November 20, 2025

Morning Briefing

On Market Laggards,
Health Care & AI World Models

Check out the accompanying chart collection.

Executive Summary: Tech stocks, home-related stocks, and bitcoin have borne the brunt of the stock market's sell-off this month. Jackie looks at the issues that scared investors away and the particular industries and stocks they dropped as they ran. … Also: The S&P 500 Health Care sector may be where many investors fled into; it's up nearly 6% in November to date, buoyed by M&A activity and political winds. … And: World models are a new kind of AI that "gets" how the physical world works, picking up where large language models' intelligence leaves off.

Strategy: Assessing the Damage. From a top-down perspective, the recent stock market sell-off seems modest so far. The S&P 500 has fallen 3.3% in November, though it is still up 12.5% ytd through Tuesday's close. The damage is more extensive for technology-, home-, and bitcoin-related industries and stocks.

Investors recently have shunned technology stocks, repelled by their high valuations and fears about AI-related overspending. Meanwhile, interest rates--and therefore mortgage rates--have not fallen as much as expected, disappointing investors who hoped for a year-end housing market revival. And with bitcoin down 25.5% from its October 6 high, leveraged plays on the cryptocurrency have had a tough fall (*Fig. 1*).

Here's how these trends have affected related industries and stocks:

(1) *Tech troubles*. Worries about data center overbuilding have weighed on a variety of AI-related stocks. The latest industry datapoint arrived Wednesday night from Nvidia's earnings report, which beat expectations and sent its shares sharply higher in aftermarket trading. Leading into it, the S&P 500 Semiconductors industry's stock price index has fallen 9.3% so far in November, accompanied by declines in Application Software (-10.0%), Data Center REITs (-7.3%), and Semiconductor Materials and Equipment (-7.1%) (*Table 1*).

Looking at industry returns understates some of damage done to individual stocks. Super Micro Computer stock has tumbled 32.8% in November, making it the month's worst-performing stock in the S&P 500, Joe reports. Concerns about Oracle's leverage have shrunk its stock's ytd gains to a still respectable 32.3%, but that's down sharply from its 97.0% ytd gain in September. CoreWeave shares may have had the most dramatic year, rising 359.0% from its March IPO through June 20 only to give back much of that gain. It's now up 87.3% since its IPO.

(2) *Rates hit homes.* While interest rates have fallen from their highs, they remain elevated compared to post-pandemic levels. The 10-year Treasury yield has only fallen to 4.13% from its recent high of 4.50% on July 15 (*Fig. 2*). As a result, homeowners paying mortgage rates around 3% are still loathe to move, leaving the market relatively frozen. The expected thaw this fall never arrived. Home-related industries that have tumbled in November include Home Improvement Retail (-10.4%), Home Furnishings (-8.4%), and Building Products (-7.2%).

(3) *Financials flinch.* After a great start to the year, some financials stocks have lost altitude due to concerns about leveraged lending and sharp declines in cryptocurrencies. Blue Owl Capital's shares have been halved since their January high of $26.68 due to concerns about credit quality in the private debt markets. Even industry titan BlackRock's stock has tumbled, giving back all of the 17.3% ytd gain it had in October.

The 57.4% ytd gain that the shares of bitcoin treasury company Strategy (formerly MicroStrategy) had in July has more than reversed, leaving the shares down 28.6% ytd. Coinbase Global shares are down 23.8% so far this month, while Robinhood Markets shares have fallen 22.1% in November to date.

Health Care: Playing Defense. During November's stock market sell-off, the S&P 500 Health Care sector has performed as defensively as you'd expect. While the S&P 500 is down 3.3% so far this month, the Health Care sector has risen 5.7%.

Here's the performance derby for the S&P 500 and its 11 sectors for the month of November through Tuesday's close: Health Care (5.7%), Energy (2.7), Consumer Staples (0.9), Real Estate (-0.1), Materials (-0.2), Utilities (-0.2), Communication Services (-1.3), Financials (-2.0), Industrials (-3.5), S&P 500 (-3.3), Information Technology (-6.7), and Consumer Discretionary (-7.4) (*Fig. 3*).

Granted, one month does not make a year, and ytd technology-related industries are solidly

in the lead, if not at their all-time highs. But even on a ytd basis, the Health Care sector is holding its own, having risen 10.7%.

Here's the performance derby for the S&P 500 and its industries ytd through Tuesday's close: Communication Services (24.2%), Information Technology (20.6), Utilities (17.3), Industrials (13.5), S&P 500 (12.5), Health Care (10.7), Financials (6.0), Energy (5.8), Materials (2.0), Real Estate (0.5), Consumer Staples (0.4), and Consumer Discretionary (-0.7) (*Fig. 4*).

