

5 November 2025

# Equities Push Higher on Fed Relief, but Sector Performance Splits Sharply

**U.S. equities extend gains on stable inflation and improved liquidity, while China softness and AI-driven momentum create sharp divergence across sectors.**

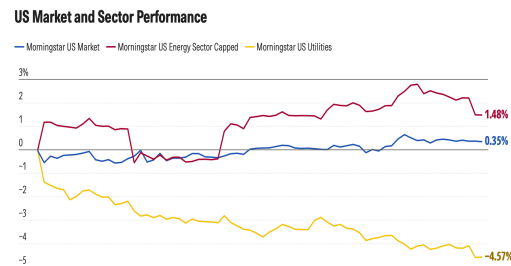
- Fed-cut expectations fuel broad risk-on sentiment, with small caps outperforming and tech, communication services, and consumer discretionary leading advances.
- Sector rotation accelerates into growth and cyclicals as energy and technology outperform, while defensives such as utilities and healthcare lag on rising-rate sensitivity.
- Divergent stock-level performance highlights widening dispersion: Tesla rebounds despite weak China sales, while Philips falls on tariff risks and muted healthcare demand in China.

U.S. equities extended their advance for a second consecutive week as markets priced in a near certain December Fed rate cut, with CME FedWatch now assigning roughly a 90% probability to a 25 bps move. Rate-sensitive, highly leveraged small caps resumed their sharp two-week rise, with the Russell 2000 up another 0.8% after last week's 5.5% surge, while the easing outlook drove a broadening of risk appetite as communication services, consumer discretionary, and tech led advances. New PCE and consumer-spending data came in exactly in line with expectations, reinforcing the narrative of cooling but stable inflation and allowing equities to trade confidently through the post-shutdown data backlog. Meanwhile, currency markets continued to support this risk-on position for the second week running, the US dollar index retreated, and the Japanese yen appreciated on perceived Bank of Japan tightening plans, thus helping support emerging market flows and multinationals for the US. Sector-level moves were defined by idiosyncratic catalysts—Warner Bros jumped 6% on Netflix's \$72B acquisition deal, while Ulta Beauty surged 12.7% after raising guidance, which was offset by pockets of weakness in utilities, healthcare, and energy. Early-week volatility in AI and crypto linked names, triggered by a steep drawdown in Bitcoin and Apple's shakeup in its AI leadership, briefly weighed on sentiment but did little to disrupt the broader liquidity-driven rally into year end.

In terms of sector-level trends, the week was marked by a mix of rate-sensitive beta and earnings-driven narratives across sectors. The energy and tech sectors were the leading performers with increases of around 1.5% and 1.4%, respectively, while more traditional defensive sectors such as utility and health care were net losers with declines of around 4.6% and 2.6%, respectively. This is consistent with the sustained trend of rotating out of so-called "bond proxies" and into growth and cyclical sectors. On the tech side, Salesforce climbed more than 5% on strong AI-driven cloud demand, MongoDB and Microchip Technology posted outsized weekly gains, and broader software and semiconductor ETFs outperformed, highlighting how the "AI infrastructure" theme continues to attract capital. EVs sat at the intersection of this risk-on backdrop and China-specific headwinds where Tesla gained nearly 6% on the week, reclaiming its 50-day moving average and moving back into a buy zone, despite headlines citing a three-year October sales low in the Chinese market and solidifying worries about medium-term demand within the biggest electric vehicle market in China. Meanwhile, pockets of fragility persisted in higher-duration and regulation-sensitive areas, areas of weakness continued within higher-duration and regulation-sensitive names such as SolarEdge, Skydance Media from Paramount Global, W.R. Berkley Corp., and Wayfair among this week's under performers.

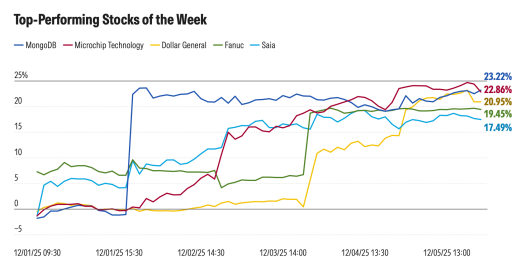
Tesla and Philips illustrated the divergent dynamics within growth-oriented sectors this week. In EVs, Tesla continued to face structural demand pressure in China, with October sales dropping to a three-year low before a modest rebound in November registrations driven by new Model Y variants. The broader EV slowdown across China and Europe reinforced concerns about market saturation and intensifying competition, even as Tesla's share price benefited from the tech sector's AI-driven momentum. Philips, by contrast, was one of Europe's notable laggards falling over 6% after management signalled that 2026 organic growth is unlikely to meet consensus expectations and warned of rising tariff headwinds and persistently muted demand in China's healthcare market. These micro-level developments reinforce the broader narrative of investors rewarding AI-adjacent growth while penalizing sectors exposed to China's demand slowdown and tariff uncertainty. Overall, the week was defined by improving macro sentiment but widening performance dispersion beneath the index level.

**Figure 1: Weekly Sector Performance — Energy Leads While Utilities Lag**



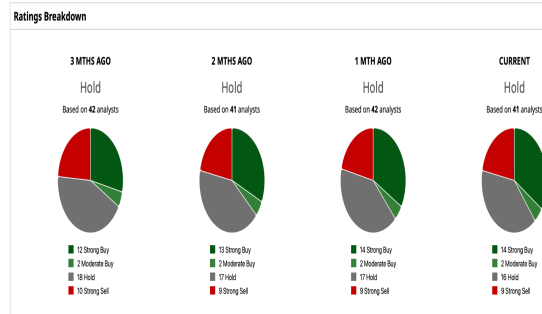
Source: Morningstar. Data

**Figure 2: Top-Performing Stocks of the Week — MongoDB, Microchip, and Dollar General Outperform**



Source: Morningstar. Data

**Figure 4: Analyst Ratings Breakdown for Tesla — Stable "Hold" Consensus Over the Past Quarter**



Source: Barchart

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