



“Hopium” Market Commentary – November 2025

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The advance estimate of Gross Domestic Product (GDP) in the third quarter of 2025 has not yet been released since the U.S. federal government shutdown that began on October 1, 2025 has caused the U.S. Bureau of Economic Analysis to stop updating its website. Similarly, the U.S. Bureau of Labor Statistics, the keeper of inflation, unemployment, and other metrics, has stopped updating its website. In its monetary policy announcement on October 29, the Federal Open Market Committee (FOMC) stated: “Available indicators suggest that economic activity has been expanding at a moderate pace. Job gains have slowed this year, and the unemployment rate has edged up but remained low through August; more recent indicators are consistent with these developments. Inflation has moved up since earlier in the year and remains somewhat elevated.” Official data sources should resume reporting once the shutdown ends.

As expected, the Federal Open Market Committee (FOMC) cut its benchmark federal funds rate by 0.25% to a range of 3.75% to 4.0% on October 29. According to CME FedWatch, fed funds futures predict a 63% probability of an additional 0.25% cut on December 10 (the next scheduled FOMC announcement). Overall, fed funds futures predict a total of 0.75% more rate cuts by November 2026. In addition to the October 29 rate cut, the Fed also announced plans to stop reducing its balance sheet on December 1. This will end 3.5 years of quantitative tightening that has trimmed more than \$2 trillion from the Fed’s balance sheet (\$8.965 trillion in assets on April 11, 2022 has shrunk to \$6.587 trillion today).

Technical factors of the market are bullish (more demand than supply), while fundamentals are fairly priced – therefore, we are mildly bullish on the market. The Standard & Poor’s forecast for S&P 500 operating earnings per share (EPS) through September 30, 2026 is \$291.75, which implies a price-to-earnings (P/E) ratio of 23.4 with the S&P 500 at 6,840. The earnings yield (E/P) of 4.27% represents fair value relative to the 10-year U.S. Treasury note yield of 4.11%. The yield spread is only 0.16%. The eight largest companies in the S&P 500 make up \$23.7 trillion of the \$61.0 trillion index market capitalization with a weighted P/E of 43.7. If 38.9% of the index has a P/E of 43.7, then 61.1% of the index has a P/E of 10.6 for the overall P/E to be 23.4. A P/E of 10.6 is an E/P of 9.45%, which is attractively priced compared to the 10-year Treasury note yield of 4.11% (a yield spread of 5.34%).

The S&P 500 has risen for six consecutive months, bouncing off of its 50-day moving average to hit an all-time high in October. The index continued its streak of not correcting by more than 5% since it bottomed on April 8 at 4,983. Support levels should be found around 6,640 (50-day moving average) and 6,100 (200-day moving average, February 2025 high). The big story with the S&P 500, however, is the overconcentration in the eight largest companies. Year-to-date in 2025 (without dividends), the market cap-weighted S&P 500 is up 16.3%, while the equal-weighted S&P 500 is up only 7.2%. What makes this particularly shocking is that the same 500 companies are in both indexes. The variance is even more pronounced over time. Since January 1, 2017 (without dividends), the market cap-weighted S&P is up 205.5%, while the equal-weighted S&P 500 is up 117.1%. The S&P 500 has morphed into an aggressive technology growth fund, rather than a diversified portfolio representing “the market”.

Investors are intoxicated by “hopium”, a slang term referring to excessive optimism and false hope. There is a cult-like belief that Artificial Intelligence is an attractive investment *at any price*. A disturbing pattern of circular investing in AI has emerged, creating a self-reinforcing loop of money. For example, a large AI company invests in a smaller AI startup. The smaller AI startup then uses that money to buy the large company’s products. This inflates the large company’s revenue and makes the startup’s balance sheet look better than it really is, attracting more external investors and inflating valuations. The mechanics of indexing are magnifying the effects of this bubble. For now, the Fed is lowering interest rates (“don’t fight the Fed”), and we are entering a favorable time of the calendar (November 1 to April 30). As the months progress, however, there is increased risk of a steep selloff or perhaps something even worse.