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Is the AI Trade Losing Momentum?

LIZ ANN SONDERS: I'm Liz Ann Sonders.

COLLIN MARTIN: And I'm Collin Martin.
LIZ ANN SONDERS: And this is *On Investing*, an original podcast from Charles Schwab. Every week we analyze what's happening in the markets and discuss how it might affect your investments.

COLLIN MARTIN: Well, hi, Liz Ann. We're back again to talk about the markets. And I think there's one thing that's almost like it's the elephant in the room lately, and that's Nvidia. And maybe it's the elephant in the room for the wrong reasons right now, but we don't need to get into that. But I think it's a good topic to talk about because it's making so many headlines. We know a lot of investors are interested in it. They likely hold it. We know that Nvidia's earnings, you know, make up a large share of the major indexes. So let's just, you know, talk about that, especially knowing that they reported earnings. They're in the headlines. There's, you could argue, concentration risks, all the above. You know, what are your thoughts on just Nvidia in general, but as it relates to the market and how should investors be thinking about it?

LIZ ANN SONDERS: Well, it should be obvious to regular listeners, neither you and I do anything specific to individual stocks. We're not analysts. You're on the fixed-income side. I'm on the equity side of things, but I don't make recommendations on individual stocks. So keep that in mind. My comments will be much broader than that.

You know, all eyes were on the earnings report as you and I are taping this. It was after the close yesterday on Tuesday the 17th. And they did offer some reassurance that they can maintain, you know, capex momentum, revenue momentum. So I think that eased some concerns heading into the conference call. And I didn't listen to the conference call, but I've seen snippets of components of it. And it does suggest that

AI capex, which is a big economic story, obviously, continues to be very healthy. and at this stage doesn't show any signs of a slowdown.

That said, the concentration … and we talk about concentration quite a bit as it relates to what size a stock represents in a capitalization weighted index like the S&P 500®. We talk about, you know, concentration of returns, but there's concentration within earnings as well. And for calendar year 2026, expected year-over-year S&P 500 earnings growth, and I don't know the Nvidia component of that individually. The data I have seen is that Nvidia and Micron, so those two stocks, represent about 35% of expected full S&P 500 earnings for calendar year 2026.

I just saw a note, specific to calendar year 2027, which even though we're not even there yet, and we're still reporting third quarter earnings, that's what should be in focus because the market tends to price itself on forward earnings, and valuation analysis tends to be done on forward earnings. And at this stage, where the expectations are for Nvidia's earnings next year, by analysts, not by us, where the consensus expectation is for S&P 500 earnings for next year, Nvidia is close to 50% of that. So, you know, good news yesterday in that they didn't have a major disappointment. But that has been one of these budding risks. What happens to a behemoth like that in the event there's some sort of miss or a downgrading of forward guidance to the analysts that cover their stocks? You know, so far, we have not seen that.

And maybe to some degree, the weakness in Nvidia and the whole AI-related space has been a reflection of some of these concerns about the inevitability of a slowdown in forward capex assumptions and forward earnings assumptions. You know, the other thing that has happened, and this is data that I put on my X feed every single day, there's one table in particular that it looks at the Tensor10 as I've been calling it, which is the Mag 7 plus Micron, Broadcom, and AMD. And that makes up the 10 largest tech stocks that are very much in that AI space. So Nvidia for much of the past couple of years has spent a lot of time in the number one spot in terms of contribution to S&P returns. Now contribution comes by multiplying price performance by size. But given the very weak price performance, particularly recently in Nvidia, that's now ranked dead last in the S&P 500 from a contribution standpoint. Apple has now leapfrogged Nvidia to be the most highly valued stock, and that is the number one contributor now to S&P returns year-to-date.

But interestingly, on a price performance basis, Apple is ranked 100, not even in the top 100 or the top 99. You know, Micron is the second largest contributor to S&P returns. It also happens to be the fourth-best price performance. So the moral of this story, as it relates to Nvidia, is that contribution, or size I should say, works in both directions. It can elevate you if you're performing well to the top of the leaderboard

from a contribution standpoint, but it works the other way when you've got negative performance. So that's my Nvidia message for the day without making a recommendation of, you know, buy or sell.

