## Summary

Equities markets recovered last week as efforts to defuse U.S.–China trade tensions muted geopolitical uncertainty. In addition, worries about credit stresses in the regional banking sector were alleviated as it became clear that risks to the sector were not as widespread as previously feared. Treasury yields declined across the curve as dovish rhetoric from Fed officials increased expectations of rate cuts later this year and next year. The NFIB small business optimism index declined 2.0 points to 98.8. While still ahead of the long-term average of 98.0, uncertainty about future economic growth remains a key point of pressure on small businesses. Mortgage applications decreased week-over-week with the refinance index down 1% and the purchase index down 3%; however, they were up 59% and 20% year-over-year, respectively, suggesting that lower rates are driving a slight but steady recovery in the housing market. The NAHB housing market index rose to 37 in October from 32 in September, driven by expectations of single-family sales over the next six months. Regional Fed surveys showed a mixed outlook for the manufacturing sector. The New York Fed's Empire State manufacturing index surged 19 points to 10.7 in October, due to increasing new orders and shipments, but the Philadelphia Fed manufacturing index plunged 36 points to -12.8, its lowest reading since April, driven by weak shipments. Both the Empire State manufacturing index and the Philadelphia Fed manufacturing index cited increases in both input and output prices, putting upward pressure on inflation. The Federal Budget, released on Thursday, showed a $198 billion surplus, as increased customs duties offset interest and social security payments. The Federal Reserve's Beige Book, containing anecdotal evidence across Fed districts, was also released last week. Districts reported little change in economic activity; however, lower labor demand and higher input prices due to tariffs continue to put pressure on businesses and households across the country.

| Last Week: Indicator | Number Reported | Consensus Expectation* | Comment |
|---|---|---|---|
| **NFIB Small Business Optimism (Sep – Tue 06:00)** | 98.8 | NA | |
| **MBA Mortgage Applications Index (10/11 – Wed 07:00)** | -1.8% | NA | |
| **Empire State Manufacturing (Oct – Wed 08:30)** | 10.7 | -1.8 | |
| **PPI (Sep – Thu 08:30)** | -- | 0.3% | N/A due to government shut down |
| **Retail Sales (Sep – Thu 08:30)** | -- | 0.4% | N/A due to government shut down |
| **Initial Claims (10/11 – Thu 08:30)** | -- | 227K | N/A due to government shut down |
| **Continuing Claims (10/04 – Thu 08:30)** | -- | NA | N/A due to government shut down |
| **Philadelphia Fed Index (Oct – Thu 08:30)** | -12.8 | 9.1 | |
| **Business Inventories (Aug – Thu 10:00)** | -- | 0.1% | N/A due to government shut down |
| **NAHB Housing Market Index (Oct – Thu 10:00)** | 37 | 33 | |
| **Treasury Budget (Sep – Thu 14:00)** | $198.0B | -$83.0B | |
| **Housing Starts (Sep – Fri 08:30)** | -- | 1320K | N/A due to government shut down |
| **Building Permits (Sep – Fri 08:30)** | -- | 1340K | N/A due to government shut down |
| **Import Prices (Sep – Fri 08:30)** | -- | NA | N/A due to government shut down |
| **Export Prices (Sep – Fri 08:30)** | -- | NA | N/A due to government shut down |
| **Industrial Production (Sep – Fri 09:15)** | -- | 0.1% | N/A due to government shut down |
| **Capacity Utilization (Sep – Fri 09:15)** | -- | 77.3% | N/A due to government shut down |

| Next Week: Indicator | Consensus Expectation* | Prior | Comment |
|---|---|---|---|
| **Leading Indicators (Sep – Mon 10:00)** | -0.2% | -0.5% | |
| **MBA Mortgage Applications Index (10/18 – Wed 07:00)** | NA | -1.8% | |
| **Initial Claims (10/18 – Thu 08:30)** | 223K | NA | |
| **Continuing Claims (10/11 – Thu 08:30)** | NA | NA | |
| **Existing Home Sales (Sep – Thu 10:00)** | 4.05M | 4.00M | |
| **CPI (Sep – Fri 08:30)** | +0.4% | +0.4% | Core CPI (prior): +0.3% |
| **New Home Sales (Sep – Fri 10:00)** | 710K | 800K | |
| **Univ. of Michigan Consumer Sentiment - Final (Oct – Fri 10:00)** | 55.0 | 55.0 | |

