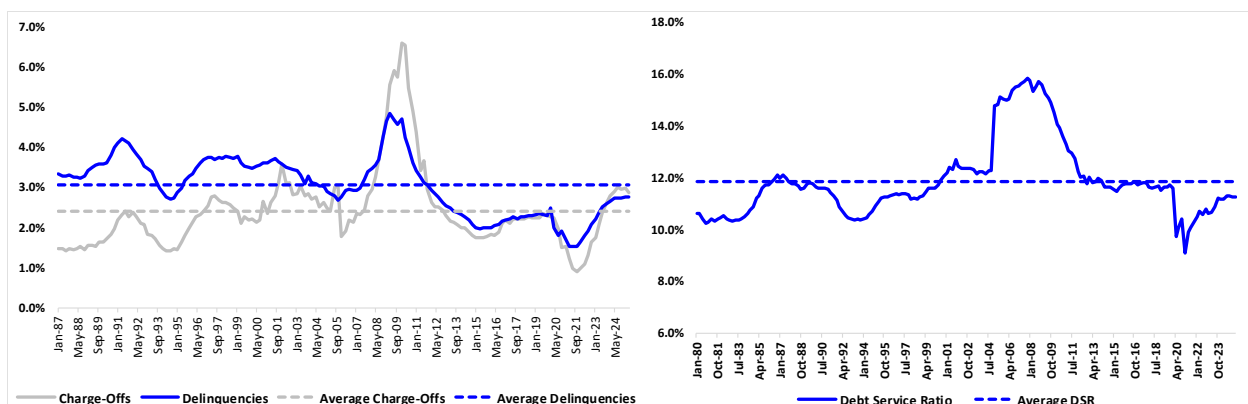


The rally took a breather last week; the S&P 500 finished down 3.7%. Stocks started to roll over after Thursday's October Challenger Report showed that job cuts increased significantly last month, well above the level economists had forecasted. This reignited fears regarding a rapidly deteriorating labor market and implications for consumer spending behavior and economic growth. The job market softness wasn't new news, but it appears the magnitude of cuts caught investors by surprise. It's been characterized as a "slow to hire, slow to fire" employment backdrop. The market may now be recalibrating towards an environment more accurately described as "slow to hire, quick to fire," moving forward.

There's recently been an absence of economic data given the government's prolonged shutdown, which is now the longest in history. Thus, investors likely have heightened sensitivity regarding any private sector releases showing material weakness. Furthermore, given the rally's sharp ascent (basically a straight march higher since the April lows), we were likely due for a short-term pullback. While we could see additional volatility over the near-term, I don't believe last week's weakness was the beginning of a severe market correction. Corporate earnings and guidance are extremely robust, the growth outlook is very positive, and additional rate cuts from the Fed are likely at upcoming meetings.

Nevertheless, market participants are keeping a close eye on the health of American consumers given labor market concerns. The good news is that consumers appear to be in relatively solid shape. Credit losses have normalized near historical averages while debt service levels are still very manageable.

U.S. Consumer Loan Credit Metrics & Household Debt Service



Note: Household debt service ratio represents household debt service payments as a percentage of disposable personal income

Source: Federal Reserve Bank of St. Louis

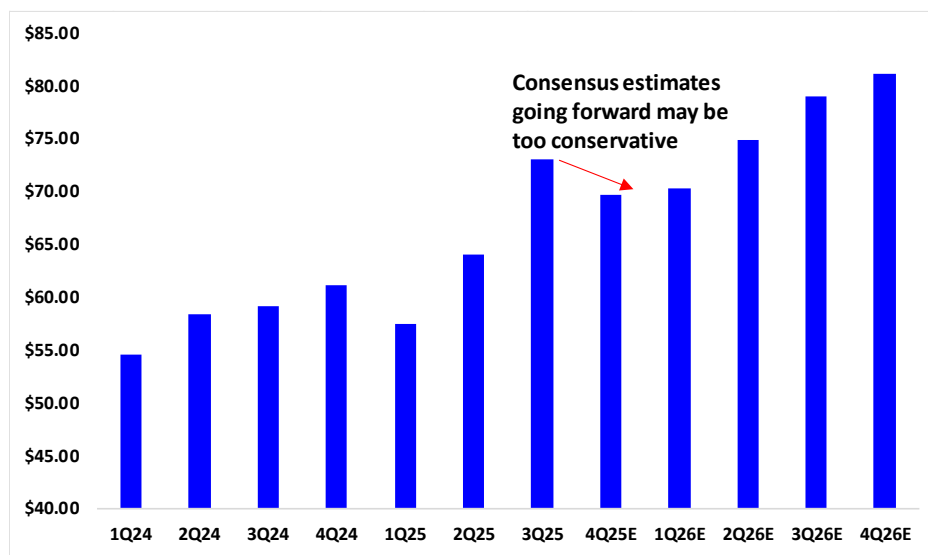
Furthermore, activity reported by the major credit card companies suggests aggregate consumer spending trends remain positive. In essence, despite the barrage of negative headlines, the totality of the underlying data suggests the American consumer is hanging in there, which is a relief considering it accounts for roughly two-thirds of the U.S. economy.

As the government shutdown has dragged on for well over a month, concern regarding its potential economic effect has intensified. White House economic advisor Kevin Hassett even predicted that fourth quarter GDP growth could be negative if the shutdown remains in place for much longer. Fortunately, the Senate seemingly reached a bipartisan agreement to reopen the government late on Sunday, suggesting the ultimate economic impact from the current shutdown may be relatively modest. Markets cheered the news – equity futures jumped on Sunday night which was followed by solid gains once stocks opened on Monday.

Political noise is nothing new; it's become the rule versus the exception as partisan battles regarding budgets, spending limits, and tax policy have only intensified. Short-term volatility resulting from these events has historically presented attractive buying opportunities for long-term investors. While the market impact from the current shutdown has been mild so far, I also don't believe there's likely to be any long-lasting economic repercussions this time around. Based on the fact that stocks are still within 3% of recent highs, it appears the market has come to the same conclusion.

With DC's latest round of drama hopefully abating soon, we may be set up for a meaningful rally as 2025 comes to a close; seasonal patterns are generally favorable into year end. Furthermore, I believe earnings estimates over the immediate term may be too conservative. After companies crushed forecasts during the third quarter, consensus estimates are now predicting a sequential earnings declining during Q4, which doesn't make much sense from my perspective. I believe we're likely to either see forward estimates raised meaningfully or another quarter with results that far surpass estimates (perhaps a combination of both). Either way, this creates a positive near-term tailwind for stocks as strong earnings growth continues to fuel this bull market to new highs.

S&P 500 Quarterly Earnings: 2024-2026



Note: consensus estimates from 4Q25-4Q26

Source: S&P Global

Andrew P. Kerai, CFA®, Chairman & Managing Partner
Capital Ideas, Inc.

Disclaimer

The information presented is for educational purposes only and is believed to be factual and up-to-date. All expressions of opinion reflect the judgment of the author(s) as of the date of publication and are subject to change. Nothing in this commentary should be construed as investment advice and does not take into consideration your specific situation. All investments involve risk. Past performance does not guarantee future results. Advisory services offered through Capital Ideas, an investment adviser registered with the U.S. Securities and Exchange Commission.