COLLIN MARTIN: No, I love that, and it's funny when I think about, you know, the stock market in general, but specifically these, you know, the high flyers. And I'm happy I'm a bond guy because it's just so difficult, you know? Like if you're worried about that huge run up that we saw over the years, and you're not in Nvidia, that's obviously going to weigh on your performance, but then you have to own it if you want to, you know, you want to show your clients you're doing well, but then it's come down so much lately because of the high-flying status, and it cuts in both ways. I think what's really interesting is … and you touched on this, and I just want to kind of double click into it, is that expectations matter so much, right? So when we got the earnings, we knew they were going to be high, right? I guess the question of how strong were their earnings? They're making a lot of money, but it all looks ahead, right? OK. And I think so much of the …. what we're going to see when the market opens up today and over the next few weeks is was that expectation factor, right? Can they continue? We know they're making a lot of money, but is that growth still going to be there?

LIZ ANN SONDERS: Hey, I wanted to … I mentioned the Tensor10 table that I put on my X feed every morning. Another chart that I've been showing a lot lately is the correlation between the 10-year yield and the S&P 500, which for a big chunk of this year until very recently was inversely correlated. So bond yields would go up, stocks would go down, and vice versa. But more recently that's popped back into positive territory. So I wanted your latest thoughts on just, you know, monetary policy and expectations, but maybe also specific to longer-term yields like the 10-year, which has the most relevance between our worlds, the fixed income market and the equity market.

COLLIN MARTIN: Yeah, and it has relevance because it ties into just this AI data center build-out because a lot of the financing is coming from the bond market. So if you're a company looking to raise capital, and you're raising it through the bond market, higher Treasury yields generally means higher borrowing costs. But then on top of the Treasury yield, is what's called a spread. If you're a corporation, you're going to borrow at a higher rate than the U.S. government because of those risks. And with all the supply we've seen, with kind of the unknowns about what this looks like down the road, we've seen those spreads rise. This, you know, does have an impact. The rising-rate environment has an impact on businesses, corporations, consumers, but especially with this data center build-out, it's just higher interest expense across the board. It's more expensive to borrow.

So we have seen yields move up. You mentioned the 10-year Treasury yield is kind of a key benchmark for the global economy. It's back above 5% right now, friendly reminder that the 10-year Treasury yield is indirectly related to the fed funds rate and monetary policy. It's really based on expectations. But I think that's a key driver for why yields have risen this year, but also recently, because if the Fed is expected to continue raising rates, which is what we expect, then longer-term yields should be priced off of that higher expected short-term rate. And again, that's what we've been seeing.

When we think about what the Fed's going to do, you know, we expect them to continue raising rates. We expect a rate hike next month at the December meeting. We expect another hike, a second additional hike, sometime in early 2027. And the data backs that up right now, but also everything what Fed officials are telling us backs that up. And this is funny—we've joked about this. We have Fed Chair Kevin Warsh, I was saying for a while, "new Fed chair." I'll drop the "new." Now it's just Fed Chair Kevin Warsh, does not like the communication policy by the Fed. He thinks they speak too much. And I don't have a measure. I'm sure we can take a quantitative look into this. It sounds like they're talking more than ever.

LIZ ANN SONDERS: They, by they, the Fed-heads, you know, the presidents and the voting members, they apparently did not get the memo from Warsh because it's a cacophony.

COLLIN MARTIN: They might have gotten it. They might have gotten it, and they threw it in the wastebasket, maybe.

LIZ ANN SONDERS: Yeah, exactly.

COLLIN MARTIN: In one ear, out the other. They're talking, and not only are they talking, they're giving us explicit forward guidance, which is something else that Kevin Warsh doesn't want. So when we talk about forward guidance.

LIZ ANN SONDERS:. Yeah, Christopher Waller. Do you think there's much of a likelihood of a 50-basis-point hike at the December meeting?

COLLIN MARTIN: I don't think so. But as you said, Christopher Waller is kind of directing traffic that way, where Waller, last week we got a comment from him, it was actually very timely at the time, where he did what Warsh doesn't want him to do, and he provided a very clear kind of roadmap of what he expected. And he signaled that another rate hike is necessary, and he said if the CPI print, Consumer Price Index, if it came in by 0.3% or more for the month, then maybe a 50-basis-point hike would be necessary. And then we got that just, you know, an hour or so

later. And then this morning as we're recording, he came out again and is talking about that potential. I don't think it's likely. There doesn't appear to be much support amongst other officials, even the most hawkish officials, the ones who are the most and have been the most worried about inflation and have been vocal about the need to hike rates. So Dallas Fed president Lorie Logan, for example, she's been in the hike camp for a while, and she hasn't really even talked about that yet.

