HB Wealth

Market Sense – Nvidia's Idiosyncratic Risks Drive Wedge Between Forecasts and Multiples

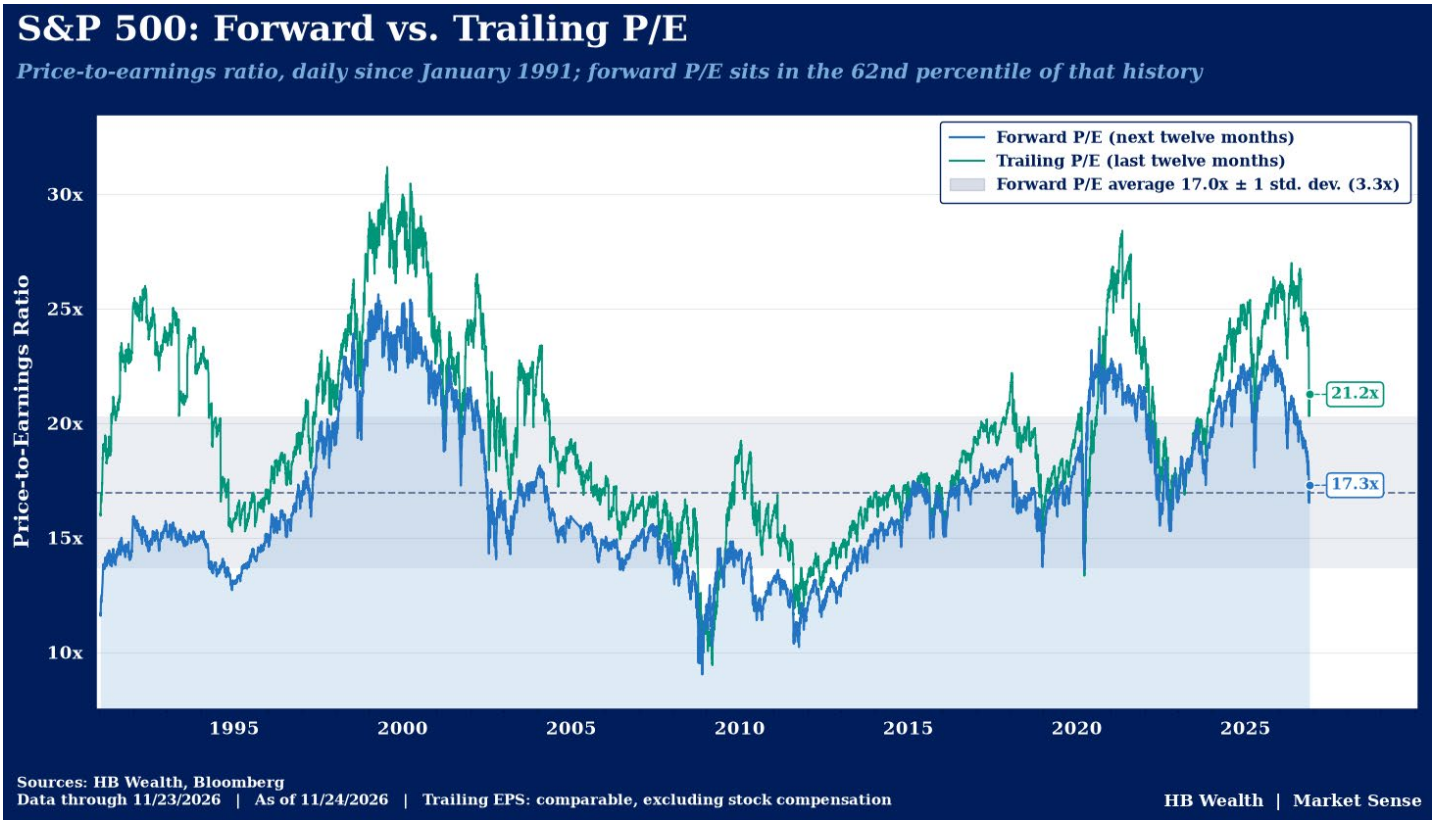
November 25, 2026

Abstract:

