

Key Takeaways:

- Inflation data tame.
- Consumers still more worried than the Fed about inflation.
- Sticky inflation rising again.
- Companies announcing layoffs.
- Fed likely to cut this week.

Finally See Some Economic Data that Confirms Fed Cut

With the Government shutdown entering its fourth week, we have been unable to get a glimpse into key economic data. This has been difficult for investors but even more difficult for the Federal Reserve. The committee uses Government data to get a better glimpse into their dual mandate; maximum employment and price stability. Last week, the Government made an exception to release the Consumer Price Index for September. The Government needed the Bureau of Labor Statistic's inflation data so the Social Security Administration could calculate their annual cost of living adjustment (COLA) for retirees. With the Fed meeting this week to make a decision on interest rate policy, we wanted to offer our view on the labor market and inflation through the limited data we have received.

- **CPI better than expected:** The September CPI showed that inflation grew less than expected at the headline level (0.3% vs. 0.4% MoM ets.) and the core level (0.2% vs. 0.3% MoM est.). There were still pricing pressures in categories that may be tariff related (e.g. apparel). In addition, airfares continue to add upward pressure on inflation.

However, the Fed can be happy that the data showed a slowdown in housing related inflation. Owners' equivalent rent prices make up a large portion of the CPI, and prices only rose 0.1% MoM, the slowest rise since 2021.

- **Consumers see inflation for longer:** The final reading on the University of Michigan Consumer Sentiment Index showed that consumers are more concerned about inflation than the Fed. One year ahead inflation expectations remain at 4.6% while long term inflation expectations (5-10 YR) rose to 3.9%, a four month high. This is also above the historical average seen in the 50 years prior to the pandemic (3.2%).
- **Sticky inflation an issue:** The Atlanta Fed compiles a basket of prices that move slowly (e.g. services) and it showed prices rose 3.3% (YoY) in September.
- **Truflation data tame but moving higher:** Truflation is a relatively new indicator. It is independent and tracked daily by Tru Labs Inc. It compiles 30 different data sources and millions of price points. The

most recent reading shows prices are rising 2.3% (YoY). This is close to the Fed's target but has been trending upward.

- **Earnings season shows weak labor market:** According to Challenger, Gray and Christmas, an independent labor firm, employers are on pace to shed one million jobs in 2025, the highest since 2020. We also heard layoffs from many large U.S. companies in 3Q25 earnings results (e.g., Exxon, Oracle, Nike, Microsoft).

The Bottom Line:

Despite the limited data on inflation and the labor market, we believe the Fed will cut rates by 25 bps at their meeting this week. We see a high probability they will cut again in December but that could change if we start getting data that indicates inflation remains a problem. There is also little clarity into 2026. While the futures market is looking for four to five rate cuts, we think this is too optimistic with inflation remaining stubborn. With rate cuts priced into equities at current valuations, we expect room for disappointment.

Weekly Economic Recap –

BLS Releases Better-Than-Expected Inflation Data, Despite Government Shutdown

Sales of U.S. existing homes in the U.S. increased to the fastest annual pace in seven months (4.06 million) in September. Lower mortgage rates and softer than expected price gains led to the increase. The median sales price climbed 2.1% (year over year) to \$415,200. The months' supply of existing homes was unchanged at 4.6 months.

Headline inflation, as tracked by the Consumer Price Index, increased at a 3.0% annualized pace, well above the Fed's 2.0% target, but less than the 3.1% estimate. Core inflation, which excludes food and energy prices, also increased at an annualized pace of 3.0%. A 4.1% rise in gasoline prices was the largest contributor to the headline increase.

The S&P Global Flash Composite PMI Index showed business activity increased at the fastest pace since July. The service sector increased at the fastest pace since July as service providers reported improving domestic demand. The manufacturing sector reported higher output with production volumes increasing for the fifth straight month.

The final reading on consumer sentiment for October, as tracked by the University of Michigan, fell marginally. Consumers noted seeing few changes in the economic situation, as inflation remains top-of-mind. Sentiment among younger consumers increased, but was offset by middle-age/older consumer sentiment falling.

Key Takeaways:

- Existing home sales increase at fastest pace in 7 months.
- Headline inflation still running above Fed's 2% target.
- Consumer sentiment largely unchanged from last month.
- Global equities rally despite geopolitical tensions.
- All major fixed income sectors higher.
- Commodities higher driven by crude oil.