But she's also being pretty clear about what she expects. She put that forward guidance out there. She sees the need for two rate hikes, but maybe the pace needs to quicken if inflation remains elevated. And we're getting that theme from almost everybody. There's very few officials who aren't talking about the need to raise rates right now.

So you know, high, high, high probability of a hike next month and then another in 2027. And then the risks are for more there rather than fewer right now. That can change. And I always like to add this, Liz Ann, because we see expectations from, you know, strategists like us, market expectations from the fed funds futures market, and even comments from officials change as the data changes. But right now, you know, the trend appears to be more rate hikes are necessary. And I'd say the risk is to more rather than fewer.

On top of that though, sorry, I'm rambling a lot, but you know, when we're talking about this, Liz Ann, I get excited. We talked about 10-year Treasury yields. Let me go back to that real quickly because that matters for investors also, you know, the yields that we can earn. And I said that Fed policy indirectly impacts the 10-year Treasury. There's a lot of things that that can impact it, but most of the things we see support the case kind of for higher yields rather than lower. It's expectations for the path of Fed policy that should pull them higher. Inflation expectations, not just inflation, but inflation expectations, they're pretty low right now given the inflationary environment we're seeing.

So I think there's room for inflation expectations to actually pick up a little bit, knowing that it's clearly a problem that's still here. Fiscal concerns can weigh on Treasury yields. You know, there doesn't appear to be an end in sight there. But then the final thing, or one of the final things, there's no shortage of things that can impact long-term Treasury yields, but economic growth. But this is something that I'd say could be a risk because there's a lot of questions right now about the AI momentum, right? If we do see a slowdown given the results of the election. And if there are growth concerns, that's something that could prevent yields from rising or long-term yields from rising, or maybe could pull them lower. But if we're looking at a balance right there, way more risks to the upside than the downside.

So Liz Ann, we have a great guest today. It's someone that you and I talk to frequently, but he actually hasn't been on our show yet.

LIZ ANN SONDERS: Yeah, that's right. So it's our colleague Joe Mazzola. He hosts a program that I do every Monday, starting at 3:00. It's about a 25-minute show. It's called *Liz Ann Live*. And again, it's every Monday afternoon, that's Eastern Time, on the Schwab Coaching Network. And Joe is the director of trading services here at Schwab. He appears regularly on Bloomberg Radio, CNBC, the Schwab Network, of course, and weekly on Schwab Coaching webcasts. Previously Joe ran Schwab's trader education offering as well as Schwab Live Daily. Joe built the Schwab Learning Center, hosting our large format Schwab Live virtual and in-person education events. He has participated as an options specialist and panelist at multiple large conferences and events.

Joe has more than 25 years of investment management experience, assisting institutional and retail clients, including time as a portfolio manager. He was at the CBOE, which Chicago Board Options Exchange, and international stock exchange options market maker, and he was also a risk manager.

LIZ ANN SONDERS: So Joe, so happy to have you on our podcast. And given that this is your first time as a guest with us, why don't you tell our listeners a little bit about yourself and how you got started in the business and maybe whether this has always been a keen interest of yours, trading, and the stock market. So just give us a little bit of background.

JOE MAZZOLA: Thanks, Liz Ann, for having me. I appreciate being here. Well, yeah, I mean, look, I've always had a passion for the markets and trading. You know, when I graduated college, I went down to the Chicago trading pits. That was my first job. Started off at the Chicago Board of Trade, where I learned about options and two different fields, the grains and bonds. And then, you know, after kind of, you know, getting my feet wet there, I moved over to the Chicago Board of Options Exchange through, you know, different kinds of clerking jobs and an apprenticeship there. And I learned how to become a market maker in the Microsoft pit in the early 2000s. I traded through, you know, bull and bear markets. You know, learned how to kind of navigate my way through major bouts of volatility. And, you know, I think what I learned from all those different positions is that risk management, that's the key, right? So, you know, whether you're long or short, whatever your position is, do you have it set up to where if you go home at night, you can sleep at night and feel good about, you know, whatever happens overnight, you can still survive?

