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WEEKLY ECONOMIC UPDATE NOV. 10, 2025

Stocks hit a rough patch last week as fresh labor market data, low consumer sentiment, and the ongoing government shutdown unnerved investors.

The Standard & Poor's 500 Index declined 1.63 percent, while the Nasdaq Composite Index dropped 3.04 percent. The Dow Jones Industrial Average fell 1.21 percent. The MSCI EAFE Index, which tracks developed overseas stock markets, edged down 0.83 percent.[1,2]

Nasdaq's Toughest Week Since April

Stocks started the week mixed. The S&P 500 and Nasdaq each rose modestly, while the Dow Industrials fell.[3,4]

Markets stabilized midweek after an ADP jobs report showed stronger-than-expected hiring by private employers in October. The report buoyed investor sentiment, pushing all three major averages higher.[5]

However, stocks fell as investor concerns over stock valuations persisted, particularly among companies related to AI. Following a well-known outplacement firm's report of a steep increase in corporate layoffs, selling pressure intensified as investors continued to react to data updates from alternative sources in the absence of official government data.

Stocks slid again on Friday after news that consumer sentiment hit its lowest level in three years. The survey data appeared to exacerbate investor nerves about the reading's connection to a fragile labor market and the impacts of the government shutdown.

But all three major averages then began a recovery rally midday Friday, with the S&P and Dow Industrials climbing back into the green and the Nasdaq regaining nearly all of its losses by the closing bell.[6]

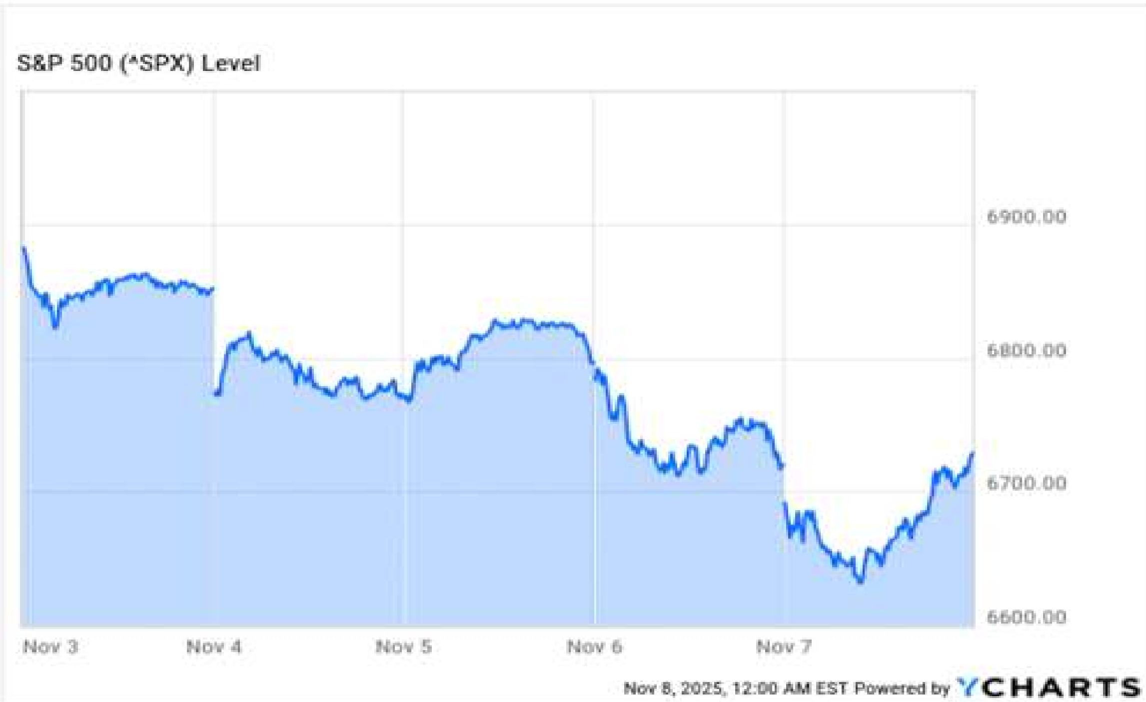
YCHARTS

Weekly Market Insights (WMI)

Major Index Return Summary

Name	1M TR	YTD TR	1Y TR	5Yr TR
Dow Jones Industrial Average	0.52%	11.79%	9.12%	82.51%
Nasdaq Composite	0.50%	20.01%	22.26%	101.1%
S&P 500	-0.24%	15.47%	14.82%	106.2%
MSCI EAFE	-1.07%	26.67%	23.79%	68.85%

S&P 500 Daily Close



10-Year Note Review

Indicator Name Date	Latest Value	1M Ago 3M Ago 1Y Ago	1M Change 3M Change 1Y Change
10 Year Treasury Rate 11/07/25	4.11%	4.14% 4.23% 4.31%	-0.72% -2.84% -4.64%

Labor Market Paradox

Payroll processing company ADP's monthly employment report has become a prominent alternative source for jobs data in the wake of the government shutdown. However, it doesn't always tell the whole story.

