



Market Commentary

Portfolio Management: Diversification and Valuation

November 2025

One of our recurring themes is that innovation is the long-term engine of both economic progress¹ and financial market appreciation. It is the reason humanity enjoys the highest standard of living in history, and it is the reason that, despite countless cycles of fear and euphoria, financial markets have marched upward over decades. When people invent, experiment, and build, quality of life increases. Wealth follows.

Given that thesis, it is reasonable to expect markets to rise over the long run.

But, and here's the uncomfortable part, valuations do not always follow innovation in a neat, orderly line. In fact, they very often get ahead of themselves. Exuberance creeps in, capital becomes plentiful, and the market begins rewarding *stories* instead of *earnings*. That is not a criticism; it is merely a statement of how human psychology operates when optimism is high and money is cheap.

The cycle of:



...repeats because human psychology repeats. Understanding this helps us avoid the trap of believing "this time is different."

We're excited to announce that [Fountainhead AM](#) Rebranded to [Obsidian CIO](#) Following Sale of Sister Company!

¹ Just last month we highlighted the winners of the most recent Nobel prize in economics: [Market-Commentary-2025.10.pdf](#)

The tricky part is timing any of this. Consider last year: valuations were already near the top of historical ranges for the S&P 500 as can be seen in the chart below (circled in red). And yet, markets put in a remarkable performance. Why? Valuation multiples didn't expand — companies legitimately grew their earnings per share. Fundamentally, the market became more valuable.

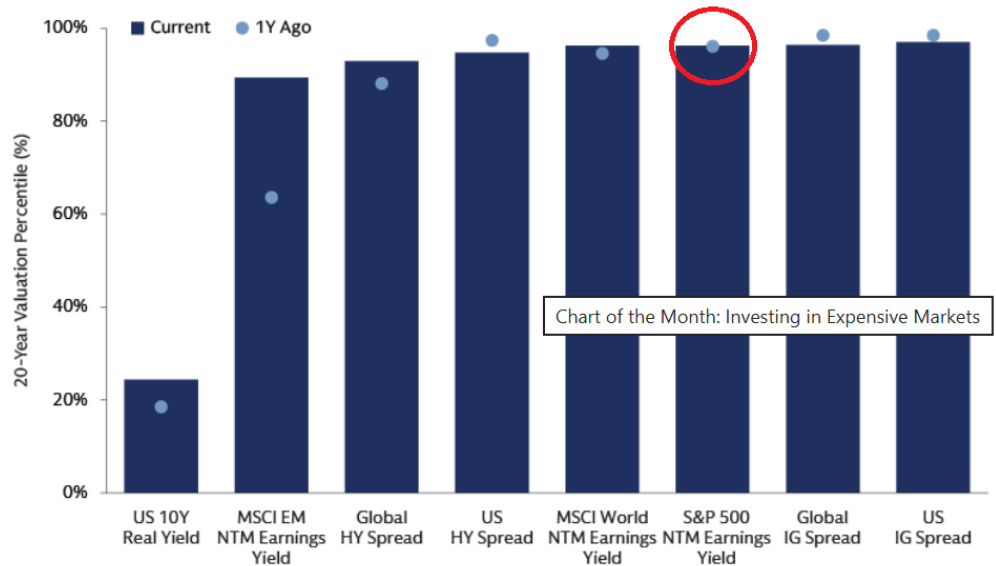
This is a pattern we've seen before: high valuations can persist if the underlying economy is innovating and growing into them.

However, exuberance has another characteristic: it tends to mask weakness. When markets move steadily higher, it becomes easy for mediocre companies to hide in the shadows. Capital is available even to the not-so-good. Fraud has an uncanny ability to stay buried. And then, seemingly all at once, bad news begins to cluster — earnings slow, then flatten, then decline. Capital dries up.

The market starts repricing everything: weaker companies lose access to funding; valuation premiums reset; and outright fraud finally gets exposed.

This is the part of the cycle everyone hates. But it is also the part that sets up the next leg of growth.

Chart of the Month: Investing in Expensive Markets



Source: Bloomberg and Goldman Sachs Asset Management. As of November 28, 2025. Valuation percentiles are since 2005, earliest common inception.