LIZ ANN SONDERS: Talk about your day-to-day now at Schwab, Joe. I certainly know what you do every Monday from 3:00 p.m. Eastern Time to 3:25 p.m. Eastern time, because that's when you and I do what we call *Liz Ann Live*.

JOE MAZZOLA: That's the highlight of my week, Liz Ann.

LIZ ANN SONDERS: Oh yeah, yeah, yeah, sure. But tell us a little bit more about what your day-to-day looks like at Schwab, what you keep an eye on, what indicators you focus on a day-to-day basis.

JOE MAZZOLA:. Sure. I wear a couple of hats. So we do a lot around trading strategy for our clients. So what that entails is this. We do a daily write-up, Schwab Market Update. When we see things in the market that are of interest, you know, you and I both, you know, we post them in Twitter, on X, or on LinkedIn. But then really my day-to-day more so revolves around our Schwab Coaching team. So I manage that team, and what our coaches do is they provide about 35 hours a week of live coaching for, you know, different types of trading strategies, whether that's technical analysis, options, you know, even basic things like, you know, "What is a stock?" or, you know, "How do I get started investing?" We kind of run the full gamut, and you can access that on our Trader Talk site on YouTube. And so that's part of my team.

And then the other thing we do, Liz Ann, is, you know, similar to you, I travel, and I meet our clients at large events. You know, we host 22 of those a year. Some of them, you know, the ones that I that I run a little bit more myself is called the Market Drive. And Market Drive is basically this funnel where we start off and kind of talk about some of the things you and I talk about on your show, which is, you know, the macro economy and kind of how that feeds into kind of the sector analysis, and then we kind of go from there and look at, you know, what does that mean for stocks? And then, you know, what does that mean for all the different type of trading and investment type of strategies?

And, you know, we even incorporate things like options into that for risk management and, you know, portfolio optimization. So all these different things that we do, you know, to kind of educate our clients on how they can better succeed in the market. And then specifically what do I look for?

You know, I would love to say that I could just kind of put my hands in my pockets and just, you know, watch the markets as they go and look at my statement once a quarter, but no, no, that's not me.

LIZ ANN SONDERS: Doesn't work that way.

JOE MAZZOLA: Doesn't work that way. No, no, no. I am constantly cued in, probably more than I should be, in terms of kind of what's going on with the markets. And,

you know, I study volatility quite a bit. That's my background in options. So I keep an eye on things like the VIX to kind of get a sense of whether or …

LIZ ANN SONDERS: The VIX meaning the volatility index.

JOE MAZZOLA: Yes, excuse me. Yeah, the volatility index, which really measures, I think it's kind of a misnomer sometimes because everybody calls it the fear index, but what it really measures, Liz Ann, is expectations for movement within the S&P 500 over the next 30 days. And remember that's an absolute value. It can go down or it can go up. Primarily the volatility indicator, the VIX, goes up when people are a little bit more fearful about a down move in the market. But when fear or when, more importantly, volatility is elevated, things can swing either way. We've kind of seen a little bit of that today in the market in terms of the Nasdaq being down 2% and then going back to only being down, you know, 0.5% and kind of whipping all over the place just based upon the news that's come out today.

LIZ ANN SONDERS: By the way, Joe, referencing today, we are taping this earlier in the week. So this is November 17, because as you know, Joe, between now and Friday when this episode drops, a heck of a lot can happen. So I figured I would timestamp your comments there.

JOE MAZZOLA: Absolutely. By the time we're done with this conversation, a lot can happen, so sure.

LIZ ANN SONDERS: Absolutely, absolutely. So one question I want to ask you is, as you know, Joe, we as a company and me personally as well have spent a lot of time focusing on the blurring of the line between investing and gambling and really parsing out different categories of investors. And so I have a question about how you or maybe how our company more broadly define the difference between a trader and a long-term investor, sometimes more generically categorized as retail trader versus retail investor.

