

## Signal or Noise?

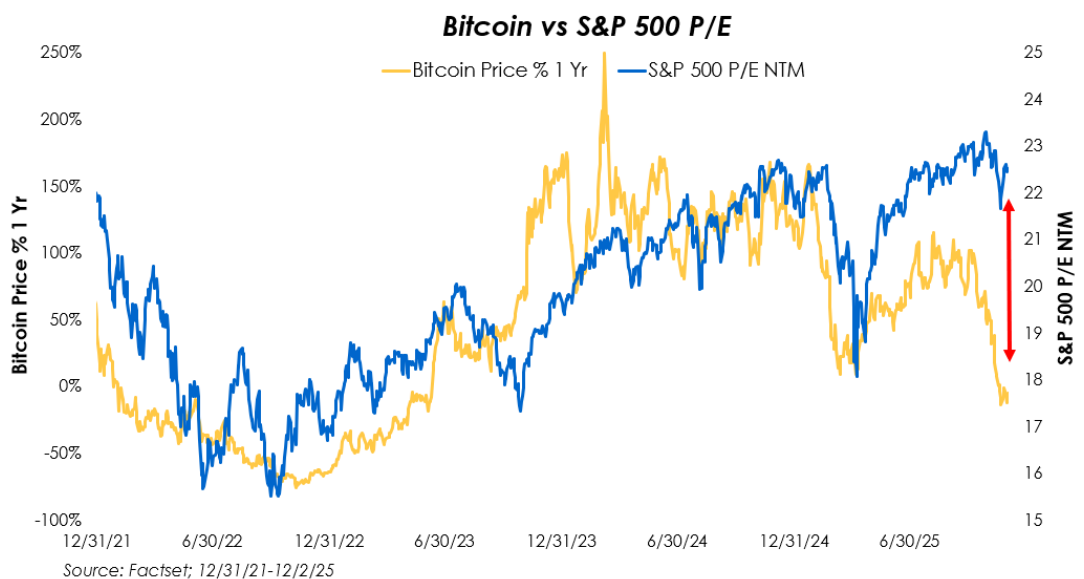
*"A man with one watch knows what time it is; a man with two watches is never sure."*

– Segal's Law (1930)

One could certainly argue that in today's world the clanging of the noise has completely overwhelmed the trumpet blast of the signal. For investors relying on official government data, the government shutdown (lasting from October 1- November 12) seemed to amplify the former while quieting the latter. Much like when the body heightens its remaining senses when one is lost, investors were listening with an increased fervor for the signal this past month.

Having said that – and of all the places – we've recently found ourselves looking at Bitcoin for some help in trying to pick up the signal from the noise. The chart below observes a direct (albeit imperfect) relationship

between the price of this cryptocurrency and the valuation multiple of stocks. Upon its wider adoption post COVID, this relationship argues that investor sentiment – as represented by the price to earnings ratio of the S&P 500 – is



directionally consistent with how speculators might bid up or down the price of Bitcoin. As a result, investor sentiment might be reflected in both measures and therefore – to a certain degree – be seen as two sides to the same coin. Liquidity might be viewed as one of the leading factors that drives the direction of these



measures and, lately, the level of bank reserves has waned (liquidity has declined) under the influence of both fiscal and monetary policy.

