

... STOCK ... MARKET OUTLOOK

<< 2025: Part IV >>

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2025 STOCK MARKET OUTLOOK – PART IV

October 23, 2025

Executive Summary

Three quarters into 2025, global markets are clocking new highs—on track for the solid bull market year we forecast. The MSCI World climbed 7.3% in Q3, leaving the market on course to finish the year with the strong double-digit returns we forecast.¹ While we remain bullish, now is a time to be even keeled as investor optimism stirs. Stocks have plenty to like in an overall fine global backdrop, yet there is also plenty to watch.

Fundamentally, this bull market has many tailwinds. Economic drivers are chugging along. GDP grows moderately throughout much of the world. US tariffs, which polls show remain unpopular with most voters, have added headwinds but not derailed growth. Corporate earnings keep growing and beating expectations, especially in Europe. Inflation isn't where people would like but isn't galloping, either. Aided by rate cuts, yield curves have steepened, especially outside the US, supporting economic growth and value stocks generally. Global politics, which Appendix II details, are eventful but reinforcing gridlock across the developed world. All looks well enough for the bull market to continue.

Sentiment also looks favorable. As corrections (short, sharp, sentiment-driven downturns of -10% to -20%) typically do, the springtime downturn reset investor expectations far lower, teeing up positive surprise—one key reason bull markets typically run an average 14 months after the cycle's last correction regained pre-correction highs.² That doesn't preclude another correction from striking. They are always possible, for any or no reason at all—and we think they are unpredictable. Such volatility can be uncomfortable, but it is the price tag for stocks' high longer-term returns.

Moods brightened considerably over the summer as investors fathomed growth continuing despite tariffs and other headwinds. All things artificial intelligence (AI) keep pumping enthusiasm toward its supposed beneficiaries. All these are widely known factors, but they point to sentiment tipping increasingly positive. Not euphoric, but bending back toward optimism, which often brings nice returns. Legendarily, bull markets climb an irregular wall of worries until euphoria causes people to run out of concerns. This bull market's wall of worry still has many false fears, including myriad, continuing geopolitical fears and flares, high price-to-earnings ratios and other valuations, US and European debt, the dollar, interest rates and more. All are too widely known to hit stocks for long, but they keep sentiment in check, facilitating the positive surprise that powers bull markets.

The extant government shutdown continues garnering many headlines. Historically, fear of shutdowns carrying vast negative market and economic fallout has run rampant ahead of and during shutdowns. But this is a false fear. Today, we see headlines touting the politics—but little fear of economic or market impact. Sensibly, people appear to be largely—not fully, but largely—moving on.

With sentiment warming and AI enthusiasm widespread, people make ever more parallels with the 1990s, implying this boom will soon bust. Some of their points are valid, others less so. We remember those 1990s days well, having managed portfolios through them and the grueling bear market that followed. Whether you find bullish or bearish comparison points, connecting then-and-now dots won't reveal when and how this bull market will end. To us, the hunt for bubbles is yet another sign this bull market hasn't reached a euphoric peak. The expectation of a bubble bursting is, in and of itself, a sign of fear—not euphoria.

But all bull markets do end. While we don't think this one is ending now (as Appendix III details), we are watching several possible pitfalls: stocks' relatively higher tendency to fall in presidents' second years; potential monetary policy risks as Fed leadership changes; uncertainty as the Supreme Court's tariff ruling approaches; risks within private equity and credit rippling outward; cryptocurrency blowups infecting equities; potential wildcards in 2026's midterm elections and more.

But none call for action now. We have time to watch these things closely because bear markets, especially big, prolonged ones, almost always start with a whimper, not a bang. They typically begin with gradual slides, with the worst pain coming late. The total decline tends to average about -2% per month. This creates a window—at least three months—to assess the landscape after a new all-time high and determine whether a bear market is forming. If you need stock-like returns to reach your long-term goals, reducing stock exposure is the biggest risk you can take. Instead of increasing that risk by trying to nail the peak, we think it best to take the time to determine whether a bear market is underway, with a high enough probability of severe downside ahead to justify the risk of cutting stock exposure.

More broadly, bull markets generally end one of two ways: the “wall” or the “wallop.” That is, stocks reach the proverbial wall of worry's top, expectations get too hot, and a bear market creeps in as investors ignore deteriorating conditions. Or, something sudden, huge and broadly unseen wallops markets before they finish climbing the wall, as COVID lockdowns did in 2020. While we are monitoring carefully, we don't see anything imminent on either front today.

Yet volatility is always possible, for any or no reason. While bull markets usually run at least 12 – 18 months after a correction like this spring's, that doesn't rule out a second correction late this year. Should one strike, stay cool. Remember how quickly stocks rebounded from April's lows. Participating in corrections is unlikely to jeopardize your investment goals. Missing the bull market returns after them could. Patience is more profitable, over time, than trying to dodge possible volatility. As the late, great analyst Lucien Hooper put it, “You usually make more money sitting on your hands than dancing on your feet.”

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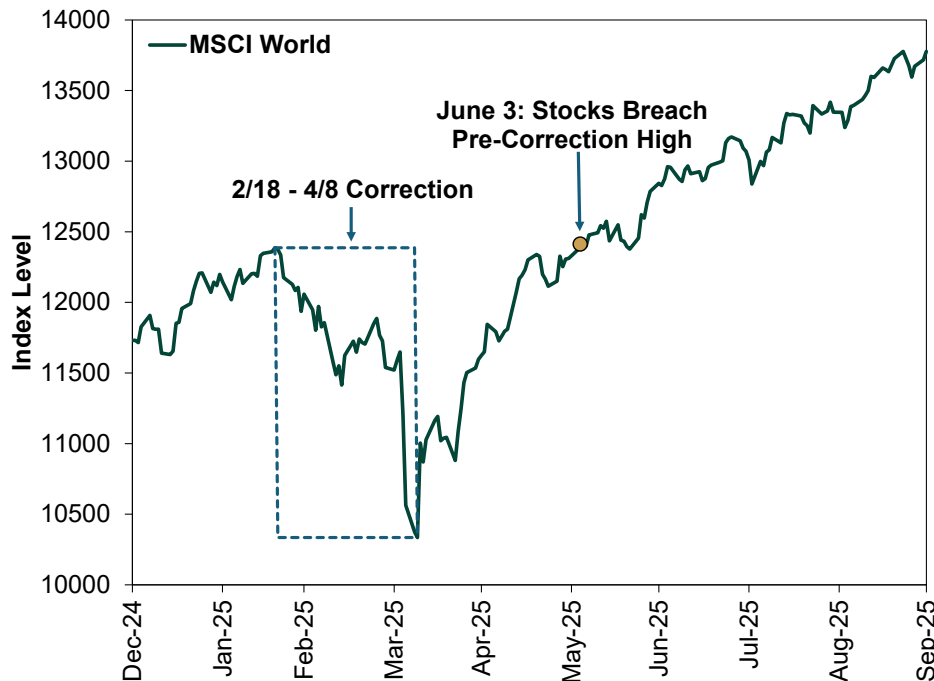
Appendix I: Enjoy the Bull Market, but Stay Grounded

The strong, double-digit bull market year we forecast is unfolding, and optimism is perking. But be grounded. While market drivers point positively, the landscape isn't risk-free. This Appendix runs through both reasons for bullishness—which we think remain in the driver's seat—and some negatives we are watching. Now is a time to appreciate markets' good year—but be even-keeled and forward looking.

The First Three Quarters

Nine months in, 2025 has met our bullish expectations, with the MSCI World rising 17.4%.³ Yes, April's tariff announcements were surprisingly broad and steep, which the large correction surrounding them illustrates. But as we said then, fear seemed excessive relative to reality—fuel for more bull market. And it was. The correction ended on April 8. Stocks returned to all-time highs in early June ... and kept climbing.

Exhibit 1: The Correction and Beyond



Source: FactSet, as of 10/2/2025. MSCI World Index return with net dividends, 12/31/2024 – 9/30/2025.

Many seem surprised at the recovery's speed and stocks' run of record highs. Yet corrections often end about as fast as they struck, with V-shaped rebounds. Emotions, scarred by the drop, rarely heal quickly. This creates corrections' lasting, bullish influence: They reset expectations lower, facilitating positive surprise.

Corrections reset sentiment lower—often extending bull markets.

That appears to hold now. Tariffs are economically negative and bad for stocks. Yet their scope is much smaller than most feared, teeing up relief. There is likely more ahead. Consider Exhibit 2, which displays the final correction in every S&P 500 bull market since 1928, the recovery date and the time to the bull market's end. The average tops 14 months, with the longest lasting 52.9 months. Even if this correction is the bull market's last, stocks should have room to run.

Exhibit 2: From Final Correction to Bull Market End

Correction			Correction Low to Recovery		Recovery to Bull Market End	
Peak Date	Trough Date	Return	Recovery Date	Length (Months)	Length (Months)	Return
5/14/1928	6/12/1928	-10.3%	8/28/1928	2.5	12.3	55.0%
4/6/1936	4/29/1936	-12.8%	7/14/1936	2.5	7.9	19.4%
2/5/1946	2/26/1946	-10.1%	4/9/1946	1.4	1.6	2.0%
9/23/1955	10/11/1955	-10.6%	11/14/1955	1.1	8.6	7.2%
8/3/1959	10/25/1960	-13.9%	1/27/1961	3.1	10.5	18.6%
8/22/1962	10/23/1962	-10.5%	11/14/1962	0.7	38.9	56.3%
9/25/1967	3/5/1968	-10.1%	4/30/1968	1.8	7.0	11.0%
4/28/1971	11/23/1971	-13.9%	2/4/1972	2.4	11.2	14.7%
2/13/1980	3/27/1980	-17.1%	7/14/1980	3.6	4.5	17.1%
10/10/1983	7/24/1984	-14.4%	1/21/1985	6.0	31.1	92.2%
10/9/1989	1/30/1990	-10.2%	5/29/1990	3.9	1.6	2.3%
7/16/1999	10/15/1999	-12.1%	11/16/1999	1.1	4.2	7.6%
11/27/2002	3/11/2003	-14.7%	5/12/2003	2.0	52.9	65.6%
9/20/2018	12/24/2018	-19.8%	4/23/2019	3.9	9.9	15.4%
2/19/2025	4/8/2025	-18.9%	6/27/2025	2.6	??	??
Average		-12.9%		2.6	14.4	27.5%
Median		-12.4%		2.4	9.3	16.3%

Source: FactSet, as of 9/29/2025. S&P 500 price index, based on final bull market correction of cycle, 1928 – 2024.

