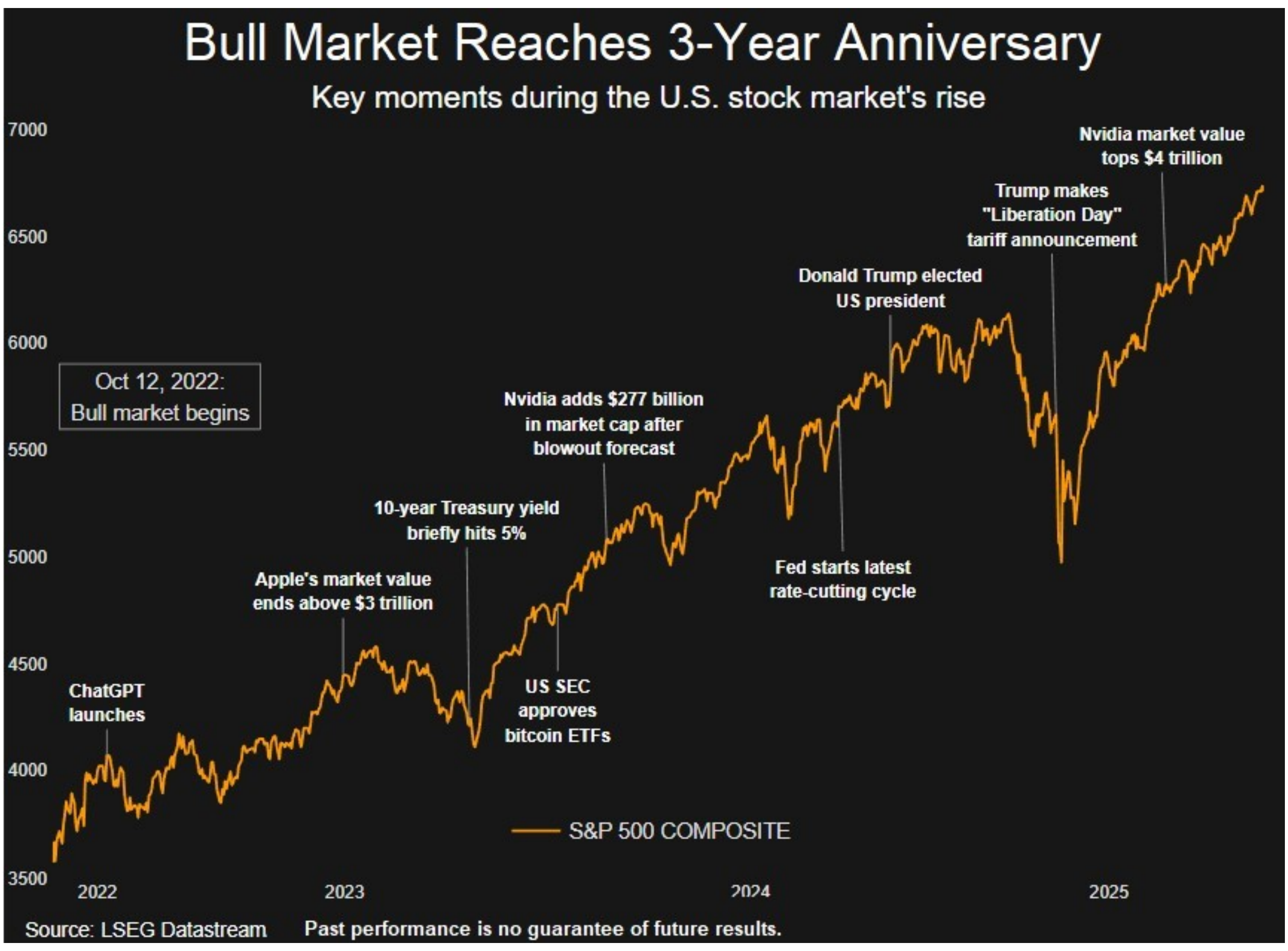
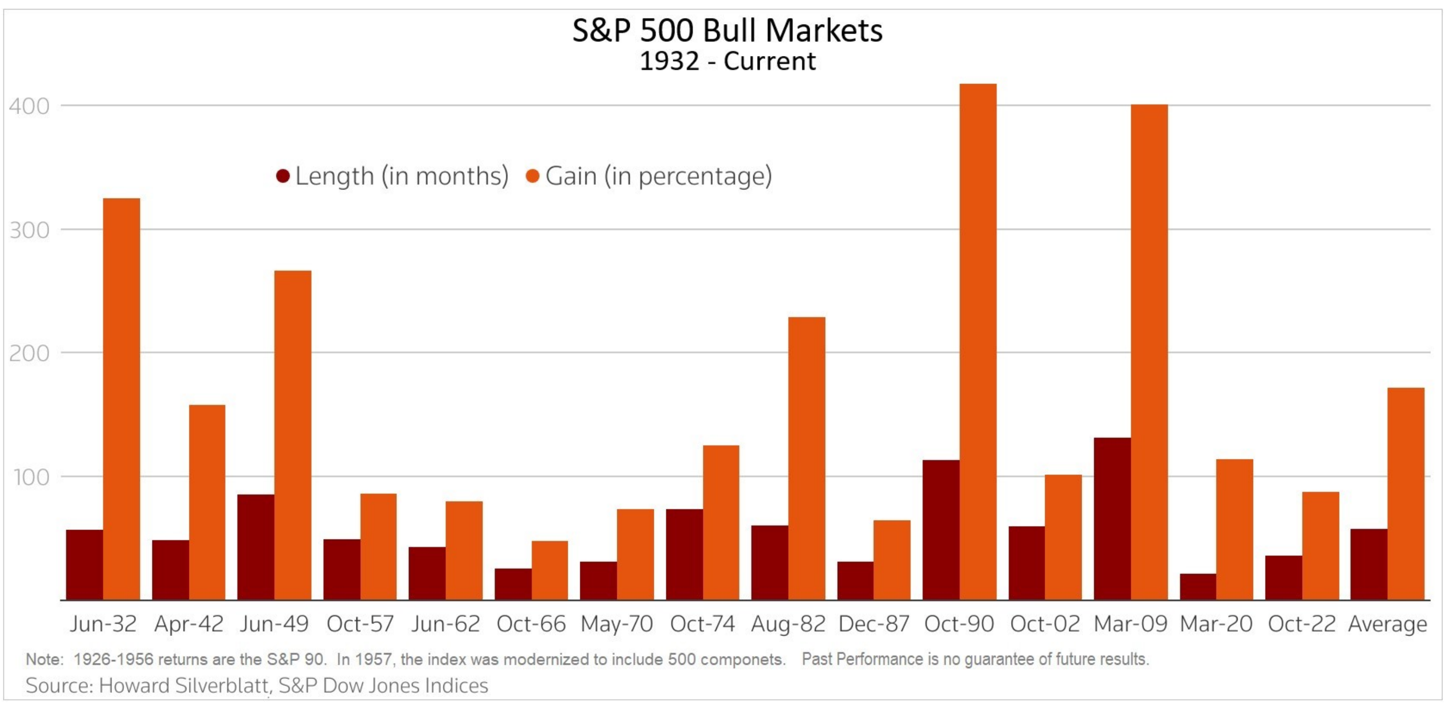
Chart of the Month

