TJT CAPITAL GROUP
REGISTERED INVESTMENT ADVISOR

On Our Radar – November 2025

U.S. equity indices continued their climb in October, setting yet another round of record highs despite the ongoing government shutdown and trade tensions with China. Gold surged past $4,300 per ounce, marking a gain of more than 50 percent year-to-date and handily outperforming equity markets, while oil prices have traded in a range roughly between $58 and $70 a barrel over the past few months.

The Federal Reserve cut interest rates by a quarter of a percentage point, signaling a more neutral policy stance. Corporate earnings have generally been solid, adding support to market sentiment. On the geopolitical front, the first phase of a cease-fire in the Middle East, which is intended to end the two-year conflict, was viewed as meaningful progress. Still, volatility ticked up in the month as headlines surrounding U.S. – China trade negotiations hit social media.

The U.S. government shutdown has now stretched into day 34, heightening concerns about the economy's overall health as millions of federal employees continue to miss paychecks. Reports of rising bankruptcies and loan delinquencies have added to worries about leverage in segments of the credit market and the potential stress on regional banks.

Gold remains in a powerful uptrend, buoyed by mounting central bank demand. Policymakers around the world appear increasingly uneasy about the U.S. dollar's long-term status as a reserve currency amid growing geopolitical uncertainty. Moreover, the weaponization of dollar-based sanctions — including the freezing of foreign reserves and limits on financial access — has underscored gold's appeal as a non-counterparty asset that cannot be seized or restricted in the same way as dollar holdings.

TJT Capital Group's InVEST Risk Model ® has helped our clients participate in bull markets and protect capital from the devastation of bear markets by focusing on 5 indicators that really matter when it comes to determining the health and direction of markets. The following is the most recent update.

Interest Rates (Monetary Policy)

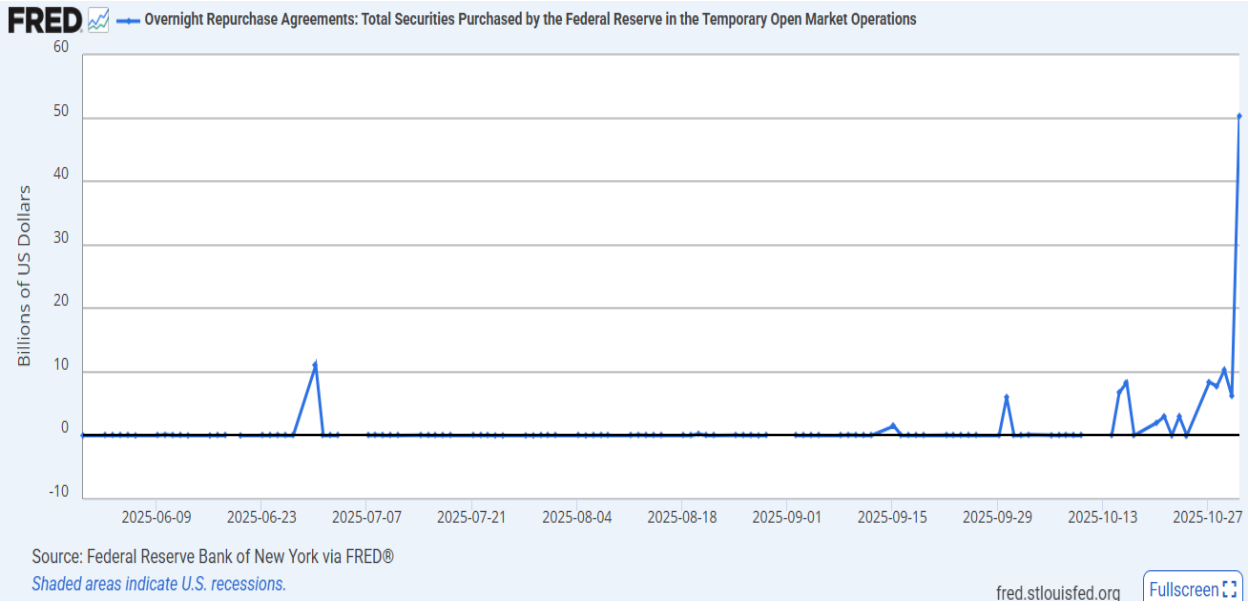
The Federal Open Market Committee (FOMC) voted to cut the federal funds rate by 25 basis points (0.25%), setting a new target range of 3.75 percent to 4.00 percent. In addition, the Fed announced plans to end the selling of bonds from its balance sheet on December 1, 2025.

Chairman Jerome Powell described the rate cut as a risk-management maneuver, noting that policymakers face two-sided risks: inflation that remains somewhat sticky on one hand, and rising downside risks to employment on the other. He stressed that a further rate cut in December is not a foregone conclusion, pointing out that the Committee was divided—with one member favoring a half-point reduction and another preferring to hold rates steady—amid heightened uncertainty from the ongoing government shutdown and the lack of official economic data.

Powell also highlighted the growing bifurcation in the U.S. economy—with lower-income consumers curbing spending while higher-wealth households continue to drive consumption. That uneven dynamic has raised questions about the underlying strength of the consumer sector.

Recent bankruptcies, including auto-parts manufacturer First Brands and subprime auto lender Tricolor Holdings, have further fueled concerns about potential vulnerabilities in the credit markets. J.P. Morgan CEO Jamie Dimon made a telling remark saying “when you see one cockroach, there’s probably more.” This was after the bank reported a $170 million charge tied to Tricolor’s losses.

