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Economic Update

OCTOBER 2025

Commentary

At the time of writing, the stock market (based on the S&P 500) stands at an all-time high. Equity prices have risen 1.5% in October and 15% year-to-date. This is happening despite what is now the second longest government shutdown and multiple other risk factors. Equities are encouraged that the Fed will seemingly cut rates again at the end of this month and also at their December meeting.

The government shutdown has brought about the delay of several key economic data points. The jobs report was due on October 3 but still has not been released (and won't be until after the shutdown is over). The Fed will have to rely on alternative labor market data. Thus far, those measures paint a somewhat bleak picture. ADP payroll data for September showed the weakest job growth in over two years. Other data shows that the number of job postings are at multi-year lows.

Fortunately, the Fed does have an updated inflation picture. Despite the shutdown, federal staff were recalled to calculate September's Consumer Price Index. This was necessary since the Social Security Administration needed the data to calculate the annual cost of living adjustment (which will be 2.8% for next year). The inflation data came in softer than expected and gives the Fed a clear green light to cut rates next week.

The economy is in a strange place right now. The labor market is experiencing clear signs of weakening, yet consumer spending is surging. The recent revision to Q2 gross domestic product showed that consumer spending was a solid 2.5% versus the initially reported 1.6% pace. Spending data for Q3 is tracking near 3%. The problem is that spending is becoming more concentrated in the higher income households. This is likely due to the wealth effect of booming real estate and stock markets over the past several years.

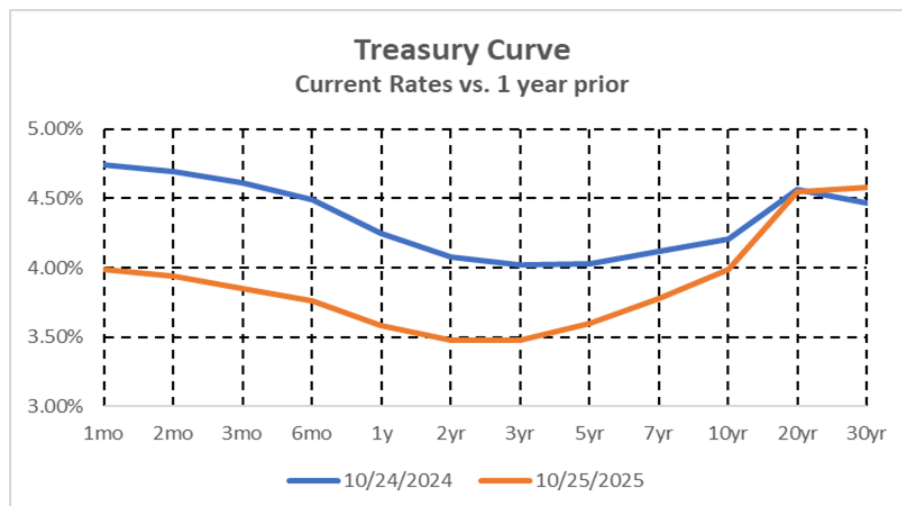
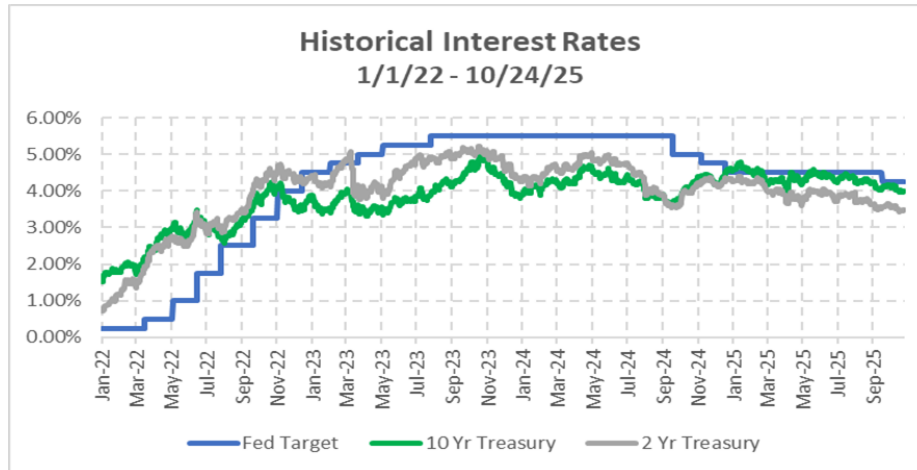
If consumer spending remains elevated, it can provide a floor to labor market softening. For now, that is our base case scenario. As for the government shutdown, the heat is about to turn up as civilian federal workers are set to miss their first full paycheck today. Air traffic controllers are set to miss a full paycheck on October 28. Airport delays and safety concerns helped to bring an end to the shutdown in Trump's first term. We think that public pressure will build and force a resolution within the next few weeks. If so, there would be very little economic impact. The longer the shutdown, the greater the possibility of a larger drag on growth.

