

## Overview

October reminded investors that in today's markets, liquidity has replaced confidence as the foundation of stability. The Federal Reserve delivered its second rate cut of the year but stopped short of promising another in December, revealing widening internal divisions. Chair Powell's cautious tone—acknowledging that further easing is “not a foregone conclusion”—was nevertheless received as dovish, reinforcing the belief that policy support will continue to sustain asset prices even as fiscal discipline weakens.

The prolonged government shutdown highlighted just how dependent markets have become on consistent policy and data visibility. Several key economic indicators, including the CPI and non-farm payroll reports, were delayed, leaving investors and policymakers to operate with limited clarity. In the absence of official data, private-sector releases took on greater weight: ADP's report showed a 32,000 decline in private payrolls, the sharpest drop in more than two years. When the delayed CPI was finally released, it revealed a moderate 0.3% monthly rise and a 3.0% annual rate—suggesting inflation continues to ease but remains above target.

Despite the disruption, the U.S. economy has shown remarkable durability. Real GDP growth is tracking near 3.8%, and consumer spending remains firm, even as fiscal gridlock and uneven data temper visibility. The yield curve's re-steepening—closing October at +0.50% between 2s and 10s—points to a market that still anticipates expansion rather than contraction.

This environment—easy liquidity, incomplete data, and growing fiscal dependence—defines the current cycle. Investors are responding with renewed emphasis on quality income, flexibility, and liquidity over prediction or momentum. The message from October is clear: discipline may build value, but liquidity now dictates the rhythm of the markets.

Macro View	MTD (%)	YTD (%)	1Y (%)	10Y (%)	10Y STD (±)
DJIA	2.59	13.34	15.84	11.78	15.22
S&P 500	2.34	17.50	21.42	14.60	51.14
NASDAQ	4.72	23.53	32.04	17.84	18.26
Equity EM Mkts.	4.19	33.55	28.65	7.16	16.57
EM Bond Mkt.	1.72	10.37	10.27	3.92	7.31
US Agg. Bond	0.62	6.80	6.16	1.90	5.05
Municipal Bond	1.24	3.91	4.17	2.42	5.18
US High Yield	0.20	7.30	8.05	5.79	7.49
Commodity	2.89	12.54	14.15	4.30	13.25
COMEX Silver	3.26	57.97	38.94	9.39	27.72
COMEX Gold	3.17	45.55	38.75	11.32	13.82
Brent Oil	-1.45	8.45	15.30	14.74	36.30
Dollar Index	2.08	-8.00	-4.01	2.95	6.64

## Taxable Fixed Income Markets

Taxable bond markets were steady through most of October. Yields across the curve held slightly lower than at the month's start, with some gradual steepening farther out the curve after the Fed's policy meeting. This steepening suggests that

policy remains restrictive enough to moderate inflation without stalling economic growth.

Treasuries performed in line with the broad market, gaining about +0.62% for the month compared to the Bloomberg Aggregate Bond Index, also up +0.62%. Year-to-date, the Aggregate Index remains well ahead of Treasury returns, 6.82% versus 6.01%, as credit spreads continue to anchor relative value. During its press conference, the Fed also announced that quantitative tightening will formally end on December 1, 2025, with all maturing Treasury securities and MBS proceeds to be reinvested into Treasury bills. This move should help ease stress in overnight funding markets, reduce volatility, and sustain liquidity into year-end.

US Fixed Income	Price	Cpn	Total Returns (%)		Dur	Yield
	(%) Rtn	% Rtn	Mo.	YTD	+/-	+/-
Agg. Bond	0.29	0.33	0.62	6.80	6.02	4.33
US Treasury	0.33	0.29	0.62	6.01	5.91	3.91
US Agencies	0.19	0.31	0.50	5.41	3.36	4.03
Corporate	0.00	0.38	0.38	7.29	6.89	4.82
Taxable Muni	0.70	0.37	1.08	7.58	7.78	4.78
TM/BABs	0.69	0.49	1.18	8.04	8.81	5.29
US Agency MBS	0.49	0.37	0.86	7.68	5.65	4.66
Gov/Credit	0.23	0.32	0.55	6.51	6.20	4.22
TIPs	0.25	0.10	0.35	7.25	5.10	4.04
AAA Corporate	0.01	0.34	0.36	6.67	10.33	4.64
AA Corporate	0.00	0.34	0.35	6.61	7.78	4.56
A Corporate	0.10	0.37	0.47	7.35	6.90	4.68
BBB Corporate	-0.10	0.40	0.31	7.35	6.66	5.00

