

KEY TAKEAWAYS

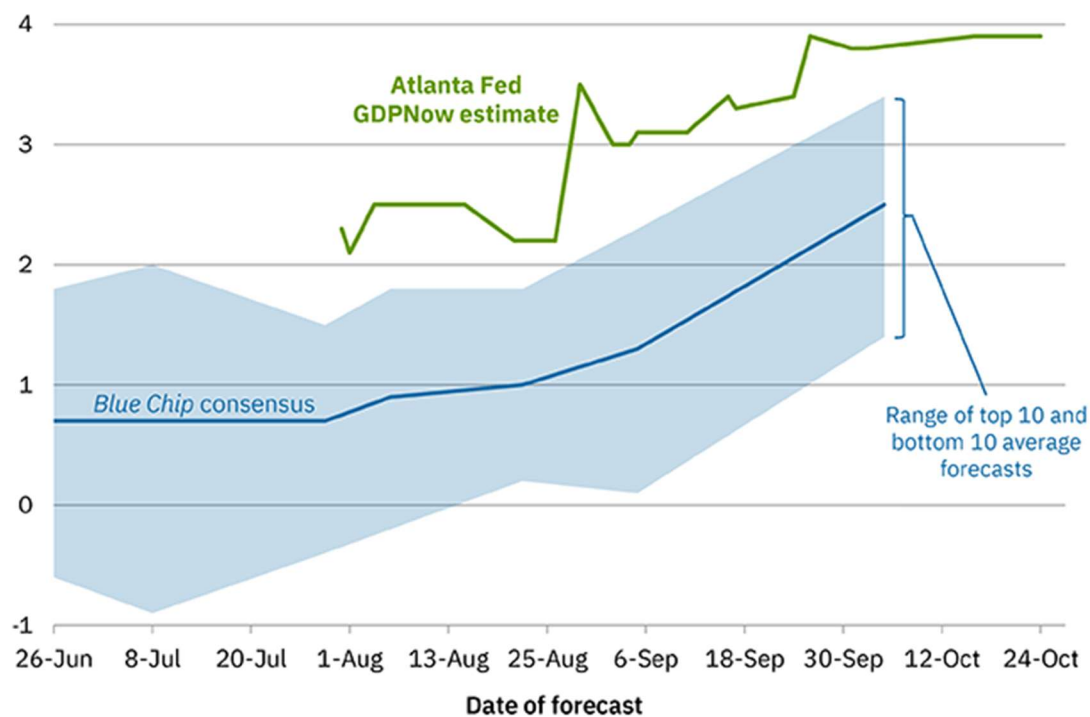
- The equity markets continue to march steadily higher with the occasional sharp drop to disrupt the path, but in the end more all-time highs.
- The U.S. 10-year Treasury Yield swung up and down but basically ended at the same place as we closed after the first day of the month.
- Crude oil was again quiet this month, drifting around the \$60 level most of the month.
- The government was shut down for the month and with it we got very little economic data.

The U.S. Economy

The initial read for 3rd quarter GDP did not happen because of the government shutdown, a theme that will recur numerous times in the Rest of the Data section. So, we turn to the only data we have, the 3rd quarter GDP estimates, which have also likely been impacted by the lack of government data, continues to show more growth with GDPNow estimate remaining near +4%, and the Blue-Chip consensus forecast has moved up near +2.5%, as shown in the chart below. GDP appears was strong in the 3rd quarter, though inflation was perking up and employment weakening as of the reports from September.

Evolution of Atlanta Fed GDPNow real GDP estimate for 2025: Q3

Quarterly percent change (SAAR)



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

Source : <https://www.frbatlanta.org/cqer/research/gdpnow>

Stocks and Bonds

The U.S. 10-year Treasury yield dropped the first day of the month, and after a month of gyrations basically ended where it was at the close of the first day. Yields again spent time under 4%, but repeating the action after the last the Fed cut, rates climbed back above the 4% yield. The government shutdown has reduced published data for the Fed to rely on for their decision. This time, some members wanted more cuts and others wanted no cuts, but they settled on 1 rate cut. The market's initial response was a rare flatline price response. That changed 5 minutes into Powell's press conference when he stated that a December rate cut was far from a certainty. With that, the equity markets sold off and the drop in yields started retracing. Was Powell trying to temper some of the "big" gains the market had experienced, especially Gold, please see the mid-month spike in the chart below.



Source: Bloomberg

Source: <https://www.zerohedge.com/markets/uptober-stocks-bonds-rate-cut-odds-tumble-bitcoin-breaks-six-year-win-streak>

Or is Powell concerned about the lack of data to assess? The Fed continues to discuss potential inflation fears but weakening employment is currently their biggest concern. The lack of government data definitely makes this an interesting time for the Fed. The next Fed meeting is in mid-December, so there is time to get new government data, but once the government finally reopens, how long will it take to get data? The modest decline in yields was a small tailwind for High Quality fixed income, which as measured by the iShares US Aggregate Bond ETF rose +0.61% for the month. The U.S. 10-year Treasury bond yield ended the month at 4.10%, down from September's close of 4.15%.

The Dow Jones Industrial Average jumped +2.51%, the S&P 500 rose +2.27%, and the small cap iShares Russell 2000 ETF climbed +1.76%. The international markets traded in line with the U.S. markets. The MSCI EAFE iShares Core International Developed Markets ETF Index increased +0.89%, and the MSCI Emerging Markets iShares Core ETF Index popped +3.56%.

