



(UBS)

Valuation concerns persist, but fundamentals are solid

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US equities are set to snap a three-week winning streak as investors reassessed their AI optimism and interest rate-cut expectations, while the US government shutdown has stretched to a record length.

Stocks have had a strong run over the past seven months, with the Nasdaq surging 51% since the early-April low. The S&P 500 has also rallied nearly 35%. Below, we take stock of this week's key market developments and their implications.

Valuation concerns persist, but fundamentals are solid. Renewed worries over elevated tech valuations have triggered volatility, but solid fundamentals suggest current levels are justified. Recent results from major tech companies show that demand for AI compute remains strong and continues to exceed expectations, while AI monetization is accelerating. Tech leaders have also maintained resilient margins, robust cash positions, and solid balance sheets. With these companies trading at multiples far below those seen during the peak of the dotcom bubble, we think investors should focus on corporate profit growth as the main driver of performance. We forecast earnings growth of 15% for global tech this year, followed by a solid 12.5% increase in 2026.

The US labor market continues to soften, which should allow the Fed to ease further. Private payrolls for October compiled by ADP rebounded more than expected, but the absolute level of job growth remains low. Job gains were also concentrated in a few industries, with professional business services shedding positions for a third straight month. Meanwhile, data from outplacement firm Challenger, Gray & Christmas Inc. showed that US companies announced more than 153,000 job cuts last month, almost triple the number during the same month last year, and marking the largest October job cuts in more than 20 years. While Federal Reserve officials this week expressed concerns about both inflation and employment, we think the weakening demand for workers should keep the US central bank on track to cut interest rates twice more by early 2026.

Government shutdown makes record, with risks for it to drag on further. The economic impact of the longest government shutdown in US history has started to filter through. Three of the US's biggest airlines have announced hundreds of flight cancellations amid staffing shortages at American airports, while food aid benefits for 42 million low-income Americans have been reduced. With mounting pressure to reach a resolution, the Senate is due today to vote for the 15th time on a new proposal aiming to reopen federal agencies. There are few indications that the bill would secure enough support. Political uncertainty, meanwhile, should support assets with perceived "safe-haven" features, including gold.

Overall, the combination of Fed easing and robust corporate earnings remains favorable for stocks, while quality bonds offer appealing risk-reward. Under-allocated investors should add exposure to transformational growth trends including AI. We also recommend allocations to quality fixed income and gold, as a well-diversified portfolio can help manage risks effectively.

Original report – [Fundamentals hold amid market retreat, 7 November 2025.](#)

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