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Morning Briefing

On The Shutdown, Travel & Bank Blockchains

Check out the accompanying [chart collection](#).

Executive Summary: On the first day of the government shutdown, stock markets stayed calm and carried onward and upward. But modest reactions in the bond and gold markets as well as the dollar were registered. ... Also: Canadians feeling slighted by Trump and angry over his tariffs have stopped visiting the US in the usual droves. Jackie examines the impacts on US tourism. ... And in our Disruptive Technologies segment: Traditional banks are modernizing their traditional services using blockchain technology, making them cheaper, faster, and more resilient. JP Morgan's Kinexys division is the trailblazer. And Swift is at work developing a blockchain-based international transaction settlement system.

Strategy: Stocks Ignore the Government Shutdown. Investors in stocks—particularly those related to artificial intelligence (AI)—don't appear to care that Washington DC is closed for business. On day one of the government shutdown, the three major stock indexes rallied. The only indication of the slightest concern came from the slight dip in bond yields and the continued rally in gold.

Everyone seems quite complacent about the shutdown, assuming the Democrats and Republicans will come to terms and life will go on, as has been the case in past shutdowns. The prediction markets are betting that the shutdown will end within the next two weeks, and Bank of America analysts have calculated that the S&P 500 has averaged a 1% increase during past shutdowns.

History could certainly repeat, especially with a man known for dealmaking sitting in the Oval Office. But with market valuations high and tensions between Washington's political parties even higher, the lack of caution is somewhat surprising.

Here's how the markets responded to Washington's shutdown yesterday:

(1) *Stocks carried on.* The major stock indexes stayed in the green for most of Wednesday's

trading session The S&P 500 rose 0.3% yesterday, and both the S&P 500 and the DJIA closed at new record levels ([Fig. 1](#)).

The S&P 500 Healthcare and Utilities sectors were the top performers yesterday, up 3.0% and 0.9% respectively, but not because investors were running for safety. Healthcare investors were optimistic about President Trump's drug pricing deal with Pfizer, which was considered reasonable and gave the industry some certainty about future pricing.

Utilities continue to gain fans due to the current and anticipated increase in demand for electricity from data centers running AI programs. Many AI-related stocks rose, including the industry's poster child Nvidia. The stock, up 39.4% ytd, closed at a new 52-week high. The S&P 500 Information Technology and Consumer Discretionary sectors both gained 0.7% yesterday (or 0.71% and 0.69% to be exact), while the seven other sectors declined slightly.

(2) *Someone's playing defense.* Stock investors may not be flinching, but investors in the bond market and gold markets responded modestly to the government shutdown. The yield on the 10-year Treasury bond dipped to 4.10%, near its lowest levels of the year ([Fig. 2](#)). The dollar dropped as well ([Fig. 3](#)). Due to the government's shutdown, investors won't get the latest economic data, including the jobs report that was expected on Friday.

For gold investors, the government's shutdown was the latest piece of news to send the bullion's price higher ([Fig. 4](#)).

Consumer Discretionary: Canadian Tourists Still Boycotting. President Donald Trump's bevy of tariffs on Canadian goods and taunts that our northern neighbor should become the 51st state have not left Canadians in the mood to travel South. They're making their unhappiness known by boycotting some of their favorite spots in the US. A weak Canadian dollar hasn't helped: One Canadian dollar is worth just 72 US cents ([Fig. 5](#)).

The number of Canadian residents returning from the US fell in July for the [7th straight month](#), to 2.6 million, down 32.4% y/y. Conversely, the number of US residents who crossed the border to Canada fell 3% y/y to 3.3 million in the same month. Canada was the largest source of international tourists to the US last year.

Relations between the two countries don't appear to be thawing. Canada joined France and the UK in recognizing a Palestinian state at the United Nations last month. When President Trump first learned of Canada's plan, he noted on his social media platform: "Wow! Canada has just announced that it is backing statehood for Palestine. That will make it very hard for

us to make a Trade Deal with them.”

Here’s a look at the impact the Canucks are having on the US travel industry:

(1) *Canadians avoid Vegas.* The top five states that Canadians visit are Florida, California, New York, Texas, and Nevada, home of Las Vegas. Canadian air carriers Air Canada, WestJet, and Flair have transported 18% fewer passengers to Las Vegas ytd through July, a stark contrast to the [9% increase](#) in air travelers to Vegas from Mexico and the United Kingdom. The Las Vegas Convention and Visitors Authority is working with WestJet and Air Canada to create packages offering special prices on hotel rooms to attract Canadian visitors.