JOE MAZZOLA: That's a great question. And I think that maybe those two terms have started to morph a little bit into what I like to … this is how I like to look at it, Liz Ann. I think that traders are investors and investors are traders. And here's the reason why. I think that traders need to understand what their long-term goals are. I think that, you know, they can benefit a lot from understanding things like estate planning, right? And things that maybe traders don't think a lot about or "Hey, if my goal is to get to X in the next 20 years, how do I get there from a long-term perspective? I can still have my trading account that helps maybe supplement some of those goals, provides cash flow, provides me, you know, maybe a little diversification against some of my core holdings and ways for me to kind of trade

around some of those core holdings, but ultimately, I still have a goal to get to, you know, longer-term investment strategy."

Now, for investors, and I think this is where things have changed a little bit as they become a little bit more active and as they're doing a little bit more of the self-directing of their accounts. I talk to them all the time about kind of portfolio optimization, and I use that term to mean this: "Can you have a long-term strategy where you can start to augment some of those returns through some maybe shorter-term changes in the portfolio, whether they're, you know, utilizing options as a way to try kind of generate some income, or, you know, maybe hedging if you're starting to feel like, you know, your longer-term portfolio is maybe getting hurt by some of the volatility in the market. So these different types of ways that we can wrap around trading strategies around a longer-term approach that can maybe take out some of the volatility in their portfolio that you're seeing on a day-to-day basis, you can still have that longer-term outlook. But if you can either augment some of those returns or reduce some of that risk by maybe some shorter-term strategies, some more tactical-type strategies, still looking towards that strategic long picture, I think that's where you can combine the two and do so effectively.

LIZ ANN SONDERS: Yeah. All right. So it's that time of the year. We're approaching the end of the year, heading into the holiday season, and that means it's outlook season. So we'll all be writing our 2027 outlooks in the next few weeks. But let me have you look back with me here and look back over the year that is soon to be finished, 2026. What would you say has been or was the story of the year, and how do you talk about this year in terms of a narrative for investors or traders.

JOE MAZZOLA: I think really two main points have kind of driven markets this year. It's the kind of 180 turn on inflation, right? Where we were expecting cuts coming into the year, you know, multiple cuts, and then it went, "Well, maybe we'll get one cut." Now, you know, not only did we have a hike back in September, but I think about 85% probability of a hike in December and then potential additional hikes in maybe in January and April as well, too. So I think that's been a big turn in the markets.

I think the second piece, and this is something we're living through right now, is what's the AI story going to look like going forward? And has that changed dramatically? You know, we use that kind of baseball analogy all the time to say, "Well, what inning are we in?" Well, you know, I feel like that's changed a little bit because we continue to hear about, you know, the benefits of AI going forward and the mass amount of spending that's been driven by the hyperscalers and all the adopters of AI. But I think the market's now saying, "OK, well, put up or shut up, right? Like what are you doing with that money? Where's the cash flow?" I think

that's been a big turn in the market. I think it really started to happen kind of midway through the year …

LIZ ANN SONDERS: Yeah, it was pre-midterms. A lot of people think that this turmoil and concern about the longevity of AI and the build-out was something post-election, given the outcome and concerns about data centers. But this was a narrative in play before then.

JOE MAZZOLA: Yeah, and I think what's happened with that is we started to see that rotation under the surface. You and I have talked about it many times, but now it's starting to kind of bleed into other parts of the market as well, too. You know, I was just looking at kind of what happening at kind of the low point, and as you said, we'll put a timestamp on this. This is Tuesday the 17th. At the low point of the day, you know, we had about 90% of the stocks were down in the S&P 500. Now we're starting to climb back up a little bit here. But you know, what that tells me is that where we were thinking that maybe at some point that AI sell-off could be contained by a rotation, now it's starting to kind of permeate its way into the rest of the market as you're starting to see weakness in the other sectors. So that's something that's kind of caught my attention, too. So not just … and look, I don't think they're mutually exclusive. I think, you know, maybe the rotation away from cutting rates to raising rates and what that does to higher-beta names and, you know, discounted cash flows and all the stuff that that we look out for and say, "OK, well, yes, a year or two down the road, these are the cash flows that we get. So this is how we should price these." That changes when you get a changing rate regime or changing rate environment. And I think it's kind of led into maybe some of that AI sell-off that we've seen.