Looking Ahead

For now, we remain bullish. Markets rose throughout Q3, gaining 7.3% in a relatively placid stretch.⁴ It is wise for investors to steel themselves for volatility, as mid-October's chop highlighted. Enduring a correction early this year doesn't preclude more volatility or a second correction late this year, for any or no reason. We aren't forecasting one and don't think forecasting corrections is possible. But we have seen two corrections in a year (e.g., 2018). Another could strike any time.

While no one can forecast short-term volatility, it is always wise to expect it. It is the price tag for stocks' high long-term historical returns.

Bullish Fundamentals

Better-than-feared economic conditions underpin this bull market. While sentiment has warmed, many claim AI is America's sole economic engine, overlooking healthy consumption and a robust services sector, the bulk of US GDP. Others call the weak dollar a canary in the coal mine signaling trouble stocks overlook. We detail why weak dollar fears are false in Appendix III, but for now, note: All similarly liquid markets discount information efficiently. The idea one asset

class sees something another ignores is almost always a fallacy. Beyond this, the dollar and stocks have no relationship. A weak dollar isn't bullish or bearish.

Overall, fundamentals are trucking along—in America and globally.

Entering Q3's reporting season, analysts expect 8.0% y/y US earnings growth and 6.3% revenue growth.⁵ This trails Q2's 12% y/y earnings growth, but analysts may be too tepid again.⁶ Q2's final figure trounced June 30's consensus estimate of just 4.8%, with all sectors but Materials surprising positively.⁷ The biggest source of positive earnings surprise? Companies with *greater* than 50% of sales outside the US, showing trade fears are overdone. Furthermore, analysts expect even faster full-year earnings growth in Europe—an unseen bullish factor abroad.⁸

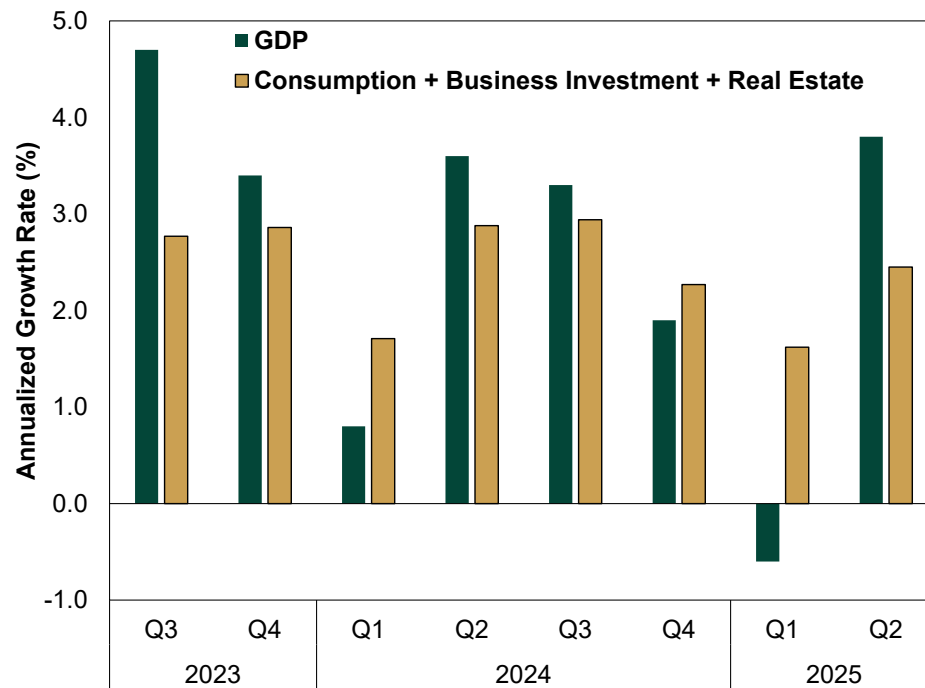
Economic Update

Modest worldwide economic growth persists. Some hyped the upward revision in US Q2 GDP to 3.8% annualized, a historically robust clip. But like Q1, tariffs and tariff fears skewed Q2's GDP. In Q1, imports' sharp rise drove GDP's slight contraction (GDP subtracts imports from exports). In Q2, the reverse struck. To see pure private sector growth, add consumer spending, business investment and residential real estate investment, which totaled 2.4% annualized in Q2. (Exhibit 3) This is fine, but not as jolly as the headline rate suggests—and in line with extant trends.

The global economy has proven vastly more resilient in the face of tariffs than feared.

European economic growth largely persists. Eurozone Q2 GDP grew a meager 0.5% annualized, decelerating from Q1's 2.3%—likely influenced by slowing exports to the US after businesses scrambled to front-run tariffs in Q1.⁹ The main drags: Germany, which contracted -1.1% annualized, part of a long wobble between growth and modest contraction.¹⁰ And Italy, which slipped -0.3%.¹¹ Yet France and Spain—the other two major eurozone economies—grew 1.3% and 3.3%, respectively, the latter extending a strong run.¹² Of the 20 eurozone nations, 16 grew—a broader expansion than many appreciate.¹³

Britain saw similar, as growth cooled from Q1's 2.7% annualized to 1.1% in Q2, largely on exports' flipping from big boost to small detraction.¹⁴ All in all, though, economic fundamentals are much better than appreciated in the UK, where tax hike fear has dogged investors all year. The disconnect between economic reality and persistent worry is a nicely bullish factor.

Exhibit 3: US GDP Versus Core Components

Source: US Bureau of Economic Analysis, as of 10/3/2025.

At a sector level, worldwide industrial activity remains stuck in a malaise. However, the services sector—which dominates GDP in developed nations—continues growing.

Inflation

The war on hot inflation is over. Yes, prices remain high and probably won't reverse the horrific rise since 2019. Yes, inflation (the pace of rising prices) remains slightly above central banks' targets in America and Britain. And yes, fear of hot inflation returning lurks globally, stoked by monthly fluctuations in certain categories.

But inflation is about the pace of change in prices *economywide*. It is a monetary factor, erupting when too much money chases too few goods and services. At the pandemic's height, the Fed bizarrely boosted M4 money supply more than 30% y/y, flooding the economy as lockdowns impaired production and services.¹⁵ At a lag, inflation surged.

Today, money supply grows tamely. US M4 grew 4.5% y/y in August, a normal prepandemic rate.¹⁶ UK and eurozone money supply jumped similarly during lockdowns but run far cooler now, 4.2% y/y and 2.9%, respectively.¹⁷ With the Fed's targeted personal consumption expenditures price index at 2.7% y/y, America's inflation is normal.¹⁸

This exceeds the Fed's 2% target, but there is no evidence central banks can fine tune inflation (or any economic figure) to the decimal point. Eurozone inflation matches the ECB's 2% target. Britain's is highest of the three (4.1% y/y), but this ties largely to government actions, like misguided household energy price caps. Core inflation (which excludes food and energy) is somewhat slower, unlike in America.

Inflation is an economywide rise in prices caused by too much money chasing too few goods and services. Today, money supply growth is slow.

There is scant evidence tariffs are reigniting US inflation. Some products are up, but shifts encourage substitution and can depress demand. Purchasing managers' indexes (PMIs, surveys of businesses across a range of inputs) suggest many US firms are paying more for imported goods but haven't raised prices. Many likely fear losing market share if they try. Regardless, tariffs don't

sway money supply, rendering them unlikely to spur hot inflation.

Staying Above the Fray

Given persistent economic fears, it is easy to get hung up on monthly or quarterly wobbles, whether data beat or miss expectations and by how much. This, plus data collection issues (in the US and UK) and bipartisan fears of politicized US numbers, heightens scrutiny over each release. Yet this risks overrating any data point's importance or precision.

Economic data, whether government- or private-sector-produced, are *never* precise. Even the founder of US GDP (Simon Kuznets) saw material gaps and holes in it. Thinking a gauge like the Consumer Price Index, which weighs tens of thousands of items, can give a precise read on price changes is laughable. The data aren't that good. At best, these series illustrate rough trends, which is useful. Stressing any of them isn't.

