CLARITY

What's behind the recent market pullback?

PUBLISHED BY THE WEALTH CHIEF INVESTMENT OFFICE

TIAA Wealth Management

NOVEMBER 23, 2026

EXECUTIVE SUMMARY

- **The recent pullback has been driven more by valuations than fundamentals.** The S&P 500 has declined -11.5% from its October 6 high, led by technology and communication services. Earnings growth has remained supportive, but falling equity multiples have more than offset that contribution as investors reassess the durability of earnings growth and contend with higher interest rates.
- **AI remains at the center of the market's reassessment.** Investors are increasingly focused on the enormous capital required to fund the AI buildout and whether those investments can ultimately translate into sufficient productivity and profitability. Political and regulatory scrutiny of data centers, market deleveraging and company-specific uncertainty have added to volatility.
- **Valuations have become more attractive, but a market bottom may take time to form.** Lower valuations and the potential for a less hawkish Fed in 2027 could eventually provide support for equities, particularly if earnings growth remains solid. However, a more sustainable recovery may depend on clearer evidence that AI investment is delivering stronger returns.
- **Diversification remains important as markets work through the volatility.** Value stocks and fixed income have provided meaningful ballast during the pullback, reinforcing the benefits of maintaining a diversified asset allocation while the AI theme and broader equity market remain volatile.



Niladri 'Neel' Mukherjee
TIAA Wealth Management
Chief Investment Officer



Alberto Favalli-Ragusini
TIAA Wealth Management
Director, Investment Strategy

What is happening?

The S&P 500 has declined -11.5%[1] since reaching an all-time high on October 6, largely driven by sharp pullbacks in information technology (-24.7%) and communication services (-19.5%) sectors. Over the same period, investors have rotated into more defensive sectors like consumer staples (+11.4%) and healthcare (+5.9%), with a broader tilt toward higher quality and less capital-intensive stocks that are perceived to be more resilient during times of uncertainty.

What is driving the volatility?

It is helpful to think of equity price returns as the byproduct of two variables: earnings growth and valuation changes. The fundamental backdrop has remained solid and supportive despite the volatility, with earnings growth contributing +2.7% to the S&P 500 price change since October 6. What is dragging prices lower is the fall in equity valuations, with the S&P 500's next-twelve-months price-to-earnings (P/E) ratio detracting -14.2%, more than offsetting earnings growth and leading to the -11.5% price decline over the period.

The fall in equity multiples may indicate two things:

- Investor confidence in the sustainability of exceptionally strong earnings trends has begun to fade.

- The rise in interest rates has caused equity multiples to moderate as investors demand more attractive valuations relative to increasingly competitive bond yields.

Our expectation that the Federal Reserve (Fed) would shift to a more hawkish monetary policy stance, coupled with our view that the parabolic rise in AI-driven forward earnings expectations was likely to stabilize after an exceptional run year-to-date, informed our more cautious short-term view on equities. In September, we reduced our equity exposure across asset allocation models even as we remain optimistic about the long-term fundamental prospects.

Four dynamics have impacted investor sentiment:

- **The widening gap between capital commitments within the artificial intelligence (AI) ecosystem[2] and the availability of liquidity and funding.** Building the AI infrastructure is proving exceedingly expensive, with companies turning more frequently to debt and equity markets to fund these investments. This is prompting investors to question the ability of credit and stock markets to absorb these capital needs, and the ability of these investments to generate sufficiently high profitability and productivity gains.

- **The outcome of the U.S. midterm elections.** The research firm Data Center Watch found that 78% of members of Congress elected in November support more regulations or restrictions on data centers. The Voter Poll that was conducted during the election found that 76% of voters oppose data centers in their communities. And there were 41 local ballot measures in 10 states that proposed placing restrictions on data centers constructions, and 40 of them won. While we don't expect data center construction to be halted altogether, we think the risk of a slowdown has increased and building costs could rise due to more regulation.

- **Leverage.** There are several signs that the recent equity selloff may have been exacerbated by a broad deleveraging by institutional investors, especially hedge funds and algorithmic trading systems. Our view is that this technical headwind is close to being exhausted. Goldman Sachs' Prime Brokerage unit reports that its hedge fund clients are now more underweight tech than at any point in the past five years. However, retail margin debt remains elevated and has yet to materially adjust, which could represent an ongoing source of deleveraging should volatility persist

- **Nvidia.** The resignation[3] of Nvidia's CEO Jensen Huang two weeks ago sent shockwaves through the AI industry, especially given his willingness over the past few years to position Nvidia as a key financer of data center construction and semiconductor purchases. The story behind his departure is also leading to tighter restrictions on semiconductor exports, another source of uncertainty. In addition, the U.S. Securities and Exchange Commission (SEC) announced on Friday that it is scrutinizing potential accounting issues at the company, adding to headwinds faced by one of the most important companies of the AI era.