ADP's latest jobs report showed private employers hired at a much stronger pace than expected in October. U.S. companies added 42,000 jobs in October, nearly double the 22,000 new jobs economists expected. Given that 29,000 jobs went away in September, the October figure was welcome news for investors; it was also the first increase in three months. The bulk of the job gains came from the trade, transportation, utilities, education, and health sectors.[7]

Other data out last week told a different story. Another report showed layoff announcements in October hit a 22-year high for the month, making this year the worst for layoffs since 2009.[8,9]

This Week: Key Economic Data

Tuesday: NFIB Small Business Optimism Index.

Wednesday: Federal Reserve Presidents Anna Paulson (Philadelphia) and Raphael Bostic (Atlanta) speak.

Thursday: Weekly Jobless Claims. Consumer Price Index (CPI). Fed Presidents John Williams (New York), Alberto Musalem (St. Louis), Beth Hammack (Cleveland), and Raphael Bostic (Atlanta) speak. Federal Budget.

Friday: Retail Sales. Producer Price Index (PPI). Business Inventories. Fed Presidents Jeff Schmid (Kansas City) and Lorie Logan (Dallas) speak.

Quote of the Week

The Occasional Musical "Quote of the Week"

Beginning at time stamp 4:00, Ron Altbach describes how Bach's *Jesu Joy of Man's Desiring* was the inspiration for the Beach Boy's *Lady Lynda*.

https://www.youtube.com/watch?v=-SVB-EvYtNw

Of Note

Diversification has been the backbone of *"buy and hold"* strategies for the last few decades. It was a boon to financial advisors who couldn't actively manage portfolios, and it created a massive Exchange-Traded Funds (ETFs) industry that allowed for even further simplification of investing. The message was basic: *"Buy a basket of assets, dollar cost average, and given enough time, you will grow your wealth."*

But where did that marketing revolution come from? Based on the premise of index investing, it created massive firms like

Vanguard, Fidelity, BlackRock, and others. For that answer, we need to go back in time to 1952. Then, Harry Markowitz revolutionized investment strategy with his portfolio choice theory. His work, for which he received a Nobel Prize, gave rise to what we now know as *Modern Portfolio Theory (MPT)*, which proposed that the best portfolios don't focus on individual securities but on how groups of assets interact.

The goal was to combine uncorrelated assets to reduce overall volatility while optimizing returns. This model encouraged investors to spread risk through diversification. Critically, it assumes that assets wouldn't all move together in times of stress. This theory served as the bedrock of portfolio construction for decades, especially for institutional investors. The strategy worked well before the turn of the century, when sectors rotated leadership and assets moved independently based on distinct economic drivers. Back then, diversification across asset classes, sectors, and geographies was a reliable way to reduce portfolio risk.

However, over the last 15 years, following the financial crisis, the investing environment has changed. Monetary and fiscal interventions, global central bank interest rate policies, the maturity of algorithmic and computerized trading strategies, and concentration have reduced diversification's value. Any portfolio *"diversified"* between large, mid, and small-cap stocks, international and emerging markets, real estate, and gold, has significantly underperformed being invested solely in the S&P 500 index. Furthermore, in times of crisis, like 2020, the diversification failed to protect investors from the downturn as correlations went to *"1."*

The reality is that markets have changed. The assumptions that supported MPT, uncorrelated assets, stable relationships, and rational price behavior, have eroded. Central banks have injected liquidity, distorted yields, and suppressed volatility. Meanwhile, passive investing has reshaped how money flows into stocks.

The basic premise of diversification is under pressure from structural shifts that Markowitz could not have anticipated.

Passive investing has grown from a niche strategy into the dominant force in equity markets. Index funds and ETFs now account for over half of U.S. equity ownership. These vehicles allocate capital based on market capitalization, not valuation, fundamentals, or business quality. As more money flows into these funds, the largest companies receive the lion's share of new capital. That's created a powerful feedback loop, where price drives flows, and flows drive price.

