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### Weekly Market Guide

**U.S. equities are poised for a potentially pivotal week following last week’s breakout, driven by softer inflation data.** The S&P 500 has closed above 6800 for the past two sessions—marking a historic first—and surpassed 6900 intraday. For now, the path of least resistance remains higher, with strength concentrated in risk-on areas.

A key driver of the recent melt-up appears to be growing investor confidence in further rate cuts. Softer inflation data may embolden the Fed to continue easing, which could provide additional fuel for equities. This week, three major events are likely to influence market direction:

1. **Geopolitical Developments:** President Trump is expected to meet with Chinese President Xi on Thursday. While headlines have been volatile—oscillating between threats and de-escalation—both sides appear motivated to reach a favorable outcome. This dynamic has helped limit pullbacks to modest drawdowns.
2. **FOMC Meeting:** The Fed cut rates for the second time this year today, with another cut projected for December (currently ~70% odds of a cut). A more accommodative monetary policy could continue to support equity markets as investors gain more confidence in further rate cuts.
3. **Earnings Season:** Fundamentals are back in focus as 172 companies report this week, representing roughly 42% of the S&P 500’s market cap—nearly half of which comes from the Technology and Communication Services sectors. So far, earnings surprises have been robust, and estimates are trending higher, which could further support equity prices.

**Near-term Outlook:** That said, current levels reflect a lot of optimism, which leaves it vulnerable to some near-term volatility. Since the rally began in late April, the S&P 500 has yet to experience a drawdown greater than 3%—an unprecedented stretch of buying enthusiasm. Valuations remain elevated, and technical divergences are forming—such as S&P 500 stretched above 200-DMA, RSI failing to make a higher high, and a relatively weak A/D line. While divergences aren’t precise timing tools, the increasing number of divergences increases the market’s vulnerability to a modest near-term pullback.

**In sum:** Our longer-term bias remains bullish, and we expect any consolidation or pullback to be modest. AI-driven investments continue to fuel earnings and sentiment, while upcoming monetary and fiscal stimulus and a resilient economy should help offset current labor market softness. While risks are evolving, we believe things would need to shift significantly—such as trade tensions, geopolitical conflict, credit issues, or a sharp reversal in AI spending—to derail the longer-term outlook. For now, strong technical momentum and a growing list of catalysts suggest the market continues to climb the proverbial wall of worry.

Equity Market Indices	Price Return	
	Year to Date	12 Months
Dow Jones Industrial Avg	12.1%	12.5%
S&P 500	17.2%	18.3%
S&P 500 (Equal-Weighted)	8.6%	6.3%
NASDAQ Composite	23.4%	28.3%
Russell 2000	12.4%	11.7%
MSCI All-Cap World	20.5%	19.5%
MSCI Developed Markets	25.1%	19.5%
MSCI Emerging Markets	30.4%	23.3%
NYSE Alerian MLP	0.0%	4.2%
MSCI U.S. REIT	1.2%	-4.9%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	30.2%	36.1%
Communication Svcs.	27.7%	10.2%
Utilities	18.9%	2.4%
Industrials	17.3%	8.1%
<b>S&amp;P 500</b>	<b>17.2%</b>	-
Financials	9.5%	12.9%
Consumer Discretionary	6.2%	10.4%
Materials	6.1%	1.7%
Health Care	5.6%	9.0%
Energy	2.3%	2.7%
Consumer Staples	1.9%	4.8%
Real Estate	1.8%	1.7%