Meanwhile, signs of strain have appeared in short-term funding markets, particularly the repo (repurchase agreement) market, which serves as the backbone of daily liquidity for financial institutions. An overnight repo functions as a one-day collateralized loan — a key mechanism for managing short-term funding safely. However, on October 31, 2025, the total amount of overnight repos surged above $50 billion, as shown in the adjacent chart. While this may reflect an end-of-month balance sheet adjustments, it could also indicate growing stress in the financial system’s plumbing—a development the Fed will be watching closely.



Valuation

As the year draws to a close, the stock market—being forward-looking—is already focusing on calendar-year 2026 earnings. For the S&P 500, current estimates are around $302 per share, which places the index at roughly 22.6 times forward earnings. This valuation sits above what would typically be considered fair value. While that alone may not be cause for concern, investors should recognize that elevated valuations come with elevated expectations. Any shortfall in earnings or guidance could serve as a catalyst for a market reassessment of current valuations.

Economic Cycle

Although much of the official government data remains delayed, private-sector indicators continue to provide insight into the economy's condition. The picture remains bifurcated as higher-income, asset-owning consumers are faring relatively well, while lower-income households are strained by inflation and a softening labor market. The Conference Board's Consumer Confidence Index slipped one point to 94.6, and the ISM Manufacturing Index registered 48.7 in October, with a below-50 reading signaling contraction.

Treasury Secretary Scott Bessent warned that the housing sector is "effectively in a recession," urging the Fed to cut rates further to reduce mortgage costs and revive activity.

Despite the shutdown, the Bureau of Labor Statistics (BLS) managed to release the September Consumer Price Index (CPI), showing a 0.3 percent monthly increase and a 3.0 percent year-over-year rise. The BLS had collected sufficient data before the shutdown began, allowing the release to proceed, which ensured that the government could calculate the annual cost-of-living adjustment (COLA) for Social Security recipients.

Sentiment

When it comes to investor sentiment, history shows it can serve as a useful contrarian indicator. In other words, when sentiment becomes too one-sided, it often signals that the market may be due for a change. Typically, this imbalance reflects excessive optimism. However, when the percentage of bearish investors drops to unusually low levels, it suggests growing complacency. That appears to be the case recently, with bearish sentiment falling below 14 percent—the lowest reading in more than seven years. While this statistic alone may not be alarming, when combined with elevated valuations and a strong market rally, it generally signals that investors should proceed with greater caution and diligence.

Technical Factors

Technical factors provide valuable insight into what's happening beneath the surface of the market—beyond the headlines and the performance of the major indices. For instance, analysts often look at the number of advancing versus declining stocks, as well as the ratio of stocks hitting new 52-week highs compared to those making new lows. Another key measure is the percentage of stocks trading above their 50-day moving average. Recently, that figure has fallen from over 70 percent in late August to below 40 percent in early October. From a technical standpoint, this suggests underlying weakness in the broader market—weakness that may be obscured by the strength of the major indices.

Outlook

Volatility spiked in early October after President Trump threatened to impose 100 percent tariffs on Chinese imports in response to reports that China might restrict exports of rare earth minerals — vital inputs for everything from laptops to electric vehicles to missile systems. China

currently refines about 90 percent of global rare earth capacity, a complex and environmentally intensive process.

Within days, Trump's tone shifted from declaring that the U.S. and China were "in a trade war" to saying, "Don't worry about China." Following meetings between President Trump and President Xi Jinping in Asia, the two countries announced a new trade agreement that includes:

- Suspension of reciprocal tariffs on Chinese imports until November 10, 2026.
- A commitment from China to purchase at least 12 million metric tons of U.S. soybeans in the final two months of 2025 and 25 million tons annually for the next three years.
- A 10 percentage-point reduction in tariffs on certain Chinese imports aimed at curbing fentanyl flows, effective November 10, 2025.
- A pause on Chinese restrictions involving rare-earth magnets, in exchange for a rollback of expanded U.S. curbs on Chinese firms.

While this was widely viewed as positive progress, the Supreme Court is scheduled to hear oral arguments on November 5, 2025, on the legality of former President Trump's earlier tariffs—a decision that could have significant implications for trade policy and U.S. fiscal dynamics.

At the same time, uncertainty surrounding the upcoming elections and the prolonged government shutdown continues to weigh on sentiment. Further, President Trump's public suggestion of providing Tomahawk cruise missiles (via NATO allies) capable of striking targets inside Russia has drawn sharp warnings from the Kremlin, which called such a move "highly escalatory."

One of the defining forces behind U.S. equity performance this year has been the surge in artificial intelligence (AI) investment. The five largest technology firms have collectively committed an estimated $400 billion to AI infrastructure. While semiconductors have captured most of the attention — and capital — the real constraint ahead may be energy supply, as data centers require enormous amounts of power. The availability and cost of electricity could become a bottleneck for future AI expansion.

Still, rapid technological adoption carries risks. Reports suggest that roughly 800,000 layoffs so far this year are tied to AI-driven automation. Leaked internal documents from Amazon reportedly revealed a long-term goal of automating up to 75 percent of operations. Whether accurate or not, such projections underscore the profound potential of AI to reshape employment dynamics.

As Alphabet (Google) co-founder Larry Page reportedly told colleagues, "I'm happy to go bankrupt rather than lose this race." That mindset—fueled by enormous capital commitments—has propelled valuations to lofty levels. Margin debt has climbed more than 30 percent in just six months, a clear signal of market optimism. Yet, market breadth has narrowed, with fewer stocks participating in the advance, and cash balances at many funds have fallen near multi-year lows.

With valuations stretched and leverage rising, expectations are high. Any earnings disappointments or policy surprises could prompt swift unwinding of leveraged positions, leading to sharper volatility ahead. (11.4.25)