

Investors curb their enthusiasm.

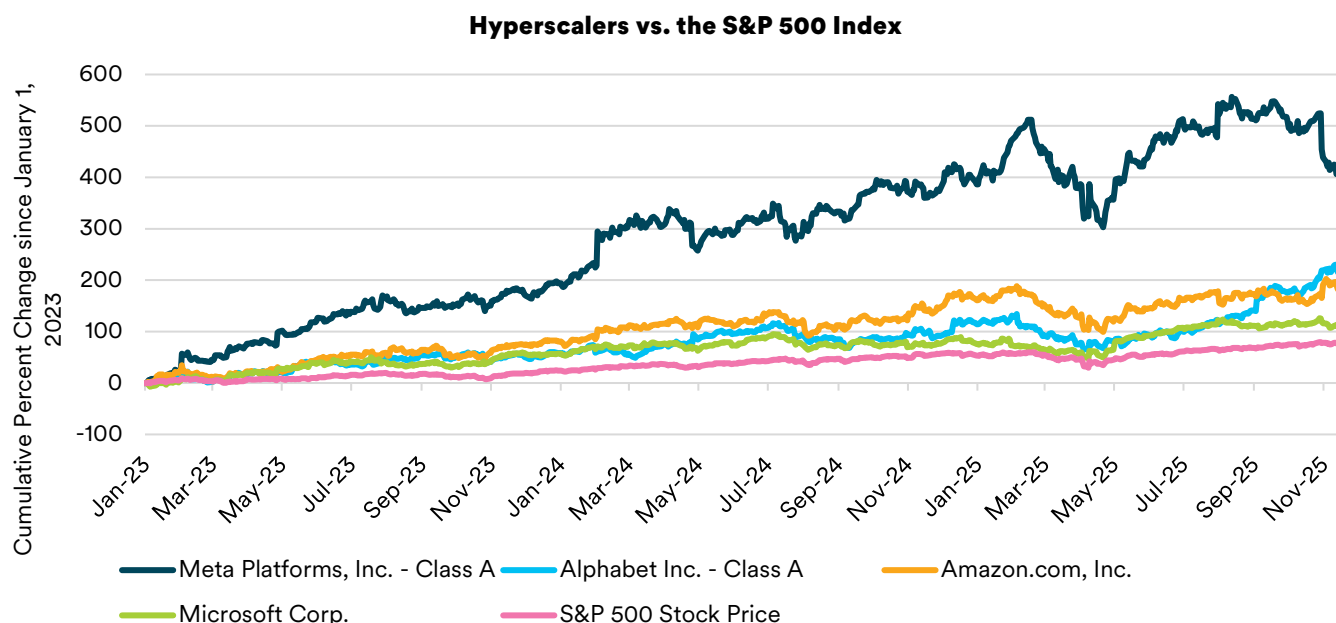


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While U.S. stocks have stumbled from October highs, big technology names have registered a more substantial decline. Nvidia's blowout third-quarter earnings announcement was not enough to quell doubts around artificial intelligence (AI). Fortunately, there is no need to pile into the most expensive stocks when other parts of the market appear to be beneficiaries of the continuing economic expansion.

The stock market has stumbled in recent weeks, with the S&P 500 Index falling from a closing high of 6890.89 on October 28 to 6538.76 on November 20, a decline of 5.1%. You could be forgiven if you thought the drop was far greater when following the *Wall Street Journal*, Bloomberg, or CNBC. That's because the focus of the stock market commentary is on the big technology stocks that have registered a more substantial decline. Exhibit 1 illustrates the price action of the four so-called hyperscalers, the companies that are at the forefront of the AI-infrastructure buildout, since the start of 2023. These "Four Horsemen" include Microsoft, Alphabet (parent of Google), Meta (parent of Facebook), and Amazon. Most of them got off to a rough start earlier this year, culminating in the slide associated with Liberation Day in early April, when President Trump introduced his controversial tariffs. Then, from May to August, the share prices of these companies came roaring back.

Exhibit 1: The Four Horsemen—but no AI-pocalypse.