- *Recent market volatility driven by the midterm election and the Jensen Huang saga at Nvidia has lodged a wedge between what investors are pricing and earnings forecasts.*
- *Unless growth is half as strong as currently expected by consensus, the market appears to have overshot the downside based on today's yields as sentiment around the AI-trade cratered with Huang's removal. Our model says current macro conditions justify S&P 500 P/E of 22. The market ended Friday at a P/E just over 16.*
- *Wide swaths of the market have thus become discounted following the correction with the majority of large caps trading below recent averages and small caps dipping to absolute multiples near where they traded before they started their run of outperformance. On a relative basis, the Russell 2000 is deeply discounted to the S&P 500.*
- *Discretionary, technology, and materials are now the cheapest S&P 500 sectors while consumer staples, financials and health care are most expensive.*
- *AI stocks, especially the suppliers took the brunt of the derating, losing 2.6 turns from their autumn high and 4.6 from the June peak. AI-software likewise now trades near lows earlier in the year at the height of the SaaSpocalypse and Iran war while spenders (largely comprised of hyperscalers) have held up best. Still, they are more than 0.5 standard deviations discounted to recent norms.*

Forward earnings expectations are being discounted at a remarkable pace as broad-market expectations continue to rise amid significant volatility driven by Jensen Huang's ouster and reinstatement as CEO of Nvidia. The S&P 500 currently trades at just 16.5x forward and 21.3x trailing earnings following the index's brief dip into correction territory amid the rout in tech and AI-related stocks. That's good for 0.1

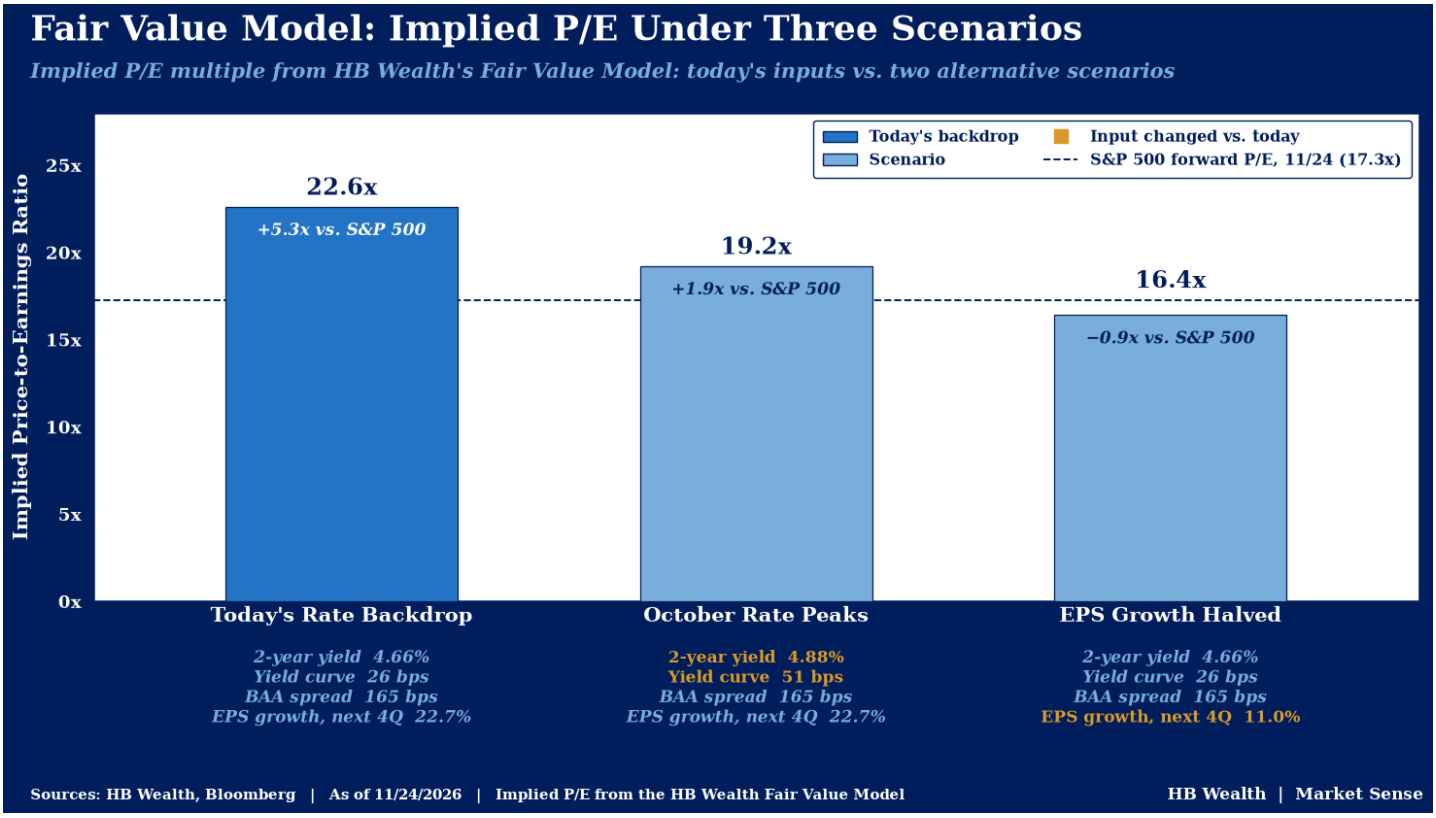
standard deviations below the long-term average on a forward basis and 0.4 deviations above norms based on trailing earnings with both multiples losing about six turns from their recent peaks. Despite the significant drop in the market, estimates continued to improve – since the beginning of this earnings season, S&P 500 forecasts rose 130 bps for 4Q26 and by an average of 108 bps for the first two quarters of 2027 with energy and tech leading the way. Estimates for 3Q27 notably sunk 338 bps, but that reflects much more difficult comparisons from this quarter's significant earnings beat. Nonetheless, at least for now, the correction in US stocks largely reflected idiosyncratic risks to Nvidia and possible knock-on effects from potential restrictions on China sales and reduced AI-financing (see our Market Sense on Nvidia's circular financing), not a degradation in the forward outlook. Provided that earnings forecasts hold, this opens up some discounts in stocks.