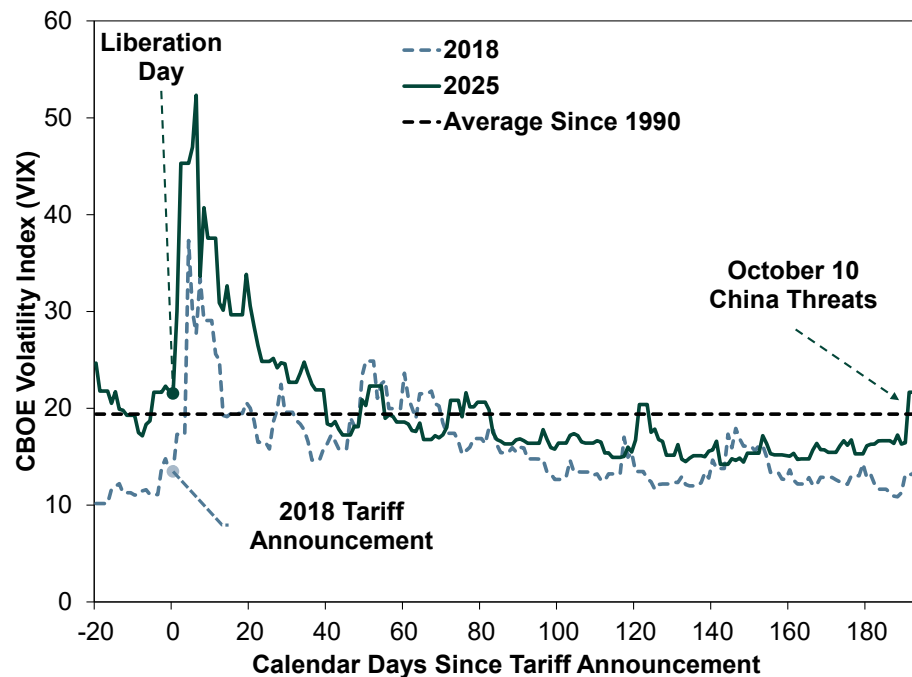
By contrast, markets are accurate—and forward-looking. They remove biases, harnessing the wisdom of crowds to collect information. If you aim to weigh the economy, the market is the best tool we have; the ultimate truth-teller. When it hovers near all-time highs like now, it tells you the risk of imminent or ongoing recession is quite low.

Tariff Update

That undercuts many economists' fears of tariff-driven recession. As we wrote in our Q2 Stock Market Outlook—and updated last quarter—we believe tariffs are economically negative, increasing costs and red tape for businesses and consumers. They hurt the imposing country most, via uncertainty, seen and unseen costs. We estimate US tariff rates are up roughly 10 percentage points this year after considering all measures and exemptions.¹⁹

But these tariffs' bite is far smaller than feared, fueling a recovery since April 8. New tariffs on trucks and pharmaceutical imports, announced in Q3, have large exemptions that mitigate them.

Markets largely adapted after April's shock. Exhibit 4 plots the CBOE Volatility Index (which gauges expected S&P 500 movement in the next 30 days) now versus 2018, when President Donald Trump deployed tariffs in his first term. In both cases, efficient markets weighed the shock. And moved on. Even mid-October's China tariff-driven chop pales next to April's surge.

Exhibit 4: Markets Price in Tariff Shock—and Move On

Source: FactSet, as of 10/13/2025. CBOE Volatility Index, 1/12/2018 – 7/31/2018 and 3/13/2025 – 10/13/2025 (20 trading days before major tariff announcements to the latest available as we write).

We previously covered four possible scenarios. Here are major developments in each.

Scenario 1: Tariffs Prove Illegal and Unenforceable. As expected, on August 29, the Federal Court of Appeals upheld a lower court’s ruling that Trump’s basing broad tariffs on the International Emergency Economic Powers Act (IEEPA) was unconstitutional. It promptly paused overturning tariffs, pending appeal to the Supreme Court. This covered all “reciprocal” tariffs announced April 2 and those slapped on China, Canada and Mexico tied to fentanyl trafficking. The Court agreed to hear the case, starting November 5.

While we can’t know how the Court will rule, it may spark uncertainty regardless. If it overturns lower court rulings, questions surrounding the extent of limitations on the White House could swirl. If it upholds the rulings, it could force the government to refund IEEPA-related tariff revenue collected (roughly \$89 billion).²⁰ The mechanics of this are unclear. It would also raise questions about deals struck since April—the second path to mitigating tariffs’ impacts. And it could rattle nerves as investors wait to see whether and how the administration attempts to replace the tariffs on different legal grounds.

Scenario 2: Dealmaking Galore. After several non-binding deals in Q2, Q3 was quiet.

Scenario 3: Coordinated Retaliation. This was the bearish scenario, but there remains little evidence of vast, coordinated retaliatory tariffs. China and the US continue squabbling occasionally, as in early October. China’s threat to control rare-earth exports (metals used in many technology products) led Trump to threaten additional 100 ppt tariff hikes on China effective November 1. As we type, no executive action has formalized the threat. Talk from

observers and officials like Treasury Secretary Scott Bessent suggests these may be negotiating tactics ahead of a planned meeting between US and Chinese officials. We shall see.

Scenario 4: Free Trade Expansion Outside America. This scenario, first detailed last quarter, continues taking shape, with free-trade talks between many non-US nations and regional groups, as well as vast economic stimulus plans aimed at cushioning the tariffs' blow.

Tariffs are economically negative. But they are widely known and smaller than feared.

On Fed Rate Cuts, Keep Perspective

To no one's surprise, the Fed cut rates by -0.25 ppt in September. Most observers, citing market-based measures and Fed projections, pencil in two more cuts by yearend. Maybe. But you can't forecast the Fed. They are people, biased like any human, interpreting incoming data piecemeal.

Fed cuts are fine—all else equal, lowering short-term rates steepens the yield curve. As Fisher Investments founder and Executive Chairman Ken Fisher's [July 21 New York Post column](#) detailed, the yield curve plots bond rates, from short term to long term, left to right. Banks borrow short term to fund long-term loans, so the difference in these rates heavily influences new lending's profitability. When long rates top short (so-called "steep" yield curves), banks earn more on new loans—encouraging them to lend. Readily available capital fosters investment and economic growth. When short rates top long, the curve is "inverted"—a reliable, if imperfect, recession warning.

But the Fed's cut amounts to playing catch up. Outside the US, broader central bank cuts (e.g., the ECB's eight since June 2024) and rising long rates steepened non-US yield curves far more. Unseen, this swung the global yield curve from mildly inverted to positive. America's swung slightly positive after September's cut, but it is far flatter than Europe's, the UK's or Japan's.

Exhibit 5: Global Yield Curve Spread—Wider Abroad

Region	Current 10-Year Yield	Current 3-Month Yield	Current Spread (Percentage Points, PPT)	Spread 6M Ago (PPT)	Spread 1Y Ago (PPT)
Developed World	3.48%	2.84%	0.65	0.28	-0.42
US	4.13%	4.03%	0.10	-0.27	-0.73
Europe ex-UK	3.00%	1.85%	1.16	0.84	-0.34
UK	4.70%	3.93%	0.77	0.32	-0.78
Japan	1.67%	0.49%	1.18	0.78	0.78

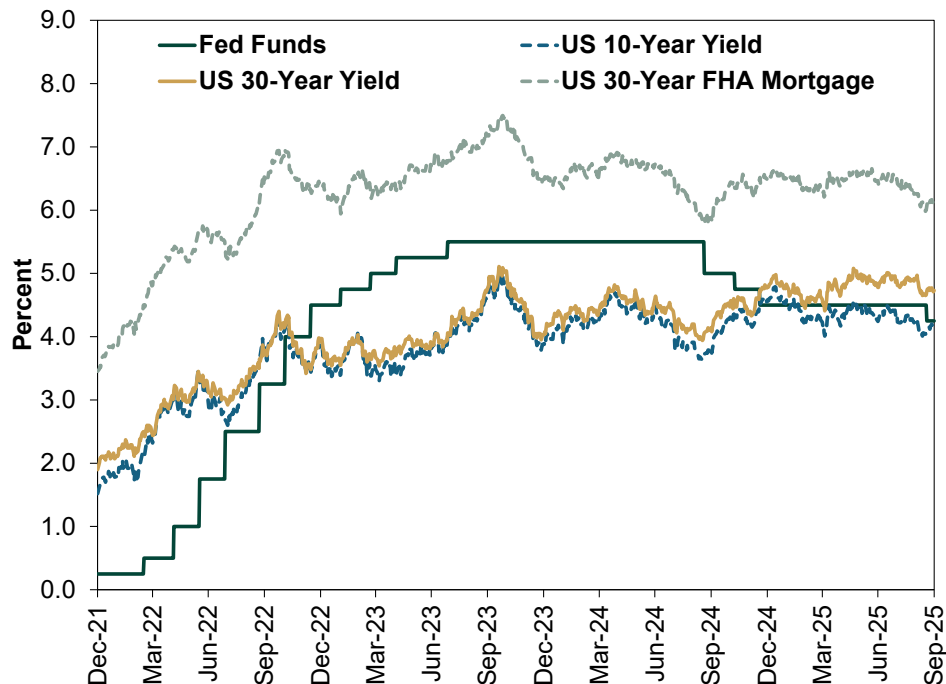
Source: FactSet and Fisher Investments Research, as of 10/6/2025.

A key reason this is bullish: Few see or accept it. While the yield curve is a well-known indicator, 2022 – 2023's false inversion led many to consider it broken ... and ignore it. They don't consider *why* it failed: An ocean of COVID-era deposits meant banks didn't have to pay depositors rates near fed-funds. They just ditched it. That heightens steepening's power now.

Won't Long Rates Fall?

Some may say cuts won't steepen curves much, as long rates will also drop. But despite breathless headlines, this was the cycle's *fourth* Fed cut, not the *first*. We already see the effects. Fed cuts directly affect only overnight rates, not longer ones. Hence, 2024's three cuts didn't lop mortgage rates or long bond yields. Nor did they sway stocks. This bull market started in October 2022, nearly two *years* before September 2024's initial, -0.50 ppt cut.

