TRADITION
INVESTMENT MANAGEMENT

Economic and Market Review October 2025

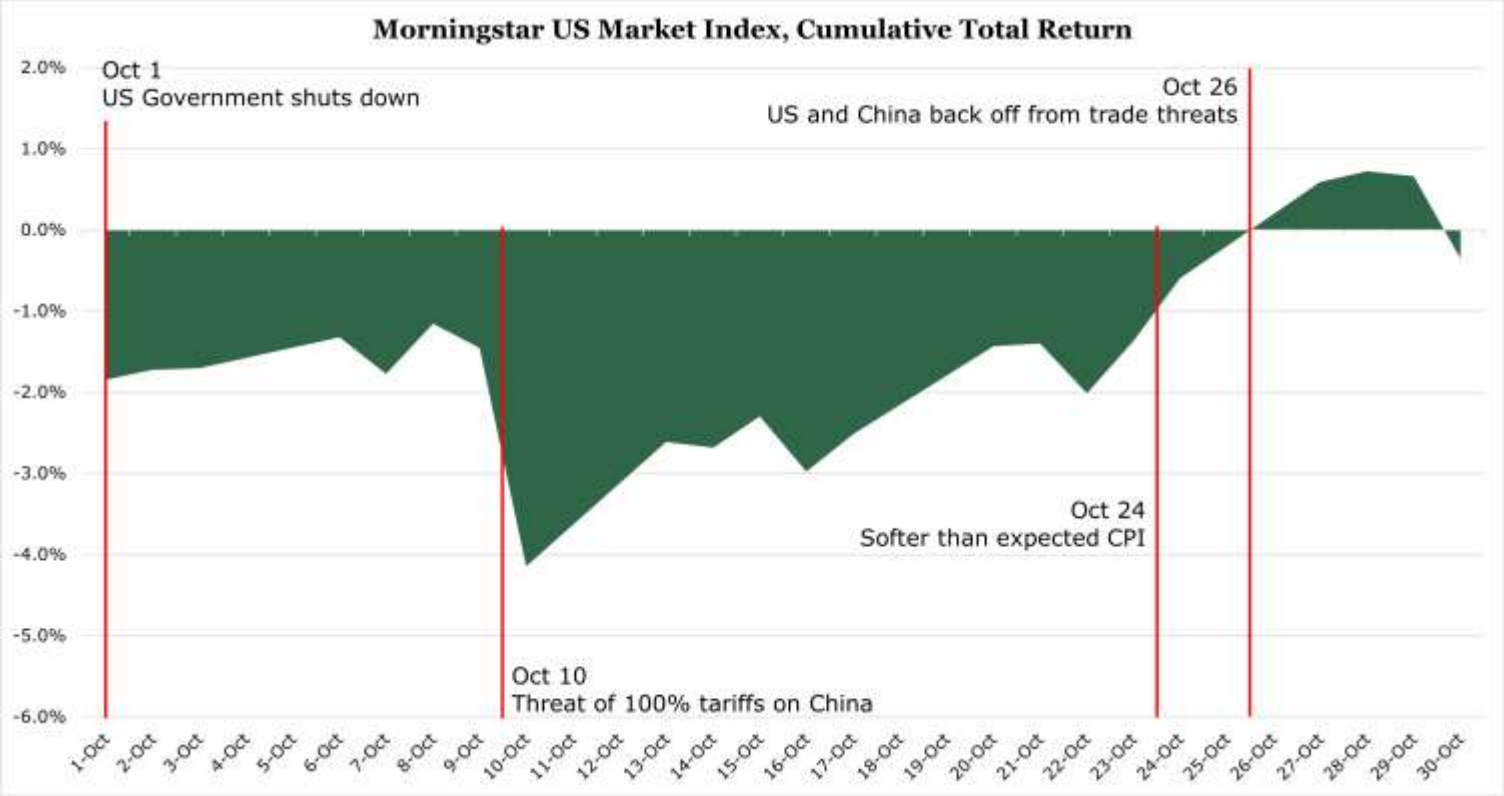
October 31, 2025

Equity Indices	Index Level	YTD Return
Dow Jones	$47,072.69	11.04%
S&P500	$6,770.07	15.36%
NASDAQ	$23,351.33	18.58%
Developed World Ex-US	$395.26	24.87%
MSCI–Emerging	$1,391.89	30.18%
Bonds (Yield)	**Yield**	**YTD Return**
2yr Treasury	3.58%	4.11%
10yr Treasury	4.09%	7.77%
10yr Municipal	2.73%	2.94%
U.S. Prime Rate	7.00%	-
Commodities	**Price**	**YTD Return**
Gold	$3,949.40	51.53%
Silver	$46.89/oz	61.10%
Crude Oil (WTI)	$60.35/bbl	-16.03%
Natural Gas	$4.32/MMBtu	9.76%
Currencies	**Index Level**	**YTD Return**
Dollar Index (DXY)	100.20	-7.64%

Overview

October was a rocky month for US equities, with the US government shutdown looming over markets. While the CPI report was late due to the shutdown, it was not as hot as

