# Financial Markets This Week

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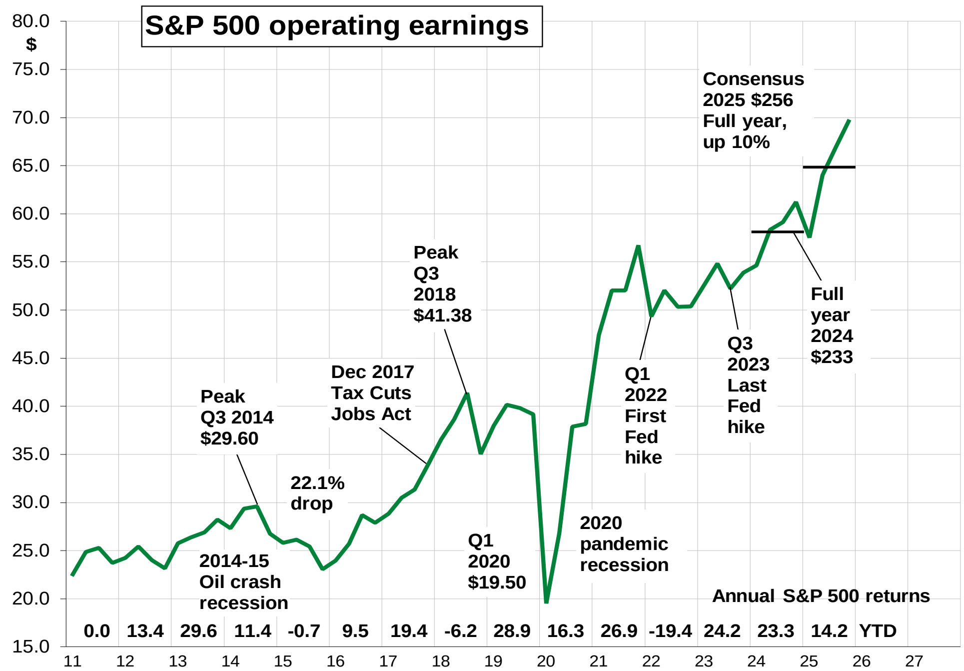
