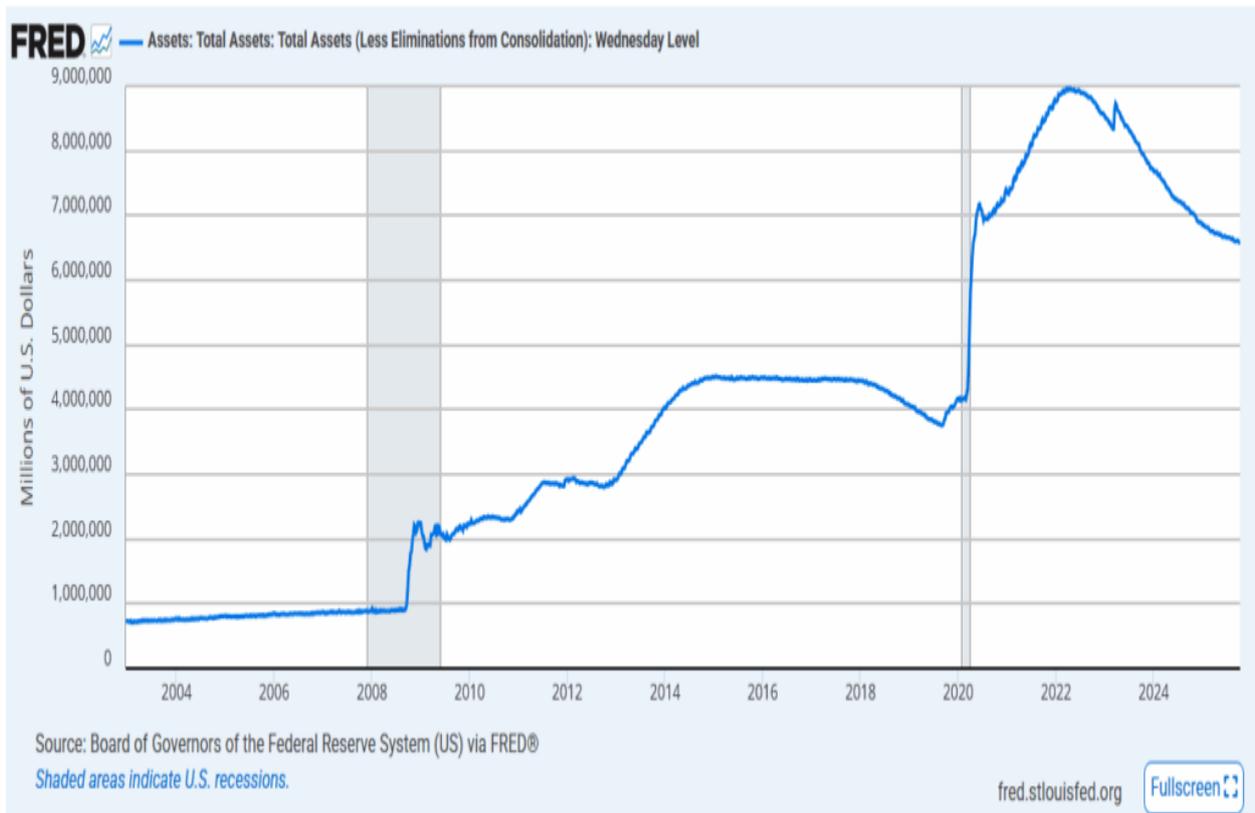


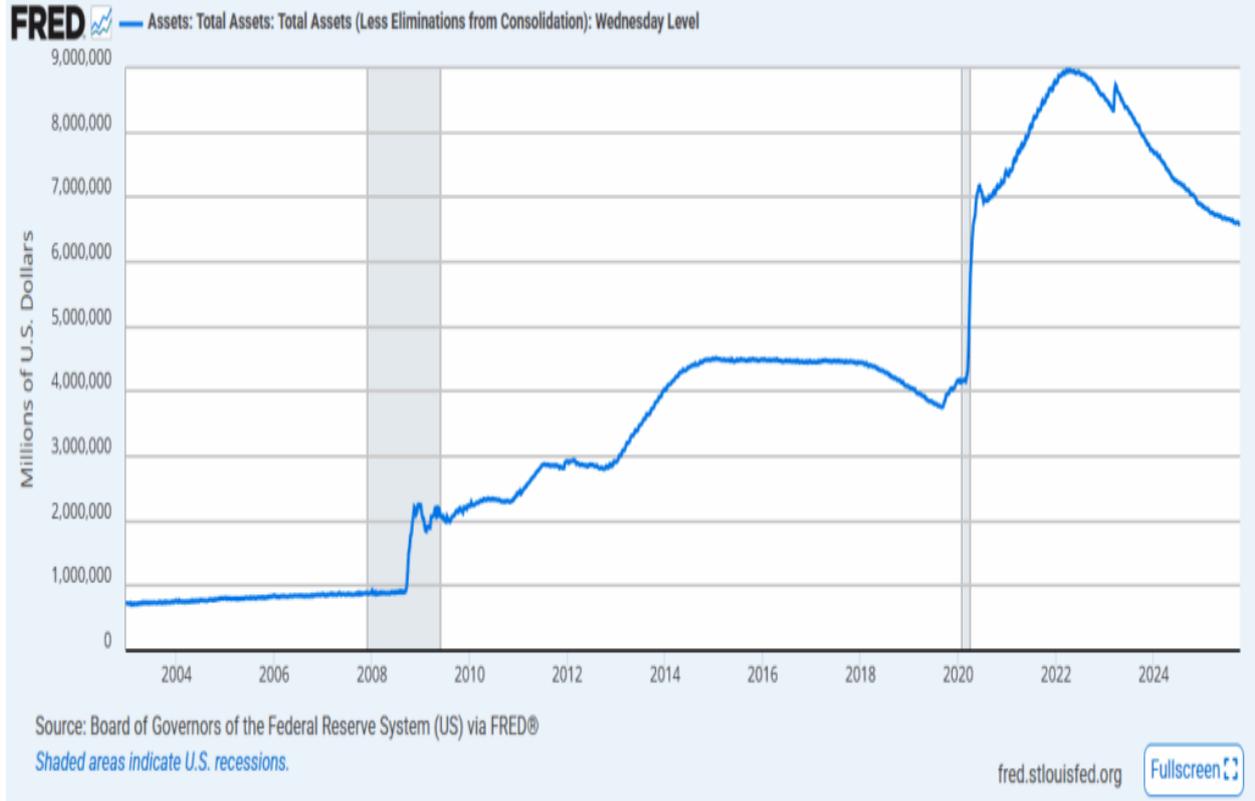
Is QT On Its Last Lap?

Chairman Powell spoke on Tuesday, addressing several topics. Of note was the following quote: *“We may be approaching the end of our balance sheet contraction in the coming months.”* The market interpretation is that QT is ending soon. As a reminder, QT, also known as quantitative tightening, has been in effect for over three years. Since starting QT, the Fed has shaved its holdings by nearly \$3.5 trillion. The graph below shows that the Fed’s current holdings of Treasury, mortgage, and agency assets stand at approximately \$6.6 billion, still more than 50% above pre-pandemic levels. [#2013266080](#);

Powell made this somewhat surprising statement in a speech to the National Association of Business Economics in Philadelphia. To explain why QT could end, he pointed to the liquidity strains that emerged in the fall of 2019. At that time, short-term lending rates for some borrowers were spiking despite the borrowers having ample and pristine collateral to support the loan. The Fed feels they were late to address those liquidity strains. As a result, they cut rates by 0.75% despite a relatively strong economy. While Powell doesn’t claim to see similar problems, he is noticing some recent tightness in the lending markets. Not surprisingly, as we recently noted, Powell’s comments come as the Fed’s overnight reverse repo program balances are near zero, signifying the market no longer has excess reserves. So, is QT resulting in tighter market conditions? Powell must think so.