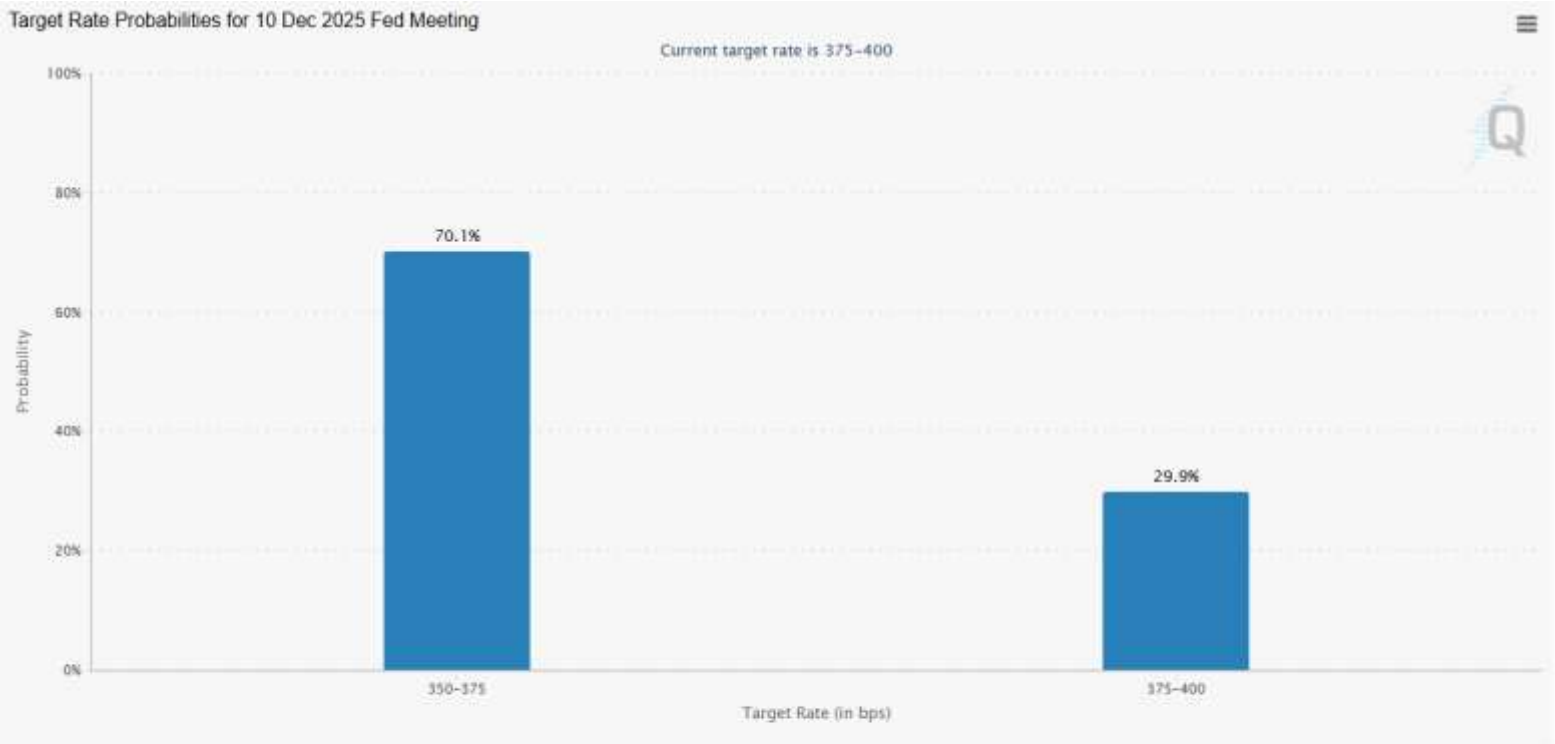
expected at 3.0% year over year compared to 3.1% consensus, it was not enough to offset trade-threats with China.



The Morningstar US Market Index measures the performance of large-, mid- and small-cap stocks in the U.S., representing the top 97% of the investable universe by market capitalization.

During the October 2025 FOMC meeting, the Fed elected to cut rates a further 25bps to 3.75-4.00%, which was in line with investor expectations. While the Fed was constrained by the lack of data collection due to the government shutdown, it has become very clear that conditions are deteriorating in the labor market much quicker than inflation is moderating.

While the Fed has been relatively unanimous so far, the government shutdown coupled with a now conflicting mandate, will likely make it more difficult in the future to make decisions. The market still largely expects a further 25bps cut to occur in December irrespective of the data available.



TARGET RATE (BPS)	PROBABILITY(%)			
	NOW *	1 DAY 3 NOV 2025	1 WEEK 28 OCT 2025	1 MONTH 3 OCT 2025
325-350	0.0%	0.0%	0.4%	0.0%
350-375	70.1%	66.8%	90.5%	86.3%
375-400 (Current)	29.9%	33.2%	9.1%	13.3%
400-425	0.0%	0.0%	0.0%	0.4%

* Data as of 4 Nov 2025 10:52:28 CT

1/1/2026 and forward are projected meeting dates

CME

Economic activity in the manufacturing sector contracted for the 8th consecutive month in October, hitting 48.7%. Anything above 50% indicates expansion of manufacturing activity, while below indicates contraction.

