

Overview: Whipsaw week. “It was the best of times, it was the worst of times..” and with all due respect to Charles Dickens, “it was the age of artificial intelligence, it was the age of foolishness (er China threatening to restrict rare earths and US threatening triple digit tariffs on China), it was the epoch of belief (uh speculation), it was the epoch of incredulity (uh short selling).”

The ongoing rally was going gangbusters and then Chinese President Xi decided to impose rare-earth materials restrictions only to have Trump retaliate with the threat of triple digit tariffs and cancellation of a meeting with President Xi at the APEC conference of Oct 31-Nov 1. Stocks were up 0.2% for the week on the S&P 500 before the re-emergence of policy conflicts between the US and China. The S&P500 ended down -2.4% while the NASDAQ Composite fell -2.5% and the Dow Jones Industrial Average fell -2.7%. All the major indices hit new ATH's during the week. All sectors fell but Consumer Staples (XLP, +0.1%) and Utilities (+1.5%). Retailers fared worst (XRT, -6.95%) with Energy 2nd worst (XLE, -4.15%). AI plays hit new highs during the week but many reversed lower Friday on the US/China news. For the week most AI and AI adjacent plays fared reasonably well but E&C player Mastec (MTZ, -9.36%) was hit hard and Taiwan Semiconductor also pulled back (TSM, -4.0%). Infrastructure PLUS does not own transport issues at the moment but rail play, Union Pacific (UNP, -4.8%) was indeed derailed on the week. Vertiv (VRT, +5.6%), Arista Networks (ANET, +5.9%), and Advanced Micro Devices (AMD) jumped +24% Monday on a multi-billion deal with OpenAI and ended the week up +30.5%. Rare-earths plays such as MP Materials soared +8.37% on Friday. The US 10-year fell 6bps w/w, to 4.06%. But S&P500 futures were jumping Sunday night +1.2%, Nasdaq futures vaulting 1.6% and Dow Jones futures climbing +0.7% on TruthSocial comments posted by President Trump: “Don’t worry about China, it will all be fine! Highly respected President Xi just had a bad moment. He doesn’t want Depression for his country, and neither do I. The U.S.A wants to help China, not hurt it!!!”.

Performance Summary: Aside from the rare earths and tariff drama the most significant announcement last week came out of the OpenAI developers conference. On Monday, AMD and OpenAI announced a multi-year multi tens of billions of dollars deal that analysts expected would total over \$100B over the next several years which should benefit the entire AMD ecosystem. AMD shares jumped on the news and despite the China-US spat on Friday still finished the week ahead over +30%. The US Federal Government remained closed as Senate votes failed. On the geopolitical front Hamas and Israel reached an apparent peace deal.

The pullback Friday did not look “normal and natural” Market indices remain in confirmed uptrend and remain stacked in normal relationships with the 10dma >21ema >50dma >200dma but the sharp pull back Friday put the S&P500 -1.5% below the 21-day and just 0.3% above the 50day. Should Sunday night futures hold the S&P500 pull back will look closer to a more “normal” pull back within an uptrend.

Among growth and “risk-on” ETFs, the Innovator IBD 50 ETF (FFTY) gained +0.8% w/w but shed -3.85% on Friday. The Software Sector (IGV) dropped -2.4% for the week and Semiconductors (SMH) sold off -3.5% due to a -5.9% route on Friday.

The US Federal Government remained closed amid another failed Senate vote. The BLS said it would publish the September CPI report on 25Oct just in time for the FOMC meeting scheduled for Oct 28-29.

Despite all the drama of late last week, at this point, Trump and President Xi still expected to have a side meeting at the Asia-Pacific Economic Cooperate (APEC) Conference in S. Korea at the end of October and lay the groundwork for a 5th round of US-China trade talks.

Vacuum of economic data due to government shutdown so no September employment data yet. Mixed economic data. Carlyle estimated that US employers added just 17,000 jobs in September. This compares to ADP estimates of private payroll data falling 32,000 in September after a sharp downward revision for August which also showed a contraction. GDP Now forecast from the Atlanta Fed still showing +3.8% for Q3 as of 7Oct. FOMC minutes last week showed significant divergence of views on further Fed rate cuts.

Key events for the week ahead: Monday is a big day. Elon Musk, CEO of Tesla said that full self-driving version 14 will be announced though it may be pushed to Tuesday per a release on Tesla’s X account. OpenAI is scheduled to hold a developers’ conference and the US Senate is scheduled to vote on a ST bill to fund the Federal Government so it can reopen. Nvidia and Taiwan Semiconductor are scheduled to announce September sales on Thursday. The US Senate is expected to vote on a Federal Government funding bill on Monday.

Stock Market Today/Week: Oct 3, 2025

Index	Level	Day change	Week Change
S&P 500	6,552.51	-2.71%	-2.43%
S&P500 eq wt	185.15	-2.25%	-3.21%
Nasdaq Composite	22,204.43	-3.56%	-2.53%
Dow Jones Industrial Avg.	45,479.61	-1.90%	-2.73%