On the margin, ending QT is beneficial for the bond markets. In addition to absorbing higher-than-normal Treasury debt due to fiscal deficits, the market is also having to absorb about \$40 billion monthly due to the Fed’s shrinking balance sheet. Of the \$40 billion, \$5 billion is in US Treasuries, and the remaining \$35 billion is in [#2013266080](#); mortgage-backed securities.





What To Watch Today

Earnings

Thursday Oct 16	EPS	Consensus	Previous	Revenue	Consensus	Previous	MarketCap	Fiscal	Time		
Charles Schwab SCHW.US	1.21	0.77		5.92B	4.85B		\$170.97B	Q3	AM	★	🔔
Marsh & McLennan Compan	1.81	1.63		6.35B	5.69B		\$104.62B	Q3	AM	★	🔔
Bank Of New York Mellon BK	1.74	1.52		4.75B	4.65B		\$71.88B	Q3	AM	★	🔔
US Bancorp USB.US	1.11	1.03		7.14B	6.86B		\$70.86B	Q3	AM	★	🔔
CSX CSX.US	0.44	0.46		3.61B	3.62B		\$67.94B	Q3	PM	★	🔔
Travelers Companies TRV.US	5.54	5.24		11.75B	11.9B		\$60.95B	Q3	AM	★	🔔
M&T Bank MTB.US	4.41	4.08		2.44B	2.33B		\$32.59B	Q3	AM	★	🔔
Interactive Brokers IBKR.US	0.51	1.75		1.46B	1.37B		\$25.32B	Q3	PM	★	🔔
Snap-On SNA.US	4.61	4.70		1.16B	1.15B		\$17.89B	Q3	AM	★	🔔
KeyCorp KEY.US	0.37	0.30		1.87B	695M		\$17.09B	Q3	AM	★	🔔
Watsco WSO.US	4.61	4.22		2.2B	2.16B		\$16.83B	Q3	AM	★	🔔
Tenet Healthcare THC.US	3.3	2.93		5.25B	5.12B		\$14.84B	Q3	AM	★	🔔
Commercial Metals CMC.US	1.34	0.90		2.09B	2B		\$6.66B	Q4	AM	★	🔔

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Economy

Thursday October 16 2025	Actual	Previous	Consensus	Forecast
07:00 AM US Fed Barkin Speech				
07:30 AM US Philadelphia Fed Manufacturing Index OCT		23.2	9.1	4
07:30 AM US Philly Fed Business Conditions OCT		31.5		
07:30 AM US Philly Fed CAPEX Index OCT		12.50		
07:30 AM US Philly Fed Employment OCT		5.6		
07:30 AM US Philly Fed New Orders OCT		12.4		
07:30 AM US Philly Fed Prices Paid OCT		46.80		
08:00 AM US Fed Barr Speech				
08:00 AM US Fed Miran Speech				
08:00 AM US Fed Waller Speech				
09:00 AM US Fed Bowman Speech				
09:00 AM US NAHB Housing Market Index OCT		32	33	34
09:30 AM US EIA Natural Gas Stocks Change OCT/10		80Bcf		
10:30 AM US 4-Week Bill Auction		4.030%		
10:30 AM US 8-Week Bill Auction		3.955%		
11:00 AM US EIA Crude Oil Stocks Change OCT/10		3.715M		
11:00 AM US EIA Gasoline Stocks Change OCT/10		-1.6M		
11:00 AM US 15-Year Mortgage Rate OCT/16		5.53%		
11:00 AM US 30-Year Mortgage Rate OCT/16		6.30%		
11:00 AM US EIA Crude Oil Imports Change OCT/10		0.731M		
11:00 AM US EIA Cushing Crude Oil Stocks Change OCT/10		-0.763M		
11:00 AM US EIA Distillate Fuel Production Change OCT/10		0.21M		
11:00 AM US EIA Distillate Stocks Change OCT/10		-2.018M		
11:00 AM US EIA Gasoline Production Change OCT/10		0.409M		
11:00 AM US EIA Heating Oil Stocks Change OCT/10		-0.06M		
11:00 AM US EIA Refinery Crude Runs Change OCT/10		0.129M		
11:45 AM US Fed Barkin Speech				
03:15 PM US Fed Miran Speech				