The Health Care sector has certainly been helped by valuations that are below technology-related sectors, recent M&A activity, and the expectation that the Trump administration will be reasonable when trying to bring down health care costs and reduce imported pharmaceuticals by placing tariffs on them. Here's a look into the sector that's looking awfully healthy these days:

(1) *M&A is active.* It's been a good year for mergers and acquisitions in the Health Care sector. Deals have occurred across numerous industries, lifting the stock prices of the targets. Hologic—which develops technology to detect, diagnose, and treat women's health conditions—is being acquired by Blackstone and TPG for $18.3 billion. The deal is expected to close in the first half of next year.

Johnson and Johnson kicked off 2025 by announcing its $14.6 billion acquisition of Intra-Cellular Therapies. The biotechnology company develops products to treat central nervous system problems, including Caplyta for schizophrenia and bipolar treatment. Other large drug deals this year include the Novartis acquisition of Avidity Biosciences for $12 billion, Merck's purchase of Verona Pharma for $10 billion, and Sanofi's acquisition of Blueprint Medicines for $9.5 billion.

The S&P 500 Biotechnology stock price index has risen 25.1% ytd, and the Pharmaceuticals stock price index isn't far behind, having risen 18.1% ytd. Both indexes are at or near their record highs (*Fig. 5* and *Fig. 6*).

Companies in the S&P 500 Biotechnology index collectively are expected to grow earnings by 16.7% next year, and the industry's forward P/E is 17.3 as of Tuesday's close (*Fig. 7* and *Fig. 8*). The S&P 500 Pharmaceuticals industry is expected to grow earnings more slowly, by 7.4% next year. But its forward P/E is a relatively lofty 16.6 (*Fig. 9* and *Fig. 10*).

(2) *Political winds improve.* The optimism about M&A in the drug industry has more than

offset concerns about the Trump administration's threats to force drug companies to reduce prices and place tariffs on imported drugs. So far, his bark has been worse than his bite—at least in that respect.

Trump's One Big Beautiful Bill Act (OBBBA), however, will take a marked bite out of the ranks of America's health insured. It made large cuts to Medicaid funding and tightened eligibility requirements. It eliminated certain Affordable Care Act (ACA) tax credits, which will make the program much more expensive and reduce the number of people willing to foot the bill. In addition, the OBBBA made it more difficult for legal immigrants to qualify for the program. Hospitals could come under pressure as a result of these changes if more uninsured patients need treatment.

But so far, the S&P 500 Health Care Distributors and the S&P 500 Facilities stock price indexes haven't flinched; instead their stocks collectively have rallied ytd by 55.7% and 54.2%. Joe reports that the best performing S&P 500 health care stock this year is a health care distributor, Cardinal Health (up 75.0% ytd), followed closely by industry mates Cencora (61.0%) and McKesson (51.0%). Other top performing health care stocks are health care services firm CVS Health (73.6%) and health care equipment company IDEXX Laboratories (62.1%), followed closely by health care facilities provider HCA Healthcare (59.3%). Pretty impressive for a "defensive" sector.

(3) *UNH weighs on indexes.* Controversy surrounding UnitedHealth Group's billing practices and a difficult operating environment in the industry have combined to clip UNH shares by 38.0% ytd. Its performance is hurting both the S&P 500 Managed Health Care industry as well as the Dow Jones Industrial Average. Reduced Medicare funding, consumers using more health care services, and fewer consumers using Medicaid and Obamacare all have combined to hurt UNH.

This summer, newly returned CEO Stephen Hemsley slashed 2025 EPS expectations to $16, well below analysts' estimates of $20 and almost half the previous management's target in December. The *WSJ found* that UnitedHealth collected billions in extra payments tied to questionable diagnoses.

UNH is weighing on the industry's 2026 earnings, which are forecast to grow by only 2.1% next year after declining by 35.2% this year (*Fig. 11*). The industry's forward P/E has also slid, to only 15.9 from north of 20.0 a few years ago (*Fig. 12*).

Disruptive Technologies: Move Over, LLMs—Here Come World Models. The stock

market is all a flutter about whether investments in data centers will ultimately pay off. We have no doubt that they will, though it might take longer than folks expect. Our confidence lies in the fact that companies have just started to figure out how they will use large language models (LLMs) to improve business efficiency. And right behind LLMs is a new AI offering called "world models," in which users create 3D worlds that can be journeyed through. Training, creating, and using these new visual worlds will consume tons of data.

Here's a look at what world models have to offer the world and some of the leaders in this developing industry:

(1) *Why do we need world models?* There's a group of AI scientists who believe that LLMs will never achieve artificial general intelligence, or AGI. LLMs are fantastic at consuming and retrieving huge volumes of information. But to be human-like, AGI requires an understanding of the physical world, persistent memory, and the ability to reason and plan, opined Yann LeCun, Meta's chief AI scientist in a recent *interview*.

