

Hamilton-Bates

Market Update

October 17, 2025

**Don't Fight the Fed
Rate Cuts Should Push Stocks Higher
Into Year-End**

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October gets a bad reputation in the financial markets because of the history of large crashes (October 1987, October 1929) that have occurred in the month. However more often than not, October is an 'up' month, usually in a month when pullbacks end, not begin. This year it seems we are getting a little October scare, something we actually thought would happen in August or September, two very weak months for stocks historically. But the bulls kept the market going until this month and a confluence of negatives has finally tripped the market up a bit.

The Govt Shutdown, a Tariff Tiff, and Credit Market Cockroaches

The government shutdown was the first domino, and while it will be resolved, it creates uncertainty. Then we had a flare-up of the Tariff Tiff with China, as President Trump posted about China's restrictive policies on rare earths which are critical to our defense and technology sectors. This triggered a 900 point market decline, but the White House quickly de-escalated by saying things could be worked out. This all seems like posturing ahead of a Trump/XI meeting next month. Still, it created more uncertainty. Finally we have recently had some tremors in the private credit markets, where some high profile bankruptcies (First Brands and Tricolor) have exposed potential fraud. Collateral was either non-existent or pledged multiple times. This lapse in lending diligence has created concerns within the non-bank financial sector, and even with smaller regional banks— who have acknowledged some losses in their loan portfolios. It seems like some folks weren't doing their jobs.

None of these items individually are likely enough to take the market down, and even together we wouldn't expect them to cause anything more than a temporary pull-back. We are watching the credit markets closely as we have long-said that problems will likely crop up there first. For this to be more than a temporary

issue we would need to see the corporate bond market become much weaker than it has been so far.

Market Crashes and Avoiding Big Trouble

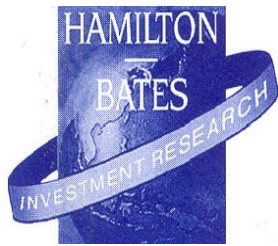
Market 'crashes' may have happened in October, but they don't come like a bolt out of the blue. The famous October crashes came after the market was down already, having suffered a correction followed by a failed rally and then a renewed break that saw the severe declines unfold.

In order to stay out of real market trouble, its important for investors to understand and respect the trend. When trends change (up or down), so do we. Right now the trend is still bullish, but that could change if weakness persists. The key is being flexible and not having a doctrinaire point of view. When circumstances change, we do as well. The market chart on the next page shows the key levels we are watching and what they mean.

Investment Strategy

The breakout above 6100 on the S&P, a level we months ago, has triggered another bull leg. The trend is still intact but the market has stumbled a bit this month. The market is now expensive on a PE basis, and overbought from the run-up, but this is still a bull market. A pullback toward the 6500 area on the S&P 500 is within the bounds of a normal correction. Below 6500 puts us in alert mode, kind of a 'yellow light' for the market, and would dictate some defensive posturing. Below 6500 on the S&P opens the market up for more of a pullback. With the Fed cutting rates, and the labor market still solid, we would expect the market to push through this consolidation in short order. But we are alert for signs of change.

This market is still a HOLD, and we would not be surprised to see the S&P challenge 7000 on the S&P 500 into year end.