² [US Market Pulse December 2025 - Goldman Sachs Asset Management](#), The focus is on how equity valuations were near historical highs last year (light blue dot in red circle), yet current valuations are the same despite the market increasing roughly 17% over the time period. Last year, companies increased valuation through increased earnings. For those interested: IG = Investment Grade and HY = High Yield, both relating to investment grade and the “spread” is the yield over the risk-free rate (US Treasury) for taking on the risk of those product classes.

As the weak are cleared out, value buyers step in. Government eases credit through buying up assets, lowering rates, and generally finding ways to spur consumers (given we are a consumer driven economy!). Capital becomes more discerning. And importantly, innovation doesn't stop — it continues anew, now supported by capital that is flowing more intelligently. The system becomes healthier. The exuberance is gone, but the foundation is stronger.³

Right now, two debates dominate investor psychology:

1. AI — Is It Really Everything It's Cracked Up to Be?

Enormous amounts of capital have flooded into the AI ecosystem – in fact, some believe that GDP would be flat in its absence.⁴ Valuations in certain pockets appear enthusiastic. We have discussed our concerns on this front,⁵ highlighting some of the seemingly circular deals among many of the AI leaders.

But the counterpoint is difficult to dismiss: the upside is dramatic. AI genuinely has the potential to reshape productivity across industries. Historically, major technological shifts are both wonderful and painful. They create spectacular wealth *and* short-term distortions.

Odds are we will see a misstep — maybe a large one — that punishes markets. But predicting the “when” is nearly impossible. Recall: last year many AI-adjacent companies were considered overvalued, yet fundamentals improved enough to justify their pricing. Exuberance can last longer than seems reasonable.

2. Private Credit — Too Much Demand, Too Little Supply?

Private credit has grown nearly **10x** over the past couple of decades.⁶ Much of this is simply replacing syndicated loans and other forms of bank lending — meaning the growth is not as systemically risky as headlines sometimes suggest.

But excess always finds a home. Today investors need to watch out for:

- Lower underwriting standards

³ One of our Investment Wars guests, Paul Musson, believes that the government is in fact too aggressive in maintaining a positive market, which hurts the younger generation and the general health of the market. This is a worthwhile listen: [33. Interest Rates and Economi... - Investment Wars - Apple Podcasts](#)

⁴ [How the U.S. Economy Became Hooked on AI Spending - WSJ](#)

⁵ [Market-Commentary-2025.10.pdf](#)

⁶ A great read on the Alternative space: [Eye on the Market](#)

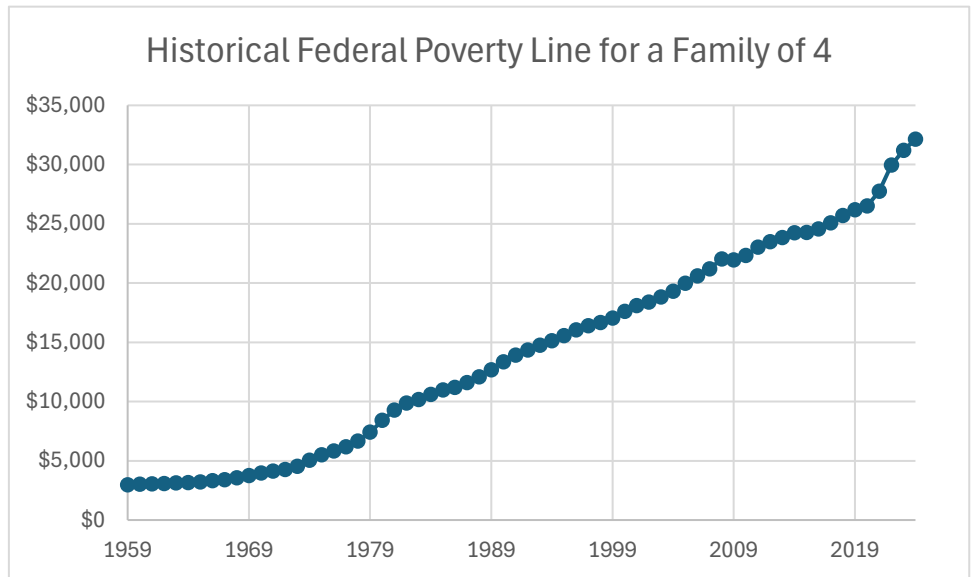
- Too much capital chasing too few quality deals
- Investors believing they are being compensated for risks that may not be fully visible

Is private credit still a good investment? Probably, given the right structure and manager. But like any rapidly growing asset class, it carries the potential for hidden fragility.