Thursday October 16 2025			Actual	Previous	Consensus	Forecast		
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07:30 AM	US	Philadelphia Fed Manufacturing Index <small>OCT</small>		23.2	9.1	4		
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09:00 AM	US	Fed Bowman Speech						
09:00 AM	US	NAHB Housing Market Index <small>OCT</small>		32	33	34		
09:30 AM	US	EIA Natural Gas Stocks Change <small>OCT/10</small>		80Bcf				
10:30 AM	US	4-Week Bill Auction		4.030%				
10:30 AM	US	8-Week Bill Auction		3.955%				
11:00 AM	US	EIA Crude Oil Stocks Change <small>OCT/10</small>		3.715M				
11:00 AM	US	EIA Gasoline Stocks Change <small>OCT/10</small>		-1.6M				
11:00 AM	US	15-Year Mortgage Rate <small>OCT/16</small>		5.53%				
11:00 AM	US	30-Year Mortgage Rate <small>OCT/16</small>		6.30%				
11:00 AM	US	EIA Crude Oil Imports Change <small>OCT/10</small>		0.731M				
11:00 AM	US	EIA Cushing Crude Oil Stocks Change <small>OCT/10</small>		-0.763M				
11:00 AM	US	EIA Distillate Fuel Production Change <small>OCT/10</small>		0.21M				
11:00 AM	US	EIA Distillate Stocks Change <small>OCT/10</small>		-2.018M				
11:00 AM	US	EIA Gasoline Production Change <small>OCT/10</small>		0.409M				
11:00 AM	US	EIA Heating Oil Stocks Change <small>OCT/10</small>		-0.06M				
11:00 AM	US	EIA Refinery Crude Runs Change <small>OCT/10</small>		0.129M				
11:45 AM	US	Fed Barkin Speech						
03:15 PM	US	Fed Miran Speech						
03:30 PM	US	Fed Balance Sheet <small>OCT/15</small>		\$6.59T				
05:00 PM	US	Fed Kashkari Speech						
	US	PPI MoM <small>SEP</small>		-0.1%	0.3%	0.5%		
	US	Retail Sales MoM <small>SEP</small>		0.6%	0.4%	0.2%		

Market Trading Update

Yesterday, we discussed that the technical backdrop of the market had shifted as the break of the 20-DMA brought the focus to the 50-DMA. As we noted yesterday:

?Should the market fail to regain the 20-DMA, the risk of further consolidative or corrective action increases. As shown, the 50-DMA is key support for now, but the 100 and 200-DMA are the next critical supports should the market break down from here.

Notably, the MACD has triggered a sell signal, and relative strength is still correcting previous excesses.?

Yesterday, the market struggled to reclaim the 20-DMA, which it successfully did by the end of the day, but it wasn't pretty. I would remain a bit cautious about declaring the *bull market remains intact* until we see some follow-through. Yesterday's action was very weak, and volume weakened. Furthermore, the MACD remains on a clear signal, and other technical measures also show weakness.





While the overall backdrop remains bullish, I would like to see the market firm up and breadth broaden somewhat. Asset prices remain stretched in multiple markets as speculative frenzy remains rampant. Furthermore, the market *feels* like it wants to do a *rug pull* as investor complacency remains relatively elevated. While that may not happen, prudence seems to be the best advice here, particularly when *buying the dips*: Focus on strong balance sheets, reduce speculative risk, and don't forget to take profits in grossly extended assets.