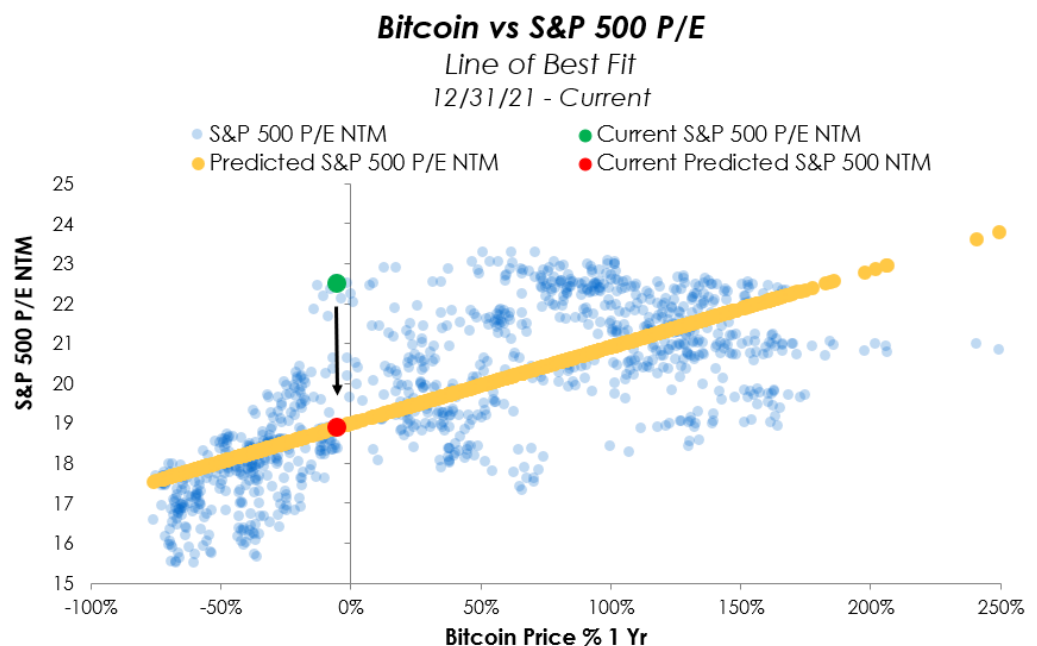
We also find this relationship noteworthy because the recent softening in Bitcoin has not been as deeply reflected in the equity market multiple. One can intuitively see that in the chart on the prior page, but to dissect that even more, regression analysis can be used to determine the line of best fit between both of these factors. The chart below highlights that the variability of Bitcoin's price explains a large portion of the variability of the S&P 500 next twelve-month price to earnings measure (P/E NTM). The line of best fit (represented by the yellow dots) does exactly that when compared to the actual measures (as represented by the blue dots). The distance each data point is away from the line of best fit is called the residual. The average of the residuals is about 5-6%, meaning that when using the price of Bitcoin to help predict the S&P 500 market multiple, the P/E averages out to be plus or minus 5-6% away from the line of best fit – equating to about one turn of the multiple.

Today, however, the current P/E (23X – green dot) is significantly further away from the predicted multiple (19X red dot). In fact, at month's end, it represented the largest residual relative to this data series over the last four years, equal to about 20% or four turns of the multiple.

Of course, this isn't to say the extremes of this convergence can't

persist – only that it would be unusual within the context of what we've seen over the last four years. It's also worth noting that the gap can close as a consequence of both factors coming back together as opposed to one or the other. Whichever way this does move, we find this relationship might be worth keeping an eye on to help determine the signal. And with the government now back open for business, we're hopeful that the resumption of data releases might further help strengthen that signal.

We'll be staying tuned in.



Market returns in November were generally influenced by expectations for another rate cut in December. As a result, REITs and Commodities posted especially strong returns as did Small Cap Stocks. Bond performance was generally solid for the month as well while US Large Cap Stock returns were muted with a give back in some of the growthier corners of the S&P 500.

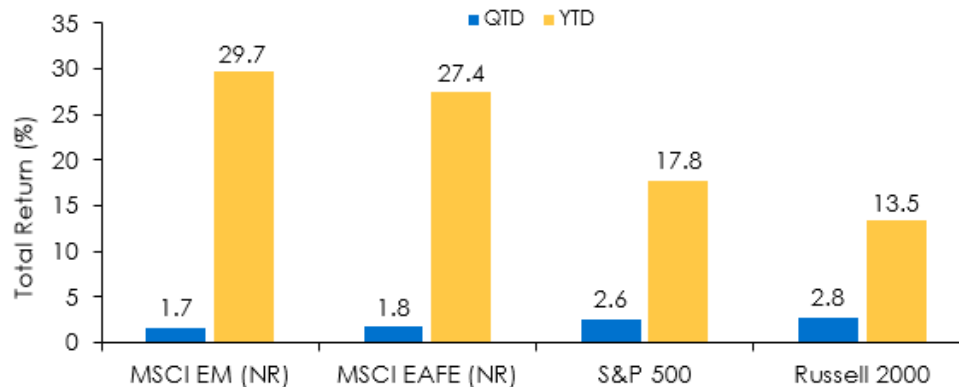
## Stocks

US Small Caps (Russell 2000) led the market in November and quarter-to-date spurred on by interest rate cuts and improving earnings momentum – though they’ve lagged for the year amid higher overall rates and elevated inflation. Notwithstanding more muted