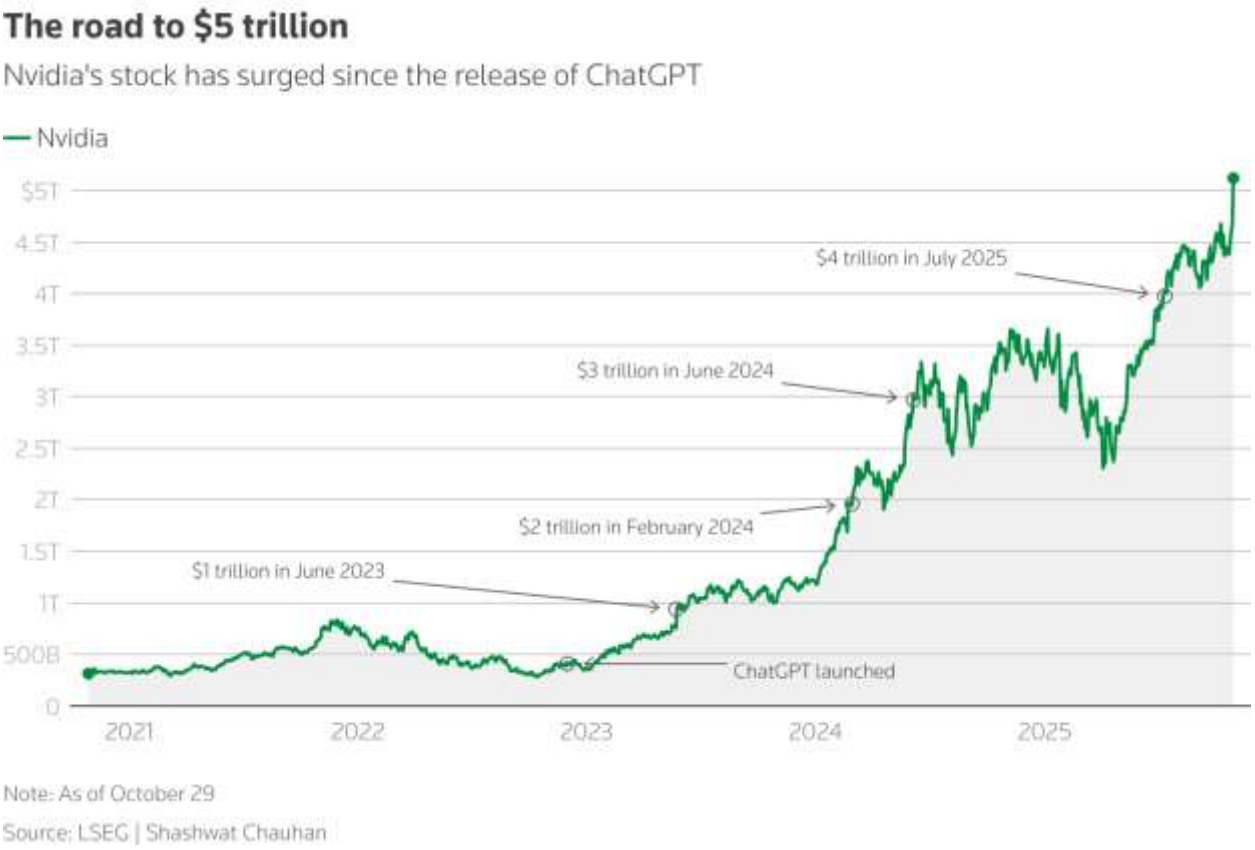
Manufacturing at a Glance

INDEX	Oct Index	Sep Index	% Point Change	Direction	Rate of Change	Trend* (months)
Manufacturing PMI®	48.7	49.1	-0.4	Contracting	Faster	8
New Orders	49.4	48.9	+0.5	Contracting	Slower	2
Production	48.2	51.0	-2.8	Contracting	From Growing	1
Employment	46.0	45.3	+0.7	Contracting	Slower	9
Supplier Deliveries	54.2	52.6	+1.6	Slowing	Faster	3
Inventories	45.8	47.7	-1.9	Contracting	Faster	6
Customers' Inventories	43.9	43.7	+0.2	Too Low	Slower	13
Prices	58.0	61.9	-3.9	Increasing	Slower	13
Backlog of Orders	47.9	46.2	+1.7	Contracting	Slower	37
New Export Orders	44.5	43.0	+1.5	Contracting	Slower	8
Imports	45.4	44.7	+0.7	Contracting	Slower	7
Overall Economy				**Growing**	**Slower**	**66**
Manufacturing Sector				**Contracting**	**Faster**	**8**

*Number of months moving in current direction. ISM® *Manufacturing PMI® Report* data has been seasonally adjusted for the New Orders, Production, Employment and Inventories indexes.

