

November 3, 2025

October Market Recap

Even with the government shutdown casting a shadow over Washington D.C., equity markets have continued their upward march, fueled by a trifecta of positive surprises: cooler-than-expected inflation, another rate cut by the Federal Reserve (Fed) and easing trade tensions.

- Year-over-year headline inflation ticked up slightly in September while core inflation, which excludes volatile energy and food prices, ticked downward. Inflation remains above the target rate but on net this was a better result than the market expected.
- In light of better-than-expected inflation numbers, the Federal Reserve cut interest rates by another quarter point in October, bringing the target federal funds rate to 3.75-4.00%. The cut is intended to provide relief to a weakening labor market.
- US-China trade tensions briefly rattled the market ahead of President Donald Trump's trip to Asia, but rebounded quickly, and the meeting between Trump and President Xi Jinping reduced the temperature of the trade dispute.

Mega-cap tech stocks, flying high on investors' enthusiasm for AI and AI-related capital expenditures, continue to dominate.

"With valuations now sitting in the top 1% of the past two decades and much of the good news already priced in, we remain cautious," said Raymond James Chief Investment Officer Larry Adam. "Any disappointment could trigger a modest pullback, though we would view it as a healthy correction within a still-strong bull market, underpinned by solid fundamentals."

We'll get into the details after we take a look at the numbers year-to-date.

	12/31/24 Close	10/31/25 Close*	Change Year to Date	% Gain/Loss Year to Date
DJIA	42,544.22	47,562.87	+5,018.65	+11.80
NASDAQ	19,310.79	23,724.96	+4,414.17	+22.86
S&P 500	5,881.63	6,840.20	+958.57	+16.30
MSCI EAFE	2,259.60	2,797.54	+537.94	+23.81
Russell 2000	2,230.16	2,479.38	+249.22	+11.17
Bloomberg Aggregate Bond	2,189.03	2,337.80	+148.77	+6.80

*Performance reflects index values as of market close on October 31, 2025.

Economy dimming, but with some bright spots

While the economy remains strong, a broad array of indicators suggests it is slowing.

- The labor market remains within the range conventionally considered “full employment,” but “job creation is pretty close to zero,” said Federal Reserve Chair Jerome Powell after the October meeting of the Federal Open Market Committee.
- Manufacturing sector indicators in September were stronger than expected, but the sector remains in contraction. September service sector indicators showed unexpected weakness.
- Consumer confidence declined in October, and consumers indicated they planned to spend less this holiday season.
- Lower interest rates appear to be helping to awaken the US housing market.
- Home builder confidence rose in October to its highest point since April.

The deals down there in the rest of the equity market

The economy is showing resilience, bolstered by the data center boom and government incentives aimed at increasing domestic investment. While stocks tied to AI have seen sharp gains and now look pricey, the broader market still appears reasonably valued. That said, the heavy concentration in a few mega-cap tech stocks comes with risk, as they tend to be more volatile when the market turns.

Bond yields ease as Fed cuts rates

With the market already nursing reasonable expectations for an October interest rate cut, the impact of the realized cut was relatively muted. Nonetheless, Treasury yields dipped slightly by about 10 to 15 basis points, offering a bit of relief to bond investors. Despite the ongoing government shutdown – the second-longest in US history – bond markets have largely taken it in stride.

Municipal bonds have seen a more noticeable pullback compared to taxable alternatives, but they still offer attractive yields, especially for those investing in longer-term maturities. Meanwhile, credit markets remain calm as spreads are near historic lows, the economy is holding up well and unemployment remains low.

No clear path out of shutdown

The government shutdown hit the one-month mark as political brinkmanship and partisan tensions remained elevated. November 1 brought a number of relevant deadlines which could bring the shutdown home for more Americans: open enrollment for ACA healthcare plans, which reflect higher premiums absent the expiring tax credits, and the expiration of SNAP/WIC funding.

Good for drivers, bad for drillers

Oil prices have dropped to their lowest point since 2021, even dipping below levels seen during the trade war earlier this year. When oil falls below \$60 a barrel, it becomes unprofitable for many US oil companies, bringing pain to producers and reducing domestic drilling activity.

But good news for consumers: cheaper oil usually means lower gas prices. If prices stay where they are now, they could keep gas under \$3 a gallon this winter. At a time when other costs – like electricity and natural gas – are rising, cheaper gas is helping boost consumer confidence and ease some of the pressure from inflation.

The bottom line

October continued many of the trends that have become familiar to investors in 2025: AI euphoria, trade tensions ratcheted and released, and the Fed trying to thread the needle between job growth and inflation. Through all these headlines and mixed signals, markets remain strong. Equity growth is broad, if not particularly balanced, and corporate earnings are a bright spot.

Sincerely,

Jeff

Investing involves risk, and investors may incur a profit or a loss. All expressions of opinion reflect the judgment of the Raymond James Chief Investment Officer and are subject to change. There is no assurance the trends mentioned will continue or that the forecasts discussed will be realized. Past performance may not be indicative of future results. Economic and market conditions are subject to change. Diversification does not guarantee a profit nor protect against loss.

The Dow Jones Industrial Average is an unmanaged index of 30 widely held stocks. The NASDAQ Composite Index is an unmanaged index of all common stocks listed on the NASDAQ National Stock Market. The S&P 500 is an unmanaged index of 500 widely held stocks. The MSCI EAFE (Europe, Australasia and Far East) index is an unmanaged index that is generally considered representative of the international stock market. The Russell 2000 is an unmanaged index of small-

cap securities. The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. An investment cannot be made in these indexes. The performance mentioned does not include fees and charges, which would reduce an investor's returns.

Companies engaged in business related to a specific sector are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. A credit rating of a security is not a recommendation to buy, sell or hold the security and may be subject to review, revision, suspension, reduction or withdrawal at any time by the assigning Rating Agency. Bond prices and yields are subject to change based upon market conditions and availability. If bonds are sold prior to maturity, you may receive more or less than your initial investment. Income from municipal bonds is not subject to federal income taxation; however, it may be subject to state and local taxes and, for certain investors, to the alternative minimum tax. Income from taxable municipal bonds is subject to federal income taxation, and it may be subject to state and local taxes.

Investing in commodities is generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising. International investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility. The Consumer Price Index is a measure of inflation compiled by the US Bureau of Labor Studies. The Leading Economic Index (LEI) provides an early indication of significant turning points in the business cycle and where the economy is heading in the near term.

Investing in small-cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor. The prices of small company stocks may be subject to more volatility than those of large company stocks. The ISM Services Index is an economic index based on surveys of more than 400 non-manufacturing (or services) firms' purchasing and supply executives. The ISM Manufacturing Index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at more than 300 manufacturing firms. Material created by Raymond James for use by its advisors.