LIZ ANN SONDERS: You mentioned that you travel a decent amount, as do I, and we are in front of our clients and investors quite a bit. So what questions are you getting these days? What's the chatter at client events? What storylines are you most focused on as we start to close out the year?

JOE MAZZOLA: It's interesting, because as I said, we get a whole swath of people there, whether, you know, investor, trader, but it really all comes back to AI, right? It it's, you know, "Will AI turn this into a bear market?" Do we expect the spend to continue? And you know, if that's the case, kind of, what can that mean for the market? Is this just a little bit of a pullback, or is this something a little bit deeper? So those are the questions I get quite a bit.

The other questions we get tend to kind of center around just the economy. Like how strong is the economy? Can the economy support the AI spend? And I think that's an important question, right? Because we think about it in terms of the … all

the hyperscalers and the spends that they're doing. And hyperscalers, when I say that, I mean the Microsofts, the Amazons, you know, all those companies of the world. But at the same time, who's going to be the end user of this? And are they going to support companies that are paying these massive billions amounts of dollars, you know, for this AI build-out. At some point that's got to make its way back down to the consumer base. And are they going to be able to support that? Is the economy strong enough for that? So those are some of the hot-button issues that we get quite a bit.

LIZ ANN SONDERS: Much of which has had an impact on market behavior. We do have the Nasdaq now, again, having slipped into correction, that's the second time this year, and the selling has spread from AI into other parts of the market. So big picture, from your perch now, do you think this is a healthy reset, or could it be the start of something bigger?

JOE MAZZOLA: So good question. I think in terms of right now, it's a reset. But like I said, what was interesting to me today in particular is that when we got to the point where 90% of the stocks within the S&P were trading lower on the day. So that shows that it's kind of made its way outside of maybe just the Nasdaq. And it doesn't mean that it needs to be a rout of the market as a whole, but we are starting to see it's not just being a tech story anymore. It, you know, some of the, maybe some of the safe havens that people have been rotating into, you know, staples, discretionary, healthcare, utilities, maybe some of those are showing a little bit of cracks right now.

But I think there's a couple of things going on. I think initially it was sell out of, you know, high beta, sell out of tech and look to rotate into something else while we try to figure out what's going to happen, you know, after the midterm elections. Now that I think, you know, we've gotten other parts of the story in terms of, you know, what's happening in Nvidia. You know, we have earnings coming out today after the close. I think that it's more in terms of, you know, what are earnings expectations going to be as a whole?

You know, you and I talk about this quite a bit. We're in Q3 earnings right now, which are about 27% year-over-year growth, and that's not good enough for the market right now. It's just really interesting to see that, you know, what we would consider normally a fantastic earnings quarter is not getting rewarded by the market. So I think that there's some things going on underneath the surface. I think some of this is kind of structurally driven. We're seeing that, you know, hedge funds have kind of pulled some money out of the markets. You know, they're not in the AI trade to the same extent anymore. And you can look at that two ways. You could say that if there is a big enough pullback, maybe that's where you start to see hedge

funds go back in. But what's been interesting to me is just the retail client base, they continue to buy the dip. So something's going to give at some point. We just don't know when that is.

LIZ ANN SONDERS: All right. I'm going to have you put your options hat on. And I love talking to you about this in part because I know very little about options. So I learn from you every time we get on this conversation. But we've seen record put buying during this sell-off. So what is the options market telling you about how both retail investors and institutional investors are positioning their portfolios? And is all that fear showing up in the options market potentially or already a contrarian signal?

JOE MAZZOLA: Yeah, if you look at the S&P 500, one of the things that … and you asked me is for some of the indicators that I look at, one of them is percentile ranks in terms of skew. So basically when skew is high, what that means is there's a lot of put buying, and people buy puts as a protection-type strategy if they're kind of fearful about the market selling off.

And when you see it in the retail side, it tends to be done with ETFs. When you see it on the institutional side, right now the skew is in the 97th percentile. So basically what that means, Liz Ann, is that only 3% of the time over the course of the last year have we seen puts, you know, getting bought relative to calls in the same mass that we're seeing right now.

Now, do we get a bounce from here because of the fact that they're so, you know, flipped on one side relative to the other? When we saw the same kind of relative put buying prior to the election, what was interesting is after we got the election results, they had to unwind those positions all very quickly because the next day you saw S&P rally as much as it did.