Deep Thought: Poverty Line Debates and Implications: \$32K or \$140K?

A recent article by asset manager Mike Green, claiming that the US poverty line should be closer to \$140,000 ⁷ rather than the official, \$32,150 for a family of four⁸ has resulted in huge debate among writers on Substack. Mike Green took umbrage at the simple poverty line calculation of multiplying the cost of a minimum food diet by three. That does sound quite ridiculous. Mike went through the trouble of estimating a budget in coming to his conclusion that \$140,000 was a more realistic estimate.⁹

Many on Substack, including Noah Smith writing as noahpinion¹⁰, take a number of issues with Mike’s calculations – inclusive of the fact that food has become much cheaper relative to income.



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⁷ [Why Do Americans Feel Poor? Because They Are.](#)

⁸ [Poverty Guidelines | ASPE](#)

⁹ [Part 1: My Life Is a Lie - by Michael W. Green](#)

¹⁰ https://www.noahpinion.blog/p/the-140000-poverty-line-is-very-silly?utm_source=%2Fsearch%2Fnoahpinion&utm_medium=reader2 – Noah Smith is one of my favorite authors on Substack

¹¹ US Census: https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-poverty-people.html#par_list

The debate is quite worthwhile for a number of reasons:

- It is an important debate touching on how many Americans feel left behind, which affects our politics, state of the nation, economic well-being and financial markets.
- Both authors bring up great statistics and trends that highlight both positive and negative characteristics affecting lower income families. For instance, the fact that fewer Americans than ever are food insecure is a positive (Noah Smith). Or, “the valley of death” highlighted by Michael Green, where there are multiple obstacles in the way of the upwardly mobile, low-income family.
- The debate illustrates how difficult it is to actually measure complex concepts in the economy. I believe both authors are acting in good faith and yet pull on many disparate, and presumably accurate, measurements in supporting their argument. Imagine the possible outcomes with those who are not so honest in their debate, or their marketing.

We highlighted a similar theme in our Deep Thought in May 2025 titled the Inequality Myth - [Market-Commentary-2025.5.pdf](#) – which highlighted that after-tax income for the bottom 50% has actually increased dramatically due to more government assistance.