returns in November, US Large Caps (S&P 500) have performed well, year-to-date, on the back of strong corporate earnings and AI optimism. International markets (MSCI EM and EAFE) delivered solid results for the quarter and market leading results for the year due to fiscal stimulus, central bank rate cuts, and a weaker dollar. From a sector perspective, year-to-date outperformance has been driven by AI influenced areas including Communication Services, Information Technology, Utilities, and Industrials – though all sectors have delivered positive returns for the year.

### Global Equity Returns

November 2025



Source: Factset

### S&P 500 Sector Returns

November 2025 - YTD



Source: Factset



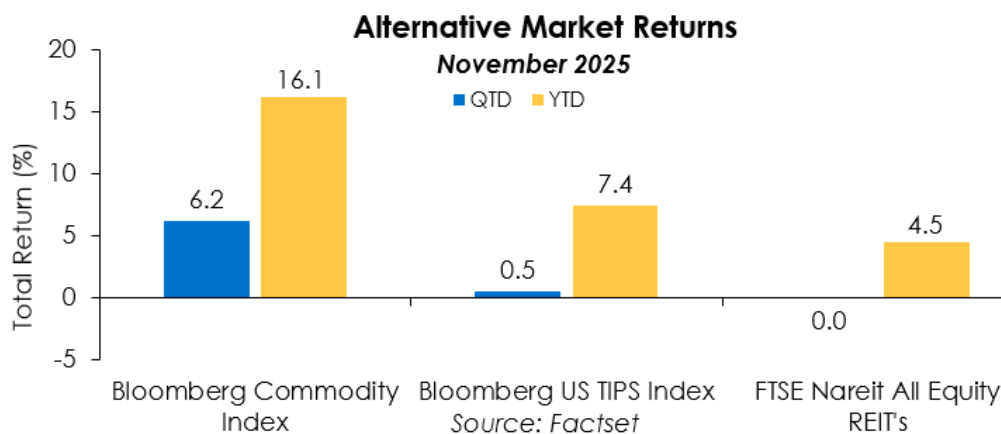
## Bonds

After pivoting to an easing bias in the back half of last year and then leaving rates unchanged for the first half of 2025 (including meetings in January, March, May, June, and July), policymakers resumed their easing stance with a 25 basis point interest rate cut in both September and October. Despite sticky inflation and benign firing trends, expectations for a December rate cut surged to nearly 90% in November on weaker hiring data and softening consumption trends. The Fed's "dot plot" continues to imply two additional cuts (25 bps per) by the end of next year while the Rates market has closed the gap with an expected three cuts anticipated. Bonds have performed well with returns generally up high single digits – helped by lower rates and tighter (High Yield) credit spreads. Emerging Markets (iShares JPM EM Bond ETF) have been the standout for the year due to dollar weakness while Asset Backed Securities (Bloomberg ABS) have lagged.



## Alternatives

Commodities have delivered strong year-to-date returns helped by significant performance in Precious Metals though returns broadened quarter-to-date to include solid performance in Ag and Industrial Metals with



Energy also contributing in November. Meanwhile, publicly traded Real Estate (REITs) recovered October's losses as the outlook for additional rate cuts rebounded on some softening labor market data. Finally, year-to-date returns on Treasury Inflation-Protected Securities (TIPS) have performed slightly better than nominal Treasuries as inflation expectations rose in Q1 though have moderated and moved sideways since.



## Market Outlook

*"It's Tricky to rock a rhyme, to rock a rhyme that's right on time.  
It's Tricky."*

– Run DMC, *It's Tricky* (1986)

As we turn to the final pages in 2025, we remain focused on the ever evolving Tricky "Tri-Cycle" – the "three cycle" framework we're using to assess the landscape. An ever fluctuating (and late) Economic Cycle, gradually maturing Profit Cycle and wildly reversing Policy Cycle – makes for the continuation of a Tricky backdrop that requires investors to keep their proverbial eyes up and "Head on a Swivel". Let's explain.