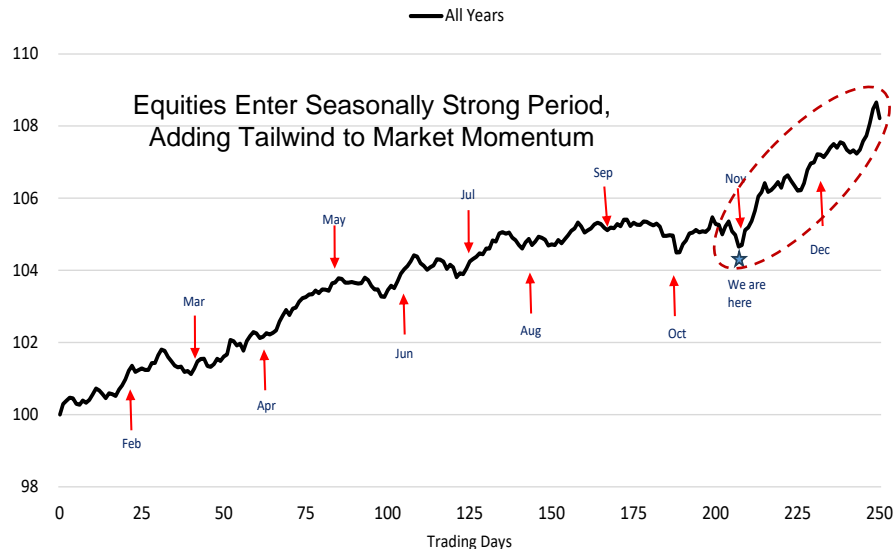
Source: FactSet

## Market Melt-Up Supported by Seasonal Strength

With the worst of the seasonal headwinds largely behind us, the market is entering what is historically the most favorable stretch of the year—supporting the recent melt-up in equities. Technical momentum remains strong: the S&P 500 has gone over 130 consecutive trading days above its 50-day moving average and has not experienced a drawdown greater than 3% since late April.

However, with the market currently in overbought territory and some technical divergences beginning to emerge, a period of minor consolidation or pullback would not be surprising. We view any such weakness as a buying opportunity, as our longer-term bias remains constructive.

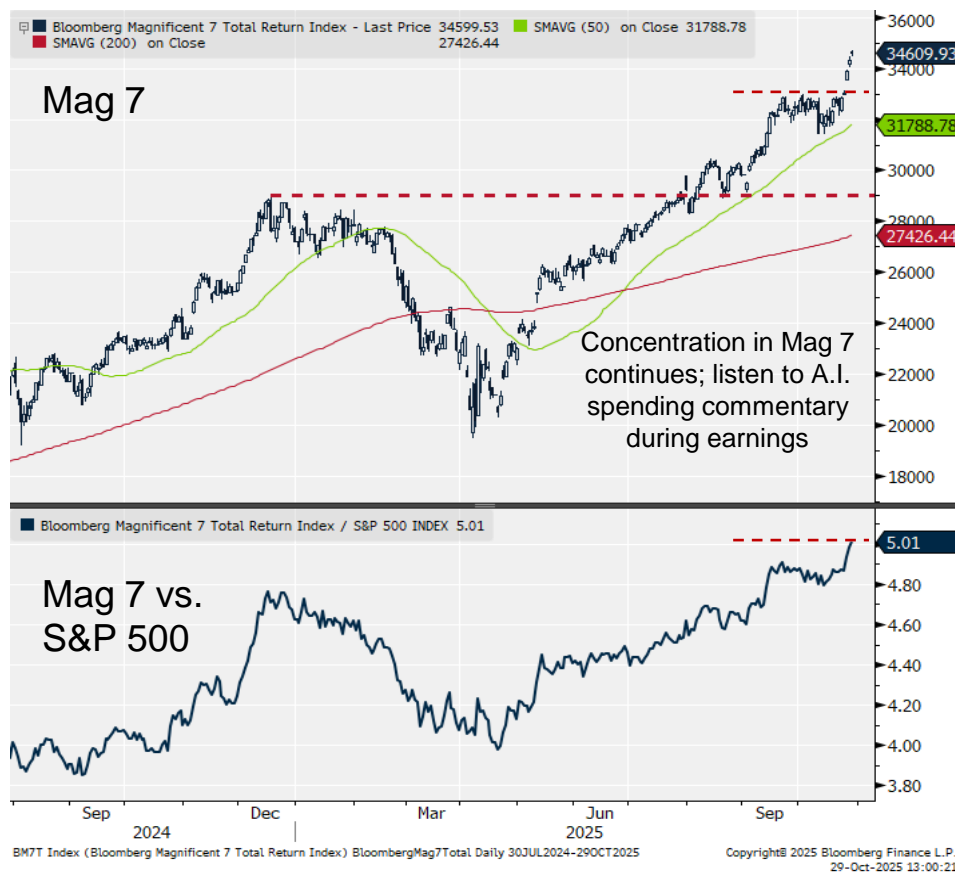
S&P 500 Historical Average Performance (since 1960)