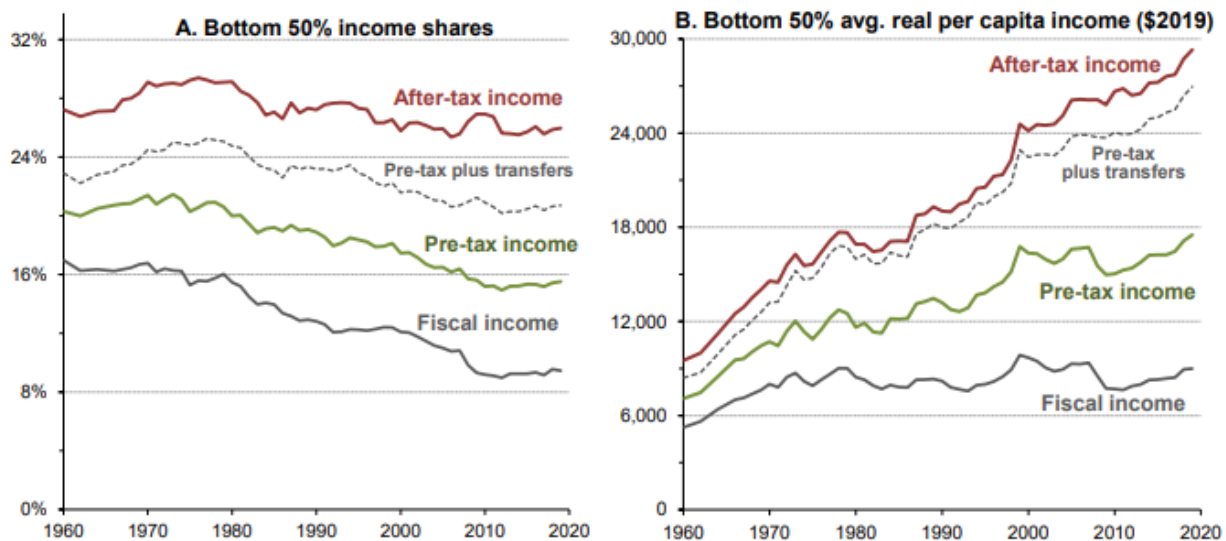


Figure 4: Bottom 50% income shares and average per capita real incomes

Notes: Fiscal income excludes capital gains. Real incomes are indexed by the PCE. Sources: Authors' calculations.

So Where Does This Leave Us?

In the long run, we believe that innovation remains the dominant force, which means the long-term trajectory of markets should remain upward, albeit with volatility, setbacks, and the occasional gut-check.

In the shorter run, exuberance can continue. It always continues longer than valuation models say it "should." For a variety of reasons, inclusive of exuberance, fear of missing out (FOMO), and continued capital flows.

In summary:

- We expect a long-term upward march driven by innovation.
- Exuberance can persist longer than logic would suggest.
- Eventually, markets reset — cleaning out the weak, exposing fraud, and clearing room for the next expansion.
- Today's debates (AI valuations, private credit growth) fit neatly within this long historical pattern.
- And the answer to navigating uncertain environments is what it has always been: **diversification**, applied thoughtfully across exposures and strategies to align with the client's objectives.

Diversification isn't exciting, but it works. It allows portfolios to participate in innovation while being resilient to those periods where exuberance unwinds.

That combination — optimism about innovation, humility about timing, and discipline in construction — is what gives long-term portfolios the best chance of success.