Nvidia Breaks Record $5 Trillion Market Capitalization

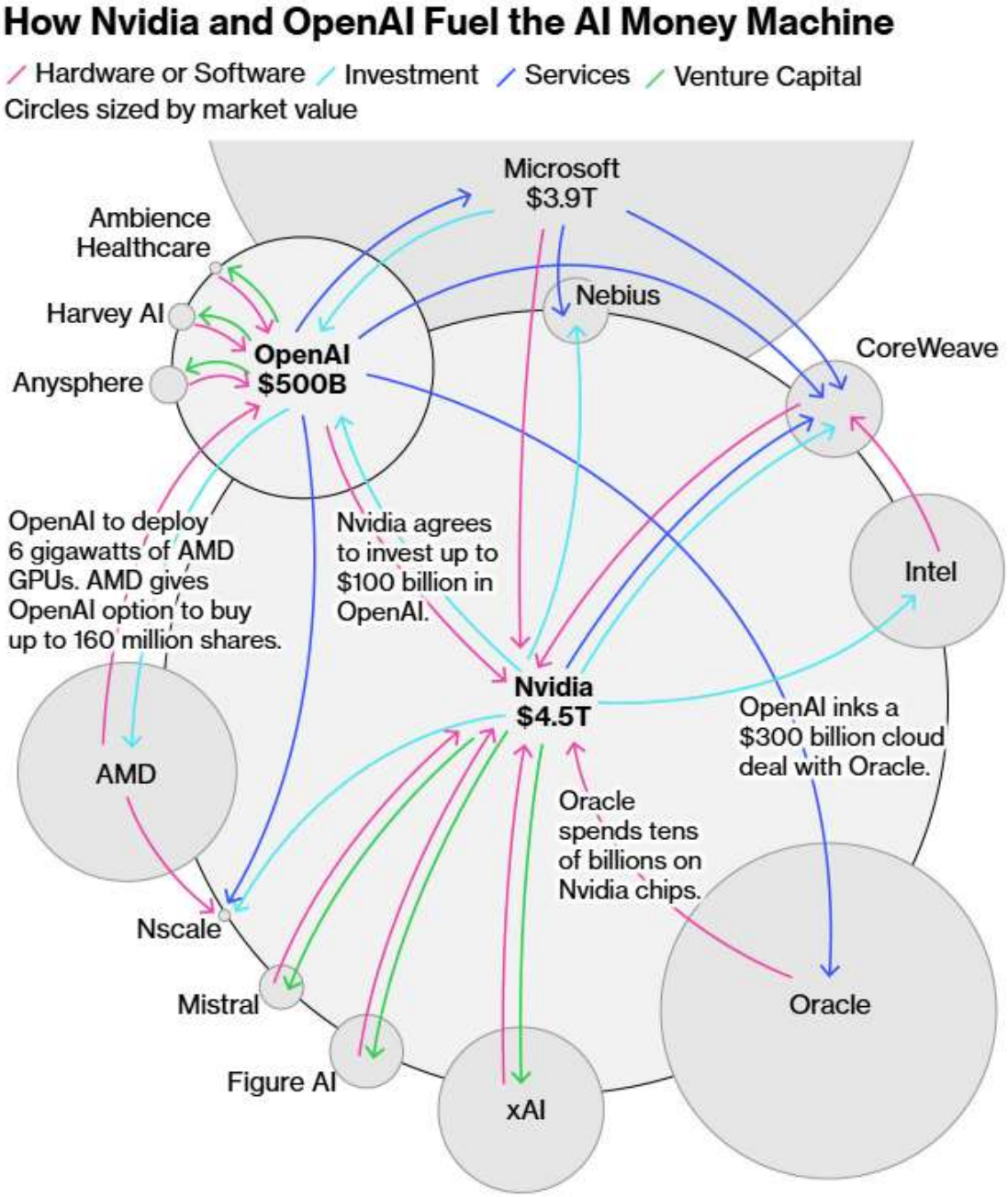
After being the first firm to break $4 trillion, NVDA has now hit $5 trillion in market capitalization. According to the Semiconductor Industry Association, global semiconductor sales were up 25% year over year in September, with chip demand still outpacing supply. NVDA now represents 8.3% of the S&P 500, and the jump between $4 and $5 trillion in market cap occurred in less than 6 months.



Reuters

Market moves have been driven by OpenAI's blitz of deals, including partnerships with Amazon, Microsoft, PayPal, Shopify, Etsy, Walmart, and Salesforce. This comes on the tail of a massive $500 billion "Stargate Project", a buildout project to develop Artificial General Intelligence. Largely, these deals have been likened to a "closed ecosystem" of investment, with chipmakers like NVDA taking equity stakes in customers in exchange for favorable terms. Additionally, massive MSAs (Master Supply Agreements) are signed

in exchange for commitments to utilize OpenAI's models in software.



