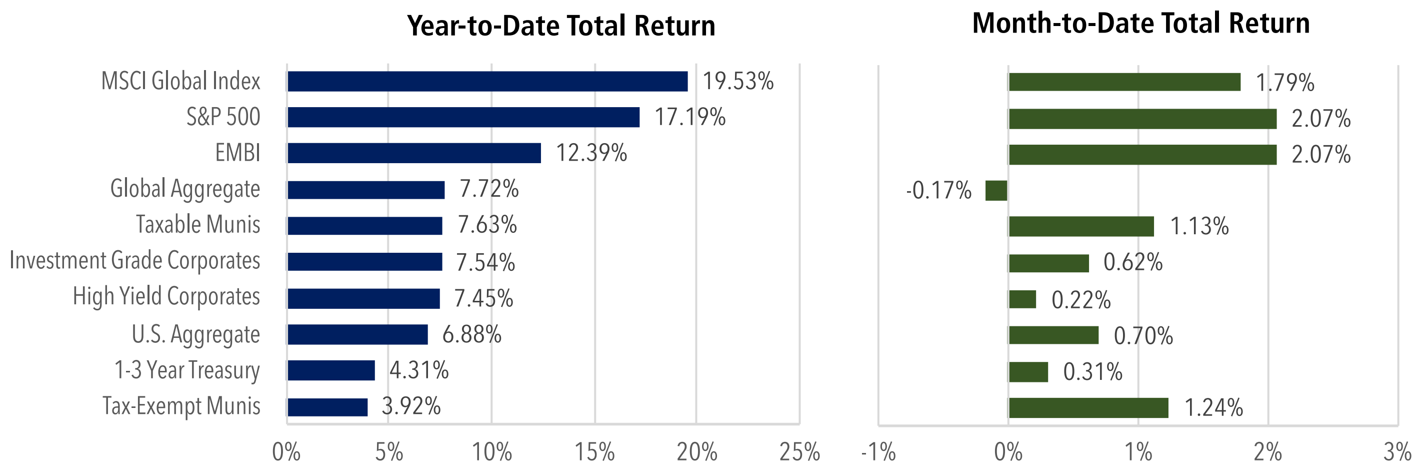
Week Ending: **October 31, 2025**

Fed Fumble?

Economic Overview:

The FOMC cut the federal funds rate by 25 basis points for the second time in 2025 this week. The vote was 10-2 in favor of the cut, with Governor Miran preferring a 50-basis-point reduction, while Kansas City Fed President Schmid preferred for the central bank to stand pat. As the Committee fumbled around for consensus, Powell offered insight, saying, "For some part of the Committee, it's time to maybe take a step back and see whether there really are downside risks to the labor market, or see whether, in fact, the stronger growth that we're seeing is real." Indeed, the U.S. economy is at a macro crossroads. Job growth shows a sputtering economy, with the three-month moving average of payroll job growth at just 29k through August. Meanwhile, real GDP growth is tracking at 3.9% for Q3, driven by tech spending. Which indicator should we rely upon to gauge what might happen next? Historically, among the 22 quarters with similar "mixed signals," none experienced a subsequent sustained expansion—unless the economy was emerging from a recession. In that sense, labor data is a more reliable signal than GDP. If so, is the FOMC fumbling the ball on the economy?

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

High Yield: October was a spooky month for low-quality bonds and loans as CCCs underperformed their higher-quality peers. Increased volatility in spreads and rates scared high yield issuers away from the primary market, leading to a slowdown in new issuance compared to September.

Corporates: This week experienced a surge in issuance, totaling $75 billion brought to market, led by Meta Platforms Inc., which unexpectedly issued $30 billion across six tranches. Thursday alone accounted for $41 billion of issuance, and total demand neared $160 billion. Market participants expect November to be record-breaking as companies look to lock in these lower all-in yields.

Municipals: For the week ending October 29th, LSEG Lipper reported municipal fund inflows of $720 million, driven entirely by $2.5 billion of inflows into muni ETFs, offsetting outflows from muni open-end mutual funds. Year to date, municipal fund inflows total $37.3 billion.

Equities: The U.S. equity market gained this week, driven by positive corporate results and ongoing enthusiasm for Artificial Intelligence. Sector-wise, technology, consumer discretionary, and communications led the rally, while more defensive sectors, such as real estate, consumer staples, and materials, underperformed.

Securitized Products: Agency mortgages have outperformed in a directionless interest rate environment, experiencing increased demand from financial institutions. Risk premiums for current coupon mortgages have tightened to 100 basis points over the U.S. 10-year Treasury yield, a level not seen since the Federal Reserve started tightening monetary policy in 2022. Primary mortgage rates, which have drifted to 6.125%, also offer some relief to prospective homeowners facing affordability challenges.