Exhibit 6: Fed Cuts Don't Automatically Reduce Long Rates

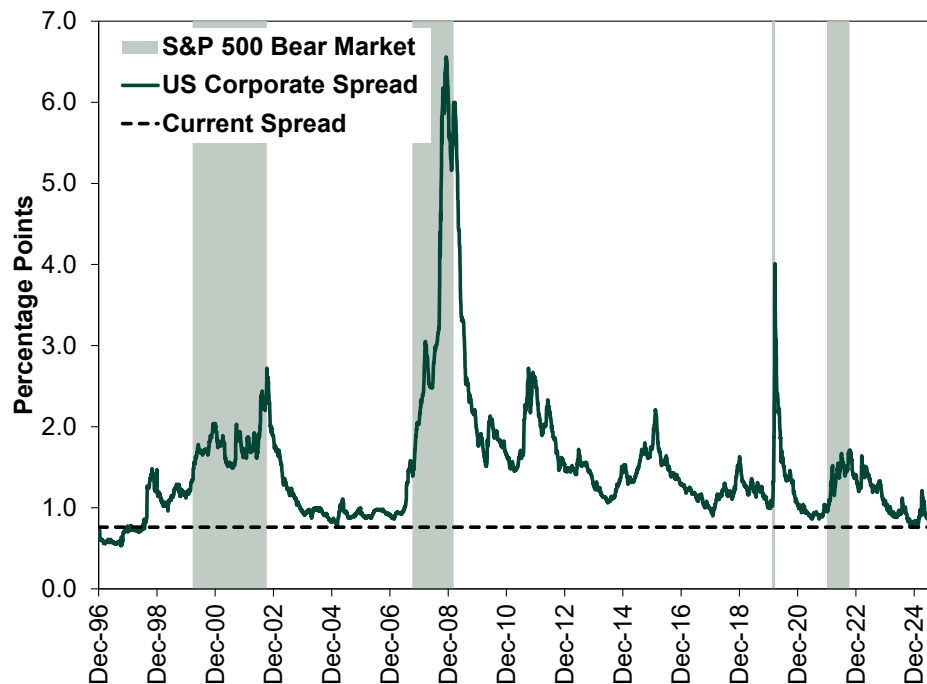


Source: FactSet and Federal Reserve Bank of St. Louis, as of 10/6/2025. Fed-funds target range upper limit, 10-year Treasury yield, 30-year Treasury yield and 30-year Fixed Rate FHA Mortgage.

Stirring optimism here may prove unfounded. While there are fundamental reasons to be bullish involving rate cuts (steeper yield curves), don't expect a lending boom on lower rates.

Our Bond Outlook

Bond markets' chief trait in Q3 was continued narrowing in the gap between corporate bond and Treasury yields. Corporates ordinarily pay higher yields than similar maturity Treasuries for a simple reason: Even the credit-worthiest companies are a much greater default risk than the US government, given Uncle Sam's taxing powers, vast array of assets and strong demand for its debt. But as sentiment warms, the spread between Treasury and corporate bond yields narrows. So it did in Q3—to very low levels historically. (Exhibit 7) This signals optimism.

Exhibit 7: Corporate Spreads Fall to Historically Low Levels

Source: Federal Reserve Bank of St. Louis and FactSet, as of 10/6/2025. ICE BofA ML US Corporate Index, option-adjusted spreads, 12/31/1996 – 9/30/2025. S&P 500 bear markets.

Corporate bonds' higher yields can benefit fixed income returns when the corporate yield spread over Treasuries is stable, due to the higher yields. But also, bond prices and yields move inversely. So corporate bonds' benefits are enhanced when spreads narrow, because it boosts corporate bond prices compared to Treasuries in addition to the extra yield. However, when spreads widen, corporate bonds tend to underperform Treasuries, since prices suffer. Today, corporate spreads are near historic lows, raising the likelihood they underperform going forward.

Furthermore, bonds' primary portfolio function is reducing volatility. As Exhibit 7 also shows, in downturns like bear markets (or corrections, though those aren't highlighted), spreads often rise. When that happens, corporates underperform Treasuries. With spreads tight, we don't think the small additional yield from corporates rewards investors for this sufficiently.

**Tight credit spreads favor
Treasury exposure over
corporates.**

A Word on Sentiment

"Bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria." That, from Sir John Templeton, depicts sentiment's bull market journey perfectly. After the spring's deep correction reduced expectations, sentiment—particularly in America—warmed, likely straddling skepticism and optimism. This isn't bearish. Optimistic environments can deliver excellent returns before the euphoria that often characterizes bull market peaks.

While Appendix III details sentiment further, you see this divide clearly in headlines' parallels between today and the 1990s. Some cast AI as the next Tech boom, hyping revolutionary technology set to drive explosive productivity gains and opportunities galore, from data-center buildouts to power grid enhancement. Others see the next Tech bust, arguing only Nvidia and its peers prop the market up, using interconnected revenues. They note surveys showing firms' relatively small AI usage, suggesting the utility is small potatoes.

Some of these points are valid. Others aren't. But the comparison tells you nothing about this bull market's end. Mostly, it illustrates barbelled sentiment, arguing against broad euphoria ... and broad skepticism.

Still, many hype all things AI and advocate piling on exposure to data centers, chips and cloud computing. But data-center buildouts are widely discussed—little is covered more in markets today. That means the trend is quite likely priced in—making it unwise to chase heat.

Factors Worth Watching Through 2025's End

While we are bullish and see many false fears, we also see negatives worth watching. Here is a brief list of those, along with resources where you can find more of our thinking on each.

- Next year, 2026, is the second year of Trump's term. Historically, [the second year is negative 40% of the time](#) since 1925, with 2022 the latest example.
- Midterm elections, which will factor into our 2026 forecast, are presently too distant to matter, but they often [spur unease early before relief comes late](#).
- Uncertainty surrounding Fed Chair Jerome Powell's replacement before his term's expiration in May.
- The potential for uncertainty to jump however the [Supreme Court rules](#) on tariffs.
- Cash-hungry private credit and private equity are [trying to unlock retail investor cash](#), which could misallocate capital into illiquid assets and force later fire sales of stocks.
- Cryptocurrency's increased use by investors and select companies called "Crypto Treasury stocks" could blend their volatility into public equity markets. [This looks like a minor issue today](#), but it could grow.
- People are, understandably, doubtful of traditional recession indicators like the Leading Economic Index, which has delivered false warnings for years. But do they carry it too far and ignore a broader range of tools out of cynicism?
- Does excess emerge in the markets and/or economy? Perhaps financial product innovation goes too far, like allegedly safe "Boomer Candy" ETFs employing options strategies or leveraged single-stock or crypto funds?

Appendix II: Around the World in Politics

US politics generated headlines aplenty, with most focusing on matters outside markets' purview. Some conversation now shifts to 2026's midterms, which we are watching, but those are more relevant to returns next year and beyond. For now, there is too much noise and speculation. The government shutdown stirred more chatter in October, but most political developments with market significance happened abroad.

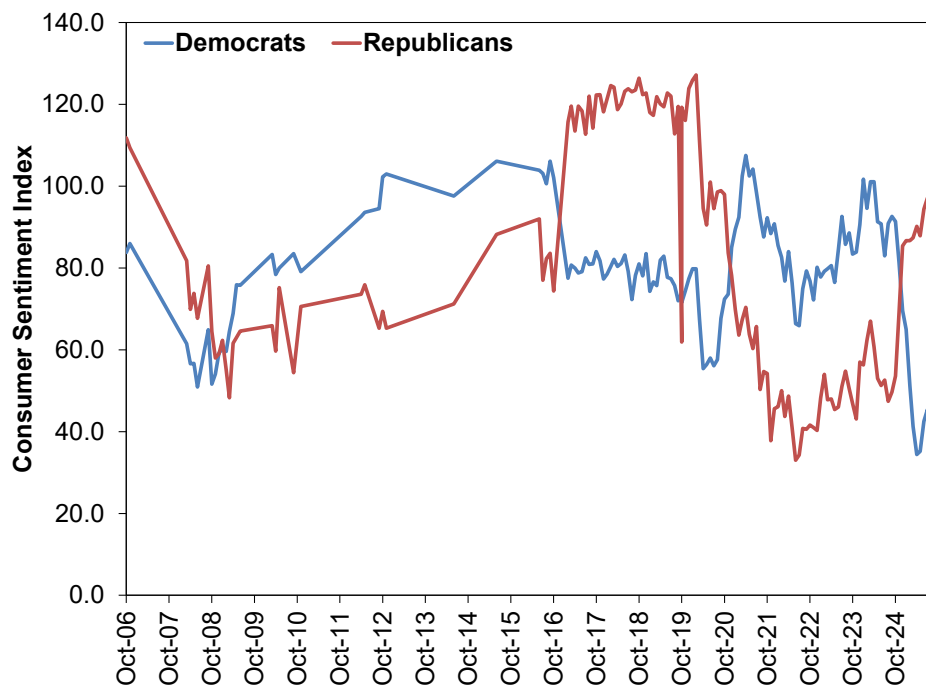
What Markets Do ... and Don't ... Care About

Politics often befuddle investors, largely because people have strong opinions about them. Political biases run deep, making it easy for feelings about non-economic matters to sway your view of politics' economic and market effects.

We see two chronic dangers. One, stocks are apolitical, with no preference among parties or politicians. Humans seem hard-wired to believe their preferred party must be good for stocks and the economy and the other party bad. The University of Michigan's Consumer Sentiment Survey illustrates this, showing readings by party affiliation. It didn't consistently parse partisan sentiment before 2017, but even limited looks before then show economic sentiment flips with the White House.

Political bias blinds investors from the simple truth that markets don't play favorites.

Exhibit 8: Consumer Sentiment Gets Partisan



Source: University of Michigan, as of 10/6/2025.

Yet we have had bull markets and bear markets under both parties. Recessions and expansions under both. Both parties enacted policies beneficial for markets and detrimental to them. Neither side monopolizes good or bad. Stocks know this, even if biases blind many people to it, and are neutral. If your political biases infect your market views, you risk missing this, which can prompt badly timed investment decisions.

Two, stocks don't care about most political issues in headlines. Most are "sociology"—societally important matters that don't relate to the economy.

The vast majority of political discourse is "sociology"—things unrelated to markets and economies. Such factors rarely sway stocks.

Hot-button cultural issues usually mean little to corporate earnings over the next 3 – 30 months. They don't affect businesses' investment decisions, consumer spending or overall day-to-day activity. Hence, these issues mean little to stocks generally.