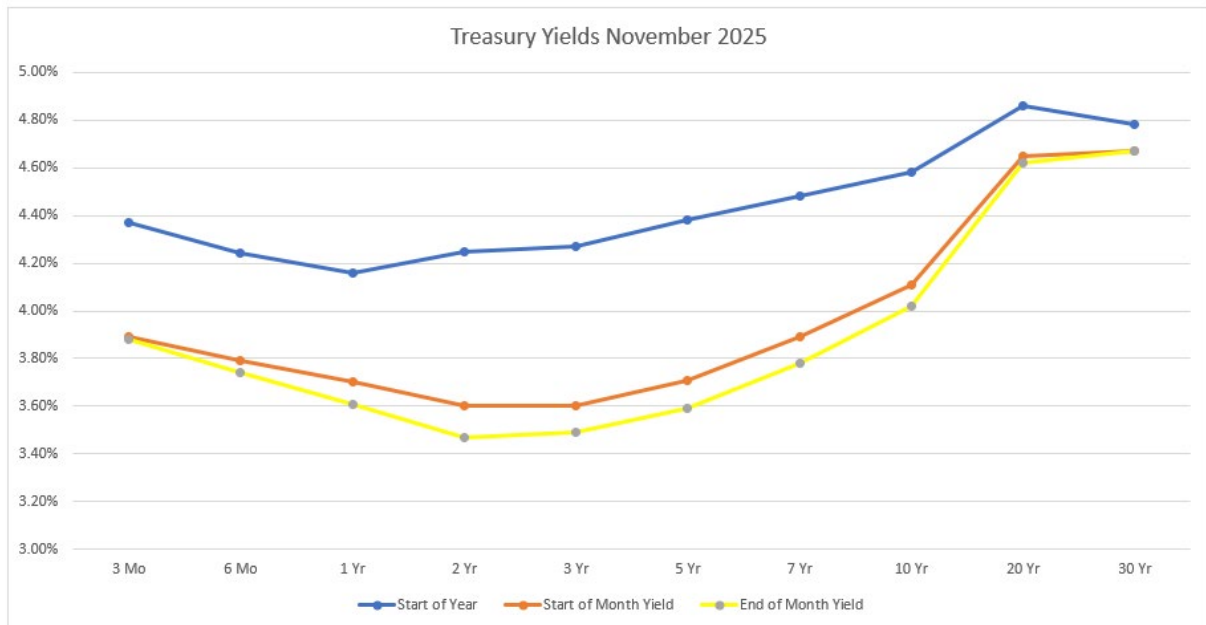
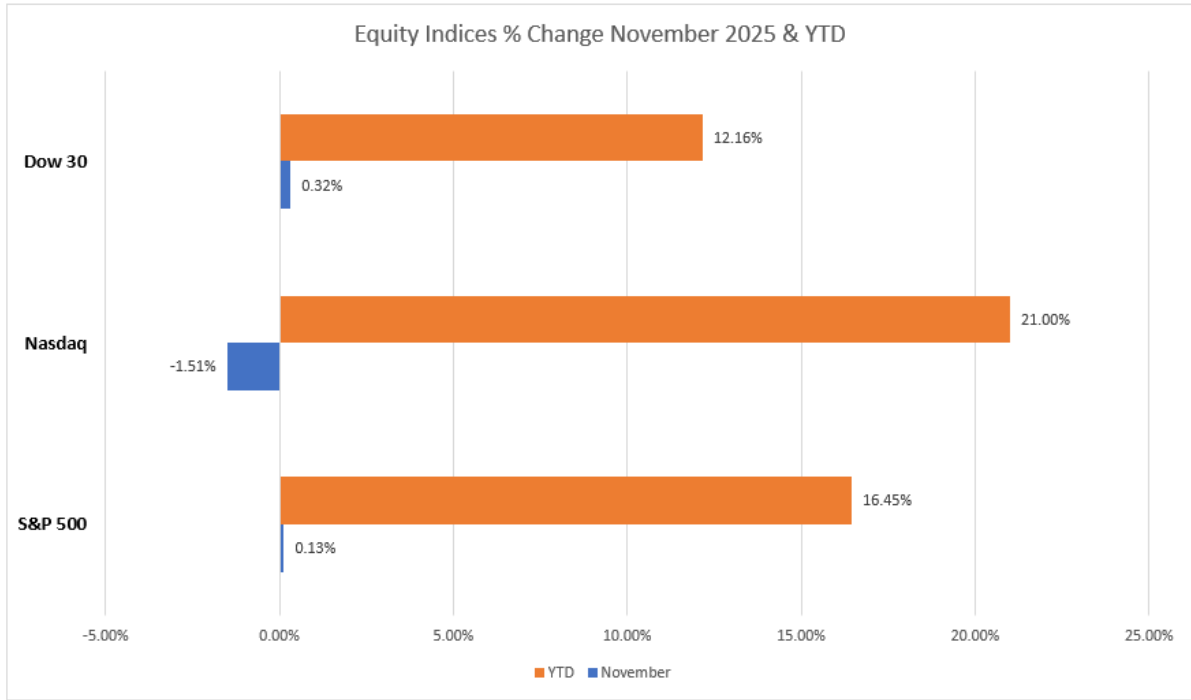
Talking Points – November 2025

Monthly Market Recap

Equities finished November mixed, while yields fell from last month's levels. The recent AI driven rally in equity markets stalled out this month as markets grew concerned that valuations had become stretched.