Source: Bloomberg, FactSet

## Risk-on Bias Driving Market Strength

Positioning continues to favor concentrated exposure in the Mag 7 and high-beta segments of the market—key drivers of recent equity strength. Breakouts in both price and relative performance underscore the strong technical momentum in these areas. With several important earnings reports on deck this week, we'll be closely monitoring management commentary, particularly around ongoing AI-related spending, for additional insight and potential catalysts.

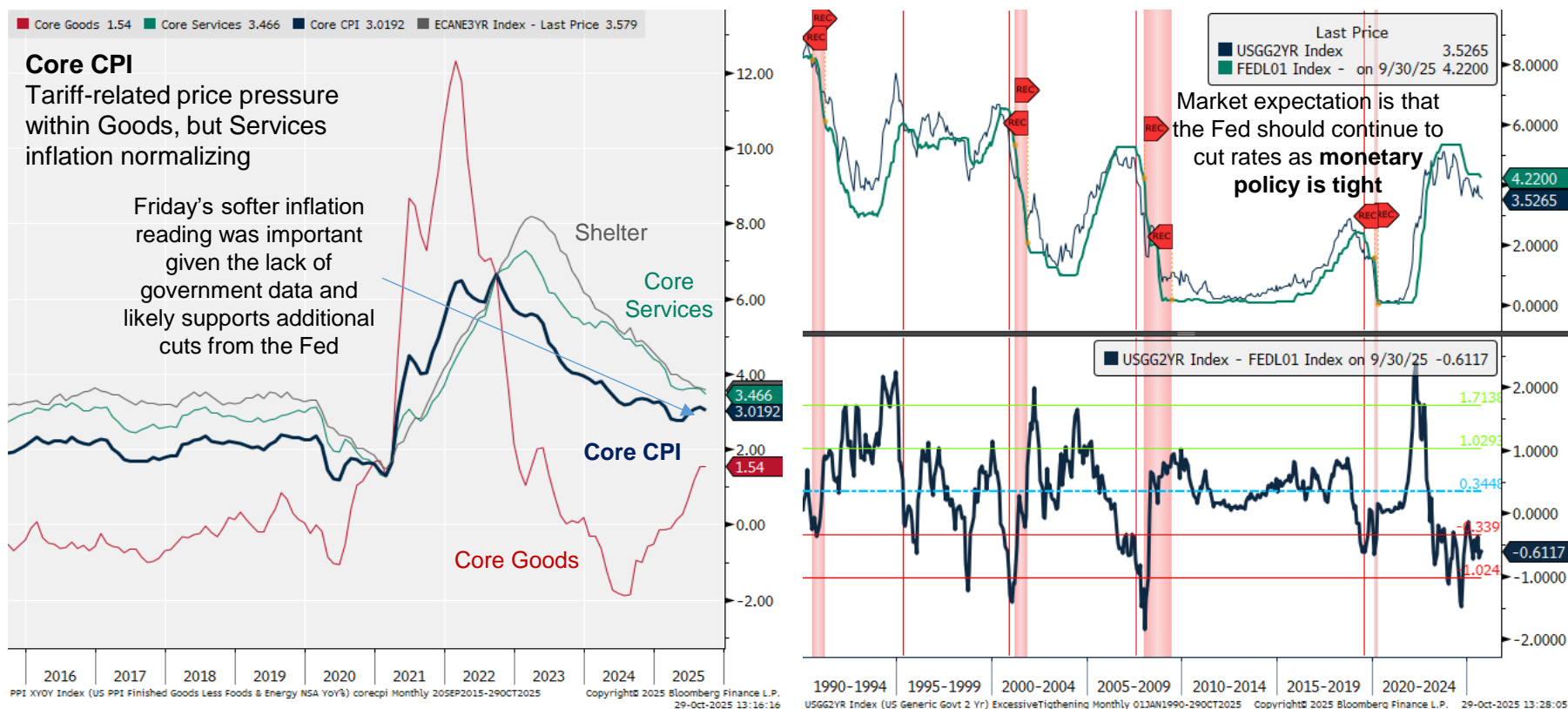


Source: Bloomberg, FactSet

## Softer Inflation Supports Additional Fed Cuts

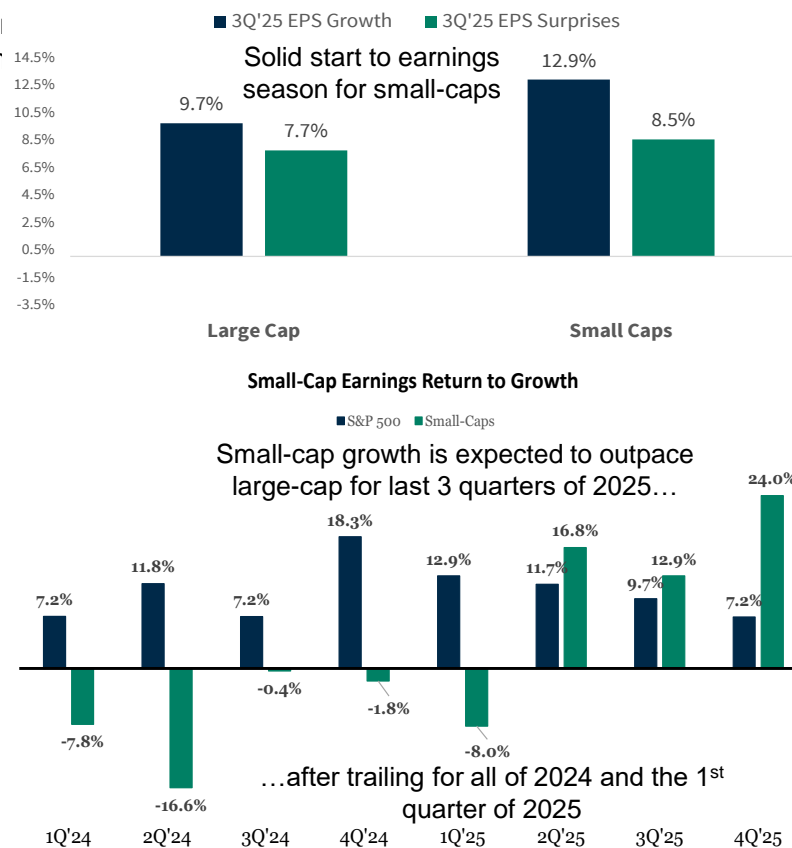
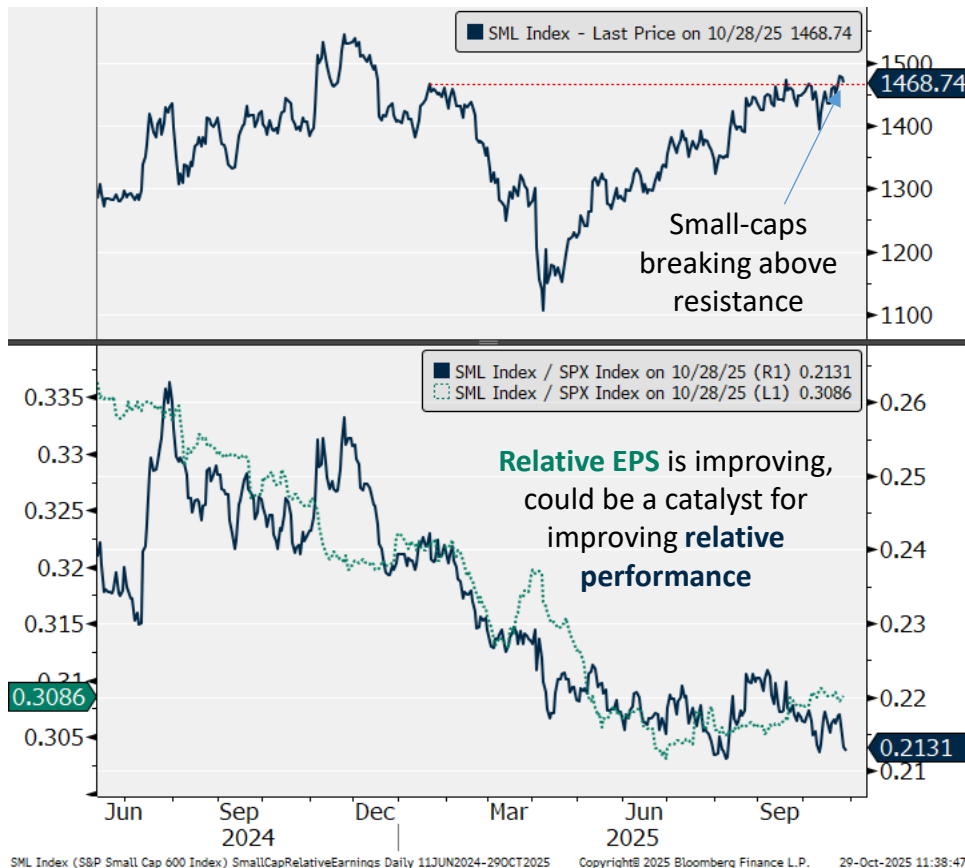
**Today's 25 bps rate cut came as no surprise and QT is expected to end in December.** However, looking ahead, market expectations suggest the Fed should continue easing, given the still-tight monetary policy environment. A more accommodative stance would likely provide further support for equities.