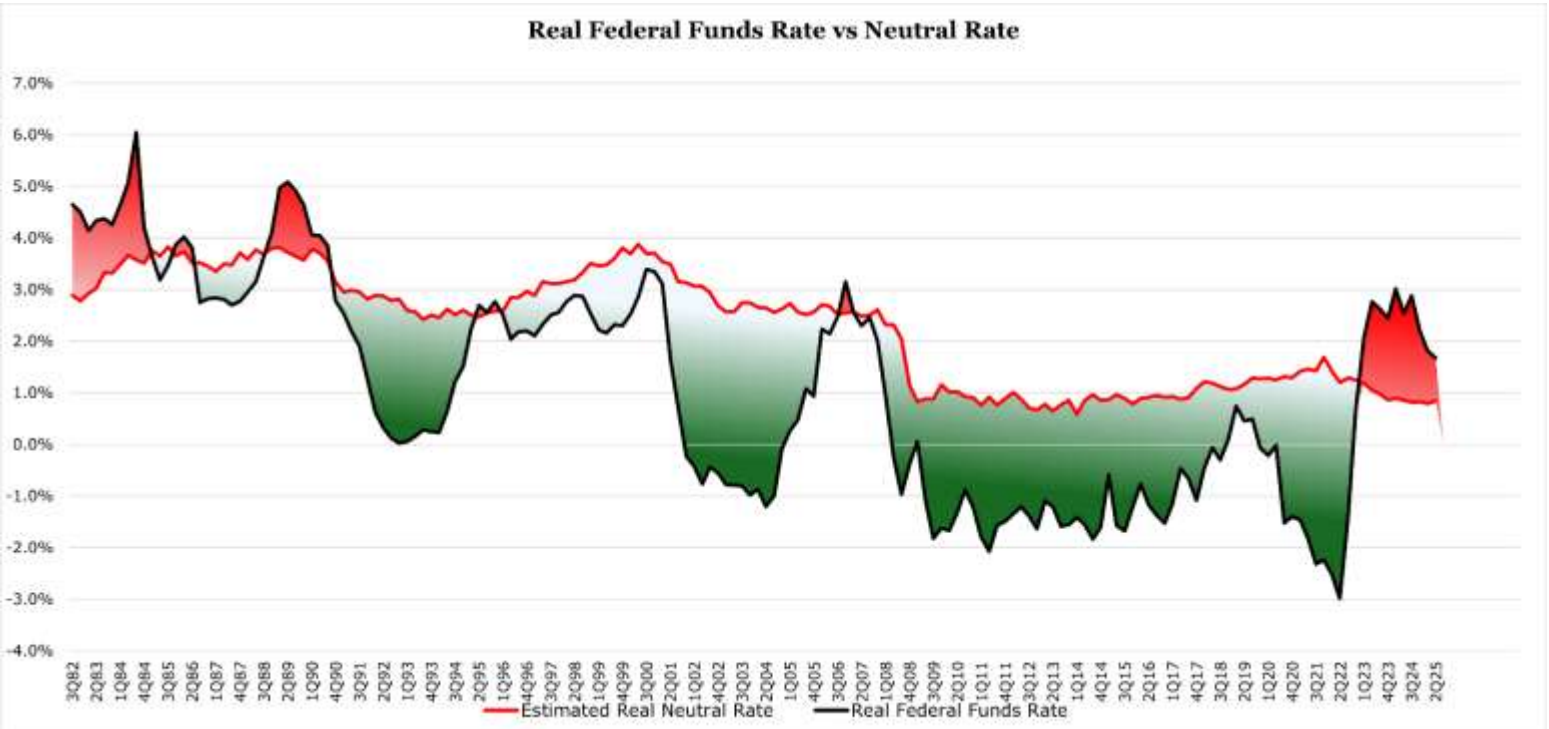
Bloomberg

According to Reuters, OpenAI is already laying the foundation for an IPO at a price near $1 trillion in market capitalization, making it one of the largest of all time. Filings may occur as soon as the second half of 2026, though an OpenAI spokesman has stated that an IPO is a low priority item.

What is the Neutral Rate?

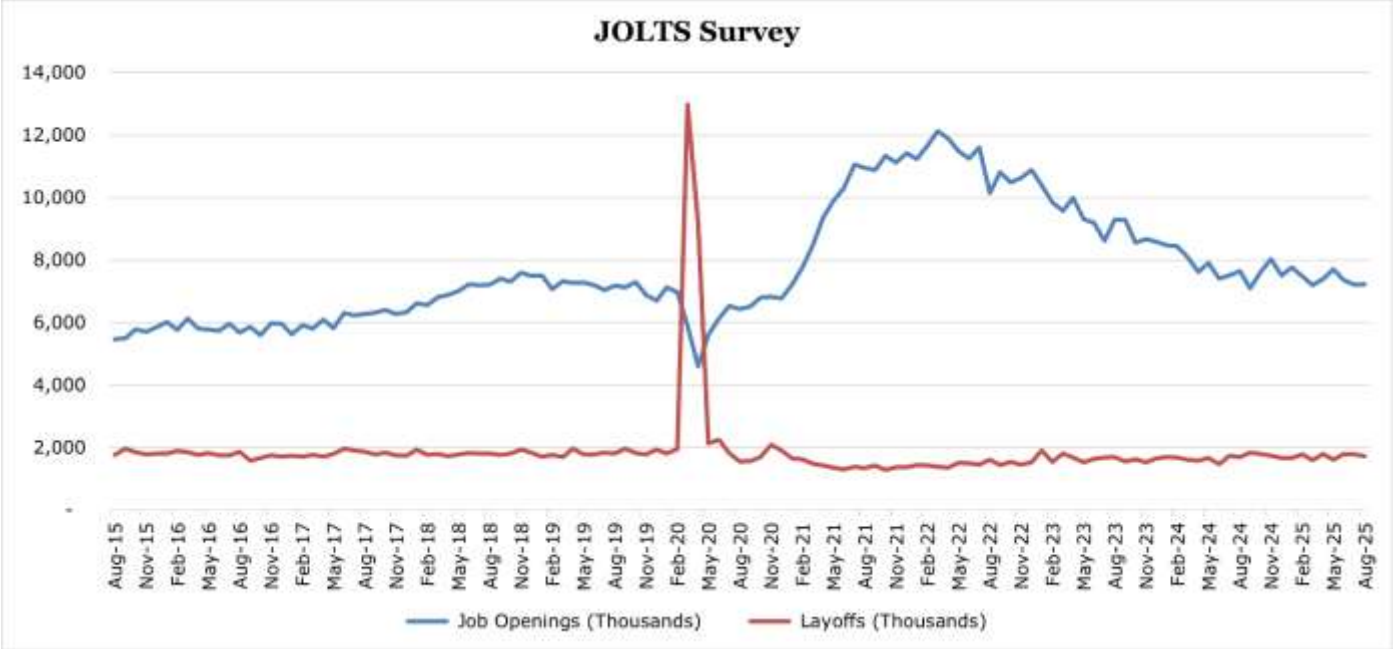
The neutral rate is the interest rate at which monetary policy is neither restrictive, nor expansionary. It is a theoretical concept that can assist in determining if policy is moving in a restrictive or expansionary direction. As of the quarter ending June 2025, the NY Fed's model pointed to a real neutral rate of 0.84%, or 2.84% when factoring in the Fed's 2.0% inflation target. This number is fairly close to the FOMC's current long-term interest expectations of 3.0%, though still fairly far from the current 3.75-4.00% target level.

The New York Fed publishes several estimates for this neutral rate, though it can be difficult to accurately estimate the specific neutral rate as interest rates are not the only determining factor in how an economy expands and contracts.



Green indicates expansionary monetary policy, where the inflation adjusted Federal Funds Rate is lower than the estimated neutral rate, with red indicating contractionary. NYFed, Tradition.