### Tricky "Tri-Cycle"

Cycle	Stage
Economic Cycle	Fluctuating (and Late)
Profit Cycle	Maturing
Policy Cycle	Reversing

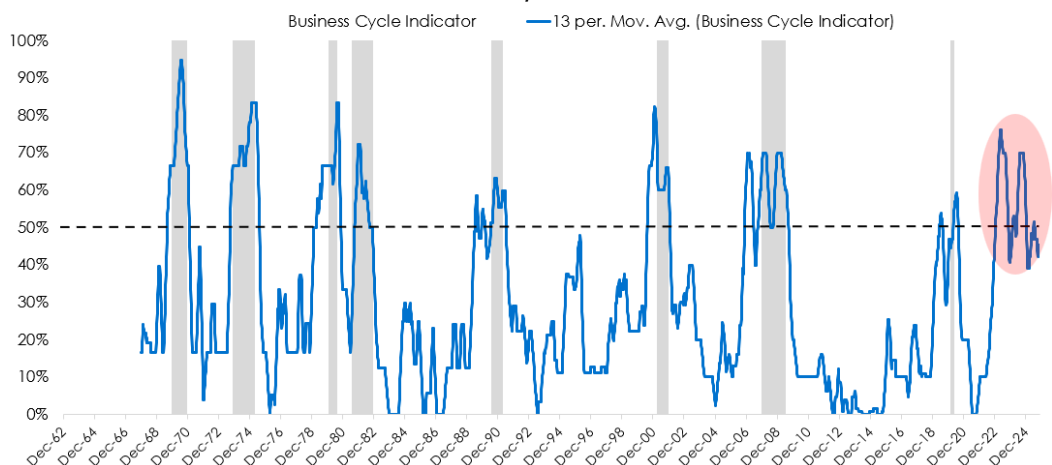
Economic growth remains in flux, in part, due to sweeping changes in trade and fiscal policy. In isolation, the sizeable increase in the deficit would have made the budget bill virtually impassable earlier this year. However, when viewed within the context of tariff revenue as an

offset, the GOP was able to successfully pass the fiscal measure which included sizeable stimulus heading into next year in the form of lower corporate tax rates (100% expensing) and targeted consumer aid (increased SALT deductions and child tax credit measures). Meanwhile, tariffs raised the question of stagflation for the

Fed which kept them on the sidelines until more recently. Policymakers cut rates twice (25 basis points per) at their last two FOMC meetings – with one more expected before the year is over along with an end to their balance sheet reduction (QT). Still, the total number of

future rate cuts appears limited (to currently three) as policymakers are somewhat divided on the degree to which the softening labor market and sticky inflation backdrop gives them room to adjust policy further.

