

October 2025

## MONTHLY MARKET INSIGHTS

### Key takeaways:

- US equities rose for a fifth straight month, with the S&P 500 returning 3.53%. Breadth continues to improve as small-cap stocks, as measured by the Russell 2000 Index, gained 2.96% and broke above their 2021 high.<sup>1</sup>
- The Federal Open Market Committee ("FOMC") reduced the Fed Funds target rate by 25 basis points ("bps"), restarting the rate cutting cycle that had been on pause since December 2024. The Summary of Economic Projections ("dot plot") implies two additional cuts in 2025.<sup>2</sup>
- The federal government shut down on October 1st. While history suggests government shutdowns have a limited impact on markets, a prolonged stalemate could weigh on sentiment amid already elevated policy uncertainty.<sup>3</sup>

US equity markets extended their rally in September, with the S&P 500 closing higher for a fifth straight month, returning 3.53% and setting fresh record highs.<sup>4</sup> Under the surface, market breadth improved as small-cap stocks, measured by the Russell 2000, gained 2.96%. Significantly, the index achieved a new all-time high during the month for the first time since 2021. Broadening participation is a constructive development considering small and mid-cap stocks currently sport more attractive valuations than their large-cap peers. Growth outperformed value with the Russell 1000 growth index returning 5.26% while the Russell 1000 value index returned 1.31% over the month.<sup>5</sup> The magnitude of this outperformance may signal a growing risk appetite among investors.

The defining market catalyst for the month came from the Federal Reserve. The FOMC lowered the Fed Funds rate by 25 bps, the first cut since last December. Chairman Powell highlighted the rising risks to the labor market and moderating growth, framing the move as a recalibration toward neutral policy. Powell's remarks signified a tonal shift from earlier meetings, where tariff uncertainty dominated the discussion. The updated dot plot showed a median path of two additional cuts this year and one more in 2026, suggesting the Committee is comfortable continuing the easing cycle over the upcoming meetings. However, it seems the market anticipates rate cuts to exceed FOMC projections in 2026.<sup>6</sup>

Consumer strength held up during the month even as the unemployment rate edged higher. Personal consumption rose 0.6% month-over-month in the latest reading, and real disposable income grew 2.0% year-over-year.<sup>7</sup> Recent equity-market gains have materially lifted household net worth, up 6.1% year-over-year, while the net-worth-to-disposable-income ratio is back near all-time highs.<sup>8</sup> In aggregate, the US consumer remains resilient particularly among higher-income cohorts. On the other hand, unemployment ticked up to 4.3% and payroll

1. Bloomberg.

2. "September 17, 2025: FOMC Projections Materials." Federal Open Market Committee, Board of Governors of the Federal Reserve System, 17 Sept. 2025, [www.federalreserve.gov/monetarypolicy/fomcprojtabl20250917.htm](https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20250917.htm).

3. Clifton, Dan, et al. "2025 Macro Policy Outlook: Daniel Clifton Strategas Securities October 2025." Strategas, 1 Oct. 2025, [www.strategasrp.com/Document?strResearchProductID=h3LbYKqyQMNFAEAtiDjHDw%253d%253d](https://www.strategasrp.com/Document?strResearchProductID=h3LbYKqyQMNFAEAtiDjHDw%253d%253d).

4. Bloomberg.

5. Id.

6. Id.

7. Briggs, Joseph. "US Consumer Dashboard: August 2025: Stronger Spending Despite Weaker Labor Market ." Goldman Sachs Research, 23 Sept. 2025, [publishing.gs.com/content/research/en/reports/2025/09/23/de3cc71d-f3a8-42ce-b884-9380d3c237f0.html](https://publishing.gs.com/content/research/en/reports/2025/09/23/de3cc71d-f3a8-42ce-b884-9380d3c237f0.html).

8. Id.

growth was weak for the month.<sup>9</sup> Looking ahead, consumer spending should remain supportive of economic growth through the end of 2025, barring a significant deterioration in the labor market.

We view a second inflation wave as a possible risk given the expectation of continual monetary easing against resilient consumer spending. While price pressures have eased substantially from 2022 peaks, the core PCE index, the Fed's preferred inflation gauge, recently printed 2.91%, above the Fed's 2% target.<sup>10</sup> The core PCE index has not printed a measure below 2.0% since February 2021.<sup>11</sup> Resuming cuts may be warranted to safeguard employment, but the Fed must take caution to not compromise price stability along the way.

On the policy front, October begins with the first government shutdown in 7 years, after Congress failed to pass the needed spending bill. Senate Republicans looking for a stop-gap funding measure faced a 60-vote threshold that required cross-party support, which they were unable to secure before the October 1st deadline. For the time being, Democrats are holding firm, pressing for additional healthcare outlays as a necessary part of any agreement. If a stalemate extends beyond a few weeks, we expect moderates in both parties will push for a compromise. Historically, the average government shutdown has lasted eight days, but given the tense economic backdrop, we believe the current shutdown could certainly extend beyond that timeframe.<sup>12</sup> Markets typically look through government shutdowns, but a prolonged episode could weigh on investor sentiment and increase already elevated political uncertainty.<sup>13</sup>

We believe anticipated monetary easing, a solid technical backdrop, and a resilient consumer keep the equity outlook constructive into year-end. However, valuations for large-cap stocks appear elevated. The S&P 500 trades at a trailing Price-to-Earnings ratio of 27.69.<sup>14</sup> While valuations are historically poor predictors of short-term returns, we believe the current level narrows the margin for error and raises the bar for corporate earnings.<sup>15</sup> As referenced in our prior outlooks, the current environment appears attractive for certain hard assets, particularly gold. The yellow metal rose 10.56% in September, its strongest month in over 5 years.<sup>16</sup> We believe gold may provide an attractive hedge against risks pertaining to policy uncertainty, inflation, and dollar weakness. Near term, the move in gold looks extended, but we believe the strategic case for a modest allocation in investment portfolios remains compelling. We believe other alternative assets, such as private infrastructure and Bitcoin, are also well-positioned to benefit from this backdrop and it may behoove investors to diversify away from traditional asset classes. We are constructive on risk assets going into October, yet we recognize many potential risks to our thesis. For this reason, we continue to vigilantly monitor developments in the market and seek opportunities to diversify portfolios into assets that may mitigate overall portfolio volatility across different scenarios.

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9. Id.

10. Bloomberg.

11. Id.

12. Clifton, Dan, et al. "2025 Macro Policy Outlook: Daniel Clifton Strategas Securities October 2025." Strategas, 1 Oct. 2025, [www.strategasrp.com/Document?strResearchProductID=h3LbYKqyQMNFAtiDjHDw%253d%253d](https://www.strategasrp.com/Document?strResearchProductID=h3LbYKqyQMNFAtiDjHDw%253d%253d).

13. Id.

14. Bloomberg.

15. "Guide to the Markets US Q3 2025." J.P.Morgan Asset Management, 1 Oct. 2025, [am.jpmorgan.com/us/en/asset-management/protected/adv/insights/market-insights/guide-to-the-markets/](https://am.jpmorgan.com/us/en/asset-management/protected/adv/insights/market-insights/guide-to-the-markets/).

16. Bloomberg.

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