Shearwater Creek Investment Matters

Market Update: October 2025

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The equity rally rolled on through the past month, with stocks once again hitting new all-time highs. But while the headlines sound impressive, the leadership remains narrow. The “Magnificent Seven” and other beneficiaries of the massive AI capital spending wave continue to do most of the heavy lifting.

Meanwhile, the Fed just wrapped up another meeting, the U.S. government remains in a shutdown, trade and tariff discussions are back in focus, and the headlines comparing today’s market to the Dot-Com Bubble are everywhere. Let’s take a closer look at what’s behind the noise.

Federal Reserve

The Fed concluded its most recent meeting with a 0.25% rate cut, bringing the Fed Funds target range down to 3.75%–4.00%. Two members dissented — one pushing for a deeper cut and another preferring no cut at all — a reminder of how divided the outlook remains within the committee.

Chair Powell’s comments were measured. While markets were hoping for another cut in December, Powell made it clear that nothing is guaranteed. Perhaps more significant, the Fed announced it will end Quantitative Tightening by December. Going forward, proceeds from maturing Treasuries and mortgage-backed securities will be used to purchase T-Bills — a subtle but meaningful shift toward a more supportive stance.

U.S. Government Shutdown

By the time you read this, the shutdown may already be resolved, or close to it. Both sides continue to posture, but we believe the impasse will likely end within the next week or two. November 1st is a key date — that's when everyday Americans start to feel the tangible effects of a prolonged closure.

While the shutdown will trim some fourth-quarter GDP, the markets appear to be taking it in stride. The bigger challenge for now is the lack of economic data being released. The Fed specifically noted that missing reports, particularly on employment, are making it harder to get a clear picture of the economy in real time.

Are We in a Bubble?

The comparisons to the year 2000 are hard to miss, but we think they're more headline fodder than meaningful analysis.

Yes, the S&P 500 is trading above long-term valuation averages, but the fundamentals behind today's rally are far stronger. The current growth is being powered by massive corporate spending on AI infrastructure, led by large, cash-rich tech companies. This is very different from the debt-fueled speculation that defined the late 1990s.

And this spending isn't limited to semiconductors. It's driving growth in construction, industrials, utilities, and equipment suppliers, as companies build out data centers and power capacity. While a correction could happen at any time — as it always can — it's likely to be temporary unless we see a pullback in capital investment or a broader slowdown in the economy.

Trade and Tariffs

Trade policy has reemerged as a key market topic. The U.S. continues to take a firm stance toward China, keeping in place many of the existing tariffs while exploring targeted measures in key industries like electric vehicles, batteries, and critical minerals.

At the same time, the administration is deepening partnerships with allies in Europe and Asia to diversify supply chains and reduce strategic dependence on China. These moves may create some short-term cost pressures, but they're widely viewed as supportive of long-term industrial strength and domestic investment.

Many companies are already adapting by reshoring operations or expanding manufacturing footprints in Mexico, Vietnam, and India. For investors, the takeaway is that the tariff story today is less about trade wars and more about supply chain realignment — a structural shift that could reshape global manufacturing in the years ahead.

Looking Ahead

Markets remain caught between two narratives: the optimism around easing monetary policy and resilient corporate earnings, and the caution around high valuations and persistent geopolitical risks.

Despite the noise, the economy continues to hold up well. Consumer spending has softened modestly, but business investment — particularly in AI and infrastructure — remains a powerful driver of growth. With the Fed now signaling flexibility and the bulk of the tightening cycle behind us, the path forward looks constructive, even if the ride isn't perfectly smooth.

Volatility may pick up as we move through year-end, but for now, the underlying trends still point toward steady, if uneven, progress.

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