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WEEKLY ECONOMIC UPDATE OCT. 20, 2025

Stocks pushed higher last week, buoyed by strong third-quarter results posted by several money center banks.

The Standard & Poor's 500 Index gained 1.70 percent, while the Nasdaq Composite Index rose 2.14 percent. The Dow Jones Industrial Average advanced 1.56 percent. The MSCI EAFE Index, which tracks developed overseas stock markets, added 0.74 percent.[1,2]

A Bumpy Week

Stocks rose to start the week after the White House shifted tone over the weekend on trade relations with China. Gains were broad-based—4 out of 5 stocks in the S&P 500 rose—with the index posting its best day since May 27.[3]

Overnight, the specter of a revived trade war with China reemerged after the country placed sanctions on U.S. subsidiaries of South Korean shipbuilders in an apparent effort to increase its control over global shipping. Stocks opened sharply lower the next morning, and then quickly staged an impressive rebound—helped by mostly positive quarterly earnings results from a handful of big money center banks.[4]

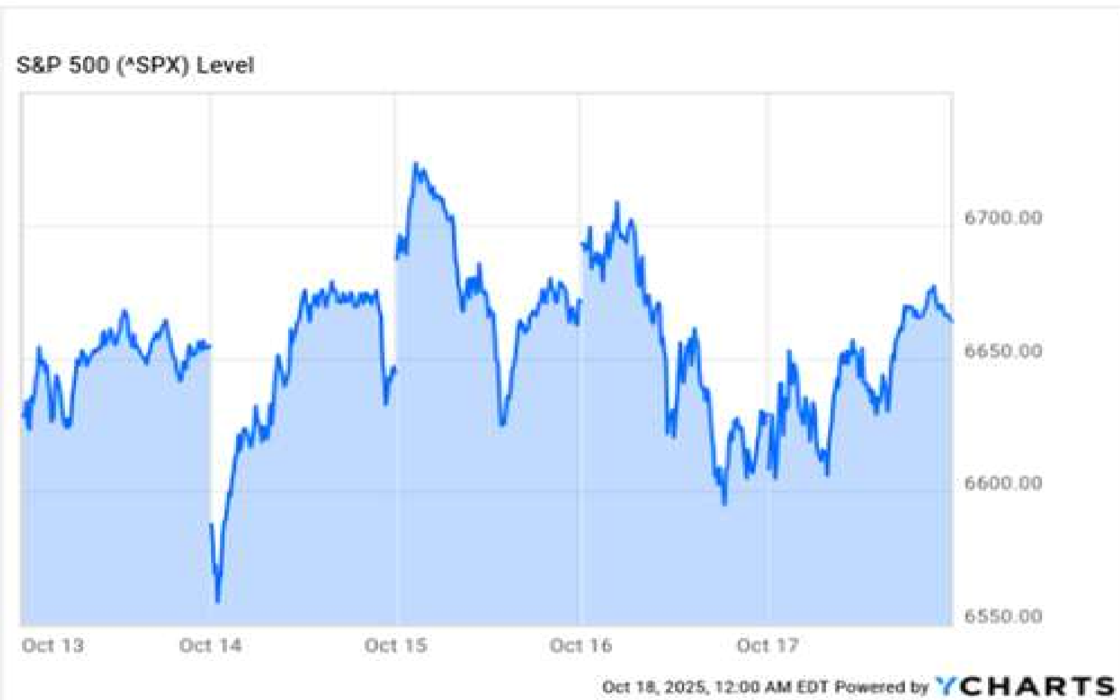
Stocks rose again midweek as better-than-expected Q3 corporate results from the biggest banks continued to roll in, overpowering negative sentiment around lingering trade concerns. As the week wrapped, bank stocks and all three broad market averages pushed through jitters to end in the green.[5,6,7]

Weekly Market Insights (WMI)

Major Index Return Summary

Name	1M TR	YTD TR	1Y TR	5Yr TR
MSCI EAFE	1.45%	27.42%	20.78%	73.71%
Nasdaq Composite	1.06%	17.44%	23.67%	100.7%
Dow Jones Industrial Average	0.48%	9.46%	8.51%	77.05%
S&P 500	0.42%	13.87%	14.95%	105.0%

S&P 500 Daily Close



10-Year Note Review

Indicator Name Date	Latest Value	1M Ago 3M Ago 1Y Ago	1M Change 3M Change 1Y Change
10 Year Treasury Rate 10/10/25	4.05%	4.04% 4.35% 4.09%	0.25% ▲ -6.90% ▼ -0.98% ▼

Bank Stock Paradox

While trade tensions with China dominated the attention during the week, some bank news also captured investor interest.

Last week, several money center banks reported expectation-beating Q3 results, underscoring the narrative of a healthy economy and robust consumer spending.

But there was a flip side to the banking sector: a smaller regional bank reported a $50 million credit loss from two commercial loans. The loss also hit larger banks with a stake in the loss. The news rattled the markets. For investors, it evoked memories of two regional bank failures in 2023, raised questions about whether this was a broader systemic issue, and put pressure on bank stocks, both big and small.[8]

This Week: Key Economic Data

Monday: Leading Economic Indicators.

Tuesday: Fed governor Christopher Waller speaks.

Wednesday: Atlanta Fed Business Inflation Expectations. 20-Year U.S. Treasury Bond Auction.

Thursday: Weekly Jobless Claims. Existing Home Sales. Fed Balance Sheet.

Friday: Consumer Price Index (CPI). New Home Sales. PMI Composite–Services. PMI Composite–Manufacturing. Consumer Sentiment.