Additionally, the recent soft inflation data gives the Fed cover to maintain a dovish trajectory. Currently, markets are pricing in another rate cut at the final FOMC meeting of the year, followed by two to three additional cuts in 2026.



## Small-Caps

**Relative performance for small-caps remains challenged**, indicating there's still work to be done. However, we're beginning to see signs of fundamental improvement. Relative EPS trends are strengthening, and a solid start to earnings season—with surprises outpacing those of large-caps—is adding support. This improving backdrop has contributed to a breakout above key resistance levels in the small-cap index. Continued follow-through on earnings strength could spur further improvement in relative performance.



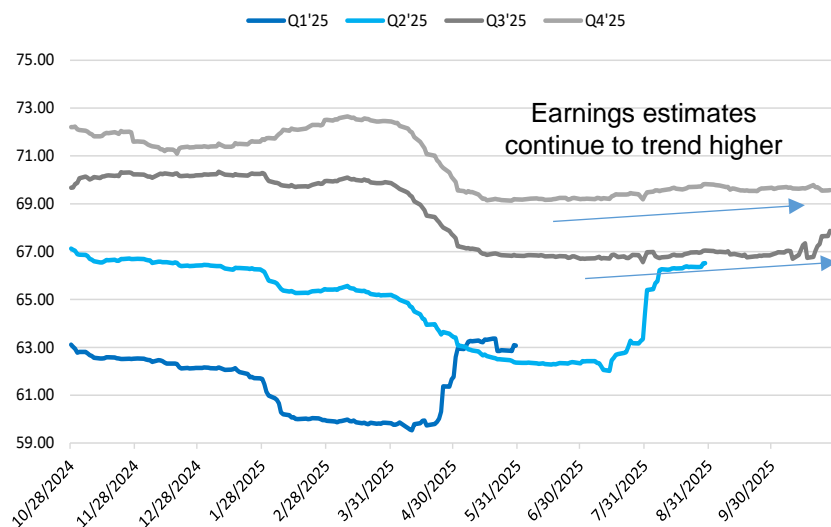
Source: Bloomberg, FactSet

## Q3 Earnings Season

We enter the heart of earnings season this week, with roughly 42% of the S&P 500's market cap set to report. So far, Q3 earnings have started strong: 82% of companies have beaten estimates, with an average surprise of 7.7%. The upside has been driven by double-digit beats in the Materials, Energy, and Technology sectors.