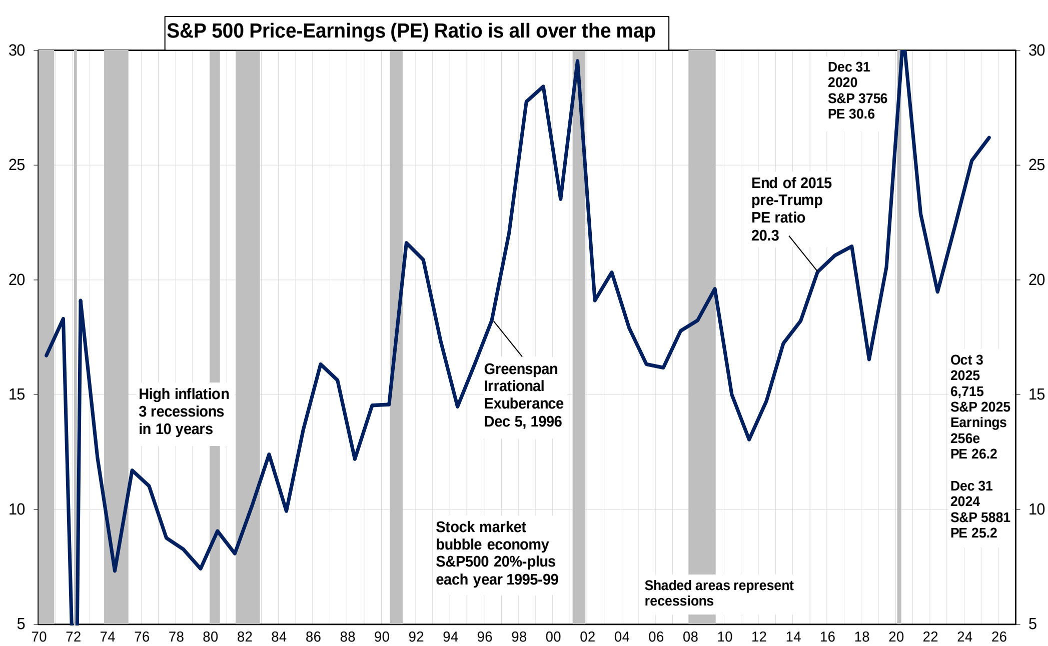
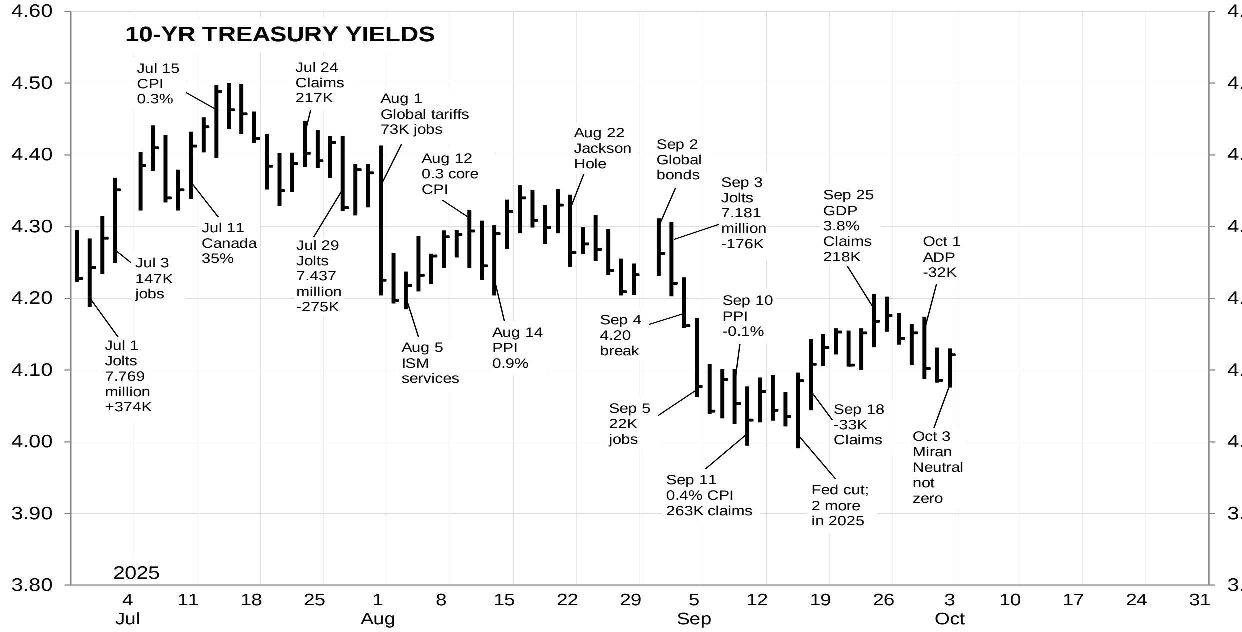
## EARNINGS STRONG




