

SPX closes beneath 50dma on AI valuation concerns

- **SNAPSHOT:** Equities down, Treasuries flat/up, Crude down, Dollar up, Gold down.
- **REAR VIEW:** Fed's Jefferson reiterates Fed needs to move slowly; Fed's Waller advocates 25bps Dec cut; Solid NY Fed Manufacturing survey; Saba Capital Mgmt sold credit derivatives to lenders seeking protection from tech exposure; Trump expects to issue tariff dividend mid 2026; Trump not happy with Mexico; EU to warn US against expanding scope of US steel tariffs; UK considers options to retaliate against Europe over steel tariffs; Israeli warplanes have targeted areas in southern Lebanon; AMZN to sell USD 15bn USD bond; AAPL accelerating CEO succession plan; Berkshire takes stake in GOOGL.
- **COMING UP:** **Data:** US ADP Weekly Estimate, US Factory Orders (Aug), US Durable Goods (Aug), Japanese Trade Balance. **Event:** RBA Minutes. **Speakers:** ECB's Elderson; BoE's Pill, Dhingra; Fed's Barr, Barkin. **Earnings:** Home Depot, Baidu, Medtronic, PDD; Imperial Brands.

MARKET WRAP

US indices saw heavy losses on Monday, with all sectors, aside from Communications and Utilities, in the red. There was no one specific catalyst for the risk-off trade to start the week, just further concerns regarding elevated valuations in the AI space, while the SPX slipped below 6,700 and closed beneath its 50-dma of 6,707. Back to sectors, the Communications sector was boosted by Alphabet (GOOGL) being one of the clear gainers and supported after Berkshire Hathaway built a stake in the Co., as its latest 13-F declared. The Dollar was bought in a risk-averse environment, to the detriment of all G10 peers, with Aussie and Kiwi underperforming. On data, NY Fed Manufacturing was solid, while the influential governor Waller toed a usual dovish tone, as he reiterated his support for a December rate cut (25bps) and doesn't see any factors that would cause acceleration in inflation. Jefferson reiterated the fed needs to proceed slowly as monetary policy approaches the neutral rate. Treasuries were supported and saw slight upside, but gains were capped on Amazon's bond sale, whereby the behemoth upsized its USD 12bln offering to USD 15bln, in its first US bond sale since 2022. The crude complex traded in very narrow ranges on Monday, but settled marginally lower in light headline risk, although did see strength in the EZ morning in reports that Israeli warplanes targeted areas in southern Lebanon. Gold and Bitcoin were also pressured amid the equity weakness, with Bitcoin hitting its lowest level in six months and gold testing USD 4,000/oz. While the scheduled events on Monday were light, it heats up later this week with particular focus on FOMC Minutes, NVIDIA earnings (Wed), and Sept. US jobs report (Thurs).

US

NY FED: Overall, a solid report with activity rising, employment remaining in expansionary territory, while the pace of price increases slowed. The November Empire State Manufacturing survey saw current business conditions rise to +18.7 from 10.7 in October, well above the 5.8 forecast. The report noted that new orders and shipments increased significantly. New orders rose to 15.9 from 3.7. Delivery times lengthened modestly, and supply availability worsened somewhat. Inventories expanded. Labour market indicators improved, pointing to a small increase in employment and a longer average workweek. The employment index rose to 6.6 from 6.2. The pace of both input price increases and selling price increases slowed slightly, but remained elevated. Prices paid slowed to 49 from 52.4, while prices received fell to 24 from 27.2. Capital spending plans grew. Firms expect conditions to improve in the months ahead, though firms were not as optimistic as last month. Looking ahead, prices paid and received both slowed, while employment improved.

FED'S JEFFERSON: The Fed Vice Chair largely repeated comments he made in early November. The Vice Chair said the Fed needs to proceed slowly as monetary policy approaches the neutral rate, and it is still not clear how much government data will be available for the next meeting. He echoed that current Fed policy rate is still "somewhat restrictive", and the balance of risks has shifted in recent months, with increased potential downside to employment. Looking ahead, and to next week, Jefferson looks forward to reviewing the Biege Book.

FED'S WALLER: The Fed Governor made the case for continuing rate cuts and voiced support for a 25bps cut in December, saying it would offer additional labour market insurance amid signs the economy is softening. Warned that restrictive policy may be weighing on activity, with the labour market weak and near stall speed. Argued that underlying inflation is close to 2%, expectations remain well anchored, and tariffs are merely a one-time price level shock. Said he sees no factors likely to accelerate inflation and expects that no upcoming data, including the jobs report, would change his view that another cut is warranted.

