

Thinking Out Loud



A Splash Of Cold Water

11/21/2025

U.S. financial markets face an inflection point as the Federal Reserve navigates conflicting signals between a resilient but bifurcated economy and emerging structural constraints across labor markets and AI infrastructure. The S&P 500's 5.1% decline from its October peak and the Nasdaq's 7.8% pullback reflect growing investor anxiety over policy uncertainty, AI valuation sustainability, and delayed government data releases that obscure economic visibility. While NY Fed President Williams' dovish pivot has lifted December rate cut probabilities to 65-70%, the deeply divided FOMC faces its most fractured governance challenge since the 1970s, with multiple dissents likely regardless of the policy decision.

The economic landscape presents stark contradictions that complicate both monetary policy and investment strategy. September payrolls surprised at 119k versus the 50k consensus, yet persistent negative revisions and rising continuing claims at 1,974k—the highest since November 2021—reveal underlying labor market weakness concentrated among younger workers and small businesses. This "low fires and low hires" dynamic coincides paradoxically with robust GDP growth, suggesting productivity gains that should support corporate earnings despite employment softness. Meanwhile, the K-shaped recovery continues with affluent households maintaining spending while lower-income segments face mounting pressure from borrowing costs, insurance premiums, and housing expenses.

Critical structural shifts are reshaping market dynamics beyond traditional cyclical patterns. AI infrastructure development has hit an unexpected bottleneck—not in semiconductor supply but in electricity and grid capacity, with interconnection queues extending to 2027-2028. This constraint has triggered massive capital reallocation, exemplified by Brookfield's \$10 billion platform¹ targeting up to \$100 billion in power infrastructure deployment. Simultaneously, the AI (circular) investment cycle faces growing skepticism as the top five infrastructure spenders raised \$108 billion in debt² in 2025. Market leadership rotation from megacap AI toward value, financials, and industrials reflects this recalibration of growth expectations.

Looking forward, markets must navigate multiple near-term catalysts that could either validate or invalidate current valuations. The December 16th release of delayed October and November payroll data will follow the Fed's December 10 decision, which is less than optimal. Further, the January 30's fiscal deadline threatens renewed shutdown risks amid excluded ACA subsidies that could spike healthcare premiums in early 2026. Credit market bifurcation—with investment-grade resilience contrasting against narrowing high-yield windows—and repo rates near stress levels despite Fed easing signal underlying financial system tensions. Historical patterns suggest November corrections often resolve positively into year-end, with the S&P typically gaining 3-4% from Thanksgiving through December when entering the holiday period with negative momentum, though the convergence of structural challenges and policy uncertainty may extend volatility into early 2026.

We'd love to hear your thoughts.

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¹ Brookfield Is Raising \$10 Billion for New AI Infrastructure Fund ([WSJ](#))

² Big Tech's Debt Binge Raises Risk in Race to Create an AI World ([Yahoo Finance](#))

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