These abilities explain how a 17-year-old can drive after 20 hours of practice or how a 10-year-old can load a dishwasher without being given instructions first. Both have watched how others have accomplished their tasks and learned without being instructed. World models learn from how things behave in the physical world.

(2) *Introducing Marble.* Marble is a program that turns text prompts, photos, videos, 3D layouts, or panoramas into 3D "worlds" that can be edited and downloaded. A picture can be turned into an entire forest that can be strolled through. It was created by *World Labs*, a startup founded by Fei-Fei Li, a Stanford University professor often *called* the "godmother of AI", and funded with $230 million.

Marble was trained to have spatial intelligence. The world has been digitized, and the AI program understands how things in the physical world work. Creators can use Marble to create a movie or an advertisement that interacts with its audience—for example, allowing viewers to choose among multiple endings. Scientists can use Marble to help train robots by creating multiple scenarios to which the robots must respond.

(3) *Nvidia, Meta & Google in the fray, too.* Nvidia has created its own set of world foundation models (WFMs) for developers to use. Nvidia Cosmos WFMs are pre-trained to generate physically aware videos and world states for physical AI development, the company's *website* states. Nvidia Isaac Groot is a collection of models that helps train humanoid robots.

Google DeepMind has created Genie 3, which can generate realistic virtual landscapes from a text prompt. And the *WSJ* has *reported* that "Toronto-based Waabi constructed an entire world, called Waabi World, just to train AIs to drive trucks. It's a lot safer (and cheaper) to let them crash over and over in a simulation than to try that even once in the real world."

Meta introduced V-JEPA 2, its own world model, last summer. The company said its model was trained on over 1,000,000 hours of videos and will train both robots and AI agents to operate in the physical world. For example, it should be able to explain how gravity works so that a user can predict how a ball will react when tossed in the air.

Calendars

US: Wed: MBA Mortgage Applications; Minutes of Fed's October FOMC Meeting; Miran. **Thurs:** Philadelphia Fed Manufacturing Index 3.0; Existing Home Sales 4.08mu; Goolsbee; Paulson; Cook; Barkin. (Source: FX Street)

Global: Wed: Eurozone Headline & Core CPI 0.2%m/m, 2.1%y/y & 0.3%mm, 2.4%y/y; UK Headline & Core CPI 3.6% & 3.4%y/y; UK PPI Input 0.0%m/m, 0.7%y/y; UK Retail Price Index 0.3%m/m, 4.3%y/y. **Thurs:** Eurozone Consumer Confidence -14; Germany PPI 0.0%m/m, -1.9%y/y; Buba Monthly Report; Buch; Dhingra (Source: FX Street)

Strategy Indicators

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): During the November 13 week, S&P 500's forward revenues and forward earnings each rose 0.1% higher w/w to new record highs, as the forward profit margin remained steady at a record high of 14.2%. The forward profit margin is now 3.9ppts above its seven-year low of 10.3% during April 2020. The consensus expectations for forward revenues growth rose 0.1ppt w/w to a 40-month high of 6.6%. From a longer-term perspective, that's well above its 20-year average of 5.2%. It has risen 430ppts from its 33-month low of 2.3% during the February 23, 2023 week. That's down from a pandemic-recovery boosted record-high 9.6% forward revenues growth at the end of May 2021 and compares to 0.2% during April 2020, which was the lowest reading since June 2009. The forward earnings growth forecast dropped 0.1ppt w/w to 13.5% from a nine-month high of 13.6%, up 2.6ppts from its 15-month low of 10.9%

during the May 29 week. That's a bit stronger than its 20-year average of 11.4%, and is just 0.7 pts below its 38-month high of 14.3% during the December 12 week. That's also down from its 23.9% reading at the end of April 2021, which was boosted by the recovery from the pandemic to its highest reading since June 2010 and up substantially from its record low of -5.6% at the end of April 2020. Analysts expect revenues to rise 6.3% in 2025 (up 0.1ppt w/w to a new high) and 6.7% in 2026 (unchanged w/w at a new high), compared to a 5.0% rise in 2024. They expect an earnings gain of 12.7% in 2025 (up 0.2ppt w/w to a nine-month high) and a 13.8% rise in 2026 (down 0.2ppt w/w) compared to 2024's earnings gain of 11.6%. Analysts expect the profit margin to rise 0.8ppt y/y to 13.3% in 2025 (unchanged w/w at an eight-month high) and 0.9ppt y/y in 2026 to 14.2% (unchanged w/w at a seven-month high), compared to 2024's 12.5%. Looking at valuation data as of November 13, the S&P 500's weekly forward P/E rose 0.2pt w/w to 22.8, but that's down from a 25-year high of 23.3 during the October 30 week. That's now up 3.6pts from its 16-month low of 19.2 during the April 17 week. It also compares to 23.1 in early September 2020, which was then its highest level since July 2000, and to a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio rose 0.02pt w/w to 3.23, but is down 0.05pt from its record high of 3.28, also during the October 30 week. That's up from a six-month low of 2.22 during the October 26, 2023 week and compares to a 49-month low of 1.65 in March 2020.