There is uncertainty about tariffs, the economy, and labor markets, but corporate earnings estimates never seem to waver so far this year when it comes to forecasting more profits to come. It is still early in the tariff-costs, guessing game, but earnings are still expected to rise about 10% for the full year 2025 versus 2024. And 2026 earnings estimates are so over the top, we couldn't graph them here with a straight face. 2026 full year operating earnings are supposed to increase 17.5%. No wonder the stock market continues to climb. Thinking crash? Corporate operating earnings were still rising into the stock market bubble 25 years ago, peaking in Q2 2000. The S&P 500 PE ratio is above 25 this year with a couple of quarters earnings reports left to go, and stocks were above 25 times earnings back during the 2000 bubble. Powell was drawn into answering a question on the stock market in Rhode Island saying they were highly valued. The PE ratio is high, but bulls say more earnings are on the way in 2026.



# INTEREST RATES



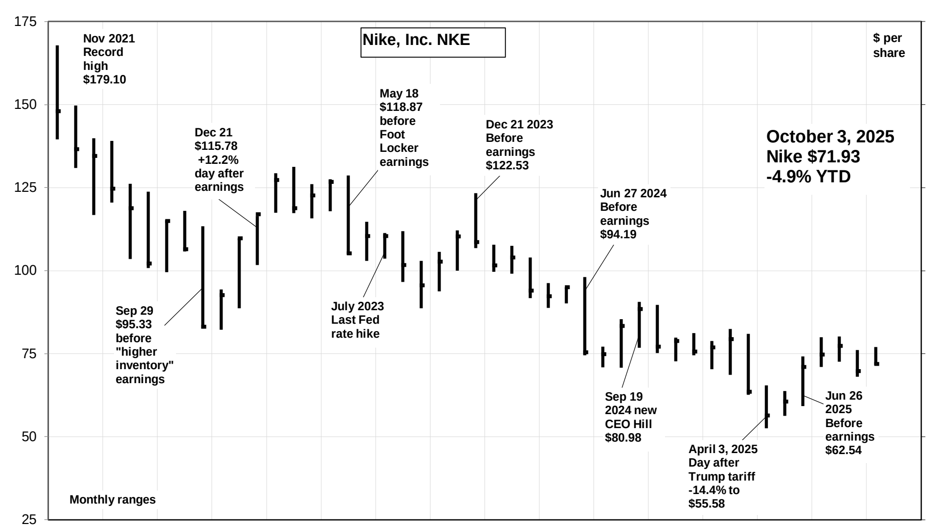

The Federal government shut down at midnight Tuesday and the S&P 500 went to a new record on Wednesday. Maybe stock traders like small government. There have been no government economic reports since the shutdown. ADP private payroll jobs fell 32K on Wednesday, and normally this would be an ahoy! recession ahead signal before Trump 2.0 changed the world, making it harder to read the economic tea leaves; this ADP economic stat will have to take the place of the real BLS payroll jobs report that was to be released Friday, October 3 for now. Stocks lifted at the 930am ET open on Friday, Fed gov Miran speaking minutes later, and some confusion about 945am ET release of S&P services PMI at 54.2 in September versus 54.5 in August, and 10am ET release of ISM services PMI “weaker” at 50.0 versus 52.0. New high for stocks on Friday closing up 14.2% YTD, bonds 4.12%.

## Nike, Inc. (NKE) down 4.9% YTD; increased product costs from tariffs

Not a whole lot of USA sneaker sales in the August 2025 quarter, okay, 3.219 million up 0.2% YOY. Total Nike brand footwear revenues in the August 31 quarter were $7.410 billion, about the same as last year. They reduced inventories somewhat from last year, but higher tariffs in North America kept the improvement modest. Wall Street liked the results, the stock jumping 6.4% to $74.20 on Wednesday, the day after earnings. Tariff costs $1.5 billion annualized versus a $1.0 billion estimate on the last earnings call.

**Nike Footwear Sales ($millions)**

| Quarter | North America | Europe (EMEA) | Greater China | Asia Pac LatAm |
|---|---|---|---|---|
| 8.31.2025 | 3219 | 2021 | 1109 | 1061 |
| 5.31.2025 | 3104 | 1893 | 1074 | 1114 |
| 2.28.2025 | 3132 | 1742 | 1282 | 1052 |
| 11.30.2024 | 3236 | 1982 | 1203 | 1234 |
| 8.31.2024 | 3212 | 1952 | 1246 | 1052 |
| 5.31.2024 | 3587 | 2067 | 1357 | 1226 |
| 2.29.2024 | 3460 | 1960 | 1547 | 1195 |
| 11.30.2023 | 3757 | 2186 | 1361 | 1303 |
| 8.31.2023 | 3733 | 2260 | 1287 | 1141 |