Corporate bonds posted positive returns but lagged other investment-grade sectors for the month (+0.38%). Credit spreads stayed tight, with the Bloomberg U.S. Corporate Index option-adjusted spread averaging about 70 basis points (bps). Issuance slowed after September's surge, but investor demand remained firm as corporate balance sheets continued to show healthy leverage ratios, extended maturities, and strong cash-flow coverage. Intermediate maturities still offer the best trade-off between income and price stability, while longer-duration corporates provide limited incremental reward at current spread levels.

The agency mortgage-backed sector led performance again in October (+0.86% MoM; +7.68% YTD). We have continued to add to this sector, favoring high-quality pass-throughs for their favorable coupon structures, additional spread, and shorter durations.

The current macro environment implies a mixed opportunity set: rates are elevated enough to offer carry, but duration and spread risk remain exposed if growth disappoints or inflation proves sticky. We continue to favor a neutral-to-slightly defensive duration stance, with a selective tilt toward high-quality investment-grade credit, and tight monitoring of policy shifts, inflation surprises, and data flows as catalysts that could reshape the opportunity set into year-end.

## Tax-Exempt Markets

Following the constructive tone of September, October carried forward a steady and disciplined environment for municipal bonds despite one of the heaviest issuance months of the year and continued data uncertainty from the federal shutdown. The market's resilience was notable—investor demand held firm, supported by reinvestment flows, healthy credit conditions, and elevated absolute yields that remained compelling even as volatility across broader markets persisted.

Since midsummer highs, the municipal yield curve has continued to bull-flatten, with short yields modestly higher while longer maturities have declined by roughly 60 bps. The 10-year AAA tax-exempt yield ended October near 3.0%, with Muni-to-Treasury ratios hovering above 80%, underscoring relative value across high-grade credits. For top-bracket investors, tax-equivalent yields more than 6% remain achievable, and in high-tax states such as California and New York, in-state bonds still provide effective yields approaching 8%—a meaningful premium in the current environment.

Municipal Market	Price	Cpn	Total Returns (%)		Dur	Yield
	(%) Rtn	(%) Rtn	Mo.	YTD	+/-	+/-
Municipal Agg	0.87	0.37	1.24	3.91	6.65	3.57
1-Yr Muni (1-2)	-0.43	0.37	-0.06	2.84	1.27	2.83
3-Yr Muni GO (2-4)	-0.55	0.37	-0.18	3.26	2.35	2.66
5-Yr. Muni GO (4-6)	-0.41	0.35	-0.05	4.27	3.60	2.68
7-Yr. Muni (6-8)	0.07	0.36	0.43	5.29	4.77	2.98
10-Yr. Muni (8-12)	0.87	0.35	1.22	5.37	5.82	3.22
15-Yr. Muni (12-17)	1.83	0.36	2.19	4.65	7.27	3.69
30-Yr. Muni (22+)	1.44	0.39	1.83	2.15	10.94	4.48
AAA Muni	0.86	0.36	1.22	3.89	6.87	3.42
AA Muni	0.86	0.37	1.23	3.87	6.55	3.44
A Muni	0.88	0.37	1.25	4.09	6.56	3.81
BBB Muni	0.95	0.38	1.33	3.68	7.48	4.47
Gen. Oblig.	0.87	0.36	1.23	3.93	6.34	3.34
State GO	0.61	0.36	0.97	4.14	5.41	3.11
Local GO	1.05	0.35	1.40	3.73	6.98	3.50
Revenue	0.89	0.37	1.26	3.90	6.83	3.68
California	0.86	0.36	1.21	3.76	6.46	3.34
New York	0.94	0.37	1.32	3.48	7.08	3.63

Opportunities remain concentrated in callable structures with 7- to 10-year calls and final maturities of 15–20 years, where the curve remains steepest. However, with the front end still inverted through roughly three years, a barbell strategy—balancing short maturities for liquidity and long-intermediate holdings for yield—continues to offer the most attractive risk-adjusted returns. This structure allows portfolios to capture roll-down potential while maintaining reinvestment flexibility should Fed policy or supply dynamics shift unexpectedly.