*Sources: www.briefing.com and www.federalreserve.gov*

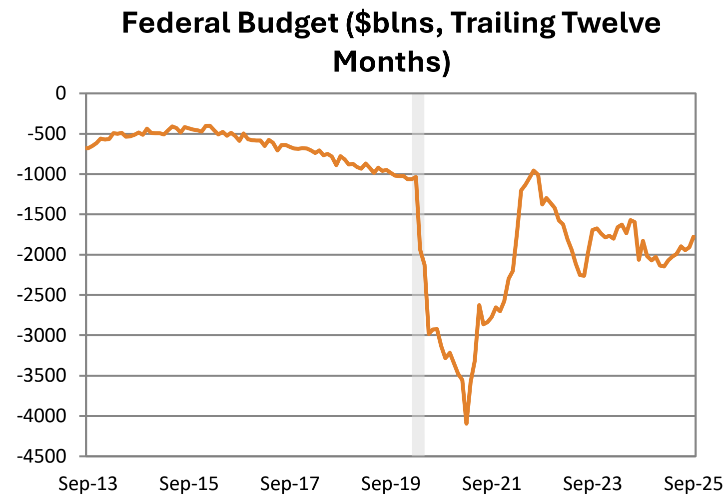
  

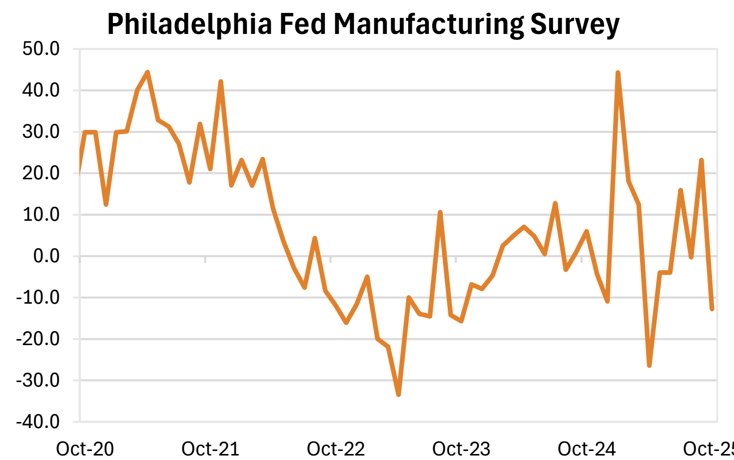
# Economic Review

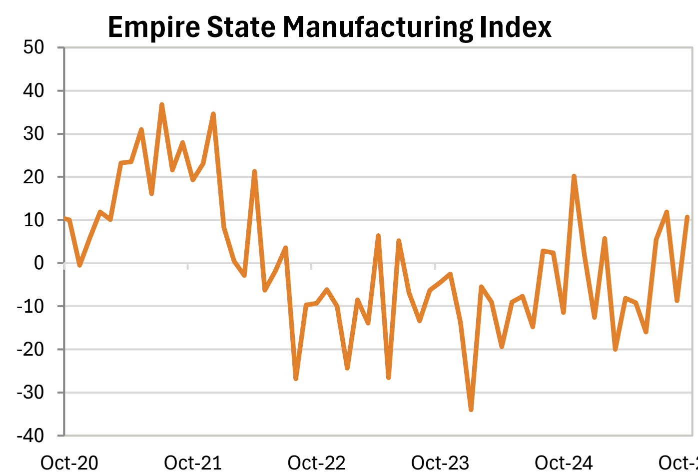
The FEDERAL BUDGET recorded a $198.0 billion surplus in September, more than double the $80.3 billion surplus in the same period a year ago and the largest monthly surplus since April of this year. The improvement reflected a strong inflow of receipts ($544.0 billion) compared with outlays of $346.0 billion. Because Treasury data are not seasonally adjusted, the September surplus cannot be directly compared with the $344.8 billion deficit recorded in August. The largest sources of receipts were individual income taxes ($298 billion), social insurance and retirement receipts ($134 billion), and corporate income taxes ($62 billion). Customs duties contributed another $30 billion, lifting the fiscal year-to-date total to $195 billion. On the spending side, Social Security ($133 billion), health programs ($94 billion), and national defense ($76 billion) made up the bulk of outlays, while net interest costs reached $37 billion. The fiscal year 2025 deficit currently stands at $1.775 trillion, compared with $1.816 trillion in fiscal year 2024.

Regional Fed manufacturing surveys released last week showed a mixed outlook for the manufacturing sector. The EMPIRE STATE MANUFACTURING INDEX, which tracks manufacturing activity in the New York Fed's district, increased 19 points to 10.7 in October. The new orders component grew 23.3 points to 3.7, and the shipments component rose 31.7 points to 14.4, both recovering from negative readings in September. Six-month forward expectations of general business conditions surged 15.5 points to a relatively high 30.3.