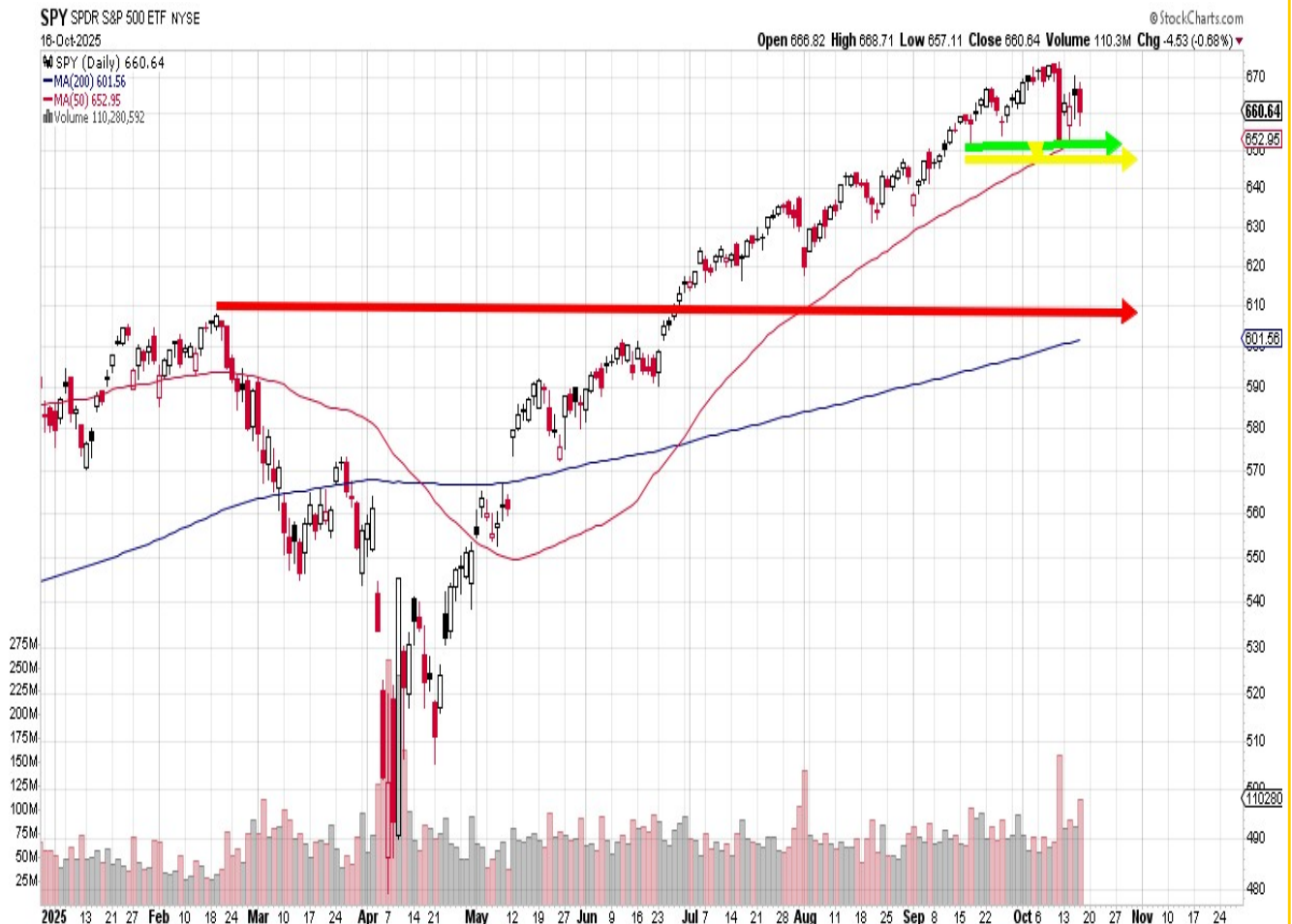


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**It's a Bull Market Don't Fight It
But Don't Chase It Either**

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Market Chart—S&P 500 Index—Short-term Pullback But Still a Long-Term Uptrend



S&P 500 Index—Rally Continues But With Some Hiccups

The rise since the April low has been pretty consistent, with the breakout above the old high (around 6100) seeming to send the rally into another gear. We thought the seasonally weak August/September period would have seen a pullback or even re-test of the breakout level, but that didn't occur. So far October's stumble has not changed the short-term trend, and above 6500 on the S&P keeps the market in the 'green' all is clear. Below 6500 puts us in 'yellow' caution mode where we cut positions that are lagging and increase cash a bit. The market could fall below 6500 and still be ok long-term, it would just mean the market needs to digest the move up a bit more. The key long-term trend level is 6100, and a drop to that level could reset the market for another bullish rally, as long as this level is held. A move below 6100, which we are not expecting at this time, would trigger significant defensive positioning.