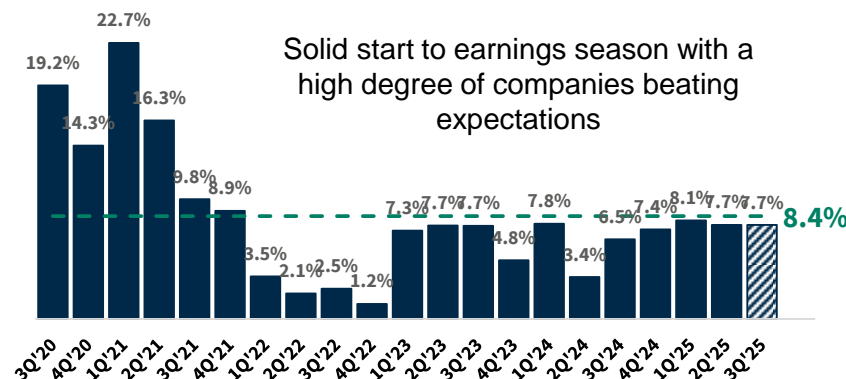
Several high-profile mega-cap Tech names are scheduled to report this week, and we'll be paying close attention to commentary on AI spending, given its significant influence on market sentiment over the past few years.

### Quarterly Earnings Estimates



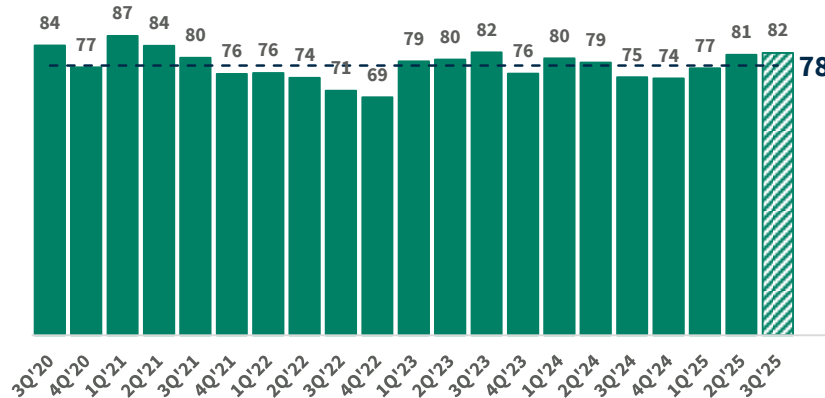
## EPS Surprise

--- 5-Year Average



## % Beating EPS Estimates

--- 5-Year Average

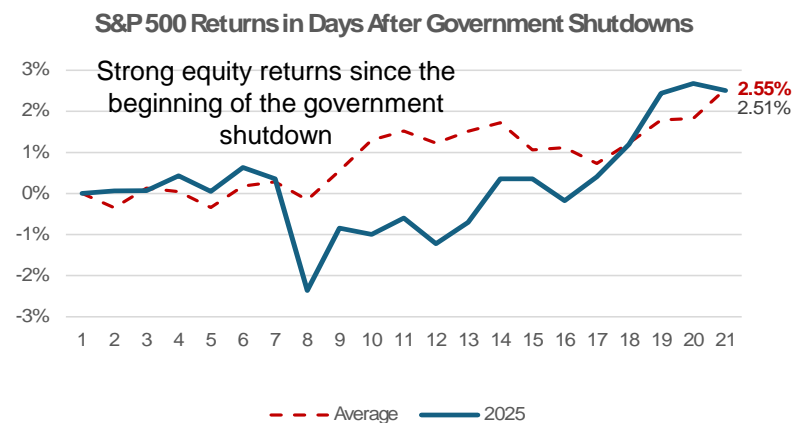
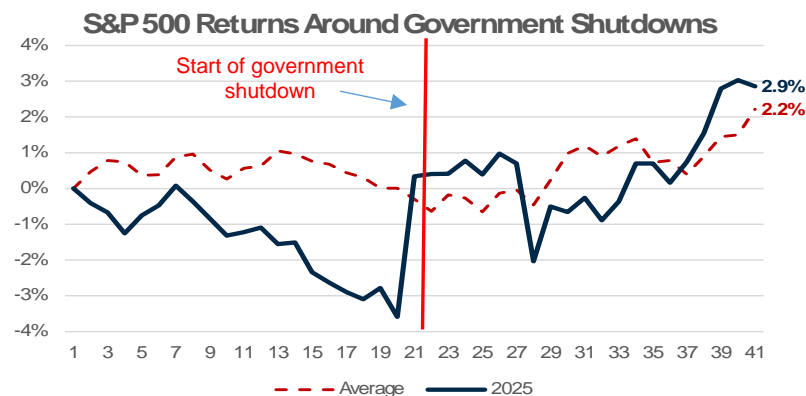