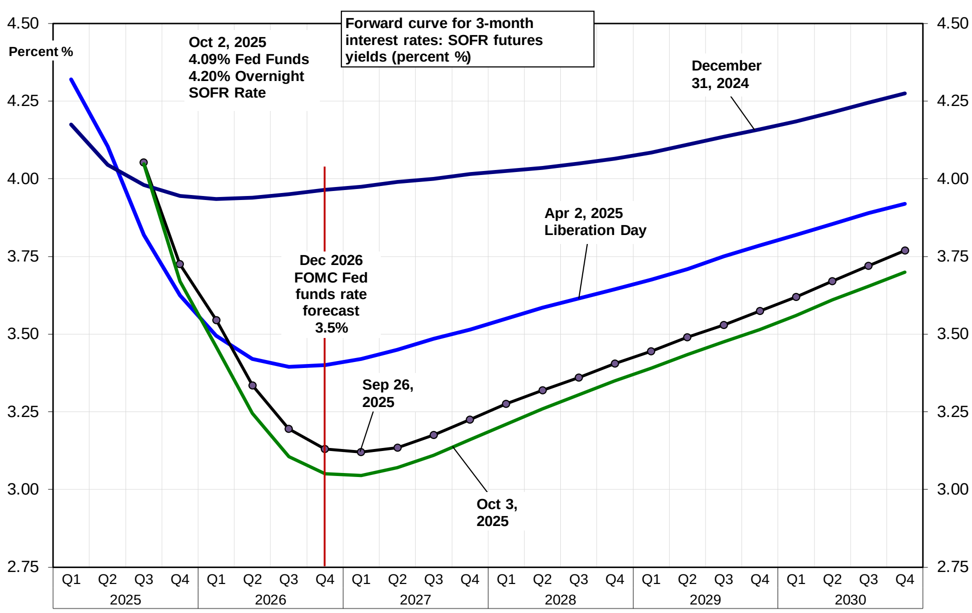


# FEDERAL RESERVE POLICY

The Fed meets October 28-29, 2025 to consider its monetary policy. Still waiting on the day that Trump 2.0 gets in there and turns the place upside down, which to many, retirees living on "fixed incomes," and others, means lowering the boom on interest rates and throwing savers under the bus. Fed gov Miran said Friday, "we've just experienced, you know, the biggest population shocks to both the upside and the downside in my lifetime and I think most people's lifetimes." Hold that thought. Miran muddled through saying the fallout would be good for bringing down housing inflation. We would think the reversal of migration flows of this magnitude from in to out is going to make it hard to judge what exactly constitutes economic weakness coming out of the labor market. Perhaps we will need to rely on a ratio like the unemployment rate, and not the increase in the labor force or employment, but here again is everyone going to accept a call from the BLS about their employment status due to the Administration's immigration policy. Savers under the bus? Miran said he did not think neutral rates were zero (whew!). For now, Miran's neutral is the lowest dot in the Fed forecast which is 2.75%.

| Selected Fed assets and liabilities | | | | | | Change |
|---|---|---|---|---|---|---|
| Fed H.4.1 statistical release | | | | | | from |
| billions, Wednesday data | 1-Oct | 24-Sep | 17-Sep | 10-Sep | 3/11/20* | 3/11/20 |
| **Factors adding reserves** | | | | | | to Oct 1 |
| U.S. Treasury securities | 4196.385 | 4201.212 | 4201.064 | 4200.916 | 2523.031 | 1673.354 |
| Federal agency debt securities | 2.347 | 2.347 | 2.347 | 2.347 | 2.347 | 0.000 |
| Mortgage-backed securities (MBS) | 2085.983 | 2099.215 | 2102.783 | 2102.846 | 1371.846 | 714.137 |
| Repurchase agreements | 0.000 | 0.001 | 0.001 | 0.012 | 242.375 | -242.375 |
| Primary credit (Discount Window) | 7.170 | 7.821 | 5.533 | 5.374 | 0.011 | 7.159 |
| Bank Term Funding Program | 0.000 | 0.000 | 0.000 | 0.000 | | |
| FDIC Loans to banks via Fed | 0.000 | 0.000 | 0.000 | 0.000 | | |
| Paycheck Protection Facility | 0.075 | 0.611 | 0.948 | 1.357 | | |
| Main Street Lending Program | 4.160 | 4.155 | 4.151 | 4.263 | | |
| Term Asset-Backed Facility (TALF II) | 0.000 | 0.000 | 0.000 | 0.000 | | |
| Gold stock | 11.041 | 11.041 | 11.041 | 11.041 | 11.041 | 0.000 |
| Central bank liquidity swaps | 0.040 | 0.052 | 0.051 | 0.049 | 0.058 | -0.018 |
| **Federal Reserve Total Assets** | 6637.4 | 6659.2 | 6659.4 | 6657.1 | 4360.0 | 2277.374 |
| ~~3-month Libor %~~ SOFR % | 4.20 | 4.13 | 4.38 | 4.39 | 1.15 | 3.050 |
| **Factors draining reserves** | | | | | | |
| Currency in circulation | 2412.488 | 2410.199 | 2409.267 | 2411.223 | 1818.957 | 593.531 |
| Term Deposit Facility | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| U.S. Treasury Account at Fed | 819.378 | 757.970 | 807.142 | 667.585 | 372.337 | 447.041 |
| Treasury credit facilities contribution | 2.029 | 2.029 | 2.029 | 2.029 | | |
| Reverse repurchases w/others | 10.179 | 29.172 | 13.963 | 29.400 | 1.325 | 8.854 |
| **Federal Reserve Liabilities** | 3657.806 | 3659.500 | 3639.013 | 3506.164 | 2580.036 | 1077.770 |
| **Reserve Balances (Net Liquidity)** | 2979.594 | 2999.692 | 3020.352 | 3150.913 | 1779.990 | 1199.604 |
| Treasuries within 15 days | 41.628 | 57.036 | 51.513 | 25.923 | 21.427 | 20.201 |
| Treasuries 16 to 90 days | 158.247 | 158.888 | 164.849 | 190.640 | 221.961 | -63.714 |
| Treasuries 91 days to 1 year | 489.002 | 459.386 | 458.924 | 458.699 | 378.403 | 110.599 |
| Treasuries over 1-yr to 5 years | 1414.656 | 1437.322 | 1437.262 | 1437.201 | 915.101 | 499.555 |
| Treasuries over 5-yrs to 10 years | 505.977 | 502.476 | 502.462 | 502.447 | 327.906 | 178.071 |
| Treasuries over 10-years | 1586.877 | 1586.104 | 1586.055 | 1586.006 | 658.232 | 928.645 |
| Note: QT starts June 1, 2022 | Change | 10/1/2025 | 6/1/2022 | | | |
| U.S. Treasury securities | -1574.394 | 4196.385 | 5770.779 | | | |
| Mortgage-backed securities (MBS) | -621.463 | 2085.983 | 2707.446 | | | |
| **March 11, 2020 start of coronavirus lockdown of country | | | | | | |

