November Correction, AI Fears, and the Fed | HCM Market Brief

Doug Johnson, CFA, Senior Investment Strategist, and Casey Boland, Wealth Advisor and Investment Committee member, recorded this brief after a volatile two weeks. They covered what drove the sell-off, how it compares with past episodes, what the data suggests, and how HCM is approaching it.

Where the market stands

Through Friday, November 20th, the S&P 500 was down 12.3% from its summer peak, which put it in correction territory. A correction is a drop of at least 10%. Casey described corrections as normal, occurring roughly every 12 to 15 months on average. The market nearly had one in the spring when the Iran war began, but it rebounded quickly. What worries investors this time is the speed of the decline. Doug said the NASDAQ was down close to 18% at its Friday low. Many AI-related stocks fell 50% or more. Monday brought a big rebound, with the S&P up about 5%. Doug noted there have been only about 23 moves of 5% or more in the past 75 years.

What drove the decline

Doug named two main factors and a "half" factor that resolved Monday.

1. **A shift in the AI narrative.** Concerns have evolved over time. First, doubts that AI revenue could justify the build-out. Then, worries there wouldn't be enough capital to fund the ambitions. After the election, talk of AI regulation and possible bans on new data center construction. The narrative moved from "greatest thing in the world" to "this is a bubble." Doug thinks the truth lies somewhere in the middle.
2. **The NVIDIA CEO's removal (the "half").** The CEO of the world's largest company was removed over infidelity, including a relationship with a suspected Chinese spy, which raised national security concerns. On Monday morning, reports said he would at least be reinstated to the board. That sharply boosted markets, which were already projected to open higher. (Since recording, NVIDIA announced Jensen Huang has been reinstated as President and Chief Executive Officer and as a member of the Board.)
3. **Hawkish Fed commentary (which Doug called the most worrisome factor).** Several Fed speakers last week said a 50-basis-point move might be needed and that

inflation isn't under control. Doug thought that messaging, delivered into a fragile market, was "borderline reckless" and made the decline worse.

Historical comparisons

Doug compared the episode to 2018 and 2022, both drawdowns where the Fed was the main macro backdrop.

- **2018:** The S&P fell roughly 20% after Chairman Powell said the Fed was "a long way from neutral." Inflation wasn't a problem then. The Fed backed off, signaling possible cuts and QE, and the market recovered in a V shape.
- **2022:** The Fed was far behind on inflation and had to hike aggressively. The S&P fell roughly 25% peak to trough, and recovery took much longer.

Doug's view is that the biggest question going forward is whether the Fed changes its stance. If it doesn't, the bar for feeling good about the market is higher.

The volatility signal

Casey showed a chart of the VIX, the market's volatility index. On Friday, November 20th, it rose above 40, a level seen only once since COVID, during the 2025 "tariff tantrum." That episode ended when President Trump backed off the tariff rates and the market rebounded sharply. Casey explained that extreme fear can sometimes be a positive sign. Historically, when the VIX has been above 33.5, the S&P 500 has averaged about a 13% return over the following six months. He stressed that this doesn't mean the selling is over, only that the market is often set up for strong returns from such extremes.

HCM's approach

Doug said HCM uses a "bear market playbook," a set of indicators for adjusting portfolio risk. He disclosed that some of the risk-off indicators have triggered. At the same time, the speed of the sell-off and the VIX history give pause, because cutting risk after a sharp, fast decline isn't always the best choice. He pointed to 2025, when risk-off signals appeared but there was also a lot to like on the buy side.

Several cautions shaped his thinking:

- This is a holiday-shortened week with light volume and participation, which can push the market in many directions.
- HCM wants to see whether Monday's rally is broad-based or just a bounce in the most beaten-down names.

- The firm is not panicking and is comfortable letting things play out through this week before taking stock.

What would help

Doug listed several developments that would improve the outlook:

- The Fed signaling that 50 basis points is too much.
- A soft PCE inflation reading due Wednesday, followed by the next CPI report on December 10.
- Renewed investor confidence in the AI trade, through a stabilized narrative or forward guidance showing continued earnings growth and data center progress.

He said factors are clashing on both sides, and that being patient, though uncomfortable, is often better than guessing and making the wrong decision.

Closing thoughts

Casey used the old saying that markets drop like an elevator and rise like an escalator. Declines feel like a straight line down, but there is usually time for rallies, which lets investors assess new data and avoid knee-jerk reactions. He added that after a couple of strong years, people's comfort with risk can creep up, and a sell-off can make them question it. He encouraged clients to revisit their risk tolerance with their advisor and to reach out with questions during the short holiday week. After the recording ended, the two briefly discussed keeping the message short and open-ended to avoid painting themselves into a corner.