October 2025





The bull market turned three years old earlier this month, yet is still young by historical standards. As shown above, it is only 55% of the average length of the 11 previous bull markets since 1950. Furthermore, with a gain of roughly 90% from the low, it is still well shy of the average advance, indicating there may be more life ahead.

There is a saying on Wall Street that bull markets don't die of old age. Instead, they tend to end as a result of the Federal Reserve raising interest rates to curtail the economy and/or inflation. The good news is that it's a virtual certainty that the Federal Open Market Committee (FOMC) will *lower* the fed funds rate (FFR) by 0.25% on October 29 and once again at the following meeting in December.

President Donald Trump and China's President Xi Jinping will meet in South Korea on Thursday. The U.S. and China have "reached a very substantial framework that will avoid [a tariff hike]" according to Treasury Secretary Scott Bessent. Chinese state media also confirmed the "basic consensus on arrangements." The market responded favorably to this news on Monday.

This is also a big week for earnings with five of the largest tech companies scheduled to report quarterly results. Microsoft (MSFT), Alphabet (GOOGL), and Meta Platforms (META) are on tap for Wednesday with Apple (AAPL) and Amazon (AMZN) set for Thursday. All of these announcements are likely to move the individual stocks as well as impart influence over the rest of the market.

Strong earnings have been the main driver of the market's continued rise. As shown in the bar chart below, the EPS for the S&P 500 increased more than 10% in 2024 and are estimated to rise another 11% in 2025 and 13% in 2026.

We believe the "E's" are in charge. The combination of a healthy economy, solid earnings, easy money, and historically positive end-of-year performance should lead to further gains over the near term and perhaps into next year. Over the past decade, the S&P 500 has climbed an average of 4% in November and December combined. While there will be a day of reckoning at some point, we contend the probability of a melt *up* in stock prices is much greater than a melt *down,* at least until the next recession.

Meanwhile, there are a few early warning signs that suggest speculation may be mounting. To wit, margin debt has soared 32% to $1.3 trillion over the past five months through September while cash among fund managers and retail investors has dropped toward multi-decade lows. Moreover, an ETF provider has filed for 27 new levered ETFs, including some 5x-levered products, meaning such a fund will lose 50% if the underlying assets decline just 10%. More than half of the leveraged ETFs have closed and 17% have lost over 98% of their value. Such results disprove Gordon Gecko's catchphrase in the 1987 film Wall Street that "greed is good."

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