This shift has radically changed the effectiveness of diversification. Investors who think they're diversified across multiple ETFs often have overlapping exposure to the same few mega-cap names. For example, Apple, Microsoft, and Nvidia are top holdings in technology ETFs, dividend funds, and large-cap growth portfolios. In the U.S., there are roughly 4000 ETFs, and 771, approximately 20%, own Apple. Therefore, if you own an S&P index fund, a Nasdaq index ETF, and a technology-focused ETF, you have multiple holdings of the same companies. This overlap increases portfolio risk and concentration. What looks like diversification is often just duplicated exposure dressed up as balance.

As noted in "*The Bull Market is Alive and Well*" the top 10 stocks have a hefty weighting in the S&P 500 index, which absorbs $0.36 of every dollar invested. Furthermore, the top 10 stocks impact the S&P 500 index the same as the bottom 440 stocks combined.

Furthermore, the top ten stocks in the S&P 500 now account for more than 70 percent of the index's return. These names dominate the performance of most portfolios, even those that appear broad on the surface. As passive flows continue to distort market mechanics, the ability of traditional diversification to reduce risk has declined. Assets that once behaved independently now rise and fall together, leaving portfolios more vulnerable when markets correct.

This is where we find the demise of Modern Portfolio Theory, which assumes that asset classes will not move in perfect unison. Historically, this was true. Sector correlations typically ranged between 0.3 and 0.6, allowing diversification to smooth out returns. When one part of the market fell, others could rise or stay flat. That dynamic gave portfolios resilience. But today, those correlations are breaking down. During market stress, correlations spike as high as 0.9. Nearly every asset class sells off together, erasing the protective benefit of diversification.

This shift is driven by the rise of passive ownership, which has increased the linkage between stocks, sectors, and even asset classes. Academic research from INSEAD and UC Irvine confirms that companies with high passive ownership become more volatile and exhibit stronger co-movement, especially during selloffs. Central bank interventions have added another layer of distortion by suppressing price discovery and inflating asset prices indiscriminately. Liquidity flows, not fundamentals, now drive much of the market's behavior.

Even portfolios designed to be *"all-weather"* or *"risk-parity"* have failed to deliver protection during sharp downturns. Diversification fails when everything is tied to the same flows and narratives. The illusion of balance breaks down exactly when it is most needed. This environment has made it harder to rely on traditional asset allocation strategies.

Therefore, given this change to market dynamics, investors must now think differently about managing risk.

Yes, diversification still matters. In fact, it matters more now than ever. While the traditional benefits of diversification have weakened due to high correlations and market concentration, the need to reduce risk remains unchanged. The objective is not to eliminate volatility, but to manage it intelligently. That means ensuring portfolios can withstand market downturns while still participating in upside when leadership changes or new trends emerge.

Surface-level diversification is no longer enough in a market increasingly driven by passive flows and dominated by a few mega-cap names. Owning multiple funds or asset classes does not guarantee protection if the underlying exposures overlap. Investors must go deeper and look beyond labels and into the actual drivers of risk and return. This is one of the reasons investors are seeing a large increase in the availability of funds using option strategies. Selling CALLS in rising markets and buying PUTS in declining markets have seen an increase in popularity verses traditional long only strategies.[10]

Footnotes and Sources

1. WSJ.com, November 7, 2025
2. Investing.com, November 7, 2025
3. CNBC.com, November 3, 2025
4. CNBC.com, November 4, 2025
5. WSJ.com, November 5, 2025
6. CNBC.com, November 7, 2025
7. WSJ.com, November 5, 2025
8. CNBC.com, November 6, 2025
9. CNBC.com, November 7, 2025
10. advisorperspectives.com/commentaries/2025/09/10/why-diversification-failing-age-passive-investing?topic=alternative-investments

Investing involves risks, and investment decisions should be based on your own goals, time horizon, and tolerance for risk. The return and principal value of investments will fluctuate as market conditions change. When sold, investments may be worth more or less than their original cost.

The forecasts or forward-looking statements are based on assumptions, may not materialize, and are subject to revision without notice.

The market indexes discussed are unmanaged, and generally, considered representative of their respective markets. Index performance is not indicative of the past performance of a particular investment. Indexes do not incur management fees, costs, and expenses. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results.

The Dow Jones Industrial Average is an unmanaged index that is generally considered representative of large-capitalization companies on the U.S. stock market. The Nasdaq Composite is an index of the common stocks and similar securities listed on the Nasdaq stock market and considered a broad indicator of the performance of stocks of technology and growth companies. The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) and serves as a benchmark of the performance of major international equity markets, as represented by 21 major MSCI indexes from Europe, Australia, and Southeast Asia. The S&P 500 Composite Index is an unmanaged group of securities that are considered to be representative of the stock market in general.

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