PPA Insights

Market Monday: Taking It All In Stride
Market Update and Strategy Call | Episode 24

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"Stay the Course"

Week of: October 13, 2025

The PPA investment team met again on **Monday, October 13.** We talked about the current **government shutdown** and what that means for the market and investors going forward. We also spoke about the possible path of interest rates going forward and what future economic reports we could see, if any, while the government remains closed (which are a key component to the Fed's decision-making process on interest rates). And we spoke about the latest on tariffs where the U.S. announced **100% tariffs on China, effective November 1,** after China said they would impose **export controls** on other countries who trade rare earth minerals to obtain a license from China before exporting out. That was a bit of a surprise which spooked markets at first but President Trump eased tensions by saying "all will be fine" and that neither the U.S. or China want a standoff on trade. Indicating there could be some **negotiating** in play here. In any case, it seems as if the market is brushing off several possible exasperating factors here as we work our way through October. Which traditionally is a volatile month in and of itself. But it is good to see continued **resilience** here.

Third quarter earnings season also begins this week with banks on deck to report first. We continue to see strength in earnings and current projections place earnings growth firmly in the **8% to 13%** range, which is respectable given the continued near-term uncertainty out there. Couple that with a fairly strong Gross Domestic Product projection in the **3.8%** range and that helps set a nice floor here for future expectations. Add anticipated rate cuts with another opportunity on October 29 (which the market is currently betting **97%** probability of another 25 basis point cut) and that all points to a tailwind for the market. That said, we must not lose sight of current valuations as the market continues to trade at **all-time highs.**

It seems as if the market is **taking it all in stride** at the moment as we push through a government shutdown, more tariff developments, and continued inflation and job growth uncertainty. But, we will get an inflation report on October 24 so that will help shed light on how prices have been trending out there. Speaking of which, keep in mind the effective tariff rate has come down since April and remains in the **16%-17%** range (per the Yale Budget Lab). Which the market also seems to be comfortable with. It also appears that President Trump is continuing to use tariffs as a bargaining chip to help spur economic growth (i.e. the November 1 deadline for China). As for the shutdown, current Polymarket real time betting odds show a **32%** chance of resolution by **October 31**, but also shows **85%** by **November 30**. So, it does point to an eventual end in sight there.

In the meantime, we remain cautiously optimistic on a few high-level themes: lower rates going forward, easing trade policy, future tax bill cuts for households, and continued strong corporate profits as evidenced by the current earnings growth projections. The team talked about all of this and more on our October 13th call.

Thank you for reading and we hope you enjoy this summary of our continued discussions!

Quick Recap

The meeting focused on analyzing market trends and recent events, including the government shutdown's impact on economic data and the potential Fed rate cut on October 29. The group discussed various investment strategies and market indicators, such as earnings growth projections, small cap performance, and gold correlations, while considering the effects of lower interest rates and regulatory changes in Asian markets. They concluded by evaluating potential investment opportunities in undervalued stocks and real estate-related assets, with an emphasis on maintaining diversification and monitoring market developments.

Next Steps

- Invest accounts with new money to their respective models.
- Research Exchange Traded Fund (ETF) ideas in corporate bonds that use a hedging strategy similar to existing positions already held in the models.
- Research Real Estate Investment Trust (REIT) options to potentially take advantage of a rebound in the housing market on lower interest rates.
- Consult with Cetera's investment research team about their REIT recommendations and exposure in their models.
- Consider increasing small cap exposure in the next portfolio rebalance.
- Join Cetera investment committee meeting with Gene Goldman to discuss current market landscape, earnings projections and valuations.
- Discuss and research potential undervalued stocks in telecom, tech, and financial services/asset management for possible investment in the models.
- Monitor the start to third quarter earnings season with big banks on deck to report first.

Market Response to the Government Shutdown and Trade Policy

The group discussed the market's response to recent events, including the government shutdown and trade policy developments. Lee noted that while the market experienced a slight downturn on Friday, it was not significant, and he advised treating the current pullback as a buying opportunity. He emphasized staying diversified and balanced in positioning, while acknowledging potential risks if the shutdown continues to impact economic data. The group also touched on positive developments in the Artificial Intelligence sector, such as news on more collaboration from tech companies who are partnering together on hardware and software initiatives to expand large scale Artificial Intelligence deployments which have helped boost market sentiment.