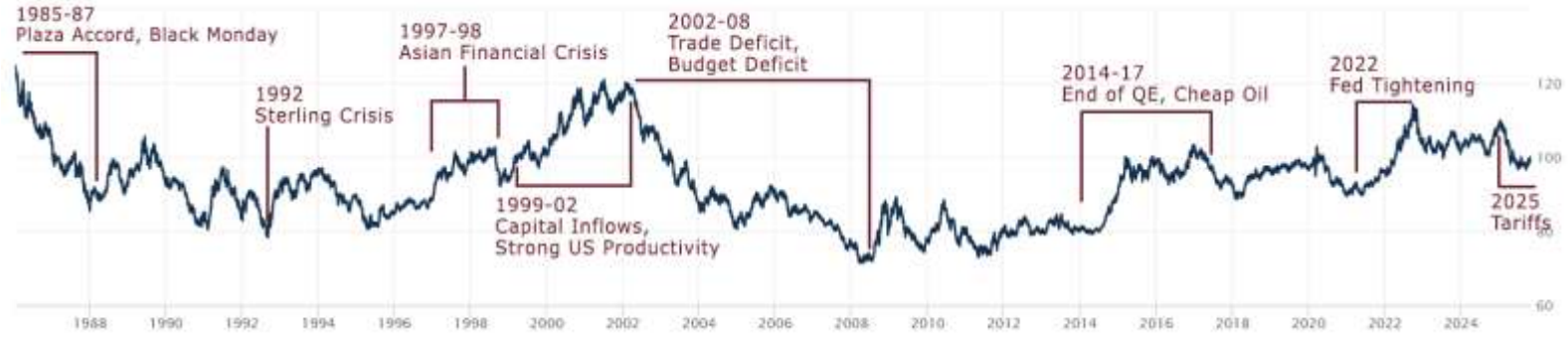
In 2018, Dallas Fed president explained the importance of its role by stating "A good analogy is comparing this judgment to the assessment you typically make in approaching an intersection while driving your car. Should you be pressing on the accelerator, easing off the accelerator, or pressing your foot on the brakes?"



BLS, Tradition

Given the pace of the rate cuts, it appears that the Fed has been gently lifting their foot off the accelerator rather than slamming on the brakes. As previously discussed, it appears this may have been the smart move, with the Fed pivoting more toward maintaining full employment over fixing inflation. Layoffs are still relatively small, though the number of job openings and hires has begun to contract in comparison to the 2021-2022 highs.

The Dollar Strengthens

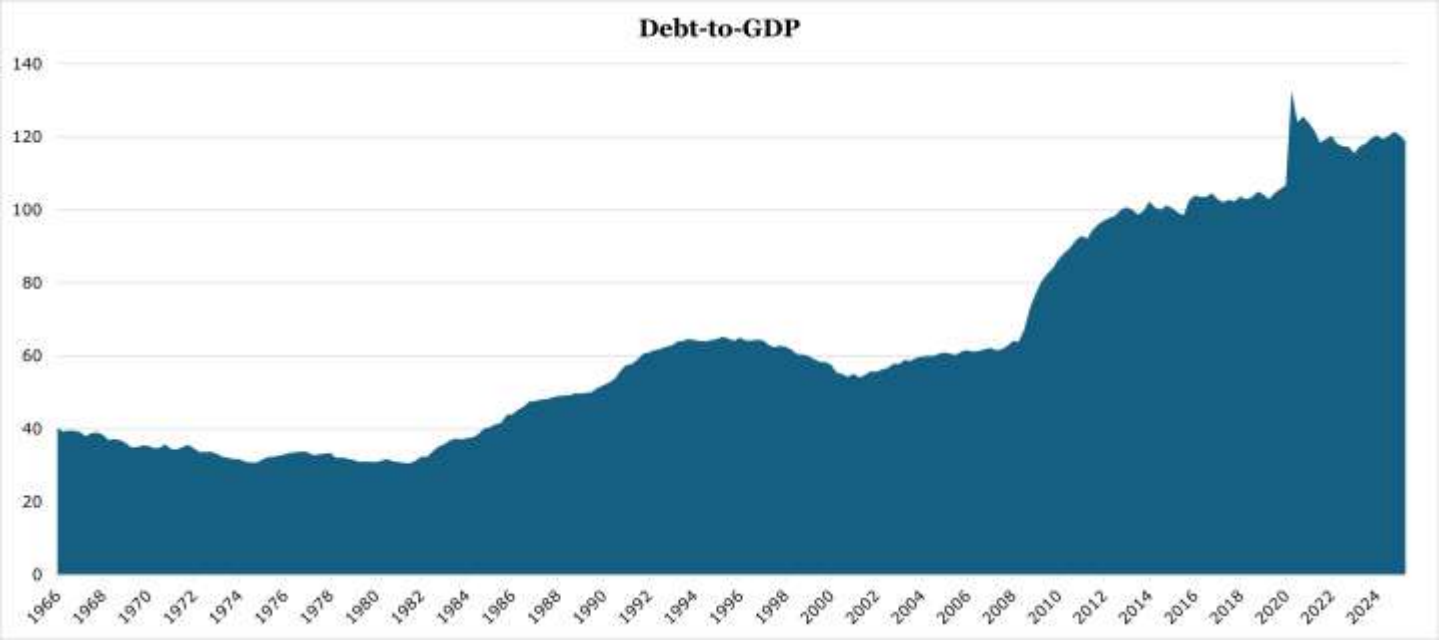


Tradition, WSJ

While still making up a substantial portion of international trade, the US dollar has had a rocky 2025, falling steeply. Many forex desks had expected rate cuts to accelerate the slide of the dollar, however the Fed's statements of moderation have appeared to provide some support. Additionally, by September there appeared to be no more