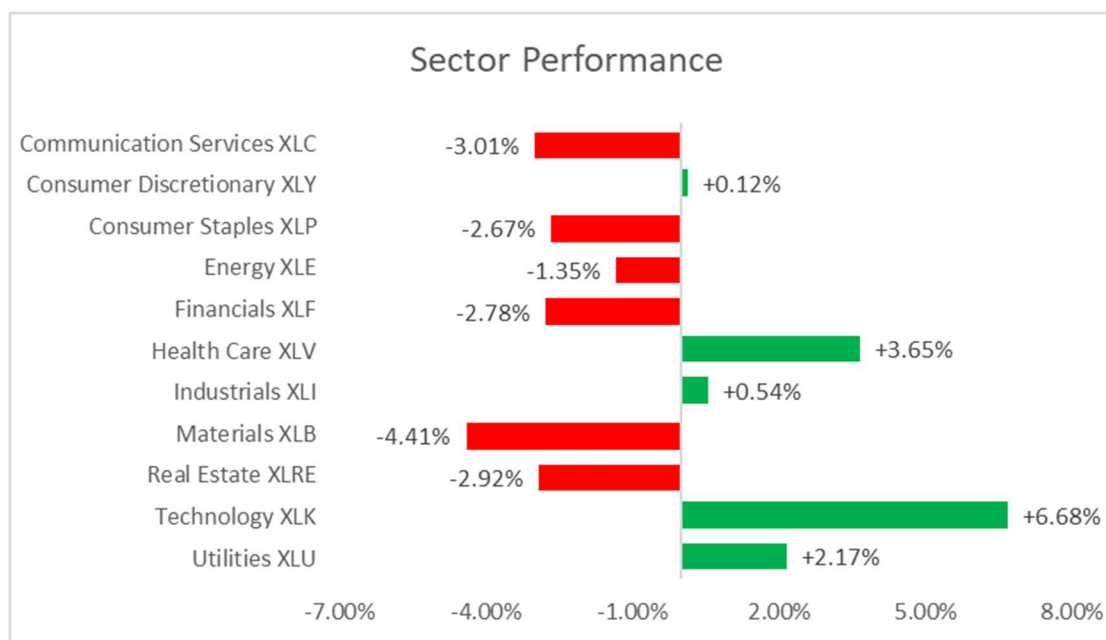
October's sector performance continued the bifurcation we have seen the last couple of months.

The best performers were...

- Technology: +6.68%
- Healthcare: +3.65%
- Utilities: +2.17%

The worst performers were...

- Materials: -4.41%
- Communication Services: -3.01%
- Real Estate: -2.92%



Source: <https://www.morningstar.com>

Oil Report

Crude Oil has been repelled by the \$65 level and now has an attraction to the \$60 level. The continued “softness” of global demand is outweighing the wide variety of geopolitical events at play. The global “glut” of oil, mostly being floating storage versus actual production, keeps holding prices down, but then another random geopolitical region flares and provides support for prices. The current NYMEX WTI Crude Oil futures settled at \$60.88, again losing over 2% from the prior month’s close of \$62.37 a barrel. RBOB gasoline was like Crude, dropping by over 1% for the month vs. September’s close. The hurricane season officially ended at the end of the month, though that is of little solace to Jamaica which was smashed by Hurricane Melissa who wiped out the western half of the country. Unlike Jamaica, it looks like this will be marked as a relatively quiet hurricane season in the U.S.

The Rest of the Data

The September ISM Manufacturing Index increased to 49.1 from August's reading of 48.7, remaining below 50. The ISM Services Index fell to 50.0 in September, from August's print of 52.0, pegging the 50 level, which I don't remember ever happening. Any reading below 50 generally indicates deteriorating conditions and any reading at 50 indicates neutral conditions 🤖 (?). The prices paid component, for Manufacturing, eased further nearing merrily elevated levels and Services' prices continue to hold at highly elevated levels. Consumer confidence decreased to 94.6 in October, which compared to an upwardly revised 95.6 in September. The September Jobs report was canceled due to the government shutdown. As a reminder, the unemployment rate in August was at 4.3%, while the number of jobs added came in at 22,000 in August, missing expectations of 75,000 jobs. The Consumer Price Index for All Urban Consumers (CPI-U), was released, and increased +0.3% in September, on a seasonally adjusted basis. Over the last 12 months, the All-Items Index rate rose by +3.0% on a non-seasonally adjusted basis. The CPI ex Food and Energy eased to +3.0% over the last year. Economic growth appears strong, though the ISM data is more neutral, the last reported employment data was soft, and inflation continues to be firm. The Fed did the telegraphed rate cut in October, though threw cold water on the market's expected December rate cut expectation. We will continue to monitor economic activity, policy announcements, and inflation reports for potential shifts.

Summary

Powell's shift in policy focus led to two Fall rate cuts, but his post October rate cut speech called into question the markets autopilot rate cuts continuing into December, which dampened markets to end the month. The bond market, with no employment data to focus on shifted rates higher after the Fed cut and potential pause, is perplexing because less rate cuts usually means less inflation. So, the lack of government data seems to be throwing a lot of things out of alignment. The trade talks with Trump and Xi were interpreted as more of a truce in escalation rather than a trade deal. So, no data, no "clean" trade deal and no December Fed rate cut left the market a little grumpy to end the month.

More than ever, the markets can be emotional, so we retain our focus on what we can control, which is the amount of equity risk that is taken in a clients' portfolio in concert with the clients' risk tolerance and long-term goals. The markets will always face different "worries", today it is inflation/tariffs vs. growth and interest rates, tomorrow it will be something else. We have built our asset allocation models with dynamic features and quarterly rebalancing, both in fixed income and equities.

If you have specific questions about your portfolio or financial situation, we are here to help. Long-term financial planning is designed to deal with uncertainty like those we discussed above. Our portfolio management process is to design a prudent allocation across many asset classes. Equities are for long-term growth and several vehicles that we utilize offer defensive mechanisms to mitigate equity market declines.



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