



October 20, 2025

Morning Briefing

Halloween Is Coming

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

Executive Summary: Investors' panic attack Thursday was another of many short-lived frights that haunt bull runs. Our economic analyses help us spot the difference between panic-generated minor pullbacks and scarier downturns like corrections and bear markets. Corrections tend to occur when investors fear a recession that doesn't happen. Bear markets tend to be caused by recessions. Currently, the economy remains resilient, and a recession is unlikely, in our opinion. Plenty of frightening scenarios have been floating around in recent years, but our confidence in the resilience of the economy has helped us to expose them as phantoms. ... Also: Dr Ed reviews "Eddington" (++).

YRI Weekly Webcast. Join Dr Ed's live webcast with Q&A on Mondays at 11 a.m., EST. You will receive an email with the link one hour before showtime. Replays of the weekly webcasts are available [here](#).

Halloween I: Panic Attacks. Time flies when we are having fun. This year has been loads of fun in the stock market if you enjoy rollercoaster rides. It has been mostly a joy ride since the pandemic started. Since then, there have been four significant (higher) lows in the S&P 500: 2237 (March 23, 2020), 3577 (October 12, 2022), 4117 (October 27, 2023), and 4982 (April 8, 2025) ([Fig. 1](#)). Yet here we are at 6664.01 on Friday, up 197% since the 2020 pandemic low. Happily, we called each of those four lows because we believed in the resilience of the economy as well as in our Roaring 2020s thesis:

(1) [March 31, 2020](#): "Refusing to give in to viral bearishness, we think the market bottomed a week ago and are seeing some blue in the sky."

(2) [October 31, 2022](#): "The bear market has clawed 30% out of stock valuations, returning the S&P 500's forward P/E to its historical average of 15. But October 12 may have marked the bear's bottom."

(3) [November 6, 2023](#): "Last week brought epic rallies in both the stock and bond markets. We think the stock market's correction is over and that the S&P 500 is back on track to end

the year at 4600.”

(4) [April 28, 2025](#): “The recent stock market correction partly reflects late January’s revaluation of tech stocks in reaction to the Deep Six ramifications. Now investors may be embracing the Mag-7 once again.”

The S&P 500 has been through two bear markets (i.e., drops of more than 20%) since the pandemic began, along with two corrections (10%-20%). The economy has been through only one recession, and it lasted only two months in early 2020. It was attributable to the two-month Covid-19 lockdowns. Bear markets typically occur because of recessions. Corrections occur when investors fear a recession that doesn’t happen.

Since the two-month recession in early 2020, the economy has continued to grow without another downturn ([Fig. 2](#)). We’ve been describing the US economy as “resilient” since 2020. On [August 15, 2022](#), we first started writing about the “[Godot](#) recession”: “After all, this is the most widely anticipated recession ever, which is why it might be like waiting for Godot!”

Our faith in the resilience of the US economy helped us to call the bottoms in the stock market noted above. So did a distant family member. We don’t speak very often to one another. But he invariably calls me at market bottoms, saying: “Eddie, it’s been a while since we talked. Eddie, do you think I should get out of the stock market here?” Invariably, his panic attacks coincide with readings of the Investors Intelligence Bull/Bear Ratio below 1.0 ([Fig. 3](#)).

During the long bull market from March 9, 2009 through February 19, 2020, we characterized the many pullbacks (i.e., of less than 10%) and the corrections as “panic attacks.” We tracked these occurrences in a [table](#) of panic attacks. There were 66 of them from 2009 through the start of the pandemic. The table goes through Russia’s invasion of Ukraine. So we need to update it. (By the way, we called that bottom too.)

The latest panic attack occurred on Thursday, when the stock market sold off on fears of a regional banking crisis combined with a crisis in the private credit markets.

Halloween II: Things That Go Bump in the Night. Panic attacks are pullbacks and corrections that occur when investors fear that some surprising current event might cause a recession. Such fears dissipate relatively quickly if and when they’re widely recognized as false alarms.

Always looming over stock market investors are doomsday scenarios that are propagated by Perpetually Pessimistic Prognosticators (PPPs). We tend to be in the other camp of Perpetually Optimistic Prognosticators (POPs). Let's review the grim views of the PPPs and counter them with the happier views of the POPs:

(1) *The debt crisis is imminent*. Almost since the start of my career on Wall Street in 1978, investors have been warned that government deficits and mounting government debt would cause a crisis. I have several alarmist books from the 1980s with such titles as *The Coming Debt Bomb* (1980) by James Dale Davidson, *Living Beyond Our Means: America's Debts, the World's Burden* (1986) by Peter G. Peterson, and *Day of Reckoning: The Consequences of American Economic Policy Under Reagan and After* (1988) by Benjamin Friedman. This year has brought us *How Countries Go Broke: The Big Cycle* (2025) by Ray Dalio.

