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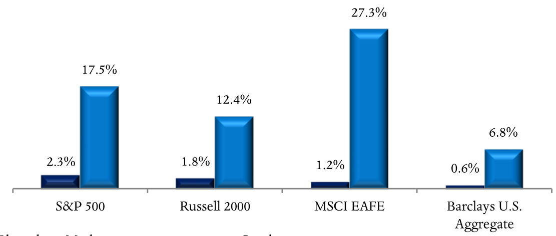
Markets

US equities reached record levels in October amid easing Sino-American trade tensions, a hawkish Fed rate cut, robust corporate earnings, and an ongoing government shutdown. Despite a spike in volatility earlier in the month when escalating trade war concerns caused equities to suffer their biggest one-day loss since "Liberation Day," the S&P 500 index advanced +2.3% (+17.5% ytd), while the tech-heavy Nasdaq composite leaped +4.7% higher (+23.5% ytd). From a factor perspective, growth, both large (+3.6%) and small-cap (+3.2%), led the way, with the Magnificent Seven (+4.9%) shining bright. Conversely, large-cap value (+0.4%) and small-cap value (+0.3%) lagged. There was a notable deterioration in overall market breadth, with an increasing number of industries consolidating prior gains. This was evident in the performance of the S&P 500 Equal Weight and the S&P Midcap 400 indices which declined -0.9% and -0.5%, respectively.

Overseas equities in the MSCI EAFE index posted another positive monthly performance (+1.2% in October; +27.3% ytd). European stocks ended the month higher by +2.6%, at record highs (+16.2% ytd), despite political noise and limited exposure to commodities and AI-related technology. Asian stocks also rallied, led by Japan's Nikkei 225 index (+3.9%; +19.3% ytd) and Shanghai's composite (+2.0%; +20.9% ytd).

In fixed income markets US Treasury yields traded down driving the Bloomberg US Aggregate bond index higher by +0.6% (+6.8% ytd). Investors considered the end of the Fed's quantitative tightening program and the revelation that future interest rate cuts may be delayed. In credit markets, investment grade and high yield bond spreads widened modestly, leading to monthly returns of -0.1% and +0.7%, respectively.

Commodities gained +2.9% in October (+12.5% ytd), though performance was mixed. Industrial (+4.8%) and precious metals (+3.5%) led the charge, with gold +52% year to date, breaking above $4,000/oz on safe-haven demand and central bank buying. WTI crude prices fell -2.2% for the month (-15.0% ytd). Increased OPEC+ supply drove an initial drop, partly reversed on additional Russian oil sanctions.



Source: Bloomberg Markets

Geopolitics

On October 10, US President Trump threatened China with 100% tariffs in response to the latter's announcement of new export license requirements for products containing rare earths, critical to the AI supply chain. Beijing's policy retaliation followed US export license requirements for semiconductor and technology exports to China. Trump also criticized China for halting soybean imports and for insufficient efforts to block illicit smuggling of fentanyl into the US. Soon after, Trump and Xi met on the sidelines of the Pacific Rim summit gathering in South Korea, where the two leaders agreed to dial back some of their trade measures and work together constructively. Namely, further lowering tariffs on both sides, cracking down on the flow of narcotics into the US, the resumption of Chinese purchases of US semiconductors and agricultural products as well as a one-year delay in rare earth export controls. While these steps reduced short-term uncertainty, they were largely expected and left deeper structural issues unresolved. A follow-up summit is planned for April.

The US federal government shut down non-essential services on October 1 after the Senate failed to pass appropriations bills on account of Democrat demands for the extension of healthcare subsidies. What has since turned into the longest shutdown in history appears to be coming to an end, with a plan to extend government funding through January 2026. Even though some jobs will inevitably be cut, the economic impact should be transitory, as federal workers will receive back pay once the government reopens.

US voters went to the polls with Democrats scoring victories in four major elections: the New York City mayoral race, where Zohran Mamdani, a member of the Democratic Socialists of America, garnered over half the votes, the governor's races in New Jersey and Virginia and Prop 50, California's redistricting ballot measure. Top of mind were worries about the economy and the cost of living, as well as support for DEI.

US

Economists have had to contend with a prolonged federal government shutdown, now entering its second month. September's CPI report was delayed but eventually published. Inflation came in at an annual rate of 3.0%, an elevated, yet below-expectations, figure driven by easing rent and equivalents, which are lagging indicators. The Bureau of Labor Statistics jobs report was not released, instead we note that private employers added 42,000 net jobs in October, after two months of declines, according to payroll processor ADP. A separate survey by Challenger, Gray & Christmas calculated that employers cut 153,074 jobs in October, the biggest October reduction in more than 20 years. For the year-to-date period there have been 1,099,500 layoffs, a 65% rise from last year and the highest since 2020.

The Federal Reserve delivered a widely expected 25 basis-point interest rate cut, to a range of 3.75-4.00%, and announced plans to end quantitative tightening. However, Chairman Powell delivered a hawkish speech during the post-FOMC press conference, catching the market off guard. This led to a repricing of a further rate cut in December from 90% to 66%.