### Business Cycle Indicator

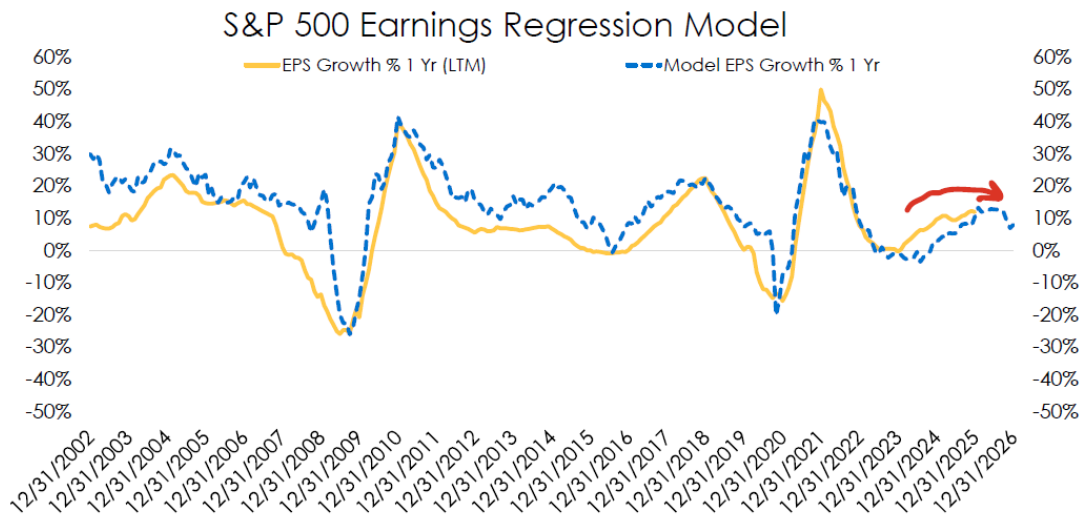


Source: Factset and Yellow Cardinal Research; the Business Cycle Indicator is a proprietary dashboard of financial conditions that historically have provided some context of business cycle duration and lead time on recessionary events. When more than half of the weighted average signals were triggered, this often preceded a recession. The Business Cycle Indicator is a weekly signal with the 13 week moving average smoothing the volatility.



Stepping back a bit, we still believe there's fundamental evidence – including yield curve dynamics, leading economic indicator composites, certain survey relationships and especially labor market measures – that point to being on the later side of the economic cycle. As can be seen in our business cycle indicator on the prior page, an increased percentage of measures being triggered is a good illustration that we remain at comparable late cycle levels in the economy (with recessions designated by shaded regions – chart on prior page). One cautionary note – while the government has reopened – our analysis has become cloudier given that some of the economic inputs that go into our fundamental measures have yet to fully catch up.

Meanwhile, the profit cycle doesn't look as late as the economic cycle but the fundamental trends suggest a gradually maturing backdrop. As can be seen in the chart on the right, our proprietary top-down earnings regression model suggests a healthy but gradual leveling



Source: Factset; S&P Dow Jones; Yellow Cardinal Research. EPS Growth Model uses multiple proprietary regression models based on economic inputs that are found to be good predictors of the S&P 500 profit cycle with a 6-12 month lead time. EPS Growth LTM actual earnings is based on iShares S&P 500 ETF (IVV) from Factset.

off of earnings growth ahead. This is corroborated by bottom-up earnings growth expectations (over the next twelve months) that have generally leveled off to a degree. Still, recent earnings revision trends remain positive – perhaps helped by the earnings benefit of a weaker dollar, the expected limited fallout from tariffs and assistance from the previously cited budget stimulus. The AI CAPEX spend is also a tailwind for growth though with one caveat. Should its current pace be sustained for a prolonged period, we've found it would be comparable to some of the other most significant examples of overbuilds in history (Railway Boom – mid 1800's, Internet – late 1990's, Housing – mid 2000's). Recently, we've also noted that the Tech sector has gone from an asset light to an asset heavy group resulting in a spend down of free cash flow with debt now likely needed to continue to finance this spend boom. As leverage magnifies outcomes, markets will become more sensitive to anticipated results. For now, we see a solidly positive – albeit leveling off – earnings growth trajectory denoting a gradually maturing profit cycle. The bottom line is that we think its important to monitor the late economic cycle and maturing profit cycle in such a fluid fundamental backdrop.





## The Certainty of Uncertainty

Past Policy	Future Policy
<b>Looser Fiscal</b>	<b>(Relatively) Tighter Fiscal</b> - Less government spending / More government revenue
<b>Tighter Monetary</b>	<b>(Relatively) Looser Monetary</b> - Higher tariff rates likely lead to lower interest rates though not initially.

Add to that, the third leg of the stool – a policy cycle that’s abruptly reversing from looser fiscal and tighter monetary to one that suggests the opposite – (relatively) tighter fiscal and (relatively) looser monetary. We say relatively because, while the deficit remains unchanged in aggregate, the

recognition of its unhealthy status is leading to some reductions in government spending and the need to find more government revenue (tighter fiscal). As referenced above, the Fed has recently cut interest rates with additional easing likely. This reversal in policy is causing investors, consumers and companies to re-think the backdrop resulting in persistently elevated uncertainty. The good news is that the sharp rally in risk assets since mid April (from backing off of the worst case tariff rates) was a constructive move that flipped the technical script from bearish to bullish. This suggests that the market hasn't deemed anything a foregone conclusion. The bottom line is that we continue to live in an environment that suggests an increasingly large number of potential scenarios are still on the table. It’s no wonder that the only certainty might be a high degree of uncertainty.