Quote of the Week

"Whether on the plains of Shirah or in a lab in Marburg, faith in human technology outpaces our ability to focus and mold it. The "We can, so we will" attitude barrels us ahead without the guidance of whether "We should."

– Julie Ponesse

Of Note

The Federal Reserve delivered its first rate cut of 2025 on Wednesday, the 17th, lowering the target range for the federal funds rate by 25 basis points to 4.00%–4.25%. The move had been well-telegraphed, yet it still represents a notable pivot in policy focus. For much of the past two years, inflation had been the Fed's primary concern, but this time the statement emphasized that "downside risks to employment have risen," a shift toward the labor side of the mandate. This framing suggests the Fed is willing to risk cutting into still-sticky inflation to avoid potential damage to the job market.

Market reaction to the announcement was anything but straightforward. Immediately following the announcement, stocks whipsawed intraday before finishing mixed. Bond yields initially fell but closed firmer, with the 10-year Treasury settling near 4.07%, while the U.S. dollar strengthened modestly. But Thursday morning, stocks rebounded, supported by news that

Nvidia (NVDA) would make a $5 billion investment into rival Intel (INTC) to produce AI and datacenter-related chips. However, one of the largest options expiration days on record impacted Friday. Early in the day, as options rolled, the market gave up all its early morning gains. However, mid-morning news from the White House that a deal was struck with China on TikTok sent markets rocketing back to their highs, with Apple leading the charge.

Still, the underlying question remains: is the Fed making a mistake by cutting now? On one hand, many analysts view the cut as a "risk management" maneuver designed to get slightly ahead of a potential labor market slowdown without committing to a complete easing cycle. Seema Shah, at Principal, argued the move helps "get ahead of a slowdown without overreacting," while Gregory Faranello of AmeriVet described the strategy as a "methodical pathway down to neutral." Brandywine's Jack McIntyre summed up the Fed's challenge by noting it "is in a tough spot…this was a risk-management cut." Yet the risk is that cutting rates into an environment of still-elevated inflation, particularly if tariff-related costs eventually emerge, could push the Fed into a tough spot.

In effect, Powell's Fed is threading a narrow needle. If the labor market weakens sharply in the months ahead, the Fed will look late rather than proactive. If growth stabilizes or re-accelerates, easing at this point could be seen as stoking "animal spirits" unnecessarily.

The market's muted reaction in equities and a stronger dollar suggest that investors are not entirely convinced the Fed has struck the right balance.

Markets have posted a powerful rally since the early April lows. That turning point marked a shift in sentiment, policy expectations, and risk appetite as the S&P 500 and Nasdaq reached record levels. The market surge has prompted investors to move aggressively into risk assets across the market spectrum. With sentiment elevated and concerns about risk non-existent, the fuel for the rally has come from three primary sources:

- Expectations of interest rate cuts,
- Easing geopolitical pressures, and;
- Continued speculation around artificial intelligence.

Simultaneously, the April jobs report showed a softening in labor market conditions, leading economic indicators remain weak, and consumption signals are becoming increasingly more bearish. While this "bad news" gives the Federal Reserve cover to cut rates, that bad news will eventually be reflected in earnings and valuations. Furthermore, while inflation data has moderated, which fed into the narrative that rate hikes were over, the bond market responded by pricing multiple rate cuts over the coming quarters as economic growth slows. Investors cheer lower Fed rates since they reduce the discount rate on future cash flows, lifting valuations, particularly in growth and tech sectors. However, revenues are at risk of slowing with the economy.

The market is overbought and should not be surprising given the run since the late March and early April correction. However, as noted previously, that run has been predominantly concentrated in the largest market-capitalization names, as noted by the divergence between the equal-weighted and market-cap-weighted S&P 500 Index.

Most importantly, however, typically non-correlated assets have rallied together over the last five years. The Nasdaq is up 129%, and the S&P is higher by 113%, followed by gold (90%), small caps (69%), gold miners (84%), international (64%), and emerging markets (32%). While it has been a good investing market for virtually any asset class you want to throw money at, it is now extremely overbought and leaves investors vulnerable to a correction that could simultaneously impact every asset class.

While the clear winner over the last five years has been to chase technology stocks or large-cap stocks in general, the build-up of complacency and deviations from long-term means is a risk worth considering. As noted, from a technical perspective, overbought conditions exist on multiple levels, from relative strength to momentum to deviations from long-term means. These technical warning signs often precede periods of consolidation or correction.

With investor sentiment nearing more exuberant levels, such extremes rarely last without a reset. The risk now is that the bullish narrative is fully priced in, and the room for upside surprises has narrowed, particularly in the AI trade.[9]

Footnotes and Sources

1. WSJ.com, October 17, 2025
2. Investing.com, October 17, 2025
3. CNBC.com, October 13, 2025
4. CNBC.com, October 14, 2025
5. WSJ.com, October 15, 2025
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7. CNBC.com, October 17, 2025
8. WSJ.com, October 17, 2025
9. zerohedge.com/markets/overbought-conditions-across-multiple-markets

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The Dow Jones Industrial Average is an unmanaged index that is generally considered representative of large-capitalization companies on the U.S. stock market. The Nasdaq Composite is an index of the common stocks and similar securities listed on the Nasdaq stock market and considered a broad indicator of the performance of stocks of technology and growth companies. The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) and serves as a benchmark of the performance of major international equity markets, as represented by 21 major MSCI indexes from Europe, Australia, and Southeast Asia. The S&P 500 Composite Index is an unmanaged group of securities that are considered to be representative of the stock market in general.

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