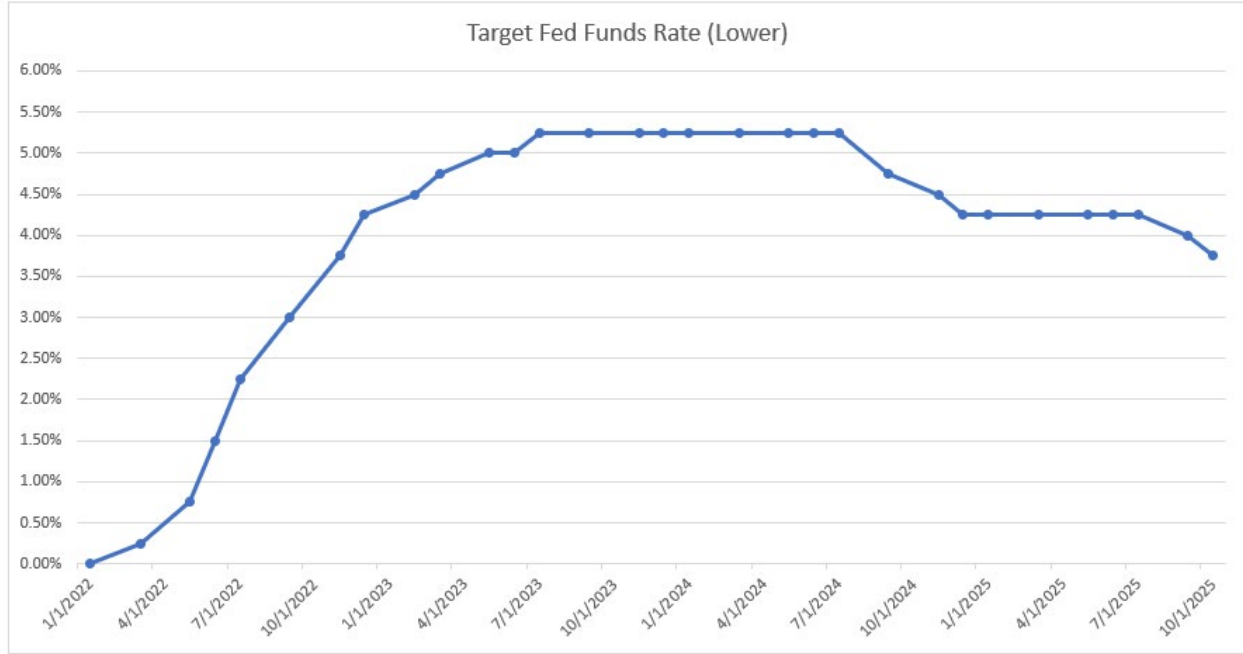
Much of the choppy performance in equities can be attributed to markets easing up on the AI trade. Investors de-risked their portfolio's, selling growth stocks and cryptocurrencies, which fell close to 20% for the month, and shifting into risk-off products, namely gold, US treasuries, and money market. Due to the government shutdown, markets only received some of the labor market data that was set to be released and no inflation data. Despite some uncertainty at the beginning of the month, the expectation was that the Fed would cut rates by 25 bps at its meeting in December.

Graphs/Visuals



Fed Interest Rate Decisions Since Start of Hiking Cycle

FOMC Meeting Date	Hike/Cut	Target Fed Funds Rate (Lower)	Target Fed Funds Rate (Upper)
<i>Start of 2022</i>	-	<i>0.00%</i>	<i>0.25%</i>
3/16/2022	0.25%	0.25%	0.50%
5/4/2022	0.50%	0.75%	1.00%
6/15/2022	0.75%	1.50%	1.75%
7/27/2022	0.75%	2.25%	2.50%
9/21/2022	0.75%	3.00%	3.25%
11/2/2022	0.75%	3.75%	4.00%
12/14/2022	0.50%	4.25%	4.50%
2/1/2023	0.25%	4.50%	4.75%
3/22/2023	0.25%	4.75%	5.00%
5/3/2023	0.25%	5.00%	5.25%
6/14/2023	0.00%	5.00%	5.25%
7/26/2023	0.25%	5.25%	5.50%
9/20/2023	0.00%	5.25%	5.50%
11/1/2023	0.00%	5.25%	5.50%
12/13/2023	0.00%	5.25%	5.50%
1/31/2024	0.00%	5.25%	5.50%
3/20/2024	0.00%	5.25%	5.50%
5/1/2024	0.00%	5.25%	5.50%
6/12/2024	0.00%	5.25%	5.50%
7/31/2024	0.00%	5.25%	5.50%
9/18/2024	-0.50%	4.75%	5.00%
11/7/2024	-0.25%	4.50%	4.75%
12/18/2024	-0.25%	4.25%	4.50%
1/29/2025	0.00%	4.25%	4.50%
3/19/2025	0.00%	4.25%	4.50%
5/7/2025	0.00%	4.25%	4.50%
6/18/2025	0.00%	4.25%	4.50%
7/30/2025	0.00%	4.25%	4.50%
9/18/2025	-0.25%	4.00%	4.25%
10/29/2025	-0.25%	3.75%	4.00%



Probability of Upcoming Fed Interest Rate Decisions							
11/28/2025 December	Hike 0.00%	Hold 13.10%	Cut 86.90%	Hike 25bps 0.00%	Cut 25bps 86.90%	Cut 50bps 0.00%	Cut 75bps 0.00%

Highlights/Notes

Highlight: The recent AI driven rally in equity markets stalled this month as markets grew concerned that valuations had become stretched. The expectation was that the Fed would cut rates by 25bps at its next meeting in December.

