



## MONTHLY MARKET PULSE – OCTOBER 2025

### HIGHLIGHTS

- ▶ **Rate Cut:** The Federal Reserve (Fed) cut rates by 25 basis points in September, aligning with market expectations, and forecast two more cuts this year.
- ▶ **Government Shutdown:** The U.S. government shut down on October 1, the first full shutdown since 2013, when it lasted 16 days.
- ▶ **What to Expect From the Fed:** Soft job growth prompted the Federal Reserve to cut rates, but what can we expect moving forward, and who benefits from cuts? We analyze this dynamic in this month's *Spotlight* below.

**MONTHLY SPOTLIGHT:**  
**Fed Cuts –  
What to Expect for This Cycle**  
Author: Daniel J. Carter, CFA  
See page 2

### MACRO INSIGHTS

#### The Path to Neutral

Stocks advanced for the fifth straight month, with the S&P 500 adding 3.6% in September and bringing year-to-date gains to 14.8%. Mega-cap tech continued to lead as AI sentiment remained strong, though the Russell 2000 small-cap index also hit a new record high.

The major event of the month was the Federal Reserve resuming the easing it began a year ago. With the market and the Fed anticipating a gradual path toward a “neutral rate” of roughly 3% over the next year, we analyze what to expect from monetary policy in this month's *Spotlight*. While not an economic cure-all, easier monetary policy improves sentiment toward risk assets and provides relief to smaller corporate borrowers and certain forms of consumer lending.

The U.S. consumer remains resilient. Spending data for August came in better than expected, and retailers continue to point to durable demand. The market is watching closely for tariff pass-through to consumer prices, though the impact so far has been relatively modest. What remains to be seen is whether companies are testing demand elasticity with only small increases for now, and whether resilient activity to date will embolden larger price hikes in the months ahead. The latter could prove inflationary, potentially slowing the Fed's path to lower rates or weighing on economic activity.

Labor market indicators have been mixed and continue to reflect softer conditions. Jobs grew by just 22,000 in August, below expectations, with negative revisions compounding the weakness. The unemployment rate, however, remained low at 4.3%, supported by slower labor supply growth due to reduced immigration. Job openings increased during the month, a possible signal of improving corporate confidence as tariff effects become clearer.

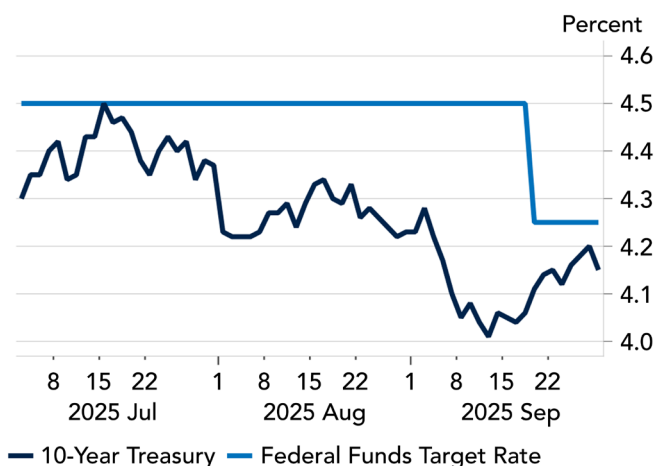
Meanwhile, the AI trade remains well supported. Nvidia's investments in Intel and OpenAI, along with Oracle's 25% monthly gain on the back of a strong cloud pipeline, added confidence in the durability of AI infrastructure spending. As

we've discussed, the S&P 500 is increasingly levered to this broader trade, with the bulk of the top 10 names—together representing 40% of the index—tied directly to AI.

While the current government shutdown creates some noise and disruptions to economic data releases, investors generally look through these standoffs as temporary. With consumer activity holding up, inflation yet to show meaningful tariff headwinds, the Fed easing, and AI CAPEX remaining robust, it's not surprising that the market continues to make new highs. From here, however, with valuations full and the margin of safety thin, we maintain our neutral risk stance.

