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Momentum Stocks Are Going in Reverse as Rate-Cut Outlook Dims

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By Phil Serafino, Joel Leon, and Jess Menton
November 14, 2025 at 5:24 AM CST

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Many traders pointed to the dwindling probability that the Federal Reserve will reduce interest rates again in December as the most likely trigger for yesterday's selloff. A growing coterie of policy makers now is signaling the central bank should hold off on another rate cut. Swaps traders are pricing in about a 50% chance of a reduction, down from 72% a week ago.

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High-momentum equities — in other words, recent winners in the AI-fueled market frenzy — bore the brunt of the selling yesterday, along with stocks favored by retail investors.

"The promise of lower interest rates had been a reason why many investors were willing to disregard the high valuation readings on the momentum stocks," said Matt Maley, chief market strategist at Miller Tabak + Co.