So what are the implications and key takeaways for portfolios?

From a portfolio positioning perspective, we continue to emphasize the importance of diversification and balance as a way to mitigate the high uncertainty as referenced above. While diversification has previously been an uncontroversial concept, the concentration present in passive indices today – by virtue of the price action over the last couple of years – suggests this notion remains a relic of the past. We respectfully disagree and think today represents a unique – though not unprecedented – opportunity in that diversification offers a “twofer” or two for one benefit – risk reduction and upside optionality. Most of us understand the concept of diversification as singularly beneficial in reducing risk and not putting all one’s eggs in that proverbial basket. In short, uncertainty is what compels diversification. But today’s concentration in the largest companies has now made the S&P 500 quite top heavy with the top 10 holdings representing about twice the exposure it averaged during the period from 1990-2010. For investors, this mean reversion potential offers upside which is likely to come when investors have deemed that the pendulum has swung too far. The timing of such an episode is a notoriously difficult question to answer with any kind of certainty. But perhaps investors should take comfort knowing that they generally don’t need to. That’s because staying diversified still allows one to participate in the solid absolute returns that help one achieve plan success. And at the same time, not overly



exposing one to the extreme risks that may ultimately come in the form of exceedingly depressed returns when the bill comes due. In our opinion, that's what prudent investing is all about.

We continue to look for opportunities to rebalance portfolios to maintain that degree of balance – and have done so a few times this year as recently as in early October. As a result, we've remained UW the most expensive and concentrated areas where we've viewed the long-term risk reward less favorably.

Within equities, our positioning incorporates balance geographically and within our US Large Cap exposure especially (away from the top of the market). Our bias has generally been to have more exposure to less expensive areas (down market cap). As such, we've maintained a larger OW in Cyclical Value and Defensive sectors combined with a smaller sized cap bias. We remain UW the most concentrated and expensive Cyclical Growth areas and think that if AI is as transformative as advertised its benefits will need to accrue to more than just the select few.

Within fixed income, we remain biased toward the higher quality US Core Fixed Income segment – where we're slightly longer in duration for diversification purposes. We've also previously added to International Fixed Income (EW), where the end of negative interest rate conditions has led to more attractive opportunities. Maintaining a higher quality bias means that we still remain UW the most expensive part of the bond market (High Yield) where extremely tight spreads have made this unattractive in our view.

Within alternatives, we remain fairly balanced across the board with neutral positions in Diversified Alternatives, Real Estate and Commodities. Earlier this year, we adjusted our mix of Diversified Alternative managers in order to provide greater insurance against market volatility by emphasizing income and short exposure – areas that can benefit from choppy market conditions, thus, enhancing diversification.

From a broader perspective, we also think that investors should keep in mind the following:

- Stay focused on the things you can control like ensuring you have adequate 6-12 month liquidity needs which should allow your long-term investment monies to stay invested.
- Has the structural integrity of your plan changed (purpose of money, time horizon, liquidity needs, risk tolerance)? If the answer is no, then recognize that the economy and the market run in cycles that diversified portfolios are there to help mitigate.
- Short term volatility is often the price one pays for the benefit of higher long-term returns.

Thanks for giving this a read.





The information presented in the material is general in nature and should not be considered investment advice, is not designed to address your investment objectives, financial situation or particular needs. Information is gathered from sources deemed reliable but its accuracy or completeness is not guaranteed. The opinions expressed herein may not come to pass, are as of the date of publication and are subject to change based on market, economic or other conditions.

You cannot invest directly in an index. Indexes are unmanaged and measure the changes in market conditions based on the average performance of the securities that make up the index. Investing in small and mid-cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor. Asset allocation and diversification does not ensure a profit or protect against a loss.

Yellow Cardinal Advisory Group, a division of First Financial Bank, provides investment advisory, wealth management and fiduciary services. Yellow Cardinal Advisory Group does not provide legal, tax, or accounting advice. The products and services made available by Yellow Cardinal Advisory Group:

Not Deposits | Not FDIC Insured | Have No Bank or Federal Government Guarantee | May Lose Value



The information contained or topics discussed in this piece are not FDIC insured and are not bank deposit products.