#### 10-Year Treasury and Fed Funds

The 10-year yield has increased since the Fed rate cut in September.



Sources: U.S. Department of Treasury, Federal Reserve, and Macrobond.

**Christopher D. Shipley**

Senior Vice President, Co-Chief Investment Officer  
Fort Washington Investment Advisors, Inc.

## WHAT TO WATCH

The Fed cut rates in September for the first time since 2024. Investors will be watching employment and inflation data closely to gauge whether the Fed can continue cutting or will need to pause. Consumers have remained resilient despite disruptions around Liberation Day, and markets will monitor indicators of consumer sentiment and corporate investment to assess the state of the economy.

- ▶ The Federal Open Market Committee's (FOMC) next meeting is scheduled for October 29. However, the government shutdown may affect the amount of data released between now and then.
- ▶ The next Consumer Price Index (CPI) report is scheduled to be available on October 15, and Personal Consumption Expenditures (PCE)—the Fed's preferred inflation gauge—is scheduled to be released on October 31. Investors will monitor the underlying data to determine whether the Fed has room to continue cutting rates.
- ▶ Consumer confidence reports are due on October 10 (University of Michigan) and October 28 (Conference Board).

## MONTHLY SPOTLIGHT



**DANIEL J. CARTER, CFA**  
Managing Director  
Senior Portfolio Manager

### Fed Cuts – What to Expect for This Cycle

The Fed's cutting cycle in 2024 included three consecutive cuts totaling 100 basis points, followed by a pause that lasted several quarters. Following the Fed's 25-basis-point cut in September, investors are asking what the path of rates will look like over the coming months and which parts of the economy will benefit from rate cuts.

The Fed's recent 25-basis-point cut was driven primarily by its employment mandate. While inflation remains modestly above its 2% target, policymakers view part of the stickiness as tariff-related, considering it more of a one-time price level change than inflationary. For most of the year, inflation uncertainty dictated policy, but weaker job growth over

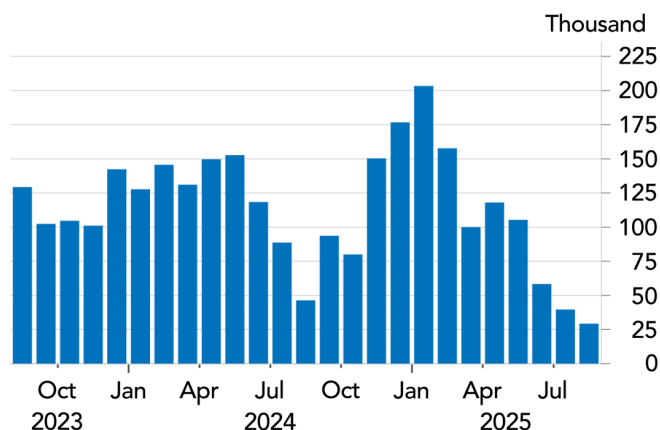
the past two months, along with large downward revisions, highlighted downside risks to the labor market. This prompted the Fed, which believes its policy is moderately restrictive, to engage in a "risk management" cut.

Given that employment was the driver of this decision, can we expect employment will continue justifying cuts? We expect job growth to remain slow, but not weak enough to raise recession fears or force an aggressive cutting cycle. Fewer jobs are now needed to keep the unemployment rate steady due to factors such as lower immigration and a bifurcated corporate landscape, where small and mid-size businesses—responsible for 80% of employment—have lagged larger firms. On the inflation side, markets do not expect a return to 2% until 2027, limiting how quickly the Fed can ease. Taken together, this points to expected near-term cuts resembling those in 2024, when the Fed reduced its distance from neutral without aiming to stimulate the economy outright.