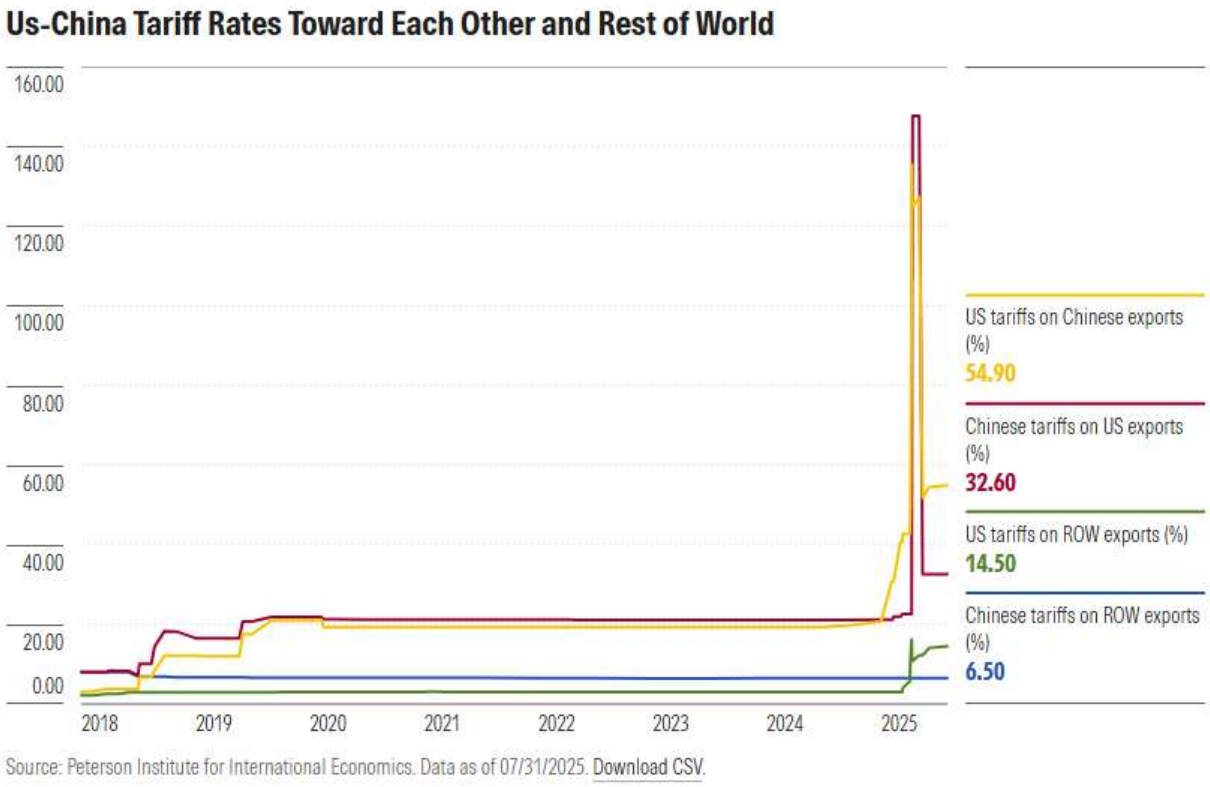
appetite for shorting the US dollar thanks to an overall weak global economic outlook. Trade Nation market analyst David Morrison told MarketWatch that the US dollar was effectively "the cleanest shirt in the laundry [compared to peers]".

Despite strong GDP growth, driven by AI investment, the federal debt has continued to mount, likely to hit 120% debt-to-GDP by 2035. There is no plan to balance the budget, with both parties passing the stick back and forth while blaming the other side. While we don't expect there to be near-term financial strain, as we have discussed in previous articles, there will inevitably be a crowding out of private investment as excessive government borrowing drives rates up.



CBO, Tradition

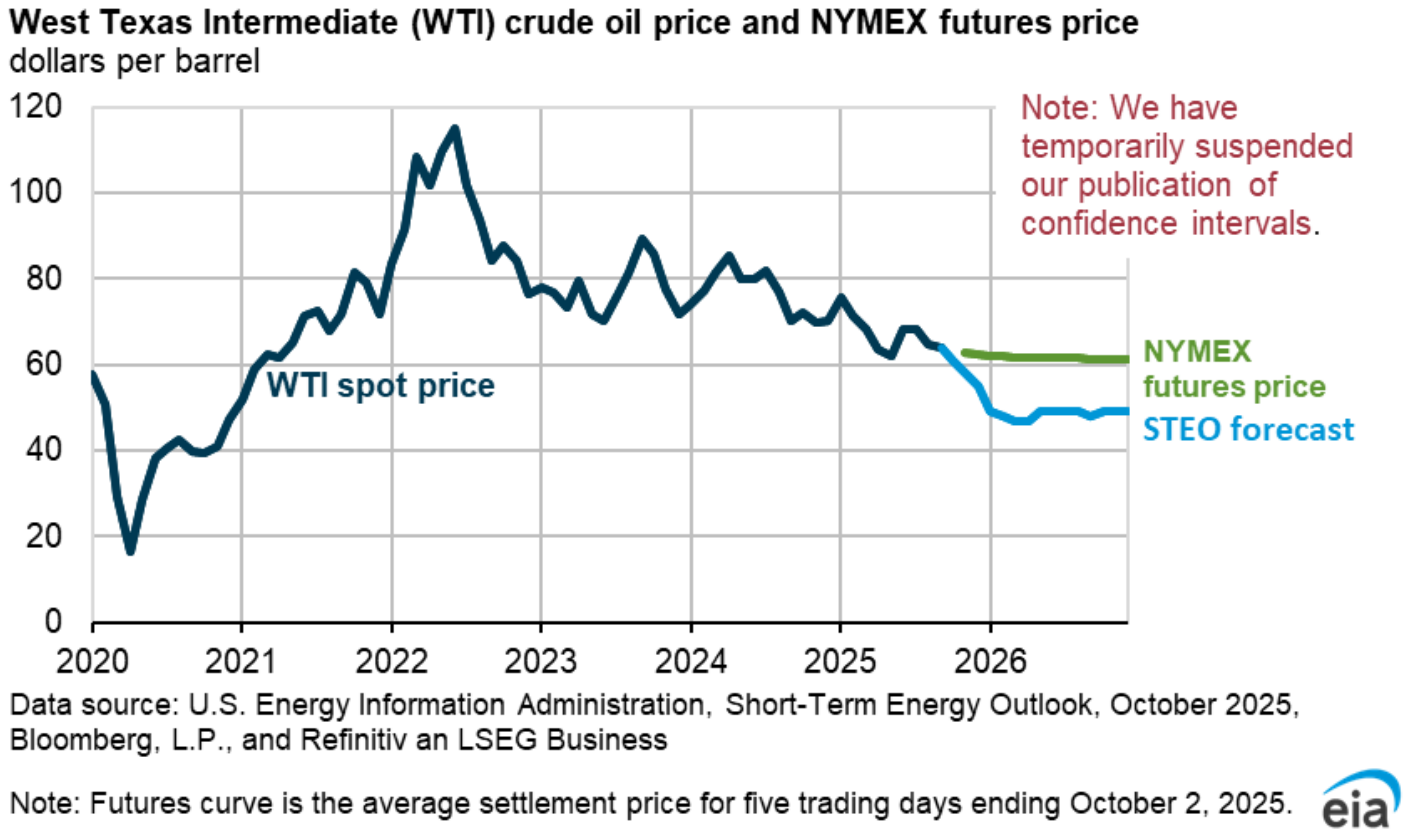
Another key for understanding the dollar's downside is trade. While the war in Ukraine and Middle East tensions have certainly impacted the dollar, the ongoing tariffs are the largest driver. On its own, this may not have as serious an effect as moderate tariffs in theory increase the strength of the dollar. However, excessive tariffs that change day-to-day by social media proclamation have certainly not helped investor confidence in US institutions.