S&P 500 Sectors Revenues, Earnings, & Margins (*link*): During the November 13 week, all 11 S&P 500 sectors posted gains in their forward revenues; seven posted gains in their forward earnings; but the forward profit margin ticked down for two sectors. These eight sectors had post pandemic- or record-high forward revenues this week: Communication Services, Consumer Discretionary Financials, Health Care, Industrials, Information Technology, Real Estate, and Utilities. Consumer Staples' would be near a record high too, but is instead 4.9% below due to Drug Retail's exit in late August. Energy's is improving now from its three-year low in May, but remains depressed at 28.7% below its September 2008 record and 15.9% below its cyclical high in October 2022. Materials' is stalling around at two-year high at 3.9% below its June 2022 record high. These six sectors had record-high forward earnings this week: Communication Services, Consumer Discretionary, Financials, Industrials, Information Technology, and Utilities. These three are less than 0.4% from their record highs: Consumer Staples, Health Care, and Real Estate. Forward earnings remains depressed for the last two sectors, Energy and Materials, but have improved in recent months to 39.4% and 20.9% below their respective highs during 2022. Looking at the forward profit margin, two sectors fell w/w as nine were unchanged. Consumer Discretionary and Information Technology were at record highs. These four sectors remain close: Communication Services, Financials, Industrials, and Utilities. Consumer Staples, Energy, Materials, and Real Estate are improving somewhat from their

recent multi-year lows, but Health Care's is still at a record low. Here's how the S&P 500 and its 11 sectors rank based on their current forward profit margin forecasts along with their record highs: Information Technology (28.7%, steady w/w at a record high, its first since September 2024 when low-margin Dell's addition to the index lowered the margin 1.3ppts then to 26.3%), Financials (21.1, down 0.1ppt w/w from its 21.2 record high), Communication Services (19.6, down from its 19.8 record high during the August 7 week), Real Estate (16.6, 0.2ppt below its 16.8 eight-month high in early October and down from its 19.2 record high in 2016), Utilities (14.8, down 0.1ppt w/w from its 45-month high of 14.9 and 0.3ppt below its 15.1 record high in April 2021), S&P 500 (14.2, steady w/w at a record high), Materials (11.1, steady at a 10-month high and up 0.6ppt from 51-month low 10.5 in late February and down from a 20-month high of 11.6 in July 2023 and a 13.6 record high in June 2022), Consumer Discretionary (9.6, steady w/w at a record high), Energy (8.7, steady w/w and up from a 55-month low of 8.5 during the during the May 15 week and down from its 12.8 record high in November 2022), Industrials (11.2, steady w/w at 0.1ppt below its 11.3 record high in early January), Health Care (8.1, steady at a record low and down from its 11.5 record high in February 2022), and Consumer Staples (7.1, steady w/w and up 0.4ppt from a 21-month low of 6.7 during the 9/4 week just before Drug Retail's exit from the sector, and down from its 7.7 record high in June 2020).

Global Economic Indicators

Eurozone CPI (*link*): The *Eurozone's CPI* eased to 2.1% y/y in October from September's five-month high of 2.2%; it was flat at 2.0% from June through August. The rate began the year at 2.5%; it was at 1.7% last September—which was the lowest yearly rate since April 2021. Meanwhile, the core rate was unchanged at 2.4% in October, after four months at 2.3%; it was at 2.7% in April. The headline and core CPIs are down sharply from their recent peaks of 10.6% in October 2022 and 5.7% in March 2023. *Looking at the components*, the *services* rate accelerated for the second month, from 3.1% in August to a six-month high of 3.4% in October. Meanwhile, the rate for *food, alcohol & tobacco* eased for the third month to 2.5% in October after climbing from 3.1% in June to 3.3% in July— hovering between 3.0% to 3.3% since April. The rate for *non-energy industrial goods* ticked down to 0.6% y/y from 0.8% in each of the prior three months. October's yearly inflation rates moved lower in three of the four *largest Eurozone countries:* France (to 0.8% from 1.1% in September), Italy (1.3 from 1.8), and Germany (2.3 from 2.4), with only Spain (to 3.2 from 3.0) showing an uptick.

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