THIS MONTH

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Fixed Income Outlook

Treasury rates have moderately declined in October. Alternative data and recent Fed speeches strongly point to a rate cut next week. The market is pricing in a 97% chance of a 25 basis point rate decline and 100% chance of another cut in December. This makes sense to us given that the Fed wants to get close to what they believe is neutral (which they currently estimate at 3.00%) given the competing dynamics of their dual mandate.



Labor Readings

(Data source: Bloomberg)



Job Postings Continue to Decline

The number of job postings, according to Indeed, hit the lowest level in over four and a half years in October. The Indeed index is based at 100 as of February 2020. It peaked at 161 in March 2022 and has experienced a steady decline since that time.

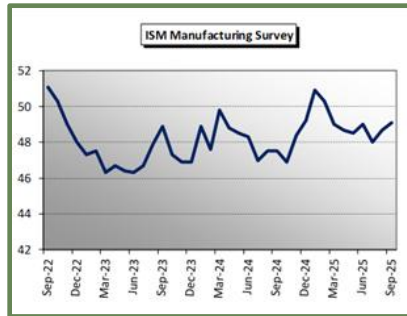


Payroll Growth Remains Weak According to ADP

Payrolls shrank in September according to ADP Research. September's change was the lowest monthly change in over two years. With the government closed, the more commonly used Bureau of Labor Statistics (BLS) report was unavailable this month. The ADP data uses a much smaller sample size than the BLS report and can vary greatly from that data.

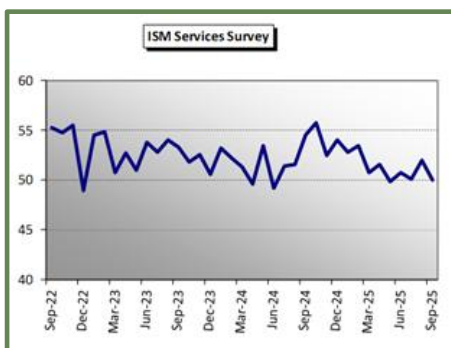
Economic Readings

(Data source: Bloomberg)



Manufacturing Survey Remains in Contraction Area

The ISM Manufacturing Index Survey remained in the contractionary area for the seventh consecutive month in September. New orders declined and the backlog of work continued to shrink.

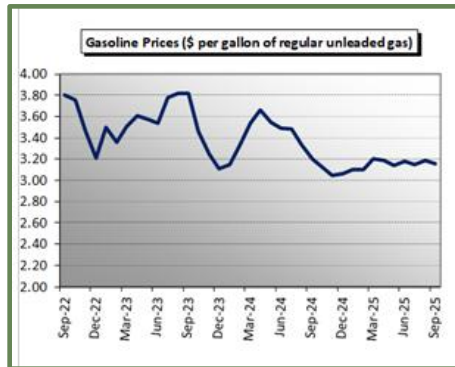


Services Survey Weaker Than Expected

The ISM Services Industry Survey declined more than expected in September from 52 to 50. The market was expecting a slight decrease in the index to 51.7. A number below 50 indicates contraction in the services industry. The business activity portion of the index fell into contraction territory for the first time since May 2020.

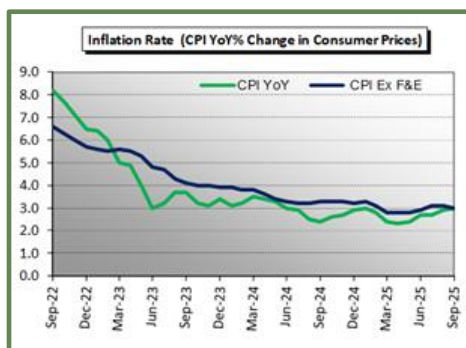
Inflation Readings

(Data source: Bloomberg)



Gasoline Prices Remain Relatively Low

Despite Middle East tensions and sanctions on Russia's oil, gasoline prices have been well-behaved. Prices are essentially unchanged over the past year and down 17% from three years ago.



Consumer Inflation Lower Than Expected

The pace of consumer inflation decreased in September versus the prior month and was less than expectations. The month-over-month core inflation rate rose by the smallest amount in three months. On a year-over-year basis, both headline and core inflation rose by 3%, which remains well above the Fed's 2% target.