(2) *Canadians avoid Hawaii.* The number of Canadians visiting Hawaii in the first seven months of 2025—245,000—was down 9.4% y/y. Historically, the number of Canadian visitors to Hawaii has been second only to Japanese visitors, but Canadians have stayed longer and spent more. The upcoming months will be telling as the Canadian peak travel season to Hawaii spans from November to April, a September 5 [article](#) in *Hawaii Business* reported.

(3) *What companies are saying.* Recent earnings reports from Carnival Cruise Lines and Vail Resorts provide a mixed picture of the industry. Carnival reported that its business continued to improve, while Vail warned that sales of tickets for the upcoming ski season declined y/y. While neither company breaks out revenue from Canadian tourists, Carnival reports North American results and Vail operates ski resorts in Canada.

Carnival’s revenue rose 3.3% to \$8.2 billion in its August quarter. Adjusted earnings per share of \$1.43 topped analysts’ consensus \$1.32 forecast. The company raised its earnings forecast for the remainder of fiscal (November) 2025 and noted that almost half of the 2026 bookings are already sold and at higher prices.

Vail Resorts, on the other hand, reported a loss of \$5.08 a share in its July quarter compared to a \$4.70 a share loss in the year-ago quarter. Results were worse than the analysts’ consensus forecast for a loss of \$4.72 a share. The ski company’s revenue rose slightly to \$271.3 million, up from \$265.4 million. The disappointing results were blamed on a 3% decline in ski pass sales through September 19 for the upcoming North American ski season. The company plans on changing its marketing by reducing its reliance on e-mail and focusing on emerging channels, targeting social media, and influencers.

For its fiscal year ending July 31, 2026, the company forecast net income of \$201 million to \$276 million, below analysts' forecast of \$278.7 million.

The S&P 500 Hotels, Resorts, and Cruise Lines industry's stock price index—which includes Carnival but not Vail—is near an all-time high after climbing 8.4% ytd through Tuesday's close ([Fig. 6](#)). While the collective forward revenues per share of the index's component companies has yet to exceed its pre-pandemic highs, forward margins and forward earnings both are at record levels ([Fig. 7](#), [Fig. 8](#), and [Fig. 9](#)).

Analysts are optimistic that the S&P 500 Hotels, Resorts, and Cruise Lines industry's growth will continue. Revenue for the index's companies in aggregate is expected to grow 7.3% this year and 7.4% in 2026 ([Fig. 10](#)). Meanwhile, earnings are expected to climb 18.9% this year and 15.9% in 2026 ([Fig. 11](#)). The industry's forward P/E reflects its success at 20.3 ([Fig. 12](#)).

As the weather gets colder, it will be interesting to see whether Canadians continue to shun US vacation spots and, if so, what impacts that will have on the broader travel industry.

Disruptive Technologies: Banks Learn New Tricks. Banks are applying blockchain technology to traditional banking services, aiming to make them faster, cheaper, smarter, and more resilient. JP Morgan (JPM) is among the leaders through its Kinexys division, and the Society for Worldwide Interbank Financial Telecommunication (Swift) announced this week that it's jumping on the bandwagon.

Here's a look at what these financial giants are doing:

(1) *Moving swiftly into the future.* Swift is [working](#) to develop a blockchain settlement system with Ethereum ecosystem developer Consensys and 30 financial institutions, including Bank of America, Citi, JPM, and Wells Fargo. The system will initially focus on real-time, 24/7 cross-border payments, but it is ultimately expected to support the trading of tokenized assets as well, a September 29 [article](#) in Cointelegraph reported. North of 11,500 institutions in more than 200 countries use Swift's infrastructure to process transactions.

(2) *JPM goes digital.* JPM's Kinexys division is focused on payments, asset tokenization, and information. Its digital payment operation allows JPM institutional customers to transact intercompany payments or payments to another JPM client on a JPM blockchain, 24/7, and in real-time, both domestically and cross-border. The product increases clients' liquidity, reduces the need to pre-fund or use credit lines, and allows for automated, programmable

payments, a bank [primer](#) explains.

