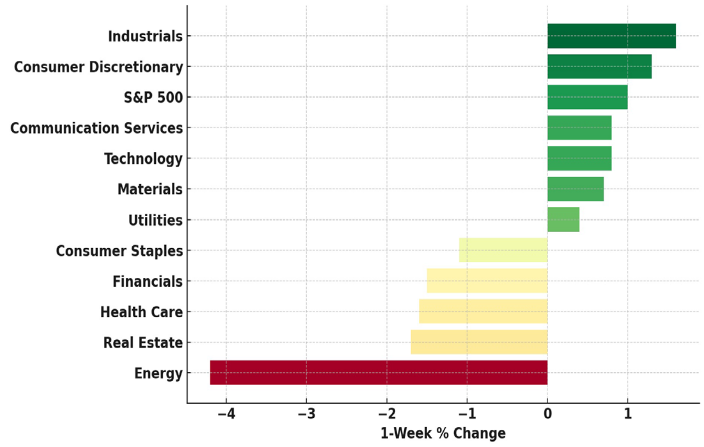
PARAMOUNT ASSOCIATES

THE TREMLETT BRIEF

SECTOR PERFORMANCE: WINNERS to LOSERS (Week Ending Nov 7, 2025)



The Week That Was: Markets Juggle Progress and Patience

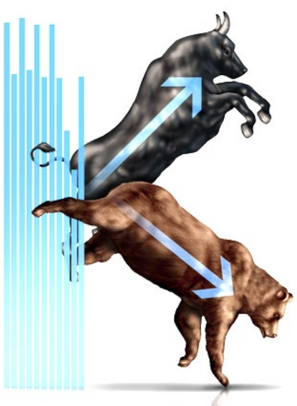
Last week tested investors' nerves again. The **S&P 500 slipped 1.6%, with the NASDAQ off over 3%,** while **defensive sectors like industrials and consumer discretionary held up best**. Beneath the surface, the macro picture remains murky: **private payrolls rose just 42,000**, while **consumer sentiment fell sharply to 50.3**, one of the lowest levels in recent years. The prolonged government shutdown, now the longest in history, has left economists flying blind. With official jobs data missing for a second straight month, investors have turned to private data and regional indicators. ADP's modest employment gains contrast with rising layoff announcements and weaker hiring plans, painting a picture of an economy still expanding but losing momentum at the edges. Meanwhile, energy was the week's biggest loser (-4.2%), as oil fell below $60 a barrel — its lowest level in a year.

Government Reopens: What to Expect Next

Washington finally got its act together — at least for now. The **federal government's reopening** should quickly **restore basic data flow and restart delayed economic reports**. Expect a backlog of revised employment and inflation figures over the next two weeks. Markets are already pricing in a modest fiscal rebound from deferred contracts and spending. However, the political cost of this shutdown has been high, and renewed fights over the **2026 budget** could **resurface by early spring**. For investors, the reopening removes one uncertainty, but it doesn't solve the underlying issue: growth remains uneven, and fiscal policy remains reactive rather than strategic.
The silver lining? The restoration of federal payrolls could temporarily **boost employment figures** in November, and consumer sentiment may rebound slightly as furloughed workers return to paychecks.

Corporate Earnings: Strength Beneath the Surface

Earnings season continues to outperform expectations, marking the **fourth consecutive quarter of double-digit growth**. Roughly **91% of S&P 500 companies have reported**, and **82% beat EPS estimates** — one of the highest beats since 2021. Technology and financials led the charge again, together accounting for nearly **70% of all index-level profit growth**. The so-called **"Magnificent 7"** continue to dominate headlines, yet the group is showing greater variation beneath the surface. Four of the seven are now underperforming the broader index, even as **AI-driven revenues surge 25–30% year-over-year**. Corporate leaders are sending mixed signals — optimism about AI and productivity, but caution about margins and cost pressures. Still, with free cash flow staying robust and debt levels low, the earnings foundation for 2026 looks stable.



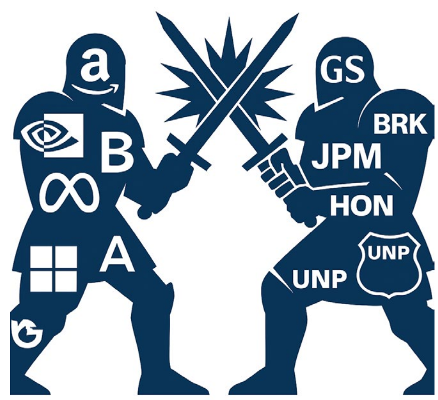
The K-Shaped Economy: Winners, Losers, and the Divide

We're living through a **K-shaped economy**, where the divergence between winners and laggards grows sharper. The top 40% of households now drive **60% of U.S. consumer spending** and control nearly **85% of national wealth**. That concentration of power has made the market's performance itself a key economic driver — when stocks rise, affluent households spend more, sustaining growth even as lower-income groups struggle.
Two scenarios could define 2026:

- **Scenario A:** AI and large-cap tech continue to drive markets, with gains limited to the top of the "K."
- **Scenario B:** Broader economic participation returns as rate cuts and fiscal stimulus spread the benefits to mid-tier sectors like industrials, financials, and real estate.

Investors should position for both — staying diversified but focused on quality and cash flow.

Earnings The Week Ahead: Data Catch-Up and Market Rotation



With the government back online, all eyes turn to **rescheduled economic releases**, especially the **October and November jobs data**, inflation prints, and Fed commentary. Bond markets are still signaling lower yields ahead, and with the **10-year Treasury hovering around 4.1%**, any weak jobs data could reinforce expectations for another **December rate cut**. Meanwhile, investors are watching for a **sector rotation — away from overbought AI names and toward undervalued cyclicals and international equities**, where valuations remain compelling. **Expect volatility but also opportunity**.

-Scott Tremlett CEO/Chief Investment Officer