Even if the current cycle doesn't end with a terminal rate of 3% or lower, parts of the economy will benefit from cuts. Companies and consumers with floating rate debt will see lower interest costs as short rates move lower. However, this is only a portion of total consumer and corporate debt, meaning the impact will be limited. Housing is often seen as a beneficiary of lower rates; however, affordability remains the main issue for the industry, and reducing short rates doesn't necessarily mean longer mortgage rates will fall as well. Even if the 30-year mortgage rate comes down to 5.5% (currently ~6.2%), that would still place affordability toward the higher end of the historical range.

In aggregate, rate cuts should help maintain economic momentum but are unlikely to drive a surge in activity. Some investors expect monetary policy to be the primary growth engine, but we believe other factors—such as deregulation and tax policy—will play a larger role. Against this backdrop, we view both long- and short-term rates as fairly valued at present but see room for moderately higher yields if growth firms.

### Monthly Private Non-Farm Payroll (3-Month Average)



Sources: BLS, ADP, and Macrobond.

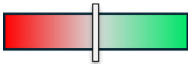



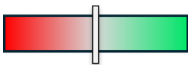


#### Daniel J. Carter, CFA

Managing Director, Senior Portfolio Manager  
Fort Washington Investment Advisors, Inc.

#### Blake Stanislaw, CFA

Client Portfolio Manager, Fixed Income  
Fort Washington Investment Advisors, Inc.

## CURRENT OUTLOOK

Topic	View	MoM Change	Commentary
Macroeconomic Views			
Economic Growth		–	<ul style="list-style-type: none"> <li>U.S. economic <b>growth is expected to remain lower</b> relative to the recent trend, as tariffs present a near-term headwind for consumer spending and business investment. However, growth expectations are improving for 2026.</li> <li><b>Uncertainty remains elevated</b> amid U.S. trade policy, geopolitical tensions, and pending court decisions on executive authority.</li> <li>While economic data has been relatively stable—including consumer spending—recent labor market weakness presents downside risks to the current economic expansion.</li> </ul>
Inflation		–	<ul style="list-style-type: none"> <li>Market forecasts project inflation will peak this year before declining gradually back toward 2%. Investors do not expect the Fed's 2% target to be reached until 2027, as inflation remains higher for longer.</li> <li>Higher prices are observable in producer costs and certain consumer goods due to tariffs. The impact on consumers has been limited so far, as companies are absorbing some of the cost.</li> <li>While service inflation should remain stable over the coming months, tariffs create elevated uncertainty around goods inflation.</li> </ul>
Monetary Policy		–	<ul style="list-style-type: none"> <li>The Fed cut rates by 25 basis points in September, marking the first cut of 2025. FOMC participants expect two more cuts this year and one in 2026, while investors expect just one additional cut through 2026. Current pricing implies a terminal rate of around 3%.</li> <li>While FOMC members are balancing their dual mandate of stable prices and full employment, downside risks to the labor market outweigh inflation concerns.</li> <li>Shifting growth estimates, tariff concerns, and Fed guidance have resulted in volatile expectations for the path of monetary policy.</li> </ul>
Fiscal Policy		–	<ul style="list-style-type: none"> <li>The government shutdown is anticipated to be short-lived but will disrupt economic data releases and could even lead to more permanent government layoffs.</li> <li>The Big, Beautiful Bill (BBB) was signed into law in early July. In the short term, the BBB supports growth through individual tax cuts and encourages CAPEX through accelerated depreciation.</li> <li>Flexibility within fiscal policy remains low, as federal debt levels continue to rise and <b>higher interest costs</b> consume a larger portion of government outlays.</li> </ul>
Market Valuations			
Rates	 ↓		<ul style="list-style-type: none"> <li>Yields moved lower and the curve flattened as investors reduced their expectations for future rate cuts, even as the Fed cut rates.</li> <li>We anticipate that the <b>magnitude of expected rate cuts will continue to shift</b>, with new economic data and developments around executive-branch policies presenting opportunities for tactical adjustments.</li> <li>Both short- and long-term rates are within our expected fair value range.</li> </ul>
Credit		–	<ul style="list-style-type: none"> <li>Credit spreads tightened during September and remain <b>tight relative to historical averages</b>.</li> <li>We believe the <b>risk/reward is skewed to the downside</b>, although strong corporate fundamentals should support current spreads.</li> <li>Investment-grade spreads (10-year BBB Industrials) ended July at their 9<sup>th</sup> percentile, and high-yield spreads (single-B corporates) at their 2<sup>nd</sup> percentile since the 1990s.</li> </ul>
Equity		–	<ul style="list-style-type: none"> <li>The <b>S&amp;P 500 continued its upward momentum</b>, up 3.6% in September and ending near all-time highs.</li> <li><b>Valuations</b> for equities are at levels comfortably <b>above long-term averages</b>. However, this is largely due to multiples on mega-cap technology companies, which continue to increase their share of economic profits.</li> <li>Despite lingering uncertainty around trade policy, investor attention is likely to shift to the labor market and corporate fundamentals.</li> </ul>

