ARGUS

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AI Bubble Concerns Trouble Stocks

November has been the best month on the S&P 500 since 1980, but it is not living up to its reputation this year. That's partly because the nearly three-year period of AI enthusiasm is finally showing some cracks. Most everyone who had AI FOMO (fear of missing out) has by now at least dipped a toe, if not surrendered to full-body immersion, in the AI trade. Signs of slowing topline momentum at leading names – an inevitable outcome, given how quickly these companies generated huge revenue and triggered the law of large numbers – have investors questioning the sustainability of the entire AI trade.

Mainly, the staggering amounts of capital that the hyperscalers are investing in AI infrastructure has made investors wonder if there will ever be a pay-off big enough to justify the outlays. In our view, AI has many more chapters to be written as possibly the most transformative technology since the internet. How it will perform as an investment vehicle in the intermediate-term, however, is less clear.

Nvidia's fiscal 3Q26 results (ended October 2025) landed in the midst of the formerly all-in but now somewhat-ambivalent AI trade. Results as usual blew away highly elevated expectations. And CEO Jensen Huang seized the bulls by the horns, so to speak, seeking to address concerns about an AI investing bubble by speaking about AI's huge and still largely untaped potential. He stated that AI was enabling three massive platform shifts simultaneously: from CPU computing to GPU accelerated computing; from machine learning to generative AI; and the emergence of agentic and physical AI, in which robots and autonomous vehicles and systems enable real-world solutions. The market appeared somewhat reassured, sending NVDA shares higher in the hours after the earnings release. While Nvidia earnings are always important, equally important is what's ahead for the company as detailed at its investor event in spring 2026.

Wild Enthusiasm Gives Way to Caution

The S&P 500 was down 1.7% for November 2025 as of 11/14/25 and then fell hard again on 11/17/25. That's after rising 13.7% (on a capital-appreciation basis without hypothetical dividends) through the first nine months of 2025 and by an additional 2.3% in October. The November 2025 decline is quite the shortfall versus the norm. For all years from 1980 through 2024, November has averaged a 2.2% gain. That is the best for any month over that span, ahead of 1.59% for April, 1.41% for December, 1.35% for July, and 1.25% for October.

The index is still up about 15% year to date, on top of capital appreciation of 24.2% in 2023 and 23.3% in 2024. A large chunk of that multi-year gain is a result of the AI trade, which emerged late in 2022 following general availability of ChatGPT in November of that year.

Even more so than in the S&P 500, the AI trade is centered in the growth-heavy Nasdaq Composite. The Nasdaq fell 33% in 2022, worse than the 19% decline for the S&P 500. As the AI trade gathered momentum, the Nasdaq rose 43% in 2023 and 29% in 2024. The S&P 500 closed the gap with Nasdaq in 2024, mainly because the biggest stocks by far in the blue chip index were the same stocks that were lifting Nasdaq: the Magnificent Seven and a handful of adjacent names.

Nvidia is the name most closely associated with the AI revolution. Nearly a decade ago, the company leveraged its leading position in gaming, and specifically in GPU semiconductors and technology, into an early-mover advantage in developing AI for practical applications. GPUs can perform fewer tasks than CPUs; but their multi-thread architecture makes them good at the parallel processing tasks needed for large language model (LLM) training and inference.

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Rival AMD, which also has roots in PC and console gaming, has built a meaningful franchise in AI tools including GPUs, systems, and supporting software. Although companies from Broadcom to Marvell to Qualcomm have joined the race, Nvidia remains the tent pole that is still supporting the entire generative AI edifice.

Nvidia's stock has had an astonishing run, with gains of 125% in 2021, 239% in 2023, and 171% in 2024 (2022 was a down year for all technology names). In 2025, Nvidia's 39% gain is not shabby. But its gain has been eclipsed by two of the semiconductor up-and-comers, AMD (up 85% YTD) and Broadcom (up 53%).

The leading hyperscalers – the companies that are buying and deploying hardware infrastructure from Nvidia and others to build out massive AI implementations – have similarly slowed after fantastic recent-year runs. Meta Platforms has pivoted from Zuckerberg's metaverse to going all-in on AI. Meta was up 23% in 2021, 194% in 2023, and 65% in 2024, but is up just 1% in 2025. Microsoft's Azure is a fast-closing No. 2 in the IaaS cloud space and a major investor in AI. MSFT rose 51% in 2021 and 57% in 2023, but just 12% in 2024 and 16% in 2025.

Alphabet's Google Cloud business employs scientists who have developed some of the most groundbreaking AI technology including Transformer architecture (the "T" in GPT). GOOGL, which ran up 65% in 2021, 58% in 2023, and 36% in 2024, is the best of the bunch with a 55% gain in 2025. Alone among its hyperscalers peers, GOOGL is ahead of the S&P 500 since June 30, 2025, while MSFT and META are underperforming the blue chip index.