October 2025 Economic Statistics

	Oct-25	Dec-24	Dec-23
Federal Funds Target Rate	*3.75 - 4.00%*	*4.25 - 4.50%*	*5.25 - 5.50%*
Consumer Confidence Index	*94.6*	*104.7*	*110.7*
Manufacturing PMI Index	*48.7%*	*49.3%*	*47.4%*
Unemployment Rate	*4.3% (est.)*	*4.2%*	*3.7%*
JPY/USD	*154.00*	*157.18*	*141.06*
USD/EUR	*1.1534*	*1.0353*	*1.1036*
Gold/oz.	*$4,001.78*	*$2,623.81*	*$2,062.59*
Oil (WTI)/bbl	*$60.98*	*$71.72*	*$71.65*

Sources: see disclosure *

Europe

Eurozone economies maintained their steady pace, with unemployment stable at 6.3% and Q3 GDP growing at a greater than expected, yet anemic, 1.3% annual rate, while inflation slowed from +2.2% to +2.1%. Germany and Italy were drags on the growth rate, as both countries' economies stalled. Spain and France led the expansion, despite the latter's political woes. Re-elected French Prime Minister Lecornu will again attempt to convince parliament to pass a budget, focusing on fiscal deficit reduction, including raising the retirement age and other pension reforms. Meanwhile, France's sovereign debt rating was lowered, pushing up bond yields.

The ECB held rates steady, as was widely expected, to keep the deposit rate at 2%. Central bank President Lagard reiterated that policy was in a "good place" and said that some downside risks to growth had receded.

Asia

China's economic data showed softer momentum, with third quarter GDP rising 4.8% year-over-year. Household consumption and fixed-asset investment continued to weaken, reflecting persistent caution and fragile confidence in the private sector. The Communist Party's fourth plenum concluded with a communiqué setting the direction for its 15th Five-Year Plan (2026-2030). The blueprint emphasizes high-quality development, technological self-reliance, and a shift from traditional infrastructure spending toward enhancing citizens' quality of life. Although no explicit annual economic growth target was announced, Beijing aims to reach a "moderately developed" status by 2035, implying around 4.5% annualized GDP growth and per-capita income equivalent to $25,000. Policy priorities center on innovation in strategic technologies, notably AI, semiconductors, and aerospace, coupled with measures to boost domestic consumption and expand the services and advanced manufacturing sectors. The plan also underscores defense modernization and national security, continued management of real-estate risks, and a commitment to a "green transformation" through energy efficiency, diversification, and support for advanced-technology industries.

Sanae Takaichi became Japan's first female prime minister and president of the Liberal Democratic Party (LDP). As a long-time advocate of "Abenomics," Takaichi aims to pursue expansionary fiscal and monetary policies. The economic effects of such stimuli are seen as broadly positive. These include a weaker yen, which benefits Japanese exporters, at the expense of fiscal deficits and mounting government debt levels. Investors now expect that Bank of Japan interest rate increases will be delayed from their current level of 0.50%.

Outlook

On-again, off-again, tariff threats, immigration policy changes and associated labor market conditions, as well as the effects of artificial intelligence have created uncertainties for businesses. Lately, geopolitical tensions and trade concerns have moderated, while inflation data indicate that tariff-related price pressures are being shared, allowing interest rates to recede. These positive developments have reinvigorated investor optimism, elevating US equity markets to all-time highs, suggesting that much good news is priced in.

The current economy has been characterized as "K-shaped," highlighting a divide in which high-income earners and select companies thrive, while lower-income groups and broader sectors lag. Looking ahead, strong AI-driven growth is likely to continue while broader industry attempts a soft economic landing, driven by lower interest rates, tax benefits and deregulation. However, consumer spending is likely to face steady headwinds as tariff and related price increases are apportioned between producers, the supply chain, distribution, and end markets, which may require years to resolve.

Corporate earnings season is in full force with 64% of S&P 500 companies having reported results through the end of October. Of these, 83% reported a positive earnings surprise and 79% delivered revenue growth ahead of expectations, according to FactSet. For the third quarter, the blended earnings growth rate for the S&P 500 is 10.7% better than the 7.9% expected at the beginning of the season, and on pace for a fourth consecutive double-digit gain. The bellwether index's forward 12-month P/E ratio stands at 22.9 vs. the 5-year and 10-year averages of 19.9 and 18.6, respectively. Keeping valuations in mind and given the trailing six-month performance of 22.5%, it is perhaps prudent to temper our short-term enthusiasm for the index. With that said, we see ample opportunity for US stock pickers, value oriented strategies, and international markets, all of which offer solid opportunities.

Regarding bond markets, with annual inflation at 3% and 10-year yields just above 4%, there isn't much benefit for taking on duration risk. As such, we continue to favor a well diversified portfolio of short-duration high-yielding credit for investors willing to endure some volatility.

Alternative asset diversification has brought risk-adjusted balance to client portfolios in 2025. Precious metals and related mining equities have produced outstanding returns since our initial recommendation, and the recent pull-back can be considered a buying opportunity. Software equities have been out of favor of late, on account of the possibility of disruption by AI, also offering an attractive entry point. Further, we have identified unique investments in cybersecurity, water infrastructure, artificial intelligence, and natural resources. Lastly, our proprietary efforts to source direct investments are gaining traction, with several compelling small and middle market prospects.

*Sources: Reuters, Bloomberg, Bureau of Labor Statistics, Conference Board, Federal Reserve, Institute for Supply Management, MSCI, Russell, Standard & Poor's, Financial Times and the Wall Street Journal.