The correction not only pushed multiples down but also drove a flight to safety in the treasury market that should in turn bolster the valuation stocks can command. Our Fair Value Model shows that today's rate backdrop – a 4.66% 2-year yield, 26-bps yield curve, 165-bps BAA spreads – combined with the

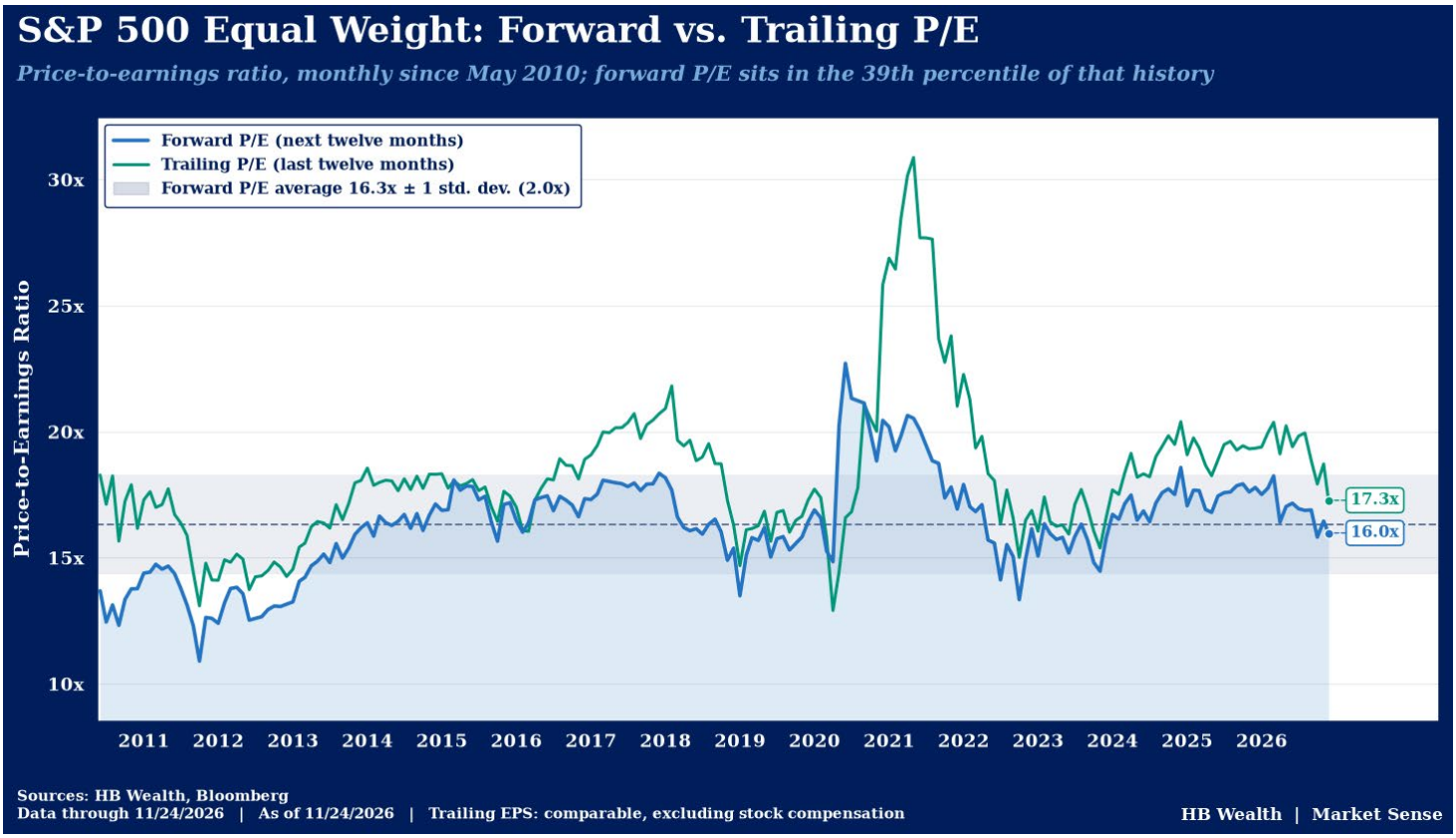
average EPS growth rate over the next four quarters (22.7%) – justifies a 22.6x P/E multiple. This is well above today's trailing and forward versions.