Weekly Market Recap –

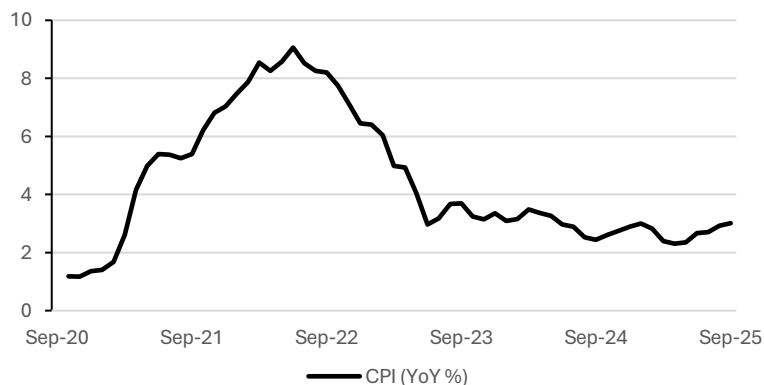
Global Equities Higher as Investors Look Past Geopolitical Tensions

Equities: The MSCI AC World Index was higher last week as investors looked through U.S./China trade tensions and the U.S. announcing fresh sanctions on Russia's two largest oil companies. On Friday, investors cheered a better-than-expected U.S. inflation report and the likelihood for Fed rate cuts this week. All the major global averages were higher but were led by the U.S. small and midcap equities.

Fixed Income: The Bloomberg Aggregate Index rose for the fourth consecutive week. All the major fixed income sectors rallied as investors priced in the expectation for Fed rate cuts. Emerging market bonds and high yield led the gains as investors shrugged off recent credit concerns.

Commodities/FX: The Bloomberg Commodity Index was higher for the second consecutive week. Crude oil prices were higher for the first time in four weeks and by the most since June as investors fear a supply shortage after the U.S. sanctioned two of Russia's largest oil companies. Gold prices were lower for the first time in ten weeks as investors took profits after a cooling in U.S./China trade tensions.

Headline Inflation Continues to Trend in Upward Direction



Footnotes: Data is as of September 2025.

Data Source: FactSet Research Systems, Verdence Capital Advisors.

Market Rallies on Rate Cut Bets

U.S. Equities		Current	1WK	1MO	3MO	1YR	YTD	International Equities		Current	1WK	1MO	3MO	1YR	YTD
	Dow Jones Industrial Average	47,207	2.2%	2.4%	6.1%	13.3%	12.5%		MSCI AC World (USD)	1,001	1.8%	2.4%	6.7%	20.1%	20.5%
	S&P 500	6,792	1.9%	2.4%	7.1%	18.4%	16.7%		MSCI EAFE (USD)	2,811	1.3%	2.5%	4.1%	22.2%	27.2%
	Russell 1000 Growth	4,802	2.1%	2.5%	9.1%	25.9%	19.3%		MSCI Europe ex UK (USD)	3,148	0.8%	2.9%	3.4%	21.8%	30.5%
	Russell 1000 Value	2,029	1.7%	2.0%	4.5%	10.4%	13.1%		MSCI Japan (USD)	4,726	1.5%	1.8%	6.8%	25.3%	22.5%
	Russell 2500	4,301	2.4%	2.4%	7.6%	12.7%	11.9%		MSCI UK (USD)	1,522	2.4%	3.3%	4.7%	23.6%	28.9%
	Russell 2000	2,513	2.5%	3.3%	12.0%	14.8%	13.9%		MSCI EM (USD)	1,389	2.0%	2.8%	10.0%	25.0%	31.7%
	Nasdaq	23,205	2.3%	3.2%	10.4%	26.9%	20.8%		MSCI Asia ex Japan (USD)	908	2.3%	3.0%	9.5%	25.2%	31.2%
Fixed Income		Current Yield	1WK	1MO	3MO	1YR	YTD	Commodities		Current	1WK	1MO	3MO	1YR	YTD
	U.S. Aggregate	4.2%	0.2%	1.3%	3.9%	6.4%	7.4%		Bloomberg Commodity Index	269	1.7%	3.6%	4.1%	12.3%	12.5%
	U.S. Govt/Credit	4.1%	0.2%	1.2%	3.7%	6.0%	7.1%		Crude Oil (USD/bbl)	\$61.5	6.9%	-3.5%	-4.5%	-8.7%	-10.2%
	U.S. 10 Year Treasury	4.0%	0.1%	1.5%	4.6%	6.2%	8.6%		Gold (\$/oz)	\$4,113.1	-3.3%	10.1%	22.1%	50.3%	56.7%
	U.S. TIPS (1-10YR)	3.8%	0.2%	0.4%	2.2%	7.0%	7.7%		Copper	\$512.3	3.1%	7.8%	-11.3%	17.7%	27.2%
	U.S. High Yield	6.7%	0.4%	0.1%	2.3%	8.2%	7.5%		Wheat	\$512.5	1.7%	-1.3%	-8.7%	-19.6%	-14.4%
	EM Bonds (USD)	5.9%	0.5%	0.7%	4.1%	9.6%	9.7%		U.S. Dollar	99	0.5%	1.1%	1.6%	-4.9%	-8.8%
	Municipal Bonds	3.6%	0.3%	1.2%	5.1%	4.2%	4.0%		VIX Index	16.4	-21.2%	1.2%	6.4%	-14.2%	-5.6%

Footnotes: Data is as of October 24, 2025.

Source: Bloomberg Finance LP, Verdenance Capital Advisors.

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