November 2025 Investor Letter

In 1963 Bob Dylan wrote *The Times They Are A-Changin'*. As I reflect on markets and return from a recent central bank conference, I can think of no better tagline for summarizing where we currently stand – but probably not for the reason you think.

US stocks were fairly flat for the month of November (*yaaawn*). While there was a small sell-off mid-month, it was in line with a healthy working financial system. It's no surprise AI continues to be the primary subject people want to talk about. I've even heard the buzzword "K-shaped" being related to AI with the upper right of the K representing those exposed to AI – (normally this references the economy with the upper right of the K representing high income earners, vs lower income earners in the lower right).

At this point you're probably asking, *"so… why are times a changin? Isn't this basically what's been going on?"*

At the surface, the answer is yes. But if we look below the surface we see more meaningful, long-term change as a broadening out of AI's impact has taken hold. This broadening is seen with regular companies finding efficiencies in real application.

The evidence for this is seen not just in the record profits we witnessed for the 3Q, but in the breadth where more than 80% of companies exceeded their quarterly profit estimates[1]. To add on top of this, Wall Street is currently projecting elevated profits beyond their typical 10% placeholder for the upcoming year[2].

But this isn't free money. These savings must come from somewhere and indications point toward the labor market (think current employees gaining efficiency or repetitive tasks needing less bodies). If you're like me you might be thinking, *"makes sense, but that'll probably take some time."*

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[1] According to FactSet's3Q 2025 bottom up numbers found here
[2] Average S&P 500 forward EPS growth for 2015 – 2024 was 9.7% (median 8.6%) vs 2025's estimate of next years profit of 12.8% - source FactSet bottom up analysis

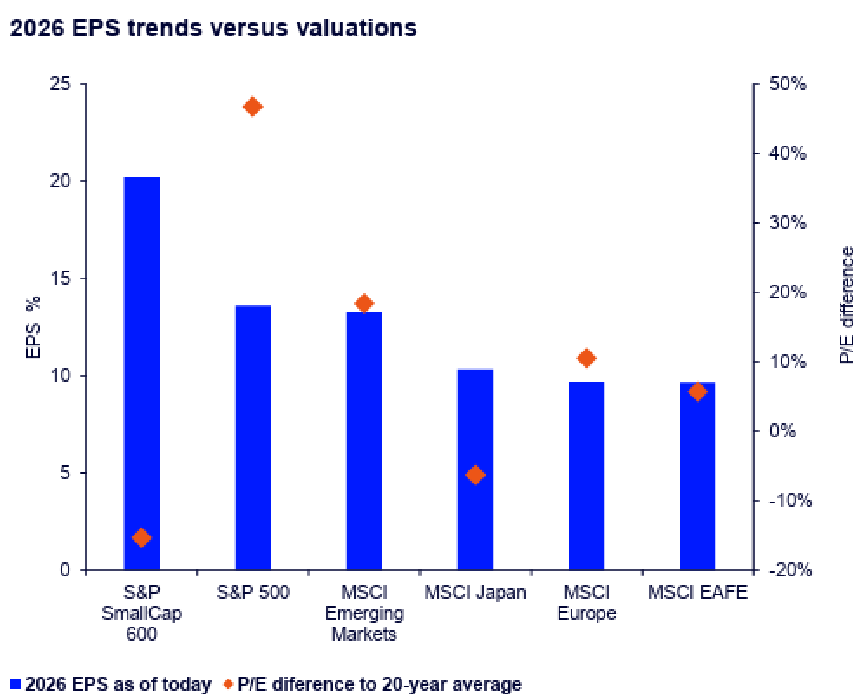
Think again. At a recent conference I attended, one of the hot topics being discussed was AI's impact on the **current** labor market and how monetary policy should account for such changes.

It's a real issue for the here and now. You want people to have jobs, but there is little benefit in someone hanging on to skills that are going away. If you're the Fed, how do you respond to what is likely to be a weakening labor market while inflation is still running hot? One symptom calls for lower rates while the other calls for higher rates - and you can't do both.

Add on top of this the risk of inflation expectations decoupling from the stated 2% target and you have a credibility issue with the Fed being able to deliver on its dual mandate of stable prices and maximum employment.

While I'd love to dive more into all of this, I recognize not all readers are as interested in the details as I am. As such, I will wind this down with Wayne Gretzky's famous focus of "skating to where the puck is going".

So where am I skating in search of returns? Smaller sized companies where valuations tend to be more reasonable relative to historical norms.



The above chart is from a recent presentation State Street did and shows YTD EPS growth[3] and compares it to historical averages of P/E multiples. The two big outliers on the left show the S&P 600 having earnings growth higher than the S&P 500 *and* trading at a discount relative to its 20-year average. Compare this to the S&P 500's metrics, and this looks like a better place to find value.

While there are several other items I'm excited to discuss as it relates to markets, I'm most excited for the opportunity I have in front of me every day. That opportunity is possible because of the people reading this letter. Whether you are a client, friend, or just some poor fella who got pranked by your buddy telling you to *read this amazing insight,* thank you. Your support means the world and it fuels me to get better each day to make the world a better place.

All the best,

[3] FactSet data as of 10/31/25. Blue bars represent YTD EPS growth (left axis) compared to orange diamonds representing the discount or premium of P/E ratios (right axis)

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