Source: Bloomberg, FactSet

## Government Shutdown

Historically, government shutdowns have been more of a distraction than a major market-moving event. Markets typically trade modestly lower heading into a shutdown but tend to rebound quickly once it begins. This time has been no different—the market has gained 2.51% since the current shutdown started. However, while a prolonged shutdown can increase uncertainty and eventually weigh on the economy and markets, we have not seen any meaningful impact thus far.

Shutdown Start Date	Length of Shutdown (days)	Returns Around Start of Shutdown	
		20-days Prior	20-Days After
10/6/1990	3	-0.4%	0.11%
11/14/1995	5	-0.5%	5.50%
12/16/1995	21	-0.1%	-1.28%
10/1/2013	16	0.8%	4.54%
1/20/2018	3	0.4%	-2.78%
2/9/2018	Hours	-	-
12/22/2018	35	-2.1%	9.19%
10/1/2025	?	0.3%	2.51%
Average	14	-0.3%	2.55%



Source: Bloomberg, FactSet



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### Index Definitions

The **S&P 500** is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.

The **Dow Jones Industrial Average (DJIA)** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The **NASDAQ Composite** is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market.

The **MSCI World All Cap Index** captures large, mid, small and micro-cap representation across 23 Developed Markets (DM) countries. With 11,732 constituents, the index is comprehensive, covering approximately 99% of the free float-adjusted market capitalization in each country.

The **MSCI EAFE (Europe, Australasia, and Far East)** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 21 developed nations.

The **MSCI Emerging Markets Index** is designed to measure equity market performance in 23 emerging market countries. The index's three largest industries are materials, energy, and banks.

The **Russell 2000** index is an index measuring the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks.

The **NYSE Alerian MLP** is the leading gauge of energy infrastructure Master Limited Partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX).

The **Barclays Intermediate Government/Credit Bond** index measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years.



The **Euro Stoxx 50 Index** is a market capitalization weighted stock index of 50 large, blue-chip European companies operating within Eurozone nations. Components are selected from the Euro STOXX Index which includes large-, mid- and small-cap stocks in the Eurozone.

The **China CSI 300** is a capitalization-weighted stock market index designed to replicate the performance of top 300 stocks traded in the Shanghai and Shenzhen stock exchanges. It had a sub-indexes CSI 100 Index and CSI 200 Index.

The **S&P 500 Futures** is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **DJIA Futures** is a stock market index futures contract traded on the Chicago Mercantile Exchange`s Globex electronic trading platform. Dow Futures is based off the Dow 30 stock index.

The **Nasdaq 100 Futures** is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international companies listed on the NASDAQ.

**Europe: DAX** (Deutscher Aktienindex (German stock index)) is a blue chip stock market index consisting of the 40 major German companies trading on the Frankfurt Stock Exchange.

**Asia: Nikkei** is short for Japan's Nikkei 225 Stock Average, the leading and most-respected index of Japanese stocks. It is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results. Future investment performance cannot be guaranteed, investment yields will fluctuate with market conditions.