In contrast, the PHILADELPHIA FED MANUFACTURING INDEX plunged 36 points to -12.8 in October, the lowest reading since April. The shipments component fell 20 points, but remained positive at 6.0, while the new orders index rose six points to 18.2. Despite lower current activity, manufacturers are optimistic about future growth, with the six-month forward activity index increasing to 36.2. Both the Empire State and Philadelphia Fed manufacturing surveys reported rising prices continuing to put pressure on firms as companies continue to adjust to a new tariff environment.



# Fed Speeches

At the Council on Foreign Relations in New York, Federal Reserve Governor Christopher J. Waller outlined his perspective on the evolving balance of risks facing U.S. monetary policy amid conflicting economic signals.

Addressing an audience of economists and policy experts, Waller described the challenge of interpreting data that simultaneously show strong output growth and a weakening labor market—a tension he argued must be carefully navigated to avoid policy missteps. The setting underscored the Fed's effort to communicate its strategy clearly at a moment when official data remain disrupted by the ongoing government shutdown, leaving policymakers to rely on private indicators and business contacts to assess the state of the economy.

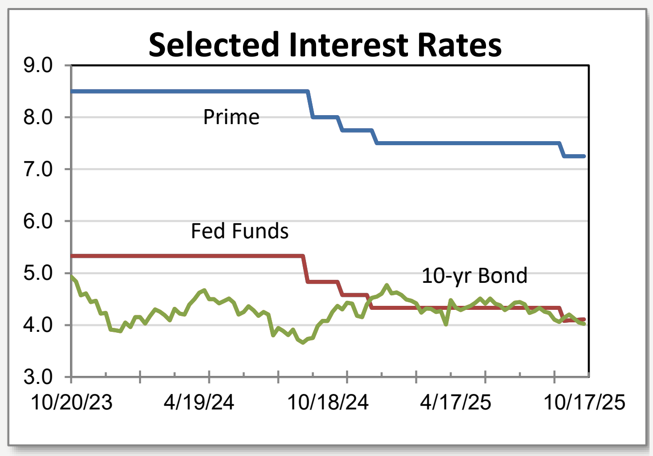
Waller noted that the data available since the September FOMC meeting support his view that inflation is running close to target, while the labor market is softening. Waller also addressed the effects of the federal shutdown, which has delayed key data including the September employment report and inflation figures. Private sources such as ADP suggest continued job losses in September, and he warned that employers' "no hire, no fire" stance could mask emerging weakness in labor demand.