Morningstar

Oil Prices Stabilize Amid OPEC+ Output Meeting

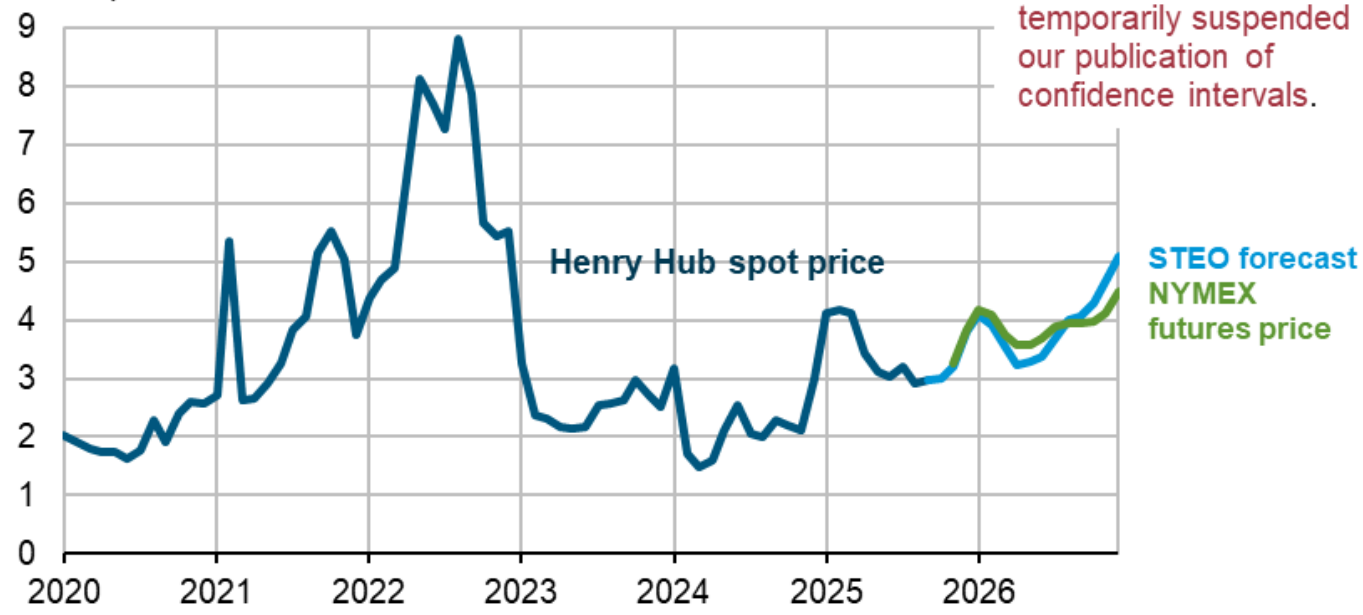
OPEC+ has paused output hikes for the first quarter of 2026, which signals the groups concern about supply glut in the face of both global electrification and slower economic growth.



Oil prices will likely remain depressed as big manufacturing economies struggle amid US tariffs and slow domestic recoveries in countries like China. However, some support to pricing could be Russia's crude exports falling 190,000 barrels per day, the largest fall since January 2024, amid new US sanctions and continued Ukrainian strikes targeting oil refining infrastructure.

Natural gas meanwhile, has rallied amid updated weather models pricing in both high LNG export capacity domestically and abroad, with cold fronts coming in earlier than expected in November.

Henry Hub natural gas price and NYMEX futures price
dollars per million British thermal units



Data source: U.S. Energy Information Administration, Short-Term Energy Outlook, October 2025, Bloomberg L.P., and Refinitiv an LSEG Business

Note: Futures curve is the average settlement price for five trading days ending October 2, 2025.

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