WEEK OF OCTOBER 20, 2025

Market Navigator

U.S. equities moved higher last week, rebounding from the trade tension–induced sell-off the previous week. Semiconductors, credit cards, apparel, airlines, and restaurants helped lead markets higher last week. This was offset by a sell-off in some of the regional banks, which noted some areas of softness as well as the impact of some recent bankruptcies. Treasuries saw the 2-year yield hit a 3-year low, while the 10-year fell below 4 percent. How long the market continues to ignore the government shutdown remains to be seen.

Quick Hits

1. **Beyond the headlines:** A positive consumer backdrop covers up some of the small cracks that may be forming.

2. **Report releases:** The Fed's Beige Book was released last week, showing a mixed economic picture.

3. **Financial market data**: Markets rebounded following softened comments from Trump that had raised trade tensions with China.

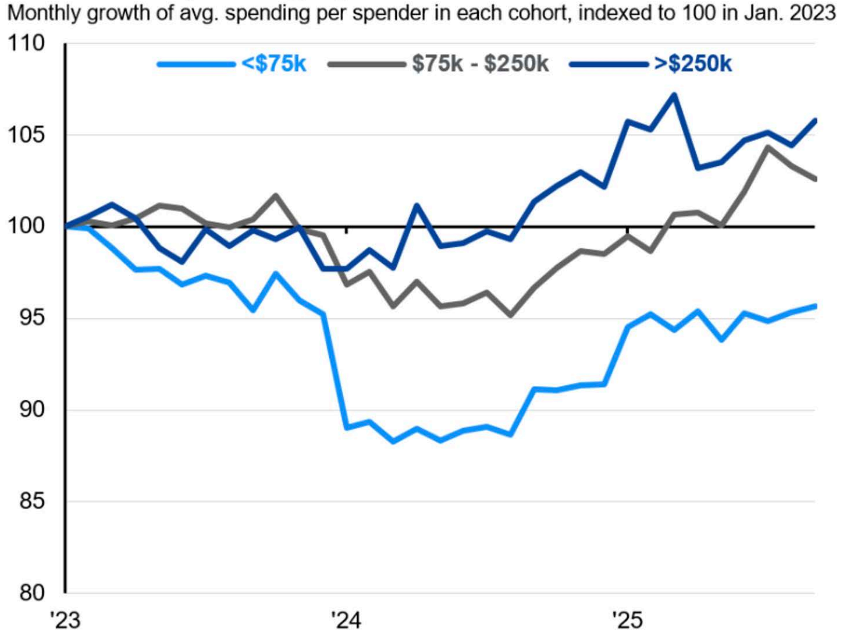
4. **Looking ahead:** The focus this week will center on the delayed release of inflation data just prior to the Fed's October meeting.

Beyond the Headlines: Uncertainty Remains, but the Consumer Continues to Provide a Solid Backdrop

As the government shutdown reaches day 20, getting macro data continues to be a challenge, but we are able to get a read on consumers through several of the major banks and credit card companies that reported last week. Most of the major banks that reported noted that U.S. consumers, who drive a majority of the U.S. economy, continue to spend, as do businesses. Despite data delays, retail spending is up 6.2 percent in the third quarter. It is still heavily driven by the higher-income consumer, which continues to see growth. Still, the lower-income consumer has been resilient as well. After seeing a divergence in spending patterns in 2024, nearly all segments are seeing spending growth in 2025.

Consumer spending by income cohort

Monthly growth of avg. spending per spender in each cohort, indexed to 100 in Jan. 2023



Source: Chase, J.P. Morgan Asset Management. Chase spending data includes credit and debt card transactions where card is and is not present.

However, the results from some regional banks noted areas of softness in the economy that led to a sell-off in related stocks last week. Several of the banks wrote off bad loans to commercial customers and prompted concern among investors that there could be more to come. A few large defaults happened last week, including Tricolor Holdings, a subprime auto dealer. Despite J.P. Morgan CEO Jamie Dimon's comments that "when you see one cockroach, there are probably more," the overall banking system is still showing strength. Banks and credit card issuers that have been focused on the higher-end consumer haven't seen many cracks in their consumer base.