What investors should be watching

Last week, two events could have potentially led to a stabilization in investor sentiment: robust earnings announced by Nvidia, and the Anthropic IPO that was multiple times oversubscribed. Nonetheless, the Nasdaq 100 index fell -10.4% over the week. The reason, in our view, is that while encouraging, these developments are not enough to address concerns about rising costs associated with the AI buildout and still scarce evidence of sufficient returns on investment.

Equity valuations appear more attractive following the recent pullback. The next-twelve-month P/E ratios for the S&P 500 and Nasdaq 100 are now cheaper than 83% and 98% of all observations going back ten years, respectively. We expect the Fed to become progressively less hawkish as 2027 gets underway, which could help equity multiples reverse at least part of the recent decline. Assuming earnings growth remains solid, this could put a floor on equity prices and eventually spur a rebound. Market bottoms, however, tend to be a gradual process, so investors should expect a period of choppy, incremental improvement rather than a clear turning point.

Returning to a sustainable uptrend for stocks could hinge more significantly on evidence of improving productivity and profitability. We expect the AI theme—and as a result, the broader equity market—to remain volatile for the time being. A diversified asset allocation remains the best line of defense against market volatility. Large cap value stocks—with a higher exposure to defensive sectors—have remained stable since October 6 (with the Russell 1000 Value down only -1.8% since) even as large cap growth stocks, which have a much higher exposure to the tech sector, have fallen -21.2% (Russell 1000 Growth index). Fixed income has also provided helpful ballast during the equity pullback, with the Bloomberg U.S. Aggregate Bond Index gaining +2.4% over the same period.

Endnotes:

1. Excluding dividends and as of Friday, October 20, 2026.
2. Hyperscalers are Meta, Microsoft, Amazon, Alphabet and Oracle. Neoclouds are specialized AI-focused cloud providers that offer high-performance GPU infrastructure designed specifically for training and running AI/ML workloads. AI labs are Open AI and Anthropic.
3. As of Monday, November 23, 2026, Jensen Huang has been reinstated as Nvidia CEO by the board.

IMPORTANT DISCLOSURES

This material is for informational or educational purposes only and is not fiduciary investment advice, or a securities, investment strategy, or insurance product recommendation. This material does not consider an individual's own objectives or circumstances, which should be the basis of any investment decision.

Optional discretionary investment management services for a fee are provided through TIAA-CREF Individual & Institutional Services, LLC ("T**C Services**"), a broker-dealer (member FINRA/SIPC) and an SEC registered investment adviser, and TIAA Trust, N.A. ("**TIAA Trust**"), a national trust bank. TIAA Trust also provides custody, and trust services for a fee. TIAA Wealth Investment Management LLC ("**WIM**") acts as the sub-adviser for the investment management programs offered by TC Services and TIAA Trust.

TC Services, TIAA Trust, and WIM are affiliates, and wholly owned subsidiaries of Teachers Insurance and Annuity Association of America ("**TIAA**"). Each entity is solely responsible for its own financial condition and contractual obligations.

The TIAA group of companies does not provide tax or legal advice. Tax and other laws are subject to change, either prospectively or retroactively. Individuals should consult with a qualified independent tax advisor, CPA and/or attorney for specific advice based on the individual's personal circumstances.

Past performance is no guarantee of future results. All investments involve some degree of risk, including loss of principal. Investment objectives may not be met. Investments in managed accounts should be considered in view of a larger, more diversified investment portfolio. Asset allocation and diversification are techniques to help reduce risk. There is no guarantee that asset allocation or diversification ensures profit or protects against loss.

Investing involves risk, and the value of your investments may gain or lose value and fluctuate over time. Generally, among asset classes, stocks are more volatile than bonds or short-term instruments and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Although the bond market is also volatile, lower-quality debt securities including leveraged loans generally offer higher yields compared to investment-grade securities, but also involve greater risk of default or price changes. Foreign markets can be more volatile than U.S. markets due to increased risks of adverse issuer, political, market or economic developments, all of which are magnified in emerging markets. Foreign securities are subject to special risks, including currency fluctuation and political and economic instability.

INVESTMENT, INSURANCE AND ANNUITY PRODUCTS ARE NOT FDIC INSURED, ARE NOT BANK GUARANTEED, ARE NOT DEPOSITS, ARE NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY, ARE NOT A CONDITION TO ANY BANKING SERVICE OR ACTIVITY, AND MAY LOSE VALUE.

©2026 Teachers Insurance and Annuity Association of America-College Retirement Equities Fund, New York, NY.

00119006| 5747600 | 11 2026