James Investment Research, Inc.

Special Commentary

From Correction to Rebound: What Monday's Reversal Means for Investors

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What Drove the Selloff

Last week the S&P 500 fell 10 percent from its October record high, which put it in a technical correction, and marked seven consecutive sessions of falling prices. Artificial intelligence stocks led the decline. The biggest blow came when Nvidia CEO Jensen Huang resigned on November 12th following reports of personal misconduct, including a relationship with a woman suspected of spying for China. Big Tech earnings disappointed and the early gains from Anthropic's initial public offering quickly faded. Tighter financial conditions, the prospect of further Federal Reserve rate hikes, and year-end de-risking by institutional investors added to the pressure. By Friday, many investors had moved heavily into Treasuries and other safe-haven assets.

What Changed on Monday

Often, when markets move so rapidly, as did stocks in mid-November, a whiplash reversal will follow. This is what we saw last April, following the precipitous drop in stock prices when tariffs were announced. The November reversal also began at Nvidia. The company's board reinstated Huang as CEO and president, effective immediately, after consultations with senior US government officials. President Donald Trump spoke directly with the board and stated publicly that Huang's return poses no national security risk. To address governance concerns, Nvidia formed an independent board committee to conclude the foreign intelligence inquiry. It also created a dedicated export-control committee and added a Chief Compliance Officer role.

Markets responded at once. Nasdaq 100 futures rose so fast in premarket trading that they triggered a rare upside circuit breaker, which forced short sellers to cover and drew in momentum buyers. The S&P 500 gained more than 4 percent, its best day since April 2025, and the Nasdaq 100 climbed about 6 percent. Nvidia shares jumped more than 30 percent intraday, their largest single-day gain since March 2000, putting the company on track to add over $1 trillion in market value in one session.

The rally reached well beyond Nvidia. Power and cooling suppliers to data centers also advanced sharply: Bloom Energy gained 18 percent, Vertiv 13 percent, and GE Vernova 8 percent. Tesla rose more than 12 percent. Beaten-down AI computing names such as CoreWeave and Oracle rallied in both their shares and their bonds as short positions were covered.

Other markets showed the same shift. Treasuries snapped a five-day rally, sending the 10-year yield back toward 4.93 percent and lifting the 2-year yield by 6 basis points. The VIX, the market's main gauge of expected volatility, fell to 27 from above 35 on Friday. Gold gained as much as 3.6 percent to about $3,660 an ounce after heavy selling last week, forced by margin Calls, and copper climbed on renewed expectations for data center construction.

The Lesson for Investors

Financial historian and economist Peter Bernstein warned that market extremes - whether euphoric bull runs or severe busts - expose investors to steep drawdowns, lower future returns, and behavioral blind spots. Monday's reversal shows the cost of selling in a panic. Investors who sold on Friday locked in their losses and missed one of the strongest one-day rebounds in years. Strategists noted that corporate fundamentals held firm throughout the decline, which is why buyers returned in force once the leadership question at Nvidia was settled.

Risks That Remain

The rebound does not settle every concern. Investors are cautioned against indiscriminate buying on the first day of a recovery and encouraged to take a selective approach. Credit analysts noted that Huang's return revives expectations for aggressive AI spending.

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That could mean heavier debt issuance at a time when credit markets are already testing their capacity, and financing is already expensive: SpaceX, for example, is paying more than 8 percent to finance chip purchases. The rally was also uneven. Shares of newly public Anthropic slipped 0.6 percent, a sign that questions about AI monetization and software valuations have not gone away. The broader pressures from last week also remain: tighter financial conditions, a Federal Reserve focused on 3.7 percent inflation, falling inflation-adjusted wages, declines in stock wealth and home values, and the reliance on foreign buying of US stocks to fund the US current account deficit.

The Bottom Line

Corrections are a normal part of investing in stocks and other risky assets, and the most reliable response is to stay diversified, keep a long-term perspective, and avoid making portfolio decisions in reaction to short-term market swings. Investors should also ensure that near-term cash needs are not funded by selling stocks during a downturn.

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