Most of the market's current discount is due to the recent decline in rates. For example, holding the earnings forecast and BAA spreads steady but applying the 4.88% 2-year and 51-bps yield curve spread peaks observed since the start of October alone would push the implied multiple to 19.2x – right in line with where forward multiples sat just before the correction started on October 6th. Even if that forward EPS growth rate forecast were halved to just 11%, a 16.4x multiple would be implied based on today's rate backdrop, nearly matching the November low and demonstrating just how significantly the market was discounting analyst forecasts.



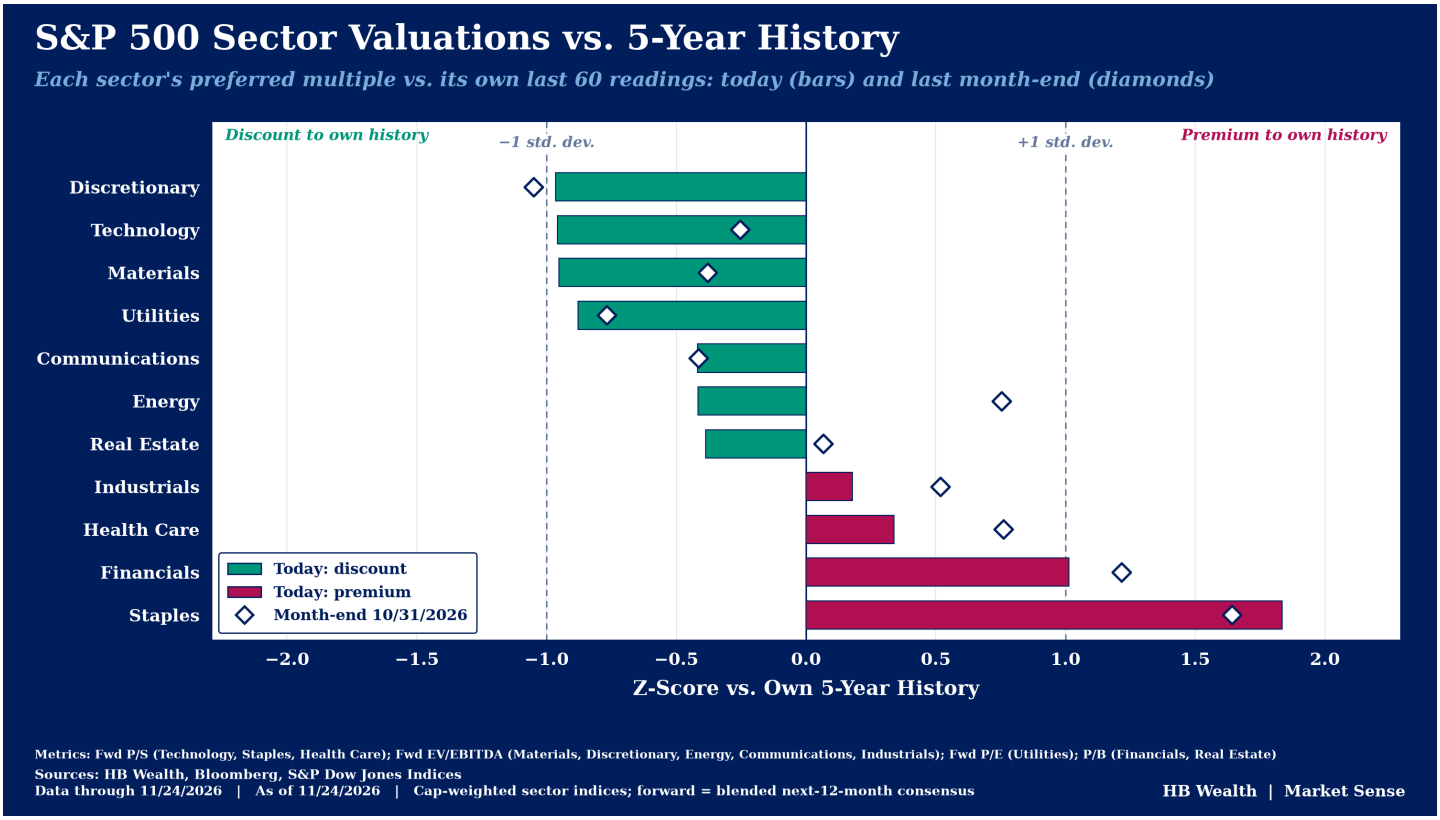
A Large Portion of the S&P 500 Became Discounted with Correction

