TERRA NOVA
ASSET MANAGEMENT

Nov 2025
Market Highlights

747 Third Avenue | New York, NY 10017 | USA | tel. +1.212.355.1234 | fax +1.212.355.8873

In Brief

The U.S. equity market extended its winning streak, with the S&P-500 rising around 2.3 % in October (up 17.6% year-to-date) for a sixth consecutive monthly gain - the longest such run since 2021. Key drivers included robust earnings - with roughly 83 % of companies beating expectations. The tech/AI sector again led the charge as investors leaned into artificial intelligence-related investment themes. However, two caveats emerged: a sharp one-day sell-off triggered by renewed U.S. - China tariff threats (on October 10 the S&P dropped ~2.7%) and growing concern over stretched valuations in key sectors. Equities are still advancing, led by growth/tech, but with increased headline risk and less breadth than in past months. In the bond market the picture is more nuanced. Treasury yields moved higher despite expectations of central-bank easing, a sign that investors are pricing either less aggressive cuts or increased risk. For instance, the 10-year U.S. Treasury yield ended around 4.11 % and the 2-year T-Bill around 3.60 % as of October 31. At the same time, investment-grade corporate bond supply remained strong, and demand was high even as yields increased.

Economy

In October, the U.S. economy continued to grow at a moderate pace, supported by steady consumer spending and resilient services activity. Inflation remains slightly above the Federal Reserve's target, and wage growth has eased, but not collapsed. Consumer confidence softened as households grew more cautious about job prospects and the broader political environment, while business sentiment weakened due to tariffs and policy uncertainty. Manufacturing and services activity remains in expansion, yet trends point to slowing momentum rather than recession. Overall, economic growth is holding, but caution is increasing, inflation is sticky, demand is cooling at the margin, and companies are becoming more conservative with hiring and investment.

Monetary Policy

The Federal Reserve remains in a holding pattern. Inflation is easing, but not fast enough for the Fed to declare victory, and core price pressures remain sticky. The central bank continues to signal that rate cuts will be data-dependent, not calendar-driven. Growth is slowing at the margin; softer consumer confidence, weaker hiring momentum, but not sharply enough to force an immediate policy shift. Markets are still pricing rate cuts, yet the Fed is focused on ensuring inflation returns to 2% sustainably rather than prematurely stimulating the economy. The most likely path from here is a prolonged period of restrictive rates, followed by gradual easing only if economic data weakens further or inflation decelerates more convincingly.

Corporate Earnings

The Q3 earnings are not only beating expectations, but rising to record highs, even though industry analysts continued to not lower their estimates as they did before Q1 and Q2 earnings seasons. The Magnificent-7 is leading the way higher on both fronts. Amazon reported on Friday that AWS, its cloud computing unit, saw revenue increase 20% in Q3 and is growing at a pace not seen since 2022 driven by strong demand. AI is essentially a high-powered app with a myriad of uses, which is significantly increasing demand for cloud computing. The profits lie more in providing cloud capacity in data centers to run the models than in monthly fees for AI software.

Thoughts

The current wave of mega-acquisitions in AI and data-center infrastructure is driven by scarcity and economics. Computing capacity, grid access, and permitting have become bottlenecks to AI growth. Large technology companies cannot train or commercialize AI models without massive computer resources and access to cheap, reliable energy. For both technology firms and private equity buyers, consolidation is the fastest path to scale. Building new data centers can take up to five years due to permitting, power-grid allocation, and long lead times for transformers and cooling systems. Acquiring an existing platform compresses that timeline to months. This is why companies like Microsoft, Amazon, and Google have been acquiring or partnering with data-center operators, and why private equity (e.g., Digital Bridge, Blackstone) is consolidating colocation assets. High valuations give large tech firms strong “acquisition currency,” making $80 billion-plus transactions financially feasible. These deals are not about buying revenue; they are about buying time, power access, and operating leverage. Earnings accelerate because higher utilization and lower marginal costs directly expand EBITDA and free cash flow. Once integrated, buyers can renegotiate power contracts, price AI-dense capacity at premiums, and secure multi-year commitments from hyperscalers. In short, mega-deals in this segment compress time to monetization, expand margins, and accelerate EPS growth. However, the theme is highly capital-intensive and execution-sensitive, which is what investors worry about the most. The expected returns depend on flawless integration, rapid utilization ramps, and guaranteed power access. Delays in securing grid capacity, GPUs, or financing can erode dealings. Capital intensity is amplified by the rise of off-balance-sheet financing, where companies use long-term power agreements, prepayment structures, or sale-leasebacks to avoid showing leverage on the balance sheet. Economically, these function like debt: they create long-dated fixed obligations regardless of utilization. While mega-cap tech firms have exceptionally strong balance sheets and ample free cash flow to support these commitments, strong liquidity does not eliminate the risk of poor capital allocation. Overpaying for assets at peak valuations, combined with aggressive assumptions of perpetual AI demand, could compress future returns if capacity outpaced monetization.

Stock Market Outlook

November is likely to be a transition month in the markets. On the upside, corporate earnings momentum remains a support factor, particularly in sectors tied to artificial intelligence and tech innovations providing upside potential if companies deliver above expectations. On the other hand, valuations are stretched, and a 5-10% correction is likely and would be normal in the current cycle. Given the backdrop of sticky inflation, no imminent policy easing from Federal Reserve, and latent macro- risks (e.g., trade tensions, credit conditions), caution is warranted.

We expect a modest upside in equities but favor selectivity and risk diversification - large-cap/high-quality names may continue to lead, while small-caps and more cyclical exposures may face more headwinds. Fixed income remains challenged with elevated yields; short-to-intermediate maturity may offer better risk/reward. In all, November may deliver positive returns but is unlikely to produce broad upside without regional or sector divergences.

Your Terra Nova Team!