



# “The Fine Line Between Patience and Paralysis: Investing Through a Market That Can’t Make Up Its Mind”

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## Prologue

Markets tell stories. Some are comforting fairy tales; others are lessons in humility. The recent chapters — the long post-crisis low-rate expansion, the shock of inflation and rapid central-bank tightening, and now the early stages of a pivot — have reminded us of an enduring truth: the environment that delivers outsized returns is rarely the same environment that preserves capital through adversity.

In late 2025 the U.S. story is a study in contrasts. Growth is okay, not spectacular; inflation has retreated from the highs but sits above the old “safe” target; and markets, driven by concentration in a handful of innovation leaders, have produced strong headline returns even as breadth lags. These conditions produce both opportunity and vulnerability.

## Where We Are

**Market performance year-to-date (as of early November 2025):** The S&P 500 has delivered mid- to high-teens returns year-to-date (roughly +16%), while the Nasdaq / Nasdaq-100 have outperformed the broader market with YTD returns in the low-to-mid-20% range. The Dow has lagged the growth-led advance with YTD returns nearer to low double digits (about +10–11% YTD). These are meaningful gains and explain why investor sentiment has felt comfortably bullish at times.

**Macro Policy:** On October 29, 2025 the Federal Reserve lowered the target range for the federal funds rate by 25 basis points to 3.75–4.00% and signaled that future moves will be data-dependent — not an all-clear to risk takers, but a re-opening of optionality. The FOMC also provided commentary emphasizing the dual mandate and the continued sensitivity to inflation readings. That cut both eased immediate downside fears and made the path to additional multiple expansion conditional on further disinflation and growth clarity.

**Inflation:** Consumer price inflation, as measured by CPI in September 2025, was around ~3% year-over-year — substantially below the peaks of the prior inflation shock but still above the 2% objective that the Fed prefers. The implication: real rates remain elevated relative to the pre-2021 era and the discount rate applied to long-duration growth cash flows is not trivially low.

**Market Structure and Concentration:** The 2025 rally’s engine has been narrow: mega-cap technology and AI-related names have outperformed, producing strong headline index moves while many other sectors and stocks lag. That concentration increases systemic sensitivity: when the handful of leaders wobble, the whole market reacts more than usual. Recent episodes of large single-name intraday moves and derivative-driven ripples have been a pointed reminder of that fragility.



## Why Leadership Matters

The S&P's rise tells us that the market's weighted average is doing well, but the median stock often tells a different story. When the largest names make up a disproportionate share of market cap and return, headline strength masks dispersion and risk. That is what we have now: great returns concentrated in a small set of firms that benefit from AI adoption, cloud tempo, and durable business models.

Why does that matter? Because concentration begets sensitivity to single-name shocks, options flows and liquidity events. ETFs and passive flows may magnify moves. Leveraged bets and options books concentrated in a handful of names create the potential for vicious intra-day swings and episodic volatility. The practical takeaway: do not confuse a narrow rally for broad safety.

## The Thesis: Diversified Growth Investing with Liquidity as a Strategic Hedge

- **I am constructive on high-quality growth equities, selectively.** The U.S. still hosts numerous companies with durable moats, strong free cash flow conversion, and secular tailwinds (AI infrastructure, enterprise software, healthcare innovation). These companies can compound earnings even in an environment of moderate macro growth — and they deserve a place in portfolios.
- **I insist on discipline: “Growth” must be visible and reasonably near.** When discount rates are higher than in 2020-2021, the present value of distant, hypothetical revenue streams falls steeply. So, I favor companies where growth is proximate and margins are credible, not merely promised.
- **I maintain liquidity by design.** Cash—or more importantly near-cash instruments—give the portfolio option value. In a concentrated market, having dry powder allows you to buy attractive assets during dislocations and avoid forced sales during client drawdowns. I favor a near-cash instrument buffer in the range of 5%–10%, calibrated to needs, opportunity set, and risk tolerance.
- **The barbell approach:** Overweight high-quality growth on one side, liquidity and fixed-income diversifiers on the other, with measured allocations to real assets and alternatives. This preserves upside optionality while limiting catastrophic downside.

Note: This is not a call to hide in cash nor to leap fully into speculative growth. It is an insistence on optionality and selectivity.

**Rules of Engagement:** Define valuation-based sell trims (not on emotion); pre-commit to rebalancing triggers; and maintain a macro trigger list (further explained below, e.g., CPI > 3.5% for several months, a sharp inversion or steepening, or a major geopolitical escalation) that forces a portfolio review.