JPM has had some success attracting clients. Kinexys processes about \$3 billion in daily transactions, though that's far less than the \$10 trillion in payments that JPM handles daily.

Qatar National Bank Group, one of the Middle East's largest banks, uses the Kinexys platform to process corporate payments in Qatar. The system allows the bank to guarantee payments in as fast as two minutes. In August, FedEx announced that it would also adopt Kinexys payment system. India's Axis Bank uses Kinexys to process its commercial clients' cross-border dollar payments, JPM [announced](#) in March.

Ant International has been processing payments on the Kinexys system over the past year. More recently, it started processing FX trades involving dollars and euros using an on-chain FX swap, an August 29 [article](#) in *Ledger Insights* reported. The system currently supports dollars, euros, and pounds.

(3) *Tokenizing assets.* JP Morgan's Kinexys platform is also working on the tokenization of financial assets. It introduced a pilot program for the JP Morgan Deposit Token (JPMD), an electronic payment instrument issued by the bank that represents funds that have been deposited by a customer. In this pilot, JPMD is issued on Base, a public blockchain network built within Coinbase, and will only be available to JPM institutional clients.

JPMD and other deposit tokens could be an alternative to stablecoins, but they have the benefit of paying interest and being treated as a deposit. Clients can regard deposit tokens on their balance sheet with the same considerations typically applied to other deposit products, a JPM [web page](#) states.

The bank is also working with S&P Global Commodity Insights, Eco Registry, and the International Carbon Registry to tokenize global carbon credits. "Global carbon markets face challenges including inefficiencies and a lack of standardization, transparency and market fragmentation. A single, tokenized carbon ecosystem in which credits are portable between sellers and buyers supporting seamless means of settlement could contribute to addressing these barriers," a July 2 JPM [press release](#) stated.

Theoretically, any asset could be tokenized, including repos, private equity, and debt. Artwork, for example, could be tokenized, and its ownership could be split among numerous investors. So far, the adoption of this type of financial technology has been limited. The industry lacks harmonized cross-border regulations, legal clarity on on-chain investments,

and assurances on smart contract enforceability or protocol security and reliability, according to two JP Morgan industry analysts quoted in an August 7 [article](#) in The Block. But it's still early days, and bankers know that if they don't innovate, the crypto bros will.

Calendars

US: Thurs: Initial Claims 22,000; Factory Orders 1.4%; Motor Vehicle Sales 16.2mu; Logan. **Fri:** Nonfarm Payroll Employment 51k; Private Payrolls 35k; Unemployment Rate 4.3%; Average Hourly Earnings 0.3%; Average Weekly Hours 34.2; ISM M-PMI S&P Global Composite PMI 53.6; Williams; Jefferson. (Source: FX Street)

Global: Thurs: Eurozone Unemployment Rate 6.2%; Italy Unemployment Rate 6.0%; Spain Unemployment Change 8.4k; Japan Consumer Confidence 35.2; De Guindos. **Fri:** Eurozone PPI -0.1%; Eurozone C-PMI & NM-PMI 51.2 & 51.4; Germany C-PMI & NM-PMI 52.4 & 52.5; France C-PMI & NM-PMI 48.4 & 48.9; UK C-PMI & NM-PMI 51.0 & 51.9; Lagarde; Schnabel. (Source: FX Street)

Strategy Indicators

S&P 500 Earnings, Revenues, Valuation & Margins ([link](#)): Consensus estimates for the S&P 500 gapped down nearly 0.6% with the open of trading on September 22 due to S&P's quarterly rebalancing and three index changes. Forecasts fell because the newest members of the index have an aggregate higher forward valuation than the firms they replaced. By the end of the week ending September 25, the S&P 500's forward revenues had dropped just 0.3% w/w to 0.4% below its record high a month earlier during the August 29 week. Forward earnings fell 0.3% as well from its record high a week earlier. The forward profit margin ticked down too, by 0.1ppt w/w to 13.9% from a record high of 14.0% during the September 18 week. The forward profit margin is now 3.6ppts above its seven-year low of 10.3% during April 2020. The consensus expectations for forward revenues growth was steady w/w at a 37-month high of 6.2%. From a longer-term perspective, that's well above its 20-year average of 5.2%. It has gained 3.9ppts from its 33-month low of 2.3% during the February 23, 2023 week. That's down from a record high of 9.6% growth at the end of May 2021 and compares to 0.2% forward revenues growth during April 2020, which was the lowest reading since June 2009. The forward earnings growth forecast rose 0.2ppt w/w to a 34-week high of 13.1%, up 2.2ppts from its 15-month low of 10.9% during the May 29 week.