AI Earnings Still Strong

The old axiom on Wall Street is that markets grind higher but plunge lower. On 11/17/25, just two days ahead of NVDA's earnings release, the stock market and the AI trade in particular experienced another one of those hard selloffs that have plagued stocks in November 2025. Some of the chatter surrounding these selling sessions relates to parallels to the internet implosion of the late 1990s to early aughts. There are certainly some parallels, including the excitement of not just participating in something new but also investing in and profiting from it.

There are also some clear differences. Investors who took part in the boom of the late 1990s bid stocks high on the promise of future technology, at a time when profits were scarce or even perceived as a sign of "old thinking." As a result, price-to-sales multiples for leading tech names at the time were higher than price-to-earnings multiples for most of the market.

In 2000, when the promise of an unlimited future crashed into reality – the bottleneck of dial-up internet – investors exited the tech sector in a rout. T hat early 2000's selloff is haunting AI investors who wonder if the AI trade will end with a whimper or a bang.

Investors in search of a little peace of mind should consider that AI leaders are not trading on inflated P/S multiples. In fact, many are trading at P/E ratios that are close to or even below those of the broad market. And given their growth potential, PEG ratios for AI industry leaders are in many cases more attractive than those of industry leaders in other sectors.

Take Nvidia, for example. As of mid-November, and using consensus expectations for the next two years, NVDA trades at a somewhat pricey 42.5-times forecast non-GAAP EPS for its half-completed January 2026 fiscal year but at a more reasonable 29.8-times FY27 non-GAAP EPS. NVDA's two-year forward of 36.2-times is below its historical trailing five-year (2021-2025) average P/E of 43.0-times.

Nvidia's annual earnings growth was 289% in FY24, 131% in FY25, and is on track for mid-40% growth in FY26 and FY27. The S&P 500 by contrast grew earnings 2% in calendar 2023 and 9% in 2024, and is on track for 12% and 11% EPS growth, respectively, in 2025 and 2026. Based on FY27 forecast EPS, NVDA is trading at about 1.5-times the market multiple. Given the disparity in EPS growth rates, NVDA does not appear expensive and could even be considered a bargain. Also in the GPU space, AMD trades at a two-year forward P/E of 48.5-times. That seems expensive until you consider that AMD grew calendar 3Q25 EPS by 30%, on track for 40% EPS growth in 4Q25, and (according to consensus) should grow its 2026 non-GAAP EPS over 50% as its AI business gains momentum.

Earnings performance and price-based valuation (P/Es) for the major hyperscalers shows a similar pattern. After years of strong stock gains, P/Es are creeping higher. But consistently above-market EPS growth has kept valuations from soaring out of sight. And the law of large numbers notwithstanding, EPS growth in many cases is actually accelerating for these companies as AI use cases widens out from the core AI data center market to broader applications in enterprise, sovereign, and other large and mostly untapped markets.

Conclusion

Profit taking in AI names is not a new thing. In the roughly three-year AI rally that dates to late 2022 and early 2023, Nvidia and other AI names experienced a moderate selloff in spring 2024 and a deeper selloff from the end of 2024 to the beginning of April 2025.

The NVDA earnings report is always highly anticipated and tends to set the course for the AI trading universe in its immediate aftermath. The bigger event for Nvidia is actually its main GTC conference in March – an event that has now eclipsed iPhone launch day in September as the must-see technology event in any year. Whereas Nvidia earnings provide details on how well Nvidia has executed on its product ramp, Nvidia GTC previews the next stage in AI's evolution.

While digesting the implications of Nvidia's latest EPS release, investors will eagerly await the March 2026 GTC event. In our view, the fact that the market is more excited about the AI unknowns ahead than concerned with the execution implicit in Nvidia's results release is a sign that the AI trade has several more innings to go.

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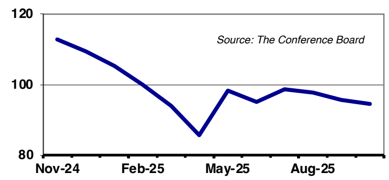
Release:	**Consumer Confidence**
Date:	11/25/2025
Month:	November
Previous Report:	94.6
Argus Estimate:	94.0
Street Estimate:	93.3



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ECONOMIC TRADING CALENDAR (CONT.)

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
17-Nov	Construction Spending	August	**-1.6%**	-3.0%	NA	**-1.6%**
18-Nov	Factory Orders	August	1.6%	1.4%	NA	**3.8%**
19-Nov	Trade Balance	August	-$78.3 Bln.	-$60 Bln.	-$61 Bln.	NA
20-Nov	Nonfarm Payrolls	September	22K	56K	50K	NA
	Unemployment Rate	September	4.3%	4.3%	4.3%	NA
	Average Weekly Hours	September	34.2	34.2	34.2	NA
	Average Hourly Earnings	September	3.7%	3.7%	3.7%	NA
	Existing Home Sales	October	4.06 Mln.	4.10 Mln.	4.09 Mln.	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
1-Dec	ISM Manufacturing	November	48.7	NA	NA	NA
	ISM New Orders	November	49.4	NA	NA	NA
3-Dec	ISM Services Index	November	52.4	NA	NA	NA
5-Dec	U. Michigan Sentiment	December	50.3	NA	NA	NA

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