Credit fundamentals across most states and sectors remain sound and stable. Governments continue to demonstrate budgetary discipline, maintain strong reserves, and improve pension funding ratios. While regions with high concentrations of federal employees experienced temporary strain from the shutdown, the broader municipal market remains one of the most credit-secure areas of fixed income. Reinvestment from year-end coupons and maturities should sustain positive technicals through the fourth quarter.

Our stance remains anchored in quality and liquidity—favoring moderate duration exposure and the flexibility to capitalize on dislocations as they arise.

In a cycle defined by policy dependence and uneven data visibility, municipals continue to stand out for their reliability, steady income, and defensive characteristics within diversified portfolios.

## Precious Metals/Digital Markets

Gold prices eased in late October, closing just below \$4,000 per ounce after testing record highs earlier in the month. Despite the pullback, gold and silver each gained around 3%, extending one of the strongest multi-year runs in decades. Persistent central bank buying—220 tonnes in the third quarter, up 28% from the prior period—alongside moderating real yields and geopolitical uncertainty, continues to support demand.

Silver briefly topped \$53 before settling near \$48, supported by tight supply and industrial demand. The ongoing Section 232 review on critical minerals could elevate silver's strategic importance, further strengthening its dual monetary and industrial appeal.

Digital assets remain range bound as investors favor tangible stores of value. For diversified portfolios, measured exposure to gold and silver continues to serve as an effective hedge against policy missteps and geopolitical shocks—anchors of stability in a liquidity-driven world.

## Equity Markets

Equities advanced again in October, with the S&P 500 up 2.3% and large-cap technology leading gains at +6.7%. Earnings remain solid, with net margins near 12.8%—comparable to 2021 levels but achieved without stimulus. Yet the rally remains narrow: six of eleven sectors declined, highlighting late-cycle concentration as investors continue to favor scale and balance-sheet strength over breadth.

Outside technology, communications, industrials, and utilities have produced double-digit year-to-date returns, suggesting gradual broadening beneath the surface. The market's tone reflects confidence in a soft landing supported by easier financial conditions and resilient consumer demand. Our stance remains selectively constructive—focused on companies with visible earnings, disciplined capital use, and sustainable cash flows—while maintaining liquidity to navigate policy and political crosscurrents.

## Strategy Outlook

The fourth quarter opened with a fragile equilibrium: monetary policy is easing, inflation is moderating, and growth remains firm despite fiscal paralysis. The Fed's challenge has shifted from credibility on inflation to control over liquidity, as balance-sheet management increasingly defines financial conditions.

Our approach stays consistent - anchored in quality, flexibility, and liquidity. In fixed income, we maintain intermediate durations and high-grade exposure to capture carry without extending risk. In equities, we emphasize durable earnings and cash flow. In real assets, gold and silver remain effective hedges against policy uncertainty.

Markets appear comfortable with liquidity as the default policy tool—a condition that supports risk assets for now but requires vigilance. Patience, discipline, and selective liquidity remain the best defenses—and the best opportunities—as policy continues to guide returns.

Disclaimer: This publication contains the current opinions of the manager and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Such opinions are subject to change without notice. This publication is distributed for education purposes only. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. Forecasts are based on proprietary research and should not be interpreted as an offer or solicitation, nor the purchase or sale of any financial instrument. No part of this publication may be reproduced in any form, or referred to in any publication, without the express written permission of Smith Affiliated Capital Corp. Graph Source: Bloomberg Indexes