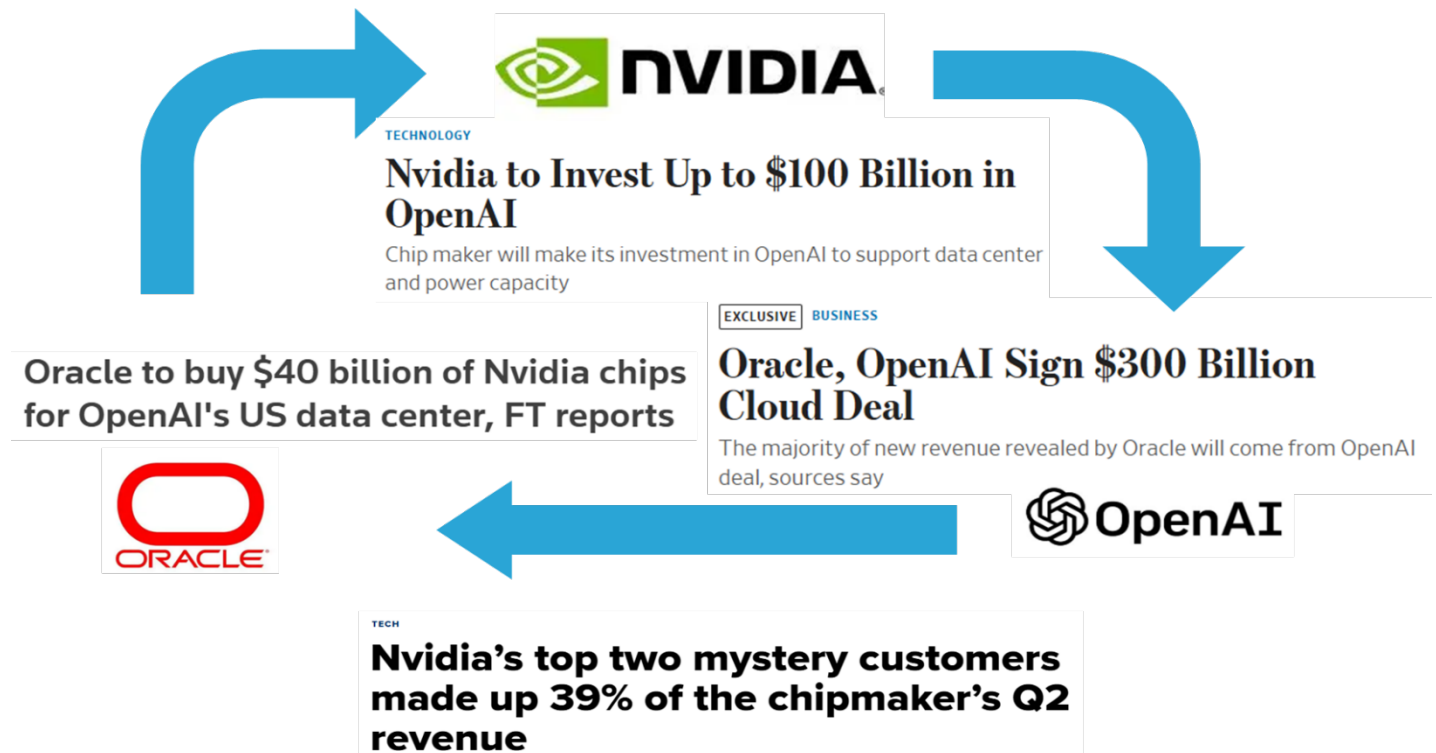


Source: FactSet, SEI. As of 11/20/2025.

Since then, their performance has been very mixed. Meta has endured a 25% slide in price since mid-August. The company's very aggressive capital spending plans obviously have not sat well with investors. But, even following this latest downdraft, the stock price has risen 390% since January 2023. The other big spenders have held up better. Alphabet even managed to climb to a new all-time high on November 19; it is now the second-best performer over the entire period, up a cumulative 230%. By comparison, the S&P 500 Index's price return has been a cumulative 70%. We view the Four Horsemen as the most important players in the search for digital gold. Nvidia, not depicted, has profited handsomely from this figurative gold rush by providing the miners with picks and shovels (the world's most advanced semiconductors). Its stock soared nearly 1,140% from January 2023 through October 20.

The immense expenditures that are being incurred on the buildout of data centers and the training of large language models is worrisome given the uncertain timing and magnitude of the payoff of these investments. Nonetheless, equity investors still seem generally willing to give the hyperscalers the benefit of the doubt. Earnings growth remains phenomenal and there is a tsunami of money that keeps flooding the sector. Nvidia's blowout third-quarter earnings announcement underscores the fact that demand for chips remains voracious. The company's cumulative net operating cash flow over the four quarters ended October 26 was an astounding \$83 billion. There is plenty of firepower to maintain the circular financing highlighted by Chief Investment Officer Jim Smigiel in his latest SEI Forward commentary.

