what they want. Which in this case is a December rate cut by the Federal Reserve. Beyond December, future Fed decisions may be complicated by stale or incomplete economic data that doesn't reflect the reality of everyday Americans. If Fed officials misread labor market strength or weakness, investors may consider any moves they make—or even moves they don't make—as a misstep for what the economy needs.

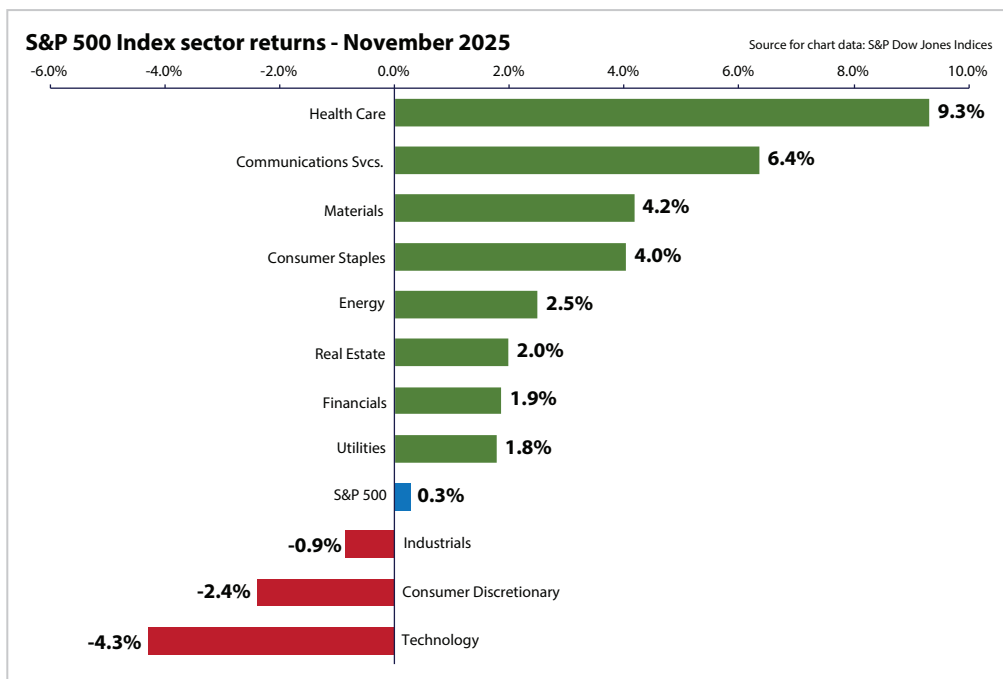
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U.S. businesses deliver the goods

With stocks wavering and the state of the economy uncertain, American businesses gave investors something to count on—earnings. At the end of Q3 earnings season, S&P 500 firms delivered another stellar quarter with double-digit earnings growth for the fourth consecutive quarter, the best revenue growth in three years and the highest net profit margins in over 15 years.

Tech firms were responsible for much of this outstanding bottom-line performance. Investors may wonder if the current valuations for these stocks are reasonable, but tech companies are largely delivering the goods on earnings—especially chipmakers and chip equipment makers. Nvidia, Microsoft, Alphabet and Amazon were among the top contributors to earnings growth in Q3, but markets tend to focus more on future earnings than past earnings. Fears of overvaluation shifted the momentum away from growth sectors of technology and consumer discretionary stocks, which declined in November. Health care, materials and consumer staples, which have been regular laggards for much of this year, took their turn at the top of November's performance table.



Corporate earnings have defied market expectations for several quarters now, which is remarkable given the pressures from higher tariffs, trade policy uncertainty and labor market weakness. Strong earnings and strong earnings beats underscore the resilience of American businesses, while also helping support stock valuations and whet investors' appetite for risk. Guidance and forward expectations become quite important now; if companies warn or project slower growth in future quarters, that could weigh on sentiment and reignite market volatility.

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Best wishes for this holiday season

This will be my last client letter before the end of the year. In the spirit of the holiday season, I would like to thank you on behalf of the entire Post Oak team for another year of trust and support in our services. Your wealth goals are the reason why we do what we do, and we truly appreciate the relationships we have built with each of our clients.

As evidence of how important you are to our business, we learned this month that Post Oak Private Wealth Advisors was recognized by Newsweek as one of America's Top Financial Advisory Firms for 2026. The process included a review of over 16,000 SEC registered firms, based upon different criteria including short- and long-term financial performance, our range of service offerings, a low client-to-adviser ratio and minimal conflicts of interest.

We are honored by this recognition, but we especially value the recognition we get from our clients who trust us to manage their wealth. As another year approaches, we also look forward to building on the trust we've earned and continuing to help you realize your long-term investment and financial planning goals.

Past performance does not guarantee future results. There is no guarantee that any investment strategy or account will be profitable or will not incur loss. Investors should consider the investment objectives, risks, charges and expenses that make up this investment strategy carefully before investing. Investing involves risk, including the possible loss of principal. Share price, principal value, and return on investments will vary, and you may have a gain or a loss when you sell your investment.

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