Equities in Focus

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Fear Versus Fundamentals

Despite a barrage of macroeconomic and geopolitical concerns, large-cap US equities have staged a remarkable rally since October 12, 2022, climbing the proverbial "wall of worry." From fears of escalating global military conflicts and tariffs to concerns over artificial intelligence–driven capital spending and a prolonged government shutdown, investors have had no shortage of things to fret over in recent years. And after continued positive S&P 500 returns in both September and October, assertions of a possible correction have made a resurgence.

Key Takeaways

1. **Stock Market Corrections Are Common, Not Fatal**
   Intra-year market declines occur frequently, yet the S&P 500 has proven resilient.
2. **This Bull Run Is Below Historical Averages**
   Despite strong gains since October 2022, a case for a continued advance exists.
3. **Inflation Trends Have Been the Market's Focus**
   Softer labor markets have largely been ignored by equities, while lower inflation has not.

Another Correction on Deck?

Elevated valuations, pockets of froth (e.g., unprofitable technology stocks' strong run), uncertainty around a potential Federal Reserve rate cut in December and the risk of rising unemployment recently have some market participants bracing for a correction. While they may be proven right, and whether a pullback is caused by what they foresee or not, take heart! As *Display 1* illustrates, corrections are not an uncommon occurrence. In fact, we've already experienced one earlier this year, courtesy of the reciprocal tariff drama. History shows that such pullbacks are often temporary pauses in longer-term uptrends.

Not Your Average Bull

While the S&P 500 has delivered strong returns since its October 2022 low, both the magnitude of this bull phase and its duration remain below historical averages *(Display 2)*.

Moreover, while unemployment has been a key concern among many Federal Reserve governors, the market appears more attuned to inflation's direction. The S&P 500's trajectory has closely mirrored the decline in the Personal Consumption Expenditures (PCE) Price Index (a favored inflation measure of Fed policymakers), as shown in *Display 3*, and underscores the market's sensitivity to inflation dynamics.

Our View

To be sure, large-cap markets have been propelled by expanding price/earnings ratios, disinflation and Fed easing over the last three years. But if inflation continues to moderate into next year and corporate earnings maintain a healthy pace throughout the market-cap spectrum, as we expect, the fundamental backdrop remains supportive of additional and broader stock market gains.

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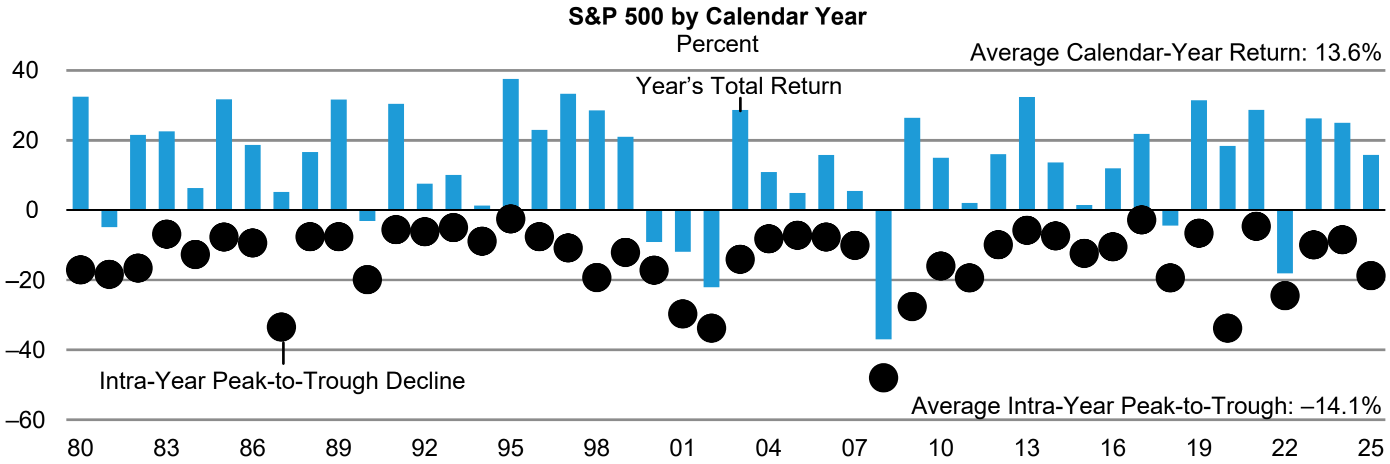
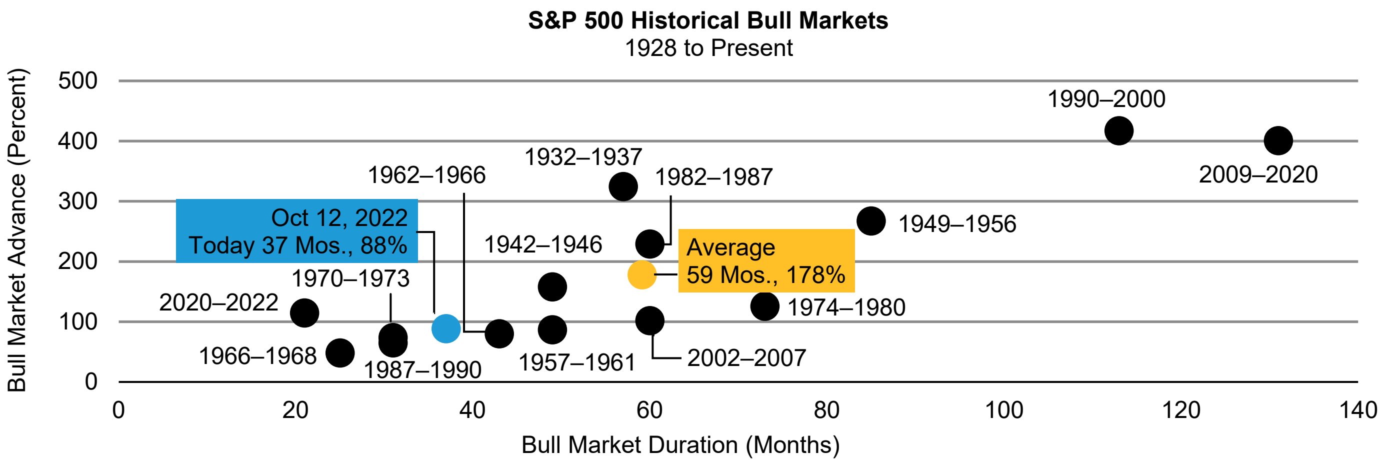
Display 1: US Stocks Have Risen in Most Years Despite Intra-Year Corrections