Fed Rate Cut Probability at 97%, GDP Projection at 3.8%, 3Q Earnings Growth at 8%

The group discussed the potential Fed rate cut scheduled for October 29, noting its probability at **97%** and the expected drop in the Fed Funds Rate below **4%**. They confirmed the range given for the rate and continued discussion on how that could affect overnight rates used to determine borrowing costs. The group also talked about a possible rebound in consumer behavior as a result, in particular the relatively strong GDP (Gross Domestic Product) outlook at **3.8%** as published by the Atlanta Fed in their GDP Now projection. Lee also pointed out FactSet's earnings projection of **8%** growth for **third quarter 2025**, versus an increase of **7.3%** that was predicted at the end of June.

13% Earnings Growth Possible for Third Quarter Based on Historical Analysis

Lee presented data on earnings growth for the S&P 500 from FactSet, noting that most companies in the S&P 500 report actual earnings above estimates, and based on the average improvement in the earnings growth rate historically, trends suggest a **13%** growth rate for third quarter 2025, which would make it the 4th straight quarter of double digit growth. In fact, Lee pointed out that actual earnings growth for the S&P 500 has exceeded estimates in *37 of the past 40 quarters*.

Forward earnings estimates for calendar year 2025 and 2026 were also discussed, with projections ranging from **11% to 14%**. The current PE ratio of 22 was also debated, with Lee expressing optimism about valuations based on earnings growth, while acknowledging other factors like government shutdowns and economic surprises that could introduce downside pressure. Others in the group noted the upcoming earnings reports from banks this week, particularly focusing on net interest margins and guidance.

Small Cap Outperformance and Gold Strategy

Lee discussed the performance of small caps and gold, noting their outperformance since August **(Figure 1)** and the shift in gold's correlation with real interest rates. Usually, gold has an inverse relationship to real rates but since 2023, real rates have been fairly steady yet gold has spiked to the upside **(Figure 2)**. He also suggested increasing exposure to small caps in the next rebalance. The team agreed and also suggested researching concerns over rising U.S. debt, which could lead investors to flock to gold. Lee also acknowledged the uncertainty caused by the shutdown, which could exacerbate the debt situation but expressed hope for a resolution soon.

