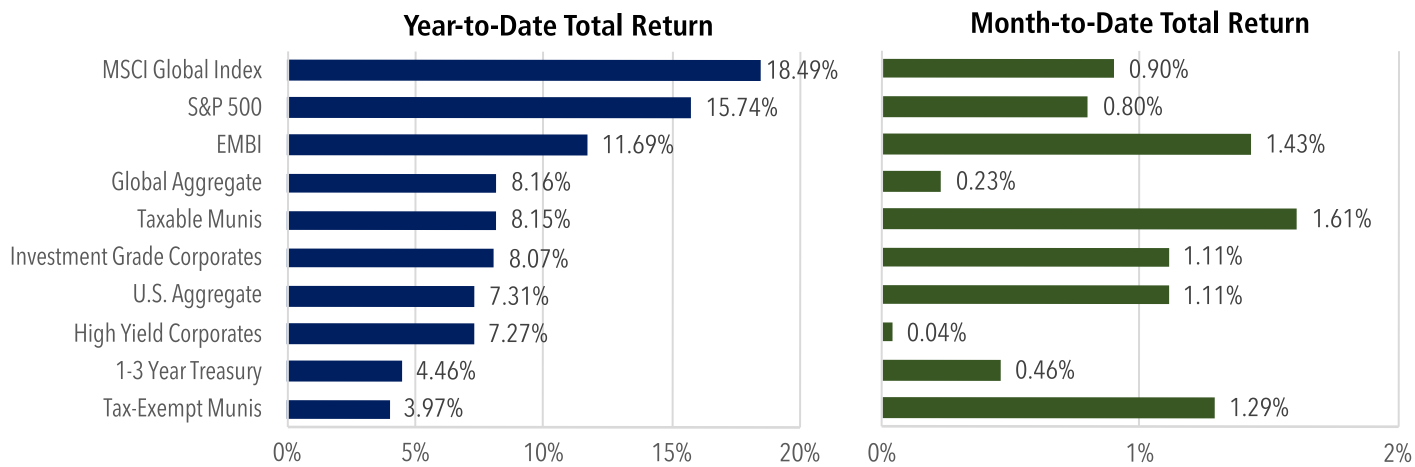
Week Ending: **October 24, 2025**

Barrier Break

Economic Overview:

Twenty-four days ago, the federal government closed its doors to reporting agencies due to an ongoing budget impasse. This week, government statisticians returned to the office to produce a key report for Social Security cost-of-living adjustments: the September Consumer Price Index (CPI). Good news for retirees and bond investors: the report revealed that core CPI inflation rose 0.2% in September, consistent with the Fed's 2% inflation target. Specifically, while tariffs pushed up goods prices, core services and shelter prices continued to moderate. Owners' equivalent rent—the single largest and stickiest component of core CPI inflation—registered its softest monthly reading since January 2021! The moderation in core inflation, coupled with continued weakness in the labor market, supports the case for another 25-basis-point rate cut at next week's October FOMC meeting. Looking to 2026, as tariff-related price pressures fade over the next 12 months and services inflation continues to cool, we can easily envision a scenario in which core CPI inflation reaches the Fed's 2% target by late summer of 2026. And, as Fed Governor Waller said in his most recent speech, inflation on a path to 2% will not present "a barrier to monetary policy toward a more neutral setting."

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

High Yield: High yield returns are positive for the month despite wider spread levels, bolstered by falling rates and steady coupon income. This highlights the ability of income generation to mute volatility even as credit risk premiums edge higher.

Municipals: In the most recent week, LSEG Lipper reported $1.1 billion in inflows into municipal bond funds, driven primarily by $862 million into muni ETFs. Muni fund flows have been positive every week except three in the last six months. This most recent inflow increases total muni fund inflows to $36.6 billion year to date.

Equities: The U.S. equity market posted positive performance for the week, showing resilience amid the ongoing government shutdown. Sector performance was mostly positive, with energy, industrials, and technology leading markets higher, while utilities, consumer staples, and communications lagged.