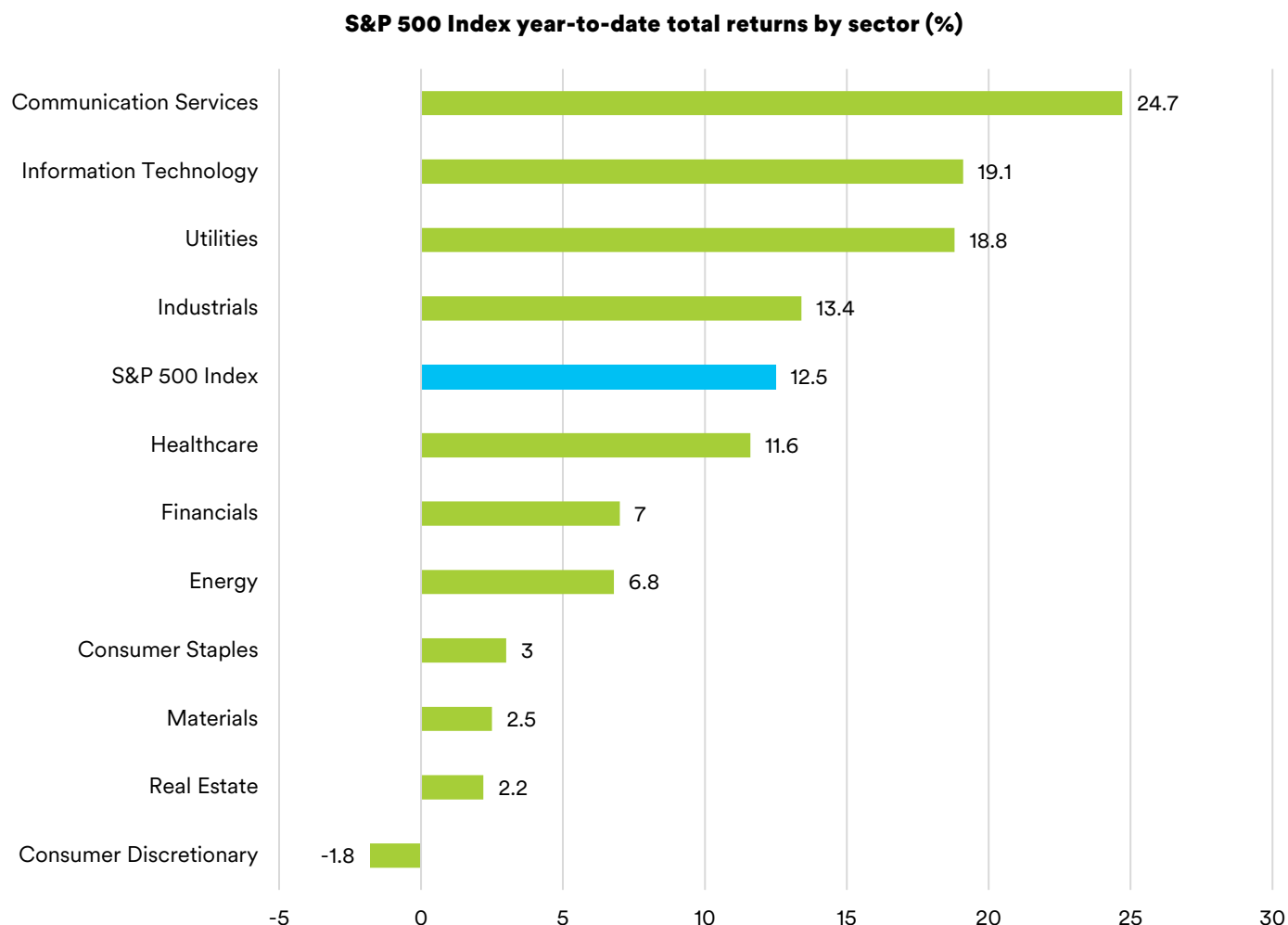
Exhibit 2: Around, around we go...



Source: Wall Street Journal, Reuters, CNBC articles released between May 23, 2025 and September 22, 2025.

In the meantime, other sectors of the S&P 500 Index have registered decent results, which we show in Exhibit 3. Although the information technology and communication services sectors are leading the way, utilities and industrials have notched year-to-date total returns of 18.8% and 13.4%, respectively, through November 20th. The latter two sectors have participated in the AI boom to some extent—the electrical grid needs to be revamped to handle the load of the data centers, and lots of construction equipment and industrial supplies must be employed to build those centers. Elsewhere, healthcare names have appreciated 11.6%, although this lags the S&P 500 Index's overall performance. Energy and financials are both up about 7%, which would look adequate in a normal year, but is rather pedestrian in this year's market environment.

Exhibit 3: It's not all tech.

