

Summary

Economic data remained sparse with the U.S. government shutdown continuing beyond its second week.

Stocks rebounded upward last week as U.S. earnings season began. Bonds also saw gains as interest rates fell, helped internationally by a weaker dollar. Commodities rose a bit due to gains in precious metals offsetting declines in energy.

Economic Notes

Due to the ongoing U.S. government shutdown, the release date for Consumer Price Inflation (CPI) for September was rescheduled to Oct. 24. Other delayed reports included the Producer Price Index (PPI), retail sales, industrial production, housing starts, and jobless claims. There will likely be a flurry of reports coming out once the government reopens, but the longer the shutdown lasts and the later the releases get, the less meaningful these are as current news. The Fed is already on a path into easing, which appears likely to continue in late October, but starting cuts in an environment like this would have been a bit more challenging with less data.

In a speech last week, Fed Chair Powell described plans to reduce QT or **'quantitative tightening'** in coming months, like early 2026, which is reducing the run-off sales of the Fed's U.S. Treasury bond holdings into the bond market. This reduces overall bond market supply somewhat and serves to dampen yields a bit. It might be considered another step into accommodative policy as 'less tightening' means 'more easing,' although this hasn't morphed back into full QE 'quantitative easing,' where the Fed buys bonds in the marketplace to help get yields lower on the long end of the curve. The downside of reducing QT is that it keeps the Fed's balance sheet high for longer, although they've acknowledged it will take years to get that back down to more normal levels, seen prior to the 2008 financial crisis, from which we're now already almost 20 years in. The Fed has also shown interest in letting agency mortgage-backed securities run off first, in efforts to keep a portfolio solely composed of U.S. Treasuries. That's been a long-term goal and would remove them from indirect participation in U.S. housing market financing, which is not part of their mandate.

(+) The **Empire State manufacturing** survey rose by 19.4 points in Oct. to a level of 10.7, above the median forecast of -1.8 and back into expansion (over 0). Under the hood, new orders rose by 23 points back into expansion at 3, as did shipments by 32 points, and employment from a minor contraction back to expansion. Prices paid also rose by 6 points to 52, further into expansion and reflecting continued inflation pressures. The six-months ahead business conditions index rose by over 15 points to over 30, the highest level since early in the year. Although the report has been volatile over the past few years, results showed positivity.

(-) The **Philadelphia Fed manufacturing index**, on the other hand, declined by a dramatic -36.0 points to -12.8 in October, back into contraction, and below the positive 10.0 level expected. While new orders rose by 6 points to 18, remaining in expansion, shipments and employment declined, although they remained in expansion. Prices paid rose by 2 points to 49. The 6-months ahead business conditions index rose by nearly 5 points to a solidly positive 36 level. The headline negative number appeared to be due to assessments of current conditions as opposed to future expectations. While the lack of Federal government data offers far less to choose from, the mixed messages from the New York and Philadelphia surveys don't offer much clarity.

Market Notes

Period ending 10/17/2025	1 Week %	YTD %
DJIA	1.56	10.03
S&P 500	1.71	14.47
NASDAQ	2.14	18.05
Russell 2000	2.41	11.13
MSCI-EAFE	0.68	25.62
MSCI-EM	-0.29	29.05
Bloomberg U.S. Aggregate	0.45	7.23

U.S. Treasury Yields	3 Mo.	2 Yr.	5 Yr.	10 Yr.	30 Yr.
12/31/2024	4.37	4.25	4.38	4.58	4.78
10/10/2025	4.02	3.52	3.65	4.05	4.63
10/17/2025	4.00	3.46	3.59	4.02	4.60

U.S. stocks fared positively for the week, reversing a sharply negative prior week. Markets opened the week positively after the Israel-Gaza ceasefire news, and U.S. administration comments over the weekend that U.S.-China trade tensions “will all be fine,” which neutralized some of the sharp negativity and near -3% drop in the S&P the prior Friday. By Friday, the administration noted that high tariffs on China were “not sustainable.” The back and forth around U.S.-China trade relations continued, while a dovish Federal Reserve, and continued positive sentiment around AI moved prices higher.

By sector, gains were led by communications, technology, consumer discretionary, and consumer staples, each up around 2% or more for the week. Financials were weakest, showing minimal gains, as some regional banks noted some concerns over weakening credit quality (noting fraud in some cases), including two bankruptcies in the sub-prime auto loan segment, which offset better-than-expected earnings results from bigger banks earlier. Time will tell if this problem intensifies and becomes a market concern, although loan delinquencies (especially in the lower-income segment) have risen. Real estate also fared well, up over 3%, as yields declined a bit and double-digit gains in the industrial segment.

Stock earnings for the third quarter began to roll out, with now 12% of firms in the S&P 500 having reported, per FactSet. The blended earnings growth rate for Q3 has ticked up to 8.5%, a half-percent higher than at quarter-end. In looking at the impact of the 'Magnificent 7' (mostly Nvidia, as a top 5 contributor for the index), growth of 15% is expected, relative to 7% for the 'other 493.' However, the latter is still a bit higher than the longer-term average for the S&P, so not a bad result in its own right.

Foreign stocks lagged domestic, with stronger results in Europe outperforming Japan and emerging markets, even with a half-percent drop in the U.S. dollar, acting as a tailwind. As in the U.S., some de-escalation in U.S.-China trade tensions appeared to help sentiment, while economic results were mixed, and hovered near minimal growth on net. EM results were boosted by technology-correlated gains in South Korea, as well as gains in Brazil and India, while Chinese stocks declined along with U.S. trade tensions.

Bonds fared positively for the week, as interest rates declined across the U.S. Treasury yield curve. Investment-grade and high yield corporates both outperformed governments and floating rate bank loans slightly. Foreign bonds saw gains due to similar yield curve dynamics and a weaker dollar during the period.

Commodities inched higher for the week, as continued gains in precious metals offset declines in energy. Crude oil fell over a percent \$58/barrel, as an upcoming U.S.-Russia summit was thought to raise the chances of ease in sanctions, leading to further Russian exports and deepened supply glut globally.

Have a good week.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, Univ. of Michigan, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

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Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.



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