Discounts become even more apparent on an equal weighted basis, highlighting the breadth of stocks that are now cheap to historical norms. The S&P 500 equal weighted index now trades at just 16.0x and 17.3x forward and trailing earnings, respectively. That's good for 0.4 and 0.5 standard deviations below the average back to 2010. While not yet at extreme lows such as in 2018 and 2022, multiples are down more than 3.5 turns from highs touched earlier in the year and highlight just how widespread discounts became with the recent correction in large caps. Forward P/E at 16x is in the 39th percentile of S&P 500 valuation history back to 2010, and trailing P/E of 17.3x is in the 35th percentile.

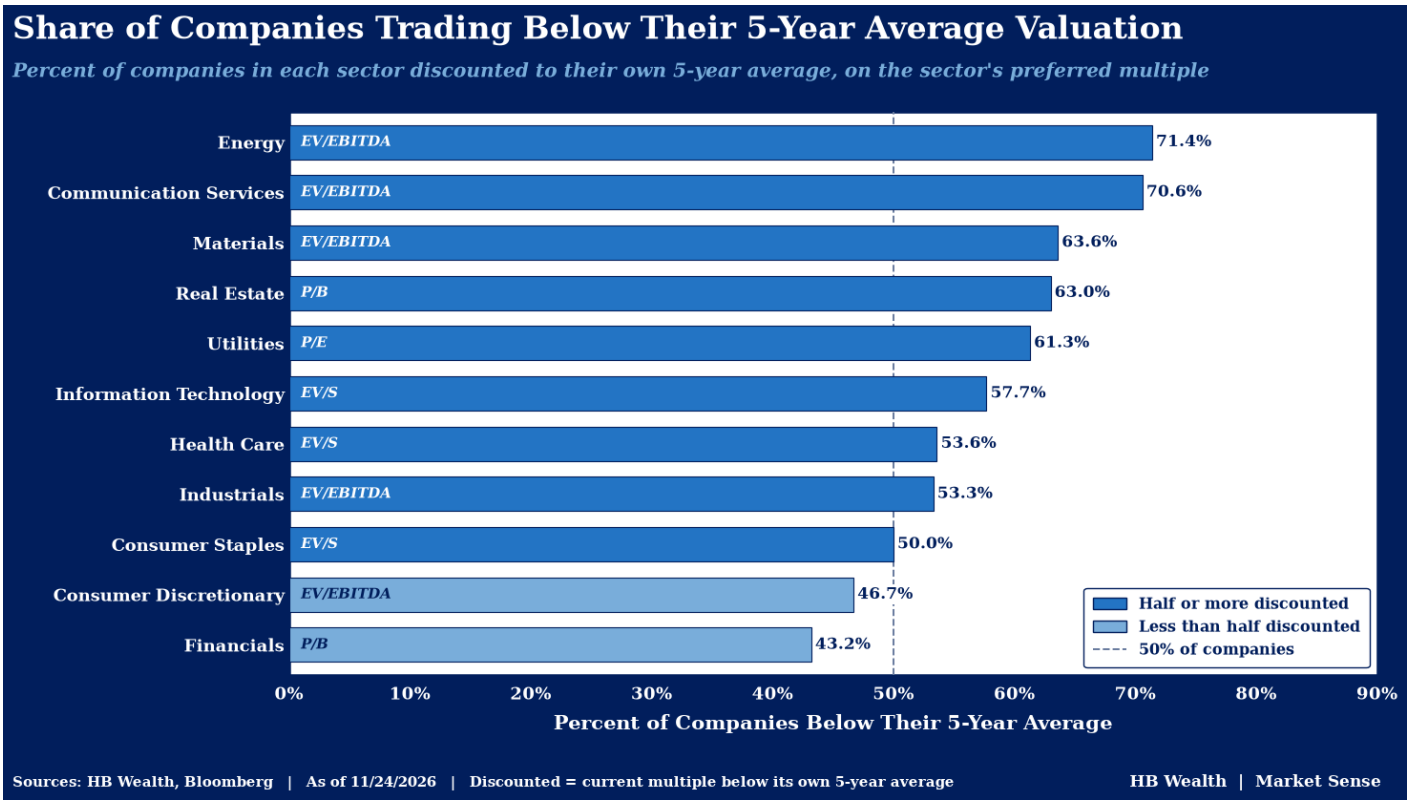


On a sector basis, several notable discounts became apparent in the aftermath of the correction. Using each sector's preferred metric relative to the S&P 500 and versus recent 5-year history reveals that discretionary, tech, materials and utilities are currently the most discounted sectors. Conversely, staples, financials and health care now trade at extreme premia to the market on their respective

