

Market Outlook – October 2025

In the US, the Federal government is shut down. This is not a new story, but this time there is not a clear path to resolution. This budget battle has left many government services temporarily suspended with 40% of the remaining federal workforce, about 750,000 people, expected to be put on unpaid leave. Republicans currently control both chambers of Congress, but the Senate is short of the 60 votes needed to pass the spending bill, which gives opposing Democrats some negotiating power. Democrats want to see an extension of expiring tax credits which make health insurance cheaper for millions of Americans, and for a reversal of Trump's cuts to Medicaid, a government healthcare program used by millions of elderly, disabled and low-income people. President Trump has indicated that he is open to negotiations over healthcare subsidies and spending cuts to government health agencies with Democrats – but only after the government reopens.

In France, the Prime Minister role is up for grabs again after Sébastien Lecornu became the fourth Prime Minister in 13 months to resign – after only 26 days on the job! Lecornu was appointed by French President Emmanuel Macron in hopes that the new government under Lecornu could pass a fiscally austere budget to combat the nation's burgeoning debt. "New" government appointees that served in the prior government stymied hopes of significant change. Like the US, the European Central Bank (ECB) has recently cut rates in hopes of stimulating growth which could offset the need for fiscal austerity. Though a standard economic practice, the results are not a guarantee and the French people are demanding change now.

Today is the two-year anniversary of the Hamas attack on Israel that prompted the war in Gaza. At present, Israel and Hamas have started indirect talks to discuss President Trump's 20-point peace plan. Both sides are under pressure to agree to a ceasefire, but resolution seems difficult as Hamas is hesitant to disarm and Israel is cautious to withdraw troops. Possible concessions going into discussions include Hamas agreeing to release its remaining hostages in exchange for a release of Palestinian prisoners held by Israel, but for now, those are just proposals not actual agreements. President Trump is pressing for swift negotiations but we must remember that the past two years of devastation have been part of a decades-long struggle over land and personal rights and will not likely be resolved simply because outside forces desire it.

So, once again, geo-politics are leading the headlines with conflict and concern. Markets, on the other hand, are steadily marching forward, reaching new highs. Strong market performance can be a tempting environment to stretch into riskier investment strategies, but this is a good time to remember the words of Winston Churchill: "Those that fail to learn history are doomed to repeat it." Investor confidence is surging, which is a possible warning sign that markets may be overbought. Exponential growth in AI is exciting (and a little terrifying!) and is driving the markets ever higher. Cash flows are strong and projections are good but AI is literally creating the future and thus earnings expectations are really earnings aspirations. This sounds a lot like the dot-com bubble in the late 1990s. Valuation is measured by Current Price divided by Forward Earnings. In the 1990s, Price was the bubble that eventually burst. Today, Earnings could be the bubble. Either way, bubbles do burst.

So, while we want to participate in growth, we must also remember that our long-term objective is to secure risk-adjusted returns to meet your goals. In weak markets this means finding the best returns possible while not taking on undue risk. In frothy markets such as this, it means considering the risks and not getting greedy lest we fall when the bubble bursts.

There is much to watch in US politics, government operations, shifting Fed policy, and economic strength. Geo-politics in Europe, Japan, and the Middle East are also commanding our attention. These macro forces have significant influence on the stock and bond markets and we must remember to watch all areas, not just the headlines of the day. We constantly evaluate client portfolios in light of both micro and macro forces. We will be in touch with relevant broad updates and will reach out to you specifically should adjustments to your portfolio be needed. Please do not hesitate to reach out to us with questions or concerns.

Warm regards,

A handwritten signature in blue ink that reads "Priscilla". The signature is fluid and cursive, with a long horizontal stroke extending from the end.

Priscilla N. Gilbert, CFP®
President