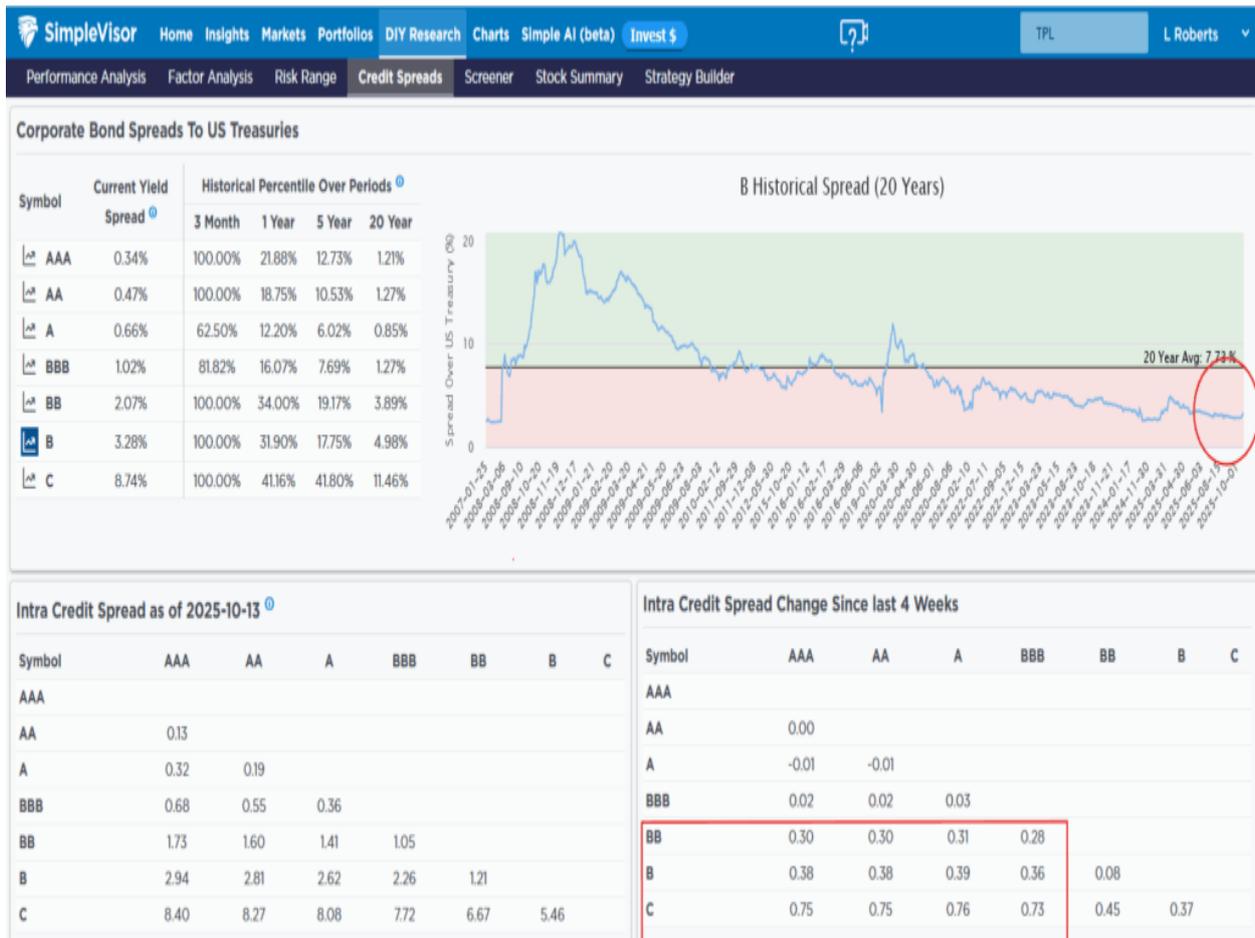
Let's see how the market ends this week.