metrics. (We use forward price/sales as the preferred valuation metric for tech, staples, and health care, forward price/EBITDA for materials, discretionary, energy, communications and industrials, forward price/earnings for utilities, and price/book for financials and real estate.)



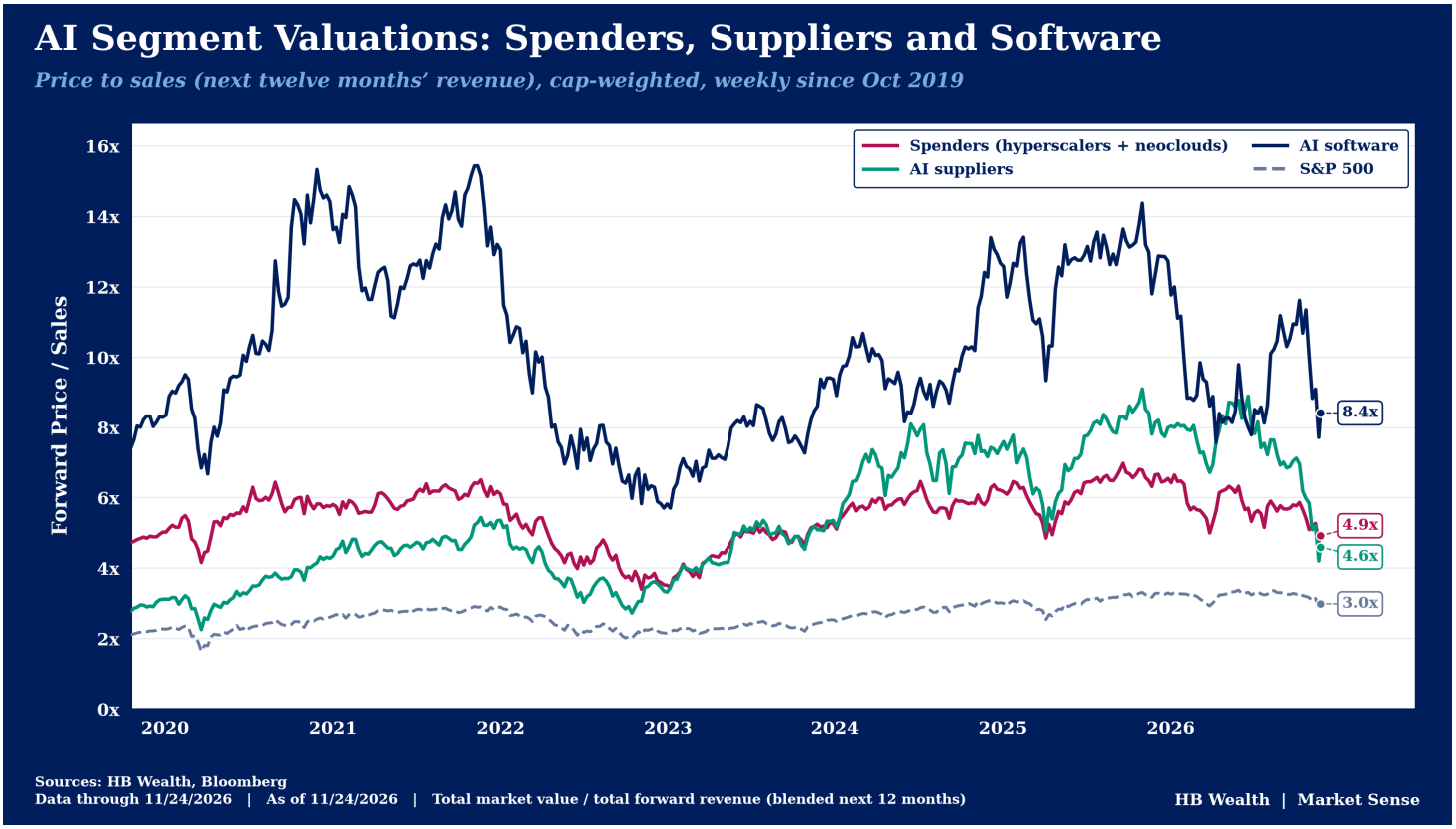
In the market at large, 66.9% of stocks are trading at discounts to their 5-year average forward P/Es and 50% and 56.9% are discounted on a book and forward sales basis. Likewise, a majority of stocks in nine of eleven sectors are discounted to their own 5-year average on their respective preferred valuation metrics. Energy (71.4%) has the largest percentage of companies trading below average multiples, followed by communications (70.6%), materials (63.6%) and real estate (63%). Conversely, only financials (43.2%) and discretionary (46.7%) have less than half of their constituents trading at a discount, and just half of staples and 53.3% of industrials are cheap versus history.