FIXED INCOME

T-NOTE FUTURES (Z5) SETTLE 3+ TICKS HIGHER AT 112-20+

T-Notes see slight upside in risk-off trade but capped on Amazon's bond sale. At settlement, 2-year -0.6bps at 3.608%, 3-year -0.8bps at 3.607%, 5-year -1.3bps at 3.721%, 7-year -1.7bps at 3.904%, 10-year -1.3bps at 4.135%, 20-year -1.1bps at 4.710%, 30-year -0.7bps at 4.739%.

INFLATION BREAKEVENS: 1-year BEI -4.8bps at 2.731%, 3-year BEI -1.9bps at 2.476%, 5-year BEI -2.1bps at 2.304%, 10-year BEI -1.1bps at 2.274%, 30-year BEI -0.8bps at 2.236%.

THE DAY: T-Notes moved slightly higher on Monday, but with upside capped on the Amazon corporate bond sale. Amazon upsized its USD 12bln offering to USD 15bln, in its first US bond sale since 2022. Yields in the US were lower by 1-3bps, with the belly seeing the greatest losses. The overall tone on Monday was another risk-off trade, with ongoing AI valuation concerns hitting sentiment, paring the pre-market upside in US equity futures. As stocks sold, T-Notes were bid, but the USD 15bln Amazon bond offering limited the gains ahead of 20-year and 10-year TIP supply this week. Elsewhere, this week's focus lies on the return of data with the September NFP expected on Thursday, while the FOMC Minutes will be released on Wednesday. Data today saw the NY Fed manufacturing survey, which was solid, as activity rose, employment remained in expansionary territory, while the pace of price increases slowed. Meanwhile, Construction Spending saw a surprise gain in August, and led to an upgrade to the Atlanta Fed GDP Now estimate for Q3 to 4.1% from 4.0%. Note, the ADP will release the weekly report on Tuesday, which will show the average weekly employment change over the last four weeks. Note, Fed Vice Chair Jefferson spoke today, largely reiterating recent commentary that the Fed needs to proceed slowly as it approaches the neutral rate, reiterating that policy is still somewhat restrictive. Waller meanwhile reiterated his support for a 25bps rate cut in December.

SUPPLY:

Notes

- US to sell USD 16bln of 20-year bonds on November 19th, to settle December 1st.
- US to sell USD 19bln of 10-year TIPS on November 20th, to settle November 28th.

Bills

- US sold USD 86bln of 3-month bills at a high rate of 3.795%, B/C 2.79x; sold USD 77bln of 6-month bills at a high rate of 3.710%, B/C 2.80x.
- US to sell USD 95bln of 6-week bills on Nov 18th, to settle on Nov 20th.

STIRS/OPERATIONS

- Market Implied Fed Rate Cut Pricing: Dec 10bps (prev. 10bps), January 21bps (prev. 21bps), March 30bps (prev. 30bps).
- NY Fed RRP op demand at USD 3.2bln (prev. 1.6bln) across 7 counterparties (prev. 10)
- NY Fed Repo Op demand at USD 5.57bln across two operations today (prev. 0.02bln).
- EFRR at 3.88% (prev. 3.88%), volumes at USD 72bln (prev. 78bln) on November 14th.
- SOFR at 3.95% (prev. 4.00%), volumes at USD 3.195tln (prev. 3.197tln) on November 14th.

CRUDE

WTI (Z5) SETTLES USD 0.18 LOWER AT 59.91/BBL; BRENT (F6) SETTLES USD 0.19 LOWER AT 64.20/BBL

The crude complex was choppy but ultimately settled marginally lower in thin newsflow. The real market mover for benchmarks was in the European morning, which took the energy space into the green, amid reports Israeli warplanes have targeted areas in southern Lebanon. Elsewhere, there was a bit of geopolitical rhetoric, but nothing to move the space. Recapping, Trump warned countries doing business with Russia will face sanctions under new legislation, and Iran may be added to that list, while CNN reported that the President has yet to make a decision on whether to attack Venezuela on land. On the sell-side, Goldman Sachs forecasts Brent to decline to USD 56/bbl (prev. 63) in 2026 and WTI to USD 52/bbl (prev. 60), and GS sees a large 2.0mln BPD surplus on strong global ex-Russia supply will reduce prices through mid-2026. Ahead, the bank thinks oil prices will pick up in 2027 as low prices take their toll on non-OPEC supply. WTI traded between USD 59.32-60.44/bbl and Brent USD 63.67-64.72/bbl.