| Fed Policy-key variables | | | | | Long |
|---|---|---|---|---|---|
| | 2025 | 2026 | 2027 | 2028 | Term |
| Fed funds | 3.6 | 3.4 | 3.1 | 3.1 | 3.0 |
| PCE inflation | 3.0 | 2.6 | 2.1 | 2.0 | 2.0 |
| Core inflation | 3.1 | 2.6 | 2.1 | 2.0 | |
| Unemployed | 4.5 | 4.4 | 4.3 | 4.2 | 4.2 |
| GDP | 1.6 | 1.8 | 1.9 | 1.8 | 1.8 |
| September 2025 median Fed forecasts | | | | | |




25 bps rate cuts ahead? All but 3 bps is discounted for October 29. All but 4.5 bps is discounted for December 10.

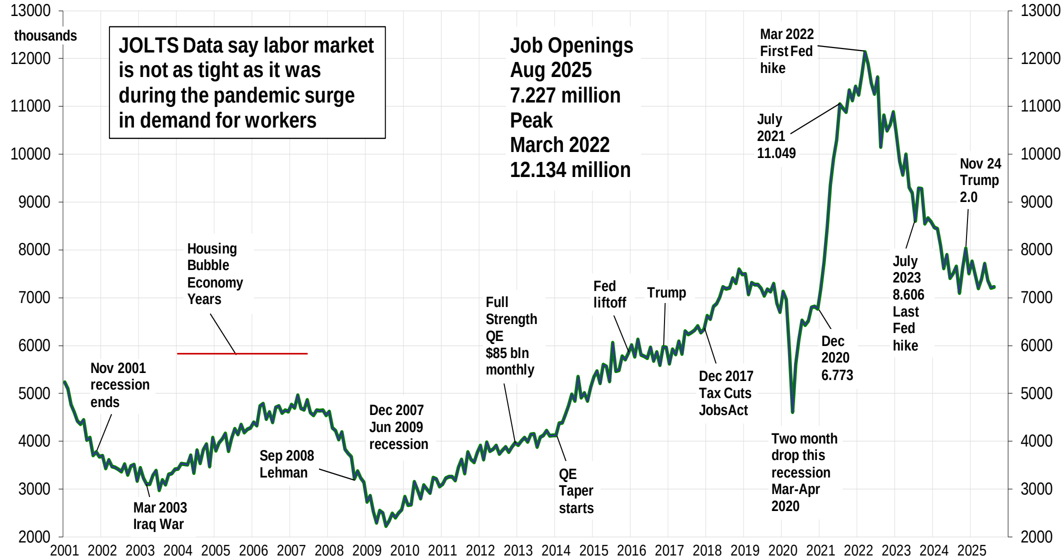
| Fed funds futures call Fed policy | | |
|---|---|---|
| Current target: October 3 -- 4.25% | | |
| Rate+0.17 | Contract | Fed decision dates |
| 4.030 | Nov 2025 | Oct 29* |
| 3.795 | Jan 2026 | Adds Dec 10* |
| *Not strictly true, Nov 2025 and Jan 2026 contracts could be two days at a new rate | | |