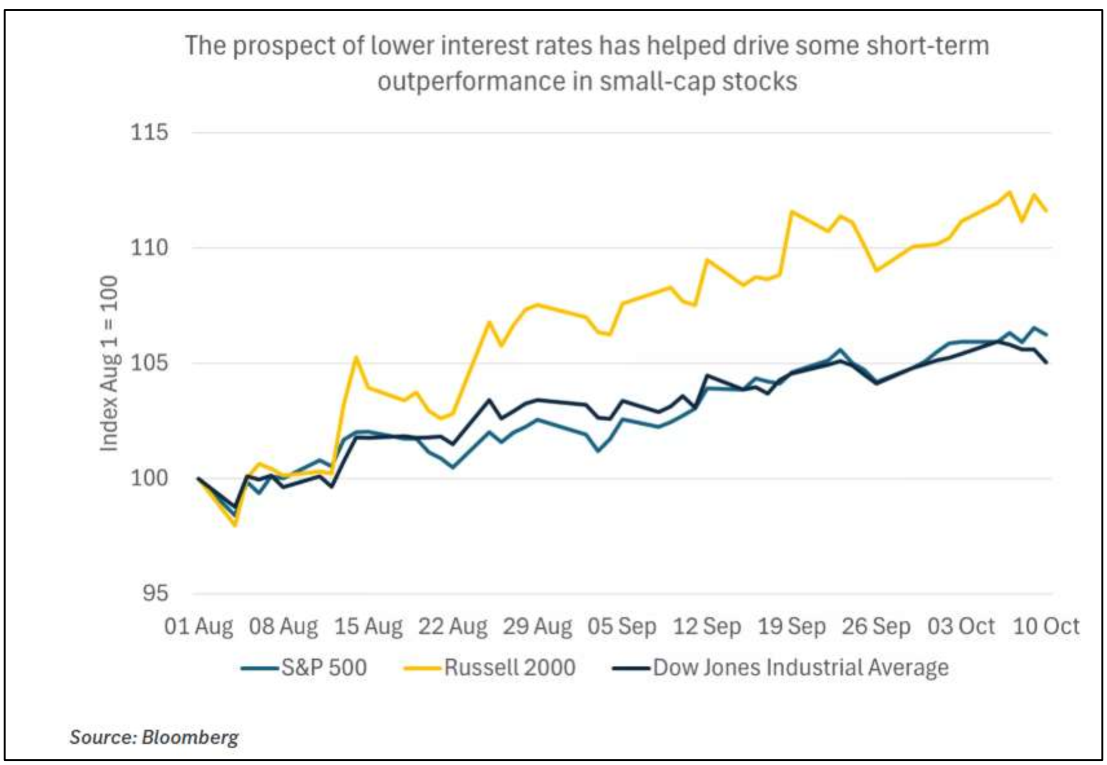
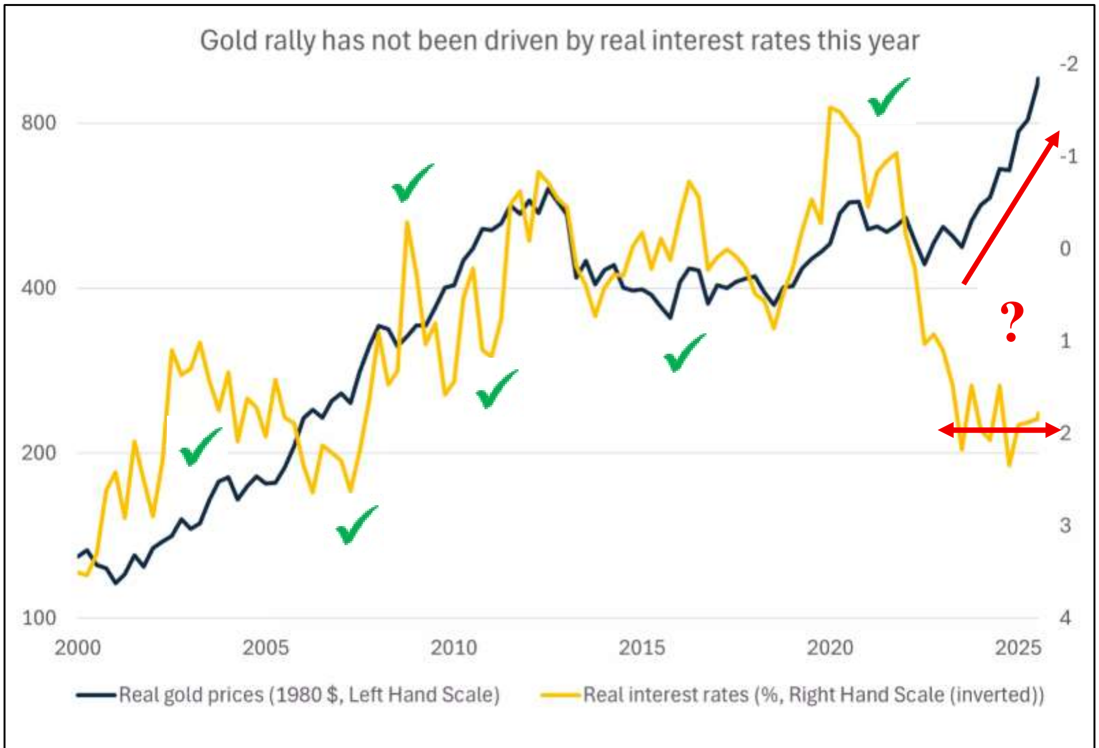


Figure 1. Small Cap Performance (Russell 2000) versus Large (S&P 500 and Dow)
Source: Bloomberg



Source: Bloomberg, Haver Analytics. Real interest rates are equal to 10-year U.S. government bond yields minus 10-year inflation forecasts from the Survey of Professional forecasters. Real gold prices are per ounce, deflated by CPI inflation, shown on a log scale.

Figure 2. Gold and Real Interest Rates
Source: Bloomberg and Haver Analytics

Government Shutdown Economic Impact Discussion

The group discussed the impact of the government shutdown on the economy, particularly focusing on the potential effects on GDP and federal employees' paychecks, with the next paycheck due on October 15. They agreed that the shutdown was unlikely to end by October 15, which could lead to market volatility. Lee mentioned that they had cash available to invest (from treasury bonds that matured recently), but the team expressed uncertainty about whether to invest the money now or wait for a possible drawdown if October 15 paychecks are not issued. The group also discussed one of the big debate points around the shutdown with government subsidies on healthcare premiums. If they do not continue, that could lead to possible rising healthcare costs for those on Affordable Care Plans, which could slow consumer spending down.