## Recent Events and Their Market Mechanics

- Fed cut in late October 2025. The 25-bps easing reduced near-term policy risk and lowered the discount rate a bit — a positive for equity multiples, especially for long-duration growth. The Fed stressed data dependence: the path from here hinges on the next inflation and employment readings.
- CPI ~3% (September 2025). That is lower than early-2023 spikes, but not at the Fed's 2% target. Real yields remain positive and somewhat punitive to speculative long-duration bets; growth must earn its premium.
- Narrow leadership outsized single name moves. Mega-cap tech and AI winners continued to power YTD returns, but single-day swings in these names and related options markets increased headline volatility and the chance of large intra-index drawdowns. This dynamic makes liquidity valuable and introduces a non-linear risk that passive indexing can underappreciate.
- Earnings season signals. Several large-cap beneficiaries of secular tech trends reported resilient revenues and constructive guidance; however, margin pressure, input cost dynamics and consumer softness in certain pockets produced mixed signals in guidance and mid-cap earnings. Bottom line: corporate profits are broadly resilient but with growing dispersion.

These events shifted probabilities: the Fed cut improved the chance of positive returns, while inflation and concentration maintained the possibility of pronounced selloffs. The intersection of those realities defines 2026's risk–reward profile.

## Top 10 Risks and Bright Spots for 2026

### Risks:

1. Inflation re-acceleration — via wages, tariffs or energy shocks.
2. Policy error — premature easing or a re-tightening loop if inflation surprises.
3. Concentration reversal — a sharp correction in mega-caps forcing knock-on ETF/option moves.
4. Credit stress & private market strain — illiquidity in private credit spills over.
5. Earnings margin compression — especially in cyclical, consumer, and commodity-exposed sectors.
6. Geopolitical escalation — U.S.–China friction or energy shocks disrupting trade.
7. Market-structure liquidity event — derivatives, options or leveraged funds create an abrupt squeeze.
8. Policy / regulatory shocks — sudden changes in taxation, tariffs or tech regulation.



9. Behavioral risk — panic selling or herd buying concentrated in a few names.
10. Sovereign/fiscal stress — rising debt servicing costs interacting with large deficits.

**Bright Spots:**

1. Selective, high-quality growth continues — AI/cloud/enterprise software leaders can compound earnings.
2. Fed easing tailwind — continued data-driven easing could lift multiples.
3. Breadth improvement potential — small/mid-caps and cyclicals could rejoin gains if growth recovers.
4. Corporate capital returns — buybacks and dividends underpin support.
5. Real assets such as inflation hedges — infrastructure and commodities may outpace nominal assets.
6. Active managers can add value — in dispersion, good stock-picking shines (it is worth mentioning that this was part of my thesis during college).
7. Liquidity advantage for nimble allocators — ability to act on dislocations is a tangible edge.
8. Productivity gains from technology adoption — real margin expansion for leaders.
9. Policy tailwinds — targeted fiscal spending (infrastructure, energy transition) could create sectoral winners.
10. Global diversification opportunities — non-U.S. value pockets may become attractive as cyclical dynamics shift.

**Prediction for 2026**

My base-line prediction: The S&P 500 will deliver a modestly positive total return in 2026 (my central estimate: mid-single digits, e.g., +6% to +8% total return), accompanied by elevated volatility and a material (30–40%) probability of a mid-year correction in the range of 15–20% peak-to-trough if leadership stumbles or inflation proves stickier than expected.

Why that range? It balances credible equity-research scenarios: many firms have modeled outcomes where Fed easing plus resilient corporate profits support higher multiples, pushing indices higher in the base case. Conversely, cautious strategists highlight downside scenarios where policy errors or macro shocks cause re-rating and drawdowns. Taken together, the consensus view from sell-side strategy desks is not uniform but centers on modest upside with non-trivial downside tail risk. That mixed set of research views supports my mid-single-digit central forecast with contingency planning for larger drawdowns.



### **Equity-Research Color:**

- Bull catalysts: continued disinflation, credible Fed easing, better-than-expected earnings growth driven by AI/enterprise capex.
- Bear catalysts: inflation surprises, earnings misses outside mega-cap winners, and a sudden reduction in liquidity or market-structure stress.

### **12-Month Watch-List (Triggers):**

1. CPI persistently  $>3.5\%$  across two months.
2. U.S. unemployment rising  $>0.5$  percentage point in three months.
3. S&P 500 breadth falling while index rises — signal of dangerous concentration.
4. Single-day moves in top five market-cap names exceed  $5\%$  — check derivative / liquidity stress.
5. Geopolitical flare-ups impacting trade routes or semiconductors.
6. Corporate earnings guidance showing downward revisions in aggregate.
7. Credit spreads widening by  $>50$  bps in IG or  $>200$  bps in HY.
8. Sharp move in the U.S. Dollar index (DXY) — impacts multinational profits.
9. Rapid shift in repo or short-term funding conditions.
10. New, material fiscal policy announcements (tariffs, major tax changes).

### **Final Reflections**

The best outcomes rarely originate from perfect forecasts; they come from disciplined positioning, clear communication, and the humility to accept being surprised. If 2026 offers us stable disinflation and steady earnings, we will enjoy the returns. If it delivers sharp shocks, we will value liquidity and preparation.



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