| Next up: September CPI inflation report Wednesday, October 15 at 830am ET | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Monthly | 2025 | | | | | | | 2025 | 2024 | | | | | | 2024 |
| % Changes | Aug | Jul | Jun | May | Apr | Mar | Feb | Jan | Dec | Nov | Oct | Sep | Aug | Jul | Jun |
| Core CPI inflation | 0.3 | 0.3 | 0.2 | 0.1 | 0.2 | 0.1 | 0.2 | 0.4 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 | 0.1 |
| Core PCE inflation | 0.2 | 0.2 | 0.3 | 0.2 | 0.2 | 0.1 | 0.4 | 0.3 | 0.2 | 0.1 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 |
| Core PCE YOY | 2.9 | 2.9 | 2.8 | 2.8 | 2.6 | 2.7 | 3.0 | 2.8 | 3.0 | 3.0 | 3.0 | 2.8 | 2.9 | 2.8 | 2.8 |
| Core CPI YOY | 3.1 | 3.1 | 2.9 | 2.8 | 2.8 | 2.8 | 3.1 | 3.3 | 3.2 | 3.3 | 3.3 | 3.3 | 3.2 | 3.2 | 3.3 |

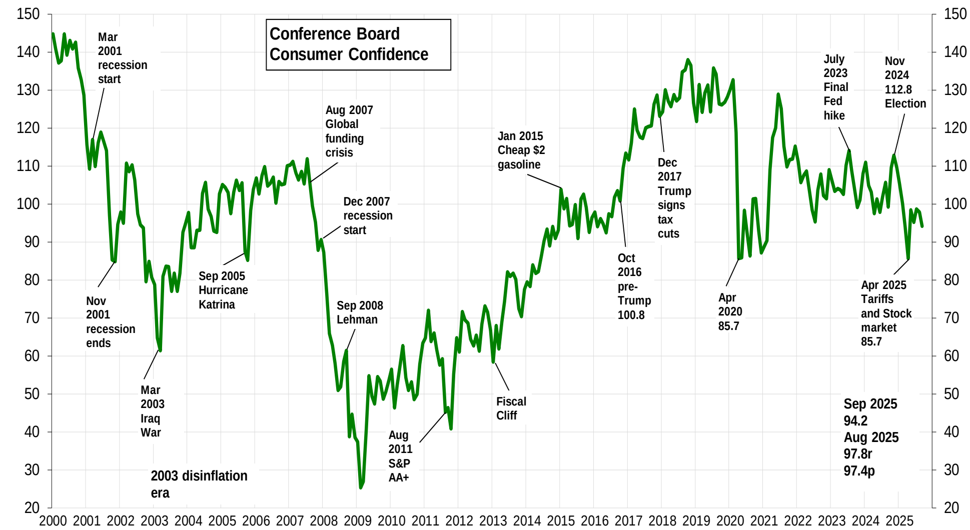
# OTHER ECONOMIC NEWS

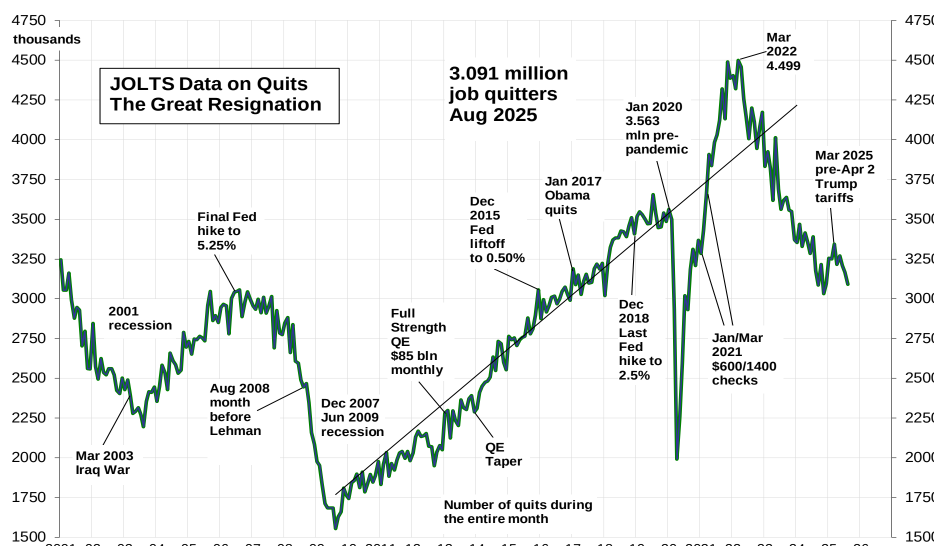
## Consumer confidence and Jolts (Tuesday)

Breaking economy news. Last call for BLS economic data with the Jolts release before the midnight Federal government shutdown. Job openings provide a clear as mud picture of where current labor market conditions are currently or where they may be headed. Fewer people are quitting their jobs so maybe there is a bit of caution. In other data, also at 10am ET, consumer confidence fell, but consumer spending is quite strong, so not very interesting how the public is feeling.