This generally rhymes with sector performance since the start of the correction on October 6th – staples has led, followed by health care, utilities, real estate, discretionary and financials. During that slide, defensives (like utilities, staples and real estate) behaved as safe-haven trades while the consumer stocks held up well with falling oil prices and rate sensitives (financials, real estate, utilities) benefitted from falling yields. These cross currents were largely an unwind of trends that bit stocks during the late summer and led to the autumn consolidation and have similarly been supported by the midterm election results.

Since the S&P 500 peak on October 6th, 97% of the decline in the index has come from AI theme stocks, in particular, the AI suppliers, due predominantly to the extreme move in high market cap stocks, such as Nvidia. While 23% of the broad market sold off at least 10% from the October peak to November 20th, 41% of the market cap of the index posted at least a 10% decline. If the Mag-7 alone were excluded, the index would be down just 7.9% from that October peak.

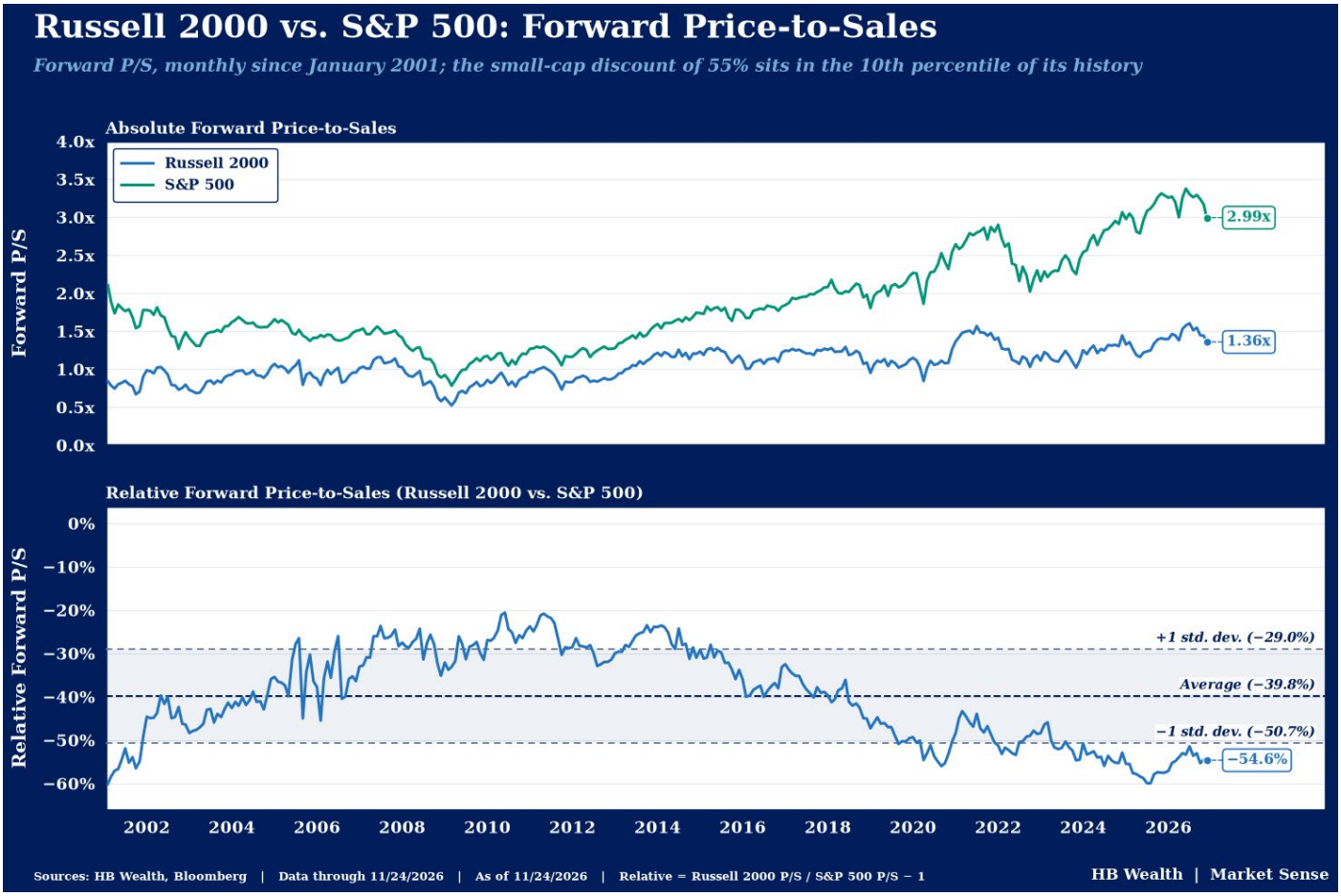
Those trends are likewise showing up in valuations. The AI supplier basket has derated the quickest, falling 36% (2.6 turns) from its autumn high and more than 50% (4.6 turns) from the June peak. That's akin to valuations last seen in late 2023 and good for 0.8 standard deviations below the recent 5-year norm. Likewise, AI software multiples have slid more than 3 turns from the recent high and at 8.4x, are in line with valuations earlier this year during the height of the Iran war and SaaSpocalypse. Conversely, the AI-spenders – mostly comprised of the hyperscalers – valuations have held up best, falling just 1 turn this autumn though they remain 0.6 standard deviations below the 5-year norm.



Small Caps Get a Reset, Now Cheapest Since August 2025

While high market cap stocks have suffered severely in large caps, small caps have also taken heavy blows in the correction, beginning their fall in August (versus October for the S&P 500) and falling nearly 16% to their low November 20th. That's pushed absolute forward price/sales for the Russell 2000 to