On the Feckless Government Shutdown

The partial government shutdown that began October 1 stretches into its third week as we write, yet markets aren't bothered. S&P 500 returns thus far are flattish during the shutdown, while 10-year US Treasury yields are down slightly.²¹ This shouldn't shock you, as we have seen this many, many times in the past.

Shutdowns' economic and market relevance is minimal. Furloughed "non-essential" workers and "essential" workers going without pay receive backpay once the funding bill passes and the government reopens. While Congress used to have to authorize this, 2019's shutdown-ending legislation enshrines backpay permanently. The affected workers and businesses are a sliver of economic activity, and growth elsewhere more than offsets it. Hence, no shutdown ever caused a recession or bear market, a fact more pundits seemed to notice this time. Perhaps that signals sunnier sentiment today, but it may show this false fear is now too well understood to matter.

Exhibit 9: Government Shutdowns Don't Wreck Stocks

Shutdown at Midnight	Gov't Reopened	Days	S&P 500 Price Returns					
			Week Before Shutdown	During Shutdown (periods vary)	1 Month After Shutdown	3 Months After Shutdown	6 Months After Shutdown	12 Months After Shutdown
9/30/1976	10/11/1976	10	-1.6%	-2.5%	-3.2%	2.4%	-4.1%	-6.6%
9/30/1977	10/13/1977	12	1.6%	-2.6%	2.1%	-4.6%	-4.2%	11.5%
10/31/1977	11/9/1977	8	0.8%	0.1%	0.5%	-2.3%	3.7%	2.2%
11/30/1977	12/9/1977	8	-1.7%	-2.0%	-1.4%	-5.5%	7.8%	3.9%
9/30/1978	10/18/1978	17	0.7%	-1.2%	-7.5%	-1.8%	0.0%	2.1%
9/30/1979	10/12/1979	11	-1.0%	-3.9%	-3.4%	4.6%	-0.9%	24.0%
11/20/1981	11/23/1981	2	0.0%	0.0%	1.0%	-7.0%	-5.6%	10.3%
9/30/1982	10/2/1982	1	-2.7%	1.3%	9.6%	15.3%	25.4%	36.2%
12/17/1982	12/21/1982	3	-1.5%	-0.9%	6.6%	11.5%	24.0%	18.9%
11/10/1983	11/14/1983	3	0.6%	1.1%	-0.8%	-6.0%	-4.7%	0.6%
9/30/1984	10/3/1984	2	0.3%	-1.5%	2.4%	2.2%	10.4%	12.5%
10/3/1984	10/5/1984	1	-2.3%	0.3%	2.8%	1.0%	9.9%	12.3%
10/16/1986	10/18/1986	1	1.6%	-0.3%	2.4%	11.5%	20.1%	18.4%
12/18/1987	12/20/1987	1	5.9%	0.0%	1.1%	8.8%	8.6%	10.9%
10/5/1990	10/9/1990	3	1.8%	0.6%	-2.4%	0.6%	20.8%	21.4%
11/13/1995	11/19/1995	5	0.7%	1.3%	1.1%	8.0%	11.5%	22.9%
12/15/1995	1/6/1996	21	-0.2%	0.1%	3.1%	6.3%	6.6%	21.3%
9/30/2013	10/17/2013	16	-1.2%	2.4%	4.5%	7.4%	8.2%	8.2%
1/20/2018	1/22/2018	2	0.9%	0.8%	-3.3%	-5.0%	-0.3%	-5.0%
2/9/2018	2/10/2018	1	-5.2%	N/A	6.4%	3.0%	8.9%	3.4%
12/21/2018	1/25/2019	34	-7.1%	9.3%	5.7%	10.7%	13.7%	24.7%
Mean		8	-0.5%	0.1%	1.3%	2.9%	7.6%	12.1%

Source: FactSet, as of 9/23/2021. S&P 500 price returns, 9/30/1975 – 1/25/2020.

Gridlock's Unsung Benefits

Even with policies that directly affect the economy, like taxes, investors get tempted to believe measures or ideas are inherently bullish and bearish. But markets are more complex.

Policies are rarely all good or bad. All legislation creates winners and losers. Often, potential losers are less visible than winners, the legislation's downstream effect. Markets get this, which is why simply having an active legislature can be negative. A government that passes legislation easily can create winners and losers easily. Faster legislation gives markets less time to see—and pre-price—potential effects. So when governments are active, stocks can suffer legislative risk aversion. That doesn't always cause bear markets, but it can weigh on returns.

The reverse is also true: Gridlock is overwhelmingly bullish in developed markets. When a government can't pass much, investors needn't worry about sudden rule changes hurting future returns. Businesses can become more willing to take risk. Stocks get one less thing to fear, boosting returns.

The US's unified government minimizes party-line gridlock now, even with the small GOP House and Senate majorities—one factor we weigh as we look to 2026. But much of the world features significant gridlock, helping non-US stocks outperform. Few see this, focusing instead on perceived upheaval and debt concerns. These are false fears, hiding gridlock's stealthy magic.

Voters hate gridlock, but stocks love the reduced legislative risk!

Tune Down UK Tax Talk

Britain isn't technically gridlocked, as Labour has a large majority. But internal divides are delivering stalemate anyway.

Fiscal policy demonstrates this. Investors are sweating the UK's forthcoming Budget, which Chancellor of the Exchequer Rachel Reeves will unveil on Thanksgiving. When Labour won last year's election, Reeves pledged not to raise taxes on "working people," later clarifying this meant income tax, value-added tax and employee payroll tax. Yet her government is pursuing austerity, largely because its self-imposed and entirely political fiscal rules require projected deficits to be zero within five years. Last year's Budget tweaked inheritance taxes and raised employer payroll taxes. But with the Office for Budget Responsibility (OBR) reducing its economic forecasts—which feed into its deficit forecasts—most presume more austerity looms.

Reeves and Prime Minister (PM) Keir Starmer first sought to cut spending via welfare reforms akin to President Bill Clinton's in the 1990s, but intraparty opposition watered them down—gridlock. This diminished their political capital, as did Deputy Prime Minister Angela Rayner's downfall in a summertime tax scandal. With the populist Reform Party siphoning support from both main parties, Greater Manchester Mayor Andy Burnham now hints at a leadership challenge against Starmer. A spy scandal that broke in early October adds further pressure on Starmer.

Reeves is in a tricky position, torn between manifesto pledges, OBR forecasts and tax hikes' unpopularity. Burnham and others lobby for a wealth tax, but Reeves rules this out as impractical and ineffectual. Starmer, meanwhile, unveiled a more business-oriented economic team, and Reeves talks up deregulation and pro-growth measures. While this sounds investor-friendly, intraparty opposition persists, and gridlock looks likely.

As for taxes, we have seen this movie before. Last year's big fear was a sweeping capital gains tax hike, with reality proving far milder. While taxes rose for businesses and some individuals, GDP continues growing, and UK stocks continue outperforming global markets. Should Reeves try to massage revenue forecasts by extending the current freeze on income tax bands—a stealth hike as inflation drags more income into higher brackets—UK stocks have stomached this for years. It is old news, priced in.

Whatever happens, taxes are usually too widely known to move markets for good or ill. The debate is long and public. Often, what passes is watered down from initial proposals. This has been the UK's story for years and likely remains so.

Tax cuts aren't bullish ... and tax hikes aren't bearish. For good or ill, taxes rarely tax stocks.

New Government, Same Old Fears in France

France's government collapsed in September—the second in under a year—ousting PM François Bayrou. His replacement resigned after just 27 days, then was reappointed in a shock twist. Behind this is a budget spat that remains, stoking uncertainty. But clarity should come soon.

Bayrou's fall was largely a foregone conclusion, as his government narrowly escaped a no-confidence vote in July. The opposition parties hinted they would use September's budget to topple him, seemingly hoping for leverage. But Bayrou called a confidence vote on his budget proposals—including spending cuts and cancelling two holidays—before negotiations got going. Opposition parties on the left and right pledged to vote against it, and Bayrou lost and resigned on September 8.

President Emmanuel Macron tapped former Defense Minister Sébastien Lecornu to replace Bayrou, tasking him with seeing a budget through the National Assembly. Given the chamber is fractured among Macron's centrist Renaissance (which allies with the center-right Republicans), the center-left Socialist Party, leftist France Unbowed and the populist-nationalist National Rally, this isn't easy. No party has a majority, and they have little policy overlap. Lecornu's warmer relations with the National Rally theoretically enabled compromise, but hopes didn't pan out. Lecornu resigned October 5, citing irreconcilable differences with other party leaders.