Net, net, consumer confidence fell back in 3.6 points to 94.2 in September which is a middle-of-the-road reading that gives bulls or bears little to gauge the economic outlook going into the final quarter of the year. Problem number one is consumers are spending their hearts out with GDP running over 3 percent this quarter, so how confident they are or are not seems besides the point. Fed officials are desperate for news on whether the jobs market is slowing down, but here again there is little to go on even if 26.9% said jobs were plentiful in September, somewhat cooler than 30.2% in August. Stay tuned. If the Federal government closes down tonight and markets are forced to monitor the economy



using soft data reports like consumer confidence, investors will literally be flying blind in trying to assess the strength of business and economic conditions. Fed officials need to get ready for the uncertainty and bring in more boxes of darts to throw at the dart board because real economic data releases are about to go dark. Bet on it.

More Net, net, the labor market is holding steady with 7.2 million job openings at the end of August, warts and all, as the openings are not all real with many companies posting in order to keep up the illusion that they are a successful vibrant firm filled with opportunity. Look under the hood however and we find a steep drop in Construction job postings and of course employment opportunities in the Federal government fell 61 thousand to just 77 thousand at the end of August. The labor markets are holding for now, but the clock is ticking and even more Federal workers may lose their jobs at midnight tonight. Stay tuned.

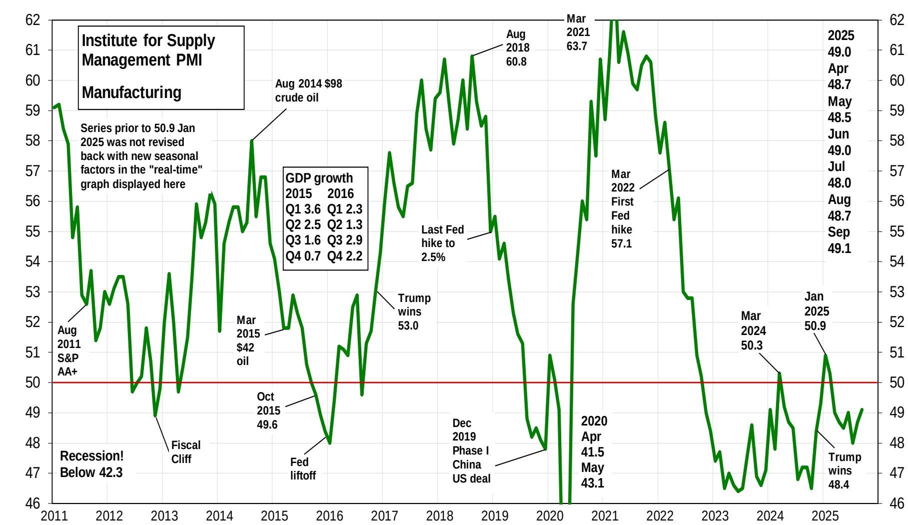
## ADP no jobs report, ISM mfg (Wednesday)