So far, Dalio's concerns about too much government debt seem to be playing out currently in France, Japan, and the UK. Their government bond yields have been rising rapidly recently in response to fiscal excesses in those countries ([Fig. 4](#) and [Fig. 5](#)). Last week, government yields fell in France and the UK, as well as the US, as investors became concerned about credit-default risks in the capital markets ([Fig. 6](#)).

There was a dress rehearsal for a debt crisis in the US during 2023 when the 10-year government bond yield jumped from 4.00% on August 9 to 5.00% on October 19 ([Fig. 7](#)). A couple of bond auctions were poorly received at the time, raising fears that a debt crisis was imminent.

On November 1, 2023, US Treasury Secretary Janet Yellen stopped the impending debt crisis by announcing that the issuance of Treasury notes and bonds would be slowed while the supply of Treasury bills would be increased ([Fig. 8](#) and [Fig. 9](#)).

Treasury Secretary Scott Bessent can do the same if bond yield rise sharply the next time another debt crisis scare occurs.

There very well may be a debt crisis in the US one day. It would likely prompt rapid bipartisan political responses that slow the pace of government spending and boost the growth rate of revenues ([Fig. 10](#)). We've often said that we will worry about a debt crisis when the Bond Vigilantes worry about it.

(2) *Dollar debasement is underway*. Another related doomsday scenario posits that

Washington's fiscal excesses are debasing the dollar, which has been falling this year, according to the DXY dollar index, and is likely to continue to fall ([Fig. 11](#)).

According to this narrative, global investors are bailing out of the US capital markets. This claim isn't supported by the monthly data compiled by the US Treasury, which show that over the past 12-months through July, US net capital inflows totaled a near-record \$1.7 trillion ([Fig. 12](#)). Private net capital purchases of US bonds and US stocks totaled \$929 billion and \$626 billion over this period ([Fig. 13](#)).

The DXY is a fixed-weight index that is weighted as follows: euro (57.6%), Japanese yen (13.6), British pound (11.9), Canadian dollar (9.1), Swedish krona (4.2), and Swiss franc (3.6). In other words, it is heavily biased toward the euro, which has been strong this year ([Fig. 14](#)). The Fed's trade-weighted dollar index as well as the index used by MSCI are both down less than DXY ytd ([Fig. 15](#)). The durability of the euro's strength seems fleeting to us given the fiscal crisis in France and the manufacturing crisis in Germany ([Fig. 16](#)).

Social media posts have been showing that central banks' gold reserves now exceed their US Treasury holdings. That's mostly because of the appreciation of gold. The International Monetary Fund's data, which include the "national valuation" of gold, show that foreign governments' total official holdings of US Treasuries currently account for 24.0% of their total reserves, while gold accounts for 15.3%, which is up from about 10% at the end of 2023 ([Fig. 17](#)).

Central banks have been adding physical gold to their reserves after the US and Europe froze the international reserves of Russia when it invaded Ukraine ([Fig. 18](#)). That is one of the reasons that the price of gold has been soaring since then. Other geopolitical crises, including Trump's trade war, have boosted the gold price as well.

Like gold, the US dollar and US securities remain safe havens too, in our opinion, though perhaps underappreciated as such. Wider recognition of that could strengthen the dollar. So the dollar may be bottoming now even though gold is soaring to new record highs!

Halloween III: Trick or Treat? Fed officials have hinted that they will provide investors with a treat just before Halloween: They are widely expected to lower the federal funds rate by 25bps on October 29. But that could turn out to be a trick if September's Consumer Price Index, to be reported on October 24, is hotter than expected. There is a small but significant chance that it will be too hot for a rate cut.

Another possible trick is that the Supreme Court might rule that Trump's tariffs are unconstitutional. The court is scheduled to hear oral arguments on the President's authority to impose global tariffs under the International Emergency Economic Powers Act (IEEPA) on Wednesday, November 5, 2025. This case represents a significant test of executive power, as it challenges whether the President can levy broad tariffs without explicit congressional approval.

While the exact timeline for the Court's ruling is uncertain, decisions in similar high-profile cases have taken several months to be reached. Given the significance of this case, a decision is expected within the current Supreme Court term, which runs through June 2026.

Movie. "Eddington" (+ +) is a very quirky 2025 movie starring Joaquin Phoenix, who is a very quirky actor. He does a great job acting as the sheriff of a small town in New Mexico. His life changes forever when he decides to run as mayor. It's a fun satire set in the Covid period, when many of us almost lost our minds. The sheriff must contend with face-mask disputes and anti-cop-no-justice-no-peace demonstrators in his little town, as well as his conspiracy-loving mother-in-law. ANTIFA and BLM are thrown into the mix. The film is characteristic of the stressed-out local-yokels genre pioneered by the Coen brothers. (See our movie reviews [archive](#).)