So if we get a little bit of a bounce from here, I would not be surprised to see these positions flip fairly quickly, which could give a little bit more of a end-of-the-year kind of Santa Claus rally.

LIZ ANN SONDERS: Speaking of Santa Claus rally, this is where I put your feet to the fire a little bit and request maybe some actionable thoughts. So you mentioned the Santa Claus rally, that's probably one of the most well-known seasonal tendencies. So as we are setting up here, approaching the latter part of November, do you think we'll get another Santa Claus rally, or might we continue to see the market chop and rotate and churn through year end as well?

JOE MAZZOLA: You know, I would love to be able to put on that Santa Claus hat and say that we got a nice little run coming into the end of the year. I think there's going to be chop for a little bit as we kind of figure out the market positioning. But that being said, the way that the market is positioned right now, it is positioned for the worst, or at least the way that the hedge funds are positioned, they're positioned for the worst. So if there is some type of good news, I could see this thing flipping fairly quickly.

It's hard to want to kind of fight the trend of that seasonal tendency. But you know, one of the things that I've been kind of looking at is, you know, if you look at kind of post-midterm election results, you tend to get a rally after the midterms. We haven't really seen that yet. You know, we saw the one day. So does that mean that you discard kind of what you've seen in the past? I think you have to be a little bit more kind of tactical with this market. But I would not be surprised to see a little bit of a bounce from here because I do believe that the positioning suggests that everybody's pricing for the worst.

LIZ ANN SONDERS: Right. All right. We mentioned the 2027 outlooks that are collectively coming out in the next few weeks. So without trying to get ahead of those conversations, talk a little bit about maybe what might be the biggest risk or two that you think investors are not paying enough attention to or maybe they're underpricing and maybe any advice that's broad advice that our listeners could take away in terms of maybe something they can think about doing in their own portfolios.

JOE MAZZOLA: You know, I would think right now the biggest risk is that the market might be underpricing how long inflation sticks around and kind of rears its ugly head. Because, you know, even though you've seen the 10-year up above 5%, you know, the Fed has kind of, I want to say tipped its hand a little bit and, you know, they're basically talking about tightening. I mean, we heard Waller talk about … or Fed Governor Waller talk about the fact that he'd be on board with the 50-basis-point hike in December. He's traditionally a dove, or at least he's been, you know, very dovish in the past. So to hear him say that says that the Fed's probably going to get a little bit more aggressive than maybe the markets are pricing in, even though the markets are really pricing in, you know, three rate hikes over the next four or five months, we might see a little bit more until we see inflation start to turn around, and that's just not hasn't been the case yet. Inflation's really started to pick back up. Now, where does that pressure fall, or where could it lie?

I think it could hit some of the long-duration, high-valuation stocks that dominate, you know, many investor portfolios. And those are, you know, those are kind of the AI stocks that have accumulated in investor portfolios as they become bigger part,

even if they're indexed, you know, even if they're using indexes or ETFs. You got to remember they're making a much larger, you know, 40% of investor portfolios because of the fact of their market cap and the size that they represent.

So I think that if you've had a nice run in some of those names, it's not a bad idea to look for maybe doing a rebalance, to take some of that that pressure off and look to see may where maybe you have some underserved sectors that could, you know, appreciate if you believe that maybe out of … and you know, using the Mag 7 as a perfect example, if you believe that the other 493 stocks within the S&P 500, they might continue to grow earnings, there might be some opportunities there.
LIZ ANN SONDERS: Right. So Joe, as always, this has been fantastic and it was really nice to reverse our seats a bit here. And unlike *Liz Ann Live*, where you ask me a bunch of questions, I got to ask you a bunch of questions.

JOE MAZZOLA: Yeah, I liked it.

LIZ ANN SONDERS: So we should we should do this again. How can people keep up with both your work individually and your team's work?

JOE MAZZOLA: So every morning we publish our Schwab Market Update. So you can get that daily market commentary and a lot of the trading education that we provide on schwab.com/learn. So you can find it there. My Schwab Coaching team, they're fantastic. You can see them on YouTube via our Trader Talk channel. Also, you know, we have the Schwab Network, which a lot of us make appearances on. You and I were on there this morning.