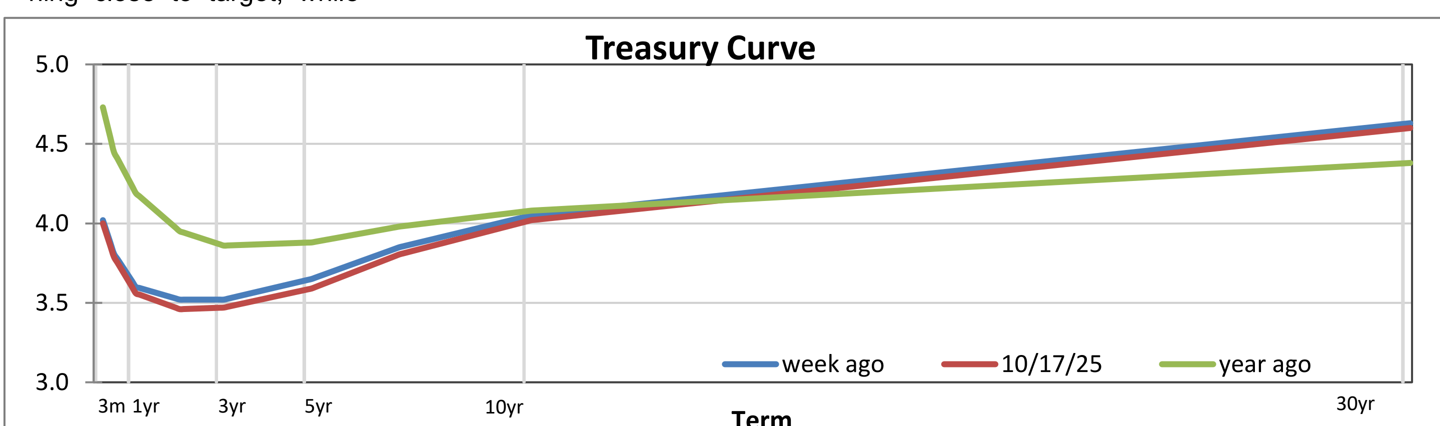
Closing his remarks, Waller outlined two potential paths: one where resilient consumption and rising productivity stabilize employment, and another where a cooling labor market and constrained household spending prompt a sharper slowdown. On future expectations for FOMC policy, Waller simply reiterated,

> *"Since we don't know which way the data will break… we need to move with care… to ensure we don't make a mistake that will be costly to correct."*

# Financial Markets

Equities markets recovered last week, with the NASDAQ advancing 2.1%, the S&P 500 rising 1.7%, and the DJIA up 1.6%. The rebound can be attributed to calmer trade rhetoric, which boosted optimism that the U.S. and China will reach an agreement on the trade dispute that has flared up in recent weeks. Fears from earlier in the weak about credit-related stress on regional banking were also alleviated as it became clear that risks to the sector were isolated and not systemic. Treasury yields fell across the board, with the largest declines in the 2-year and 5-year maturities, each falling 6 basis points, as dovish rhetoric by Fed officials increased expectations of rate cuts both later this year and continuing into next year. Oil prices continued to fall, with WTI reaching $57.59 on Friday amid supply increases and lower global growth forecasts. The International Energy Agency (IEA), forecasted last week that next year could see an unprecedented oversupply of oil in global markets, putting additional downward pressure on prices. Gold prices continued their meteoric rise as geopolitical pressures and expectations of a global slowdown drive demand for safe-haven assets.