Another CEO, Ted Pick of Morgan Stanley, had an excellent comment on the earnings call, noting that "macro uncertainty and enormous opportunity uncomfortably coexist." This continues to be the story that investors have to navigate, with the potential of AI, while also dealing with an uncertain picture consisting of softening employment, inflation that remains sticky, possible tariff impacts, and a market that is priced at valuations that were reached during Covid when rates were near zero. This is why we continue to see somewhat skittish markets when bad news comes out—as we did two weeks ago amid increased trade tensions with China—and within certain sectors or industries, as we saw in this past week's sell-off in regional banks.

Given how markets are priced today, it's important to keep an eye on the risks in your portfolio and how it's allocated, while not losing sight of the overall positive backdrop in the economy.

Report Releases: October 13–17, 2025

Fed
Beige Book
October (Wednesday)

The Fed's Beige Book was released last week, noting some concerns over softening labor and higher prices. Still, they noted that on balance, they're seeing slight to modest growth.

National Association of Home Builders (NAHB) Housing Market Index
October (Thursday)

Home builder confidence improved by more than expected in October, bringing the index to a six-month high.

- Expected/prior month NAHB Housing Market Index: 33/32
- Actual NAHB Housing Market Index: 37

>> The Takeaway

- With the government shutdown continuing to affect data collection, survey data from the Fed continues to show a mixed picture that will likely induce the Fed to continue cutting rates at a slow pace.

Financial Market Data

Equity

Equities rebounded from the previous week, after seeing a sell-off induced by trade tensions with China. After Trump softened his comments, areas impacted by trade, particularly semis, saw their stock price rise. There was a mixed picture in financials, as big banks rallied following earnings, while regional banks fell over credit concerns. Other outperformers included credit cards, apparel, airlines, restaurants, machinery, chemicals, and home builders. Underperformers included pharma, managed care, media, food, and software. Despite the positive results from the big banks, the financials sector was the worst performer due to both the regional banks and insurance weakness.

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	1.71%	–0.31%	14.45%	15.55%
Nasdaq Composite	2.14%	0.10%	18.08%	24.31%
DJIA	1.56%	–0.40%	10.03%	8.66%
MSCI EAFE	0.68%	0.39%	26.27%	19.38%
MSCI Emerging Markets	–0.28%	1.19%	29.68%	23.24%
Russell 2000	2.41%	0.67%	11.12%	8.97%

Source: Bloomberg, as of October 17, 2025

Fixed Income

Treasury yields saw the 2-year yield reach a 3-year low at 3.42 percent last week, while the curve saw some overall steepening with longer-term yields falling less than shorter-term yields. Still, the 10-year yield fell below 4 percent for the first time since it briefly touched that level back in April around Liberation Day. Falling yields were helped by some softness noted in the Fed's Beige Book.

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	1.03%	7.23%	5.48%
U.S. Treasury	1.01%	6.43%	4.75%
U.S. Mortgages	1.22%	8.07%	6.33%
Municipal Bond	1.02%	3.69%	2.76%

Source: Bloomberg, as of October 17, 2025

>> The Takeaway

- Markets continue to climb higher after Trump softened his comments that raised trade tensions with China. Still this outlines the risks inherent in a market that is trading at valuations that were last seen during Covid, when rates were near zero.
- Yields continue to fall as softer data prices in further Fed cuts.

Looking Ahead

This week will center on key inflation and housing data.

- On Thursday **Existing Home Sales—September** will be released. The pace of existing home sales is set to improve in September after slowing in August.
- The **Consumer Price Index—September** is expected to be released on Friday. The Bureau of Labor Statistics (BLS) is releasing a delayed report on September inflation despite the government shutdown. This will be a widely anticipated release, given the timing is the week before the October Fed meeting.

Wind River Range, Wyoming

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Authored by the Investment Research team at Commonwealth Financial Network®.