

An aerial photograph of Madison, Wisconsin, showcasing a mix of urban architecture and natural beauty. In the foreground, the Monona Terrace Convention Center is prominent, featuring a large, curved glass facade and a rooftop terrace with a central fountain and landscaped gardens. Behind it, a dense cluster of city buildings is visible, including the iconic Wisconsin State Capitol building with its large white dome. The city extends to the edge of a large body of water, with a small island visible in the distance under a clear blue sky. The water in the foreground is a deep green, reflecting the surrounding landscape.

U.S. equities extended gains, with all major indices reaching record highs amid optimism over potential Federal Reserve (Fed) easing and steady consumer resilience. Treasuries weakened and the yield curve flattened as stronger growth signals and mixed central bank commentary tempered rate cut expectations. Credit markets remained stable and spreads stayed tight.

1. **Beyond the headlines:** Labor market softens as data gap adds uncertainty.
2. **Report releases:** Durable goods orders rose in August, signaling solid business investment.
3. **Financial market data:** Broad-based gains lifted equities to record highs as easing expectations and steady sentiment supported risk appetite.
4. **Looking ahead:** The focus this week will be on Fed meeting minutes, U.S. trade data, and consumer confidence.

Beyond the Headlines: Labor Market Softens as Data Gap Adds Uncertainty

Recent labor indicators suggest that the U.S. labor market is losing momentum as the economy enters the fourth quarter. The September ADP employment report showed that private sector payrolls contracted by 32,000, their first decline since early 2023. The drop was largely driven by small and mid-sized firms, which shed a combined 60,000 positions; large employers added roughly 33,000. Hiring weakness was broad-based, with declines across professional and business services, financial activities, and leisure and hospitality. The data aligns with a broader slowdown in hiring demand and reflects employer caution amid persistent policy uncertainty and rising input costs.

Wage trends continued to moderate, supporting the view that labor-driven inflationary pressure is easing. Pay growth for job stayers was steady at 4.5 percent year-over-year, whereas job changers saw compensation gains slow to 6.6 percent from 7.1 percent in August. The largest deceleration occurred in cyclical industries such as leisure and hospitality and financial services, suggesting that firms in consumer-sensitive sectors are tightening compensation budgets in response to softer demand. Although pay growth remains above pre-pandemic averages, the pace has cooled meaningfully, offering the Fed some reassurance that the inflationary impulse from the labor market is diminishing.

Incomplete View of Labor Conditions

The Job Openings and Labor Turnover Survey (JOLTS) added to that narrative, showing that job openings were essentially flat from the previous month but well below highs from 2022. Hires and quits continued to trend lower, with the ratio of openings to unemployed workers narrowing to roughly 1.3 from 1.8 one year ago. This normalization points to a labor market that is rebalancing rather than collapsing. Employers remain reluctant to lay off workers but are less aggressive in hiring or bidding up wages.

Complicating the outlook, the official September employment report was not released because of the ongoing federal government shutdown, depriving investors and policymakers of key headline figures such as total nonfarm payrolls, the unemployment rate, and participation trends. The absence of these figures leaves the market with an incomplete view of overall labor conditions at a critical inflection point for monetary policy.

Delicate Balance for Investors

For investors, the current backdrop presents a delicate balance. On one hand, the moderation in hiring and wage growth supports the case for additional policy easing, reinforcing the view that inflation is moving closer to the Fed's 2 percent target. On the other hand, the data void complicates risk assessment and could heighten volatility if upcoming releases, once resumed, show sharper deterioration than expected. Equity markets may remain resilient as hopes for further Fed cuts persist, but the uncertainty around labor momentum and consumer durability warrants maintaining exposure to higher-quality, defensive assets with strong balance sheets and stable cash flows.

Across portfolios, a balanced stance remains prudent. Credit spreads have remained contained, reflecting faith in underlying economic resilience, but a prolonged shutdown or delayed policy clarity could shift sentiment quickly. The labor market remains functional yet fragile, steady enough to avoid recessionary fears but soft enough to keep investors cautious until data flow normalizes and the policy path becomes clearer.

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Report Releases: September 29–October 3, 2025

Conference
Board Consumer
Confidence Index
September (Tuesday)

Consumer confidence fell more than expected, likely in part because of increased political uncertainty from Washington.

- Expected/prior month consumer confidence: 96.0/97.8
- Actual consumer confidence: 94.2



ISM
Manufacturing Index
September
(Wednesday)

Manufacturing activity improved modestly; however, the index remained in contractionary territory.

- Expected/prior month ISM Manufacturing index: 49/48.7
- Actual ISM Manufacturing index: 49.1



Employment Report
September (Friday)

Last month’s employment report has been delayed because of the federal government shutdown.



ISM Services Index
September (Friday)

Services missed expectations, narrowly escaping falling into contractionary territory.

- Expected/prior month ISM Services index: 52.0/52.0
- Actual ISM Services index: 50.0



>> The Takeaway

- Consumer confidence fell from 97.8 to 94.2 in September, missing expectations of 96 amid heightened political uncertainty and inflation concerns. This signaled softer household sentiment ahead of the holiday season.
- The much-anticipated September employment report was delayed amid the federal government shutdown, leaving investors without a critical read on labor market momentum.

Financial Market Data

Equity

Equities advanced, fully reversing the previous week’s losses as all major indices reached record highs. Gains were broad-based, supported by optimism around additional potential rate cuts and resilience in the consumer sector. Defensive and growth-oriented sectors both participated, whereas energy lagged amid softer commodity prices. Despite ongoing political gridlock and delayed data releases, investor sentiment remained constructive heading into earnings season and key policy updates.

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	1.11%	0.43%	15.30%	19.35%
Nasdaq Composite	1.33%	0.54%	18.60%	28.04%
DJIA	1.11%	0.78%	11.34%	13.21%
MSCI EAFE	2.72%	1.59%	27.78%	19.83%
MSCI Emerging Markets	3.66%	2.07%	30.81%	20.33%
Russell 2000	1.78%	1.64%	12.19%	15.12%

Source: Bloomberg, as of October 3, 2025

Fixed Income

Treasuries weakened as the yield curve flattened, with tepid auction demand underscoring softer foreign participation. Investors pared expectations for multiple near-term rate cuts after solid housing data, firm capital goods orders, and a GDP revision signaled resilient growth. Divergent Fed commentary added uncertainty. Credit markets remained stable and spreads stayed tight despite renewed tariff headlines and rising geopolitical risks.

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	1.23%	6.39%	3.43%
U.S. Treasury	0.93%	5.53%	2.58%
U.S. Mortgages	1.45%	7.15%	4.01%
Municipal Bond	2.46%	2.86%	1.30%

Source: Bloomberg, as of October 3, 2025

>> The Takeaway

- Equities climbed to record highs as broad-based gains reflected optimism over potential rate cuts and resilient economic data, with sentiment staying constructive despite political gridlock and delayed reports.
- Treasuries weakened and the yield curve flattened as stronger growth indicators and mixed Fed commentary led investors to scale back expectations for additional near-term easing.



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convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than \$50 million. One basis point is equal to 1/100th of 1 percent, or 0.01 percent. One basis point (bp) is equal to 1/100th of 1 percent, or 0.01 percent.

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