Corporate Bond with Hedge Idea

The team also discussed investing extra cash in equities or bonds but agreed it made sense to stay in fixed income since the cash came from maturing treasury bonds. But it was discussed to research an exchange traded fund that invests in corporate bonds instead of going back into treasuries to seek a slightly higher yield. And in exchange for the added risk of corporate bonds, find a strategy with a hedging component to help offset the higher credit risk that comes with corporates (versus treasuries). This idea would be similar to a covered call strategy where a call option is sold against an existing stock holding to help generate income in the event the stock goes down (a hedge). The same can be done with bonds so it was discussed to find something that hedges against the added credit risk that corporate bonds would bring. A secondary hedge goal would be to offset a rise in interest rates (interest rate risk).

Investment Strategy and Portfolio Diversification with Real Estate

The group continued discussion on potential investment strategies, including undervalued stocks recently reviewed along with possible hedged equity and hedged bond ideas. They considered the impact of lower interest rates on the models and explored the possibility of investing in real estate-related funds to capitalize on a potential rise in such assets as interest rates are expected to come down. Lee agreed to research corporate bond hedges and real estate investment trusts (REITs) and consult with Cetera for recommendations. He emphasized the importance of diversification and monitoring market trends, while also expressing confidence in the market's positive outlook despite current uncertainties.

Asian Market Trends

Finally, Lee touched on Asian market trends, where regulatory efforts to improve corporate disclosure have been in focus to help improve investor sentiment and outlook in the region. This has led to increased optimism and even share buybacks. He suggested this is something to monitor considering the limited exposure to these markets in the models.

Thank you for reading!

Sincerely,

Lee

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Investment decisions should not be based on this material only since the information contained here is a singular news update, and prudent investment decisions require the analysis of a much broader collection of facts and context.

A diversified portfolio does not assure a profit or protect against loss in a declining market.

Rebalancing may be a taxable event. Before you take any specific action, be sure to consult with your tax professional.

The prices of small and mid-cap stocks are generally more volatile than large cap stocks. International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

The return and principal value of bonds fluctuate with changes in market conditions. If bonds are not held to maturity, they may be worth more or less than their original value.

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings. Precious metal investing involves greater fluctuation and potential for loss.

Cetera does not offer direct investments in gold (commodities). Commodities are volatile investments and may not be suitable for all investors.

Investors cannot invest directly in indexes. The performance of any index is not indicative of the performance of any investment and does not take into account the effects of inflation and the fees and expenses associated with investing.

The Dow Jones Industrial Average (DJIA), Dow Jones, or simply the Dow, is a stock market index of 30 prominent companies listed on stock exchanges in the United States. It is one of the oldest and most commonly followed equity indices and is price-weighted, unlike other common indexes such as the Nasdaq Composite or S&P 500, which use market capitalization.

The S&P 500 Index is a market capitalization-weighted index established by S&P Global ratings. It is composed of the 500 most widely held stocks whose assets and/or revenues are based in the US; it's often used as a proxy for the U.S. stock market.

The Nasdaq Composite Index is a market capitalization-weighted index of more than 2,500 stocks listed on the Nasdaq stock exchange. It is a broad index that is heavily weighted toward the technology sector. The index is composed of both domestic and international companies.

The Russell 2000 Index is a market index composed of 2,000 small-cap companies. The index is frequently used as a benchmark for measuring the performance of small-cap companies.

The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. & Canada. It is maintained by MSCI Inc., a provider of investment decision support tools; the EAFE acronym stands for Europe, Australasia and Far East.

The MSCI Emerging Markets Index is a broad benchmark that measures the performance of equity markets in rapidly growing economies around the world, otherwise known as “Emerging Markets”. It captures large and mid-cap representation across Emerging Markets countries.

Market capitalization, sometimes referred to as “market cap”, is the total value of a publicly traded company's outstanding common shares owned by stockholders. Market capitalization is the market price per common share multiplied by the number of common shares outstanding.

A US treasury bond is a type of debt security issued by the US government to investors who essentially lend money to the government, and in return, the government agrees to repay the loan with interest at a predetermined rate and date, otherwise known as the “yield”. These bonds are typically used by governments to finance public spending and infrastructure projects.

Inflation is the rate of increase in prices over time across the general level of goods and services in an economy, leading to a decrease in the purchasing power of money.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by consumers for a representative basket of consumer goods and services.