Macron accepted Lecornu's resignation, then tasked him with continuing negotiations and breaking the impasse by October 7. That evening, Lecornu announced there was enough consensus for a new government to take power. But on October 9, Macron reappointed Lecornu, much to opposing parties' consternation. In his first parliamentary speech, he announced the government will suspend its flagship retirement age increase until after 2027's presidential

election. In return, the Socialists said they won't support a no-confidence motion, which they followed through on thereafter, allowing Lecornu to pass this first test. This doesn't guarantee he stays or passes a budget swiftly, but crucially, the stalemate and gridlock aren't new for French stocks, up 18.6% throughout France's political crises since summer 2024.²²

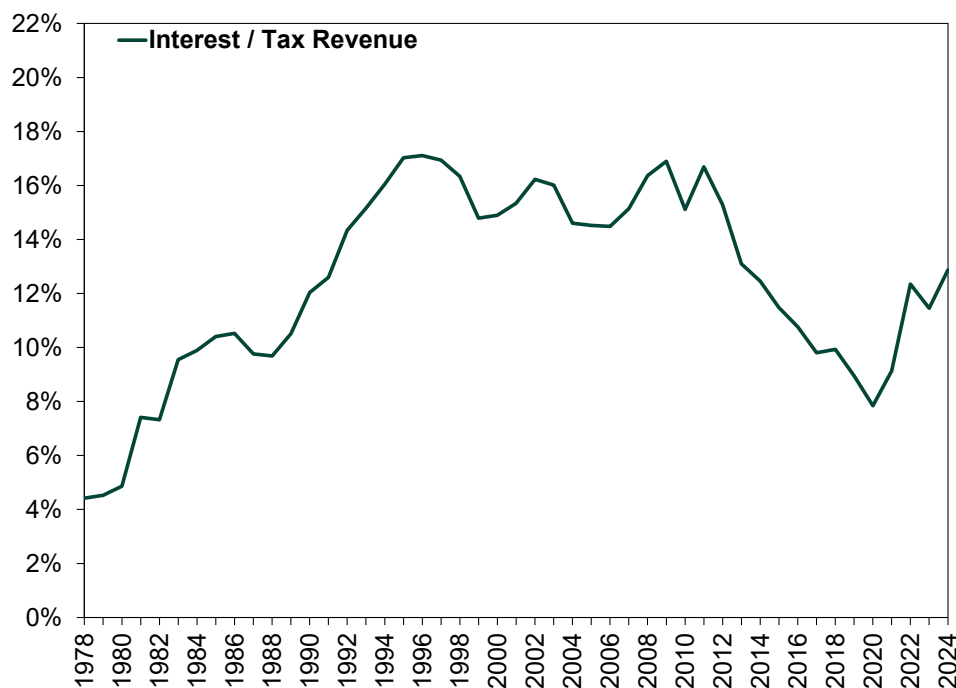
All parties agree in principle on deficit reduction. France's public finances aren't flailing, but the deficit exceeds EU limits, risking disciplinary action from Brussels (if it chose to do so). But the parties don't agree on how to trim. The government prefers cutting spending and preserving prior tax cuts, while others prefer tax hikes. Leftist parties push for a wealth tax, which polling favors.

The backdrop looks chaotic, complete with social unrest, and headlines warn of French debt doom. But reality is more benign. Even with unrest, gridlock is bullish. A government that can't pass a meaningful budget generally can't shock investors with sweeping legislation that would alter property rights or other factors critical to investment returns and risk-taking. French stocks, which are up since the autumn political crisis began, see this even if headlines don't.

France's finances are a political problem, not an economic and market risk. The best way to assess debt isn't by its size or share of GDP, but by interest payments' affordability. France's interest payments, though up, are a lower share of tax revenues than they were throughout the 1990s and 2000s, fine times for France's market and economy with no debt crisis. This is a brick in France's wall of worry.

**False fears are always bullish—
bricks in stocks' "wall of worry."**

Exhibit 10: France's Debt Remains Affordable



Source: Insee, as of 10/3/2025. Central government interest payments and tax revenues (excluding social contributions), 1978 – 2024.

Japan's Revolving Door Turns Again

Japan also has government turnover, with Sanae Takaichi succeeding Shigeru Ishiba as the ruling Liberal Democratic Party's (LDP's) leader in early October. Ordinarily, swiftly becoming PM (Japan's fourth since 2020) would be a formality, but the path quickly became complicated. The LDP elected Ishiba as party president and PM in October 2024 in hopes he would be able to unify the party and soothe public opposition after a fundraising scandal. But the LDP lost its lower-house majority in that month's general election. After another defeat in July's upper house election left the party and its now-former coalition partner, Komeito, with a minority government, Ishiba signaled he would resign following completion of the trade deal with the Trump administration. That deal wrapped and Ishiba's resignation became official in early September, launching a short party leadership race. Takaichi was announced as the winner on October 4.

Soon after, Komeito left the coalition, leaving Takaichi scrambling for support while the opposition Constitutional Democratic Party for Japan (CDPJ) explored joining with minority parties to field a candidate. After much speculation and talk, the LDP wound up sealing a coalition deal with the Japan Innovation Party, also called Ishin. The combination put Takaichi two seats short of a majority. And in October 21's vote, she won a simple majority in both the lower and upper house of parliament, ending the drama.

From here, uncertainty should ease. Takaichi is largely a known quantity for markets. A protégé of late Prime Minister Shinzo Abe, Takaichi calls her platform "neo-Abenomics," referring to his "three arrows" of fiscal stimulus, monetary easing and economic reform. Echoing him, she campaigned on tax cuts, public spending and the benefits of a weaker yen. However, we caution against drawing big conclusions: Takaichi doesn't have a mandate for reform, and a weaker yen isn't inherently bullish.

Furthermore, her coalition's minority status means legislation sweeping legislation isn't likely to pass fast. This form of gridlock is just fine for Japan, though, as prior administrations plucked much of the low-hanging reform fruit. Japanese stocks are also quite used to gridlock and have done fine since it returned after Abe stepped down.

Norway Re-Elects Gridlock

Norway's September election generated headlines, mostly because the right-wing populist Progress Party doubled its share of the vote from 2021's election and took second place, winning 48 seats in the 169-seat legislature. This rode the latest wave of populist fears, which weighs on sentiment throughout Europe. But we doubt it changes much for Norway's government.

The center-left Labour Party won re-election with 53 seats. A coalition with its traditional allies, should it form, would have 87 seats—a two-seat majority. Finalizing this could take time, however, as the four smaller parties try to win concessions on tax hikes and other measures. Whatever government emerges likely won't be able to do much, extending Norway's bullish gridlock—a backdrop to Norway's outperformance this year.

Next Up: The Netherlands

Dutch voters hit the polls on October 29 for a snap election, called after populist Freedom Party (PVV) leader Geert Wilders pulled his support from the governing coalition. The PVV currently holds a plurality in the House of Representatives, and outgoing PM Dick Schoof's government relied on it to survive. Without it, the government collapsed in June, teeing up October's contest. The Dutch Parliament is one of Europe's most fractured, with 15 groups currently holding seats in the House of Representatives. This has long complicated government formation, pancaking the country into gridlock. After November 2023's election, coalition building took over seven months as the PVV negotiated with other parties, who were ambivalent at best about working with Wilders. The process eventually entered *de facto* mediation, resulting in an extra-parliamentary cabinet staffed by technocrats and supported by the PVV, the center-right Party for Freedom and Democracy (VVD), centrist New Social Contract (NSC) and populist Farmer-Citizen Movement (BBB). This administration lasted less than a year, splintering over immigration, and passed very little.

Polls are similarly split now. The PVV leads at 21%, followed by the center-right Christian Democratic Appeal (CDA) and center-left bloc of the Labour Party and Greens (PvdA-GL) at 16% each.²³ Several others cluster under 10%. The backdrop hasn't changed, either. Traditional party leaders remain leery of the PVV. While there are numerous center-left as well as center-right parties, policy differences abound. A long government formation process looks probable once again, likely yielding a coalition that can do very little.

This is fine for Dutch stocks, which have done well with gridlock. Dutch markets tend to track global Tech trends due to the outsized weighting of ASML, which manufactures the lithography machines used to produce semiconductors worldwide. Dutch stocks are outperforming world and European markets year to date, thriving amid the latest standoff.²⁴

In countries with smaller markets and large sector concentrations, global sector trends can matter more to returns than local fundamentals.

Appendix III: Tools for Discipline—and a Look at Sentiment

As Appendix I noted, sentiment is increasingly sunny, with US investors growing particularly optimistic. Many mistake this for euphoria, arguing the bull market's end awaits. No matter your view, remember a critical component of our strategy: You need enforced discipline to ensure you don't exit markets prematurely or erroneously. With that in mind, let us detail our bear market rules—and then update you on our views of sentiment.

Our Bear Market Framework

Bear markets are deep, fundamentally driven declines of -20% or worse that usually (but not always) last for extended periods. Contrary to popular belief, they don't typically roar to life and end stocks' run dramatically. Rather, bull markets mostly die with a whimper.

Recognizing how bear markets form reduces the risk of getting fooled by a correction (a sharp, sentiment-driven pullback of roughly -10% to -20%). The biggest risk facing investors seeking long-term growth isn't a bear market. Rather, it is missing bull market returns needed to finance your goals and needs. As Ken says, "If you aren't in a bear market, you are in a bull market." Those seeking long-term growth should be positioned to participate.

The biggest risk investors seeking long-term growth face: Getting fooled out of stocks and missing gains.

A common missed-return culprit is exiting the market in a correction—then missing the rapid rebound. It is exceedingly hard to recoup those missed returns without taking undue risk. Hence, we think it is wise to follow strict rules aimed at avoiding being fooled.

The Wall or the Wallop

We believe bull markets end in one of two ways: the wall or the wallop.

The Wall

The "wall" is bull markets' proverbial wall of worry. At the top, stocks lose steam as euphoric investors see only sunshine ahead and can't fathom risk. That alone isn't necessarily bearish, but trouble arises when investors dismiss or ignore worsening fundamentals—believing stocks can rise forever because some magical new economy is here. These unattainable expectations breed a bear market as stocks pre-price the upcoming disappointment—or they make markets fragile and susceptible to any negative hit.

Today, sentiment has warmed to optimism, not euphoria. Optimism is generally rational—a recognition reality isn't as poor as feared—and expectations aren't outlandish. But euphoria blinds investors from negative news and inspires visions of a permanently profitable future with easy riches.

We see some faint previews of that now. For instance, many dismiss The Conference Board's Leading Economic Index (LEI) as broken, arguing its power is gone. We disagree. LEI may be less revealing presently due to pandemic-related developments and its skew toward goods-producing industries—but it isn't *broken*. (See our Q4 2024 Stock Market Outlook for more.) It has core components, including the yield curve and Leading Credit Index, that cover the broad economy. We think it remains useful, and as with any dataset, it is important to determine whether a drop is valid or a false read.