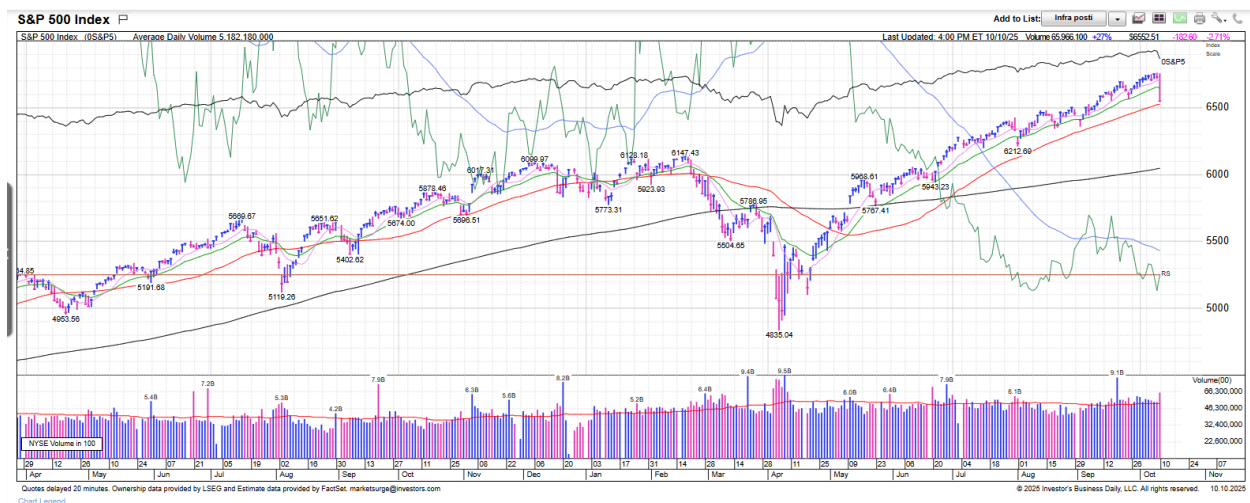
US 10 year

4.05%

-7bps

Source: Factset

All three market averages sliced below the key 21-day exponential moving average and now threaten the continuation of the power trend should a potential bounce back fail. Recall that history suggests that nothing good happens when stocks are trading below the 21-day exponential moving average. Further, the historical precedent suggests that most pull backs of the magnitude seen on Friday take some time to resolve. Futures markets are suggesting that buyers of the dip are at the ready. While we will have to see how the current situation plays out, our thoughts on the current set-up is that there is no historical precedent for two future powers with interlocking trade relationships jockeying for advantage to the extent we are seeing now. The technology behind AI, which is ushering in another industrial revolution seems unstoppable longer term. As such the current volatility could well end up being short term in nature. Still risks could go towards either a snap-back rally or a deepening rift with accompanying sharp gains or further losses.



Source:

MARKET SURGE
BY INVESTOR'S BUSINESS DAILY

Bottom line, looking ahead the AI build out is not likely to go away any time soon with years yet to run. Earnings season likely to see renewed focus on hyperscaler capex and ROI along with tariffs.

This Past week bull-bear debate:

Bulls: AMD-OpenAI multi-year deal to generate over \$100B in revenue and provide further tailwind to the AI trade. Futures pricing in at least two more rate cuts now over 90% per FedWatch - CME Group. Preliminary consumer expectations ahead of expectations and year ahead inflation expectations moved lower. Q3 earnings guidance for S&P500 companies shows the largest number of companies issuing positive guidance since the 2Q of 2021. Delta Airlines (DAL) beat suggested consumer in solid shape given booking and premium revenue trends. Dell Computer (DELL) raised LT guide on much stronger than expected AI growth and increased its top-line outlook by 3.5 pp and flagged a \$17EPS by 2030 from \$9.53E EPS for 2026 or 15-16% CAGR. According to Morgan Stanley, an estimated \$100B in US equities were purchased over the last month. Soft oil prices help further dampen inflation expectations.

Bears: Sudden re-emergence of US-China trade tensions. A report from The Information flagging profitability concerns on renting out Nvidia GPUs. Softening labor market with just 17k jobs added in September per a report from Carlyle. Divergence of opinions on future Fed rate cuts per FOMC minutes. Year ahead inflation expectations ticked higher per a report from the NY Fed. Spillover effects from US Federal Government shutdown such as delays of thousands of flights due to a shortage of flight controllers not getting paid. Persistent weak homebuyer demand and lack of improvement in housing market fundamentals resulting in negative impacts.

Upcoming calendar:

10/13 Oracle World AI conference begins and lasts through Oct 16. Earnings reports from FAST WAFD

10/14 Earnings reports from WFC GS JPM. Federal Government restart vote. Fed speeches.

10/15 Fed speeches.

10/16 Earnings from TSM IBKR HRI. Initial jobless claims for W/E 10/11: 232.5 expected. PPI for Sep +2.6% y/y headline, +2.7% y/y ex food and energy. Fed speeches. NAHB housing index for Oct.

10/17 Housing starts for Sept: 1,320K expected, up 0.20% m/m.

What to do now: Pausing on new buys given headline risks.

Appendix:

What kind of positive technical confirmations for a power trend per IBD ("Webby's rules"):

1. Follow through day (FTD)

2. Subsequent FTDs.
3. Close above 21-day exponential moving average (EMA).
4. Low above 21EMA.
5. 3 consecutive days with low above 21EMA.
6. Close above 50-day moving average (DMA).
7. Low above 50dma.
8. 3 consecutive days with low above 50dma.
9. Close above 200dma.
10. Low above 200dma.
11. 3 consecutive days low above 200dma.
12. 21ema moves above 50dma.
13. 21ema moves above 200dma.
14. 50dma moves above 200dma.

In the current rally as of 10/10/2025 all condition have been met except #3 has been violated.

Make it a good week,

John D. Edwards, CFA

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Disclaimer

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