EQUITIES

CLOSES: SPX -0.91% at 6,672, NDX -0.83% at 24,800, DJI -1.18% at 46,590, RUT -1.96% at 2,341

SECTORS: Communication Services +1.13%, Utilities +0.84%, Health -0.04%, Real Estate -0.57%, Consumer Staples -0.59%, Consumer Discretionary -0.80%, Industrials -1.03%, Technology -1.43%, Materials -1.53%, Energy -1.87%, Financials -1.93%

EUROPEAN CLOSES: Euro Stoxx 50 -0.85% at 5,645, Dax 40 -1.24% at 23,579, FTSE 100 -0.24% at 9,675, CAC 40 -0.63% at 8,119, FTSE MIB -0.52% at 43,767, IBEX 35 -1.06% at 16,173, PSI -0.04% at 8,247, SMI -0.39% at 12,586, AEX -0.69% at 945.

STOCK SPECIFICS:

- **Apple (AAPL):** Accelerating CEO succession planning as Tim Cook could step down as early as 2026, via FT.
- **Big tech/AI:** Saba Capital Management has sold credit derivatives to lenders seeking protection from tech exposure, according to Reuters sources; Saba sold credit default swaps on Oracle (ORCL), Microsoft (MSFT), Meta (META), Amazon (AMZN), and Alphabet (GOOGL).
- **Aramark (ARMK):** EPS & rev. missed w/ underwhelming guidance.
- **Alibaba (BABA):** Launched its revamped AI chatbot, Qwen.
- **Dell (DELL):** Double-downgraded at MS.
- **Google (GOOGL):** New buy from Berkshire Hathaway in latest 13-F.
- **Eli Lilly (LLY):** Novo Nordisk is undercutting LLY on obesity drugs for cash-pay patients.
- **Sealed Air (SEE):** To be acquired by CD&R for \$42.15/shr in cash. Note, SEE closed Friday at \$43.28/shr.
- **EW Scripps (SSP):** Sinclair Broadcast Group (SBGI) has built a roughly 8% stake & is vying to acquire the Co, via WSJ.
- **WPP (WPP):** Attracting takeover interest, albeit later denied by the CEO of Havas.
- **Travel names (ABNB, EXPE, BKNG)** were pressured after Google (GOOGL) announced new AI travel tools to help with travel planning.

- **Live Nation (LYV)/ StubHub (STUB)** - UK to ban resale of tickets above face value, according to FT.

FX

The Dollar was firmer, albeit in a day of thin trade as we await delayed US data and NVIDIA earnings later in the week. Back to Monday, NY Fed Manufacturing was largely strong as current business conditions were much better than anticipated, new orders and employment rose, with prices paid declining. However, six-month business conditions declined to 19.1 from 30.3. On the Fed footing, Vice Chair Jefferson largely echoed his remarks from early November, where he noted the current Fed policy rate is still "somewhat restrictive" and the Fed needs to proceed slowly as monetary policy approaches the neutral rate. Of note for next week, the Vice Chair said he looks forward to reviewing the Beige Book. DXY traded between 99.291-579.

G10 FX saw losses, albeit nothing too extensive and broadly fell foul to the climbing Greenback as opposed to much currency-specific newsflow. AUD was the relative laggard, while GBP and CAD "outperformed". In terms of headline risk, the Yen saw no move to Japanese GDP for Q3 falling below zero, the first time in six quarters, albeit not as deep in negative territory as forecasted. Out of Europe, while again no move, there was plenty of ECB speak, but said little new. In addition, the European Commission Autumn 2025 economic forecast saw GDP revised up for 2025, but down for '26, with inflation moving up for both 2025 and '26. In commentary, noted "shows continued growth despite challenging environment." Swiss Q3 GDP fell -0.5% vs. Q2's print of +0.1%.

CAD saw slight two-way trade to the latest inflation metrics. Overall, it was mixed – headline inflation Y/Y eased but was slightly above Wall St. consensus. Core inflation picked up in October, partially due to one-off factors like the annual increase in property taxes, which Oxford Economics notes always enters the CPI in October, and a jump in cellular services prices.

EMFX was largely at the whim of the Dollar amid a lack of newsflow. Out of LatAm, BCB sold USD 1.25bn in dollar auction with repurchase deal. Meanwhile, in CEE, NBP's Janczyk said there is room for a small rate cut in the near future. Looking to NBH on Tuesday, ING notes the rate decision should be a non-event, and expect rates to be held steady at 6.50%, but the market will focus on forward guidance, especially after the increase in the planned public deficit. ING adds while hawkish guidance is widely expected, there is not much possibility of a tougher tone compared to previous meetings, building some dovish risk.

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