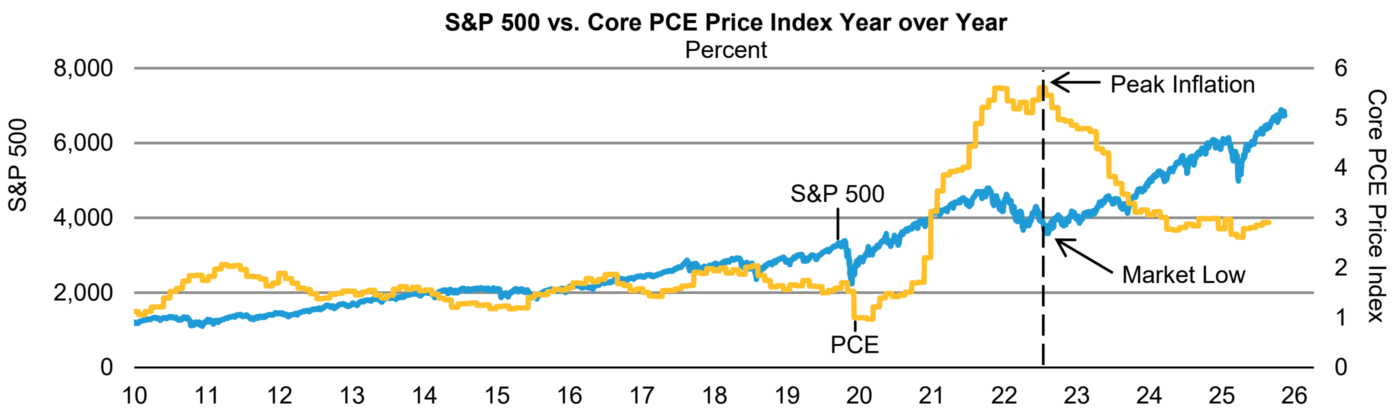
Past performance does not guarantee future results.
As of November 14, 2025
Source: Bloomberg, S&P and AB

Display 2: It's Been Quite a Run, but History Suggests that Runway Remains



Past performance does not guarantee future results.
As of November 14, 2025
Source: Bloomberg, S&P, Strategas Research Partners and AB

Display 3: The Market Has Been Increasingly Taking Its Cues from Inflation's Moves



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