**Private payroll jobs: ADP versus BLS**

| thousands | Jan 25 | Feb 25 | Mar 25 | Apr 25 | May 25 | Jun 25 | Jul 25 | Aug 25 | Sep 25 |
|---|---|---|---|---|---|---|---|---|---|
| ADP | 186 | 84 | 147 | 60 | 29 | -23 | 104 | -3 | -32 |
| BLS | 79 | 107 | 114 | 133 | 69 | -27 | 77 | 38 | |

Breaking economy news. ADP jobs data first up at 815am ET, the only game in town with Friday's payroll jobs report not happening after the Federal government shutdown at midnight last night. ADP private payroll jobs fell 32K and that was all the markets needed to start thinking recession. So many things have gone wrong for recession forecasters lately. The unemployment rate jumped to 4.3% last year in July, enough to scare Powell into an aggressive first move 50 bps rate cut from 5.5% on September 18, 2024. Now a drop in ADP private employment confirms a recession, but Trump 2.0's immigration policy is making this finding difficult to interpret. The Census Bureau has noted late last year that the population rose 3.3 million from 2023 to 2024 (1.0%), but migration was 2.8 million of the increase. What if immigration swings into reverse, noting that migration had increases as well in 2022 (1.7 million) and 2023 (2.3 million).

Net, net, early estimates from private sources now indicate the economy is going backwards not forwards. The Trump tariffs or something has suddenly slammed the brakes on the labor market in September because without jobs growth the economy's engines will suddenly go into reverse and risks bringing growth and prosperity to a standstill. Larger companies that are able to withstand the economic agenda coming out of Washington are still hiring, but smaller and medium sized companies with less than 500 employees are increasingly unable to weather the storm with payroll costs at current levels. Time will tell if the labor market freeze is a supply problem or a gigantic economic problem that signals a recession



given the Administration's draconian efforts to reduce the immigration flows that have contributed mightily to economic growth in recent years. Stay tuned. No wonder the White House wants the Fed to cut rates; the economic agenda from Washington is wrecking the economy. With the Federal government shutdown there will be no all-important monthly jobs reports, but the early indication from a private survey is that the economy's jets have gone into reverse and for the labor market it is strictly dive, dive, dive.

**ISM manufacturing index**

| | Sep 25 | Aug 25 | Jul 25 | Jun 25 |
|---|---|---|---|---|
| PMI index | 49.1 | 48.7 | 48.0 | 49.0 |
| Prices | 61.9 | 63.7 | 64.8 | 69.7 |
| Production | 51.0 | 47.8 | 51.4 | 50.3 |
| New orders | 48.9 | 51.4 | 47.1 | 46.4 |
| Supplier deliveries | 52.6 | 51.3 | 49.3 | 54.2 |
| Employment | 45.3 | 43.8 | 43.4 | 45.0 |
| Export orders | 43.0 | 47.6 | 46.1 | 46.3 |
| Import orders | 44.7 | 46.0 | 47.6 | 47.4 |

Net, net, the ISM manufacturing index rose slightly in September to 49.1 from 48.7 in August with the only surprise being that production jumped 3.2 percentage points back over the 50 level and is growing again. We will find out with the Federal Reserve's industrial production report for September due out on October 16. Manufacturers continue to complain about the Administration's tariff policy that is reducing orders, and absorbing these costs has to be done by worker layoffs. It is not a surprise that employment in manufacturing remains at recessionary levels, and we cannot emphasize enough that orders slipping back into contraction is a huge negative for industry. Tariffs are a time bomb for the manufacturing industry which so far has a very long fuse but eventually it will go off and may well bring the entire economy down with it. Stay tuned. Maybe production is up this month because orders were up the month before, but orders are leading, and orders are saying business activity is headed back down.

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