While this trend is something to watch, these examples are isolated. The wall of worry has plenty of bricks, and the consensus dismisses and/or ignores positive developments like the steeper yield curve (especially abroad, as Appendix I detailed). Euphoria would mean investors ignore negatives *en masse* and focus on potential positives. We aren't there yet.

Atop the wall of worry, fears vanish and expectations become unattainable.

The Wallop

The wallop is a huge, little-noticed negative shock large enough to destroy trillions of dollars of economic activity, causing a global recession. 2020 is a textbook example. Governments

Wallops are negative shocks, but the effects aren't necessarily always rapid like COVID lockdowns.

worldwide shuttered economies in response to COVID—halting the global economy. The 2007 – 2009 global financial crisis is another. There the shock was less-seen and remains lesser-known: Markets priced how applying mark-to-market accounting rules to illiquid, hard-to-value assets

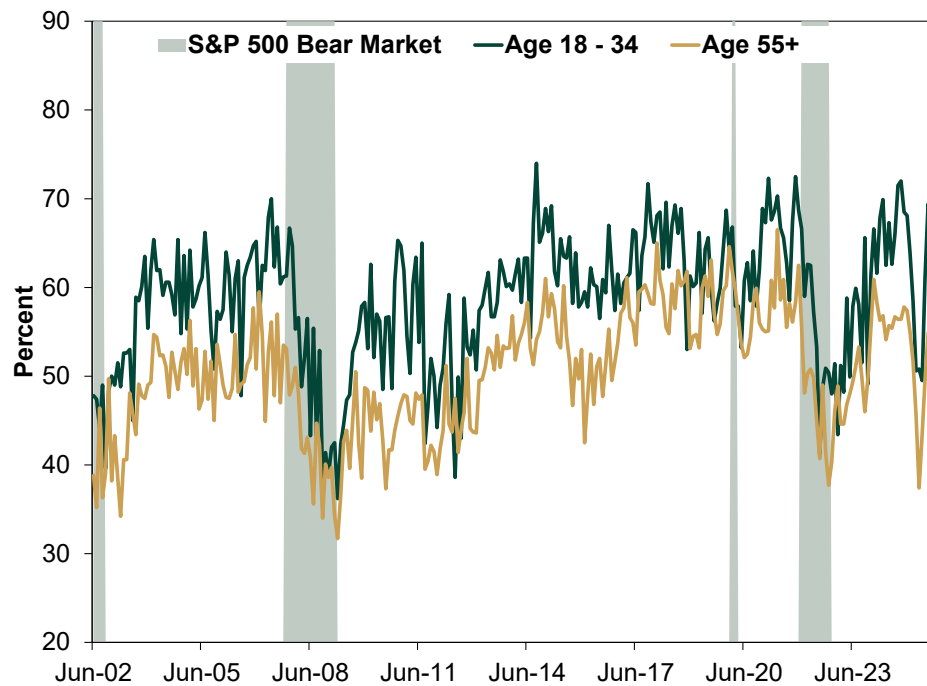
would decimate bank balance sheets and the haphazard government response that followed.

It has been a long time since a long, traditional bear market that accompanied a turning business cycle. 2022's was sentiment-led. The MSCI World Index spent only 36 days below -20%, and recession never occurred.²⁵ 2020's was a wallop, but its speed was correction-like—both in the decline and recovery. The recession stemmed from a wallop, not the business cycle rolling over.

You must go back nearly two decades to 2007 – 2009 for an archetypal, big bear market that preceded or paralleled a recession. This suggests the traditional bear market has power to surprise investors when it happens. Many younger investors haven't experienced one in their working years or while investing. Those who did invest through 2008 or 2000 – 2002 may not recall it with clarity, as time and behavioral quirks can morph memories.

This manifests in younger folks' tendency to be more positive and have more of a “buy the dip” mentality than older folks. (Exhibit 11) Why? Younger investors tend to be relatively more eager to trade and rely more on social media for financial information—which may stir more optimism than traditional news sources. And their sunnier outlooks may simply reflect their not yet having the scars from experiencing a grueling bear market.

Exhibit 11: Younger Generation Vs. Older Generation Stock Market Optimism



Source: FactSet, as of 10/8/2025. Percentage of respondents (based on age group) who believe stock market will rise in the next year, as recorded by the University of Michigan.

Our Bear Market ‘Rules’

We have some “rules” to identify bear markets. They serve primarily to keep us disciplined to coolly analyze conditions instead of reacting impulsively.

The 2% Rule

Bear markets typically have rolling tops. Their decline averages around -2% monthly, with the steepest drops coming late. Hence, early market declines are gradual. Sharp, sudden drops are more characteristic of a sentiment-driven correction. If a decline vastly exceeds -2% a month, it is likely a correction.

The 3-Month Rule

Even if stocks appear to have peaked, we wait at least three months before taking defensive action. That gives us time to assess whether the downturn is a correction or bear market—and whether there is likely enough downside ahead to make defensive action worth the risk. Can we identify a fundamental, little-noticed reason to exit stocks? Has stocks’ decline been slow or rapid? How has mainstream coverage discussed the decline, *i.e.*, is it fearful of more or does it dismiss it as a buying opportunity?

The Two-Thirds/One-Third Rule

About a third of a bear market’s decline typically happens in the first two-thirds of its lifespan. The biggest drop—roughly two-thirds of the decline—occurs in the last third. We don’t seek to

exit at the bull market peak and avoid *all* downside. Doing so is far too risky—if we are wrong and the downturn is a correction, we miss critical returns. Rather, our goal is to carve out a chunk of the downside while getting back in to capture the rebound.

Our remaining bear market rule states you should almost never be out of the market more than 12 to 18 months. It isn't relevant to exiting markets but has the same goal: Ensuring you are in stocks when bull markets are underway.

Our bear market rules aim to prevent rash reactions.

Understanding what *doesn't* end bull markets can help investors stay disciplined. Most headline fears are too small, misinterpreted or too widely discussed to wallop.

For instance, pundits now portray weak manufacturing as a sign of broader trouble. But heavy industry is too small to derail the US economy. Manufacturing is less than 10% of US GDP, dwarfed by services (over 70%).²⁶ Global manufacturing declined in the mid-2010s—weighing on growth in some major economies, including China—yet no bear market occurred.

US debt is a fertile misperception. Most fret its seeming hugeness. When debt ceiling chatter perks, default fears hit overdrive. Yes, a US default would be bad, with potential wallop power. But the likelihood is tiny considering America's tax revenues easily cover interest payments. Debt concerns are a longstanding, bullish false fear.

Widely discussed negative stories tend to get priced quickly, sapping their surprise power. This is often the case with regional conflicts. While there may be some volatility in the run-up to fighting, that is usually fleeting—even if conflict actually erupts.

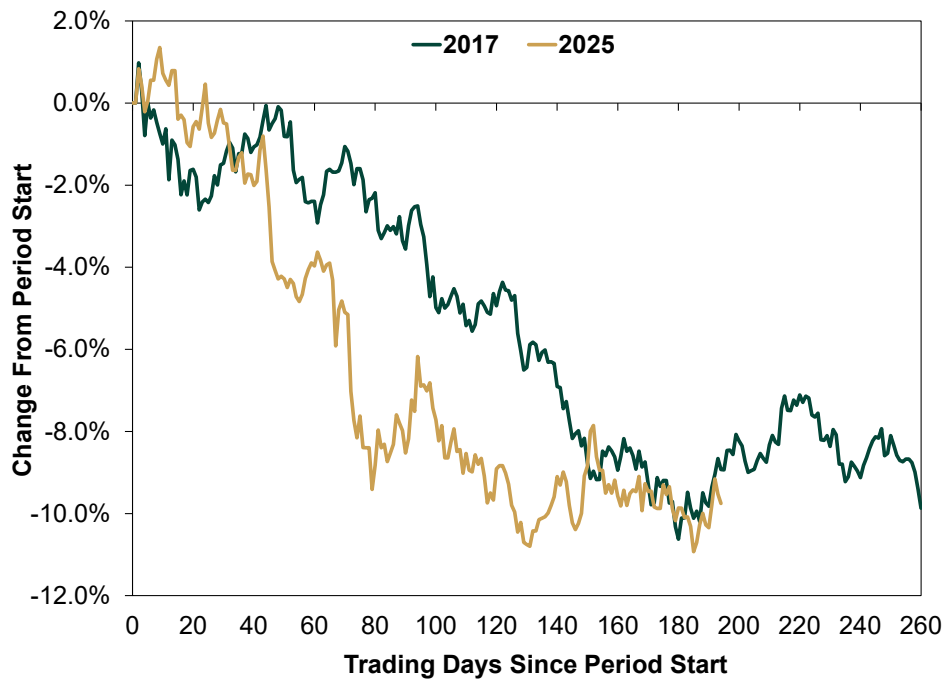
On Today's Headline Risks

Today's alleged market risks fall into these categories. In addressing them, we may seem dismissive after a while, but that is chiefly because the key is to hunt risks others aren't.

The Weak Dollar

US dollar weakness has preoccupied headlines this year, though gripes tend to arise whether the greenback is weak or strong. The former allegedly means expensive imports stoke inflation while the latter supposedly knocks corporate profits. But if you look at the dollar compared to a trade-weighted currency basket and compare it to Trump's first term, dollar weakness isn't extraordinary. (Exhibit 12)

Exhibit 12: The 2025 Weak Dollar Parallels 2017



Source: FactSet, as of 10/2/2025. US Dollar Index, 12/31/2016 – 12/31/2017 and 12/31/2024 – 9/29/2025.

Ken detailed this in his [August New York Post column](#), showing currency markets are treating Trump as a traditional Republican president. Since former President Richard Nixon’s inaugural year in 1969, the buck weakened in 75% of GOP presidents’ terms. 2025 isn’t an anomaly. Moreover, dollar weakness (or strength) doesn’t predict stocks’ direction.

