

Restless Calm

A continued U.S. government shutdown kept investors in the dark on economic data last week and potential weakness in some areas of the credit market raised the concern over potential contagion. Still, for the week, the S&P 500 Index was +1.7%, the Dow Jones Industrials +1.6%, and the NASDAQ +2.5%. The Communication Services, Real Estate, and Technology sectors led the S&P 500 Index for the week, while the Financials, Health Care, and Energy sectors lagged. The 10-year U.S. Treasury note yield decreased to 4.001% at Friday’s close versus 4.055% the previous week.

The September CPI and PPI reports scheduled for last week were delayed. The CPI report is now scheduled for release on Friday. There is no date set for the PPI report. The CPI will be one of the few data points investors will see ahead of the October 29th Federal Reserve policy meeting. The Federal Reserve is widely expected to reduce the Fed funds target rate by 0.25% at the meeting. CME Fed funds futures are also projecting additional cuts in December and January.

Some credit fears leaked into the market last week. Investment bank Jefferies had high lending exposure to First Brands Group, which declared bankruptcy. Regional bank Zions Bancorp announced some credit charge offs and Western Alliance Bancorp announced it was suing a borrower for fraud. These multiple headlines around credit brought concerns about contagion, especially with the rise in private credit funds over the past few years.

The pace of quarterly earnings reports increases this week with 90 companies in the S&P 500 Index scheduled to report results. Third quarter S&P 500 Index earnings growth is forecast at 8.5% with revenue growth of 6.6%. Full-year 2025 earnings are expected to grow by 11.0% with revenue growth of 6.2%.

In our *Dissecting Headlines* section, we look at recent changes in investor sentiment.

Financial Market Update

| | <u>Weekly Return</u> | <u>YTD Return</u> | | <u>Weekly Return</u> | <u>YTD Return</u> |
|-----------------------------------|----------------------|-------------------|-----------------------------|----------------------|-------------------|
| S&P 500 Index | 1.7% | 14.5% | Aggregate Bond Index | 0.4% | 6.9% |
| Dow Jones Industrial Average | 1.6% | 10.0% | U.S. Dollar Index | -0.6% | -9.3% |
| NASDAQ 100 | 2.5% | 18.8% | WTI Crude Oil | -2.3% | -19.8% |
| Russell 2000 (Small Cap Index) | 2.4% | 11.1% | Gold | 5.7% | 61.9% |
| International Stocks (MSCI ex-US) | 0.4% | 27.3% | Real Estate (US REIT Index) | 3.8% | 4.8% |

Sources: S&P Global, FactSet

Dissecting Headlines: Investor Sentiment

Investors typically hate uncertainty and investor sentiment can be a mirror of the uncertainty in the market and the economy. As the U.S. government shutdown heads into its fourth week with no definitive end in sight, we can see the level of restlessness reflected in investor sentiment data.

The American Association of Individual Investors (AAII) survey asks for investors’ weekly opinions of where the stock market will be (up or down) in the next six months. The current week data showed a drop in Bullish sentiment (those who think the stock market will rise over the next six months) to 33.7% from 45.9% the prior week. This is now below the historical average of 37.5%. The level of Bearish sentiment (those who think the stock market will fall over the next six months) rose to 46.1% from 35.6%. This is well above the historical average of 31.0%.

While this is a significant weekly shift in sentiment, it not the worst we have seen even this year. During the March-April timeframe, when tariff fears were swirling, Bullish sentiment fell as low as 19.1% and Bearish sentiment rose as high as 61.9%. As often happens, those extreme levels proved to be a contrarian buying opportunity.

The NovaPoint Team



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Joe has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a portfolio manager at Spectrum Advisory Services and GMT Capital in Atlanta, and Epoch Investment Partners in New York. He has also worked as an equity research analyst at Merrill Lynch and ABN Amro. Before beginning his investment career, Joe was an Infantry officer in the U.S. Army. Joe holds a BS from the U.S. Military Academy at West Point and an MBA from the University of Chicago. He is both a Chartered Financial Analyst (CFA) and a Chartered Market Technician (CMT).



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Frederick has over 30 years of experience in the investment management industry. Prior to joining NovaPoint, Frederick was a Partner and Investment Advisor at Brightworth where he advised high net worth investors. Frederick began his investment career in 1991 at Balentine & Co where he rose to Partner. He also co-founded and served as Chief Investment Officer at Wright Investment Management and at Smith & Howard Wealth Management. Prior to beginning his investment career, Frederick served as an Engineer officer in the U.S. Army. He holds a BS from the U.S. Military Academy at West Point and an MBA from Emory University. Frederick is a Chartered Financial Analyst (CFA).



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Meghan is an Investment Associate focusing on financial planning. Prior to joining NovaPoint, Meghan spent 18 years in government service as an Operations Officer in military intelligence. She holds two Bachelor of Science degrees from the University of Maryland and a Master of Science from the Joint Military Intelligence College. Meghan has additional education specializing in financial planning and is a member of the Financial Planning Association.

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