And then last but not least, give me a follow on X. I provide a lot of trader tips, thinkorswim® tips. So if you're an adopter of thinkorswim and you want to know more about kind of how I use it, I provide a lot of content on there as well. And that is @JoeMazzolaCS, as in Charles Schwab, @JoeMazzolaCS.

LIZ ANN SONDERS: Awesome. Thanks so much, Joe. Love the conversation.

JOE MAZZOLA: Thanks for your time. Appreciate it.

COLLIN MARTIN: So Liz Ann, as we always do, let's look ahead to next week. It's a holiday-shortened week with Thanksgiving coming up, but there's plenty on the calendar. So what's on your radar, and what do you think investors should be watching?

LIZ ANN SONDERS: Yeah, and by the way, happy Thanksgiving to everybody in advance of the holiday. You too, Collin. So next week we get the S&P Global version of the Purchasing Managers Indexes, the PMIs. ISM version of those tends to be a

little more widely watched, but I like S&P Global's. It says it in the name, in part because it's a little bit more of a global look on how activity is behaving both on the manufacturing side of the economy and the services side.

We get a bunch of home data, housing-related data next week. We get home prices, home sales, also building permits, which is a key leading indicator. Consumer confidence comes out by the Conference Board. We get personal income and spending, we get an update to third quarter GDP, get durable goods and capital goods, the trade balance, but probably most keen on the radar is the Personal Consumption Expenditures price index, the PCE, which is the Fed's preferred inflation measure. I assume, Collin, that that's on your radar as well.

COLLIN MARTIN: It is, it is. Like you said, there's a lot of data, but it's that PCE that's going to be top of mind. That's on Wednesday morning, which is, you know, the day before Thanksgiving. My wife and I are hosting, so I need to let her know that at least at 8:30 the day before, I will be, you know, in front of the computer making sure, seeing what's going on with that PCE release. Because it is really important. You know, the core PCE on a year-over-year basis expected to increase from the previous month, increase to 3.2%.

The monthly core reading, which you and I talked about before from CPI, the core PCE is expected to rise 0.3%, which would mark its third straight month. That's really a key number. If it comes in at 0.3%, it just shows that inflation's still very much a problem right now. An upside surprise, I'd say, would be bad. I don't know if it moves the needle to a 50-basis-point hike next month or not, but it clearly suggests more needs to be done. And then, of course, in that release, we'll be looking at the breadth, you know, the share of components rising above 3% annually. That's something that Kevin Warsh has been focusing on. Also on Wednesday, the Fed is doing no favors to people who are getting ready for Thanksgiving. The Beige Book comes out. That's a qualitative look on economic activity across all the Fed districts. It looks at inflation and the labor market, so we'll be paying attention to that.

And then, at least the Treasury was looking out for us in terms of a holiday shortened week. There are a few Treasury auctions, nothing too major. There's a 5-year on Tuesday, a 7-year on Wednesday. I won't be reading too much into either of them given it's the holidays and liquidity would be pretty light to begin with.

LIZ ANN SONDERS: So that's it for this episode. To our listeners, thanks as always for tuning in. We really do appreciate it. If you don't want to wait a week for a new episode, you can always keep up with me and Collin in real time on social media. I'm @LizAnnSonders on X and LinkedIn. The greatest rash of impostors ever in my

however many years, I think, I've been on Twitter since 2009. So please make sure you're following the real me.
And as I mentioned, you can catch Joe Mazzola and I every week on Schwab Coaching. Again, *Liz Ann Live* comes on Mondays at 3:00 p.m. Eastern. Those are on YouTube. Just search for "Trader Talks Webcasts" on YouTube or visit schwab.com/live.

COLLIN MARTIN: And you can find me @CollinMartinCS on both X and LinkedIn. That's Collin with two L's. And the CS is for Charles Schwab. You can find all of our written reports, which include lots of charts, tables, graphs, a lot of good illustrations. They can all be found at schwab.com/learn.

And we are taking next week off for the Thanksgiving holiday. So we'll be back with a new episode in two weeks. We hope you have a wonderful Thanksgiving with your friends and loved ones.

LIZ ANN SONDERS: For important disclosures, see the show notes, or visit schwab.com/OnInvesting, where you can also find the transcript.