1.36x, down from a peak of 1.55x in August and the lowest level the index has traded at since August 2025. Like large cap peers, estimates have largely held up since the start of this earnings season with analysts hiking revenue forecasts by an average 123 bps for each of the next three quarters – though forecasts for 3Q27 slid due to tougher comparisons from this quarter's beat. On a relative basis, small caps are now at a 54.6% discount to the S&P 500 – good for 1.4 standard deviations below the norm since 2001 and the largest discount since February. These discounts have likewise spread across sectors with just the defensive utilities group trading at a premium while tech and materials carry the largest discounts on a forward price/sales basis.



Authored by:



Gina Martin Adams, CFA, CMT

Chief Market Strategist



Matthew Sanders

Associate, Investment Research



Michael Casper, CFA

Director, Senior Market Strategist

Important Disclosures

Disclosure: HB Wealth is an SEC-registered investment adviser. The information reflects the author's views, opinions, and analyses as the publication date. The information is provided for informational purposes only and does not constitute an offer to sell or a solicitation of an offer to buy any investment product. This information contains forward-looking statements, predictions, and forecasts ("forward-looking statements") concerning the belief and opinions in respect to the future. Forward-looking statements involve risks and uncertainties, and undue reliance should not be placed on them. There can be no assurance that forward-looking statements will prove to be accurate, and actual results and future events could differ materially from those anticipated in such statements. The information does not represent legal, tax, accounting, or investment advice; recipients should consult their respective advisors regarding such matters. Certain information herein is based on third-party sources believed to be reliable, but which have not been independently verified. Past performance is not a guarantee or indicator of future results; inherent in any investment is the risk of loss.