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Financial Week Newsletter

Summarized by Smith Shellnut Wilson

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"Never let your sense of morals get in the way of doing what's right." Isaac Asimov

MARKETS

Macro Recap: Markets digested a busy week of economic data that included inflation reports, retail sales, and housing activity. While both inflation reports came in hotter than expected, investors largely looked past the data as concerns surrounding leverage in portions of the AI and technology sectors prompted a flight to safety into U.S. Treasuries.

The inflation data was undeniably strong. September CPI increased 0.6% for the month and 3.7% year-over-year, slightly exceeding expectations. Producer prices surprised even more, with PPI rising 6.3% from a year earlier, the largest annual increase since 2022. Core producer prices, which exclude food, energy, and trade services, also came in above forecasts, suggesting price pressures were not limited to energy alone.

Despite hotter inflation readings, Treasury yields fell as investors focused instead on rising market volatility and concerns about leverage in AI-related investments. Demand for safe-haven assets lifted Treasury prices and lowered yields through much of the week.

Consumer spending remained a source of economic strength. Retail sales exceeded expectations, highlighting continued resilience among consumers despite elevated prices and borrowing costs. Meanwhile, existing home sales remained subdued as higher mortgage rates and affordability challenges continued to weigh on housing activity.

Equity Market Recap: Equity markets experienced a volatile week as investors balanced strong economic data against concerns surrounding valuations and leverage within parts of the technology sector. AI-related companies were at the center of the market's attention, contributing to broader risk-off sentiment at various points during the week.

The DJIA fell from 52,002 to 51,655, a decline of approximately 0.7%. The S&P 500 fell from 7,812 to 7,659, down about 2.0% for the week, while the Nasdaq led the downturn, falling from 27,366 to 26,140, down about 4.5%. Technology and growth-oriented stocks were among the weakest performers as investors reduced exposure.

Fixed Income and Rates Recap: Treasury markets rallied despite hotter-than-expected inflation data, as investors focused on broader market risks and sought the safety of government bonds amid volatility in AI-related and other risk assets. The 2-year Treasury yield fell from 4.79% to 4.71%, while the 10-year Treasury yield declined from 5.24% to 5.07%. Longer-term rates moved even lower, with the 30-year Treasury yield ending the week near 5.44%. The move suggested investors were willing to look through the stronger CPI and PPI reports and instead focus on rising market uncertainty and slowing momentum in some of the market's highest-valued areas.

INDICES

	Oct 12 Open	Oct 16 Close	Weekly Change	Dec 31 2025	YTD Change
DJIA	51,655	52,002	0.7%	48,063	8.2%
S&P 500	7,812	7,659	-1.9%	6,846	11.9%
NASDAQ	27,366	26,140	-4.5%	23,242	12.5%
Russell 2000	2,807	2,721	-3.0%	2,482	9.6%
KBW Bank Indx	170.7	169.0	-0.9%	164.0	3.1%
Bitcoin	$83,538	$81,088	-2.9%	$87,648	-7.5%
Oil (WTI)	$92.49	$101.41	9.6%	$57.42	76.6%
Gold	$4,186	$4,166	-0.5%	$4,319	-3.6%
Prime	7.00	7.00	0.00	6.75	0.25
Effective Fed Funds	3.88	3.88	0.00	3.64	0.24
3m Tbill	4.14	4.16	0.01	3.63	0.53
2yr UST	4.79	4.71	-0.08	3.47	1.24
10yr UST	5.24	5.07	-0.17	4.17	0.91
2-10yr UST Spread	44	36	-8	69	-33
2y AAA Muni/2y UST	69.8%	66.2%	-3.6%	70.3%	-4.1%
10y AAA Muni/10y UST	75.9%	73.8%	-2.1%	65.4%	8.4%
5yr Inflation Forecast	2.37	2.39	0.01	2.27	0.12

Week Ahead

- **Monday:** No major reports
- **Tuesday:** Housing starts, Pending home sales
- **Wednesday:** Mortgage applications
- **Thursday:** LEI
- **Friday:** Manufacturing PMI, U of M consumer sentiment

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