That's a bit stronger than its 20-year average of 11.4%, but is still 1.2ppts below its 38-month high of 14.3% during the December 12 week. That's also down from its 23.9% reading at the end of April 2021, which was boosted by the recovery from the pandemic to its highest reading since June 2010 and up substantially from its record low of -5.6% at the end of April 2020. Analysts expect revenues to rise 5.7% in 2025 (up 0.1ppt w/w) and 6.3% in 2026 (unchanged w/w), compared to a 5.0% rise in 2024. They expect an earnings gain of 11.4% in 2025 (up 0.2ppt w/w) and a 13.8% rise in 2025 (up 0.2ppt w/w) compared to 2024's earnings gain of 11.4%. Analysts expect the profit margin to rise 0.7ppt y/y to 13.2% in 2025 (unchanged w/w) and 0.9ppt y/y in 2026 to 14.1% (unchanged w/w), compared to 2024's 12.5%. Looking at valuation data as of September 25, the S&P 500's weekly forward P/E rose 0.2pt w/w to a five-year high of 22.9. It's now up 3.7pts from its 16-month low of 19.2 during the April 17 week. It also compares to 23.1 in early September 2020, which was the highest level since July 2000, and to a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio gained 0.03pt w/w to a new record high of 3.19. That's up from a six-month low of 2.22 during the October 26, 2023 week and compares to a 49-month low of 1.65 in March 2020.

S&P 500 Sectors Revenues, Earnings, & Margins ([link](#)): During the September 25 week, three of the 11 S&P 500 sectors posted gains in their forward revenues; two posted gains in their forward earnings; and the forward profit margin rose for five sectors. These two sectors had post pandemic- or record-high forward revenues this week: Health Care and Industrials. These six are less than 0.8% from their very recent record-high revenues: Communication Services, Consumer Discretionary, Financials, Information Technology, Real Estate, and Utilities. Record-high worthy Consumer Staples' revenues would be in that category also were it not for Drug Retail's exit in late August, which puts it 6.5% below its record high. Energy's revenues is improving now from its three-year low in May, but remains depressed at 29.1% below its September 2008 record and 16.4% below its cyclical high in October 2022. Materials' has weakened recently from a 25-month high to 4.1% below its June 2022 record high. Information Technology was the only sector with record-high forward earnings this week. These six are less than 1.0% from their record highs in recent weeks: Communication Services, Consumer Discretionary, Financials, Industrials, Real Estate, and Utilities. Consumer Staples' is now 1.2% below its record high due to Drug Retail's exit, and Health Care's has improved to 1.6% below its April 3 record. Forward earnings remains depressed for the last two sectors, Energy and Materials, but have improved in recent months to 38.4% and 23.6% below their respective highs during 2022. Looking at the forward profit margin, five sectors rose w/w and three fell. Information Technology rose to a new record high again. These five sectors remain close: Communication Services, Consumer Discretionary, Financials, Industrials, and Utilities. Consumer Staples, Energy,

Materials, and Real Estate are improving somewhat from their recent multi-year lows, but Health Care's is still at a record low. Here's how the S&P 500 and its 11 sectors rank based on their current forward profit margin forecasts along with their record highs: Information Technology (28.1%, up 0.1ppt w/w for its sixth straight record high and for the first time since September 2024 when low-margin Dell's addition to the index lowered the margin 1.3ppts then to 26.3%), Financials (20.8, down 0.1ppt w/w from a 20.9 record high), Communication Services (19.6, up 0.2ppt w/w and down from its 19.8 record high during the August 7 week), Real Estate (16.7, up 0.1ppt w/w to a 31-week high and down from its 19.2 record high in 2016), Utilities (14.8, at a 43-month high and 0.3ppt below its 15.1 record high in April 2021), S&P 500 (13.9, down 0.1ppt w/w from a 14.0 record high), Materials (10.7, down 0.2ppt w/w from its 10.9 seven-month high and up 0.3ppt from 51-month low in late February and down from a 20-month high of 11.6 in July 2023 and a 13.6 record high in June 2022), Consumer Discretionary (9.4, up 0.1ppt w/w to its first record high since early April), Energy (8.9, up 0.4ppt from a 55-month low of 8.5 during the May 15 week and down from its 12.8 record high in November 2022), Industrials (11.1, down 0.1ppt w/w and from its 11.3 record high in early January), Health Care (8.1, at a record low and down from its 11.5 record high in February 2022), and Consumer Staples (7.2, up 0.1ppt w/w and 0.5ppt from a 21-month low due to Drug Retail's exit during the 9/4 week and down from its 7.7 record high in June 2020).