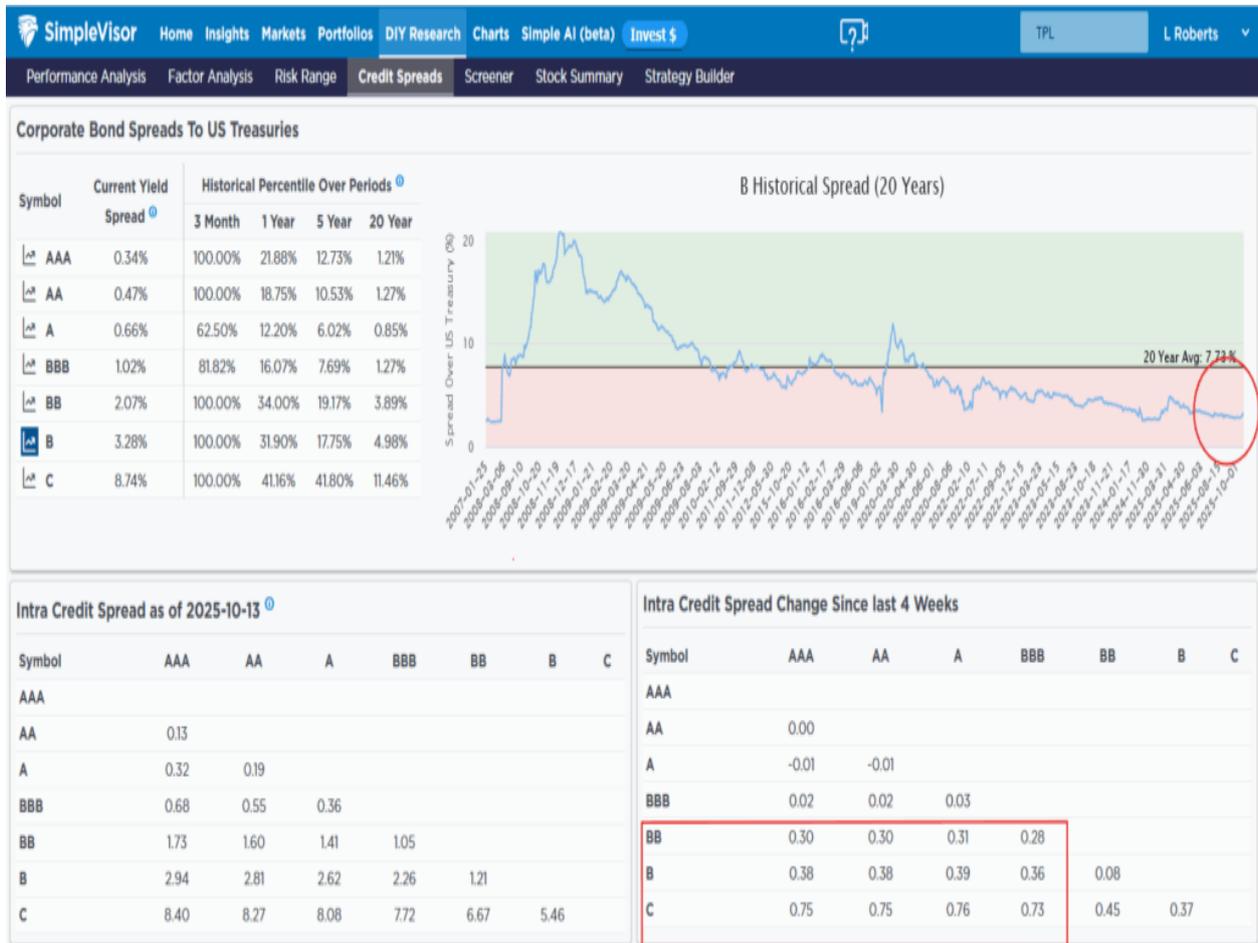
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Some Distress In The Junk Credit Markets

The graphic below from [SimpleVisor](#) tracks corporate credit yield spreads. Even if you are not a corporate bond investor, corporate credit spreads (vs US Treasuries) can be a good leading indicator of the equity markets. Tight, or low, spreads indicate bullish sentiment in corporate bonds and often the stock market. Widening, or higher, spreads indicate some credit concerns that can leak into the stock market. The SimpleVisor page below helps us track whether spreads are tightening or widening.