FAM Sentiment Summary 2025:

2025	January	February	March	April	May	June	July	August	September	October	November
Fed	Mildly Bearish	Mildly Bearish	Mildly Bullish	Mildly Bearish	Mildly Bullish	Neutral	Neutral	Mildly Bullish	Mildly Bullish	Mildly Bearish	Neutral
Interest Rate Decisions	Neutral	Neutral	Mildly Bullish	Neutral	Mildly Bullish	Neutral	Neutral	Neutral	Bullish	Neutral	Neutral
Commentary	Mildly Bearish	Mildly Bearish	Mildly Bullish	Bearish	Mildly Bullish	Neutral	Mildly Bearish	Bullish	Mildly Bullish	Bearish	Mildly Bullish
Economic Data	Mildly Bearish	Mildly Bearish	Mildly Bearish	Mildly Bearish	Neutral	Mildly Bullish	Mildly Bearish	Mildly Bearish	Neutral	Neutral	Neutral
Inflation	Mildly Bearish	Mildly Bearish	Mildly Bearish	Bullish	Mildly Bullish	Bullish	Mildly Bearish	Mildly Bearish	Bullish	Bullish	Neutral
Employment/Labor Market	Bearish	Mildly Bearish	Mildly Bullish	Mildly Bullish	Mildly Bullish	Mildly Bullish	Bearish	Bearish	Neutral	Neutral	Neutral
GDP	Mildly Bullish	Neutral	Mildly Bearish	Mildly Bearish	Mildly Bearish	Neutral	Neutral	Mildly Bullish	Neutral	Neutral	Neutral
Consumer Spending	Neutral	Mildly Bearish	Bearish	Neutral	Mildly Bearish	Neutral	Mildly Bullish	Neutral	Neutral	Neutral	Neutral
Consumer Sentiment	Neutral	Bearish	Bearish	Bearish	Neutral	Neutral	Mildly Bullish	Neutral	Mildly Bearish	Neutral	Mildly Bearish
Housing/Real Estate	Mildly Bearish	Mildly Bearish	Mildly Bullish	Neutral	Neutral	Neutral	Mildly Bearish	Neutral	Neutral	Neutral	Neutral
Global Events/News	Mildly Bearish	Neutral	Mildly Bearish	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral
China	Bearish	Neutral	Neutral	Mildly Bearish	Mildly Bullish	Mildly Bullish	Neutral	Neutral	Neutral	Mildly Bullish	Mildly Bullish
Europe	Mildly Bearish	Neutral	Mildly Bearish	Neutral	Mildly Bearish	Neutral	Mildly Bullish	Mildly Bullish	Mildly Bullish	Neutral	Neutral
Japan	Neutral	Mildly Bearish	Neutral	Neutral	Neutral	Neutral	Mildly Bullish	Neutral	Neutral	Mildly Bullish	Neutral
Middle East	Neutral	Neutral	Mildly Bearish	Neutral	Mildly Bullish	Mildly Bullish	Neutral	Neutral	Neutral	Neutral	Neutral
Russia/Ukraine	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Mildly Bearish	Bearish	Mildly Bearish	Mildly Bearish	Neutral
US Politics/Government	Neutral	Bearish	Bearish	Bearish	Mildly Bullish	Mildly Bullish	Mildly Bullish	Mildly Bullish	Neutral	Mildly Bullish	Mildly Bullish
Tariffs	Bearish	Bearish	Bearish	Bearish	Neutral	Mildly Bullish	Mildly Bullish	Mildly Bullish	Neutral	Mildly Bullish	Mildly Bullish
US/China Trade War	n/a	n/a	n/a	Bearish	Bullish	Bullish	Mildly Bullish	Bullish	Mildly Bullish	Mildly Bullish	Mildly Bullish
Economic Policy	Bullish	Neutral	Neutral	Neutral	Mildly Bearish	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral
Market Trends	Mildly Bullish	Neutral	Mildly Bearish	Neutral	Neutral	Neutral	Mildly Bullish	Neutral	Mildly Bullish	Mildly Bullish	Mildly Bearish
Earnings	Bullish	Mildly Bullish	Bearish	Mildly Bullish	Neutral	Neutral	Mildly Bullish	Mildly Bearish	Bullish	Mildly Bullish	Bullish
AI/Chips	Mildly Bullish	Mildly Bullish	Neutral	Mildly Bearish	Neutral	Mildly Bullish	Mildly Bullish	Mildly Bullish	Bullish	Bullish	Mildly Bearish
Crypto	Mildly Bullish	Bearish	Mildly Bearish	Neutral	Mildly Bullish	Neutral	Mildly Bullish	Neutral	Neutral	Neutral	Bearish