## MARKET DATA & PERFORMANCE | AS OF 09/30/2025

U.S. Snapshot	Current	6 Months Prior	1 Year Prior
Core Inflation (YoY%)	2.9	2.7	2.8
Unemployment Rate	4.3	4.2	4.1
Real GDP (YoY%)	2.1	2.0	2.8
Retail Sales (YoY%)	5.0	5.1	2.0
30-Year Mortgage Rate	6.3	6.7	6.1
10-Year Treasury	4.2	4.2	3.8
US Corporate IG Yield	4.8	5.2	4.7
US Corporate HY Yield	6.7	7.7	7.0

### TOTAL RETURNS

Asset Class	MTD	QTD	YTD	1 Year	3 Years*	5 Years*
Equity						
Russell 3000 Index	3.5%	8.2%	14.4%	17.4%	24.1%	15.7%
S&P 500 Index	3.6%	8.1%	14.8%	17.6%	24.9%	16.5%
S&P Midcap 400 Index	0.5%	5.5%	5.8%	6.1%	15.8%	13.6%
Russell 2000 Index	3.1%	12.4%	10.4%	10.8%	15.2%	11.6%
MSCI World Index	3.3%	7.4%	17.8%	17.7%	24.3%	14.9%
MSCI World Excluding US	2.2%	5.4%	25.9%	16.7%	22.3%	12.2%
Fixed Income						
Bloomberg US Aggregate	1.1%	2.0%	6.1%	2.9%	4.9%	-0.4%
US Corporate Investment Grade	1.4%	2.6%	6.9%	3.6%	6.9%	0.3%
US Corporate High Yield	0.8%	2.5%	7.2%	7.4%	11.1%	5.5%
Emerging Market Debt	1.2%	3.6%	9.2%	7.6%	12.0%	1.9%
US Treasury (7-10 Year)	0.8%	1.7%	7.0%	1.9%	3.4%	-2.0%
Cash	0.3%	1.1%	3.2%	4.5%	4.9%	3.0%

Source: Fort Washington and Bloomberg. \*Returns longer than 1 year are annualized. Past performance is not indicative of future results.

## CONTACT

[contactus@fortwashington.com](mailto:contactus@fortwashington.com)

This publication has been distributed for informational purposes only and should not be considered as investment advice or a recommendation of any particular security, strategy, or investment product. Opinions expressed in this commentary reflect subjective judgments of the author based on the current market conditions at the time of writing and are subject to change without notice. Information and statistics contained herein have been obtained from sources believed to be reliable but are not guaranteed to be accurate or complete.

©2025 Fort Washington Investment Advisors, Inc.



**Fort Washington  
Investment Advisors, Inc.**

A member of Western & Southern Financial Group

 **Uncompromised Focus®**

303 Broadway, Suite 1200 / Cincinnati, OH 45202 / 513.361.7600 / 888.244.8167 / [fortwashington.com](http://fortwashington.com)