# Interest Rate Forecast*

During the Fed's September policy meeting, the Federal Open Market Committee (FOMC) lowered the federal funds target rate to 4.00% to 4.25%. In the statement released following the meeting, the FOMC stated, "In support of its goals and in light of the shift in the balance of risks, the Committee decided to lower the target range for the federal funds rate by 1/4 percentage point to 4 to 4-1/4 percent. In considering additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities."

| Avg. for: | Prime | Fed Funds | SOFR | 6-Mo. T-Bill | 2-Yr. Note | 10-Yr. Treasury | 30-Yr Bond | 30-Yr Mortgage |
|---|---|---|---|---|---|---|---|---|
| 4th Qtr '25 | 7.05 | 3.93 | 3.94 | 3.74 | 3.43 | 3.98 | 4.52 | 6.16 |
| 1st Qtr | 6.75 | 3.63 | 3.63 | 3.58 | 3.40 | 3.88 | 4.30 | 6.02 |
| 2nd Qtr | 6.59 | 3.46 | 3.47 | 3.49 | 3.39 | 3.81 | 4.23 | 5.93 |
| 3rd Qtr | 6.42 | 3.29 | 3.30 | 3.36 | 3.36 | 3.74 | 4.17 | 5.84 |
| 4th Qtr '26 | 6.25 | 3.13 | 3.13 | 3.20 | 3.29 | 3.67 | 4.12 | 5.74 |

*October 2025*

## FINANCIAL MARKET SUMMARY

| | As of 10/17/2025 | As of 10/10/2025 | Weekly Change | 4-Week Change | 13-Week Change |
|---|---|---|---|---|---|
| **MONEY MARKETS (Changes in BPs)** | | | | | |
| **Prime** | 7.25 | 7.25 | 0 | 0 | (25) |
| **Secured Overnight Financing Rate (SOFR)** | 4.30 | 4.13 | 17 | 16 | (4) |
| **Fed Funds (Wed close)** | 4.11 | 4.10 | 1 | 3 | (22) |
| **TREASURIES (BE) (Changes in BPs)** | | | | | |
| **3 Months** | 4.00 | 4.02 | (2) | (3) | (40) |
| **6 Months** | 3.79 | 3.81 | (2) | (2) | (51) |
| **1 Year** | 3.56 | 3.60 | (4) | (4) | (52) |
| **2 Years** | 3.46 | 3.52 | (6) | (11) | (42) |
| **5 Years** | 3.59 | 3.65 | (6) | (9) | (37) |
| **10 Years** | 4.02 | 4.05 | (3) | (12) | (42) |
| **30 Years** | 4.60 | 4.63 | (3) | (15) | (40) |
| **MUNICIPALS- AAA G.O. & Mortgage (Changes in BPs)** | | | | | |
| **2-Year Muni** | 2.37 | 2.32 | 5 | 35 | (13) |
| **5-Year Muni** | 2.27 | 2.29 | (2) | 14 | (35) |
| **10-Year Muni** | 2.78 | 2.85 | (7) | 65 | (58) |
| **30-Year Muni** | 4.14 | 4.22 | (8) | (11) | (67) |
| **30-Year Conventional Mortgage** | 6.27 | 6.30 | (3) | 1 | (48) |
| **MARKET INDICATORS (Changes in %)** | | | | | |
| **DJIA** | 46,190.61 | 45,479.60 | 1.6 | (0.3) | 4.2 |
| **S&P 500** | 6,664.01 | 6,552.51 | 1.7 | (0.0) | 5.8 |
| **NASDAQ** | 22,679.97 | 22,204.43 | 2.1 | 0.2 | 8.5 |
| **CRB Futures** | 364.86 | 363.85 | 0.3 | (1.6) | (3.2) |
| **Oil (WTI Crude)** | 57.59 | 58.81 | (2.1) | (8.0) | (15.9) |
| **Gold** | 4,251.82 | 4,011.03 | 6.0 | 15.4 | 26.9 |
| **Yen / Dollar** | 150.61 | 151.19 | (0.4) | 2.0 | 2.2 |
| **Dollar / Euro** | 1.17 | 1.16 | 0.3 | (0.8) | 0.2 |