Noteworthy Details:

- Fed Commentary – Bearish to Mildly Bullish
 - Commentary from Fed officials heading into the month indicated that a rate cut was “far from certain.” This shifted throughout the month as officials came out in support of another cut to close out 2025.
- AI/Chips – Bullish to Mildly Bearish
 - The AI fueled rally in equities stalled out this month as concerns over stretched valuations surfaced.
- Crypto – Neutral to Bearish
 - The price of bitcoin took a big hit this month – trading below 81k at certain points.

Key Topics/Items from Below:

- **BEARISH**
 - The price of bitcoin dropping below 100k in the first half of the month as investors paired back their risk on exposures
 - The price of bitcoin dropping below 81k in the latter half of the month
- **MILDLY BEARISH**
 - The government shutdown setting a new record
 - The University of Michigan’s Consumer Sentiment Survey showing that sentiment had weakened by more-than-expected for the month of November (worst levels since 2022)
 - Shares of growth stocks selling off in the second half of the month due to concerns over stretched valuations related to the “AI trade”
 - The release of September’s jobs report which showed that the US added more jobs than expected but that the overall unemployment level rose to its highest level in nearly four years
- **NEUTRAL**
 - Supreme Court hearing focused on the legitimacy of the wide sweeping tariffs implemented by President Trump
 - Data released from the Commerce Department which showed that the U.S. trade deficit shrank sharply in August
 - Retail sales for the month of September coming in lower-than-expected
 - Jobs data released during the last week of the month which showed that while layoffs are not elevated, hiring has slowed – pointing to a “stagnant” labor market
 - China’s Xi initiating a call with President Trump to discuss Taiwan
- **MILDLY BULLISH**
 - The US and Uzbekistan agreeing to terms on a trade deal – in exchange for lower tariff levels, Uzbekistan agreed to invest \$35 billion into key US sectors over the next three years and \$100 billion over the next ten
 - Reports that suggested China might be willing to ease export restrictions on semiconductors used in cars in the beginning of the month

- Microsoft obtaining approval to ship Nvidia chips to the United Arab Emirates for their AI data center buildout
- The Trump administration announcing plans to review the current tariff levels on coffee and other goods from four Latin American nations (Argentina, Ecuador, El Salvador, and Guatemala)
- The US government agreeing to terms that would effectively end the record setting shutdown
- Reports that indicated that Canada is looking to restart trade negotiations with the US
- **BULLISH**
 - Amazon announcing an AI deal with OpenAI and IREN
 - The US and Switzerland agreeing to terms on a trade deal – tariffs would be lowered from 39% to 15% in exchange for Switzerland committing to a \$200 billion U.S. investment
 - New York Fed President John Williams commenting that another interest-rate cut “in the near term” could be warranted
 - The Trump administration announcing that tariffs on Brazilian agricultural imports would be reduced to 10% to address affordability concerns (beef, coffee, fruits, nuts, and spices)
 - Major US retailers posting better-than-expected earnings results and raising their guidance for the coming quarters

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