

## WEEKLY MARKET COMMENTS – OCTOBER 6, 2025

Most U.S. stocks ticked higher on Friday, which induced more record closes as the Dow added 238 to 46,758, the S&P eked out a small advance of .44 to 6316 while the Nasdaq finally ran out of gas and finished 63 points lower to 22,280 as NVDA, PLTR, NFLX, AMAT all ran out of upside momentum. The S&P finished its seventh weekly gain out of the last nine.

Usually, the first Friday of each month shows the non-farm payrolls report and this data is particularly important now, given how much is riding on the expectation that the job market is continuing to slow by enough to get the Federal Reserve to keep lowering interest rates. Unfortunately, the current government shutdown is delaying its release, but good old ADP came up with a whopper of 32,000 negative jobs. On the other hand, let us remember that historically their estimates have been way, way off.

But the overall trend of the market is still higher, and despite the threat of the President's firings of federal workers, things have so far not shown any cracks in this scenario, as the bullishness over artificial intelligence and the massive spending underway because of it as one of the main drivers of the U.S. stock market, which has been setting record after record.

The industry got another boost after Japan's Hitachi signed a memorandum of understanding with OpenAI related to powering AI. It followed an earlier set of announcements by OpenAI with South Korean companies, which vaulted stock prices higher there. Hitachi's stock jumped 10.3% in Tokyo.

AI stocks have become so dominant, and so much money has poured into the industry that worries are rising about a potential bubble that could eventually lead to disappointment for investors.

Japan's Nikkei 225 was a big winner and rose 1.9% thanks in part to Hitachi's jump.

In the bond market, the yield on the 10-year Treasury rose to 4.12% from 4.10% late Thursday.

Reports came in mixed on activity for U.S. businesses in the health care, real estate and other services industries. One from the Institute for Supply Management said growth is stalling, while another from S&P Global said it is still growing slowly.

Despite the overall bullishness in the overall picture, there are still potential issues that could become troublesome going forward. And the first one is that overall stocks are expensive. The first is that stock prices have gained much faster than profits lately. In fact, for the past 75 years, the S&P has returned 4.2% in the fourth quarter, which is way ahead of the projection for profit gains of 10% so far this year and this is expected to decline a bit to 8% for the remainder of 2025. Stocks can stay expensive for a while, as long as investors stay willing to pay the high prices. In the meantime, companies are still trying to deal with tariffs, higher inflation levels and other unforeseen shifts in an uncertain economy.

For the market to keep going, either stock prices need to drop, or corporate profits need to rise. Companies are lining up to tell investors how much profit they made during the summer, STZ out today and MKC on Tuesday, followed by PEP and DAL on Thursday. The large banks are scheduled to report next week.

Finally, the expectation is that the Federal Reserve will continue to lower rates at the next few meetings. There is the expectation the Fed is going to cut interest rates at least three more times by the middle of next summer, according to data from CME Group. Fed officials themselves have indicated this because the job market is slowing.

But Chair Jerome Powell has insisted they may have to change plans quickly. because inflation has remained stubbornly above the Fed's 2% target, and lower interest rates can give inflation more fuel.

Finally, the AI boom has to keep expanding in order to make the economy more productive in order to offset the upward pressure on inflation and interest rates that are coming from the huge mountains of debt that the U.S. and other governments worldwide are accumulating.

This week we will see the following economic releases: Wednesday – release of the minutes from the last Fed meeting, at which they first lowered the funds rate by .025%; Friday – the latest U. of Michigan Consumer Sentiment Survey.

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