The dollar isn’t collapsing. Yes, it has weakened relative to a trade-weighted currency basket since January. But the USD remains stronger than late-2020 – mid-2021—and well above levels from 2003 – 2015.²⁷

Exhibit 13: No Strong Relationship Between the Dollar and Stocks

		US Stocks		
		Up	Down	Total
US Dollar	Strong	24 (42.9%)	6 (10.7%)	30 (53.6%)
	Weak	20 (35.7%)	6 (10.7%)	26 (46.4%)
	Total	44 (78.6%)	12 (21.4%)	

Source: Finaeon, Inc., as of 8/13/2025. Annual trade-weighted US dollar index and S&P 500 Total Return Index, 12/31/1968 – 12/31/2024.

Consider, too, all the countries pegging their currency to the US dollar, which wouldn’t happen if collapse were likely. Hong Kong famously maintains a narrow trading band between the Hong Kong dollar and US dollar (HK\$7.75 to HK\$7.85 per USD). Some nations (*e.g.*, Ecuador) use the USD as legal tender. The IMF reports nearly 40 countries anchor their currency to the greenback officially. (Exhibit 14) Even though China switched its dollar peg to a currency basket in 2005, many observers think the government still *unofficially* pegs the RMB to the buck.

Exhibit 14: The IMF's Exchange Rate Arrangements, as of 2023

Peg		Managed Arrangement	USD as Tender
Djibouti	Belize	Guyana	Ecuador
Hong Kong	Curacao	Honduras	El Salvador
Antigua and Barbuda	Sint Maarten	Lebanon	Marshall Islands
Dominica Grenada	Eritrea	Maldives	Micronesia
St. Kitts and Nevis	Iraq	Trinidad and Tobago	Palau
St. Lucia	Jordan	Ukraine	Panama
St. Vincent & the Grenadines	Oman	Nicaragua	Timor-Leste
Aruba	Qatar	Cambodia	
The Bahamas	Saudi Arabia	Iran	
Bahrain	Turkmenistan		
Barbados	United Arab Emirates		

Source: IMF, as of 10/8/2025.

Regional Conflict

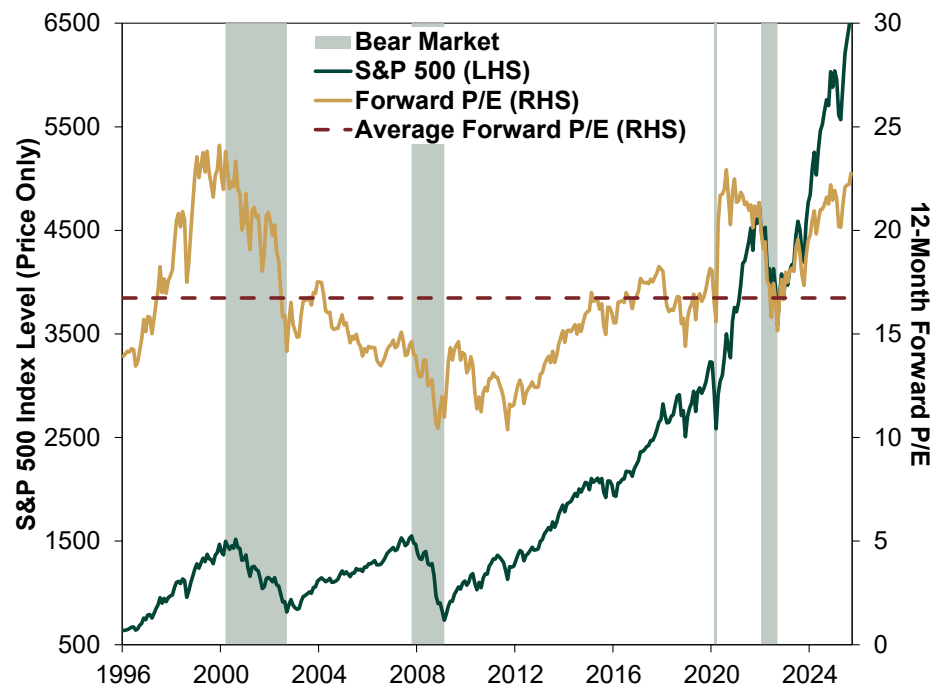
War is always tragic, with human and societal costs. Yet regional conflicts are usually a false fear for investors. From 1967's Six-Day War and Operation Desert Storm in 1991 to Russia's 2014 annexation of Crimea, local fighting lacked the scale to wallop a global bull market.

While 2022 may seem like a counterpoint, Russia's invasion of Ukraine didn't cause the bear market, which began nearly two months before the war. It was one of many issues stinging investors that year, contributing to a sentiment-driven bear market. That downturn ended in October 2022. Since then, the Russia – Ukraine war has raged on. Hostilities flared in the Middle East, from Hamas's attack on Israel in October 2023 to the war in Gaza and Tel Aviv's strikes on Iran in June. The bull market persisted. Russian drone incursions in Europe have added more drama to the geopolitical stage, but regional conflicts on their own aren't bearish. They affect too small a sliver of GDP to wallop.

Valuations

Are stocks "too expensive?" Some say so, citing high price-to-earnings (P/E) ratios and other valuations. But this false fear is age-old. Every valuation, from the trailing P/E to the cyclically adjusted P/E (CAPE), is backward-looking. Even the forward P/E—which compares prices to analysts' earnings estimates for the next year—isn't *forward-looking*. The current price reflects past performance, while expectations are influenced by the present and recent past.

Valuations simply aren't predictive. Look at history. (Exhibit 15) The forward P/E *coincided* with new bear and bull markets—but at varying levels and trends. True, it was above average before the 2000 – 2002 bear market. But it was below average before the 2007 – 2009 bear market. "Expensive" stocks can get more expensive—and "cheaper" stocks can fall further. Old information doesn't inform.

Exhibit 15: S&P 500 Vs. Forward P/Es

Source: FactSet, as of 10/10/2025. January 1996 – September 2025.

‘Season of Crashes’

Even as global markets hit new highs, some think a dip is due for seasonal reasons, given October’s reputation as “the month of crashes.” But this is undeserved. October’s average monthly return is a *positive* 0.9%—middling. Stocks rose in 58% of Octobers since MSCI World data begin in 1970.²⁸ Longer-term S&P 500 data tell a similar story: October averages just under 1% monthly gains, rising in 61% of them since 1926.²⁹

October featured two bad recent crashes: 1987 and 2008. But the month was coincidence, just as March was coincidental to COVID lockdowns and April was coincidental to tariffs’ unveiling.

Volatility can strike any time. A pullback could be underway when you read this. But that would likely be the market’s random noise. As Mark Twain quipped in *Pudd’nhead Wilson*, “October. This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August and February.”

We hope you have found this information helpful. Please contact Fisher Investments at 800-568-5082 for more information on our outlook and services, or to arrange an appointment with one of our representatives for a complimentary review of your portfolio. To follow our ongoing commentary on market and economic events, please visit our *MarketMinder* blog on Fisher Investments’ corporate website: <https://www.fisherinvestments.com/en-us/marketminder>. Alternatively, you can [sign up here](#) for *MarketMinder*’s weekly newsletter.

The Investment Policy Committee

Aaron Anderson, Ken Fisher, Bill Glaser, Michael Hanson and Jeff Silk

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¹ Source: FactSet, as of 10/1/2025. MSCI World Index return with net dividends, 6/30/2025 – 9/30/2025 and 12/31/2024 – 9/30/2025.

² Source: FactSet, as of 9/29/2025. Statement based on S&P 500 average time from the point the bull market's final correction reached recovery to end of bull market, 1928 – 2024.

³ Source: FactSet, as of 10/1/2025. MSCI World Index return with net dividends, 12/31/2024 – 9/30/2025.

⁴ Source: FactSet, as of 10/1/2025. MSCI World Index return with net dividends, 6/30/2025 – 9/30/2025.

⁵ "Earnings Insight," John Butters, FactSet, 10/3/2025.

⁶ Ibid.

⁷ Ibid.

⁸ Source: FactSet. MSCI Europe and S&P 500 expected full-year 2026 earnings growth.

⁹ Source: Eurostat, as of 10/3/2025.

¹⁰ Ibid.

¹¹ Ibid.

¹² Ibid.

¹³ Ibid.

¹⁴ Source: FactSet, as of 10/15/2025.

¹⁵ Source: Center for Financial Stability, as of 10/3/2025.

¹⁶ Ibid.

¹⁷ Source: European Central Bank and Bank of England, as of 10/3/2025. Figures are eurozone M3 and UK M4 excluding other financial corporations.

¹⁸ Source: US Bureau of Economic Analysis, as of 10/3/2025.

¹⁹ Source: Fisher Investments Research, as of 10/3/2025.

²⁰ Source: US Customs and Border Protection, as of 9/23/2025.

²¹ Source: FactSet, as of 10/15/2025.

²² Source: FactSet, as of 10/10/2025. MSCI France return with net dividends, 6/30/2024 – 10/10/2025.

²³ Source: Politico, as of 10/3/2025.

²⁴ Source: FactSet, as of 10/10/2025. MSCI Netherlands, MSCI Europe and MSCI World Index returns with net dividends, 12/31/2024 – 9/30/2025.

²⁵ Source: FactSet, as of 10/10/2025. MSCI World Index returns with net dividends, 1/4/2022 – 10/12/2022.

²⁶ Source: Bureau of Economic Analysis, as of 10/7/2025.

²⁷ Source: FactSet, as of 10/7/2025. United States Dollar Index, December 1999 – September 2025.

²⁸ Source: FactSet, as of 10/1/2025. MSCI World Index October returns with net dividends, 12/31/1969 – 9/30/2025.

²⁹ Source: Finaeon, Inc., as of 10/1/2025. S&P 500 monthly total returns, 1926 – 2024.

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