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Market Update

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This Week in the Markets...

The US stock market experienced significant volatility last week, culminating in a sharp decline on Friday, October 10, 2025. All major indices closed the week in negative territory, reversing some of the gains from earlier in the month. The S&P 500 tumbled 2.7%, or 182.60 points, to close at 6,552.51, marking its largest single-day drop since April 10, 2025. The Dow Jones Industrial Average (DJI) slid 1.9%, or 878.82 points, ending at 45,479.60, while the Nasdaq Composite plummeted 3.6%, or 820.20 points, to 22,204.43. This downturn was particularly pronounced in technology and consumer discretionary sectors, with the Technology Select Sector SPDR (XLK) down 4.1% and the Consumer Discretionary Select Sector SPDR (XLY) down 2.8%.

Trading volume surged to 24.26 billion shares, exceeding the 20-session average of 20.15 billion, indicating heightened investor activity amid the sell-off. Decliners outnumbered advancers significantly, with a 4.36-to-1 ratio on the NYSE and 4.93-to-1 on the Nasdaq. The CBOE Volatility Index (VIX), often called the "fear gauge," jumped 31.8% to 21.66, its highest close since June 19, 2025, reflecting increased market anxiety.

Key drivers of the week's performance included escalating US-China trade tensions, with China's Ministry of Commerce announcing on October 9, 2025, that foreign companies must obtain licenses to export products containing more than 0.1% rare earth minerals.

	10/10/2024	01/01/2025	10/10/2025	12 MO ROR	YTD ROR
DOW	42,454.12	42,392	45,479.60	6.10%	8.32%
S&P 500	5,780.05	5,903	6,552.51	11.82%	13.01%
NASDAQ	18,282.05	19,404	22,204.43	23.52%	17.05%

This move, combined with the ongoing US government shutdown—which entered its 10th day and resulted in a lack of key economic data—dampened investor sentiment. Despite earlier optimism from AI-related developments and expectations of Federal Reserve rate cuts, these factors led to a flight-to-safety, with Treasury yields declining across the curve.

Expectations for This Week (October 13-19, 2025)

The market opened positively on Monday, October 13, 2025, with the S&P 500 rising 1.64% to around 6,660, recovering some ground from Friday's losses. However, expectations for the week remain cautious due to ongoing uncertainties. Investor sentiment, as measured by the AAII survey for the week ending October 8, showed bullishness at 45.9% (up from 42.9%) and bearishness at 35.6% (down from 39.2%), suggesting moderate optimism but vulnerability to negative catalysts.

This week marks the unofficial start of third-quarter earnings season on October 14, with major banks like JPMorgan Chase, Goldman Sachs, and Citigroup reporting. FactSet estimates an 8.0% year-over-year EPS growth for the quarter, following 11% growth in the previous period. Key economic data releases include CPI and Empire State Manufacturing on October 15, Retail Sales and PPI on October 16, and Industrial Production, Housing Starts, and Building Permits on October 17. These reports could provide insights into inflation and consumer spending, potentially influencing Federal Reserve policy expectations.

From a technical perspective, the S&P 500's drop below its 20-day simple moving average (SMA) on October 10 signals near-term caution, though historical patterns suggest potential dip-buying opportunities unless consecutive closes below this level occur. The intermediate-term outlook remains bullish, but volatility in sectors like semiconductors (e.g., PHLX Semiconductor Index showing overbought conditions) could lead to consolidation. Markets are pricing in two more 25-basis-point Fed rate cuts in 2025 and two in 2026, slightly more aggressive than the Fed's dot plot.

Overall, while earnings beats and positive data could support a rebound, persistent trade issues and the government shutdown may cap gains, with the VIX likely to remain elevated.

Issues Expected to Influence Market Performance in the Near Term

Several factors are poised to impact the US stock market in the coming weeks and months, contributing to a potentially stagflationary environment of slower growth and higher inflation.

- **Trade Tensions and Tariffs:** Escalating US-China conflicts, including potential massive tariff increases on Chinese goods, restrictions on US chips, antitrust probes, and fees on US ships starting October 14, 2025, are major headwinds. Tariffs could raise effective rates by over 10 percentage points, boosting inflation through consumer price pass-through and squeezing household purchasing power. J.P. Morgan Research anticipates US inflation heating up in summer 2025 as tariff effects materialize.
- **Government Shutdown and Policy Uncertainty:** The ongoing shutdown has delayed economic data and led to federal worker firings, with the House in recess until at least October 19. Broader policy shifts, including reduced immigration, fiscal deficits, and threats to Federal Reserve independence, add to risks.
- **Federal Reserve Actions and Inflation:** The Fed is expected to hold rates until December 2025, followed by gradual 25-basis-point cuts into 2026, amid resilient growth but tariff-driven inflation. Recent consumer expectations show rising inflation (one-year at 3.4%) and unemployment (41.1%), with University of Michigan Consumer Sentiment at a five-month low of 55.0.
- **Geopolitical Risks:** Conflicts in the Middle East (e.g., Iran-Israel) and Ukraine could disrupt energy markets, with potential oil spikes to $120-130 per barrel if escalations occur. A 40% US recession probability is tied to these factors, though the base case avoids recession.
- **Economic Growth and Earnings:** US GDP is forecasted to slow to 1.3% in 2025 from 2.0%, with EM growth decelerating to 2.4% annualized in the second half. However, strong corporate fundamentals, including 12-13% earnings growth in 2026, could support the S&P 500 closing near 6,000 by year-end 2025. AI-driven sectors remain key drivers, though narrow market leadership poses risks.

U.S. Treasury Bond Yields

as of 10/13/2025

US1MO	4.10%
US3MO	3.97
US6MO	3.82
US1Y	3.63
US2Y	3.53
US3Y	3.52
US5Y	3.65
US10Y	4.04
US30Y	4.62

These issues could lead to increased macroeconomic volatility, with markets sensitive to data releases and policy announcements.

Conclusion

Last week's market decline reflects mounting pressures from trade disputes and domestic policy challenges, setting a cautious tone for this week. While earnings and economic data may provide uplift, near-term influences like tariffs, geopolitical tensions, and Fed policy will likely drive volatility. Investors should monitor developments closely, with a focus on diversification amid a 40% recession risk.

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