The Personal Consumption Expenditures (PCE) Price Index is a key measure of inflation used by the Federal Reserve, tracking changes in the prices of goods and services purchased by U.S. households and nonprofit institutions.

Gross Domestic Product (GDP) is the total monetary value of all finished goods and services produced within a country's borders during a specific period, typically a year.

A tariff is a tax imposed by a government on imported goods. It's essentially a tax on goods entering a country from abroad, paid by the importer to the government receiving the goods.

The Purchasing Managers' Index (PMI) is a monthly survey of purchasing managers in the manufacturing and services sectors, providing a snapshot of current and future economic conditions. It is a forward-looking indicator that helps assess the health of an economy.

Jobless claims, also known as unemployment insurance claims, are a measure of how many people file for unemployment benefits. They are an important indicator of the health of the labor market and the overall economy. There are two main types of jobless claims: initial claims, which represent new claims, and continuing claims, which represent those who are already receiving benefits.

The **unemployment rate** is the share of the **labor force** without work. The labor force are those people who are either *actively working* or *actively seeking a job*. It is different than the entire working age population.

The **participation rate** is the percentage of the **population** that is either employed or actively seeking employment (the labor force). It indicates the proportion of working-age individuals who are actively involved in the labor market.

Consumer confidence is an economic indicator that gauges how optimistic consumers are about the overall economy and their personal financial situations.

Retail sales refer to the sale of goods and services directly to consumers for their personal use. Retail sales is different from *wholesale sales*, which involve selling goods to businesses for further distribution or resale.

The effective tariff rate is a measure of the actual tax burden on imported goods, taking into account all tariffs, including those on inputs, and considering trade preferences like free trade agreements.

The personal savings rate is the percentage of people's disposable personal income that they save, after paying taxes and spending money. It is after-tax income that individuals have left to save.

A hedged equity strategy is an investment approach that combines traditional equity investments with hedging techniques that use options to reduce risk and volatility while still participating in potential market gains. It aims to protect against downside risk while potentially capturing upside, albeit limited upside as well.

A Real Estate Investment Trust (REIT) is a company that owns, operates, or finances income-producing real estate. It's like a mutual fund for real estate, offering investors the ability to participate in real estate without directly owning and managing properties. REITs can be a source of steady income through dividends and can also offer long-term capital appreciation.

Mutual funds are offered through prospectus only. Investors should consider the investment objectives, risks and charges and expenses of the fund carefully before investing. The prospectus contains this and other information about the funds. Contact the issuing company to obtain a prospectus which should be read carefully before investing or sending money.

Wage inflation refers to the general increase in the amount of money people earn over time, typically expressed as a percentage. It's a key economic indicator, reflecting changes in the cost of labor and its impact on purchasing power and living standards.

An "option overlay" is an investment strategy where options contracts (calls or puts) are used on an existing portfolio or asset (an ETF that tracks the MSCI EAFE Index in this case) to adjust its risk and return profile, often to generate income, manage risk, or create defined outcomes, rather than as a standalone strategy.

Coincident indicators are economic metrics that fluctuate in roughly the same direction and at the same time as the overall economy, providing a snapshot of its current health. Unlike leading indicators that predict future trends, or lagging indicators that confirm past shifts, coincident indicators offer real-time information about the current phase of the business cycle.

Leading indicators are measurable variables that change before overall economic or organizational trends, providing insights into future outcomes and enabling proactive decision-making. Common examples include the stock market, new building permits, and consumer confidence surveys, which can signal shifts in the economy. They differ from lagging indicators, which report on past events.

Productivity is a measure of the rate at which useful work is done, calculated as output divided by input. It can refer to the efficiency of a person, company, or even a country in converting resources into goods and services. High productivity is crucial for economic growth, higher wages, and improved living standards, as it allows for more output without proportionally increasing costs or resource usage.

Interest rates can be expressed in nominal or real terms. A nominal interest rate equals the real interest rate plus a *projected* rate of inflation. A real interest rate reflects the true cost of funds to the borrower and the real yield to the lender or to an investor.

A real interest rate is the nominal interest rate minus the rate of inflation. It reflects the actual growth in purchasing power of your money over time, rather than just the number of dollars you earn. For example, if you have a savings account with a 3% nominal interest rate and the *current* inflation rate is 2%, the real interest rate is 1% (3%−2% = 1%).