Calendars

US: Mon: Leading Indicators -0.3% **Tues:** Waller. (Source: FX Street)

Global: Mon: Germany PPI 0.1%; BoC Business Outlook Survey; Schnabel; Nagel. **Tues:** Canada CPI -0.1%; Lagarde; Nagel; Balz; Lane; Escriva; Kocher. (Source: FX Street)

Strategy Indicators

Global Stock Markets (US\$ Performance) ([link](#)): The US MSCI index rose 1.7% during the October 17 week to 1.4% below its record high on October 8. The AC World ex-US underperformed with a gain of 0.4% for the week to 1.3% below its record high on October 6. The AC World ex-US has been hitting new record highs since May 14—the first time it's had such a long streak of successive record highs since June 15, 2021. Despite its strength in recent weeks, the US MSCI outperformed the AC World ex-US in only 14 of the past 38

weeks. EM Latin America was the best performing region last week, with a gain of 2.4%, followed by EMU (1.7%), Europe (1.2), EAFE (0.7), and the AC World ex-US. EM Asia was the worst regional performer, with a decline of 0.6%, followed by EM (-0.3), and EMEA (0.1). The Korea MSCI index, with a gain of 4.0%, performed the best among country indexes, ahead of India (3.9), Switzerland (2.6), Mexico (2.2), India (2.2), and Brazil (2.2). The China MSCI index was the worst performer w/w, with a decline of 3.9%, followed by Hong Kong (-3.8), Germany (-1.0), Taiwan (-0.4), and Australia (-0.2). In terms of ytd performance rankings, the 13.4% gain for the US MSCI index ranks as the third worst country performer and trails the 24.0% gain for the AC World ex-US. Among the regional indexes outperforming the AC World ex-US ytd, EM Latin America leads with a gain of 33.9%, followed by EMU (31.3), EM (26.6), EM Asia (26.5), Europe (25.7), and the AC World ex-US. EAFE is the worst ytd performer, albeit with a gain of 22.8%, followed by EMEA (23.7). Korea is the best ytd performer, with a gain of 71.3%, followed by Spain (57.5), South Africa (55.4), Mexico (41.2), and Taiwan (31.4). The worst performing countries ytd: India (3.3), Australia (11.9), the US (13.4), Japan (18.4), and the UK (22.2).

US Stock Indexes ([link](#)): All 48 major US stock indexes that we follow rose during the week ended October 17, up from just one rising a week earlier and 46 rising the week before that. The Dow Jones 20 Transports index was the best performer for the week, rising 4.0%, ahead of S&P 600 SmallCap Pure Value (3.2%), S&P 600 SmallCap Pure Value (3.1), S&P 600 SmallCap (3.0), and S&P 600 SmallCap Growth (2.8), and S&P 400 MidCap Pure Value (2.8). The Nasdaq Industrials index was the worst performer, albeit with a gain of 0.9%, followed by Russell MidCap Growth (1.0), S&P 500 LargeCap Pure Growth (1.0), Dow Jones 15 Utilities (1.1), and S&P 400 MidCap Pure Growth (1.1). All but one of the 48 indexes are higher ytd. With a gain of 18.5%, the S&P 500 LargeCap Growth index is in the top spot as the best performer so far in 2025, ahead of Nasdaq 100 (18.1), Nasdaq Composite (17.4), Dow Jones 15 Utilities (17.3), and Russell 1000 Growth (15.3). The worst performing major US stock indexes ytd: Dow Jones 20 Transports (-1.4), S&P 600 SmallCap Equal Weighted (0.2), S&P 600 SmallCap Value (0.6), S&P 600 SmallCap (1.9), and S&P 400 MidCap Value (2.9).

S&P 500 Sectors Performance ([link](#)): Ten of the 11 S&P 500 sectors rose during the week ended October 17, and five were ahead of the S&P 500's 1.7% gain. That compares to four S&P 500 sectors rising a week earlier, when nine were ahead of the S&P 500's 2.4% decline. The outperformers last week: Communication Services (3.6%), Real Estate (3.4), Information Technology (2.1), Consumer Staples (2.0), (0.1), and Consumer Discretionary (1.9). The underperformers last week: Financials (0.0), Health Care (0.7), Energy (0.9), Materials (1.0), Industrials (1.2), and Utilities (1.5). The S&P 500 is now up 13.3% ytd, with

all 11 sectors positive ytd and four are ahead of the index. During the June 20 week, Consumer Discretionary and Health Care were trailing so far behind ytd that they were the only sectors trailing the index. Communication Services now wears the crown as the best ytd performer with a gain of 23.9%, followed by Information Technology (22.2), Utilities (20.8), and Industrials (15.1). These seven sectors are lagging the S&P 500 so far in 2025: Energy (0.7), Consumer Discretionary (2.3), Real Estate (3.3), Consumer Staples (3.8), Health Care (4.0), Materials (5.6), and Financials (7.9).

