

Economic & Market Summary

October 2025

So far, tariffs have not had a significant impact on the economy. Inflation has crept up a little this year but not to an alarming level. While the impact varies by industry, companies are generally adapting well. However, the uncertainty created by the chaotic tariff policy remains. In November, the Supreme Court will hear arguments on whether the Trump administration has authority to impose tariffs under the International Emergency Economic Powers Act. Their decision will have significant implications for on-going trade negotiations and companies' capital investment plans and tariff mitigation strategies.

While consumer spending and income have been fine, the labor market shows signs of softening. For most of the post-pandemic recovery, the labor market appeared in good shape. Unemployment was historically low, prime age labor force participation climbed above pre-pandemic highs, and job openings were plentiful. However, the Bureau of Labor Statistics significantly lowered its estimate for the number of jobs created during the 12 months ending in March, suggesting the economy added far fewer jobs than initially believed.

A weakening labor market caused the Federal Reserve to shift the stance of monetary policy. In September, policy makers cut their target interest rate by 0.25% and shifted the focus from inflation to employment. Individual FOMC projections, the famous "dot plot", imply three rate cuts this year as opposed to two in June. The Fed's pivot away from inflation and towards employment, suggests the labor market requires more support than even a few months ago. It seems likely interest rates will be steadily reduced this year and into next, which will support the economy and provide a more favorable backdrop for stock prices. However, policy makers must tread carefully. Inflation is about a percentage point above the 2% target. If the Fed cuts too aggressively, inflation could reaccelerate, which would necessitate higher interest rates in the future potentially resulting in a bear market or a recession. Maintaining independence will be crucial to successful policy implementation. Past instances when the Fed caved to political pressure ended in disaster.

Collectively, earnings for S&P 500 companies are expected to grow healthy double-digits over the next 12 months. However, the price placed on earnings growth looks a bit lofty. The forward price-to-earnings ratio for the S&P 500 is around 23x compared to the five and ten-year averages of 19.9 and 18.5 respectively. Even controlling for the Magnificent Seven the market's valuation is elevated. On top of the earnings growth, we believe that rising market valuations reflect receding tariff concerns, expectations for rate cuts, and continued enthusiasm for AI. All things considered, lower interest rates support stock prices, though much of this may be already reflected in valuations. An upcoming landmark decision on tariffs, weakening labor market, and elevated stock valuations all create the potential for market volatility in our view. However, as long-term stock investors, we would seek to take advantage of a downturn in stock prices.

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If your financial situation has materially changed or you would like to discuss your accounts in detail, please contact your investment manager. To request our SEC Form ADV Part II, please contact Mark J. Sprtel, Chief Compliance Officer, at the address above.