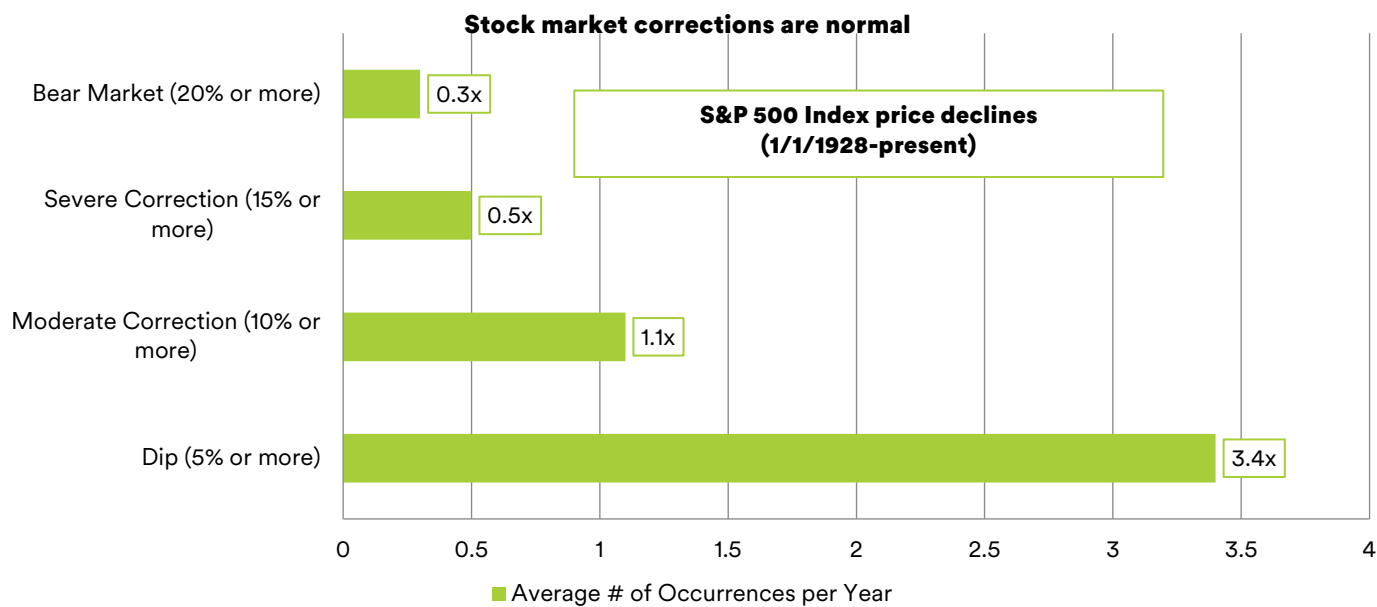


Source: FactSet, SEI. As of 11/20/2025. Index returns are for illustrative purposes only, and do not represent actual performance of an SEI Fund. Index returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

So how much more corrective activity should we expect? History provides the odds. Exhibit 4 highlights the frequency of stock market corrections since 1928. Dips of at least 5% are a dime a dozen—they occur on average 3.4 times per year. Moderate corrections of 10% or more tend to occur about once per year. Severe corrections of more than 15% come along about every two years, while a bear market averages about once every three years.

In April, the stock market endured an 18.8% peak-to-trough price decline, but the market quickly bounced back when President Trump paused his tariffs. It was a policy-induced price reaction. More serious corrections are usually associated with tightening monetary policy, signs of an impending recession, and declines in analysts' profit expectations. The 25% pullback in the S&P 500 Index between January and October 2022 was driven by such fundamental economic factors.

Exhibit 4: When the bull takes a break.



Source: Ned Davis Research, Standard & Poor's, SEI. As of 11/20/2025.

The just-ended U.S. government shutdown disrupted the flow of economic data, which has added to investor uncertainty. Economists have had to rely on alternative measures published by private trade groups and the regional Federal Reserve Banks. These surveys show some softening of labor markets and increasing stress among lower-income households. That stress now appears to be extending into the middle class. It's something to watch carefully, but the overall economy still does not exhibit a recessionary character. The sharp appreciation in equities is bolstering the wealth of more affluent households while the boom in AI-related capital spending is contributing meaningfully to overall gross domestic product (GDP) growth.

In SEI's opinion, monetary policy is not tight and further rate cuts are on the horizon, although observers are no longer certain that another cut will occur this year. In any event, it is clear the policymakers at the central bank either believe that labor-market conditions justify further easing despite elevated inflation or at least are taking a balanced view of the situation. The fight against inflation is on pause.

As for earnings, equity analysts have been raising their year-ahead estimates on the heels of strong third-quarter corporate performances. Granted, stock valuations remain elevated and there seems to be little margin for disappointment. Fortunately, there is no need to pile into the most expensive stocks at a time when other parts of the market not only provide more value but also seem to be beneficiaries of the continuing economic expansion. At this point, we would venture to say that the stock-market correction will turn out to be mild or moderate. Only about 31% of stock-market dips turn into moderate corrections or something worse. Having a well-diversified portfolio with a focus on rewarded risk factors across size and geographies should limit the impact of the market's potential volatility.

GLOSSARY AND INDEX DEFINITIONS

For financial term and index definitions, please see:

<https://www.sei.com/ent/imu-communications-financial-glossary>

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