US Economic Indicators

Regional M-PMIs ([link](#)): Two regional Fed banks so far have reported on manufacturing activity for October—New York and Philadelphia—with business activity in the New York region moving from contraction to expansion, while the Philly region moved from expansion to contraction. In New York, the headline general business conditions index climbed 19.4 points (to 10.7 from -8.7) as both new orders (to 3.7 from -19.6) and shipments (14.4 from -17.3) measures rose 23.3 and 31.7 points, respectively. Turning to the labor market, the employment (6.2 from -1.2) gauge moved from contraction to expansion, rising 7.4 points, while the average workweek (-4.1 from -5.1) continued to contract, though at a slower pace. As for pricing, both the prices-paid (52.4 from 46.1) and prices-received (27.2 from 21.6) measures picked up. Looking ahead, future general business conditions (30.3 from 14.8) climbed to its highest level in several months, indicating that firms expect conditions to improve in the month ahead with new orders (34.9 from 16.6) and shipments (31.6 from 13.5) following suit. As for pricing, the forward looking indicator for prices-paid (65.0 from 58.8) accelerated during the month, while prices-received (43.7 to 43.1) showed little change. Philadelphia's headline general business activity index plunged 36.0 points (to -12.8 from 23.2) to a six-month low, after posting a 23.5-point gain (to 23.2 from -0.3) in September. The new orders (to 18.2 from 12.4) measure rose 5.8 points, while the shipments (6 from 26.1) gauge sank 20.1 points, though remained in expansion territory. Firms continued to report overall gains in employment (4.6 from 5.6), though held fairly steady around September's pace, while the average workweek (12.8 from 14.9) declined. As for pricing, both the prices-paid (49.2 from 46.8) and prices-received (26.8 from 18.8) measures accelerated, with the latter showing a steeper change. Looking ahead, future general business conditions (36.2 from 31.5) climbed to its highest level in several months, with new orders climbing 7.4 points to 49.8—the best reading since the start of this year, while shipments shot up 17.4 points to 48.4; employment showed little change. As for pricing, the forward looking indicator for prices-paid (59.8 from 69.8) and prices-received (45.7 to 64.8) eased noticeably.

NAHB Housing Market Index ([link](#)): “While recent declines for mortgage rates are an encouraging sign for affordability conditions, the market remains challenging,” notes NAHB Chairman Buddy Hughes. “The housing market has some areas with firm demand, including smaller builders shifting to remodeling and ongoing solid conditions for the luxury market. However, most home buyers are still on the sidelines, waiting for mortgage rates to move lower.” Despite the uncertainty, the housing market index climbed to a six-month high in October, on widespread gains, with sales expectations especially strong. The housing market index rose 5 points this month to 37, though remained below the 50 breakeven point for the 18th straight month. Meanwhile, sales expectations jumped 9 points (to 54 from 45), surpassing the 50-point breakeven mark for the first time the start of this year. Current sales conditions rose 4 points to 38, while traffic of prospective buyers also climbed 4 points to 25. The average price cut rose to 6% in October, after averaging 5% from last November through this September. The *use of sales incentives* was 65% again in October, essentially unchanged from August’s 66%.

Global Economic Indicators

Eurozone CPI ([link](#)): The Eurozone’s CPI was at a five-month high of 2.2% y/y in September, after three consecutive month at 2.0%. The rate was at 1.7% last September—which was the lowest yearly rate since April 2021. The rate was a 2.5% at the start of this year. Meanwhile, the core rate ticked up to 2.4% in September, after four months at 2.3%; it was at 2.7% April. The headline and core CPIs are down sharply from their recent peaks of 10.6% in October 2022 and 5.7% in March 2023. Looking at the components, the *services* rate eased from 4.0% in April to 3.1% by August—after hovering between 3.2% and 3.3% from May through July. It ticked up to 3.2% in September, remaining in that narrow band. The rate for energy prices was at -0.4% y/y in September, narrowing from -3.6% in both April and May; it had climbed from a recent low of -6.1% last September to 1.9% by January. Meanwhile, the rate for food, alcohol & tobacco eased for the second month to 3.0% in September after climbing from 3.1% in June to 3.3% in July—hovering between 3.0% to 3.3% since April. The rate for non-energy industrial goods remained at 0.8% y/y for the third straight month in September, after fluctuating in a narrow band between 0.5% and 0.6% since last October. September’s yearly inflation rate moved lower in all four of the largest Eurozone countries: Spain (to 3.0% from 2.7% in August), Germany (2.4 from 2.1), Italy (1.8 from 1.6), and France (to 1.1 from 0.8).

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