Of note, the lower right-hand box shows that the yields on junk bonds (less than BBB) have widened over the last four weeks versus investment grade bonds (BBB or higher). While the amount of widening, when quoted in basis points, may seem decent, the graph in the top right corner shows that the spread widening is barely perceptible in a longer-term context. We will continue to track the recent widening. A continuation within junk bonds and, importantly, in lower-rated investment-grade bonds would be more concerning.

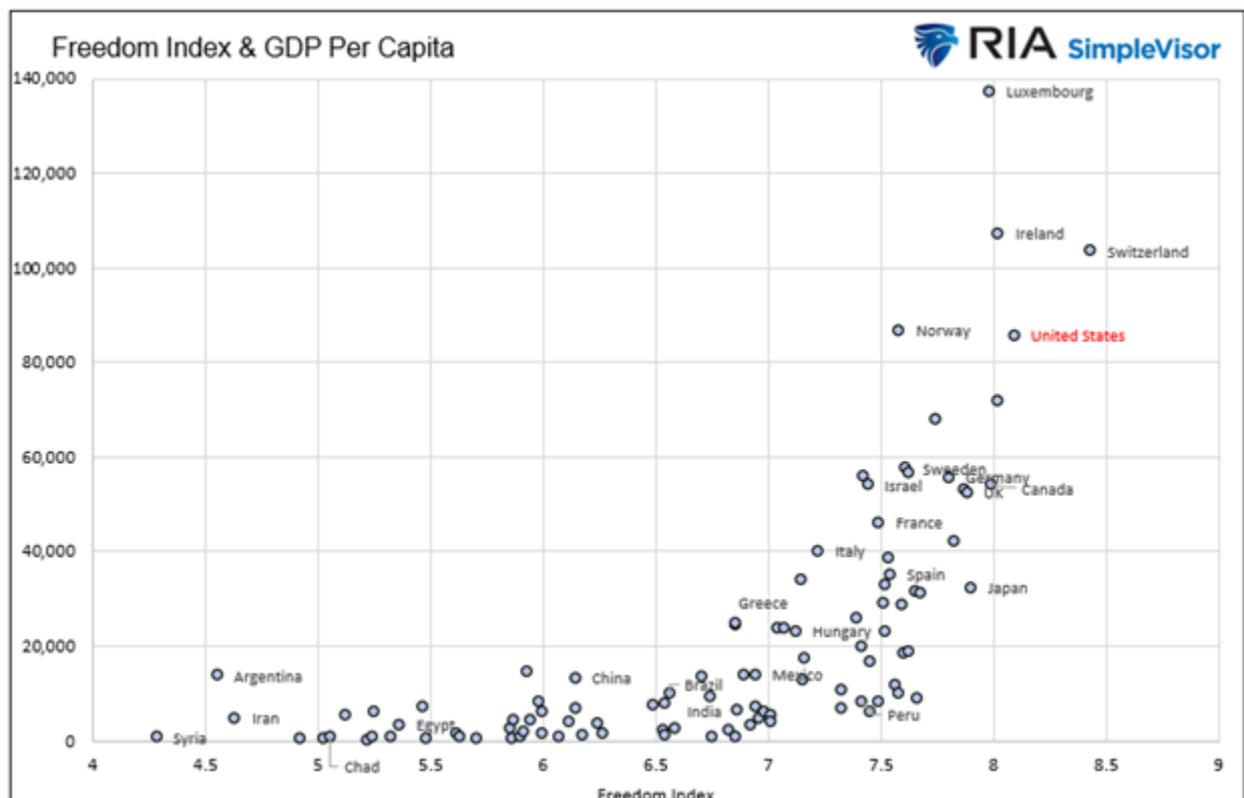


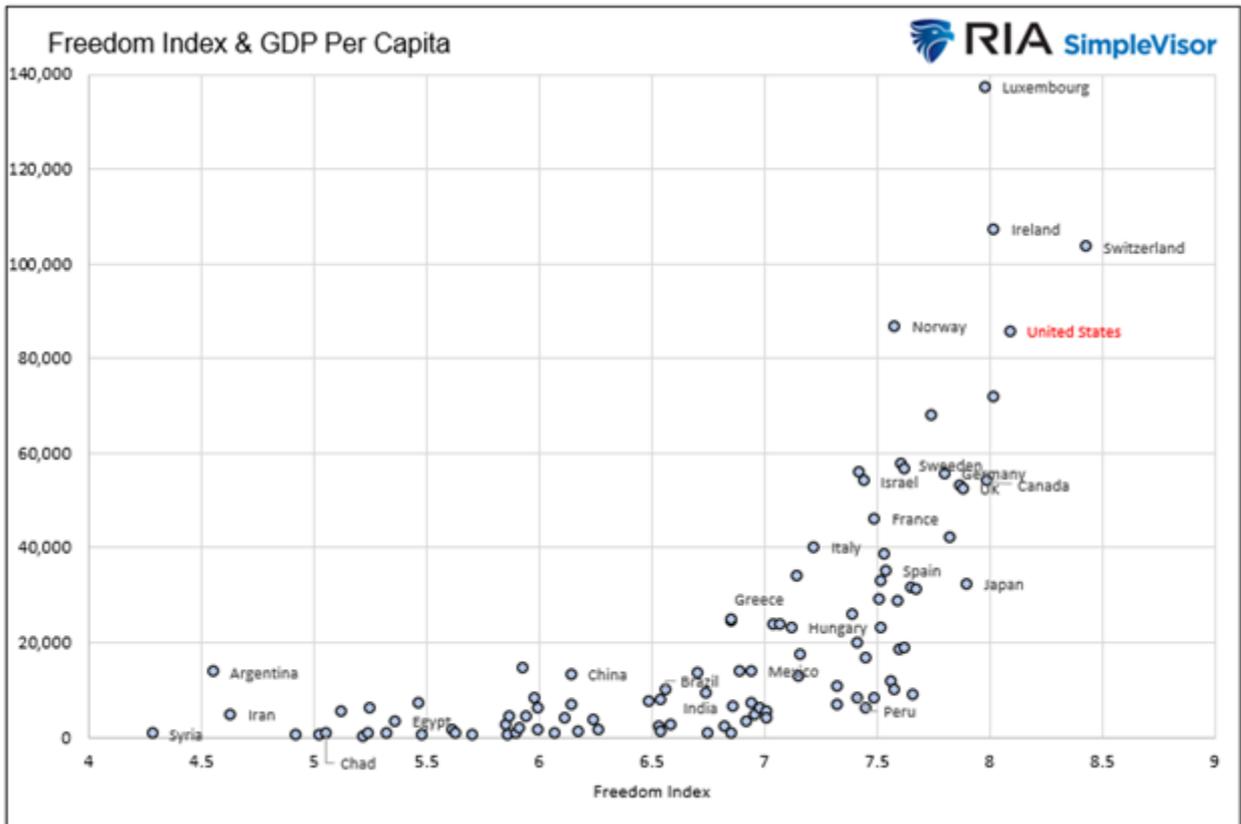


Capitalism: The Road To Wealth And Happiness

The graph below presents another opportunity to revisit how capitalism and the economic freedom it entails lead to prosperity.

The scatter plot below shows the intersection of [The Fraser Institute's Economic Freedom Index](#) with per capita GDP for 102 of the largest economies. Before analyzing the graph and what it implies for capitalism, let's gain a better understanding of its X-axis—the Economic Freedom Index.





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2-Year Treasury Yield drops to 3.48%, the lowest level in more than 3 years



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