US Economic Indicators

ADP Employment ([link](#)): "Despite the strong economic growth we saw in the second quarter, this month's release further validates what we've been seeing in the labor market, that U.S. employers have been cautious with hiring," noted Dr. Nela Richardson, chief economic ADP. Private payroll employment shed 32,000 jobs in September—the biggest monthly decline since March 2023 and considerably below consensus expectations of a 45,000 increase. That follows a sharp downward revision to August payrolls, showing a loss of 3,000, compared to the initial estimate of a 54,000 gain. Service-providing lost 28,000 jobs during September, while goods-producing jobs fell 3,000. The decline in service-providing employment was led by leisure & hospitality (-19,000), other services (-16,000), professional & business services (-13,000), financial services (-9,000), and trade, transportation & utilities (-7,000). Partially offsetting these declines were gains in employment for education & health services (33,000) and information services (3,000). The decline in goods-producing jobs was led by construction (-5,000) and manufacturing (-2,000), while natural resources & mining (4,000) posted a small gain. According to the report, September pay gains remained steady for job-stayers at 4.5%, while the rate for job-

changers slowed to 6.6% from 7.1% in August.

US Manufacturing PMI ([link](#)): The ISM M-PMI contracted for the seventh consecutive month in September following a brief expansion during January and February, preceded by 26 straight months of contraction. The M-PMI (to 49.1 from 48.7) moved closer to the breakeven point of 50.0 in September, in line with the consensus estimate. According to ISM, the overall economy continued its expansion for the 65th month after a one-month contraction in April 2020. (A manufacturing PMI above 42.3 over a period of time generally indicates an expansion of the overall economy.) The new orders (to 48.9 from 51.4) measure moved from expansion to contraction, while the production (51.0 from 47.8) measure moved from contraction to expansion during the month. Inventories (47.7 from 49.4) continued to decline, contracting at a faster pace last month. The suppliers' deliveries (52.6 from 51.3) gauge indicated a slower delivery performance for the second successive month, after one-month in faster territory—which was preceded by seven consecutive months in expansion (or “slower”) territory. (Supplier deliveries is the only index that is inversed; a reading above 50 indicates slower deliveries, which is typical as the economy improves and customer demand increases.) The employment (45.3 from 43.8) gauge continued to show job cuts in the sector, though declined at a slower rate in September. Meanwhile, prices (61.9 from 63.7) increased at a slightly slower pace, though remain elevated.

Global Economic Indicators

Global Manufacturing PMIs ([link](#)): “The end of third quarter saw a further improvement in global manufacturing operating conditions. Output and new order Intakes rose and business optimism ticked up to a three-month high,” according to the September report. The JP Morgan Global M-PMI was little changed in September, at 50.8, holding around August’s 14-month high of 50.9. Levels of both new orders and output rose for the second straight month in September, though didn’t translate into higher employment levels—which were stable for the second consecutive month. Meanwhile, new export business sank for the sixth straight month. By subsector, output increased across the consumer, intermediate, and investment goods categories for the second straight month—with the fastest rate of expansion in consumer goods and the weakest in intermediate goods. Regionally, India recorded the fastest rate of output expansion in September, while Thailand took the number two spot. PMIs for the two largest industrial nations, China (52.0) and the US (53.4), were broadly similar, though China saw an acceleration in September, while the US saw a slowdown. Meanwhile, output in Japan contracted for a third consecutive month. Turning to

Europe, both the Netherlands and Germany posted solid gains, while Italy, France, and the UK contracted, though the downturn in the UK was “temporarily exacerbated by cyber attacks affecting the automotives supply chain,” according to the report. As for pricing, there was encouraging news, as both input costs and output charges eased in September after a mild acceleration in August.

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